Mexico

ECLAC estimates that Mexico’s rate of economic growth for 2017 will be 2.2%, lower than the 2.9% posted in 2016, according to the new baseline year of 2013. A more buoyant external sector will be offset by a fall in investment —primarily public investment— and by the impact of natural disasters. Inflation is expected to stand at 6.4% in 2017, compared to 3.4% in 2016, and unemployment will edge down to 3.4%, from 3.8% in 2016. The public sector fiscal deficit is projected to narrow to 1.3% of GDP (against -2.6% in 2016), thanks to a small primary surplus (1.3% of GDP), while the balance-of-payments current account deficit will close the year somewhere around 2% of GDP, compared to 2.7% in 2016.

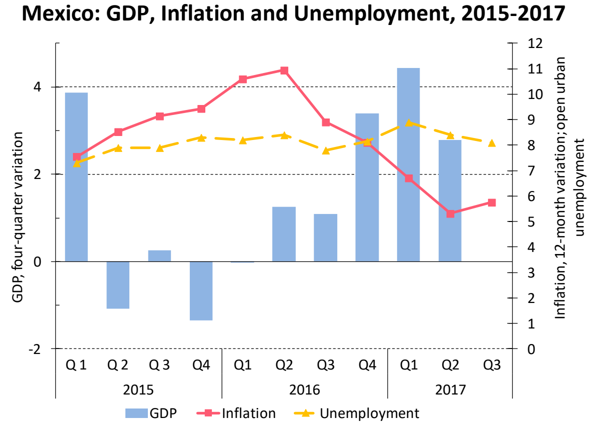
In the fiscal arena, over the first 10 months of 2017 the public sector balance recorded a surplus of 0.4% of GDP, compared with a deficit of 1.2% during the year-earlier period. Public sector revenue was up by 1.2% in real terms over the corresponding period in 2016, bolstered by a 3.2% increase in non-oil revenue (which accounts for 83.7% of the total). Non-tax receipts rose by 10.5% in real terms, while public sector tax revenue rose by 0.7% (including a Bank of Mexico operating surplus equal to 1.5% of GDP). These results offset the real-term drop of 8.2% in public sector oil revenues.

Compared with the corresponding period in 2016, total public sector spending fell by 6.3% in real terms during the first 10 months of 2017, which was in keeping with the strategy of improving the budgetary position. Part of this decrease was attributable to the lower subsidies paid following the increase in motor-fuel prices and their subsequent liberalization in December. This calculation includes one-time costs such as the purchase of financial assets worth 96.442 billion pesos (US$ 5.213 billion), which were mainly channelled into the Budgetary Revenue Stabilization Fund (FEIP) (79.978 billion pesos) and the Protection Fund against Catastrophic Expenditure (FPGC) (13.629 billion pesos). Budgeted spending posted a real-term reduction of 10.6%, which was primarily the result of a 24.6% cut in physical investment (chiefly affecting road, port and tourism infrastructure);this was the largest drop since the 1995 crisis and reflected budget cuts made to improve the debt and fiscal positions.

As of October 2017, net public sector debt stood at 43.7% of GDP. This result, 4.5 percentage points lower than at the end of 2016, was partly on account of the higher estimated GDP caused by the change in the base year; disregarding that factor, the debt figure would be around 48%. The Secretariat of Finance and Public Credit estimates that the historical balance of public sector financial requirements (the broadest calculation of the country’s debt) will stand at 46.7% of GDP at the close of 2017, compared to 48.7% of GDP in 2016.

On the monetary policy front, in February 2017 the government announced a programme of foreign-exchange hedges, payable in pesos upon maturity and capped at US$ 20 billion. This programme aims to provide a degree of certainty in the exchange rate paid by companies and facilitate a more orderly functioning of the foreign-exchange market. By November, a total of US$ 4.5 billion had been auctioned. The overnight interest rate was

Mexico: GDP, Inflation and Unemployment, 2015-2017



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

increased by 50 basis points in February and by 25 basis points each in March, May and June 2017, taking it to 7%, compared with 5.75% at the end of 2016. This move was related to higher interest rates in the United States and the uncertainty surrounding the renegotiation of the North American Free Trade Agreement (NAFTA) and was intended to keep inflationary expectations in check. In fact, the higher interest rates did reduce exchange-rate volatility and stabilize price increases.

Mexico: main economic indicators, 2015-2017

	2015	2016	2017 [a]
	Annual growth rate		
Gross domestic product	3.3	2.9	2.2
Per capita gross domestic product	1.9	1.6	0.9
Consumer prices	2.1	3.4	6.4 [b]
Real average wage [c]	1.4	1.0	-1.1
Money (M1)	16.1	12.0	10.5 [d]
Real effective exchange rate [e]	13.1	15.2	-0.6 [d]
Terms of trade	-3.1	-3.8	-0.1
	Annual average percentage		
Open urban unemployment rate	4.7	4.3	3.8
Public-sector			
Overall balance / GDP	-3.4	-2.6	-1.3
Nominal deposit rate [f]	3.0	3.8	5.7 [b]
Nominal lending rate [h]	28.5	26.8	27.1 [d]
	Millions of dollars		
Exports of goods and services	403 879	398 893	436 300
Imports of goods and services	428 231	420 917	455 735
Current account balance	-29 489	-22 648	-21 243
Capital and financial balance [i]	13 821	22 515	17 704
Overall balance	-15 667	-136	-3 539

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of October.
c/ Average wage declared by workers covered by social security.
d/ Figures as of September.
e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
f/ Cost of term deposits in the multibanking system.
g/ Figures as of August.
h/ Weighted average rate of private debt issues of up to 1 year, expressed as a 28-day curve.
i/ Includes errors and omissions.

January 2017 saw the biggest nominal depreciation of the peso against the dollar in recent history, when the exchange rate reached 21.9 pesos to the dollar on account of the uncertainty triggered by protectionist statements made by the Government of the United States. Uncertainty eased over the following months, however, and, by November 2017, the peso had appreciated nominally by 10.1% (15.6% in real terms) compared to the close of 2016. This may be attributed to a slight improvement in prices for Mexico's crude oil mix, the monetary and exchange-rate policy measures adopted by the Bank of Mexico and a less volatile international financial market. Nevertheless, some uncertainty still exists regarding the NAFTA renegotiations and this has triggered bouts of exchange-rate volatility as 2017 draws to a close. In November, the central bank reported reserves of US$ 172.749 billion, a drop of 2.1% since the end of 2016. In addition, the US$ 70.0 billion precautionary credit line from the International Monetary Fund (IMF) also remains active.

In September 2017, the active loan portfolio held by commercial banks for the private sector posted a year-on-year real-term growth of 5.5%. Business, mortgage and consumption loans were up by 7.3%, 2.8% and 2.5%, respectively, which represents a significant slowdown compared to the close of the previous year (when the corresponding figures were 14.2%, 7.2% and 8.5%). This result was largely on account of lower real disposable incomes (owing to rising inflation) and expectations of higher credit costs. The average lending rate for credit cards and mortgages stood at 27.1% in the first 10 months of the year (20.1% in real terms, 3.4 percentage points lower than in the prior-year period). Meanwhile, the nominal deposit rate, defined as the cost of deposit-taking for full-service banks, stood at 5.7% in nominal terms (-0.2% in real terms, one percentage point less than in the first 10 months of 2016).

From January to September 2017, total exports increased at a year-on-year rate of 9.3%, the result of increases of 21.5% in oil exports (owing mainly to higher prices) and of 8.7% in non-oil exports. Within the non-oil exports category, those going to the United States (81.1% of the total) rose by 7.4% in year-on-year terms, on account of a better performance by that country's industrial sector, while those to the rest of the world grew by 14.7%. The value of total imports over the same period rose by 7.8%, mainly because of the significant spike in oil imports (32.3%), while non-oil imports rose by 5.7%. Imports of consumer, intermediate and capital goods posted annualized growth rates of 8.2%, 8.5% and 2%, respectively. The trade balance posted a cumulative deficit of US$ 9.051 billion during the first nine months of the year (26.4% lower than in the same period of 2016).

Family remittances totalled US$ 21.266 billion in the first nine months of 2017, 6% up from the year-earlier period. As a result, the current account deficit stood at US$ 23.086 billion, equivalent to 2% of GDP. Foreign direct investment (FDI) totalled US$ 19.773 billion, down 23% on the cumulative total to September 2016.

In June 2017, the National Hydrocarbon Commission (CNH) allocated 67% of the blocks auctioned in round 2.1 for shallow water oil exploration and extraction in the Gulf of Mexico. In July 2017, other natural gas fields were auctioned successfully in rounds 2.2 and 2.3. In total, the ongoing energy reform process is expected to earn more than US$ 219 billion over a period of between 35 and 50 years.

The seven-round NAFTA renegotiation process began in August 2017. Following intense discussions between Canada, Mexico and the United States, an agreement is expected to be reached in early 2018, although uncertainty still exists regarding the shape those agreements will take.

The National Institute of Statistics and Geography (INEGI) reported an average annualized economic growth rate of 2.2% for the first nine months of 2017. Analysis by broad economic sector shows that, on average, output was up by 3.3% for tertiary activities and 2.2% for the primary industries, but contracted by 0.5% in the secondary sector. Private consumption rose by an average of 3.2% between January and September, but gross fixed investment fell by 1.3% over the same period, mostly because of reduced public investment. These figures are already using the new GDP measurement published by INEGI in November whereby the base year was changed from 2008 to 2013; as a result, this indicator's values have risen on account of a more accurate measurement of productive activity, chiefly in manufacturing and services.

ECLAC calculates that the hurricanes and earthquakes that struck Mexico in September 2017 will shave 0.14 of a percentage point off GDP growth, owing to increased costs and negative externalities for various sectors of the economy, particularly services, which will more than counteract the positive impulse from first reconstruction efforts.

In October 2017, the general year-on-year inflation rate stood at 6.4%, well above the target of between 3% and 4% set by the Bank of Mexico. This was caused partly by knock-on effects of the depreciating exchange rate, increased energy prices (related to a fiscal measure to reduce fuel subsidies), higher food and beverage prices and rising charges for public goods and services. Core inflation stood at 3.4%. The September 2017 earthquakes had a moderate and temporary negative impact on price levels.

The average unemployment rate in the third quarter of 2017 was 3.6% of the economically active population, its lowest level since 2008, and the underemployment rate was 7.0%, down from the 7.8% posted at the same point the previous year. The rate of informal employment stood at 57.2%, similar to the figure of 57.4% recorded a year earlier. To strengthen the domestic market and prevent a drop in families' purchasing power, in January 2017 the minimum wage was increased by 9.6% in nominal terms —equal to a real-term raise of 3.3%— to reach 80.04 pesos a day. In December 2017, the minimum wage was raised to 88.36 pesos a day to cushion the effects of rising inflation. However, the real wages of beneficiaries of the Mexican Social Security Institute (IMSS) fell by 1.5%.

ECLAC projects an economic growth rate of 2.4% in 2018, because of the prospect of improvements in global trade, rising public revenues from oil and the reconstruction work necessitated by the natural disasters of 2017. There are risks associated with changing international financial conditions arising from further increases in external interest rates, the negative impact that tax reform in the United States could have on investment flows into Mexico and the outcome of the NAFTA negotiations. In June, Mexico is due to elect a new President and a new Congress. Inflation is expected to stand at 3.5% (within the central bank’s target range) and the unemployment rate should also be 3.5%. The public sector fiscal deficit will likely be slightly below 2% of GDP (a small primary surplus of 0.9% of GDP is expected), and the current account deficit should close 2018 at around 2% of GDP.