

BANK OF CANADA BANQUE DU CANADA



A00094489



# BANK OF CANADA

ANNUAL REPORT TO  
MINISTER OF FINANCE

AND

STATEMENT OF ACCOUNTS

FOR THE YEAR 1946

HG  
2706  
.A1  
1946





**“WHEREAS** it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion: Therefore, His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows: . . .”

—*Preamble to the Bank of Canada Act*



# BANK OF CANADA

Ottawa, February 11th, 1947

THE HON. D. C. ABBOTT, K.C.,  
Minister of Finance,  
Ottawa.

Dear Sir,

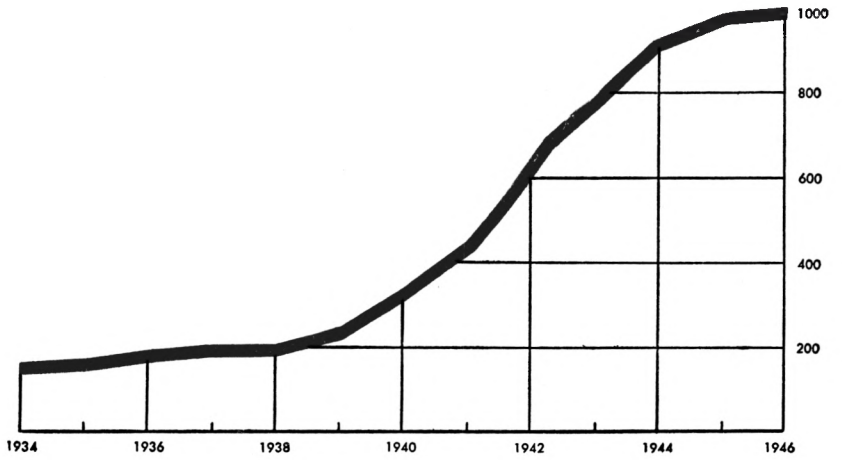
In accordance with the provisions of the Bank of Canada Act Amendment Act, I am enclosing herewith in duplicate a statement of the Bank's accounts for the fiscal year 1946, signed by the Governor and the Chief Accountant, and certified by the Auditors, in the form prescribed by the by-laws of the Bank.

The major changes which took place in our various asset and liability accounts during the course of the year are indicated in the following table, which shows the effect of these changes on the cash reserves of the chartered banks.

## Effect on Chartered Banks' Cash Reserves

(Millions of Dollars)

CALENDAR YEAR 1946	<u>Decrease</u>	<u>Increase</u>
Increase in Holdings of Dominion and Provincial Government Securities . . . . .	.....	60.0
Increase in Holdings of Other Securities . . . . .	.....	5.0
Increase in Notes held by the Public . . . . .	43.1	.....
Decrease in Dominion Government Deposits . . . . .	.....	94.4
Increase in Other Deposits . . . . .	64.0	.....
Decrease in Liabilities payable in Sterling, U.S.A. and Foreign Gold Currencies . . . . .	.....	155.9
Decrease in Holdings of Sterling and U.S.A. Dollars . . . . .	155.9	.....
Increase in Other Assets, less Other Liabilities . . . . .	.....	6.0
	<u>263.0</u>	<u>321.3</u>
<b>Deduct</b>		<u>263.0</u>
<b>Increase in Chartered Banks' Cash Reserves . . . . .</b>		<u><u>58.3</u></u>



**TOTAL NOTES HELD BY THE PUBLIC**  
*(As at December 31st, in Millions of Dollars)*

**NOTES IN CIRCULATION** • The Bank of Canada note issue at the end of December, 1946 was \$1,186,201,681, up \$57,102,433 from the same date a year before. Of the total amount of our notes outstanding, \$1,009.3 millions were held by the public, and \$176.9 millions by the chartered banks. As will be seen from the table in Appendix A, the increase in notes held by the public was less in 1946 than in any year since 1938.

**RESERVE** • The asset account in our statement entitled "Sterling and U.S.A. Dollars" stood at \$960,131 on December 31st, 1946. This represented foreign exchange held for the account of foreign clients, and was balanced by a contra item "Liabilities Payable in Sterling, U.S.A. and Foreign Gold Currencies" of the same amount. The change during the year in this item did not, therefore, involve any variation in the cash reserves of the chartered banks.

**INVESTMENTS** • The Bank's holdings of Dominion and Provincial Government securities were \$1,905,601,009 at December 31st, 1946, having increased by \$60,018,372 during the year. Our government security purchases somewhat more than offset the effect on the chartered banks' cash reserves of increased public holdings of Bank of Canada notes and, taken in conjunction with the net decrease of \$30.4 millions in Dominion Government and Other Deposits, were mainly responsible for the rise of \$58.3 millions in bank cash shown in the table on page 3. Since the chartered banks' Canadian deposits increased by \$346 millions over the same period, their year-end ratio of cash to deposits was slightly higher than in 1945. However, this ratio, on a daily average basis, was 11.2 per cent for the year 1946 and for the month of December, 1946, as compared with 11.4 per cent for the year 1945 and 11.5 per cent for the month of December, 1945.

Other securities held by the Bank of Canada at December 31st, 1946, amounted to \$15,000,000, and consisted of one hundred and



**BANK OF CANADA STAFF**  
(As at December 31st)



fifty thousand shares of the capital stock of the Industrial Development Bank. One hundred thousand shares were purchased in 1944 in accordance with the terms of Section 12, Sub-section (2) of the Industrial Development Bank Act. In 1946 we purchased a further fifty thousand shares under the same authority, in order to meet the Industrial Development Bank's increased capital requirements.

On the basis of the Wednesday figures published in our weekly statements, the Bank of Canada's total investments averaged \$209 millions more in 1946 than in 1945.

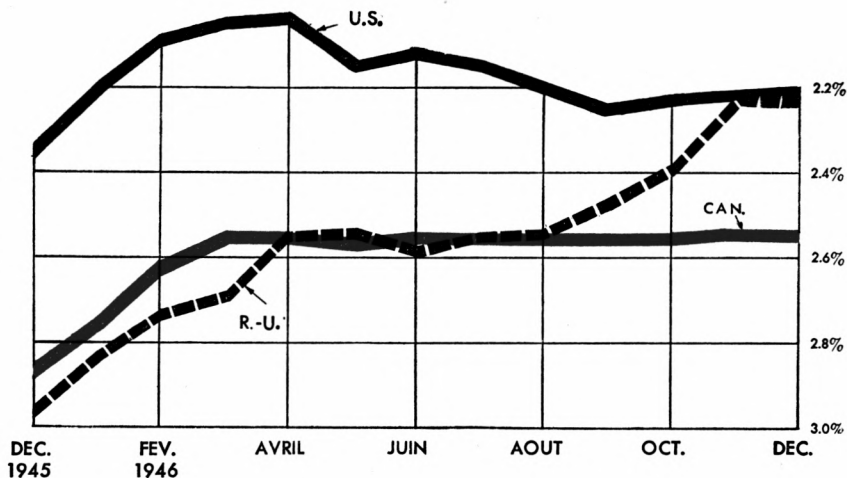
**PROFIT AND LOSS** • The net profit from our operations in 1946, after providing for contingencies and reserves, was \$21,236,194.96. Payment of a dividend of \$225,000 on capital stock held by the Minister of Finance left \$21,011,194.96 available as compared with \$22,541,920.92 in 1945. A decline in the average rate of interest earned on our investments more than offset the increase in average holdings referred to in the preceding paragraph.

Under Section 31(c) of the Bank of Canada Act, the whole of the surplus available from our operations was paid to the Receiver General and placed to the credit of the Consolidated Revenue Fund.

**BANK RATE** • Bank Rate remained unchanged during 1946 at 1½ per cent. As in previous years banks had little occasion to borrow from us.

**STAFF** • The staff of the Bank numbered 1,021 at December 31st, 1946, a decline on the year of 145. This reduction is due to a lessening of the work of the Public Debt Division now that the issue of War Savings Certificates has been discontinued.

Members of the staff have carried out their duties energetically and loyally during the year, and I wish to record my appreciation of their co-operation.



**LONG TERM GOVERNMENT BOND YIELDS**  
(Monthly Averages)

- Canada: 3% issue due February 1st, 1959—62
- United States: 2½% issue due December 15th, 1963—68
- United Kingdom: 3% issue due April 15th, 1959—69

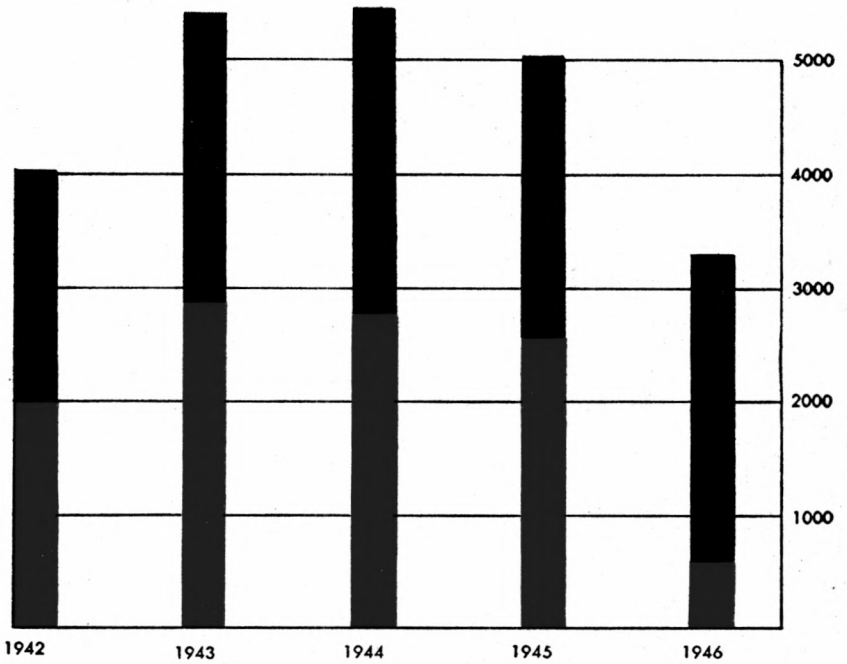


**NET NEW BOND ISSUES, LESS RETIREMENTS**  
(Calendar Years in Millions of Dollars)

**SECURITY MARKETS** • Medium and long term government bond prices rose sharply in Canada during the first two months of 1946, and yields fell to a new low, while a similar movement was taking place in New York and London. The Canadian market remained relatively stable over the rest of the year with the longest dated Dominion government issue selling at prices to yield approximately 2.60 per cent as compared with about 2.90 per cent at the end of 1945. The London market showed further strength in the last quarter, and at the end of December the yield on the longest U.K. government issue with a fixed maturity was slightly less than 2.40 per cent as compared with about 2.95 per cent a year before. In the United States, government bonds retained only part of their early rise, but yields remain lower in that country than in the United Kingdom or Canada.

Provincial, municipal and corporate bond prices rose to record levels in Canada during 1946 and created a situation very favourable to refinancing. In addition, the return of the Canadian dollar to par at mid-year removed the exchange deterrent to calling issues with a New York payment feature. As a result, the volume of bonds refunded to lower rates in the Canadian market during 1946 was more than twice as large as in any previous year.

A sharp break from the wartime years is evident in the table of net new Canadian bond issues, less retirements, which is given in Appendix B. Dominion government domestic bond issues outstanding, which showed annual increases ranging from \$440 millions to \$3,550 millions in the preceding six years, rose by only \$208 millions in 1946. The amount of Deposit Certificates held by banks was again reduced, as in 1945. The net sum borrowed by the Dominion government in any year differs, of course, from the amount of borrowed money it actually uses during that year by the increase or decrease in its cash balance; and in 1946 there was a substantial use of funds which had been raised in the final Victory Loan campaign late in 1945. However, even on the basis



**DOMINION GOVERNMENT DOMESTIC CASH REQUIREMENTS**  
(Calendar Years In Millions of Dollars)

- Domestic Cash Requirements
- Amount Provided from Revenue
- Amount Provided from Borrowed Funds

of the Dominion's net utilization of money borrowed in Canada there was a drop from \$2,600 millions in 1945 to \$625 millions in 1946.

In the Dominion government's first post-war public financing a new security was offered — namely, Canada Savings Bonds. These 10-year registered bonds are issued in denominations from \$50 to \$1,000 and bear an annual coupon of  $2\frac{3}{4}$  per cent, which is somewhat above the current market rate. However, they are sold only to individuals, and holdings are limited to \$2,000 per person. The bonds are redeemable on demand at any branch bank in Canada at par plus interest.

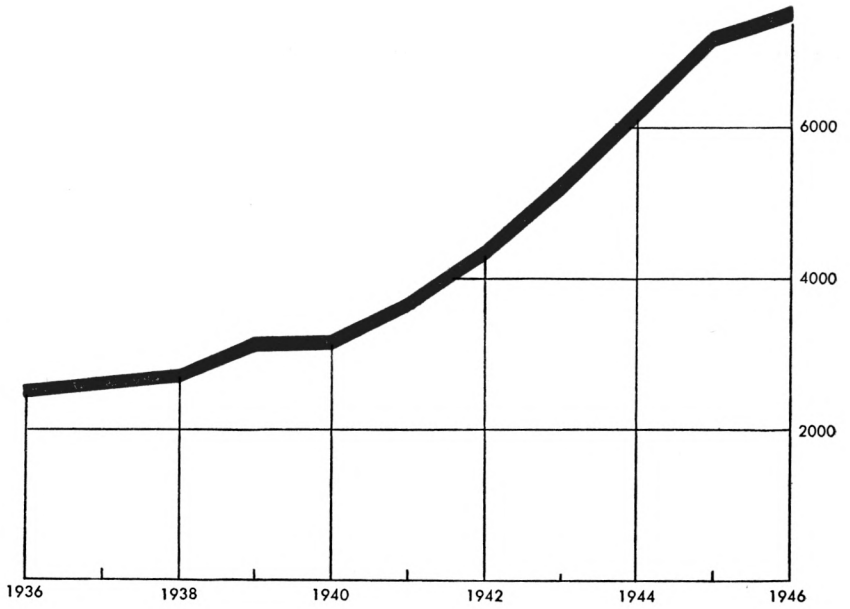
The Canada Savings Bond was designed to incorporate those features of both Victory Bonds and War Savings Certificates most desired by individual savers. The chief purpose of its issue is to facilitate the continuance of regular personal saving habits developed in wartime. During the initial selling period from October 15th to November 15th, about 1,100,000 individuals subscribed for a total of \$467 millions. About 600,000 employed persons subscribed through the payroll savings plan, some 200,000 persons entered into a programme of regular saving under the monthly savings plan, and about 300,000 made cash purchases. The books will remain open until further notice to accommodate people who were not able to subscribe during the initial campaign.

During 1946 the totals of provincial, municipal and corporate bonds outstanding were again reduced. New issues of common and preferred stock reached the largest volume for many years, but were exceeded in amount by redemptions of preferred stock.

Although stock market buying in recent years is said to have been largely on a cash basis, at the end of January, 1946, brokers' loans were up by one-half from their level of four months before. In the circumstances the Stock Exchanges considered it wise to increase their minimum margin requirements to 50 per cent, with 100 per cent required on low-priced issues. At the end of 1946, brokers' loans were \$49 millions as compared with the peak of \$69



volume of money



**TOTAL VOLUME OF MONEY**  
*(As at December 31st, in Millions of Dollars)*

millions in January, and a level of \$40-45 millions in the middle of 1945.

**MONETARY CONDITIONS** • In 1946 there was no monetary expansion arising out of direct bank financing of government requirements. However, the volume of money continued to rise, though at a greatly reduced rate, as the public converted some of its liquid assets from government securities into savings deposits.

During the course of the year the Dominion government reduced the amount of Deposit Certificates held by the chartered banks by \$250 millions. In addition, \$177 millions of Victory Bonds held temporarily at the end of 1945 in connection with customers' purchases under the official instalment plans, were eliminated from bank portfolios during 1946. Bank loans made to enable subscribers to purchase Victory (or Canada Savings) Bonds at the time of issue declined by \$136 millions during the year, and call loans to brokers and dealers were reduced by \$116 millions. On the other hand, the chartered banks increased their Canadian loans, excluding the categories mentioned above, by \$359 millions during 1946, bought \$473 millions of Dominion government securities (other than Deposit Certificates which have been mentioned above) and increased their non-governmental security holdings by \$113 millions.

The net effect of the changes mentioned in the preceding paragraph, and the \$58 millions increase in their cash reserves referred to on page 3, was to increase chartered bank assets by some \$324 millions during the year. This roughly accounts for the increase of \$346 millions in total Canadian deposits with the chartered banks which took place over the same period. Public savings deposits alone increased by \$604 millions during 1946, and public demand deposits increased by \$228 millions, while government deposits declined by \$511 millions.

In Canada, as in most other countries, people have in recent years chosen to hold an increasing amount of their accumulated savings in the form of interest-bearing savings deposits. The char-

tered banks' scope for employing such funds in making commercial loans has been relatively limited; and in order to be able to pay interest on their savings deposits they have found it necessary to invest in Dominion government securities of a longer term and higher return than the Treasury Bills, Deposit Certificates or other special short term issues sold directly to them by the government.

The relationship between savings deposits and holdings of market issues of government bonds is, of course, largely automatic in countries where savings bank business is handled mainly by special non-commercial banking institutions. In the case of Canada where the chartered banks carry on both savings and commercial banking under one roof, an agreement was made with the government early in 1946 recognizing the link between savings deposits and holdings of market issues of government securities. The banks agreed that their investments in Dominion government direct and guaranteed issues (other than Treasury Bills, Deposit Certificates and Treasury Notes) would not average more than 90 per cent of the amount of their Canadian personal savings deposits. The banks also agreed that their earnings on such bonds should not exceed the cost of operating their savings business by more than a moderate profit margin.

The agreement places the chartered banks, in respect of their savings business, in approximately the same position as if they were separate savings institutions carrying 10 per cent of their deposits in the form of cash and other non-earning assets. It follows also that any Dominion government securities held by the chartered banks as the counterpart of current account deposits are necessarily limited to Treasury Bills, Deposit Certificates, and short term Treasury Notes which are currently bearing interest at  $\frac{5}{8}$  per cent per annum.

The agreement became effective on March 31st, 1946. Since then the chartered banks as a whole have bought a little less in the way of Dominion government market issues than would

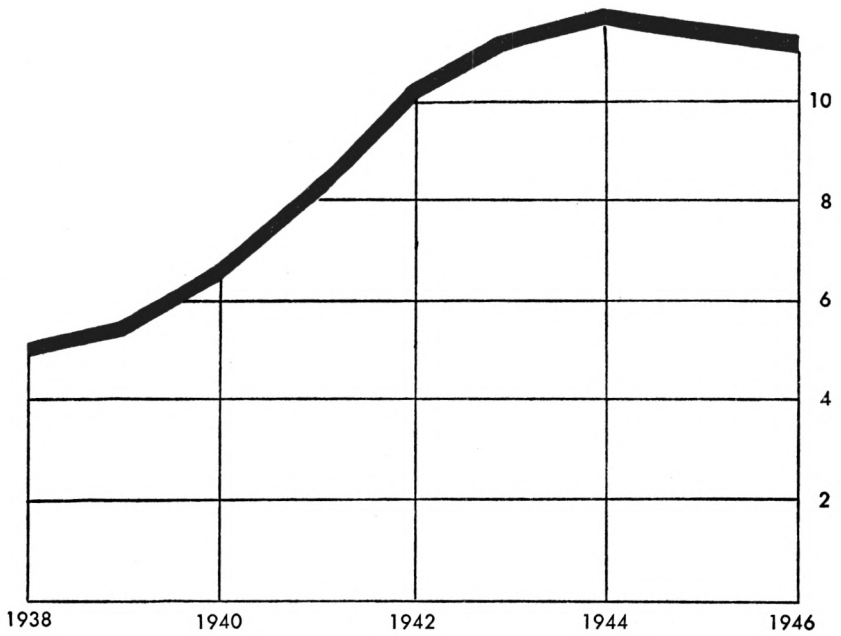


bring their portfolios up to 90 per cent of the rising level of personal savings deposits. This reflects the opportunities which the banks have had in recent months to increase their "commercial" loans.

Excluding loans in connection with Victory (and Canada Savings) Bond purchases, we estimate that loans to merchandisers increased by nearly three-quarters during the year and to manufacturers as a group by more than one-third. Loans to individuals against securities, and "other" loans (mainly personal) increased by more than one-half. Taking into account both personal loans and loans to individuals to carry securities, the banks probably have a higher proportion of loans to individuals, as distinct from loans for business and other purposes, than at any previous time.

**RECONVERSION** • In many ways the transition from war to peace has taken place more successfully than could have been expected two years ago. Since VE Day, 700,000 men and women have been demobilized from the armed services, and with the plant, equipment, and 900,000 workers engaged in war production, have very largely been absorbed into peace-time work. This process of reconversion has required innumerable adjustments from an industrial and particularly a human point of view, and there have been serious localized stoppages of production in both Canada and the United States which have limited the expansion of civilian output over a wide area. But in general the shifts and adjustments of this transition period have taken place with a relatively small reduction in total output, and without substantial or prolonged unemployment.

As the following table from Dominion Bureau of Statistics data shows, the reductions in war expenditure and in exports (partly government financed) have largely been made up by increased private investment and increased expenditure for consumers' goods and services. This in turn has served to maintain production and income at a high level, as shown in the second of the following tables.



**ESTIMATED NATIONAL PRODUCTION**  
(Calendar Years, in Billions of Dollars)

### Estimated National Expenditure\*

(Calendar Years, in Billions of Dollars)

	<u>1938</u>	<u>1944</u>	<u>1945</u>	<u>Prelim. 1946</u>
Gross Private Investment (incl. investment in inventories) . . . . .	.5	.6	.6	1.4
Personal Expenditure on Consumers' Goods and Services . . . . .	3.7	6.2	6.8	7.4
Government Expenditure on Goods and Services* . . . . .	.8	4.0	2.4	1.7
Exports of Goods and Services . . . . .	1.4	4.5	4.6	3.4
<b>Total . . . . .</b>	<u>6.4</u>	<u>15.3</u>	<u>14.4</u>	<u>13.9</u>
Less — Expenditures Abroad Included Above † . . . . .	1.3	3.5	2.9	2.8
<b>Gross National Expenditure</b>	<u><u>5.1</u></u>	<u><u>11.8</u></u>	<u><u>11.5</u></u>	<u><u>11.1</u></u>

### Estimated National Production\*

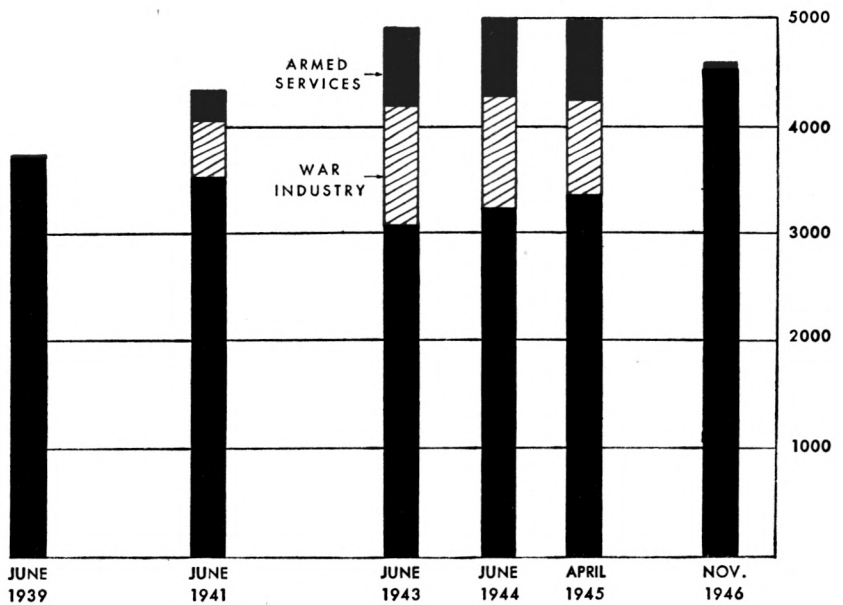
(Calendar Years, in Billions of Dollars)

	<u>1938</u>	<u>1944</u>	<u>1945</u>	<u>Prelim. 1946</u>
Salaries and Wages . . . . .	2.5	5.1	5.0	5.1
Military Pay and Allowances . . . . .	..	1.1	1.1	.3
Investment Income (before Corporate Taxes) . . . . .	.7	1.8	2.0	1.8
Net Income from Farms and Other Individual Enterprises . . . . .	.8	1.9	1.7	2.0
<b>NET NATIONAL PRODUCT AT FACTOR COST . . . . .</b>	<u>4.0</u>	<u>9.9</u>	<u>9.8</u>	<u>9.2</u>
Indirect Taxes . . . . .	.6	1.1	1.0	1.2
Depreciation . . . . .	.5	.8	.7	.7
<b>Gross National Product of Market Prices</b> ( = Gross National Expenditure) . . . . .	<u><u>5.1</u></u>	<u><u>11.8</u></u>	<u><u>11.5</u></u>	<u><u>11.1</u></u>

\*Based on National Accounts; Income and Expenditure; 1938-1946, and Balance of International Payments statements published by the Dominion Bureau of Statistics. Minor adjustments have been made in the Bureau figures in the process of rounding off, in order to eliminate the residuals arising from errors and omissions.

\*Including the change in Wheat Board inventories.

† Including the import content of expenditures shown in the table.



**ESTIMATED NUMBER AT WORK**  
(Thousands)

Insofar as prices have risen, the above table tends to understate the slight shrinkage in the over-all physical volume of output which has taken place. As shown below, the number of people at work declined by about 7 per cent from the war-stretched total at April, 1945, to November, 1946, which is the latest month for which full labour force data is available. This reduction in the volume of employment was, however, almost entirely accounted for by voluntary withdrawals from the working force, since total unemployment in November was only slightly above its record low wartime level. It is true that there have been serious shortages of labour in some areas and occupations, while surpluses of labour existed in certain other cases, but in general the large re-distribution of manpower involved in reconversion has taken place relatively smoothly.

**Estimated Distribution of Population—14 Years and Over (1)**

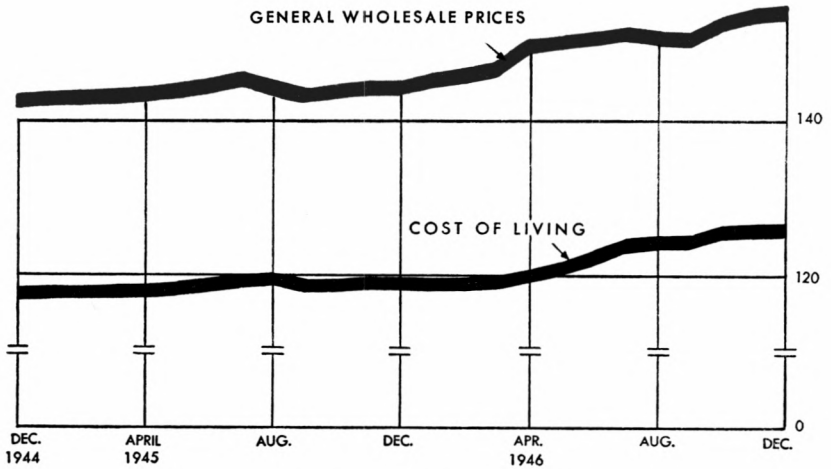
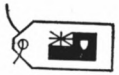
(Thousands)

	<u>June 1939</u>	<u>April 1945</u>	<u>Nov. 1946</u>
Armed Services . . . . .	10	740	50
Wage and Salary Earners in War Industry .	—	900	—
Wage and Salary Earners in Civilian Industry . . . . .	1,990	1,910	3,150
Employers and Workers on Own Account .	490	440	510
Agriculture — Male Workers Only .	1,210	1,010	960 <sup>(2)</sup>
<b>Total Number of Work — as Above</b> . . . . .	<u>3,700</u>	<u>5,000</u>	<u>4,670</u>
Unemployed . . . . .	650	80	120
Students . . . . .	630	460	590 <sup>(3)</sup>
Homemakers, Women in Agriculture and All Others . . . . .	3,280	3,410	3,780
<b>Total Population — 14 Years and Over .</b>	<u><u>8,260</u></u>	<u><u>8,950</u></u>	<u><u>9,160</u></u>

(1) Based on data from the Dominion Bureau of Statistics and the Department of Labour.

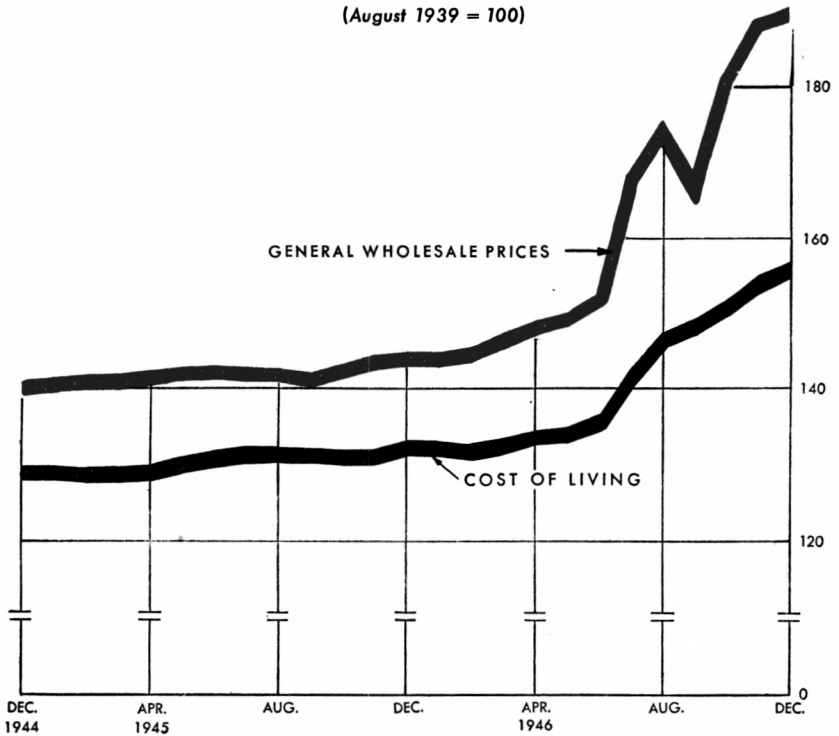
(2) Reflects seasonally low employment in agriculture.

(3) Approximately 65,000 students who were also at work were excluded from this heading and included with the employed groups above.



### CANADIAN PRICE INDEXES

(August 1939 = 100)



### UNITED STATES PRICE INDEXES

(August 1939 = 100)

**PRICES** • One of the principal dangers of the reconversion period has been that prices and costs would be distorted by post-war inflation resulting from temporary shortages of goods on one side and a great accumulation of demand, backed by war-time savings, on the other. Any excessive run-up of prices and costs would set the stage for a subsequent deflation. It would affect different economic groups very unequally, and the resulting distortions would necessitate fresh adjustments before the basis would exist for a balanced and stable prosperity.

← Price increases in Canada since the end of the war have been moderate. Despite a reduction in government subsidy payments, the general wholesale price index on the latest available calculation, for December, 1946, was only 8 per cent higher than on VJ Day, and the cost of living index was only 5 per cent higher.

← In the United States, early removal of controls was accompanied by much larger price increases than in Canada. By December, the general wholesale price index was 33 per cent higher than on VJ Day, as compared with a 41 per cent increase in the index over the preceding six years. The foods component of this index increased by 42 per cent between last June and December. The cost of living index increased by 15 per cent during the same period.

**Canadian Price Indexes \***

	<u>Aug. 1939</u>	<u>Aug. 1945</u>	<u>Dec. 1946</u>
General Wholesale Prices . . . . .	100	144	155
Wholesale Food Prices . . . . .	100	151	158
Cost of Living . . . . .	100	120	126

**United States Price Indexes \***

	<u>Aug. 1939</u>	<u>Aug. 1945</u>	<u>June 1946</u>	<u>Dec. 1946</u>
General Wholesale Prices . . . . .	100	141	151	188
Wholesale Food Prices . . . . .	100	158	168	238
Cost of Living . . . . .	100	131	135	156

\*Dominion Bureau of Statistics and U. S. Department of Labor indexes converted to the base Aug. 1939 = 100

Although it would appear that United States prices of some commodities have reached or passed their peak, many primary commodity price increases have not yet worked their way through to the prices of end-products.

For various technical reasons the Canadian and United States indexes shown above are only roughly comparable. Nevertheless, it is clear that United States prices are substantially higher than Canadian ones at the present time. Obviously this spread could not be maintained indefinitely, even if controls were retained in Canada. The return of the Canadian dollar to parity with the U.S. dollar last July reduced but did not remove the upward pressure on Canadian prices arising out of the rapid increase in the United States price level.

However, many observers in the United States are expecting a considerable reduction in the case of some of the more extravagant price increases which took place during 1946. If this occurs, and Canadian and United States prices in general come together at a less inflated level, Canada's efforts to make an orderly transition from war to peace will have borne fruit. It is particularly important that Canada should try to come through the transition period with a price and cost structure which will not be a drag on her post-war development, either externally through hampering her exports, or internally by creating a lack of balance among the various sectors of her economy.

**FOREIGN TRADE AND EXCHANGE** • One of the principal factors in our present prosperity is the high level of our exports, which in 1946 were nearly two and a half times the total for 1938. About one-third of our 1946 exports were financed under Canada's export credit programme. Out of total credits authorized of some \$1,845 millions, about \$1,000 millions remained unspent at the end of 1946.

This export credit programme was designed as a transitional measure to help relieve appalling shortages of food and essential supplies in Allied countries, and to assist our traditional cash



customers to re-establish themselves as such. It was also designed to assure markets for our surplus products during the transition period. In the absence of the credits, only a part, perhaps only a relatively moderate part, of the goods whose export is so financed could be exported for cash, or could be utilized in Canada.

Our export credits are part of a broad international programme involving the International Monetary Fund, the International Bank for Reconstruction and Development, United States foreign loans and the proposed International Trade Organization. The purpose of this programme is to rebuild and revitalize the multi-lateral trading system, on which Canada's employment and standard of living so greatly depend. Canada's part represents an investment which it is in her own self-interest to make. But her export credits are obviously a transition measure. Canada cannot continue indefinitely to sell on credit in overseas markets while she is incurring a substantial cash deficit in her balance of payments with the United States.

Canada has had a deficit in her current account transactions with the United States in every year from 1926 to 1943. In 1944 and 1945 there were small surpluses caused by special war-time factors. The average deficit over this twenty year period was \$165 millions a year and the largest deficits (for example \$437 millions in 1929) occurred in years of peace-time prosperity. The only peace-time years in which there was an approach towards balance were years of unemployment, stagnation and low imports, such as 1933-6.

Unless some developments occur which would produce a major change in the character of our trading relationships with the United States, it will be normal for Canada to have a deficit in its current account balance of payments with the United States, and this deficit is likely to average higher in the future than it has in the past. Other things being equal, the rise in world prices from the pre-war level will increase the absolute size of the deficit. Moreover, the more successful we are in maintaining a high level

of employment and income, the greater our tendency to import from the United States is likely to be. The trade figures of recent months are a tangible reminder of this tendency. Our imports from the United States in the fourth quarter of 1946 were about \$430 millions as compared with less than \$500 millions in the whole year 1937 and less than \$900 millions in the whole year 1929.

To a considerable extent this upsurge of imports represents a process of filling up pipe lines and accumulating minimum stocks of goods which are just now becoming available in quantity in the United States market and are not yet available elsewhere. I believe it is a matter of availability of goods, rather than price considerations related to a lower exchange rate, which has prompted this movement, and there are already indications that the peak has been passed. Nevertheless it seems clear that we must contemplate a much higher level of imports from the United States than in any previous peace-time period. The prospects for a substantially higher level of exports to the United States depend on the outcome of the forthcoming trade negotiations, as well as on business conditions in the United States.

During the transition period, while our overseas customers are being financed largely on credit, we shall have to meet most of our balance of payments deficit with the United States out of our own resources. Fortunately we reached the end of the war with large U.S. dollar reserves. This gives us the opportunity to follow now the kind of multilateral non-restrictive trading policy which it is so greatly in our interest that other countries should adopt. It is obvious, however, that the successful functioning of this policy depends on our being able to realize, in due course, sufficient cash (i.e. freely convertible currency) from our overseas trade to meet our requirements in the United States.

The extent to which overseas countries can pay cash for their net imports from Canada will depend in turn on how soon they can restore their capacity to produce and to export to cash markets. In January, 1947, the United Kingdom took the welcome step of

making current sterling spent in certain countries, including Canada, convertible into U.S. dollars. It is to be hoped that as time goes on other countries will be able to undertake similar obligations, but we should not conclude that this alone would solve all our exchange problems. Unless such countries are able to produce and sell enough in other cash markets, their undertaking might have to be maintained through limitation of imports.

It is a commonplace that all countries have a tremendous stake in the maintenance of prosperity in the United States and the adoption of a liberal trade policy by that country. Further than this, contemporary events vividly illustrate the high degree of inter-dependence among all the important trading countries of the world. For example, the United Kingdom anxiously awaits the recovery of its important customers in Western Europe, so that it can obtain from them either the imports upon which its standard of living and export capacity depend, or convertible currency with which it can purchase those imports elsewhere. Canada, like other countries, has a vital interest in the United States situation but it is clear that the early restoration of a high level of production in the United Kingdom and Western Europe is also of primary concern to us.

I am, Dear Sir,  
Yours faithfully,  
G. F. TOWERS, *Governor*





## PROFIT AND LOSS ACCOUNT

*for the year ended December 31st, 1946*



PROFIT FOR THE YEAR ENDED DECEMBER 31ST,  
1946, after making provision for contingencies  
and reserves . . . . . \$ 21,236,194.96

APPROPRIATED AS FOLLOWS: Dividends for the  
year ended December 31st, 1946, at the rate of  
4½% per annum —

<i>No. 24 paid July 2nd, 1946. . .</i>	\$ 112,500.00	
<i>No. 25 payable January 2nd, 1947.</i>	<u>112,500.00</u>	<u>225,000.00</u>

BALANCE, TRANSFERRED TO THE RECEIVER  
GENERAL OF CANADA for credit to the Con-  
solidated Revenue Fund . . . . . \$ 21,011,194.96

# BANK OF CANADA • STATEMENT

## LIABILITIES

<b>Capital:</b> Authorized—100,000 shares, par value of \$50.00 each . . . . .	\$ 5,000,000.00	
Issued and paid up . . . . .		\$ 5,000,000.00
<b>Rest Fund</b> . . . . .		10,050,366.82
<b>Notes in Circulation</b> . . . . .		1,186,201,680.50
<b>Deposits:</b>		
Dominion Government . . . . .	\$ 81,468,166.79	
Chartered Banks . . . . .	565,469,559.72	
Other . . . . .	<u>93,800,974.87</u>	740,738,701.38
<b>Liabilities payable in Sterling, U.S.A., and Foreign Gold Currencies:</b> Deposits . . . . .		960,131.02
<b>Dividends Declared:</b> payable January 2nd, 1947 . . . . .		112,500.00
<b>All Other Liabilities</b> . . . . .		<u>5,552,900.98</u>
		<u><u>\$ 1,948,616,280.70</u></u>

**AUDITORS' REPORT** • We have examined the above statement of assets and liabilities of the Bank of Canada as at December 31st, 1946, and have received all the information and explanations we have required. We report that, in our opinion, it is properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs as at that date, according to the best of our information, the explanations given to us and as shown by the books of the Bank.

E. J. HOWSON, F.C.A.,  
of the firm of Thorne, Mulholland,  
Howson & McPherson.

MAURICE SAMSON, C.A.,  
of the firm of Chartré, Samson,  
Beauvais, Gauthier & Cie.

# OF ASSETS AND LIABILITIES

• AS AT DECEMBER 31st 1946

## ASSETS

<b>Reserve:</b> Sterling and U.S.A. dollars, at market value . . . . .	\$	960,131.02
<b>Subsidiary Coin</b> . . . . .		345,464.80
<b>Investments:</b> Dominion, Dominion-guaranteed, and Provincial Government short-term securities—at values not exceeding market . . . . .	\$	1,197,436,208.00
Other Dominion, Dominion guaranteed, and Provincial Government securities — at values not exceeding market		708,164,800.50
Other securities — at cost	<u>15,000,000.00</u>	1,920,601,008.50
<b>Bank Premises:</b> Land, Buildings and Equipment—at cost, less amounts written off . . . . .		2,438,215.06
<b>All Other Assets</b> . . . . .		<u>24,271,461.32</u>
		<u>\$ 1,948,616,280.70</u>

**NOTE:** In accordance with Section 12 of the Industrial Development Bank Act the Bank of Canada has subscribed for 250,000 shares of the par value of \$100 each of the Industrial Development Bank of which 150,000 shares had been purchased as at December 31st, 1946.

G. F. TOWERS, *Governor*      H. R. EXTENCE, *Chief Accountant*  
Ottawa, Canada, January 31st, 1947.

APPENDIX A • Volume of Money and

VOLUME OF MONEY	1935	1936	1937	1938
Bank of Canada Notes held by the Public . . . . .	59	88	111	118
Chartered Bank Notes held by the Public . . . . .	111	103	96	88
<i>Total Notes held by the Public . . . . .</i>	<u>170</u>	<u>191</u>	<u>207</u>	<u>206</u>
Public Demand Deposits with Chartered Banks . . . . .	641	682	699	734
Public Notice Deposits with Chartered Banks . . . . .	1,486	1,548	1,583	1,660
<i>Volume of Money held by the Public . . . . .</i>	<u>2,297</u>	<u>2,421</u>	<u>2,489</u>	<u>2,600</u>
Dominion Government and Other Deposits with Chartered Banks (1) . . . . .	82	93	105	104
Dominion Government and Other Deposits with Bank of Canada (2) . . . . .	19	22	16	21
<b>Total Volume of Money . . . . .</b>	<b>2,398</b>	<b>2,536</b>	<b>2,610</b>	<b>2,725</b>

**RELATED BANK ASSETS**

BANK OF CANADA:				
Gold (3) . . . . .	181	179	180	186
Foreign Exchange (3) (4) . . . . .	4	9	15	28
Securities . . . . .	114	160	186	186
CHARTERED BANKS:				
Victory Bonds held re Public Purchases on official installment plans . . . . .	...	...	...	...
Other Dominion and Provincial Securities . . . . .	956	1,116	1,111	1,162
Other Securities (5) . . . . .	153	221	242	228
Loans re Public purchases of Victory or Canada Savings Bonds at Time of Issue . . . . .	...	...	...	...
Other Canadian Loans . . . . .	1,028	905	938	1,005
<b>Total . . . . .</b>	<b>2,436</b>	<b>2,590</b>	<b>2,672</b>	<b>2,795</b>

(1) Variations in this item are accounted for mainly by Dominion Government deposits.

(2) Excluding deposits of chartered banks, and deposits in foreign currencies shown under item 5 of Liabilities on Bank of Canada Statement. See also footnote (4).

(3) In May 1940, under the Exchange Fund Order and the Foreign Exchange Acquisition Order, the Bank of Canada sold gold and exchange amounting to \$253.5 millions.



**Related Bank Assets** • (Millions of Dollars as at December 31st)

1939	1940	1941	1942	1943	1944	1945	1946
162	262	380	573	752	897	966	1,009
85	80	71	60	42	33	25	21
<u>247</u>	<u>342</u>	<u>451</u>	<u>633</u>	<u>794</u>	<u>930</u>	<u>991</u>	<u>1,030</u>
853	1,031	1,269	1,499	1,697	1,862	2,063	2,291
<u>1,741</u>	<u>1,641</u>	<u>1,669</u>	<u>1,673</u>	<u>1,948</u>	<u>2,423</u>	<u>2,865</u>	<u>3,469</u>
<u>2,841</u>	<u>3,014</u>	<u>3,389</u>	<u>3,805</u>	<u>4,439</u>	<u>5,215</u>	<u>5,919</u>	<u>6,790</u>
256	133	171	435	711	860	1,021	535
65	23	84	79	52	59	206	175
<u>3,162</u>	<u>3,170</u>	<u>3,644</u>	<u>4,319</u>	<u>5,202</u>	<u>6,134</u>	<u>7,146</u>	<u>7,500</u>
226	...	...	...	...	...	...	...
64	38	201	...	1	...	...	...
232	576	608	1,016	1,260	1,491	1,856	1,921
...	...	...	51	72	86	177	...
<u>1,353</u>	<u>1,288</u>	<u>1,516</u>	<u>1,950</u>	<u>2,555</u>	<u>3,143</u>	<u>3,410</u>	<u>3,634</u>
221	191	168	152	135	172	210	323
...	...	...	115	189	185	234	98
<u>1,141</u>	<u>1,148</u>	<u>1,201</u>	<u>1,084</u>	<u>1,015</u>	<u>1,118</u>	<u>1,292</u>	<u>1,545</u>
<u>3,237</u>	<u>3,241</u>	<u>3,694</u>	<u>4,368</u>	<u>5,227</u>	<u>6,195</u>	<u>7,179</u>	<u>7,521</u>

to the Foreign Exchange Control Board and acquired additional government securities. Since that date the Bank's minimum gold reserve requirement has been suspended.

(4) Excluding foreign exchange equal to the amount of deposits in foreign currencies shown under item 5 of Liabilities on Bank of Canada Statement. See also footnote (2).

(5) Excluding foreign government securities.

APPENDIX B

**Estimated Net New Bond Issues or Retirements**

(Par Values in Millions of Canadian Dollars)

	Calendar Year	Dominion & C.N.R.*	Provinces	Municipalities†	Private Corporations	TOTAL
<b>Payable in Canada Only</b>	1936	170	66	13	182	405
	1937	25	82	9	75	173
	1938	91	59	9	31	172
	1939	74	51	24	96	197
	1940	444	75	14	22	483
	1941	730		32	33	665
	1942	1,830	7	47	12	1,778
	1943	2,606	7	40	27	2,546
	1944	2,692	39	17	19	2,617
	1945	3,551	15	30	51	3,557
1946	208	17	41	108	374	
<b>Payable Abroad, Only or Optionally</b>	1936	39	27	14	141	221
	1937	14	24	16	87	141
	1938	21	11	21	42	95
	1939	96	29	15	129	211
	1940	144	15	16	35	210
	1941	193	18	14	31	256
	1942	292	41	14	64	411
	1943	148	25	13	35	221
	1944	68	27	10	20	125
	1945	47	14	9	52	122
1946	154	34	47	133	368	
<b>Total</b>	1936	131	39	27	41	184
	1937	11	58	25	12	32
	1938	70	48	30	11	77
	1939	22	80	39	33	14
	1940	300	60	30	57	273
	1941	537	18	46	64	409
	1942	1,538	34	61	76	1,367
	1943	2,458	18	53	62	2,325
	1944	2,624	66	27	39	2,492
	1945	3,504	29	39	1	3,435
1946	54	17	6	25	6	

\* Excludes Treasury Bills, Deposit Certificates and short-term notes sold directly to the Bank of Canada and the chartered banks, of which the amount outstanding increased by 12, nil, 5, 200, 315, 290, 633, 535, 248, 695 and 250 in the calendar years 1936 to 1946 respectively.

† The division of net municipal retirements between the domestic and the foreign category is a rough approximation only.



## BOARD OF DIRECTORS



G. F. TOWERS, C.M.G., *Governor*      D. GORDON, C.M.G., *Deputy Governor*

E. G. BAKER, *Toronto, Ont.*

W. D. BLACK, *Member of the Executive Committee, Hamilton, Ont.*

G. G. COOTE, *Nanton, Alta.*      J. L. HOLMAN, *Summerside, P.E.I.*

F. MAGEE, *Port Elgin, N.B.*      W. K. MCKEAN, *Halifax, N.S.*

A. STEWART McNICHOLS, *Montreal, Que.*

R. H. MILLIKEN, K.C., *Regina, Sask.*      A. C. PICARD, *Quebec, Que.*

E. J. TARR, K.C., *Winnipeg, Man.*      A. C. TAYLOR, C.B.E., *Vancouver, B.C.*



EX-OFFICIO MEMBER OF THE BOARD

W. C. CLARK, C.M.G., *Deputy Minister of Finance, Ottawa, Ont.*

## OFFICERS



G. F. TOWERS, C.M.G., *Governor*      D. GORDON, C.M.G., *Deputy Governor*

L. P. SAINT-AMOUR, *Assistant Deputy Governor*

D. G. MARBLE, C.B.E., *Secretary*      D. A. SKELTON, *Research Advisor*

L. RASMINSKY, C.B.E., *Executive Assistant to the Governors*

J. E. COYNE, *Securities Advisor and Executive Assistant to the Governors*

### SECRETARY'S DEPARTMENT

D. G. MARBLE, C.B.E., *Secretary*      L. P. J. ROY, *Deputy Secretary*

L. F. MUNDY, *Deputy Secretary*      P. D. SMITH, *Assistant Deputy Secretary*

**Foreign Exchange Division:** S. TURK, *Chief*; W. A. CAMERON, *Deputy Chief*

**Currency Division:** C. E. CAMPBELL, *Chief*; J. P. MELVIN, *Deputy Chief*

**Public Debt Division:** M. G. ANDERSON, *Chief*

F. M. PETERS, *Deputy Chief*; H. W. THOMPSON, *Deputy Chief*

### RESEARCH DEPARTMENT

J. R. BEATTIE, *Chief*      W. E. SCOTT, *Banking Assistant*

### SECURITIES DEPARTMENT

H. G. GAMMELL, *Chief*      R. B. MCKIBBIN, *Deputy Chief*

C. H. RICHARDSON, *Assistant to the Securities Advisor*

J. W. GRANT, *Toronto, Ont.*      C. DEV. WELSFORD, *Montreal, Que.*

### CHIEF ACCOUNTANT'S DEPARTMENT

H. R. EXTENCE, *Chief Accountant*

### AUDIT DEPARTMENT

E. FRICKER, *Auditor*

## AGENCIES



- Calgary, Alta. . . . J. PARRY, *Agent*
- Charlottetown, P.E.I. . . . H. T. CURRIE, *Agent*
- Halifax, N.S. . . . P. B. WOOSTER, *Agent*
- Montreal, Que. . . . J. H. C. DESMARAIS, *Agent*
- Ottawa, Ont. . . . E. METCALFE, *Agent*
- Regina, Sask. . . . F. J. WILKS, *Agent*
- Saint John, N.B. . . . E. H. CAMERON, *Agent*
- Toronto, Ont. . . . K. FREDERICKSON, *Agent*
- Vancouver, B.C. . . . W. MORTON, *Agent*
- Winnipeg, Man. . . . G. A. IVEY, *Agent*



