Decide with Confidence

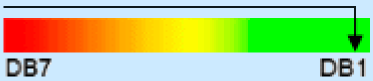
D&B Country RiskLine Report

CANADA

Region : The Americas
Edition : September 2009

D&B Country Risk Indicator

DB1d



This "DB" Rating Indicates:

Lowest risk

Lowest degree of uncertainty associated with expected returns, such as export payments, and foreign debt and equity servicing.

Trend

Deteriorating

The country's overall risk profile is deteriorating owing to adverse political, commercial, economic and/or external developments

The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

> *Political risk* - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;
>
> *Commercial risk* - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;
>
> *External risk* - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;
>
> *Macroeconomic risk* - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	33.2m
Surface area (sq km):	9,984,670
Capital:	Ottawa
Timezone:	GMT -05:00
Official languages:	English; French
Head of government:	Prime Minister Stephen HARPER
GDP (USD):	1.4trn
GDP per capita (USD):	42,334
Life expectancy (years):	80
Literacy (% of adult pop.):	99.9

Country Overview:

Canada comprises ten provinces and three territories, and has the second-largest surface area of any country in the world. The low-lying region of southeastern Canada has more than half of the nation's population. Canada 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; the terrain is mostly plains, with mountains in the west and lowlands in the southeast.

As an affluent, high-tech industrial society, Canada closely resembles the US in its market-oriented economic system, pattern of production and high living standards. Since the Second World War, the growth of the manufacturing, mining and service sectors has transformed the nation from a largely rural economy into a primarily industrial and urban economy. With abundant natural resources (including hydrocarbons), a skilled workforce and modern capital plant, Canada has solid economic prospects.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	OA

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

Recommended Terms:	OA

D&B'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.

Transfer Situation

Local Delays:	0-1 month

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

FX/Bank Delays:	0-1 month

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.

Trade & Commercial Environment

A large number of Canadian businesses have finally moved into the terminal stages of financial stress as a result of the economic downturn. In June, total business bankruptcies increased by 10.8% year on year (the largest number of firms filing for insolvency were in the provinces of Ontario, Quebec and British Columbia). D&B expects that the number of insolvencies will continue to increase in the quarters ahead. Accordingly, those doing business with Canadian firms should take precautions and monitor counterparties' credit worthiness and trading status carefully. D&B expects that tight credit conditions and weak sales growth will lengthen payment delays, throughout the second half of 2009, especially among firms with tight product cycles and shallow cash reserves.

Export Credit Agencies

US Eximbank	Full cover available
Atradius	Full cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

	2006	2007	2008	2009f	2010f
Real GDP growth, %	2.8	2.7	0.5	-2.0	0.5
Inflation, annual ave, %	2.0	2.1	2.3	1.0	2.0
Govt balance, % GDP	1.4	1.2	-0.1	-2.7	-2.5
Unemployment, %	6.5	6.0	6.4	8.7	8.7
C/A balance, % GDP	1.6	0.9	0.5	-0.2	0.2

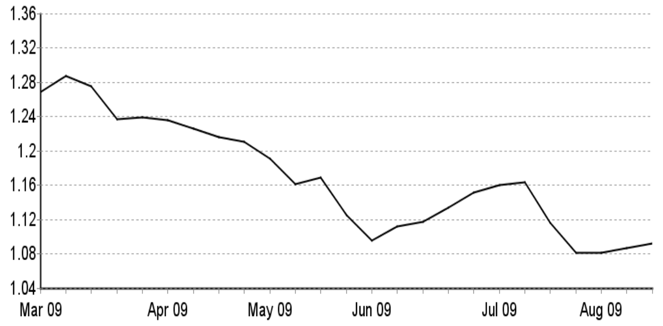
All economic indicators except inflation follow OECD definitions; the "Long-Term Interest Rate" chart tracks long-term federal government bond yields.

Currency Information

Exchange Rates (London, 17 Aug 09)	
EUR	1.555
GBP	1.8057
JPY*	1.1556
USD	1.0924
*(x 100)	

Local Currency

(Canadian dollar [CAD]: USD)

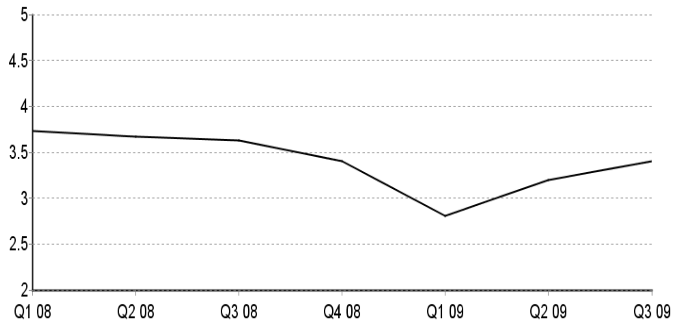


Local Currency (Canadian dollar [CAD]: USD)						
	Mar 09	**Apr 09**	**May 09**	**Jun 09**	**Jul 09**	**Aug 09**
Week 1	1.269	1.235	1.190	1.096	1.160	1.081
Week 2	1.287	1.226	1.161	1.112	1.164	1.086
Week 3	1.275	1.216	1.169	1.118	1.116	1.092
Week 4	1.237	1.211	1.125	1.134	1.081	
Week 5	1.239			1.151		

Long-Term Interest Rate

Long-Term Interest Rate

(%, per annum)



Data Table						
Q1 08	**Q2 08**	**Q3 08**	**Q4 08**	**Q1 09**	**Q2 09**	**Q3 09**
3.73	3.67	3.63	3.4	2.81	3.2	3.4

Risk Factor

Business indicators remained mixed after the economy continued to deteriorate in Q2. Since late 2008, firms have severely retrenched, reducing costs by aggressively limiting new purchases, eliminating inventories, instituting hiring freezes, trimming bonuses and reducing working hours. However, in July, the Ivey Purchasing Manager's Index, which considers the purchasing activity of Canadian firms, showed that purchases increased over the previous month for the second straight month, the first consecutive monthly expansion since October 2008; and, firms shifted to building up their inventories after a long period of intense destocking that started in November.

Nevertheless, employment data, which is released ahead of other economic indicators, suggest that any economic recovery in Q3 will be at best modest. In July, employment contracted by 0.3% month on month, the sharpest decline since March. The largest job cuts were in the construction industry and food and accommodation services. While the unemployment rate remained at 8.6% in July, that was only because many of those people already out of work stopped looking for new jobs, effectively withdrawing themselves from the labour market. Weak job prospects will constrain consumer demand in the months ahead. Already, late payments by consumers on their debt are up sharply, and consumer insolvency has risen even more quickly than business insolvencies. Positively, more firms expect to hire new workers as opposed to further cut their work force in the next 12 months, according to the Bank of Canada's most recent *Business Outlook Survey* released in July. The survey also indicated that the majority of Canadian businesses now expect sales to improve. However, most firms expect to cut back further on investment; few firms have any capacity constraints, and only a minority would have difficulty ramping up production to meet an increase in demand.

Despite the Bank of Canada's accommodative monetary policy (in place since late 2008), credit conditions (both allocation and terms) continued to tighten for many firms in Q2. However, the Bank of Canada's *Senior Loan Officer Survey*, released in July, noted that the tightening was largely restricted to the industries most affected by the recession, especially the auto, forestry and transportation sectors. Tight lending conditions, alongside weak demand by the private sector, meant that business credit shrank in the first half of 2009. In July, the Bank of Canada re-confirmed that it would maintain its target for the overnight lending rate (its policy rate) at 0.25%, its effective lower limit, until the end of Q2 2010 to help to keep market interest rates low and stimulate demand. D&B expects the efficacy of this policy to be limited; rising inflation expectations and banks' reluctance to lend have already pushed up many market rates since Q1.

Glossary & Definitions

DEFINITIONS

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Recommended Terms:

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Usual Terms:

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

Local Delays:

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

F/X Bank Delays:

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.

C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:
Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:
The balance of government expenditure and receipts.

Real GDP growth, %:
GDP adjusted for inflation.

Inflation, %:
The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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