GOVERNMENT OF CANADA

STATEMENTS AND SPEECHES

INFORMATION DIVISION
DEPARTMENT OF EXTERNAL AFFAIRS
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No. 50/36 **THE UNPEGGING OF THE CANADIAN DOLLAR**

A statement issued by Mr. Douglas Abbott, Minister of Finance, at Ottawa on September 30, 1950, regarding the Canadian exchange rate.

"Last night I announced that the Foreign Exchange Control Board had instructed Canadian banks and other authorized agents to discontinue dealings in foreign exchange until further notice. Today, the Government, by Order in Council under the authority of the Foreign Exchange Control Act, cancelled the official rates of exchange which, since September 19 of last year, had been calculated on the basis of a 10 per cent premium for the United States dollar in Canada. It has been decided not to establish any new fixed parity for the Canadian dollar at this time, nor to prescribe any new official fixed rates of exchange. Instead, rates of exchange will be determined by conditions of supply and demand for foreign currencies in Canada.

"Banks and other authorized agents will deal in foreign exchange as principals, but they will continue to act as official agents of the Foreign Exchange Control Board for the issue of permits and in other matters relating to exchange control. The general structure of exchange control remains unchanged, including control over securities transactions between residents and non-residents and control over payments of Canadian dollars to non-residents.

"A resident receiving foreign exchange is still required to declare it to an authorized dealer. He must then either sell it immediately to an authorized dealer at the going rate of exchange, or, if he wishes, deposit it in a special foreign-currency bank account with his authorized dealer, in which case he may not make any other use of the foreign currency but may choose his time for selling it within a period of 90 days. A resident desiring to obtain foreign exchange must apply to his authorized dealer for a permit which, if granted, will allow him to buy the required foreign currency from an authorized dealer at the going rate of exchange.

"Merchants and other residents who are offered foreign currency by tourists are no longer required to pay any fixed rate of exchange, but may pay such rate as may be agreed on. No doubt such rate will be based on the rates currently being offered by banks for the purchases of foreign currency.

"A permit will still be required for the export of funds for travel abroad by Canadians, but it is planned to increase the amount which will be authorized for travel for any purpose so as to cover all reasonable travel expenditures. An announcement of the new regulations will be made within a few days when technical arrangements have been completed.

"One result of the new system of establishing exchange rates is that the so-called unofficial rates for Canadian dollars in New York and other centres will now disappear. The rate will be basically the same in Canada and abroad, although certain local variations may be expected, particularly in transactions in bank notes, as a result of time differences, transportation costs, and special local conditions. Fluctuations in the basic rate will no doubt occur from time to time in accordance with changing conditions of supply and demand. After a short transitional period it is expected that reasonably stable conditions will develop in the exchange market.

"From what has been said, it will be seen that the change from a fixed rate of exchange to a market rate does not involve the abandonment of the foreign exchange control system. A few consequential amendments of the Foreign Exchange Control Regulations will be necessary but the number of these will be small. The objective is to maintain the structure of control in its familiar form as a defence against possible adverse conditions in the future. Actual restrictions will be few. Residents will still require a permit to export capital from Canada and such permits will not normally be granted except for necessary business operations and certain amounts exported by emigrants. Similarly, non-residents will still be required to obtain a permit in order to withdraw capital from Canada and such a permit will normally not be granted except in the case of sale of fixed assets in Canada or liquidation of capital investments made since 1939 and recorded with the Foreign Exchange Control Board. Non-residents will, of course, still be able freely to transfer Canadian currency, securities and other assets among themselves, so that, for example, a non-resident holding Canadian dollars may dispose of them to his bank in the United States in the same manner as heretofore.

Background of the present action

"A year ago, when the pound sterling and other foreign currencies were devalued by substantial amounts, it appeared necessary to make a moderate change in the par value of Canadian currency and it was accordingly devalued by 9.09 per cent. Up to that time there were no conditions directly relating to Canadian dollars which made such a devaluation necessary, but the changed conditions brought about by the devaluation of other important currencies were such that Canadian trade might have been adversely affected if no change were made in the value of the Canadian dollar. Since then, our current account of international trade in goods and services has shown a moderate surplus, although rather less than in the previous year. In recent months, however, there has been a growing tide of capital movements out of foreign currencies into Canadian dollars. This has been in part useful long-term investments based on a belief in the long run soundness of Canadian financial and economic conditions. In large part, however, particularly in the last few weeks, it has been a speculative movement in the hope of fairly early action to restore the Canadian dollar to parity with the United States dollar. Our official reserves of gold and United States dollars which stood at $1,255 million on June 30, rose to $1,320 million by July 31, to $1,504 million by August 31, and were about $1,789 million (preliminary) on September 30. Thus the total increase over the past three months was approximately $534 million, of which over $285 million occurred during the month of September.

The gross inflow was actually more than $285,000,000 in September because the figures given above allow for the setting aside of $50,000,000 from our reserves in addition to $50,000,000 obtained through a recent bond issue in New York to redeem a Government of Canada bond issue of $100,000,000 falling due on October 1. There is no telling how much further this movement might have gone, so long as the fixed rate of a 10 per cent premium on United States dollars were maintained and people believed in the possibility or probability of an official change to another fixed rate such as parity of the Canadian dollar with the United States dollar.

"An influx of funds on this tremendous scale would, if it continued, be likely to exercise an inflationary influence in Canada at a time when government policy in all fields is directed to combatting inflationary developments. Moreover the accumulation of foreign exchange under such conditions would mean that Canada was in effect incurring a substantial increase in its gross foreign debt and annual service charges without any corresponding increase in its productive resources or ability to export.

"For all these reasons, it was highly desirable to put an end to this extraordinary rate of involuntary borrowing from the United States. One obvious method would be to move the Canadian exchange rate back to parity with the United States dollar. This would probably bring to a stop the inward movement of speculative capital, but such a change in the exchange rate would not necessarily be justified by fundamental conditions and might be found to require reversal or further adjustment within the not-too-distant future. To move the Canadian exchange rate to any other fixed point than parity with the United States dollar would be open to the same objections. The appropriate rate at the present time might be anywhere between parity and the 9 per cent discount recently in effect. In short, under the conditions which I have outlined, no person can determine in advance with any reasonable assurance a new level at which to fix the par value of the Canadian dollar, and for this reason the Government feels that the rate of exchange should be left to be determined by market forces.

Consultation with the International Monetary Fund

"The International Monetary Fund has been consulted in accordance with the terms of its Articles of Agreement, and the course of action which we propose to follow was discussed with the Executive Board of the Fund at a meeting held in Washington this morning. The circumstances which have compelled the Government to permit exchange rate fluctuations were fully explained. The Executive Board examined the Canadian position with great objectivity and comprehension and recognized the exigencies of the situation which have led Canada to the proposed plan. The Government intends, of course, to remain in consultation with the Fund and hopes ultimately to conform to the provisions of the Articles of Agreement which stipulate that member countries should not allow their exchange rates to fluctuate more than one per cent on either side of the par values from time to time established with the Fund.

Removal of Import Restrictions

"The Government has also decided to announce at this time that all the remaining import prohibitions and quota restrictions under Schedules I and II of the Emergency Exchange

Conservation Act will be removed effective January 2, 1951. It will be recalled that severe import restrictions had to be imposed in November, 1947, at a time when the drain on our gold and foreign exchange reserves had reached dangerous proportions. By the autumn of 1948 our trade position had improved sufficiently and our reserves had recovered to a level which made it possible to begin the process of relaxation in these restrictions. Our progress in this direction was somewhat retarded by the uncertainties of the international financial situation during the latter part of 1949 and the early months of 1950. But during the past six months it has been possible to resume and to accelerate this process of relaxation. By the end of last June about one-half of the original restrictions had disappeared and a few weeks ago I was able to announce the removal of about one-half of the remainder. In order to facilitate orderly adjustment to each stage in these relaxations it has been customary to give reasonable advance notice of their effect, and it is for this reason that I am now giving notice that all the items remaining in Schedules I and II of the Emergency Exchange Conservation Act will be rescinded at the end of the year. My colleague, the Minister of Trade and Commerce, will be reviewing the operation of Schedule III of the Act (the capital goods section) with a view to ascertaining the appropriate degree and timing of relaxations in that field."

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