Highlights of the Sovereign Rating on Canada

Updated Rating
Long-term Local Currency: AAA_i
Long-term Foreign Currency: AAA_i
Outlook：Stable

Previous Rating
Long-term Local Currency: AAA_i
Long-term Foreign Currency: AAA_i
Outlook: Stable

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Rating Opinions

United Ratings has decided to maintain the long-term local and foreign currency ratings of Canada at AAAi, with Stable outlook. The Freedom Party government has stabilized their reign and the efficiency of their policies is expected to improve. There is limited scope for a rebound in commodity prices, and the country's economy will languish in the near term. The government stepped up its fiscal stimulus, and the rise in fiscal deficit will slightly push up government debt. Canada's central bank has implemented a prudent monetary policy which helps prevent risks in the real estate market, but the exorbitant household debts are not to be overlooked. CAD-USD exchange rate will remain volatile, current account deficit is narrowing, but external risks are controllable in general. To conclude, no significant change has been observed in the Canadian federal government's local and foreign currency debt servicing abilities.

Reasons for Maintaining Ratings

- The Freedom Party stabilized its reign after the general election and government stability and policy efficiency are likely to be enhanced.
- The soft diplomatic policies continue to play an active role in leveraging its ties with key trade partner nations, reflecting the long-upheld national interests and a diplomatic policy that features constructive international balance, creating a virtuous external environment for growth within its border.
- In the near term, economy will remain sluggish and grow at a lower rate.
- Fiscal deficit increases significantly, and policy liability level edges up slightly.
- The biggest risk facing Canada's banking sector at the moment is the burst of the property credit bubble triggered by a possible price slump in properties.
- CAD-USD exchange rate will experience significant volatility, and Canada's current account deficit is likely to narrow slightly.

Outlook

In the short term, the Canadian government will maintain good stability and policy efficiency but economic growth will struggle to pick up in the near term; the rise in fiscal deficit will slightly push up government debts, resulting in slightly increased but generally stable external risks in the short term. Should the economy worsen, the possible property price decline will amplify the vulnerability of its financial system, but risks are controllable in the short term. As such, United Ratings maintains Stable outlook on Canada's home and foreign currency ratings for the coming 1-2 years.

Key Indicators of the Sovereign Rating on Canada

	2011	2012	2013	2014	2015	2016[f]
Nominal GDP （billion USD）	1,789.60	1,823.90	1,837.10	1,786.10	1,552.70	1,541.00
GDP per capita （USD）	51,871.30	52,308.30	52,144.30	50,187.50	43,203.60	42,470.00
Real GDP growth （%）	3.1	1.7	2.2	2.5	1.2	1.5
Inflation rate (%)	2.9	1.5	0.9	1.9	1.1	1.5
Total lending/GDP (%)	181.0	186.0	188.9	192.3	203.8	215.9
Domestic credit growth (%)	5.8	6.2	5.4	6.2	6.0	5.0
M2 growth (%)	3.5	2.3	-0.2	-0.6	1.1	3.2
Budget balance of governments/GDP (%)	-3.3	-2.5	-1.9	-0.5	-1.7	-2.5
Primary balance of governments/GDP (%)	-2.7	-1.8	-1.2	0.0	-0.7	-1.6
Public debt/GDP (%)	89.1	92.9	90.3	93.2	98.6	98.9
Current-account balance/GDP (%)	-2.8	-3.6	-3.2	-2.3	-3.3	-3.0

Source: Sovereign Rating Database of United Ratings.
Note: the fiscal data are of a fiscal year ending up by March 31st, "f" stands for forecasts.