FINANCE

Canadian Dollar

During the two-month period of August and September 1984, the Canadian dollar continued to hover at the 75 percent level of its American counterpart. As August opened, the dollar rose to a trading level of 76.51 cents US (August 1), a rise whose "overriding factor" was cited by the Bank of Canada as the difference between US and Canadian interest rates (Canada's being higher to attract investment) *(The Citizen,* August 1). The recovery of the dollar (having reached record lows in July) continued through August. A large Canadian trade surplus during the summer was seen as bolstering the dollar on the international money market. In an economic forecast, the Conference Board of Canada noted that "the trade sector is expected to remain the only relative source of strength over the forecast horizon . . .and this relative strength in the trade sector will cause the merchandise trade balance to post record surpluses both this year and next, providing some offset to the recent fall in the dollar" *(The Citizen,* August 9).

In early September, after a gradual climb, the Canadian dollar reached 77.14 cents, having gained ground on all major foreign currencies. However, a Citibank spokesman noted that the rise was "partially offset" by the purchase of US dollars to finance the "repatriation of dividends" to the US at month's end *(The Citizen,* September 1, 5, 6). As the US dollar continued to soar throughout September (and indications pointed to higher US interest rates), the Canadian dollar failed to secure further gains while managing to hold its level. The Conservative win in the September 4 federal election also was seen by some financial analysts as contributing slightly to the drop in the dollar's value — primarily because of a suspected belief on the part of foreign exchange traders that the new Government would be willing to see the dollar ease slightly rather than raise interest rates *(Globe and Mail,* September 8, 11).

The following are US selling rates for cash for two-week periods in August and September (Bank of Montreal figures):

Aug. 1:	1.3300	Sept. 4:	1.3140
Aug. 15:	1.3240	Sept. 18:	1.3365
Aug. 29:	1.3170	Sept. 28:	1.3340

Foreign Bank Ceilings

Following an amendment to the Canada Bank Act this spring which raises the permissible asset ceiling of foreign banks operating in Canada to 16 percent from 8 percent, several institutions applied for relief through the acquisition of further capital (see "International Canada" for June and July 1984). Additional distributions in the allocation of "deemed authorized capital" among foreign banks must be approved individually by the Finance Minister *(Globe and Mail,* August 15). A spokesman for the Inspector-General of Banks stated that new capital would be "distributed on the basis of how well the institutions had served the Canadian market and followed their business plans." (Several foreign banks had reportedly already overstepped their market ceilings.)

In late August, the Government approved size increases for eleven foreign banks, permitting additional growth through capital acquisition. Barclays Bank of Canada (at $200 million) and Bank of America Canada (at $150 million) received the largest allocation increases. The eleven selected institutions were deemed to have served the domestic market well, it was reported *(Globe and Mail,* September 5). Those banks not receiving increases were those who either had not adhered closely to business plans submitted for licencing or had overstepped their ceilings in contravention of existing legislation.

Foreign Debt

Finance Minister Michael Wilson gave indications that the new Progressive Conservative government of Canada was moving closer to the US view of global debt than had been the case with the Liberals. Attending a Commonwealth Finance Ministers' Conference in Toronto in mid-September, Mr. Wilson spoke of the international debt crisis and was of the opinion that the world's financial system need not be "radically changed" to continue in its ability to handle the problem. He also recommended that the IMF continue to "impose economic discipline on developing nations," and handle global debt on a case-by-case basis *(The Citizen,* September 19). In response to a Commonwealth Secretariat report released in July that had depicted the world's credit system as having broken down with the world's "financial safety . . .balanced on a knife edge," Mr. Wilson indicated that Canada regarded the progress being made as "a little more positive than what was set out in the report." He disagreed with the report's contention that "some kind of general debt relief will be necessary" *(Globe and Mail,* September 20). Mr. Wilson was reported as opposing the all-encompassing economic recovery plans proposed by most developing nations, and as continuing to support the case-by-case approach, coupled with IMF austerity measures, advocated by the US. He stated that this latter plan would lead to an increase in new money being committed to the Third World rather than encouraging banks to reduce lending (as might be the case with the imposition of a global solution to the debt crisis).

International Reserves

On August 3, then Finance Minister Marc Lalonde announced the level and composition of Canada's official international reserves (in millions of US dollars) as of July 31:

US Dollars	2,243.2
Other Foreign Currencies	451.1
Gold	715.4
Special Drawing Rights	61.2
Reserve Position in IMF	722.5
Total:	4,193.4
Change from June 30:	+1,309.7

The change reflected a decrease of $25.9 million in Special-Drawing-Rights-denominated assets (a result of a fall in the US dollar value of the SDR). Also included was a $500 million drawing under the standby credit facility with US and other foreign banks. Noted was an increase of