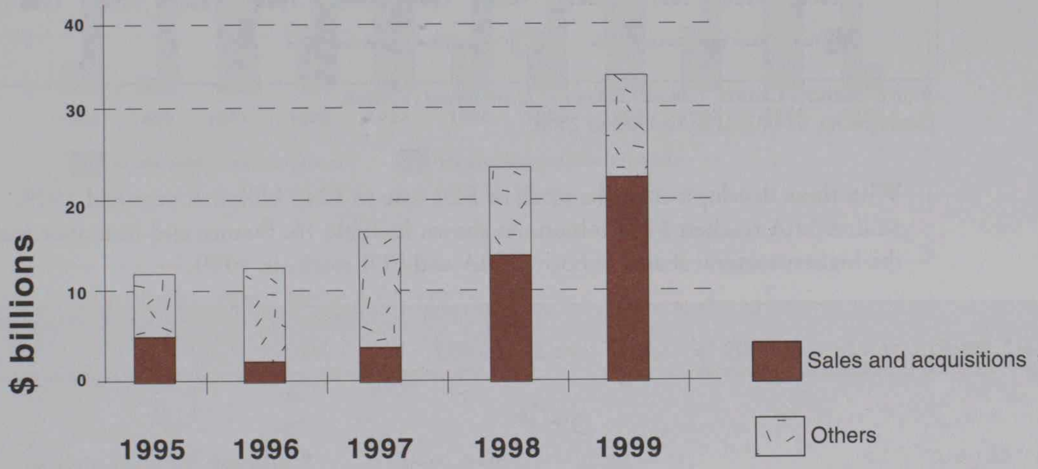
CAPITAL AND FINANCIAL ACCOUNTS

The capital and financial accounts consist of inflows and outflows of direct investment, portfolio investments and other investments (loans, deposits, international reserves and other assets).

DIRECT INVESTMENT

Foreign direct investment into Canada in 1999 rose 15.5 percent, to a record $37.2 billion. Inflows from the U.S. increased by 57.2 percent to $38.4 billion, from $24.4 billion in 1998, mainly as a result of acquisitions of Canadian firms by U.S. investors (see Figure 13).

Figure 13: FDI in Canada: Sales, Acquisitions and Other Flows, 1995-1999



Sources: Statistics Canada, *Canada's Balance of International Payments*, Catalogue no. 67-001-XPB, 1st Quarter 2000. Bank of Canada, *Banking and Financial Statistics*, February 2000.

It is noteworthy that the FDI inflows from the U.S. were actually larger than total FDI inflows to Canada in 1999. This reflects the fact that the inflow from the U.S. covered negative FDI (i.e. net repatriation of direct investment) from Japan and the United Kingdom.

In terms of sectors, the leaders were finance and insurance, machinery, and transportation equipment.

The outflow of CDIA in 1999 amounted to $26.5 billion, down 42.8 percent from $46.4 billion in 1998, the first decline on an annual basis since 1992.

The fall in investment outflow was spread across several countries, but was concentrated in the U.S. market: CDIA into the U.S. fell from $27.7 billion in 1998 to $17.4 billion, a decline of 37 percent. Nevertheless, the U.S. remained by far the main destination of CDIA, accounting for 65.7 percent of total outflows. In contrast to 1998 when Canadian investors reduced direct investments in the U.K., other EU economies and Japan, these flows increased in 1999. In terms of sectors, the finance and insurance sector had the highest share at 41.8 percent of the total outflows. The outflows in traditional sectors for CDIA such as energy and metallic minerals fell from their 1998 levels.