Economic review of the six-year term

Gross Domestic Product (GDP)

In Lopez Obrador's six-year term, Mexico's GDP grew about 4.94% over the previous six-year term (Figure 1) or 0.81% average per year, the lowest six-year growth since Miguel de la Madrid. The lower growth is partly due to the Coronavirus pandemic, as in 2020 GDP contracted 8.55%[1] , due to the closure of non-essential activities globally, which caused a shock on economic activity. However, in Mexico, the low six-year growth was also explained by three other factors:

1. Mexico's economy was already in recession before the pandemic. In 2019, Mexico's GDP contracted 0.39%, due to the caution caused by the cancellation of the New Mexico City International Airport (NAICM) and the reorganization of public spending.

2. In 2019, total gross fixed capital formation contracted 4.43% compared to 2018 mainly due to public investment which contracted 15.10%[2] . For its part, government consumption showed a contraction of 1.76% in 2019. The uncertainty caused by the cancellation of the airport and the entry of the new government caused gross private fixed capital formation to contract 2.87% in 2019. In addition, private investment in the energy sector was discouraged by the freezing of the energy reform.

Figure 1. Total GDP growth by six-year period

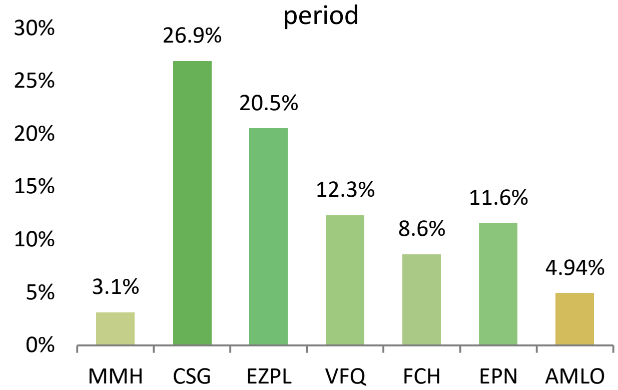
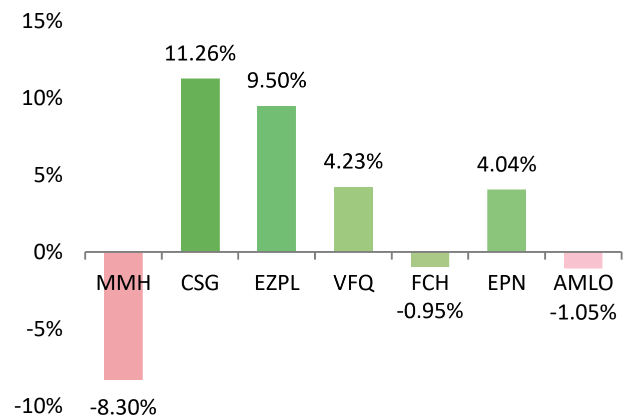


Figure 2. Total per capita growth by six-year period



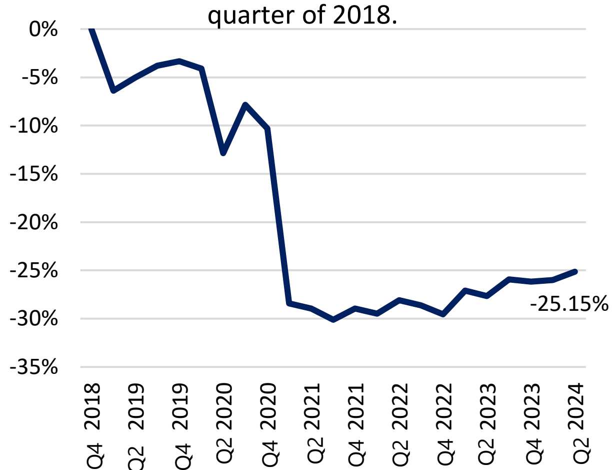
Growth between the last quarters of each six-year period, using Grupo Financiero BASE's estimate of GDP growth for 2024.
Source: Grupo Financiero BASE with information from INEGI.

[1] The largest contraction in GDP since 1932.
[2] According to GDP figures from aggregate demand.

3. Economic recovery from the pandemic crisis was very slow. Prior to the pandemic, Mexico's GDP peaked in the third quarter of 2018, which was followed by economic deterioration and a recession that deepened in 2020 with the impact of the pandemic. The absence of a counter-cyclical fiscal policy, and lower infrastructure spending, meant that GDP finished recovering until the third quarter of 2022. That is, between the GDP peak in 2018 and the recovery in 2022, 16 quarters or 4 years elapsed. In contrast, the U.S. economy began to fall in the first quarter of 2020 with the onset of the pandemic and achieved a full recovery in the first quarter of 2021, a period of only 4 quarters. That is, it took Mexico four times as long as it took the U.S. to recover.

4. Austerity policy. The Mexican government reduced public investment spending. This type of spending has a multiplier effect on the economy, so when it is reduced, it ends up affecting economic growth beyond what is "saved". This type of spending includes infrastructure maintenance, which has resulted in a brake on taking full advantage of the *nearshoring* opportunity. During the six-year period, capital spending contracted 11.86% in real terms and physical investment spending contracted 18.98%. This is due to the fact that investment spending was concentrated on flagship projects in the southern region of the country, but other projects, such as the maintenance and construction of highways and ports, were neglected. As a result, GDP for basic services (generation, transmission, distribution and commercialization of electric power, water supply and natural gas piped to the final consumer) was 25% below that observed in 2018 (Figure 3).

Figure 3. Fall in GDP in basic services. Comparison with respect to the fourth quarter of 2018.



Source: Grupo Financiero BASE with information from INEGI.

At the end of the six-year term, GDP shows a marked deceleration, with a cumulative growth in the first half of the year of 1.1%, less than half of the growth observed in the United States in the same period. This low growth is observed despite the high budget deficit that should have boosted Mexico's growth.

With the low GDP growth, the six-year term will end with a per capita GDP contraction of 1.05% compared to the six-year term of Peña Nieto, the first six-year contraction in per capita GDP since the six-year term of Felipe Calderón and the deepest since the six-year term of Miguel de la Madrid (Figure 2).

Private consumption

Table 1. Cumulative growth in private consumption by six-year period

Sexennium	Private consumption	National assets	National services	Imported goods
Vicente Fox	26.96%	24.40%	20.84%	95.10%
Felipe Calderon	8.76%	5.92%	11.71%	14.00%
Peña Nieto	13.32%	10.53%	14.46%	32.40%
López Obrador	6.66%	2.28%	7.74%	32.60%

For the six-year term of López Obrador, data available up to June (67 months) is considered and compared to the same period of the six-year term of Peña Nieto.

Source: Grupo Financiero Base with information from INEGI.

During López Obrador's six-year term, there was a marked deceleration in the growth of private consumption, which advanced 6.66% with respect to the previous six-year term, despite increases in the population's income due to adjustments in the minimum wage, government transfers and the growth of remittances. The slowdown was due to the negative effect on consumption during 2020 due to the impact of the Coronavirus pandemic and inflationary pressures, which eroded the population's purchasing power, mainly between 2021 and 2023.

The weakening was greater in the consumption of domestic goods, which accumulated a growth of 2.28% with respect to the previous six-year period, showing a marked deceleration. In contrast, consumption of imported goods grew by 32.60%, due to the appreciation of the peso, since during the six-year period up to May 31,[3] , the peso accumulated an appreciation of 16.47%. Despite the depreciation in recent months, during the six-year period up to September 26, 2024, the peso continues to accumulate an appreciation of 3.60% against the dollar.

It is worth noting that, in the last four six-year terms, consumption growth was driven by imported goods, but the ratio between consumption growth of imported goods and consumption growth of domestic goods had never been so large (14.28 vs. 3.07 in Peña Nieto's six-year term, 2.36 under Felipe Calderón and 3.89 under Vicente Fox).

Within the determinants of consumption, the unemployment rate has decreased, but extended unemployment (including people who are not actively looking for a job, but who would take

[3] Closing prior to the elections in Mexico.

one if offered) is still above 10%. In addition, the rate of labor informality has decreased, but at a very slow pace, standing at 54% of the employed at the end of the six-year term. In fact, if the informality rate were to continue at the same rate of decline, it would take 120 years (or 20 six-year periods) to reach Chile's informality rate of 25%. The latter is extremely important, since in the informal sector there are no legal benefits, such as minimum wage, vacation days or Christmas bonus, which represents a high vulnerability in the income of workers under this scheme.

This also represents a challenge for the next administration, since informality is a structural problem with a very long history (Table 2), so public policies that encourage labor formality are needed. These policies should include 1) incentives for workers and companies to move towards formality and 2) digitalization and simplification of procedures. The higher the rate of formality, the greater the number of companies that can access credit for machinery and equipment, which would result in increased productivity, higher workers' wages and higher tax revenues.

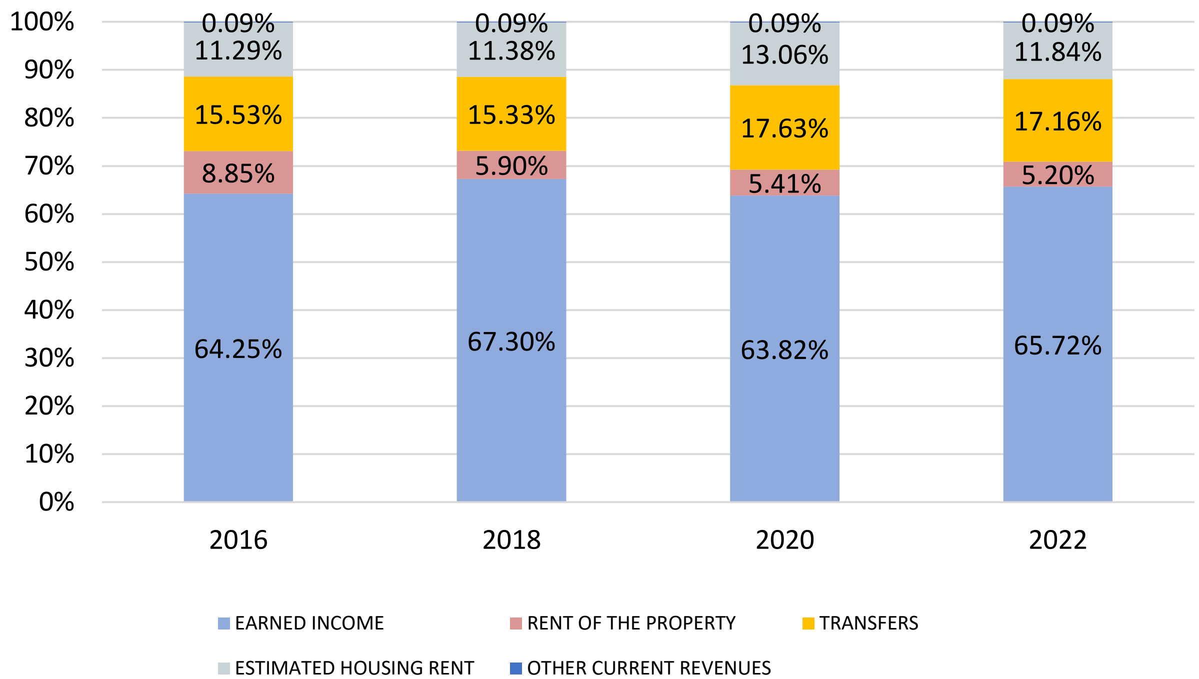
Table 2. National Occupation and Employment Survey

Population (in millions)							
Population	**Jul.-21**	**Jul.-22**	**Jul.-23**	**...**	**may.-24**	**Jun.-24**	**Jul.-24**
Population 15 years and older	98.45	99.12	100.82	...	101.54	101.47	**101.81**
Economically Active Population (EAP)	58.99	59.48	61.37	...	61.41	61.42	**62.15**
Busy	56.40	57.44	59.45	...	59.81	59.81	**60.33**
Unemployed	2.58	2.04	1.92	...	1.60	1.61	**1.82**
Not Economically Active (NEAP)	39.46	39.64	39.45	...	40.13	40.04	**39.66**
Available	7.51	6.03	5.05	...	4.95	5.03	**5.34**
Not available	31.95	33.61	34.40	...	35.18	35.02	**34.33**
Labor market rates							
Labor market rates	**Jul.-21**	**Jul.-22**	**Jul.-23**	**...**	**may.-24**	**Jun.-24**	**Jul.-24**
National unemployment rate	4.06%	3.16%	2.87%	...	2.64%	2.74%	**2.67%**
Urban unemployment rate	5.36%	4.03%	3.44%	...	3.32%	3.46%	**3.32%**
Extended unemployment rate	15.19%	12.32%	10.50%	...	9.99%	10.28%	**10.60%**
Participation rate	59.59%	59.60%	60.41%	**...**	60.50%	59.99%	**60.53%**
Underemployment rate	12.49%	7.81%	7.65%	**...**	7.34%	7.49%	**7.66%**
Informality rate	56.23%	55.18%	55.44%	**...**	54.40%	53.82%	**54.22%**
*/ all rates, except for extended unemployment, are from seasonally adjusted series							

Source: Grupo Financiero Base with information from INEGI.

Finally, according to the income and expenditure survey, in 2022 (latest available data) Mexican households increased their dependence on transfers (from the government and remittances) during this six-year period compared to the end of the previous six-year period.

Figure 4. Main sources of household income. National Household Income and Expenditure Survey (ENIGH).

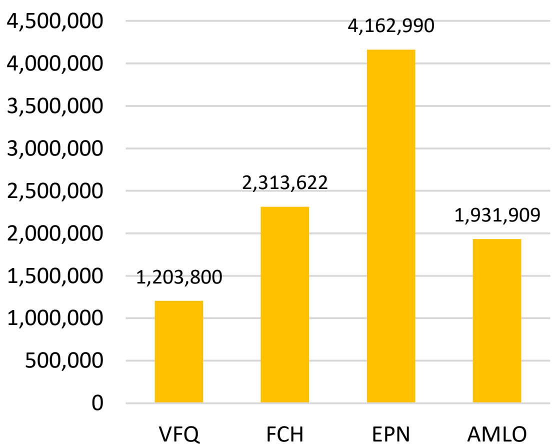


Source: Grupo Financiero Base with information from INEGI.

Job creation

During López Obrador's six-year term, 1,931,909 formal IMSS-registered jobs were created, according to information available as of August 2024, the lowest job creation in a six-year term since Vicente Fox (Figure 5). In percentage terms, job creation was 9.44%, slightly above the employment created during the six-year term of Vicente Fox (9.42%). However, during López Obrador's six-year term, a more accelerated growth of the wage bill was observed, which was mainly due to significant adjustments in the minimum wage.

Figure 5. Formal job creation, IMSS registry. In AMLO's six-year term, figures as of August 2024.



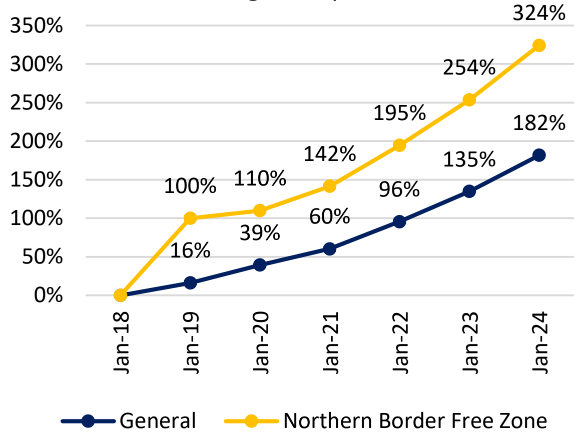
Source: Grupo Financiero BASE with information from IMSS.

In 2018, the last year of Enrique Peña Nieto's six-year term, the general minimum wage was at

88.36 pesos and by 2024, the general minimum wage will be at 248.93 pesos and in the Northern Border Free Zone at 374.93 pesos, implying increases during the six-year term of 181.7% and 324.3%, respectively (Figure 6). The increase in the minimum wage put upward pressure on the rest of the wages: the IMSS daily contribution wage rose 66.56% during the six-year period, accelerating from the 30.56% growth of the previous six-year period.

Considering wage growth and adjusting for inflation, the real wage bill grew 37.11% during the six-year period, accelerating from a growth of 28.80% in the previous six-year period (Figure 7).

Figure 6. Cumulative growth of the minimum wage compared to 2018.

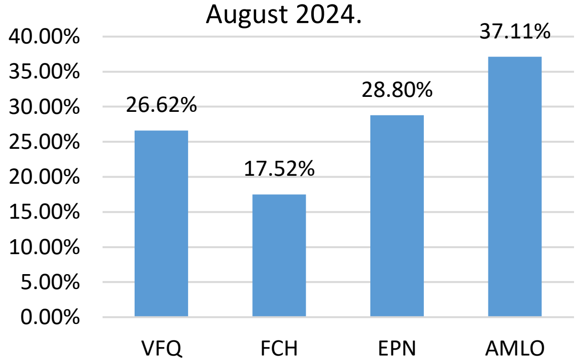


Source: Grupo Financiero BASE with information from CONASAMI.

Wage growth had a positive effect on the reduction of working poverty. As of the second quarter of 2024, the percentage of the population with a labor income below the cost of the food basket stood at 35.0%, down 5.2 percentage points from the beginning of the six-year term and the lowest in-work poverty rate since the second quarter of 2007 (Figure 8).

Gross Fixed Capital Formation

Figure 7. Growth of the real wage bill. In AMLO's six-year term, figures as of August 2024.



Source: Grupo Financiero BASE with information from IMSS.

Figure 8. Percentage of the population with labor income below the cost of the food basket, national.

Source: Grupo Financiero BASE with information from CONEVAL.

Table 3. Growth in cumulative gross fixed capital formation by six-year period

Sexennium	Gross fixed capital formation	Machinery and equipment	Domestic machinery and equipment	Imported machinery and equipment	Construction	Residential construction	Non-residential construction
Vicente Fox	18.72%	36.47%	19.40%	65.09%	10.85%	21.02%	2.71%
Felipe Calderón	27.60%	39.33%	14.54%	69.78%	21.11%	17.03%	24.95%
Peña Nieto	9.72%	26.63%	22.77%	29.68%	-0.76%	2.30%	-3.49%
López Obrador	-3.03%	2.21%	-1.90%	5.54%	-7.19%	-5.90%	-8.37%

For the six-year term of López Obrador, data available up to June (67 months) is considered and compared to the same period of the six-year term of Peña Nieto.

Source: Grupo Financiero Base with information from INEGI.

During the six-year period, gross fixed capital formation contracted by 3.03% with respect to the previous six-year period. The contraction was concentrated in investment in machinery and equipment of national origin, which contracted by 1.90%, while investment in imported machinery and equipment decelerated, growing by 5.54% with respect to the previous six-year period. Despite the slowdown, the growth of investment in imported machinery and equipment allowed total investment in machinery and equipment to grow 2.21%. In contrast, construction showed a strong deterioration during the six-year period, falling 7.19% with respect to the previous six-year period and adding two consecutive six-year periods of contraction. Within this sector, the greatest deterioration occurred in non-residential construction, where investment in industrial construction and public sector investment in infrastructure is concentrated. The contraction is the result of the public sector's reduced infrastructure spending, despite priority projects. In fact, spending on physical investment fell by 18.98% in real terms during the six-year period compared to the previous six-year period.

Investment in residential construction also deteriorated, falling 5.90% during the six-year period, which is partly explained by the pandemic that slowed housing construction in 2020. Subsequently, high interest rates slowed the growth of the housing loan portfolio, limiting demand in the sector.

The drop in total fixed investment during the Lopez Obrador administration shows that, despite high spending on priority projects, it was insufficient to compensate for the paralysis of private investors and lower government infrastructure spending. For the incoming administration, it will be difficult to increase investment spending, as the budget deficit must be significantly reduced. In addition, private investment could continue to deteriorate, if reforms and the change of government in the United States generate caution among businessmen.

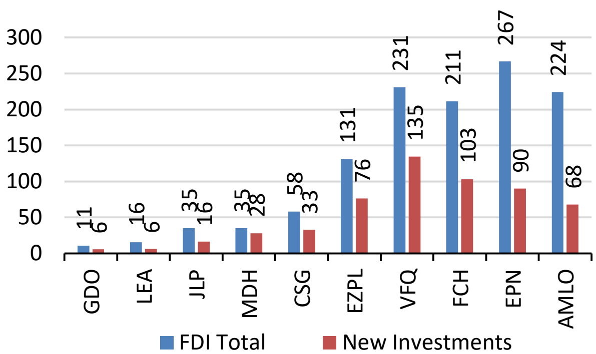
Contrary to spending on fixed investment, spending on social programs increased. In 2019, the first year of government, spending on social programs and non-contributory pensions was 219,185 million pesos and rose in 2024 to 726,366 million pesos, according to the budget of expenditures, showing a growth during the six-year term of 231%.

Foreign Direct Investment

During this six-year term, foreign direct investment flows have accumulated 199,992.7 million dollars, according to nominal figures. During the pandemic crisis, investment showed global paralysis. However, the trade war between the United States and China, as well as the perception that China could be an ally of Russia in the war against Ukraine, opened the opportunity for companies to relocate.

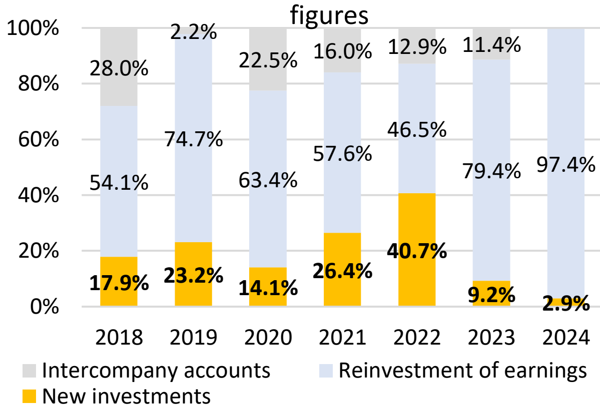
Mexico has the unparalleled advantages of sharing a border and having a trade agreement with the United States, the world's leading consumer. Despite the *nearshoring* opportunity, Mexico received 59,749.8 million dollars in new foreign investment during this six-year term, the lowest flow since the six-year term of Ernesto Zedillo in nominal terms and since the six-year term of Carlos Salinas de Gortari in real terms (Figure 9). With this, Mexico is taking advantage of less than 5% of the *nearshoring* opportunity. Among the factors that have slowed down the arrival of new investments are the lack of infrastructure, lack of promotion of Mexico abroad, plans for receiving companies, certainty regarding domestic economic policy and incentives for more companies to decide to come to the country.

Figure 9. Cumulative FDI in the first 22 quarters of each six-year period. Billions of dollars, inflation-adjusted figures at Q2 2024 prices.



Source: Grupo Financiero BASE with information from SE.

Figure 10. FDI by type of investment in the first half of each year, revised figures



Source: Grupo Financiero BASE with information from SE.

During the six-year period, the percentage that new investments represent over total foreign direct investment decreased from 17.9% in the first half of 2018 to 2.9% in the first half of 2024, according to revised figures, the latest minimum estimate being on record (Figure 10).

International trade

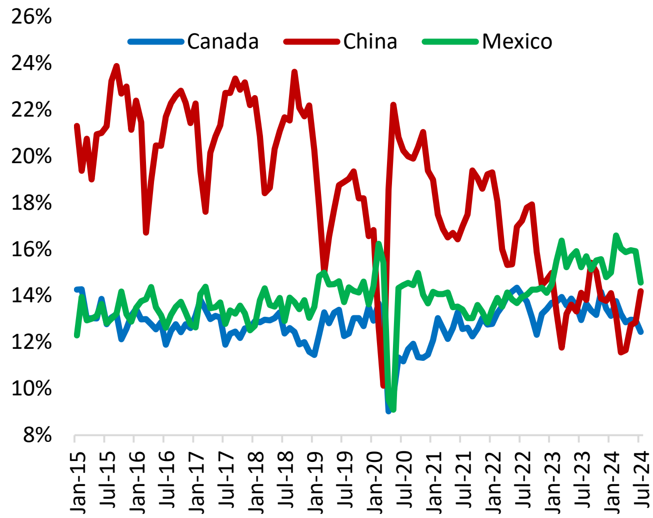
Table 4. Six-year growth of Mexico's total exports and imports.

Sexennium	Exports	Imports
Vicente Fox	62.01%	66.72%
Felipe Calderón	59.39%	56.45%
Peña Nieto	32.34%	32.70%
López Obrador	31.80%	29.26%

Source: Grupo Financiero BASE with information from INEGI.

During López Obrador's six-year term, up to July, total exports registered a growth of 31.80% compared to the same period of the previous six-year term, showing a deceleration compared to the three previous six-year terms (Table 4). Although exports fell 9.43% in 2020 as a whole due to the impact of the pandemic on industrial production and supply chains, growth during López Obrador's six-year term was similar to that observed in the previous six-year term, as Mexico gained relevance in U.S. trade figures, becoming the main source of imports. This was the result of the U.S. trade war with China, which favored the phenomenon of production relocation to Mexico. The pandemic also favored Mexico, since increases in maritime transportation costs were not a problem for production in the country, due to its geographic proximity to the United States.

Figure 11. Share of total U.S. imports by month

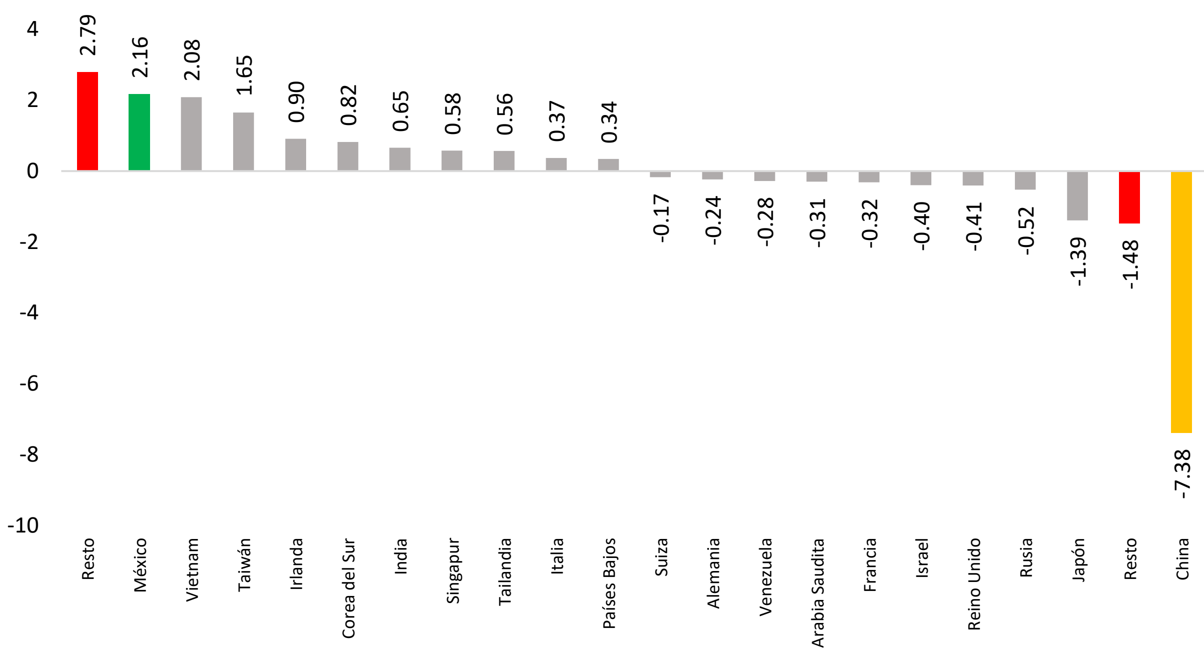


Source: Grupo Financiero BASE with information from the U.S. Department of Commerce.

In February 2023, Mexico became the leading source of U.S. imports and since that date, in 17 of the last 18 months it has remained in the top position (Figure 11). However, Mexico is not taking full advantage of the opportunity to further strengthen the trade relationship with its main trading partner, preventing the United States' dependence on imports of Mexican origin from continuing to grow. Between 2016, before Donald Trump took office in the United States and initiated the trade war, and 2024, China has lost 7.38 percentage points of share in U.S. imports and Mexico has only gained 2.16 percentage points, i.e., Mexico is only taking advantage of the 30% share that China is giving up (Figure 12).

Along with the growth in exports, there has been an increase in imports, mainly of consumer goods, due to the appreciation of the peso, and of intermediate goods for industrial

Figure 12. Change (percentage points) in share of total U.S. imports, 2016-2024
Figures from January to July of each year



Source: Grupo Financiero BASE with information from the U.S. Department of Commerce.

transformation. In the six-year period up to July of this year, imports have grown 29.26%, slowing down with respect to previous six-year periods due to the negative effect of the pandemic in 2020, when imports contracted 15.87% with respect to 2019.

The approval of the Judicial Branch reform and the probable approval of the reform to eliminate autonomous agencies could deteriorate the trade relationship with the United States during the next administration, raising the risk of trade sanctions that affect the growth of exports and imports. The risk will be greater if in the elections, Donald Trump is elected again as president of the United States, raising the probability of tariffs against imports of Mexican origin, mainly from the automotive sector. Additionally, in July 2026 there will be a review of the USMCA, where the reform of the Judiciary and the disappearance of autonomous market regulation agencies are a risk for the ratification of the treaty for another six-year period. This uncertainty also inhibits the arrival of new investment, something that is already being reflected in the low proportion of new foreign direct investment that Mexico has received in the first half of 2024.

Public finances

So far in López Obrador's six-year term (December 2018 to July 2024), net public sector spending accumulates a real growth of 9.30%, compared to the same period of Enrique Peña Nieto's six-year term. Spending shows a significant deceleration compared to all previous six-year terms with information since the six-year term of Carlos Salinas (Table 5). In the six-year term of Vicente Fox, cumulative public sector spending increased by 31.60% in real terms, while in the six-year terms of Felipe Calderón and Enrique Peña Nieto the cumulative increases were 45.99% and 22.77%, respectively.

At first glance, this might seem positive. However, the decrease in spending, due to the "austerity policy" mainly affected capital spending, being the first six-year term at least since Ernesto Zedillo[4] to decrease this type of spending. Furthermore, the logical consequence of a decrease in public spending would be to close the six-year term with a lower debt and a smaller deficit, but the opposite occurred.

[4] There are no comparable capital expenditurerecords from previous six-year periods.

Table 5. Total Net Public Sector Spending

Sexennium	President	Total Net Expense (bpd from Jul 2024)	Total Net Expense (6-year real % change)
1988-1994	Carlos Salinas	18.24	-23.83%
1994-2000	Ernesto Zedillo	18.97	4.00%
2000-2006	Vicente Fox	24.96	31.60%
2006-2012	Felipe Calderón	36.45	45.99%
2012-2018	Peña Nieto	44.74	22.77%
2018-2024	López Obrador*.	46.34	9.30%

*Data for the six-year term of López Obrador are from December 2018 to July 2024. The real % variation is calculated with respect to the same period of Enrique Peña Nieto's six-year term.
Note: The six-year expenditure of the Carlos Salinas administration and its real growth were calculated with annual information from the Centro de Estudios de Finanzas Públicas de la Cámara de diputados, while for the six-year term of Ernesto Zedillo onwards, the information reported by the SHCP was used.
bdp: billions of pesos
Source: Grupo Financiero Base with information from SHCP.

In the six-year term of Vicente Fox, capital spending grew 25.65% in real terms with respect to the six-year term of Ernesto Zedillo, followed by six-year real growth of 114.24% and 19.31% in the presidential terms of Calderón and Peña Nieto, respectively. However, so far in López Obrador's six-year term, capital spending has fallen 11.86% in real terms, mainly affected by the 18.98% drop in physical investment (Table 6).

Table 6. Public Sector Capital Expenditures

Sexennium	**President**	**Capital expenditures**		**Spending on physical investment**	
		Billions of July 2024 pesos	Real six-year % growth	Billions of July 2024 pesos	Real six-year % growth
1994-2000	Ernesto Zedillo	2.57	ND	2.35	ND
2000-2006	Vicente Fox	3.23	25.62%	2.76	17.56%
2006-2012	Felipe Calderón	6.92	114.24%	5.91	114.38%
2012-2018	Peña Nieto	8.24	19.21%	6.56	10.90%
2018-2024	López Obrador*.	7.90	-11.86%	6.29	-18.98%

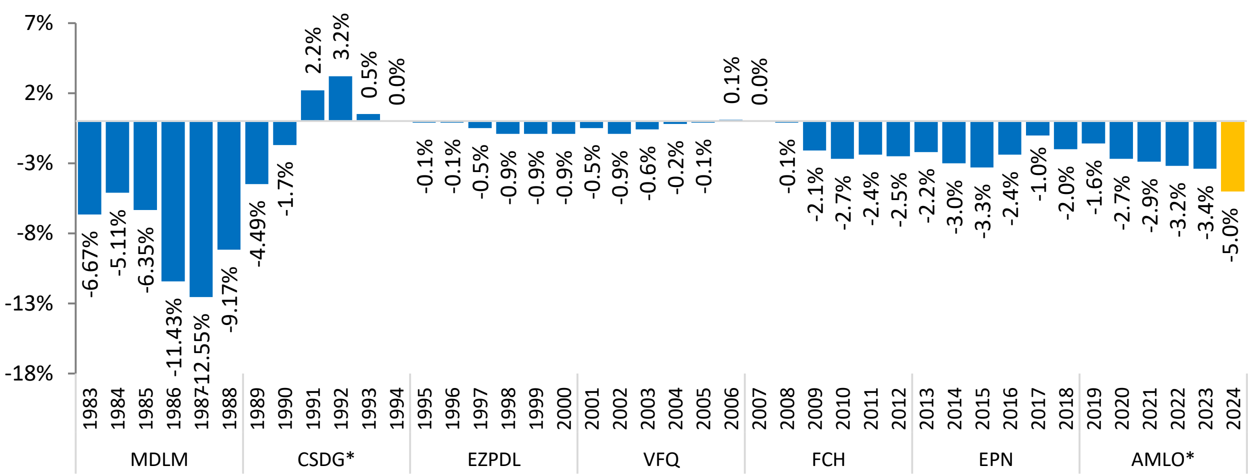
*Data for the six-year term of López Obrador are from December 2018 to July 2024. The real % variation is calculated with respect to the same period of Enrique Peña Nieto's six-year term.
Source: Grupo Financiero Base with information from SHCP.

Despite the fall in capital and physical investment spending, the budget deficit has grown, i.e., the difference between public sector revenues and expenditures has increased. When analyzing this metric as a percentage of GDP, there are certain aspects that are worrisome:

- During López Obrador's six-year term, the deficit as a percentage of GDP tended to grow steadily, from 1.6% in his first year in office to an estimated 5.0% in his last year in office. This trend had not been observed since the six-year term of Miguel de la Madrid (Figure 13).
- The deficit projected by the Ministry of Finance for 2024 (5.0% of GDP) is the highest since 1988 (9.17%), compromising the health of Public Finances (Figure 13) and forcing the next administration to carry out a fiscal consolidation, with a more austere spending package and the need to substantially increase public sector revenues.

It is important to mention that the increase in spending can be financed either by an increase in revenues or through debt issuance. Consistent with a deficit that has tended to increase (Figure 13), net debt as a percentage of GDP has also increased (Figure 14). During the administrations of Carlos Salinas, Ernesto Zedillo and Vicente Fox, the debt-to-GDP ratio declined. However, since the six-year term of Felipe Calderón, the behavior of debt as a percentage of GDP changed its trajectory upwards, from 17.1% in 2007, the first year of Felipe Calderón's administration, to 44.8% in 2018, the last year of Enrique Peña Nieto's administration.

Figure 13. Public Sector Budget Deficit
% of GDP



Source: Grupo Financiero BASE with information from SHCP.

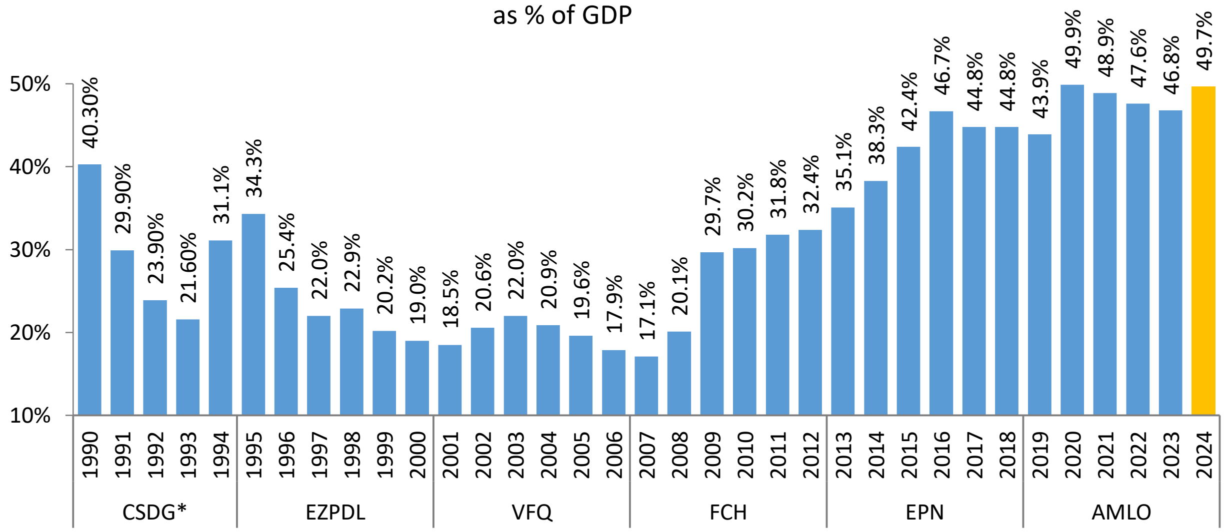
The behavior of the debt in Lopez Obrador's six-year term appears to be on a downward trend, after having reached an all-time high in 2020 of 49.9%. However, it should be noted that this behavior was highly influenced by an arithmetic effect after the significant drop in GDP in 2020.

Subsequently, the decline in debt as a proportion of GDP was a consequence of the economic recovery of GDP. By 2024 the SHCP projects that debt to GDP will rise to 49.7% (Figure 14).

It is important to mention that the high budget deficit projected for this year, together with a debt very close to 50% of GDP, sends negative signals to rating agencies, which puts Mexico's sovereign debt credit rating at risk.

Therefore, the 2025 economic package will be extremely important, as it must show the vision of the next government to reduce the deficit to 3.0%-3.5% of GDP in order to avoid credit rating downgrades and the eventual loss of investment grade. Moody's currently maintains Mexico's sovereign debt at Baa2, two notches above speculative grade, while Standard & Poor's maintains a rating of BBB, also two notches above speculative grade. For its part, Fitch Ratings maintains a rating of BBB-, so it would only need a one-step cut to lose investment grade with this rating agency.

Figure 14. Public Sector Net Debt as % of GDP

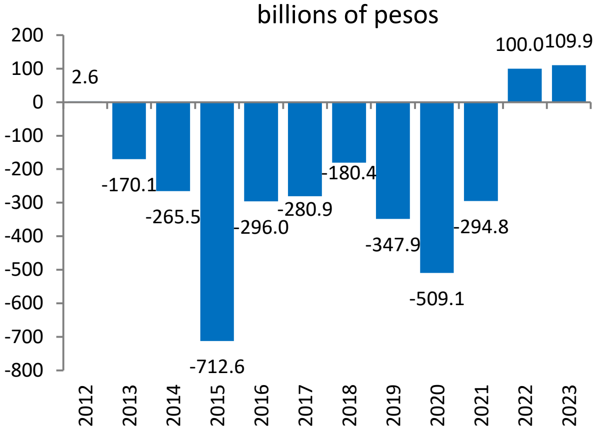


Source: Grupo Financiero BASE with information from SHCP.

Pemex

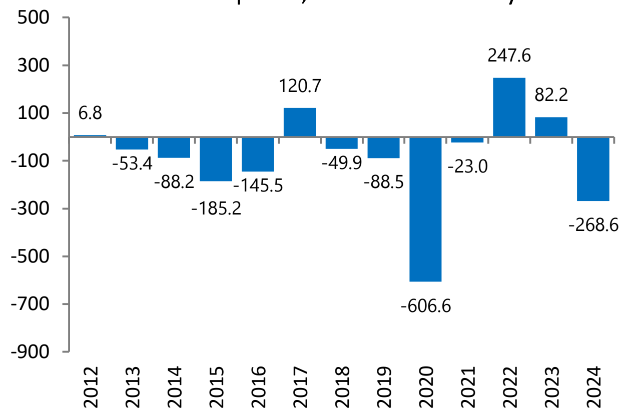
During López Obrador's six-year term, Pemex's situation showed some signs of improvement. In 2022 and 2023 the company recorded profits of 100 and 109.95 billion pesos (mmdp) (Figure 15), interrupting the streak in which Pemex accumulated 9 consecutive years with annual losses. The last time it recorded profits was in 2012 with 2.6 billion pesos. However, the results for the first half of 2024 seem to indicate that Pemex could reverse this apparently positive trend and record a net loss, since at the end of June 2024 it accumulated a loss of 268.6 billion pesos (Figure 16), the largest for a similar period since 2020, an atypical year due to the effects of the pandemic on economic activity.

Figure 15. Consolidated profit/loss of PEMEX
billions of pesos



Source: Grupo Financiero BASE with information from Pemex.

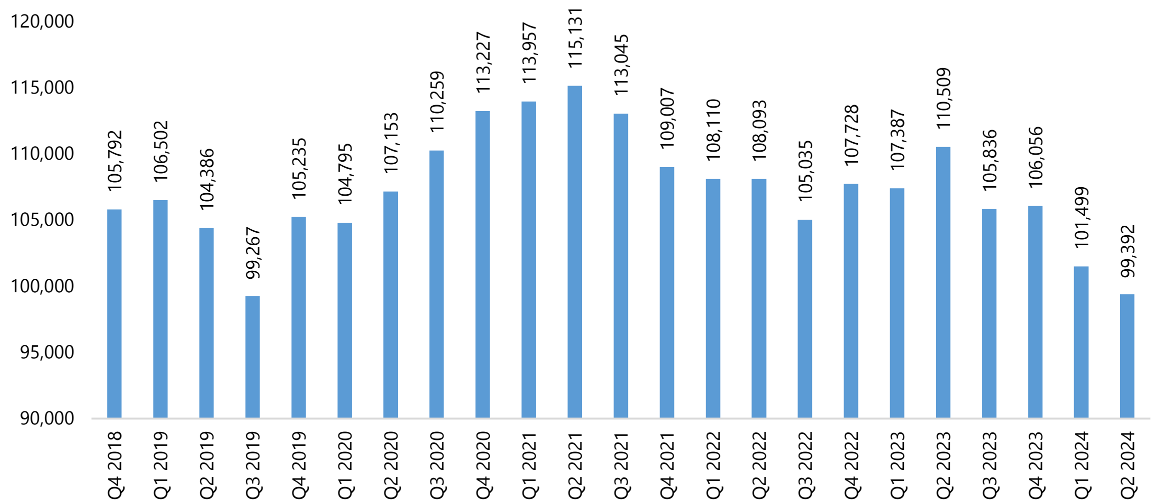
Figure 16. Consolidated profit/loss of PEMEX
billions of pesos; first half of each year



Source: Grupo Financiero BASE with information from Pemex.

As for Pemex's financial debt, in dollars, it has shown a clear downward trend from several perspectives. First, at the close of the fourth quarter of 2018, when López Obrador took office, the debt stood at 105,792 million dollars, falling to 99,392 million dollars at the close of the second quarter of 2024, implying a reduction of 6.0% during the six-year term (Figure 17). It is important to clarify that this reduction was not continuous and began to be pronounced as of the close of the second quarter of 2023, when it stood at 100,509 million pesos (Figure 17). From that period to the end of the second quarter of 2024, the reduction in financial debt is 10.1%. However, the decrease in debt in dollars can be attributed in part to the appreciation of the Mexican peso, given that, when analyzing the same debt, but in pesos, the reduction was only 3.2% between the second quarter of 2023 and the second quarter of 2024.

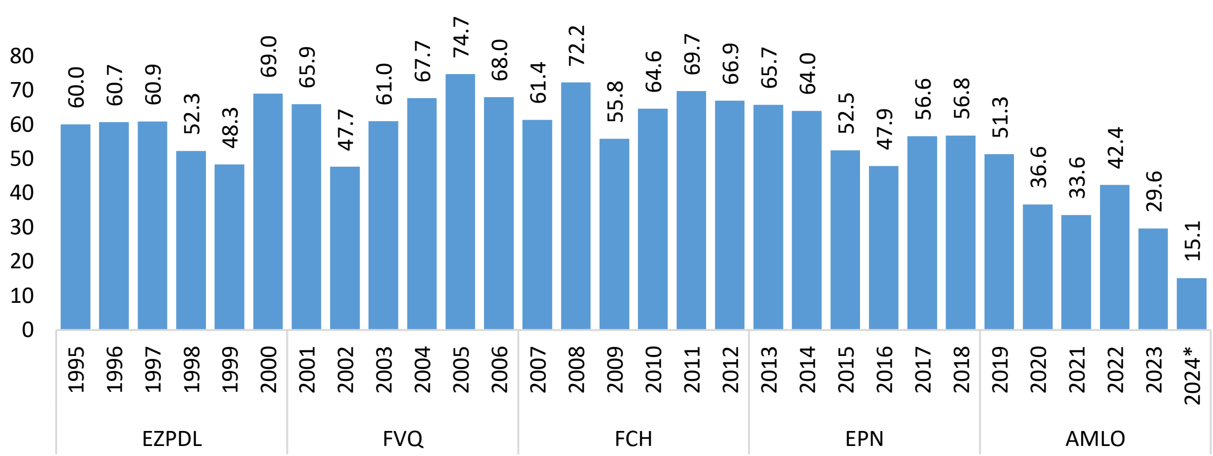
Figure 17. Total Financial Debt, million dollars



Source: Grupo Financiero BASE with information from Pemex.

Finally, Pemex, as a state-owned productive enterprise, has shown a very significant deterioration, observed in the federal government's oil revenues, i.e. the oil revenues that Pemex does not appropriate. In 2019, the first year of López Obrador's administration, on average the federal government's oil revenues represented 51.3% of total public sector oil revenues, falling to 29.6% in 2023, a historically low figure (Figure 18). It is important to mention that Pemex's revenues have also benefited from government transfers, capital contributions, extensions and tax waivers.

Figure 18. Oil Revenues of the Federal Government
% of total oil revenues



Source: Grupo Financiero BASE with information from Pemex.

In fact, during the six-year term, two of the three main credit rating agencies removed Pemex's investment grade. With Moody's, the grade currently stands at B3, six notches below the minimum rating to maintain investment grade (Baa3), which it lost on April 17, 2020. With Fitch, as of December 20, 2023 the rating is at B+ with a stable outlook, highly speculative grade and four notches below the minimum rating to maintain investment grade (BBB-), which it lost on June 6, 2019. With S&P, Pemex is still two notches above investment grade, with a rating of BBB with a stable outlook. However, this could be affected by the evident deterioration of public finances, which could limit the government's room for maneuver to support Pemex's financial situation.

It should be recalled that, within Pemex, the Transformation business unit has shown losses and according to the 20-F report filed with the SEC in the United States, losses have decreased as it refines less.

During the six-year term, one of the ideological pillars was energy sovereignty. In 2022, the Mexican government purchased Deer Park, at a cost of 594 million dollars, along with the construction of the Dos Bocas refinery, which to date is estimated to have cost 324 billion pesos or approximately 16.8 billion dollars.

Despite the decrease in Pemex's financial debt, it continues to be one of the most indebted oil companies globally. Due to the above and the fact that Pemex continues to show losses and is not investment grade, it is expected that the next administration will continue to support Pemex. However, it will be important to change the oil company's business model, otherwise it will continue to require extraordinary financial resources from the federal government, which would put even more pressure on public finances and increase the risk of cuts in Mexico's sovereign debt credit rating.

Mexico's credit rating

Table 6. Variation in credit ratings by six-year period

	Moody's			S&P Global Ratings			Fitch Ratings		
Sexennium	Beginning of the six-year term	End of six-year term	Steps	Beginning of the six-year term	End of six-year term	Steps	Beginning of the six-year term	End of six-year term	Steps
CSG	Ba2	Ba2	**0**	BB+	BB	**-1**			
EZPL	Ba2	Baa3	**2**	BB	BB+	**1**	BB	BB+	**1**
VFQ	Baa3	Baa1	**2**	BB+	BBB	**2**	BB+	BBB	**2**
FCH	Baa1	Baa1	**0**	BBB	BBB	**0**	BBB	BBB	**0**
EPN	Baa1	A3	**1**	BBB	BBB+	**1**	BBB	BBB+	**1**
AMLO	A3	Baa2	**-2**	BBB+	BBB	**-1**	BBB+	BBB-	**-2**

Moody's sovereign debt rating from 02/20/1991
S&P sovereign debt rating from 07/09/1992
Fitch sovereign debt rating since 08/30/1995
Source: Grupo Financiero Base with information from Bloomberg.

Despite the fact that the three major rating agencies maintain a stable outlook, the credit rating was cut several times during the six-year term, twice in the case of Moody's and Fitch Ratings and once with S&P Global.

This is the first six-year period on record that the three major rating agencies have ended with negative adjustments. During the six-year period, none of the rating agencies made an upward revision to the credit rating.

The rating cuts were concentrated in the first years of López Obrador's six-year term. Fitch Ratings made its first cut on June 5, 2019, after in the second half of 2018 the elected government decided to cancel the new Mexico City airport. The second cut occurred on April 15, 2020, in the context of the Coronavirus pandemic. Moody's cut its credit rating on April 17, 2020, during the pandemic, and the second cut was on July 8, 2022, due to increased risks in public finances, as greater support was given to Pemex and there was a sustained growth in spending on social programs, including non-contributory pensions. When this last cut was made, Moody's rating agency warned about the drop in stabilization funds, which as of the latest available data show a significant decrease, implying a high vulnerability of public finances.

S&P Global only made one credit rating cut, on March 26, 2020, the first of the three rating agencies to make an adjustment at the beginning of the pandemic.

Table 7. Budgetary Revenue Stabilization Funds

Quarter	Stabilization funds	FEIP	FEIEF	FMP
Q2 2018	346,892	252,525	74,860	19,507
Q2 2019	409,710	296,314	93,501	19,895
Q2 2020	267,535	176,963	63,633	26,938
Q2 2021	67,207	15,531	29,245	22,431
Q2 2022	68,820	24,986	20,936	22,898
Q2 2023	80,104	38,337	22,942	18,824
Q2 2024	85,747	49,304	12,527	23,916

FEIP: Fund for the Stabilization of Budgetary Revenue
FEIEF: Fondo de Estabilización de los Ingresos de las Entidades Federativas (Federal Entities Income Stabilization Fund).
FMP: Fondo Mexicano del Petróleo para la Estabilización y el Desarrollo (Mexican Petroleum Stabilization and Development Fund)
Source: Grupo Financiero Base with information from SHCP.

Mexico's investment grade rating is at risk, as during the last two years of the six-year term, a further deterioration of public finances was observed, particularly in 2024, when a high budget deficit of 5.0% of GDP is expected. The deterioration of finances coincides with a significant economic slowdown and the approval of constitutional reforms, which put the medium and long-term economic outlook at risk.

Exchange rate

During López Obrador's six-year term, the exchange rate reached a low of 16.2616 pesos per dollar on April 9, 2024 and a high of 25.7849 pesos per dollar, a new all-time high. The historical maximum was reached on April 6, 2020, during the pandemic, after it was announced in Mexico that there would be no counter-cyclical fiscal policy, along with the fall in oil prices and global risk aversion due to the pandemic.

Comparing the end of the previous six-year period with the current exchange rate, the peso has appreciated 3.60% against the dollar.

The appreciation of the peso was due to Mexico's free-floating exchange rate regime and the combination of several factors that facilitated the strengthening of the peso:

1. Depreciation of the peso at the end of the previous six-year term, after López Obrador, as president-elect, decided to cancel the construction of the Mexico City airport, which caused an increase in risk aversion about Mexico, due to the possibility of public policies that would damage the economy.

2. Strong economic recovery in the United States after the 2020 pandemic, which led to the rapid recovery of Mexican exports to that country.
3. Growth in remittances, due to high economic stimulus in the United States and its rapid economic recovery.
4. Increase in the interest rate differential. Banco de México began to raise interest rates in 2021 and adopted a restrictive monetary stance in the second half of the six-year term, increasing the attractiveness of holding positions in peso-denominated fixed-income instruments that pay higher interest rates. This also slowed the outflow of government securities, after historical outflows in 2020 and 2021, the first time on record that Mexico has faced capital outflows in two consecutive years.
5. Attractive for carry-trade. Due to the high interest rate, there was an increase in investment positions from other countries, financed with indebtedness in countries with low interest rates (such as Japan).
6. Political and social stability compared to other emerging economies.

The appreciation of the peso was possible because the autonomy of the Bank of Mexico was respected and Mexico did not lose its investment grade rating, something that was feared during the beginning of this six-year term.

Table 8. Exchange rate by six-year period

Exchange rate, pesos per dollar, at the close of each six-year period	Devaluation/ depreciation	Sexennium	Sexenio ended	Regime
12.5*	0%	ALM	30/11/1964	Fixed Parity
12.5*	0%	GDO	30/11/1970	
22*	-76.00%	READ	30/11/1976	Fixed Parity, Controlled Float System
70*	-218.18%	JLP	30/11/1982	Controlled flotation system
2,295*	-3178.57%	MMH	30/11/1988	Regulated flotation
3.4386	-49.83%	CSG	30/11/1994	Exchange bands with controlled slippage (dc)
9.4155	-173.82%	EZPL	30/11/2000	Exchange bands with dc (up to December 21, 1994)
10.9975	-16.80%	VFQ	30/11/2006	Free floating
12.9268	-17.54%	FCH	30/11/2012	
20.3455	-57.39%	EPN	30/11/2018	
19.6341	3.60%	AMLO	26/09/2024**	

*Exchange rate in old pesos
** The six-year term of López Obrador is not over yet.
Exchange rate for September 26, 2024 at 3:00 pm.
Source: Grupo Financiero Base with information from Bloomberg and Banco de México.

IPC per six-year period

The IPC (Index of Prices and Quotations) of the Mexican Stock Exchange (BMV) is an index that measures the performance of the 35 largest and most liquid issuers listed on the BMV. Since Zedillo came to power until the end of López Obrador's six-year term, the index has grown 1,968.06%, from 2,591.34 points to 53,590.52 points at the close of September 26, 2024. The performance between six-year periods has varied, highlighting the six-year term of Vicente Fox in which the IPC advanced 341.60%. On the other hand, the six-year term of Enrique Peña Nieto is the only one in which no gain was observed, registering a loss of 0.24%. It is important to highlight that, prior to the 2018 elections in which López Obrador won, the index accumulated a six-year gain of 13.94%. These gains were erased after it was confirmed that López Obrador won the presidency and due to caution after the cancellation of the new Mexico City airport, even before the inauguration in December 2018. Thus, the IPC closed Enrique Peña Nieto's six-year term with a small loss.

During Zedillo's six-year term, the CPI showed high volatility, since out of the 72 months he was in power, in 13 months there were monthly gains of over 10%, while in 9 months there were losses of over 10%. In fact, in August 1998, the highest monthly loss of these 5 six-year periods was observed at 29.52%, while in September 1998, the highest gain was recorded at 19.32%. For the following six-year periods, volatility has decreased considerably, with only 17 months showing movements above 10% per month, highlighting the period of the Great Recession, in which 6 months showed this type of movement.

In López Obrador's six-year term, the IPC grew 28.41%, surpassing the negative performance of Enrique Peña Nieto, but remaining well below the performance of the other 3 six-year terms. It is important to highlight that, in the first 3 years, the index registered gains: in 2019 of 4.56%, in 2020 of 1.21% and in 2021 of 20.89%. In 2022, the IPC suffered its first annual drop of 9.03%, due to the high inflation observed in the world and the accelerated interest rate increase by the Bank of Mexico. In 2023, the index returned to show a gain of 18.41%, but in 2024 it has registered a loss of 6.61%.

Table 9. PCI performance by six-year period.

IPC Performance	Initial	Final	Variation (%)
Ernesto Zedillo	2,591.34	5,652.63	118.14%
Vicente Fox	5,652.63	24,962.01	341.60%
Felipe Calderón	24,962.01	41,833.52	67.59%
Peña Nieto	41,833.52	41,732.78	-0.24%
López Obrador	41,732.78	53,703.56	28.41%

Source: Grupo Financiero Base with information from Bloomberg.

Reference interest rate

During López Obrador's six-year term, post-pandemic inflationary pressures forced the Bank of Mexico to adopt a restrictive monetary stance, raising the target interest rate to 11.25% on March 30, 2023, a level that was maintained for seven consecutive meetings. One year later, on March 21, 2024, the first 25 basis point cut was made. So far in 2024, Banco de México has cut its interest rate on three occasions: in March, August and September, by a total of 75 basis points to place the rate at 10.50%. Despite these interest rate cuts, Banco de México's monetary stance remains highly restrictive. It should be recalled that Banco de México has been autonomous since April 1, 1994 and its objective is to maintain the purchasing power of the currency under a low inflation scheme. Therefore, interest rate movements are attributed to deviations of Mexico's inflation from its 3% target, It is noteworthy that the maximum rate in López Obrador's administration was significantly higher than those observed in previous six-year terms, with Peña Nieto reaching a maximum rate of 8.00% and with Felipe Calderón 8.25%. During Calderón's term, this rate of 8.25% was maintained for three consecutive meetings, with the last increase on August 15, 2008 and the first cut on January 16, 2009. After that first cut, the Bank of Mexico continued to cut the interest rate for six more meetings, to place the rate at 4.50% as of August 21, 2009 until the end of his six-year term.

On the other hand, during Enrique Peña Nieto's administration, the maximum rate of 8.00% was reached in the last days of his administration, at the end of a cycle of interest rate increases initiated in December 2015. It should be recalled that, in 2017, strong inflationary pressures were observed, with annual inflation reaching a maximum of 6.77% in December of that year, in the face of an increase in gasoline prices.

It should be noted that between 2023 and 2024, several countries have begun their cycle of interest rate cuts. On September 18, the U.S. Federal Reserve (Fed) decided to cut the interest rate by 50 basis points to a range of 4.75-5.00%, after having kept it unchanged for 8 consecutive meetings. This was the first rate cut by the Federal Reserve since the extraordinary meeting on March 15, 2020, where the rate was cut by 100 basis points, due to nervousness about the impact of COVID-19 on the U.S. economy. The slowdown in inflation in Mexico, together with the Fed's rate cut and the economic slowdown, increase the likelihood that Banco de México will continue to cut interest rates during the fourth quarter of 2024 and in 2025.

Summary of initiatives and reforms promoted during the six-year term of office

During López Obrador's six-year term, several reforms were carried out. There were also initiatives that did not end in reform and other important interventions on the economy.

Unlike the six-year term of Enrique Peña Nieto, when the structural reforms that gave rise to the so-called "Mexican Moment" were carried out, most of the reforms of the six-year term of López Obrador caused uncertainty in the Mexican economy due to the weakening of institutions.

2019

- The figure of the revocation of mandate was approved through a constitutional reform, allowing citizens to decide, in the middle of the six-year term, whether or not the president should continue in office by means of a popular vote.
- The Federal Law of Extinction of Ownership was approved, giving the government the possibility to dispose of resources obtained from securing assets of persons related to acts of corruption and organized crime, before a final judgment is issued.

2020

- In March 2019, the constitutional reform that gave life to the National Guard was approved. This body increasingly acquired more and more internal security functions and, like the armed forces, became involved in other matters unrelated to national or internal security.
- Reform of the pension system, which increased the contribution burden on employers and lowered the requirements for workers to qualify for a guaranteed pension. This slowed the recovery of the formal labor market. The Constitution was also reformed to raise the right to a universal pension for the elderly to constitutional rank.
- Proposal to modify Banco de México's Law to oblige the central bank to purchase surplus foreign currency that private banks cannot repatriate to their country of origin. This caused controversy because it was considered an attack on the Bank's autonomy, in addition to the fact that it presented risks for the institution in terms of money laundering.

2021

- A labor reform was approved that prohibited *outsourcing*, except in certain cases. This was done in an attempt to improve workers' rights, but it came at a time when the labor market was suffering from the consequences of the pandemic crisis.
- In 2021, the first steps were taken to reverse the energy reform:
    1. The reform to the Electricity Industry Law sought to give preferential treatment to the CFE in the electricity market, eliminating the obligation of the CFE to purchase energy through auctions, and altered the regime of permits for electricity self-supply and clean energy certificates. This project became known as the "Fuel Oil Law". This reform sought to take advantage of the fuel oil produced by PEMEX, since its industrial use is limited because it is highly polluting.
    2. The amendment to the Hydrocarbons Law to grant the government the power to suspend permits for the import, distribution, storage and commercialization of hydrocarbons, with the possibility for PEMEX to operate the facilities with suspended permits.
- The proposed reform to the operation of the Judicial Branch which, among other things, sought to extend the term of the current president of the Supreme Court of Justice of the Nation (SCJN) and of the Federal Council of the Judiciary for two more years. This is an attempt against the autonomy of the Judicial Branch, since it would not allow the

members of the SCJN to elect the person to preside over the supreme court. However, this reform was deemed unconstitutional.

- The already approved telecommunications reform, which requires all cell phone users to provide the telephone companies with their biometric data such as fingerprints, facial features or iris of the eyes for the creation of a National Registry of Mobile Phone Users by the Government. This reform was pointed out as a possible violation of human rights to the privacy of their personal information and data.
- A reform to the Mining Law was approved to make the exploitation of lithium an exclusive activity of the government, proposing the creation of a decentralized body for its exploitation. Although there was talk of a "nationalization" of lithium, the reality was that the mineral was already the property of the nation and what the reform sought was that the State would no longer grant concessions to private companies for its exploitation.

2022

- AMLO's Plan A, B and C:
    - Plan A. In 2022, a constitutional reform was proposed to replace the National Electoral Institute (INE) with a new body called the National Institute of Elections and Consultations. This reform sought to reduce the size of INE, eliminate public financing to political parties and "lower the costs of democracy". It also sought to have electoral counselors elected by popular vote, and to eliminate the 200 federal deputies and 32 senators elected by the proportional representation system (also known as "plurinominals"). The initiative was presented with the purpose of seeking savings in public spending; however, it was proposed that this reform would save a total of 24 billion pesos, equivalent to only 0.3% of the Federal Expenditure Budget for 2022. This plan failed, as the initiative was not approved by Congress.
    - Plan B. After the rejection of Plan A, AMLO proposed changes to secondary laws, which could be approved with a simple majority in Congress, to substantially reduce INE's structure, liquidating 85% of the workers in the National Electoral Professional System and eliminating several local bodies, weakening the institute and compromising the work that should guarantee that electoral processes are carried out in strict compliance with the law. These reforms were fought in court, until the SCJN declared that some parts were unconstitutional.

- Plan C. It consisted of a call by AMLO to the population that in the 2024 elections MORENA would not only win the Presidency, but also a qualified majority in Congress to approve his electoral reforms.

2023

- A set of reform initiatives to change administrative procedures, which seek to provide the Federal Public Administration (APF) with instruments to protect the public interest and guarantee the efficient use of resources. Among the proposals, the following stand out: The inclusion of an exorbitant clause in the contracting of goods and services that grants the State the power to terminate the legal relationship early and unilaterally when it is in the public interest to do so; the limitation on compensation for irregular activities of the State and expropriations; and the possibility of acquiring goods through international public bidding without exhausting national public bidding when market research shows that better conditions can be obtained. This initiative has caused great concern in the national private sector and the Business Coordinating Council (CCE) has requested to be included in the discussion of this initiative and the mining initiative in order to provide legal and technical analysis from specialists for its consideration. These reforms threaten the legal certainty necessary to promote the participation of the private sector in public infrastructure projects or the supply of public goods and services.

2024

- In February 2024, AMLO sent to Congress a package of initiatives of 20 reforms to the Constitution:

  1. **Rights of indigenous and Afro-Mexican peoples**: The aim is to recognize these communities as subjects of public law, consulting them on projects that affect their lives and environment. They would be given legal legitimacy to receive resources and promote actions against laws that harm them.
  2. **Pension for the elderly and people with disabilities**: It is proposed to reaffirm the right to a pension for people over 65 years of age, increasing the amount annually, and to grant a universal pension to people with disabilities.
  3. **Scholarships for students**: Guarantee scholarships for students in the public education system at all levels of education.
  4. **Free medical care**: Amendment to Article 4 of the Constitution, which establishes that the State shall guarantee comprehensive, universal and free medical care.

5. **Home ownership for workers**: Reform for the National Workers' Housing Fund to establish a system for obtaining low-cost credit for the acquisition of housing. The aim is for workers to have access to social rental housing, with a monthly payment that does not exceed 30% of the worker's salary.
6. **Prohibition of animal abuse**. The State must guarantee protection, adequate treatment and care of animals. Seeks to prevent the mistreatment of animals raised for human consumption.
7. **Prohibition of transgenic corn and fracking**: Prohibit the use of transgenic corn and fracking throughout the country, as well as prevent concessions for open-pit mining.
8. **Protection of areas with water scarcity**: Respect areas with low water availability, authorizing concessions only for domestic use.
9. **Vape and fentanyl ban**: Ban the trade of vapes and chemical drugs such as fentanyl, in addition to severely penalizing extortion and tax crime through billers.
10. **Minimum wage equal to or greater than inflation**: Ensure that the minimum wage increase is never less than inflation.
11. **Minimum salary for teachers and security personnel**: The salary of teachers, police, military and health personnel shall not be less than the average salary of workers enrolled in the social security system.
12. **Reverse pension reforms**: Reverse the 1997 and 2007 reforms affecting IMSS and ISSSTE workers, creating a seed fund to compensate those affected.
13. **Right to education and work**: Guarantee employment for young people between the ages of 18 and 19 who are neither studying nor working, paying them the equivalent of a minimum wage for one year while they are in training.
14. **Support for farmers and fishermen**: Ensure a permanent day's wages for farmers and guaranteed prices for basic products, maintaining programs such as Sembrando Vida and Producción para el Bienestar.
15. **Passenger trains and universal internet**: Use railroad tracks for passenger trains and guarantee internet access through a public company or private concessions.
16. **Electoral reform**: Reduce campaign spending and the number of legislators, eliminating plurinominal candidacies and electoral bureaucracy, and allowing councilors and magistrates to be elected by popular vote.
17. **Election of judges by popular vote**: Change the system of selection of judges, magistrates and ministers, so that they are elected directly by the people.

18. **National Guard under the Ministry of Defense**: Incorporate the National Guard into the Ministry of Defense to avoid corruption and guarantee respect for human rights.
19. **Republican Austerity**: Guarantee that no public official earns more than the president and eliminate privileges within the federal government.
20. **Elimination of autonomous agencies:** This reform would eliminate those that function as arbitrators, which could lead to greater inefficiencies and corruption. In addition, the disappearance of the autonomous agencies could provoke the United States and Canada to open a new trade dispute against Mexico and/or be a major point of discussion in the review of the 2026 SSST program.

In addition to the legal reforms promoted by President Andrés Manuel López Obrador, his speeches and public statements, particularly during his morning press conferences, had a great impact on the perception of investors and the country's economic stability, as they generated uncertainty and controversy in various sectors, affecting confidence in his government and creating tensions with national and international actors. The following are some of the events and statements that caused the most controversy:

- **Dual mandate of the Bank of Mexico**: AMLO expressed on several occasions that the Bank of Mexico (Banxico) should have a dual mandate, that is, not only focus on price stability and inflation control, but also on economic growth. This comment generated concern in the markets, as it was interpreted as a possible interference in the central bank's autonomy, something that could affect Banxico's credibility in managing monetary policy.

- **Disclosure of a Banxico decision**: On one occasion, AMLO disclosed in one of his morning press conferences a Banxico monetary policy decision before the central bank officially announced it. Although it may have been an inadvertent mistake, this act was seen by some as an interference in the autonomy of the Bank of Mexico.

- **NAICM Popular Consultation**: The cancellation of the New Mexico City International Airport (NAICM) in Texcoco, determined by a popular consultation, was a significant blow to investor confidence. Despite the fact that construction was advanced, AMLO opted to cancel the project, resulting in billions of pesos in penalties for the government. This decision was seen as a unilateral act that generated uncertainty about the stability of infrastructure investments in Mexico.

- **Consultation on prosecuting former presidents**: AMLO promoted a popular consultation to determine whether to prosecute former presidents of Mexico for alleged acts of corruption. The Supreme Court of Justice of the Nation (SCJN) ruled that it did not violate the human rights of the former presidents, but many argued that the popular vote should not influence decisions that correspond to the Judicial Branch and the Attorney General's Office.

- **Consultation on Constellation Brands**: In Mexicali, AMLO organized a popular consultation to decide whether to grant water use permits to the Constellation Brands brewery, which was already under construction. Following the negative result of the consultation, the project was cancelled, which affected business confidence, particularly among foreign companies.

- **Termination of Iberdrola contracts**: The Federal Electricity Commission (CFE) terminated several contracts with the Spanish company Iberdrola related to natural gas, which ended up generating millionaire penalties against Mexico. This measure created uncertainty among investors in the energy sector, particularly due to the lack of clarity in the rules of the game for private actors in the market.

- **Freezing of the energy reform**: Before formally initiating the legislative process to modify the energy reform, the AMLO administration implemented a "de facto freeze", halting the issuance of permits in both the upstream and downstream hydrocarbon sectors. This generated enormous uncertainty and corruption in the energy sector.

- **"Pause" in diplomatic relations with Spain**: AMLO announced a "pause" in relations with Spain after asking them to issue a public apology for the events that occurred during the Conquest. This request was seen as unnecessary and absurd, which damaged diplomatic relations between the two countries, generating tensions that could affect Spanish investments in Mexico.

- **Tensions with the U.S. embassy**: AMLO recently ordered a "pause" in diplomatic relations with the U.S. embassy after its ambassador spoke out against the president's proposed judicial reform. This incident generated tensions with Mexico's and the world's most important trading partner.

- **Expropriation of Vulcan Materials land**: In the last week of his term, AMLO ordered the expropriation of a port owned by the US company Vulcan Materials on Mexico's Caribbean coast, declaring the land a protected natural area. This act was considered by Vulcan as a violation of the trade agreements of the Treaty between Mexico, the United States and Canada (USMCA). The company, after operating in the area for decades, is now seeking more than 1.5 billion dollars in compensation. The expropriation generated tensions with U.S. investors and also sparked criticism about legal certainty and investor confidence in Mexico.

- **Disappearance of childcare centers**: AMLO eliminated the childcare program, arguing cases of corruption and diversion of resources, replacing it with direct support to parents. This caused a decrease in child care coverage, affecting mainly working mothers and low-income families, who depended on these programs to continue working.

- **Disappearance of Seguro Popular and creation of INSABI**: In 2020, AMLO replaced Seguro Popular with the Instituto de Salud para el Bienestar (INSABI), arguing that the former was corrupt and inefficient. However, INSABI faced difficulties in implementing a universal and free healthcare system, creating a crisis in medical care, lack of medicines and disorganization in hospitals. The consequences were even more devastating with the COVID-19 pandemic.

- **Creation of the mega-pharmacy for the purchase and distribution of medicines**: The government centralized the purchase of medicines through a "mega-pharmacy". This measure, designed to combat corruption, resulted in significant delays in the delivery of medicines and shortages. It also increased the risk of corruption within the centralized system itself.

- **Increased role of the Armed Forces**: During AMLO's term, the Armed Forces assumed roles in several areas of the economy and public administration. In addition to the creation of the National Guard and its involvement in internal security functions, the Armed Forces have acquired control of key infrastructure projects, such as the construction and operation of the Felipe Angeles International Airport (AIFA) and the Mayan Train. They have also been tasked with the administration of customs and ports, with the aim of combating corruption and smuggling. However, this increase in their responsibilities has raised concerns about the militarization of civilian sectors and its impact on government transparency and efficiency. It is important to mention that, being under the threshold of the Armed Forces, the projects have a sphere of protection, for national security reasons, in terms of budget transparency, so that much information will remain confidential for several years.

- **Banco del Bienestar**: The Banco del Bienestar was created with the intention of facilitating the distribution of resources to beneficiaries of social programs throughout the country, especially in rural areas that do not have much supply of bank branches. However, the project was criticized for the lack of transparency in the allocation of contracts for the construction of branches -in the end, the construction of more than 2,000 branches was left to the Ministry of National Defense- and concerns were raised as to whether the bank had adequate infrastructure to meet the objectives of the Banco del Bienestar. This act is also considered one of many attempts by AMLO's government to consolidate and concentrate decision-making power over the distribution of social program resources.

- **Initiative to reform article 123 of the Mexican Constitution regarding the minimum wage**: Currently in the legislative process is an initiative to reform article 123 constitutional, which proposes that the minimum wage should increase every year at least by the same percentage as inflation. This is positive for workers, but it will have to be tied to incentives for fixed investment and personnel training, so that it goes hand in hand with increases in productivity. Otherwise, it could generate inflationary pressures and perverse incentives for informal hiring.

Under the USMCA framework, the United States and Canada have filed several trade disputes against Mexico, arguing that certain policies implemented by the federal government are contrary to the commitments agreed to in the treaty.

- **Energy policy**: These disputes revolve around the preference given to Mexican state-owned companies (CFE and PEMEX) over foreign private companies, as this constitutes a violation of the principles of competition and free trade established in the treaty. The three countries agreed to the TMEC under the assumption that Mexico's energy sector would remain open to private sector participation, both domestic and foreign, and that it would be regulated by autonomous authorities. However, during the AMLO administration, energy policy took a different course, marked by a "de facto" suspension of the opening of the energy market to the private sector, and the weakening of the competent autonomous bodies (CRE and CNH). Both the United States and Canada have argued that these policies affect investments of American and Canadian companies in the energy sector and therefore initiated dispute resolution proceedings, accusing Mexico of not complying with its commitments in terms of trade equity and market access.

- **GM corn**: This dispute arises after the publication of the decree regulating genetically modified corn on February 13, 2023, limiting its use in Mexico's industrial processes. The U.S. government argues that these bans are not supported by science and pose a threat to U.S. corn exports and farmers. In August 2023, the U.S. government requested the opening of an arbitration panel to resolve the dispute.

- **Automotive sector**: Mexico and Canada initiated a consultation process against the United States regarding the interpretation of the rules of origin in the automotive industry and the methodology to be used in the calculation of the Regional Value Content (RVC) of a finished vehicle. This dispute was taken to an arbitration panel, in which Mexico and Canada were victorious, with the Panel's Final Report issued on January 13, 2023.

Gabriela Siller Pagaza, PhD
Director of Economic and Financial Analysis
gsiller@bancobase.com
Tel. 81512200 ext. 223

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

Ana Victoria Azuara Rodríguez
Economic-Financial Specialist
aazuara@bancobase.com

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

Fernando Castellanos Carillo
Economic-Financial Analyst
fcastellan@bancobase.com

Hernan Ayrton Gonzalez Cruz
Economic-Financial Analyst
hgonzalez@bancobase.com

Paulina Di Giusto Fernandez
Economic-Financial Analyst
pdigiusto@bancobase.com

Gerardo Villareal Morales
Economic Analysis Intern
gvillarem@bancobase.com

Paulina María Canales Siller
Economic Analysis Intern
mcanales@bancobase.com