



The country risk categories are arranged on a scale from 0 to 7.

The lower the figure, the better the country's creditworthiness.



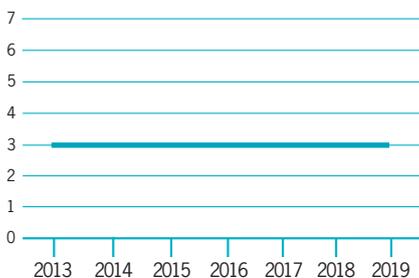
CONTACT

Country analyst: André Lundvall
Tel. +46 (0)8-788 02 35
email: andre.lundvall@ekn.se

BASIC FACTS

Population	129 million
Nominal GDP	USD 1,197 billion (2018)
GDP/capita	USD 9,843 (2018)

COUNTRY CLASSIFICATION HISTORY



Source: EKN

Weakened conditions for growth

For many years now, Mexico has enjoyed both political consensus regarding economic policies and a stable macroeconomic environment. The country is to a large extent open to the outside world. Both goods and capital can be moved unhindered thanks to a number of free-trade agreements and a liberalised capital market with an independent central bank and a floating exchange rate.

Political stalemate has historically hampered farsighted structural reforms; however, over recent years a number of initiatives have been implemented in previously neglected areas such as education, the labour market, energy and telecommunications. Andrés Manuel López Obrador (commonly referred to as AMLO) recently acceded to the post of president after a convincing victory in the 2018 election. There is a great deal of uncertainty regarding AMLO's future economic policy. It is unlikely that he will complete the reforms begun by the previous government, rather he is likely to attempt to strengthen the government's role in a number of important sectors of the economy. Drug-related violence and widespread corruption, which is particularly prevalent at local and regional level, continue to limit the country's development. The strong dependence of the Mexican economy on the United States (accounting for approximately 80% of exports) is expected to continue despite the increased political uncertainty regarding the relationship between the countries after the election of US President Trump.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

STRENGTHS

- + Traditionally a broad political consensus on overarching macroeconomic issues.
- + History of economic stability and confidence-building economic policies.
- + A well-developed capital market.

WEAKNESSES

- Markets are still surrounded by high thresholds for new stakeholders, which reduces competition and hampers growth.
- Extensive corruption and deficiencies in the rule of law.
- Complicated security situation.

SWEDISH EXPORT TO MEXICO, MSEK

	MSEK
2017	6 535
2016	6 005
2015	5 779
2014	4 533
2013	4 984

Source: SCB

EKN:S EXPOSURE

	MSEK
Guarantees	1,285
Offers	531

EKN:S POLICY

Since 2009, EKN has placed Mexico in Country Class 3, a judgment made in collaboration with the other OECD countries. EKN has settled on this classification for both short and long-term guarantees. Normal risk analysis applies to all types of buyers, meaning that there are no predetermined limits on underwriting.

EKN:S EXPOSURE AND EXPERIENCE

EKN's outstanding exposure in Mexico amounted to SEK 1.9 billion as of 1 January 2019. This exposure has been steadily decreasing since 2009. Guarantees account for SEK 1.3 billion while the remainder is in tenders. The dominant sectors in terms of exposure are the paper and mining industries and telecommunications. EKN's experience of providing guarantees for business deals in Mexico has been good.

EKN's experience in terms of dealings with the public sector has been good. Bureaucracy and delayed payments have occurred when conducting business with public-sector companies; that said, the State's finances are robust and no payment problems are to be expected. The State's willingness to pay is considered strong and debt management has been exemplary. EKN's experience of dealing with regional and local public-sector buyers is however limited.

In terms of business conducted with the private sector, EKN has enjoyed the same good experiences as with the public sector; however, respect for concluded agreements is at times lacking and it is crucial that Swedish exporters ensure that the parties enter into comprehensive and explicit agreements. Delayed payments are relatively common but are generally deemed to be attributable to administrative deficiencies. Although the legal system has been strengthened over recent years, there are still flaws, especially when it comes to credit and ownership rights. There may also be major regional differences in how legal cases are conducted, as well as the level of corruption. Legislation regarding company reconstruction is also ambiguous and, irrespective of the circumstances, a reconstruction process can be a drawn-out affair.

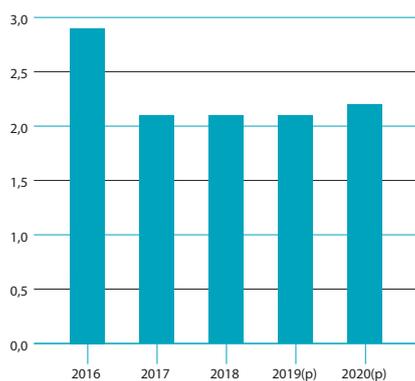
There are major deficiencies in work environment, health and safety in the oil sector. In some industries the opportunities for meaningful trade union activities are limited. There are also reports of infringements on the rights of indigenous populations and local communities, including threats against local residents, which are often linked to the extraction of natural resources. Of 74 business deals in 2018, 68 were classified as A or B.

WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY

LESS RESTRICTIVE

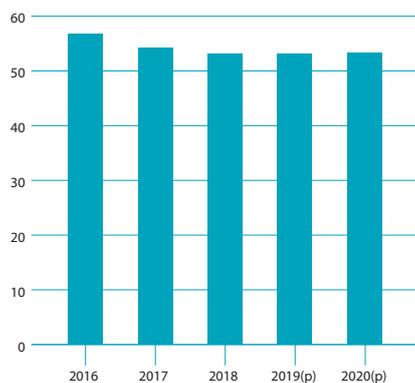
- Sustainable institutional development with significant reductions of levels of corruption and criminality.
- Continued implementation of the commenced reforms, resulting in a reduction of lock-in effects and increased market competition.

GDP-GROWTH (% PER ANNUM)



Source: IMF WEO January 2019

GENERAL GOVERNMENT GROSS DEBT (% of GDP)



Source: IMF WEO 2018

MORE RESTRICTIVE

- A loss of political consensus regarding conservative financial and monetary policy.
- Further deterioration in the security situation.
- Deteriorating relations with the United States.

COUNTRY ANALYSIS

BACKGROUND

Mexico is a mature democracy that has upheld a balanced financial and monetary policy over recent decades, resulting in limited budget deficits, low and stable rate of inflation and a strong external position with manageable current account deficits and a large foreign currency reserve. One important support for private consumption is the remittances from the approximately 36 million people of Mexican descent currently residing in the United States. The consistent economic policy and open economy have facilitated Mexico's adaption to changing global conditions, including the large decrease in oil prices in 2014 and the uncertainty surrounding NAFTA, while at the same time the country has been able to maintain stable growth and control the rate of inflation. Although the democratic system has ensured regular elections and shifts in power between political parties, this has not reduced the public perception of widespread corruption and limited rule of law.

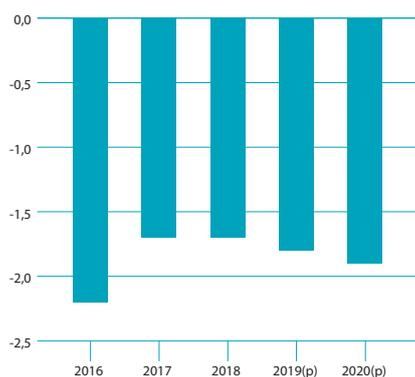
The average annual rate of growth since the 1990s is approximately 2.5%, which is low in relation to comparable emerging markets. Given Mexico's GDP per capita-level, its geographical location bordering the United States and its large internal market, the country cannot be considered to have achieved its full growth potential. One explanation for this is that the country has historically protected important domestic markets through state monopolies or regulation. The previous political leadership took a number of steps towards implementing structural reforms, which were approved in 2013-2014, including allowing foreign companies into the country's important oil industry for the first time. Should these reforms be fully implemented, it will support a higher growth rate in the medium to long term.

RECENT DEVELOPMENTS

AMLO acceded as Mexico's newly elected president in December 2018, representing the left-wing coalition National Regeneration Movement (Movimiento Regeneración Nacional; MORENA), which also won a majority in both chambers of congress, thus securing a strong mandate to govern the country for the next six years. It is expected that the current stability of the country's macroeconomic system will be largely maintained under ALMO's leadership.

The revised free-trade agreement signed in September 2018 by the governments of the United States, Canada and Mexico to replace the existing NAFTA means that Mexico will be protected against the threat of increased US trade tariffs, for example in the highly important automotive industry. Although this agreement has yet to be ratified by the countries' respective legislative bodies, it does decrease

CURRENT ACCOUNT (% OF GDP)



Current account deficit is balanced by FDI inflows

Source: IMF WEO 2019

uncertainty regarding future trading conditions between the three nations, which will support the pace of future investment.

The federal government has demonstrated great flexibility in handling its financial situation and since 2015 has succeeded in adjusting and adapting spending to falling oil prices and production. Mexico has long since secured the price for its future oil production with the aid of derivatives. This operation, known as the Hacienda Hedge, is one of the largest of its kind globally and has thus far served the country well by evening out oil income over time, providing protection from volatile oil prices.

LONG-TERM TREND

With the election of AMLO, Mexican politics has swung noticeably to the left for the first time in decades. AMLO will attempt to impose a nationalist economic policy with an increased role for the State in the Mexican economy through increased social expenditure and investments in public infrastructure projects.

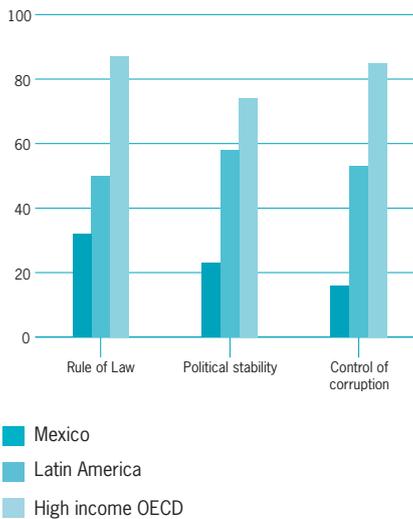
Growth will be weak during the current year. Uncertainty regarding economic policy will outweigh the reduced concern regarding trading relations with the United States. In the medium to long term, growth is expected to continue to develop roughly in line with the historical average rate of 2.5%.

Growth will be limited by low levels of private investment as a result of the lack of continued liberalisation in key sectors; however, trade policy and the already implemented opening up of the oil industry are not expected to be unduly affected by AMLO's election victory. In presenting its budget proposal for 2019, the new political leadership also demonstrated that it intends to continue previous administrations conservative fiscal stance. It is expected that from 2020 onwards public-sector investment will contribute to grow; among other things, the Government intends to expand refinery capacity in the state-owned oil company Pemex and implement a number of major infrastructure projects. Overall monetary policy (an independent central bank, inflation target and floating exchange rate) is expected to remain unchanged.

Mexico's geographic location means that it is well placed to continue deepening its trading relationship with the United States. The country has the opportunity to further increase manufacturing industry exports to the US, primarily due to the fact that labour costs are currently lower in Mexico than in southwest China and the significant deterioration in the trade relations between the US and China during 2018.

The country's financial position in relation to the outside world is expected to continue to develop in a controlled manner, with a moderate current account deficit covered by remittances and direct foreign investments. Mexico also has access to a flexible line of credit from the IMF, a factor that further reduces external risks.

BUSINESS ENVIRONMENT



Ranking from 0 (worst) to 100 (best)

Source: The World Bank

BUSINESS ENVIRONMENT

The business environment in Mexico has generally improved thanks to reforms that encourage entrepreneurship and reduce the regulatory burden. As a rule, access to financial information is good in Mexico. In addition, there is generally a great openness to foreign investment and free trade, which makes international transactions that much easier. Mexico is currently ranked 54th out of 190 countries on the World Bank's Ease of Doing Business Index, considerably better than the regional average for Latin America. The greatest weaknesses relate to the slow system for registering property, an extremely complicated taxation system and the widespread corruption, while access to credit is very high from a global perspective. According to the Global Competitiveness Index, corruption is perceived as the single greatest obstacle to doing business in the country, followed by the poor security situation.

The Mexican peso has long been free floating and is one of the most liquid currencies on exchange markets. The peso is also convertible and transferrable, meaning that EKN is in a position to consider deals financed in the local currency.

The Mexican banks are generally profitable and well capitalised, with adequate liquidity and controlled growth of loans. The country's largest banks are considered to be well-prepared and able to deal with unforeseen negative scenarios. Since 2013, Mexican banks have applied the Basel III international regulatory framework. Over 70% of total bank assets are controlled by foreign interests, primarily by major Spanish and US banks. This foreign ownership is viewed as being long-term and stable and support is deemed likely to be forthcoming from respective parent companies. The federal government's willingness and ability to provide support if required to do so is also considered to be very high.

DISCLAIMER The country analysis is based on a range of sources and reflects information that is relevant to EKN at the time of publication. The responsibility for how the information is used or interpreted rests solely with the user, and EKN cannot be held responsible for any loss or damage.