

# Country Insight Snapshot

## Mexico

November 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

The automotive industry continues its recovery in terms of improvements in production and exports, although some risks persist; total vehicle production rose by 8.79% y/y in October.

### 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 positive impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK

G

**Trend:** Deteriorating

Key Development has had a neutral impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

A

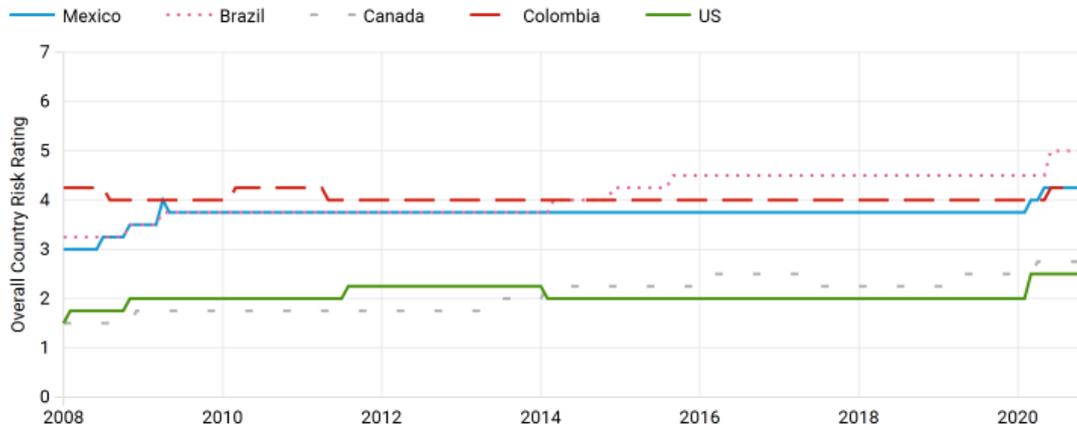
**Trend:** Deteriorating

Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

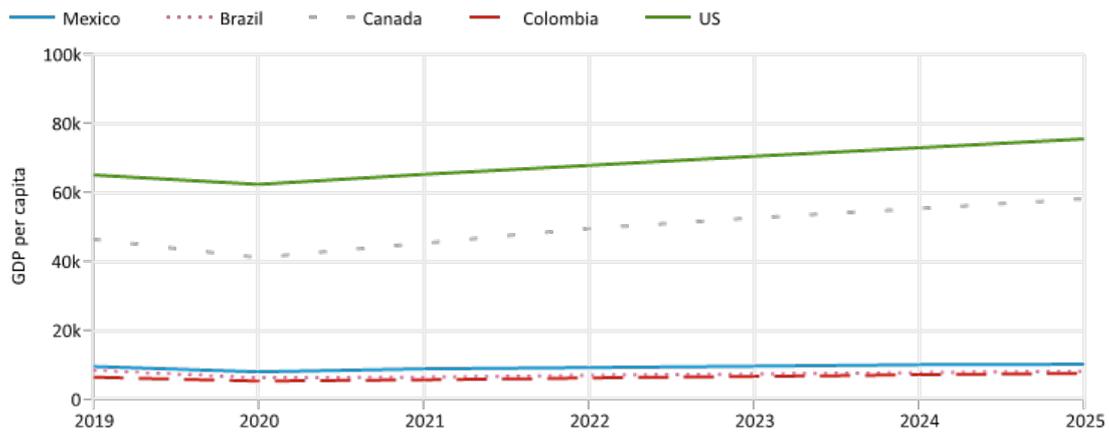
### Rating History and Comparison



Source: Dun & Bradstreet

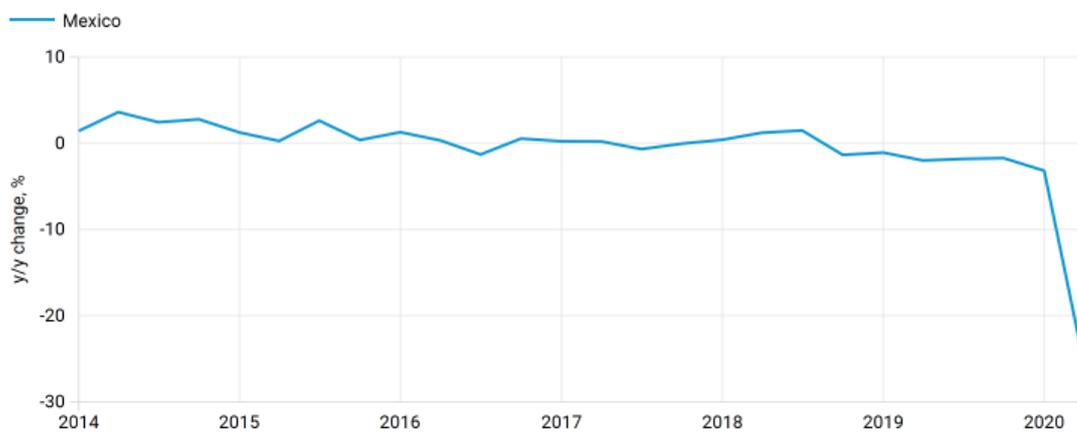
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

### Industrial Production Growth (Quarterly)



Source: Haver Analytics/Dun & Bradstreet



## Economic Indicators

Indicator	2018	2019	2020f	2021f	2022f	2023f	2024f	2025f
C/A balance % GDP	-2.2	-0.4	1.7	1.1	-0.2	-0.4	-1.2	-2.3
Govt balance, % GDP	-2.0	-1.7	-5.3	-3.5	-2.4	-2.3	-2.1	-2.3
Inflation, annual avge %	4.9	3.6	3.4	3.7	3.9	3.6	3.7	3.5
Real GDP Growth, %	2.0	-0.3	-9.1	2.8	2.2	2.3	2.4	2.3
Unemployment (annual avge, %)	3.5	3.4	4.4	4.0	3.5	3.4	3.3	3.4

Source: Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

On 12 November the central bank, Banxico, held its policy rate at 4.25% in the face of resilient inflation. While the key interest rate is the lowest it has been since 2016, it remains one of the highest among peer countries. In October, headline inflation stood just above the upper threshold of the bank's inflation target range of 2.0-4.0%, driven by higher agricultural products. In its justification for the pause, Banxico signalled that interest rate decisions in the next few months will be based on its assessment of the inflation trajectory. We expect Banxico to cut its policy rate by at least 25 basis points by end-H1 2021 to buoy economic recovery as inflation returns to the target range. This is consistent with the bank's projection of the cooling impact of the negative output gap, lower demand caused by a return of lockdowns by major trade partners, and weaker external inflation. Liquidity is supported by lower mandatory regulatory deposits for lenders and auctions of US dollars through drawdowns on a US Fed USD60bn swap line that runs to March 2021. In addition, accounting rules for financial institutions have been relaxed to enable borrowers' rescheduling of debt servicing.

## 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

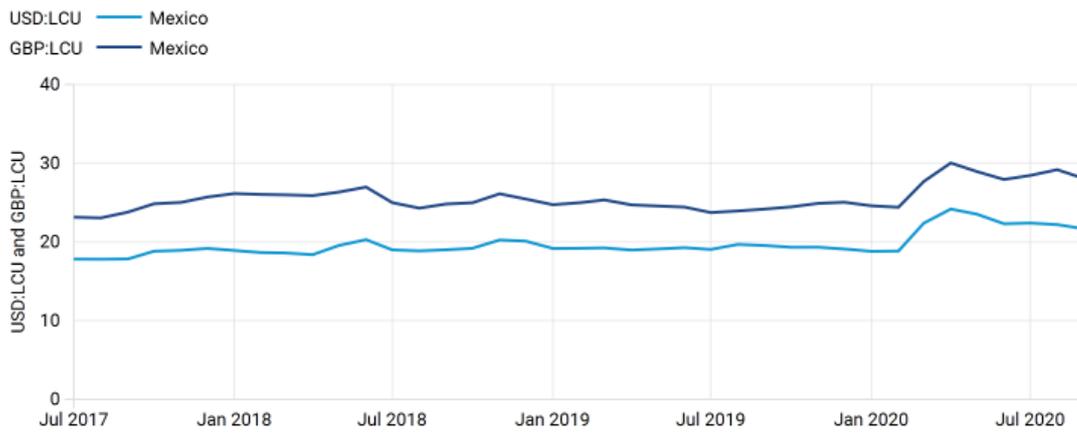
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### 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

#### *Automotive sector continues to recover*

The automotive industry continues its recovery, with improvements in production and exports. Total vehicle production rose by 8.79% y/y in October (from -4.0% in September and -98.78% in April because of lockdown restrictions to control the spread of Covid-19). Similarly, vehicle exports rose by 8.23% y/y in October from -10.2% in the previous month and -89.2% in April. The pace of recovery in October varied among leading automotive firms, with Kia and Honda recording y/y contractions, while Mazda, General Motor and Mercedes Benz registered production growth.

Although the value of goods exports to the US turned positive for the first time in seven months with a 3.77% y/y increase in September, there is a rising risk of a setback to this recovery as the US battles an exponential surge in new Covid-19 infections heading into winter. Roughly 70% of vehicles assembled in Mexico are shipped to the US. Despite gains between January and October 2020, total vehicle assembly was 25% lower than the corresponding period in 2019. The Mexican Automotive Industry Association (AMIA) is projecting a long, slow recovery, taking two to three years to return to pre-pandemic levels of production.

Positively, Joe Biden's victory in the US presidential election promises to bring more predictability to American trade policy and this augurs well for the automotive sector, which has an expansive supply chain that extends from Canada to Mexico. It should be noted that labour practices and environmental concerns will be key features of trade and investment policies under the Biden administration.

### Short-Term Economic Outlook

#### *Pace of rebound slows*

Real GDP grew by 12% q/q in seasonally adjusted terms in Q3, but flat m/m growth in industrial production in September signals an easing of the rebound's pace from the pandemic-induced contraction of 17.3% q/q in Q2. This underscores ongoing weakness in the economy and keeps near-term uncertainty elevated. The robust growth between July and September was largely due to the easing of restrictions to slow Covid-19, with the industrial sector leading with expansion of 22%. Services and agriculture grew at 8.6% and 7.4% respectively.

Uncertainty in the commercial environment remains high, with the economy projected to contract by 9.0% in 2020, with subdued recovery of 2.8% in 2021 (and output levels still below those of the immediate pre-pandemic period). Moreover, at the sectoral level the rebound will vary in coming months. Total industrial production, according to the national statistics agency, INEGI, contracted by 0.05% m/m in seasonally adjusted terms in September; but while manufacturing grew by 2.42% m/m and mining expanded marginally by 0.20% m/m, utilities and construction contracted by 3.07% and 5.56% respectively. Although the recent announcements of promising vaccine candidates by Pfizer and Moderna suggest that containing the pandemic is within reach, for developing countries like Mexico there may be significant challenges pertaining to early availability and distribution.



## 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	2016	2017	2018	2019	2020f
Real GDP growth (%)	2.9	2.0	2.0	-0.3	-9.1
Nominal GDP in USDbn	1,072	1,123	1,179	1,212	1,026
Nominal GDP in local currency (bn)	19,932	21,227	22,638	23,394	22,060
GDP per Capita in USD	8,764	9,093	9,452	9,625	8,073
Population (year-end, m)	122.3	123.5	124.7	125.9	127.1
Exchange rate (yr avge, USD-LCU)	18.6	18.9	19.2	19.3	21.5
Current Account in USDbn	-24.4	-20.5	-25.4	-4.4	17.4
Current Account (% of GDP)	-2.3	-1.8	-2.2	-0.4	1.7
FX reserves (year-end, USDbn)	173.5	172.8	174.6	180.9	200.8
Import Cover (months)	5.4	6.1	6.0	5.9	6.4
Inflation (annual avge, %)	2.8	6.0	4.9	3.6	3.4
Govt Balance (% GDP)	-2.7	-1.1	-2.0	-1.7	-5.3

Source: Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2021f	2022f	2023f	2024f	2025f
Real GDP growth (%)	2.8	2.2	2.3	2.4	2.3
Nominal GDP in USDbn	1,146	1,204	1,263	1,334	1,341
Nominal GDP in local currency (bn)	23,494	24,928	26,398	28,009	29,633
GDP per Capita in USD	8,938	9,310	9,682	10,140	10,279
Population (year-end, m)	128.2	129.4	130.5	131.5	130.5
Exchange rate (yr avge, USD-LCU)	20.5	20.7	20.9	21.0	22.1
Current Account in USDbn	12.2	-2.4	-4.9	-16.1	-30.6
Current Account (% of GDP)	1.1	-0.2	-0.4	-1.2	-2.3
FX reserves (year-end, USDbn)	220.9	234.1	240.0	242.4	244.5
Import Cover (months)	6.9	7.3	7.5	7.6	7.6
Inflation (annual avge, %)	3.7	3.9	3.6	3.7	3.5
Govt Balance (% GDP)	-3.5	-2.4	-2.3	-2.1	-2.3

Source: Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Mexico	Brazil	Canada	Colombia	US
Income per Capita (USD)	8,073	6,304	41,184	5,378	62,436
Country Population (m)	127.1	212.6	37.7	50.8	331.0
Internet users (% of population)	65.8	67.5	91.0	62.3	87.3
Real GDP Growth (% p.a., 2021 - 2030)	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



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