Mexico

ECLAC estimates Mexico's GDP growth for 2015 at 2.5%, compared to the 2.2% recorded in 2014, fuelled mainly by stronger consumption in the second half of the year and moderate export growth. Year-on-year inflation is expected to come in at 2.5%, which is inside the central bank's target range of 2.0% - 4.0%. The national unemployment rate will be around 4.3% (it averaged 4.8% in 2014); and the public sector fiscal deficit is set to widen to 3.5% of GDP, compared to last year's 3.2%. The balance-of-payments current account deficit is projected to be around 2.5% of GDP (1.9% in 2014).

Economic policy in 2015 sought to preserve macroeconomic stability in an adverse international context amid low international oil prices and their impact on public finances.

A prudent fiscal policy was implemented with the aim of ensuring long-term debt sustainability without discouraging economic activity. On 30 January 2015, the Ministry of Finance and Public Credit announced public spending cuts of 124 billion pesos, equivalent to 2.6% of the year's total budgeted expenditure and 0.7% of GDP. Current expenditure will bear 65% of this cutback and capital spending 35%, with the latter to be more keenly felt in the second half-year.

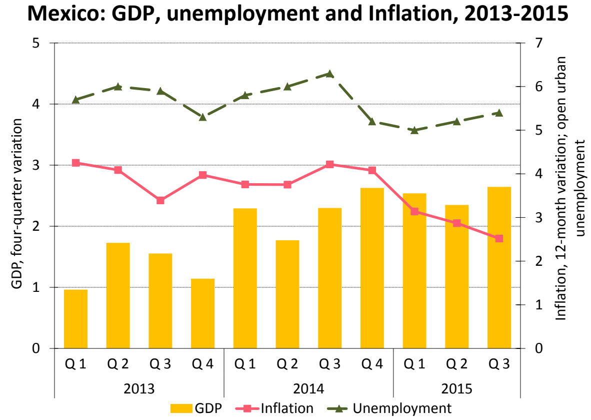
From January to September 2015, public sector income was up by 3.4% in real terms, relative to the prior-year period. Non-oil income, which represents about 80.4% of total public revenue, grew by 22.4%. Within this category, tax revenue was up by 29.5% (partly reflecting one-off effects, such as the abolition of the tax consolidation regime and administrative improvements in procedures for withholding income tax on public sector wage), together with a 32.6% reduction in non-tax income. The growth of tax revenue offset the 36.7% drop in oil revenues that occurred in the same period.

Between January and September, the total expenditure of the budgetary public sector increased by 3.9% in real terms, virtually half the rate recorded in the first half of the year (7.7%). Current and capital expenditure climbed 2.4% in real terms, although the personal services category decreased by 1.6%. As of the third quarter of 2015, the public deficit stood at 5.1% of GDP, which is larger in real terms than in the year-earlier period.

In September 2015, the net debt of the federal public sector represented 43.5% of GDP, nearly 5 percentage points higher than at the close of the previous year (38.8%), owing partly to the exchange-rate adjustment that has taken place over the past 12 months. Public debt balances have risen continuously since 2008 (by just over 20 percentage points of GDP), while the historical balance of public sector financing requirements reached 46% of GDP. Although currently sustainable, the pace and trend of borrowing in the long term needs to be monitored.

Under the Federal Revenue Act, for 2016 the government is forecasting revenue to be 1.6% below the amount estimated for 2015; and expenditure cuts equivalent to 0.8% of GDP have been announced.

Mexico: GDP, unemployment and Inflation, 2013-2015



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

Monetary policy during the year has been mildly expansionary, with the central bank holding its benchmark rate at 3.0% from June 2014 to November 2015. Thus, in the prevailing conditions of slack growth and low inflation, the central bank has refrained from altering the monetary policy rate.

The average lending rate, applicable to credit cards and mortgage loans, reached 28.6% in late October (representing a real interest rate of 25.4%, nearly two percentage points higher than in 2014). Meanwhile, the deposit rate —defined as the cost of deposit-taking for service banks— was 3.0% (0.5% in real terms, or just over 1 percentage point above the year-earlier level).

In September 2015, the total current loan portfolio held by commercial and development banks was 13.4% larger in real terms over the year, partly reflecting precautionary behaviour in the expectation of interest rate hikes in the near future, in line with the measures adopted by the United States Federal Reserve. Current loans to businesses and private individuals were up year-on-year in real terms by 15.4%, loans for housing by 9.7%, and consumer loans by 6.4%.

Mexico: main economic indicators, 2013-2015

	2013	2014	2015 [a]
	Annual growth rate		
Gross domestic product	1.4	2.2	2.5
Per capita gross domestic product	0.0	0.9	1.2
Consumer prices	4.0	4.1	2.5 [b]
Real average wage [c]	-0.1	0.4	1.4
Money (M1)	7.5	13.9	16.7 [b]
Real effective exchange rate [d]	-5.0	1.4	12.4 [b]
Terms of trade	-0.1	-5.1	-4.7
	Annual average percentage		
Open urban unemployment rate	5.7	5.8	5.1
Public-sector			
Overall balance / GDP	-2.4	-3.2	-3.5
Nominal deposit rate [e]	3.9	3.2	3.0 [f]
Nominal lending rate [g]	27.9	28.6	28.6 [h]
	Millions of dollars		
Exports of goods and services	400,923	418,952	405,888
Imports of goods and services	412,815	433,977	435,709
Current account balance	-29,680	-24,036	-35,733
Capital and financial balance [i]	47,468	40,365	21,980
Overall balance	17,789	16,329	-13,753

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a Estimates.
b Figures as of October.
c Average wage declared by workers covered by social security.
d A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.
e Commercial banks fix term deposit rate.
f Figures as of November.
g Average of the rate of commercial banks credit cards and the average rate of mortgage credits.
h Figures as of September.
i Includes errors and omissions.

In the first 10 months of 2015, the Mexican peso depreciated against the dollar by 15.7% in nominal terms (12.9% in real terms), with respect to its end-2014 level. This development was chiefly a reflection of uncertainty as to when the Federal Reserve will start raising its monetary policy rate, compounded by reduced foreign-exchange earnings from oil exports and the slowdown in the Chinese economy. Given this scenario, the central bank's Foreign Exchange Commission strengthened the mechanisms for providing liquidity to the foreign-exchange market, by offering a total of up to US$ 400 million in daily dollar auctions, both with and without a minimum price, in the period running from 30 July 2015 to 29 January 2016. The Foreign Exchange Commission will decide later whether to extend the period.

That intervention in the foreign-exchange market produced a shift in international reserve accumulation in 2015, and the level of reserves fell back to US$ 171.882 billion in late November from the US$ 191.362 billion recorded 12 months earlier. The 2015 amount was equivalent to 16.6% of GDP or 5.5 months of import cover. Mexico also has a flexible line of credit of around US$ 70 billion with the International Monetary Fund (IMF).

As part of the implementation of the energy reform, the government has completed two of the three phases of the first round of tenders for shallow water oil exploration and extraction in the Gulf of Mexico. The first phase of this round, held in July 2015, succeeded in awarding only two of the 14 blocks being auctioned, fewer than had been forecast by the Ministry of Energy. September's second phase achieved better results, with three of a total of five blocks being awarded. The third phase of the tender for onshore fields will be held in December.

The 12 countries that make up the Trans-Pacific Partnership Agreement (TPP) concluded negotiations in October 2015. If implemented, this will be the largest trade agreement that Mexico has signed since the North American Free Trade Agreement (NAFTA), which came into force in 1994.

From January to October 2015, total exports declined by 3.6% year-on-year in value terms (lower prices outweighing a 16.6% increase in volume), owing to a steep fall in oil exports (44.1%) that was not offset by growth of non-oil exports (1.5%). The moderate pace of industrial activity in the United States elicited a slight increase in Mexican manufacturing exports (1.5%). On the import side, values were down by 0.6% in relation to the same period in 2014, as the net result of a 1.4% rise in the non-oil category and a 17.8% drop in oil imports. Imports of consumer goods and intermediate goods were down by 3.2% and 1.0%, respectively, in the 12-month figures, whereas capital goods imports climbed by 6.4% year-on-year.

As a result, the trade balance accumulated a deficit of US$ 11.965 billion in the first 10 months of this year, compared to the US$ 2.082 billion shortfall reported for 2014 in the same period. The terms of trade declined by 14.0% (following a 5.1% fall at end-2014).

Income from family remittances totalled US$ 20.696 billion to October 2015 (equivalent to 1.7% of GDP), representing year-on-year growth of 5.4%. In the first half of the year, foreign direct investment (FDI) came to US$ 13.750 billion (equivalent to 1.3% of GDP) — 8.0% lower than a year earlier.

Expanding economic activity in 2015 reflected a steady improvement in the domestic market and a measured performance of the global economy. In the first six months, total consumption grew at a year-on-year rate of 3.0%, and gross domestic investment rose by 5.1%. As a result, GDP grew by 2.5% and 2.3% in the first and second quarters of 2015, respectively (in seasonally-adjusted, year-on-year terms); and there was a further 2.6% expansion in the third quarter. Primary activities were up by 3.8%, on the back of a strong performance from the agriculture sector; the tertiary sector expanded by 3.2%, and secondary activities by 1.2%.

As of the first fortnight of November 2015, year-on-year core inflation was 2.35%, and the headline inflation rate had fallen to a 45-year low of 2.27% —thanks to the reduction in mobile phone charges and lower prices for energy products and certain agricultural goods, and despite the steep depreciation of the Mexican peso over the year. By contrast, the producer price index (including the services sector, but excluding oil) reported inflation of 4.94% in October 2015 compared to 2.82% 12 months earlier.

The seasonally-adjusted annual national unemployment rate averaged 4.4% between January and October 2015, compared to 4.9% in the year-earlier period. The labour market participation rate dropped slightly from 59.9% to 59.7% in the same period, whereas underemployment edged up from 8.1% to 8.2%, and the average informality rate was unchanged at 57.8%.

The National Minimum Wage Commission set the general minimum wage at 70.10 Mexican pesos per day nationwide as from 1 October 2015, thereby eliminating wage stratification by economic zones. Combined with the 4.2% nominal increase applied in January 2015, this brought the real gain in the general minimum wage to 4.1% for the year overall, the largest hike since 1976.

For 2016, ECLAC forecasts GDP growth around 2.6%, with a stronger boost from external demand likely to be offset by lower public expenditure, given the reduction in oil revenues resulting from low prices and moderate output levels. Inflation will be close to 3.0%, in line with the central bank's target; the unemployment rate is projected to be similar to the previous year's figure; the public sector deficit will hold steady at around 3.0% of GDP; and the balance-of-payments current account deficit is expected to reach around 2.6% of GDP by the end of the year.