

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 81-165  
August 17, 1981

TO THE CHIEF EXECUTIVE OFFICER  
OF THE BANK ADDRESSED IN THE  
ELEVENTH FEDERAL RESERVE DISTRICT:

The Bank of Canada has requested that the Federal Reserve bring to your attention the following release from the Canadian Finance Ministry:

Deputy Prime Minister and Finance Minister Allan J. MacEachen announced today that he has requested a number of the larger Canadian banks to reduce substantially the amount of their lending in which the proceeds are converted to foreign currency and used to finance takeovers. He included those takeovers financed originally through the foreign currency facilities of the banks which also ultimately demand Canadian dollar servicing of these loans.

These types of transactions have contributed to the recent downward pressure on the exchange value of the Canadian dollar. This threatens to aggravate the inflationary situation to which Canadians are already subject, and to add to the upward pressures on the level of short-term interest rates in Canada.

In discussing the various aspects of this takeover activity, the Minister specifically exempted those loans that serve the objectives of Canadianization embodied in the National Energy Program which remain a central element in the Government's policies. He noted, however, that the process of Canadianization was proceeding rapidly and some slowing of this pace would therefore be quite consistent with the energy policies of the Government. He emphasized as well that the Government had no intention of extending the Canadianization aspects of energy policy to other sectors of the economy.

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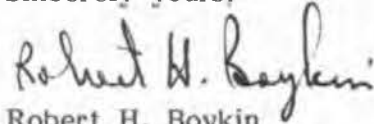
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In recent weeks the level of takeover activity of all types has been very high. Bank lending to finance such transactions has contributed to rapid growth of the assets of the banking system, despite the policies of restraint being pursued by the Bank of Canada. The Minister expressed concern that this was adding unnecessarily to the upward pressures on interest rates. He also noted this rapid growth was putting downward pressure on the capital-asset ratio of the Canadian banks, and expressed concern that if recent rates of takeover financing were to continue the amount of bank credit available to other Canadian borrowers, including lending to support more productive investment by small and medium-sized Canadian businesses, might have to be constrained.

The Minister recognized that Canadian firms could circumvent his request of the Canadian banks by borrowing for takeover purposes from foreign banks. He, therefore, addressed his request that the pace of takeover activity diminish to Canadian industry generally, as well as to foreign banks that might consider taking on such business.

Additional copies of this circular may be obtained by calling the Department of Communications, Financial and Community Affairs, Ext. 6289.

Sincerely yours,

A handwritten signature in cursive script that reads "Robert H. Boykin".

Robert H. Boykin  
President