



Decide with Confidence

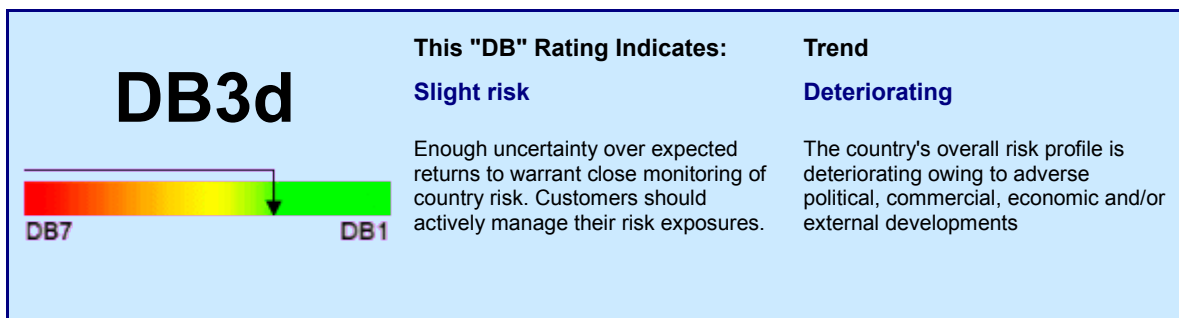
D&B Country RiskLine Report

MEXICO

Region : The Americas

Edition : December 2011

D&B Country Risk Indicator



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:	109.6m
Surface area (sq km):	1,958,000
Capital:	Mexico City (Distrito Federal)
Timezone:	GMT -4:00
Main language:	Spanish
Head of state:	President Felipe CALDERON Hinojosa
GDP (USD):	874.5bn
GDP per capita (USD):	7,979
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
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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
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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
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Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	0-1 month
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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
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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 depreciation of the peso over September and October will increase short-term credit risk. However, the central bank has built up record FX reserves, which stood at USD140bn at end-October (up from USD138bn at end-September). This supports Mexico's ability to meet external financing obligations. Meanwhile, the commercial environment will still be hindered by the government's difficulty in passing reforms to key sectors of the economy, notably the hydrocarbons sector. The current centre-right National Action Party government is unlikely to be able to push through reforms before the presidential election in 2012, which is likely to be won by the centre-left Institutional Revolutionary Party (PRI).

Export Credit Agencies

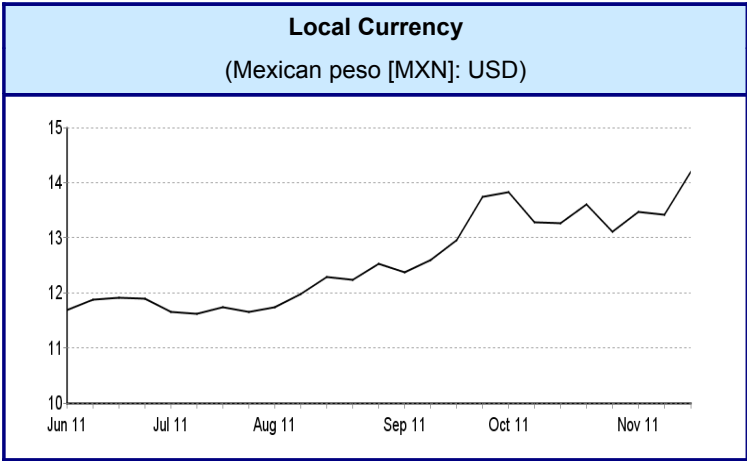
US Eximbank	Full cover available
Atradius	Full cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

	2009	2010	2011	2012f	2013f
Real GDP growth, %	-6.2	5.4	3.6	3.8	4.0
Inflation, annual ave, %	5.3	4.2	4.3	4.8	5.0
Govt balance, % GDP	-2.3	-2.8	-2.0	-1.0	-0.8
Unemployment, %	5.5	5.4	4.4	3.7	3.5
C/A balance, % GDP	-1.1	-0.7	-0.9	-1.3	-0.7

Currency Information

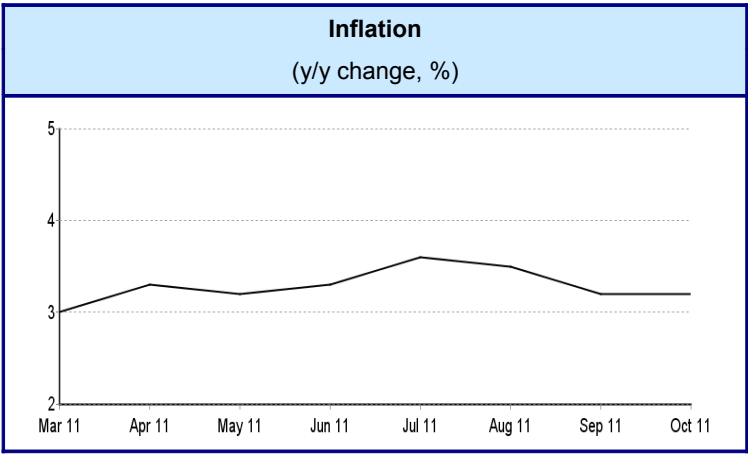
Exchange Rates	
(London, 14 Nov 11)	
EUR	18.4206
GBP	21.5642
JPY*	17.4016
USD	13.4114
*(x 100)	



Local Currency
(Mexican peso [MXN]: USD)

	Jun 11	Jul 11	Aug 11	Sep 11	Oct 11	Nov 11
Week 1	11.687	11.651	11.735	12.374	13.830	13.476
Week 2	11.879	11.625	11.982	12.599	13.271	13.411
Week 3	11.904	11.732	12.285	12.958	13.260	14.212
Week 4	11.887	11.646	12.237	13.745	13.598	
Week 5			12.528		13.114	

Inflation



Data Table

Apr 11	May 11	Jun 11	Jul 11	Aug 11	Sep 11
3.3	3.2	3.3	3.6	3.5	3.2

Risk Factor

The Mexican peso remained weak against the US dollar throughout October and the first half of November, trading at an average of MXP13.4:USD over October (over 8% weaker than the average value in October 2010) after a rapid depreciation in September resulting from increased global risk aversion, notably the intensifying euro-zone debt crisis. There was no improvement over November as the troubles in the euro zone continued to dent investor confidence, with signs of a modest recovery in the US (Mexico's key export market) failing to provide any significant positive momentum.

The weaker peso underscores Mexico's vulnerability to exogenous shocks. Although FX reserves and a USD72bn contingency credit line from the IMF will provide some support to the currency in the event of a shock such as a default in the euro zone, over the short term the weaker peso will exacerbate credit risk as many Mexican companies have significant US dollar-denominated liabilities, which will now be more expensive to service in US dollar terms. Furthermore the weaker currency will put upward pressure on inflation, eroding profit margins for businesses reliant on peso-denominated inputs; CPI inflation jumped to 0.5% month on month (m/m) in October as a result of the depreciation, up from 0.0% in September. Although the impact of the weaker currency will be mitigated by Mexico's relatively low reliance on imported goods, it may be sufficient to prevent the central bank from loosening monetary policy in order to stimulate the economy. Furthermore, the 2012 budget will see spending increase by just 2.5% while the state-owned oil company Pemex (previously a major cash cow for the government) is struggling with falling production. We therefore continue to expect sluggish real GDP growth of 3.6% in 2011 rising only slightly to 3.8% in 2012.

The political environment is a further source of uncertainty with presidential and parliamentary elections scheduled to be held in July 2012. The opposition Institutional Revolutionary Party (PRI) appear well placed to win the election with their charismatic candidate Enrique Pena Nieto. Although Pena Nieto's credentials as governor of Mexico state are likely to appeal to more moderate voters, the party's history as a nationalist populist political machine which controlled Mexico for over 71 years prior to 2000 is cause for concern. The PRI appears unlikely to continue with the fiscal reform programmes initiated by the incumbent centre-right National Action Party government of President Felipe Calderon, which have been aimed at improving the efficiency of the country's tax system. Furthermore, efforts to reform state institutions such as Pemex are less likely to continue under the PRI.

Glossary & Definitions

DEFINITIONS

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Usual Terms:

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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

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