FIERA REAL ESTATE

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Canadian Real Estate

The World's Best Kept Secret

The secret is beginning to be unlocked; it is time to pay attention to Canadian real estate.

Canadians have a reputation for politeness and tend not to boast. This humble approach should be set aside for the benefit of global real estate investors – the merits, track record, and the prospects of Canadian real estate should be trumpeted now more than ever.

The Canadian real estate market has demonstrated stronger overall performance metrics than its G7 peers over the last 15 years and more importantly, greater stability during difficult macro-economic environments. This is often a surprising fact to global property investors and therefore, the underrated Canadian property market has proven to be a missed opportunity. It is not too late however, as the case is increasingly compelling. Canada continues to hold the key ingredients in the recipe for future outperformance.

This whitepaper sets out to achieve the consolidation of a vast range of existing empirical research that separately correlates a nation's economic, cultural, political, and commercial environment to real estate performance and quantitatively aggregate the findings into a composite scorecard. The purpose is to provide objective, evidence-based clarity for investors seeking to make real estate allocations to prime global geographies – anecdotal sound bites need not apply. The composite scorecard will demonstrate that real estate performance is not driven by a single indicator, but more strongly correlated to a combination of complementing factors. Canada's strengths, and weaknesses, in relation to these key indicative measures will be assessed, highlighting why Canada remains in an enviable position to deliver continued real estate growth. Finally, the paper will identify and dispel some of the misconceptions that exist around the Canadian real estate market.

1

Identifying leading indicators for a country's real estate performance and integrating into a composite score

The Leading Indicators

When considering investments in any country's real estate market, several key factors or indicators should be considered that can significantly impact future returns. Countless available publications have created a library of well-researched leading indicators that have proven to be correlated to future real estate performance – the issue is that single indicators are often viewed in isolation. Evaluating and analyzing the most correlated leading indicators and creating a composite with enhanced predictive value is undertaken and achieved within this whitepaper. Discovering the right mix will provide valuable insights into the stability and growth prospects of real estate investments moving forward.

The key is to find the *secularly entrenched indicators that characterize a country and are unlikely to adversely shift over the investors' time horizon.* Our research ambitiously conducted that described exercise and concluded on four major determinant indicators. These leading indicators are intuitive, have empirically been supported by data indicating correlated links to future real estate returns, but more importantly, complement each other.

These leading indicators, in order of criticality, with a brief explanation of the rationale and citing some key third-party evidence, are:

1. Government and Banking Culture

A strong and disciplined banking culture is beneficial for future real estate returns as it fosters risk management, stability, transparency, and responsible lending. By carefully evaluating loans, adhering to government regulations, promoting ethical practices, and avoiding speculative bubbles, the banking culture supports a more predictable and resilient real estate market.

- **Study: BIS Papers 64 – Property markets and financial stability** "*A third category on our research agenda is the relationship between property markets and the health of the banking sector. Here we are particularly interested in the tendency of bank lending in the real estate sector to be procyclical*" and "*A variety of fiscal measures (transaction taxes, property taxes, deductibility of interest payments) has a bearing on the decision to invest in real estate.*"[1]

2. Productivity/Technological Progress

A well-educated, productive, and technology-centric economic base may create more value-add in an economy and may create wealth for its citizens. Increased wealth per capita is highly linked to future real estate values.

- **Study: The Impact of Technology on Commercial Real Estate (Vandell and Green)** "*Enterprises enjoying the fruits of technology that are not themselves tenants in a particular real estate market may nonetheless benefit the market because they create wealth in the broader economy, which indirectly serves to increase demand for real estate stock and services.*"[2]

3. Population Growth

Population growth is beneficial for future real estate returns as it increases demand for housing and commercial properties. As the population expands, more individuals and families seek places to live, work, and shop, resultingly driving demand for diverse types of real estate. This heightened demand can lead to higher occupancy rates, increased rental incomes, and appreciation in property values.

- **Study: BMO Catch-'23: Canada's Affordability Conundrum** *"Regression analysis suggests that every 1% rise in population will be associated over time with real home price growth of just over 3% per year."*[3]

4. Indebtedness

Nations with high debt burdens across its major sectors (government, corporations, and households) have less room to obtain new credit, which reduces future spending and investment – both of which benefit real estate values. Further, excessive indebtedness may lead to financial instability and greater dependency on monetary policy, which increases exposure to market volatility.

- **Study: Could real estate and negative interest rates be the perfect match? (Tansens – Head of Real Estate Investment Strategy BNP Paribas Wealth Management)** *"Negative and low yields have been supportive for real-estate prices in recent months and years."*[4]

The intuitive and elementary connections can be summarized as:

> First, having high *Indebtedness* is a burden on future real estate demand, but if backed by a strong and stable *Government and Banking Culture*, can remain benign and reduce potential financial risk, and

> Secondly, higher *Population Growth* drives real estate demand, but the additional population must be productive, as measured by *Productivity/Technological Progress*.

The *relative* importance of each leading indicator identified becomes the next step in truly uncovering a more clear and simple measurement tool in the form of a composite score.

Composite Scoring Methodology

Building upon the four correlated leading indicators in the previous studies cited, they were then thoughtfully expanded into sub-factors and weighted to determine their relative importance based upon historical correlation to performance during the 2007-present day period (proven in the next section). All metrics were quantified and aggregated, with resultant weightings in the composite scorecard below:

Future Real Estate Performance Composite – Scorecard

FACTOR	CONCEPT/RATIONALE	MEASURE	WEIGHT	SOURCE
Government and Banking Culture			**35%**	
Property Rights/ Rule of Law	Strong enforcement of property rights fosters assurance for investors and enhances global real estate capital flows	Property Rights Score	15%	WEF, Global Competitiveness Index[5]
Financial Stability/ Discipline	Stable and conservative banking system prevents large booms and busts (low business cycle volatility)	Soundness of Banks Score	10%	WEF, Global Competitiveness Index[6]
Tax Competitiveness/ Regulations	Excessive red tape and tax crushes private sector innovation and investment incentives	International Tax Competitiveness Score	10%	Tax Foundation – International Tax Competitiveness Index[7]
Productivity/Technological Progress			**30%**	
Education Levels	A more educated worker/citizen will likely be more effective and earn more income	Post-Secondary Degree % of Total Population	13%	Census of Population, 2021 (3901), and Education at a Glance 2022, OECD[8]
Innovation and Commercialism	Technological focus will likely create more value-add in an economy and create wealth for its citizens	Global Innovation Index	10%	Global Innovation Index – Cornell University, INSEAD, and the WIPO[9]
Energy Independence	Inexpensive and abundant domestic energy reduces trade risk and drives an economy forward as energy is the elementary input of the economy	Total Energy Production (in quadrillion Btu) divided by Population (in millions)	7%	EIA Total Energy Production (in quadrillion Btu) – 2021[10] Statista – Number of inhabitants in G7 countries from 2000 to 2021, by country[11]

FACTOR	CONCEPT/RATIONALE	MEASURE	WEIGHT	SOURCE
Population Growth			**20%**	
Immigration Policy (External)	Organic population growth can be complemented by focusing on smart immigration policy to add diversity to a nation's workforce	Net Migration Rate	15%	United Nations – World Population Prospects[12]
Birth Rates vs. Death Rates (Internal)	Organic population growth creates more demand and value for real estate	Births per 1,000 less Deaths per 1,000	5%	Our World in Data – Population Growth[13]
Indebtedness			**15%**	
Debt Burden Levels	Countries with high debt burdens have less room to leverage and take on new debt	Total Debt (Government, Household, Non-Financial and Financial Corporates) divided by GDP	10%	Institute of International Finance (IIF)[14]
Monetary Policy	Monetary policy drives availability and cost of capital – loose policy/negative real interest rates make real estate more attractive	Average Central Bank Policy Rate less Average Inflation Rate (2000-2022)	5%	World Bank – Inflation, consumer prices (annual %)[15] Bank of International Settlements (BIS) – Central bank policy rates*[16] *Eurozone created in 1998; Germany, France and Italy have same policy rates as controlled by the European Central Bank (ECB)
Composite			**100%**	

Composite scores were then calculated and compared for the G7 countries – Canada, US, UK, Germany, France, Italy, and Japan. Why G7 countries? Because they represent 5 of the largest 6 real estate markets and 7 of the top 15.[17] Further, these countries have liquid, institutional, and transparent real estate markets that are well-represented in mature global pension plan portfolios. Liquidity attracts more liquidity, resulting in these markets consistently being on the "*first-candidate*" radars of institutional investors looking to globally diversify their real estate portfolios.

Assessing the Weightings of the Composite Leading Indicators Based on Historical Correlations to Performance

Aside from the intuitive nature of these leading indicators, readers are probably asking "*what is the evidence for the selection and weighting conclusions?*" Conducting this same exercise with the historical indicators for December 31, 2007 (and substituting the "*Global Innovation Index*" and "*International Tax Competitiveness Score*" with "*Capacity for Innovation*" and "*Extent and Effect of Taxation*" from the 2006-2007 World Economic Forum's Global Competitiveness Index due to lack of data), yielded these results:

G7 Countries' Composite Rankings – 2007

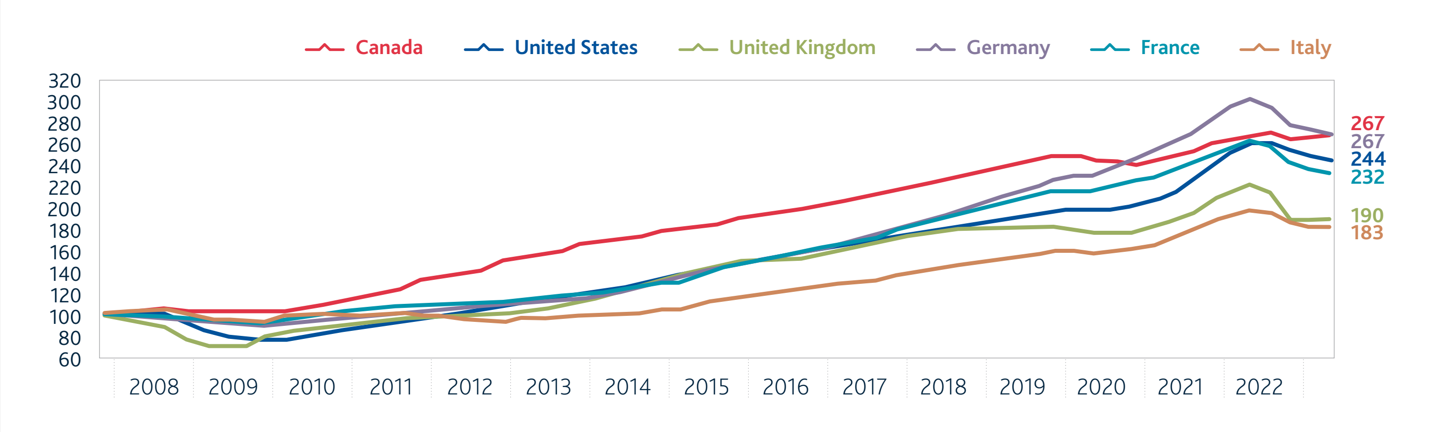
Total Rank	Country	Government and Banking Culture Score (Ranking)	Productivity/ Technological Progress Score (Ranking)	Population Growth Score (Ranking)	Indebtedness Score (Ranking)	Composite Score (December 31, 2007)
1	**Canada**	1.45 (3)	1.60 (1)	1.30 (1)	0.60 (4)	**4.95**
2	**UK**	2.30 (1)	1.17 (4)	1.10 (2)	0.25 (6)	**4.82**
3	**Germany**	1.85 (2)	1.30 (3)	0.35 (6)	0.80 (2)	**4.30**
4	**US**	1.20 (4)	1.47 (2)	0.95 (3)	0.60 (5)	**4.22**
5	**France**	1.20 (5)	1.04 (5)	0.75 (5)	0.65 (3)	**3.64**
	Japan	1.35	1.52	0.25	0.45	**3.57**
6	**Italy**	0.45 (6)	0.30 (6)	0.90 (4)	0.85 (1)	**2.50**

Canada ranked first in 2007 with a composite score of 4.95.

Unfortunately for this purpose, Japan could not be included due to a lack of availability of MSCI quarterly data that matches the time series. Let's now peer into the past G7 (ex-Japan) performance for reference. Using the MSCI Property Indices (a measure of unlevered performance for real estate) from December 31, 2007 to June 30, 2023, we can see that Canada produced the highest annualized total return, slightly above Germany, and topped the podium across all risk metrics. Noteworthy, is how Canada shone through the Global Financial Crisis ("GFC") during 2008-09 with a maximum drawdown of only 6.39%, compared to a 29.51% and 26.21% drawdown from its English-speaking counterparts, the UK, and US, respectively. Its stability is a product of its strong foundational factors that this methodology identifies.

G7 Countries (Ex-Japan) MSCI PI Performance[18]

Quarterly Total Returns Indexed to 100 – Beginning December 31, 2007 to June 30, 2023



G7 Countries' Composite Rankings – Beginning December 31, 2007 to June 30, 2023

2007 Composite Rank	G7 Country in Order of Annualized Returns	Annualized Return	Annualized Volatility	Maximum Drawdown	Return: Risk Ratio
1	**Canada**	6.55%	3.20%	-6.39%	**2.04**
3	**Germany**	6.55%	4.16%	-11.34%	**1.57**
4	**US**	5.92%	5.67%	-26.21%	**1.04**
5	**France**	5.57%	3.83%	-10.43%	**1.45**
2	**UK**	4.22%	7.28%	-29.51%	**0.58**
6	**Italy**	3.98%	4.29%	-11.80%	**0.93**

The top three composite ranked countries, Canada, UK, and Germany, had an impressive track record with average annualized returns of 5.77% and a mean return-to-risk ratio of 1.40. The UK was an outlier suffering the worst drawdown during the GFC, primarily attributed to its bottom ranking on *Indebtedness* (the same drawdown dynamic occurred with the US, which ranked second last on this metric). A financial crisis is never ideal for a more highly levered country. Nevertheless, the group performed well.

In contrast, the bottom three ranked nations (US, France, and Italy) in terms of composite scoring lagged with average annualized returns of 5.16% – 61 basis points ("bps") lower than the top trio. Furthermore, their average return-to-risk ratio stood at 1.14, almost 19% less than that of the top three countries. This may not seem overly significant, but in the world of investing, an incremental 61 bps annualized for over 15 years certainly compounds and can be the difference between a first-quartile and a fourth-quartile performer, especially with an enhanced return-to-risk ratio - a paramount metric that distinguishes investment success.

Interestingly enough, the 2007 composite rankings correctly predicted the first and last place countries over the subsequent 15 year period of Canada and Italy, respectively.

This historical evaluation validates the predictive power of assessing these key leading indicators of *Government and Banking Culture*, *Productivity/ Technological Progress*, *Population Growth*, and *Indebtedness*. The most predictive composite mix was achieved by weighing these factors 35%, 30%, 20% and 15%, respectively.

Real Estate Prospects Today – Current Composite Scores

With the methodology set, let's take a trip around the world to explore how the G7 countries each score on this composite today.

G7 Countries' Composite Rankings Today

Total Rank	Country	Government and Banking Culture Score (Ranking)	Productivity/ Technological Progress Score (Ranking)	Population Growth Score (Ranking)	Indebtedness Score (Ranking)	Composite Score (June 30, 2023)
1	Canada	2.20 (1)	1.60 (2)	1.40 (1)	0.40 (5)	**5.60**
2	US	1.75 (3)	1.77 (1)	1.20 (2)	0.85 (3)	**5.57**
3	UK	1.20 (5)	1.40 (3)	0.95 (3)	0.45 (4)	**4.00**
4	Germany	1.35 (4)	0.97 (6)	0.60 (5)	0.95 (1)	**3.87**
5	Japan	2.05 (2)	1.15 (4)	0.20 (7)	0.25 (7)	**3.65**
6	France	0.80 (6)	1.14 (5)	0.55 (6)	0.40 (6)	**2.89**
7	Italy	0.45 (7)	0.37 (7)	0.70 (4)	0.90 (2)	**2.42**

For further detail, context, and a graphical representation, the Appendix includes a look into each country's background and the subsequent deep dive that was conducted to quantify the leading indicators into the scorecard composite.

Key Findings

- **Canada** leads the ranking with a composite score of 5.60. Its first-place rankings in *Government and Banking Culture* and *Population Growth*, along with a strong second place in *Productivity/Technological Progress*, set it apart. Though fifth in *Indebtedness*, Canada's balanced performance edges out the United States.
- **The United States** follows closely with a score of 5.57, leading in *Productivity/Technological Progress* and strong in *Population Growth* and *Government and Banking Culture*. Its higher rank in *Indebtedness* keeps it just behind Canada, reflecting an innovative, robust economy.
- **The United Kingdom**, ranking third with a score of 4.00, lags in *Government and Banking Culture* and *Indebtedness*, but secures third in *Productivity/Technological Progress*. The UK's focus on technology is clear, but there's room for growth elsewhere.
- **Germany**, in fourth place with a score of 3.87, leads in *Indebtedness*, but falls short in *Productivity/Technological Progress* and *Population Growth*. Its ranking highlights a conservative financial approach and the importance of debt policy and management.
- **Japan** ranks fifth overall with a score of 3.65. Despite a strong second place in *Government and Banking Culture*, Japan faces challenges in *Population Growth* and *Indebtedness*, revealing a well-governed but demographically and fiscally challenged nation.
- **France**, at sixth with a score of 2.89, ranks in the middle or lower in all categories, pointing to a need for enhancement in *Government and Banking Culture*, *Productivity/Technological Progress* and *Population Growth*.
- **Italy** trails with a composite score of 2.42, marked by the lowest rankings in *Government and Banking Culture* and *Productivity/Technological Progress*, but showing some resilience in *Population Growth* and *Indebtedness*, highlighting its challenges in governance and innovation.

2

Why Canada is expected to shine going forward – strengths and weaknesses

Just like in 2007, Canada again leads the pack today with an improved composite score of 5.60. However, let's first address some weaknesses identified during the analysis.

The areas that Canada can improve on are its *Productivity/Technological Progress* and its *Indebtedness*. Although Canada commendably scores second only to the US in terms of *Productivity/Technological Progress*, there is frequent evidence that Canada's highly educated decide to leave the country and settle in the US because American tech workers earn significantly more than their Canadian counterparts and achieve better brand recognition. Each year Canada loses approximately 0.7% of its population to the US.[19] Further, most of the big names in tech (that new graduates want to work for) are headquartered in the US. This "***brain drain***" will need to be addressed in concert with Canada's immigration policy. The country will be well-served to ensure it is accepting ***productive*** immigrants (skilled workers that will add to its GDP, not to government entitlement costs) and remain in the country, so that Canada receives the accrued value.

Canada's most glaring weakness is its *Indebtedness*. Its debt burdens are second in size only to Japan and its consumers are the most leveraged of the G7 countries. If Canada can continue to benefit from outsized growth and strong institutional presence (*Government and Banking Culture*), this negative *indebtedness* factor can be muted, as it has the potential to deleverage quicker than other developed nations.

A strong and conservative *Government and Banking Culture* is Canada's true strength. The country has 28 domestic banks, but the "Big 6" dominate and control more than 85% of the domestic assets.[20] Canada's banks underwrite to strict standards and stress test assumptions, as evidenced by low delinquency rates in past crises. The US has 7,000 banks, creating a more competitive environment that may sometimes lead to loosening standards and more defaults, as witnessed during the GFC. Additionally, the US banking regulation system is more intrusive than the Canadian system. While Canadian regulations tend to focus on safety and soundness, US regulations place additional focus on privacy, anti-money laundering, banking access, and most recently, consumer protection. Underpinning the strong banking system, the Government of Canada remains politically stable, instilling strong protection for investors via well-enforced rule of law, property rights and competitive corporate and investment taxes.

Another factor where Canada dominates is its strong *Population Growth*. It has been growing at a much faster rate than any G7 country and is likely to continue to do so. It has built a reputation over the last half century for welcoming immigrants and valuing multi-culturalism. The nation is a global leader in refugee resettlement and has put forth an ambitious plan to welcome 500,000 immigrants each year by 2025, as outlined in its Government of Canada Immigration Levels Plan for 2023-2025.[21] South of the border, paths to immigrate to the US have been locked down under the legacy Trump administration, allowing Canada to capitalize on a larger North American immigration share.

All these factors have proven to lay a solid and complementary foundation for past real estate performance and should continue to do so for future.

3

Canadian real estate investing seems an obvious choice – what are the misconceptions?

The three most common psychological hurdles to investing in Canadian real estate are:

1. It is too small of an investable universe
2. It is administratively cumbersome and costly to structure and manage
3. Its real estate is closely held by pension plans and doesn't provide sufficient liquidity

To dispel these misconceptions, let's look at the hard data.

Misconception #1

Canada is Too Small an Investable Universe

In 2022, Canada produced nominal GDP of $2.2 trillion USD, or 2.2% of world GDP.[22] Yes, Canada represents a small piece of the global GDP pie, but it's estimated real estate market size of $403 billion USD represents over 3.0% of MSCI's global real estate universe.[23] Canada is, in fact, real estate-intensive and punches nearly 38% above its GDP weight. The large gateway cities of Toronto and Montreal rank 3rd and 6th, respectively by population, of all Canadian and US cities.[24] When you add Vancouver into the mix, these three primary cities have grown the fastest of all Canadian and US cities on a real GDP basis from 2005-2020.[25] These markets cannot be ignored when making North American allocations. Given Canada's growth trajectory (i.e., robust population growth relative to its G7 peers), the 3.0% global real estate share should continue to accelerate further.

Misconception #2

Canadian Real Estate is Administratively Difficult

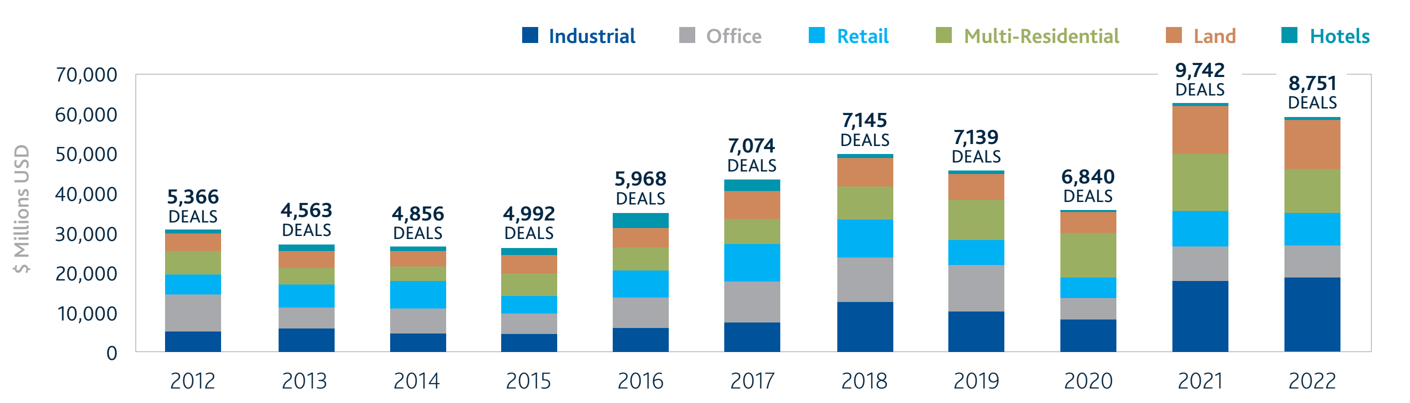
Investing in Canadian real estate is mistakenly considered burdensome to access – the myth being that high initial structuring costs and tax administration will prohibitively reduce performance. This long-held misconception has been addressed over the last ten to fifteen years with pooled fund offerings creating several tax-efficient structuring options that serve non-domestic investors well in a number of ways, including the minimization of tax withholding and leakage and relieving foreign investors of the need to establish specific entities and blockers on their own. All investors obviously face their own specific tax situations, however, to dismiss the Canadian markets as inefficient and a burden without performing the due diligence would be an error. The barriers of entry have been broken down and investors who have dismissed Canada for this reason only will be pleasantly surprised with the ease of administration now offered.

Misconception #3

Canada is Too Tightly-Held and Not Liquid

To address the third myth, nearly $60 billion USD across more than 8,700 deals traded in Canada amid the uncertain 2022 economic backdrop.

Canadian Real Estate Investment Volumes by Sector[26]

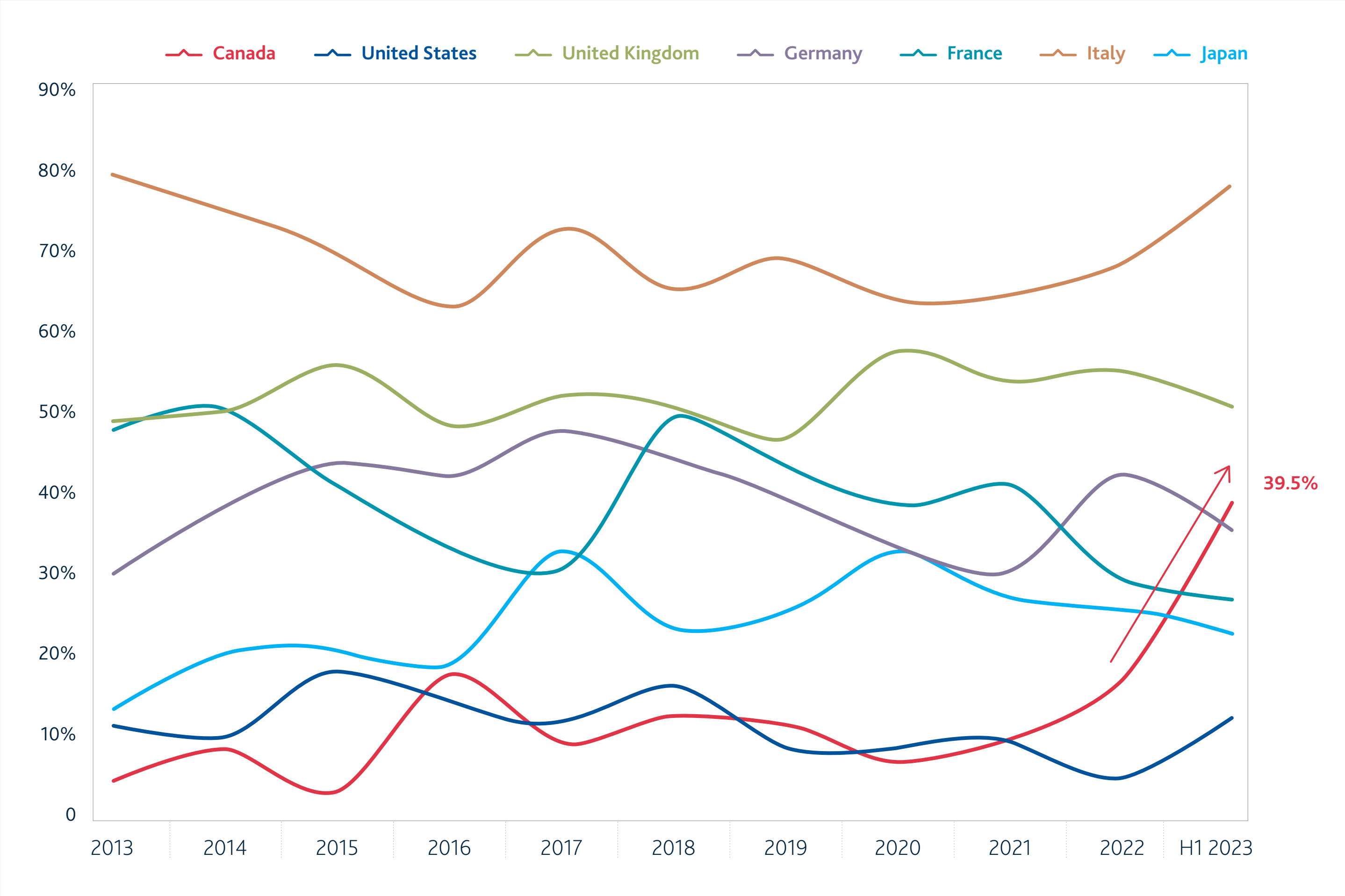


This represents 15% of its estimated total real estate market size and is in fact a larger activity proportion than the US's 12% for this same measure. So, contrary to belief that Canadian real estate is closely held by a few institutions and illiquid, there is a very active investment market with diversified investor profiles.

Looking at the graph below, from 2013 to 2021, non-domestic investment into Canada has represented a paltry average of 9.8% of the total Canadian real estate investment volumes. This confirms that Canada has not historically been given its merited global attention, relative to its exceptional performance. Interestingly enough, since 2021, foreign investors appear to be waking up and taking a closer look at Canada, as witnessed by the accelerating share of cross-border flows into Canada.

From $4.8 billion of cross-border flows in the full-year 2021 (9.5% share) to $7.3 billion in the first-half of 2023 alone (39.5% share), a substantial shift has been experienced in a short period and may represent the beginning of a new secular trend in foreign investor positioning.

G7 Countries – Cross-Border Flows % of Total Investment Volumes[27]



Concluding Thoughts

They say history doesn't repeat, but it often rhymes. Given the objective quantitative process followed in this paper, it can be empirically inferred that history will continue to rhyme. Canada still holds the winning hand with the best blend of the core ingredients for continued real estate outperformance, as evidenced by its highest composite score. Each contributing category is secular in nature and is unlikely to change in the short-term – these are ingrained cultural characteristics reinforcing the message that the foundation for Canadian real estate remains strong. The secret is now being whispered; the sophisticated non-Canadian investor is beginning to wisely recognize the merits of Canadian real estate as a critical component of its portfolio.

Looking ahead, the Great White North is distinctly positioned to continue its real estate outperformance against its major real estate market peers. The best kept secret is being revealed; it is time to pay attention to Canadian real estate.

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Appendix Country Background and Composite Scoring

Canada

Country Background[28]

Canada has witnessed significant shifts in its demographic, economic and social landscapes. The Canadian economy, characterized by its diversity, is largely private, with some enterprises remaining publicly owned. While traditionally driven by natural resources, it has evolved into a service-based economy, with increasing emphasis on sectors like technology, finance, and healthcare. High commodity prices have benefitted its strong mining and oil sectors. Consequently, its leading domestic energy production has given the country the luxury to produce a robust and renewable energy network to adapt to secular trends in Environment, Social, and Governance ("ESG") standards.

In terms of *Government and Banking Culture*, Canada has been acclaimed for its robust regulatory framework and prudent fiscal management. The Canadian banking system, characterized by few, but large and stable institutions, weathered the GFC well compared to its global peers.

From a *Productivity/Technological Progress* standpoint, Canada has made technological significant strides, bolstered by its high-quality education system and strong investment in research and development. The country has become a hub for technological innovation, particularly in areas like Artificial Intelligence ("AI"), digital media, and clean technology.

From a *Population Growth* perspective, Canada grew robustly from approximately 27 million in 1990 to over 39 million by 2022, supported by high immigration rates and strong population policies. It has grown at the fastest rate amongst its G7 peers.

Nevertheless, total *Indebtedness* has increased. Government debt has risen due to fiscal measures during economic downturns, such as the GFC and the COVID-19 pandemic. Consumer debt has also grown substantially, driven by low-interest rates and high real estate prices. Despite these challenges, Canada's well-balanced economy underlines its top rank in the composite scoring.

Scorecard – Composite Evaluation

(Points: 7 = Best, 1 = Worst)

Factor	Measure	Weight	Score
Government and Banking Culture		35%	2.20
Property Rights/ Rule of Law	Property Rights Score	15%	77.2 (6)
Financial Stability/Discipline	Soundness of Banks Score	10%	87.0 (7)
Tax Competitiveness/Regulations	International Tax Competitiveness Score	10%	69.3 (6)
Productivity/Technological Progress		30%	1.60
Education Levels	Post-Secondary Degree % of Total Population	13%	57.5% (7)
Innovation and Commercialism	Global Innovation Index	10%	50.8 (2)
Energy Independence	Total Energy Production divided by Population	7%	0.612 (7)
Population Growth		20%	1.40
Immigration Policy (External)	Net Migration Rate	15%	6.094 (7)
Birth Rates vs. Death Rates (Internal)	Births per 1,000 less Deaths per 1,000	5%	2.0 (7)
Indebtedness		15%	0.40
Debt Burden Levels	Total Debt (Government, Household, Non-Financial and Financial Corporates) divided by GDP	10%	455% (2)
Monetary Policy	Long-Term Average Policy Rate less Average Inflation Rate	5%	-0.23% (4)
Composite		100%	5.60

United States

Country Background[29]

The United States has been a testament to transformative changes. The nation stands as the world's leading power in terms of GDP. Despite representing less than 5% of the world's population, the US remarkably produces about one-fifth of the world's economic output. However, the economy of the US is not without its challenges. It faces a chronic trade deficit, and many American households have experienced stagnation in their incomes since the 1970s. The country also copes with record levels of indebtedness, rising energy prices and the strain of an aging population on public health spending and pension programs.

Parallel to this, shifts in *Government and Banking Culture* have also occurred. Deregulation policies of the 1990s paved the way for an era of market freedom, but also sowed the seeds for the GFC. The aftermath led to increased regulations, such as the Dodd-Frank Act, aiming to foster a more responsible banking environment.

Meanwhile, the *Productivity/Technological Progress* characterized by the rise of the internet and Silicon Valley has revolutionized American life and global industries. Innovations in sectors such as e-commerce, telecommunications and information technology underscored the US's leadership in technology.

The nation demonstrated strong historical *Population Growth*, as it increased dramatically from about 250 million in 1990 to over 336 million by 2022, fueled by both organic increases and immigration.

Nevertheless, alongside these changes, total *Indebtedness* has risen drastically. Government debt alone increased from $3.2 trillion in 1990 to over $32 trillion today, influenced by wars, financial crises, and the COVID-19 pandemic. Consumer and corporate debt also experienced significant surges, influenced by easy credit conditions and low-interest rates.

In the face of these challenges, the US maintains a key role in the global economy, underpinned by its dynamic technology sector, a robust financial system and a continually expanding population.

Scorecard – Composite Evaluation

(Points: 7 = Best, 1 = Worst)

Factor	Measure	Weight	Score
Government and Banking Culture		**35%**	**1.75**
Property Rights/ Rule of Law	Property Rights Score	15%	76.0 (5)
Financial Stability/Discipline	Soundness of Banks Score	10%	80.4 (6)
Tax Competitiveness/Regulations	International Tax Competitiveness Score	10%	66.8 (4)
Productivity/Technological Progress		**30%**	**1.77**
Education Levels	Post-Secondary Degree % of Total Population	13%	50.3% (5)
Innovation and Commercialism	Global Innovation Index	10%	61.8 (7)
Energy Independence	Total Energy Production divided by Population	7%	0.296 (6)
Population Growth		**20%**	**1.20**
Immigration Policy (External)	Net Migration Rate	15%	2.748 (6)
Birth Rates vs. Death Rates (Internal)	Births per 1,000 less Deaths per 1,000	5%	1.4 (6)
Indebtedness		**15%**	**0.85**
Debt Burden Levels	Total Debt (Government, Household, Non-Financial and Financial Corporates) divided by GDP	10%	346% (5)
Monetary Policy	Long-Term Average Policy Rate less Average Inflation Rate	5%	-0.84% (7)
Composite		**100%**	**5.57**

United Kingdom

Country Background[30]

The United Kingdom has experienced transformative changes throughout its history. The economy transitioned from manufacturing to services, with trading ties shifting from former empire countries to European Union ("EU") members, and significant trading and investment relations with the US and Japan. The 1980s saw privatization of publicly owned corporations, leading to job losses, but also living standard improvements. The financial sector and offshore natural gas and oil exploitation have also been key economic pillars.

In terms of *Government and Banking Culture*, the landscape has changed dramatically. The financial deregulation of the late 1980s and 1990s, dubbed the "Big Bang," laid the groundwork for London's status as a global financial centre. However, it also contributed to the GFC during 2008-09. In its wake, the UK government introduced stricter regulations to safeguard against future crises, culminating in reforms such as the Banking Act 2009.

Simultaneously, the UK has made considerable strides in *Productivity/Technological Progress*. The rise of the internet, coupled with a robust start-up scene, has driven advancements in fields like Fintech, e-commerce, and AI. The country has emerged as a global tech hub, boasting several high-profile tech companies and startups.

The nation's *Population Growth* has been robust and has steadily grown from around 57 million in 1990 to over 69 million by 2022, with immigration playing a significant role in this expansion.

This period also witnessed a significant surge in total *Indebtedness*. Government debt swelled in response to the GFC and subsequent recession, along with the COVID-19 pandemic. Consumer and corporate debt have also escalated due to easy credit conditions and a shift towards a debt-driven economy.

Despite these economic pressures, the UK's ongoing technological progress, coupled with its expanding population and dynamic financial sector, underscores its resilience and global influence. The UK remains a prominent player on the global stage.

Scorecard – Composite Evaluation

(Points: 7 = Best, 1 = Worst)

Factor	Measure	Weight	Score
Government and Banking Culture		**35%**	**1.20**
Property Rights/ Rule of Law	Property Rights Score	15%	74.9 (4)
Financial Stability/Discipline	Soundness of Banks Score	10%	73.2 (3)
Tax Competitiveness/Regulations	International Tax Competitiveness Score	10%	62.9 (3)
Productivity/Technological Progress		**30%**	**1.40**
Education Levels	Post-Secondary Degree % of Total Population	13%	50.1% (4)
Innovation and Commercialism	Global Innovation Index	10%	59.7 (6)
Energy Independence	Total Energy Production divided by Population	7%	0.067 (4)
Population Growth		**20%**	**0.95**
Immigration Policy (External)	Net Migration Rate	15%	2.240 (5)
Birth Rates vs. Death Rates (Internal)	Births per 1,000 less Deaths per 1,000	5%	0.4 (4)
Indebtedness		**15%**	**0.45**
Debt Burden Levels	Total Debt (Government, Household, Non-Financial and Financial Corporates) divided by GDP	10%	392% (4)
Monetary Policy	Long-Term Average Policy Rate less Average Inflation Rate	5%	-0.06% (1)
Composite		**100%**	**4.00**

Germany

Country Background[31]

The German economy, widely regarded as Europe's largest and one of the strongest worldwide, has undergone substantial changes. It operates under a "social market economy" model, combining both public and private enterprises. After reunification, the economy initially struggled, but rebounded, bolstered by a strong manufacturing sector, particularly automotive and machinery industries. The shift towards a more service-based economy has been slower than other developed nations but continues to evolve.

In terms of *Government and Banking Culture*, Germany's prudent fiscal management is noteworthy. However, the German banking sector has faced challenges, including profitability issues and the need for digitalization. Like other EU members, the GFC prompted increased regulation and risk management practices.

Productivity/Technological Progress has been steady, with Germany known for its quality engineering and high-tech manufacturing. The country has made significant advancements in areas such as renewable energy, AI, and Industry 4.0.

The reunification of East and West in 1990 has shaped its demographic, economic and social landscapes. Germany's *Population Growth* is characterized modestly from around 80 million in 1990 to over 85 million by 2022, partly due to an aging population and low fertility rates.

Total *Indebtedness* rose notably following the GFC and due to the costs associated with COVID-19. Despite this, Germany's government debt ratio has been decreasing and remains manageable. However, consumer and corporate debt levels have increased, driven by low-interest rates.

Overall, despite challenges like demographic change and the need for digital transformation, Germany's solid economic fundamentals, robust manufacturing sector, and stable government and banking culture underline its strength.

Scorecard – Composite Evaluation

(Points: 7 = Best, 1 = Worst)

Factor	Measure	Weight	Score
Government and Banking Culture		**35%**	**1.35**
Property Rights/ Rule of Law	Property Rights Score	15%	71.8 (3)
Financial Stability/Discipline	Soundness of Banks Score	10%	69.9 (2)
Tax Competitiveness/Regulations	International Tax Competitiveness Score	10%	70.2 (7)
Productivity/Technological Progress		**30%**	**0.97**
Education Levels	Post-Secondary Degree % of Total Population	13%	31.1% (2)
Innovation and Commercialism	Global Innovation Index	10%	57.2 (5)
Energy Independence	Total Energy Production divided by Population	7%	0.049 (3)
Population Growth		**20%**	**0.60**
Immigration Policy (External)	Net Migration Rate	15%	1.727 (3)
Birth Rates vs. Death Rates (Internal)	Births per 1,000 less Deaths per 1,000	5%	-3.3 (3)
Indebtedness		**15%**	**0.95**
Debt Burden Levels	Total Debt (Government, Household, Non-Financial and Financial Corporates) divided by GDP	10%	245% (7)
Monetary Policy	Long-Term Average Policy Rate less Average Inflation Rate	5%	-0.23% (5)
Composite		**100%**	**3.87**

Japan

Country Background[32]

Japan has navigated the "Lost Decade" of the 1990s, following its broad asset price bubble burst in 1989, which led to an extended period of economic stagnation. The country's economy, the third largest globally, is diversified, with a strong focus on manufacturing and service sectors, making it a major producer of motor vehicles, steel, and high-technology goods. Its economy has faced slow growth and deflationary pressures, punctuated by periods of modest recovery.

From a *Government and Banking Culture* perspective, the banking sector has undergone reforms following the 1990s financial crisis. Government policy focused on strengthening regulation, risk management and bank resilience, though low-interest rates have pressured bank profitability. The government exerts influence on the economy through consultations with businesses, involvement in banking and long-term planning, and with deregulation and privatization being key strategies to boost the economy.

Despite economic and demographic headwinds, Japan has remained at the forefront of *Productivity/Technological Progress*. Known for its prowess in electronics and automotive industries, it has also made substantial strides in robotics, telecommunications, and digital services.

Simultaneously, Japan's *Population Growth* has been non-existent. The country's population trended downwards from a peak of 128 million in 2010 to about 125 million by 2022, due to low fertility rates and an aging populace, presenting significant social and economic challenges.

Notably, Japan's total *Indebtedness* is one of the highest globally, with government debt exceeding 230% of GDP. Consumer and corporate debt levels have been relatively stable.

Despite these challenges, Japan's technological advancements, efficient infrastructure and robust institutions demonstrate resilience. However, economic revitalization, demographic management, and debt reduction are ongoing hurdles in its path.

Scorecard – Composite Evaluation

(Points: 7 = Best, 1 = Worst)

Factor	Measure	Weight	Score
Government and Banking Culture		**35%**	**2.05**
Property Rights/ Rule of Law	Property Rights Score	15%	86.9 (7)
Financial Stability/Discipline	Soundness of Banks Score	10%	78.3 (5)
Tax Competitiveness/Regulations	International Tax Competitiveness Score	10%	67.3 (5)
Productivity/Technological Progress		**30%**	**1.15**
Education Levels	Post-Secondary Degree % of Total Population	13%	55.6% (6)
Innovation and Commercialism	Global Innovation Index	10%	53.6 (3)
Energy Independence	Total Energy Production divided by Population	7%	0.020 (1)
Population Growth		**20%**	**0.20**
Immigration Policy (External)	Net Migration Rate	15%	0.516 (1)
Birth Rates vs. Death Rates (Internal)	Births per 1,000 less Deaths per 1,000	5%	-6.0 (1)
Indebtedness		**15%**	**0.25**
Debt Burden Levels	Total Debt (Government, Household, Non-Financial and Financial Corporates) divided by GDP	10%	617% (1)
Monetary Policy	Long-Term Average Policy Rate less Average Inflation Rate	5%	-0.09% (3)
Composite		**100%**	**3.65**

France

Country Background[33]

France has one of the world's largest economies, ranked among the top ten globally and is known for its robust industrial sector, particularly in areas like aerospace, automotive, luxury goods and fashion. Agriculture also plays a significant role, with France being one of the largest producers and exporters in Europe. France has a unique position as it derives a significant portion of its electricity from nuclear power. The country made a strategic decision in the 1970s, after the oil crisis, to minimize its dependence on foreign oil. This led to the development of a substantial nuclear power industry. Around 70-75% of France's electricity comes from nuclear energy, making it the highest percentage globally.

In *Government and Banking Culture*, noticeable changes have been experienced. The liberalization of the financial markets and the consolidation of the Eurozone have shaped French banking significantly. After the GFC, an emphasis on stricter banking regulation and risk management ensued.

Productivity/Technological Progress has also significantly evolved during this period, with the rise of the internet, mobile communications and digital services altering every aspect of French life. The country has been home to a vibrant tech scene, with startups making significant strides in fields like AI, Fintech, and e-commerce.

France's *Population Growth* has been lack lustre. The country has grown from roughly 58 million in 1990 to around 66 million by 2022, driven by both natural growth and immigration.

Meanwhile, France's total *Indebtedness* has seen a significant increase. Government debt escalated because of social spending, the GFC, and the recent COVID-19 pandemic. Consumer and corporate debt have also increased, driven by low-interest rates and easy access to credit.

Despite these challenges, France continues to play a critical role in the global economic landscape. Its steady population growth, technological advancements, and strong financial sector contribute to its resilience.

Scorecard – Composite Evaluation

(Points: 7 = Best, 1 = Worst)

Factor	Measure	Weight	Score
Government and Banking Culture		35%	0.80
Property Rights/ Rule of Law	Property Rights Score	15%	70.3 (2)
Financial Stability/Discipline	Soundness of Banks Score	10%	76.3 (4)
Tax Competitiveness/Regulations	International Tax Competitiveness Score	10%	45.3 (1)
Productivity/Technological Progress		30%	1.14
Education Levels	Post-Secondary Degree % of Total Population	13%	40.7% (3)
Innovation and Commercialism	Global Innovation Index	10%	55.0 (4)
Energy Independence	Total Energy Production divided by Population	7%	0.071 (5)
Population Growth		20%	0.55
Immigration Policy (External)	Net Migration Rate	15%	0.963 (2)
Birth Rates vs. Death Rates (Internal)	Births per 1,000 less Deaths per 1,000	5%	0.6 (5)
Indebtedness		15%	0.40
Debt Burden Levels	Total Debt (Government, Household, Non-Financial and Financial Corporates) divided by GDP	10%	421% (3)
Monetary Policy	Long-Term Average Policy Rate less Average Inflation Rate	5%	-0.08% (2)
Composite		100%	2.89

Italy

Country Background[34]

The Italian economy (once heavily industrial, particularly in the North) now tilts towards being service based. However, economic growth has been sluggish due to factors like structural inefficiencies, rigid labour markets, and regulatory complexities. The Southern regions particularly grapple with high unemployment rates and systemic underdevelopment.

Regarding the *Government and Banking Culture*, the banking sector has experienced recent turbulence. After the GFC, Italian banks were left with a high level of non-performing loans, leading to several banking crises. Reforms have since been implemented to increase the sector's resilience, but challenges remain. The Italian government has added to this instability as it has experienced frequent changes due to its multi-party system.

In terms of *Productivity/Technological Progress*, Italy has made strides, but lags some of its European counterparts. Efforts have been made to foster innovation, with growth in digital services, AI, and tech startups, although overall progress has been uneven.

Italy's *Population Growth* experience has been modest, increasing from about 56 million in 1990 to approximately 60 million by 2022, impacted by an aging population base and low birth rates.

Total *Indebtedness* has increased significantly, with Italy having one of the highest public debt levels in the EU. The government debt surged due to persistent budget deficits, weak economic growth, and the impacts of the GFC and COVID-19. Consumer and corporate debt have also risen, reflecting broader trends of economic vulnerability.

Despite these issues, Italy's rich cultural history, strong manufacturing sector and strategic location continue to offer unique advantages. The country's challenge lies in navigating economic reforms, fostering technological progress, and managing its debt effectively.

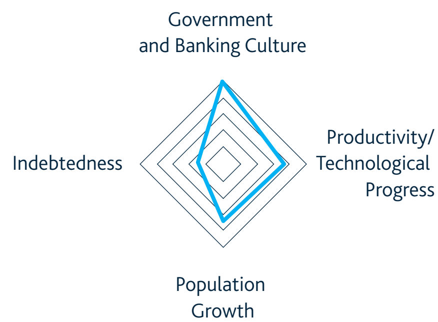
Scorecard – Composite Evaluation

(Points: 7 = Best, 1 = Worst)

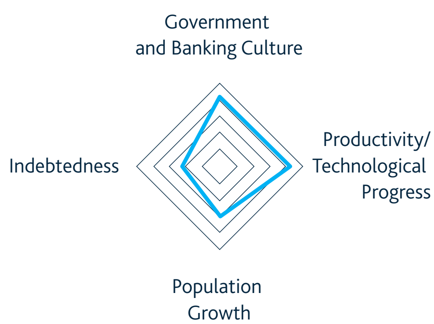
Factor	Measure	Weight	Score
Government and Banking Culture		**35%**	**0.45**
Property Rights/ Rule of Law	Property Rights Score	15%	56.3 (1)
Financial Stability/Discipline	Soundness of Banks Score	10%	52.5 (1)
Tax Competitiveness/Regulations	International Tax Competitiveness Score	10%	49.1 (2)
Productivity/Technological Progress		**30%**	**0.37**
Education Levels	Post-Secondary Degree % of Total Population	13%	20.0% (1)
Innovation and Commercialism	Global Innovation Index	10%	46.1 (1)
Energy Independence	Total Energy Production divided by Population	7%	0.023 (2)
Population Growth		**20%**	**0.70**
Immigration Policy (External)	Net Migration Rate	15%	1.951 (4)
Birth Rates vs. Death Rates (Internal)	Births per 1,000 less Deaths per 1,000	5%	-4.6 (2)
Indebtedness		**15%**	**0.90**
Debt Burden Levels	Total Debt (Government, Household, Non-Financial and Financial Corporates) divided by GDP	10%	284% (6)
Monetary Policy	Long-Term Average Policy Rate less Average Inflation Rate	5%	-0.45% (6)
Composite		**100%**	**2.42**

Summary G7 Scorecard Composite Evaluations

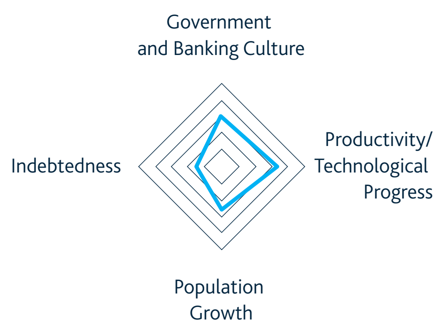
Canada – 5.60



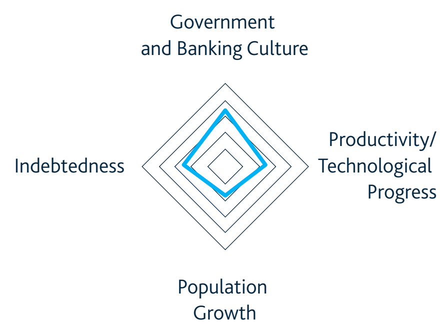
United States – 5.57



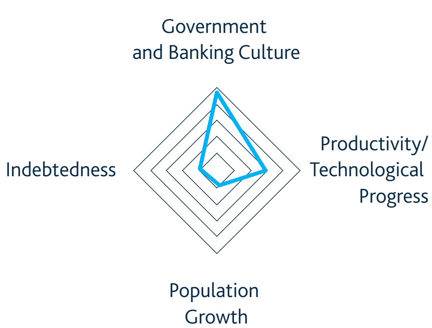
United Kingdom – 4.00



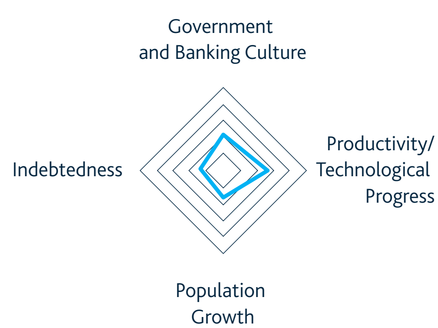
Germany – 3.87



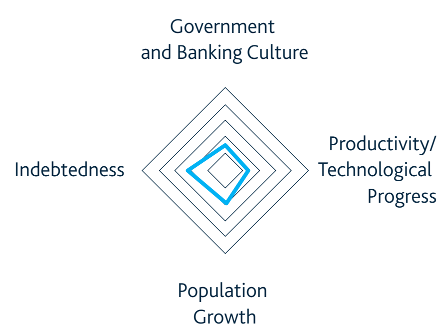
Japan – 3.65



France – 2.89



Italy – 2.42



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