Economic and Financial Markets Research
Economic Research, Mexico

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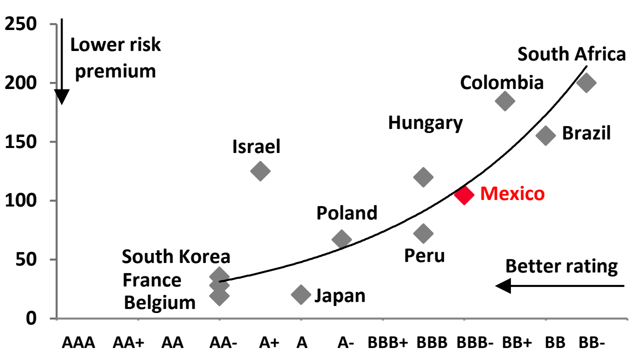
Fitch affirms Mexico's 'BBB-' sovereign rating, maintaining a stable outlook

- ***Fitch Ratings* affirmed today Mexico's sovereign long-term foreign and local currency credit rating at 'BBB-', with a stable outlook**
- **The rating remains supported by a prudent macroeconomic stance, robust external finances, and a debt/GDP ratio below its 'BBB' peers**
- **Among the main challenges, the rating agency notes an upward path in gross general government debt/GDP, along with possible changes in the institutional framework**
- **With this, Fitch endorses its last statement on December 7th. The announcement is in line with our view that the country will remain as 'investment grade' in the short- and medium-term**

***Fitch Ratings* ratifies Mexico's sovereign rating at 'BBB-'.** The agency ratified today Mexico's long-term sovereign rating in foreign- and local-currency at 'BBB-', with a stable outlook. The latest announcement was made in December. They reiterated the support stemming from a prudent macroeconomic stance, robust external finances, and better projections for the debt/GDP ratio when compared to the median 'BBB' country. Once again, they noted the positive impact from *nearshoring*, commenting that it implies an opportunity to enhance its participation in global supply chains, albeit gradually. In addition, they elaborated on the electoral results on December 2nd. They interpret it as continuity and consolidation of the ruling party. About the possible composition of the Legislative branch, they said that the results could give MORENA and allies enough seats to make constitutional amendments. On the other hand, they argued that the rating remains constrained by "*…weak governance indicators, a record of muted long-term growth performance, fiscal risks related to contingent liabilities from PEMEX and rising budget rigidities…*". On the latter, they abounded that the 2024 budget "*…included a Non-Financial Public Sector fiscal deficit above 5% of GDP…*". Regarding the incoming administration, they mentioned that the goal is to narrow the deficit to achieve a stable path for debt/GDP, albeit "*… uncertainty remains as to how quickly this will be achieved…*". They estimate 2024 and 2025 GDP growth at 2.0% and 1.8%, respectively. We reiterate our view that Mexico will remain an investment-grade country in the short- and medium-term, with responsible macroeconomic policies and a conservative fiscal stance, despite some pending challenges on the horizon.

5-year CDS and Fitch's credit rating
Basis points in vertical axis, credit rating in horizontal axis



Source: Banorte with data from Bloomberg and Fitch Ratings

Mexico and Pemex credit rating

FitchRatings	S&P Global	Moody's
A-	A-	A3
BBB+	BBB+	Baa1
BBB	BBB Sovereign PEMEX	Baa2 Sovereign
BBB- Sovereign	BBB-	Baa3
BB+	BB+	Ba1
		Investment grade threshold
BB	BB	*Ba2*
BB-	BB-	Ba3
B+	B+	B1
B PEMEX	B	B2
B-	B-	B3 PEMEX

Source: Banorte with information from the rating agencies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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

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