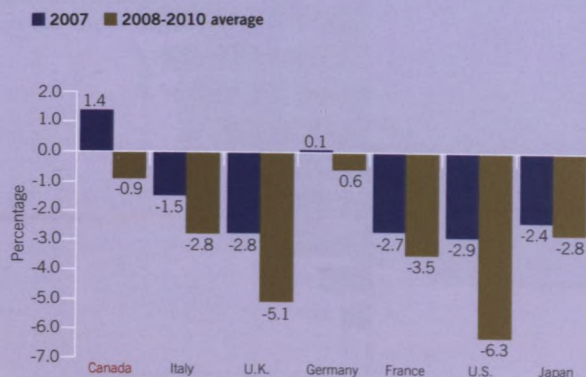


... Despite running an overall deficit, Canada will be in a far better position than most G7 countries when it comes to government finances.



TOTAL GOVERNMENT BUDGET BALANCE IN THE G7, 2007-2010 (PERCENT OF GDP, NATIONAL ACCOUNTS BASIS)

Source: OECD Economic Outlook, Number 84, December 2008.

Likewise, Canadian inflation is low and stable. The EIU projects an annual 2.1-percent increase over the next five years—well within Canada's own inflation-control target of between 1 and 3 percent. Foreign investors can also take comfort in the fact that Canada has enjoyed an AAA international credit rating since 2002.

Like other open economies, Canada is not immune to downward pressure from the ongoing market turmoil. But because it did the right things to shore up its public finances, it now has the strength and flexibility to fight back with a timely fiscal stimulus. Even better, Canada can do so without jeopardizing its budget and inflation targets.

A ROBUST FINANCIAL AND CORPORATE SECTOR

Canada's banking system is the soundest in the world. Already strong in the balance sheet, Canadian corporations are reaping the rewards of this financial stability.

The global economic crisis may be deepening, but Canadian financial institutions remain resilient. According to the World Economic Forum's 2008-2009 *Global Competitiveness Report*, Canada has the soundest banking system anywhere. Foreign investors should note that with an average asset-to-capital multiple of just 18, Canadian banks are much less leveraged than U.S. investment banks (which have an

asset-to-capital multiple of 25), European banks (30) and major global banks (40).

As their international counterparts scramble to reduce leverage, Canadian banks can modestly increase lending. No wonder countries hardest-hit by the crisis—from the United States to Ireland—are looking to Canada for guidance as they rebuild their troubled financial systems.

Canadian banks can also borrow at lower rates than many foreign institutions can. As well, the Bank of Canada has eased its overnight rate substantially since the onset of the crisis. All of this financial flexibility gives the Canadian economy a competitive edge. While the U.S. and several European countries have clawed back credit for business investments, businesses in Canada are not facing unusual credit restrictions.

Like Canadian banks, Canada's corporate sector is ready for the economic challenges that lie ahead. Canadian corporate profit margins (the ratio of operating profits divided by operating revenues) remain high by historical standards. Strong levels of profitability have allowed Canadian firms to strengthen their balance sheets, resulting in all-time low debt-to-equity ratios. Going forward, foreign and domestic companies established in Canada can expect to benefit from the lower Canadian dollar, which will create more demand for Canadian-made goods and services.

“Canada is better placed than many countries to weather the global financial turbulence and worldwide recession. Its resilience can be attributed to three factors: First, a track record of sound macroeconomic policy management has left the country in prime form at the beginning of the global turmoil ... Second, the authorities responded proactively to the crisis ... Third, the focus on financial stability.”

*Charles Kramer,
Division Chief,
Western Hemisphere
Department, International
Monetary Fund.*