Research Update:

Mexico 'BBB' Foreign Currency And 'BBB+' Local Currency Long-Term Ratings Affirmed; Outlook Remains Negative

December 7, 2021

Overview

- Mexico is poised to close 2021 with a 5.8% rebound in GDP, which leaves a still sizable output gap coming out of the pandemic-induced recession in an economy that has had a track record of subpar GDP growth.
- As President López Obrador heads into the second half of his six-year term, we assume continuation of cautious macroeconomic management that has limited the rise in debt and deficits, with net general government debt holding steady at about 46% of GDP over the next three years.
- We affirmed our 'BBB' long-term foreign currency and 'BBB+' long-term local currency sovereign credit ratings on Mexico.
- The outlook remains negative, indicating the risk of a downgrade over the coming year due to more pronounced and lasting contingent liabilities associated with managing complex fiscal challenges at Petróleos Mexicanos (PEMEX) and Comision Federal de Electricidad (CFE), or from uncertainties in the business climate that would keep growth subdued.

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Rating Action

On Dec. 7, 2021, S&P Global Ratings affirmed its 'BBB' long-term foreign currency and 'BBB+' long-term local currency sovereign credit ratings on Mexico. The outlook on the long-term ratings remains negative. At the same time, we affirmed our short-term ratings at 'A-2'. Our transfer and convertibility (T&C) assessment remains 'A'.

Outlook

The negative outlook indicates the possibility of a downgrade over the coming year due to a potentially weaker fiscal profile associated with contingent liabilities related to the magnitude of potential extraordinary support for state-owned companies PEMEX and CFE in the context of a comparatively low non-oil tax base and fewer fiscal buffers.

Cautious macroeconomic management and enhanced discussions between U.S.-Mexico-Canada Agreement (USMCA) partners on strengthening supply-chain resilience and cross-border linkages should support investment and investor sentiment in Mexico. However, reversal of some policies or potentially acrimonious renegotiation of some contracts, particularly in the energy sector, or a weakening of key institutions such as the central bank could undermine investor confidence. The resulting setback could complicate policy execution, weigh on policy stability, and lead to a downgrade.

Conversely, effective economic management that raises investor confidence and encourages private investment could mitigate structural weakness in GDP growth prospects, helping to reinforce sound public finances. Political initiatives to bolster budgetary flexibility and broaden the non-oil tax base, along with steps to contain the potential contingent liability posed by state-owned companies in the energy sector, could avoid an erosion of the sovereign's financial profile. We could revise the outlook to stable within the coming year in such a scenario.

Rationale

The ratings on Mexico are based on the strengths and weaknesses in its democracy, which has brought political stability and regular changes of government over the last two decades. Throughout, political support for cautious macroeconomic management has underpinned cautious fiscal and monetary policies and a floating exchange-rate regime. These are key to our view of sovereign creditworthiness and have maintained investor confidence and access to global capital markets even in times of adverse global trends. Credibility of Mexico's independent central bank and its inflation-targeting monetary policy play a prominent role. Changes in some domestic policies, especially in the energy sector, in recent years have hurt business confidence and raised concerns about policy predictability. That, in turn, has likely limited the upside to GDP growth.

Despite solid macroeconomic management in recent decades, Mexico has not enjoyed economic dynamism, compared with other emerging markets. This has led to increased polarization in Mexico between traditional political parties and more antiestablishment coalitions or movements. The pandemic, in our view, weighed on Mexico's growth, which was already under pressure, and we expect real per capita GDP growth to remain below that of peers with a similar level of economic development in 2021-2024. This is notwithstanding the benefits of USMCA and nearshoring trends that should benefit Mexico.

We assume an ongoing commitment to sound, independent, and timely monetary policy decisions amid the current uptick in local and global inflation, and as the U.S. Federal Reserve adjusts its policy course with some knock-on effects for emerging market volatility. In addition, we expect generally moderate fiscal deficits to keep net general government debt steady over the next couple of years. The ratings also currently incorporate limited contingent liabilities despite our expectation of almost certain extraordinary sovereign support, as needed, for PEMEX and CFE (both with a stand-alone credit profile much weaker than the sovereign).

The Mexican peso is a floating currency and, by our definition, actively traded. This eases external financing constraints and, coupled with narrow net external debt averaging less than 30% of current account receipts (CAR), supports a solid external position. In addition, Mexico has access to a just renewed two-year IMF flexible contingent credit line for up to $50 billion, boosting the sovereign's external liquidity and reflecting long-standing prudent macroeconomic management.

Institutional and economic profile: Cautious macroeconomic policy amid weak private investment and subpar trend growth prospects

- President Andrés Manuel López Obrador enters the second half of his six-year term with solid approval ratings and a simple majority in Congress.
- We assume execution of fiscal, monetary, exchange rate, and trade policies will continue to be cautious during the administration.
- We expect growth to remain lower than peers and the post-pandemic rebound to be affected by weak private-investor sentiment regarding some domestic policies.

For nearly two decades, successive administrations from different ideological backgrounds have maintained generally stable public finances, low inflation, and moderate economic growth. This track record, and cautious macroeconomic policy under the current administration, supports our institutional assessment. Mexico's democracy, close structural economic integration with the U.S., and economic institutions will continue to provide stability and predictability. Despite severe recession amid the pandemic, the administration prioritized macroeconomic and financial stability. This does leave macroeconomic indicators in a stronger position than other peers. While containing fiscal slippage, the administration continues to pursue an ambitious social, economic, and political agenda--including bolstering PEMEX and CFE. However, in our view, mixed political signals and greater centralization of political decision-making under the current administration have undermined private-investor sentiment and, with it, trend GDP growth prospects.

The president's approval rating rose to 68% in November as he marked the halfway point in his term. Following June's nationwide elections (for the entire 500-member Lower Chamber, 15 of 32 state governors, and almost 2,000 municipalities), the ruling MORENA party and its coalition members won a majority in the Lower House and 12 governorships. The administration remains generally in control of the legislative agenda, as seen by the manner in which it approved the 2022 budget. However, inroads by the National Action Party (PAN), the Institutional Revolutionary Party (PRI), and the Democratic Revolution Party (PRD) stripped the MORENA coalition of its supermajority in the Lower House. The election results may constrain the president's ability to advance with more controversial policies in the second half of his term, as the administration would need support from opposition parties to pass any constitutional amendments.

This directly affects the debate and prospects for a recently proposed controversial constitutional amendment to reconfigure the electricity sector and strengthen the presence of CFE at the expense of private participation. It appears congressional debate on this won't occur until the second quarter of 2022, after a potential referendum on President López Obrador's term in office thus far or some local gubernatorial elections. In addition, there are different interpretations of key aspects of the legislation from the government and private investors' perspectives, particularly on existing contracts. Passage of the electricity legislation as initially formulated may, in our view, damage the business climate and hurt creditworthiness.

Notwithstanding a rise in poverty (as measured by labor income) last year to around 40% amid the pandemic and one of the highest mortality rates (about 9%) globally associated with the pandemic, the administration remains committed to a stable fiscal policy that includes austerity across the public sector. There is a commitment to support PEMEX with capital injections, tax relief, and via debt management operations. This includes the capital support and liability management operations just announced by the government and PEMEX to reduce debt and smooth its amortization profile. Coupled with any potential needed support for CFE, these measures may worsen the sovereign's financial profile over time, absent sufficient offsetting policy adjustments. The administration has taken off the table a possible reconfiguration of the value-added tax (VAT) or local property tax base for the time being. How and whether enhanced collection and anti-evasion policies strengthen the non-oil tax base remain an open question, as does any revision of energy policy.

The ratings incorporate broad continuity in monetary policy in coming years. The long-standing credibility of Banxico is backed by a solid constitutional mandate and good technical expertise. This includes moves earlier in 2021 to provide additional transparency to aspects of its decision-making. That said, unexpected setbacks in the conduct of monetary policy could affect the rating.

We project the country's per capita GDP will rise above US$10,000 again in 2022. Many years of moderate to low private-sector investment, low public-sector investment in infrastructure, relatively poor quality of education, high crime, and judicial uncertainty constrain Mexico's long-term growth prospects, in our view. Over the past two decades, growth has averaged 1.7%. On top of a slight decline in 2019, real GDP contracted 8.5% in 2020 as Mexico was hit hard by the pandemic.

In 2021, we estimate real GDP growth around 5.8% and expect growth of 2.8% in 2022. Solid U.S. demand supports export-led growth, and record remittances from workers abroad support consumption at the low end of the income segment. U.S. economic activity should continue to bolster external demand, including a recovery in tourism. For 2023-2024, we expect growth to decelerate toward trend rates based on low private investment, high levels of informality, and limited access to credit.

Key to strengthening growth is more robust private investment. Some of the administration's policy initiatives weigh on private-sector confidence, and relations with the private sector have been strained. In our view, this is a result of private-sector skepticism about the administration's growth strategy, which includes an enlarged role for PEMEX and CFE in the energy and electricity sector. However, private-sector representatives continue to dialogue with the government on infrastructure-related packages, including some projects in energy, as well as last year's pension reform and the outsourcing reform.

USMCA should position Mexico to benefit from the combination of trade tensions between the U.S. and China, and a shift to nearshoring following the pandemic as companies reconfigure global supply chains. In 2021, Mexican and U.S. officials have rebooted high-level strategic economic discussions to foster resilience in the region's supply chains. Bolstering private-sector confidence remains a key challenge for encouraging greater investment and output in Mexico.

Flexibility and performance profile: State-owned companies in the energy sector could strain the fiscal profile while the nation's external position remains a credit strength

- Mexico has a strong external profile, as indicated by its history of modest current account deficits and a swing to surpluses amid the pandemic.
- A flexible exchange rate and inflation-targeting regime underpin solid monetary policy credibility and flexibility.
- We expect net general government debt to remain steady, around 46% of GDP over the next couple of years, but there are risks associated with PEMEX and CFE, and potential difficult trade-offs in fiscal and energy policies.

Mexico's solid external position, a ratings strength, is based on the peso's status as an actively traded currency and the country's moderate external debt. The peso accounts for one side of almost 2% of global currency transactions, according to Bank for International Settlements' data, among the highest share for any emerging market country.

Mexico's current account has a track record of adjusting to contain external vulnerability amid swings in oil prices and economic activity, as demonstrated again in 2020 and 2021. Remittances continue to grow and are on track to post around US$48 billion (3.8% of GDP), far exceeding income from oil and related exports. We expect the current account to slowly move back toward a slight deficit this year (and remain so over the next two years). With net foreign direct investment near 2% of GDP in 2021, international reserves have continued to rise, and we expect reserves to increase over the next several years as well.

Our estimates of narrow net external debt (gross debt net of liquid external assets) hover below 30% of CAR in the next couple of years. We include nonresident holdings of locally issued debt in our estimates of external debt because our methodology calculates external debt on a residency basis.

Nonresident holdings of Mexico's locally issued central government debt have continued to edge lower in 2021. The decline reflects global market volatility (with uncertainty about the timing of Federal Reserve monetary policy normalization), a structural rebalancing of emerging market portfolios toward China as it entered the world government bond index in 2021, and negative perceptions of some domestic policies. We incorporate an increase of nonresident holdings over the coming years. Persistent outflows of nonresident holdings of central government local currency debt could create volatility in the local market. However, the combination of moderate macroeconomic policies, ample international reserves (around US$200 billion), and access to the IMF's flexible contingent credit line for up to $50 billion provides flexibility to manage this vulnerability.

The rating incorporates cautious fiscal management that contains fiscal deficits, keeping the sovereign and PEMEX and CFE's combined debt burden stable. We expect net general government debt to hold steady, around 46% of GDP in 2021-2024. We expect that interest payments will account for an average of 11.6% of general government revenues over the same period. We assume the general government deficit will average 2.4% of GDP for 2021-2024. We also assume continued control over spending in our projections, despite ambitious social programs.

The administration decided not to pursue an overhaul of tax legislation and rates after the midterm elections amid the rise in inflation and lingering hit to social indicators from the ongoing pandemic. Its primary focus is to continue to rely on concerted collection efforts of existing taxpayers and reduce evasion. Non-oil tax revenues surprised on the upside in 2020 despite the sharp decline in GDP as the government was successful on this front, and similar efforts have continued in 2021. While the impact of one-off gains associated with past-due taxes dissipates, the tax base will likely benefit modestly from the ongoing regularization of taxpayers. The simplification of paying income taxes for individuals, the self-employed, and small and midsize enterprises approved in the 2022 budget doesn't aim to generate additional income at this time. Fiscal performance in 2021 reflects still solid non-oil tax revenue, above-budget oil revenues (due to higher prices), and below-budget collections from the oil excise tax (IEPS). Funds in the various stabilization funds rose marginally overall by the third quarter of 2021, but funds in the federal revenue stabilization fund (FEIP) of Mexican peso (MXN) 15 billion remain less than 0.1% of GDP. The small cushion it provides is supplemented by some other assets, from consolidated trust funds for autonomous bodies.

The composition of Mexico's sovereign debt limits market and interest-rate risk. Nearly 80% of central government debt is issued in local currency, and about 55% of that debt is at fixed interest rates. The average life of central government external debt is about 21 years, and domestic debt is about seven. Nonresidents hold around 30% of total commercial sovereign debt. While the central government relies mainly on the domestic market to fund its debt, it remains active in global capital markets. It issued the first global sovereign sustainability bond linked to the U.N.'s sustainable development goals in September 2020 and its first 50-year Formosa bond in February 2021.

Our analysis of fiscal policy in Mexico encompasses the public sector, given the role of PEMEX and CFE. The administration has largely halted the energy reform of 2013. The government continues to honor existing contracts with private firms, but it has canceled future bidding rounds until further notice. The government has limited the scope for private firms, largely confining them to service contracts, and limited bidding for specific projects.

Increased risks to the sovereign's fiscal performance stem from the weak financial profile of these government-owned energy companies, although the sovereign does not guarantee their debt. We continue to view the likelihood of the sovereign providing extraordinary support to PEMEX and CFE as almost certain, as reinforced by the recent track record of such support. As such, we rate PEMEX and CFE at the same level as the sovereign, despite their weak stand-alone credit profiles. The heightened vulnerabilities at PEMEX in particular--amid poor operational and financial performance and technical capacity constraints--could pose a more material contingent liability for sovereign creditworthiness. Its debt is around 9% of GDP and its finances could come under more stress amid its mandate to boost investment and output and to build new refineries. We currently assess the contingent liabilities from these nonfinancial companies as limited.

Contingent liabilities from the financial sector are also limited. We score Mexico in Banking Industry Country Risk Assessment (BICRA) group '5' ('1' is the lowest-risk category and '10' the highest). Mexico's financial system is well-capitalized and highly liquid, and to date has weathered the pressures of the pandemic. Liquid assets accounted for around 30% of total assets in September 2021. The banking system's reported regulatory capital adequacy was 18.8% as of Sept. 30, 2021, versus the minimum regulatory requirement of 10.5%. Nonperforming loans (NPLs) were 2.3% of total loans as of Sept. 30, 2021, and loan loss provisions fully cover NPLs. Credit growth slowed amid the pandemic, and we expect credit to the private sector to GDP to remain low in 2021, at around 33%.

Mexico's central bank has a single mandate: to maintain stable, low rates of inflation. We assume the legal independence of the central bank and public support for the institution should result in continuity in prudent monetary policy. Inflation has remained in the single digits since 1999. Since January 2008, the central bank's operational target has been the overnight interbank rate. There has been limited pass-through of prices from currency depreciation into inflation, but this is an important channel of monetary transmission that Banxico monitors. Mexican monetary policy operates in the context of the risk that a sharp movement in the exchange rate could also undermine the confidence of foreign portfolio investors who hold a substantial share of locally issued Mexican sovereign debt. The strength of the credit channel as a tool of monetary transmission is affected by the low level of credit to GDP.

The bank took a cautious stance during the pandemic, cutting rates in 2020-2021 by 325 basis points to 4.00%, less than other emerging market central banks. And as inflation accelerated in 2021, it initiated a tightening cycle in June. It raised the overnight policy rate to 5% to forestall secondary round effects, notwithstanding a still-wide output gap. We expect higher (average annual) inflation of 5.6% this year, from 3.4% in 2020. The increase in global energy and commodity prices and the local drought pushed noncore inflation this year, while shifts in goods and services demand amid the pandemic and supply chain pressures have hit core inflation. We expect average annual inflation of 5.4% for 2022, before it falls back toward the inflation target range of 3% +/- 1% thereafter. We project 3.7% and 3.1% for 2023 and 2024, respectively.

Key Statistics

Table 1

Mexico-Selected Indicators

	2014	2015	2016	2017	2018	2019	2020	2021e	2022f	2023f	2024f
Economic indicators (%)											
Nominal GDP (bil. LC)	17,484	18,572	20,129	21,934	23,523	24,443	23,122	25,665	28,155	29,844	31,396
Nominal GDP (bil. $)	1,313	1,170	1,077	1,160	1,223	1,270	1,076	1,274	1,357	1,404	1,444
GDP per capita (000s $)	10.9	9.6	8.7	9.3	9.7	9.9	8.3	9.8	10.3	10.6	10.8
Real GDP growth	2.9	3.3	2.4	2.3	2.2	(0.2)	(8.5)	5.8	2.8	2.3	2.1
Real GDP per capita growth	1.5	2.0	1.2	1.1	1.0	(1.3)	(9.5)	4.7	1.8	1.3	1.2
Real investment growth	2.9	4.9	0.9	(1.1)	0.8	(4.7)	(18.4)	9.8	4.7	2.9	2.0
Investment/GDP	21.9	23.3	23.6	22.9	22.7	21.1	19.2	20.0	19.9	19.9	20.1
Savings/GDP	19.9	20.6	21.4	21.1	20.7	20.8	21.6	19.2	19.1	19.1	19.4
Exports/GDP	31.9	34.5	37.0	37.7	39.3	38.8	40.1	39.6	39.4	38.9	39.1
Real exports growth	6.9	8.5	3.6	4.2	5.9	1.5	(7.1)	8.9	4.7	2.8	2.6
Unemployment rate	4.8	4.3	3.9	3.4	3.3	3.5	4.6	4.2	4.0	4.0	3.9
External indicators (%)											
Current account balance/GDP	(2.0)	(2.7)	(2.3)	(1.8)	(2.0)	(0.3)	2.4	(0.8)	(0.7)	(0.7)	(0.7)
Current account balance/CARs	(5.7)	(7.1)	(5.6)	(4.3)	(4.7)	(0.7)	5.4	(1.7)	(1.7)	(1.7)	(1.7)
CARs/GDP	34.5	37.3	40.3	41.3	43.1	42.8	45.0	44.1	43.2	42.6	42.7
Trade balance/GDP	(0.2)	(1.3)	(1.2)	(0.9)	(1.1)	0.4	3.2	(0.8)	(0.4)	(0.4)	(0.3)
Net FDI/GDP	1.7	2.1	2.9	2.6	2.1	1.9	2.3	2.0	1.9	1.9	1.8
Net portfolio equity inflow/GDP	3.4	1.4	1.9	1.2	0.6	0.8	0.6	0.0	0.0	0.0	0.0
Gross external financing needs/CARs plus usable reserves	91.7	90.2	87.4	85.4	86.5	84.7	78.0	82.1	82.1	81.0	81.8
Narrow net external debt/CARs	43.0	46.8	40.4	40.2	36.9	37.2	37.5	28.4	27.8	28.4	29.0
Narrow net external debt/CAPs	40.7	43.7	38.3	38.6	35.2	37.0	39.7	27.9	27.3	27.9	28.5

Table 1

Mexico-Selected Indicators (cont.)

	2014	2015	2016	2017	2018	2019	2020	2021e	2022f	2023f	2024f
Net external liabilities/CARs	126.1	121.5	107.5	112.4	107.2	111.3	111.5	96.7	97.8	101.4	104.0
Net external liabilities/CAPs	119.3	113.4	101.7	107.8	102.3	110.5	117.9	95.1	96.2	99.6	102.3
Short-term external debt by remaining maturity/CARs	22.4	23.6	17.5	12.9	10.5	11.4	12.9	9.4	9.5	8.5	9.7
Usable reserves/CAPs (months)	4.5	5.0	4.6	4.3	3.8	3.9	4.8	4.2	4.2	4.3	4.3
Usable reserves (mil. $)	195,655	177,601	177,980	175,494	176,394	183,034	199,097	207,718	215,946	223,173	228,173
Fiscal indicators (general government; %)											
Balance/GDP	(2.5)	(2.7)	(2.8)	(0.8)	(1.8)	(1.8)	(2.4)	(2.6)	(2.4)	(2.3)	(2.1)
Change in net debt/GDP	4.1	4.4	4.9	1.7	2.8	1.8	3.1	3.5	3.2	3.0	2.8
Primary balance/GDP	(0.9)	(1.0)	(1.0)	1.1	0.2	0.3	0.1	(0.4)	(0.2)	(0.1)	0.1
Revenue/GDP	18.2	18.8	19.4	19.1	18.2	18.1	19.6	19.3	18.9	19.0	19.3
Expenditures/GDP	20.8	21.5	22.2	19.9	20.0	19.9	22.0	22.0	21.3	21.3	21.4
Interest/revenues	9.2	9.2	9.5	9.8	10.9	11.9	12.5	11.8	11.6	11.5	11.4
Debt/GDP	40.8	42.9	44.5	42.3	42.2	42.7	48.9	48.1	47.1	47.5	48.0
Debt/revenues	223.8	227.9	229.8	220.8	232.6	235.6	249.2	248.8	249.6	249.3	248.9
Net debt/GDP	39.3	41.4	43.1	41.3	41.2	41.5	47.0	45.9	45.0	45.5	46.1
Liquid assets/GDP	1.5	1.4	1.4	1.0	1.0	1.2	1.9	2.3	2.1	2.0	1.9
Monetary indicators (%)											
CPI growth	4.0	2.7	2.8	6.0	4.9	3.6	3.4	5.6	5.4	3.7	3.1
GDP deflator growth	4.4	2.8	5.8	6.5	5.0	4.1	3.4	4.9	6.7	3.6	3.0
Exchange rate, year-end (LC/$)	14.72	17.21	20.73	19.67	19.65	18.93	19.95	20.50	21.00	21.50	22.00
Banks' claims on resident non-gov't sector growth	7.7	15.7	17.1	5.9	5.2	8.9	(3.9)	4.3	11.4	6.2	5.5
Banks' claims on resident non-gov't sector/GDP	28.6	31.2	33.7	32.8	32.1	33.7	34.2	32.2	32.7	32.7	32.8
Foreign currency share of claims by banks on residents	5.6	6.4	7.7	8.8	8.3	7.1	8.7	9.2	9.1	9.1	9.0
Foreign currency share of residents' bank deposits	12.5	13.9	16.3	17.0	15.9	14.4	15.4	15.4	15.4	15.4	15.4

Table 1

Mexico-Selected Indicators (cont.)

	2014	2015	2016	2017	2018	2019	2020	2021e	2022f	2023f	2024f
Real effective exchange rate growth	(1.0)	(10.4)	(12.9)	2.3	0.1	3.3	(7.6)	N/A	N/A	N/A	N/A

Sources: Mexico's Ministry of Finance and Public Credit, Central Bank of Mexico, National Statistical Institute (INEGI), International Monetary Fund, S&P Global Ratings.
Adjustments: N/A
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. e--Estimate. f--Forecast. 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

Mexico--Ratings Score Snapshot

Key rating factors	Score	Explanation
Institutional assessment	3	A track record of generally effective policymaking has promoted sustainable public finances and balanced economic growth. Mexico has good transparency in fiscal and monetary policy and timely and reliable economic data. Stable and regular changes of government have occurred under its democracy. However, these strengths have not translated into economic dynamism. And Mexico continues to face long-standing challenges regarding rule of law and insecurity.
Economic assessment	5	Based on GDP per capita ($) as per Selected Indicators in table 1.
		Weighted average real GDP per capita trend growth over a 10-year period is at -0.06%, which is well below sovereigns in the same GDP category.
External assessment	2	Based on the Mexican peso as an actively traded currency and narrow net external debt as per Selected Indicators in table 1.
Fiscal assessment: flexibility and performance	3	Based on the change in net general government debt (% of GDP) as per Selected Indicators in table 1.
Fiscal assessment: debt burden	4	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenues) as per Selected Indicators in table 1.
Monetary assessment	3	The peso is a free-floating currency.
		The constitutionally independent central bank also has a track record of operational independence and the ability to act as a lender of last resort for the financial system; CPI as per Selected Indicators in table 1.
Indicative rating	bbb-	As per table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	1	Strengths in monetary policy credibility are not fully captured in the monetary assessment as capital markets are deepening, albeit slowly, amid setbacks to credit growth during the pandemic; solid macroeconomic fundamentals; and a track record of policy adjustment and access to external capital market and official financing, which is not fully captured in our assessments.

Table 2

Mexico--Ratings Score Snapshot (cont.)

Key rating factors	Score	Explanation
Final rating		
Foreign currency	BBB	
Notches of uplift	1	Default risks apply differently to foreign and local currency-denominated debt. The sovereign has an independent monetary policy and floating exchange-rate regime, and active local currency fixed-income and money market, which accounts for about 50% of GDP.
Local currency	BBB+	

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: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- 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 Ratings Score Snapshot, Dec. 2, 2021
- Sovereign Ratings History, Nov. 3, 2021
- Sovereign Ratings List, Nov. 3, 2021
- Sovereign Risk Indicators tool at spratings.com/sri
- Mexico's 'BBB' Foreign Currency and 'BBB+' Local Currency Long-Term Ratings Affirmed; Outlook Remains Negative, June 15, 2021
- Mexican Local Governments' Economic Recovery Prospects After Largest-Ever Election, June 9, 2021
- Banking Industry Country Risk Assessment: Mexico, Jan. 13, 2021

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	
Mexico	
Sovereign Credit Rating	
Foreign Currency	BBB/Negative/A-2
Local Currency	BBB+/Negative/A-2
Transfer & Convertibility Assessment	
Local Currency	A
Mexico	
Senior Unsecured	BBB
Senior Unsecured	BBB+
Short-Term Debt	A-2