PART 2: MEXICO'S ECONOMIC OUTLOOK

Richard Ditizio

Okay. This year is expected to grow about 1.7 percent, which is great and a good improvement over last year, certainly. But it seems it's still low for a country over 130 million that's trying to create economic opportunity at scale. So, each of you, in a sentence or two to start, could you describe the state of Mexico's economy today from your desk? And then tell us what's the one number that you focus on most in determining that? So why don't we start with you, Maria del Carmen.

Maria del Carmen Bonilla Rodríguez

Thank you. Good morning, and thank you to the Milken Institute for having me today. Well, I think that the main priority for the Mexican government as of today is to keep the deficit in a correction trajectory. This is very important because macro stability is part of having a good business environment. So, we are working on different initiatives. We have managed to reduce fiscal deficit close to two points, coming from 2024. And the current strategy is based on three main things. One has to do with, of course, fiscal consolidation. The minister already mentioned keep the debt on a trajectory that could be stable going forward and push initiatives towards growth. This has to do with the infrastructure bill that we announced during this year, and also trying to do it on a pace that is credible, and also that is not hurting economy. On the other hand, we are doing a strong effort for 2027, a package to increase revenues, close to 16 percent of GDP. And all in all, we think could be the correct strategy for achieving higher potential growth that is the missing piece as of today, and keeping traction on investments.

Richard Ditizio

Okay, great. And Galia?

Galia Borja Gómez

Yes. Thank you. Good morning. The Mexican economy, as the Ministry of Finance just said before, has been weak since 2024. But we have seen recent numbers actually gaining some rebound, especially coming from services which are maintaining certain dynamism and resilience. But the good news is that investment or the industrial sector is also growing, mainly because of the construction, especially civil engineering projects that the government is deploying in trains and stuff, and also manufacturing related to technology, computers, as we all know.

Richard Ditizio

Yeah.

Galia Borja Gómez

And as for the numbers we watch, I will tell you there is not one specific—

Richard Ditizio

Not one.

Galia Borja Gómez

Rather, we, of course, have to look at everything, at consumer, at investment, the monthly economic activity indicator, and of course, the labor market as well.

Richard Ditizio

Okay. Good. So, as I was just speaking to Bill about the levels of debt worldwide, I want to talk about that here in Mexico. So, the 2027 budget proposal raises the debt measure to about 55 percent of GDP from 54 this year. And the deficit target is now about 3.9 percent of GDP. So, when you think about that level of debt, how do you think investors should think about that budget relative to the needs that are required under Mexico's social programs and the notion of taking the debt down while addressing that simultaneously?

Maria del Carmen Bonilla Rodríguez

Well, I think that macro stability, inflation, and FX rate play an important base on the decision-making process. But I would say that the debt portfolio as of today has remained quite strong in terms that our refinancing risk is still low. We have a very good composition. We have managed to reduce substantially external debt. And we already provide support to Pemex in the last two years that was essential as well on the overall public financial sector borrowing requirements and also financial strategy because the company was paying very high interest rates. So, this process is already recorded in our fiscal projections. And that's why we feel confident that—and we are starting to see those results. CDS compressed substantially, and this year we have provided substantial interest savings on that front. So, we think this is helping to make a more gradual consolidation, but in a correct path and something that could be achievable on every year to the extent we are able to meet those targets. We know that the pace is slower than what it was expected before, but again, we don't want to over-push growth because growth is the main concern here. So, if we tighten too fast, this could potentially be counter-cyclical, no?

Richard Ditizio

Mm-hmm. Okay. So, let's stay on that for a moment. Galia, let's talk about rates and inflation. So, Canada today raised rates. Your bank actually cut the rate from 7 percent to 6.5 percent and then paused in September. So, with inflation running about 3 and 3.4 percent, how do you manage to balance growth and the need for growth while containing inflation at the same time?

Galia Borja Gómez

Thank you. I think it's important to say that the constitutional mandate of Banco de México concerns maintaining the purchasing power of our currency. That is, to have a low and stable inflation, and that's our mandate. We have set since 2003 a 3 percent goal for inflation. Now, of course, we take into consideration the economic activity and the growth as a determinant of inflation, especially to see whether there is, or not, demand-side pressures for inflation. So, we began normalizing the interest rate since 2024 because this inflation process was going on. I can tell you that since 2025, as of today, 22 months had passed, and 18 of those, inflation has been within the variability interval. Of course, our goal is 3 percent, but inflation being within that interval means it's a good reference that we are getting closer. Of course, the job is not yet done, but we are closer. So, in that sense, we were able to calibrate the interest rate, and while now it is, as you say, at 6.5, what I see is, as you mentioned today, Canada raised a month ago. The Fed also did the same, Bank of Japan, Central European Bank. So, the global conditions for monetary and finance are tightening, and we'll see. I believe 6.50 is a good monetary position to be at, but of course, we are monitoring, as you asked me before, economy and inflation at the same time.

Richard Ditizio

Okay. So, let's shift gears a bit because we have a room of global investors, both investors here in Mexico, the [Inaudible] and others, as well as people who are looking to deploy capital around the world. So, in Mexico, you reported FDI of a record $35 billion in the first half of the year. But a lot of that tended to be from companies that were already in Mexico and reinvested to stay here. How do you think about attracting people who've never thought of Mexico as a place to deploy capital, and what can you do to kind of stimulate that demand and create deal flow?

Maria del Carmen Bonilla Rodríguez

Well, recently, Madam President has announced a decree for actually reducing paperwork to be, at least in Mexico, if you want to invest. I think it's very important, even though some of the global investors are reinvesting their revenues in Mexico. It's a good sign of confidence, right? And, with the infrastructure build, we are trying to build a capacity that is required for international companies actually to access and start doing business. We are pretty much aware that energy and water are very important factors for this to happen. But we have recently seen as well an important pickup in industrial parks. So, we think the economy right now is not only focused on the automotive sector. It's starting to diversify in other different sectors, logistics, computers, healthcare. And I think this is a good opportunity, at least on the federal government front—trying to help them to make things much easier on one hand. On the other hand, digitalization is part of the 2027 agenda, and this is also going to be very important for the investment community. And I think not just for having companies, but also to provide additional capital, no? As was mentioned previously, we know there is an important competition for this across the world. But Mexico still has this value chain—value added—that we think it's going to be on the interests of the investors' community.

Richard Ditizio

So, let's shift to the USMCA and how CEOs might think about making long-term decisions here in Mexico. So, as everyone knows, now it's under annual review. So, Galia, if a CEO is trying to make a commitment that might last 10 or 15 years here in Mexico, how would one make that decision given the uncertainty of an annual review of the current trade agreement, and what would you advise them to think about?

Galia Borja Gómez

Yes. Some of the strengths that Mexico has, of course, are the solid macroeconomic fundamentals, such as an independent central bank committed to its constitutional mandate of a low and stable inflation. We also have other very good numbers, such as a good level of international reserves, and a commitment with or in place a free-floating exchange regime. And now, USMCA is still in place. It is true that this is under every year revision for 10 years more. But again, as the Ministry of Finance mentioned in the opening remarks, at the beginning of 2025, of all the Mexican exports, they were doing so under the USMCA umbrella, less than 50 percent of all the exports. Today, they are using that agreement more than 83 percent of all Mexican exports. So, not only it is still in place, but it's also broadening. It's being more adopted. So, Mexico has consolidated as a first supplier into the US. As of 2025, what Mexico exported into the US is the same as what Canada and China together did. Which is the second and the third suppliers for the US. So, I think still negotiations are being conducted by the Ministry of Trade and the American authorities, but so far, it has helped a lot to industries across different branches. Thank you.

Richard Ditizio

So, Maria del Carmen, just following up on what Galia said, so with more than 80 percent of Mexico's exports going to the United States, certainly a huge advantage, but also a concentration risk. Right? So, as we think about diversification as a strategy, how does Mexico build real partnerships with places like Europe, Asia, or the Gulf, or elsewhere in Latin America, without upending the relationship with the US that it depends on?

Maria del Carmen Bonilla Rodríguez

I think we are an open economy, and this allows us to adapt. And resilience that we are seeing in growth, vis-à-vis what was expected at the beginning of the year and last year, has to do with this. Since we are open, what we are trying is to reinforce some specific channels that we have with other countries. We are seeing appetite for investment in Mexico. But the big percentage of what we sell, and you can see the numbers, is a complete trustworthiness that the USMCA is good for Mexico, is good for the US, and is good for Canada. So, it would help to diversify as an investors-based diversification, but it's going to remain our first target, and it's something that the authorities are working together to get to the best deal for the interest of the three countries.

Richard Ditizio

Okay. So, Galia, a large share of Mexico's workers are in the informal economy, and many people don't have bank accounts. So, these unbanked people are a large percentage of the population. What role do you think digital payments and digital platforms can play in bringing more people into the formal economy, and what would be the upside for Mexico in doing so?

Galia Borja Gómez

Thank you. Yes. Last week, the digital payment law was approved, which I think will boost all the effort we have done for so many years into upscaling the financial inclusion of the Mexican population. From the central bank, we launched SPEI, the fast payment system, in 2004. That is, it's been already in place for 22 years, and it's a very robust system. It's an example worldwide because it's retail and also wholesale, and it certainly is growing every year in a two-figure percentage. There is a lot still to cover, but it's definitely good for everybody. For people, for companies, because once we manage to scale the digital environment, more people are going to be able to be financially inclusive and to access credit and many other products that will help with the growing of the economy. Thank you.

Richard Ditizio

So, as we do our events all over the world in places like Singapore and the UAE, they tend to be in places that have enormous and deep pools of capital that are growing, but you can't possibly invest all of that capital locally because the markets are too shallow. So, by design, this money is flowing all over the world. So, as we wrap up here, I'd like to hear from both of you, what message would you give to that community that would allow Mexico to get its proportionate share of this money that's being invested globally? And what is the thing that you're optimistic about that the average investor doesn't know?

Maria del Carmen Bonilla Rodríguez

Well, I think the infrastructure build is going to be very, very important for this to happen, because the main objective is to try to attract capital, but in a bigger scale, and with standardized contracts. This is something that we didn't have before. There are specific standardized contracts for the energy sector. We have already a new specific contract for public investments that actually need some sort of support coming from the federal government, that are already in our projections. This is water, some roads, and trains at some point. And I think that we have also FIBRAs, the participation of local investors. Our local savings have been increased substantially, so partnership with the AFOREs and the mutual funds, and we have also interest from the insurance companies that are going to be very helpful as well for this deployment of infrastructure to happen going forward. It's going to be the tool to actually increase that pool of capital because there are many ways, blended finance, direct financing. It's not only just for the banks. And I think these new facilities on the SPVs that are embedded on this new law are going to be very helpful.

Richard Ditizio

Okay. And Galia, we'll give you the last word.

Galia Borja Gómez

I totally agree with what Maria Carmen just mentioned. I think the initiatives such as Plan México that we all see are being deployed by the government are very important, are changing the environment, and are bringing more confidence into the investors and are very good news. And from the central bank, I think the best way we can help is to maintain the solid and robust macroeconomic fundamentals that distinguish Mexico among our peers. Thank you.

Richard Ditizio

Great. All right. Well, thank you both for a great conversation.

[Applause]

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