

Basic facts (2021)

Population: 129 million

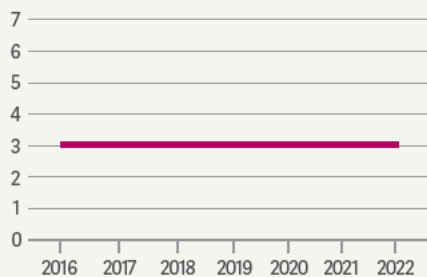
GDP, nominal: USD 1 952 billion

GDP/capita: USD 10 040



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 macroeconomic issues
- + History of economic stability and confidence-building
- + policy making
- + Limited external imbalances

Weaknesses

- Insufficient competition in vital sectors
- Corruption and major shortcomings within the judiciary
- Complex security situation

Financial integration reduces country risk

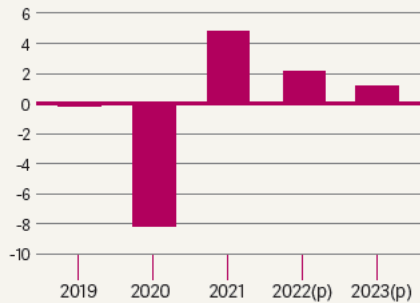
GDP in 2021 amounted to just over USD 10,000 per capita in nominal terms, which is lower than the average for the countries in country risk category 3. The Mexican economy is the 16th largest globally and is surpassed only by Brazil in the region. A significant proportion of economic activity still takes place in the informal sector, which contributes around 23 per cent 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. The export sector represents just over 30 per cent of Mexico's GDP. The US market is the single largest market for Mexican goods and services, absorbing more than 80 per cent of cross-border trade, followed by Canada and China with just under 3 and 2 per cent respectively. A decisive factor behind the extensive trade is the Free Trade Agreement between Mexico, the USA and Canada known as the USMCA trade agreement, which in 2020 replaced the previous NAFTA agreement. 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 via the labour market and the approximately twelve million Mexicans who send USD 40 billion (corresponding to about four per cent of GDP) back to Mexico every year.

Conservative fiscal and monetary policies in recent decades have maintained investor confidence and provided 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 regime and limited fiscal deficits. The central government debt to GDP amounted to 58 per cent in 2021. At the same time, the extensive export sector, combined with remittances from abroad, has led to manageable current account deficits covered by foreign direct investment and overall limited external imbalances. However, weaknesses in the rule of law, the prevalence of corruption and an increasingly difficult security situation contributed to a low investment ratio corresponding to 21 per cent of GDP during the 21st century. This has limited economic growth to 1.5 per cent per year over the same period. Moreover, since 2015, the pace of investment has developed at an increasingly slow pace due to investor concerns during the renegotiation of the then NAFTA agreement. Since 2018, following the election of President Andres Manuel Lopez-Obrador (often abbreviated to AMLO), growing concerns about changes in property rights and an increasingly active government involvement in several key sectors such as energy and commodity extraction have further eroded the investment climate.

Institutional weaknesses constrain growth

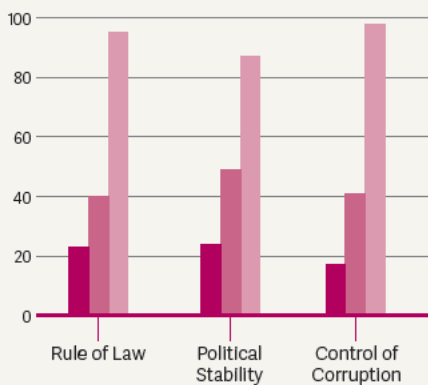
Mexico's GDP is expected to return to pre-pandemic levels in 2023 at the earliest, significantly slower than the region as a whole. The reason for the protracted economic recovery is both the country's low structural growth rate and an effect of the limited fiscal stimulus to households and businesses during the shutdown, which amounted to only 0.7 per cent of GDP in 2021. A consequence of the limited pandemic-related stimulus, in addition to the protracted recovery,

Real GDP growth (constant prices, % per annum)



Source: IMFWEQ, Macrobond

Business environment



■ Mexico
■ Latin America & Caribbean
■ Sweden

Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

is also expected to be a permanently lower labour supply and permanent closure of businesses, which will negatively impact the country's growth potential in the coming years. The government's response to the coronavirus pandemic has on the other hand meant that the central government's fiscal position has not been significantly weakened. General government gross debt is not expected to exceed 60 per cent of GDP in the next three to four years. Growth in 2022 is expected to be around 2.4 per cent against a backdrop of strong demand from the US economy combined with record remittances. A weaker US economy in 2023, with a risk of recession in the second half of the year, and a more contractive monetary policy will lead to a slowdown in growth to 1.2 per cent. Low levels of private investment are expected to continue at least until the next presidential election in 2024, given the current government's continued antagonism towards the private sector. Investment in the energy and mining sectors is likely to be delayed given the uncertain conditions in these sectors following the government's attempts to i.a., strengthen the position of the state-owned electricity producer CFE over private producers and the introduction of a state monopoly for lithium mining.

Overall, Mexico's GDP is expected to continue to grow at a slower pace relative to comparable countries. At the same time, the cornerstones of the country's macroeconomic framework are also expected to be broadly maintained. The flexible exchange rate, together with limited public deficits, limited external debt and manageable current account deficits, continue to provide buffers against external shocks. The prioritization of macroeconomic and financial stability is expected to continue during the remainder of President AMLO's term but in terms of structural reforms, aimed at addressing Mexico's long-term challenges related to the issues of crime, corruption, human capital and the large informal labour market, very little has been implemented so far.

Business environment

The business environment in Mexico has deteriorated over the past 10 years. The availability of financial information is generally good, 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 most recent Ease of Doing Business Index Mexico ranks 60th (out of 190 countries), which is 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 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 involved in almost two per cent of the world's currency transactions, according to the Bank for International Settlements, making it one of the most liquid currencies in emerging markets. The peso is also convertible and transferable, which is why EKN can consider local currency-financed transactions. The Mexican banking system is generally well-capitalised, with good liquidity and sustainable credit growth. The share of non-performing loans has averaged 2.3 per cent over the last five years and the

Swedish export to Mexico

	MSEK
2021	6 763
2020	5 706
2019	7 376
2018	6 332
2017	6 535

Source: SCB

EKN:s exposure

	MSEK
Guarantees	2 134
Offers	1 708

largest banks are considered prepared and able to tackle unforeseen negative scenarios. Mexican banks apply the international Basel III framework. The banking system is concentrated in a few institutions, with the seven largest banks (five of which are foreign) controlling over 80 per cent of total credit. 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 support if necessary is considered to be adequate.

EKN:s policy

Usual risk assessment applies to both short-term (<1 year) and long-term transactions with the sovereign, other public sector buyers, banks and companies. This means that there are no predetermined restrictions to the ability to issue guarantees and that the 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), even though demand for EKN's guarantees to Mexico has been declining since 2000. In the period between 2017 and 2021, EKN covered an average of around 70 transactions per year, with a total value of SEK 4.4 billion. Much of the exposure during the period relates to short-term credits, with the main sectors being paper products, mining equipment 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 management has been exemplary. 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.