19. In the field of banking, the outstanding feature of the past year had been a strong demand for bank loans. Bank loans had been rising at an annual rate of 10% in the second half of 1961, and this trend had been accelerating during 1962. In 1961, monetary policy had been such as to allow the banks to accommodate the increase in loans and to add at the same time to their liquidity; since January 1962 the policy had been to allow the increase in the demand for loans to lead to progressive tightening in the banking system. This trend had proceeded very rapidly in recent weeks, with the banks making heavy sales of Government of Canada securities in order to meet the loan demand. By June 24 the floating bank rate had risen to 5.17% – and on that date the bank rate was fixed at 6%. The Bank of Canada continued, however, to stand ready to provide credit to money market dealers who had lines of credit with the central bank on the former basis of the current Treasury Bill rate plus ¼ per cent.

20. At present, monetary policy was directed primarily towards achieving and maintaining a level of interest rates sufficiently high to permit the current account deficit to be financed and the foreign exchange reserves to be restored, as a result of capital imports. Within this framework, the monetary authorities wanted to do what they could to maintain credit conditions conducive to the internal economic adjustments which were required in order to produce a basic improvement in the current account balance. It was not possible to say what this policy was likely to involve in terms of monetary expansion; it might mean that there would be no monetary expansion for a time. It was almost certain to mean that the banks would not be able to accommodate increases in their loans at anything like the recent rates. The restraints which the banks were finding necessary to moderate the rate of loan expansion were being undertaken. At the same time, there were reasons to be hopeful that the banks were tackling the problem in a way designed to maintain the availability of credit throughout the Canadian economy. Apart from some speculative activity, there was not much economic activity in Canada which one would wish to see reduced; on the contrary, an increase in economic activity was desirable, particularly in export-oriented and import-competing industries.

21. In the present circumstances, one of the most useful things the banks could do would be to push larger borrowers into the new-issue market. Activity in the new issue market had in fact been somewhat lower than normal; to a degree this was the counterpart of the increase in demands for bank loans. One source of difficulty in this connection was the statutory 6% maximum on bank lending rates, which was tending to make bank loans one of the cheapest sources of credit. Although this provision was under examination by the Royal Commission on Banking and Finance, no early action could be expected. Therefore, deliberate and conscious efforts would be required if the diversion of borrowers to the new issue market was to be achieved. More use of the security market would help the market to do its job of finding the terms on which residents and non-residents were prepared to hold the flow of new securities necessary to finance the economy.

J.C. LANGLEY