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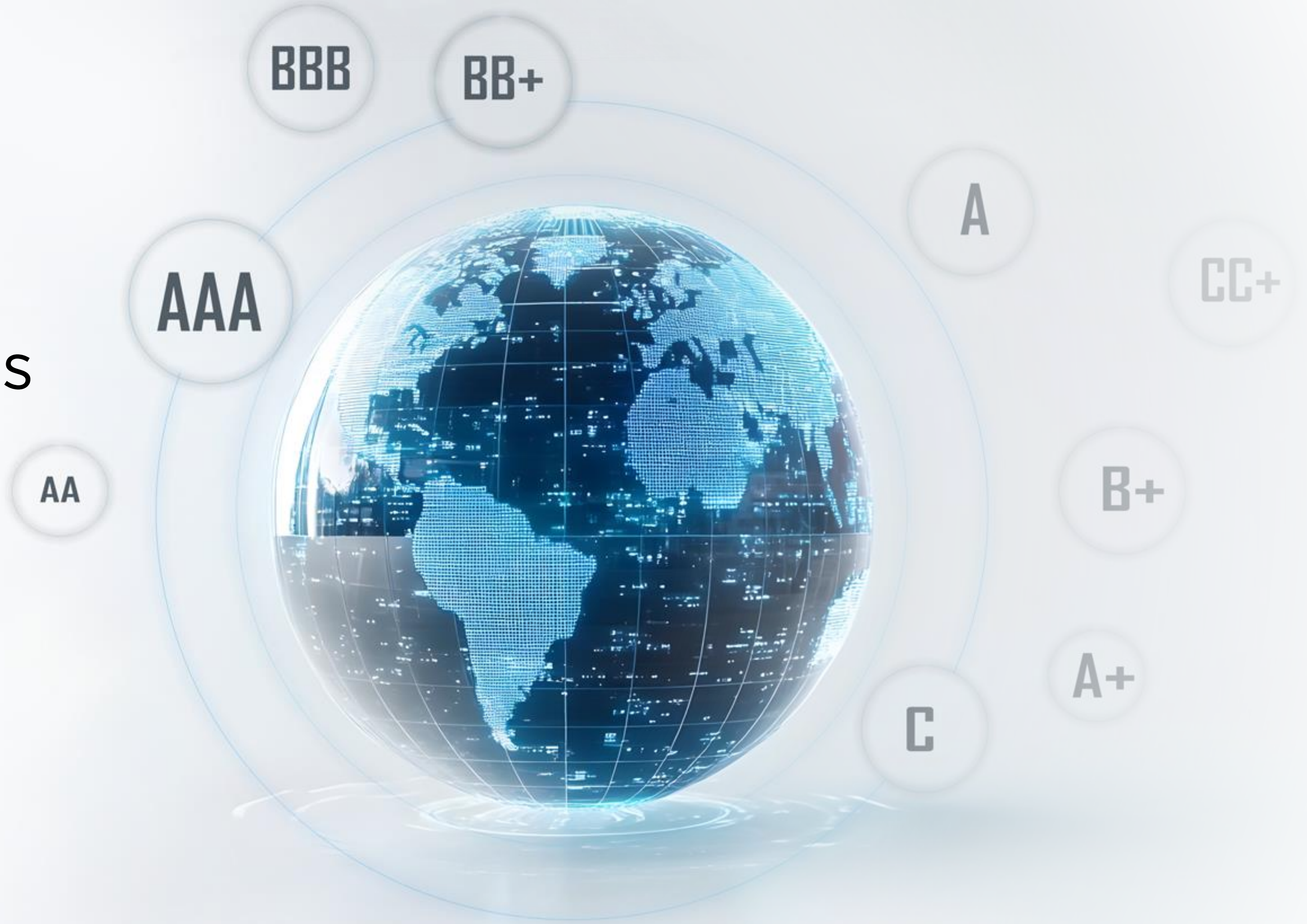
# CareEdge Global Ratings
# EdgeSphere

## A 360° view on Sovereign Credit Outlook 2026

February 2026



# Foreword

**V. Anantha Nageswaran**
Chief Economic Advisor
Government of India

It gives me great pleasure to present CareEdge Global Ratings' **EdgeSphere – Sovereign Credit Outlook 2026**, a publication that reflects CareEdge Global's growing contribution to the global analytical arena. Covering 41 countries in a short time, it has established itself as a credible voice in an increasingly complex world. The alignment of the big-3 global credit rating agencies' ratings with CareEdge Global's ratings highlights the robustness of CareEdge's analytical frameworks and the depth of its research.

Currently, the global economy faces persistent fragility, defined by high debt, steep interest costs, geopolitical shifts, and deepening trade fragmentation. In this macro-financial landscape, sovereigns with strong fiscal discipline, credible institutions, and resilient external buffers will be better positioned to navigate volatility. The emphasis on structural reforms, diversification and long-term capital formation will be central to sustaining growth.

This report offers a global and region-specific view of the challenges and opportunities ahead. The **Asia-Pacific's inherent strengths**—ranging from demographic dividends to service-export dynamism—should help it remain an anchor for global growth. **Africa's cautious optimism** is backed by reform momentum and steady diversification, even as external vulnerabilities warrant close attention. **Europe** faces the delicate task of balancing rising fiscal pressures with emerging tailwinds in energy independence and technology adoption. **The Americas**, outside the United States, continue to display broad stability, though institutional and policy uncertainties remain key monitorables.

In this context, **EdgeSphere** serves as a valuable compass for investors, policymakers and financial institutions worldwide. Its insights provide a holistic understanding of sovereign credit fundamentals at a time when clarity and foresight are invaluable.

I commend the CareEdge Global team for their analytical rigour and commitment to high-quality research. As global capital markets evolve, I am confident that CareEdge will continue to play a pivotal role in shaping informed decision-making and strengthening financial stability.

I wish the team continued success in its journey ahead.

# From the MD's Desk

**Mehul Pandya**
MD & Group CEO, CareEdge

We are navigating an era defined by shifting geopolitical alliances and financial stress. In this climate, the premium on stability has never been higher. Nations that prioritise stringent fiscal discipline, uphold institutional credibility, and reinforce external buffers will be best equipped to weather the storms and collectively support the sovereign credit profile.

Against this backdrop, I am delighted to present **EdgeSphere – Sovereign Credit Outlook 2026**, **CareEdge Global Ratings'** flagship publication that reflects our growing contribution to the global analytical ecosystem, providing a fresh and nuanced perspective on sovereign risk in a complex world.

The insights previewed in our recent webinar resonated across the globe. The overwhelming response from investors, financial institutions, and policymakers in every major region confirms that the global market is eager for an independent, India-rooted perspective on sovereign credit dynamics.

**EdgeSphere** offers a comprehensive 3D analytical framework, blending: (a) CareEdge Global's perspectives, (b) insights from external experts, and (c) audience sentiment captured via polls.

Over the past year, we have made significant progress. Our sovereign coverage has expanded to 41 countries (representing 85% of the world GDP) and cumulative rated debt under our global scale ratings has crossed USD 6 billion. Notably, we are seeing a global validation of our approach as rating actions from other international agencies increasingly align with our own across **18 sovereigns.**

We trust you will find the inaugural edition of **EdgeSphere—**themed **Fiscal Discipline, External Buffers at Play—**insightful.

I invite you to explore these findings and engage with the CareEdge Global team to discuss how these broader trends impact your strategic objectives.

# Contents

# Executive Summary: Fiscal Discipline, External Buffers at Play

## Global Landscape at the Start of 2026

- The global landscape is marked by complexity: high yields, elevated debt, trade fragmentation, and persistent geopolitical risks.

### Asia-Pacific: Structural Strengths Balancing Cyclical Headwinds

- Growth to moderate
- Exports face pressure from China's competition
- Private consumption subdued for few
- Inflation broadly within target; fiscal discipline holds

### Africa: Cautious Optimism

- Medium-term growth to improve on reform momentum
- Debt stabilising, but interest costs elevated
- Inflation moderating; exchange-rate volatility a lingering risk

### Europe: Walking a Tightrope – Debt Concerns Amid Emerging Tailwinds

- Diverging debt trends: France and the UK above EU average; Greece and Portugal improve
- Rising defense, ageing, and interest costs
- Services sector and EU funds to support southern economies

### Americas: Stable Ex-US, Though Resilience Is Being Tested

- Growth to moderate slightly across most economies
- Fiscal pressures in the US; debt dynamics ex-US largely stable
- Inflation to ease but remain above target
- US trade and institutional risks rising

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# Section A: CareEdge Global's Sovereign Credit Outlook 2026

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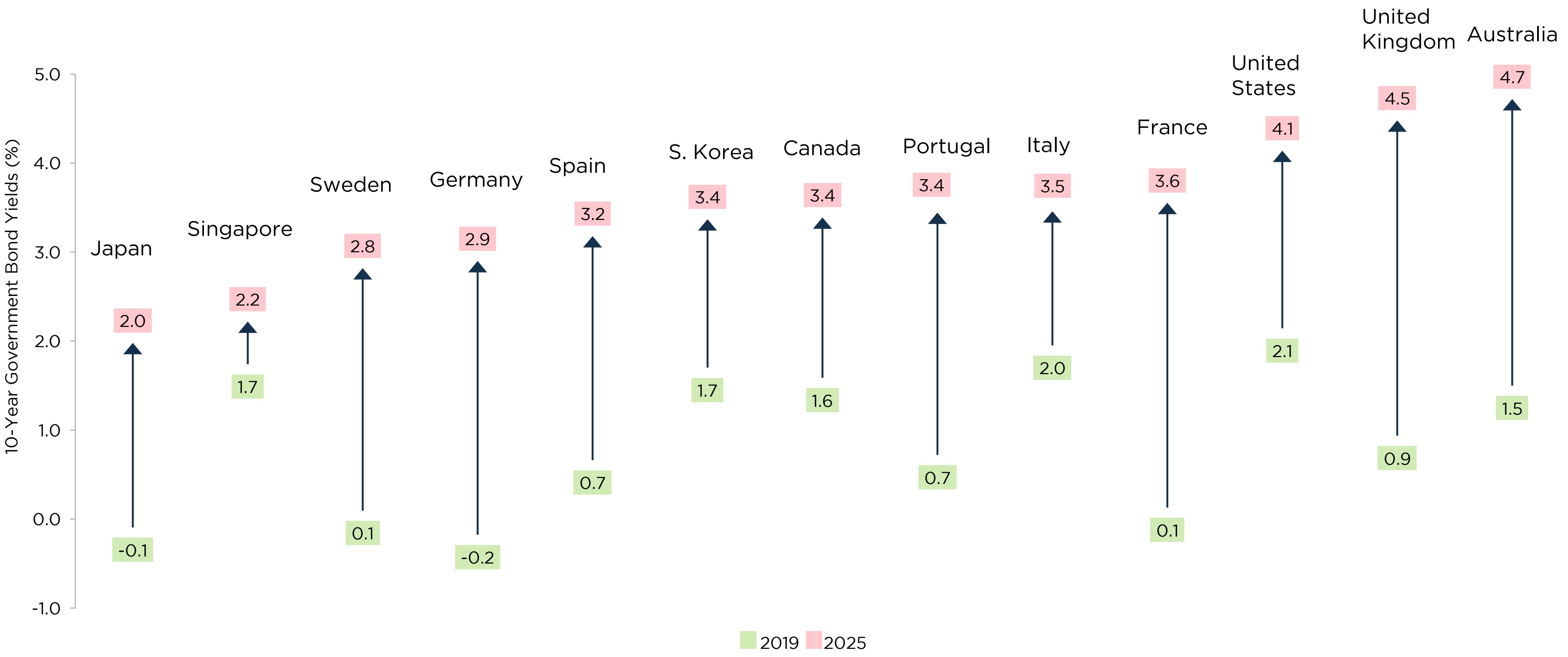
# Global Economic Perspective

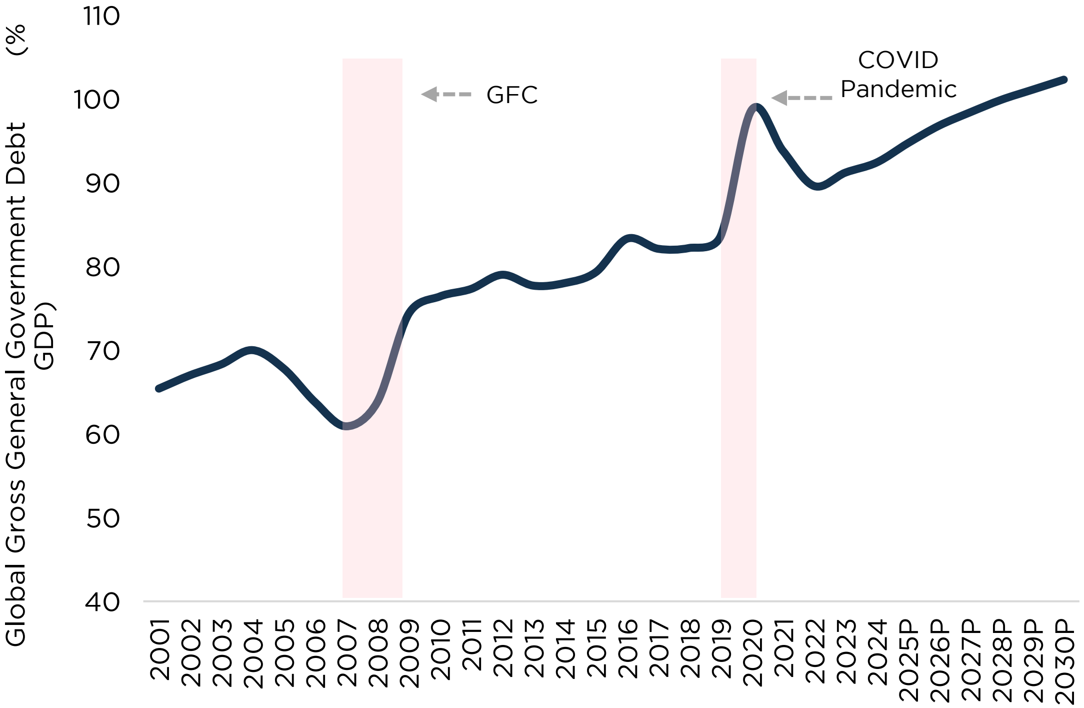
# High Yields Reflect Fiscal Pressures for Advanced Economies




Source: Haver Analytics, CGIL

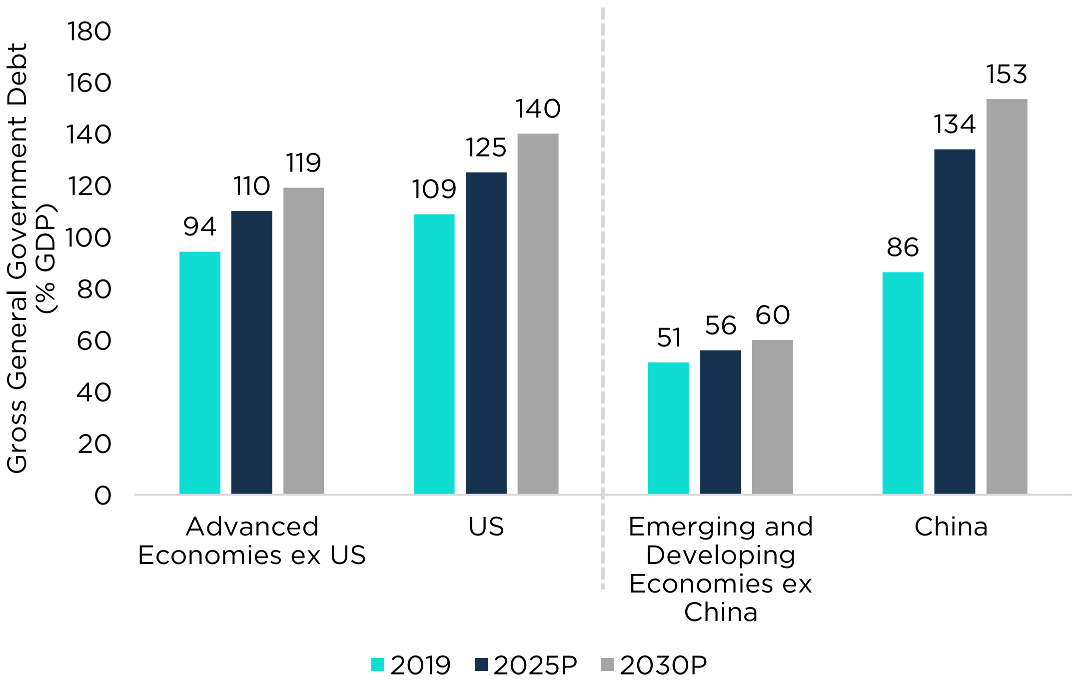
# Global Debt to Surge, Primarily Led by US and China

**Global Debt to GDP to Surpass Pandemic Peak by End of Decade**




Source: IMF, CGIL
Note: P= Projections

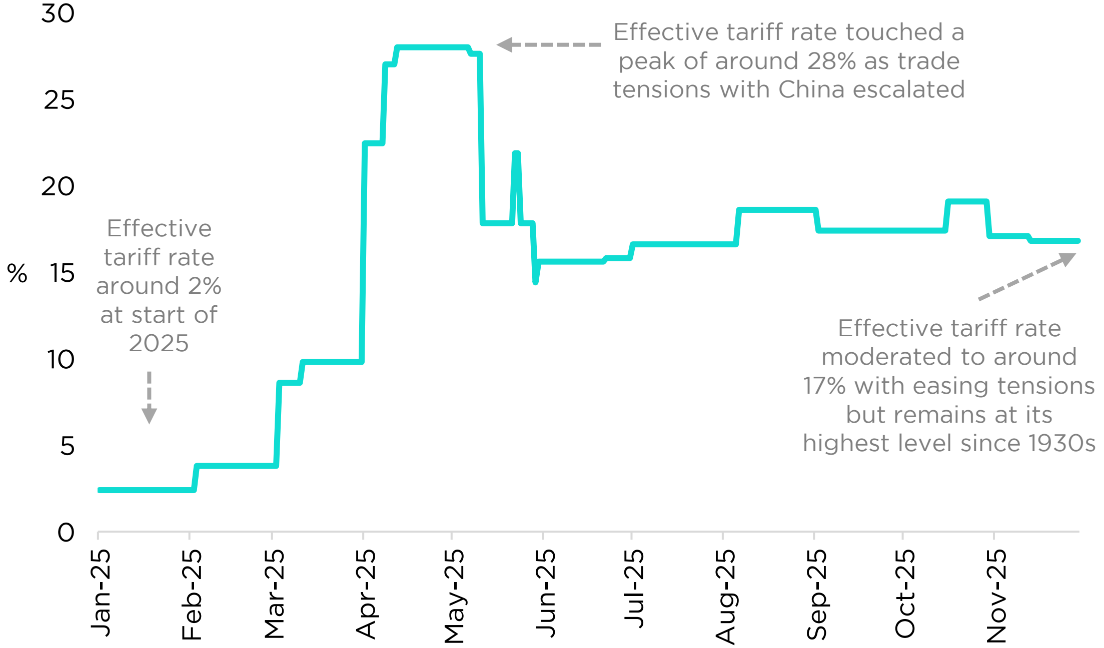
**General Government Debt to Continue to Rise**




Source: IMF, CGIL
Note: (1) P= Projections (2) China's numbers cover off-budget local government borrowing

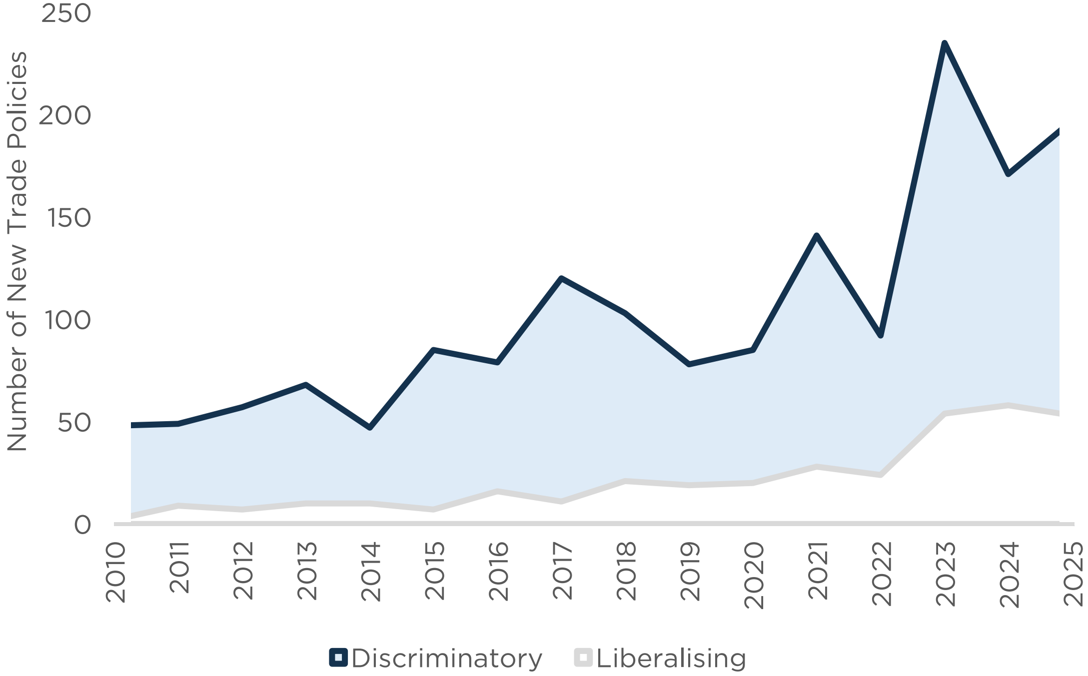
# Trade Barriers on the Rise

**Despite Some Easing, US Average Effective Tariff Rate Remains Elevated Relative to Historical Norms**




Source: The Budget Lab at Yale, CGIL

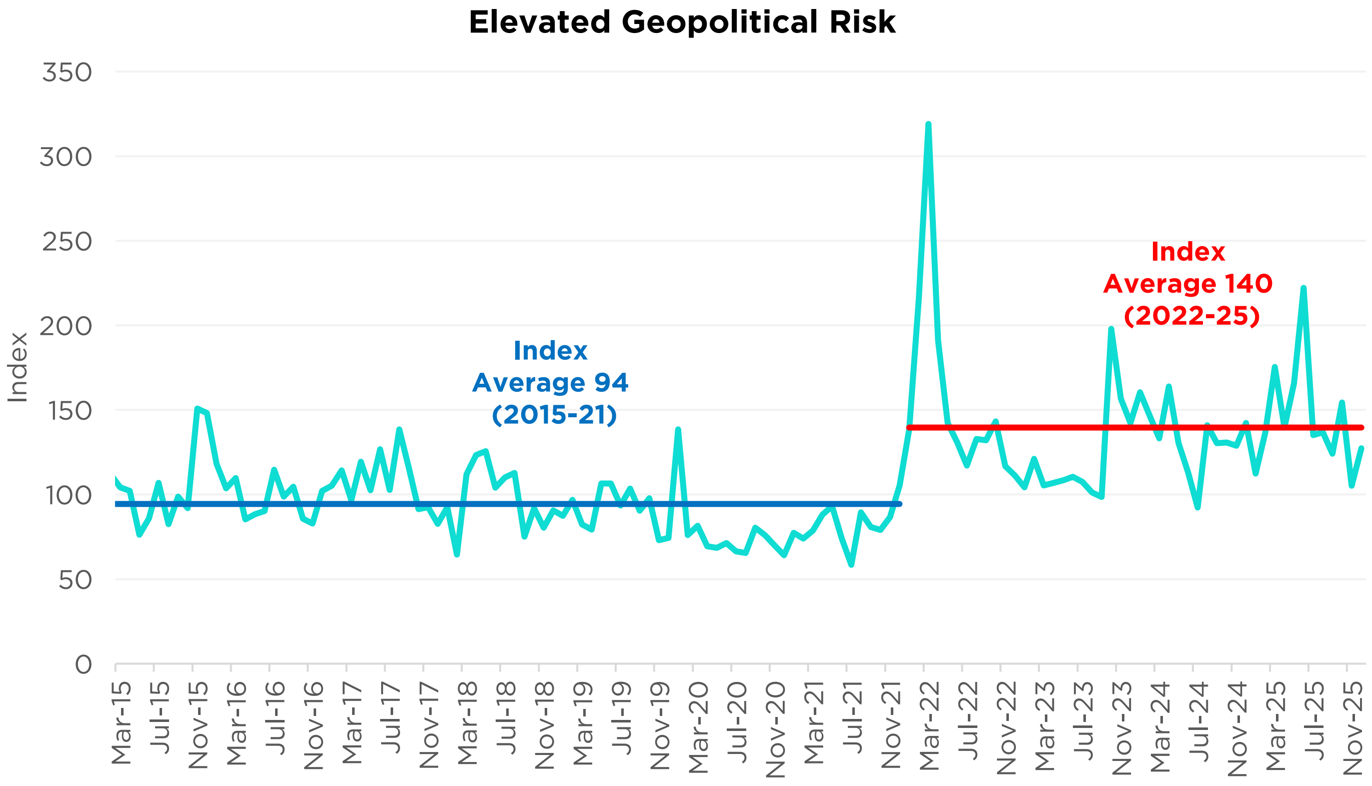
**Discriminatory Trade Policies have Increased**




Source: Global Trade Alert

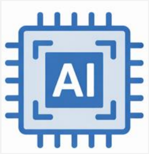
Note: Discriminatory trade policies create barriers for international competitors, while liberalising trade policies enhance market access.

# Geopolitical Risks and Strategic Rivalry at the Forefront




Source: Dario Caldara and Matteo Iacoviello, Federal Reserve Board, CGIL
Note: The index is computed basis the number of newspaper articles mentioning phrases related to geopolitical tensions.

## Areas of Strategic Rivalry




**AI and Tech**
Leadership in AI and advanced technology drives productivity and economic strength.

**Semi-conductors**
Dominance in semi-conductor manufacturing is key to technological supremacy.

**Critical Minerals**
Control over critical mineral supply chain supports green technologies and future industries.

- Key 2026 flashpoints: Russia-Ukraine war, Middle East conflict, US engagement in LatAm and Greenland, China-Taiwan tensions, US-China tech rivalry.

# Asia-Pacific: Structural Strengths Balancing Cyclical Headwinds

| | |
|---|---|
| Singapore | AAA |
| Australia | AA+ |
| Japan | AA- |
| UAE | AA- |
| S. Korea | AA- |
| China | A |
| Malaysia | A- |
| Thailand | A- |
| India | BBB+ |
| Philippines | BBB+ |
| Indonesia | BBB |
| Vietnam | BB+ |
| Bangladesh | CCC+ |

Positive Outlook

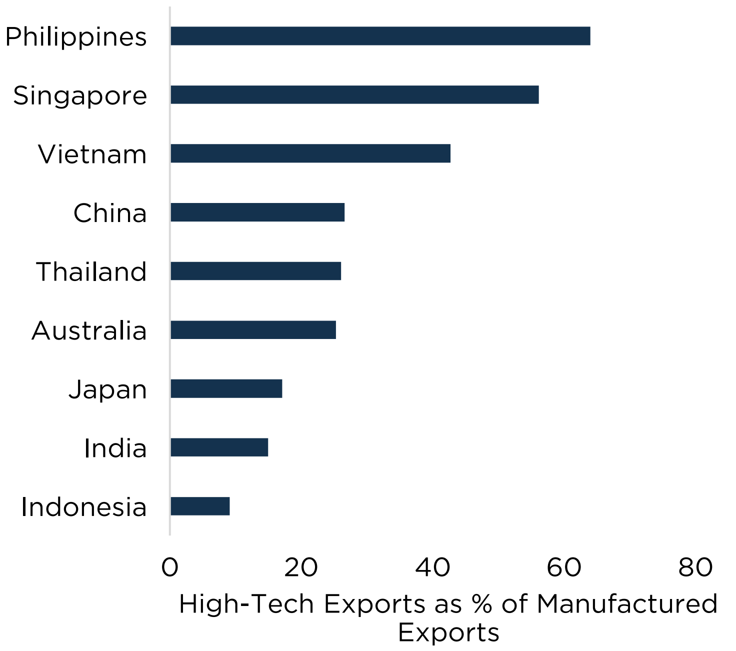
Negative Outlook

Stable Outlook

No Outlook

# Stable Environment Supported by Structural Strengths

**High Share of Tech Exports Reflects High Competitiveness of APAC Economies**

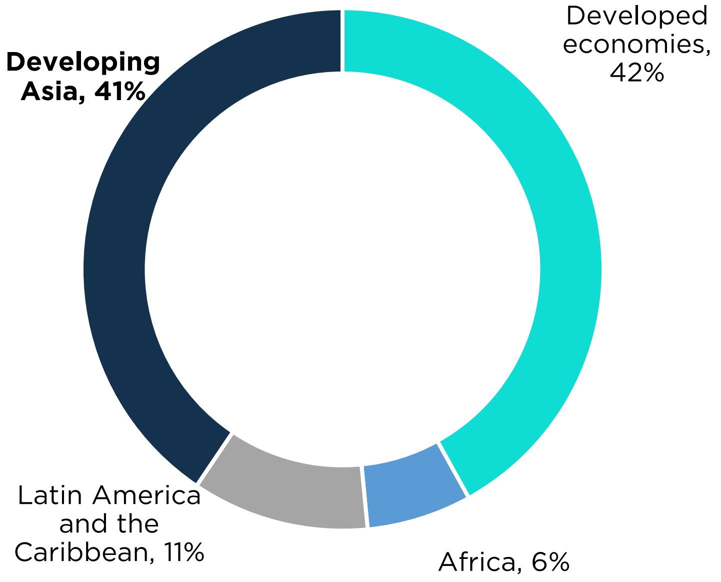



Source: World Bank, CGIL
Note: Data not available for Bangladesh & S. Korea

**High Service Exports Support Diversification**


Source: World Bank, CGIL

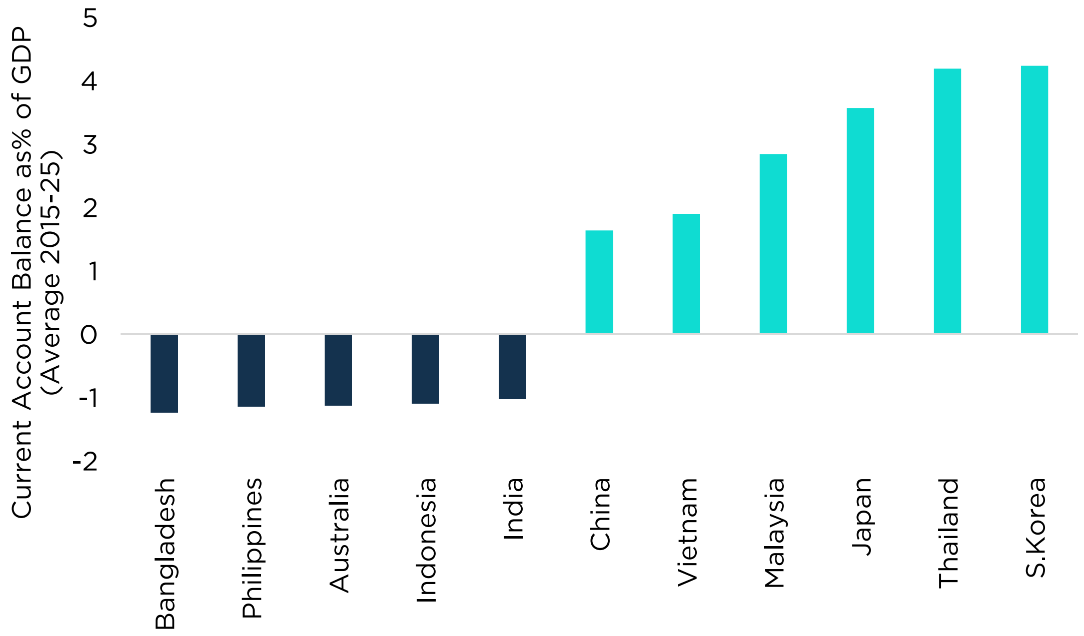
**Developing Countries in APAC Attract a Third of Global Investment (2024)**




Source: UNCTAD, CGIL
Note: Developing economies broadly comprise Asia without Japan, South Korea, Australia and New Zealand

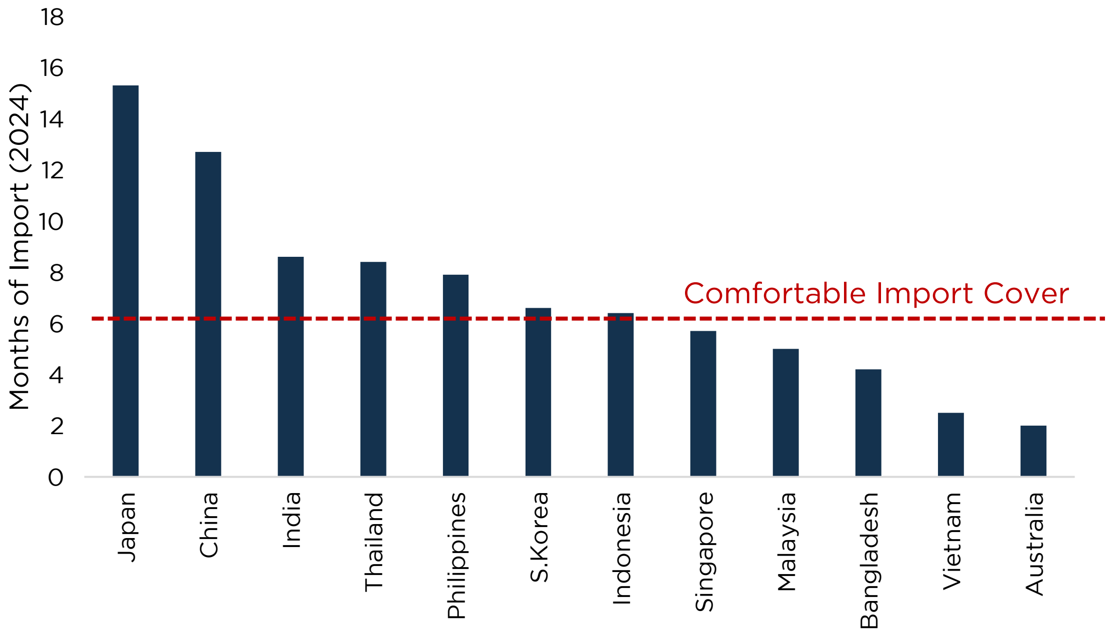
# External Buffers Add to Support

### Current Account Balance Remains Comfortable for APAC Economies




Source: Haver Analytics, IMF, CGIL

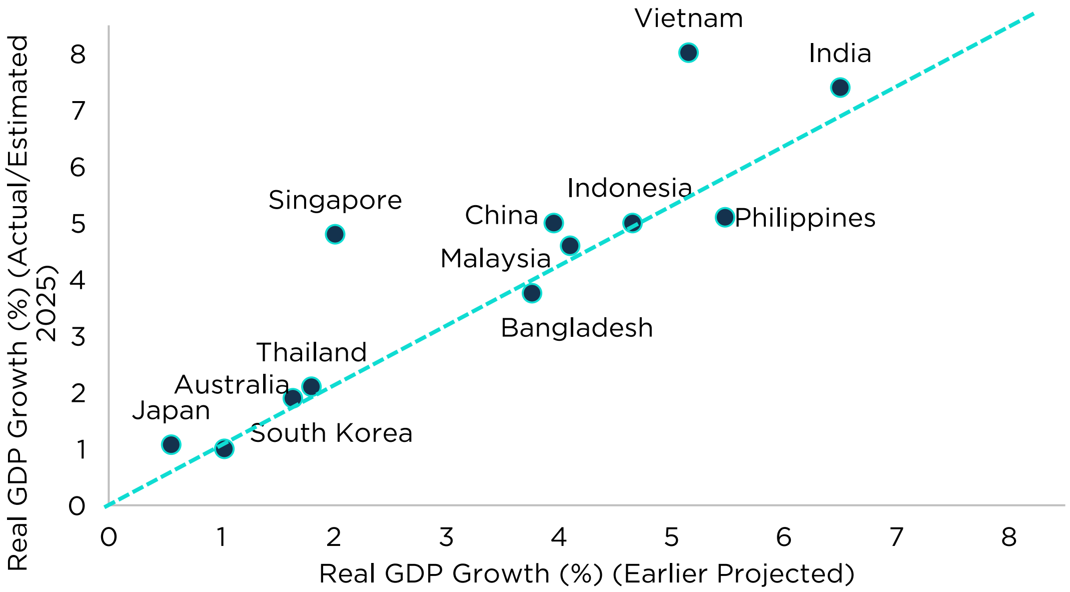
### Foreign Exchange Import Cover Comfortable for APAC Economies




Source: IMF, CGIL

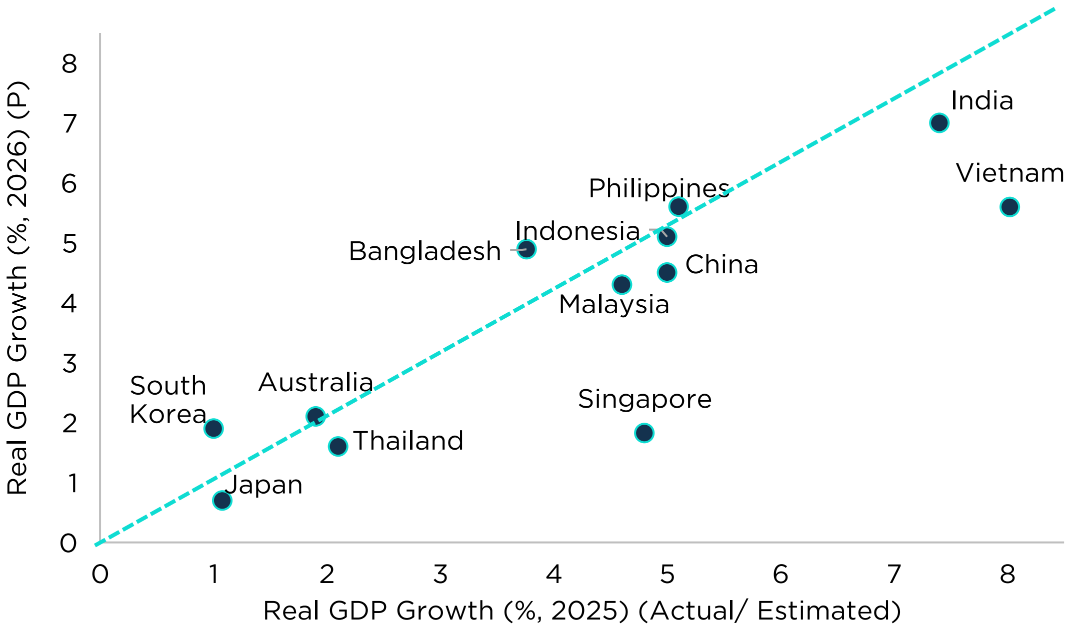
# Frontloading Lifted Growth in 2025, Moderation Expected in 2026

**Actual Growth in 2025 Higher than Earlier Expected for Most of APAC Economies**




Source: Haver Analytics, IMF, National Sources, CGIL
Note: Countries above the diagonal indicate positive movement & vice versa

**Moderation in Growth Expected In 2026**



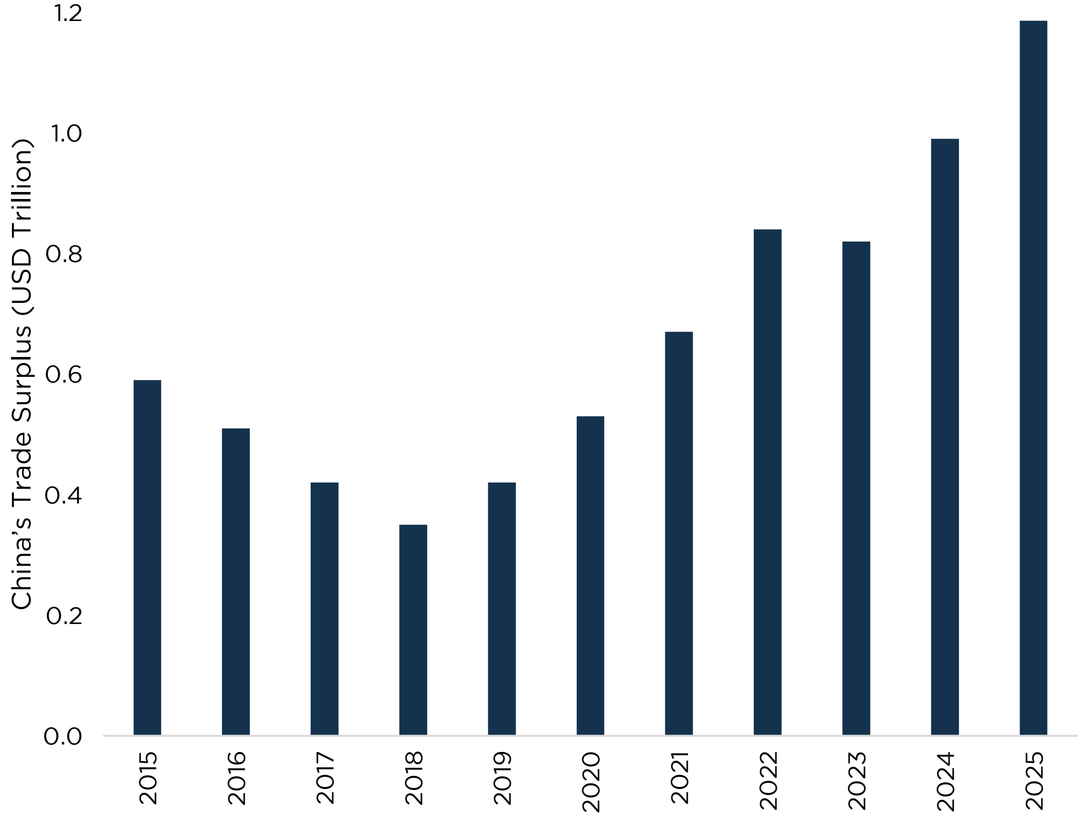

Source: Haver Analytics, IMF, National Sources, (P) IMF Projections; CGIL
Note: Countries above the diagonal indicate positive movement & vice versa

Key reasons for moderation include:

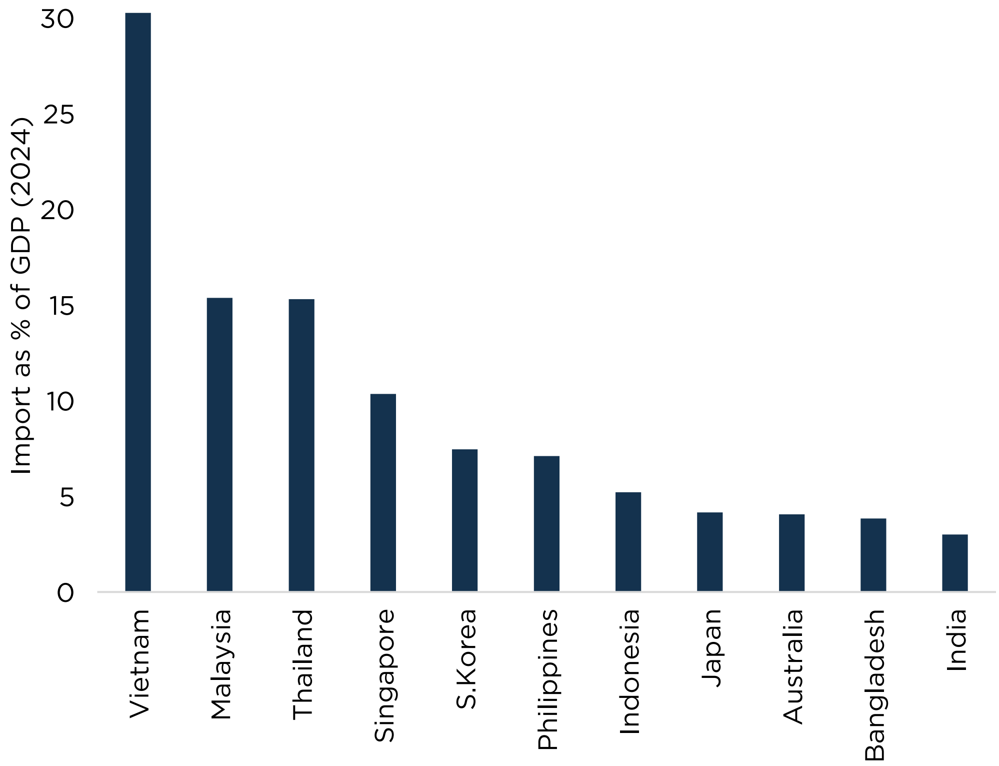
1. **On external front:** China's export-led strategy, broader tariff implications and uncertain currency outlook are likely to have an impact on the region.
2. **On domestic front**: Private consumption has been subdued for a few APAC economies as reflected in lower consumer confidence, with evolving labour market conditions and high household leverage adding further pressure.

# External Moderating Factors: China's Export-led Strategy and Tariff Implications

**China Relying on Exports to Support Growth**



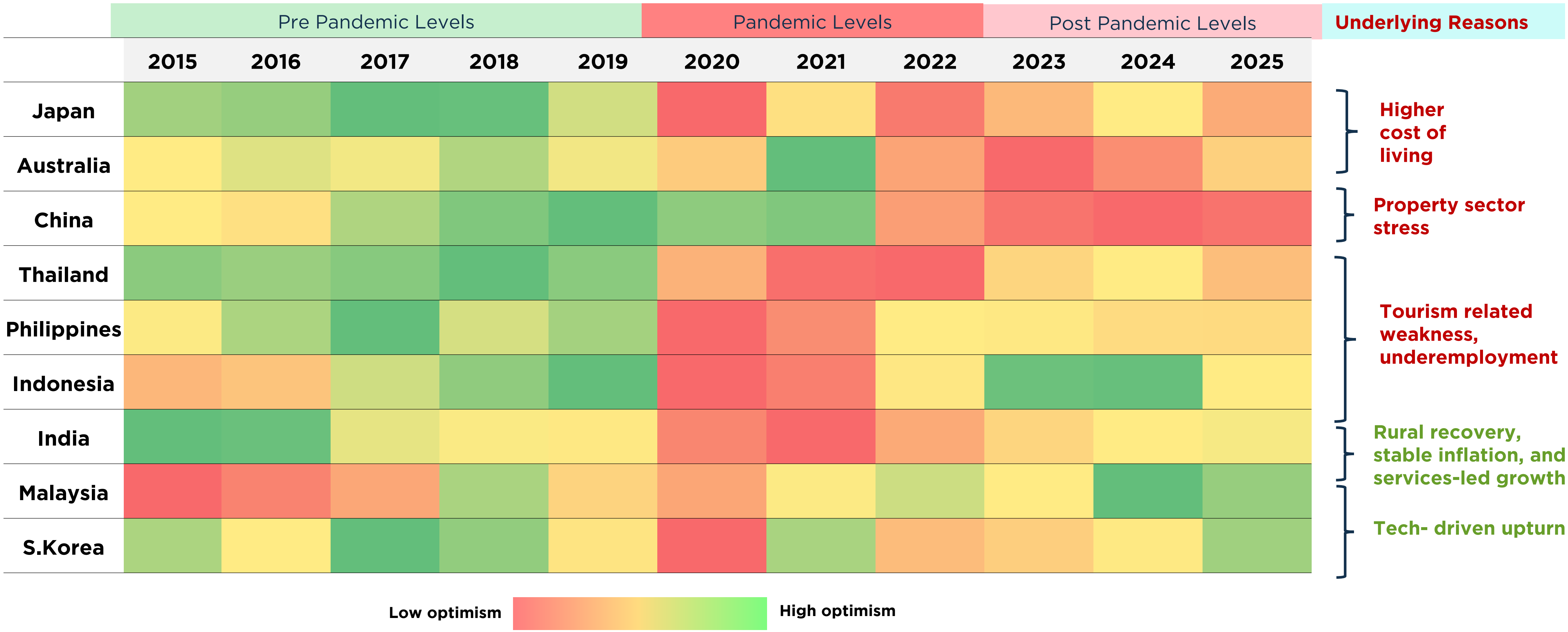

**Dumping Risks From China, Particularly for Highly Import-Dependent Economies**




Source: China's General Administration of Customs, US White House; CGIL

# Internal Moderating Factors: Slowing Private Consumption in Few APAC Economies

**Consumer Confidence in Parts of APAC Remains Below Pre-Pandemic Levels**




Source: Haver Analytics, CGIL
Note: Consumer confidence refers to the degree of optimism or pessimism households have about the economy and their own financial situation, which influences their willingness to spend rather than save.

# Broad Fiscal Discipline Expected Across Economies, Barring Few

| | Country | Fiscal Deficit for 2026 vs. 2025 | GGG Debt as % of GDP (2025) | Change in Debt over the Medium Term (2025 vs. 2030) |
|---|---|---|---|---|
| **Category 1:** Elevated fiscal risks due to expansionary fiscal stance along with high current and projected debt | Japan | Expansion | 229.6 | -7.4 |
| | China | Expansion | 96.3 | 19.4 |
| | Thailand | Expansion | 64.9 | 4.0 |
| **Category 2:** Managed fiscal risk with disciplined management and gradual adjustments under watch | South Korea | Expansion | 53.4 | 10.9 |
| | Vietnam | Expansion | 32.0 | -1.4 |
| | India | Consolidation | 81.4 | -4.5 |
| | Malaysia | Consolidation | 70.4 | 0.3 |
| | Philippines | Consolidation | 58.2 | -2.4 |
| | Indonesia | Consolidation | 40.8 | 3.9 |
| | Bangladesh | Consolidation | 40.3 | 0.7 |
| **Category 3:** Comfortable fiscal position with low debt or budget surpluses | Australia | Comfortable | 51.0 | -1.7 |
| | Singapore | Comfortable | 175.6 | 3.1 |

Comfortable | Consolidation | Expansion

Source: Haver Analytics, IMF, CGIL
Note: GGG = Gross General Government

# Key Monitorables

## External

**Impact of tariffs and uncertain currency outlook**
Export-oriented economies face credit risks from trade disruptions and protectionism

**China's evolving trade strategy**
China's pivot towards exports could impact import dependent economies

**Comfortable current account position and exchange reserves**
External buffers offset the external risks

## Internal

**Private consumption revival**
Economies with labour market pressure or high household debt face risk

**Fiscal discipline to be adhered for most economies**
Japan's fiscal concerns & China's rising debt levels

**Inflation expected around target**
Japan's high inflation remains a concern

**Structural buffers could offset risks**
APAC economies hold significant investment potential with strong manufacturing and service sectors

## Geopolitical and Institutional

**Rising social discontent**
Cost-of-living pressures and labour market mismatches add risk of social unrest. (Elections in Japan, Thailand, Bangladesh)

**Rising geopolitical frictions**
China and Japan, Thailand and Cambodia, South China Sea, Taiwan, etc.

# Africa: Cautious Optimism

| | |
| --- | --- |
| Botswana | BBB+ |
| Mauritius | BBB |
| Morocco | BBB- |
| South Africa | BB |
| Nigeria | B |
| Kenya | B |
| Egypt | B- |
| Ethiopia | D |

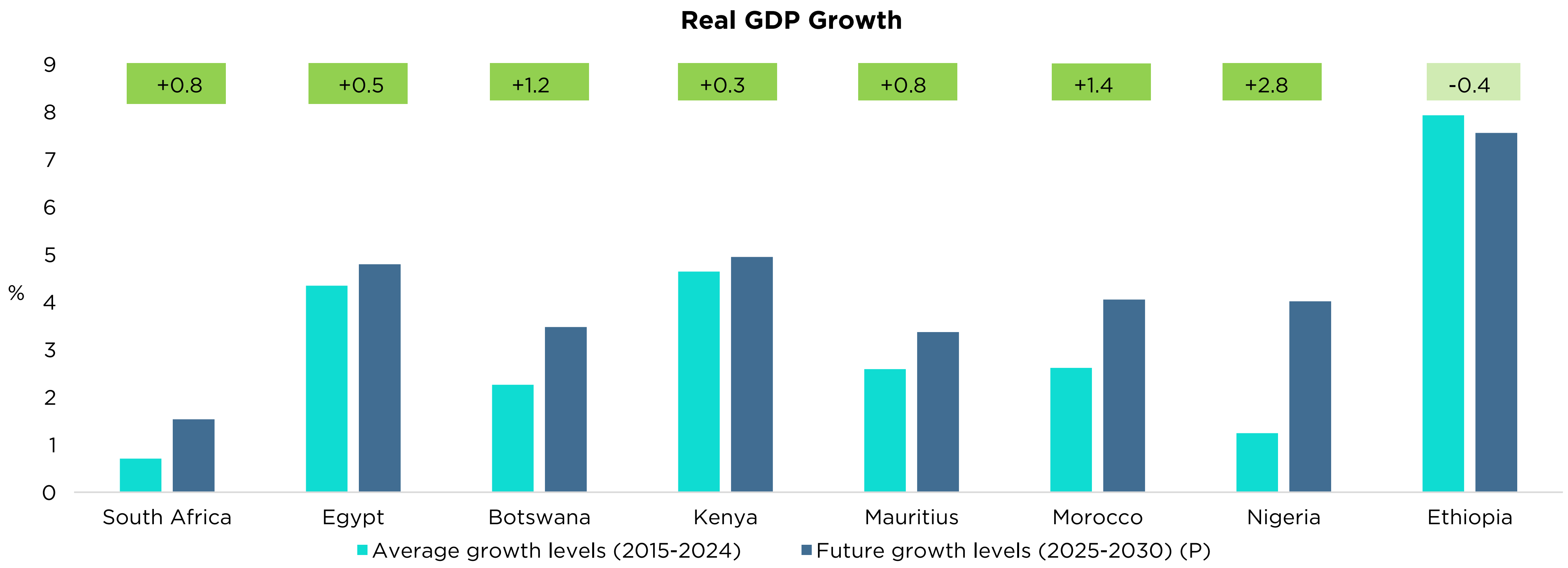
Positive Outlook

Negative Outlook

Stable Outlook

No Outlook

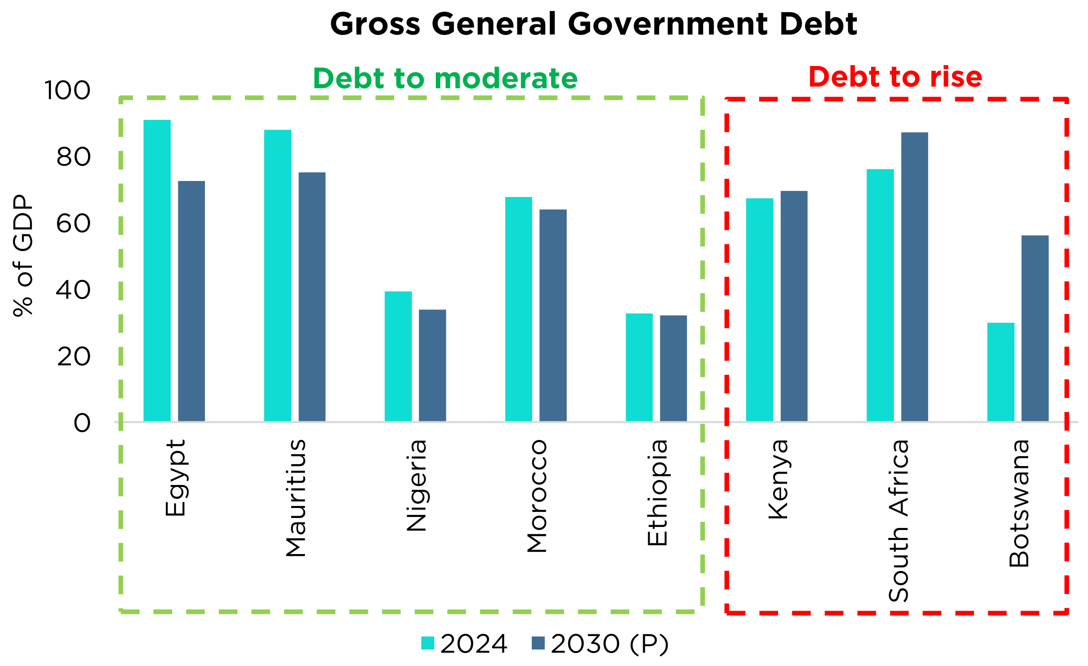
# Improving Growth Prospects Supported by Reform Momentum



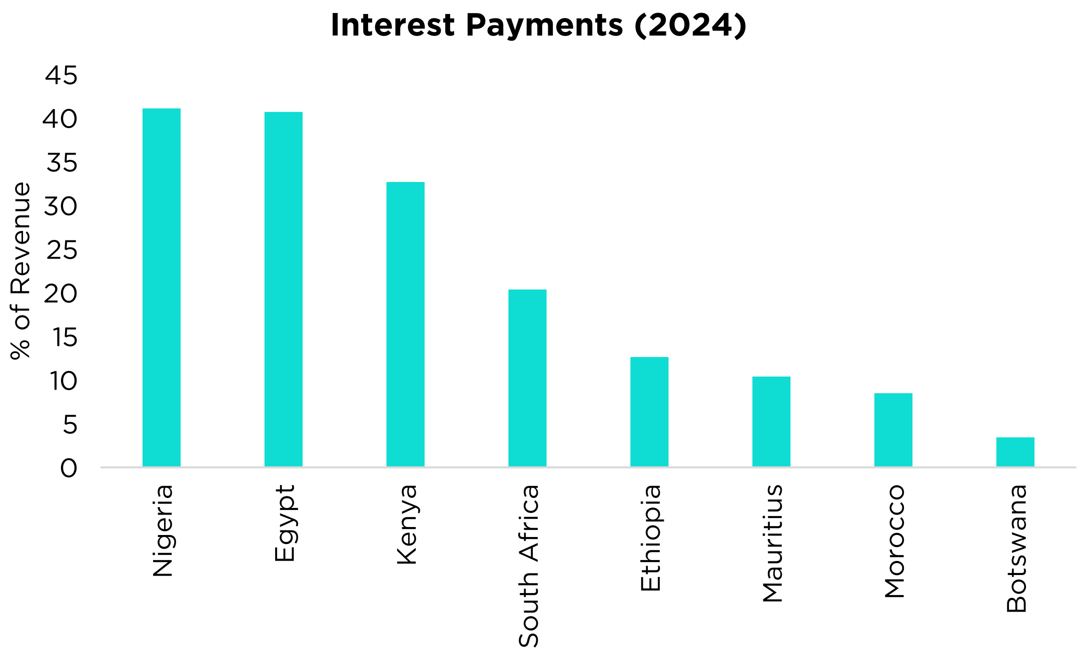

Source: IMF, CGIL
Note: (1) P = IMF Projections (2) Numbers in the boxes indicate the percentage-point change in growth

- Medium-term growth potential is improving across most African economies, driven by structural reforms and economic diversification.
- Post-pandemic normalization and ongoing monetary and fiscal reforms are expected to sustain stronger growth outcomes over 2025-2030.
- Key risks: geopolitical tensions, commodity price volatility, fiscal pressures, and high debt levels could dampen growth in some economies.

# Diverging Public Debt Trajectories



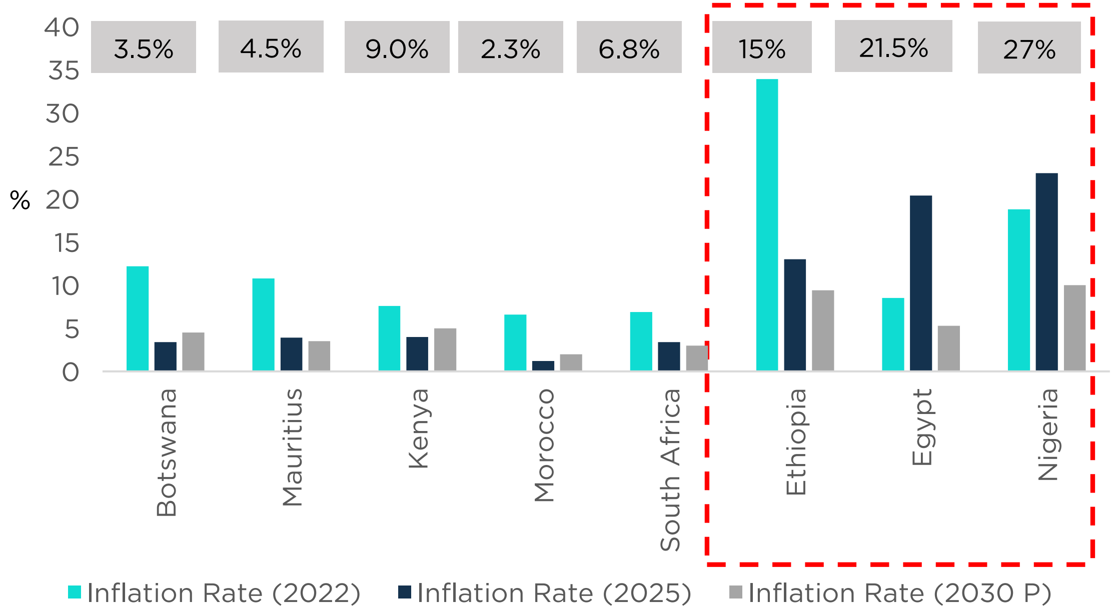

Source: IMF, CGIL
Note: (1) P= IMF Projections (2) Numbers in the boxes indicate the percentage-point change in GGG Debt



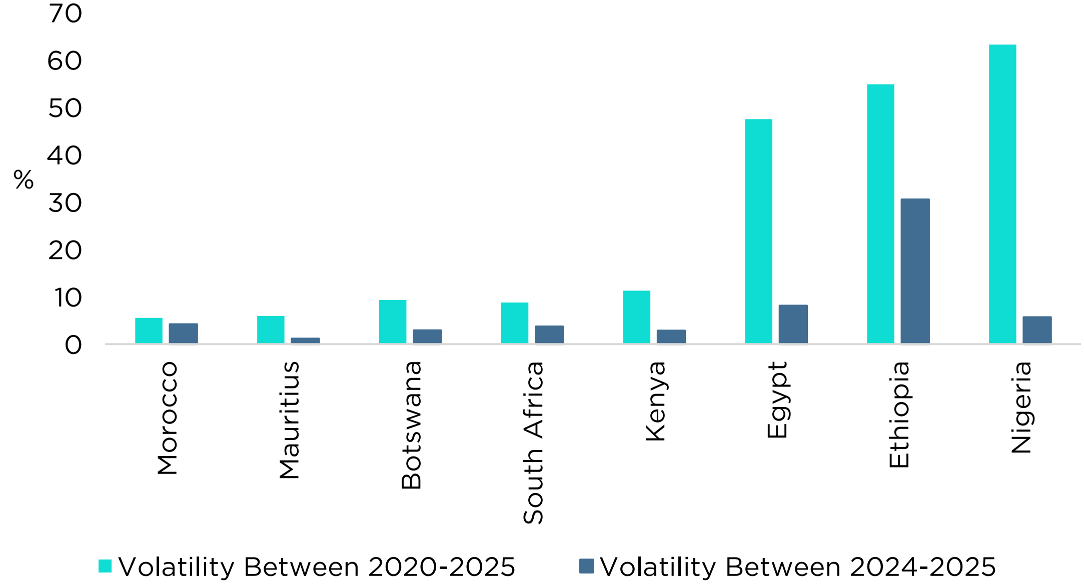

Source: IMF, World Bank, National Sources, CGIL

- Declining debt: Egypt, Mauritius, Nigeria, Morocco, and Ethiopia due to fiscal consolidation, improved revenue mobilisation, and narrowing deficits.
- Improving debt positions for these countries provides some fiscal flexibility for investment and policy support.
- Rising debt: Botswana, Kenya, South Africa driven by persistent deficits, infrastructure spending, and slower fiscal adjustment.
- High interest costs and debt servicing continue to weigh on budgets, especially for countries with rising debt.

# Inflation Peaks, but FX Volatility May Remain a Challenge



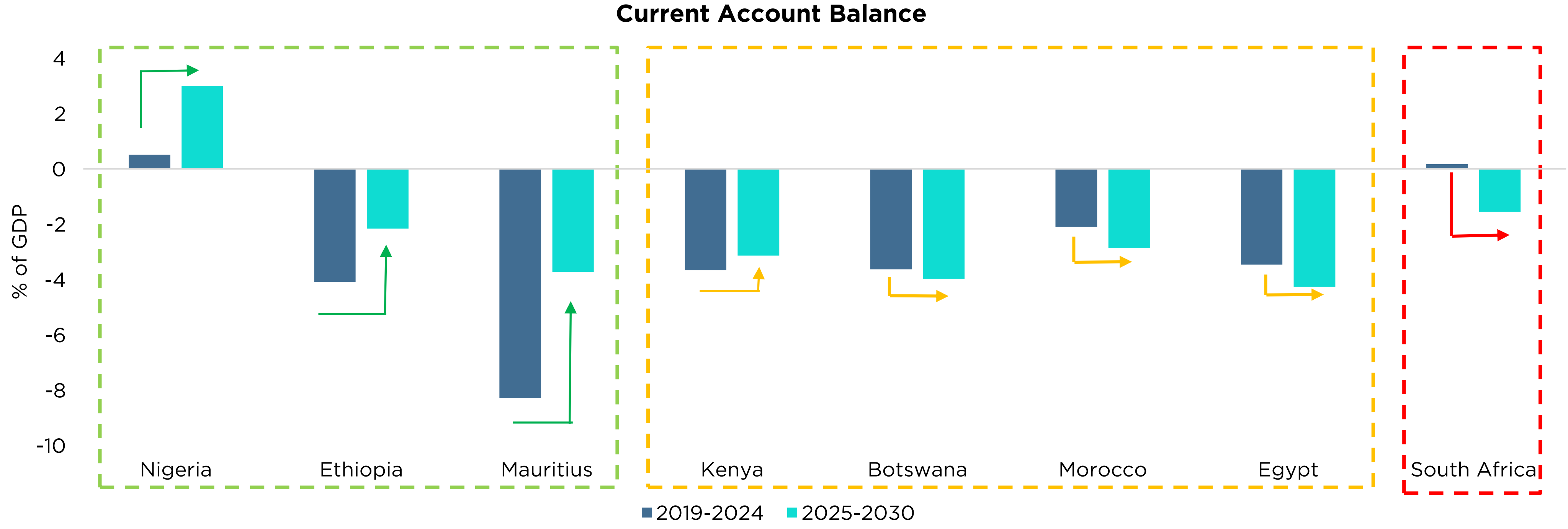

Source: IMF, Refinitiv, CGIL
Note: (1) P = IMF Projections (2) Boxes represent latest policy rates available for the economies for 2025




Source: Refinitiv, CGIL
Note: Currency volatility is measured as the coefficient of variation (100*Standard Deviation/Mean) using monthly exchange rate data

- While inflationary pressures have moderated, the policy rates remain elevated due to downside risks attached to it.
- Currency volatility remains structurally elevated over 2020–2025, reflecting repeated external and domestic shocks; however, a shorter 2024–2025 window shows signs of stabilisation in some markets.
- Reduction in volatility highlights easing near-term pressures, though underlying FX vulnerability persists across several African economies.

# Broad Stability in Medium-Term Current Accounts




Source: IMF, CGIL

- External balances are improving in Nigeria, Ethiopia, and Mauritius, supported by stronger export receipts, exchange rate adjustments, and improving competitiveness.
- Kenya, Botswana, Morocco, and Egypt are expected to maintain broadly stable current account positions, as export recovery largely offsets persistent import requirements, with sector-specific sensitivities (diamonds in Botswana; energy and food imports in Egypt).
- Overall current account sustainability hinges on export momentum, import containment, FX stability, and continued access to external financing.

# Key Monitorables

## Fiscal Consolidation and Reforms

**IMF oversight**
Active or forthcoming ECF/EFF frameworks for Egypt, Ethiopia, Kenya, and Nigeria

**Mauritius fiscal consolidation efforts** may weigh on consumption and business activity

**Morocco's** balance between infrastructure spending with fiscal consolidation

**South Africa's fiscal consolidation reforms** constrained by social and political pressures, with SOEs being a key risk

## External Conditions

**Global commodity prices**
Nigeria, Botswana, South Africa, and Morocco (minerals and energy prices)

Ethiopia and Kenya (coffee, tea, and horticulture)

**Current account outlook**
exposed to volatility risks

## International Relations and Geopolitics

**AGOA extension** of 3 additional years agreed by US House of representatives, but status of South Africa remains uncertain at Senate stage.

**Mauritius progress on the Chagos**
expected compensation impeded by rising pressure in the UK

**Egypt Suez-Canal** remains a vital revenue source and geopolitical lever

Note: ECF: Extended Credit Facility; EFF: Extended Fund Facility; AGOA: African Growth and Opportunity Act

# Europe:
# Walking a Tightrope - Debt Concerns Amid Emerging Tailwinds

| | |
|---|---|
| Germany | AAA |
| Netherlands | AAA |
| Sweden | AAA |
| United Kingdom | AA- |
| Portugal | A+ |
| France | A+ |
| Spain | A |
| Cyprus | BBB+ |
| Italy | BBB |
| Greece | BB+ |
| Türkiye | BB- |

Positive Outlook

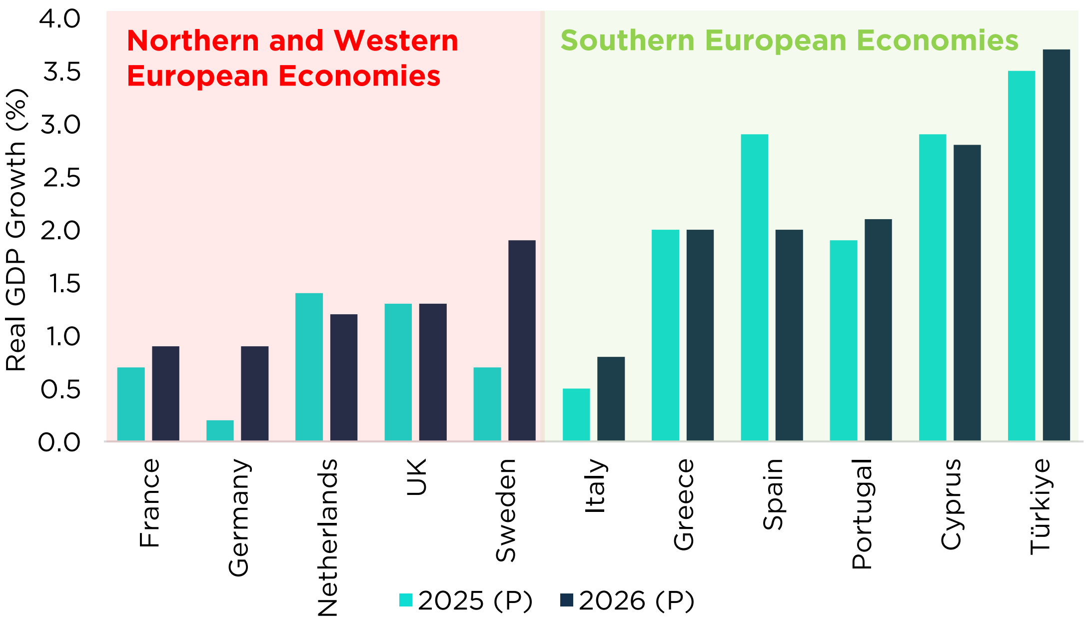
Negative Outlook

Stable Outlook

No Outlook

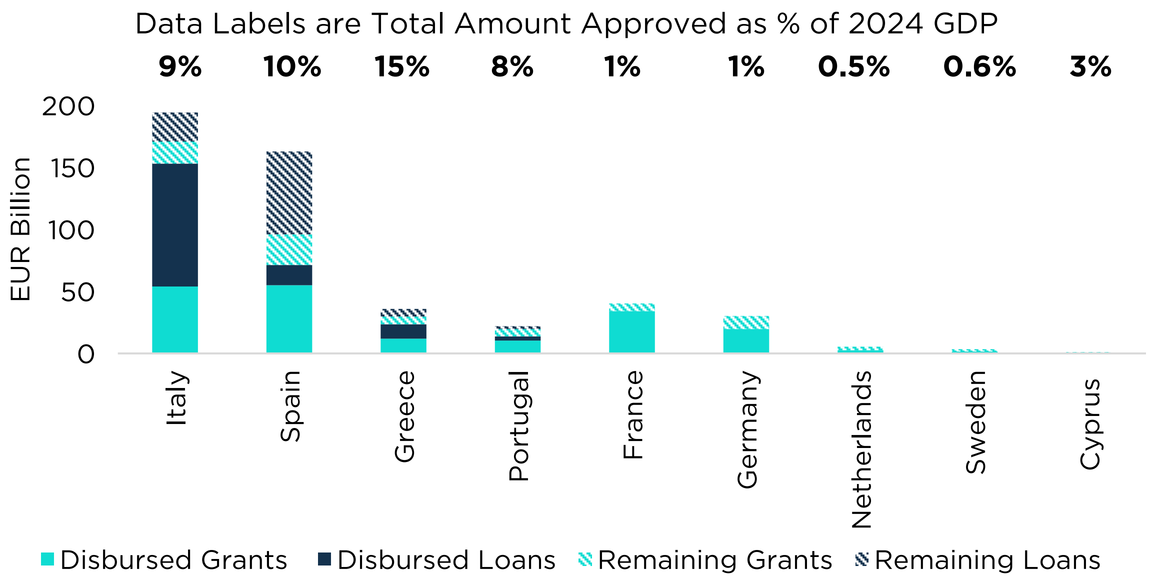
# Southern European Economies to Outperform

**Growth Led by Southern European Economies Majorly**




Source: IMF, CGIL
Note: P = Projections

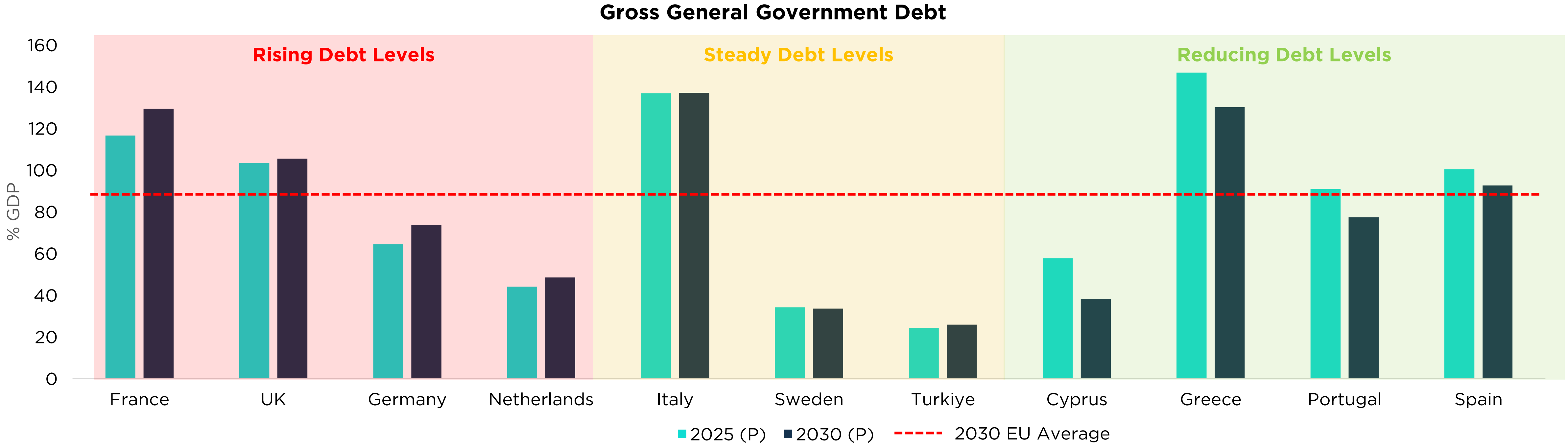
**EU Recovery Fund Payments Till December 2025**




Source: European Commission, CGIL

- Growth in Germany and Sweden is set to rebound on fiscal stimulus, led by infrastructure/defence spending and tax cuts, respectively.
- UK's economic growth is expected to be steady, though higher taxes to weigh on consumption.
- All Southern European economies have gained due to the shift towards high-value-added services and support from the Recovery and Resilience Fund.
- Turkiye's growth is supported by slowing inflation and easing policy rates.

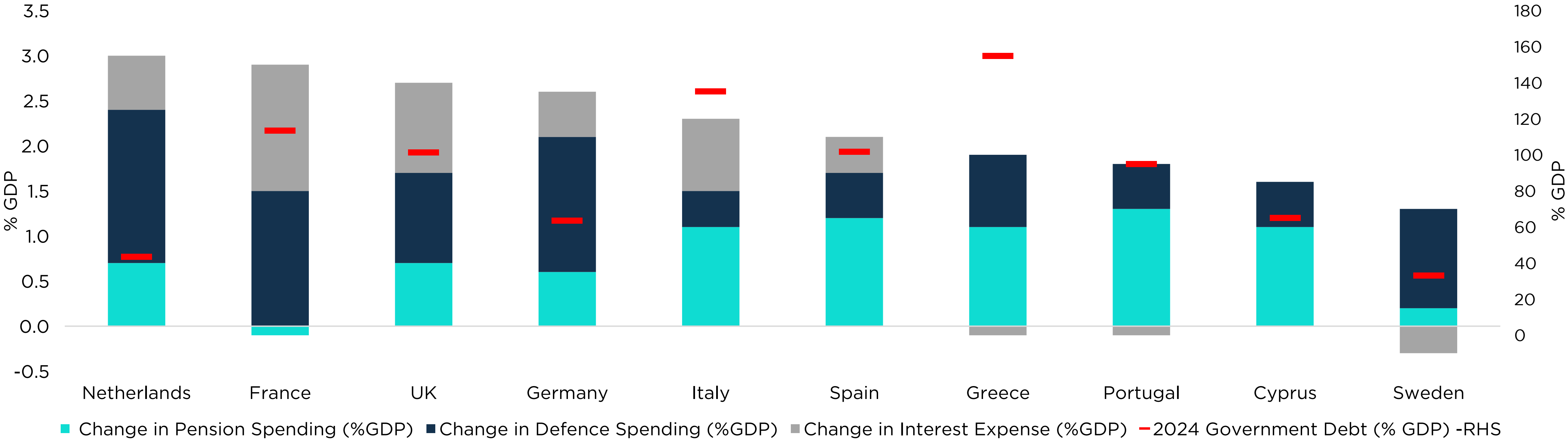
# Diverging Debt Directions




Source: IMF, CGIL
Note: P = Projections

- France and the UK's debt levels are expected to rise on account of high social spending and continue to be above the EU average.
- Germany's debt is expected to rise sharply on account of fiscal loosening but is likely to be below the EU average.
- Italy's debt, while broadly stable, is projected to remain well above the EU average, making it the most indebted government in the EU by 2030.
- Cyprus, Greece, Spain and Portugal are expected to see a sharp reduction in debt levels. Despite this improvement, Greece's debt will continue to remain well above the EU average, the second highest in the region by 2030.

# Medium-Term Fiscal Pressures Arising From Pension, Defence and Interest

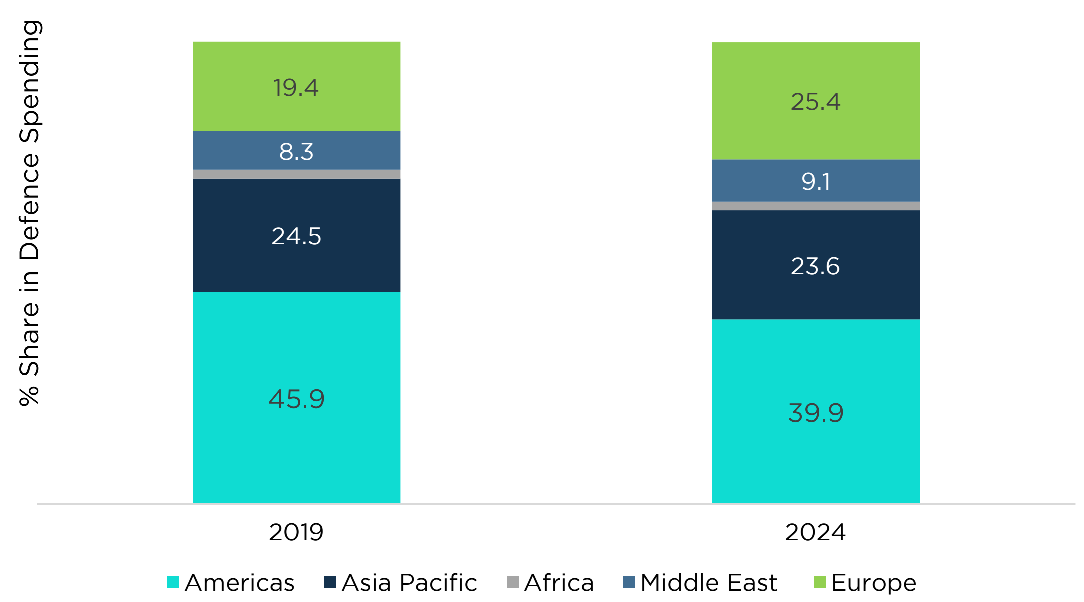



Source: EU Ageing Report, OBR, IMF, Budget Reports, CGIL

- Low general government debt helps the Netherlands absorb rising interest, defence, and pension costs.
- Across Northern and Western European economies (the Netherlands, France, the UK, Germany, Sweden), higher expenditure is driven by defence spending.
- In Southern European economies (Italy, Greece, Portugal, Cyprus) , rising pension spending drives medium-term expenditure pressures.
- France, the UK, and Italy are projected to face a higher interest-rate burden over the medium term.

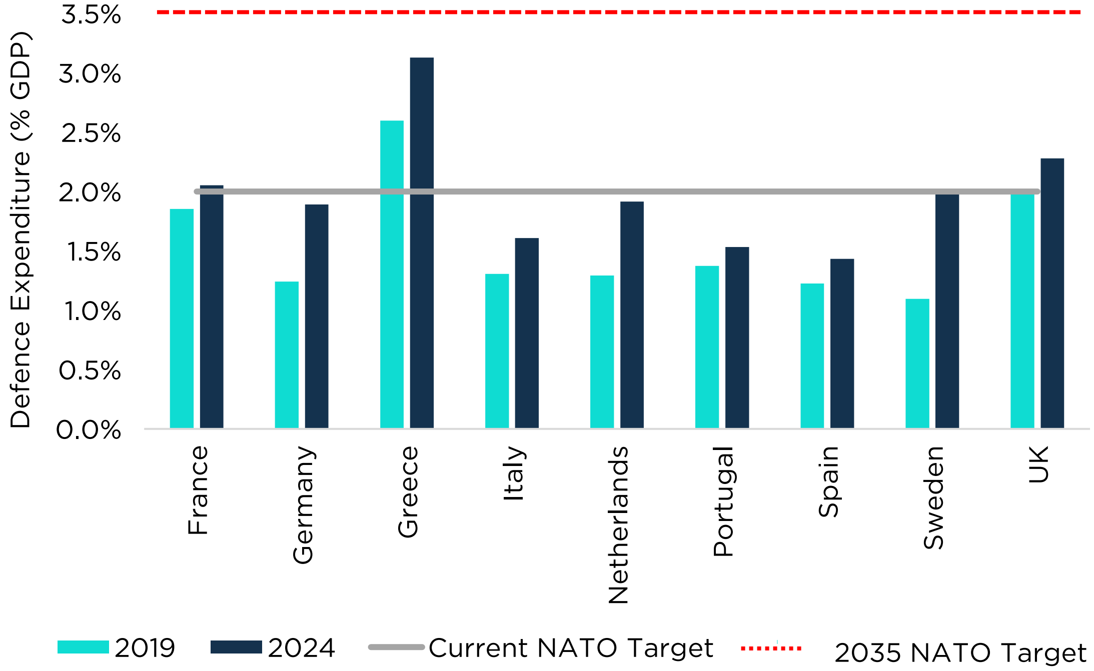
# Rising Defence Costs to Stretch Government Pockets

**Europe Sees the Largest Increase in Defence Spending**




Source: SIPRI Military Database, CGIL

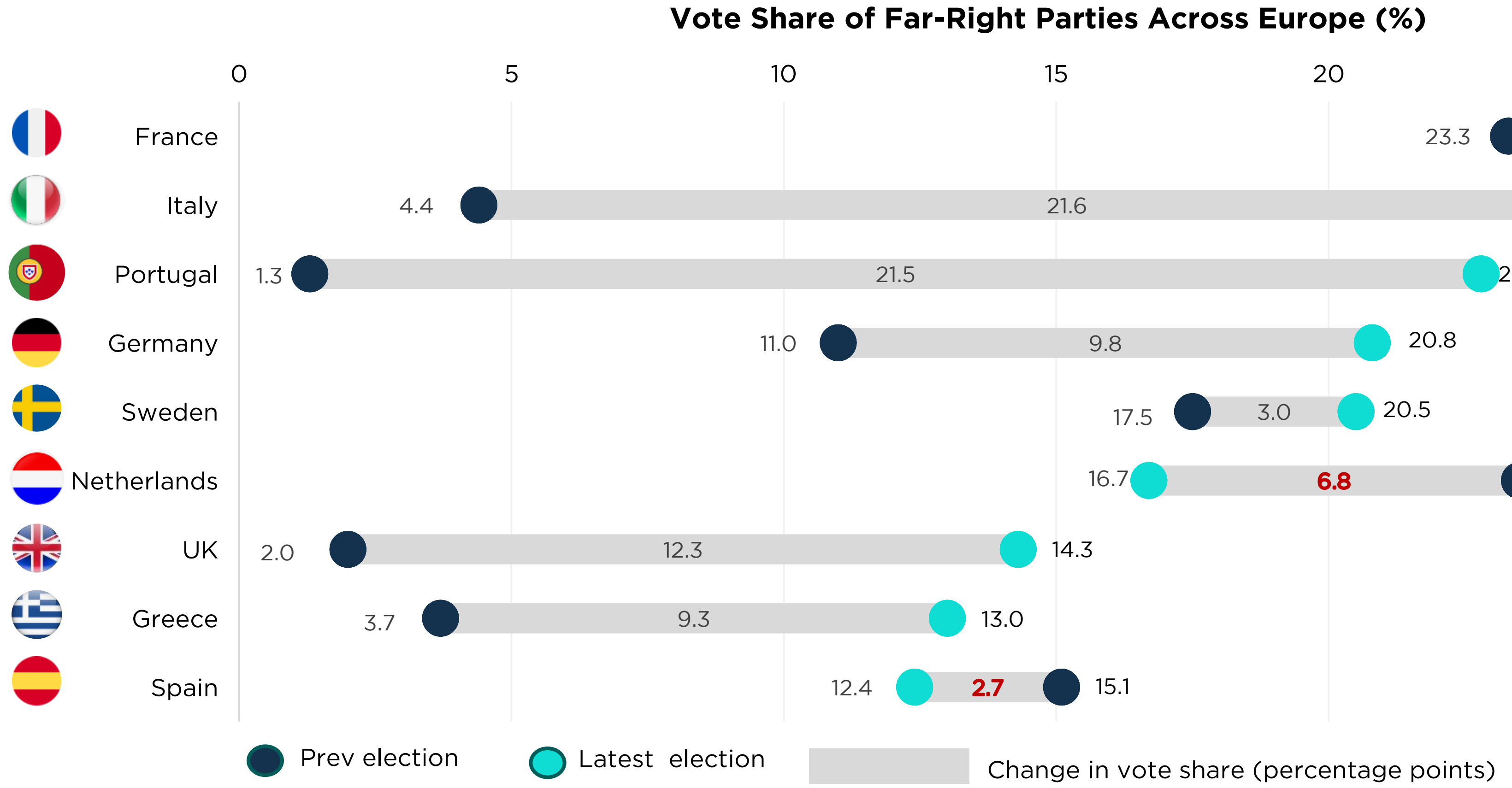
**Europe Still Far from Meeting 2035 NATO Defence Target**




Source: NATO, CGIL

- Since the onset of Russia-Ukraine war, defence spending has seen a sharp rise in the continent.
- Modernizing needs and reducing dependence on the US coupled with pressures from NATO is expected to keep the defence spending high.

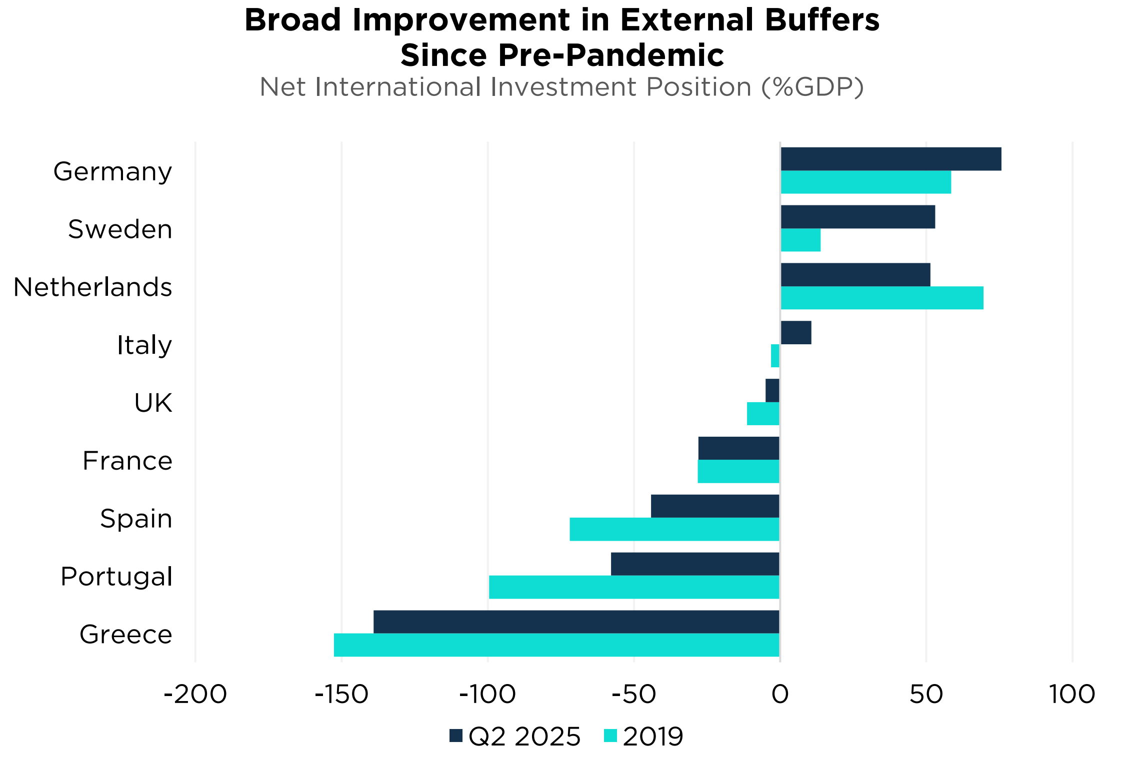
# Rise of Right-Wing Parties in Mainstream Politics to Continue



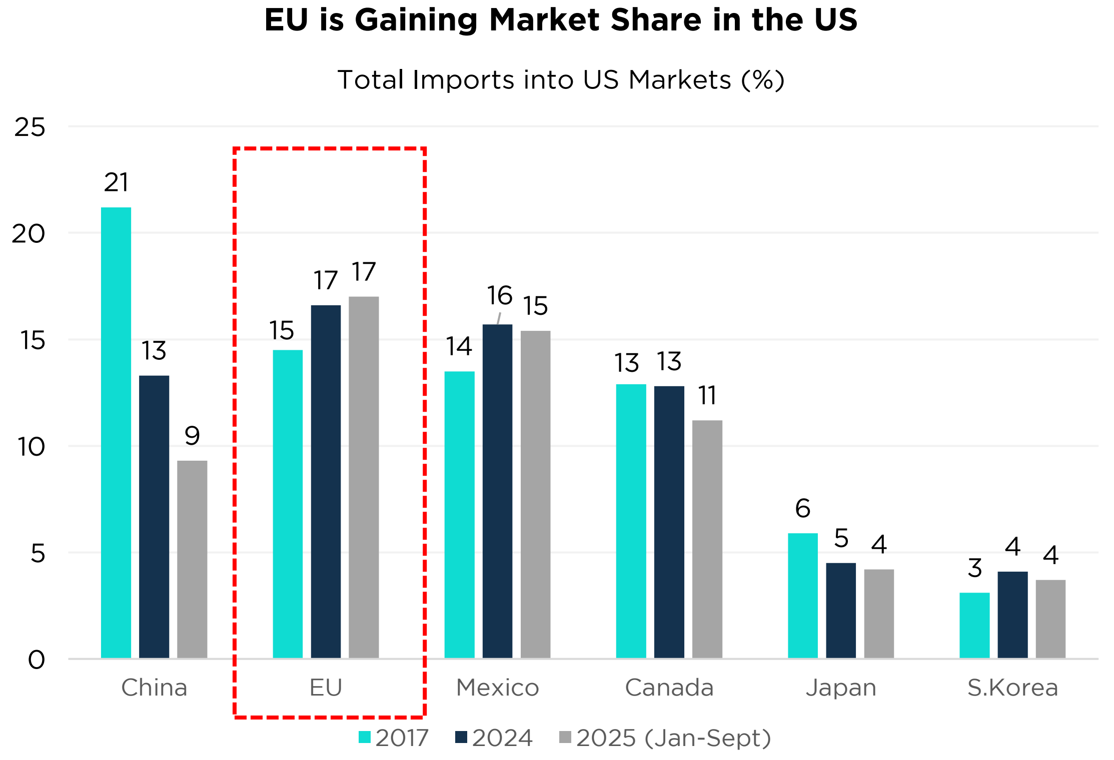

Source: Respective Parliament, CGIL

- Right-wing parties have gained ground in Europe, leading the opposition in Germany, France, and Portugal, and forming government in Italy and Sweden.
- Their rise is shifting policy towards stricter immigration laws, greater resistance to pension cuts and a tilt towards higher taxes.

# External Sector: Improving Buffers, Europe Gains Share in US Imports



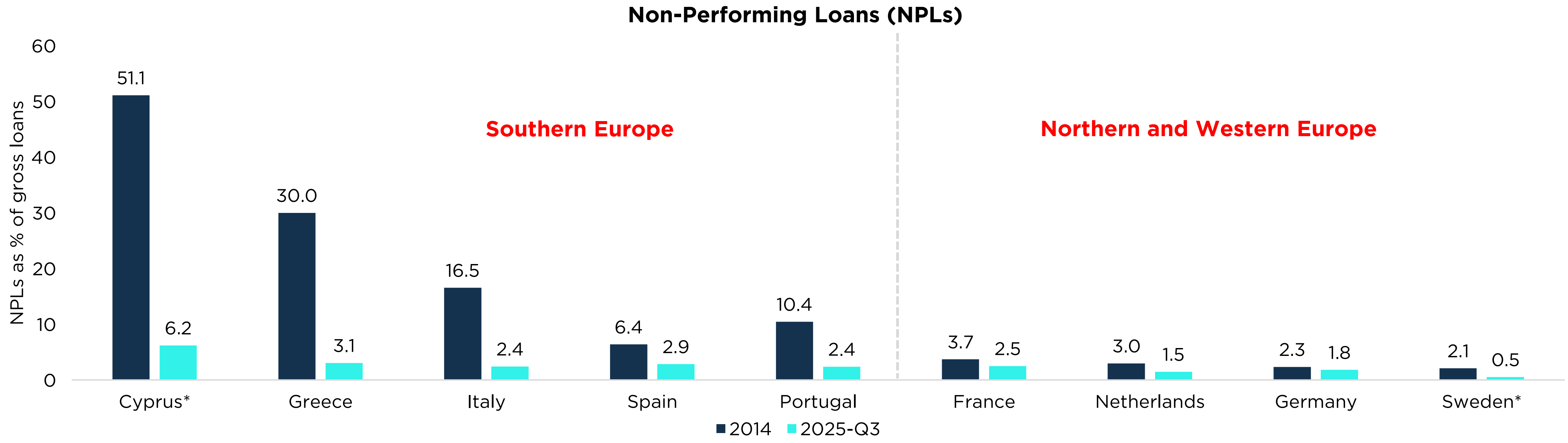

Source: Eurostat, CGIL




Source: US Comtrade, CGIL

- Most of the EU countries have seen an improvement in the external buffers, with an improvement in the net international position.
- Though EU has gained market share in the US import market, it remains a key monitorable owing to volatility and uncertainty around tariff policy.

# Improving Asset Quality




Source: World Bank, European Central Bank, IMF, CGIL
Note: *Data for Sweden and Cyprus till 2024-Q4

- Following the Global Financial Crisis and the EU sovereign debt crisis, NPL ratios were significantly higher in Southern European economies than in the Northern and Western peers.
- This divergence has narrowed markedly in recent years, with Southern European NPLs converging toward the EU average of around 2% by Q2 2025.
- Overall, these improvements strengthen bank balance sheets and enhance the effectiveness of monetary policy transmission across the EU.

# Key Monitorables

## Fragile Growth

**Germany's fiscal push**
Germany's spending pivot could be an inflection point for the region

**Competition from China**
China's move up the value chain signals structural pressure on EU manufacturing

**Innovation and AI adoption**
Critical for lagging growth as EU trails US and China in both parameters

**Geopolitical Tensions**
Escalation in the Russia–Ukraine war and developments in Greenland likely to be growth-negative

## Debt Drag

**Rise in ageing costs**
Ageing cost to rise amid shrinking population.

**Surge in defence expense**
Pace of increase to be a concern on already heightened government debt

**Elevated interest burden**
Sticky yields to push up refinancing costs

**Risks from political fragmentation**
Pace of reform orientation may slow

## Tailwinds

**EU support**
EU's monetary support (RRF, SAFE*) to continue to be growth supportive

**Energy independence**
Progress towards energy independence has been good, critical to restore competitiveness

**Stealth banking sector**
Banking sector health has improved across EU, continuity remains a monitorable

* RRF- Resilience and Recovery Fund (EUR 630 billion), SAFE- Security Action For Europe (EUR 150 billion)

# Americas: Stable Ex-US, Though Resilience is Being Tested

| | |
|---|---|
| Canada | AA+ |
| United States | AA+ |
| Chile | A- |
| Mexico | BBB- |
| Peru | BBB- |
| Brazil | BB+ |
| Colombia | BB+ |
| Ecuador | CCC+ |
| Argentina | CCC+ |

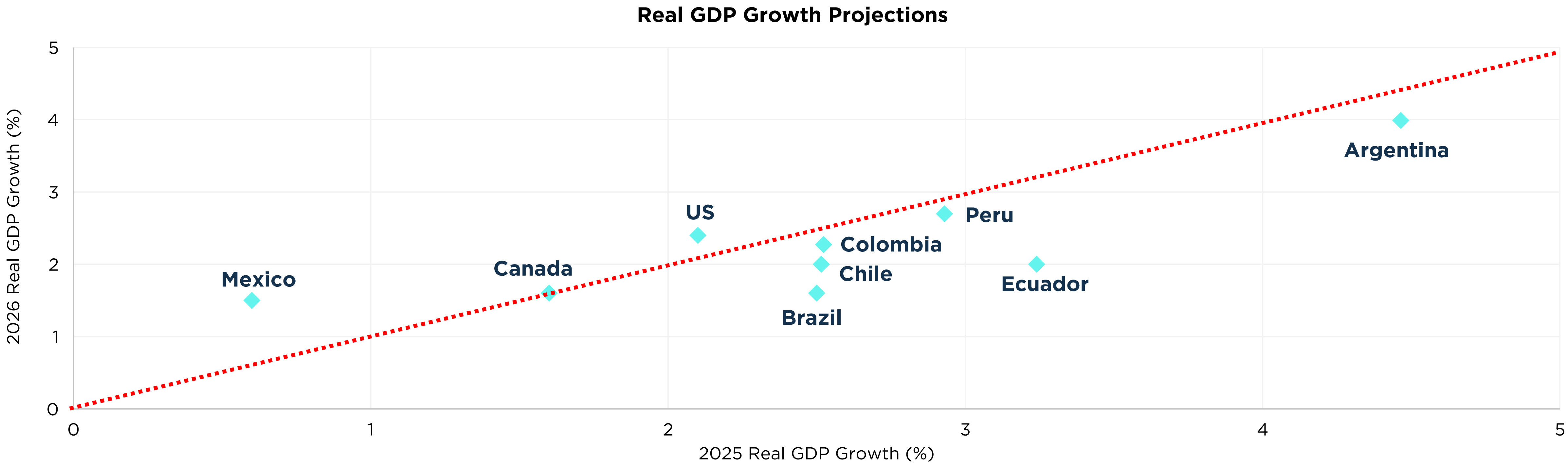
Positive Outlook

Negative Outlook

Stable Outlook

No Outlook

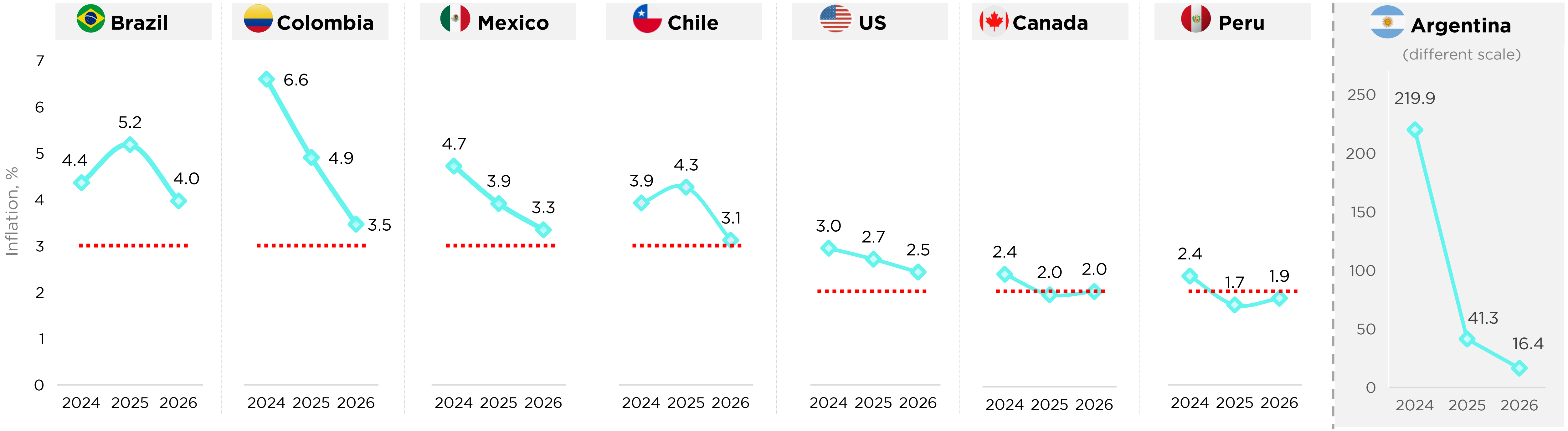
# 2026 Growth to Moderate Slightly Across Most Economies




Source: IMF, CGIL
Note: Covers only American economies rated by CGIL

- Brazil, Chile, Ecuador, and Argentina are expected to see slower growth in 2026 compared to 2025.
- Mexico is expected to record higher growth in 2026 versus 2025. However, among this group, Mexico is projected to remain the slowest-growing economy for the second consecutive year due to weak consumption and investment activity.
- US growth to be marginally higher at 2.4% in 2026 vs 2.1% in 2025, underpinned by lower policy rate, fiscal stimulus, and AI-related spending.

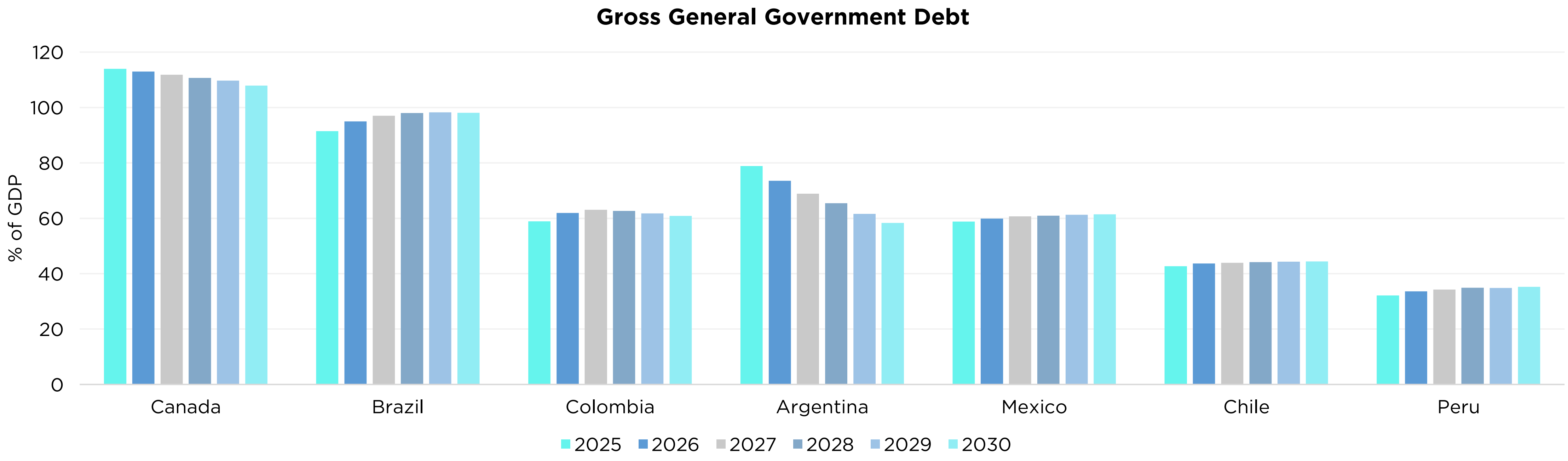
# Inflation to Ease Broadly, but Remain Above Target




Source: IMF, CGIL
Note: (1) 2025 and 2026 data are projections (2) Red dotted line represents inflation target (midpoint used where a range applies)

- The US Fed is expected to cut rates by 50 bps in 2026 amidst labour market concerns, even as inflation remains somewhat elevated.

# Debt Dynamics Outside US Largely Stable

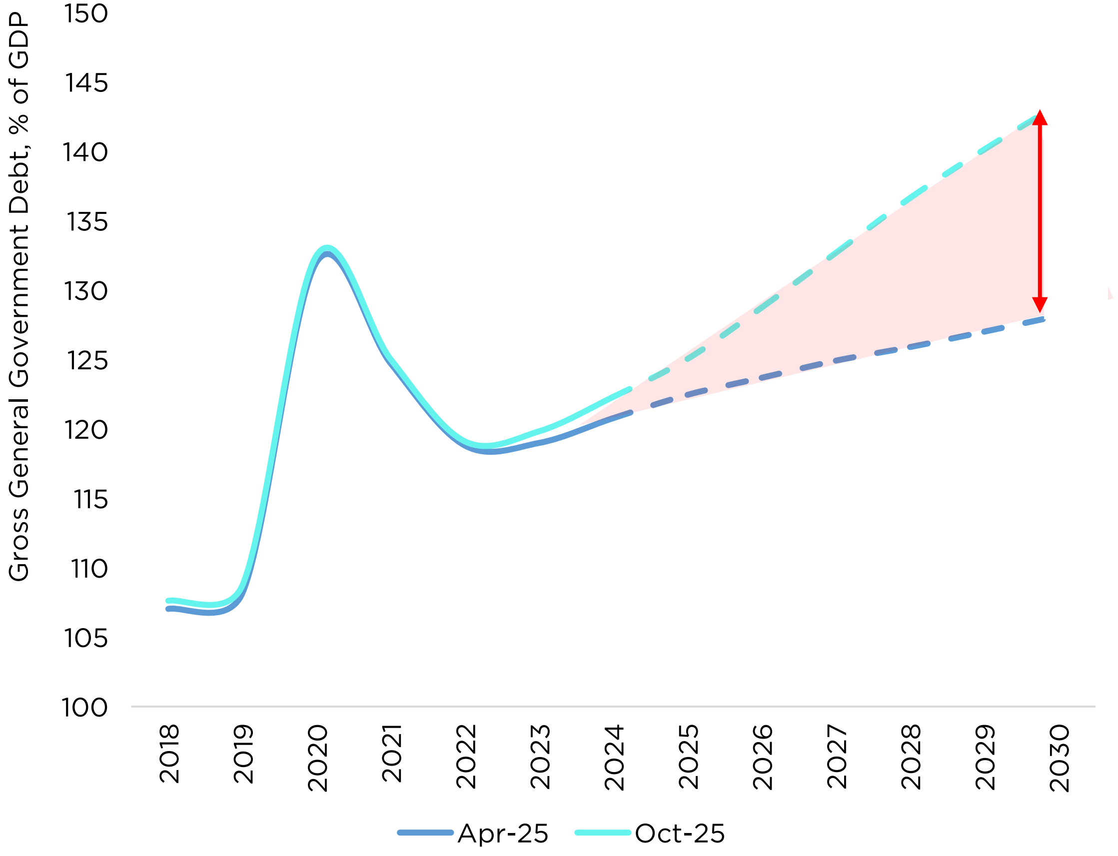



Source: IMF Projections, CGIL

- Argentina's debt is projected to fall the most, by 20 percentage points (pp), between 2025–2030.
- In contrast, Brazil's debt is expected to rise the most, by 7 pp.
- Canada's debt to decline slightly by 6 pp. However, the government's substantial financial assets mitigate concerns around elevated debt levels.
- Moderate debt increases of 2–3 pp are expected for countries like Chile, Mexico and Peru.

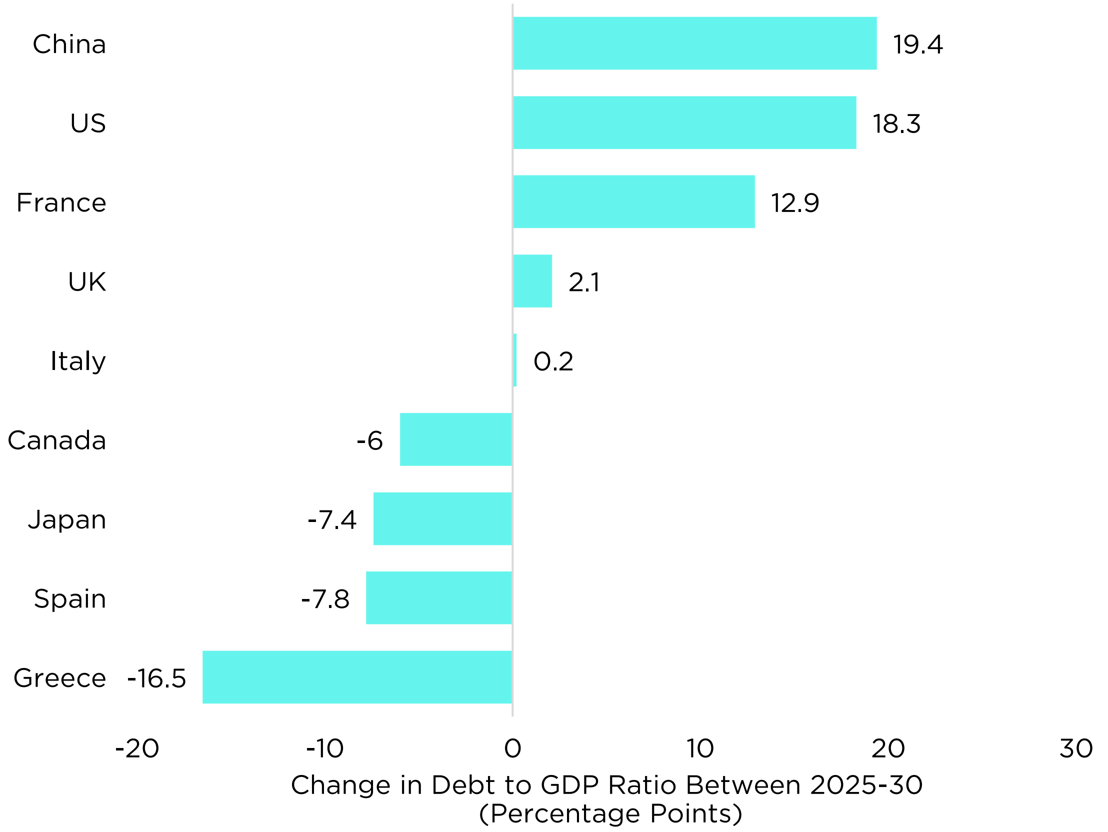
# US Fiscal Outlook Under Strain

**US Debt Outlook has Worsened Post the One Big Beautiful Bill Act (OBBBA)**




Source: IMF, CGIL
Note: Projections start from 2025

**US to See Substantial Debt Increase, Second Only to China**




Source: IMF, CGIL
Note: (1) China data is for augmented debt, which includes off-budget local government borrowing.
(2) Figures shown are for select economies with debt > 100% of GDP

# Trade and Institutional Risks Intensifying

## Supreme Court Ruling on Trump Tariffs

**Decision delivered – February 2026**

The US Supreme Court ruled that tariffs imposed under the International Emergency Economic Powers Act (IEEPA) are unlawful. However, President Trump has signaled plans to impose tariffs through alternative statutory routes, keeping policy uncertainty elevated, and has announced a 15% global tariff under Section 122.

## Fed Independence

**Cook case - early 2026;**
**Powell term ends - May 2026**

Developments such as the Supreme Court's review of the President's authority to dismiss Lisa Cook, along with President Trump's nomination of Kevin Warsh as the next Fed Chair, could have important implications for perceptions of institutional independence and policy credibility.

## US-Mexico-Canada Agreement (USMCA) Review

**Renewal due July 2026**

Potential USMCA revisions that tighten rules of origin and introduce China-focused measures, could affect regional trade and investment.

Against this backdrop, Mexico's recent tariffs of up to 50% on imports from China and several other countries, appear aligned with the USMCA review dynamics.

Source: CGIL

# LatAm Shifting Right; US Republicans Facing Headwinds

| Peru | Colombia | Brazil | United States |
|---|---|---|---|
| General Election April 2026 (Parliamentary and Presidential) | General Election March & May 2026 (Parliamentary and Presidential) | General Election October 2026 (Parliamentary and Presidential) | Midterm Election November 2026 |

Source: CGIL

- LatAm elections in 2025, including in Argentina and Chile, signalled a rightward political shift, which could extend into 2026, in countries like Peru.
- In the US, Democratic gains in late 2025 state elections suggest they could challenge the Republican majority in the 2026 midterms. Depending on the election outcome, the government's ability to run its legislative agenda would be a monitorable.

# US Expanding its Influence Across the Region

## Tightening Migration Control

- The US aims to curb migrant inflows from LatAm.
- This could spillover to remittances, consumption and external balances in countries such as Mexico.

## Tackling Drug Trafficking

- The US is intensifying its crackdown on drug trafficking networks.
- The focus is on countries such as Mexico and Colombia.

## Countering China's Influence

- China's growing presence in LatAm, through trade linkages and cross-border investments, has raised US concerns.
- This has prompted a stronger US focus on addressing China's influence in the region.

## Increasing Financial and Military Presence

- The US is deepening its regional engagement through financial and military channels.
- It extended a US dollar swap line to Argentina and also undertook military action in Venezuela that led to the capture and removal of President Maduro.

Source: CGIL

# Key Monitorables

## US Pressure Points

**Fiscal concerns**
Debt to rise sharply, with One Big Beautiful Bill Act adding pressure

**Policy uncertainty**
Trade and immigration policy shifts and USMCA review in focus

**Institutional credibility**
Fed independence under watch

**US midterms in focus**
Election outcome to shape policy direction

## LatAm in Spotlight

**US expanding regional footprint**
US tightening migration and drug controls, and increasing military presence in LatAm

**Political landscape turning right**
2025 elections saw rightward shift, which is likely to continue into 2026

**Vast critical mineral reserves**
Strategic importance, with investment and geopolitical implications

## Tailwinds

**Debt ex-US largely stable**
Argentina debt falling; Canada cushioned by assets; moderate rise in Chile and Peru

**Lagged effects of monetary easing**
Supporting economic activity

**Country-specific factors**
Argentina reforms;
AI-driven productivity gains in the US

# Section B: Expert Insights


The session recording is available on YouTube: https://youtu.be/K2P9WyOjjug

# Experts

**Hon. Hambyrajen (Rajen) Narsinghen**

Jr. Minister of Foreign Affairs, Regional Integration and International Trade, Mauritius

**Mr. Luc Marchand**

Sovereign Risk Specialist, United Kingdom

**Mr. Paul Coughlin**

Global Credit Rating Expert, Australia

The session was moderated by Mr. Nitesh Jain (Chief Rating Officer, CareEdge Global) and Mr. Kiran Kavala (Senior Director, CareEdge Global).

The webinar was attended by 100+ participants, primarily from Asia and Africa.

# Expert Insights (1/4)

## Fiscal Trajectory in a High-Interest Rate Environment

- Fiscal paths globally are under pressure, driven by persistently high interest rates along with structurally rigid social and age-related spending, especially in advanced economies.
- While debt remains high, many sovereigns benefit from long maturities, fixed interest rates and domestic currency issuance, which moderates near-term stress.
- In emerging regions, particularly Africa, high borrowing costs and competing spending priorities significantly constrain fiscal flexibility.

## Debt Sustainability and Sovereign Risk

- High debt ratios do not automatically translate into default risk; advanced economies remain broadly resilient, including eurozone members and Japan.
- Japan's debt burden is mitigated by central bank ownership, while in China, sovereign risk is concentrated at the sub-national level rather than with the central government.
- Debt sustainability challenges are more acute in countries with commodity dependence and limited market access.
- Directionally, credit risk is negative but gradual, rather than indicative of imminent fiscal crises.

# Expert Insights (2/4)

### Interest Rates, Inflation and Market Access

- Falling inflation is easing pressure on interest rates, particularly in Europe, though market access varies meaningfully across sovereigns.
- Interest rate spikes are not the dominant risk factor; low growth and weak fiscal adjustment matter more for long-term debt sustainability.
- In several African economies, interest payments absorb a high share of revenues, crowding out development spending.
- In the Asia-Pacific, rate normalisation has generally been orderly and manageable, with limited fiscal disruption.

### Trade Agreements and Global Trade Fragmentation

- The global trade system is shifting from a rules-based multilateral framework towards a hybrid structure combining bilateral, regional and multilateral agreements.
- Export-dependent economies face higher vulnerability to trade restrictions, while service-exporting economies show greater resilience.
- So far, the US has not announced tariffs on services, though that may not be the case in future.
- It is imperative for African economies to pursue deeper intra-regional trade integration while maintaining traditional partnerships with major global blocs.

# Expert Insights (3/4)

## Commodity Dependence and Energy Dynamics

- Potential geopolitical de-escalation could significantly increase global oil supply, placing downward pressure on prices.
- Lower oil prices would materially weaken oil-dependent sovereigns, increasing fiscal and default risks.
- Europe's vulnerability to energy shocks has declined, as energy imports now form a smaller share of external balance.
- Commodity-dependent economies are prioritising diversification and value-added processing to reduce exposure to price cycles.

## Growth Outlook and its Role in Debt Dynamics

- Long-term growth has slowed markedly in advanced economies, particularly in Europe, undermining debt sustainability despite manageable interest costs.
- Consumption-led growth is constrained by weak real wage growth, limiting fiscal recovery.
- Africa retains strong demographic and capital-driven growth potential, but outcomes remain uneven across countries.
- In the Asia-Pacific, growth prospects hinge on trade exposure, export composition and structural diversification, with supply-chain shifts offering selective opportunities.

# Expert Insights (4/4)

### Investment, Structural Reforms and Diversification

- Sustained growth and debt sustainability depend on long-term investment, particularly in infrastructure, manufacturing, renewables and services.
- Heavy reliance on extractive industries limits resilience; FDI diversification is a recurring priority.
- Structural reforms must be sequenced carefully to balance fiscal discipline with social stability.
- Financial centres such as Mauritius are well positioned to facilitate capital flows and regional financial integration.

### Institutions, Governance and Credit Trajectories

- Strong institutions continue to underpin credit resilience in advanced economies, despite political fragmentation.
- Rising debt levels and institutional stress skew sovereign credit trajectories downward over time, especially where policy coordination weakens.
- Improvements in governance and transparency are increasingly viewed as core drivers of investment and growth, particularly in Africa.
- Institutional strength, rather than short-term macro volatility, remains a key determinant of long-term sovereign creditworthiness.

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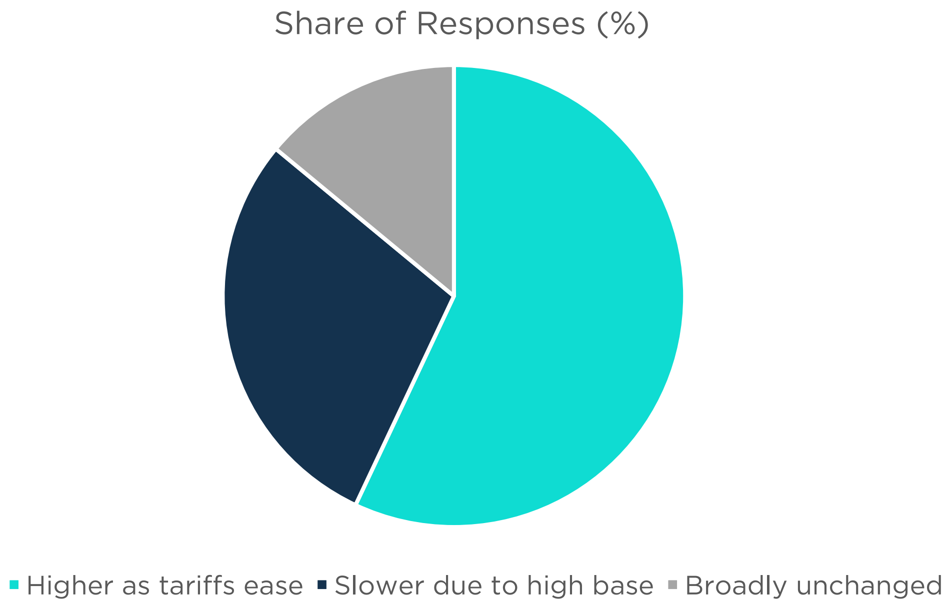
# Section C: Audience Sentiment

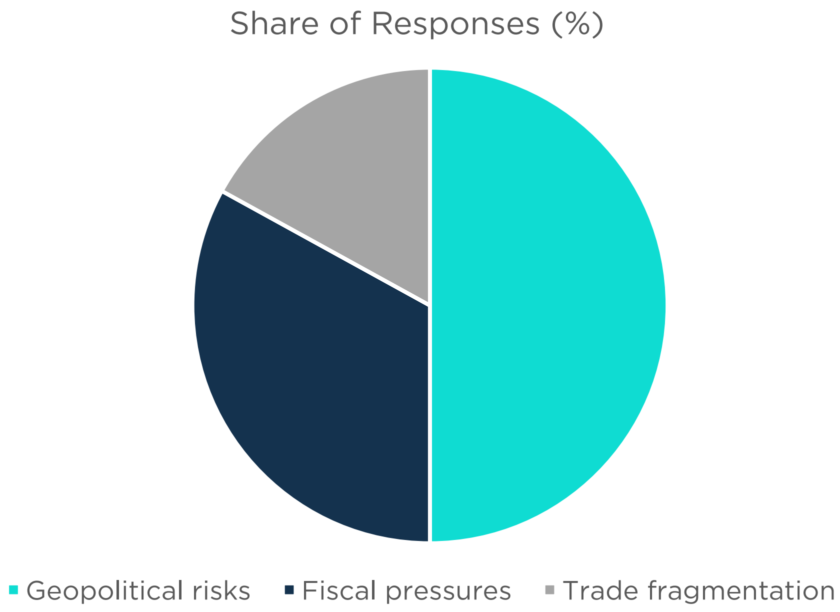
# Majority See Higher Growth in 2026, but Geopolitical Risks Remain

**Frontloading supported global growth in 2025. With the IMF's growth projection at 3.3% for 2026, what is your expectation?**




57% expect higher growth as tariffs ease, 29% see slower growth on a high base, and 14% expect growth to be broadly unchanged.

**What is the key risk that sovereigns face in 2026?**




50% of respondents cited geopolitical risks as the key concern, followed by fiscal pressures (33%) and trade fragmentation (17%).

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# CareEdge Global: Sovereign Ratings Portfolio

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# Our Portfolio: 41 Sovereigns

## Long-Term Foreign Currency Ratings*

**AAA**
- Germany
- Netherlands
- Singapore
- Sweden

**AA+**
- Australia
- Canada
- US

**AA-**
- Japan
- S. Korea
- UAE
- UK

**A+**
- Portugal
- France

**A**
- China
- Spain

**A-**
- Chile
- Malaysia
- Thailand

**BBB+**
- Botswana
- Cyprus
- India
- Philippines

**BBB**
- Indonesia
- Italy
- Mauritius

**BBB-**
- Mexico
- Morocco
- Peru

**BB+**
- Brazil
- Colombia
- Greece
- Vietnam

**BB**
- South Africa

**BB-**
- Türkiye

**B**
- Nigeria
- Kenya

**B-**
- Egypt

**CCC+**
- Bangladesh
- Ecuador
- Argentina

**D**
- Ethiopia

*Note: As on Feb 23, 2026; Unsolicited Ratings
Rating Outlook – Positive | Stable | Negative
Outlook not applicable for CCC Category and D

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