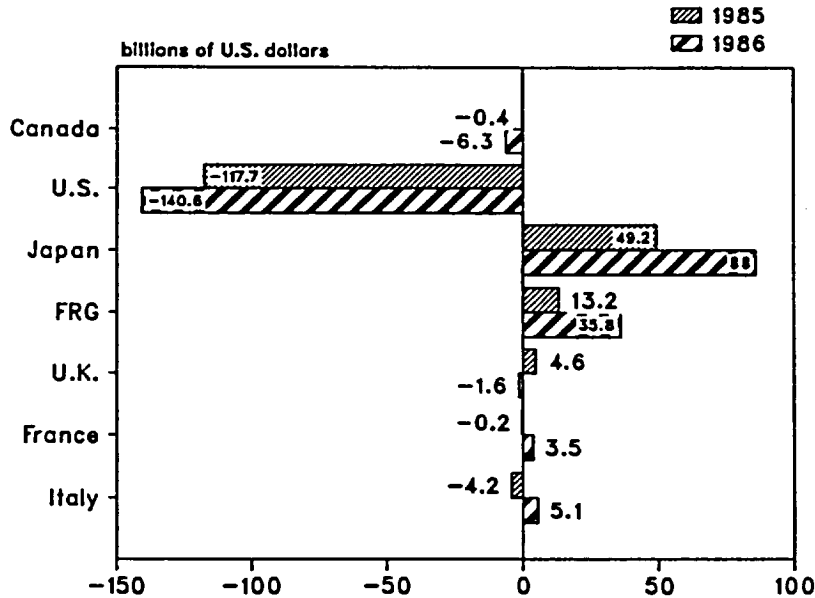


B. EXTERNAL SECTOR

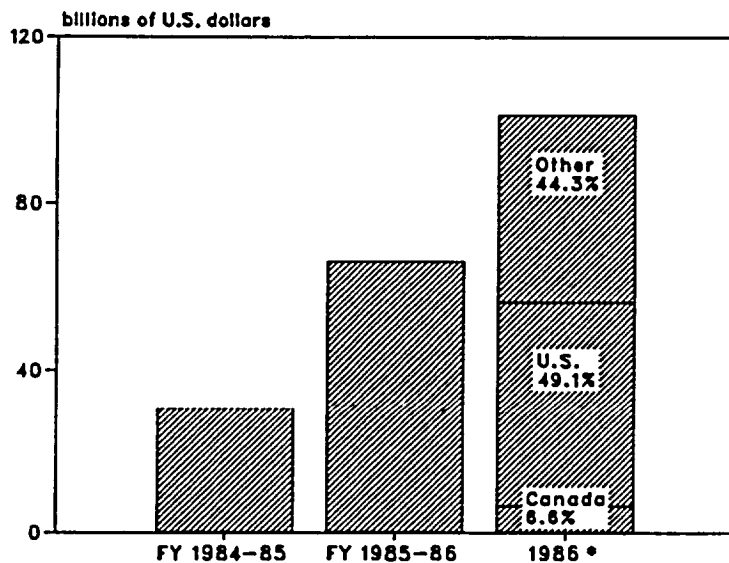
Chart 6
Current Account Balances



Current account data for the G-7 countries show that a turnaround in the persistent world trade imbalances did not take place in 1986. While the US deficit widened by US\$23 billion, the Japanese surplus almost doubled from US\$49 billion to US\$86 billion and the FRG surplus increased from US\$13 billion to US\$36 billion.

The Canadian current account moved further into deficit in 1986, as declining export demand continued to narrow the merchandise trade surplus.

Chart 7
Foreign Indirect Investment by Japan



Both the huge current account surplus and a high propensity to save have resulted in rapid increases in foreign investment by Japan over the last few years. Approximately 90 per cent of all foreign investment is indirect, consisting mostly of government bonds. For secure investments and profitable yields the Japanese invest most of their funds in the US—49 per cent in 1986.

Although only a small portion of total investment is made in Canada, the share has been growing as the yen continued to appreciate against the US dollar.

* 1986 is a calendar year.
Source: Japanese Embassy, Ottawa.