

billion at the end of 1976. Direct investment continued to be the largest single component of foreign long-term investment in Canada at 53%, down from 58% at year-end 1975.

During 1976 portfolio transactions in Canadian securities gave rise to record net capital inflows of \$8.6 billion in the balance of payments. Foreign investment in government bonds increased 35% to reach \$20.6 billion at the end of 1976 with provincial governments and their agencies the most active borrowers, accounting for nearly \$16.8 billion, up almost \$4.4 billion from 1975. The spate of new issues abroad was spurred by substantial capital requirements by provincial utilities to finance large-scale developments as well as by a lower rate of interest abroad. Foreign placements of bonds by municipal governments were also quite large, increasing 31% to a level of \$2.7 billion at the end of the year.

Investors in the United States continued to provide most of the funds for Canada's bond issues, accounting for about \$4,882 million or 57% of the net increase, to hold \$21,666 million. UK residents held \$1,187 million in Canadian debt securities, a growth of \$310 million, while residents of all other countries absorbed \$3,255 million during 1976 to hold \$7,733 million.

Foreign investment in Canadian corporate portfolio investment increased by \$3.4 billion to \$13.5 billion at year-end 1976. Miscellaneous investment comprising such things as foreign investment in real estate, mortgages, private investment companies and assets administered for non-residents increased marginally to nearly \$3.6 billion.

Foreign long-term investment owned by US residents grew 14% to \$60.5 billion at the end of 1976. Direct investment, the largest component, rose 8% to nearly \$34.7 billion while holdings of government bonds advanced by 33% to nearly \$14.7 billion. Of these claims by US investors, the capital stock of Canadian companies at nearly \$28.3 billion comprised 47% while bonds and debentures, both government and corporate, represented 36%.

Long-term investment owned by investors in the United Kingdom rose 11%, to nearly \$6.3 billion in 1976. There was a sizable gain of 21% in government bonds held while direct investment grew 7% to \$3.9 billion. A breakdown of these liabilities to the United Kingdom by type of claim shows that about 61%, or \$3.8 billion, was in the capital stock of Canadian companies while only 19% was invested in bonds and debentures.

Investment owned in all other countries increased 42% to \$14.6 billion as investment in government bonds jumped 44% to nearly \$5.3 billion and other portfolio investment 115% to \$3.4 billion. A large number of new Canadian issues were sold in the Eurobond market in 1976. Several factors such as the temporary removal of the withholding tax on interest payments by corporations to non-residents on certain types of new issues, the high credit rating of the borrowers, and the high coupon rates offered made such issues highly marketable. Eurodollar rates in general were lower than Canadian bond yields and the registration requirements less costly to fulfil than those faced by borrowers in the United States. By type of claim, investment in bonds and debentures at \$7.7 billion comprised 53% of the total investment from this group of countries while investment in the capital stock of Canadian companies at nearly \$4.1 billion was 28%.

Long-term investment in manufacturing grew 11% to nearly \$20.5 billion at the end of 1976. Within manufacturing the largest increases were registered by iron and products, chemicals and allied products and non-ferrous metals. Investment in petroleum and natural gas rose by 9% to \$11.8 billion while that in mining and smelting expanded by 8% to \$5.9 billion. Long-term investment in the financial industry rose 24% to more than \$9.4 billion, and in merchandising 10% to nearly \$3.3 billion. A substantial portion of the increase in finance was registered by sales finance, insurance and real estate enterprises.

23.6.3 Foreign investment in Canadian non-financial industries

Foreign investment in Canadian industry is measured in terms of the proportion to long-term capital employed in selected industry groups of both foreign-owned long-term