

# Country Insight Snapshot

## Mexico

July 2019





## 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:** Deteriorating

## CORE OUTLOOK

- + The signing of USMCA - which will replace NAFTA once ratified by the respective congresses - has reduced, but not eliminated, recent trade-related uncertainties.
- + Economic, legislative and political reforms will, if persisted with, pave the way for greater private investment in key sectors.
- Mexico still has 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 economy lost steam in the first quarter and the outlook for coming quarters has softened.

### CREDIT ENVIRONMENT OUTLOOK

G

**Trend:** Stable

Key Development has had a negative impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK

A

**Trend:** Stable

Key Development has had a neutral impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK

G

**Trend:** Stable

Key Development has had a negative impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

A

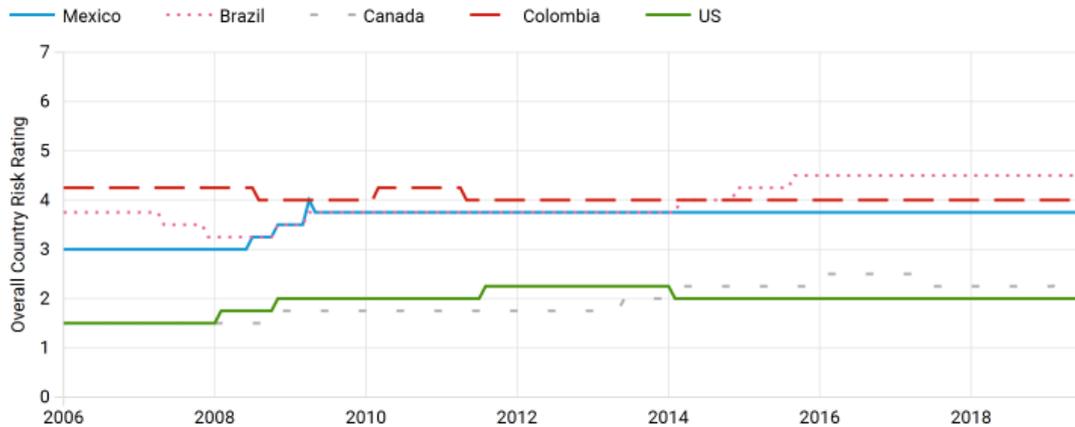
**Trend:** Stable

Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

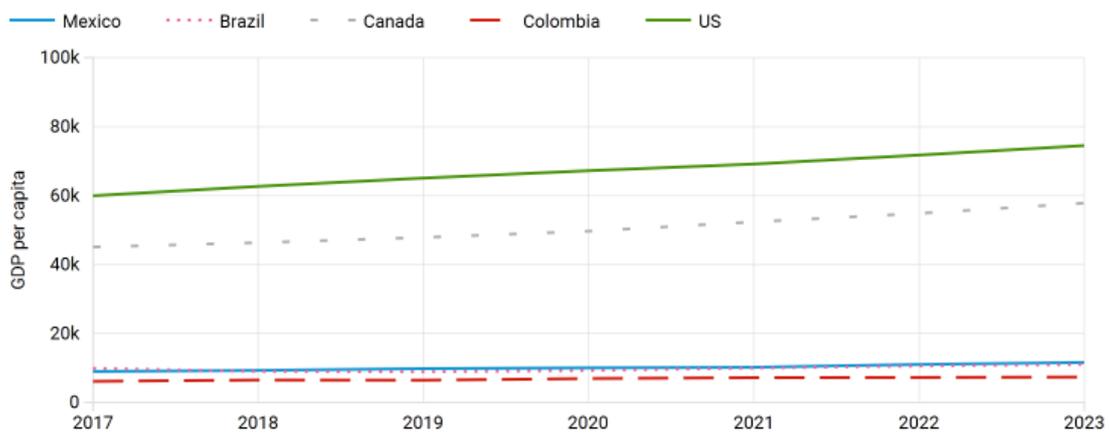
### Rating History and Comparison



Source: Dun & Bradstreet

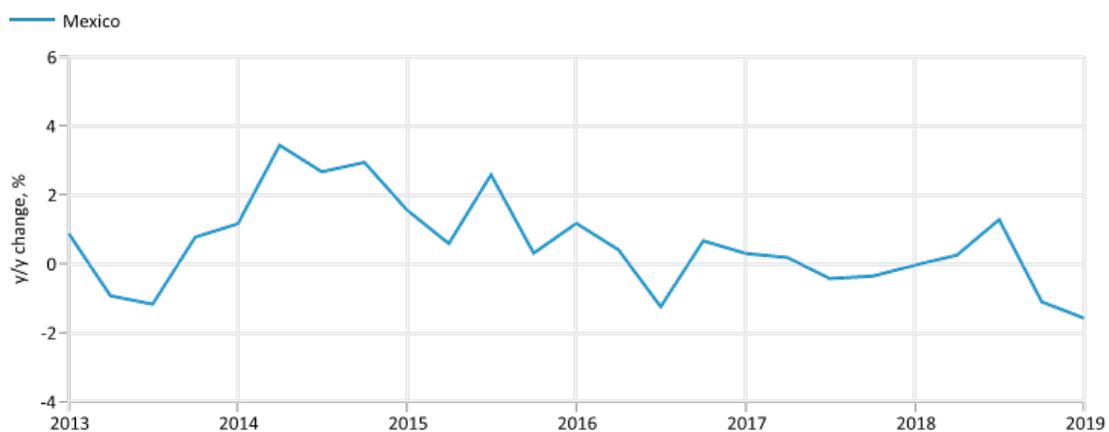
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

### Industrial Production Growth (Quarterly)



Source: Haver Analytics/Dun & Bradstreet



## Economic Indicators

Indicator	2016	2017	2018	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	-2.1	-1.6	-1.9	-1.9	-2.2	-1.9	-1.8	-1.7
Govt balance, % GDP	-2.7	-1.1	-2.0	-2.3	-2.3	-2.2	-2.0	-2.0
Inflation, annual avge %	2.8	6.0	4.9	4.2	3.8	3.7	3.7	3.5
Real GDP Growth, %	2.9	2.0	2.0	1.4	1.6	2.2	2.5	2.7
Unemployment, %	4.0	3.8	3.5	3.4	4.0	3.9	3.6	3.4

Source: Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

Banxico's decision on 27 June to keep its benchmark interest rate at 8.25% was expected but not unanimous among the bank's board members. One of the five members voted for a rate cut, and we have increased the probability of a reduction in the benchmark rate in H2 as growth falters. The policy rate is at its highest level in ten years after 25 bps hikes in November and December. Key risks to our baseline growth forecast continue to be policy uncertainty under the current leftist government which has vowed to expand social programmes, as well as elevated trade tensions with the US, and the impact of the highly-indebted, poorly-performing national oil company PEMEX on the fiscal position; PEMEX, which was recently downgraded to 'junk' territory, is a significant contributor to government revenue. Elsewhere, remittances from the US rose by 7.1% q/q in the first three months of the year to end Q1 at USD7.70bn. FX reserves of USD178.0bn on 21 June offer good currency protection and import cover. Given solid USD liquidity and an open capital account, currency convertibility remains easy. Our recommended trade terms for Mexico are SD and we advise that FX/Bank delays are 0-1 month.

## 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

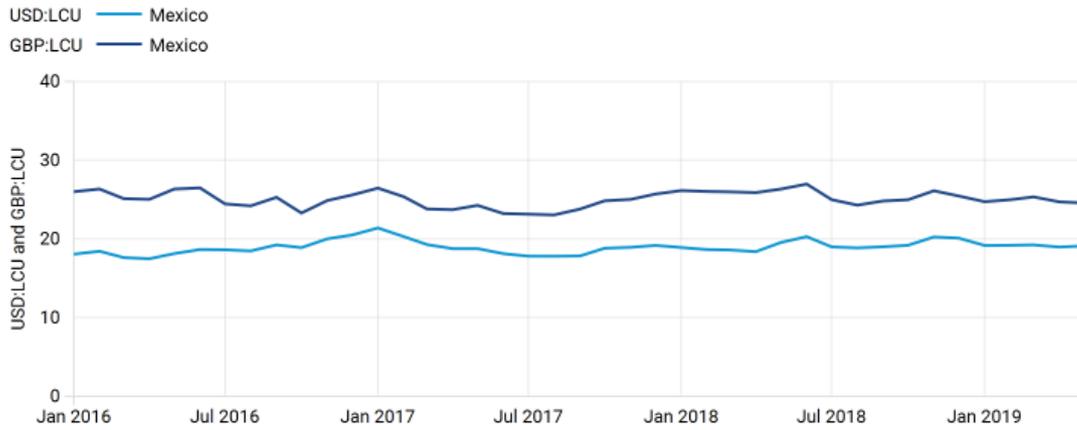
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### 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.*



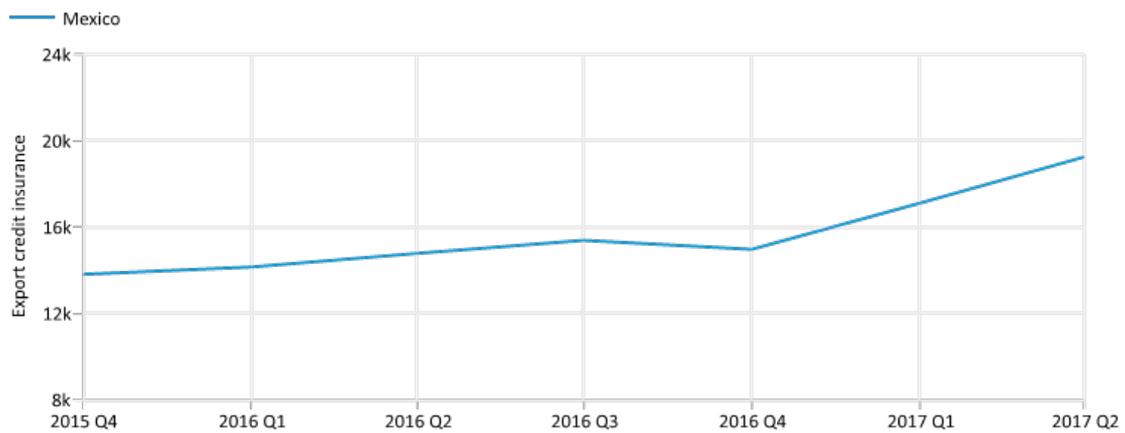
## Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

*LCU (local currency unit) = Mexican peso*

## Credit Conditions



Source: Export Credit Agencies

*Insured export credit exposures, USDm; increase going into 2017 is partly due to methodology changes.*



## RISKS AND OPPORTUNITIES

### Short-Term Economic Outlook

#### *Economic activity decelerates*

The economy lost steam in the first quarter and the near-term outlook remains soft. The INEGI reported a deceleration in growth to 1.2% y/y in Q1 from 1.7% y/y in the previous quarter. The main contributors to the deceleration were weaker private and government consumption, and softer exports. Household expenditure slipped to 1.1% y/y from 1.4% y/y in Q4 2018 while government spending declined by 0.8% y/y from 0.3% growth in the previous quarter. Export growth dropped to 2.0% y/y from 3.9% y/y in Q4 as the manufacturing sector disappointed. The outlook for growth is tepid with the monthly Mexican Institute of Financial Executives IMEF's manufacturing Purchasing Managers' Index having slipped to 49.4 points in May from 52.0 in April and below the 50.0 threshold; sub-50.0 indicates contraction while above it represents an expansion in manufacturing. This contrasts with the slight uptick from March to April. Notably, persistent policy uncertainty, lower US real GDP projections and disappointing industrial output on the back of continued declines in oil production remain our key risks. Moreover, concerns about the government's ability to meet its 2019 fiscal target of 2.5% of GDP lingers, despite its recently-announced commitment to trim fiscal spending by USD6.0bn. Despite the 0.1% m/m improvement in monthly activity in April and an uptick in exports in May, we maintain our real GDP forecast for 2019 at 1.4%.

Consumer prices declined by 0.29% m/m in May from a 0.05% m/m increase in the previous month largely due to lower electricity costs. The easing in inflationary pressures contributed to a fall in the 12-month rate to 4.3% in May from 4.4% in April. The cost of energy was 4.3% lower in month-on-month terms in May owing to a 20% fall in energy prices that was attributed to a cut in residential rates supported by lower gasoline and propane gas prices. Annual average inflation in May was unchanged from April at 4.6%. Our average annual inflation projection for 2019 is 4.2% from 4.9% in 2018, as the central bank focuses on anchoring inflation expectations and peso pressures have eased with the US Federal Reserve's dovish position.

### Business Regulatory Environment

#### *Airport projects suspended*

Circuit court rulings which suspended plans from the new airport in Mexico City may lead to legal or constitutional challenges. The court orders, which suspend activity on the one-third completed international airport in Texcoco as well as the government's preferred sit in Santa Lucia, was the result of 147 injunctions filed by NGOs and other organisations. The objectors have cited the cost of scrapping the Texcoco project as well as the environmental impact of construction on the new site. The government has been instructed by the court to present environmental impact and airspace security studies for the new project. It is unclear what President Lopez Obrador's response would be if there is a prolonged delay in constructing the new airport - however, there are concerns that defiance of suspension orders could lead to a constitutional crisis.



## 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, Mexico's main trading partner.

The US, Mexico and Canada have signed the United States-Mexico-Canada Agreement (USMCA), which will replace NAFTA once it is ratified by the respective Congresses. Mexico's president is expected to sign, and we also expect the new pact to be easily approved in Canada. However, there is some uncertainty about its approval by the US. This development has significantly reduced (but not eliminated) NAFTA-related uncertainties.

### Key Facts

Key Fact	Detail
Head of state	President Andres Manuel LOPEZ OBRADOR
Capital	Mexico City (Distrito Federal)
Timezone	GMT -4-00
Main language	Spanish
Population (millions)	124.7
GDP (USD billions)	1,159.8
GDP per capita (USD)	9,298
Life expectancy (years)	75.0
Literacy (% of adult pop.)	94.9
Surface area (sq km)	1,958,000

Source: Various sources/Dun & Bradstreet

### Historical Data

Metric	2014	2015	2016	2017	2018
Real GDP growth (%)	2.8	3.3	2.9	2.0	2.0
Nominal GDP in USDbn	1,290	1,159	1,057	1,107	1,160
Nominal GDP in local currency (bn)	17,160	18,314	19,663	20,919	22,269
GDP per Capita in USD	10,778	9,579	8,646	8,961	9,298
Population (year-end, m)	119.7	121.0	122.3	123.5	124.7
Exchange rate (yr avge, USD-LCU)	13.3	15.8	18.6	18.9	19.2
Current Account in USDbn	-25.0	-32.1	-22.4	-17.5	-22.2
Current Account (% of GDP)	-1.9	-2.8	-2.1	-1.6	-1.9
FX reserves (year-end, USDbn)	190.9	173.5	173.5	172.8	174.6
Import Cover (months)	6.7	5.7	5.4	6.1	6.0
Inflation (annual avge, %)	4.0	2.7	2.8	6.0	4.9
Govt Balance (% GDP)	-4.0	-2.8	-2.7	-1.1	-2.0

Source: Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	1.4	1.6	2.2	2.5	2.7
Nominal GDP in USDbn	1,233	1,275	1,308	1,425	1,511
Nominal GDP in local currency (bn)	23,794	25,505	26,150	28,504	30,214
GDP per Capita in USD	9,790	10,034	10,196	11,018	11,581
Population (year-end, m)	125.9	127.1	128.2	129.4	130.5
Exchange rate (yr avge, USD-LCU)	19.3	20.0	20.0	20.0	20.0
Current Account in USDbn	-23.1	-28.1	-24.4	-25.6	-25.0
Current Account (% of GDP)	-1.9	-2.2	-1.9	-1.8	-1.7
FX reserves (year-end, USDbn)	177.2	179.0	180.8	182.6	184.4
Import Cover (months)	5.8	5.7	5.7	5.7	5.7
Inflation (annual avge, %)	4.2	3.8	3.7	3.7	3.5
Govt Balance (% GDP)	-2.3	-2.3	-2.2	-2.0	-2.0

Source: Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Mexico	Brazil	Canada	Colombia	US
Income per Capita (USD)	9,790	8,871	47,841	6,444	65,057
Country Population (m)	125.9	210.7	37.3	50.0	329.1
Internet users (% of population)	59.5	59.7	89.8	58.1	76.2
Real GDP Growth (% p.a., 2019 - 2028)	2.5 - 5.0	1.0 - 2.0	1.3 - 2.3	4.2 - 6.7	1.8 - 2.5

Source: Various sources/Dun & Bradstreet



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