

Following US recovery

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

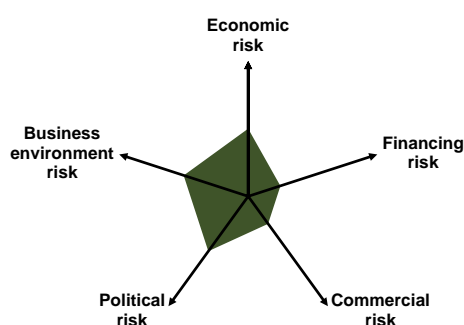
- Pro-business, sound macro-policy framework
- Moderate debt ratios
- Strong, pro-business reform dynamics
- Structural Business Environment above Latin American average
- Durable political framework with stable handovers of power

Weaknesses

- Fiscal position 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 relating to drug-trafficking
- Rule of Law and control of corruption are below Latin America 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

Economic Overview

GDP growth will remain below 3% in 2015

Mexican GDP grew by to +2.1% in 2014 (against +1.4% in 2013). This uneven economic activity was due to weak domestic demand: private consumption only grew by +2.0% (the slowest pace since 2009) and investment increased moderately by +2.2%. On the other hand, external demand was improving particularly due to the 2014 gradual recovery in the US (80% of exports). Exports increased by +7.3%. However this over-reliance on the foreign markets can prove disappointing, as shown by the Q1 figures: with weaker US economic activity, GDP expanded by only +0.4% q/q (+1.6% annualized). as oil revenues represent one third of total public revenues, the fall in oil prices has forced the government to cut his spending by -0.7% of GDP to meet its fiscal consolidation target.

The external environment will remain extremely uncertain in 2015, and the Mexican peso will continue to be plagued by high volatility. While the peso should strengthen, supported by gradually recovering oil prices (both are highly correlated, Chart 5), downward pressures might be generated by tighter external financing conditions derived by the Fed's tapering. Timing and spillovers of the forthcoming Fed's key rate increase will be critical. If U.S. growth is affected, it could negatively impact demand of Mexican goods while it could also worsen the country's credit conditions.

Euler Hermes expects Mexico to grow by +2.9% in 2015, a relatively low pace but still above the regional average. Output should however accelerate thereafter thanks to the U.S. recovery and positive feedback from structural reforms.

Strong fundamentals and fruit-bearing structural reforms

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 (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, 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 (ranked 39th out of 189 in the 2015 World Bank's Doing Business Survey) but several shortcomings remain regarding registering property, getting electricity and paying taxes. Rule of law, control of corruption and security issues are also important areas of concern.

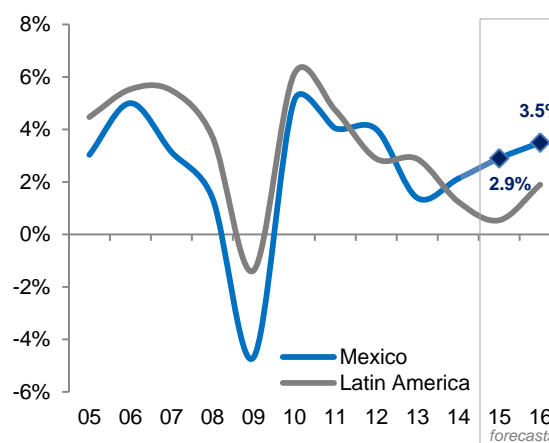
Key economic forecasts

	2013	2014	2015	2016
GDP growth (% change)	1.4	2.1	2.9	3.5
Inflation (% , yearly average)	3.8	4.0	2.9	3.1
Fiscal balance* (% of GDP)	-3.8	-4.6	-4.1	-3.8
Public debt* (% of GDP)	46.3	50.1	51.7	52.0
Current account (% of GDP)	-2.4	-2.0	-2.2	-2.2
External debt (% of GDP)	35.1	36.5	38.7	40.9

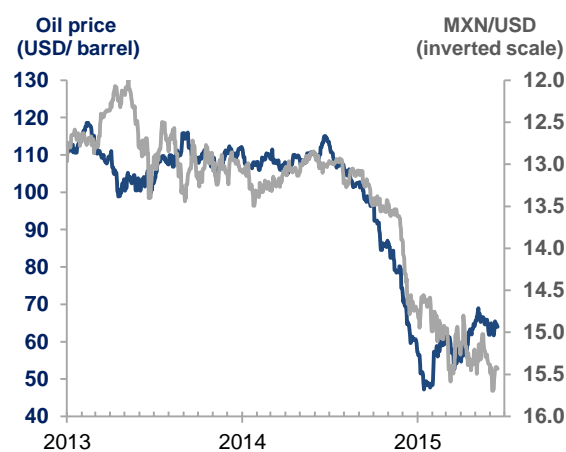
*Includes Local Government; Non-financial Public Corporations; Social Security Funds; State Governments

Sources: National sources, IMF-WEO, IHS, Euler Hermes

Real GDP growth (%)



Peso exchange rate against WTI Prices



Sources: Bloomberg, IHS, Euler Hermes

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