

COMPARISONS WITH PREVIOUS SURVEY RESULTS

Economic Background

Fiscal year 1995 was an important transition year for Japan as the Government sought to aggressively spur economic growth and deal with the non-performing loan problems of the Japanese financial sector. In addition, between July and mid-September of 1995, against the background of coordinated actions by G-7 monetary authorities, an "orderly reversal" of the appreciation of the yen took place. In April of 1995, the average yen/dollar rate was 83.53. By September, the average had moved above 100 yen to the dollar and by March 1996, the average rate was 105.85. The Canadian dollar similarly recovered against the yen, going from an average of 60.79 yen to the Canadian dollar in April 1995 to some 77.58 yen in March 1996. This represented a 27.62% improvement in the value of the Canadian dollar against the yen, slightly better than even the U.S. dollar's gain on the yen. However, the Canadian dollar went through a period of volatility immediately before and after the October 30, 1995 Quebec referendum.

In September of 1995, the Japanese government introduced an unprecedented Yen 14.2 trillion fiscal stimulus package in an effort to jump start a moribund economy. This clearly had a positive impact on the Japanese economy and coupled with the exchange rate reversal, an improving profit picture for Japanese corporations and a renewed interest in Japanese stocks on the part of foreign investors, the Japanese stock market also began to improve. The Nikkei 225 index monthly average was a little over 16,000 in April of 1995, but this gradually improved each month and averaged about 20,424 in March of 1996, representing a 25% increase over this period.

Although uncertainties regarding the economy continued to persist and the financial woes of the banking community due to the non-performing loan problem were a damper on the economy, the recovery in the value of the dollar and the improvement in the Japanese stock market should have favoured a recovery in Japanese portfolio investment. However, portfolio investment outflows continued to increase only moderately. In fact, while the overall value of transactions appear to have increased, on a net basis, Japanese portfolio investment outflows in fiscal year 1995 declined from fiscal year 1994.³ Clearly, Japanese institutional investors continued to remain cautious in their foreign portfolio investments in fiscal year 1995-96.

1996 Embassy Survey

Against this background of caution, the Embassy's 1996 Survey of Japanese portfolio investment holdings in Canadian securities and loans would appear to be consistent with the

³ The Bank of Japan, Balance of Payments Monthly, Summary Table, p. 2, "Portfolio Investment".