



BANK OF CANADA

***ANNUAL REPORT TO
MINISTER OF FINANCE***

AND STATEMENT OF ACCOUNTS

FOR THE YEAR *1953*

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BANK OF CANADA

Ottawa, February 10th, 1954.

THE HON. D. C. ABBOTT, Q.C.,
Minister of Finance,
Ottawa.

Dear Sir,

In accordance with the provisions of the Bank of Canada Act, I am enclosing herewith in duplicate a statement of the Bank's accounts for the fiscal year 1953, signed by the Governor and the Chief Accountant and certified by the Auditors, in the form prescribed by the by-laws of the Bank.

Economic activity in Canada reached a new high level in 1953. Output expanded rather sharply in the second half of 1952 and continued to grow through 1953 although there were indications of levelling off towards the close of the year. Both consumption and investment showed substantial increases, and for 1953 as a whole gross national product was about 3½ per cent higher in physical terms than in 1952. The large increase in investment was financed in part by increased domestic savings, but in greater part by a large net import of capital from abroad of the order of \$450 million. The counterpart of this net import of capital was a net import of goods and services, i.e. a deficit in the current account of our balance of international payments. Activity in Canada in the field of capital investment was more intense than in the United States, and in general economic activity in the United States seems to have levelled out sooner than in Canada. Monetary policy operated as a restraining influence during the first half of the year and interest rates firmed somewhat, but a noticeable easing of money rates occurred in the latter part of 1953.

Estimated Expenditure on Goods and Services⁽¹⁾

	1952	1953	Increase from 1952 to 1953		
	Billions of Dollars		Billions \$	Price ⁽³⁾ %	Physical ⁽³⁾ Volume %
Personal Consumption Expenditure	14.3	15.0	.7	0	5
Combined Federal, Pro- vincial and Municipal Purchases of Goods and Services	4.2	4.4	.2	3	2
Expenditure on New Housing, Plant and Equipment	4.2	4.6	.4	2	7
Change in Inventories					
Business . . . . .	.1	.4	.4		
Agriculture . . . . .	.3	.2	.1		
Exports (including services)	5.6	5.5	.1	1	1
Total Expenditure (in- cluding import content) .	28.5	30.1	1.6		
Less Imports (including services) ⁽²⁾	5.4	5.9	.5	0	9
Gross National Expenditure (=Gross National Product)	23.1	24.2	1.1	1	3½

- (1) Based largely on estimates made by the Dominion Bureau of Statistics.
- (2) The import content of the expenditure components shown in the first part of the table must be deducted in order to arrive at a figure of expenditure on Canadian resources.
- (3) Estimates of price and volume changes are approximate only.

Expenditures by way of new capital investment in housing, plant and equipment were a major factor in the continued rise of national output. Private domestic investment of this character increased in physical volume by about 7 per cent over the previous year, most of the increase being accounted for by an expansion of about one-third in outlays on residential construction. There was a fairly general tendency in 1953 to add to business inventories, which had been relatively stationary in 1952. There were also increases in farm inventories and in stocks of grain in commercial channels.

Expenditures on goods and services by all levels of government were 2 per cent larger in physical volume in 1953 than in 1952. This represents a distinct levelling off following the increase of 25 per cent which took place from 1951 to 1952 when defence expenditures were growing rapidly.

The largest increase in gross national expenditure was in personal consumption, which in physical terms increased by about 5 per cent. This followed an increase of 6 per cent during 1952 prior to which consumption had risen at a much slower rate from 1946 to 1951, averaging 2½ per cent per annum. During 1953 nearly all categories of consumer spending showed some increase; purchases of new passenger automobiles were 24 per cent above 1952. Imports of consumer goods continued to rise and in some cases supplied an increasing proportion of the total market.

The rise in consumer expenditure during 1953 was a result of higher personal income which also made possible a larger amount of net personal saving than occurred in 1952. The increase in personal income was chiefly in salaries and wages and was mainly caused by the continued rise in wage rates. Changes in average hourly earnings in industry are shown in the following table:

Average Hourly Earnings in Industry

	Cents per Hour ⁽¹⁾			Percentage Increase	
	Dec. 1 1951	Dec. 1 1952	Nov. 1 1953	1951-2	1952-3
Manufacturing	125	132	137	6	4
Mining	139	152	156	9	3
Construction	125	137	147	10	7
Average	126	134	140	7	4
Average in Dec. 1951 dollars ⁽²⁾	126	137	142	9	4

(1) Dominion Bureau of Statistics figures.

(2) That is, adjusted for changes in the Consumer Price Index.

Employment during 1953 averaged about 2 per cent above 1952. About one-half of the increase occurred in manufacturing industries and the remainder largely in trade and services. Unemployment for most of the year was slightly lower than in 1952. But in the latter part of 1953 employment did not keep pace with the annual increase in the labour force and in December the number of persons without jobs and seeking work was estimated at 190,000 as compared with 132,000 in December 1952.

General indexes of wholesale and retail prices showed little change during the year after the declines which occurred in the course of 1952. There appears to have been less variation between the major price groups than has been the case for many years. Import prices on the whole showed no change and export prices were only slightly lower than in 1952. The relation between average farm prices and non-farm prices showed little change.

Price Indexes⁽¹⁾
(1952 Average = 100)

	End of 1951 ⁽²⁾	End of 1952 ⁽²⁾	Average 1953	Dec. 1953 ⁽²⁾
Consumer Prices				
All Items	101	99	99	99
Food	105	97	96	96
Non-Food	100	100	100	101
Wholesale Prices				
All Items	105	98	98	97
Raw Materials . .	108	96	95	93
Manufactures . . .	104	99	99	99

- (1) Dominion Bureau of Statistics figures converted to the base 1952 = 100.
 (2) Consumer price indexes are for January 1, 1952 and 1953 and December 1, 1953, and wholesale price indexes are for mid-December throughout.

SAVING AND INVESTMENT • As shown in the summary table on the next page, the total of new capital investment in Canada in 1953, including both public and private investment and also the increase in inventories, was approximately \$6,200 million. This was 13 per cent greater than in 1952, and was equal to about 26 per cent of the gross national product.

Net new saving by individuals increased moderately in 1953, and funds for new investment arising from depreciation allowances were also somewhat higher. All domestic sources combined supplied only a fraction of the increased saving required to cover the increase in total investment in 1953, and Canada changed from being a small net exporter of capital in 1952 to being a substantial net importer of capital in 1953.

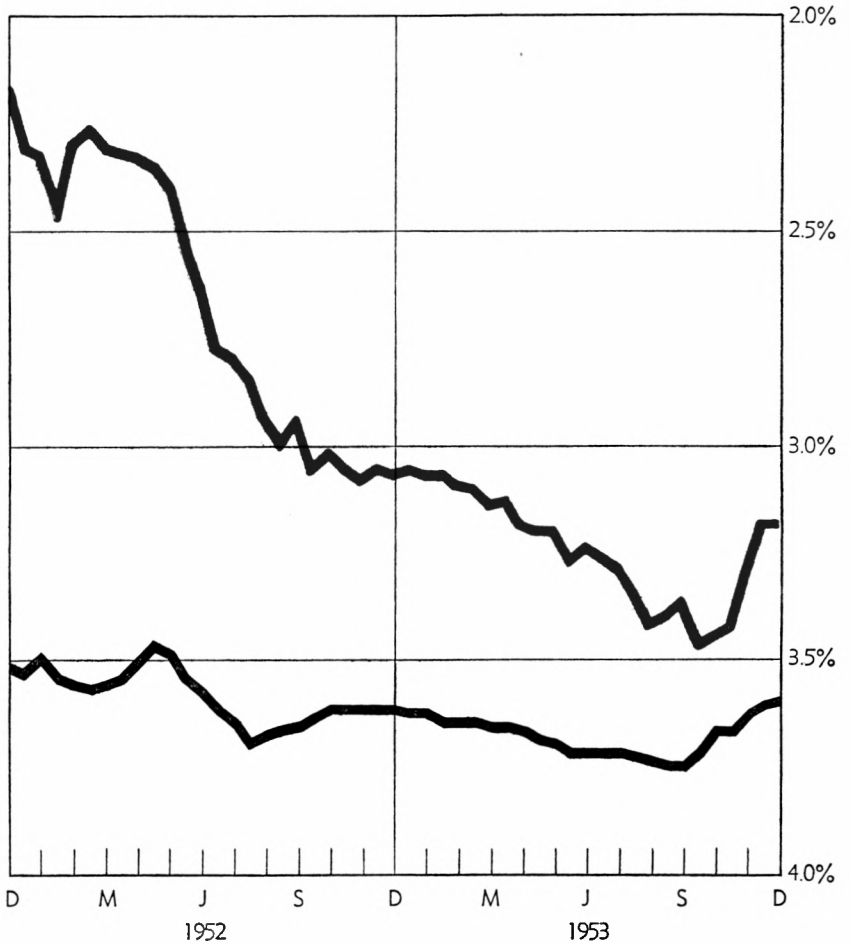
Investment Expenditures and Sources of Funds
(billions of dollars)

	1950	1951	1952	1953
Investment Expenditures				
Residential Construction . . .	.8	.8	.8	1.1
Non-Residential Construction, Machinery and Equipment . . .	2.4	3.0	3.4	3.5
Investment by Governments ⁽¹⁾	.6	.8	1.0	1.0
Increase in inventories ⁽²⁾ . . .	1.0	1.6	.3	.6
Total Investment Expenditures . . .	4.8	6.2	5.5	6.2
Total Investment Expenditures as Percentage of GNP . . .	26%	28%	24%	26%
Sources of Funds				
"Personal" Saving★ . . .	.7	1.4	1.4	1.5
Retained Corporate Profits . . .	.8	.7	.6	.7
Depreciation Allowances . . .	1.6	1.9	2.1	2.3
Governments	1.3	1.8	1.3	1.1
Net Capital Import or Export	.3	.5	.2	.4
Total Source of Funds . . .	4.7	6.3	5.3	6.1
Balancing Item—Adjustments, Errors & Omissions (Net)	.1	.1	.2	.1



★ "Personal" saving as used in the National Accounts comprises saving by farmers, unincorporated businesses and all other persons and organizations except corporations and governments.

- (1) Includes federal government outlays on defence construction and capital assistance to defence industry but excludes investment outlays of government-owned commercial enterprises.
- (2) Change in book values of business inventories and current value of the physical change in agricultural inventories.

In 1953, as is normally the case, the new saving of individuals taken as a group was greater than their new investment in physical assets, while the reverse situation existed in the case of businesses taken as a group. There are many channels through which funds are transferred between the individual sector and the business sector, or within these sectors, from points where surplus saving arises to points where it is needed to finance physical investment. The securities market and the banking system are the chief agencies in this process of transfer, and the major features in the flow of capital funds are referred to in later sections of this Report.



YIELDS ON GOVERNMENT OF CANADA BONDS

-  Yield on theoretical 2 year bond
-  Yield on theoretical 15 year bond

SECURITIES MARKETS • The rise in total saving and investment was not accompanied by an increase in the volume of net new issues by provincial and municipal governments and corporations. Provincial and municipal governments increased the amount of their borrowing in the United States, but their net new borrowing in Canada declined by about an equal amount. Net new issues of bonds and stocks by Canadian corporations declined both in the domestic market and abroad. Details of net new issues by class of borrower and by currency are shown in the following table:

**Estimated Net New Issues⁽¹⁾
Payable in Canada or Abroad**
(millions of dollars)

	Payable in Canadian Dollars only		Payable Wholly or Optionally Abroad		Total	
	1952	1953	1952	1953	1952	1953
Provincial Bonds ⁽²⁾ .	206	102	53	160	259	262
Municipal Bonds .	144	126	41	55	185	181
Corporate Bonds .	210	193	150	118	360	311
Total Bonds .	560	421	244	333	804	754
Corporate Stocks .					234	206
Total . . .					1,038	960

(1) Based on delivery date when information is available.

(2) Includes provincial guarantees of hydro, municipal and other issues.

The whole amount of new money raised in the domestic market by bond and share issues, in 1953 as in 1952, came from non-banking sources. Chartered bank holdings of provincial, municipal and corporate securities showed a decline in 1953 and the rest of the market absorbed somewhat more than the total amount of net new issues. Life insurance companies increased their holdings of corporate issues by a considerable amount, and individual investors were substantial net buyers of new issues offered by provincial, municipal and corporate borrowers.

In the field of Government of Canada securities there was a small increase over the year as a whole in the holdings of the banking system (Bank of Canada and the chartered banks combined). Non-residents reduced their holdings of Government bonds and the resident market outside the banking system was an appreciable net buyer. The net increase in total volume of Canada Savings Bonds and War Savings Certificates outstanding in the hands of individual investors was \$381 million during the year.

An increase in general public holdings of Government of Canada short-term marketable securities took place in 1953. Short-term holdings of the banking system were reduced and holdings of corporations and other non-bank investors increased at the time of refunding maturities of outstanding issues, and there was a considerable increase in the volume of trading in short-term securities during the year.

A broad and active demand for short-term government securities is an essential feature of an effectively functioning money market. The Bank of Canada has always endeavoured to encourage the growth of a short-term market in this country and several further steps in this direction were taken during 1953. The Government of Canada changed its regular offers of treasury bills from a fortnightly to a weekly basis and made available 273-day bills in addition to the usual 91-day bills, both of which developments found favour with the market and increased the demand for and turnover of such securities. In the year just past the Bank of Canada instituted purchase and resale agreements with bond dealers who take a jobbing position in the short-term Government of Canada market. Under these arrangements a dealer may within agreed limits sell treasury bills and short-term Government of Canada bonds to the Bank of Canada with an undertaking to repurchase them over a short period at a predetermined yield to the Bank.

These arrangements offer jobbers an alternative method of financing inventories of such securities so that they are at all times able to meet the requirements of their customers, including other bond dealers who only occasionally have transactions in short term securities. A further effect of this arrangement is the relieving of the market from excessive pressure in the event of a temporary shortage of cash on the part of the chartered banks. Development of a broader market in treasury bills and short bonds is of value to chartered banks wishing to adjust their cash positions either by increasing or reducing their portfolios.

Interest rates showed little change over the year as a whole. The yield on long-term Government of Canada bonds rose somewhat during the first half of the year and declined again in the second. The yields on provincial, municipal and corporate long-term issues showed a slight decline over the year. In the short-term field, yields on Government of Canada securities showed some rise, particularly in the first three quarters of the year. A major change occurred in the case of 91-day treasury bills, where yields rose from 1.349 per cent at the end of 1952 to 1.890 per cent at the end of 1953. Other short-term issues declined in yield after September.

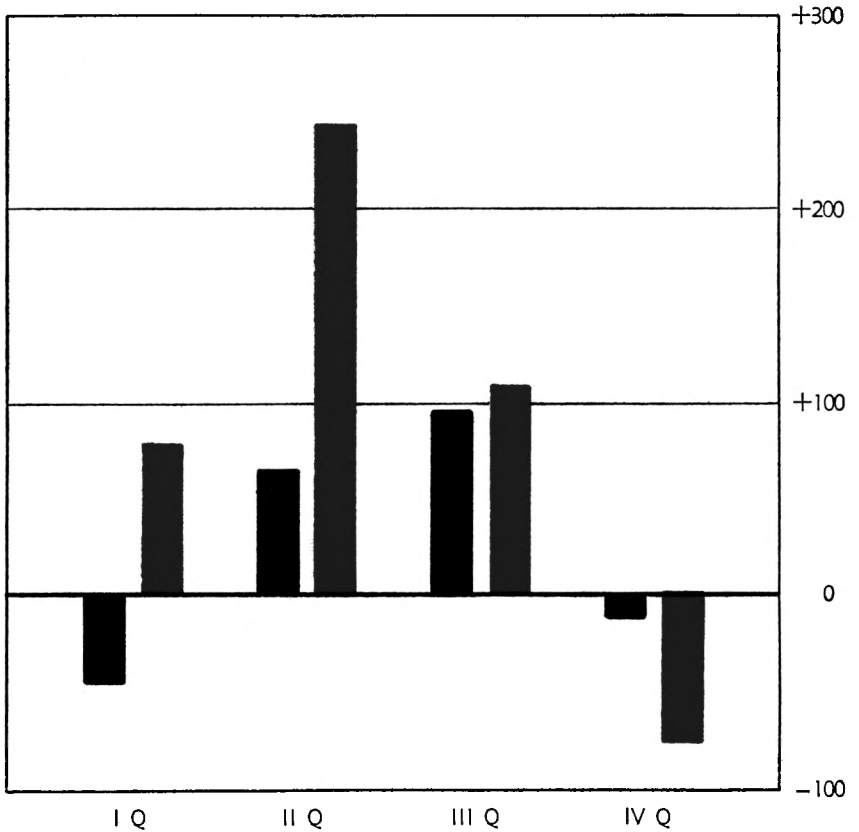
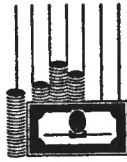
MONETARY CONDITIONS • The following table summarizes the extent and nature of the changes which took place in the Canadian assets and liabilities of the chartered banks during 1953:

Chartered Banks: Canadian Assets and Liabilities
(millions of dollars)

	<u>Dec. 31</u> <u>1952</u>	<u>Dec. 31</u> <u>1953</u>	<u>Change</u>
Assets			
Cash	899	888	11
Government Securities	2,784	2,760	24
Loans	3,444	4,051	607
Non-Government Securities	916	835	81
Total	<u>8,043</u>	<u>8,534</u>	<u>491</u>
Liabilities			
Deposits			
Government of Canada	3	474	471
General Public	8,620	8,648	28
Total	<u>8,623</u>	<u>9,122</u>	<u>499</u>
<i>Less: Float</i>	<u>740</u>	<u>762</u>	<u>22</u>
	7,883	8,360	477
All Other Items (Net)	<u>160</u>	<u>174</u>	<u>14</u>
Total	<u>8,043</u>	<u>8,534</u>	<u>491</u>

The increase in total Canadian assets of the chartered banks was more than accounted for by the increase in loans of \$607 million. A sharp rate of increase in bank loans began in the second half of 1952, and continued during most of 1953. But in the final quarter of the year there was a net decline of \$56 million as compared with an increase of \$18 million in this quarter of 1952 (excluding the special cases of loans for the purchase of Canada Savings Bonds and the seasonal expansion of loans to finance the new grain crop). The table on page 11 compares changes in Canadian bank loans in 1952 and 1953.

The demand for bank loans was particularly strong during 1953 in connection with inventory accumulation and consumer credit. Earlier sections of this report have mentioned the much larger rise in inventories during 1953 than in 1952. A large increase in loans to industrial borrowers and also increases in the case of merchandisers and grain dealers accompanied this development. Loans associated with rising consumer credit rose less than in 1952 but were still a major factor in the expansion of bank loans



**QUARTERLY CHANGES IN CHARTERED BANK LOANS
TO AGRICULTURE, INDUSTRY AND COMMERCE
(excluding Grain Dealers)**
(in millions of dollars)

- Changes during quarters of 1952
- Changes during quarters of 1953

during 1953. There was also some evidence during 1953 of increasing demands for bank loans of a character which directly or indirectly would provide funds to meet capital rather than current requirements of borrowers. Larger advances for the purchase of Canada Savings Bonds in 1953 reflected the much larger sales of Series Eight bonds as compared with Series Seven in 1952.

**Estimated Changes in Chartered Bank
Canadian Loans**
(millions of dollars)

	<u>Calendar Year</u>		<u>Fourth Quarter</u>	
	<u>1952</u>	<u>1953</u>	<u>1952</u>	<u>1953</u>
Government and Other Public Services ⁽¹⁾	28	16	13	13
On Securities ⁽²⁾	105	38	145	167
Farmers	30	25	26	21
Grain Dealers	80	134	71	81
Industry	79	151	18	13
Merchandisers & Instalment Finance				
Companies	152	122	55	35
Other Business	10	56	13	8
Personal (other than on securities)	38	66	14	10
	<u>308</u>	<u>607</u>	<u>216</u>	<u>169</u>
Total	<u>308</u>	<u>607</u>	<u>216</u>	<u>169</u>
Total excluding estimated loans for the purchase of Canada Savings Bonds and loans to grain dealers	<u>219</u>	<u>454</u>	<u>18</u>	<u>56</u>

(1) Excluding Government of Canada.

(2) Including personal loans on the security of stocks and bonds.

Among factors that may affect the demand for bank credit, short-term capital movements in the balance of payments and net transactions in Government of Canada marketable securities by the public were more nearly in balance in 1953 than in 1952. In 1952 the outward movement of short-term funds led to greater demands for borrowing in Canada and, conversely, the substantial net selling of Government bonds in 1952 was an important factor in meeting financing requirements.

The decline in banks' holdings of non-Government securities during 1953, amounting to \$81 million, was mainly accounted for by maturities of such issues rather than any substantial volume of net sales in the market.

In last year's Annual Report I referred to the fact that the special direct restrictions on consumer credit and bank credit adopted in 1950 and 1951 were removed in May 1952, leaving

normal methods of central bank action to influence the level of total bank credit. The 1953 increase in bank loans was subject to some restraint during the first nine months of the year. Cash ratios were lower than in 1952 and banks at times found it necessary to be net sellers of Government securities. After some increase towards the end of the year, chartered bank holdings of such securities showed a net decline of \$24 million. Changes in chartered bank portfolios of Government securities were a factor in the changes in short-term yields mentioned under Securities Markets.

Changes in Bank of Canada assets and liabilities and their net effect on the cash reserve position of the chartered banks are summarized in the following table:

**Effect on Chartered Bank Cash Reserves
of Changes in Bank of Canada Accounts**
(millions of dollars)

Changes during Calendar Year 1953	<u>Changes Producing a Decrease in Cash Reserves</u>	<u>Changes Producing an Increase in Cash Reserves</u>
Increase in holdings of Government securities		43.2
Increase in Notes held by the Public	46.6	
Increase in Government of Canada Deposits	50.4	
Decrease in Other Deposits		15.0
Increase in net foreign currency assets		1.9
Increase in other assets less other liabilities		<u>25.5</u>
	<u>97.0</u>	85.6
Deduct	85.6	
Decrease in Chartered Bank Cash Reserves	<u>11.4</u>	

The Bank of Canada was a net buyer of Government securities during 1953. During the first nine months when there was a strong demand for bank loans the Bank of Canada reduced slightly its holdings of Government securities and the cash position of the banks tended to be on the tight side. In the final quarter of the year when the demand for bank loans was easing somewhat the Bank of Canada was a net buyer of securities. The lower level of cash reserves at December 31st, 1953 as compared with December 31st, 1952 as shown in the above table was not representative of the cash position throughout the final month of 1953 when the daily average cash reserves were \$56 million higher than in December 1952.

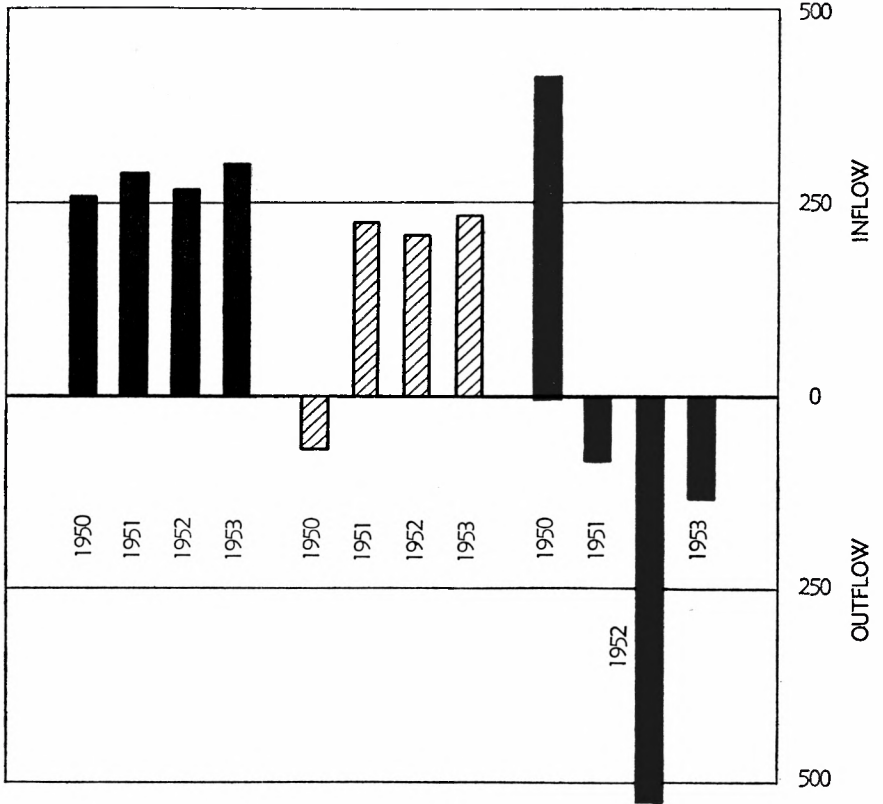
LIQUID ASSETS OF THE GENERAL PUBLIC • Holdings of liquid assets outside the banking system and Government of Canada accounts increased by some \$265 million in 1953 as compared with an increase of \$239 million in 1952. The expansionary effect of the larger rise in bank credit during 1953 was partly offset by the net reduction in Government of Canada funded debt as shown in the following table, which also was substantially larger than in the previous year. In addition, the net influence of miscellaneous bank assets on money supply in 1953 was much less than in 1952. These items, together with an analysis of liquid assets, are shown in the following table:

General Public Holdings of Certain Liquid Assets
(millions of dollars)

	<u>As at</u> <u>Dec. 31/53</u>	<u>Changes During</u>	<u>1952</u>	<u>1953</u>
Liquid Assets				
Notes and Coin	1,429	102		52
Active Bank Deposits	3,705	228		91
Inactive Notice Deposits	4,211	235		82
Government of Canada Securities:				
Market Issues	7,653	382		159
Non-Market Issues	1,631	56		381
Total Liquid Assets	<u>18,629</u>	<u>239</u>		<u>265</u>
Related Factors				
Chartered Bank Loans & Non-Govt.				
Investments	4,886	302		526
Government of Canada Funded Debt				
(net) ⁽¹⁾	13,788	118		266
Net Foreign Position of Chartered Banks				
and All Other Factors (net)	45	55		5
Total Related Factors	<u>18,629</u>	<u>239</u>		<u>265</u>

(1) Including guaranteed debt; after deducting Government deposits and holdings of the Unemployment Insurance Fund and other Government Accounts.

For the year as a whole there was a decline of \$91 million in active bank deposits as compared with an increase of \$228 million in 1952. The amount of currency in active circulation rose by \$52 million, a marked decline from the previous rate of increase. Inactive bank deposits showed an increase in 1953 of only \$82 million as against \$235 million in 1952. As regards bank deposits, it is believed that a major factor affecting the comparison



**SELECTED ITEMS OF THE INTERNATIONAL CAPITAL ACCOUNT,
1950 TO 1953**

(in millions of dollars)

- Net direct investment
- ▨ Net new issues of securities
- Items described in the table on page 16 as "Other Capital Movements (net)," mainly short-term capital

was the shift on the part of the general public from being a net seller of Government of Canada securities in 1952 to being a net buyer in 1953. So far as the personal sector of the general public was concerned, the major change in security holdings was the much larger increase in holdings of Canada Savings Bonds in 1953. In the case of the non-personal sector the decline in holdings of market issues of Government of Canada bonds was much less in 1953 than in 1952.

BALANCE OF PAYMENTS • In several respects the outcome of Canadian transactions with other countries during 1953 differed materially from the situation of 1952. In last year's Annual Report I referred to the fact that while the physical volume of our exports and imports had risen by the same proportion in 1952, an improvement in our terms of trade had brought about a greater dollar rise in exports than in imports with the result that we achieved a net surplus in our trade with other countries and our current account position improved substantially. In 1953 the upward trend in the physical volume of our imports continued at nearly the same pace as in 1952 but the physical volume of our exports showed a small decline. Our terms of trade showed little change in 1953 and the greater rise in import volume produced a comparable change in the merchandise trade balance as shown in the following table:

Merchandise Trade⁽¹⁾

	Millions of Dollars		Indexes 1952 = 100	
	1952	1953	Price	Volume
Exports	4,356	4,173	98	98
Imports	4,031	4,387	100	109
Balance	325	214		

(1) Preliminary unadjusted trade returns including re-exports. Estimates of price and volume are approximate only.

The change in our merchandise trade balance was the major factor in the movement of our international current account balance from a surplus of \$151 million in 1952 to a deficit of some \$450 million in 1953. It is too soon to be able to present accurate estimates of the various changes in the capital account of the balance of payments which accompanied the shift on current account. However, it is possible on the basis of information for the first three quarters of the year and partial data for the final quarter to put together rough estimates of magnitude which are useful for illustrative purposes. These are shown in the table on the following page.

Canadian Balance of International Payments

(Millions of Dollars)

	1952 Actual	1953 ⁽¹⁾ Estimate
Current Account Balance (Red indicates a deficit)	151	450
Capital Account (inflow or outflow)		
Direct Investment (net)	268	300
Security Transactions (net)	125	150 ⁽²⁾
Loan Repayments by Foreign Governments	56	87
Official Gold & Dollar Holdings ⁽³⁾	80	42 ⁽²⁾
Other Capital Movements (net)	520	129
Capital Account Balance	151	450

(1) Bank of Canada estimates.

(2) After the purchase of \$75 million of Government of Canada bonds in New York in May 1953 with funds supplied from the official gold and dollar holdings.

(3) Red indicates an increase in holdings.

The major change from 1952 to 1953 in the capital account of the balance of payments was in "Other Capital Movements" which consist chiefly of short-term capital movements. In 1952 a substantial part of a very large net outward movement of short-term capital appears to have been changes in commercial payables and receivables and increases in privately-held foreign exchange balances. In 1953 such capital movements were much closer to balance. The continued substantial inward movement of direct investment and proceeds of security issues abroad, therefore, produced a large net surplus in the capital account which balanced the deficit on current account without any great change in either the level of official exchange reserves or the external value of the Canadian dollar. Official reserves of gold and United States dollars were \$1,860 million at December 31st, 1952 and \$1,818 million at December 31st, 1953. At the same dates the United States dollar was \$.971 and \$.974, respectively, in terms of the Canadian dollar.

INTERNATIONAL TRADE • In last year's Annual Report I mentioned that there were then some encouraging signs of a change in the approach to balance of payments problems and trade policies of certain important countries. During 1953 there has been further progress in this direction.

A number of developments during the year strengthened the foundation for policies of greater liberalization of world trade. Inflationary pressures were much less widespread. Partly as a by-product of this development, the price of gold in premium markets,

in terms of U.S. dollars, fell to a point in the neighbourhood of the U.S. official price tending to discourage the flow of gold into unofficial holdings. Official gold and U.S. dollar holdings of a number of countries increased substantially. Some countries showed more interest in importing from the cheapest sources of supply regardless of the currency involved, although to date improvement of this type has been more evident in the field of essential foods and raw materials than in the case of manufactured goods. And, finally, there was apparent a greater willingness to consider convertibility of some currencies as a practical proposition rather than as a hope for the distant future.

The picture was not, of course, uniformly encouraging. Those who feel that import restrictions, discriminatory and otherwise, should either be maintained or very slowly relaxed suggest that the increase in gold and dollar reserves was only made possible by the existence of restrictions; that the future policy of the United States, in respect to both trade and aid, is obscure; and that a U.S. recession might cause fresh problems in the international field. There will always be resistance to the removal of restrictions which afford a measure of protection from competition. Whether any country or countries will give a lead in this respect in 1954 remains to be seen. At present, there appears to be more opportunity for constructive action than at any other time since the end of the war.

NOTES IN CIRCULATION • The Bank of Canada note circulation at December 31st, 1953 was \$1,599,124,687, an increase over the year of \$37,931,626 as compared with an increase of \$97,032,275 in 1952. Of the total amount of our notes outstanding on December 31st, 1953, \$264 million were held by the chartered banks and \$1,335 million by other holders. The increase in notes held by others than chartered banks in 1953 was \$47 million.

INDUSTRIAL DEVELOPMENT BANK DEBENTURES • At December 31st, 1953, the Bank held debentures of the Industrial Development Bank amounting to \$11,252,100, an increase of \$5,464,591 as compared with the same date last year.

PUBLIC DEBT OPERATIONS • An unusually large number of new issues and other operations in connection with the public debt were undertaken by the Bank during 1953 as fiscal agent for the Government. In January the Bank agreed to purchase from the Government the whole of a new \$100 million issue of 3¾ per cent bonds due 1978. These bonds were subsequently sold to the market by the Bank of Canada at prevailing prices over a period of some months. This operation was undertaken with a view to

establishing in the market an issue of considerably longer term than any then outstanding in order to prepare the way for larger scale Government financing by long-term issues if and when such were deemed advisable.

During the first half of the year the treasury bill issue was converted from a fortnightly issue of 91-day bills to a weekly issue of both 91-day and 273-day bills. The total amount outstanding was gradually raised from \$450 million to \$650 million and the additional funds used in May to retire \$200 million of six-months Deposit Certificates held by the banking system.

In February a refunding operation was carried out by which \$300 million of new bonds were issued to raise the greater portion of the funds required to meet a maturity of \$325 million 1½ per cent bonds on March 2nd. The new issues consisted of \$100 million 2 per cent bonds maturing July 1954 and \$200 million 2¼ per cent bonds maturing July 1955.

In October a further refunding operation was undertaken to raise funds to retire \$500 million of 2 per cent bonds maturing November 1st and to convert an amount of \$200 million out of a total issue of \$670 million of 3 per cent bonds maturing March 1st, 1954. The issues sold consisted of an addition of \$400 million to the issue of 2¼ per cent bonds maturing July 1955, and a new issue of \$300 million 3 per cent bonds maturing May 1958.

The eighth series of Canada Savings Bonds bearing an interest rate of 3¾ per cent per annum went on sale in October. Efforts were made to increase substantially the sale of these bonds and provide thereby some of the funds required by Government for its maturities in 1954. On December 21st notice was given that the issue would be withdrawn from sale at the end of the year. In the result, sales to December 31st totalled \$900 million as compared with sales of \$341 million of the seventh series during 1952. Encashments of Canada Savings Bonds in 1953 prior to the offering of the eighth series were about the same as in the similar period of 1952, but the higher interest rate paid on the new issue resulted in a substantial increase in encashments of earlier issues during the final quarter of the year. In the result, the outstanding amount of Canada Savings Bonds of all series rose by a net amount of \$413 million during the year to a total of \$1,622 million at December 31st. Unmatured War Savings Certificates outstanding declined by \$32 million during the year and at December 31st, 1953 the amount outstanding was only \$9 million.

PROFIT AND LOSS • The net profit from our operations in 1953 after providing for contingencies and reserves was \$44,092,807. Payment of a dividend of \$225,000 on capital stock

held by the Minister of Finance left \$43,867,807 available as compared with \$28,791,710 in 1952. Higher average yields on short-term Government of Canada securities, to which reference was made on page 8, were responsible for a large part of the increase in the Bank's net profit. Other factors included a somewhat higher average amount of security holdings and some reduction in expenses. Under Section 28(c) of the Bank of Canada Act, the whole of the Bank's surplus was paid to the Receiver General to be placed to the credit of the Consolidated Revenue Fund.

BANK RATE • The Bank Rate remained unchanged during 1953 at 2 per cent.

STAFF • The staff of the Bank numbered 737 on December 31, 1953, as compared with 764 a year ago. The decrease was mainly due to the continued programme of simplification and mechanization of routine procedures.

I would again like to record my appreciation of the loyal service and cooperation rendered by the staff during the year.

Yours very truly,

G. F. TOWERS, *Governor*

FINANCIAL STATEMENT 

BANK OF CANADA • STATEMENT

ASSETS

Foreign Exchange:

Pounds Sterling and U.S.A.			
Dollars — at market value	\$ 54,947,888		
Other Currencies — at market value	. . . . . 152,697	\$	55,100,585
			55,253,282

Subsidiary Coin 386,296

Cheques on other Banks 43,191,538

Investments — at values not exceeding market:

Short term securities issued or guaranteed by Government of Canada or any Provincial Government	. . . . . 1,376,569,446		
Other securities issued or guaranteed by Government of Canada or any Provincial Government	. . . . . 893,651,853		
Other securities	. . . . . 23,387,362		
Accrued interest	. . . . . 14,569,595	2,308,178,256	
			2,308,178,256

Industrial Development Bank:

Total share capital, at cost 25,000,000

Bank Premises:

Land, buildings and equipment — at cost
less amounts written off 4,811,955

All Other Assets 525,458

\$2,437,194,088

G. F. TOWERS, *Governor*

H. R. EXTENCE, *Chief Accountant*

OF ASSETS AND LIABILITIES

• AS AT DECEMBER 31st. 1953

LIABILITIES

Capital Paid Up:

Authorized and issued —
100,000 shares par value \$50 each . . . \$ 5,000,000

Rest Fund 10,050,367

Notes in Circulation 1,599,124,687

Deposits:

Government of Canada . . . \$ 95,392,595
Chartered Banks 623,885,553
Other 29,526,637 748,804,785

Liabilities payable in Pounds Sterling, U.S.A.

Dollars and other foreign currencies:

To Government of Canada . . . 57,226,504
To Others 6,614,515 63,841,019

All Other Liabilities:

(including Bank of Canada cheques
outstanding \$10,022,059) 10,373,230
\$2,437,194,088

AUDITORS' REPORT • We have made an examination of the statement of assets and liabilities of the Bank of Canada as at December 31, 1953 and have received all the information and explanations we have required. We report that, in our opinion, it correctly sets forth the position of the Bank at December 31, 1953 according to the best of our information and as shown by the books of the Bank.

J. GRANT GLASSCO, F.C.A.,
of Clarkson, Gordon & Co.

MAURICE SAMSON, C.A.
of Chartré, Samson, Beauvais, Belair & Cie.

Ottawa, January 22, 1954.

PROFIT AND LOSS ACCOUNT

For the year ended December 31, 1953

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PROFIT FOR THE YEAR ENDED DECEMBER 31,
1953 after making provision for contingencies
and reserves \$ 44,092,807

APPROPRIATED AS FOLLOWS: Dividends for the
year ended December 31, 1953 at the rate of
4½% per annum:

<i>No. 38 paid July 2, 1953</i>	\$112,500	
<i>No. 39 payable January 2, 1954</i>	112,500	225,000
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BALANCE TRANSFERRED TO THE RECEIVER
GENERAL OF CANADA for credit to the Con-
solidated Revenue Fund \$ 43,867,807

BOARD OF DIRECTORS



G. F. TOWERS, C.M.G., *Governor*

J. E. COYNE, *Deputy Governor*

W. D. BLACK, *Waterdown, Ont.*
Member of the Executive Committee

E. G. BURTON, C.B.E., *Toronto, Ont.*

J. L. CAVANAGH, *New Glasgow, N.S.*

G. G. COOTE, *Nanton, Alta.*

N. A. HESLER, *Sackville, N.B.*

W. A. JOHNSTON, Q.C., *Winnipeg, Man.*

A. STEWART McNICHOLS, *Montreal, Que.*

R. H. MILLIKEN, Q.C., *Regina, Sask.*

A. C. PICARD, *Quebec, Que.*

H. A. RUSSELL, *St. John's, Nfld.*

HAROLD B. SCHURMAN, *Summerside, P.E.I.*

A. C. TAYLOR, C.B.E., *Vancouver, B.C.*

EX-OFFICIO

K. W. TAYLOR, C.B.E., *Deputy Minister of Finance, Ottawa.*

AGENCIES

•

Calgary, Alta. . . . J. PARRY, *Agent*

Halifax, N.S. . . . J. C. NESBITT, *Agent*

Montreal, Que. . . . J. H. C. DESMARAIS, *Agent*
A. HUBERDEAU, *Assistant Agent*

Ottawa, Ont. . . . J. K. FERGUSON, *Agent*

Regina, Sask. . . . F. J. WILKS, *Agent*

Saint John, N.B. . . . G. R. BONNER, *Agent*

Toronto, Ont. . . . E. FRICKER, *Agent*
R. J. LILLIE, *Assistant Agent*

Vancouver, B.C. . . . W. D. FARRELL, *Agent*

Winnipeg, Man. . . . G. A. IVEY, *Agent*

