

**COUNTRY PROFILE:****UNITED MEXICAN STATES**

IES/02: ATTACHMENT A

**DATED:****OCTOBER 2007****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	2B	No Restrictions

*Recent Political Highlights*

- ❑ Chief of state since December 2006 has been President Felipe de Jesus Calderon Hinojosa. The president is elected for a non-renewable six-year term. The next election is scheduled for July 2012;
- ❑ Government has been intent on pushing forward its reform agenda. Given that obstacles to political effectiveness remain and that congressional mid-term elections are due in 2009, it has a narrow window of opportunity to pass its most politically sensitive reforms in the fiscal, energy and labour sectors.

*Recent Economic Highlights*

- ❑ Mexico has a population of 108.7m that is expected to grow at a rate of 1.2% this year;
- ❑ Mexico's Congress approved weighty measures in September including tax reform that will increase Government's (non-oil) tax take from 10% of GDP to 12% by 2012, bringing in an extra \$10.3bn next year. Government will be able to cut taxes on Pemex, the cash-strapped state oil monopoly, while starting to boost public investment by 50% - as the president promised. The reform reduces the scope for the traditional avoidance of income tax by large companies. Next on the president's agenda is energy reform. In opposition to the tax plans, left-wing rebels claimed responsibility for the six bomb explosions that ripped through gas pipelines in the state of Veracruz. Pemex was able to restore the pipelines within a few days;
- ❑ Mexico's economy grew at 2.6% - its slowest pace in over a year - in the first quarter of 2007 as construction fell and automobile output plunged on declining US demand. The economy expanded 4.8% in 2006 - its fastest growth in six years on the back of strong US demand, which is home to about 80% of Mexico's output. Economic growth is expected to be lower in 2007 and 2008 than earlier forecast. The economy is expected to grow by 3% in 2007, 3.7% in 2008, 4.1% in 2009 and 2010 before expanding by 5% annually by 2012 if Congress approves more measures to increase the country's competitiveness;
- ❑ Although inflation rose to 4.03% in August, it is not expected to breach the 2%-4% target and will average 3.9% in 2007, 3.7% in 2008, 3.4% in 2009 and 3.3% in 2010, 2011 and 2012. Government postponed a new gasoline tax and halted fuel-price increases for the rest of the year in an effort to control inflation;
- ❑ Credit rating agency Standard & Poors raised Mexico's foreign debt rating one level to BBB+, the third lowest investment-grade rating and in line with South Africa and Thailand. It also increased Mexico's local currency credit rating to A+ from A. S&P stated that the approval of Mexico's tax bill augurs well for continued stability and said that it was an important step in reducing the Central American Government's fiscal vulnerability to volatile oil prices and in meeting growing spending pressures. The new tax law is expected to boost Mexico's revenue by as much as 2.1% of GDP by 2012;
- ❑ President Calderon raised the amount he wants to spend on infrastructure during his six-year term to \$250bn. He says that the tax legislation and the deregulation of some industries may allow Government and private companies to boost annual infrastructure spending from 3% of GDP to 5.5%. He noted that the time was right for Mexico to radically transform itself;
- ❑ Mexico agreed to sell Consorcio Aeromexico SAB, the country's largest airline to Citigroup and some of the country's wealthiest families for \$249m. Citigroup plans to take Aeromexico private, trim expenses, spend \$240m to improve operations and sell shares in the airline within three years;
- ❑ Scotiabank is planning on increasing its branches in Mexico over the next three years as part of a move that includes edging into the traditionally risky market with broader credit offerings. The bank aims to open 100 branches in the country next year, adding to its nearly 550 existing locations and hopes to boost the total to 900 branches by the end of three years. In addition to the growing branches, it has launched a joint venture to market credit cards to Mexican customers who have historically borrowed their money from family.

*Latest Trade Developments*

- ❑ Major exports: manufactured goods, oil and oil products, silver, fruits, vegetables, coffee and cotton;
- ❑ Major imports: metalworking machines, steel mill products, agricultural machinery, electrical equipment, car parts for assembly, aircraft and its parts;
- ❑ Main trading partners: US, Canada, Bermuda, Japan and China;
- ❑ SA exports to Mexico totaled R1.5bn in 2006 from R926m in 2005 and R1.03bn in the year to July 2007.