

INTER-AMERICAN DEVELOPMENT BANK  
SOVEREIGN-GUARANTEED LENDING



# Historical Default & Loss Rates

# IMPROVING LIVES

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# Summary



The Inter-American Development Bank provides financial and technical support to improve the quality of life in Latin America and the Caribbean, aiming to accelerate regional economic and social development sustainably.

**Since its incorporation, the performance of the Bank's sovereign-guaranteed loan portfolio has been outstanding with no loss on principal, interest or fees, only the financial losses resulting from foregone return on late interest payments during eight non-accrual events (with only five borrowing countries).**

**IDB's average default and loss rates are 0.5% and 2.02%, respectively, which compare favorably to the average default rate of 1.73% used by major credit rating agencies for B+ exposures (weighted average rating of IDB's loan portfolio before any methodological Preferred Creditor Treatment- PCT - uplifts) and the 20% loss given default**

**rate used by S&P in their Supranational rating methodology for IDB's arrears ratio.**

Currently, IDB is experiencing a non-accrual event with Venezuela. As of June 2024, this is the longest episode of non-payment in the Bank's history. Considering that the event is ongoing, Management has chosen to include the non-payment as part of the calculation of default rates but to exclude it for the calculation of loss rates as the contribution of this event cannot yet be quantified. Once Venezuela resolves its non-accrual event, the statistics will be updated accordingly.

The MDB community, including the IDB, strives for greater transparency and effectiveness. Providing reliable data on default and recovery rates is essential for fostering a constructive dialogue with key stakeholders like Credit Rating Agencies and investors. This report details all IDB's default events. Sharing these insights enhances understanding of MDB risks and financial health.

This information has been shared with the Global Emerging Markets Risk Database Consortium (GEMs) to contribute to the pooled MDB statistics. The results are consistent with those produced by the consortium. In accordance with G20 CAF Review<sup>1</sup> recommendations, the IDB will keep the community and its stakeholders informed by regularly publishing this report with updated information.

<sup>1</sup> The G20 convened an independent panel to explore and review the capital adequacy frameworks (CAF) of the Multilateral Development Banks (MDBs). The Panel's report sets out five recommendations aimed at unlocking additional resources to maximize MDB development impact while persevering their credit ratings and preferred creditor treatment.

# Introduction & Definitions

This note summarizes the key IDB Sovereign Guaranteed (SG) borrower defaults (payment arrears triggering non-accrual status, explained below) and loss rate statistics.<sup>2</sup> The borrower default (non-accrual) are calculated based on historical data on all IDB's non-accrual events. The loss rates for resolved SG borrower non-accrual events do not include the ongoing non-accrual event with Venezuela. Once this current event is resolved, the statistics presented below will change accordingly.

**Non-accrual.** It is the policy of the Bank to place all loans made to, or guaranteed by, the member country when a loan payment is overdue by more than 180 days on non-accrual status. On the date a member's loans are placed on non-accrual status, unpaid interest and other charges accrued on loans outstanding to the member are deducted from the income of the current period. Interest and other charges on non-accruing loans are included in income only to the extent and in the period that payments are actually received by the Bank. This is preceded by other policy actions (e.g., suspending new commitments, suspending disbursements) which are applied sequentially starting from the date on which a loan payment is overdue at least 30 days.

**Default Rate.** The default rate is defined as the ratio of the number of new borrowers on non-accrual status to the number of performing countries at the beginning of each fiscal year.

**Loss Rate (LR).** The LR represents an estimate of losses that could result from a default (non-accrual) on an outstanding loan. For IDB, the loss in a non-accrual event is limited to the loss of interest on overdue interest. The IDB does not charge interest on overdue interest and does not renegotiate nor reschedule its SG loans. IDB has never incurred a loss of contractual interest or principal. Since its formation in 1959, the IDB has not written off, and has no expectation of writing off, any SG loans. The delay in paying overdue principal and interest results in an economic loss for IDB because the resulting present value (PV) of the payments received upon clearance of the arrears is lower than it would have been if the non-accrual event had not occurred. The extent of this time value loss varies depending on how long the loan remains in non-accrual and the prevailing interest rates. The observed LR discussed in this note captures such time value losses.

<sup>2</sup> The report includes information corresponding to the concessional portfolio from year 2016, when the net assets were transferred from the Fund for Special Operations FSO to the Ordinary Capital ORC.

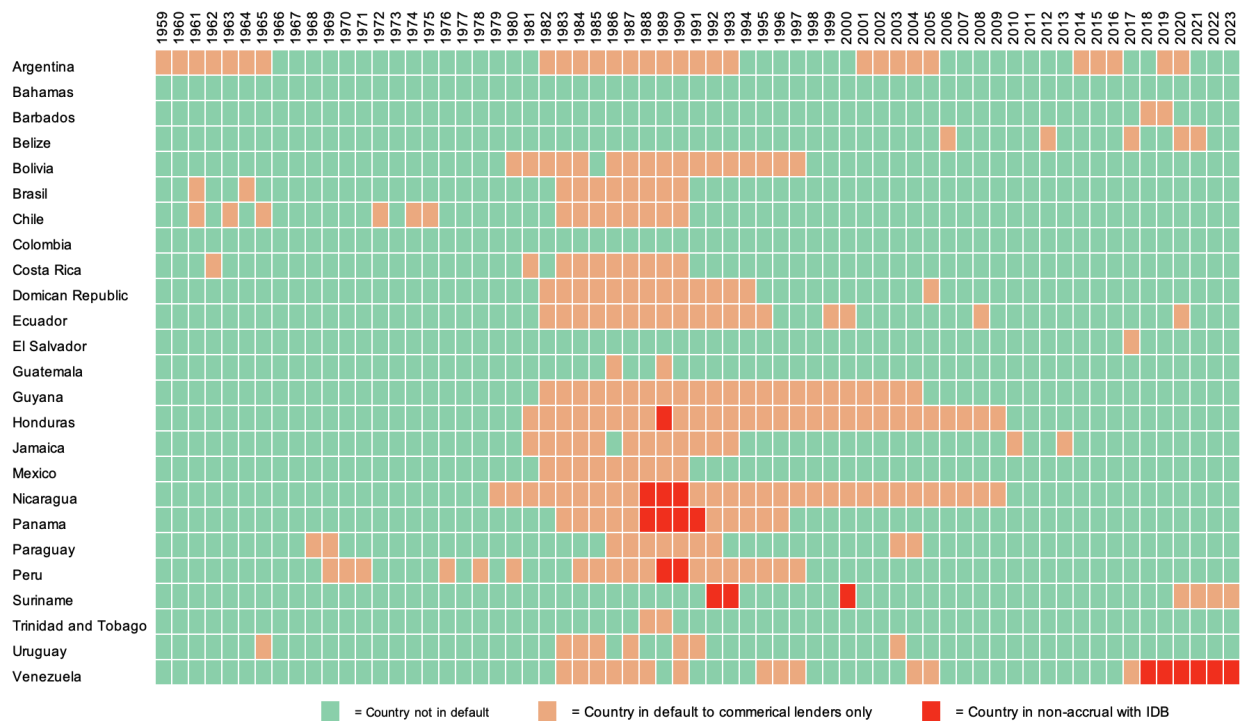
# Default Rates Analysis

## IDB's SG Non-Accrual History Since Inception

Borrowing countries have experienced 70 defaults to commercial creditors since 1959. Nevertheless, they have only defaulted on the IDB on 8 occasions

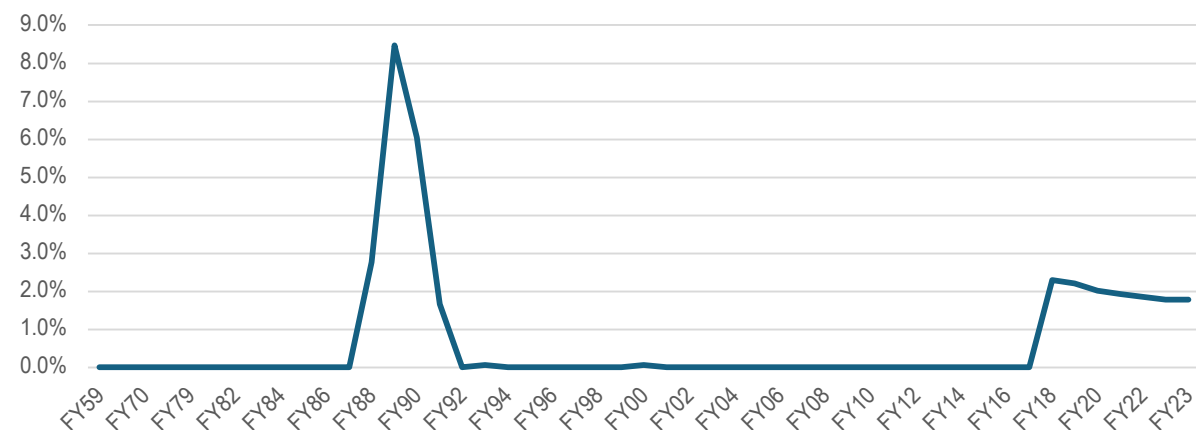
(including the ongoing event), with the first default occurring in FY1988. The historical average default rate is 0.5% with an average loss rate of 2.02%.

Chart 1: History of IDB's Non-Accrual events (at FY end) compared to commercial lenders



Note: Haiti, a member country of the IDB, was excluded from the chart since it has no outstanding loan balances.

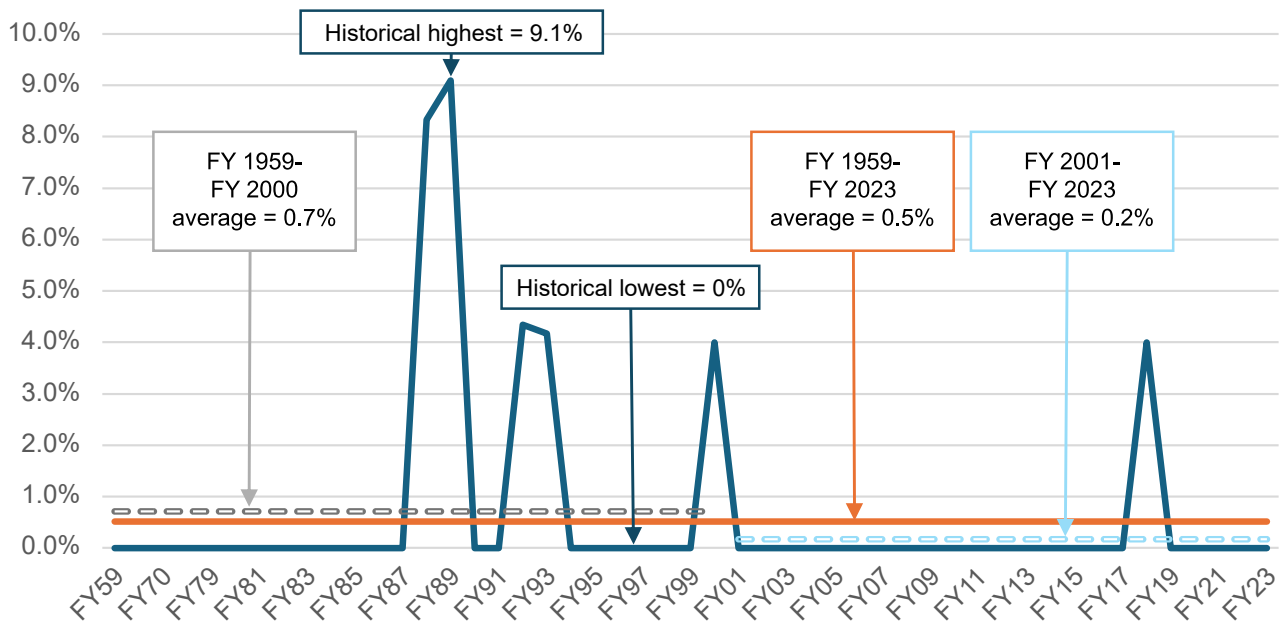
Chart 2: Outstanding Loan Balance on Non-Accrual status as a percentage of the SG Outstanding Loan Portfolio



- IDB's largest share of non-accrual loans as a percentage of the total outstanding loan portfolio peaked in FY89 at 8.5%.

## Historical Observed Annual Default Rates of IDB SG Portfolio Since Inception

Chart 3: Historical Annual and Average Default Rates (1959-2023)



**Note:** The default rate is defined as the ratio of the number of new borrowers on non-accrual status to the number of performing countries at the beginning of each fiscal year. IDB uses a six-month default definition, whereby overdue debt service that persists for more than six months would result in the borrower's default (non-accrual) event.

The IDB experienced new non-accrual events in 6 years out of its entire history of nearly 65 years. The number of new loans in non-accruals in those 6 years ranged from 1 to 2 in a single year. The highest annual default rate of 9.1% was observed in FY1989 when there were 2 new non-accruals, that accounted for approximately 8.5% of the IDB's overall outstanding loan portfolio.

**The analysis shows that the average observed annual default rate for the IDB outstanding loan portfolio over FY1959-2023 is 0.5%, with a low of 0% and a high of 9.1%.**

Table 1: IDB Historical Default Rates

Period	Number of New Defaults (non-accruals)	Average Annual Default Rate	Average of Exposure in Default (non-accrual) as % of Outstanding Loan Portfolio
FY1980-2000	7	1.4%	0.4%
FY2001-2023	1	0.2%	0.1%
<b>FY1959-2023</b>	<b>8</b>	<b>0.5%</b>	<b>0.2%</b>
<b>Low</b>		<b>0.0%</b>	
<b>High</b>		<b>9.1%</b>	

# Loss Rates Analysis

## Methodology

The methodology for determining the LR is based on a cash-flow approach that is simplified by the fact that no material interim flows have occurred with all

overdue principal and interest paid at time of resolution. The simplified cash-flow formula applied is as follows:

$$LR = 1 - \frac{PV(\textit{Outstanding at Default}) + PV(\textit{Paid Interest})}{\textit{Outstanding at Default}}$$

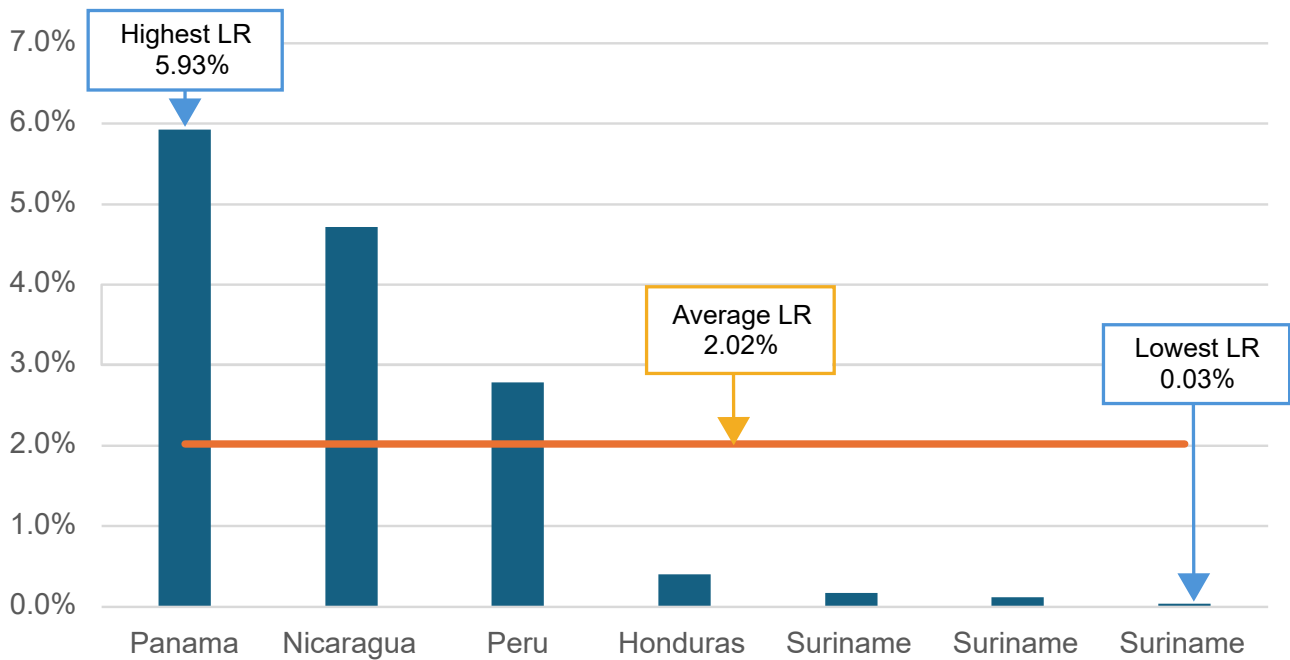
Where:

- PV (Outstanding at Default) + PV (Paid Interest) is the sum of the present value of the contractual principal and accrued interest collected at the time of the resolution of the event.
- The discount rate used is the average interest rates of the portfolio of outstanding loans for each borrower in non-accrual status at the time of the event, applied on a semi-annual basis.
- Outstanding at Default is the borrower's outstanding loan balance at the time the borrower is placed in non-accrual status.



## Historical Observed Loss Rates (LR) of IDB SG Portfolio Since Inception

Chart 4: Observed LR For Each Non-Accrual Event By Order Of Magnitude<sup>3</sup>



Note: IDB has never experienced a loss in principal or interest. Therefore, the LR represents an approximation of the foregone return on late interest payments during a given year. Chart 4 above shows the LR aggregated during multiple years, if applicable, for a given non-accrual event.

**The analysis shows that the IDB's observed average LR across its full portfolio and over its entire history is 2.02%, ranging from a low of 0.03% to a high of 5.93%.**

Table 2: IDB Historical LR

Event	In Non-accrual	Out of Non-accrual	Loan Outstanding at Default (in millions of USD)	Weighted Average Interest Rate	LR
Panama	29-Mar-88	18-Mar-92	320	9.02%	5.93%
Nicaragua	11-May-88	17-Sep-91	78	9.23%	4.72%
Peru	01-Feb-89	17-Sep-91	674	8.53%	2.79%
Honduras	01-Nov-89	06-Jul-90	223	8.94%	0.40%
Suriname	10-Nov-92	23-Dec-92	12	7.53%	0.03%
Suriname	01-Oct-93	14-Feb-94	13	7.06%	0.12%
Suriname	13-Dec-00	06-Jun-01	27	7.24%	0.17%

<sup>3</sup> Management has chosen to compute the LR only on resolved non-accrual events. Therefore, this estimate does not include Venezuela's currently ongoing non-accrual event.

# Disclaimer



This document and the analysis set forth herein are provided for information purposes only. The results reflect IDB's preferred creditor treatment and are based on IDB's historical experience, which may not necessarily be indicative of future performance. While IDB may publish updated information in the future at its discretion, it assumes no duty to provide such updates. Parties should make lending and investment decisions, including whether to purchase IDB-issued securities, based on their own independent assessments of the transactions' appropriateness, considering their own judgment and circumstances, and should seek advice

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## Annex 1: IDB Historical Observed Default Rates

Period	New Defaults	Total Number of performing countries at start of FY	Default Rate
FY80	-	19	0.0%
FY81	-	19	0.0%
FY82	-	20	0.0%
FY83	-	20	0.0%
FY84	-	21	0.0%
FY85	-	22	0.0%
FY86	-	22	0.0%
FY87	-	22	0.0%
FY88	2	24	8.3%
FY89	2	22	9.1%
FY90	-	20	0.0%
FY91	-	21	0.0%
FY92	1	23	4.3%
FY93	1	24	4.2%
FY94	-	23	0.0%
FY95	-	24	0.0%
FY96	-	24	0.0%
FY97	-	24	0.0%
FY98	-	25	0.0%
FY99	-	25	0.0%
FY00	1	25	4.0%
FY01	-	24	0.0%
FY02	-	25	0.0%
FY03	-	25	0.0%
FY04	-	25	0.0%
FY05	-	25	0.0%
FY06	-	25	0.0%
FY07	-	25	0.0%
FY08	-	25	0.0%
FY09	-	25	0.0%
FY10	-	25	0.0%
FY11	-	25	0.0%
FY12	-	25	0.0%
FY13	-	25	0.0%
FY14	-	25	0.0%
FY15	-	25	0.0%
FY16	-	25	0.0%
FY17	-	25	0.0%
FY18	1	25	4.0%
FY19	-	24	0.0%
FY20	-	24	0.0%
FY21	-	24	0.0%
FY22	-	24	0.0%
FY23	-	24	0.0%
<b>Average</b>			<b>0.5%</b>
<b>Low</b>			<b>0.0%</b>
<b>High</b>			<b>9.1%</b>

**Note:** Haiti, a member country of the IDB, was excluded from the annex since it has no outstanding loan balances.

The historical default rates were calculated from FY1959-2023. This annex covers all historical default events, and for publication purposes is reported from FY1980-2023.

Authors: IDB

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**Inter-American Development Bank**

1300 New York Ave NW,

Washington, DC 20577



