Decide with Confidence

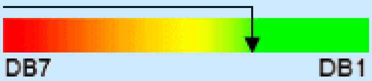
D&B Country RiskLine Report

MEXICO

Region : The Americas
Edition : April 2014

D&B Country Risk Indicator

DB3d



This "DB" Rating Indicates:

Slight risk

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

Trend

Improving

The country's overall risk profile is improving as a result of favourable political/commercial, economic and/or external developments

The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	114.6m
Surface area (sq km):	1,958,000
Capital:	Mexico City (Distrito Federal)
Timezone:	GMT -4:00
Main language:	Spanish
Head of state:	President Enrique Pena Nieto
GDP (USD):	1.2trn
GDP per capita (USD):	11,162.4
Life expectancy (years):	76
Literacy (% of adult pop.):	91.6

Country Overview:

Bordered by the Gulf of Mexico and the Caribbean and the Pacific, 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, its main trading partner.

The ruling centre-right National Action Party has followed a broadly pro-business policy agenda a divided legislature has stalled progress on key reforms (including the controversial reform of the state oil company, Pemex).

Trade & Commercial Environment

Trade Terms

Minimum Terms:	LC

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:	LC

D&B'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.

Transfer Situation

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.

Trade & Commercial Environment

The peso recovered against the dollar in the last two weeks of Q1 from MXN13.256 on 11 March to MXN13.0880 on 26 March as the US manufacturing sector expanded; the *US Institute for Supply Management Manufacturing Index* rose from 53.2 points in February to 53.7 in March. The peso will strengthen in H2 as demand for exports from the US (Mexico's single-largest trade partner) rises. Foreign reserves held by the Bank of Mexico remained solid, increasing 9.0% year on year to USD180.86bn at end-February. D&B expects cross-border payment risks to remain low in the near term and transfer risks to stay negligible on account of good USD liquidity and Mexico's open capital account, which facilitates relatively easy currency convertibility.

Export Credit Agencies

US Eximbank	Full cover available
Atradius	Full cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

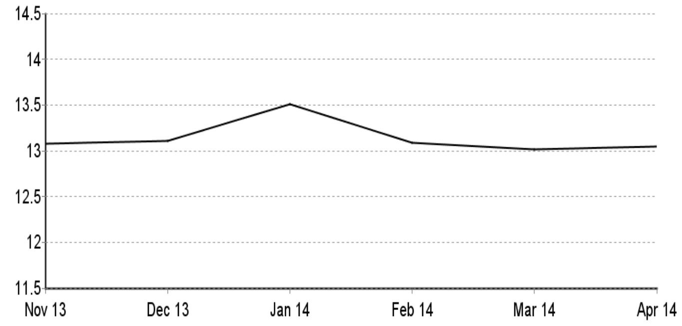
Economic Indicators

	2011	2012	2013	2014f	2015f
Real GDP growth, %	3.9	3.9	1.2	3.0	4.0
Inflation, annual ave, %	3.4	4.1	3.8	4.5	4.3
Govt balance, % GDP	-3.4	-3.7	-3.8	-4.1	-3.5
Unemployment, %	5.2	4.9	4.9	4.6	4.6
C/A balance, % GDP	-1.0	-1.2	-1.3	-1.6	-1.6

Currency Information

Exchange Rates (London, 10 Apr 14)	
EUR	18.1102
GBP	21.8866
JPY*	12.8514
USD	13.0468
*(x 100)	

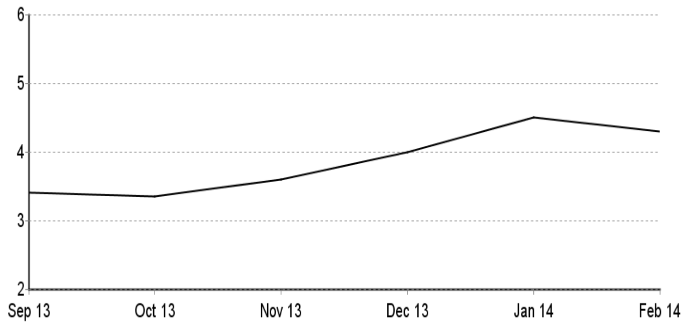
Local Currency (Mexican peso [MXN]: USD)



	Local Currency (Mexican peso [MXN]: USD)					
	Nov 13	Dec 13	Jan 14	Feb 14	Mar 14	Apr 14
Week 1	13.082	13.104	13.505	13.088	13.011	13.047
Week 2						
Week 3						
Week 4						
Week 5						

Inflation

Inflation (y/y change, %)



Data Table					
Sep 13	Oct 13	Nov 13	Dec 13	Jan 14	Feb 14
3.4	3.35	3.6	4.0	4.5	4.3

Risk Factor

Softening sentiment in the manufacturing sector (as bad weather in the US curbed demand) suggests below-expected levels of economic activity in Q1. Thus, we have lowered our real GDP forecast for 2014 from 3.4% to 3.0%. The March *Opinion Survey of Manufacturing Firms* caused the *Sentiment Index* for the sector to slide from 52.97 points in February to 52.55. Nevertheless, we expect confidence in the sector to improve as US demand accelerates on the back of a stronger economy and as the euro zone continues to heal. Moreover, government spending will be a significant growth driver in the next three quarters on account of the 2014 USD346bn deficit budget. Specifically, the construction sector will benefit from a much-needed fillip, with a 14.0% year-on-year (y/y) rise in infrastructure spending; the construction sector under-performed in 2013 largely due to delays in government spending at the start of 2013. We expect the Mexican government to cut its 2014 growth forecast from its recent projection of 3.9%, but that it will remain in its current range of 3.0-4.0%.

Inflation eased to 3.89% in the first two weeks of March, down from a 12-month rate of 4.23% in February and 4.48% in January. Consequently, inflation-linked Mexican bonds sank to a five-year low as the central bank signaled a benign outlook for inflation through to 2015. Lower fuel subsidies and tax reforms, which became effective in January, are among the recent drivers of upward price pressure. Notably, core inflation (which excludes food and energy prices) rose by 0.25% in February, down from 0.89% in January. On 28 March, the central bank unsurprisingly held its benchmark interest rate at 3.50%. At the beginning of the year, the bank signaled that a rate hike was unlikely in the near term unless investors' exit from emerging-market assets led to significant currency volatility and placed upward pressure on domestic inflation. We agree with the bank's forecast of an average inflation rate of just above 4.0% in H1 and a subsequent gradual decline to its target range of 3.0% (+/-1.0%) in H2 2014 and into 2015.

Meanwhile, a US-Mexico trade row is brewing as US sugar producers filed a complaint with the U.S. Commerce Department and the U.S. International Trade Commission, accusing Mexican exporters of dumping subsidised sugar on the US market. Under the North American Free-Trade Agreement, Mexico exports its sugar to the US and imports high-fructose corn syrup from the US. In response to the complaint, Mexico has pledged to defend its sugar producers, alleging that the producers of imported high-fructose corn syrup are also beneficiaries of subsidies. This follows Mexico's threat in 2013 to impose retaliatory trade barriers against the US in response to America's new country of origin labeling rules for imported meat.

Glossary & Definitions

DEFINITIONS

Minimum Terms:

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:

D&B'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:

Normal period of credit associated with transactions with companies in the stated country.

Local Delays:

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

F/X Bank Delays:

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.

C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:
Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:
The balance of government expenditure and receipts.

Real GDP growth, %:
GDP adjusted for inflation.

Inflation, %:
The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

D&B Country Risk Services
For information relating to D&B's Country Risk Services.

UK
Telephone: 01628 492700
Fax: 01628 492929
Email: CountryRisk@dnb.com

USA Inquiry
Telephone: 1-800 234-3867 option 1, 1 and then 2
Email: CountryRiskServices@dnb.com

Rest of World
Telephone: +44 1628 492700
Email: CountryRisk@dnb.com

D&B Customer Services
For all other information or queries relating to D&B products and services.

UK
Telephone: 0870 243 2344 (UK) / 1 890 923296 (IR)
Email: CustomerHelp@dnb.com

USA
Telephone: 1-800 234-3867 option 1, 1 and then 2
Email: CustomerService@dnb.com

Rest of World
You can contact your local D&B Customer Services departments by clicking here.

Whilst D&B attempts to ensure that the information provided is accurate and complete, by reason of the immense quantity of

Worldwide Network

Decide with Confidence