



# MACROECONOMICS

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## The Canadian Dollar as a Reserve Currency

April 2, 2014

A clear reflection of Canada's relative economic resilience during the global financial crisis of 2007–2009 is the growth in the share of foreign exchange reserves that other countries hold in Canadian-dollar securities, particularly those issued by the Government of Canada.

Over the past five years, central banks and monetary authorities have started adding Canadian-dollar assets to their official foreign reserves portfolios. According to survey data from the International Monetary Fund, the Canadian dollar accounted for about 1.8% of reported global foreign reserves in the third quarter of 2013.

Estimates of the total reserve holdings of Canadian-dollar-denominated securities were around US\$200 billion in the third quarter of 2013. Assuming a constant allocation of global reserves to the Canadian dollar, a 1-percentage-point increase in global reserves implies an additional inflow of about \$2 billion to Canadian-dollar-denominated assets. This may be a conservative estimate, since most of the growth in reserves is expected to come from emerging economies, which allocate a higher weight to the Canadian currency than advanced countries.

Higher levels of official foreign holdings may lower yields in domestic debt markets and therefore reduce the financing costs for the Government of Canada, but they may also decrease market liquidity.

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