# Mexico

The Mexican economy will grow by 1.3% in 2013, as against 3.9% in 2012. This slowdown is attributable to both significantly slower growth in exports, particularly in the first half of the year, and more sluggish domestic demand, especially in terms of capital formation. The fiscal deficit, including investment by Petróleos Mexicanos (PEMEX), will be 2.4% of GDP, slightly lower than in 2012 (2.6%). Year-end inflation is forecast to be around 3.5%, within the central bank's target range (3%, with a margin of one percentage point either side). The current account deficit will be close to 1.5%, as opposed to 1% in 2012, as a result of the aforementioned slowdown in exports. Average year-on-year unemployment rose slightly.

Growth of 3.5% in GDP is forecast for 2014 on the back of a recovery in external demand and an upturn in domestic demand. The budget approved by Congress makes provision for a fiscal deficit equivalent to 1.5% of GDP, rising to 3.5% if investment by PEMEX is included. This is the largest deficit provision in 10 years, but it is expected to come gradually down to 2% by the end of the current government's term in office in 2018. The current account deficit will remain at around 1.5% of GDP.

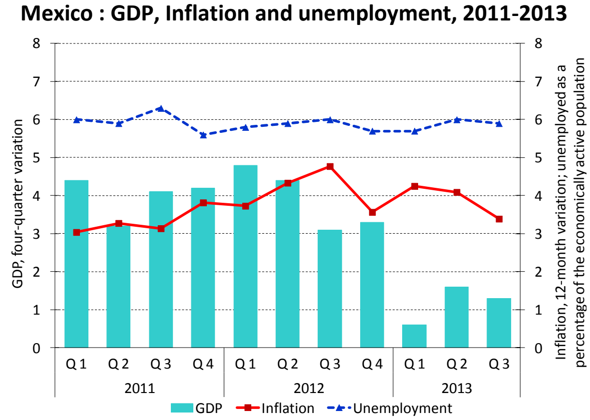
In 2013 the federal government changed its fiscal stance from a zero-deficit policy (not including investment by PEMEX), governed by the Federal Budget and Fiscal Responsibility Act, to a strategy allowing limited use of public debt to mitigate cyclical fluctuations. Public-sector budgetary revenues contracted slightly, by 0.1% in real year-on-year terms in the first nine months of 2013, in the wake of falling oil revenues (-1.3%) —as a result of lower global prices for Mexico's crude oil mix and smaller production volumes— and modest growth in non-oil revenue (0.5%). Non-oil tax revenues, meanwhile, saw real growth of 4.3%, with a 14.5% increase in the "revenue system" (consisting of income tax, the flat-rate business tax and the cash deposit tax) due to income from the programme for regularizing 2013 tax liabilities and tax levied on the takeover of Grupo Modelo. This solid performance is expected to bring tax revenues equivalent to 10% of GDP by year-end, as opposed to 9.8% in 2012.

Total public sector spending rose by 0.4% in real terms between January and September 2013. The first quarter saw public-sector underspending, as a result of the new government's entry into office, but by the third quarter 99.5% of the budget allocated for the period had been implemented. Spending on social and economic development was up by 1.8% and 1.2% in real terms, respectively, on figures from the year-earlier period.

In September 2013, net federal public-sector debt was equivalent to 35.1% of GDP, an increase on the figure of 33.3% at year-end 2012. Domestic debt continued to make up the lion's share of this amount, and accounted for 72% of the increase in debt over the first three quarters of the year.

On 8 March 2013 the reference rate, which had remained at 4.5% for almost three years, was cut by 50 basis points. The central bank subsequently made two further 25-basis-point cuts, on 6 September and 25 October, to leave the reference rate standing at 3.5%, citing the slowdown in Mexico's economy and the need to bring inflation in

**Mexico : GDP, Inflation and unemployment, 2011-2013**




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

line with the official medium-term target of 3%. At the end of October, Mexican treasury certificates (CETES) yielded a slightly negative real interest rate of 0.01%.

**Mexico : main economic indicators, 2011-2013**

| | 2011 | 2012 | 2013 [a] |
|---|---|---|---|
| | **Annual growth rate** | | |
| Gross domestic product | 3.8 | 3.9 | 1.3 |
| Per capita gross domestic product | 2.6 | 2.8 | 0.2 |
| Consumer prices | 3.8 | 3.6 | 3.4 [b] |
| Real average wage [c] | 0.8 | 0.2 | 0.2 |
| Money (M1) | 16.2 | 13.7 | 7.1 [d] |
| Real effective exchange rate [e] | 0.0 | 3.1 | -5.9 [b] |
| Terms of trade | 7.2 | -2.0 | -1.8 |
| | **Annual average percentage** | | |
| Open urban unemployment rate | 6.0 | 5.8 | 5.8 |
| Public-sector | | | |
| Overall balance / GDP | -2.4 | -2.6 | -2.4 |
| Monetary policy rate | 4.5 | 4.5 | 4.1 [b] |
| Nominal lending rate [f] | 4.9 | 4.7 | 4.4 [b] |
| | **Millions of dollars** | | |
| Exports of goods and services | 365 528 | 387 523 | 401 656 |
| Imports of goods and services | 381 584 | 401 859 | 414 252 |
| Current account balance | -12 262 | -14 642 | -17 568 |
| Capital and financial balance [g] | 40 442 | 32 166 | 29 368 |
| Overall balance | 28 180 | 17 524 | 11 800 |

**Source**: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.
[b] Figures as of October.
[c] Weighted average of lending rates.
[d] Figures as of September.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Weighted average rate of private debt issues of up to 1 year, expressed as a 28-day curve. Includes only stock certificates.
[g] Includes errors and omissions.

Total lending to the private sector grew 9.7% year-on-year in nominal terms (5.6% in real terms) from January to September 2013, down from 12.3% in the same period of 2012 (7.3% in real terms) as result of a slowdown in consumer and agricultural lending. The Mexican stock exchange (IPyC) was down 5.9% in nominal terms over the first 11 months of the year, mainly owing to dampening growth expectations concerning the Mexican economy and uncertainty about whether the United States Federal Reserve would continue its monetary stimulus policies.

The first 11 months of the year saw significant exchange-rate volatility, with a high of 13.44 pesos per dollar reached on 3 September as opposed to a low of 11.98 pesos on 9 May. The interbank rate was 13.1 pesos per dollar at the end of November, a slight nominal depreciation (1.2%) on year-end 2012. The real exchange rate index fell 6.3% over the first 10 months of the year, but at no point did the rate fluctuate more than 2% on the previous working day, so on 9 April 2013 the Foreign Exchange Commission decided to suspend the daily auctions of dollars at minimum exchange rates.

International reserves stood at US$ 176.152 billion at the end of October 2013, a nominal increase of 7.7% on figures at year-end 2012. Mexico continues to have access to an US$ 73-billion International Monetary Fund (IMF) flexible credit line, which was renewed in November 2012.

The first year of the term of President Enrique Peña Nieto’s government was notable for the negotiation and approval of structural reforms in wide-ranging areas, such as telecommunications, education and taxation, whose impact on economic growth should gradually become evident from 2014 onwards.

In respect of taxation, the government had originally intended to pass a reform to increase revenue by three percentage points of GDP by 2018, but the agreement adopted in the legislature will yield an increase of only 1% of GDP. The reform brings numerous changes including the repeal of the flat-rate business tax (IETU) and the cash deposit tax (IDE), the introduction of a more progressive income tax, with its top rate increased from 30% to 35%, a 10% tax on stock-market capital gains and a new 5% levy on the sale and import of high-calorie, non-staple foods. It will also lead to changes in government spending, with the establishment of an unemployment insurance system and a national minimum old-age pension. With regard to education, the Mexican Congress has approved a constitutional reform to strengthen assessment and oversight mechanisms with a view to improving educational standards. In the field of telecommunications and competition, in April a reform was passed setting up the Federal Institute of Telecommunications, whose remit includes fostering competition in the open and public-service television sectors, radio and fixed and mobile telephony industries, as well as paving the way for improving, and ensuring better use of, infrastructure.

Total exports of goods were up by 2.4% year-on-year in the first 10 months of 2013, compared with growth of 6.9% in the same period the previous year. Notwithstanding this slowdown, exports began to recover in the third quarter, bouncing back after the negative year-on-year rates seen in February, March and May. Oil exports fell 7.1% year-on-year, mainly as a result of a slackening in export markets, while non-oil exports were up 4.0%. Manufacturing exports grew by 4.3%, boosted by the performances of the automotive, steelworking and food and beverages sectors.

A less dramatic slowdown was seen in total imports of goods in the first 10 months of 2013 (growth of 3.4%, as opposed to 6.3% in the same period of 2012), so the positive trade balance seen from January to October 2012 (US$ 266 million) gave way to a deficit in the same period in 2013 (US$ -3.006 billion).

Family remittance income fell by 4.9% from January to October of 2013, but saw year-on-year increases from August to October, bucking a trend of 13 consecutive months of contractions. Foreign direct investment (FDI), meanwhile, totalled US$ 28.234 billion over the first three quarters (compared with US$ 14.292 billion in the same period the year before), including a net inflow of US$ 13.249 billion as a result of the takeover of Grupo Modelo by the Belgian conglomerate AB InBev.

The performance of the Mexican economy was uninspiring over the first three quarters of the year (average annual growth of 1.2%), with a sharp slowdown in domestic demand (1%, as opposed to 4.8% in the same period the previous year) as a result of slack growth in consumption, especially in the public sector, and a contraction in gross capital formation. On a sector-by-sector basis, construction posted the worst performance (-4.5%) over the first nine months, hit by the sharp decline in residential building, while manufacturing grew 1.2%. The agricultural sector saw year-on-year growth of 0.6%, having suffered adverse weather conditions in the third quarter (particularly hurricanes Manuel and Ingrid). The service sector expanded by 2.3% on average.

Annual variations in the consumer price index peaked in April (4.65%) as a result of supply shocks, chiefly in agricultural products. The index subsequently trended downwards to within the central bank’s target range. In October, the sectors with the highest rates of year-on-year inflation were energy (9.62%) and education (tuition fees) (4.42%).

The average national unemployment rate from January to September 2013 was 5.0% of the economically active population, no change on the figure for the year-earlier period. The economic slowdown led to an increase in the number of workers newly registered with the Mexican Social Security Institute (IMSS), whose ranks swelled by 487,528 people in the first nine months of 2013, as opposed to an increase of 693,412 in the same period of 2012. The proportion of the economically active population employed in the informal sector, meanwhile, decreased from 29.0% in the first three quarters of 2012 to 28.5% in the same period of 2013. The real minimum wage rose 0.7% from January to October.