Date of Release: May 7, 2024

Morningstar DBRS Confirms Mexico at BBB, Stable Trend

Industry Group: Public Finance – Sovereigns
Region: Americas

DBRS Inc. (Morningstar DBRS) confirmed the United Mexican States' (Mexico) Long-Term Foreign and Local Currency – Issuer Ratings at BBB. At the same time, Morningstar DBRS confirmed the United Mexican States' Short-Term Foreign and Local Currency – Issuer Ratings at R-2 (high). The trend on all ratings is Stable.

KEY CREDIT RATING CONSIDERATIONS

The Stable trend reflects our expectation that the Mexican government will remain committed to sustainable public finances following the general elections scheduled for June 2, 2024. The fiscal deficit is projected to widen to 5.9% of GDP this year, as the government increases spending on social programs and infrastructure projects. The BBB credit ratings assume that the next administration will pursue a fiscal adjustment in 2025 in order to put the debt-to-GDP ratio on a stable path. The two leading presidential candidates have expressed their support for the country's sound macroeconomic policy frameworks, including sustainable public finances. The next administration will inherit an economy that is performing relatively well. Output expanded 3.2% last year, driven by robust domestic demand. The economy lost some momentum in the final quarter of 2023 and the first quarter of 2024, but we expect growth will continue at a moderate pace over the next two years. The IMF forecasts GDP growth of 2.4% in 2024 and 1.4% in 2025.

The BBB credit ratings balance Mexico's track record of sound macroeconomic policymaking with the country's deep governance and growth challenges. The economy has maintained solid macroeconomic fundamentals through a series of shocks, due in large part to its strong policy framework – comprised of exchange rate flexibility, prudent fiscal management, and a credible inflation-targeting regime. The financial system has demonstrated resilience, and the country's external accounts are in a sound position. However, significant structural challenges weigh on the credit profile. Poor education outcomes, widespread informality, and far-reaching governance problems have led to decades of weak economic growth. Looking ahead, we expect the country's potential growth to be similar to past performance, although nearshoring opportunities pose upside risk to the outlook.

CREDIT RATING DRIVERS

The credit rating could be upgraded if (1) the government reorients economic policy or strengthens governance in a manner that materially improves Mexico's investment outlook, and (2) public debt dynamics are put on a firm downward trajectory over the medium term.

The credit rating could be downgraded if there is (1) a material deterioration in Mexico's medium-term growth prospects, or (2) a significant increase in public debt-to-GDP relative to our current expectations.

CREDIT RATING RATIONALE

The Morena Party Is In Pole Position Going Into The General Elections

General elections will be held on June 2, 2024 for the presidency, all 500 seats in the lower house, and all 128 seats in the Senate. AMLO remains very popular with the public, but he cannot run for reelection because the constitution limits presidents to a single 6-year term. Claudia Sheinbaum, an ally of AMLO and former mayor of Mexico City, is the presidential candidate for AMLO's Morena party and leads the coalition Sigamos Haciendo Historia. Her principal opponent, Xóchitl Gálvez, is running for the Fuerza y Corazón por México coalition, which includes the PRI, PAN, and PRD parties. Sheinbaum holds a sizable lead in the polls and is expected to win. Her campaign is benefiting from AMLO's popularity, Morena's national presence, and the party's internal coherence in support of her candidacy. At the congressional level, Morena is also well-positioned to win majorities in both houses. If Sheinbaum wins the presidency and Morena controls congress, we would expect policy continuity from the next administration. Morena's ability to make constitutional changes would require winning supermajorities (2/3 of seats) in both houses, a scenario that looks possible but not likely.

While the campaign platforms of the two presidential candidates offer different views on the role of the state in the economy, there is support across the political spectrum for the country's macroeconomic policy frameworks and its deep economic integration with the United States within the context of the USMCA. In our view, the stability and predictability of policymaking through the electoral cycle enhances the economy's resilience to shocks and positively influences our "Political Environment" building block assessment.

Nevertheless, the most significant challenge facing Mexico's credit profile, in our view, relates to governance. According to the Worldwide Governance Indicators, Mexico scores poorly on the rule of law relative to emerging market peers. Corruption, which is perceived to be entrenched and widespread, constrains economic growth by encouraging rent-seeking behavior and misallocating resources. Elevated levels of criminality, combined with perceived deficiencies in the judicial system and law enforcement, also weaken the investment climate. Efforts by the AMLO administration to address corruption and improve public security have focused on poverty alleviation schemes, budgetary cuts for programs perceived to be subject to graft, an expansion of the use of the armed forces for domestic security, and the creation of a National Guard to replace the Federal Police. In our view, it is not clear that the strategy has yielded any benefits in terms of strengthening the rule of law or improving the country's institutional quality.

Strong Policy Frameworks Support The Economy's Resiliency Amid Shocks

Headline inflation is declining following a series of shocks, but sticky core services prices are slowing the convergence back to the central bank's target. Year-over-year core inflation declined from its peak of 8.5% in November 2022 to 4.6% in March 2024. This was driven by disinflation in core goods, which benefited from easing supply bottlenecks and peso appreciation. Core services inflation, on the other hand, remains high – coming in at 5.4% (yoy) in March 2024. In this context, the central bank has started an easing cycle, which we expect will be implemented gradually. The Bank of Mexico made its first rate cut of 25bps to 11.0% in March 2024. The median forecast (April 2024) from the central bank's survey points to the policy rate falling to 10.0% by the end of the year. This means that while the nominal rates are expected to decline, the ex-ante real policy rate looks set to remain highly restrictive well into 2025. The credibility of the central bank's inflation-targeting regime has helped anchor expectations amid the inflationary shocks. According to the Bank of Mexico's Survey of Expectations (April 2024), the median forecast for inflation 2 years out is 3.6%, which is roughly the same as it was before the pandemic.

Mexico's financial system weathered the bank turmoil in the U.S. and Europe last year without any disruptions, and is well-positioned to supply credit to the real economy. Mexican banks' exposure to troubled lenders abroad was limited. The banking system has high liquidity and capital buffers. Non-performing loans accounted for 2.1% of gross loans in February 2024, which is slightly lower than before the pandemic. In addition, exchange rate fluctuations have not adversely affected banks' balance sheets nor do they appear to have affected asset quality in the corporate sector. Household leverage is also low, with limited foreign exchange exposure.

Mexico's sound policy framework has helped the economy adjust to a series of international shocks, including tighter global financing conditions. External accounts do not present any clear imbalances. The current account deficit narrowed from 1.2% of GDP in 2022 to 0.3% in 2023 due to improving terms of trade and increased manufacturing exports, especially autos. Looking out over the forecast horizon, the current account deficit is expected to remain in a modest deficit position and be fully financed by net foreign direct investment. External debt levels are moderate and primarily long-term in tenor. The flexibility of the exchange rate enhances the economy's resilience to episodes of market turbulence. Moreover, the central bank also holds $217 billion in reserves and has a $35 billion Flexible Credit Line from the IMF, which provide some protection against global tail risks. Notwithstanding these buffers, the large stock of foreign portfolio liabilities leaves the economy exposed to capital flow volatility.

Mexico's Economic Outlook Is Stable But Weak

Mexico's growth performance over the last three decades has been poor. From 1989 to 2019, the economy grew at an average rate of 2.4 percent. Weak rule of law, widespread informality, and poor education outcomes have contributed to Mexico's lackluster performance. While both presidential candidates have expressed optimism about the potential positive effects of nearshoring and are supportive of foreign direct investment in Mexico, their proposed policies are unlikely, in our view, to materially improve these structural constraints to higher growth. As a result, the medium-term outlook looks relatively weak, with the IMF forecasting average growth of 1.9% from 2025-2029.

However, we think nearshoring presents upside risk to the forecast, especially if Mexico can improve the investment climate. So far, inflows of foreign direct investment have not increased relative to Mexico's historical experience. Nevertheless, Mexico is well-positioned to take advantage of potential shifts in global supply chains. In addition to the passage of the United States-Mexico-Canada trade agreement in 2020, Mexico is located next to the U.S. market, connected to the U.S. with well-developed transport infrastructure, open to international trade and investment, and cost competitive. Geopolitical tensions between the U.S. and China, along with pandemic-related supply disruptions, could also push firms to shift production from Asia to Mexico. However, attracting greater investment and materially improving growth prospects may depend on Mexico's ability to upgrade worker skills and training and strengthen the rule of law.

The Next Administration Will Need To Consolidate Fiscal Accounts To Stabilize Debt Dynamics

Pre-election spending is expected to lead to a deterioration in the fiscal accounts. The public sector fiscal deficit is projected to increase from 4.3% of GDP in 2023 to 5.9% in 2024, largely due to higher social spending and investment. The latter is driven by the AMLO administration's desire to complete key infrastructure projects by the end of its term. The expansionary stance could strengthen domestic demand and potentially slow the pace of monetary easing by the Bank of Mexico. In addition, the large deficit this year will leave the next administration with the challenging task of consolidating fiscal accounts. Preliminary budget plans point to the deficit falling to 3.0% of GDP next year on the back of a sharp cut in expenditure. The completion of key infrastructure projects will likely help narrow the gap next year, but such a sizable consolidation, as planned, looks difficult without additional measures. The 2025 budget will be presented and approved by the new congress in the fourth quarter of this year.

In addition, poorly-targeted public investment, in our view, raises some concerns over the medium term. Of key concern is Pemex's business strategy, which in our view, is unlikely to improve operational efficiency or rebuild its reserve portfolio. Consequently, Pemex could increasingly weigh on public finances, either by crowding out other higher-yielding investment or contributing to higher deficits.

The government debt-to-GDP ratio is projected to be on a stable path, albeit at a slightly higher level than before the pandemic. According to the IMF, gross general government debt increased from 52% of GDP in 2019 to 59% in 2020. The increase was due to the recession and currency depreciation. As the economy recovered and the peso strengthened, the ratio declined to 53% by 2023. The primary fiscal deficit this year is expected to increase the debt ratio to 56%, but as the fiscal results improve next year, the debt ratio is expected to stabilize over the forecasted horizon. The composition of the public debt mitigates risks stemming from global market volatility. The long average maturity of the debt softens the impact of rising borrowing rates, and the high share of debt denominated in local currency reduces risks stemming from currency depreciation.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

ESG Considerations had a significant effect on the credit analysis.

Environmental (E) Factors
The following Environmental factor had a relevant effect on the credit analysis: Resource and Energy Management. Petroleum products account for a low share of export receipts (5-10% of goods exports) but have greater relevance for public finances (10-20% of public sector fiscal revenues). However, the importance of oil-related revenue has generally decreased over the last decade.

Social (S) Factors
The following Social factor had a significant effect on the credit analysis: Human Capital & Human Rights. Similar to other emerging market economies and many of its regional peers, Mexico's per capita GDP is relatively low at US$13.6k (US$25.0k on a PPP basis). This reflects the relatively low level of labor productivity. In addition, criminal organizations commit human rights abuses, especially attacks against journalists and human rights activists.

Governance (G) Factors
The following Governance factors had a significant effect on the credit analysis: (1) Bribery, Corruption, and Political Risks, (2) Institutional Strength, Governance, and Transparency, and (3) Peace and Security. According to World Bank Governance Indicators, Mexico ranks in the 16th percentile for Control of Corruption and in the 28th percentile for Rule of Law. Regarding Institutional Strength, Governance, and Transparency, Mexico ranks in the 45th percentile for Voice & Accountability and in the 42nd percentile for Government Effectiveness. Concerns of a gradual and generalized deterioration in the quality of the country's governing institutions have increased in recent years. With regards to the third factor, elevated levels of violence and criminality weaken the investment climate. Mexico is trying to address violence and criminality issues through reform, but still ranks low (22nd percentile) on Political Stability and the Absence of Violence/Terrorism.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (January 23, 2024) at https://dbrs.morningstar.com/research/427030/morningstar-dbrs-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings.

For more information on the Rating Committee decision, please see the Scorecard Indicators and Building Block Assessments.

Notes:

All figures are in U.S. dollars unless otherwise noted. Public finance statistics reported on a public sector basis; this excludes state and local governments but includes state-owned enterprises and public development banks. The fiscal balance is the Public Sector Borrowing Requirement.

The principal methodology is the Global Methodology for Rating Sovereign Governments (October 6, 2023) https://dbrs.morningstar.com/research/421590/global-methodology-for-rating-sovereign-governments. In addition, Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings https://dbrs.morningstar.com/research/427030/morningstar-dbrs-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: https://dbrs.morningstar.com/about/methodologies.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS' outlooks and credit ratings are monitored.

The primary sources of information used for this credit rating include Secretária de Hacienda y Crédito Público, Banco de México, INEGI, BIS, OECD, IMF, World Bank, NRGI, Brookings, Tullet Prebon Information, and Haver Analytics. Morningstar DBRS considers the information available to it for the purposes of providing this credit rating was of satisfactory quality.

The credit rating was not initiated at the request of the rated entity.
The rated entity or its related entities did participate in the credit rating process for this credit rating action.
Morningstar DBRS did not have access to the accounts, management, and other relevant internal documents of the rated entity or its related entities in connection with this credit rating action.
This is a solicited credit rating.

For more information on this credit or on this industry, visit dbrs.morningstar.com.

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Issuer	Debt Rated	Credit Rating Action	Credit Rating	Trend
United Mexican States	Long-Term Foreign Currency - Issuer Rating	Confirmed	BBB	Stable
United Mexican States	Long-Term Local Currency - Issuer Rating	Confirmed	BBB	Stable
United Mexican States	Short-Term Foreign Currency - Issuer Rating	Confirmed	R-2 (high)	Stable
United Mexican States	Short-Term Local Currency - Issuer Rating	Confirmed	R-2 (high)	Stable

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Mexico

Scorecard Indicators

Fiscal Management and Policy	2018	2019	2020	2021	2022	2023	2024	2025	2026	Source	Current Scorecard Input	
Overall Fiscal Balance (% of GDP)	-2.1%	-2.3%	-4.3%	-3.8%	-4.3%	-4.3%	-5.9%	-3.0%	-2.7%	IMF WEO	13 year average	-3.4%
Government Effectiveness (Percentile Rank)	42.4	39.0	42.4	37.6	42.5	-	-	-	-	World Bank	5 year average	40.8
Debt and Liquidity	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**			
General Government Gross Debt (% of GDP)	52.2%	51.9%	58.5%	56.9%	54.2%	53.1%	55.6%	55.4%	55.4%	IMF WEO	5 year projection	55.8%
Interest Costs (% of GDP)	3.7%	3.6%	3.8%	3.7%	5.0%	5.8%	5.0%	4.3%	4.1%	IMF WEO	5 year average	4.8%
Economic Structure and Performance	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**			
GDP per Capita (USD thousands)	10.0	10.3	8.7	10.2	11.3	13.6	15.2	16.0	16.6	IMF WEO	10 year average	10.4
Output Volatility (%)	3.3%	3.4%	3.3%	3.3%	3.3%	3.2%	3.2%	3.2%	3.2%	IMF WEO	Latest	3.2%
Economic Size (USD billions)	1,256	1,305	1,121	1,313	1,463	1,789	2,017	2,128	2,231	IMF WEO	5 year average	1,398
Monetary Policy and Financial Stability	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**			
Rate of Inflation (%, EOP)	4.8%	2.8%	3.2%	7.4%	7.8%	4.4%	3.5%	3.0%	3.0%	IMF WEO	13 year average	4.3%
Total Domestic Savings (% of GDP)	74%	80%	96%	97%	86%	86%	-	-	-	BdM/IMF	Latest[1]	86%
Change in Domestic Credit (% of GDP)	-0.8%	-0.6%	2.8%	-2.4%	-1.6%	-2.0%	-	-	-	BIS/IMF	7 year average[1]	-0.7%
Net Non-Performing Loans (% of Capital)	-5.9%	-5.2%	-6.8%	-5.3%	-5.7%	-5.2%	-	-	-	IMF IFS	Latest[1]	-5.2%
Change in Property Price/GDP Index (%)	1.5%	4.4%	10.5%	-2.4%	-1.6%	2.8%	-	-	-	OECD/IMF	7 year average[1]	2.1%
Balance of Payments	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**			
Current Account Balance (% of GDP)	-2.1%	-0.3%	2.4%	-0.3%	-1.2%	-0.3%	-0.8%	-0.8%	-0.9%	IMF WEO	8 year average	-0.3%
International Investment Position (% of GDP)	-45.9%	-47.2%	-45.7%	-42.9%	-40.5%	-38.6%	-	-	-	IMF	5 year average[1]	-43.0%
Share of Global Foreign Exchange Turnover (Ratio)	131.3%	114.4%	118.5%	121.4%	110.7%	101.1%	-	-	-	BIS/IMF	Latest	101.1%
Exchange Rate Classification (see footnote)	1	1	1	1	1	1	-	-	-	IMF	Latest	1
Political Environment	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**			
Voice and Accountability (Percentile Rank)	45.6	45.9	44.9	44.0	42.0	-	-	-	-	World Bank	5 year average	44.5
Rule of Law (Percentile Rank)	28.1	26.7	29.0	22.9	20.8	-	-	-	-	World Bank	5 year average	25.5

See Morningstar DBRS' Global Methodology for Rating Sovereign Governments for additional details on the methodology behind the scorecard indicators and associated scoring thresholds. Exchange Rate Classifications: Freely floating exchange rate = 1; Float = 2; Crawls, banded pegs, and other managed = 3; Stabilized = 4; Pegs, currency unions and dollarized arrangements = 5.

[1] Scores for 2023 have been computed using the most recent data when year-end data is not available.

Rating Committee Date: 3-May-2024

Mexico

Building Block Assessments and Rating Committee Summary

3-May-2024

Building Blocks	Scorecard Result	Quantitative Assessment	Net Impact of Qualitative Factors	Building Block Assessment
Fiscal Management and Policy	8.35	Poor/Moderate	N/A	Poor/Moderate
Debt and Liquidity	10.07	Moderate	N/A	Moderate
Economic Structure and Performance	10.09	Moderate	N/A	Moderate
Monetary Policy and Financial Stability	15.53	Strong/Good	N/A	Strong/Good
Balance of Payments	13.50	Good	N/A	Good
Political Environment	3.33	Weak/Poor	+ 2 Categories	Poor/Moderate
Overall Assessment	**Composite Scorecard Result**	**Scorecard Rating Range**	**Composite Building Block Assessment**	**Indicative Rating Range**
	50.7	BBB (low) - BB	54.1	BBB - BB (high)

Mexico's Long-Term Foreign Currency - Issuer Rating BBB

Main topics discussed in the Rating Committee include: election outlook, macroeconomic performance and outlook, and public finances. For additional details on Morningstar DBRS analysis and opinions, please see the accompanying rating report.

Morningstar DBRS Scorecard: Scoring Ranges and Associated Assessment Categories

Lower Bound	0.00	1.00	3.00	5.00	7.00	9.00	11.00	13.00	15.00	17.00	19.00
Upper Bound	0.99	2.99	4.99	6.99	8.99	10.99	12.99	14.99	16.99	18.99	20.00
Assessment Category	Very Weak	Weak	Weak/ Poor	Poor	Poor/ Moderate	Moderate	Good/ Moderate	Good	Strong/ Good	Strong	Very Strong

United Mexican States

ESG Checklist

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**Y**	**R**
	Emissions, Effluents, and Waste	Do the costs or risks result in changes to a government's financial standing or relationship with other governments, and does this affect the assessment of credit risk?	N	N
	Carbon and GHG Costs	Does a government face coordinated pressure from a higher-tier government or from numerous foreign governments as a result of its GHG emissions policies, and does this affect the assessment of credit risk?	N	N
		Will recent regulatory changes have an impact on economic resilience or public finances?	N	N
		Carbon and GHG Costs	**N**	**N**
	Resource and Energy Management	Does the scarcity of key resources impose high costs on the public sector or make the private sector less competitive?	N	N
		Is the economy reliant on industries that are vulnerable to import or export price shocks?	Y	R
		Resource and Energy Management	**Y**	**R**
	Land Impact and Biodiversity	Is there a risk to a government's economic or tax base for failing to effectively regulate land impact and biodiversity activities?	N	N
	Climate and Weather Risks	Under key IPCC climate scenarios up to a 2°C rise in temperature by 2050, will climate change and adverse weather events potentially destroy a material portion of national wealth, weaken the financial system, or disrupt the economy?	N	N
	Passed-through Environmental credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by environmental factors (see respective ESG checklist for such issuer)?	N	N
Social		**Overall:**	**Y**	**S**
	Human Capital and Human Rights	Compared with regional or global peers, is the domestic labour force more or less competitive, flexible, and productive?	Y	S
		Are labour or social conflicts a key source of economic volatility?	N	N
		Are individual and human rights insufficiently respected or failing to meet the population's expectations?	Y	S
		Is the government exposed to heavy, coordinated international pressure as a result of its respect for fundamental human rights?	N	N
		Human Capital and Human Rights	**Y**	**S**
	Access to Basic Services	Does a failure to provide adequate basic services deter investment, migration, and income growth within the economy?	N	N
	Passed-through Social credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by social factors (see respective ESG checklist for such issuer)?	N	N
Governance		**Overall:**	**Y**	**S**
	Bribery, Corruption, and Political Risks	Does widespread evidence of official corruption and other weaknesses in the rule of law deter investment and contribute to fiscal or financial challenges?	Y	S
	Institutional Strength, Governance, and Transparency	Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness?	Y	S
		Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?	Y	R
		Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?	N	N
		Institutional Strength, Governance, and Transparency	**Y**	**S**
	Peace and Security	Is the government likely to initiate or respond to hostilities with neighboring governments?	N	N
		Is the government's authority over certain regions contested by domestic or foreign militias?	N	N
		Is the risk of terrorism or violence sufficient to deter investment or to create contingent liabilities for the government?	Y	S
		Peace and Security	**Y**	**S**
	Passed-through Governance credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by governance factors (see respective ESG checklist for such issuer)?	N	N
		Consolidated ESG Criteria Output:	**Y**	**S**

* A Relevant Effect means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.
A Significant Effect means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

United Mexican States: ESG Considerations

May 7, 2024

Environmental

The factor Resource and Energy Management is considered relevant to the credit ratings assigned to Mexico. Petroleum products account for a low share of export receipts (5-10% of goods exports), but have greater relevance for public finances (15-20% of public sector fiscal revenues). However, the importance of oil-related revenue has generally decreased over the last decade. The factor Carbon and Greenhouse Gas Costs does not affect the rating. Under the 2015 Paris Agreement, Mexico seeks to reduce its greenhouse gas (GHG) emissions by 30% by 2030. Mexico's ability to meet its Paris commitments could be inconsistent with the current government's preference for fossil fuel generation over renewables. Morningstar DBRS will continue to assess the impact on public finances and the economy if the government decides to more rapidly transition toward a less carbon-intensive economy.

Social

The factor Human Capital & Human Rights has a significant effect on the credit ratings. Similar to other emerging market economies and many of its regional peers, Mexico's per capita GDP is relatively low, at US$13.6k (US$25.0k on a PPP basis). This reflects the relatively low level of labor productivity. In addition, criminal organizations commit human rights abuses, especially attacks against journalists and human rights activists. The factor Access to Basic Services does not affect the credit ratings. Mexico has universal healthcare coverage. The overall quality of service is good, although it varies across the country.

Governance

The three governance factors have a significant effect the credit ratings. First, the Bribery, Corruption and Political Risks factor has a significant effect on the credit ratings. According to World Bank Governance Indicators, Mexico ranks in the 16th percentile for Control of Corruption and in the 28th percentile for Rule of Law. Second, Institutional Strength, Governance, and Transparency has a significant effect on the credit ratings. Mexico ranks in the 45th percentile for Voice & Accountability and in the 42nd percentile for Government Effectiveness. Concerns of a gradual and generalized deterioration in the quality of the country's governing institutions have increased in recent years. The third factor, Peace and Security, also has a significant effect on the credit ratings. Elevated levels of violence and criminality weaken the investment climate. Mexico is trying to address violence and criminality issues through reform, but still ranks low (22nd percentile) on Political Stability and the Absence of Violence/Terrorism.