MOODY'S
INVESTORS SERVICE

ISSUER COMMENT
20 December 2023

Send Your Feedback

Contacts

Evan Wohlmann +44.20.7772.5567
VP-Sr Credit Officer
evan.wohlmann@moodys.com

Diogo Capelo +44.20.3314.2027
Ratings Associate
diogo.capelo@moodys.com

Dietmar Hornung +49.69.70730.790
Associate Managing Director
dietmar.hornung@moodys.com

Marie Diron +44.20.7772.1968
MD-Global Sovereign Risk
marie.diron@moodys.com

European Bank for Reconstruction & Development

Announcement of capital increase enhances already strong creditworthiness, a credit positive

On 15 December, the governors of the European Bank for Reconstruction and Development (EBRD, Aaa stable) adopted a resolution to increase the bank's paid-in capital by €4 billion, bringing its capital base to €34 billion. The announcement is credit positive because it will bolster the institution's capital as its continues its significant financing operations to support Ukraine's (Ca stable) economy and signals strong support from its shareholders for this strategy.

The capital increase, which is the third in the bank's history, concludes the formal process following the November 2023 recommendation by the board of directors to expand the capital base. This increase will take effect on 31 December 2024, with annual payments from shareholders to take place over five equal annual instalments. The first instalment is expected to be paid by April 2025.[1]

The capital increase will bolster the EBRD's financial position as it takes a leading role in supporting Ukraine during the war and its eventual reconstruction. The EBRD announced its Resilience and Livelihoods Framework support package for Ukraine on 9 March 2022 as an immediate response to the war. The additional capital will allow the bank to continue providing €1.5 billion in annual investment support during the war, while also paving the way for a step-up in support to €3 billion annually once the reconstruction begins. Our view that the EBRD will remain one of the key financiers of Ukraine's reconstruction once hostilities end is supported by the bank's long-established presence in Ukraine and private-sector expertise in the region.

In particular, the additional capital will strengthen the EBRD's already high level of paid-in capital of €6.2 billion which, along with retained earnings of €15.2 billion as of September 2023, will provide a large buffer to absorb losses. The overall non-performing asset ratio was 6.6% of total development-related assets in 2022, up from 4% in 2021, predominantly driven by the war in Ukraine. However, substantial guarantees and donor commitments will significantly reduce any losses that the EBRD might incur on its lending to Ukraine.[2]

The EBRD's profitability rebounded strongly in 2023, driven by higher net interest income, which will also support the bank's retained earnings after a substantial loss in 2022. The EBRD recorded a net profit of €1.7 billion in the first three quarters of 2023, which compares favourably with the €1.7 billion loss recorded over the same period last year.

The high capital level also provides a solid buffer against the higher credit risks arising from its private-sector focus, with a stable but low weighted average borrower rating of b2, and its sizeable equity investments, which are prone to volatility in mark-to-market valuations. As at end-2022, 57% of operating assets were private-sector loans and 12% were equity investments, with the remainder sovereign and other public-sector loans.

Furthermore, the significant capital increase signals a strong commitment by the EBRD's shareholders to the institution and its operations, including recognition by shareholders of the EBRD's pivotal role in providing financial support to Ukraine over the long term. The expanded capital base will also support the bank's plans to gradually expand operations into Sub-Saharan Africa and Iraq (Caa1 stable).

In particular, the announcement supports our view that the strength of member support remains very high, the strongest possible assessment according to our MDB methodology, similar to other highly rated MDBs, such as the European Investment Bank (EIB, Aaa stable) and the Asian Development Bank (ADB, Aaa stable).

Endnotes

1 The first payment is due either by 30 April 2025 or 60 days after the subscription of these additional shares has become effective, whichever is later.

2 As at end-2022, shareholders had provided €1.2 billion of donor funds, of which approximately half has been deployed.

REPORT NUMBER 1392538

MOODY'S INVESTORS SERVICE