

III. INVESTMENT INCOME

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.¹⁷ This reflects the fact that, for the most part, Canada has been a net capital importing country for much of its history because of its over-abundance of investment opportunity. Accordingly, the stock of Canada's external liabilities (on which foreigners earn investment income), which stood at \$1,023 billion at the end of 2000, was substantially greater than the stock of Canadian assets abroad (on which Canadians earn investment income), which was \$779.3 billion. As a result, Canada had a net international investment position of \$243.7 billion or about 23.5 percent of GDP. This share has been in decline in recent years (see Figure 9), with a particularly sharp drop in 2000 as the level of net external debt fell by 10 percent while GDP rose strongly. The decline in net external indebtedness in 2000 is particularly noteworthy, since it was the fifth such decline in the last six years.

Figure 9: Net Foreign Liabilities as a Share of GDP, 1993-2000



Sources: Statistics Canada, *National Income and Expenditure Accounts*, Catalogue no. 13-001-PPB, Fourth Quarter 2000. *Canada's International Investment Position*, Catalogue no. 67-202-XIB, 2000.

For 2000:

- ❑ Investment income earned by Canadian residents on investments abroad totalled \$37.8 billion. Of this, 50 percent was on direct investment, 11.7 percent on portfolio investment and the remaining 38.3 percent on other investment (which includes loans, deposits, reserves and other assets).
- ❑ Income earned by foreign residents on investments in Canada totalled \$68.1 billion. Of this, about 35.1 percent was on FDI, 43.2 percent on portfolio investment, and the remaining 21.7 percent on other investment.
- ❑ Canada had a deficit of \$30.2 billion on the investment income account, a decline of \$2 billion from the previous year. About 83 percent of this deficit was contributed by the deficit in portfolio investment earnings.
- ❑ The deficit on investment income was 55 percent as large as Canada's record merchandise trade surplus of \$54.5 billion.

¹⁷ 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.

