

Basic facts (2022)

Population: 130 million

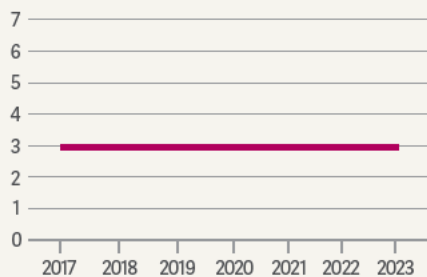
GDP, nominal: USD 1 414 billion

GDP/capita: USD 10 868



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

- + Large and relatively well-diversified economy
- + History of economic stability and confidence-building economic policies
- + Limited external imbalances
- + Large number of free trade agreements, including the USMCA

Weaknesses

- Insufficient competition in most sectors
- High degree of corruption and challenging security situation
- Extensive informal economy

Global financial integration reduces the country risk

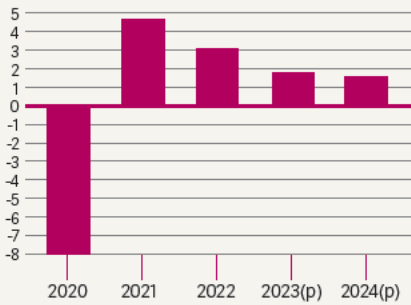
Mexico has a large and relatively well-diversified economy. With a nominal GDP of around USD 1,400 billion, the Mexican economy is the 14th largest globally and within the region is only surpassed by Brazil. A significant proportion of economic activity still takes place in the informal sector, which is estimated to employ around 60% of the workforce, especially in the agricultural sector. Mexico's favourable geographical location adjacent to the US has led to strong economic and trade ties between the two countries, facilitating a successful and export-oriented manufacturing industry. This represents just over 30 per cent of Mexico's GDP. The United States is the single largest export market for goods and services, absorbing more than 80 per cent of trade with the US, followed by Canada and China with just under 3% and 2% respectively. A key 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 consist primarily of motor vehicles and components for the automotive industry (24 per cent), machinery and electronic products (34 per cent), and crude oil (six per cent). Economic integration with the United States also takes place via the labour market and the approximately 12 million Mexican citizens who send remittances back to Mexico annually, which constitute an important cash inflow for many Mexican households. In 2022, remittances reached a record level of USD 58 billion, equivalent to roughly four per cent of GDP. Tight 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. The key elements of this framework are a floating exchange rate, a well-established inflation target, and limited fiscal deficits. Public debt remains moderate, at 57 per cent of GDP (2022), and the large export sector, combined with remittances from abroad, has led to manageable current account deficits that are being met by foreign direct investment. At the same time, the country suffers from a high level of corruption, a weak rule of law and a difficult security situation with high levels of violence and the presence of drug cartels operating in large parts of the country.

Foreign direct investment provides a tailwind

Growth in Mexico in 2023 has been stronger than expected. This can be attributed to several elements, including a delayed recovery effect from the coronavirus pandemic and a more robust US economy than many forecasts had projected.

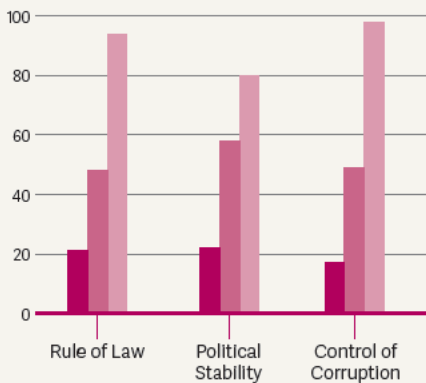
Another factor that has contributed to the growth, and is expected to continue to do so in the medium term, is the increased inflow of foreign investment. In the first quarter of 2023, foreign direct investment (FDI) exceeded the 2015-2019 average by as much as 40 per cent. Many attribute the development to nearshoring, i.e., when companies move their production closer to their primary market in light of geopolitical tensions between China and the United States and an increased focus on security in value chains. Mexico has several structural

Real GDP growth (constant prices, % per annum)



Source: IMFWEQ, Macrobond

Business environment



■ Mexico
■ Latin America
■ Sweden

Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

Swedish export to Mexico

| | MSEK |
|------|-------|
| 2022 | 9 855 |
| 2021 | 6 763 |
| 2020 | 5 706 |
| 2019 | 7 376 |
| 2018 | 6 332 |

Source: SCB

EKN:s exposure

| | MSEK |
|------------|-------|
| Guarantees | 1 972 |
| Offers | 1 439 |

features that make it particularly well-positioned to benefit from this phenomenon, including its geographical proximity to the United States, favourable trade conditions under the USMCA trade agreement, an extensive coastline on both the Atlantic and Pacific Oceans, significant natural resources and a well-developed manufacturing industry.

While the deep integration with the US market provides structural advantages, this high exposure also represents a certain vulnerability. If the US were to enter a recession in 2024, as some forecasts indicate, this would naturally have a negative impact on the Mexican economy as well. At the same time, there are several factors that protect against external shocks. The country has a well-established macroeconomic framework and a stable and limited government debt, which has allowed access to international capital markets even in times of heightened financial turmoil. In addition, financial inflows come from multiple sources such as tourism, exports and foreign direct investment. International reserves are stable and the Mexican banking system is well-capitalised.

Over the next 12 months, presidential and state elections are expected to shape national policy. The ruling MORENA party, led by President Andrés Manuel López Obrador (commonly referred to by his initials AMLO), has a strong position throughout the country. As Mexico's Constitution does not allow a President to serve more than six years, Mr López Obrador will have to resign. However, the general consensus is that the party's candidate will win. In September, Claudia Sheinbaum Pardo was nominated as the party's candidate. The candidacy of Sheinbaum is viewed as a continuation of AMLO's policies, but with a stronger emphasis on phasing out fossil fuels and promoting clean energy. The opposition candidate, Xóchitl Gálvez, has a more market-oriented approach and is critical of the state-owned oil and gas giant Pemex and the government's major infrastructure projects.

Business environment

The security situation, characterised by high levels of violent crime and organised crime, is seen as the single largest obstacle to business in the country, according to the Global Competitiveness Index, followed by widespread corruption. In the Worldwide Governance Indicators survey, the country's ranking has significantly deteriorated over the past decade. Historically Mexico was comparable to the regional average in most respects, however it has lost ground particularly in areas such as combating corruption and strengthening the rule of law.

However the availability of financial information is generally good, and there is still a high level of openness vis-à-vis foreign investment and free trade, which in turn facilitates international transactions. The Mexican peso has long been freely 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 controlled growth in lending. Over the past five years, the share of bad loans has averaged approx. 2%. The country's largest banks are considered well-prepared and able to cope with unforeseen adverse 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 lending. 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 strong.

EKN:s policy

Normal risk testing applies to both short-term (<1 year credit term) and long-term transactions with sovereign states, other public sector buyers, commercial banks and private enterprises. This means that there are no predetermined limitations in the issuance of guarantees and that the transactions are assessed on their own merits without any specific requirements or preconditions

EKN:s commitment and experience

Mexico continues to be one of the larger markets in Latin America for EKN in terms of exposure, even though demand for EKN's guarantees for exports to Mexico has been declining since 2000. In the period between 2018 and 2022, EKN issued guarantees for an average of some 70 transactions per year, with a total value of SEK 5.2 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 with regard to 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 with 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 contracts the parties sign are detailed and unambiguous agreements. Delays in payment are quite common. The legal system remains flawed, and there can also be substantial regional differences in regard to the way in which legal proceedings are conducted.