

Bond Purchases

The return of public confidence has been striking. The public's willingness to purchase government bonds is in the last analysis the best test of its confidence. In 1955 the general public's holdings of Government of Canada securities were about \$9 billion; by mid-1958 they had fallen to less than \$8 billion. Today the public's holdings of our bonds exceed \$10.75 billion, an increase of \$2.75 billion in fifteen months. In other words, in fifteen months the public's holdings in Canada Bonds have risen by 35 per cent. Moreover, the public has in the same period increased its holdings of other Canadian securities, whether provincial, municipal or corporate by another billion dollars. This increase is in part a reflection of the more attractive interest rates prevailing, but it also demonstrates unmistakably the growing public confidence in the Government's determination to resist inflationary pressures and to defend the value of our national currency.

The return of confidence in the bond market enabled the chartered banks to finance the enormous demand for commercial credit by the sale of their holdings of Canada Bonds in exchange for new savings of the public. Accordingly they disposed of over \$1 billion of Government of Canada Bonds to meet commercial credit requirements which during the first nine months of last year rose by 25 per cent and have remained at a level about 15 per cent higher during the last three months. The extraordinary demand for bank credit arising out of expansion, the heavy selling of government bonds by the banks and the increase in net new borrowings through the sale of securities combined to exert a strong upward pressure on the structure of interest rates in 1959. This was not just a Canadian phenomenon; the United States experienced a similar pressure on credit and a corresponding rise in interest rates.

As we all know, the demand for capital associated with expansion, together with the reluctance of many borrowers to utilize the capital market, placed a heavy strain on the resources of the banking system and in the spring and summer of last year the banks, acting on their own responsibility, were obliged to impose credit restrictions.

The restraints imposed by the chartered banks on the growth of overall total bank credits and their more selective policy of lending appears to have brought about a more orderly situation within the banking system. In the last three months, for various reasons, the banks have not been fully utilizing the funds available to them as a result of their reduced lending activity, and thus both their cash reserves and their overall liquid position have been maintained at levels well above the required ratio.

One consequence of these policies on the part of the banks has been to enable them to re-enter the market as purchasers of government issues. As a result the pressures on the market for short-term bonds and treasury bills have diminished. Interest rates