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BANCO CENTROAMERICANO DE INTEGRACIÓN ECONÓMICA

July 28, 2003
DIFIN-C034/2003

Mr. Jaime Caruana
Chairman
Basel Committee on Banking
Supervision
CH-4002 Basel
Switzerland

Dear Mr. Caruana,

On behalf of the Central American Bank for Economic Integration, (CABEI) I take this opportunity to introduce our institution and propose that, given its special characteristics as a multilateral development bank (MDB), CABEI should be entitled to a lower risk weighting than that applied to banks or corporate entities carrying a similar credit rating under the New Basel Capital Accord (Basel II), as discussed below.

CABEI is a sub-regional development bank, founded in 1960 by the Republics of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica to promote regional integration and economic development. The Bank's membership has since grown to include non-regional members, namely Mexico, the Republic of China (Taiwan), as well as Argentina and Colombia.

Based in Tegucigalpa, Honduras, CABEI has provided approximately 45% of total multilateral financing over the past five years to its regional member countries. The Bank has demonstrated commitment to the Central American region, given its position as an important source of medium and long-term funds. CABEI also plays an important role in promoting regional integration as nearly 40% of its loan portfolio is dedicated to financing infrastructure projects such as roadways, electricity grids and telecommunications, among others.

In 2002, CABEI attained investment grade credit ratings from Moody's, Standards & Poor's and Fitch in the "BBB" range. These credit agencies cited CABEI's strong member support, prudent financial policies and robust capital adequacy, as well as its preferred creditor status, among the key indicators supporting such ratings.

Given Central America's new economic stability, commitment to free trade, significant private sector involvement and rise in the region's credit ratings, CABEI is now set to attain wider recognition, taking on a crucial role as the motor behind regional economic take off driven by trade.

BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA

In reviewing the Basel Capital Accord Consultative Document, CABEI noted that multilateral development banks (MDBs) may be designated a more favorable risk weighting than that which would be assigned to a bank or corporate entity carrying a similar credit rating from a recognized credit rating agency, in part due to the supranational shareholder structure and support that is unique to multilateral institutions.

The Consultative Document specifies that an MDB, a majority of whose long-term securities are rated "AAA", would be entitled to a 0% risk weighting if the Committee determines it to be "highly rated", whereas the risk weighting of obligations on a bank or corporation with similar external credit rating would be 20%.

In addition, the Consultative Document states that MDBs as well as banks and corporations having credit rating of A+ to BBB- would have a 50% risk weighting, which would be applicable to CABEI.

Considering that CABEI is not an "AAA" MDB, but has a lower credit risk than other non MDBs carrying a similar credit rating, because of the supranational shareholder structure and support, CABEI considers that the admission criteria applicable to MDBs with a 0% risk weighting should be broadened to include MDBs like CABEI. This differentiation would allow for a preferential treatment for this special category of MDBs, assigning them a lower risk weighting than that applied to banks or corporate entities.

CABEI proposes that the special category of MDBs mentioned above should receive a preferred risk weighting of 20% for long-term obligations and 0% for short-term obligations, rather than the levels that would remain under the Consultative Document.

A lower risk weighting will be key for the Central American economies and integration process, specially because, as noted in the World Bank's Global Development Finance 2003 report, "the new method of assessing the minimum capital requirement is expected to have important implications for emerging-market economies...Such implications include the likelihood of increased costs of capital to emerging-market borrowers, both sovereign and corporate; more limited availability of syndicated project-finance loans to borrowers in infrastructure and related industries".

CABEI stands ready to provide any additional information to facilitate the Committee's review of this proposal.

Sincerely,

Luis Ernesto Santamaría A.
Chief Financial Officer

cc: Nicholas LePan, Vice Chairman
LESA/MM/sb