Mexico

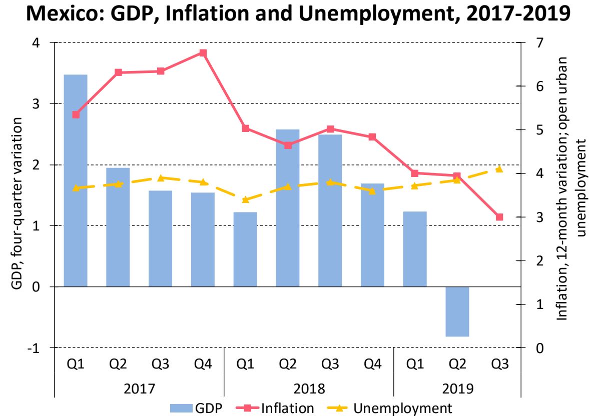
The Economic Commission for Latin America and the Caribbean (ECLAC) estimates no growth for the Mexican economy in 2019, after a 2.0% expansion in 2018, owing to a complex external context of financial uncertainty related to global trade tensions, falling investment and weak consumption —both public and private— and changes in budget execution relating to the entry of a new administration and its new public management model.

Inflation is forecast at 2.9% for 2019 (4.8% in 2018), still within the central bank's targeted range (between 2% and 4%), owing to good monetary policy management and considerable room for growth in demand. The unemployment rate is expected to come to 3.6% (3.3% in 2018) because of the slowdown in economic activity. The public sector fiscal deficit is forecast at around 1.9% of GDP (with a primary surplus of 1.0% of GDP), compared with 2.1% in 2018. Meanwhile, the balance-of-payments current account deficit is expected to come to 0.5% of GDP at the end of 2019 (over a percentage point less than the 2018 figure), because of the sharp decline in both oil exports and imports, although exports as a whole reflected strong momentum.

By the third quarter of 2019, public sector budget revenues had increased by just 1.0% in real terms compared with the same period in 2018, owing mainly to the slowdown in economic activity. Income tax and value added tax (VAT) collection fell by 0.6% and 2.6%, respectively, although the overall tax take increased owing to stronger revenue from taxes on production and services, imports and hydrocarbon exploration and production. Meanwhile, net public sector spending declined by 1.9% in real terms because of the reduction in current spending (2.6%) and physical investment (14.4%), despite a 6.2% increase in financial costs. The Budgetary Revenue Stabilization Fund (FEIP) recorded a balance of 260.185 billion pesos at 30 September 2019. However, the Ministry of Finance and Public Credit expects to have used 129.600 billion pesos (0.5% of GDP) of resources from this fund by the end of the year to offset the decline in non-specific federal government income.

In September 2019, public sector net debt stood at 44.4% of GDP, 1.7 percentage points lower than at the end of 2018. The Ministry of Finance and Public Credit estimates that public sector financial requirements (the broadest calculation of the country’s debt) will stand at 45.3% of GDP at the close of 2019 (compared with 44.9% of GDP in 2018).

Mexico: GDP, Inflation and Unemployment, 2017-2019



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

In August 2019, the overnight rate —the Bank of Mexico's benchmark rate— was lowered by 25 basis points, representing the first decrease in the past five years. In September and again in November, this rate was lowered by a further 25 basis points, resulting in 7.50% (compared with 8.25% at the end of 2018). This decline reflects the slowdown of the global and domestic economies, lower inflation and the decrease in the United States Federal Reserve’s federal funds rate. From January–October 2019, the peso was 1.2% weaker against the dollar in nominal terms (appreciation of 0.9% in real terms) than in the year-earlier period. This phenomenon was linked mainly to the volatility (continuous appreciation and depreciation of the peso) generated by financial and trade-related uncertainty stemming from the partial shutdown of the United States Government in January 2019, trade tensions between the United States and China, and the withdrawal of the United Kingdom from the European Union (Brexit). In October 2019, the central bank reported international reserves of US$ 180.433 billion, slightly higher (3.3%) than at the end of 2018. The US$ 61 billion flexible credit line from the International Monetary Fund (IMF) was also renewed. This means that the Bank of Mexico has more than US$ 240 billion available to manage foreign-exchange and financial turbulence.

Mexico: main economic indicators, 2017-2019

	2017	2018	2019 [a]
	Annual growth rate		
Gross domestic product	2.1	2.0	0.0
Per capita gross domestic product	0.8	0.7	-1.2
Consumer prices	6.8	4.8	3.0 [b]
Real average wage [c]	-1.2	0.9	2.9 [d]
Money (M1)	10.0	10.0	5.9 [d]
Real effective exchange rate [e]	-2.2	-0.6	-2.6 [d]
Terms of trade [f]	1.6	1.0	-1.5
	Annual average percentage		
Open urban unemployment rate	3.4	3.3	3.6
Public-sector			
Overall balance / GDP	-1.1	-2.0	-1.9
Nominal deposit rate [g]	5.8	6.7	7.3 [b]
Nominal lending rate [h]	12.8	13.2	13.5 [d]
	Millions of dollars		
Exports of goods and services	437 449	479 822	491 673
Imports of goods and services	458 301	502 541	499 463
Current account balance	-20 112	-21 996	-6 781
Capital and financial balance [i]	15 347	22 479	16 491
Overall balance	-4 765	483	9 710

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/ Economic Development Division, calculations for Preliminary Overview 2019.
g/ Cost of term deposits in the multibanking system.
h/ Average interest rate for credit cards from commercial banks and the TAC rate (Total Annual Cost).
i/ Includes errors and omissions.

In September 2019, the current portfolio of commercial bank loans to the private sector was up by 4.6% in real terms year-on-year (5.9% in September 2018), thanks to expansions in consumer credit (2.7%), home loans (7.4%) and credit to firms and individuals engaged in business activities (4.3%). The consumer credit and home loan rates were slightly higher than in September 2018. However, rates related to firms were more affected by the slowdown in economic activity.

The average nominal lending rate for credit cards and mortgages stood at 30.0% in the first nine months of the year (25.0% in real terms, 3.1 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 7.3% (3.3% in real terms, 1.7 percentage points higher than in the first nine months of 2018). As the Bank of Mexico's benchmark rate continues to decline (owing to a lag), these rates are also expected to decrease.

In 2019, credit rating agencies Fitch, Standard & Poor's and Moody's lowered their ratings of Petróleos Mexicanos (PEMEX) and of Mexico's sovereign debt, given deteriorating investor confidence and economic prospects, along with the risks to public finances deriving from energy policy and the financial situation of PEMEX. Against this backdrop, the Government of Mexico proposed a business plan for PEMEX, announcing, among other things, a reduction in the company’s tax liability for 2020 and 2022, totalling around 140 billion pesos (equivalent to US$ 7.3 billion), to reverse the declining trend in oil production and exports.

The renegotiation of the North American Free Trade Agreement (NAFTA) began in August 2017 and concluded in November 2018 with the signing of the United States-Mexico-Canada Agreement (USMCA). The new agreement is awaiting approval by the legislatures of Canada and the United States. Nonetheless, the threat of import tariffs and legislative elections in the latter country add uncertainty to the ratification process.

From January to September 2019, total exports increased at a year-on-year rate of 3.3%, the result of a decline of 14.6% in oil exports and an increase of 4.7% in non-oil exports. Within the non-oil exports category, those going to the United States (81.9% of the total) rose by 6.1% year-on-year (on account of the slowdown in trade with China), while those to the rest of the world fell by 1.3%. The value of total imports over the same period fell by 0.5%, because of the deterioration in oil imports (9.4%), while non-oil imports edged up by 0.6%. Consumer goods and capital imports declined year-on-year, by 3.6% and 9.0%, respectively, while intermediate goods imports grew by 1.1%. The trade balance reflected an accumulated surplus of US$ 2.687 billion in the first nine months of the year, compared with a deficit of US$ 10.223 billion in the year-earlier period.Family remittances totalled US$ 26.980 billion in the first nine months of 2019, up 9.2% from the prior-year period. Meanwhile, the balance-of-payments current account deficit amounted to US$ 2.187 billion, less than the US$ 19.427 billion recorded in the year-earlier period, and foreign direct investment (FDI) totalled US$ 26.055 billion, down 3.9% compared with the prior-year period (net FDI fell by 11.9%).

Average annual economic growth in the third quarter of 2019 stood at 0.0%. With respect to broad economic sectors, GDP in the tertiary and primary industries grew by 0.6% and 2.0% on average, respectively, while that of the secondary industry fell by 1.7%. Private consumption grew by 0.9% on average from January to August 2019 (compared with 2.1% in the prior-year period) and gross fixed investment decreased by 4.6% (compared with an increase of 1.7% in the year-earlier period), owing to a complex international environment and uncertainty about the country's public policies.

In October 2019, year-on-year inflation stood at 3.0% (compared with 4.9% in the same month in 2018). Growth in producer prices (excluding oil) also trended down to 2.8% (5.9% in October 2018). In 2019, the general minimum daily wage jumped by 16.2%, from 88.36 to 102.68 pesos. This was the largest annual wage increase in 25 years. In 43 municipalities in the six states on Mexico’s northern border, the minimum daily wage rose to 176.72 pesos.

The national unemployment rate averaged 3.5% between January and September 2019 (3.3% in the year-earlier period), and 7.4% of the employed population were underemployed (higher than the 7.0% recorded in the same period of 2018). These increases are linked to the slowdown in economic activity in 2019 and public sector job cuts. A labour reform, in line with USMCA-related commitments, was approved in May 2019, and aims to strengthen labour justice, democracy, representativeness and trade union transparency.

GDP is expected to grow by 1.3% in 2020, 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 financial uncertainty stemming from trade tensions, a deceleration in global economic growth and weaker public revenue. Inflation is expected to come to roughly 3.0% and the unemployment rate is forecast at 3.5%. The public sector fiscal deficit will likely come to around 2.0% of GDP (with a primary surplus of 0.7% of GDP), and the balance-of-payments current account deficit should come to 1.8% of GDP.