



Country outlook ***Mexico***





Mexico



Form of Government: Presidential federal republic

Capital: Mexico City

Official language: Spanish

Population: 127 million inhabitants (2019)

Currency: Mexican peso (MXN)

Exchange rate: 1 EUR = 26.08 MXN (30/04/2020)
1 USD = 23.81 MXN (30/04/2020)

GDP: \$1,274 billion (1.9% of world GDP)

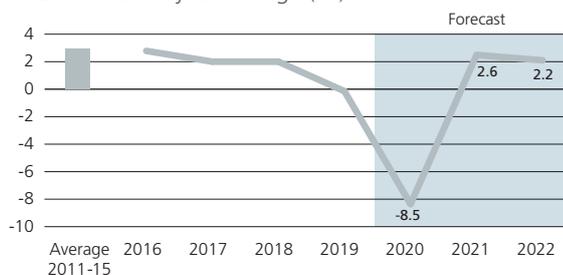
GDP per capita: \$10,118 (\$20,868 purchasing power parity)

Ease of doing business: 60th in the world out of 190 according to the World Bank (Doing Business)

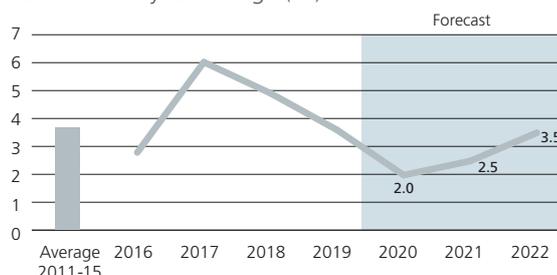
Religion: Catholic: 73%

Economic forecast

GDP. Year-on-year change (%)



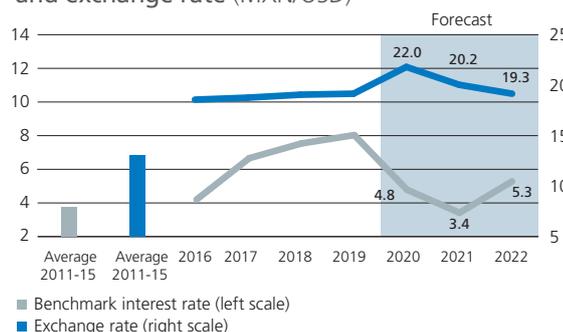
CPI. Year-on-year change (%)



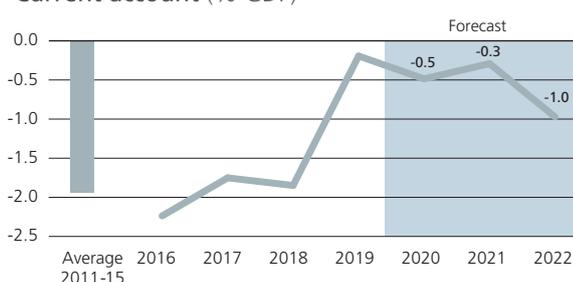
- Mexico is potentially one of the emerging economies that are most vulnerable to the COVID-19 crisis because it is facing a highly intense real shock (due to its dependence on the US and the importance of tourism and the oil sector), against a backdrop of sovereign risk pressures, to which there has been a limited reaction through economic policy (including the health response). This places the economy in a significantly weak position and the risks are increasing. Therefore, we anticipate a drop in GDP of around 8.5% in 2020 (with could be around -12% in more extreme circumstances) and a 2.6% rise in 2021.
- The deep recession in 2020 is likely to result in a fall in inflation to levels that are unprecedented in the history of Mexico's economy (2.0% in 2020, compared to the 3.6% average in 2019), mainly because the decline in consumption will lead to a complete absence of demand pressures. In 2021, the increase in prices will also be limited, as would be expected in an economy that is only partially recovering.

Economic policy

Benchmark interest rate (%) and exchange rate (MXN/USD)

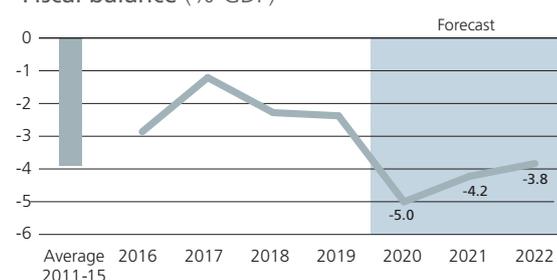


Current account (% GDP)



- Although there has been no widespread increase in financial imbalances in Mexico, there are some weaknesses which could worsen during the current shock. The main vulnerability is the poor financial situation of Pemex (see the section on Financial conditions). Moreover, in gross terms, the public funding needs for 2020 stand at 12% of GDP, in the middle of the range among the main emerging economies, mainly due to the importance of debt amortisations (around 7% of GDP). Additionally, it should be noted that non-resident bondholders now hold a total of 40% of public debt, a relatively high ratio among the main emerging economies (15 percentage points higher than the average in emerging economies) and this may hinder the debt roll-over strategy.

Fiscal balance (% GDP)



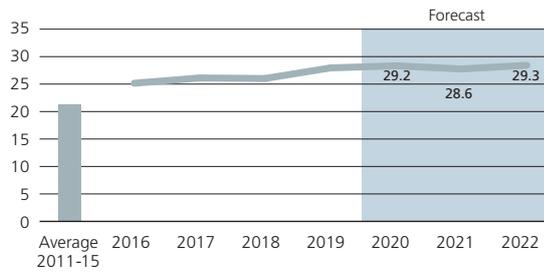
Public debt (% GDP)



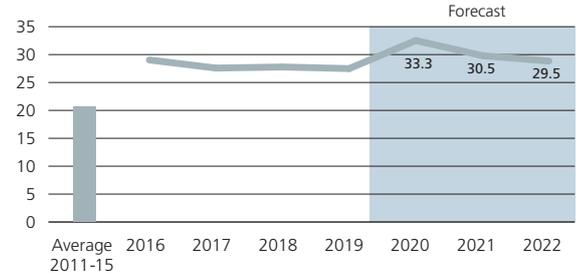
- Mexico has opted for a relatively lax containment strategy against COVID-19. In terms of fiscal policy, although Mexico's fiscal position is not ostensibly bad, the dependence on Pemex and the lack of progress in reducing public debt are in practice reducing the room for fiscal manoeuvre. Given these circumstances, to date the government has not made any significant decisions regarding increases in public expenditure and investment. In this context, Banxico is responding with an aggressive reduction in the reference rate. Furthermore, a set of measures have been adopted to support banking liquidity, ensure the good performance of bonds and facilitate the flow of credit to micro, small and medium-sized Mexican firms. Regarding the peso, the strong uncertainty surrounding Mexico's economic and financial situation leads us to believe that the downward pressure will continue in 2020.

Financial conditions

Private credit (% GDP)



Gross external debt (% GDP)



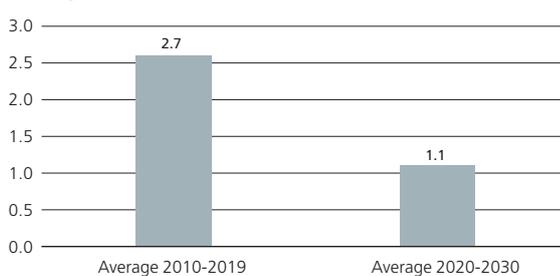
- Prior to the shock caused by the coronavirus, the Mexican banking sector was going through good times. Thus, it was recording good levels of capitalisation and profitability, while NPLs remained at low levels, close to the record low. Starting from this reasonably strong position, Banxico's actions have helped to contain any bank liquidity problems. However, the severity of the recession is placing the sector in a vulnerable position, which is likely to significantly increase non-performing loans and also notably reduce profitability.
- The main macro-financial weakness is Pemex's poor financial situation, which could potentially have an impact on sovereign risk. Therefore, it should be noted that there has been a lack of clarity in Pemex's business model for a number of years, which has resulted in falls in production of around 40% since 2008, debt accumulation (100 billion dollars, equivalent to 8% of Mexico's GDP) and losses of around 20 billion dollars in 2019 (which are highly likely to increase in 2020). It is worth remembering that Pemex provides around 10.4% of Mexico's fiscal revenue.

Political situation

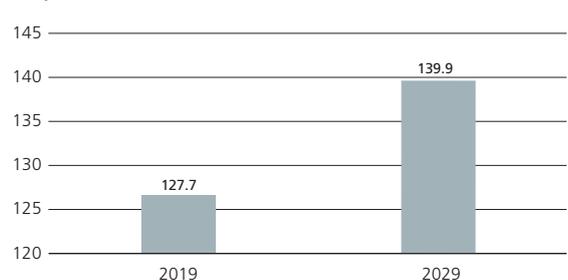
- The pandemic is such a major shock that it could change the course followed during the current presidential term. Thus, the relatively lax government strategy to deal with the pandemic could be seen as one of the causes of the strong macroeconomic decline expected in the country and, potentially, end up eroding the still high popularity of President López Obrador.
- In this context, it may be decided to bring forward the so-called recall referendum to 2021 (a consultation planned for 2022, putting the presidency in the hands of the country's citizens). If the holding of this referendum and the mid-term parliamentary elections (which will also be held in 2021) was accompanied by electoral short-sighted measures, it would change the still predominantly orthodox nature of economic policy under the current presidency.

Long-term outlook

GDP growth (%)



Population (millions of inhabitants)

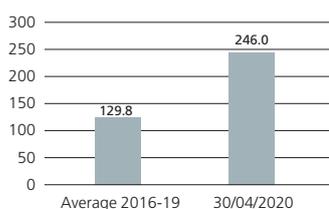


- Although Mexico's economic outlook in the medium-term is rather modest, we can expect further investment in infrastructure (although it will be required first to clarify the conditions under which public/private cooperation will operate and implement the terms of the new trade agreement with the US and Canada). Generally, the agreement should encourage the modernisation of the Mexican export manufacturing industry and provide a framework of stability that will spur investment. The effect of industrial modernisation and further infrastructure provision will improve the long-term growth prospects.
- Moreover, the demographic outlook up to 2030 is favourable (after which we will begin to see an increase in the elderly population and less natural population growth). However, the country will continue to face structural factors (institutional factors in particular) that will hinder its long-term potential.

Country risk

	Rating	Last changed	Outlook
STANDARD & POORS	BBB	26/03/20	Negative
MOODY'S	Baa1	17/04/20	Negative
FitchRatings	BBB-	16/04/20	Stable

CDS* 5 years (basis points)



OECD credit risk rating (from 0 to 7, with 0 being the best)



■ Indicates that the country has an "investment grade".
 □ Indicates that the country does not have an "investment grade".

*Credit default swap: measurement of country risk that reflects the cost of ensuring the non-payment of the sovereign bond.

Risks

SHORT-TERM

- Greater than expected global impact of the pandemic
- Worsening financial situation of Pemex
- Increased tightening up of international financing
- Populist orientation of the new government



LONG-TERM

- Reforms not entirely successful
- Inability to improve the institutions
- Difficulties in taking advantage of the new USMCA agreement



Business environment

STRENGTHS

- Size of the domestic market.
- Accessibility and ties with the US.
- Transport infrastructures.
- Bank solvency.

WEAKNESSES

- Institutions (mistrust and pending modernisation).
- Insufficient competition in energy sector.
- Insecurity.
- Inefficiencies in the labour market and education system.

Main sectors

EXPORTERS

- Vehicles, electronics, machinery, mineral fuels and optical, photographic and medical devices.

IMPORTERS

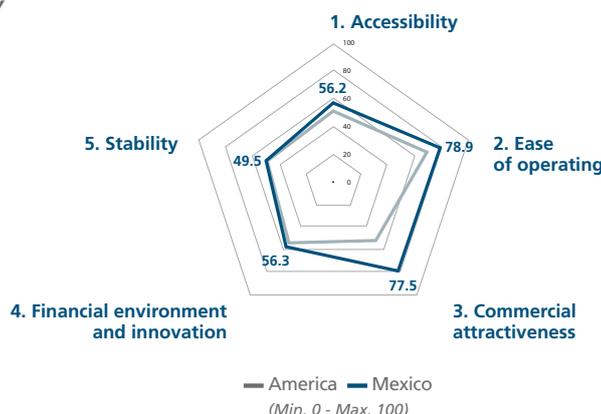
- Electronics, machinery, vehicles, mineral fuels and plastics.

CIBI | CaixaBank Index for Business Internationalisation

POSITION IN COUNTRY RANKING



PILLARS



SUBPILLARS

- Top**
 Investment relations with Spain
 Similar tastes to Spain
 Infrastructures
- Bottom**
 Purchasing Power
 Easiness of operating a business
 Institutional stability

Taxation

According to a new law passed in 2013, Mexico's income tax legislation (ISR) is levied on both the earnings obtained by companies and natural persons. The general rate for companies has been 30% since 2014, with no effective implementation of the planned reduction in the rate (to 28% in 2015 and 25% in 2016) which encouraged start-ups. Regarding individuals, the rate levied depends on their income level, from 0% to a maximum of

35%. Consumer taxes (VAT) have a general rate of 16% whereas some special products have a 0% rate, such as basic foodstuffs, books and newspapers, agricultural machinery and supplies and also goods and services for export. There is also a law on the special tax on production and services applied to special products such as alcoholic beverages, tobacco products and fuels, among others, at a rate of 25% up to 160%.

Investment

The most appealing sectors for foreign investment are manufactured goods, new technologies, financial services, trade, construction, transport and energy infrastructures, the motor vehicle industry and tourism. The favourable trend observed in recent years, in economic, political

and social terms, has helped the country remain one of the main destinations for foreign direct investment on the American continent. The main investing countries are the US, Spain Canada, Germany and Japan.

Establishment

LOCAL COMPANY

Mexico has the following types of commercial entities: partnerships, limited partnerships, limited liability companies, joint stock companies, partnerships limited by shares and cooperatives. The most widespread are joint stock companies (SA), variable stock corporations (SA de CV) and limited liability companies (S de RL). Limited liability companies must have a minimum share

capital established in the deed of incorporation that must be fully paid-up. 50% of the value of each corporate share must be paid-up in cash at the time it is subscribed; there are no restrictions for foreigners. It is also worth noting the importance and widespread use of trusts in Mexico (guarantee, administration, etc.).

BRANCH

Establishing a branch in this country entails maintaining a status of foreign company, and only activities 100% authorised for foreign legal persons can be carried out. In this respect

a subsidiary is differentiated from a branch in that the former has Mexican legal personality even though the capital comes from abroad.

REPRESENTATIVE OFFICE

A representative office, known in Mexico as a "sucursal con ingresos", is considered to be a foreign legal person according to Mexican law. This status must be requested from the National Foreign Investments Commission, part of the Secretariat of the Economy and if the application

is accepted, the representative office can only be registered in the Public Register of Commerce. This organisation can then carry out business operations except for the ones reserved for Mexican companies (or foreign companies set up in the country as a subsidiary or branch).

Alliances strategic

JOINT VENTURE

Three types of joint venture are allowed under Mexican legislation:

- Joint venture of strategic alliances: it is not compulsory to make any economic contribution. This is the sum of the characteristics of each member, all playing a part in accomplishing a collective purpose.
- Co-investment joint venture: this is a joint business with contributions in the form of finance or goods and a shared purpose, namely to profit from such assets to a greater extent than would be possible individually.

- Contractual joint venture: the persons involved perform a common activity but do not establish a new company, instead implementing cooperation agreements in which clauses are stipulated to govern the activities performed by each party and how profits and risks are distributed.

In accordance with Mexican law, mixed companies are considered separate organisations from their parent companies and have to be independently registered to pay taxes.

Customs conditions

FREE TRADE AGREEMENTS

Mexico and the EU have had a free trade agreement (FTA EU-MX) since 2000, which forms part of the Mexico-EU Agreement for Economic Partnership, Political Organisation and Cooperation, which was updated in April 2020 in the Latin American Integration Association. Mexico has a network of 13 free trade agreements (FTAs) with 50 countries, 32 agreements for the promotion and protection of reciprocal investments (APPRI) with 33 countries and 9 limited scope agreements

(Economic Complementation Agreements and Partial Scope Agreements) as part of the Latin American Integration Association (ALADI). Moreover, Mexico plays an active role in multi-lateral and regional bodies and forums such as the World Trade Organisation (WTO), Asia-Pacific Economic Cooperation (APEC), the Organisation for Economic Cooperation and Development (OECD) and the Latin American Integration Association (ALADI).

Customs conditions (continuation)

FREE TRADE ZONE

Mexico formally became a free trade zone under the 2003 Customs Act, joining the strategic private bonded warehouse (REFIE) customs programme, as part of the process of liberalising and opening up the country's trade. Under the terms of the Customs Act, these are sites or places where you can enter goods for a limited period (they may be domestic, fully imported or foreign) to be handled, stored, held, displayed, sold, distributed, prepared, processed or repaired, with the advantage (ex-

cluding a few exceptions) that no tax will be paid on international trade or compensatory tariffs. They will also not be subject to any non-tariff regulations and restrictions or official Mexican standards and waste and scrap will not be subject to any taxation, provided that it is destroyed. Mexico has free trade zones in the strategic private bonded warehouses and in the seven special economic zones located in eight states.

Negotiations and protocol

BUSINESS CULTURE

Cultural similarities between Spain and Latin American countries mean it is easier for the Spanish to do business, as they share a language as well as cultural and religious traits. Even so certain factors of business culture must be remembered, such as proximity. Mexicans value

cordiality very highly and politeness and courtesy must be shown to get to know them and gain their trust, which is why it's important to respect protocol as a sign of respect. At initial meetings it's as important to get to know each other as people as it is to present the business proposal.

Top fairs

- Expo Cihac.
- Expo Pack.
- Confiexpo.
- Feria del Libro de Guadalajara.
- Expo ANTAD & Alimentaria.
- Fundiexpo.
- Expo Agroalimentaria.
- lastimagen.
- INA PAACE AUTOMECHANIKA.
- Logistic Summit & Expo.
- Foro Petrolero Coparmex.
- Mexico Minergy.
- Expo Construye.
- Expo Mujer México.
- ExpoPartes.
- Expo Metal Mecánica.
- PROSA Foro Operativo.
- Expo Innovación.
- Invest México.

Websites of interest

- Secretariat for Foreign Relations: <http://sre.gob.mx/>
- Mexico Projects: www.proyectosmexico.gob.mx
- Secretariat of the Economy: www.gob.mx/se

Payment and charging methods

MEANS OF COLLECTION

It is always advisable to ensure payment by the usual international methods, mainly documentary credit as this offers the most guarantees, or via sight (Cash against Documents, CAD) or term (Deliver against Acceptance, DA) documentary

remittances, in which banks are involved in handling commercial documents. The use of bank transfers is also very widespread. The Mexican financial system is highly solvent and there are no problems confirming high-risk transactions.

MEANS OF PAYMENT

Documentary credit is the payment method most widely trusted. Payment through documentary remittances and bank transfers is also common.

EXCHANGE RATE INSURANCE

The exchange risk of both the peso and the dollar, a currency used in many business transactions, can be hedged.

CaixaBank in the country

CaixaBank has a strategic partnership with Grupo Financiero Inbursa (GFI) in Mexico. Inbursa is a strong bank with the highest credit rating in the country and it currently ranks fourth in trade credit. It creates major specialised companies that together

offer the best products with the best service, covering all of our customers' financial needs. It offers a wide range of products and services to CaixaBank's customers, providing access to the Mexican financial system.

CaixaBank in the world

- Branches
- Representative offices
- Spanish Desks

