

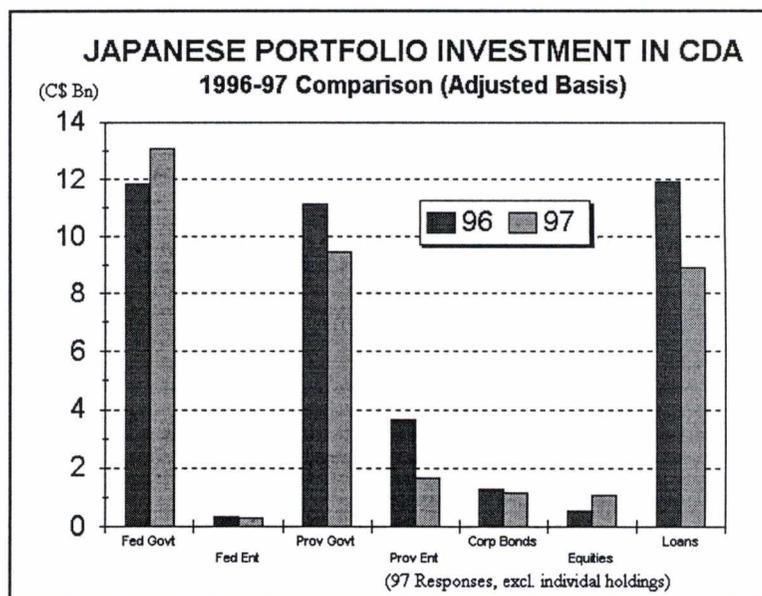
of the sales of Canadian securities in January and March 1997 resulted from profit taking as institutions sold a portion of their foreign holdings to bolster capital reserves.

### THE 1997 EMBASSY SURVEY

The moderate decline in overall institutional holdings is consistent with developments in the Japanese economy and financial markets. Comparing the 97 institutions that participated in both the 1996 and 1997 Surveys<sup>3</sup>, overall Japanese institutional holdings of Canadian securities and loans on March 31, 1997 declined 12.5%. This continues a gradual downward trend in total institutional holdings of Canadian securities evident since 1993. Subsequent monthly flow data from Statistics Canada, however, shows a sharp rise in overall holdings of Canadian securities between April and June 1997, i.e. after the end of the fiscal year.

Currency movements do account for some of the drop as expressed in Canadian dollars. From April 1, 1996 to March 31 1997 the Canadian dollar appreciated 4.1% against the Japanese yen. When yen-based data provided by Japanese institutions is recalculated in Canadian dollars, Japanese year-end holdings are depreciated by a similar amount.

A more detailed examination of the 97 firms that contributed to both the 1996 and 1997 Surveys shows that while holdings of all bonds decreased 9.4%, Government of Canada bonds increased 10.4% and Treasury Bills increased 25.5%. The respective decreases for other categories of bonds were federal government enterprise bonds - 10.7%; provincial government bonds -15.0%; provincial government enterprise bonds - 54.3%; municipal bonds -51.9%; and corporate bonds -9.4%.



A very large increase was recorded in the equities category as a result of purchases by Investment Trust and Management Companies. Equities have not traditionally formed a large portion of Japanese holdings of Canadian securities. Between April 1, 1996 and March 31, 1997, equity holdings nearly doubled (up 96%), from a modest base, to over \$1 billion. Banks and life insurance companies also increased their Canadian equity holdings by 1,000% and 55.9% respectively. On the other hand, loans, which increased 25.9% in the 1996 Survey, decreased by

<sup>3</sup> See Table 2 in Annex II, "Canadian Securities and Loan holdings by Japanese Institutions - Adjusted Basis"