



Mexico Intelligence Report – 4th September

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GRUPO ATALAYA

Economic update

Mexico's economy gives continued signs of weakness as the country's National Institute of Statistics and Geography (INEGI as known by its Spanish acronym) published the latest findings of its coinciding indicators, which attempts to measure the overall strength of the economy.

The indicator dipped 0.1 point, which positioned it below its long run trend and marks its fifth consecutive decline this year. In line with this, the forward-looking indicator, which attempts to anticipate movements in the coinciding indicator, also decreased by 0.09 points month on month.

Moreover the indicator of confidence in the manufacturing sector also slipped by 0.59 points month on month in August.

One silver lining came in the form of a relatively strong figure in private investment, which grew by 2.9 per cent month on month, the highest figure in three months. Ramped up investment in the manufacturing sector –which increased by 6.5 per cent month on month- more than compensated for headwinds in the construction sector, where investment decreased by 0.2 per cent month on month.

It should be noted that the rating agency Moody's stated this week that it sees various short-term constraints curbing the Mexican economy, particularly weak industrial production and public spending cuts in the face of falling oil prices.

Despite this sombre note, Moody's remains optimistic about Mexico's long-term prospects given that it expects increased investment and growth due to the series of structural reforms approved in 2013 and that rising demand coming from its most important trading partner, the U.S., will also help to lift the Mexican economy out of its current rut.

President's Peña Nieto's mid-term report

President Enrique Peña Nieto issued his annual political and economic report, which in turn marks the mid-way point for his administration. Mr. Peña Nieto attempted to both wipe the slate clean and leave behind what has been the most turbulent year of his presidency, but also laid out a series of policy measures, in order to revamp the Mexican economy and strengthen the rule of law.

The President started of his address by giving a brief nod of acknowledgement to the litany of political crisis that have shocked his administration. Although this gesture will not appease his detractors, it at least mitigates the impression that Mr. Peña Nieto is completely aloof to Mexican society's exasperation with the issue of corruption.

Moreover, the President announced the following ten strategic policies with the aim of gaining back some of the momentum generated during the first year of his administration:

- Pass new legislation to strengthen the rule of law.
- Finalise the agreement of daily justice.
- Create a series of special economic zones to boost the economy and fight poverty in Mexico's most marginalised regions.
- Support rural economy of the most marginalised regions in the country,
- Launch of a £2 billion education infrastructure programme, further complemented with the issuance of education infrastructure bonds in Mexico's securities market.
- The inclusion of English in Mexico's primary school curriculum.
- The creation of a new Ministry for Culture.
- Maintain macroeconomic stability, through public spending cuts.
- Accelerate energy infrastructure development through the issuance of "innovative" financial instruments.
- Reduce public spending, without increasing taxes or issuing more debt.

Critics have been quick to point out that there is an inherent contradiction in pledging to not issue more debt, whilst simultaneously promising to issue various financial instruments in order to fund many of the announced policies. Regardless of this point, the creation of economic zones is likely to be the most interesting policy to come out of the President's address and in fact was one such measure recommended by one of Mexico's leading NGO-Think Tanks *Mexico ¿Cómo Vamos?*.

Yet perhaps the most noteworthy part of President Peña Nieto's report came at the very end, when he warned Mexican society that the "shadow of populism" is once again signing its siren song. The statement was clearly directed to Andres Manuel Lopez Obrador, a two-time runner-up in Mexico's past presidential elections and leader of left-wing party Morena.

Mr. Lopez Obrador holds a solid lead in preference polls for the 2018 presidential elections. If that wasn't enough to position him as the contender to beat Mr. Peña Nieto it has certainly done now. Although this is an attempt to focus the main debate of his succession in terms of economic policy, the reality is that the issue of corruption and rule of law is likely to remain the stickiest one once 2018 arrives, more so if the Mexican economy fails to take have taken off by then.

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