S&P maintains Mexico's rating at 'BBB', with a negative outlook on fiscal and GDP challenges

December 7, 2021

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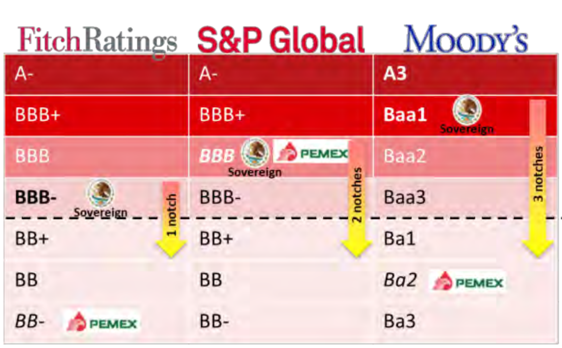
- ***S&P Global Ratings* ratified Mexico's sovereign long-term foreign currency credit rating at 'BBB', with a negative outlook**
- **According to the agency, a prudent macroeconomic management, access to international markets and integration under USMCA are positive for the country's outlook…**
- **…nevertheless, they consider that fiscal burdens from contingent liabilities of Pemex and CFE that could deteriorate public finances, low GDP growth relative to peers and lower private investor confidence justify a negative outlook**
- **Despite ongoing fiscal and growth challenges, we reiterate our view that Mexico will remain an investment grade issuer in the short- and medium-term, underpinned by prudent policies and stable debt levels**

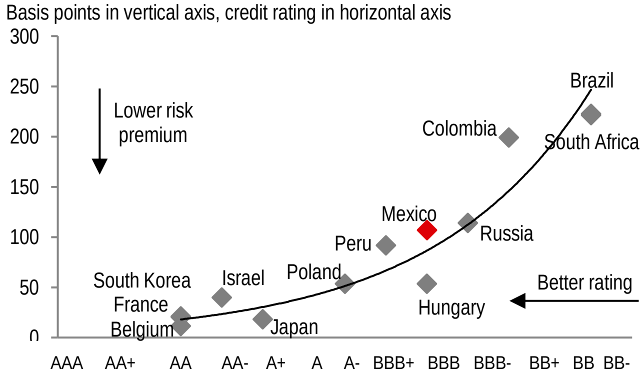
***S&P Global Ratings* ratifies Mexico's rating.** Today, the agency affirmed Mexico's long-term sovereign rating in foreign- and local-currency at 'BBB' and 'BBB+' respectively. Its latest announcement was in June, also ratifying them. S&P assessed recent developments, among them Mexico's fiscal prudence in the pandemic (positive relative to peers), mid-term elections, trade agreements and public policy proposals, among others. The agency assumes that prudent fiscal, monetary and exchange rate policies will remain in place, constituting a key strength. In addition, S&P sees benefits from USMCA, 'nearshoring' away from China and ample access to financial markets. They consider modest current account deficits, stable debt, high remittances and FDI also support the rating. On the contrary, they see risks of a weaker fiscal stance stemming mainly from:(1) Higher contingent liabilities of Pemex and CFE, especially the former, as the government will likely keep providing support; and (2) low GDP growth –at 5.8% and 2.8% in 2021 and 2022, in the same order–, in an environment of lower business and investor confidence. They maintain a negative outlook in place because of a potentially weaker fiscal stance driven by these factors, compounded by a comparatively low non-oil tax base. They mention that Mexico could return to a stable outlook if contingent liabilities are contained, higher private investment on increased confidence, budget flexibility and a wider tax base.

Mexico and Pemex credit rating



Source: Banorte with data from Fitch Ratings, S&P Global Ratings and Moody's Investors Service

5-year CDS and S&P Global credit rating
Basis points in vertical axis, credit rating in horizontal axis



Source: Banorte with data from Bloomberg and S&P Global Ratings

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