Mexico

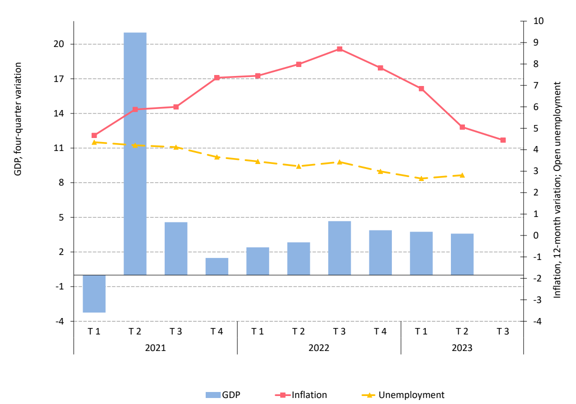
The Economic Commission for Latin America and the Caribbean (ECLAC) estimates Mexico's GDP growth for 2023 as a whole (on the basis of original series that have not been seasonally adjusted) at 3.6% in real terms. This slight slowdown from 2022 (when GDP rose by 3.9%, with a change in the base year to 2018) derived mainly from a slackening of goods exports to the United States. Despite persistently high inflation and interest rate hikes, the growth of both investment and consumption outpaced all the experts' initial projections.

Year-on-year inflation is forecast at around 4.5% at the close of 2023 (down from 7.8% in December 2022), as the prices of some food products and raw materials were still high and supply chain constraints continued to be a factor. The average unemployment rate is expected at around 3.0% (versus 3.3% in 2022) in line with the upward trend in economic activity. The fiscal deficit of the non-financial public sector is expected to represent about 3.3% of GDP (compared to 3.2% in 2022), while the primary balance is set to show a small surplus of 0.1% of GDP (as compared to a deficit of 0.4% in 2022) and the deficit on the current account of the balance of payments is expected to be equivalent to 0.6% of GDP (as against a deficit of 1.2% of GDP for 2022) as trade flows slowed somewhat.

In January–October 2023, the public sector's budgetary income was up slightly in real terms (1.4% year on year) as the net result of an 8.4% upswing in non-oil income and a steep drop-off in oil revenues (24.9%), while its net budgetary expenditure rose by 5.2% in real terms. This outturn was chiefly a reflection of increased revenue sharing (federal government transfers to States climbed by 2.2%), a 3.3% uptick in current expenditure and a 26.0% surge in financial costs in combination with a slight reduction in capital expenditure (0.5%), which represents a relatively small share (14.1%) of total expenditure. In consequence, the public deficit swelled from 401.022 billion Mexican pesos in January–October 2022 to 674.829 billion pesos for the corresponding period of 2023.

On 20 April 2023, the federal government floated its largest-ever (US$ 2.9 billion) bond issue linked to the Sustainable Development Goals, with a coupon rate of 6.338% and a 30-year maturity. The total net public debt (approximately 70% domestic debt and 30% external debt) is expected to amount to 46.5% of GDP at the close of 2023, down slightly from its 2022 close of 47.6% of GDP owing to high inflation, moderate GDP growth and the appreciation of the currency. Up to November 2023, the main credit rating agencies had made no changes in their assessment of Mexico's sovereign debt, with most debt components maintaining an investment grade rating.

Mexico: GDP, Inflation and Unemployment, 2021-2023



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

The 2024 economic package presented to Congress by the Ministry of Finance and Public Credit in September 2023 did not call for any substantive changes in tax collections. It did, however, raise the debt ceiling and provided for the largest projected budget deficit since 1988

(4.9% of GDP) in order to complete the current administration's flagship public works, such as the intercity Tren Maya railway and the Olmeca Refinery in Dos Bocas. In September, the resources in the various stabilization funds totalled 79.243 billion pesos, which was 36.7% more than at the end of 2022.

In February 2023, in the face of unrelenting price increases, the Banco de Mexico raised the interbank interest rate again, this time by 50 base points, and in March it hiked the rate another 25 base points, bringing it to its highest point (11.25%) since the introduction of inflation targets as a monetary policy tool in 2001. Up to November 2023, no further change had been made in the rate.

In October 2023, the commercial banking system's portfolio of performing loans to the private sector exhibited a real year-on-year growth rate of 6.2%. This performance was associated with increases in lending to companies and sole traders (3.2%) and in housing loans (5.0%) and consumer loans (13.4%). Lending and deposit interest rates displayed real levels of 27.8% (33.2% in nominal terms) and 5.2% (9.7% in nominal terms), respectively, following a slight upward trend relative to the rates seen in 2022, which was in step with the slowdown in inflation.

Mexico: main economic indicators, 2021-2023

	2021	2022	2023 [a]
	Annual growth rate		
Gross domestic product	5.8	3.9	3.6
Consumer prices	7.4	7.8	4.5 [b]
Real average wage [c]	1.4	2.6	-0.2 [b]
Money (M1)	14.7	10.6	7.3 [d]
Real effective exchange rate [e]	-6.7	-2.0	-18.1 [b]
Terms of trade	-1.7	-2.1	-1.0
	Annual average percentage		
Open urban unemployment rate	4.1	3.3	2.8 [f]
Public-sector			
Overall balance / GDP [g]	-2.9	-3.3	…
Nominal deposit rate [h]	4.0	6.2	9.3 [b]
Nominal lending rate [i]	29.4	29.5	32.4 [b]
	Millions of dollars		
Exports of goods and services	533 220	626 298	317 730 [j]
Imports of goods and services	558 969	668 590	333 119 [j]
Current account balance	-8 343	-18 046	-14 042 [j]
Capital and financial balance [k]	18 631	16 353	21 206 [j]
Overall balance	10 288	-1 692	7 164 [j]

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/ Figures as of August.
e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
f/ Figures as of June.
g/ Federal public sector.
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/ Data for 2023 correspond to the sum of the first and second quarters.
k/ Includes errors and omissions.

As at 4 December 2023, the exchange rate averaged 17.80 pesos to the dollar (representing a nominal appreciation of 11.5% since the close of 2022) owing, among other factors, to higher remittances, the hike in the Banco de Mexico's target interest rate (which maintained a spread of 575 base points with the United States federal funds rate) and inflows of foreign direct investment (FDI). Another factor was the weakening of the dollar in response to the expectation that the United States Federal Reserve would refrain from raising interest rates any further in the remainder of the year. As at 24 November 2023, the country's international reserves amounted to US$ 206.278 billion, which was up slightly (3.6%) from their December 2022 level. Mexico's flexible credit line arrangement with the International Monetary Fund was also renewed for US$ 35 billion (it had been for US$ 50 billion before) up to November 2025. As a result, the central bank has more than US$ 240 billion at its disposal for dealing with any exchange rate or financial turbulence that may arise.

In the area of trade policy, in March 2023 the Canadian and United States governments requested that formal consultations be opened with Mexico concerning the limitations it places on imports of genetically modified agricultural goods under the Agreement between the United States of America, the United Mexican States and Canada. The talks aimed at settling the related trade disputes began in the third quarter of the year and were to be concluded during the first quarter of 2024. A revamped global accord between Mexico and the European Union, which will supersede the free trade agreement that has been in place since July 2000, was to be signed by the end of 2023.

For the period running from January to October 2023, Mexico had a cumulative deficit on its balance of trade in goods of US$ 10.336 billion, which was an improvement over the deficit of US$ 27.739 billion it had registered for the corresponding period in 2022. Exports of goods expanded by 3.0% (versus 19.4% in the same period of 2022) while imports dipped by 0.6% (versus an increase of 22.8% for the corresponding period in 2022). Non-oil exports to the United States, which accounted for 83.3% of the total, climbed at an annual rate of 5.3%, while those directed to the rest of the world inched up by 0.6%. In the first 10 months of 2023, cumulative remittances came to US$ 52.888 billion, for a year-on-year increase of 9.4%. For the period January–September 2023, the foreign-exchange inflows (amounting to US$ 22.908 billion) generated by international tourism were up by 11.8% over the same period of the year before, while between January and October 2023, the financial account exhibited a 53.3% decline.

For January–September 2023, the country ran a deficit on its balance-of-payments current account of US$ 13.862 billion (0.8% of GDP as compared to a deficit equivalent to 1.5% of GDP for the same period in 2022). FDI inflows totalled US$ 32.926 billion, which was 4.6% less than inflows up to the third quarter of 2022. Net FDI came to US$ 27.868 billion, or 18.0% more than the figure for the corresponding period in 2022. In order to attract more FDI, on 11 October 2023 the Government of Mexico issued a decree under which tax incentives are to be made available in 10 key export industries. That decree, which is to remain in effect until 31 December 2024, establishes tax incentives for companies wishing to invest in new types of fixed assets anywhere in Mexico.

In the first three quarters of 2023, GDP growth averaged 3.4% (on the basis of seasonally adjusted figures) relative to the first three quarters of 2022. Primary sector activities expanded by a year-on-year rate of 2.9%, secondary activities by 3.7% and tertiary activities by 3.2%. From January to September 2023, boosted by wage hikes and an exceptional upswing in inflows of family remittances, private consumption climbed by an average year-on-year rate of 4.0% (compared to 5.9% for the same period in 2022). Gross fixed investment expanded by 19.7% during that period (as against 7.6% for the same period in 2022) thanks to the momentum generated by public investment and by robust investment in related supply chains that was, in part, driven by nearshoring. The severe damage wreaked by Hurricane Otis on the population, tourism and local economy in the State of Guerrero was reflected in a slight reduction in the country's GDP near the end of the year.

In October 2023, the year-on-year inflation rate of 4.26% marked the ninth month in a row of deceleration. Even so, inflation was still above the Banco de Mexico's target range of 2%–4% as a consequence of inflationary pressures that mainly affected the prices of some foodstuffs, services and petrol.

The employed population numbered 59.4 million persons in October 2023, which was 1.0 million more than in October 2022. A total of 4.7 million people (7.9% of the employed population) were underemployed, which was 309,000 people more than in October of the year before. The unemployment rate was 2.7% (0.6 of a percentage point lower than in October 2022), while the labour informality rate was unchanged relative to October 2022 at 55.4%.

In 2023, the minimum wage was raised by 20% in nominal terms, with the basic wage rising from 260 to 312 pesos per day in the Northern Border Free Zone and to 207 pesos per day in the rest of the country starting on 1 January.

For 2024, ECLAC estimates that economic activity in Mexico will expand by 2.5% in real terms, mainly as a consequence of the slowdown in the economy of the United States. Year-on-year inflation is expected to be around 4.0% at the end of 2024 owing to the persistent upward trend in the prices of some consumer goods. The country's large budget deficit in 2024, which will exert upward pressure on the inflation rate, may oblige the authorities to keep interest rates high for longer. The average unemployment rate is projected to stand at about 3.3%, in line with the slowing of the economy. The minimum wage will be raised by 20% in nominal terms. The non-financial public sector’s fiscal deficit is expected to come to 4.9% of GDP (with a primary deficit of 1.2% of GDP); the fact that this will be the largest deficit to be recorded since 1990 is chiefly due to the amount of funding needed for the current administration’s flagship public works. The total net public debt is forecast to total 49.0% of GDP, in step with the country’s faltering trade flows. Presidential elections will be held in 2024, as will elections for all the seats in the Senate and Chamber of Deputies at the federal level and for various other federal and local government posts.