

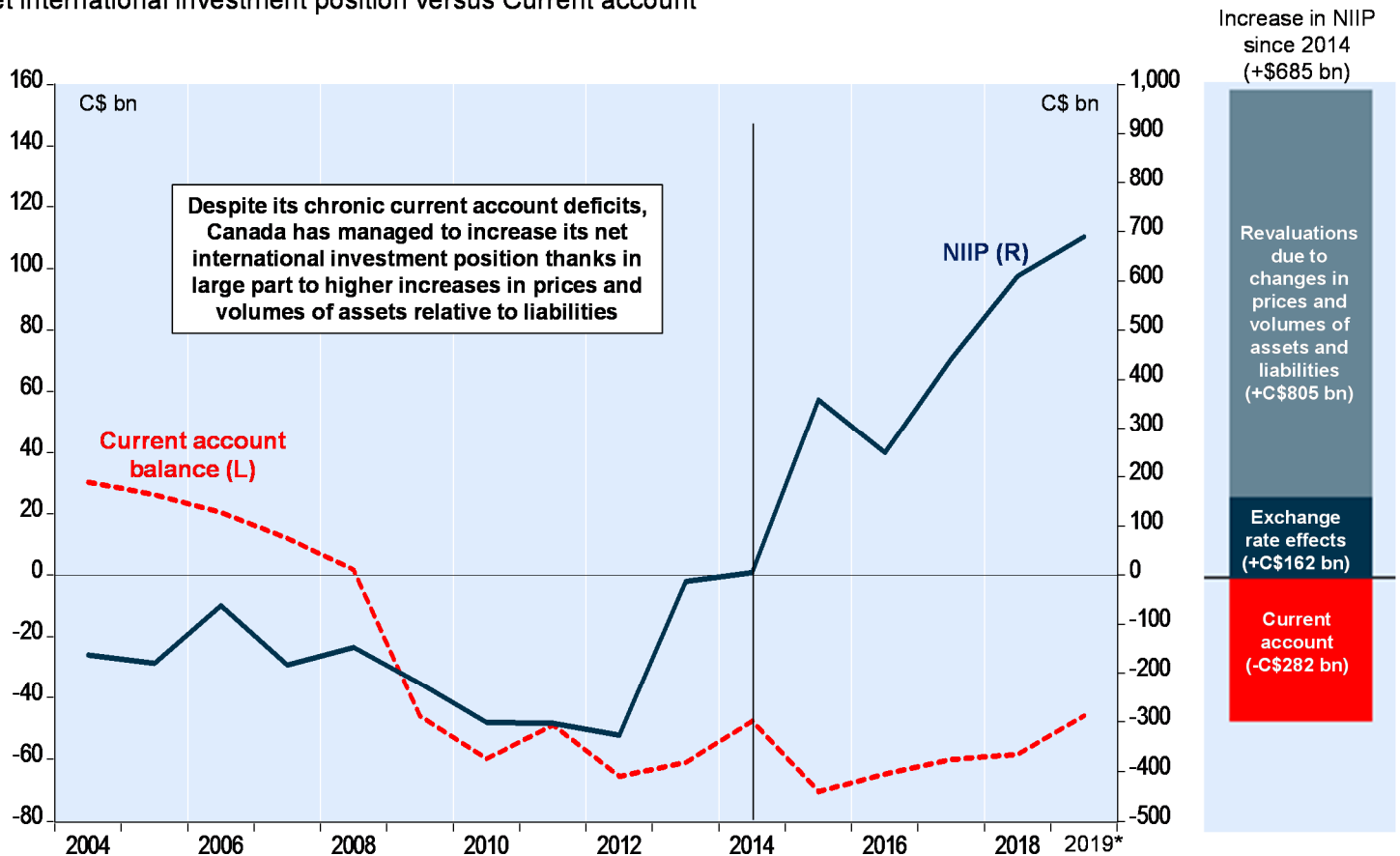
Canada Watch

By Krishen Rangasamy

Canada's chronic current account deficits imply the country has had to borrow funds from abroad to finance spending. And yet, the net international investment position is on track to hit a new record this year – recall that the NIIP is the difference between Canada's assets and liabilities to the rest of the world. This morning's data from Statistics Canada puts the NIIP at the end of Q2 at C\$689.7 bn, i.e. larger than at the start of the year and roughly C\$685 bn higher than at the end of 2014. How could that be? While the current account deficit has pulled down the NIIP in the last five years, this was more than offset by other factors. For instance, the "exchange rate effect" has pushed up the NIIP by roughly C\$162 bn thanks to the Canadian dollar's depreciation since 2014. Note that almost all international assets held by Canadians are denominated in foreign currencies, while only about 40% of our liabilities are denominated as such. So, a depreciation of the Canadian dollar tends to raise the C\$ value of international assets more than international liabilities resulting in a higher NIIP. But as today's *Hot Chart* shows, this exchange rate effect pales in comparison to revaluation effects, the latter explaining most of the NIIP's increase in the last five years. Indeed changes in prices and volumes have been favourable to Canada in the sense that they allowed assets to rise faster than liabilities. Roughly two-thirds of the C\$685 bn increase in the NIIP since 2014 is due to the surge in the value of direct investment, with portfolio investment and official international foreign exchange reserves accounting for the rest.

Canada: What's behind the increase in net international investment position?

Net international investment position versus Current account



* For 2019, NIIP is at the end of the second quarter and current account is sum of first two quarters annualized
 NBF Economics and Strategy (data via Statistics Canada, NBF calculations)



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