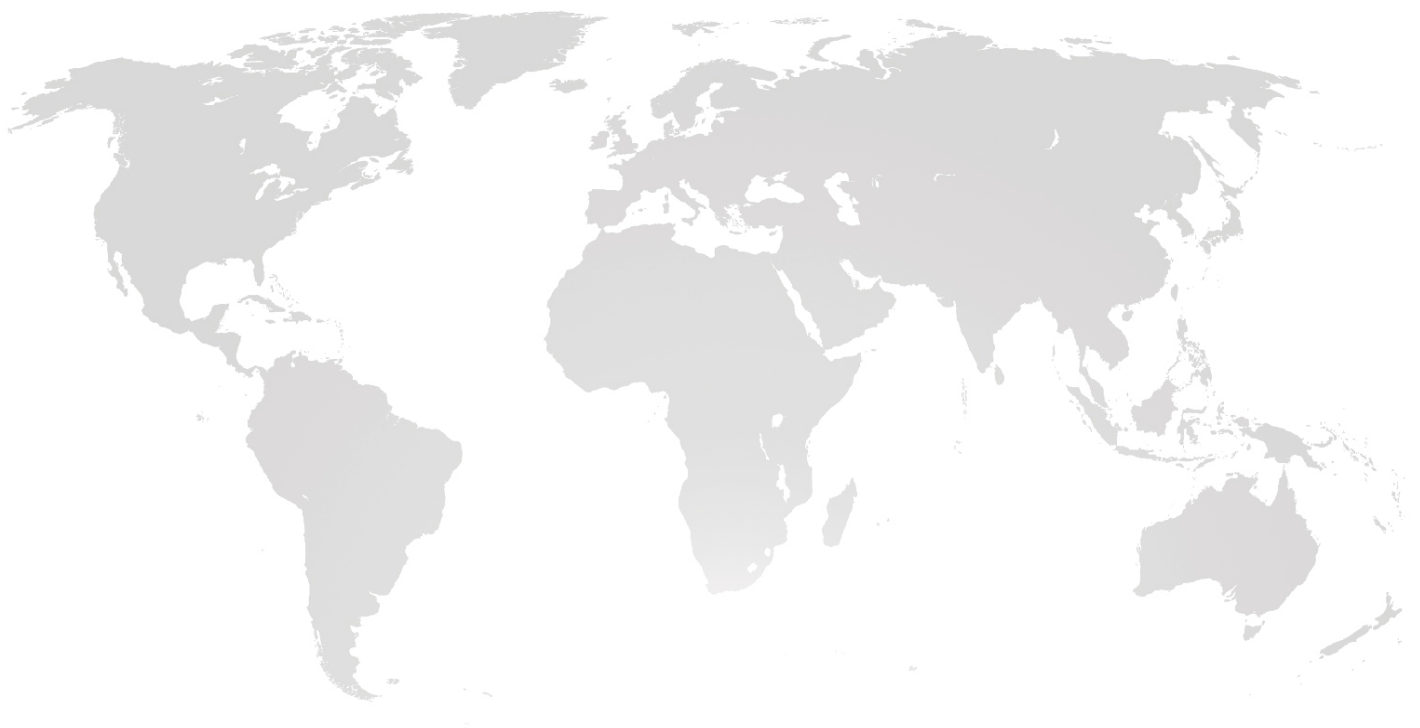


Country Insight Snapshot

Mexico

May 2016





OVERVIEW

OVERALL COUNTRY RISK RATING: DB3D

Slight risk : Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

A

Rating Outlook:

Stable



CORE OUTLOOK

+ Planned economic, legislative and political reforms will pave the way for greater private investment in key sectors.

+ We expect Mexico to invest substantially in infrastructure in the medium term, further improving its attractiveness as an investment destination.

- Mexico still possesses one of the world's most rigid labour markets despite recent reforms.

- The country will need to improve its educational policies if it is to benefit from its favourable demographics.

KEY DEVELOPMENT

The tax authority launches an evasion probe against residents with financial assets in tax havens following the leak of the 'Panama Papers'.

CREDIT ENVIRONMENT OUTLOOK

G

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

G

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

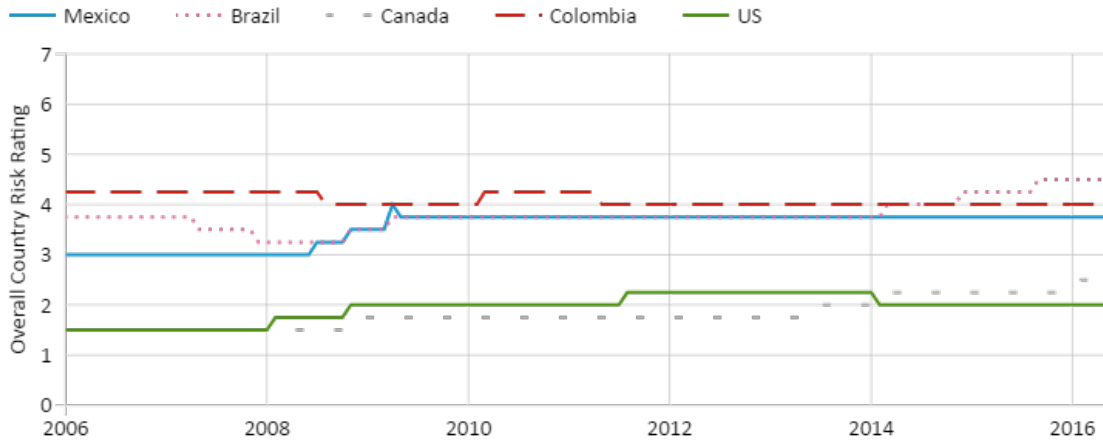
A

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

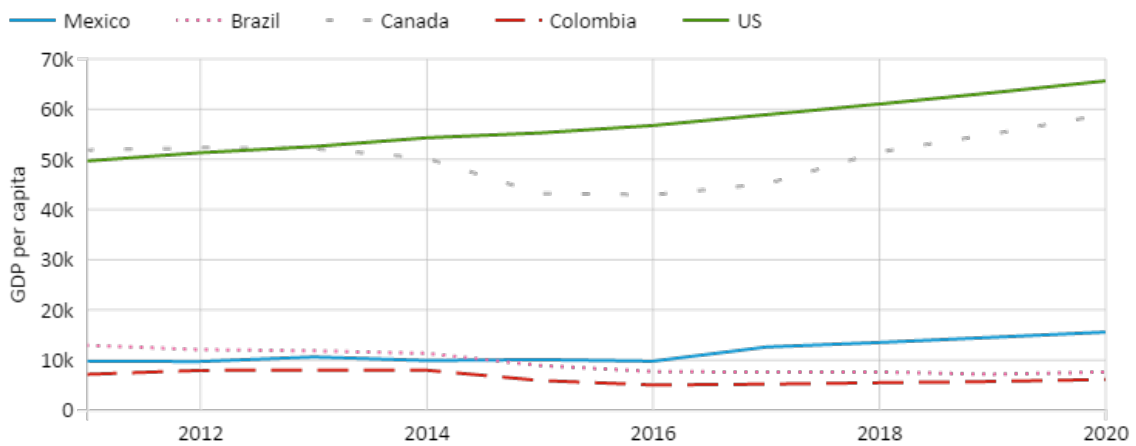
Rating History and Comparison



Source : Dun & Bradstreet

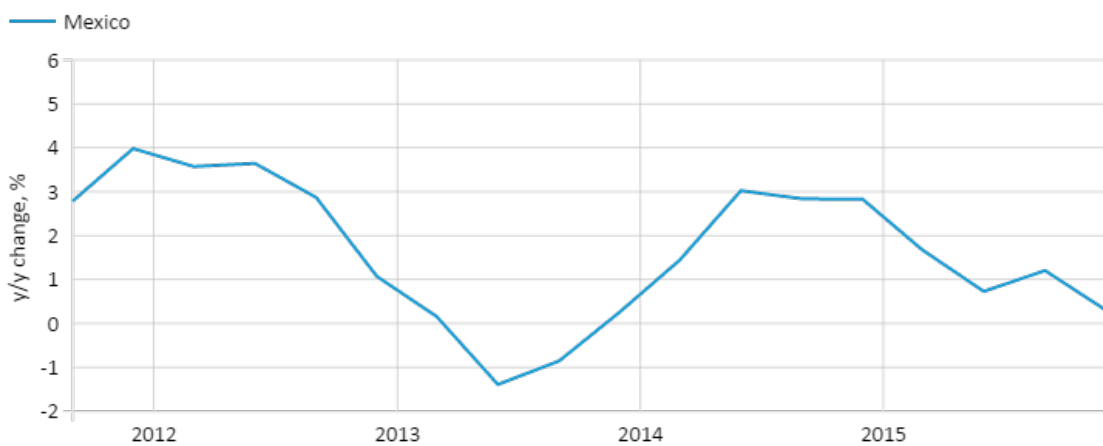
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2013	2014	2015e	2016f	2017f	2018f	2019f	2020f
C/A balance % GDP	-2.6	-2.0	-2.7	-2.8	-2.4	-1.8	-1.6	-1.6
Govt balance, % GDP	-3.8	-3.4	-3.4	-3.1	-3.0	-2.5	-2.5	-2.5
Inflation, annual avge %	3.8	4.0	2.7	3.0	3.1	3.0	2.9	3.2
Real GDP Growth, %	1.4	2.1	2.5	2.4	2.6	3.0	3.2	3.3
Unemployment, %	4.9	4.7	4.2	4.0	3.9	3.8	3.8	3.7

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The central bank is poised to intervene and support the peso, which weakened to MXN18.4368:USD on 20 May from MXN17.4599 on 4 April; the currency slumped 15% against the dollar in nominal terms in 2015. The peso's consistent battering on account of the fall in oil prices prompted the bank in February to hike its benchmark interest rate by 50bp to 3.75% at an unscheduled monetary policy meeting. Notably, government is expected to use both currency and monetary policy tools as required if it is deemed necessary to provide additional support to the peso. Meanwhile, foreign reserves remained solid at USD177.65bn on 19 May. Consequently, good USD liquidity combined with an open capital account will facilitate relatively easy currency convertibility in our outlook period.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: LC

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: SD

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-90 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-1 month

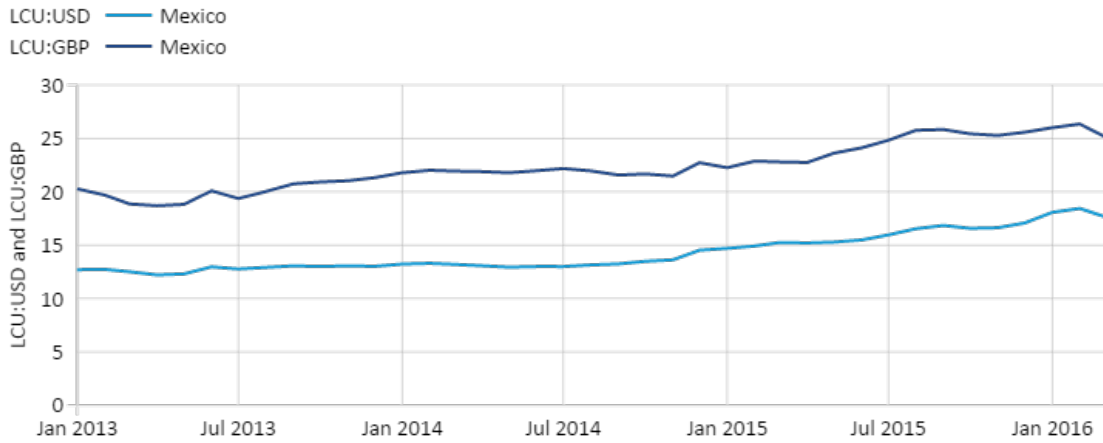
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



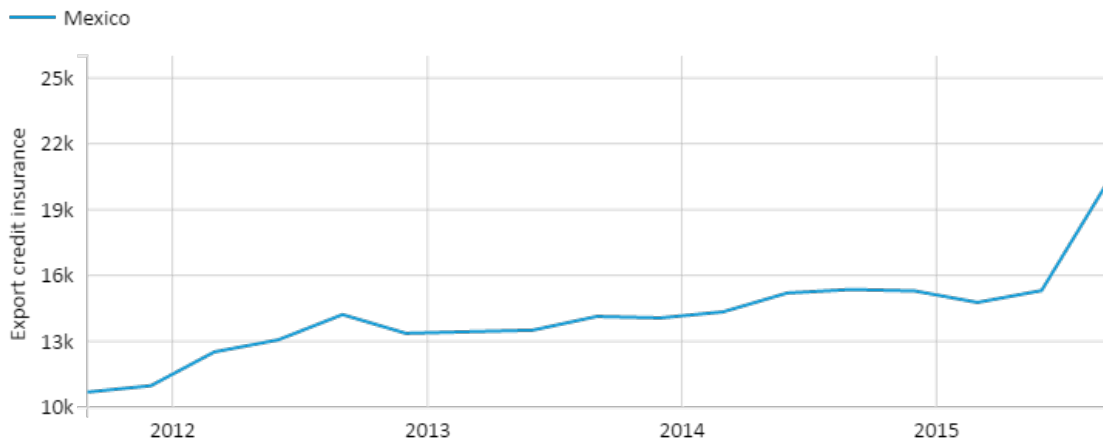
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (Local Currency Unit) = Mexican peso

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Business Regulatory Environment

Tax evasion probes launched

Mexican authorities have launched a tax evasion investigation following the recently-leaked 'Panama Papers'. To this end, Mexico's tax authority, the Service of Tax Administration (SAT), has instructed brokerages and banks via the relevant regulators to submit the names of customers who conduct business in over 100 known tax havens around the world. The SAT indicated in correspondence sent to the regulator in April that it will use the information received to conduct audits of residents with financial assets in tax havens. In April Mexican authorities vowed to investigate 33 former public officials and executives named in the leaked documents.

Elsewhere, Canada and Mexico have signed a Mutual Recognition Arrangement which will permit them to recognise Trusted Trader members in each other's countries. The agreement was signed at a World Customs Organisation conference held in Cancun, Mexico. Once implemented, the arrangement will enhance cross-border trade between the two NAFTA members by strengthening customs and border enforcement. Canada is Mexico's third-largest trade partner, and vice versa.

Short-Term Economic Outlook

Inflation eases

In April, consumer prices eased by 0.32% m/m to bring 12-month headline inflation to 2.5%. The lower price pressure was largely on account of a 13.1% decline in electricity costs as well as reductions in the prices of some agricultural products. This is in contrast to the previous month, when consumer prices rose by 0.15% m/m to bring the 12-month rate in March to 2.6%. Notably, fuel, housing and restaurants were among the products and services that registered price increases in April. While headline inflation remains below the central bank's target of 3%, the weak peso's effect on domestic prices will continue to pose a challenge for policy makers in the coming quarters; a 0.22% m/m rise in core inflation points to persistent underlying inflationary pressures. Our customers are advised to monitor changes in key producer price and adjust their near-term business plans accordingly.

Meanwhile, lower activity in the manufacturing sector and trimmed government spending have contributed to our lower growth forecast of 2.4% for 2016. In March, auto output fell 11% y/y and the sector's exports declined by 14.2% y/y; according to the sector's business association the former was due to maintenance shutdowns and the Easter holiday. This follows on from a 0.1% m/m fall in industrial output in February. We are also anticipating further trimming of government spending for the current fiscal year in response to still-weak oil prices. A USD7.25bn cut in government spending, equivalent to 0.7% of GDP, was announced for FY2016, but spending on security and social development was ring-fenced.



COUNTRY PROFILE AND STATISTICS

Overview

Bordered by the Gulf of Mexico, the Caribbean Sea and the Pacific Ocean, Mexico's topography includes a high central plateau, mountains and tropical plains. Mexico has abundant natural resources and has a history of producing agricultural and mineral goods (including petroleum). Economic liberalisation in the 1980s and the North American Free-Trade Agreement (NAFTA) in 1996 spurred the development of manufacturing in northern Mexico, although the south remains less prosperous. NAFTA has also reinforced economic dependency on the US, its main trading partner. Since assuming office in December 2012, President Enrique Pena Nieto has been aggressively pursuing reforms designed to improve competitiveness and encourage private sector investment in key sectors including energy and telecommunications.

Key Facts

Key Fact	Detail
Head of state	President Enrique Pena Nieto
Capital	Mexico City (Distrito Federal)
Timezone	GMT -4-00
Main language	Spanish
Population (millions)	121
GDP (USD billions)	1,220.9
GDP per capita (USD)	10,090
Life expectancy (years)	76
Literacy (% of adult pop.)	94
Surface area (sq km)	1,958,000

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2011	2012	2013	2014	2015
Real GDP growth (%)	4.0	4.0	1.4	2.1	2.5
Nominal GDP in USDbn	1,161	1,175	1,297	1,226	1,221
Nominal GDP in local currency (bn)	14,420	15,506	16,601	17,160	18,314
GDP per Capita in USD	9,725	9,720	10,602	9,901	10,090
Population (year-end, m)	119.4	120.9	122.3	123.8	121.0
Exchange rate (yr avge, USD-LCU)	12.42	13.2	12.8	14.0	15.0
Current Account in USDbn	-13.2	-16.4	-33.1	-25.0	-33.0
Current Account (% of GDP)	-1.1	-1.4	-2.6	-2.0	-2.7
FX reserves (year-end, USDbn)	144.0	160.4	175.4	193.2	173.4
Import Cover (months)	4.5	5.2	6.3	6.8	5.7
Inflation (annual avge, %)	3.4	4.1	3.8	4.0	2.7
Govt Balance (% GDP)	-3.4	-3.7	-3.8	-3.4	-3.4

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	2.4	2.6	3.0	3.2	3.3
Nominal GDP in USDbn	1,192	1,550	1,687	1,830	1,993
Nominal GDP in local currency (bn)	19,663	20,919	22,269	23,794	25,505
GDP per Capita in USD	9,768	12,598	13,496	14,526	15,567
Population (year-end, m)	122.0	123.0	125.0	126.0	128.0
Exchange rate (yr avge, USD-LCU)	16.5	13.5	13.2	13.0	12.8
Current Account in USDbn	-33.4	-37.5	-31.0	-29.5	-31.9
Current Account (% of GDP)	-2.8	-2.4	-1.8	-1.6	-1.6
FX reserves (year-end, USDbn)	176.0	179.5	188.5	197.9	207.8
Import Cover (months)	5.5	5.6	5.9	6.2	6.5
Inflation (annual avge, %)	3.0	3.1	3.0	2.9	3.2
Govt Balance (% GDP)	-3.1	-3.0	-2.5	-2.5	-2.5

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Mexico	Brazil	Canada	Colombia	US
Income per Capita (USD)	10,090	8,907	43,204	5,918	55,262
Country Population (m)	121	208.8	35.9	48.2	321.8
Internet users (% of population)	44.4	57.6	87.1	52.6	87.4
Real GDP Growth (% p.a., 2016 - 2025)	2.5 - 5	1 - 2	1.25 - 2.25	4.2 - 6.7	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



LINKS

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