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FEATURED Q&A

Will Mexico's Economy See a Solid Rebound?

Even though Mexico's economy grew in the first quarter, GDP remains below pre-pandemic levels. Mexico City is pictured. // File Photo: Government of Mexico City.

Q Mexico's economy ended the first quarter on a positive note, expanding in March with gains in industrial output and services, according to data the National Statistics Institute released on May 25. Gross domestic product expanded 1 percent from the previous quarter in seasonally adjusted terms. Despite the stronger indicators, Mexico's economy remains about 1 percent smaller than it was before the pandemic in 2020, however, and lingering supply chain problems and a lack of business confidence could weigh on the growth outlook, according to Goldman Sachs. What do the latest economic indicators say about Mexico's economic rebound from the pandemic? What sorts of headwinds stand in the way of faster growth? What can policymakers in Mexico do to advance the recovery and get more people on a stronger financial footing?

A Carlos Morales, director for Latin America sovereigns at FitchRatings: "Mexico's latest economic indicators continue to point toward a gradual recovery but well below regional and rating peers. We expect real GDP growth will slow down to 2 percent in 2022 and remain at that level next year. The real GDP level will not reach pre-pandemic levels until 2023, lagging other emerging economies. The limited fiscal impulse, coupled with an early reversal of the monetary policy easing, restrained the economic recovery as authorities prioritized macroeconomic stability. Risks are tilted to the downside given ongoing external disruptions to energy prices and supply chains (such as Russia's invasion of Ukraine and China's lockdown measures). External demand from the United States will remain supportive, but on a

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Migration Deal to Be Signed as Summit Closes

As the Summit of the Americas closes today in Los Angeles, Western Hemisphere leaders are to sign an agreement that supporters hope will serve as a framework for how countries handle migrants.

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Eletrobras Raises $6.9 Billion in Share Sale

Brazilian state power company Eletrobras raised $6.9 billion in Latin America's largest equity offering this year. The sale will leave the government with a stake of less than 50 percent.

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ECONOMIC

Brazil's Lula Eyes More Public Spending in Plan

Former Brazilian President Luiz Inácio Lula da Silva wants to scrap the country's constitutionally mandated spending cap and increase state spending if elected president in October.

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Lula // File Photo: @ @LulaOficial via Twitter.

POLITICAL NEWS

Migration Deal to Be Signed as Summit of the Americas Closes

As the Summit of the Americas closes today in Los Angeles, Western Hemisphere nations are expected to sign a new agreement on migration that aims to have more countries accept migrants either permanently or temporarily, The Wall Street Journal reported. The accord, formally known as the Los Angeles Declaration on Migration and Protection, will call on countries to develop their systems for granting asylum as well as to allow more work visas and also strengthen border enforcement so that authorities intercept more migrants before they reach the U.S. border, the newspaper reported. The agreement is expected to be paired with commitments from individual countries, including Spain and Canada, to help resettle Latin American migrants. The agreement is not likely to immediately change how countries handle migrants in Latin America, but some experts say it could be the most significant outcome from this week's Summit of the Americas, which was overshadowed by the boycott of some heads of state, including Mexican President Andrés Manuel López Obrador, over the U.S. decision not to invite Cuba, Nicaragua and Venezuela. "Depending on how it is implemented, in two to five years this could be the most significant thing" from any Summit of the Americas, Dan Restrepo, who was former U.S. President Barack Obama's advisor on Latin America, told The Wall Street Journal. "It's got a shot at being something real in a way that no other summit has produced," he added. However, implementation of the agreement could be challenging as it would require long-term coordination on migration in Latin America at the same time that the region has become more fragmented, the newspaper reported. Honduras' foreign minister, Eduardo Enrique Reina, told the newspaper that the agreement will serve as a "baseline," but determining how to put it into practice will be difficult, particularly with some countries being uninvited to the summit. "It would be better if they are here, because we're facing in many countries of Latin America the transit of many of these nationalities, so if we have to find solutions, we have to find solutions together," he said. As the summit began on Monday, a caravan of some 15,000 migrants set off from southern Mexico toward the United States. By Thursday, the caravan had split into four different groups, EFE reported. Meantime, on Thursday at the Summit of the Americas, U.S. President Joe Biden met for the first time with Brazilian President Jair Bolsonaro, the Associated Press reported. Biden did not challenge Bolsonaro, who is facing a tough re-election bid in October, on his repeated baseless claims about fraud in Brazil's election system. Bolsonaro did bring up the issue himself, however. "We do wish to have honest, clean, transparent, auditable, reliable elections," said Bolsonaro, the AP reported. Biden praised Brazil for its "vibrant, inclusive democracy and strong electoral institutions," the wire service reported.

ECONOMIC NEWS

Lula Eyes More Public Spending in Economic Plan

Former Brazilian President Luiz Inácio Lula da Silva, who is currently leading incumbent President Jair Bolsonaro in electoral polls, said that he will scrap the county's constitutionally mandated spending cap, boost government spending and overhaul tax policy if he wins the October presidential elections, according to a draft economic plan, the Financial Times reported Thursday. The plan has 90 primary points, which include Lula's commitments to combating corruption and reconstituting the Bolsa Família social welfare program, Folha de S. Paulo reported. The plan, written by Aloízio Marcadante, a co-founder of Lula's Workers' Party, emphasizes the former president's interest in addressing poverty and inequality in Brazil. "Let's put the poor and workers back into the budget," it says, the Financial Times

NEWS BRIEFS

Nicaragua Authorizes Russian Troops for Training Activities

Nicaraguan President Daniel Ortega's government has authorized Russian troops, ships and planes to enter the country for training, as well as law enforcement and emergency response activities, the Associated Press reported Thursday, citing a Nicaraguan government decree that Russia confirmed. The decree allows for small contingents of Russian troops for "exchange of experience and training," the wire service reported. Maria Zakharova, a spokeswoman at Russia's foreign ministry, told Russian news outlet Sputnik that the measure was "routine."

Peru's Central Bank Hikes Key Interest Rate by Half Point to 5.5%

The Peruvian central bank on Thursday raised the country's benchmark interest rate for the eleventh consecutive time to 5.5 percent, Reuters reported. The half-point increase came as the central bank is trying to combat rising prices, as annual inflation reached 8.09 percent in May–the highest level in 24 years. Since the middle of last year, the Peruvian central bank has pushed up its key interest rate by 525 basis points, the wire service reported.

Venezuela's Maduro Meets With Algerian President

Venezuelan President Nicolás Maduro and Algerian President Abdelmadjid Tebboune met Thursday in Algiers and agreed to increase their countries' economic cooperation, Agence France-Presse reported. The countries will work more closely, especially on issues regarding oil and gas, as they are both members of the OPEC oil cartel and rely heavily on energy exports. Maduro's stop in Algeria followed a visit to Turkey, where he met with President Recep Tayyip Erdoğan.

reported. "For this, it is necessary to revoke the spending ceiling and review the current Brazilian tax regime, which is dysfunctional and has totally lost its credibility," it added. Viktor Szabó, an emerging markets debt investment director at Abrdn, characterized the plan as "more state, less private sector and potentially looser fiscal policy." He added, "The only problem with public spending in Brazil is it's not really efficient and, furthermore, we've learnt that it's the prime source of corruption." The plan is subject to approval by parties allied with the Workers' Party.

BUSINESS NEWS

Brazil's Eletrobras Raises $6.9 Billion in Share Sale

Eletrobras, Brazil's state power company, was effectively privatized in a stock offering on Thursday that raised 33.7 billion reais ($6.9 billion), Bloomberg News reported. The power company and Brazilian government bank BNDES together sold more than 697 million shares at 42 reais each, which was a discount of 2.4 percent from Thursday's close, according to unnamed people close to the matter. The stock offering still must be approved by Brazil's audit court and Congress. Those approvals would reduce the Brazilian government's stake in the company to less than 50 percent, Bloomberg News reported. Leftist former President Luiz Inácio Lula da Silva, who is polling as the front-runner ahead of Brazil's upcoming October presidential election, is assessing different routes to reverse the privatization of Eletrobras, according to his advisors, Reuters reported. Lula has consistently opposed the privatization of state companies, arguing that they threaten national security and will leave Brazil's resources vulnerable to exploitation by foreign companies. Guido Mantega, a former finance minister, said that it is possible to reverse the privatization. "I have no doubt there are ways, even if, in the end, you have to buy back the shares," he said, Reuters reported.

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lesser scale than in 2021. Worse-than-expected U.S. economic growth remains a key risk for Mexico's recovery. Private investment continues to underperform as a pattern of political interventions generates unease among investors. Most recently, the government's intention for higher state intervention in the energy sector has affected business confidence despite Congress' dismissal of the constitutional reform of the electricity sector. Consumption continues to recover to above pre-pandemic levels thanks to the easing of lockdown measures, labor market improvement and rather strong remittances. Nevertheless, high inflation may derail the consumption recovery. Inflation has accelerated to levels not seen since 2001 due to higher commodity prices, supply chain disruptions and pandemic-related demand shifts. We project Mexico's central bank will continue its policy tightening given the persistence of high inflation and to avoid affecting inflation expectations."

A **Nicolás Mariscal, member of the Advisor board and chairman of Grupo Marhnos in Mexico City:** "The 1 percent growth of the Mexican economy in the first quarter is good news. Nevertheless, comparing our economy with the rest of Latin America gives us a better perspective on our performance. As economist Enrique Quintana recently noted, Latin America's GDP during 2020 and 2021 had an average drop of 0.6 percent. The Mexican economy's contraction in the same period was 3.8 percent. Growth is very positive, but we need a higher rebound. I'll mention three public policies that foster economic development. The first is the rule of law. Businesses invest where legislation is clear and enforced. This aspect is crucial as the private initiative makes 86 percent of total investments in the country, and the public sector makes the remaining 14 percent. The second public policy is boosting clean energy. The European Union and the United States will start to require renewable energy supply chains, and businesses are adopting ESG metrics that will demand the same. And third, we need more infrastructure, as it connects people, brings markets and promotes opportunities. According to a study by PricewaterhouseCoopers, Mexico will be among the seven biggest economies by 2050. I have no doubt that we will rise to the challenges and prove the study right."

A **Carlos Petersen, senior analyst for Latin America at the Eurasia Group:** "Mexico is in an interesting position regarding its growth prospects. On the one hand, there are some positive tailwinds that could help boost economic growth. Mexico could benefit from higher commodity prices and the overall perception that Latin America is one of the only regions that could benefit from the current environment. More importantly, the growing tensions between the United States and China, the zero-Covid policies of the Asian country and the overall trend of strengthening value chains closer to its end markets are accelerating nearshoring tendencies that have been discussed for some years now. Being so interconnected to the U.S. economy and having the USMCA as a legal and trade framework that provides some guarantees to investments in the country will certainly help boost foreign direct investment and foster economic growth. However, not everything is positive. The same reliance on the U.S. economy represents a risk given the prospects of a recession that would significantly hurt Mexico's growth. Moreover, domestic policy will continue to represent a hand brake to growth. The nationalistic policies that President López Obrador has implemented in the energy sector, his continuous decisions that hurt business confidence and a lack of investment by the public sector, as well as a lack of incentives that would boost private sector investment, represent major challenges that will not improve at least until the end of this administration. Taking advantage of

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the tectonic shifts that the war in Europe has caused, as well as the growing decoupling between the United States and China, should lead to big opportunities to boost growth. However, it is far from clear that policy will move in that direction."

A **Rodrigo Abud Madrid, partner at Baboon Consulting:** "According to Banxico's estimates, it would be fair to assume Mexico's economy will have sluggish economic growth (in the range of 2 percent to 3 percent) until 2024. For this year and next year, GDP is estimated to grow 2.2 percent and 2.4 percent, respectively (0.2 percentage points and 0.5 percentage points below December 2021 estimates). While some reasons behind slow growth derive from international conditions (such as supply chains and geopolitical tensions), part of the challenge comes from within. Mexico's government remains overly focused on gaining political legroom ahead of the 2024 presidential election. This has displaced economic policy to a secondary level. AMLO's first landmark project (the AIFA airport) is now open for business but didn't get the warm welcome many had hoped for. The other two (the Mayan train and the Dos Bocas refinery) are in their final stretch but face fierce opposition due to environmental and technical concerns. Looking ahead, it's highly likely that bumpy conditions will stay in place. Positively for Mexico, the USMCA renewed spirits for bilateral cooperation (Mexico accounted for 14.3 percent of overall U.S. imports in 2019) and an emerging tendency toward 'nearshoring' are paving new opportunities to improve Mexico's competitive advantage as a manufacturing hub. There are risks involved as well. Failure to promote a positive environment for investment, as well as divergent views on bilateral public policy (labor conditions, energy, environment) could jeopardize the government's capacity to deliver coordinated action and steer economic growth. Policymakers should remain cautious around inflationary pressures while promoting policies that create financial resilience and legroom for private investment."

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— Rodrigo Abud Madrid

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