

Canada announced (in November 1975) an explicit target range for M1, expressed as a trend rate of increase of not less than 10% but well below 15%, measured from the average level of money holdings over the second calendar quarter of 1975. Since then progressively lower target ranges have been announced. The range established in February 1981 was at 4% to 8%, measured from the three-month average level centred on September 1980.

Steadiness in monetary growth tends to stabilize total spending in the economy. When the trend growth in national expenditure exceeds that of money holdings, for any appreciable period, interest rates tend to rise. Consequently, firms and individuals are induced to moderate their spending. On the other hand, if expenditure is sluggish compared to the growth of money supply, interest rates tend to fall and there is an incentive for business and consumer spending to expand.

Within the broad framework of achieving monetary growth targets, the Bank of Canada has considered in its operations any near-term economic and financial developments that might work against the achievement of its policy objectives. Because of the potential inflationary impact of any substantial reduction in the foreign exchange value of the Canadian dollar, for example, the Bank of Canada in recent years has paid attention to movements in the differentials between Canadian and US interest rates and their influence on the exchange market.

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 Bank of Canada may buy or sell securities issued or guaranteed by Canada or any province, certain short-term securities issued by the United Kingdom, treasury bills or other obligations of the United States and certain types of short-term commercial paper. It may buy and sell gold, silver, nickel and bronze coin, or any other coin, and gold and silver bullion as well as foreign currencies and may accept non-interest-bearing deposits from the federal government or corporations and agencies of the federal government, the government of any province, any chartered bank, any bank regulated by the Quebec Savings Bank Act and any other member of the Canadian Payments Association. The Bank of Canada may open accounts in other central banks or in the Bank for International Settlements as well as maintain accounts in commercial banks to facilitate buying and selling foreign currencies; accept deposits from other central banks, the Bank for International Settlements, the International Monetary Fund, the International Bank for Reconstruction and Develop-

ment, and any other official international financial organization; and pay interest on such deposits. It may also buy and sell Special Drawing Rights issued by the International Monetary Fund. The Bank of Canada 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 federal government in payment of interest and principal and generally in respect of management of the public debt of Canada. The sole right to issue paper money for circulation is vested in the bank.

The central bank also may require the chartered banks to maintain, in addition to the legal minimum cash reserve requirement, a secondary reserve which the Bank of Canada may vary within certain limits. The secondary reserve, consisting of cash reserves in excess of the minimum requirement, treasury bills and day-to-day loans to investment dealers, cannot exceed 12%. From February 1977 to November 1981, the required level was 5%; effective December 1981 the required level was 4%. In the event the Bank of Canada wishes to introduce or increase the secondary reserve requirement, 30 days' notice to the chartered banks is required; the amount of any increase in the required ratio cannot exceed 1.0% a month except when no percentage requirement is in effect, and the increase may then be no more than 6.0%. 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, to banks to which the Quebec Savings Bank Act applies, or to other members of the Canadian Payments Association that maintain deposits with the bank, on the pledge of certain classes of securities. Loans or advances may be made under certain conditions and for limited periods to the federal government or to any provincial government. The bank must 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. Typically, the bank rate is administered directly by the Bank of Canada and is changed from time to time. However, during the period from November 1, 1956 to June 24, 1962 the bank rate was set at 1/4 of 1% above the weekly average tender rate of 91-day treasury bills issued by the Government of Canada. On March 10, 1980 the Bank of Canada again established that beginning on March 13, 1980 and until further notice, the bank rate would be set at 1/4 of 1% above the latest rate established at the weekly tender for 91-day treasury bills auctioned every Thursday. On April 25, 1984 the bank rate was 10.82%. Manipulation of the bank rate is the principle tool used by the bank to control expansion of the money supply and inflation.

Purchase and resale agreements (PRA) are arrangements under which the Bank of Canada