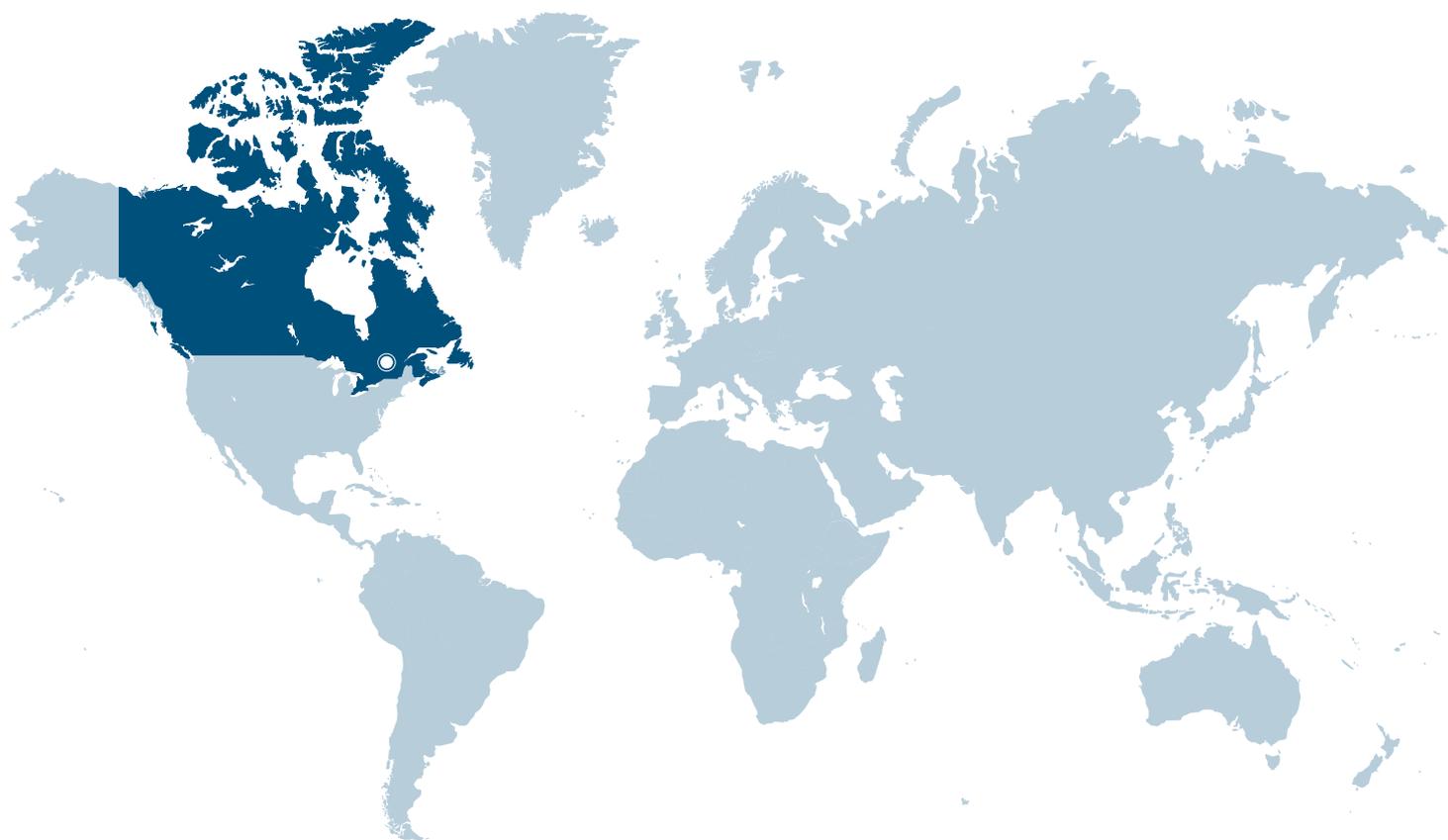




Country outlook ***Canada***





Canada



Form of Government: Federal parliamentary monarchy

Capital: Ottawa

Official language: English and French

Population: 37 million inhabitants (2018)

Currency: Canadian dollar (CAD)

Exchange rate: 1 EUR = 1.44 CAD (30/09/19)
1 USD = 1.32 CAD (30/09/19)

GDP: \$1.712 trillion (1.4% of world GDP)

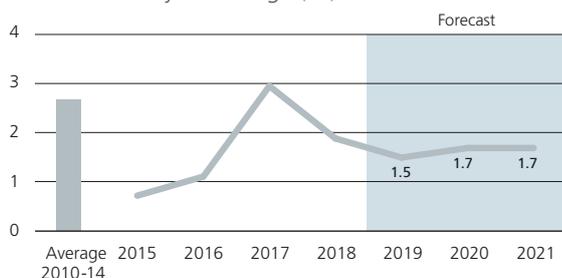
GDP per capita: \$46,290 (\$49,690 purchasing power parity)

Ease of doing business: 23rd in the world out of 190 according to the World Bank (Doing Business)

Religion: Christian: 64.8%. Non-religious: 23.9%

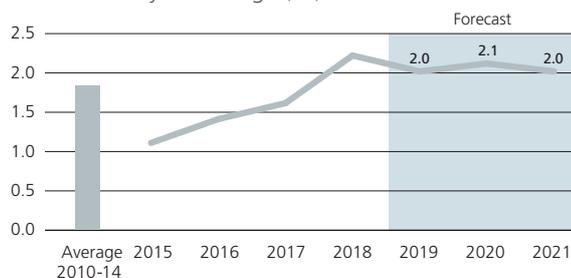
Economic forecast

GDP. Year-on-year change (%)



- Economic growth has been lower in 2019, due to the country's tightening of economic policies (with the aim of reducing certain imbalances, such as the real estate market imbalance), trade tensions, subdued oil prices and disruption to oil production caused by transport capacity problems and fires in the Alberta region. In 2020 and 2021, we forecast a slight acceleration in the rate of growth thanks to an improved trading environment (with the ratification of the USMCA, the new trade agreement between the USA, Canada and Mexico) and new fiscal measures to support business investment.

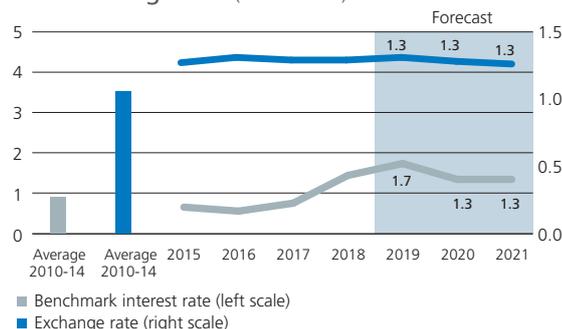
CPI. Year-on-year change (%)



- Inflation will stand at around 2.0% in the coming years, slightly lower than in 2018, due to the absence of significant demand pressures and oil prices that will remain moderate.

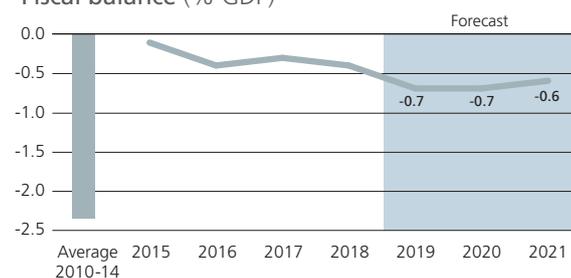
Economic policy

Benchmark interest rate (%) and exchange rate (CAD/USD)

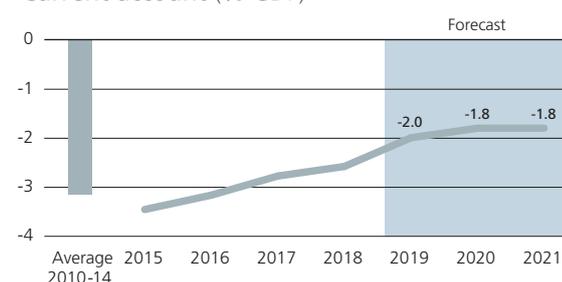


- Benchmark interest rate (left scale)
- Exchange rate (right scale)

Fiscal balance (% GDP)

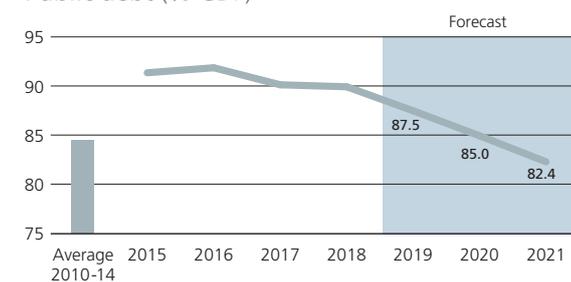


Current account (% GDP)



- Moderate growth by the country's standards, significant global uncertainty and the US Fed's interest rate cuts will support a slightly more accommodative monetary policy over the next few years. Besides, the macroprudential measures designed to reduce macro-financial risks from the real estate sector will continue.

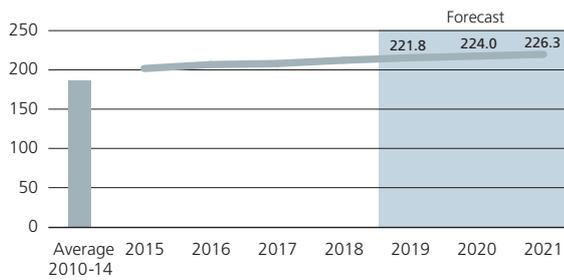
Public debt (% GDP)



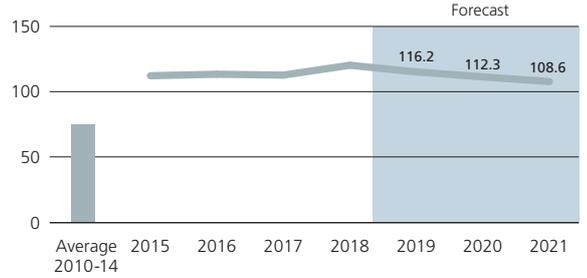
- On the fiscal side, the significant measures to boost business investment will remain in place. These arose due to the corporate tax rate reduction in the US at the end of 2017, which hit the competitiveness of Canadian companies. In turn, with regards to the external sector, the trade agreement with the USA and Mexico to revise the NAFTA (now the USMCA) significantly reduces the external risks. This is especially relevant in an economy such as Canada, which is very open and dependent on the US (destination of three-quarters of its exports).

Financial conditions

Private credit (% GDP)



Gross external debt (% GDP)



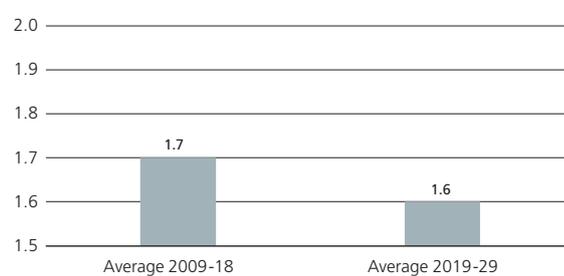
- After rising prices in recent years, the real estate sector represents a significant macro-financial vulnerability that poses risks to the banking sector. However, the macroprudential measures in place for some time have reduced the imbalances in this regard. Furthermore, the banking sector continues to be well capitalised and the NPL ratio is very low (below 1%).
- Externally, the rise in external debt in recent years does not pose a significant risk, as the country continues to be a net creditor to the rest of the world (with a net international investment position of 20% of GDP).

Political situation

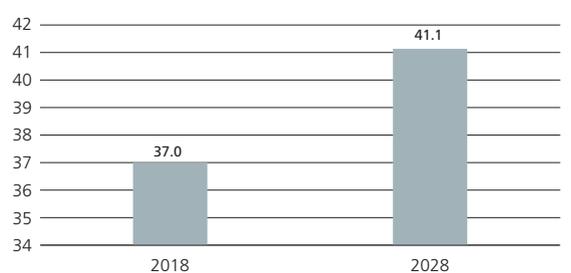
- Regarding the domestic political situation, the Liberal Party, led by Justin Trudeau, won the national elections again in October 2019, but it lost its absolute majority. Trudeau chose to form a minority government (without coalitions), which may hinder agreement on some economic policies. Nevertheless, there should be room for consensus in areas such as climate change and the country's cost of living.
- The country's foreign policy will continue to be focused on stressing the importance of international cooperation, multilateralism and human rights and the need to reduce the effects of climate change, in clear contrast with its southern neighbours.

Long-term outlook

GDP growth (%)



Population (millions of inhabitants)



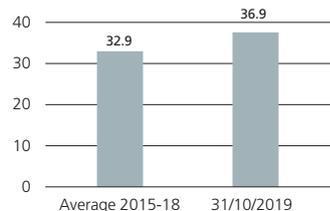
- As with many advanced economies, there are doubts about the Canadian economy's potential growth. This is largely due to phenomena such as an ageing population and weak productivity gains. Moreover, the tax cuts for US companies pose a challenge for Canada's competitiveness, where low taxation was a major factor behind the US investment flows to Canada.
- However, the institutional quality and technological training in the country and the educational level of its workforce are assets that will work in favour of the economy's medium-term growth.

Country risk

	Rating	Last changed	Outlook
STANDARD & POOR'S	AAA	29/07/02	Stable
MOODY'S	Aaa	03/05/02	Stable
FitchRatings	AAA	12/08/04	Stable

■ Indicates that the country has an "investment grade".
 □ Indicates that the country does not have an "investment grade".

CDS* 5 years (basis points)



*Credit default swap: measurement of country risk that reflects the cost of ensuring the non-payment of the sovereign bond.

Risks

SHORT-TERM

- Heavy real estate correction
- Shift towards protectionism
- Weak growth in the US



LONG-TERM

- Change in foreign relations with the US
- Low potential for economic growth
- Dilemma between improving the environment and the energy sector



Business environment

STRENGTHS

- Ease of setting up a business.
- Educational level of workforce.
- Institutional quality.
- Technological training.

WEAKNESSES

- Size of the domestic market.
- Dependence on the US market.
- Ageing population.

Main sectors

EXPORTERS

- Vehicles, mineral fuels, machinery, metals and precious stones, and wood.

IMPORTERS

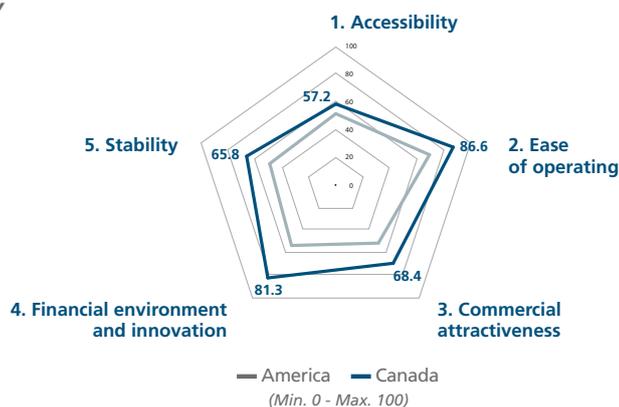
- Vehicles, machinery, electronics, mineral fuels and plastics.

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POSITION IN COUNTRY RANKING

PILLARS



SUBPILLARS

Top
 Easiness of operating a business
 Investment relations with Spain
 Innovation capability

Bottom
 Distance, communications, and agreements with Spain
 Macroeconomic stability
 Similar tastes to Spain

Taxation

The Canadian tax system comprises federal, provincial or territorial and local taxes. The Federal government may use any tax method. The main federal taxes are income tax, corporation tax, Goods and Services Tax (GST) or Harmonized Sales Tax (HST), depending on the province and withholding tax on income earned by non-residents. Provincial governments impose direct taxes on natural or legal persons residing in their territories and in most cases establish indirect sales taxes (Provincial Sales Tax, PST, or Harmonized Sales Tax, HST, which is the combination of the federal GST with the provincial PST).

Income tax for natural persons: income tax for natural persons is a combined rate, i.e. both the

federal and provincial governments apply their own taxation.

Corporate income tax: for 2018, the federal corporate income tax rate is 15%. Companies considered small under federal standards, with a majority of Canadian-held capital, apply a rate of 10%, effective from 1 January 2018. At the provincial level, there are generally two types of rates, a high and a low rate.

Canada does not impose a wealth tax.

Consumption tax: the federal value added tax (GST) tax rate is 5%. This always applies to the selling price. There is also a provincial tax (PST), which varies according to the province of application.

Investment

Foreign investors doing business in Canada are subject to the same tax rules as other companies. The tax treatment of foreign investments varies according to the item:

Dividends: a company may deduct dividends received from another company (e.g. dividends between companies), provided that the profits on which they are paid have been taxed. When dividends are distributed to individual shareholders, they receive a tax credit that allows them to reduce the effective rate at which these earnings are taxed.

Interest on external credits, royalties: in general, a 25% withholding tax is levied on interest paid by Canadian residents to foreign creditors, payments against income and other similar

payments. This income is reduced in the case of payments made to residents of a country with which Canada has a bilateral treaty to avoid double taxation; the minimum rate is 10%. In the case of Spain, the payment for dividends and interest is 15%, while it is 10% for royalties. Services contracted outside Canada: generally, a 15% withholding tax is levied on fees, commissions or other amounts paid for services rendered in Canada by non-residents.

Investment in tangible assets: in general, investment expenditures on tangible assets may not be deductible from taxable income in the year they are incurred. They are depreciated over several years on a declining balance basis as a "cost of capital allocation".

Establishment

TYPES OF COMPANY

Sole proprietorships

All profits and losses derived from the business correspond solely to its owner, without limitations of any kind. This means that the individual's responsibility is not limited to the assets of his/her business, but encompasses each of his/her personal proprietorships. The implicit risk of this unlimited liability can be reduced by means of a specific insurance policy. The yields of these companies are taxed as if they were additional income for the owner.

Partnerships

There are two types of partnership: general and limited. A partnership does not have its own legal personality in Canada. In general partnerships, each partner is jointly and severally liable for the company's commercial paper and debts. Agreements with third parties adopted by any partner are binding on all the others. Limited partnerships comprise one or more general partners and one or more limited partners.

Corporation

This is the most widely used legal form of company in Canada. It has its own legal personality, distinct from that of its owners or shareholders; their liability is limited to their contributions. There is no requirement as to the minimum capital, or the number of shareholders, for the constitution of a company, except in the case of financial institutions. There is also no requirement as to the type of shares to be issued. A corporation can be formed under federal or provincial law. Most commonly, the partnership is established within the federal framework, in accordance with the Canadian Corporate Business Act. Companies incorporated under this law may operate throughout the country, although they are subject to the provincial legislation applicable to them wherever they operate.

Establishment (continuation)

BRANCH

A subsidiary may be incorporated under the Canadian Business Corporation Act (CBCA) or according to each province's applicable law. The parent company shall not be liable for any obligations incurred by the subsidiary as it is legally independent of its parent company, unless the subsidiary is incorporated as an Unlimited Liability Corporation (ULC).

A branch must also be registered in all the provinces where it has decided to operate. You may not acquire a name that is already registered

in that province and, in addition, in Quebec it must be registered under a name in French. In Ontario, a foreign branch incorporated in another jurisdiction must obtain a licence under the Extra-Provincial Corporations Act before it can operate, which is a routine procedure. [Suggested reading: Legal Aspects of Investing and Establishing a Business in Canada; Canada Revenue Agency: rate applicable to income paid or collected by non-residents with whom Canada has a double taxation agreement].

Alliances strategic

FREE TRADE ZONES AND EEZS

Canada has no free trade zones established in its territory; however, there are several programmes that are similar to them. These programmes are run by the Canadian Revenue Agency and the Canadian Border Services Agency:

Duties Relief Program: allows for duty-free import of goods for re-export or that are used in the manufacture of other export goods. The goods have to be exported within four years. Goods can be transferred between programme participants.

Drawback Program: allows for a duty drawback on goods exported for goods that had previously been imported. A refund can be claimed on goods exported in the previous four years.

Customs Bonded Warehouse: free warehouse programme. It is aimed at promotional activities (e.g. fairground) or minimal handling of the goods (labelling, repackaging, inspection,

storage and testing). The importing is exempt of tariffs and indirect taxes. These are paid for when the good is made freely available on the market. Duties do not have to be paid on re-exported goods. Only transactions that do not substantially alter the product are permitted. Goods can be stored up to a maximum of four years.

Export Distribution Centre Program: programme for export-oriented enterprises of imported goods to which they do not add substantial value. Allows the exemption of indirect taxes (GST or HST) on imports of a value greater than C\$1,000 (Canadian dollars).

Exporters of Processing Services Program: a programme aimed at companies offering transformation or repair services for the goods of non-resident third parties. Allows exemption from indirect taxes (GST or HST). The processing period is four years from the date of import.

JOINT VENTURE

Canadian law does not explicitly define the legal form of a joint venture. In general, it designates a temporary association between two or more parties with a precise objective, which once achieved, will also bring about the dissolution of the company. The joint venture is not recognised as an independent legal entity, so there are no formal regulations, but it is normal for the parties to establish a precise agreement in writing.

For tax purposes, in a joint venture, each of the parties may individually claim deductions for capital amortisation. By way of comparison, in partnerships these deductions would be claimed jointly and distributed equally among the members.

Customs conditions

FREE TRADE AGREEMENTS

The CETA (Comprehensive Economic and Trade Agreement between the EU and Canada) removes 99% of tariffs between the EU and Canada. With the provisional entry into force of the agreement on 21 September 2017, most tariffs have been eliminated. On the other hand, the USMCA free trade agreement (formerly NAFTA) has practically eliminated all trade barriers between the US, Mexico and Canada. Canada has signed bilateral free trade agreements with Chile, Colombia, Costa Rica, Honduras, Israel, Jordan, Panama, Peru, Mexico, the European Free Trade Association (EFTA), South Korea, Ukraine and the USA. On the other hand, following the

US rejection of the agreement with the countries of the Trans-Pacific Partnership (TPP), Canada participated with the other 10 remaining countries in the negotiation of a new agreement (CPTPP). The negotiation concluded in January 2018 and the signing of the agreement took place in early March in Chile. Canada is also currently negotiating free trade agreements with CA4, CARICOM, India, Japan, Morocco, the Dominican Republic and Singapore. At the same time, talks have begun to develop similar agreements with China, Turkey, Thailand, the Philippines, Mercosur and the 11 ASEAN countries.

Negotiations and protocol

BUSINESS CULTURE

Business culture varies somewhat across Canada, depending on the region, and most Canadians identify strongly with their province. Punctuality is crucial, and any delays must be reported by telephone. A delay of more than 20 minutes may result in a postponement. It is better to make an appointment for a first meeting. Appointment requests can be made by phone or email and will be quickly confirmed if the prospective partner is interested. Canadians usually shake hands with both men and women. Greetings begin with a handshake, followed by a presentation about ourselves and

our company. It is customary to address a counterpart as "Mr" or "Ms", followed by their surname, and use any title they may have ("Doctor", etc.). The Canadian Government and some companies have decided to adopt a code of conduct prohibiting the acceptance of gifts in certain circumstances. If an offer is considered to be of real interest, the response arrives very quickly. Often, agreements are only sealed by a handshake and a written order. The latter must be confirmed by a letter setting out the terms and conditions discussed. A formal contract is always welcome.

Top fairs

- The P3 Government Conference (infrastructure).
- Canwea Conference (energy).
- Aeromart (aviation).
- NIPSB.C Home & Garden Show 2019.
- ISA Calgary Show (robotics).
- SIAL Canada (food).
- PackEx (packaging).
- STI & HIV World Congress (technology and science).
- Virus Bulletin (computing).
- RAP (human resources).
- IPE (energy).
- External Development Summit (engineering software).
- Fan Expo Canada (comics).
- ASAE Annual Meeting (trade fairs).
- Technibois Canada (wood).

Websites of interest

- Government of Canada: <https://www.canada.ca>
- Global Issues Canada: <http://www.international.gc.ca>
- Canadian Chamber of Commerce: <http://www.chamber.ca>
- International trade and investment: <https://www.canada.ca>
- Canadian companies: <https://www.canada.ca>
- Invest in Canada: <http://www.investcanada.ca>
- Bank of Canada: <https://www.bankofcanada.ca>

Payment and charging methods

MEANS OF COLLECTION

It is common for businesses and individuals to have accounts in multiple currencies. The US dollar, euro and Canadian dollar are common commercial currencies. Payments in foreign currency are

accepted by most companies and commercial establishments, especially in US dollars, but with a commission percentage and an exchange rate that varies according to the value of the same.

MEANS OF PAYMENT

A single law governs bills of exchange, commercial paper and cheques across Canada; however, this law is often interpreted in accordance with the precedents of customary law in the nine provinces or in accordance with the Quebec Civil Code. As such, sellers are advised to accept such payment methods unless long-term business relationships, based on mutual trust, have been established with the buyers. Centralised accounts, which greatly simplify the centralised settlement process for

settlement procedures between local buyers and sellers, are also used in Canada. SWIFT bank transfers are the most commonly used payment method for international transactions. The Large Value Transfer System (LVTS) introduced by the Canadian Payments Association facilitates electronic transfers of Canadian dollars throughout the country and can also handle the Canadian portion of international transactions. Cheques are one of the most common methods of payment.

EXCHANGE RATE INSURANCE

The Bank of Canada (BoC) is responsible for setting fixed rates when exchanging foreign exchange between customer and bank.

CaixaBank in the country

The main aim of the Canada office is to offer consulting to multinational companies on the products and services CaixaBank makes available to them to cover their financial needs in Europe.

Moreover, it supports and offers the necessary advice to Spanish firms to develop their business in Canada.

CaixaBank in the world

- Branches
- Representative offices
- Spanish Desks

