Economic Outlook

Mexico

April 2024

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INTRODUCTION

After growing 3.23% in 2023, Mexico's Gross Domestic Product (GDP) grew 0.21% in the first quarter of 2024, compared to the previous quarter. With this, the annual growth rate in the first quarter was 1.97%, the lowest since the fourth quarter of 2021.

For purposes of comparison with the United States, which reports growth on an annualized basis (assuming that the quarterly growth rate is repeated for four quarters), the annualized quarterly growth of the Mexican economy was 0.84%, considerably lower than the 1.59% reported by the United States.

The growth data for the first quarter of 2024 clearly underscores that the Mexican economy continues to observe a significant economic slowdown, which was evident since the last quarter of 2023, when the economy grew only at a quarterly rate of 0.08% and at an annual rate of 2.51%, the lowest since the last quarter of 2021. The deterioration in Mexico's economic activity is not attributable to the poor performance of the United States, as that country showed positive GDP growth. Moreover, the deterioration in Mexico's economic activity is not exclusive to a single sector, but is a generalized trend:

- The primary sector registered in the first quarter of 2024 a contraction of 1.05%, recording its second consecutive month of quarterly contraction, something not seen since the second half of 2019. The Global Indicator of Economic Activity (IGAE) was already showing signs of a sharp drop in this sector after it recorded a monthly contraction of 12.91% in January, the deepest December 2007. However, at an annual rate, primary activities managed to grow 1.25%.

- The secondary sector also contracted in the first quarter of 2024, falling 0.42% from the previous quarter. In addition to being the first time since the second half of 2019 that two consecutive quarterly declines have been observed, it is also the largest contraction since the first quarter of 2021. Within the industrial sector, the poor performance of manufacturing industries and the notable slowdown in the construction sector have particularly stood out. This is relevant, as the growth of investment in imported transportation equipment and construction was the main driver of growth in 2023. However, at an annual rate the sector achieved growth of 1.50%, although this is the lowest since the first quarter of 2021.

- Finally, the tertiary sector registered growth of 0.69% in the first quarter of 2024, accumulating 10 consecutive quarters of growth. At an annual rate, the sector grew 2.50%, maintaining a growth rate similar to that of the previous quarter (2.48%). This sector, which represents approximately 60% of Mexico's GDP, decelerated significantly in the last quarter of 2023 and in the first quarter of 2024. In September 2023, the tertiary sector's IGAE reached an all-time high, but then contracted in the last quarter of 2023. Then, after a monthly contraction of 0.51% in January, the IGAE showed a rebound, with the lowest annual growth rate for the tertiary sector since March 2022.

The slowdown in the growth of Mexico's economic activity is not sufficient to determine that a recession is imminent, as a generalized contraction of activity has not yet been observed, and the duration and depth of the downturn are still to be determined.

In view of the most recent economic figures, the International Monetary Fund (IMF) adjusted Mexico's economic growth downward in its World Economic Outlook report, from 2.7% in the January update to 2.4% in the April report. Grupo Financiero BASE also made a downward adjustment to its growth expectations. Previously it had an estimated growth range of 1.5% to 3.0% and with the new information available, it now estimates growth between 1.3% and 2.0% for the year. With this, the point estimate for growth decreases from 2.5% to 1.6%.

Thus, Mexico's economy would be growing by an accumulated 5.08% in the current six-year term, the lowest economic growth since the six-year term of Miguel de la Madrid (1982-1988). With this growth, GDP expressed in per capita terms would be decreasing 0.9% in the six-year term, a slightly smaller drop than that observed in the six-year term of Felipe Calderón (2006-2012), when it contracted 1.0%.

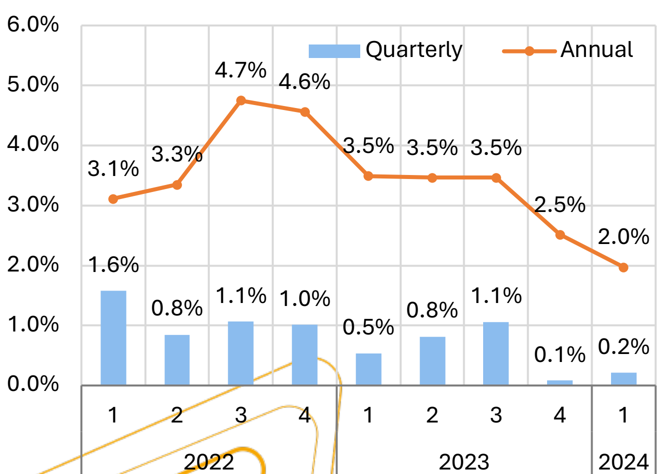
In addition to the evident deterioration in economic activity since the second half of last year, it is important to consider that the economy is facing a climate of high uncertainty, particularly:

- The next presidential election to be held on June 2, 2024. Although electoral periods in Mexico are usually accompanied by an increase in public spending, contributing to aggregate demand, they generate considerable uncertainty in the private sector, hindering investment.

- The November presidential election in the United States. Considering the deep trade interconnectedness between Mexico and the United States, as well as the history of tensions in previous campaigns, the policies proposed by the candidates and the results of the election could trigger adverse consequences for the Mexican economy.

- The expectation of a drastic decrease in public spending in 2025, especially in infrastructure investment. The sharp increase in spending proposed for 2024, financed by public debt, gives reason to expect stabilization in subsequent years, as the Federal Government must maintain a responsible fiscal policy to avoid credit rating cuts. With this, a further economic slowdown is expected for 2025, with GDP growth of just 0.8%.

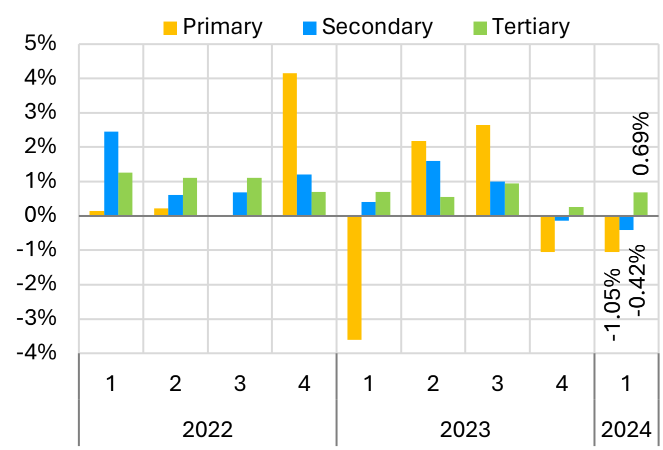
Fig. 1. GDP growth, % variation



Source: Grupo Financiero BASE with information from INEGI.

GDP by economic activity

QoQ % var.



Source: Grupo Financiero BASE with information from INEGI.

PRIVATE CONSUMPTION

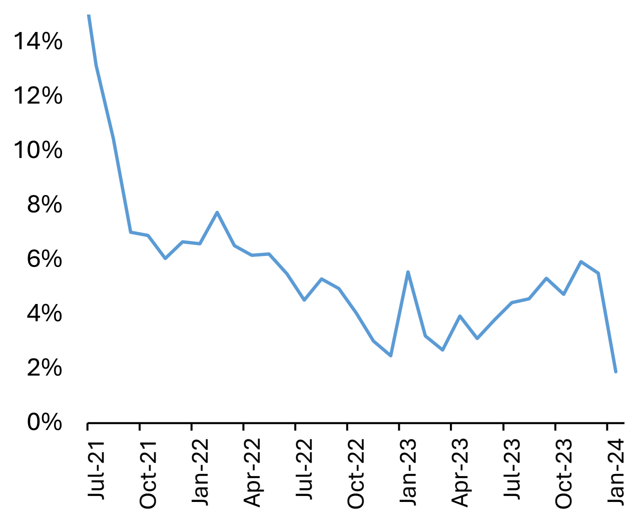
The latest private consumption data according to the Monthly Indicator of Private Consumption in the Domestic Market published by INEGI showed a contraction of 0.60% in January 2024, after growing 0.92% in the last quarter of 2023, compared to the previous quarter. With this, private consumption registered an annual growth of 1.90% in January, the lowest rate since February 2021, when the economy was still suffering the consequences of the Covid-19 pandemic crisis (Fig. 3). The annual growth of 1.90% in January highlights the slowdown in consumption, as in December 2023 the annual growth rate was 5.50%.

It is also important to analyze the factors that drove the 4.40% growth in private consumption during 2023 to understand the reasons behind the slowdown and gain a more accurate perspective on its future performance.

Dividing consumption according to the origin of goods and services, it is clear that growth was concentrated in the consumption of imported goods, which grew 20.17% in 2023. On the other hand, the consumption of goods and services of national origin only grew 1.70%, since the consumption of services grew 3.28% and that of goods only 0.37%.

The notable increase in the consumption of imported goods was mainly due to the strengthening of the Mexican peso against the U.S. dollar [1], which improved the purchasing power of the national currency, allowing Mexican consumers to purchase a greater amount of goods abroad.

Fig. 3. Private Consumption Indicator,
YoY % var.



Source: Grupo Financiero BASE with information from INEGI.

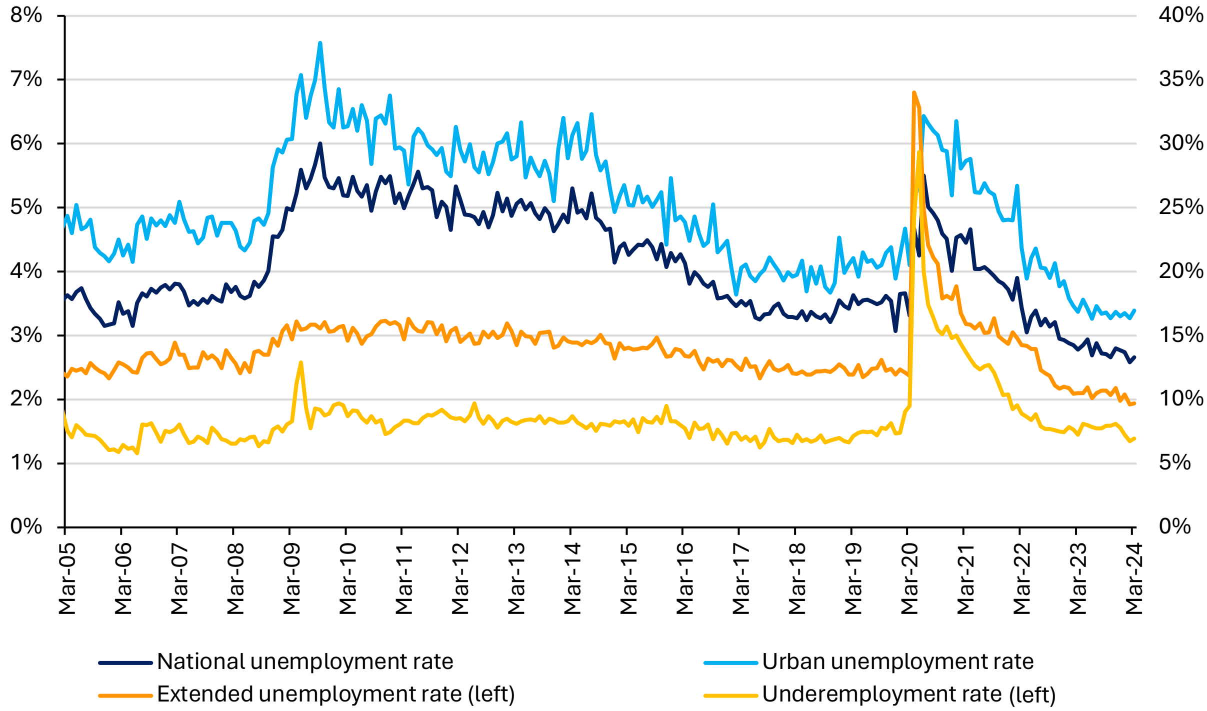
Labor Market

Figures from the National Occupation and Employment Survey (ENOE) show that at the end of the first quarter of 2024, the country's employed population stood at 59.82 million people, approximately 800 thousand more than in the same month of the previous year. Likewise, the unemployed population stood at 1.40 million, while in March 2023 it was 1.45 million. With these changes, the unemployment rate fell from 2.79% in March 2023 to 2.66% in March 2024. It is important to mention that in February 2024, the unemployment rate stood at 2.58%, which was its lowest level since this information has been available (January 2005).

Within the Non-Economically Active Population (NEAP), the available population, made up of people who do not have and are not looking for a job, but would accept one if offered, fell from 5.47 million in March 2023 to 5.02 million in March 2024. This population is also referred to as the discouraged population, as the lack of effort to get a job is due to people believing that there are no opportunities or conditions to find one. If these people were considered unemployed, they would have an extended unemployment rate of 9.68% in March 2024. While the rate is considerably higher than the traditional unemployment rate, it is important to mention its decline, as it stood at 10.49% in March 2023. In addition, the extended unemployment rate in February 2024 reached a level of 9.61%, the lowest since ENOE records began (Fig. 4).

[1] In 2023, the Mexican peso appreciated 13% against the U.S. dollar, the largest annual appreciation on record since the free-floating exchange rate regime has been in place.

Fig. 4. Unemployment and underemployment rates
Seasonally adjusted series, except for the extended unemployment rate.



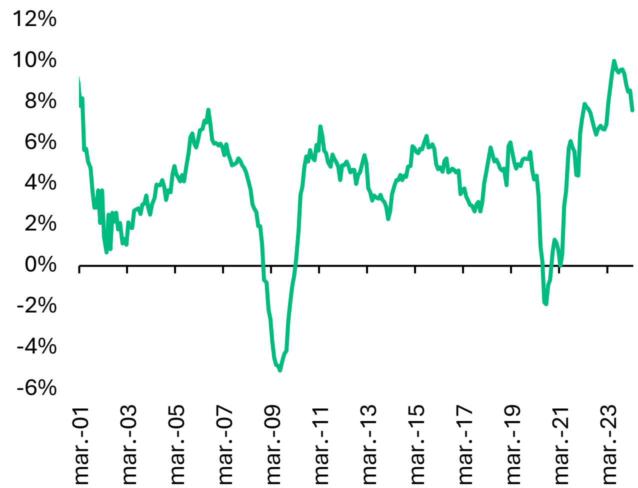
Source: Grupo Financiero BASE with information from INEGI.

Regarding formal employment in the private sector, figures from the Mexican Social Security Institute (IMSS) show that in the first quarter of 2024 there was a net creation of 264,959 jobs. However, although formal employment continues to grow in an environment of historically low unemployment rates, it is important to emphasize its deceleration. The creation of 265,000 jobs in the first quarter of 2024 was considerably lower than the creation of 423,384 jobs in the same period of 2023. Likewise, the total number of insured persons registered in March 2024 (22.29 million) grew only 2.26% over the same month of the previous year, the lowest annual growth rate since April 2021 (when the first post-pandemic annual growth rate was recorded).

As for wages in the formal private sector, the average base contribution wage reported to the IMSS in March was 577.21 pesos, 9.88% higher than that reported in March 2023. Although this growth is high (considerably higher than the year-on-year inflation of 4.42% recorded in the same month), it is the slowest annual growth rate in the last 25 months (since February 2022). Likewise, the real (inflation-adjusted) base salary also shows a slowdown, as the annual growth of 5.22% in March 2024 was the lowest since May 2023.

The wage bill, which is approximated by multiplying the total number of jobs by the real average contribution base wage, showed an increase of 7.61% in March 2024 with respect to the same month last year. This rate shows a significant deceleration, considering that in June 2023 it reached 10.01% (the highest since monthly information from IMSS-January 2001) (Fig. 5).

Fig. 5. Real wage mass according to IMSS figures, YoY % var.



Source: Grupo Financiero BASE with information from INEGI.

Remittances

For the Mexican economy, remittances sent by migrant workers to their families in Mexico are a vital source of income that drives domestic consumption. In 2023, remittance inflows grew 7.55% over the previous year, reaching a new all-time high of US$63.3 billion. This foreign currency inflow exceeds the income from other sectors such as tourism (30.8 billion dollars, according to data from the International Travelers Survey) and oil exports (33.2 billion dollars, according to figures published by the Bank of Mexico).

Although the trend in remittance inflows continues to be upward, there is a noticeable slowdown in growth. In the first two months of 2024, remittances recorded an annual increase of 3.44%, significantly lower than the 11.69% growth recorded in the first two months of 2023 and the lowest annual rate for a first two months since 2015.

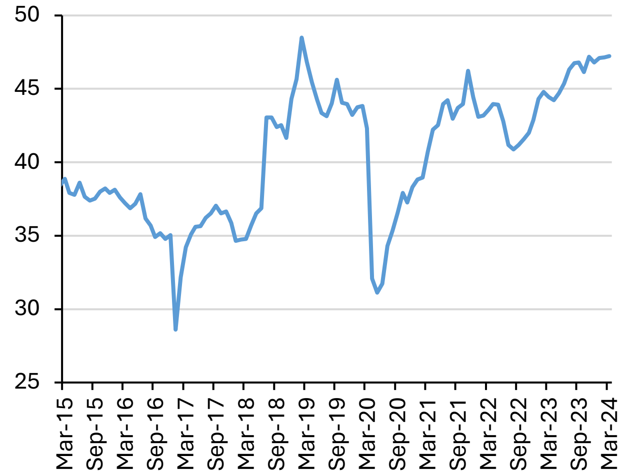
Furthermore, when considering the effect of exchange rate variations, the analysis of remittance flows in peso terms reveals a less favorable picture. For Mexican consumers, what matters is the value of remittances they receive when converted into pesos, as it reflects the real purchasing power of the dollars they receive from abroad. As the Mexican peso has appreciated considerably against the dollar over the past year, the value of remittances in pesos has been affected.

Based on the FIX exchange rate published by Banco de México, the country received remittances equivalent to 77.1 billion pesos in February 2024. This figure represents a 4.67% drop compared to the same month of the previous year. This is explained by the appreciation of the peso, as the exchange rate fell from 18.60 to 17.10 pesos per dollar in that period. In addition to this, it is important to consider the loss of purchasing power caused by inflation. Deflating the remittance figures in pesos with the National Consumer Price Index (NCPI) published by INEGI, we obtain that the purchasing power of remittances registered a drop of 8.69% in February 2024. With this, remittances in real pesos accumulated 16 consecutive months of contraction. This information is relevant, as it outlines a very different picture from that shown by remittances in dollars and helps to explain the slowdown in private consumption.

Consumer Confidence

The consumer confidence indicator published by INEGI continues its upward trend, reaching a level of 47.25 points in March 2024, its highest level since February 2019, when it has the highest level on record (48.49 points) (Fig. 6). With this, the indicator accumulates an increase of 0.45 points in the first quarter of 2024, after increasing by a total of 3.94 points in 2023.

Fig. 6. Consumer Confidence Indicator



Source: Grupo Financiero BASE with information from INEGI.

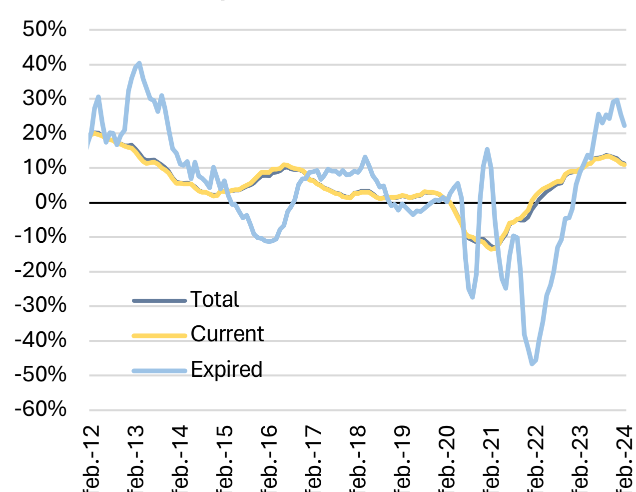
The improvement in consumer confidence, which has been observed from the relative minimum it touched in August 2022, is due to the fact that household members perceive that the economic situation is increasingly better, when compared to the one they had 12 months before. Of the 5 components of the indicator, those with the greatest increase in the period August 2022 to March 2024 are those referring to the household's current economic situation compared to 12 months ago (+6.18 points), the country's current economic situation compared to 12 months ago (+7.32 points) and the household's likelihood of making purchases of durable goods (+7.71%). In addition, in the last year (from March 2023 to March 2024), the component with the highest increase is the current economic situation of the household compared to 12 months ago (+2.79 points).

Consumer confidence is a determinant of consumption, but not the only one. Increased confidence implies that there is a better perception (and more confidence) about the economic situation, but it does not necessarily reflect that the economic situation is in fact better. People who feel confident about the state of the economy are more willing to spend, but their purchases will also depend on disposable income, inflation, credit availability and interest rates.

Consumer credit

According to figures from Banco de México, the consumer credit portfolio stood at 1.472 trillion pesos in February 2024, representing an increase of 16.33% over the same month of the previous year. Considering that inflation for the period was 4.40% according to the NCPI, the real growth of the consumer credit portfolio was 11.42% annually. This growth is high, but shows a deceleration, as in September 2023 real growth was 13.80% (Fig, 7).

Fig. 7. Real growth of the consumer credit portfolio, annual % var.



Source: Grupo Financiero BASE with information from INEGI.

In addition, it is important to distinguish between the growth of performing and non-performing loans. Although 96.8% of the total portfolio is performing, the highest growth has been in non-performing loans, with 22.28% in February. Analyzing only consumer credit granted in credit cards, the picture is worse. The real annual growth of credit card credit in February 2024 was 12.83%, with a growth of 11.96% in the outstanding portfolio and 43.33% in the past-due portfolio. In December 2023, the real annual growth of the past-due credit card portfolio was 56.74%, the highest in the series published by Banco de México (which began in 2009).

This is worrisome, as it indicates a solvency problem among consumers, which will eventually affect private consumption in two ways: 1) consumers who have not paid their credit cards will be left without this type of financing, which will force them to reduce their consumption, and 2) financial institutions could reduce their credit granting due to the greater perception of risk.

Consumption forecast

Grupo Financiero BASE estimates that private consumption will grow around 3% in 2024, decelerating from the previous year's growth of 4.40% due to 1) lower growth of the performing loan portfolio, in relation to the growth of the non-performing loan portfolio in consumer credit, 2) a slowdown in the growth of the wage bill, 3) high inflation and 4) high interest rates. One of the most important determinants will be the exchange rate, since an appreciation of the peso negatively affects the purchasing power of remittances, but at the same time discourages the consumption of imported goods. It is possible that with a depreciation of the peso, part of the consumption of imported goods will be replaced by consumption of domestic goods.

Comparison of growth in private consumption between six-year periods

National accounts figures, available through the fourth quarter of 2023, show that private consumption grew 5.37% on average in the first five years of López Obrador's administration (2019-2023), in real terms, compared to the average consumption in the first five years of the previous six-year term (2013-2017)[2] . The figure is positive, but it is considerably lower than the growth observed in previous six-year terms. This means that consumption continued to grow, showing historical highs, but at a slower pace than in previous six-year periods. Consumption is the component with the greatest weight in Mexico's GDP, so the slowdown in its growth is consistent with the low accumulated GDP growth during this administration.

Table 1. Cumulative private consumption growth in the first 5 years of each six-year term[1]

Term	Private Consumption	National Goods and Services	National Assets	National Services	Imported Goods and Services	Imported Goods	Imported Services
Fox	**29.38%**	24.73%	26.48%	22.41%	110.48%	109.08%	244.27%
Calderon	**9.34%**	8.67%	5.95%	12.37%	17.66%	15.92%	118.49%
Peña	**13.36%**	12.28%	11.37%	13.44%	30.84%	31.77%	2.49%
López	**5.37%**	4.06%	2.07%	6.56%	25.70%	25.77%	23.13%

Source: Grupo Financiero BASE with information from National Accounts (INEGI).
1/ The growth shown corresponds to the percentage variation between the averages of the private consumption data for the the first 20 quarters of the current six-year period and the first 20 quarters of the previous six-year period. In previous editions of this report, point-to-point comparisons had been reported, showing only the percentage change between the most recent data of the monthly indicator and the latest data from the previous quarter.

[2] Growth in average consumption during the first five years of the current administration, compared to the average consumption during the first five years of the previous six-year term.

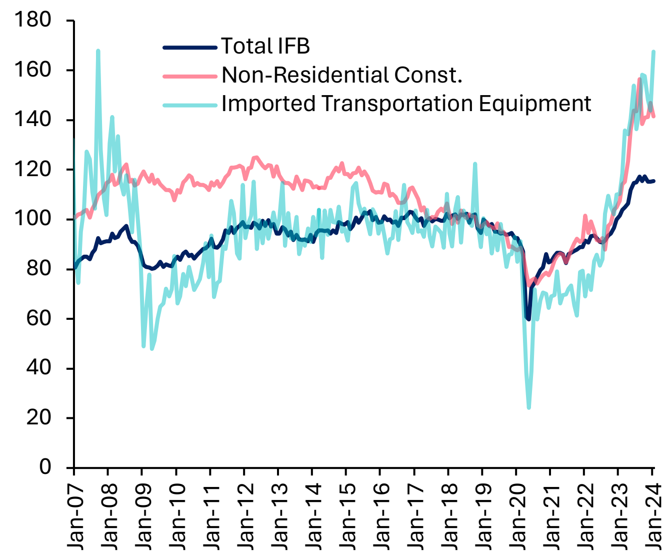
Likewise, the current six-year term shows the lowest growth in the components of consumption, except for imported goods and services, which, as mentioned above, has experienced strong growth in the last year due to the appreciation of the Mexican peso. Without the strong appreciation of the Mexican peso in this administration, consumption would have shown an even lower growth rate.

FIXED INVESTMENT

Fixed investment, which refers to spending to acquire assets such as machinery and equipment for work, as well as the construction of residential and non-residential infrastructure, is perhaps the most important determinant of an economy's growth and development. By investing in fixed assets, the economy increases its production capacity and boosts innovation and efficiency, laying the foundation for long-term economic expansion. Improving a country's infrastructure and technology also makes it a more attractive destination for foreign direct investment and strengthens its global competitiveness.

GDP growth in 2023 was largely driven by fixed investment, particularly in the import of transportation equipment and non-residential construction (Fig. 8). The Gross Fixed Investment (GFI) indicator published by INEGI recorded total growth of 19.68% in 2023 over 2022, the highest growth rate for a single year since records began in 1994.

Fig. 8. Gross Fixed Investment, 2018=100



Source: Grupo Financiero BASE with information from INEGI.

As mentioned above, the BPI breakdown shows that growth in the past year was concentrated in investment in imported transportation equipment, which grew 55.48%, and in non-residential construction, which grew 38.72%.

As with the consumption of imported goods, the appreciation of the peso against the dollar contributed significantly to the growth of imports of transportation equipment. This can be seen in contrast to the growth of investment in transportation equipment of national origin, which only grew by 27.30%. While a growth of 27.30% is quite high, it is significantly lower than the 55.48% growth in imports. In January 2024, investment in imported transportation equipment rebounded, registering a monthly increase of 16.47%, the highest monthly growth rate since August 2022.

However, the bulk of investment in machinery and equipment is other than transportation, so that, although investment in transportation equipment is growing at high rates, total investment in machinery and equipment only shows an annual growth of 6.04% in January 2024%.

Regarding construction, it grew 20.67% in 2023, driven by non-residential construction, which grew 38.72%. Non-residential construction is mainly explained by government spending on infrastructure works.

In the last two years, INEGI incorporated data on public infrastructure spending that had not been previously accounted for, causing a strong upward shift in the non-residential construction investment series. With this, non-residential construction grew 11.27% in 2022 and 38.72% in 2023. However, the 2023 public finance data do not show figures consistent with this growth. In fact, data reported by the Ministry of Finance and Public Credit (SHCP) show that physical investment contracted 10.21% in real terms in 2023.

By 2024, investment is expected to continue to be driven by non-residential construction, as the Federal Government has budgeted to increase spending on physical investment in order to complete some of the emblematic works of the Lopez Obrador administration. However, these works will be financed with a historically high level of indebtedness (as a proportion of GDP), so that by 2025 there is a risk that investment flows will be drastically low. On the one hand, the next administration will have to reduce the budget deficit, which leaves it with no fiscal space for new major infrastructure works. In addition, it would be difficult to spend on physical investment in the first year of the administration since investment plans would need to be drawn up now. On the other hand, private investment tends to wait to see what kind of policies the new administration will promote.

With this, the federal elections on June 2 and the succession of presidential power that will take place on October 1, present a significant risk for investment. Presidential successions are usually followed by a slight economic stagnation. In Peña Nieto's first year, the economy slowed, growing only 1.07% in 2013, after 3.34% growth in 2012. Under López Obrador, the economy contracted on a quarterly basis in the second, third and fourth quarters of 2019, closing the year with a 0.24% drop, after growing 1.96% the previous year. While it is not possible to isolate the effects of the succession of power from the national and global macroeconomic situation, there are common factors that slow down growth, such as political and economic uncertainty, as well as changes in public policy and government priorities, which, with the reallocation of spending, slow down current and capital spending.

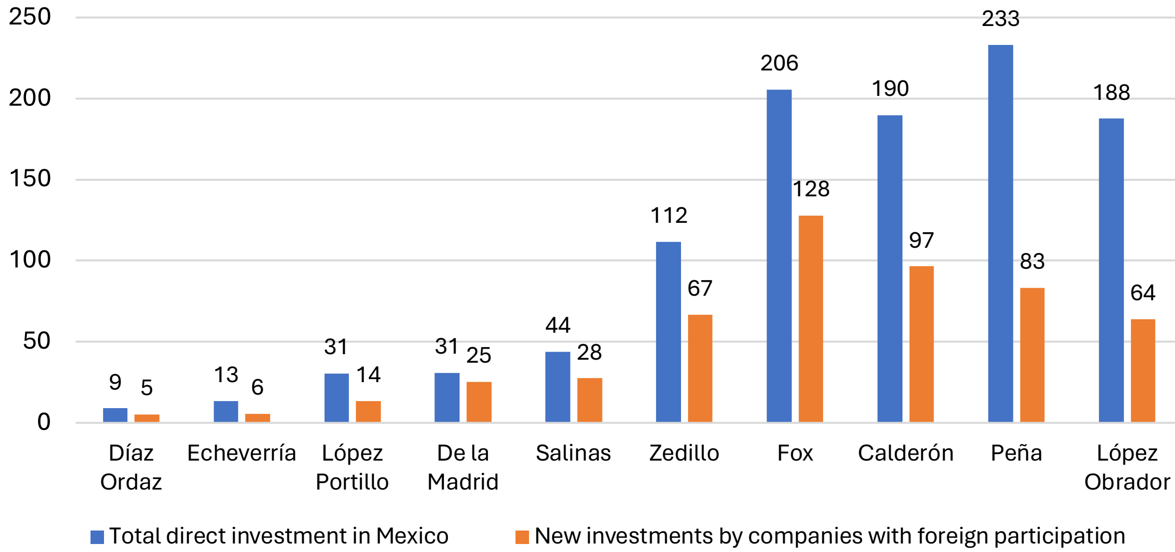
Foreign Direct Investment

According to balance of payments data published by the Bank of Mexico, the country received in 2023 foreign direct investment equivalent to 36.06 billion dollars, which in real dollars (adjusted for inflation) was 5.39% less than what it received in 2022 (using the quarterly index of "*Personal Consumption and Expenditures*" published by the U.S. Federal Reserve). Of this total, only 4.82 billion dollars (or 13.36%) was due to new investments, while the rest were reinvestments or intercompany accounts of companies with direct investment in Mexico. It is noteworthy that the proportion of foreign direct investment explained by new investments is the lowest since the beginning of the series in 1963. In addition, such a low flow of new investments has not been seen since 2012 (US$4.32 billion). It is worth noting that the flow of new investments in 2023 fell 74.70% with respect to 2022, in real dollars. With this, the current six-year term is shaping up to end with the lowest accumulated foreign direct investment since Zedillo's six-year term (1994-2000).

In the first 20 quarters of the current administration, the inflow of foreign direct investment has been 19.53% lower than that recorded in the same period of the previous six-year term. Furthermore, considering only new investments, the six-year term of López Obrador accumulates the lowest inflow of new investments since the six-year term of Salinas (1988-1994) (Fig. 9).

This is notable because of the global nearshoring opportunity, in which China has stopped receiving close to US$300 billion in foreign direct investment per year since 2021. Thus, Mexico has taken advantage of less than 10% of the global *nearshoring* opportunity due to 1) lack of promotion abroad, 2) possibility of infrastructure shortages in electric power and water, 3) uncertainty regarding domestic economic policy and 4) possibility of changes in the rules of the game if Trump wins the U.S. election.

Fig. 9. Cumulative FDI in the first 20 quarters of each six-year period.
Billions of dollars, inflation-adjusted figures.



Source: GF BASE with data from Banco de México and Federal Reserve Economic Data (FRED).

Comparison of gross fixed investment growth between six-year periods

INEGI's National Accounts figures show the accumulated investment flows for the last five six-year terms (from Zedillo to date), and with this we can compare the growth between the last four six-year terms (from Fox's six-year term onwards). The figures show that the average total gross fixed investment from 2019 to 2023 was 4.14% lower, in real terms, than the average of the first five years of Peña Nieto's six-year term, being the only contraction observed in the last four six-year terms.

However, it is important to recognize that this is primarily due to the pandemic crisis, which caused investment to fall by enormous magnitudes (-32.10% y/y in the second quarter of 2020). While investment has now recovered from the crisis and as mentioned above, is currently at historically high levels, this has not been sufficient to compensate for the lack of investment during the pandemic crisis.

The breakdown of gross fixed investment reveals that the fall is in the construction sector. Despite its strong growth in 2023, the cumulative total in the first five years of the current six-year term is 9.17%, lower than the cumulative total in the same period of the previous six-year term. In turn, the total for the previous six-year period was 0.18% lower than that of its predecessor. It is also noteworthy that investment in transportation equipment, both domestic and imported, is also lower than that of the previous six-year period. However, as already mentioned, this is due to the fact that, in addition to the generalized effect of the pandemic, the automotive sector suffered from supply shocks with chip shortages.

Table 2. Growth of cumulative gross fixed investment in the first 5 years of each six-year period.[1]

Term	GFI Total	Construction			Machinery and Equipment						
					Total	National			Imported		
		Total	Residential	Non-Residential		Total	Transport Eq.	Other Machinery and Equipment	Total	Transport Eq.	Other Machinery and Equipment
Fox	**21.39%**	11.27%	19.38%	4.67%	44.73%	22.45%	32.88%	17.70%	81.79%	101.63%	78.61%
Calderon	**29.33%**	23.47%	20.57%	26.17%	39.70%	14.34%	24.99%	8.86%	68.13%	56.21%	70.28%
Peña	**11.21%**	-0.18%	1.30%	-1.50%	29.06%	25.79%	72.06%	-1.52%	31.56%	6.64%	35.69%
López	**-4.14%**	-9.17%	-5.50%	-12.53%	1.96%	-3.71%	-9.29%	2.04%	6.09%	-6.62%	7.74%

Source: Grupo Financiero BASE with information from National Accounts (INEGI).
[1]/ The growth shown corresponds to the percentage variation between the averages of the gross fixed investment data for the first 20 quarters of the current six-year period and the first 20 quarters of the previous six-year period. In previous editions of this report, we have reported point-to-point comparisons, showing only the percentage change between the most recent monthly indicator data and the last data of the previous quarter.

FOREIGN TRADE

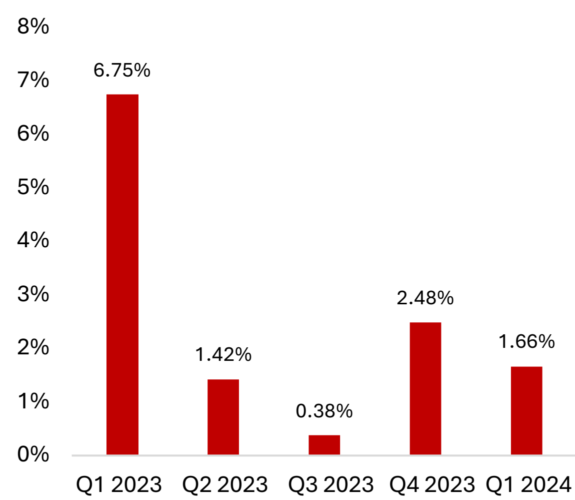
Exports

In the first quarter, Mexico's total exports of goods registered a clear deceleration, affecting Mexico's economic growth. Exports showed an annual growth of 1.66% in the first quarter, compared to the same period of 2023, when they grew 6.75% annually. Exports also decelerated with respect to the fourth quarter of 2023, when they grew 2.48% annually (Fig. 10). The slowdown in export growth in the first quarter was determined by:

1) The 2.55% annual drop in oil exports, the first drop since the third quarter of 2023 (Table 3).

2) The slowdown in automotive exports, at an annual growth rate of 5.22%, the lowest annual rate since the fourth quarter of 2021 (Fig. 11). This deceleration is related to lower production in Mexico, as according to figures from the automotive registry, during the first quarter 927,781 units were produced, with an annual growth rate of 0.60%, the lowest rate since the first quarter of 2022.

Fig. 10. Total exports, cumulative annual growth



Source: Grupo Financiero BASE with data from INEGI.

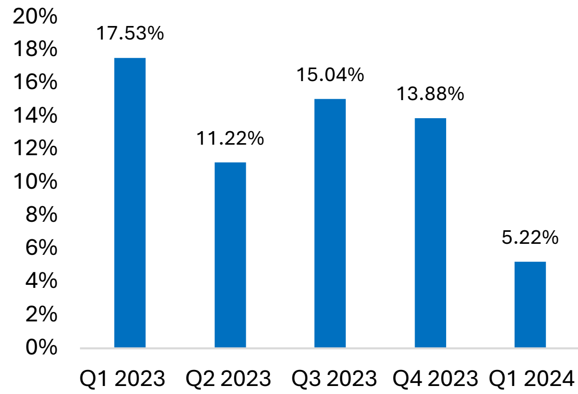
According to seasonally adjusted figures, the quarterly deterioration was concentrated in oil exports, which contracted 4.93% quarter-on-quarter, and automotive exports, with a contraction of 4.29% quarter-on-quarter (Fig. 12). In fact, this is the second consecutive quarter that oil and automotive exports have contracted at a quarterly rate, something that is only repeated in the case of exports of extractive goods, although these only account for 1.6% of total exports . In contrast, during the first quarter, oil and automotive exports accounted for 36.80% of total exports.

The slowdown in total exports during the first quarter of the year highlights several risks to Mexico's economic growth:

1) In the first quarter of 2024, the average exchange rate was 16.9771 pesos per dollar, down from 17.5532 pesos per dollar in the last quarter of 2023, which is equivalent to an appreciation of 3.28%. Likewise, in March, the exchange rate was positioned as the most appreciated currency globally in the broad basket of main crosses and accumulated an annual appreciation of 8.24%. The strengthening of the peso has a direct impact on exports, as it makes domestic goods more expensive in foreign markets.

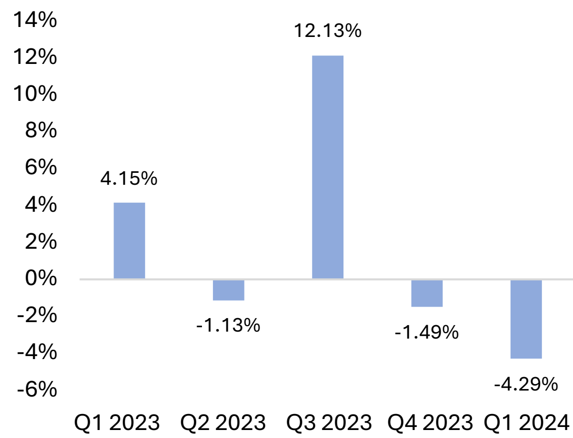
2) In the United States, the country that receives 82% of Mexican exports, goods consumption has slowed. In the first quarter, goods consumption grew at an average monthly rate of 0.0%, below the average growth of 0.3% in the fourth quarter of 2023. At an annual rate, average growth in goods consumption in the first quarter was 2.0%, decelerating from 3.3% in the fourth quarter of 2023. This contrasts with the consumption of services, which grew at an average monthly rate of 0.3% in the first quarter, unchanged from the last quarter of 2023, while at an annual rate the average growth was 2.6%, accelerating from 2.4% in the last quarter of 2023. The greater preference for services consumption in the United States has negative implications for Mexico's exports.

Fig. 11. Automotive exports, annual accumulated growth



Source: Grupo Financiero BASE with data from INEGI.

Fig 12. Automotive exports, quarterly growth



Source: Grupo Financiero BASE with data from INEGI.

Export growth may accelerate again, but this will depend on 1) the exchange rate, 2) U.S. consumer confidence and preference for spending on goods rather than services, 3) the level of inflation, 4) the current U.S. interest rate and its expectations for the rest of the year, and 5) the ease of credit in the United States. As a result of the slowdown in exports, manufacturing has contracted at an annual rate for four consecutive months between November 2023 and February 2024.

Table 3. Breakdown of the trade balance in the first quarter of 2024.
Original and seasonally adjusted figures

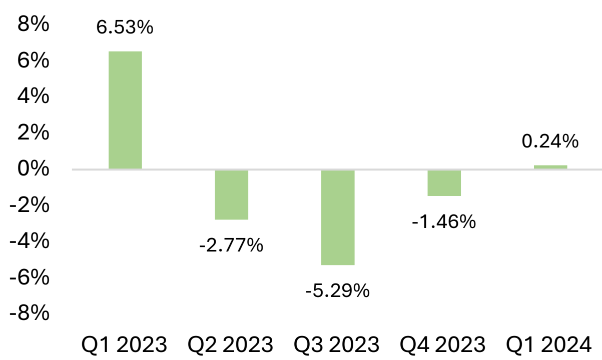
Concepts	Trade figures, 1Q 2024		
	Mdd (original)	**Cumulative annual % change (original)**	**Quarterly var. % (seasonally adjusted)**
Exports	**$143,430**	**1.66%**	**0.61%**
Oil companies	$7,372	-2.55%	-4.93%
Non-oil	$136,059	1.90%	0.93%
Agriculture	$6,689	6.34%	5.10%
Extractive	$2,270	-9.88%	10.31%
Manufacturing	$127,099	1.92%	0.62%
Automotive	$45,408	5.22%	-4.29%
Rest	$81,691	0.17%	3.50%
Imports	**$146,232**	**0.24%**	**4.43%**
Oil companies	$9,889	-36.77%	1.70%
Non-oil	$136,342	4.68%	4.64%
Consumer goods	$21,425	3.32%	6.04%
Intermediate goods	$110,132	-1.61%	4.04%
Capital assets	$14,675	11.07%	4.98%

Source: Grupo Financiero BASE with data from INEGI.

Imports

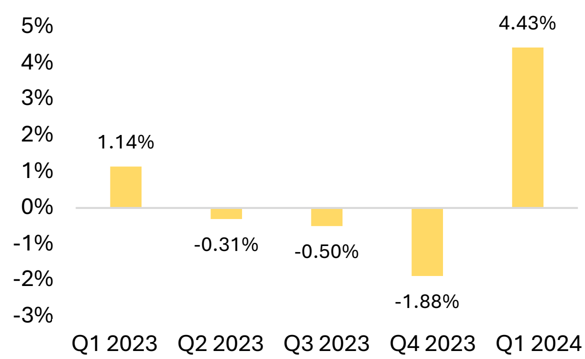
The accumulated growth of imports in the first quarter was almost nil, advancing 0.24% with respect to the same period of 2023 (Fig. 13). Imports of consumer goods accumulated a growth of 3.32%, those of intermediate goods fell 1.61% and those of capital goods grew 11.07%. It is noteworthy that imports of intermediate goods represent 75.31% of total imports, so their fall (-1.61%) is the main explanation for the stagnation of imports so far in 2024.

Fig. 13. Total imports, annual accumulated growth



Source: Grupo Financiero BASE with data from INEGI.

Fig. 14. Total imports, quarterly growth



Source: Grupo Financiero BASE with data from INEGI.

Although import growth was low during the quarter, the recovery from previous months cannot be overlooked, as total imports had contracted at an annual rate during the previous three quarters: -2.77%, -5.29% and -1.46%, respectively (Fig. 13).

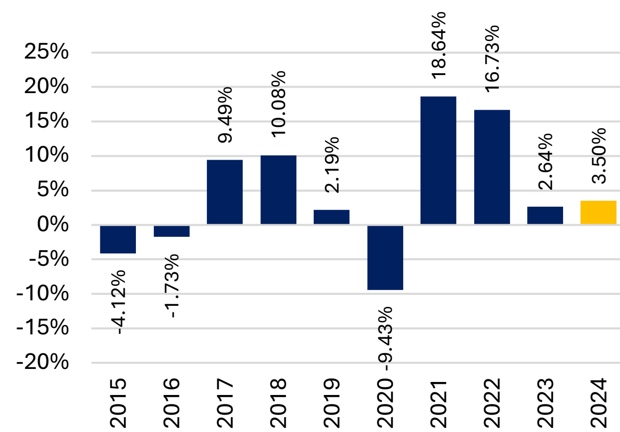
The recovery is more evident in the seasonally adjusted figures, as in the first quarter imports grew 4.43%, after falling at a quarterly rate the previous three quarters: -0.31%, -0.50% and -1.88% respectively (Fig. 14). All import items grew at a quarterly rate during the first quarter of 2024, contrary to what was observed in the last quarter of 2023 when they all fell, driven by the appreciation of the peso.

Expectations

Due to the marked slowdown in exports in the first quarter in the key automotive sector, the expectation for export growth in 2024 is revised downward from 5.5% to 3.5%.

It should be recalled that the growth of total exports is supported by the expectation of economic growth in the United States of close to 2.2% annually, according to a central scenario, and an acceleration in the consumption of goods during the second half of the year, during the electoral period in that country. Exports could also be boosted by a depreciation of the peso during the second half of the year.

Fig 15. Historical annual growth of exports and 2024 expectations



Source: Grupo Financiero BASE with data from INEGI.

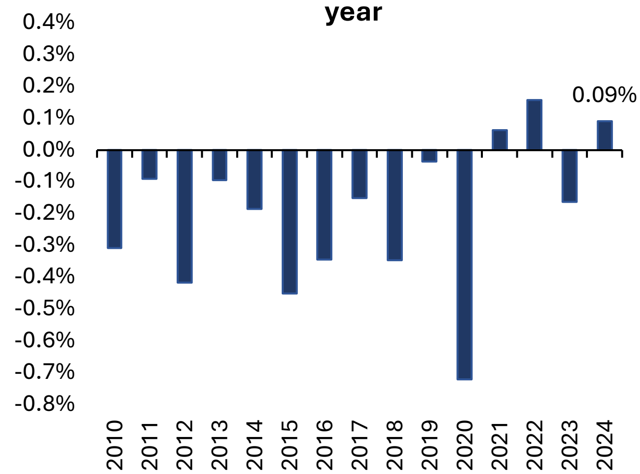
INFLATION AND MONETARY POLICY

Mexico's inflation continues to show pressures, not only in the services subcomponent, but also in merchandise and energy.

At the last available data (first fortnight of April), inflation stood at 0.09% biweekly, which is unusual, since 2010, positive biweekly inflation has only been registered in the first fortnight of April in 3 years: 2021, 2022 and 2024 (Fig. 16). At an annual rate, inflation stood at 4.63%, above the Bank of Mexico's 3% target (Fig. 17).

Since there are products that rise one day and fall the next, inflation is classified as core and non-core. Core inflation includes products with the most stable prices, and is therefore considered the core inflation of the economy, which can be used to determine the medium- and long-term inflation trajectory. Non-core inflation includes products with the most volatile prices, as well as government-authorized tariffs.

Fig. 16. General inflation as of the first fortnight of the month of April of each year



Source: Grupo Financiero BASE with data from INEGI.

When determining whether there are inflationary pressures that could lead to higher inflation in the long term, it is important to observe which of the components is increasing, since it could be only a transitory increase.

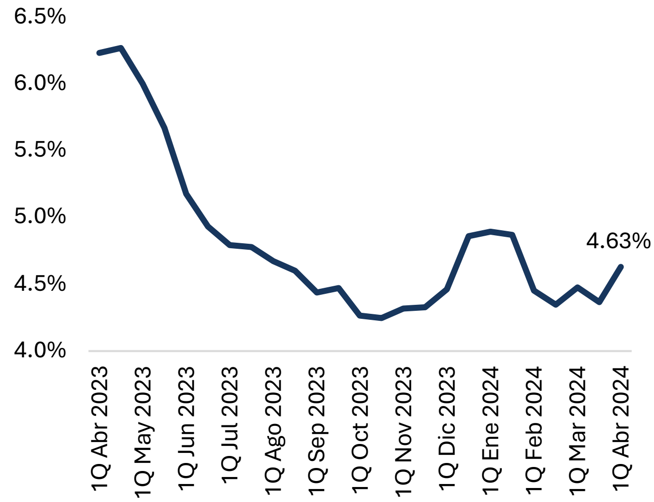
In the first fortnight of April, core inflation reached an annual rate of 4.39%. Within this component, merchandise goods showed a biweekly inflation of 0.24% (5.92% annualized), accelerating sharply with respect to the previous fortnight in which inflation was only 0.06% (1.45% annualized). Within this component, food merchandise showed a biweekly inflation of 0.22% (5.42% annualized), while non-food merchandise also showed a strong rebound to 0.26% (6.43% annualized), after registering no variation in prices the previous fortnight.

Also within the core component, services inflation rebounded and rose to 5.21% annualized, accumulating 42 consecutive fortnights above 5% (Fig. 18). These inflation rates within the core component are bad news for inflation forecasts, as they are unlikely to be temporary pressures.

On the other hand, non-core inflation, which includes products whose prices are more volatile and government-authorized tariffs, accelerated to 5.38% annualized, the highest annual rate for non-core inflation in the last 27 fortnights. At a biweekly rate, non-core inflation was -0.12%, but when compared to other equal fortnights, it is worth noting that this contraction is the most moderate in the last 19 years, as the contractions in other years were more pronounced.

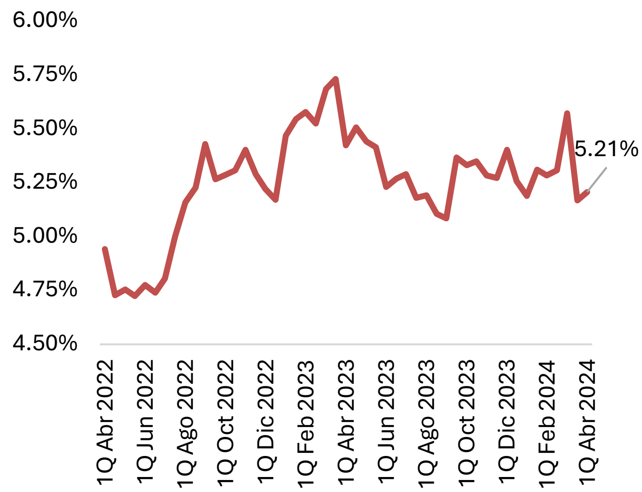
The behavior of inflation in recent fortnights suggests that some of the upside risks are materializing, so we do not rule out a pessimistic scenario in which inflation could again reach 5% in June and then decline to close the year at 4.65%. Under a central scenario, in which the economic slowdown and the appreciation of the peso favor inflation, it would close the year at 4.25%.

Fig. 17. Headline inflation, annual rate



1Q = first fortnight (15 days) of the month
Source: Grupo Financiero BASE with data from INEGI.

Fig. 18. Inflation in services, annual rate



1Q = first fortnight (15 days) of the month
Source: Grupo Financiero BASE with data from INEGI.

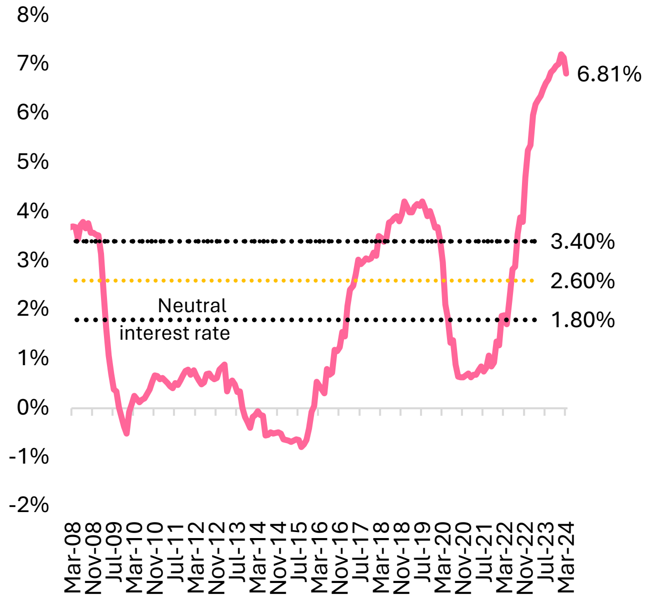
Monetary policy

The Bank of Mexico has sought to maintain a restrictive monetary stance since August 2022, when the target interest rate reached 8.50% and the ex-ante real interest rate, which serves to determine the level of monetary tightening, stood at 3.55%, exceeding the upper range in the central bank's estimates for the neutral interest rate (the range goes from 1.80% to 3.40%)[3] .

[3] When the ex ante real interest rate exceeds the neutral interest rate, there is a restrictive monetary stance, which through different transmission channels tries to bring inflation back to the 3.0% target.

Banco de México's Board of Governors raised the nominal rate to 11.25% on March 30, 2023 and kept it at that level until March 21, 2024, when it cut the interest rate by 25 basis points to 11.00%. Although the nominal interest rate remained unchanged for almost a year, the gradual decline in 12-month inflation expectations allowed the ex-ante real rate to rise to a peak of 7.21% in January 2024. However, with the recent interest rate cut of 25 basis points and due to a moderate rebound in long-term inflation expectations, the ex-ante real rate declined to 6.81% in March (Fig. 19), which implies a slightly less restrictive monetary policy, compared to that observed at the beginning of the year.

Fig. 19. Ex-ante real interest rate, short term. Calculation with the Fisher equation



Source: Grupo Financiero BASE with data from INEGI.

The outlook for monetary policy is complex. On the one hand, there are signs of economic slowdown since the fourth quarter of 2023, which could result in lower price pressures and more favorable conditions for a less restrictive monetary stance, cutting the interest rate. On the other hand, internal and external risks have accumulated that could push inflation upwards. Among the internal risks are: 1) the persistence of high service inflation in the face of cost increases, mainly wages, 2) the high budget deficit projected for 2024, 3) the possibility of an accelerated depreciation of the peso, which is trading below its equilibrium[4] , 4) additional pressures on the non-core component of inflation and 5) the recent imposition of tariffs on 544 products from countries with which Mexico does not have a trade agreement. External risks include: 1) the increase in transportation costs, 2) a possible stagnation of U.S. inflation around 3.5% and 3) the possibility of new supply shocks. It is worth mentioning that the risks of increases in transportation costs and supply shocks are associated with the conflict in the Middle East. Therefore, the outlook appears to be one of economic weakness with inflationary pressures that, if aggravated, could turn into stagflation.

Given this, Banco de México will have to be extremely cautious regarding monetary policy decisions in the coming months. The market maintains the expectation that the Board of Governors will continue to make rate cuts in 2024, based on the trajectory of the central bank's own forecast, which points to inflation of 3.6% in the fourth quarter of 2024 and 3.2% in the first quarter of 2025. However, the stagnation of inflation over the last six months makes it unlikely that it will reach below 4.0% by the end of the year.

The behavior of the exchange rate is also relevant, since the high interest rate, especially due to the wide differential it maintains with respect to the interest rate of the US Federal Reserve, encourages the inflow of foreign capital to the country. As a result, the exchange rate is below its equilibrium level and is highly vulnerable to a rebound, which could end up generating greater inflationary pressures.

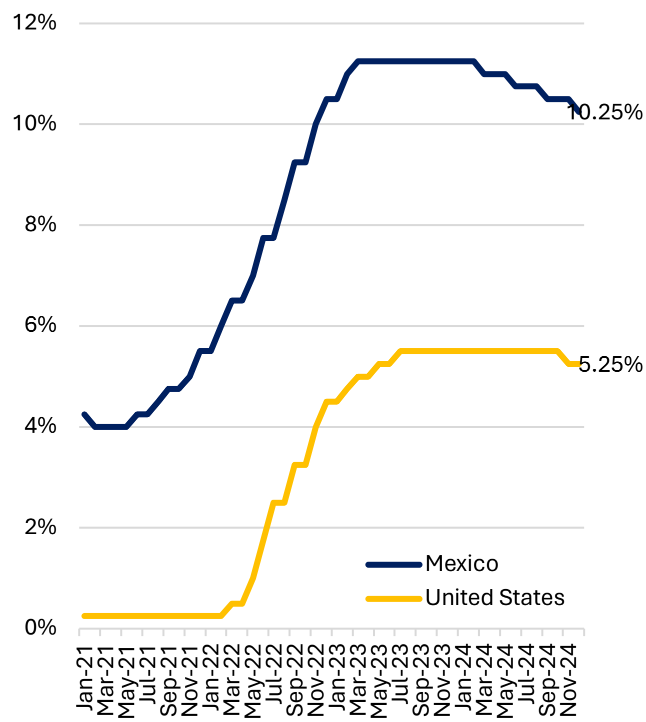
[4] It is estimated that it should trade around 18.50 pesos per dollar.

Thus, the Bank of Mexico must be careful not to keep the interest rate at such high levels that they encourage capital inflows (the so-called carry-trade) that continue to appreciate the peso, but neither can it lower the rate at an accelerated rate, as this would send the wrong signal to the market, which would react with a higher rate of price increases, which would raise inflation and could also cause accelerated depreciations in the peso.

Although Banco de México has the mandate to maintain the purchasing power of the currency under a 3% low inflation scheme, it is also responsible for the proper functioning of the Mexican financial system, where the exchange rate is a relevant variable.

In view of this, Grupo Financiero BASE expects three additional interest rate cuts in 2024, to close the year at 10.25% (Fig. 20), provided that inflation does not rebound and that, by the end of the year, it is below 4.5%. Should inflation rebound, it is likely that the Board of Governors will opt to keep the interest rate unchanged for a longer period and make only 1 or 2 more rate cuts of 25 basis points each.

Fig. 20. Interest rates and expectation



Source: Grupo Financiero BASE with information from INEGI.

PUBLIC SECTOR

Public finances

Public finance information is currently available through February 2024, as updated figures as of the end of the first quarter will be published after the publication of this report. In the two-month period January-February, total public sector spending was 1.65 trillion pesos, representing a real increase of 30.5% with respect to the same period of the previous year. However, it is important to mention that the figures for these first two months are not representative of the spending program for the remainder of the year, and total spending in 2024 is not expected to exceed that of 2023 by such a proportion. In fact, the Ministry of Finance and Public Credit (SHCP) estimated in its General Economic Policy Criteria (CGPE) for 2025, published in March, that spending will grow 8.2% in real terms in 2024 (vs. 6.0% originally expected).

The high spending was mainly motivated by two factors: 1) the Federal Government's intention to conclude the emblematic works of the current administration, particularly the Isthmus of Tehuantepec Corridor, the Mexico-Toluca Interurban Train, road works related to the Felipe Angeles International Airport (AIFA), and the Mayan Train, and 2) the federal elections, which are usually accompanied by an increase in spending on social programs in order to improve the image and public opinion of the government and political party in office.

However, as mentioned in previous reports, there is concern that the increase in spending will not be financed with higher budget revenues, but with higher debt. In the first two months of 2024, budget revenues amounted to 1.24 trillion pesos, which represents a real annual growth of 6.8%. Likewise, the Pre CGPE 2025 presents an estimated real growth of 1.6% in 2024 for budget revenues, a considerably lower rate than the expected growth in spending (8.2%). Thus, the SHCP estimates that the debt-to-GDP ratio will close 2024 at 50.2% after being revised upward from an original forecast of 48.8%. It is worth mentioning that this debt measure closed 2023 at 46.8%, so that in

2024 it would be increasing by 3.4 percentage points of GDP. This contrasts sharply with the "no debt" policy promised by President López Obrador at the beginning of his six-year term, since at the end of 2018 the debt-to-GDP ratio stood at 43.6% according to official SHCP data.

Other relevant comments on public policy

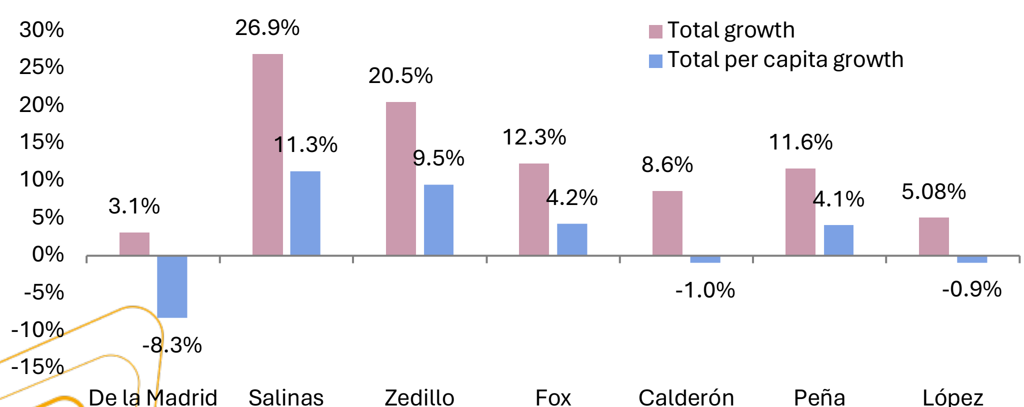
Public finance aside, it is important to remember that the public sector plays an important role beyond budget management and revenue policy, as it is also responsible for the organization and regulation of markets, having the power and responsibility to defend property rights and ensure compliance with the law. When the government does its duty, it helps to improve the country's business environment and confidence in its economy, contributing to greater investment and economic development.

Every month, Banco de México publishes the "Survey on the expectations of private sector economic specialists", which includes a section on the main obstacles to the growth of economic activity in Mexico. Since March 2021, when the economy was beginning its recovery from the pandemic crisis, the economic brake factor that has received the most responses in each publication of the survey is "Governance", which includes the issues of public insecurity, corruption, impunity, internal political uncertainty, and other problems of lack of rule of law. It is worrying that the main obstacle to growth is the government, when in principle it should be the facilitator and promoter of optimal conditions for economic development.

RISKS AND EXPECTATIONS

Grupo Financiero BASE estimates that Mexico's economy will slow down in 2024, showing a growth of 1.6%, despite this being an election year. If this growth materializes, the six-year term would end with a total growth of 5.08% and an average annual growth of 0.83%, the lowest since the six-year term of Miguel de la Madrid (1982-1988). In addition, GDP per capita would be 0.9% below that observed in 2018, which implies a lost six-year period in economic growth per capita (Fig. 21).

Fig. 21. Economic growth by six-year period



Growth between the GDPs of the last quarters of each six-year period, using Grupo Financiero BASE's growth forecast for 2024.

Source: Grupo Financiero BASE with information from INEGI and Banco de México.

By 2025, further moderation in economic growth is expected with the possibility of a recession, with an estimated annual growth of 0.8%. This would imply the second administration in a row to start with a recession, which poses a risk for future growth, as both consumers and companies could adjust their expectations, expecting a drop in economic activity in the first year of the following six-year terms, which could increasingly accentuate quarterly GDP contractions, generating a sort of vicious circle on GDP performance.

Table 4. Growth Expectations for 2024 and 2025

Year	Expected growth	GDP per capita vs. 2018
2024	1.6%	-0.85%
2025	0.8%	-1.00%

Source: Grupo Financiero BASE

Among the risk factors for Mexico's growth are the following:

Internal risks

- Uncertainty caused by the presidential and congressional elections in June, and the transition of power in October. In addition to the political and economic uncertainty that goes hand in hand with these processes, there is the risk of a deterioration in governance, which is considered the most important brake on growth.
- The possibility that the lack of infrastructure in the distribution and transmission of electric power and water availability may slow the growth of fixed investment.
- The high budget deficit for 2024, which puts pressure on public finances for the coming years, particularly with the increase for the debt-to-GDP ratio, which is estimated to close the year above 50%.
- The possibility of credit rating cuts on Mexico's sovereign debt if the budget deficit does not decrease sufficiently by 2025.
- The likely decline in investment in the coming years, as the boost in non-residential construction will not be available due to the lack of fiscal space for spending on more public infrastructure projects.
- The possibility of additional trade disputes brought by the United States or Canada against Mexico to combat economic policies that are not aligned with the provisions of the T-MEC.
- Review in 2026 of the T-MEC. The trade agreement has a 16-year duration and must be reviewed every 6 years, in accordance with the "sunset" clause. The next review is scheduled for July 1, 2026, where the three member countries must agree to continue the agreement, which would renew the duration of the T-MEC for another 16 years. In the event that one of the member countries does not confirm the extension of the agreement, annual reviews will be carried out for a period of 10 years. If no agreement is reached within this 10-year period, the agreement will be terminated.
- Inflationary pressures continue. In the first two weeks of April, annual inflation stood at 4.63%, showing a rebound and accumulating half a year without a downward trend. The non-core services component stands out, with an annual rate above 5% for 42 consecutive months.
- The Bank of Mexico is expected to maintain a restrictive monetary policy stance due to upside risks to inflation, setting the target rate at 10.25% at the end of the year.
- The appreciation of the peso discourages exports and directly affects the export industry, slowing economic growth. Peso appreciation also implies a greater risk of exchange rate rebound and episodes of volatility.

External risks

- The U.S. presidential and congressional elections, which will take place in November of this year. In previous elections, Mexico has been an important issue in the public debate among candidates, and at times, as it was in the 2016 elections, the country was presented as an economic adversary for the United States.

- A slowdown in the U.S. economy, which would negatively affect exports, remittances and foreign direct investment coming into Mexico.
- The possibility of the imposition of stimuli in the United States to encourage companies to return their factories to that country, which would take away, in part, the opportunity for nearshoring in Mexico.
- Preference for consumption of services, rather than goods, in the United States, which limits the growth capacity of Mexican exports.
- War supply shocks. The war in the Middle East remains a threat to energy production and may raise shipping costs. An escalation could cause disruptions in supply chains.
- Rise in international energy prices. An escalation of the conflict could limit the production of countries such as Iran and the distribution of energy to the rest of the world. This could generate inflationary pressures and slow economic growth.

Gabriela Siller Pagaza, PhD
Director of Economic and Financial Analysis
gsiller@bancobase.com
Tel. 81512200 ext. 2231

Jesús A. López Flores
Assistant Director of Economic and Financial Analysis
jlopezf@bancobase.com

Alfredo Sandoval Jaime
Economic-Financial Analyst
asandovalj@bancobase.com

APPENDIX 1: RECOVERING THE 45 LARGEST ECONOMIES IN THE WORLD

Real changes in local currency, seasonally adjusted figures

Country	Annual				Quarterly				vs. 2019			
	2020	2021	2022	2023	2T 2023	3T 2023	4T 2023	1T 2024	2T 2023	3T 2023	4T 2023	1T 2024
Vietnam	2.6%	42.1%	8.2%	4.8%	106.5%	53.1%	39.6%	-76.0%	28.2%	96.4%	174.1%	-34.3%
China	2.2%	20.8%	3.0%	5.2%	6.6%	5.9%	9.4%	-14.7%	28.8%	36.3%	49.2%	27.2%
Turkey	1.7%	11.8%	5.3%	4.5%	3.6%	0.3%	1.0%		25.7%	26.0%	27.2%	
Ireland	5.8%	14.7%	9.6%	-3.3%	-0.1%	-2.5%	-3.4%	1.1%	31.3%	28.0%	23.7%	25.0%
India	-4.9%	10.0%	6.3%	7.1%	-4.1%	0.8%	3.7%		16.2%	17.1%	21.5%	
Russia	-2.2%	6.3%	-0.3%	3.8%	9.3%	7.7%	9.2%		3.2%	11.1%	21.3%	
Taiwan	3.4%	6.6%	2.6%	1.3%	1.7%	1.9%	2.3%		13.3%	15.4%	18.1%	
Malaysia	-5.5%	3.3%	8.7%	3.7%	-0.8%	5.2%	3.1%		6.2%	11.7%	15.2%	
Indonesia	-2.1%	3.7%	5.3%	5.0%	3.9%	1.6%	0.5%		12.4%	14.2%	14.7%	
Singapore	-3.8%	9.6%	3.8%	1.1%	0.4%	1.0%	1.2%		9.9%	11.0%	12.3%	
Philippines	-9.3%	5.6%	7.6%	5.6%	-0.9%	3.8%	2.1%		5.9%	9.9%	12.3%	
Israel	-1.8%	9.7%	6.5%	1.8%	0.7%	0.4%	-5.7%		18.5%	18.9%	12.1%	
Poland	-2.0%	6.9%	5.9%	0.1%	-0.2%	1.1%	0.0%		10.3%	11.5%	11.5%	
Denmark	-2.4%	6.8%	2.7%	1.9%	-0.8%	0.4%	2.6%		8.0%	8.4%	11.2%	
Colombia	-7.2%	10.8%	7.3%	0.6%	-1.4%	0.3%	0.0%		10.4%	10.8%	10.8%	
Australia	-2.1%	5.6%	3.8%	2.1%	0.5%	0.3%	0.2%		9.4%	9.7%	9.9%	
United States	-2.2%	5.8%	1.9%	2.5%	0.5%	1.2%	0.8%	0.4%	7.4%	8.7%	9.6%	10.0%
Romania	-3.5%	5.7%	4.1%	2.1%	1.4%	1.0%	-0.5%		8.4%	9.5%	8.9%	
South Korea	-0.7%	4.3%	2.6%	1.3%	0.6%	0.6%	0.6%	1.3%	7.4%	8.0%	8.7%	10.1%
Brazil	-3.6%	5.1%	3.1%	2.9%	0.8%	0.0%	0.0%		7.8%	7.8%	7.8%	
Chile	-6.4%	11.4%	2.1%	0.3%	-0.8%	0.8%	0.1%		6.1%	7.0%	7.1%	
Switzerland	-2.3%	5.4%	2.7%	0.8%	-0.2%	0.3%	0.3%		6.3%	6.6%	6.9%	
Norway	-1.8%	4.0%	3.0%	0.8%	-0.3%	-0.4%	1.5%		5.7%	5.2%	6.8%	
Netherlands	-3.9%	6.2%	4.4%	0.2%	-0.4%	-0.2%	0.4%		6.7%	6.4%	6.8%	
Saudi Arabia	-3.6%	4.9%	7.7%	-0.8%	0.0%	-2.3%	-0.6%		9.6%	7.0%	6.4%	
Portugal	-8.3%	5.7%	6.8%	2.3%	0.1%	-0.2%	0.7%	0.7%	5.9%	5.6%	6.4%	7.1%
Peru	-10.9%	13.4%	2.7%	-0.6%	5.0%	-2.0%	3.9%		4.5%	2.3%	6.3%	
Belgium	-5.3%	6.9%	3.0%	1.4%	0.3%	0.3%	0.3%		5.6%	5.9%	6.2%	
Sweden	-2.3%	5.9%	2.7%	0.0%	-0.8%	-0.2%	-0.2%	-0.1%	6.3%	6.0%	5.8%	5.8%
Canada	-5.0%	5.3%	3.8%	1.1%	0.2%	-0.1%	0.2%		5.0%	4.8%	5.1%	
Hong Kong	-6.5%	7.2%	-3.7%	3.2%	-2.4%	5.8%	3.9%		-4.8%	0.8%	4.7%	
Mexico	-8.8%	6.0%	3.9%	3.2%	0.8%	1.1%	0.1%	0.2%	3.3%	4.4%	4.5%	4.7%
Italy	-9.0%	8.3%	4.1%	1.0%	-0.2%	0.2%	0.2%	0.3%	3.4%	3.6%	3.8%	4.1%
Spain	-11.2%	6.4%	5.8%	2.5%	0.5%	0.4%	0.6%	0.7%	2.2%	2.7%	3.3%	4.0%
Argentina	-9.9%	10.7%	5.0%	-1.6%	-2.5%	2.2%	-1.9%		1.8%	4.0%	2.1%	
Thailand	-3.2%	2.5%	2.2%	1.9%	-2.2%	-1.4%	0.0%		3.4%	1.9%	1.9%	
France	-7.7%	6.4%	2.5%	0.9%	0.6%	0.1%	0.1%	0.2%	1.6%	1.7%	1.8%	2.1%
United Kingdom	-10.4%	8.7%	4.3%	0.1%	0.0%	-0.1%	-0.3%		1.9%	1.8%	1.5%	
South Africa	-6.2%	4.8%	1.9%	0.7%	0.8%	-0.1%	0.1%		1.2%	1.1%	1.2%	
Japan	-4.2%	2.6%	0.9%	1.9%	1.0%	-0.8%	0.1%		1.8%	1.0%	1.1%	
Austria	-6.7%	4.4%	4.8%	-0.7%	-1.3%	-0.3%	0.0%	0.2%	1.1%	0.8%	0.9%	1.1%
Germany	-4.2%	3.1%	1.9%	-0.1%	0.0%	0.0%	-0.3%	0.2%	0.6%	0.6%	0.3%	0.5%
Czech Republic	-5.5%	3.5%	2.4%	-0.2%	0.3%	-0.8%	0.4%		0.3%	-0.5%	-0.1%	
Finland	-2.4%	2.8%	1.3%	-1.0%	0.5%	-1.1%	-0.8%		1.6%	0.5%	-0.3%	
Nigeria	-1.8%	3.6%	3.3%	-5.2%	-0.3%	0.0%	0.0%		-0.5%	-0.5%	-0.5%	

* Figures without seasonal adjustment.
Source: BASE Financial Group with information from the statistical offices of each country.

APPENDIX 2: THE MEXICAN ECONOMY IN ELECTION YEARS

Spending in election year

The effect of presidential elections is evident in public finances. According to the Ministry of Finance series (starting in 1990), net budgetary public sector spending (total spending) grows by an average of 7.7% annually in presidential election years, including 2024 for which real spending growth is projected at 8.2%, according to the most recent estimates published in the Pre-Criteria 2025. This contrasts with an average total spending growth of 2.3% in non-presidential election years.

Total spending also has a differentiated behavior depending on the semester. Regardless of whether it is an election year or not, spending tends to be concentrated in the second half of the year. On average, 46.7% of total spending is spent in the first half of each year (47.4% in a presidential election year) and 53.3% of total spending is spent in the second half (52.6% in a presidential election year). This shows that, moderately, in election years, spending tends to be slightly more concentrated in the first half of the year, during campaign periods, but the difference is not significant.

The effect of elections is more evident in the real growth of spending. In non-election years, during the first half of the year, spending tends to grow by an average of 2.0% annually, while in the second half of the year it grows by 2.7% annually. In contrast, in presidential election years, on average, spending grows 9.2% annually in the first half of the year and 6.3% in the second half. This also confirms that growth is more accelerated in the first half of the year, a period that historically coincides with the campaign period.

Programmable spending, which in 2023 accounted for 72.7% of total spending, shows a similar behavior to total spending in terms of the proportions of spending per semester and growth rates per semester. However, a more differentiated behavior is observed when segmented by type of expenditure. Current spending (which explains 80.4% of programmable spending) in years without elections shows an average annual growth of 3.59% in the first half of the year and 3.61% in the second half. These rates rise in presidential election years to 8.11% in the first half of the year and 7.99% in the second half. Physical investment spending, which is the main component of capital spending and accounts for 15.0% of programmable spending, shows an average annual growth rate of 3.3% in the first half of the year and 3.2% in the second half in years without elections, while in presidential election years it shows an average annual growth rate of 19.8% in the first half of the year and only 3.8% in the second half. In other words, both types of spending, current and physical investment, are used to accelerate economic growth.

Table 5. Spending growth in election years by type of expenditure and six-month period

	Semester	Share of yearly expenditure by semester	YoY % growth
Total Expenditure			
Others	1H	46.7%	2.0%
	2H	53.3%	2.7%
Elections	1H	47.4%	9.2%
	2H	52.6%	6.3%
Programmable Expenditures			
Others	1H	44.2%	3.4%
	2H	55.8%	3.6%
Elections	1H	44.8%	9.0%
	2H	55.2%	6.4%
Current Expenditures			
Others	1H	45.97%	3.59%
	2H	54.03%	3.61%
Elections	1H	45.97%	8.11%
	2H	54.03%	7.99%
Capital Expenditures			
Others	1H	46.99%	3.76%
	2H	53.01%	4.09%
Elections	1H	48.32%	8.07%
	2H	51.68%	4.02%
Fixed Investment			
Others	1H	40.61%	3.35%
	2H	59.39%	3.16%
Elections	1H	43.42%	19.77%
	2H	56.58%	3.85%

Source: Grupo Financiero BASE with data from SHCP

Spending on physical investment also determines the deceleration of total spending in the first year of the new administration. On average, in the first half of the first year of the six-year term, investment spending contracted 13.1% annually, while in the second half it grew 4.15% annually.

This historical behavior of public spending is worrisome for the following reasons:

1. Far from showing more accelerated economic growth in the first months of 2024, economic activity has stagnated, despite the fact that these are the first months of an election year. In fact, during the first quarter of 2024, total spending accumulated an annual growth of 30.5% with respect to the same period of 2023, with current spending showing a growth of 38.2% and spending on physical investment growing 28.4%, without this translating into an acceleration of economic growth.

2. The first year of the next administration will most likely see a slowdown in government spending, driven by lower physical investment spending in line with historical behavior, limiting economic growth in 2025.

Spending cuts on flagship projects and their effect on the budget deficit in 2025

In 2023, spending allocated to the current administration's flagship projects (Isthmus Corridor, Dos Bocas Refinery, Interurban Train, Mayan Train, AIFA Suburban Train) amounted to 215.2 billion pesos, equivalent to 0.64% of GDP or 2.5% of total budget spending. By 2024, spending allocated to priority projects will amount to 222.7 billion pesos, representing 2.4% of total spending.

For 2024, the Ministry of Finance estimates a budget deficit of 5.0% of GDP or Ps. 1,700.2 billion. Assuming constant GDP and budget revenues for 2025, the elimination of spending on priority projects would imply a reduction in the budget deficit in pesos of 13.1%, to 4.3% of GDP. Therefore, the reduction of spending on priority projects in 2025 would help to reduce the budget deficit, but it would not be enough to reach the pre-criteria for 2025, which project a budget deficit of 2.5% of GDP.

Deficit in election year

The deficit also shows a differentiated behavior in election years. Considering from 1990 to 2024 (budget), a higher budget deficit is observed in presidential election years, with an average deficit of 1.7% of GDP, against an average deficit of 1.2% in the rest of the years. It highlights the following years in which a deterioration of public finances was observed, compared to the previous year: 1994, when the surplus went from 0.5% to 0.0% of GDP; 2012, when the deficit grew from 2.4% to 2.5% of GDP; 2018, when the deficit grew from 1.0% to 2.0% of GDP; and 2024, as the deficit is projected to rise from 3.4% to 5.0% of GDP.

Higher public spending in election years is due to the fact that the government in power seeks to generate greater economic growth, so that people feel optimistic and confident. With this, the party in power increases the probability of winning the presidential election.

It should be noted that this government had maintained healthy public finances until 2022. In 2023, the deficit rose to 3.4% of GDP and by 2024 the budget deficit will be 5% of GDP, something not seen since 1988.
Deficits lead to higher indebtedness, which generates interest and upward pressure on interest rates, given the need for more debt placement. This also puts pressure on future public finances and increases the likelihood of sovereign credit rating cuts. Thus, a government that incurs a deficit is spending today what would be budgeted for the future. In doing so, it limits the fiscal space for subsequent administrations.

A deficit is not bad in itself, as it depends on what it is spent on. If the deficit was generated by infrastructure spending that will later bring savings to the government and/or benefits to society, it is considered positive. On the contrary, if the deficit is generated by current spending that will not bring benefits in the long run, then it is considered negative[5] .

The high budget deficit in 2023 and 2024 does not result in higher infrastructure spending that will bring benefits in later years. Therefore, it leaves no fiscal space for the next administration, which will be forced to cut the deficit and pay interest on a debt that does not generate any type of economic or social benefit.

Comparative GDP growth, government consumption, public investment, public spending and budget deficit in presidential election years.

Concept	Average		
	Election year	Rest of years	Year 1 of administration
GDP growth (1981-2023)	2.92%	2.72%	-0.62%
Government consumption growth (1994-2023)	2.89%	1.22%	-0.50%
Growth in gross public fixed capital formation (1994-2023)	5.74%	0.93%	-6.99%
Total expenditure growth (1992-2024)	7.70%	2.30%	0.80%
Budget deficit, % of GDP (1990-2024)	-1.7%	1.2%	0.9%

Source: Grupo Financiero BASE with information from INEGI, SCHP and Pre-Criteria 2025.

Due to higher public spending, since 1980, Mexico's GDP has grown an average of 2.92% in presidential election years, compared to an average of 2.72% in all other years. This implies that the incumbent government spends more in election years to generate higher economic growth and thus increase the likelihood of the ruling party winning the election.

However, this year the Mexican economy is showing signs of slowing despite the high budget deficit. It is very unusual for the deterioration in economic growth to occur at the beginning of the year, as in the previous 7 years of presidential elections (since 1982), growth has been concentrated in the first six months of the year and only in one year (1988) was higher average quarterly growth observed in the second half of the year. In election years, GDP grew at an average quarterly rate of 0.72% in the first half of the year, slowing to an average quarterly rate of 0.16% in the second half.

The differences in growth between presidential election years and the rest of the years become more evident in the aggregate demand figures. Considering growth data available from this approach between 1994 and 2023 (including 5 years in which presidential elections were held), it is observed that government consumption grows 2.89% on average in election years, compared to an average growth of 1.22% in the rest of the years. On the other hand, government gross fixed capital formation grows 5.74% in presidential election years, compared to an average growth of 0.93% in the rest of the years.

What happens to economic growth, government spending and the budget deficit in the first year of an administration?

[5] Public finances are not unlike personal finances, in terms that debt incurred today will have to be repaid in the future, along with interest. That is, it does not make sense to engage in current spending such as buying clothes by financing it with long-term debt.

Historically, a slowdown in economic growth has been observed in the first year of an administration in Mexico. It is worth recalling that, with data available since the 1980s, average GDP growth in presidential election years was 2.92%. This average rate drops to a contraction of 0.62% in the first year of a federal administration. However, this average is strongly affected by the recessions of 1983 and 1995, years in which GDP contracted 4.64% and 5.91% respectively, but even removing these years from the sample, historical average growth has been 1.04% in the first year of an administration.

The effect is more alarming when considering data within aggregate demand. Government consumption goes from showing an average growth of 2.89% in election years to an average contraction of 0.50% in the first year of an administration. The effect is more severe with government gross fixed capital formation, which goes from an average growth of 5.74% in election years to an average contraction of 6.99% in the first year of an administration. This can be explained by the need to adjust public spending to avoid fiscal imbalances and the reorganization of public spending in accordance with the objectives of the incoming administration. In addition, there is a learning curve to be covered with the new administration.

Thus, it is likely that in 2025 there will be a marked slowdown in economic growth, given the need to restrict the growth of public spending in order to avoid a further increase in the budget deficit.

Total spending growth also shows a marked slowdown in the first year of an administration, to an average of 0.8% annual growth, down from 7.7% in election years (7.6% if we omit 2024 which is a Treasury estimate). The slowdown in spending growth in the first year of an administration has also historically allowed the budget deficit to be reduced in the same period. Since 1995, in the first year of an administration the deficit has fallen from an average of 1.7% of GDP to 0.9% of GDP.