CHAPTER XXIV.—CURRENCY AND BANKING; MISCELLANEOUS COMMERCIAL FINANCE

CONSPECTUS

NOTE.—*The interpretation of the symbols used in the tables throughout the Year Book will be found facing p. 1 of this volume.*

PART I.—CURRENCY AND BANKING*

A historical sketch of currency and banking in Canada appears in the 1938 Year Book, pp. 900-905.

Section 1.—The Bank of Canada

The Bank of Canada is Canada's central bank. It was incorporated under the Bank of Canada Act in 1934 and commenced operations on Mar. 11, 1935. The Act of Parliament which established the central bank charged it with the responsibility for regulating "credit and currency in the best interests of the economic life of the nation", and conferred on it certain specific powers for discharging this responsibility. Through the exercise of these powers the Bank of Canada broadly determines the combined total of the basic forms of Canadian money held by the community—currency outside banks plus deposit balances in chartered bank accounts.

By virtue of the provisions of the Bank of Canada Act, which enable the central bank to increase or decrease the total amount of cash reserves available to the chartered banks as a group, the Bank of Canada is able to determine broadly the over-all level of the total assets and deposit liabilities of the group, and hence of the combined total of currency and bank deposits. The Bank Act requires that each chartered bank maintain a minimum amount of cash reserves in the form of deposits at the Bank of Canada and holdings of Bank of Canada notes. This minimum requirement is 8 p.c. of the bank's total Canadian dollar deposit liabilities on a monthly average basis. The ability of the chartered banks as a group to expand their total assets and deposit liabilities therefore depends on the level of total cash reserves. An increase in cash reserves will encourage the banks to expand their total assets (which consist chiefly of loans and marketable securities) with a concomitant increase in deposit liabilities; a decrease in cash reserves will bring about a decline in their total assets and deposit liabilities as they seek to restore their cash reserve ratios.

* Except where otherwise indicated, this material has been revised by the Research Department of the Bank of Canada.