

*Income Tax Act*

I should also like to comment briefly on monetary policy. The Bank of Canada's policy of restraining, and over the long run gradually reducing, the rate of growth in the money supply, parallels the budget strategy of gradually reducing the size of the deficit. In recent months the bank's interest rate policy has been directed to limiting the downward pressure on the Canadian dollar, because of the inflationary impact which would result from an excessive decline in our exchange rate. Subject to this constraint, and in the context of the very high levels of interest rates in the United States, the bank has also attempted to limit as much as possible the upward adjustment in Canadian interest rates. This policy reflects the same balanced and moderate approach which is the basis of the economic policy strategy outlined in the budget. As such, it is fully consistent with the government's economic policies, and I should like to reiterate the support given in the budget for the monetary policy pursued by the Bank of Canada.

Let me turn to a brief discussion of some of the other major items in Bill C-54 now before the House. Part I of the bill will provide for borrowing authority in fiscal 1981-82, and part II of the bill reflects various income tax measures arising out of the October 28 budget and those proposed in the fiscal and economic statement presented to the House on last April 21. I might note in passing that although borrowing authority in the last two fiscal years was provided in a separate bill, this was in circumstances in which borrowing authority was being sought before a newly elected government had brought down a budget. In more normal circumstances in the last ten years borrowing authority has either been combined with the income tax bill or with an appropriation act.

The \$14 billion of borrowing authority being requested arises from \$11 billion financial requirements set out in the budget, plus some allowance for contingencies related to foreign exchange operations. As hon. members will recall, the budget strategy is one of deficit reduction through restraint in the growth rate of our expenditures. The budgetary deficit is expected to decline from \$14.2 billion this year to \$13.7 billion next year. This is only a modest reduction, but it is a start and is important as a symbol of the strength of our commitment to deficit reduction. Larger declines in the deficit will be required as growth speeds up, with the deficit expected to decline to \$11.8 billion in 1983-84.

With rising sources of funds from non-budgetary accounts, financial requirements decline more rapidly than the budgetary deficit. They will decline from \$12.2 billion this year to \$11 billion next year, reaching \$7.2 billion in 1983-84. As a percentage of GNP, the drop is expected to be from 4.3 per cent in 1980-81 to 3.5 per cent in 1981-82, and to 1.8 per cent in 1983-84, the lowest since 1974-75.

In recent years most borrowing authority legislation carried a clause which automatically cancelled any unused authority at the end of each fiscal year whether or not new authority has been obtained. In the past when this occurred and new borrowing authority had not yet been passed by Parliament, the government was able to continue with its borrowing program on unused authority obtained in earlier years which was not

subject to automatic cancellation. Since it was not always possible to foresee when Parliament would be sitting or what the parliamentary legislative calendar might be, these old borrowing authorities provided a useful degree of flexibility. During the first four months of the current fiscal year, however, almost all of this non-lapsed borrowing authority was used up. To provide some degree of flexibility in the future, the legislation proposes to exempt \$3 billion, or whatever amount remains if it is less than \$3 billion, from automatic cancellation at the end of fiscal 1981-82.

The \$3 billion margin for contingencies being requested is in line with the margin which has been provided in recent years. The financial requirements for 1981-82 to which I have referred exclude requirements for foreign exchange transactions. There are major uncertainties arising from foreign exchange transactions, since either a major weakening or a major strengthening of the exchange rate would have an impact on the borrowing requirement. If the Canadian dollar were to be strong, then the government would have to raise more Canadian dollars to purchase foreign exchange. On the other hand the Canadian dollar could be weak, and the government would then be faced with the need to borrow foreign currencies.

The clause referring to the ability of the government to borrow and repay loans in foreign currencies is a technical one and is similar to a clause which was first included in a borrowing authority request introduced by the former government in 1979. Over the years Canada has borrowed and repaid funds in a number of currencies. However, in 1978 Canada made a number of large foreign loans and established standby lines of credit with a number of foreign banks. The clause was added to confirm Canada's right to borrow in foreign currencies.

● (1420)

The Financial Administration Act is currently under review, and a clause clarifying the government's ability to borrow and repay in foreign currencies would be included with any amendments to that act. Once such an amendment has been passed there would no longer be a need for this clause in borrowing authority bills.

As a matter of interest to hon. members, I would like to set out the government's debt program so far in the current fiscal year and the amount of borrowing authority which has been used up. Up to January 15, 1981, in domestic markets the government has borrowed a total of \$9 billion. Of this amount, \$5.3 billion was raised through the issue of marketable bonds and \$4.6 billion through the issue of treasury bills, while net Canada Savings Bonds redemptions reduced the amount borrowed by \$0.9 billion. In foreign markets, on balance, the government has drawn the Canadian dollar equivalent of \$0.8 billion on its standby lines of credit with Canadian and foreign banks. The amount comprises \$1.1 billion drawn in December and currently outstanding and a \$0.3 billion repayment on these lines earlier in the fiscal year.

Since borrowing authority for the fiscal year 1980-81 was not obtained until July 17, 1980, borrowing up until that date