

Mexico

In 2011, Mexico's economic growth slackened to 4.0% in comparison with 5.6% in 2010. This was largely the result of the global economic slowdown, which weakened external demand. The fiscal deficit, including investment by Petróleos Mexicanos (PEMEX), stood at around 2.5% of GDP (versus 2.7% in 2010). Inflation will close the year at around 3%, in line with the annual target set by the Bank of Mexico (3%, with a margin of one percentage point either side). The current account deficit widened somewhat to approximately 1% of GDP (as against 0.5% in 2010). The urban unemployment rate fell slightly.

From January to September 2011, public-sector budgetary revenue rose by 6.4% in real terms with respect to the year-earlier period. Oil revenue was up 13.5% in real terms, thanks to higher international prices. Non-oil revenue expanded by 3% as result of higher net receipts from income tax and the flat-rate business tax (IETU), but VAT receipts were down, owing to a rise in rebates. Tax revenue edged up to 10.1% of GDP (having stood at 10% in 2010).

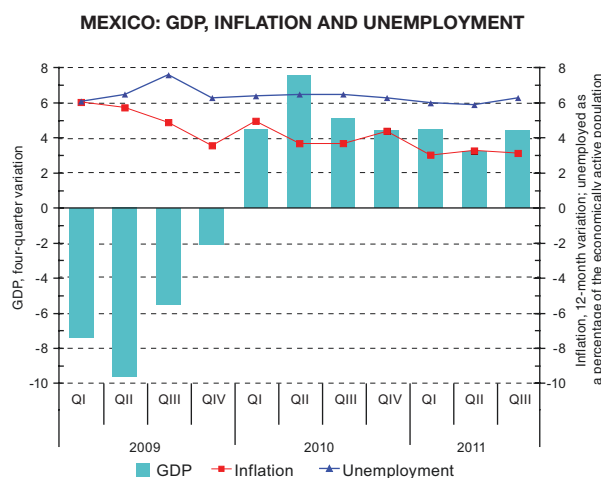
Total public-sector spending in the first nine months of the year was 5.9% higher in real terms than in the same period in 2010. Social development spending rose by 7.2%. Budgeted investment in physical capital saw a moderate increase of 2.9%, possibly owing to a delay in the registration of completed projects.

At the end of September 2011, net public-sector debt was equivalent to 31.8% of GDP, 1.3 percentage points above the figure for year-end 2010. Domestic debt represented 21.4% of GDP and external debt, 10.4% (0.3 percentage points and 1 percentage point, respectively, above the figure for year-end 2010). The primary source of net borrowing was the issuance of development bonds at a fixed nominal rate. Foreign investors' share of domestic public securities rose to 24.5% in October (as against 21% at year-end 2010).

The Bank of Mexico held its reference rate—the overnight interbank rate—at 4.5% for the first 11 months of the year, completing 28 consecutive months with no change. Federation Treasury Certificates (CETES) were offering a real annual rate of 0.9% at the close of the third quarter.

During the first eight months of the year, the foreign-exchange market was fairly stable, with a tendency towards local currency appreciation. The interbank exchange rate averaged 11.9 pesos to the dollar between January and August 2011. During the first half of the year, foreign portfolio investment (liabilities) totalled US\$ 19.736 billion, US\$ 3.75 billion more than the amount for the year-earlier period. International reserves swelled by US\$ 23.2 billion to reach US\$ 136.82 billion by the end of August.

The worsening debt crisis in Europe triggered a reversal in international capital flows towards perceived safe havens, generating exchange-rate volatility. The interbank exchange rate was 13.7 pesos to the dollar at the



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

end of November, representing a nominal depreciation of 11.6% since the beginning of the year, and a depreciation of 4% in the multilateral real exchange rate. This prompted the Foreign Exchange Commission, comprising the Bank of Mexico and the Ministry of Finance, to announce that from 30 November it would auction US\$ 400 million daily at an exchange rate at least 2% higher than the rate established the preceding working day. Reserves continued to build up over these three months, albeit at a slower pace, adding a total of US\$ 141.424 billion to the stock by the end of November. In addition, the flexible line of credit with the International Monetary Fund (IMF) was increased in January 2011 from US\$ 48 billion to US\$ 72 billion for a period of two years.

The recovery of commercial bank lending to the private sector seen in 2010 continued, with a 14% nominal expansion (10.9% in real terms) in the first 10 months of 2011. Consumer lending was up by a considerable 21.4% in nominal terms in these 10 months. By sector, the largest rise occurred in financing for services, which rose 16%.

The Mexican Stock Exchange Index of Prices and Quotations (IPyC) also saw greater volatility between September and November 2011, reflecting turbulence in international financial markets. In November, the IPyC averaged 36,346 versus 37,901 in December 2010.

During the first three quarters of 2011, real GDP grew at an average rate of 4%, as against 5.7% over the same period of 2010. Agricultural production contracted between January and September as a result of poor weather conditions. Manufacturing expanded, spurred by increased production of transport equipment, machinery and equipment, metal products, and beverages and tobacco. The automotive industry performed particularly well, driven by export growth. Construction, which had begun to pick up during the second half of 2010, continued to rally: over the first nine months of year the sector grew at rates above GDP. Among services, commerce and mass media information services were particularly buoyant. Data for the first half of the year indicate that rising overall demand was fuelled by growth in exports and gross capital formation, while consumption showed only modest expansion.

In November, general annual inflation stood at 3.5%, lower than the rate for November 2010 (4.3%). The decrease was due primarily to restrained growth in domestic demand. The components making the greatest contribution to rising consumer prices were food, beverages and tobacco, animal products and education (school fees).

The average urban open unemployment rate over the first three quarters of the year edged down from 6.5% in 2010 to 6.1% in 2011. Over the same time frame, the employment rate remained relatively stable, dropping only slightly from 56.5% to 56.4%. The real minimum

MEXICO: MAIN ECONOMIC INDICATORS

	2009	2010	2011 ^a
Annual growth rates			
Gross domestic product	-6.3	5.6	4.0
Per capita gross domestic product	-7.2	4.5	3.0
Consumer prices	3.6	4.4	3.5 ^b
Real average wage ^c	-1.0	-1.1	0.8 ^d
Money (M1)	8.4	15.6	19.0 ^e
Real effective exchange rate ^f	13.9	-7.8	-2.2 ^g
Terms of trade	-3.2	2.9	2.3
Annual average percentages			
Open urban unemployment rate	6.7	6.4	6.0 ^h
Federal government			
overall balance / GDP	-2.3	-2.8	-2.5
Nominal deposit rate ⁱ	5.1	4.2	4.2 ^j
Nominal lending rate ^k	7.1	5.3	4.9 ^j
Millions of dollars			
Exports of goods and services	244 471	313 797	363 483
Imports of goods and services	257 976	327 077	381 540
Current account balance	-6 359	-5 724	-11 998
Capital and financial balance ^l	10 888	26 339	32 499
Overall balance	4 528	20 615	20 501

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

^a Preliminary estimates.

^b Twelve-month variation to November 2011.

^c Average wages declared by workers covered by social security.

^d Estimate based on data from January to September.

^e Twelve-month variation to October 2011.

^f A negative rate indicates an appreciation of the currency in real terms.

^g January to October average, year-on-year variation.

^h Estimate based on data from January to October.

ⁱ Cost of term deposits in local currency in the multibanking system.

^j January-November average.

^k Lending rate published by the International Monetary Fund.

^l Includes errors and omissions.

wage crept up by 0.2% on a year-on-year basis over the first ten months of the year.

Export growth was robust over the first nine months of 2011, but lower than the figures for the year-earlier period (19.6% and 33.7%, respectively). Oil exports expanded strongly (up 41.2% over this period), reflecting higher prices, which offset a drop in volume. Manufacturing exports, which account for 79.7% of total exports, rose by 15.4% over the first nine months of the year (as against 33.4% over the same period in 2010). Particularly strong growth was observed among exports from the mining and metallurgy sector, the iron and steel industry, the automotive industry and the food, beverages and tobacco sector.

Imports also slackened, growing by 18.8% between January and September 2011, in contrast to 31.1% over the same period in 2010. Oil imports jumped 48.1% in this period, thanks to higher international prices.

Income from family remittances was up by 6.6% year-on-year in the first nine months of 2011, the highest rate of growth since the recent economic crisis. The widening current account deficit reflects larger deficits on both the services account, chiefly as a consequence of higher payments for transport services, and on the

income account, owing to higher interest payments and profit repatriations.

Foreign direct investment (FDI) amounted to US\$ 13.43 billion during the first nine months of 2011, as against US\$ 15.69 billion over the same period in 2010. FDI is expected to close the year at around US\$ 19 billion, just under the 2010 figure (US\$ 19.79 billion). The sectors benefiting from these flows have been mainly manufacturing, financial services and commerce.

ECLAC forecasts GDP growth of 3.3% in 2012, owing to a further slowdown in external demand.

Annual inflation will remain within the target range set by the Bank of Mexico. The budget for fiscal income and expenditure approved for 2012 takes a conservative stance, in a context of economic slowdown, and projects a deficit equivalent to 0.4% of GDP (2.4% if the PEMEX investment is included). The current account deficit will widen given prospects for lower export growth, a drop in income from tourism and remittances, and possibly an increase in imports following the expiry of the countervailing measures Mexico had applied to products from China.