Mexico

Mexico's GDP grew by 3.8% in 2012, which was slightly less than the 3.9% posted in 2011 owing to a sharp drop in external demand that was almost fully offset by growth in domestic demand, especially investment. The fiscal deficit, including investment by Petróleos Mexicanos (PEMEX), stood at around 2.4% of GDP (versus 2.5% in 2011). Year-end inflation was just over 4%, above the annual target set by the central bank (3%, with a margin of one percentage point on either side). The current account ran a deficit approaching 0.6% of GDP (as against 0.9% in 2011). The average unemployment rate for the year fell.

Presidential and legislative elections were held in July 2012. Enrique Peña Nieto, the Institutional Revolutionary Party (PRI) candidate, was elected and took office on 1 December 2012. No single party won an absolute majority of seats in the Chamber of Deputies, so the new administration will be forced to negotiate with opposition parties for adopting new initiatives and approving the federal government's annual budget.

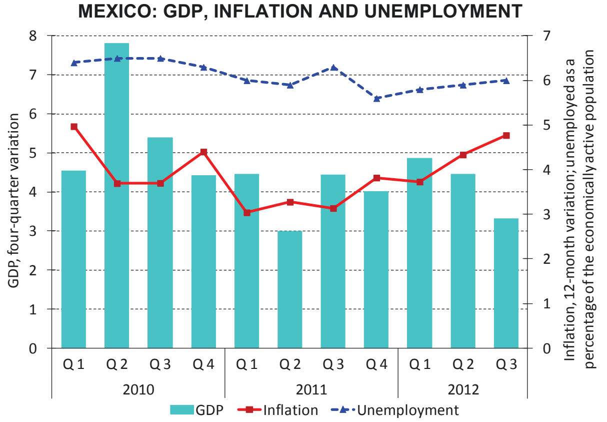
On the economic front, the new administration faces the challenge of spurring economic growth. Tax, energy sector, governance and other reforms will be among its priorities. Changes to the Federal Labour Law were adopted in November, before the new administration took office. They included new hiring arrangements, hourly wages, regulation of subcontracting and changes to certain aspects of trade union organization.

From January to September 2012, public-sector revenue rose by 8.3% in real terms with respect to the year-earlier period. Oil revenue was up 4.9% in real terms, thanks to higher international prices. Non-oil tax revenue expanded by 3.6% as a result of higher receipts from the value added tax (up 9%) and special taxes on production and services (1.9% increase) and a 2.4% rise in the combined income tax, flat-rate business tax and cash deposit tax take. Public agencies and entities under direct budget control saw their revenue grow by 14.6% in real terms, thanks to higher electricity sales and social security contributions. Tax revenue will be equivalent to 9.8% of GDP at year-end 2012, slightly lower than the 9.9% posted in 2011.

Total public-sector spending in the first nine months of the year was 6.9% higher in real terms than in the same period in 2011. Economic and social development spending rose by 11.8% and 4.3% in real terms, respectively, while public physical investment increased by 9.6%.

At the end of September 2012, net federal public-sector debt was equivalent to 32.2% of GDP, as against 31.7% at year-end 2011. Over the past four years, this debt ratio has increased slightly (in 2008, just before the global financial crisis, it was 26.8%). As in previous years, the main debt issuance channel was domestic: the domestic debt ratio rose by 0.9 percentage points, to 22.2% of GDP, while the external debt ratio fell by 0.4 percentage points, to 10% of GDP. The share of federal government

MEXICO: GDP, INFLATION AND UNEMPLOYMENT



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

securities held by foreign investors continues to rise and stood at 33.1% of the total as of 31 October 2012 as against 26.3% at year-end 2011.

The annual reference interest rate (the overnight interbank rate) remained anchored at 4.5%, with November marking the fortieth consecutive month with no change. Although there were inflationary pressures, the Bank of Mexico saw them as temporary external shocks and decided not to change the target rate. However, it has signalled its intention to adjust the rate upwards if inflation remains above monetary policy targets. At the end of October, the real annual yield on Federal Treasury Certificates (CETES) was a negative 0.4%, compared with a positive 1.1% during the same month of 2011.The foreign-exchange market has remained highly volatile since the start of the 2008-2009 global financial crisis. In mid-November, the interbank exchange rate was 13.2 pesos to the United States dollar, compared with 13.94 pesos to the dollar at year-end 2011 —a nominal appreciation of 5.3%. The exchange rate has shown considerable volatility, ranging from a low of 12.63 pesos to the dollar in mid-March to a high of 14.39 pesos in early June. To ease upward pressure on the exchange rate, on 30 November 2011 the Bank of Mexico began to auction US$ 400 million daily at an exchange rate at least 2% higher than the rate for the preceding business day. However, the peso lost value compared with the previous year: the average real effective exchange rate for January to October was 5.4% higher than in the year-earlier period. Therefore, intervention was needed on only three occasions during the first 11 months of 2012, for a total of US$ 646 million.

International reserves continued to build up, reaching US$ 162.64 billion by mid-November compared with US$ 142.47 billion at year-end 2011. A new US$ 73 billion flexible credit line arrangement with the International Monetary Fund was approved in November.

Commercial bank lending slackened in the third quarter of 2012. In September, it posted a nominal year-on-year growth rate of 6.2% (1.4% in real terms), as against 11.3% during the same period in 2011 (7.9% in real terms). The Mexican Stock Exchange Index of Prices and Quotations (IPC) was volatile throughout the year due to international financial recovery that started in 2011. The services sector posted 4.4% growth on the strength of financial and insurance services (up 10.3%). Aggregate demand expanded by 4.6% in the first two quarters of 2012, driven by a 7.5% increase in capital formation and, in particular, a 10.7% jump in public investment. Consumption expanded at a modest 3.6%.

MEXICO: MAIN ECONOMIC INDICATORS

	2010	2011	2012 [a]
		Annual growth rates	
Gross domestic product	5.6	3.9	3.8
Per capita gross domestic product	4.3	2.7	2.6
Consumer prices	4.4	3.8	4.6 [b]
Real average wage [c]	-0.9	0.8	0.1
Money (M1)	11.2	16.2	14.6 [d]
Real effective exchange rate [e]	-7.6	-0.1	5.4 [d]
Terms of trade			
		Annual average percentages	
Open urban unemployment rate	6.4	6.0	5.8
Public-sector overall balance / GDP	-2.8	-2.5	-2.4
Monetary police rate	4.5	4.5	4.5 [f]
Nominal lending rate [g]	5.3	4.9	4.7 [f]
		Millions of dollars	
Exports of goods and services	314 027	365 243	385 932
Imports of goods and services	327 062	380 644	399 796
Current account balance	-1 669	-9 153	-7 860
Capital and financial balance [h]	22 284	37 333	24 184
Overall balance	20 615	28 180	16 323

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.
[b] Twelve-month variation to October 2012.
[c] Average wage declared by workers covered by social security.
[d] Year-on-year average variation, January to October.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] January-October average.
[g] Weighted average rate of private debt issues of up to 1 year, expressed as a 28-day curve. Includes only stock certificates.
[h] Includes errors and omissions.

The year-on-year inflation rate was 4.6% in October after peaking at 4.77% in September. Agricultural product prices, which increased at a year-on-year rate of 15.6% to October due mainly to supply constraints, put particular pressure on the consumer price index.

The national unemployment rate fell to 5.1% in the first three quarters of 2012 (versus 5.4% during the same period in 2011). The underemployment rate rose slightly, to 8.7% (versus 8.4% during the prior-year period). The percentage of the population employed in the informal sector reached a fresh high and closed the third quarter at 29.2%, compared with 28.7% in the third quarter of 2011. The number of workers registered with the Mexican Social Security Institute (IMSS) grew at a year-on-year rate of 4.8% in the first 10 months of the year. The real minimum wage remained practically stable.

Exports continued the slowdown that started in 2011, growing by 6.3% in the first three quarters of 2012 compared with 19.5% during the same period in 2011. Oil exports recorded a year-on-year decline of 3.4% due to a drop in volume. Manufacturing exports rose at a year-on-year rate of 7.8% (as against 15.4% over the same period in 2011), spurred by the automotive and auto parts industries.

Imports also slowed markedly in the first nine months of 2012 (by 5.1%, as against 18.8% during the same period in 2011). Imports of consumer goods grew at a year-on-year rate of 3.2%; imports of capital goods rose by 9.2%.

Revenues from remittances registered a year-on-year contraction of 0.3% in the first nine months of the year, owing mainly to the weakness of the United States economy and the decline in the flow of Mexican migrants to the United States. This broke the recovery trend seen in 2011 after the sharp drop in remittances in 2009.

The current account yielded a deficit of US$ 2.584 billion over the first three quarters of 2012, smaller than the deficit of US$ 6.663 billion posted during the same three quarters of 2011. This was mainly due to fact that goods and services exports grew at a faster rate than imports. Foreign direct investment (FDI) in the first nine months of the year was down by 17.5% year-on-year and is expected to close 2012 at around US$ 18 billion.

ECLAC forecasts that the Mexican economy will grow by 3.5% in 2013. Uncertainty fed by the prospect of a sharp fiscal adjustment in the United States and the debt crisis in some European Union countries is putting downward pressure on global economic growth and having a direct impact on the Mexican economy through foreign trade, remittances and FDI. Domestic demand will continue to spur economic growth. Inflation is expected to return to within the central bank target range (3%, with a margin of one percentage point either side). The Secretariat of Finance forecasts that the fiscal deficit will be 2% including PEMEX investment; otherwise, it would be in equilibrium. The current account deficit will be close to 1.2%, owing to deteriorating external conditions.