



****Coronavirus Covid-19 Update****

The risks associated with doing business are likely to be negatively impacted by the global coronavirus pandemic. Severe disruption to supply chains caused by lockdown procedures in many countries will affect country risk ratings. Demand will also be lower than initially anticipated as export earnings will be reduced amid a global economic slowdown and falls in both business and consumer confidence, as well as lower investment due to decreasing corporate earnings. We advise clients to monitor the containment efforts, as the adverse economic and supply chain effects will persist until the outbreak is controlled.

Country Insight Snapshot

Mexico

September 2020





OVERVIEW

OVERALL COUNTRY RISK RATING: DB4b

Moderate risk: Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

A

Rating Outlook: Deteriorating

CORE OUTLOOK

- + The implementation of USMCA - which replaces NAFTA - has reduced, but not eliminated, recent trade-related uncertainties.
- It will take several quarters, at best, to recover from the macroeconomic shock caused by the coronavirus crisis.
- 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

Remittance inflows will remain robust in the coming months, heading to a historic high in 2020: a major source of FX, remittances will support household consumption.

CREDIT ENVIRONMENT OUTLOOK

G

Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

G

Trend: Deteriorating

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

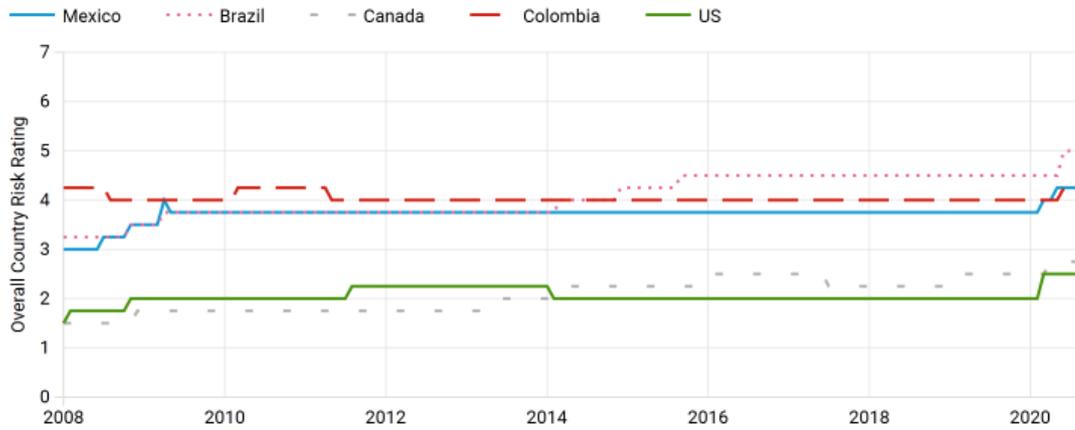
Trend: Deteriorating

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

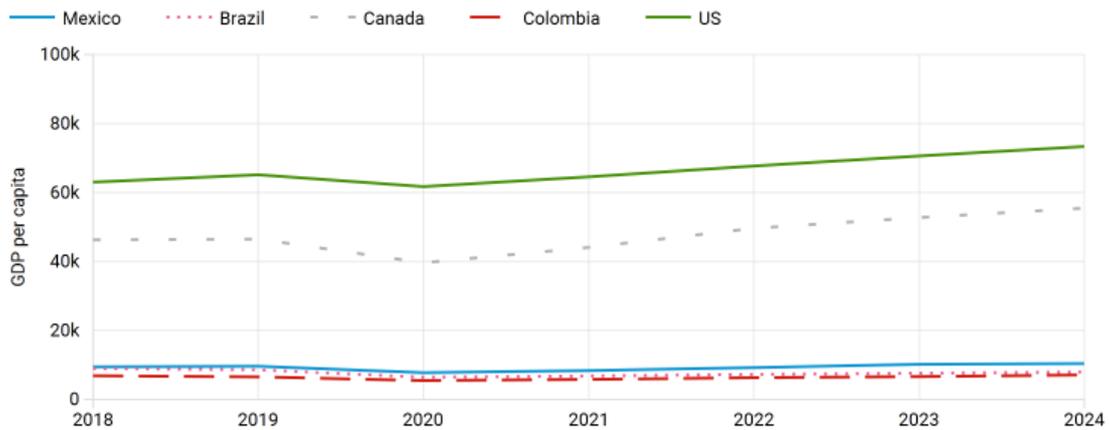
Rating History and Comparison



Source: Dun & Bradstreet

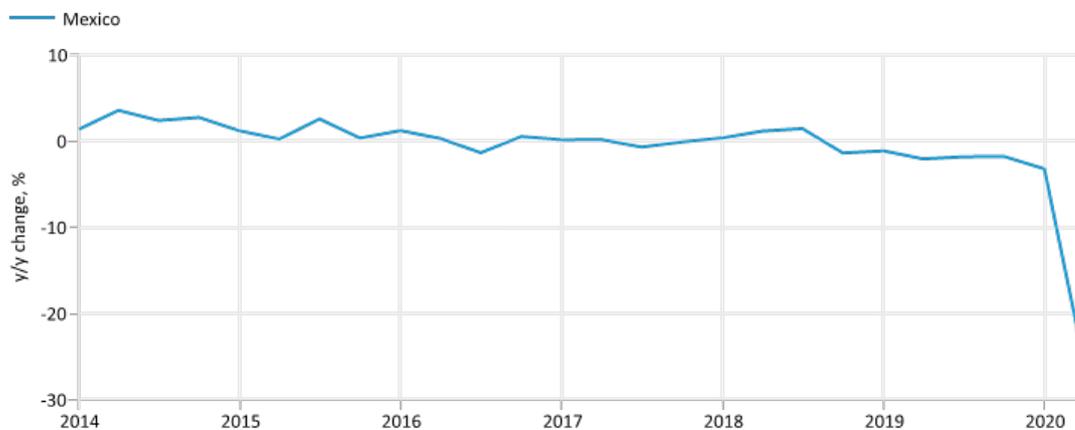
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source: Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2017	2018	2019	2020f	2021f	2022f	2023f	2024f
C/A balance % GDP	-1.8	-2.2	-0.2	-1.3	-1.4	-1.5	-1.8	-1.9
Govt balance, % GDP	-1.1	-2.0	-1.7	-4.8	-3.5	-2.4	-2.3	-2.1
Inflation, annual avge %	6.0	4.9	3.6	3.0	3.4	3.9	3.6	3.7
Real GDP Growth, %	2.0	2.0	-0.3	-9.5	2.1	2.2	2.3	2.4
Unemployment (annual avge, %)	3.8	3.5	3.4	4.3	3.7	3.5	3.4	3.3

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

On 13 August the governing board of the central bank (Banxico) voted to cut its target for the overnight interbank interest rate by 50 basis points to 4.50%, as uncertainty remains extremely high notwithstanding recent signs of recovery in the global economy. Following the sixth cut for the year, this is the lowest the rate has been since August 2016 and is part of the bank's ongoing efforts to limit the economic and financial shocks caused by the coronavirus pandemic. The bank has implemented a raft of measures to buttress the banking system and financial markets as well as provide support for firms by boosting peso- and US dollar-liquidity. Key measures include the reduction of lenders' mandatory regulatory deposit held with the central bank by 15%, while auctions have increased US dollar liquidity through drawdowns on a US Fed USD60bn swap line extended to March 2021. Accounting rules for financial institutions have been relaxed to enable borrowers' rescheduling of debt servicing. We expect at least one more cut in the policy rate before December 2020.

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

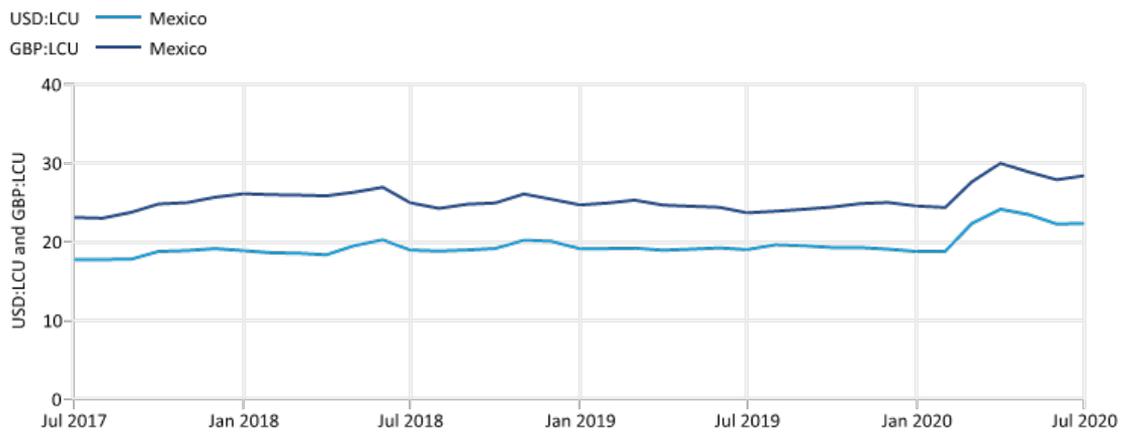
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: No delays reported

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.



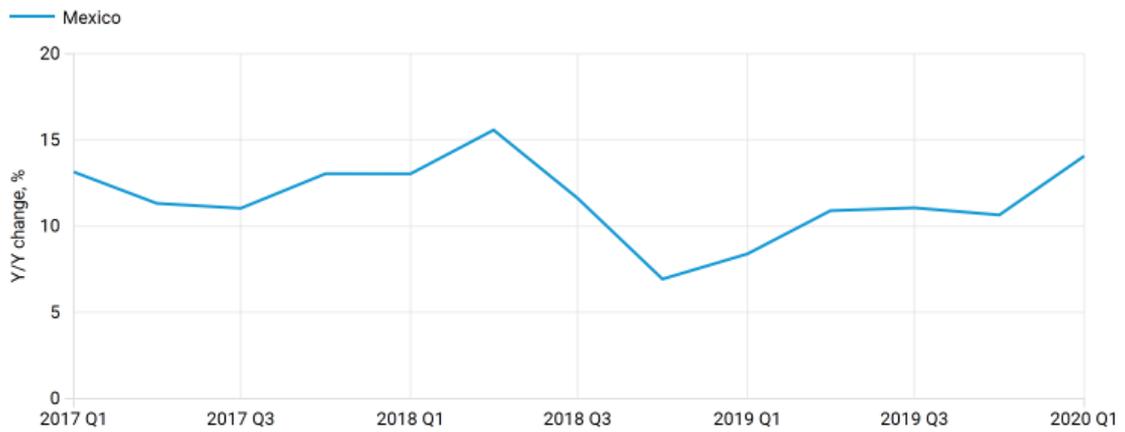
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Mexican peso

Bank Lending to the Private Sector



Source: IMF, Central Banks, Haver Analytics



RISKS AND OPPORTUNITIES

Market Potential

Remittances remain robust

The pace of inward remittances in July remained robust despite unprecedented joblessness in the US - the single largest remittance source for Mexico. This suggests that, for the near-term at least, remittances will continue to be one of the key sources of foreign exchange. They will also be a main support for household consumption in Mexico, which faces its steepest economic contraction since the Great Depression, and an attendant sharp rise in unemployment.

In the first few months of the Covid-19 outbreak in the US, anticipated declines in remittances to Mexico did not materialise. In fact, record rises were recorded in H1 2020, possibly because of remitters acting pre-emptively ahead of an expected deterioration in labour market conditions in ensuing months. In addition, emergency Covid-19-related enhancements in US unemployment benefits supported incomes and in turn remittances. Up to June, remittance flows to Mexico rose in m/m terms, reaching USD3.5bn (from USD3.4bn in the previous month). Although remittances remained fairly stable in July, at USD3.53bn, in y/y terms they rose 7.3% - albeit down from the 9.9% y/y increase in June. Despite the slowdown in July, remittances remain on course to hit a historic high in 2020.

Short-Term Economic Outlook

Tentative signs of recovery emerge

The economy is showing signs that a recovery from Q2's record contraction began in June. In the second quarter, the economy contracted by 17.3% q/q in seasonally adjusted terms; at an annual rate, the contraction stood at 18.68% y/y (second official estimate) following a first-quarter decline of 2.13%. Positively, in June, economic activity accelerated by 8.9% m/m as the impact of phased reopening of the economy which began in May took effect. The sharp economic contraction in the US in 2020 and gradual recovery in 2021 will severely dent growth prospects given that the US is Mexico's single largest export market. The US accounts for around 80% of exports, mainly vehicles, electronic equipment, machines, engines, pumps, oil, medical and technical equipment. For Mexico, Dun & Bradstreet is projecting a real GDP contraction of 9.5% in 2020. Notably, a reminder that the economy remains under pressure was the August reading of the IMEF's manufacturing PMI, which slid to 45.0, and deeper into contractionary territory, from 47.8 in July. The PMI remaining below the 50-point threshold was attributable to steeper falls in new orders and production in the manufacturing sector.

Meanwhile, consumer prices eased in August to 0.39% m/m, from 0.66% m/m in July, but rose in non-seasonally adjusted y/y terms to 4.05% (from 3.62%). Despite the Covid-19 demand shock, in August the weaker peso and reduced availability of goods drove consumer prices above the central bank's target range of 2.0-4.0% for the first time since May 2019, when it stood at 4.28%. With little fundamental change expected in the coming months, risks to our current annual average inflation forecast for 2020 remain on the upside.



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 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)	125.9
GDP (USD billions)	1,212.1
GDP per capita (USD)	9,625
Life expectancy (years)	75.0
Literacy (% of adult pop.)	95.4
Surface area (sq km)	1,958,000

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2015	2016	2017	2018	2019
Real GDP growth (%)	3.3	2.9	2.0	2.0	-0.3
Nominal GDP in USDbn	1,185	1,072	1,123	1,179	1,212
Nominal GDP in local currency (bn)	18,719	19,932	21,227	22,638	23,394
GDP per Capita in USD	9,791	8,764	9,093	9,452	9,625
Population (year-end, m)	121.0	122.3	123.5	124.7	125.9
Exchange rate (yr avge, USD-LCU)	15.8	18.6	18.9	19.2	19.3
Current Account in USDbn	-31.1	-24.4	-20.5	-25.4	-2.4
Current Account (% of GDP)	-2.6	-2.3	-1.8	-2.2	-0.2
FX reserves (year-end, USDbn)	173.5	173.5	172.8	174.6	180.9
Import Cover (months)	5.7	5.4	6.1	6.0	5.9
Inflation (annual avge, %)	2.7	2.8	6.0	4.9	3.6
Govt Balance (% GDP)	-2.8	-2.7	-1.1	-2.0	-1.7

Source: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2020f	2021f	2022f	2023f	2024f
Real GDP growth (%)	-9.5	2.1	2.2	2.3	2.4
Nominal GDP in USDbn	985	1,073	1,194	1,330	1,369
Nominal GDP in local currency (bn)	21,873	23,076	24,484	25,929	27,510
GDP per Capita in USD	7,753	8,370	9,233	10,193	10,406
Population (year-end, m)	127.1	128.2	129.4	130.5	131.5
Exchange rate (yr avge, USD-LCU)	22.2	21.5	20.5	19.5	20.1
Current Account in USDbn	-12.5	-15.0	-17.9	-23.3	-25.7
Current Account (% of GDP)	-1.3	-1.4	-1.5	-1.8	-1.9
FX reserves (year-end, USDbn)	193.5	197.4	199.4	201.2	203.2
Import Cover (months)	6.1	6.2	6.2	6.3	6.3
Inflation (annual avge, %)	3.0	3.4	3.9	3.6	3.7
Govt Balance (% GDP)	-4.8	-3.5	-2.4	-2.3	-2.1

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Mexico	Brazil	Canada	Colombia	US
Income per Capita (USD)	7,753	6,412	39,627	5,458	61,717
Country Population (m)	127.1	212.6	37.7	50.3	331.0
Internet users (% of population)	65.8	67.5	91.0	62.3	87.3
Real GDP Growth (% p.a., 2020 - 2029)	2.0 - 3.5	1.5 - 2.5	1.3 - 2.6	2.0 - 3.5	1.5 - 3.3

Source: Various sources/Dun & Bradstreet



LINKS

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Please click [here](#) to visit our online user guide.

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