

## PART A

### Chapter 2: THE INTERNATIONAL ECONOMIC SYSTEM

#### General economic policy

In 1980, Canada, like other major industrialized countries, continued to face interrelated economic problems including relatively high levels of inflation, high unemployment, high interest rates, lagging investments, balance-of-payments disequilibria, increasing energy prices and low real growth rates.

During the year, Canada took an active part in major international economic meetings including the meeting of the International Energy Agency (IEA) governing board at the ministerial level in May; the Organization for Economic Co-operation and Development (OECD) ministerial meeting in June; the Venice Economic Summit in July; the eleventh special session of the UN General Assembly in August/September; the joint meeting of the board of governors of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank) in Washington in September; the twentieth and twenty first sessions of the United Nations Conference on Trade and Development (UNCTAD) trade and development board in March and September respectively; and the annual session of the General Agreement on Tariffs and Trade (GATT) contracting parties in November.

Domestically, the economic situation continued to be affected by major international factors. Inflationary pressures in the economies of most of our major trading partners, increasing costs of energy, cyclical decline in productivity and unfavourable climatic conditions affecting agricultural yields and prices contributed to maintaining domestic inflationary pressures, thus continuing the trend that began in 1978. The consumer price index rose more than 10 per cent. At the same time, the labour market reflected the considerable fluctuation in economic activity during the year. The strong recovery in Canada's international competitive position flowing from the decline in the foreign exchange value of the Canadian dollar in 1977 and 1978 laid the foundation for a significant reduction of the balance-of-payments current account deficit. This reduction was due in large part to a trade surplus of \$7.9 billion during the year.

In November 1980, the House of Commons passed the Bank and Banking Law Revision Act which came into force on December 1, 1980. The new Bank Act establishes a framework for Canada's banking system until 1991, and enables foreign banks to incorporate banking subsidiaries in Canada. Foreign subsidiaries would have basically the same powers as Canadian chartered banks.

At the June 1980 OECD ministerial meeting, member coun-

tries recognized that the combination of the rise in oil prices and restrictive monetary and fiscal policies was leading to economic slowdown and rising unemployment. Participants agreed that their basic objective was to restore price stability and to promote, in both the short and the medium term, the conditions for investment and supply-oriented growth in output and employment.

The major economic issues that dominated the discussions at the Venice Summit in June were energy price and supply, as well as their effects on inflation and on the level of economic activity. Canada along with its industrialized partners agreed on a comprehensive set of policies designed to break the link between economic growth and oil consumption. A ten-year strategy was developed to reduce the demand for oil by the development of alternative sources of energy, energy conservation and new energy technologies.

During the course of 1980, Canada entered into negotiations with several countries in order to avoid double taxation. The Canadian authorities also concluded the procedure of ratification to implement bilateral double taxation agreements with ten countries: Austria, Barbados, Indonesia, Italy, Jamaica, Malaysia, Romania, Republic of Korea, Spain and the United Kingdom. An important set of negotiations on a Canada-UN double taxation treaty was also concluded, although at year's end the ratification process was not completed.

Canada participated actively in discussions on the operations of the international monetary system. It supported the enlargement of the role of the major international financial institutions, notably the IMF, and recognized the increased difficulties encountered by the developing countries in their development and balance-of-payments financing.

In the financial area, a dominant development of 1980 was the volatility of interest rates in the United States. One indicator of these rates, the prime lending rate of US commercial banks, moved from 15.25 per cent at the beginning of the year to a peak of 20 per cent in April, to a low of 11 per cent in August and then to a second peak of 21.33 per cent in December. Movements of this magnitude in US interest rates were bound to have substantial effects on interest rates in Canada, on the foreign exchange value of the Canadian dollar or on both. On March 13, 1980, the Bank of Canada began setting the bank rate each week at one quarter of a percentage point above the average rate established in the weekly tender for 91-day treasury bills issued by the government.

Economic relations with developing countries assumed growing importance during the year in view of the economic