

INVESTMENT INCOME

Investment income consists of income earned as interest, dividends and reinvested earnings on investments (direct, portfolio and other categories) by Canadians abroad and by foreigners in Canada. Canada has historically run a deficit on its net investment income account, as money earned by non-residents on their Canadian investments has substantially exceeded the earnings of Canadians on their investments abroad. This reflects the fact that, for the most part, Canada has been a net capital importing country for much of its history. Accordingly, the stock of Canada's external liabilities (on which foreigners earn investment income), which stood at \$964 billion at the end of 1999, was substantially greater than the stock of Canadian assets abroad (on which Canadians earn investment income), which was \$663.7 billion. As a result, Canada had a net international investment position of \$300.3 billion or about 33 percent of GDP. This share has been in decline in recent years (see Figure 9), with a particularly sharp drop in 1999 as the level of net external debt fell by 7.9 percent while GDP rose strongly. The decline in net external indebtedness in 1999 is particularly noteworthy, since it was the first such decline in 60 years.

Figure 9: Net Foreign Liabilities as a Share of GDP, 1993-1999



Sources: Statistics Canada, *National Income and Expenditure Accounts*, Catalogue no. 13-001-PPB, 4th Quarter 1999. *Canada's International Investment Position*, Catalogue no. 67-202-XIB, 1999.

In 1999:

- Investment income earned by Canadian residents on investments abroad totalled \$31.6 billion. Of this, 47 percent was on direct investment, 12 percent on portfolio investment and the remaining 41 percent on other investment (which includes loans, deposits, reserves and other assets).
- Income earned by foreign residents on investments in Canada totalled \$63.8 billion. Of this, about 31 percent was on FDI, 47 percent on portfolio investment, and the remaining 22 percent on other investment.
- Canada had a deficit of \$32.2 billion on the investment income account, an increase of \$3.0 billion from the previous year. About 82 percent of this deficit was contributed by the deficit in portfolio investment earnings.
- The deficit on investment income was almost as large as Canada's merchandise trade surplus account (\$33.8 billion).

