

CareEdge Global assigns Long Term Foreign Currency Rating of AA+ (Unsolicited) to Canada

Credit Profile

Canada's credit profile is supported by its large, well-developed, export-oriented, diverse economy. The country's robust institutions have effectively demonstrated their ability to respond to shocks with careful policymaking. The resilience of Canada's economy is reinforced by its independent central bank, which maintains transparent and effective monetary policies. Canada's external position is robust supported by its net international creditor status. These strengths are partly offset by slowing growth and the relatively high level of gross general government debt.

Strengths

- Large, diverse and highly competitive export-oriented economy.
- Well-funded pension systems
- Strong institutions and governance

Weaknesses

- Relatively high gross general government debt, offset partly by liquid balances maintained by the government
- Relatively subdued economic growth trajectory

Key Monitorables

- Any progress on reduction in gross government debt
- Steps to address housing market imbalances

Key Rating Drivers

Economic Structure & Resilience

Canada's economic assessment is underscored by its large size and high GDP per capita. GDP growth is projected to remain low at 1.4% in 2024, owing to weak domestic and external demand, before improving to 2.3% in 2025. Canada benefits from a significant free trade agreement with the United States and Mexico, its key trading allies, but also remains exposed to any potential downturns in their economic trajectory.

Despite having an aging population, Canada has consistently maintained the fastest population growth in the G7 since 2016, predominantly supported by immigration. The annual population growth averaged 1.24% from 2016-2022. This, however, has simultaneously intensified housing shortages. In this context, housing market's price stability remains a key monitorable.

Fiscal Strength

Canada's fiscal management showcases robust debt affordability, with interest payments at a manageable 7.8% of government revenues (2023). This is despite the gross general government debt at a high level of 107% of GDP in 2023. Debt however is expected to fall, though likely to remain high at an average of 102.4% of GDP over 2024-2026. The government maintains high level of liquid assets which is a mitigating factor for fiscal risks. The country achieved a small fiscal deficit of 0.6% of GDP in 2023, thanks to a rebound in government revenue collection and the reduction of emergency pandemic-related spending.

Canada's pension system is largely funded through contributions from workers and employers, thereby mitigating direct fiscal pressures on the federal government.

External Position & Linkages

The performance of Canada's current account over the medium term has remained resilient. Net FDI inflows remain comfortable at an average of 2.4% of GDP (2019-2023). The country achieved a modest current account deficit of 0.6% of GDP in 2023. Although Canada's external debt was high at 146.3% of GDP in 2023, it has fallen from its 2020 peak of 156.3%. Canada's external assessment is helped by the actively traded Canadian dollar and a positive net international investment position equivalent to 59.1% of GDP in 2023. However, as a significant exporter of commodities, Canada remains exposed to commodity price volatility.

Monetary & Financial Stability

Canada has a free-floating exchange rate regime and benefits from its actively traded currency. The Bank of Canada targets a CPI inflation rate of 2%, aiming to keep it within a range of 1–3% over the medium term. CPI Inflation has steadily decreased from its 2022 peak of 6.8%, reaching its 2% target in Aug 2024. In its latest policy statement (Sept 2024), the central bank acknowledged that broad inflationary pressures had eased while highlighting softness in economic activity. Rates have been cut to 4.25% with expectation of further cuts as long as inflation remains in range. Canada's banking sector is well-developed and well-capitalized, with healthy asset quality.

Institutions & Quality of Governance

Canada's rating is supported by its robust governance structure, strong legal framework and low level of corruption. Canada performs well across all World Bank World Governance Indicators (WGI), scoring percentile rank scores of above 90 in five out of the six indicators. Canada's regulatory institutions are credible, independent and transparent.

Canada – Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
Economic Indicators									
Nominal GDP	USD Billion	1725	1744	1656	2007	2161	2140	2242	2361
GDP Per Capita (Constant-PPP)	USD	49328	49539	46495	48665	49687	48835	48310	48790
Real GDP Growth	%	2.7	1.9	-5.0	5.3	3.8	1.1	1.2	2.3
GFCF/GDP	%	22.7	22.6	23.2	24.2	23.3	22.9	-	-
Gross Domestic Savings/GDP	%	21.4	21.6	20.5	24.3	25.5	23.5	-	-
Exports (G&S)/GDP	%	32.3	32.4	29.5	31.2	33.8	33.5	-	-
Working-Age (15-64) Population (% Share in Total)	%	66.8	66.5	66.1	65.7	65.4	65.0	64.7	64.4
Old-Age (65+) Population (% Share in Total)	%	17.2	17.6	18.0	18.5	19.0	19.5	20.1	20.6
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	0.4	0.0	-10.9	-2.9	0.1	-0.6	-1.1	-0.9
Revenue/GDP	%	41.0	40.6	41.4	42.5	41.1	41.8	41.1	41.1
Expenditure/GDP	%	40.7	40.6	52.4	45.4	41.0	42.4	42.2	42.0
GG Gross Debt/GDP	%	90.8	90.2	118.2	113.5	107.4	107.1	104.7	102.1
GG External Debt (by Creditor)/GG Gross Debt	%	19.0	18.4	19.2	20.7	17.7	18.7	-	-
Interest/Revenue	%	7.3	7.4	7.2	6.5	6.9	7.8	-	-
External Indicators									
Current Account Balance/GDP	%	-2.4	-2.0	-2.0	0.0	-0.4	-0.6	0.3	0.4
FDI, Net Inflows/GDP	%	2.5	2.8	1.8	2.9	2.3	2.1	-	-
Outstanding FII Liabilities/GDP	%	93.9	104.6	120.2	111.0	96.3	103.8	-	-
NIIP/GDP	%	26.2	30.3	53.4	54.7	37.2	59.2	-	-
Foreign Exchange Reserves	USD Billion	83.9	84.9	89.7	105.5	106.9	118.1	-	-
Import Cover	Months	1.7	1.7	2.1	2.0	1.8	2.0	-	-
External Debt/GDP	%	113.7	136.4	155.5	139.5	129.1	146.3	-	-
Monetary and Financial Indicators									
CPI Inflation	%	2.3	1.9	0.7	3.4	6.8	3.9	2.6	1.9
Exchange Rate (Average)	LC per USD	1.3	1.3	1.3	1.3	1.3	1.3	-	-
Non-Performing Loans/Total Gross Loans	%	0.5	0.5	0.5	0.4	0.3	0.5	-	-
Private debt, loans and debt securities/GDP	%	216.2	220.1	245.7	230.2	215.9	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	AA+	October 3, 2024

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Criteria Applied

CareEdge Sovereign Rating Methodology

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