15-12-2016

3/7 COUNTRY RISK CATEGORY:

COUNTRY RISK ANALYSIS

Mexico

0 1 2 3 4 5 6 7

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

CONTACT

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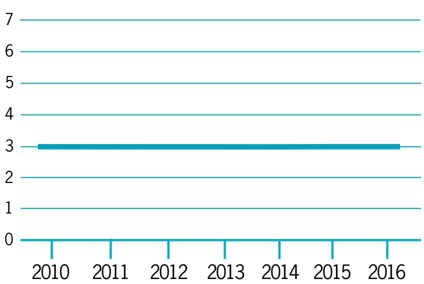
BASIC FACTS

Population	121 million
Nominal GDP	USD 1,144 billion (2015)
BNP/capita	USD 9,452 (2015)

COUNTRY CLASSIFICATION HISTORY



Source: EKN

Uncertain relation to the United States

Mexico has been characterised by political consensus on economic policies for many years. In spite of this, political deadlock has held back long-term structural reforms. This was the background for the great attention attracted by a cross-party agreement called the Pact for Mexico, which was launched by sitting president Peña Nieto in 2012. The Pact for Mexico lays out an extensive reform programme. It has largely been implemented over the past years in sectors that are historically protected, such as education, the labour market, energy and telecom. As a result, several steps have been taken to open the door for investment and greater competition. The drug-related violence and widespread corruption, which is especially extensive on the local and regional level, continues to get in the way of the country's growth. The election of Trump as the President of the United States has created uncertainty between the two countries, especially with regard to trade and migration issues.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

STRENGTHS

+ Broad political consensus on sweeping structural reforms.
+ History of economic stability and confidence-inspiring economic policies.
+ Well-established capital markets.

WEAKNESSES

- Markets are still closed off by high barriers to market entry, which lowers competition and the rate of growth.- Companies and banks still suffering from the effects of the sanctions.
- Widespread corruption and major deficiencies in the judiciary.
- Complicated security situation.

SWEDISH EXPORT TO THE COUNTRY

Mexiko	MSEK
2015	5, 779
2014	4, 533
2013	4, 984
2012	6, 336
2011	5, 775

Source: SCB

EKN'S EXPOSURE

	MSEK
Guarantees	SEK 1,273 billion
Offers	SEK 704 billion

EKN'S POLICY

EKN has had Mexico in country risk category 3 since 2009 – an assessment made in collaboration with the other OECD countries. EKN has the country in this category for both short-term and long-term guarantees. Normal risk assessment applies to all types of buyers, which means that there are not any specific advance restrictions on the issuing of guarantees. .

EKN'S EXPOSURE AND EXPERIENCE

EKN's outstanding exposure to Mexico was SEK 2.0 billion in November 2016 and has been steadily falling since 2009. Guarantees accounted for SEK 1.3 billion, while offers accounted for the remaining amount. The main sectors dominating this exposure are the paper and mining industries along with telecom. EKN's experience with guarantees for transactions with Mexico is generally positive.

EKN's experience in transactions with the public sector has been relatively positive. Some payments suffer from bureaucracy and slowness in transactions with public sector companies. However, the public finances are strong and no payment problems are expected. The government's willingness to pay is considered strong and it has managed its debt in an exemplary manner. However, EKN has less experience of transactions with regional and local public buyers.

EKN has the same relatively positive experience in transactions with the private sector as with the public sector. However, there is occasionally a lack of respect for contracts entered into and it is crucial for Swedish exporters to ensure that the parties draft thorough and unambiguous contracts. Delays are relatively common, but we estimate that they are mainly due to administrative deficiencies. The legal system has improved over the past years, but is still deficient, particularly with regard to credit and property rights. There can also be major regional differences with respect to how legal proceedings are conducted and the degree of corruption. The legislation on company reorganisations is also unclear. The reorganisation process can last a long time regardless of the circumstances.

WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY

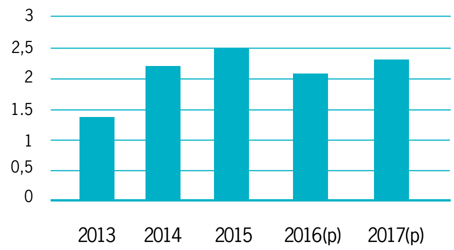
THE POLICY MAY BE MADE LESS RESTRICTIVE IN THE EVENT OF:

- Sustainable institutional development with substantially lower levels of corruption and crime.
- Implementation of initiated reforms, resulting in a decrease in lock-in effects and greater market competition.

THE POLICY MAY BE MADE MORE RESTRICTIVE IN THE EVENT OF:

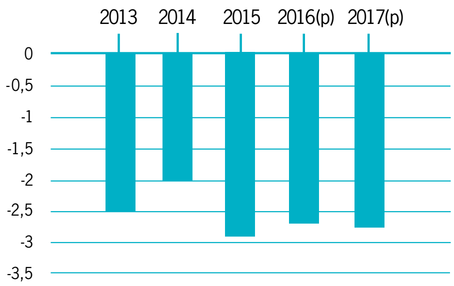
- The security situation getting even worse.
- Worse relations with the US.

GDP-GROWTH (% PER ANNUM)



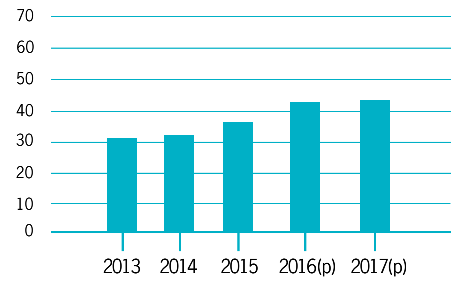
Source: IMF WEO 2016

CURRENT ACCOUNT (% OF GDP)



Source: IMF

EXTERNAL DEBT (% OF GDP)



Source: IMF

COUNTRY ANALYSIS

BACKGROUND

The ambitious reform agenda President Peña Nieto managed to negotiate across party lines upon taking office in 2012 has been largely approved by the legislative assembly. Under the Pact for Mexico, the governing party, PRI, decided on an extensive reform package together with the two dominant opposition parties. The pact was intended to eliminate the many years of political deadlock that had blocked economic growth in Mexico. The pact covers structural reforms in several strategic areas such as energy, telecom, finance, the labour market and education in order to increase the rate of growth and competitiveness. Peña Nieto's ability to get these changes adopted has been impressive. The rate of decision-making has been rapid, as almost all the reforms were approved during the first two years. However, the cross-party pact has not gone off without a hitch. The new energy reform in particular led to conflicts. The reform brings to an end the 75-year state monopoly in the oil industry and opens the door for private investments. This caused left-wing opposition party PRD to leave the pact and protest strongly against this proposal.

THE MOST RECENT TRENDS

Growth has been solid in recent years in spite of low oil prices and weak growth in world trade. Domestic consumption has propped up growth, with a boost from market reforms contributing to lower consumer prices, especially in electronics and telephone services. Remittances from the US have also boosted consumption, because the strong US dollar has strengthened purchasing power in domestic currency.

GDP growth for 2017 and 2018 will be negatively impacted by a decrease in private consumption and lower investment flows to Mexico. Investors and consumers will hesitate to initiate or will postpone new projects and purchases in light of the prevailing uncertainty surrounding the future policies of the US. Overall, major financial institutions have adjusted Mexico's growth forecast down by around 0.5 percentage points for the coming two years in the wake of the election results in the US.

LONG-TERM TRENDS

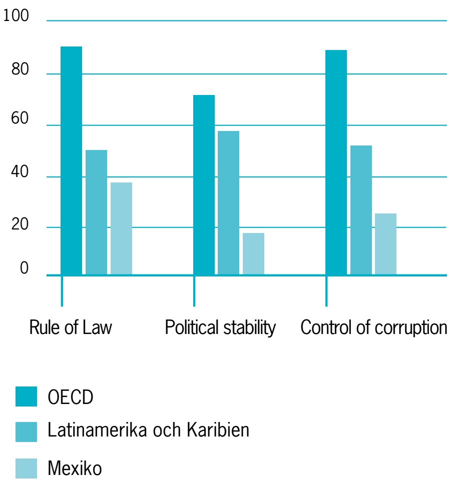
High energy prices, a lack of competition and a stale labour market with a large informal sector have stood in the way of increasing productivity and growth for several decades. The reforms now being implemented by the government aim to resolve several of these structural weaknesses and will raise the country's long-term growth potential. President Peña Nieto will focus on implementing these reforms during the remainder of his term of office (which ends in 2018). He will have to do that while juggling the consequences of the many scandals related to corruption and crime which emerged in 2016.

At least initially, Mexico is likely the country impacted the most by the election of Donald Trump as President of the United States. Trump's numerous statements on free trade during his election campaign have caused uncertainty regarding future conditions for NAFTA (a free trade agreement between the US, Mexico and Canada from 1994), which weakened the Mexican currency. It is now unclear which radical statements from Trump's presidential election campaign will actually become policy, but the Republican majority in the entire Congress creates the conditions for pursuing the president's policies.
In a scenario negative for Mexico, the US could impose various trade barriers between the countries, which could impact the Mexican industrial sector. Other measures could include imposing capital controls which would make sending remittances from the US more difficult and/or deportation of Mexican citizens from the US.

However, the baseline scenario is that Trump will pursue pragmatic and business-oriented policies, which means that, even if he does not work to strengthen economic ties between the countries, he will not do anything to harm them to any substantial extent either. In the long term, the negative impact of the US presidential election on trade between Mexico and the US will be limited, which benefits companies and growth on both sides of the border.

Mexico's total external debt has risen from just over 30 per cent to slightly more than 40 per cent of GDP over the past five years, while the current account deficit in 2016 is forecast to increase to nearly three per cent of GDP. The Mexican key interest rate hike and the weaker domestic currency will likely help to correct the imbalance. Mexico also commands large buffers which it had already built up in the past to be able to handle external shocks. Companies and households only have limited external debt. The country's international reserves are at USD 176 billion (equal to more than five months of imports) and Mexico has access to an IMF credit facility of USD 86 billion, which all in all is sufficient to be able to cope with external financing difficulties.

BUSINESS ENVIRONMENT



Source: Världsbanken

BUSINESS ENVIRONMENT

The business environment has generally improved in Mexico thanks to reforms that fostered startups and reduced the regulatory burden. Access to financial information is generally good in Mexico. In addition, the country's openness to foreign investment and free trade is high, which facilitates international transactions. The World Bank's Doing Business Index ranks Mexico 47th out of 189 countries, which is two spots worse than the previous year, but still good for first place in Latin America. The largest problems are related to slowness in the registration of property, a very complicated tax system and widespread corruption. Corruption is largely considered the single greatest impediment to business in the country according to the Global Competitiveness Index, followed by the poor security situation. In addition, there can be substantial differences between Mexico's states in terms of the efficiency and credibility of the judiciary and the ability to enforce contracts.

The Mexican banks are generally profitable and well-capitalised, with solid liquidity and controlled loan growth. Mexican banks have been using the Basel III international framework since 2013. Over 70 per cent of total bank assets are controlled by foreign interests, especially large Spanish and American banks. Foreign ownership is considered long-term and stable, and support from the respective parent company is considered likely. In addition, the willingness and ability of the government to provide support when needed is considered very high.