# CareEdge Global assigns Long Term Foreign Currency Rating of BBB- (Unsolicited) to United Mexican States

### Credit Profile

Mexico's diverse economy, strategic geographic location, and robust trade agreements provide opportunities for growth and investment. Mexico benefits from a stable external position and prudent monetary policy framework. Rising fiscal pressures and a weak record on quality of governance indicators remain concerns. The results of the June 2024 elections, with the new government led by President Claudia Sheinbaum Pardo, could influence Mexico's economic trajectory and fiscal policies in the coming months.

### Strengths

- Mexico's strategic geographic location offers significant economic advantages for nearshoring
- Moderate levels of general government debt

### Weaknesses

- Expanding fiscal deficit and high interest payment burden present significant challenges
- Potential contingent liabilities stemming from highly indebted Pemex
- Weak governance indicators and persistent corruption undermine institutional quality and public trust

### Key Monitorables

- Impact of the 2024 U.S. presidential elections on Mexico’s trade and investment

### Key Rating Drivers

#### Economic Structure & Resilience

Mexico's trillion-dollar economy (GDP: USD 1.8 trillion in 2023) is transitioning from reliance on oil exports to a balanced mix of industry, manufacturing, and services. Economic growth has been sluggish, with GDP growth slowing from 3.9% in 2022 to 3.2% in 2023. GDP grew by 2.1% in Q2 2024 and is projected to grow by 2.4% in the full year (2024). Mexico’s economy relies heavily on exports, which contributed 36.2% to GDP in 2023. Exports mainly including sectors such as electronics, automotive, and crude oil. The United States-Mexico-Canada Agreement (USMCA) underpins Mexico's trade dynamics, closely tying it to the economic fortunes of these key trading partners. Nearshoring offers significant growth potential for Mexico's manufacturing industry amid evolving global supply chains, but domestic policy support is needed to address skill gaps and improve the business environment.

#### Fiscal Strength

Mexico has moderate general government debt to GDP at 53.1% in 2023. However, there is a rising trend with GG debt rising from a low of 44.1% in 2013. Debt affordability is a challenge with interest to revenue at a high of around 16%. The 2024 budget projects a fiscal deficit of 5.9% of GDP, up from 4.3% in 2023, with increased spending on social programs and infrastructure. Effective management of Pemex's debt (Petróleos Mexicanos), Mexico's state-owned petroleum company, remains crucial as it poses significant fiscal risks.

## External Position & Linkages

Mexico’s external position is bolstered by moderate external debt, adequate foreign exchange reserves, and a manageable current account deficit. External debt declined to 33.2% of GDP in 2023 from 39.8% in 2022, while the current account deficit fell to 0.3% of GDP in 2023, compared to 1.2% in 2022. The IMF's Flexible Credit Line (FCL) of USD 35 billion provides insurance against external risks. Foreign direct investment (FDI) inflows, averaging 2.6% of GDP from 2014 to 2023, somewhat mitigates the impact of the current account deficit.

## Monetary & Financial Stability

The Bank of Mexico (Banxico) plays a crucial role in maintaining monetary stability through its independence and proactive measures. The actively traded and free-floating Peso helps buffer external shocks. In 2023, CPI inflation fell to 5.6% from 7.9% in 2022, with further decline to 4.2% projected for 2024. In response to changing economic conditions, Banxico initiated a reduction in interest rates in 2024, decreasing them by 50 basis points to 10.75% by August 2024. CPI inflation for August 2024 eased to 4.9%, primarily driven by prices of food and non-alcoholic beverages.

Mexico’s financial stability is underpinned by robust forex reserves and proactive financial sector reforms. Banxico has been diligent with regulatory measures to ensure a stable banking system, characterized by adequate capitalization and liquidity buffers. The banking sector’s non-performing loans have averaged 2.2% from 2019 to 2023.

## Institutions & Quality of Governance

Mexico faces significant governance challenges, including a weak rule of law and high corruption. Corruption continues to undermine institutional quality and public trust, with Mexico ranked 126th out of 180 countries in the 2023 Transparency International Corruption Perceptions Index. The general elections held in June 2024 resulted in strong majorities for the ruling Morena party in both houses of parliament and a victory for its presidential candidate Claudia Sheinbaum Pardo. The election results indicate a continuation of the existing political agenda, focusing on addressing social inequalities and sustaining macroeconomic stability. Additionally, endemic violence and the influence of organized crime pose significant obstacles to governance. Continuous efforts to strengthen legal frameworks and enhance public sector efficiency are essential for improving governance quality. However, Mexico’s fiscal and monetary institutions are comparatively stronger, as evidenced by adherence to the Fiscal Responsibility Law (FRL) and the effectiveness of its monetary policy.

| Mexico – Select Indicators | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Unit** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024 F** | **2025 F** |
| **Economic Indicators** | | | | | | | | | |
| Nominal GDP | USD Billion | 1256 | 1305 | 1121 | 1313 | 1463 | 1789 | 2017 | 2128 |
| GDP Per Capita (Constant-PPP) | USD | 20561 | 20312 | 18417 | 19357 | 19970 | 20430 | 20733 | 20859 |
| Real GDP Growth | % | 2.0 | -0.3 | -8.6 | 5.7 | 3.9 | 3.2 | 2.4 | 1.4 |
| GFCF/GDP | % | 23.0 | 21.6 | 20.1 | 21.1 | 22.4 | 24.4 | - | - |
| Gross Domestic Savings/GDP | % | 21.4 | 21.3 | 21.7 | 20.4 | 18.4 | 18.6 | - | - |
| Exports (G&S)/GDP | % | 39.0 | 38.5 | 39.2 | 40.7 | 42.8 | 36.2 | - | - |
| Working-Age (15-64) Population (% Share in Total) | % | 66.1 | 66.4 | 66.6 | 66.9 | 67.2 | 67.4 | 67.6 | 67.8 |
| Old-Age (65+) Population (% Share in Total) | % | 7.7 | 7.9 | 8.0 | 8.1 | 8.3 | 8.6 | 8.9 | 9.2 |
| **Fiscal Indicators – General Government** | | | | | | | | | |
| Fiscal Balance/GDP | % | -2.1 | -2.3 | -4.3 | -3.8 | -4.3 | -4.3 | -5.9 | -3.0 |
| Revenue/GDP | % | 22.8 | 23.0 | 23.5 | 23.0 | 24.3 | 24.4 | 24.4 | 24.1 |
| Expenditure/GDP | % | 25.0 | 25.2 | 27.8 | 26.8 | 28.6 | 28.7 | 30.3 | 27.1 |
| GG Gross Debt/GDP | % | 52.2 | 51.9 | 58.5 | 56.9 | 54.2 | 53.1 | 55.6 | 55.4 |
| GG External Debt (by Creditor)/GG Gross Debt | % | 44.6 | 44.2 | 42.6 | 35.7 | 31.4 | 27.7 | - | - |
| Interest/Revenue | % | 14.1 | 13.8 | 13.9 | 14.3 | 15.6 | - | - | - |
| **External Indicators** | | | | | | | | | |
| Current Account Balance/GDP | % | -2.1 | -0.3 | 2.4 | -0.3 | -1.2 | -0.3 | -0.8 | -0.8 |
| FDI, Net Inflows/GDP | % | 3.0 | 2.3 | 2.8 | 2.6 | 2.7 | 1.7 | - | - |
| Outstanding FII Liabilities/GDP | % | 38.3 | 40.4 | 47.3 | 39.0 | 32.8 | 30.1 | - | - |
| NIIP/GDP | % | -44.9 | -48.3 | -49.2 | -42.2 | -42.0 | -40.5 | - | - |
| Foreign Exchange Reserves | USD Billion | 176.4 | 183 | 199 | 208 | 201 | 214 | - | - |
| Import Cover | Months | 4.1 | 4.3 | 5.6 | 4.4 | 3.6 | 3.8 | - | - |
| External Debt/GDP | % | 47.2 | 47.6 | 56.1 | 45.9 | 39.8 | 33.2 | - | - |
| **Monetary and Financial Indicators** | | | | | | | | | |
| CPI Inflation | % | 4.9 | 3.6 | 3.4 | 5.7 | 7.9 | 5.6 | 4.0 | 3.3 |
| Exchange Rate (Average) | LC per USD | 19.2 | 19.3 | 21.5 | 20.3 | 20.1 | 17.7 | - | - |
| Non-Performing Loans/Total Gross Loans | % | 2.1 | 2.2 | 2.6 | 2.1 | 2.1 | 2.1 | - | - |
| Private debt, loans and debt securities/GDP | % | 41.8 | 41.2 | 44.2 | 41.8 | 40.2 | - | - | - |

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

## Rating History

| Instrument | Type | Rating | Date |
|---|---|---|---|
| **Issuer Rating** | Long Term Foreign Currency (Unsolicited) | BBB- | October 3, 2024 |

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## Criteria Applied

CareEdge Sovereign Rating Methodology

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