MOODY’S RATINGS

Announcement of Periodic Review: Moody's announces completion of a periodic review of ratings of Inter-American Development Bank

08 Apr 2024

New York, April 08, 2024 -- Moody's Ratings has completed a periodic review of the ratings of Inter-American Development Bank and other ratings that are associated with this issuer.

The review was conducted through a rating committee held on 4 April 2024 in which Moody's reassessed the appropriateness of the ratings in the context of the relevant principal methodology(ies), and recent developments.

This publication does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future. Please see the Issuer page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Key Rating considerations and rationale are summarized below.

IADB's ratings, including its Aaa long-term issuer rating, with stable outlook remain unchanged.

The bank’s credit profile is underpinned by its strong capital base, solid commitment from shareholders, prudent financial management and preferred creditor status. The IADB’s loan book is subject to concentration risk given its regional lending focus, although this risk is partially offset through exposure exchange agreements.

The IADB ended the year 2023 having accumulated approvals totaling $12.5 billion, whereas gross disbursements totaled $11.1 billion, taking total loans to $116 billion. After peaking in 2020-21, loan approvals and disbursements have gradually slowed down and converged with pre-pandemic levels. Along with continued growth of its equity through retained earnings, IADB has maintained a moderate and stable leverage. The bank’s leverage ratio remained broadly stable in 2023 at 304%, relative to its 2022 level. This is still close to the Aaa-median and supports our overall assessment of its capital position. Importantly, Moody’s expects that this leverage
trend will remain in place over the coming years.

For a second consecutive year, at about 14% of total loans Argentina was the IADB's largest exposure, followed by Brazil, Mexico and Colombia – Ecuador is the fifth largest exposure. Despite some of these sovereign borrowers facing macroeconomic and financial challenges in recent years, they continue to repay IADB on time, supporting the bank's preferred creditor status. That said, the government of Venezuela remains in nonaccrual status, with the nonperforming share of Venezuela's principal payments overdue over 90 days reached $1.05 billion ($882 million in 2022) out of $2.0 billion. The full exposure to Venezuela accounts for 1.7% of total loans and 5.3% of equity. The bank has increased its provisioning for this exposure given the protracted nature of Venezuela's nonaccrual status without materially affecting its capital base.

At the IADB's 2024 annual meetings, the bank's board of governors approved a new institutional strategy for 2024-30. Key objectives for the bank will be to increase impact to reduce poverty and income inequality, support regional economic integration and boost sustainable economic growth, and address climate change risks. The IADB group, including both the IADB and IDB Invest, aims to increase lending capacity by up to $112 billion over the next 10 years. To support the growth in financing, the group hopes to unlock $50 billion from the IADB via balance sheet optimization. Moody's expects that as the IADB continues to expand its development-related operations, it will maintain its strong capital and liquidity metrics, which support its very high intrinsic financial strength.

The IADB's credit profile is supported by its "a3" capital adequacy, reflecting the bank's strong asset coverage and preferred creditor status that supports its development asset's credit quality. The bank's "aa1" liquidity and funding recognizes its strong liquidity position as a result of a conservative liquidity risk management policy, and very strong access to international funding markets; the IADB's credit profile also benefits from very strong quality of management; and "Very High" member support is shown in a favorable member base profile, which counts as members both borrowing and non-borrowing countries that strengthens the membership profile by reducing the correlation between borrowers and assets.

The stable outlook reflects our expectation that the IADB will maintain its robust financial metrics over the coming years by continuing to adhere to its capital and liquidity risk policies. Additionally, we believe the bank's shareholders will continue to support the IADB's role as a promoter of economic and social development in Latin America and the Caribbean, and that its borrowing members will continue to grant the IADB preferred creditor status.

An upgrade of IADB’s ratings is not possible as its Aaa ratings are at the highest level of Moody's rating scale. Downward pressure on the rating could emerge if asset performance were to deteriorate materially, as a result of large borrowers falling into arrears on their obligations to the bank, as this could challenge IADB’s established
preferred creditor status. Additionally, negative credit pressures would arise in the case of severe financial stress, if member countries were perceived to be unable or unwilling to provide contractual or other extraordinary forms of support to preserve the bank's financial health. Moody's considers these to be low-probability scenarios.

This document summarizes Moody's view as of the publication date and will not be updated until the next periodic review announcement, which will incorporate material changes in credit circumstances (if any) during the intervening period.

The principal methodology used for this review was Multilateral Development Banks and Other Supranational Entities published in February 2024. Please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

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