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FONPLATA

FONPLATA may lose one of its two largest shareholders with Argentina's withdrawal

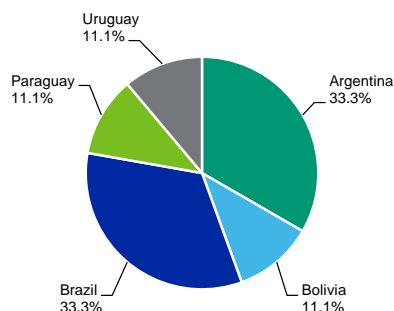
On 3 May, the governors of South American regional multilateral development bank (MDB) [FONPLATA](#) (A2 stable) announced that [Argentina](#) (Ca stable) had expressed its intent to withdraw from membership. The MDB, which focuses on economic development of the River Plate Basin, remains financially sound and FONPLATA governors from member countries [Bolivia](#) (Caa1 review for downgrade), [Brazil](#) (Ba2 stable), [Paraguay](#) (Ba1 positive) and [Uruguay](#) (Baa2 stable) ensured their commitment to supporting the bank's financial standing.

FONPLATA may lose one of its two largest shareholders with Argentina's surprising withdrawal from membership. However, the ultimate credit implications will depend on how the withdrawal is implemented, including the MDB's potential offsetting measures.

Currently, Argentina has a 33% paid-in capital share of FONPLATA (see Exhibit 1). It is the institution's largest sovereign exposure with around 27% of total development-related assets (see Exhibit 2). According to FONPLATA's statutes, members' paid-in capital is returned to them only after all loans are repaid. The withdrawal process takes at a minimum 12 months and is reversible at any time. With Argentine presidential elections scheduled for October 2023, a new administration could end the withdrawal process and keep its membership. According to preliminary estimates, the financial effect of Argentina's loan repayments and return of its capital investment would ultimately result in a net gain of around \$22 million for FONPLATA since Argentina has more outstanding liabilities than equity.

Exhibit 1

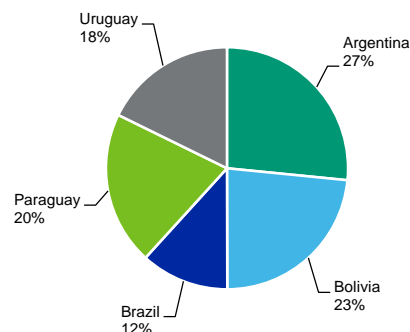
FONPLATA's two largest shareholders are Argentina and Brazil
Paid-in capital by shareholder as a percentage of total, 2021



Sources: FONPLATA and Moody's Investors Service

Exhibit 2

Argentina is FONPLATA's largest loan exposure as a sovereign borrower
Loans by shareholder as a percentage of total, 2021



Sources: FONPLATA and Moody's Investors Service

In the governors' joint statement, FONPLATA said that Argentina had informed them that the decision to withdraw as a member was based on, "...the will of the Republic of Argentina to reorganize and channel resources contributed to multilateral financial organizations in order to optimize access to multilateral international financing and to deepen economic and financial integration at a continental level." Based on the statement, we expect Argentina to seek to deepen lines of credit with larger, more international multilateral institutions.

If implemented, Argentina's withdrawal could change FONPLATA's leverage, weighted average borrower rating, weighted average shareholder rating, and strength of member support, including contractual support from callable capital. We will assess the ultimate credit effects on FONPLATA's credit profile through the three ratings factors in our MDB methodology that assess capital adequacy, liquidity and funding, and strength of member support. Given the joint statement from FONPLATA's membership, we expect the MDB will continue to benefit from the support of its current members. For example, Brazil, which will become the largest shareholder after Argentina's withdrawal, has said it will accelerate the timing of its paid-in capital contribution ahead of schedule for this year.

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