public's holdings of currency and chartered bank demand deposits (M1), a definition which included only forms of money used as a means of payment.

By 1982, as a result of innovations in the financial services industry, the relationship between M1 and interest rates and total spending became so distorted that M1 was no longer sufficiently reliable for use as a monetary target. In November 1982, the Bank announced it was abandoning specific monetary targets. At the same time, it was made clear that this decision did not involve a fundamental change in the Bank's approach to monetary policy. In deciding monetary policy, the Bank of Canada has always attached great importance to evidence in the economic and financial scene that goes beyond the performance of particular aggregates. In current circumstances, it relies on its analysis of a broad range of financial and economic variables, including the trend of total spending in the economy and exchange rate developments, as well as the various monetary and credit aggregates, to come to judgments regarding monetary policy. The objective of monetary policy continues to be, however, a rate of monetary expansion sufficient to accommodate increasing utilization of Canada's economic resources in a context of increasing price stability.

The particular course followed by the Bank of Canada more recently has been to moderate the amplitude of the swings in short-term interest rates in Canada relative to those in the United States with the result that the impact of the movement in US interest rates has fallen partly on Canadian interest rates and partly on the foreign exchange value of the Canadian dollar. The conduct of policy has thus been directed at moderating upward pressure on Canadian prices and costs from exchange depreciation, while at the same time ensuring that the economy continues along the path of longer run monetary restraint.

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 Development, 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