

# MEXICO

## A CHALLENGING POLITICAL SHIFT

Claudia Sheinbaum was elected President of Mexico on 2 June. The political and economic challenges she will face during her mandate are numerous, and mainly concern the sustainability of public finances, the reform of the energy sector (a particularly sensitive point in Mexico, especially in the context of nearshoring and renewed appeal to foreign investors) and the renegotiation of the trade treaty with Canada and the United States (UMSCA) in 2026. In the short term, as a member of the Morena party of the former outgoing President, the new President needs to find the appropriate distance from Andres Manuel Lopes Obrador and his supporters. Discussions relate in particular to the reform of the justice system that AMLO himself had proposed.

## LANDSLIDE VICTORY FOR THE MORENA PARTY

On 2 June, Claudia Sheinbaum was elected President of Mexico for the next six years. The new President (leader of the Morena party, former Head of Government of Mexico City and protégée of the outgoing President) was elected by a large majority (60% of votes cast), even bigger than that of her predecessor, Andres Manuel Lopes Obrador (AMLO, elected with 53% of votes cast in 2018). On the same day, 128 Senators, 500 Members of the Chamber of Deputies, 8 State Governors and the new Head of Government of Mexico City faced the voters for renewal of their mandate.

Overall, the results are broadly in favour of the former President’s Morena party: the legislative coalition is in a position to enjoy a qualified majority (i.e., two-thirds of the votes) in both chambers. In other words, the next government should be able to implement its economic and social policy relatively easily. This also means that the next government, if it so wishes, will be able to enact reforms amending the Constitution (which the outgoing President was unable to do during his mandate, despite repeated attempts). Morena party candidates also won governorships in six of the eight States, and retained the governorship of Mexico City.

## THE ISSUE OF REFORM OF THE JUDICIAL SYSTEM

In accordance with the Mexican Constitution, the elected President will take office on 1<sup>st</sup> October, and the parliamentary session will begin in early September. This interval should allow her to clarify the direction she would like her mandate to take. For the time being, she seems to be indicating a more consensual path than AMLO, focusing on renewable energies and increasingly open to private investors (especially foreign investors). However, the move away from AMLO’s policy should be gradual; this is a question of not offending the President or his numerous supporters and retaining the majority in order to secure the adoption of draft laws. During the campaign, Claudia Sheinbaum had already ensured that she would respect the independence of the Central Bank and the justice system, that she would remain “fiscally responsible” and that she would create conditions favourable to significantly increasing private investment.

However, the peso and the Mexican stock market index fell the day after the election (chart). But rather than distrust of the new President, the sharp reaction of the financial markets reflects the fear that AMLO will use the short period of having a qualified majority until September (when the parliamentary session opens, before he leaves office the following month) to get several constitutional reforms passed, including the highly contested reform

### FORECASTS

	2021	2022	2023e	2024e	2025e
Real GDP growth, %	5.7	3.9	3.2	1.7	1.8
Inflation, CPI, year average, %	5.7	7.9	5.6	4.0	3.1
Budget balance / GDP, %	-3.8	-4.3	-3.3	-5.0	-4.0
Public debt / GDP, %	47.8	46.9	46.5	49.1	51.0
Current account balance / GDP, %	-0.3	-1.2	-0.3	-1.0	-1.0
External debt / GDP, %	47.5	42.9	34.8	35.2	35.1
Forex reserves, USD bn	202.4	194.0	207.0	210.0	215.0
Forex reserves, in months of imports	5.1	4.8	4.1	4.3	4.5

e: ESTIMATES & FORECASTS

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

TABLE 1

### MEXICO: STOCK INDEX AND EXCHANGE RATE AGAINST USD



CHART 1

SOURCE: CENTRAL BANK

of the judicial system. This reform proposes reducing the number of Supreme Court judges (from 11 currently to 9) and the term of their mandate (from 15 to 12 years). The judges and magistrates of the High Courts of Justice would also have to be appointed by a popular vote. However, opponents to this law fear above all that the majority of elected judges will come from the presidential majority, which would no longer guarantee the independence of the judicial system.



Another very controversial point of the reform is the elimination of the “suspensions” created by what is known as the “injunction” law, i.e., the possibility given to a citizen or a political party to request an injunction when a law that they consider unconstitutional has just been passed. If the injunction is granted, the law will be suspended until the Supreme Court has ruled on the constitutionality of the law. Several injunctions have been requested during AMLO’s mandate, in particular concerning the reform of the energy sector.

Opponents to abolition of the injunction law fear that it will prevent the thorough examination of legislative proposals that could permanently change the country, and in particular its economic framework. This could significantly impact the business environment, and more particularly FDI inflows in a context of relocation to Mexico (especially of US companies).

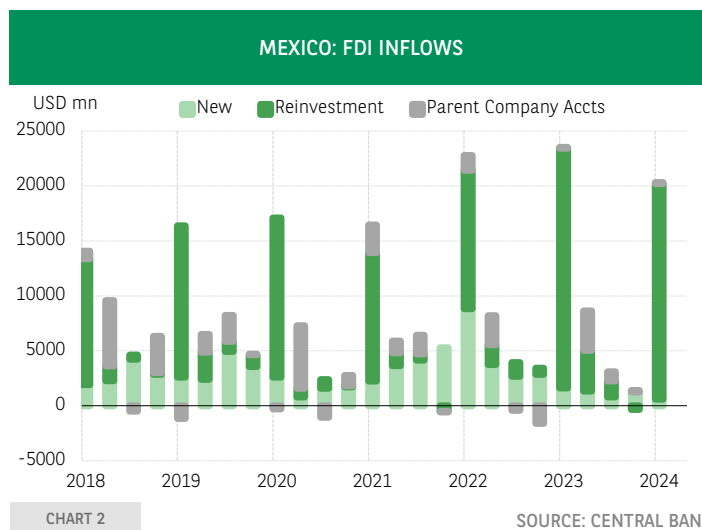
Concerns are already apparent: the total amount of FDI increased in 2022 and 2023, but due to two special operations (the restructuring of the airline Aeromexico and the merger of the two audiovisual companies Televisa and Univision, respectively). Notably, the amount of “new investments” has decreased steadily since the beginning of 2022 (Chart). Claudia Sheinbaum has not formally objected to the plan submitted by AMLO, but has stated that public consultations would take place and that the independence of the Mexican judicial system was not under threat.

## BROAD OUTLINES OF ECONOMIC POLICY

In June, the President’s Office revealed the names of several members of the next government team, including the retention of the current Minister of Finance (Rogelio Ramirez de la O) and the appointment of the former Secretary of Foreign Affairs (Marcelo Ebrard) as Minister of the Economy. The latter’s experience could prove an important asset in the potential renegotiation of the trade treaty with the United States and Canada (UMSCA) planned for 2026.

Regarding the energy sector, the various statements are currently contradictory and not very detailed. During the campaign, Claudia Sheinbaum, who is a former member of the IPCC, pronounced herself in favour of accelerating the country’s low-carbon transition and increased the number of commitments in principle. One of the objectives is to extend to all companies the environmental standards with which foreign companies comply, in particular by improving the most decarbonised electricity supply possible, while taking full advantage of the opportunities offered by nearshoring. In the area of renewable energies, private investments could be favoured, but the details are not yet known.

Paradoxically, the new government nevertheless seems to want to remain on the line drawn by AMLO of “energy sovereignty”, with a predominant role of the State in energy-related projects (old and new). According to its preliminary statements, the government does not plan to change the economic model of the national oil company PEMEX, nor would it consider regular financial support to the company.



Details regarding support for PEMEX and, more generally, the new government’s fiscal policy are much anticipated, particularly by rating agencies and investors: the budget deficit has widened in recent years (more than 5% of GDP is expected in 2024, after 3.6% in 2023) and debt interest payments have risen significantly (they represented 15.1% of government revenue in 2023, i.e., over 2.5% of GDP). In March, the outgoing government presented the preliminary elements of the budget (which will be voted on in November), which the President has endorsed. The primary objective is to reduce the deficit (to around 2.5% of GDP), almost exclusively by reducing expenditure, while maintaining expenditure on major infrastructure projects in progress (such as the Tren Maya).

To date, Claudia Sheinbaum and her team are not considering any tax reform aimed at increasing income, while the rigidity of expenditure increased significantly during AMLO’s mandate (increased support for the national oil company PEMEX, increase in cash transfer programmes, particularly to older people, depletion of sovereign funds).

We are therefore expecting a much slower reduction in the deficit: on top of higher debt interest payments, the new government will still have very limited room for manoeuvre.

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