Credit Opinion: Business Development Bank of Canada

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Montreal, Quebec, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Deposit Note/CD Program -Dom Curr	Aaa/--
Senior Unsecured	Aaa
Bkd Commercial Paper	P-1

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Opinion

Rating Rationale

The Business Development Bank of Canada (BDC) is rated Aaa for senior unsecured obligations and P-1 for commercial paper, reflecting its status as an Agent of Her Majesty in right of Canada. As such, its obligations constitute direct, unconditional obligations of Canada (country ceiling for foreign currency debt Aaa / P-1, government bonds Aaa) and are payable out of the consolidated revenue fund of Canada.

BDC, a Crown corporation, was created in 1974 to succeed a previously established, public-sector development bank. Its mandate is to promote and assist small- and medium-sized business enterprises in Canada through loans, venture capital investments, management training and information. Borrowers are usually in troubled sectors of the economy, or in those sectors that might have difficulty obtaining finançing elsewhere. Term lending is the heart of BDC's business; manufacturing, wholesale and retail trade, and tourism are the largest sectors.

Canada's foreign-currency country ceilings were upgraded to Aaa from Aa1 in May 2002. The government of Canada's local currency rating was also upgraded.

Canada's ratios of general government debt to GDP and to revenue have moved significantly downward over the past four years, although they are still higher than the median for Aaa-rated countries. The ratios of net debt to GDP and to revenue are also declining, although these are closer to the median for such countries.

Moody's believes that these ratios' downward trends will continue into the medium term, due to the political consensus in Canada that supports balanced budgets and paying off government debt. Canada's government has announced its goal of reducing the ratio of debt to GDP to 25% over the next 10 years, and this could be achieved even sooner.

Canada's current account balance has been in surplus since the 1996/1997 budget, and most medium-term projections indicate that it will remain there for some time to come, even if there could be an occasional, small deficit due to cyclical factors. The return to surpluses has caused the net external liability position to decline significantly. Moody's expects this trend to continue, greatly lessening vulnerability to shocks coming from external developments, especially from the US, or from events within Canada.

Rating Outlook

Consistent with Canada's outlook, the outlook on BDC's ratings is stable, supported by Moody's expectation of further improvements in both the country's external financial position and general government debt ratios.