

Moody's downgrades Mexico to 'Baa2', with the outlook from negative to stable

- **Moody's** downgraded today Mexico's sovereign long-term credit rating at 'Baa2', with the outlook changing from negative to stable
- The rating agency mentions that the main factors behind this adjustment are related to negative economic and fiscal trends
- Among these, they highlight weak economic growth –impacted by low investment– and fiscal rigidities –associated to state-owned companies and a higher debt affordability burden, among others–
- Despite this adjustment, we believe that Mexico will continue to be an investment grade issuer in the short- and medium-term

Moody's cuts the rating to 'Baa2', with a stable outlook. The agency revised Mexico's long-term sovereign rating to 'Baa2' from 'Baa1' ([with the previous revision in April 2021](#)), with the outlook going from negative to stable. The agency mentions that the change is explained by economic and fiscal trends that will undermine the country's credit profile. Specifically, they mention that they expect "... economic activity to remain constrained by weak investment prospects and increased structural rigidities...". They argue that, despite some benefits from nearshoring, they do not anticipate a drastic change in the path for investment. In this context, they anticipate an average increase in GDP of 2% in 2022-2024, which would not allow the gap caused by the pandemic to be closed. On the fiscal front, although they highlight that prudent fiscal management has limited an increase in debt levels, "...debt affordability remains consistently weaker than that of similarly rated peers..." and could worsen with the increase in the interest rate. In addition, they point out that the fiscal perspectives will be negatively affected by: (1) Greater spending associated with support for state-owned companies and pensions; and (2) low levels of financial buffers (e.g. *Stabilization Fund*). With this, they expect fiscal deficits below 4% in coming years. On the other hand, they mention that the stable outlook incorporates that macroeconomic stability will continue in the rest of the term. Despite the adjustment, considering the level of the rating, we think that Mexico will maintain the investment grade in the short- and medium-term. With this, we conclude this review cycle, as [S&P](#) and [Fitch](#) have already published their opinions.

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Winners of the award for best economic forecasters for Mexico in 2021, granted by *Refinitiv*



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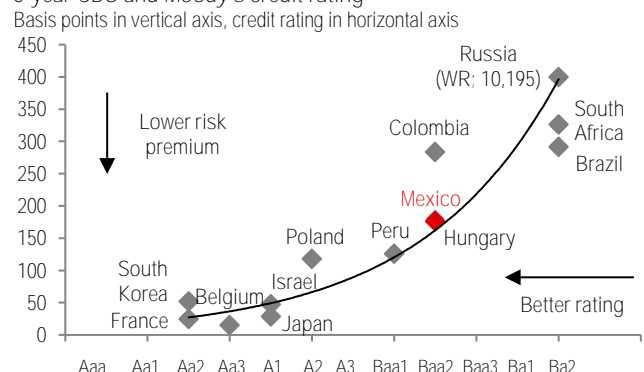
Mexico and Pemex credit rating

FitchRatings	S&P Global	MOODY'S
A-	A-	A3
BBB+	BBB+	Baa1
BBB	BBB Sovereign	Baa2 Sovereign
BBB- Sovereign	BBB- PEMEX	Baa3
BB+	BB+	Ba1
BB	BB	Ba2
BB- PEMEX	BB- PEMEX	Ba3 PEMEX

Investment grade threshold

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

5-year CDS and Moody's credit rating



Source: Banorte with data from Bloomberg and Moody's Investors Service

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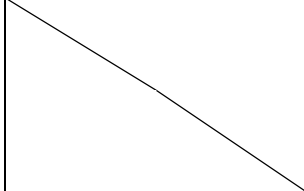
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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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