

FOREIGN CAPITAL INFLOW: Canada imported \$763 million of foreign capital through transactions in portfolio securities in the year 1956. This tremendous figure compares with a capital export of \$50 million in 1955 and is considerably more than twice as large as the previous record net inflow established in the exceptional circumstances of 1950. Transactions in portfolio securities were a dominating feature of the international capital account in 1956, as the balance from these transactions exceeded for the first time since 1950 the net inflow for direct investment in foreign controlled enterprises.

According to the Dominion Bureau of Statistics, the inflow was in part in response to the impact on Canadian capital markets of the heavy financing demands arising from the unprecedented volume of capital investment carried out in Canada during 1956. The physical aspect of the demand pressures was felt in the record deficit on account of exchanges of goods and services between Canada and other countries which the sale of securities abroad helped to finance.

A striking development in 1956 was the increased flow of portfolio investment capital from overseas countries to Canada. While the inflows were intensified with the growing international tension in the latter part of the year, the trend was unmistakable before the occurrence of political disturbances. The net inflow in the first half of 1956 was \$76 million, and in the second half it rose to \$169 million. The net movement from overseas countries reached \$245 million for the year as a whole compared with \$33 million in 1955 and with the previous post-war record of \$48 million in 1954. This change was influenced to a very limited extent by the absence in 1956 of major financing in the Canadian market by non-residents. But for the most part it reflected sharp growth in sales of outstanding Canadian securities both to the United Kingdom and to other overseas countries.

Notwithstanding the sharp increase in the portfolio capital movement from overseas, the United States was by far the most important source of external capital of this type. The net movement from that country amounted to \$518 million in 1956, in contrast to an outflow of \$83 million recorded in 1955. The earlier post-war record for the net capital movement from the United States for all security transactions was \$382 million in 1950.

For five successive quarters from the second quarter of 1955 the movement towards increased inflows of capital from portfolio security transactions was evident. In the second quarter of 1955 there had been a net outflow of \$51 million. In the third quarter of 1956 the inflow reached a peak of \$254 million which was only \$50 million below the massive inflow in the third quarter of 1950; it will be recalled, however, that the earlier

movement was related to exchange rate consideration and was not part of a sustained inflow of that order of magnitude. The movement in the final quarter of 1956 fell to \$214 million, mainly due to outflows to the United States from trade in outstanding Canadian securities and to some reduction in the rate of inflow from the United Kingdom.

The proceeds of new issues of Canadian securities sold abroad set a new record of \$681 million in 1956. Over the last half of the year new issues were sold to non-residents at an annual rate of \$800 million. The total for the year compared with \$166 million in 1955 and with the previous record of \$411 million established in 1951 which was also a period of strong demand in the Canadian capital market. Provincial governments, municipalities and corporations were all substantial borrowers abroad during the year. Residents of the United States bought nearly 90 per cent of the new issues sold to non-residents compared with somewhat more than 75 per cent of the smaller total in 1955. But at the same time there was a significant increase in the amount of new issues sold to European investors. Nearly 90 per cent of the new bonds and debentures sold to non-residents were payable solely or optionally in foreign currencies.

Retirements of foreign-held Canadian securities amounted during 1956 to \$140 million. This repatriation was lower than for any other post-war year except 1948 and 1952. A very substantial part of foreign-owned holdings retired during 1956, more than 95 per cent, were held by residents of the United States. Between 80 and 85 per cent of the bonds and debentures retired were payable optionally or solely in foreign currencies.

The value of securities traded internationally in 1956 rose slightly over 1955 to set a new record of nearly \$2,400 million compared with about \$2,300 in the preceding year. The net inflow of \$236 million is in marked contrast to the outflow of \$1 million recorded in 1955. Trade in outstanding issues in 1956 was dominated by the sale to non-residents of Canadian and preference stocks. The net sales balance for the year totalled \$196 million, reflecting an increase of nearly one-third over 1955, and setting a new record for the third successive year. Compared to the significant inflow for equity portfolio investment in Canada, the trade in outstanding Canadian bonds, debentures and other securities led to a net inflow of only \$12 million. Transactions in outstanding foreign securities led to a net capital inflow of \$28 million during 1956 compared with \$16 million in 1955.

In December there were net purchases from non-residents of \$8.6 million outstanding securities, bringing to a close the succession of sales balances or capital imports from trade in outstanding issues which extended for 15 months from September 1955.