CareEdge GLOBAL RATINGS

SOVEREIGN RATINGS: A FRESH PERSPECTIVE

ZOOM IN ON 45 COUNTRIES

2026 I VOLUME 3

Analysts

Analytical contact

Nitesh Jain
Chief Ratings Officer
nitesh.jain@careedgeglobal.com

Relationship contact

Aakash Jain
Head-Corporate Affairs &
Strategic Business Partnerships
aakash.jain@careedge.in

Media contact

Mradul Mishra
mradul.mishra@careedge.in

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पीयूष गोयल
PIYUSH GOYAL

सत्यमेव जयते

वाणिज्य एवं उद्योग मंत्री
भारत सरकार
MINISTER OF COMMERCE & INDUSTRY
GOVERNMENT OF INDIA

FOREWORD

Economic resilience, policy credibility and institutional strength have become increasingly important determinants of a nation's attractiveness in a rapidly evolving global landscape. As economies navigate geopolitical shifts, technological advancements, supply chain realignments and the transition towards sustainable growth, the assessment of sovereign risk requires a broader and more nuanced perspective than ever before. In this context, *Sovereign Ratings: A Fresh Perspective* by CareEdge Global makes a valuable contribution to the ongoing discourse on sovereign creditworthiness and economic competitiveness.

The global economy is undergoing a period of profound transformation, making a deeper understanding of sovereign fundamentals essential for investors, businesses and policymakers alike. India's remarkable economic transformation, driven by strong fundamentals, bold reforms, world-class digital public infrastructure and sustained investments in infrastructure and innovation, has enhanced its resilience and elevated its standing as one of the world's leading growth engines and a trusted partner in the global economy. India's experience underscores the critical role of sound policies, institutional strength and long-term vision in shaping sovereign outcomes.

As emerging economies assume a larger role in driving global growth, comprehensive evaluation of sovereign fundamentals becomes increasingly important. Publications such as this provide valuable insights into the opportunities and challenges confronting nations and help foster greater transparency and understanding within the global financial ecosystem.

I commend the CareEdge Global team for bringing together this comprehensive and insightful compendium. I am confident that it will serve as a valuable reference for policymakers, investors, researchers and industry leaders seeking a deeper understanding of sovereign risk and the evolving global economic landscape. I extend my best wishes to CareEdge Global for the success of this publication and for its continued contributions to advancing knowledge and informed dialogue in the field of sovereign risk assessment.

Piyush Goyal

Ministry of Commerce & Industry, Vanijya Bhawan, Akbar Road, New Delhi-110001
Tel. No. : +91 11 23039110, 23039111, E-mail : cimoffice@nic.in

Foreword

Mehul Pandya

MD & Group CEO,
CareEdge

CareEdge Global's Sovereign Ratings: A Fresh Perspective represents our ongoing commitment to high-quality credit research. By viewing sovereign profiles through our analytical magnifying glass, we deliver unmatched clarity on risks across the global economy.

For over three decades, CareEdge Rating has built its reputation as an independent and credible provider of rigorous analytic reports and ratings in the financial markets. In the domestic market, we have rated over ~$ 2.5 trillion of debt since inception. The creation of CareEdge Global and its initiative for sovereign ratings is a natural extension of this legacy—to provide a unique perspective from an India-based firm on how to assess the economic performance of sovereign economies all over the world. As global markets face unprecedented levels of uncertainty and will continue to undergo structural changes, objective and unbiased assessments of fundamental characteristics of sovereigns will be crucial.

The analyses presented in the third edition reflect the disciplined methodology that CareEdge Global has employed to complete its sovereign risk analysis, including macroeconomic evaluation, fiscal assessment, and institutional evaluation.

By emphasising critical growth drivers, such as capital investment and domestic funding structures, we provide an accurate picture of sovereign risk. Our methodology maintains a global standard while remaining sensitive to the unique dynamics of emerging markets.

Notably, growing recognition of our sovereign ratings by policymakers, investors, and market participants shows trust in our commitment to analytical independence, clear methods, and global standards.

Congratulations to the CareEdge Global team for producing Sovereign Ratings 3.0. Their dedication reflects the expanding quality of financial market analysis in India.

I hope this compendium is a valuable reference for the global financial community.

Foreword

Revati Kasture

CEO, CareEdge Global &
ED, CareEdge Ratings

It is a pleasure to present the third edition of CareEdge Global's Sovereign Ratings: A Fresh Perspective. This milestone shows the steady progress of our sovereign rating initiative and the growing recognition of our analytical framework.

We have achieved remarkable momentum in the past one and a half years. Our sovereign analysis now spans 45 nations, covering 85% of the world's GDP, while our corporate debt rated has climbed past USD 8 billion.

Since our beginnings in October 2024, CareEdge Global has aimed to provide an independent, transparent, and research-driven view on sovereign and corporate credit assessments. As the global scale rating arm of CareEdge Ratings, we are proud to represent an India-rooted institution that contributes to the global conversation on credit risk.

Our sovereign methodology includes detailed macroeconomic analysis, institutional assessment, and forward-looking evaluation through a five-pillar framework—economic structure, fiscal strength, external position, monetary stability, and governance quality—which prioritises transparency and objective data. This helps us provide balanced and credible insights on sovereign creditworthiness.

Our sovereign ratings have been ahead of the curve, with rating actions from other global rating agencies converging with our ratings across 22 of the 45 countries in the past one and a half years.

We have also published methodologies for rating debt across 14 sectors, ranging from corporate and infrastructure to financial institutions and general methodologies such as T&C risk assessment.

This edition compiles the rating rationales on sovereign economies across various regions. It highlights key trends in fiscal management, growth dynamics, external sector resilience, and institutional strength. In today's uncertain global environment, these insights are vital for informed decision-making.

I want to thank our team for their dedication in making this publication possible.

I invite you to view our other detailed reports at www.careedgeglobal.com and join us as we bring a fresh perspective to global sovereign risk evaluation.

CareEdge Global - Long-term rating scale

Rating symbols	Definition	
CareEdge AAA	Denotes highest degree of safety regarding servicing of debt obligations	Investment grade
CareEdge AA	Denotes a high degree of safety regarding servicing of debt obligations	Investment grade
CareEdge A	Denotes adequate degree of safety regarding servicing of debt obligations with low credit risk	Investment grade
CareEdge BBB	Denotes a moderate degree of safety regarding servicing of debt obligations	Investment grade
CareEdge BB	Denotes inadequate degree of safety regarding servicing of debt obligations	Sub-investment grade
CareEdge B	Denotes high vulnerability to default regarding servicing of debt obligations	Sub-investment grade
CareEdge CCC	Denotes very high vulnerability to default regarding servicing of debt obligations	Sub-investment grade
CareEdge CC	Denotes imminent likelihood of default	Sub-investment grade
CareEdge D	Denotes default	Sub-investment grade

Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories CareEdge AA to CareEdge CCC. The modifiers reflect the comparative standing within the category.

Sovereign rating methodology

Pillars

Economic structure & resilience	Fiscal strength	External position & linkages	Monetary & financial stability	Institutions & quality of governance

Economic structure & resilience

Primary factors

Size and income		Growth & potential for growth		Trade diversity	Sustainability
Nominal GDP	GDP per capita – PPP	Real GDP growth & volatility	Gross fixed capital formation (% of GDP)	Market & product concentration	Renewable energy (% of total energy consumption), CO2 emissions

Secondary factors

Demography, global competitiveness, ease of doing business, labour productivity, sectoral concentration, climate risk

Fiscal strength

Primary factors

Trends in indebtedness		Funding composition	Fixed commitments	
Gross general government (GG) debt to GDP	Change in gross GG debt to GDP	Gross GG external debt to gross GG total debt	Interest payments (% of revenue)	Pension, salary & subsidies (% of total expenditure)

Secondary factors

Fiscal deficit, default history, debt maturity profile, ease & ability to refinance, contingent liabilities, quality of expenditure, social expenditure requirements, tax regime

External position & linkages

Primary factors

Flow		Coverage		Stock	
Current account calance (% of GDP) and FDI, net inflows (% of GDP)	External funding ratio*	Total reserves in months of imports	Gross external debt/current account receipts#	Externally held debt (% of GDP)	Outstanding FPI liabilities (% of GDP) and NIIP** adjusted for FPI liabilities (% of GDP)

Secondary factors

Reserve currency status, currency turnover in the foreign exchange market, remittances, international financial centre status

* (Current accounts outflows + short-term debt)/(current account inflows + net FDI, inflows)
# Current account inflows
**Net international investment position (NIIP) + outstanding FPI liabilities

CareEdge GLOBAL RATINGS

Monetary & financial stability

Primary factors

Effectiveness of monetary policy		Health of financial system	Depth of financial system	
Inflation	Exchange rate regime	Bank non-performing loans to gross loans (%)	Private credit (as a % of GDP)	Stock market capitalization (as a % of GDP)

Secondary factors

Volatility in inflation, domestic savings, stability of real estate market, banking sector health

Institutions & quality of governance

Primary factors

Regulatory quality and government effectiveness	Accountability and political stability	Rule of law and control of corruption

Secondary factors

Availability and reliability of statistical information, transparency and quality of data, ability to deal with crises / black swan events, effectiveness in responding to past crisis,security risks faced by sovereign, ease of political transition

External committee members

Mr. Paul Coughlin

Former Executive MD and
Global Head of Credit Ratings,
S&P Global
(Australia)

Dr. Soumendra Dash

Vice President -
Risk Management,
Africa Finance Corporation
(Nigeria)

Mr. Ping Chew

Former CEO & Head of
Greater China,
S&P Global
(Singapore)

Mr. Luc Marchand

Senior Economist &
Sovereign Risk Specialist,
CEO & Founder,
Country Risk Co.
(UK)

Dr. Ashima Goyal

Renowned Economist,
Emirates Professor of
Economics, IGIDR
(India)

Advisors

Mr. Pawan Agrawal

Former Chief Risk Officer,
Crisil Ltd, An S&P Global Co.
(India)

Mr. Arun Kumar Sharma

Former CIO,
IFC
(US)

Portfolio of 45 countries well-spread across the rating scale

Long-term foreign currency ratings*

AAA Germany Netherlands Singapore Sweden	**AA+** Australia Canada USA	**AA** Hong Kong Taiwan	**AA-** Japan S. Korea UAE UK	**A+** Portugal France
A China Spain	**A-** Chile Malaysia Thailand	**BBB+** Cyprus India Philippines	**BBB** Botswana Indonesia Italy Mauritius	**BBB-** Mexico Morocco Peru
BB+ Brazil Colombia Greece Vietnam	**BB** South Africa	**BB-** Türkiye	**B+** Nigeria Tanzania	**B** Egypt Kenya
	B- Ghana	**CCC+** Argentina Bangladesh Ecuador	**D** Ethiopia	

*Note: As on March 31, 2026; unsolicited ratings outlook – positive | stable | negative
Outlook not applicable for CCC category and D

Milestones

This is where it all started

July 2023

Ideation

October 2024

Invest India Forum

October 2024

The launch

February 2025

45 today, way more tomorrow

May 2025

Analytical Edge & Engage: With Smt. Nirmala Sitharaman, Minister of Finance (left), and Shri Piyush Goyal, Minister of Commerce and Industry

Across the borders


With the IMF CRO


The Kenyan MoF

International connect


With German dignitaries


At the IFSCA event in Canada

With the Afreximbank delegation


Testimonials


Piyush Goyal Office @PiyushGoyalOffc · Nov 11, 2025
Minister @PiyushGoyal addressed 'The Dialogue' organised by @CareEdge_Group on the theme 'Ratings and Economic Resilience - Building Global Confidence.'

He lauded the group's efforts towards establishing a robust, world-class Swadeshi ratings agency, and emphasised the importance of recognising the commendable work of MSMEs to ensure equitable opportunities for their growth.

The Minister further highlighted the significance of ratings in enhancing business and investor confidence, strengthening resilience, and creating employment opportunities.


NSE India @NSEIndia · Oct 3, 2024
Our MD & CEO, Shri @ashishchauhan at the launch of "India's first homegrown Sovereign and Global scale credit rating agency - CareEdge Global IFSC Ltd.", engaged in a Fireside Chat session on "The State of Global Economy and role of Sovereign Ratings" alongside Shri K V Kamath – renowned corporate leader, Shri Sanjeev Sanyal – Member, EACPM and other key dignitaries today in Gift City, Gandhinagar.

#NSE #NSEIndia #CareEdgeGlobal #SovereignRatings @NSEIndia


Dr Bhagwat Kisharao Karad
Proudest moment for the country as CareEdge Global becomes first Indian rating agency to operate in international space, registered at GIFT city, Gandhinagar. Many congratulations to @CareEdge_Group & Mr Mehul for the launch of 39 countries rating. Best wishes!


Sanjeev Sanyal @sanjeevsanyal · Aug 9, 2023
Speaking at the @CareEdge_Group event in Kolkata where they launched the methodology for their global sovereign ratings. This is a landmark moment as, for the first time, an Indian agency will publish sovereign ratings for the world.

From cfo.economictimes.indiatimes.com


Amitabh Kant @amitabhk87 · May 8, 2024
CareEdge Global is a unique first of its kind initiative by an Indian rating agency to undertake Sovereign Ratings. This will bring diversity in sovereign risk assessment and a much better understanding of the emerging markets. This was long overdue. Delighted to meet , interact & discuss the methodology & process with Mehul Pandya, MD & CEO, CARE Ratings & Revati Kasturi, ED. Congratulations !


Aashish Chandorkar @c_aashish · Oct 16, 2024
"India has some well-known credit rating agencies, such as the CareEdge group, CRISIL, and ICRA, to name a few. With Care Ratings stepping into the global arena, India is joining this effort to shift the narrative and add greater representation from the Global South."

Aashish Chandorkar @c_aashish · Oct 16, 2024
Why Sovereign Ratings By An Indian Agency Should Be Making Headlines And Are Making Headlines

swarajyamag.com/economy/why-so...


Mohamed Nasheed @MohamedNasheed · Nov 3, 2025
Nice meeting Pawan Agrawal of CareEdge Ratings -- refreshingly located in Global South. Credit ratings of @TheCVF countries can shut us out from int. capital markets. Our leaders often note the unfairness of the methodologies rating agencies use. I hope this can be addressed. @CareEdge_Group


Aashish Chandorkar @c_aashish · Oct 3, 2024
CareEdge enters global rating space with launch of sovereign rating for 39 nations

hindustantimes.com/business/caree...

Aashish Chandorkar @c_aashish · Oct 3, 2024
India's own global sovereign rating platform launched.

Thread 👇 x.com/sanjeevsanyal/...

Ananth Nageswaran: CareEdge leads, others follow


Amitabh Kant @amitabhk87 · Sep 24, 2025
Delighted to see @CareEdge_Group emerge as a powerful voice of the Global South in sovereign and global scale ratings. Getting into top ten global rating agencies in terms of sovereign rating coverage within one year of operations is a commendable feat.
This bold Indian initiative is a testament to PM @narendramodi Ji's vision of Swadeshi & Aatmanirbharta. Kudos to @CareEdge_Group for this exciting achievement — India rises, the Global South rises!
@pmo @nsitharamanoffc

Asia-Pacific

Australia

CareEdge AA+/Stable

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for the Commonwealth of Australia at 'CareEdge AA+/ Stable' (Unsolicited).

Rationale

The rating's reaffirmation stems from Australia's strong credit position, supported by a diverse economy, sound fiscal position, and a robust institutional framework. This is further bolstered by a well-capitalised banking sector and a credible policy framework.

Australia's medium-term growth outlook remains favourable, with real GDP expected to average 2.2% over 2026-2030, comparing favourably with most advanced economy peers. The economy has demonstrated resilience to external shocks, supported by a strong labour market. Unemployment remained low at 4.2% in 2025, below the pre-pandemic range of 5-5.5%, supporting household income and domestic demand.

Fiscal metrics are projected to remain sound. General government debt is estimated at ~51.4% of GDP in 2025 and projected to gradually decline to ~49.4% by 2031, staying lower than other advanced economies. Further, the fiscal profile benefits from high debt affordability with interest-to-revenue averaging 5.3% over during 2020-2024. Following fiscal expansion in 2024 and 2025, the deficit is projected to decline gradually over the medium term.

The banking sector remains strong, supported by prudent supervision and a sound regulatory framework, reinforcing financial stability. Australia's strong institutional framework and credible policy setting continue to support macroeconomic stability and effective policy implementation.

However, these strengths are partially offset by significant trade exposure to China, high external debt of 94% of GDP in 2025, a negative net international investment position of -22.4% of GDP over the same period, as well as housing sector imbalance.

Outlook: Stable

Australia's stable outlook reflects expectations of fiscal discipline with relatively low gross general government debt and a gradual reduction in fiscal deficit over the medium term. Growth is projected at 2.2% over 2026-2030, underpinned by a gradual recovery in private consumption and continued strength in the labour market.

Upside scenario

A marked improvement in external metrics, including a sustained reduction in external debt, would support a positive outlook. Economic resilience would be enhanced by stronger-than-expected economic growth and a steady decline in housing sector imbalances, supported by effective government initiatives. Furthermore, diversification of trade beyond traditional partners would strengthen external resilience and reduce concentration risks.

Downside scenario

The fiscal profile could weaken if general government gross debt increases significantly and remains above current projections. Additionally, a wider-than-expected current account deficit and rising external debt may heighten external vulnerabilities, particularly if key trading partners experience an economic slowdown. High household debt also remains a concern, as it could weigh on banks' asset quality and pose risks to financial stability.

Key rating drivers

Economic structure & resilience

Australia's economic structure is supported by its large economic size, high-income levels, a diversified economic base (with the services sector accounting for around 66% of total value added), low growth volatility, and a high degree of resilience. Competitiveness and innovation are the key strengths of the economy. The mining industry, representing 9.9% of GDP in 2025, is a key sector that plays a vital role in the country's economic structure. Australia is one of the top destinations for renewable energy investments.

Following subdued growth of 1% in 2024, primarily supported by public demand, economic activity strengthened in 2025 as private domestic demand recovered. Real GDP grew by around 2% y-o-y in 2025, with growth gradually shifting toward private domestic demand, supported by a recovery in real household disposable income. The labour market conditions remain strong, with unemployment at 4.2% in 2025 vs the pre-pandemic level 5-5.5%. Over 2026-2030, growth is projected to average 2.2%, comparing favourably with the advanced economy average of 1.6%.

However, persistently weak labour productivity growth represents a structural constraint on Australia's medium-term growth prospects. Additionally, trade linkages with China, low labour productivity growth, and high housing prices partly offset these strengths.

Fiscal strength

Australia's strong fiscal profile is highlighted by low debt levels (estimated at ~51.4% of GDP in 2025), sound debt affordability (interest payments to revenue of ~6.2% in 2024), and comfortable access to external funds. Additionally, the Future Fund (Sovereign Wealth Fund) plays a crucial role in enhancing fiscal stability by managing long-term liabilities and generating investment returns.

Following a period of fiscal consolidation, the fiscal deficit widened to -1.6% in 2024 and is estimated to increase further to -3.2% of GDP in 2025, reflecting discretionary cost-of-living support, infrastructure spending, and softer revenue growth. Thereafter, the deficit is expected to gradually narrow over the medium term, supported by restraint in operating expenditure, reforms in the care and disability insurance sectors, and the infrastructure spending normalises.

Committed expenditure on employee compensation, subsidies, and net social benefits (~65% of total expenditure) limits the fiscal space and is likely to face additional pressure from ageing demographics, healthcare-related spending, defence outlays, as well as spending on climate transition and net-zero commitments by 2050.

External position & linkages

Australia's external profile is characterised by persistent current account deficit, largely driven by primary income deficit, reflecting dividend and interest payments to foreign investors. The current account recorded surplus temporarily during 2020-2022, following a broadly balanced position in 2019. As commodity prices normalised and demand from key trading partners moderated, the current account slipped back into a deficit, at -2.2% of GDP in 2024 (from -0.4% in 2023). The deficit widened further to -2.6% of GDP in 2025, reflecting lower bulk commodity export prices and rise in imports of goods and services. Over 2026–2030, the current account deficit is projected to average around -2.3% of GDP, while remaining below the historical average.

Further, the external position is weighed by high external debt, low FX reserve buffers, and a negative net international investment position (NIIP), though the status of the Australian dollar as an actively traded currency and deep financial markets partially offset these risks.

Australia's net international investment position remains negative, at -22.4% of GDP in 2025, although it is improved compared with the pre-pandemic average (below -50% of GDP). Gross external debt remains elevated at ~94% of GDP in 2025.

These vulnerabilities are mitigated by the structure and currency composition of the external balance sheet. A significant portion of external debt is denominated in the domestic currency or effectively hedged, limiting the exchange rate risk. Moreover, net external liabilities are considerably lower than gross external debt as a share of GDP, reflecting substantial foreign asset holdings by Australian households and institutional investors.

Australia continues to attract foreign direct investment, supported by a stable macroeconomic framework, transparent institutional setting, and broad-based economic structure spanning mining, agriculture, and technology. Net FDI inflows stood at ~2% of GDP in 2025.

Monetary & financial stability

Australia has a floating exchange rate regime and benefits from its actively traded currency status. The Australian dollar enjoys significant liquidity and acceptance in international markets.

After peaking in 2022, inflation eased through the first half of 2025, supporting a gradual loosening of the monetary policy. In the second half, price pressure resurfaced, driven by rising housing and service costs, as well as temporary factors such as the end of energy rebates. Headline inflation reached 3.8% y-o-y, with core inflation at 3.4% y-o-y, in January 2026. Following the February 2026 rate hike, the Reserve bank of Australia (RBA) is expected to implement up to two further increases this year. Inflation is projected to gradually return to the target range, approaching the midpoint of 2-3% by late-2027.

Australia's stock market capitalisation to GDP reflects investor confidence in the economy. The banking sector is well-capitalised, with a low non-performing loan ratio 1.2% as of Q2 2025. Household debt remains high at ~176% of disposable income in 2025, though easing, and presents a potential risk to bank asset quality. To address the recent pickup in riskier mortgage lending and pre-empt the buildup of housing-related vulnerabilities, the Australian Prudential Regulation Authority introduced a debt-to-income limit in November 2025. Overall, credit risks from households, corporates, and commercial real estate appear contained.

Institutions & quality of governance

Australia's institutional framework is robust, underpinned by wellestablished regulatory systems and high governance standards. The country ranks in the 90th percentile for five of the six World Bank's Worldwide Governance Indicators (WGI). These scores reflect a commitment to the rule of law, accountability and transparency, creating a favourable environment for economic development and foreign investment.

The Australian government has maintained policy continuity in the past, as indicated by the May 2025 federal election under the Albanese government. However, the recent rise in the strength of minor parties in the parliament warrants close, it will be important to monitor potential implications for the future policy framework.

Select indicators

	Unit	2020	2021	2022	2023	2024	2025	2026 F	2027 F
Economic indicators									
Nominal GDP	USD billion	1,363	1,656	1,725	1,742	1,795	1,840	1,948	2,036
GDP per capita (constant-PPP)	USD	57,541	60,322	61,510	61,305	60,924	61,261	61,805	62,387
Real GDP growth	%	-2.0	5.4	4.2	2.1	1.0	2.0	2.1	2.2
GFCF/GDP	%	22.8	22.6	23.2	23.3	24.3	-	-	-
Gross domestic savings/ GDP	%	25.7	26.7	28.9	28.2	26.4	-	-	-
Exports (G&S)/GDP	%	23.9	22.0	25.5	26.7	24.6	-	-	-
Working age (15-64) population (% share in total)	%	65.1	64.8	64.7	64.6	64.4	64.2	64.0	63.8
Old age (65+) population (% share in total)	%	16.3	16.7	17.1	17.4	17.7	18.1	18.5	18.8
Fiscal indicators – general government									
Fiscal balance/GDP	%	-8.7	-9.2	-3.7	-0.9	-1.6	-3.2	-2.9	-2.0
Revenue/GDP	%	35.7	34.8	35.5	35.9	36.5	36.6	36.8	36.7
Expenditure/GDP	%	44.4	44.1	39.3	36.7	38.2	39.8	39.6	38.7
GG gross debt/GDP	%	57.1	57.9	52.8	48.9	50.0	51.4	51.5	51.2
GG external debt (by creditor)/GG gross debt	%	26.5	23.2	21.9	22.2	20.9	-	-	-
Interest/revenue	%	5.2	4.8	4.8	5.8	6.2	-	-	-
External indicators									
Current account balance/ GDP	%	1.7	2.3	0.3	-0.4	-2.2	-2.6	-2.1	-2.2
FDI, net inflows/GDP	%	1.3	1.9	3.9	2.0	3.0	2.0	-	-
Outstanding FII liabilities/ GDP	%	103.1	97.6	86.4	86.9	93.2	95.6	-	-
NIIP/GDP	%	-59.4	-37.7	-37.2	-30.0	-23.0	-22.4	-	-
Foreign exchange reserves	USD billion	43.0	58.6	57.9	64.2	63.6	75.3	-	-
Import cover	Months	2.0	2.3	1.8	2.0	1.9	2.1	-	-
External debt/GDP	%	106.1	99.4	88.5	87.8	96.7	94.0	-	-
Monetary and financial indicators									
CPI inflation	%	0.9	2.8	6.6	5.6	3.2	2.8	3.4	2.7
Exchange rate (average)	LC per USD	1.5	1.3	1.4	1.5	1.5	1.6	-	-
Non-performing loans/ total gross loans	%	1.1	0.9	0.7	0.9	1.1	-	-	-
Private debt, loans and debt securities/GDP	%	191.8	181.4	170.8	169.0	173.0	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Bangladesh

CareEdge CCC+

Rating action

CareEdge Global has reaffirmed its Long-Term Foreign Currency Rating of 'CareEdge CCC+' (Unsolicited) for the People's Republic of Bangladesh.

Rationale

The reaffirmation reflects elevated credit risks stemming from sustained external pressures, weak debt affordability, fragile financial sector health and continuing political uncertainty.

Bangladesh's credit profile is constrained by persistent weaknesses across its external, institutional, and monetary profiles. The country's external position remains fragile, primarily due to a weak trade balance, low investment attractiveness, and insufficient foreign exchange reserves. Although external reserves have stabilised in recent months around USD 30 billion, external liquidity remains inadequate to provide a comfortable buffer against external shocks. The country's monetary framework remains under strain, as evidenced by persistently elevated inflation levels and limited capacity to manage currency

pressures effectively. Although inflation has shown signs of tapering (8.3% in August 2025), downside risks persist given Bangladesh's heavy import dependence on essential commodities, particularly fuel and raw materials, which exposes the economy to volatility in global prices.
Moreover, Bangladesh's banking sector continues to grapple with structural inefficiencies, reflected in rising non-performing loan (NPL) ratios, which undermine financial stability and credit growth. On the institutional front, ongoing political uncertainty hampers effective policy formulation and implementation, further constraining the country's creditworthiness.

Notwithstanding these pressures, the country remains engaged with the IMF through the Extended Credit Facility (ECF), Extended Fund Facility (EFF), and Resilience and Sustainability Facility (RSF) arrangements. These programmes have been instrumental in maintaining policy discipline, facilitating fiscal consolidation, monetary tightening, and structural reforms. The embedded conditionalities have promoted prudent macroeconomic management, improved transparency, and strengthened governance, thereby aiding external stability and reserve rebuilding. However, the durability of credit buffers will depend on the timely implementation of structural reforms aimed at strengthening reserve adequacy, restoring macroeconomic stability, and improving fiscal resilience.

Bangladesh's credit profile also benefits from its preeminent role in global ready-made garment (RMG) exports and sustained access to concessional external financing. However, its heavy reliance on a narrow product base and markets (primarily the European Union) exposes the economy to significant vulnerabilities. These risks could intensify with Bangladesh's impending graduation from Least Developed Country (LDC) status in November 2026, which could entail the loss of preferential trade benefits that have underpinned its export competitiveness thus far.

Downside scenario

The rating may face downward pressure if political instability persists without the formation of a stable elected government, compounded by high gross financing needs that could lead to a liquidity crunch or missed payments, and a prolonged deterioration in the external position.

Upside scenario

The rating may be upgraded if a stable, democratically elected government is formed, accompanied by broad-based economic growth and employment gains, which leads to improved investor confidence. Additionally, a significant increase in foreign exchange reserves and improved FDI attractiveness can be a positive development for the country's credit profile. Further, meaningful progress in banking sector reforms that enhance overall financial stability would also support the rating upgrade.

Key rating drivers

Economic structure & resilience

Bangladesh's economy, with a size of USD 451 billion (2024), has historically demonstrated resilience, reflected by its average real GDP growth of 6.3% in the past 10 years, supported by robust growth in the RMG sector and strong remittance inflows. However, macroeconomic stability has deteriorated markedly in recent years, with real GDP growth expected to slow down to 3.8% in FY25 and further downside risks on the horizon. The near-term growth outlook remains clouded due to muted private sector investment along with capital and labour productivity constraints; that remain challenged amid ongoing political uncertainty.

The impending graduation from Least Developed Country (LDC) status in 2026 poses structural challenges. The country's heavy dependence on preferential trade access, especially in the EU, makes it vulnerable to an erosion of competitiveness unless new bilateral or regional trade agreements are secured.

Although demographic trends remain favourable, unlocking the full potential of the workforce will require substantial improvements in education and labour productivity. Furthermore, Bangladesh remains acutely exposed to climate-related risks, including floods, cyclones and rising sea levels. These events continue to inflict recurrent economic and humanitarian losses, straining already limited fiscal resources.

Fiscal strength

Bangladesh's fiscal space is significantly constrained by its chronically low revenue-to-GDP ratio (8.3% in 2024), one of the weakest among its regional peers. Debt affordability has deteriorated over the years, with interest payments consuming nearly a third of government revenue (27.7% in 2024 vs 25% in 2023), driven in part by the cost of high-yielding National Savings Certificates (NSCs).

Gross government debt remains moderate at 41% of GDP in 2024. Additionally, while a significant portion of Bangladesh's government debt is external, it is largely owed to multilateral creditors, such as the World Bank and the Asian Development Bank (ADB), and bilateral creditors, who offer concessional terms that ease the debt burden. However, underlying vulnerabilities persist due to contingent liabilities from state-owned financial institutions.

The IMF's Extended Credit Facility/Extended Fund Facility (ECF/EFF) arrangements, alongside the Resilience and Sustainability Facility (RSF), commits Bangladesh to implementing incremental tax policy and administrative reforms. The FY2025-26 budget announced in June 2025 reflects the authorities' intent for fiscal prudence and aversion towards monetary financing of deficits. Moreover, the government has concentrated on tax reforms including streamlining various tax rates and exemptions, enhancing compliance, separating tax policy from administration, and adoption of a policy framework to progressively reduce tax expenditures. However, progress has been sluggish amid political distractions and institutional capacity limitations. Furthermore, the continuity and implementation of these reforms remain monitorable owing to the interim nature of the current government.

External position & linkages

Bangladesh's external position remains a critical weakness in the credit profile. Gross international reserves remained low at USD 26.2 billion in 2024, covering nearly four months of imports.

In June 2025, the IMF authorised the disbursement of USD 1.3 billion to Bangladesh under its ECF, EFF, and RSF arrangements. Simultaneously, the Bangladesh authorities remain engaged with other multilateral and bilateral partners to mobilise additional external support.

External debt remains moderate (23% of GDP in 2024), and is largely concessional, held by multilateral and bilateral partners. This composition provides some insulation from global refinancing risks. However, Bangladesh's deteriorating net international investment position (NIIP: –19.8% of GDP in 2024) and low FDI net inflows underscore the fragile nature of external buffers

Monetary & financial stability

Inflation, although on a downward trajectory, remains higher than the Bangladesh Bank's target. The central bank has maintained its policy rate at 10% since October 2024, under IMF guidance and is expected to remain at that level in H1FY26.
The health of the banking sector continues to weaken. Non-performing loans exceeded 20% of total loans as of March 2025, with high levels of forbearance and weak risk management—particularly in state-owned banks. Low capital buffers, poor governance and political interference in lending decisions undermine financial stability and fiscal credibility.
Ongoing IMF-mandated reforms seek to enhance regulatory oversight and reduce loan classification arbitrage. While various reforms in the banking sector are underway, implementation will remain uneven in the absence of stronger institutional independence.

Institutions & quality of governance

Institutional quality remains weak. Bangladesh ranks poorly across the Worldwide Governance

Indicators, reflecting endemic issues of corruption, weak rule of law and poor administration and governance. These constraints hinder reform execution and limit investor confidence.

The political landscape remains unstable. Following widespread protests in early 2024, Prime Minister Sheikh Hasina resigned in August 2024, paving the way for an interim government led by economist Muhammad Yunus. While the interim administration has brought short-term calm, the outlook will be shaped by the aftermath of National Assembly Elections announced for February 2026.

Uncertainty over political succession, governance direction and civil-military relations may weigh heavily on reform momentum and macroeconomic recovery.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	351	374	416	460	452	451	467	513
GDP per capita (constant-PPP)	USD	6,917	7,084	7,486	7,929	8,300	8,563	8,797	9,281
Real GDP growth	%	7.9	3.4	6.9	7.1	5.8	4.2	3.8	5.4
GFCF/GDP	%	32.2	31.3	31.0	32.0	31.0	30.7	-	-
Gross domestic savings/GDP	%	26.9	27.1	25.3	25.2	25.8	24.0	-	-
Exports (G&S)/GDP	%	12.8	10.3	11.8	13.1	13.0	12.0	-	-
Working age (15-64) population (% share in total)	%	64.9	64.9	65.0	65.1	65.3	65.5	-	-
Old age (65+) population (% share in total)	%	5.7	5.8	6.0	6.1	6.3	6.5	-	-
Fiscal indicators – general government									
Fiscal balance/GDP	%	-5.4	-4.8	-3.6	-4.1	-4.5	-3.8	-4.1	-4.3
Revenue/GDP	%	8.1	8.5	9.4	8.9	8.2	8.3	8.8	9.8
Expenditure/GDP	%	13.6	13.3	12.9	13.0	12.7	12.1	13.0	14.0
GG gross debt/GDP	%	32.0	34.5	35.6	37.9	39.7	41.0	40.7	41.8
GG external debt (by creditor)/ GG gross debt	%	37.3	37.8	37.6	34.9	37.9	39.3	-	-
Interest/revenue	%	19.5	21.7	21.3	19.8	25.0	27.7	-	-
External indicators									
Current account balance/GDP	%	-1.3	-1.5	-1.1	-4.0	-2.6	-1.4	-1.0	-0.7
FDI, net inflows/GDP	%	0.7	0.3	0.3	0.4	0.4	0.4	-	-
Outstanding FII liabilities/GDP	%	1.0	1.0	0.9	0.6	0.5	0.4	-	-
NIIP/GDP	%	-13.8	-11.8	-14.5	-16.9	-18.9	-19.8	-	-
Foreign exchange reserves	USD billion	32.7	43.2	46.2	33.7	27.1	26.2	-	-
Import cover	Months	6.1	9.1	6.5	4.3	4.4	4.2	-	-
External debt/GDP	%	17.9	19.4	21.8	20.9	22.2	23.0	-	-
Monetary and financial indicators									
CPI inflation	%	5.5	5.6	5.6	6.2	9.0	9.7	9.9	6.2
Exchange rate (average)	LC per USD	84.5	84.9	85.1	91.7	106.3	115.6	-	-
Non-performing loans/total gross loans	%	9.3	7.7	7.9	8.2	9.0	20.2	-	-
Private debt, loans and debt securities/GDP	%	38.4	38.4	38.3	38.2	36.9	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

China

CareEdge A/Stable

Rating action

CareEdge Global has assigned a 'Stable' outlook to the rating of People's Republic of China (China), while reaffirming the Long-Term Foreign Currency rating of 'CareEdge A (Unsolicited)'.

Rationale

The stable outlook reflects our view that China's significant buffers are expected to help it balance the challenges from a structural slowdown, elevated debt levels and trade-related uncertainties in the near term.

China faces a structural slowdown, with GDP growth expected to be between 4-5% over the next five years, lower than the average growth of the previous decade. The property sector remains a major drag in addition to weak consumption, excess capacity, and an ageing population. Further, despite China's deep integration into global supply chains and strong competitive advantages, trade tensions remain a key source of uncertainty.

Augmented government debt, which includes off-budget local government borrowing, is elevated at about 126% of GDP and is projected to rise, although risks are mitigated by low interest costs and a predominantly domestic investor base. Moreover, elevated private debt, averaging 196% of GDP over the past five years, remains a potential risk to the stability of the banking and financial sector.

China's credit fundamentals are supported by its large economic size and robust external position, reflected in low external debt and substantial foreign exchange reserves, which together provide significant buffers.

Over the medium term we will continue to monitor the evolution of trade relations with key trading partners, the trajectory of augmented debt, and developments on the geopolitical front, including rising tensions across the Taiwan Strait.

Upside scenario

We could revise our outlook to positive if economic growth proves higher than expected, supported by meaningful structural reforms, and if government finances improve through a consistent decline in debt levels.

Downside scenario

We could revise the outlook to negative if economic growth underperforms and government debt rises more sharply than anticipated, due to prolonged stress in the property sector, slower consumption recovery, or an unexpected escalation in trade tensions.

Key rating drivers

Economic structure & resilience

China is the world's second-largest economy (~USD 18.7 trillion in 2024) and a global manufacturing hub with diversified markets and products. However, the country faces a structural slowdown, with GDP growth moderating to an average of 5.8% between 2015–24 from around 10% between 2005–14. The property sector remains a major drag on economic activity, while structural issues such as weak consumption, excess capacity, and an ageing population continue to weigh on growth prospects.

Recent data suggests that home prices have declined year-on-year for three consecutive years, while real estate fixed asset investment continues to contract. The surveyed urban unemployment rate edged up to 5.3% in August 2025, the highest since February, while youth unemployment rose to 18.9%. Retail sales grew 3.4% year-on-year in August but missed market expectations for the third consecutive month. Weak property activity combined with a soft labour market continues to weigh on domestic demand. The government is prioritizing consumption boosting measures, such as the consumer goods trade-in program; however, a sustained consumption-led growth will likely require stronger employment gains and a more robust social safety net.

US–China trade tensions have eased considerably from earlier triple-digit tariffs, with the trade truce extended to November 2025. The IMF's July 2025 World Economic Outlook (WEO) update revised China's 2025 and 2026 growth outlook upwards, citing stronger-than-expected activity in H1 2025 and lower US tariffs. GDP growth for 2025 was revised up by 0.8 percentage points to 4.8% and for 2026 by 0.2 percentage points to 4.2%. Nevertheless, growth is still expected to moderate from 5% recorded in 2024, and trade tensions remain a key source of uncertainty.

It will also be important to monitor the extent to which emerging growth drivers, such as electric vehicles, renewable energy, and advanced technology (e.g., AI), can partially offset the drag on economic activity.

Fiscal strength

China's fiscal profile is a key credit challenge, characterized by high debt levels and a rising debt trajectory. According to the IMF, augmented government debt, which includes off-budget borrowings of local governments, stood at 126% of GDP in 2024, almost double the level of official general government debt. It has risen from 98.8% in 2020 and is projected to cross 140% in the coming few years, amidst slower economic growth and ongoing fiscal support.

A local government debt swap plan was introduced to ease the financial strain on local governments, which have been affected by the property sector slowdown, as they rely heavily on land sales and land-related taxes for revenue. The plan allows local governments to raise around RMB 10 trillion in debt until 2028 and swap it for the off-budget debt held by local government financing vehicles. While this may lower interest costs for local governments, it does not reduce the overall debt burden.

Separately, bond issuances have been announced for bank recapitalization to strengthen the financial sector. Ultra-long-term special government bonds have also been issued to fund priority projects, including infrastructure and consumer goods trade-in programs. Other recent fiscal measures announced include consumer-loan subsidies and childbirth payouts.

However, risks associated with China's elevated government debt are mitigated by a low interest-to-revenue ratio and low sovereign yields, which support debt affordability. In addition, most government debt is held domestically, which provides financing flexibility. External government debt remains low at 2.6% of total government debt as of 2024.

External position & linkages

China's external position remains a key credit strength. The country has maintained consistent current account surpluses, averaging 1.9% of GDP over the past five years. It benefits from low external debt (averaging 14.1% of GDP over the past five years), substantial foreign exchange reserves (exceeding USD 3 trillion), and a positive net international investment position (17.6% of GDP in 2024). However, net FDI inflows have weakened sharply in recent years, falling to USD 18.6 billion in 2024 (0.1% of GDP) from USD 344.1 billion in 2021 (1.9% of GDP).

China's exports to the US have contracted by 15% year-on-year in 2025 (CYTD up to August). Overall exports, however, have continued to grow by around 6%, supported by stronger shipments to non-US markets, like ASEAN.

During the first US–China trade war in 2018–19, the yuan experienced a sharp depreciation against the US dollar. This time, the yuan has appreciated by around 2.5% CYTD, supported by a weaker dollar, stronger daily fixings by the People's Bank of China (PBoC), and buoyant Chinese equity markets.

Key monitorables include developments on the US–China trade deal, transshipment-related tariffs, and duties on goods from other countries.

Monetary & financial stability

China's currency, the yuan, is actively traded. Deflationary pressures persist due to weak domestic demand and excess capacity. Consumer prices fell 0.4% in August 2025, while producer prices have been contracting for nearly three years. China has taken steps to curb corporate price wars, but inflationary pressures are expected to remain muted given ongoing domestic challenges. The PBoC has eased monetary policy to support the economy and remains committed to maintaining a moderately loose policy stance.

Financial stability risks remain elevated due to high private debt levels, averaging 196% of GDP over the past five years. The prolonged property sector slowdown and financial difficulties of local governments have further heightened these risks. While official non-performing loan ratios remain low at around 1.5% in Q2 2025, underlying asset quality pressures may be higher. Banks' net interest margins are near record lows at 1.4% as of end-June 2025. Smaller banks are particularly vulnerable to credit risks. However, the likelihood of a broader financial contagion appears contained.

Institutions & quality of governance

China's political system has been dominated by the Communist Party since the founding of the People's Republic, establishing a one-party system.

According to the Worldwide Governance Indicators, China performs well in government effectiveness, reflecting its ability to implement policies effectively. However, it underperforms in areas such as voice and accountability, as well as regulatory quality. A lack of data transparency hampers the accurate assessment of the country's economic health.

Geopolitical tensions remain a key risk. While US–China frictions have eased from their early-2025 peak, challenges persist, as seen in China's recent citation of security risks from American AI chips. The growing divide with the West has also become evident, underscored by limited Western participation in China's Victory Day parade. Territorial disputes in the South China Sea and rising tensions across the Taiwan Strait also remain important to monitor.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	14,572	15,103	18,191	18,308	18,270	18,748	19,232	20,376
GDP per capita (constant-PPP)	USD	18,781	19,192	20,827	21,488	22,677	23,835	24,834	25,875
Real GDP growth	%	6.1	2.3	8.6	3.1	5.4	5.0	4.8	4.2
GFCF/GDP	%	42.8	42.5	42.0	41.9	41.3	-	-	-
Gross domestic savings/GDP	%	43.5	44.2	45.3	45.6	43.2	-	-	-
Exports (G&S)/GDP	%	18.1	18.2	19.5	20.3	19.1	20.0	-	-
Working age (15-64) population (% share in total)	%	69.7	69.4	69.2	69.1	69.1	69.3	69.7	70.1
Old age (65+) population (% share in total)	%	12.1	12.6	13.2	13.8	14.3	14.7	14.9	15.1
Fiscal indicators – general government									
Fiscal balance/GDP	%	-6.1	-9.7	-6.0	-7.5	-6.9	-7.9	-8.3	-8.2
Revenue/GDP	%	28.1	25.7	26.6	26.0	26.8	26.8	27.0	27.2
Expenditure/GDP	%	34.2	35.4	32.7	33.5	33.7	34.7	35.3	35.4
GG gross debt/GDP	%	38.5	45.4	46.9	50.7	56.3	63.3	71.0	76.3
Augmented GG debt/GDP (including off-budget borrowings)	%	86.3	98.8	100.8	108.3	117.1	126.4	134.0	138.8
GG external debt (by creditor)/ GG gross debt	%	3.1	3.6	3.9	3.2	2.9	2.6	-	-
Interest/revenue	%	3.0	3.7	3.4	3.6	3.6	-	-	-
External indicators									
Current account balance/GDP	%	0.7	1.6	1.9	2.4	1.4	2.3	1.9	1.7
FDI, net inflows/GDP	%	1.3	1.7	1.9	1.0	0.3	0.1	-	-
Outstanding FII liabilities/GDP	%	10.0	12.9	11.8	9.8	9.3	10.3	-	-
NIIP/GDP	%	15.8	15.1	12.0	13.2	15.6	17.6	-	-
Foreign exchange reserves	USD billion	3,223	3,357	3,427	3,307	3,450	3,456	-	-
Import cover	Months	15.5	16.9	13.3	12.6	13.3	12.7	-	-
External debt/GDP	%	14.2	15.9	15.1	13.4	13.4	12.9	-	-
Monetary and financial indicators									
CPI inflation	%	2.9	2.5	0.9	2.0	0.2	0.2	0.0	0.6
Exchange rate (average)	LC per USD	6.9	6.9	6.5	6.7	7.1	7.2	-	-
Non-performing loans/total gross loans	%	1.9	1.8	1.7	1.6	1.6	1.5	-	-
Private debt, loans and debt securities/GDP	%	183.4	195.5	188.2	193.3	199.2	205.6	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Hong Kong

CareEdge AA/Stable

Rating action

CareEdge Global has assigned a Long-Term Foreign Currency rating of 'CareEdge AA/ Stable' to Hong Kong Special Administrative Region (HKSAR) of People's Republic of China.

Rationale

Hong Kong's rating is supported by its exceptionally strong external position, robust fiscal health, high per capita income, and a well-established institutional framework, though partly offset by risks arising from an ageing population over the medium term.

Hong Kong's external position is its key credit strength. The territory has consistently maintained significant current account surpluses, which averaged 11% of GDP over 2021-25; this trend is expected to continue. Its net international investment position (NIIP) is very strong, averaging 530% of GDP over 2020-24. This underscores Hong Kong's role as a global financial hub and provides substantial buffers against external shocks. However, reliance on mainland China for trade and foreign direct investment exposes Hong Kong to developments in the mainland economy.

Fiscal metrics back the credit quality. Gross general government debt is projected to remain low at under 20% of GDP over 2026-30. Additionally, sizeable fiscal reserves (~20% of GDP), albeit reduced in recent years, provide a meaningful buffer against economic shocks.

The Linked Exchange Rate System (LERS) limits monetary policy flexibility, though the Hong Kong Monetary Authority (HKMA) has maintained the peg effectively. Hong Kong also benefits from an actively traded currency, which supports international investment flows. The financial sector is highly leveraged, with private debt to GDP at 328% (2024), reflecting Hong Kong's role as an international financial centre. Though non-performing loans (NPL) have risen due to high interest rates and property market challenges, they remain low at ~2.0% (2025) and are supported by adequate capital buffers.

Hong Kong performs favourably across most governance indicators such as government effectiveness, regulatory quality, rule of law, and control of corruption. While the linkages between mainland China and Hong Kong could pose risks, Hong Kong's economic, financial and fiscal systems, as well as its institutions and governance continue to enjoy a high degree of autonomy under the "One Country, Two Systems" framework.

Key monitorables for Hong Kong's credit profile over the medium term include commercial property market developments, growth in mainland China, and global economic conditions given the territory's openness.

Outlook: Stable

The stable outlook reflects expectations that Hong Kong will retain its strong external and fiscal buffers, maintain the credibility of the LERS, and preserve its role as a major international financial centre over the medium term.

Upside scenario

The outlook could be revised to positive if economic conditions in mainland China are stronger than expected, providing greater support to Hong Kong's growth outlook given its close economic and financial linkages with the mainland. Another upside would be improvement in fiscal buffers alongside a sustained path of fiscal consolidation, resulting in stronger fiscal metrics and better fiscal health overall.

Downside scenario

The outlook could be revised to negative if economic conditions in mainland China weaken more than expected, adversely affecting Hong Kong's growth prospects. A weaker-than-expected fiscal consolidation path, coupled with a meaningful erosion of fiscal buffers and subsequent deterioration in fiscal strength, could also weigh on the rating. Additionally, a deterioration in Hong Kong's institutional autonomy that affects governance standards and policy credibility would be a downside, as such developments typically undermine investor confidence and pressurise economic growth.

Key rating drivers

Economic structure & resilience

Hong Kong is a highly open (trade/GDP of 360% in 2024) and services-driven economy (93.6% of GDP in 2024) and acts as a global financial hub. It is a high-income economy, with GDP per capita of USD 67,682 in 2025 (constant PPP terms).

Hong Kong has deep economic linkages with mainland China, which accounts for a dominant share of the territory's trade flows and financial activity. However, this also exposes the economy to fluctuations in the mainland's growth and financial conditions.

Investment levels are relatively low, with gross fixed capital formation averaging 16% of GDP over the past few years, well below that of most advanced economy peers. However, Hong Kong's gross fixed capital formation showed significant improvement in 2025, growing by 4.3% over 2024.

In 2025, real GDP growth exceeded expectations, with the economy growing 3.5%, supported by strong domestic demand, trade, and financial services. The growth momentum is expected to continue in 2026. However, property market challenges persist as commercial real estate remains under pressure.

Hong Kong is demographically challenged like other advanced economies, having already entered a super-aged phase, with the 65-and-above population share projected to expand rapidly in the coming years. The government has implemented a series of talent attraction measures since end-2022 to stabilise the local labour force and support long-term economic resilience.

Fiscal strength

Hong Kong's fiscal profile is strong, characterised by low gross general government debt, projected to average 14% of GDP over 2026-30. While the HKMA issues Exchange Fund Bills and Notes—central bank liabilities amounting to ~40% of GDP—these are distinct from government borrowings as they are backed by FX reserves and are primarily used to meet banks' demand for liquidity management.

The fiscal framework is anchored in maintaining a broad balance over the economic cycle, supported by prudent expenditure management and robust revenue generation during periods of economic expansion.

Historically, sustained budget surpluses have enabled the accumulation of substantial fiscal reserves, held in the Exchange Fund. However, recent drawdowns have reduced the reserves from ~40% of GDP in 2019 to ~20% more recently, according to IMF estimates.

Recent weakness in the property sector has weighed on government revenues. On the expenditure side, infrastructure investment remains a key priority and is expected to be financed through increased government bond issuances. Major projects include the Northern Metropolis, supported by synergies with the Greater Bay Area.

An ageing population is also expected to gradually increase fiscal spending pressure over the medium term.

Nonetheless, the territory's fiscal reserves and low government debt provide substantial policy space, enabling the authorities to absorb cyclical revenue fluctuations without materially weakening the sovereign balance sheet.

External position & linkages

Hong Kong's external position is a key credit strength. The economy has consistently recorded large current account surpluses (averaging 11% of GDP over 2021-25), supported by strong services exports and significant investment income from external assets.

High external debt (averaging 494% of GDP over 2020-24) reflects Hong Kong's role as an international financial centre, while strong NIIP (averaging ~530% of GDP over 2020-24) provides substantial external buffers.

Hong Kong's financial markets are benefitting from global investor diversification, supporting inflows and market activity. However, the economy remains exposed to risks emanating from mainland China, which accounts for a significant share of its trade and FDI.

Monetary & financial stability

Hong Kong's monetary framework is anchored by the LERS, under which the Hong Kong dollar is pegged to the US dollar through a currency board arrangement, which limits monetary policy flexibility.

However, the framework has demonstrated resilience across multiple episodes of financial stress, with the HKMA maintaining the peg effectively. The credibility of this arrangement underpins confidence in Hong Kong's monetary and financial stability, supported by the Exchange Fund's backing assets, at ~110% of monetary base as of December 2025.

Inflation is well managed, averaging 1.8% over 2021-25.

Hong Kong's private debt, at 328% of GDP in 2024, is one of the highest globally. As an international financial centre, a significant portion of corporate debt in Hong Kong is used for overseas purposes and is, therefore, not linked to the leverage of the domestic private sector.

The NPL ratio rose due to high interest rates and property market challenges but remains low at ~2.0% in 2025. The banking system is well capitalised and highly liquid, supported by strong regulatory oversight.

Exposure to mainland China is meaningful, at around 12% of total banking assets. The mainland-related NPLs increased from ~0.7% in 2021 to 2.8% in 2024, before moderating to ~1.9% in 2025.

Institutions & quality of governance

Hong Kong operates under the "One Country, Two Systems" framework, with the Basic Law defining divisions of power between Hong Kong and mainland China. Within this arrangement, Hong Kong retains control over its legal system, monetary policy, trade, immigration, and most aspects of day-to-day governance, along with full autonomy over fiscal matters such as budgeting, taxation, and public finances, while mainland China has authority over defence, foreign affairs, and overall sovereignty.

Hong Kong has historically benefited from a strong institutional foundation, performing well across key governance indicators such as government effectiveness, regulatory quality, rule of law, and control of corruption. These institutional strengths underpin its role as an international financial centre.

Recent changes in the political and governance framework, including the introduction of the National Security Law and electoral reforms, have raised concerns. Nevertheless, Hong Kong maintains high standards of administrative efficiency, regulatory transparency, and financial regulation. While there is some perception of closer institutional alignment with mainland China, core institutions are effective and the territory continues to function as a leading global financial centre.

Select indicators

	Unit	2020	2021	2022	2023	2024	2025	2026 F	2027 F
				Economic indicators					
Nominal GDP	USD billion	345	369	359	381	407	428	447	466
GDP per capita (constant-PPP)	USD	61,777	65,988	62,953	64,505	66,361	67,682	68,782	69,792
Real GDP growth	%	-6.5	6.5	-3.7	3.2	2.5	3.5	2.1	2.0
GFCF/GDP	%	17.0	16.8	16.1	16.9	16.3	-	-	-
Gross domestic savings/ GDP	%	20.9	22.3	19.3	16.7	19.9	-	-	-
Exports (G&S)/GDP	%	176	204	194	177	182	-	-	-
Working age (15-64) population (% share in total)	%	69.9	69.2	68.4	67.7	66.8	66.0	65.3	64.6
Old age (65+) population (% share in total)	%	18.8	19.8	20.7	21.6	22.7	23.7	24.7	25.8
				Fiscal indicators – general government					
Fiscal balance/GDP	%	-9.2	0.0	-6.6	-5.7	-5.8	-3.0	-3.2	-1.5
Revenue/GDP	%	20.7	25.4	21.7	18.1	17.4	20.7	19.4	20.1
Expenditure/GDP	%	29.9	25.4	28.3	23.7	23.3	23.7	22.6	21.7
GG gross debt/GDP	%	1.0	1.9	4.3	6.3	9.2	11.7	14.0	14.1
GG external debt (by creditor)/GG gross debt	%	72.1	117.5	38.2	61.3	39.9	-	-	-
Interest/revenue	%	0.0	0.1	0.2	0.7	1.1	-	-	-
				External indicators					
Current account balance/ GDP	%	7.0	11.8	10.2	8.5	13.0	12.5	12.2	11.9
FDI, net inflows/GDP	%	39.1	38.0	30.6	32.3	33.9	-	-	-
Outstanding FII liabilities/ GDP	%	162	142	140	126	126	-	-	-
NIIP/GDP	%	615	572	493	462	495	-	-	-
Foreign exchange reserves	USD billion	492	497	424	426	422	428	-	-
Import cover	Months	9.8	8.1	7.5	7.6	7.0	-	-	-
External debt/GDP	%	519	507	497	485	464	-	-	-
				Monetary and financial indicators					
CPI inflation	%	0.3	1.6	1.9	2.1	1.7	1.4	2.1	2.3
Exchange rate (average)	LC per USD	7.8	7.8	7.8	7.8	7.8	7.8	-	-
Non-performing loans/total gross loans	%	0.9	0.9	1.4	1.6	2.0	2.0	-	-
Private debt, loans and debt securities/GDP	%	384	368	373	363	328	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2025

India

CareEdge BBB+/Stable

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for Republic of India at 'CareEdge BBB+/ Stable' (Unsolicited).

Rationale

The reaffirmation reflects India's resilient economic structure, and a credible inflation management. Further, comfortable external position continues to cushion India's credit profile, despite the global headwinds. However, a weak fiscal position due to elevated debt levels and weak debt affordability continues to weigh on the overall credit profile, despite ongoing efforts of the government for fiscal consolidation.

India's macroeconomic position is supported by robust domestic consumption, sustained high investments, led by the government, together with comfortable inflation trajectory. These factors along with a low deflator has led to India's better than expected economic performance with 7.8% growth in Q1 FY2026 and is expected to average around 6.5% for FY2026, despite the global trade uncertainties and tariff-related disruptions.

The country also has comfortable external buffers, including sufficient foreign exchange reserves along with diversified channels of current account inflows, including service exports & remittances. However, India's external profile remains vulnerable to uncertain tariff outlook, especially in a scenario of higher tariffs placed by The United Sates of America (U.S.).

India's fiscal profile continues to remain weak, though there have been ongoing consolidation efforts supported by stronger tax revenues, higher RBI dividend transfers, and disinvestment proceeds. Despite the recent income tax rationalisation and simplification of GST tax structure, CareEdge Global expects that the central government's deficit should remain around the targeted 4.4% of GDP for FY 2026. However, any renewed fiscal support in response to global or trade shocks, or any fiscal slippage at the state government levels could increase the fiscal pressures for the general government profile.

In addition, a relatively high interest burden continues to weigh on the country's debt affordability. Reform-driven fiscal framework and sustained fiscal discipline amid the challenges, will remain key monitorables for India's medium-term fiscal trajectory.

Further, low per-capita income, coupled with high inequality and unemployment, could impact on country's growth potential.

Outlook: Stable

The stable outlook reflects our expectation that India's resilient economic fundamentals and comfortable external buffers will sustain over the near to medium term, despite global trade uncertainties. Additionally, the fiscal consolidation process will continue as envisaged over the medium term.

Upside scenario

The rating could be upgraded if the stronger economic performance materializes into significant improvement in Government of India's fiscal metrics arising from greater-than expected reduction in debt ratio.

Downside scenario

Any significant deviation from the current path of fiscal consolidation, resulting in higher-than-expected debt levels relative to our projections, could weigh negatively on India's credit profile. A rating downgrade could also occur if a weaker global external environment dampens India's economic outlook and adversely impacting the country's fiscal and external metrics.

T&C risk assessment

The Transfer & Convertibility (T&C) risk for of India is assessed at two notches above India's sovereign rating of 'CareEdge BBB+'. This reflects CareEdge Global's belief that the risk of Government of India limiting access to foreign exchange for Indian corporates towards their scheduled interest and debt payments is low. This expectation is based on India's comfortable external position, stable institutional framework including independent judicial structure, and a long track record of not restricting foreign currency access for non-sovereign debt service, even during periods of economic crisis.

Key rating drivers

Economic structure & resilience

India's economic profile benefits from its large scale, strong growth momentum, and sustained investment potential—all of which underpin its credit strength. The country stands as the fourth-largest economy globally, with a size of USD 3.9 trillion in FY 2025. Its share in global GDP (on a purchasing power parity basis) has doubled over the past two decades, rising from around 4.4%

in 2004 to nearly 8% in 2024. India's economic performance has remained robust, consistently outpacing regional peers, with average growth of around 6% during FY2015–24. Despite ongoing global trade uncertainties and external headwinds, CareEdge expects that medium-term growth prospects to remain favorable for India compared to peers, with real GDP expected to expand at an average rate of around 6.6% during FY 2026-30. This performance is expected to be supported by robust domestic consumption (around ~58.4% of GDP in 2024). This, combined with a competitive service sector continue to anchor India's long-term economic resilience.

The government's focus on capital formation remains intact, with GFCF standing around 30% of GDP for the last five years (FY 2020-25). This has led to infrastructure development, logistics modernization, and industrial policy initiatives that should help alleviate supply-side bottlenecks, though the benefits are likely to materialize gradually. However, a broader revival in private investment is yet to happen.

India's economic profile continues to be weighed down by its low per capita income levels and moderate export competitiveness. Gaps in physical and social infrastructure remain constraints to realizing the economy's full potential. Moreover, climate-related vulnerabilities pose rising risks to agricultural productivity and overall growth stability.

Fiscal strength

India's fiscal profile, while improving, continues to remain a key structural weakness in its overall credit assessment. The fiscal position is constrained by high debt levels and weak debt affordability, even as the large share of domestically held debt (around 95%) partially offsets refinancing and currency risks.

India's general government debt levels peaked during covid to ~89.2% in FY 2021, after averaging 70% in the pre pandemic period (FY 2016-20). The debt levels remain high at ~80% in FY 2025, along with the challenges of weak debt affordability. The Central Government has undertaken steps for fiscal consolidation by transitioning the fiscal anchor from deficit targets to debt levels with the aim of aligning fiscal management with medium-term debt sustainability objectives. Further, India's interest burden (23.8% of revenue in FY25) is one of the highest, across both emerging and advanced economies. This high interest burden reflects both historically higher cost of borrowing and high fiscal gaps.

Another challenge on the fiscal front is the rising indebtedness of state governments, despite consolidation at the central government level, that continues to weigh on India's overall fiscal outlook. States account for roughly one-third of general government debt, and their fiscal pressures have increased due to rising committed expenditures, particularly subsidies, salaries, and social welfare schemes, along with weak revenue flexibility.

Notwithstanding the challenges of high debt affordability and rigid state deficits, sustained nominal GDP growth is expected to facilitate a gradual stabilization of debt ratios, partially offsetting the pressures from a persistent deficit. This should keep India's debt trajectory more stable compared to the global trend of rising debt ratios.

CareEdge Global expects that, with the sustained growth momentum and continued fiscal discipline by the central government, the debt-to-GDP ratio is projected to stabilize around 80% for the medium term (FY 2026-30). However, downside risks remain. The implications of trade-related headwinds on growth moderation or any additional fiscal support against this could delay fiscal consolidation. Additionally, any fiscal slippage at the state government level could offset central government consolidation gains and delay general government debt reduction. The balance between developmental spending and fiscal prudence will remain key monitorable in the sovereign's medium-term credit outlook.

External position & linkages

India's external position remains a key anchor of its credit strength, characterized by a robust services sector, low external indebtedness, and adequate foreign exchange reserves, which together provide meaningful buffers against external shocks. These strengths help partially offset the structural trade deficit, underpinned by a high import dependency, particularly on crude oil.

India's external debt remains modest at about 19.1% of GDP in FY2025, well below the median for peers in the same rating category. This low external leverage partially mitigates the risks associated with capital flow volatility and exchange rate pressures. The foreign exchange reserves (USD 695 billion in August 2025, covering ~9 months of imports), continue to provide a strong liquidity buffer against potential external financing shocks and helps maintain confidence in the currency.

India's current account deficit (CAD) stood at around 0.6% of GDP in FY2025 and is projected to widen modestly to ~1.7% of GDP over the next five years (FY 2026-30). The deficit is mainly on account of trade balance which offsets strong service exports and remittances. India's services exports have demonstrated sustained strength, led by information technology and software services, while other business and professional services have gained momentum in recent years. Strong remittance flows also continue to support external sector profile. India's moderate trade openness acts as a partial shield against external demand shocks and has kept the current account deficit relatively less volatile compared to similarly rated economies.

However, India faces uncertain external environment with tariffs placed by the U.S., currently at 50%, that is expected to impact India's competitive advantage in trade, relative to regional peers. If the additional tariffs are placed on trade and if duties are expanded to service exports, this could hold negative implications for its external profile. Further, disruptions in global commodity and supply chains could still have second-order effects on its external and macroeconomic metrics.

On the capital account, foreign portfolio investment (FPI) flows remain volatile, and Foreign direct investment (FDI) net inflows have been moderating. At the same time, rising outward investments by Indian corporates signal the gradual internationalization of domestic firms, a positive for India's credit profile. Nevertheless, India's FDI attractiveness remains relatively weaker compared with similarly rated peers, constrained by regulatory complexities and infrastructure-related bottlenecks, which weigh on external competitiveness.

Monetary & financial stability

India's monetary policy framework is defined by credible inflation management. The Reserve Bank of India (RBI) has effectively anchored inflation within its target band, with the inflation moderating from 5.4% in FY2024 to 4.6% in FY2025. Recent price dynamics have been benign, with inflation recorded at 2.2% for the first two quarters of FY2026 and projected to average around 2.4% for the entire fiscal, according to CareEdge Global estimates.

India's exchange rate framework is characterized by a managed floating system, with periodic interventions by the central bank aimed at containing volatility. The Indian Rupee is an actively traded currency as it accounts for about 1.6% of global foreign exchange market turnover. The economy continues to maintain a calibrated approach to capital account convertibility, which supports external resilience by limiting volatility in capital flows and currency shocks.

India's financial system remains broadly stable, supported by the deepening of private credit markets (nearly 96% of GDP for last five years 2020-24), with the expansion predominantly led by the banking sector (which accounts for nearly 56% of total private credit). The banking sector's strong capitalization and improvement in asset quality augurs well for financial stability of the economy. The efforts taken towards addressing the issue of non-performing assets has resulted in a sharp decline in the GNPA ratio to 2.3% of gross advances in FY2025, from a peak of 11.2% in FY2018, reflecting strengthening in the banking system's balance sheets.

Since September 2024, credit growth has moderated, partly due to elevated policy rates and tighter lending standards imposed by the monetary authority. The build-up of sectoral imbalances, particularly in unsecured retail lending, warrants close monitoring as these could pose localized stability risks. Additionally, the increasing shift of household savings toward non-financial assets remains a monitorable trend, reflecting evolving credit and savings dynamics in the economy.

Institutions & quality of governance

India's assessment of this pillar is characterised by its healthy legislative and executive institutions which represent its key credit strengths. Furthermore, most large sectors of the economy are governed by independent regulatory bodies. The autonomous functioning of these entities boosts transparency and objectivity in decision-making. This aspect is a key positive for regulatory stability and investor confidence.

The economy has demonstrated a strong commitment to reforms in recent years. The government's focus on rationalization of tax structure, push towards digitalization and e-governance initiatives are positives for improving governance and promoting transparency. Given this background, continued commitment towards reforms and its efficient implementation remains critical for improving India's performance on this pillar.

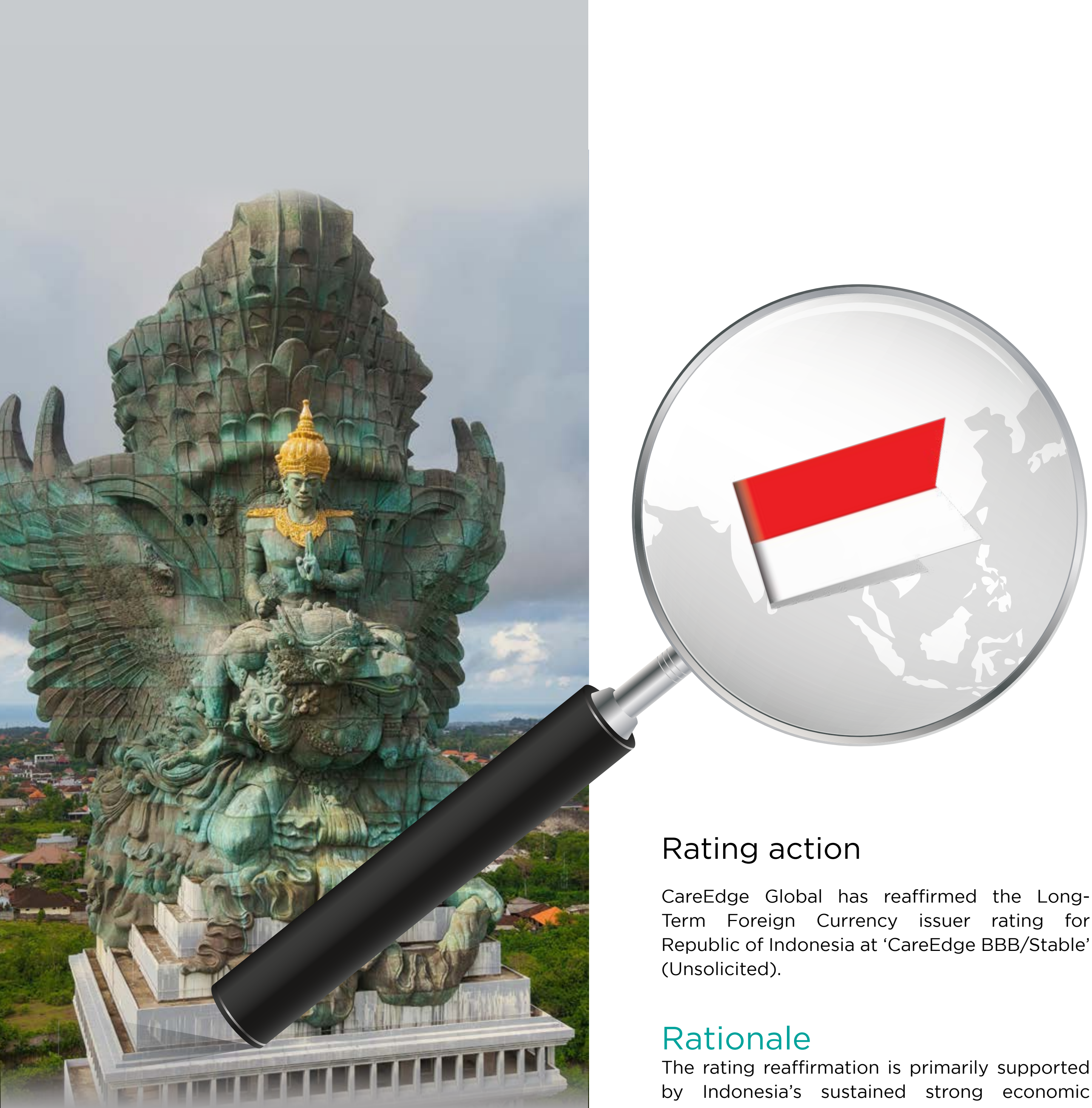
India has a coalition government formed in 2024 with a relatively weaker majority. However, the political environment remains stable, with limited risks to policy continuity. Nonetheless, political cohesion and policy execution will remain key monitorables. Challenges persist in the form of geopolitical risks and tensions with the neighbouring countries. Furthermore, the timely justice delivery remains a challenge in India given the large backlog of legal cases.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025	2026 F
Economic indicators									
Nominal GDP	USD billion	2,835.6	2,674.9	3,167.3	3,346.1	3,638.5	3,909.9	4,125.2	4,505.6
GDP per capita (constant-PPP)	USD	7,930.1	7,399.5	8,050.0	8,594.4	9,301.8	9,818.0	10,378.0	10,922.1
Real GDP growth	%	3.9	-5.8	9.7	7.6	9.2	6.5	6.5	6.5
GFCF/GDP	%	28.5	27.3	29.6	31.2	30.4	29.9	-	-
Gross domestic savings/ GDP	%	28.1	27.3	28.6	28.3	29.5	28.4	-	-
Exports (G&S)/GDP	%	18.6	18.6	21.4	23.2	21.4	21.1	-	-
Working age (15-64) population (% share in total)	%	66.9	67.2	67.5	67.8	68.0	68.2	68.4	68.6
Old age (65+) population (% share in total)	%	6.2	6.4	6.5	6.7	6.9	7.1	7.4	7.6
Fiscal indicators – general government									
Fiscal balance/GDP	%	-7.2	-13.1	-9.5	-9.2	-8.4	-8.0	-7.7	-7.3
Revenue/GDP	%	19.2	18.2	20.4	20.1	20.5	20.5	20.2	20.2
Expenditure/GDP	%	26.8	31.0	29.9	29.1	27.9	28.4	27.3	27.4
GG gross debt/GDP	%	75.1	89.2	84.2	82.9	81.8	80.8	82.4	81.8
GG external debt (by creditor)/GG gross debt	%	3.6	3.5	3.3	3.4	3.2	3.0	-	-
Interest/revenue	%	24.8	28.8	25.4	24.6	25.1	23.7	-	-
External indicators									
Current account balance/ GDP	%	-0.9	0.9	-1.2	-2.0	-0.7	-0.6	-0.9	-1.4
FDI, net inflows/GDP	%	2.0	2.1	1.8	1.3	0.7	0.7	-	-
Outstanding FII liabilities/ GDP	%	1.5	1.6	1.2	0.8	0.3	0.02	-	-
NIIP/GDP	%	8.2	10.6	8.5	7.3	7.6	7.0	-	-
Foreign exchange reserves	USD billion	-13.2	-13.3	-11.3	-11.0	-9.9	-8.4	-	-
Import cover	Months	477.8	577.0	607.3	578.4	646.4	668.3	-	-
External debt/GDP	%	9.5	13.4	9.5	7.7	9.0	8.6	-	-
Monetary and financial indicators									
Cpi inflation	%	4.8	6.2	5.5	6.7	5.4	4.6	2.7	4.5
Exchange rate (average)*	LC per USD	70.9	74.2	74.5	80.4	82.8	84.6	-	-
Non-performing Loans/total gross loans	%	8.2	7.3	5.8	3.9	2.8	2.3	-	-
Private debt, loans and debt securities/GDP*	%	94.5	101.6	90.6	93.8	98.4	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024



Indonesia

CareEdge BBB/Stable

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for Republic of Indonesia at ‘CareEdge BBB/Stable’ (Unsolicited).

Rationale

The rating reaffirmation is primarily supported by Indonesia’s sustained strong economic growth, continued comfortable external buffers, and still manageable public debt levels. These credit strengths are partly offset by structurally weak fiscal revenue base and economic constraints including low GDP per capita and high underemployment. Further, impact of potential expansionary fiscal policies on the funding costs, and effectiveness and independence of institutions in dealing with recent volatility remain important monitorables for the credit profile.

Economic performance is resilient, supported by a diversified production base and favourable demographics. Real GDP growth printed at 5.1% in 2025, as downstream mineral processing initiatives continue to attract foreign capital. However, reliance on commodity-linked sectors and persistent underemployment remain structural constraints.

External buffers are comfortable, underpinned by foreign exchange reserves at USD 156 billion (~5.7 months of imports) and manageable current account dynamics. While consistent FDI inflows support the balance of payments, the external position is exposed to commodity price volatility and global demand.

Fiscal metrics are moderate, with government debt at 41% of GDP in 2025 and fiscal deficit at 2.9% of GDP, within the statutory ceiling of 3%. However, a relatively low revenue base and rising spending constrain fiscal flexibility. Financial sector risks remain contained, with strong banking sector capitalisation and non-performing loans (NPL) at ~2.1% in Q3 2025.

Recent expansionary fiscal initiatives under President Prabowo Subianto, alongside Indonesia's relatively narrow revenue base, have raised concerns over the fiscal deficit trajectory. These concerns have contributed to weakening of investor confidence, which has been reflected in episodes of capital outflows and currency depreciation.

That said, while these developments warrant close monitoring, we expect the authorities' policy framework and institutional processes to remain broadly effective in managing episodes of market volatility. A sustained weakening in investor confidence could lead to higher borrowing costs and increase the sovereign's interest burden, potentially weighing on debt affordability over time.

Outlook: Stable

The stable outlook on Indonesia reflects expectations that healthy growth prospects and comfortable external buffers will support credit strength over the medium term. The fiscal deficit stands at ~2.9% of GDP in 2025. The outlook is also underpinned by CareEdge Global's expectation that the fiscal deficit would remain within the statutory 3% ceiling in the near term, consistent with the government's past record.

Upward scenario

The outlook could be revised to positive following a sustained increase in the government's revenue base, particularly through the effective implementation of structural tax reforms that enhance fiscal flexibility. Furthermore, the successful execution of downstreaming policies, aimed at export diversification and attracting stable investment inflows, could boost medium-term growth prospects.

Downward scenario

The outlook could be revised to negative if the government deviates from its fiscal consolidation path or revises the existing fiscal policy anchor of 3% deficit ceiling, weakening investor confidence, and raising refinancing costs. A sustained increase in funding costs and heightened policy uncertainty could undermine investment sentiment and weigh on growth prospects.

Key rating drivers

Economic structure & resilience

Indonesia's economic profile is supported by its large economy, resilient domestic demand, and a stable long-term growth trajectory, with long term growth averaging 4.2% over 2016-2025. A favourable demographic structure, with the old-age population accounting for 7.5% of the total population in 2025, supports consumption and labour supply.

However, structural vulnerabilities persist. GDP per capita is lower than the similarly sized economies. Further, high investment levels, reflected in elevated gross fixed capital formation (GFCF), have not consistently translated into proportional productivity gains, as indicated by a relatively high incremental capital output ratio (ICOR). Labour market indicators also present mixed signals; while headline unemployment is low, underemployment is high. Additionally, the economy's part reliance on extractive industries, specifically coal, exposes it to commodity price fluctuations and longer-term risks associated with the transition to a low-carbon economy.

Recent economic developments indicate continued growth momentum. Real GDP growth stood at 5.1% in 2025, partly supported by stronger exports in the first half of the year due to front-loading of external demand. Ongoing industrial downstreaming policies, particularly in nickel and related minerals, have supported export diversification and sustained FDI inflows into metals processing and electric vehicle supply chains. Manufacturing activity has been stable, expanding at around 5% annually, while the unemployment rate was 4.8% in 2025.

Indonesia's exposure to commodity cycles and climate-related risks remains an important monitorable for sustaining long-term growth momentum. Going forward, the country's continued progress in economic diversification, boosting productivity and improving the quality of the labour market will remain monitorables.

Fiscal strength

Indonesia's fiscal profile is characterised by manageable debt levels and declining reliance on external financing, yet it is constrained by a low revenue base, high interest payments, and rising spending commitments.

General government debt stood at 41% of GDP in 2025, with external debt accounting for around 37% of total debt. However, the tax revenue-to-GDP ratio remains low at around 9.3% in 2025, well below several similarly rated peers, reflecting a narrow tax base and structural compliance gaps.

Fiscal metrics have shown some slippage, raising concerns among investors. The fiscal deficit widened to around 2.9% of GDP in 2025, although it remained within the statutory ceiling of 3%, following softer revenue collections at of 13.7% of GDP in 2025. Revenue performance weakened recently, recording a contraction of 3.3% in 2025. Tax collection growth also slowed, raising questions about the fiscal consolidation pace and reform progress. Over the medium term, the trajectory of public debt will depend on maintaining economic growth at around 5.2% and adhering to the fiscal consolidation targets.

Debt affordability metrics remain weak, with interest payments estimated at around 17.2% of government revenue in 2025. Persistently high domestic bond yields could further increase the interest burden, weighing on fiscal flexibility.

Risks from contingent liabilities related to state-owned enterprises (SOEs) are contained at present, supported by restructuring efforts and improved profitability, although this is monitorable given the scale of infrastructure-related obligations.

Maintaining the fiscal deficit within the statutory 3% ceiling will remain monitorable.

External position & linkages

Indonesia's external profile benefits from a relatively balanced current account position, manageable external debt levels, and comfortable foreign exchange reserve buffers. FDI has remained a stable source of external financing, averaging 1.7% of GDP over 2021-25, supported by policies aimed at improving the investment climate, including the Omnibus Law on Job Creation. Total external debt (~30% of GDP in 2025) is manageable, with a relatively long maturity structure, limiting near-term repayment pressures. However, the external position is exposed to volatile commodity prices and global capital flows.

Export growth moderated in late-2025 following earlier front-loading of shipments and softer global commodity prices. The current account balance hovered around -0.1% of GDP in 2025, reflecting balanced trade dynamics. Foreign exchange reserves amounted to around USD 156 billion in 2025, covering ~5.7 months of imports, providing a buffer against external shocks. Net FDI inflows were 1.5% of GDP in 2025, supported by continued investment in downstream mining, metals processing, and energy transition-related industries.

Going forward, maintaining adequate reserve buffers, stable capital inflows, and continued diversification of trade and investment partners remain key monitorables for external stability.

Monetary & financial stability

Indonesia's monetary framework is supported by an inflation-targeting regime and a flexible exchange rate arrangement. While the official exchange rate regime is free floating, periodic interventions by the central bank to smooth out currency volatility result in a managed float system. Indonesia's currency has depreciated by 10.4% between October 2024 and

February 2026, one of the sharpest depreciations among APAC economies, and will remain a key monitorable.

Inflation has generally been within the central bank's target range, reflecting relatively credible monetary policy transmission. More recently, monetary conditions have been stable, with inflation at 1.9% in 2025, remaining within the central bank's target band of 2.5%(31%). The policy rate stood at 4.75% in February 2026, as authorities balanced inflation control with supporting economic growth.

Banking sector indicators remain sound, with the capital adequacy ratio at ~24.7% and NPLs at ~2.1% in Q3 2025. However, potential credit risks remain linked to contingent exposure from state-linked entities, including the Danantara sovereign wealth fund, which has faced governance and transparency concerns. While these risks have not yet led to systemic instability, they remain relevant given the banking sector's exposure to SOEs and infrastructure-related financing.

However, the domestic financial market is relatively shallow, with credit penetration at ~38.2% of GDP in 2024 and stock market capitalisation of listed companies at ~55.3% of GDP in 2023, indicating limited financial deepening compared with similarly rated peers. Indonesia's equity market recorded its sharpest decline in February 2026 amid concerns over a potential MSCI downgrade from emerging market to frontier market status. This will remain a monitorable for investor confidence and capital flow dynamics.

Going forward, the credibility of the monetary policy framework and the central bank's ability to maintain price stability while managing capital flow volatility will remain key monitorables. In addition, any crystallisation of contingent liabilities from state-linked entities could intensify credit risks within the banking sector. Continued financial sector development, improved governance in state-linked financial institutions, and deepening of domestic capital markets remain monitorable.

Institutions & quality of governance

Indonesia's institutional landscape is defined by a relatively stable democratic system and position as the world's third-largest democracy.

The government has also demonstrated a willingness to undertake structural reforms to improve the business environment and support long-term growth. However, institutional effectiveness remains mixed, with governance indicators pointing at moderate performance relative to similarly rated peers.
The government is committed to initiating reforms to enhance economic competitiveness and strengthen the fiscal base. Central to this strategy are the implementation of the Omnibus Law on Job Creation, reforms to tax administration, and policies aimed at promoting downstream industries and greater value addition in the manufacturing sector. These measures aim to optimise investment efficiency, attract foreign investment, and broaden the revenue base.

Despite ongoing reform efforts, governance challenges remain.
Over the past two decades, authorities have made progress in decentralising governance and strengthening local administrative capacity, which has supported improvements in public service delivery. However, recent policy developments suggest a gradual centralisation of economic decision-making, including plans to review the State Finance Law under the 2026 legislative agenda and stronger state oversight of strategic sectors such as mining and downstream industries. These developments, alongside the replacement of long-serving finance minister in 2025 and the subsequent resignation of several senior financial regulators, have raised concerns over policy predictability and institutional independence, weakening investor confidence.

Corruption continues to hinder bureaucratic efficiency and policy implementation, notwithstanding the existing institutional oversight and transparency mechanisms. In addition, political fragmentation and risks from rising political polarisation could affect continuity of the reform momentum and policy. Sustained and consistent implementation of structural reforms, alongside improvements in governance quality and institutional effectiveness, remain monitorable

Select indicators

	Unit	2020	2021	2022	2023	2024	2025	2026 F	2027 F
Economic indicators									
Nominal GDP	USD billion	1,059	1,187	1,319	1,371	1,396	1,446	1,532	1,647
GDP per capita (constant-PPP)	USD	12,600	12,948	13,485	14,014	14,567	15,123	15,718	16,345
Real GDP growth	%	-2.1	3.7	5.3	5.0	5.0	5.1	5.1	5.1
GFCF/GDP	%	31.7	30.8	29.1	29.3	29.1	28.8	-	-
Gross domestic savings/ GDP	%	31.4	35.1	39.3	38.1	36.9	-	-	-
Exports (G&S)/GDP	%	17.3	21.4	24.5	21.8	22.2	-	-	-
Working age (15-64) population (% share in total)	%	67.6	67.7	67.9	68.0	68.1	68.2	68.3	68.4
Old age (65+) population (% share in total)	%	6.6	6.7	6.8	7.0	7.3	7.5	7.8	8.1
Fiscal indicators – general government									
Fiscal balance/GDP	%	-6.1	-4.6	-2.3	-1.6	-2.3	-2.9	-2.7	-2.7
Revenue/GDP	%	12.4	13.7	15.0	15.0	14.5	13.7	13.9	14.0
Expenditure/GDP	%	18.4	18.1	17.3	16.6	16.8	16.5	16.6	16.7
GG gross debt/GDP	%	39.7	41.1	40.1	39.6	40.2	41.0	41.3	41.6
GG external debt (by creditor)/GG gross debt	%	48.5	41.4	37.7	37.9	37.5	37.3	-	-
Interest/revenue	%	13.2	21.4	22.0	14.0	15.2	17.2	16.6	16.3
External indicators									
Current account balance/ GDP	%	-0.4	0.3	1.0	-0.1	-0.6	-0.1	-1.0	-0.9
FDI, net inflows/GDP	%	1.8	1.8	1.9	1.6	1.7	1.5	-	-
Outstanding FII liabilities/ GDP	%	24.5	22.7	20.1	20.1	20.0	19.2	-	-
NIIP/GDP	%	-26.4	-23.4	-19.0	-19.1	-17.6	-17.5	-	-
Foreign exchange reserves	USD billion	135.9	144.9	137.2	146.4	155.7	156.5	-	-
Import cover	Months	10.2	8.0	6.0	6.3	6.4	5.7	-	-
External debt/GDP	%	39.4	34.9	30.1	29.8	30.5	29.9	29.7	29.0
Monetary and financial indicators									
CPI inflation	%	2.0	1.6	4.1	3.7	2.3	1.9	3.0	2.5
Exchange rate (average)	LC per USD	14,582	14,308	14,850	15,237	15,855	16,478	-	-
Non-performing loans/total gross loans	%	2.6	2.6	2.1	2.0	1.9	2.1	-	-
Private debt, loans and debt securities/GDP	%	42.8	40.5	38.4	38.7	38.2	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Japan

CareEdge AA-/Stable

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for State of Japan at ‘CareEdge AA-/ Stable’ (Unsolicited).

Rationale

The reaffirmation reflects Japan’s solid credit fundamentals, supported by its large and diversified economic base, strong external position, high-quality institutional framework, and deep domestic funding market. These structural strengths continue to balance the risks from very high public debt levels and moderate medium-term growth prospects, which are further shaped by adverse demographics and a weak trend in labour productivity.

Japan’s persistent surpluses in primary income have supported a structural current account surplus, while Japan’s substantial stock of foreign assets underpins a strong positive net international investment position (NIIP). NIIP stands at 87.5% of GDP in 2024, one of the highest globally.

Japan’s credit profile is underpinned by its large economy, estimated at around USD 4.3 trillion in 2025, making it the world's fourth largest. A highly diversified economic structure, with strong contributions from both services and manufacturing, provides resilience and supports growth stability. In addition, Japan benefits from a high-quality institutional framework, as reflected in strong scores for government effectiveness, the rule of law, and regulatory quality.

Japan's fiscal profile is weighed down by high debt levels, ~230% of GDP in 2025, and structurally rigid public finances. These fiscal risks are partially offset by a large and stable domestic investor base, the Central Bank's large holdings of government bonds, and a comfortable debt profile that supports Japan's rating.

Japan's macroeconomic environment has shifted following its exit from a prolonged deflationary phase. In response to elevated inflationary pressures, the Bank of Japan (BoJ) is continuing to raise the policy rate gradually from its ultra-accommodative stance. The policy rates have risen to ~0.75% by December 2025. Stubborn inflation, mainly driven by cost-push factors, could prompt a further increase in policy rates in 2026.

Notwithstanding rising global protectionism and trade tensions on the external front, the economy is expected to grow around 0.7% in the medium term (2025-29). The recently announced fiscal stimulus, estimated at ~3.5% of GDP (the largest since the pandemic), is also expected to support short-term economic activity. The government expects higher growth due to fiscal stimulus, which remains a monitorable.

Policy normalisation, alongside delays in fiscal consolidation, has contributed to a rise in long-term government bond yields to multi-year highs (10-year yields stand at ~2.2% in Jan 2026), up from near-zero levels before the pandemic. Over time, higher yields could weigh on debt affordability.

In addition, the snap elections in Feb 2026, intended to consolidate power, could support policy continuity. The outcomes of elections and their impact on policy direction remain monitorable.

Outlook: Stable

The stable outlook reflects our expectation that the country's robust institutional structure, strong external position, along with a large domestic investor base and favourable debt structure, will enable it to partially offset the risks from high public debt levels, moderate medium-term growth prospects and the recent shift towards monetary policy normalisation characterised by rate hikes and rising yields.

Upside scenario

We may revise our outlook to positive if real GDP growth prospects improve or if we observe a sustained reduction in public debt, thereby improving the fiscal position.

Downside scenario

We may revise our outlook to negative if there is significant deterioration in the external position, reflected by potential compression of external income and depletion of NIIP. Further, a more expansionary fiscal stance without improvement in growth could weigh on the credit profile.

Key rating drivers

Economic structure & resilience

Japan's economic profile is characterised by a large and diversified economy. However, growth performance has remained structurally weak with the economy recording real growth of ~0.6% during FY2000–FY2024. Rapid population ageing, a declining workforce, and limited immigration continue to constrain labour supply, weighing on the economy's productive capacity over time. Alongside modest productivity gains, these dynamics have contributed to weaker manufacturing competitiveness and subdued medium-term growth prospects. While Japan remains firmly in the high-income category, per capita income gains have been modest. The economy's high trade and financial linkages with the US and China add vulnerability to external shocks.

Japan has experienced macroeconomic re-adjustments post-pandemic. While price and wage dynamics have risen from historically low levels, these changes have not yet led to higher domestic demand. Therefore, despite improvement in nominal wages, real income growth has remained weak, limiting household consumption and the pace of recovery. Growth performance has therefore remained uneven. After a modest pickup in activity in early 2025, supported by private demand, real GDP contracted in Q3 2025. Meanwhile, higher producer costs have kept business sentiment subdued. On the external side, frontloading of exports in response to US tariffs supported growth in the first half of 2025. However, emerging domestic supply constraints are aligning with rising global protectionism and trade tensions, adding pressure to Japan's export performance and overall growth trajectory.

Notwithstanding these challenges, medium-term growth (2025-29) is projected at around 0.7%, broadly in line with Japan's long-term average. Recent fiscal stimulus measures, including targeted transfers and support for MSMEs and industrial production, are expected to boost growth. The overall impact on the economy remains monitorable.

Fiscal strength

Japan's fiscal pillar is weighed down by very high gross general government (GGG) debt. Additionally, fiscal rigidities remain high in Japan, defined by a large burden of fixed and committed spending, alongside relatively lower tax revenues compared with advanced-economy peers.

These fiscal risks are offset by large-scale domestic holdings of government debt (with nearly 87% of public debt held domestically, and the Bank of Japan accounting for around 45% of total holdings). In addition, Japan benefits from a deep pool of institutional investors, such as the Government Pension Investment Fund (GPIF), supported by a strong household savings base. The relatively long maturity profile of government bonds provides an additional layer of stability. The ultra-accommodative monetary policy stance has maintained extremely low borrowing costs, with the government's interest payments as a share of revenue declining from nearly 11% in 2000 to 3.8% in 2024, well below the levels in most advanced economies.

Recently, Japan's government has adopted an expansionary fiscal stance, approving a USD 136 bn stimulus package (3.5% of GDP), including a USD 113.2 bn supplementary budget for FY 2025, the largest since the pandemic. These measures are raising concerns about fiscal consolidation, with markets reassessing the risks associated with Japan's fiscal trajectory, driving long-term government bond yields to multi-year highs.

As yields rise, the debt affordability cushion provided by ultra-low borrowing costs is expected to decline gradually over the medium term. The gross government debt-to-GDP ratio is projected to remain elevated, and structurally rigid public finances could add to medium-term fiscal pressures. The impact of higher-than-expected rate hikes on the fiscal profile remains to be monitored.

External position & linkages

Japan's external strength remains a key credit anchor. With ultra-low domestic interest rates for decades, the economy has capitalised on the higher yield differential between Japan and global peers, particularly U.S. Treasury yields. This gap, along with a stable yen, has supported carry trade dynamics, where Japanese investors borrow at very low domestic funding costs and invest in higher-yielding foreign assets. This capital export policy has supported a surplus in primary income, leading to a healthy track record of current account surpluses, averaging 3.2% of GDP over the last five years. Additionally, Japan's NIIP is around 87.5% of GDP in 2024, one of the highest among peers with similar ratings. Japan is also among the largest holders of U.S. Treasuries and maintains over USD 1 trillion in foreign exchange reserves, equivalent to nearly 15 months of imports (as of December 2025). This partially mitigates the risk of high external debt at ~108.8% of GDP (2024). Additionally, Japan benefits from the Yen's reserve-currency status.

Recent developments, including the exit from the zero-interest rate policy and rising domestic yields, have led to extended policy divergence with the Fed. This has contributed to a narrowing of the yield differential between Japanese and US 10-year government bonds. However, despite higher yields in Japan, the yen remains weak against the USD. This combination of narrowing yield differential and currency volatility has weakened the premises of traditional yen carry-trade dynamics. Nonetheless, the current account surplus is projected to remain healthy at ~3.5% of GDP over the next five years (2025-29). Japan's extensive asset base, spanning highly liquid foreign exchange reserves and government deposits, semi-liquid pools provide buffers that can limit liabilities from translating into solvency concerns.

Monetary & financial stability

Japan operates under a free-floating exchange rate regime, and the yen's status as a reserve currency is a key strength in its monetary assessment. A large, well-developed financial system, along with a lower proportion of non-performing loans to gross loans, bodes well for assessing this pillar.

In the past, the central bank adopted ultra-accommodative monetary stance to lift inflation towards target and support economic activity. However, this long-standing deflationary trend reversed, with inflation staying above the central bank's 2% target since April 2022. In response to high inflation, the BoJ began normalising its ultra-accommodative policy, raising rates gradually to nearly 0.75% in December 2025 and reducing bond purchases, signalling a cautious shift after decades focused on deflation policy.

According to the BOJ, Inflation is expected to be around 2.0–2.5% in FY26, then to ease slightly. Inflation remains stubborn as underlying demand remains weak. Going forward, achieving the 2% inflation target sustainably while effectively managing the divergence in monetary policy between the BoJ and other central banks remains the key challenge for monetary policy.

Institutions & quality of governance

Japan's assessment of this pillar is based on strong performance in government effectiveness, the rule of law, and regulatory quality, as measured by the Worldwide Governance Indicators.

Japan has recently experienced a change in political leadership in October 2025, with Prime Minister Sanae Takaichi heading a minority government following the resignation of Prime Minister Shigeru Ishiba in July 2025. The absence of a parliamentary majority has increased the government's reliance on coalition partners, including the Japan Innovation Party, for legislative support. While the Liberal Democratic Party (LDP) has traditionally supported fiscal consolidation, the need to build consensus within a coalition framework could moderate this pace of consolidation.

The LDP's recent snap election represents a political strategy to seek a parliamentary majority. However, its timing at the start of the Diet session and ahead of budget deliberations is monitorable, as it could delay the passage of the FY2026 budget. A positive electoral outcome, however, could support policy continuity and governance stability.

Geopolitical developments, including the fragility of bilateral relations with China and heightened sensitivities surrounding Taiwan, along with tensions with North Korea, remain a monitorable.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	5,118	5,054	5,039	4,263	4,205	4,019	4,280	4,464
GDP per capita (constant-PPP)	USD	45,114	43,361	44,657	45,240	46,017	46,285	47,011	47,553
Real GDP growth	%	-0.4	-4.2	2.7	1.0	1.2	-0.2	1.1	0.7
GFCF/GDP	%	25.5	25.5	25.5	26.0	25.8	26.0	-	-
Gross domestic savings/GDP	%	25.5	25.0	25.3	23.1	24.7	25.3	-	-
Exports (G&S)/GDP	%	17.5	15.5	18.1	21.5	21.9	22.8	-	-
Working age (15-64) population (% share in total)	%	59.0	58.9	58.7	58.7	58.8	58.8	58.8	58.8
Old age (65+) population (% share in total)	%	28.6	28.9	29.2	29.4	29.6	29.8	30.0	30.2
Fiscal indicators – general government									
Fiscal balance/GDP	%	-3.0	-9.1	-6.1	-4.2	-2.3	-1.5	-1.3	-2.0
Revenue/GDP	%	34.2	35.5	36.3	37.5	36.9	37.6	37.4	37.2
Expenditure/GDP	%	37.3	44.5	42.5	41.8	39.2	39.1	38.6	39.2
GG gross debt/GDP	%	236.4	258.4	253.7	248.2	240.5	236.1	229.6	226.8
GG external debt (by creditor)/ GG gross debt	%	14.1	16.0	14.1	13.6	13.5	11.9	14.2	-
Interest/revenue	%	4.9	4.7	4.4	4.1	3.8	3.8	-	-
External indicators									
Current account balance/GDP	%	3.4	3	3.9	2.1	3.7	4.8	3.9	3.6
FDI, net inflows/GDP	%	0.8	1.2	0.7	1.1	0.5	0.4	-	-
Outstanding FII liabilities/GDP	%	71.0	81.3	82.0	81.1	84.6	90.2	-	-
NIIP/GDP	%	63.9	68.6	72.7	74.4	78.8	87.5	-	-
Foreign exchange reserves	USD billion	1323.8	1394.7	1405.8	1227.6	1294.6	1230.7	1369.8	-
Import cover	Months	17.4	20.8	18.0	13.6	15.6	15.3	-	-
External debt/GDP	%	82.9	95.4	92.1	103.0	106.6	108.8	-	-
Monetary and financial indicators									
CPI inflation	%	0.5	0.0	-0.2	2.5	3.3	2.7	3.3	2.9
Exchange rate (average)	LC per USD	109.0	106.7	109.9	131.6	140.6	151.4	149.7	-
Non-performing loans/total gross loans	%	1.1	1.1	1.2	1.2	1.2	1.2	-	-
Private debt, loans and debt securities/GDP	%	165.9	184.8	185.4	187.3	182.6	181.4	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Korea

CareEdge AA-/Stable

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating of Republic of Korea (Korea) at 'CareEdge AA-/ Stable' (Unsolicited).

Rationale

Korea's rating reaffirmation reflects strong credit fundamentals, anchored by a robust external position, a diversified economic base, and resilient institutions. The credit profile is also supported by a stable monetary and financial system along with sound government finances characterised by strong debt affordability and low external government debt. These strengths are partly offset by elevated private sector debt, particularly high household debt, as well as persistent fiscal deficits and a rising gross general government (GGG) debt trajectory. Additionally, geopolitical tensions with North Korea could undermine national security, while an ageing population remains a structural challenge to Korea's credit profile.

The macroeconomic profile is supported by its large economy with globally competitive industries, particularly semiconductors, which alone accounted for around 24% of total exports in 2025, supporting export performance. Growth has moderated in recent years due to weakening domestic demand, following a period of strong pre-pandemic expansion (averaging 3.1% during 2013–19). It is expected to stabilise at ~2% over 2026–30, supported by a recovery in private consumption and global demand for AI-related industries and semiconductors. While policy efforts to support innovation and productivity may provide some support, structural headwinds from rapid population ageing are expected to weigh on growth and add to fiscal pressures.

The external sector is a key credit anchor, supported by a current account surplus of 6.6% of GDP in 2025, driven by semiconductor exports. The net international investment position is positive at 48% of GDP in 2025, while external debt remains relatively low, averaging 37% of GDP over 2021–25. Foreign exchange (FX) reserves are comfortable at 6.7 months of imports in 2025. However, high integration into global value chains exposes the economy to external demand shocks and slowdown in key trading partners.

Monetary policy remains credible, with inflation contained at 2% in 2025, broadly in line with the central bank's target range. Financial sector risks are contained, supported by a well-capitalised banking system, with capital adequacy ratio at 18.1% and non-performing loans at 0.4% in Q3 2025. However, household debt remains elevated, although it has declined from ~99% of GDP in 2021 to ~89.4% of GDP in Q3 2025, and remains monitorable.

Gross general government debt remains at moderate level, estimated at ~53.4% of GDP in 2025, well below the 100%+ average of advanced economy peers. However, debt is expected to rise gradually over the medium term. Debt affordability remains strong, with interest payments averaging about 3.6% of revenues over 2020–24. Fiscal deficit persists, with the overall balance estimated at -2.4% of GDP in 2025, as against -1.7% in 2024. It is projected to average -2.2% of GDP over 2026-30, reflecting an expansionary fiscal stance. Over time, rising spending pressures related to healthcare, pensions and defence are expected to weigh on the fiscal profile. Risks from contingent liabilities linked to non-financial public sector enterprises remain a monitorable.

Political uncertainty has eased following the election of a new administration in mid-2025, after a period of domestic volatility. The current government holds a legislative majority, which is expected to support policy implementation over the medium term. At the same time, geopolitical tensions with North Korea are a persistent risk.

Outlook: Stable

The outlook reflects our view that Korea's external position will be able to withstand the global headwinds. The current account is expected to remain in surplus, and a positive net international investment position provides a buffer. We expect the fiscal profile to remain comfortable, even though Korea's general government debt is projected to rise over the next five years.

Upside scenario

We could revise the outlook to positive if growth becomes more balanced, with stronger domestic demand complementing sustained export performance, thereby reducing vulnerability to external shocks. Additionally, the outlook could improve if geopolitical tensions with North Korea de-escalate and Korea effectively manages the challenges of an ageing population.

Downside scenario

We could revise the outlook to negative if a sustained slowdown in global trade weakens Korea's economic growth below the current expectations and materially undermines the external position, leading to a significant narrowing of the current account surplus. Faster-than-expected rise in gross general government debt due to persistent fiscal deficits and ageing-related spending pressures could weaken the fiscal profile, while a significant escalation of geopolitical tensions with North Korea could impact the outlook.

Key rating drivers

Economic structure & resilience

Korea is a large economy with an economic size of USD 1.9 trillion and a high per capita income estimated at USD 55,814 (constant PPP terms) in 2025. Its globally competitive industries, such as electronics and semiconductors, are key contributors to growth, but also expose the country to fluctuations in global technology cycles.

Growth has slowed steadily since the post-pandemic rebound, declining from 4.6% in 2021 to 2.0% in 2024, below the pre-pandemic average. Growth moderated further to 1.0% in 2025, reflecting earlier political uncertainty, weak construction activity, and subdued domestic demand. Private consumption, while still soft, has begun to recover, increasing from 0.7% y-o-y in H1 2025 to 1.9% y-o-y in H2 2025, supported by an accommodative monetary stance and an expansionary fiscal policy. Additionally, resilient semiconductor exports continue to anchor overall growth. Growth is expected to pick up and average 2% over 2026-30, supported by a gradual recovery in consumption and sustained semiconductor demand. Nevertheless, external risks from an uncertain global environment remain monitorable.

Korea is relatively a super-aged society, with 20.3% of its population aged 65 and above (2025). It is projected to have the highest share of elderly population among the OECD nations by 2046. This demographic shift poses structural headwinds to Korea's economic growth and remains a monitorable.

Fiscal strength

Korea's fiscal profile is supported by strong debt affordability and a low share of external government debt (~18% in 2024). Gross general government (GGG) debt remains at moderate levels, estimated at ~53% of GDP in 2025, although it has increased by ~10 percentage points between 2019 and 2024. GGG Debt is projected to rise further over the medium term, reaching ~64% of GDP by 2030.

In 2025, fiscal policy became expansionary, supported by two supplementary budgets, with the overall balance estimated at -2.4% of GDP in 2025, up from -1.7% in 2024, aimed at strengthening domestic demand. The 2026 budget continues this expansionary approach to support growth, while fiscal deficit is projected to average -2.2% of GDP over 2026-30.

Population ageing is expected to place sustained pressure on public finances over time. Potential challenges also stem from contingent liabilities related to the non-financial public sector. Additionally, geopolitical risks from North Korea are expected to keep military spending elevated (2.6% of GDP in 2024), with the 2026 budget increasing by ~7.5%, which diverts resources from other policy priorities.

External position & linkages

Korea is highly reliant on exports (~44% of GDP in 2024) and has consistently recorded current account surpluses. The current account surplus improved to 6.6% of GDP in 2025 from 5.3% in 2024, driven by strong semiconductor exports. The country's external debt is low, averaging 37% of GDP over 2021-2025. Korea also holds sizeable foreign exchange reserves of ~USD 428 billion in 2025, covering ~6.7 months of imports. Its large and positive net international investment position, estimated at ~48% of GDP in 2025, further strengthens the external profile.

Recent policy developments include a US-Korea trade and investment framework under which Korea has committed USD 150bn in shipbuilding investment and USD 200bn in other strategic sectors in the US. The agreement is expected to support bilateral relations between the two countries. However, risks related to global trade dynamics and evolving geopolitical developments remain monitorable.

Monetary & financial stability

Korea has a floating exchange rate, and its currency is actively traded. Inflation averaged 2% in 2025, in line with the Bank of Korea's target, supported by subdued energy costs and contained food price pressures. In 2026, inflation is expected to be contained at ~1.8%. However, external risks to price stability have emerged from higher global energy prices, driven by ongoing geopolitical tensions in the Middle East, which could pass through to domestic inflation if sustained. Monetary policy has been accommodative, with the Bank of Korea cutting rates by 100 basis points between October 2024 and May 2025.

Financial sector risks are contained, supported by adequate bank capitalisation, with a capital adequacy ratio of 18.1% and non-performing loans at 0.4% in Q3 2025. However, private sector debt remains elevated at ~200% of GDP in Q3 2025, posing potential risks. Within this, household debt remains high at ~89.4% of GDP in Q3 2025, albeit down from the peak of ~99% of GDP in 2021. Recent macroprudential measures, including tighter limits on mortgage lending and lower loan-to-value ratios, have helped moderate borrowing and contain risks, although household debt remains a key monitorable.

Corporate governance reforms and FX liberalisation measures are underway, including steps to improve transparency, strengthen shareholder rights, extend trading hours with plans for a 24-hour system, and establish an offshore KRW settlement framework to boost market efficiency. These reforms are expected to address equity undervaluation (Korea discount), deepen capital markets and broaden participation by domestic and foreign investors.

The Korea composite stock price index (KOSPI) has performed strongly, gaining ~76% in 2025, supported by robust demand for AI-related semiconductors, improved investor sentiment following political stabilisation, and ongoing capital market reforms. Meanwhile, the currency (KRW) has remained under pressure, driven by capital outflows from domestic investors, particularly into US equities.

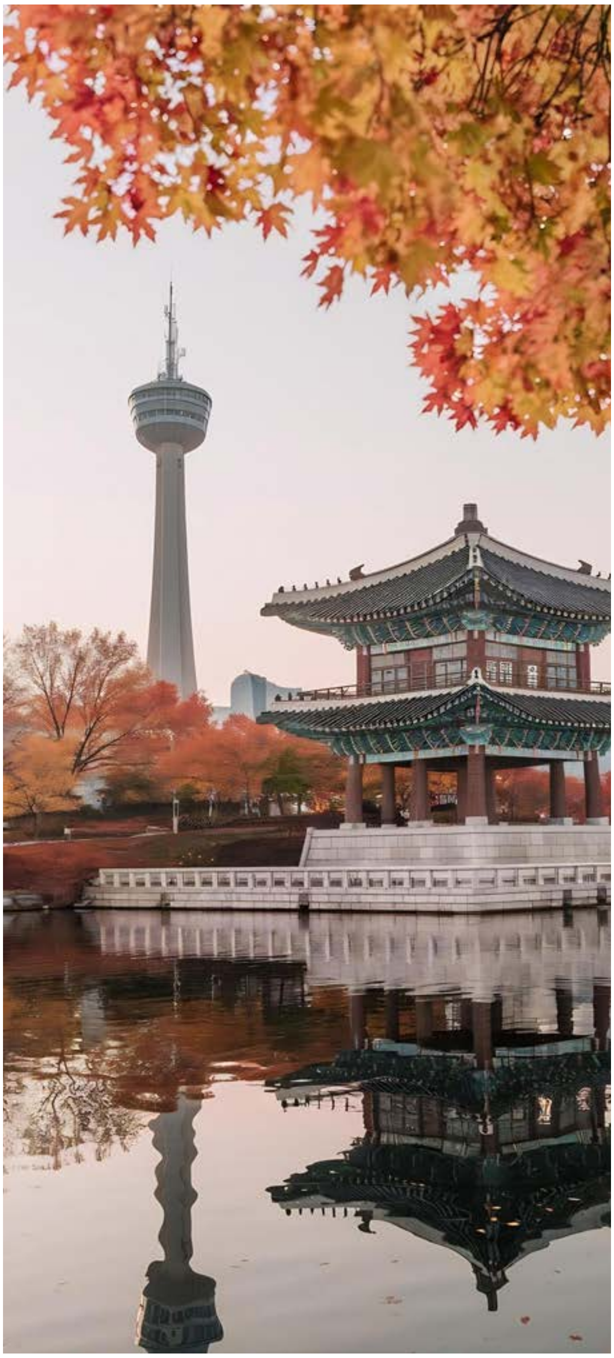
Institutions & quality of governance

Korea's governance strength is reflected in its high percentile rankings across the Worldwide Governance Indicators. However, the country's brief encounter with martial law in 2024 indicates a fractured political environment. Other developments, such as the 2022 Legoland default in Gangwon Province, where the local governor initially refused to honour a debt guarantee, have also raised concerns about institutional reliability.

Despite these weaknesses, the government's ability to respond quickly to crises highlights the strength of Korea's institutional framework.

Political uncertainty has eased following the election of a new administration in mid-2025 after a period of domestic volatility. The current government's legislative majority is expected to support policy continuity over the medium term.

Korea remains exposed to geopolitical tensions with North Korea. While missile testing by North Korea has intensified in recent years, the risk of this escalating into a serious conflict remains low for now. Still, the situation warrants vigilance.



Select indicators

	Unit	2020	2021	2022	2023	2024	2025	2026 F	2027 F
Economic indicators									
Nominal GDP	USD billion	1,744	1,942	1,799	1,845	1,875	1,874	1,937	2,017
GDP per capita (constant-PPP)	USD	49,529	51,880	53,395	54,199	55,244	55,814	56,913	58,228
Real GDP growth	%	-0.7	4.6	2.7	1.6	2.0	1.0	1.8	2.2
GFCF/GDP	%	31.0	31.5	31.9	31.4	30.0	-	-	-
Gross domestic savings/GDP	%	35.2	35.9	33.3	32.3	34.0	-	-	-
Exports (G&S)/GDP	%	34.6	39.3	45.3	41.3	44.4	-	-	-
Working age (15-64) population (% share in total)	%	72.1	71.5	71.1	70.7	70.2	69.5	68.7	68.1
Old age (65+) population (% share in total)	%	15.8	16.7	17.5	18.3	19.3	20.3	21.4	22.5
Fiscal indicators – general government									
Fiscal balance/GDP	%	-2.1	0.0	-1.5	-0.7	-0.8	-1.5	-1.4	-1.4
Revenue/GDP	%	21.6	24.1	25.2	22.4	21.8	22.6	23.2	23.3
Expenditure/GDP	%	23.7	24.1	26.7	23.1	22.5	24.1	24.6	24.7
GG gross debt/GDP	%	45.9	48.0	49.8	50.5	49.8	53.4	56.7	58.9
GG external debt (by creditor)/ GG gross debt	%	15.2	15.7	17.5	18.5	17.5	-	-	-
Interest/revenue	%	3.2	2.9	3.1	4.1	4.7	-	-	-
External indicators									
Current account balance/GDP	%	4.4	4.4	1.4	1.8	5.3	6.6	3.9	4.1
FDI, net inflows/GDP	%	0.5	1.1	1.4	1.0	0.7	0.8	-	-
Outstanding FII liabilities/GDP	%	55.9	51.2	45.3	51.7	44.5	72.3	-	-
NIIP/GDP	%	27.9	35.3	44.5	43.6	58.8	48.2	-	-
Foreign exchange reserves	USD billion	443	463	423	420	416	428	-	-
Import cover	Months	9.8	8.0	6.2	6.6	6.6	6.7	-	-
External debt/GDP	%	31.6	32.5	37.4	36.7	35.9	40.9	-	-
Monetary and financial indicators									
CPI inflation	%	0.5	2.5	5.1	3.6	2.3	2.0	1.8	2.0
Exchange rate (average)	LC per USD	1,180	1,145	1,292	1,306	1,364	1,422	-	-
Non-performing loans/total gross loans	%	0.2	0.2	0.2	0.3	0.4	0.4	-	-
Private debt, loans and debt securities/GDP	%	200.6	205.6	209.0	206.5	200.7	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Malaysia

CareEdge A-/Stable

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for Malaysia at 'CareEdge A-/ Stable' (Unsolicited).

Rationale

The reaffirmation reflects Malaysia's diversified economic base and relatively strong medium-term growth prospects compared with similar-rated peers. A sound external position continues to support the credit profile despite tariff-related global headwinds. Following years of frequent government changes, the current phase of relative stability has supported a steadier policy environment and is expected to be sustained. However, progress on structural reforms has been slow, especially towards subsidy rationalisation and broadening of the revenue base. Further, high GGG debt (at 70.1% of GDP in 2024), rising interest costs, and a narrow revenue base remain key fiscal constraints and continue to weigh on the credit profile.

Malaysia's macroeconomic performance is supported by firm domestic demand and steady investment momentum. The economy grew by

4.7% in the first three quarters of 2025, with full-year growth expected at around 4.5%. Over the medium term, growth is projected to moderate to 4.1% amid trade uncertainty and tariff-related disruptions, but is expected to remain above that of peers' growth. While exposure to potential sector-specific tariffs persists, continued strength in tourism and sustained demand for electrical and electronics products could provide some offset.

Malaysia's sound external position, anchored by a consistent current account surplus, strong FDI inflows, and adequate foreign exchange reserves, continues to support its credit profile. However, the economy's high trade openness leaves it vulnerable to trade and tariff-related uncertainties.

The banking sector profile is supported by low non-performing loan ratios and capital and liquidity buffers that are comfortably above regulatory requirements. However, household debt is relatively high at around 84.8% of GDP and remains a close monitorable.

Malaysia's fiscal position remains a relative weakness in its overall credit profile. Gross general government debt levels remained elevated at 70.1% of GDP in 2024. Federal government debt stood at around 64.7% of GDP in June 2025, exceeding the medium-term ceiling of 60% under the Fiscal Responsibility Act. Rising interest costs continue to weigh on debt affordability, with the interest-to-revenue ratio expected to reach 16.2% in 2025, compared with about 12.5% in 2019. The revenue base remains narrow at 19.9% of GDP in 2024 (compared with 25.8% for emerging market and developing economies), constrained by reliance on petroleum-related income and limited tax diversification. In addition, high contingent liabilities from public sector enterprises and government guarantees pose a structural fiscal risk. In parallel, the government is pursuing fiscal consolidation, supported by subsidy rationalisation measures, the rollout of e-invoicing, and the expansion of the service tax base. Sustained progress in subsidy reform, broadening the tax base, and adherence to the Fiscal Responsibility Act targets will be important for strengthening fiscal resilience and improving debt affordability over the medium term.

The current administration has provided stability and continuity in governance, although the coalition remains structurally fragile given the country's history of frequent government changes. Malaysia's multi-party system reflects a complex coalition landscape, shaping policymaking and adding to political complexity.

Outlook: Stable
The stable outlook reflects our expectation that Malaysia will maintain a steady growth rate of around 4.1% over the medium term (2025-29), supported by resilient domestic demand and steady investment momentum. The country's external position is expected to remain comfortable, with strong integration in global value chains expected to maintain the current account surplus despite global headwinds. Further, fiscal consolidation is expected to progress, albeit at a slow pace.

Upside scenario

The rating could be upgraded if fiscal metrics strengthen on a sustained basis, supported by a broader revenue base and credible institutional policies that anchor fiscal consolidation, leading to a lower debt-to-GDP ratio and reduced interest burden. Further, a material decline in contingent liabilities would also support the rating upgrade. Maintaining growth while improving the fiscal position would be positive for the credit profile. Advancing reforms to strengthen the revenue framework and rationalise subsidies would be another positive factor for the rating.

Downside scenario

The rating could be revised to negative if fiscal consolidation efforts stall, leading to a deviation from the medium-term consolidation path and weaker fiscal metrics. A sustained slowdown in economic activity or renewed global uncertainty could lead to broad based deterioration in external position, posing downside risks to the rating.

Key rating drivers

Economic structure & resilience

Malaysia's economic profile reflects its moderate size, relatively healthy medium-term growth prospects and an adequately diversified structure spanning manufacturing, resource-based industries, financial services and tourism. The GDP per capita stood at USD36,255 on PPP basis at constant prices in 2024. The well-developed infrastructure and favourable demographics support Malaysia's competitiveness and medium-term growth prospects. However, gross fixed capital formation remains relatively low at about 20.5% (2024) of GDP compared with similarly rated peers.

In the first three quarters of 2025, the economy grew by 4.7%, supported by resilient domestic demand, underpinned by strong household spending and investment, along with improving exports, partly lifted by front-loading activity. Full-year growth for 2025 is projected at around 4.5%, compared with 5.1% in 2024. Domestic demand, which accounts for around 95.2% of GDP (2024), remains the key driver of growth and is expected to sustain robust economic performance despite global headwinds. Looking ahead, Malaysia's medium-term growth is projected to remain favourable relative to similarly rated peers, with real GDP expected to expand at an average rate of about 4.1% over the next five years (2025–30), broadly in line with its long-term average of 4.0% (2015–2024).

However, growth remains sensitive to external conditions given Malaysia's high trade openness, while potential US sector-specific measures on semiconductors could make exports vulnerable.

Fiscal strength

Malaysia's fiscal assessment remains constrained by elevated gross general government debt levels and a narrow revenue base. Malaysia's GGG debt has risen from 55.6% of GDP in 2018 to 70.1% in 2024, while the high interest-to-revenue ratio (average 15.1% from 2020 to 2024), relative to A-rated peers, further exacerbates fiscal pressures. The abolition of the progressive Goods and Services Tax in 2018 and its replacement with the Sales and Services Tax led to a decline in revenue mobilisation, with revenue declining to 19.9% of GDP in 2024, below the pre-pandemic level of 21.6% in 2019. Additionally, the federal government's reliance on petroleum-related revenues (~19.3% of revenue in 2024) increases vulnerability to commodity price volatility.

Fiscal consolidation is progressing gradually, with the general government deficit expected to narrow to 3.6% of GDP in 2025 from 4.0% in 2024. Subsidy spending remains sizeable despite rationalisation steps. Subsidies and social assistance declined from 3.9% of GDP in 2023 to 3.1% in 2024. On the revenue side, the government have introduced measures to broaden the tax base, including the expansion of the Sales and Services Tax from May 2025 and a 2% tax on dividend income above MYR 100,000. The rollout of the targeted subsidy programme for RON95 petrol (the most widely used petrol grade) in September 2025 represents a shift away from blanket fuel subsidies toward a more targeted structure. The government's ability to sustain effective implementation of these measures will be critical to achieving fiscal consolidation and maintaining policy credibility.

Furthermore, sizable, committed guarantees and high non-financial public sector debt (85.8% of GDP, June 2025) pose contingent liability risks. The government's committed guarantees stood at 11.8% of GDP as of June 2025. However, the favourable federal government debt structure, with a high share of domestic currency debt (~98%) and a long maturity debt profile, remains a key mitigating factor.

External position & linkages

Malaysia's external position remains an anchor for its credit strength, supported by a structural current account surplus, steady foreign direct investment inflows, and adequate reserve buffers.

The current account surplus stood at 1.4% of GDP in 2024 and is projected to average around 1.9% of GDP over 2025 to 2029. Manufactured exports, particularly in electrical and electronics, are expected to remain the main driver. At the same time, the gradual recovery in tourism should help improve the services balance and offset softer commodity exports. FDI net inflows averaged 3.2% of GDP from 2020 to 2024. Foreign exchange reserves provide a moderate cushion, with coverage of over five months of imports in 2024.

Malaysia's high trade openness makes the economy more vulnerable to shifts in global demand. Exports of goods and services were about 71.4% of GDP in 2024, leaving the external outlook exposed to disruptions in global supply chains, commodity markets and the ongoing international tariff environment.

External debt is moderately high at 69.7% of GDP in 2024, with about 42.8% in short-term liabilities. However, risks are partly mitigated by the composition of these obligations. Nearly half of short-term external debt reflects intragroup borrowings within banks and corporates, which tend to be more stable. About one-third of external debt is denominated in ringgit, limiting exposure to currency valuation effects. Even so, a moderately high exposure to foreign portfolio flows further adds to external sector vulnerabilities.

Monetary & financial stability

Malaysia's exchange rate regime is classified as floating, with occasional central bank interventions in the foreign exchange market to stabilise the currency. Inflation has been low and largely under control (~1.8% during 2020-24), supported by government subsidies for essential items. CPI inflation stood at 1.3% in Q32025. Monetary policy in 2025 has taken a more supportive stance to safeguard growth, amid low inflation and softer external conditions.

The country's financial system remains healthy and diversified, with a well-capitalised banking sector and deep capital markets. Asset quality is low, with a non-performing loan ratio steady at around 1.4% as of Aug 2025. However, the elevated household debt level, at 84.8% of GDP in H1 2025, warrants monitoring. Nevertheless, household repayment capacity remains sound, with the median debt-service ratio (DSR) for outstanding loans at 33%.

Institutions & quality of governance

Malaysia's institutions demonstrate considerable efficacy in policymaking, and the rule of law is well established. It ranks highly in ease of doing business and as a destination for investment. The formation of a unity government in 2022 has overseen a period of stability. However, this environment may be fragile given Malaysia's medium-term history of political volatility, leadership churn, and unresolved underlying tensions, including ethnic and regional divisions.

Furthermore, high-profile corruption incidents have undermined the long-term credibility of governance. In response, the government outlined a commitment to addressing corruption through the National Anti-Corruption Strategy, which is currently being implemented.

Continued anti-corruption efforts and governance improvements are critical for sustaining institutional strength. However, the government's stance of not reinstating the GST and instead strengthening the SST framework reflects policy trade-offs shaped by political and socio-political considerations, despite broad recognition of its importance for revenue reform, signalling constraints to advancing fiscal measures.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	365.2	337.5	373.8	407.8	399.9	422.2	470.6	505.4
GDP per capita (constant-PPP)	USD	32184	30499	31385	34140	34912	36255	37448	38512
Real GDP growth	%	4.4	-5.5	3.3	9.0	3.5	5.1	4.5	4.0
GFCF/GDP	%	22.9	20.9	19.3	18.2	19.2	20.5	-	-
Gross domestic savings/GDP	%	28.6	26.0	29.4	30.8	27.6	27.2	-	-
Exports (G&S)/GDP	%	65.3	61.6	70.6	76.9	68.6	71.4	-	-
Working age (15-64) population (% share in total)	%	69.0	69.3	69.6	70.0	70.3	70.5	70.7	70.8
Old age (65+) population (% share in total)	%	6.5	6.7	7.0	7.2	7.5	7.7	8.0	8.3
Fiscal indicators – general government									
Fiscal balance/GDP	%	-2.0	-4.9	-6.0	-4.6	-4.0	-4.0	-3.6	-3.6
Revenue/GDP	%	21.6	20.1	18.4	20.1	20.9	19.9	19.8	19.1
Expenditure/GDP	%	23.6	25.0	24.5	24.6	24.9	23.9	23.4	22.7
GG gross debt/GDP	%	57.1	67.7	69.2	65.5	69.7	70.1	70.4	70.5
GG external debt (by creditor)/ GG gross debt	%	24.3	25.1	24.6	21.9	22.0	21.4	-	-
Interest/revenue	%	12.5	15.3	16.3	14.0	14.7	15.6	16.2	17.0
External indicators									
Current account balance/GDP	%	3.5	4.2	3.9	3.2	1.1	1.4	1.5	1.8
FDI, net inflows/GDP	%	2.5	1.2	5.4	3.7	2.0	3.7	-	-
Outstanding FII liabilities/GDP	%	41.1	46.6	44.2	36.4	36.5	38.4	-	-
NIIP/GDP	%	-2.6	5.9	5.8	3.0	6.7	-0.6	-	-
Foreign exchange reserves	USD billion	103.6	107.7	116.6	114.1	113.4	116.3	-	-
Import cover	Months	5.9	6.9	5.9	4.8	5.4	5.0	-	-
External debt/GDP	%	63.3	70.8	69.2	63.6	67.7	69.7	-	-
Monetary and financial indicators									
CPI inflation	%	0.7	-1.1	2.5	3.4	2.5	1.8	1.6	2.2
Exchange rate (average)	LC per USD	4.1	4.2	4.1	4.4	4.6	4.6	-	-
Non-performing loans/total gross loans	%	1.5	1.6	1.7	1.7	1.7	1.4	-	-
Private debt, loans and debt securities/GDP	%	164.2	181.7	174.6	154.2	159.1	157.0	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Philippines

CareEdge BBB+/Stable

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for Republic of Philippines at 'CareEdge BBB+/Stable' (Unsolicited).

Rationale

The rating reaffirmation reflects the Philippines' strong macroeconomic buffers, underpinned by a solid external position and resilient growth dynamics. However, below-average institutional quality and a moderate fiscal profile weigh on the sovereign's credit profile.

The economy benefits from favourable growth prospects and a supportive demographic structure, where a large working-age population drives domestic demand and medium-term expansion. Amid ongoing investigations into alleged governance issues linked to infrastructure and flood management projects, investor confidence has weakened and has weighed on economic growth in 2025. Therefore, near-term economic growth remains monitorable. Structural constraints, including low GDP per capita and persistent skill shortages, continue to limit productivity gains. In addition, high exposure to climate-related events contributes to output volatility and may generate episodic fiscal pressures.

Government debt is projected to stabilise at ~57.5% of GDP over the next five years, below the government's indicative ceiling of 60% and broadly manageable under our baseline. Authorities have revised their medium-term fiscal strategy, targeting to reduce the fiscal deficit to about 3.1% of GDP by 2030. However, post-pandemic efforts for fiscal consolidation have been more gradual than planned.

The external sector is supported by consistent remittance inflows, which mitigate the structural trade deficit and maintain a comfortable reserve position, alongside a moderately negative net international investment position. Nevertheless, risks from global economic uncertainties remain, although current tariff exposures are similar to regional peers.

Financial sector risks are contained, anchored by a well-capitalised banking system, ample liquidity, low non-performing loans, and adequate provisioning, which effectively shields the sovereign balance sheet from contingent liabilities. However, monitorable concerns of rapid credit growth and banks' exposure to real estate lending remain.

Below-average institutional quality continues to constrain the Philippines' credit profile. Recent infrastructure-related governance concerns have raised questions around policy credibility and corruption control. In addition, persistent tensions in the South China Sea remain a key risk monitorable, as they could undermine given their potential implications for geopolitical stability and investor sentiment.

Outlook: Stable

The Stable outlook reflects the Philippines' economic resilience, underpinned by robust domestic consumption, a diversified export base, and steady remittance inflows. These strengths provide a buffer for its external position against global headwinds. The credit profile is further supported by the government's commitment to fiscal consolidation, with the fiscal deficit projected to narrow to 3.1% of GDP by 2030, supported by sustained economic growth and gradual revenue mobilisation.

Upside scenario

We may revise the outlook upwards if fiscal consolidation progresses faster than expected, resulting in sustained reduction in fiscal deficit. A steady decline in the government debt-to-GDP ratio, bolstered by stronger and more stable revenue generation along with improved growth performance, would strengthen fiscal resilience and improve debt affordability. Further progress on structural reforms, particularly those targeting infrastructure gaps and skills shortage, would enhance medium-term growth prospects and provide upward momentum for the sovereign's credit profile.

Downside scenario

We may revise the outlook downwards if there is a deviation from the sovereign deviates from stated fiscal consolidation path, particularly if accompanied by weaker-than-expected growth. This could weaken debt affordability and increase the debt burden. A deterioration in external conditions, including a slowdown in key trading partners, could also weigh on export performance and growth prospects, reducing fiscal flexibility and exerting pressure on the overall credit profile.

Key rating drivers

Economic structure & resilience

The Philippines' structural strengths are anchored in robust growth dynamics, with the economy growing at 5.8% over the past five years (2021-25), positioning it among the faster-growing economies in Southeast Asia. A favourable demographic structure, reflected in a low old-age dependency ratio with the population aged 65 and above accounting for only 5.7% of the total in 2025, supports labour supply and domestic demand. A diversified export basket and broad trading partner base enhance external resilience. However, structural constraints persist. GDP per capita, at about USD 11,080 in constant PPP terms in 2025, indicates that the economy remains within the middle-income cohort, highlighting productivity gaps. Gross fixed capital formation, at around 22.7% of GDP in 2025, is relatively modest. In addition, high exposure to climate-related hazards (typhoons, floods, cyclones) and other natural disasters, induces output volatility.

Growth is expected to average 5.7% over 2026-2030, following a moderate 4.4% in 2025, which was due to production disruptions caused by Typhoons Fung Wong and Yagi. Furthermore, an infrastructure-related governance issue dampened business and consumer confidence and led to slower public disbursements, pushing investments into negative territory.

Over the medium term, public infrastructure spending under the Build Better More programme, along with reforms such as amendments to the Foreign Investment Act and Public Service Act and the enactment of the PPP Code, are expected to support private and foreign investments and strengthen growth prospects.

The impact of climate change on growth, fiscal performance, and external metrics will be monitored closely.

Fiscal strength

The Philippines' fiscal position is characterised by strong fiscal consolidation though recent surge in debt levels, lower tax collections, and high expenditure demand due to infrastructure requirements. The share of government external debt is relatively high but is partially offset by relatively lower interest burden compared with BBB-rated peers.

Following sustained fiscal consolidation efforts prior to the pandemic, the Philippines' debt levels declined significantly; however, pandemic-related fiscal support reversed part of this progress. More recently, general government debt was 58.2% of GDP in 2025 and is projected to stabilise at about 57.5% over 2026–2030, remaining below the government's 60% indicative ceiling. The general government fiscal deficit, as defined by the Ministry of Finance, remains elevated at about 5.6% of GDP in FY2025 and has stayed above 5% of GDP since 2020. This indicates a gradual fiscal consolidation process under the Medium-Term Fiscal Framework (MTFF), which aims to reduce the fiscal deficit to 3.1% by 2030.

In 2025, interest payments stood at about 13.2% of revenue, lower than historical levels but rising in absolute terms due to higher borrowing and elevated rates. External debt accounts for roughly one-third of total debt, with about 42% owed to multilateral creditors, supporting a relatively concessional funding mix.

Defence expenditure has increased to ~6% of the budget in 2025 from 4% in 2024, reflecting higher security-related allocations. While the near-term impact on aggregate fiscal metrics appears manageable under our baseline, sustained increase in defence outlays could limit the pace of deficit reduction. Additionally, faster-than-expected rise in interest burden, if not offset by stronger revenue or expenditure restraint, could put upward pressure on the fiscal deficit and the debt-to-GDP ratio.

The adherence to revised MTFF targets and the stabilisation of debt around current levels will be monitorable.

External position & linkages

The Philippines' external position is resilient based on its status as a global hub for business process outsourcing (BPO) and a well-diversified export base. Personal remittances, accounting for ~7% of GDP in 2025, provide a stable source of foreign exchange, ensuring adequate reserves equivalent to 6.8 months of import cover as of December 2025. The current account deficit narrowed to -3.8% of GDP in 2025 from -4.0% in 2024 amid lower commodity prices.

Looking ahead, the current account balance is expected to narrow further to about -3.1% of GDP over 2026–2030. However, it will remain higher than the long-term average deficit of about -1.8% of GDP recorded during 2016-2025. Low external debt, averaging 28.9% of GDP between 2021 and 2025, limits vulnerability to exchange rate fluctuations. Furthermore, foreign direct investment (FDI) inflows, which averaged 2.2% of GDP over 2021-25, are expected to benefit from relevant policy reforms.

Notwithstanding these strengths, external risks remain. A slowdown in key trading partners, such as China and the US, along with rising protectionist measures in the US, could impact trade flows, albeit though the impact will be guarded by its external strengths.

Monetary & financial stability

The Philippines maintains a floating exchange rate regime, with the central bank ensuring monetary and financial stability. A steady decline in inflation from early 2024, which has brought prices within the target range, has allowed for measured rate cuts. As a result, the policy rate was reduced from 6.5% in July 2024 to 4.25% in February 2026. Inflation moderated to 1.6% in 2025 from 3.2% in 2024, primarily driven by easing food price pressures, well within the central bank's target range of 2% (3l%). Near-term inflation risks persist due to volatile commodity prices, potential supply shocks, rising protectionist trade policies, and extreme climate events.

The banking sector is well-capitalised, with credit growth sustaining a healthy ~11% in 2025 and non-performing loans (NPLs) remaining low at 3.1% of gross loans as of December 2025. However, financial sector risks stem from relatively low credit penetration, with loans and debt securities accounting for ~62% of the GDP in 2022.

A relatively high share of real estate lending in banks' portfolios, along with the rapid growth in credit driven by unsecured consumer loans, remains a key monitorable. Continued expansion in these segments could increase asset quality risks if not supported by income growth and prudent lending standards and require close regulatory oversight.

Institutions & quality of governance

The Philippines' performance across the Worldwide Governance Indicators remains mixed, reflecting enduring institutional and governance challenges. While it scores relatively well on government effectiveness and regulatory quality, it underperforms on voice and accountability, control of corruption, rule of law, and political stability and absence of violence and terrorism.

Persistent geopolitical tensions in the South China Sea continue to shape strategic priorities and security planning. Philippines has strengthened defence cooperation with key partners. It has held joint military exercises with the US, Australia and Canada, and continues to deepen interoperability with Japan to reinforce maritime security and deterrence in a contested security environment.

The 2025 midterm elections highlighted increasing divisions among major political groups, reflecting a more fragmented political landscape ahead of the 2028 presidential elections. Looking ahead, the 2028 presidential election will be a pivotal milestone that will shape the trajectory of public policy, institutional reform, and geopolitical orientation. The evolving balance of power among political factions, without heightened volatility, will shape investor confidence and governance continuity.

Select indicators

	Unit	2020	2021	2022	2023	2024	2025	2026 F	2027 F
Economic indicators									
Nominal GDP	USD billion	362	394	404	437	462	494	536	582
GDP per capita (constant-PPP)	USD	8,678	9,101	9,715	10,162	10,621	11,080	11,592	12,158
Real GDP growth	%	-9.5	5.7	7.6	5.5	5.7	4.4	5.2	5.5
GFCF/GDP	%	21.3	22.3	23.3	23.6	23.6	22.7	-	-
Gross domestic savings/ GDP	%	9.7	9.2	9.0	9.3	9.3	-	-	-
Exports (G&S)/GDP	%	25.2	25.8	28.4	26.6	25.8	-	-	-
Working age (15-64) population (% share in total)	%	64.6	65.1	65.6	66.1	66.6	67.1	67.6	68.1
Old age (65+) population (% share in total)	%	4.7	4.9	5.0	5.3	5.5	5.7	6.0	6.2
Fiscal indicators – general government									
Fiscal balance/GDP	%	-5.5	-6.2	-5.4	-4.4	-3.7	-3.6	-3.1	-2.7
Revenue/GDP	%	20.4	21.0	20.4	20.3	21.2	20.4	20.5	20.4
Expenditure/GDP	%	25.9	27.2	25.9	24.7	24.9	24.0	23.6	23.1
GG gross debt/GDP	%	51.6	57.0	57.4	56.5	56.6	58.2	58.6	58.4
GG external debt (by creditor)/GG gross debt	%	27.8	24.7	25.8	28.7	-	-	-	-
Interest/revenue	%	13.3	8.6	9.8	11.3	12.3	13.2	13.7	13.7
External indicators									
Current account balance/ GDP	%	3.2	-1.5	-4.5	-2.8	-4.0	-3.8	-3.5	-3.2
FDI, net inflows/GDP	%	1.9	3.0	2.3	2.1	2.0	1.4	-	-
Outstanding FII liabilities/ GDP	%	24.6	23.3	20.4	19.6	20.9	19.0	-	-
NIIP/GDP	%	-5.9	-7.2	-10.1	-11.4	-14.2	-11.8	-	-
Foreign exchange reserves	USD billion	110.1	108.8	96.1	103.7	106.3	110.8	-	-
Import cover	Months	13.2	10.3	7.6	8.2	7.9	6.8	-	-
External debt/GDP	%	27.2	27.0	27.5	28.7	29.8	31.9	-	-
Monetary and financial indicators									
CPI inflation	%	2.4	3.9	5.8	6.0	3.2	1.6	2.6	2.8
Exchange rate (average)	LC per USD	49.6	49.3	54.5	55.6	57.3	57.5	-	-
Non-performing loans/ total gross loans	%	3.1	3.6	2.9	3.0	3.1	3.1	-	-
Private debt, loans and debt securities/GDP	%	64.7	62.4	61.6	-	-	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Singapore

CareEdge AAA/Stable

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for the Republic of Singapore at 'CareEdge AAA/Stable' (Unsolicited).

Rationale

The reaffirmation reflects our assessment that Singapore is well positioned to manage potential global shocks, supported by its strong fiscal and external buffers, as well as effective governance institutions. Policy direction is expected to remain steady, as the May 2025 general elections delivered a renewed mandate to the People's Action Party (PAP), ensuring policy continuity under Prime Minister Lawrence Wong. This smooth political transition and continued commitment to long-term fiscal discipline reinforce Singapore's institutional strength.

Overall, Singapore's credit profile also benefits from its limited or no net government debt, a solid net international investment position, and a resilient economic structure, underpinned by a high GDP per capita and a diversified economy, and highly credible institutions.

However, these strengths are partly offset by vulnerabilities stemming from the city-state's exposure to the global economic environment and demographic ageing pressures.

Outlook: Stable

The stable outlook reflects Singapore's substantial buffers and strong institutional capacity that support its ability to withstand potential adverse global developments and structural challenges over the medium term.

Downside scenario

The outlook may be revised to negative if a significant and prolonged downturn in global trade were to undermine Singapore's medium-term growth prospects and materially erode its fiscal and external buffers. The outlook may also be revised to negative if government measures to address the challenges of an ageing population prove inadequate.

key rating drivers

Economic structure & resilience

Singapore's growth in first three quarters of 2025 has been better than expected at 4.3%, supported by front-loading of trade and resilient manufacturing activities. So far, US tariffs on Singapore (at 10%) had a lesser-than-expected impact on the country's growth. However, as global trade is expected to soften in the years ahead, Singapore's growth is likely to moderate, given its high economic openness, which makes it particularly sensitive to external demand. Additionally, lingering uncertainty surrounding the US tariffs on pharmaceutical products, as well as the prospect of further tariffs on semiconductors, could pose downside risks to Singapore's medium-term growth.

Overall, Singapore's longer-term fundamentals remain robust, supported by its position as a high-income economy and a regional hub for finance, logistics, and advanced manufacturing. Initiatives under Forward Singapore—such as upskilling, digitalisation, and enabling retirement adequacy—are expected to gradually enhance productivity and labour participation.

Ageing remains a medium- to long-term challenge, as seen in the increase in the share of residents aged 65 and above, rising to 13.7% in 2024 from 8.6% in 2014. According to the World Bank's estimates, this proportion is expected to rise further to 16.9% by 2030. Nevertheless, Singapore's openness to skilled foreign labour and policies aimed at extending working lives should help mitigate some of the adverse effects on its growth potential. Further, CareEdge Global believes that Singapore has the necessary financial and fiscal resources to meet the higher costs associated with an ageing population.

Fiscal strength

Fiscal prudence remains a fundamental pillar of Singapore's creditworthiness. Singapore's government typically runs fiscal surpluses, which are primarily managed by its investment arms, GIC and Temasek. The portfolio of both these entities is estimated to be substantial. While Singapore's gross government debt to GDP ratio is very high (~174% of GDP as of 2024), the government is estimated to have limited or no net debt as a result of its large investments.

Most government borrowings are for non-spending purposes, such as to meet the investment needs of the Central Provident Fund, to transfer excess foreign exchange reserves from the Monetary Authority of Singapore (MAS) for investments, and to deepen Singapore's local debt market. However, the government has begun issuing debt specifically to finance nationally significant infrastructure projects, guided by the Significant Infrastructure Government

Loan Act (SINGA), which supports long-term transport, green, and digital infrastructure. As of Q3 2025, this debt accounts for less than 2% of total general government debt. The statutory borrowing cap of SGD 90 billion remains intact, underscoring a conservative approach.

Singapore's fiscal profile also benefits from the fact that the government has no external debt and returns from investments help service debt costs.

Going forward, government expenses are expected to rise with Singapore's ageing population and other social needs. However, Singapore plans to cover these rising fiscal costs through budgetary sources. For instance, the GST rate, which stood at 7% in 2022, was increased in a phased manner, to 8% in 2023 and further to 9% in 2024 to increase tax revenues. Further, with a sizeable pool of government assets, Singapore can also finance future expenditures through investment returns. This should help maintain the sovereign's fiscal health.

External position & linkages

Singapore's current account surplus was 17.5% of GDP in 2024, reflecting large trade surpluses. Furthermore, according to IMF projections, Singapore's current account is expected to remain in surplus, largely steady at around 17% of GDP over the next five years.

Official foreign reserves held by the MAS stood at approximately USD 392 billion as of October 2025, providing sufficient buffers. The net international investment position (NIIP) of around 147% of GDP in 2024, among the world's highest, reflects the economy's role as a global financial intermediary.

These strengths are partly offset by Singapore's very high external debt, accounting for nearly 400% of GDP in 2024. However, this mirrors its function as a global financial hub, wherein deposits from overseas banks and depositors in Singaporean banks are classified as external liabilities. Nonetheless, these deposits are converted into external assets when Singaporean banks extend loans to overseas borrowers.

Monetary & financial stability

The MAS manages monetary policy through the Singapore Dollar Nominal Effective Exchange Rate framework. Following a pause in tightening since April 2023, the MAS slightly reduced the rate of appreciation of the policy band at its January 2025 and April 2025 reviews, citing easing imported inflation and moderating growth outlook, and has kept its policy unchanged since then.

Headline inflation averaged 2.4% in 2024 and has been on a downward trajectory for the better part of 2025, with latest inflation print at 1.2% in October. Going ahead, inflation is expected to remain manageable around 1-2%.

The banking system remains sound and well-capitalised. The non-performing loan ratio stood at 1.2% as of mid-2025, and the capital adequacy ratio (18.5% as of June 2025) comfortably exceeds the Basel III requirement. The MAS's proactive supervisory framework and ample system liquidity continue to underpin financial stability.

Institutions & quality of governance

Singapore's institutional framework remains a key credit strength. The May 2025 general election reaffirmed public confidence in the PAP, which retained a strong majority with 87 of 97 seats in Parliament. Prime Minister Lawrence Wong has reiterated the government's commitment to fiscal prudence and inclusive growth.

Singapore continues to rank among the world's best in regulatory quality, government effectiveness, and control of corruption. While most information related to the economy and public finances is available in the public domain, certain details regarding the size of government assets are not disclosed.

Key policy priorities include housing affordability, ageing preparedness, and green transition investments—all managed within the framework of long-term fiscal sustainability.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	376	349	437	509	505	547	574	606
GDP per capita (constant-PPP)	USD	1,20,114	1,15,893	1,32,617	1,33,572	1,29,555	1,32,570	1,34,620	1,36,098
Real GDP growth	%	1.3	-3.8	9.8	4.1	1.8	4.4	2.2	1.8
GFCF/GDP	%	22.9	21.0	22.1	20.8	22.4	21.9	-	-
Gross domestic savings/GDP	%	54.1	55.7	60.6	62.8	58.4	57.9	-	-
Exports (G&S)/GDP	%	176.9	181.8	182.7	186.1	181.6	178.8	-	-
Working age (15-64) population (% share in total)	%	76.8	76.2	75.6	75.3	75.1	74.7	74.1	73.5
Old age (65+) population (% share in total)	%	11.0	11.6	12.3	12.7	13.1	13.7	14.2	14.8
Fiscal indicators – general government									
Fiscal balance/GDP	%	3.8	-6.7	1.1	1.2	3.5	4.4	3.1	2.7
Revenue/GDP	%	17.8	17.4	16.7	16.2	18.3	19.0	19.9	20.0
Expenditure/GDP	%	14.0	24.1	15.6	15.0	14.8	14.6	16.8	17.3
GG gross debt/GDP	%	127.9	148.2	141.7	154.3	172.8	173.5	175.6	176.3
GG external debt (by creditor)/GG gross debt	%	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Interest/revenue	%	0.5	0.5	0.3	0.4	0.4	-	-	-
External indicators									
Current account balance/GDP	%	15.4	17.5	19.8	18.4	17.7	17.5	17.4	17.3
FDI, net inflows/GDP	%	28.3	22.8	33.3	29.4	26.2	27.8	-	-
Outstanding FII liabilities/GDP	%	86.9	105.2	103.9	101.7	106.3	113.1	-	-
NIIP/GDP	%	235.7	307.4	229.9	171.0	179.3	146.9	-	-
Foreign exchange reserves	USD billion	279.5	362.3	417.9	289.5	351.0	371.4	-	-
Import cover	Months	6.0	8.3	7.8	4.7	5.8	5.7	-	-
External debt/GDP	%	431.5	510.2	427.5	380.9	395.1	399.9	-	-
Monetary and financial indicators									
CPI inflation	%	0.6	-0.2	2.3	6.1	4.8	2.4	0.9	1.3
Exchange rate (average)	LC per USD	1.4	1.4	1.3	1.4	1.3	1.3	-	-
Non-performing loans/ total gross loans	%	2.0	2.6	2.1	1.8	1.7	1.3	-	-
Private debt, loans and debt securities/GDP	%	210.4	232.0	201.1	165.1	174.4	167.0	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Taiwan

CareEdge AA/Stable

Rating action

CareEdge Global has assigned Long-Term Foreign Currency issuer rating of 'CareEdge AA/ Stable' (Unsolicited) to Taiwan, the Republic of China (Taiwan).

Rationale

The rating reflects Taiwan's strong credit fundamentals, supported by its sound macroeconomic profile, very strong external position, robust fiscal metrics, and high-quality institutional framework. These structural strengths are partially offset by the geopolitical and concentration (the semiconductor sector contributes 35% to GDP) risks, which could weigh on medium-term growth prospects.

Taiwan's macroeconomic profile features a large and competitive economy with strong growth prospects. The economy is expected to grow at 2.3% over the next 5 years (2026-30), after recording growth of ~8.6% in 2025, supported by the expansion of semiconductor exports and artificial intelligence (AI)-related demand. Future growth prospects are expected to be moderate, as the AI demand normalizes. Growth outlook also factors potential economic implications of escalation in cross-strait tensions. Adverse demographic trends (super-aged population) and uneven sectoral growth are additional constraints.

Taiwan's external position is supported by a large and persistent current account surplus and a substantial positive net international investment position (~194.2% of GDP in 2024). These strengths provide a significant buffer against external shocks, including fluctuations arising from the global technology cycle. Additionally, low externally held debt (~27.4% of GDP) reduces refinancing risks.

The country's fiscal profile is a key credit strength, anchored by very low government debt, strong affordability, and a limited share of externally held government debt. The government is expected to maintain a fiscal surplus over the medium term, supported by robust tax collections along with strong economic growth, and sustained corporate profitability. Over time, however, unfavourable demographics and rising defence costs could put pressure on the fiscal balance, while contingent liabilities associated with state-owned enterprises (SOEs) remain a potential risk.

Taiwan's monetary framework is credible, supported by well-anchored inflation expectations that generally remain within the central bank's target range. Ample liquidity and a stable banking sector ensure sound financial indicators. However, concentration of credit in the real estate sector is a monitorable, particularly given the rising price-to-income ratio, which could threaten financial stability if market imbalances intensify.

A well-established institutional framework and strong policy effectiveness support macroeconomic stability. Nevertheless, geopolitical tensions with China remain a critical structural risk that could impair Taiwan's credit profile should tensions escalate. Further, a more fragmented parliament may heighten policy uncertainty, potentially hindering decision-making. These developments warrant close monitoring.

Outlook: Stable

The stable outlook reflects Taiwan's ability to maintain strong external buffers and sound fiscal metrics, supporting overall credit resilience. Medium-term growth prospects are favourable, supported by strong global demand for AI and the country's deep integration in the global semiconductor value chain. We expect geopolitical risks related to cross-strait relations with China to be insignificant and not to impact the credit metrics.

Upside scenario

We may revise the outlook to positive if cross-strait geopolitical risks subside, leading to a sustained reduction in geopolitical uncertainty and improving growth prospects.

Downside scenario

We may revise the outlook to negative if a significant escalation in cross-strait tensions heighten geopolitical risks, adversely impacting Taiwan's economic performance, fiscal position, and external stability. Additionally, the credit profile could weaken if growth prospects weaken materially compared with our current expectations due to a global semiconductor slowdown, or increased policy unpredictability.

Key rating drivers

Economic structure & resilience

Taiwan's economic profile is characterised by its large scale, high competitiveness, and strong medium-term growth prospects, supported by an advanced, technology-driven industrial base. With a nominal GDP of ~USD 884 billion in 2025, the economy is projected to approach the USD 1 trillion mark by 2027. Income levels have risen substantially, with GDP per capita ~USD 73,007 on a purchasing power parity basis in 2025, placing Taiwan on par with several advanced economies.

Taiwan's growth model is predominantly export-oriented, with electronics (particularly semiconductors) serving as the cornerstone of the economy. Its critical position in the global semiconductor supply chain bolsters both competitiveness and external performance. A central pillar of the industrial base is Taiwan Semiconductor Manufacturing Company, accounting for ~8.9% of GDP in 2024. Such concentration reflects the economy's structural reliance on the semiconductor sector, with growth dynamics remain largely aligned to the global technology cycle.

Taiwan recorded strong growth of ~8.6% in 2025, supported by sustained global demand for advanced chips in AI-related applications, leading to resilient export performance. Additionally, investment momentum is strong, with gross fixed capital formation rising to ~26% of GDP (2025), largely concentrated in semiconductor manufacturing. The economy is expected to grow by 2.3% in the medium term (2026-30), factoring in uncertainties regarding global AI demand and the potential economic implications of escalating cross-strait tensions.

The strength of the semiconductor sector continues to support favourable labour market conditions, characterised by low unemployment, high labour force participation, and strong demand for skilled technical labour. However, wage inequality across sectors remains pronounced, reflecting persistent productivity differentials. Additionally, exposure to climate-related risks requires ongoing monitoring.

Fiscal strength

Taiwan's well-positioned fiscal profile is characterised by low and declining debt levels, strong affordability, and limited reliance on external borrowing. Over the past two decades, the fiscal position has improved materially following gains from its technology-driven growth model. Strong corporate profitability, particularly in the semiconductor sector, has translated into higher corporate tax revenues and robust export-related receipts. On the expenditure side, prudent fiscal management has contained spending, with relatively moderate social welfare outlays compared with many advanced economies.

Taiwan recorded a deficit of -0.3% in 2025 and is expected to maintain moderate fiscal surplus over the medium term (averaging 0.2% over 2026-30), supported by continued economic expansion and disciplined expenditure management. Public debt is projected to decline from ~23.4% of GDP in 2025 to ~9.8% by 2030, supported by strong debt sustainability metrics and a favourable growth-interest rate differential.

Despite strong fiscal performance, rising defence spending amid elevated geopolitical tensions, and rising demographic burden could exert pressure on the fiscal balance and will remain important factors to monitor. Additionally, Taiwan faces contingent fiscal risks from few underperforming public sector enterprises, notably Taiwan Power Company, CPC Corporation, and Taiwan Railway Corporation.

External position & linkages

Taiwan's external profile remains a key credit anchor, supported by a large and persistent savings–investment surplus. This position is driven by elevated corporate savings, particularly within the technology sector, and a highly competitive export model. Led by semiconductors, electronics exports continue to generate sizable and sustained trade surplus (~30% of GDP in 2025).

Taiwan also benefits from stable primary income inflows, reflecting returns on its substantial overseas asset holdings. This has led to current account surplus ~14.2% of GDP during 2021–25, with the net international investment position stood at 194.2% of GDP in 2025, positioning Taiwan among the largest net external creditor economies.

External liquidity metrics are robust. Foreign exchange reserves provide coverage of around 11 months of imports, offering a substantial buffer against external shocks. Additionally, external debt remains relatively low at ~27.4% of GDP over 2020-25, supporting external sustainability.

Taiwan's trade linkages with Mainland China are significant, given deep integration in regional supply chains. While this exposes the external sector to geopolitical and cross-strait risks, it is partly mitigated by Taiwan's diversified export base and its critical role in the global technology ecosystem.

Monetary & financial stability

Taiwan's monetary profile is underpinned by a credible policy framework and a well-developed financial system. The economy operates under a managed floating exchange rate regime, with the New Taiwan dollar benefiting from reserve currency status.

Inflation is well anchored, with the 2025 average of 1.7% aligning with the central bank's implicit 2% target. However, Taiwan's heavy reliance on imported energy exposes the economy to global energy price volatility and potential supply disruptions. This vulnerability could be intensified by the energy-intensive nature of semiconductor manufacturing, which requires stable and reliable power supply.

Taiwan's financial system is stable and well-capitalised, characterised by a low non-performing loan ratio of 0.2% in 2025 and strong bank balance sheets. However, private debt is high, particularly in the household sector. Furthermore, loan concentration in the real estate sector is elevated; sustained house price appreciation has led to a high house price-to-income ratio, which requires monitoring. Domestic capital markets are deep and well-capitalised, contributing to financial stability. Additionally, authorities utilise the Taiwan National Stabilization Fund to mitigate market volatility.

Institutions & quality of governance

Overall, WGI parameters are well placed, though risks posed by a fragmented legislature and on-going tensions with China remain a credit risk.

The political landscape became more fragmented after the 2024 elections. While the presidency remains with the Democratic Progressive Party, the legislature is divided, with no single party holding a majority. A fragmented legislature and opposition from the Kuomintang have already slowed down policy coordination and delayed legislative processes, including the budget. Increased political fragmentation could weigh on structural reforms related to housing affordability and wage growth.

Also, perceptions of corruption are higher than in advanced peers, representing a modest constraint within an otherwise robust institutional framework.

Geopolitical tensions with China remain Taiwan's primary credit risk. Any military escalation across the Taiwan Strait would carry severe economic implications, both domestically and globally. Given Taiwan's dominance in global semiconductor supply chains and the Strait being a critical shipping corridor, any cross-strait escalation would disrupt global trade, supply chains, and shipping costs. That said, the likelihood of such an extreme scenario remains low, given the significant economic costs involved and the strategic interests of key global stakeholders, including the US. Nonetheless, geopolitical developments remain a key monitorable.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025	2026 F	2027 F
Economic indicators										
Nominal GDP	USD billion	614	677	777	766	757	797	884	971	1,018
GDP per capita (constant-PPP)	USD	58,057	60,149	64,702	66,754	67,054	70,358	73,007	74,613	76,560
Real GDP growth	%	3.1	3.4	6.7	2.7	1.1	4.8	8.6	2.1	2.5
GFCF/GDP	%	23.8	24.1	26.2	28.1	25.7	25.8	25.8	-	-
Gross national savings/ GDP	%	35.6	40.2	43.7	42.9	40.2	43.0	39.0	-	-
Exports (G&S)/GDP	%	62.4	50.9	58.8	63.4	57.8	59.5	73.1	-	-
Working age (15-64) population (% share in total)	%	72.0	71.4	70.8	70.3	69.6	68.8	68.1	67.4	67.0
Old age (65+) population (% share in total)	%	15.3	16.1	16.9	17.6	18.4	19.2	20.0	20.9	21.7
Fiscal indicators – general government										
Fiscal balance/GDP	%	-1.8	-2.9	-2.1	-1.7	-2.5	-1.5	-0.3	-0.2	0.0
Revenue/GDP	%	15.5	15.2	15.3	16.2	16.5	16.4	16.7	17.0	17.3
Expenditure/GDP	%	17.2	18.1	17.3	17.9	19.0	17.8	17.0	17.1	17.3
GG gross debt/GDP	%	32.6	32.0	30.1	29.5	29.0	26.3	23.4	20.9	18.2
Interest/revenue	%	3.6	3.3	2.8	2.4	2.4	2.9	2.8	2.7	2.7
External indicators										
Current account balance/GDP	%	10.7	14.4	15.0	13.3	14.0	14.1	13.8	13.1	13.8
FDI, net inflows/GDP	%	1.3	0.9	0.7	1.5	0.9	1.4	1.2	-	-
Outstanding FII liabilities/GDP	%	81.1	100.4	107.5	69.6	93.9	123.0	-	-	-
NIIP/GDP	%	224.3	207.0	182.8	218.1	225.7	194.2	-	-	-
Foreign exchange reserves	USD billion	478.1	529.9	548.4	554.9	570.6	576.7	602.6	-	-
Import cover	Months	15.0	18.5	14.4	13.7	15.6	14.6	11.2	-	-
External debt/GDP	%	30.1	28.1	27.5	26.4	27.3	27.4	-	-	-
Monetary and financial indicators										
CPI inflation	%	0.6	-0.2	2.0	2.9	2.5	2.2	1.7	1.6	1.5
Exchange rate (average)	LC per USD	30.9	29.4	27.9	29.8	31.1	32.1	31.2	-	-
Non-performing loans/ total gross loans	%	0.2	0.2	0.2	0.2	0.1	0.2	0.2	-	-
Private debt, loans and debt securities/GDP	%	155.9	157.4	158.9	161.9	164.3	164.9	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Rating action

CareEdge Global has revised the outlook for the Kingdom of Thailand to 'Negative' from 'Stable' outlook while reaffirming the Long-Term Foreign Currency rating of 'CareEdge A-' (Unsolicited).

Rationale

The revision in outlook reflects the prevalent policy impasse, together with subdued growth prospects, external pressures due to trade-related uncertainties and skirmishes on the border.

Thailand's post pandemic economic recovery has remained weak with growth averaging ~0.5% for 2020-24, well below its pre-pandemic levels (~3% from 2014-19). The weakness in the economy represents a combination of cyclical and structural factors. The pandemic-related restrictions led to disruptions in tourism resulting in demand side weakness. Parallelly, the economy continues to face persistent structural challenges such as reducing competitiveness, low productivity, weak private consumption and high household debt. Externally, the country's current account surplus has narrowed significantly, reducing from an average of 8% of GDP in 2014–19 to just 0.4% in 2020–24,

Thailand

CareEdge A-/Negative

due to weakening export performance. Given Thailand's high degree of trade openness, ongoing trade and tariff related uncertainties could lead to further weakness in external indicators. Further, the economic headwinds coincide with renewed political flux at a critical time, when timely and decisive policy responses are essential.

Nonetheless, the reaffirmation of the rating reflects the strong existing external buffers, underpinned by sufficient foreign exchange reserves and low external debt. Its credit profile is also supported by low debt servicing costs coupled the country's currently manageable levels of government debt, long maturity profile and large share of domestically funded borrowings. The monetary policy has been effective, as reflected by the low and stable level of inflation.

Upside scenario

The outlook could be revised to stable if there is greater clarity and continuity in the political landscape, leading to quicker and effective decision making. Such effective policy responses can enable Thailand to better navigate trade and tariff uncertainties and address the structural constraints. CareEdge Global will watch for better-than-expected growth and ability to maintain external buffers

Downside scenario

The rating could be downgraded if the current environment of political uncertainty impairs the government's ability to implement critical reforms and steps needed to mitigate existing and emerging economic and external challenges. A sustained deterioration in fiscal metrics—particularly if the debt levels breach the 70% of GDP threshold—could also raise downgrade risks.

Key rating drivers

Economic structure & resilience

Thailand stands as the second-largest economy in ASEAN, with a GDP of USD 526 billion in 2024. Its economic scale and strategic location underpin its regional importance, while its per capita income places it firmly within the middle-income category. Structurally, the economy has leveraged its diversified export presence- transitioning toward a service-led growth model while maintaining a strong industrial base. However, the economic challenges, including unfavourable demographics, low worker productivity, and a relatively low rate of investment, continue to weigh on its long-term growth potential. In addition, the economy's high export dependence on the United States and China exposes it to external vulnerabilities.

Thailand's post-COVID economic recovery has remained subdued, with growth averaging ~0.5% for 2020-24, markedly slower than regional peers such as Vietnam (5.2%) and Indonesia (3.4%) and well below its pre-pandemic levels (~3% from 2014-19). The weakness reflects an aggregation of factors, including subdued private consumption, weakness in tourism and a prolonged manufacturing slump. The slowdown in manufacturing is on account of eroding competitiveness, rising competition from China and limited penetration of high-tech manufacturing.

The economy has recovered to around 2.5% growth in 2024, while maintaining similar pace in Q1 2025, with ~3.1% growth. However, this improvement has been largely driven by government spending measures, which have supported the economy. Going ahead, growth recovery is contingent on the strength of external demand, improved investment momentum, and a stable rebound in tourism.

Fiscal strength

Thailand benefits from a favourable fiscal structure, owing to its significantly high domestic holding of government debt and a longer maturity profile, alongside manageable debt levels. Additionally, prudent fiscal management and strong investor confidence have helped keep Thailand's yields low, comparable to those of advanced economies in the Asia region. These factors have contributed to a low cost of borrowing, with interest payments to revenues averaging ~5.1% from 2015-24, significantly lower than similar-rated peers.

While fiscal risks remain manageable, debt levels have started to increase gradually after the COVID-19 pandemic, with gross general government debt averaging around 58.8% of GDP from 2020-24, compared to a pre-pandemic average of around 42% during 2015–2019. The key concern is that the rising debt burden is not being matched by growth.

The IMF projects government debt to increase further, reaching approximately 68.2% of GDP by 2030, while remaining within the defined threshold of 70%. However, concerns over slowing growth and trade-related headwinds could lead to additional fiscal stimulus, posing downside risks to debt sustainability. Furthermore, the government's elevated spending commitments on pensions, salaries, subsidies, and net social benefits continue to constrain fiscal flexibility. Policy uncertainty adds to another layer of risk, potentially increasing the likelihood of fiscal slippage.

Looking ahead, the government's fiscal stance will remain a key monitorable. Its ability to control expenditure and maintain fiscal discipline will be critical to achieving medium-term consolidation targets.

External position & linkages

Thailand's external position has been a key anchor for its credit strength—characterized by consistent current account surpluses, low external debt, and ample foreign exchange reserves. However, this external strength has moderated in recent years. The current account surplus, which averaged around 8% of GDP during 2015–2019, has narrowed sharply to just 0.4% of GDP during 2020–2024. This decline reflects the combined impact of pandemic-related restrictions, which disrupted tourism revenues, and a prolonged global manufacturing downturn that has weakened external demand for Thailand's exports.

Given Thailand's high trade openness with exports of goods and services averaging ~62.2% of GDP (2020-24), the economy remains particularly vulnerable to shifts in global trade dynamics. In addition, weak tourism recovery continues to strain the services trade balance, limiting a key source of external resilience.

Further, foreign direct investment (FDI) inflows have remained subdued. Net FDI averaged around 1.6% of GDP during 2020-24, significantly lower than regional peers such as Vietnam (~4.3%) and Malaysia (~3.1%) over the same period. This underperformance reflects, in part, an extended period of policy uncertainty, which is weighing on investor sentiment and could continue to impact Thailand's ability to attract sustained capital inflows.

Monetary & financial stability

Thailand's exchange rate regime is classified as a floating system, with intermittent foreign exchange interventions aimed at curbing excessive volatility in the domestic currency. The monetary policy framework has maintained a credible track record in anchoring inflation expectations, delivering low and stable inflation that averaged approximately 1.5% during 2019–2024. While the country is currently experiencing deflationary conditions, inflation is expected to return within the central bank's target range of 1–3% over the medium term.

Financial sector risks are largely concentrated in elevated private sector leverage, particularly reflected in high household debt levels, standing at around 88.4% of GDP in 2024. Although the banking sector remains well-capitalised, credit growth has been subdued, averaging just 0.28% since 2023, reflecting weak economic sentiment and cautious lending practices. While the overall non-performing loan (NPL) ratio has stabilized, NPLs within the SME segment are on a rising trend. This remains a key source of financial vulnerability and warrants continued close monitoring.

Institutions & quality of governance

Thailand's institutional positioning reflects a combination of structural strengths and longstanding vulnerabilities. Traditionally, the country has performed well in areas such as regulatory quality and the rule of law, supporting the administration's ability to formulate and implement policies effectively. However, persistent political uncertainty and restrictions on freedom of expression remain significant constraints. The political system functions as a partial democracy, marked by military influence over civilian governance, with periodic anti-government protests and institutional frictions contributing to elevated political risk.

Recent episodes of leadership transition, with the replacement of two prime ministers since the coalition government assumed leadership in 2024, have raised questions about policy continuity and stability. Further, the renewed political turmoil with resurgence of pro-military groups—often linked with periods of instability, has increased protests. Meanwhile, heightened tensions along the Cambodia border have led to an additional layer of geopolitical risk that could complicate the domestic political environment.

As prolonged uncertainty continues to weigh on reform momentum and administrative effectiveness, it poses rising risks to both near-term policy implementation and the medium-term investment climate.

Select Indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	544	500	506	496	516	526	546	557
GDP per capita (constant-PPP)	USD	21860	20486	20757	21263	21658	22179	22558	22905
Real GDP growth	%	2.1	-6.1	1.5	2.6	2.0	2.5	1.8	1.6
GFCF/GDP	%	22.6	23.2	23.5	23.4	23.0	22.2	-	-
Gross domestic savings/GDP	%	34.1	29.2	29.5	27.7	25.7	-	-	-
Exports (G&S)/GDP	%	59.5	51.5	58.6	65.4	65.4	70.0	-	-
Working age (15-64) population (% share in total)	%	71.1	70.9	70.7	70.5	70.2	69.9	69.6	69.2
Old age (65+) population (% share in total)	%	12.3	12.9	13.5	14.1	14.7	15.4	16.0	16.7
Fiscal indicators – general government									
Fiscal balance/GDP	%	0.4	-4.5	-6.7	-4.6	-2.0	-1.3	-3.1	-2.9
Revenue/GDP	%	21.0	20.4	20.0	20.0	20.9	21.4	20.9	21.0
Expenditure/GDP	%	20.6	24.9	26.8	24.7	22.8	22.7	24.0	23.8
GG gross debt/GDP	%	41.1	49.4	58.4	60.5	62.3	63.2	64.5	66.0
GG external debt (by creditor)/ GG gross debt	%	16.9	13.6	12.6	12.2	9.8	7.8	-	-
Interest/revenue	%	4.8	4.7	6.3	6.6	5.6	5.7	-	-
External indicators									
Current account balance/GDP	%	7.0	4.2	-2.1	-3.5	1.4	2.1	1.2	1.2
FDI, net inflows/GDP	%	1.0	-0.9	3.0	2.4	1.3	1.9	-	-
Outstanding FII liabilities/GDP	%	30.6	27.3	30.0	32.2	26.9	24.9	-	-
NIIP/GDP	%	-4.6	8.8	6.8	-6.0	1.5	8.3	-	-
Foreign exchange reserves	USD billion	224.4	258.1	246.0	216.5	224.5	236.9	-	-
Import cover	Months	9.9	13.3	10.0	7.8	8.2	8.1	-	-
External debt/GDP	%	31.6	38.0	38.8	40.4	38.2	36.4	-	-
Monetary and financial indicators									
CPI inflation	%	0.7	-0.8	1.2	6.1	1.2	0.4	0.7	0.9
Exchange rate (average)	LC per USD	31.0	31.3	32.0	35.1	34.8	35.3	-	-
Non-performing loans/total gross loans	%	3.1	3.2	3.1	2.8	2.8	2.8	-	-
Private debt, loans and debt securities/GDP	%	159.5	180.9	184.3	178.7	178.1	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

United Arab Emirates

CareEdge AA-/Stable

Rating action

CareEdge Global has assigned a 'Stable' outlook to the rating of the Kingdom of United Arab Emirates (UAE), while reaffirming the Long-Term Foreign Currency rating of 'CareEdge AA- (Unsolicited)'.

Rationale

The stable outlook reflects CareEdge Global Ratings expectations that the consolidated fiscal balance for the UAE (primarily driven by its two largest emirates, Abu Dhabi and Dubai) shall continue to be in surplus in the near to medium term. The significant external buffers and an expected steady economic growth rate (average of 4% annually between 2025 and 2028) also should continue and provide additional support.

Together, these factors should offset the near-term impact of ongoing geopolitical conflicts in the region and the country's still significant, though reducing, dependence on hydrocarbons. The existence of pipeline infrastructure should enable the UAE to bypass the strait of Hormuz, should the conflict escalate.

Upside scenario

The rating could be upgraded based on a combination of faster economic growth than expected, on a sustainable basis, significant diversification across other sectors beyond hydrocarbons over the medium term, and greater transparency in the public domain regarding fiscal profile and contingent liabilities with respect to government-related entities.

Downside scenario

The rating could face downward pressure if there is faster than expected deterioration in the fiscal and external profile. Also, crystallisation of risks associated with real estate bubble and subsequent impact on the banking sector could lead to a downgrade. An unexpected intensification of regional conflicts may likewise trigger a downgrade in ratings

Rationale

The reaffirmation of the rating of the UAE, a federation of seven emirates, primarily reflects its large sovereign wealth funds, mainly held by the Abu Dhabi Investment Authority, which provide a significant buffer to the country's fiscal and external profiles. Abu Dhabi, the largest and most creditworthy of the emirates, contributes about 65% and 96% to the total GDP and oil reserves of the UAE, respectively. Furthermore, the UAE remains one of the top preferred destinations for expatriates in the world.

Despite these positives, the economy faces challenges like high dependence on hydrocarbons, exposure to regional geo-political risks, and limited monetary flexibility due to its fixed exchange rate regime.

Key rating drivers

Economic structure & resilience

The UAE is a moderately sized economy (with a nominal GDP of USD 545 billion in 2024), of which about 85% is contributed by the two key emirates of Abu Dhabi and Dubai. The economy benefits from its high GDP per capita (USD67981 constant PPP in 2024), a large stock of oil reserves together with competitive production costs, and a strong rebound in its economic growth post-pandemic averaging 4.6% between 2021-24 against Gulf Co-operation council (GCC)'s average of 2.8% in the same period. The growth is expected to be strong in the medium-term too, as the UAE has been able to diversify and establish itself as a tourism, real estate, and financial hub in the region. Owing to its lower tax regime, the UAE attracts a significant number of expatriates, accounting for about 88% of its population.

The UAE has invested in some large-scale infrastructure projects like building railways, airport terminals, improving road connectivity across emirates. To boost tourism, large amusement and water parks are being built. UAE is also investing heavily in artificial intelligence data centres. UAE's gross capital formation as percentage of GDP stands at 25% in 2023 and is expected to remain healthy.
Residential sales prices increased by 20% and rental prices increased by 19% in 2024 in Dubai. Similarly, Residential sales in Abu Dhabi rose by 13% in 2024 and rental prices increased by 20% in 2024. Rise in residential sales has been aided by robust population growth at 5% driven by the Golden visa programme and UAE's status as a tax haven.

Even with these positives, the economy continues to rely on hydrocarbons for its wealth and income and therefore remains vulnerable to oil price movements. UAE faces challenges from adjusting to lower global hydrocarbon demand in the long-term future and transition to clean energy. Any escalation in regional tensions like Israel-Iran could exert downside on tourism, energy prices and weak investor confidence.

Fiscal strength

The consolidated general government debt is low at 32.1% of GDP in 2024. However, including the liabilities of the government-related entities (GREs), the debt-to-GDP ratio is estimated to increase to a moderate level of about 55%. The contingent liabilities risks are somewhat mitigated by the large fiscal buffers. The UAE's individual emirates have accumulated significant sovereign financial assets estimated to be around 340% of the UAE's total GDP in 2024 (largest being Abu Dhabi's sovereign wealth fund - Abu Dhabi Investment Authority), providing the federation with a high degree of resilience to withstand shocks.

The consolidated budget surplus was 4.8% in 2024 and is expected to remain in surplus over the medium term too. The fall in oil prices is expected to be mitigated by higher oil production levels.

At the individual emirates level, the major emirates Abu Dhabi, Dubai and Ras-Al-Khaimah are all expected to be in fiscal surplus and moderate debt levels. Sharjah is expected to have wide fiscal deficit estimates at about 6% of its GDP and debt levels are also expected to rise from the current 70% of GDP levels. Across emirates, we estimate debt worth about 4% of GDP to mature in 2025-26. However, we believe roll-over risks are low.

The size of the federal budget of UAE is smaller, at about 4% of GDP, limiting its flexibility, though reflecting its narrow responsibilities as well. The federal government maintains a balanced budget, consistent with the law. The federal government's revenue consists of grants from Abu Dhabi and Dubai, shares in taxes and dividends, and profits from shares of state-owned enterprises.

External position & linkages

The UAE's current account surplus is significant, averaging 9.5% of GDP between 2020-2024. The net international position is also highly positive, estimated at 170% of GDP in 2023, primarily arising out of large sovereign wealth funds invested in reserve currency assets. Gross forex reserves at USD218 billion in 2024, equivalent to imports of 7.5 months, also act as a buffer.

The economy is competitive and ranks 16th on ease of doing business translating to strong FDI inflows (net inflows as a percentage of GDP at 6.1% in 2023). As the regional countries also open their economies to foreign investments, UAE may face competition from attracting flows.

Monetary & financial stability

A fixed exchange rate regime constrains monetary policy flexibility. UAE Dirham is pegged to USD which is backed by adequate reserves. The central bank does not have any explicit inflation target; however, it has managed the inflation well.

Non-performing loans in the banking sector are elevated at 4.6% of total loans in 2024, due to relatively relaxed lending standards. However, in the recent past, the banks have increased their capital buffers and enhanced focus on quality of lending. Banks' substantial exposure to real estate (~19% of outstanding credit) could pose a risk, in case of any downturn.

Institutions & quality of governance

The UAE is a federal system of seven emirates. Each emirate maintains considerable autonomy in running its own economies, and the responsibility of the federal government is limited to a few key areas such as education, health, defence, and infrastructure. The UAE ranks well in the Worldwide Governance Indicators (WGI) on most of the parameters like government effectiveness, rule of law, regulatory quality, control of corruption, implying strong governance standards and effective institutions.

However, the UAE ranks low on voice and accountability in WGI (15th percentile). Sheikh Mohamed bin Zayed Al Nahyan, ruler of Abu Dhabi is the current president of the UAE. Critical decisions on budget and choosing the President are taken through the consensus of the ruling families, though Abu Dhabi and Dubai have relatively greater influence. Since the decisions are taken by ruling families, transparency and accountability are relatively limited. Ease of data availability is constrained, particularly with respect to external debt and GRE balance sheets. The economy is also exposed to regional geopolitical tensions.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025F	2026 F
Economic indicators									
Nominal GDP	USD billion	418	349	415	503	514	545	569	602
GDP per capita (con-stant-PPP)	USD	68,468	66,625	67,523	67,485	67,319	67,981	70,873	73,904
Real GDP growth	%	1.1	-5.0	4.4	7.5	3.6	4.0	5.1	5.1
GFCF/GDP	%	18.4	20.2	23.5	24.2	24.8	-	-	-
Gross domestic savings/GDP	%	47.7	38.5	44.5	45.2	42	-	-	-
Exports (G&S)/GDP	%	93.7	96.9	100.2	102.4	108.6	-	-	-
Working age (15-64) popula-tion (% share in total)	%	83.8	83.4	83.1	82.9	82.9	83.0	83.1	83
Old age (65+) population (% share in total)	%	1.5	1.7	1.8	1.8	1.9	1.9	1.2	1.3
Fiscal indicators – general government									
Fiscal balance/GDP	%	2.6	-2.5	4.0	10.0	5.9	4.8	2.9	2.9
Revenue/GDP	%	31.0	28.7	30.4	33.1	29.0	28.0	26.9	26.9
Expenditure/GDP	%	28.4	31.1	26.4	23.1	23.0	23.2	24.0	24.0
GG gross debt/GDP	%	26.8	41.3	36.3	32.1	32.4	32.1	32.8	32.6
Interest/revenue	%	1.0	1.0	1.0	1.6	-	-	-	-
External indicators									
Current account balance/ GDP	%	-2.8	-3.5	-1.7	-2.4	-2.2	-1.2	-2.8	-2.3
FDI, net inflows/GDP	%	2.4	4.3	5.7	4.9	4.5	6.1	-	-
Foreign exchange reserves	USD billion	99.3	108.1	106.5	127.8	127.8	131	-	-
Import cover	Months	6.5	8.7	7.3	7.2	7.2	7.2	7.2	7.2
External debt/GDP	%	81.1	110.0	97.4	80.5	94.7	95.2	95.1	-
Monetary and financial indicators									
CPI inflation	%	-1.9	-2.1	-0.1	4.8	1.6	2.3	2.1	2.0
Exchange rate (average)	LC per USD	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67
Non-performing loans/total gross loans	%	6.0	7.6	7.3	6.4	5.9	4.6	-	-
Private debt, loans and debt securities/GDP	%	99.5	103.7	108.8	108.8	105.5	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Vietnam

CareEdge BB+/Stable

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating of Socialist Republic of Vietnam at 'CareEdge BB+/Stable' (Unsolicited).

Rationale

Vietnam's credit profile is underpinned by strong macroeconomic fundamentals, supported by robust growth and competitive export base. Fiscal flexibility is bolstered by low public debt and moderate debt servicing costs, while a sustained current account surplus ensures external resilience. However, these strengths are constrained by institutional weaknesses, a developing monetary framework, and financial sector vulnerabilities.

Vietnam's macroeconomic strength is driven by its competitive exports (due to low labour cost and strong manufacturing base), a large domestic market, and strong medium-term growth prospects. As one of the world's fastest growing economies, its growth is projected to remain high (5.5% on average over 2026-30).

Ongoing infrastructure investments are likely to expand productive capacity and support long-term growth. Nevertheless, high external dependencies, on United States (US) and China, remain a key downside risk and will be monitored.

Vietnam's external position is robust, supported by its expanding role in global supply chains and continued efforts to deepen trade integration through diversified partnerships. Strong net foreign direct investment (FDI) inflows (~4.5% of GDP in Q3 2025) reinforce its position as a key global production hub. The country is expected to maintain a current account surplus at ~2.2% of GDP over 2025-29, alongside a net external debtor position (NIIP at -3.1% of GDP in 2025) and relatively low external debt (~32.8% of GDP in 2025). However, these strengths are partially offset by a low foreign exchange reserve buffer, covering about two months of imports in 2025, which is a constraint relative to peers. Despite recent US Supreme Court rulings constraining the scope of tariff actions, ongoing developments around US trade measures toward Vietnam remain a key monitorable; in particular, tariffs of up to 40% on transshipped goods continue to pose downside risks to export performance and supply chain stability.

Vietnam's fiscal profile is comfortable, supported by low public debt (estimated at ~32% of GDP in 2025) and favourable debt affordability, aided by access to concessional financing. As the country scales up infrastructure spending, fiscal deficit (projected at -4.2% of GDP in 2026 by Ministry of Finance) is expected to widen moderately, alongside a gradual increase in the share of external borrowings. While current debt levels provide adequate cushion, the evolving fiscal trajectory needs to be monitored.

The monetary policy framework is less developed relative to peers due to a less formalised inflation-targeting regime (inflation at 3.3% in 2025) and weaker policy transmission along with continued interventions for exchange rate management. Heightened tensions in the Middle East could amplify upside risks to inflation, given the economy's reliance on the region for key imports and relatively strong pass-through of imported inflation and will remain monitorable.

In Vietnam's underdeveloped financial markets, risks stem from rising corporate leverage, particularly in the real estate sector. Banking sector metrics are weaker than that of peers due to moderate capital adequacy (12.4% as of Q1 2025) and asset quality concerns linked to property sector stress. While credit growth has been robust, weaker regulatory oversight could amplify systemic risks. Recent reform efforts, including a gradual move towards Basel III compliance, are expected to strengthen the system, albeit amid implementation risks.

Institutional effectiveness remains weak, characterised by limited transparency, accountability concerns, and bureaucratic rigidities. Reform momentum has been constrained by policy and implementation paralysis, partly stemming from stringent anti-corruption and AML frameworks, which have slowed decision-making and led to a slowdown in both public and private investment. Additionally, limited bureaucratic capacity and persistent corruption concerns continue to impede effective execution of reforms. While recent reform efforts aimed at improving administrative efficiency and advancing privatisation are positive, their implementation has been gradual and remains a key monitorable.

The ongoing Iran conflict has heightened external vulnerabilities for Vietnam, given its significant dependence on imported crude oil and fertilizers, particularly from the Middle East, exposing it to disruptions in the Strait of Hormuz. This could further increase imported inflation pressures and weigh on trade balances, particularly through higher input costs and external price volatility. A prolonged escalation could further deplete the current account surplus and necessitate higher fiscal support, thereby weighing on macroeconomic stability and growth prospects.

Outlook: Stable

Vietnam's stable outlook reflects our expectations of sustained high growth (~5.5% over 2026-30) and healthy current account surplus, supported by competitive labour costs and a well-established position in global supply chains. Furthermore, comfortable fiscal metrics and competitive exports are expected to provide a cushion against global trade uncertainties.

Upside Scenario

The outlook can be revised upwards in the event of targeted policy and regulatory measures to strengthen the banking sector and, consequently, the asset quality. Furthermore, continued progress in anti-corruption initiatives, along with enhanced policy transparency and predictability, could potentially lead to its removal from the Financial Action Task Force (FATF) grey list, thereby enhancing investor confidence. Diversification of trade partners beyond the US and China could improve credit profile.

Downside Scenario

Downside risks may stem from a significant weakening of the current account surplus and a decline in growth prospects, likely driven by external uncertainties surrounding global trade. Further, escalating property sector fragilities could strain the financial sector. Another downside risk can arise from policy uncertainty, which could lead to bureaucratic delays, factors that may increase investor uncertainty and undermine Vietnam's investment attractiveness.

Key rating drivers

Economic structure & resilience

Vietnam's economic outlook is supported by its strong domestic consumer base, healthy capital formation rate (~29.2% of GDP in 2025), and balanced representation of manufacturing and services. Competitive exports have enabled the country to maintain its status as one of the fastest-growing economies globally in recent years. The economy has been a major beneficiary of the US-China trade drift in terms of trade, with exports rerouted to the region, supported by its low-cost and skilled labour force. This has enabled Vietnam to achieve a diversified export mix, with high-value-added goods, such as electronics and semiconductors, on one hand and low-value-added products, such as textiles and footwear, on the other.

Vietnam's trade diplomacy, through calibrated ties with its partners, has worked well during the period of trade protectionism, contributing to 7.1% growth in the pre-pandemic period (2015-2019). However, susceptibility to global trade uncertainties, coupled with domestic challenges, moderated growth to 5.1% in 2023 from 8.5% in 2022. In 2025, the country regained economic momentum with a growth of 8% and is expected to sustain this pace in the medium term (~5.5% over 2026-30), driven by strong exports and robust FDI.

Notwithstanding its economic potential, weak external demand and potential slowdown among its trading partners pose a downside risk to Vietnam's growth outlook, given its large trade dependence on the US and China. Furthermore, infrastructure-related constraints and exposure to physical climate risks, such as floods and droughts, can create uncertainties for its high economic potential.

Fiscal strength

Vietnam's fiscal strength is anchored by low gross general government (GG) debt, at 36.2% of GDP over 2020-2024. The country has reduced its exposure to foreign currency debt from ~60% in 2010 to 28% in 2023. Moreover, the high share of concessional financing from external official creditors enhances debt affordability, with the debt servicing cost low with interest to revenue at ~5.7% over 2020-2024.
The fiscal deficit is projected to widen to -4.2% of GDP in 2026 by the MoF, driven by increased spending to address infrastructure and logistical gaps. Concurrently, tax collections have materially improved, supported by strong corporate income tax performance and value-added tax (VAT) reforms, alongside broader efforts to modernise tax administration and expand the tax base. On the reform side, the authorities have introduced comprehensive changes to corporate, personal and indirect tax frameworks, aimed at improving compliance, enhancing efficiency, and supporting private sector activity. Going forward, the country is expected to expand its fiscal deficit to address logistical gaps.

CareEdge Global expects the fiscal burden to be manageable with debt levels at ~31.4% of GDP over 2025-2029, given the expectation of higher revenue mobilisation from direct taxes and improved revenue collection efficiency.

However, limited transparency in government accounting and opaque performance of state-owned enterprises (25% of GDP in 2023) remain a major constraint in the fiscal assessment.

External position & linkages

Vietnam's external position benefits from a favourable current account balance and a strong surge in FDI flows.

Following a brief period of moderation, the current account recorded a surplus of ~6.7% of GDP in 2025, driven by frontloading in the first half of 2025. A healthy current account balance is expected in the medium term, driven by a recovery in exports (~96% of GDP in 2025). The country's central location in ASEAN makes it a regional logistics hub, as its ports facilitate maritime trade and commerce. Its attractiveness has also been enhanced by increased participation in various trade agreements and pro-business policies, leading to strong FDI inflows (~4.3% of GDP during 2020-2024).

Key risks to Vietnam's external profile stem from the volatility of capital flows and its import-dependent economy, resulting in a low import cover of ~2 months in 2025. Furthermore, the country has taken several steps, including the adoption of global minimum corporate tax rate of 15% in 2024, along with diversification of trade partners and expanding presence in the European Union and other regions, which should improve the country's attractiveness as an FDI destination.

While the US Supreme Court ruling has limited the use of emergency powers to impose tariffs, evolving US trade measures toward Vietnam remain a key monitorable; in particular, proposed tariffs of up to 40% on transshipped goods continue to pose downside risks to export performance and could elevate external risks. Although Vietnam has been the most attractive destination for offshoring manufacturing activities, its position as an alternative to China needs to be monitored closely.

Monetary & financial stability

Vietnam's central bank has been following a supportive monetary policy while managing to keep inflation below the 4.5-5% target. However, the monetary policy framework lacks transparency, with interest rates playing a limited role as a policy tool. Furthermore, weak financial market development hinders the transmission of monetary policy.

Vietnam officially follows a managed-floating exchange rate. However, its placement on the "monitoring list" for currency manipulation raises concerns about foreign exchange interventions and transparency.

Financial sector vulnerabilities persist, driven by elevated leverage, high concentration risks, and a relatively weaker regulatory framework, creating potential systemic pressures. Private sector credit remains high at around 127% of GDP (2023), with corporates accounting for nearly half of the total. Within this, debt is concentrated, with nearly one-third held by firms engaged in real estate development and construction, increasing exposure to cyclical sector risks.

Banking sector health remains constrained by weak capital adequacy, especially among state-owned commercial banks, alongside ongoing concerns around asset quality. Although the non-performing loan (NPL) ratio has stabilized and declined from its peak of 5.4% in 2023 to 4.9% as of Q1 2025, it remains elevated. The continued slowdown in the property sector, albeit past its peak, remains a source of pressure on bank balance sheets and credit dynamics.

Recent banking sector reforms, including amendments to the Law on Credit Institutions (2024/2025), aim to strengthen capital adequacy and improve asset quality, with a gradual shift toward Basel III-aligned standards. In addition, authorities have signalled a transition away from administrative controls toward more market-based mechanisms, including plans to remove credit growth caps from 2026.

While these measures are expected to support financial sector resilience over time, their success will depend on effective implementation. Legacy asset quality risks and continued exposure to cyclical sectors such as real estate are likely to remain key monitorables.

Institutions & quality of governance

Vietnam's one-party political system centralises the decision-making process, leaving limited opportunities for political participation by citizens. Rigid bureaucracy and weak transparency hamper regulatory effectiveness.

Recent reforms indicate a strengthening of Vietnam's institutional and policy framework, underpinned by enhanced governance, transparency, and regulatory alignment with international standards, evidenced by improved SOE oversight and disclosure, strengthened AML compliance, and sectoral and administrative reforms that support more efficient resource allocation, financial discipline, and a more predictable operating environment.

However, structural constraints remain, including uneven implementation of reforms, continued state influence, which could dilute policy effectiveness. Governance improvements, while progressing, are still evolving, particularly in the SOE sector where operational independence and accountability remain mixed. Additionally, the transition toward market-based pricing and reduced subsidies could introduce short-term pressures on corporates and households. As such, the consistency and momentum of reform implementation will remain a key monitorable.

The absence of an effective regime of checks and balances could undermine the success of these efforts in the long run. Furthermore, its classification by the US as a "non-market economy" can increase trade risks and signal weaker institutional transparency. Additionally, the country's presence on the FATF grey list raises concerns over regulatory transparency and governance effectiveness, potentially impacting investor confidence and financial stability.

Select indicators

	Unit	2020	2021	2022	2023	2024	2025	2026 F	2027 F
Economic indicators									
Nominal GDP	USD billion	346	370	411	433	459	495	511	545
GDP per capita (constant-PPP)	USD	11,912	12,101	13,008	13,552	14,371	15,170	15,898	16,703
Real GDP growth	%	2.9	2.6	8.5	5.1	7.1	8.0	5.6	5.8
GFCF/GDP	%	30.3	31.0	30.8	30.4	29.0	29.2	-	-
Gross national savings/GDP	%	34.6	34.9	36.5	36.8	37.2	-	-	-
Exports (G&S)/GDP	%	84.4	93.9	93.4	86.5	90.2	-	-	-
Working age (15-64) population (% share in total)	%	68.0	67.9	67.8	67.8	67.7	67.6	67.7	67.9
Old age (65+) population (% share in total)	%	7.6	7.9	8.2	8.6	9.0	9.5	9.9	10.3
Fiscal indicators – general government									
Fiscal Balance/GDP	%	-2.9	-1.4	0.7	-1.7	-1.5	-3.3	-2.3	-2.2
Revenue/GDP	%	18.4	18.7	18.9	17.1	17.6	18.4	17.7	17.8
Expenditure/GDP	%	21.3	20.1	18.2	18.8	19.1	21.7	20.1	19.9
GG gross debt/GDP	%	41.3	39.2	34.9	34.3	31.3	32.0	31.8	31.5
GG external debt (by creditor)/GG Gross Debt	%	36.2	32.8	30.0	28.0	-	-	-	-
Interest/Revenue	%	7.2	6.4	5.2	5.1	4.8	-	-	-
External indicators									
Current account balance/GDP	%	4.3	-2.2	0.3	6.4	6.6	6.7	2.4	1.8
FDI, net inflows/GDP	%	4.6	4.2	4.4	4.3	4.2	-	-	-
Outstanding FII liabilities/GDP	%	-0.1	-0.1	0.3	-0.2	-0.4	-0.2	-	-
NIIP/GDP	%	-4.1	-3.2	-3.3	-2.1	-1.6	-3.1	-	-
Foreign exchange reserves	USD Billion	95.5	110.0	87.1	92.9	83.9	86.9	-	-
Import cover	Months	4.0	3.7	2.6	3.3	2.5	2.2	-	-
External debt/GDP	%	37.6	37.9	35.5	32.7	32.7	32.8	-	-
Monetary and financial indicators									
CPI Inflation	%	3.2	1.8	3.2	3.3	3.6	3.3	3.2	3.3
Exchange rate (average)	LC per USD	23,208	23,160	23,271	23,787	24,165	24,961	-	-
Non-performing loans/total gross loans	%	1.9	1.6	2.3	5.4	4.8	-	-	-
Private debt, loans and debt securities/GDP	%	115.5	124.4	126.4	127.0	-	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

America

Argentina

CareEdge CCC+

Rating action

CareEdge Global has upgraded the Long-Term Foreign Currency rating of the Argentine Republic (Argentina) to 'CareEdge CCC+ (Unsolicited)' from 'CareEdge CCC (Unsolicited)'.

Rationale

The rating upgrade reflects CareEdge Global's expectations that the reforms introduced over the past 18 months will help improve Argentina's government finances over the medium term. The government has taken steps to restore fiscal discipline, normalise monetary policy, remove capital control and implement trade liberalisation. These actions are expected to support a strong economic recovery, with GDP projected to grow by 5.5% in 2025, following a contraction of 1.7% in 2024. Gross general government debt is expected to decline from a peak of 155% of GDP in 2023 to 73% by 2025 and further to 55% by 2030, supported by tighter fiscal management. Inflation is also expected to drop sharply to 35.9% in 2025, from a peak of 219.9% in 2024.

While the upgrade acknowledges Argentina's progress, the 'CareEdge CCC+' rating still reflects elevated credit risk. The sovereign remains exposed to external shocks, limited market access, and a fragile social and political environment that could slow or reverse reforms.

A recent provincial election in Buenos Aires was a setback for President Javier Milei's party, with the opposition winning by a large margin. This unexpected result shook investor confidence, causing a sharp fall in Argentine stocks and bonds, and pushing the peso to a record low against the dollar. The upcoming 2025 midterm elections add more uncertainty and could affect the pace of reforms.

Argentina's credit profile remains weak, largely due to years of high inflation, unstable exchange rates, and a heavy dependence on agricultural exports, which are sensitive to climate conditions. Other long-term issues, such as poor infrastructure, low competitiveness, and limited budget flexibility due to high social spending, continue to harm economic stability. Although inflation has decreased and the government posted a fiscal surplus in 2024, these improvements are fragile and depend on continued fiscal austerity and political stability.

Nonetheless, Argentina's credit strengths include a large economy and relatively high income levels (i.e., GDP per capita), supported by abundant natural resources such as lithium, shale oil, and agricultural products. The country also benefits from a well-educated labour force. These structural advantages provide a foundation for long-term growth, provided the country maintains economic stability and continues institutional reforms.

Upside scenario

The rating could be upgraded further if Argentina continues with its reforms, achieves stronger economic growth and sees increased private sector activity that boosts investor confidence.

Downside scenario

The rating could be downgraded if reforms slow or reverse, such as weaker fiscal discipline, higher interest rates, or a return of capital controls, leading to a weaker economic recovery and lower investor confidence.

Key rating drivers

Economic structure & resilience

Argentina's economic landscape is marked by pronounced growth volatility, persistent hyperinflation, and vulnerability to climate shocks, particularly droughts. Despite these challenges, the country maintains a moderately large economy valued at USD 632 billion in 2024, a high GDP per capita of USD 25,744 (in constant PPP terms), and abundant natural resources.

In response to its economic instability, Argentina has launched reforms aimed at restoring macroeconomic balance. Early signs of progress are emerging following a contraction of 1.7% in 2024. GDP is projected to rebound with a 5.5% expansion in 2025 and sustain an average annual growth rate of 3.5% from 2026 to 2030. Poverty, which surged to 52.9% in the first half of 2024, has since declined to 38.1%, driven by a moderation in inflation.

Argentina is well-positioned to benefit from the global energy transition. The country possesses the fourth-largest offshore wind potential worldwide and is home to 20% of the world's identified lithium resources, presenting considerable scope for expanding production. However, the realisation of these opportunities is contingent upon the establishment of adequate support infrastructure. Currently, the economy is still grappling with structural challenges, including limited competitiveness and relatively low levels of gross fixed capital formation, which accounted for just 15.8% of GDP in 2024.

Fiscal strength

Argentina's fiscal landscape is shaped by the current administration's austerity-driven approach, which includes reductions in capital expenditure and transfers to provincial governments, downsizing of underperforming government entities, and a gradual rollback of subsidies. These measures have led to a notable decline in government spending from 37.8% of GDP in 2023 to 31.3% in 2024, resulting in a fiscal surplus of 0.8% of GDP in 2024, following a deficit of 5.3% recorded in 2023. General government gross debt has also declined significantly, from 155% of GDP in 2023 to an expected 73% in 2025, with projections indicating a continued downward trend to 55% by 2030, supported by ongoing fiscal consolidation. The continuity of this consolidation process, however, remains dependent on the continued implementation of current government policies.

Also, Argentina's history of sovereign defaults has severely eroded investor confidence, limiting access to external financing on favourable terms. Elevated debt servicing costs, coupled with substantial expenditure on pensions, public sector wages, and subsidies, which together account for 58% of total government spending, constrain the fiscal space available for essential services and productive investment. In 2024, interest payments represented approximately 5.4% of total government revenue.

External position & linkages

Argentina's external sector remains vulnerable, primarily due to exchange rate volatility and a heavy reliance on agricultural exports, which heightens exposure to climate-related risks. Compounding these challenges is the critically low level of foreign exchange reserves, which are sufficient to cover only 3.6 months of imports (as of 2024).

In response, the current administration has pursued an ambitious deregulatory and liberalisation agenda. Tax burdens have been reduced, and import restrictions on various commodities have been eased to improve access to essential equipment for both businesses and consumers. Export taxes on industrial goods and key agricultural products have also been lowered to enhance the global competitiveness of domestic industries. As a result, in 2024, exports recorded growth of 19.4% Y-o-Y, while imports declined by 17.5% Y-o-Y, culminating in a trade surplus of USD 18.9 billion. Notably, Argentina became a net energy exporter in 2024, with energy exports continuing to strengthen in the first half of 2025.

Monetary & financial stability

Argentina has made substantial progress in addressing inflationary pressures. Y-o-Y inflation, which had reached 219.9% in 2024, declined to 36.6% by July 2025, due to the government's fiscal consolidation efforts, which helped reduce inflationary pressures. Complementing these efforts, the Central Bank of Argentina implemented a series of monetary policy rate reductions; the benchmark rate was cut nine times between December 2023 and January 2025, lowering it from 133% to 29%, where it has remained since.

In April 2025, the authorities enacted a significant shift in their exchange rate policy by lifting most currency and capital controls. The Central Bank replaced the crawling peg regime with a new exchange rate regime in which the Argentine peso is permitted to fluctuate within a band of 1,000 to 1,400 pesos per U.S. dollar. This band is programmed to widen by 1% per month, allowing for gradual exchange rate flexibility while maintaining a degree of stability.

These reforms were facilitated by an increase in international reserves, supported by the International Monetary Fund's Extended Fund Facility (EFF) program and additional financial assistance from the World Bank and the Inter-American Development Bank.

Institutions & quality of governance

Argentina's institutional framework and governance quality remain constrained by a long-standing legacy of political fragmentation and economic instability. The current administration has introduced an ambitious reform agenda aimed at restoring macroeconomic stability, enhancing competitiveness, and attracting investment. However, progress has been impeded by its limited legislative influence and growing public discontent. The implementation of austerity measures has sparked widespread social unrest, including strikes and protests across major urban cities. These tensions underscore the fragile political consensus surrounding the reform program and highlight the risks to its durability.

The upcoming midterm elections in October 2025 are therefore pivotal. Their outcome will not only determine the balance of power within the legislature but also shape the trajectory of Argentina's economic recovery and the momentum of its reform. A strengthened mandate could enable the government to advance its policy agenda more decisively, while a fragmented result may risk policy reversals or stagnation.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	447	385	486	632	646	632	684	715
GDP per capita (constant-PPP)	USD	26,650	23,780	26,015	27,134	26,457	25,744	26,892	27,829
Real GDP growth	%	-2.0	-9.9	10.4	5.3	-1.6	-1.7	5.5	4.5
GFCF/GDP	%	14.2	14.3	17.3	17.6	18.6	15.8	-	-
Gross domestic savings/GDP	%	17.4	17.4	21.1	18.7	17.7	16.9	-	-
Exports (G&S)/GDP	%	17.9	16.6	18.1	16.2	12.7	15.3	-	-
Working age (15-64) population (% share in total)	%	64.5	64.6	64.8	65.0	65.2	65.4	-	-
Old age (65+) population (% share in total)	%	11.6	11.7	11.8	11.9	12.1	12.2	-	-
Fiscal indicators – general government									
Fiscal balance/GDP	%	-4.5	-8.6	-4.3	-3.8	-5.3	0.8	0.4	1.4
Revenue/GDP	%	33.6	33.8	33.5	33.8	32.4	32.2	33.1	34.6
Expenditure/GDP	%	38.1	42.4	37.8	37.7	37.8	31.3	32.6	33.2
GG gross debt/GDP	%	89.8	103.8	81.0	84.5	155.4	85.3	73.1	68.2
GG external debt (by creditor)/GG gross debt	%	43.1	42.1	40.8	48.0	46.9	47.5	-	-
Interest/revenue	%	18.6	11.1	7.8	10.1	7.7	5.4	-	-
External indicators									
Current account balance/GDP	%	-0.8	0.7	1.4	-0.6	-3.2	1.0	-0.4	-0.3
FDI, net inflows/GDP	%	1.5	1.3	1.4	2.4	3.7	1.8	-	-
Outstanding FII liabilities/GDP	%	16.1	15.3	12.8	7.7	8.0	12.7	-	-
NIIP/GDP	%	25.2	31.9	25.6	19.5	16.8	9.4	-	-
Foreign exchange reserves	USD billion	44.8	39.4	39.7	44.6	23.1	29.6	-	-
Import cover	Months	8.1	9.0	6.6	5.5	3.0	3.6	-	-
External debt/GDP	%	62.3	70.5	54.8	43.7	44.6	43.7	-	-
Monetary and financial indicators									
CPI inflation	%	53.5	42.0	48.4	72.4	133.5	219.9	35.9	14.5
Exchange rate (average)	LC per USD	48.1	70.3	95.1	130.8	302.8	911.7	-	-
Non-performing loans/total gross loans	%	5.7	4.2	4.3	3.1	3.5	-	-	-
Private debt, loans and debt securities/GDP	%	28.0	29.7	22.9	22.3	34.9	23.3	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Brazil

CareEdge BB+/Stable

Rating action

CareEdge Global has assigned a ‘Stable’ outlook to the rating of the Federative Republic of Brazil, while reaffirming the Long-Term Foreign Currency rating of ‘CareEdge BB+ (Unsolicited)’.

Rationale

The stable outlook reflects CareEdge Global expectations that the economic and fiscal profile of Brazil shall remain steady, as reflected by expected moderate economic growth of an average rate of 2% annually between 2025 and 2028, a resilient labour market, and a narrowing of current account deficit to 1.9% of GDP by 2028 (from 2.8% of GDP recorded in 2024), supported by stronger commodity exports.

However, general government debt is projected to remain elevated at 92% of GDP in 2025, primarily due to increasing interest payments. The Central Bank of Brazil’s policy response is expected to bring inflation back within the target range by 2026.

Brazil’s credit assessment is primarily constrained by its low and uneven growth, coupled with weak fiscal metrics, arising from persistent deficits, and reflected by high levels of debt.

This weakness is partly offset by a large and diverse economy coupled with the benefits of an upper-middle-income country. Brazil's comfortable external position and the government's low reliance on external debt also support its credit profile.

Going forward, the success of its ongoing reform efforts, particularly the proposed streamlining of its tax system, would be a key enabler to enhance Brazil's growth potential and address the structural constraints in Brazil's economy.

Upside scenario

The rating could be upgraded if Brazil achieves a higher economic growth rate in the range of 3-4% on a sustainable basis. Along with timely implementation of tax reforms which could enhance government revenue, improve economic efficiency and boost investor confidence. Additionally, a consistent reduction in the fiscal deficit and general government debt levels through disciplined public spending would support fiscal stability combined with monetary policies that result in a lower interest rate environment.

Downside scenario

The rating could face downward pressure if rising social and public spending weakens the fiscal position, hurts credibility and drives up inflation, forcing the central bank to keep interest rates high and increasing the burden of floating rate debt. A weaker currency, triggered by declining investor confidence and falling investments would further weight on the economy.

Key rating drivers

Economic structure & resilience

Brazil is a diverse and resource-rich economy with nominal GDP of USD 2,171 billion and GDP per capita of USD 19,593 in 2024. Its abundant mineral resources such as iron ore and petroleum and agricultural products including soybeans, sugar, and wood underpin a strong trade presence. However, this commodity dependency also exposes the economy to global price volatility.

Despite its natural advantage, Brazil continues to face significant structural challenges such as infrastructure gaps, low investment levels, and a complex tax system have constrained long term growth. These issues are reflected in its tepid ten-year (2014-2023) average growth rate of just 0.5%. In 2024, Brazil's economy expanded by 3.4% driven by robust performance in agriculture and related sectors. However, growth is projected to moderate to around 2% annually between 2025 and 2028 as domestic demand decreases and global conditions become less favourable.

A major development on the structural front is Brazil's landmark tax reform which aims to simplify the country's tax system by replacing five existing levies with a dual VAT structure, the federal level tax and state/municipal level tax. A third levy, the Selective Tax will apply to goods and services with negative externalities. However, the reform's implementation is gradual and complex with seven-year transition period, beginning in 2026 and ending in 2033. While the reform is expected to improve transparency, reduce compliance costs and enhance investment over the long run, its benefit will take time to materialize. In the interim, business would have to navigate overlapping tax regimes and evolving regulations.

Fiscal strength

Brazil's weak fiscal position reflects its high and rising debt, projected to reach 92% of GDP by the end of 2025 and further to 99.1% by 2028, together with a high interest to government revenue ratio of 21% in 2024. A small share of foreign currency-denominated debt helps mitigate these risks to some extent.

The fiscal deficit stood at 6.6% of GDP in 2024, driven by expanded social spending. In response to mounting fiscal pressures, the government introduced a new fiscal framework in mid-2023, designed to anchor spending growth to revenue performance. The framework aimed to gradually reduce the deficit and stabilize debt by capping real expenditure growth at 70% of revenue increases.

However, implementation has fallen short of expectations. The government has repeatedly postponed key fiscal targets, including the goal of achieving a primary surplus of 1% by 2026. These delays coupled with limited changes to government spending have eroded investor confidence raising concern on Brazil's fiscal consolidation path.

While the framework remains a step in the right direction, its effectiveness hinges on consistent policy execution and political will. Without tangible progress, Brazil risks further deterioration in market sentiment and a more constrained macroeconomic environment.

External position & linkages

Brazil maintains a relatively comfortable external position, supported by steady foreign direct investment (FDI) net inflows, 2.9% of GDP in 2024. These inflows reflect sustained investor confidence in Brazil's long-term economic potential. The country also benefits from a comparatively low reliance on external debt financing, with external debt at 34.3% of GDP in 2024, lower than many regional peers. Foreign exchange reserves provide coverage of approximately 12 months of imports, providing sufficient liquidity to manage external shocks.

Brazil's external assessment is, however, partly constrained by a modest current account deficit of 2.8% of GDP in 2024 and its significant negative net international investment position, which stood at -34.5% of GDP in 2024.

Monetary & financial stability

Brazil operates under a floating exchange rate regime with the Central Bank of Brazil (BCB) having gained operational autonomy in 2021. The National Monetary Council is responsible for setting inflation targets, which are currently set at 3.0% (+/- 1.5%) for 2024-2026.

After easing in 2024, inflationary pressures have re-emerged. CPI inflation rose to 5.5% YoY in April 2025 due to a robust labour market. The IMF now projects inflation to be at 5.3% by the end of 2025, remaining above the upper bound of its target range. In response, the Monetary Policy Committee (COPOM) raised the SELIC rate by 25 basis points in June 2025, bringing it to 15% which is even higher than the covid levels.

Institutions & quality of governance

Over the last decade, Brazil has grappled with persistent governance challenges, including corruption, systemic complexities, and rising political polarisation. Bureaucratic inefficiencies and slow judicial processes have further impeded the effectiveness of its government. Despite these obstacles, the current administration has made progress on its legislative agenda, by relying on a diverse coalition. Moreover, Brazil's democratic institutions have shown resilience and notable legislative achievements, such as the tax reform aimed at simplifying the value-added tax system, indicate forward momentum.

Looking ahead, the country is preparing for general elections scheduled for October,2026. While current president Luiz Inacio Lula de Silva remains eligible for re-election, uncertainty surrounds the candidacy of former President Jair Bolsonaro, who is current on trial for an alleged coup attempt. The 2026 elections are expected to be pivotal moment for Brazil's economic performance and policy continuity.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	1873	1476	1671	1951	2191	2171	2126	2187
GDP per capita (constant-PPP)	USD	17980	17286	18028	18505	19029	19593	19914	20241
Real GDP growth	%	1.2	-3.3	4.8	3.0	3.2	3.4	2.0	2.0
GFCF/GDP	%	15.5	16.6	17.9	17.8	16.5	16.6	-	-
Gross domestic savings/GDP	%	14.9	14.4	17.1	15.9	14.5	14.0	-	-
Exports (G&S)/GDP	%	14.1	16.5	19.1	19.6	18.1	15.5	-	-
Working age (15-64) population (% share in total)	%	69.9	69.9	69.9	69.9	69.8	69.7	69.6	69.6
Old age (65+) population (% share in total)	%	9.0	9.3	9.6	9.9	10.2	10.6	11.0	11.0
Fiscal indicators – general government									
Fiscal balance/GDP	%	-4.9	-11.6	-2.6	-4.0	-7.7	-6.6	-8.5	-7.7
Revenue/GDP	%	38.1	34.5	37.7	39.4	37.5	38.8	39.1	39.2
Expenditure/GDP	%	43.0	46.2	40.3	43.5	45.3	45.5	47.7	45.5
GG gross debt/GDP	%	87.2	96.0	88.9	83.9	84	87.3	92.0	96.0
GG external debt (by creditor)/GG gross debt	%	13	12.9	14.1	12.3	11.8	-	-	-
Interest/revenue	%	18.8	16.7	18.1	20.4	21.6	21	-	-
External indicators									
Current account balance/GDP	%	-3.5	-1.7	-2.4	-2.2	-1.2	-2.8	-2.3	-2.2
FDI, net inflows/GDP	%	3.7	2.6	2.8	3.8	2.8	2.9	-	-
Outstanding FII liabilities/GDP	%	30.4	33.2	26.1	22.8	24.5	-	-	-
NIIP/GDP	%	-41.9	-37.5	-35.9	-42.3	-50.3	-34.5	-	-
Foreign exchange reserves	USD billion	356.9	355.6	362.2	324.7	355.0	-	-	-
Import cover	Months	15.8	18.5	14.2	10.4	12.3	-	-	-
External debt/GDP	%	36.1	43.3	40.1	34.9	33.4	34.3	-	-
Monetary and financial indicators									
CPI inflation	%	3.7	3.2	8.3	9.3	4.5	4.4	5.3	4.3
Exchange rate (average)	LC per USD	3.9	5.2	5.4	5.2	5.0	5.4	-	-
Non-performing loans/total gross loans	%	2.7	2.4	2.1	2.5	2.9	2.8	-	-
Private debt, loans and debt securities/GDP	%	77.0	86.4	84.9	86.0	85.5	93.5	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Canada

CareEdge AA+/Stable

Rating action

CareEdge Global has assigned a ‘Stable’ outlook to the rating of Canada, while reaffirming the Long-Term Foreign Currency rating of ‘CareEdge AA+’ (Unsolicited).

Rationale

The stable outlook reflects CareEdge Global Rating’s expectation that, despite prospects of slower growth, the economy remains well-positioned to absorb trade-related uncertainties, supported by the government’s effective policymaking and the nation’s high GDP per capita.

Moreover, Canada’s substantial liquid assets and its position as a net international creditor are likely to be sustained, which offers additional buffers against a relatively high GGG debt/ GDP ratio.

The reaffirmation of Canada’s rating reflects its large, well-developed and diverse economy. Canada benefits from strong institutional frameworks and a tradition of effective policymaking, which support its economic resilience. The country's independent central bank plays a critical role in sustaining macroeconomic stability through transparent and credible monetary policy. On the external front, Canada's position is bolstered by its net international creditor status and sizable holdings of liquid assets, which provide a substantial buffer against global financial volatility.

However, these strengths are tempered by slower economic growth prospects and an elevated level of gross general government debt, particularly in the context of rising uncertainty stemming from tariff-related global trade tensions.

Upside scenario

Canada's credit ratings could be positively impacted if economic growth exceeds current projections, accompanied by an improvement in the country's debt trajectory and interest-to revenue ratio.

Downside scenario

Downside risks to Canada's credit ratings may arise from a significant decline in economic growth and activity, particularly if trade tensions with the US result in a sharp reduction in export demand.

In addition, a higher debt burden and interest-to-revenue ratios, especially if accompanied by weaker growth and a deterioration in external indicators, could further weigh on the country's credit profile.

Key rating drivers

Economic structure & resilience

Canada's economic assessment is underscored by its large size and high GDP per capita. Since the past few years, Canada's relatively subdued economic growth trajectory has remained a key weakness for the sovereign. The real GDP growth in Canada was 1.5% in 2024, unchanged from the growth in 2023. Tariff-related uncertainties are expected to weigh on Canada's near-term growth prospects due to Canada's deep interlinkages with the US. About 78% of Canada's exports are to the US.

GDP growth is projected to remain low at 1.38% in 2025. In Q1 2025, Canada's growth rate was 2.31%, up from 2.29% in Q4 2024, supported by the frontloading of exports to the US ahead of the implementation of tariffs.

Since early 2025, the US and Canada have been engaged in a tariff dispute. The US initially imposed a 25% tariff on all Canadian exports and proposed a 10% levy on energy shipments. After several revisions, tariffs were ultimately set at 25% on non-USMCA goods and 50% on aluminium and steel exports. In response, Canada introduced countermeasures, including targeted tariffs on US goods and support programs for impacted sectors, such as the automotive industry, to provide business liquidity and aid displaced workers.

Further, the USMCA agreement between Canada, the US and Mexico is set for review in 2026. Tariff-related developments and the review of the USMCA agreement will be key indicators to monitor for the economy.

Despite having an ageing population, Canada has consistently maintained population growth, predominantly supported by immigration. The annual population growth rate between 2020 and 2024 averaged 1.85%. However, in 2024, the federal government announced that it would lower temporary and permanent immigration into Canada. The latest data for Q1 2025 indicates that Canada added the smallest number of immigrants over the last few years. Therefore, population growth will also be a closely monitored factor for the economy.

Fiscal strength

The fiscal deficit increased in 2024 because the relatively higher interest rate environment led to lower corporate profits, which weighed on revenue collections. The government's fiscal deficit was at -2.15% of GDP in 2024, compared to a surplus in 2023. The fiscal deficit is projected to be around 2.0% of GDP in 2025.

Canada's debt burden rose to 110.7% of GDP in 2024, up from 107.7% in 2023, reflecting sustained fiscal pressures. Nonetheless, debt servicing costs have remained manageable, with the average interest-to-revenue ratio between 2020 and 2024 at 7.3%.

Canada's strong balance sheet helps temper concerns around its elevated debt levels. According to the IMF, the government holds financial assets equivalent to approximately 94% of GDP, and roughly one-quarter of these assets are considered liquid. Furthermore, the public pension system is largely funded by employee and employer contributions, easing direct fiscal pressures on the federal government.

Following the resignation of former Prime Minister Justin Trudeau, the subsequent elections and appointment of a new Prime Minister have delayed the tabling of the 2025–2026 federal budget. In the interim, the government has released the Main Estimates, detailing planned expenditures in priority areas such as housing and defence. A corresponding departmental plan has also been presented to guide resource allocation.

External position & linkages

The performance of Canada's current account over the medium term has remained resilient. FDI net inflows remain comfortable at an average of 2.0% of GDP (2020-2024). The country achieved a modest current account deficit of 0.5% of GDP in 2024. Although Canada's external debt was high at 141.4% of GDP in 2024, it has fallen from 146% of GDP in 2023 and its 2020 peak of 155.5%. Canada's external assessment is helped by the actively traded Canadian dollar and a positive net creditor position equivalent to 61.9% of GDP in 2024. However, as a significant exporter of commodities, Canada remains exposed to commodity price volatility. The current tariff war and its impact on the US economy further expose Canada to external sector shocks.

Monetary & financial stability

Canada operates under a free-floating exchange rate regime, which benefits from its actively traded currency. The Bank of Canada targets a CPI inflation rate of 2%, aiming to keep it within a range of 1% to 3% over the medium term. CPI Inflation has steadily decreased from its 2022 peak of 6.8%, reaching its 2.4% in Dec 2024. Inflation in Apr 2025 fell to 1.8% from 2.3% in March as the government's step to eliminate the consumer carbon tax reduced gas prices.

At its latest monetary policy meeting in June 2025, Canada's central bank held the rates at 2.75%. However, the policy rate has decreased from the 5% rate seen in April 2024. In its policy statement, the central bank assured that it will support growth while maintaining controlled inflation. Canada's banking sector is well-developed and well-capitalized, with healthy asset quality.

Institutions & quality of governance

Canada's rating is supported by its robust governance structure, strong legal framework and low level of corruption. Canada performs well across all World Bank World Governance Indicators (WGI), scoring percentile ranks above 90 in five out of the six indicators. Canada's regulatory institutions are credible, independent and transparent. Following the resignation of Prime Minister Justin Trudeau earlier this year and the subsequent appointment of Mark Carney as the Prime Minister in March, Canada's federal election was held in 2025. The Liberal Party won the election, and Mark Carney was appointed as the Prime Minister. Although the new administration forms a minority government, the associated risks are viewed as limited, given Canada's long-standing experience in managing minority governments effectively.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	1743	1655	2022	2190	2173	2241	2225	2332
GDP per capita (constant-PPP)	USD	56872	53377	56223	57606	56874	56093	56309	57189
Real GDP growth	%	1.9	-5.0	5.9	4.2	1.5	1.5	1.4	1.6
GFCF/GDP	%	22.6	23.2	24.2	23.3	22.9	22.7	-	-
Gross domestic savings/GDP	%	21.6	20.5	24.4	25.9	24.0	23.0	-	-
Exports (G&S)/GDP	%	33.02	30.4	30.1	34.0	34.6	34.2	-	-
Working age (15-64) population (% share in total)	%	66.5	66.1	65.7	65.4	65.0	64.7	64.4	64.0
Old age (65+) population (% share in total)	%	17.6	18.0	18.5	19.0	19.5	20.1	20.6	21.1
Fiscal indicators – general government									
Fiscal balance/GDP	%	0.0	-10.9	-3.1	0.6	0.1	-2.2	-1.9	-1.6
Revenue/GDP	%	40.6	41.4	42.4	41.2	42.2	42.6	42.4	42.1
Expenditure/GDP	%	40.6	52.4	45.5	40.6	42.1	44.7	44.2	43.8
GG gross debt/GDP	%	90.2	118.1	112.6	104.2	107.7	110.8	112.5	110.9
GG external debt (by creditor)/GG gross debt	%	18.4	19.2	21.1	18.3	18.7	21.6	-	-
Interest/revenue	%	7.4	7.2	6.3	6.6	7.8	8.4	-	-
External indicators									
Current account balance/GDP	%	-1.9	-2.0	0.0	-0.3	-0.6	-0.5	-0.1	-0.2
FDI, net inflows/GDP	%	2.8	1.7	2.9	2.3	2.2	1.0	-	-
Outstanding FII liabilities/GDP	%	104.5	120.2	110.9	96.3	103.7	97.1	-	-
NIIP/GDP	%	30.3	53.4	54.7	37.2	59.2	61.9	-	-
Foreign exchange reserves	USD billion	85.3	90.4	106.6	107.3	118.3	121.6		
Import cover	Months	1.7	2.1	2.0	1.8	2.0	2.02	-	-
External debt/GDP	%	136.4	155.5	139.5	129.1	146.3	141.4	-	-
Monetary and financial indicators									
CPI inflation	%	1.9	0.7	3.4	6.8	3.9	2.4	1.9	2.1
Exchange rate (average)	LC per USD	1.3	1.3	1.3	1.3	1.4	1.4	-	-
Non-performing loans/total gross loans	%	0.5	0.5	0.4	0.3	0.4	0.6	-	-
Private debt, loans and debt securities/GDP	%	221.2	244.5	230.7	215.2	218.1	217.9		

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Chile

CareEdge A-/Stable

Rating action

CareEdge Global has assigned a 'Stable' outlook to the rating of the Republic of Chile, while reaffirming the Long-Term Foreign Currency rating of 'CareEdge A- (Unsolicited)'.

Rationale

The stable rating outlook reflects CareEdge Global's expectation that Chile will continue fiscal consolidation as fiscal deficit is expected to narrow from 1% of GDP in 2025 and to 0.5% of GDP in 2026, primarily due to higher tax collection, driven by measures taken under the Fiscal Responsibility Law in 2024. Further, Chile should continue its prudent monetary policies, while also maintaining the quality of institutions. Monetary easing is expected in the medium term as the inflation soothes and reaches within the target band.

Further, investments in the mining sector should boost mining production as well as the government's revenue leading to improvement in Real GDP growth to an average of 2.21% between 2025-29 along with the narrowing current account deficit of 2.4% between 2025-27.

The reaffirmation of Chile's rating reflects its autonomous institutional frameworks and prudent macroeconomic and fiscal policymaking. Chile is an export-driven economy valued at over USD 330 billion in 2024, with metals and minerals contributing more than 50 percent to its total exports. Compared to other Latin American countries, the income levels of Chile are relatively higher, with a per capita GDP of USD 29,693 in 2024 (constant prices, purchasing power parity basis). Chile also ranks the highest in the Latin American region on the global competitiveness index.

Although Chile's fiscal situation has recently weakened, its debt levels are still manageable at 42% of GDP (in 2024), with fiscal reserves like the Economic and Social Stabilization Fund (ESSF) USD 9.4 billion (in 2024) offering additional cushion.

However, high trade concentration with China and the United States, reliance on commodities such as copper, other metals and minerals, high external debt which is 75% of GDP (in 2025) along with recent political deadlock over constitutional reforms partly offsets the strengths. Monitoring the progress and impact of the adopted structural fiscal reforms, which seek to increase government revenue and enhance productivity, is crucial.

Upside scenario

Ratings could be improved if the economy demonstrates robust economic growth from the expected level supporting fiscal consolidation significantly. Further, reduction in dependence on commodities and diversification of its trade, insulating from country specific external shocks, should strengthen the credit profile over the medium term.

Downside scenario

The outlook may face downward pressure if economic growth falls short of expectations, likely impacting the fiscal consolidation trajectory. Additionally, adverse developments in the political landscape such as reversal of the deadlock over constitutional reforms could pose risks to the rating. Since the trade concentration is very high with China (nearly, 39% of exports and 25% of imports, 13% and 9% of GDP respectively), slowdown in China and its spillover on Chilean external demand could also add pressure on the credit profile.

Key rating drivers

Economic structure & resilience

Chile's economic assessment is underpinned by its large commodity-export driven economy, with its economic health closely tied to its trade relationships with China and the United States. Real GDP observed 2.64% growth in 2024 higher than 0.52% in 2023 on the back of higher external demand and favourable commodity prices. Real GDP grew by 2.38% in Q1 2025, higher than annual forecast for the year 2025 on account of increased private consumption and investment in Q1 2025. Private consumption grew by 0.09% in Q4 2024 and 5.20% in Q1 2025 respectively, after observing negative growth in Q1, Q2 and Q3 in 2024. Investment grew by 3.88% in Q4 2024 and 5.79% in Q1 2025 respectively.

Metals and Minerals exports are a major source of revenue for the economy as it accounts for more than 50% of total exports. However, this also exposes the economy to price volatility of metals and minerals as well as global demand. Unexploited lithium deposits, comprising 50% of the world's total, offer new opportunities as global demand for green technologies rises.

Fiscal strength

In 2024, the country observed a fiscal deficit of 2.8% of GDP, higher than target of 2% set in the particular year. The actual deficit exceeded the targeted because of lower revenue collection due to shortage of VAT collection on account of lower domestic demand. Also, the expenditure rose slightly due to increased transfers and subsidies. Recent budgets have reallocated spending towards mitigating the impact of high energy prices, employment subsidies in lagging sectors and targeted transfers to households.

Chile's government debt levels are relatively low but have shown an upward trend, reaching 42% of GDP in 2024 from 26% in 2018. To strengthen its fiscal position over the medium term, Chile has enacted the Fiscal Responsibility Law in 2024 which includes a debt ceiling of 45% of GDP and target fiscal deficit annually. It also boosts government revenue through measures taken such as curbing tax evasion and improving revenue collection mechanism. The establishment of the ESSF has helped reduce reliance on public debt for financing fiscal needs. Despite the potential for higher government revenue because of imposition of reforms, increased social spending will pose challenges.

External position & linkages

Chile has observed a persistent current account deficit. The current account deficit has improved to 1.5% of GDP in 2024 from a high of 8.6% in 2022 and 3.5% in 2023. Chile is projected to maintain its CAD at an average of 2.4% over the medium term from 2025-2028. High exposure to commodity price volatility will continue to pose a challenge for the current account balance. The economy has healthy foreign direct investment (3.8% of GDP in 2024) to fund the deficit. Chile's external debt has been rising since 2011 and stood at 75% of GDP and 71.7% of GDP in 2024 and 2023 respectively. A large part of the external debt stems from intercompany lending (24.3% of total external debt) somewhat mitigating external risk. Chile's access to USD 18.5 billion new flexible credit line arrangement, approved by the IMF, provides external liquidity support.

Monetary & financial stability

Chile's monetary assessment is supported by a free-floating exchange rate and an autonomous Central Bank. As against the Central Bank's inflation target range of 3% (+/-1%), the CPI inflation fell to 4.26% in 2024 from 7.6% in 2023 from a high of 11.7% in the previous year. CPI inflation reached 4.84% in Q1 2025 due to recent hike in the electricity tariffs. The central bank reacted by cutting rates to 5.00% in 2024 end from a high of 11.25% in 2022.

The financial sector remains resilient, backed by strong capital buffers and healthy regulation. The recent implementation of the Countercyclical Capital Buffer and steady Basel III adoption bolster the sector's resilience. Chile's banking system is well capitalized and maintains a high level of liquidity. The Central Bank of Chile closely monitors the sector for systemic risks and is proactive in its regulatory role.

Institutions & quality of governance

Chile has healthy, autonomous institutions, including its judiciary, regulatory bodies, and central bank, which operate with significant independence and transparency. Chile has been under political transformation driven by continuous efforts towards constitutional reform. Attempts to pass proposed draft constitutions have faltered twice since 2022, leaving the future direction uncertain. The prevailing climate of uncertainty in political atmosphere, presents new challenges to the nation's democratic processes. The progress of the reform process and its long-term impact on fiscal and economic policy is an important monitorable.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	278.04	254.06	315.41	301.27	335.63	330.21	343.82	357.69
GDP per capita (constant-PPP)	USD	28350.06	26128.27	28759.43	29156.36	29114.08	29697.25	30119.76	30601.39
Real GDP growth	%	0.63	-6.14	11.32	2.15	0.52	2.64	2.03	2.18
GFCF/GDP	%	24.55	22.57	23.31	25.29	23.83	23.47	-	-
Gross domestic savings/GDP	%	19.70	19.13	16.68	16.93	20.21	21.78	21.28	21.23
Exports (G&S)/GDP	%	24.71	29.06	30.01	32.64	27.69	30.04	-	-
Working age (15-64) population (% share in total)	%	69.0	69.0	68.9	68.7	68.4	68.1	67.8	67.5
Old age (65+) population (% share in total)	%	12.1	12.4	12.7	13.0	13.5	13.9	14.4	14.9
Fiscal indicators – general government									
Fiscal balance/GDP	%	-2.4	-6.6	-6.9	1.8	-1.9	-2.0	-1.1	-0.1
Revenue/GDP	%	23.77	21.99	26.09	28.09	25.12	23.74	24.64	25.13
Expenditure/GDP	%	26.50	29.09	33.62	26.73	27.40	26.48	26.65	26.22
GG gross debt/GDP	%	28.33	32.38	36.45	37.91	39.42	41.98	42.98	43.42
GG external debt (by creditor)/GG gross debt	%	38.27	38.22	45.34	35.72	37.08	36.00	-	-
Interest/revenue	%	3.90	4.38	3.30	3.57	4.20	-	-	-
External indicators									
Current account balance/GDP	%	-5.2	-1.9	-7.3	-8.8	-3.1	-1.5	-2.1	-2.4
FDI, net inflows/GDP	%	4.88	4.51	4.81	6.04	6.48	-	-	-
Outstanding FII liabilities/GDP	%	37.90	44.99	42.51	41.51	39.79	-	-	-
NIIP/GDP	%	-15.71	-12.25	-7.82	-20.01	-19.04	17.1	-	-
Foreign exchange reserves	USD billion	39.48	37.80	47.13	35.20	42.34	40.40	-	-
Import cover	Months	5.93	6.90	5.99	3.95	5.58	6.21	-	-
External debt/GDP	%	71.36	82.06	74.59	76.07	71.79		-	-
Monetary and financial indicators									
CPI inflation	%	2.25	3.05	4.53	11.64	7.58	3.93	4.36	3.17
Exchange rate (average)	LC per USD	744.62	711.24	850.25	859.51	884.59	992.12	-	-
Non-performing loans/total gross loans	%	2.06	1.55	1.23	1.60	2.10	2.38	-	-
Private debt, loans and debt securities/ GDP	%	143.37	154.02	157.72	147.09	145.40	141.13	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Colombia

CareEdge BB+/Negative

Rating action

CareEdge Global has assigned a 'Negative' outlook to the rating of Republic of Colombia, while reaffirming the Long-Term Foreign Currency rating of 'CareEdge BB+(Unsolicited)'.

Rationale

The Negative outlook on Colombia reflects increasing fiscal challenges and rising political and security risks which could weigh on macroeconomic stability over the medium term.

The central government fiscal deficit for 2025 has been revised upward to -7.1% of GDP, from the earlier estimate of -5.1%, with similar revisions across the 2024 to 2027 period. The widening deficits are driven by persistent revenue shortfalls, which are expected to result in higher central government debt levels than previously anticipated.

In response, the government has opted to suspend the fiscal rule for three years starting in 2025, citing that 86.4% of public spending is inflexible. While this provides short-term budgetary flexibility, it has added to concerns around the credibility of Colombia's fiscal framework. With limited scope for reform ahead of the 2026 elections, uncertainty surrounding the fiscal consolidation trajectory has intensified.

The credit profile of Colombia is primarily constrained by its weak fiscal position and persistent security-related challenges. The economy remains heavily reliant on oil revenues, making it vulnerable to fluctuations in global commodity prices. Additionally, the large informal sector limits the tax base, reducing fiscal flexibility and constraining public investment. Inflation is on a downward trajectory, although it remains elevated relative to the central bank's target.

Nonetheless, the reaffirmation of the rating reflects Colombia's relatively strong economic fundamentals and a comfortable external profile, demonstrated by resilient foreign direct investment inflows and adequate foreign exchange reserves.

Downside scenario

The rating could be lowered if a timely and effective fiscal consolidation plan is not implemented, leading to further deterioration in central government finances, weaker-than-expected economic growth, and a decline in security conditions.

Upside scenario

The outlook could be revised to stable if the government implements a credible fiscal consolidation plan and effectively addresses security concern, restoring investor confidence and supporting stronger economic growth.

Key rating drivers

Economic structure & resilience

Colombia's economy is sizable, with a nominal GDP of USD 419 billion in 2024 and a per capita income of USD 18,909. Economic growth is anticipated to rise to 2.4% in 2025 from 1.7% in 2024, fuelled by increased household consumption. The growth rate is expected to improve further, averaging about 2.7% per year between 2026 and 2027.

The labour market has shown a slight improvement, with the unemployment rate expected to decline to 10% of the total labour force participation by 2025, down from a peak of 16.6% recorded in 2020. However, high informality in the labour market remains a significant challenge, with 56% of workers engaged in informal employment lacking access to employment protection or social security benefits.

Fiscal strength

Central government finances face mounting challenges. Revenue as a share of GDP dropped from 18.7% in 2023 to 16.5% in 2024, mainly due to a sharp decline in tax collection. Although a slight rebound to 17.0% of GDP is expected in 2025, it still falls short of earlier forecasts. On the spending side, expenditures increased to 23.2% of GDP in 2024 from 22.9% in 2023 and are projected to rise further to 24.2% in 2025. This increase is driven by growing interest payments, estimated at 4.7% of GDP in 2025, and rigid primary expenses related to pensions, healthcare, and security. As a result, the fiscal deficit for 2025 is now forecasted to reach 7.1% of GDP, well above the initial target of 5.1%.

To address the widening deficit, the government has activated the fiscal rule's escape clause, allowing suspension for up to three years from 2025. This move is justified by the fact that 86.4% of public spending is inflexible, tied to pension commitments, health insurance, and essential operations in sectors like public safety. Consequently, central government debt is now expected to grow faster than previously estimated. If not managed, debt could reach nearly 70% of GDP by the end of the decade, posing a challenge to long-term debt sustainability especially without credible fiscal consolidation measures.

External position & linkages

Colombia holds a comfortable level of foreign exchange reserves, enough to cover about 7.3

months of imports, offering protection against external shocks. Nonetheless, the current account deficit is forecasted to widen to -2.3% of GDP in 2025, up from -1.8% in 2024. This increase is largely driven by stronger domestic demand, which leads to higher imports, alongside declining exports amid ongoing global trade tensions. The current account deficit is expected to average around -3% of GDP from 2026 to 2030.

Foreign direct investment inflows remained resilient at 3.4% of GDP in 2024, down from 4.6% in 2023, yet robust. Meanwhile, externally held debt declined to 48.2% of GDP in 2024, down from 53.6% in 2023, reflecting an improvement in external debt dynamics.

Monetary & financial stability

Colombia's central bank has a proven history of successfully managing inflation. It has significantly lowered inflation from a peak of 11.7% in 2023 to 6.6% in 2024. Expectations are that inflation will decrease further to 4.7% in 2025, though it will still be above the central bank's 3% target. The current monetary policy interest rate is 9.25%.

Stock market capitalisation remains relatively low, at 17.4% of GDP in 2024, indicating limited investor confidence and a shallow domestic capital market.

Institutions & quality of governance

Colombia continues to face persistent governance challenges, including weak control over corruption and a fragile law enforcement system. The current administration's lack of a congressional majority, following the 2022 elections, has further constrained the pace of legislative reforms. Despite these hurdles, the country benefits from a relatively efficient regulatory framework and moderately strong indicators in areas such as voice and accountability, as well as policy effectiveness.

However, deteriorating security conditions, particularly in regions affected by criminal activity and armed conflict, have heightened domestic uncertainty, dampened economic growth prospects, and added pressure to government finances. Recent surges in violence, including mass displacements in the Catatumbo region, bombings in the southwest, and an attempted assassination of a presidential candidate, have intensified political tensions ahead of the May 2026 elections. As Colombia enters a pivotal electoral phase, the space for advancing meaningful reforms appears increasingly constrained.

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Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	323	270	319	346	366	419	428	446
GDP per capita (constant-PPP)	USD	17836	16222	17725	18815	18756	18909	19215	19585
Real GDP growth	%	3.2	-7.2	10.8	7.3	0.7	1.7	2.4	2.6
GFCF/GDP	%	21.3	18.4	19.0	19.0	17.4	16.5	-	-
Gross domestic savings/ GDP	%	15.6	12.1	11.3	12.1	11.7	12.2	-	-
Exports (G&S)/GDP	%	15.9	13.5	16.2	20.2	17.8	15.9	-	-
Working age (15-64) population (% share in total)	%	69.5	69.6	69.7	69.7	69.5	69.3	-	-
Old age (65+) population (% share in total)	%	8.2	8.5	8.7	9.0	9.4	9.8	-	-
Fiscal indicators – general government									
Fiscal balance/GDP	%	-3.5	-6.9	-7.0	-6.2	-3.2	-4.7	-4.5	-3.2
Revenue/GDP	%	29.4	26.6	27.2	27.7	32.2	28.2	28.1	27.9
Expenditure/GDP	%	32.9	33.5	34.3	33.9	35.4	32.9	32.5	31.1
GG gross debt/GDP	%	51.0	65.3	64.4	61.3	55.5	61.3	59.7	59.9
GG external debt (by creditor)/GG gross debt	%	33.2	34.7	37.7	40.3	33.1	32.7	-	-
Interest/revenue	%	10.6	12.3	13.1	15.1	13.8	-	-	-
External indicators									
Current account balance/ GDP	%	-4.6	-3.4	-5.6	-6.0	-2.3	-1.8	-2.3	-2.4
FDI, net inflows/GDP	%	4.3	2.8	3.0	5.0	4.6	3.4	-	-
Outstanding FII liabilities/ GDP	%	25.4	32.9	27.8	23.5	25.4	21.4	-	-
NIIP/GDP	%	-48.9	-59.0	-50.4	-51.6	-52.1	-44.7	-	-
Foreign exchange reserves	USD billion	52.7	58.5	58.0	56.7	59.0	61.9	-	-
Import cover	Months	7.7	11.5	8.1	6.0	7.2	7.3	-	-
External debt/GDP	%	42.7	57.2	53.8	53.2	53.6	48.2	-	-
Monetary and financial indicators									
CPI inflation	%	3.5	2.5	3.5	10.2	11.7	6.6	4.7	3.1
Exchange rate (average)	LC per USD	3,281	3,693	3,724	4,255	4,325	4,074	-	-
Non-performing loans/ total gross loans	%	3.1	3.7	3.0	2.5	3.5	-	-	-
Private debt, loans and debt securities/GDP	%	60.6	70.0	64.2	61.0	58.0	54.8	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Ecuador

CareEdge CCC+

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency Rating of the Republic of Ecuador at 'CareEdge CCC+' (Unsolicited).

Rationale

The rating reaffirmation reflects CareEdge Global's view that Ecuador's structural constraints such as a weak debt repayment record, limited monetary policy flexibility under the dollarised regime, internal security risks, and high vulnerability to climate shocks constrain its credit profile. Despite recent positive developments, including stronger-than-expected GDP growth and return to international capital markets, Ecuador's repayment ability is critically dependent on funds from external creditors.

Ecuador's real GDP grew by 3.7% in 2025, 0.5pp above the IMF's October 2025 projections, supported by strong non-oil exports, which also supported the accumulation of record-high foreign exchange reserves.

Further, in January 2026, Ecuador issued USD 4 billion in bonds, re-entering international capital markets for the first time since 2019. Of this, USD 3 billion was used for bond buybacks, helping reduce debt servicing pressures.

The gross general government (GGG) debt-to-GDP ratio is projected to decline to 43% by 2030 from around 54% in 2025. Reforms under the IMF Extended Fund Facility (EFF) programme have progressed broadly in line with, or better than, expectations. However, fiscal performance in 2025 was worse than expected. Lower oil revenues and compensatory spending by the government to cushion the impact of the removal of diesel subsidy led to this underperformance. Ecuador also missed out on end-January 2026 fiscal quantitative performance criteria (QPC) under the EFF programme.

Climate risks have intensified. Recent floods and landslides have affected key provinces, particularly those driving non-oil exports. This also poses risks to oil production capacity and infrastructure. As evidenced by oil pipeline shutdowns in July 2025 due to excess rainfall, this could limit gains from higher oil prices.

Going forward, the potential onset of El Niño remains a key monitorable, as it poses risks of further climate-related disruptions across the economy. Additionally, strained relations with Colombia, which has led to the suspension of electricity exports, pose risks to energy supply and overall economic activity.

Upside scenario

The rating could be upgraded if sustained fiscal consolidation reduces gross financing needs. A durable economic recovery would further strengthen the credit profile. Continued effective implementation of IMF-supported reforms would also be credit positive.

Downside scenario

The rating could be downgraded if external financing becomes uncertain, fiscal programme implementation falters, or revenues underperform due to weaker growth (including from internal security threats or disruptions to oil production and energy supply).

Key rating drivers

Economic structure & resilience

Ecuador's real GDP expanded by 3.7% in 2025, exceeding the growth expectations of 1.7% embedded in the rating downgrade and reversing the 1.9% contraction of 2024 that had been driven by severe drought, energy shortages, and security disruptions.

Non-oil exports were the principal structural driver. Shrimp surpassed crude oil as Ecuador's largest export category for the first time in history, posting revenues of approximately USD 8.4 billion in 2025, a 20.2% y-o-y increase. Cacao and bananas also recorded strong growth. Total non-oil exports rose 18.3% in 2025, while oil exports fell 19% in value terms, reflecting lower prices and production decline.

In Q1 2026, non-oil exports continued to expand, up 3.7% y-o-y, while oil exports declined by 7.4%. However, in Q1, oil exports picked up in March, growing 29.6%, following contractions of 30.5% in January and 17.9% in February, supported by higher global oil prices.

Going forward, the signing of a trade agreement with the United States (US) in March 2026 could support growth in non-oil exports over the medium term. Under the agreement, the US, Ecuador's largest trading partner, agreed to reduce or eliminate tariffs on many non-oil exports, including bananas, cacao, and other agricultural products. Meanwhile, production constraints may limit the extent to which Ecuador can capitalise on elevated oil prices.

Ecuador's 2026 growth outlook remains clouded by its hydroclimatic vulnerability. With 70–80% of electricity generated from hydropower and key export sectors concentrated in El Niño-Southern Oscillation (ENSO)-sensitive coastal regions, expected El Niño conditions in 2026 could disrupt economic activity through floods, infrastructure damage, and agricultural losses. Disruptions in oil production and transportation due to excessive rainfall, as witnessed in July 2025, may further weigh on Ecuador's expected benefits from higher oil prices.

Additionally, deteriorating relations with Colombia, including the suspension of electricity exports to Ecuador, remain a key monitorable.

Fiscal strength

Ecuador returned to international capital markets in January 2026, its first since 2019. The country raised USD 4 billion through new bonds maturing in 2034 and 2039, while repurchasing over 80% of 2030 bonds and nearly 30% of 2035 bonds. This is expected to reduce debt service obligations by USD 1.2 billion through 2028. Notably, the issuance was oversubscribed, and Ecuador's sovereign spreads narrowed significantly to below 500 bps from over 2,000 bps, reflecting improved investor confidence.

Separately, the removal of diesel subsidies in September 2025 is expected to generate annual fiscal savings of around USD 1.1 billion (0.8% of GDP) going forward.

The IMF completed its fifth review in April 2026, approving a USD 394 million disbursement and bringing total EFF disbursements to USD 3.7 billion, or over 70% of available funds.

However, Ecuador underperformed the EFF programme's fiscal targets. The overall non-financial public sector (NFPS) deficit widened to 2.9% of GDP in 2025, exceeding IMF's projections by 1.7pp due to lower oil revenues and temporary compensatory spending linked to the diesel subsidy reform.

Ecuador's debt repayment obligations remain elevated. The country heavily relies on the IMF and other external creditors to fulfil those needs (general government external debt accounted for 72.6% of GGG debt in 2025). A substantial portion of these funds are conditional on the EFF programme performance. Therefore, adherence to the programme targets remains a key watchpoint. Tightening global financial conditions due to the West Asia conflict could also weaken investor appetite and constrain Ecuador's external borrowing capacity.

External position & linkages

Ecuador's external position has improved materially, underpinned by the restoration of international market access and a significant buildup of reserve buffers. Gross international reserves reached a record USD 11.5 billion at end-April 2026 from USD 6.9 billion at end-2024.

The current account is expected to remain in a healthy surplus of around 5.2% of GDP in 2026, supported by higher oil prices and non-oil exports. However, the surplus is vulnerable to the severity of the emerging El Niño. Given the country's reform momentum, FDI inflows will r watching, as they have historically been constrained by the security challenge.

Monetary & financial stability

Ecuador's dollarisation framework limits monetary policy independence and tools for policy implementation. The reliance on the US dollar constrains the central bank's ability to respond to economic shocks, as it cannot inject liquidity during times of stress.

Inflation is expected to rise to 2.9% in 2026 from 0.7% in 2025. West Asia conflict-induced higher oil prices, combined with the removal of diesel subsidy, are expected to result in a higher pass-through of prices in the economy.

Although the non-performing loans ratio fell to 4.5% in 2025 from 4.8% in 2024, it is higher than the historical average. Financial soundness in the cooperative sector remains highly heterogeneous across institutions. However, conditions in the private banking sector have been on the mend, supported by capital ratios that are above regulatory requirements.

Institutions & quality of governance

Ecuador's institutional and governance quality continues to be challenging.

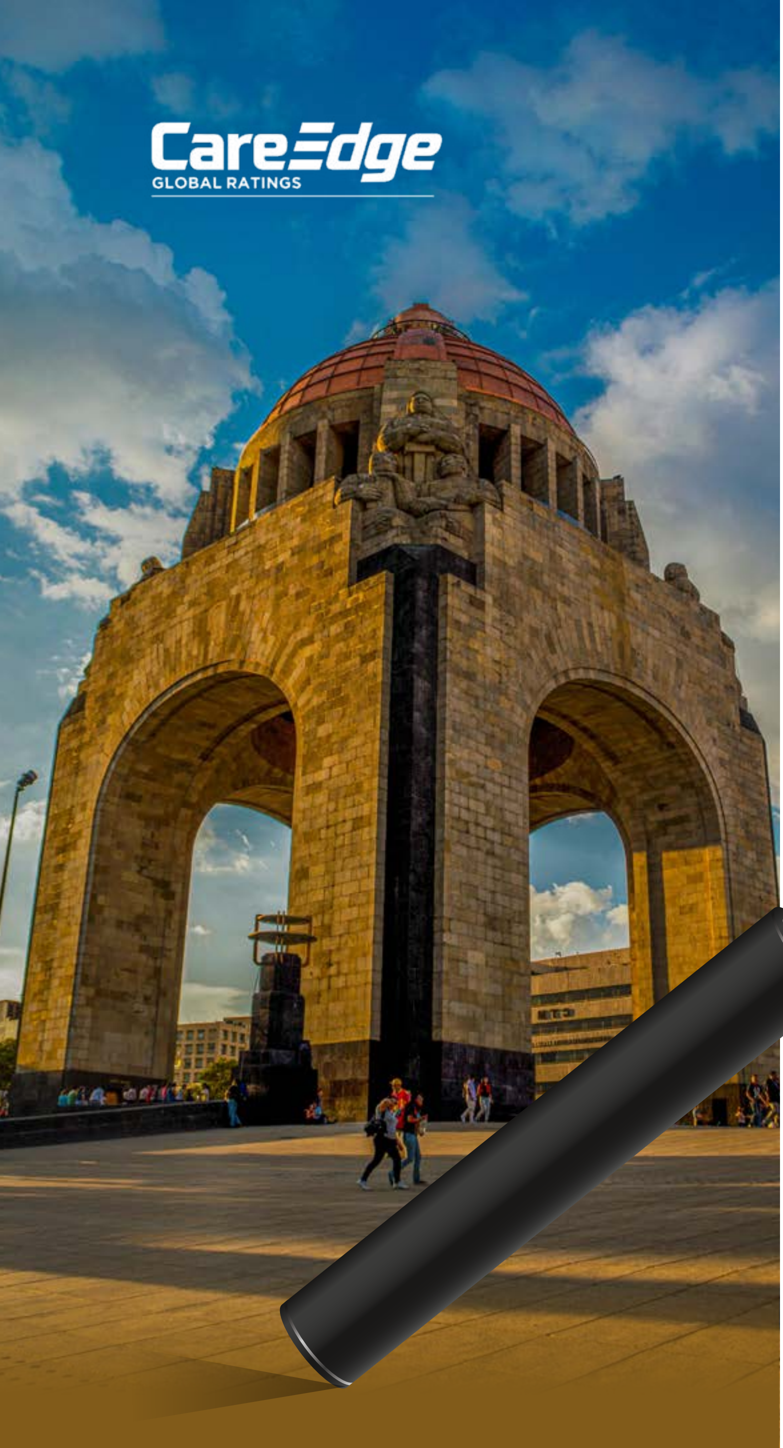
Political gridlock in the country, due to a lack of majority for President Noboa's party in the National Assembly, compounded by the ideological mismatch between the President and the National Assembly, persists. However, it has not materially disrupted reform implementation under the EFF programme, as most measures have been executed through executive actions rather than legislative approval.

Meanwhile, the internal security environment is still challenging. Ongoing states of emergency and elevated crime levels show the government's struggle to maintain public order. Despite military deployments, the designation of criminal organisations as terrorist groups, and joint operations with the US, underlying structural drivers are largely unaddressed.

Select indicators

	Unit	2020	2021	2022	2023	2024	2025	2026 F	2027F
Economic indicators									
Nominal GDP	USD billion	96	107	116	121	124	130	138	144
GDP per capita (constant-PPP)	USD	12,454	13,560	14,274	14,438	14,053	14,467	14,716	14,967
Real GDP growth	%	-9.2	9.4	5.9	1.8	-1.9	3.7	2.5	2.5
GFCF/GDP	%	18.0	19.2	20.6	19.9	19.0	19.9	-	-
Gross domestic savings/ GDP	%	20.2	21.6	22.4	20.8	21.8	-	-	-
Exports (G&S)/GDP	%	23.6	27.4	31.6	29.7	31.2	31.9	-	-
Working age (15-64) population (% share in total)	%	66.0	66.4	66.6	66.9	67.2	67.5	67.8	68.1
Old age (65+) population (% share in total)	%	7.6	7.7	7.9	8.1	8.3	8.6	8.9	9.1
Fiscal indicators – general government									
Fiscal balance/GDP	%	-7.4	-1.6	0	-3.5	-1.3	-2.9	-0.4	0.7
Revenue/GDP	%	32.8	35.9	38.9	36.1	37.1	35.5	37.3	36.3
Expenditure/GDP	%	40.2	37.5	38.9	39.6	38.3	38.4	37.8	35.6
GG gross debt/GDP	%	63.6	61.8	57.2	54.5	54.1	54.3	52.7	50.9
GG external debt (by creditor)/GG gross debt	%	72.9	71.8	73.9	73.2	74.0	72.6	73.6	74.2
Interest/Revenue	%	10.2	4.3	4.9	6.0	6.3	6.8	6.6	6.3
External indicators									
Current account balance/ GDP	%	2.1	2.8	2.0	2.0	5.7	5.8	5.2	4.6
FDI, net inflows/GDP	%	1.2	0.6	0.8	0.4	0.4	1.0	-	-
Outstanding FII liabilities/ GDP	%	19.0	16.8	15.6	13.6	11.9	11.3	-	-
NIIP/GDP	%	-28.2	-24.7	-23.3	-21.9	-15.6	-10.8	-	-
Foreign exchange re-serves	USD billion	7.2	7.9	8.5	4.5	6.9	9.8	13.8	17.5
Import cover	Months	4.2	3.3	2.8	1.5	2.4	3.6	-	-
External debt/GDP	%	59.6	54.1	53.9	49.6	48.3	50.8	48.4	47.7
Monetary and financial indicators									
CPI inflation	%	-0.3	0.1	3.5	2.2	1.5	0.7	2.9	1.6
Non-performing loans/ total gross loans	%	3.3	3.2	3.2	4.7	4.8	4.5	-	-
Private debt, loans and debt securities/GDP	%	53.3	53.0	55.1	56.6	58.7	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global
Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. Latest available data for 2025



Mexico

CareEdge BBB-/Stable

Rating action

CareEdge Global has assigned a 'Stable' outlook to the rating of the United Mexican States (Mexico), while reaffirming the Long-Term Foreign Currency rating of 'CareEdge BBB-(Unsolicited)'.

Rationale

The stable outlook is underpinned by limited risks to Mexico's medium-term growth outlook and a moderate public debt burden. While Mexico remains highly exposed to changes in US trade policy, available tariff exemptions for United States-Mexico-Canada Agreement (USMCA) compliant goods shield much of its export base. The country's external position is supported by a moderate external debt, a manageable current account deficit, and adequate reserves that provide buffers against external shocks.

The upcoming 2026 USMCA agreement review, and potential US policy shifts remain key risks, though we expect the Sheinbaum administration to manage bilateral issues effectively.

Mexico's credit profile is supported by its large economy and its strategic geographic location, which offers significant advantages for nearshoring. The monetary policy framework remains prudent. However, a sizable interest burden, Pemex-related contingent liabilities, and weak governance constrain its credit profile.

Upside scenario

Mexico's credit outlook could be revised to positive if there is a sustained reduction in the interest-to-revenue ratio and a decline in contingent liability risks associated with Pemex. Higher-than-expected growth and an improvement in institutional factors could also support a positive outlook revision.

Downside scenario

A sharp deterioration in economic growth or external sector performance due to US policy uncertainties could result in a revision in the outlook to negative. A material increase in debt ratios and contingent liability risks beyond current expectations, as well as any deterioration in the institutional factors, could also weigh on the outlook.

Key rating drivers

Economic structure & resilience

Mexico's large economy (GDP: USD 1.9 trillion in 2024) is transitioning from reliance on oil exports to a balanced mix of industry, manufacturing, and services. The economy relies heavily on exports, which accounted for 36.8% of GDP in 2024. Key exports include electronics, automotive, and crude oil. With over 80% of exports directed to the US, Mexico is highly exposed to US trade policy. The tariff hikes announced in early 2025 initially fuelled uncertainty, with the IMF in April projecting a 0.3% contraction for 2025. However, Mexico has shown resilience. Around 80% of its US bound exports are exempt from tariffs as they comply with the USMCA's rules of origin. Although a 25% duty applies to non-compliant goods, plans to raise this to 30% have been delayed until at least late October or early November 2025.

Recent forecasts have been revised marginally upward, with the IMF now projecting a growth of 1.0% for 2025, and 1.5% in 2026, underscoring Mexico's ability to weather tariff pressures under the USMCA framework. That said, uncertainty lingers, particularly with the scheduled mid-2026 review of USMCA.

Fiscal strength

Mexico's gross general government debt has risen to 58.4% of GDP in 2024 from 44.1% in 2013, though remains moderate. The IMF projects government debt to average about 61% of GDP over 2025–2029.

Debt affordability remains a concern, reflected by an elevated interest-to-revenue ratio. Contingent liability risks also persist from Pemex, the state-owned petroleum company, which carries a significant debt burden of nearly USD 99 billion as of Q2 CY25. The government aims to improve Pemex's financial performance by 2027. Effective management of Pemex debt will be important for the stability of Mexico's public finances in the coming years.

External position & linkages

Mexico's comfortable external position is supported by moderate external debt, a manageable current account deficit, and adequate foreign exchange reserves.

External debt declined to 31.9% of GDP in 2024, from 33.1% in 2023. Meanwhile, the current account deficit remained stable at 0.3% of GDP and is projected to average around 1% of GDP during 2025–2029. FDI net inflows, averaging 2.5% of GDP over 2020-2024, help mitigate the current account deficit. The IMF's USD 35 billion Flexible Credit Line (FCL) provides an additional buffer against external shocks.

Exemptions for USMCA-compliant goods, along with the US decision to delay tariff hikes for 90 days have supported Mexico's exports. Nevertheless, US policies remain a key monitorable due to their potential impact on Mexico's external position.

Monetary & financial stability

The Bank of Mexico (Banxico) plays a critical role in preserving monetary stability, supported by its independence and proactive approach. The peso is actively traded and free-floating.

Banxico's inflation target remains within a range of 2-4%. CPI inflation stood at 3.6% in August 2025 and is projected to decline to 3% by 2026. Over the course of the current year, the central bank has reduced policy rates by a cumulative 250 bps, bringing the benchmark rate to 7.5%. This includes the most recent 25 bps cut implemented in September 2025.

Banxico's regulatory oversight has ensured a stable banking sector, with adequate capitalisation and liquidity buffers. Asset quality remains sound, with non-performing loan ratio remaining low at around 2% in 2024.

Institutions & quality of governance

Mexico faces significant governance challenges, including a weak rule of law and high levels of corruption, which continue to undermine institutional quality and public trust.

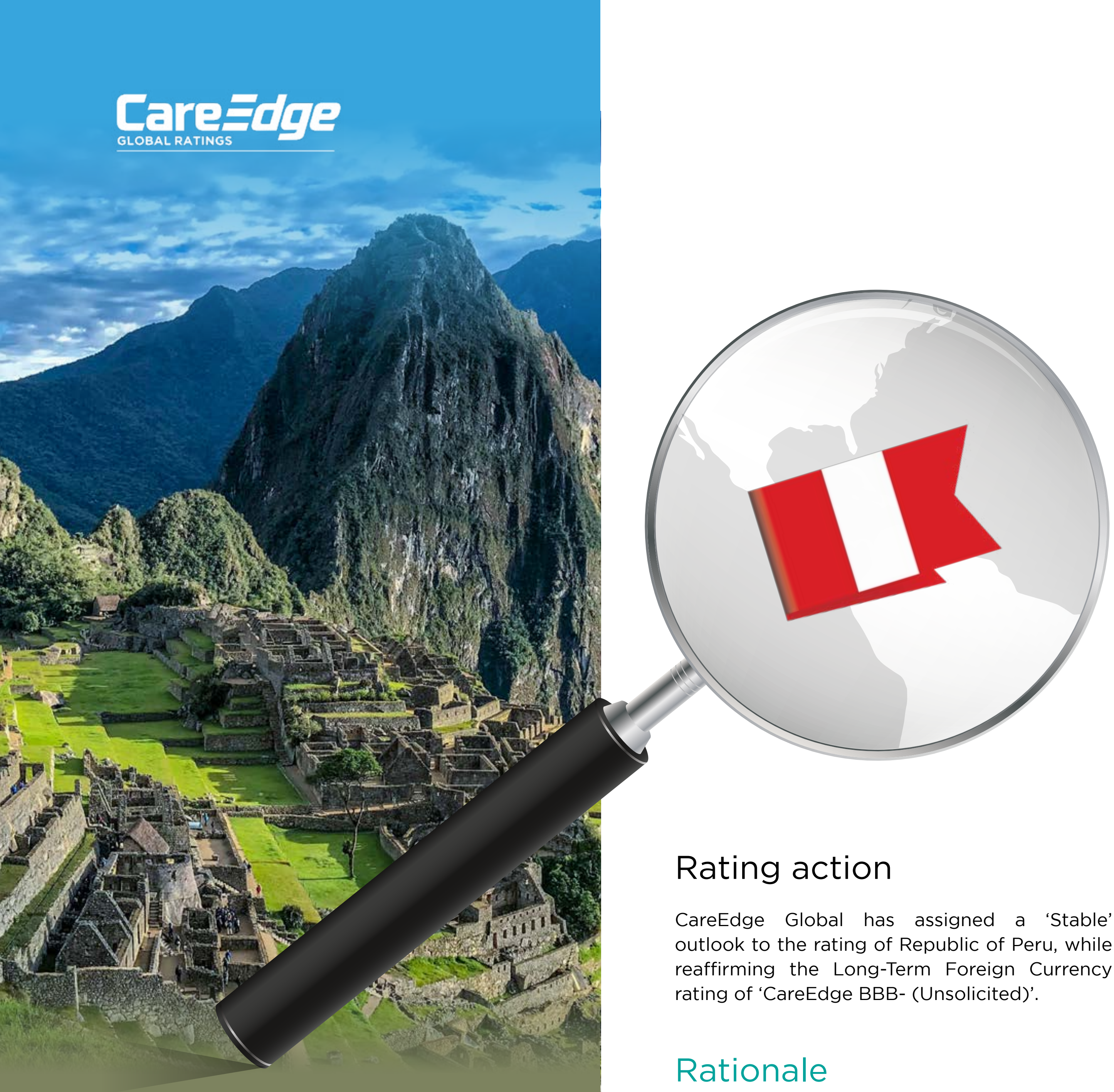
President Claudia Sheinbaum, elected in June 2024, leads the Morena party, and her administration is expected to manage US issues effectively.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	1,304	1,121	1,317	1,466	1,794	1,853	1,693	1,775
GDP per capita (constant-PPP)	USD	21,714	19,745	20,814	21,424	21,932	22,059	21,821	21,949
Real GDP growth	%	-0.4	-8.4	6.0	3.7	3.3	1.5	1.0	1.5
GFCF/GDP	%	21.7	20.1	21.3	22.5	24.3	24.2	-	-
Gross domestic savings/GDP	%	21.8	21.7	20.3	18.3	19.1	18.5	-	-
Exports (G&S)/GDP	%	38.5	39.2	40.6	42.9	36.2	36.8	-	-
Working age (15-64) population (% share in total)	%	66.3	66.5	66.8	66.9	67.1	67.2	67.4	67.5
Old age (65+) population (% share in total)	%	7.3	7.5	7.6	7.7	8.0	8.2	8.5	8.8
Fiscal indicators – general government									
Fiscal Balance/GDP	%	-2.3	-4.3	-3.8	-4.3	-4.3	-5.7	-4.0	-3.3
Revenue/GDP	%	23.0	23.5	22.9	24.2	24.3	24.6	25.0	24.3
Expenditure/GDP	%	25.3	27.8	26.7	28.5	28.6	30.4	29.0	27.6
GG Gross Debt/GDP	%	51.9	58.5	56.7	53.8	52.8	58.4	60.7	61.1
GG External Debt (by Creditor)/GG Gross Debt	%	44.2	42.6	35.7	31.4	27.7	-	-	-
Interest/Revenue	%	14.1	15.4	15.8	17.2	18.5	-	-	-
External indicators									
Fiscal balance/GDP	%	-0.3	2.4	-0.3	-1.2	-0.3	-0.3	-0.5	-1.1
Revenue/GDP	%	2.3	2.8	2.7	2.7	1.7	2.5	-	-
Expenditure/GDP	%	40.4	47.3	39.0	32.8	30.1	25.3	-	-
GG gross debt/GDP	%	-48.3	-49.2	-42.1	-41.9	-42.3	-32.0	-	-
GG external debt (by creditor)/GG gross debt	USD billion	183.1	199.1	207.8	201.1	214.3	232.0	-	-
Interest/revenue	Months	4.3	5.6	4.4	3.6	3.8	4.6	-	-
Fiscal balance/GDP	%	47.7	55.6	45.7	39.8	33.1	31.9		
Monetary and financial indicators									
CPI inflation	%	3.6	3.4	5.7	7.9	5.5	4.7	3.5	3.2
Exchange rate (average)	LC per USD	19.3	21.5	20.3	20.1	17.8	18.3	-	-
Non-performing loans/total gross loans	%	2.2	2.6	2.1	2.1	2.1	2.0	-	-
Private debt, loans and debt securities/GDP	%	40.1	42.8	40.3	38.7	37.1	39.0	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024



Peru

CareEdge BBB-/Stable

Rating action

CareEdge Global has assigned a 'Stable' outlook to the rating of Republic of Peru, while reaffirming the Long-Term Foreign Currency rating of 'CareEdge BBB- (Unsolicited)'.

Rationale

The stable credit outlook reflects CareEdge Global Rating's expectations that the country's comfortable foreign reserves position and moderate debt levels will enable it to navigate the challenges arising from the ongoing political instability and uncertainties in global trade dynamics. The country's general government gross (GGG) debt-to-GDP ratio is projected to remain at moderate levels, averaging approximately 35% between 2025 and 2029. Meanwhile, at the end of 2024, Peru had reserves worth $79 billion, sufficient to cover about 14 months of imports.

The reaffirmation of Peru's rating reflects the government's moderate debt load, and a history of a stable regulatory framework. Its external position remains comfortable, supported by steady FDI flows and adequate forex reserve levels.

However, these strengths are partly offset by Peru's significant reliance on commodity exports. In addition, the political instability including frequent changes in the leadership, political fragmentation, corruption scandals, and civil unrest, tends to erode confidence in governance and institutional effectiveness.

Peru faces a 10% reciprocal tariff from the US (currently on hold). Though, the impact of tariffs on Peru is expected to be moderate, the trade-related developments will warrant close observation.

Upside scenario

Peru's credit ratings could be upgraded if stronger economic growth is driven by diversification and is accompanied by improvements in fiscal management. Furthermore, strengthening of political stability would also serve as a catalyst for potential rating upgrades.

Downside scenario

Downside risks to Peru's credit ratings may stem from a sharp deceleration in economic growth, potentially resulting from any adverse effects of ongoing trade tensions. Furthermore, a significant increase in the debt-to-GDP ratio, coupled with rising interest payment to revenue ratio, could further weigh over the country's creditworthiness. Moreover, continued political instability may intensify downward pressure on the ratings, thereby undermining investor confidence and fiscal policy predictability.

Key rating drivers

Economic structure & resilience

The country is a leading global exporter of minerals including copper, gold, silver, and zinc. After contracting by 0.4% in 2023, real GDP rebounded to 3.3% in 2024, driven by improved agricultural performance, mining, and stronger household consumption.

Peru's location along the Pacific Ocean makes it particularly susceptible to El Niño climate events, which disrupt weather patterns and result in revenue shortfalls during affected periods. In the long term, the economy faces demographic pressures, notably an aging population, which could challenge fiscal sustainability and strain public services.

The Chancay Port, a major infrastructure initiative developed in collaboration with China under the Belt and Road Initiative, is expected to enhance trade efficiency and generate incremental revenue. Mining will continue to be a key driver of medium-term growth. Projects such as Tía María and Zafranal are expected to ramp up production, contributing to sustained economic momentum. Due to these reasons, GDP growth is projected to average of 2.6% expected between 2025 and 2029 compared with a growth of 1.6% between 2020 and 2024.

Despite these growth enablers, Peru remains vulnerable to fluctuations in copper prices and is reliant on international trade, with China and the United States, which account for 33% and 13% of its exports, respectively. A marked decline in demand from China especially in the context of ongoing trade tensions with the U.S. represents a significant downside risk and will remain a critical factor to monitor.

Fiscal strength

Peru has maintained a robust fiscal framework with rule-based checks to ensure discipline in public finances, with the executive, legislature, and the independent Fiscal Council each playing distinct roles.

The government's commitment to medium-term fiscal goals and its willingness to reallocate or reduce selective expenditures based on revenue performance are likely to support the debt metrics. Over the period from 2025 to 2029, the fiscal deficit is projected to average 1.8% of GDP. The 2025 national budget anticipates a 0.9% of GDP increase in tax revenues, supported by favourable commodity prices and expanded taxation, including levies on digital services. Achieving fiscal consolidation in 2025 may need additional efforts considering the tendency for public expenditure to rise in the lead-up to the 2026 elections.

In the past, shocks such as the pandemic and social unrest resulted in the government its fiscal rule target. Yet, in 2024, Peru's fiscal deficit widened to 3.6% of GDP, higher than the fiscal rule target level of 2.8% for 2024 and up from 2.8% in 2023, primarily due to a decline in tax revenues and increased public investment. Capital expenditure rose by 0.6% of GDP, partly attributed to financial support for the state-owned oil company, Petroperu.

Peru has historically maintained a prudent debt profile, with general government debt at 32.8% of GDP in 2024, vs 32.9% the debt level in 2023. Even as deficit increased in 2024, debt reduced because the government utilised the public sector assets to finance the gap. Public sector assets declined to 8.6% in 2024, compared to 10.4% in 2023. Peru's government debt is projected to average 35.1% of GDP over the medium term. Petroperu's debt is estimated to be approximately 1.8% of GDP and it presents a limited contingent liability risk to the sovereign.

Debt affordability, as measured by the interest/revenue ratio, remains comfortable, with the average standing at 7.96% from 2020 to 2024.

The government's decision to allow withdrawal of pension funds is a risk as it could increase the dependence on foreign investors for debt financing. Private Pension savings amounted to 10% of GDP in 2024 compared with 22% of GDP in 2020.

External position & linkages

Peru's external assessment is supported by its strong forex reserve position, stable FDI inflows and moderate external debt levels. In 2024, the current account is estimated to have posted a surplus of 2.2% of GDP, compared to a surplus of 0.7% in 2023 and recovering from a deficit of 4% in 2022 supported by an improved trade balance due to the rise in copper prices. The current account balance is expected to moderate to 1.7% in 2025 due to the global external uncertainties.

FDI flows have remained resilient with FDI net inflows averaging 2.9% of GDP from 2021-2024. Favourable current account and FDI inflows have helped to add to Peru's reserves. At the end of 2024, reserves were sufficient to cover 14 months of import cover.

Monetary & financial stability

Peru's independent Central Bank (BCRP) operates with an inflation-targeting mandate. Proactive measures led policy rated being raised to 7.75% in January 2023 in response to inflation but were subsequently reduced to 4.5% in May 2025 as inflation reduced to 1.72%, which is within the target range of 1% and 3%.

The financial sector remains sound, characterized by adequate capitalization and liquidity. Peru operates under a floating exchange rate regime. The BCRP (Peru's central bank) intervenes in the foreign exchange market to mitigate exchange rate volatility without targeting a specific rate. Although initial interventions during the pandemic were limited, the BCRP significantly increased its forex market operations in 2021 to address heightened volatility due to political uncertainty. Since then, interventions have been relatively limited.

Dollarisation remains a notable feature of Peru's financial system. As of the latest data, credit dollarisation stands at 23%, while deposit dollarisation is at 28%, reflecting the continued use of U.S. dollars alongside the local currency in financial transactions.

Despite advancements in digital wallets and FinTech innovations, the overall level of financial inclusion remains a weakness.

Institutions & quality of governance

Peru's political environment is characterised by frequent leadership changes, allegations of corruption, and conflicts between the executive and legislature, resulting in significant institutional instability. These conditions are reflected in World Bank Governance Indicators, particularly in terms

of political stability and control of corruption compared to regional peers. Continued leadership instability and widespread civil unrest, detract from Peru's creditworthiness.
President Dina Boluarte, in office since 2022, continues to grapple with historically low approval ratings, among the lowest globally, and is currently facing corruption allegations, further adding to political instability.

During President Dina's/Boluarte's tenure, there were frequent changes to the post of Prime Minister. In fact, more recently in May 2025, Gustavo Adrianzén resigned from the post of the Prime Minister, just hours before a no-confidence vote was scheduled in Congress. His departure followed mounting pressure from legislators dissatisfied with his handling of escalating gang-related violence. In the aftermath, Justice Minister Eduardo Arana was appointed as the new Prime Minister.

Looking ahead, the 2026 general elections will be a key inflexion point for Peru. The outcome will likely shape the country's political trajectory and play a crucial role in efforts to restore governance stability and institutional credibility.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	233	206	226	244	267	289	303	319
GDP per capita (constant-PPP)	USD	15600	13694	15331	15591	15374	15729	16016	16271
Real GDP growth	%	2.2	-10.9	13.4	2.8	-0.4	3.3	2.8	2.6
GFCF/GDP	%	22.5	20.9	25.0	25.0	22.9	22.5	-	-
Gross domestic savings/ GDP	%	22.5	21. 0	25.0	22.4	22.5	24.9	-	-
Exports (G&S)/GDP	%	24.0	23.0	29.1	28.9	27.1	-	-	-
Working age (15-64) population (% share in total)	%	64.8	65.1	65.3	65.6	65.7	65.9	66.0	66.1
Old age (65+) population (% share in total)	%	8.2	8.3	8.3	8.4	8.6	8.8	9.0	9.2
Fiscal indicators – general government									
Fiscal balance/GDP	%	-1.4	-8.3	-2.5	-1.4	-2.8	-3.6	-2.5	-2.3
Revenue/GDP	%	19.7	17.8	20.9	22.1	19.6	19.1	20.0	19.6
Expenditure/GDP	%	21.1	26.1	23.5	23.5	22.5	22.7	22.6	21.9
GG gross debt/GDP	%	26.9	34.9	36.1	34.0	33.0	32.8	33.7	34.7
GG external debt (by creditor)/GG gross debt	%	28.7	40.8	51.8	49.7	46.0	-	-	-
Interest/revenue	%	6.3	8.1	7.2	7.2	8.4	8.9	-	-
External indicators									
Current account balance/ GDP	%	-0.6	0.9	-2.1	-4.1	0.7	2.2	1.7	1.3
FDI, net inflows/GDP	%	2.0	0.3	3.2	4.6	1.5	2.3	-	-
Outstanding FII liabilities/ GDP	%	29.8	35.3	36.9	33.1	29.9	-	-	-
NIIP/GDP	%	-35.5	-37.3	-38.2	-42.7	-39.6	-	-	-
Foreign exchange reserves	USD billion	68.4	74.9	78.6	72.3	71.3	79.2	-	-
Import cover	Months	15.9	21.2	16.11	12.5	13.6	14.1	-	-
External debt/GDP	%	27.6	35.6	39.6	37.3	34.9	-	-	-
Monetary and financial indicators									
CPI inflation	%	2.3	2.0	4.3	8.3	6.5	2.1	1.7	1.9
Exchange rate (average)	LC per USD	3.3	3.5	3.9	3.8	3.7	3.7	-	-
Non-performing loans/total gross loans	%	3.4	4.1	3.9	4.1	4.5	4.0	-	-
Private debt, loans and debt securities/GDP	%	58.1	71.5	62.6	58.1	-	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

United States

CareEdge AA+/Negative

Rating action

CareEdge Global has assigned a 'Negative' outlook to the rating of United States of America (United States), while reaffirming the Long-Term Foreign Currency rating of 'CareEdge AA+ (Unsolicited)'.

Rationale

The negative outlook reflects our view that the general government gross debt-to-GDP ratio and the interest servicing burden of the United States (US) are likely to remain elevated over the medium term. Further, the ongoing environment of policy uncertainty has the potential to weaken the government's effectiveness and the traditionally strong institutions and governance.

General government gross (GGG) debt of the US has risen by 13 percentage points since 2019 to around 121% of GDP in 2024 and is projected to rise further. The enactment of the One Big Beautiful Bill Act (OBBBA) could further add to this debt burden. While tariffs may provide some revenue offset, their continuity remains uncertain due to ongoing legal scrutiny. Meanwhile, interest expenses as a share of government revenue are expected to remain high, amidst elevated yields, and may potentially rise further.

The policy environment has become highly unpredictable, with frequent shifts in tariff and immigration policies. The Fed's independence has also recently faced challenges, highlighting potential risks to its credibility.

The credit profile of the US continues to be supported by its large economy, high per-capita income, and strong innovation. Its funding flexibility, underpinned by the US dollar's status as the primary global reserve currency, remains an important factor supporting its creditworthiness. These strengths are offset by weak fiscal position reflected by rising debt and worsening debt affordability.

Downside scenario

The rating could face downward pressure if debt-to-GDP and interest-to-revenue ratios deteriorate significantly beyond current expectations. Further weakening of institutional factors, particularly those affecting policy predictability, government effectiveness, and regulatory credibility, could also weigh on the sovereign rating.

Upside scenario

The outlook could be revised to stable if the debt trajectory improves meaningfully through fiscal consolidation, leading to a sustained decline in the interest-to-revenue ratio. Greater policy continuity and a more predictable macroeconomic environment would also support a stable outlook.

Key rating drivers

Economic structure & resilience

The US is a large, diversified economy with high GDP per capita and strong innovation and entrepreneurial activity.

US GDP growth in Q2 2025 was revised up to 3.8% (annualised) from an initial estimate of 3.3%, reflecting an upward revision to consumer spending and marking the strongest performance in two years. However, economic activity in H2 2025 is likely to be affected by higher tariffs implemented in August and ongoing tariff-related uncertainty. Recent indicators also point to weakness in the labour market. For instance, payrolls were revised downwards significantly for the year through March 2025. Additionally, the unemployment rate rose to 4.3% in August 2025, the highest level since 2021.

The IMF projects US growth to slow to 1.9% in 2025 from 2.8% in 2024. However, the outlook remains uncertain, with judicial decisions on tariffs and the broader impact of US immigration, fiscal, and monetary policies remaining key monitorables.

Fiscal strength

The US fiscal position presents a key credit challenge due to its high debt burden and interest payments.

General government gross debt rose to approximately 121% of GDP in 2024 from around 108% in 2019 and is projected to rise further to around 127% by 2029 (IMF April 2025 WEO). The OBBBA, passed in July 2025, could add to this debt burden as it combines tax and spending cuts with higher allocations for national defence. Revenues from new tariffs under US trade policies may provide some offset, though their continuity remains uncertain due to ongoing legal challenges. Market concerns over the fiscal outlook are also reflected in elevated term premia for US treasuries, underscoring increasing discomfort of investors around high US debt levels. Although the Fed has begun cutting the policy rate, it is expected to remain elevated, keeping yields high. Combined with the rising debt trajectory, debt affordability is likely to remain a key challenge, as reflected by a substantial increase in the interest-to-revenue ratio over the past few years.

External position & linkages

The dollar index has weakened by about 10% year-to-date, weighed down by US trade policy uncertainty, fiscal concerns, and expectations of Fed rate cuts. Structural issues also persist, with global central banks gradually diversifying away from US assets and increasing gold holdings.

That said, the dollar's global dominance remains intact. It is the world's primary reserve currency, accounting for roughly 60% of global foreign exchange reserves, and continues to dominate international trade finance. Shifting to an alternative currency may take years, so the dollar's safe-haven status endures, even as investors reassess its long-term trajectory.

Monetary & financial stability

The US benefits from a highly developed financial system, and its monetary framework is supported by a strong central bank. However, the Fed's long-standing independence has recently faced challenges, with political pressure from the administration to lower interest rates, criticism of officials, and attempts to influence board appointments raising concerns about potential interference in monetary policy.

In September 2025, the Fed cut its policy rate by 25 bps, highlighting rising downside risks to employment. The Fed, through its dot plot, now signals two additional cuts this year, up from one previously, despite elevated inflation. In August 2025, the Personal Consumption Expenditures (PCE) inflation rose to 2.7%, the highest in six months, while the core PCE inflation, which excludes food and energy, increased to 2.9%, above the Fed's 2% target. Elevated tariffs, combined with a weaker dollar, may further add to domestic price pressures.

Institutions & quality of governance

The US is recognised for its strong regulatory frameworks and a deep-rooted respect for the rule of law. However, political polarization and frequent legislative stalemates undermine governance.

Presidential elections were held in November 2024, and the Trump administration took office in January 2025. Like his previous tenure, the administration is focusing on an American-centric policy approach. However, unlike before, when tariffs were primarily targeted at China, they have now been extended broadly across trading partners, reshaping US trade dynamics. Frequent policy shifts, including changes in tariff policies, have raised concerns about policy consistency. For instance, US tariffs on China surged to unprecedented triple digits but were eased quickly. There is also a risk of sectoral tariffs being applied to items currently exempt, creating uncertainty for businesses and markets. Nevertheless, institutional checks seem to be in place, with the tariff measures being challenged in courts.

The 2026 mid-term Congressional elections will be key to watch, given their potential impact on the administration's ability to advance its policy priorities.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	21,540	21,354	23,681	26,007	27,721	29,185	30,507	31,718
GDP per capita (constant-PPP)	USD	69,466	67,397	71,232	72,624	74,113	75,494	76,362	77,238
Real GDP growth	%	2.6	-2.2	6.1	2.5	2.9	2.8	1.9	2.0
GFCF/GDP	%	21.3	21.6	21.3	21.4	21.4	21.6	-	-
Gross domestic savings/GDP	%	19.0	18.5	17.7	18.1	17.2	16.7	-	-
Exports (G&S)/GDP	%	11.8	10.1	10.8	11.6	11.0	10.9	-	-
Working age (15-64) population (% share in total)	%	65.7	65.5	65.4	65.2	65.0	64.7	64.5	64.3
Old age (65+) population (% share in total)	%	15.7	16.1	16.5	16.9	17.4	17.9	18.4	18.8
Fiscal indicators – general government									
Fiscal balance/GDP	%	-5.8	-14.1	-11.4	-3.7	-7.2	-7.3	-6.5	-5.5
Revenue/GDP	%	30.0	30.7	31.8	33.1	30.0	30.3	31.4	32.5
Expenditure/GDP	%	35.8	44.8	43.2	36.8	37.1	37.6	37.8	38.0
GG gross debt/GDP	%	108.2	132.0	124.7	118.8	119.0	120.8	122.5	123.7
GG external debt (by creditor)/GG gross debt	%	24.8	22.6	27.6	22.9	23.5	24.9	-	-
Interest/revenue	%	12.8	10.9	11.4	13.4	18.0	-	-	-
External indicators									
Current account balance/GDP	%	-2.1	-2.8	-3.6	-3.8	-3.4	-4.1	-3.7	-3.2
FDI, net inflows/GDP	%	1.5	0.6	1.4	1.5	1.3	1.1	-	-
Outstanding FII liabilities/GDP	%	101.0	117.9	122.3	93.9	103.7	113.6	-	-
NIIP/GDP	%	-54.2	-68.9	-79.5	-62.1	-73.7	-90.9	-	-
Foreign exchange reserves	USD billion	516.7	628.4	716.2	706.6	773.4	910.0	-	-
Import cover	Months	2.0	2.7	2.5	2.1	2.4	2.6	-	-
External debt/GDP	%	95.6	100.0	98.7	94.4	93.7	94.7	-	-
Monetary and financial indicators									
CPI inflation	%	1.8	1.3	4.7	8.0	4.1	3.0	3.0	2.5
Exchange rate (average)	LC per USD	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Non-performing loans/total gross loans	%	1.5	1.6	1.3	1.2	1.4	1.6	-	-
Private debt, loans and debt securities/GDP	%	153.1	164.5	159.8	153.9	147.7	143.1	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Europe

Rating action

CareEdge Global has assigned a Long-Term Foreign Currency Rating of 'CareEdge BBB+/ Stable' (Unsolicited) to Republic of Cyprus.

Rationale

The rating reflects Cyprus's strong post-pandemic fiscal performance, underpinned by robust economic growth. Fiscal metrics have strengthened markedly, with the general government recording a surplus of 4.3% of GDP in 2024 and a sizeable government cash balance at 10% of GDP, providing significant fiscal buffers. Revenue performance has also improved in recent years, following increases in the corporate tax rate and social contribution rates, which lifted general government revenue to around 44% of GDP in 2024 from 41% in 2021. Fiscal surpluses are expected to average around 3% of GDP over the next five years, contributing to a substantial reduction in general government debt from about 65% of GDP in 2024 to around 38% by 2030.

Cyprus also benefits from European Union (EU) membership The banking sector has improved

Cyprus

CareEdge BBB+/Stable

post its crisis period, although it continues to be a key area of monitoring. Capital adequacy buffers are adequate and broadly in line with EU averages. In addition, ongoing private-sector deleveraging has reduced balance-sheet vulnerabilities and strengthened financial stability.

These strengths are offset by structural constraints, including Cyprus's small economic size, exposure to cyclical sectors such as tourism and real estate, and persistent external imbalances in the form of significant current account deficits and a negative net international investment position due to large debt of the Special Purpose Entities (SPEs) in the shipping sector. In addition, geopolitical risks related to the unresolved division of the country into a Greek Cypriot south (Republic of Cyprus) and a Turkish Cypriot north may pose a potential risk. The rating also reflects constraints arising from limited data availability and information transparency.

Outlook

The stable outlook reflects our expectation that Cyprus will maintain its economic growth while continuing to improve its fiscal profile. Growth is expected to remain around 2% over the medium term, supported by tourism and services exports. The fiscal profile is also expected to remain resilient, underpinned by sizeable government cash balances at 10% of GDP and continued fiscal surpluses. General government debt-to-GDP is expected to decline to 38% by 2030 from 65% currently.

Upside scenario

The outlook could be revised to positive if Cyprus sustains strong medium-term growth underpinned by meaningful diversification away from cyclical sectors such as tourism and real estate. The credit profile would be further strengthened by the authorities' capacity to maintain higher-than-expected fiscal surpluses despite rising expenditure pressures, enabling faster debt reduction and the preservation of fiscal buffers. Continued progress in banking sector restructuring, including further reductions in non-performing exposures and stronger capitalisation, would enhance financial stability and mitigate potential contingent liabilities for the sovereign.

Downside scenario

The outlook could be revised to negative in the event of significant external shocks, given Cyprus's wide current account deficits and reliance on foreign direct investment inflows. The sovereign's credit profile could also come under pressure from a deterioration in the regional security environment, including heightened geopolitical tensions linked to the unresolved Cyprus issue. In addition, any weakening in the banking sector's health could trigger a negative outlook. Such developments could erode investor confidence, dampen economic growth, and heighten financing risks, potentially weakening fiscal and external buffers.

Key rating drivers

Economic structure & resilience

Cyprus is among the smallest economies in Europe, with a nominal GDP of around USD 36 billion. Nevertheless, economic performance has largely outpaced the Euro Area average. The country benefits from a strategic geographic location. It is often regarded as a gateway to the European market, a position further reinforced by the recent relocation of companies amid heightened geopolitical tensions in the Middle East.

The economy is predominantly services-oriented, with tourism and high-value-added sectors, particularly Information, Communication & Technology (ICT) and financial services, constituting the main growth drivers. Cyprus is also a major global shipping and ship management hub, supported by a favourable tax regime, a robust legal framework, and well-developed maritime infrastructure. Labour market conditions remain tight, with the unemployment rate at around 4% in 2024. Demographic pressures are partly mitigated by sustained net migration inflows, resulting in a demographic profile that compares favourably with the European average. Over the medium term, LNG exploration and related infrastructure developments could help alleviate energy costs. In addition, inflows from the Recovery and Resilience Facility (RRF), amounting to nearly 4% of GDP, are expected to continue supporting economic activity.

Notwithstanding these strengths, Cyprus's small economic size and limited diversification constrain its resilience to external shocks. The tourism sector remains exposed to developments in the Middle East, although the authorities are taking steps to diversify tourist inflows from European markets. In addition, Cyprus is highly reliant on imported energy, with around 92% of oil consumption sourced from abroad, leaving the economy exposed to global energy price volatility.

Fiscal strength

Cyprus recorded its third consecutive fiscal surplus in 2024 and is expected to maintain an average surplus of around 3% of GDP over the next five years. General government debt is on a strong consolidation path, declining from peak levels of about 113% of GDP in 2014 and 2020 to 65% in 2024, with projections pointing to a further reduction to around 38% by 2030. Revenue mobilization remains robust, with general government revenue at around 44% of GDP. At the same time, debt affordability is supported by a low interest burden, with interest expenditure amounting to a comfortable 2.9% of government revenue. The upward revision of the corporate income tax rate from 12.5% to 15% is estimated to result in approximately EUR 200 million in additional fiscal revenue.

Despite these improvements, fiscal pressures warrant close monitoring. Public-sector wage dynamics remain a key risk, given the relatively high public-sector wage bill. In 2023, general government spending on compensation of employees stood at around 12% of GDP, exceeding levels observed in many OECD, EU, and other advanced economies. The recently agreed permanent Cost-of-Living Adjustment (CoLA) mechanism, which ensures a gradual return to full inflation-indexed wage growth, could add to medium-term expenditure pressures. In addition, demographic ageing is expected to weigh on public finances over the medium to long term, primarily through higher pension and healthcare-related spending.

External position & linkages

Cyprus's external position is heavily influenced by Special Purpose Entities (SPEs), which complicate headline indicators. While SPEs do not contribute to the real economy (around 2% of real GDP and 1% of general government revenues), their large balance sheets significantly inflate external assets and liabilities, thereby worsening external debt metrics. SPEs have a particularly pronounced impact on the Net International Investment Position (NIIP), as ship-owning SPEs carry substantial liabilities to foreign creditors. According to the EU Commission, as of Q1 2025, Cyprus's NIIP stands at –91.3% of GDP, including SPEs, compared with –38% of GDP excluding SPEs.

The current account deficit has widened markedly to an average of 8.4% of GDP over 2020– 24, well above the pre-pandemic average of 3.7%. This deterioration is largely driven by a sizable primary income deficit, reflecting profit repatriation by SPEs to non-resident owners. By contrast, the goods and services balance remains in a small surplus.

Foreign direct investment (FDI) positions are also dominated by SPE activity, accounting for roughly 75% of FDI assets and 85% of FDI liabilities. In addition, sanctions on Russian investments, which previously accounted for about one-third of total investment, have pushed net FDI inflows into negative territory in recent years.

These external vulnerabilities are partially mitigated by inflows under the Recovery and Resilience Facility (RRF), rising FDI into high-value-added sectors such as information and communication technology, and non-debt capital injections into corporates. Moreover, despite its elevated level, external debt is on a declining trajectory.

Monetary & financial stability

Cyprus implemented significant structural reforms following the 2012–13 banking crisis, leading to a marked strengthening of the financial sector. Banking system soundness has improved substantially, reflected in a sharp decline in non-performing loan (NPL) ratios from a peak of nearly 45% in 2015 to around 6% in 2024. Macroeconomic stability has also improved, with inflation moderating from peak levels of about 8% in 2022 and projected to converge to the ECB's 2% target by 2026. Additionally, the banking system is regulated by the European Central Bank, providing a credible supervisory anchor.

Notwithstanding these improvements, vulnerabilities persist. Private sector indebtedness remains elevated, at around 185% of GDP in 2024, although the ongoing deleveraging process is gradually reducing balance-sheet risks. In addition, the banking sector is highly concentrated, with the five largest banks accounting for nearly 95% of total loans.

Institutions & quality of governance

Cyprus has been governed by a minority coalition led by President Nikos Christodoulides since he assumed office in February 2023. Despite the absence of a parliamentary majority, the political environment has remained broadly stable, with the government maintaining a strong focus on fiscal consolidation and on implementing the RRF.

Cyprus's institutional strength and governance standards are underpinned by its membership in the European Union, which provides a robust policy and regulatory framework. However, regulatory quality is somewhat constrained by limited data availability, particularly related to the external sector. While currently stable, the unresolved Northern Cyprus issue constitutes a structural security risk that could heighten geopolitical uncertainty under adverse scenarios.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
GDP per capita (constant-PPP)	USD billion	26.2	25.5	30.4	31.0	33.9	36.3	39.9	43.2
Real GDP growth	USD	46,847	44,723	50,173	53,272	53,484	54,733	56,006	57,312
GFCF/GDP	%	5.9	-3.2	11.4	7.2	2.8	3.4	2.9	2.8
Gross domestic savings/GDP	%	18.7	20.8	19.2	20.2	21.4	20.6	-	-
Exports (G&S)/GDP	%	14.0	11.0	14.2	13.3	9.3	10.5	11.3	11.4
Working age (15-64) population (% share in total)	%	75.8	79.6	90.8	105.6	97.2	96.7	-	-
Old age (65+) population (% share in total)	%	70.7	70.4	70.2	69.9	69.6	69.3	69.0	68.7
GDP per capita (constant-PPP)	%	13.4	13.6	13.9	14.1	14.3	14.6	14.9	15.3
Fiscal indicators – general government									
Fiscal balance/GDP	%	1.0	-5.6	-1.6	2.7	1.7	4.3	3.4	3.2
Revenue/GDP	%	41	40	41	41	44	44	45	44
Expenditure/GDP	%	40	46	43	38	42	40	41	41
GG gross debt/GDP	%	92.3	113.6	96.5	81.1	73.6	65.1	57.7	53.7
GG external debt (by creditor)/GG gross debt	%	60.6	56.4	54.4	49.0	48.8	49.1	-	-
Interest/revenue	%	5.4	5.2	4.2	3.3	2.9	-	-	-
External indicators									
Current account balance/GDP	%	-5.5	-9.7	-5.5	-6.9	-11.3	-8.4	-8.5	-9.1
FDI, net inflows/GDP	%	431.7	-296.2	21.8	0.2	-65.4	-138.7	-	-
Outstanding FII liabilities/GDP	%	112.9	100.4	96.3	68.3	64.7	52.4	-	-
NIIP/GDP	%	-113.5	-133.1	-102.9	-99.5	-97.7	-83.6	-	-
Foreign exchange reserves	USD billion	1.1	1.3	1.6	1.8	1.8	2.1	-	-
Import cover	Months	0.6	0.7	0.7	0.6	0.7	0.7	-	-
External debt/GDP	%	1242	1197	960	887	788	670	-	-
Monetary and financial indicators									
CPI inflation	%	0.5	-1.1	2.2	8.1	3.9	2.3	2.3	2.0
Exchange rate (average)	LC per USD	0.9	0.9	0.9	1.0	0.9	0.9	-	-
Non-performing loans/total gross loans	%	28.0	17.7	11.0	9.5	7.9	6.2	-	-
Private debt, loans and debt securities/GDP	%	276.2	277.0	248.5	212.9	198.8	185.0	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

France

CareEdge A+/Stable

Rating action

CareEdge Global has reaffirmed its Long-Term Foreign Currency issuer rating of Republic of France at 'CareEdge A+/Stable' (Unsolicited).

Rationale

The rating reaffirmation highlights France's structural advantages such as a large and diversified economy, high GDP per capita, resilient services exports, deep access to capital markets, and its status as a core European Union (EU) member. However, these are tempered by low-growth outlook, high public debt, and the consequent weak prospects for fiscal consolidation.

Further, political fragmentation has made reform implementation rather challenging. The adoption of the 2026 budget, coupled with the postponement of essential pension reforms to 2028, points to ongoing implementation challenges. While there are institutional checks and balances, lack of visibility on reform progress constrains our credit outlook.

Public debt is projected to rise to ~119% of GDP by 2027, driven by structurally high spending, rising interest costs, and continued pressures from healthcare, social welfare, and defence.

In 2025, economic growth modestly outperformed earlier IMF expectations at 0.9%, supported by strong exports, a resilient labour market, and real wage growth. France's military capabilities and advancement in artificial intelligence will likely support near-term growth prospects. However, medium-term prospects are constrained by structural factors such as weak productivity gains and an ageing population.

Outlook: Stable

The stable outlook is underpinned by moderate growth prospects, with the economy expected to expand at around ~1.2-1.3% over the medium term, supported by resilient domestic demand. Diversified economic base is expected to provide stability to the credit outlook. Fiscal risks remain a key monitorable given elevated debt and deficit levels; however, we expect credit metrics to evolve broadly in line with our assumptions

Upside scenario

We could revise the outlook to positive if the debt-to-GDP trajectory improves instead of the current expectation of weakening, supported by meaningful structural reforms. A sustained improvement in economic growth would also support a positive outlook.

Downside scenario

We could revise the outlook to negative if economic growth continues to underperform and government debt rises more sharply than anticipated, translating to higher debt servicing costs, further deteriorating the fiscal metrics.

Key rating drivers

Economic structure & resilience

France is the second-largest economy in the Eurozone, with nominal GDP of around USD 3.3 trillion in 2025 and high GDP per capita. In 2025, real GDP growth strengthened modestly to 0.9%, exceeding earlier projections, supported by net exports rather than domestic demand. Exports performed better than anticipated, driven by robust services' exports (tourism, transport, financial services), alongside strength in aerospace, pharmaceuticals, and electricity exports.

France's external competitiveness continues to be anchored by high value-added manufacturing and services, partially offsetting weak investment sentiment amid elevated interest rates and policy uncertainty.

The labour market remains a key stabilising factor. Employment levels are high, unemployment is near cyclical lows, and nominal wage growth of ~2% continues to exceed inflation, supporting real household incomes and consumption. Strong labour market conditions have helped preserve social stability and mitigate downside risks to growth.

France is also structurally insulated from the recent West Asia-related energy shock. The country's reliance on nuclear power, which supplies over 60% of electricity generation, significantly reduces exposure to oil and gas price volatility. This energy structure has contained inflation pressures, supported industrial competitiveness and enhanced macroeconomic resilience relative to many European peers.

Medium-term growth prospects are structurally moderate, reflecting an aging population (over 22% are aged 65+), weak productivity gains, and recent tightening of immigration and welfare access. Measures such as requiring up to five years of legal residence for non-EU citizens to access family allowances and social benefits could constrain labour force growth over time.

Fiscal strength

Fiscal performance is France's primary credit weakness. While the 2026 budget was adopted, the government achieved it by postponement of implementation of key pension reforms, thereby, weakening the credibility of the medium-term fiscal adjustment strategy.

General government deficit is expected to remain elevated over the medium term, well above the pre-pandemic norms. With the tax-to-GDP ratio already high, the scope for additional revenue measures is limited, placing the burden of adjustment on expenditure restraint—an area where political consensus is weak. As a result, public debt is expected to continue to rise, driven by persistent primary deficits, increasing interest costs, healthcare and social spending pressures.

Debt sustainability risks are mitigated by strong market access, long average debt maturity, and a high share of fixed-rate debt (88% of the total), which helps limit refinancing risks despite wider sovereign spreads over Germany.

External position & linkages

France benefits from the Euro's reserve currency status, strong access to external financing, and a diversified export base. The current account position has stabilised close to balance, reflecting a persistent services surplus, which offsets the structural goods trade deficit.

Although France's net international investment position (NIIP) is moderately negative, estimated at around 28% of GDP as of Q3 2025, its stable trajectory does not raise immediate concerns. France's large gross external asset base continues to generate stable returns, with economic value exceeding its accounting value.

High gross external debt, which reflects the banking sector's sizeable international exposure, remains a limitation in the external assessment.

Monetary & financial stability

Inflation declined sharply in 2025, with headline CPI averaging 1.1%, down from 2.0% in 2024, supported by easing energy prices and subdued demand pressures. The disinflation trend helped restore real household incomes and kept inflation expectations close to the European Central Bank's target.

In 2026, inflation is expected to edge higher to ~1.3%, reflecting renewed West Asia conflict-caused energy pressures. Nonetheless, France is better positioned than many peers to absorb the energydriven price shocks due to its limited dependence on fossil fuel imports and structurally high nuclear power generation.

Despite higher funding costs, the French banking sector remains resilient, supported by strong capital buffers, conservative balance sheet structures, as well as a large and stable deposit base. Earnings resilience is reinforced by diversified revenue streams, particularly wealth management, insurance and asset management activities, which help offset pressure on net interest margins. Asset quality is sound and systemic financial risks are contained.

Institutions & quality of governance

France benefits from strong institutional capacity and governance standards, though political fragmentation has weakened policy effectiveness. The National Assembly remains divided, complicating the passage of reform-oriented legislation and reducing policy predictability.

Although we do not anticipate an immediate change in government, President Macron's political capital has eroded. Repeated slippages from fiscal deficit targets point to a limited track record on consolidation, increasing uncertainty around the medium-term reform agenda as the 2027 presidential election approaches.

Select indicators

	Unit	2020	2021	2022	2023	2024	2025	2026 F	2027F
Economic indicators									
Nominal GDP	USD billion	2,646	2,968	2,797	3,061	3,161	3,362	3,559	3,661
GDP per capita (constant-PPP)	USD	50,772	54,017	55,234	55,975	56,435	56,655	57,011	57,526
Real GDP growth	%	-7.6	6.8	2.8	1.6	1.1	0.8	1.0	1.2
GFCF/GDP	%	22.4	23.5	23.5	22.8	22.1	22.0	-	-
Gross national savings/GDP	%	21.1	22.2	21.4	21.2	21.2	21.2	-	-
Exports (G&S)/GDP	%	28.6	31.3	36.6	34.5	33.9	33.4	-	-
Working age (15-64) population (% share in total)	%	61.6	61.4	61.3	61.1	61	60.8	60.6	60.4
Old age (65+) population (% share in total)	%	20.7	21	21.3	21.7	22	22.3	22.7	22.9
Fiscal indicators – general government									
Fiscal balance/GDP	%	-8.9	-6.6	-4.7	-5.4	-5.8	-5.4	-5.8	-6.2
Revenue/GDP	%	52.8	52.9	53.7	51.5	51.4	51.9	51.6	51.4
Expenditure/GDP	%	61.7	59.5	58.4	56.9	57.2	57.3	57.4	57.6
GG gross debt/GDP	%	114.9	112.8	111.4	109.6	113.1	116.5	119.6	122.1
GG external debt (by creditor)/GG gross debt	%	50.8	47.7	41.3	44.7	45.1	50.8	-	-
Interest/revenue	%	2.4	2.6	3.6	3.6	4.02	4.32	-	-
External indicators									
Current account balance/GDP	%	-2.1	0.3	-1.4	-1.0	0.1	-0.1	-0.2	-0.3
FDI, net inflows/GDP	%	0.7	3.3	4.0	0.6	1.6	-	-	-
Outstanding FII liabilities/GDP	%	178.1	158.4	144.2	155.5	148.90	-	-	-
NIIP/GDP	%	-34.7	-32.1	-27.8	-32.5	-22.0	-	-	-
Foreign exchange reserves	USD billion	188.9	224.5	244.5	243	240.9	419	-	-
Import cover	Months	3.4	3.0	2.6	2.6	3.2	-	-	-
External debt/GDP	%	279.5	245.3	248.8	252.1	240.1	-	-	-
Monetary and financial indicators									
CPI inflation	%	0.5	2.1	5.9	5.7	2.3	0.9	1.5	1.9
Exchange rate (average)	LC per USD	0.89	0.88	0.85	0.95	0.93	0.86	-	-
Non-performing loans/total gross loans	%	2.4	2.2	2.1	2.0	2.1	-	-	-
Private debt, loans and debt securities/GDP	%	239.6	227.5	225.6	217.4	215.5	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Germany

CareEdge AAA/Stable

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for Federal Republic of Germany at 'CareEdge AAA/Stable' (Unsolicited).

Rationale

The reaffirmation underscores Germany's position as Europe's largest economy and its status as the region's benchmark sovereign. Its solid institutional framework, wealthy and diversified economy, strong external buffers, along with a track record of fiscal prudence continue to anchor its credit strength. Germany also benefits from exceptional access to capital markets and the Euro's reserve-currency status.

Germany has been significantly lagging its similarly rated peers in economic growth in recent years. It is also facing persistent structural pressures like ageing demographics, low public investment, and intensifying global competition for its core industries. To address these challenges, the government passed a fiscal stimulus package in March 2025, aimed at supporting investment and lifting growth momentum. CareEdge will continue to closely monitor how effectively this package translates into stronger economic performance.

Political stability and the government's ability to advance reforms will remain a key monitorable, as the current coalition government operates with a relatively narrow and fragile majority. In addition, Germany's ability to navigate US tariff measures, along with preserving competitiveness in its core export sectors will be an important factor to monitor.

Outlook: Stable

The Stable Outlook reflects Germany's substantial external buffers and exceptional access to capital markets, with very low interest expenses expected to persist over the medium term. These strengths will continue to provide sufficient headroom to absorb rising fiscal pressures stemming from ageing-related expenditure, higher defense commitments, and sustained public investment needs. The General Government debt is projected to increase to nearly 73% of GDP by 2027, up from around 62% in 2024. Even then, debt levels remain manageable and well below the regional average, supporting Germany's medium-term economic resilience.

Downside scenario

The outlook can be revised to negative if Germany experiences a sustained period of weak growth, a materially sharper deterioration in public finances, or if contingent liabilities begin to exert meaningful pressure on the government balance sheet.

Key rating drivers

Economic structure & resilience

Germany is Europe's largest economy, with a nominal GDP of about USD 4.6 trillion and a high GDP per capita of USD 63,072 (PPP) in 2024, underpinned by a strong export-oriented manufacturing base, high national savings, and low structural unemployment. These structural strengths continue to provide a meaningful degree of economic resilience.

However, growth performance has been weak in recent years, making Germany the only advanced economy to contract for two consecutive years. Economic activity stagnated at near-zero growth during the first three quarters of 2025, a trend expected to persist into the final quarter. Growth has been constrained by a combination of supply-chain disruptions, skilled labour shortages, elevated input and energy costs, and weakening global demand. Although natural gas prices have declined over the past year, they remain above pre–Russia-Ukraine conflict levels, continuing to weigh on energy-intensive industries and erode competitiveness. In response, the government has announced plans to subsidize electricity prices for these industries from 2026 to 2028.

At the same time, structural headwinds persist, including chronically low public investment of around 2.9% of GDP compared with an OECD-EU average of 3.6% (in 2024) and an ageing population. To counter prolonged stagnation and strengthen medium-to-long-term growth and resilience, the Bundestag passed a €500 billion fiscal stimulus package in March this year, aimed at boosting infrastructure investment and accelerating the climate transition. This is also important given Germany's ambition to achieve carbon neutrality by 2045 and the large industrial share of its economy.

Fiscal strength

Germany has a long-standing record of fiscal prudence, which remains a key pillar of its strong credit profile. The general government debt-to-GDP ratio stood at 62.2% in 2024, only marginally above the EU's 60% reference level. Fiscal discipline has historically been anchored by the constitutional debt-brake law, which limits the federal structural deficit to 0.35% of GDP. German government bonds are widely regarded as benchmark risk-free assets within the Eurozone, supporting consistently low borrowing costs.

The debt brake law was loosened in a historic decision in March this year, allowing the states to incur structural borrowing of up to 0.35% of GDP instead of adhering to balanced budgets. In addition, the government has invoked the National Escape Clause to permit defense spending above 1% of GDP.

Against this backdrop, fiscal deficits are expected to remain above 3% of GDP through 2028, although they are broadly contained around the 3% threshold when the National Escape Clause is considered. These policy choices, including the recent passage of the pension bill that keep the pension rate elevated at 48% of average wages, add to structural spending pressures arising from a rapidly ageing population, alongside higher defense and infrastructure spending. Together, these factors are expected to push the general government debt ratio to around 73% of GDP by 2027. While this level is above the AAA-rated median of around 45%, it remains well below the regional average.

External position & linkages

Germany maintains a strong external position, supported by a large and persistent current account surplus, which averaged around 6% of GDP between 2020 and 2024, and a highly positive net international investment position (NIIP) of about 77% of GDP in 2024. The country also benefits from the Euro's reserve currency status, which underpins external stability.

In recent years, Germany's external environment has become increasingly challenging amid eroding competitiveness, heightened global uncertainty, a slowing global economy, and sector-specific trade barriers, including tariffs on aluminum and steel as well as reciprocal tariff measures from the US. Competitive pressures have intensified as China has rapidly gained global market share in merchandise exports, with Germany accounting for around 7% of global exports, compared with China's roughly double share. China has also overtaken Germany in certain industrial segments, including specialized machinery and metal manufacturing. At the same time, foreign direct investment inflows have weakened, declining to around 1% of GDP in 2024 from an average of 2.4% during 2020–2024.
Nevertheless, Germany continues to maintain a strong presence in its core export-oriented industries, underscoring the underlying resilience of its industrial base. While external pressures are expected to weigh on performance, the economy is still projected to record a sizeable current account surplus, averaging around 4.8% of GDP over the next five years.

Monetary & financial stability

Inflationary pressures in Germany have eased materially, with average HICP inflation hovering broadly around the ECB's 2% target throughout 2025 and expected to remain close to target over the medium term. Furthermore, the ECB is expected to hold policy rates and maintain a broadly neutral monetary policy stance, which should support consumer demand and investment activity.

The banking sector remains resilient and well capitalized, underpinned by strong capital buffers and improved profitability in recent years. Non-performing loan ratios remain among the lowest in the Eurozone, reflecting prudent risk management. However, downside risks persist, such as, low returns on assets among German banks, prolonged economic slowdown that could weigh on asset quality, may pose challenges for the sector going forward.

Institutions & quality of governance

Germany's institutional framework and quality of governance remain strong, characterised by high standards and the independent functioning of key institutions. However, structural inefficiencies persist, notably high bureaucracy, regulatory complexity, and low levels of digitalisation.

Politically, Germany's coalition government, led by Chancellor Friedrich Merz and formed between the Christian Democratic Union (CDU) and the Social Democratic Party (SPD), faced challenges in securing a comfortable majority in the snap Bundestag elections held in February this year. Political fragmentation has increased, with the far-right Alternative for Germany (AfD) gaining traction across several regions, adding to policy uncertainty. The coalition has also passed key legislation, including a pension reform bill, by a narrow parliamentary margin, highlighting constraints on policymaking. As a leading political and economic force in Europe, Germany remains more exposed to regional geopolitical risks, which could further complicate the policy environment.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	3,960	3,938	4,358	4,204	4,564	4,684	5,014	5,328
GDP per capita (constant-PPP)	USD	64,054	61,467	63,975	64,709	63,561	63,072	63,081	63,590
Real GDP growth	%	1.0	-4.1	3.9	1.8	-0.9	-0.5	0.2	0.9
GFCF/GDP	%	21.2	21.3	21.2	21.7	21.5	20.9	-	-
Gross domestic savings/ GDP	%	29.3	28.0	29.6	27.1	27.5	27.1	26.7	25.8
Exports (G&S)/GDP	%	42.4	39.2	42.6	45.6	42.9	41.4	-	-
Working age (15-64) population (% share in total)	%	64.7	64.4	64.0	63.6	63.3	62.9	62.4	61.9
Old age (65+) population (% share in total)	%	21.6	21.8	22.1	22.5	22.8	23.2	23.7	24.2
Fiscal indicators – general government									
Fiscal balance/GDP	%	1.3	-4.4	-3.2	-1.9	-2.5	-2.7	-3.3	-4.8
Revenue/GDP	%	46.9	46.7	47.5	46.7	45.7	46.8	47.9	48.0
Expenditure/GDP	%	45.5	51.1	50.7	48.6	48.1	49.4	50.4	51.4
GG gross debt/GDP	%	58.7	68.0	68.0	64.4	62.4	62.2	65.0	69.5
GG external debt (by creditor)/GG gross debt	%	53.6	52.0	45.8	38.1	43.5	46.0	-	-
Interest/revenue	%	1.4	1.1	1.0	1.5	2.1	-	-	-
External indicators									
Current account balance/ GDP	%	7.9	6.3	6.9	3.8	5.5	5.6	5.4	5.1
FDI, net inflows/GDP	%	1.9	4.5	2.9	2.1	1.7	1.0	-	-
Outstanding FII liabilities/ GDP	%	88.2	101.3	87.5	72.4	78.0	78.3	-	-
NIIP/GDP	%	58.7	69.0	67.1	71.1	70.2	76.6	-	-
Foreign exchange reserves	USD billion	36.0	36.8	37.0	36.8	36.9	35.2	-	-
Import cover	Months	1.8	2.4	2.2	2.0	2.2	2.6	-	-
External debt/GDP	%	145	175	161	156	151	142	-	-
Monetary and financial indicators									
CPI inflation	%	1.6	0.4	3.2	8.7	6.0	2.5	2.1	1.8
Exchange rate (average)	LC per USD	0.9	0.9	0.9	1.0	0.9	0.9	-	-
Non-performing loans/total gross loans	%	1.1	1.7	1.5	1.2	1.5	1.5	-	-
Private debt, loans and debt securities/GDP	%	137.9	148.4	147.3	147.1	140.7	139.4	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Greece

CareEdge BB+/Positive

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for Hellenic Republic (Greece) at 'CareEdge BB+' (Unsolicited), while revising the outlook from Stable to Positive.

Rationale

The revision to the outlook represents Greece's improving credit fundamentals, underpinned by fiscal performance improvements, prudent debt management, steady economic growth, and healthier conditions in the banking sector. At the same time, the sovereign's credit profile is constrained by a weak external position and elevated general government and external debt.

Greece's fiscal performance has strengthened in recent years. The general government balance returned to a surplus of 1.3% of GDP in 2024 and remained positive in H1 2025, at around 0.6% (versus -0.4% in H1 2024), supported by higher revenues from tax collection reforms and controlled expenditure. The gross general government debt-to-GDP ratio has declined from over 190% in 2018 to 144.9% in 2025, aided by strong nominal GDP growth, sustained primary surpluses, and proactive debt management, though it remains high relative to pre-crisis levels and similarly rated peers.

Greece's economy continued to grow steadily, expanding by 2.0% in the first three quarters of 2025, slightly above the euro area average of 1.5%. The improvement is supported by strong private consumption and sustained investment activity, aided by ongoing disbursements from the EU Recovery and Resilience Facility (RRF). Going forward, growth is projected to slow to around 1.7% in the medium term (2025-29), as RRF-funded investment tapers off and ageing pressures weigh on the economy. These adverse effects are partly cushioned by a projected increase in labour force participation.

The banking sector has also shown signs of improvement. The non-performing loan (NPL) ratio declined to around 3.1% in Q3 2025, from 6.2% in 2023, primarily due to continued clean-up efforts through securitisations. However, they remain above the EU average of 2.2% (Q3 2025), indicating room to strengthen asset quality.

Greece's external position remains a key credit constraint. The current account deficit is expected to remain elevated at around -5.8% of GDP in 2025 and is projected to narrow gradually as import-heavy EU Recovery and Resilience Facility (RRF)-funded investment phases out. The net international investment position (NIIP) remains highly negative at -135% of GDP in Q3 2025, while gross external debt stood elevated at 234% of GDP in the same period. About half of this external debt is held by official-sector creditors and is denominated in euros, which limits exchange-rate risk. Although external debt has declined in recent years, it remains above that of BB+ rated peers.

High debt levels continue to weigh on Greece's credit profile along with high contingent liabilities, including government guarantees (10.9% of GDP in 2023) and liabilities of government-controlled entities outside the general government sector (around 72% of GDP). As the proportion of concessional debt in general government debt declines and borrowing costs rise moderately, maintaining fiscal surpluses remains a monitorable for further declines in the debt ratio.

Outlook: Positive

The positive outlook reflects Greece's sustained economic growth, which continues to exceed the euro area average, supported by firm domestic demand and ongoing investment. It also reflects expectations of a gradual decline in the government debt-to-GDP ratio, underpinned by continued fiscal consolidation. Improvements in the banking sector have reduced financial vulnerabilities, with key indicators moving closer to European Union averages, reflecting substantial declines in non-performing loans, improved profitability and adequate capital buffers. Greece's favourable debt structure and substantial cash buffer strengthen its capacity to absorb external shocks and preserve macroeconomic stability. Together with ongoing reform efforts, these factors underpin the positive outlook.

Upside scenario

The rating could be upgraded if stronger economic performance materialises into a significant improvement in Greece's fiscal metrics, resulting in a greater-than-expected reduction in the general government debt ratio. This would include debt averaging below 120% of GDP over the medium term, supported by sustained fiscal surpluses and stronger nominal growth. Further strengthening of institutions and governance through credible reform implementation, would also support upward rating action.

Downside scenario

Failure to maintain fiscal discipline or materialisation of contingent liabilities could strain public finances and hinder debt reduction. External shocks that hinder economic growth, along with any deterioration of the external position could weaken Greece's outlook. Furthermore, a lower-than-expected implementation of RRF projects or reforms would undermine the country's economic progress.

Key rating drivers

Economic structure & resilience

Greece's economic structure is services-led, with tourism playing a central role in economic growth. Since 2017, excluding the pandemic years, real GDP growth has averaged around 1–2% and is projected at 2.0% in 2025. Economic activity remains firm, with growth of 2.0% in the first three quarters of 2025, slightly above the euro area average of 1.5%, supported by strong private consumption and sustained investment, aided by ongoing disbursements under the EU Recovery and Resilience Facility. Over the medium term (2025-2029), growth is expected to moderate to around 1.7% as RRP-funded investment phases out. Labour market conditions continue to improve, with the unemployment rate declining to 8.2% in November 2025 from an average of 10.1% in 2024, though it remains above the euro area average of around 6.3%. Tourism remains supportive of growth, with travel receipts up around 10% year on year in Jan–Oct 2025. In addition, investment has increased gradually in recent years, with gross fixed capital formation at around 17% of GDP in Q3 2025, though still below the EU average of about 21%.

However, the economy remains exposed to structural challenges, notably a super-aged population, with nearly 23.9% (2024) of the population aged 65 and above. Climate risks linked to extreme weather events remain an additional vulnerability, given the economy's reliance on tourism.

Fiscal strength

Greece's fiscal profile is characterised by a high public debt burden, with gross general government debt averaging around 181% of GDP over 2020–24. Fiscal space remains constrained by adverse demographics, as a super-aged population drives structurally high spending on pensions and social benefits. At the same time, Greece benefits from a favourable debt structure, with a large share held by official creditors, long maturities, low fixed interest rates, extended grace periods, and a sizable cash reserve of around 16% of GDP (€39 billion as of December 2025).

Fiscal performance has improved markedly in recent years, reflecting a combination of fiscal discipline and reform momentum. The general government balance turned positive in 2024, recording a surplus of 1.3% of GDP, compared with an average deficit of -5.4% of GDP during 2020–23. The primary balance was strong, posting a surplus of 4.8% of GDP in 2024. Momentum has carried into 2025, with the GG fiscal balance recording a surplus of around 0.6% of GDP in the first half of the year, compared with a deficit of -0.4% of GDP over the same period in 2024. This improvement was driven by stronger revenues and contained expenditure. Structural tax reforms, supported by the digitalisation of tax administration, have strengthened revenue performance by improving tax compliance, contributing to a reduction in the VAT gap from 25% in 2018 to an estimated 9% in 2024.

Public debt dynamics have improved alongside stronger fiscal outcomes. The debt-to-GDP ratio declined significantly from over 190% of GDP in 2018 to 144.9% in 2025, supported by strong nominal GDP growth, sustained primary surpluses, and proactive debt management. Looking ahead, the debt ratio is projected to continue its downward path, reaching around 130.2% of GDP by 2030. However, debt levels remain well above pre-crisis levels and higher than those of similarly rated peers such as Brazil (87% of GDP) and Colombia (61% of GDP), in 2024.

Fiscal risks persist through sizeable contingent liabilities. Government guarantees remain elevated at around 10.9% of GDP in 2023, while liabilities of government-controlled entities outside the general government sector stand at around 72% of GDP in 2023. These largely reflect legacy crisis-era interventions, with some additional build-up during the pandemic. Further, with Greece having shifted more towards market-based financing, the cost of new borrowing is expected to rise moderately; the maintenance of fiscal surpluses remains monitorable for supporting a further decline in the debt ratio.

External position & linkages

Greece's external profile remains constrained by a large current account deficit, a deeply negative NIIP, and high gross external debt. The current account deficit remains elevated at -7.0% of GDP in 2024 and is projected at -5.8% in 2025, despite rising tourism receipts. Looking ahead, the deficit is expected to narrow gradually to -3.1% of GDP by 2030 as import-heavy RRP investments come down. The net international investment position (NIIP) remained negative at -135% of GDP in Q3 2025, reflecting a substantial stock of foreign-owned assets in the country. Gross external debt stood at 234% of GDP in Q3 2025, with about half held by official-sector creditors and denominated in euros, which limits exchange- rate risk. Although gross external debt has declined from its 2020 peak, it remains elevated.

Foreign direct investment inflows have strengthened alongside the improving economic environment, averaging around 2.7% of GDP during 2022–24, compared with about 2.0% in the pre-pandemic period (2017–19). While tourism and higher FDI provide some support, Greece's external position remains constrained by structural weaknesses.

Monetary & financial stability

Greece benefits from euro area membership, with monetary policy anchored by the European Central Bank, supporting policy credibility and access to deep financial markets. Inflation has eased sharply from its peak, with headline inflation falling to 3% in 2024 from 9.3% in 2022. However, price pressures remain relatively sticky, with HICP inflation averaging 2.9% in 2025, unchanged from 2024 and above the euro area average of 2.1% (2025), largely reflecting elevated services inflation.

Financial sector conditions have improved markedly. Bank non-performing loans have declined sharply from around 38.1% in 2019 to 3.1% in Q3 2025, largely driven by balance sheet clean-ups under the Hercules Asset Protection Scheme. Despite this progress, NPL ratios remain above the EU average of 2.2% (Q3 2025), indicating scope for further improvement in asset quality. Capital adequacy has strengthened, and liquidity conditions remain comfortable.

Institutions & quality of governance

Greece has effective regulatory mechanisms and has proactively addressed challenges by introducing reforms in recent years. The sovereign has undertaken structural reforms in tax administration to tackle problems related to tax evasion, demonstrating a commitment to enhancing the efficiency and effectiveness of the overall legal and fiscal frameworks. While Greece has experienced past episodes of fiscal stress, including the 2009 fiscal data revisions, the 2012 debt restructuring, and the 2015 missed IMF payment, the authorities have since strengthened fiscal reporting and data transparency, aligning with EU standards, supported by regular post-programme surveillance and independent oversight. On the other hand, judicial proceedings take a long time to resolve, and the issue is being addressed through comprehensive reforms aimed at expediting judicial proceedings.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	207.3	191.2	218.4	219.1	243.6	257.1	282.0	304.8
GDP per capita (constant-PPP)	USD	33,540	30,472	33,233	35,878	36,876	37,761	38,580	39,428
Real GDP growth	%	2.3	-9.2	8.7	5.7	2.3	2.3	2.0	2.0
GFCF/GDP	%	11.0	12.3	13.8	14.9	15.2	15.3	-	-
Gross domestic savings/GDP	%	10.6	6.1	10.0	9.2	11.4	12.7	-	-
Exports (G&S)/GDP	%	39.6	31.5	40.3	49.2	43.8	42.1	-	-
Working age (15-64) population (% share in total)	%	63.6	63.4	63.1	62.9	62.9	62.8	62.7	62.7
Old age (65+) population (% share in total)	%	22.1	22.4	22.8	23.2	23.5	23.9	24.4	24.7
Fiscal indicators – general government									
Fiscal balance/GDP	%	-0.1	-10.3	-7.6	-2.5	-1.4	1.3	0.0	-0.8
Revenue/GDP	%	47.5	49.0	49.1	50.4	48.2	49.3	49.8	50.0
Expenditure/GDP	%	47.6	59.3	56.7	52.8	49.5	48.0	49.8	50.8
GG gross debt/GDP	%	183.7	209.9	197.8	178.4	165.2	154.8	144.9	141.9
GG external debt (by creditor)/GG gross debt	%	88.1	81.6	78.4	74.7	74.2	73.4	-	-
Interest/revenue	%	6.1	5.9	4.9	4.9	7.1	7.0	-	-
External indicators									
Current account balance/GDP	%	-2.2	-7.2	-7.0	-10.7	-6.7	-7.0	-5.8	-5.3
FDI, net inflows/GDP	%	2.4	1.7	2.8	3.6	1.9	2.5	-	-
Outstanding FII liabilities/GDP	%	31.3	26.3	24.9	22.5	27.3	28.8	-	-
NIIP/GDP	%	-153.1	-184.5	-162.8	-145.1	-142.8	-140.0	-	-
Foreign exchange reserves	USD billion	8.5	11.9	14.5	12.1	13.6	15.2	-	-
Import cover	Months	1.2	2.0	1.7	1.1	1.4	1.5	-	-
External debt/GDP	%	243.0	317.4	287.7	266.6	251.3	238.9	-	-
Monetary and financial indicators									
CPI inflation	%	0.5	-1.3	0.6	9.3	4.2	3.0	2.9	2.5
Exchange rate (average)	LC per USD	0.9	0.9	0.8	1.0	0.9	0.9	0.9	-
Non-performing loans/total gross loans	%	38.1	30.8	11.9	8.2	6.2	3.6	-	-
Private debt, loans and debt securities/GDP	%	110.0	124.0	120.5	99.8	93.5	94.6	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Italy

CareEdge BBB/Stable

Rating action

CareEdge Global has reaffirmed its Long-Term Foreign Currency issuer rating of Republic of Italy at ‘CareEdge BBB/Stable’ (Unsolicited).

Rationale

Italy’s credit profile is supported by its large and diversified economy, strong export competitiveness, and a structurally positive current account balance. The country benefits from its membership of the European Monetary Union, access to the European Centra Bank’s (ECB) liquidity facilities, and its position as one of the largest recipients of European Union (EU) support under the National Recovery and Resilience Plan (NRRP).

Progress in the implementation of the NRRP has improved, positioning Italy among the better performers in the EU, with around 64% of milestones achieved compared with the EU average of 51% by January 2026. Political and institutional stability has strengthened under the current government, supporting policy continuity. Additionally, the banking sector has shown steady improvement, with significantly stronger asset quality (NPL ratio of ~2.3% in 2025 versus 7–8% in 2019), alongside strong profitability and higher capital buffers.

These strengths are tempered by persistently low growth, weak productivity, adverse demographics, and a very high albeit reducing public debt. Despite the recent fiscal improvement, Italy's public debt is expected to remain elevated over the medium term, with the country projected to remain the most indebted sovereign in the European Union by 2029, limiting fiscal flexibility and increasing sensitivity to financing conditions.

Outlook: Stable

The stable outlook reflects our expectation that Italy's public debt will remain high despite fiscal consolidation, supported by improved fiscal outcomes, policy continuity, and continued progress in the implementation of the NRRP. While economic growth is expected to remain modest, EU funded investments and improved institutional stability should help contain downside risks and support medium-term growth prospects.

Upside scenario

We could revise the outlook to positive if Italy demonstrates fasterthanexpected fiscal consolidation, sustained improvement in mediumterm growth and productivity, and tangible reforms that reduce structural expenditure pressures while improving public investment efficiency.

Downside scenario

The outlook could be revised to negative in case of deviation from the MediumTerm Fiscal Framework (MTFF), delays in NRRP reform implementation, renewed political instability, or a material deterioration in growth prospects or financing conditions.

Key rating drivers

Economic structure & resilience

Italy has a large economic base, with nominal GDP of ~USD 2.54 trillion in 2025 and high GDP per capita, supported by a diversified and export-oriented corporate sector. Non-financial corporations (NFCs) have recorded improved profitability in recent years, supported by strong export performance in high value-added segments, enhanced pricing power, partial pass-through of cost increases, and efficiency gains. Elevated nominal growth and higher interest income have also supported corporate margins.

Exports of goods and services remain robust at ~35% of GDP, reflecting Italy's competitiveness in sectors such as machinery, luxury goods, pharmaceuticals, and specialised manufacturing.

However, economic growth remains structurally weak, with real GDP growth of 0.5-0.6% in 2025, constrained by low productivity growth, labour market rigidities, and an ageing population. These factors are expected to continue to weigh on medium-term growth.

Italy has outperformed most EU peers in the absorption of NextGen EU funds (NGEU). As of December 2025, the country had received ~EUR 153 billion, equivalent to over twothirds of its total NGEU allocation of EUR 194.4 billion, following the successful completion of eight payment tranches covering several reform and investment milestones. Authorities' intention to sustain investment beyond the NRRP horizon is credit positive, although execution is a key monitorable.

Fiscal strength

Italy's public debt is very high, estimated at ~137% of GDP in 2025, and is expected to remain elevated over the medium term, continuing to constrain fiscal flexibility.

Notably, Italy recorded a second consecutive year of positive fiscal surprise in 2025. The general government budget deficit is estimated at ~3.0% of GDP, outperforming the April 2025 projection of ~3.3% of GDP. This improvement follows a similar upside surprise in 2024 and reflects stronger than expected revenue performance, restrained current expenditure and improved budget execution, reinforcing fiscal credibility and commitment to consolidation.

Italy has submitted its MediumTerm FiscalStructural Plan under the revised EU fiscal framework, committing to average annual net expenditure growth of ~1.5% over 2025-2031, providing a clearer mediumterm fiscal anchor. However, structurally high social spending, ageingrelated pension pressures, increased defence spending requirements, and rising interest costs continue to pose challenges to durable debt reduction.

These constraints are partly mitigated by relatively favourable borrowing conditions, a long average debt maturity of ~7 years, and substantial support from the EU (9% of GDP).

External position & linkages

Italy's external position has strengthened materially over recent years. The country has posted a consistent current account surplus since 2013, except for 2022, when a temporary deficit emerged due to the energy price shock following the RussiaUkraine conflict, which sharply widened the energy import bill. The improvement in Italy's external position is underpinned by structural factors, including a competitive and diversified export base, strong performance in services (notably tourism), sustained goods trade surpluses in nonenergy categories, and moderate domestic demand, which has contained import growth.

Sustained current account surpluses have translated into significant balance sheet improvement, with Italy's net international investment position (NIIP) strengthening markedly, from around +6.7% of GDP in 2022 to about +13.3% of GDP by Q3 2025. Over the same period, external debttoGDP declined, supported by improved external balances and favourable nominal GDP growth.

Monetary & financial stability

As a member of the Eurozone, Italy benefits from the credibility of the ECB's monetary framework and access to eurosystem liquidity. Inflation has eased markedly, with HICP inflation averaging ~1.2% in 2025, driven primarily by lower energy prices, weak domestic demand and the lagged effects of monetary tightening.

However, upside risks to inflation exist in 2026, particularly from renewed geopolitical tensions in West Asia, which could disrupt global energy markets. Italy remains highly dependent on energy imports, meeting roughly threequarters of its energy needs through imports, with natural gas playing a central role.

Italy's banking sector has strengthened further, supported by consolidation, improved efficiency and a prolonged period of higher interest rates. Elevated rates have significantly improved net interest margins, resulting in strong profitability. Capital buffers are adequate, with CET1 ratios at 15.7-15.8%. Asset quality has improved materially, with NPL ratios declining to 2.0-2.3%, far below the historical peak. Overall, improved profitability and balance sheet strength enhance financial stability and support the sovereignbank nexus, although earlystage credit risks warrant monitoring amid modest growth.

Institutions & quality of governance

Italy's institutional framework has improved recent years, supported by enhanced political stability, policy continuity, and constructive engagement with the EU institutions. The current government, led by Prime Minister Giorgia Meloni, has become the longestserving administration in recent history and is expected to complete its term until 2027. This has reduced policy uncertainty, improved fiscal planning, and supported more consistent reform implementation, marking a positive departure from Italy's historically frequent government turnover.
Institutional capacity has strengthened notably in the context of NRRP implementation, with better coordination between central and local administrations, and improved monitoring of reform milestones. Timely achievement of reform targets, particularly in public administration processes, justice system efficiency and competition, has bolstered Italy's credibility with EU institutions and facilitated consistent fund disbursements.

However, longstanding structural governance challenges persist. Italy continues to face bureaucratic complexity, slow judicial proceedings, and uneven implementation capacity at the subnational levels, which can delay investment execution and weaken reform transmission to the real economy. Moreover, reform momentum is partly dependent on EU conditionality, raising questions over durability beyond the NRRP horizon.

Overall, recent gains in political stability and institutional effectiveness are credit-positive, but sustaining this momentum will be critical to addressing Italy's structural growth and fiscal challenges over the medium term.

Select indicators

	Unit	2020	2021	2022	2023	2024	2025E	2026F	2027F
Economic indicators									
Nominal GDP	USD billion	1,906	2,181	2,106	2,305	2,372	2,544	2,702	2,764
GDP per capita (constant-PPP)	USD	45,933	50,377	52,990	53,399	53,811	54,138	54,600	54,979
Real GDP growth	%	-8.9	8.9	4.8	0.7	0.7	0.5	0.7	0.7
GFCF/GDP	%	18.00	20.40	21.80	22.50	22.00	-	-	-
Gross national savings/GDP	%	21.7	24.1	22.9	23.1	23.5	23.7	24.7	25.4
Exports (G&S)/GDP	%	28.7	31.2	35.1	33.3	32.5	-	-	-
Working age (15-64) population (% share in total)	%	63.8	63.7	63.7	63.6	63.5	63.2	63.0	62.6
Old age (65+) population (% share in total)	%	23.4	23.7	23.9	24.2	24.6	25.1	25.6	26.1
Fiscal indicators – general government									
Fiscal balance/GDP	%	-9.4	-8.9	-8.1	-7.2	-3.4	-3.3	-2.8	-2.7
Revenue/GDP	%	47.4	47.2	46.8	46.7	47.1	47.4	47.1	46.9
Expenditure/GDP	%	56.8	56.0	54.9	54.0	50.6	50.7	49.9	49.6
GG gross debt/GDP	%	154	146	138	135	135	137	138	138
GG external debt (by creditor)/ GG gross debt	%	34.3	32.4	26.7	28.5	32.30	-	-	-
Interest/revenue	%	7.3	7.4	7.4	6.8	7.70	-	-	-
External indicators									
Current account balance/GDP	%	3.76	2.10	-1.73	0.14	1.13	0.91	0.88	1.26
FDI, net inflows/GDP	%	-0.89	1.14	2.98	1.83	0.91	-	-	-
Outstanding FII liabilities/GDP	%	87.2	71.5	57.6	62.7	67.54	-	-	-
NIIP/GDP	%	1.0	7.1	4.7	7.6	15	-	-	-
Foreign exchange reserves	USD billion	210	227	226	248	289	429	-	-
Import cover	Months	5.2	4.2	3.4	4.0	4.86	-	-	-
External debt/GDP	%	150.5	128.8	126.3	121.7	115.64	-	-	-
Monetary and financial indicators									
CPI inflation	%	-0.20	2.00	8.70	5.90	1.10	1.60	1.30	2.00
Exchange rate (average)	LC per USD	0.89	0.88	0.85	0.95	0.93	0.86	-	-
Non-performing loans/total gross loans	%	6.75	4.36	3.35	2.80	3.00	-	-	-
Private debt, loans and debt securities/GDP	%	122.2	116.9	110.3	105.71	95.32	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Netherlands

CareEdge AAA/Stable

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating of Kingdom of the Netherlands at 'CareEdge AAA/Stable' (Unsolicited).

Rationale

The rating reaffirmation reflects the Netherlands' high-income, diversified, and competitive economy. The credit profile benefits from its strong economic structure, robust external position, strong institutional framework, and stable monetary system. Additionally, the country's fiscal position is sound, supported by low government debt and strong debt affordability.

However, the Netherlands is exposed to risks from an economic slowdown in key European Union (EU) trading partners because of its large trade exposure to the region. These risks are mitigated by high domestic savings and a strong external position. Furthermore, the impact of an ageing population and weak competitiveness on economic growth and public finances is a key monitorable going forward.

The Netherlands is highly dependent on imported energy (69% of its supply), while gas storage capacity—at less than 3% of annual consumption—is limited, increasing vulnerability to elevated energy prices. While a prolonged conflict in the Middle East could keep energy prices high and weigh on growth, the Dutch economy is supported by a strong external balance, easing inflation, limited Middle East exposure, and low Gulf trade.

Outlook: Stable

The stable outlook reflects our expectation that the deficit and debt trajectory are expected to remain broadly stable and well below the Maastricht threshold over the next four years, despite higher spending on defence, climate, and education. Additionally, political fragmentation will be supported by strong institutions and consensus-driven governance.

Downside scenario

The outlook could be revised to negative in the face of headwinds to economic growth, potentially arising from slowing growth in key trading partners, delays in policy implementation related to structural bottlenecks, and demographic challenges. Material deterioration in public finances, though not envisaged in the near term, could also weaken the country's credit profile.

Key rating drivers

Economic structure & resilience

The Netherlands is a large and advanced economy, with a nominal GDP estimated at USD 1.3 trillion in 2025 and a high per capita GDP of USD 72,070 (in constant purchasing power parity terms). The economy is highly competitive, supported by strong institutional quality and deep integration into global trade networks. Economic growth is estimated to have accelerated to 1.7% in 2025, from 1.1% in 2024, driven by strong export momentum, government expenditure growth, and resilient private consumption. Sectoral contributions to growth were led by manufacturing, wholesale and retail trade, healthcare, and public administration. Looking ahead, the International Monetary Fund (IMF) projects GDP growth of 1.2% in 2026, followed by a moderate acceleration to 1.4% in 2027.

The Netherlands' economy is characterised by a relatively high degree of trade openness, with substantial exposure to the European Union. This integration not only supports economic resilience and competitiveness, but it also increases sensitivity to cyclical slowdown in key trading partners within the region. In the medium term, an ageing population and losing competitiveness are key structural risks that may constrain labour supply and productivity.

Fiscal strength

The Netherlands has a substantial fiscal buffer, supported by a favourable public debt profile and high affordability. Public debt is predominantly issued in local currency with a lengthy average maturity of about nine years. The fiscal deficit is estimated at 2.1% of GDP in 2025, due to lower dividend tax revenues and tax cuts by the previous government, yet it remains below the Maastricht threshold of 3%.

Under current policy plans, the deficit and debt trajectories are expected to remain broadly stable over the next four years, with government debt rising modestly to ~46.8% of GDP by 2030, driven by higher spending on defence, education, climate, and public safety, though these are partly offset by savings in healthcare and social security. Despite sizable contingent liabilities, mainly linked to government-controlled entities in the financial sector, their declining trend mitigates fiscal risks. Debt affordability remains strong, with interest payments amounting to ~1.5% of revenues in 2024.

External position & linkages

The Netherlands has a long-standing track record of sizable current account surpluses, driven by a strong surplus in goods trade. The current account balance is projected to remain robust, averaging 9.3% of GDP over the next five years. The country also benefits from the euro's status as a global reserve currency and seamless access to international capital markets.

The country's external position is characterised by elevated gross external debt, estimated at 332% of GDP as of end-2024, reflecting the Netherlands' role as a financial centre and a hub for multinational corporations. Notwithstanding the high level of external debt, external solvency indicators are strong, supported by a positive net international investment position (NIIP) of 59% of GDP as of 2024. These structural features and balance sheet strengths form the foundation of our external sector assessment.

Monetary & financial stability

The Netherlands is a part of the European Economic and Monetary Union and the euro is its official currency. The euro's status as a global reserve currency also benefits the Netherlands' monetary assessment.

On the price front, Harmonised Index of Consumer Prices (HICP) inflation was recorded at 2.3% in February 2026, slightly above the European Central Bank's (ECB) medium-term inflation target of 2%. Current inflationary pressures are driven by elevated services inflation, sustained increase in residential rents, and strong wage growth, while prices of goods continue to decelerate.

Looking ahead, inflation risks are tilted to the upside. The ongoing conflict in the Middle East could push up oil and gas prices, raising fuel and energy costs for households. It also heightens the risks of higher transportation costs and supply chain disruptions. A weaker euro against the US dollar adds to imported energy and commodity price pressures. The ECB has retained the policy rates for the sixth consecutive time since July 2025, citing increased uncertainty and upside inflation risks from the conflict.

The Netherlands' financial sector benefits from a low proportion of non-performing loans to gross loans in the banking sector, at 1.4% as of Q4 2025. Although the banking sector is well capitalised, with CET 1 capital ratio at 17.2% as of Q4 2025, high exposure to the real estate sector as well as elevated household and corporate debt could pose risks. Household debt in the Netherlands is among the highest in Europe, driven by high mortgage borrowing, posing potential long-term risks if housing prices decline. These risks are mitigated by strong net financial wealth, high savings, and the prevalence of long-term fixed-rate mortgages.

Institutions & quality of governance

The Netherlands continues to benefit from a strong institutional framework and a wellestablished governance system, which supports policy continuity and administrative effectiveness. These strengths underpin the assessment of this pillar and limit the credit impact of recent political developments.

However, political stability has weakened in recent years due to increased fragmentation and repeated cabinet disruptions. In 2025, disagreements within the governing coalition led to the withdrawal of key coalition partners and the resignation of the cabinet, prompting snap general elections in October 2025. The elections resulted in a highly fragmented parliament, with no party securing a clear mandate.

Following prolonged negotiations, a minority government led by Prime Minister Rob Jetten from Democrats 66 (D66) was formed, lacking a parliamentary majority in both the lower and upper houses. As a result, governance is expected to rely on issue-based support from opposition parties, which may reduce policy predictability and slow legislative progress.

The Netherlands' strong institutions, consensus-oriented political culture, and effective system of checks and balances are expected to shield its credit profile from the immediate impact of these political challenges.

Select indicators

	Unit	2020	2021	2022	2023	2024	2025	2026 F	2027 F
Economic indicators									
Nominal GDP	USD billion	932	1,055	1,047	1,136	1,215	1,321	1,413	1,461
GDP per capita (constant-PPP)	USD	65698	69552	72556	71227	71468	72070	72565	73225
Real GDP growth	%	-3.88	6.28	5.01	-0.60	1.08	1.70	1.22	1.38
GFCF/GDP	%	21.3	20.7	20.5	20.1	19.9	19.7	-	-
Gross domestic savings/ GDP	%	27.0	32.4	29.6	29.5	28.8	29.4	29.3	29.3
Exports (G&S)/GDP	%	81.3	86.3	96.2	87.5	82.4	-	-	-
Working age (15-64) population (% share in total)	%	64.9	64.7	64.6	64.3	64.1	63.8	63.4	63.0
Old age (65+) population (% share in total)	%	19.6	19.9	20.2	20.4	20.7	21.1	21.4	21.8
Fiscal indicators – general government									
Fiscal balance/GDP	%	-3.7	-2.3	0.0	-0.4	-0.9	-2.1	-2.8	-2.2
Revenue/GDP	%	44.1	43.6	43.3	43.6	43.5	43.2	43.5	43.8
Expenditure/GDP	%	47.8	45.9	43.3	44.0	44.4	45.3	46.3	46.0
GG gross debt/GDP	%	53.4	50.5	48.4	45.9	43.8	44.0	45.2	45.7
GG external debt (by creditor)/GG gross debt	%	39.9	35.2	33.8	34.3	37.1	-	-	-
Interest/revenue	%	1.9	1.5	1.4	1.6	1.5	-	-	-
External indicators									
Current account balance/ GDP	%	5.7	10.2	6.8	9.4	9.1	9.5	9.3	9.2
FDI, net inflows/GDP	%	-23.7	-11.0	1.5	-30.2	-1.4	-	-	-
Outstanding FII liabilities/ GDP	%	334.2	303.0	249.2	259.3	236.2	-	-	-
NIIP/GDP	%	94.5	67.8	54.1	54.1	59.0	-	-	-
Foreign exchange reserves	USD billion	53.8	65.0	63.5	69.8	79.1	-	-	-
Import cover	Months	1.0	1.0	0.8	0.9	1.1	-	-	-
External debt/GDP	%	506.4	421.0	400.2	369.9	332.0	-	-	-
Monetary and financial indicators									
CPI inflation	%	1.1	2.8	11.6	4.1	3.2	3.0	2.4	2.4
Exchange rate (average)	LC per USD	0.9	0.8	1.0	0.9	0.9	0.9	-	-
Non-performing loans/total gross loans	%	1.9	1.7	1.6	1.6	1.6	-	-	-
Private debt, loans and debt securities/GDP	%	335.8	321.4	301.2	277.8	264.0	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Portugal

CareEdge A+/Stable

Rating action

CareEdge Global has reaffirmed its Long-Term Foreign Currency issuer rating for Republic of Portugal at 'CareEdge A+/Stable' (Unsolicited).

Rationale

The reaffirmation of Portugal's rating continues to reflect the country's significant improvement in government debt levels over the past few years, coupled with an expectation of reaching 77% of GDP by 2030. Portugal also benefits from a relatively high GDP per capita, a buoyant tourism sector, strong institutional quality, and a steadily improving banking system. Economic growth continues to outperform the Euro area average, supported by resilient domestic demand and services exports. The country has also demonstrated a strong track record of implementing structural reforms to enhance competitiveness, alongside improvements in fiscal discipline and debt management.

Notwithstanding these strengths, the economy continues to face structural challenges. Despite improvement, high public debt and a deeply negative Net International Investment Position

(NIIP) constrain fiscal and external flexibility. Demographic pressures from an ageing population, low public investment, and expectations of rising defense and social spending further weigh on medium-term growth potential.

In addition, ongoing housing market imbalances and the outflow of skilled labour represent notable social and economic risks. Looking ahead, Portugal's growth prospects could be supported by the continued implementation of reforms and the effective use of funds from the European Commission's National Resilience and Recovery Plan (NRRP).

Outlook: Stable

The Stable Outlook for Portugal reflects CareEdge Global's expectations of a continued commitment to reducing public debt. The country continues to benefit from a well-established institutional framework, reinforced by European Union (EU) governance mechanisms, which has supported fiscal discipline, structural reforms, and the strengthening of the banking sector. Economic growth is expected to remain resilient, underpinned by a vibrant labour market, rising minimum wages, and personal income tax cuts. At the same time, continued disbursements from the NRRP will temporarily boost public investment.

Upside scenario

The outlook could be revised to positive if Portugal achieves a faster-than-expected reduction in its public debt burden or demonstrates a structurally stronger growth trajectory, supported by sustained gains in tourism receipts, higher investment, increased export diversification, and a further strengthening of external balances.

Downside scenario

The outlook could be revised to negative if general government debt or the external position deteriorates further, or if the economy experiences a significant domestic or EU-wide growth shock, thereby weakening fiscal and external resilience.

Key rating drivers

Economic structure & resilience

Portugal is a small, open economy with an estimated nominal GDP of nearly USD 338 billion and a relatively high GDP per capita of USD 42,669 (PPP basis) in 2025. Over the past decade, the economy has undergone a notable structural transformation, driven by a stronger focus on exports, moderation in labour costs, improvements in labour skills, and a sustained impetus on tourism, alongside gradual diversification into higher value-added services, including financial services, Information, Communication & Technology (ICT), and professional services. Portugal has outperformed the Euro Area in its post-COVID recovery and is expected to continue to do so, growing at nearly 1.7% over the next five years (2026-30).

The labour market remains tight, supporting private consumption and domestic demand. Tourism remains a key pillar, contributing nearly 11.9% of GDP in 2024, while EU RRF funds, of which nearly 63% had been disbursed by December 2025, are expected to support investment and medium-term growth. In addition, Portugal has developed a strong green infrastructure base, with over 60% of electricity generation sourced from renewables, strengthening energy security and supporting the green transition.

Despite these strengths, Portugal's economic growth prospects remain constrained by structural challenges. The economy is highly reliant on trade with the EU, leaving it exposed to any prolonged slowdown in the region. Gross fixed capital formation remains relatively low, at 20.4% of GDP in 2024. Unfavorable demographic trends, including population ageing and outward migration of skilled youth, continue to weigh on labour supply and potential growth. Moreover, youth unemployment remains structurally elevated at an average of around 19.5% in 2025, nearly three times the national unemployment rate, reflecting persistent labour-market mismatches and skills gaps.

Fiscal strength

Portugal continues to demonstrate a strong commitment to fiscal consolidation, supported by prudent budget management and favourable macroeconomic conditions. The general government is expected to record a fiscal surplus of 0.3% of GDP in 2025 and 0.1% of GDP in 2026, according to the 2026 budget. The sustained primary surpluses underpin a steady decline in the public debt ratio, which, while elevated at 95% of GDP in 2024, is projected to fall to around 81.5% by 2028. The government has also initiated targeted tax reforms, including a reduction in the Corporate Income Tax rate from 20% in 2025 to 19% in 2026, with a further cut to 17% by 2028, alongside planned reductions in Personal Income Tax. These measures aim to enhance business competitiveness, attract investment, and improve labour market conditions, with the associated revenue impact expected to be largely offset by economic buoyancy.

Despite the improving debt trajectory, public debt levels remain high, reflecting the legacy of the past. Moreover, Portugal's fiscal flexibility is constrained by structurally high rigid expenditures, particularly pension spending, which accounts for around 13% of GDP, limiting the scope for discretionary spending adjustments. Additional pressure is expected from higher defense expenditure requirements.

External position & linkages

Portugal's external position has strengthened in recent years, supported by resilient services exports. The country recorded a current account surplus of 2.1% of GDP in 2024 and is expected to continue registering surpluses over the next five years, albeit smaller ones. NIIP has improved significantly, narrowing from a peak of -124% of GDP in 2014 to around -53% by Q3 2025, reflecting sustained external adjustment and private sector deleveraging. Portugal also remains an attractive destination for foreign investment, particularly in financial services and ICT. FDI net inflows stood strong at 4.4% of GDP in 2024. Additionally, Portugal benefits from its membership in the European Monetary Union.

Despite these improvements, external vulnerabilities remain. Portugal's externally held debt remains elevated, at around 151% of GDP as of Q3 2025. While the deleveraging trend is ongoing, the still-negative NIIP indicates a sizeable stock of external liabilities.

Monetary & financial stability

Portugal's inflation stood at 2.2% in December 2025, slightly above the Euro area average of 2%, and remained broadly above the ECB's 2% target throughout 2025. Inflation is expected to remain slightly above the 2% target due to tight labour markets and the ECB's neutral monetary policy stance, with limited scope for rate cuts this year. Inflation is expected to reach the ECB target by 2028.

Non-performing loan (NPL) ratios have declined to around 2.4%, converging toward the Euro Area average of close to 2% as of Q3 2025. Portuguese banks have also shown improving profitability and stronger capital buffers, enhancing the sector's resilience to macro-financial shocks. At the same time, the private sector deleveraging trend remains intact, with private sector debt declining to around 130% of GDP in 2024, from a peak of 231% in 2012.

Institutions & quality of governance

Portugal's institutional effectiveness and policy credibility are reflected in its early repayment of IMF and EU financial assistance, completed five years ahead of schedule. The country is currently led by a center-right minority coalition government (Democratic Alliance) under Prime Minister Luís Montenegro. Despite the minority status, there remains a broad policy consensus, particularly on fiscal discipline and implementation of the NRRP. The government's reform agenda is focused on addressing the housing shortage, managing migration, and reducing the tax burden on households and firms.

Political fragmentation presents a moderate source of uncertainty. The far-right party Chega has emerged as the largest opposition force and continues to gain visibility, potentially contributing to a more polarized political landscape over time. While political conditions remain broadly stable at present, heightened fragmentation could slow reform momentum and pose implementation risks to the government's policy agenda.

Select indicators

	Unit	2020	2021	2022	2023	2024	2025 F	2026 F	2027F
Economic indicators									
Nominal GDP	USD billion	229	256	257	290	309	338	365	377
GDP per capita (constant-PPP)	USD	36,734	38,691	41,152	41,791	42,179	42,669	43,685	44,437
Real GDP growth	%	-8.2	5.6	7.0	2.6	1.9	1.9	2.1	1.5
GFCF/GDP	%	19.5	20.5	20.6	20.5	20.4	-	-	-
Gross domestic savings/GDP	%	18.3	20.3	19.4	21.0	22.2	21.4	21.5	20.7
Exports (G&S)/GDP	%	39.2	42.6	45.6	42.9	41.4	-	-	-
Working age (15-64) population (% share in total)	%	63.8	63.6	63.3	63.0	62.7	62.3	62.0	61.6
Old age (65+) population (% share in total)	%	22.9	23.3	23.7	24.1	24.5	24.9	25.4	25.8
Fiscal indicators – general government									
Fiscal balance/GDP	%	-5.8	-2.8	-0.3	1.2	0.7	0.2	0.0	-0.2
Revenue/GDP	%	43.4	44.5	43.6	43.5	43.5	43.8	44.1	42.4
Expenditure/GDP	%	49.1	47.3	43.9	42.3	42.8	43.7	44.0	42.6
GG gross debt/GDP	%	134.1	123.9	111.2	97.7	94.9	90.9	86.9	83.9
GG external debt (by creditor)/ GG gross debt	%	52.9	43.5	45.5	43.0	42.9	-	-	-
Interest/revenue	%	6.5	5.3	4.3	4.7	4.7	-	-	-
External indicators									
Current account balance/GDP	%	-0.7	-0.7	-2.0	0.6	2.1	1.8	1.9	1.6
FDI, net inflows/GDP	%	1.8	3.6	5.1	4.0	4.4	-	-	-
Outstanding FII liabilities/GDP	%	77.3	60.7	52.2	48.6	47.2	-	-	-
NIIP/GDP	%	-110.8	-89.0	-83.7	-74.5	-56.8	-	-	-
Foreign exchange reserves	USD billion	30.0	33.2	33.1	35.3	42.5	-	-	-
Import cover	Months	3.9	3.5	2.9	3.2	3.7	-	-	-
External debt/GDP	%	204.45	189.79	165.48	146.47	144.85	-	-	-
Monetary and financial indicators									
CPI inflation	%	-0.1	0.9	8.1	5.3	2.7	2.2	2.1	2.2
Exchange rate (average)	LC per USD	0.9	0.9	1.0	0.9	0.9	0.9	-	-
Non-performing loans/total gross loans	%	4.89	3.68	3.00	2.70	2.40	-	-	-
Private debt, loans and debt securities/GDP	%	176.16	168.34	152.22	137.07	130.55	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Spain

CareEdge A/Stable

Rating action

CareEdge Global has reaffirmed its Long-Term Foreign Currency issuer rating of the Kingdom of Spain at 'CareEdge A/Stable' (Unsolicited).

Rationale

Spain's credit profile is supported by its large, diversified, high-income economy, and a sustained current account surplus, primarily driven by strong services exports, particularly tourism. Spain also benefits from its membership in the euro area. In recent years, the country has demonstrated robust economic performance, consistently outperforming its European Union (EU) peers, while labour market conditions have continued to improve. Additionally, improvement in asset quality and profitability have strengthened the banking sector.

However, adverse demographic trends are a structural constraint on long-term growth, while weak fiscal metrics continue to weigh on the overall credit profile. General government debt remains elevated and is projected to stay around 97% of GDP over 2026-2028. Nevertheless, the fiscal deficit is expected to gradually narrow over the same period.

Persistent budgetary rigidity, as seen in the third consecutive extension of the 2023 national budget into 2026, confirms ongoing political fragmentation. Key monitorables include the effective absorption and deployment of Recovery and Resilience Facility (RRF) funds, as well as shifting domestic political dynamics, particularly renewed tensions involving the Catalan independence movement.

Outlook: Stable
The stable outlook is based on our expectation that Spain will remain on a gradual fiscal consolidation path, with general government debt continuing to trend down to below 96% of GDP over the next five years. This is supported by relatively favourable growth prospects compared with the EU average; Spain's economy is expected to expand ~1.8% over the medium term.

Upside scenario

A positive rating action would be considered if Spain reduces public debt faster than expected, supported by sustained economic momentum and effective implementation of structural reforms that enhance growth potential and fiscal resilience.

Downside scenario

A negative rating action could be triggered by fiscal slippage that leads to a reversal in debt reduction, particularly if driven by higher expenditure or weaker growth. A deterioration in external balances, such as narrowing of the current account surplus amid global trade tensions, could also weaken the profile.

Key rating drivers

Economic structure & resilience

Spain's economic strength is defined by its impressive scale and position as one of the fastest-growing economies in the EU. With nominal GDP estimated at USD 1.9 trillion in 2025, the region's fourth-largest economy benefits from resilient domestic demand and a well-diversified economic base. Its services-oriented structure, anchored by a robust tourism sector contributing over 10% of GDP, remains a key growth driver.

Economic prospects remain favourable, with real GDP growth projected to average 1.8% over 2026-2030. This outlook factors in a consistently robust labour market, where sustained migration inflows, particularly from Latin America, bolster labour supply and private consumption. Spain has made notable progress in reducing unemployment, from a peak of 26.1% in 2013 to ~10.5% in 2025, driven by structural labour market reforms and demographic support from migration.

To ensure growth resilience, the economy is gradually diversifying towards higher value-added services such as financial, information, communications & technology (ICT), and business services. Additionally, Spain's expanding green energy infrastructure provides a competitive edge through lower electricity costs for firms. Continued support from the RRF will support investment through 2026. However, managing the transition as these funds are phased out remains a critical monitorable.

Fiscal strength

Spain's weak fiscal metrics remain a key credit constraint, reflecting elevated public debt levels, which averaged 106.4% of GDP over 2021-2025. Nonetheless, the government is committed to deleveraging. The pace of consolidation is expected to be gradual, driven by strong economic growth and buoyant revenue rather than significant expenditure rationalisation. Political fragmentation heightens the fiscal risks, as the government has been unable to pass a new budget since 2023, reducing visibility over future revenue and expenditure measures, while constraining consolidation efforts. Over the longer term, ageing-related spending pressures are expected to weigh on fiscal sustainability.

On the positive side, Spain benefits from comfortable debt affordability, supported by relatively low borrowing costs and moderate interest payments relative to revenue. The fiscal deficit has been steadily narrowing and is projected to decline to 2.7% of GDP in 2025 and to 2.3% by 2028.

External position & linkages

Spain's external profile is supported by a sustained current account surplus, estimated at ~2.7% of GDP in 2025, driven by strong services exports, particularly tourism. The surplus is expected to moderate slightly to ~2.3% of GDP over 2026-30.

However, the net international investment position (NIIP) is still significantly negative, at approximately -44.5% of GDP as of Q3 2025. In addition, external debt remains elevated, at ~163% of GDP in 2024, although gradual deleveraging is underway. On the positive side, foreign direct investment inflows have been robust, at ~2.5% of GDP (as of 2024), led by the UK, Germany, and the US.

Monetary & financial stability

Spain is a member of the European Economic and Monetary Union and uses the Euro as its official currency. Inflation remained somewhat above the 2% target throughout 2025, primarily due to persistent services inflation. However, it is expected to gradually converge towards the European Central Bank target over 2026-2027.

The Spanish banking sector continues to support the economy, backed by sound asset quality. The ratio of non-performing loans to total loans was ~2.8% as of December 2025, reflecting ongoing balance sheet strengthening.

Rising geopolitical tensions in the Middle East could lead to a temporary increase in energy prices. However, the impact on Spain is likely to be partly mitigated by its relatively high share of renewable energy in the power mix.

Institutions & quality of governance

Following the 2023 general elections, Pedro Sánchez of the Spanish Socialist Workers' Party secured another term as prime minister. However, the current administration is a fragile minority coalition reliant on support from the regional parties. In particular, the inclusion of Catalan pro-independence parties heightens the risk of renewed tensions related to the Catalan independence movement.

The government's minority position has constrained policymaking, with no new budget having been passed since 2023 and difficulties in approving a spending ceiling for 2026 limiting fiscal visibility. At the same time, the authorities have proposed the establishment of a sovereign wealth fund to support growth and prioritise strategic sectors following the withdrawal of the RRF. Progress on this initiative will bear watching.

Select indicators

	Unit	2020	2021	2022	2023	2024	2025 F	2026 F	2027F
Economic indicators									
Nominal GDP	USD billion	1,289	1,462	1,450	1,620	1,725	1,891	2,042	2,130
GDP per capita (constant-PPP)	USD	41,342	44,025	46,247	46,856	48,031	48,788	49,157	49,490
Real GDP growth	%	-10.9	6.7	6.4	2.5	3.5	2.9	2.3	1.9
GFCF/GDP	%	20.6	20.2	20.4	19.7	19.5	-	-	-
Gross domestic savings/GDP	%	21.4	22.6	23.1	23.9	24.4	24.3	24.4	24.2
Exports (G&S)/GDP	%	30.5	33.8	39.7	37.8	37.1	-	-	-
Working age (15-64) population (% share in total)	%	66.2	66.3	66.2	66.1	65.9	65.7	65.5	65.2
Old age (65+) population (% share in total)	%	19.6	19.8	20.2	20.7	21.1	21.6	22.2	22.7
Fiscal indicators – general government									
Fiscal balance/GDP	%	-10.0	-6.7	-4.6	-3.5	-3.1	-2.7	-2.5	-2.4
Revenue/GDP	%	41.4	42.8	41.7	41.9	42.2	42.2	42.6	41.7
Expenditure/GDP	%	51.4	49.5	46.4	45.5	45.3	44.9	45.1	44.1
GG gross debt/GDP	%	119.2	115.6	109.2	105.1	101.6	100.4	98.7	96.9
GG external debt (by creditor)/ GG gross debt	%	47.3	42.6	43.9	45.0	44.3	-	-	-
Interest/revenue	%	5.4	5.0	5.5	5.6	5.8	-	-	-
External indicators									
Current account balance/GDP	%	0.8	0.8	0.4	2.7	3.2	2.7	2.6	2.6
FDI, net inflows/GDP	%	2.9	4.4	4.7	2.9	2.5	-	-	-
Outstanding FII liabilities/GDP	%	113.6	96.0	80.3	84.3	83.0	-	-	-
NIIP/GDP	%	-90.0	-66.4	-57.0	-50.3	-39.4	-	-	-
Foreign exchange reserves	USD billion	81	92	93	103	107	127	-	-
Import cover	Months	2.61	2.32	1.99	2.25	2.28	-	-	-
External debt/GDP	%	198.9	190.8	171.0	163.6	162.7	-	-	-
Monetary and financial indicators									
CPI inflation	%	-0.3	3.0	8.3	3.4	2.9	2.4	2.0	2.5
Exchange rate (average)	LC per USD	0.9	0.9	1.0	0.9	0.9	0.9	-	-
Non-performing loans/total gross loans	%	2.9	2.9	3.1	3.1	2.9	-	-	-
Private debt, loans and debt securities/GDP	%	170.8	159.2	143.0	130.1	124.0	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Sweden

CareEdge AAA/Stable

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for the Kingdom of Sweden at 'CareEdge AAA/Stable' (Unsolicited).

Rationale

The reaffirmation reflects our assessment that Sweden's credit profile is well-positioned to address economic uncertainty arising from global and domestic factors, supported by strong fiscal and monetary buffers and effective institutions and governance.

The Swedish economy is innovation-driven and export-oriented, with key export items including machinery, transportation, chemicals, services, and natural resources such as timber and minerals. Prudent fiscal policies have resulted in low general government debt and strong debt affordability, providing additional resilience. The monetary environment is strengthened by prudent inflation management, boosting investor confidence. Additionally, Sweden is recognized as a strong welfare state demonstrating a commitment to social equity and public services.

However, these strengths are partly offset by its ageing population. The country also has high externally held debt, most of which is denominated in domestic currency and is a result of Sweden's status as the financial hub of the Nordic countries.

Outlook: Stable

The Stable outlook reflects Sweden's wealthy and high-value-added economic profile with robust public finances, a credible policy framework, and strong external metrics, contributing to its macroeconomic stability. Despite increased government spending in recent years, general government debt is expected to remain relatively low over the next five years and remain well within the debt anchor level (40% of GDP) set by parliament under the country's fiscal framework. IMF expects general government debt to average around 35% of GDP over the next five years.

Downside scenario

Outlook may be revised to negative if there is a significant drag on the fiscal profile from increased defence spending and transfer payments, or from geopolitical tensions.

Key rating drivers

Economic structure & resilience

Sweden boasts a diverse industrial base and has a high nominal GDP of USD 604 billion in 2024, alongside a high GDP per capita of USD 62,720 (Purchasing Power Parity). The country is known for its business-friendly environment, innovation, and a high labour force participation rate of 75.3% in 2024 among the 15-74 age group. Sweden is a leading country in the transition to green energy, with 66.4% of energy consumed from renewable sources, supported by various environmental sustainability initiatives, including a comprehensive environmental policy framework and substantial government budget allocations in this sector. However, the country faces demographic challenges, with 20% of its population aged 65 and older. To tackle this issue, Sweden is seeking to address its demographic needs through immigration.

Sweden's real GDP grew 0.8% in 2024, following a 0.2% contraction in 2023. This recovery was disrupted by tariff-related uncertainty in H1 2025, resulting in a downward revision to the 2025 growth estimate to 0.8% from 1.9%. However, growth has picked up since then, supported by domestic demand. IMF projects growth to average 1.6% over the next five years.

Fiscal strength

Sweden's economic landscape is currently shaped by a robust fiscal framework that emphasises transparency and long-term stability. As of 2024, gross general government debt is estimated at approximately 33% of GDP, significantly lower than the EU average of 82.4% of GDP. Prudent debt management has resulted in low-interest payment obligations, accounting for only around 1.4% of revenue in 2024.

Sweden's central government fiscal deficit stood at 1.6% of GDP in 2024 and is expected to increase further to 1.7% in 2025 and 2.4% in 2026. Defence spending, which has almost doubled over the last five years to 2.1% of GDP in 2024 from 1.2% in 2020, has put additional pressure on government spending. Also, the central government has increased spending by an additional 1.2% of GDP in 2026 to boost domestic demand and support economic growth. Despite increased government spending and the fiscal deficit, general government debt is expected to remain relatively low at 35% of GDP over the next five years and remain well within the debt anchor level of 40% of GDP.

External position & linkages

Sweden's external position is strong, with a current account surplus of 5.9% of GDP in 2024, which is projected to average 5.5% of GDP over the next 5 years. A strong legal framework, transparent regulations, and a skilled workforce have established the country as an appealing location for foreign companies. Foreign direct investment has been robust, averaging 5.4% of GDP over the past 5 years, reflecting investor confidence in Sweden's stable and business-friendly environment.

Sweden also benefits from a positive Net International Investment position (NIIP) of around 64.3% of GDP in 2024, a substantial improvement from 35.1% of GDP in 2023, supported by net valuation gains and continuous current account surpluses. However, a substantial portion of exports is directed to key EU partners such as Germany, Norway, and Denmark, exposing Sweden to economic shocks in these countries.

Monetary & financial stability

Despite being a member of the European Union, Sweden maintains autonomous monetary policy regulated by Riksbank and has its own currency, the Swedish Krona.

The Swedish banking system remains resilient and stable, even amid global economic pressures and uncertainties. Non-performing loans (NPLs) are low, at around 0.4% in 2024. Additionally, Sweden has a deep capital market that reflects strong investor confidence.

Inflation has declined significantly to 2% in 2024 from a peak of 8.1% in 2022. It is expected to be around 2.3% in 2025 and 1.6% in 2026, below the Riksbank's 2% target. In response to easing inflation, the Riksbank has cut the policy rate to 1.75% in 2025 from 4% in 2023, with scope for further easing. Rate cuts have substantially reduced interest payments on household debt, which stood at 86.7% of GDP in Q3 2025, mitigating the associated default risk.

Institutions & quality of governance

Sweden has a high level of institutional quality and governance, characterized by strong democratic practices and effective public administration. The country consistently ranks among the top nations in global governance indicators, reflecting its commitment to voice and accountability, political stability, government effectiveness, regulatory quality, control of corruption and the rule of law. In recent years, scores related to political stability and the absence of violence and terrorism have declined. Sweden's political parties have agreed that dual citizens who commit crimes that threaten national security should lose their citizenship. Under Sweden's constitution, citizenship revocation is not permitted, and a bill for parliamentary vote to change the law is scheduled for next year before the general election to be held in September 2026.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	531	544	632	575	579	604	662	712
GDP per capita (constant-PPP)	USD	61,163	59,682	62,362	62,729	62,422	62,720	62,666	63,379
Real GDP growth	%	2.6	-1.9	5.2	1.3	-0.2	0.8	0.8	1.9
GFCF/GDP	%	24.4	25.1	25.6	27.1	26.7	24.6	-	-
Gross domestic savings/GDP	%	29.7	30.0	31.5	30.9	31.1	31.3	31.0	30.9
Exports (G&S)/GDP	%	49.2	45.1	48.1	55.2	56.1	55.4	-	-
Working age (15-64) population (% share in total)	%	62.3	62.2	62.2	62.2	62.2	62.3	62.4	62.5
Old age (65+) population (% share in total)	%	20.0	20.1	20.2	20.3	20.5	20.7	20.9	21.1
Fiscal indicators – general government									
Fiscal balance/GDP	%	0.4	-3.2	-0.1	1.0	-0.6	-1.7	-1.4	-1.8
Revenue/GDP	%	49.2	48.8	49.2	49.3	48.3	47.6	47.7	47.0
Expenditure/GDP	%	48.8	52.0	49.3	48.3	48.9	49.3	49.0	48.8
GG gross debt/GDP	%	35.8	40.2	37.0	33.9	31.8	33.0	34.2	35.6
GG external debt (by creditor)/GG gross debt	%	21.0	19.5	14.5	11.4	12.0	14.0	-	-
Interest/revenue	%	0.9	0.6	0.6	1.2	1.5	1.4	-	-
External indicators									
Current account balance/GDP	%	5.2	5.6	6.2	4.0	5.8	5.9	5.8	5.7
FDI, net inflows/GDP	%	3.1	3.4	8.7	8.0	3.9	3.7	-	-
Outstanding FII liabilities/GDP	%	149.2	175.7	154.9	126.2	145.2	133.1	-	-
NIIP/GDP	%	13.5	8.4	18.0	30.1	35.1	64.3	-	-
Foreign exchange reserves	USD billion	55.5	58.5	62.4	64.8	61.6	63.3	-	-
Import cover	Months	2.9	3.2	2.8	2.6	2.5	2.4	-	-
External debt/GDP	%	180.4	198.4	159.7	166.2	175.8	168.9	-	-
Monetary and financial indicators									
CPI inflation	%	1.7	0.7	2.7	8.1	5.9	2.0	2.3	1.6
Exchange rate (average)	LC per USD	9.5	9.2	8.6	10.1	10.6	10.6	-	-
Non-performing loans/ total gross loans	%	0.6	0.5	0.4	0.3	0.4	0.4	-	-
Private debt, loans and debt securities/GDP	%	224.7	238.4	242.0	243.3	208.0	246.6	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Türkiye

CareEdge BB-/Stable

Rating action

CareEdge Global has upgraded the Long-Term Foreign Currency Rating of Republic of Türkiye to 'CareEdge BB-' /Stable (Unsolicited) from 'CareEdge B+/Stable'.

Rationale

Türkiye's upgrade reflects strengthening macroeconomic performance following the authorities' return to more orthodox economic policies after a prolonged period of unconventional policy implementation. The shift to a traditional monetary policy framework has contributed to a moderation in inflation (35% in 2025, down from 54% in 2023) and a reduction in deposit dollarisation (39.5% in 2025, down from 63.5% in 2023), indicating tangible progress in macroeconomic stabilisation.

Further, fiscal position has improved, supported by better budgetary discipline and a reduction in policy-driven expenditures, resulting in a narrower fiscal deficit. In addition, a significant unwinding of the FXprotected deposit scheme, has lowered contingent liabilities and exposure to exchangerate volatility of the government.

External resilience has also improved, with a stronger reserve position supporting the ongoing economic rebalancing process (Gross FX reserves at USD 205 billion in January 2026, up from USD 141 billion in 2023). The current account deficit has narrowed and is projected to remain manageable at around 1.2-1.5% of GDP in the medium-term, supported by strong tourism receipts and improved terms of trade.

Notwithstanding these improvements, Türkiye's credit profile remains constrained by elevated vulnerabilities, including exposure to exchange-rate volatility and reliance on external financing. The banking sector remains susceptible to asset quality and profitability pressures amid tight financial conditions and lingering foreign currency risks.

In addition, high short-term and foreigncurrency-denominated debt increases rollover and refinancing risks. Geopolitical tensions pose further downside risks to capital flows, trade, and tourism. Centralised policy-making increases the risks of policy reversals.

Outlook: Stable

The stable outlook is underpinned by our expectations that the economic rebalancing process will continue, with falling inflation, stable dollarisation, and adequate reserves. We expect economic growth to remain resilient, supported by strong domestic demand and stable policy settings.

Upside scenario

A positive outlook action could materialize if Türkiye demonstrates sustained policy effectiveness and credibility. A faster-than-expected decline in inflation, supported by continued fiscal-monetary co-ordination, would strengthen confidence and stabilize macroeconomic expectations. A more durable improvement in the external position, reflected by better current account deficits and strengthened reserve adequacy, may further support any improvement in the credit profile.

Downside scenario

The outlook can be changed to negative if policy consistency weakens or macroeconomic imbalances emerge. Premature easing of monetary or fiscal conditions could stall disinflation, undermine confidence, and heighten exchangerate volatility, reversing recent gains. A renewed widening of the current account deficit or escalation in geopolitical tensions could intensify external financing pressures. Prolonged tight financial conditions may also lead to deterioration in asset quality, increasing contingent liabilities for the sovereign through the banking sector.

Key rating drivers

Economic structure & resilience

Türkiye remains one of the region's largest emerging economies, supported by a diversified manufacturing base and a strategically significant geographic position. Nominal GDP is estimated at USD 1.58 trillion in 2026, with GDP per capita (PPP) of approximately USD 38,749 (GDP constant PPP)—reflecting a structurally strong consumption base, a sizeable labour force, and deep domestic demand.

Demographics remain supportive, with a median age of 33 years, underpinning medium-term growth potential.

Manufacturing continues to be a core economic strength, spanning the automotive, machinery, electronics, textiles, and defence industries, and benefiting from Türkiye's deep integration into European and regional supply chains. Its geostrategic location—bridging Europe, Asia, and the Middle East—reinforces its role as a production, logistics, and energy transit hub, enhancing export capacity and supply chain resilience amid global reconfigurations.

Recent activity indicators point to steady momentum entering 2026. Industrial production rose 2.5% month-on-month (seasonally adjusted) in November 2025, and January 2026 data suggest continued resilience in manufacturing and domestic demand. Together, these signals suggest that economic activity entering 2026 is on a firmer footing, consistent with full-year growth of around 4.2%. Strong tourism receipts, alongside a continued reduction in deposit dollarisation, remain key tailwinds supporting macroeconomic stability and growth.

Fiscal strength

Türkiye's fiscal deficit narrowed to 3.7% of GDP in 2025 from 4.6% of GDP, aided by revenue expansion and a reduction in earthquake-related expenditures. Gross general government debt to GDP is low (at 24.3% of GDP in 2025). Contingent liability risks linked to foreign-exchange-protected deposit schemes have declined sharply, with such deposits now accounting for just 0.02% of total deposits, down from 26% in 2023.

Despite these improvements, certain fiscal vulnerabilities persist. Contingent liabilities arising from public-private partnerships (PPPs) remain material the foreign-currency debt of PPP projects. Following the sharp depreciation of the Turkish lira, guaranteed payments under these arrangements have increased, adding to fiscal pressures.

In addition, inflation-indexed bonds account for around 22% of public debt, increasing the sensitivity of the fiscal position to elevated inflation. Government interest payments relative to revenue remain high at 12% in the year 2024, reflecting elevated policy rates. Moreover, the relatively large share of foreign-currency-denominated public debt—56% as of 2024—continues to expose the sovereign balance sheet to external and exchange-rate shocks.

External position & linkages

Türkiye's external financing needs remain elevated, although external buffers have strengthened over the past two years. The current account deficit narrowed to a moderate 1.4% of GDP in 2025, largely reflecting lower food and energy prices. Foreign exchange reserves have increased materially, with gross reserves reaching a record USD 205 billion and net reserves (excluding swaps) rising to USD 67.5 billion in January 2026, supporting improved reserve adequacy and external liquidity. Improved investor sentiment and tighter macroeconomic policies have also supported access to external financing.

Nonetheless, external vulnerabilities persist. Türkiye's high dependence on imported energy continues to expose the economy to commodity price volatility. Net foreign direct investment inflows have declined amid lingering economic uncertainty. External debt stood at 45% of GDP in 2024, with about one-third classified as short-term (around 21% of GDP), implying sizable near-term refinancing requirements. In this context, exchange rate volatility could increase debt servicing costs and weigh on external resilience.

Monetary & financial stability

Türkiye's inflation has remained elevated at 35% in 2025, above earlier projections of 26%, despite high positive real interest rates. The weak monetary transmission has prolonged the disinflationary process. Against this backdrop, the central bank reduced its policy rate by 100 bps to 37% at the January 2026 MPC meeting, signalling a slower normalization path amid emerging upside risks to early2026 inflation.

The exchange rate regime de jure is free-floating; de facto, it is floating. In response to the depreciation of the Turkish lira, the central bank continues to intervene in the foreign exchange market, causing a depletion of forex reserves.

High policy rates are expected to weigh on banks' profitability and non-performing loans ratio. Balance sheet mismatches across the corporate and banking sectors, due to the tenure and currency structure of assets and liabilities, could pose a risk to financial stability.

Institutions & quality of governance

Türkiye's institutional profile remains constrained by persistent executive dominance, pressure on opposition actors, and rising political uncertainty. Throughout 2024–2025, authorities intensified actions against opposition figures and institutions, including efforts to legally constrain or weaken the main opposition party (CHP) through court rulings and administrative interventions, contributing to a shrinking political space. The arrest of Istanbul Mayor Ekrem İmamoğlu in March 2025, a leading opposition figure and potential presidential challenger, triggered widespread protests and raised concerns about the erosion of judicial independence and electoral competitiveness.

Looking ahead, President Erdoğan may seek constitutional avenues to enable an additional presidential term, potentially through an early election or a combined constitutional referendum in late 2026. Such developments would underscore the weakness of institutional checks and balances under Türkiye's highly centralised presidential system and could further weigh on governance effectiveness.

Select indicators

	Unit	2020	2021	2022	2023	2024	2025F	2026F	2027 F
Economic indicators									
Nominal GDP	USD billion	730.3	827.7	924.8	1153	1358	1565	1576	1641
GDP per capita (constant-PPP)	USD	29253	32412	33841	35404	36500	37552	38749	40003
Real GDP growth	%	1.8	11.8	5.4	5.0	3.3	3.5	4.2	3.7
GFCF/GDP	%	27.5	28.2	29.2	31.9	31.0			
Gross domestic savings/ GDP	%	28.2	31.8	31.0	27.5	31.3	-	-	-
Exports (G&S)/GDP	%	33.1	29.1	35.7	38.6	32.3	27.6	-	-
Working age (15-64) population (% share in total)	%	68.1	68.1	68.1	68.1	68.1	68.0	68.0	68.0
Old age (65+) population (% share in total)	%	8.0	8.2	8.4	8.6	8.9	9.2	9.6	9.7
Fiscal indicators – general government									
Fiscal balance/GDP	%	-4.6	-3.0	-1.1	-5.2	-4.6	-3.7	-3.8	-4.0
Revenue/GDP	%	29.4	27.6	25.7	27.3	28.1			
Expenditure/GDP	%	34.0	30.5	26.8	32.5	32.6			
GG gross debt/GDP	%	38.7	39.4	30.2	28.7	24.0	24.3	25.1	26.0
GG external debt (by creditor)/GG gross debt	%	35.0	44.1	41.9	35.9	34.0	-	-	-
Interest/revenue	%	9.5	9.9	15.5	11.0	11.7	-	-	-
External indicators									
Current account balance/ GDP	%	-4.2	-0.8	-5.0	-3.6	-0.8	-1.4	-1.3	-4.0
FDI, net inflows/GDP	%	1.0	1.5	1.5	0.9	0.9	-	-	-
Outstanding FII liabilities/ GDP	%	16.5	11.3	9.4	8.5	9.2	-	-	-
NIIP/GDP	%	-52.7	-28.8	-38.7	-28.3	-25.2	-	-	-
Foreign exchange reserves	USD billion	93.6	111.2	128.7	140.9	155	184	-	-
Import cover	Months	4.8	4.7	4.0	4.4	5.1	-	-	-
External debt/GDP	%	60.0	51.7	48.7	42.3	38.1	-	-	-
Monetary and financial indicators									
CPI inflation	%	12.3	19.6	72.3	53.9	58.5	34.9	24.7	19.5
Exchange rate (average)	LC per USD	7.0	8.9	16.6	23.8	35.2	42.7	-	-
Non-performing loans/ total gross loans	%	3.9	3.0	2.0	1.5	2.0	-	-	-
Private debt, loans and debt securities/GDP	%	88.11	87.32	64.70	57.30	48.01	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

United Kingdom

CareEdge AA-/Stable

Rating action

CareEdge Global has assigned a ‘Stable’ outlook to the rating of the United Kingdom, while reaffirming the Long-Term Foreign Currency rating of ‘CareEdge AA- (Unsolicited)’.

Rationale

The stable outlook reflects CareEdge Global expectations of fiscal consolidation of UK government budget coupled with a modest recovery in economic growth. The government’s fiscal deficit is expected to reduce to 2.8% by 2028, from 5.7% of GDP recorded in 2024 primarily from the higher tax revenues, driven by measures announced in the Autumn 2024 budget statement. Further, the average annual growth rate of UK is expected to be 1.3% between 2025 to 2028, supported by a recovery in both domestic and global demand, rising productivity, and a stronger labor market.

Over the longer term, the UK’s recent trade agreements with India, the United States, and the European Union offer potential for enhanced economic performance, supporting investment and export growth, helping to offset some of the lingering impact of Brexit.

General government debt was elevated at 101% of GDP in 2024 and is projected to rise to 106% by 2028. Demographic pressures, particularly an ageing population are putting strains on debt levels by keeping public spending elevated.

The reaffirmation of United Kingdom's rating reflects its large and well-developed financial sector, the status of the Sterling Pound as a reserve currency, the country's well-developed institutions, and a large, diversified, and competitive economy.

However, these strengths are partly offset by relatively subdued economic growth fundamentals in the long-term and a moderate fiscal profile, arising primarily from elevated general government debt levels. Additionally, the UK's weaker external position marked by persistent current account deficits and high external funding needs adds to its structural vulnerabilities.

Upside scenario

The rating could be upgraded if stronger than expected growth enables faster than expected and significant fiscal consolidation. At the same time, further trade diversification beyond the EU enhances resilience and stability, strengthening the UK's overall economic outlook. A return to political stability following a period of uncertainty would further improve policy predictability and investor confidence, reinforcing the UK's overall credit outlook.

Downside scenario

The rating could face downward pressure if general government debt rises above the 110% of GDP, exceeding current projections and signaling weaker fiscal discipline. This coupled with persistently high gilt yields would amplify fiscal strain through higher interest payment and weakening investor confidence. The UK's high external funding needs would add further vulnerability, making economy more exposed to shifts in global investor sentiment and financing conditions. Additionally persistent high inflation and widening current account deficit could heighten risks to the UK's economic stability and credit profile.

Key rating drivers

Economic structure & resilience

The United Kingdom, with a nominal GDP of USD 3.6 trillion, remains the sixth-largest economy globally. It is a high-income economy with a GDP per capita of USD 54,475 (2024) in constant purchasing power parity terms (PPP). It represents a well-diversified and competitive economy with a large services sector, contributing to around 70% of the GDP and more than 45% of the total exports.

The UK economy is on a path of steady recovery. The economy expanded by 1.1% in 2024 as against the sluggish growth of 0.4% in 2023. Over the medium term, growth is expected to post moderate recovering growing at an average annual growth rate of 1.3% between 2025 to 2028, reflecting recovery in both domestic and global demand, and rising productivity.

Looking ahead, the UK faces structural challenges such as an ageing population and tighter immigration policies which are expected to weigh on the country's growth potential. The unemployment rate is forecasted to rise slightly to 4.5% in 2025 primarily due to short term adjustment to rising employment cost, driven by increases in the minimum wage and employers' national insurance contributions. However, it is expected to fall back to 4.3% in 2026 supported by gradual rebound in consumer demand and business confidence.

In terms of investment, the UK's gross fixed capital formation (GFCF) at 17.4% of GDP (2024) is seen to be lower than some of its European and similarly rated peers. However, annual business investment grew by 0.8% in 2024 signalling renewed confidence among firms despite a complex global backdrop.

Fiscal strength

The UK's fiscal assessment is characterized by an elevated level of gross general government debt at 101% of GDP in 2024. IMF projects this burden to increase consistently each year to reach 106% of GDP by 2028, higher in comparison to the pre-pandemic average of 87% (2015-19). A notable vulnerability lies in 25% of debt being inflation linked. This increases the risk of elevated interest payments, particularly if inflationary pressures persist. Demographic trends are also weighing on the fiscal outlook. An ageing population is expected to sustain high levels of committed expenditure on public sector wages, pensions, and social benefits.

Despite these challenges, several structural strengths help mitigate fiscal risks. The UK benefits from a long average maturity profile of its public debt, minimal exposure to foreign currency liabilities, and the global reserve status of the pound sterling. Additionally, the country maintains strong access to deep and liquid capital markets, supported by institutional investors with robust capacity to absorb government securities. Additionally, the fiscal deficit recorded at 5.7% of GDP in 2024, is forecast to narrow to 2.8% by 2028, driven largely by improved tax revenues, which are projected to rise to 37.7% of GDP over the same period.

External position & linkages

The UK's current account balance has historically remained in deficit, and this trend is expected to persist, with the deficit projected to average 3.5% of GDP over the next four years. External debt remains elevated at 274% of GDP (2024), reflecting London's role as a major international financial hub. However, this high level of external debt heightens the UK's sensitivity to shifts in global investor sentiment.

A particular vulnerability lies in the UK's external funding ratio, which stood at 7.64 times in 2023—among the highest compared to similarly rated peers. This is largely due to the substantial volume of short-term external debt by residual maturity. Additionally, the UK's net international investment position was negative at -9.6% of GDP in 2024. While foreign exchange reserves remain low in terms of import cover, they are broadly consistent with levels observed in other advanced economies. On the trade front, the UK has made significant strides in enhancing its external partnerships. It recently concluded a landmark free trade agreement with India, eliminating tariffs on 90% of British exports and projected to boost bilateral trade by $34 billion annually by 2040. Additionally, the UK signed an Economic Prosperity Deal with the United States, which includes tariff reductions on key sectors such as automobiles and steel. Furthermore, agreement with the European Union address critical areas including sanitary and phytosanitary standards, emissions trading, as well as cooperation on security, fisheries, and defence.

Once finalized, these trade agreements are expected to support export diversification, improve investor confidence, and partially offset the structural weaknesses in the UK's external accounts. By opening up new markets and reducing trade barriers, the deals provide a critical boost to the UK's global economic engagement and resilience.

Monetary & financial stability

The Sterling Pound is a global reserve currency with a share of 4.8% in the global foreign exchange reserves (2024) and the UK's exchange rate regime is free-floating. These aspects serve as key strengths for the assessment of the UK's monetary pillar.
CPI inflation eased significantly to 2.5% in 2024 from a peak of 9.1% in 2022. However, it is forecasted to rise to 3.1% in 2025 due to increase in energy prices and regulated prices such as water bills before easing and returning to the Central Bank's 2% target by 2027. In response to easing inflation, Bank of England Monetary Policy Committee (MPC) cut interest rate by 25 basis points in May 2025 bring the rate to 4.25%. The MPC maintained this rate in its June meeting, signalling a cautious approach to further easing amid global economic uncertainty.
The UK represents a large and well-developed financial sector with banks maintaining a comfortable capital and liquidity position.

Institutions & quality of governance

The UK benefits from its strong legislative and executive institutions. However, the political turbulence of recent years including the frequent leadership changes has highlighted the importance of policy continuity, especially in the context of financial market volatility of 2022, which Sir

Keir Starmer assumed office as Prime Minister. Yet, despite Labour's parliamentary majority, the political landscape seems to be shifting. The 2025 local elections revealed growing support for alternative parties such as Reform UK and Liberal Democrats who are increasingly challenging the traditional Labour-Conservative duopoly in British politics. Therefore, this evolving political landscape makes policy continuity a key monitorable.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	2,853	2,699	3,144	3,125	3,371	3,644	3,840	4041
GDP per capita (constant-PPP)	USD	54,472	48,656	52,673	54,960	54,453	54,475	54,556	54,895
Real GDP growth	%	1.6	-10.3	8.6	4.8	0.4	1.1	1.1	1.4
GFCF/GDP	%	18.2	17.5	17.7	17.8	17.6	17.4	-	-
Gross domestic savings/GDP	%	15.5	14.6	17.2	16.6	14.2	14.4	-	-
Exports (G&S)/GDP	%	31.6	29.7	29.6	33.4	31.6	30.6	-	-
Working age (15-64) population (% share in total)	%	63.6	63.5	63.4	63.4	63.3	63.3	63.2	63.2
Old age (65+) population (% share in total)	%	18.5	18.7	18.9	19.2	19.5	19.8	20.1	20.1
Fiscal indicators – general government									
Fiscal balance/GDP	%	-2.5	-13.2	-7.7	-4.6	-6.1	-5.7	-4.4	-3.7
Revenue/GDP	%	36.3	36.8	38.0	39.5	38.7	38.2	39.4	40.2
Expenditure/GDP	%	38.7	49.9	45.7	44.0	44.7	44.1	43.8	43.9
GG gross debt/GDP	%	85.7	105.8	105.1	99.6	100.4	101.2	103.9	105.4
GG external debt (by creditor)/ GG gross debt	%	22.1	21.6	21.5	16.8	17.3	-	-	-
Interest/revenue	%	6.0	5.4	7.3	11.0	8.5	9.7	-	-
External indicators									
Current account balance/GDP	%	-2.7	-2.9	-0.4	-2.1	-3.5	-3.4	-3.7	-3.7
FDI, net inflows/GDP	%	0.7	5.8	0.2	1.4	-2.6	-	-	-
Outstanding FII liabilities/GDP	%	159.9	174.5	160.9	125.2	129.2	-	-	-
NIIP/GDP	%	-11.3	-9.7	-12.3	-11.4	-14.0	-9.6	-	-
Foreign exchange reserves	USD billion	172.7	177.2	193.0	176.1	177.9	183.2	-	-
Import cover	Months	2.2	2.7	2.5	1.9	1.9	1.8	-	-
External debt/GDP	%	309.9	360.5	311.2	293.2	284.5	274.5	-	-
Monetary and financial indicators									
CPI inflation	%	1.8	0.9	2.6	9.1	7.3	2.5	3.1	2.2
Exchange rate (average)	LC per USD	0.8	0.8	0.7	0.8	0.8	0.8	-	-
Non-performing loans/total gross loans	%	1.0	1.0	1.0	0.9	1.0	1.0	-	-
Private debt, loans and debt securities/GDP	%	157.0	176.7	163.9	148.5	142.4	137.5	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Africa

Botswana

CareEdge BBB/Negative

Rating action

CareEdge Global has downgraded the Long-Term Foreign Currency Rating of the Republic of Botswana to 'CareEdge BBB' (Unsolicited) from 'CareEdge BBB+', while maintaining the Negative outlook.

Rationale

The rating downgrade reflects Botswana's weakening credit profile driven by a deteriorating fiscal position and slowing economic activity, following a prolonged slump in the global diamonds market. Following a second consecutive year of GDP contraction in 2025, fiscal deficit widened more than expected, while limited fiscal consolidation pushed up debt levels and depleted fiscal buffers.

The global diamond market remains weak, reflecting subdued luxury demand, elevated inventory levels across the supply chain, increasing competition from lab-grown diamonds, and rising geopolitical uncertainty. Given the economy's heavy reliance on the diamond sector (which comprised 87% of exports in 2022 before slipping to 65.6% in 2025), these developments have depressed economic growth, exposing the country's limited diversification and vulnerability to external commodity shocks. Botswana's economy contracted by 0.7% in 2025, after a 2.8% contraction in 2024, reflecting prolonged weakness in mining activity and spillover effects on broader economic sectors.

The fiscal position has deteriorated materially over the past two fiscal years due to lower mineral revenues and persistent expenditure pressures. Fiscal deficit is estimated to have widened to 9.3% of GDP in FY26 from 7.3% in FY25. While the authorities have outlined fiscal consolidation measures in the FY27 Budget, the pace of adjustment is expected to be gradual amid continued diamond revenue constraints and upside pressures on the public wage bill.

The weakening of the fiscal trajectory has led to near depletion of Botswana's Government Investment Account (GIA) buffers, from BWP 10.9 billion as of November 2023 to BWP 2.4 billion as of November 2025, while gross general government (GGG) debt and refinancing needs are increasing steadily. Financing conditions have also become less supportive, reflected in weaker demand for sovereign bond issuances and rising domestic yields, increasing borrowing costs and reducing fiscal flexibility.

On the external front, Botswana's current account returned to a surplus, supported by stronger Southern African Customs Union[1] (SACU) receipts and De Beers Group's rebalancing initiatives. However, external vulnerabilities remain elevated as foreign direct investment (FDI) net inflows have weakened, and reserves, although relatively adequate (7.2 months of import cover as of February 2026), but with the current account expected to revert to a deficit in 2026 and FDI inflows subdued, reserve buffers face potential drawdown pressures.

Middle East crisis spillovers have raised import and administered prices, tightening monetary conditions. While the IMF projects inflation to average a more moderate 5.1% in 2026, the Bank of Botswana (BoB) expects it significantly higher at around 8.7%, breaching the upper bound of the 3-6% target range, which could further constrain real incomes, domestic demand, and policy flexibility amid an already weak growth environment.

Outlook: Negative
The negative outlook on Botswana reflects rising risks to fiscal and external stability amid persistent weakness in the global diamond market and continued structural dependence on the sector. Growth continues to be highly volatile, as shown by the sharp swing from 8.2% in Q3 2025 to a contraction of 5.4% in Q4 2025, while the medium-term recovery is uncertain despite the projected 3.1% growth in 2026 by the BoB. Fiscal pressures are intensifying, with widening deficits and declining buffers limiting policy space. The current account surplus remains contingent on exceptional events rather than a durable improvement in underlying export dynamics. Furthermore, upside risks to inflation persist from external shocks and exchange rate pressures.

Upside scenario

The outlook could be revised to stable if the diamond sector picks up, triggering an improvement in the current account balance and translating into higher economic growth. Fiscal consolidation through stronger revenue mobilisation and expenditure control, and successful implementation of reforms and diversification efforts under National Development Plan (NDP) 12 and the Botswana Economic Transformation Program (BETP) would also improve the outlook.

Downside scenario

The rating could be downgraded if prolonged weakness in global diamond demand and heightened geopolitical uncertainty further erode exports and revenue. Downward pressure would also arise from failed fiscal consolidation that results in persistently elevated fiscal deficits, and a faster-than-expected rise in GGG debt, and tighter financing conditions amid weak investor demand and rising yields. A renewed deterioration in external buffers, including weaker reserves and FDI inflows, would amplify pressure on the rating.

[1] Southern African Customs Union (SACU) is a customs union of Botswana, South Africa, Namibia, Lesotho, and Eswatini that shares a common external tariff and distributes pooled customs and excise revenues among members.

Key rating drivers

Economic structure & resilience

Following a 2.8% contraction in 2024, real GDP fell by an 0.7% in 2025, marking one of the most prolonged downturns in the country's modern economic history. The limited development of non-mining sectors, including services, tourism, agriculture, and manufacturing leave the country with very few economic buffers to absorb commodity-driven shocks, exposing the credit profile to external sensitivity.

The global diamond market continues to face severe headwinds. Subdued luxury consumption in key markets, elevated inventory levels, and the accelerating penetration of lab-grown diamonds have collectively suppressed prices and volumes. Recently, rising geopolitical uncertainty and a 15% tariff imposed by the US on diamond exports further dampened demand prospects. These structural shifts in the diamond market raise questions about the pace and durability of cyclical recovery. Though the country's key commercial arrangement with De Beers through the Debswana joint venture and the Okavango Diamond Company's (ODC) rough diamond allocations have provided a temporary respite in export volumes through margin concessions, it cannot be construed as a sustainable recovery in end-market demand.

The depth of Botswana's economic vulnerability is further underscored by persistent quarterly weakness since Q1 2024, with the economy contracting for several consecutive quarters amid prolonged weakness in mining activity and broad spillover effects across sectors. A brief rebound of 8.2% in Q3 2025 proved short-lived, with the economy reverting to a contraction of 5.4% in Q4 2025, highlighting the limited depth of non-mining activity and the absence of meaningful counter-cyclical buffers. Supply-side constraints, particularly around electricity availability and infrastructure bottlenecks, continue to weigh on productive capacity outside the mining sector, further limiting overall economic resilience.

Over the medium term, the BoB projects a recovery to 3.1% growth in 2026, contingent on a partial normalisation in diamond market conditions and the easing of supply-side constraints. However, the medium-term recovery trajectory is uncertain given persistent structural challenges. The government is advancing its structural reform agenda under the NDP 12 and the BETP, which targets diversification into services, tourism, agriculture, and manufacturing. The realisation of pledged large-scale investments, including the USD 12 billion commitment by Qatar's Al Mansour Holdings in energy, tourism, and agribusiness remains a key medium-term upside, although actual disbursement timelines and economic impact remain to be demonstrated. Until meaningful diversification materialises, the economy will be structurally susceptible to commodity-driven volatility and the credit profile will be constrained by this concentration risk.

Fiscal strength

Botswana's fiscal position has deteriorated materially and at a pace faster than previously anticipated. As per the government, the fiscal deficit widened to 7.3% of GDP in FY25 and is projected to widen further to 9.3% of GDP in FY26, driven by the continued compression of mineral revenue, and decline in customs and excise revenue. According to the IMF, mineral revenue, which had historically contributed 46% of total revenues in FY23, is estimated to have fallen sharply to 12.4% in FY26, as diamond sector output and prices weakened. Persistent expenditure pressures have compounded the revenue shortfall, with the public sector wage bill remaining a key rigidity (wages and salaries are estimated by the IMF to account for 41% of total expenditure in FY26), limiting the scope for meaningful near-term fiscal adjustment.

The near depletion of the GIA represents one of the most significant adverse developments in Botswana's fiscal profile. The GIA, at 6.5% of GDP in June 2023, declined to around 2.8% of GDP in FY24 and is now assessed as nearly depleted. The exhaustion of this buffer materially reduces the government's capacity to smooth expenditure in the face of revenue volatility and increases its reliance on debt financing.

As a result, GGG debt jumped from approximately 22.5% of GDP in 2023 to an estimated 38.6% in FY25 and is projected to reach 64.4% of GDP by 2031. Although Botswana's debt burden started from a relatively low level, the rapid pace of accumulation is a key rating concern. Refinancing risks are also increasing in tandem with rising gross borrowing requirements. The interest-to-revenue ratio, though still manageable at 3.4% in 2024, has been rising and is estimated to have approached 4-5% in 2025, with rise in debt level.

As per the IMF, financing conditions have deteriorated in parallel with fiscal fundamentals. Demand for domestic sovereign bond issuances has weakened, while yields on government securities have risen, increasing the cost of new borrowing and reducing fiscal flexibility.

The government has outlined fiscal consolidation measures in the FY27 Budget, encompassing both revenue mobilisation and expenditure rationalisation. However, the pace of adjustment is expected to be gradual, constrained by continued weakness in diamond revenue and limited room to reduce the wage bill in the near term. The credibility and execution of the consolidation plan will be a key determinant of future fiscal trajectories.

External position & linkages

Botswana's external position has improved slightly, with the current account returning to surplus of 3.7% in 2025 from a deficit of 4.2% of GDP in 2024. This improvement has been driven by two key factors: higher SACU revenue transfers, which strengthened external inflows, and De Beers Group's rebalancing strategy, which involved accepting lower margins to support diamond production and sustain export volumes.

Nevertheless, the concentration of export revenues in a single commodity means that any further deterioration in global diamond market conditions could rapidly reverse the current account improvement.

FDI net inflows have weakened, reflecting subdued investor confidence in the economic outlook amid the prolonged recession and uncertain recovery trajectory. The net international investment position (NIIP) has also declined to 16.5% of GDP in 2025 from 20.0% in 2024.

Foreign exchange reserves were adequate at 7.2 months of import cover as of February 2026. However, the IMF expects the current account balance to revert to a deficit of 1.9% of GDP in 2026. As a result, pressures on the external position could lead to a renewed drawdown in reserve levels, particularly given the economy's continued dependence on diamond sector revenues and limited export diversification.

Monetary & financial stability

The BoB increased the rate of crawl to 2.76% per annum from 1.51% and widened the trading bands from 30.5% to 37.5% in July 2025. Since then, the Pula has appreciated by approximately 4.9% against the USD between April 2025 and April 2026, partly reflecting the higher interest rate differential following policy rate hike.

Monetary conditions have become increasingly challenging. Following a period of relative price stability, with inflation averaging 2.8% in 2024 and 2025, respectively, headline inflation surged sharply from 4.2% in March 2026 to 10.3% in April 2026, breaching the BoB's medium-term objective range of 3-6%. The deterioration is driven by elevated global oil prices stemming from the ongoing Middle East conflict, which has fed directly into domestic fuel and import costs. The BoB expects inflation to average 8.7% in 2026, with risks skewed firmly to the upside, reflecting potential second-round effects from the recent fuel price increase, possible further administered price adjustments in electricity and public transport, and rising food inflation following the outbreak of Foot and Mouth Disease in January 2026, and the associated livestock movement and slaughter restrictions.

The BoB raised the Monetary Policy Rate (MoPR) by 200 basis points to 5.5% in April 2026, marking the highest level since 2017. Along with high inflation, the policy adjustment was driven by domestic money market strains. Tight liquidity and high government borrowing pushed Treasury bill yields and bank funding costs significantly above the policy rate. This weakened monetary policy transmission and prompted commercial banks to raise prime lending rates as reliance on short-term wholesale funding grew. Therefore, the BoB framed the move as a recalibration to improve alignment between market interest rates and the policy framework, rather than a conventional demand-suppressing tightening cycle. Concurrently, the central bank sought to limit the pass-through to borrowing costs, recognising the fragile state of domestic economic activity and the largely supply-driven nature of inflation.

Non-performing loans are contained at around 3.2% of gross loans in 2025 and the financial sector does not currently present a systemic risk. Nonetheless, the combination of weak growth, declining real incomes, and tighter monetary conditions could weigh on asset quality and credit growth over the medium term, warranting continued monitoring.

Institutions & quality of governance

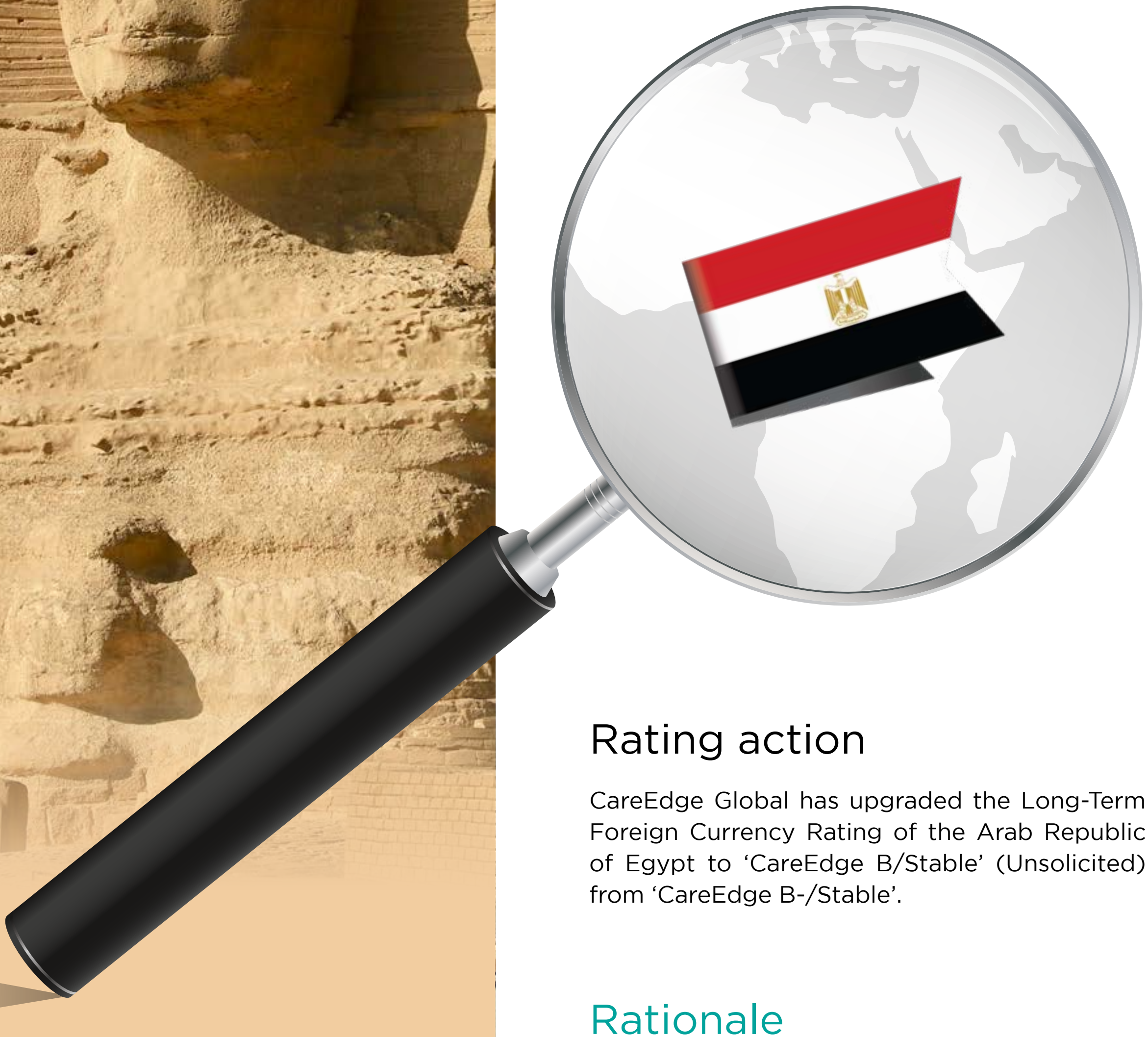
Botswana continues to benefit from strong institutional foundations, sound rule of law, prudent macroeconomic management, and a long record of responsible natural resource governance. The 2024 general election marked a historic political transition when the Botswana Democratic Party (BDP) lost its near six-decade governing majority to the Umbrella for Democratic Change (UDC). The new administration has demonstrated broad policy continuity on key economic and structural reform priorities. However, the government's capacity to manage the economic challenges is increasingly being tested. Limited evidence of meaningful fiscal consolidation and rapidly depleting fiscal buffers challenge the durability of Botswana's traditionally prudent macroeconomic stance.

Progress on the structural reform agenda, including SOE rationalisation, domestic debt market development, and diversification initiatives under NDP 12 and BETP, is a key monitorable. The administration's ability to advance these priorities while managing mounting social pressures will be critical in determining whether Botswana's institutional strengths translate into improved economic and fiscal outcomes over the medium term.

Selected indicators

	Unit	2020	2021	2022	2023	2024	2025	2026 F	2027 F
Economic indicators									
Nominal GDP	USD billion	14.9	18.8	20.3	19.4	19.4	19.5	21.9	23.7
GDP per capita (constant-PPP)	USD	16,290	17,961	18,647	18,933	18,069	17,711	18,303	18,461
Real GDP growth	%	-8.7	11.9	5.5	3.2	-2.8	-0.7	4.7	2.2
GFCF/GDP	%	27.6	26.4	24.4	25.7	28.3	28.1	-	-
Gross domestic savings/ GDP	%	15.3	25.2	31.5	27.8	22.6	-	-	-
Exports (G&S)/GDP	%	31.3	41.9	43.5	32.2	27.4	-	-	-
Working age (15-64) population (% share in total)	%	63.2	63.5	63.7	63.7	63.8	64.0	64.1	64.2
Old age (65+) population (% share in total)	%	3.9	3.9	3.9	4.0	4.0	4.1	4.1	4.2
Fiscal indicators – general government									
Fiscal balance/GDP	%	-11.5	-2.5	0.0	-4.2	-7.8	-10.3	-9.0	-7.5
Revenue/GDP	%	27.0	30.6	29.5	28.2	26.0	24.5	25.1	25.6
Expenditure/GDP	%	38.5	33.0	29.5	32.4	33.8	34.9	34.1	33.1
GG gross debt/GDP	%	23.5	22.3	21.0	22.5	33.2	38.6	47.0	51.9
GG external debt (by creditor)/GG gross debt	%	53.0	39.4	42.4	41.0	42.4	30.0	-	-
Interest/revenue	%	2.4	1.7	2.2	2.2	3.4	-	-	-
External indicators									
Current account balance/ GDP	%	-9.8	-1.8	-0.6	1.5	-4.2	3.7	-1.9	-1.4
FDI, net inflows/GDP	%	0.2	-1.7	3.5	3.8	2.4	-3.4	-	-
Outstanding FII liabilities/ GDP	%	0.9	0.7	0.5	0.3	0.4	-	-	-
NIIP/GDP	%	40.3	37.9	26.6	26.5	20.0	16.5	-	-
Foreign exchange reserves	USD billion	4.9	4.8	4.3	4.8	3.5	3.3	2.9	3.0
Import cover	Months	7.7	6.0	7.1	7.0	5.4	4.6	4.1	3.9
External debt/GDP	%	8.6	7.6	8.0	7.3	8.4	7.8	-	-
Monetary and financial indicators									
CPI inflation	%	1.9	6.7	12.2	5.1	2.8	2.8	5.1	5.7
Exchange rate (average)	LC per USD	11.4	11.1	12.3	13.4	13.6	13.5	-	-
Non-performing loans/total gross loans	%	4.3	4.2	3.8	3.7	3.4	3.2	-	-
Private debt, loans and debt securities/GDP	%	41.9	35.7	31.7	32.2	35.3	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global
Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. Latest available data for 2024



Egypt

CareEdge B/Stable

Rating action

CareEdge Global has upgraded the Long-Term Foreign Currency Rating of the Arab Republic of Egypt to 'CareEdge B/Stable' (Unsolicited) from 'CareEdge B-/Stable'.

Rationale

The rating upgrade reflects tangible reform efforts undertaken by the government since 2024, such as foreign exchange (FX) liberalisation and positive messaging to the private sector, both of which have crowded in necessary investment. These efforts boosted growth significantly to 4.4% in FY25 from 2.4% in FY24. Thus far in H1 FY26, growth has reached 5.3% YoY. Notably, the non-oil manufacturing sector has seen double-digit growth alongside enhanced private sector investment. Growth is projected at 4.7% and 5.4% in FY26 and FY27, respectively, though downside risks remain due to the war between the US-Israel and Iran.

On the fiscal side, the government achieved its highest primary surplus on record in FY25, at 3.5% of GDP. It has employed various strategies to reduce debt, including revenue mobilisation to expand the tax base and digitalisation of systems. Recurrent expenditures have been lower, while infrastructure spending has been maintained in real terms. Further, the government has channeled a proportion of proceeds from asset monetisation towards debt reduction. Overall, these efforts have lowered the gross general government (GGG) debt-to-GDP ratio by 12% between FY23 and FY25.

The external position has also improved significantly. Both tourism and remittances posted record high growth in FY25. Egypt continues to attract foreign direct investment (FDI), with reserves at an all-time high at USD 52.7 billion in February 2026.

Egypt's reforms-led sustained momentum is expected to help it withstand the impact of the war between the US-Israel and Iran more effectively than in previous episodes of regional instability. Foreign exchange (FX) unification now acts as an important shock absorber, while the country's reserve buffers are at an all-time high. Further, the government's debt management strategy displays a proactive approach towards achieving debt sustainability. Finally, the government has implemented measures to mitigate the current crisis, the adequacy of which we will continue to monitor.

Outlook: Stable

Egypt's stable outlook reflects the expectation that the government's ongoing reform efforts will continue to improve the real economy, public finances, as well as the external position. Egypt has displayed the ability to navigate several regional crises. The government's proactive approach in dealing with the current Middle East (ME) crisis, the floating currency, and the strong reserve position provides support to absorb shocks

Upside scenario

We could revise the outlook to negative if the economy faces FX shortage again, either due to a prolonged conflict in the ME, or if the government's commitment to policy reform loses momentum. On the fiscal side, if the government falters in its debt management strategy, leading to increase in debt over the medium term, downgrade risks will heighten. Further, a downgrade could be triggered if the government is unable to pay back the upcoming redemptions because of reserve depletion, rising interest rate costs, or an inability to raise debt.

Downside scenario

Egypt's credit rating could improve if real economic growth exceeds 5% over the near-to-medium term. Upside triggers also include deleveraging at a quicker rate, driven by directing divestment proceeds towards debt reduction, and a sustained improvement in the external position through sustained growth in tourism, remittances, or a narrowing oil trade deficit.

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Key rating drivers

Economic structure & resilience

The Egyptian economy is among the largest in Africa (with a nominal GDP estimated at USD 349 billion in 2025). It is relatively diversified and has a moderate GDP per capita of USD 18,661 (constant PPP in 2025). While growth has remained resilient, averaging 4.2% over 2014-2024, the economy faced external shocks between 2022 and 2024, including the Russia-Ukraine war and the Israel-Hamas conflict, which resulted in high inflation and FX shortages. These challenges were exacerbated by a loss in revenues from the Suez Canal due to regional instability. Resultantly, growth slowed to 2.4% in FY24 from 3.8% in FY23.

Proactive reforms undertaken by the government, including the liberalisation of the exchange rate and positive signalling to the private sector, alongside the anchor provided by the International Monetary Fund (IMF) programme have seen the economy grow 4.4% in FY25. So far in H1 FY26, growth has reached 5.3% YoY.

Growth was driven by information and communication technology (ICT), non-oil manufacturing and tourism sectors, all of which achieved double-digit expansion. Notably, private sector investment staged a strong rebound, at 66% of total investment in Q1 FY26 from 47.9% in Q1 FY22. The oil sector also saw a notable turnaround; while it remains in contraction, it is less severe than in FY25.

Growth is projected at 4.7% in 2026 and 5.4% in 2027, underpinned by sustained macroeconomic stability and continued implementation of economic and structural reforms aimed at strengthening the real economy and expanding productive capacity. Nonetheless, significant downside risks to the outlook persist. The war between the US-Israel and Iran once again poses significant risks to growth through its potential impact on inflation (given higher oil and wheat prices), FX shortages and the Suez Canal revenues (which contributed positively to GDP in H1 FY26). The fertiliser industry, in particular, remains vulnerable to significant price shocks and this could dampen the impact of the country's planned expansion of fertiliser production, including projects linked to Misr Phosphate Company.

The government has taken measures to steer the economy through the crisis. To preserve FX liquidity, FX swaps and hedging contracts have been utilised, while energy and food security has been ensured by accelerating new energy sources, such as the connection to the Saudi electricity network, tapping into wheat reserves. Furthermore, social measures have been expanded to protect vulnerable households. However, a prolonged regional conflict beyond FY26 could lead to enduring impacts.

Fiscal strength

Government finances have faced several challenges, including a strained tax revenue base and rising expenditure pressures because of interest payments of around 72.6% of government revenue in FY25. The GGG debt-to-GDP ratio climbed from 80% in 2019 to 96% in FY23 and 91% in FY24.

Nonetheless, public finances substantially improved in FY25 thanks to the government's fiscal management. Notably, Egypt achieved the highest primary surplus on record in FY25, at 3.5% of GDP, largely aided by 35% YoY tax revenue growth achieved through revenue mobilisation efforts, such as expanding the tax base. Recurrent expenditures have also been lower and infrastructure spending has been maintained in real terms. GGG debt decreased 12% between FY23 and FY25, as the government employed multiple strategies, including decreasing its external debt by USD 1-2 billion annually, diversifying debt instruments, and chanelling a proportion of divestment proceeds towards debt reduction.

These efforts are set to continue in FY26, with the government sustaining its revenue mobilisation efforts and targeting an annual 1% increase in the tax-to-GDP ratio. The government plans to increase the primary surplus to 4% of GDP in FY26. So far, in Q1 FY26 it achieved a primary surplus of 0.9% and in Q2 FY26, it has achieved 1.8% of GDP. The GGG debt-to-GDP ratio is projected to decrease to 82% of GDP in FY26 from 84% in FY25. Deleveraging will partly be aided by 100% of the divestment proceeds received from the Qatari deal (USD3.5 billion) channeled towards debt reduction.

The ME conflict has prompted the government to protect its fiscal position. On the revenue side, the government will look towards enhancing mobilisation efforts through its proposed property tax reforms and finalising the second package of tax facilitation. It is also mandated to channel at least 50% of all future divestment proceeds into the fiscus.

On the expenditure side, cost containment measures include rationalising non-priority spending for the remainder of FY26, with around EGP 40 billion in targeted savings. Further, there are unused contingency reserves, estimated at EGP 50-70 billion, which can be channeled elsewhere. The gains from the use of oil hedging contracts will be used to support the energy sector. The government will also allocate money to the most vulnerable households by providing social safety nets.

On the debt side, the government will continue active debt management to reduce gross financing needs by increasing issuances and extending the average maturity of new issuances. The government remains proactive in managing its external debt obligations (27% of total GGG debt). For the remainder of FY26, the government faces ~USD 4 billion in foreign loan redemptions. It aims to raise ~USD 2 billion from international markets, while accelerating concessional financing of ~USD 3.5-4.5 billion planned for FY26 from the European Union (EU), IMF and other partners.

External position & linkages

The current account deficit (CAD) narrowed to ~4.2% of GDP in FY25 from 5.4% in FY24. The CAD has a structural non-oil trade deficit, while the oil trade balance has been in deficit since 2022. Hydrocarbon activity came under pressure domestically, partly due to arrears owed to international energy companies by the state-owned Egyptian General Petroleum Corporation (EGPC). Nonetheless, arrear backlogs have been easing as the government has provided the utility with some support. The CAD was also impacted by falling revenues from the Suez Canal. Nonetheless, secondary income from remittances and tourism have reached record highs, cushioning the CAD.

Egypt continues to attract FDI and reserves are at an all-time high, at USD 52.7 billion in February 2026.

Looking ahead, the CAD is expected to come under pressure due to the ME conflict. This is expected to dent the already muted revenues from the Suez Canal, drive up import costs (due to spikes in wheat and oil prices), and adversely impact the tourism sector.
As mentioned, the government has implemented measures to address these vulnerabilities, while its comfortable reserve position and floating exchange rate provide additional buffers. The government plans to access the international bond market and move forward with the concessional loans noted earlier. Further, to ensure energy and food security in FY26, the government is using hedging contracts to cover almost half of the country's essential imports.

The efficacy of the government's efforts needs monitoring over the near-to-medium term amid a volatile environment.

Monetary & financial stability

Following FX liberalisation by the Central Bank of Egypt (CBE), the exchange rate regime has been fully flexible for over two years now. This will also act as a critical shock absorber to manage portfolio outflows amid the ME conflict.

Headline inflation eased to 11.9% YoY in January 2026 from 12.3% in December 2025 and the peak of 35.7% in February 2025. Nonetheless, inflation remains above the CBE's target of between +/-2% and 7%. The recent spike in oil and wheat fertiliser prices will once again push inflation up. Nonetheless, the CBE's consistent inflation-targeting approach, combined with the government's proactive measures, should provide the impetus to curb inflation. We will continue to monitor these developments.

The banking sector remains resilient, with assets exceeding 100% of GDP. Low levels of financial inclusion suggest room for growth, while a stable deposit-based funding structure ensures good local currency liquidity. Although foreign currency liquidity pressures have eased, we believe banks are well placed to weather the spillover effects of the ongoing conflict. Nonetheless, banks remain heavily exposed to government debt (accounting for more than 50% of total assets).

Institutions & quality of governance

The country has historically faced both external conflicts and internal protests. Domestically, the government has managed sporadic protests linked to unemployment and rising inflation. Concurrently, the ME conflict continues to challenge regional stability. On a positive note, the government has experience in navigating regional crises and we expect efforts to be sustained in 2026. The government also has a good history of executing fiscal and economic reforms under previous IMF programmes.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	382.5	423.3	475.2	393.8	383.1	349.3	399.5	438.7
GDP per capita (constant-PPP)	USD	16641.7	16930.5	17795.1	18183.5	18254.6	18660.8	19116.3	19616.4
Real GDP growth	%	3.6	3.3	6.7	3.8	2.4	4.4	4.7	5.4
GFCF/GDP	%	17.0	16.3	18.0	15.1	11.7	18.0	-	-
Gross domestic savings/ GDP	%	11.6	9.5	13.0	14.3	6.1	-	-	-
Exports (G&S)/GDP	%	12.5	10.6	15.1	19.1	16.4	-	-	-
Working age (15-64) population (% share in total)	%	61.8	62.1	62.3	62.6	62.9	63.2	63.5	63.8
Old age (65+) population (% share in total)	%	4.7	4.7	4.8	5.0	5.1	5.3	5.4	5.6
Fiscal indicators – general government									
Fiscal balance/GDP	%	-7.5	-7.0	-5.7	-5.8	-7.1	-12.4	-10.7	-8.1
Revenue/GDP	%	18.2	18.6	19.2	17.0	15.8	16.6	17.7	18.8
Expenditure/GDP	%	25.70	25.54	24.94	22.74	22.93	28.96	28.42	26.87
GG gross debt/GDP	%	86.2	89.9	88.5	95.9	90.9	87.0	85.0	82.4
GG external debt (by creditor)/GG gross debt	%	23.4	22.5	19.7	22.5	30.0	26.6	-	--
Interest/revenue	%	40.4	35.1	33.2	37.0	40.7	72.6	64.3	
External indicators									
Current account balance/ GDP	%	-2.9	-4.4	-3.5	-1.2	-5.4	-4.2	-4.3	-4.3
FDI, net inflows/GDP	%	1.5	1.2	2.4	2.5	12.0	3.7	4.0	3.9
Outstanding FII liabilities/ GDP	%	11.5	11.7	6.6	8.0	11.6	-	-	-
NIIP/GDP	%	-53.0	-54.4	-52.2	-67.3	-75.8	-	-	-
Foreign exchange reserves	USD billion	38.97	39.82	32.14	33.07	44.92	-	-	-
Import cover	Months	5.56	4.38	3.33	3.87	4.54	-	-	-
External debt/GDP	%	33.77	34.38	34.28	42.67	40.48	46.90	-	-
Monetary and financial indicators									
CPI inflation	%	5.7	4.5	8.5	24.4	33.3	20.4	11.8	9.6
Exchange rate (average)	LC per USD	15.8	15.7	19.2	30.7	45.4	49.3	-	-
Non-performing loans/total gross loans	%	3.9	3.5	3.2	3.3	2.7	2.1	-	-
Private debt, loans and debt securities/GDP	%	25.64	28.14	31.68	30.87	27.23	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Ethiopia

CareEdge D

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency rating of 'CareEdge D' (unsolicited) for the Federal Democratic Republic of Ethiopia (Ethiopia).

Rationale

The rating reaffirmation reflects Ethiopia's continued default on its coupon payment (USD 33 million) due in December 2023, on its USD 1 billion Eurobond. The government has initiated negotiations to restructure its external debt and has already reached an agreement with official creditors. The next step involves discussions with Eurobond holders to ensure comparability of treatment under the G20's Common Framework (CF).

The credit profile is weighed down by flare ups in regional tensions, which have partially offset some official development assistance. On the external side, low levels of foreign exchange reserves have constrained liquidity. On the fiscal side, the country faces one of the lowest revenue-to-GDP ratios globally and high exposure to contingent liabilities. Further, the country's debt has been deemed unsustainable, leading to a default on a coupon payment of a Eurobond in December 2023.

Nonetheless, Ethiopia's credit profile reflects its potential for growth following the significant macroeconomic reforms under the IMF's programme, approved in July 2024, as well as the implementation of the Homegrown Economic Reform Agenda (HGER). Progress under these respective initiatives could also unlock funding from donors and additional concessional funds.

Recent policy actions have also contributed to modest improvements in the fiscal and external metrics. Revenue mobilization efforts and the gradual removal of fuel subsidies have strengthened the fiscal position, while foreign exchange reforms and export growth have led to a marginal increase in reserves. The government has taken commendable steps toward enhancing debt sustainability, including formalizing a restructuring agreement with official creditors. The government will now have discussions with its Eurobond holder on the restructuring of the USD 1 billion Eurobond to respect the comparability of treatment provision in the G20's CF.

However, the outlook remains cautious, given that there have been flare ups in regional tensions and a decline in official development assistance. Maintaining the reform momentum will remain key towards enhancing private sector investment and sustained macroeconomic growth momentum.

Upside scenario

The rating may be upgraded once Ethiopia successfully completes the restructuring of its external debt. Any future rating action will also reflect the country's restructured debt profile and the progress made on macroeconomic reforms.

Economic structure & resilience

Ethiopia's economic structure is classified by low-income levels (USD 3,592 in 2024[1], constant PPP per capita terms) and there has been some concentration in export products. Other shortcomings have been the crowding out of the private sector, thereby creating macroeconomic imbalances. Nonetheless, significant progress towards implementing fundamental macroeconomic reforms under the adoption of the HGER plan as well as the commitment under the IMF programme has yielded positive results.

GDP growth increased 8.1% in FY24, from 7.2% in FY23 due to a rebound in the agricultural sector (38% of GDP), following better rainfall. The several government initiatives such as the promotion of wheat irrigation and fertilizer subsidies also supported crop production. Growth in the mining sector was boosted by gold production. The manufacturing sector was supported by increased capacity utilization following easing tensions in the region and electricity production increased due to increased output from the Grand Ethiopian Renaissance Dam (GERD), Africa's largest hydroelectric power plant.

While growth momentum from these sectors is expected to continue in FY25, with growth projected at 7.2%, uncertainty over FX correction in the parallel and official exchange rate markets continues to weigh on sentiment and competitiveness. Over the medium term however, the correction of the parallel and official exchange rate can improve sentiment and enhance competitiveness in the economy, with growth projected to gradually increase to 8% by FY28.

[2] 1 2024 refers to January 1 to December 2024.

Fiscal strength

The government successfully implemented the FY25 budget in line with the commitments under the IMF programme and the proposed FY26 budget remains on track towards programme commitments.

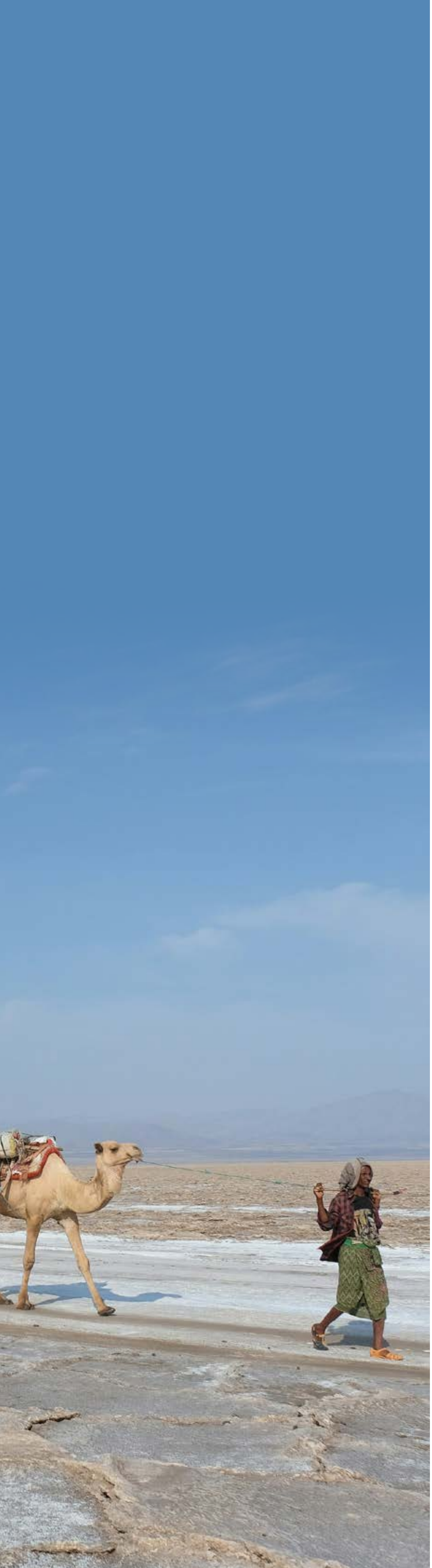
Expenditure to GDP increased from 9.5% of GDP in FY24 to 12% of GDP in FY25, following increases in subsidy spending. The government plans to unwind temporary support, with expenditure now being redirected towards growth enhancing development spending and targeted social support. However, there has also been a higher allocation towards the health sector, given the decrease in USAID. As such, expenditure to GDP is projected at 12.6% in FY26. Revenue to GDP increased to 8.5% in FY25 from 7.3% in FY24. This was on the back of effective revenue mobilisation efforts such as improvements in tax administration, value-added tax (VAT) reform (including the removal of tax exemptions), revised excise duties and a broadening of the tax base. The continued revenue mobilisation efforts may see revenue to GDP increase to 10.2% by FY26. Overall, we project a lower fiscal deficit at 1.7% of GDP in FY26 from 2% in FY24.

Gross general government (GGG) debt spiked in FY25 to 49.8% of GDP, mainly due to the FX liberalization. Nonetheless, GGG debt to GDP is expected to follow a downward trajectory, coming in at below 40% by FY27. Around 40% of the government's debt is externally held, with a USD 1 billion Eurobond and the remainder concessional. The interest to revenue payments have also increased from 8% in FY24 to a projected 12.7% in FY25. Lastly, Ethiopia has significant government guaranteed debt, for state owned enterprises (SOEs) particularly for the sugar, railway, and energy sectors which exposes the government to contingent liability risks (21% of GDP in FY25). Nonetheless, the HGER agenda and commitment to reforms under the IMF programme seeks to address inefficiencies of SOEs.

The government remains in default on their external debt following liquidity constraints, which triggered an application for the G20s debt service suspension initiative (DSSI), enabling debt service suspension agreements with bilateral creditors. Nonetheless, Ethiopia has formalized a debt restructuring agreement with official creditors, securing over USD 3.5 billion in relief under the G20 Common Framework (CF). This brings the country closer towards fiscal stability, through a significant smoothening of Ethiopia's amortization schedule and debt service. The government will now have discussions with the holder of a USD 1 billion Eurobond to respect the comparability of treatment provision in the CF.

External position & linkages

The current account deficit (CAD) is expected to narrow to 3.2% of GDP in 2025 from 4.4% in 2024. For 2025 so far, export growth has been driven by gold and coffee exports. Gold exports have benefitted from higher volumes, including reduction of



inventories, as producers respond to better price incentives since the FX reform and record high global prices. Coffee exports were aided by a drought impacting Brazil (the largest producer of coffee globally). Services exports and remittances are expected to remain robust following the FX reform.

Overall, there has been a healthy build-up of reserves, with reserves in months of imports projected to increase to 1.4 months in 2025 from 0.7 months in 2024. On the other hand, net foreign direct investment (FDI) flows have been lower, reflective of tensions in the region as well as poor business sentiment. The government has been working on reforms to stimulate FDI. For example, the permit processes and business registration have been simplified, with the Ethiopian Investment Commission being a one-stop-shop. In April 2025, there was an open dialogue between the government and the private sector which highlighted key priorities areas for policy reform. In 2025, FDI is expected to increase to 3.2% of GDP from 1.9% in 2024, mainly due to investment in the mining and energy sectors.

Monetary & financial stability

Inflation increased to 32.5% in 2023 following the FX reform. However, it's been on a downward trajectory, coming in at 26.6% in 2024 and a further decline is expected in 2025, with inflation expected at 16.6% and it is projected to enter single-digit territory by 2027. The National Bank of Ethiopia (NBE) has adopted tight monetary policy measures, including, imposing caps on credit growth and removing the practice of monetizing its fiscal deficits completely.

The government has also made progress towards transitioning to an interest-rate based monetary policy framework including using the policy rate as the main instrument to steer inflation toward the central bank's target. This could help strengthen monetary transmission mechanisms over the medium term.

With respect to the banking sector, non-performing loans (NPLs) have declined to 4.3% in Q4 2024 from 5.5% in Q3 2024. However, banks remain heavily exposed to the government, with government loans around 31% of total assets. Encouragingly, lending to SOEs has declined to 4% of total assets.

Institutions & quality of governance

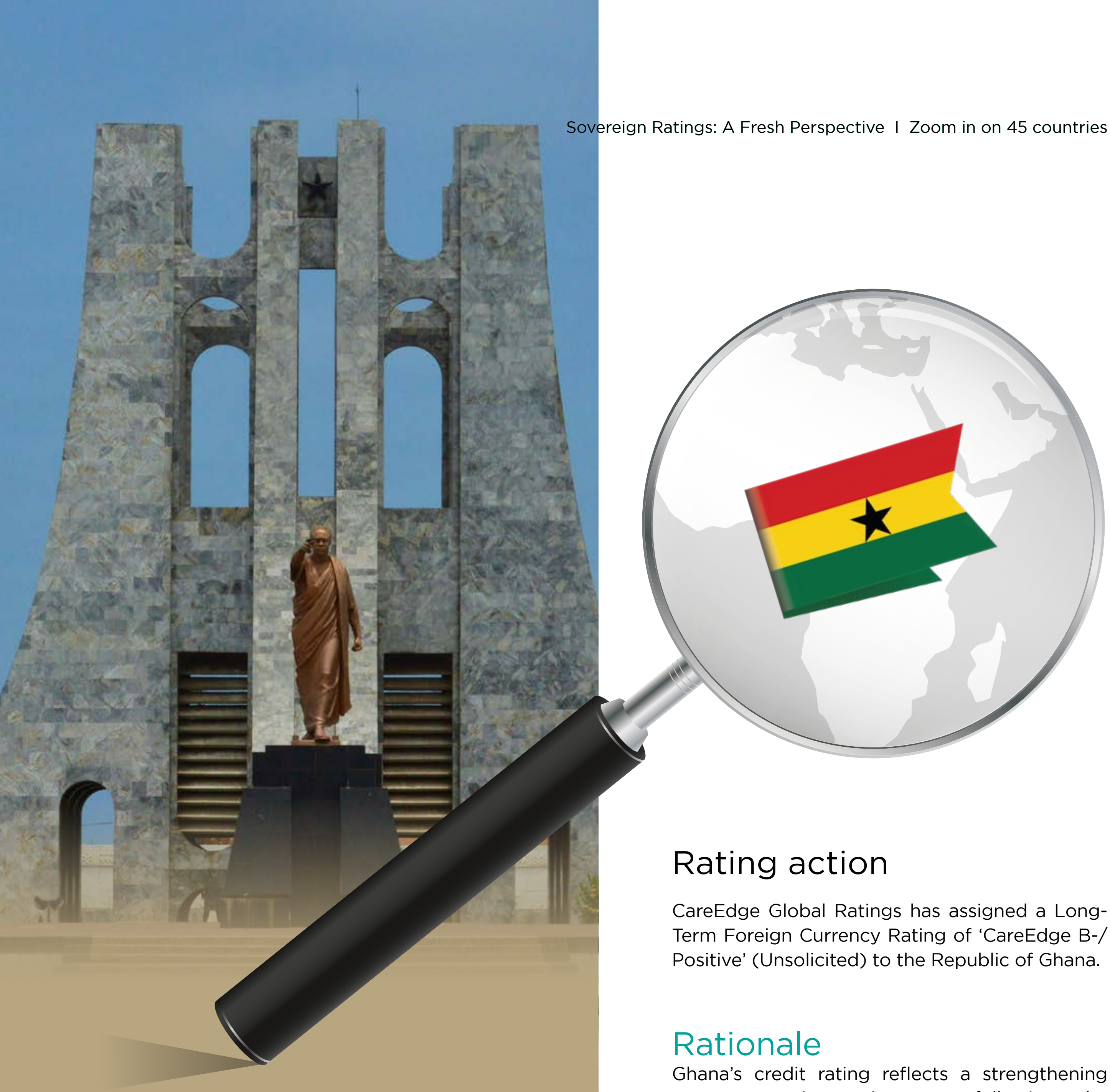
Social unrest remains in some of the regions of Ethiopia. Social unrest is also responsible for delays in policy implementation and securing concessional loans. There is limited scope for independent bodies in the policy-making process, and there is no monitoring of government by civil society. Economic and fiscal data are often released with significant delays. On this front, improving the quality of economic statistics is a key priority under HGER. The country's monetary and macro-economic policy has struggled to manage price stability, however, progress towards adopting a new monetary policy framework is underway.

CareEdge GLOBAL RATINGS

Select indicators									
	Unit	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025 F**	**2026 F**
Economic indicators									
Nominal GDP	USD billion	92.6	96.6	99.3	119.0	159.8	143.1	125.1	136.2
GDP per capita (constant-PPP)	USD	2,874	2,984	3,103	3,231	3,409	3,592	3,769	3,973
Real GDP growth	%	9.0	6.1	6.3	6.4	7.2	8.1	7.2	7.1
GFCF/GDP	%	35.3	30.6	28.0	25.3	22.2	20.5	-	-
Gross domestic savings/GDP	%	22.1	20.8	18.9	15.2	14.8	14.3	-	-
Exports (G&S)/GDP	%	7.9	7.1	7.6	8.2	6.6	5.6	-	-
Working age (15-64) population (% share in total)	%	56.1	56.5	56.8	57.2	57.5	57.7	57.9	58.1
Old age (65+) population (% share in total)	%	3.0	3.1	3.1	3.1	3.2	3.2	3.3	3.4
Fiscal indicators – general government									
Fiscal balance/GDP	%	-2.5	-2.8	-2.8	-4.2	-2.6	-2.0	-1.7	-2.0
Revenue/GDP	%	12.8	11.7	11.0	8.5	8.2	7.6	9.9	10.3
Expenditure/GDP	%	15.4	14.5	13.8	12.7	10.8	9.5	11.6	12.3
GG gross debt/GDP	%	54.7	53.7	53.8	48.9	40.2	34.8	49.8	42.6
GG external debt (by creditor)/GG gross debt	%	32.8	36.9	36.3	34.9	32.5	42.0	-	-
Interest/revenue	%	5.2	4.5	7.6	7.7	8.0	8.1	12.7	12.0
External indicators									
Current account balance/ GDP	%	-5.3	-4.6	-3.2	-4.0	-2.9	-4.4	-3.2	-3.1
FDI, net inflows/GDP	%	2.8	2.5	4.3	2.6	2.1	1.9	3.2	3.0
Outstanding FII liabilities/ GDP	USD billion	-	-	-	1.5	1.0	1.4	3.8	5.0
NIIP/GDP	Months	-	-	-	0.8	0.5	0.6	1.7	2.1
Foreign exchange reserves	%	30.0	31.0	29.7	24.0	18.1	15.4	30.4	26.6
Monetary and financial indicators									
CPI inflation	%	15.8	20.4	26.8	33.9	32.5	26.6	16.6	12.0
Exchange rate (average)	LC per USD	29.1	34.9	43.7	51.8	54.6	57.3	-	-
Non-performing loans/total gross loans	%	2.5	3.0	3.5	3.9	4.3	4.3	-	-
Private debt, loans and debt securities/GDP	%	21.1	21.3	19.6	18.7	15.8	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024



Ghana

CareEdge B- / Positive

Rating action

CareEdge Global Ratings has assigned a Long-Term Foreign Currency Rating of ‘CareEdge B-/ Positive’ (Unsolicited) to the Republic of Ghana.

Rationale

Ghana’s credit rating reflects a strengthening macroeconomic environment following the 2022 sovereign default and subsequent debt restructuring of both domestic and foreign-currency debt, alongside the continued commitment to fiscal and structural reforms under the IMF-supported programme.

Ghana’s economic recovery has gained momentum, with real GDP growth increasing from 3.1% in 2023 to 6.0% in 2025, supported by widespread expansion across services, agriculture, and mining sectors. Growth is projected to slow but stay resilient at around 4.8% over 2026–2027, driven by improved external competitiveness and favourable commodity prices, especially for gold and cocoa. However, the growth outlook remains vulnerable to downside risks from commodity price volatility and climate-related shocks affecting agricultural output.

Fiscal metrics have significantly improved following comprehensive debt restructuring. General government debt is projected to decrease sharply from 92.7% of GDP in 2022 to 56.6% in 2025. Fiscal consolidation efforts have reduced the fiscal deficit to approximately 1.9% of GDP in 2025, from -11.8% in 2022. Additionally, the interest burden is expected to decrease considerably, with interest-to-revenue ratios forecast to fall to around 20% by 2027, compared with an average of 46.6% during 2020–2023. Despite these advances, revenue mobilisation remains structurally weak at 16.1% of GDP, limiting fiscal flexibility.

External sector indicators have strengthened notably. The current account is estimated to record a surplus of 4.5% of GDP in 2025, supported by robust gold export receipts, improved terms of trade (export value relative to import value), and lower import demand. Foreign exchange reserves have increased to approximately 4.9 months of import cover in 2025, more than doubling from 2023 levels. Nevertheless, external buffers remain susceptible to shifts in investor sentiment, with foreign direct investment inflows still subdued at 2.1% of GDP.

Monetary conditions remain largely restrictive, despite inflation dropping sharply from a peak of 54% in December 2022 to 3.3% in February 2026. This disinflation trend has allowed for a gradual normalisation of policy rates while still maintaining positive real interest rates. However, vulnerabilities in the financial sector persist, with high non-performing loan ratios (around 19% in 2025), especially in the agriculture and transport sectors.

Institutional and governance indicators remain mixed. While Ghana benefits from relatively strong democratic credentials, including political stability, the rule of law, and voice and accountability, challenges persist in areas such as government effectiveness and the control of corruption.

Overall, CareEdge Global believes that Ghana's near-term economic outlook is positive, buoyed by strong export performance, particularly in gold, and resilience in non-oil sectors. However, maintaining the recovery will rely on continuing reform efforts, enhancing domestic revenue mobilisation, and reducing vulnerabilities caused by reliance on commodities and external financing challenges.

Outlook: Positive

The Positive outlook reflects expectations of sustained macroeconomic stabilisation, continued fiscal consolidation, and easing debt servicing pressures. Continued adherence to IMF programme targets and ongoing improvements in public financial management frameworks are also key supports to the outlook.

Upside scenario

The rating could be upgraded if Ghana sustains stronger-than-expected real GDP growth, supported by continued robust performance in gold exports and diversification in non-oil sectors. Further improvements in fiscal metrics could accelerate the reduction in public debt and interest burden.

Downside scenario

The rating could face downward pressure if fiscal consolidation weakens due to an inability to raise adequate revenues, leading to a reversal in debt-reduction trends or a renewed increase in interest-to-revenue ratios. A deterioration in external conditions, such as a sharp decline in gold or cocoa prices, or reduced access to external financing, could weaken the current account and reserve position.

Key rating drivers

Economic structure & resilience

Growth remains broad-based, with non-oil sectors increasingly supporting expansion. However, the economy continues to face structural vulnerabilities. Notably, the economy remains vulnerable to weather-related disruptions and commodity price volatility, given its reliance on agriculture and primary exports. In addition, low investment levels, reflected in gross fixed capital formation of approximately 10.5% of GDP, may constrain medium-term productive capacity and growth potential.

Ghana's economic structure remains relatively diversified, with services accounting for approximately 44% of GDP, followed by industry (about 34%) and agriculture (about 20%). Economic activity has rebounded strongly following the pandemic and the 2022 sovereign debt default, supported primarily by the mining sector, where elevated gold production and favourable prices have driven growth in 2024–2025. Agricultural output has also improved, underpinned by higher cocoa prices, while non-oil GDP growth continues to outpace overall GDP, reflecting strengthening underlying economic momentum.

The economy expanded by 6.0% in 2025 from 5.8% in 2024, underscoring continued resilience and strong growth momentum. The services sector remains the key driver, recording robust growth of 8.1%, driven by retail trade and transport. Agriculture also posted solid growth of 6.8%, supported by improved cocoa prices, while industry expanded more moderately at 2.3%. Notably, non-oil GDP growth accelerated to 7.6%, highlighting strengthening underlying economic activity beyond the hydrocarbon sector.
Growth is expected to remain high in the medium term at around 5%. Going forward, the country's ability to enhance investment levels, strengthen economic diversification beyond extractive sectors, and improve productivity, particularly in the large informal and agricultural segments, remains a key monitorable.

Fiscal strength

Ghana's fiscal metrics have improved considerably following comprehensive debt restructuring and ongoing consolidation efforts. However, fiscal flexibility remains limited by a structurally narrow revenue base and Ghana's history of fiscal slippages, including the 2022 sovereign default. Despite recent progress, underperformance in tax revenues persists across key categories, such as personal and corporate income taxes. Additionally, the increasing dependence on non-traditional financing mechanisms, including commodity-backed arrangements and structured swaps, poses further fiscal and transparency risks. In particular, quasi-fiscal operations linked to COCOBOD and exposure to cocoa price volatility could impact contingent liabilities and fiscal outcomes. The development of these arrangements, along with their implications for debt transparency and medium-term sustainability, continues to be an important aspect to monitor.

The public debt trajectory, however, is encouraging. Public debt has declined markedly from 92.7% of GDP in 2022 to an estimated 56.6% in 2025, with further improvement projected over the medium term. The fiscal deficit has narrowed substantially to 1.9% of GDP in 2025, outperforming earlier estimates, and is expected to stabilise at around 2.0% in the coming years. This consolidation reflects both expenditure restraint and improved primary balances, signalling enhanced fiscal discipline after a period of elevated deficits.

Debt sustainability has improved materially, supported by lower interest costs following restructuring. Interest-to-revenue ratios, which averaged around 46.6% during 2020–2023, are projected to decline to approximately 20% by 2026–2027, significantly easing debt servicing pressures. Ghana has also used alternative financing and liability management measures, including gold-linked and commodity-backed structures, to ease near-term financing pressures and support external buffers. In addition, structured transactions and bilateral arrangements have provided interim liquidity support following the debt restructuring.

Fiscal performance has also improved due to lower-than-expected expenditure in 2025, especially in interest payments, subsidies, and capital spending. Looking forward, both revenue and expenditure are expected to increase at a similar rate, with budgeted rises of around 20% in 2026, indicating a gradual normalisation of fiscal operations.

Revenue mobilisation remains a key area of reform. Although revenue-to-GDP stood at 16.0% in 2025, slightly below earlier projections, ongoing tax policy measures targeting VAT, corporate income, and oil revenues are expected to drive substantial gains over the medium term. Notably, company tax revenues are projected to increase by over 70% between 2025 and 2029, while VAT receipts are expected to rise by nearly 75%, supported by administrative improvements and a broadened tax base. These reforms, if effectively implemented, will be critical in strengthening fiscal buffers and reducing reliance on debt financing.

Ghana's ability to sustain fiscal consolidation will therefore depend on effective implementation of revenue-enhancing measures, adherence to fiscal targets under the IMF programme, and continued progress in rebuilding credibility in public financial management.

External position & linkages

Ghana's external position has strengthened notably, supported by robust export performance and improved terms of trade. The current account shifted into a surplus of around 4.5% of GDP in 2025, up from 1.8% in 2024, driven primarily by strong gold exports—which accounted for over half of total export earnings—and higher cocoa export receipts. Export performance has been particularly strong, with total exports in the first three quarters of 2025 already exceeding full-year 2024 levels, reflecting both favourable prices earlier in the year and increased volumes.

However, recent developments in the global cocoa markets present emerging risks to external stability. Following record highs in 2024, international cocoa prices have fallen sharply, by more than 60%, due to improved supply conditions and weaker demand, with prices dropping to near multi-year lows in January and February 2026. This correction is expected to impact export earnings in the future, especially considering Ghana's heavy reliance on cocoa. Consequently, the current account surplus is forecasted to decline to around 2% of GDP over the medium term.

External buffers have strengthened, with foreign exchange reserves rising to approximately 4.9 months of import cover, up from around 2 months in 2023. This improvement has enhanced the sovereign's ability to absorb external shocks.

However, reserve adequacy remains relatively modest, and external vulnerabilities persist. Net FDI inflows remain subdued, declining to around USD 1.77 billion in 2024 from USD 3.88 billion in 2019, reflecting weakened investor confidence following the default and continued reliance on commodity-driven external inflows.

Monetary & financial stability

Monetary conditions in Ghana have stabilised after a period of severe inflationary pressures. Headline inflation has fallen sharply from a peak of 54.1% in December 2022 to single-digit levels by late 2025, supported by tight monetary policy and improving macroeconomic fundamentals. Notably, food inflation, which had historically exceeded non-food inflation, decreased to 4.9% in December 2025, below non-food inflation of 5.8%, indicating easing price pressures in key consumption categories.

The disinflation process has led to a return to positive real interest rates, with the policy stance remaining highly restrictive, reflected in a real rate differential of approximately 11.7% as of January 2026. While this has helped anchor inflation expectations and support currency stability, it continues to weigh on domestic credit conditions and broader economic activity.

The banking sector is showing gradual signs of recovery following the impact of the Domestic Debt Exchange Programme (DDEP). Elevated real interest rates have supported bank profitability and recapitalisation efforts, helping to rebuild balance sheets. However, asset quality pressures remain, with non-performing loan ratios still high at around 19%, particularly in sectors such as agriculture and transport.

The exchange rate has begun to stabilise after a period of high volatility. The Ghanaian Cedi has depreciated by over 90% against the US dollar in the past five years, reflecting macroeconomic imbalances and the impact of the 2022 default. However, since reaching a peak of around GHS 16.9/USD in October 2024, the currency has significantly appreciated, aided by improved external balances and policy adjustments.

While financial stability risks are moderating, sustained improvement will depend on continued macroeconomic stability, easing borrowing costs, and strengthening credit quality across key sectors.

Institutions & quality of governance

Ghana's institutional framework reflects moderate effectiveness, with governance indicators pointing to a mixed but gradually improving profile. According to the World Governance Indicators, Ghana performs relatively well in areas such as voice and accountability and political stability, supported by a strong democratic tradition.

However, persistent weaknesses in government effectiveness, regulatory quality, and control of corruption continue to weigh on policy implementation and public sector efficiency. The ongoing IMF-supported programme provides an important anchor for reforms, particularly in strengthening public financial management and fiscal oversight.

Ghana's ability to sustain reform momentum and translate institutional improvements into tangible governance outcomes remains a key monitorable, particularly in addressing corruption risks and enhancing policy execution capacity.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	70.0	79.5	73.9	80.5	82.8	112.0	113.5	117.2
GDP per capita (constant-PPP)	USD	6,047.3	6,607.5	7,207.9	7,562.6	8,038.8	8,410.3	8,812.7	9,240.5
Real GDP growth	%	0.5	5.1	3.8	3.1	5.8	6.0	4.8	4.9
GFCF/GDP	%	18.2	17.0	15.5	9.9	10.0	10.5	12.6	13.6
Gross national savings/GDP	%	17.4	15.3	13.7	8.5	11.4	12.8	14.7	14.8
Exports (G&S)/GDP	%	31.5	30.1	34.7	31.8	35.5	-	-	-
Working age (15-64) population (% share in total)	%	59.0	59.0	60.0	60.0	60.0	-	-	-
Old age (65+) population (% share in total)	%	3.0	3.0	4.0	4.0	4.0	-	-	-
Fiscal indicators – general government									
Fiscal balance/GDP	%	-7.5	-12.0	-11.8	-3.4	-7.3	-2.7	-1.9	-1.7
Revenue/GDP	%	15.0	15.2	15.7	15.2	15.9	16.1	17.0	17.2
Expenditure/GDP	%	22.5	27.2	27.5	18.5	23.2	18.9	19.0	18.9
GG gross debt/GDP	%	79.1	86.9	92.7	79.1	69.8	56.6	54.9	52.7
Interest/revenue	%	48.60	46.60	54.00	53.10	53.15	49.65	49.45	49.0
Fiscal balance/GDP	%	44.60	47.80	47.30	19.74	25.16	26.25	20.83	-
External indicators									
Current account balance/ GDP	%	-2.50	-2.70	-2.30	-0.80	1.80	4.50	3.20	2.70
FDI, net inflows/GDP	%	2.68	3.19	1.93	1.64	2.13	-	-	-
Outstanding FII liabilities/ GDP	%	2.17	0.07	0.04	0.03	0.03	-	-	-
NIIP/GDP	%	-36.3	-34.5	-37.5	-36.3	-30.1	-	-	-
Foreign exchange reserves	USD billion	7.9	10.	5.2	3.6	3.7	8.6	9.1	9.8
Import cover	Months	3.9	4.2	1.1	1.6	2.60	3.30	3.5	-
External debt/GDP	%	57.98	55.09	57.73	51.80	45.20	-	-	-
Monetary and financial indicators									
CPI inflation	%	9.9	10.0	31.9	39.2	22.9	15.0	7.9	7.5
Exchange rate (average)	LC per USD	5.6	5.8	8.3	11.0	14.2	12.2	-	-
Non-performing loans/total gross loans	%	14.8	15.1	14.8	20.6	21.80	18.90	-	-
Private debt, loans and debt securities/GDP	%	12.10	12.10	11.20	10.70	26.30	23.30	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Kenya

CareEdge B/Stable

Rating action

CareEdge Global Ratings has assigned a Long-Term Foreign Currency Rating of B (Unsolicited) with ‘Stable’ outlook to the Republic of Kenya.

Rationale

Kenya’s credit rating is primarily constrained by a high public debt and elevated interest costs. This challenge is further compounded by social opposition, which limits the government’s ability to enhance revenues and implement fiscal consolidation.

However, the rating is anchored by a diversified and growing economy, supported by a narrowing current account deficit, and by comfortable foreign exchange reserves that provide a critical buffer against external shocks. Kenya’s GDP growth is projected to remain resilient at 4.8% in 2025 and around 5% in the medium term. This growth performance is supported by a rebound in the agricultural sector and a buoyant services industry.

The government’s fiscal consolidation efforts face headwinds. Preliminary estimates indicate that the fiscal deficit reached 5.8% of GDP in

2024 and is projected to rise to 6.0% in 2025. This follows a revenue shortfall after the withdrawal of proposed tax hikes, which led to social unrest in 2024. Consequently, Gross General Government (GGG) debt is expected to hover around 68% of GDP in 2025. Debt affordability also remains a primary weakness, with interest payments currently consuming nearly 33% of general government revenue. Furthermore, the failure to meet related performance indicators led Kenya to miss a final tranche disbursement of USD 490 million under an IMF ECF/EFF programme, which was set to close in April 2025. To finance this gap, the government has pivoted toward the domestic market and non-concessional external borrowing.

On the external front, Kenya's position has improved, with the Current Account Deficit (CAD) narrowing to approximately 2.3% of GDP in 2024, driven by significant remittances (nearly USD 5 billion) and strong horticultural exports. The improvement in the current account position has strengthened external buffers, with foreign exchange reserves climbing to USD 12.17 billion in December 2025, representing an import cover of 5.3 months. This, combined with a proactive Eurobond buyback strategy, has reduced external vulnerabilities. Nevertheless, a reversal of the trend is expected in the short term, with the CAD projected to rise to 2.8% in 2025.

CareEdge Global Ratings believes that the Central Bank of Kenya's monetary policy stance has successfully anchored inflation, which fell to 4.5% in November 2025, enabling a decisive monetary easing cycle and lowering domestic borrowing costs. However, the high and rising nonperforming loans-to-gross loans ratio (17.7% as of August 2025) in the banking sector warrants continued attention.

Outlook: Stable

The stable outlook reflects our expectation of sustained economic growth of 5% over the medium term, driven by a pickup in exports of goods and services as well as strong remittance inflows. The Stable outlook also reflects a significant easing of near-term external liquidity risks following successful Eurobond refinancing and the accumulation of record FX reserves, which have smoothed the sovereign's maturity profile.

Upside scenario

The outlook can be revised to positive if the Government implements meaningful reforms that increase revenue through improved tax collection and maintains its fiscal deficit at a reasonable level in the short to medium term. In addition, renegotiating a new programme with the IMF will unlock a new round of concessional financing from the institution and other donor agencies, which will improve its interest-to-revenue ratio.

Downside scenario

The outlook could turn negative if Kenya fails to meet revenue targets or is unable to implement IMF-mandated structural reforms that could unlock access to vital concessional financing. An IMF decision to reclassify securitised future revenues as public debt would weaken Kenya's debt-to-GDP metrics and pressure the current rating. Further delays in clearing pending government bills could strain the financial sector and pose a systemic threat to banking stability if left unaddressed.

Key rating drivers

Economic structure & resilience

Kenya is one of the largest economies in Africa (GDP of USD 119.3 billion in 2024), with a well-diversified economic structure comprising agricultural, manufacturing and services sectors. GDP growth in 2024 was 4.7%, and is expected to reach 4.8% in 2025. In Q2 2024, GDP growth was 5.0%, driven by financial services (6.6%), agriculture (4.4%), mining (15.3%), and tourism (7.8%). In the medium term, GDP growth is expected to average 5.0%, buoyed by the momentum in tourist arrivals and the mining sector. The economy also continues to benefit from a well-diversified export portfolio and rising global commodity prices.

Despite the economy's size and growth rates, GDP per capita (constant PPP) remains low at USD 7,159.91 (2024). Gross fixed capital formation is also low and on a declining trend, at 17.7% of GDP in 2024, which will limit its future productive capacity. The size of the informal sector is another main concern. Estimated at around 33% of GDP, the sector employs 16 million workers, compared with just over 3 million in the formal sector, resulting in a significant productivity gap in the Kenyan economy.

The Government's Bottom-Up Economic Transformation Agenda (BETA) aims to stimulate the economy through productivity gains rather than debt-funded consumption, and can address some productivity issues by formalising this sector. Nevertheless, the outcome remains conditional on its successful implementation.

Fiscal strength

The withdrawal of the Finance Bill 2024 has limited the Government's capacity to increase revenue, thereby weakening its fiscal strength. The FY25 projected ordinary revenue of KSh 2.6 trillion is 11.5% (KSh 337 billion) lower than what was initially budgeted. This situation has led public debt to rise from 41.3% of GDP in 2014 to 67.3% in 2024, with projections reaching 68.0% in 2025. Net borrowing (fiscal deficit) relative to GDP has worsened in 2024 to 5.8%. The failure to raise additional tax revenues is expected to increase it to 6.0% in 2025. Interest payments are also on the rise, accounting for nearly 33% of revenue.

The inability to meet agreed targets between Kenya and the IMF under the IMF ETF/EFF programme has led to a halt in the disbursement of the final tranche of financing. This, in turn, has led to delays in securing USD750 million in concessional funding from the World Bank. A USD 500 million loan has been contracted from the UAE at 8.25%, which is higher than rates available from multilateral organisations.

Nevertheless, some progress is being made in securing immediate funding and improving the fiscal situation. The Eurobond buyback program has transformed what was a looming maturity cliff into a manageable debt profile. Strategic repurchases—most notably the USD 1.5 billion partial buyback of the June 2024 notes and a subsequent $628 million tender offer in October 2025- have effectively smoothed out its repayment schedule and reduced the immediate pressure on foreign exchange reserves, signalling that while the debt stock remains high, the sovereign's immediate liquidity risks have substantially receded. In addition, the Privatisation Act 2025 and the securitisation of future revenues will further improve short-term revenues and support debt refinancing.

External position & linkages

Kenya's external position in 2025 has demonstrated significant resilience, bolstered by diversified export streams and a strategic focus on liability management. Kenya's current account deficit (CAD) narrowed to an estimated 2.3% of GDP in 2024, down from 3.6% in 2023. Kenya has benefited from its role as a regional hub and the successful execution of its Eurobond buyback program, which has stabilised the Kenyan Shilling at around KSh 129.4 per dollar. Consequently, foreign exchange reserves have climbed from a precarious USD 6.6 billion in mid-2023 to a high of USD 12.17 billion by December 2025, providing approximately 5.3 months of import cover. This buildup of external buffers has significantly de-risked the sovereign's liquidity profile, allowing it to navigate global volatility and high external debt-servicing requirements more effectively than its commodity-dependent peers.

Monetary & financial stability

Throughout 2025, the Kenyan Shilling has remained remarkably stable, trading within a tight range of KSh 128.5–129.5 per USD, a significant recovery from the record lows seen in early 2024. This stability is underpinned by record-high foreign exchange reserves and surging diaspora remittances, which totalled USD 4.96 billion in the 12 months to October 2025. Kenya's headline inflation declined to 4.5% in November 2025, remaining well below the 5% midpoint of the CBK's target range, driven by favourable weather and stable energy prices. CBK has also successfully steered the market through nine consecutive rate cuts in 2025, reducing the Central Bank Rate (CBR) from 13.0% to 9.0% by December, which has led to average commercial lending rates falling to 14.9% and private-sector credit growth rebounding to 6.3% in late 2025. Rising nonperforming loans (17.7% as at August 2025) remain a concern, however, as unpaid government obligations continue to weigh on the loan servicing capacity of building contractors.

Institutions & quality of governance

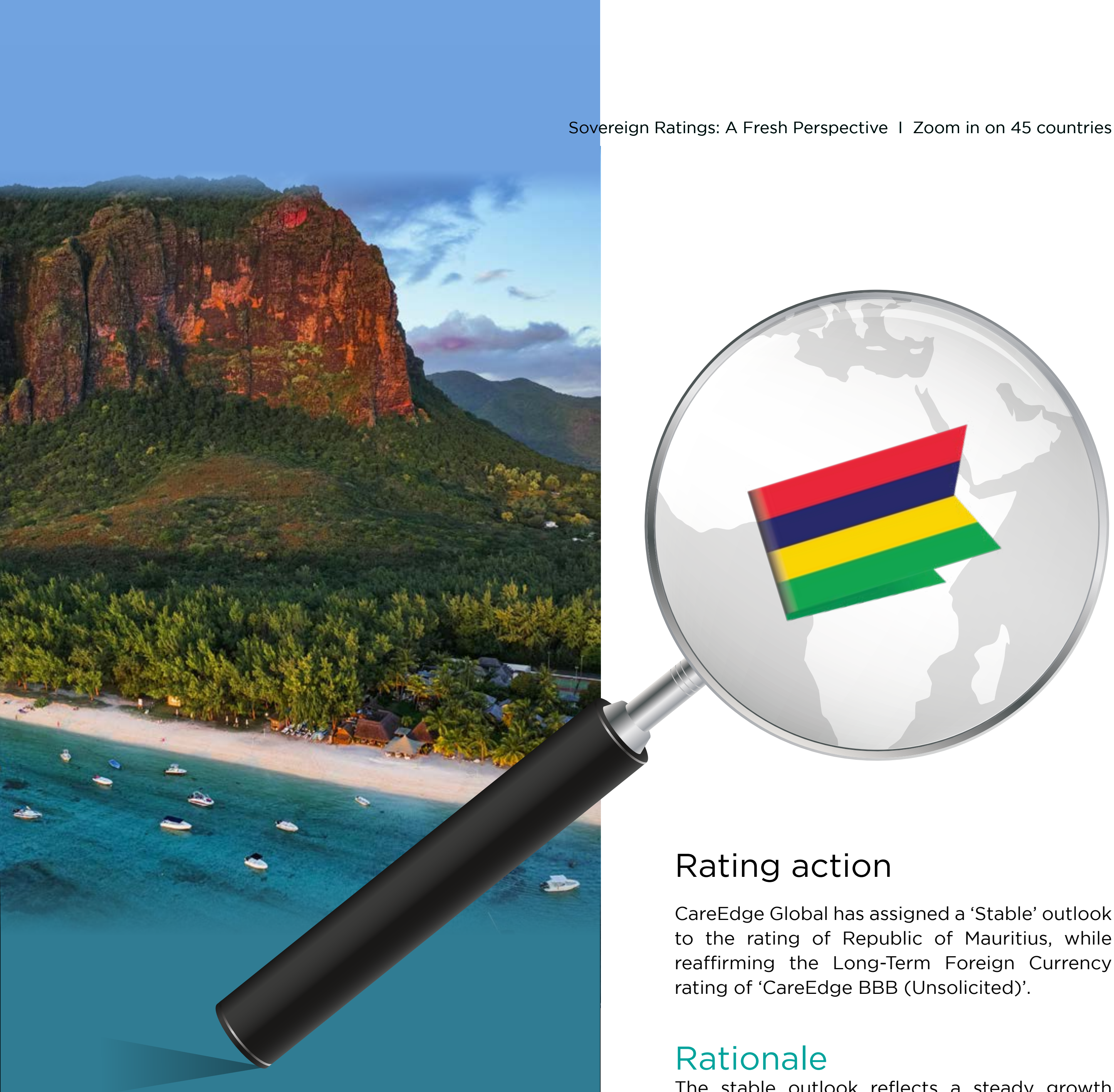
Kenya's institutional foundations have been tested by significant social volatility throughout 2024 and 2025. The youth-led "Gen Z" protests against the Finance Bill in June 2024—which proposed aggressive tax hikes to manage the debt crisis—escalated into nationwide unrest and the unprecedented storming of Parliament. While the Government responded by withdrawing the bill and forming a "broad-based government" (including opposition figures such as Raila Odinga), there are still signs of latent discontent. By late 2025, governance risk has shifted from purely fiscal concerns to a broader demand for political accountability and the elimination of corruption. The administration now faces a dilemma: implement IMF-mandated structural reforms and fiscal consolidation while simultaneously addressing high youth unemployment and a perceived lack of accountability to prevent a resurgence of domestic instability. Reintroduction of austerity measures could rekindle the 2024 uprisings, undermining political stability and fiscal consolidation efforts and therefore remains a monitorable.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD Billion	100.3	100.9	109.9	114.7	108.2	119.3	136.0	140.9
GDP per capita (constant-PPP)	USD	5,042	5,128	5,712	6,302	6,788	7,160	7,556	7,929
Real GDP growth	%	5.1	-0.3	7.6	4.9	5.7	4.7	4.8	4.9
GFCF/GDP	%	19.3	19.7	20.4	19.1	16.6	16.8	18.1	18.4
Gross domestic savings/GDP	%	17.1	16.0	15.3	14.0	13.0	14.5	15.3	15.0
Exports (G&S)/GDP	%	14.9	11.0	12.5	15.0	15.6	16.2	15.2	15.2
Working age (15-64) population (% share in total)	%	57.4	57.9	58.5	59.1	59.6	60.2	-	-
Old age (65+) population (% share in total)	%	2.7	2.8	2.8	2.9	2.9	3.0	-	-
Fiscal indicators – general government									
Fiscal balance/GDP	%	-7.4	-8.1	-7.2	-6.1	-5.7	-5.8	-6.0	-5.6
Revenue/GDP	%	17.0	16.7	16.8	17.1	17.0	17.5	17.2	17.2
Expenditure/GDP	%	24.4	24.8	24.0	23.2	22.7	23.3	23.2	22.9
GG gross debt/GDP	%	59.1	68.0	68.2	67.8	73.4	67.3	68.0	70.1
GG external debt (by creditor)/GG gross debt	%	52.0	52.5	52.0	49.9	53.0	48.9	47.5	52.0
Interest/revenue	%	24.3	27.5	26.3	29.2	31.2	32.7		
External indicators									
Current account balance/ GDP	%	-2.2	-3.7	-5.1	-5.1	-3.6	-2.3	-2.8	-3.4
FDI, net inflows/GDP	%	0.47	-0.01	0.42	0.79	0.51	0.46	-	-
Outstanding FII liabilities/ GDP	%	7.6	6.7	7.0	6.8	8.2	8.04	-	-
NIIP/GDP	%	-50.5	-52.4	-50.3	-53.1	-54.2	-51.4	-	-
Foreign exchange reserves	USD billion	6.6	7.9	7.5	7.6	7.3	8.2	9.1	8.3
Import cover	Months	4.9	5.0	4.4	3.2	3.1	4.0	-	-
External debt/GDP	%	8.6	8.6	7.6	8.0	7.3	8.4	7.7	-
Monetary and financial indicators									
CPI inflation	%	5.2	5.3	6.1	7.6	7.7	4.5	4.0	5.2
Exchange rate (average)	LC per USD	101.99	106.45	109.64	117.87	139.86	134.83	129.40	-
Non-performing loans/total gross loans	%	9.7	11.9	10.9	10.8	12.3	13.6	-	-
Private debt, loans and debt securities/GDP	%	30.2	31.4	30.3	30.4	30.79		-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024



Mauritius

CareEdge BBB/Stable

Rating action

CareEdge Global has assigned a ‘Stable’ outlook to the rating of Republic of Mauritius, while reaffirming the Long-Term Foreign Currency rating of ‘CareEdge BBB (Unsolicited)’.

Rationale

The stable outlook reflects a steady growth trajectory, adequate foreign exchange reserves, and robust institutional and governance frameworks.

The 2025 Budget outlines the government’s commitment towards achieving fiscal consolidation, with the fiscal deficit and GGG debt estimated to narrow to 1.3% and 79.7% by FY28, respectively. These estimates are based on significant revenue mobilization efforts, reforms to public expenditure as well as the expected inflows from the Chagos settlement. We note that the fiscal consolidation path will not be an easy task; however, the government’s track record of fiscal consolidation following the COVID-19 pandemic bodes well for the outlook. Nonetheless, the achievement and commitment towards fiscal consolidation remain a key monitorable.

The credit profile is supported by its strong institutions, political stability and quality of governance. The country benefits from its established external linkages coupled with its stable and well-regulated financial sector. Mauritius consistently attracts large foreign direct investments (FDI), has a comfortable cushion in the form of foreign currency reserves and a favourable net international investment position (NIIP). Meanwhile, the well-regulated financial sector has contributed to its status as a regional financial hub.

Nonetheless, the profile is weighed down by the dependence on the services sector (such as tourism and global business companies), leaving it vulnerable to external shocks. Compounding this is the structurally weak trade deficit, whereby there is dependence on food imports. Lastly, the fiscal profile has weakened due to the high fiscal deficit and debt burden.

Upside scenario

The rating could benefit from stronger-than-expected fiscal consolidation that places GGG debt on a firmer downward trajectory, coupled with improved revenue mobilization and expenditure efficiency.

Downside scenario

Conversely, the outlook could come under pressure if fiscal consolidation efforts stall, resulting in a slower decline or even a rise in GGG debt or the fiscal deficit.

Key rating drivers

Economic structure & resilience

Mauritius remarkably transitioned from a low-income, monocrop producer of sugarcane to an upper-middle-income investment and tourism hub. Although the economy's size is relatively small (USD 15 billion for 2024), its GDP per capita is high (USD 27,342 per capita, in constant PPP). Nonetheless, the reorientation towards the services sector leaves the country vulnerable to external risks.

For 2025 so far, GDP growth was lower at 4.2% YoY in Q1 2025, compared to 5.2% in Q4 2024, dragged down by contractions in the tourism and construction sectors, while other sectors registered positive growth. For Q2 2025, the tourism sector has rebounded and is expected to meet the government's 1.4 million target. However, slower growth of 3% is expected in 2025, from 4.9% in 2024. The Bank of Mauritius (BoM) notes that this is due to the narrowing of the output gap as the economy approaches its potential growth rate of 3.4%. Furthermore, US protectionist policies, as well as the recent fiscal consolidation measures, will have non-negligible ramifications on key sectors of the economy.

Over the longer term, diversification efforts away from services are deemed necessary to avert repeat vulnerabilities. On this note, the government's diversification efforts are geared towards several emerging sectors, including the Artificial Intelligence (AI) and blue economy sectors. Furthermore, the country has also experienced several weather-related disasters, including cyclones and droughts. The government is pushing renewable energy and value-added manufacturing to broaden the economic base, alongside investments in solar, wind and coastal-protection projects to build climate resilience.

Fiscal strength

Mauritius's fiscal metrics have weakened markedly, with the deficit widening to an estimated 9.8% of GDP in FY25 from 5.7% in FY24, driven by a sharp surge in spending (following electoral promises) and softer revenue collections.

As a result, the GGG debt-to-GDP debt is estimated at 90% (last seen during the COVID-19 pandemic in 2020).

The 2025 budget outlines an ambitious fiscal consolidation plan, aimed at rebuilding fiscal space by implementing significant revenue mobilisation measures and containing expenditure, while safeguarding essential social programmes and increasing infrastructure investment. Key revenue measures include streamlined personal income tax bands with a heavier burden on high earners, a new “fair share” levy on top-income individuals and large corporates, lower value-added tax (VAT) thresholds for businesses, the introduction of capital-gains taxation on non-resident property resales and the re-introduction of excise duties on hybrid and electric vehicles. On the expenditure side, the government is gradually raising the basic pension eligibility age to 65 by 2030 and phasing down Generalized Social Contribution (CSG) allowances over two years, while providing a limited transitional income-support scheme to ease political resistance.

If implemented as planned, the government believes that these reforms could narrow the fiscal deficit to about 1.3% of GDP by FY28. In addition, the government has committed to using receipts of GBP 132 million per annum from the lease of the Chagos Islands (including Diego Garcia) with the UK for debt repayment over the next three fiscal years. This is expected to further alleviate the debt burden, supporting a projected reduction in the GGG debt to approximately 79.7% of GDP by FY28, thereby complementing the fiscal consolidation measures.

Given the government’s demonstrated resilience in reducing GGG debt from post-pandemic highs, these measures carry added credibility. However, the target deficit of 1.3% of GDP remains ambitious, with execution risks and public opposition to benefit reforms potentially slowing the pace of adjustment.

Lastly, other factors affecting the fiscal profile include the government’s exposure to contingent liabilities, where both guaranteed and non-guaranteed debt stock accounts for approximately 10.5% of GDP in FY25. The government also faces significant domestic debt maturities of around 31% by FY26 and a further 34% by FY30, which will keep refinancing as a key focus. However, the government’s debt management remains sound.

External position & linkages

The CAD widened to 5.1% in Q1 2025, from 4.8% in Q1 2024, reflecting a wider trade and secondary income account deficit, as well as a lower surplus on the services account. Q2 data reflects a further widening of the CAD, which may reach 7.3% of GDP, due to a higher trade deficit, considering the surge in vehicle imports (in anticipation of US tariffs and the newly imposed excise taxes on vehicles in the 2025 Budget). Nonetheless, the CAD is expected to improve in H2 2025. Overall, the BoM projects the CAD to reach 6.2% of GDP in 2025, from a deficit of 7.0% in 2024. The easing of the CAD is due to higher projected surpluses in the services and primary income accounts, which may mitigate the impact of the widening trade deficit.

Mauritius’s external position remains supported by robust net foreign direct investment (FDI) inflows and healthy financial flows as GBC investment activities remain resilient despite the global headwinds and US protectionist policies. Further, foreign currency reserves remain comfortable, equivalent to 12.9 months of import cover (August 2025).

While Mauritius’s externally held debt remains elevated, much of it reflects the country’s status as an international financial centre (IFC) rather than purely domestic financing needs. The country continues to maintain a favourable net international investment position (NIIP), estimated at around 334% of GDP in 2025, which provides significant external buffers. These dynamics support the country’s external stability while mitigating vulnerabilities from external shocks.

Monetary & financial stability

The Mauritian Rupee operates under a floating exchange rate regime. However, in practice, the regime exhibits some interventions by the BoM and resembles a managed crawl pattern.

Inflationary pressures eased to 3.6% in 2024, from 7.1% in 2023. Headline inflation has remained at low levels in 2025 so far, averaging 3.4% from January to August. However, between May and August 2025, inflation has been edging up, coming in at 5.2% YoY in August from x% in July, reflecting the impact of budgetary measures such as the excise duties on cars and sin taxes. Despite the uptick in prices, inflation is expected to remain around 4% in 2025 and be anchored at the midpoint of the BoM’s target band of between 3% and 5% over the medium term.

The financial system remains broadly stable, with banks well-capitalized and liquid. Interlinkages with the Global Business Company (GBC) sector persist, with roughly half of banks’ total deposits denominated in foreign currency; these exposures are closely monitored and effectively managed.

Institutions & quality of governance

Mauritius maintains a stable political environment, characterized by smooth transitions of power following elections, which reflects the country's strong democratic traditions. While institutions are generally well-developed, recent audits have prompted revisions to historical data, highlighting the need for greater transparency and raising questions about the reliability of certain official statistics.

The government has also introduced tax reforms aimed at improving transparency and fairness, aligning with international standards, and reducing opportunities for tax avoidance. These steps, alongside consistent coalition governance and a track record of policy continuity, support confidence in the country's institutional quality, while ongoing reforms aim to further enhance accountability and reliability.

Select indicators

	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic indicators									
Nominal GDP	USD billion	14.4	11.4	11.5	12.9	14.1	15.0	15.6	16.7
GDP per capita (constant-PPP)	USD	25,750	21,994	22,782	24,816	26,072	27,342	28,204	29,108
Real GDP growth	%	2.9	-14.5	3.4	8.7	5.0	4.9	3.0	3.4
GFCF/GDP	%	19.1	17.1	19.6	19.8	20.2	20.9	19.8	-
Gross domestic savings/GDP	%	11.9	9.8	9.7	13.4	15.8	16.7	-	-
Exports (G&S)/GDP	%	44.0	36.8	38.5	49.5	47.5	46.2	-	-
Working age (15-64) population (% share in total)	%	72.2	72.2	72.2	72.1	71.9	71.7	71.3	71.0
Old age (65+) population (% share in total)	%	10.9	11.4	11.9	12.4	12.9	13.5	14.1	14.7
Fiscal indicators – general government									
Fiscal balance/GDP	%	-2.2	-8.2	-10.5	-4.1	-3.1	-4.5	-6.9	-3.6
Revenue/GDP	%	21.8	22.1	21.6	24.2	24.5	24.0	25.7	27.0
Expenditure/GDP	%	22.3	28.6	30.4	26.7	26.1	27.2	31.5	29.2
GG gross debt/GDP	%	83.7	91.9	86.1	81.8	81.5	88.3	89.1	88.1
GG external debt (by creditor)/GG gross debt	%	13.6	18.3	20.2	19.8	18.6	18.0	19.4	-
Interest/revenue	%	8.0	9.0	9.4	8.0	8.4	11.1	-	-
External indicators									
Current account balance/GDP	%	-5.0	-8.9	-12.1	-11.1	-5.1	-6.5	-4.7	-6.1
FDI, net inflows/GDP	%	-11.4	-88.4	119.7	23.7	69.0	-	-	-
Outstanding FII liabilities/GDP	%	218.4	569.9	793.0	671.1	650.8	-	-	-
NIIP/GDP	%	187.8	161.2	363.9	279.2	333.7	-	-	-
Foreign exchange reserves	USD billion	7.4	7.2	7.8	7.7	7.3	8.5	8.7	9.2
Import cover	Months	16.9	14.3	11.6	11.6	10.2	11.8	11.6	11.6
External debt/GDP	%	1,529.7	1,458.8	1,488.8	1,434.7	1,365.7	1,269.0	-	-
Monetary and financial indicators									
CPI inflation	%	0.5	2.5	4.0	10.8	7.1	3.6	3.6	3.6
Exchange rate (average)	LC per USD	36.0	39.7	42.0	44.5	45.5	46.6	-	-
Non-performing loans/total gross loans	%	4.9	6.2	5.8	4.9	5.3	3.8	-	-
Private debt, loans and debt securities/GDP	%	80.5	100.3	86.4	75.9	-	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Morocco

CareEdge BBB-/Stable

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for the Kingdom of Morocco at 'CareEdge BBB-/Stable' (Unsolicited).

Rationale

The reaffirmation of Morocco's credit rating reflects a resilient economy, driven by domestic demand, particularly private consumption and investment, alongside ongoing structural diversification. While non-agricultural sectors such as manufacturing, construction, and services continue to support overall growth, the agricultural sector rebounded in 2025. Agricultural output grew by 5%, following a 4.6% contraction in 2024, thanks to improved weather conditions. Tourism and related services, notably those tied to the 2025 Africa Cup of Nations (AFCON), further contributed to economic activity and foreign exchange inflows, reinforcing the country's overall growth momentum.

Morocco's fiscal position has gradually improved. Fiscal deficit narrowed to 3.5% of GDP in 2025 from 3.8% in 2024, supported by stronger revenue mobilisation. The 2026 Budget targets a further narrowing of the deficit to 3%, supporting a gradual stabilisation of gross general government (GGG) debt. According to International Monetary Fund (IMF) estimates, GGG debt reached 67.1% of GDP in 2025 from 67.7% in 2024 and is expected to stabilise at 64.8% in the medium term. Tax receipts and dividends from state-owned enterprises (SOEs) increased. Expenditure has been directed towards infrastructure, social programmes, and preparations for the 2030 FIFA (International Federation of Association Football) World Cup.

On the external front, Morocco's current account balance is supported by record tourism receipts and resilient remittance inflows that help offset a widening trade deficit, driven by investment-related imports. Foreign exchange reserves remain comfortable, covering 5.6 months of imports, while the IMF's flexible credit line (FCL) of USD 4.5 billion[1] continues to provide a buffer to external vulnerabilities. Foreign direct investment (FDI) inflows remain volatile but strategically important, with concentration in sectors such as renewable energy, automotive, and information technology (IT).

Inflationary pressures have been subdued. Morocco experienced deflation from November 2025 to January 2026 due to lower global food and oil prices, and improved domestic food supply. The central bank has maintained a stable policy rate and announced plans to pilot an inflation-targeting framework in 2026, signalling a commitment to strengthen policy credibility and anchor expectations. The banking sector remains well-capitalised, although non-performing loans (NPLs) are elevated at around 8%, reflecting exposure to riskier Sub-Saharan markets.

Outlook: Stable

The stable outlook for Morocco balances resilient macroeconomic fundamentals with downside risks. Economic growth will likely be supported by domestic demand, investment, and tourism activity, alongside ongoing structural reforms aimed at enhancing productive capacity. External buffers are adequate, supported by tourism receipts and remittance inflows, while fiscal consolidation is progressing gradually through improved revenue mobilisation and controlled expenditure. However, the outlook needs to be monitored closely due to vulnerabilities such as climate-related shocks affecting the agricultural sector and heightened global and regional risks, including spillovers from the Middle East (ME) conflict, which could weigh on external demand, commodity prices (including food, energy, phosphates and derivatives), and investor sentiment. These factors, combined with structural vulnerabilities, warrant continued monitoring despite otherwise supportive macroeconomic fundamentals.

Upside scenario

Morocco's sovereign credit rating could be revised upwards if the country sustains robust economic growth over the medium term, particularly in the absence of adverse climate conditions affecting agricultural output. Continued strong performance in tourism would further support foreign exchange earnings and overall economic activity. Additionally, the effective implementation of structural reforms, including investments in water infrastructure and desalination capacity to mitigate climate-related risks could enhance economic resilience. A sustained strengthening of external sector fundamentals, marked by improved current account dynamics and stable foreign exchange reserves, would further bolster the credit profile.

Downside scenario

Morocco's outlook could be revised to negative if external shocks, particularly an escalation of the ME conflict, adversely impact energy prices (despite notable improvements in renewable energy generation capacity), remittance inflows, and external financing, leading to a deterioration in the external position. A revision could also be triggered by a weakening fiscal position, resulting in a sustained increase in public debt, including from the materialisation of contingent liabilities. Additionally, a prolonged period of deflation could constrain monetary policy effectiveness and signal weak domestic demand, while rising vulnerabilities in the banking sector, including higher non-performing loans linked to regional exposures, could weigh on the credit profile.

Key rating drivers

Economic structure & resilience

Morocco has a relatively diversified economy and a nominal GDP of USD 183 billion in 2025, with GDP per capita estimated at USD 9,809 (constant PPP in 2025). Morocco's economic growth strengthened to an estimated 4.9% in 2025, from 3.8% in 2024, because of favourable weather conditions, with improved rainfall supporting an estimated 5% rebound in agricultural output. Nonagricultural activity grew by an estimated 4.8%, because of largescale infrastructure and construction projects linked to preparations for the 2025 AFCON and the 2030 FIFA World Cup, alongside solid performance in manufacturing, particularly automotive, phosphates, and derivative industries. The services sector also performed strongly, with tourist arrivals reaching a record 19.8 million in 2025, up 14% YoY, supported by AFCON and expanded air connectivity. Overall growth was reinforced by resilient domestic demand.

The IMF projects Morocco's economic growth to reach 4.4% in 2026, based on resilient agricultural performance and continued public infrastructure spending. Bank Al-Maghrib presents a more optimistic outlook, forecasting a faster acceleration in growth to 5.6%, following an estimated expansion of 4.8% in 2025. A stronger projection reflects exceptionally favourable climatic conditions in recent months, which should significantly boost agricultural output, particularly through improved cereal harvest with agricultural growth projected to surge to 14.4% in 2026. Further, ongoing largescale infrastructure investment, along with increased private sector participation, is expected to support job creation and gradually reduce unemployment to ~11% by 2028 from ~13% in 2025.

Morocco's growth outlook faces near-term headwinds from heightened external uncertainty linked to the ongoing ME conflict, which is weighing on global demand and stoking commodity price volatility. While domestic investment, particularly in infrastructure, continues to support activity, risks are tilted to the downside. These include potential spillovers from weaker economic conditions in key trading partners, notably the Euro Area, as well as uncertainties around the pace and effectiveness of domestic reform implementation. Should these risks materialise, growth could fall short of expectations, particularly if external demand softens further or investment multipliers prove weaker than anticipated. Additionally, despite favourable climatic conditions at the start of 2026, recurring drought episodes and potential declines in agricultural output remain the primary downside risk to economic activity.

Against this backdrop, Morocco's reform momentum under the New Development Model (NDM) amid broadly supportive macroeconomic conditions is expected to provide an important anchor for growth over the near to medium term. Low inflation and the ongoing expansion of targeted social protection should support private consumption. Simultaneously, sustained public investment (particularly in water security, energy, and transport) along with probusiness and governance reforms, is set to underpin capital formation. Largescale desalination projects form a central pillar of the authorities' strategy to address structural water scarcity and climate risks, strengthening economic resilience amid rising weather volatility. External demand should remain supportive for key sectors such as tourism and automotive manufacturing, while government-led housing initiatives are expected to further stimulate construction activity.

Fiscal strength

Morocco has made notable progress in fiscal consolidation. Its fiscal deficit halved from a peak of 7.1% of GDP in 2020 to an estimated 3.5% in 2025, reflecting the government's continued commitment to fiscal discipline. This improvement builds on the 3.9% deficit recorded in 2024 and has been driven primarily by revenue growth outpacing expenditure growth. Tax revenues benefited from resilient economic activity, tax administration reforms, and improved collection efficiency. On the expenditure side, outlays exceeded initial budget projections, largely reflecting higher public investment and increased transfers to SOEs, partially offsetting the gains from stronger revenue performance.

The government projects the fiscal deficit to narrow to ~3% of GDP in 2026, supported by strong revenue mobilisation and renewed expenditure discipline. Revenue gains reflect improved tax performance, underpinned by ongoing value-added tax (VAT), personal income tax (PIT), and corporate income tax (CIT) reforms, as well as higher dividend inflows. On the expenditure side, subsidy rationalisation, particularly on butane gas, alongside lower public investment in line with the NMD (to increase private investment share), should support consolidation. The IMF expects the deficit to decline gradually to 3.4% of GDP in 2026, before reaching 3% by 2031.

While the 2026 Budget confirms the gradual fiscal adjustment path projected last year, higher revenue growth should be leveraged to expedite debt reduction towards pre-pandemic levels (~60% of GDP). As the government continues to finance structural reforms, it will need to raise additional revenue and tighten spending to avoid fiscal pressures. This includes reducing transfers to SOEs as part of the ongoing sector reform and expanding the Unified Social Registry to better target social programmes, thereby enhancing spending efficiency and containing fiscal pressures.

The GGG debt is estimated at 67.1% of GDP in 2025 and is projected to decline gradually to 60.5% in 2031. Debt affordability is comfortable at 9.3% in 2025. GG's external debt is moderate at ~24.8% (as of 2024) and is primarily in the form of concessional loans. However, the fiscal profile is weighed down by contingent liabilities, which account for ~13% of GDP. The government has initiated an extensive review of SOEs to mitigate these risks. SOE transfers have climbed sharply since the pandemic, led by large commercial entities (ONEE, ONCF, RAM[2]). Ongoing SOE and Organic Budget Law reforms should help curb fiscal risks through tighter oversight and transfer rationalisation. Furthermore, a significant portion of the revenue is allocated to salaries, pensions, and subsidies, which account for approximately half of the government's expenditure.

External position & linkages

Morocco's current account deficit (CAD) is estimated to widen to 2.1% of GDP in 2025, from 1.2% in 2024, because of a deterioration in the goods trade balance. Strong domestic demand and investmentdriven activity increased imports (particularly of capital goods, raw materials, and consumer products) at a faster pace than exports. Export performance was mixed: phosphates and aerospace remained resilient, but weakness in the automotive sector and subdued external demand constrained overall export growth. Although a large services surplus, supported by tourism, combined with steady remittance inflows (~8% of GDP) and foreign investment, continued to support the current account, these gains were insufficient to offset the widening trade deficit.

Looking ahead, CAD is expected to widen to around 3.3% of GDP in 2026, reflecting high import content of infrastructure investments and elevated costs of energy (despite notable improvements in renewable energy generation capacity) and other commodity imports. External vulnerabilities are reinforced by Morocco's heavy reliance on France and Spain, which collectively account for about 43% of total trade, making exports sensitive to shocks affecting these economies. Heightened global uncertainty, including the ME conflict, rising trade barriers, and ongoing supply-chain disruptions could weigh on growth in the Euro Area, thereby reducing demand for Moroccan exports, especially for manufacturing and tourism-related services, intensifying pressure on the current account.

Despite potential external pressures from prolonged geopolitical tensions, Morocco continues to benefit from strong FDI inflows, underpinned by investment in manufacturing, infrastructure, and renewable energy. Nonetheless, external debt is high, at 45% of GDP in 2025, which, coupled with a large negative net international investment position (NIIP) of -41.4% of GDP in 2024, makes the economy vulnerable to external shocks. However, the availability of FCL of USD 4.5 billion from the IMF, with no binding conditions, will help support a smooth macroeconomic adjustment if downside risks to growth were to materialise, including a further escalation of the ME conflict, while supporting future Eurobond issuances. Lastly, the country's foreign reserves provide a sufficient cushion to meet short-term external debt obligations and are sufficient to cover 5.6 months of imports as of 2025

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Monetary & financial stability

The exchange rate is pegged to a currency basket of 60% Euros and 40% US dollars, within a fluctuation band of 35%, thus limiting monetary policy flexibility. While this arrangement supports nominal stability, it inherently constrains monetary policy independence. Consequently, the authorities are pursuing a cautious transition towards greater exchange rate flexibility, treating it as a medium-term objective aligned with the plans to strengthen the monetary policy framework, including a potential shift towards inflation-targeting.

Inflation moderated from 0.9% in 2024 to 0.8% in 2025, reflecting easing price pressures and a brief deflationary period between November 2025 and January 2026 (arising from lower global food and oil prices, and improved domestic food supply). In this context, monetary policy has remained accommodative. Bank Al-Maghrib has maintained a cautious stance to support domestic demand, while closely monitoring downside risks to inflation expectations. Looking ahead, inflation is expected to rise gradually to 1.7% over the medium term as external energy price shocks and domestic subsidy reforms take effect.

The banking system is resilient, well-capitalised and liquid, along with sustained profitability. This stability is underpinned by a regulatory framework that aligns with international standards. However, NPLs are relatively high at 8% in 2025, highlighting persistent asset quality concerns and elevated credit risk.

Institutions & quality of governance

Morocco benefits from a relatively strong institutional foundation and an established rule of law, underpinned by a track record of prudent macroeconomic management and the steady implementation of reforms. The country has maintained political stability despite regional tensions, while improvements in regulatory quality and crisis management, demonstrated by the coordinated response to the H2 2023 earthquake, underscores institutional resilience. Ongoing governance challenges, including high unemployment, pockets of social discontent, and ongoing concerns around corruption and public sector efficiency, remain key risks. While reform progress has been gradual, consistent macroeconomic and fiscal reforms support policy credibility and economic stability. The September 2026 elections remain a key monitorable for shift in policy direction.

Select indicators

	Unit	2020	2021	2022	2023	2024	2025	2026 F	2027 F
Economic indicators									
Nominal GDP	USD billion	121	142	131	146	160	183	194	212
GDP per capita (constant-PPP)	USD	8,319	8,908	8,981	9,221	9,482	9,809	10,130	10,445
Real GDP growth	%	-7.2	8.2	1.8	3.7	3.8	4.9	4.4	4.5
GFCF/GDP	%	26.2	26.3	26.6	25.1	26.5	-	-	-
Gross domestic savings/GDP	%	37.74	37.96	36.83	37.12	37.91	-	-	-
Exports (G&S)/GDP	%	13.50	14.12	15.41	17.20	19.83	-	-	-
Working age (15-64) population (% share in total)	%	53.61	53.84	54.05	54.23	54.42	54.62	54.82	55.02
Old age (65+) population (% share in total)	%	3.02	3.03	3.04	3.04	3.05	3.04	3.04	3.03
Fiscal indicators – general government									
Fiscal balance/GDP	%	-7.1	-5.9	-5.4	-4.4	-3.9	-3.5	-3.4	-3.3
Revenue/GDP	%	27.0	25.1	28.4	27.6	26.9	27.7	28.1	27.6
Expenditure/GDP	%	34.1	31.0	33.7	32.0	30.9	31.3	31.5	30.9
GG gross debt/GDP	%	72.2	69.4	71.4	68.7	67.7	67.1	65.9	64.8
GG external debt (by creditor)/GG gross debt	%	25.9	22.5	23.6	25.9	24.8	-	-	-
Interest/revenue	%	9.3	8.7	8.0	7.5	8.5	9.3	9.0	9.4
External indicators									
Current account balance/GDP	%	-1.2	-2.3	-3.5	-1.0	-1.2	-2.1	-3.3	-3.0
FDI, net inflows/GDP	%	1.2	1.6	1.8	0.7	0.6	1.2	1.2	1.4
Outstanding FII liabilities/GDP	%	12.2	10.3	9.5	10.7	10.3	-	-	-
NIIP/GDP	%	-67.2	-58.5	-58.3	-46.2	-41.4	-	-	-
Foreign exchange reserves	USD billion	36.0	35.6	32.3	36.3	37.1	-	-	-
Import cover	Months	8.9	6.8	5.1	5.6	5.3	-	-	-
External debt/GDP	%	54.2	45.5	49.5	48.2	42.6	45.1	45.0	43.8
Monetary and financial indicators									
CPI inflation	%	0.7	1.4	6.6	6.1	0.9	0.8	1.6	1.6
Exchange rate (average)	LC per USD	9.5	8.9	10.2	10.1	9.9	9.4	-	-
Non-performing loans/total gross loans	%	8.4	8.6	8.4	8.5	8.4	8.0	-	-
Private debt, loans and debt securities/GDP	%	71.7	66.5	68.8	63.1	61.4	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Nigeria

CareEdge B+/Stable

Rating action

CareEdge Global has upgraded the Long-Term Foreign Currency Rating of the Federal Republic of Nigeria to 'CareEdge B+/Stable' (Unsolicited) from 'CareEdge B/Positive'.

Rationale

Nigeria's rating upgrade reflects broad-based and tangible improvements in its credit profile driven by reform momentum. These reforms have fostered an improved business environment, increased capital inflows, and enhanced exchange rate stability.

Growth came in higher at 3.9% in 2025, versus 3.4% in 2024, driven by foreign exchange (FX) stability along with investment in priority sectors such as electricity, agriculture and transport. Security measures to curb pipeline theft and vandalism, launch of the Production Monitoring Command Centre (PMCC), and expansion of domestic crude oil refining boosted oil production. The reform momentum is expected to continue to enhance productive capacity. Growth is projected at 4.4% in 2026.

On the fiscal side, the 2026 budget projects fiscal deficit narrowing to 3.6% of GDP in 2026 from 4.2% in 2025. While new tax laws aim to lift non-oil revenue and reduce dependence on oil revenues, debt servicing costs and public-sector wages continue to dominate recurrent expenses. Nonetheless, persistent under-execution of capital expenditure (budgeted at 40% of total expenditure in 2026) may lower the overall expenditure. Further, the gross general government (GGG) debt-to-GDP is expected to peak at 38.4% in 2026 before declining to 36.7% in 2027.

On the external front, Nigeria has benefitted from a strengthening goods trade surplus due to slower import growth. petrol imports nearly halved in 2025, reflecting expansion in domestic refining capacity of the Dangote Refinery. Remittances also grew, supported by FX reforms. Foreign capital inflows more than doubled YoY in 2025, largely due to portfolio inflows as investors capitalised on higher real rates and Nigeria's removal from the Financial Action Task Force (FATF) greylist. Reserves reached a seven-year high of USD 45.5 billion in 2025, driven by a successful Eurobond issuance, reduced FX market pressure, and higher export earnings and remittances.

The Middle East (ME) conflict presents both headwinds and tailwinds for Nigeria. The government is prioritising domestic crude allocation to local refineries to reduce its reliance on imported crude. This move conserves FX, boosts local value addition, and mitigates global supply risks. Further, given the conflict-induced higher oil prices, Nigeria stands to earn more per barrel (p/b) in oil revenue than assumed in its 2026 budget framework (USD 65 p/b for oil). Rising oil prices could also boost external reserves.

Concurrently, the rise in oil prices could intensify inflationary pressures because domestic fuel pricing references international market dynamics, and the Dangote Refinery still needs to import heavier crude variant not produced locally to blend into its refining input. The 35-47% rise in petrol prices during Q1 2026 is expected to drive domestic inflation higher, worsening household welfare.

Nigeria's credit profile is constrained by structural weaknesses in daily production capacity, revenue capture, regulatory coordination, and institutional performance. These weaknesses are partially offset by the reform momentum-led improved business sentiment and overall investment. High oil prices have positioned the government to effectively harness tailwinds from the ME conflict. However, its ability to convert these opportunities into higher fiscal revenues, strong external reserves, and better growth is a key monitorable.

Outlook: Stable

Nigeria's stable outlook reflects CareEdge Global's expectation that sustained reform momentum will support its credit profile. We note that the ME conflict presents an opportunity for the government to strengthen its institutional capacity by harnessing possible windfalls in terms of oil GDP, fiscal revenue, and FX gains. Parallelly, the government would need to take effective measures to ensure that they are better placed to deal with the possibility of a cost-of-living crisis, while still adhering to the reform agenda.

Upside scenario

The rating could be upgraded if there is an acceleration in reform execution, resulting in better-than-expected growth, fiscal and external outcomes, while ensuring effective monetary policy management.

Downside scenario

The rating outlook could be downgraded if the reform momentum slows, inflationary pressures re-emerge, or if fiscal or external rebalancing stalls.

Key rating drivers

Economic structure & resilience

Nigeria is one of Africa's largest economies by size (USD 285 billion in 2025) and its most populous one. With limited investment in job-creating growth, income levels are low (GDP per capita estimated at USD 8,137 in constant PPP terms in 2025). The economy remains heavily dependent on the oil sector for exports (65% of total exports in 2025) and FX.

Nonetheless, FX stability together with investment in priority sectors such as electricity, agriculture and transport supported higher growth of 3.9% in 2025 versus 3.4% in 2024. For instance, reforms in the electricity sector include the decentralisation of the electricity regulatory framework and improved efficiency within the electricity value chain. Further, the operationalisation of the 180MW AFAM II power plant in Rivers State expanded the generation capacity. The services sector also showed better growth in 2025, following improvements in rail and road transport.

Oil production improved in 2025 following concerns around pipeline theft and vandalism. Average production inched up to 1.6 mbpd from around 1.5 mbpd in 2024, supported by security measures to curb pipeline theft and vandalism, launch of the PMCC, and expansion of domestic crude oil refining capacity.

The outlook for 2026 is based on the government's ability to maintain its reform momentum, while harnessing gains from higher oil prices due to the ME conflict. Additionally, increased fiscal and pre-election spending would further stimulate aggregate demand and provide supportive measures to households amid high inflation, stemming from higher food and oil prices due to the ME conflict. Importantly, this is contingent on the implementation of well-sequenced fiscal and monetary policies. Overall, GDP growth is projected at 4.4% in 2026 and the government's response to the current global environment remains a key monitorable.

Fiscal strength

Government finances face multiple challenges, including a strained revenue base and rising expenditure pressures, driven by a bloated public sector wage bill and high debt servicing costs. Interest to revenue payments is estimated at 47% in 2025, while the public sector wage bill is projected at 20% of total expenditure in 2026.

In a bid to increase revenue, the 2026 budget introduces new tax laws, including a more progressive personal income tax for high-income earners, a 4% development levy on the assessable profits of larger companies, and tighter compliance enforcement for companies and individuals. However, weak governance, a large informal sector, capacity gaps and enforcement challenges could weigh on the implementation of these laws. Consequently, execution risk remains key and will be an important monitorable in the near to medium term.

On the other hand, there is a potential upside to revenue, stemming from the 2026 budget projection of oil prices at USD 65 p/b. Given that oil prices are significantly higher due to the ongoing ME conflict, the government stands to gain more than the 2026 budgeted estimate for oil revenue (37% of total revenue).

On the recurrent expenditure side, following USAid cuts, the government has also had to outlay money to the Basic Health Care Provision Fund and the Malaria Vaccination of Infants initiative. Allocations were also made for expenses ahead of the 2027 general elections. The aggregate capital expenditure is budgeted at 40% of total expenditure in 2026. This is 14.6% lower than the 2025 budget allocation, reflecting a more conservative approach to capital planning and the focus on ongoing projects.

Overall, the fiscal deficit is projected to decrease to 3.6% of GDP in 2026 from 4.2% in 2025. Further GGG debt-to-GDP is expected to peak at 38.4% in 2026 before declining to 36.7% in 2027. Channelling revenue windfalls (stemming from higher oil prices) towards more productive uses such as debt reduction would strengthen the fiscal profile.

External position & linkages

Nigeria's goods trade surplus has strengthened thanks to petrol imports nearly halving in 2025, as domestic refining capacity expanded. This along with FX reform-led increase in remittances pushed the current account surplus to an estimated 5.7% of GDP in 2025. In 2026, we expect the surplus to continue with additional support from higher oil prices and the introduction of a new light, sweet crude grade called Cawthorne for exports from March 2026. Further, the potential upside gain from higher oil prices will support the current account. For the non-oil sector, the sustained increase in agricultural commodity and fertiliser exports is anticipated to boost receipts. The recently launched National Export Trading Company (to address persistent gaps in export value chain) and National Intellectual Property Policy (to boost creative exports) are expected to further boost non-oil receipts.

Foreign capital inflows more than doubled YoY in 2025, due to portfolio inflows as investors capitalised on higher real rates and Nigeria's removal from the FATF greylist. Reserves are at seven-year highs (USD 45.5 billion in 2025), driven by a successful Eurobond issuance, reduced pressure on the FX market, as well as higher export earnings and remittances.

The government projects reserves to increase to USD 51.04 billion in 2026, supported by reduced pressure in the FX market based on the anticipated rise in oil earnings, sovereign bond issuance, and sustained diaspora remittance inflow. Additionally, Dangote Refinery's expansion of its nameplate capacity to 700,000 bpd from 650,000 bpd in 2025 and eventually to 1.4 million bpd in the medium term will further support growth in external reserves. This positions Nigeria aptly to meet its external financing obligations.

Monetary & financial stability

The FX reform initiated by the government in 2024 has improved the exchange rate regime to a floating exchange rate.

Inflation slowed in 2025, due to the effect of the tight monetary policy stance of the Central Bank of Nigeria (CBN), stability in the FX market, and the base effect. Additionally, pressure on prices eased due to the waning effects of policy-induced shocks that were introduced in 2023, such as the unification of the exchange rate.

Following the rebasing of the Consumer Price Index (CPI) by the National Bureau of Statistics (NBS) in December 2024, inflation was recalibrated to reflect updated household consumption patterns and a new base year. As such, a direct YoY comparison with pre-rebased figures is inappropriate. Nonetheless, headline inflation eased from 24.5% in January 2025 to 15.2% in December 2025, averaging 21% in the year. Notably, the reduction in producer and business cost pressures underscores the effectiveness of ongoing macroeconomic reforms in stabilising the operating environment.

Inflation is expected to face renewed pressure in 2026, due to the spike in wheat and oil prices stemming from the ME conflict. However, CBN has displayed a commitment to adhering to its monetary policy framework and this remains a key monitorable.

The Nigerian banking sector remained stable in 2025, as key financial soundness indicators broadly aligned with prudential benchmarks.

The liquidity ratio stood at 65%, significantly above the 30% regulatory minimum and 48.94% as of December 2024, reflecting the banking sector's ability to meet maturing obligations. The capital adequacy ratio, at 11.6%, remained above the regulatory minimum of 10%, underscoring the sector's capacity to absorb credit and market shocks. The sector's resilience was anchored by strong net interest income, accelerated digital transformation, and ongoing recapitalisation, positioning it to mitigate emerging risks and uphold financial stability.

Nonetheless, the non-performing loan (NPL) ratio was an estimated 7% relative to the prudential limit of 5%. This level reflects the withdrawal of the regulatory forbearance granted to banks during the COVID-19 pandemic.

Institutions & quality of governance

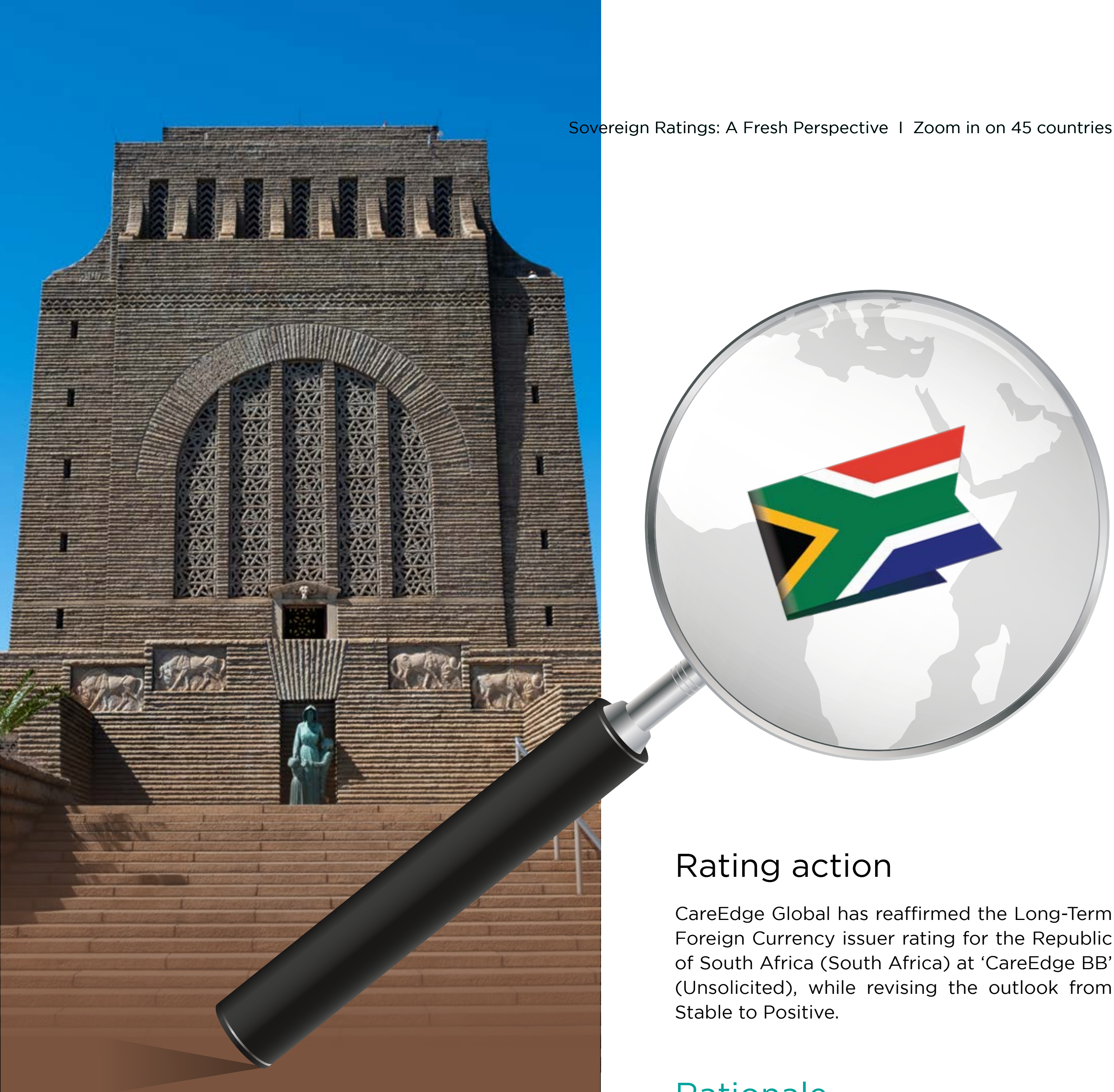
Widespread corruption, financial constraints, and oil theft on the Niger Delta remain significant barriers to effective management of natural resources and economic diversification. Nonetheless, bold policy reforms bode well for governance quality. The ME conflict presents an opportunity for Nigeria to display its reform momentum and institutional capability to capitalise on green shoots, while simultaneously addressing headwinds. Evolving developments will bear watching.

Select indicators

	Unit	2020	2021	2022	2023	2024	2025	2026 F	2027F
Economic indicators									
Nominal GDP	USD billion	598.7	609.5	645.7	487.3	252.1	285.0	334.3	359.3
GDP per capita (constant-PPP)	USD	7664.2	7588.5	7752.3	7843.8	7994.2	8137.2	8307.4	8460.6
Real GDP growth	%	-6.4	1.1	4.3	3.3	3.4	3.9	4.4	4.1
GFCF/GDP	%	26.7	33.1	24.3	26.9	24.5	30.5	33.1	33.9
Gross domestic savings/GDP	%	26.7	32.4	33.0	31.8	39.6	37.5	37.7	37.6
Exports (G&S)/GDP	%	9.3	11.5	14.5	16.6	30.7	27.2	25.4	23.8
Working age (15-64) population (% share in total)	%	54.2	54.6	55.0	55.5	55.9	56.4	56.9	57.4
Old age (65+) population (% share in total)	%	3.0	3.0	3.0	3.0	3.0	3.1	3.1	3.1
Fiscal indicators – general government									
Fiscal balance/GDP	%	-4.0	-4.0	-4.0	-3.1	-1.6	-2.9	-3.7	-2.8
Revenue/GDP	%	4.7	5.1	6.6	7.3	10.8	9.6	9.1	9.3
Expenditure/GDP	%	8.7	9.1	10.6	10.4	12.3	12.5	12.8	12.2
GG gross debt/GDP	%	25.7	26.6	29.8	36.3	44.0	42.4	50.0	35.3
GG external debt (by creditor)/GG gross debt	%	40.6	26.6	24.0	26.6	46.5	47.3	45.0	43.2
Interest/revenue	%	37.2	79.5	61.2	83.8	41.1	47.3	49.2	50.2
External indicators									
Current account balance/ GDP	%	-2.7	-0.5	4.1	1.3	6.8	5.7	3.6	3.0
FDI, net inflows/GDP	%	0.6	0.8	0.0	0.5	0.6	-	-	-
Outstanding FII liabilities/ GDP	%	4.7	5.4	5.6	6.5	15.9	-	-	-
NIIP/GDP	%	-13.5	-12.1	-14.1	-18.4	-27.2	-	-	-
Foreign exchange reserves	USD billion	36.7	40.5	35.6	32.0	38.6	-	-	-
Import cover	Months	5.6	6.2	4.7	4.9	6.8	-	-	-
External debt/GDP	%	14.6	16.6	16.6	21.1	40.5	37.2	33.0	31.5
Monetary and financial indicators									
CPI inflation	%	13.2	17.0	18.8	24.7	31.4	23.0	22.0	17.0
Exchange rate (average)	LC per USD	356.3	398.9	423.3	644.0	1478.6	1517.9	-	-
Non-performing loans/total gross loans	%	6.0	5.4	4.5	4.4	4.1	7.0	-	-
Private debt, loans and debt securities/GDP	%	10.9	11.9	12.6	16.7	-	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024



South Africa

CareEdge BB/Positive

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for the Republic of South Africa (South Africa) at 'CareEdge BB' (Unsolicited), while revising the outlook from Stable to Positive.

Rationale

South Africa's credit profile reflects improvement in its macroeconomic backdrop. GDP growth is projected at 1.1% in 2025, more than double the 0.5% seen in 2024 and surpassing the 0.8% average of the previous decade (2014-2024). Growth drivers include record-high metal prices and structural reforms in key sectors through the Operation Vulindlela (OV) framework. Ongoing reforms aided by the recent allocation of over ZAR 1 trillion for infrastructure between FY26 and FY28 are expected to push growth to 1.4% in 2026.

The country's removal from the Financial Action Task Force (FATF) grey list in October 2025, as well as the adoption of a lower inflation target band to 2-4%, may enhance price stability and lower borrowing costs, thereby attracting foreign investors. The current account should continue to receive support from high metal prices, the recent renewal of the African Growth and Opportunity Act (AGOA), and improvements in the logistics sector. However, we note downside risks from escalating tensions in the Middle East (ME).

However, the fiscal profile still exhibits some weaknesses, weighed down by high debt-servicing costs, the public sector wage bill, and contingent liabilities, although growth in these expenditure items is moderating. Following last year's postponement of the budget due to tensions within the Government of National Unity (GNU) over a proposed value-added tax (VAT) hike, the National Treasury (NT) has delivered three consecutive budgets, displaying fiscal consolidation. This outcome demonstrates the government's commitment to fiscal discipline.

The FY27 budget, presented in February 2026, revealed better-than-expected revenue and expenditure outcomes for FY26. This enabled a third consecutive primary surplus, which rose to 1% of GDP from 0.8% in FY25. The fiscal deficit for FY26 is now estimated at 4.5% of GDP, unchanged from FY25. The primary surplus and fiscal deficit are projected to fare better at 1.4% and 4.0%, respectively, in FY27. This will be realised through significantly lower growth projections in debt service costs and the public sector wage bill. Overall, the general government gross (GGG) debt-to-GDP is seen peaking at 78.9% of GDP in FY26 and projected to gradually decrease to 77.3% in FY27.

We note that South Africa could be at an inflection point; tangible efforts to reduce bottlenecks are evident in terms of growth outcomes and public finances. This could be the structural shift needed towards sustained growth and fiscal consolidation path. Nonetheless, the sustainability of higher growth and fiscal discipline is key.

Outlook: Positive

South Africa's positive outlook reflects the expectation that ongoing structural reforms in key sectors, such as energy and logistics, will boost medium-term GDP growth. While the impact of the ME conflict is still evolving, record-high precious metal prices, the renewal of AGOA, and marginal improvements in the logistics sector are expected to mitigate downside risks to exports. Further, the recent exit from the FATF grey list and the adoption of a new inflation target should support the external position. Finally, the NT has made tangible efforts towards fiscal consolidation, as outlined in the FY27 budget. Notably, the government projects a growing primary surplus for FY27, with GGG debt decreasing between FY27 and FY29.

Upside scenario

The rating could improve if the economy achieves higher, sustainable growth over the medium term. This would likely be driven by a faster pace of structural reform or enhanced business confidence, which would stimulate increased investment. On the fiscal front, an upgrade could be supported by lower-than-expected fiscal deficits and GGG debt, which would meaningfully reduce fiscal risks.

Downside scenario

A downgrade may result from a significant increase in the GGG debt-to-GDP ratio, potentially caused by the government's inability to contain expenditure or the consistent provision of guarantees to struggling state-owned enterprises (SOEs). Furthermore, the risk of a downgrade would heighten if economic growth slows significantly, for instance, due to a deterioration in supply-side constraints, or if the government fails to maintain policy continuity.

Key rating drivers

Economic structure & resilience

The economy is constrained by a rigid labour market, large income inequality and supply-side constraints. The latter stems from poor governance and infrastructure bottlenecks, which have seen high logistics costs, as well as electricity (although subsiding) and water shortages. Consequently, growth slowed to average 1% over the past decade (2014-2024). Nonetheless, the challenges of subdued GDP growth and infrastructure bottlenecks are offset by a well-diversified economy, featuring a sizable mining industry, a competitive financial services sector, and a strong services sector.

Real GDP growth more than doubled to 1.1% in 2025 from 0.5% in 2024 and surpassed the 10-year average of 0.8%. The government projects growth at 1.6% in 2026, with medium-term projections closer to 2%. Under the OV framework, structural reforms in key sectors have begun to bear fruit. High precious metal prices, the renewal of the AGOA, and structural improvements could translate into meaningful trade gain, leading to growth. Consumer spending is expected to remain robust, while fixed investment may gain support from the budgetary outlay of ZAR 1 trillion over the medium term (2026-2028). Notable risks to the outlook include the impact of the ME conflict.

Fiscal strength

Government finances face multiple challenges, including a strained revenue base amid sluggish economic activity and rising expenditure pressures caused by a bloated public sector wage bill and high debt-servicing costs (projected at 31% and 16% of total expenditure in FY26, respectively).

Following last year's postponement of the FY26 budget due to tensions within the GNU over a proposed VAT hike, the NT presented the FY27 budget in February.

The budget realised better-than-expected revenue and expenditure outcomes for FY26, facilitating a third consecutive primary surplus. The fiscal deficit for FY26 is now estimated at 4.5% of GDP, unchanged from FY25. For FY27, the introduction of additional revenue measures and slower growth in key expenditure items, such as the public sector wage bill and debt-servicing costs, are expected to translate into a higher primary surplus of 1.4% of GDP and a narrowed fiscal deficit of 4.0% of GDP. GGG debt-to-GDP ratio is seen peaking at 78.9% of GDP in FY26 before decreasing to 77.3% in FY27 and gradually reaching 76.5% by FY29.

We note that South Africa could be at an inflection point; tangible efforts to reduce bottlenecks are evident in terms of growth outcomes and public finances. Notably, the Targeted and Responsible Savings (TARS) initiative adopted in FY25 has started yielding results. Also, the development of a fiscal anchor (to be presented in the November 2026 medium-term budget) represents a commendable effort to contain expenditure.

Nonetheless, we remain concerned about contingent liability risks. Despite improvements in Eskom's operational capacity, whereby the utility turned profitable in FY25 for the first time since FY17, we remain concerned about the sustainability of the utility's profits. Hence, this is a key monitorable. Further, while Transnet's profitability has been improving, it has been operating at a loss and still relies on government guarantees. The government will have to walk a tight rope when allocating guarantees or bailouts to struggling SOEs and maintaining fiscal discipline.

External position & linkages

The current account switched from a deficit of 0.9% of GDP in Q3 2025 to a surplus of 0.6% in Q4 2025, the first surplus since Q3 2023, largely driven by a wider trade surplus and a slightly smaller deficit on the primary income account. The current account deficit (CAD) eased to 0.5% of GDP in 2025 from 0.7% in 2024.

In 2026, the CAD is projected at 1.2% of GDP. Exports are expected to gain support from the record-high value of metal prices, better terms of trade (ratio of exports to imports), the renewal of AGOA, and supply-side improvements on both the energy and the logistics side.

The trade outlook is currently facing headwinds, as the ME conflict intensifies, amplifying geopolitical risks and disrupting the financial markets. These tensions have already pushed up oil prices, further exacerbated by the US introducing a 10% baseline tariff on most imports. With plans to raise this to 15%, trade tensions will likely intensify, increase policy uncertainty, and dampen global trade and investment.

South Africa's reliance on portfolio inflows could expose it to vulnerabilities stemming from geopolitical tensions. However, the country has a favourable net international investment position (NIIP) of around 29% of GDP as of 2025, which may provide some cushion to capital outflows.

Monetary & financial stability

South Africa has a floating exchange rate regime. The South African Reserve Bank (SARB) strongly adheres to its mandate for inflation and financial stability, with an inflation target band between 2% and 4% (previously 3-6%).

In 2025, inflation averaged 3.2% versus 4.4% in 2024. Core inflation declined from 4.3% in 2024 to 3.2% in 2025. Looking ahead, meat prices may remain elevated due to the ongoing impact of the foot-and-mouth disease. There has been some progress on the vaccination rollout, albeit slow due to medication shortages. Strong domestic crop production may help mitigate the impact of rising food prices, though risks to the inflation outlook remain due to the ME conflict-induced oil price shock.

SARB has developed two scenarios to assess the impact of the ME conflict on inflation. The first scenario assumes that the ME conflict lasts another two months or so, with oil prices averaging USD 100 per barrel (p/b) in Q2 2026 and the Rand weakening by about 5% against the US dollar. The second, more extreme scenario, assumes the conflict lasts over a year, with oil prices sustained above USD 100 p/b and the Rand 10% weaker. In both scenarios, inflation is projected to rise, exceeding 4% in the first scenario and 5% in the second. Both scenarios reflect the need for interest rate hikes, with one hike in the first scenario and several in the other. Inflation is expected to moderate as oil prices stabilise and the policy response takes effect. In the first scenario, inflation will ease to 3% by 2027. In the second scenario, this is pegged for 2028.

Institutions & quality of governance

Although the country has credible institutions, such as the NT and the SARB, systemic corruption, particularly within SOEs, has weakened overall governance. The GNU has been in operation for one year now and tensions within it have eased, paving the way for policy continuity. Lastly, local government elections will take place later this year and navigation of coalition politics will also be monitored.

Select indicators

	Unit	2020	2021	2022	2023	2024	2025	2026 F	2027F
Economic indicators									
Nominal GDP	USD billion	337.9	419.9	407.4	381.3	401.1	431	474	492
GDP per capita (constant-PPP)	USD	12789.2	13876.1	14992.4	15464.8	15722.1	16049.8	16283.2	16559.5
Real GDP growth	%	-6.2	4.9	2.1	0.8	0.5	1.3	1.4	1.5
GFCF/GDP	%	13.8	13.1	14.1	14.9	14.5	13.4	-	-
Gross domestic savings/ GDP	%	16.7	19.1	17.8	16.6	16.2	-	-	-
Exports (G&S)/GDP	%	27.6	31.2	33.5	33.3	31.8	-	-	-
Working age (15-64) population (% share in total)	%	66.9	67.2	67.3	67.4	67.4	67.4	67.3	67.3
Old age (65+) population (% share in total)	%	6.1	6.2	6.4	6.5	6.7	6.9	7.1	7.3
Fiscal indicators – general government									
Fiscal balance/GDP	%	-9.6	-5.5	-4.2	-5.5	-5.8	-6.0	-5.6	-5.3
Revenue/GDP	%	25.0	27.1	27.6	26.9	27.2	27.6	27.5	27.6
Expenditure/GDP	%	34.6	32.7	31.9	32.5	33.0	33.6	33.1	32.9
GG gross debt/GDP	%	68.9	68.8	70.7	73.2	76	77	78.5	79
GG external debt (by creditor)/GG gross debt	%	26.4	25.5	24.3	23.8	23.8	-	-	-
Interest/revenue	%	17.5	15.9	16.8	19.0	20.4	21.0	21.3	19.4
External indicators									
Current account balance/ GDP	%	2.0	3.7	-0.3	-1.1	-0.7	-0.9	-1.2	-1.5
FDI, net inflows/GDP	%	0.93	9.66	2.27	1.01	0.58	-	-	-
Outstanding FII liabilities/ GDP	%	67.1	49.6	48.0	48.1	47.5	-	-	-
NIIP/GDP	%	33.3	24.3	18.8	29.1	28.9	29.5	-	-
Foreign exchange reserves	USD billion	55.0	57.6	60.6	62.5	65.4	-	-	-
Import cover	Months	7.1	5.6	4.9	5.3	5.7	-	-	-
External debt/GDP	%	50.4	38.2	40.3	41.5	42.0	45.7	45.9	47
Monetary and financial indicators									
CPI inflation	%	3.3	4.6	6.9	5.9	4.4	3.2	3.6	3.3
Exchange rate (average)	LC per USD	16.5	14.8	16.4	18.5	18.3	17.9	-	-
Non-performing loans/total gross loans	%	5.17	4.46	4.66	5.42	5.18	4.9	-	-
Private debt, loans and debt securities/GDP	%	75.2	67.6	69.0	67.2	66.9	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Tanzania

CareEdge B+/Stable

Rating action

CareEdge Global has assigned a Long-Term Foreign Currency Rating of 'CareEdge B+/ Stable' (Unsolicited) to the United Republic of Tanzania.

Rationale

Tanzania's credit rating reflects its tightrope walk between consistent economic growth and the mounting pressures of development costs and debt interest.

GDP growth has been consistent over the over past few years, supported by disciplined policy management. Real GDP growth is estimated to have increased to 6.0% in 2025 from 5.5% in 2024, driven by large-scale public infrastructure investment, expanding mining and quarrying activity, and a recovery in the services sector, particularly tourism and trade. Over the medium term, growth is expected to average 6.4%, supported by sustained investments in transport, energy, and extractive industries, coupled with a rise in private sector participation, notably in manufacturing and real estate.

However, the outlook is largely constrained by execution risks related to large infrastructure projects, including implementation delays and budget overruns.

On the fiscal front, budgetary flexibility is limited by a narrow revenue base, sustained capital spending, and interest payments of around 14% of revenue. Nonetheless, general government debt is below 50% of GDP, supporting debt sustainability. Fiscal deficit is projected to remain contained at around 3.0% of GDP, compared with 3.9% in 2022, reflecting a balance between gradual revenue mobilisation and substantial development expenditure needs. Government revenue increased to an estimated 16.9% of GDP in 2025, from 14.9% in 2021, supported by tax administration reforms and policy measures.

Despite an improvement in external sector indicators, these are a key source of vulnerability. The external position is exposed to commodity price volatility due to export concentration (gold accounts for around 46% of total goods exports) and to exchange rate risks as USdollardenominated liabilities represent ~61.1% of total external debt. The current account deficit narrowed to ~2.6% of GDP in 2025, from a peak of 7.4% in 2022, supported by high gold export receipts and a strong recovery in tourism, with arrivals exceeding 2.3 million. Foreign exchange reserves have stabilised at around 3.4 months of import cover, benefiting from commodity exports, tourism inflows, International Monetary Fund (IMF) disbursements under the Extended Credit Facility (ECF) and Resilience and Sustainability Facility (RSF), and central bank gold purchases.

Monetary conditions remain cautiously supportive of macroeconomic stability. Inflation has been anchored at around 3.5%, within the central bank's target range, reflecting prudent monetary policy, stable food prices, and improved liquidity management. The Bank of Tanzania has cautiously eased its policy stance amid contained inflationary pressures, with the policy rate declining from 5.30% to 4.75% between August and December 2025, while maintaining financial system stability. The banking sector remains sound, with nonperforming loan (NPL) ratios declining to around 3.5% in 2025. Nevertheless, intermittent exchange rate volatility and a still evolving monetary transmission mechanism may limit policy effectiveness.

Institutional and governance indicators are mixed. Tanzania benefits from relative political stability and policy continuity, which support macroeconomic management and reform implementation. However, governance effectiveness is moderate, hindered by regulatory gaps, state dominance in key sectors, and limited institutional capacity. Socio-political risks, including occasional unrest and governance concerns, continue to weigh on the sovereign's credit profile.

CareEdge Global is of the view that while Tanzania's growth, high investment levels, and stable macroeconomic framework support its credit profile, structural fiscal rigidities, external vulnerabilities, and institutional limitations cannot be ignored. The conflict in the Middle East can also weigh on inflation and the current account balance, which can intensify the pressure on the credit profile and, therefore, is a monitorable.

Outlook: Stable

The stable outlook reflects expectations that Tanzania will maintain healthy economic growth, supported by continued high public and private investments, robust mining activity, and steady services sector performance. Fiscal outcomes are expected to remain stable, as gradual consolidation balances development spending pressures against incremental revenue gains. External buffers are projected to remain adequate, supported by elevated gold exports, recovering tourism inflows, and continued access to concessional financing.

Upside scenario

We could revise the outlook to positive if Tanzania achieves sustained improvement in fiscal flexibility, particularly through revenue mobilisation that lowers the interest-to-revenue ratio. Further improvement in the external position, including higher reserve coverage, reduced exposure to foreign currency debt, and greater export diversification would also be credit positive.

Downside scenario

Downward pressure on the outlook could arise from weaker fiscal performance, including revenue underperformance or persistent expenditure overruns that negatively affect debt dynamics. A material slowdown in growth, driven by adverse climate events, low commodity prices, or delays in major infrastructure projects could weaken economic resilience. Higher inflation rates arising from rising fuel prices because of the Middle East crisis can also affect the outlook.

Key rating drivers

Economic structure & resilience

Tanzania's economic structure is moderately diversified, with services contributing ~47% of GDP, followed by industry at ~28%, and agriculture accounting for the remaining. Growth is strong and investmentled, providing a key rating support, at 6.0% in 2025 and 6.4% over the next 3 years, supported by sustained capital formation, expansion in extractive industries, and resilient services activity, notably tourism and trade.

Major public investment programmes such as the SGR railway, the Julius Nyerere Dam and the East African Crude Oil Pipeline, as well as private sector investments in commercial housing, mining and manufacturing continue to boost growth. Total GFCF relative to GDP, at 37.5% in 2025 compared with an average of 5.3% during 2022-2024, is expected to exceed 40% by 2028. The services sector, on the other hand, has benefitted from a strong rebound in tourism, with arrivals exceeding 2.3 million in 2025, while manufacturing activity has been supported by increased private investment and valueaddition initiatives as the government continues to focus on beneficiation of natural resources.

Nonetheless, a large informal sector, which employs a substantial portion of the population, continues to impede productivity and revenue mobilisation. Resultantly, the informal economy suppresses per capita income, which was USD 3,746 in 2025 despite high GDP growth. Additionally, the growth outlook is exposed to downside risks from climaterelated shocks affecting agricultural output and execution risks associated with large infrastructure projects, and potential shortfall in tourist arrivals, specifically because of ongoing geopolitical tensions.

Looking ahead, Tanzania's ability to sustain high growth will depend on effective project execution, improvement in human capital, and continued progress in economic diversification beyond primary commodities.

Fiscal strength

Though fiscal metrics are moderate, supported by a relatively low public debt burden, fiscal flexibility is constrained by structural pressures. General government debt was low at 49.6% of GDP in 2025, although it has been on a rising trend since 2019 (40.4%). However, the debt-to-GDP ratio is projected to fall to 42.9% by 2023. Fiscal deficit has narrowed and is expected to be broadly contained at around 3.0% of GDP over the medium term, reflecting a balance between development expenditure needs and gradual consolidation efforts.

Revenue mobilisation has improved steadily. Government revenue rose to ~16.9% of GDP in 2025 from 16.1% in 2024 and 14.9% in 2021, supported by tax administration reforms and policy measures aimed at broadening the tax base and encouraging the formalisation of the informal sector. Despite this improvement, revenue performance has been structurally constrained, limiting the fiscal space. Expenditure, on the other hand, has been trending up, from 19.1% of GDP in 2024 to 19.9% in 2025. By 2030, revenue-to-GDP is expected to increase to 20.8%, while expenditure-to-GDP is projected to reach 17.8%.
Interest payments are estimated at around 14% of revenue, which, while moderate, continue to absorb a meaningful share of government resources and reduce budgetary flexibility. As such, Tanzania's fiscal position remains sensitive to expenditure pressures arising from infrastructure spending and social demands. The composition of public debt represents an additional constraint. External debt accounts for around 67% of total public debt, increasing the exposure to exchange rate volatility and external financing conditions. While Tanzania continues to rely on concessional financing, the evolution of debt composition, contingent liabilities from stateowned enterprises (SOEs) and increased use of publicprivate partnerships (PPPs) are important monitorables for fiscal sustainability.

External position & linkages

Tanzania's external position has strengthened in recent years, although vulnerabilities persist. The current account deficit narrowed significantly to around 2.6% of GDP in 2025, from a peak of 7.4% in 2022, supported by record gold export receipts and a strong recovery in tourism. Tourist arrivals exceeded 2.3 million, contributing meaningfully to foreign exchange earnings and supporting the services balance. Import growth is relatively contained despite high capital goods imports for infrastructure projects.

Foreign exchange reserves have stabilised at ~3.4 months of imports, supported by gold exports, tourism inflows, IMF disbursements under the ECF and RSF, and the central bank's domestic gold purchase programme. These buffers provide some capacity to absorb nearterm external shocks, although reserve adequacy remains modest relative to external exposure.

External vulnerabilities persist due to high export concentration and foreign currency exposure. Gold accounts for ~46% of total goods exports, leaving the external balance sensitive to commodity price volatility. Additionally, the predominance of US dollardenominated external debt heightens vulnerability to exchange rate depreciation and shifts in global financial conditions.

Monetary & financial stability

Monetary stability is a key rating support. Inflation is low and well anchored at around 3.5%, within the central bank's target range of 3.0% to 5.0%, reflecting prudent monetary management, stable food prices, and effective liquidity control. This has provided room for the Bank of Tanzania to gradually ease its policy stance while maintaining price stability. The repo rate was gradually lowered to 4.75% in December 2025 from 5.30% in August 2025.

The banking sector has improved notably. The NPL ratio declined to around 3.5% in 2025 from a high of 11.5% in 2017, well below the regulatory threshold, supported by stronger credit growth, improved asset quality, and enhanced supervisory oversight. Capitalisation and liquidity levels in the banking system are adequate.

However, monetary policy effectiveness continues to be constrained by intermittent exchange rate volatility and an evolving monetary transmission mechanism. While recent currency stability has been supported by improved external inflows and policy measures, the exchange rate remains sensitive to external shocks and shifts in investor sentiment.

Institutions & quality of governance

Institutional and governance indicators are mixed. Tanzania benefits from relative political stability and policy continuity, which support macroeconomic management and reform implementation. Nonetheless, several irregularities were reported by independent assessors in the previous general elections.

Governance indicators in some areas have been improving, such as government effectiveness and control of corruption, albeit from a low base. Nevertheless, challenges regarding regulatory quality, institutional capacity, and transparency do exist, which adversely impact the investment environment and policy effectiveness. State involvement in key sectors and governance risks associated with public enterprises are relevant considerations. Social and political risks, including episodic unrest and governance concerns, continue to cap the sovereign's institutional strength and overall credit profile.

Select indicators

	Unit	2020	2021	2022	2023	2024	2025	2026 F	2027F
Economic indicators									
Nominal GDP	USD billion	63.4	68.0	74.2	78.4	79.2	87.4	95.3	104.7
GDP per capita (constant-PPP)	USD	3,366.1	3,426.9	3,482.9	3,556.3	3,642.1	3,748.8	3,871.0	4,004.8
Real GDP growth	%	4.5	4.8	4.7	5.1	5.5	6.0	6.3	6.5
GFCF/GDP	%	40.5	40.8	39.3	37.1	37.1	37.5	38.0	38.8
Gross domestic savings/ GDP	%	37.7	37.3	31.9	33.4	34.6	34.9	35.3	36.1
Exports (G&S)/GDP	%	13.5	14.1	15.4	17.2	19.8	-	-	-
Working age (15-64) population (% share in total)	%	53.6	53.8	54.0	54.2	54.4	54.6	54.8	55.0
Old age (65+) population (% share in total)	%	3.0	3.0	3.0	3.0	3.1	3.0	3.0	3.0
Fiscal indicators – general government									
Fiscal balance/GDP	%	-2.6	-3.6	-3.9	-3.7	-3.0	-3.0	-3.0	-3.0
Revenue/GDP	%	14.9	14.9	15.2	15.3	16.1	16.9	17.5	17.7
Expenditure/GDP	%	17.4	18.4	19.1	19.0	19.1	19.9	20.5	20.6
GG gross debt/GDP	%	41.3	43.4	44.9	47.8	49.9	49.6	48.3	46.7
GG external debt (by creditor)/GG gross debt	%	-	40.3	51.7	40.3	64.5	61.1	-	-
Interest/revenue	%	10.4	11.5	11.4	13.2	13.9	-	-	-
External indicators									
Current account balance/ GDP	%	-2.3	-3.5	-7.4	-3.8	-2.6	-2.6	-2.7	-2.8
FDI, net inflows/GDP	%	1.5	1.8	1.9	2.1	2.1	2.0	-	-
Outstanding FII liabilities/ GDP	%	0.03	0.01	0.04	0.02	0.02	-	-	-
NIIP/GDP	%	-54.7	-56.3	-58.9	-58.0	-64.2	-	-	-
Foreign exchange reserves	USD billion	5.2	5.3	5.1	5.4	5.3	5.8	6.4	6.9
Import cover	Months	6.30	4.60	3.60	4.00	3.80	3.90	3.90	3.90
External debt/GDP	%	35.0	38.5	36.2	37.9	36.9	41.6	-	-
Monetary and financial indicators									
CPI inflation	%	3.3	3.7	4.4	3.8	3.1	3.3	3.5	4.1
Exchange rate (average)	LC per USD	2,294.1	2,297.8	2,303.0	2,383.0	2,597.9	2,537.3	-	-
Non-performing loans/total gross loans	%	9.3	8.2	5.8	4.3	3.3	3.5	-	-
Private debt, loans and debt securities/GDP	%	12.8	13.4	15.4	16.3	16.4	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2024

Contributors

Rajani Sinha
Chief Economist
rajani.sinha@careedge.in

Kiran Kavala
Senior Director
kiran.kavala@careedgeglobal.com

Dr. Annie Mahajan
Senior Economist
Annie.Mahajan@careedgeglobal.com

Mihika Sharma
Senior Economist
Mihika.Sharma@careedgeglobal.com

Sanroy Seechurn
Senior Economist
Sanroy.Seechurn@careratingsafrica.com

Shobana Krishnan
Consultant
C-Shobana.Krishnan@careedge.in

Amya Parmar
Economist
Amya.Parmar@careedgeglobal.com

Girisha Algoo
Economist
Girisha.Algoo@careratingsafrica.com

Mihir Raravikar
Economist
Mihir.Raravikar@careedgeglobal.com

Yogesh Kumar
Economist
Yogesh.Kumar@careedgeglobal.com

Utkarsh Kumar
Economist
Utkarsh.Kumar@careedgeglobal.com

Buhle Toni
Associate Economist
Buhle.Toni@careedgesouthafrica.com

Hemasree Tummaluru
Associate Economist
Hemasree.Tummaluru@careedgeglobal.com

Novishka Ramma
Associate Economist
Novishka.Ramma@careratingsafrica.com

Shivani Sahu
Associate Economist
Shivani.Sahu@careedgeglobal.com

Design:

Amita Akre

Editorial:

Varsha D'Souza

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global
Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

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CareEdge Global IFSC Limited (CareEdge Global) is a full-service Credit Rating Agency (CRA) with a mission of empowering global capital market participants through unrivalled insights and expertise. As the first CRA registered and authorized by the International Financial Services Centres Authority (India), CareEdge Global is uniquely positioned to provide comprehensive ratings on a global scale. A part of the CareEdge Group, which is a knowledge-based analytical organisation offering a wide range of services in Credit Ratings, Analytics, Consulting, and Sustainability. Established in 1993, our parent company, CARE Ratings Limited (CareEdge Ratings), stands as India's second-largest rating agency.

CareEdge Global IFSC Limited
Unit No. 501, 5th Floor, FLEXONE, GIFT SEZ, GIFT City,
Gandhinagar – 382050, Gujarat, India.