investment owned in other countries, which rose to 7%. Foreign-controlled investment in Canadian non-financial industries declined to 33% from 34% in 1973. Between 1971 and 1974 there were successive declines of one percentage point annually in the proportion controlled by non-residents. Projections of the ratios of foreign control indicated, however, that they would remain at 33% for 1975 and 1976.

Financial activity in Canada, 1977

21.6

The total volume of funds raised by the domestic non-financial sectors of the Canadian economy increased substantially in 1977 with close to $45.7 billion raised, an increase of 11.9% over 1976. Despite the large increase in the demand for credit, recourse to foreign capital markets by Canadian borrowers was markedly reduced from 1976. In 1977 the foreign sector accounted for 10.6% of total funds supplied, down from 24% in 1976.

In the public sector, borrowing by the federal government was well above the pace recorded in 1977 and increased use was made of treasury bill financing. Net borrowing by the provincial government sector declined but substantial demands on capital markets were made and a large increase in the financial assets of the sector occurred. Borrowing by the associated enterprises of government, however, was well below the 1976 flow.

During 1977 there was a definite shift toward long-term borrowing on the part of private non-financial corporations. Long-term borrowing accounted for over 60% of the total of funds raised by this sector via conventional credit market channels. Equity financing, particularly floating-rate preferred shares, was a prominent feature of corporate finance in 1977.

Mortgage flows accounted for approximately one-third of the total volume of funds raised by the domestic non-financial sectors, up from 27% in 1976, while the flow of consumer credit declined both absolutely and as a proportion of total funds raised by the household sector. Direct lending assumed heightened importance in 1977 compared to 1976. Associated with the tendency toward long-term finance, the proportion of total funds supplied with the chartered banks as intermediaries declined while the relative importance of intermediation by other private domestic financial institutions increased.

An easing in demand for short-term credit, plus efforts of the monetary authorities to stimulate the growth of the money supply in the first half of the year, combined to put downward pressure on short-term interest rates, which dropped approximately 105 basis points over the first six months of the year. In the second half of the year short-term interest rates fluctuated, over a basis points range of 50 in the case of finance company paper, and 20 in the case of three-month treasury bills. In the United States, however, short-term interest rates moved upward as demand for short-term financing increased. These movements in short-term interest in Canada and the United States led to a rapid narrowing of the short-term uncovered interest rate differential between the two countries. Long-term interest rates fluctuated within fairly narrow bands in both countries; however, the movements in long-term interest rates were, on balance, such as to decrease the attractiveness of foreign capital markets to Canadian borrowers.

A summary of the financial market for 1976 and 1977 is presented in Table 21.38. More detailed data for individual sectors and summary matrices are available in the quarterly Statistics Canada publication *Financial flow accounts*, Catalogue 13-002.

The anti-inflation program

21.7

The anti-inflation program was implemented in the fall of 1975 by the federal government with co-operation of provincial governments. Prices had been rising by more than 10% per year for two consecutive years; demands for compensation increases were accelerating to more than 20% per year in an effort to make up for past losses and ensure against further losses in the future.

A four-point anti-inflation program was implemented, entailing: fiscal and monetary policies aimed at increasing total demand and production at a rate consistent with declining inflation; policies aimed at limiting growth of government expenditures