2018-05-21 | Non-Rating Action Commentary

# Fitch: IADB Insulated from Venezuela Credit Deterioration

Fitch Ratings-New York/Paris-21 May 2018: Deterioration in the Inter-American Development Bank's (IADB) Venezuelan credit exposure should not have an impact on IADB's 'AAA' rating, as the placement of the country on non-accrual status is within the expectations of its Ratings Outlook, Fitch Ratings says. Fitch does not expect a material weakening of IADB's intrinsic rating given the bank's limited exposure to Venezuela and that rising nonperformance on this exposure was incorporated into our latest projections.

On May 14, $88.3 million of Venezuela-guaranteed debt held by IADB fell into arrears by more than 180 days, moving the country to non-accrual status, as per IADB policy. This was the first time in nearly 20 years that a sovereign-guaranteed loan held by IADB had fallen into arrears by more than 180 days. Venezuela is currently in arrears (more than one day) on $212.4 million of debt, or 11% of the $2.01 billion of total exposure that IADB has to Venezuela.

Venezuela's payments to IADB totaled $151 million in 2017 and 2018, signaling its continued willingness to pay despite its inability to meet its obligations in full. Under IADB's policies, it will not reschedule the Venezuelan obligations. Venezuela will not be able to access new financing from IADB, and undisbursed commitments to Venezuela will not be paid out until its obligations in arrears are repaid in full.

Amounts outstanding to Venezuela should have an immaterial effect on IADB's credit profile, representing 2.3% of IADB's total loan exposure, or 6% of ordinary capital, not including $165 billion in callable capital. IADB's claims on sovereign guaranteed loans have also benefited historically from preferred creditor status or preferred treatment in the event of default.

Fitch's latest projection assumed a tripling of IADB's impaired loan ratio of 0.5% at YE17, assuming limited recovery of the Venezuelan exposure over the rating horizon. Given IADB's high level of liquidity and strong capitalization, with equity to assets rising to 25.7% at the end of September 2017, as well as the bank's track record of high loan quality and high loan recovery, Fitch viewed a material deterioration of its Venezuelan credits to be consistent with the bank's current rating.

IADB's impaired loans have historically been stable, ranging from 0.4% to 0.6% of total loans since 2013 and consisting entirely of credits to the private sector. In its 59-year history, IADB has never incurred a loss against its ordinary capital related to a sovereign guaranteed loan. IADB's only sovereign-related losses were on its Fund for Special Operations, a concessional fund for the least-developed member countries that provided debt relief. Such debt relief initiatives, which required beneficiaries to be current on all amounts in arrears and the implementation of sound economic and social reforms, totaled $5.1 billion over a 22-year period.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

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