Rating Action: Moody's Ratings affirms the Inter-American Investment Corporation's Aa1 ratings; maintains stable outlook

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New York, April 12, 2024 -- Moody's Ratings has today affirmed the Aa1 issuer and senior unsecured ratings of the Inter-American Investment Corporation (IDB Invest) and maintained the stable outlook. The short-term issuer rating of the IDB Invest and commercial paper rating were affirmed at Prime-1 (P-1). The senior unsecured MTN program's rating was also affirmed at (P)Aa1.

The affirmation of the ratings is supported by the high support provided by IDB Invest's shareholders reflected by the approval of a new general capital increase (GCI) that will allow IDB Invest to continue to grow over the next decade and maintain favorable credit metrics. Additionally, IDB Invest's intrinsic financial strength remains robust and aligned with that of Aa-rated multilateral development banks (MDBs) as capital adequacy will remain strong and will be supported by very high liquidity coverage and prudent governance practices that build on the track record established over the past eight years.

The stable outlook reflects Moody's Ratings expectation that IDB Invest's capital position will stabilize as it continues to expand on its new business model and its equity grows as part of the new capital increase process. Its robust credit risk management practices will continue to allow IDB Invest to maintain strong asset performance despite the risks posed by its operations within the private sector in Latin America and the Caribbean. A strong liquidity coverage and favorable market access will also support its credit profile.

RATINGs RATIONALE

RATIONALE FOR THE RATING AFFIRMATION OF Aa1 RATING

HIGH MEMBER SUPPORT DEMONSTRATED BY SECOND CAPITAL INCREASE IN A DECADE

Moody's Ratings considers that IDB Invest's strength of member support is high
despite the absence of callable capital. The Board of Governors reached an agreement at the IDB Group's 2024 annual meetings on a new capital increase of $3.5 billion that will double its equity – IDB Invest's third GCI, and the second one in less than a decade – to support its new business model. The approval of the GCI-III is a demonstration of the economic importance assigned by shareholders given the results achieved by IDB Invest during the GCI-II process that started in 2016 and increased its equity by $2.03 billion.

During this period IDB Invest expanded its development-related assets (DRA) to $8.7 billion by 2023 from $991 million in 2015, while also bolstering its risk management capabilities. As of 2023, IDB Invest not only managed its own $10.3 billion in assets, but also the Inter-American Development Bank's (IADB) $4.6 billion private sector operations and another $6 billion related to B-loans and third-party funds. This took place as IDB Invest's leverage increased, but asset performance remained strong. Additionally, IDB Invest began borrowing more in the markets and has now established a presence in several global and regional markets.

Moody's Ratings deems the ability and willingness of shareholders to support IDB Invest to be strong despite the diversity in its member base. Highly-rated non-borrowing shareholders, in particular the United States which is the largest shareholder, were important proponents of the continued expansion of IDB Invest's mandate. Lower-rated members have displayed strong commitment via timely capital payments, despite experiencing material financial challenges.

INTRINSIC FINANCIAL STRENGTH WILL REMAIN ROBUST SUPPORTED BY ADDITIONAL CAPITAL

The increase in leverage, with the ratio of DRA-to-equity of about 270% in 2023 from 224% in 2022, as well as a spike in nonperforming loans point to a slight weakening in IDB Invest's capital adequacy. However, because GCI-III will begin in 2025 and is expected to last through 2032, with IDB Invest receiving $500 million in contributions annually, Moody's Ratings expects that leverage will decline over the coming years back to levels that are more aligned with that of other Aa-rated peers. Additionally, although the ratio of nonperforming assets rose to 1.8% of total DRAs in 2023 from 0.4% on average during 2020-22, this metric remains more favorable than for other MDBs that focus on the private sector.

IDB Invest's liquidity coverage remains very strong, and it has strengthened its market access over the past several years. As IDB Invest has expanded its mandate and its borrowing requirements rose accordingly, it has increased the issuance of benchmark-sized bonds, as well as sustainability- or ESG-linked instruments. This in turn has contributed to the diversification of its investor base and has also contributed to lowering its borrowing costs, with its global bonds trading tightly with Aaa-rated MDBs.

Overall, a still favorable capital adequacy and strong liquidity profile, support IDB
Invest's intrinsic financial strength and its standing relative to similarly rated peers.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook incorporates Moody's Ratings view that IDB Invest will effectively manage credit risks from its private sector and regional mandate, which will continue to be reflected in the moderate credit quality of its DRAs, maintaining good country and sector diversification, and strong asset performance. The stable outlook also reflects Moody's Ratings expectation that leverage will stabilize in 2024 and begin declining in subsequent years as additional equity comes in. IDB Invest's leverage will remain below its own prudential limits, providing space to react in a countercyclical manner to a potential new shock affecting the private sector in the Latin American and Caribbean region. Strong capital adequacy will be preserved, which along with robust liquidity and funding, will support IDB Invest's credit profile.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

IDB Invest's CIS-2 credit impact score reflects low exposures to environmental, social risks and supportive governance practices. Despite the moderate exposure to environmental and social risks of the countries where it operates, IDB Invest's operations within the private sector contribute to the development of Latin America and the Caribbean, enhancing its importance to shareholders. Governance at IDB Invest has strengthened over the past several years as it has been able to prudently manage credit risks that could have stemmed from a rapidly growing development portfolio in line with its expanded mandate.

IDB Invest's E-2 environmental issuer profile score balances the overall exposure to environmental risks of its borrowers in Latin America and the Caribbean and its development operations related to renewable energy and climate risk mitigation projects supporting carbon transition goals in the region. In 2023, IDB Invest exceeded its goal of 30% of operations addressing climate change in the region, with 32% of total operations (51% of long-term ones) related to this issuers.

IDB Invest has a social issuer profile score of S-2, with strong customer relations delivering important financing products for private sector development in Latin America and the Caribbean. Additionally, it demonstrates a high degree of responsible production by providing instruments to its clients that enhance its impact on socioeconomic development, including the issuance of social bonds in domestic markets to serve as benchmarks for local issuers.

IDB Invest's G-2 governance issuer profile score reflects its prudent risk management practices that translate into strong credit metrics, in particular asset performance, given its exposure to private sector operations in Latin America. As part of the expansion of its development mandate related to the second general capital increase process, IDB Invest transitioned to also manage the credit risk of all private sector operations within the whole IDB Group portfolio, i.e., including the assets that are still
FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward rating pressure is limited by the difficult operating environment in which IDB Invest carries out its lending and investment activities, in addition to potential risks from its private sector-focused operations. Although unlikely, the introduction of callable capital as an additional backstop for investors would enhance IDB Invest's credit profile.

Downward rating pressure would emerge if a material deterioration in the operating environment were to result in significant credit losses, or if a continued increase in leverage pushes this metric closer to IDB Invest's policy limits, leading to a sharp deterioration in capital adequacy. Weakening support from its shareholders or the IADB would also weigh on the credit profile.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational Entities published in February 2024 and available at https://ratings.moodys.com/rmc-documents/414557. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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