CHAPTER XXV.—CURRENCY, BANKING AND MISCELLANEOUS COMMERCIAL FINANCE

CONSPECTUS

The interpretation of the symbols used in the tables throughout the Year Book will be found on p. viii of this volume.

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 determines broadly 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.

The chief method by which the Bank of Canada can affect the level of cash reserves of the chartered banks, and through them the total of chartered bank deposits, is by purchases and sales of government securities. Payment by the central bank for the securities it purchases in the market adds to the cash reserves of the chartered banks as a group and puts them in a position to expand their assets and deposit liabilities. Conversely, payment to the central bank for securities it sells causes a reduction in reserves of the chartered banks and makes it necessary for them to reduce their assets and deposit liabilities.

* Revised by the Research Department of the Bank of Canada.