

Research Update:

FONPLATA Outlook Revised To Negative On Announcement Of Potential Withdrawal By Argentina; 'A/A-1' Ratings Affirmed

May 5, 2023

Overview

- Argentina, one of FONPLATA's key shareholders, announced its potential intention to withdraw from FONPLATA.
- Although a formal withdrawal process has yet to be initiated, we believe a departure of a key shareholder could prove detrimental to the fund's policy importance and potentially diminish incentives to treat FONPLATA as a preferred creditor.
- This announcement follows FONPLATA's strengthening presence in Latin America as it grew its lending operations while enhancing its risk management and operational capabilities.
- We revised our outlook on FONPLATA to negative from stable and affirmed our 'A/A-1' ratings. The negative outlook indicates the risk of a material erosion to FONPLATA's shareholder base if Argentina withdraws.

Rating Action

On May 5, 2023, S&P Global Ratings revised its outlook on FONPLATA to negative from stable. At the same time, we affirmed our 'A/A-1' foreign currency long- and short-term issuer credit ratings.

Outlook

The negative outlook reflects the risk of a material erosion to FONPLATA's shareholder base due to the announcement from Argentina, a key shareholder, of its potential intention to withdraw from FONPLATA. We expect a formal withdrawal request by Argentina could signal a decline in overall policy relevance and severely weigh on FONPLATA's enterprise risk profile. Weaker commitment from a key shareholder could also lead to diminished preferred creditor treatment. We believe these risks could materialize within the next 24 months, resulting in a mult notch downgrade.

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Downside scenario

We could lower our ratings on FONPLATA if Argentina follows through on withdrawing from the institution, leading to a material erosion of its shareholder base while curtailing the institution's policy role. Aside from the shareholder relationship, we could downgrade FONPLATA if shareholders, including Argentina, stop treating FONPLATA as a preferred creditor.

Upside scenario

We could revise the outlook to stable if the withdrawing shareholder reverses course and remains current on its debt service payments to FONPLATA.

Rationale

We believe FONPLATA's relationship with shareholders has weakened following a letter from the Argentinean Ministry of Finance, submitted on April 21, indicating potential intentions to withdraw its membership. The official statement from Argentina indicates that it seeks to relocate its capital from FONPLATA to other multilateral lending institutions to optimize access to multilateral financing. This comes at a time when Argentina is facing heightened vulnerability, pronounced economic imbalances and policy uncertainties, and pressures on its international reserves. On March 29, 2023, we lowered our long-term foreign currency rating on Argentina to 'CCC-', with a negative outlook (see "Argentina Long-Term Foreign Currency Rating Lowered To 'CCC-' On Heightened Vulnerability; Outlook Negative").

The process, timing, and execution of Argentina's potential intention to withdraw from FONPLATA are uncertain. The institution is being counseled by external lawyers to determine the scope of the governor's letter in relation to the provisions of the constitutive agreement--if the letter is sufficient to formalize a withdrawal request--and the Argentine law on whether there are additional requirements, including the need for congressional approval. In addition, according to FONPLATA's constitutive agreement, the withdrawal cannot be fully executed until at least 12 months after the formal request. It is our understanding that the constitutive agreement stipulates that any withdrawal of capital requires all debt clearance with the institution. At the same time, with an upcoming election in Argentina in October 2023, and assuming there could be a change in Argentina government, it's possible that this decision could be reversed.

Despite the uncertainty of Argentina's departure, we view the potential intention of withdrawal as a deterioration of FONPLATA's shareholder support and a harbinger of diminished policy importance. Equally important, reduced support from a key shareholder could increase risks of a preferred creditor treatment event, which would significantly curtail FONPLATA's financial and enterprise risk profiles. Argentina is a founding member and represents one-third of total capital (\$450 million). It also has the largest share in the lending portfolio, at \$490 million as of December 2022, or around 28%.

We believe other shareholders will continue to support FONPLATA. Brazil has repaid its delayed capital installments and front-loaded its remaining 2023 capital payments. The four shareholders published a joint letter on May 3 supporting the role and purpose of the institution. It is unclear whether remaining shareholders will take meaningful action to offset FONPLATA's weakening shareholder support and reduced policy relevance as a result of the potential departure of a key member, such as through a capital increase to support increased lending. At the same time, the incorporation of new members could counterbalance the risks of diminished policy importance.

Ratings Score Snapshot

Issuer Credit Rating: A/Negative/A-1

Stand-alone credit profile: a

Enterprise risk profile: Moderate

- Policy importance: Strong
- Governance and management expertise: Weak

Financial risk profile: Very Strong

- Capital adequacy: Very Strong
- Funding and liquidity: Strong

Extraordinary support: 0

- Callable capital: 0
- Group support: 0

Holistic approach: 0

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

Ratings List

Ratings Affirmed

FONPLATA

Senior Unsecured	A
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Ratings Affirmed; CreditWatch/Outlook Action

	To	From
FONPLATA		
Sovereign Credit Rating		
Foreign Currency	A/Negative/A-1	A/Stable/A-1

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