Canada

**CRT-1**

August 20, 2020

**Region:** North America

Country Risk Criteria Procedures

Guide to Best’s Country Risk Tiers

- Canada, a CRT-1 country, has very low levels of economic, political, and financial system risk.
- GDP grew 1.6% and is projected to contract by 6.2% in 2020. Growth in 2019 was driven by consumer spending supported by a strong labor market. Containment measures related to the pandemic, along with low global oil prices, have driven the country into a steep recession in 2020.
- Inflation was 1.9% and is expected to decline to 0.6% in 2020 because of continued low oil prices.
- The map depicts the countries AM Best evaluates in North America.

### Regional Summary: North America

- North America is home to the world’s largest economy—the United States at USD21 trillion. The region has not been immune to the unprecedented disruption caused by COVID-19. As two of the world’s most developed nations, the US and Canada have taken significant fiscal and monetary steps to combat the severe economic recession in the wake of the pandemic. The outlook for Mexico, whose fiscal response to the crisis has been limited, is weighed to the downside.
- Despite the two countries’ massive stimulus packages, the region is expected to experience a worse recession than occurred during the global financial crisis in 2008-2009. Unemployment has reached record highs in the US and Canada, and the recovery in 2021 is expected to be tepid.
- The central banks in the US and Canada have adopted aggressive monetary easing, with interest rates near zero.
- The United States-Mexico-Canada Agreement (USMCA) trade agreement has entered into force, but implementation will present challenges in light of the disruptions caused by the pandemic.
Economic Risk: Very Low

- Canada’s fiscal response to the pandemic has been significant, with stimulus measures worth over 25% of GDP. Policies have been focused on supporting the health system and providing direct support to a number of groups, along with expanding unemployment benefits.

- A rise in government debt at both the central and provincial levels related to countercyclical government spending is a longer-term challenge for the country. Canada’s government deficit is expected to reach over 16% in 2020, a reverse from a minor surplus (less than 1%) in 2019.

- The USMCA, which replaced NAFTA, entered into force in July 2020. Trade between the US and Canada is worth over USD700 billion annually, according to the most recent yearly data from the office of the US Trade Representative.

- Economic growth has been characterized by high levels of inclusiveness and sustainability, according to the World Bank Group. Canada ranks 23rd in the world in the Ease of Doing Business Index.

- Although a developed and diversified economy, Canada’s oil industry remains an important part of the economy; the energy sector accounts for over 10% of GDP.

Political Risk: Very Low

- Canada’s central government is currently led by the centrist and pro-business Liberal Party, which lost its majority in the 2019 elections but retained the largest number of legislative seats. Because it lacks a majority, the party requires support from the New Democratic Party, whose agenda includes improved health, education, and environmental policies.

- Prime Minister Justin Trudeau has led the country since 2015.

- Relations among the federal and provincial governments have been strained, particularly in Alberta, British Columbia, Quebec, and Ontario.

- The legal system is well developed, but contract enforcement can sometimes be inefficient.

Financial System Risk: Very Low

- The insurance industry is regulated at both federal and provincial levels. The Office of the Superintendent of Financial Institutions (OSFI) provides prudential oversight of federally regulated insurers, while the Canadian Council of Insurance Regulators focuses on ensuring regulatory consistency.

- Canada’s insurance industry is highly developed and has seen consolidation since 2014.

- In its most recent assessment, the IMF described the financial system as having the capability to manage severe macro financial shocks.