R&I

NEWS RELEASE

Aug 18, 2021

R&I Affirms BBB+, Negative: United Mexican States

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

ISSUER: **United Mexican States**

Foreign Currency Issuer Rating: BBB+, Affirmed
Rating Outlook: Negative

RATIONALE:

Mexico's economy is overcoming the impact of the COVID-19 pandemic and will likely show strong growth in 2021. Its fiscal balance deterioration in 2020 was mild compared to other countries, and outstanding government debt is expected to decline as a percentage of gross domestic product (GDP) from 2021 onward. Meanwhile, it is a cause for concern that a series of policies could impede private companies' entry that would enhance economic efficiency. This may adversely affect investor confidence, constraining post-pandemic economic growth and increasing a fiscal burden, in R&I's view. Based on such factors, R&I has affirmed the Foreign Currency Issuer Rating and left the Negative Rating Outlook unchanged.

The economy is expected to grow strongly in 2021 due to a statistical base effect, a recovery in domestic economic activity benefitting from the progress in vaccination, and a robust economic rebound in the U.S. Even so, medium-term economic prospects should also be considered. The Lopez Obrador administration's significant energy policy shift from the previous administration has heightened uncertainty over private investment. A post-pandemic growth path must be carefully observed, as reduced investment led to economic contraction in 2019. R&I expects that it will take some time for investment to return to the level before the current administration took office in 2018.

With the United States-Mexico-Canada Agreement (USMCA) having taken effect, investment in the manufacturing sector is solid. In the oil and electricity sectors, on the other hand, a series of policy decisions has emphasized the role of state-owned enterprises on the grounds of energy security, raising alarm among private investors about the stability of regulatory environment. These interventions also relate to the USMCA arrangements, and the government is required to take a cautious approach. In areas other than energy as well, some economic policy measures could have chilled investor sentiment, such as the intervention in an ongoing project regarding the construction of a U.S. company's new plant. R&I considers that such policies could affect investment appetite in the private sector.

R&I favorably views the government's fiscal management focused on both shoring up an economic recovery and containing debt increases. Thanks partly to the reforms in the tax framework since 2019, tax revenues for 2020 rose year on year even with the pandemic-induced economic downturn. This helped curb borrowings to tackle COVID-19. That said, the government projects a fiscal deficit of 4% of GDP for 2021, the same magnitude as in the previous year, to support an economic recovery. Its fiscal burden may remain at similar levels, unless economic growth gets on a firm recovery track in the medium term.

The current account balance that has moved into surplus, ample external liquidity and a stable financial system will underpin an economic recovery. Furthermore, no major changes are anticipated in the country's economic fundamentals, including its status as one of the world's major oil-producing countries and as a manufacturing hub for North America following the enforcement of USMCA. Eyes are on whether economic growth will be put on a recovery path on the back of these strengths.

The primary rating methodology applied to this rating is provided at "R&I's Analytical Approach to Sovereigns". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

https://www.r-i.co.jp/en/rating/about/rating_method.html

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R&I RATINGS:	
ISSUER:	**United Mexican States**
	Foreign Currency Issuer Rating
RATING:	**BBB+, Affirmed**
RATING OUTLOOK:	**Negative**

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