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(approx. 2.30 p.m.)

BANK OF CANADA

ANNUAL REPORT OF THE GOVERNOR TO THE MINISTER OF FINANCE

AND STATEMENT OF ACCOUNTS

FOR THE YEAR **1955**

BANK OF CANADA

February 29, 1956.

The Hon. W. E. Harris, Q.C.,
Minister of Finance,
Ottawa.

Dear Sir,

In accordance with the provisions of the Bank of Canada Act I am transmitting herewith my report for the year 1955, and a statement of the Bank's accounts for this period which is signed and certified in the prescribed manner.

Yours very truly,

J. E. COYNE,
Governor.

BANK OF CANADA

REPORT OF THE GOVERNOR

1955

Before proceeding to a review of monetary and banking developments in 1955 I wish to refer briefly to the economic background, and particularly to the rapid transition from recession to virtually full employment which took place during the year.

From its previous peak in the summer of 1953 to the end of 1954 the rate of output of the Canadian economy had increased very little. Meanwhile the growth in the population of working age and in the stock of productive plant and equipment had continued at rates close to those of preceding years. Thus by the winter of 1954-55 the growth in the capacity of the economy to produce goods and services had considerably exceeded the very modest increase in actual output, and after full allowance for seasonal factors there was appreciable under-employment of our productive resources. At the period of seasonally highest unemployment, in March, the estimated number of persons without jobs and seeking work was 401,000, a post-war peak, and 80,000 greater than the previous post-war high in March 1954.

During 1955, and especially from the spring onward, total output rose strongly. The capacity of the economy continued to increase at a more or less normal rate but output grew more rapidly and the slack which had developed in the preceding year and a half was progressively taken up. At mid-year unemployment had fallen below the relatively high levels of a year earlier. By the fourth quarter of the year it was evident that the economy was operating at virtually full capacity and non-farm output was running about 9 per cent higher in volume than a year earlier. The continuing growth in demand was accompanied in the latter months of the year by a substantial rise in imports of raw materials, capital equipment and finished goods, an increase which was greater than that in exports.

The 1955 grain crop was of above-average size, much larger than that of 1954, and accrued net farm income was up accordingly. However cash receipts from the sale of grain were lower than in 1954, and principally for this reason total farm cash income was slightly below that of the previous year.

The Canadian recovery from the 1954 recession was of course greatly influenced by the trend of events in the United States, where broadly similar developments were taking place. There were however important differences, and some of these are illustrated in the series of comparative charts on the facing inset. For example, outlays on consumer goods and on investment rose earlier in the United States, and the peak of winter unemployment there was lower than it had been in 1954. After lagging early in the year private investment increased much more rapidly in Canada than it did in the United States, and at the end of the year the total of programmes under way in Canada was still growing strongly.

In 1955 the average level of consumer prices continued to show the same stability that has prevailed since 1952. As in the preceding years the stability in 1955 was the result of several offsetting trends, among them being a world-wide upward movement in prices of many non-agricultural raw materials and a declining trend in the prices of farm products.

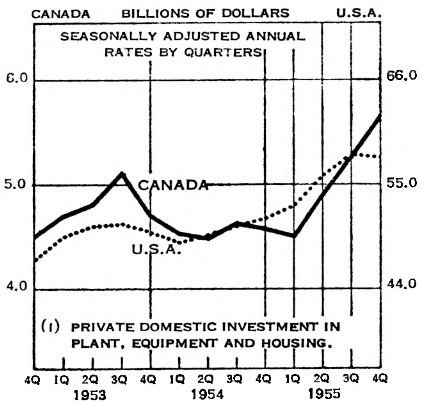
MONETARY AND BANKING CONDITIONS • Developments during the year are shown in statistical form, by quarters, in the table on page 6 and for the past three years in chart form on subsequent pages.

To overcome the under-employment of Canada's productive potential that developed during 1954 would require an appreciably larger than normal rate of growth in output. Monetary policy at the beginning of 1955 continued to be directed towards this objective. Banks had sufficient cash reserves to be able to meet an increased demand for loans when it should arise. In fact, during the first quarter of the year the demand for bank credit, as measured by the volume of loans outstanding, remained at the 1954 recession level. Banks accordingly found themselves in a position where they could add substantially to their holdings of Government bonds, as had been the case also in the last two quarters of 1954.

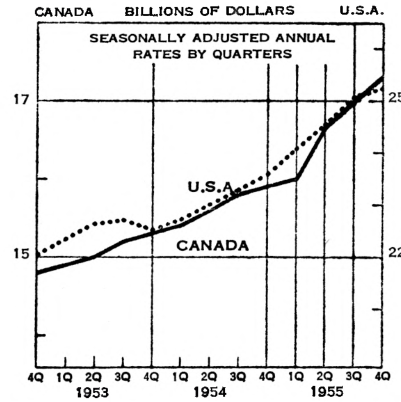
The development of the Canadian money market referred to in my last Report made it possible and desirable at the beginning of the year to take a further important step in the evolution of this mechanism. In earlier years, the Bank Rate, i.e. the posted minimum rate at which the central bank will

SOME COMPARISONS : CANADA AND UNITED STATES

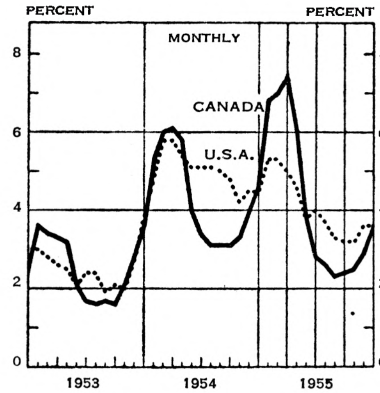
PRIVATE INVESTMENT(1)



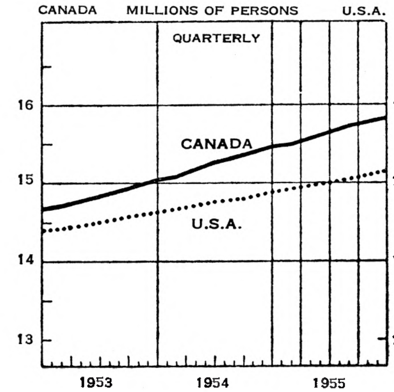
PERSONAL CONSUMPTION EXPENDITURES



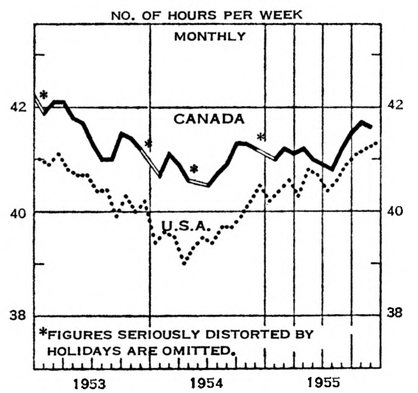
UNEMPLOYMENT PERCENTAGE OF LABOUR FORCE



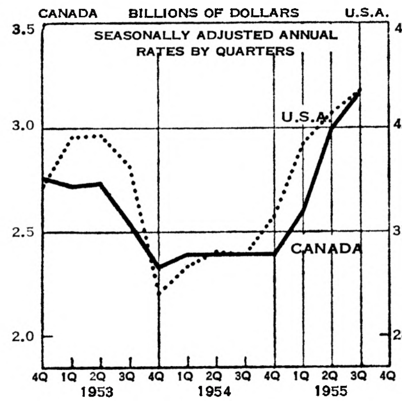
POPULATION



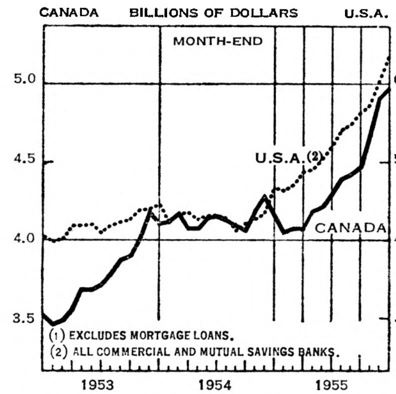
AVERAGE HOURS WORKED IN MANUFACTURING



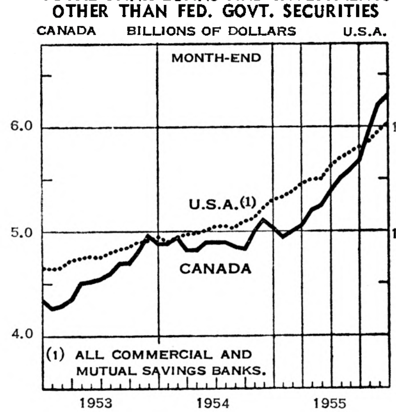
CORPORATE PROFITS—BEFORE TAX



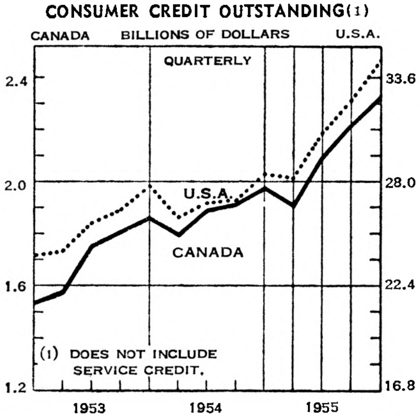
TOTAL BANK LOANS(1)



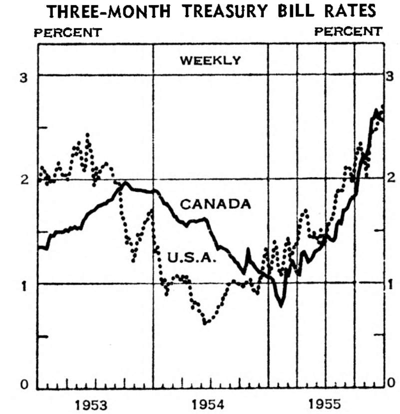
TOTAL BANK LOANS AND INVESTMENTS OTHER THAN FED. GOVT. SECURITIES



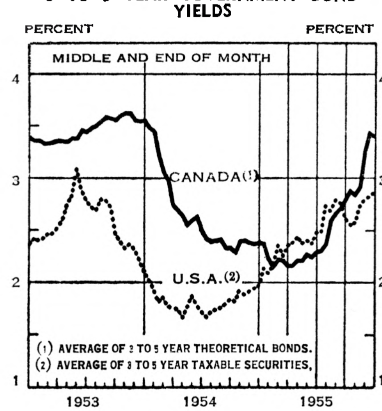
CONSUMER CREDIT OUTSTANDING(1)



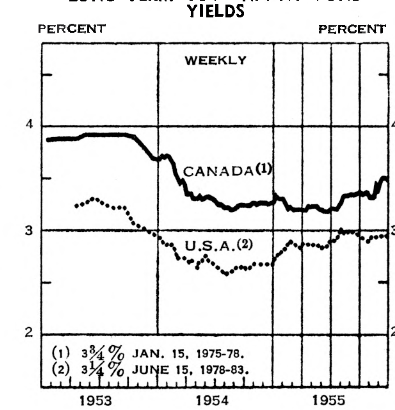
THREE-MONTH TREASURY BILL RATES



3 TO 5 YEAR GOVERNMENT BOND YIELDS



LONG TERM GOVERNMENT BOND YIELDS



Monetary and Banking Statistics

(Based on month-end figures)

Chartered Bank Assets (Millions of dollars)	As at End of 1954	Increase in 1955 1 Q	2 Q	3 Q	4 Q	Total	As at End of 1955
Bk. of Can. deposits & notes	791	−21	5	20	45	49	840
Day-to-day loans	68	1	26	−50	36	13	81
Treasury bills	360	75	−59	−7	58	67	427
Sub-total	1,219	55	−28	−37	139	129	1,348
Government bonds	2,953	211	80	−68	−544	−321	2,632
Insured mortgages	74	36	35	64	85	220	294
Provincial & municipal sec's.	441	37	35	37	−10	99	540
Corporate securities	353	32	44	20	33	129	482
Special categories of loans(1)	859	−114	−57	−12	234	51	910
General loans	3,238	21	248	245	229	743	3,981
Sub-total	4,965	12	305	354	571	1,242	6,207
Total of above Canadian assets	9,137	278	357	249	166	1,050	10,187
Chartered Bank Deposits (Millions of dollars)							
Personal savings deposits	5,218	208	147	184	−124	415	5,633
Govt. of Canada deposits	176	−30	−39	27	383	341	517
All other (less total float)	3,462	115	234	42	−156	235	3,697
Total Can. deposits (less float)	8,856	293	342	253	103	991	9,847
Interest Rates (Per cent per annum)							
Bank rate	2.00	−.50	–	.50	.75	.75	2.75
Day-to-day loans (closing rate)	.75	–	.38	.50	.87	1.75	2.50
Three month treasury bills(2)	1.06	.03	.35	.39	.73	1.50	2.56
Govt. bond yields(3)—one year	1.60	−.14	.29	.49	.79	1.43	3.03
—two year	1.89	−.18	.24	.54	.79	1.39	3.28
—five year	2.59	−.23	.08	.45	.53	.83	3.42
—ten year	2.93	−.19	.07	.26	.29	.43	3.36
—twenty year	3.21	−.10	.02	.13	.15	.20	3.41

(1) Loans to investment dealers and brokers, grain dealers, provinces and municipalities and to finance the purchase of Canada Savings Bonds.

(2) Average rate at last tender in quarter.

(3) Yields on theoretical bonds.

make temporary loans or advances, had had no direct function to perform in Canada and was changed only when it was desired to mark a major development in economic conditions. From 1944 to 1954 only one change was made, in October 1950 when the rate was raised from 1½% to 2%. Banks rarely had recourse to the Bank of Canada for advances, and the Bank Rate continued at the 2% level while appreciable changes in market rates of interest were taking place.

When 1955 opened the Bank Rate was far out of touch with short-term interest rates, which had been declining for more than a year. By this time the system of day-to-day loans inaugurated by the chartered banks in June 1954 was well established. After mid-1954, under conditions of falling yields and monetary ease, banks had not required advances and money-market dealers had had little occasion to finance bills or short bonds temporarily with the Bank of Canada through the medium of purchase and resale agreements. Both forms of financing might be expected to arise if and when monetary conditions should tighten, and to prepare for such an eventuality a more flexible Bank Rate policy became desirable. The necessary preliminary step of bringing the Bank Rate into closer alignment with short-term market rates and, so to speak, putting it into commission for active service, was taken on February 14th, when the Rate was reduced to 1½% and the new policy was outlined in a public statement*.

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*The statement issued on February 14, 1955 was as follows:—

"The Bank of Canada announced at the close of business today a reduction in "Bank Rate" to 1½% from the previous level of 2% which was established in October 1950. The Bank Rate is the minimum rate at which the central bank will lend for short periods to the chartered banks and the money market on the security of Treasury Bills and short-term Government bonds. Yields on these securities have declined materially over the past year and a half and Bank Rate at the old level had ceased to bear a reasonable relationship to other short-term interest rates.

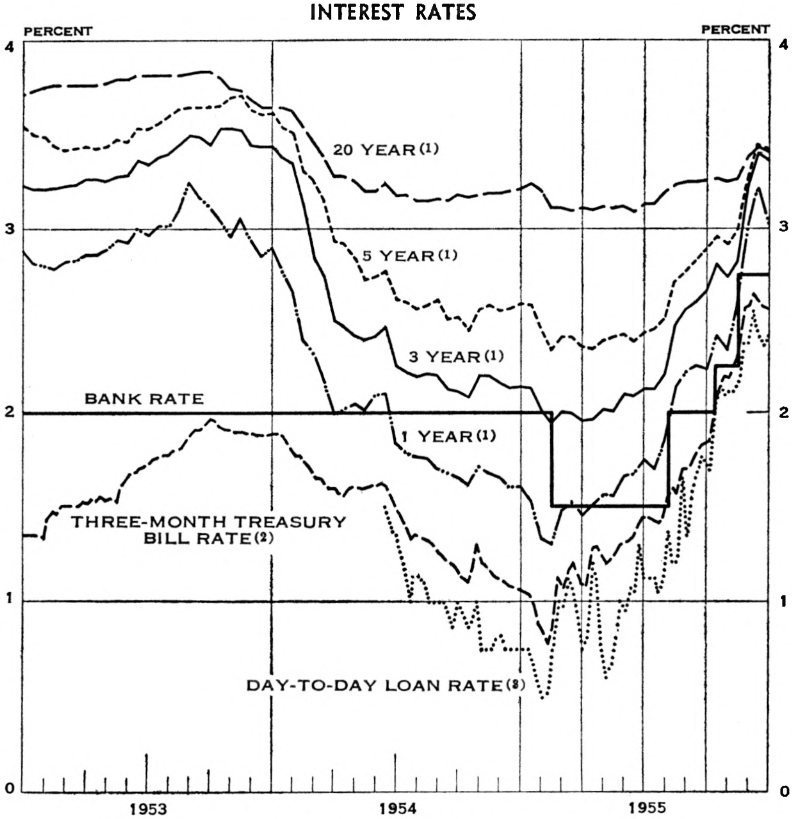
"In the past, Bank Rate has been changed infrequently in Canada and little use has been made of the Bank's facilities. The growth in the breadth and scale of activity in the short-term money market over the past two years has made it desirable that the Bank Rate be made more flexible and bear a closer (though not fixed) relation to other short-term interest rates. The present adjustment will help to make Bank Rate a more significant factor in the money market and facilitate its more flexible use in the future as circumstances may require.

"While the structure of short-term interest rates, including Bank Rate, provides an index of monetary conditions, it does not follow that every change in Bank Rate or in the level of other short rates necessarily indicates a change in general economic conditions."

The reduction in Bank Rate from 2% to 1½% left room for some rise in market rates from the low levels reached by early February before it would be necessary to raise the Rate in conformity with the trend, but the need to take such action would arise sooner than if the former higher level of the Bank Rate had been left unchanged.

Short-term interest rates began to rise about the time that the Bank Rate was reduced and notice given of its more flexible use in the future. During the early weeks of the quarter, when the banks' cash reserves were augmented by the flow of currency back from active circulation following the Christmas peak, yields had declined from the year-end level, but by mid-February this process had come to an end. Before the end of March yields on middle and long term Government securities had

INTEREST RATES



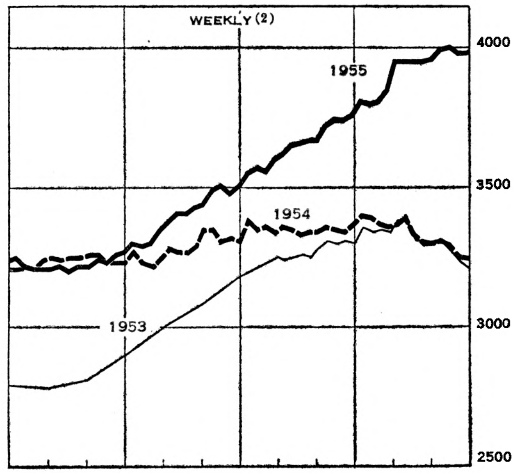
(1) THEORETICAL GOVERNMENT BOND YIELDS — MIDDLE AND END OF MONTH.
(2) AVERAGE RATE AT WEEKLY TENDER.
(3) WEEKLY AVERAGE OF CLOSING RATES.

reached their low point, and the general decline of interest rates which had been going on for more than a year was terminated.

In the second quarter, as economic conditions improved rapidly, general bank loans showed their first growth (apart from seasonal movements) in nearly eighteen months. The increase in general loans was substantial, though not as large as in the second quarter of 1953. The banks were still in a position to meet the strengthening demand for credit without having to liquidate other assets on balance, and purchased Government bonds on a declining scale. The average cash ratio, however, which at 8.7% on average in the first quarter had been well above the statutory minimum of 8%, had fallen to 8.3% by June, and tightening monetary conditions were apparent in rising yields on day-to-day loans, treasury bills and short-term Government bonds and a small increase in rates on longer term issues.

CHARTERED BANKS: GENERAL LOANS(1)

MILLIONS OF DOLLARS



(1) ALL LOANS OTHER THAN TO INVESTMENT DEALERS AND BROKERS, GRAIN DEALERS, PROVINCES AND MUNICIPALITIES, AND FOR THE PURCHASE OF CANADA SAVINGS BONDS.

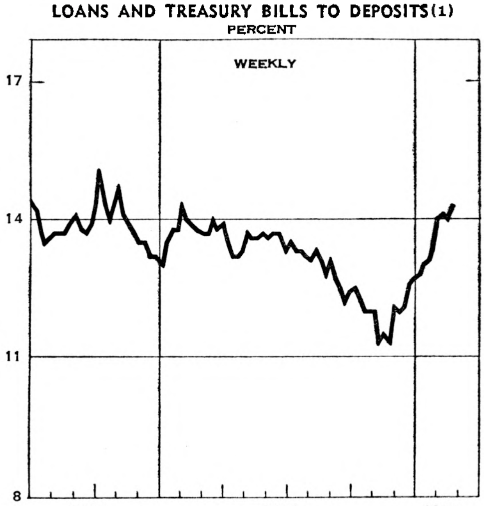
(2) PRIOR TO AUG. 1953, FIGURES ARE MONTH-END.

It was apparent that the increase in economic activity was more than seasonal, and more than the normal rate of growth; in short, that the slack previously existing in the economy as a whole was being taken up and that virtually full capacity would soon be reached. Bank credit continued to expand rapidly in the third quarter, and the objective of monetary policy became one of offering increasing resistance to further expansion. In addition to more rapidly rising interest rates, the new situation was marked by a growing need on the part of the banks to reduce their investments in order to finance the increase in loans. Some reduction occurred in banks' holdings of Government bonds, and the banks also drew on the total of their most liquid assets (cash, day-to-day loans and treasury bills) to finance loan expansion during this period.

The rise in market rates of interest was reflected in an increase in the Bank Rate to 2% on August 5th. At this level it was once again equal to the rate of the Federal Reserve Banks in the United States, which had been increased from 1½% to 1¾% in April and to 2% on August 4th. Interest rates continued to rise, and the Bank Rate was raised to 2¼% on October 12th and to 2¾% on November 18th, at which level the Canadian rate is ¼% above the corresponding United States rate.

Further information on the outlook for loan expansion became available in October and November from a compilation of all banks' forward commitments to make term loans to business corporations and purchase corporate security issues. The rate of credit expansion accelerated in October and in the face of increasing monetary tightness the banks found it necessary to sell Government bonds on a substantial scale. They also continued to draw on their liquid assets which by early November for the banks as a whole had declined to 11.3% of deposits. A year earlier the ratio had been about 14%. During the third and fourth quarters, particularly the latter, banks and money market dealers had frequent recourse to the central bank for temporary financing. There were Bank of Canada advances to chartered banks outstanding on most of the days in the fourth quarter, and the Bank held securities under resale agreements with dealers on every day but four in each of October and November.

CHARTERED BANKS: RATIO OF CASH, DAY-TO-DAY LOANS AND TREASURY BILLS TO DEPOSITS(1)



(1) CASH AND DEPOSITS ARE ON THE STATUTORY BASIS.

Meetings were held between the Bank of Canada and the chartered banks on September 19th and November 21st to discuss the general credit picture. The September meeting led to the compiling of statistics on forward commitments already mentioned, and to the preparation of a classified analysis of bank loans on a monthly basis, instead of quarterly as theretofore. At the November meeting, I expressed the view that the very rapid increase in the use of bank credit to finance business and personal expenditures had been well in excess of the rate of growth in the country's production which was physically possible once a condition of virtually full employment had been reached, and should not be expected to continue on the same scale. Requests for new and increased credits should be examined very carefully, and existing credit limits surveyed with a view to maintaining control over future growth. With such a policy, and the adoption of certain practices regarding term lending and liquid asset ratios, it was believed that the ordinary workings of monetary policy could moderate sufficiently the demand for and the availability of bank credit. It was not considered necessary as of that time, November, to propose any overall ceiling or limitation and it was hoped to avoid such a measure in the future. Some continuing increase in total bank loans would very likely be required, but any tendencies toward excessive use of bank credit by any category of borrower would have to be resisted.

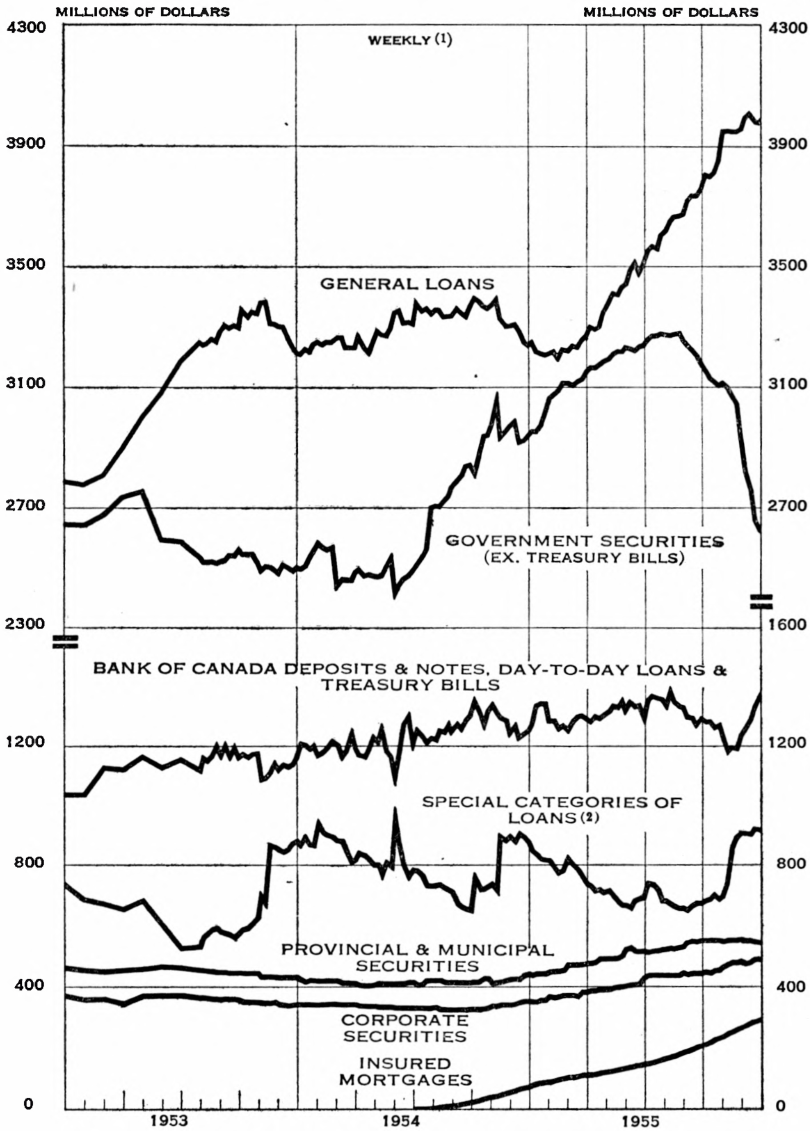
Seasonal influences, which usually cause a decline in the volume of loans outstanding after mid-November, this year slowed down the rate of increase. Banks continued to be large sellers of bonds, partly to finance the continuing increase in loans, and partly in order to begin the rebuilding of their holdings of liquid assets. Over the fourth quarter as a whole, interest rates in Canada rose sharply, somewhat more so than in the United States, but steadied in early December and declined slightly in the last two or three weeks of the year.

CHARTERED BANKS • Changes in the major Canadian assets and deposit liabilities of the chartered banks are shown in the table on page 6 and in chart form on pages 12 and 13.

Reference has been made to the progressive increase in chartered bank loans in 1955. At the end of the second quarter the year-to-year increase in general loans amounted to 6 per cent, at the end of the third quarter to 12 per cent, and at the end of the year to 23 per cent. The total of all categories of loans rose by 19 per cent over the year. Details of changes by categories of borrower are shown in the table on page 14 and the charts on page 15.

A substantial growth in consumer credit was one of the main factors responsible for the large increase in chartered bank loans. It is estimated that total consumer credit outstanding rose by approximately $350 million in 1955 compared with $114 million in 1954 and $326 million in 1953. This growth was reflected in a 64 per cent increase in bank loans to instalment

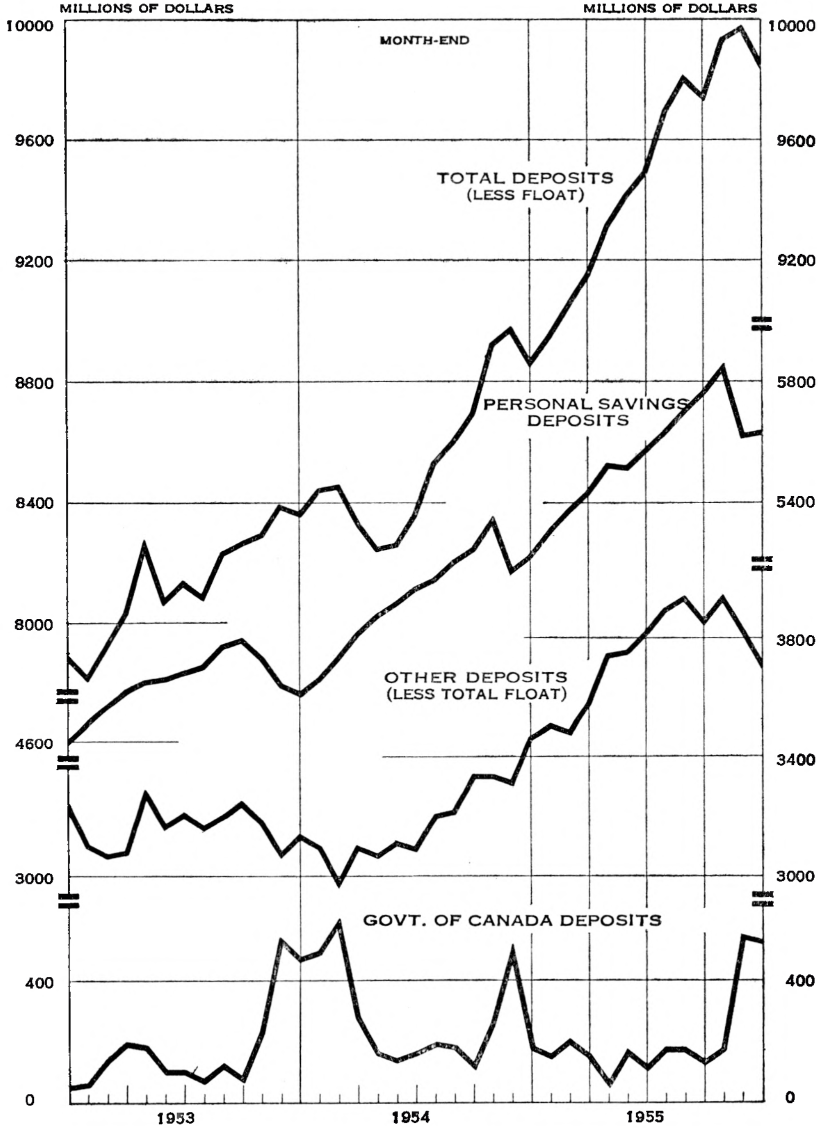
CHARTERED BANKS : MAJOR CANADIAN ASSETS



(1) PRIOR TO AUG. 1953 FIGURES ARE MONTH-END.

(2) LOANS TO INVESTMENT DEALERS AND BROKERS (EX. DAY-TO-DAY LOANS), GRAIN DEALERS, PROVINCES AND MUNICIPALITIES, AND FOR THE PURCHASE OF CANADA SAVINGS BONDS.

CHARTERED BANKS : CANADIAN DEPOSIT LIABILITIES



Chartered Bank Loans in Canada[1]

(Millions of dollars)

General	As at Dec. 31, 1955	Increase during 1955	1954	1953	Percent Increase in 1955
Personal					
(i) Fully secured by marketable bonds and stocks	339	86	−17	11	34%
(ii) Other	465	113	43	66	32
Instalment finance companies	297	116	−45	21	64
Other financial institutions[2]	144	19	13	8	16
Merchandisers	635	73	−22	101	13
Farmers	366	28	5	25	8
Construction contractors	278	91	25	22	49
Public utilities, transportation and communication companies	141	73	8	− 5	108
Industrial concerns	976	77	−47	151	9
Other	340	67	34	48	25
Total general loans	3,981	743	− 3	448	23%
Special categories					
Provincial and municipal govts.	207	43	7	−13	26
Investment dealers and brokers[1]	179	36	−10	− 1	25
Grain dealers	361	−43	13	134	−11
For purchase of Canada Savings Bonds	163	15	−18	19	11
Total special categories	910	51	− 8	139	6%
Total loans in Canada	4,891	794	−11	587	19%

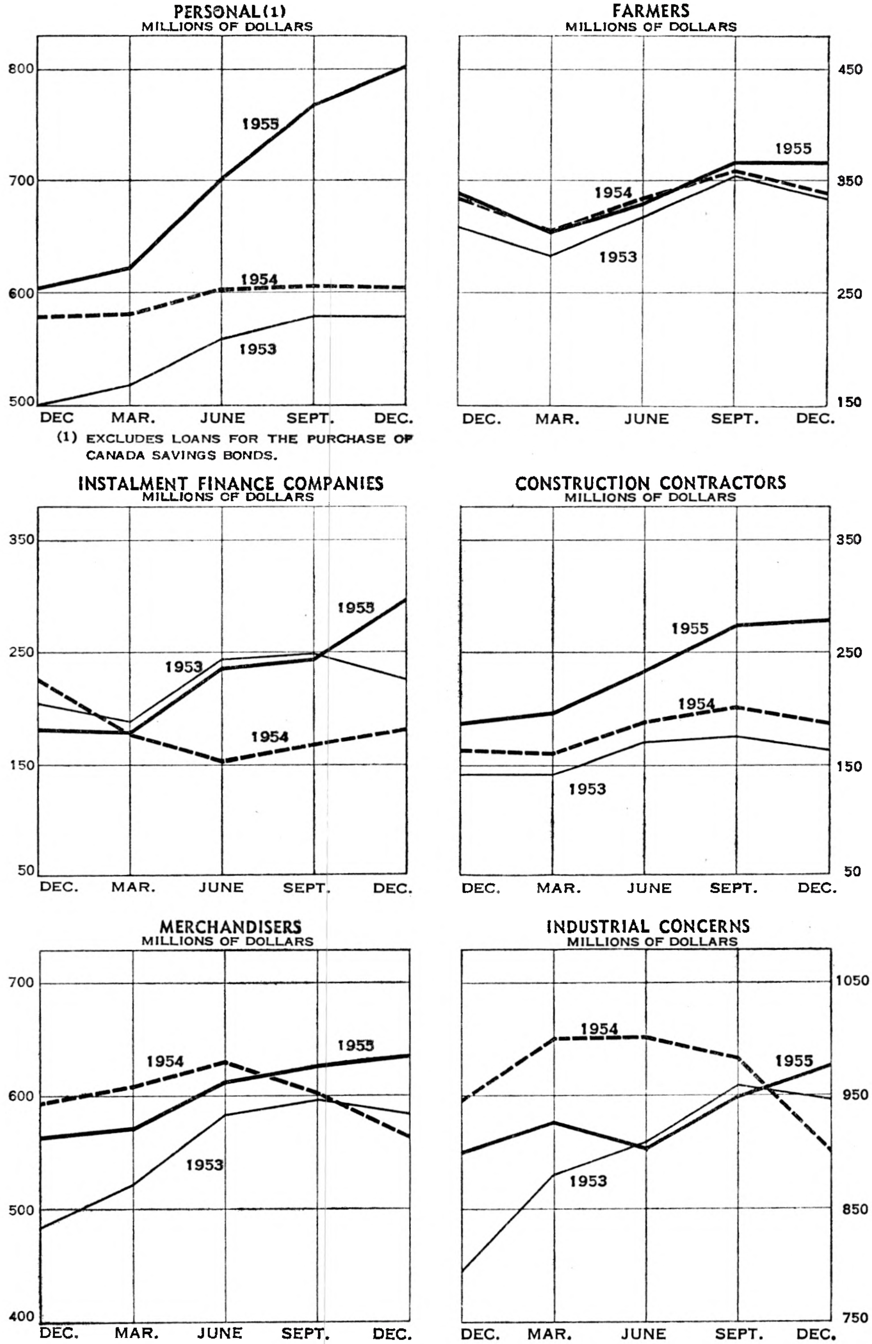
(1) Excluding day-to-day loans.
(2) Includes trust, loan, mortgage, investment and insurance companies.

finance companies and a large increase in personal loans. The increase of 49 per cent in loans to construction contractors reflected the very high level of construction activity. The large increases in loans to public utilities and provincial and municipal governments arose mainly from temporary bank financing in the latter part of the year. There was also a substantial increase in loans on the security of marketable bonds and stocks.

The counterpart of the large increase in chartered bank assets was a substantial rise in deposit liabilities which, after adjustment for float, increased by $991 million. Government of Canada deposits accounted for $341 million of the increase. The deposits of the general public increased by $650 million, of which $415 million was in the personal savings category. Further reference to these changes is made on page 18.

CHARTERED BANK LOANS IN CANADA : SELECTED CATEGORIES

END OF QUARTER



LIQUID ASSET RATIO • In the course of discussions with the chartered banks in November and December the Bank of Canada urged the adoption of a standard practice regarding the maintenance of a minimum ratio of liquid assets (cash, day-to-day loans and treasury bills) to deposits. The purpose of this suggestion was to establish a working principle of bank operations which would help the central bank in the task of restraining inflationary pressures that might threaten in the future.

The function of a minimum liquid asset ratio is to increase the effectiveness of monetary policy in moderating a too rapid expansion of credit, by bringing the influence of monetary restraint to bear on the lending policies of the banks, on interest rates, and on security markets generally, earlier and more gradually and with greater certainty than would otherwise be the case.

Under conditions of monetary restraint, a bank whose liquid assets are at or near the minimum ratio and which wishes to increase its loans will find it necessary to sell Government bonds or other investments to put itself in funds to do so. The loss of interest earnings on the bonds sold and the capital losses usually incurred on such sales at a time of monetary restraint will lessen the bank's incentive to expand loans; and at the same time the bank's sales of bonds will have their restraining effect in the bond market and through it on the security markets generally.

By contrast, in the absence of a convention regarding minimum liquid asset ratios, at a time of great expansion in the demand for loans a bank's selling of bonds may be postponed and the necessary funds raised by running down liquid assets. Monetary restraint, unless of an extreme character, may therefore be temporarily ineffective. In time, when the bank's liquid assets have fallen to a low level it must (unless the credit expansion has been of a very temporary character) rebuild its liquid assets by selling bonds in large volume. But at a time of general credit expansion it may well find that other banks are trying to do the same thing at the same time. The delay in the reaction of the banking system to tighter monetary conditions is likely in the end to produce more drastic and disturbing adjustments in the securities markets and a more abrupt change in lending policy than would have been necessary if, through adherence to a firm convention regarding minimum liquid asset ratios, lending policy were more immediately responsive to monetary restraint.

After discussion, the banks have agreed to work to achieve by May 31st, 1956, a minimum liquid asset ratio of 15% which they will endeavour to maintain on a daily average basis from June on. On this basis, fluctuations above or below 15% may occur from day to day or week to week, but for the month as a whole the average would not be below the target ratio. I believe the adoption of such an operating principle will make for a financial system which will respond more quickly, smoothly and predictably to measures of monetary restraint when these are required in the future, and which will thus be better able to serve the national interest.

TERM LENDING • In addition to being commercial banks the Canadian chartered banks are very large savings banks, and in that capacity have an important role to play in channelling the savings of millions of Canadians into productive long-term investments. In that role they follow an investment policy similar in general to other investors, buying in the market, at prices and yields set by the market, the securities of provincial and municipal governments and of corporations, and under the 1954 legislation investing in insured residential mortgages. In addition, a portion of the savings held by most institutional investors are invested in federal government bonds, the proportion varying with the circumstances and views of the institution concerned. In the case of the chartered banks, a varying proportion of the savings deposits is also customarily used for making commercial loans, being in a sense loaned by the savings department to the commercial banking department.

Historically, in their role as commercial bankers, the chartered banks have not made a practice of term lending, that is, making loans to business corporations where the time of payment is deferred beyond that of ordinary bank loans, or purchasing a security issue negotiated directly with the customer as distinct from buying a publicly issued security in the market. In recent years, however, term lending has appeared in three distinct periods, with little such lending taking place in the intervals between. On each occasion the Bank of Canada has felt it necessary to propose and the banks have agreed to a cessation of most forms of term lending. The first occasion was from January 1948 to February 1949. The second occasion was from February 1951 to May 1952, this time in conjunction with a general ceiling on all forms of bank loans. The third such occasion came during 1955.

In September I discussed with the banks the rapid increase which appeared to be taking place in their term lending to corporations. In order that both the Bank of Canada and the chartered banks would be in a better position to appraise the situation, a weekly report from each bank of the amount of its forward commitments in respect of term lending (for items in excess of $250,000) was instituted. The first complete information became available at the beginning of November. At that time unavailed-of commitments of this character exceeded $400 million and new commitments were being made at the rate of about $50 million per month. At the end of November it was agreed that all banks would in general cease making new commitments for term lending.

The agreement to refrain from term lending, as defined, does not prevent the banks from extending temporary credit to their customers for capital development programmes pending the conclusion of more permanent arrangements to obtain funds from non-bank sources, as by the floating of a bond issue or stock issue or direct borrowing from other investors. Nor does it prevent the banks from making purchases of corporate securities and other long-term investments in the open market, or participating with other investors in subscribing to new public issues of securities, which are normal functions of institutions with savings deposits to invest.

LIQUID ASSETS OF THE GENERAL PUBLIC • The total amount of currency, bank deposits and Government securities held by the general public rose by $1,115 million, or 6 per cent, in 1955 compared with increases of $253 million in 1954 and $264 million in 1953. Changes in the main components of this total are shown in the table and charts on the facing page.

Large increases in total deposits occurred in each of the first three quarters when chartered bank assets were rising, but there was a substantial reduction in the final quarter. In that quarter a large volume of deposits was transferred from the general public to the Government through the sale of the tenth series of Canada Savings Bonds and the general public was also reducing its deposits by buying market Government securities from the banking system on a considerable scale; these changes more than offset the effect of the large increase in chartered bank loans on the total amount of deposits held by the public. Personal savings deposits increased by $415 million over the year as compared with $462 million in 1954 when the general public was reducing its holdings of Government securities on a very large scale. Other notice deposits (mainly corporate), which had risen from $278 million to $397 million in 1954, continued

General Public Holdings of Currency, Bank Deposits and Government of Canada Securities

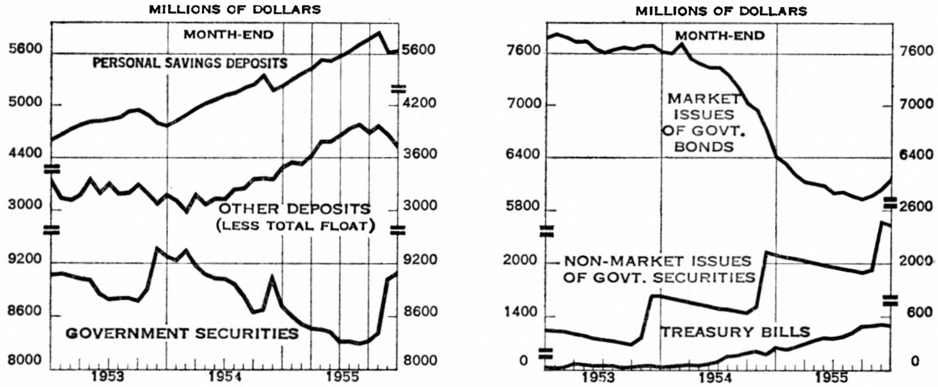
(Millions of dollars)

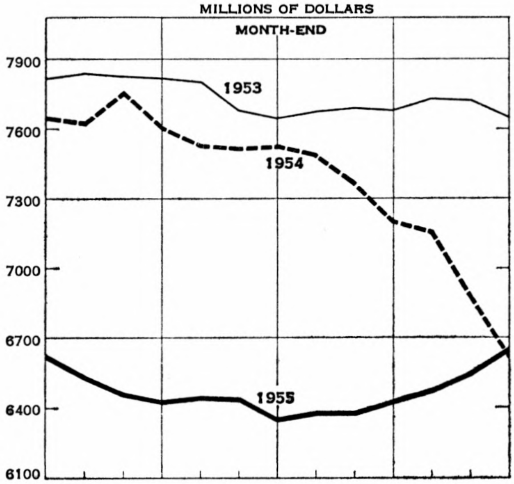
	Total as at Dec. 31/55	Increase in 1955				
		1Q	2Q	3Q	4Q	Total
Currency (notes & coin)	1,550	− 39	99	17	15	92
Demand deposits[1]	3,266	− 21	163	69	− 40	171
Personal savings deposits	5,633	208	147	184	−124	415
Other notice deposits	464	149	65	−35	−112	67
Currency and bank deposits	10,913	297	474	235	−261	745
Government securities	9,083	−258	−150	19	759	370
Total	19,996	39	324	254	498	1,115

[1]Demand deposits less total float.

to rise in the first part of 1955, reaching a peak of $617 million in May. Owing in part to the rising yields on treasury bills and other short-term investments, these deposits declined steadily during the remainder of the year to $464 million at December 31st.

GENERAL PUBLIC HOLDINGS OF BANK DEPOSITS AND GOVERNMENT OF CANADA SECURITIES





(1) INCLUDING TREASURY BILLS.

General public holdings of Government securities increased by $370 million in 1955, following a reduction of $570 million in the previous year. As shown in the chart the general public reduced its holdings of market issues steadily in the first half of the year but this trend was reversed in the third quarter, and in the final quarter its purchases were on a substantial scale.

SECURITIES MARKETS • Reference has already been made to movements in interest rates during 1955 in the section on monetary and banking conditions.

In 1955 the total amount of Government of Canada direct and guaranteed securities outstanding increased by $548 million.

Changes in Government of Canada Funded Debt in 1955
(Millions of dollars)

	New Issues	Retirements	Net Change
Market bonds—direct	700	603	+ 97
—guaranteed	–	58	− 58
Canada Savings Bonds	670	327	+343
Sub-total	1,370	988	+382
Treasury bills			+445
Treasury notes			−250
Matured and outstanding debt			− 44
Exchange rate valuation adjustment			+ 15
Total change			+548

Distribution of Holdings of Direct and Guaranteed Securities of the Government of Canada

(Millions of dollars)

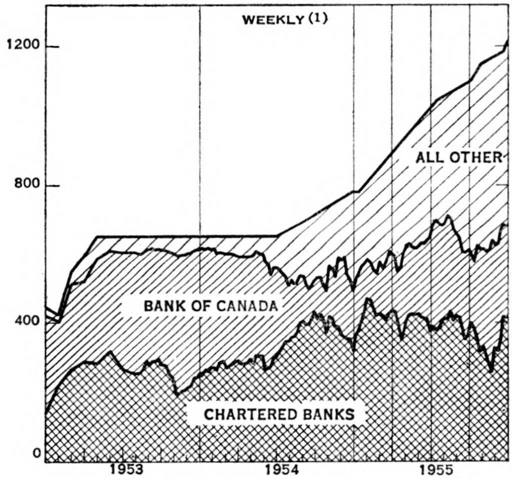
	As at Dec. 31/55	Increase in 1955 1 Q	2 Q	3 Q	4 Q	Total
Bank of Canada						
Treasury bills	263	−4	132	−62	28	94
Treasury notes	500	−75	–	−100	−75	−250
Other issues	1,604	−4	7	174	124	301
Total	2,367	−83	139	12	77	145
Chartered Banks						
Treasury bills	427	75	−59	−7	58	67
Other issues	2,632	211	80	−68	−544	−321
Total	3,059	286	21	−75	−486	−254
Government Accounts						
Unemployment Insurance Fund						
Treasury bills	31	−40	–	5	26	−9
Other issues	853	−12	−14	27	–	1
Other Accounts						
Treasury bills	5	−1	1	–	5	5
Treasury notes	–	25	−25	100	−100	–
U.S. pay direct issues	191	63	10	21	–	94
Other issues	411	−4	3	−3	200	196
Total	1,491	31	−25	150	131	287
General Public						
Treasury bills	499	80	66	134	8	288
Other market issues	6,151	−279	−145	−55	218	−261
Non-market issues	2,433	−59	−71	−60	533	343
Total	9,083	−258	−150	19	759	370
of which						
Non-residents(1)	551	−114	−33	−28	12	−163
Resident life insurance cos.(1)	789	−9	−12	−4	−25	−50
All other holders(1)	7,743	−135	−105	51	772	583
Total Outstanding						
Treasury bills	1,225	110	140	70	125	445
Treasury notes	500	−50	−25	–	−175	−250
Other market issues	11,842	−25	−59	96	−2	10
Non-market issues	2,433	−59	−71	−60	533	343
Total	16,000	−24	−15	106	481	548

(1) Preliminary estimates.

This increase was not the result of an overall excess of Government disbursements over receipts since it was more than offset by the combined increase in Government bank balances and in Government account holdings of securities. Largely as a result of the proceeds of the tenth series of Canada Savings Bonds there was a substantial increase in Government bank balances in the latter part of the year and the increase for the year as a whole was $373 million. Government account holdings of Government securities rose by $287 million.

A notable development in the money market during the year was the large increase which took place in the amount of treasury bills held outside the banking system. At the end of 1955 the general public held $499 million of bills compared with $211 million at the end of 1954 and $27 million at the end of 1953. To meet the rising demand for treasury bills the amount sold at tender was gradually increased during the year. The net increase was $445 million which brought the amount outstanding at the end of the year to $1,225 million.

DISTRIBUTION OF TREASURY BILL HOLDINGS
MILLIONS OF DOLLARS



(1) PRIOR TO AUG. 1953 FIGURES ARE MONTH-END.

The total amount of new securities offered for sale by provincial governments, municipalities and corporations in 1955 was considerably higher than in 1954. New offerings of bonds and debentures were about the same as in the previous year, with a larger volume of new issues in Canada and some reduction of new issues in the New York market. The value of new issues of shares by Canadian corporations in 1955 was more than double the 1954 total.

The statistics in the following table are based on dates of delivery rather than dates of offering and are net of all retirements whether refunded or not.

Estimated Net New Issues(1) of Provincial, Municipal and Corporate Securities

(Millions of dollars)

	Payable in Canadian Dollors Only		Payable Wholly or Optionolly Abroad		Total	
	1955	1954	1955	1954	1955	1954
Provincial bonds(2) .	220	242	−24	61	196	303
Municipal bonds .	218	265	18	11	236	276
Corporate bonds .	378	338	−27	83	351	421
Total Bonds .	816	845	−33	155	783	1,000
Corporate stocks .					406	170
Total					1,189	1,170

(1) New issues, based on date of delivery, less all retirements. Short term paper is excluded. 1955 figures are preliminary estimates.

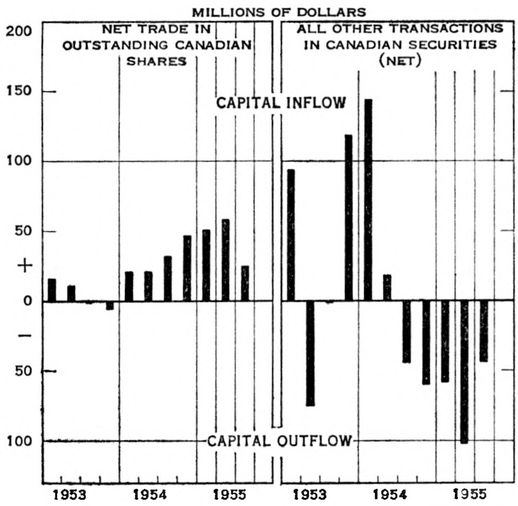
(2) Including municipal and other issues guaranteed by provinces.

INTERNATIONAL CAPITAL ACCOUNT • Throughout 1955 Canada continued to buy more goods and services from the rest of the world than it sold; purchases increased substantially and sales also increased but to a smaller extent. The net inflow of long-term capital was less, and of short-term capital greater, than in 1954 and there was a small decline in official holdings of foreign exchange. Details of the international capital account are shown in the table below through the third quarter, which is the latest for which statistics are available.

The inflow of capital for direct investment in Canada continued to be substantial through 1955. As in previous years more than half of this investment was in the petroleum industry; large amounts also went into mining and manufacturing. The unusually strong demand for Canadian equities which developed in 1954 and which in part reflected the operations of newly-formed United States mutual funds continued into 1955, reaching its peak in the second quarter but declining thereafter.

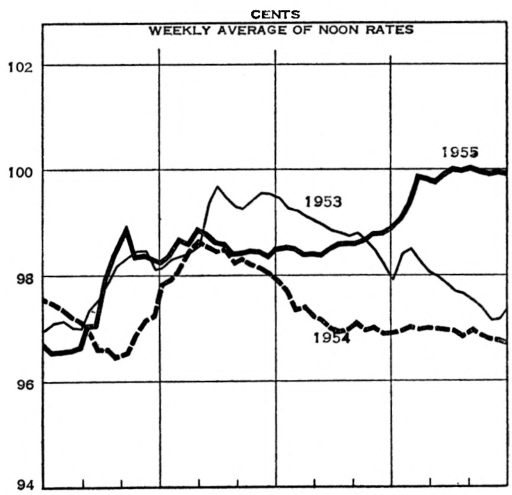
Transactions in Canadian-debtor bonds were strongly influenced by changes in the relative levels of Canadian and United

INTERNATIONAL TRANSACTIONS IN CANADIAN SECURITIES



States interest rates. During 1954 and the first weeks of 1955 long-term bond yields in Canada declined relative to those in the United States. This situation made the United States capital market relatively less attractive for the placing of new security issues by Canadian borrowers, and at the same time it encouraged United States owners of outstanding Canadian bonds to sell their holdings. Transactions with non-residents in Canadian debtor bonds, including both new issues and outstanding securities, resulted in very large capital inflows in late 1953 and early 1954 and appreciable outflows from Canada in the second half of 1954 and the first half of 1955. After mid-summer the spread between United States and Canadian interest rates widened again and the net outflow from all transactions in Canadian-debtor bonds declined markedly; towards the end of the year, Canadian borrowers were beginning to sell new issues in the New York market in larger volume.

U.S. DOLLAR IN CANADIAN FUNDS



The private repatriation of Canadian-debtor bonds was reinforced by Government repatriation of Government bonds payable in U.S. dollars. The change in Government holdings of such issues is shown in the table on page 21.

The value of the U.S. dollar in Canadian funds

Capital Account: Canadian Balance of International Payments

(Millions of dollars)

Capital Inflows (+) and Outflows (—)	1954 1Q	1954 2Q	1954 3Q	1954 4Q	1955 1Q	1955 2Q	1955 3Q
Foreign direct investment in Canada(1)	+ 83	+ 88	+67	+138	+ 80	+ 90	+90
Canadian direct investment abroad(1)	— 9	— 18	—28	— 19	— 5	— 10	—15
Canadian securities							
New issues	+174	+ 93	+35	+ 24	+108	+ 19	+14
Retirements	— 25	— 75	—48	— 54	— 85	— 74	—13
Net trade in outstanding bonds	— 5	—	—31	— 30	— 82	— 51	—47
Net trade in outstanding shares	+ 21	+ 21	+32	+ 47	+ 51	+ 58	+25
Transactions in foreign securities (net)	+ 2	— 17	— 4	— 5	+ 11	— 24	+14
Loan repayments by foreign governments	+ 9	+ 19	+10	+ 34	+ 7	+ 18	+ 9
Increase (+) in Canadian dollar holdings of non-residents	— 18	+ 13	+10	+ 17	+ 30	+ 40	+ 6
Decrease (+) in official holdings of gold and foreign exchange	— 4	— 37	—38	— 45	+ 71	— 56	— 7
Other capital movements (net)	— 52	+102	—25	— 21	— 31	+156	+ 9
Total capital account	+176	+189	—20	+ 86	+155	+166	+85

(1) Exclusive of undistributed profits.

rose by about 3 per cent in the course of 1955, mainly in the months of February and October. The rise which occurred in the autumn appears to have been associated mainly with the growth in Canada's deficit on commodity trade.

The downward movement of the Canadian dollar in 1955 was cushioned by a substantial inflow of short-term capital. Most of the short-term movements, which were large in both directions, are included in the category "other capital movements (net)" in the table, and they consist mainly of changes in commercial accounts receivable and payable and in privately-held foreign currency balances.

One type of short-term capital movement which occurred during the year may be of special interest as an indication of the revival of a functioning international money market. In December 1954 and in the first quarter of 1955 the large difference between the yields on treasury bills in the United Kingdom and Canada exceeded the cost of obtaining protection against exchange risk through forward sales of sterling by a sufficient margin to attract short-term funds to the United Kingdom from Canada to an amount in the neighbourhood of $100 million. (A movement of a similar nature is understood to have occurred from the United States to the United Kingdom.) A subsequent increase in the yield of Canadian bills and in the discount on forward sterling reduced the attractiveness of this kind of investment and it is believed that the funds had all returned by the end of the third quarter of the year.

PUBLIC DEBT OPERATIONS • Details of issues and retirements of Government bonds in 1955 are summarized in the following table.

New Issues and Retirements of Government of Canada Direct and Guaranteed Bonds, 1955

Date of Delivery or Redemption	Type of Security	Amount (Millions of dollars) New Issue	Amount (Millions of dollars) Retirement	Coupon Rate	Date of Maturity
Mar. 1	CN (West Indies) S.S. Govt. Gtd.		9	5	Mar. 1/55
June 15	CNR—Govt. Gtd.		49	4¾	June 15/55
July 1	Govt. Loan	700		2	May 1/58
July 1	Govt. Loan		200	2¼	July 1/55
July 1	Govt. Loan		400	2¼	July 1/55
Nov. 1	Canada Savings Bonds	670		3¼	Nov. 1/67
	C.S.B. retirements		327		
	Other retirements		3		
		1,370	988		

There was only one large issue of market bonds in 1955. A new 2 per cent $700 million issue, dated July 1st, 1955 and maturing on May 1st, 1958, was sold at par on June 9th. Of the proceeds, $600 million was used to retire two issues maturing July 1st. On June 24th notice was given of the call for redemption on January 15th, 1956 of a 3¼ per cent $48 million issue payable in U.S. funds.

In October the tenth series of Canada Savings Bonds bearing an interest rate of $3\frac{1}{4}$ per cent went on sale. Up to December 31st total sales amounted to $670 million as compared with $800 million of the ninth series in 1954. Payroll sales were $196 million, $13 million more than in the previous year. The net increase in Canada Savings Bonds outstanding during the year was $343 million, bringing the total outstanding at the end of 1955 to $2,433 million, or 15 per cent of the total direct and guaranteed funded debt.

STAFF • The staff of the Bank numbered 755 on December 31, 1955, compared with 729 a year earlier. A period of declining numbers since the termination of foreign exchange control had brought the strength of several departments to a low point in 1954; since then we have experienced an increasing volume of work, particularly in the public debt division and in the agencies of the Bank outside Ottawa, where under-staffing became apparent. Throughout the year members of the staff carried out their duties faithfully and efficiently.

PROFIT AND LOSS • Net earnings from the Bank's operations in 1955 before providing for contingencies and reserves amounted to $42,937,694, compared with $44,877,399 in the previous year. No appropriation to investment reserves was considered necessary in 1955; in 1954 earlier appropriations were reversed to the extent of $7,000,000. Pursuant to statute the sum of $4,596,653 was applied to Rest Fund, as against $10,352,980 last year, and this completed the process of raising the Rest Fund to $25,000,000, i.e. five times the paid-up capital. After such adjustments, the residue of the surplus, amounting to $38,341,041, was paid to the Receiver General of Canada to be placed to the credit of the Consolidated Revenue Fund. The comparable figure for 1954 was $41,411,919.

FINANCIAL STATEMENT ▶

BANK OF CANADA • STATEMENT

ASSETS

Foreign Exchange:		
Pounds Sterling and U.S.A. Dollars — at market value	$ 57,390,740	
Other currencies — at market value . . .	203,671	$ 57,594,411
Cheques on other Banks		82,220,239
Advances to Chartered and Savings Banks .		2,000,000
Investments — at values not exceeding market:		
Treasury Bills of Canada	$ 262,606,643	
Other securities issued or guaranteed by Canada maturing within two years	1,021,239,056	
Other securities issued or guaranteed by Canada not maturing within two years	1,083,651,003	
Debentures issued by Industrial Development Bank	10,065,400	
Other securities . . .	57,105,033	
Accrued interest . . .	13,286,996	2,447,954,131
Industrial Development Bank:		
Total share capital at cost . . .		25,000,000
Bank Premises: Land, buildings and equipment — at cost less amounts written off . . .		4,858,134
Other Assets:		545,907
		$ 2,620,172,822

J. E. Coyne, *Governor*

E. Fricker, *Chief Accountant*

OF ASSETS AND LIABILITIES

• AS AT DECEMBER 31st, 1955

LIABILITIES

Capital Paid Up: Authorized and issued—100,000 shares par value $50 each		$ 5,000,000
Rest Fund		25,000,000
Notes in Circulation		1,738,490,823
Deposits		
Government of Canada	$ 127,540,667	
Chartered Banks	550,960,343	
Other	33,981,870	712,482,880
Liabilities payable in Pounds Sterling, U.S.A. Dollars and other foreign currencies:		
To Government of Canada	$ 89,525,356	
To others	8,476,062	98,001,418
Bank of Canada Cheques Outstanding		38,618,513
Other Liabilities:		2,579,188
		$ 2,620,172,822

AUDITORS' REPORT • We have made an examination of the statement of assets and liabilities of the Bank of Canada as at December 31, 1955 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, 1955 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.

Jean Valiquette, C.A.,
of Anderson & Valiquette.

Ottawa, Canada, January 23, 1956.

PROFIT AND LOSS ACCOUNT

For the year ended December 31, 1955

•

PROFIT FOR THE YEAR ENDED DECEMBER 31, 1955 after making provision for contingencies and reserves	$ 42,937,694
APPROPRIATED TO REST FUND . . .	4,596,653
BALANCE TRANSFERRED TO THE RECEIVER GENERAL OF CANADA for credit to the Consolidated Revenue Fund . . .	$ 38,341,041

REST FUND

BALANCE AT DECEMBER 31, 1954 . .	$ 20,403,347
AMOUNT TRANSFERRED FROM PROFIT AND LOSS ACCOUNT	4,596,653
BALANCE AT DECEMBER 31, 1955 . .	$ 25,000,000

BOARD OF DIRECTORS

•

J. E. Coyne, *Governor*

J. R. Beattie, *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.*

A. M. Day, M.D., *Consort, 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*

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L. P. Saint-Amour, *Deputy Governor*

L. Rasminsky, c.b.e., *Deputy Governor*

R. B. McKibbin, *Deputy Governor*

L. F. Mundy, *Secretary*

E. Fricker, *Chief Accountant*

E. Metcalfe, *Auditor*

SECRETARY'S DEPARTMENT

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P. D. Smith, *Deputy Secretary*

L. P. J. Roy, *Deputy Secretary*

R. F. Archambault, *Personnel Officer*

C. H. Richardson, *Deputy Secretary*

A. J. Bawden, *Administrative Assistant*

Miss M. K. Rowland, *Personnel Officer*

Currency Division: P. B. Wooster, *Chief*
J. U. Ranger, *Deputy Chief*

Public Debt Division: F. M. Peters, *Chief*
H. W. Thompson, *Deputy Chief*

RESEARCH DEPARTMENT

W. E. Scott, *Chief*

R. W. Lawson, *Deputy Chief*

J. E. Howes, *Special Assistant*

G. S. Watts, *Special Assistant*

G. K. Bouey, *Assistant Chief*

B. J. Drabble, *Assistant Chief*

G. E. Freeman, *Assistant Chief*

SECURITIES DEPARTMENT

H. A. Benham, *Chief*

J. B. MacFarlane, *Assistant Chief*

H. G. Gammell, *Toronto Representative*

T. G. Boland, *Acting Montreal Representative*

FOREIGN EXCHANGE DEPARTMENT

W. A. Cameron, *Chief*

P. Watt, *Montreal Representative*

J. C. Fraser, *Toronto Representative*

AGENCIES

•

Calgary, Alta. . . .	F. J. Wilks, *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. . . .	W. D. T. Shortreed, *Agent*
Saint John, N.B. . . .	G. R. Bonner, *Agent*
Toronto, Ont. . . .	R. J. Lillie, *Agent* F. H. Ruhl, *Assistant Agent*
Vancouver, B.C. . . .	W. D. Farrell, *Agent*
Winnipeg, Man. . . .	G. A. Ivey, *Agent*

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