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# The Canadian Conversion Loan of 1958 and its Aftermath

15 pages

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From July 14 to September 15, 1958, the Canadian Government carried out the largest single debt-management operation in its history -- the Conversion Loan of 1958. The decision to undertake such a massive debt lengthening scheme was taken very suddenly and the necessary detailed procedures were mapped out in a few short weeks. A number of factors combined to persuade the authorities to attempt their bold refunding campaign. First was the fact that a large portion of the total marketable debt consisted of five Victory Loan issues put out during World War II and due to mature at various intervals between 1959 and 1966. Because each of these issues carried a 3 per cent coupon and was widely distributed among small investors, it was more expedient to include them all in a single conversion offer rather than attempt to convert only the shorter-term issues. In this way, all wartime purchasers of outstanding Victory bonds would have the same opportunity for converting into new securities on favorable terms. In the second place, the Government's record peacetime cash deficit, combined with the large refunding requirements of the next several years, promised to strain the capital market severely unless the Bank of Canada allowed the money supply to expand to a dangerous extent. Finally, the recently demoralized bond market gave no convincing clues as to the level at which new long-term issues could be successfully floated. On both political and economic grounds, therefore, a giant campaign to persuade investors to exchange their near-maturity holdings for longer-dated bonds was judged superior to a piecemeal refunding process.

The Conversion Loan succeeded in shunting \$5.8 billion out of \$6.4 billion of eligible Victory loan bonds into longer-term maturities. But at the same time, it involved a large scale monetization of government securities by nonbank investors; an immediate "conversion cost" to the Canadian Treasury of \$72 million;1/ and increased interest payments by the Federal Government for the next two or three years of \$58 million a year.2/ The question of whether the results achieved were worth the costs incurred has recently been revived in the Canadian Parliament.3/ Spurred by the current record levels of Canadian money market and bond yields both opposition parties have attacked the Government's initiative in undertaking the conversion loan. According to these critics the conversion loan:

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1/ Of this amount \$43 million was for "cash adjustment payments" to investors who converted; \$27 million for issuing fees and commissions paid to bond dealers; and \$2 million for advertising and administrative costs.

2/ In the long run, however, the operation may have reduced the total carrying charges on the Canadian national debt.

3/ See House of Commons Debates, Official Report, April 27, 1959, pages 3063 to 3099.

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(1) "Materially reduced the capacity of the Bank of Canada to carry out open market operations in short-term securities";

(2) Duped "less experienced investors into lending their savings at rates which subsequently have been shown to bear no relation to the real market value," while furnishing a windfall to market professionals;

(3) Led to an "undue expansion of the money supply";

(4) Increased the long-term bond portfolio of the Bank of Canada to such an extent that the Bank's long-term holdings "are a dead weight overhanging the market" and ". . . undermining confidence in the stability of long term bonds . . ."; and

(5) "Saddled this country with a base interest rate of some 4-1/2 per cent for the next 25 years."

These charges represent an attempt to make the present Canadian Government "responsible" for the rise in interest rates and the concomitant fall in the prices of outstanding government bonds since the Conversion loan. The political motivation behind the opposition parties' charges is obvious; nevertheless, they do prompt a reconsideration of the Government's claim that the Conversion was a great success.

## The conversion's economic and financial background

When the conversion operation was suddenly announced on July 14, 1958, Canada possessed a large quantity of unemployed resources. The petering out of the investment boom in her raw materials exporting sector together with the near completion of several big investment projects, i.e., the St. Lawrence Seaway, the trans-Canada pipeline and various public utility expansion programs, had left a wide margin of idle labor and capital equipment. This margin existed in spite of the Government's spending increases and tax cuts which in the first half of 1958 had succeeded in maintaining and even in raising consumer incomes and had generated an unprecedented expansion in low income housing. Assisted by this program, economic activity declined by less and began to recover sooner than in the United States. Nevertheless, in mid-July, there was no clear indication that jobs in Canada would increase sufficiently to ensure a satisfactory level of employment in the next 6-12 months.

In view of the existing slack in the economy as well as the uncertain prospect for a rapid improvement in the near future, a debt management policy designed to increase the private sector's liquidity, reduce interest rates and encourage consumer and investment spending would have had short run attractions.

But to have adopted this sort of policy would have been to overlook developments in the Canadian bond market. In April 1958, a new $950 million government issue for delivery on May 1 was, in effect, rejected by nonbank investors who refused to add to their portfolios of government securities on the terms offered. Although a good portion of the long-term bonds in the new issue1/ were bought by nonbank investors, the latter's total holdings of marketable government securities fell by $100 million in the two months following the new issue. The market's behavior dampened the Bank of Canada's hope that the federal deficit would be financed outside the banking system. In Canada, as in the United States, expectations of heavy federal borrowing coinciding with business recovery, a renewed concern over a shrinkage in the real value of the dollar, and apprehension over the effects of central bank action to limit future inflationary pressures all tended to weaken the bond market.

The market's changed attitude2/ forced the Bank of Canada to enable the chartered banks to absorb the new issue. Consequently, in the second quarter of 1958 the Bank increased its own holdings of government securities by $133 million. This action allowed the chartered banks to buy large amounts of short- and medium-term issues on tradeouts from the general public and also to purchase the greater part of the new May 1 issue. As a result, the Canadian money supply (including savings deposits) rose by $562 million or at an annual rate of 20 per cent in the second quarter of 1958.

## The details of the conversion offer

Convinced that market conditions precluded the successful sale of new long-term bonds and concerned over the inflationary danger of financing the deficit by security sales to the banking system, the authorities decided upon a massive conversion operation. Its aim was to remove the heavy concentration of near-maturity government issues and so clear the short end of the market for new cash issues during the next 12 to 24 months. The conversion gave investors the opportunity to exchange five Victory bond issues maturing during the next eight years into four longer issues maturing over the next 25 years. The scale of the operation is revelaed by the fact that issues eligible for conversion amount to 55 per cent of Canada's marketable debt.

The conversion terms offered were quite generous. Yields on the two shorter conversion bonds maturing in 3-1/4 and 7 years

1/ The new issue was dividedinto $200 million of 14-month bonds, $400 million of 3-year bonds, $200 million of 12-year bonds and $150 million of 20-year bonds. Six hundred million of the new issue was to refund maturing debt.

2/ From October 1957 until mid-April 1958, the nonbank market for government bonds was strong. (See Bank of Canada, Annual Report for 1958, page 24.)

were close to market yields at the time of the conversion announcement, but yields offered on the two longer conversion bonds, to mature in 14 years and 25 years, were about three-eighths of one per cent above existing market rates. In addition, investors who exchanged for the new bonds received an immediate tax free cash adjustment payment in most instances. These bonus payments were designed to encourage the investor to go long on his exchange. Thus an investor exchanging a $1,000 Victory bond maturing in 3 months for a $1,000 Conversion bond maturing in 3-1/2 years received a bonus of $9.90, but if he exchanged for a Conversion bond maturing in 7, 14 or 25 years his bonus amounted to $19.90.1/

Commissions paid to bond dealers were also designed to bring about a maximum shift into the longer-term issues. For example, for handling a conversion into the new 3-1/4 year issue the Government paid a commission of only one-quarter of one per cent but for the new 25 year issues where, as the Minister of Finance put it, "the harder selling is," it paid a commission of one per cent.2/

No energy was spared in advertising the conversion. Investors were urged to convert both because it was in their self-interest and because it was an act of patriotism which would "mean the achievement of a great Canada." The Prime Minister and the Minister of Finance made nationwide television and radio appearances explaining and boosting the operation; full page newspaper advertising and numerous spot appeals on radio and television were employed, and a separate mailing was made to every household in Canada.

## Technical problems posed by the conversion; their "dual market" solution

The magnitude of the conversion operation and the large Victory holdings of a relatively few institutional investors presented certain difficulties. First, there was the problem of avoiding a chaotic bond market. Large institutions could not, in equity, be denied the option of selling their Victory holdings for cash or of buying Victories for conversion purposes. But to allow them to do this in a "free" bond market was, it was thought, to run the risk of violent oscillations in bond

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1/ These sums do not include the spot payment of accrued interest for any Victory bonds which the investor decided to convert. The new conversion issues were all dated and paid interest from September 1, 1958.

2/ For conversion into the new 7-year issue the commission was one-half of one per cent and for the new 14-year issue it was three-fourths of one per cent. Commissions for the conversion of holdings of large institutions, placed on a special list, were one-half of one per cent for the three longer conversion issues, and one-fourth of one per cent for the 3-1/4 year issue.

prices. Sales of Victories for cash by a large institution might lead to a snowballing downtrend in bond prices which might suddenly be reversed by extensive purchases by some other institution.

Secondly, there was the commission problem. To allow the same commission rate for the conversion of all holdings would have been inequitable because dealer costs were sure to vary inversely with the size of the holding converted. It would have been possible, of course, to set up a schedule varying commissions inversely with portfolio size, but this would still have permitted competition for the conversion of large holdings and encouraged under-the-counter deals between managers of large portfolios and individual dealers.

To eliminate the risk of large day-to-day movements in bond prices and to avoid cutthroat dealer competition, it was decided to adopt an "exempt list" arrangement. Made up in advance of the conversion operation, the "exempt list" was composed of some 1,200 investors who were thought to be relatively large holders of Victory bonds. By agreement between bond dealers and the Bank of Canada, all conversion transactions with names on the list had to be made through representatives of a National Committee of Bond Dealers. The commissions received for such conversions were prorated among dealers according to a preagreed formula.

Individual dealers were allowed to sell Victory bonds to exempt list institutions provided the latter agreed to convert their purchases. However, if an exempt list institution desired to sell some or all of its Victory bonds, it had to deal with representatives of the National Committee and could make the sale only at a fixed price.1/

The upshot of these arrangements was the creation of two separate markets for Victory bonds. In one market, potential sellers consisted exclusively of the exempt institutions and there was only one buyer, the Bank of Canada. Prices in this market were fixed. In the second market, the sellers were all other holders of Victory bonds and the buyers included the exempt list institutions as well as all other interested parties. This second market was a "free market" in that the Bank of Canada did not attempt to determine its transaction prices.

1/ Fixed in advance of the actual conversion operation by agreement between the authorities and representatives of the bond dealers association. Apparently, the Bank of Canada stood ready to absorb any such sales from the National Committee at these prearranged prices, which were to be unchanged throughout the conversion. It is not clear whether or not the Bank also stood ready to sell at these prices.

The rationale for pegging bond prices during the conversion

Immediately after the conversion announcement, the free market price of Victory bonds appreciated sharply because of the benefits which their ownership conferred. In the next week, however, the already faltering United States bond market went into an even more severe decline making the conversion offer appear less attractive than it had seemed initially. Consequently, there was a reduction in the appreciated values of the Victory issues sold on the "free market."

This development discriminated in favor of exempt list investors since the fixed price at which they could sell their bonds exceeded the free market price at which others had to sell. Exempt list investors who wanted to convert found it profitable to sell their Victories for cash at the pegged price and then, after waiting until they believed the free market price had reached its lowest level, to buy Victories on the free market for conversion.1/ Besides favoring large investors, this situation "was increasingly causing delays in conversion as some investors held off to see if they could obtain better terms. . . ."2/ This situation was corrected on August 7 when the Bank of Canada undertood "to make markets in all maturities of government securities".3/ From this time to the end of the conversion, the Bank pegged all Victory issues at prices which made the "free market" prices of Victory issues equal to the prices that had been set for sales by exempt list investors.

The Bank's action had the effect of stabilizing the entire Canadian bond market -- both government and nongovernment issues -- at a time when bond prices in the U.S. were declining sharply. Investors who believed that the Bank of Canada would be unwilling to continue its supporting operations after the conversion ended and who believed that the Bank's withdrawal would lead to a sharp downward adjustment in Canadian bond prices thus had a great incentive to move from bonds into cash. The continued decline of the U.S. market as the conversion progressed heightened this incentive.

As a consequence the Bank of Canada's support operations led to a rapid monetization of the general public's holdings of government bonds. To reduce the inflationary effect of its Victory bond purchases,

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1/ These purchases by exempt list investors on the free market tended to raise free market prices to the levels set on the fixed market. But this effect was not strong enough to remove the price disparity.
2/ From a statement by the Minister of Finance in Parliament. See House of Commons Debates, Official Report, September 4, 1958, page 4601.
3/ Bank of Canada's Annual Report for 1958.

the Bank made large sales of Treasury bills but these sales only succeeded in partially offsetting its net purchases of bonds.

Central bank support of the bond market did not disappear immediately after the end of the refunding in mid-September. Indeed, net purchases by the Bank and Government accounts together in the week ending September 24 were larger than during any single week's net purchases during the operation itself. In October, however, total security sales by the Bank and Government accounts equaled total purchases. As a result of this withdrawal of support, most Canadian bond yields during October gradually moved upward to recover their usual margins over comparable United States yields. The adjustment back to a "free market" was completed on November 5 when the Bank withdrew its standing bid prices for the two longest-term conversion bond issues and, in response, the market prices of these two issues fell 2.3 per cent and their yields rose by 18 basis points in a single week.

The formal results of the Victory Loan

In spite of the volume of the Bank's net security purchases, the conversion succeeded in substantially lengthening the average maturity of the marketable government debt held by the general public. As the last line of Table 1 indicates, this lengthening amounted to 6 years, 9 months which is a considerable achievement from a debt-management point of view.

The issue-by-issue transfer of short-term Victory bonds into longer-term issues accomplished by the conversion operation is shown in Table 2. These "official results" of the operation, which disregard the shift that occurred during the period in the ownership of the public debt, have been well summarized as follows:

> In the two-month campaign over 90 per cent of the $6,416 million of eligible issues were converted, clearing away $900 million of bonds maturing in 1959, $1,100 million maturing in 1960 and a further substantial amount in the immediately succeeding years. More than $3,500 million of the Victory Loan maturities was shifted out to 1972 and 1983. The average maturity of the Government's marketable securities outstanding was increased from 6 years and 2 months to 10 years and 7 months in the period from July 15th to September 15th.1/

1/ Bank of Canada, Annual Report for 1958, page 28.

Economic recovery since the conversion

From the latter part of June, when the conversion was first contemplated, through October 1958 (a month after it ended) Canadian economic activity remained relatively sluggish. Since November, however, a rapid and continuous improvement has occurred. Industrial production, seasonally adjusted, rose at an average rate of 1.4 per cent a month in the four months from October 1958 through February 1959; at the same time unemployment, seasonally adjusted, fell from 7.9 to 5.7 per cent of the labor force.1/ An exceptional demand for general bank loans in March and April together with a variety of business reports indicate that this improving trend in output and employment has continued to the present.

Consumer spending has been the leading force behind the recovery. Acceptance of the 1959 auto models has been particularly good and purchases of appliances and heavy household goods, stemming partly from the housing boom sustained since later 1957, have also been heavy. In addition, the recent growth of bank loans suggests that business inventories, whose depletion was a major factor in the recession, are once more being built up.

Monetary developments since October 1958 -- According to Governor Coyne, "By early October (1958) a sufficient degree of expansion of the money supply had taken place to make possible the financing not only of full recovery from the recession but of a considerable degree of renewed economic growth thereafter."2/ Bank of Canada operations since October have faithfully reflected this view. In spite of the continuing expansion of the Government's funded marketable debt, amounting to $470 million from September 30, 1958 to May 20, 1959, the money supply, including savings deposits, has actually been reduced by $78 million.

Restraining the money supply in this way in the face of a continuing government debt expansion and a growth of chartered bank loans has meant that the general public has had to be induced to make large additions to its government security holdings. The price required to bring this about has been a rapid rise in market rates of interest, especially at the short end of the market where pressure exerted by the Government's postconversion borrowings and chartered bank security sales to accommodate their increased loan demand has been concentrated. Table 3 illustrates the more rapid rise in interest rates in Canada than in United States for all maturities in this period.

The government securities which have been absorbed by the general public since the end of the conversion have come from four sources.

1/ By mid-March, seasonally adjusted unemployment was down to 5.5 per cent of the labor force.
2/ Bank of Canada, Annual Report for 1958, page 5.

These are (a) the Government's supply of new securities to finance its deficit; (b) sales on the open market of securities held by the government accounts, (particularly the unemployment security fund); (c) sales by the Bank of Canada; (d) sales by the chartered banks. The magnitude of the net sales to the nonbank public from each of these sources is shown by Table 4. From the end of September 1958 through April 1959, the Government's total marketable debt increased by $280 million; at the same time, government accounts sold (net) $291 million in securities, the Bank of Canada sold (net) $106 million, and the chartered banks sold (net) $655 million. Holdings of nonbank investors, as a result, rose by $1,332 million in this 7-month period.

In April, as Table 4 shows, the chief direct source of pressure on the market was the very large volume of security sales by the chartered banks which were faced with a surging demand for loans. Reportedly, by early May the banks had liquidated nearly all of their short-dated government bonds. Because sales of longer-term issues would lead to significant capital losses, the banks announced in mid-May their joint intention to avoid "any significant further increases in the over-all total of bank loans."[1] As the 6 per cent maximum which the banks may legally charge for loans leaves a large margin of demand by credit-worthy borrowers, the banks have a severe credit rationing problem which will intensify if economic conditions continue to improve.

## The conversion operation in retrospect

The claim that the conversion was a "success" rests on the belief that the debt-management problem of the Canadian Government has been appreciably eased by the lengthening of the debt's maturity distribution which was achieved. Even with the reduction in the Government's refunding needs, bond prices have dropped rapidly since October. However, if there had been no refunding it seems likely that a still greater weakening would have occurred. Whether this weakening would have been intolerable is a question which by its nature cannot be given a firm answer.

The main grounds on which the conversion operation seems vulnerable to criticism are: (a) that the basic decision to peg the bond market was an error; (b) assuming that a pegging policy was required by the nature of the market, that the authorities misjudged appropriate support levels; and (c) that longer-term issues were supported for an excessive period after the refunding. As we have seen, the guarantee of fixed prices for sales by exempt list institutions led the authorities to fix prices for all investors. When bond prices

1/ From a statement by Ulric Roberge, President of the Canadian Bankers Association, as reported in the Canadian Daily News Summary, May 15, 1959.

in the United States weakened further during and immediately after the conversion, the prices set for Victories by the Bank became increasingly unrealistic. Had the Bank's purchase prices been varied to suit changing market conditions, much of the monetization that occurred might have been avoided.

The continued support of the two longer-term conversion issues for six weeks after other bond prices had been permitted to move freely has never been officially explained. As the passage below hints, the authorities, at one point, may have hoped that they could continue to support these particular issues for a lengthy period with no harmful results. If this hope did exist it was soon dashed by market developments:

> ". . . by the beginning of November the strong downward movement of other bond prices . . . made it clear that the prices of the long-term Conversion issues could not be maintained at prevailing levels without a dangerous degree of monetary expansion and central bank purchases were discontinued."1/

Of the specific criticisms listed in the beginning of this paper, only the first three need be taken seriously. The first, which claims that the refunding crippled the Bank of Canada's ability to carry out open market operations has been effectively refuted by the way in which, since the refunding, the Bank has rebuilt its Treasury bill portfolio and yet managed to keep the chartered banks from increasing their total assets. This claim is further weakened by the consideration that from a mechanical point of view, the Canadian Treasury could always have provided the Bank with short-term securities by means of internal debt transactions.

The second charge worth serious consideration is more difficult to refute. It argued that the Government's promotion campaign and the central bank's support operations had the joint effect of inducing less experienced investors to convert at a time when market professionals were astute enough to remain liquid. In defense, it could be argued that a security buyer always faces the risk of a capital loss on his investment; and that no one could be certain that bond prices would fall after the refunding. Nonetheless, there is evidence that small investors did not appreciate the significance of the narrowing gap between Canadian and United States bond yields during the refunding.

The third criticism which indicated that the conversion led to an undue expansion of the money supply has been admitted by the Governor of the Bank of Canada.2/ Since the conversion ended, however, the firm

1/ Bank of Canada, Annual Report for 1958, page 31.
2/ *Ibid.*, page 4.

policy of the Bank has not permitted any additional increase either in the total assets of the banking system or in the quantity of money. If this policy is maintained and output continues to rise, a steadily increasing quantity of money will be absorbed for transactions purposes; and the excess liquidity injected during the refunding will be absorbed.

A final related criticism of the operation is that it failed to reduce the highly liquid position of the chartered banks. During the refunding, the banks were careful not to shift their Victories into the longer-germ conversion issue; after the refunding, they were substantial sellers of long-dated government issues. They were thus in a good position to meet the rise in loan demands that has occurred since December 1958.

Since last fall, however, the banks have steadily run down their liquidity by selling Treasury bills and short-dated bonds to expand their loans. By May 6, 1959, the banks' ratio of liquid assets to deposits was 15.6 per cent1/ compared to a ratio of 17.7 per cent for the month of October 1958. In addition, bond sales in this same period reduced their ratio of government bonds to total deposits from 23.0 per cent down to 19.4 per cent.2/ This reduced liquid asset ratio and virtual liquidation of near-dated bonds led the banks in early May to announce their intention of keeping their loans from expanding further. This announcement reveals the taut control which the Bank of Canada now possesses over the volume of bank loans as well as over the total money supply. In the 1955-57 boom, the Bank did not achieve this degree of control until the middle of 1956; a much later phase of the cycle than Canada appears to have reached at the moment.

1/ The banks have an agreement with the central bank to maintain a minimum 15 per cent ratio of liquid assets to deposits. Liquid assets for this purpose are defined as deposits with the central bank, Treasury bills, and day-to-day loans.

2/ At the postwar low point at the end of 1956, bonds were only 15.0 per cent of total bank deposits.

Table 1

Government of Canada Direct and Guaranteed Securities held by Nonbank Investors

(In millions of dollars)

| | As at Dec. 31 1958 | Increase or Decrease (-) during: 1958 1Q | 2Q | 3Q | 4Q | Year 1958 | Year 1957 |
|---|---|---|---|---|---|---|---|
| Treasury bills | 415 | - 50 | -- | 80 | 95 | 125 | 4 |
| Other market issues | | | | | | | |
| 2 years and under | 993 | -114 | 228 | - 891 | 528 | - 249 | 135 |
| Over 2 & up to 5 years | 413 | - 4 | -397 | - 484 | - 42 | - 927 | 356 |
| Over 5 & up to 10 years | 693 | - 60 | 150 | -1,321 | - 46 | -1,277 | -643 |
| Over 10 years | 3,559 | 317 | -116 | 2,180 | - 26 | 2,355 | - 32 |
| Total market issues (bonds & Treasury bills) | 6,073 | 89 | -135 | - 436 | 509 | 28 | -180 |
| Canada Savings Bonds | 2,895 | - 93 | - 85 | - 84 | 508 | 246 | 108 |
| Total | 8,968 | - 4 | -220 | - 520 | 1,018 | 274 | - 73 |
| Average maturity of market issues held | 13 yrs. 4 mos. | +11 mos. | +2 mos. | +6 yrs. 9 mos. | -1 yr. 6 mos. | +6 yrs. 4 mos. | -6 mos. |

Source: Bank of Canada "Annual Report of the Governor to the Minister of Finance," for the year 1958, page 30.

Table 2

Results of Conversion Loan1/

(Par values in millions of dollars)

| Issues eligible for conversion2/ | Converted to: 3% Dec. 1 1961 | 3-3/4% Sept.1 1965 | 4-1/4% Sept.1 1972 | 4-1/2% Sept.1 1983 | Residual unconverted | Total |
|---|---|---|---|---|---|---|
| 3% Jan. 1, 1956-59 | 654 | 94 | 58 | 100 | 42 | 947 |
| 3% June 1, 1957-60 | 366 | 447 | 172 | 133 | 46 | 1,165 |
| 3% Feb. 1, 1959-62 | -- | 726 | 238 | 298 | 54 | 1,316 |
| 3% Oct. 1, 1959-63 | -- | -- | 489 | 584 | 223 | 1,296 |
| 3% Sept. 1, 1961-66 | -- | -- | 410 | 1,037 | 245 | 1,692 |
| Total | 1,020 | 1,267 | 1,367 | 2,152 | 610 | 6,416 |

1/ Possibly subject to minor revision when final reconcilliations are complete.
2/ The 1962 issue of Victory Bonds was not eligible for exchange into the shortest Conversion issue and 1963 and 1966 Victory Bonds were not eligible for conversion into either of the two shortest Conversion issues.

Source: Bank of Canada "Annual Report of the Governor to the Minister of Finance," for the year 1958, page 28.

## Table 3

### Recent Yields on Comparable Canadian and U.S. Government Securities

(Per cent per annum)

| | Jan. 25, 1958 | Sept. 10, 1958 | Dec. 31, 1958 | Feb. 25, 1959 | May 20, 1959 |
|---|---|---|---|---|---|
| 91 day Treasury bills 1/ - Can. | 1.72 | 1.94 | 3.49 | 4.07 | 5.05 |
| U.S. | 1.01 | 2.36 | 2.69 | 2.59 | 2.87 |
| Difference | 0.71 | -0.42 | 0.80 | 1.48 | 2.18 |
| 2 to 2-1/2 year bond 2/ - Can. | 3.28 | 3.02 | 4.56 | 5.00 | 5.37 |
| U.S. | 1.87 | 3.23 | 3.14 | 3.47 | 3.77 |
| Difference | 1.41 | 0.21 | 1.42 | 1.53 | 1.60 |
| 8 to 9-1/2 year bond 3/ - Can. | 3.53 | 3.64 | 4.48 | 4.71 | 4.90 |
| U.S. | 2.88 | 3.67 | 3.94 | 3.84 | 4.32 |
| Difference | 0.65 | -0.03 | 0.54 | 0.87 | 0.58 |
| 20 to 21 year bond 4/ - Can. | 3.89 | 4.09 | 4.42 | 4.54 | 4.89 |
| U.S. | 3.27 | 3.79 | 3.83 | 3.85 | 4.09 |
| Difference | 0.62 | 0.30 | 0.59 | 0.69 | 0.80 |

1/ Average of tender rates at date nearest Wednesday shown.
2/ Canada 3 per cent December 15, 1960. U.S. 2-1/8 per cent November 16, 1960.
3/ Canada 2-3/4 per cent June 15, 1967-68. U.S. 2-1/2 per cent December 15, 1963-68.
4/ Canada 3-1/4 per cent, October 1, 1979. U.S. 3-1/4 per cent June 15, 1978-83.

Table 4

Changes in the Government of Canada's Marketable Funded Debt

(Millions of Canadian dollars, par value)

| | Total market debt | Held by: Bank of Canada | Government accounts | Chartered banks | General public |
|---|---|---|---|---|---|
| 1958 - I | +198 | - 25 | - 80 | +214 | + 89 |
| II | +318 | +133 | -158 | +478 | -135 |
| III | +392 | +176 | + 92 | +560 | -436 |
| IV | + 97 | - 77 | + 37 | -373 | +510 |
| 1959 - I | +186 | - 66 | -312 | - 12 | +576 |
| April | - 3 | + 37 | - 16 | -270 | +246 |