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Chairman Eccles

Canadian financing

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1. At the end of 1941 demand deposits of the chartered Canadian banks and currency in circulation outside of the Bank of Canada and the chartered banks totaled 1,640 million dollars. National income in the United States is about fifteen times that in Canada. In terms of the size of the United States this would be equivalent to 24.6 billion dollars. Actually the total for the United States was 48.5 billion dollars or roughly twice that of Canada when both countries are put on a comparable basis.

2. The reserve ratio of Canadian banks at the end of 1941 was 11.2 per cent. The reserve ratio of United States banks was 18.2 per cent. For reporting New York City banks it was 41.7 per cent.

3. Recently the Dominion Government offered 600 million dollars of a 12 year loan at a yield of 3.07 per cent and a 6 year loan at a yield of 2.25 per cent. These loans were sold in a campaign which lasted three weeks. Subscriptions totaled 980 million dollars, which would be equivalent to nearly 15 billion dollars for the United States. It is understood that subscriptions were allotted in full.

4. The increase in the Canadian debt from the beginning of the war to the end of last year amounted to about two billion dollars. In the same period the chartered banks increased their holdings of Dominion and Provincial securities by 329 million dollars or about 16 per cent of the increase in the debt. In the United States the interest-bearing direct and guaranteed debt increased by 16.7 billion dollars in the two years ended December 31, 1941, and commercial banks increased their holdings by 5.5 billion dollars or 33 per cent.

5. The support rendered to the market by the Bank of Canada is conditioned by the characteristics of the Canadian market, which is quite different from the United States Government security market. Trading is small in volume and is generally conducted at spreads of 1/4 to 1/2 point, and each transaction may take several days. Dealers keep the Bank of Canada informed as to offerings on their books. If the securities are pressing on the market or are being offered at a price below that of the previous transaction, the Bank of Canada or Government accounts will purchase the securities. From the beginning of the war to December 31, 1941, the Bank of Canada's holdings of securities increased by 445 million dollars, most of which was to offset a large increase in notes in circulation and the remainder to offset a decline in holdings of gold and foreign exchange and to add to the deposits of chartered banks. The average yield on intermediate and long Canadian securities has declined slowly from 3.16 per cent in January 1941 to 3.07 per cent in January 1942.

Note -- Most of the information in this memorandum was obtained from Mr. Kindleberger, Mr. Robinson, and Mr. Longstreet.

