

in 1975. Private non-financial corporations raised \$8.3 billion in net funds using conventional market channels, 40% higher than in 1975. Several factors contributed to the rise in the amount of external funds raised by this sector. These include: slow growth in internally generated funds in a number of industries, a large build-up in inventories early in the year, a continued need for balance sheet restructuring and building up of corporate liquidity and the removal of the withholding tax on certain funds raised abroad. Non-financial corporations in Canada tended to rely more heavily on external finance than had been the case in the United States over the previous three years. As a result the balance sheet positions of corporations in the United States would appear to be stronger than those of Canadian non-financial corporations in the sense that portfolio restructuring appears to have been both more intensive and extensive in the United States. The trend toward longer-term forms of financing, which began in Canada late in 1974, was accentuated in 1975 and continued in 1976. Borrowing by the non-financial private corporate sector was less heavily slanted toward longer-term forms of financing in 1976 than it was in 1975. The increase in shorter-term debt incurred by this sector, however, was in part associated with a heavy build-up of inventories in the first quarter, and appears to have been but a temporary relapse in the general trend toward longer-term forms of borrowing.

Government borrowing. The government sector reduced its demands for funds in both absolute and relative terms from the amount raised in 1975. Excluding funds raised through the social security system the government sector raised \$8.0 billion in 1976, down from \$8.9 billion in the previous year. Borrowing by the associated enterprises of government, however, increased from \$4.0 billion in 1975 to \$6.3 billion in 1976. Much of this borrowing was done by provincial utilities in foreign capital markets.

Mortgages and consumer credit. Other major centres of borrowing activity were the mortgage market and the market for consumer credit. Borrowing in the form of mortgages by the non-financial sectors of the economy increased by 11.7% to \$9.5 billion from \$8.5 billion in 1975. Consumer credit accounted for slightly over 10% of total borrowing by the domestic non-financial sectors and amounted to \$3.8 billion. The ratio of personal sector debt to personal disposable income has drifted upward in recent years, reflecting higher housing prices and associated larger mortgages.

Supply of funds. In 1976 the most noticeable shift in the roles played by suppliers of funds was the large increase in the volume of long-term funds provided by the rest-of-the-world sector. Funds supplied by the foreign sector in the form of conventional financial instruments increased by more than 93% between 1975 and 1976 when a flow of \$10.5 billion was recorded. The proportion of total funds provided by the rest of the world increased from 7% in 1974 to 15% in 1975 and to 25% in 1976. Domestic private financial intermediaries assumed increased importance as conduits for credit flows from the previous year. During 1976 approximately \$30 billion representing over 63% of total funds supplied was channelled through the domestic financial intermediary system with the deposit accepting institutions accounting for the bulk of the increased flow. The volume of funds supplied by public sector financial institutions remained essentially unchanged from 1975 at \$2.3 billion. The role of direct finance declined in 1976 relative to 1975 and financial asset accumulation by the private domestic non-financial sectors of the economy was highly concentrated in claims on financial institutions.

Foreign exchange markets. During the second half of 1975 a number of observers expected downward pressure on the Canadian dollar early in 1976. As it turned out the downward pressure originating in the current account of the balance of payments was more than offset by large capital flows. As a result there was upward pressure on the spot value of the Canadian dollar over much of the year. There was, however, an abrupt downward adjustment in the fourth quarter.