

Mexico

Economic outlook

1Q18

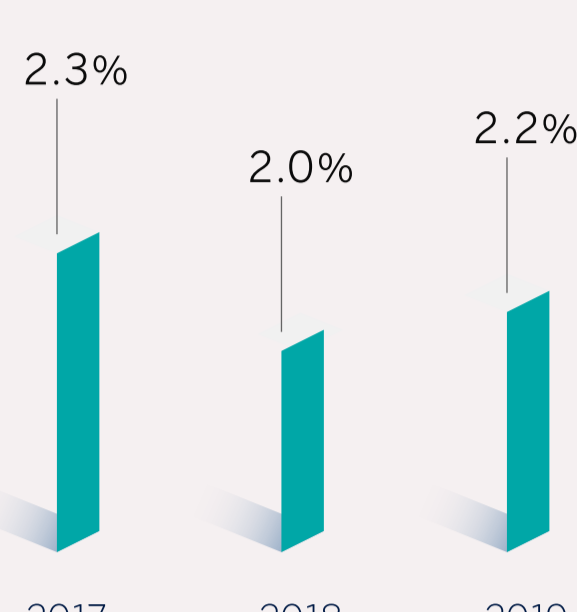


+2%

Estimated growth for 2018 remains unchanged



Macroeconomic context



Despite the uncertainty, which will continue to affect investment, the economy **will grow**, being driven by exports and consumption

Source: BBVA Research based on INEGI

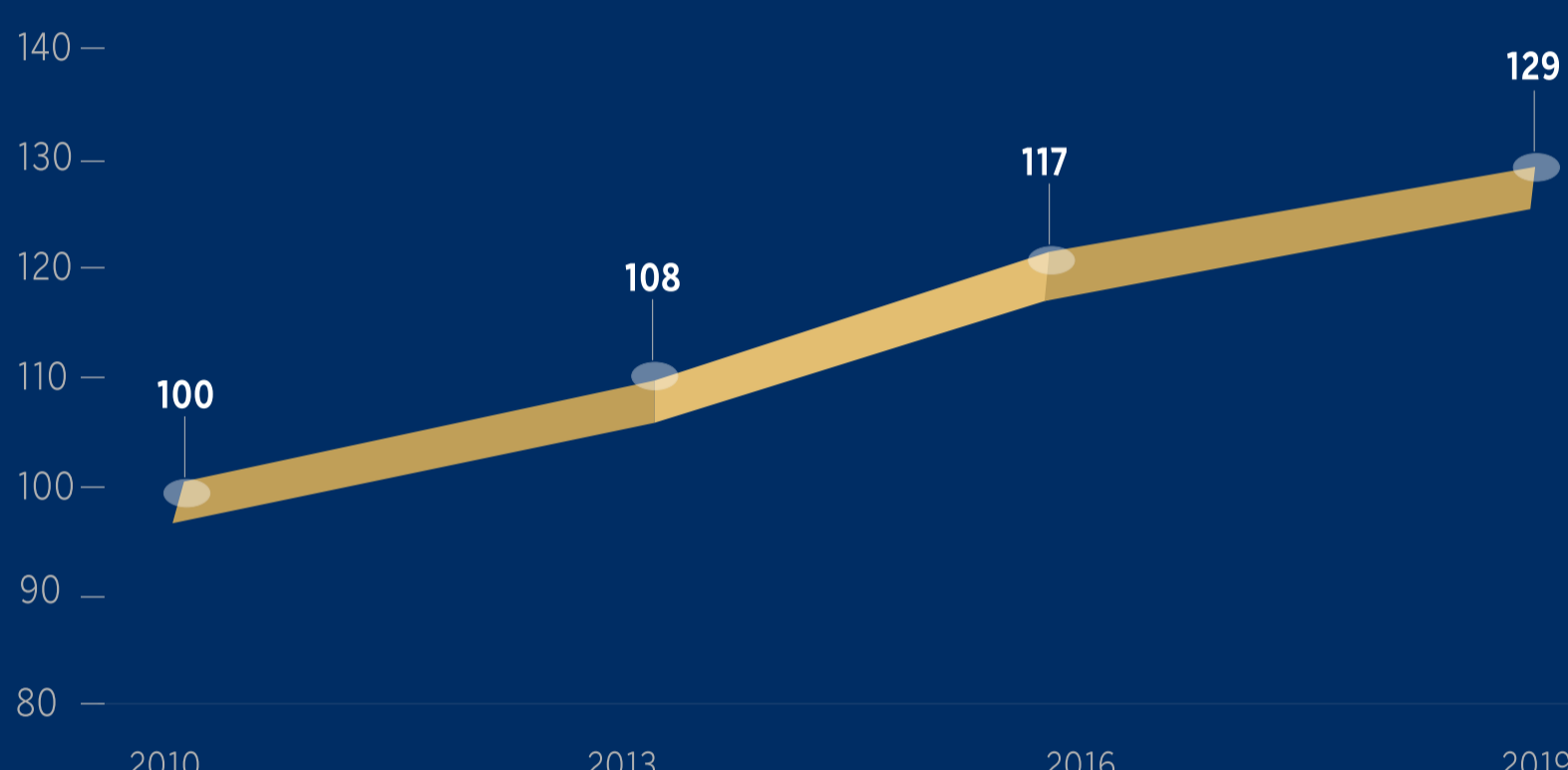


Investment and consumption

Private consumption index (2010=100)



Private consumption has kept up momentum and is now one of the chief drivers of growth in Mexico

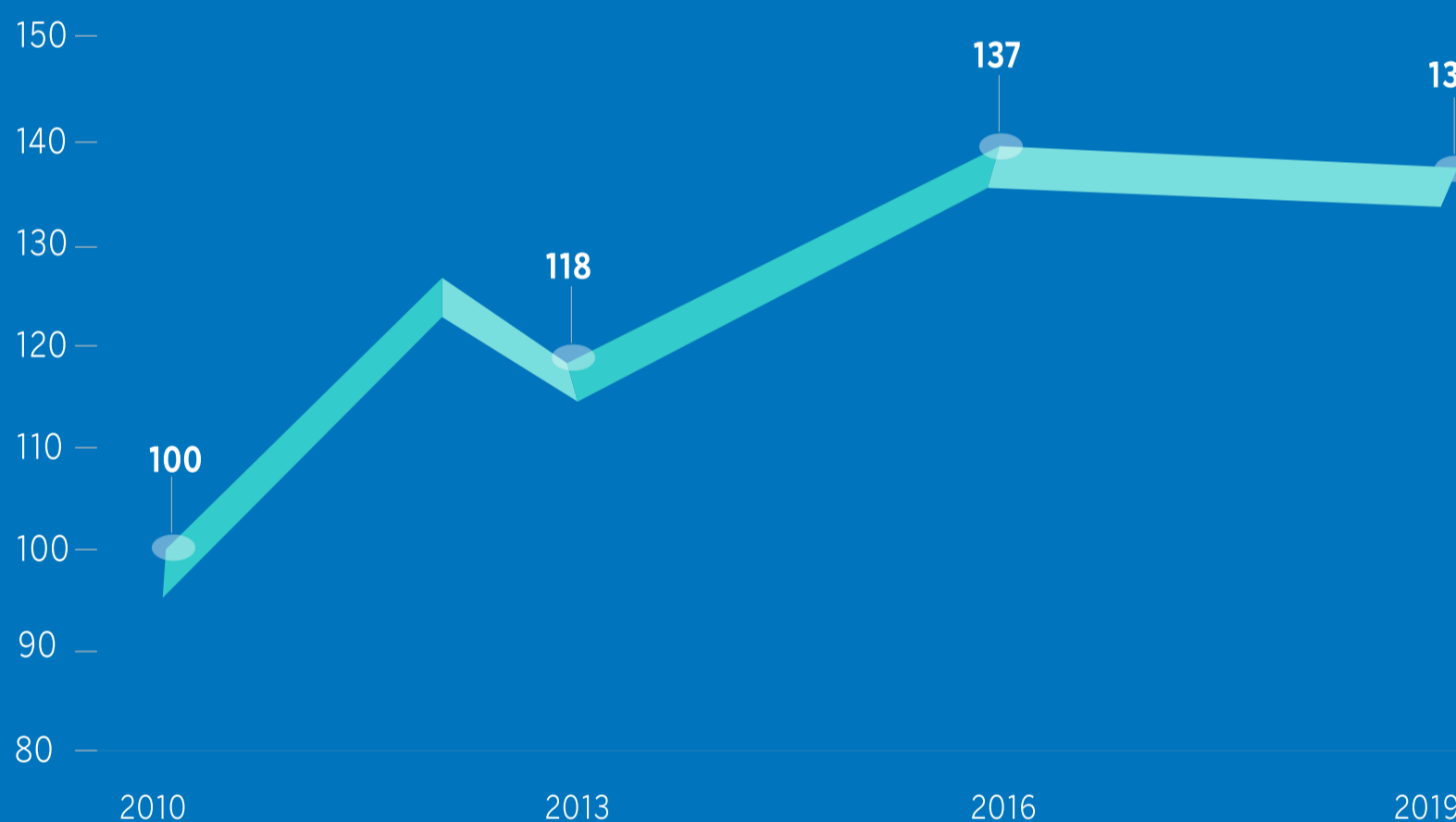


Source: BBVA Research based on INEGI



On the other hand, private investment has lost steam, and a decrease is expected in 2018 due to the climate of uncertainty associated with the presidential elections and the renegotiation of NAFTA

Private investment index (2010=100)



Source: BBVA Research based on INEGI



Inflation will return to Banxico's target range in late 2018, as the supply shocks and the effect of faster exchange-rate pass-through in 2017 wear off

Annual headline inflation (%)



Source: BBVA Research based on INEGI (f) forecast



Monetary policy

NOMINAL INTEREST RATE (% eop)

In spite of the fall-back in inflation, Banxico has made it clear that it is sticking to a precautionary focus in 2018



Year	2016	2017	2018(f)	2019(f)
Rate	5.75%	7.25%	7.75%	6.75%

REAL INTEREST RATE (% ex ante, eop)

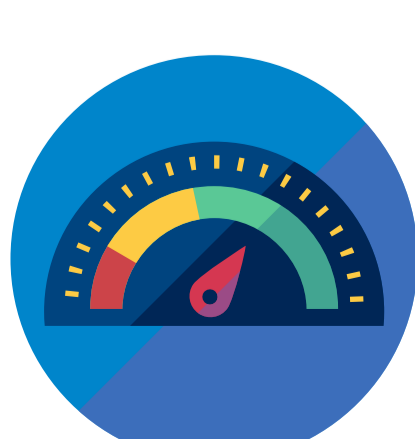
With inflation running at levels of below 4.0%, Banxico can consider more modest rates in 2019 without having to worry



Year	2016	2017	2018(f)	2019(f)
Rate	1.62%	3.29%	4.25%	3.25%

Source: BBVA Research based on Banxico (f) forecast

Risks



The sluggish progress in negotiations over NAFTA will continue to delay the recovery of investment and to affect the exchange rate if they drag on



Brisker-than-expected rate hikes in the United States

