

CANADA
JANUARY 2009

CREDIT GUARANTEE COUNTRY PROFILE:

IES/02: ATTACHMENT N

| Country Rating | <u>S/T Business Cycle Indicator</u> | <u>S/T Political Indicator</u> | <u>Debt Recovery</u> |
|-----------------------|--|---------------------------------------|---|
| 1A | ↓ | → | Debt recovery best suited to the legal route or the use of a good collection agent. |

Credit Guarantee Experience

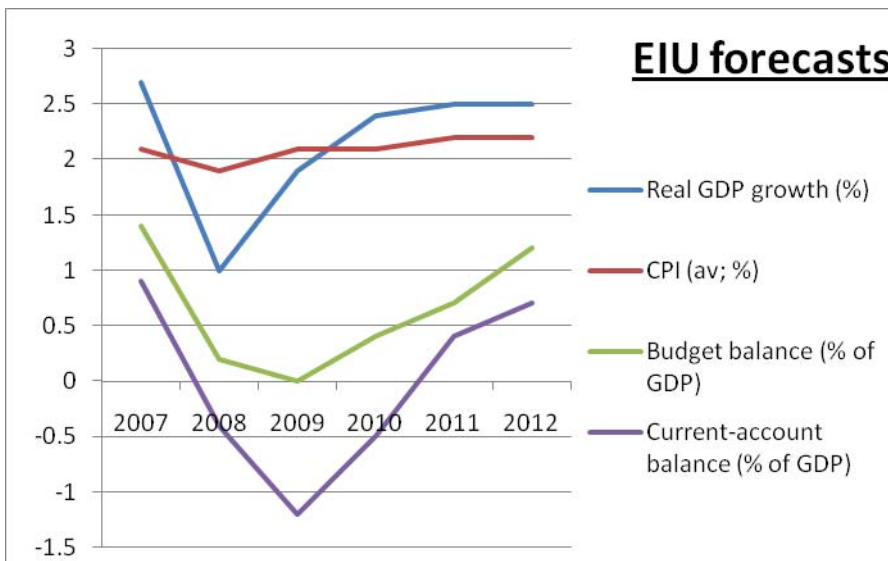
We are open for cover in this market without any restriction where our exposure is reasonable. This market has not been claims free and given the current global conditions it is important that exporters conducting unsecured business transactions ensure that they know the customers they are dealing with and take all the necessary precautions to adequately protect themselves against the eventuality of non-payment.

Recent Political Highlights

- ❑ Canada is formally a constitutional monarchy, with the governor-general acting as the representative of the British crown. Chief of state is Queen Elizabeth II, represented by since September 2005. Prime Minister since February 2006 is Stephen Harper.
- ❑ Following legislative elections, the leader of the majority party or coalition in the House of Commons is automatically designated prime minister by the governor general. Next elections for the House of Commons are scheduled for October 2009. The EIU expects the next general election whether early or as scheduled to produce another Conservative victory.
- ❑ Canada's opposition parties will vote against the Conservative government's fiscal update, sparking speculation the country could face another election in the midst of a global economic crisis. Criticism concerning the fiscal update stems from the fact that it contains no stimulus package to spur Canada's slumping economy and offers no protection for workers during the crisis. Opposition parties have also berated the finance minister's plan to eliminate \$30 million in public subsidies all political parties receive.
- ❑ NDP leader Jack Layton and Liberal Leader Stephane Dion have signed a historic accord to form a coalition government to replace Prime Minister Harper's Conservatives. Dion and Layton signed a deal to work together through to June 2011. Liberal leader Dion would serve as prime minister but their plan to assume government would require the blessing of the governor-general. On the 4th of December Mr Harper asked the Governor-General Michaelle Jean to suspend parliament until January, avoiding a confidence vote that was expected on December 8. The opposition holds 163 of the 308 seats in the House of Commons.

Recent Economic Trends

- ❑ The population of Canada is estimated at 33.2m with an annual growth rate of 0.83%. Canada faces long-term fiscal challenges related to population ageing and the old-age dependency ratio is expected to more than double over the next fifty years putting pressure on public spending.
- ❑ The finance minister has revealed that Canada's minority Conservative government will focus on long term ways for stimulating the economy rather than repeating the US mistake of sending out one-time tax rebate cheques, whose positive impact lasted for just one quarter. The minister will present his next budget on January 27, 2009. He said while he preferred permanent stimulus measures such as tax cuts the government would also have to spend money helping out troubled sectors such as the auto industry. The economy is forecast to grow 1.4% this year and 2% next year. The EIU has downgraded its growth forecast from 1.4% to 0.9%, reflecting a more cautious view of private consumption prospects in light of the downgrading of the outlook of the US economy. The average annual rate of inflation is forecast at 3% in 2008
- ❑ Export volumes will continue to be depressed by the strength of the Canadian dollar. Currency appreciation, together with the worldwide turmoil in credit markets and associated weakening in foreign demand has caused a sharp drop in Canada's net exports, slowing growth.
- ❑ From a small surplus forecast for 2008, the EIU expects the current account balance is likely to move into deficit in 2008 for the first time since 1998 driven by narrowing merchandise trade surplus as external demand and commodity prices moderate and imports grow strongly. The current account balance is forecast to decline from a surplus of 0.9% of GDP in 2007 to a deficit of 0.4% and 1.2% in 2008 and 2009 respectively.
- ❑ Total government net debt as a percentage of GDP has declined from 71% in 1995 to about 23% in 2007.



- ❑ The military mission in Afghanistan could cost a total of \$18.1bn by 2011. Canada has spent \$7.7bn to \$10.5bn on costs related to its mission in the past six years. Lack of government consistency and transparency has made figures difficult to estimate. The mission began in 2002 and Canada currently has about 2,500 troops in Afghanistan’s volatile Kandahar province. Opposition Liberals who were in power when the Afghan mission began were quick to point out that the conservatives had campaigned before the last election on a promise to be a more transparent and accountable government.

Recent Trade Developments

- ❑ Main exports: motor vehicles and parts, industrial machinery, aircraft, telecommunications equipment, chemicals, plastics, fertilizers, wood pulp, timber, crude petroleum, natural gas, electricity and aluminium.
- ❑ Main imports: machinery and equipment, motor vehicles and parts, crude oil, chemicals, electricity and durable consumer goods.
- ❑ Canada is highly integrated with the US economy which absorbed 76% of its exports and was the source of 65% of its goods imports in 2007. Other major trade partners include UK, Japan and Mexico.
- ❑ South African exports to the totaled R3.1bn in 2006, R5.3bn in 2007 and R557m in the year-to-March 2008. Imports totaled R3.4bn in 2006, R5.2bn in 2007 and R1.5bn in the year-to-March 2008.

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