

Country Insight Snapshot

Mexico

May 2023



OVERALL COUNTRY/REGION RISK INDICATOR

Current Risk Indicator:



- Last change: March 2022 (DB4b → DB4c)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

WorldWatch Headline

FDI into mining likely to wane as the parliament approved a law in April 2023 that will significantly reform the sector, with one condition mandating distribution of 5% profits to local communities.

Recent Changes

- In March 2023, Mexico's central bank raised its main interest rate again, by 25 bps, to a record 11.25%, as it tries to battle inflation.
- A cut to the funding for Mexico's electoral authority, proposed by Lopez Obrador, was approved by the legislature in late-2022; however, the supreme court struck down a part of the government's electoral reforms in May 2023.

Events to Watch

- Although the central bank raised rates again in March 2023, its near-term outlook was more dovish, meaning that further rate rises may have become less likely.
- There are concerns among foreign investors over the recent shake-up in the mining sector; Canadian firms specifically have a strong presence in the country.
- The government's wide electoral reforms are now in considerable doubt, following the supreme court's May 2023 ruling.

Call to Action

- Factor in a moderate weakening in economy-wide payments performance in Mexico this year, as company liquidity is impacted by slow economic activity and high interest rates.
- Track the reaction of foreign mining firms to the new legislation; a reduction in this source of investment should not be ruled out.
- Monitor the government's proposed electoral reforms; note that any further adverse decisions by the supreme court could mean that the changes may eventually have to be put to a referendum.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT

Current Risk Indicator:



- Last change: November 2022 (DB3c → DB3d)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING**

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

Risks and Opportunities

- Although the central bank raised rates again in March 2023, its near-term outlook was more dovish, meaning that further rate rises may have become less likely.
- The broad thrust of the 2023 budget is on austerity, with the goal of achieving balance or near-balance on the primary fiscal balance as a percentage of GDP.
- Remittances are now the largest source of foreign income for Mexico; across the globe, it is surpassed only by India, in the remittances amount it receives.
- Over the long term, the service sector is expected to grow considerably faster than the manufacturing sector, as a result of deregulation and better enforcement of legislation relating to competition.
- Given its proximity to the US, Mexico will become increasingly popular as a location for nearshoring, where a company works with a supplier close to its location, rather than with one that is geographically further away.

Trade Terms

Description	Terms
Minimum Terms	LC
Recommended Terms	SD
Usual Terms	30-90 days

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CiA: Cash in Advance. **Source:** Dun & Bradstreet

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Eksport Kredit Fonden (EKF)	Full cover available, conditions apply
ECGD	Full cover available
Euler Hermes AG	Full cover available, conditions apply

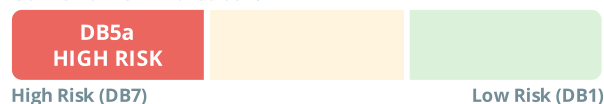
Source: Export Credit Agencies

Call to Action

- Factor in a moderate weakening in economy-wide **payments performance** in Mexico this year, as company liquidity is impacted by slow economic activity and high interest rates.
- Closely watch payment terms on any dealings with Mexico's public sector, as the government continues with fiscal consolidation in the wake of the pandemic.
- Build into commercial planning a steady reduction in consumer price inflation in 2023; however, inflation will still remain above the official target of 3% +/- 1 pp this year.
- Be aware that labour market rigidities are likely to persist, as Lopez Obrador is unlikely to implement aggressive reforms; Mexico has high levels of informal employment.
- Consider Mexico as a possible destination for the establishment of nearshoring operations, if you are going to sell into the US.

SUPPLY ENVIRONMENT

Current Risk Indicator:



- Last change: September 2022 (DB5c → DB5a)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is **STABLE**

HIGH RISK Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.

Risks and Opportunities

- Mexico's green credentials will be boosted by the February 2023 opening of the first stage of the giant USD1.6bn Plan Sonora solar energy park; the project is due to be fully operational by 2027.
- The initial phase of the Mayan Train scheme is due to be completed by December 2023; when the whole project is finished, it will have a total length of 1,525 kms, dramatically reducing travel times.
- Mexico is pushing ahead with the implementation of biosecurity and quarantine measures against avian flu, including vaccination, although it remains to be seen how successful these measures will be.
- Many firms report that corruption is one of the biggest impediments to doing business in Mexico, over and above crime, theft and a sometimes-inefficient government bureaucracy.
- Mexico's refusal to impose unilateral sanctions on Russia or Belarus may taint, but not rupture, its relationship with Washington.

Call to Action

- Track continuing construction of the Plan Sonora solar energy park; it will help with Mexico's plan to produce at least 35% of its energy needs from renewables by 2024.
- Monitor progress of the Mayan Train project; consider using it, when completed in its various phases, as a possible alternative to flying within Mexico.
- Note that the telecoms network is reasonably advanced, with mobile cellular subscriptions currently running at around 98 per 100 people.
- Take advantage of the various incentives available where FDI is involved, especially if you are importing goods into Mexico.
- Urge foreign companies looking to do business in Mexico to actively seek **expert local advice** to navigate the business environment.



MARKET ENVIRONMENT

Current Risk Indicator:



- Last change: November 2022 (DB4a → DB4b)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Risks and Opportunities

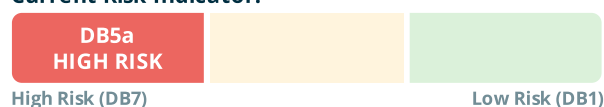
- There are concerns among foreign investors over the recent shake-up to the mining sector; particularly Canadian firms have a strong presence in the country.
- Mexico is planning to overhaul all of its investment pacts; many were signed before 2000 and, thus, are seen as mostly outdated, especially in terms of the protections they provide to investors.
- More could be done to lower barriers to trade with the likes of China, the EU and Latin America; trade with Central America would be strengthened by customs cooperation.
- As in many countries, the Mexican banking sector is exposed to both external and internal shocks; however, there is little imminent risk of a crisis from the problems exposed by Silicon Valley Bank.
- Mexico's anti-money laundering regulations are relatively strict because of the various challenges created by the operations of the country's drug cartels.

Call to Action

- Track the reaction of foreign mining firms to [new legislation](#); a reduction in this source of investment should not be ruled out.
- Closely track Mexico's renegotiation of its various investment pacts, especially where these impact investor protections; adjust your commercial exposure accordingly.
- Note that a free-trade agreement between Mexico and India is unlikely to be signed in the next two years; in the meantime, the two countries will look to boost cooperation, especially with regard to lithium research.
- Consider a hedging strategy if dealing in the Mexican peso, given the likely near-term appreciation in its value and forecast mild depreciation over the medium term.
- Factor in generally low transfer risk in Mexico over the near term; however, still consider taking out export credit cover to hedge against unforeseen risks.

POLITICAL ENVIRONMENT

Current Risk Indicator:



- Last change: September 2021 (DB4d → DB5a)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is **DETERIORATING**

HIGH RISK Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.

Risks and Opportunities

- The government's wide electoral reforms are now in considerable doubt, following the supreme court's May ruling.
- Lopez Obrador is pushing ahead with his so-called fourth transformation agenda; key recent reforms include nationalising the lithium sector and hiking the minimum wage.
- The quality of policing in Mexico is very poor, and the drug cartels continue to be one of the major forces in the country's politics.
- The dispute settlement provisions contained in the USMCA provide recourse for direct - but not indirect - claims, with regard to expropriation.
- The enforcement of property rights can be uneven in Mexico, and the workings of the judiciary may be subject to undue interference.

Call to Action

- Monitor the government's proposed electoral reforms; note that any further adverse decisions by the supreme court could mean that the changes may eventually have to be put to a referendum.
- Expect Lopez Obrador to serve out the rest of his term as president, although the race to succeed him has already started, in the run-up to the 2024 election.
- Note that the government is struggling to control criminal activity, particularly the entrenched and pervasive drugs trade, despite its pledges to do so.
- Consider taking out political risk insurance against abrogation or repudiation or contract impairment by government interference.
- Factor in that USMCA provides protection for investors that are a party to covered government contracts, granting them a minimum standard of treatment and protection.

STATISTICAL REFERENCE

KEY INDICATORS AND FORECASTS

Historical Data/Forecasts

Metric	2018	2019	2020	2021	2022	2023f	2024f	2025f	2026f	2027f
Real GDP growth (%)	2.2	-0.2	-8	4.7	3.1	1.6	2	2.2	2.4	2.7
Nominal GDP in USDbn	1,222	1,269	1,091	1,273	1,414	1,640	1,693	1,748	1,833	1,914
Nominal GDP in local currency	23.5tn	24.4tn	23.4tn	25.8tn	28.5tn	30.3tn	32.2tn	34.1tn	36.1tn	38.3tn
GDP per Capita in USD	9,857	10,145	8,655	10,046	11,091	12,768	13,083	13,418	13,970	14,490
Population (year-end, m)	124	125.1	126	126.7	127.5	128.5	129.4	130.3	131.2	132.1
Exchange rate (yr ave, USD-LCU)	19.2	19.3	21.5	20.3	20.1	18.5	19	19.5	19.7	20
Current Account in USDbn	-26.1	-5.6	22.8	-8.2	-13.4	-16	-12	-9	-7.5	-6
Current Account (% of GDP)	-2.1	-0.4	2.1	-0.6	-0.9	-1	-0.7	-0.5	-0.4	-0.3
FX reserves (year-end, USDbn)	171.4	177.2	191.8	200.8	194.1	209.7	210.1	211.1	212.2	213.5
Import Cover (months)	4	4.2	5.4	4.3	4	4.6	4.5	4.4	4.2	4.1
Inflation (annual ave, %)	4.9	3.6	3.4	5.7	7.9	5	4	3.8	3.5	3.3
Govt Balance (% GDP)	-2.2	-2.3	-4.4	-3.9	-4.4	-4	-3.7	-3.1	-2.7	-2.3

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Mexico	Brazil	Argentina	Colombia	Chile
Income per Capita (USD)	12,768	9,134	14,274	6,522	17,191
Country Population (m)	128.5	216.4	45.8	52.1	19.6
Internet users (% of population)	72	81.3	85.5	69.8	88.3

Source: Various sources/Dun & Bradstreet

Transfer Situation

Type	Delay
FX/Bank Delays	No delays reported
Local Delays	0-1 month

Note: Length of delay for completion of local and foreign transfers Source: Dun & Bradstreet

Trade Payment Restrictions

Trade Payment Restriction	Mexico	Latin America	OECD Average
Restrictions on non-Residents' Accounts	2	0.8	0.06
Restrictions on Payments for Imports	0	0.35	0.06
Restrictions on Payments for Invisible and other Current Transfers	0	0.65	0.35

Note: for a definition of the Trade Payment Restrictions please see the online [user guide](#) Source: International Monetary Fund



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User Guide

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