

## Mexico

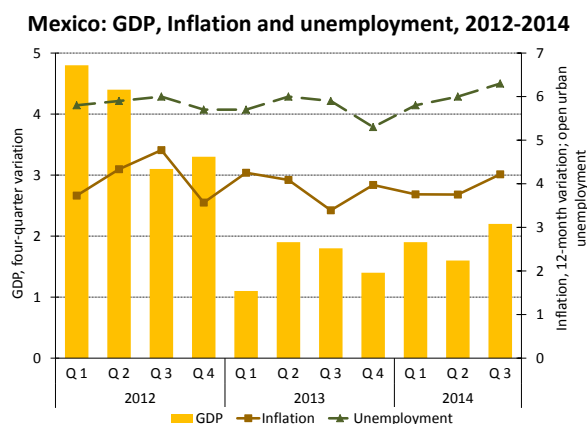
Mexico's GDP will grow by an annual rate of 2.1% in 2014, up from 1.4% in 2013, mainly as a result of more vigorous growth in exports. The fiscal deficit will bounce back to finish the year at a level equivalent to 1.5% of GDP—or 3.5% if investments by Petróleos Mexicanos (PEMEX) are included—versus 2.3% in 2013. Annual inflation will be around 4.1% at the close the year, slightly above the central bank's target range of 3%, with a margin of one percentage point either side. The current account deficit will hover at around 1.8% of GDP, the same as in 2013, while the national average annual unemployment rate will remain stable at around 5.0% of the economically active population.

According to ECLAC estimates, Mexico's GDP will grow at a rate of 3.2% in 2015, spurred by export growth and stronger public and private investment. How to boost domestic consumption remains a challenge because the wage bill is not rising quickly enough. The current account deficit will be around 2.0% of GDP, while the fiscal deficit, including investments by PEMEX, will exceed 3% of GDP for the second consecutive year. The slump in international oil prices will be partially offset by the Ministry of Finance and Public Credit's hedging of oil at US\$ 76.40 per barrel, which will ensure steady oil revenues for the federal government.

The supporting legislation needed to implement the structural reforms agreed during President Enrique Peña Nieto's first year in office were adopted in 2014. Notable amongst these are planned changes in the following sectors: telecommunications, to pave the way for more competition and greater investment; energy, to open up greater leeway for private investment; finance, by setting up mechanisms for encouraging competition and improving access to credit; and education, with modifications designed to strengthen monitoring and evaluation mechanisms with a view to improving the quality of education. Successful implementation of these reforms is expected to boost Mexico's future economic performance.

The reform of the energy sector led to the establishment of the Mexican Petroleum Fund for Stabilization and Development, which as of 1 January 2015 will be responsible for collecting, managing and disbursing all non-tax revenue that the Mexican State receives from oil and natural gas exploration and extraction activities. The fund is administered by the Bank of Mexico as a public trust, with a management board made up of four independent directors, three State representatives, the Minister of Energy, the Minister of Finance and Public Credit and the governor of the bank. Its mission is to bring greater stability to public finances by establishing a long-term savings fund to enable implementation of countercyclical measures, to channel resources into a universal pension system and to invest in areas such as science and technology and infrastructure.

Fiscal policy was expansionary in 2014, with the government running the largest budget deficit in more than a decade with a view to stimulating economic activity. Total public sector spending jumped by 8.5% year-on-year in real terms in the first nine



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

months of the year, up from 0.4% in the same period of 2013. Spending on social development rose by 5.7% in real terms, while spending on economic development surged by 10.3%.

Public-sector budgetary revenues grew by 2% year-on-year in real terms between January and September 2014. Oil revenue declined by 2.2% year-on-year in real terms as production volume and the price of Mexico's crude oil mix both fell. Non-oil tax revenues, meanwhile, saw growth of 6.1%. The value-added tax take was up (by 16.9% in real terms), driven by the approval of a rate hike from 11% to 16% in the border region and increased receipts from windfall taxes on production and services (49.1%), largely thanks to the introduction of a new levy of 5% on the sale and importation of high-calorie, non-staple foods. Receipts from the set of income taxes were down by 2.6% in real terms in 2014 because the extraordinary receipts from the tax debt regularization programme implemented in 2013 were a one-time gain that was not repeated in 2014.

The federal public sector's net debt stood at 37.5% of GDP at the end of September, as opposed to 35.0% at the end of 2013. Although public debt remains within sustainable limits and is below the average for Organisation for Economic Cooperation and Development (OECD) member countries, it has grown significantly in recent years and is something that will have to be watched closely over the short and medium term. Another fiscal issue in need of attention is the low multiplier effect of public spending, since the increased public deficit has failed to have the desired effect on economic activity.

In June 2014 the central bank cut its benchmark interest rate by 50 basis points to 3%, given the sluggish performance of the economy and the fact that inflation had remained within its target range. This rate has since remained unchanged. Against this backdrop, nominal yields on treasury certificates (CETES) reached their lowest-ever levels (rates on 28-day certificates stood at 2.9% at the end of October), with negative rates in real terms throughout the year (-1.3% at the end of October).

On 5 February, Moody's Investors Service upgraded its rating of Mexico's sovereign bonds by one notch, from Baal to A3, with a stable outlook in view of the country's greater growth potential following its approval of the structural reforms.

Bank lending to the private sector grew by 8.5% year-on-year in nominal terms (and by 4.1% in real terms) in the first nine months of the year, down from a nominal 10.5% in the same period of 2013 (6.8% in real terms). Consumer credit and lending for services both showed notable year-on-year expansions (8.6% and 15.4%, respectively).

#### Mexico: main economic indicators, 2012-2014

	2012	2013	2014 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	4.0	1.4	2.1
Per capita gross domestic product	2.8	0.3	1.0
Consumer prices	3.6	4.0	4.3 <sup>b</sup>
Real average wage <sup>c</sup>	0.2	-0.1	0.3 <sup>b</sup>
Money (M1)	13.7	7.5	13.8 <sup>b</sup>
Real effective exchange rate <sup>d</sup>	3.1	-5.2	0.9 <sup>b</sup>
Terms of trade	-2.0	-0.1	-2.4
	<b>Annual average percentage</b>		
Open urban unemployment rate	5.8	5.7	6.0 <sup>b</sup>
Public-sector			
Overall balance / GDP	-2.6	-2.4	-3.6
Nominal deposit rate	4.2	3.9	3.3 <sup>e</sup>
Nominal lending rate <sup>f</sup>	4.7	4.3	3.6 <sup>b</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	387,587	400,856	421,076
Imports of goods and services	401,859	413,766	433,134
Current account balance	-15,431	-26,485	-23,161
Capital and financial balance <sup>g</sup>	32,955	44,274	37,812
Overall balance	17,524	17,789	14,651

**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/ A negative rate indicates an appreciation of the currency in real terms.

e/ Figures as of November.

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.

Between September and November 2014, the strength of the dollar on international markets put upward pressure on the exchange rate. The interbank exchange rate thus stood at 13.7 pesos to the dollar at the end of November, representing a nominal depreciation of 4.1% in respect of the end of 2013. The real bilateral exchange rate depreciated by 1.2% over the first nine months of the year.

International reserves stood at US\$ 192.72 billion at the end of November 2014, a nominal increase of 9.1% on figures at the close of 2013. Mexico also continues to have access to a flexible credit line of US\$ 73 billion with the International Monetary Fund (IMF).

Once the structural reforms and the supporting legislation have been adopted, two of the items at the top of the current administration's agenda until its term of office ends in 2018 will be reinvigorating economic activity and combating public insecurity. Negotiations for a free-trade agreement between Panama and Mexico concluded in March 2014. Mexico also continues to participate in the Trans-Pacific Partnership negotiation rounds.

Exports grew by 4.6% year-on-year in the first nine months of 2014 versus 2.5% in the same period of 2013, driven by an expansion in non-oil exports (6.7%) that was in turn partially offset by an 8.7% decline in oil exports owing to falling crude production volume and lower international prices. Growth in manufacturing exports picked up (6.4%) after a modest expansion in 2013. Automotive industry and professional and scientific equipment exports surged (by 10.6% and 14.3%, respectively).

Imports increased by 4.1% in the first nine months of the year, up from 2.8% in the same period of 2013. The highest rate of year-on-year expansion was in intermediate goods imports (5.3%); capital goods imports saw lacklustre growth (1.3%). Imports of consumer goods contracted (by 0.12%). The deficit in the balance of trade in goods narrowed to a cumulative US\$ 1.762 billion in September (versus a US\$ 2.99 billion deficit in the same period of 2013).

Income from family remittances over the first ten months of 2014 came to US\$ 19.629 billion, which represents year-on-year growth of 7.2% and a continuation of the recovery that began in the second half of 2013. Foreign direct investment (FDI), meanwhile, stood at US\$ 15.310 billion in the first nine months of the year, a long way short of the US\$ 28.234 billion posted in the same period of 2013. This change was due in part to a one-time transaction in the second quarter of 2014 (Mexican investors purchased a stake in América Móvil, involving an FDI outflow of US\$ 4.495 billion) and to acquisition in 2013 of the beer maker Grupo Modelo by the Belgian-owned multinational AB InBev for a net US\$ 13.25 billion.

Economic activity in the first half of 2014 (with a year-on-year expansion of 1.7%) was not as buoyant as had been expected, and growth forecasts for the year as a whole have been trimmed accordingly. The third quarter saw a slight acceleration, with GDP rising by 2.2% year-on-year. Primary activities expanded by 3.9% in the first nine months of the year as a result of dynamic growth in agriculture. Secondary activities grew at a rate of 1.6%, driven by manufacturing, while tertiary activities increased by 2.0%. In the first half of the year, private consumption grew 1.4% year-on-year in real terms. Gross fixed capital formation fell by 0.6%.

Following an uptick in inflation in January, monthly variations between March and July remained within the central bank's target range (3%, with a margin of one percentage point either side), but inflation picked up again from August—driven by price rises in agricultural goods and energy—to reach 4.3% at the end of October.

The average unemployment rate between January and September held at 5%, unchanged on the level seen in the first nine months of 2013, against a backdrop of falling employment and participation rates. By the end of October, the number of new formal-sector workers registered with the Mexican Social Security Institute (IMSS) had risen by 700,000 permanent workers, 4.2% more than at the same point in 2013. The real minimum wage fell by 0.3% year-on-year between October 2013 and October 2014; the real average wage rose by 0.3%.