The devaluation of sterling and the nervous mood that has existed in international circles since that happened have brought uncertainty and speculation into many of the capital and exchange markets throughout the world. Waves of rumours, speculation and market fluctuations have occurred at various times during the past three months. Seldom have international markets been so disturbed.

Both the international exchange and capital markets have been influenced considerably by the United States balance of payments program, announced on January 1 this year, which was designed to check the outflow of gold. The main item in the United States program which has created uncertainty over its effects on Canada has been the new mandatory control over direct investments by United States controlled businesses in other countries. When this program was announced and explained to us it was evident that the United States government had tried to achieve its objectives in ways that would minimize any impact on Canada, which, as the balance of payments figures between our two countries show, would be counter-productive as far as the United States is concerned.

I was able to say when these controls on direct investments were announced that the assessments given to me indicated that these were not intended or likely to lead to any material reduction in the flow of United States direct investment to Canada this year. Since January 1 we have examined the probable effects of these controls in more detail, and discussed them with the United States on several occasions. These controls leave room for about as much flow of direct investment into Canada as would occur without them this year, with a few exceptions. In the particular case of the petroleum industry, where programs change considerably from year to year, some problems have been under review both here and in Washington, and I expect these can be overcome.

However, in the nervous mood that has existed in international markets in recent months, it was natural that there would be uncertainty and concern over the possible effect of these United States measures on the Canadian situation. Around the middle of January pressure developed against the Canadian dollar in exchange markets, apparently triggered by misunderstanding of the effects of these United States controls on direct investment. On January 21 the United States Secretary of the Treasury, after discussing the matter with me, issued a clarifying statement which provided reassurance that the new United States balance of payments program does not call for, nor is it intended to have the effect of causing, abnormal transfers of earnings or withdrawals of capital by United States companies having investments in Canada, and that the program provides scope for continued large flows of capital to Canada.

As the house knows, of course, there continues to be an important inflow of long term capital from the United States. Indeed, hardly a month passes without long term loan issues being made in the United States on behalf of Canadian provinces, municipalities, or other bodies here.

On January 21 the Bank of Canada increased its bank rate from 6 per cent to 7 per cent and announced that the chartered banks had agreed to discourage the use of bank credit to facilitate abnormal transfers of funds abroad by Canadian subsidiaries of foreign companies, or to replace financing which has in the past normally been provided by parent companies.

Following this clarification by the United States and the action of the Bank of Canada, the pressure on the Canadian dollar abated. The regular announcement of our reserve position at the end of January indicated that Canadian reserves during the month had declined approximately $100 million in United States terms after taking into account the drawing into our reserves of $250 million in United States dollars by the Bank of Canada through activation of part of its reciprocal credit facility with the federal reserve system.

In the early part of February there was a period of further pressure on the Canadian dollar in the exchange market as the market reacted to the news of the changes in the reserves during January. Later there was substantial pressure on the dollar again after the adverse vote on the government's tax bill. The state of our reserves at the end of February, published last Friday, makes clear that there would have been a further reduction in our holdings of exchange that month had there not been an addition to the reserves secured by the drawing upon the International Monetary Fund. If we had not made this drawing there would have been a reduction of $113 million, in United States terms, in our gold and foreign exchange holdings.