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The Mexican government's ability to increase exports and to reduce interest rates has earned the country strong praise at the international level. In early August, the debt-rating agency Moody's raised Mexico's long-term foreign currency-debt rating to BA1, which will allow the Mexican government and private companies to borrow funds at lower interest rates. In announcing the decision, Moody's cited higher exports, stable growth in the country's GDP, and prudent fiscal and monetary policies that had in turn lowered the foreign debt.

The mid-August monthly report of the Secretaria de Hacienda y Credito Publico (SHCP) said Mexico's GDP grew by 3.2% in the second quarter of the year and by 2.5% for the first half of 1999. Moody's also praised Mexico for maintaining a floating exchange rate, which eases the burden on Mexico's international reserves.

In addition, the agency mentioned the US$23.7 billion financial package obtained by President Ernesto Zedillo's administration in credits and debt- refinancing to protect the Mexican economy from financial turmoil during and immediately after the 2000 presidential and congressional elections (see SourceMex, 1999-06-30).

"Mexico's [new] rating improves not only that of the country for bond issues we are doing, the access we have to the markets, but also the rating of all Mexican issuers," said Finance Secretary Jose Angel Gurria Trevino. Gurria said Mexico was in a good position to reach its annual inflation target of 13% for 1999, which could get 2000 off to a good start. Mexico recorded accumulated inflation of 7.17% for the first half of the year (see SourceMex, 1999-07- 14).

Guillermo Ortiz Martinez, chief governor at the Banco de Mexico (central bank), said Mexico's rating could be upgraded to "investment grade" late next year if the 2000 elections go smoothly. Ortiz said the chief concern for the investment community is for the elections to be transparent, regardless of which candidate or party emerges as a victor.

Economy's structural weaknesses a concern

But Ernesto O'Farril Santoscoy, director of the economic consulting company Bursametrica, said the government may be a bit too optimistic in predicting an increase in Mexico's rating to investment grade. O'Farril said the Mexican economy remains vulnerable because of its weak banking system. "No agency can give us an investment grade as long as the banking system remains so fragile," said O'Farril, who also cited the lack of transparency in the government's handling of the defunct bank-rescue fund (Fondo Bancario de Proteccion al Ahorro, FOBAPROA).

The FOBAPROA has been replaced with the Instituto de Proteccion al Ahorro Bancario, (IPAB), but some critics are waiting to see whether the operations in the new bank-rescue fund are more transparent than its predecessor. O'Farril said another very evident weakness for Mexico is the lack

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of a strong tax code, which has forced the government to rely on oil exports to boost government coffers. A recent report in the Centro de Estudios Economicos del Sector Privado (CEESP) said the government is able to collect only 30% to 35% of applicable taxes, compared with 50% for Chile and Brazil and 80% to 90% for developed countries like the US and members of the European Union (EU).

Mexico has one of the lowest rates for value-added tax (impuesto al valor agregado, IVA) in Latin America. The country also has one of the highest rates of tax evasion. Tax evasion has grown to such proportions that collections in 1997 fell to 8.2% of Mexico's GDP, compared with 10.2% in 1980.

The Zedillo administration and the Mexican Congress for the past several years have discussed changes in Mexico's tax code but have been unable to agree on what changes to implement. In early June, Gurria told reporters the differences are so wide that any changes would have to wait until late 2000 or early 2001, when a new administration takes office. But the focus on global investment ratings and macroeconomic indicators masks other problems with the Mexican economy, such as the jobless rate, the absence of credit, and the loss of consumer purchasing power. "

At the other end of the scale are indicators such as the 50 million Mexicans getting by below the poverty line, the real jobless rate, which private economists estimate at more than 20%, the farming sector's devastation (as substantiated by the growing volume of basic foodstuff imports), and others," said Roberto Mena, a columnist for the Mexico City daily newspaper The News. He said the rating ignores such key measures of the economy.

Mena also questioned Moody's positive assessment of Mexico's trade balance, which includes re-exports from the maquiladora industry. He said Mexico would be running a large trade deficit if maquiladora exports were omitted from the final statistics. Mexico's total exports in 1998 totaled US $118 billion, but the maquiladora sector accounted for roughly US$53 billion of the total.

Some private economists and consultants expect Mexico's GDP to grow steadily in the next 30 years if the government is able to maintain its current economic course. With a projected slowdown in population growth, per capita income should improve over the next several decades. Still, some economists caution that Mexico will continue to experience uneven income distribution that could translate into continued high unemployment rates. Julio A. Millan, president of Consultores Internacionales, projects that the wealthiest 10% will control 50% of Mexico's wealth by 2025.
At present, this group controls about 34% of the country's wealth. (Sources: Notimex, 08/06/99; Bloomberg news service, 08/17/99; Reuters, 06/08/99, 08/10/99, 08/11/99, 08/17/99; Novedades, 04/05/99, 08/11/99, 08/18/99; El Economista, 08/04/99, 08/11/99, 08/12/99, 08/18/99; Excelsior, 08/10/99, 08/18/99; El Universal, 08/11/99, 08/12/99, 08/18/99; The News, 08/12/99, 08/18/99; La Jornada, 08/18/99)

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