ORAL QUESTION PERIOD

FINANCE

PRIME INTEREST RATE INCREASE BY BANK OF MONTREAL—PRIOR CONSULTATION BETWEEN BANKS AND MINISTER—POSSIBLE RETURN OF TIGHT MONEY POLICY

Hon. Robert L. Stanfield (Leader of the Opposition): Mr. Speaker, I would like to ask the Minister of Finance a question relating to the announcement by the Bank of Montreal this morning that its prime rate is being increased from 6½ per cent to 6¾ per cent, following an increase from 6 per cent to 6½ per cent on April 9. In view of the position the minister took yesterday with regard to the government's policy toward tight money, does this announcement follow any consultation between the banks and the Minister of Finance?

● (1110)

Hon. John N. Turner (Minister of Finance): Mr. Speaker, the president of the Bank of Montreal was trying to reach me this morning but I was tied up at a cabinet committee meeting. I notice that, although the prime rate has been raised from 6½ per cent to 6¾ per cent, the bank in its release said that the rate on loans of $100,000 or less to small businesses will continue to be based upon 6½ per cent. Rates on consumer loans are unchanged. What the bank is in effect adopting is a dual rate system to preserve accessibility for small business and consumer loans at the present rate in the market.

I gather that the pressure on the rate follows from the raising of the discount rate in the United States to 6 per cent and the fact that the prime rate in the United States is now 7 per cent which, if you take into account the manner of compensating balances used in the American banking system, puts the effective prime rate in the United States now between 7½ per cent and 8 per cent. What is happening is that this response of the prime rate announced this morning by the Bank of Montreal is a reflection of the pressure of international interest rates.

Mr. Stanfield: I have a supplementary question. I ask it in view of the fact the bank also announced that the mortgage rate under the National Housing Act would be increased in the future. Does this not in fact indicate to the minister and the House that a tightening of money is developing and the banking system is already feeling it necessary to ration loans between large borrowers, for example, and small borrowers? Does this not in fact indicate a reoccurrence of tight money conditions?

Mr. Turner (Ottawa-Carleton): No, Mr. Speaker. The fact remains that pressures on the Canadian banking system are such that as the interest rate differential between the American and Canadian capital markets widens, if it widens too much, the pressure on international borrowing against our own markets deprives Canadian borrowers of what credit allocations they might otherwise have had. What the banks are trying to do is to suggest to their larger accounts, particularly multinational accounts, to go into the regular capital markets and that it is appropriate, particularly on an immediate and medium-term

basis, to leave the loan allocations untouched and free for Canadian small businesses, businesses in those areas of the country not favoured by the rapid growth of some of the metropolitan areas, and to ensure that consumer loans remain untouched. Certainly the press release I received from the Bank of Montreal reflects that initiative. The president of the Bank of Montreal said that the objective—

Mr. Speaker: Order, please. The minister will appreciate that the reply should not be too long; otherwise we will have to revert to motions.

Mr. Stanfield: I wish to ask the minister whether in fact the rate of inflation that is occurring today does not in itself lead to a tightening of money and pressure on the money supply system because of increases in costs and therefore an increase in loan requirements? Does this inflationary situation, plus tight money, not create a vicious circle that feeds on itself? In view of this, does the minister intend to take any action to cut the cycle and deal effectively with the escalation in inflation that is taking place in order to avoid the continuing development of this tight money situation, or whatever the minister may choose to call it?

Mr. Turner (Ottawa-Carleton): Mr. Speaker, I do not agree with the analysis in the preamble to the question by the Leader of the Opposition. The interest rates reflect two circumstances: First, the international rate structure, particularly in the North American capital markets and, second, a very strong demand for credit, reflecting a tremendously strong expansion in the economy at the moment. What the banking system is reflecting is not a restrictive monetary policy but a monetary policy that reflects the expansion in the economy while maintaining proper liquidity in the banking system.

Mr. Speaker: Order, please. The Chair will recognize the hon. member for Oshawa-Whitby and the hon. member for Témiscamingue and then the hon. member for Edmonton West and others.

BANK PRIME INTEREST RATE INCREASE—POSSIBILITY OF INCREASE IN NATIONAL HOUSING ACT MORTGAGE RATE

Mr. Edward Broadbent (Oshawa-Whitby): I have a supplementary to the Minister of Finance. In view of what the hon. gentleman has just said, may I ask him whether or not we can expect an increase in the NHA basic mortgage rate to follow?

Hon. John N. Turner (Minister of Finance): I think it would be very unwise for anybody in the House, particularly a Minister of Finance, to speculate on interest rates.

Mr. Broadbent: In view of that highly enlightening answer from the Minister of Finance, can the hon. gentleman assure the House that he will take steps to prevent an increase in the NHA mortgage rate?

Mr. Turner (Ottawa-Carleton): My primary purpose is to ensure that a sufficient amount of money reaches the mortgage market, for reasons of which the hon. member is aware, in order that we can continue with the housing