

## Basic facts (2020)

Population: 128 million

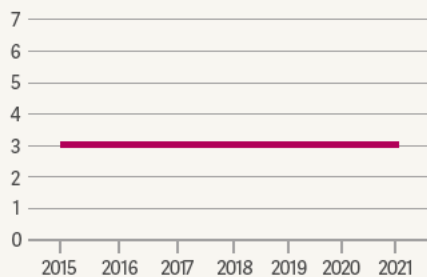
GDP, nominal: USD 1 076 billion

GDP/capita: USD 8 421



The country risk categories are arranged on a scale from 0 to 7. The lower the figure, the better the country's creditworthiness

## Country classification history



Source: EKN

## Strengths

- + Political consensus on macro-economic issues
- + History of economic stability and confidence-building
- + Economic policy
- + Limited external imbalances

## Weaknesses

- Limited competition in most sectors
- Corruption and major shortcomings within the judiciary
- Complex security situation

## Financial integration reduces country risk

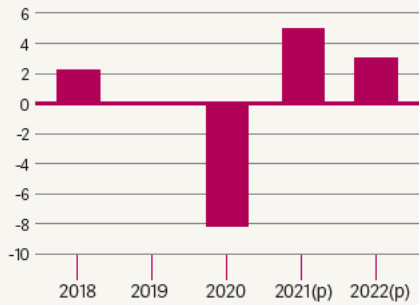
GDP in 2020 amounted to just over USD 8,000 per capita in nominal terms, which is lower than the average for the countries in country risk category 3. The Mexican economy is the 15th largest globally and is surpassed only by Brazil's in the region. A significant proportion of economic activity still takes place in the informal sector, which contributes around 23% of GDP and employs about 55 per cent of the workforce, especially in the agricultural sector. Mexico's favourable geographical location adjacent to the US market has led to strong economic and trade ties between the countries, facilitating a successful and export-oriented manufacturing industry, which accounts for just over 30 per cent of Mexico's economy. The US market is the single largest export market for goods and services, absorbing over 80 per cent of cross-border trade, followed by Canada and China which absorb just under three and two per cent respectively. A major contributory factor behind the extensive trade with the USA is the Free Trade Agreement between Mexico, the USA and Canada known as the USMCA, which replaced the previous NAFTA agreement in 2020. Exports mostly comprise vehicles and components for the automotive industry and electronic products (around 30 per cent each), and oil (six per cent). Economic integration with the USA also takes place through the labour market and the approximately twelve million Mexicans who send USD 40 billion (equivalent to around four per cent of GDP) to Mexico every year.

Prudent fiscal and monetary policies in recent decades has maintained investor confidence and access to international capital markets, even during times of heightened financial turmoil. Key elements of this framework are a floating exchange rate, a well-established inflation target and limited budget deficits. The central government debt relative to GDP amounted to 42 per cent in 2020. The substantial export sector, combined with foreign remittances, has also led to manageable current account deficits, covered by foreign direct investment and generally limited external imbalances. However, a weak rule of law, the existence of corruption and a very difficult security situation contributed to a low investment ratio of 21 per cent of GDP during the 21st century, limiting economic growth to 1.5 per cent per year over the same period. Since 2015, the pace of investment has also been decelerating, initially as a result of investor turmoil during the renegotiation of the then NAFTA agreement and since 2018, following the election of current President Andres Manuel Lopez-Obrador (often abbreviated to AMLO), heightened concerns over changes in the regulatory environment in areas such as the rule of law and the increasingly active role of central government in most sectors.

## Institutional deficiencies limit future growth

Growth in Mexico was already experiencing a negative trend before the pandemic. In 2019, GDP fell by 0.1 per cent, which is why the decline in economic activity was particularly marked in 2020, with GDP eventually falling by 8.2 per cent. Sluggish demand from the domestic and US markets, combined with reduced tourism, were major factors behind the decline. The Mexican government's handling of the pandemic also differed from that of other countries in two respects. Firstly, the government chose to introduce very few

### GDP growth (fixed prices, % per annum)



Source: IMFWEQ, Macrobond

### Business environment



Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

mandatory quarantine measures, which helped to maintain supply in the economy. Secondly, the government also implemented very limited public finance incentives in order to maintain domestic demand. Public finance stimuli amounted to just 0.7 per cent of GDP (compared with Brazil, for example, where the stimuli corresponded to 8.7 per cent of GDP). The government's handling of the pandemic has, on the one hand, meant that the government's financial position has not been significantly weakened. Public sector debt (as a proportion of GDP) is expected to increase by about six percentage points to 42 per cent between 2019 and 2022. On the other hand, the economic recovery is expected to be protracted. According to the IMF, GDP growth in 2021 is expected to be 5.0 per cent, supported by strong US demand, followed by 3.0 per cent in 2022. Recovery to pre-pandemic levels is not expected until 2023. The proportion of fully vaccinated persons amongst the population was just over 30 per cent in mid-September, but the government is aiming to ensure that the entire adult population is offered vaccination before the end of the year. This is still considered to be feasible, while there remains a risk of setbacks and the renewed spreading of infection, at least during the current year.

Since AMLO took up office in 2018, the government has pushed through a number of proposals which have led to greater uncertainty over the role of the private sector in Mexico's economy. For example, the government has strengthened the grip the state-owned oil company PEMEX has on the oil sector, abolished the construction of Mexico City's new airport, which was 30 per cent complete, and the government has also recently attempted to ensure, by means of reform and change in the law, that the electricity grid primarily prioritises electricity generated by state-owned companies over private power companies. Overall, the business climate has been adversely affected by the government's interventionist policies, and a stronger state role in the economy is expected to have a negative impact on conditions for growth in the country in the long term. In addition to influencing investment decisions over the coming years, the greater uncertainty could also prevent Mexico from fully benefiting from the on-going regionalisation trend of supply chains. In June 2021, a mid-term election was held which resulted in the ruling MORENA political party losing its qualified majority (whilst retaining a simple majority) in the Mexican Congress. This reduces the risk that President AMLO will be able to present radical proposals for the remainder of the current term until 2024, and growth in the longer term is expected to be maintained at around the potential rate of 1.5 per cent per year.

## Business environment

The business environment has generally deteriorated in Mexico over the past 10 years. The availability of financial information is generally good in Mexico, and there is still a high level of openness towards foreign investment and free trade, which facilitates international transactions. By contrast, in the World Bank's Ease of Doing Business index Mexico is ranked 60th out of 190 countries, better than the regional average for Latin America, but a deterioration since 2010 when it was ranked 51st. The main weaknesses relate to inertia in the registration of property and the complicated tax system. The security situation is seen as the single largest obstacle to business in the country, according to the Global Competitiveness index, followed by widespread corruption. The country's ranking has also declined significantly over the past decade in the World Governance

## Swedish export to Mexico

	MSEK
2020	5 706
2019	7 376
2018	6 332
2017	6 535
2016	6 005

Source: SCB

## EKN:s exposure

	MSEK
Guarantees	1 521
Offers	1 268

Indicators survey. Mexico was previously comparable to the regional average as regards most comparison points but has now lost out in areas such as corruption control and the rule of law in particular.

The Mexican peso has long been free-floating and is one of the most liquid currencies in emerging markets. The peso is also convertible and transferable, which enables EKN to consider local currency-financed transactions. The Mexican banking system is generally well-capitalised, with good liquidity and controlled lending growth. During the pandemic, the proportion of non-performing loans has been limited to 2.6 per cent of total lending (which is about 0.5 per cent more than the average over the three years leading up to 2020). The country's largest banks are considered to be well-prepared and able to deal with unforeseen adverse scenarios. Mexican banks apply the Basel III international regulatory framework. Over 70 per cent of total bank assets are also controlled by foreign owners, mainly from Spain and the United States. Foreign ownership is considered to be long-term and stable, and support from the respective parent companies is considered likely. In addition, the will and ability of the central government to offer aid is considered to be very strong if necessary.

## EKN:s policy

Normal risk assessment, meaning there are no predetermined restrictions on the granting of a guarantee applies to both short-term (<1 year) and long-term transactions with the sovereign, other public sector buyers as well as banks and companies. This means that there are no predetermined limitations in the issuance of guarantees and that transactions are assessed on their own merits without any specific requirements or preconditions.

## EKN:s commitment and experience

Mexico remains one of EKN's major markets in Latin America (in terms of exposure), although demand for EKN's products for transactions with Mexico has been declining since the beginning of the 21st century. Between 2016 and 2020, EKN issued an average of around 70 transactions per year, with a total value of SEK 3.4 billion. Much of the exposure during the period relates to short-term credits (<1 year), with the main sectors being paper, mining and vehicles. EKN's experiences of transactions with the public sector have been good. The government's willingness to pay is considered to be strong and debt service has been exemplary. However, EKN's experience of transactions with regional and local public sector buyers is limited. As regards transactions with the private sector, EKN has had the same positive experiences as with the public sector. However, respect for established agreements is sometimes lacking, and it is vital that Swedish exporters ensure that the parties sign thorough and clear agreements. Delays in payment are quite common. The legal system remains flawed, and regional differences can also be substantial in regards to the way in which legal proceedings are conducted.