

Research Update:

FONPLATA Outlook Revised To Stable From Negative On Argentina's Membership Confirmation; 'A/A-1' Ratings Affirmed

January 30, 2024

Overview

- Argentina, one of FONPLATA's key shareholders, confirmed that it will remain as a member of the development bank, which will resume borrowing to that country shortly.
- Ongoing discussions over a new capital increase of \$3.5 billion, which would raise total capital to \$6.5 billion.
- FONPLATA has been strengthening its presence in Latin America as it expanded its lending, while enhancing its risk management and operational capabilities.
- We revised our outlook on FONPLATA to stable from negative and affirmed our 'A/A-1' ratings on it, indicating our expectations that its members will remain supportive and current on their obligations, as well as its financial risk profile to remain very strong.

Rating Action

On Jan. 30, 2024, S&P Global Ratings revised its outlook on FONPLATA to stable from negative. At the same time, we affirmed our 'A/A-1' foreign currency long- and short-term issuer credit ratings on the bank.

Outlook

The stable outlook reflects our expectation that member countries will remain supportive of the institution and continue to make timely capital payments, while FONPLATA maintains its preferred creditor treatment (PCT) status. We expect the entity will maintain its strong presence in Latin America, with high capital levels that will be managed prudently, along with ample and high-quality liquid assets.

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Downside scenario

We could lower our ratings on FONPLATA if its capital and liquidity ratios deteriorate or if shareholders reduce their support, including a weakening PCT.

Upside scenario

We could raise the ratings if further consolidation of management practices and potential membership expansion prompt us to revise our view of the institution's enterprise risk profile to a stronger category, while the bank maintains ample liquidity. In addition, sustaining capitalization above 23% could lead to an upgrade.

Rationale

Argentina confirmed that it won't withdraw from FONPLATA. During the first directors' meeting held on Jan. 19, Argentina's Minister of Finance submitted a letter confirming that the country won't leave FONPLATA. This letter reverses Argentina's April 2023 intention to withdraw under the previous administration. In addition, the bank is currently holding meetings with Argentina's officials to redefine borrowing priorities, while we expect loan approvals and disbursements to normalize very shortly.

We view Argentina's former intention to withdraw as an isolated event that was driven by political motives and the implications of such action weren't fully understood. The departure including the recovery of Argentina's equity stake in the bank, would have resulted in net cash outflows for the country after repaying its outstanding loans. In addition, since its original intention to leave, Argentina remained current on all of its debt obligations. Nonetheless, it has yet to pay the 2023 capital installment of \$31.2 million, which we expect will occur soon. Therefore, we believe that Argentina will remain a major shareholder and continue supporting FONPLATA.

Despite Argentina's continued economic stress and external pressures, the new government considers FONPLATA an important institution, as seen in its decision to remain a member. Currently, there are no signs of discontent among any other members that could lead to a withdrawal.

This reduces the risk of a mult notch downgrade that would have stemmed from the following factors:

- A potential deterioration of the shareholder's support and policy importance;
- The occurrence of a PCT event; or
- The weakening of the risk-adjusted capital (RAC) and liquidity ratios from the departure of one of FONPLATA's key shareholder.

Further underpinning the policy relevance of the institution, its directors are discussing the terms of a new general capital increase (GCI). While still early in the process, the GCI would be \$3.5 billion and raise the bank's total capital to \$6.5 billion, with subscription expected by the end of 2024 or beginning of 2025. The first installment should reach FONPLATA by the second half of 2026. The proposed GCI follows the last one agreed upon in 2016 and with last installments scheduled for 2024 (except for Brazil, which will make scheduled payments up to 2026). Combined with the constitutive agreement being effective as of January 2024 that all members' legislatures have approved, the potential third GCI would also allow the possibility of incorporating new bank

members. In our view, the latter could strengthen shareholders' support to the bank and its governance.

The third GCI will support the bank's lending expansion and presence in the region, while keeping a very strong RAC ratio, which is currently at 22%. For 2023, we expect growth in approvals and a slight reduction in disbursements in comparison with 2022, but we project record amounts for 2024 once disbursements to Argentina will resume. Most recently, FONPLATA approved a \$325 million 19-year loan to Uruguay. This is part of the bank's plan to further diversify its loan portfolio.

In terms of funding, FONPLATA has credit lines from other multilateral lending agencies and plans issuances for 2024. Its first issued bond will mature in March 2024, while the bank expects to return to capital markets this year, exploring the possibility of tapping into new jurisdictions. The bank has been active in expanding and diversifying funding sources to lower its borrowing costs.

Ratings Score Snapshot

Issuer credit rating	A/Stable/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

Related Research

- FONPLATA, Oct. 20, 2023
- Supranationals Special Edition 2023, Oct. 12, 2023
- Argentina Long-Term Local Currency Rating Raised To 'CCC-' As Default Is Cured; 'CCC-' Foreign Currency Rating Affirmed, June 13, 2023
- FONPLATA Outlook Revised To Negative On Announcement Of Potential Withdrawal By Argentina; 'A/A-1' Ratings Affirmed, May 5, 2023

Ratings List

Ratings Affirmed		
FONPLATA		
Senior Unsecured	A	
Ratings Affirmed; CreditWatch/Outlook Action		
	To	From
FONPLATA		
Sovereign Credit Rating		
Foreign Currency	A/Stable/A-1	A/Negative/A-1

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