

Decline in Foreign Exchange Reserves.—During 1947 Canada's holdings of gold and United States dollars dropped from \$1,245,000,000 at the beginning of the year to \$502,000,000 at the end.* This decline was the result of the balance of international payments for 1947, which is dealt with in detail in the Foreign Trade Chapter at pp. 932-936. In brief, the outstanding developments during the year in Canada's balance of payments were a reduction in the over-all current account surplus (from \$357,000,000 in 1946 to \$47,000,000 in 1947) and an increase in the bilateral disequilibrium, i.e., an increase in the current surplus with the United Kingdom and Western Europe and in the current deficit with the United States. In 1947, as in 1946, Canada's large export surplus with the Sterling Area and with other overseas countries resulted in a serious financing problem. The Canadian dollar deficit of each group was met in approximately equal parts by transfers of convertible exchange to Canada and by loans extended by the Canadian Government. These loans totalled \$563,000,000. All Canada's imports during the year were paid for in cash, and since total imports and exports were almost in balance, sales on credit resulted in a nearly equivalent drain on Canada's exchange reserves.

Changes in Control During 1947.—The operations of exchange control throughout 1947 were governed by the Foreign Exchange Control Act and by the Regulations thereunder passed by the Governor in Council. Various changes were made in the Regulations and in administrative policy during the year, which, for the most part, represented a tightening of the control. However, the major steps taken to deal with the severe exchange losses in 1947 were measures of Government policy other than exchange control measures.

In March, 1947, the exemption was eliminated from permit for purchases of United States currency from banks to an amount not exceeding \$100. In May, 1947, the Regulations were further amended to reduce from \$100 to \$10 the amount of United States banknotes and coin that a resident may hold without special permission and at the same time the exemption from permit for the export of currency by Canadian travellers was reduced to \$10 in United States currency and a total of \$25 in both United States and Canadian currency. In November, 1947, as part of the Government's program to conserve United States dollar resources, the Board was instructed to limit the amount of United States dollars made available to Canadian residents for travel purposes to an annual ration of \$150, except where the travel is for genuine business, health or educational purposes.

At the same time as the introduction of the United States dollar travel ration, the maximum amount of funds which a resident of Canada who moves to the United States Dollar Area is permitted to transfer from Canada during the first year was reduced from \$25,000 to \$12,500. As in the past, United States dollars are not made available at the official rate for these transfers of capital. The transfers may, however, be made through free markets in the United States.

Since April, 1947, the Board has been approving certain types of capital payments by residents to non-residents only on condition that the non-residents concerned simultaneously reinvest Canadian dollars thus received in certain types of Canadian domestic securities. The principal payments affected by this change are payments of balances due on those inter-company accounts that represent capital

*At the end of 1948 Canada's holdings of gold and United States dollars had risen to \$998,000,000. This figure includes \$150,000,000 borrowed by the Canadian Government in the United States. Other factors contributing to the increase in reserves during 1948 will be discussed in the Board's report of its operations in 1948.