

FitchRatings

Latin America in **Focus** – 2026

**Heightened Risks from
Geopolitics and Elections**



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INTRODUCTION

Welcome to the second installment of our interactive “Latin America in Focus” series. While the first e-book focused on the impact of tariffs and other U.S. policies, this edition centers around the heightened geopolitical risks faced by the region.

This e-book also lays out the current state of U.S. migration and trade policies, and discusses what to expect for the upcoming renegotiation of the United States-Mexico-Canada Agreement (USMCA).

Besides external risks, the region also faces a busy election cycle, which inevitably brings with it higher political and policy uncertainty. Here, we review the reforms already undertaken in countries that held elections in 2025 and discuss what we can expect in countries with elections in 2026.

As in the first installment, this publication provides cross-sector insights, as well as links to research and rating actions for each sector, concluding with a page dedicated to global resources.



SOVEREIGN OVERVIEW

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The most immediate geopolitical risks stem from the Middle East conflict, which poses additional challenges, particularly to oil-importing countries or countries with high external financing needs. Negative rating pressure will depend on the headroom in the rating, the starting point for fiscal and external buffers, as well as the authorities' responses to a prolonged adverse scenario.”



Shelly Shetty

Managing Director,
Head of Asia & Americas Sovereigns

[Contact](#)

“

In the medium term, geopolitical risks could also stem from the U.S.'s reassertion of the 'Monroe Doctrine' to bolster its influence in Latin America at the expense of China's. Greater scrutiny from the U.S. regarding Latin America's economic engagement with China poses both risks and potential benefits for the region.”



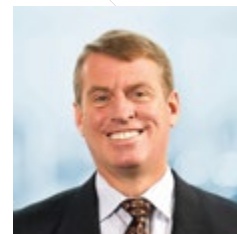
Todd Martinez

Senior Director,
Co-Head of Americas Sovereigns

[Contact](#)

“

Shifting U.S. trade and migration policies have not severely hurt the region so far, but their impact may take time to fully materialize, and uncertainty persists. The status of the USMCA and other trade agreements is unclear as the administration continues to use tariffs as a policy lever. In addition, there is political uncertainty related to LatAm's busy election cycle.”



Richard Francis

Senior Director,
Co-Head of Americas Sovereigns

[Contact](#)

Geopolitical Risks

The Middle East conflict has resulted in higher energy prices, exchange rate fluctuations, and higher bond yields.

Higher-for-longer oil and gas prices, combined with supply-chain disruptions, could fuel inflation, worsen external balances and slow fiscal consolidation efforts, particularly in countries that have traditionally provided energy and food subsidies.

A protracted conflict could also reduce remittances, should U.S. growth and employment suffer greatly, and access to international finance, with sovereigns facing large financing needs being more vulnerable to changes in risk sentiment.

In the medium term, Latin America & the Caribbean is exposed to greater scrutiny from the U.S. regarding its economic engagement with China, posing both risks and potential opportunities.

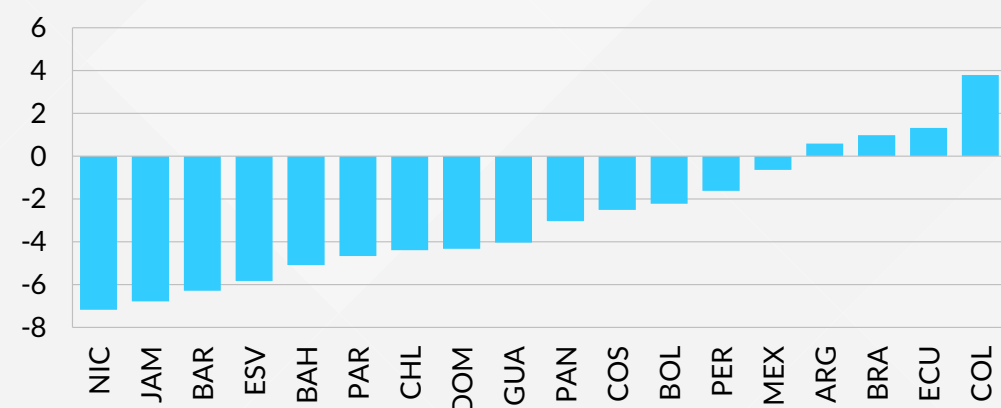


Higher Energy Prices from Iran Conflict Could Affect Rating Trends if Prolonged

Overview

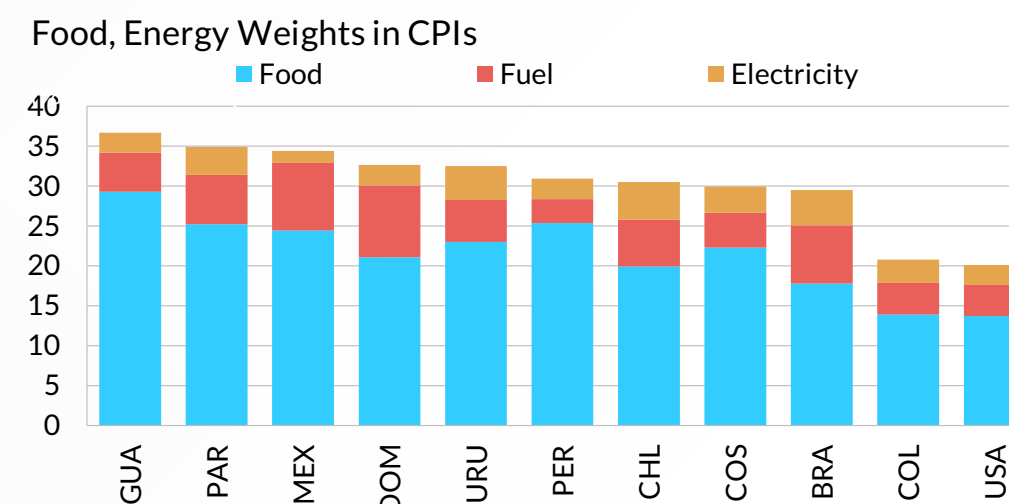
- The Middle East conflict poses additional challenges, particularly to oil-importing countries or countries with high external financing needs.
- Negative rating pressure will depend on rating headroom, fiscal and external buffers, as well as the authorities' responses to a prolonged adverse scenario.
- Net fossil-fuel imports are large as a share of GDP for many smaller countries, particularly in Central America & the Caribbean (CAC), but also for some South American countries, such as Chile, Peru and Paraguay. While Peru is self-sufficient in natural gas, it does not produce enough crude oil or refined petroleum to meet demand.

Net Hydrocarbon Exports 2024
(% GDP)



Source: Fitch Ratings, UN Comtrade

- For net hydrocarbon exporters Colombia, Ecuador, Brazil and Argentina, a prolonged period of higher energy prices could lead to an export and fiscal windfall. The degree and durability of the improvement in external and public finances would be a rating consideration.
- While Mexico is a major global crude oil producer and exporter, declining domestic production and high demand for refined fuels and natural gas have shifted its overall energy balance, making it a net importer of total fossil fuels.
- A prolonged conflict could also affect other commodity markets, as the GCC is an important producer of aluminum, petrochemicals, and inputs for fertilizers.
- Reduced fertilizer availability and higher prices could discourage application rates and weaken crop yields, leading to higher food prices later in 2026.
- LatAm currencies are faring better than other regions', in many cases appreciating (or depreciating less than in other emerging markets) against the USD. LatAm depends less on shipments through the Strait of Hormuz and its external balances are in better shape than during the last oil shock in 2022.
- The impact of rising energy and food prices on inflation will be higher than in the U.S., as the share of food, fuel and electricity within the CPI basket is much larger for most LatAm countries.



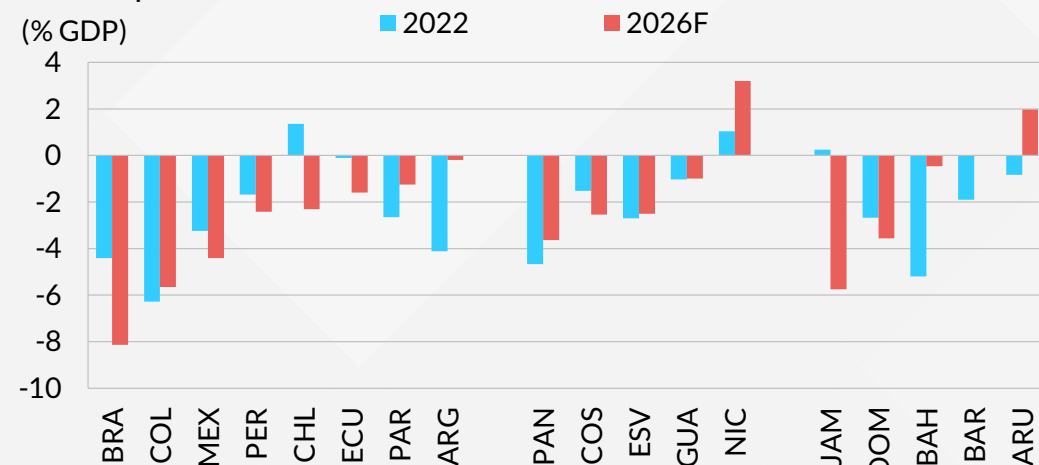
Source: Fitch Ratings, National Central Banks and Statistics Offices

Higher Energy Prices from Iran Conflict Could Affect Rating Trends if Prolonged

Fiscal Strains

- The oil price shock is being felt globally and can constrain upward rating momentum given elevated uncertainty around the duration and intensity of the shock.
- Governments have responded to recent shocks with supportive fiscal measures, and fiscal policy is likely to do most of the stabilizing work again in the event of a prolonged Iran conflict.
- However, fiscal space is generally more limited this time around, especially among the larger sovereigns, as their deficits are moderately large, and debt has risen since the 2022 oil price shock. Brazil and Jamaica (which was hit by Hurricane Melissa in 2025) have weakened the most.

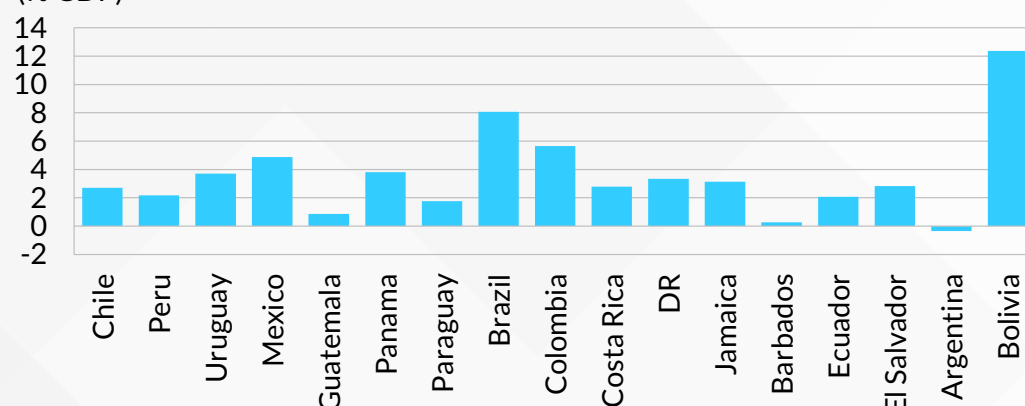
Fiscal Space In 2026 Versus 2022 Oil Price Shock



Source: Fitch Ratings

- Large general government (GG) deficits in 2025 were recorded by Bolivia (-12.4% est.), Brazil (-8.1%), Colombia (-5.6%), and Mexico (-4.9%). Countries with the strongest fiscal balances are Aruba (3.7%), Nicaragua (3.5%), Argentina (0.3%), Bahamas (-0.5%) and Guatemala (-0.9%).

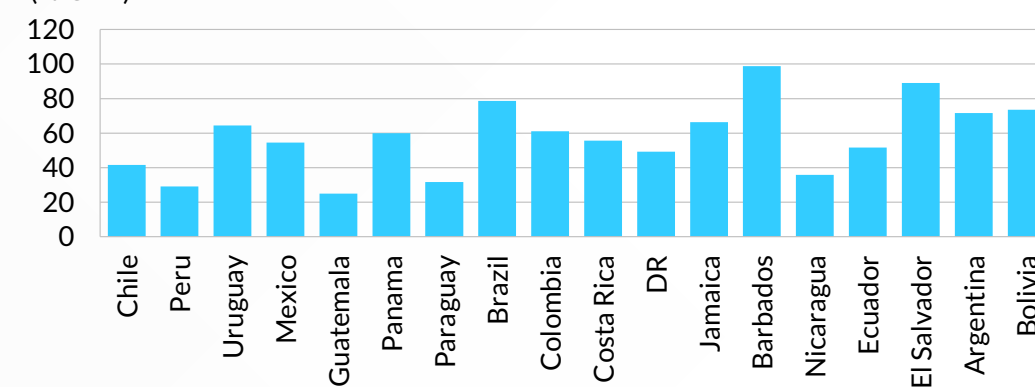
2025 Fiscal Deficit (% GDP)



Source: Fitch Ratings Sovereign Data Comparator

- The median GG debt has continued to creep up, reaching 58.4% in 2025, versus an average 54.3% in 2019-2023, including for the four largest countries, Brazil, Chile, Colombia and Mexico.
- GG debt is particularly high in Barbados (98.7%), El Salvador (89%), Brazil (78.6%), Bahamas (75.3%), Bolivia (73.5%) and Argentina (71.7%). But Barbados and Argentina's debt levels have dropped significantly and are expected to continue to fall.

2025 General Government Debt (% GDP)



Source: Fitch Ratings Sovereign Data Comparator

- Countries whose debt ratios are below 50% are the Dominican Republic (49.3%), Chile (41.5%), Nicaragua (35.8%), Paraguay (31.7%), Peru (29.1%), and Guatemala (24.9%).
- Most LatAm countries have provided explicit energy subsidies in the recent past, including Brazil, Chile, Colombia, Mexico, and nations across CAC. Argentina, Ecuador and Bolivia have recently reduced/eliminated subsidies to improve their fiscal balances.
- Both net oil importers and exporters are rolling out policies to shield consumers. These include lagging price hikes or price caps, subsidies, tax cuts on fuel and oil hedging programs. The duration of the conflict will be key to assess the fiscal impact.

Higher Energy Prices from Iran Conflict Could Affect Rating Trends if Prolonged

Countries' Policy Responses to Higher Oil Prices

ARUBA

Providing **direct subsidies** to Since 2022, subsidies except on diesel have largely been rolled back. **Price increases** announced so far **lag import parity**, could entail subsidy cost via FEPC.

THE BAHAMAS

In December 2025, executed a strategic **fuel hedge** that locked in oil prices at USD70/bbl effectively shielding consumers from inflationary pressures.

BARBADOS

Increased **fuel subsidies**, capped its **VAT** on gasoline and reduced the gasoline **excise tax**.

DOMINICAN REPUBLIC

Expanded subsidy to absorb a portion of fuel costs, with fuel prices to the consumer rising 8%-10%. Subsidies to be paid by reallocating budget.

GUATEMALA

90-day fuel subsidy to lower gasoline and diesel prices for consumers amid rising costs, with **reimbursements for importers** by reallocating budget funds.

NICARAGUA

Government has kept **fuel prices frozen** since 2022. Further response is still being considered.

PANAMA

Introduced a **subsidy to limit fuel price increases** to be paid by reallocating budget.

BRAZIL

Tax cuts on diesel to contain price increases, legislation presented to expand to gasoline, ethanol. To be funded with oil-sector royalties and export tax.

COLOMBIA

Since 2022, subsidies except on diesel have largely been rolled back. **Price increases** announced so far **lag import parity**, could entail subsidy cost via FEPC.

MEXICO

Reduced the special tax on production and services (IEPS) embedded in gasoline prices to prevent price increases.

PERU

Temporary measures to **facilitate fuel supply**, easing requirements for the transportation, storage, and importation of fuels and LPG.

ARGENTINA

Temporary stabilization of fuel prices by state-owned YPF for 45 days to give short-term relief to consumers

URUGUAY

Exception clause triggered to deviate from import parity price formula and cap price increases, with fuel prices set to be reviewed on monthly.

COSTA RICA, EL SALVADOR, JAMAICA, PARAGUAY

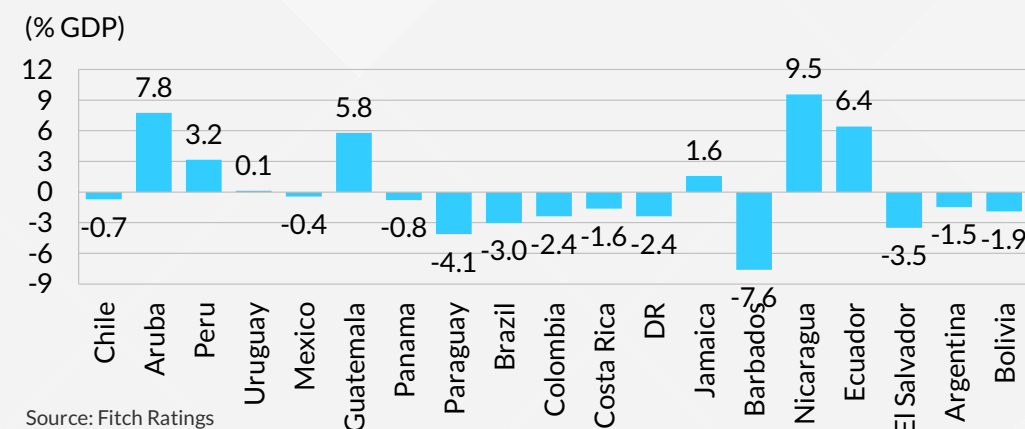
No announced policy changes, but price increases have lagged import parity:

Higher Energy Prices from Iran Conflict Could Affect Rating Trends if Prolonged

External Strains

- Higher-for-longer energy prices could add to external strains, especially if other stresses emerge, such as disruptions to remittances should the U.S. economy weaken sharply, or reduced access to global capital markets / an increase in bond yields due to heightened risk aversion.
- A sharp economic slowdown in the U.S. as a result of high energy prices could affect Mexico and CAC via remittances, trade, and tourism, while a substantial slowdown in China would affect mostly South American countries through reduced trade.
- Higher import costs would mostly affect net fossil-fuel importers, but non-oil imports would also become more expensive through higher transportation costs and where hydrocarbons are used as inputs.
- Supply-chain disruptions could affect fertilizers, raising global food prices. This would be particularly detrimental for countries with high current account deficits (CADs), such as Bahamas (-10% in 2025) and Barbados (-7.6%).
- External finance risk is more limited elsewhere. Some LatAm countries run a current account surplus, and the median current account balance for the region was -1.1% in 2025.

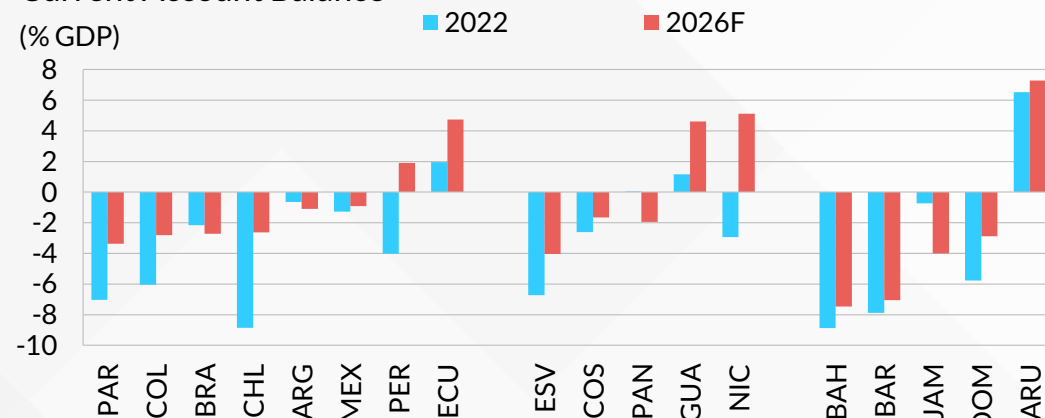
2025 Current Account Balance



Source: Fitch Ratings

- This is a significant improvement compared to the external imbalances seen during the 2022 oil price shock, when only three countries (Aruba, Guatemala, Ecuador) had a current account surplus, and seven countries had CADs close to or above 6% of GDP.

Current Account Balances Now Versus 2022 Oil Crisis



Source: Fitch Ratings

- **Remittance flows** have been a relatively stable source of foreign currency in recent global shocks, but weaker U.S. disposable income could exacerbate the expected deceleration in remittances after last year's front-loading.
- **Tourism receipts** would be impacted by flight disruptions, expensive tickets and a weakening U.S. economy, with lower disposable income leading to a decline in non-essential consumption.
- However, this may be mitigated if tourists redirect travel from farther or less safe regions. Tourism represents a particularly important source of hard-currency income for the Caribbean.

Financial Strains

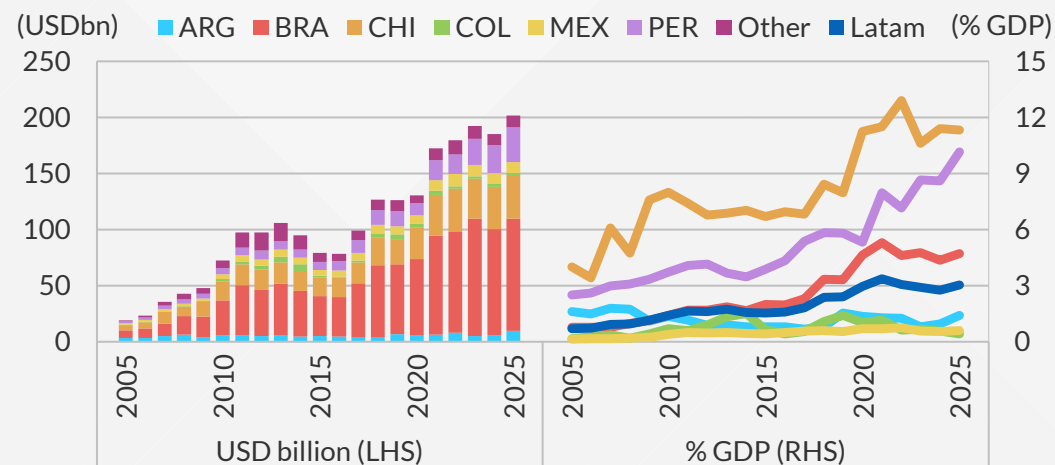
- These could arise if a more sustained disruption in global energy and fertilizer supplies causes significant damage to investor sentiment, weakening the global market for debt issuance, especially for highly speculative issuers, and increasing the effective cost of servicing and refinancing debt.
- Argentina's spreads fell below 500 basis points before the Iran conflict but have risen again since then, despite the country being a terms-of-trade beneficiary.
- The USD has strengthened globally amid higher geopolitical risk, and interest rates might creep up again if inflation becomes an issue. Higher domestic inflation could also lead LatAm central banks to return to a tighter monetary policy, affecting domestic financing conditions.
- On the positive side, many countries were able to front-load a significant share of their foreign-currency issuance planned for the year in January and February.
- LatAm countries that issued international debt before the Iran war include Mexico (USD9bn), Colombia (USD4.95bn), Chile (USD4.4bn), Ecuador (USD4bn), Brazil (USD3.5bn), and Costa Rica (USD1.2bn). In addition, Brazil issued USD5.3bn in Eurobonds in April and Bolivia USD1bn in USD-denominated bonds in May.
- The strong global issuance in early 2026 comes on the heels of record-high international issuance in 2025, indicating high financing needs.

Risks & Opportunities from the U.S.'s 'Monroe Doctrine' in the Medium Term

Overview

- The removal of Venezuelan leader Nicolas Maduro in January demonstrates the Trump administration's appetite to reassert U.S. influence in the Western Hemisphere (i.e., for a new 'Monroe Doctrine').
- The U.S.'s National Security Strategy gives greater attention to countering China's influence in LatAm.
- Some LatAm countries have demonstrated a more supportive attitude to the Trump administration's strategic and economic agendas: Dominican Republic, which has allowed the U.S. access to airbases, El Salvador, Ecuador, Argentina, Chile, and Bolivia.
- Higher oil prices also provide incentives to revive Venezuela's oil sector, which requires significant investments in the country's outdated infrastructure.

Latin American Exports to China



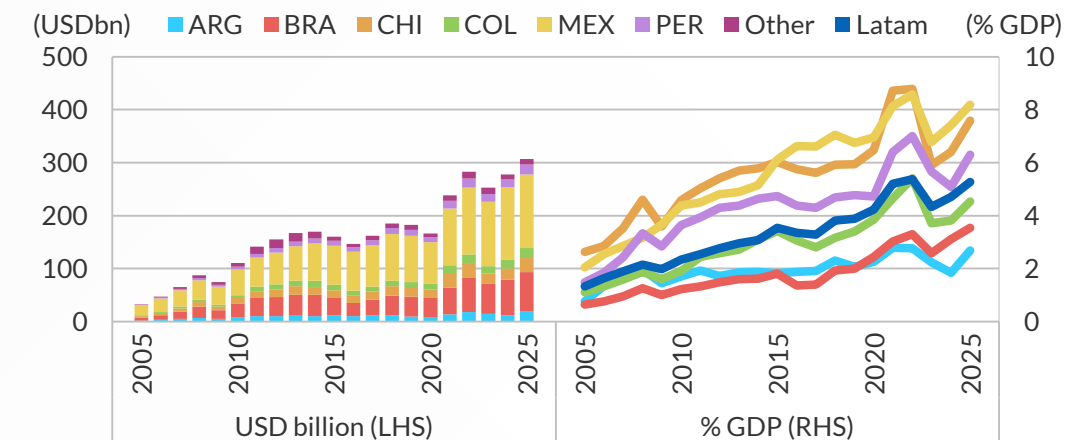
Source: Fitch Ratings based on UN Comtrade

Trade

- China is the top commodity export market for most of South America, and where it is not yet (Argentina, Bolivia, Ecuador), it is growing rapidly.
- Chinese demand for copper has been buoyant given the metal's role in energy transition, and its booming demand for lithium for batteries and cars has benefited Argentina, Chile and, to a lesser extent, Bolivia.
- China's steady consumption has meant continued demand for food products, such as soy. Paraguay does not export directly to China given that it recognizes Taiwan, but much of its soy exports to neighbors are processed and shipped on to China.
- U.S.-China tensions have helped to accelerate this upward trend. In 2025, the protectionist turn in the U.S. led China to shun U.S. agricultural products, leading to a significant jump in its trade with South America. Argentina's exports to China surged 61%.
- China is a smaller export market and partner for Mexico and Central America, given that these countries focus on manufactured goods that China produces itself.
- Imports from China are surging across the region, and the trend is even more visible in import volumes than in values, given price declines of some Chinese products. This has had macroeconomic benefits, bringing relief to inflation, bolstering purchasing power and giving central banks scope to lower interest rates, although this has fueled concerns around competitiveness.
- A shift towards greater protectionism is therefore a risk, as already seen in Mexico and Brazil.

- Entrenched trade linkages between China and LatAm make commerce between them unlikely to stop. In fact, three countries that have reached trade deals with the U.S. – Argentina, El Salvador, Ecuador - saw growth in Chinese imports surge in 2025.

Latin American Imports from China



Source: Fitch Ratings based on UN Comtrade

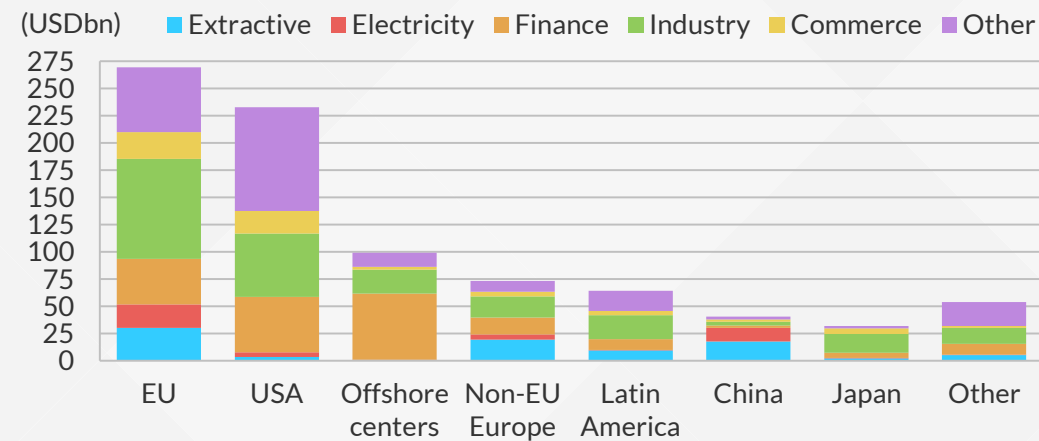
- However, U.S. trade deals with these countries signal the expectation for some coordination in trade policies against third-party countries.
- There could also be pressure against imports of goods deemed to pose security threats, i.e. telecom equipment from Huawei. Costa Rica already bans it, and the U.S. said it would help Panama replace its Huawei towers with U.S. technology.

Risks & Opportunities from the U.S.'s 'Monroe Doctrine' in the Medium Term

Foreign Direct Investment

- Chinese FDI in LatAm is significant – though reported inflows are well below those from the U.S., they are concentrated in the extractive, infrastructure and renewables sectors important in expanding countries' productive frontiers. FDI from the U.S., the E.U. and Japan is more concentrated in industry and commerce.

FDI in Brazil by Country of Origin and Sector



Source: Fitch Ratings based on Central Bank of Brazil

- Some Chinese projects have faced political pushback due to perceived influence peddling and environmental issues, though such challenges are also observed in projects from other regions.
- China is the top investor in Ecuador's mining sector and has taken a leading role in the development of South America's lithium triangle. It has also made important investments in wind, solar and hydropower generation in the region, particularly in Ecuador.
- The U.S. has used some pressure to counter China, but so far, none of the flashpoints has caused economic disruption. Chinese concessions/projects suspended in Ecuador (an oil mega-field) and Bolivia (zinc & lithium projects) had not begun in earnest.
- But these and other episodes throughout LatAm highlight rising geopolitical tensions that could have economic consequences.
- The U.S.'s leverage is greater in Central America where it has stronger economic influence and cultural linkages. In South America, the U.S.'s narrower economic leverage may force it to compete with China rather than block it.
- Even countries aligned with the U.S. continue to signal openness to Chinese FDI but may face a difficult balancing act.
- Argentina has stated that trade and critical mineral deals with the U.S. do not preclude investments from China, and Chinese firms stand to be large players in Ecuador's electricity sector, which faces bottlenecks that resulted in severe rationing in 2024.

Chinese FDI into Latin America in 2015-2024

	ICLAC-IAD		AEI		UNAM	
	USDbn	% GDP	USDbn	% GDP	USDbn	% GDP
Argentina	16.2	0.3	6.0	0.1	14.0	0.3
Brazil	40.1	0.2	42.1	0.2	38.9	0.2
Chile	13.7	0.5	15.3	0.5	17.1	0.6
Colombia	2.7	0.1	6.8	0.2	2.7	0.1
Ecuador	0.0	0.0	1.7	0.2	0.6	0.1
Mexico	-	-	5.9	0.0	22.1	0.2
Peru	18.7	0.8	14.0	0.6	20.4	0.9
Venezuela	2.1	0.2	-	-	0.8	0.1
Latin America	97.6	0.3	92.7	0.2	124.8	0.2
o/w commodity	35.1		28.3		41.7	
o/w electricity	48.8		43.7		40.4	
o/w other	13.7		20.7		42.6	

Source: Fitch based on Mexican National Autonomous University (UNAM), Millenium Nucleus ICLAC/Inter-American Dialogue (IAD), American Enterprise Institute (AEI).

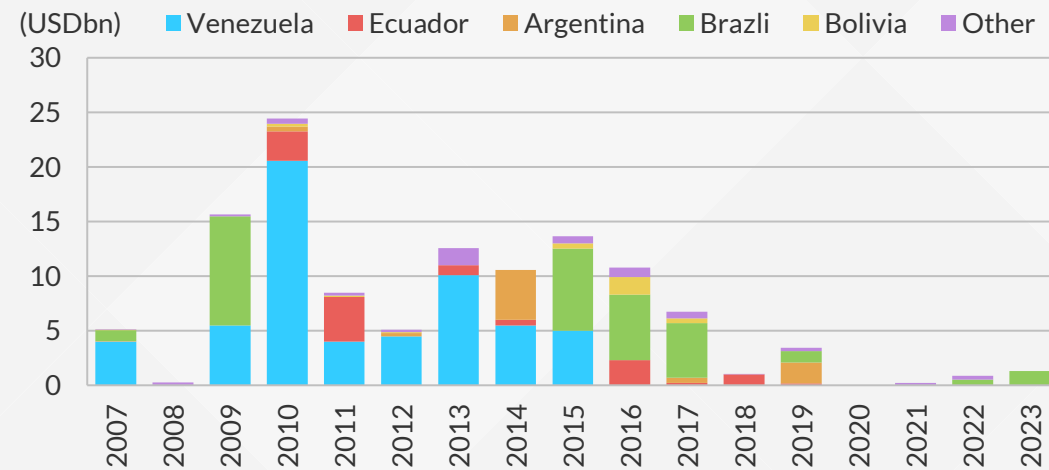
Risks & Opportunities from the U.S.'s 'Monroe Doctrine' in the Medium Term

Financing

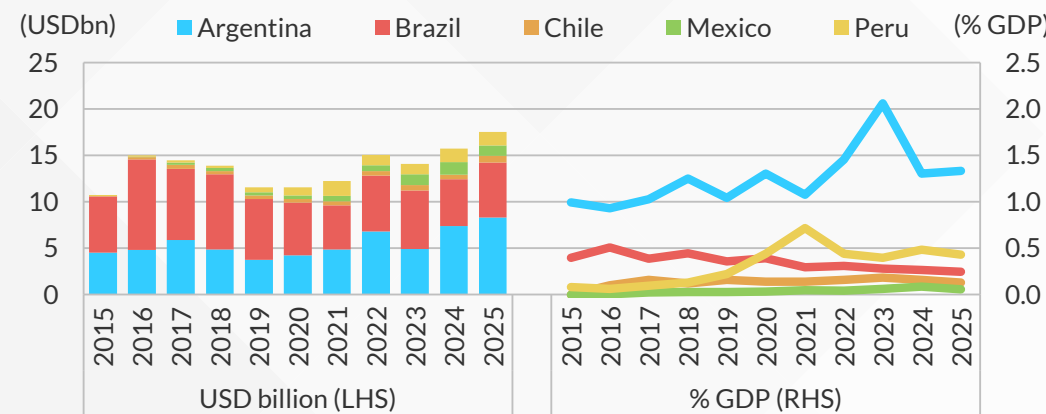
- China provided large-scale lending to sovereigns until 2016. Funding mostly flowed along political and ideological lines, with Venezuela, Ecuador and Argentina receiving most of it.
- However, Chinese funding has since dried up, as a severe crisis in Venezuela and stress in Ecuador made loans difficult to recover, among other factors.

- China's "panda bond" market has not become a relevant source of funding for LatAm. The footprint of Chinese commercial banks remains limited in LatAm, being only relevant in Argentina.
- The Trump administration's aversion to foreign assistance, exemplified by the shutdown of USAID, could be changing as it seems to compete against China in the region.
- The DFC has garnered support as an entity that could serve as a counter to China's Belt and Road Initiative (BRI). During the temporary authorization lapse and staffing cuts in 2025, LatAm was the only region that did not experience a major drop-off.

China Policy Loans to Latin America

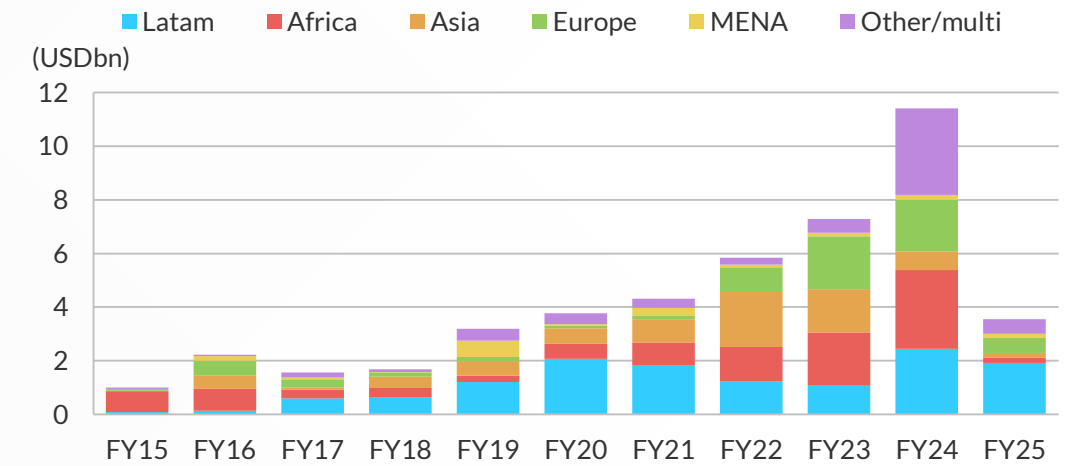


Assets of Chinese Bank Subsidiaries



Source: Fitch Ratings based on national sources

DFC, USAID, OPIC Funding Commitments



Source: Fitch Ratings, DFC

For more information, read the following special report: [US's Renewed "Monroe Doctrine" Raises Risks for LatAm, China Assets.](#)

Impact from Other U.S. Policies

- Shifting U.S. trade and migration policies have not severely hurt the region so far, but their impact may take time to fully materialize, and uncertainty persists, namely around the upcoming review of the United States-Mexico-Canada Agreement (USMCA).

Immigration Policy → Remittances:

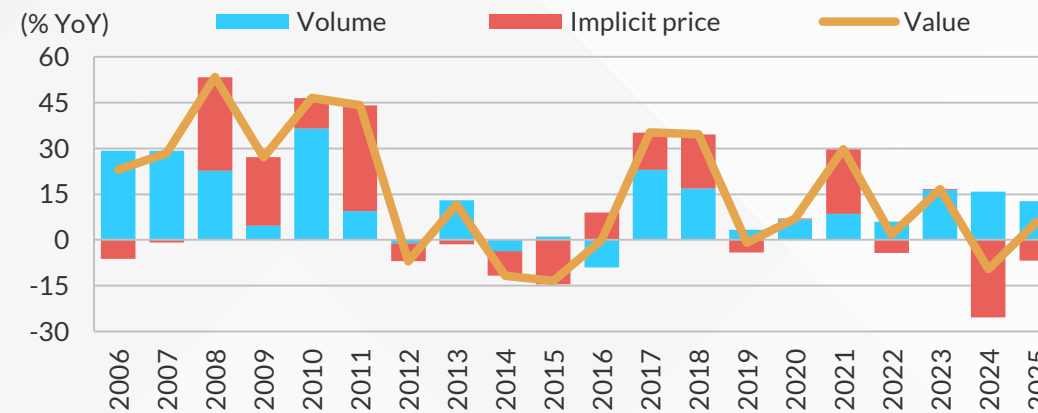
- We expect normalization in **remittance** growth after last year's front-loaded savings transfers amid stricter immigration policies, although early signals suggest these flows have remained resilient.
- The effect on remittances from a normalization of flows could be exacerbated if the Iran conflict and the resulting higher energy prices lead to a more significant slowdown in the U.S. economy, weakening employment and disposable income.

Trade Policy → Tariffs:

- Effective Tariffs Rates (ETRs) for **most LatAm countries** largely remain unchanged following the switch in tariff regimes after the U.S. Supreme Court's ruling on Feb. 20, which invalidated the reciprocal tariffs imposed under the International Emergency Economic Powers Act (IEEPA).
- The new blanket 10% tariff rate is authorized through Section 122 of the Trade Act of 1974 and expires after 150 days unless extended by Congress. Section 122 permits a maximum rate of 15% but doesn't allow for tariff adjustments for individual countries.
- The current ETR incorporates carve-outs applied to the previous IEEPA reciprocal tariffs for passenger vehicles, pharmaceuticals, USMCA-compliant goods and certain electronics.

- **Brazil** saw the largest decline in its U.S. ETR, with the latter decreasing 18pp to 11% from 29%. Brazil's direct trade with the U.S. is limited, but it could continue to benefit from a re-routing of China's trade with the U.S.

Growth in Brazilian Exports to China

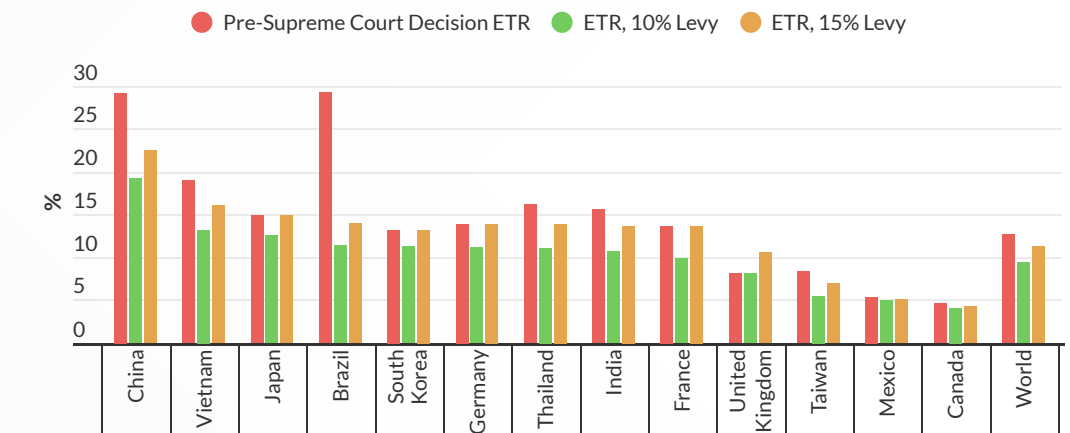


Source: Fitch Ratings based on Brazil's Ministry of Development, Industry and Commerce

- **China** still has the highest ETR among major trading partners, followed by Vietnam, Japan and Brazil. Its 10% fentanyl tariff on all imports and 10% reciprocal tariff on an import base subject to carveouts have been consolidated into the 10% blanket tariff, reducing China's ETR to 19% from 29%. This is still almost 10pp above the average U.S. ETR of 9.4%.
- The status of existing trade agreements is unclear as the administration continues to use tariffs as a revenue-raising and policy lever.

For more information, check out our latest commentary on the U.S. ETR [here](#).

Select Large Trading Partners ETR



Source: Fitch Ratings

Renegotiation of the USMCA

- U.S. efforts to restrict Chinese imports could be an important part of the country's ongoing USMCA review with Canada and Mexico.
- The U.S. could seek tighter 'rules of origin' to strengthen the block at the expense of outsiders, as was the case in the 2018 review.
- There may be pressure for Mexico to adopt measures that specifically target China, given U.S. concern around perceived transshipment through Mexico to skirt U.S. tariffs.
- Tighter rules of origin could strengthen Mexico's comparative advantage within the trade bloc.
- However, it would further limit companies' ability to engage in "global sourcing" of inputs, which is a disadvantage to competitors in Asia and the E.U.

Elections & Political Risks

In 2025, there were general elections in Ecuador (Feb./April runoff), Bolivia (Aug./Oct. runoff), Chile (Nov./Dec. runoff) and Honduras (Nov.). Argentina held mid-term elections in Oct.'25, which were considered a referendum on President Milei's agenda.

Last year's elections reinforced Latin America's political shift towards the right. Ecuador, El Salvador, Argentina, and now Bolivia and Chile have right-wing governments that are quickly introducing reforms.

Higher energy prices induced by the Iran conflict could dampen reform momentum or even lead to a reversal if social pressures emerge, but weak public finances in some places restrain the scope for counter-cyclical policy and growth-enhancing efforts.

The 2026 election cycle includes elections in Costa Rica and Barbados (February), Peru (April/June runoff), Colombia (May/June runoff), and Brazil (October).

While we do not expect the ongoing wave of elections to be a source of risk to macro stability, it could delay prospects for reforms until after the elections to address growth and fiscal challenges that remain a weak spot for most of the region.

General elections are scheduled for 2027 in El Salvador (February), Argentina (October), Guatemala (June) and Nicaragua (November).



Reforms in Countries that Held Elections in 2025



Ecuador

- Re-elected President Noboa and his legislative alliances advanced key reforms in 2025, including fiscal measures (VAT hikes and subsidy cuts), security initiatives and steps to attract investment, but other proposals suffered a setback in the Nov.'25 referendum.
- The elimination of fuel subsidies in 2025 amid social tensions shows the authorities' commitment to maintain fiscal consolidation, and social unrest and political risks have remained contained.
- However, security concerns, risks of social unrest and doubts about the durability of political consensus continue to challenge policymaking and implementation; a prolonged Iran conflict could complicate governability conditions.
- Ecuador was upgraded to 'B-' in Feb.'26 due to reduced government financing needs and improved financing flexibility following a successful return to international capital markets, the first time since its 2020 restructuring.



Bolivia

- The socialist ruling MAS party suffered a major defeat in the Oct.'25 runoff presidential election, opening the door for a change in policy direction.
- President Rodrigo Paz has initiated swift free-market reforms, including slashing federal spending by about 30%, abolishing wealth and financial transaction taxes, partially withdrawing fuel subsidies, and opening the lithium sector to foreign investment.
- This should support fiscal deficit reduction and reserve accumulation, but a protracted Iran conflict leading to substantial energy and food price hikes could complicate governability conditions and add to fiscal and external pressures.
- On the positive side, Bolivia's external commercial debt burden and near-term maturities are relatively low compared to peers.
- Bolivia was upgraded to 'CCC' in Jan'26 due to reduced default risk from external financing and fiscal reforms, but persistent fiscal deficits, weak growth and high inflation remain a concern.



Argentina

- President Milei's party exceeded expectations in the Oct.'25 mid-term elections, winning more than 40% of the votes nationally. The decisive victory indicates increased momentum for a new round of reforms.
- Milei's drastic reduction of government spending and subsidies, devaluation of the peso and implementation of labor reforms and deregulation have led to a fiscal surplus and a significant drop in government debt in 2025.
- Argentina grew by 4.4% in 2025 and is expected to grow above the regional average in 2026, but growth has been unevenly distributed. Sectors important for generating FX (oil & gas, mining, and agriculture) have been the strongest.
- But there has been stagnation or even a drop in labor-intensive sectors (construction, manufacturing), raising unemployment. This could be a concern going into general elections in 2027, with confidence in government falling again.
- Argentina missed an opportunity to issue external debt in early 2026 when spreads were around 450bp. However, the government is expected to cover its financing needs by partly using guarantees from multilaterals to secure private loans. Sustained improvement in FX reserves is a key rating sensitivity.



Chile

- Newly elected President Kast has committed to cutting roughly USD6bn in government spending within 18 months of taking office. The 3% spending cut in 2026 will focus on administrative and political spending, not on social benefits and public services.
- However, delivering on immigration and security will require higher enforcement spending, while prioritizing Chile's large infrastructure needs.
- Kast also proposes reducing the corporate tax rate and simplifying regulations, which could boost GDP growth. But tax cuts could complicate fiscal consolidation and efforts to contain the increase in debt/GDP.
- Higher inflation and falling Kast approval rates could complicate the passage of the Omnibus bill in a fragmented Congress. Eroding fiscal credibility and weak growth could push debt closer to its prudential limit.

Prospects in Countries Holding Elections in 2026



Costa Rica

- Laura Fernandez's win should ensure broad policy continuity and prudent fiscal settings. She is the first presidential candidate to secure an outright first-round win since 2010 and PPSO has the first single-party legislative majority for over two decades.
- The election reduces the political fragmentation that has weighed on efforts to pass and implement timely reforms.
- However, it has not delivered the two-thirds majority needed to reform cumbersome legislative authorization needed for sovereign external borrowing, which restricts Costa Rica's financing flexibility, although the authorities have recently found workarounds.
- In addition, the deep local market and local financing costs that are only marginally higher than dollar funding costs mitigate the impact of the lack of Eurobond authorization.
- The continuation of its Positive Outlook after multiple upgrades over the past few years reflects strong growth amid global uncertainty, the continuation of large primary surpluses, a declining interest burden, and ongoing reserve accumulation.



Barbados

- The overwhelming election victory of Prime Minister Mia Mottley's BLP party positions the BLP to continue its reform program with the third Barbados Economic Recovery Transformation plan (BERT 2026).
- BERT 2026 is an ambitious attempt to tackle structural constraints on potential growth, such as labor productivity growth, investment gaps, climate and external risks, and contingency liabilities from SOEs.
- BERT 2026 follows two successful programs that focused first on stabilization of government finances and then on economic growth. The country also completed an IMF program last year.
- Barbados's Positive Outlook reflects the expectation that continued fiscal discipline, including large primary surpluses, will improve fiscal metrics, particularly the still-high debt-to-GDP ratio.



Peru

- General elections were held in April, with a runoff on June 7 between right-wing Keiko Fujimori and left-wing Congress member Roberto Sanchez.
- A key uncertainty is whether the next administration can complete a full five-year term (the last six presidents left without completing a full term) and whether it will be able to govern sustainably with the new Congress.
- Continued political fragmentation in Congress also means that the ability of the next administration to pass key structural reforms and advance large projects, particularly in mining and infrastructure, to lift economic growth is a major unknown.
- Social instability and policy uncertainty affect Peru's governability. Meeting the fiscal target may become more challenging, but debt remains low relative to peers.
- Despite political uncertainty, Peru's economy continues to grow above the 'BBB' median, thanks to robust private consumption and investment, especially in the mining sector.
- While the next administration will be confronted by long-standing governability challenges, the introduction of a second legislative chamber could help reduce political instability from its recent very high levels.

Prospects in Countries Holding Elections in 2026



Colombia

- In the March congressional elections President Petro's Historical Pact party won almost a quarter of all seats in the Senate - more than any other party.
- Colombia held its presidential election on May 31. Milei-style Abelardo de la Espriella won the first round and will face Petro-ally Ivan Cepeda in a runoff on June 21.
- The outcome will determine the fiscal strategy beyond 2026. Continued fragmentation means the next president will need to negotiate with diverse congressional parties to pass legislation.
- Colombia's fiscal deficit remains elevated and its divergence with the 'BB' median is widening. As a result, the debt ratio and interest burden are also rising and increasingly diverging from the peer median.



Brazil

- General elections are scheduled for October 4, with a runoff scheduled for October 25. Incumbent President Lula da Silva is expected to win the first round, but it is unclear whether he could also win in a runoff between two candidates.
- Lula, who at 80 is running for an unprecedented fourth term, is facing off against Flavio Bolsonaro, ex-President Jair Bolsonaro's son, and two alternatives for the conservative opposition, Romeu Zema and Ronaldo Caiado.
- The Lula administration has passed several tax measures heading into the election, but spending pressures and debt escalation continue, with many types of spending exempt from fiscal rule.
- Growth is expected to slow, but it remains resilient even to the adverse energy scenario. We still expect cuts in the Selic policy rate this year but less than previously expected.

LatAm Sovereign Resources



Special Reports



Issuer Reports



Latest Rating Actions



Rating Actions & Trends

Three sovereigns were upgraded in 1Q26: Bolivia ('CCC'), Ecuador ('B-'), and Aruba ('BBB'). There has been only one upgrade (Argentina's) after the start of the Middle East conflict

There are currently four LatAm sovereigns on Positive Outlook: Aruba ('BBB'), Barbados ('B+'), Costa Rica ('BB') and Paraguay ('BB+'), with no Negative Outlooks after Colombia's downgrade to 'BB' in Dec.'25.

However, the positive rating momentum has dampened and could reverse due to growing headwinds to growth, inflation, and fiscal and external accounts from higher oil prices.

The Dominican Republic (DR), a net energy importer, was the first to experience a negative rating action due to the fallout from the U.S.-Iran conflict.

DR's Outlook was revised to Stable from Positive in April, reflecting growing headwinds to growth, inflation, public finances and external accounts from higher oil prices.

RATINGS AND ACTIONS, 2018-2026

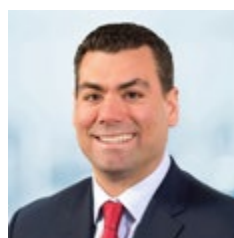
	2018	2019	2020	2021	2022	2023	2024	2025	2026	Actual
Chile				↓						A-/Stable
Uruguay						↑				BBB/Stable
Peru				↓						BBB/Stable
Aruba			↓2			↑		↑	↑	BBB/Positive
Mexico		↓	↓							BBB-/Stable
Panama				↓			↓			BB+/Stable
Paraguay	↑									BB+/Positive
Guatemala			↓			↑		↑		BB+/Stable
Colombia			↓	↓	↓			↓		BB/Stable
Brazil	↓					↑				BB/Stable
Costa Rica		↓	↓			↑2	↑			BB/Positive
Dominican Rep.										BB-/Stable
Jamaica		↑					↑			BB-/Stable
Bahamas, The										BB-/Stable
Barbados							↑			B+/Positive
Nicaragua	↓	↓					↑			B/Stable
El Salvador					↓	X↑		↑		B-/Stable
Ecuador	↓		↓	X	↑	↓			↑	B-/Stable
Argentina		↓X↑	X↑	X↑X	↑	↓	↓	↑	↑	B-/Stable
Bolivia			↓	↓		↓	↓2	↓	↑	CCC

Source: Fitch Ratings *↓/↑=Downgrade/Upgrade •/●=Negative/Positive Outlook x=Default ■ = Not rated*

IMPACT OF THE MIDDLE EAST CONFLICT – A CROSS SECTOR VIEW



Sticky inflation and persistently high interest rates continue to pose meaningful challenges for LatAm corporates, constraining financial flexibility and dampening investment activity across the region. As corporates navigate this difficult macroeconomic backdrop, the accessibility and cost of capital remain critical variables in determining credit trajectories – particularly for those reliant on funding.



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 Managing Director,
 Head of LatAm Corporates
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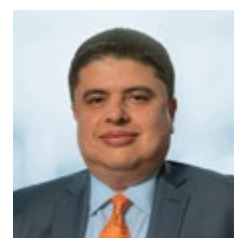
Corporate issuers are most directly exposed to the Iran conflict through higher oil prices and the ripple effects on inflation and interest rates, and indirectly through demand destruction. However, implications vary significantly by country and sector, with nine of the 36 sectors being threatened by an adverse scenario of higher-for-longer oil prices, and one sector (oil & gas) benefiting.



Carla Norfleet-Taylor
 Senior Director,
 Head of Research, Americas Corporates
[Contact](#)



LatAm banks generally have sufficient rating headroom and have proven to be resilient to previous oil price shocks. However, macroeconomic spillover effects from an extended Middle East conflict could challenge their operating environment and overall business conditions. This could be moderately negative for their credit profiles and performance.



Alejandro García-García
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Higher global oil prices and the resulting fiscal stimulus that suspends the collection of a percentage of fuel taxes could reduce federal transfers to Mexican states and pressure their operating margins by eroding the Federal Shareable Revenue (RFP). States with higher own-source revenue and lower leverage are better positioned to absorb this shock.



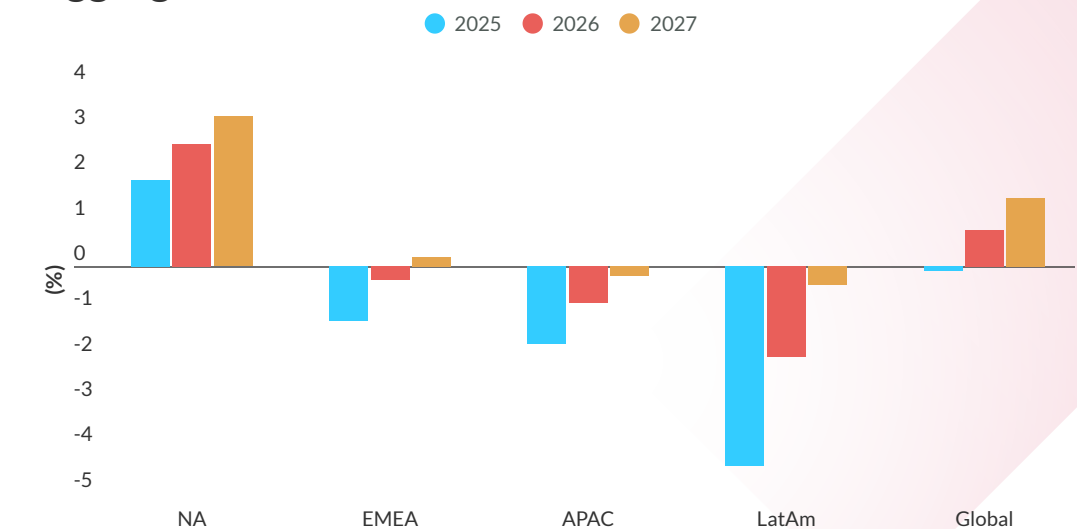
Manuel Kinto Reyes
 Senior Director
 International Public Finance
[Contact](#)

Non-Financial Corporates

Weakening Financial Flexibility Was a Risk Even Before the War

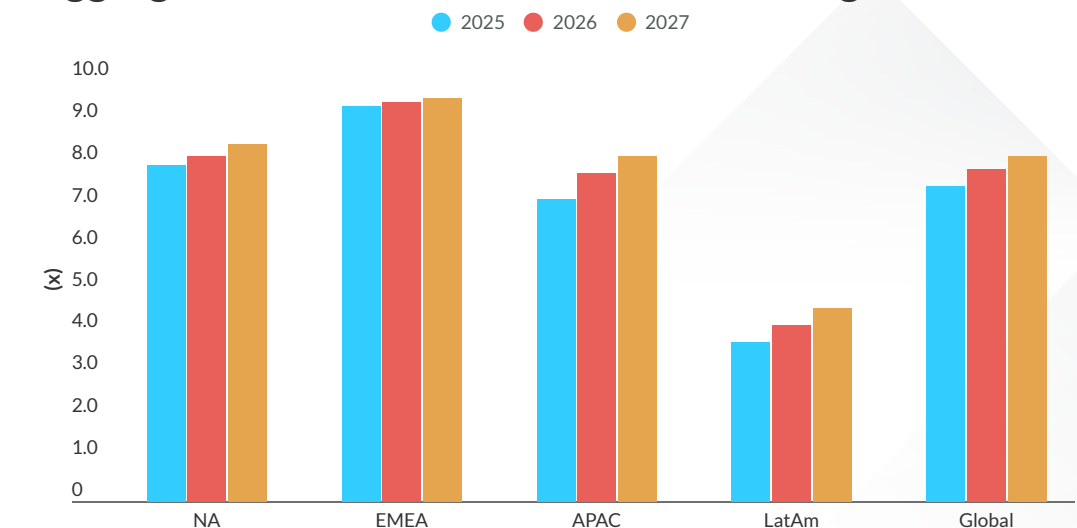
- Weakening financial flexibility is a key risk for LatAm corporates' credit profiles and a likely driver of negative rating actions in 2026. Downgrades outnumbered upgrades in the region during 1Q26.
- Issuers with near-term maturities could be particularly exposed to refinancing risk if market access tightens or funding costs rise. The region's interest coverage is the weakest globally.
- Election cycles in Brazil, Colombia, and Peru could amplify volatility and weigh on financing conditions at a time when many corporates remain reliant on external funding.
- Brazil and Colombia together account for close to two-thirds of Fitch-rated corporates. Both face macro uncertainties that could keep local rates higher for longer and increase sensitivity to FX moves.
- Operating profitability is a key strength. LATAM corporates posted the highest EBITDA margins globally (above 20%) in 2025 and should maintain that lead.
- However, FCF is weak, with LATAM corporates recording the lowest FCF margins globally in 2025 (-4% of revenues). We expect FCF margins to remain negative through 2027.
- Elevated capex and sustained shareholder distributions will continue to keep FCF negative in the region, increasing reliance on external funding to support liquidity and limiting debt reduction abilities.
- Persistent negative FCF leaves gross leverage sticky around 3.0x and heightens sensitivity to refinancing conditions, local interest rates (notably in Brazil and Colombia) and FX volatility.
- Any market-driven rise in funding costs or reduction in access, as seen with the increased geopolitical risks stemming from the U.S.-Iran conflict, could quickly pressure liquidity and rating trajectories.
- Latam corporates' low interest coverage is due in large part to persistently high local interest rates, particularly in Brazil and Colombia. Coverage approximated 4.0x in 2025 and is expected to remain well below the global average of over 7.0x through 2027.
- This supports a continued focus on cost of capital, refinancing strategy, financial policy and FX risk. Sector-specific concerns add to the top-down risks.
- Utilities and power, the largest sector in the region, has a '**deteriorating**' sector outlook for 2026, reflecting concerns about increased curtailment of Brazil's power generation and power-shortage risks in Colombia.

Aggregate Cash Flow Metrics – FCF Margins



Source: Fitch Ratings

Aggregate Credit Metrics - Interest Coverage



Source: Fitch Ratings

Non-Financial Corporates

Impact of War-Induced Spike in Energy Prices Varies by Country and Sector

- LatAm corporates face meaningful credit risk from the U.S.-Iran conflict, with implications varying significantly by country and sector.
- Corporate issuers are most directly exposed to higher oil prices and the ripple effects on inflation and interest rates, and indirectly through demand destruction.
- Nine or 25% of the 36 sectors assessed under Fitch's adverse scenario of higher-for-longer oil prices would be threatened, one sector would benefit (oil & gas), and the impact on the remaining 26 sectors would be limited.
- **Brazilian** corporates would be most vulnerable due to the likelihood that Central Bank interest rate cuts would slow, further straining already weakened cash flows and funding flexibility.
- **Argentina** and **Colombia** are more exposed to international LNG price volatility.
- In **Colombia**, rising imported gas dependence, shorter contract tenors and the risk of policy intervention could pressure utilities' profitability, working capital and liquidity.
- In **Argentina**, higher energy import costs could strain sovereign finances and weaken the payment chain, particularly through CAMMESA, Argentina's wholesale electricity off-taker and intermediary.
- **Mexico, Peru, Chile** and parts of **Central America** and the **Dominican Republic** benefit from mitigating factors, including U.S.-linked gas supply, domestic gas, alternative energy, and contractual fuel pass-through mechanisms.
- For more information, view full reports: [Latin American Corporates Credit Trend Monitor - May 2026](#) and [LatAm Corporate Exposure to Conflict in the Middle East](#).

LatAm Corporates Resources



Peer Credit Analysis
Reports



Special Reports
and Commentaries



Issuer Reports



Rating Actions

Non-Financial Corporates

Sector Implications Heatmap

Sector Response	Subsector	Overall Threat	Higher oil & gas prices	Supply-chain disruption ^a	Hit on demand ^b	Delayed recovery from cyclical trough ^c
Natural Resources	Chemicals	●	●	●	●	●
	Oil & Gas	●	●	●	●	●
	Metals & Mining	●	●	●	●	●
	Sugar & Ethanol	●	●	●	●	●
	Pulp & Paper	●	●	●	●	●
	Packaging	●	●	●	●	●
Healthcare	Pharma	●	●	●	●	●
	Providers	●	●	●	●	●
Food, Beverages, Tobacco, Consumer Products	Staples	●	●	●	●	●
	Discretionary	●	●	●	●	●
	Agriculture	●	●	●	●	●
	Commodity Processors	●	●	●	●	●
	Alcohol	●	●	●	●	●
	Protein	●	●	●	●	●
Retail	Packaged Food	●	●	●	●	●
	Food or Staples	●	●	●	●	●
Real Estate	Non-Food or Discretionary	●	●	●	●	●
	Reits	●	●	●	●	●
	Homebuilders	●	●	●	●	●

- **Material threat** - Issuers in the sector do not benefit from strong mitigants like ample rating headroom and would be at high risk of downgrade. Processors
- **Some threat** - Weaker issuers in the sector such as those with low rating headroom are at a high risk of a downgrade in scenario.
- **Neutral/limited threat** - No rating impact from the scenario.
- **Potential upside** - Issuers in the sector would benefit but the extent and the sustainability of the benefit would need to be ascertained before positive actions are considered.

Sector Response	Subsector	Overall Threat	Higher oil & gas prices	Supply-chain disruption ^a	Hit on demand ^b	Delayed recovery from cyclical trough ^c
Industrials	Automotive	●	●	●	●	●
	Airlines	●	●	●	●	●
	Aerospace & Defence	●	●	●	●	●
	Building Materials	●	●	●	●	●
	Building Products	●	●	●	●	●
	Engineering & Construction	●	●	●	●	●
	Environmental Services	●	●	●	●	●
	Transportation & Logistics	●	●	●	●	●
	Diversified Industrials	●	●	●	●	●
	Technology (Software)	●	●	●	●	●
Telecom, Media, Technology	Telecom	●	●	●	●	●
	Utilities – Generation	●	●	●	●	●
Utilities	Distribution & Transmission	●	●	●	●	●
	Utilities – Gas Distribution	●	●	●	●	●
	Water Utilities	●	●	●	●	●
	Midstream	●	●	●	●	●
	Airports	●	●	●	●	●
Infrastructure & Project Finance	Toll Roads	●	●	●	●	●
	Seaports	●	●	●	●	●
	Sporting Arenas	●	●	●	●	●

^a Direct logistics issues, plus the fact that oil is used in production of many intermediate inputs.

^b Includes the impact of weakening customer confidence and higher interest rates, and factors in the wealth/income effect of declining share prices and rising energy costs for households.

^c A recovery previously expected in 2026-2027, but delayed due to the conflict and its lasting consequences. Source: Fitch Ratings

Financial Institutions

- Risks to LatAm banks' intrinsic credit profiles from the Middle East conflict should remain contained, but a prolonged conflict could negatively affect bank ratings in the region through macroeconomic and sovereign transmission effects.
- Following the Ukraine invasion, LatAm banks experienced increased financial volatility, higher inflation, and risk-off sentiment, prompting tighter monetary policies and higher interest rates. However, LatAm banks proved to be resilient, maintaining relatively stable credit fundamentals.
- Key challenges for LatAm banks in 2026 include slower economic and loan growth, revenue headwinds due to a competitive environment, difficulties stabilizing or improving asset quality, and changing policy interest rates.
- A prolonged Middle East conflict could exacerbate these challenges through risks to global and regional economic growth.
- The most significant risk is the potential for renewed inflationary pressures exacerbated by higher oil prices and higher interest rates, which could constrain borrowers' repayment capacity and increase funding costs, while also raising investor risk aversion.
- Prolonged higher inflation from higher-than-expected commodity prices would hurt consumers and corporations. This would ultimately harm banks' businesses, reducing loan growth and placing upward pressure on credit costs.
- With higher inflation and rates, banks will likely face increased risk premiums and higher bond spreads, reduced capital inflows, and slower economic growth. Currency depreciation against the USD could further challenge regional operating environments.
- Redirection of market uncertainty and investment inflows toward less-risky assets or jurisdictions could increase volatility in key asset prices.
- These include foreign exchange rates, local interest rates, and broader investment and security prices, which could add further pressure or volatility to banks' trading revenue and earnings.
- While we expect limited effects on LatAm banks, downside potential exists under our current "neutral" sector outlook for the banking systems in the region. Mexico has the only "deteriorating" sector outlook since 2025.

LATAM Banks and NBFIs Resources



Peer Reviews



Special Reports
& Commentaries



Issuer Reports



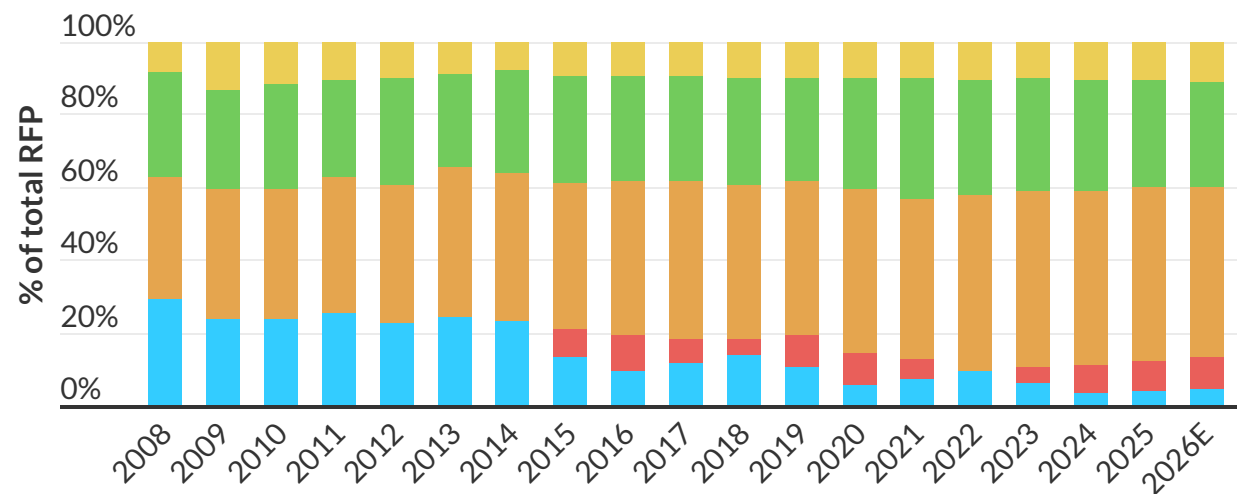
Rating Actions

Mexican States

- In response to higher oil prices, the federal government lowered the “Special Tax on Production and Services” (IEPS) on fuels through a fiscal stimulus measure.
- Higher oil revenues would largely offset subsidy costs and the overall effect on federal revenue would be broadly neutral, if the conflict is not prolonged.
- However, the total IEPS tax revenue carries significant weight in the Federal Shareable Revenue (RFP), contributing around 13% of the latter, as was the case between 2015 and 2025, excluding 2022.

Federal Shareable Revenue (RFP) Breakdown by Source

● Net Oil Revenues ● IEPS Gasolines ● Income Tax (ISR) ● Valued-Added Tax (IVA) ● Other Tax Income



IEPS — Special Tax on Production and Services. IVA — Value-Added Tax. ISR — Income Tax.
 2026E — Estimate based on the 2026 economic package.
 Note: Net oil revenue is calculated as gross oil revenue less the implicit gasoline subsidy (negative IEPS gasoline). When the IEPS is negative, its value is deducted from oil revenue; when positive, it is shown separately. Between 2008 and 2014, as well as in 2022, the IEPS on gasoline share was 0% due to the fiscal stimulus.
 Source: Fitch Ratings, Ministry of Finance and Public Credit (SHCP).

- Authorities estimate 0.3% of RFP in lower IEPS gasoline revenue for 2026 than the approved budget. This probably underestimates the impact, given the uncertain duration of the conflict and the mechanism that gradually raises subsidies over time.
- When the Russia-Ukraine conflict drove up global energy prices, IEPS stimulus costs nearly offset the public sector’s oil surplus.
- In 2022, the RFP still grew 6.4% in real terms, despite the IEPS subsidy, buoyed by strong income-tax collections during the post-pandemic recovery, with GDP growing at 3.7%.
- Macroeconomic conditions in 2026 are materially weaker, and subsidies will have more of an impact on the RFP. Fitch forecasts 2026 GDP growth of less than half the 2022 growth rate.
- The oil component of the RFP declined to 4% in 2025, limiting its capacity to offset shortfalls of other RFP components, such as income-tax or value-added tax. Fitch expects oil revenue surpluses to be fully absorbed by stimulus costs.
- Despite the fiscal stimulus on fuel prices, Fitch expects inflationary pressures from higher energy costs to keep annual inflation above 4%.
- This could compress states’ operating margins if public spending is not reduced, federal transfers to states fall below budgeted levels, and FEIEF resources prove insufficient.
- Those whose federal transfers represent a high share of total revenue and maintain rigid expenditure structures face greater exposure to operating balance deterioration and debt service coverage pressures.



GLOBAL RESOURCES

Interactive Sovereign Rating Model

The Interactive Sovereign Rating Model (SRM) is an analytical tool provided for use by third parties. The inputs and calculations of the tool exactly replicate those used in the rating process.

Sovereign Data Comparator

The Sovereign Data Comparator is a quarterly database of key statistics for all 122 Fitch-rated sovereigns, enabling clients to compare indicators for different countries that are active in the international capital markets or have the potential to be so.

Global Economic Outlook

This quarterly series provides Fitch's outlook for the world economy, DMs, EMs, EMs excl. China, the U.S., China and the Eurozone, as well as select economies, including Mexico and Brazil in Latin America. The forecasts cover GDP growth, consumer spending, investment, net trade, inflation, policy rates and exchange rates.

Frontier Markets Economic Monitor

This quarterly chart pack tracks high-frequency macroeconomic data for the countries included in J.P. Morgan's Next Generation Markets (NEXGEM) Index. The index comprises countries representing sub-Saharan Africa, Latin America & the Caribbean, the Middle East & North Africa, Europe, Asia and Oceania.

Emerging Markets Credit Brief and Snapshot

This quarterly cross-sector report published by Fitch Wire discusses macroeconomic and key sector developments and forecasts. In addition, Fitch publishes the Global Emerging Markets Credit Snapshot, an infographic based on the latest edition of the report.

Emerging Markets Q&A Reports

This quarterly series provides an overview of recent rating actions and current rating Outlooks for global emerging market economies. It also covers responses to topical questions from investors, including specific questions on 2-4 countries from Latin America & the Caribbean.

Global Financial Institutions and Corporates Rating Trends Monitors

These quarterly reports track IDR changes and Outlook distributions across Fitch's financial and non-financial corporate portfolios. The data is filterable by sector, rating class (IG vs. HY) and market (DMs vs. EMs). Key rating drivers are also presented, with the ability to isolate broad reasons by sector, rating class and market.

Global Corporates Sector Forecasts Monitor

Provides geographic-based KPI assumptions for 15 sectors, forecasts of aggregate credit metrics for a portfolio of approx. 2,000 issuers and Fitch's sector outlook. Additionally, it includes a new global heatmap that ranks the potential impact of tariffs across various sectors.

Global Corporates Cash Flow Monitor

This semi-annual series examines the generation and use of underlying FFO for more than 1,500 non-financial corporates. Historical and projected data are provided on a sector and aggregate portfolio basis with trends in capital investment and shareholder remuneration since 2019. The data are filterable by region, rating category (investment grade versus speculative grade), developed versus emerging markets, and by country.

Global Corporate Credits on a Cusp

This report highlights issuers that are on the cusp of the 'A', 'BBB' or 'BB' categories due to a Negative or Positive Rating Outlook/Watch. It includes the latest rating action date along with debt totals and leverage for each issuer. In addition, issuer-specific rating sensitivities are outlined in Fitch's RACs, which are accessible via the embedded links in each table.



Fitch on LatAm Events

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