

was introduced in the third quarter of 1983 and lowered in the third quarter of 1987.)

As can be seen from the figure, credit card rates are sticky in the sense that they change less frequently than other short-term rates such as the Bank Rate. In part this is due to legal requirements that make card issuers notify their customers at least 30 days before a rate change. Since mid-1987, the rates on the so-called bank cards have changed more often than in the previous decade. There has not been a complete interest rate cycle since that time, however, so it is not possible to say whether future changes will be more frequent with a general fall in interest rates.

Of note in the Figure in Appendix 2 is the spread between card rates and short-term rates, represented here by the Bank Rate. With sticky card rates, this spread fluctuates over a wide range. In August 1981, for example, the Visa-Bank Rate spread was actually slightly negative; in May 1983, this spread had reached 14.62 percentage points.

The Visa-Bank Rate spread was 11.46 percentage points in February 1987 while the Finance Committee was drafting its report. With the drop in bank card rates following the report, the spread fell to 7.31 percentage points. The Finance Committee did not frame its recommendation for bank card rates in terms of a desired spread between card rates and a reference short-term rate. Given the pattern of interest rates that prevailed while the Committee was examining credit cards and recommendation 6 concluding the section "The Special Position of the Large Banks," it is possible to say that the Committee would have accepted a Visa-Bank Rate spread of 7 to 7.5 percentage points.

The spread at the end of September 1989 was 7.52 percentage points. In other words, the recent movements of the bank card rates have been in line with the general movement of rates in Canada.

This spread may strike some observers as still excessive, but it can be explained by the high non-interest costs of running a credit card operation. Research undertaken by the Finance Committee and information from U.S. studies support this explanation of a high spread.

Appendices 3 and 4 contain figures that show that spreads between bank card rates and short-term rates are actually lower in Canada than in the United States and the United Kingdom. Since the mid-1980s, moreover, the general pattern of bank card rates in Canada and the U.K. has been similar, with decreases in 1987 and increases in the past year.