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Mexico Receives Favorable Credit Rating From Moody's

by Steven Ranieri

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Mexico recently received the highly favorable "Ba2" rating from Moody's, which, along with Standard & Poor, dominates Wall Street credit ratings. For almost 10 years, Mexico did not appear in the company's ratings lists. According to Moody's, "the Mexican government has been able to stop the downward spiral of lack of confidence and high inflation" characteristic of the mid-1980s. Mexican credit problems are "no less real" than previously, said the company, but "they have become more manageable." Although "Ba2" is considered quite positive, it still implies "speculative risk." Moody's mentioned four factors which contributed to the speculative risk qualification: * The foreign debt burden remains onerous, and after the 1989 renegotiation, obtaining another restructuring will be quite difficult. In addition, the level of short-term debt is high and increasing. Debt service will likely be relegated to low priority status by the government in future, either because of the executive's social welfare objectives, or a balance of payments crisis. Consequently, the "Brady Bonds" (\$35 billion in bonds sold at par with a lower fixed interest rate, or at a discount on face value under the recent restructuring agreement) were classified as "Ba3," one level below the "Ba2" classification given to other financial instruments. * The underdeveloped status of Mexico, including extensive poverty and inequitable income and wealth distribution, have not improved, and were likely exacerbated as a result of a decade of economic crisis. * The government's economic liberalization program is necessary but not sufficient to establish the foundations of future economic growth. Nor is it without risks, said Moody's. Disruptive effects of the program on Mexican business, combined with recession in the US, may produce high unemployment and slow growth. * Although the government has instituted certain electoral reforms, a deeper political democratization, permitting genuine political party competition, would be risky. Thus, Institutional Revolutionary Party (PRI) domination is expected to continue, which Moody's also considers risky. (Sources: Notimex, 02/13/91; El Financiero, 02/18/91)

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