

# Mexico Business Forecast Report Q1 2015

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## Abstracts

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### Core Views

We remain optimistic about Mexico's long-term growth outlook on the back of a booming manufacturing sector, an increasingly strong private consumer and favourable demographics.

The passage of energy sector reform will bolster sentiment towards Mexican assets and contribute to stronger real GDP growth in the coming years. The 2015 mid-term elections will be key if the main centre-right opposition party, the Partido Acción Nacional, is able to position itself to return to the presidency in the next general elections in 2018.

### Major Forecast Changes

We have revised down our 2014 real GDP growth forecast to 2.6.% from 3.1% due to weak private consumption growth in Q114.

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Major Forecast Changes  
Key Risks To Outlook

### **CHAPTER 1: POLITICAL OUTLOOK**

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BMI Political Risk Index  
Domestic Politics  
Energy Sector Reform Done, Political Gridlock Begins  
The passage of energy sector reform in Mexico will mark the culmination of an aggressive reform drive by President Enrique Peña Nieto, which will attract significant foreign investment into the sector in the coming years. We now expect political gridlock in congress as the main parties of the pro-reform alliance adopt an increasingly combative rhetoric ahead of the June 2015 mid-term elections, preventing the passage of additional major reforms over the next year.

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Long-Term Political Outlook

Strengthening, But Challenges Remain

The next decade looks set to be challenging for Mexico owing to a weak security situation, high levels of income inequality and endemic corruption.

Table: Political Overview

### **CHAPTER 2: ECONOMIC OUTLOOK**

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Economic Recovery To Solidify In 2015  
Mexico's real GDP growth will accelerate next year, driven by an improvement private consumption, stronger growth of manufacturing exports and a recovery in public investment. Furthermore, we expect an uptick in private fixed investment into the country's recently

liberalised energy sector as the first oil licensing round begins in H115.

Table: Economic Activity

Fiscal Policy

Fiscal Deficit Will Remain Relatively Wide In 2015

Mexico's fiscal deficit will narrow slightly in 2015, though it will remain above 3% of GDP - wide by historical standards. The main drivers of a greater budget shortfall will be greater public investment, especially into infrastructure. This will result in a greater public debt burden, though strong macroeconomic credentials will ensure relatively low financing costs.

Table: Fiscal Policy

Monetary Policy

Rate-Hiking Cycle Will Commence In H215

The Banco de México (Banxico) will hold its benchmark policy rate at 3.00% through H115 to support the ongoing economic recovery.

Banxico will shift gears in H215, when we expect a hiking cycle to commence as concerns over economic growth ease and inflation expectations begin to trend higher.

Table: Monetary Policy

Balance Of Payments

External Account Improvements Ahead

Mexico's current account deficit will narrow in 2014 and 2015, a consequence of stronger export growth as US demand for the country's manufactured goods increases. Moreover, the liberalisation of the energy sector will result in a significant uptick in foreign direct investment beginning in 2015, anchoring recurrent current account shortfalls in the coming years.

Table: Current Account

Exchange Rate Policy

MXN: Gradual Appreciation Ahead

Stronger US demand for Mexican manufactured goods exports and an uptick in foreign direct investment into the recently liberalised energy sector will drive a gradual strengthening of the peso in the coming quarters. However, the peso will continue to see high levels of volatility due to the effects of monetary policy normalisation by the US Federal Reserve Bank.

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The Mexican Economy To 2023

Stronger Growth Ahead Following The Passage Of Key Reforms

Mexico's booming manufacturing sector, increasingly strong private consumer and favourable demographics suggest that the country

is well placed to see solid economic expansion in coming years, such that we forecast robust 4.1% average real GDP growth over

the coming decade. We expect Mexico's oil sector to become an increasingly important driver of growth following energy sector

liberalisation in December 2013.

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