

Rating agencies give Mexico a vote of confidence after the election

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- The three main rating agencies –*S&P*, *Fitch Ratings*, and *Moody's*–, have recently made comments about Mexico's sovereign rating
- While all of them have said they will maintain their current ratings and outlook, they have also highlighted they will remain vigilant, mainly on the fiscal stance of the new government
- Moreover, they suggested the need for certainty in key areas, such as in the energy sector, as a change in current conditions could impact investment prospects in the short-, and medium-term
- Meanwhile, the three agencies agreed that the renegotiation of NAFTA continues to be a deciding factor looking forward, although they expect a positive outcome at the end of the process

Vote of confidence. In the past two days, the three main rating agencies –*S&P*, *Fitch Ratings*, and *Moody's*–, have made several comments about their expectations regarding Mexico's sovereign rating and outlook (please see table below). While all of them have said that they will maintain current rating and outlook, they have also highlighted that they will remain vigilant mainly on fiscal stance of the new government. In our view, this gives Mexico a vote of confidence, after the election.

Mexico's credit ratings

	Rating	Investment Grade/ Speculative	Outlook	Last change in rating and/or outlook
Fitch	BBB+	Investment	Stable	3-Aug-17
Standard & Poor's	BBB+	Investment	Stable	18-Dec-17
Moody's	A3	Investment	Stable	11-Apr-18

Source: Bloomberg

Solid macroeconomic framework. Rating agencies consider that one of the country's greatest assets continues to be its macroeconomic framework, which includes sound fiscal policy, an autonomous central bank, adequate levels of international reserves, and a floating-exchange rate.

Concerns on fiscal stance. All three agencies expressed some concern about the overall message of Mr. López-Obrador and his team. In particular, even though the next administration has insistently pledged to maintain a sound fiscal policy –with no new taxes and no increase in public debt levels–, there is certain skepticism about how they will finance their social programs as well as possible subsidies to the price of gasoline and other items in their campaign agenda.

Uncertainty surrounding investment prospects, another source of concern. Agencies suggested the need for certainty in key areas, such as in the energy sector, as a change in current conditions could impact investment prospects in the short and medium-term. In particular, they seem to be thinking about the energy reform and the position the new government could take about it.

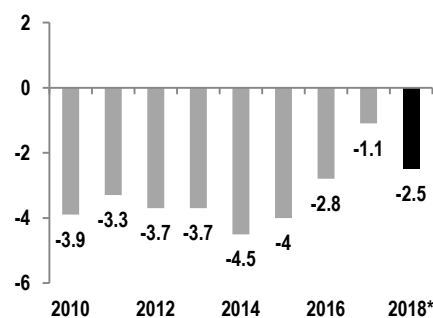
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Overall, both *Fitch* and *S&P* seemed to be more concerned on this topic, with the former mentioning that uncertainty regarding its implementation is significant, particularly given the high levels of investment that have or will be procured in this sector. In addition, *S&P* mentioned that while they do not expect any constitutional change regarding this sector, there could be some changes in the way the allocation process is conducted.

The renegotiation of NAFTA continues to weigh on Mexico’s future. Although the base case for the three agencies continues to be one where a successful renegotiation of NAFTA takes place, they do not rule out volatility and uncertainty given this external factor. Eventually, this could be a factor affecting the credit rating.

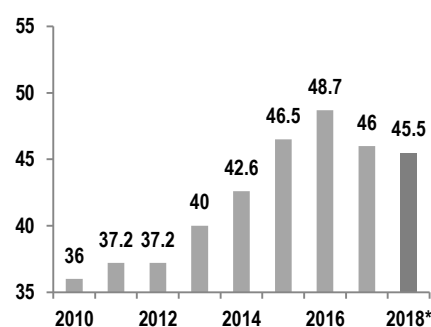
We do not expect changes in the sovereign rating or outlook. In our opinion, the rating agencies will refrain to make any changes to Mexico’s credit rating or its outlook until there is more information regarding the implementation of Mr. López-Obrador’s policies and their impact on the macroeconomic fundamentals as well as the fiscal balance. For the time being, fiscal prospects remain positive with both PSBR and HBPSBR expected at 2.5% and 45.5% of GDP, respectively, at the end of 2018. Moreover, 62 % of total public sector debt is denominated in local currency with an average duration that has increased over the years, signaling the confidence in the country’s long-term outlook.

Budget deficit (PSBR)
% of GDP



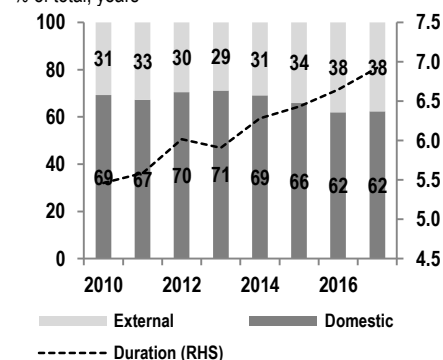
Source: MoF

Public debt (HBPSBR)
% of GDP



Source: MoF

Public sector debt composition & duration
% of total, years



Source: Banorte with data from MoF

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