MEXICO

1. General trends

In 2021, Mexico’s GDP grew by 4.8% in real terms and using original series, owing mainly to a boost in exports to the United States, a statistical rebound owing to a lower base of comparison in 2020 and, to a lesser extent, the gradual recovery of the domestic market. This rate did not compensate for the drop in economic activity observed in 2020 (-8.1%). Year-on-year inflation (December to December) stood at 7.4% at end-2021 (up from 3.2% in 2020), a level not seen for 20 years and above the Bank of Mexico's target range of 3.0% (plus or minus one percentage point). Generalised price increases were driven by the recovery of consumption and the increase in international commodity prices, including those of energy products. The unemployment rate decreased slightly to 4.1% (from 4.4% in 2020). The non-financial public sector fiscal deficit was 2.9% of GDP, similar to that of 2020, as increased revenues were offset by higher social and economic development spending. The balance-of-payments current account posted a deficit of 0.4% of GDP (down from a surplus of 2.5% of GDP in 2020), owing to a substantial increase in imports of goods and services.

For 2022, ECLAC forecasts that Mexico’s GDP will increase by 1.9% in real terms, mainly owing to a surge in exports to the United States and a recovery in domestic demand, which is expected to resume its long-term growth path. However, this figure may be revised downward owing to certain factors associated with the pace of recovery of world economic growth (particularly that of the United States), the ongoing effects of the pandemic, the negative effects of the Russian Federation's invasion of Ukraine (such as global inflationary pressures), rising interest rates and continuing restrictions in global production supply chains. Year-on-year inflation is expected to be around 8.0%, mainly owing to renewed economic activity and the rise in commodity prices. The average annual unemployment rate will be around 3.0%, reflecting stronger job creation and an increase in the number of job-seekers once the worst phase of the pandemic eventually comes to an end. The non-financial public sector fiscal deficit is expected to reach about 3.1% of GDP (with a primary balance of -0.3% of GDP), with a balance of payments current account deficit of 1.0% of GDP, following the trend of recovery in trade flows and the buoyancy of imports.

2. Economic policy

a) Fiscal policy

In 2021, total budgetary revenues of the non-financial public sector increased by 5.6% in real terms compared to 2020, on the back of growth in oil revenues (80.6%) and despite a drop in non-oil revenues of 4.0%. Income tax receipts rose by 1.9% and those of value added tax by 7.7%, bringing real tax revenues up by 1.1% to account for 13.6% of GDP. However, non-tax revenues fell by 33.8%, due to a reduction in the collection of benefits (–42.1%) despite an increase (18.4%) in duties collected by the State. Meanwhile, net public sector budgetary spending rose by 6.3% in real terms, as a result of higher capital (39.7%) and current (2.3%) expenditure, mainly for public construction projects, since public sector financial costs fell (-5.3%), in part due to a decrease in interest, fees and expenses (-0.6%).

At end-2021, public debt accounted for 49.6% of GDP (compared to 51.3% in 2020), mainly due to the increase in GDP, the reduction in international interest rates and exchange rate appreciation. However, this debt remains substantially higher than that observed in 2019 (45.1% of GDP prior to the pandemic). Both domestic and external debt remained stable in relative terms (32.5% and 17.1% of GDP, respectively). In July 2021, the country issued its second bond linked to the United Nations Sustainable Development Goals (SDGs), with the lowest ever coupon rate (2.25%) for a 15-year euro-denominated bond.

In December 2021, the government held 54.634 billion pesos (equivalent to US$ 2.948 billion) in public finance stabilization funds: the Budgetary Revenue Stabilization Fund (FEIP), the Federal States' Revenue Stabilization Fund (FEIEF) and the Mexican Petroleum Fund for Stabilization and Development (FMP). The funds' balance was 13.8% lower than at the end of 2020.

Between January and June of 2022, public sector budget revenues rose by 4.9% in real terms compared to the same period in 2021, as a result of a slight increase in both non-oil revenues (0.7%) and a vigorous boost in oil revenues (29.4%). At the same time, net public sector budgetary spending increased by 2.1% in real terms. This was mainly due to the increase in contributions (financial support to the states of the Republic) (9.7%), amidst a fall in current spending (-1.6%) and an increase in capital spending (8.3%). The public deficit for the period thus narrowed to 204.849 billion pesos, compared to the deficit of 231.197 billion pesos recorded in the same period in 2021 (a real annual decrease of 17.6%). Lower receipts from the special tax on production and services (IEPS) and value added tax are expected to reach some 1.5% of GDP by the end of the year, and the fuel subsidy will be partially offset by extraordinary income from Petróleos Mexicanos (PEMEX) owing to the increase in international oil prices. Public debt continues a sustainable path and is set to reach 49.5% of GDP by the end of 2022 due to an increase in GDP and higher inflation, which will cushion the increase in interest rates and the exchange rate.

b) Monetary and financial policy

In February 2021, the Bank of Mexico lowered its benchmark rate by 25 basis points to 4.0%, the lowest level since June 2016. In June, due to inflationary pressures, it changed its monetary policy stance, with an increase of 25 basis points. In August, September and November, the rate was again increased by 25 basis points each time and in December was increased by 50 basis points to a rate of 5.5%.

In December 2021, following a downgraded forecast on the improvement of future economic conditions and a gradual increase in interest rates, the performing loan portfolio of commercial banks in the private sector showed a year-on-year decrease of 2.7% in real terms, linked to the reduction in consumer credit (-2.1%) and credit to companies and entrepreneurs (-4.3%). Meanwhile, mortgage lending expanded by 2.7%on the back of a larger real estate supply. As a proportion of GDP, levels of lending to the private sector are similar to those seen in 2017 (18.5% of GDP).

At end-2021, the active lending rate for credit cards and mortgages stood at a nominal 29.3% (20.5% in real terms, 5.1 percentage points lower than in the same month in 2020). The deposit rate — defined as the average cost of term deposits to the commercial banks— reached a nominal 4.5% (equivalent to -2.7% in real terms, 3.5 percentage points lower than the same month in 2020).

In 2021, the country's sovereign debt ratings from Standard & Poor's (S&P), Fitch Ratings and Moody's Investors Service remained unchanged, but with modifications to the outlook, which is now negative from S&P. However, given the high liquidity risk and growing indebtedness of PEMEX, Moody's downgraded the oil company's rating to Ba3 —three notches below investment grade— from Ba2 and maintained its negative forecast.

In February, March and May 2022, due to persistent inflationary pressures, the Bank of Mexico again increased the interbank interest rate by 50 basis points each time, and in June and August increased it by 75 basis points each month to reach a value of 8.50%, its highest level in more than 20 years. This reduces the risk of a strong outflow of financial capital (the value of government securities held by residents abroad had fallen by US$ 4.976 million by July 2022), among other things, linked to the increase in interest rates by the United States Federal Reserve. In June 2022, the commercial banking sector's portfolio of performing loans to the private sector increased by 2.9% year-on-year in real terms. This was on account of the increase in loans to entrepreneurs (1.9%), mortgages (3.4%) and consumer loans (5.0%). In April, real-term lending and deposit rates reached 20.3% and -2.2%, respectively. To July, the country's sovereign debt ratings from Fitch Ratings and S&P remained unchanged. Only the latter modified its outlook from negative to stable, in anticipation of cautious fiscal and monetary policy implementation. Moody's Investors Service lowered its rating from Baa1 to Baa2 but changed its outlook from negative to stable.

c) Exchange-rate policy

In 2021, the peso recorded an average exchange rate of 20.3 pesos to the dollar (a nominal appreciation of 5.6% and a real depreciation of 0.9%, with respect to 2020). In August 2021, international reserves rose to US$ 205.391 billion, owing mainly to the transfer by the International Monetary Fund (IMF) of special drawing rights (SDRs) worth US$ 12.117 billion. In September, the government acquired US$ 7.021 billion of reserves from the Bank of Mexico to prepay debt, bringing the balance to US$ 202.399 billion as of 31 December 2021 (equivalent to 5.9 months' total imports), which was slightly more (3.4%) than at the end of 2020.

In July 2022, the exchange rate averaged 20.3 pesos to the dollar, driven, among other things, by a historical increase in remittance flows, the increase in the Bank of Mexico's target interest rate and the weakening of the dollar caused by the economic slowdown in the United States in the second quarter of 2022. On 5 August 2022, international reserves stood at US$ 199.314 billion, slightly down (-1.5%) from the close of 2021. In addition, a flexible credit line of US$ 50 billion with the IMF is in place (until November 2023). Thus, the central bank has more than US$ 249 billion at its disposal to deal with currency and financial turbulence.

d) Other policies

In the first half of 2021, the Mexican Congress approved measures for comprehensive reform of the labour subcontracting regime to prevent contract simulation and tax evasion. This reform is expected to benefit more than 4.6 million workers employed on this basis. Similarly, legislators adopted amendments to the laws of the Mexican Social Security Institute (IMSS) and the Retirement Savings System (SAR) which will have an impact on the financial and labour sectors and are intended to bring medium-term improvements to the retirement conditions of formal workers.

In mid-2021, the Trade Continuity Agreement between the United Mexican States and the United Kingdom of Great Britain and Northern Ireland, signed by the two countries in December 2020, entered into force. This instrument preserves the preferential trading terms between the two economies following the United Kingdom's withdrawal from the European Union. The agreement establishes a three-year period for the negotiation of an ambitious, modern and comprehensive new free trade agreement.

In September 2021, Mexico was included as a member of the Inclusive Trade Action Group (ITAG) and a signatory to the Global Trade and Gender Arrangement (GTGA). ITAG was launched on 8 March 2018 by Canada, Chile and New Zealand with the objective of advancing progressive and inclusive international trade policies to ensure that the benefits of trade and investment are distributed more broadly for a positive impact on economic growth and a reduction in equality and poverty.

3. The main variables

a) The external sector

In 2021, the balance of payments current account posted a deficit of US$ 4.975 billion, equivalent to 0.4% of GDP. The goods trade balance, meanwhile, showed a deficit of US$ 10.915 billion, down from the US$ 34.151 billion surplus recorded in 2020. Total exports increased by 18.6% (after a 9.4% decrease in 2020), particularly in the manufacturing sector (86.8% of the total), while total imports grew by 32.0% (in 2020 they fell by 15.9%). Imports of consumer, intermediate and capital goods increased by 34.9%, 32.7% and 21.8%, respectively. Foreign exchange earnings from international tourism (US$ 19.796 billion) increased by 80.0% up from the amount recorded in 2020.

Family remittances to Mexico accrued to a historic total of US$ 51.586 billion in 2021, 27.0% higher than in 2020. This performance was on account of a variety of factors, including migrants' solidarity vis-à-vis the health and economic crisis, cash transfer programmes for Mexican families abroad, particularly in the United States, the increased use of electronic channels to send remittances and the weaker exchange rate, which contributed to increased remittances in pesos.

In 2021, foreign direct investment (FDI) inflows totalled US$ 31.658 billion, up 12.8% from the same period of 2020. This is mainly related to the global economic recovery but remains 7.8% below the 2019 (pre-pandemic) figure. Net FDI amounted to US$ 32.412 billion, 27.8% more than in 2020.

From January to June 2022, Mexico's goods trade balance posted a deficit of US$ 12.944 billion, lower than the surplus of US$ 1.370 billion recorded over the same period in 2021. Total exports increased 18.8% during this period and total imports grew by 25.0%. In the reference period, non-oil exports to the United States, which represented 82.3% of total exports, rose at an annual rate of 17.9%, while shipments to the rest of the world grew by 10.1%. Remittances reached US$ 27.565 billion, a year-on-year increase of 16.6% over the same period in 2021. Foreign exchange earnings from international tourism were up by a cumulative 76.9% in year-on-year terms, although foreign tourism remains below the levels seen pre-pandemic.

In the first quarter of 2022, FDI inflows posted a result of US$ 19.427 billion, up 20.3% from January–March 2021. Excluding the (extraordinary) flow due to the merger of Televisa and Univision and the restructuring of Aeromexico, FDI stood at US$ 12.552 billion, 22.3% less than in the year-earlier period. Meanwhile, net FDI amounted to US$ 13.974 billion, down 0.6% from the first quarter 2021.

b) Economic activity

In 2021, a significant recovery was seen in all sectors. Secondary, tertiary, and primary activity increased in real terms by 6.4%, 4.1%, and 2.2%, respectively. Although the upturn began in the second quarter of 2021 with year-on-year growth of 19.9%, production activity slowed in the fourth quarter, with a year-on-year uptick of just 1.1%. Among the major factors preventing a greater economic recovery were substantial differences across regions and sectors in the reactivation of production, uncertainty about national public policies and shortages in inputs for production. As a result, the full recovery of pre-pandemic GDP levels is expected in 2024. Per capita GDP increased by 3.8% in 2021, following the 8.9% drop in 2020. It is estimated that this indicator will not return to 2018 levels until 2034, if current economic growth trends continue.

On the demand side, total consumption increased by 6.4% in real terms in 2021 (compared with an average decrease of 8.9% in 2020) and gross fixed investment grew by 10.0% (against -17.8% in 2020), mainly due to a slow recovery of the machinery and equipment components and residential construction sectors. Exports of goods and services increased by 6.9%, on account of the global economic recovery, while on the supply side, imports of goods and services were up by 13.7%.

In the first half of 2022, seasonally adjusted GDP rose by 1.9% compared to the same period in 2021. Primary activities expanded by 1.8% in annual terms, secondary activities by 3.2% and tertiary activities by 1.0%.

c) Prices, wages and employment

In December 2021, year-on-year inflation reached 7.4% —up from 3.2% the same month the previous year— due to the increased prices of certain national and imported goods, in particular agricultural products, medical supplies, medicines, gasoline and utilities, as well as the falling exchange rate.

Although in 2021 the average national unemployment rate was three tenths of a percentage point lower than in 2020 —linked to the gradual recovery of economic activity in Mexico after the most negative episodes of the pandemic— it was not higher: a large part of the economically active population did not seek employment or worked fewer hours over a prolonged period, and therefore were not recorded as unemployed. For the same reason, the underemployment rate, i.e., the variation in the number of people who reported having the need and availability to work more hours, reached 12.6% (16.3% in 2020) and the labour informality rate reached 55.9%, higher than the figure recorded in 2020 (54.4%).

In 2021, the general minimum wage and the minimum wage in the Northern Border Free Zone increased 15.0%. The first rate rose from 123.22 pesos per day in 2020 to 141.71 pesos per day in 2021 and the second rate from 185.56 pesos per day to 213.39 pesos per day in the same period. The nominal minimum wage increased by 22% in 2022.

In July 2022, year-on-year inflation stood at 8.15%, the highest in 21 years. Inflationary pressures were present on account of rising prices for vehicle fuels, certain food items and government authorized tariffs. The Office of the President of the Republic and the Secretariat of Finance and Public Credit, together with some of the country's largest producers and retailers, responded with an agreement in April to launch a programme to combat food price inflation and scarcity (Paquete Contra la Inflación y la Carestía (PCIC)), aimed at lowering (between 10% and 20%) —or not increasing— the price of 24 products, mostly included in the basic basket of goods (which includes over 40 products). A total of 16 measures, including an increase in grain production, a freeze on highway tolls and lower tariffs on fertilizer imports, are part of the package presented in early May. The initiative will be in effect for six months but may be extended for an additional six months, depending on inflation trends in the country. In addition, in response to higher international oil prices, the Secretariat has subsidized the cost of fuels to reduce their impact on inflation.

In June 2022, the employed population stood at 57.4 million people, up 2.3 million from the same month in 2021. The total number of underemployed was 5.1 million (8.9% of the employed population) and represented 1.7 million fewer persons than in June of the previous year. The unemployment rate was 3.3%, 0.7 percentage points lower than the same month of 2021. The labour informality rate reached 55.8%, slightly higher than the rate of 55.4% recorded in June 2021. An incomplete recovery and deteriorated working conditions have been observed on the labour market, as job creation is concentrated in jobs that pay up to twice the minimum wage (65.5% of total job creation).

Table 1
MEXICO: MAIN ECONOMIC INDICATORS

	2013	2014	2015	2016	2017	2018	2019	2020	2021 a/
	Annual growth rates b/								
Gross domestic product	1.4	2.8	3.3	2.6	2.1	2.2	-0.2	-8.1	4.8
Per capita gross domestic product	0.0	1.5	2.0	1.4	0.9	1.1	-1.3	-9.0	3.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.3	3.7	2.1	3.5	3.4	2.6	-0.3	0.3	2.2
Mining and quarrying	-0.6	-1.9	-4.4	-4.3	-8.3	-5.5	-4.6	-0.2	1.6
Manufacturing	0.5	4.0	2.9	1.6	2.8	1.8	0.2	-9.4	8.6
Electricity, gas and water	0.6	8.1	1.7	0.1	-0.4	7.5	-0.6	-5.8	-0.5
Construction	-1.6	2.6	2.1	1.6	-0.4	0.2	-4.9	-17.3	6.4
Wholesale and retail commerce, restaurants and hotels	1.7	3.4	4.6	2.8	3.5	3.0	-0.6	-12.8	12.2
Transport, storage and communications	3.0	4.0	8.0	6.8	5.5	3.9	1.0	-14.0	10.6
Financial institutions, insurance, real estate and business services	3.3	3.6	5.4	4.4	2.2	2.7	1.3	-1.7	1.2
Community, social and personal services	1.2	0.4	1.0	1.4	2.2	2.5	1.0	-3.6	-4.8
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.6	2.2	2.6	3.5	2.8	2.6	0.0	-8.8	6.4
Government consumption	0.5	2.6	1.9	2.6	0.7	2.9	-1.8	-0.2	1.0
Private consumption	1.8	2.1	2.7	3.7	3.2	2.6	0.4	-10.3	7.5
Gross capital formation	-2.1	1.5	4.5	0.5	-1.2	0.4	-5.3	-19.0	10.8
Exports (goods and services)	1.4	7.0	8.4	3.6	4.2	6.0	1.5	-7.3	6.9
Imports (goods and services)	2.1	5.9	5.9	2.9	6.4	6.4	-0.7	-13.8	13.6
Investment and saving c/	**Percentages of GDP**								
Gross capital formation	22.5	21.9	23.3	23.6	22.9	22.7	21.2	19.2	20.2
National saving	20.0	19.9	20.7	21.4	21.2	20.7	20.9	21.7	19.8
External saving	2.5	1.9	2.6	2.2	1.7	2.0	0.3	-2.5	0.4
Balance of payments	**Millions of dollars**								
Current account balance	-31 419	-25 282	-30 929	-24 166	-20 024	-24 348	-3 304	27 172	-4 975
Goods balance	-909	-2 795	-14 612	-13 082	-10 984	-13 768	5 168	34 151	-10 915
Exports, f.o.b.	380 729	397 651	380 983	374 311	409 806	451 082	460 940	417 323	495 090
Imports, f.o.b.	381 638	400 447	395 595	387 392	420 790	464 850	455 772	383 172	506 005
Services trade balance	-14 058	-13 293	-9 776	-8 822	-9 477	-10 939	-7 902	-11 295	-11 559
Income balance	-38 401	-32 547	-30 837	-29 357	-29 707	-33 059	-36 766	-36 622	-33 441
Net current transfers	21 950	23 353	24 296	27 094	30 143	33 417	36 197	40 938	50 940
Capital and financial balance d/	49 208	41 611	15 262	24 030	15 259	24 832	5 942	-15 182	15 263
Net foreign direct investment	32 796	23 015	25 244	31 001	30 048	25 719	23 713	25 352	32 412
Other capital movements	16 411	18 596	-9 982	-6 970	-14 789	-887	-17 771	-40 534	-17 148
Overall balance	17 789	16 329	-15 667	-136	-4 765	483	2 638	11 990	10 288
Variation in reserve assets e/	-17 789	-16 329	15 667	136	4 765	-483	-2 638	-11 990	-10 288
Other external-sector indicators									
Terms of trade for goods (index: 2010=100)	101.8	101.0	96.7	97.4	100.4	100.0	102.2	101.0	98.0
Net resource transfer (millions of dollars)	10 806	9 063	-15 575	-5 326	-14 448	-8 228	-30 824	-51 804	-18 178
Total gross external debt (millions of dollars)	258 840	285 493	296 466	314 256	333 454	342 768	356 752	374 046	373 530
Employment g/	**Average annual rates**								
Labour force participation rate	60.3	59.8	59.8	59.7	59.3	59.6	60.1	55.6	58.8
Open unemployment rate	4.9	4.8	4.3	3.9	3.4	3.3	3.5	4.4	4.1
Visible underemployment rate	8.3	8.1	8.3	7.6	7.1	6.9	7.5	16.5	12.7

Table 1 (concluded)

	2013	2014	2015	2016	2017	2018	2019	2020	2021 a/
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	4.0	4.1	2.1	3.4	6.8	4.8	2.8	3.2	7.4
Variation in industrial producer prices (December-December)	1.5	1.8	3.0	9.1	4.7	5.7	1.7	3.7	…
Variation in nominal exchange rate (annual average)	-3.0	4.3	19.2	17.6	1.4	1.7	0.1	11.6	…
Variation in average real wage	0.1	0.4	1.4	0.9	-1.2	0.8	2.9	3.8	1.4
Nominal deposit rate h/	3.9	3.2	3.0	3.8	3.8	6.7	7.2	5.2	4.0
Nominal lending rate i/	27.9	28.6	28.4	26.8	26.8	28.3	30.3	30.2	29.4
Federal government	**Percentages of GDP**								
Total revenue	23.3	22.8	23.0	24.1	22.6	21.7	22.0	22.9	22.7
Tax revenue	9.6	10.3	12.7	13.5	13.0	13.0	13.1	14.3	13.6
Total expenditure	25.7	25.9	26.3	26.6	23.6	23.8	23.7	25.7	25.7
Current expenditure	20.3	20.8	21.3	20.7	20.0	20.7	20.7	22.3	21.3
Interest	1.9	2.0	2.2	2.3	2.4	2.6	2.7	2.9	2.6
Capital expenditure	5.4	5.1	5.0	5.9	3.6	3.1	3.0	3.4	4.4
Primary balance j/	-0.4	-1.1	-1.2	-0.2	1.3	0.5	1.1	0.0	-0.3
Overall balance j/	-2.3	-3.1	-3.4	-2.5	-1.1	-2.1	-1.6	-2.9	-2.9
Federal government public debt	29.8	31.7	34.1	37.0	35.2	35.4	36.1	41.5	40.8
Domestic	24.2	25.3	27.3	27.9	27.0	27.4	28.4	31.9	31.8
External	5.6	6.4	7.4	9.1	8.2	8.0	7.7	9.6	9.0
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	48.5	49.0	52.5	54.7	54.8	54.4	58.3	63.4	61.5
To the public sector	19.5	19.8	20.6	20.7	19.5	19.9	21.7	25.2	25.7
To the private sector	29.0	29.2	31.9	34.0	35.3	34.5	36.6	38.2	35.8
Monetary base	5.6	6.1	6.7	7.1	7.0	7.1	7.1	9.0	9.3
Money (M1)	14.2	15.0	16.1	16.7	16.8	16.8	17.2	21.5	21.5
M2	22.1	22.4	23.8	24.4	24.3	24.7	25.2	30.2	29.7
Foreign-currency deposits	1.4	1.8	2.3	3.1	3.5	3.0	2.5	3.1	3.1

Surce: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 2013 prices.
c/ Based on values calculated in national currency and expressed in current dollars.
d/ Includes errors and omissions.
e/ A minus sign (-) indicates an increase in reserve assets.
f/ Annual average, weighted by the value of goods exports and imports.
g/ Nationwide total. New measurements have been used since 2013; the data are not comparable with the previous series.
h/ Cost of term deposits in the multibanking system.
i/ Average interest rate for credit cards from commercial banks and the TAC rate (Total Annual Cost).
j/ Includes the non-budgetary balance.