accelerate it. The new stable exchange rate would play a very important role; at the same time, prices and costs would have to be kept under control in order to take the fullest possible advantage of the new exchange rate. So far as the Government's long-term programme was concerned, appropriate measures were being given urgent consideration. However, these measures had not been considered by Ministers. It would therefore be premature to discuss them.

15. In the meantime, it was clear that the interim measures, especially the graduated surcharges on imports, should be supplanted as soon as possible by constructive measures to improve the balance of payments. In judging how soon this would be, it was necessary to take account of the inter-related problems of improving the current account and restoring confidence to the point where a more or less permanent restoration of the level of the reserves to an appropriate level had been achieved. The danger was that, under internal and external pressures, the interim measures would be dismantled too soon, with adverse effects on confidence. At the same time, the new exchange rate ought to represent a sufficiently large advantage to the Canadian business community that "protectionist" pressures in favour of a permanent retention of the additional advantage conferred by the surcharges should be minimized.

16. Dealing with recent financial developments, Mr. Lawson drew attention to the considerable change in interest rates which had taken place in the period since the end of April. At the end of April the yield curve for Government of Canada securities rose from about 3% on 91-day Treasury Bills to 4.85% on long-term bonds. This pattern was only a little different from the pattern at the end of 1961. By contrast, the present curve was almost horizontal at about 5½% with a slight bump at the short end.

17. Through 1961 and in early 1962, the Government of Canada has conducted its debt management in a manner designed to contribute to relatively easy credit conditions. The Government had had substantial cash requirements, both to cover its cash deficit and for refunding purposes, but its borrowing had been confined almost entirely to the short end of the market. There had been only two relatively unimportant exceptions to this, the occasional small mid-term issue and the normal annual issue of Canada Savings Bonds. Since January of 1962, the Government had not gone to the market for any new money. New money requirements had been financed from the Canadian dollar proceeds of sales of foreign exchange reserves, which under Canadian law were held by the Minister of Finance.

18. Since the development of the foreign exchange emergency, there were two important changes in the Government's financing practices to report. The Minister of Finance had earmarked the Canadian dollar balances from the sales of foreign exchange reserves since March 31 for the purpose of financing increases in the reserves, and these funds would not be used to meet ordinary Government expenditures. Second, the Government had ceased to confine its financing largely to the short end of the market. The Minister of Finance had announced on July 16 a new issue of Government bonds totalling $200 million, open as to maturity between:

(1) 7 year 2 month 5½% non-callable bonds due October 1, 1969 at a price of 99% to yield about 5.67% to maturity, and

(2) 18 year 5½% non-callable bonds due August 1, 1980 at a price of 98% to yield about 5.68% to maturity.

In addition, $85 million in 366-day Treasury Bills were to be sold by competitive tender on July 30.