

Borrowing Authority

superannuation accounts which are expected to provide a source of funds of \$2.3 billion in 1980-81 and \$2.9 billion in 1981-82, growing to \$3.9 billion in 1983-84. As a consequence, financial requirements decline more rapidly than the budgetary deficit. They decline from \$12.2 billion this year to \$11 billion next year and reach \$7.2 billion in 1983-84. As a percentage of GNP, the drop is expected to be from 4.3 per cent in 1980-81 to 3.5 per cent in 1981-82 to 1.8 per cent in 1983-84, the lowest level since 1974-75.

The financial requirements arise from the basic fiscal stance and the over-all budget strategy, a strategy which has been justified by the recent economic developments. During the fourth quarter of 1980 particularly, the main economic indicators have shown moderate strength and the actual outcome for 1980 as a whole is likely to be stronger than expected in the fall of last year. This improved economic performance has sustained employment growth in the fourth quarter with a rise amounting to 1 per cent.

● (1230)

Unfortunately, not all the economic news has been good news. The budget speech warned of the possibility of some deterioration on the price front due to rapid rates of increases in food prices or other factors. There are now indications of somewhat more pressure on food prices than had been anticipated, mainly related to crop yields which were below average and lower marketings of livestock.

It will be recalled that in the budget speech, the Minister of Finance emphasized the need to deal with inflationary pressures, and it seems clearer now than it was at that time that inflation is the most serious and intractable problem facing the Canadian economy. Canada, like other countries, is facing a difficult economic situation and therefore the balanced package of measures contained in the budget, with its gradualist approach aimed at progressively bringing down the rate of inflation and promoting employment and productivity growth, provides the only sensible basis for dealing with the present economic situation. To opt for more economic stimulus at this time would inevitably lead to further aggravation of current inflationary pressures and would require abandoning the policy I mentioned earlier of bringing the size of the government's deficit under control.

The other extreme of excessively restrictive policies would also have major disadvantages. Such policies would have high costs in the form of lost output and unemployment. Moreover, implementing such a policy would require some combination of increased personal and corporate taxes or drastic expenditure cuts which would lead to disruptions to important public programs.

Mr. Speaker, I would like to explain now why the legislation proposes that \$3 billion of the borrowing authority provided for 1981-82, or whatever amount remains unused if it is less than \$3 billion, be exempt from automatic cancellation at the

end of fiscal 1981-82. As the Minister of Finance explained the other day, in recent years most borrowing authority legislation has carried a clause which automatically cancels any unused authority at the end of each fiscal year whether or not new authority has been obtained. In the past when this occurred and new borrowing authority had not yet been passed by Parliament, the government was able to continue with its borrowing program on unused authority obtained in earlier years which was not subject to automatic cancellation.

Since it was not always possible to foresee when Parliament would be sitting or what the parliamentary legislative calendar might be, these old borrowing authorities provided a useful degree of flexibility. During the first four months of the current fiscal year, however, almost all of this non-lapsed borrowing authority was used up as was discussed when we debated earlier the borrowing authority legislation that was adopted by Parliament some months ago. To provide some degree of flexibility in the future, the legislation proposes that all unused borrowing authority provided by the new act, only to the extent that it exceeds \$3 billion, will expire on March 31, 1982. So any unused borrowing authority of less than \$3 billion will not be cancelled and will be usable after March 31, 1982.

The \$3 billion margin for contingencies being requested is in line with the margin that has been provided and deemed necessary in recent years. The financial requirements for 1981-82 referred to earlier exclude requirements for foreign exchange transactions. These transactions can be large and in either direction and can have a substantial impact on the borrowing requirement of the government. A strengthening Canadian dollar gives rise to purchases of foreign exchange and a consequent need to raise Canadian dollars in the domestic market for this purpose. A weakening Canadian dollar, on the other hand, could give rise to the need to borrow foreign currencies to replenish official holdings of foreign exchange which are depleted through foreign exchange operations.

Mr. Speaker, the clause referring to the ability of the government to borrow and repay loans in foreign currencies is a technical one and, as was explained the other day, is similar to a clause that was first included in a borrowing authority bill introduced by the former government in 1979. Over the years, Canada has borrowed and repaid funds in a number of currencies. However, in 1978, Canada made a number of large foreign loans and established standby lines of credit with a number of foreign banks.

The clause was added to confirm Canada's right to borrow in foreign currencies. The Financial Administration Act is currently under review and a clause clarifying the government's ability to borrow and repay in foreign currencies would be included with any amendments to that act. Once such an amendment has been passed, there would no longer be a need for this clause in borrowing authority bills. Recently during the debate on Bill C-54, Clause 1 of which requested borrowing