SCHEDA PAESE

MEXICO

SACE

COUNTRY REPORT

MEXICO

Economic Research and Public Affairs
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Capital city: Mexico City
Population (2010): 108.6 mln
Nominal GDP (PPP, 2010): US$ 1,039 bln

LOW: L1, L2, L3
MEDIUM: M1, M2, M3
HIGH: H1, H2, H3

RISK : M2

OUTLOOK: stable

EXECUTIVE SUMMARY

Political risk. The popularity of President Calderon, elected in 2006, is in decline. It remains doubtful therefore that he will be reconfirmed at the next presidential elections scheduled for July 2012.

Economic risk. The Mexican economy, following the US slowdown, has been hit hard by the global crisis, however, significant anti-cyclical measures have facilitated the recovery.

Financial and operational risk. The Mexican banking system is among the most developed in Latin America, thanks to the overwhelming presence of foreign operators. Bureaucracy, corruption and inadequate infrastructure are major obstacles to international investors.

SELECTED ECONOMIC INDICATORS

	2008	2009	2010e	2011f	2012f
Real GDP (% change)	1.2	-6.2	5.4	4.4	4.1
Consumer prices (% change. average)	5.1	5.3	4.2	3.6	3.1
Central government balance/GDP (%) *	-0.1	-2.3	-2.8	-2.5	-2.0
Balance of payments					
Exports ($ bln)	291.3	229.7	298.5	362.6	391.8
Imports ($ bln)	-308.6	-234.4	-301.5	-368.8	-397.5
Trade balance ($ bln)	-17.3	-4.7	-3.0	-6.2	-5.7
Current account balance ($ bln)	-16.0	-6.1	-5.7	-13.6	-12.7
Current account balance/GDP (%)	-1.5	-0.7	-0.5	-1.2	-1.0
Total external debt ($ bln)	201.2	192.4	239.0	260.3	270.5
Total external debt/GDP (%)	18.4	21.8	23.0	22.3	22.0
Reserves ($ bln)	95.3	99.9	122.6	132.9	142.9
Reserves (months of imports)	4.	3.7	3.6	3.9	3.9
Exchange rate BRL/USD (annual average)	11.13	13.51	12.64	11.87	12.08

Source: IMF, July 2011; EIU – Bureau van Dijk. July 2011

e: estimates; f: forecasts

OPERATIONAL BUSINESS INDICATORS

Business Climate Indicators	Current	Previous
Doing Business 2011	127/183	124/183
Index of Economic Freedom 2011	113/183	105/183
Corruption Perceptions Index 2010	75/178	80/180

Agreements and Treaties	
Convention of Washington	--
Convention of New York	In force
Bilateral agreement on the promotion and protection of investments	In force
Bilateral agreement to avoid double taxation on income	In force
Transferability	Yes

RATING

Standard and Poor's	BBB
Moody's	BBB+
Fitch	BBB

SACE TERMS OF COVER

OECD Category: 3/7	
Sovereign risk	without conditions
Bank risk:	without conditions
Private risk:	without conditions

SACE GUARANTEES 31 MARCH 2011

Mexico	
Committed (€ mln)	650.4
Outstanding (€ mln)	542.9
- of which issued (€ mln)	461.1

POLITICAL RISK

RISK: medium

OUTLOOK: stable

Domestic affairs. President Calderon, elected in 2006, has lost some of his popularity, as shown by the victory of the opposition party (*Partido Revolucionario Institucional, PRI)* in the mid-term elections of 2009 and the recent elections in Estado de Mexico City in July 2011. The causes lie mainly in the difficult economic conditions experienced by the population in the recent period of recession and persistently high rates of crime, especially related to drug trafficking, despite the fight against crime being one of the key points of Calderon's political program. It remains doubtful therefore that he will be reconfirmed at the next presidential elections scheduled for July 2012.

International relations. Mexican foreign policy is focused on relations with the United States and is concerned particularly with immigration, the legalisation of migration flows, control of drug trafficking and organised crime. In addition the country, a former member of the North American Free Trade Agreement (NAFTA), is trying to integrate more with the countries of South America and has embarked on the process of joining the South American Common Market (MERCOSUR).

ECONOMIC RISK

RISK: medium

OUTLOOK: negative

Economic activities. The Mexican economy has been hit hard by the recent economic crisis (-6.2% GDP growth in 2009), following the economic slowdown of the US. However, policies implemented to strengthen public finances in the last decade have allowed the use of substantial anti-cyclical measures, thanks to which GDP growth was once again positive (5.4%) in 2010. There are still some critical issues related to the development of global markets, especially the US, which absorbs approximately 80% of exports from Mexico. For 2011, the deceleration in industrial production and a moderate slowdown in the US economy are likely to lead to a fall in the rate of GDP growth compared to 2010 (4.4%).

Public finances. The deficit has increased in the last two years due to anti-cyclical fiscal policies and falling revenue as a consequence of the decline in production in the oil sector. In 2008 and 2010 fiscal reforms were introduced aimed at curbing public spending and reducing dependence on income from oil companies. For 2011 a slight reduction in the deficit (2.5%) is forecast, while disbursements for the management of PEMEX (the state oil company) continue to be significant.

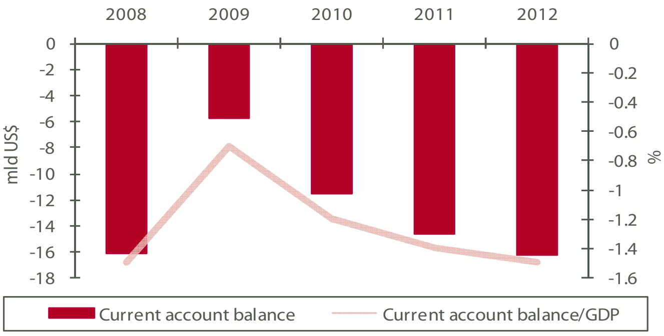
Inflation. GDP is still below its potential level and pushes inflation downward, which then continues its downward trend. This allows the government to pursue accommodating monetary policies and meet inflation targets.

Balance of payments. In 2010, the recovery of imports following the stimulation of domestic demand was offset by the increase in exports, resulting in a reduced trade deficit compared to 2009, which together with the recovery of net transfers has led to an improved current account balance. For 2011 however the worsening trade balance will result in an increase of current account deficits, largely financed by FDI. The short-term forecasts confirm this trend.

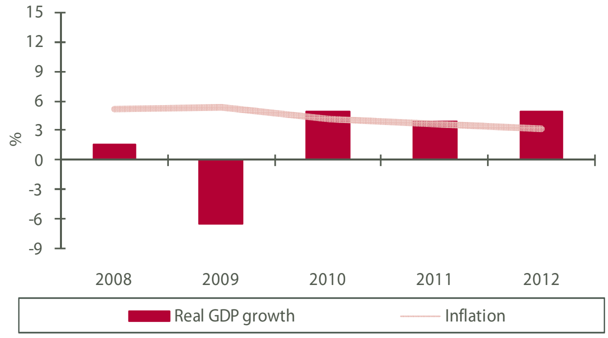
Foreign debt and international reserves. The analysis carried out by the IMF shows a sustainable debt position, which will remain moderately stable in relation to GDP in the short term. The amount of international reserves in 2010 increased over the previous two years (€ 120.6 billion, or approximately 4 months of imports, a level which while not being particularly high is adequate) and is likely to increase further in 2011/2012.

Exchange rate. The authorities have adopted a flexible exchange rate regime for more than a decade. After the devaluation in 2009, the nominal exchange rate appreciated in 2010. Further appreciation is expected in 2011.

Current account balance



GDP growth and inflation



FINANCIAL RISK

RISK: medium

OUTLOOK: stable

System structure The Mexican banking system is relatively concentrated: the 7 main commercial banks of a total of 41 institutions hold 83.6% of total assets. Foreign presence is significant: the percentage of bank assets owned by subsidiaries of foreign banks amounts to 74.3%, although this has falling slightly compared to the last 5 years. The Mexican government owns eight development banks aimed at funding specific sectors of the economy such as small and medium-sized enterprises, infrastructure and public works, agriculture and foreign trade. However, these only play a minor role in the banking sector as a whole.

Performance. The Mexican banking system has, in recent years, become increasingly competitive and can now be considered among the most developed in Latin America. Having risked collapsing in the mid '90s, the system was restructured and consolidated and several banks were recapitalised by the treasury. The banks have overcome the recent international financial crisis without any major difficulties (NPL accounted for 2% of the total in 2010) while non-banking financial intermediaries were more seriously affected.

Stock market. Financial activity has witnessed a remarkable expansion in recent years, supported by considerable investment flows. The financial crisis had only a minor impact on Mexico's capital markets, although several stock market indexes reported negative results. There has been no significant variation in the value of CDS.

OPERATIONAL RISK

RISK: medium

OUTLOOK: stable

Legal system. Bureaucracy in Mexico remains cumbersome, expensive and inefficient, as shown by the widespread practice of irregular payments to get around administrative barriers; the law that Congress approved in April 2002 to make public administration more streamlined and transparent has not yet brought concrete results. Corruption is widespread.

Attitude towards foreign investors. Since the '90s, especially after joining NAFTA and signing other bilateral agreements with the European Union, the Mexican government has adopted an attitude of greater legislative and operational openness towards foreign trade and investments. However, especially in the energy sector, there are still some barriers to foreign capital which can only be removed by a law amending the Constitution. As the country is not a signatory of the Convention of Washington it does not allow foreign investors to apply to the International Centre for Settlement of Investment Disputes. In May 2011 a bill was approved regarding competition which, if fully implemented, could weaken the strong positions of the monopolies.

Infrastructure, safety and natural disasters. The infrastructure system is satisfactory in urban areas, but access to many inland areas is difficult. Despite the initial results of the campaign against drug trafficking the crime rate remains high and the situation is made worse by police corruption. The country is subject to occasional natural disasters such as floods and hurricanes.

RELATIONS WITH IFIs

International Monetary Fund. A new Flexible Credit Line of approximately US$ 47 billion has recently been activated, aimed at supporting and stimulating growth.

World Bank. Currently, the World Bank operates a Country Assistance Strategy with Mexico funding projects for US$ 800 million a year until the end of 2013. The projects relate to four strategic pillars: the reduction of poverty and inequality; an increase in competitiveness; strengthening institutions; promoting environmental sustainability.

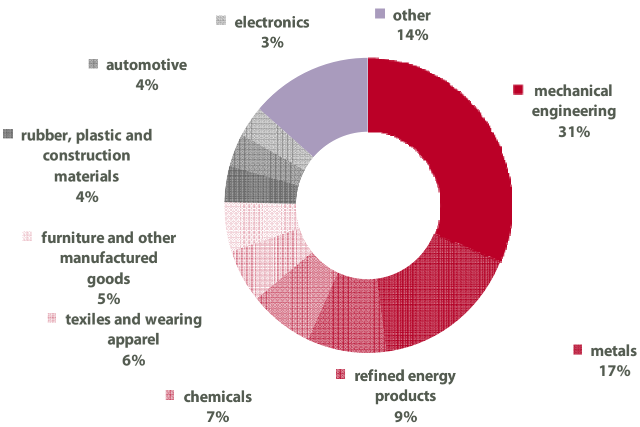
Inter American Development Bank. In the last 5 years the Bank has paid funds of approximately US$ 11.7 billion, mainly for projects aimed at modernising the social and state sector, and the capital market. In the first half of 2011 8 projects were approved for a total of about US$ 793 million related in particular to the development of water infrastructure and the health system, together with improved productivity of the agricultural sector.

BUSINESS RELATIONS WITH ITALY

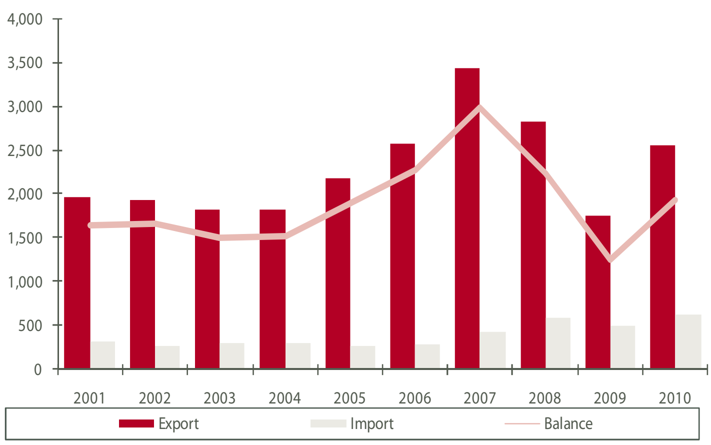
Trade. Italy is the second European supplier to Mexico after Germany and the tenth trade partner on a world scale. In 2010 Italian exports increased by 46%, recovering almost completely to pre-crisis levels and reached € 2.6 billion. The leading sectors of Italian exports were mechanical engineering (31%), metals (17%) and refined energy products (9%). In 2010 imports amounted to approximately €622 million, an increase of 24% over the previous year, and consisted mainly of chemicals, furniture and other manufactured goods.

Foreign direct investments. Foreign investment in Mexico increased dramatically after it officially became a member of the North America Free Trade Agreement (NAFTA). According to the joint report by the ICE/MFA in 2010 FDI in Mexico reached $17.7 billion. The biggest investor countries were the Netherlands (8.7 billion), USA (4.9 billion), Spain (1.3 billion). Also in 2010 the value of Italian investments increased by 41% over the previous year, reaching $ 28.8 million thanks to large industrial groups such as Tenaris-Ternium, Fiat and Pirelli. The recent entry of Enel in the hydropower sector is to be noted.

Italian exports to Mexico (2010. %)



Italy - Mexico trade balance (2001-2010. mln €)



Last update: July 2011