

which might complicate Canada's international payments position. These considerations suggest that monetary policy must be used in appropriate combination with other public economic policies in order to help achieve national economic goals.

Although the Bank of Canada has the power to determine the rate of growth of the combined total of currency and chartered bank deposits, it has no means of determining how much of this total is held in the form of currency and how much in the form of chartered bank deposits. This depends entirely on the preferences of the public, since bank deposits can be converted freely into notes and coin and back again.

Although the cash reserve system in Canada — which is similar to that in a number of other countries — enables the central bank to determine within broad limits the total amount of chartered bank assets and deposit liabilities, the Bank of Canada leaves the allocation of bank and other forms of credit to the private sector of the economy. Each chartered bank is free to attempt to gain as large a share as possible of the total cash reserves available by competing for deposits and to decide what proportion of its funds to invest in particular kinds of securities and in loans to particular types of borrowers. The influence of the central bank — based in essence on its power to expand or contract chartered bank cash reserves through its market purchases or sales of securities — is both indirect and impersonal and is brought to bear on financial conditions generally through the chartered banks and the numerous interconnected channels of the capital market.

The Bank may buy or sell securities issued or guaranteed by Canada or any province, short-term securities issued by Britain, treasury bills or other obligations of the United States and certain types of short-term commercial paper. The Industrial Development Bank Act authorizes the Bank to purchase securities issued by that institution. The Bank may buy or sell gold, silver, nickel and bronze coin, or any other coin, and gold and silver bullion as well as foreign exchange and may accept non-interest-bearing deposits from the Government of Canada, the government of any province, any chartered bank and any bank regulated by the Quebec Savings Bank Act. The Bank may open accounts in other central banks; accept deposits from other central banks, the International Monetary Fund, the International Bank for Reconstruction and Development, and any other official international financial organization; and pay interest on such deposits. The Bank does not accept deposits from individuals nor does it compete with the chartered banks in the commercial banking field. It acts as the fiscal agent for the Government of Canada in the payment of interest and principal and generally in respect of the management of the public debt of Canada. The sole right to issue paper money for circulation in Canada is vested in the Bank.

The Bank of Canada may require the chartered banks to maintain, in addition to the legal minimum cash reserve requirement mentioned above, a secondary reserve which the Bank may vary within certain limits. The secondary reserve, which consists of cash reserves in excess of the minimum requirement, treasury bills and day-to-day loans to investment dealers, cannot be more than 6% of total deposits when first introduced nor can it exceed 12%; effective January 1972, the required level was 8%. In the event the Bank wishes to introduce or increase the secondary reserve requirement, one month's notice to the chartered banks is required; the amount of any increase in the requirement cannot exceed 1% per month. In the case of a lowering of the secondary reserve requirement, however, the percentage change in any one month is not restricted.

The Bank of Canada may make loans or advances for periods not exceeding six months to chartered banks, or to banks to which the Quebec Savings Bank Act applies, on the pledge of certain classes of securities. Loans or advances may be made under certain conditions and for limited periods to the Government of Canada or of any province. The Bank of Canada is required to make public at all times the minimum rate at which it is prepared to make loans or advances; this rate is known as the bank rate. From November 1, 1956 until June 24, 1962, the bank rate was established weekly at a fixed margin of  $\frac{1}{4}$  of 1% above the latest weekly average tender rate for 91-day treasury bills. Bank rates since June 24, 1962, have been fixed from time to time and are given in Table 19.1. The rate as at December 31, 1972 was 4.75% per annum.

From June 24, 1962 to November 12, 1970, the money-market rate — the rate at which the Bank of Canada is prepared to enter into purchase and resale agreements with money-market dealers — was either  $\frac{1}{4}$  of 1% above the average rate on 91-day treasury bills at the preceding weekly tender or the bank rate, whichever was lower; since November 12, 1970, the minimum rate is the bank rate less  $\frac{3}{4}$  of 1%.