Higher need for cooperation given risks of a global recession

IMF and World Bank Annual Meetings

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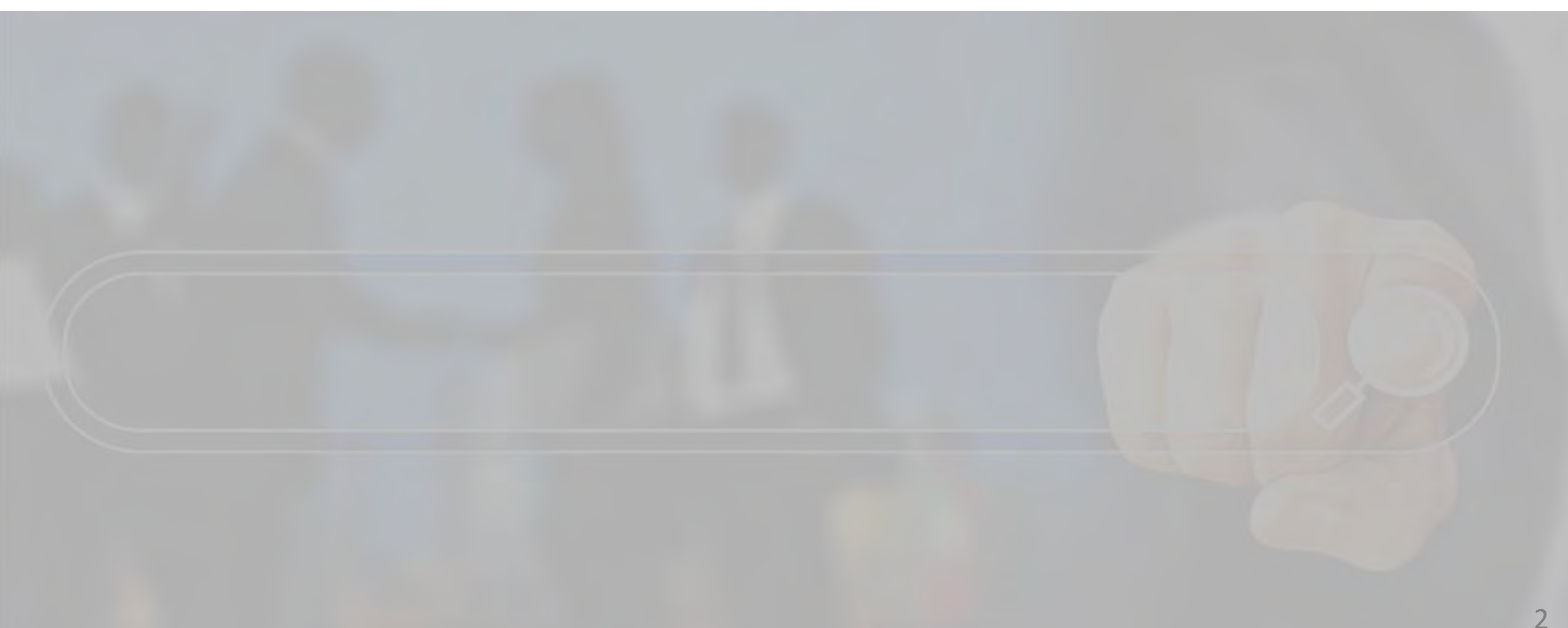

GRUPO FINANCIERO BANORTE

I. Executive Summary

IMF and World Bank Meetings – Higher need for cooperation given risks of a global recession


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Winners of the award for best economic forecasters for Mexico in 2021, granted by Refinitiv

STARMINE AWARDS FOR REUTERS POLLS FROM REFINITIV

Last week, the International Monetary Fund (IMF) and World Bank (WB) annual meetings were held, from October 10th to 16th, with in-person attendance in Washington D.C. for the first time since the pandemic began. This is a forum of great importance due to the gathering of opinion leaders, high-level businessmen and officials from all over the world, which make a diagnosis of what has happened in the world to date. Even more relevant, the goal is to design possible public and private policies and strategies in the face of the challenges, opportunities, and new trends for the short- and medium-term. As on previous occasions, a delegation from Banorte attended these events. We consider it is appropriate to write this research note to capture the most important debates of the past week on several fronts. We believe that they will be of great interest to all decision makers. The most important insights extracted from conferences, meetings, and documents published throughout the week are the following:

- The risk of a global recession later this year or in 2023 has been the central theme. There are ample differences in how countries and regions will cope with this situation. The forecast for Europe was the most pessimistic, followed by many doubts about the outlook for the Chinese economy. In contrast, there is some optimism that the United States could be much more resilient

- The backdrop for emerging market economies is very diverse, albeit they are better prepared than before to deal with ongoing challenges. Nevertheless, there are increasing fears that some countries lose market access –which would make it more difficult to refinance liabilities and increases default risks–, reaching a situation that generates a build-up in social tensions

- The war in Ukraine and geopolitical risks in the world (*e.g.* tensions between the US and China) have contributed to the uncertainty surrounding the magnitude of the recession and the impact on prices. Unfortunately, there is scarce clarity on this front, with a common idea that globalization is facing great challenges. A call was made for more international cooperation although a big push is not expected in the short-term, mainly because Washington is dealing with domestic issues

- High inflation in the world continues to be a meaningful concern. The most obvious consequence is the limitation that it represents for households' real disposable incomes and the possibility that this could widen inequality gaps. We perceived little conviction on when these inflationary pressures could begin to subside. Restrictive monetary policies around the world will extend further, contributing to the idea of a recession

- The world is showing some glimmers of hope about the normalization of production processes and supply chains, although doubts prevail on the timing and reach about when these disruptions can be reversed more clearly. It is important to follow closely the possibility of additional shocks in the price of energy and food items

- We noted genuine fears about the potential for policy errors in a very uncertain environment. This includes the decoupling of monetary and fiscal policy, as has been seen in the UK recently. World leaders have called for cooperation and coordination to advance the common good of the entire planet

- Technological innovations, and the disruptive shock that they bring to various industries –including the financial sector– implies the need to address digitalization from different angles. Beyond processes that could increase productivity and reduce costs and risks, it has also become essential in any discussion to continue addressing cybersecurity issues

- Sustainability policies (ESG) are increasingly important and occupy a central role in the strategic discussions of all actors in the economy. We noted a genuine emphasis on reducing the effects of climate change, while it is also imperative to address social and governance issues

- The private sector will likely remain at the forefront in global efforts to push forward digitalization initiatives and the fight against climate change. There is higher demand for new technologies and ESG-based products. Governments should speed up coordination and cooperation in these fronts to limit the risks stemming from regulatory and supervisory fragmentation

- To the surprise of many participants, Latin America was seen with very good eyes. Probably, the fact that the region is farther away from the epicenter of current problems has offered it a very attractive diversification opportunity. Topics such as '*Nearshoring*' or relocation are a clear advantage, especially for countries like Mexico, which once again won a favorable spotlight thanks to the reconfiguration of international trade dynamics

II. Risks of a global recession in 2023

The world faces a complex backdrop that will dampen economic growth. The central theme of any conference or conversation in Washington was the global recession. Decision makers around the world have expressed their concerns about several factors that allow to anticipate important headwinds for economic activity, among them: (1) The persistence of price pressures faced by firms and consumers; (2) aggressive monetary policy responses through strong interest rates hikes; (3) the conflict in Ukraine and other geopolitical factors; (4) the difficulty that all countries have faced in restoring supply chains; (5) concerns about the challenges of implementing consistent public policies in a highly uncertain environment –as in the case of the United Kingdom– and a possible lack of coordination between monetary and fiscal policy globally; and (6) a complex scenario for a successful energy transition, which has become more complicated in Europe because of Russia's war on Ukrainian territory and less access to low-cost financing. In this environment, the IMF updated its *World Economic Outlook* this week with bearish expectations, highlighting the downward revision to its Global GDP estimate for 2023 (from 2.9% to 2.7%), warning that a third of the global economy will contract in the remainder of this year or next.

Pessimism on Europe, and very cautious about China. It is important to consider that, both the IMF's view and the consensus of participants in the annual meetings, suggest a significant difference in economic activity dynamics for 2023 between countries and/or regions. A much more pessimistic sentiment about Europe was evident due to the combination of adverse global factors, in addition to some idiosyncratic risks in the region mainly associated with the war. On China, the vision is relatively negative, but with some hope grounded on the positive effect that the transition towards a new normality could have as the government moves away from its zero-COVID policy. Notwithstanding the latter, we noted a lively debate about the loss of potential GDP that should be reflected beyond 2023. Especially, due to a mixture of lower productivity gains and more expensive factor costs (*e.g.* labor), as well as substantial changes in some public policies that have recently impacted specific sectors such as real estate, finance, and technology. Nevertheless, the view is that these adjustments have a low probability of translating themselves into a systemic risk. This is why the recent Communist Party Congress has also been so important, which in addition to endorsing Xi Jinping's leadership, also suggests the continuity of current public policies.

On the other hand, we saw more encouraging signs on the US outlook. We were able to clearly perceive an agreement on the thesis that the US economy will be able to navigate worldwide recessionary risks in a better way –especially the view that the Fed will continue increasing its reference rate aggressively in coming months– and end next year with a ‘soft landing’. Consumption strength, combined with a labor market that remains solid, and a favorable financial position for both companies and households, reduce the probability of a crisis. From this perspective, we feel comfortable with our 0.8% GDP growth rate forecast for 2023, which is not too far away from the 1.0% projected by the IMF.

Nevertheless, the most positive surprise was on Latin America. To the surprise of several of us at these meetings, views on Latin America were much more favorable despite the important changes that have taken in public policy frameworks in countries such as Chile, Colombia, and Peru, as well as lingering doubts about who will win the presidential election in Brazil at the end of this month. Monetary policy has responded early and with relative strength, fostering credibility and financial stability. Nevertheless, optimism was mainly driven by the region's remoteness from the epicenter of the greatest risk factors, as well as the opportunities that ‘*Nearshoring*’ has brought to the region. In contrast, Asian economies will suffer from China’s economic weakness.

Based on this, there was hefty interest in Mexico as a player that will have many opportunities in the reconfiguration of international trade. Its strategic geographic location, together with the ‘know-how’ that has been built over many years in industries such as autos, pharmaceutical and electronics, among others, have put it in the eyes of global investors. Another tailwind that could also help in the short- and medium-term is demographics. This explains the estimation of the Inter-American Development Bank of a potential close to US$35 billion of additional exports per year from *Nearshoring* for Mexico. Broadly speaking, we concur with the comments of several attendees that the Mexican economy will suffer from the global recession in 2023, but to a lesser extent than other countries due to its high integration and dependence to the US economy. In the mid-term, Mexico will have to strategically manage the challenges and opportunities that this important change in international trade trends will bring around.

World Economic Outlook growth projections – October 2022
% y/y, 2022 and 2023*

Source: IMF

III. The greatest geopolitical risk is the war in Ukraine, with low visibility about its evolution

In geopolitics, pessimism is concentrated in Europe because of the war… We think that the most pressing concern is uncertainty about the evolution of the war between Russia and Ukraine, as well as its direct and collateral effects, especially on the energy market. The war won't end anytime soon, and its impact will remain very complex, with negative comments overall about this region. In this sense, the outlook depends almost exclusively on how the war develops. Talks focused on the disruptions that could arise from changes in the energy sector's map and value-chain, along with the test that this will represent for the political stability and cohesion among European countries. In a highly likely scenario of a strong recession amid high inflation, solidarity will be critical. But on previous occasions on the brink of a crisis, this has been quite complicated to achieve, at least at the early stages. Challenges include determining which will be the best industrial policy for the region, the stability of the electricity grid, and even if rationing of energy supplies could be implemented during the upcoming winter. Before the war broke, the Eurozone was spending around €25 billion per month in energy imports, especially oil and gas. The latest data shows a tab closer to €55 billion by July 2022, a figure that could easily reach up to €60 billion, equivalent to 5.5% of GDP. Hence, this is an unprecedented shock. Households could see their utility bills rise from around €150 up to €500 per month only because of this concept. It was also very interesting to know that, if the rise in energy costs persists during the next five years, a massive relocation of manufacturing production to other regions could be in the cards due to competitiveness losses. Nevertheless, this is not expected to happen in the short-term as relocating is time consuming and complicated.

The reality is that economic sanctions and the plan to impose a price cap on Russian oil could lead to a market meltdown that Middle East countries, particularly Saudi Arabia and the UAE, will not be able to compensate with additional supply. Meanwhile, countries such as Iran or Venezuela are not expected to help in alleviating the situation in the short term. To the latter we should add the potential US export restriction of crude oil and refined products. In this respect, the Eurozone could even face an energy crisis for several years. This has heightened regional leaders' fears and may well result in more geopolitical problems globally.

...while emerging markets will have to stay cautious, despite responding swiftly and with determination. Given the nature of the issue, this shock has reverberated all over the world. For emerging markets, the main challenge is the tradeoff between the need to stimulate and increase subsidies to lessen the impact of higher energy and food costs, against their inflationary effect and the need to hike interest rates. Also, managing financial market volatility and its impact on investment flows, especially those of short-term nature that finance external accounts. Notwithstanding, we noted more optimism because central banks reacted much earlier than in developed markets, fostering stability and their own credibility. The recommendation is to not let their guards down as it is possible that this shock results in structural changes in price dynamics, the labor market, productivity growth, among others. Looking ahead, more coordination between government policies is necessary. Moreover, it is very important that inflation expectations remain anchored, external accounts do not get heavily unbalanced, and to avoid complacency. There are growing doubts about the possibility that certain countries will experience more limited access to financial markets, affecting their liquidity. On this last topic, it is important to know that China is a relevant trading and financial partner for these countries, but resources have been reduced. Meanwhile, multilateral institutions have not provided enough support.

More favorably though, in general, emerging markets are in a better situation than in the 2007/2008 Global Financial Crisis or during the COVID-19 shock. This has been driven by: (1) The early start of rate hiking cycles and more monetary policy credibility; (2) less dependence on USD short-term debt, with more profound local markets; and (3) higher fiscal credibility and rules that have increased foreign investor confidence.

IV. A close race in the US Senate, with a limited impact for the rest of the world in the short term

Uncertainty about the US midterm elections due to changing swing voter dynamics, with attention on the Senate. The other big theme was the US midterm elections, to be held on November 8th. These are held every two years, with races for the full House of Representatives (435 seats), a third of the Senate (34 of 100 seats), and 36 state governorships. Overall, attention was centered on the Senate, where Democrats and Republicans have 50 seats each; nevertheless, the majority is held by the Dems because of Vice President Kamala Harris's tie-breaking vote. We had the impression that the election will be very close and more difficult to predict than previously expected. Several factors help explain this, not only the fact that Republicans must win only one seat to take control.

Historically, these elections are considered a referendum of the party at the White House. According to the *Cook Political Report*, in the Lower House, 36 of the last 39 midterm elections since the start of the Civil War have been lost by the party in power. Nevertheless, Senate races are more idiosyncratic, less representative of the general political climate, and depend more on the strengths and weaknesses of each candidate.

Since direct elections of Senators started on 1914, the President's party has lost only 19 of 26 midterms. At the start of the year, predicting the result seemed relatively easy as Democrats were facing two big headwinds: the war in Ukraine and high inflation. Nevertheless, two events during the summer induced a radical shift: (1) The Supreme Court decision to ban the constitutional right to abortion on June 24th, pushing increased activism by Democrats, mostly in urban areas; and (2) the increasing problems of former President Donald Trump with the Justice Department over the Jan 6 attack on the Capitol –with hearings at the Lower House starting in June– and the Mar-a-Lago boxes of classified documents, with the pivotal moment being the FBI search on August 8th.

As a result, the election is not only a referendum of the Democrats, but also about the stance and actions of the Republicans. According to this report and its National Editor, Amy Walter, the most relevant thing to watch is the behavior of so-called 'swing voters'. Despite polls overwhelmingly showing that they disapprove Biden, voters may well favor the Democrats.

Among the possible reasons, she said that Republicans are at a great disadvantage as they have many exotic or problematic candidates, which are attractive only for the most radical Trump supporters. This includes stories of political or professional missteps, extreme rhetoric and actions, and undesirable political careers. In addition, these voters are very frustrated by the country's rising polarization. In this respect, speculation is rising that they will prefer to "not send the message" to the current administration, voting instead for the Democrats, which would be a very unusual situation and makes predictions much harder.

Focus on Senate races in six states. From the seats currently controlled by the Democrats, two are the ones that could define the race. These include Nevada (1 seat) and Georgia (1), with the latter even with the possibility of a runoff that would decide the election until December 6th. Pennsylvania is also important, a 'purple' state that has one Democratic and one Republican senator (up for grabs). For the Republicans, four seats are most at risk, with the latest data suggesting a tighter-than-anticipated race in North Carolina (1). Lastly, there is also little room to maneuver in other ´purple' states such as Wisconsin (1) and Ohio (1).

Disputed races in the Senate's 2022 midterm elections

State	Incumbent	Challenger	Probability of winning	
			Democrat	Republican
Georgia	Raphael Warnock (D)	Herschel Walker (R)	60	40
Nevada	Catherine Cortez (D)	Adam Laxalt (R)	50	50
North Carolina	Ted Budd (R)*	Cheri Beasly (D)	29	71
Ohio	J.D. Vance (R)*	Tim Ryan (D)	29	71
Pennsylvania	Mehmet Oz (R)*	John Fetterman (D)	71	29
Wisconsin	Ron Johnson (R)	Mandela Barnes (D)	29	71

*Note: Incumbent is retiring
Source: Cook Political Report, FiveThirtyEight and Politico

Results could be important for US domestic politics ahead of the next Presidential election. On the potential implications, we sensed that domestic issues are more relevant than foreign policies. The administration's current focus is to deal with the economy and high inflation. Generally, the population approves Biden's measures in Ukraine, although its indirect impact on gasoline and food prices is very relevant and is affecting his approval ratings. There are different views on how foreign policy (*e.g.* tensions with China, North Korea and in Ukraine) is shaping his popularity. On the other hand, Republicans' priorities are focused on migration. Not only because of undocumented people, but also the threat from drug cartels and public security in general. In our view, a change in the Senate's control would probably impact the President's legislative agenda and his chances to win a second term in the 2024 Presidential Election, although its effects on other countries, including Mexico, could be less important.

V. The financial industry needs to continue adapting quickly to technological innovations

The digital transformation is at the forefront in the financial industry, focused on clients. A big new trend that we have experienced in the financial industry in recent years has been the incorporation of new technologies and the transformation towards a digital economy. This was a key theme at the roundtables, conferences, and one-on-one dialogues among participants in Washington. We were able to recognize two very clear aspects.

The first is related to all the changes that technological innovation has brought in the digital age.

Given the increase in digitalization, there is a dire need to push forward good cybersecurity practices around the world. Automation, digitalization, greater connectivity with clients, more interconnected systems within industries and with other economic sectors, has also brought important challenges in terms of cybersecurity. This situation has implied strong investments of physical and human resources to mitigate risks and potential damages. World leaders called for cooperation and coordination among all providers and users of the system to strengthen the digital architecture and reduce the vulnerabilities arising from cyber-attacks –which are becoming more frequent and sophisticated. Fortunately, even more significant investments each year have helped to build a safe and reliable ecosystem. Nevertheless, most of the times the weakest link is the final user. Therefore, clearer and more constant communications between companies and customers, as well as more and better educational programs, will help mitigate the risks from different criminal attacks (*e.g.* phishing). According to *Google*, 9 out of 10 cyberattacks begin with a phishing link. In fact, one of the main messages focused on the fact that we must understand the risk-sharing nature of this problem and that cybersecurity is a task for everyone in this ecosystem. Cybercriminals are in constant cooperation and collaboration, while companies, regulators and supervisors are not. The need is even more urgent after considering that defending from these attacks must be successful all the time; on the contrary, criminals must be right only once.

Blockchain's potential goes much further than just cryptocurrencies. The second major aspect is related to the blockchain, understood as a broader concept, that is, several processes and activities that can be done in a more efficient, stable and reliable way. Within the analysis of the blockchain, the role of cryptocurrencies, tokenization (the convertibility of physical assets to digital ones), and the ample discussion between central banks regarding the issuance of digital currencies which could facilitate the transactional nature of money, were also discussed. Although there is still skepticism on part of some investors and authorities, it has also been recognized that this trend cannot be reversed, and it is better to carry out the necessary changes in a timely manner. Likewise, there was an important debate on the role of authorities in terms of regulation and supervision. This is a theme that will continue shaping the entire economy –including the financial system–, requiring an in-depth analysis and ongoing discussions.

VI. The private sector will keep leading the fight against climate change, but governments must step up to the plate

To reach the financial system's goals against climate change, the key is global cooperation and coordination. In our view, the main message was the need to boost global cooperation and coordination in the financial system's regulatory and supervision efforts to fight climate change and advance in the energy transition.

This was repeated several times in the panels and is justified by the global nature of the challenge. Among the problems that financial services companies are facing are the fragmentation of regulations despite global steps already made. This is explained by regulators' evolutionary, and 'trial and error' approach given the difficulties in measuring climate risks, as well as in reaching consensus about the best way to deal with them. Currently, scenario analysis to measure the potential impact, and if it is material or not, is the standard in the industry. Nevertheless, after measuring them –considering that model results are highly uncertain– there is a heated debate about the best course of action to mitigate them, such as establishing additional capital requirements or macroprudential measures (as done by the BoE). On regulations, it is also very important to factor-in that a necessary, but not sufficient, condition is that the primary role of financial regulations is to create a more safe and resilient system. In addition, they must: (1) Ensure that they are effective; and (2) that they do not imply risks for the compliance of other norms. Lastly, there were warnings that measures to fight climate change could have adverse consequences on financial stability. Mark Carney, the UN Special Envoy for Climate Action and Finance, stated that commitments have reached close to 90% of all countries after COP26 in Glasgow. Nevertheless, so far these have been well intended, but vague, so it is necessary to establish specific and actionable measures. Among the goals of COP27, which will be held on mid-November in Egypt, one of the most relevant is to develop a comprehensive framework for all financial institutions that is consistent with the ambition, governance principles, and implementation strategies for the transition. Some of the targets already achieved include the development of best practices and standardized information disclosures. An important challenge will come from the design and implementation of credible targets during the transition process to not fall into moral hazard problems and other agency issues.

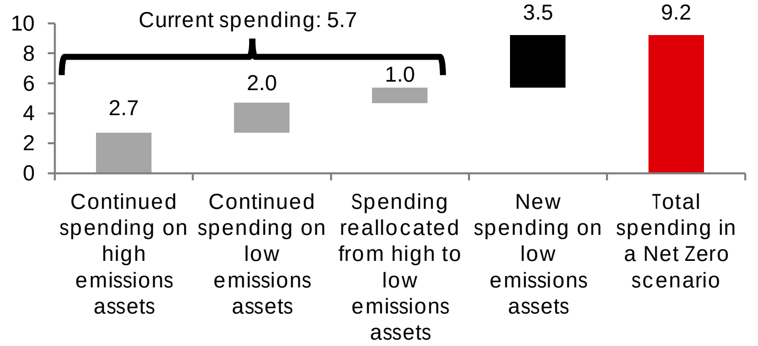
In this respect, incentives should be aligned for all incumbents within the companies to avoid "Greenwashing" and other illusory goals in sustainability practices.

Resources to finance the transition to **'Net Zero'** exist, but more work needs to be done. Under this framework of increased urgency to confront multiple regulatory and supervisory challenges, debates were centered also on the amount of financing and investment that is needed to reach the goal of transitioning to zero net CO2[1] emissions by 2050, as established in the Paris Agreement. First and foremost, there is great uncertainty about the cost. For example, *Goldman Sachs* estimates that about US$5 trillion of investments per year are needed, with half in technologies already available commercially, and the other half in those not yet available, but highly promising. On the other hand, *McKinsey*[2] calculated that around US$275 trillion are required during the next 30 years (between 2021 and 2050). This implies US$9.2 trillion per year (about 7.5% of global GDP on average). At first sight, this amount sounds very high, but the good news is that it is not unreachable as the world already spends about US$5.7 trillion (6.8% of GDP). Nevertheless, the scale of financing is not enough to grasp the size of the challenge, consisting of: (1) The distribution of capital needs, as it requires an acceleration in investment expenditures in coming years; (2) the need of good returns on invested capital to attract investors; and (3) more difficulties for emerging markets, among them: more fiscal revenues that depend on 'dirty' energies, much less bond issuances as a share of GDP than in developed countries, outflows because of more restrictive financial conditions, and several countries with fiscal imbalances.

[1] 'Net Zero' refers to a state in which the greenhouse gases going into the atmosphere are balanced by removal out of the atmosphere. The concept is important because, for CO2 at least, this is the state at which global warming stops. The IPCC concluded the need for net zero CO2 by 2050 is to remain consistent with a rise in global temperatures of 1.5C.

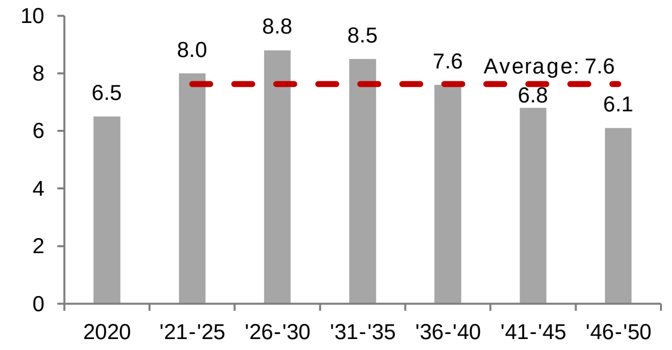
[2] McKinsey Global Institute, *"The Net Zero Transition: What it would cost, what it could bring"*, January 2022

Spending on physical assets in the NGFS Net Zero 2050 scenario
US$ trillion per year, average from 2021 to 2050



Source: McKinsey Global Institute, "The Net Zero Transition: What it would cost, what it could bring", January 2022

Spending on physical assets in the NGFS Net Zero 2050 scenario
% of global GDP



Source: McKinsey Global Institute, "The Net Zero Transition: What it would cost, what it could bring", January 2022

In this context, UN Secretary-General, António Guterres, stated that developed countries must provide or exceed the commitment, made in 2009, of US$100 billion in new financing to developed markets by 2020, which has not been met. In the private sector, Brian Moynihan, CEO of *Bank of America Merrill Lynch,* affirmed that his institution has committed to provide US$1 trillion in green financing during the next 10 years, which will probably be surpassed as they are currently disbursing around US$250 billion a year due to high client demand. Consistent with this, we noted more optimism about the private sector's push in this front, giving us the impression that governments are not stepping up to the plate to reach their stated goals and guide policy forward. On the latter, we saw more concerns that the war in Ukraine and subsidies to fossil-fuel energy will delay the agenda. On the other hand, emerging markets have the unique opportunity to develop their infrastructure towards the transition as they could have additional benefits other than those exclusively related to climate change. Two additional goals in the financial sector are worth mentioning: (1) The need to raise more awareness on the risk management of climate risks within companies –independently of their industry– as they need to assess the potential impact that these issues could have on their capital stock and cash flow generation; (2) implement a more holistic approach about the temporary rise in costs related to the energy transition and other sustainable processes (*e.g. Greenflation*), which should affect short- and mid-term corporate strategies.

The demand for green financial products will remain on the rise. On the positive side, investor demand for 'sustainable' products is on the rise, a trend that is expected to exacerbate in coming years. Among the reasons, we highlight the commitment that some countries have made in placing ESG as a national priority for their sovereign debt, such as Chile; the creation of new instruments to satisfy high demand; and the perception of easier access in primary markets. In this backdrop, the need to create more financial products to manage, cover, and mitigate climate change risks was stressed. Practically all financial institutions, investment funds, global banks and insurance companies, as well as regulators (*e.g.* ISDA, OCC, US Treasury, ESMA) are innovating in the field. For example, in terms of debt markets, these instruments include sustainable and green bonds, along with loans contingent on KPIs linked to the UN's 17 Sustainable Development Goals. Growth has been observed in decarbonization consulting businesses, ESG data providers, 'green' investment funds and the development of carbon credits and bonds, to mention a few. In this environment, the key is to educate clients on how this could affect their operational and business risks, as well as engage in the necessary consultations to transit towards the new economy. Nevertheless, given the plethora of regulations in several countries, and the speedy evolution of sustainability principles, it is necessary to imbue investors with more confidence and scale up the creation and distribution of these products. Lastly, we identified some doubts about the impulse that could be seen in emerging markets because of the difficult macroeconomic environment, including the rise of the dollar, higher interest rates, greater needs for servicing debt payments, the diversity of geopolitical risks, and capital outflows from these countries.

VII. Conclusion and final thoughts

The world faces a highly complex scenario on many fronts, clearly requiring more cooperation and coordination of public policies and joint strategies between governments, companies, and societies. These include acting on economic, social, political, regulatory and supervision aspects, among many other fronts. Fears about a global recession at the end of this year or in 2023 were the main theme, with widespread ramifications. Specifically, doubts persist about whether the world has changed structurally –because of COVID-19, the war, and the deglobalization process– or if the shock is only temporary. The geopolitical landscape also looks bleak, especially because of the conflict in Ukraine, which in turn could be a big obstacle for some of the steps already made towards the future.

On a more positive side, we were enriched by the genuine interest of all economic agents to keep promoting sustainability policies, as well as the changes necessary to address such important trend changes as technological innovations and digitalization. To our surprise, the pandemic was not mentioned (except in the case of the zero-COVID policy in China, which was highly criticized), reaffirming our sense that we have already transitioned to a new normal around the world. While telecommuting, home office, and virtual conferences have helped to continue with the discussions at these annual meetings in recent years, the added wealth gained from in-person meetings is invaluable.

For Mexico, very attractive opportunities exist. Among them, we highlight elevated interest about '*Nearshoring*', the advantages of accelerating the adoption of new technologies to insert ourselves fully in the digital age, as well as to decisively confront the risks stemming from climate change and opportunities because of the energy transition. Moreover, prudent, and cautious economic policies, are even more important in this complex global environment. Timely fiscal and monetary policies are very important in fragile and volatile global financial markets. It will also be critical to avoid the build-up of external account imbalances to strengthen stability given more restrictive financial conditions that could last longer than anticipated. This will help to keep the attention of companies, investors, and governments worldwide about the economic potential of our country, which in turn should help rise living of the Mexican population.

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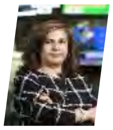

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Analyst Certification

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Daniel Sebastián Sosa Aguilar and Salvador Austria Valencia certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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