PIIE PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

Mexico Outlook

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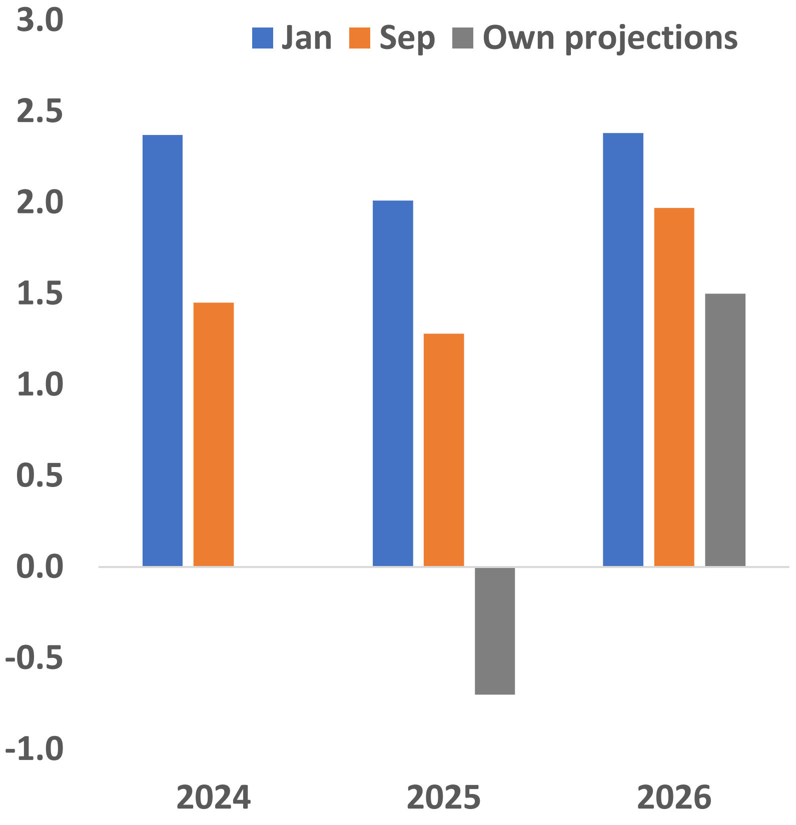
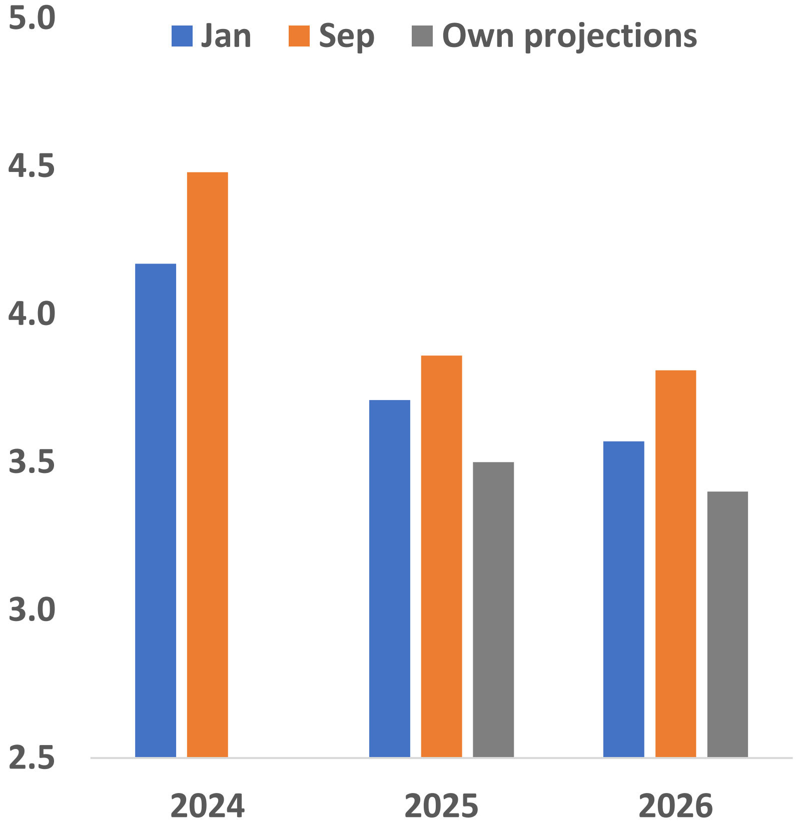
GDP Growth and Inflation Expectations: Our projections point to lower growth and inflation

Expected GDP Growth
annual, %



Source: Banxico Survey

Expected Inflation
annual, %



Source: Banxico Survey

GDP growth

- Political Business Cycle First-year of government effect has been present in Mexico the last 40 years.
- Uncertainty assoicated to Judicial Reform and USMCA future
- Largest Fiscal Correction expected for a first year of govenrment.
- Potential GDP: lower nearshoring effect and negative rule of law will weigh on potential growth

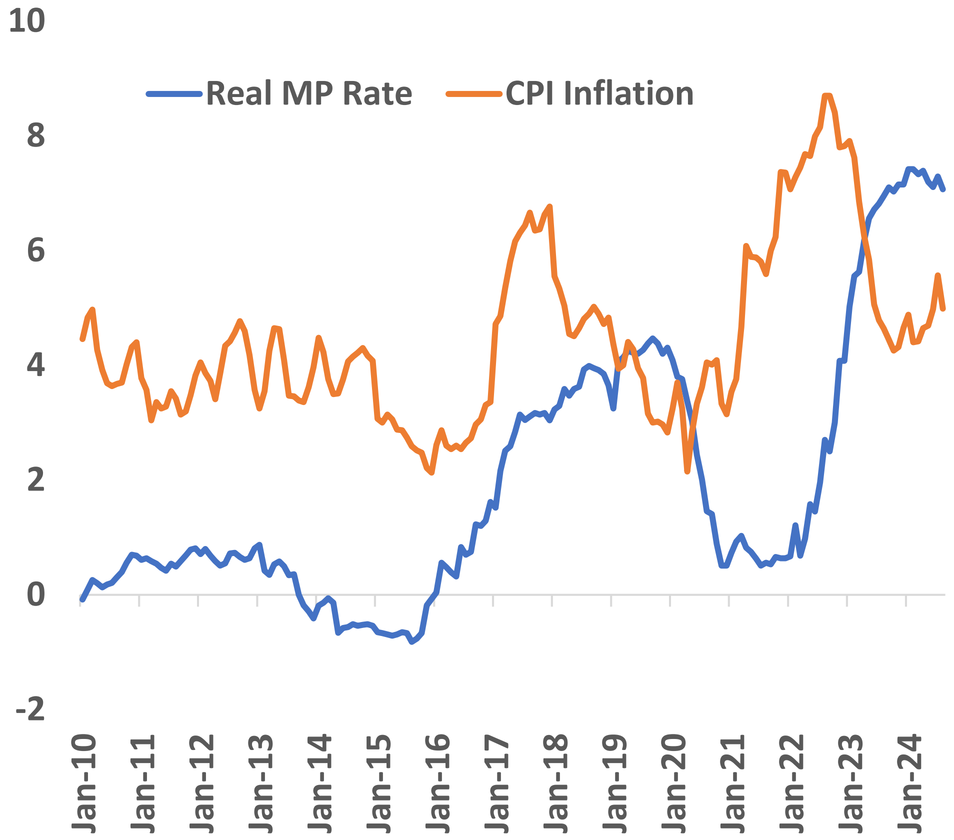
Inflation

- Recession will offset wage push inflationary pressures and potential FX movements

Monetary Policy: Ample room to continue with interest rate reductions

Real MP Rate and Inflation

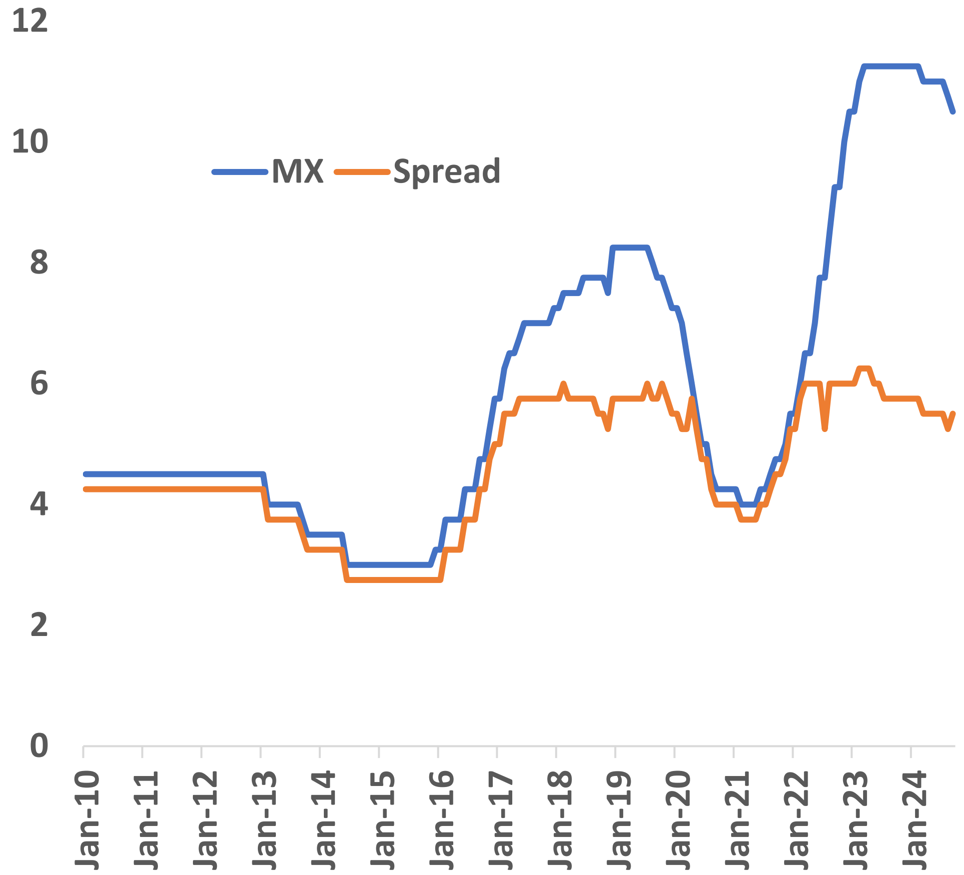
annual, %



Source: Banxico and INEGI

MX MP Rate and MX-US Spread

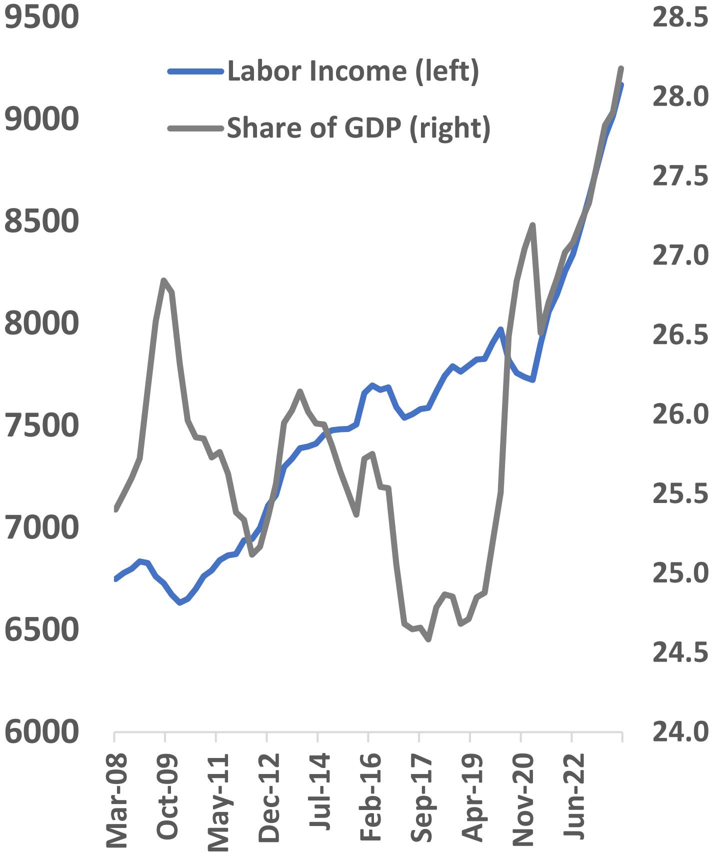
annual, %



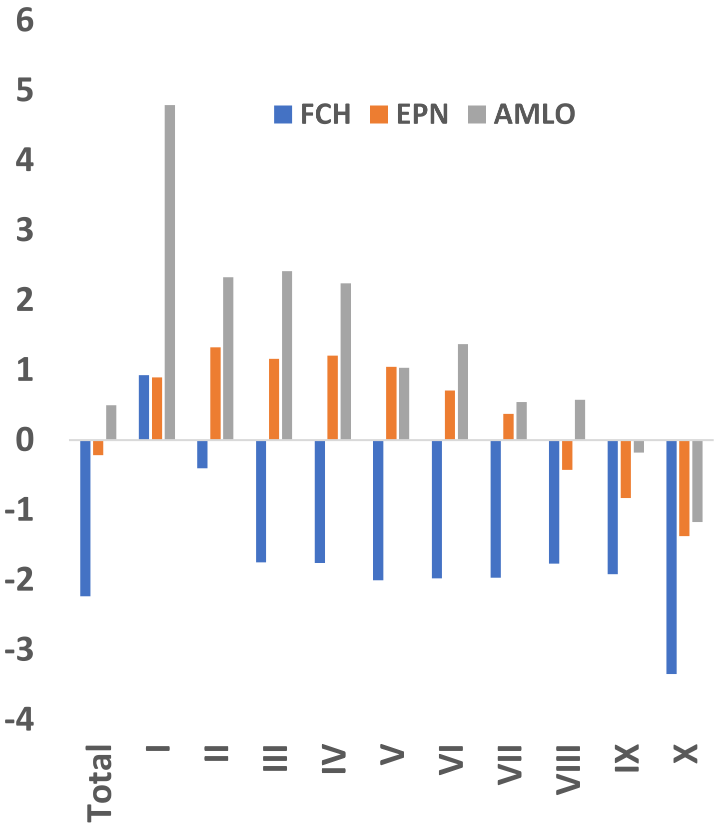
Source: Banxico and Fed

AMLOnomics = Redistribution and no growth.
Main Policy Instruments minimum wage, changes to labor legislation, pensions and social programs.
There is a need to rebalance the model towards more Business-friendly polices to make it sustainable.

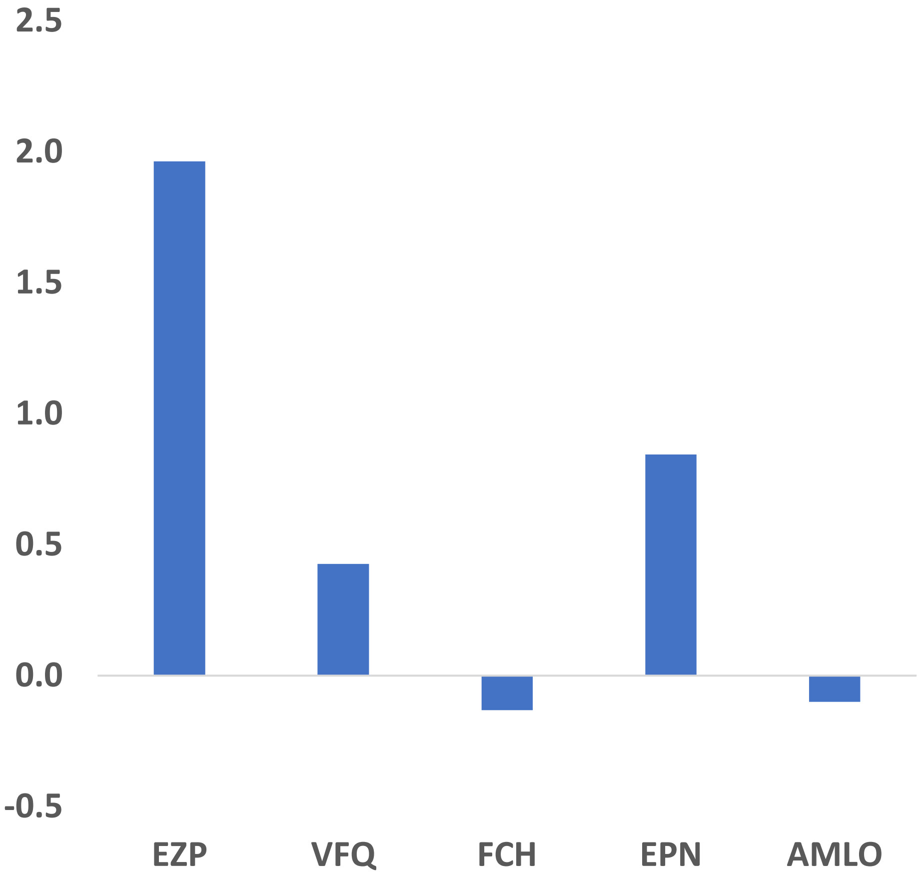
Labor Income
Annualized MXN $bn of 2023 and %



Real Consumption Growth different admininstrations
Annual avg growth per income decile



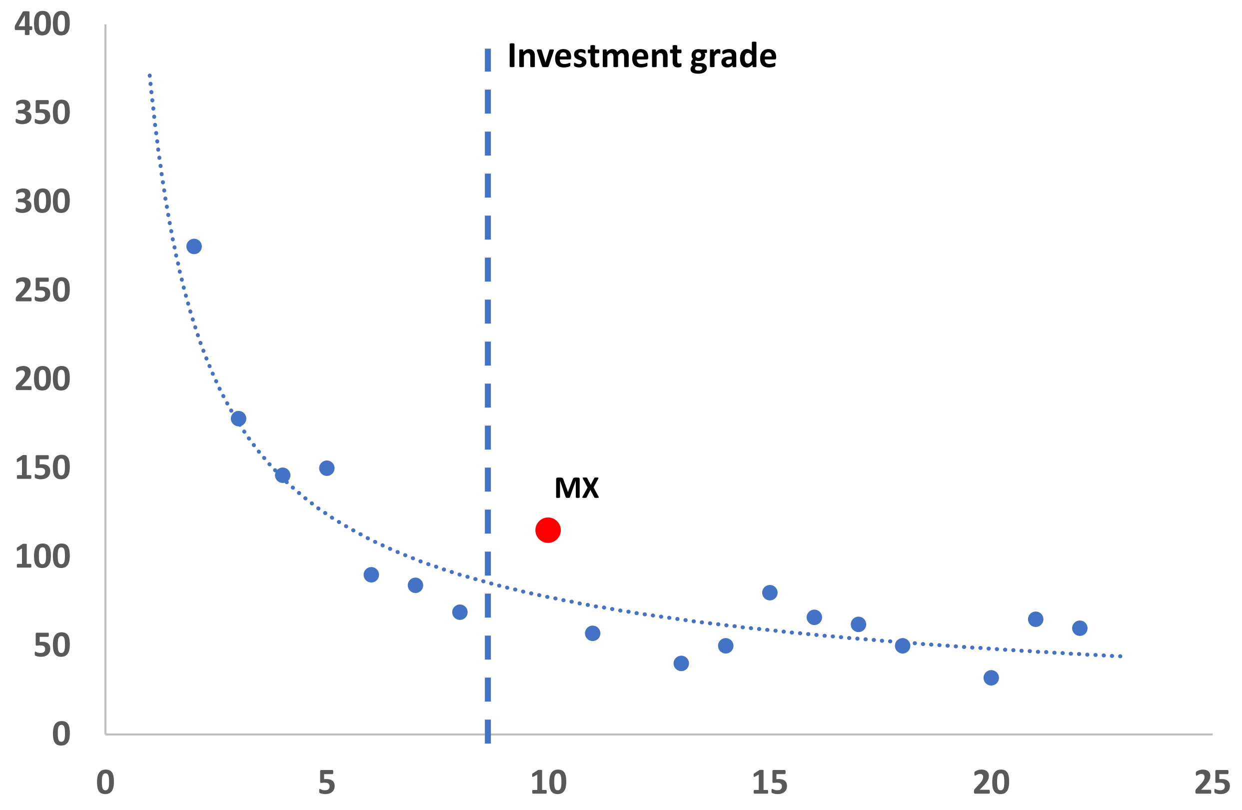
Percapita GDP Growth
annual average in different administrations, %



Markets indicate that there is a risk that Mexico loses Investment Grade status because of fiscal, institutional and growth concerns

Rating vs CDS

Rating S&P (X) vs CDS (Y)

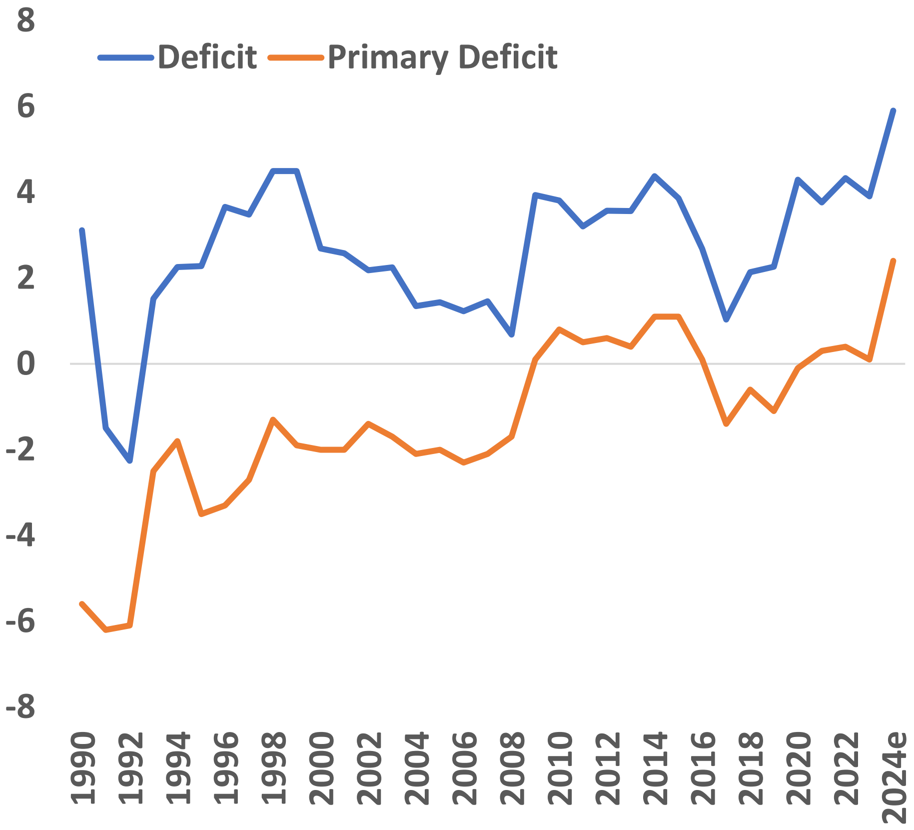


Source: Cbonds and S&P

Public finances are sustainable if a credible fiscal consolidation is implemented: need to announce a fiscal plan that brings the deficit to 3% of GDP in two years

Public Deficit

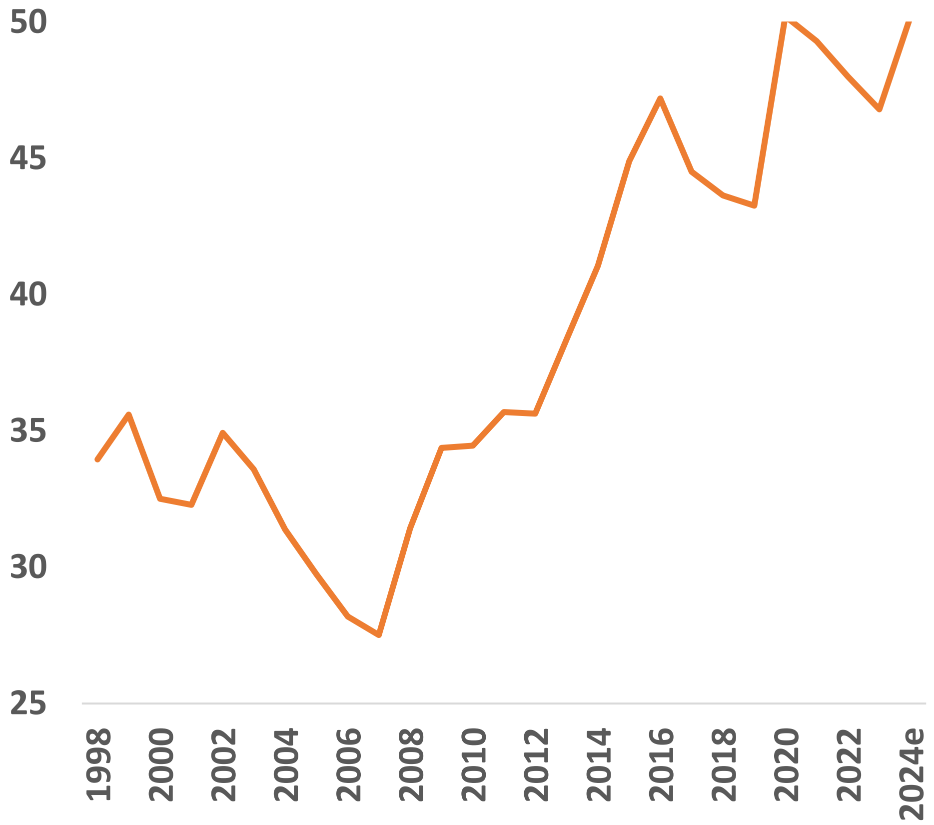
% of GDP



Source: SHCP

Public Debt

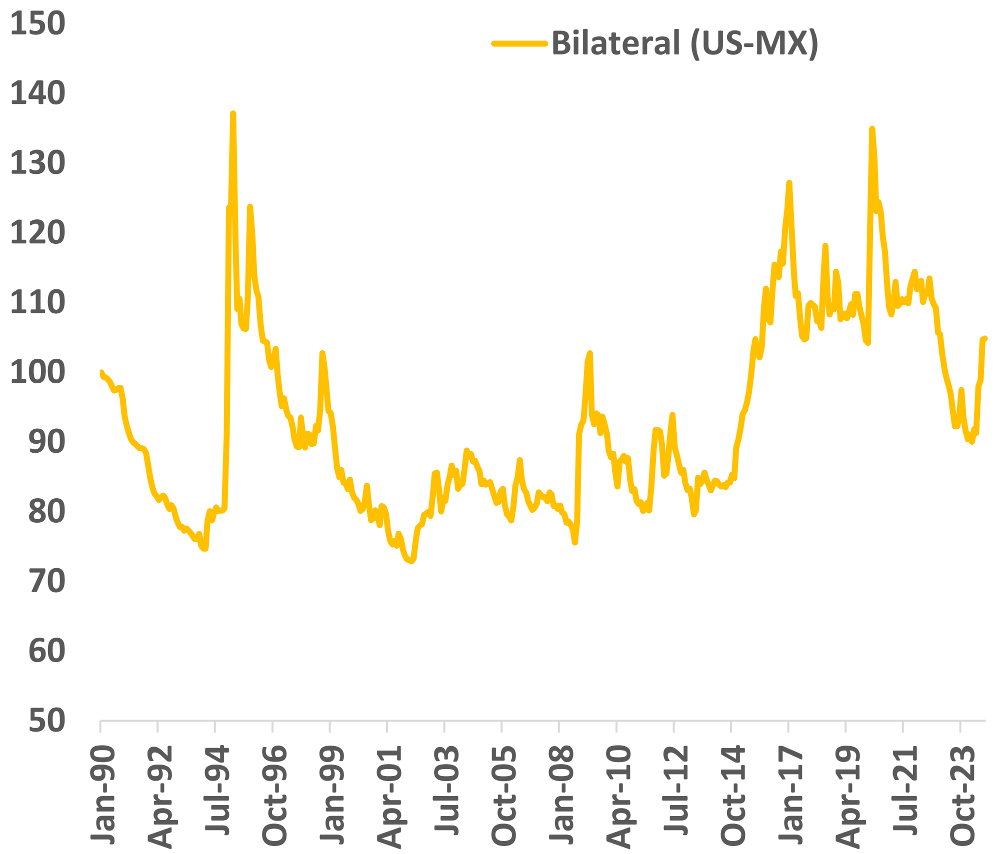
% of GDP



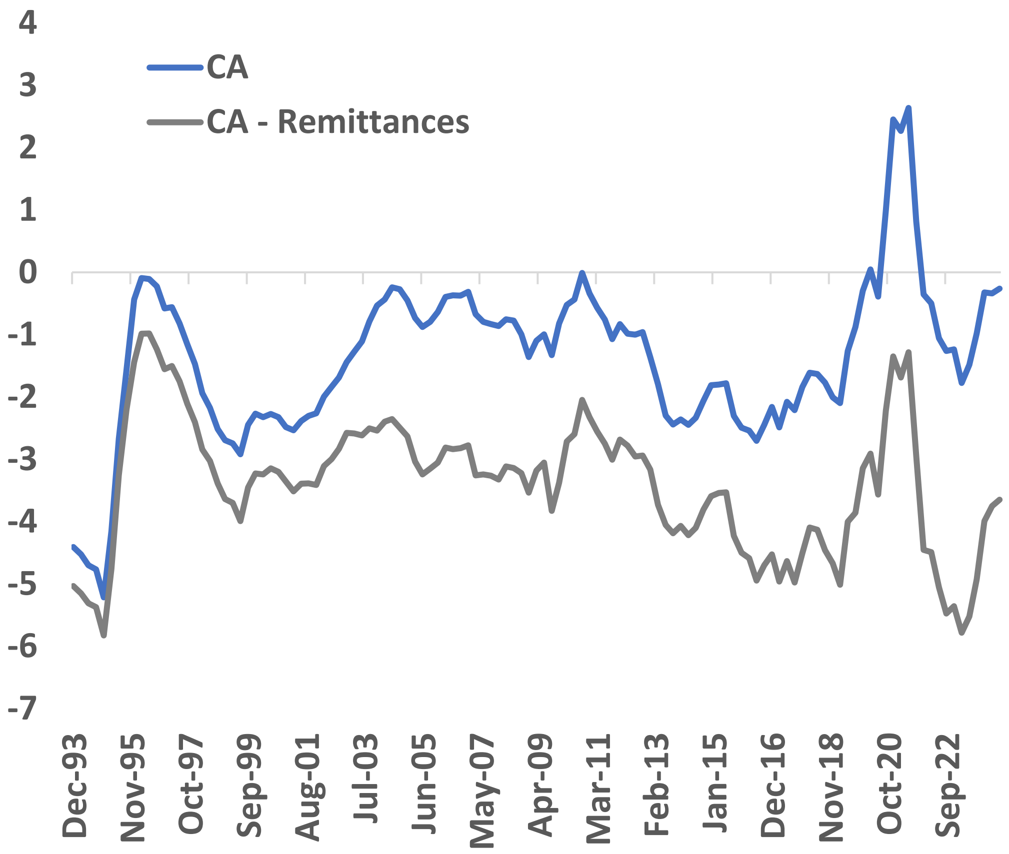
Source: SHCP

External Balance has been supported by the very large increase in remittances of the last six years. When remittances stabilize, the external accounts will be challenged.
An agenda focused on increasing productivity would minimize these concerns.

Real Exchange Rate
Index Jan90=100



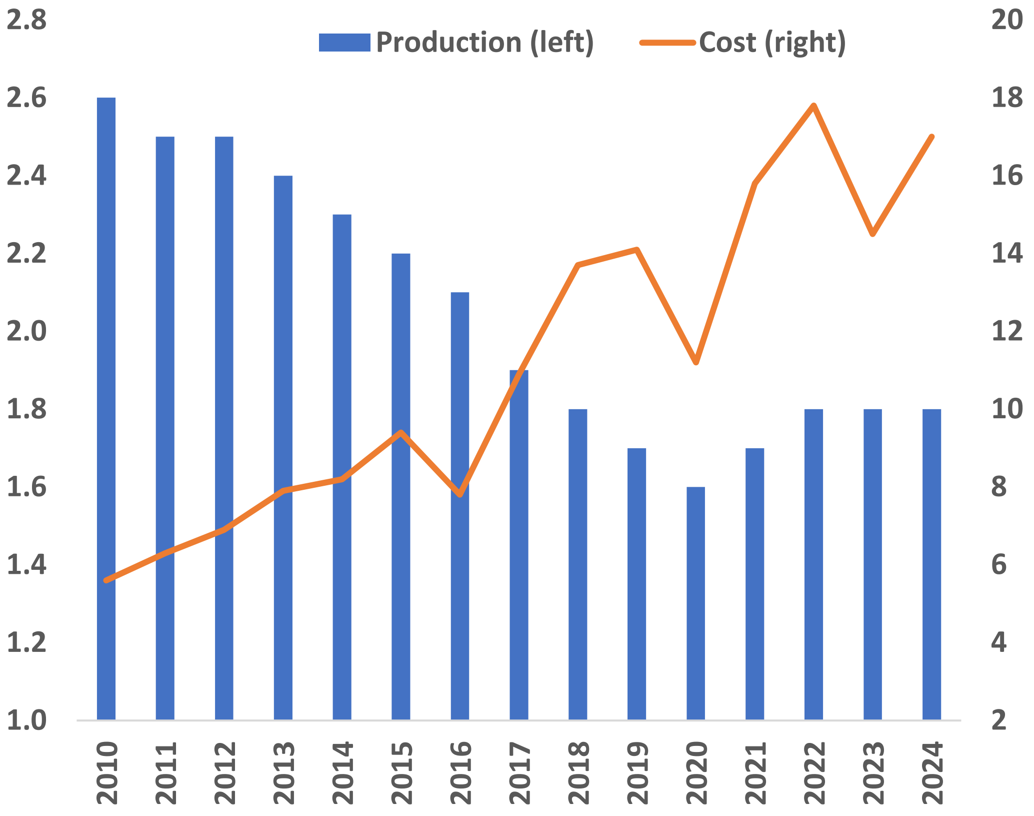
Current Account and Remittances
% of GDP



Source: Banxico

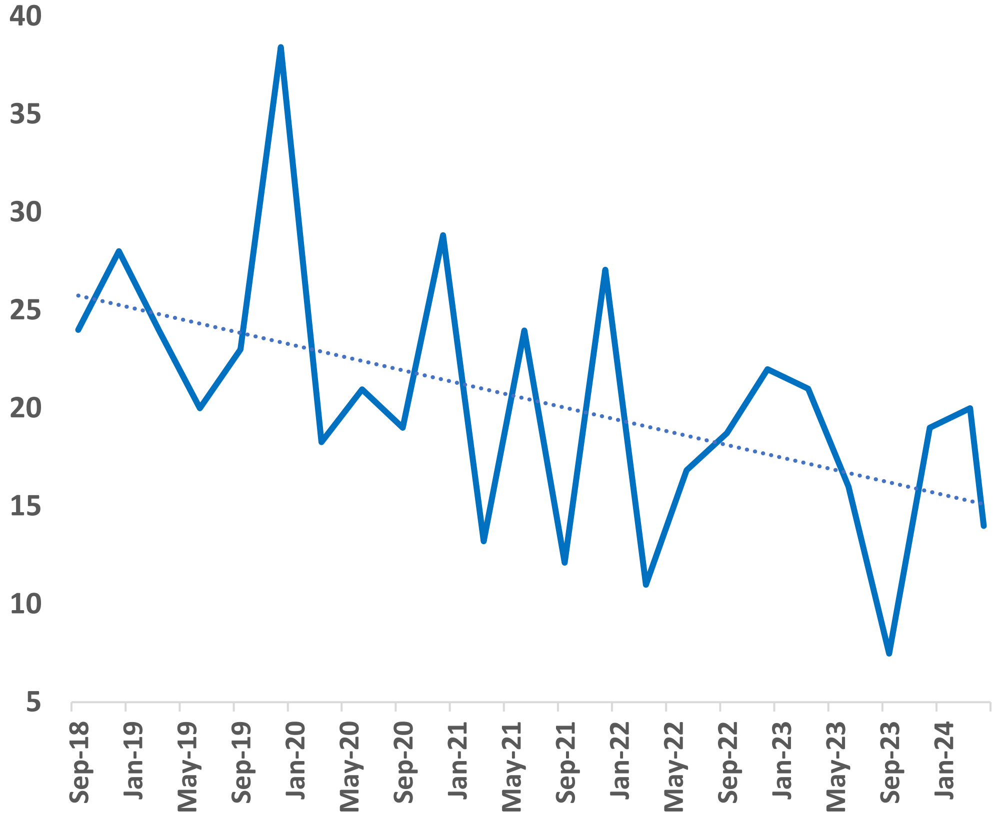
An important constraint to both growth and public finances is the energy sector: Pemex financial weakness can spill over to the sovereign; Electricity supply is a bottleneck for investment and growth.

Crude production and cost
mbpd and US$/b



Source: Pemex

Power Reserve Margin
%



Source: CENACE

The Mexico-US relationship is another important source of risk

- The negative effects on the world economy from Trump’s tariff and migration proposals would significantly affect Mexico, in case they materialize

- The uncertainty associated with the continuity of USMCA will have negative effects on Mexico’s growth prospects in the next two years

- The 2026 USMCA re-negotiation will force Mexico to align its China policies to those of the US

- Migration and organized crime will also continue to challenge the relationship

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