



****Coronavirus Covid-19 Update****

The risks associated with doing business are likely to be negatively impacted by the global coronavirus pandemic. Severe disruption to supply chains caused by lockdown procedures in many countries will affect country risk ratings. Demand will also be lower than initially anticipated as export earnings will be reduced amid a global economic slowdown and falls in both business and consumer confidence, as well as lower investment due to decreasing corporate earnings. We advise clients to monitor the containment efforts, as the adverse economic and supply chain effects will persist until the outbreak is controlled.

Country Insight Snapshot

Canada

July 2020





OVERVIEW

OVERALL COUNTRY RISK RATING: DB2d

Low risk: Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns in future.



Rating Outlook: Stable

CORE OUTLOOK

- + Canada is an open economy and actively seeks to build on its international trade and investment agreements with the US, Europe, Asia and Latin America.
- + The country enjoys extensive logistics and market integration with the US, as well as preferential terms under USMCA.
- The fiscal and regulatory regimes involve separate federal and provincial layers, which can complicate trade and investment projects.
- Over-reliance on specific export clusters and countries leaves Canada vulnerable to periodic terms-of-trade shocks.
- The impact of Covid-19 policies is forecast to widen the budget deficit to over CAD300bn in FY2020-21.
- Tariff barriers between the US and Canada remain in place for some products.
- Canadian growth will contract sharply in 2020 amid fallout from policies aimed at combating the Covid-19 outbreak.

KEY DEVELOPMENT

The near-term economic recovery remains on track as activity continues to move toward normal levels, but the speed of recovery may be slower than initially anticipated.

CREDIT ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK



Trend: Stable

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK



Trend: Stable

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK



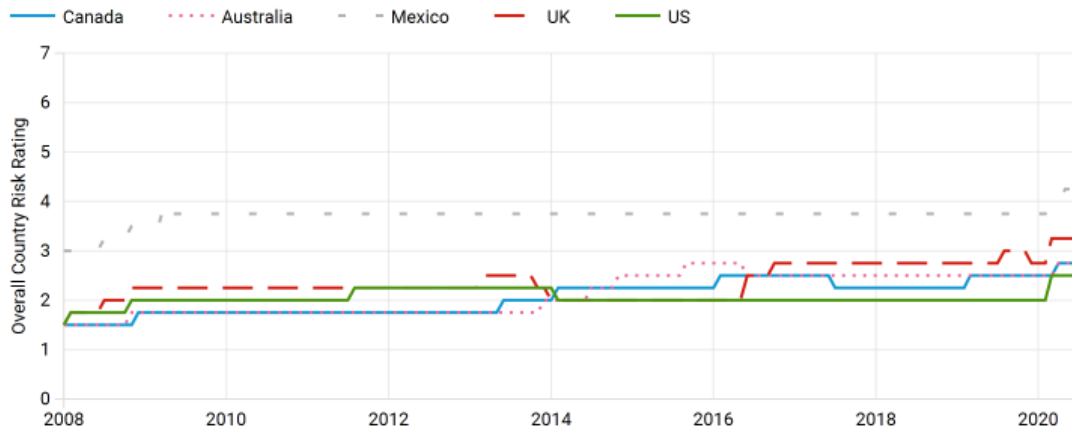
Trend: Stable

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

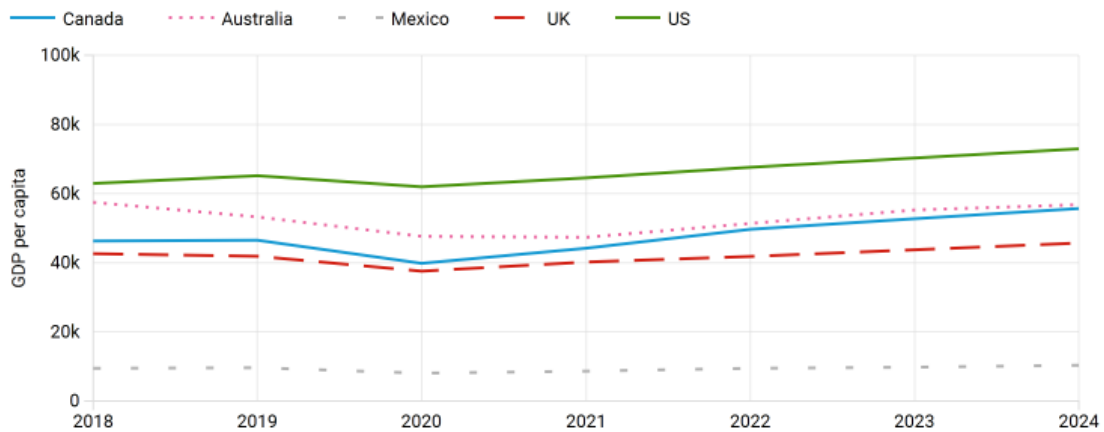
Rating History and Comparison



Source: Dun & Bradstreet

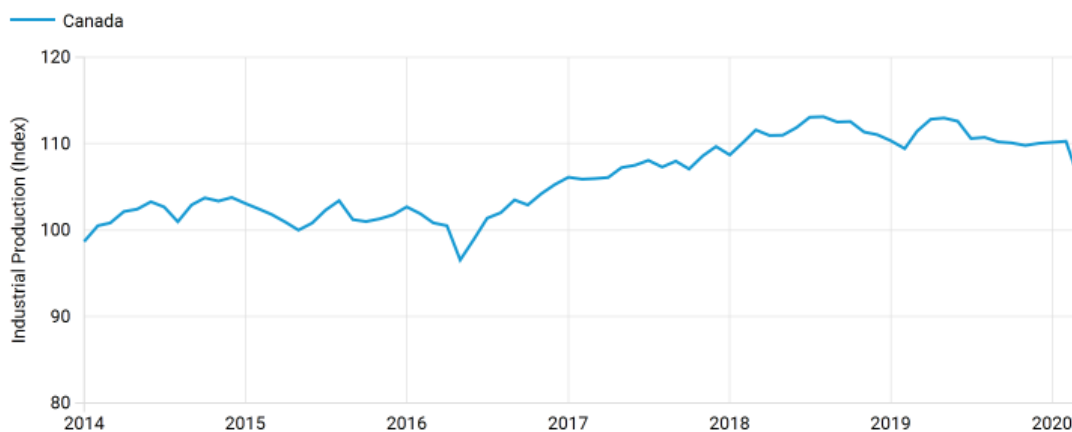
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production (Index)



Source: Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2017	2018	2019	2020f	2021f	2022f	2023f	2024f
C/A balance % GDP	-2.8	-2.5	-2.0	-3.7	-3.3	-3.1	-3.0	-2.9
Govt balance, % GDP	-0.8	-0.3	-1.0	-12.5	-8.4	-5.5	-4.5	-3.8
Inflation, annual avge %	1.6	2.2	2.0	0.7	2.2	1.9	1.9	1.9
Real GDP Growth, %	3.2	2.0	1.6	-6.3	4.0	4.9	2.0	2.5
Unemployment, %	6.3	5.8	5.7	10.5	8.6	6.5	6.2	5.5

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

UNCTAD's newly released *World Investment Report 2020* ranks Canada ranks 10th in the world in terms of FDI inflows in 2019, a rise of one place from its 2018 ranking. FDI inflows increased by USD7bn to reach USD50bn annually. FDI outflows also rose annually, by USD27bn, to reach USD77bn in 2019, ranking 6th globally (from 7th in 2018). Cross-border M&A trends in the natural resource category resulted in significant inflows in 2019, but complications and uncertainty - as well as the global economic contraction associated with Covid-19 - will likely restrict inflows this year. M&A transactions have already been cancelled in 2020: Alimentation Couche-Tard cancelled a takeover of an Australian refinery operator in March due to Covid-19 concerns, and this will keep transactions weak. However, the final ratification of the USMCA in July will likely provide a boost to the automotive industry.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: OA

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: SD

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-3 month

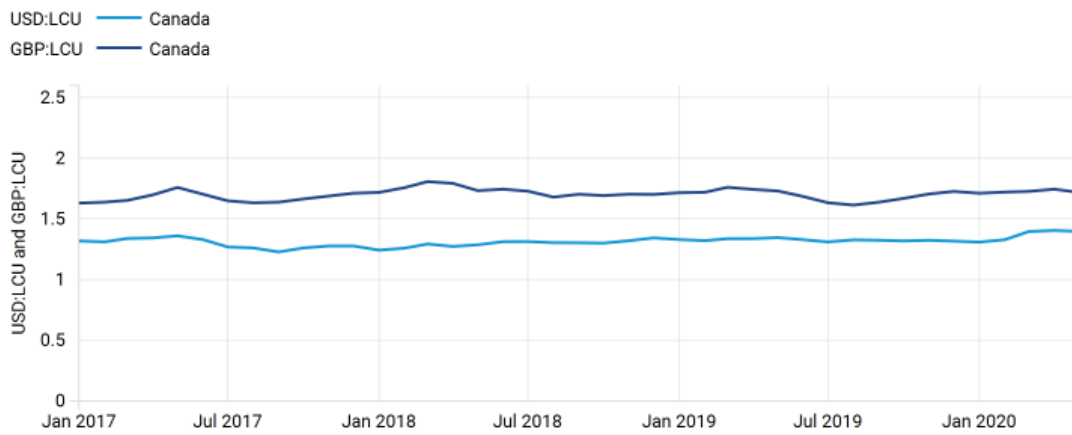
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: No delays reported

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



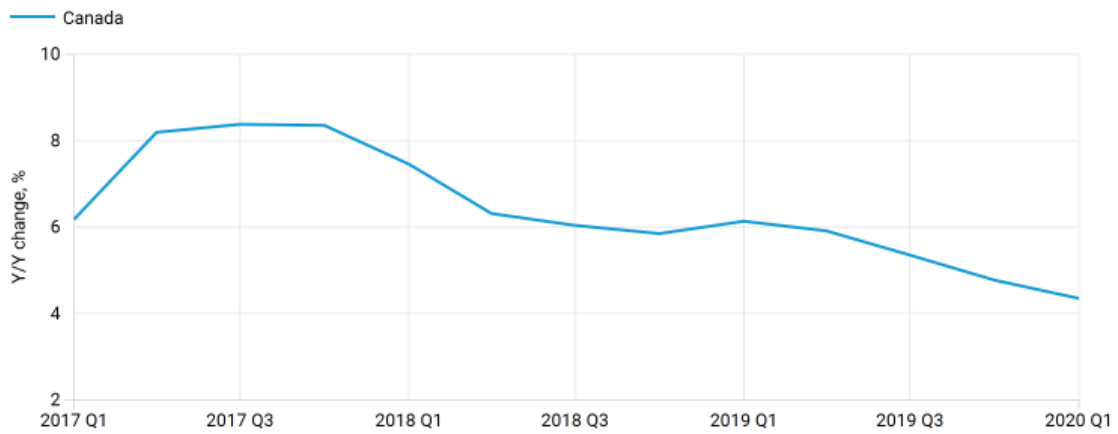
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Canadian dollar

Bank Lending to the Private Sector



Source: IMF, Central Banks, Haver Analytics



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Near-term recovery remains intact

The near-term economic recovery remains on track as activity continues to move toward normal levels, but the speed of recovery may be slower than initially anticipated. Through 3 July, Community Mobility Reports from Google indicate a continued move toward normal mobility in the retail and recreation segment in most provinces - with the exception of New Brunswick, Newfoundland and Labrador, and Nova Scotia, which recorded very slight pull-backs in activity in recent weeks. The persistent shift back to pre-Covid-19 levels in the retail and recreation category suggests that spending levels could improve, which will continue to power growth away from its historic lows.

Meanwhile flash estimates of May retail sales indicate a strong recovery from the 26.4% m/m decline seen in April. Additionally, the pickup in employment in some of the hardest hit sectors (such as construction and manufacturing) in May will reduce the anticipated Q2 real GDP contraction to a slightly more favourable - but still negative - rate. While an extension of the Emergency Response Benefit through August, coupled with rising confidence, will help to carry consumption momentum into Q3, the prolonged closure of the US-Canadian border will offset those gains, producing a less emphatic Q3 recovery than initially forecast.

While activity rates are improving, many financial stability risks remain, including elevated household leverage: here, the ratio of consumer credit and mortgage liabilities to disposable income is 18.6 percentage points higher than at the end of the 2008-09 recession - it rose to an historic high of 167.8% in Q1. Elevated household debt levels will restrict the recovery's acceleration, especially if mortgage payments fall into arrears (which remains a possibility after mortgage deferments expire in late 2020). Fiscal stimulus has been sufficient to provide some continuity for firms and households, but a swelling of the government balance deficit has resulted in a sovereign risk rating downgrade by Fitch, from AAA to AA+.

Business Regulatory Environment

Outlays likely to result in tax increases

According to the government, lost revenues and fiscal outlays will swell the budget deficit to CAD343bn this fiscal year. The 'fiscal snapshot' delivered in place of the annual Federal Budget (which was suspended from March until July) revealed that extensive spending on Covid-19 relief programmes will be sourced from an expansion of federal debt. The economic slowdown will reduce corporate tax revenue by about 22.3%, forcing the government to assume additional debt to fund the shortfall. The federal debt-to-GDP ratio is expected to rise to nearly 50% this fiscal year: despite borrowing rates remaining low, this will likely be funded through an eventual increase in tax rates. The corporate tax rate contains additional provincial layers on top of a national rate, giving Canada the 24th-highest combined tax rate in the OECD. A higher rate to bridge the funding deficit may make the tax environment less competitive in the future, but the global nature of Covid-19 will likely mean that other governments may also need to raise rates, limiting Canada's competitive disadvantage.



COUNTRY PROFILE AND STATISTICS

Overview

Canada comprises ten provinces and three territories, and has the second-largest surface area of any country in the world; it borders the continental US in the south and Alaska in the west. The climate varies from temperate in the south to sub-arctic and arctic in the north, while the terrain is mostly plains, with mountains in the west and lowlands in the southeast; the low-lying region of southeastern Canada is home to more than half of the nation's population.

Canada is an affluent, high-tech, industrial society with a market-oriented economic system. A diversified economy, abundant natural resources (including hydrocarbons), a skilled workforce and modern capital endowments give Canada strong economic potential. The central and eastern provinces of Ontario and Quebec account for more than half of gross domestic product and are home to large manufacturing and service industries. Extensive upstream and downstream oil and gas sector activity is concentrated in the western provinces, particularly Alberta. Canada's trade and logistics environment is closely integrated with the US market, and the country also has a focus on reaching out to other foreign markets through free-trade deals.

Key Facts

Key Fact	Detail
Head of government	Prime Minister Justin Trudeau
Capital	Ottawa
Timezone	GMT -05-00
Official languages	English, French
Population (millions)	37.4
GDP (USD billions)	1,739.7
GDP per capita (USD)	46,503
Life expectancy (years)	82.1
Literacy (% of adult pop.)	99.9
Surface area (sq km)	9,984,670

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2015	2016	2017	2018	2019
Real GDP growth (%)	0.7	1.0	3.2	2.0	1.6
Nominal GDP in USDbn	1,556	1,528	1,650	1,716	1,740
Nominal GDP in local currency (bn)	1,990	2,026	2,141	2,224	2,308
GDP per Capita in USD	43,204	41,999	44,912	46,281	46,503
Population (year-end, m)	36.0	36.4	36.7	37.1	37.4
Exchange rate (yr avge, USD-LCU)	1.3	1.3	1.3	1.3	1.3
Current Account in USDbn	-54.7	-47.3	-46.4	-43.0	-35.4
Current Account (% of GDP)	-3.5	-3.1	-2.8	-2.5	-2.0
FX reserves (year-end, USDbn)	79.7	82.7	86.7	83.9	85.3
Import Cover (months)	1.8	1.9	1.9	1.7	1.8
Inflation (annual avge, %)	1.1	1.4	1.6	2.2	2.0
Govt Balance (% GDP)	0.4	-1.0	-0.8	-0.3	-1.0

Source: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2020f	2021f	2022f	2023f	2024f
Real GDP growth (%)	-6.3	4.0	4.9	2.0	2.5
Nominal GDP in USDbn	1,503	1,682	1,906	2,040	2,172
Nominal GDP in local currency (bn)	2,134	2,288	2,516	2,653	2,824
GDP per Capita in USD	39,811	44,186	49,656	52,717	55,667
Population (year-end, m)	37.7	38.1	38.4	38.7	39.0
Exchange rate (yr avge, USD-LCU)	1.4	1.4	1.3	1.3	1.3
Current Account in USDbn	-55.6	-56.0	-59.8	-62.1	-62.2
Current Account (% of GDP)	-3.7	-3.3	-3.1	-3.0	-2.9
FX reserves (year-end, USDbn)	75.1	70.6	83.9	81.6	81.4
Import Cover (months)	1.5	1.4	1.5	1.4	1.3
Inflation (annual avge, %)	0.7	2.2	1.9	1.9	1.9
Govt Balance (% GDP)	-12.5	-8.4	-5.5	-4.5	-3.8

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Canada	Australia	Mexico	UK	US
Income per Capita (USD)	39,811	47,617	8,042	37,558	61,945
Country Population (m)	37.7	24.5	127.1	67.9	331.0
Internet users (% of population)	89.8	88.2	59.5	94.8	76.2
Real GDP Growth (% p.a., 2020 - 2029)	1.3 - 2.6	0.7 - 3.1	2.0 - 3.5	1.5 - 2.8	1.5 - 3.3

Source: Various sources/Dun & Bradstreet



LINKS

User Guide

Please click [here](#) to visit our online user guide.

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