

Highly correlated to the US

General Information



GDP	USD1260.91 bn (World ranking 15, World Bank 2013)
Population	122 mn (World ranking 11, World Bank 2013)
Form of state	Federal Republic
Head of government	Enrique PENA NIETO (PRI)
Next elections	2018, presidential



Strengths

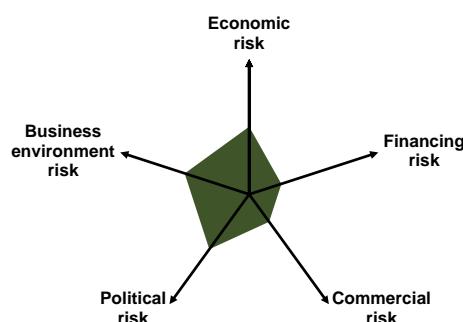
- Sound macro-policy framework
- Moderate debt ratios
- Strong, pro-business reform dynamics
- Structural business environment exceeds Latin American average
- Durable political framework with stable handovers of power
- Member of OECD
- Easy access to capital markets
- Support from IFIs likely if needed

Weaknesses

- Fiscal position highly sensitive to oil price (>30% of public revenues)
- Sensitive to US business cycle (>80% of exports)
- Skewed income distribution (geographically as well as among socio-economic groups), still high poverty levels
- Security issues related to drug-trafficking
- Rule of Law and control of corruption below Latin America's average

Country Rating

BB1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
United States	80%	1 49% United States
Canada	3%	2 17% China
China	2%	3 4% Japan
Spain	2%	4 3% South Korea
Brazil	1%	5 3% Germany

By product (% of total)

Exports	Rank	Imports
Crude Oil	11%	1 7% Refined Petroleum
Cars and Cycles	8%	2 7% Telecom. Equipment
Electrical Apparatus	8%	3 6% Electrical Apparatus
Commercial Vehicles	7%	4 6% Vehicle Components
Telecom. Equipment	6%	5 5% Plastic Articles

Source: ITC, Chelem



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Economic Overview

GDP growth will remain below 3% in 2016

Real GDP expanded by a moderate +2.5% in 2015, after +2.3% in 2014. The primary and tertiary sectors performed well in 2015 and expanded by +3.0% and 3.3% respectively, while the industrial sector somewhat disappointed with +1.1% growth.

2016 will be another challenging year for Mexico. Domestic demand will be limited by restrictive economic policies. To counter the fall in oil prices (oil accounts for a third of public revenues), an austere fiscal budget was adopted for 2016, with MXN137bn in spending cuts (0.7% of GDP). At the same time, despite low inflationary pressures, the Central Bank tightened its monetary policy as a response to the US monetary normalization and downward pressures on the local currency. The Mexican peso has depreciated by over -30% against the USD since June 2014, and will continue to be plagued by high volatility. Further hikes in the key rate are expected.

Last but not least, the uncertain outlook of the industrial sector in the United States can impact Mexico's growth, as both cycles are highly correlated. All in all, we expect the Mexican economy to grow by +2.6% in 2016 at +2.6%, still a moderate pace but well above the regional average and Latin American peers.

Strong fundamentals and fruit-bearing structural reforms

Mexico has enough tools to cope with the current external headwinds because responsible economic policies have been implemented over past years. Consumer prices are anchored thanks to the inflation targeting regime. Fiscal accounts are manageable, while public and external debts are relatively low. The current account deficit is almost entirely covered by FDI inflows and FX reserves are comfortable (above 5 months of imports). Mexico also benefits from a Flexible Credit Line of the IMF.

An ambitious structural reform agenda has been in place since 2012, which increases our expectations for a positive outlook in the medium-term. In particular, the energy sector reform opened hydrocarbons and electricity sectors to private capital, while the telecommunication sector reform enhanced the competition in this sector.

The business environment is overall good. Mexico ranks 38th out of 189 in the 2016 World Bank's Doing Business Survey, a very good position when compared with other LatAm peers (Brazil stands at 11th place). However, shortcomings remain: property registration, electricity supply and tax payments are examples. The rule of law, control of corruption and security are also important areas of concern.

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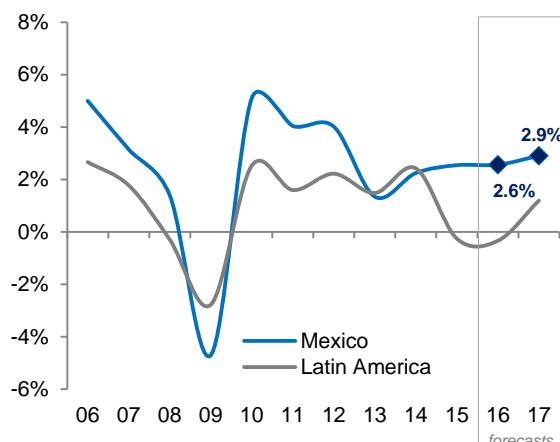
Key economic forecasts

	2014	2015	2016	2017
GDP growth (% change)	2.3	2.5	2.6	2.9
Inflation (%, yearly average)	4.0	2.7	3.2	3.0
Fiscal balance* (% of GDP)	-4.6	-4.0	-3.7	-3.3
Public debt* (% of GDP)	49.8	52.0	55.7	58.0
Current account (% of GDP)	-1.9	-2.8	-2.3	-1.7
External debt (% of GDP)	36.2	41.9	45.2	45.9

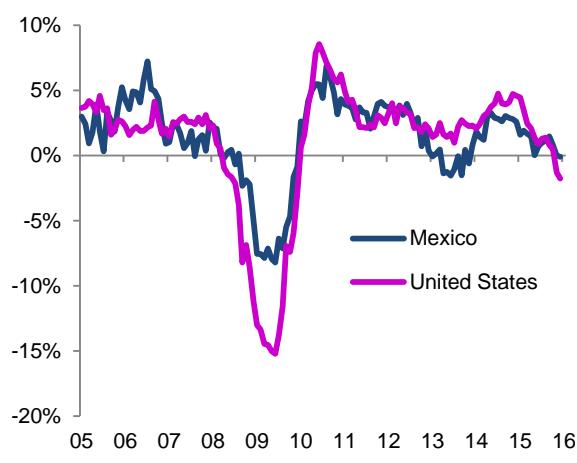
*Includes Local Government; Non-financial Public Corporations; Social Security Funds; State Governments

Sources: HIS, Euler Hermes, National Statistics

Real GDP growth (%)



Industrial production growth (y/y, %)



Sources: Bloomberg, IHS, Euler Hermes