

Research Update:

Outlook On Andorra Revised To Stable On Expected Delays To Structural Improvements; 'A-/A-2' Ratings Affirmed

May 9, 2025

Overview

- Andorra uses the euro without having a central bank to act as a lender of last resort, and enhancing the financial sector's access to liquidity--beyond an emergency mechanism and a small repo line from the European Central Bank--is likely to be slower than we previously expected.
- Furthermore, we think the benefits of a planned EU Association Agreement--such as expanded and diversified exports--will materialize more gradually given delays to the agreement's final approval and the heightened macroeconomic and geopolitical uncertainties in Europe.
- The government's efforts to improve the granularity of its external data, particularly relating to short- and long-term debt--key to estimating gross external financing needs--will likely take more time than we had previously anticipated, delaying transparency gains and the monitoring of external liquidity risks.
- We therefore revised our outlook on our long-term rating on Andorra to stable from positive. We affirmed our 'A-/A-2' ratings.

Rating Action

On May 9, 2025, S&P Global Ratings revised the outlook on its long-term rating on Andorra to stable from positive and affirmed the 'A-/A-2' long- and short-term foreign and local currency sovereign credit ratings.

Outlook

The outlook revision reflects the anticipated delay to reaping the economic benefits of the planned EU Association Agreement, slower-than-expected additional liquidity improvements in Andorra's banking system, and ongoing data gaps related to the government's external debt service. These

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factors are balanced by Andorra's strong public finances and robust underlying external position, as well as its solid policy effectiveness.

Downside scenario

We could lower the rating if we saw a reversal of recent progress in the financial sector's liquidity management and financial supervision standards, or if a shift in budgetary policy resulted in an increase in government debt.

Upside scenario

We could consider a positive rating action if the prospects for the financial sector's liquidity management, the government's external data dissemination, and economic gains from the EU Association Agreement improve more rapidly than we currently anticipate.

Rationale

Our outlook revision to stable reflects that the positive structural pressures on our rating on Andorra will materialize at a slower pace than we had initially anticipated. These pressures include enhanced liquidity options for Andorran banks, the economic benefits arising from the planned EU Association Agreement, and improvements to external data. The authorities are actively addressing these three structural factors, but their realization may take longer than expected due to potentially lengthy processes at the EU and national levels and lingering negotiations with Eurosystem counterparts, compounded by heightened global macroeconomic uncertainty.

Efforts to further improve Andorran banks' access to liquidity will require more time. As the country uses the euro without having a central bank to act as a lender of last resort, its sizable financial sector faces liquidity management challenges. Establishing an emergency mechanism and securing a small repo line with the ECB, post-pandemic, have given the financial system some buffers. But further enhancements such as regular access to ECB liquidity, currently under discussion, will take time to reach a consensus.

Furthermore, the economic benefits linked to the EU Association Agreement will now likely materialize more slowly than we had initially expected. Delays in finalizing the agreement stem from procedural disagreements at the EU level. Furthermore, even once the agreement is signed, it is unlikely to yield significant economic benefits in the medium term for as long as the high levels of macroeconomic, trade, and geopolitical uncertainty in Europe persist. Andorra's economic potential is limited by its small size, which means it cannot rely on its domestic market to mitigate these challenges.

The dissemination of some key external data will also happen more gradually than we initially forecast. Although the authorities are working to enhance data transparency, the lack of clarity regarding the breakdown of short- and long-term external debt, key to calculating external funding needs (external debt amortization and the current account balance) complicates our assessment of Andorra's external liquidity risks. More concrete figures could potentially indicate lower external financial needs than we have currently estimated, or at least enhance transparency; however, this process is likely to extend beyond 2026.

Institutional and economic profile: The EU Association Agreement benefits to the economy and banking sector will take time

- Andorra is a small open economy that relies on tourism, trade, and its large financial sector, as well as its neighbours' economic performance, and would benefit from tapping into the EU common market.
- But delays in finalizing the approval of the EU Association Agreement means benefits to Andorra's exports and economic prospects are likely to materialize later than we initially anticipated.
- Current macroeconomic uncertainty in the eurozone may also weigh on Andorra's short- and medium-term economic outlook.

Andorra's future access to the EU's common market will reap economic benefits. As a landlocked microstate straddled between France and Spain, along the Pyrenees, with persistent albeit improving connectivity issues, Andorra's domestic economy is tiny and dependent on its neighbours. They fuel the bulk of its attractive shopping and ski tourism sectors, although its large financial sector is highly globalized. Tapping into the EU common market would allow Andorra to sell a greater diversity of goods and services to more EU countries. It would remove goods homologation (documentation) discrepancies, which is a key current hindrance.

But its effective access to the EU common market will probably materialize later than anticipated. After years of negotiation, Andorra--together with San Marino--reached a preliminary agreement with the EU in December 2023, which grants both microstates access to the EU's common market (the Association Agreement). But the process is currently at a standstill pending resolution of whether the agreement must be ratified by each member state's parliament or solely by the EU. Beyond legal considerations, this issue is inherently political and arises at a particularly busy time for EU leaders, who are contending with trade and military priorities. All this will delay the related referendum in Andorra and hinder its effective access to the EU's common market.

The integration process will be notably slower for the financial and other sensitive sectors. While the financial sector stands to benefit from the agreement, it is subject to a 15-year transition period. This reflects the EU's requirement for further alignment with its financial regulations and Andorra's parallel effort to secure ECB liquidity access--currently under separate negotiation. Meanwhile, the telecommunications and tobacco sectors will also have transitional periods of seven and 30 years, respectively. These timelines aim to ease Andorra Telecom's shift toward a more competitive market and to gradually align the tobacco industry's prices with those of neighboring countries.

Beyond structural factors, short-term economic risks remain elevated. U.S. tariffs on global imports--including a 10% tariff on Andorran goods--have contributed to significant economic volatility. Andorra's direct exposure to the U.S. is limited, accounting for just 3.0% of total exports and 0.2% of GDP, but it is vulnerable to the indirect effects of U.S. tariffs on the EU, particularly through its close economic ties with Spain and France. Depending on the outcome of EU-U.S. negotiations, trade shocks could intensify. Meanwhile, ongoing uncertainty is weighing on financial markets, posing risks to Andorra's sizable financial sector (5x larger than its GDP), which is heavily exposed to the EU and U.S. That said, the implications for the domestic economy are

more limited.

Economic growth in Andorra is comparable to that of its peers. Following a robust 3.4% in 2024 (up from 2.6% in 2023), growth is forecast to dip to 1.4% in 2025 due to the deteriorating outlook for the eurozone, although the impact will be less severe in Spain given its service-driven economy. Thereafter, we forecast an annual average rebound of around 1.8% in 2026-2028, in line with eurozone growth and supported by tourism, ongoing construction in the real estate sector, and the continuation of various projects. These initiatives include Andorra's negotiations with multiple airlines to increase connections to its airport in La Seu d'Urgell, Catalonia; efforts to upscale Andorran tourism; the development of a special economic zone for high-end products; and other infrastructure projects that will foster idiosyncratic economic growth.

On a per capita basis, however, economic growth is below that of its peers. Historically, this metric has been quite erratic due to the large population flows caused by Andorra's reliance on seasonal workers and its limited unemployment benefits. The latter means that workers tend to leave Andorra during economic downturns and come back when activity is buoyant. This acts as an adjustment mechanism for the labor market and explains the exceptionally low unemployment levels.

Flexibility and performance profile: Fiscal and external positions are strong but external data gaps and liquidity shortcomings persist

- Andorra's emergency liquidity mechanism and small repo line with the ECB have greatly improved liquidity management for the financial sector--for a country using the euro but without a central bank--but further efforts to access regular ECB liquidity will take time.
- Greater granularity in external data would allow us to assess Andorra's external position with more confidence.
- The government is in a net asset position and is committed to the prudent management of public finances, which is appropriate given the economy's lack of monetary flexibility.

Andorra uses the euro but is not part of the eurozone, posing specific risks to its financial sector. It does not have a central bank that has monetary reserves or the ability to act as a lender of last resort, nor can it pursue an independent monetary policy. This presents risks to its financial stability, given that the banking system's consolidated assets represent about 5x GDP. The banks' combined off-balance-sheet assets under management represent about 2,000% of GDP. But a large portion of these assets is managed abroad--therefore under foreign supervision and regulation and benefiting from foreign liquidity resources.

Further bank liquidity enhancements, bringing Andorran banks more in line with eurozone peers, will take time. In 2022, the country created an emergency liquidity mechanism that has bolstered the banking sector's resilience by offering temporary liquidity to solvent and viable entities. The facility is directly financed by Andorra's international reserves, which this year amount to 12% of GDP. The ECB has also provided Andorra with a temporary repo line since 2020, which improves its liquidity risk management. But it still does not equate to a central bank's support for banks' liquidity on a daily operational basis and in the event of a banking shock. Now, Andorra is discussing with the Eurosystem the possibility of more regular access to ECB liquidity as it prepares to integrate with the EU common market. But these discussions are likely to take time.

Persistent data gaps regarding the breakdown between short- and long-term external debt obscure our understanding of Andorra's external financing needs. Data dissemination has improved significantly in recent years, from a complete absence of a balance-of-payments and an international investment position to historical estimates covering 2019-2023. But we still lack a comprehensive breakdown of short- and long-term external debt, which complicates our ability to calculate gross external financing needs, a key measure of external liquidity. More concrete figures could potentially indicate lower external financial needs than currently estimated and enhance transparency but are unlikely to become available any time soon.

Enhanced data would enable us to better assess what we consider to be a strong external position. Andorra posted high current account surpluses of about 15% of GDP in 2019-2023 and a net asset position exceeding 300% of GDP. This robust position is primarily due to Andorra's large financial sector relative to the size of its economy. Andorra has a large net asset position in portfolio investments held mostly in euro area countries and a net asset position in other investments, albeit smaller. More than half of the total liabilities owed by Andorra were concentrated in currency and deposits from non-residents, which can pose liquidity risks.

The budgetary trajectory is set to remain sound. After posting a record estimated general government surplus of just below 4% of GDP, Andorra should continue to post surpluses albeit milder ones of around 1.5% of GDP over 2025-2028. This will reflect declining surpluses from social security accounts in the absence of a pension reform, combined with milder economic growth. The government still aims to pass reforms before the end of its term in 2027. The proposals could include gradually increasing both employers' and employees' contributions (which are low compared to those of peer countries); raising the retirement age to 67 years from 65 years; and increasing the replacement rate (the individual's net pension entitlement divided by net preretirement earnings).

Andorra's highly competitive tax regime may be subject to scrutiny over the next few years. The country's minimum effective tax rate is 3%, an improvement on 2023 when some firms did not pay any taxes due to existing deductions and compensations. The maximum corporate tax rate is 10%, which is below the global minimum of 15% recommended by the Organization for Economic Co-operation and Development (OECD) for companies with a turnover of more than €750 million. That said, turnover at most firms established in Andorra falls below this threshold; the few that exceed it are subsidiaries, mainly of Spanish companies. Their head offices compensate for the tax difference in their home country to align with the OECD agreement. Although we consider the implications of the minimum effective rate to be negligible at this stage, Andorra's tax regime could become the focus of further political pressure from tax watchdogs, if the scope of the OECD agreement were to broaden.

Andorra's government is in a net asset position and its financing needs are covered until 2027. In 2025, net government assets are about 24% of GDP and are set to remain reasonably stable. Government debt is low compared to peers, at just above 30% of GDP, and Andorra benefits from large government assets in its social security fund. Andorra has no financing needs until 2027 because it will be using its cash buffers following its primo issuance of €1.2 billion Eurobonds in 2021. The average debt maturity is about seven years as of 2024. We expect Andorra's interest-to-revenue ratio to be stable at well below 2%, given its large cash reserves and limited financing needs until 2026. The contingent liabilities associated with Andorra's large financial sector are unlikely to fall directly on the government's balance sheet, given the limited size of the budget. For example, the Andorran regulator's 2015 intervention in the case of Banca Privada

d'Andorra had no permanent effect on the country's public finances.

Key Statistics

Table 1

Andorra Selected Indicators

Mil. €	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Economic indicators (%)										
Nominal GDP (bil. LC)	3	3	3	3	4	4	4	4	4	4
Nominal GDP (bil. \$)	3	3	3	3	4	4	4	5	5	5
GDP per capita (000s \$)	40.7	37.1	41.8	41.4	44.5	46.4	48.1	50.4	53.2	55.6
Real GDP growth	2.0	(11.2)	8.3	9.6	2.6	3.4	1.4	1.8	1.6	1.5
Real GDP per capita growth	0.2	(11.7)	6.2	6.8	(1.7)	1.0	(0.6)	0.0	(0.2)	(0.3)
Real investment growth	N/A									
Investment/GDP	N/A									
Savings/GDP	N/A									
Exports/GDP	N/A	5.7	5.0	11.4	6.8	6.5	6.2	6.1	6.0	5.9
Real exports growth	N/A									
Unemployment rate	2.1	3.0	3.3	2.1	1.6	1.5	1.5	1.5	1.5	1.5
External indicators (%)										
Current account balance/GDP	18.0	15.5	15.0	11.6	14.2	14.2	12.5	13.9	14.2	14.3
Current account balance/CARs	19.2	18.4	16.8	12.6	14.5	15.1	13.8	15.7	16.4	16.9
CARs/GDP	93.6	84.6	89.6	92.6	98.4	94.0	90.1	88.5	86.5	84.7
Trade balance/GDP	(42.6)	(36.4)	(39.9)	(46.9)	(43.5)	(43.7)	(41.3)	(39.9)	(41.2)	(40.9)
Net FDI/GDP	10.2	4.8	10.4	13.3	1.4	15.0	15.0	15.0	15.0	15.0
Net portfolio equity inflow/GDP	5.9	(13.8)	(9.6)	10.9	4.8	7.0	7.0	7.0	7.0	7.0
Gross external financing needs/CARs plus usable reserves	N/A	280.4	251.5	233.5	183.2	172.7	172.6	167.1	162.7	158.9
Narrow net external debt/CARs	(110.2)	(121.2)	(128.8)	(132.9)	(130.6)	(137.4)	(144.9)	(147.7)	(149.9)	(153.0)
Narrow net external debt/CAPs	(136.4)	(148.4)	(154.8)	(152.0)	(152.7)	(162.0)	(168.1)	(175.2)	(179.3)	(184.1)
Net external liabilities/CARs	(328.6)	(445.9)	(446.4)	(369.9)	(326.6)	(337.6)	(348.6)	(350.8)	(352.9)	(357.6)
Net external liabilities/CAPs	(406.9)	(546.1)	(536.3)	(423.1)	(381.8)	(397.9)	(404.5)	(416.2)	(421.9)	(430.2)
Short-term external debt by remaining maturity/CARs	N/A	198.8	172.3	158.3	115.2	104.0	104.2	101.0	97.7	94.9

Table 1

Andorra Selected Indicators (cont.)

Mil. €	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Usable reserves/CAPs (months)	N/A	0.0	0.2	0.7	1.3	1.3	1.4	1.6	1.6	1.7
Usable reserves (mil. \$)	0	48	163	356	356	397	440	485	534	586
Fiscal indicators (general government; %)										
Balance/GDP	2.3	(1.1)	(1.2)	4.8	2.1	0.6	0.6	0.7	0.7	0.7
Change in net debt/GDP	(5.3)	(1.4)	(4.9)	(0.8)	(5.2)	3.9	(0.8)	(0.9)	(0.9)	(0.9)
Primary balance/GDP	2.8	(0.5)	(0.4)	5.6	2.7	1.1	1.0	1.1	1.1	1.1
Revenue/GDP	38.2	41.3	37.9	39.7	38.0	39.0	39.0	39.0	39.0	39.0
Expenditures/GDP	35.8	42.3	39.0	34.9	35.9	38.4	38.4	38.3	38.3	38.3
Interest/revenues	1.3	1.3	1.9	1.8	1.4	1.2	1.2	1.2	1.2	1.1
Debt/GDP	35.4	46.4	48.6	38.9	35.5	33.5	32.3	31.1	30.1	29.1
Debt/revenues	92.7	112.3	128.3	97.9	93.3	85.9	82.8	79.8	77.1	74.7
Net debt/GDP	(22.7)	(26.6)	(28.8)	(26.0)	(29.0)	(23.3)	(23.2)	(23.2)	(23.2)	(23.3)
Liquid assets/GDP	58.0	72.9	77.4	64.9	64.5	56.8	55.5	54.3	53.3	52.5
Monetary indicators (%)										
CPI growth	0.5	0.1	1.7	6.2	5.6	3.1	2.8	2.3	2.1	2.0
GDP deflator growth	1.4	1.1	2.6	4.2	6.3	3.1	2.9	2.3	2.1	2.0
Exchange rate, year-end (LC/\$)	0.89	0.81	0.88	0.94	0.90	0.96	0.91	0.88	0.85	0.83
Banks' claims on resident non-gov't sector growth	(3.8)	(0.0)	0.8	0.0	0.2	1.0	1.0	1.0	1.0	1.0
Banks' claims on resident non-gov't sector/GDP	140.4	156.3	141.8	124.2	114.1	108.1	104.7	101.5	98.8	96.3
Foreign currency share of claims by banks on residents	N/A									
Foreign currency share of residents' bank deposits	N/A									
Real effective exchange rate growth	N/A									

Sources: Department D'Estadística (economic indicators), Autoritat Financera Andorrana, European Central Bank (monetary indicators), and Ministry of Finance (fiscal indicators).

Adjustments: None

Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Ratings Score Snapshot

Key rating factors	Score	Explanation
Institutional assessment	3	Generally effective policymaking in recent years, promoting sustainable public finances and balanced economic growth, which is reflected in the government's record of fiscal prudence, its accession to the IMF, the finalization of an association agreement with the EU, reforms to improve liquidity management for the country's outsized financial sector, and improvement of external data dissemination.
Economic assessment	3	Based on GDP per capita (US\$) as per Selected indicators in Table 1. As a landlocked, very small and open economy, reliant on its neighbors' economic performance, and on the financial, trade and tourism sectors, which together represent 40% of GDP, Andorra is considered a volatile and concentrated economy. Real GDP growth per capita is below that of peers, mostly due to large population flows.
External assessment	2	Based on narrow net external debt (% of CARs) and gross external financing needs (% of CARs and usable reserves) as per Selected Indicators. The sovereign's net international investment position is more favorable than the narrow net external debt position by over 100% of CARs, as per Selected Indicators in Table 1. Persisting data gaps on the external debt service weigh on the assessment.
Fiscal assessment: flexibility and performance	1	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1. Based on liquid assets to GDP, which are greater than 50% as per Selected Indicators in Table 1.
Fiscal assessment: debt burden	3	Based on net general government debt (% of GDP) and general interest expenditure (% of general government revenue) as per Selected Indicators in Table 1. Contingent liabilities are high. Andorra has a large banking sector, which has consolidated assets worth about 5.5 times GDP.
Monetary assessment	5	Andorra uses the euro, a reserve currency, without being a member of the eurozone. Consumer price index is as per Selected Indicators in Table 1. Andorra lacks monetary flexibility, in the absence of a central bank acting as a lender of last resort. The buildup of international reserves and the creation of an emergency liquidity mechanism are positive developments to mitigate liquidity shocks.
Indicative rating	a-	
Notches of supplemental adjustments and flexibility	0	
Final rating		
Foreign currency	A-	
Notches of uplift	0	

Table 2

Ratings Score Snapshot (cont.)

Key rating factors	Score	Explanation
Local currency	A-	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Risk Indicators, April 10, 2025,
- Sovereign Ratings Score Snapshot, April 7, 2025
- Default, Transition, and Recovery: 2024 Annual Global Sovereign Default And Rating Transition Study, March 24, 2025
- Sovereign Ratings History, April 28, 2025,
- Sovereign Ratings List, April 28, 2025,

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed

Andorra

Transfer & Convertibility Assessment	AAA
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Andorra

Senior Unsecured	A-
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Ratings Affirmed; Outlook Action

	To	From
Andorra		
Sovereign Credit Rating	A-/Stable/A-2	A-/Positive/A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria> for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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