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THE GENERAL FINANCIAL SITUATION

The manner in which absorption is taking place of the important series of bond issues by provincial and municipal authorities, which have been placed on the Canadian market during the last two months, is decidedly satisfactory. Evidently, commitments entered into in connection with the flotation of the Victory Loan, by no means exhausted the investment capacity of many Canadian institutional and private capitalists. The terms on which these issues have been placed, some $20,000,000 during the last two months, are, of course, exceedingly attractive. The latest offering, that of the Province of Saskatchewan, consists of $1,500,000 6 per cent. 20-year gold bonds, issued at 96.62 and interest, the yield to the purchaser being accordingly 6.3 per cent. This issue marks another stage in the upward trend of interest rates, prior provincial offerings having been confined to ten-year bonds. Taking into consideration the fact that the bonds have twenty years to run, the Saskatchewan issue has been spoken of as the cheapest provincial issue in Canada in the last thirty years. That may very well be. There are one or two further important issues to come, before the market is again closed down in preparation for the second Victory Loan, which is scheduled for the early fall.

It may be assumed that the life insurance companies have been active in the absorption of the recent bond issues. While the obligations they undertook in connection with the last War Loan were undoubtedly large, the high yields on irreproachable security accruing from investment in some of the recent issues, made an effort to secure substantial holdings decidedly worth while. In this connection, the life companies have an important advantage over other institutional investors. Owing to their freedom from the Dominion income tax, except as regards shareholders' funds, they are able to reap the full advantage of present-day high interest yields. As on a six per cent. investment, this freedom from income-tax means practically a quarter of one per cent., and next year nearly three-eights of one per cent., this advantage is no mean one when large amounts of investment funds are in question. Such an advantage helps to offset the disabilities imposed upon the companies in various ways as a result of the war, notably through the enhanced death-rate.

Meantime, preliminary conferences have already taken place at Ottawa regarding the flotation of the next Victory Loan. The figure of $500,000,000 which has been mentioned as the objective to be aimed at, is, of course, quite an unofficial guess. But in view of the fact that last time the $400,000,000 mark was left well behind, $500,000,000 is a possible objective for those in charge of the Dominion-wide organization which will be again necessary. In some financial quarters lately, a certain amount of doubt has been expressed as to whether the forthcoming loan will carry **in toto** the valuable privilege of freedom from all Dominion taxation, including income tax, attaching hitherto to Canada's war loans. Probably the feeling of uncertainty in this connection, and the recent raising of the level of the Dominion income tax, have had some effect in stimulating the demand for long-term Victory Loan bonds. It is likely enough that pressure in favor of the abolition of the privilege of freedom from the income tax, or at least its restriction, say, for a certain term of years, or to the normal tax only, will be brought to bear at Ottawa by radical elements. But so powerful a stimulus to ample subscriptions is not likely to be lightly discarded by the Dominion Minister of Finance. Restrictions of that kind are more likely when the end of the war is really seen in sight, and a limit to the Government's use of borrowed funds appears. On the other hand, at this distance, it does not seem that the Government's terms for the forthcoming loan are likely to be more notably generous than on the last occasion. As in Great Britain the rate of interest for domestic war borrowings has been established for some time past at 5 per cent., so it appears not improbable that the corresponding rate in Canada will remain fixed at around 5½ per cent.

While New York exchange continues markedly adverse to Canada, factors making for its gradual rectification are taking shape. The most discussed of these, the recent Order-in-Council forbidding various imports, is probably not the most important of these factors. Estimates are made that this step will result in the cutting down of imports by from $12,000,000 to $15,000,000 annually—a very moderate amount. It is evident that in this matter of prohibition of imports, the Ottawa authorities are proceeding warily, with a view to the disarrangement of Canadian trade and business as little as possible. One factor of rising importance in connection with exchange, of

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