



MEXICO

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COUNTRY REPORT

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MEXICO

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MAP



KEY TAKEAWAYS

| MOST LIKELY REGIMES & THEIR PROBABILITIES | |
|---|------------------------|
| 18-MONTH | Populist Coalition 60% |
| FIVE-YEAR | Populist Coalition 60% |

| FORECASTS OF RISK TO INTERNATIONAL BUSINESS | | | | |
|---|----------|--------------------|-------------------|---------------|
| | TURMOIL | FINANCIAL TRANSFER | DIRECT INVESTMENT | EXPORT MARKET |
| 18-MONTH | High | B | B+ | B |
| FIVE-YEAR | Moderate | B- | B- | B- |

() Indicates change in rating

* Indicates forecast of a new regime

| KEY ECONOMIC FORECASTS | | | |
|------------------------|---------------------|---------------|------------------------|
| | REAL GDP GROWTH (%) | INFLATION (%) | CURRENT ACCOUNT (\$bn) |
| 2018-2022(AVG) | 0.5 | 5.1 | -7.12 |
| 2023(F) | 3.0 | 5.7 | -13.30 |
| 2024-2028(F) | 2.2 | 3.3 | -17.20 |

AMLO'S INFLUENCE WILL PERSIST

Political attention is becoming increasingly focused on the June 2024 election to determine who will succeed President Andrés Manuel López Obrador (AMLO), who remains immensely popular at the start of his sixth year in office but is ineligible to stand for a second term. The JHH, a leftist alliance dominated by AMLO's MORENA, has nominated Claudia Sheinbaum, who is currently serving as mayor of Mexico City, the same position that became AMLO's springboard to the presidency. The opposition FAM has lined up behind Sen. Xóchitl Gálvez, a member of the conservative PAN, who was chosen based on the results of nationwide polling commissioned by the bloc.

The nomination of women by both main blocs all but ensures that Mexico will elect its first-ever female president next year, which will bring some excitement to what otherwise figures to be a contest lacking in suspense. The early polling data shows Sheinbaum favored by more than 45% of voters, while Gálvez is trailing far behind, at slightly more than 30%.

The JHH's prospects in the legislative contests are just as bright. Recent polls put support for MORENA at 45%. If sustained through next year's elections, that level of support would all but ensure a congressional majority for the JHH, which also includes the PT and the PVEM, but would still leave the governing alliance short of the two-thirds supermajority required to amend the constitution.

To the dismay of AMLO's critics, a key element of his unexpectedly restrained fiscal strategy has entailed slashing the budgets of state institutions crucial to transparency and democracy, including regulatory agencies, the courts and police, and anti-corruption bodies. In a similar vein, the president has announced plans to present constitutional reforms that his successor will be expected to bring to fruition, including proposals for the direct election of members of the Supreme Court and the transfer of control of the National Guard from the civilian Public Safety Department to the military.

The proposals will undoubtedly figure prominently in Sheinbaum's campaign, and will reinforce the perception that her presidency, assuming she wins, would be little more than an extension of AMLO's tenure. That is a troubling prospect for the foreign investors who have been spooked by actions such as the expropriation of a privately owned rail line earlier this year. Investors have also expressed frustration about a lack of clarity in the rules, which has become more pronounced as the president has increasingly involved himself directly in investment decisions while dismantling the regulatory apparatus.

The recently unveiled budget for 2024 points to a pre-election loosening of fiscal policy that could undermine confidence. Increased support for state-owned Pemex and generous spending on social programs are projected to swell the budget deficit to 4.9% of GDP in 2024, while the primary balance is forecast to shift from a small surplus this year to a deficit equivalent to 1.2% of GDP. The U-turn on fiscal policy is certain to draw scrutiny from ratings agencies (and possibly the threat of a downgrade) that will create pressure for significant tightening by the next administration, to the detriment of medium-term economic performance.

Concerns about the shift in fiscal strategy could have a dampening effect on investment in the closing months of 2023 (the most recent currency and stock market figures are suggestive of weakening confidence), and the risks on that score will rise with the approach of election in the first half of 2024. On balance, real GDP growth is forecast to decelerate to a still decent 3% in 2023, before slowing to closer to 2% next year.

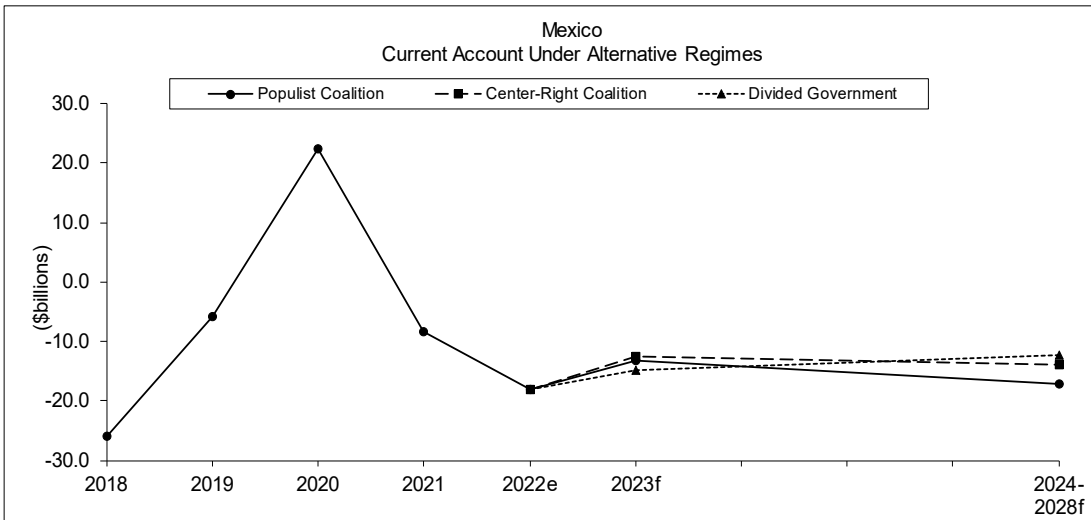
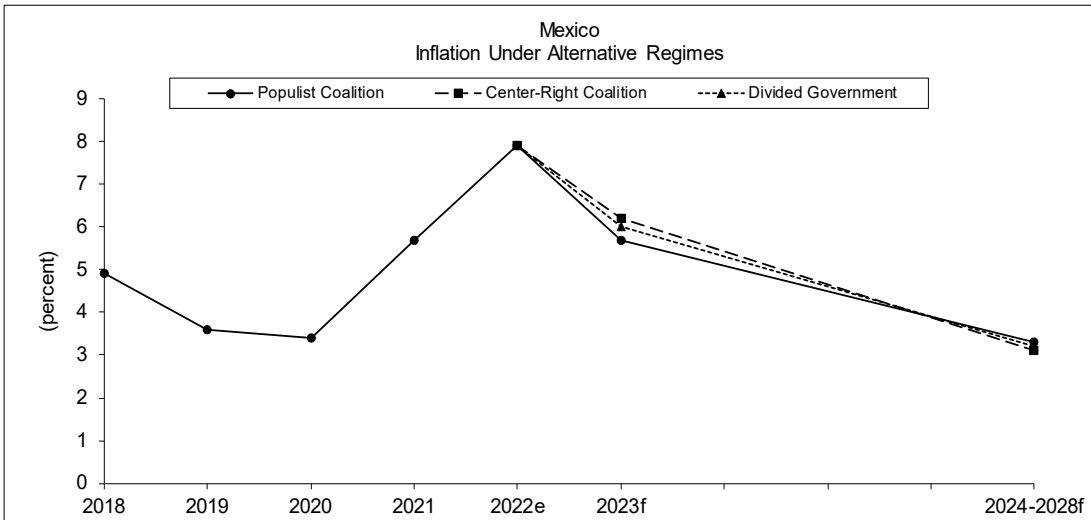
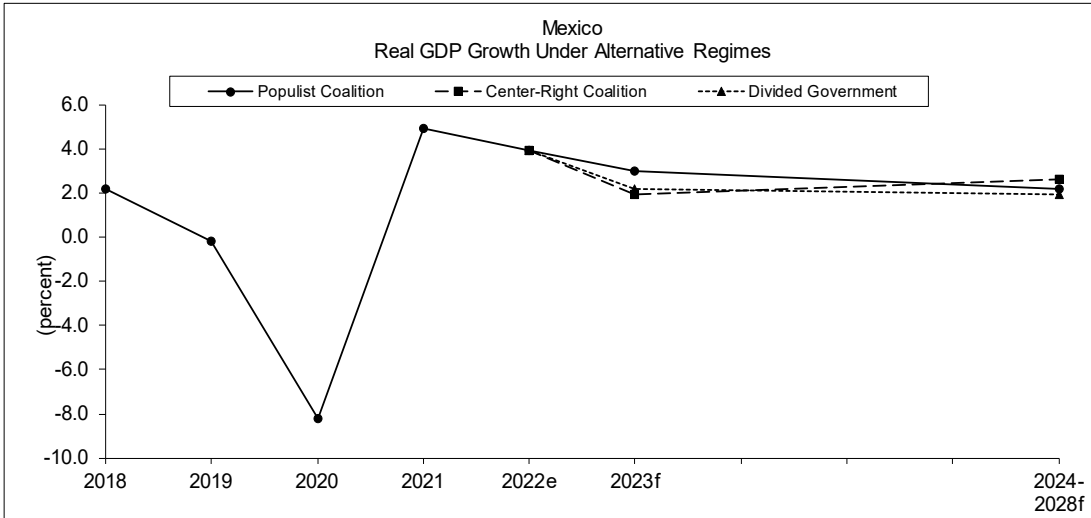
ECONOMIC FORECASTS FOR THE THREE ALTERNATIVE REGIMES

| | Populist Coalition | | | Center-Right Coalition | | | Divided Government | | |
|-----------|--------------------|---------------|-------------|------------------------|---------------|-------------|--------------------|---------------|-------------|
| | GROWTH (%) | INFLATION (%) | CACC (\$bn) | GROWTH (%) | INFLATION (%) | CACC (\$bn) | GROWTH (%) | INFLATION (%) | CACC (\$bn) |
| 2023 | 3.0 | 5.7 | -13.30 | 1.9 | 6.2 | -12.60 | 2.2 | 6.0 | -14.70 |
| 2024-2028 | 2.2 | 3.3 | -17.20 | 2.6 | 3.1 | -13.90 | 1.9 | 3.2 | -12.20 |

REGIME, BUSINESS & INVESTMENT FORECASTS

| SUMMARY OF 18-MONTH FORECAST | | | | | |
|-------------------------------|----------|---------------------------|-------------------------------|---------------------------|--|
| REGIMES & PROBABILITIES | | Populist Coalition 60% | Center-Right Coalition 25% | Divided Government 15% | |
| RISK FACTORS | CURRENT | | | | |
| Turmoil | High | Same | Same | Same | |
| Investment | | | | | |
| Equity | Moderate | SLIGHTLY MORE | Same | Same | |
| Operations | Moderate | SLIGHTLY MORE | Same | Same | |
| Taxation | Moderate | SLIGHTLY MORE | Same | Same | |
| Repatriation | Low | Same | Same | Same | |
| Exchange | Low | Same | Same | Same | |
| Trade | | | | | |
| Tariffs | Moderate | Same | SLIGHTLY LESS | Same | |
| Other Barriers | Moderate | Same | Same | Same | |
| Payment Delays | Low | Same | Same | Same | |
| Economic Policy | | | | | |
| Expansion | High | Same | Same | MORE | |
| Labor Costs | Low | SLIGHTLY MORE | Same | Same | |
| Foreign Debt | High | SLIGHTLY MORE | Same | SLIGHTLY MORE | |
| SUMMARY OF FIVE-YEAR FORECAST | | | | | |
| REGIMES & PROBABILITIES | | Populist Coalition 60% | Center-Right Coalition 25% | Divided Government 15% | |
| RISK FACTORS | BASE | | | | |
| Turmoil | Moderate | Same | SLIGHTLY MORE | SLIGHTLY MORE | |
| Restrictions | | | | | |
| Investment | Moderate | SLIGHTLY MORE | Same | Same | |
| Trade | Moderate | Same | SLIGHTLY LESS | Same | |
| Economic Problems | | | | | |
| Domestic | High | Same | Same | Same | |
| International | Moderate | SLIGHTLY MORE | SLIGHTLY MORE | SLIGHTLY MORE | |

* When present, indicates forecast of a new regime



Mexico

Econometric Data

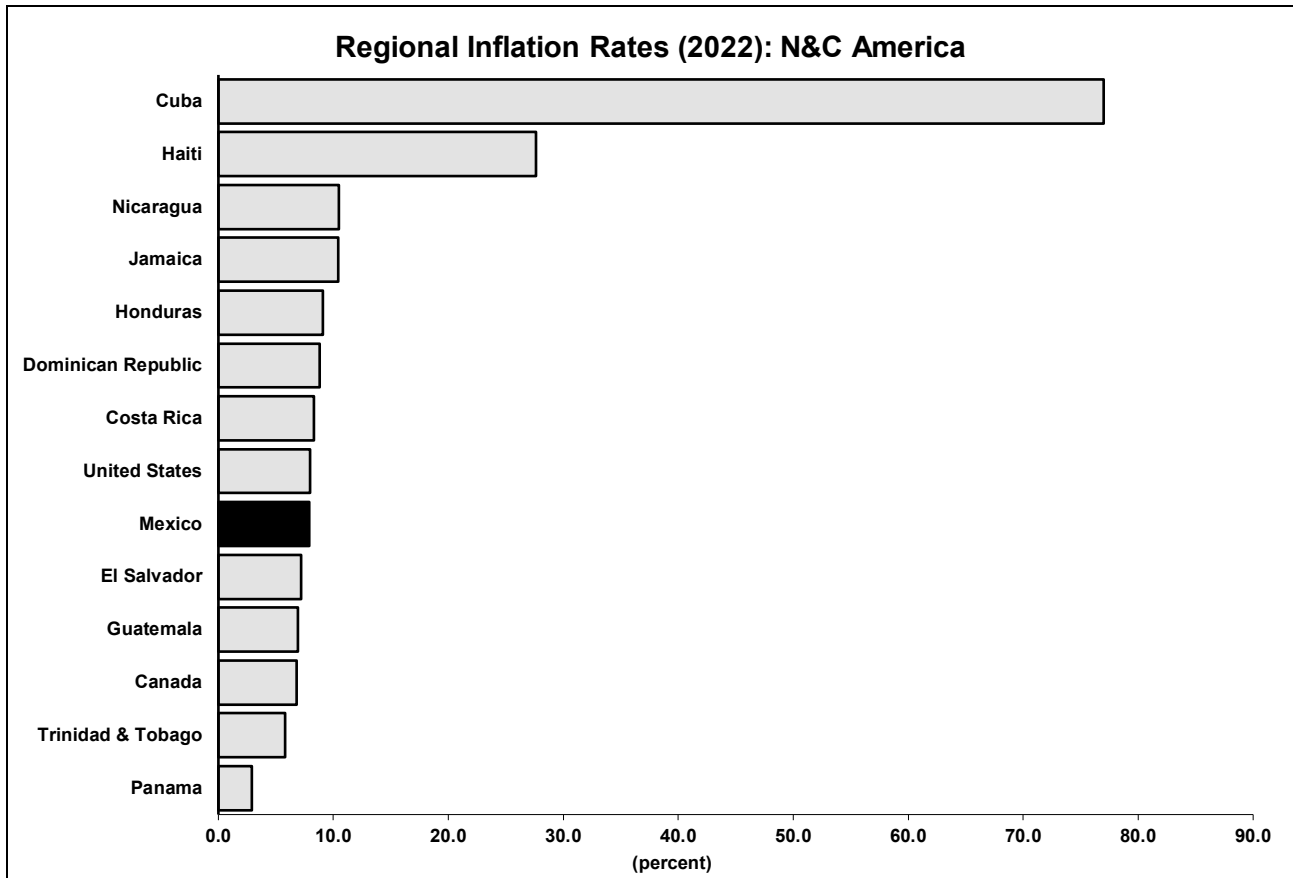
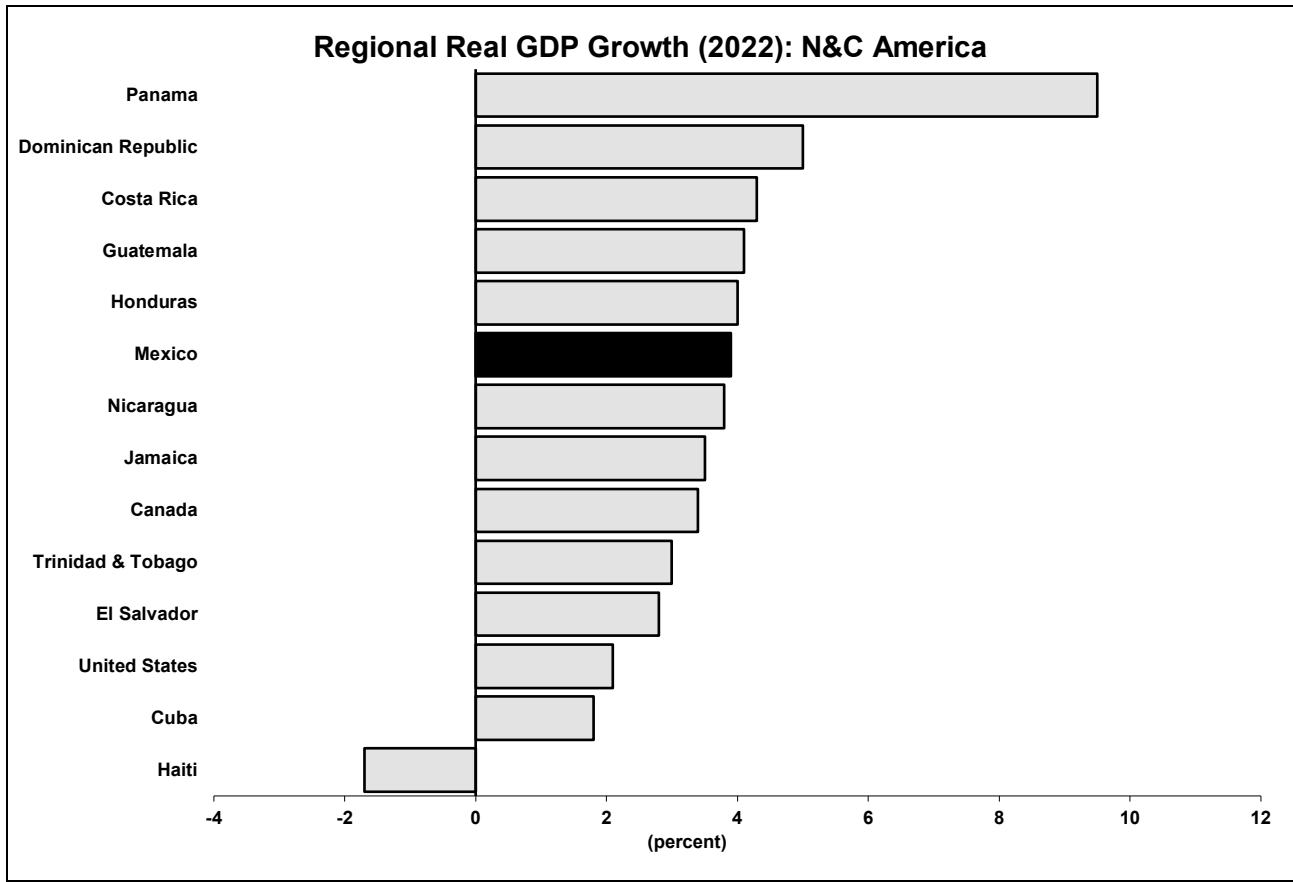
| | 2013-2017 Average | 2018-2022 Average | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|----------------------|----------------------|---------|---------|---------|---------|---------|
| Domestic Economic Indicators | | | | | | | |
| GDP (Nominal, \$bn) | 1197.13 | 1254.54 | 1275.64 | 1313.62 | 1169.68 | 1066.72 | 1159.99 |
| Per Capita GDP (\$) | 9524 | 9523 | 10410 | 10575 | 9291 | 8364 | 8981 |
| Real GDP Growth Rate (%) | 2.5 | 0.5 | 1.6 | 2.9 | 3.3 | 2.4 | 2.3 |
| Inflation Rate (%) | 3.9 | 5.1 | 3.8 | 4.0 | 2.7 | 2.8 | 6.0 |
| Capital Investment (\$bn) | 261.78 | 259.12 | 271.11 | 275.83 | 262.37 | 243.24 | 256.37 |
| Capital Investment/GDP (%) | 21.9 | 20.6 | 21.3 | 21.0 | 22.4 | 22.8 | 22.1 |
| Budget Revenues (\$bn) | 204.81 | 209.95 | 211.90 | 217.33 | 200.47 | 191.30 | 203.03 |
| Budget Revenues/GDP (%) | 17.1 | 16.7 | 16.6 | 16.5 | 17.1 | 17.9 | 17.5 |
| Budget Expenditures (\$bn) | 234.13 | 243.76 | 242.69 | 253.99 | 235.04 | 223.91 | 215.00 |
| Budget Expenditures/GDP (%) | 19.6 | 19.4 | 19.0 | 19.3 | 20.1 | 21.0 | 18.5 |
| Budget Balance (\$bn) | -29.32 | -33.81 | -30.79 | -36.66 | -34.57 | -32.61 | -11.97 |
| Budget Balance/GDP (%) | -2.5 | -2.7 | -2.4 | -2.8 | -3.0 | -3.1 | -1.0 |
| Money Supply (M1, \$bn) | 211.54 | 280.10 | 196.94 | 216.66 | 211.31 | 207.22 | 225.56 |
| Change in Real Wages (%) | 1.3 | 0.7 | 2.6 | -2.1 | 2.6 | 2.2 | 1.2 |
| Unemployment Rate (%) | 4.3 | 3.7 | 4.9 | 4.8 | 4.3 | 3.9 | 3.4 |
| International Economic Indicators | | | | | | | |
| Foreign Direct Investment (\$bn) | 37.53 | 34.42 | 50.93 | 28.44 | 36.25 | 38.90 | 33.11 |
| Forex Reserves (\$bn) | 171.16 | 176.07 | 168.61 | 185.18 | 168.37 | 168.75 | 164.89 |
| Gross Reserves (ex gold, \$bn) | 176.76 | 187.37 | 175.43 | 190.92 | 173.46 | 173.54 | 170.46 |
| Gold Reserves (\$bn) | 4.63 | 6.34 | 4.77 | 4.76 | 4.14 | 4.49 | 4.99 |
| Gross reserves (inc gold, \$bn) | 181.39 | 193.71 | 180.20 | 195.68 | 177.60 | 178.03 | 175.45 |
| Total Foreign Debt (\$bn) | 422.19 | 481.98 | 420.47 | 423.12 | 417.94 | 412.03 | 437.37 |
| Total Foreign Debt/GDP (%) | 35.4 | 38.5 | 33.0 | 32.2 | 35.7 | 38.6 | 37.7 |
| Debt Service (\$bn) | 84.53 | 56.34 | 87.39 | 99.16 | 94.58 | 76.40 | 65.11 |
| Debt Service/XGS (%) | 18.6 | 9.8 | 19.8 | 21.4 | 21.2 | 17.2 | 13.3 |
| Current Account (\$bn) | -27.85 | -7.12 | -32.70 | -25.91 | -32.32 | -26.05 | -22.25 |
| Current Account/GDP (%) | -2.3 | -0.5 | -2.6 | -2.0 | -2.8 | -2.4 | -1.9 |
| Current Account/XGS (%) | -6.1 | -1.0 | -7.4 | -5.6 | -7.2 | -5.9 | -4.5 |
| Exports (\$bn) | 388.17 | 480.20 | 380.02 | 396.91 | 380.56 | 373.95 | 409.43 |
| Imports (\$bn) | 396.78 | 482.57 | 381.21 | 399.98 | 395.25 | 387.09 | 420.39 |
| Trade Balance (\$bn) | -8.61 | -2.37 | -1.19 | -3.07 | -14.69 | -13.14 | -10.96 |
| Exports of Services (\$bn) | 32.71 | 38.68 | 27.39 | 31.24 | 32.81 | 34.09 | 38.03 |
| Income, credit (\$bn) | 9.51 | 13.21 | 10.84 | 10.51 | 7.42 | 8.05 | 10.75 |
| Transfers, credit (\$bn) | 26.52 | 45.06 | 23.09 | 24.71 | 25.36 | 28.08 | 31.34 |
| Exports G&S (\$bn) | 456.92 | 577.15 | 441.34 | 463.37 | 446.15 | 444.17 | 489.55 |
| Liabilities (\$bn) | 4.44 | 8.74 | 4.59 | 4.67 | 4.37 | 4.30 | 4.28 |
| Net Reserves (\$bn) | 176.95 | 184.97 | 175.61 | 191.01 | 173.23 | 173.73 | 171.17 |
| Liquidity (months import cover) | 5.4 | 4.7 | 5.5 | 5.7 | 5.3 | 5.4 | 4.9 |
| Currency Exchange Rate | 15.945 | 20.071 | 12.760 | 13.310 | 15.878 | 18.870 | 18.909 |
| Currency Change (%) | -6.7 | -1.1 | 3.1 | -4.1 | -16.2 | -15.9 | -0.2 |
| Social Indicators | | | | | | | |
| Population (million) | 125.87 | 131.80 | 122.54 | 124.22 | 125.89 | 127.54 | 129.16 |
| Population Growth (%) | 1.3 | 0.4 | 1.4 | 1.4 | 1.3 | 1.3 | 1.3 |
| Infant Deaths/1000 | 13 | 12 | 16 | 13 | 12 | 12 | 12 |
| Persons under Age 15 (%) | 27 | 26 | 27 | 28 | 28 | 27 | 27 |
| Urban Population (%) | 79 | 82 | 78 | 79 | 79 | 80 | 80 |
| Urban Growth (%) | 6.5 | 0.9 | 1.4 | 2.7 | 1.3 | 26.0 | 1.3 |
| Literacy % pop. | 95 | 95 | 94 | 95 | 95 | 95 | 95 |
| Agricultural Work Force (%) | 14 | 13 | 14 | 14 | 14 | 14 | 14 |
| Industry-Commerce Work Force (%) | 24 | 26 | 23 | 24 | 24 | 24 | 24 |
| Services Work Force (%) | 62 | 61 | 63 | 62 | 62 | 62 | 62 |
| Unionized Work Force (%) | 14 | 14 | 14 | 14 | 14 | 14 | 14 |
| Energy - total consumption (10 ¹⁵ Btu) | 7.83 | 8.00 | 7.76 | 7.65 | 7.77 | 7.94 | 8.01 |
| Energy - consumption/head (10 ⁹ Btu) | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 |

Mexico

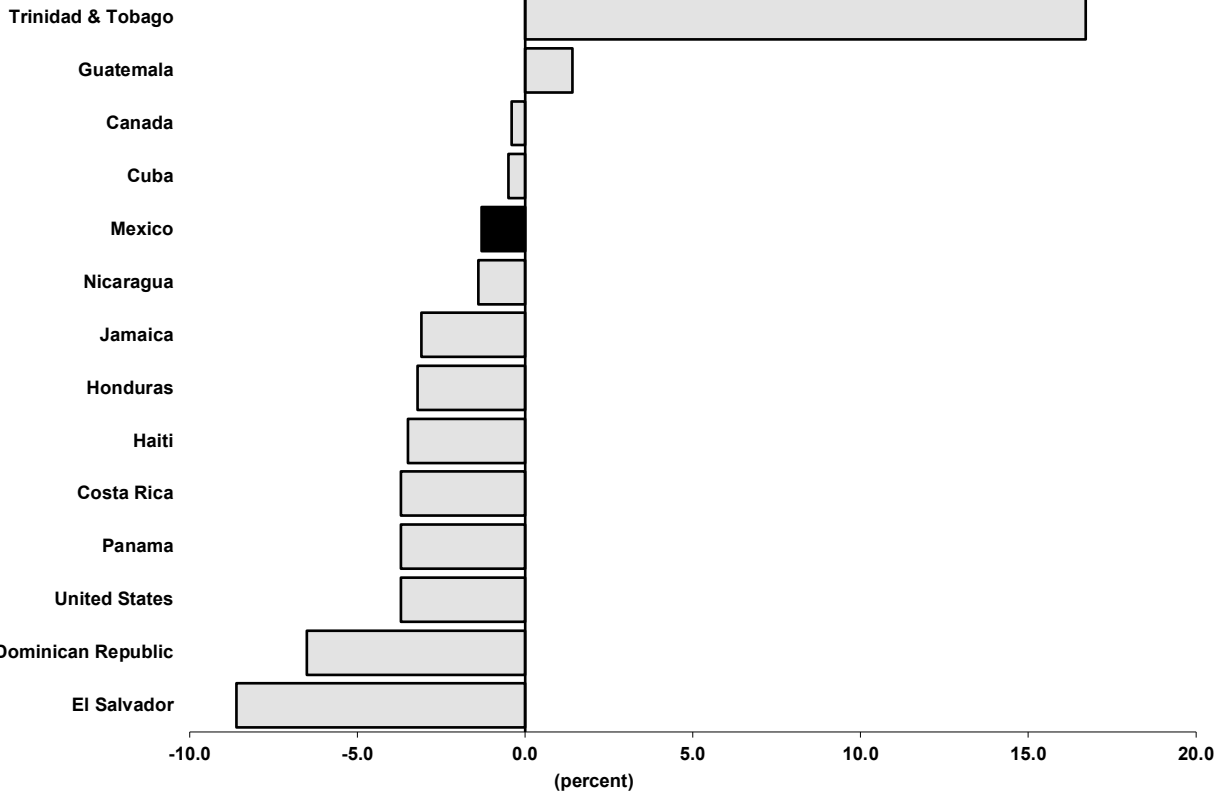
Econometric Data

| | 2013-2017 Average | 2018-2022 Average | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|----------------------|----------------------|---------|---------|---------|---------|---------|
| Domestic Economic Indicators | | | | | | | |
| GDP (Nominal, \$bn) | 1197.13 | 1254.54 | 1223.64 | 1270.11 | 1090.39 | 1272.05 | 1416.53 |
| Per Capita GDP (\$) | 9524 | 9523 | 9352 | 9583 | 8150 | 9765 | 10767 |
| Real GDP Growth Rate (%) | 2.5 | 0.5 | 2.2 | -0.2 | -8.2 | 4.9 | 3.9 |
| Inflation Rate (%) | 3.9 | 5.1 | 4.9 | 3.6 | 3.4 | 5.7 | 7.9 |
| Capital Investment (\$bn) | 261.78 | 259.12 | 269.39 | 261.74 | 206.02 | 256.94 | 301.49 |
| Capital Investment/GDP (%) | 21.9 | 20.6 | 22.0 | 20.6 | 18.9 | 20.2 | 21.3 |
| Budget Revenues (\$bn) | 204.81 | 209.95 | 201.22 | 208.32 | 189.14 | 212.81 | 238.24 |
| Budget Revenues/GDP (%) | 17.1 | 16.7 | 16.4 | 16.4 | 17.4 | 16.7 | 16.8 |
| Budget Expenditures (\$bn) | 234.13 | 243.76 | 226.84 | 233.64 | 217.40 | 253.45 | 287.47 |
| Budget Expenditures/GDP (%) | 19.6 | 19.4 | 18.5 | 18.4 | 19.9 | 19.9 | 20.3 |
| Budget Balance (\$bn) | -29.32 | -33.81 | -25.62 | -25.32 | -28.26 | -40.64 | -49.23 |
| Budget Balance/GDP (%) | -2.5 | -2.7 | -2.1 | -2.0 | -2.6 | -3.2 | -3.5 |
| Money Supply (M1, \$bn) | 211.54 | 280.10 | 234.44 | 244.51 | 262.73 | 314.37 | 344.44 |
| Change in Real Wages (%) | 1.3 | 0.7 | 0.9 | 2.7 | 0.4 | -0.4 | 0.1 |
| Unemployment Rate (%) | 4.3 | 3.7 | 3.3 | 3.5 | 4.4 | 4.1 | 3.3 |
| International Economic Indicators | | | | | | | |
| Foreign Direct Investment (\$bn) | 37.53 | 34.42 | 37.85 | 29.90 | 31.51 | 33.75 | 39.09 |
| Forex Reserves (\$bn) | 171.16 | 176.07 | 166.00 | 170.51 | 186.15 | 179.45 | 178.22 |
| Gross Reserves (ex gold, \$bn) | 176.76 | 187.37 | 172.45 | 177.72 | 191.77 | 200.78 | 194.14 |
| Gold Reserves (\$bn) | 4.63 | 6.34 | 4.59 | 5.85 | 7.29 | 6.97 | 7.00 |
| Gross reserves (inc gold, \$bn) | 181.39 | 193.71 | 177.04 | 183.57 | 199.06 | 207.75 | 201.14 |
| Total Foreign Debt (\$bn) | 422.19 | 481.98 | 446.73 | 463.80 | 462.85 | 447.83 | 588.67 |
| Total Foreign Debt/GDP (%) | 35.4 | 38.5 | 36.5 | 36.5 | 42.5 | 35.2 | 41.6 |
| Debt Service (\$bn) | 84.53 | 56.34 | 53.82 | 51.54 | 48.96 | 57.72 | 69.66 |
| Debt Service/XGS (%) | 18.6 | 9.8 | 10.0 | 9.3 | 9.9 | 9.7 | 9.9 |
| Current Account (\$bn) | -27.85 | -7.12 | -25.99 | -5.74 | 22.52 | -8.34 | -18.05 |
| Current Account/GDP (%) | -2.3 | -0.5 | -2.1 | -0.5 | 2.1 | -0.7 | -1.3 |
| Current Account/XGS (%) | -6.1 | -1.0 | -4.8 | -1.0 | 4.6 | -1.4 | -2.6 |
| Exports (\$bn) | 388.17 | 480.20 | 450.71 | 460.60 | 417.17 | 494.76 | 577.74 |
| Imports (\$bn) | 396.78 | 482.57 | 464.30 | 455.24 | 382.98 | 505.70 | 604.62 |
| Trade Balance (\$bn) | -8.61 | -2.37 | -13.59 | 5.36 | 34.19 | -10.94 | -26.88 |
| Exports of Services (\$bn) | 32.71 | 38.68 | 39.61 | 41.52 | 26.25 | 37.95 | 48.07 |
| Income, credit (\$bn) | 9.51 | 13.21 | 13.39 | 14.84 | 9.38 | 9.86 | 18.56 |
| Transfers, credit (\$bn) | 26.52 | 45.06 | 34.53 | 37.28 | 41.76 | 52.47 | 59.28 |
| Exports G&S (\$bn) | 456.92 | 577.15 | 538.24 | 554.24 | 494.56 | 595.04 | 703.65 |
| Liabilities (\$bn) | 4.44 | 8.74 | 4.10 | 3.88 | 4.87 | 16.15 | 14.70 |
| Net Reserves (\$bn) | 176.95 | 184.97 | 172.94 | 179.69 | 194.19 | 191.60 | 186.44 |
| Liquidity (months import cover) | 5.4 | 4.7 | 4.5 | 4.7 | 6.1 | 4.5 | 3.7 |
| Currency Exchange Rate | 15.945 | 20.071 | 19.225 | 19.247 | 21.488 | 20.285 | 20.108 |
| Currency Change (%) | -6.7 | -1.1 | -1.6 | -0.1 | -10.4 | 5.9 | 0.9 |
| Social Indicators | | | | | | | |
| Population (million) | 125.87 | 131.80 | 130.84 | 132.54 | 133.79 | 130.26 | 131.56 |
| Population Growth (%) | 1.3 | 0.4 | 1.3 | 1.3 | 0.9 | -2.6 | 1.0 |
| Infant Deaths/1000 | 13 | 12 | 11 | 11 | 11 | 13 | 13 |
| Persons under Age 15 (%) | 27 | 26 | 27 | 26 | 26 | 26 | 26 |
| Urban Population (%) | 79 | 82 | 80 | 80 | 80 | 84 | 85 |
| Urban Growth (%) | 6.5 | 0.9 | 1.3 | 1.3 | 0.9 | 0.1 | 0.8 |
| Literacy % pop. | 95 | 95 | 95 | 95 | 95 | 95 | 95 |
| Agricultural Work Force (%) | 14 | 13 | 13 | 13 | 13 | 13 | 13 |
| Industry-Commerce Work Force (%) | 24 | 26 | 26 | 26 | 26 | 26 | 26 |
| Services Work Force (%) | 62 | 61 | 61 | 61 | 61 | 61 | 61 |
| Unionized Work Force (%) | 14 | 14 | 14 | 14 | 14 | 14 | 14 |
| Energy - total consumption (10 ¹⁵ Btu) | 7.83 | 8.00 | 8.08 | 8.13 | 8.09 | 7.82 | 7.89 |
| Energy - consumption/head (10 ⁹ Btu) | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 |

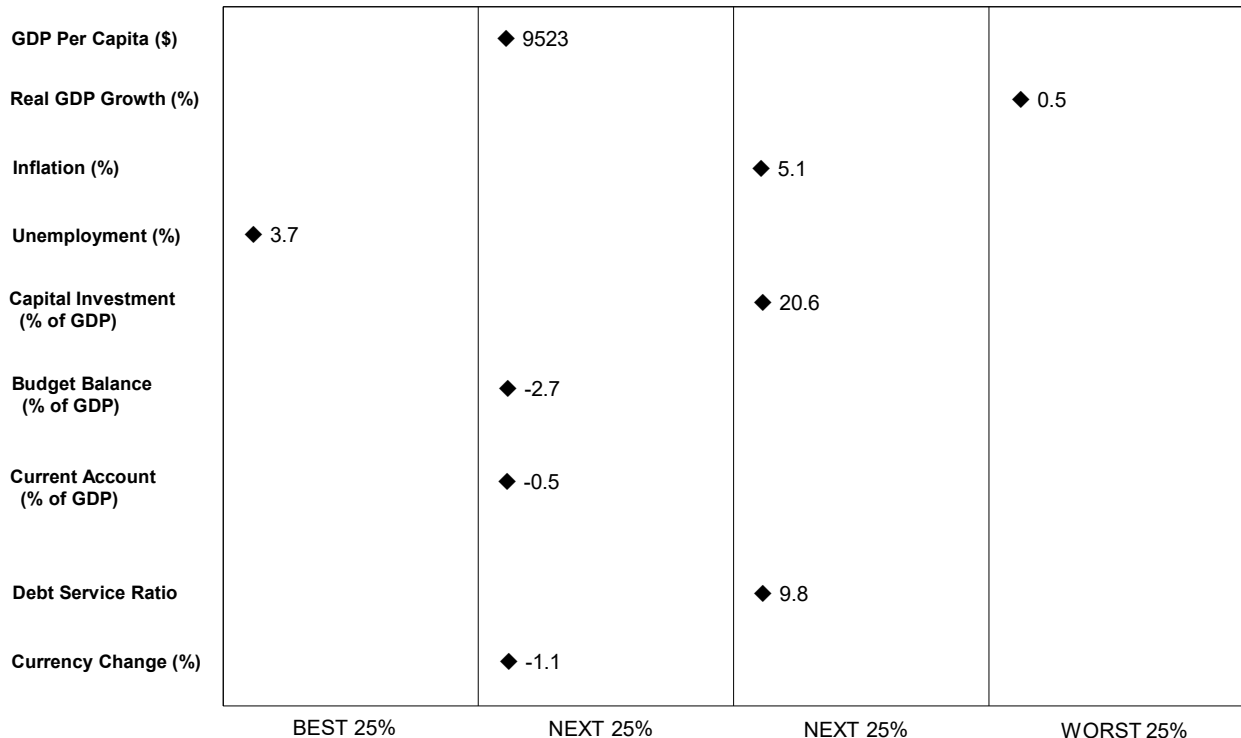
INTRA-REGIONAL COMPARISONS



Regional Current Account/GDP (2022): N&C America



Economic Performance Profile Country's Ranking Relative to All Countries Covered by Political Risk Services 2018-2022



GEOPOLITICAL & ECONOMIC ANALYSIS

INCUMBENTS FAVORED IN 2024

Political attention is becoming increasingly focused on the June 2024 election to determine who will succeed President Andrés Manuel López Obrador (AMLO), who remains immensely popular at the start of his sixth year in office but is ineligible to stand for a second term. The presidential contest will be held concurrently with elections to fill all 500 seats in the Chamber of Deputies and all 128 seats in the Senate.

The two largest blocs—the governing Together We Make History (JHH) and the opposition Broad Front for Mexico (FAM)—settled on their candidates earlier this month. The JHH, a leftist alliance dominated by AMLO’s National Regeneration Movement (MORENA), has chosen Claudia Sheinbaum, who is currently serving as mayor of Mexico City, the same position that became AMLO’s springboard to the presidency. The ideologically diverse FAM, which includes the conservative National Action Party (PAN), the centrist Institutional Revolutionary Party (PRI), and the center-left Party of the Democratic Revolution (PRD), has lined up behind Sen. Xóchitl Gálvez, a member of the PAN, based on the results of nationwide polling commissioned by the bloc.

The nomination of women by both main blocs all but ensures that Mexico will elect its first-ever female president next year, which will bring some excitement to what otherwise figures to be a contest lacking in suspense. The early polling data shows Sheinbaum favored by more than 45% of voters, while Gálvez is trailing far behind, at slightly more than 30%.

Sheinbaum is an AMLO loyalist who served in his Mexico City administration and followed the president out of the PRD, and her lofty poll numbers clearly reflect the popularity of her mentor, whose approval rating has remained above 50% throughout his presidency and has been running at close to 60% in recent polls. It remains to be seen whether the positive coattail effect can be sustained deeper into the campaign without AMLO on the ballot, and there will be ample opportunity for missteps by Sheinbaum that give some voters pause.

Gálvez was a late entrant in the presidential stakes who had intended to vie for the mayor’s post until her defiant response to personal attacks by AMLO catapulted her into the national spotlight and the top spot in the FAM’s polls. But the initial bout of “Xóchitl-mania” appears to have peaked with significant ground still to make up, and she has so far shown little sign of having a coherent strategy for chipping away at Sheinbaum’s lead.

Gálvez has so far focused on the president, whom she has disparaged as an authoritarian who has turned a blind eye to the corruption of his political backers (and family members) and whose lust for power has

jeopardized the democratic progress made by Mexico in the 21st century. AMLO has responded with almost daily statements hinting at various forms of impropriety in Gálvez's business dealings and other alleged transgressions, at one point divulging private tax information to support allegations of insider dealing. The president's use of government airtime to effectively campaign for Sheinbaum has elicited a rebuke from election officials and prompted Gálvez to pursue a gag order.

Judging from the polling data, Gálvez's blows have had no discernible impact on support for AMLO or Sheinbaum, and she is no longer deriving a benefit from the president's continuing personal attacks. Shifting her attention to Sheinbaum might be more effective, but not if she simply tries to paint her opponent as a political clone of AMLO, which is probably seen as an asset by most voters.

Former Foreign Minister Marcelo Ebrard has rejected the results of polling conducted to choose the JHH candidate as fraudulent and is threatening to mount a separate presidential bid that could conceivably peel some votes away from Sheinbaum. However, incremental shifts in voter support will not significantly improve Gálvez's chances of winning a contest that will be decided on a first-past-the-post basis.

The JHH's prospects in the legislative contests are just as bright. Recent polls put support for MORENA at 45%. If sustained through next year's elections, that level of support would all but ensure a congressional majority for the JHH, which also includes the Workers' Party (PT) and the Ecological Green Party of Mexico (PVEM), but would still leave the governing alliance short of the two-thirds supermajority required to amend the constitution.

AMLO'S LINGERING INFLUENCE A CONCERN

The buoyancy of AMLO's popularity is rather surprising, given his administration's frequently incoherent approach to managing the COVID-19 health crisis (including his counterintuitive embrace of fiscal austerity amid a deep economic downturn triggered by the pandemic), his administration's refusal to adjust its budget priorities as surging inflation created significant hardship for millions of households, and the government's signal failure to reduce the security threat posed by deadly drug cartels. Polls reveal that most voters recognize that he has failed to deliver in key policy areas, but they nevertheless appreciate what they perceive to be his relatability and personal integrity, and his pugnacious style of dealing with opponents at home and abroad, assets that Sheinbaum does not share with her mentor.

AMLO's self-proclaimed "republican austerity" caught both his supporters and detractors by surprise, and the presidential campaign will likely feature a lively debate over the results of his choices. At present, inflation is under control, the peso is stable, and interest rates have increased less steeply than elsewhere in the G20, all of which is positive for the poor and blue-collar Mexicans to whom AMLO has always pitched his populist appeals. However, the education budget has decreased relative to GDP on his

watch, and funds for effective and targeted social support programs have been diverted into less efficient ones, while monies need to pay for the upkeep of basic infrastructure have instead been directed toward large-scale projects of questionable value (particularly in the context of global climate change) overseen by the loss-making state-owned oil and electricity companies.

To the dismay of AMLO's critics, a key element of his fiscal strategy has entailed slashing the budgets of state institutions crucial to transparency and democracy, including regulatory agencies, the courts and police, and anti-corruption bodies. His attempt to gut the budget of the National Electoral Institute (INE), with which he has been at war over its alleged role in the "theft" of his presidential election victory in 2006, ran into resistance from the Supreme Court.

Now the Supreme Court is in AMLO's crosshairs. The president has announced plans to present three constitutional reforms that his successor will be expected to bring to fruition, including the introduction of direct elections to choose the members of the Supreme Court. He has also proposed an amendment authorizing the transfer of control of the National Guard from the civilian Public Safety Department to the military—a previous attempt to do so by decree was blocked by the Supreme Court—and the third reform would lower the age for pension eligibility from 68 to 65.

The proposals will undoubtedly figure prominently in Sheinbaum's campaign, and will reinforce the perception that her presidency, assuming she wins, would be little more than an extension of AMLO's tenure. That might not be a troubling prospect for the plurality of the Mexican electorate whose support MORENA and its allies needs to solidify their hold on power, but the same cannot be said for the foreign investors who have been deterred by AMLO's statist policies and spooked by actions such as the expropriation of a privately owned rail line earlier this year. Investors have also expressed frustration about a lack of clarity in the rules, which has become more pronounced as the president has increasingly involved himself directly in investment decisions while dismantling the regulatory apparatus.

The likelihood of AMLO's continuing influence beyond the end of his six-year term is also troubling for rights groups that have noted with alarm the president's attacks on civil society organizations, critical media, and political opponents, and his empowerment of the military, which has been granted an expanded role in domestic security, a larger budget, and control over independent sources of income. The criticism of democracy activists has been echoed by some of Mexico's key allies, notably the US, which has contributed to prickly bilateral relations with Washington on AMLO's watch.

LOOSENING THE PURSE STRINGS

Market investors have thus far been mostly satisfied with AMLO's performance, judging from the performance of the peso, stocks, and government bonds amid the global turmoil created by the COVID-

19 pandemic and the outbreak of war in Europe. However, the recently unveiled budget for 2024 points to a pre-election loosening of fiscal policy that could undermine confidence.

Increased support for Pemex and generous spending on social programs aimed at burnishing AMLO's legacy and bolstering popular support for MORENA ahead of next year's elections are projected to swell the budget deficit to 4.9% of GDP in 2024, while the primary balance is forecast to shift from a small surplus this year to a deficit equivalent to 1.2% of GDP. The U-turn on fiscal policy is certain to draw scrutiny from ratings agencies (and possibly the threat of a downgrade) that will create pressure for significant tightening by the next administration, to the detriment of medium-term economic performance.

The relaxation of fiscal restraint comes at a time when the economy is showing surprising resilience. GDP increased by 0.8% (quarter-on-quarter) in the April-June period, which compares favorably with pre-pandemic figures. Year-on-year real growth for the quarter remained steady at 3.6%, only slightly off the annual pace in 2022, despite less favorable conditions for exporters. The buoyancy is largely attributable to robust construction activity linked to AMLO's pet capital projects, household spending supported by healthy inflows of remittances and real wage growth, and the continued beneficial impact of "near-shoring" by foreign companies looking to mitigate the impact of a US-led effort to reduce China's control of the global supply chain.

The monthly indicators reveal some yellow flags for economic performance in the second half, notably the sluggishness of year-on-year manufacturing production and a drop in the manufacturing purchasing managers' index (PMI) in August, which remained above the 50.0 level dividing expansion from contraction but was well off July's reading of 53.2. Concerns about the shift in fiscal strategy could have a dampening effect on investment in the closing months of 2023 (the most recent currency and stock market figures are suggestive of weakening confidence), and the risks on that score will rise with the approach of election in the first half of 2024. On balance, real GDP growth is forecast to decelerate to a still decent 3% in 2023, before slowing to closer to 2% next year.

Inflation eased to 4.6% (year-on-year) in August, the smallest increase since February 2021, but still above the upper limit of the central bank's target range of 2%-4%. The monthly figure has remained on a steady downward track since Banxico paused its tightening cycle in March, but stronger than expected growth, moves by oil producers to boost global prices, and a likely weakening of the peso over the coming months will sustain inflation above 4% through the end of the year, likely delaying the initiation of a loosening cycle until 2024.

Although the administration's effort to tighten state control over the energy industry has deterred some foreign investors, increased investment by firms adopting a "near-shoring" strategy will ensure that inflows of FDI remain sufficient to finance a current account deficit that is forecast to remain manageable at less than 1% of GDP in 2023.

INTERNATIONAL COUNTRY RISK GUIDE (ICRG) RATINGS

PRS' Country Reports and Economic Forecasts (CREF) and the International Country Risk Guide (ICRG) have been independently back-tested for accuracy and relevance for over 40 years.

In a landmark 2014 study published in the International Journal of Business Studies* – using data on political risk claims and a unique textual-based database of risk realizations – both CREF and ICRG forecasts were found to have “predictive power for both political risk insurance claims as well as political risk events measured by news coverage.”

It is therefore instructive to present the scores from Table 1 of the ICRG for a complimentary look at the composite risk scores – calculated by using a combination of the overall political, financial, and economic risk metrics – for the 141+ countries covered each month. Please contact custserv@prsgroup.com for more information.

TABLE 1
COUNTRY RISK, RANKED BY COMPOSITE RISK RATING
SEPTEMBER 2023 VERSUS OCTOBER 2022

| RANK IN 09/23 | COUNTRY | COMPOSITE RISK RATING 09/23 | COMPOSITE RISK RATING 10/22 | 09/23 VERSUS 10/22 | RANK IN 10/22 |
|----------------------|--------------|-----------------------------|-----------------------------|--------------------|---------------|
| <i>Very Low Risk</i> | | | | | |
| 1 | Norway | 86.8 | 86.3 | 0.5 | 2 |
| 2 | Switzerland | 86.0 | 87.0 | -1.0 | 1 |
| 3 | Luxembourg | 85.8 | 85.5 | 0.3 | 4 |
| 4 | Denmark | 84.8 | 83.8 | 1.0 | 6 |
| 5 | Taiwan | 84.5 | 83.8 | 0.8 | 6 |
| 6 | Singapore | 84.3 | 85.8 | -1.5 | 3 |
| 7 | Ireland | 83.8 | 81.8 | 2.0 | 9 |
| 8 | Saudi Arabia | 82.5 | 85.5 | -3.0 | 4 |
| 9 | Brunei | 81.5 | 79.5 | 2.0 | 15 |
| 10 | Canada | 80.8 | 81.3 | -0.5 | 10 |
| 10 | Iceland | 80.8 | 80.0 | 0.8 | 14 |
| 10 | Qatar | 80.8 | 78.8 | 2.0 | 17 |

* C Harvey, et al., “Political Risk Spreads,” Journal of International Business Studies, (2014), 471-493.

TABLE 1
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SEPTEMBER 2023 VERSUS OCTOBER 2022

| RANK IN 09/23 | COUNTRY | COMPOSITE RISK RATING 09/23 | COMPOSITE RISK RATING 10/22 | 09/23 VERSUS 10/22 | RANK IN 10/22 |
|------------------------|----------------------|------------------------------------|------------------------------------|---------------------------|----------------------|
| 13 | Japan | 80.5 | 75.8 | 4.8 | 25 |
| 13 | Netherlands | 80.5 | 79.3 | 1.3 | 16 |
| 13 | United Arab Emirates | 80.5 | 82.3 | -1.8 | 8 |
| 16 | Korea, Republic | 80.3 | 77.0 | 3.3 | 23 |
| 17 | Kuwait | 80.0 | 80.8 | -0.8 | 11 |
| 17 | Sweden | 80.0 | 80.3 | -0.3 | 13 |
| <i>Low Risk</i> | | | | | |
| 19 | Australia | 79.5 | 80.8 | -1.3 | 11 |
| 19 | Botswana | 79.5 | 76.3 | 3.3 | 24 |
| 21 | Germany | 79.3 | 78.3 | 1.0 | 18 |
| 22 | Finland | 78.8 | 78.0 | 0.8 | 20 |
| 23 | Hong Kong | 78.0 | 73.8 | 4.3 | 36 |
| 24 | New Zealand | 77.8 | 74.8 | 3.0 | 32 |
| 25 | Portugal | 77.0 | 75.0 | 2.0 | 31 |
| 25 | Trinidad & Tobago | 77.0 | 77.5 | -0.5 | 22 |
| 27 | Austria | 76.5 | 78.0 | -1.5 | 20 |
| 27 | Oman | 76.5 | 78.3 | -1.8 | 18 |
| 29 | Czech Republic | 76.0 | 75.5 | 0.5 | 28 |
| 30 | Kazakhstan | 75.5 | 75.5 | 0.0 | 28 |
| 31 | Guyana | 75.3 | 75.8 | -0.5 | 25 |
| 32 | Malaysia | 75.0 | 73.0 | 2.0 | 40 |
| 33 | Uzbekistan | 74.8 | 72 | 2.5 | 43 |
| 34 | Bahamas | 74.5 | 70.8 | 3.8 | 55 |
| 34 | Belgium | 74.5 | 74.0 | 0.5 | 35 |
| 34 | Italy | 74.5 | 72.8 | 1.8 | 41 |
| 37 | Israel | 74.3 | 74.8 | -0.5 | 32 |
| 38 | Slovenia | 74.0 | 72.3 | 1.8 | 43 |
| 38 | United Kingdom | 74.0 | 75.8 | -1.8 | 25 |

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| RANK IN 09/23 | COUNTRY | COMPOSITE RISK RATING 09/23 | COMPOSITE RISK RATING 10/22 | 09/23 VERSUS 10/22 | RANK IN 10/22 |
|----------------------|----------------------|------------------------------------|------------------------------------|---------------------------|----------------------|
| 40 | Azerbaijan | 73.8 | 73.3 | 0.5 | 38 |
| 40 | Croatia | 73.8 | 73.3 | 0.5 | 38 |
| 40 | Libya | 73.8 | 70.5 | 3.3 | 59 |
| 40 | Malta | 73.8 | 74.3 | -0.5 | 34 |
| 40 | Panama | 73.8 | 73.5 | 0.3 | 37 |
| 40 | Uruguay | 73.8 | 75.5 | -1.8 | 28 |
| 46 | Costa Rica | 73.0 | 72.0 | 1.0 | 45 |
| 47 | Latvia | 72.8 | 71.0 | 1.8 | 52 |
| 48 | France | 72.5 | 71.8 | 0.8 | 48 |
| 48 | Jamaica | 72.5 | 72.0 | 0.5 | 45 |
| 50 | Chile | 72.0 | 70.5 | 1.5 | 59 |
| 50 | Dominican Republic | 72.0 | 72.5 | -0.5 | 42 |
| 50 | Spain | 72.0 | 72.0 | 0.0 | 45 |
| 53 | Philippines | 71.8 | 70.0 | 1.8 | 61 |
| 54 | Bulgaria | 71.5 | 70.0 | 1.5 | 61 |
| 54 | Vietnam | 71.5 | 70.8 | 0.8 | 55 |
| 56 | Poland | 71.3 | 70.8 | 0.5 | 55 |
| 57 | Brazil | 71.0 | 69.0 | 2.0 | 70 |
| 58 | Hungary | 70.8 | 71.3 | -0.5 | 50 |
| 59 | Thailand | 70.5 | 64.3 | 6.3 | 91 |
| 60 | Guatemala | 70.3 | 71.0 | -0.8 | 52 |
| 60 | India | 70.3 | 69.5 | 0.8 | 64 |
| 60 | United States | 70.3 | 71.5 | -1.3 | 49 |
| 63 | Cyprus | 70.0 | 69.5 | 0.5 | 64 |
| 63 | Gabon | 70.0 | 66.0 | 4.0 | 85 |
| Moderate Risk | | | | | |
| 65 | China, Peoples' Rep. | 69.8 | 69.5 | 0.3 | 64 |
| 65 | Lithuania | 69.8 | 69.8 | 0.0 | 63 |

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| RANK IN 09/23 | COUNTRY | COMPOSITE RISK RATING 09/23 | COMPOSITE RISK RATING 10/22 | 09/23 VERSUS 10/22 | RANK IN 10/22 |
|----------------------|------------------|------------------------------------|------------------------------------|---------------------------|----------------------|
| 67 | Greece | 69.5 | 67.3 | 2.3 | 78 |
| 68 | Bahrain | 69.3 | 68.8 | 0.5 | 71 |
| 68 | Estonia | 69.3 | 70.8 | -1.5 | 55 |
| 68 | Indonesia | 69.3 | 68.3 | 1.0 | 73 |
| 68 | Papua New Guinea | 69.3 | 69.3 | 0.0 | 67 |
| 72 | Namibia | 69.0 | 71.0 | -2.0 | 52 |
| 73 | Iraq | 68.8 | 71.3 | -2.5 | 50 |
| 74 | Congo, Republic | 68.5 | 63.8 | 4.8 | 96 |
| 74 | Mexico | 68.5 | 68.8 | -0.3 | 71 |
| 74 | Peru | 68.5 | 68.0 | 0.5 | 75 |
| 77 | Algeria | 67.8 | 69.3 | -1.5 | 67 |
| 78 | Slovakia | 67.5 | 68.3 | -0.8 | 73 |
| 79 | Romania | 67.3 | 66.3 | 1.0 | 84 |
| 79 | South Africa | 67.3 | 66.8 | 0.5 | 81 |
| 81 | Honduras | 67.0 | 66.8 | 0.3 | 81 |
| 82 | Gambia | 66.8 | 65.8 | 1.0 | 88 |
| 82 | Russia | 66.8 | 66.0 | 0.8 | 85 |
| 84 | El Salvador | 66.5 | 63.5 | 3.0 | 98 |
| 84 | Mongolia | 66.5 | 65.5 | 1.0 | 89 |
| 84 | Serbia | 66.5 | 66.8 | -0.3 | 81 |
| 87 | Morocco | 66.3 | 64.3 | 2.0 | 91 |
| 88 | Ecuador | 66.0 | 67.5 | -1.5 | 76 |
| 88 | Tanzania | 66.0 | 64.8 | 1.3 | 90 |
| 90 | Guinea-Bissau | 65.3 | 62.5 | 2.8 | 103 |
| 90 | Jordan | 65.3 | 64.0 | 1.3 | 95 |
| 92 | Paraguay | 65.3 | 64.3 | 1.0 | 91 |
| 93 | Albania | 64.8 | 67.5 | -2.8 | 76 |
| 94 | Bolivia | 64.5 | 66.0 | -1.5 | 85 |

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| RANK IN 09/23 | COUNTRY | COMPOSITE RISK RATING 09/23 | COMPOSITE RISK RATING 10/22 | 09/23 VERSUS 10/22 | RANK IN 10/22 |
|----------------------|----------------------|------------------------------------|------------------------------------|---------------------------|----------------------|
| 95 | Nicaragua | 63.8 | 62.8 | 1.0 | 100 |
| 96 | Bangladesh | 63.5 | 62.5 | 1.0 | 103 |
| 96 | Cote d'Ivoire | 63.5 | 61.0 | 2.5 | 107 |
| 96 | Togo | 63.5 | 62.8 | 0.8 | 100 |
| 99 | Colombia | 63.3 | 63.8 | -0.5 | 96 |
| 100 | Iran | 63.0 | 67.0 | -4.0 | 79 |
| 101 | Madagascar | 62.8 | 62.8 | 0.0 | 100 |
| 102 | Angola | 62.3 | 67.0 | -4.8 | 79 |
| 103 | Zambia | 62.0 | 63.0 | -1.0 | 99 |
| 104 | Belarus | 61.8 | 56.5 | 5.3 | 126 |
| 104 | Cuba | 61.8 | 69.3 | -7.5 | 67 |
| 104 | Ghana | 61.8 | 59.0 | 2.8 | 114 |
| 107 | Cameroon | 61.5 | 59.8 | 1.8 | 110 |
| 108 | Moldova | 61.3 | 58.8 | 2.5 | 116 |
| 108 | Ukraine | 61.3 | 56.3 | 5.0 | 127 |
| 110 | Armenia | 61.0 | 60.5 | 0.5 | 108 |
| 111 | Guinea | 60.0 | 57.3 | 2.8 | 124 |
| 111 | Mozambique | 60.0 | 53.5 | 6.5 | 132 |
| 111 | Uganda | 60.0 | 59.3 | 0.8 | 112 |
| High Risk | | | | | |
| 114 | Tunisia | 59.8 | 61.3 | -1.5 | 106 |
| 115 | Burkina Faso | 59.0 | 58.3 | 0.8 | 118 |
| 116 | Suriname | 58.8 | 59.0 | -0.3 | 114 |
| 117 | Senegal | 58.5 | 58.0 | 0.5 | 122 |
| 118 | Ethiopia | 58.0 | 58.0 | 0.0 | 122 |
| 119 | Mali | 57.8 | 58.3 | -0.5 | 118 |
| 120 | Zimbabwe | 57.5 | 61.5 | -4.0 | 105 |
| 121 | Congo, Dem. Republic | 57.0 | 60.3 | -3.3 | 109 |

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| RANK IN 09/23 | COUNTRY | COMPOSITE RISK RATING 09/23 | COMPOSITE RISK RATING 10/22 | 09/23 VERSUS 10/22 | RANK IN 10/22 |
|-----------------------|-----------------|------------------------------------|------------------------------------|---------------------------|----------------------|
| 121 | Kenya | 57.0 | 58.3 | -1.3 | 118 |
| 121 | Myanmar | 57.0 | 55.8 | 1.3 | 128 |
| 124 | Haiti | 56.5 | 54.8 | 1.8 | 130 |
| 125 | Argentina | 56.3 | 64.3 | -8.0 | 91 |
| 125 | Sierra Leone | 56.3 | 53.8 | 2.5 | 131 |
| 127 | Egypt | 56.0 | 59.3 | -3.3 | 112 |
| 128 | Yemen, Republic | 55.8 | 48.3 | 7.5 | 138 |
| 129 | Nigeria | 55.5 | 59.8 | -4.3 | 110 |
| 130 | Turkey | 55.3 | 55.8 | -0.5 | 128 |
| 131 | Liberia | 55.0 | 58.3 | -3.3 | 118 |
| 131 | Venezuela | 55.0 | 58.5 | -3.5 | 117 |
| 133 | Sri Lanka | 54.5 | 48.5 | 6.0 | 137 |
| 134 | Malawi | 52.8 | 51.0 | 1.8 | 135 |
| 135 | Somalia | 51.8 | 52.0 | -0.3 | 133 |
| Very High Risk | | | | | |
| 136 | Korea, D.P.R. | 49.3 | 51.0 | -1.8 | 135 |
| 136 | Pakistan | 49.3 | 52.0 | -2.8 | 133 |
| 138 | Niger | 46.8 | 56.8 | -10.0 | 125 |
| 139 | Syria | 45.0 | 43.8 | 1.3 | 139 |
| 140 | Sudan | 44.8 | 43.0 | 1.8 | 140 |
| 141 | Lebanon | 35.0 | 41.5 | -6.5 | 141 |

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