

available to offset a deficiency with other parts of the world, however, since to the extent that our exports to the United Kingdom are financed by credit, they cannot give rise to any surplus of sterling convertible into other currencies. The main significance of the arrangement to Canada is the prospect it offers that, when economic recovery in the United Kingdom has proceeded to the point where the balance of payments equilibrium has been restored, the whole of Canada's surplus from trade with the United Kingdom will again be available to meet her characteristic deficit in trade with the United States as was the case before the War. Meanwhile, this convertibility of sterling again necessitates the exercise of control over sterling transactions and transfers of Canadian dollars from Canada to the Sterling Area.

The other principal change in the new Regulations arises from the extension by the Canadian Government of export credits to various European countries to assist them in overcoming their difficulties during the transitional period of re-establishing their trade. These credits were at first used largely for purchases in Canada by the foreign governments concerned. For all other exports the Canadian exporter was required to obtain payment in foreign exchange. Several of the countries, however, wished to use the credits to finance private trade and at the 1946 session of Parliament the Export Credits Insurance Act was amended to enable this to be done. In line with this, the new Foreign Exchange Control Regulations provide that exports from Canada to France, Belgium, Norway and Czechoslovakia, as well as to Sterling Area countries, may now be made for settlement either in foreign exchange as heretofore or in Canadian dollars paid from a bank account in Canada to a resident of one of those countries.

The Return to Parity of the Canadian Dollar.—In the latter part of 1946, after the return to parity of the official rate for United States dollars, the Canadian dollar was quoted at a discount in the so-called unofficial market in New York. The existence of a spread between the official rate and the rate quoted for the Canadian dollar in the unofficial market in the United States is not a new phenomenon. In June, 1940, for example, the unofficial quotation in the New York market averaged 10 p.c. lower than the official rate and for the year 1940 as a whole, it was 5 p.c. below the official rate. The most important fact about the unofficial market is that transactions in it are entirely restricted to non-residents. Any resident of Canada requiring funds for expenditure in the United States for authorized purposes is able to obtain them through the official market at the official rate. Furthermore, no residents of Canada coming into possession of United States dollars are ever authorized to convert them into Canadian dollars through the unofficial market. All foreign exchange transactions in which residents of Canada are authorized to engage, take place at official rates of exchange.

There are, however, certain types of capital payments to non-residents which, under existing arrangements, are not eligible for conversion into United States funds out of Canada's official reserves. Examples of such payments are the proceeds of permitted sales of securities by non-residents in Canada and the proceeds of maturing obligations which are payable in Canadian funds. In the light of the restricted and highly specialized nature of the unofficial market for Canadian dollars, it is clear that the rate quoted there has limited significance. All but a very small fraction of Canada's unofficial transactions take place at official exchange rates. All current account payments to non-residents may be made in foreign exchange obtained in