Rating_Action: Moody's affirms the Inter-American Development Bank's Aaa rating; maintains stable outlook

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New York, March 16, 2023 – Moody's Investors Service ("Moody's") has today affirmed the Inter-American Development Bank's (IADB) Aaa long-term and P-1 short-term issuer ratings, and maintained the stable outlook.

Moody's also affirmed IADB's Aaa senior unsecured ratings, as well as the senior unsecured MTN (P)Aaa and other short-term (P)P-1 ratings.

The affirmation of the ratings at Aaa reflects the IADB's robust intrinsic financial strength, supported by stable leverage and an ample liquidity buffer. While there has been a deterioration in the credit quality of its Latin American and Caribbean borrowers, this is mitigated by IADB's preferred creditor status that has ensured that its asset performance remains strong beyond the idiosyncratic issue related to its exposure to Government of Venezuela (C senior unsecured stable). Additionally, IADB has continuously demonstrated very high governance standards, as evidenced by the swift process that led to a change of the IADB Group's presidency during 2022.

The stable outlook reflects Moody's expectation that the IADB will maintain its robust intrinsic financial strength as well as the strong support from its shareholders over the coming years.

RATINGS RATIONALE

RATIONALE FOR AFFIRMATION OF Aaa RATING

IADB’s credit profile is supported by a robust intrinsic financial strength, reflected in strong capital adequacy and liquidity metrics, that remain a key support of the IADB’s Aaa rating.

Following a ramp up in countercyclical lending activities in the context of the pandemic shock, IADB’s leverage – measured as the ratio of its development-related assets to equity – at about 300% has remained stable and broadly in line with the median for Aaa-rated multilateral development banks. Meanwhile, the credit quality of its development assets has deteriorated in recent years, denoted by the weighted average borrower rating's shift to Caa1 in 2022 from B3 in 2020-21, as Latin American sovereigns experienced higher credit challenges following the pandemic shock – particularly in relation to Government of Argentina (Ca stable), IADB’s largest exposure last year. The deterioration in asset quality is mitigated to an important extent by IADB’s preferred creditor status; even when some stressed borrowers restructured market debt in recent years, they all remained current on their obligations to the IADB. As a consequence, IADB’s asset performance has remained strong with the exception of the bank's exposure to Venezuela, which has been in nonaccrual status since May 2018. Importantly, IADB does not restructure its sovereign exposures. Instead, the bank increased its provisions on the exposure last year, signaling that it does not expect a resolution to the sanctions regime applicable to Venezuela any time soon. The higher levels of provisions have not had any material impact on its capital base, which has continued to grow organically and stands at $37.9 billion as of December 2022.
The IADB also maintains an ample liquidity buffer, which would cover over 18 months of net cash outflows even in a stress case in which the bank would be unable to access financial markets. Treasury assets are invested in highly rated and liquid assets, typically with short maturities and covered with interest rate hedges, which limits the impact on valuations in the current environment of rising interest rates. The bank’s liquidity is also supported by its very strong market access, which is reflected in its relatively low borrowing costs, diversified investor base by type and geography, as well as the various markets it can tap and various types of bonds it issues, including sustainable instruments.

Moody's considers that the bank's strong governance framework is another strong factor supporting its credit profile. Proactive risk management and development of credit policies, as well as strong adherence to operational limits supports IADB’s credit metrics. Moreover, the smooth process that led to a change in the IADB Group's leadership during 2022 without altering the bank's operations or credit metrics is further evidence of IADB's governance exerting positive influence on its credit standing.

Member support is another key element that backs IADB's credit profile in Moody's view. This is reflected by a diversified member base, that includes regional and extra-regional shareholders, an ample coverage provided by the bank's callable capital relative to its debt, and the high importance awarded by members to support the economic development of Latin America and the Caribbean.

RATIONALE FOR STABLE OUTLOOK

The outlook on the rating is stable, reflecting Moody's expectation that the IADB will maintain its robust financial metrics over the coming years by continuing to adhere to its prudent capital and liquidity risk policies. Additionally, Moody's considers that 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 with preferred creditor status.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

IADB’s positive credit impact score (CIS-1) reflects its very strong governance, and benefits from low social risk exposures and a neutral-to-low exposure to environmental risks. The continued demonstration of best in class risk management practices allows the IADB to operate in a region where some borrowers face particularly steep credit challenges and still maintain its own robust credit metrics. Additionally, the effectiveness of the fulfillment of its development mandate in the Latin American and Caribbean region leads to very high support from its shareholders.

IADB’s environmental issuer profile score is neutral-to-low (E-2), which balances the overall exposure to environmental risks of its borrowers in Latin America and the Caribbean against the large differentiation and diversification of its lending portfolio and commitment to sustainable energy and climate risk mitigation projects. To help the region build resilience against physical climate risks, enhancing its development mandate, the IADB reached 47% climate and green finance in its 2022 new approvals. By contributing to effective climate adaptation and mitigation, these projects will in turn reduce environmental risks on IADB's loan portfolio.

IADB’s positive social issuer profile score (S-1) reflects the bank’s role as the largest multilateral lender in Latin America and its focus and impact on regional socioeconomic development, especially given demographic and societal trends. IADB has developed specific programs to address important issues affecting the region such as the migration crisis. This is also manifested in responsible production of lending products available to IADB's borrowers,
particularly to support vulnerable populations following the deterioration of socioeconomic conditions caused by the pandemic. Related to this, IADB issues social bonds under its Education, Youth and Employment (EYE) program, where proceeds are used specifically for projects related to these social issues.

IADB’s positive governance issuer profile score (G-1) benefits from the bank’s high quality of management and a strong track record of implementing sound financial strategies and prudently managing risks. IADB is among the best in class among multilateral development banks in terms of developing and applying risk management practices and demonstrates a very high degree of transparency in its financial disclosures.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

FACTORS THAT COULD LEAD TO AN UPGRADE

An upgrade of the IADB’s ratings is not possible as its Aaa ratings are at the highest level on Moody’s rating scale.

FACTORS THAT COULD LEAD TO A DOWNGRADE

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.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational Entities Methodology published in October 2020 and available at https://ratings.moodys.com/api/rmc-documents/69182. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

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