



CANADA

CANADIAN WEEKLY BULLETIN

INFORMATION DIVISION • DEPARTMENT OF EXTERNAL AFFAIRS • OTTAWA, CANADA

Vol. 14 No. 2

January 14, 1959

CONTENTS

Gratifying Recovery In Economy.....	1	U.S. - Canadian Committee Meets.....	5
Top Year For TCA.....	3	New Cuban Govt. Recognized.....	6
New Feats For "Mounties".....	4	Canada's Population Up.....	6
Trans-Canada Vacation Highway.....	4		

GRATIFYING RECOVERY IN ECONOMY

In a speech to the Canadian Club of Toronto on January 5, Mr. Donald Fleming, the Minister of Finance, said that 1958 will be remembered as a year when recession was arrested and the underlying strength of the Canadian economy asserted itself in a gratifying recovery. Notwithstanding the setbacks - abnormal unemployment and soft spots in certain sectors of the economy - 1958 had been marked by important achievements, the Minister stated.

Mr. Fleming pointed out that 1959 begins with many early advantages over 1958. The domestic improvement is matched by an improvement in conditions in the United States and abroad which will undoubtedly benefit Canada.

The Minister termed the Canadian Conversion Loan operation the most successful financial operation in Canada's history. Explaining the background of the Conversion Loan, Mr. Fleming said that a decline in bond prices began in the United States in April 1958 and was followed by a decline in Canada.

He went on to say:

"By the end of June the market atmosphere was very unfavourable to new financing, yet the Government of Canada needed large sums of new money in the immediate future....Some way had to be found to reduce the heavy proportion of short-term bonds and increase substantially the proportion of long-term bonds.

"The five victory loans totalling \$6,416 million had ultimate maturity dates between January 1959, and September 1966. In addition, all these issues were callable on or

before September 1961. This prospect, in addition to non-victory loan maturities and the need for heavy new borrowings, made debt re-organization imperative, if a high degree of confusion and demoralization of the bond market was to be avoided and a sound basis created for financing Canada's expansion and development. The conversion of all five victory loan issues was more equitable, more efficient and less costly than a piece-meal approach.

"Fundamental to the project was the idea that it would be easier to sell the public long-term bonds in exchange for bonds which they already held, than to sell them long-term bonds for cash. The prospective cash requirements of the Canadian Government for several years ahead were also a major consideration. It was urgently important to improve the Government debt structure, to reduce the overhang of refinancing which would have to be done in addition to new money financing, and to put as much of the Government's debt as possible on a long-term basis.

"The terms of the Conversion Loan were developed on the best advice, having regard for the objective, the erosion which had occurred in the market and the measures necessary to attract public investment in the long-term sector. The Conversion Loan was an overwhelming success. A total of more than \$5,803 million, or more than 90 per cent of the outstanding victory bonds, was converted....

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