

# Mexico



Real GDP growth in Mexico will likely return to average historical levels in 2022. We project growth of 2.3% in 2022, after growth of close to 6.0% in 2021. Some of the headwinds the economy is likely to face include a tighter monetary policy stance and slower growth in the USA, Mexico's main export destination. Another source of risk to growth will be the congressional debate on a controversial electricity reform that seeks to strengthen the government-owned electricity company, known as CFE, at the expense of private sector companies. Congressional passage of the reform would be the latest setback to business confidence, in our view.

We project that inflation in Mexico will peak near 7.0% at the end of 2021 and that it will fall gradually toward 4.0% by year-end 2022. These levels of inflation, which are above the central bank's 3.0% target, will likely continue to lead the central bank to continue to normalize its monetary policy stance. We project that the overnight rate will likely increase toward 6.0% by year-end 2022 after closing 2021 at an estimated 5.25%.

We do not envision major changes to the austere fiscal stance in 2022. We project a primary deficit of approximately 0.3% of GDP, which would be similar to the projected result for 2021. This would consolidate Mexico as one of the most austere countries during the pandemic, a positive for the country's creditworthiness, but a clear negative for many companies and households, and for the country's medium-term growth prospects.

Mexico's external imbalances are likely to remain contained in 2022. We project a modest current account deficit of less than 0.5% of GDP, similar to the projected result for 2021, which we project will be fully financed by net foreign direct investment flows. Of greater importance should be the behavior of the capital account, particularly if portfolio outflows persist in 2022, either due to a recomposition of global emerging market funds favoring China or due to greater risk aversion toward emerging markets due to the Fed's tapering process and eventual policy normalization in the USA.

Finally, on the political front, we think that investors' focus will center on the debate of the electricity reform, which will likely take place in the first four months of the year. Additionally, gubernatorial elections will take place on 5 June in six states, all of which are currently governed by opposition parties. We think that the outcome of these elections will be another good barometer of the balance of political power in the country.

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