

In 2023, according to OECD, the Real GDP growth is anticipated to decrease to 1.4% as higher borrowing costs exert pressure on economic activity. The economy will be affected by lower commodity prices, offsetting last year's gains in terms of trade. As the impact of higher interest rates continues to permeate through the economy, the expected economic growth will slow, averaging around 1% in the latter half of this year and the first half of the next. Consequently, real GDP growth is projected to reach 1.8% in 2023 and 1.2% in 2024.

Inflation in Canada has been on a downward trajectory, and the Central Bank projects it to hover around 3% for the upcoming year, eventually returning to the 2% target by mid-2025. The reduction in fiscal support is expected to help cool demand, especially as living-cost relief measures are phased out. Additionally, there are plans to reverse provincial fuel tax concessions, complementing incentives for green investments being scaled up by the federal government. Affirming.

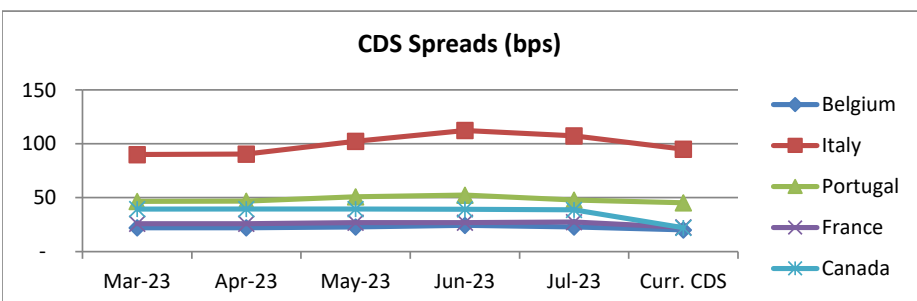
Annual Ratios (source for past results: IMF)

CREDIT POSITION	2020	2021	2022	P2023	P2024	P2025
Debt/ GDP (%)	125.9	115.1	106.6	98.6	91.3	84.5
Govt. Sur/Def to GDP (%)	-11.4	-2.6	-2.4	3.7	3.2	2.8
Adjusted Debt/GDP (%)	125.9	115.1	106.6	98.7	91.4	84.6
Interest Expense/ Taxes (%)	9.8	9.1	9.1	9.3	9.5	9.8
GDP Growth (%)	-4.5	13.6	10.9	2.5	3.6	3.6
Foreign Reserves/Debt (%)	3.4	3.5	3.7	4.0	4.3	4.5
Implied Sen. Rating	A-	AA-	AA	AA	AA+	AA+

INDICATIVE CREDIT RATIOS

	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

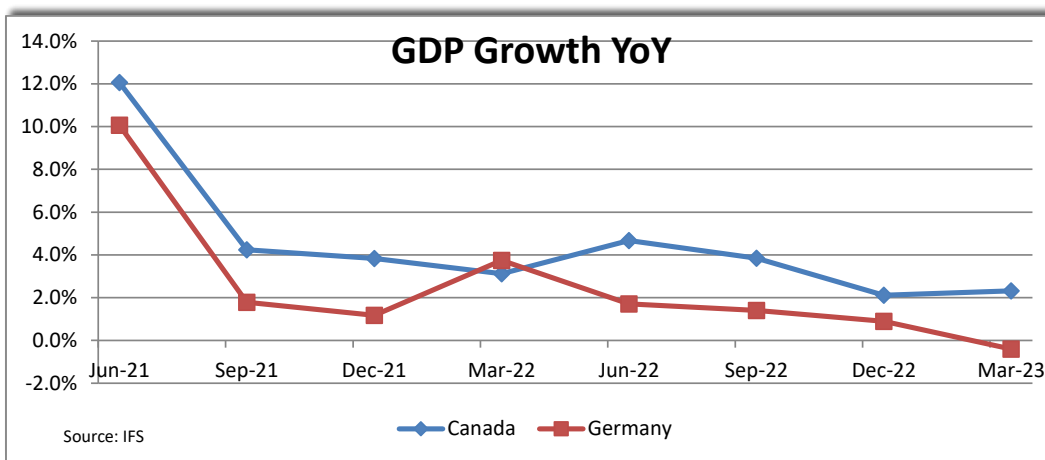
PEER RATIOS	Other NRSRO Sen.	Debt as a % of GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	65.3	-2.6	65.3	2.7	7.4	AA+
Republic Of Austria	AA+	83.0	-1.8	83.0	3.4	10.0	BBB
French Republic	AA	117.1	-4.2	117.1	6.1	5.5	BB+
United Kingdom	AA	147.9	-5.5	147.9	15.0	9.7	BBB-



Country	EJR Rtg.	CDS
Belgium	A+	20
Italy	A+	95
Portugal	A+	45
France	AA-	23
Canada	AA	22

**Economic Growth**

In Q1'23, economic growth surpassed expectations, displaying strength in manufacturing, construction, and services sectors, effectively compensating for production declines in natural resources industries. However, the housing market continues to be impacted by higher borrowing costs, leading to reduced activity. While metropolitan housing prices and home sales have declined compared to the previous year, there are signs of stabilization. Despite market expectations of lower interest rates in the coming year, a sustained increase in building approvals, a precursor to a residential construction recovery, is yet to materialize. Business investment intentions are dampened by elevated credit costs and weak sales growth projections. Surprisingly, retail activity has not experienced the anticipated downturn, despite the erosion of purchasing power caused by high inflation.



**Fiscal Policy**

The current contractionary monetary policy is effectively curbing demand, which currently exceeds the sustainable productive capacity of the economy, and helping to stabilize inflation expectations. To achieve a lasting return of inflation to the target, the policy rate is expected to remain at its current level of 4.5% until mid-2024. As output approaches potential in the latter part of the next year, the policy rate is projected to be gradually lowered towards more neutral levels. The forecasts include a 50-basis-point reduction in the benchmark interest rate by the end of 2024.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Canada	-2.38	106.60	22.13
Germany	-2.62	65.28	15.01
Netherlands	0.28	54.65	22.50
Austria	-1.82	82.97	20.17
France	-4.25	117.11	95.04
United Kingdom	-5.52	147.88	45.31

Sources: Thomson Reuters and IFS

**Unemployment**

In June 2023, the unemployment rate in Canada saw a slight increase to 5.4% from the previous month's 5.2%. This rate marked the highest since February 2022 and was marginally above market estimates of 5.3%. However, it was only the second monthly increase since August 2022, and the jobless rate remained significantly lower than pre-pandemic levels in 2020, highlighting the tightness in the labor market.

	Unemployment (%)	
	2021	2022
Canada	7.47	0.00
Germany	3.58	3.07
Netherlands	4.23	3.54
Austria	6.20	4.76
France	7.88	7.32
United Kingdom	4.00	3.70

Source: Intl. Finance Statistics

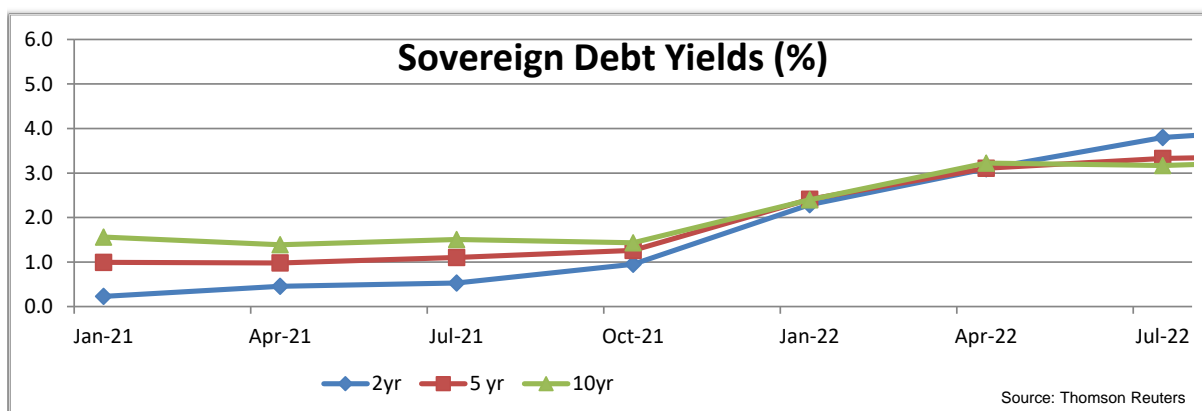
**Banking Sector**

The Canadian banking system maintains its strength, but it is not impervious to international developments. Canada's major banks' reliance on wholesale funding renders them susceptible to deteriorating conditions in global financial markets. Should the cost of wholesale funding experience a substantial increase due to prolonged global financial stress, Canadian banks may be compelled to tighten lending conditions.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
ROYAL BANK OF CA	1917.22	9.07
TORONTO-DOM BANK	1917.53	7.68
BANK OF NOVA SCO	1349.42	5.65
BANK OF MONTREAL	1139.20	7.46
CAN IMPL BK COMM	<u>943.60</u>	<u>5.36</u>
Total	7,267.0	
EJR's est. of cap shortfall at 10% of assets less market cap		193.6
Canada's GDP		2,782.6

**Funding Costs**

As anticipated by the markets, the Bank of Canada implemented another 25 basis points increase in its overnight rate, bringing it to 5% in July 2023. This move follows the surprise rate hike of 25 basis points in the previous meeting and extends the central bank's tightening cycle, which had experienced a brief pause in March and April. The decision was influenced by stronger-than-expected consumption and persistently tight labor markets, which have contributed to sustained inflationary pressures in the services sector.



**Ease of Doing Business**

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 23 (1 is best, 189 worst) is strong.

The World Bank's Doing Business Survey*			
	2021	2020	Change in
	Rank	Rank	Rank
<b>Overall Country Rank:</b>	<b>23</b>	<b>23</b>	<b>0</b>
<b>Scores:</b>			
Starting a Business	3	3	0
Construction Permits	64	64	0
Getting Electricity	124	124	0
Registering Property	36	36	0
Getting Credit	15	15	0
Protecting Investors	7	7	0
Paying Taxes	19	19	0
Trading Across Borders	51	51	0
Enforcing Contracts	100	100	0
Resolving Insolvency	13	13	0

\* Based on a scale of 1 to 189 with 1 being the highest ranking.

**Economic Freedom**

As can be seen below, Canada is above average in its overall rank of 73.7 for Economic Freedom with 100 being best.

<b>Heritage Foundation 2023 Index of Economic Freedom</b>				
<b>World Rank 73.7*</b>				
	<b>2023 Rank**</b>	<b>2022 Rank</b>	<b>Change in Rank</b>	<b>World Avg.</b>
<b>Property Rights</b>	<b>88.5</b>	<b>89.5</b>	<b>-1.0</b>	<b>53.3</b>
<b>Government Integrity</b>	<b>83.1</b>	<b>86.7</b>	<b>-3.6</b>	<b>44.4</b>
<b>Judicial Effectiveness</b>	<b>95.1</b>	<b>96.4</b>	<b>-1.3</b>	<b>48.3</b>
<b>Tax Burden</b>	<b>75.0</b>	<b>75.7</b>	<b>-0.7</b>	<b>78.1</b>
<b>Gov't Spending</b>	<b>35.0</b>	<b>39.6</b>	<b>-4.6</b>	<b>64.3</b>
<b>Fiscal Health</b>	<b>32.2</b>	<b>62.8</b>	<b>-30.6</b>	<b>54.5</b>
<b>Business Freedom</b>	<b>87.9</b>	<b>78.8</b>	<b>9.1</b>	<b>59.8</b>
<b>Labor Freedom</b>	<b>69.0</b>	<b>68.7</b>	<b>0.3</b>	<b>55.5</b>
<b>Monetary Freedom</b>	<b>74.8</b>	<b>78.2</b>	<b>-3.4</b>	<b>72.1</b>
<b>Trade Freedom</b>	<b>83.4</b>	<b>83.2</b>	<b>0.2</b>	<b>69.6</b>

\*Based on a scale of 1-100 with 100 being the highest ranking.  
 \*\*The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).  
 Source: The Heritage Foundation

**Credit Quality Driver: Taxes Growth:**

GOVERNMENT OF CANADA has not reported revenues in the fiscal year prior to the most recent fiscal year end. We expect tax revenues will grow approximately 0.0% per annum over the next couple of years and 0.0% per annum for the next couple of years thereafter.

**Credit Quality Driver: Total Revenue Growth:**

GOVERNMENT OF CANADA's total revenue growth has been less than its peers and we assumed no decline in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Taxes Growth%	7.9	0.0		
Social Contributions Growth %	6.2	0.0		
Grant Revenue Growth %	0.0	0.0		
Other Revenue Growth %	0.0	0.0		
Other Operating Income Growth%	0.0	0.0		
Total Revenue Growth%	7.3	0.0		
Compensation of Employees Growth%	4.2	0.0		
Use of Goods & Services Growth%	6.4	0.0		
Social Benefits Growth%	3.5	0.0		
Subsidies Growth%	(34.8)	0.0		
Other Expenses Growth%	11.1	11.1	11.1	11.1
Interest Expense	1.8	2.3	2.3	
Currency and Deposits (asset) Growth%	(12.2)	0.0		
Securities other than Shares LT (asset) Growth%	(8.8)	0.0		
Loans (asset) Growth%	(53.2)	(108.9)		
Shares and Other Equity (asset) Growth%	(25.3)	(125.4)	2.0	2.0
Insurance Technical Reserves (asset) Growth%	0.0	1.7	1.7	1.7
Financial Derivatives (asset) Growth%	(49.3)	0.0		
Other Accounts Receivable LT Growth%	3.5	9.6	9.6	9.6
Monetary Gold and SDR's Growth %	0.0	0.0	5.0	5.0
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	(5.0)	(7.9)	3.0	3.0
Currency & Deposits (liability) Growth%	(4.0)	1.5	1.5	1.5
Securities Other than Shares (liability) Growth%	(13.2)	(3.7)	(2.6)	(2.6)
Loans (liability) Growth%	(5.4)	4.7	4.7	4.7
Insurance Technical Reserves (liability) Growth%	0.0	(1.4)	(1.4)	(1.4)
Financial Derivatives (liability) Growth%	0.0	0.0		
Additional ST debt (1st year)(billions CAD)	0.0	0.0		

**ANNUAL INCOME STATEMENTS**

Below are GOVERNMENT OF CANADA's annual income statements with the projected years based on the assumptions listed on page 5.

**ANNUAL REVENUE AND EXPENSE STATEMENT  
(BILLIONS CAD)**

	2019	2020	2021	2022	P2023	P2024
Taxes	662	674	759	759	759	759
Social Contributions	108	108	120	120	120	120
Grant Revenue	1	1	1	1	1	1
Other Revenue	168	166	185	185	185	185
Other Operating Income	169	167	186	186	186	186
Total Revenue	939	948	1,065	1,065	1,251	1,251
Compensation of Employees	281	293	317	317	317	317
Use of Goods & Services	200	213	229	229	229	229
Social Benefits	239	367	304	304	304	304
Subsidies	32	118	62	62	62	62
Other Expenses	48	60	59	66	73	81
Grant Expense	5	7	7	7	7	7
Depreciation	76	78	84	84	84	84
Total Expenses excluding interest	882	1,136	1,062	1,062	1,076	1,084
Operating Surplus/Shortfall	57	-187	3	3	175	167
Interest Expense	<u>70</u>	<u>66</u>	<u>69</u>	<u>69</u>	<u>71</u>	<u>72</u>
Net Operating Balance	-13	-253	-66	-66	104	94

**ANNUAL BALANCE SHEETS**

Below are GOVERNMENT OF CANADA's balance sheets with the projected years based on the assumptions listed on page 5.

Base Case	ANNUAL BALANCE SHEETS (BILLIONS CAD)					
	2019	2020	2021	2022	P2023	P2024
<b>ASSETS</b>						
Currency and Deposits (asset)	134	188	227	211	219	219
Securities other than Shares LT (asset)	392	394	414	445	445	445
Loans (asset)	43	61	121	-11	-11	-11
Shares and Other Equity (asset)	11	17	-34	9	9	9
Insurance Technical Reserves (asset)	100	144	173	176	179	183
Financial Derivatives (asset)						
Other Accounts Receivable LT	344	391	422	463	507	556
Monetary Gold and SDR's						
Other Assets					1,460	1,460
Additional Assets	<u>1,087</u>	<u>1,256</u>	<u>1,393</u>	<u>1,460</u>		
Total Financial Assets	2,111	2,452	2,715	2,753	2,809	2,861
<b>LIABILITIES</b>						
Other Accounts Payable	406	455	584	537	553	570
Currency & Deposits (liability)	6	7	7	7	7	7
Securities Other than Shares (liability)	1,936	2,342	2,370	2,281	2,221	2,163
Loans (liability)	185	169	179	188	83	-11
Insurance Technical Reserves (liability)	384	374	352	347	342	337
Financial Derivatives (liability)						
Other Liabilities	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Liabilities	2,917	3,346	3,492	3,360	3,312	3,269
Net Financial Worth	<u>-806</u>	<u>-894</u>	<u>-777</u>	<u>-607</u>	<u>-503</u>	<u>-409</u>
Total Liabilities & Equity	2,111	2,452	2,715	2,753	2,809	2,861

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#### **Comments on the Difference between the Model and Assigned Rating**

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "AA" whereas the ratio-implied rating for the most recent period is "AA"; we expect results to remain approximately the same.

#### **Changes in Indicative Ratios**

We have not made any adjustment in the indicative ratios at this time.



**SEC Rule 17g-7(a) Disclosure**

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

**1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:**

For the issuer GOVERNMENT OF CANADA with the ticker of 80710Z CN we have assigned the senior unsecured rating of AA. There are three notches in our rating categories (e.g., A-, A, and A+) other than those deep into speculative grade; for CC, C, and D there are no notches.

**2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:**

We are using the methodology version #16 available via [egan-jones.com](http://egan-jones.com) under the tab at the bottom of the page "Methodologies".

**3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:**

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to page 3 of this Rating Analysis Report.

**4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:**

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

**5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:**

Our rating is dependant on numerous factors including the reliability, accuracy, and quality of the data relied used in determining the credit rating. The data is sourced from publicly-available 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

**6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:**

EJR does not utilize third-party due diligence services.

**7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:**

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

**8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:**

EJR uses 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, governmental filings and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by issuers.

**9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.****10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:**

This rating is unsolicited.

**11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:**

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

**12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:**

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

**13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:**

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	-	4.0	(4.0)	AA+	AA+	AA
Social Contributions Growth %		3.0	(3.0)	AA+	AA+	AA+
Other Revenue Growth %		3.0	(3.0)	AA+	AA+	AA+
Total Revenue Growth%	-	2.0	(2.0)	AA+	AA+	AA+
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	AA+	AA+	AA+

**14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:**

This credit rating is not assigned to an asset-backed security.

**ATTESTATION FORM**

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

- 1) No part of the credit rating was influenced by any other business activities,
- 2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
- 3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

**Analyst Signature:**

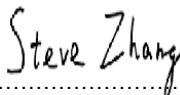
**Today's Date**

.....  
 Subramanian NG  
 Senior Rating Analyst

August 18, 2023  
 .....

**Reviewer Signature:**

**Today's Date**

.....  
  
 Steve Zhang  
 Senior Rating Analyst

August 18, 2023  
 .....

## Sovereign Rating Methodology (Non-NRSRO)

**Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.**

**Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:**

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

*For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.*