

BEST'S COUNTRY RISK REPORT

Mexico CRT-3

August 22, 2018

Region: Latin America

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Mexico, a CRT-3 country, has a low level of economic risk and moderate levels of political and financial system risk. GDP grew 2% in 2017 and is expected to continue to expand at 2.3% in 2018. The recent election of a left-wing government could have a significant effect on the business environment over the medium term. Corruption and crime remain concerns that pose risks to business operations.
- The map depicts the countries in Central America, South America and the Caribbean A.M. Best evaluates. The majority of Latin American countries are categorized as CRT-3, CRT-4 or CRT-5.



- Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2) Low Level of Country Risk
- Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4) High Level of Country Risk
- Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

Regional Summary: Latin America

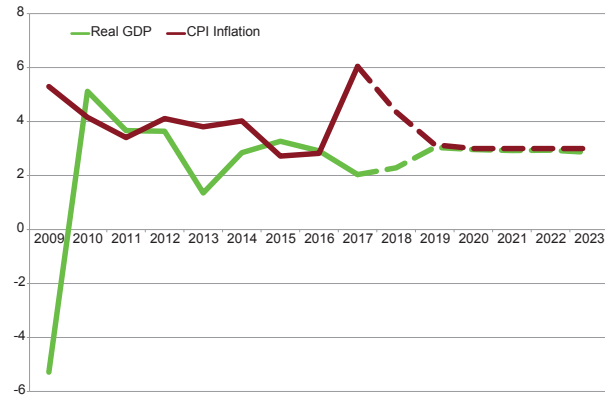
- Growth in the region is likely to continue in 2018 due to continued global growth, high commodity prices, and strong domestic demand. However, risks are tilted to the downside owing to rising political uncertainty, currency volatility, growing trade protectionism, rising fiscal deficits, and negative spillover effects from international financial markets.
- Conditions are largely positive, but several countries in the region are experiencing heightened risk. Years of unsustainable social programs, higher spending, and growing corruption have led to significant upcoming challenges for Venezuela, as well as Brazil and Argentina, albeit to a lesser extent.
- There have been several presidential elections so far this year, in Colombia, Mexico, and Venezuela; Brazil's is scheduled for later this year. The election environment is complex owing to mounting social conflicts, corruption scandals, and policy uncertainty. According to the IMF's 2017 estimates, these four countries are responsible for the largest proportion of the region's economic output, with Brazil at USD2,055 billion, Mexico at USD1,149 billion, Colombia at USD309 billion, and Venezuela at USD210 billion.

Vital Statistics 2017		
Nominal GDP	USD bn	1149.24
Population	mil	123.5
GDP Per Capita	USD	9,304
Real GDP Growth	%	2.0
Inflation Rate	%	6.0
United Nations Estimates		
Literacy Rate	%	94.5
Urbanization	%	79.8
Dependency Ratio	%	51.4
Life Expectancy	Years	76.1
Median Age	Years	28.3
Insurance Statistics		
Insurance Regulator	National Commission of Insurance and Finance	
Premiums Written (Life)	USD mil	11,844
Premiums Written (Non-Life)	USD mil	13,449
Premiums Growth (2016 - 2017)	%	1.0
Regional Comparison		
	Country Risk Tier	
Mexico	CRT-3	
Canada	CRT-1	
Dominican Republic	CRT-4	
Jamaica	CRT-4	
Panama	CRT-4	
United States	CRT-1	

Source: IMF, UN, Swiss Re, Axco and A.M. Best



Economic Growth (%)



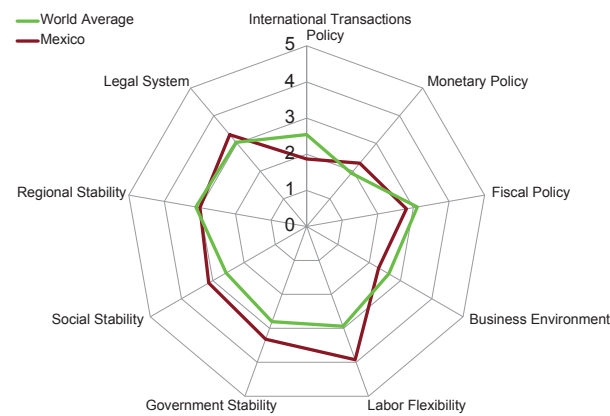
Source: IMF World Economic Outlook and A.M. Best

Economic Risk: Low

- Mexico is the world's 12th largest economy. As a major oil producer, the country is vulnerable to global oil price volatility. The recent rebound in oil prices will strengthen the economy, but the extent of improvement is limited owing to high deficits and moderate inflation.
- The performance of the economy correlates highly with the US economic cycle. Mexico imports approximately 50% and exports 80% of goods and services with the US. Although this has been beneficial in the past, the Mexican economy will remain vulnerable, given growing trade protectionism in the US.
- Privatization of key energy sectors introduced by the Peña Nieto government has the potential of being reversed once the new president takes office. Contracts in the infrastructure sector might also be inspected.
- High operational and security risks may disrupt the business environment.

Political Risk Summary

Score 1 (best) to 5 (worst)

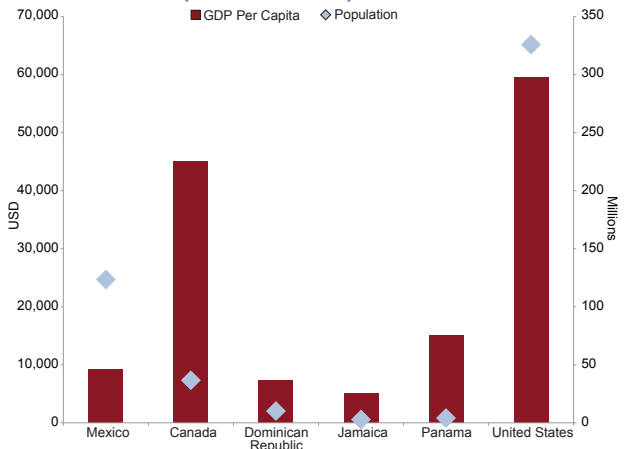


Source: A.M. Best

Political Risk: Moderate

- Andrés Manuel López Obrador won the presidential election on July 1, 2018. The left wing president-elect will take office on December 1st.
- López Obrador's party, MORENA, won seats in both legislative houses, but will still require collaboration with other parties to pass legislation. López Obrador opposes economic and energy reforms, but has pledged to eradicate corruption and mitigate the influence of the drug cartels, although with a much less confrontational approach, which has evoked controversy.
- The crime rate is high and has been rising. In 2017, there were 29,000 reported murders in the country. Political killings have been increasing, and security has deteriorated since the start of this election.
- The president-elect has shown signs of willingness to cooperate with the US amid an escalation of tension between the two countries under the current US president. Specific policies and approaches, especially regarding immigration, remain vague. His victory is likely to accelerate NAFTA negotiations.
- The legal system in Mexico is inefficient and subject to political interference, but generally provides fair protection for investors.

GDP Per Capita and Population



Source: IMF and A.M. Best

Financial System Risk: Moderate

- The insurance industry is regulated by the National Insurance and Surety Commission (CNSF).
- López Obrador has pledged to avoid tax increases, but there might be reductions in government expenditures.
- Banco de Mexico has implemented a tighter monetary policy, raising its policy interest rate several times, in an effort to defend the currency and prevent capital outflows.
- Ample liquid resources and access to international capital market give the country's financial system some flexibility.