

01-Feb-2024 | 18:22 EST

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

## Overview

- Stable macroeconomic conditions--with 2023 real GDP growth over 3% on solid domestic demand and moderating inflation--set the stage for Mexico's national elections in June and a new administration coming to office in October.
- We assume the next government will table a 2025 budget that narrows this year's 5% government deficit.
- Therefore, we affirmed our 'BBB' long-term foreign currency and 'BBB+' long-term local currency sovereign credit ratings on Mexico.
- The stable outlook incorporates our expectations of cautious policy execution, with no major changes in policy amid this political cycle, and a solid external position.

## Rating Action

On Feb. 1, 2024, S&P Global Ratings affirmed its 'BBB' long-term foreign currency and 'BBB+' long-term local currency sovereign credit ratings on Mexico. The outlook remains stable. We also affirmed our short-term ratings at 'A-2'. Our transfer and convertibility (T&C) assessment is unchanged at 'A'.

## Outlook

The stable outlook reflects our expectation that cautious macroeconomic management will prevail over the next two years, notwithstanding complex global conditions. This horizon includes the run-up to June's national elections, the presidential transition period, and the start of the next administration.

Our base case assumes that whatever the outcome of June's elections, the next government will extend Mexico's record of cautious macroeconomic policy execution, including prudent monetary policy and a return to low fiscal deficits. We do not expect advancement of major policy initiatives that either improve or hurt Mexico's business climate--or affect trend economic growth--amid the elections in the U.S. and Mexico this year.

## Downside scenario

Unexpected setbacks in macroeconomic management or in relations between U.S.-Mexico-Canada Agreement (USMCA) partners on strengthening cooperation, supply-chain resilience, and cross-border linkages would likely weaken investor sentiment and investment and could lead to a downgrade over the next two years. Persistently higher general government deficits that lead to a sharper-than-expected rise in general government debt would heighten fiscal risks as well as compound the risk of extraordinary support to state-owned companies Petroleos Mexicanos (Pemex) and Comision Federal de Electricidad (CFE) and could also lead to a downgrade.

## Upside scenario

Effective political and economic management that bolsters Mexico's subpar growth trajectory, such as with a more dynamic investment outlook, could lead to an upgrade. Similarly, initiatives that bolster budgetary flexibility, support fiscal buffers, and broaden the non-oil tax base to mitigate the potential contingent liability posed by state-owned companies in the energy sector would improve creditworthiness.

## Rationale

Mexico's democracy and institutional framework have brought political stability and regular changes of government over the past two decades. We expect this year's elections to be no different. Political support 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.

The credibility of Mexico's independent central bank, Banxico, and its ability to pursue an inflation-targeting monetary policy in the face of challenging circumstances play prominent roles in our analysis, as does Mexico's solid external position. Despite cautious macroeconomic management in recent decades, Mexico has not enjoyed as much economic dynamism as other emerging markets. Prospects for nearshoring to bolster trend growth have yet to be realized, underscoring challenges to higher trend growth: energy and water security, infrastructure needs, qualified labor, and rule of law.

We expect real per capita GDP growth to remain below that of peers with a similar level of economic development in 2024-2027. After this year's wider fiscal deficit, we expect a return to more moderate fiscal deficits to keep the net general government debt burden rising only slightly through 2027. We view contingent liabilities as limited despite our expectation of almost certain extraordinary sovereign support, as needed, for Pemex and CFE.

## **Institutional and economic profile: Cautious macroeconomic policy execution amid low trend growth**

This year's national elections and the legacy of the Lopez Obrador presidency dominate the political outlook. The official campaign will begin March 1, but political maneuvering has been underway since last year. The president's approval rating of over 60% and Morena's performance in local elections over the past two years underscore the party's strength and prospects.

Meanwhile general antiestablishment discontent weighs on support for traditional party politicians. The National Action Party (PAN), the Institutional Revolutionary Party (PRI), and the Democratic Revolution Party (PRD) are running together under the Strength And Heart campaign and have been aiming to make further inroads in Congress since the 2021 midterms--besides aiming for the presidency. Movimiento Ciudadano (MC) is running with a candidate of its own to also differentiate itself from the traditional political parties.

We are still at very early stages in the election phase, but polls thus far put former Mexico City Mayor Claudia Sheinbaum (Morena) ahead of Senator Xochitl Galvez (Strength And Heart) and Jorge Alvarez (MC). The candidates are still in the process of defining and communicating their policy priorities, and different approaches to policy in the energy sector--such as space for private investment and the speed of a green transition--are likely.

However, successive administrations from different ideological backgrounds have maintained generally solid public finances, low inflation, and moderate economic growth in recent decades. Structural economic integration within North America, alongside cautious macroeconomic policy execution, has provided a foundation for economic resilience since the COVID-19 pandemic began.

We assume this political and institutional stability will remain after the election and that Mexico's political class will aim to take advantage of nearshoring opportunities and diversify growth dynamism across the nation. We don't expect major policy initiatives, especially any that would require cross-party negotiation, to be passed between now and the elections, given electoral politicking. The mandate of the next

president and the composition of Congress will inform prospects to advance controversial structural and constitutional changes, such as those that aim to reform the electricity sector, the National Electoral Institute (INE), and the judiciary, to name a few.

We estimate real GDP growth remained above 3% in 2023. We expect it will slow to an average 2.2% in 2024-2027, putting Mexico's per capita GDP at about \$14,700 on average in 2024-2027, with growth still below peers'. The slowdown this year stems from global and U.S. conditions, with growth higher in the first part of the year as the government finishes flagship projects. We do foresee continued solid consumption, supported by employment gains and remittances and manufactured goods exports.

Investment, however, after a jump in 2023, is likely to slow as some projects conclude and the policy priorities of the next administration remain uncertain. Lingering negative private-sector sentiment toward some of the current administration's policies, particularly those in the energy sector, have limited upside. For example, private-sector skepticism remains about the current administration's enlarged role for Pemex and CFE in the energy and electricity sector.

How these policies evolve under the next government will be key to realizing upside from nearshoring or "friend-shoring" opportunities. Global investors are focused on tapping green energy for their investments, and the strategy to develop and diversify growth in the south of the country will be a key signpost for local investment sentiment. Meanwhile, in the northern and central regions, private-sector manufactured exports, especially to the U.S., are facing infrastructure, water, and energy constraints.

Evidence of incremental nearshoring is not clear in headline macroeconomic data, but it is happening, based on some import, business sentiment, and other anecdotal evidence. Among the Lopez Obrador administration's flagship projects, the Isthmus Corridor envisions the private sector enhancing basic public infrastructure investment (by CFE) and producing goods and services in the south, rather than the central and northern regions; successful development could expand Mexico's nearshoring prospects.

## **Flexibility and performance profile: Net general government debt expected near 50% of GDP by 2027 as the external position remains strong**

Mexico's solid external position, a rating strength, is based on the peso's status as an actively traded currency and the country's moderate external debt. The current account has a record of adjusting to contain external vulnerability amid swings in oil prices and economic activity. We expect the current account deficit (CAD), at 1% of GDP on average, to remain covered by net foreign direct investment (FDI) during 2024-2027.

FDI is primarily aimed at Mexico's manufacturing sector, remaining solid over the past five years with limited change in the composition of greenfield, reinvestment, and intercompany loans. Remittances supported the solid CAD position and remained robust at about US\$60 billion (over 3% of GDP) in 2023. Our estimate of narrow net external debt (gross debt net of liquid external assets) averages 20% of current accounts receivable through 2027. We include nonresident holdings of locally issued debt in our estimates of external debt because our methodology calculates external debt on a residency basis.

The rating incorporates cautious fiscal management that contains fiscal deficits, keeping the sovereign's and Pemex and CFE's combined debt burden fairly stable. We expect net general government debt to rise to almost 50% by 2027 from 44% of GDP in 2023. We expect interest payments will account for an average 13.1% of general government revenue over the same period. Moreover, we assume the general government deficit will average 3.9% of GDP for 2024-2027, with the change in net general government debt higher at 4.2%, given peso depreciation.

The higher deficit average stems from the 5.2% GDP deficit in 2024 and its path of decline to 3.1% by 2027. The high deficit this year reflects the finishing of flagship projects and social spending ahead of the election. The government chose to use space under its fiscal framework this year, rather than seeking a higher debt ceiling last year, to conclude some delayed projects after a hit to oil and other revenue in 2023.

We assume the next government will correct the deficit widening this year, in line with Mexico's established policy record. We also expect control over spending in our projections--whatever the next administration's specific policy priorities will be. We assume the next administration will continue concerted collection of taxes from existing taxpayers and efforts to reduce tax evasion.

Various stabilization funds have risen marginally since the pandemic waned, but funds in the federal revenue stabilization fund (FEIP) totaled Mexican peso (MXN) 41 billion, about 0.1% of GDP, as of December 2023. The small cushion this provides is supplemented by other assets from consolidated trust funds for autonomous bodies.

The composition of Mexico's sovereign debt limits market and interest rate risk. About 84% of central government debt is issued in local currency in the local market, and about 57% of that debt is at fixed interest rates and 47% fixed rate and long-term. The average life of central government external debt is about 21 years, and the average life of domestic debt is about eight years.

While the central government relies mainly on the domestic market to fund its debt, it remains active in global capital markets. It has already tapped global markets twice in 2024, raising US\$9.5 billion in total with four bonds, significantly oversubscribed. This year, in effect the government is formally raising debt on behalf of Pemex, given a line item in the budget to cover 90% of the company's amortizations. This bolsters the government's planned foreign currency borrowing plan in 2024 at about \$14 billion.

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

Risks to the sovereign's fiscal performance stem from the weak financial profiles 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 support provided. As such, we rate Pemex and CFE at the same level as the sovereign, despite their weak stand-alone credit profiles. We assume the next administration will continue to back these entities' debt payments regardless of any changes in the contour of energy policy. We view 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 it weathered the worst of the pandemic, when credit growth slowed; it has since recovered.

Banxico continues to act proactively, notwithstanding changes in the composition of the board, retaining long-standing credibility backed by a solid constitutional 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 through the electoral cycle.

Inflation has remained in the single digits since 1999. The bank has kept rate hikes on hold since March 2023 with the overnight rate at 11.25% and average annual inflation at 5.6% in 2023. We expect some easing this year as inflation likely moves just inside Banxico's target range of 3% plus/minus 1% at the end of 2024. We expect annual average inflation of 4.3% in 2024 and about 3.0 % thereafter.

Key Statistics

Table 1

Mexico--Selected indicators

	2017	2018	2019	2020	2021	2022	2023
ECONOMIC INDICATORS (%)							

Nominal GDP (bil. LC)	22,536	24,177	25,143	24,082	26,619	29,453	31,803
Nominal GDP (bil. \$)	1,192	1,257	1,306	1,120	1,312	1,464	1,793
GDP per capita (000s \$)	9.5	10.0	10.2	8.7	10.1	11.1	13.5
Real GDP growth	1.9	2.0	(0.3)	(8.6)	5.7	3.9	3.3
Real GDP per capita growth	0.7	0.8	(1.3)	(9.6)	4.7	2.9	2.3
Real investment growth	(0.5)	0.6	(4.4)	(17.3)	9.7	7.7	19.8
Investment/GDP	23.4	23.0	22.1	20.0	20.7	21.5	20.0
Savings/GDP	22.0	21.4	21.7	22.2	21.0	21.5	19.1
Exports/GDP	37.5	39.0	38.5	39.2	40.7	42.8	35.6
Real exports growth	3.2	6.5	1.2	(7.0)	7.2	8.7	(6.1)

Unemployment rate	3.4	3.3	3.5	4.4	4.1	3.3	2.8
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### EXTERNAL INDICATORS (%)

Current account balance/GDP	(1.9)	(2.1)	(0.4)	2.0	(0.6)	(1.2)	(0.9)
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Current account balance/CARs	(4.5)	(4.8)	(1.0)	4.6	(1.4)	(2.6)	(2.3)
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CARs/GDP	41.1	42.8	42.5	44.1	45.4	48.1	40.2
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Trade balance/GDP	(0.9)	(1.1)	0.4	3.0	(0.8)	(1.8)	(0.8)
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Net FDI/GDP	2.5	2.0	1.8	2.4	2.6	1.5	1.8
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Net portfolio equity inflow/GDP	(0.0)	(0.0)	(0.2)	(1.2)	(1.4)	(0.4)	0.0
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Gross external financing needs/CARs plus usable reserves	87.5	88.2	87.5	81.2	85.5	87.4	87.7
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Narrow net external debt/CARs	47.8	46.6	50.5	54.0	37.2	29.4	25.1
Narrow net external debt/CAPs	45.7	44.5	50.0	56.6	36.7	28.6	24.6
Net external liabilities/CARs	105.6	100.3	109.3	100.0	88.9	82.8	83.2
Net external liabilities/CAPs	101.0	95.7	108.2	104.8	87.7	80.7	81.3
Short-term external debt by remaining maturity/CARs	14.8	12.1	14.3	15.8	12.6	10.7	9.9
Usable reserves/CAPs (months)	4.2	3.7	3.8	4.7	4.0	3.5	3.3
Usable reserves (mil. \$)	175,450	176,384	183,028	199,056	207,745	201,143	211,900
<b>FISCAL INDICATORS (GENERAL GOVERNMENT; %)</b>							
Balance/GDP	(0.8)	(1.8)	(1.8)	(2.3)	(3.0)	(3.3)	(3.4)

Change in net debt/GDP	1.6	2.7	1.8	3.4	4.2	3.9	2.2
Primary balance/GDP	1.0	0.2	0.3	0.1	(1.0)	(1.0)	(1.0)
Revenue/GDP	18.6	17.7	17.6	18.8	18.0	18.1	18.1
Expenditures/GDP	19.4	19.4	19.4	21.1	20.9	21.4	21.5
Interest/revenues	9.8	10.9	11.9	12.5	11.0	12.6	13.7
Debt/GDP	41.1	41.1	41.5	46.9	46.6	45.5	44.6
Debt/revenues	220.8	232.6	235.6	249.2	259.3	251.1	246.6
Net debt/GDP	40.2	40.1	40.4	45.6	45.5	45.0	43.9
Liquid assets/GDP	1.0	0.9	1.2	1.4	1.1	0.5	0.7
<b>MONETARY INDICATORS (%)</b>							
CPI growth	6.0	4.9	3.6	3.4	5.7	7.9	5.6
GDP deflator growth	6.6	5.2	4.3	4.8	4.5	6.4	4.6

Exchange rate, year-end (LC/\$)	19.79	19.68	18.85	19.95	20.58	19.40	16.92
Banks' claims on resident non-gov't sector growth	11.3	6.6	10.3	(5.1)	5.0	10.3	10.7
Banks' claims on resident non-gov't sector/GDP	27.7	27.6	29.2	28.9	27.5	27.4	28.1
Foreign currency share of claims by banks on residents	10.8	10.0	8.5	10.6	11.3	9.8	9.6
Foreign currency share of residents' bank deposits	17.0	15.9	14.4	15.4	16.2	13.7	13.7
Real effective exchange rate growth	2.5	(0.1)	3.2	(7.7)	5.9	5.3	0.0

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 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. f-- Forecast. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. 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. Sources: Mexican Ministry of Finance, Banxico, and INEGI.

## Ratings Score Snapshot

Table 2

### Mexico--Ratings score snapshot

KEY RATING FACTORS	SCORE	EXPLANATION
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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, 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.
		S&P Global Ratings' weighted average real GDP per capita trend growth over a 10-year period for Mexico is 1.1%, which is below that of 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	4	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 expenditure (% of general government revenue) 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	Solid macroeconomic fundamentals and a track record of policy adjustment support access to external capital markets and official financing, which is not fully captured in our assessments. We assume fiscal slippage will reverse by the end of the forecast horizon. Key strengths in monetary policy credibility are not fully captured in the monetary assessment with credit and capital markets deepening slowly.
Final rating		
Foreign currency	BBB	

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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 almost 50% of GDP.
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Local currency	BBB+
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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 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.

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## Related Criteria

- [General Criteria: National And Regional Scale Credit Ratings Methodology](#), June 8, 2023
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [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 History](#), Jan. 17, 2024
- [Sovereign Ratings Score Snapshot](#), Jan. 3, 2024
- Sovereign Risk Indicators tool at [www.spratings.com/sri](http://www.spratings.com/sri)
- [Americas Sovereign Rating Trends 2024: Searching For Growth Opportunities](#), Dec. 14, 2023
- [2024 Global Sovereign Rating Trends: Mixed Feelings](#), Dec. 13, 2023
- [Banking Industry Country Risk Assessment: Mexico](#), Aug. 15, 2023
- [Mexico](#), March 21, 2023
- [Mexico Outlook Revised To Stable On Cautious Policy Execution; 'BBB' Foreign Currency Rating Affirmed](#), July 6, 2022
- [Institutional Framework Assessment: Mexican Municipalities](#), May 26, 2022
- [Institutional Framework Assessment: Mexican States](#), May 23, 2022

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

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### RATINGS AFFIRMED

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### MEXICO

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Sovereign Credit Rating

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Foreign Currency

BBB/Stable/A-2

Local Currency	BBB+/Stable/A-2
Transfer & Convertibility Assessment	
Local Currency	A
<b>MEXICO</b>	
Senior Unsecured	BBB
Senior Unsecured	BBB+
Short-Term Debt	A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings).

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