Canada’s rating reaffirmed at ‘CareEdge AA+/Stable’

Issuer rating (Long-Term Foreign Currency)	CareEdge AA+/Stable (Unsolicited)

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency Rating of **Canada** at **‘CareEdge AA+/Stable’** (Unsolicited).

Rationale

The reaffirmation of Canada’s rating reflects its large, well-developed and diverse economy. Canada benefits from strong institutional frameworks and a tradition of effective policymaking, which support its economic resilience. On the external front, Canada’s position is bolstered by its positive net international investment position, which provides a substantial buffer against external shocks.

However, these strengths are tempered by high trade concentration with the US. In addition, the government's interest payment-to-revenue ratio remains relatively elevated, while gross general government debt is high. Nevertheless, the impact of these fiscal vulnerabilities is partly mitigated by the government's significant financial asset holdings.

Outlook: Stable

The stable outlook reflects CareEdge Global Ratings’ expectation that the economy is resilient to withstand trade-related uncertainties associated with the USMCA framework, supported by strong fiscal and external buffers.

The government’s substantial financial assets, estimated at 73% of GDP, and Canada’s position as a net international creditor equivalent to 56.6% of GDP as of 2025, are likely to be sustained, providing significant capacity to absorb external and domestic economic shocks.

Upside scenario

Canada’s outlook could be revised to positive if economic growth is significantly higher than current expectations for a sustained period, accompanied by an improvement in the country's debt trajectory and interest-to-revenue ratio.

Downside scenario

Downside risks to Canada’s credit ratings may arise from a significant decline in economic growth and activity, particularly if trade tensions with the US result in a greater reduction in export demand than expected.

In addition, a sustained increase in the government debt burden and interest-to-revenue ratios could exert pressure on the sovereign's credit profile. Any weakening of institutional cohesion, including risks arising from Alberta's proposed referendum, could also weigh on the country's institutional as well as overall credit profile.

Key rating drivers

Economic structure & resilience

Canada's economic assessment is underpinned by its large economic size (USD 2,320 billion as of 2025) and high GDP per capita (USD 57,245 on PPP constant prices, as of 2025), reflecting a wealthy and diversified economy with significant share of oil, metal, mineral, manufacturing, services and agriculture sectors. However, these strengths are partially constrained by a high degree of trade dependence on the US, which remains Canada's largest export market. Approximately 71.5% of Canada's exports were destined for the US in 2025, highlighting the economy's vulnerability to shifts in US trade policy and economic conditions.

Since early 2025, Canada and the US have been engaged in a tariff dispute, increasing risks to the former's trade and investment outlook. The US initially imposed a 25% tariff on all Canadian exports and a 10% levy on energy shipments. Subsequently, Canadian goods compliant with the United States-Mexico-Canada Agreement (USMCA) were exempted, representing approximately 85% of Canada's exports to the US. Nevertheless, tariffs were maintained at 25% on automobiles and semiconductors and 50% on aluminium, copper, and steel exports. In response, Canada introduced targeted countermeasures, including retaliatory tariffs and support programmes for affected industries, particularly the steel, aluminium and automotive sector, aimed at preserving business liquidity and supporting displaced workers. While these measures have helped cushion some near-term impacts, prolonged trade tensions with the US could weigh on investment and business confidence.

Economic growth has moderated amid the challenging trade environment, with real GDP growth easing to 1.7% in 2025 from 2.0% in 2024. GDP growth is projected to average 1.7% over the next five years.

The scheduled 2026 review of the USMCA is a key monitorable, with negotiations expected to focus heavily on rules-of-origin provisions. The outcome of the review, alongside broader tariff developments, will be an important risk to Canada's medium-term growth and investment outlook.

Demographic trends represent another important medium-term challenge. While Canada faces ageing-related pressures like those of many advanced economies, it has historically mitigated these through strong immigration-driven population growth. Going forward, immigration could be impacted in the short run with the government's decision in 2024 to lower temporary and permanent immigration into Canada. Demographic developments and immigration trends remain an important monitorable for Canada's long-term economic resilience.

Fiscal strength

Canada's gross public debt rose to 113.5% of GDP in 2025 from 110% in 2024, reflecting persistent fiscal pressures. However, debt servicing remains manageable, with the average interest-to-revenue ratio at 7.35 over the past five years.

These elevated debt levels are partly offset by Canada's strong sovereign balance sheet. The government (excluding pension fund holdings) holds financial assets of around 73% of GDP as of 2025, of which roughly one-quarter is considered highly liquid. Consequently, net debt stood at a comparatively lower at 44.5% of GDP, excluding pension funds. In addition, the largely contributory nature of the public pension system reduces direct fiscal pressure on the government budget.

According to IMF estimates, the fiscal deficit marginally narrowed to 1.8% of GDP in 2025 from 2.1% in 2024, though it is projected to average 2.2% over the next five years. Looking ahead, Canada's commitment under NATO to raise defence spending to 3.5% of GDP by 2035 is likely to exert upward pressure on government spending.

External position & linkages

Merchandise exports to the US declined by 5.9% in 2025, resulting in the current account deficit widening to 0.9% of GDP in 2025, compared with 0.5% in 2024. However, the deficit remains narrow and is comfortably financed by FDI inflows, which stood at 3% of GDP in 2025.

Going forward, the current account deficit is expected to average 0.3% of GDP over the next five years. Support is likely to come from elevated energy and commodity prices, along with government efforts to diversify trade, including the recent trade agreement with China. However, the outlook is contingent on commodity price volatility, as well as trade tensions with the US.

External debt rose to 150% of GDP in 2025, up from 138% in 2024, reflecting an increase in external liabilities. However, Canada's external position is supported by a strong net creditor position equivalent to 56.6% of GDP in 2025, which provides a meaningful buffer against external vulnerabilities.

Monetary & financial stability

Canada operates under a free-floating exchange rate regime, and the Canadian dollar is actively traded in global foreign exchange markets.

The Bank of Canada targets CPI inflation at 2%, with a target range of 1% to 3% over the medium term. CPI inflation has moderated significantly from its peak of 6.9% in 2022, declining to 2.3% in March 2026. However, inflation subsequently accelerated to 3.2% in May 2026, driven primarily by higher energy prices following the West Asia conflict.

At its latest monetary policy meeting in June 2026, the Bank of Canada maintained its policy rate at 2.25% for the 5th consecutive meeting. In its policy statement, the central bank emphasised its commitment to supporting economic growth, while ensuring that inflation remains sustainably within the target range.

Canada's private sector credit is high at 217% of GDP, reflecting the economy's developed financial system and elevated household indebtedness. Nevertheless, financial sector risks are mitigated by healthy asset quality, with non-performing loans (NPLs) at 0.7% as of Q3 2025, and a well-capitalised banking sector supported by robust regulatory oversight and prudent risk management practices.

Institutions & quality of governance

Canada’s rating is supported by its robust governance structure, strong legal framework, and low levels of corruption. Its regulatory institutions are credible, independent, and transparent. The country performs strongly across the World Bank’s Worldwide Governance Indicators (WGI), ranking above the 90th percentile in five of the six governance dimensions.

Mark Carney assumed office as Prime Minister following Justin Trudeau’s resignation and the Liberal Party’s victory in the 2025 federal election. Initially heading a minority government, Carney has since secured a majority after the April 2026 by-elections, which is expected to enhance the government’s ability to pass legislation and implement its policies and reforms.

Looking ahead, the outcome of Alberta’s referendum to be held in October 2026 and developments following it will bear watching.

Select indicators									
	Unit	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026 F**	**2027F**
Economic indicators									
Nominal GDP	USD billion	1,656	2,022	2,201	2,197	2,270	2,320	2,507	2,640
GDP per capita (constant-PPP)	USD	53,378	56,218	57,876	57,436	56,927	57,245	58,137	59,205
Real GDP growth	%	-5.0	6.0	4.7	2.0	2.0	1.7	1.5	1.9
GFCF/GDP	%	23.2	23.8	23.1	23.0	22.9	22.9	-	-
Gross domestic savings/GDP	%	20.7	24.3	24.6	22.9	22.7	22.2	22.8	22.7
Exports (G&S)/GDP	%	29.5	31.2	33.7	33.3	32.5	31.3	-	-
Working age (15-64) population (% share in total)	%	66.1	65.8	65.5	65.3	65.1	64.8	64.4	64.1
Old age (65+) population (% share in total)	%	18.0	18.5	18.9	19.4	19.8	20.3	20.7	21.2
Fiscal indicators – general government									
Fiscal balance/GDP	%	-10.9	-3.1	0.6	-0.2	-2.1	-1.8	-2.7	-2.5
Revenue/GDP	%	41.4	42.4	41.0	41.6	42.2	42.2	41.9	41.7
Expenditure/GDP	%	52.4	45.5	40.4	41.8	44.3	44.0	44.6	44.2
GG gross debt/GDP	%	118.1	112.6	103.5	105.1	110.0	113.5	110.7	109.5
GG external debt (by creditor)/GG gross debt	%	18.7	21.4	20.4	20.6	23.1	23.7	-	-
Interest/Revenue	%	7.2	6.3	6.6	7.6	8.2	8.0	-	-
External indicators									
Current account balance/GDP	%	-2.0	0.0	-0.5	-0.7	-0.5	-0.9	-0.2	-0.3
FDI, net inflows/GDP	%	1.8	3.0	2.3	2.0	2.8	3.0	-	-
Outstanding FII liabilities/GDP	%	120.2	110.6	95.5	102.0	107.3	128.5	-	-
NIIP/GDP	%	53.4	53.4	33.5	53.1	61.8	56.6	-	-
Foreign exchange reserves	USD billion	90	105	107	118	122	128	-	-
Import cover	Months	2.0	2.0	1.8	1.9	2.0	2.1	-	-
External debt/GDP	%	155.5	136.6	125.7	138.3	138.2	150.8	-	-
Monetary and financial indicators									
CPI inflation	%	0.7	3.4	6.8	3.9	2.4	2.1	2.5	2.1
Exchange Rate (average)	LC per USD	1.3	1.3	1.3	1.4	1.4	1.4	-	-
Non-performing loans/total gross loans	%	0.5	0.4	0.3	0.5	0.6	0.7	-	-
Private debt, loans and debt securities/GDP	%	244.5	230.7	215.2	218.1	217.9	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, Haver Analytics, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. Latest available data for 2025

Solicitation status

The rating is unsolicited, but with limited interaction with relevant authorities of Department of Finance, Government of Canada.

Rating history

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency	CareEdge AA+/Stable	June 26, 2026
Issuer Rating	Long-Term Foreign Currency	CareEdge AA+/Stable	June 27, 2025
Issuer Rating	Long-Term Foreign Currency	CareEdge AA+	October 3, 2024

Criteria applied

CareEdge Sovereign Rating Methodology

Analytical contacts

Kiran Kavala
Kiran.Kavala@careedgeglobal.com

Mihika Sharma
Mihika.Sharma@careedgeglobal.com

Utkarsh Kumar
Utkarsh.Kumar@careedgeglobal.com

Media contact

Mradul Mishra
mradul.mishra@careedge.in

About Us
CareEdge Global IFSC Limited (CareEdge Global) is a full-service Credit Rating Agency (CRA) with a mission of **Empowering Global Capital Market Participants Through Unrivalled Insights and Expertise.** As the first CRA registered and authorized by the International Financial Services Centres Authority (India), CareEdge Global is uniquely positioned to provide comprehensive ratings on a global scale. A part of the CareEdge Group, which is a knowledge-based analytical organisation offering a wide range of services in Credit Ratings, Analytics, Consulting, and Sustainability. Established in 1993, our parent company, **CARE Ratings Limited (CareEdge Ratings)**, stands as India's second-largest rating agency.

CareEdge Global IFSC Limited
(A subsidiary of CARE Ratings Ltd.)
501, FlexOne, GIFT SEZ, Block 15, Gandhinagar, Gujarat – 382050, India. Phone: +91-79-6519 0701 l www.careedgeglobal.com
CIN-U66190GJ2024PLC151103