

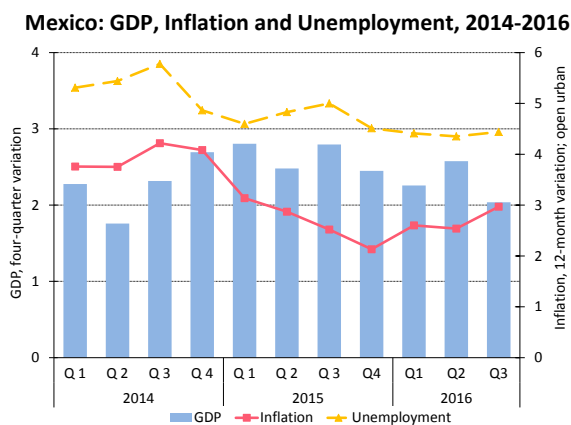
Mexico

ECLAC projects economic growth of some 2% for Mexico in 2016, down from 2.5% in 2015. Factors contributing directly to this slowdown included the lacklustre performance of the United States manufacturing sector (to which Mexican exports are closely linked), international economic and financial instability, and declining revenues (primarily from oil) and public investment, all of which led to a downturn in domestic consumption in the second half of the year. Year-on-year inflation is expected to be of the order of 3.3%, within the range of 2% to 4% targeted by the central bank, while a national unemployment rate of some 4% is projected (the 2015 average was 4.4%). The fiscal deficit is expected to be about 3% of GDP (down on the 3.5% of the year before) and the balance-of-payments current account deficit likewise around 3% of GDP (it was 2.9% in 2015).

Fiscal policy in 2016 was expansionary, but less so than the previous year. The public deficit was 44.2% smaller in real terms in the first nine months of 2016 than in the same period of 2015, being equivalent to 1.3% of GDP. Public revenues were 12.3% higher between January and September 2016 than in the same period of 2015, driven by robust non-oil income (15.1%). In particular, tax revenues rose by 11.2% because of the 2013 fiscal reform and stronger enforcement, and there was a 12.6% increase in federal government non-tax revenues, including a Bank of Mexico operating surplus equivalent to 1.3% of GDP. All this offset a drop in federal government oil revenues of 30.4% in real terms.

Net public spending was 4.6% higher in real terms in the first nine months of 2016 than in the same period of 2015, a figure that includes a capital injection into Petróleos Mexicanos (PEMEX) of 160.731 billion pesos (equivalent to US\$ 8.872 billion), most of which went to cover accounts payable, and a transfer of 70.0 billion pesos (US\$ 3.733 billion) to the Budgetary Revenue Stabilization Fund (FEIP). These were both one-time costs. Major items included a 3.2% rise in budgeted spending to cover increased pension and retirement benefit payments (6.8%) and a 12.7% real-term reduction in physical investment, the largest since 1995, as a result of budget cuts.

Public-sector net debt was 47.6% of GDP as of September 2016. The Ministry of Finance and Public Credit revised up its estimate of the historical balance of public-sector financing requirements, the most comprehensive calculation of the country's debt, to 50.5% of GDP as of end-2016, to take into account the significant effect of the depreciation of the country's currency against the dollar (which contributed the equivalent of 0.9 percentage points of GDP to the increase) and the pension reforms of the Social Security and Social Services Institute for State Workers (ISSSTE), PEMEX and the Federal Electricity Commission (CFE) (which contributed the equivalent of 1.8 percentage points of GDP). This is 13.0 percentage points of GDP higher than at the end of 2012, when the current government came to power. While this represents a marked upward trend, the authorities believe the debt has peaked and will start to fall in 2017.



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

On 17 February and 24 June 2016, the Ministry of Finance and Public Credit announced two cuts to the public spending budgeted for that year. The first, equivalent to 0.7% of GDP, was to consolidate the fiscal accounts, and the second, equivalent to 0.2% of GDP, was in response to the financial uncertainty stemming from the outcome of the referendum on the United Kingdom's departure from the European Union (Brexit). In October 2016, the Senate adopted the Federal Revenue Act for the 2017 fiscal year. This forecasts a primary surplus of about 0.4% of GDP, to be achieved through savings and budget cuts equivalent to 1.2% of GDP.

In April 2016, Congress adopted the Federal and Municipal Authorities' Financial Discipline Act, whose aim is to generate sustainable fiscal balances.

With regard to monetary policy, the Governing Council of the Bank of Mexico decided to increase the target overnight interbank interest rate in 50 basis point increments on 17 February, 30 June, 29 September and 17 November 2016, bringing it up to 5.25%, in response to the volatility of international financial markets caused by the drop in the international oil price, Brexit, the United States election result and the need to anchor inflation expectations consistently with economic activity. Further increases before the end of 2016 have not been ruled out. Monetary policy is thus expected to be slightly contractionary.

In September 2016, the real-term balance of outstanding commercial bank credit to the private sector was 11.2% higher than a year earlier. Real-term growth in the main lending categories of housing (7.3%), consumer (9.5%) and business (13.9%) loans was substantial, although slightly less so than the previous year. This was mainly due to a greater supply of credit (thanks in part to the financial reform) and to higher real disposable incomes (as a result of low inflation and large remittance inflows). The average lending interest rate for credit cards and mortgage loans was 26.4% at the end of August (23.2% in real terms, or almost 3 percentage points more than in 2015). Meanwhile, the nominal deposit rate, defined as the cost of deposit-taking for full-service banks, rose to 3.6% (0.9% in real terms, or 0.5 percentage points more than in 2015).

The Mexican peso had depreciated by 18.9% against the dollar in nominal terms (15.5% in real terms) from its end-2015 level as of 30 November 2016, largely in response to the United States elections, falling international oil prices, global financial uncertainty and the weak global economy. On top of the public spending cuts and increase in the monetary policy rate target, the Bank of Mexico's foreign-exchange commission decided in February 2016 to suspend dollar auctions immediately and to intervene in the market at its discretion. The central bank reported reserves of US\$ 174.078 billion as of 25 November 2016, a drop of 1.5% since end-2015. The flexible credit line (FCL) of US\$ 88.0 billion with the International Monetary Fund (IMF) also remains active.

Mexico: main economic indicators, 2014-2016

	2014	2015	2016 ^a
	Annual growth rate		
Gross domestic product	2.2	2.5	2.0
Per capita gross domestic product	0.9	1.1	0.7
Consumer prices	4.1	2.1	3.0 ^b
Real average wage ^c	0.4	1.4	1.0
Money (M1)	13.9	16.1	11.8 ^b
Real effective exchange rate ^d	1.4	11.6	14.9 ^b
Terms of trade	-5.1	-5.1	-0.5
	Annual average percentage		
Open urban unemployment rate	5.3	4.7	4.3
Public-sector			
Overall balance / GDP	-3.2	-3.5	-2.9
Nominal deposit rate ^f	3.2	3.0	3.6 ^e
Nominal lending rate ^h	28.6	28.5	26.4 ^g
	Millions of dollars		
Exports of goods and services	418,735	403,936	392,504
Imports of goods and services	433,977	427,629	416,355
Current account balance	-26,131	-33,216	-28,019
Capital and financial balance ⁱ	42,459	17,549	30,162
Overall balance	16,329	-15,667	2,142

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

a/ Estimates.

b/ Figures as of September.

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 global real effective exchange rate.

e/ Figures as of October.

f/ Commercial banks fix term deposit rate.

g/ Figures as of August.

h/ Average of the rate of commercial banks credit cards and the average rate of mortgage credits.

i/ Includes errors and omissions.

From January to September 2016, total exports decreased at a rate of 3.8% year on year, owing to a 2.1% decline in non-oil exports and a 28.1% drop in oil exports. Within the non-oil exports category, those destined for the United States (81.1% of the total) fell by 3.3% at an annualized rate, owing to that country's lacklustre industrial performance, and those to the rest of the world fell by 5.7%. Total imports fell 3.1% in value owing to sharp declines in non-oil imports (-2.1%) and oil imports (-12.8%). Consumer, intermediate and capital goods imports all decreased in annual terms, by 8.1%, 2.0% and 4.3%, respectively. The trade balance posted a cumulative deficit of US\$ 12.425 billion during the first nine months of the year (15.6% higher than in the same period of 2015). The terms of trade are projected to decline by around 8% in 2016, after decreasing 13.5% in 2015.

Family remittances totalled US\$ 20.046 billion in the first nine months of the year, 7.7% more than in the same period of 2015. As a result, the balance-of-payments current account deficit to the third quarter of 2016 was US\$ 23.086 billion, equivalent to 2.2% of GDP. Meanwhile, financial account inflows were a cumulative US\$ 21.195 billion in the first nine months of the year, down 11.7% on the same period in 2015. If these inflows are broken down into their constituent parts, foreign direct investment (FDI) was US\$ 19.773 billion, down 23% on the cumulative total to September 2015. There was also a net outflow of capital for the fourth year in a row as US\$ 23.193 billion worth of assets in the other investment category were withdrawn, an increase of 45% on the same period of 2015.

The fourth phase of the first round of bidding for Gulf of Mexico deep water oil exploration and extraction licences took place on 5 December 2016. Eight of the ten blocks auctioned by the National Hydrocarbon Commission (CNH) were allocated, exceeding expectations. This could translate into investments of some US\$ 41 billion over 35 to 50 years and additional output of about 900,000 barrels per day, 40% of current production.

The National Institute of Statistics and Geography (INEGI) reported average seasonally adjusted economic growth of 2.0% in the first three quarters of 2016. Analysis of the major economic sectors reveals that, on average, the GDP of primary activities grew by 2.4% and that of tertiary industries by 3.1%, while that of secondary activities did not grow at all. Gross fixed investment rose by an average of just 0.2% from January to September and domestic consumption showed signs of a slowdown, mainly as a result of low growth in consumption and public investment.

Year-on-year headline inflation was 3.1% as of October 2016, being affected by rising energy prices and higher charges for public goods and services. Core inflation was also 3.1%. Producer price inflation (including the index for the service sector, but not the oil industry) was 6.3%, compared with 4.9% in the same month of 2015, placing upward pressure on consumer prices. Exchange-rate pass-through to consumer prices remained minimal, largely because stocks provided a buffer and price shocks were absorbed by suppliers and producers.

The average unemployment rate up to the third quarter of 2016 was 4.0% of the economically active population, its lowest level since 2008, and the underemployment rate was 7.8% of the employed population, a lower proportion than at the same point the year before (8.3%). The informal employment rate fell by 0.5 percentage points to an average of 57.3% thanks to the implementation of a robust formalization programme. The minimum wage was increased by 4.2% in nominal terms to 73 pesos per day from 1 January 2016. Contractual wages are projected to have risen by 1.2% in real terms over the year, thanks to moderate inflation.

For 2017, ECLAC forecasts economic growth of around 1.9%, in view of uncertainty about the direction of United States economic policy and its impact on the Mexican economy and of declining investment and public spending, the result of lower public oil revenues. There are downside risks associated with extreme effects in the trade relationship with the United States and the shift in

international financial conditions following a significant increase in external interest rates. Inflation is expected to be around 4% and the unemployment rate to be similar to that of the previous year, while the public-sector fiscal deficit is projected to shrink to around 2.5% of GDP, and the balance-of-payments current account deficit is likely to close the year at about 3% of GDP.