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Inter-American Development Bank

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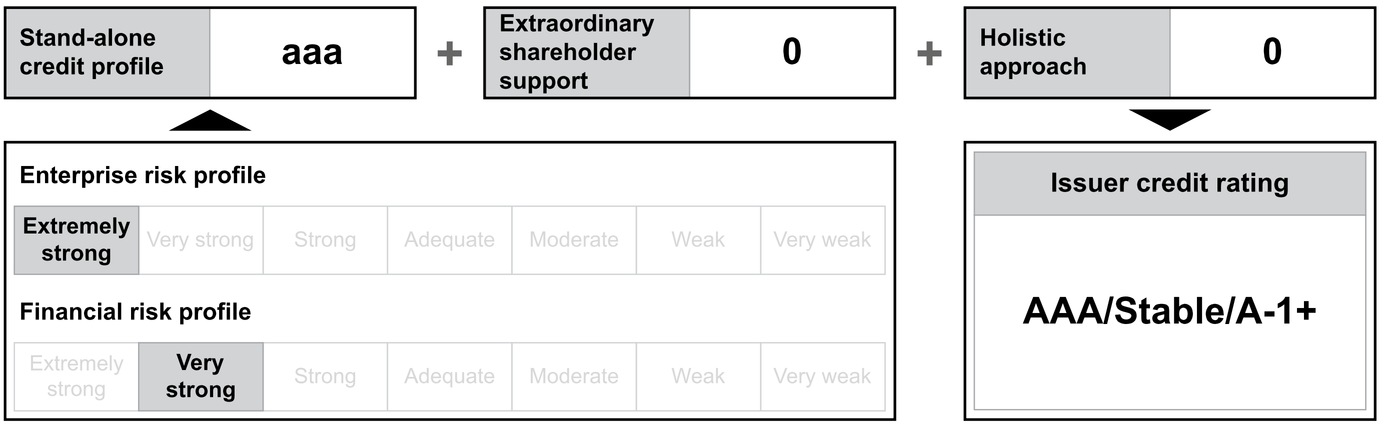
Inter-American Development Bank

This report does not constitute a rating action.

Ratings Score Snapshot

Issuer Credit Rating
Foreign Currency
AAA/Stable/A-1+



Credit Highlights

Overview	
Enterprise risk profile	**Financial risk profile**
The bank has a long record of fulfilling its policy mandate through the credit cycle.	Conservative risk management practices anchor strong financial metrics and performance.
--Strong countercyclical response to COVID-19 and significant financial and technical support to members	--Solid capital that can support additional lending and counterbalance increased risk in the region
--Solid history of capital increases and stable shareholder base	--Improving asset quality metrics
--Sound governance system and robust risk management framework	--Robust liquidity, combined with a diverse and active funding program

In our view, the Inter-American Development Bank (IADB) has an unparalleled role in Latin America, evidenced by its critical support to members amid the COVID-19 pandemic, as well as ongoing financing and technical support to address developmental challenges in the region. The bank provided record net flows to the Latin American region in 2020, with net disbursements totaling $7.9 billion. While net disbursements fell to $5.1 billion in 2021, they remained well over their five-year average, and total developmental assets reached $109 billion. We expect lending to revert to pre-pandemic levels in 2022, though the institution will continue addressing key structural challenges to growth, equality, and social protection in the region.

IADB's risk-adjusted capital (RAC) ratio improved to 22.1% as of December 2021, on the back of stronger net income. However, the Latin American region remains vulnerable to further credit pressures and a slow economic recovery. We still expect IADB to manage the RAC ratio above the 15% threshold, anchored by conservative financial and risk policies. Callable capital from IADB's highly rated shareholders would enhance our RAC ratio, nevertheless, and mitigate the impact on the bank's financial risk profile in the event that its capital adequacy were to deteriorate. IADB maintains robust funding and liquidity.

Outlook

The stable outlook reflects our expectation that over the next 24 months, IADB will apply sound governance and risk management and prudently manage its capital and liquidity, particularly in light of potentially increased credit stress in the region. At the same time, we expect IADB will remain the main supplier of developmental financing in the region. We believe sovereign borrowing members will continue to treat IADB as a preferred creditor.

Downside scenario

We could downgrade IADB if other borrowers fall into nonaccrual status, indicating weaker preferred creditor treatment (PCT). A significant deterioration in IADB's funding and liquidity could also have a negative impact on the ratings. That said, significant erosion of the RAC ratio would most likely be mitigated by the existing callable capital provided by IADB's highly rated sovereign shareholders.

Environmental, Social, And Governance

IADB has two overarching objectives: to reduce poverty and inequality and to achieve sustainable growth. It aims to accomplish these by addressing:

- Three critical challenges to development--social inclusion and equality, productivity and innovation, and economic integration
- Three cross-cutting issues--gender equality and diversity, climate change and environmental sustainability, and institutional capacity and the rule of law

In 2021, IADB reported an increase in its lending volume supporting gender equality to 76%, from 55% in 2020. Likewise, lending supporting productivity and innovation increased to 77% from 60%, while lending supporting climate change mitigation and adaptation increased to 77% from 40%.

As a public-sector lender in Latin America, IADB is highly exposed to Brazil, Argentina, Mexico, Colombia, and Ecuador, each of which is subject to modest, albeit idiosyncratic, environmental and social risks. A high proportion of IADB's projects are designed to tackle these risks, for example by creating resilient infrastructure or addressing social challenges in these countries.

The bank's Environmental and Social Policy Framework (ESPF) to help its clients tackle environmental and social issues came into effect in October 2021.

The institution does not fund coal, although it has financed fossil fuels. IADB has robust mechanisms to identify and address environmental and social challenges arising from its projects and programs. We view its oversight and accountability mechanisms in this area as transparent and robust.

In terms of shareholder diversity, a majority of IADB's borrowers have low rankings in World Bank governance effectiveness indicators. This may expose the bank to potential agency risks. However, it has implemented comprehensive and conservative financial and risk reforms over the past few years and has shown that it can adhere to these during times of stress, which supports the rating.

Enterprise Risk Profile

Policy importance: Irreplaceable role along with long record of fulfilling policy mandate

IADB's purpose is to accelerate economic and social development in Latin America and the Caribbean, with an emphasis on poverty reduction and social equality, modernization and sector reform, economic integration, and the environment. The bank was established in 1959 by 19 Latin American and Caribbean countries and the U.S., and between 1976 and 1993, it grew to encompass an additional 18 nonregional member countries. In 2005, the Republic of Korea joined, followed by China in 2009, bringing the total number of member countries to 48. No major shareholder has withdrawn from IADB, and we do not expect any to do so. IADB lends mainly to the public sector, and its main financing instruments include investment loans and policy-based financing, while it also provides emergency financing.

IADB played a key role as a countercyclical lender in response to the COVID-19 pandemic. In 2020, it repurposed a significant portion of its lending portfolio, with total approvals close to $14.2 billion, while disbursements reached a record $14.8 billion. In 2021, IADB approved $14.5 billion and disbursed $12.5 billion, focused on supporting member countries in addressing the health and economic consequences of the pandemic. Following this robust response to the pandemic, IADB expects developmental asset approvals and disbursements to revert to pre-pandemic levels, with total sovereign-guaranteed nonconcessional approvals totaling $12 billion and disbursements totaling $10 billion.

We view IADB's role in Latin America as unparalleled, supported by continued growth in its outstanding loan portfolio, which reached $109 billion as of end-March 2022. We don't believe IADB can be replaced by another multilateral lending institution (MLI) or by a commercial bank. The institution has looked at ways to enhance value for its members, notably by introducing features in its lending products to cover financial risk caused by natural disasters and providing hedging solutions to commodity price risk. Aside from lending activities, IADB is a key provider of technical assistance and research to the region, as well as an important provider of concessional funds to its eligible members. In 2017, assets and liabilities from its concessional financing window--the Fund for Special Operations (FSO)--were transferred to the bank's ordinary capital.

Following the March 2021 annual meeting in Barranquilla, Colombia, we expect IADB to continue evaluating ways to improve its developmental impact and policy instruments, although there were no indications of another capital increase. The resolution adopted by governors at the meeting focused on evaluating ways to strengthen the developmental effectiveness and impact of the institution, reviewing financial instruments and other innovative solutions, and exploring ways to optimize the balance sheet. IADB's last capital increase--its ninth General Capital

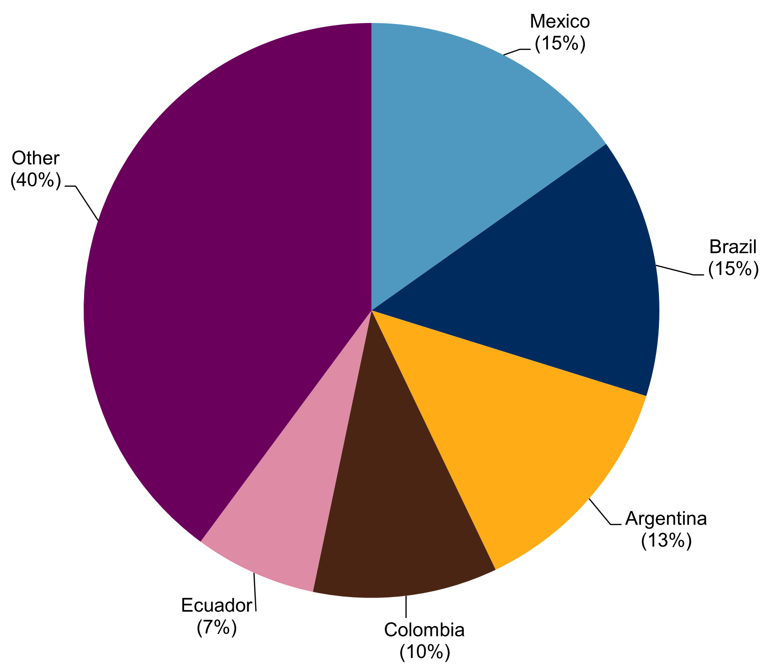
Increase--was approved in 2010 and increased its ordinary capital resources to roughly $170 billion from $100 billion. It has received all of the paid-in capital.

The performance of IADB's sovereign loan portfolio has been excellent compared with commercial creditors', as is generally the case for MLIs. Borrowing member sovereigns that have defaulted on their commercial foreign currency debt in the past 18 years (Argentina, Belize, Dominican Republic, Ecuador, Jamaica, Paraguay, and Uruguay) have not gone into arrears with IADB.

However, on May 14, 2018, Venezuela entered into nonaccrual status with IADB. By end-March 2022, $1.1 billion in principal and interest was past due and unpaid for over 180 days. The country had defaulted on its commercial obligations in November 2017. Our calculated PCT ratio of 1.92% reflects Venezuela's payment arrears with IADB, of which the total loan balance of $2.01 billion has been placed in nonaccrual status. We believe this event is relatively contained, given Venezuela accounts for about 1.8% of IADB's lending book and 1.3% of its total assets. We also expect the rest of IADB's sovereign borrowers to continue to afford it PCT.

Chart 1

IADB Five Largest Countries Purpose-Related Exposures
As a percentage of gross purpose-related assets plus guarantees



Source: S&P Global Ratings.

Governance and management expertise: Robust and conservative risk management framework counterbalances members' somewhat low governance scores

Half of IADB's voting members are borrowing members and, as such, have important influence over decision-making. We consider this a limiting factor because the interests of borrowing members could diverge from those of creditors. As of year-end 2021, the largest nonborrowing shareholders were the U.S. (30.01% voting share), Japan (5.00%), and Canada (4.00%). The largest regional voteholders were Argentina and Brazil, with 11.35% each; Mexico, with 7.30%; and Venezuela, with 3.40%. The agreement establishing IADB, as amended, stipulates that the voting power of regional developing country members will not be less than 50.005% of the total.

The institution has implemented updated financial and risk measures, which have translated into a more consciously risk-based culture. In our view, this more than counterbalances the potential agency risk stemming from borrowing member countries having slightly more than 50% of the voting power on the bank's board.

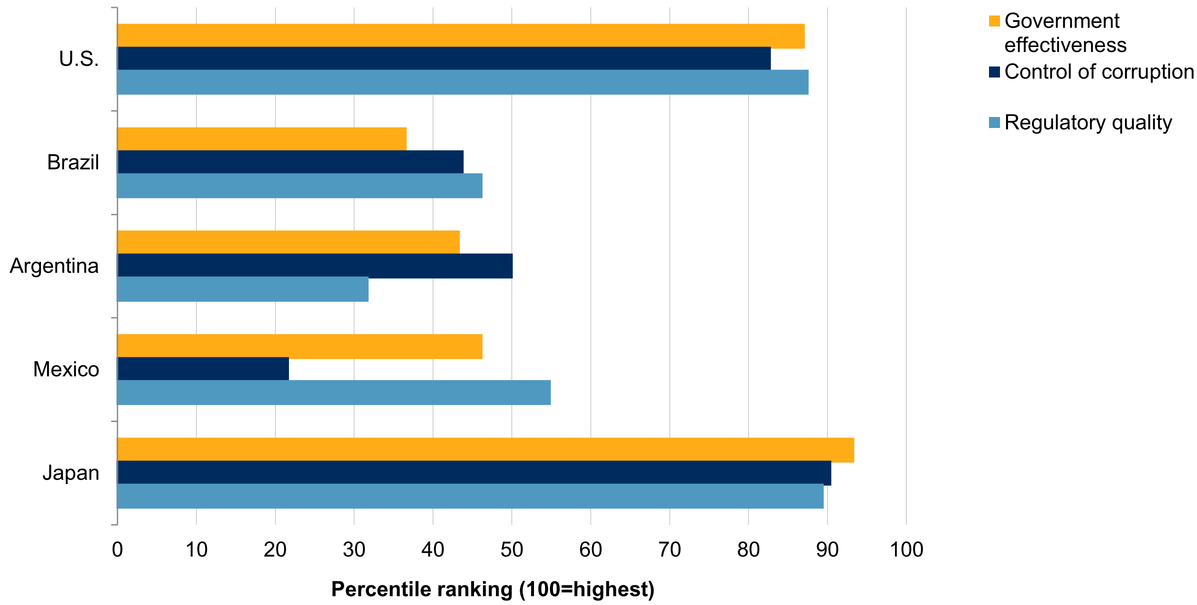
In line with its mandate, the bank has established capital buffers to facilitate countercyclical lending. In 2013, IADB started to strengthen its governance and risk management framework, underpinned by its capital adequacy mandate, which reaffirmed the bank's commitment to preserving the 'AAA' rating. The bank implemented measures to support the rapid buildup of capital buffers, including a change to its policy on disbursing grant funds to Haiti, the transfer of its FSO assets and liabilities to its ordinary capital balance sheet, and two exposure exchange agreements to improve sovereign diversification. In addition, in 2015 IADB updated its income management model (IMM), which integrates income allocation and budgeting decisions (transfers to the grant facility, administrative expenses, and loan charges) with capital accumulation and lending and approval decisions. In our view, this has created a more consistent and comprehensive capital management framework and provides clear action plans if capital falls below specified levels.

IADB has demonstrated its willingness to take corrective actions to prevent capital erosion in line with its capital adequacy and IMM policies. In 2015, the bank applied a 30-basis-point retroactive increase to its sovereign loan charges, given heightened uncertainty about credit quality in the region. IADB, unlike many other MLIs, can adjust charges on its entire nonconcessional sovereign-guaranteed loan book, which enabled it to generate additional interest revenue to counterbalance rising risks.

We think the bank demonstrated its strengthened governance and risk management framework in its approach to the situation in Venezuela. Unlike some regional MLIs, IADB did not grant any emergency financing to the country, in line with its established risk and governance principles, although Venezuela is a borrowing member. We believe IADB has the institutional depth to counterbalance potential political agendas inherent in the shareholder base of any multilateral organization.

Chart 2

IADB Five Largest Shareholders
Selected World Bank governance indicators



Source: S&P Global Ratings.

Financial Risk Profile

Capital adequacy: Robust capital ratio can support additional lending and counterbalance increased regional risk

We expect IADB's capital ratio to remain stable, anchored by conservative risk management policies. The RAC ratio improved to 22.1% as of Dec. 31, 2021, using parameters as of July 2022, from 21.2% as of year-end 2020. The improvement mainly stemmed from an increase in net income during the period to $1.1 billion. This was supported by a $514 million gain related to the recognition of changes under pension benefit plans. Callable capital from IADB's highly rated shareholders would enhance the RAC ratio and mitigate the impact on the bank's financial risk profile in the event that its capital adequacy were to deteriorate.

The bank has consistently reduced its portfolio concentration in recent years, supported in part by two exposure exchange agreements (EEAs) with other MLIs. It has a high single-name concentration because of its limited number of borrowing member countries and the distribution of economic activity in the region. IADB's lending is heavily skewed toward Brazil, Mexico, Argentina, Colombia, and Ecuador--which were 61% of the total lending exposure as of 2021, although the bank has made efforts to diversify its lending book. In 2015, the bank executed two bilateral EEA transactions (with International Bank for Reconstruction and Development and African Development Bank), but these remain within 10% of the outstanding loan balance of the sovereign portfolio, and individual country exposures do not exceed the bank's 10th-largest sovereign exposure. IADB executed an additional EEA transaction for $1 billion in December 2020 with the ADB.

We expect asset quality to hold up and remain in line with peers'. As of end-May 2022, the bank's sovereign and non-sovereign-guaranteed loans classified as impaired totaled $2.011 billion and $216 million, respectively. (In 2021, they were $2.011 billion and $339 million, respectively.) The impaired sovereign-guaranteed loans are related to Venezuela, and no other sovereign-guaranteed loans were 180 days or more past due, impaired, or in nonaccrual status as of end-March 2022. Asset quality marginally improved as nonaccruals from project finance dropped during the period.

Profitability improved to $1.1 billion in 2021 from $610 million in 2020, supported mostly by lower provisioning on developmental assets. The decrease in allowances was due to lower provisioning on the non-sovereign-guaranteed portfolios, amid improvements in macroeconomic conditions and in the conditions of individually assessed loans. Interest revenue also improved following a 10-basis-point increase in the bank's sovereign nonconcessional lending spread. Total other comprehensive income increased to $478 million in 2021 from a loss of $676 million, largely from the changes in assets and liabilities associated with the pension plan.

Table 1

IADB Risk-Adjusted Capital Framework Data: December 2021

(Mil. US$)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	140,423	158,011	113
Institutions	19,233	5,297	28
Corporate	3,750	5,478	146
Retail			
Securitization	492	182	37
Other assets	929	1,045	113
Total credit risk	164,828	170,013	103
Credit valuation adjustment			
Total credit valuation adjustment			
Market risk			
Equity in the banking book			
Trading book market risk			
Total market risk			
Operational risk			
Total operational risk		8,414	
Risk transfer mechanisms			
Risk transfer mechanisms RWA			
RWA before MLI Adjustments		178,427	100
MLI adjustments			
Single name (on corporate exposures)		979	18
Sector (on corporate portfolio)		(283)	(4)
Geographic		(16,424)	(10)

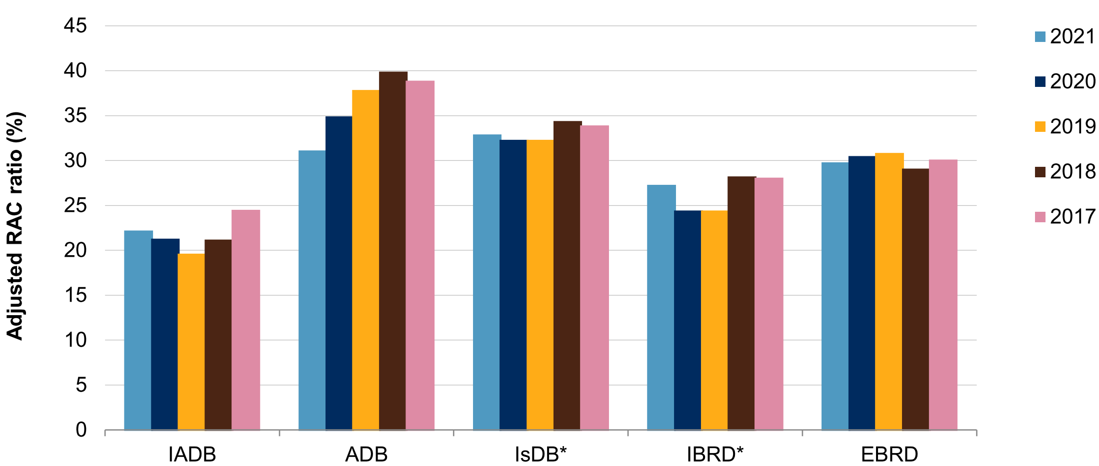
Table 1

IADB Risk-Adjusted Capital Framework Data: December 2021 (cont.)		
Preferred creditor treatment (on sovereign exposures)	(91,598)	(58)
Preferential treatment (on FI and corporate exposures)	(747)	(7)
Single name (on sovereign exposures)	87,518	55
Total MLI adjustments	(20,556)	(12)
RWA after MLI adjustments	157,871	88
	Total adjusted capital	**S&P Global Ratings RAC Ratio (%)**
Capital ratio before adjustments	34,907	19.6
Capital ratio after adjustments	34,907	22.1

MLI--Multilateral lending institution. RW--Risk weight. RWA--Risk-weighted assets.

Chart 3

Risk-Adjusted Capital Ratio Peer Comparison



*IBRD & IsDB ratios for 2021 are as of end-June. Source: S&P Global Ratings.

Funding: Diversified

We estimate IADB is structurally able to cover its scheduled short-term debt liabilities without recourse to new issuance. Our static funding gap ratio, excluding loan disbursements, was 1.3x at the one-year time horizon as of year-end 2021, down from 1.5x at year-end 2020. The five-year funding gap was 1.3x. With the inclusion of scheduled loan disbursements, the one-year funding ratio drops to 1.2x.

IADB's funding in our view is well diversified by both geographic market and type of investor, reflecting its frequent issuance in multiple markets and currencies. The bank regularly raises funds in the international capital markets through the issuance of debt securities, with currently 26 U.S. dollar benchmarks outstanding. While 79% of the total debt stock as of year-end 2021 was denominated in U.S. dollars, the bank has outstanding borrowings, before swaps, denominated in 11 different currencies, supporting our view that it has a global investor base.

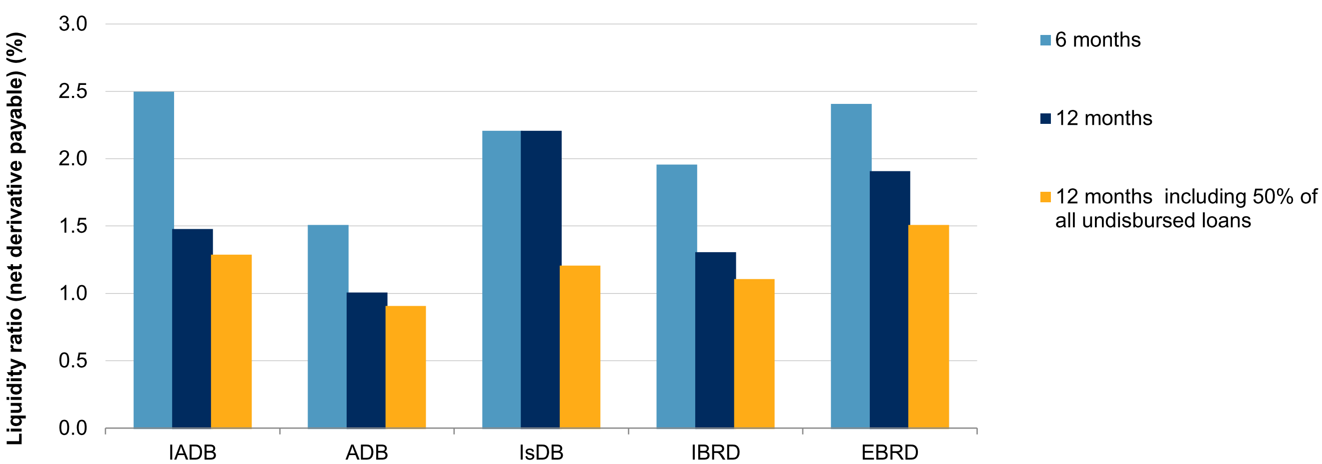
Liquidity: Strong

Under our liquidity stress scenario, IADB would fully cover its balance-sheet liabilities without market access for one year. Using year-end 2021 data, our 12-month liquidity coverage ratio is 1.5x, including scheduled loan disbursements, while the six-month ratio is 2.5x. IADB's liquidity has recently been higher as measured by our additional stress scenario, which takes into account 50% of all undisbursed loans coming due in the next 12 months. But we believe these higher liquidity buffers will likely decline and that the bank may need to spread out potential disbursements in a stress scenario.

IADB's liquidity policy calls for the maintenance of liquidity sufficient to cover at least 12 months of debt repayments and loan disbursements with no access to capital markets, although it allows for prefunding to support generally stable funding. Liquidity, as defined by IADB for this purpose, is nonborrowing countries' convertible currency cash and investments, excluding assets with limited or restricted availability. As of Dec. 31, 2021, the liquid asset portfolio totaled $38.7 billion.

Chart 4

Liquidity Stress Test Ratios Peer Comparison



IsDB ratios are as of end-December 2020 and IBRD ratios are as of June 2021. Source: S&P Global Ratings.

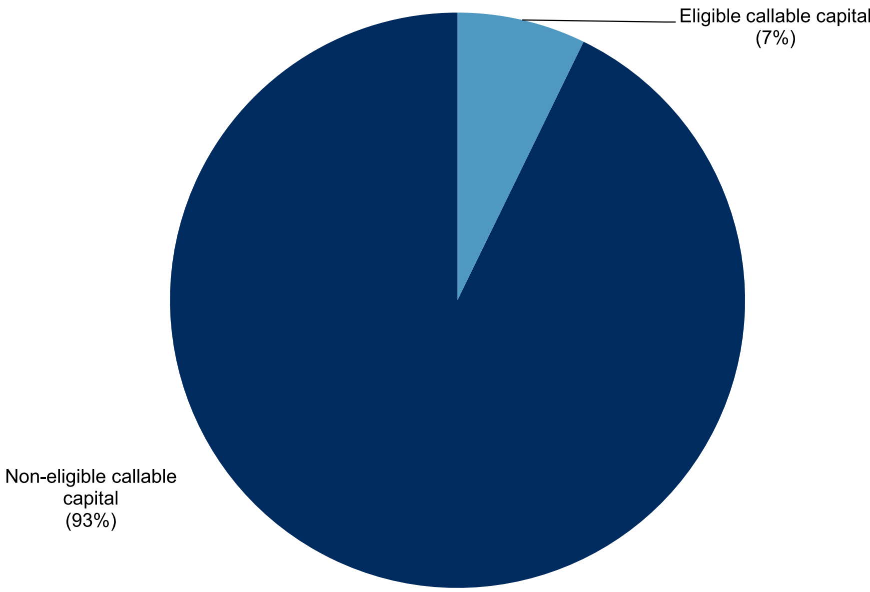
Extraordinary Shareholder Support

We don't factor extraordinary support in the form of callable capital into the rating because IADB, on its own, can achieve our highest assessment. Nonetheless, callable capital from IADB's highly rated shareholders would enhance our RAC ratio and mitigate the impact on the bank's financial profile in the event that its capital adequacy were to deteriorate.

IADB's largest 'AAA' and 'AA+' rated shareholders include the U.S., Canada, Germany, and the Nordic countries. Our measure of eligible callable capital includes sovereigns rated at least equal to an MLI's stand-alone credit profile. For IADB, this would include shareholders rated 'AAA'.

Chart 5

IADB Callable Capital
As a percentage of total callable capital



Source: S&P Global Ratings.

Table 2

IADB Selected Indicators

	2021	2020	2019	2018	2017	2016
ENTERPRISE PROFILE						
Policy importance						
Total purpose-related exposure (loans, equity, etc.) (mil. $)	109,567	105,549	97,221	93,831	89,435	82,182
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	95.7	95	94.3	93.9	93.4	92.8
Private-sector loans/purpose-related exposures (%)	4.3	5	5.7	6.1	6.6	7.2
Gross loan growth (%)	3.9	8.3	3.6	4.8	8.7	4.1
Preferred creditor treatment ratio (%)	1.9	2	2.2	2.3	2.4	N.A
Governance and management expertise						
Share of votes controlled by eligible borrower member countries (%)	49.6	50	50	50	50	50
Concentration of top two shareholders (%)	41	41	41.4	41.4	41.4	41.4

Table 2

IADB Selected Indicators (cont.)

	2021	2020	2019	2018	2017	2016
Eligible callable capital (mil. curr)	11,925	11,925	11,925	11,925	11,925	11,925
FINANCIAL RISK PROFILE						
Capital and earnings						
RAC ratio (%)	22.1	21.2	19.5	23.3	24.4	21
Net interest income/average net loans (%)	1.7	1.6	2	1.9	2.2	2.4
Net income/average shareholders' equity (%)	3.2	1.8	4.2	2.6	2.1	3.3
Impaired loans and advances/total loans (%)	2.2	2.4	2.4	2.6	0.5	0.6
Liquidity ratios						
Liquid assets/adjusted total assets (%)	26.7	27.1	26.2	25.4	27.1	24.7
Liquid assets/gross debt (%)	35.5	36.1	36.8	36.4	38.5	34.7
Liquidity coverage ratio (with planned disbursements):						
Six months (net derivate payables) (x)	2.5	2.8	2.3	3	2.9	3.6
12 months (net derivate payables) (x)	1.5	1.6	1.4	1.4	1.4	1.5
12 months (net derivate payables) including 50% of all undisbursed loans (x)	1.3	1.3	1.2	1.2	1.2	1.2
Funding ratios						
Gross debt/adjusted total assets (%)	75.3	75	71.2	69.7	70.3	71
Short-term debt (by remaining maturity)/gross debt (%)	17.4	16	18.9	18.2	19.8	15.3
Static funding gap (with planned disbursements)						
12 months (net derivate payables) (x)	1.3	1.5	1.3	1.3	1.3	1.4
SUMMARY BALANCE SHEET						
Total assets (mil. $)	151,752	147,533	136,358	129,459	126,240	113,325
Total liabilities (mil. $)	116,666	113,856	102,487	96,530	93,993	86,865
Shareholders' equity (mil. $)	35,086	33,677	33,871	32,929	32,247	26,460

Source: S&P Global Ratings.

Table 3

IADB Peer Comparison

	Inter-American Development Bank	Asian Development Bank	Islamic Development Bank*	International Bank for Reconstruction and Development†	European Bank for Reconstruction and Development
Issuer credit ratings	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+
Total purpose-related exposure (mil. $)	109,567	140,017	25,219	227,269	42,636
Preferred creditor treatment ratio (%)	1.9	0.2	2.6	0.2	0
Risk-adjusted capital ratio (%)	22.1	31	33.3	27.2	29.7
Liquidity ratio 12 months (net derivative payables; %)	1.5	1	1.4	1.3	1.9

Table 3

IADB Peer Comparison (cont.)

	Inter-American Development Bank	Asian Development Bank	Islamic Development Bank*	International Bank for Reconstruction and Development†	European Bank for Reconstruction and Development
Funding gap 12 months (net derivative payables; %)	1.3	1	3.8	1.4	2.4

*For IsDB, all data is as of end-June 2020. †For IBRD, all data are as of end-June 2021. Source: S&P Global Ratings.

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Jan. 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Abridged Supranationals Interim Edition 2022: Comparative Data For Multilateral Lending, May 27, 2022
- Introduction To Supranationals Special Edition 2021, Oct. 27, 2021
- Supranationals Edition 2021: Comparative Data For Multilateral Lending Institutions, Oct. 27, 2021
- Supranationals Special Edition 2021, Oct. 27, 2021
- Can Multilateral Lenders' Capital Bases Hold Up Against COVID-19?, June 9, 2020
- How Multilateral Lending Institutions Are Responding To The COVID-19 Pandemic, June 9, 2020
- ESG Industry Report Card: Supranationals, Feb. 11, 2020

Ratings Detail (As Of July 27, 2022)*		
Inter-American Development Bank		
Issuer Credit Rating		
Foreign Currency		AAA/Stable/A-1+
Senior Unsecured		AAA
Short-Term Debt		A-1+
Issuer Credit Ratings History		
22-Sep-1997	*Foreign Currency*	AAA/Stable/A-1+
27-Apr-1990		AAA/Stable/--
28-Nov-1962		AAA/--/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable

Ratings Detail (As Of July 27, 2022)*(cont.)

across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.