BPI

Mexico

Outlook

	Average 11-15	2016	2017	2018	2019	2020	2021	Forecasts 2022	2023
GDP growth (%)	-1.9	2.6	2.1	2.2	-0.2	-8.2	4.8	1.9	2.3
CPI inflation (%)*	3.6	2.8	6.0	4.9	3.6	3.4	5.7	6.2	4.0
Fiscal balance (% of GDP)	-3.9	-2.8	-1.1	-2.2	-2.3	-4.4	-3.8	-3.2	-3.2
Public debt (% of GDP)	46.6	56.7	54.0	53.6	53.3	60.3	57.6	58.4	58.9
Reference rate (%)*	3.8	4.2	6.7	7.6	8.1	5.5	4.4	6.7	3.8
Exchange rate (MXN/EUR)*	13.5	18.7	18.9	19.2	19.3	21.5	20.3	20.2	19.5
Current balance (% of GDP)	-1.9	-2.2	-1.7	-2.0	-0.3	2.4	-0.4	-0.6	-0.7
External debt (% of GDP)	21.1	29.7	28.2	28.4	27.9	31.1	28.8	27.7	28.1

Note: * Annual average.
Source: BPI Research, based on data from the INEGI and IMF.

- **The Mexican economy started the year better than expected.** GDP in Q1 2022 reached 0.9% quarter-on-quarter and 1.6% year-on-year, improving after the weak performance observed towards the end of 2021. The gradual recovery of industry, which returned to almost pre-pandemic levels in most subsectors, and the increase in trade were the main drivers of momentum in the quarter. The service sector performed worse in the context of labour regulation changes and the slow recovery of tourist activity. The foreign sector continued to benefit from exports to the US, as well as from the high flow of remittances from abroad. The other side of the coin was determined by the moderation in household consumption and lower investment, both items conditioned by rising inflation and the tightening of financial conditions.

- **The growth outlook for 2022 looks challenging.** The economic fallout from the pandemic (increase in unemployment, loss of productivity and rise in poverty) will continue to hamper the recovery of the economy. Although we believe that the direct effects of the war in Ukraine will be relatively limited on the Mexican economy, due to its geographical position and its trading partners, we do believe that the potential impact of the conflict on global supply chains and the slowdown of the US economy could be a major obstacle that would negatively affect industry and exports. Likewise, the rise in the cost of commodities and minimum wages (promoted by the government) will keep inflation at high levels and will reduce the capacity for domestic spending. On a fiscal level, the absence of the implementation of new tax collection reforms may compromise the operating margin of the authorities. In the political framework, although the more balanced composition of Congress after the federal elections in June 2021 offers a certain level of political stability, it could make the approval of far-reaching structural reforms less likely. All in all, we expect GDP to be around 1.9% in 2022.

- **Risks are tilted to the downside** and arise in three areas. Firstly, monetary. The high level of inflation led Banxico to increase the reference rates from June 2021 to 7%. The bank will most likely continue to apply new increases given the increase in inflationary pressures, at the risk that an excessive tightening of financial conditions could hamper economic recovery. Secondly, sovereign. A potential bailout of Pemex (through recapitalisation, writing off its debt, and/or reduction of fiscal revenues) would cause an immediate increase in fiscal deficit and sovereign debt. Finally, political risk. The new configuration of Congress could delay the implementation of reforms relating to fiscal matters and to the job and energy markets.

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