Mexico

ECLAC estimates that the Mexican economy will post growth of 2.2% in 2018, slightly higher than the level seen in 2017 (2.1%), owing mainly to an improvement in the external sector (particularly stronger trade with the United States) and the positive impact of reconstruction following the natural disasters of 2017. Inflation is expected to stand at 4.6% in 2018 (compared with 6.8% in 2017) and to remain above the central bank's target range (between 2% and 4%) for the second year in a row. Unemployment is forecast at 3.3%, slightly lower than in 2017 (3.4%), while the public sector fiscal deficit is projected to represent about 2.0% of GDP (versus 1.1% in 2017) despite expectations of a small primary surplus (0.8% of GDP), and the balance-of-payments current account deficit is expected to come to 1.9% of GDP at the end of the year (compared with 1.7% in 2017).

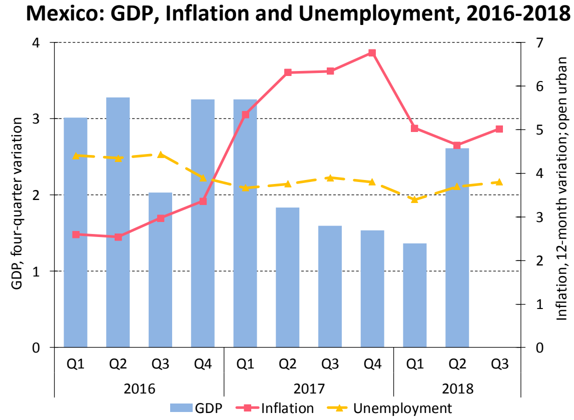
The elections in July 2018 led to changes in the presidency, senate, chamber of deputies and other positions of authority. The winner of the presidential elections was Andrés Manuel López Obrador, who obtained the largest number of votes in Mexico's recent history.

On the fiscal front, public sector revenue fell by 4.2% in real terms between January and September 2018 compared with the year-earlier period, owing to a 7.8% drop in non-oil revenue (equivalent to 81% of total revenue), while public sector oil revenue climbed 15.2% in real terms thanks to the increase in global prices. Within the non-oil revenue category, although tax revenue grew by 0.6%, non-tax receipts plummeted 59% in real terms given that the Bank of Mexico's operating surplus equivalent to 1.5% of GDP was included in the year-earlier period but not in that of 2018. For comparison purposes, excluding the operating surplus in both periods, budgetary revenue grew by 4.3% in real terms. Total public sector spending climbed 5.1% in real terms in the first nine months of 2018, compared with the year-earlier period. This increase stemmed mainly from the contributions to stabilization funds in February 2018, larger transfers to federal entities and the higher operating costs of power generation owing to higher global fuel prices. Current primary spending rose by 4.8%, while capital spending fell 4.0%. Financial costs jumped 11.4% in real terms, while interest, fees and expenses rose by 13%, also in real terms.

In September 2018, public sector net debt stood at 44.6% of GDP, which was 0.5 percentage points lower than at the end of 2017. The net balance of public debt has grown by 11.6 percentage points of GDP in the past six years. The Secretariat of Finance and Public Credit estimates that the historical balance of public sector financial requirements (the broadest calculation of the country's debt) will stand at 45.5% of GDP at the close of 2018, compared with 46.1% of GDP in 2017.

In 2018, the overnight rate —the Bank of Mexico's benchmark rate— was raised three times, in February, June and November, for a cumulative total of 75 basis points, to 8.0% (versus 7.25% at the end of 2017). These increases were

Mexico: GDP, Inflation and Unemployment, 2016-2018



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

intended to contain the exchange rate volatility and price increases resulting from interest rate hikes in the United States, uncertainty about the renegotiation of the North American Free Trade Agreement (NAFTA), the cancellation of plans to build an airport in Texcoco and trade tensions. Between January and November 2018, the peso depreciated by 2.3% in nominal terms (and appreciated by 0.9% in real terms) compared with the end of 2017. In November, the central bank reported reserves of US$ 173.907 billion, slightly higher (0.6%) than the figure seen at the end of 2017. In addition, the US$ 74 billion precautionary credit line from the International Monetary Fund (IMF) was renewed.

Mexico: main economic indicators, 2016-2018

	2016	2017	2018 [a]
	Annual growth rate		
Gross domestic product	2.9	2.1	2.2
Per capita gross domestic product	1.6	0.8	0.9
Consumer prices	3.4	6.8	4.9 [b]
Real average wage [c]	0.9	-1.2	0.9
Money (M1)	11.9	10.0	9.9 [d]
Real effective exchange rate [e]	15.2	-2.0	-1.2 [d]
Terms of trade	-6.1	4.5	0.8
	Annual average percentage		
Open urban unemployment rate	4.3	3.8	3.6
Public-sector			
Overall balance / GDP	-2.5	-1.1	-2.0
Nominal deposit rate [f]	3.8	5.8	6.6 [b]
Nominal lending rate [g]	26.8	27.0	26.7 [h]
	Millions of dollars		
Exports of goods and services	398 523	437 443	484 732
Imports of goods and services	420 505	458 227	510 201
Current account balance	-23 977	-19 053	-21 518
Capital and financial balance [i]	23 841	14 287	25 630
Overall balance	-136	-4 765	4 112

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/ Figures as of September.
e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
f/ Cost of term deposits in the multibanking system.
g/ Average interest rate for credit cards from commercial banks and the TAC rate (Total Annual Cost).
h/ Figures as of April.
i/ Includes errors and omissions.

Up to September 2018, the active loan portfolio held by commercial banks for the private sector posted year-on-year growth of 5.9% in real terms (almost one percentage point higher than at the end of 2017). Corporate, mortgage and consumer lending grew by 9.4%, 4.0% and 1.5%, respectively, slightly faster than at the end of 2017 (up 7.9%, 1.6% and 1.3%, respectively). This performance stems mainly from stronger real disposable income (owing to lower inflation). The average nominal lending rate for credit cards and mortgages stood at 27.7% in the first nine months of the year (21.7% in real terms, 1.6 percentage points higher than in the prior-year period). Meanwhile, the nominal deposit rate, defined as the cost of deposit-taking for full-service banks, stood at 6.6% (1.6% in real terms, 1.7 percentage points higher than in the first nine months of 2017).

In 2018, credit rating agencies Fitch, S&P and Moody’s maintained Mexico’s sovereign debt investment grade rating. However, in October, Fitch lowered its credit outlook for Mexico from stable to negative, owing to uncertainty stemming from the incoming government’s policies (including the cancellation of plans to build an airport in Texcoco, changes to mining and financial system laws, and an increase in social spending and pensions) and from the increase in the liabilities of Petróleos Mexicanos (PEMEX).

From January to October 2018, total exports rose by 11.5% year-on-year as a result of increases of 40.0% in oil exports (owing mainly to higher prices) and of 9.8% in non-oil exports. Within the non-oil exports category, those going to the United States (80.8% of the total) rose by 8.8% year-on-year, on account of a better performance by that country’s industrial sector, while those to the rest of the world grew by 14.2%. The value of total imports over the same period jumped 11.6%, mainly because of the spike in oil imports (33.3%), while non-oil imports climbed 9.3%. Imports of consumer, intermediate and capital goods posted annualized growth of 12.9%, 11.1% and 14.2%, respectively. The trade balance recorded a cumulative deficit of US$ 13.159 billion during the first nine months of the year (15.7% higher than in the year-earlier period).

Family remittances totalled US$ 24.677 billion in the first nine months of 2018, up 10.8% from the year-earlier period. As a result, the balance-of-payments current account deficit stood at US$ 17.020

billion, equivalent to 1.7% of GDP. Foreign direct investment (FDI) totalled US$ 19.064 billion, down 19.7% compared with the prior-year period.

As part of the energy reform, between January and July 2018, the National Hydrocarbons Commission (CNH) launched tenders for various areas for shallow-water exploration and extraction of oil and natural gas in the Gulf of Mexico. The CNH postponed bids for three tenders until February 2019, and further delays are possible.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) was ratified by the senate in April 2018. It is expected to come into effect in January 2019, once it has been ratified by the legislative bodies of at least 6 of the 11 signatory countries.

Renegotiation of NAFTA began in August 2017 and concluded in September 2018 with the signing of the new United States–Mexico–Canada Agreement (USMCA). The modernization of the agreement included improvements in rules of origin and new issues such as small and medium-sized enterprises (SMEs), competition, the elimination of technical barriers to trade, customs facilitation, e-commerce, the environment and corruption. It also incorporated a 16-year revision date, an increase in the percentage of a vehicle's content that must be produced in high-wage countries (for the automobile sector), a clause that makes it more difficult to sign trade agreements with non-market economies, and changes in the investor-State dispute-settlement process. The new agreement is awaiting approval by the legislatures of Canada, Mexico and the United States.

Average annual economic growth in the first nine months of 2018 stood at 2.1%. With respect to broad economic sectors, GDP in the tertiary, primary and secondary industries grew by 2.8%, 2.2% and 0.5% on average, respectively. Average private consumer spending grew by 2.6% between January and September 2018 (compared with 3.0% in the prior-year period) and gross fixed investment rose by 1.6% (compared with a decline of 1% in the year-earlier period), owing mainly to the expansion of the machinery and equipment and residential construction categories because of reconstruction following the natural disasters of 2017. On the supply side, exports climbed 11.5% between January and October, which is much higher than the level seen in the past six years, reflecting their momentum and role in driving growth this year.

In November 2018, year-on-year general inflation stood at 4.7%, influenced by the delayed knock-on effects of the depreciating exchange rate, higher energy and food and beverage prices, and rising charges for public goods and services. Core inflation stood at 3.6%. These figures already factor in the new inflation measurement with a change in base year to 2018, published by the National Institute of Statistics and Geography (INEGI) in August.

Average national unemployment between January and October 2018 stood at 3.3% of the economically active population (compared with 3.4% in the year-earlier period) and underemployment came to 7.0% (slightly lower than the 7.1% seen in the prior-year period). Labour informality stood at 56.7%, slightly lower than the level seen in the year-earlier period (56.9%). At the end of 2017, the Council of Representatives of the National Commission for Minimum Wages (CONASAMI) agreed to grant an independent recovery amount (5 pesos per day) and to bring forward the nominal 2018 wage increase of 3.9% to 1 December 2017, raising the minimum wage from 80.04 to 88.36 pesos per day. As a result, the minimum wage increased by 5.7% in real terms.

GDP is expected to grow by 2.1% in 2019, owing to slightly stronger public and private investment, and to an increase in consumer spending as a result of higher real wages. Nonetheless, this growth could slow down if certain risks were to materialize, such as a change in global financial conditions in light of interest rate hikes in the United States, financial uncertainty stemming from trade tensions, investor sentiment on the direction of new economic policies, weaker public revenue from oil, and delays in public spending owing to the new government transition and in the ratification and implementation of USMCA. Inflation is expected to stand at 3.9% (within the central bank's target range) and the unemployment rate is forecast at 3.4%. The public sector fiscal deficit will likely come to around 2.0% of GDP (with a primary surplus of 1.0% of GDP), and the balance-of-payments current account deficit should close 2019 at around 2.3% of GDP.