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Ratings

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International Bank for Reconstruction and Development

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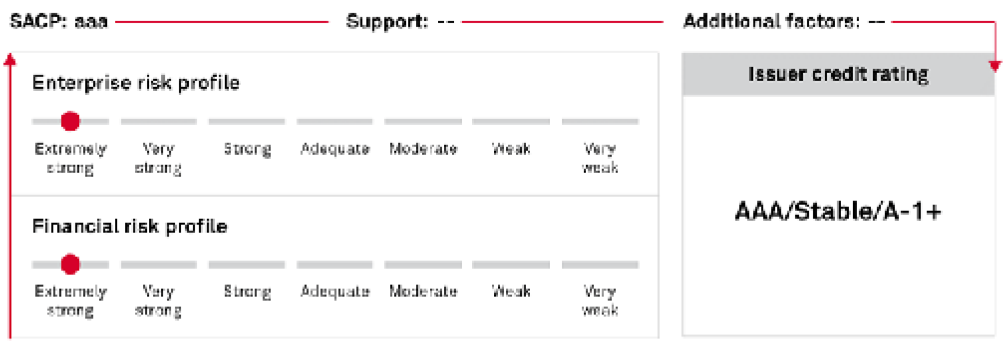
International Bank for Reconstruction and Development

This report does not constitute a rating action.

Ratings Score Snapshot

Issuer Credit Rating
Foreign Currency
AAA/Stable/A-1+



SACP--Stand-alone credit profile.

Credit Highlights

Overview	
Enterprise risk profile	**Financial risk profile**
Policy importance remains among the highest in the sector	Conservative capital management supported by the financial sustainability framework
--Strong commitment from shareholders with steady progress on the US$7.5 billion capital increase	--RAC ratio of 25.9% supports planned lending
--Sound governance and conservative risk management	--Robust liquidity buffers
--Strong track record of preferred creditor treatment, despite recent arrears from Belarus	--Regular benchmark issuer in global capital markets and a leader in developing the sustainable bond market

The International Bank for Reconstruction and Development (IBRD) has been at the forefront of responding to multiple crises--including the COVID-19 pandemic, the Russia-Ukraine conflict, and worsening climate change impacts--which underpins its policy importance. IBRD deployed US$45.6 billion from April 2020 to June 2021 to respond to the COVID-19 pandemic, including drawing down about half of its US$10 billion crisis buffer in the fiscal year ended June

30, 2021. During fiscal year 2022, new commitments were US$2.6 billion higher than the previous year, reflecting continued support for COVID-19-related efforts. IBRD continues to lead in terms of climate finance and responding to climate change impacts in its member countries, and all projects are screened for climate risk. At the same time, we expect IBRD to play a crucial role in the reconstruction of Ukraine. As of Sept. 30, 2022, IBRD had disbursed US$1.5 billion since the onset of the conflict. Loans outstanding to Ukraine totaled US$7.6 billion, of which US$1.1 billion has been guaranteed by highly rated third parties. In addition, IBRD provided US$0.6 billion of guarantees to Ukraine that were outstanding as of Sept. 30, 2022.

At the 2022 annual meetings, shareholders called on the World Bank Group (WBG) to clarify and expand its mission of ending extreme poverty and boosting shared prosperity, review its operating model, and explore options to expand its resources. Management and shareholders have signaled that, absent any reforms or strengthening of capital, there could be near-term lending constraints at a time when more financing is required to regain lost ground on the 2030 U.N. Sustainable Development Goals. Consequently, shareholders may continue to explore ways to optimize capital, which, in our view, will reinforce IBRD's leading role in global development.

IBRD's risk-adjusted capital (RAC) ratio declined to 25.9% for fiscal year 2022, but we expect it will remain extremely strong. IBRD placing its loans to Belarus on nonperforming status in October 2022 translated to some downside pressure on its preferred creditor treatment (PCT) score and our loss-given default assumption, which is applied to the capital assessment. That said, the nonaccrual is limited (as of end-September 2022, the principal aggregate outstanding for Belarus was US$967 million, representing 0.4% of outstanding loans), and we do not expect it to weigh on IBRD's policy execution. We also expect the RAC ratio to stay above the 23% threshold, supported by capital payments from the 2018 capital increase and IBRD's conservative risk management.

Outlook

Our stable outlook is based on our view that IBRD's enterprise risk profile, capital (including callable capital), funding, and liquidity are sufficiently robust and there is less than a one-in-three probability that we would lower our issuer credit rating on IBRD in the next two years.

Downside scenario

We could lower the ratings if management--contrary to our expectations--adopts more aggressive financial policies, or if several members cease treating IBRD as a preferred creditor. IBRD's financial risk profile could weaken if liquidity ratios decline meaningfully or if the RAC ratio drops below 23%. However, if its capital ratio erodes, we expect the effect to be mitigated by the robust eligible callable capital buffers provided by the 'AAA' rated members.

Environmental, Social, And Governance

IBRD plays a key role in powering the global environmental, social, and governance (ESG) market. It acts as a knowledge broker, outlining best-in-class frameworks and guidelines, compiling key sustainable policy indicators that it tracks globally, and offering ESG-related statistical platforms. Its creditworthiness also depends on improving environmental outcomes, notably through climate action, and supporting human and economic development.

IBRD pioneered the global green bond market in 2008. It helped develop and expand the global sustainable bond market by connecting many of its issuances to raise awareness for the various 2030 U.N. Sustainable Development Goals. The WBG has made multiple commitments to combat climate change and supports countries that are undertaking their own climate action plans. The group intends for 35% of its lending commitments, on average, to target climate action between fiscal year 2021 and fiscal year 2025. IBRD has not financed direct coal since 2010 or upstream oil and gas since 2019.

The capital package approved in 2018 further reinforced IBRD's plan to lend in support of key global social issues--such as gender and education--and countries affected by fragility, conflict, and violence. More recently, it has signaled the growing importance of addressing climate impacts and supporting decarbonization through mobilization and blended financing options. IBRD lends globally and has a strong focus on certain sectors, such as transportation, energy, and extractives. While these sectors are typically associated with higher environmental and social risks, IBRD has incorporated comprehensive environmental and social safeguards that govern the eligibility of its projects. We see its environmental and social oversight and accountability mechanisms as highly transparent and effective while addressing potential noncompliance with its policies and procedures.

We assess IBRD's governance and management as strong--it is one of the highest-ranked multilateral lending institutions (MLIs) globally. This reflects its highly diversified shareholders, record, and framework for sound governance, conservative risk, and financial management.

Rationale

Enterprise risk profile: Extremely strong

Policy importance: Long track record fulfilling its mandate. IBRD has a long record of fulfilling its public policy mandate through economic cycles and has wide geographical coverage unmatched by other lending institutions. IBRD is the keystone of the WBG, which includes the International Development Association (IDA), International Finance Corp., Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes. IBRD may lend directly, guarantee, or participate in loans to any member country or political subdivision thereof, as well as to any business or industrial or agricultural enterprise in a member's territories. However, when the member itself is not the borrower, the member or its central bank or similar agency acceptable to IBRD must fully guarantee payment of principal, interest, and other charges on the loan. We view its Articles of Agreement, created at the Bretton Woods Conference in 1944, as equivalent to a treaty. IBRD had 189 members as of fiscal year 2022, which is more than twice any other rated MLI, except its WBG affiliates.

The WBG, as part of its COVID-19 emergency response plan, deployed US$157 billion in financial support over 15 months (April 2020 to June 2021). In response, IBRD deployed US$45.6 billion during the same period. These volumes were largely consistent with pre-COVID-19 capacity, given an already solid growth trajectory following the 2018 capital increase and accompanying policies for internal capital generation.

The capital increase of US$7.5 billion, in our view, underscores shareholders' commitment to the bank. At IBRD's spring meetings in April 2018, the board of governors endorsed a US$60.1 billion package, which included US$7.5 billion in additional paid-in capital. As of September 2022, IBRD received cumulative subscription payments of US$4.4

billion. Shareholders can subscribe any time until 2023, although this may be extended by an additional two years.

As part of its capital package, IBRD introduced a new financial sustainability framework and policies to bolster organic capital generation. The financial sustainability framework approved in December 2018 began operating in fiscal year 2020. It established a sustainable annual lending level and built a crisis buffer. The crisis buffer-adjusted sustainable annual lending level serves as the upper bound for regular lending. IBRD also introduced administrative cost-reduction measures, a formula-based transfer policy with IDA, and balance sheet optimization with an exposure exchange agreement (with the Inter-American Development Bank and African Development Bank) in recent years.

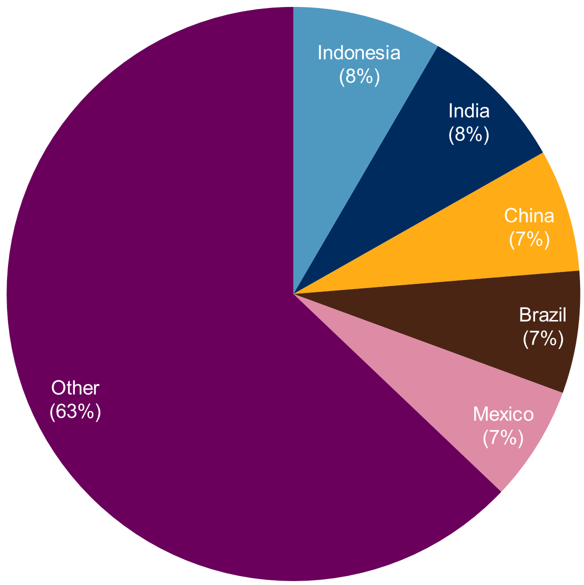
Demand for IBRD resources remains high--given the lingering effects of the pandemic, climate change events, and the broader impact from the Russia-Ukraine conflict –translating to increased use of its crisis buffer. On June 28, 2022, the board approved a crisis buffer of $5 billion for fiscal year 2023 (plus carryover from underutilization of the fiscal year 2022 crisis buffer), resulting in an adjusted sustainable annual lending limit of US$27 billion for fiscal year 2023, with the lending ceiling set at US$36.5 billion. In fiscal year 2022, IBRD committed US$33.1 billion in new purpose-related exposures, an 8% increase from 2021, including the partial use of its crisis buffer. IBRD had US$235.7 billion of purpose-related exposures at fiscal year-end 2022, reflecting its global reach and underpinning our assessment of its extremely strong enterprise risk.

In this context, IBRD shareholders asked the WBG to address these rising development challenges. At the 2022 annual meetings, shareholders called on the WBG to develop a roadmap to clarify and expand their mission, review their operating model, and explore options to expand resources. This could include using callable capital more meaningfully within capital, adopting and scaling risk transfer instruments and hybrid capital instruments, and even another potential capital increase. Discussions are underway with proposals expected to be presented in spring 2023. We expect that any meaningful expansion of IBRD's balance sheet will be underpinned by a commensurate strengthening of the capital base.

We believe IBRD's PCT compares favorably with some 'AAA' peers, despite the increase in the PCT arrears ratio. On Oct. 17, 2022, IBRD placed Belarus on nonperforming status, which increased the PCT arrears ratio to 0.65% based on financial data as of fiscal year 2022, from 0.21% in fiscal year 2021. We do not think this weighs on IBRD's overall policy importance and extremely strong enterprise risk profile. On March 2, 2022, the WBG announced that it stopped all programs in Russia and Belarus, with no new lending approved to Belarus since mid-2020 and no new loans in Russia since 2014. Russia prepaid its remaining loan exposures to IBRD as of December 2022. Other than Belarus, Zimbabwe remains in arrears with IBRD.

Chart 1

Five Largest Countries Purpose-Related Exposures
Percent of gross purpose-related assets plus guarantees



Source: S&P Global Ratings.

Governance and management expertise: IBRD's shareholder base is diverse, and its governance and management standards remain among the highest of supranational institutions globally. IBRD is owned by 189 member countries. The U.S. is the largest shareholder, with 15.8% of the voting rights, followed by Japan (7.4%) and China (5.3%), as of fiscal year 2022. No major shareholder has recently withdrawn from IBRD, and none are expected to withdraw in the medium term. With the capital increase approved in 2018, China's shareholding is expected to increase to 6.01% and the U.S.'s share will dip slightly, although it will maintain its veto power over certain decisions like amendments to the Articles of Agreement.

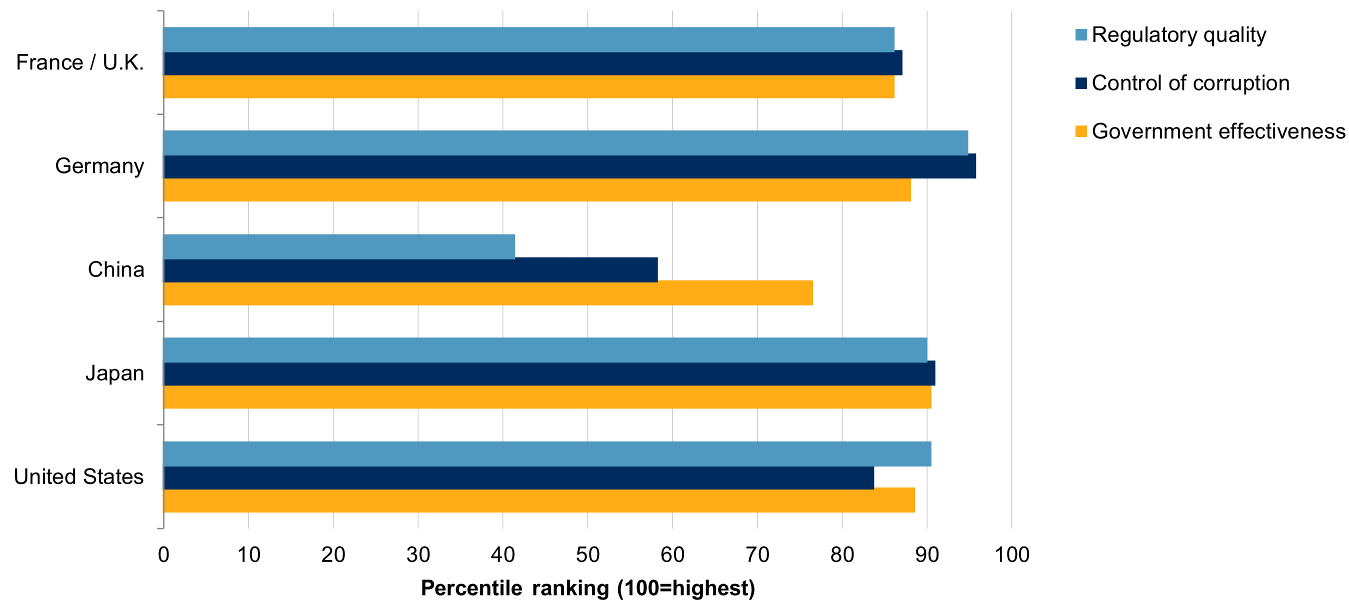
On average, IBRD shareholder countries have high-ranking governance based on the World Bank's governance indicators, which supports our governance assessment. This is further enhanced by the bank's record of solid management and risk practices. IBRD has no private-sector shareholding, and shareholders allow MLI earnings to be retained, supporting our assessment.

Smooth management changes underscore the breadth of the professional bench at IBRD and its consistent policy history through personnel changes. IBRD's financial and risk management policies, limits, and methods are comprehensive, conservative, and updated as needed. Management has implemented strategic plans and helps WBG achieve its goals. World Bank Group President David Malpass plans to step down on June 30, 2023, a year before his term is set to end.

We expect this will be a smooth process, which underscores the breadth of the professional bench of management at IBRD and its consistent policy history through personnel changes.

Chart 2

Five Largest Shareholders
Selected World Bank governance indicators



Source: S&P Global Ratings.

Financial risk profile: Extremely strong

Capital adequacy: IBRD's capital remains resilient under heightened risk conditions. IBRD's RAC ratio declined to 25.9%, after adjustments for concentration risk and PCT. The ratio incorporates parameters as of Feb. 2, 2023, based on financial data as of June 30, 2022. The ratio declined from 27.2% in 2021, largely driven by Belarus going into arrears. IBRD's risk-weighted assets have increased as it responded to various crises such as the pandemic and the Russia-Ukraine conflict, while remaining focused on lower-middle-income countries, but we believe this is counterbalanced by incoming capital payments.

We expect remaining capital payments will continue to provide an important cushion, albeit under somewhat moderated lending levels. We believe that if IBRD had to provide meaningful countercyclical support amid future global shocks, its capacity to do so would be more constrained at current capital levels absent additional capital increases or balance sheet optimization. We expect IBRD will manage capital to the highest level while it seeks to unlock additional resources over time. Even if IBRD's RAC ratio deteriorated below the 23% threshold, the effect on its stand-alone credit profile (SACP) could be balanced by significant callable capital cushions from highly rated shareholders.

The bank has adopted policies to generate capital organically and committed to delivering cost-saving reforms and high capital levels. IBRD management has had important cost savings under its budget anchor policy, as net loan spread revenue fully covered net administrative expenses in fiscal years 2022 and 2021. The formula-based approach for determining IBRD's transfers to IDA--which went into effect during IDA's 18th replenishment cycle and are linked to the overall financial standing of IBRD--resulted in transfers to IDA declining beginning in fiscal year 2018, compared with the prior three years. Using the formula approach, the board approved a transfer of US$117 million from fiscal year 2022 allocable income, which was made on Oct. 20, 2022.

Table 1

IBRD Risk-Adjusted Capital Framework			
(Mil. US$)	**Exposure**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk			
Government and central banks	305,718	298,349	98
Institutions	49,475	11,067	22
Corporate	50	42	85
Retail	0	0	0
Securitization	1,599	315	20
Other assets	2,983	5,468	183
Total credit risk	359,825	315,241	88
Credit valuation adjustment			
Total credit valuation adjustment			
Market risk			
Equity in the banking book	2,318	8,936	385
Trading book market risk			
Total market risk		8,936	
Operational risk			
Total operational risk		6,779	--
Risk transfer mechanisms			
Risk transfer mechanisms RWA			
RWA before MLI Adjustments		330,955	100
MLI adjustments			
Single name (on corporate exposures)		672	1,587
Sector (on corporate portfolio)		(48)	(7)
Geographic		(35,157)	(11)
Preferred creditor treatment (on sovereign exposures)		(181,727)	(61)
Preferential treatment (on FI and corporate exposures)		(435)	(4)
Single name (on sovereign exposures)		98,656	33
Total MLI adjustments		(118,038)	(36)
RWA after MLI adjustments		212,917	64
		Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio before adjustments		55,233	16.7

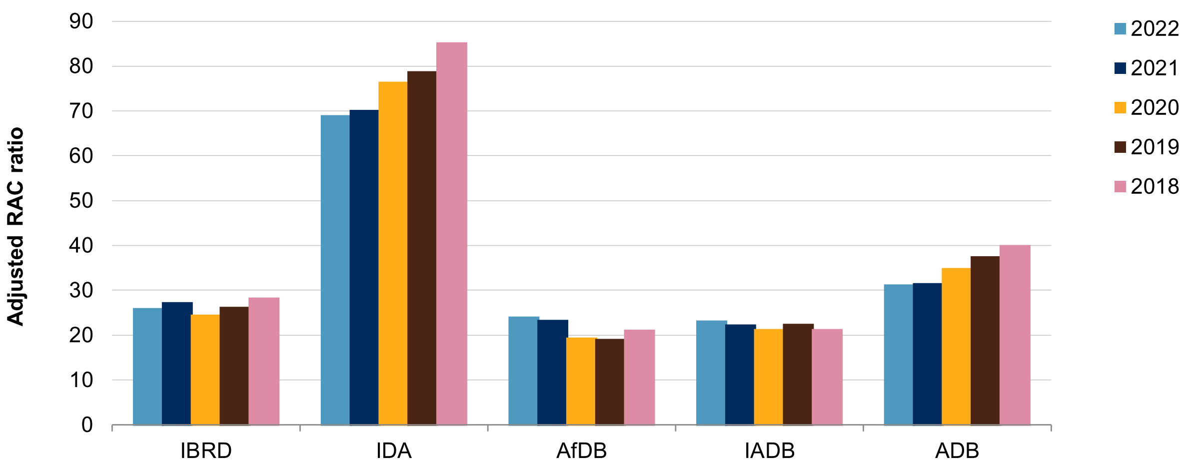
Table 1

IBRD Risk-Adjusted Capital Framework (cont.)			
(Mil. US$)	**Exposure**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Capital ratio after adjustments		55,233	25.9

MLI--Multilateral lending institutions. RW--Risk weight. RWA--Risk-weighted assets. Data as of June 2022. Source: S&P Global Ratings.

Chart 3

Risk-Adjusted Capital Ratio Peer Comparison



Fiscal year end for IBRD and IDA is June. 2022 period data is as of June 30, 2022. IDA--International Development Assn. AfDB--African Development Bank. IADB--Inter-American Development Bank. ADB--Asian Development Bank. Source: S&P Global Ratings.

Funding and liquidity

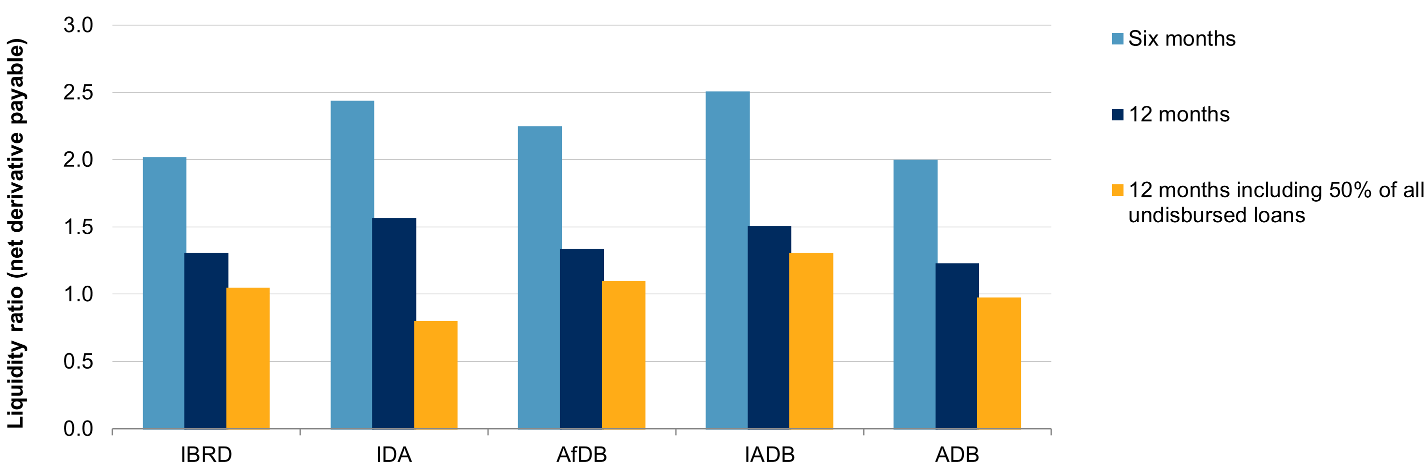
Funding: Investors perceive IBRD as a safe haven and an issuer of benchmark bonds, including sustainable bonds. We view IBRD's funding as broadly diversified by geography and investors, given its frequent issuance in many markets and currencies. IBRD did two block chain issues in Australia in 2018 and 2019. In November 2019, IBRD issued a 20-year Danish krone (DKK) 3 billion green bond. It is the first DKK-denominated green bond and the longest maturity issued by a sovereign, supranational, or agency issuer in the Danish market. In 2020, it issued in Rwandan franc as part of its local capital market development. In October 2021, it issued a €2 billion 25-year sustainable development bond, its first ever 25-year euro benchmark. IBRD has also been a leader in the ESG bond space, innovating new outcome-based debt issuances, such as its wildlife conservation bond in 2022, which channels private capital to finance conservation activities, and more recently, an emission-reduction bond that incentivizes carbon credits in Vietnam.

Our funding ratios for 2022 indicate that IBRD does not have a funding gap below the one-year horizon. IBRD's assets exceed its liabilities at all horizons up to five years, supporting its funding.

Liquidity: Ample liquidity comfortably covering six- and 12-month liabilities. Effective June 2017, IBRD revised its liquidity policy to cover its projected outflows over the next 12--rather than six--months. Our calculation of IBRD's liquidity incorporates stressed market conditions and assumes no market access. Under these conditions, we conclude that IBRD's liquid assets are sufficient to service its obligations through the next year without slowing planned disbursements. According to our calculations, IBRD's liquidity ratio, assuming scheduled disbursements, was 2.01x at the six-month horizon and 1.30x at the one-year horizon, as of June 30, 2022. Under this stress scenario, we estimate that IBRD could also withstand an unforeseen increase in its potential disbursements to a limited extent while meeting other obligations.

Chart 4

Liquidity Stress Test Ratios Peer Comparison

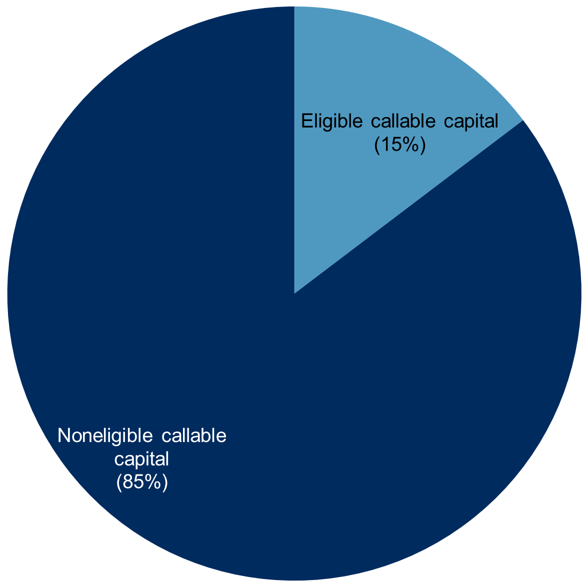


Data as of end-June 2022 for all, except for IADB, which is as of end-Dec 2021. Fiscal year end for IBRD and IDA is June. IDA--International Development Assn. AfDB--African Development Bank. IADB--Inter-American Development Bank. ADB--Asian Development Bank. Source: S&P Global Ratings.

Extraordinary shareholder support: Should IBRD's stand-alone capital adequacy weaken, the issuer credit rating would still see an uplift from callable capital. Even without accounting for extraordinary shareholder support, we assess IBRD's SACP at 'aaa', our highest level. We would expect 'AAA'-rated shareholders to answer one or more calls on their subscribed callable capital. Ten 'AAA'-rated shareholders subscribed US$42.1 billion of callable capital. If IBRD's stand-alone capital ratios were to decline, the effect on its SACP could be countered by up to two notches of uplift from callable capital, all else being equal. This would reflect the (currently latent) benefit of IBRD's 'AAA' callable capital.

Chart 5

Callable Capital
Percentage of total callable capital



Source: S&P Global Ratings.

IBRD Selected Indicators

Table 2

	2022	2021	2020	2019	2018
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. US$)	235,723	227,269	211,129	202,216	191,946
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	100.0	100.0	100.0	100.0	100.0
Private-sector loans/purpose-related exposures (%)	0.0	0.0	0.0	0.0	0.0
Gross loan growth (%)	4.0	8.0	4.8	5.0	3.4
Preferred creditor treatment ratio (%)	0.7	0.2	0.2	0.3	0.3
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	33.7	33.5	33.4	33.6	27.8
Concentration of top two shareholders (%)	23.2	23.2	23.4	23.6	22.9
Eligible callable capital (mil. curr)	42,062	41,374	39,362	38,182	36,909

IBRD Selected Indicators (cont.)

FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	25.9	27.2	24.3	25.9	28.1
Net interest income/average net loans (%)	1.1	1.1	1.1	1.0	1.0
Net income/average shareholders' equity (%)	7.7	4.6	-0.1	1.2	1.7
Impaired loans and advances/total loans (%)	0.2	0.2	0.2	0.2	0.2
Liquidity ratios					
Liquid assets/adjusted total assets (%)	25.9	28.5	29.0	29.1	18.2
Liquid assets/gross debt (%)	35.0	34.7	35.4	35.8	35.2
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	2.0	2.0	2.0	1.8	2.1
12 months (net derivate payables) (x)	1.3	1.3	1.1	1.2	1.2
12 months (net derivate payables) including 50% of all undisbursed loans (x)	1.0	1.1	1.0	1.0	0.9
Funding ratios					
Gross debt/adjusted total assets (%)	74.1	82.0	82.0	81.4	51.6
Short-term debt (by remaining maturity)/gross debt (%)	18.0	17.4	21.1	21.8	21.6
Static funding gap (with planned disbursements)					
12 months (net derivate payables) (x)	1.5	1.4	1.3	1.3	1.4
SUMMARY BALANCE SHEET					
Total assets (mil. $)	317,542	317,301	296,804	283,031	403,056
Total liabilities (mil. $)	262,222	269,223	256,417	240,916	361,212
Shareholders' equity (mil. $)	55,320	48,078	40,387	42,115	41,844

Source: S&P Global Ratings.

IBRD Peer Comparison

Table 3

	International Bank for Reconstruction And Development	The International Development Association	African Development Bank	Inter-American Development Bank	Asian Development Bank
Issuer credit ratings	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+
Total purpose-related exposure (mil. US$)	235,723	180,580	31,830	109,567	140,017
Preferred creditor treatment ratio (%)	0.7	0.8	1.2	1.9	0.2
Risk adjusted capital ratio (%)	25.9	68.8	23.9	22.1	31.1
Liquidity ratio 12 months (net derivative payables; %)	1.3	1.6	1.3	1.5	1.2
Funding gap 12 months (net derivative payables; %)	1.5	2.7	1.2	1.3	1.1

IBRD Peer Comparison (cont.)

For IBRD and IDA: All data as of June 2022. For AfDB: PRE as of end-2021 and all other data as of end-June 2022. For ADB: PRE and PCT ratio as of end-2021 and all other ratios as of end-June 2022. For IADB: All data as of end-2021. Source: S&P Global Ratings.

Rating Component Scores

Enterprise Risk Profile	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Policy Importance	**Very strong**	Strong	Adequate	Moderate	Weak		
Governance and Management	**Strong**	Adequate	Weak				
Financial Risk Profile	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Capital Adequacy	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Funding and Liquidity	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak	

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

- A Closer Look At The G-20 Expert Panel Review Of MLIs' Capital Adequacy Frameworks, Oct. 11, 2022
- Introduction To Supranationals Special Edition 2022, Oct. 10, 2022
- Supranationals Edition 2022: Comparative Data For Multilateral Lending Institutions, Oct. 10, 2022
- Belarus FC Ratings Affirmed At ‘SD/SD’ And LC Ratings At ‘CCC/C’; Issue Ratings Lowered To ‘D’; LC Outlook Negative, Sept 16, 2022
- How The Russia-Ukraine Conflict May Affect Multilateral Lenders, June 16, 2022

Ratings Detail (As Of March 9, 2023)*		
International Bank for Reconstruction and Development		
Issuer Credit Rating		
Foreign Currency		AAA/Stable/A-1+
Senior Unsecured		AAA
Short-Term Debt		A-1+
Issuer Credit Ratings History		
05-Sep-1997	*Foreign Currency*	AAA/Stable/A-1+
05-Apr-1990		AAA/Stable/--
13-Sep-1959		AAA/--/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.