

## Mexico

The growth rate of Mexican GDP slowed from 4.8% in 2006 to 3.3% in 2007, which reflected the slowdown of the United States economy. Low demand from Mexico's neighbour resulted in a less buoyant manufacturing industry (the main source of exports), with growth dropping from 4.7% in 2006 to less than 1% in 2007. Despite higher petroleum prices, which provided flexibility for public spending and helped to achieve the fiscal balance target, hydrocarbon exports lost momentum due to a fall in volumes. As for imports, their continued buoyancy resulted in the trade deficit almost doubling in size.

Private consumption increased by around 4% thanks to the expansion of employment, credit and, to a lesser extent, remittances. Capital formation rose by almost 6%, mainly on the strength of machinery and equipment, while construction waned.

Inflation is expected to come in at 4%, as a result of higher international prices for food and energy, as well as rises in some domestic prices. There were hikes in the production costs of certain foods: maize prices were affected early in the year and the floods that struck Tabasco and Chiapas towards the final quarter affected over a million people, with marginal repercussions for economic growth expected next year.

In 2008, the Mexican economy is expected to grow at the same rate of 3.3%, on the back of the domestic market and investment generated by the launch of the National Infrastructure Programme 2007-2012. Inflation is estimated to be 3.5%, and a virtual fiscal equilibrium is also forecast. This greater economic growth could swell the current-account deficit to over US\$ 8.0 billion (1% of GDP).

Public-sector revenues increased by 2.4% in real terms between January and September, as oil revenues (34.2% of total receipts) dropped by 4.6%, while non-oil revenues rose by 6.4%.

**MEXICO: GDP, INFLATION AND UNEMPLOYMENT**



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Oil revenues declined as a result of the 22.6% fall in hydrocarbon duties and facilities due to lower natural gas prices, smaller volumes of extracted crude and a fall in the amount paid in tax. In contrast, the revenues of the parastatal enterprise Petróleos Mexicanos (PEMEX) grew by 66.4% in real terms as the price of petroleum rose to US\$ 56.37 per barrel by the end

of the third quarter, which was much higher than the US\$ 42.5 per barrel set out in the general economic policy guidelines.

There were two main factors behind the expansion of non-oil revenues: first, the considerable increase in duties and facilities, and second, higher receipts from income tax, VAT and the special tax on production and services. In the case of VAT, the improvement was due to increased sales. As for the special tax on production and services, it was due to increased receipts from alcoholic beverages and tobacco. Higher-than-expected receipts made it possible to raise real budgetary expenditure in the public sector by 2.7% between January and September, at the time of a 5.2% rise in current expenditure and, above all, a 15% rise in capital expenditure. Physical investment expanded by 2.5% to represent 15.8% of programmable spending. Public-sector borrowing requirements are estimated to stand at 1.6% of GDP, which is double the amount recorded in 2006.

In September, Congress approved an amended version of the fiscal reform initiative proposed by the executive. The reform will enter into force in 2008 and includes the following: (i) a new law on flat-rate business contributions that will initially tax companies at 16.5%, increasing on a yearly basis to 17.5% in 2010; (ii) a reformed tax regime to provide PEMEX with additional resources; and (iii) a 2% tax on cash bank deposits above 25,000 pesos a month, in order to discourage informal employment. With the adoption of this law, the government expects tax revenues to rise by 1.1% of GDP in 2008, and by up to 2.1% in 2012.

The federal government purchased international reserves from the central bank to cover debt bonds maturing in 2006 and 2007 to the tune of US\$ 4.767 billion. Up to September 2007, amortization of external liabilities amounted to US\$ 5.806 billion. Also in September, net external debt represented 4.6% of GDP. Internal public debt reached 15.8% of GDP, which was 1.4 percentage points higher than in 2006.

Monetary policy aimed to maintain inflation at around 3%. However, inflationary pressure increased throughout the year due to rising international food prices (especially grains and dairy products), which resulted in a 3.97% annual increase in the consumer price index up to November (with the figure expected to be 4% for the year as a whole). In order to curb inflationary pressure, in October the central bank decided to restrict monetary conditions by raising the cost of funds by 25 basis points to 7.5%. The central bank also announced that, from 21 January 2008, it will use the one-day interbank interest rate to regulate the

#### MEXICO: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	2.8	4.8	3.3
Per capita gross domestic product	1.9	3.7	2.1
Consumer prices	3.3	4.1	3.9 <sup>b</sup>
Average real wage <sup>c</sup>	-0.3	0.4	1.2 <sup>d</sup>
Money (M1)	11.0	16.2	13.2 <sup>e</sup>
Real effective exchange rate <sup>f</sup>	-3.2	0.1	0.6 <sup>g</sup>
Terms of trade	1.9	0.5	0.0
<b>Annual average percentages</b>			
Urban unemployment rate	4.7	4.6	4.8 <sup>h</sup>
National administration overall balance / GDP	-0.1	0.1	0.0
Nominal deposit rate	7.6	6.0	6.0 <sup>i</sup>
Nominal lending rate	9.9	7.4	7.5 <sup>j</sup>
<b>Millions of dollars</b>			
Exports of goods and services	230 299	266 218	287 354
Imports of goods and services	242 599	278 087	305 676
Current account	-4 665	-1 994	-6 975
Capital and financial account	11 830	991	12 475
Overall balance	7 164	-1 003	5 500

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2007.

<sup>c</sup> Manufacturing industry.

<sup>d</sup> Estimate based on data from January to September.

<sup>e</sup> Twelve-month variation to September 2007.

<sup>f</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>g</sup> Year-on-year average variation, January to October 2007.

<sup>h</sup> Estimate based on data from January to October.

<sup>i</sup> Average from January to November, annualized.

<sup>j</sup> Average from January to September, annualized.

credit-money market, which is in line with the practice in other countries.

As inflows of foreign exchange continued to flood the exchange market, the peso gained ground against a weakened dollar, which led to a slight real appreciation of the peso (0.34%) in the 12 months up to September 2007.

The ongoing process of remonetization caused the monetary base to expand by 12.3% in September 2007 in comparison with the year-earlier period. Monetary aggregates grew by slightly less than in 2006, in keeping with slower economic activity. The reduction in public-sector borrowing requirements helped to maintain the availability of resources for the private sector.

Credit provided by commercial banks to the private sector continued to grow in double figures. Credit to companies, which had been the least buoyant in recent years, expanded by 34% between September 2006 and September 2007. Consumer loans were up by 23.8% and mortgage loans by 22.3% in the same period. The delinquency ratio (non-performing loans as a proportion

of the total portfolio) of loans by commercial banks to the private sector was 4.12% in June 2007, which was 0.92 percentage points higher than in June 2006.

The central bank continued to use the auction mechanism for slowing the accumulation of international reserves and US\$ 2.901 billion were sold up to 31 October. The reserve stock registered a net variation of almost US\$ 6.8 billion in relation to the year-earlier period and reached US\$ 75.538 billion.

One determining factor in economic activity was the slowdown in demand from the United States, which failed to be offset by higher sales of cars and other durables to Japan and the European Union. Internal demand, following six months of extremely slow growth, is estimated to have gradually expanded in the second half of the year in response to the recovery in employment and credit.

The positive performance in terms of supply was spearheaded by services, which grew by around 4% as a result of the good results in communications and transport, as well as financial services and insurance. Manufacturing lost momentum due to reduced production of wood and wood products, textiles and clothing and other manufactures, while production increased in machinery and equipment, paper, printing and publishing and non-metallic minerals. Particularly striking was the 10.3% annual expansion (October to October) of automobile production, especially for the export market.

Owing to reduced economic buoyancy, the employment rate dipped slightly, and open unemployment rose from 3.6% of the economically active population (EAP) between January and September 2006 to 3.8% in the same period of 2007. According to the national survey on occupation and employment, 11.2% of the economically active

population were in critical employment conditions in the third quarter of the year, while almost 27% were in informal employment. However, there was relatively fast growth in the number of people affiliated to the Mexican Social Security Institute (IMSS) (5.7% in October compared with the year-earlier period), although just over 50% of the jobs created were temporary. The sectors to generate the highest number of permanent jobs were business, personal and household services (213,224), commerce (86,410) and construction (77,432).

As a result of the slower economic pace in the United States, the growth rate of the value of exports more than halved from 19.8% between January and September 2006 to 6.6% in the same period of 2007. At the same time, there were striking increases in imports of consumer goods (15.1%) and capital goods (11.6%). All of the above generated a trade deficit that was US\$ 5.633 billion wider than it was in the period January-September 2006. The non-oil trade deficit stood at 4.3% of GDP.

The share of Mexican exports in total United States imports went from 10.7% in the first three quarters of 2006 to 10.8% in the same period of 2007, while China's share increased by 1.5 percentage points to reach 16.5% of the United States market. The current account deficit is expected to weigh in at around 1% of GDP (US\$ 8.0 billion). The growth rate of family remittances fell due to the sluggishness of the United States economy, particularly the construction sector. Up to September, such remittances represented revenues of US\$ 18.2 billion (1.3% more than in 2006). In 2007, foreign direct investment (FDI) is expected to range between US\$ 21.0 billion and US\$ 23.0 billion. In the first six months of the year, increased flows of FDI were channelled into the automobile industry, household appliances and services.