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FEATURED Q&A

What Factors Are Driving Mexico's Economic Growth?



Mexico's central bank, pictured above, lowered its forecast for this year's economic growth to 2.8 percent. // File Photo: Mexican Government.

Q Mexico's inflation rate declined to 4.45 percent in the first half of February, nearly a half percentage point lower as compared to January, Mexico's National Institute for Statistics and Geography said Feb. 22. The country's central bank kept its benchmark interest rate steady at 11.25 percent in February for the seventh straight meeting. Additionally, the central bank on Feb. 28 lowered its economic growth forecast for this year to 2.8 percent from its earlier estimate of 3 percent. How well is the Mexican economy performing overall? Which industries in Mexico are doing the best, and which are struggling? What implications do Mexico's current economic indicators have on the country's politics and the upcoming elections?

A Lucinda Vargas, associate director of the Center for Border Economic Development at New Mexico State University: "Mexico's economic performance in the post-pandemic period has been substantially boosted by the nearshoring trend that is catapulting its manufacturing and export sectors. While in 2024 the impetus of this trend will continue to favorably affect the Mexican economy, other indicators point to a slowdown. For example, labor productivity growth was just 0.4 percent in the last quarter of 2023. GDP per worker in the 20 years leading up to the pandemic averaged barely positive growth of 0.1 percent per year. To boost productivity growth, which is what ultimately translates into overall GDP growth, Mexico needs a framework of improved public infrastructure, enhanced technological innovation, more efficient credit markets and stronger governance. It is inefficiencies due to insufficient or inadequate infrastructure, in fact, that

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TODAY'S NEWS

POLITICAL

Haitian Prime Minister Resigns Amid Crisis

Haitian Prime Minister Ariel Henry announced he would resign in a video statement released early this morning, following a meeting of regional leaders which agreed on a joint proposal to establish a transitional council.

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BUSINESS

Extra Petrobras Dividend to Stay in Reserve: Minister

Brazilian officials announced Monday that a proposed extra dividend from state-run oil firm Petrobras had been canceled and would instead be kept in a reserve for future disbursement.

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ECONOMIC

Bolivia Eying Sale of Up to \$1 Billion in Green Bonds

Bolivia's government is considering the sale of as much as \$1 billion in green bonds, said Economy Minister Marcelo Montenegro. The proceeds would be used for mining lithium.

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Montenegro // File Photo: Bolivian Government.

POLITICAL NEWS

Prime Minister of Haiti Resigns Amid Spiraling Crisis

Haitian Prime Minister Ariel Henry announced he would resign early this morning in a videotaped statement following weeks of escalating pressure on his government, the Associated Press reported. The announcement follows a meeting of officials on Monday in Jamaica to discuss potential solutions to Haiti's political crisis in which regional leaders, including U.S. Secretary of State Antony Blinken, agreed on a joint proposal to establish a transitional council, the wire service reported. Henry remains in Puerto Rico, unable to return to Haiti after gang violence forced the closure of the nation's main international airport. More than a week ago, gangs broke into the country's two largest prisons, freeing some 4,000 inmates, and the United Nations estimates that gangs now control 80 percent of the capital, Port-au-Prince. Gang federation leader Jimmy "Barbecue" Chérizier has demanded Henry's resignation, and street protests have also called for him to step down. Guyanese President Irfaan Ali said Monday that the transition council would "swiftly" appoint a new interim prime minister, BBC News reported. Henry took office as an interim leader following the July 2021 assassination of former President Jovenel Moïse.

ECONOMIC NEWS

Bolivia Eying the Sale of Up to \$1 Billion in Green Bonds

Bolivia's government is considering the sale of as much as \$1 billion in so-called green bonds this year in New York, Economy Minister Marcelo Montenegro told Bloomberg News in an interview published Monday. The country is in discussions to sell the debt in order to raise

money for mining lithium, which is used in the production of electric vehicles, said Montenegro. Demand for clean-energy investments could lead borrowing costs on the bonds to be 10 percent or lower, even though Bolivia's existing debt trades at interest rates that are far higher, said Montenegro. "If I just blundered into the market thoughtlessly, and did a normal sale with the banks that help us, I'd have to pay 18 percent or 19 percent, if I even managed to sell any bonds at all," Montenegro told Bloomberg News. "This is tied to something very important for Europe and elsewhere, which is the rapid move toward clean energy use," he added. Bolivian officials have met with New York institutions about the possible issuance of \$500 million to \$1 billion in bonds, said Montenegro, who declined to name the banks involved in the talks. Bolivia has the world's largest deposits of lithium, but the country has yet to extract it in commercial amounts. Last July, Bolivian President Luis Arce said the total amount of the country's confirmed deposits of lithium increased to 23 million tons, an increase from the previous estimate of 21 million tons, the Associated Press reported.

BUSINESS NEWS

Petrobras Extra Dividends to Stay in Reserve: Minister

Brazilian cabinet members on Monday announced that a proposed extra dividend from state-run oil firm Petrobras had been canceled and would instead be kept in a reserve for future disbursement, Reuters reported. The board of Petrobras voted on Thursday to withhold an extraordinary dividend of \$3 billion or more to its members, which was expected in addition to a routine payout of \$2.9 billion. Two energy ministry sources told Reuters that the Brazilian government planned to revise the rules related to the reserve so as to allow for reinvestment. Brazilian Energy Minister Alexandre Silveira told reporters the board would reevaluate in the coming "weeks and months."

NEWS BRIEFS

Milei Removes Labor Secretary Following Pay Increase Scandal

Argentine President Javier Milei ordered the dismissal of labor secretary Omar Yasín after Yasín approved a 48 percent increase to the president's salary, the Financial Times reported Monday. The pay increase was from 4 million pesos (or \$4,700) in January to slightly over 6 million pesos in February. The president on Monday said the raise was a "mistake that shouldn't have happened," and reversed the pay raises for himself and his cabinet.

Venezuelan Exports to U.S. Rose Significantly After Sanctions Eased: Report

Venezuelan exports to the United States increased by 770 percent in 2023 when compared to the previous year, according to a report released Monday by the Venezuelan-American Chamber of Commerce and Industry, Agence France Presse reported. The exports consisted mainly of oil following Washington's decision to ease sanctions on Venezuela's oil industry following a commitment made by President Nicolás Maduro's to hold free and fair elections this year.

Chilean Energy Group Colbún's Wind Project Advances in Peru

Environmental permitting for Chilean energy firm Colbún's 660MW wind project in Peru is underway, BNamericas reported Monday. The Bayóvar plant project, planned by Fenix Power—a subsidiary of Colbún—would be overseen in two phases, with each one taking about two years. Information from the environmental certification service for sustainable investments, or Senace, indicates that the impact study for the plant was prepared by Walsh Perú and was filed by Fenix Power.

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can cause higher inflation to persist. Yet it is the elements behind a stronger governance that matter most. Strong governance—and strong institutions that lead to strong governance—are correlated with higher per-capita GDP growth. As monitored by the World Bank, Mexico's governance has been on a deteriorating trend over the past 10 years in all six governance indicators—voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law and control of corruption. Mexico's weak governance and poor institutional quality will continue to be a drag on growth this year and beyond. Mexico's new leader that emerges in 2024 should therefore use her six-year tenure to strengthen the country's governance (no small feat) thus creating the conditions for long-lasting sustained growth."

A James Gerber, professor emeritus of economics at San Diego State University: "The central bank is moving cautiously until it is assured of winning the fight against inflation. At the moment, the downside risk from a premature stop to its anti-inflation policy looks greater than the negative effects of a more prolonged period of high interest rates. Consumer price inflation was down in the first half of February, but that came after it rebounded from an annual rate of 4.26 percent in October, to 4.88 percent in January. GDP grew 2.5 percent in 2023, even though the fourth quarter was unexpectedly stagnant. Overall, 2023 consolidated the post-pandemic recovery. Some manufacturing industries such as textiles and clothing continued to struggle, largely due to international market conditions, while other important sectors such as transportation equipment held steady. Tech manufacturing, such as information technology equipment and electronic equipment and accessories continued to have strong growth, in part due to the nearshoring trends underway. Construction is normally interest rate sensitive, but the industry overall and especially civil

engineering projects, expanded significantly, in large part due to federal spending on major public works like the Maya Train, the Interoceanic Train of the Isthmus of Tehuantepec, the Felipe Ángeles International Airport and the Dos Bocas refinery. Those projects were supplemented by the nearshoring investments made in industrial warehouses and other projects. Some observers are expecting a slowdown in the 2 quarters of 2024 due to the uncertainty surrounding the elections, but if it occurs, it will be due to political uncertainty and not interest rate policy."

A Joan Domene, senior economist at Oxford Economics: "Mexico's economic performance has been strong compared to historical standards and peers, but much of it has to do with a delayed recovery from the pandemic. That said, the economy showed signs of weakness in the fourth quarter that could be extended into the first quarter. We expect GDP growth to slow to 1.9 percent this year, down from consensus of 2.4 percent and Banxico's new central estimate of 2.8 percent. The initial drive from industrial production is cooling. Manufacturing activity has been stalling since mid-2023 while government expenditure in infrastructure caused construction to soar and peak in the third quarter of last year. Construction activity will likely decline in 2024 as the main infrastructure projects come to fruition. Foreign direct investment levels are strong in nominal terms, but as a share of GDP are well below historical standards and regional peers. Meanwhile, the support from nearshoring and strong tourism in selected services could start waning this year. Higher prices and the return to office could weigh on the ongoing recovery of tourism, while real estate and transport activity could slow after strong in 2023."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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