opinion, sales by the general public of its accumulated holdings of Government bonds has not been a factor increasing credit expansion during the past year or so. In 1946 the banking system's holdings of Government bonds and of temporary loans made to assist Victory Loan purchases increased by only $93 million, while in 1947 Government bonds held by the Bank of Canada and the chartered banks actually declined by $27 million.

I should state at once that in spite of the large reduction in money supply which the Government's fiscal policy has effected, our <u>total</u> money supply has not declined during the past two years. On the contrary, according to the Bank of Canada's calculations, the supply of money in Canada increased from $3.5 billion at the end of 1945 to $3.9 billion at the end of 1947. The reason for this was the large increase in loans made by the chartered banks and in their holdings of securities other than those issued by the Canadian Government. At the end of December last, the total of these two types of assets in their portfolios was not far from double what it had been on December 31, 1945. Important as factors accounting for this large increase were increases in loans to and securities of provincial and municipal governments, increases in loans to manufacturers and merchandisers probably due in large part to higher inventories, increases in loans for consumer credit purposes, and increases in loans to and securities of business firms made or issued for capital development purposes.

The monetary policy which has been followed in the last two years has been of a type designed to supplement the restraining effect of the Government's policy of paying off debt out of current surpluses. As a result of central bank action, for instance, the average cash reserve of the chartered banks has been maintained at a slightly lower level in 1946 and 1947 than at the end of 1945, although the effectiveness of this action was weakened to some extent by the willingness of the banks to let their cash ratios run down a bit.

I might mention another development of some interest in the field of monetary policy, though it was instituted for other reasons as well. This was a voluntary agreement negotiated with the chartered banks in the opening months of 1946. To understand this arrangement, it should be remembered that we have practically no specialized savings institutions in Canada and that our chartered banks perform this public function as well as those of ordinary commercial banks. Under this arrangement, the banks agreed that their holdings of Dominion Government domestic bonds would not average more than 90% of their Canadian savings deposits and that by appropriate selection of an average term their earnings on such bonds held for investment account would not exceed their operating costs on Canadian savings deposits by more than a moderate profit margin for this type of banking business. This profit margin was to be subject to review from time to time. If the banks should wish to invest in Dominion bonds beyond the amount recognized as appropriate in connection with their Canadian savings deposits, they were to avail themselves of Treasury Bills or other short term securities bearing an appropriately low rate of interest. If perhaps the primary purpose of this agreement was to restrict to reasonable proportions the earnings of banks from holding Government bonds, a second purpose was to prevent banks from being unduly aggressive buyers of Government bonds in the market, which might have the effect of dislodging general public holdings of such securities and perhaps lead to some increase in the supply of credit.