NEWS RELEASE

Apr 18, 2024

Rating and Investment Information, Inc. (R&I) has announced the following:

United Mexican States (Sec. Code: -)

[Affirmed]

Foreign Currency Issuer Rating: BBB+, Stable

RATIONALE:

Mexico has established a position pivotal to manufacturing and export of manufactured goods to the U.S. under the trade framework of the United States-Mexico-Canada Agreement (USMCA). Despite the outlook of slight deceleration, its economy still will likely sustain a firm pace of growth, in R&I's view. While the fiscal deficit will likely increase due to the expansionary policy looking to the upcoming general elections, the outstanding government debt to gross domestic product (GDP) ratio stands at a constrained level. There is no particular concern on the external side or associated with its financial system. Based on the said recognition, R&I has affirmed the Foreign Currency Issuer Rating of BBB+.

Mexico's real GDP grew at 3% range in 2022 and 2023. Both private and public investments have been firm, on top of the private consumption growth bolstered by minimum wage hikes and other factors. In addition, the foreign direct investment inflow has been strong, presumably thanks to manufacturers expanding their production capacity in Mexico that has a geographical advantage as the nearest neighbor of the U.S. As for 2024, R&I believes that Mexico will maintain a firm economic growth in the 2% range, driven by the domestic demand that will likely remain firm, despite the downward pressure coming from the U.S. economy's slowdown.

The current account balance has been in a deficit. Still, its GDP ratio has been shrinking compared to previous years' levels, thanks to increased exports of manufacturing goods and the expanded inflow of remittances from Mexicans abroad. The external debt to GDP ratio is on a downward trend and remains low in the 30% range, staying in the 20% range when the debt related to foreign direct investment is excluded. While the country has secured a sufficient level of foreign exchange reserves to cover the short term external debt, it has also access to the Flexible Credit Line (FCL) arranged by the International Monetary Fund (IMF). The concern about foreign exchange liquidity is limited.

The government has pursued fiscal policy focused on controlling government debt. Such a policy stance contributed to keeping fiscal deficit in check even during the COVID-19 pandemic. The 2024 budget turns expansionary ahead of the general elections scheduled in June, with expenditures as a share of GDP increased due to expansions of pensions and subsidies to households, acceleration of flagship projects, and higher interest payments. Meanwhile, the government revenue as a share of GDP is expected to decline from the previous year. All in all, the government projects the fiscal deficit of 5.9% to GDP in terms of public sector borrowing requirements (PSBR). The primary balance in terms of PSBR will also likely turn to a deficit.

Although the cumulative PSBR to GDP ratio, an indicator equivalent to the ratio of outstanding government debt, is expected to rise in 2024, it will likely remain at a moderate level of 50.2% according to the government projection. The share of external debt and non-resident government bond holders is small. There is no particular concern about government funding in the domestic market which is dominated by the domestic institutional investors.

The presidential election in June 2024 which will virtually be a head-to-head race between candidates from the ruling and opposition parties and the accompanying legislative elections are deemed to determine the future course of country's economic and fiscal policies. R&I believes that the economic policy of the current administration of President Lopez Obrador, which favors state-owned enterprises emphasizing on the national energy security, has hindered a full-fledged investment recovery of the economy. While the investment as a share of GDP reached a historically high level in 2023, policies to support private companies will be required for a sustained recovery in private investment. On the fiscal side, the recovery of fiscal discipline has been left untouched as a task of the next administration. While the current administration has successfully controlled the level of

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government debt, there are also voices that necessary expenditure for lifting the economic growth potential, such as public investment, education and healthcare, has been restrained. Eyes are on the result of the upcoming elections and the courses of policy that will be sought by the next administration.

R&I RATINGS:
ISSUER: United Mexican States

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	Rating	Rating Outlook
Foreign Currency Issuer Rating	BBB+	Stable

Primary rating methodologies applied:
R&I's Analytical Approach to Sovereigns [May 21, 2021]

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