THE PRS GROUP

MEXICO

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COUNTRY REPORT

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Gulf of Mexico
La Paz
Monterrey
MEXICO
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Progreso
Guadalajara
Puerto Vallarta
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Veracruz
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Belize
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Salina Cruz
Honduras
Guatemala
El Salvador
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Pacific Ocean

KEY TAKEAWAYS

MOST LIKELY REGIMES & THEIR PROBABILITIES	
18-MONTH	Populist Coalition 40%
FIVE-YEAR	*Divided Government 40%

FORECASTS OF RISK TO INTERNATIONAL BUSINESS				
	TURMOIL	**FINANCIAL TRANSFER**	**DIRECT INVESTMENT**	**EXPORT MARKET**
18-MONTH	High	B	B+	B
FIVE-YEAR	Moderate	B-	B- (B)	B-

( ) Indicates change in rating
* Indicates forecast of a new regime

KEY ECONOMIC FORECASTS			
	REAL GDP GROWTH (%)	**INFLATION (%)**	**CURRENT ACCOUNT ($bn)**
2017-2021(AVG)	0.1	4.7	-4.93
2022(F)	1.9	7.3	-6.60
2023-2027(F)	2.2	3.1	-11.80

AMLO UNDETERRED

With his statist agenda encountering resistance in the courts and the Congress, President Andrés Manuel López Obrador (AMLO) and his allies pushed to hold a referendum on whether he should be removed from office, wagering that the anticipated overwhelming popular endorsement of his continuation in the presidency would replenish his political capital and persuade fence-sitting lawmakers to support his efforts. On those terms, the April plebiscite was at best a mixed success. Although more than 90% of those who participated favored AMLO's continuation in office, turnout was only 18%, less than one-half of the minimum required to make the result legally binding, and far short of the number that could credibly be touted as evidence of a strong mandate.

AMLO predictably declared the result to be a major political victory, but the ineffectiveness of the ploy was made apparent just a few days later, when reforms designed to ensure a dominant role for the state in the electricity sector failed to muster the two-thirds support required for passage. But the legislative defeat is hardly the end of AMLO's effort to roll back liberalization of the sector.

Shortly before the congressional vote, the Supreme Court fell short of achieving the supermajority required to throw out a revised Electricity Industry Law approved in March 2021, which as a result remains in force. Existing concession holders adversely affected by implementation can seek an injunction by filing a constitutional challenge (*amparo*), and the fact that a simple majority on the top court deemed the reforms to be unconstitutional will no doubt influence the rulings of lower court judges going forward. However, investors seeking redress face a years-long process that is likely to be costly.

Approved changes to the Mining Law aimed at affirming state control of Mexico's lithium reserves will create similar challenges for investors in the minerals sector. AMLO has walked back a threat to review and possibly amend the terms of existing deals, but projects for which licenses have not yet been issued are likely to hit a wall.

The central bank has responded to the persistence of above-target inflation with aggressive policy tightening. The policy uncertainty surrounding AMLO's agenda can be expected to have a dampening effect on investment that will reinforce the impact of weaker demand for exports as growth in the US returns to the long-term trend. On balance, real GDP growth is forecast to slow to less than 2% this year, from 4.8% in 2021. Average inflation will remain well above the upper limit of the 2%–4% target range this year. Although monetary tightening might help to pull the monthly figure below 7% by the end of the year, the average inflation rate will top that figure in 2022.

ECONOMIC FORECASTS FOR THE THREE ALTERNATIVE REGIMES

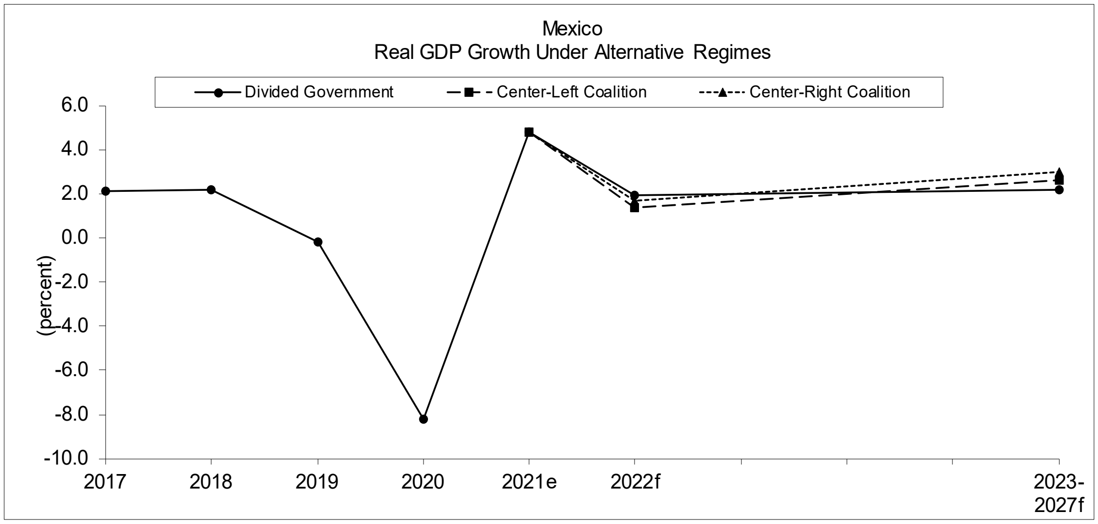
	Divided Government			Center-Left Coalition			Center-Right Coalition		
	GROWTH (%)	INFLATION (%)	CACC ($bn)	GROWTH (%)	INFLATION (%)	CACC ($bn)	GROWTH (%)	INFLATION (%)	CACC ($bn)
2022	1.9	7.3	-6.60	1.4	8.9	-9.60	1.7	8.3	-8.20
2023-2027	2.2	3.1	-11.80	2.6	3.3	-18.10	3.0	2.9	-15.70

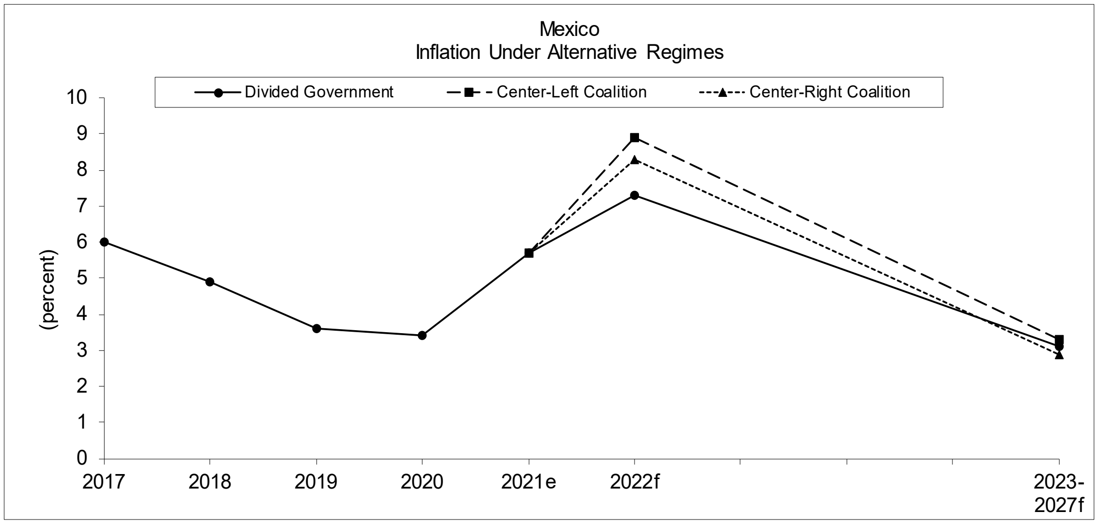
REGIME, BUSINESS & INVESTMENT FORECASTS

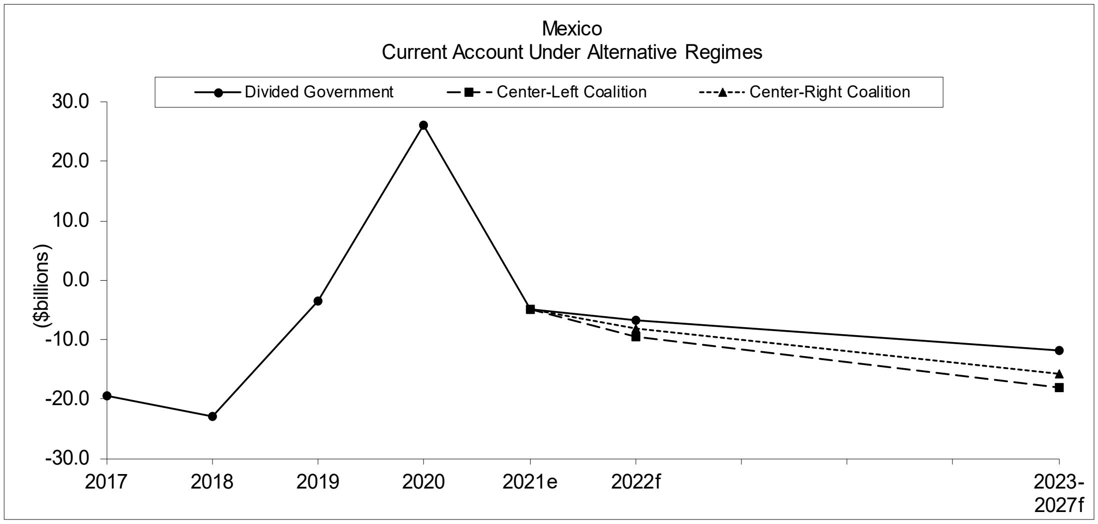
SUMMARY OF 18-MONTH FORECAST				
REGIMES & PROBABILITIES		Populist Coalition 40%	Divided Government 35%	Center-Left Coalition 25%
RISK FACTORS	**CURRENT**			
Turmoil	High	Same	Same	Same
Investment				
Equity	Moderate	SLIGHTLY MORE	Same	Same
Operations	Moderate	SLIGHTLY MORE	Same	Same
Taxation	Moderate	SLIGHTLY MORE	Same	Same
Repatriation	Low	Same	Same	Same
Exchange	Low	Same	SLIGHTLY MORE	Same
Trade				
Tariffs	Moderate	SLIGHTLY LESS	SLIGHTLY LESS	SLIGHTLY LESS
Other Barriers	High	Same	Same	Same
Payment Delays	Low	Same	Same	Same
Economic Policy				
Expansion	Moderate	Same	SLIGHTLY MORE	SLIGHTLY MORE
Labor Costs	Low	SLIGHTLY MORE	Same	Same
Foreign Debt	Very High	SLIGHTLY LESS	Same	SLIGHTLY LESS

SUMMARY OF FIVE-YEAR FORECAST				
REGIMES & PROBABILITIES		*Divided Government 40%	Center-Left Coalition 35%	Center-Right Coalition 25%
RISK FACTORS	**BASE**			
Turmoil	Moderate	SLIGHTLY MORE	Same	SLIGHTLY MORE
Restrictions				
Investment	Moderate	Same	SLIGHTLY MORE	Same
Trade	Moderate	Same	SLIGHTLY LESS	SLIGHTLY LESS
Economic Problems				
Domestic	High	Same	Same	Same
International	High	Same	Same	Same

* When present, indicates forecast of a new regime


Mexico
Real GDP Growth Under Alternative Regimes
Divided Government
Center-Left Coalition
Center-Right Coalition
(percent)
6.0
4.0
2.0
0.0
-2.0
-4.0
-6.0
-8.0
-10.0
2017
2018
2019
2020
2021e
2022f
2023-2027f


Mexico
Inflation Under Alternative Regimes
Divided Government
Center-Left Coalition
Center-Right Coalition
(percent)
10
9
8
7
6
5
4
3
2
1
0
2017
2018
2019
2020
2021e
2022f
2023-2027f


Mexico
Current Account Under Alternative Regimes
Divided Government
Center-Left Coalition
Center-Right Coalition
($billions)
30.0
20.0
10.0
0.0
-10.0
-20.0
-30.0
2017
2018
2019
2020
2021e
2022f
2023-2027f

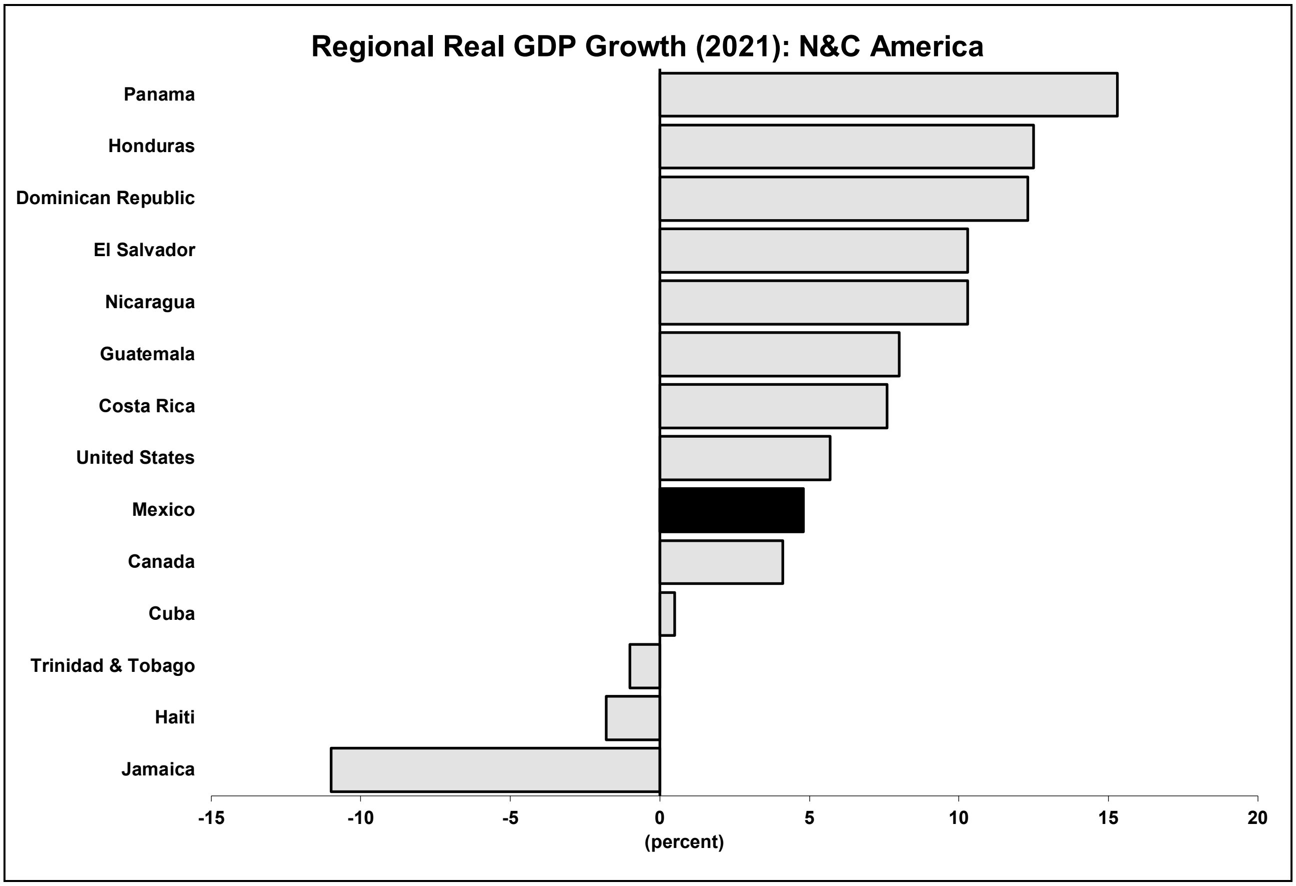
Mexico
Econometric Data

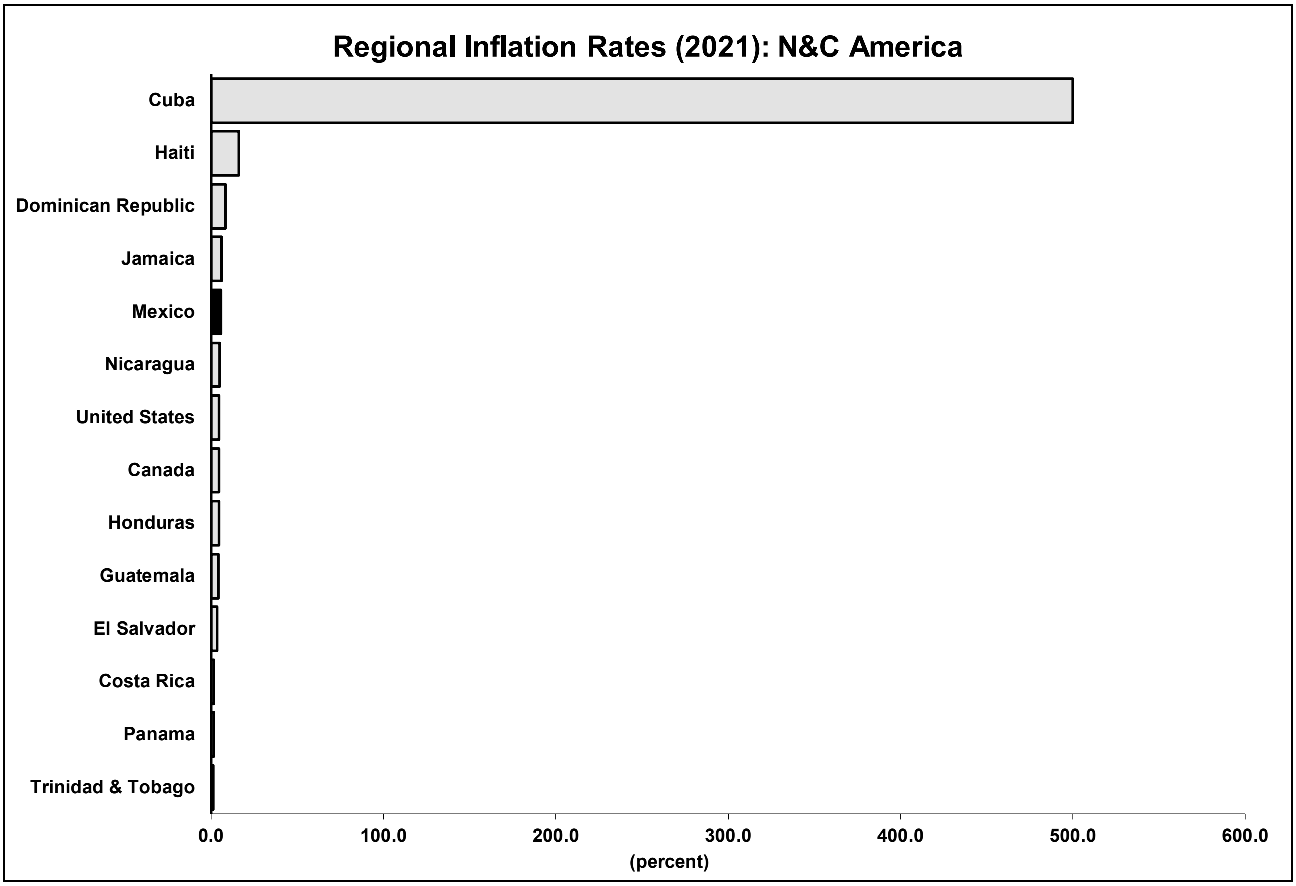
	2012-2016 Average	2017-2021 Average	2012	2013	2014	2015	2016
Domestic Economic Indicators							
GDP (Nominal, $bn)	1207.82	1206.99	1201.23	1275.24	1314.91	1169.48	1078.26
Per Capita GDP ($)	9735	9195	9941	10407	10585	9290	8454
Real GDP Growth Rate (%)	2.9	0.1	4.0	1.4	2.8	3.3	2.9
Inflation Rate (%)	3.5	4.7	4.1	3.8	4.0	2.7	2.8
Capital Investment ($bn)	283.09	244.43	282.62	282.81	304.75	279.13	266.14
Capital Investment/GDP (%)	23.5	20.2	23.5	22.2	23.2	23.9	24.7
Budget Revenues ($bn)	201.48	202.90	186.41	211.90	217.33	200.47	191.30
Budget Revenues/GDP (%)	16.7	16.8	15.5	16.6	16.5	17.1	17.7
Budget Expenditures ($bn)	234.68	229.23	217.78	242.69	253.99	235.04	223.91
Budget Expenditures/GDP (%)	19.5	19.0	18.1	19.0	19.3	20.1	20.8
Budget Balance ($bn)	-33.20	-26.33	-31.37	-30.79	-36.66	-34.57	-32.61
Budget Balance/GDP (%)	-2.8	-2.2	-2.6	-2.4	-2.8	-3.0	-3.0
Money Supply (M1, $bn)	201.06	256.32	173.15	196.94	216.66	211.31	207.22
Change in Real Wages (%)	1.1	1.0	0.1	2.6	-2.1	2.6	2.2
Unemployment Rate (%)	4.6	3.7	5.0	4.9	4.8	4.3	3.9
International Economic Indicators							
Foreign Direct Investment ($bn)	31.33	31.42	20.44	45.85	25.68	30.28	34.42
Forex Reserves ($bn)	168.88	173.40	153.47	168.61	185.18	168.37	168.75
Gross Reserves (ex gold, $bn)	174.75	182.64	160.41	175.43	190.92	173.46	173.54
Gold Reserves ($bn)	4.96	5.94	6.64	4.77	4.76	4.14	4.49
Gross reserves (inc gold, $bn)	179.71	188.57	167.05	180.20	195.68	177.60	178.03
Total Foreign Debt ($bn)	404.08	451.72	346.86	420.47	423.12	417.94	412.03
Total Foreign Debt/GDP (%)	33.6	37.6	28.9	33.0	32.2	35.7	38.2
Debt Service ($bn)	79.90	54.32	49.13	85.97	97.02	92.56	74.81
Debt Service/XGS (%)	18.2	10.4	11.6	19.8	21.4	21.2	17.2
Current Account ($bn)	-25.30	-4.93	-16.70	-30.41	-24.88	-31.87	-22.65
Current Account/GDP (%)	-2.1	-0.4	-1.4	-2.4	-1.9	-2.7	-2.1
Current Account/XGS (%)	-5.8	-0.9	-3.9	-7.0	-5.5	-7.3	-5.2
Exports ($bn)	380.66	446.80	371.44	380.02	396.91	380.62	374.30
Imports ($bn)	383.59	446.11	371.15	380.73	397.65	381.05	387.37
Trade Balance ($bn)	-2.93	0.69	0.29	-0.71	-0.74	-0.43	-13.07
Exports of Services ($bn)	20.93	26.47	16.15	20.19	21.09	22.61	24.60
Income, credit ($bn)	10.55	11.46	13.15	11.32	11.32	8.17	8.80
Transfers, credit ($bn)	24.38	38.99	22.77	22.65	24.03	25.21	27.26
Exports G&S ($bn)	436.52	523.71	423.51	434.18	453.35	436.61	434.96
Liabilities ($bn)	4.47	5.89	4.44	4.59	4.67	4.37	4.30
Net Reserves ($bn)	175.24	182.68	162.61	175.61	191.01	173.23	173.73
Liquidity (months import cover)	5.5	5.0	5.3	5.5	5.8	5.5	5.4
Currency Exchange Rate	14.750	19.835	13.168	12.764	13.289	15.863	18.668
Currency Change (%)	-7.5	-1.5	-5.7	3.2	-4.0	-16.2	-15.0
Social Indicators							
Population (million)	124.20	131.32	120.83	122.54	124.22	125.89	127.54
Population Growth (%)	1.4	0.4	1.5	1.4	1.4	1.3	1.3
Infant Deaths/1000	14	12	17	16	13	12	12
Persons under Age 15 (%)	28	26	28	27	28	28	27
Urban Population (%)	79	81	78	78	79	79	80
Urban Growth (%)	6.6	1.0	1.5	1.4	2.7	1.3	26.0
Literacy % pop.	94	95	93	94	95	95	95
Agricultural Work Force (%)	14	13	14	14	14	14	14
Industry-Commerce Work Force (%)	24	26	23	23	24	24	24
Services Work Force (%)	62	61	63	63	62	62	62
Unionized Work Force (%)	14	14	14	14	14	14	14
Energy - total consumption (10^{15} Btu)	7.76	8.03	7.70	7.76	7.65	7.77	7.94
Energy - consumption/head (10^{9} Btu)	0.06	0.06	0.06	0.06	0.06	0.06	0.06

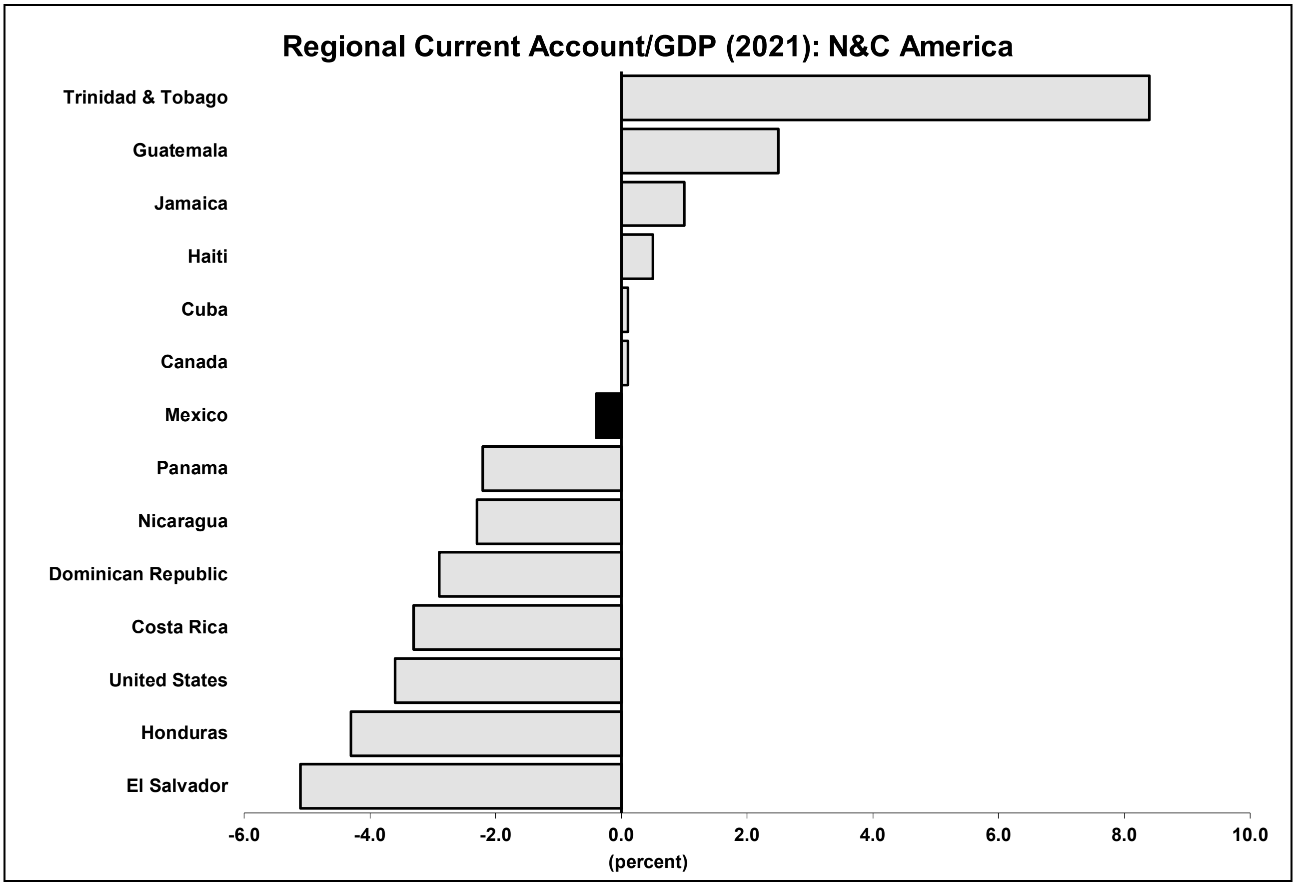
Mexico
Econometric Data

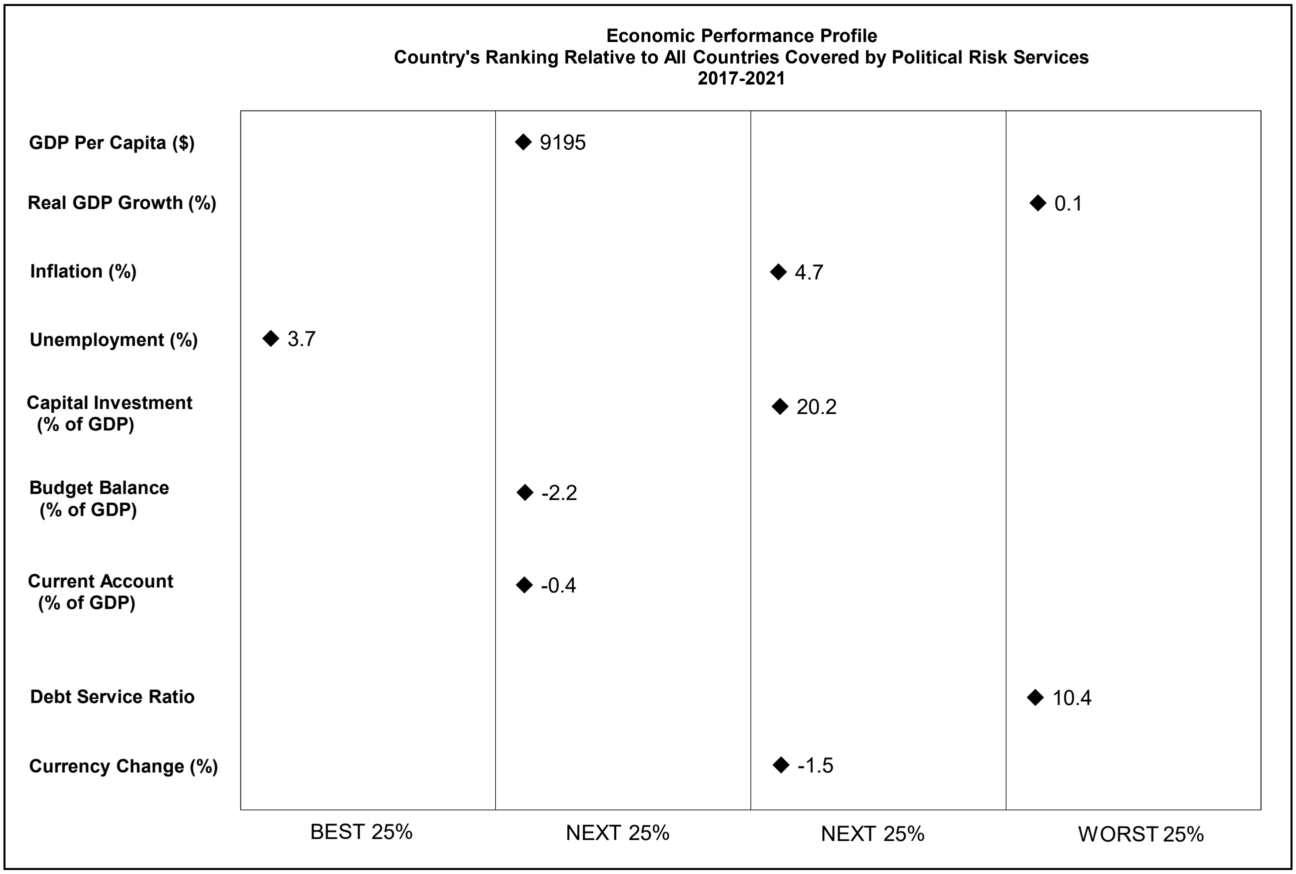
	2012-2016 Average	2017-2021 Average	2017	2018	2019	2020	2021
Domestic Economic Indicators							
GDP (Nominal, $bn)	1207.82	1206.99	1160.29	1222.62	1269.80	1087.00	1295.22
Per Capita GDP ($)	9735	9195	8983	9344	9581	8125	9943
Real GDP Growth Rate (%)	2.9	0.1	2.1	2.2	-0.2	-8.2	4.8
Inflation Rate (%)	3.5	4.7	6.0	4.9	3.6	3.4	5.7
Capital Investment ($bn)	283.09	244.43	236.05	272.90	260.89	196.40	255.90
Capital Investment/GDP (%)	23.5	20.2	20.3	22.3	20.6	18.1	19.8
Budget Revenues ($bn)	201.48	202.90	203.03	201.22	208.32	189.14	212.81
Budget Revenues/GDP (%)	16.7	16.8	17.5	16.5	16.4	17.4	16.4
Budget Expenditures ($bn)	234.68	229.23	215.00	226.84	233.64	217.40	253.27
Budget Expenditures/GDP (%)	19.5	19.0	18.5	18.6	18.4	20.0	19.6
Budget Balance ($bn)	-33.20	-26.33	-11.97	-25.62	-25.32	-28.26	-40.46
Budget Balance/GDP (%)	-2.8	-2.2	-1.0	-2.1	-2.0	-2.6	-3.1
Money Supply (M1, $bn)	201.06	256.32	225.56	234.44	244.51	262.73	314.37
Change in Real Wages (%)	1.1	1.0	1.2	0.9	2.7	0.4	-0.4
Unemployment Rate (%)	4.6	3.7	3.4	3.3	3.5	4.4	4.1
International Economic Indicators							
Foreign Direct Investment ($bn)	31.33	31.42	31.07	38.64	29.74	31.25	26.42
Forex Reserves ($bn)	168.88	173.40	164.89	166.00	170.51	186.15	179.45
Gross Reserves (ex gold, $bn)	174.75	182.64	170.46	172.45	177.72	191.77	200.78
Gold Reserves ($bn)	4.96	5.94	4.99	4.59	5.85	7.29	6.97
Gross reserves (inc gold, $bn)	179.71	188.57	175.45	177.04	183.57	199.06	207.75
Total Foreign Debt ($bn)	404.08	451.72	437.37	446.73	463.80	462.85	447.83
Total Foreign Debt/GDP (%)	33.6	37.6	37.7	36.5	36.5	42.6	34.6
Debt Service ($bn)	79.90	54.32	63.67	52.67	50.63	47.97	56.66
Debt Service/XGS (%)	18.2	10.4	13.3	10.0	9.3	9.9	9.7
Current Account ($bn)	-25.30	-4.93	-19.40	-23.00	-3.47	26.21	-4.98
Current Account/GDP (%)	-2.1	-0.4	-1.7	-1.9	-0.3	2.4	-0.4
Current Account/XGS (%)	-5.8	-0.9	-4.1	-4.4	-0.6	5.4	-0.9
Exports ($bn)	380.66	446.80	409.78	451.05	460.94	417.15	495.09
Imports ($bn)	383.59	446.11	420.77	464.85	455.77	383.17	506.00
Trade Balance ($bn)	-2.93	0.69	-10.99	-13.80	5.17	33.98	-10.91
Exports of Services ($bn)	20.93	26.47	27.64	28.77	31.72	17.04	27.16
Income, credit ($bn)	10.55	11.46	10.70	12.95	14.53	9.30	9.80
Transfers, credit ($bn)	24.38	38.99	30.58	33.97	37.27	41.04	52.07
Exports G&S ($bn)	436.52	523.71	478.70	526.74	544.46	484.53	584.12
Liabilities ($bn)	4.47	5.89	4.28	4.21	7.24	8.23	5.51
Net Reserves ($bn)	175.24	182.68	171.17	172.83	176.33	190.83	202.24
Liquidity (months import cover)	5.5	5.0	4.9	4.5	4.6	6.0	4.8
Currency Exchange Rate	14.750	19.835	18.904	19.241	19.258	21.488	20.285
Currency Change (%)	-7.5	-1.5	-1.2	-1.8	-0.1	-10.4	5.9
Social Indicators							
Population (million)	124.20	131.32	129.16	130.84	132.54	133.79	130.26
Population Growth (%)	1.4	0.4	1.3	1.3	1.3	0.9	-2.6
Infant Deaths/1000	14	12	12	11	11	11	13
Persons under Age 15 (%)	28	26	27	27	26	26	26
Urban Population (%)	79	81	80	80	80	80	84
Urban Growth (%)	6.6	1.0	1.3	1.3	1.3	0.9	0.1
Literacy % pop.	94	95	95	95	95	95	95
Agricultural Work Force (%)	14	13	14	13	13	13	13
Industry-Commerce Work Force (%)	24	26	24	26	26	26	26
Services Work Force (%)	62	61	62	61	61	61	61
Unionized Work Force (%)	14	14	14	14	14	14	14
Energy - total consumption (10^{15} Btu)	7.76	8.03	8.01	8.08	8.13	8.09	7.82
Energy - consumption/head (10^{9} Btu)	0.06	0.06	0.06	0.06	0.06	0.06	0.06

INTRA-REGIONAL COMPARISONS






Regional Current Account/GDP (2021): N&C America
Trinidad & Tobago
Guatemala
Jamaica
Haiti
Cuba
Canada
Mexico
Panama
Nicaragua
Dominican Republic
Costa Rica
United States
Honduras
El Salvador
-6.0
-4.0
-2.0
0.0
2.0
4.0
6.0
8.0
10.0
(percent)


Economic Performance Profile
Country's Ranking Relative to All Countries Covered by Political Risk Services
2017-2021
GDP Per Capita ($)
9195
Real GDP Growth (%)
0.1
Inflation (%)
4.7
Unemployment (%)
3.7
Capital Investment (% of GDP)
20.2
Budget Balance (% of GDP)
-2.2
Current Account (% of GDP)
-0.4
Debt Service Ratio
10.4
Currency Change (%)
-1.5
BEST 25%
NEXT 25%
NEXT 25%
WORST 25%

GEOPOLITICAL & ECONOMIC ANALYSIS

REFERENDUM FALLS FLAT...

Losses sustained at last year's mid-term congressional elections by the main governing National Regeneration Movement (MORENA) and the Labor Party (PT), one of the two junior partners in the Together We Make History (JHH) alliance, did not cost President Andrés Manuel López Obrador (AMLO) his legislative majority, but they did cast doubt on his ability to deliver on key campaign promises that can only be achieved by amending the constitution, which requires the support of a two-thirds supermajority. With his statist agenda encountering resistance in the courts and the Congress, AMLO and his allies pushed to hold a referendum on whether he should be removed from office, wagering that the anticipated overwhelming popular endorsement of his continuation in the presidency would replenish his political capital and persuade fence-sitting lawmakers to support his efforts.

On those terms, the April plebiscite was at best a mixed success. Although more than 90% of those who participated favored AMLO's continuation in office, turnout was only 18%, less than one-half of the minimum required to make the result legally binding, and far short of the number that could credibly be touted as evidence of a strong mandate. Ahead of the vote, some of AMLO's critics voiced suspicions that the real purpose fo the exercise was to test the electorate's appetite for an extension of AMLO's tenure beyond a single six-year term. If true, the result exercise was a trial balloon for a possible push for a constitutional reform that would enable AMLO to pursue a second term in 2024. If true, the outcome can hardly be seen as encouragement to proceed in that direction.

AMLO predictably declared the result to be a major political victory, but the ineffectiveness of the ploy was made apparent just a few days later, when reforms designed to ensure a dominant role for the state in the electricity sector failed to muster the two-thirds support required for passage. The reforms would have given state-owned CFE priority in dispatch order, in contrast to rules approved in 2013 that determine dispatch order on the basis of operating costs. Other provisions would have limited the private-sector share of electricity generation to 46% (compared to the current level of slightly more than 60%) and abolished existing independent regulators, with their responsibilities being transferred to CFE.

The liberalization of the sector under the 2013 law created an incentive for private suppliers to invest in renewable energy technologies (mostly wind) that produced electricity at a lower cost than the public plants operated by CFE, which are powered by more expensive fossil fuels. Opponents of AMLO's reforms argued that they would result in higher electricity prices, violate international climate and trade agreements, and reverse carbon-reduction gains already made by Mexico. For his part, AMLO never bothered to address any of those objections, and relied instead on appeals to nationalist sentiment, while insisting without any clear basis that the reforms would result in lower prices for consumers.

A planned vote in Congress on the heels of the referendum was delayed by five days, to Easter Sunday, presumably with the expectation that the holiday would reduce attendance for the vote, improving the chances of achieving the two-thirds threshold. Unfortunately for AMLO, few lawmkers skipped the vote, and none abstained, with the result that the legislation fell nearly 60 votes short of the minimum needed for approval.

...BUT AMLO PRESSING AHEAD WITH STATIST AGENDA

Approval of the bill, which would have entailed revisions to the constitution, would have ruled out any legal challenge to the reforms on constitutional grounds, making it very difficult for a future administration to reverse course. But the legislative defeat is hardly the end of AMLO's effort to roll back liberalization of the sector.

Shortly before the congressional vote, the Supreme Court issued a decision on a revised Electricity Industry Law (EIL) approved in March 2021, implementation of which was blocked by a federal court pending resolution of legal challenges. Seven justices on the 11-member court deemed the reforms to be unconstitutional, one short of the total required to scrap changes.

As such, the revised law remains in force, but existing concession holders adversely affected by implementation can seek an injunction by filing a constitutional challenge (amparo), and appeals already filed can proceed. Lower courts will no doubt take the fact that a majority on the Supreme Court judged the reforms to be incompatible with the constitution when deciding cases challenging individual provisions of the EIL, but seeking redress could be a years-long process that is likely to be costly for investors.

Seeking to snatch a victory from the jaws of defeat following the vote on the electricity reforms, AMLO immediately proposed changes to the Mining Law aimed at affirming state control of Mexico's lithium reserves. In addition to prohibiting direct private investment in the lithium sector, the bill mandated the establishment of a state-owned entity responsible for the extraction, processing, and sale of lithium. Introduced as a fast-track measure, the bill was approved by the lower house on April 18 and by the Senate one day later.

The mining reform has elicited much the same response as the revised EIL, and will create similar challenges for affected investors. AMLO has walked back a threat to review and possibly amend the terms of projects already approved, but projects for which licenses have not yet been issued are likely to hit a wall, despite AMLO's clarification that the reforms do not rule out private participation in the exploitation of lithium reserves.

POPULAR PRESIDENT

Although AMLO was heavily criticized over his leadership of the effort to deal with the COVID-19 health crisis and dissatisfaction with his government's handling of security issues and corruption has been a vulnerability throughout his presidency, he remains broadly popular. The most recent polls continue to put his approval rating above 60%, the highest for any recent leaders in the fourth year of his term, suggesting that a recent conflict-of-interest scanl involving the his son has not inflicted lasting damage.

A more significant indication of his sustained popularity is the success of his party at state elections held in early June. MORENA won four of six gubernatorial contests, giving the party control of a total of 22 of the country's 32 state administrations.

The state result have implications for the 2024 federal elections. On the one hand, the success of MORENA candidates provides further confirmation that the party can win without AMLO on the ballot, which will be crucial to its chances of retaining the presidency in two years. Moreover, governors play a key role in mobilizing the vote for national elections in their states, which bodes well for the broader success of the party in 2024.

On the other hand, the victories of opposition candidates in the states of Aguascalientes and Durango prove that the JHH can be defeated if the establishment parties—the Institutional Revolutionary Party (PRI), the National Action Party (PAN), and the Democratic Revolutionary Party (PRD)—unite their forces. However, the limited success of the oppositon suggests that the JHH is all but certain to retain power if they do not, and it is unclear whether the three parties are capable of sustaining a united front on a national scale.

TAMING INFLATION THE PRIORITY

Revised data for January-March 2022 showed GDP increasing by 1%, after staying flat in the previous quarter, reflecting a stronger contribution from services and a pickup in automotive production. Growth was steady in the second quarter, as US demand helped to bolster exports and inflows of remittances sustained household consumption, despite the dampening effect of high inflation and rising interest rates.

The manufacturing purchasing managers' index (PMI) rose to 50.6 in May, moving above the 50.0 mark dividing expansion from contraction for the first time in more than two years. The reading hit 52.2 in June, the highest level since early 2019, but dipped to 48.5 in July, a likely harbinger of a broader loss of momentum in the second half of the year as the lagged effect of monetary tightening and slower growth in the US weigh on economic activity.

The prospects for an upside surprise for growth are dimmed by the hawkish posture of the central bank, which has responded to the persistence of above-target inflation with aggressive policy tightening. Monetary authorities hiked the benchmark policy rate for the ninth time in 13 months in June, with the latest increase of 75 basis points pushing the rate up to 7.75%. Nevertheless, inflation has continued to move upward, hitting a 21-year high of 7.99% (year-on-year) in June, as higher prices for grain and fuel related to the war in Ukraine have reinforced the inflationary effect of supply-chain issues and currency volatility.

The policy uncertainty surrounding AMLO's agenda can be expected to have a dampening effect on investment that will reinforce the impact of weaker demand for exports as growth in the US returns to the long-term trend. On balance, real GDP growth is forecast to slow to less than 2% this year, from 4.8% in 2021. Average inflation will remain well above the upper limit of the 2%–4% target range this year. Although monetary tightening might help to pull the monthly figure below 7% by the end of the year, the average inflation rate will top that figure in 2022.

INTERNATIONAL COUNTRY RISK GUIDE (ICRG) RATINGS

PRS' Country Reports and Economic Forecasts (CREF) and the International Country Risk Guide (ICRG) have been independently back-tested for accuracy and relevance for over 40 years.

In a landmark 2014 study published in the International Journal of Business Studies* – using data on political risk clams and a unique textual-based database of risk realizations – both CREF and ICRG forecasts were found to have "predictive power for both political risk insurance claims as well as political risk events measured by news coverage."

It is therefore instructive to present the scores from Table 1 of the ICRG for a complimentary look at the composite risk scores – calculated by using a combination of the overall political, financial, and economic risk metrics – for the 141+ countries covered each month. Please contact custserv@prsgroup.com for more information.

TABLE 1
COUNTRY RISK, RANKED BY COMPOSITE RISK RATING
JULY 2022 VERSUS AUGUST 2021

RANK IN 07/22	COUNTRY	COMPOSITE RISK RATING 07/22	COMPOSITE RISK RATING 08/21	07/22 VERSUS 08/21	RANK IN 08/21
	Very Low Risk				
1	Norway	87.3	85.8	1.5	5
2	Switzerland	87.0	86.8	0.3	2
3	Singapore	86.0	85.5	0.5	6
4	Luxembourg	85.3	87.3	-2.0	1
5	Taiwan	84.8	86.8	-2.0	2
6	Saudi Arabia	84.5	78.8	5.8	20
7	Denmark	83.3	86.3	-3.0	4
8	Sweden	82.0	85.3	-3.3	7
9	Canada	81.8	79.5	2.3	19
9	Ireland	81.8	81.8	0.0	10
11	Australia	81.3	80.0	1.3	15
12	United Arab Emirates	81.0	78.3	2.8	22

* C Harvey, et al., "Political Risk Spreads," Journal of International Business Studies, (2014), 471-493.

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING JULY 2022 VERSUS AUGUST 2021					
RANK IN 07/22	COUNTRY	COMPOSITE RISK RATING 07/22	COMPOSITE RISK RATING 08/21	07/22 VERSUS 08/21	RANK IN 08/21
13	Germany	80.3	83.3	-3.0	7
13	Iceland	80.3	78.3	2.0	22
13	Japan	80.3	79.8	0.5	18
	Low Risk				
16	Brunei	79.3	80.3	-1.0	14
16	Finland	79.3	81.3	-2.0	13
18	Netherlands	78.8	82.5	-3.8	9
18	Qatar	78.8	71.0	7.8	55
20	Korea, Republic	78.5	81.5	-3.0	12
21	Oman	78.3	71.8	6.5	50
22	Austria	78.0	80.0	-2.0	15
23	New Zealand	77.5	81.8	-4.3	10
24	Trinidad & Tobago	77.3	75.3	2.0	33
25	Czech Republic	76.3	80.0	-3.8	15
25	Kuwait	76.3	72.5	3.8	43
25	United Kingdom	76.3	77.5	-1.3	24
28	Botswana	76.0	76.5	-0.5	29
29	Guyana	75.8	66.8	9.0	83
30	Belgium	75.5	78.5	-3.0	21
31	Malta	75.0	76.5	-1.5	29
31	Portugal	75.0	77.0	-2.0	26
31	Uruguay	75.0	74.5	0.5	37
34	Hong Kong	74.3	76.8	-2.5	27
34	Israel	74.3	75.3	-1.0	33
36	Italy	74.0	76.8	-2.8	27
36	Malaysia	74.0	73.5	0.5	39
38	Azerbaijan	73.3	72.0	1.3	48
38	Panama	73.3	73.0	0.3	42

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING JULY 2022 VERSUS AUGUST 2021					
RANK IN 07/22	COUNTRY	COMPOSITE RISK RATING 07/22	COMPOSITE RISK RATING 08/21	07/22 VERSUS 08/21	RANK IN 08/21
40	Croatia	72.8	69.8	3.0	64
40	France	72.8	74.8	-2.0	36
40	Kazakhstan	72.8	72.5	0.3	43
43	Dominican Republic	72.5	72.5	0.0	43
44	Slovenia	72.3	68.5	3.8	70
45	Jamaica	72.0	71.8	0.3	50
45	Spain	72.0	73.3	-1.3	41
45	Uzbekistan	72.0	-	72.0	141
48	Costa Rica	71.8	72.3	-0.5	46
48	Poland	71.8	77.5	-5.8	24
48	United States	71.8	73.5	-1.8	39
51	China, Peoples' Rep.	71.5	72.3	-0.8	46
52	Namibia	71.3	68.0	3.3	76
53	Bahamas	71.0	70.8	0.3	58
53	Guatemala	71.0	71.0	0.0	55
53	India	71.0	71.3	-0.3	53
53	Iraq	71.0	59.5	11.5	118
53	Latvia	71.0	68.5	2.5	70
53	Vietnam	71.0	71.0	0.0	55
59	Hungary	70.8	75.5	-4.8	31
60	Chile	70.5	75.3	-4.8	33
60	Estonia	70.5	68.3	2.3	73
60	Libya	70.5	64.8	5.8	92
63	Philippines	70.3	70.0	0.3	62
64	Cyprus	70.0	71.5	-1.5	52
64	Indonesia	70.0	67.0	3.0	82
Moderate Risk					
66	Lithuania	69.8	70.0	-0.3	62

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING JULY 2022 VERSUS AUGUST 2021					
RANK IN 07/22	COUNTRY	COMPOSITE RISK RATING 07/22	COMPOSITE RISK RATING 08/21	07/22 VERSUS 08/21	RANK IN 08/21
67	Bulgaria	69.3	75.5	-6.3	31
67	Papua New Guinea	69.3	67.3	2.0	79
69	Mexico	69.0	70.3	-1.3	60
70	Peru	68.8	70.5	-1.8	59
71	Bahrain	68.3	63.3	5.0	100
71	Brazil	68.3	69.3	-1.0	66
71	Slovakia	68.3	74.3	-6.0	38
74	Greece	68.0	70.3	-2.3	60
74	Paraguay	68.0	68.8	-0.8	68
76	Algeria	67.3	62.0	5.3	107
76	Ecuador	67.3	69.8	-2.5	64
76	Honduras	67.3	67.5	-0.3	78
76	Serbia	67.3	65.8	1.5	86
76	South Africa	67.3	69.3	-2.0	66
81	Mongolia	66.5	65.5	1.0	87
82	Bolivia	66.3	64.0	2.3	97
82	Gambia	66.3	65.0	1.3	89
84	Albania	66.0	68.3	-2.3	73
84	Iran	66.0	63.8	2.3	98
86	Gabon	65.8	65.0	0.8	89
86	Romania	65.8	72.0	-6.3	48
88	Angola	65.5	61.3	4.3	113
89	Cuba	65.0	55.5	9.5	129
89	Tanzania	65.0	64.5	0.5	94
91	Morocco	64.8	68.5	-3.8	70
91	Thailand	64.8	68.8	-4.0	68
93	El Salvador	64.5	67.3	-2.8	79
93	Zambia	64.5	61.5	3.0	111

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING JULY 2022 VERSUS AUGUST 2021					
RANK IN 07/22	COUNTRY	COMPOSITE RISK RATING 07/22	COMPOSITE RISK RATING 08/21	07/22 VERSUS 08/21	RANK IN 08/21
95	Jordan	64.3	61.8	2.5	109
96	Argentina	63.8	66.3	-2.5	85
96	Bangladesh	63.8	66.5	-2.8	84
96	Congo, Republic	63.8	62.3	1.5	105
96	Russia	63.8	71.3	-7.5	53
100	Colombia	63.5	65.3	-1.8	88
101	Madagascar	63.3	63.3	0.0	100
102	Guinea-Bissau	63.0	62.5	0.5	104
103	Cote d'Ivoire	62.8	62.8	0.0	102
103	Ghana	62.8	67.8	-5.0	77
103	Nicaragua	62.8	64.5	-1.8	94
106	Togo	62.5	62.0	0.5	107
107	Zimbabwe	60.8	60.0	0.8	117
108	Armenia	60.5	65.0	-4.5	89
108	Nigeria	60.5	59.5	1.0	118
108	Tunisia	60.5	62.8	-2.3	102
111	Egypt	60.0	64.5	-4.5	94
High Risk					
112	Congo, Dem. Republic	59.5	57.3	2.3	127
112	Senegal	59.5	61.5	-2.0	111
114	Cameroon	59.3	61.0	-1.8	115
114	Moldova	59.3	68.3	-9.0	73
114	Uganda	59.3	60.3	-1.0	116
117	Burkina Faso	58.3	61.8	-3.5	109
117	Liberia	58.3	54.3	4.0	131
119	Mali	58.0	59.5	-1.5	118
120	Ethiopia	57.8	57.5	0.3	125
120	Guinea	57.8	59.5	-1.8	118

RANK IN 07/22	COUNTRY	COMPOSITE RISK RATING 07/22	COMPOSITE RISK RATING 08/21	07/22 VERSUS 08/21	RANK IN 08/21
TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING JULY 2022 VERSUS AUGUST 2021					
120	Kenya	57.8	63.8	-6.0	98
123	Myanmar	57.5	53.5	4.0	132
123	Suriname	57.5	55.0	2.5	130
125	Niger	57.0	58.3	-1.3	123
126	Malawi	56.8	57.5	-0.8	125
127	Haiti	56.0	59.0	-3.0	122
128	Ukraine	55.8	67.3	-11.5	79
129	Venezuela	54.8	41.5	13.3	139
130	Belarus	54.0	64.8	-10.8	92
130	Sierra Leone	54.0	58.3	-4.3	123
132	Mozambique	53.8	50.5	3.3	133
133	Turkey	53.3	61.3	-8.0	113
134	Somalia	52.0	50.0	2.0	135
135	Sri Lanka	51.5	62.3	-10.8	105
136	Korea, D.P.R.	51.0	50.5	0.5	133
136	Pakistan	51.0	56.8	-5.8	128
Very High Risk					
138	Yemen, Republic	48.3	49.8	-1.5	136
9	Sudan	47.0	38.0	9.0	140
140	Syria	43.8	45.5	-1.8	138
141	Lebanon	41.8	49.5	-7.8	7

BUSINESS & INVESTMENT CLIMATE

OVERVIEW

Openness to Foreign Investment

Mexico is open to foreign direct investment (FDI) in the vast majority of economic sectors and has consistently been one of the largest emerging market recipients of FDI. Mexico's proximity to the United States and preferential access to the U.S. market, macroeconomic stability, large domestic market, growing consumer base, and increasingly skilled yet cheap labor combine to attract foreign investors. Still, recent regulatory changes have created doubts about the investment climate, particularly in the energy sector.

Historically, the United States has been one of the largest sources of FDI in Mexico. According to Mexico's Secretariat of Economy, FDI flows to Mexico from the United States totaled USD 12.7 billion in 2019, nearly 39.7 percent of total flows into Mexico (USD 33.7 billion). The automotive, aerospace, telecommunications, financial services, and electronics sectors typically receive large amounts of FDI.

Most foreign investment flows to northern states near the U.S. border, where most maquiladoras (export-oriented manufacturing and assembly plants) are located, or to Mexico City and the nearby "El Bajio" (e.g. Guanajuato, Queretaro, etc.) region. In the past, foreign investors have overlooked Mexico's southern states, although the administration is focused on attracting investment to the region, including through large infrastructure projects such as the Maya Train, the Dos Bocas refinery, and the trans-isthmus rail project.

The 1993 Foreign Investment Law, last updated in March 2017, governs foreign investment in Mexico. It provides national treatment, eliminates performance requirements for most foreign investment projects, and liberalizes criteria for automatic approval of foreign investment. The Foreign Investment Law provides details on which business sectors are open to foreign investors and to what extent. Mexico is also a party to several Organization for Economic Cooperation and Development (OECD) agreements covering foreign investment, notably the Codes of Liberalization of Capital Movements and the National Treatment Instrument.

The administration has integrated components of the government's investment agency into other ministries and offices.

Limits on Foreign Control and Right to Private Ownership and Establishment. Mexico reserves certain sectors, in whole or in part, for the State including: petroleum and other hydrocarbons; control of the national electric system, radioactive materials, telegraphic and postal services; nuclear energy generation; coinage and printing of money; and control, supervision, and surveillance of ports of entry. Certain professional and technical services, development banks, and the land transportation of passengers, tourists, and cargo (not including courier and parcel services) are reserved entirely for Mexican nationals. See section six for restrictions on foreign ownership of certain real estate.

Reforms in the energy, power generation, telecommunications, and retail fuel sales sectors have liberalized access for foreign investors. While reforms have not led to the privatization of state-owned enterprises such as Pemex or the Federal Electricity Commission (CFE), they have allowed private firms to participate. Still, the Lopez Obrador administration has made some regulatory and policy changes that favor Pemex and CFE over private participants. The changes have led private companies to file lawsuits in Mexican courts and several are considering international arbitration.

Hydrocarbons: Private companies participate in hydrocarbon exploration and extraction activities through contracts with the government under four categories: competitive contracts, joint ventures, profit sharing agreements, and license contracts. All contracts must include a clause stating subsoil hydrocarbons are owned by the State. The government has held 11 auctions allowing private companies to bid on exploration and development rights to oil and gas resources in blocks around the country. Between 2015 and 2018, Mexico auctioned more than 100 land, shallow, and deep-water blocks with significant interest from international oil companies. The administration has since postponed further auctions, but committed to respecting the existing contracts awarded under the previous administration. Still, foreign players were discouraged when Pemex sought to take operatorship of a major shallow water oil discovery made by a U.S. company-led consortium. The private consortium had invested more than USD 200 million in making the discovery and the outcome of this dispute has yet to be decided.

Telecommunications: Mexican law states telecommunications and broadcasting activities are public services and the government will at all times maintain ownership of the radio spectrum.

Aviation: The Foreign Investment Law limited foreign ownership of national air transportation to 25 percent until March 2017, when the limit was increased to 49 percent.

Under existing NAFTA provisions, U.S. and Canadian investors receive national and most-favored-nation treatment in setting up operations or acquiring firms in Mexico. Exceptions exist for investments restricted under NAFTA. Currently, the United States, Canada, and Mexico have the right to settle any dispute or claim under NAFTA through international arbitration. Local Mexican governments must also accord national treatment to investors from NAFTA countries. When the USMCA enters into force many of these provisions will remain, and legacy investments will have three years for consideration under NAFTA arbitration.

Approximately 95 percent of all foreign investment transactions do not require government approval. Foreign investments that require government authorization and do not exceed USD 165 million are automatically approved, unless the proposed investment is in a legally reserved sector.

The National Foreign Investment Commission under the Secretariat of the Economy is the government authority that determines whether an investment in restricted sectors may move forward. The Commission has 45 business days after submission of an investment request to make a decision. Criteria for approval include employment and training considerations, and contributions to technology, productivity, and competitiveness. The Commission may reject applications to acquire Mexican companies for national security reasons. The Secretariat of Foreign Relations (SRE) must issue a permit for foreigners to establish or change the nature of Mexican companies.

Other Investment Policy Reviews. There has not been an update to the World Trade Organization's (WTO) trade policy review of Mexico since February 2017 covering the period to year-end 2016.

Business Facilitation. According to the World Bank, on average registering a foreign-owned company in Mexico requires 11 procedures and 31 days. In 2016, then-President Pena Nieto signed a law creating a new category of simplified businesses called Sociedad for Acciones Simplificadas (SAS). Owners of SASs will be able to register a new company online in 24 hours. The Government of Mexico maintains a business registration website: www.tuempresa.gob.mx Companies operating in Mexico must register with the tax authority (Servicio de Administration y Tributaria or SAT), the Secretariat of the Economy, and the Public Registry.

Additionally, companies engaging in international trade must register with the Registry of Importers, while foreign-owned companies must register with the National Registry of Foreign Investments.

Outward Investment. Various offices at the Secretariat of Economy and the Secretariat of Foreign Affairs handle promoting Mexican outward investment and assistance to Mexican firms acquiring or establishing joint ventures with foreign firms. Mexico does not restrict domestic investors from investing abroad.

Privatization Program. Mexico's 2014 energy reforms liberalized access to these sectors but did not privatize state owned enterprises.

Transparency of the Regulatory System

Generally speaking, the Mexican government has established legal, regulatory, and accounting systems that are transparent and consistent with international norms. Still, the Lopez Obrador administration has eroded the autonomy and publicly questioned the value of specific anti-trust and energy regulators. Furthermore, corruption continues to affect equal enforcement of some regulations. The Lopez Obrador administration rolled out an ambitious plan to centralize government procurement in an effort to root out corruption and generate efficiencies. The administration had estimated it could save up to USD 25 billion annually by consolidating government purchases in Hacienda. Still, the expedited rollout and lack of planning for supply chain contingencies, led to several sole-source purchases. The Mexican government's budget is published online and readily available. The Bank of Mexico also publishes and maintains data about the country's finances and debt obligations.

The National Commission on Regulatory Improvement (CONAMER), within the Secretariat of Economy, is the agency responsible for streamlining federal and sub-national regulation and reducing the regulatory burden on business. Mexican law requires Secretariats and regulatory agencies to conduct impact assessments of proposed regulations. Assessments are made available for public comment via CONAMER's website: https://www.gob.mx/conamer. The official gazette of state and federal laws currently in force in Mexico is publicly available via: http://www.ordenjuridico.gob.mx/. CONAMER's widely-respected director, Cesar Hernandez, resigned May 15. Hours later, the acting head of CONAMER waived the requirement for a Regulatory Impact Assessment for a controversial energy policy directive that could affect the viability of private sector power projects in Mexico's energy market.

Mexico's antitrust agency, the Federal Commission for Economic Competition (COFECE), plays a key role protecting, promoting, and ensuring a competitive free market in Mexico as well as protecting consumers. COFECE is responsible for eliminating barriers both to competition and free market entry across the economy (except for the telecommunications sector, which is governed by its own competition authority) and for identifying and regulating access to essential production inputs.

In addition to COFECE, the Energy Regulatory Commission (CRE) and National Hydrocarbon Commission (CNH) are both technically-oriented independent agencies that play important roles in regulating the energy and hydrocarbons sectors. CRE regulates national electricity generation, coverage, distribution, and commercialization, as well as the transportation, distribution, and storage of oil, gas, and biofuels. CNH supervises and regulates oil and gas exploration and production and issues oil and gas upstream (exploration/production) concessions.

Investors are increasingly concerned the administration is undermining confidence in the "rules of the game," particularly in the energy sector, by weakening the political autonomy of COFECE, CNH, and CRE. Analysts maintain COFECE has lost influence as the current administration enacted regulatory changes in the electricity sector that favor state-owned enterprises over maintaining competitive prices for the consumer. The administration appointed four of seven CRE commissioners over the Senate's objections, which voted twice to reject the nominees in part due to concerns their appointments would erode the CRE's autonomy. The administration's budget cuts resulted in significant layoffs, which has reportedly hampered the agencies' ability to carry out their work, a key factor in investment decisions.

Legal System and Judicial Independence. Since the Spanish conquest in the 1500s, Mexico has had an inquisitorial system adopted from Europe in which proceedings were largely carried out in writing and sealed from public view. Mexico amended its Constitution in 2008 to facilitate change to an oral accusatorial criminal justice system to better combat corruption, encourage transparency and efficiency, while ensuring respect for the fundamental rights of both the victim and the accused. An ensuing

National Code of Criminal Procedure passed in 2014, and is applicable to all 32 states. The national procedural code is coupled with each state's criminal code to provide the legal framework for the new accusatorial system, which allows for oral, public trials with the right of the defendant to face his/her accuser and challenge evidence presented against him/her, right to counsel, due process and other guarantees. Mexico fully adopted the new accusatorial criminal justice system at the state and federal levels in June 2016.

Mexico's Commercial Code, which dates back to 1889, was most recently updated in 2014. All commercial activities must abide by this code and other applicable mercantile laws, including commercial contracts and commercial dispute settlement measures. Mexico has multiple specialized courts regarding fiscal, labor, economic competition, broadcasting, telecommunications, and agrarian law.

The judicial branch is nominally independent from the executive. Following a reform passed in February 2014, the Attorney General's Office (Procuraduria General de la Republica or PGR) became autonomous of the executive branch, as the Prosecutor General's Office (Fiscalia General de la Republica or FGR). The Mexican Senate confirmed Mexico's first Fiscal on January 18, 2019. The Fiscal will serve a nine-year term, intended to insulate his office from the executive branch, whose members serve six-year terms.

Laws and Regulations on Foreign Direct Investment. Mexico's Foreign Investment Law sets the rules governing foreign investment into the country. The National Commission for Foreign Investments, formed by several cabinet-level ministries including Interior (SEGOB), Foreign Relations (SRE), Hacienda, and Economy (SE) establishes the criteria for administering investment rules.

Competition and Anti-Trust Laws. Mexico has two constitutionally autonomous regulators to govern matters of competition – the Federal Telecommunications Institute (IFT) and the Federal Commission for Economic Competition (COFECE). IFT governs broadcasting and telecommunications, while COFECE regulates all other sectors. For more information on competition issues in Mexico, please visit COFECE's bilingual website at: www.cofece.mx

Foreign/Free Trade Zones/Ports

The administration launched a two-year program in January 2019 that established a border economic zone (BEZ) in 43 municipalities in six northern border states within 15.5 miles from the U.S. border. The BEZ program entails: 1) a fiscal stimulus decree reducing the Value Added Tax (VAT) from 16 percent to 8 percent and the Income Tax (ISR) from 30 percent to 20 percent, 2) a minimum wage increase to MXN 176.72 (USD 8.75) per day, and 3) the gradual harmonization of gasoline, diesel, natural gas, and electricity rates with neighboring U.S. states. The purpose of the BEZ program was to boost investment, promote productivity, and create more jobs in the region. Sectors excluded from the preferential ISR rate include financial institutions, the agricultural sector, and export manufacturing companies (maquilas).

TARIFF & NON-TARIFF BARRIERS

Under the United States Mexico Canada Agreement (USMCA), there are virtually no tariff barriers for U.S. exports to Mexico, with some exceptions as noted elsewhere. The USMCA came into force on July 1, 2020.

On May 17, 2019, the United States announced an agreement with Canada and Mexico to remove the Section 232 tariffs for steel and aluminum imports from those countries and for the removal of all retaliatory tariffs imposed on American goods by Canada and Mexico. The agreement provides for aggressive monitoring and a mechanism to prevent surges in imports of steel and aluminum. If surges in imports of specific steel and aluminum products occur, the United States may re-impose Section 232 tariffs on those products. Any retaliation by Canada and Mexico would then be limited to steel and aluminum products.

POLICIES

Conversion and Transfer

Foreign Exchange. The Government of Mexico maintains a free-floating exchange rate. Mexico maintains open conversion and transfer policies. In general, capital and investment transactions, remittance of profits, dividends, royalties, technical service fees, and travel expenses are handled at market-determined exchange rates. Mexican Peso (MXN)/USD exchange is available on same day, 24- and 48-hour settlement bases. In order to prevent money-laundering transactions, Mexico imposes limits on USD cash deposits. Border- and tourist-area businesses may deposit more than USD 14,000 per month subject to reporting rules and providing justification for their need to conduct USD cash transactions. Individual account holders are subject to a USD 4,000 per month USD cash deposit limit. In 2016, Banxico launched a central clearing house to allow for USD clearing services wholly within Mexico, which should improve clearing services significantly for domestic companies with USD income.

Remittance Policies. There have been no recent changes in Mexico's remittance policies. Mexico continues to maintain open conversion and transfer policies.

Sovereign Wealth Funds. The Mexican Petroleum Fund for Stability and Development (FMP) was created as part of 2013 budgetary reforms. Housed in Banxico, the fund distributes oil revenues to the national budget and a long-term savings account. The FMP incorporates the Santiago Principles for transparency, placing it among the most transparent Sovereign Wealth Funds in the world. Both Banxico and Mexico's Supreme Federal Auditor regularly audit the fund. Mexico is also a member of the International Working Group of Sovereign Wealth Funds. The Fund is expected to receive MXN 520.6 billion (approximately USD 26 billion) in income in 2019. The FMP is required to publish quarterly and annual reports, which can be found at www.fmped.org.mx

Performance Requirements

Investment Incentives. Land grants or discounts, tax deductions, and technology, innovation, and workforce development funding are commonly used incentives. Additional federal foreign trade incentives include: (1) IMMEX: a promotion which allows manufacturing sector companies to temporarily import inputs without paying general import tax and value added tax; (2) Import tax rebates on goods incorporated into products destined for export; and (3) Sectoral promotion programs allowing for preferential ad-valorem tariffs on imports of selected inputs. Industries typically receiving sectoral promotion benefits are footwear, mining, chemicals, steel, textiles, apparel, and electronics.

Performance and Data Localization Requirements. Mexican labor law requires at least 90 percent of a company's employees be Mexican nationals. Employers can hire foreign workers in specialized positions as long as foreigners do not exceed 10 percent of all workers in that specialized category. Mexico does not follow a "forced localization" policy—foreign investors are not required by law to use domestic content in goods or technology. However, investors intending to produce goods in Mexico for export to the United States should take note of the rules of origin prescriptions contained within NAFTA if they wish to benefit from NAFTA treatment. Chapter four of the USMCA will introduce new rules of origin, which entered into force on July 1, 2020.

Mexico does not have any policy of forced localization for data storage, nor must foreign information technology (IT) providers turn over source code or provide backdoors into hardware or software. Within the constraints of the Federal Law on the Protection of Personal Data, Mexico does not impede companies from freely transmitting customer or other business-related data outside the country.

LEGAL FRAMEWORK

Expropriation and Compensation

USMCA (and NAFTA) contain clauses stating Mexico may not directly nor indirectly expropriate property, except for public purpose and on a non-discriminatory basis. Expropriations are governed by international law and require rapid fair market value compensation, including accrued interest.

Investors have the right to international arbitration. The USMCA contains an annex regarding Mexico-United States investment disputes and those related to covered government contracts.

Dispute Settlement

ICSID Convention and New York Convention. Mexico ratified the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention) in 1971 and has codified this into domestic law. Mexico is also a signatory to the Inter-American Convention on International Commercial Arbitration (1975 Panama Convention) and the 1933 Montevideo Convention on the Rights and Duties of States. Mexico is not a member of the Convention on the Settlement of Investment Disputes between States and Nationals of other States (ICSID Convention), even though many of the investment agreements signed by Mexico include ICSID arbitration as a dispute settlement option.

Investor-State Dispute Settlement. Chapters 11, 19, and 20 of NAFTA covered international dispute resolution. Chapter 11 allows a NAFTA Party investor to seek monetary damages for violations of its provisions. Investors may initiate arbitration against the NAFTA Party under the rules of the United

Nations Commission on International Trade Law (UNCITRAL Model Law) or through the ICSID Convention. A NAFTA investor may also choose to use the domestic court system to litigate their case. Chapter 14 of the USMCA covers investment disputes and entered into force on July 1, 2020.

Since NAFTA's inception, there have been 13 cases filed against Mexico by U.S. and Canadian investors who allege expropriation and/or other violations of Mexico's NAFTA obligations. For more details on the cases, please visit: https://icsid.worldbank.org/en/Pages/cases/searchcases.aspx

International Commercial Arbitration and Foreign Courts. The Arbitration Center of Mexico (CAM) is a specialized, private institution administering commercial arbitration as an alternative dispute resolution mechanism. The average duration of an arbitration process conducted by CAM is 14 months. The Commercial Code dictates an arbitral award, regardless of the country where it originated, must be recognized as binding. The award must be enforced after a formal written petition is presented to a judge.

The internal laws of both Pemex and CFE state all national disputes of any nature will have to be resolved by federal courts. State-owned Enterprises (SOEs) and their productive subsidiaries may opt for alternative dispute settlement mechanisms under applicable commercial legislation and international treaties of which Mexico is a signatory. When contracts are executed in a foreign country, Pemex and CFE have the option to follow procedures governed by non-Mexican law, to use foreign courts, or to participate in arbitration.

Bankruptcy Regulations. Mexico's Reorganization and Bankruptcy Law (Ley de Concursos Mercantiles) governs bankruptcy and insolvency. Congress approved modifications in 2014 in order to shorten procedural filing times and convey greater juridical certainty to all parties, including creditors. Declaring bankruptcy is legal in Mexico and it may be granted to a private citizen, a business, or an individual business partner. Debtors, creditors, or the Attorney General can file a bankruptcy claim. Mexico ranked 32 out of 190 countries for resolving insolvency in the World Bank's 2019 Doing Business report. The average bankruptcy filing takes 1.8 years to be resolved and recovers 64.7 cents per USD, which compares favorably to average recovery in Latin America and the Caribbean of just 30.9 cents per USD. "Buró de Crédito" is Mexico's main credit bureau. More information on credit reports and ratings can be found at: http://www.burodecredito.com.mx/

Protection of Property Rights

Real Property. Mexico ranked 105 out of 190 countries for ease of registering property in the World Bank's 2020 Doing Business report, falling two places from its 2019 report. Article 27 of the Mexican Constitution guarantees the inviolable right to private property. Expropriation can only occur for public use and with due compensation. Mexico has four categories of land tenure: private ownership, communal tenure (ejido), publicly owned, and ineligible for sale or transfer.

Mexico prohibits foreigners from acquiring title to residential real estate in so-called "restricted zones" within 50 kilometers (approximately 30 miles) of the nation's coast and 100 kilometers (approximately 60 miles) of the borders. "Restricted zones" cover roughly 40 percent of Mexico's territory. Foreigners may acquire the effective use of residential property in "restricted zones" through the establishment of an extendable trust (fideicomiso) arranged through a Mexican financial institution. Under this trust, the foreign investor obtains all property use rights, including the right to develop, sell, and transfer the property. Real estate investors should be careful in performing due diligence to ensure that there are no other claimants to the property being purchased. In some cases, fideicomiso arrangements have led to legal challenges. U.S.-issued title insurance is available in Mexico and U.S. title insurers operate here.

Additionally, U.S. lending institutions have begun issuing mortgages to U.S. citizens purchasing real estate in Mexico. The Public Register for Business and Property (Registro Publico de la Propiedad y de Comercio) maintains publicly available information online regarding land ownership, liens, mortgages, restrictions, etc.

Tenants and squatters are protected under Mexican law. Property owners who encounter problems with tenants or squatters are advised to seek professional legal advice, as the legal process of eviction is complex.

Mexico has a nascent but growing financial securitization market for real estate and infrastructure investments, which investors can access via the purchase/sale of Fideocomisos de Infraestructura y Bienes Raíces (FIBRAs) and Certificates of Capital Development (CKDs) listed on Mexico's BMV stock exchange.

Intellectual Property Rights. Intellectual Property Rights in Mexico are covered by the Industrial Property Law (Ley de la Propiedad Industrial) and the Federal Copyright Law (Ley Federal del Derecho de Autor). Responsibility for the protection of IPR is spread across several government authorities. The Prosecutor General's Office (Fiscalia General de la Republica or FGR) oversees a specialized unit that prosecutes IPR crimes. The Mexican Institute of Industrial Property (IMPI), the equivalent to the U.S. Patent and Trademark Office, administers patent and trademark registrations, and handles administrative enforcement cases of IPR infringement. The National Institute of Copyright (INDAUTOR) handles copyright registrations and mediates certain types of copyright disputes, while the Federal Commission for the Prevention from Sanitary Risks (COFEPRIS) regulates pharmaceuticals, medical devices, and processed foods. The Mexican Customs Service's mandate includes ensuring illegal goods do not cross Mexico's borders.

The process for trademark registration in Mexico normally takes six to eight months. The registration process begins by filing an application with IMPI, which is published in the Official Gazette. IMPI first undertakes a formalities examination, followed by a substantive examination to determine if the application and supporting documentation fulfills the requirements established by law and regulation to grant the trademark registration. Once the determination is made, IMPI then publishes the registration in the Official Gazette. A trademark registration in Mexico is valid for 10 years from the filing date, and is renewable for 10-year periods. Any party can challenge a trademark registration through the new opposition system, or post-grant through a cancellation proceeding. IMPI employs the following administrative procedures: nullity, expiration, opposition, cancellation, trademark, patent and copyright (trade-based) infringement. Once IMPI issues a decision, the affected party may challenge it through an internal reconsideration process or go directly to the Specialized IP Court for a nullity trial. An aggrieved party can then file an appeal with a Federal Appeal Court based on the Specialized IP Court's decision. In cases with an identifiable constitutional challenge, the plaintiff may file an appeal before the Supreme Court of Justice.

The USPTO has a Patent Prosecution Highway (PPH) agreement with IMPI. Under the PPH, an applicant receiving a ruling from either IMPI or the USPTO that at least one claim in an application is patentable may request that the other office expedite examination of the corresponding application. The PPH leverages fast-track patent examination procedures already available in both offices to allow applicants in both countries to obtain corresponding patents faster and more efficiently. The PPH permits USPTO and IMPI to benefit from work previously done by the other office, which reduces the examination workload and improves patent quality.

Mexico has widespread commercial-scale infringement that results in significant losses to Mexican, U.S., and other IPR owners. There are many issues that have made it difficult to improve IPR enforcement in Mexico, including legislative loopholes; lack of coordination between federal, state, and municipal authorities; a cumbersome and lengthy judicial process; and relatively widespread acceptance of piracy and counterfeiting. In addition, the involvement of transnational criminal organizations (TCOs), which control the piracy and counterfeiting markets in parts of Mexico and engage in trade-based money laundering by importing counterfeit goods, continue to impede federal government efforts to improve IPR enforcement. TCO involvement has further illustrated the link between IPR crimes and illicit trafficking of other contraband, including arms and drugs.

Mexico remained on the Watch List in the 2020 Special 301 report. Obstacles to U.S. trade include the wide availability of pirated and counterfeit goods in both physical and virtual notorious markets. The 2019 USTR Out-Of-Cycle Review of Notorious Markets listed two Mexican markets: Tepito in Mexico City and San Juan de Dios in Guadalajara.

Mexico is a signatory to numerous international IP treaties, including the Paris Convention for the Protection of Industrial Property, the Bern Convention for the Protection of Literary and Artistic Works, and the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights.

Corruption and other Bureaucratic Obstacles

Corruption exists in many forms in Mexican government and society, including corruption in the public sector (e.g., demand for bribes or kickbacks by government officials) and private sector (e.g., fraud, falsifying claims, etc.), as well as conflict of interest issues, which are not well defined in the Mexican legal framework.

Complicity of government and law enforcement officials with criminal elements is a significant concern. Collaboration of government actors with criminal organizations (often due to intimidation and threats) poses serious challenges for the rule of law. Some of the most common reports of official corruption involve government officials stealing from public coffers or demanding bribes in exchange for awarding public contracts. The current administration supported anti-corruption reforms (detailed below) and judicial proceedings in several high-profile corruption cases, including former governors. However, Mexican civil society asserts that the government must take more effective and frequent action to address corruption.

As described in Section 4, Mexico adopted a constitutional reform in 2014 to transform the current Office of the Attorney General into an Independent Prosecutor General's office in order to shore up its independence. President Lopez Obrador's choice for Prosecutor General was confirmed by the Mexican Senate January 18, 2019. In 2015, Mexico passed a constitutional reform creating the National Anti-Corruption System (SNA) with an anti-corruption prosecutor and a citizens' participation committee to oversee efforts. The system is designed to provide a comprehensive framework for the prevention, investigation, and prosecution of corruption cases, including delineating acts of corruption considered criminal acts under the law. The legal framework establishes a basis for holding private actors and private firms legally liable for acts of corruption involving public officials and encourages private firms to develop internal codes of conduct. Implementation of the mandatory state-level anti-corruption legislation varies.

The new laws mandate a redesign of the Secretariat of Public Administration to give it additional auditing and investigative functions and capacities in combatting public sector corruption. Congress approved legislation to change economic institutions, assigning new responsibilities and in some instances creating new entities. Reforms to the federal government's structure included the creation of a General Coordination of Development Programs to manage the newly created federal state coordinators ("superdelegates") in charge of federal programs in each state. The law also created the Secretariat of Public Security and Citizen Protection, and significantly expanded the power of the president's Legal Advisory Office (Consejería Jurídica) to name and remove each federal agency's legal advisor and clear all executive branch legal reforms before their submission to Congress. The law eliminated financial units from ministries, with the exception of Hacienda, the army (SEDENA), and the navy (SEMAR), and transferred control of contracting offices in other ministries to the Hacienda. Separately, the law replaced the previous Secretariat of Social Development (SEDESOL) with a Welfare Secretariat in charge of coordinating social policies, including those developed by other agencies such as health, education, and culture. The Labor Secretariat gained additional tools to foster collective bargaining, union democracy, and to meet International Labor Organization (ILO) obligations.

Four opposition parties filed a legal challenge with the Supreme Court, which agreed January 18, 2020, to hear constitutional challenges to the law. The legal challenge contends the reforms infringe on state powers and violate the balance of powers stipulated in the constitution. The court has not ruled on these challenges.

Mexico ratified the OECD Convention on Combating Bribery and passed its implementing legislation in May 1999. The legislation includes provisions making it a criminal offense to bribe foreign officials. Mexico is also a party to the Organization of American States (OAS) Convention against Corruption and has signed and ratified the United Nations Convention against Corruption. The government has enacted or proposed strict laws attacking corruption and bribery, with average penalties of five to 10 years in prison.

Mexico is a member of the Open Government Partnership and enacted a Transparency and Access to Public Information Act in 2015, which revised the existing legal framework to expand national access to information. Transparency in public administration at the federal level improved noticeably, but expanding access to information at the state and local level has been slow. According to Transparency International's 2019 Corruption Perception Index, Mexico ranked 130 of 180 nations, and has fallen every year since 2012. Civil society organizations focused on fighting corruption are increasingly influential at the federal level, but are few in number and less powerful at the state and local levels.

Business representatives, including from U.S. firms believe public funds are often diverted to private companies and individuals due to corruption and perceive favoritism to be widespread among government procurement officials. The GAN Business Anti-Corruption Portal states compliance with procurement regulations by state bodies in Mexico is unreliable and that corruption is extensive, despite laws covering conflicts of interest, competitive bidding, and company blacklisting procedures.

The U.S. Embassy has engaged in a broad-based effort to work with Mexican agencies and civil society organizations in developing mechanisms to fight corruption and increase transparency and fair play in government procurement. Efforts with specific business impact include government procurement best practices training and technical assistance under the U.S. Trade and Development Agency's Global Procurement Initiative.

UN Anticorruption Convention, OECD Convention on Combatting Bribery. Mexico ratified the UN Convention Against Corruption in 2004. It ratified the OECD Anti-Bribery Convention in 1999.

INTERNATIONAL AGREEMENTS

Trade Agreements. For U.S. exporters, Mexico's trade liberalization efforts mean that the Mexican market is one of the most open and competitive in the world.

Mexico is a member of the World Trade Organization (WTO), the Asia-Pacific Economic Cooperation (APEC), the G-20, and the Organization for Economic Cooperation and Development (OECD). Mexico has more free trade agreements (FTAs) than any other country in the world—12 FTAs with 46 countries—including NAFTA and FTAs with the European Union, European Free Trade Area, Japan, Israel, and ten countries in Latin America. Mexico is a party to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which, once ratified by each country, will link 11 Asia-Pacific economies.

Mexico is also a member of the Pacific Alliance, a trade bloc formed by Mexico, Chile, Colombia, and Peru in 2011.

Bilateral Investment Agreements and Taxation Treaties: The USMCA entered into force on July 1, 2020, containing an investment chapter.

Mexico has signed 13 FTAs covering 50 countries and 32 Reciprocal Investment Promotion and Protection Agreements covering 33 countries. Mexico is a member of Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which entered into force December 30, 2018. Mexico currently has 29 Bilateral Investment Treaties in force. Mexico and the European Union finalized a FTA in May 2020, but it still must undergo legal scrub and translation.

The United States-Mexico Income Tax Convention, which came into effect January 1, 1994, governs bilateral taxation between the two nations. Mexico has negotiated double taxation agreements with 55 countries. Recent reductions in U.S. corporate tax rates may drive a future change to the Mexican fiscal code, but there is no formal legislation under consideration.

In 2019, the administration approved a value-added tax (VAT) on digital services. Starting June 30, 2020, foreign digital companies will begin to collect VAT on the majority of goods and services customers purchase online and will remit the VAT and sales reports to the Secretariat of Finance (Hacienda). The administration also introduced a series of fiscal measures in 2019 to combat tax evasion and fraud.

OPIC and Other Investment Insurance Programs. Mexico and Overseas Private Investment Corporation (OPIC) finalized in 2004 the agreement enabling OPIC programs and services within the country. Since then, OPIC has provided over USD 1 billion in financing and political risk insurance to support to more than 22 projects in Mexico. OPIC has announced a drive to catalyze an additional USD 1 billion in investments in Mexico and Central America by 2021. For more information on OPIC's projects in Mexico, please consult OPIC's website at www.opic.gov.

LABOR CONDITIONS

Mexico's 56.4 percent rate of informality remains higher than countries with similar GDP per capita levels. High informality, defined as those working in unregistered firms or without social security protection, distorts labor market dynamics, contributes to persistent wage depression, drags overall productivity, and slows economic growth. Mexico's efforts to increase formality over the past four years only reduced the rate by 2.4 percentage points, a modest decrease given the scope of the problem. In the formal economy, there exists large labor shortages due to a system that incentivizes informality. Manufacturing companies, particularly along the U.S.-Mexico border and in the states of Aguascalientes, Guanajuato, Jalisco, and Querétaro, report labor shortages and an inability to retain staff due to wages sometimes being less that what can be earned in the informal economy. These shortages are particularly acute for skilled workers and engineers.

On May 1, 2019, Lopez Obrador signed into law a sweeping reform of Mexico's labor law, implementing a constitutional change and focusing on the labor justice system. The reform replaces tripartite dispute resolution entities (Conciliation and Arbitration Boards) with independent judicial bodies. In terms of labor dispute resolution mechanisms, the Conciliation and Arbitration Boards (CABs) previously adjudicated all individual and collective labor conflicts. Under the reform collective bargaining agreements will now be adjudicated by federal labor conciliation centers and federal labor courts.

Labor experts predict the labor reform will result in a greater level of labor action stemming from more inter-union and intra-union competition. The Secretariat of Labor, working closely with Mexico's federal judiciary, as well as state governments and courts, created an ambitious implementation agenda for the reforms, phasing states in starting October 1, 2020, and ending May 1, 2022. Further details on labor reform implementation can be found at: www.reformalaboral.stps.gob.mx

Mexico's labor relations system has been widely criticized as skewed to represent the interests of employers and the government at the expense of workers. Mexico's legal framework governing collective bargaining created the possibility of negotiation and registration of initial collective bargaining agreements without the support or knowledge of the covered workers. These agreements are commonly known as protection contracts and constitute a gap in practice with international labor standards regarding freedom of association. The percentage of the economy covered by collective bargaining agreements is between five and 10 percent.

The reform requires all collective bargaining agreements must now be submitted to a free, fair, and secret vote every two years with the objective of getting existing protectionist contracts voted out. The increasingly permissive political and legal environment for independent unions is already changing the way established unions manage disputes with employers, prompting more authentic collective bargaining. As independent unions compete with corporatist unions to represent worker interests, workers are likely to be further emboldened in demanding higher wages.

According to the International Labor Organization (ILO), government enforcement was reasonably effective in enforcing labor laws in large and medium-sized companies, especially in factories run by U.S. companies and in other industries under federal jurisdiction. Enforcement was inadequate in many small companies and in the agriculture and construction sectors, and it was nearly absent in the informal sector. Workers organizations have made numerous complaints of poor working conditions in maquiladoras and in the agricultural production industry. Low wages, poor labor conditions, long work hours, unjustified dismissals, lack of social security benefits and safety in the workplace, and lack of freedom of association were among the most common complaints.

Sources: 2021 Investment Climate Statement–Mexico, Bureau of Economic and Business Affairs, US Department of State; Mexico Country Commercial Guide FY 2021, Us & Foreign Commercial Service And Us Department Of State; PRS Data Files.