

COUNTRY PROFILE:**UNITED MEXICAN STATES****DATED:****SEPTEMBER 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<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 for a single six-year term. The next election is due in July 2012.
- ❑ Mexico is in the midst of a legal revolution. All legal staff are undergoing training now that Mexico has amended its constitution to throw out its inept and corrupt legal system. Mexico has eight years to replace its closed proceedings with public trials in which defendants are presumed innocent, legal authorities can be held more accountable and justice is equal. The president says that his country's democratic and economic development depends on this judicial reform – along with fiscal and electoral changes he has pushed through Congress.

Recent Economic Highlights

- ❑ Mexico has a population of 110m with an expected growth rate of 1.1% in 2008.
- ❑ The president has made progress with the advance of long-delayed fiscal and pension reform despite opposition from minority parties. The growing drug related violent crime has evolved into a significant challenge to the president's authority, while the US economic slowdown threatens his election commitment to create employment.
- ❑ Annual economic growth is expected to weaken to 2.3% in 2008 and to just 1.9% in 2009 with the slowing of the US economy, but is expected to recover to 4% in 2010. The economy expanded at a slower rate of 2.1%, than the expected 2.8% in the second quarter of 2008 – lower than the 3.7% achieved in the first quarter.
- ❑ The Economist says that inflation will rise from 4% in 2007 to 4.8% in 2008 before steadily falling to reach 3.3% by 2012. The Mexican Central Bank said that the country is seeing the end of a recent inflation spike caused by surging international food and energy prices. The Bank increased its key lending rate to 8.25% - for a fourth straight rate month - in August to tackle rising inflation, but said the crisis may be soon tapering off.
- ❑ Consumer confidence edged up to 89.6 points in August from a record low of 88.4 in July. Mexicans were slightly more optimistic about their future economic situations, but less hopeful about the country's current economic situation.
- ❑ Government has suspended shipments of meat and processed poultry to the US after the country's officials raised concerns about the quality of Mexican food processing and inspections. Systematic problems were identified with Mexico's sanitation controls and record-keeping during an annual audit in June this year. The USA sources about 2% of beef and poultry from Mexican producers.
- ❑ Moody's Investor Service stated that it has no plans to increase Mexico's credit rating as legislatures prepare to vote on a proposal to revamp the energy industry. The president's plan to allow more private investment in the sector has been diluted in Congress and will not contribute much to economic growth. Oil contributes over a third of Government's revenues. The president's bill focused on easing restrictions that would allow foreign companies to help Petroleos Mexicanos, the state-run monopoly to explore, produce, refine and transport oil, though they would not own the reserves. Oil revenues reached \$3.2bn for the first half of the year due to rising oil prices.

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, repair parts for motor vehicles, aircraft and aircraft parts.
- ❑ Main trading partners: US, Canada, Germany, China, South Korea and Japan.
- ❑ Over 80% of Mexico's exports are destined for the US and as such an economic slowdown in the US will impact negatively on the Mexican market.
- ❑ South African exports to Mexico totaled R1.3bn in 2007 from R1.5bn in 2006 and R179m in the year to March 2008.

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