CANADIAN DOLLAR FREED ON EXCHANGE MARKET

The Minister of Finance, Mr. E.J. Benson, announced at a special press conference on May 31 that the Canadian Exchange Fund would, for the time being, cease purchasing sufficient U.S. dollars to keep the exchange-rate of the Canadian dollar in the market from exceeding by more than 1 per cent its par value of 92½ U.S. cents. Next day, Mr. Benson explained the Government's decision to the House of Commons as follows:

...The Canadian dollar has been extremely strong in the exchange market since the beginning of 1970. The overall official reserve position rose during the past five months by more than $1,200 million (U.S.), not including the allocation of special drawing rights. The reserves have been increasing at an accelerating rate. In the first quarter they rose by $367 million (U.S.) (excluding the allocation of $124.3 million of special drawing rights on January 1, 1970). In April they rose by $225 million. In May the official reserves rose by $262 million, and in addition, as a result of swaps and forward transactions, $360 million has been acquired for future delivery, for a total increase of $622 million in one month.

The reserve increases resulted from the strong current-account surplus that developed in the early months of this year and from the continuing heavy inflow of funds arising from long-term borrowing by Canadians in foreign capital markets. Last year a large outflow of short-term interest rates abroad declined and some private balances abroad have been repatriated. The accumulation of reserves in 1970 has greatly increased the cash requirements of the Government of Canada. The Government's cash balances have been substantially reduced, and an additional $250 million has been acquired by the sale of a special issue of treasury bills in order to provide additional resources to the Exchange Fund.

RESERVES SKYROCKETING

I want to emphasize that the rate of accumulation of reserves has been accelerating steadily throughout the year. If this trend had continued, Canada's official reserves would have risen rapidly to levels far in excess of Canada's needs. Large-scale speculative buying of Canadian dollars would have been encouraged, with disruptive effects upon the international payments system and with large windfall profits for speculators. The Government is not prepared to finance such potentially unlimited increases in the foreign exchange reserves. The decision to permit some appreciation of the market rate of exchange was required in order to prevent an unmanageable situation from developing.

IMF NOTIFIED

We have informed the International Monetary Fund of this decision and of our intention to remain in consultation with the IMF and to resume the fulfilment of our obligations under the Articles of Agreement of the IMF as soon as circumstances permit.

The IMF has since issued a statement noting the current situation in Canada. It has emphasized the undertaking by members to collaborate with the Fund to promote exchange stability and to maintain orderly exchange arrangements with other members. And it has welcomed the intention of Canadian authorities to remain in close consultation with the Fund with a view to the resumption of an effective par value at the earliest possible date.

BANK RATE AFFECTED

To the extent that the Canadian dollar becomes more valuable in terms of other currencies, Canadians will be able to buy more abroad with the same amount of Canadian dollars. Lower prices in Canada for imported goods will be of assistance in moderating the upward trend of costs and prices. Any appreciation of the Canadian dollar for any extended period of time, without offsetting measures, would, however, tend to have a further restraining effect on the economy. This would not be appropriate in present circumstances. The Exchange Fund will therefore stand ready to maintain orderly conditions in the exchange market and to operate for the time being to moderate any appreciation of the Canadian dollar. This, in conjunction with general economic policy, will be consistent with the Government's continuing economic objectives of a lower rate of price increase and the sustained achievement of rising levels of production and employment. The Government is now reviewing its general economic and financial policies in these changed circumstances. In this connection, I noted with approval the announcement by the Bank of Canada of a reduction in the bank rate from 7½ per cent to 7 per cent.

Honourable members will recall that in the budget which I brought down in the House on March 12, I pointed out that it was necessary to restrain total spending in the economy in order to slow down the inflationary spiral of costs and prices.

The budget provided for a significant easing of the restraint on the economy from the Government's overall fiscal position. I estimated that on a national income accounts basis, the surplus in the Federal Government would be reduced from $570 million in the last fiscal year that began in April.

As a means of partially offsetting this added stimulus to the economy, I announced the Government's intention of introducing legislation to control consumer credit by establishing certain minimum down payment and repayment provisions, which I anticipated would have a moderate effect in restraining the increase in consumer spending.

During the first quarter of this year, the Cana-

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