

components include loans or private placements with third parties not included in the distribution of our questionnaire to institutional investors or purchases of Canadian securities by mutual funds outside of designated "Canadian" funds.

Based on an analysis of the 1997 Survey results, as of March 31, 1997, we estimate that the total value of Canadian securities and loans held by all Japanese investors is about \$43.0 billion compared to the 1996 estimate of \$43.5 billion. We believe the 1997 estimate to be conservative.

COMPARISONS WITH PREVIOUS SURVEY RESULTS

ECONOMIC BACKGROUND

Fiscal year 1996 will be remembered as a year of considerable volatility in financial markets and as the year when Japan embarked on its version of the "Big Bang" in an attempt to re-capture financial market competitiveness. The move towards "free, fair and global" markets was also spurred by a concern that an aging population required sufficient future resources to respond to deteriorating demographic trends.

Japan recorded one of the highest GDP growth rates of any G-7 country in fiscal 1996. In retrospect, however, much of the late 1996 and early 1997 GDP growth appears to have been in anticipation of the hike in consumption taxes and the ending of certain tax breaks on April 1, 1997.

FY 1996 was also the year that the extent of the Canadian fiscal turn-around was finally recognized by investors in international capital markets. The Canadian government's success in putting its fiscal house in order was the object of a series of very positive articles in the Japanese press beginning in late spring 1996. This analysis underlined just how far Canada had travelled along the road of fiscal reform. One of the consequences of this turn-around was that yields on Canadian government securities fell dramatically. In November 1996, for the first time in many years, yields for Government of Canada 10 year bonds fell below those of equivalent USA Treasury bonds.

During FY 1996, the Japanese official discount rate remained at a record low 0.5%. This encouraged an outflow of investment funds searching for yields higher than those available from Government of Japan bonds or other Japanese domestic investments. While demand for Canadian securities certainly benefited from this trend, a combination of greater liquidity for USA Treasuries and the negative yield spread resulted in the vast majority of these funds flowing into USA securities.

The Tokyo Stock exchange was also particularly volatile in the early months of 1997. After having closed the 1996 trading year at 19,361, the Nikkei index fell sharply to 17,303 on January 10, 1997 before finishing the financial year at 18,003 on March 31, 1997. This volatility, and the decline of the Nikkei index from year-opening levels, was important for financial institutions looking towards balancing their books at the end of FY 1996. At least some