

Economic update

Mexico's economy is yet to show signs of strength. In its monthly survey of economic analysts from the private sector, Mexico's Central Bank found that respondents reduced their expectations of growth for 2015 from 3.29 per cent to 3.08 per cent. The main obstacle for growth for the fifteenth month in a row as found by the survey is insecurity issues, followed by the fall in the oil price, and a weak domestic market.

This scenario was somewhat seconded by the economic indicators compiled by Mexico's National Institute of Statistics. The Mexican economy slowed down at the beginning of 2015. Although the coincident index, which measured the current state of the economy, reported its ninth consecutive monthly gain, rising 0.04 units month on month to 100.1 in December, the leading indicator, which tries to anticipate the coincident index's dynamism, fell 0.07 point on a monthly basis to 100 in January—its third consecutive decline.

Gross fixed investment had a mixed performance at the end of last year; while it managed to grow year on year above 5.0% for the fourth consecutive occasion in December (+5.5%), it contracted 0.98% on a monthly basis—its worst performance in sixteen months. Still, fixed capital formation kept recovering momentum at the end of 2014; after dropping 0.55% year on year in the first quarter of 2014, it rose 4.4 and 5.8% in the third and fourth quarter, respectively.

On a more positive note, notwithstanding that the manufacturing index dropped from the previous month (-0.3 pts.), it remained in expansionist territory for the seventh consecutive month at 50.7 points in February. The fall was due to three of the five components that make up the index. While new orders dropped 1.3 points to 51.6 in February; output and employment did so by 2.5 and 0.2 points to 52.6 and 48.4, respectively.

Step two in Round One

Mexico National Hydrocarbons Commission has approved the auction of nine shallow-water hydrocarbon development blocks as part of the second stage of Mexico's Round One bidding round. The blocks are distributed across five areas contain an estimated 355 million barrels of oil equivalent which would result in production of 125,000-150,000 barrels per day and, according to commissioner Edgar René Rangel, have certified 2p reserves.

There are at least 16 companies that are prequalified by the National Hydrocarbons Commission to participate in the bidding rounds for shallow water blocks.

According to the Secretary of Energy, this latest round of blocks could generate investments of up close to \$100 million USD during the next three years.

A new chapter in Mexico's security situation

In less than a week Mexican authorities arrested Servando Gomez "Tuta", the leader of the now defunct criminal organization known as the Knights Templar and Omar Treviño Morales, founder of the Zetas, rivals to the Knights Templar who are also in steep decline. Both arrests symbolize many of the steps forward and pending challenges in Mexico's security situation.

Mr. Gomez –a former teacher- had climbed up the ranks from petty criminal to head of a major criminal organization that operated in the western state of Michoacan. Mr. Gomez and his associates aggressively diversified the Knights Templar's activities from drug trafficking to extortion of the local population and had significantly eroded the local government's power.

This gave rise to the emergence of self-defence groups –comprised of a heterogeneous mix of legitimately exasperated *michoacanos* and members of rival criminal organizations to the Knights Templar- that in turn prompted an intervention by the federal government in 2014, which now remains the *de facto* authority in the state.

Mr. Gomez gained notoriety due to his frequent public statements and by releasing secretly recorded pieces of footage of him in private conversation with local politicians and officials.

Mr. Treviño Morales, on the other hand, was the last remaining founding members of the Zetas, an organization that had originally been created as the enforcement arm of the Gulf Cartel. The Zeta grew into a cartel and organized crime group of its own and was responsible for some of the most gruesome episodes of violence in Mexico during recent years.

Critics have argued that the capture of Mr. Gomez and Mr. Treviño are not as substantial as the government purports them to be, given that they had lost their heft during the past year and were now marginalized and living on the run.

However this argument misses the point that it was *because* the federal government relentlessly dismantled their respective criminal organizations that it was able to corner and capture them. These arrests are not an accident but the culmination of the federal government's efforts against the Knights Templar and the Zetas.

President Enrique Peña Nieto's security strategy has been underpinned by increased coordination among government agencies, the lack of which had stalled progress against organized crime during his predecessor's government. Indeed, both arrests were the result of close collaboration

between various security agencies and are an indication that the federal government is making strong progress in terms of security enforcement.

Nonetheless, important challenges remain. A fundamental factor that explains the increase in violence in Mexico is that weak law enforcement institutions in state governments opened up power vacuums for criminal organizations to pry on the local population. Although some states have made a determined effort to modernize their law enforcement system and show progress in terms of declining crime rates –the most notable case in this sense is the state of Nuevo León- many are still lagging and yet to take responsibility for their security situation.

Although they were enemies, Mr. Treviño and Mr. Gomez represent a particularly dark chapter in Mexico's recent history, given that they used the resources and power of drug trafficking, in order to gain further profits from communities. Their fall is likely to represent the end of such integrated criminal organizations, which in turn is likely to result in various smaller splinter groups. In other words, this weeks events are a good step forward in what is still a long road ahead.