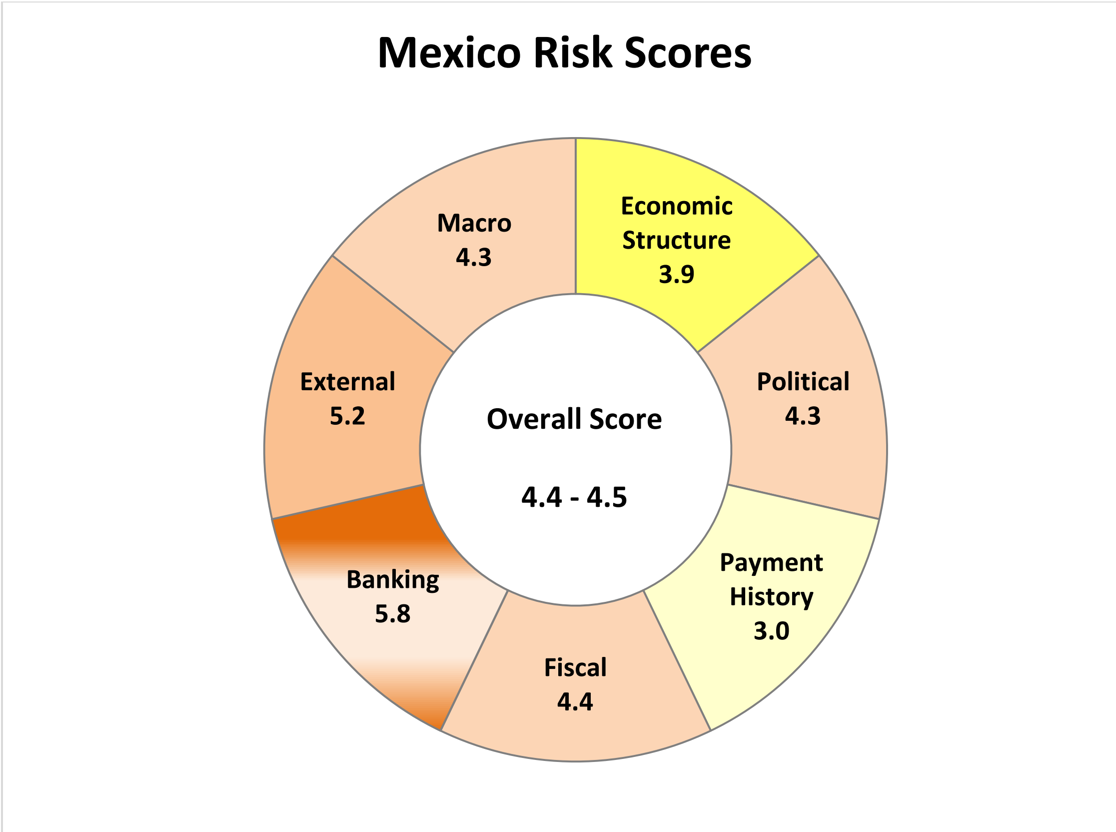

Mexico Trend Risks

Economic growth is expected to rebound slightly in 2017, to 2.4%, supported by stronger trade performance. However, uncertainties surrounding the new Trump Administration could slow inward investment, portfolio flows and net exports. Inflation remains low due to aggressive Bank of Mexico policies in 2016, responding to volatile capital flows.

The government is taking measures to restructure the state oil company, helping reduce the longer term costs to the state. Public deficits and debt are within Emerging Market norms.

OPEC oil production limits should support Mexico's export receipts in 2017, while the current account deficit is expected to remain below 3% of GDP. Solid forex reserves and a large IMF backstop facility (FCL) will help defend Mexico weather trade and currency pressures.

Headline numbers on the banking system are mixed, with rapid credit growth but low NPLs compared to capital. A recent Financial Soundness review by the IMF gives Mexico solid marks.

President Enrique Peña Nieto is well into his 6 year term. His government will face ongoing challenges on border issues with the US, drug violence and efforts to reduce poverty.