Credit Benchmark

Risk.Net: A New PD Story for Brazil and Mexico

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For the past two years, there has been a clear story about the credit risk of Brazil and Mexico – a story that may now be on the verge of a twist.

According to banks' probability of default estimates, the former has been getting steadily riskier – slipping from bb+ to bb in early 2017 – while the latter earned an upgrade from **bbb** to **bbb+** at around the same time and has since been stable.

But each country faces a very different set of challenges and opportunities. Economically, for Brazil, there may be greater upside under the regime of its new populist president Jair Bolsonaro. The government is tackling its infamously generous state pension schemes and has a clear ambition to become a key ally of the US in the region. Stock markets have, so far, responded positively, climbing 12.5% since October's election.

For Mexico, in contrast, challenges seem to outweigh opportunities. The country is being squeezed by hardline US trade and border policies as well as its own immigration crisis because of the Venezuelan collapse. The Mexican government response so far is fiscal support for its border states and a major drive to attract foreign investment – but these are complex problems with no quick fix.

In this series of monthly articles from Risk.net, David Carruthers, head of research at Credit Benchmark, reports on recent Sovereign trends in Brazil and Mexico, and compares credit trends for US, UK & EU (ex UK) Large Corporates. Also covered this month is a look at the latest credit data for car manufacturers, and an updated outlook for South African Banks.

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