

CLAUDIA SHEINBAUM'S INAUGURAL SPEECH

One of Sheinbaum's main messages was her **commitment to maintaining the "continuity" of the Fourth Transformation (4T)** and most of AMLO's policies and projects. This stance could raise uncertainty about Mexico's business climate.

Additionally, some of Sheinbaum's pledges, such as her support for judicial and energy reforms, along with other statements, may lead to ongoing friction with the U.S., potentially complicating the renewal process of the USMCA in two years. This is an area Monarch will be monitoring closely.

Key Messages from Claudia Sheinbaum's Inaugural Speech

- **Economic Stability:** Sheinbaum committed to maintaining fiscal responsibility, the autonomy of the Bank of Mexico, and ensuring public/private investments are secure. There will be no increases in fuel or electricity prices in real terms.
- **Trade & Industry:** Mexico will leverage the USMCA to boost regional cooperation and attract nearshoring opportunities while promoting sustainable development and infrastructure growth.
- **Social Programs:** Welfare programs will continue with inflation-adjusted increases, including new support for women and children, and an expanded pension system.
- **Energy Policy:** Focus on domestic consumption of oil, maintaining the public-private electricity generation ratio, and promoting renewable energy with a target of 45% by 2030.
- **Infrastructure & Connectivity:** Significant investment in railroads (passengers), airports, ports, cross-border bridges, and housing projects, with an emphasis on public and private partnerships, regional development, and expanding Mexico's role as a logistics hub.

Challenges to Implement the Proposed Projects

- **Fiscal Constraints:** Mexico faces its largest budget deficit in 30 years, and unlike her predecessor, Sheinbaum lacks significant savings to fund major social programs and infrastructure initiatives. In 2018, the budget deficit was 2.0% and in 2024 it will be 5.0% of GDP (with a budget of 26% of GDP, this means that at the close of 2024, the Mexican Federal Government will be short about 20% of the budgeted resources).
- **Oil Production Decline:** The country's oil output has halved since 2004, posing a challenge for future energy self-sufficiency (from 3.5 million of barrels per day in 2004 to 1.8 million in 2024).
- **Energy Demands:** Nearshoring will require substantial investments in energy infrastructure, with a \$41.5 billion gap in electricity capacity over the next five years (during last year public investment in electricity capacity was close to \$1.7 billion).
- **Economic Uncertainty:** Uncertainty in the business climate is heightened by the economic slowdown that always occurs during the first year of government in Mexico; the outcome of the US elections; judicial reform; and USMCA review.
- **Public Spending Pressure:** Social program expansions and minimum wage increases may strain public finances and create potential unemployment risks.

Business Implications

- **Infrastructure & Energy Opportunities:** Companies in infrastructure, renewable energy, and electric vehicle sectors stand to benefit from government projects promoting regional development and energy transition.
- **Nearshoring Potential:** A well-implemented nearshoring program could boost Mexico's GDP by 1-3% and create millions of jobs (between 2 to 4 millions), benefiting a range of industries.
- **Profitability (Pros & Cons):** Potential wage increases mandated by the government may impact company profits, while administrative simplification programs could help reduce compliance costs.
- **Growing Domestic Market:** Expanding social programs will likely increase purchasing power, offering opportunities for businesses targeting Mexico's growing consumer base.