S&P Global Ratings

Latin American Corporate And Infrastructure Credit Outlook 2025

Tariffs, Interest Rates, And Commodity Prices Keep Entities On Their Toes

Feb. 27, 2025

This report does not constitute a rating action

Contacts

Diego Ocampo
Buenos Aires
+54-11-4891-2126
diego.ocampo@spglobal.com

Julyana Yokota
Sao Paulo
+55-11-3039-9731
julyana.yokota@spglobal.com

Key Takeaways

- Tariffs on Mexican exports to the U.S. are likely to cause Mexico's GDP to shrink and inflation pick up steam in 2025. Auto parts makers and home appliances companies are likely to be most affected.
- Chilean, Peruvian, and Brazilian raw materials exporters to China are at risk of mild softening in prices if China's economy slows down, as expected. Copper, iron ore, zinc, lithium, pulp, sugar, and other agricultural commodities top the list of the region's main exports to China.
- High interest rates in Brazil and rising inflation threaten credit quality of domestic corporations, especially the lower rated ones. Also, these factors put pressure on infrastructure companies, capital structures of which are exposed to floating interest rates while their inflation pass-through ability may not be automatic.
- The ratings remain largely stable. But the proportion of the ratings with the negative outlook is a bit larger than those with the positive outlook (as measured by net bias at -5%). Downside risks are concentrated in sectors such as chemicals, autos, building materials, paper and packaging, and telecom.
- The corporate default rate in Latin America (LatAm) is low at 0.9, but we expect an increase in refinancings and debt exchanges because of high domestic interest rates.
- Yields of Latin American corporate bonds have improved in February 2025 from those in 2024, particularly in the lower rating area. This was mostly because of a substantial spread compression among Argentine issuers, thanks to improving macroeconomic conditions in the country.

How this will shape 2025

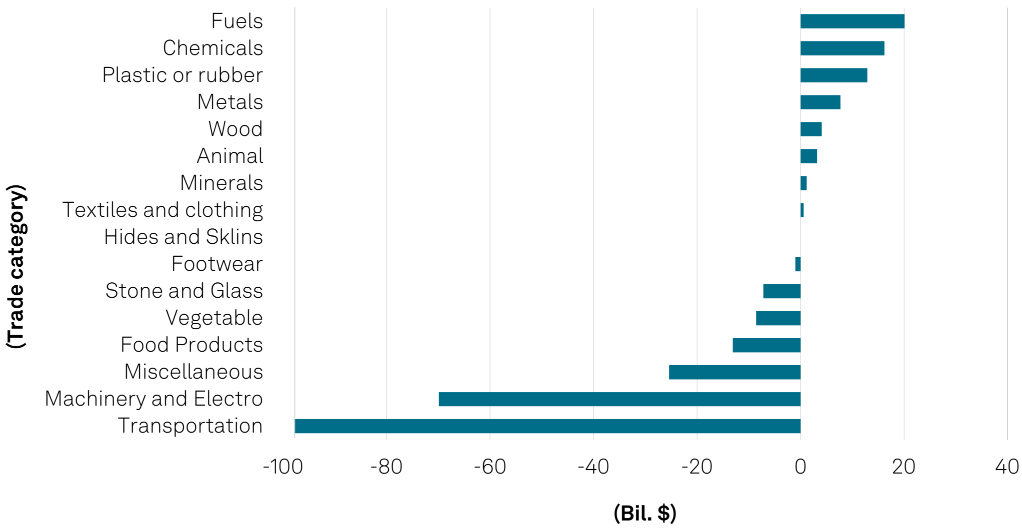
The 25% tariffs imposed on Mexican exports to the U.S., and suspended for 30 days until March 4th, will probably result in lower domestic growth, inflation pressures, and currency volatility. We don't expect a full pass-through of tariffs to consumers. Rather, we believe a great portion of the incremental costs would be allocated to such products' value chains, which means the companies will need to deal with increased costs and weaker competitiveness. In a recent scenario analysis, we estimated the measure could chop off 1.7 percentage points from Mexico's baseline GDP growth, increase inflation by 0.8%, and weaken the Mexican peso by 10% compared with our previous assumptions for 2025 (see "Economic Research: Macro Effects Of Proposed U.S. Tariffs Are Negative All-Around" published Feb. 6, 2025).

Also, we don't think the tariffs on Mexican products would be a sufficient incentive for Brazilian auto parts and home appliances companies to shift a portion of their production to Mexico, as they serve clients under long-term contracts. And if so, they could get taxed as well.

Chart 1

Trade balance between Mexico and the U.S.

Auto parts and household appliances top the list of Mexican exports to the U.S.



Source: S&P Global Ratings based on trade data of 2023.

We believe the imposition of higher tariffs in the U.S. may result in lower growth trajectory for the Mexican toll roads, in comparison to around 10% annual traffic increases in 2023 and 2024, particularly for heavy-duty vehicles. Still, we don't expect an overall sustained disruption (or shock) because Mexico's industrial base is largely intertwined with that of the U.S. and would be hard to replace in the short term.

The impact on Mexican companies will vary depending on how long these tariffs would be enforced, how relevant or switchable their exports to the U.S. are, the substitution risk of these exports, and how the possibility of retaliatory tariffs from Mexico could play around, if applied. (See "A 25% Tariff Would Create New Trade Challenges For Mexican Corporations", published Feb. 3, 2025)

China has played a considerable role in LatAm's economic growth for the past 20 years. That would probably lessen in the future. Given that China was the destination for more than $220 billion of LatAm exports in 2024, the country will remain a top buyer of the region's main products, but the growth potential isn't likely to remain as robust as in the past. The deceleration of the Chinese economy (we assume a 4.1% growth rate for 2025, with 25% tariffs on its exports to the U.S.), the ongoing disinflation process, and a weaker yuan are likely to curb Chinese imports and soften key raw materials' prices such as for iron ore, copper, steel, lithium, pulp, protein, oilseeds, and grains and their derivatives. We expect moderate downside risks for these products' demand in 2025.

Also, global trade tensions may limit the ability of LatAm port operators to adjust rates. We expect flat volumes among Brazilian ports, as higher exports of agricultural products and protein will be mitigated by lower import volumes. The recently constructed ports in Peru are dedicated for mining exports to China.

Table 1

China's slower economy could spill over to some LatAm countries

2023 exports to China by type (% of each country GDP)

	Energy	Materials	Industrial goods	Consumer goods	Other	Total
Chile	0.0%	11.4%	0.0%	1.4%	0.0%	12.8%
Peru	0.1%	8.8%	0.0%	0.8%	0.0%	9.6%
Brazil	1.1%	1.8%	0.0%	2.7%	0.0%	5.6%
Colombia	1.5%	0.2%	0.0%	0.0%	0.0%	1.8%
Mexico	0.1%	0.3%	0.1%	0.2%	0.3%	1.1%
Argentina	0.0%	0.1%	0.0%	0.9%	0.0%	1.0%

Source: S&P Global Market Intelligence.

GDP growth in LatAm is likely to remain sluggish in 2025. The largest countries in the region such as Brazil and Mexico are struggling with slow growth prospects amid high interest rates (mainly Brazil), inflationary pressures, and potentially weaker demand for the region's main exports (food, metals, oil, and a wide range of finished products). We expect Argentina and Peru to grow above the region's average in 2025. While Argentina bounces back from H1 2024 lows and solidifies its growth trajectory with a balanced fiscal front and growing energy exports, Peru remains at a steady pace, fostered by solid primary exports and growing private investment.

Table 2

Main economic assumptions for LatAm economies

We expect moderate growth, and persistently high policy rates in 2025	GDP growth % 2025	Policy rates % (year-end)	Average inflation % (year average)
Argentina	4.0	20.0	45.0
Brazil	1.9	14.75	4.2
Chile	2.2	4.5	4.0
Colombia	2.5	8.5	3.9
Mexico	1.2	8.75	3.9
Peru	2.8	4.5	2.4

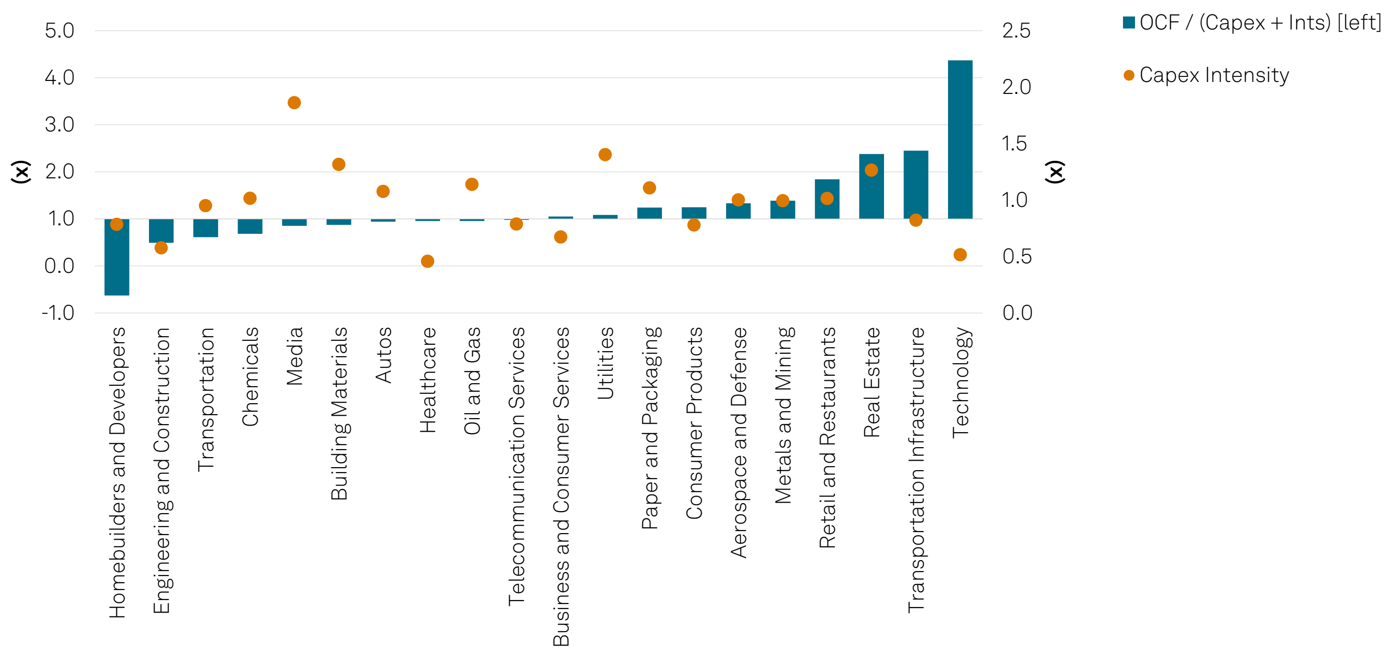
2025 GDP growth assumptions are in real terms. Policy rates are on a year-end basis while inflation rates are averages. All of them were published on Feb. 18, 2025. Source: S&P Global Ratings.

As debt is becoming increasingly expensive in LatAm, especially in Brazil, companies are likely to invest in a conservative manner. Several sectors aren't generating enough cash to fund capital expenditure (capex) and interest costs. In general, we are concerned about their capacity to deleverage and invest, with interest rates at these levels--especially in Brazil where SELIC is currently at a whopping 13.25%. Brazilian companies are vulnerable to the interest-rate risk, as more than 80% of their debts are floating rate and in domestic currency. The current interest-rate levels are just too high for companies to generate free cash flow and service debts. We anticipate an increase in debt distresses there.

Chart 2

High interest rates pressure free cash flow

LatAm companies reduce capex intensity to compensate for high borrowing costs



Available financial data as of Sept. 30, 2024. Source: S&P Global Ratings.

About 50% of the debt of Brazilian transportation infrastructure and power generation companies are linked to inflation, which could pressure cash flow. Inflation-linked debt increases credit risk in periods of growing inflation, especially if the pass-through of incremental costs to prices takes long. In our view, the prospects of tightening financial conditions could curtail the funding needs for capex, rather than raising the debt burden, as we don't forecast large refinancings in the sector for the next two years.

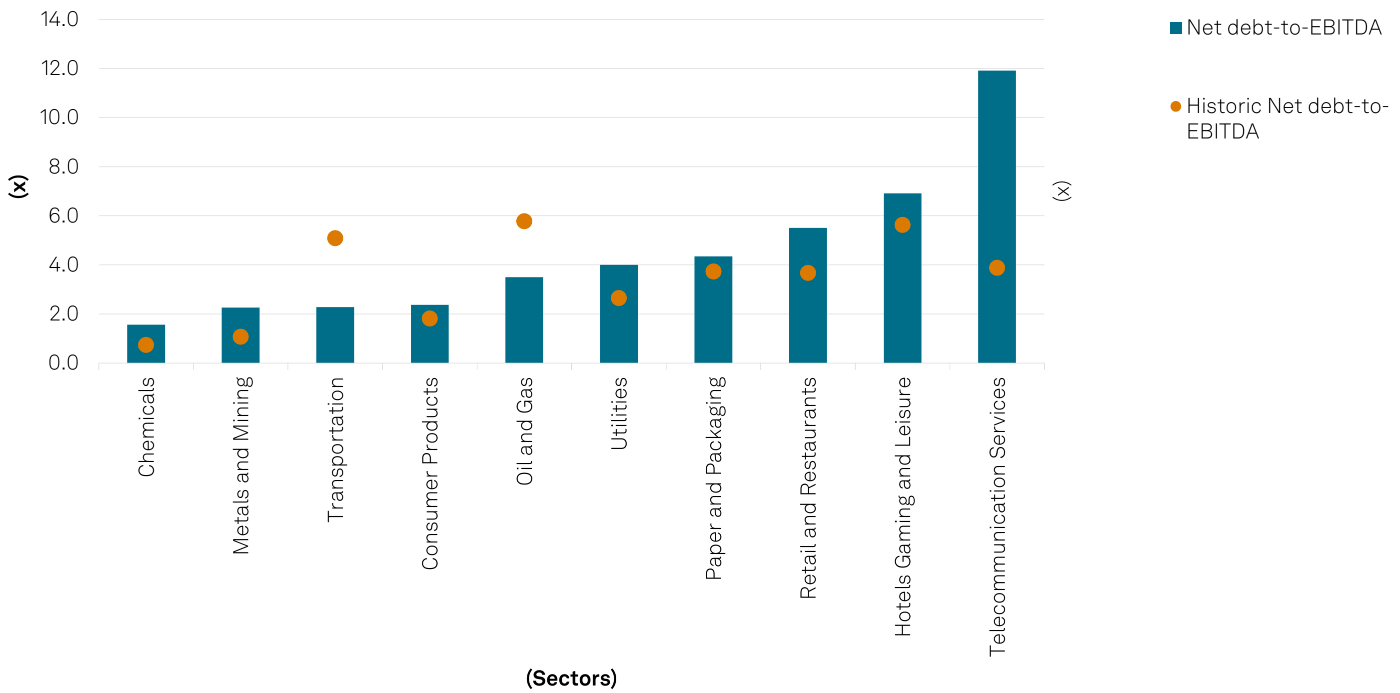
In Mexico, we expect low refinancing risk. Most of the upcoming corporate refinancings will be in the telecom, beverage, bottling, food processing, retail, chemicals, and building materials industries, which have usually high capex. However, most of the 2025 maturities will be among entities with 'BBB-' or higher ratings, so we expect their access to capital markets to be solid. We also forecast a lower likelihood of additional debt for capex, as growth investments were performed in the past couple of years, while the potential tightening in financial conditions increases the downside risk to the forecasted growth due to trade-related uncertainty. (See "Mexico's Corporate Sector Faces Low Refinancing Risk Of Near-Term Maturities", published Nov. 27, 2024.)

Some key corporate sectors in Chile are showing a mild increase in leverage relative to their historical medians. The rated metals and mining, paper and packaging, chemicals, retail, and telecom companies and utilities are operating with slightly higher-than-normal leverage levels. This is due to slow growth and, in some cases, sizable investments. Business conditions remain stable, so the uptick in leverage shouldn't represent a major threat to their credit profiles.

Chart 3

Leverage is a factor to monitor among Chilean corporations

Median ratios show an uptick over historical levels



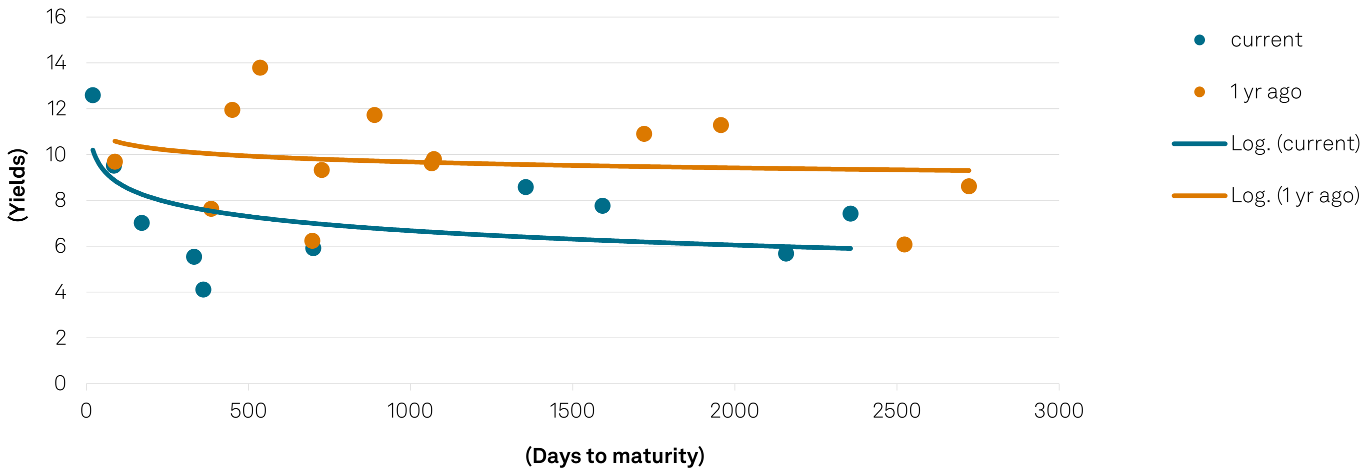
Available financial data as of September 30-2024. Source: S&P Global Ratings.

Argentine issuers are benefitting from improved access to capital markets and better macroeconomic conditions. The rated corporations issued $6.8 billion in 2024 and early 2025, using proceeds for liability management and to finance growth, particularly in exploration and production and midstream in the shale formation Vaca Muerta. The other sector in the country that's very active as well is mining (lithium and copper mainly). We recently affirmed our sovereign ratings on Argentina at 'CCC' and revised upward our transfer and convertibility (T&C) assessment to 'B-' from 'CCC'. Still, the Argentine government debt payment schedule for 2025 and 2026 is heavy and will require refinancing to avoid further weakening the external balance. Securing new funds at lower rate levels, the current spread over treasuries ranges between 600 and 700 basis points, would be an important milestone for President Milei's administration to solidify its path in winning the mid-term elections in October.

Chart 4

Spread compression of Argentine issuers

Access to markets improved meaningfully



Selected corporate bonds. Source: S&P Global Ratings.

Colombian issuers remain cautious, as the sovereign's fiscal and debt trajectories raise concerns. High fiscal deficits, despite the recovery in tax revenue in 2025, are causing the government's debt to increase. Also, the recently approved pension reform and the reform of the General System of Participations are likely to weaken the fiscal front and probably reduce the share of fiscal revenues that are channeled to the central government. We expect business conditions to remain moderately subdued with markets probably less receptive despite the country's main issuers exhibiting adequate leverage profiles and stable operating performance.

Ratings Remain Stable And Defaults Are Relatively Low

Credit trends stabilized in the second half of 2024 after the favorable momentum during the first half of 2024. This was fueled by the upgrades of several Brazilian entities that benefited from improved business conditions. Sectors such as consumers products (particularly sugarcane processors), homebuilders, telecom, and transportation infrastructure were among the top performers in 2024. More recently, several Argentine corporations were upgraded following the Feb. 5, 2025, upward revision of our T&C assessment of Argentina.

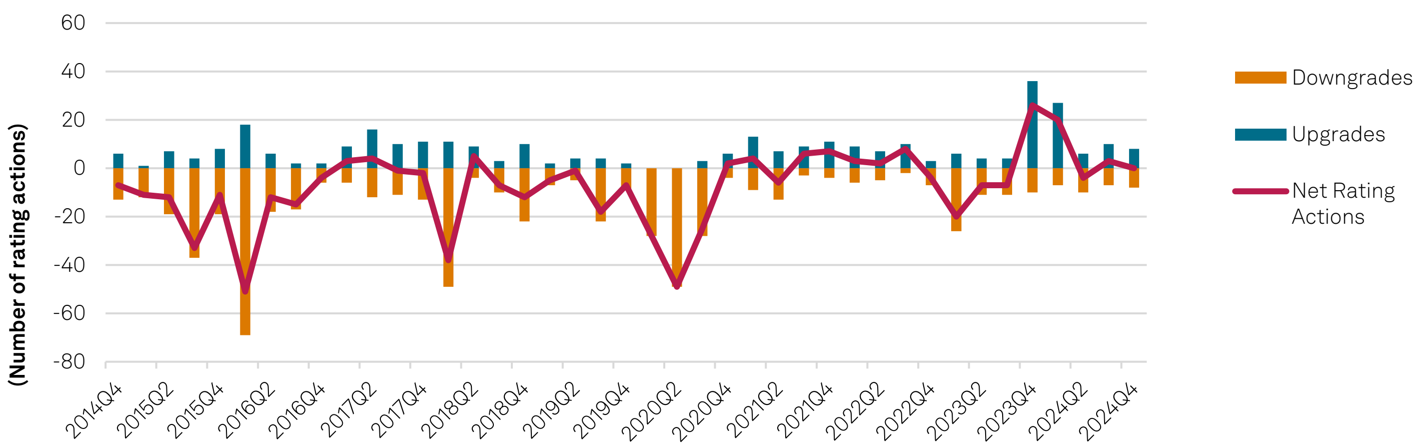
We are cautious about the ratings performance in 2025, as several key risks are on the rise. The latter include still-high interest rates, incremental trade tariffs on exports to the U.S., which can curb exports and increase competition of domestic goods with imports (such as steel, cars, home appliances, etc.), and policy unpredictability and fiscal underperformance in several key economies in the region, which tend to exacerbate inflation and raise policy rates.

In many cases, our ratings on LatAm infrastructure entities are either capped or linked to those on respective sovereigns, making sovereign rating actions a crucial factor in rating changes on these entities. This is either because these entities are government owned or because of the regulated nature of their tariffs. As such, we downgraded Aeropuerto Internacional de Tocumen S.A., Ena Master Trust, and Autoridad del Canal de Panama following a similar action on our sovereign rating on Panama on Nov. 26, 2024.

Chart 5

Corporate rating actions across selected LatAm countries

During the second half of 2024, the rating activity was balanced



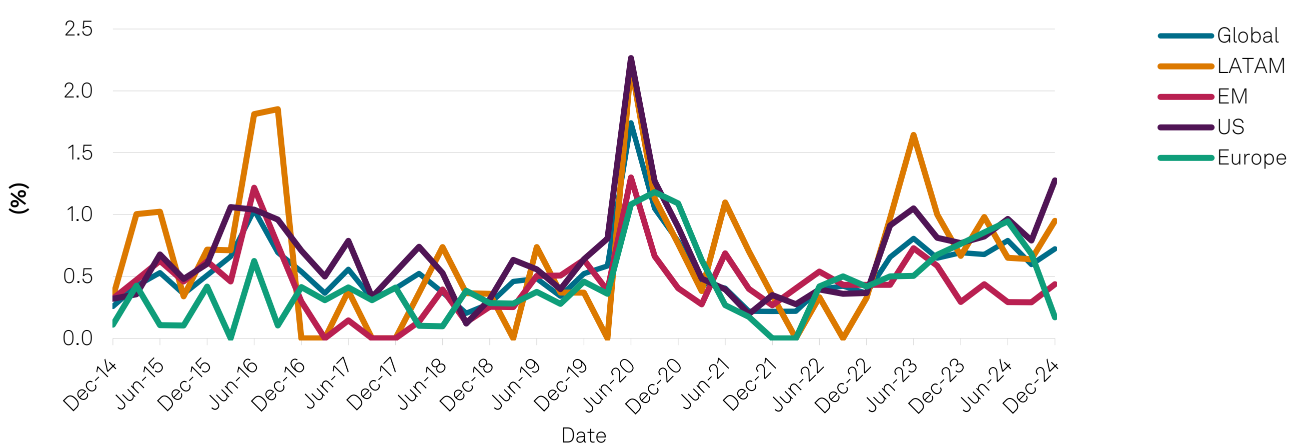
Downgrades include defaults. Data as of Dec. 31, 2024. Source: S&P Global Ratings Credit Research & Insights.

The default rate remains at low levels, although it edged up in Q4 2024. But the default count is dominated by re-defaulters. Only three issuers account for 75% of the region's defaults in the past 12 months, given debt imbalances, rather than sectorial trends, were the cause.

Chart 6

Corporate default rates for the past decade by global regions

Corporate default rate moving slightly up in the second half 2024 across LatAm and other regions



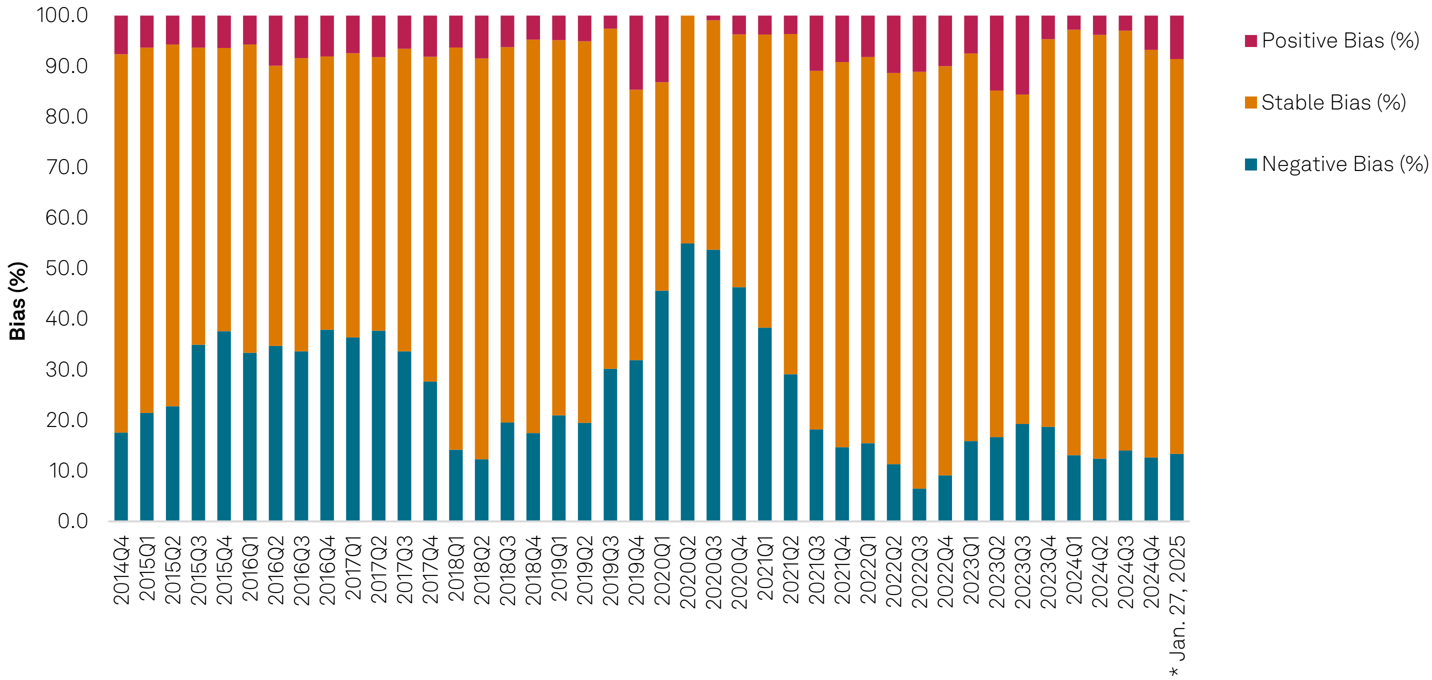
One quarter trailing default rate by region. LatAm 6 consist of Argentina, Brazil, Chile, Colombia, Mexico, and Peru. Source: S&P Global Ratings Credit Research & Insights.

The outlook distribution is broadly stable among LatAm corporations. Sectors that contain the greatest downside potential are autos (net outlook bias -17%), building materials (-17%), and chemicals (-42%). On the other hand, the transportation sector has the largest share of positive outlooks (+5%).

Chart 7

The outlook bias for LatAm's corporate sector

Outlook distribution remains largely stable



Source: S&P Global Ratings Credit Research & Insights.

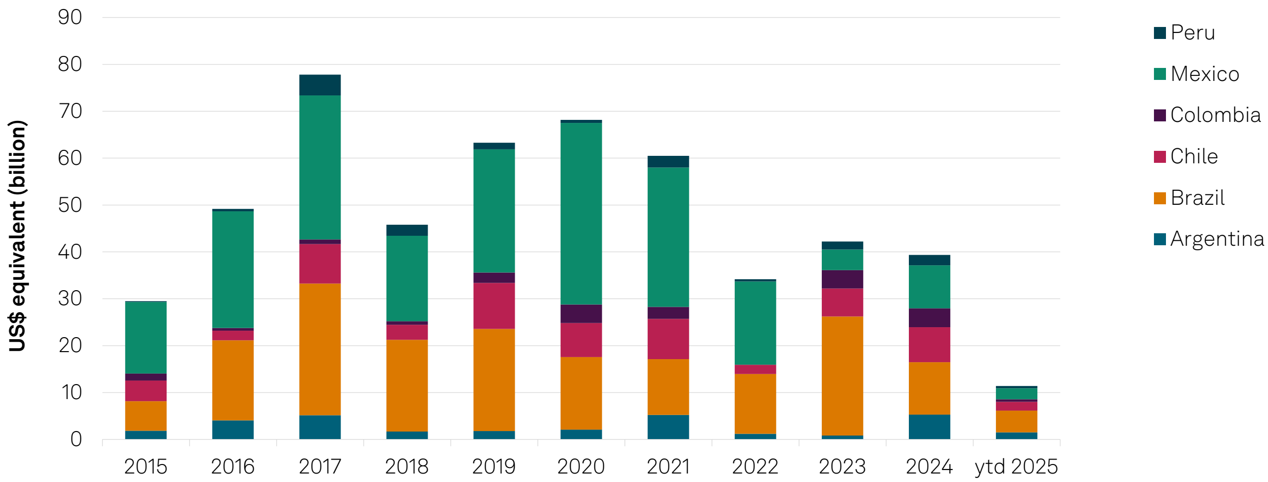
Corporate Issuance Started Strong In 2025

The number of bond issuances in early 2025 was the highest of the past 10 years. The 29 transactions totaled $11.4 billion in January and the first three weeks of February. The activity was mostly in Brazil ($4.7 billion), Mexico ($2.3 billion), Argentina ($1.5 billion), and Chile ($1.5 billion).

Chart 8

International bond issuances

Argentine and Mexican corporations issued more than their regional peers in 2024 and remain the most active in 2025

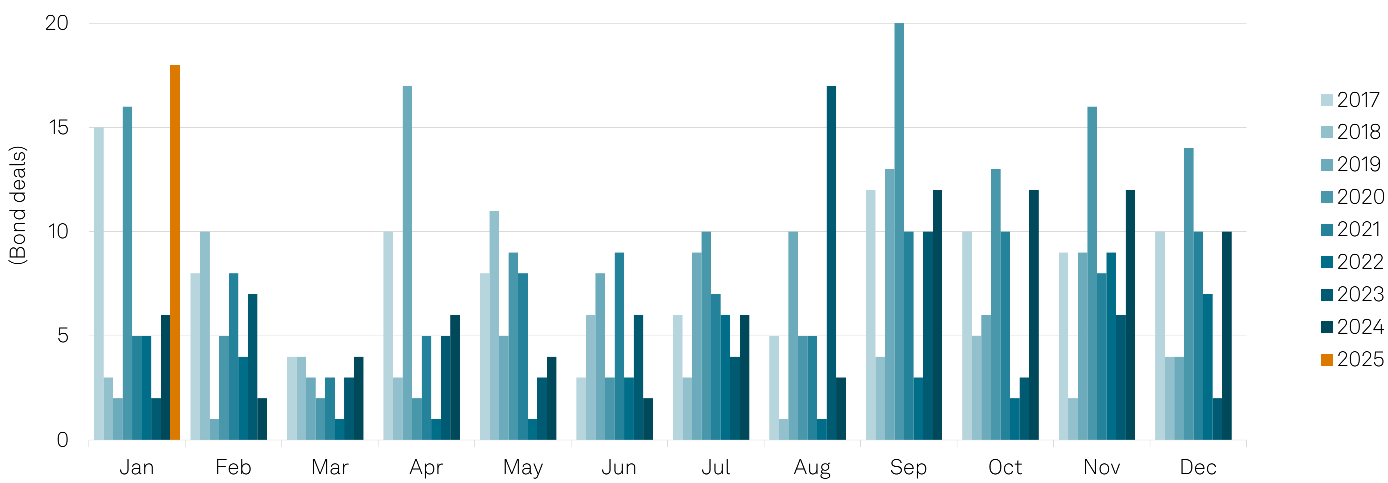


Source: S&P Global Ratings based on Thompson Reuters.

Chart 9

International debt markets' windows

Amount of bond deals by the rated and unrated LatAm corporations



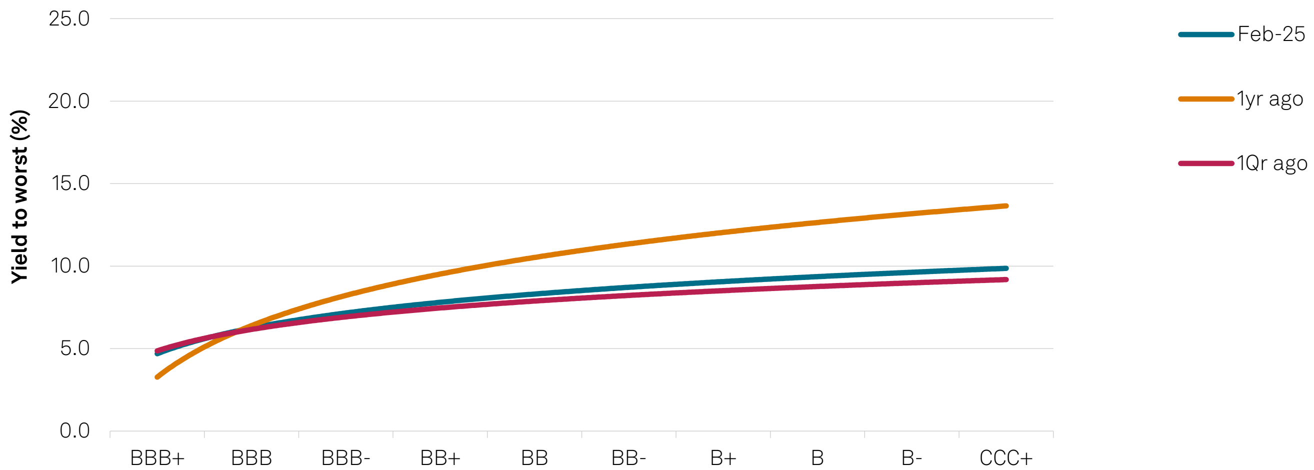
Source: S&P Global Ratings based on Thompson Reuters.

Yields have improved meaningfully for LatAm speculative-grade issuers. Much of the improvement is owed to the re-calibration of risk perception among Argentine issuers that are mostly rated 'B-' and 'CCC+'. But as yields' disparity increases across lower ratings levels and risk perception varies rapidly at the lowest ratings levels, we expect to see substantial volatility in market access and borrowing costs.

Chart 10

Yields dropped for LatAm speculative-grade issuers

Borrowing costs are improving across low rating categories



Source: S&P Global Ratings based on Thompson Reuters.

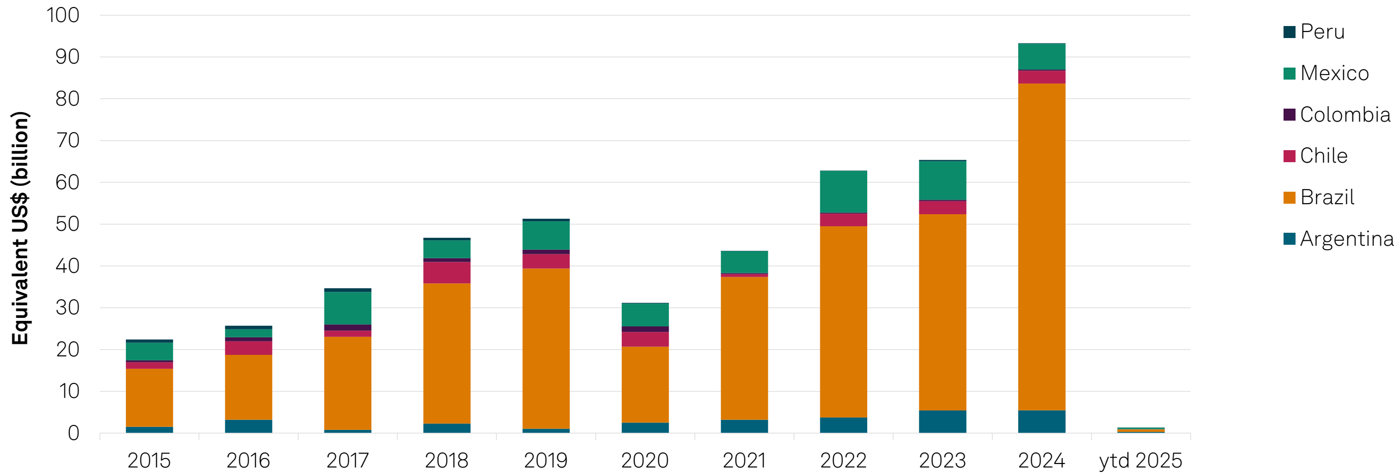
Brazil's debt markets surged in 2024 thanks to infrastructure debentures. Domestic issuances reached a whopping $78 billion equivalent, a 60% jump relative to 2023. The companies switched to domestic markets, as appetite among domestic investors remained high due to appealing interest-rate levels. Much of the hype was also due to the comeback of infrastructure debentures, incentivadas, which totaled R$132 billion in 2024 (close to $23 billion), more than doubling the 2023 level. These debt instruments are linked to inflation and provide tax exemption for individual investors. And due to their high demand, they have become a source of long-term funding for infrastructure spending, complementing traditional funding from BNDES and commercial banks.

Considering the prevailing high basic interest rates, we now expect infrastructure entities to fund a larger portion of their capex in the next few years with shorter-term floating debt instruments or resort to BNDES financing, in order to avoid locking in high spreads in the capital markets in the long term. Nevertheless, as many issuers took advantage of favorable market conditions during most of 2024 to anticipate issuances, refinancing needs are limited in the next 12 months.

Chart 11

Domestic bond issuances

Domestic markets are becoming a reliable source of funding for LatAm corporations



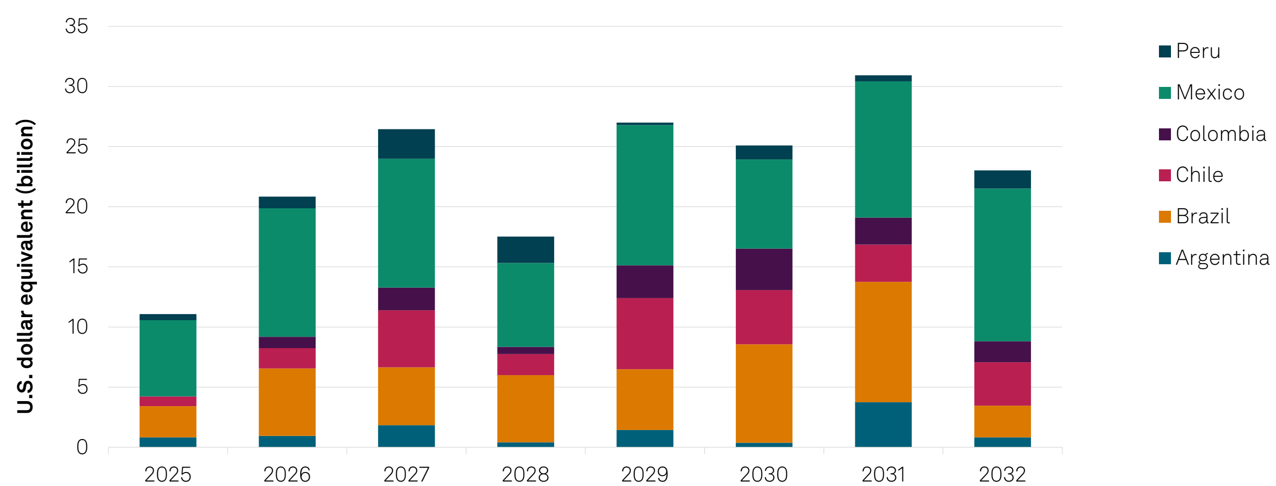
Source: S&P Global Ratings based on Thompson Reuters.

Maturities in 2025 are manageable at approximately $11 billion. Out of which, $6 billion are among the Mexican entities and $2.6 billion among Brazilian entities. Main Mexican issuers with maturities in 2025 are Petroleos Mexicanos (Pemex), Comision Federal de Electricidad (CFE), America Movil S.A.B. de C.V. (AMX), Grupo Mexico S.A.B. de C.V., and Ferrocarril Mexicano S.A. de C.V. Main Brazilian corporations with maturities in 2025 are Gol Linhas Aéreas Inteligentes S.A. (Gol), and Globo Comunicação e Participações S.A.

Chart 12

International bond maturities of LatAm corporations

Refinancing needs look manageable in 2025 and 2026



Source: S&P Global Ratings based on Thompson Reuters.

Sectorial Trends

Building Materials

Our baseline assumptions incorporate tougher business conditions in 2025 for the building materials sector in LatAm due to our expectation of softer economic growth in the largest countries, a high comparison base from 2024 in several markets, and still significant downside risks to our forecast. Therefore, we expect mixed results. In Brazil, we expect the sector to keep growing although at a softer pace than in 2024. In Mexico, we anticipate a mild contraction due to a slowdown in nonresidential infrastructure projects. In other markets like Peru, Colombia, and Argentina, we forecast a modest uptick in construction thanks to ongoing economic recovery.

Our baseline assumptions also include steady remittances and stabilized inflation in most LatAm countries, propping up the informal housing sector's performance. We also anticipate profit margins and key protection measures to remain broadly stable in 2025, as long as inflation on input costs is controlled, and because of our expectation of broad continuity in financial policies. However, uncertainty regarding the effect of several domestic and global trade policies could undermine investor sentiment, weaken private fixed investments, and worsen financing conditions. Additional downside risks include geopolitical conflicts that could cause disruption in supply chains and increase energy and transportation costs, along with more frequent natural disasters. These risks could dampen the rated entities' earnings and credit metrics beyond our current estimate, if they materialize or intensify.

Chemicals

LatAm petrochemical companies will grow depending on the end markets they serve. The petrochemical companies, which focus on components for food and beverage container production, would maintain revenue growth of 2%-5% in 2025. On the other hand, we expect no growth or a potential decline in sales of petrochemical companies linked to high-capex development projects, as we perceive the political and economic environment will continue to delay investments across some of the main industries (auto, telecom, infrastructure, among others). In addition, there is uncertainty regarding the recovery of petrochemical prices, as Asia's oversupply and high inventories have not eased, and the effect of antidumping fares (from the U.S.) has not achieved the expected results.

Consumer Products

The agribusiness sector should hold margins fairly steady, but cash flows can fall amid higher interest rates. We have a stable to slightly favorable view for the sugar and ethanol producers in Brazil. Volumes should grow from the 2024-2025 harvest due to sound rainfall patterns so far, after a subpar previous harvest and the wildfires. While we still need to track rain levels for the planting season and during the harvest and monitor the wildfires' potential long-term impacts on the planted areas, the market estimates that volumes will rise by around 5%.

In addition, sugar prices remain supportive, while the companies are willing to prioritize the sugar production over that of ethanol, although price of the latter improved in the last 12 months. The wildfires caused ethanol output to be higher than estimates in 2024.

Prices should remain sound. The expected lower sugarcane harvest in India and its increase of ethanol production will offset higher sugar production in Brazil, as mills invested in refined capacity in the past few years. Ethanol's price has also risen and narrowed its parity with gasoline price, despite the growing production of corn ethanol, whose profitability has considerably increased amid the 20% drop in corn costs.

The pork and poultry producers will continue to benefit from lower feed costs, especially corn and soybean, but margins should diminish from record levels in 2024 because of producers' rising volumes. Cattle prices are growing especially in Brazil, amid a downward cycle for half’s retention, but margins should remain at 7%-10% due to strong demand from Asia and other premium markets such as the U.S., the latter of which continues to struggle with the declining cattle herd. Brazilian beef exporters already pay taxes that are higher than the potential 25% import tariff by the Trump administration, so we don't expect a significant change.

In Mexico, we expect resilient but softer consumption trends in 2025, as consumers will likely have less purchasing power following a high inflation period. The major risk is related to the potential enforcement of a 25% tariff on all Mexican goods exported to the U.S., which would have significant implications on the Mexican economy. Macroeconomic effects could include the economic contraction, a weaker peso-dollar exchange rate, and higher inflation, denting consumption and consumer products companies' credit quality beyond our current estimates.

Real Estate

The outlook on LatAm rated real estate operators remains predominantly stable (78% of the portfolio), which we expect will continue in 2025. We expect a relatively stable operating environment for real estate investment trusts (REITs), with decreasing interest rates in most LatAm countries, except for Brazil, although our current economic forecasts consider a slowdown in consumption and investment in the region. Trade uncertainty threatens growth, especially for industrial real estate portfolios in the region. This could stall the nearshoring trend, which bolstered capex and acquisitions in recent years.

An increase in U.S. trade protectionist policies would pose a downside risk to our projections. Funding needs for industrial real estate operators will likely decrease, although financing is available and committed in most cases. We expect retail real estate portfolios will perform relatively well due to resilient consumption trends, and office properties' occupancy rates are slowly rebounding after high vacancies during the COVID-19 pandemic. We expect this trend will continue, although the rated players in the region have little exposure to office properties. We believe that retail and office operators' funding needs will be low, like last year, given the absence of significant gross leasable area growth in these asset classes.

Homebuilders And Developers

In Brazil, profit margins have weakened. Work stoppages during the pandemic, supply-chain disruptions, and persistently high interest rates lifted construction costs and delayed project completions, eating into homebuilders and developers' profitability during 2022-2024. We now expect their profitability to rebound in the next few years at a slower pace than we previously forecasted, given high inflation and interest rates in Brazil. Although most of the rated companies in the sector have some cushion on their balance sheets, the margin recovery and cash generation trajectory amid high interest rates will result in rating actions.

Mexico's housing demand to surpass tight supply of units. This should allow homebuilders to keep passing inflation costs to homebuyers and protect their profit margins. Moreover, we expect financial institutions to remain well capitalized, with mortgage financing availability and a modest improvement in financing conditions, as the central bank continues cutting the reference interest rate. President Claudia Sheinbaum's strategy of building 1 million new homes over her six-year term could represent an opportunity for housing starts to rebound, but will likely be accompanied by challenges. Overall, we expect the rated homebuilders to maintain flexible business models and healthy balance sheets, supported by prudent liquidity management and conservative financial policies toward the use of debt.

Metals And Mining

Brazilian steel companies will continue to face competition from imports, which will impair the margin recovery. After a difficult 2024 during which imported steel represented 23% of steel apparent consumption in Brazil, imported volumes declined in December, but it's still too early to anticipate a trend or a seasonal effect. In addition to this risk, the sector will face the due tenor of quotas implemented, which will need to be renegotiated with the government, and the likely slowdown of real estate activity because of rising interest rates and inflation decelerating the new house launches. Apparent steel consumption grew almost 10% in 2024, but a more challenging macroeconomic scenario in the country can make prices adjustments more difficult. We don't anticipate significant impacts from potentially higher U.S. tariffs on the sector, as the companies have less than 5% exposure to that market.

The mining companies in LatAm continue performing relatively stable with favorable prices of copper, zinc, silver, gold, and tin. These are main metals that the rated players produce. In general, cash generation should be enough to cover investments and debt service, with the probable exceptions of some copper producers in Chile amid an intense investment period. Antofagasta plc is currently building the second concentrator at the Centinela mine and expanding Los Pelambres, which includes doubling the desalination water capacity and constructing a new concentrate pipeline. Its capex should peak at about $4.0 billion in 2025. Corporación Nacional del Cobre de Chile's capex is also sizable, given its plan to return output to 1.6 million - 1.7 million tons of copper per year by 2030.

Mexican companies were struggling with higher inflation and the peso's appreciation against the U.S. dollar. We revised the outlook on Grupo Penoles S.A.B. de C.V. and Fresnillo plc to negative because of these factors. On the regulatory front, the amendment to Mexico's Mining Law, which increases regulation and ESG standards, shouldn't impact the rated industry players.

Oil And Gas

We assume flat Brent and WTI prices of $75 per barrel and $70 per barrel, respectively, for the next three years. Those are healthy levels that would allow the companies to maintain solid balance sheets and generally ample liquidity. Due to weakening demand and global markets likely to be in surplus in 2025, we believe OPEC will continue to support the oil markets. In this price scenario, the companies will likely continue investing to increase production and replenish reserves.

Petróleo Brasileiro S.A. - Petrobras announced at the end of 2024 its five-year plan totaling $111 billion, which is higher than the previous plan. It incorporates a continued focus on exploration and production, but also 15% of the planned capex will be directed to low-carbon projects, with a return to the biofuel business through M&As or partnerships.

After Petrobras' divestment of non-strategic assets some years ago, which created growth opportunities for Brazil's junior oil companies, we believe M&A and consolidation of the market will likely continue in 2025. We expect capex of these companies will be mostly for drilling and revitalization of mature oil fields, which have been increasing production. We have positive outlooks on two independent oil companies (Prio S.A. and Brava Energia S.A.), reflecting expected production growth after M&As last year and controlled leverage.

We expect Colombia-based Ecopetrol S.A. to increase its reserves. The company was unable to generate its annual production sales on its proved reserve (1P) additions during 2023, as it only reached 48% in replacement ratios (versus 104% in 2022). We believe Ecopetrol will continue to diversify its operating assets to compensate for its Colombia-based fields that have weaker returns on production. In addition, we expect the company to pursue new opportunities to increase its natural gas production, as it continues to follow Colombia's energy transition 2040, and to address the country's natural gas deficit that makes it difficult to fully cover energy power demand.

The Mexican government's support remains a key element for Pemex's credit quality. We believe that the government will continue to use various financial mechanisms to support Pemex, such as capital injections, delays in tax payments, and the MXN136 billion budgetary support to cover short-term obligations. This reinforces our view of government support to the company. However, we view this aid as insufficient to fully address Pemex's funding needs, though it reduces liquidity pressure in the short term, as Pemex's sources of cash remain scarce against its scheduled debt maturities and investment needs.

Argentine oil and gas companies are likely to keep increasing production (and exports) at a rapid pace as the country expands midstream capacity. We have also observed domestic fuel and crude oil prices coming close to import parity. The OldelVal Duplicar project will increase the evacuation capacity from Vaca Muerta to 750,000 barrels of oil equivalent per day (boepd) in 2025 from 510,000 boepd in early 2024, and the bulk of this expansion should be destined for exports. Argentine oil and gas company YPF S.A. is at the top of the list in investment and growth, with capex of about $5 billion annually expected for the next couple of years. We forecast it to keep expanding its shale oil production, doubling it by 2025 (compared with 2022) to 150-160 thousand barrels per day.

Pulp, Paper, And Packaging

We expect average pulp prices to drop between 10% and 20%, depending on the grade and region during 2025. We expect some pulp oversupply in the short term amid the ramp-up of the Cerrado and Liansheng mills, which will likely last until mid-2025. The first of these, Suzano S.A.'s 2.55 million ton BEK project in the state of Mato Grosso, started operating in July 2024. The industry's next project is APP OKI 2 in Indonesia that would add 1.4 million tons and could start operating in the second half of 2025. No other major project is likely until Celulosa Arauco y Constitución S.A.'s (Arauco's) Sucuriú comes online in 2028. Tighter financing conditions and lumber availability are growing challenges for new projects.

Lower pulp prices could put some pressure on Chilean producers' credit quality. Empresas CMPC S.A. and Arauco's EBITDA, cash flow, and leverage improved during 2024. Nevertheless, CMPC's leverage has been stubbornly higher than expected and remained above our 3.0x downside trigger. In a scenario of somewhat lower prices, this could become more problematic. Arauco has recently started an intense investment phase for its 3.5 million ton pulp project in Brazil, and weaker prices could result in higher-than-expected leverage.

We expect stronger cash generation for Brazilian producers. Suzano and Klabin S.A. have finished large expansions in the past couple of years and should benefit from higher volumes and lower investments in 2025 despite weaker prices. Nevertheless, we think Suzano could continue pursuing acquisition-based growth in order to increase its vertical integration and diversification and reduce its relative exposure to market pulp.

Retail And Restaurants

In Brazil and Chile, we expect continued recovery in the retail sector, following similar trends in 2024. While we forecast relatively controlled inflation in both countries, interest-rate trajectories will differ. We project Brazil will keep its policy rates elevated for longer, whereas the rates in Chile will decrease. We believe this will facilitate the rise in revenue and profit margins, enabling some debt reduction.

Traditional retailers are increasingly challenged by pure e-commerce competitors and evolving consumer preferences. Digitalization will be key for retailers in the coming years, with e-commerce and omnichannel in the center of the companies' strategy. During 2024, we revised the rating outlook on several retailers to stable from negative, notably Falabella S.A. (BB+/Stable/--) in Chile due to a recovery in its profitability and reduced leverage, Magazine Luiza S.A. (brAA-/Stable/--) owing to its strong sales performance and sustained profit margins throughout the year, despite a still challenging macroeconomic environment, and Grupo SBF (brAA-/Stable/--) because of stronger free operating cash flow and liquidity position.

In Mexico, we expect resilient but softer consumption trends in 2025 than last year. We expect real wage growth and remittances will continue to support consumption, although consumers will likely behave more cautiously in terms of spending, particularly for discretionary products. We expect revenue across the rated companies to rise about 7% in 2025, driven by low-single digit volume growth and revenue management initiatives. Nonetheless, we believe a weaker product mix and the recent depreciation of the Mexican peso will also lift the pricing of imported goods, shrinking EBITDA margins. Omnichannel capabilities remain key to serve and attract customers, given the growth of Chinese online retailers in the country, which have gained popularity quickly, especially in soft-line categories. Yet we expect a broad stability in key credit protection measures, as companies will act cautiously in terms of investments and shareholders returns.

Telecom

Revenue growth will likely remain moderate. We expect it to be about 4% in 2025 (excluding the effects of hyperinflation in Argentina), reflecting the 5G deployment and growth in fiber to the home (FTTH) for most of the companies in the sector. Across the mobile business, the operators are focused on migrating prepaid customers to higher-value postpaid contracts, strengthening recurring revenue streams, and reducing churn.

5G deployment continues in the region. Overall, the telecom companies in the region continue to increase data transmission speed through 5G coverage. In Central America, countries such as Panama and Costa Rica are at the early stages of 5G rollout; spectrum auctions are scheduled for 2025. By contrast, in the Caribbean, 5G investments are likely to lag, given the limited footprint of the islands. Therefore, the operators are prioritizing network improvements and the expansion of FTTH services within their fixed-line segments. In Mexico, AMX has increased the 5G coverage, resulting in higher subscriber additions and reduced disconnections, currently with an average churn rate of about 3%. In Chile, the 5G rollout is largely advanced with committed investments under 5G bidding in 2021 completed, except for a small portion from the operator Wom S.A.

Internet service providers (ISPs) in Brazil made progress in implementing 5G in 2024, albeit at a slower pace than in 2023, since most regulatory requirements will only take effect in 2026. Brisanet Participacoes S.A. has constructed its own towers in northeastern Brazil and significantly expanded its coverage to reach 200 cities in the region. Meanwhile, Unifique Telecomunicacoes S.A. has launched its 5G service in the southern region, currently covering eight cities, but it has opted to utilize capacity from existing tower companies rather than invest in its own infrastructure.

Capex will differ across LatAm, and investments will vary depending on the capex cycle. We believe that the upcoming 5G spectrum auctions in Costa Rica and Panama could shape long-term strategic planning. However, we anticipate a limited immediate effect on 2025 capex, given that meaningful development activity would likely commence in the second half of the year or later. In the meantime, we expect capex to focus on completing the ongoing network upgrades, integrations, and expansions. In Chile, we expect intensity to remain elevated as the country is undergoing a technology transition to 5G in mobile and to FTTH in the fixed-line business. However, the ISP market in Brazil saw a slowdown in infrastructure investments during 2024, with a focus on increasing customer take-up, partly due to challenging macroeconomic conditions. We anticipate a continued slowdown in the investment pace in 2025, as the companies have once again lowered their capex guidance to focus primarily on connecting existing homes and technology.

The M&A activity in the region will likely continue. We expect to see consolidation in some LatAm telecom markets because of the need for cost reductions, shared infrastructure, and the creation of synergies between competitors. In Brazil, we had anticipated more consistent M&A activity in 2024, but this was again hindered by sluggish macroeconomic conditions. Following the merger of Vero and America Net in late 2023, only smaller transactions have occurred, which have had minimal impact on metrics. However, we expect M&A activity to increase in 2025 as competition and professionalization constrain organic growth. Nevertheless, we forecast access to credit to remain tight amid persistently high interest rates throughout 2025, contrary to our expectations at the start of 2024.

Transportation

We anticipate rational markets and healthy growth of airlines' operations in LatAm for 2025. Growth should moderate but remain robust after strong expansion in 2024, particularly in international air traffic volume. In general, domestic and international traffic volume has comfortably surpassed pre-pandemic levels, but the region remains underserved, which should drive mid- to high-single-digit growth in capacity in the main economies of the region in the next couple of years.

Delays in aircraft deliveries and issues with engines result in a rational market but could eventually be a downside risk to our growth prospects. In Brazil, two of the largest players (Gol Linhas Aereas Inteligentes S.A. and Azul S.A.) are still in the process of streamlining their capital structures and focusing on enhancing cash flow, further reducing risks of aggressive competition. Furthermore, Azul announced in January a nonbinding memorandum of understanding with Abra, the controlling holding company of Gol, to combine Azul's and Gol's business, which could bring further consolidation in Brazilian market. In Mexico, strong demand in domestic and international markets continues to support Aeromexico's growth. However, we will continue to monitor the delivery of new airplanes in the next 12 months, and we will evaluate whether this potential asset base increase leads to substantial revenue and EBITDA growth and improved credit metrics.

We currently forecast stable oil prices of $75 per barrel (bbl) for Brent and $70/bbl for West Texas Intermediate for 2025 and beyond. The crack spread (the difference between crude oil and jet fuel prices) has also fallen (to below $20/bbl), which should support healthy EBITDA margins. However, jet fuel prices could become more volatile, particularly for airlines that do not hedge, given elevated geopolitical tensions. Additionally, foreign-exchange volatility has exacerbated in some countries in recent months and could amplify cost and margin pressures, as a large share of costs is dollar-linked, while domestic travel revenue is denominated in local currencies.

Most leasing companies in Brazil will reduce capex to compensate for a high interest burden. Several car rental and fleet management companies we rate have expanded their fleet organically or through acquisitions over the past few years, mostly funded with debt. In a scenario of high and increasing interest rates pressuring cash flow for debt service, we expect these companies to increase prices and operating efficiencies to improve profitability. Also, we expect greater focus on fleet renewal, rather than on expansion, to control cash outflows.

Although we currently have a generally stable outlook for the sector, we could see some ratings pressured if interest coverage levels continue to deteriorate this year and going forward, if we were to expect weaker operating cash flows and/or higher debt costs for longer. Still, we consider the companies' cash flow flexibility through the purchase/selling of vehicles to face tougher macroeconomic conditions.

We expect Brazilian railroad companies to sustain strong volumes, despite a weak start of the year. Agricultural volumes are likely to remain solid in 2025 amid strong soybean and corn harvest yields, despite a delayed harvest in the beginning of the year because of heavy rainfall. General cargo volumes will likely continue growing thanks to the ramp-up of new pulp and mining projects. We expect the companies to maintain relatively stable profitability, benefiting from pass-through mechanisms in tariffs. We also expect the companies' wide access to credit markets, combined with solid operating cash flows, will enable them to fund large capex, mainly concession renewal requirements and/or expansion and modernization of existing assets.

Transportation Infrastructure

We forecast vehicle volume on roadways in most LatAm countries to grow at 1.0x-1.5x elasticity to GDP growth, considering a slowdown in trade volumes globally. This follows a historically higher growth of 3x-4x elasticity to GDP growth in 2024, driven by heavy-vehicle traffic, particularly in Brazil and Mexico, where robust exports supported the economic performance. We expect capex to rise among Brazilian entities that expanded their portfolios by participating in new concession auctions. We observed record new issuances to fund infrastructure assets in the Brazilian market, totaling R$35 billion in 2024, about 120% higher than in the previous year, and we expect it to repeat in 2025. We also now expect maintenance investments earlier than we previously projected due to the degradation of pavement caused by greater heavy-vehicle volumes. The effect of higher inflation and weaker economic performance could traffic volumes on Chilean toll roads to shrink, as inflation-adjusted toll rates start to weigh on commuter traffic. Finally, we are monitoring the development of the early termination of the Rutas de Lima toll road concession in Peru, announced in early 2023.

We expect air traffic volume will continue to grow for LatAm airports at a slower pace of 2x-3x the region's GDP growth rate. Our forecast also considers strong demand from the U.S., especially for tourism; gradually stabilizing economies in Mexico and the Caribbean; and most regional airports to continue expanding above prepandemic levels. These increased volumes have triggered expansion needs as airports reach operation saturation. The airports in the region focus on expanding and modernizing existing facilities--primarily by expanding terminals and runways in major cities. However, some countries may not be able to adequately address future air transport demand, given the lack of space adjacent to airports.

Several countries have started major airport expansion projects, which we expect will boost the operators' capacity and create new opportunities for airport-related businesses. For instance, Brazil is investing heavily in its main airport, Sao Paulo-Guarulhos International Airport, while Mexico inaugurated the Aeropuerto Internacional Felipe Angeles in Mexico City in 2022 and a new airport in Tulum. At the same time, the Mexico City Airport has maintained its volumes, now more tilted to international traffic, rather than domestic, as the country's main gateway and its unique location in the city.

Utilities

Increased exposure to extreme weather events. Higher frequency and severity of climate events could represent a new challenge. We expect regulators to require investments to strengthen the assets' resilience and mitigate the volatility of energy supply, which may not be fully recoverable under existing contractual frameworks.

Political interference. Despite the regulators' autonomous operations, we have observed an increased number of political meddling, such as the proposed regulatory changes in Chile and attempts to freeze energy rates in Colombia. Still, we continue to view regulatory frameworks as supportive, because they allow for timely recovery of operating costs and capital.

In Chile, we're monitoring closely the proposed bill to change the power industry regulations, given the government's efforts to offset the sharp rise in electricity rates. The bill includes temporary rate haircuts for projects operating under the Small Distributed Generation Means framework. The bill also incorporates the fines related to quality of services on discos and additional carbon taxes.

In Mexico, we expect a high level of continuity from the previous administration regarding the role and importance of CFE and Pemex in the energy sector and prioritizing the activities of these public companies over those of private players. Still, we expect overall conditions and opportunities to improve for the private players' participation in the generation sector and energy transition goals.

Hydrology is in line with the historical average. As hydrology continues to drive energy prices in Brazil, Chile, Colombia, Peru, and Panama, we expect spot prices to ease in 2025 (except for Colombia). This is because our base-case scenario currently excludes severe El Niño or La Niña events.