MEXICO

1. General trends

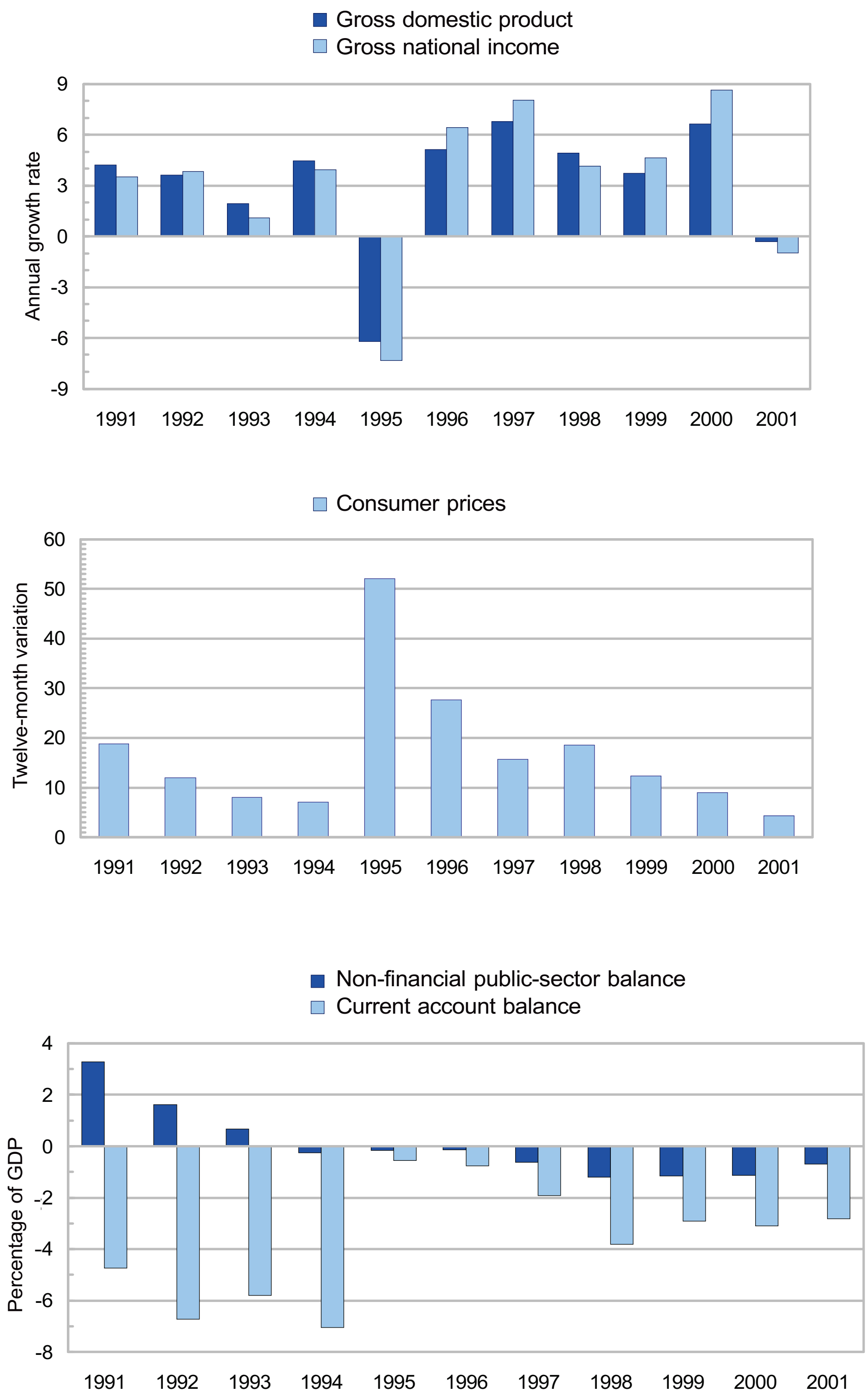
The Mexican economy faltered in 2001, in sharp contrast both to its performance in 2000, when it expanded by 6.9%, and to the growth target of 4.5% announced at the beginning of the year. Following expansions averaging 5% over the previous five years, productive activity shrank by 0.3% in 2001, causing per capita GDP to slip by 2%. The slowdown was caused by weakening external demand, with both external trade and investment shrinking, while private consumption remained relatively buoyant thanks to real wage growth and burgeoning consumer credit. Remittances from Mexicans living abroad nudged gross national income up by 0.4%. Against this recessionary backdrop, the pace of inflation eased, and the financial and foreign-exchange markets remained stable.

THE SLOWDOWN in the United States economy caused domestic production to weaken steadily, before slipping into outright recession in the second half of the year. The economic malaise gradually engulfed all sectors and took its toll on employment. The government was still able to meet its other targets, however: the public-sector deficit was trimmed to 0.7% of GDP, and the balance-of-payments current account deficit amounted to 2.8%. The latter was financed mainly by foreign direct investment (FDI) inflows, which, in turn, pushed up the real value of the peso and helped restrain inflation, which came in at 4.4% compared to the target of 6.5%.

During the first half of the year, investment and export activities (particularly the *maquila* industry) suffered most from the effects of sagging external demand, while a recovery in real wages boosted consumption. In the ensuing months, however, domestic demand also turned down as employment weakened and uncertainty grew as to the timing of economic recovery in the United States, especially after the events of 11 September.

In the early months of 2002, the recovery of the international economy continued to lack conviction, and domestic activity slackened still further. Nonetheless, positive signs from the United States economy caused Banco de México to upgrade its growth projections for the year to 1.8%, with inflation around 5% and moderate fiscal and current account deficits.

Figure 1
MEXICO: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

2. Macroeconomic policy

The government persisted with its strategy to control inflation through policies of fiscal prudence, monetary austerity and currency flotation. Adjustments were also made in response to sagging external demand, as this seriously affected domestic economic performance (exports account for 34% of GDP today compared to 15% in the early 1990s). The government's monetary and fiscal policy stance shifted as international conditions deteriorated. Liquidity constraints were gradually eased, but fiscal policy became tighter as expenditure cuts –mainly affecting investment– began to take effect. These were intended to offset the fall in revenue and avoid missing the public-deficit target. The government was thus left with little room for manoeuvre to implement countercyclical measures.

(a) Fiscal policy

In coordination with monetary policy, fiscal policy was adjusted in tune with the adverse economic conditions. Expenditure was trimmed back in anticipation of lower revenues resulting from sluggish activity and falling prices in the oil sector –which generates 30% of public income. As the year wore on, a real appreciation of the peso caused revenues to shrink still further; but thanks to the adoption of precautionary measures, the public-sector deficit remained broadly on target, at 0.73% of GDP.

The public-sector borrowing requirement (PSBR), which measures the overall impact of government activity on financial markets, amounted to 3.9% of GDP at the end of 2001. This indicator provides a more accurate estimate of the funding needed, because, in addition to the public-sector deficit (2.04% of GDP), it also takes account of financing channelled to the private and social sectors through development banks (0.17%) and resources used for contingent programmes (-2%). These were distributed as follows: the Bank Savings Protection Institute (IPAB), -0.99%; public investment projects financed by the private sector, -0.79%; the trustfund for bailing out highway concessions, -0.29%; restructuring of bank loans into securities, 0.13%; and bank debtor support programmes, 0.19%. Non-recurrent public revenue is not included in the calculation of PSBR.

The consolidated income of the public sector came in at 2.6% below the budgeted figure in real terms, which was a small improvement (0.4%) over the 2000 result. Tax revenues were up by 5.8%, however, thanks to larger receipts from income and value-added taxes, which rose by 3.9% and 3.2%, respectively. Both of these taxes were bolstered by measures to encourage and facilitate compliance with tax obligations and combat evasion, which helped to offset the effects of stalling economic activity. Revenue from the special tax on production and services (IEPS) also rose (to 26.5%), having been extended to a broader range of articles. Although the performance of these revenue categories raised the overall tax burden by one percentage point of GDP, this still remained low (11.2%). Comprehensive fiscal reform remains pending, but the government and congress have yet to resolve their differences on this issue. Earnings among public-sector agencies and enterprises slipped by 3%, mainly because oil revenues –income from Petróleos Mexicanos (PEMEX) itself, along with hydrocarbon duties and surplus yield facilities– decreased by 14.4%, while non-petroleum income grew by 6%.

Adjusting the budget to meet the fiscal target entailed scaling back programmed spending by 2.6% (precisely equal to the shortfall between actual and programmed income), which meant a 1.4% cutback in real terms compared to 2000. Primary expenditure grew on the back of an 8% real increase in the proportion of federal resources earmarked for state governments.

Thanks to lower external and domestic interest rates and a real appreciation of the peso, public-sector financing costs fell by 12% in real terms. Nonetheless, this still accounted for a significant percentage of total expenditure (14% compared to 16% in 2000).

Total public-debt service amounted to over US$ 29 billion –US$ 7.4 billion in interest payments and US$ 21.85 billion in amortization, of which 45% represented prepayments. The remainder corresponded to maturing debt in the banking sector (18%), foreign-trade financing (16%), public bonds (7%), loans from international bodies (7%) and other items (7%).

(b) Policies to finance the deficit and public debt

Gross federal government debt grew by 3.9% in nominal terms, as domestic liabilities increased by 1.6 percentage points of GDP, while external obligations shrank by nearly one percentage point. Domestic debt, represented by government bonds in circulation, accounted for over 50% of the total, compared to under 46% in 2000. Total domestic and external debt edged down from 26.9% of GDP in 2000 to 26.2% in 2001.

Table 1
MEXICO: MAIN ECONOMIC INDICATORS

	1993	1994	1995	1996	1997	1998	1999	2000	2001[a]
	Annual growth rates [b]								
Growth and investment									
Gross domestic product	2.0	4.5	-6.2	5.1	6.8	4.9	3.7	6.6	-0.3
Per capita gross domestic product	0.1	2.6	-7.8	3.4	5.0	3.2	2.1	5.0	-1.8
Gross domestic product, by sector									
Goods	0.7	4.0	-6.7	9.1	7.7	5.5	3.9	5.4	-2.8
Agriculture	3.1	0.9	0.9	3.6	0.2	0.8	3.6	0.6	2.5
Mining	1.8	2.5	-2.7	8.1	4.5	2.7	-2.1	3.8	-0.6
Manufacturing	-0.7	4.1	-4.9	10.8	9.9	7.4	4.2	6.9	-3.9
Construction	3.0	8.4	-23.5	9.8	9.3	4.2	5.0	5.1	-4.5
Basic services	3.8	8.1	-3.9	7.5	9.2	6.0	7.8	8.5	2.7
Electricity, gas and water	2.6	4.8	2.1	4.6	5.2	1.9	7.9	1.0	1.7
Transport, storage and communications	4.0	8.7	-4.9	8.0	9.9	6.7	7.8	9.6	2.8
Other services	2.7	4.3	-6.7	2.1	6.0	4.3	2.9	7.0	0.8
Commerce, restaurants and hotels	0.1	6.8	-15.5	4.8	10.7	5.6	3.1	12.4	-1.3
Financial establishments, insurance, real estate and business services	5.4	5.4	-0.3	0.6	3.7	4.6	3.6	5.2	4.1
Consumption	1.6	4.4	-8.4	1.8	6.0	5.0	4.4	7.5	2.8
General government	2.4	2.9	-1.3	-0.7	2.9	2.3	4.7	2.0	-1.4
Private	1.5	4.6	-9.5	2.2	6.5	5.4	4.3	8.3	3.4
Gross domestic investment	-0.8	10.5	-35.0	25.6	24.9	9.9	4.0	11.6	-7.4
Exports of goods and services	8.1	17.8	30.2	18.2	10.7	12.1	12.4	16.4	-5.1
Imports of goods and services	1.9	21.3	-15.0	22.9	22.7	16.6	14.1	21.5	-2.9
	Percentages of GDP [c]								
Gross national income	99.3	98.8	97.6	98.5	99.6	98.8	99.7	101.4	100.8
Gross domestic investment	27.2	28.8	19.8	23.7	27.9	28.9	29.0	30.3	28.1
National saving	20.3	20.5	19.4	23.0	26.0	25.0	25.7	26.4	24.2
External saving	6.9	8.2	0.4	0.7	1.9	3.9	3.3	3.9	4.0
	Percentages								
Employment and wages									
Labour force participation rate [d]	55.2	54.7	55.4	55.4	56.2	56.5	55.8	56.3	55.7
Open unemployment rate [e]	3.4	3.7	6.2	5.5	3.7	3.2	2.5	2.2	2.5
Real average wage (index: 1995=100) [f]	109.7	114.9	100.0	90.1	89.1	91.5	92.4	98.0	104.1
	Growth rates								
Prices (December-December)									
Local consumer prices	8.0	7.1	52.1	27.7	15.7	18.6	12.3	9.0	4.4
Industrial producer prices	4.6	9.1	59.5	25.3	10.5	17.5	12.5	6.4	1.3
External sector									
Terms of trade (index 1995=100) [c]	104.9	103.3	100.0	102.8	104.0	100.4	102.3	107.4	103.9
Nominal exchange rate (new pesos per dollar)	3.12	3.38	6.42	7.60	7.92	9.14	9.56	9.45	9.34
Real effective exchange rate for imports (index 1995=100)	65.9	67.7	100.0	89.1	77.4	77.5	71.1	65.7	62.2
	Millions of dollars								
Balance of payments									
Current account	-23,399	-29,662	-1,575	-2,508	-7,665	-16,072	-13,996	-17,737	-17,457
Trade balance (goods and services)	-15,611	-20,432	7,154	6,902	-123	-8,818	-7,382	-10,326	-13,287
Exports	61,305	71,184	89,322	106,601	121,485	128,982	148,083	180,167	171,207
Imports	76,916	91,616	82,168	99,700	121,608	137,801	155,465	190,494	184,494
Capital and financial accounts [g]	30,515	12,474	-14,735	7,805	21,663	19,282	18,272	24,847	24,782
Overall balance	7,116	-17,188	-16,310	5,297	13,998	3,210	4,277	7,110	7,325
Variation in reserve assets (- indicates an increase)	-5,941	18,391	-9,648	-1,774	-10,512	-2,138	-592	-2,824	-7,325

Table 1 (concluded)

	1993	1994	1995	1996	1997	1998	1999	2000	2001[a]
	Percentages								
External debt									
Gross debt (as a percentage of GDP)	32.4	33.1	57.8	47.2	37.1	38.0	34.6	25.6	23.4
Net interest (as a percentage of exports) [h]	15.4	13.9	11.8	10.0	7.8	7.0	6.9	5.5	5.5
	Percentages of GDP								
Federal government									
Current income	15.5	15.1	15.2	15.5	15.8	14.2	14.7	15.8	16.3
Current expenditure	13.4	13.3	14.1	14.0	15.2	14.2	15.0	15.5	15.7
Saving	2.1	1.9	1.1	1.5	0.7	0.0	-0.3	0.3	0.5
Capital expenditure (net)	1.4	2.3	1.8	1.9	2.0	1.7	1.6	1.7	1.6
Financial balance of federal government	0.7	-0.7	-0.8	-0.5	-1.4	-1.7	-1.7	-1.5	-1.0
Financial balance of non-financial public sector	0.7	-0.3	-0.2	-0.1	-0.6	-1.2	-1.1	-1.1	-0.7
	Growth rates								
Money and credit									
Monetary balance	50.9	-78.3	-58.9	534.1	374.4	55.8	13.0	24.3	33.9
Net domestic credit	11.9	24.1	5.4	-17.4	124.8	6.7	3.4	0.6	2.6
To the central government (net)	...	...	...	...	...	-6.5	2.7	7.3	17.1
To the private sector	25.8	36.7	-6.5	-14.9	42.0	19.6	-0.7	-6.2	-10.1
Money (M1)	17.7	1.1	3.5	36.9	29.6	15.4	28.3	14.0	17.1
Quasi-money	13.4	32.6	47.5	20.8	35.8	18.0	8.3	-15.4	12.2
	Annual rates								
Real interest rates (annualized, %)									
Deposit rate (30 days)	8.0	8.0	8.6	-2.6	-1.4	4.5	2.6	3.8	4.2
Lending rate	11.2	12.5	19.3	1.3	3.1	11.1	7.9	8.0	7.6
Equivalent interest rate in foreign currency (30 days) [i]	18.6	14.9	38.7	31.4	20.2	20.7	19.8	13.7	11.2

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on constant 1993 pesos. [c] Based on constant 1995 dollars. [d] Percentage of the working-age population in urban areas. [e] Percentage of the economically active population in urban areas. [f] Refers tomanufacturing. [g] Includes errors and omissions. [h] Refers to net interest as shown on the balance of payments, divided by exports of goods and services. [i] Interest rate on deposits, deflated by the variation in the exchange rate.

With regard to external public borrowing, the authorities persisted with their strategy of portfolio diversification in terms of creditors, currencies and maturities. Federal government bond issues on international capital markets amounted to some US$ 9 billion during the year, 30% more than in 2000. The proceeds were used to make prepayments on Brady bonds amounting to US$ 8.639 billion, thereby cutting the outstanding balance on these bonds to 20% of the amount issued for public-sector external-debt restructuring in 1990. Meanwhile, the balance of total net external public debt remained practically unchanged, at US$ 76.632 billion.

As part of its domestic liability diversification strategy, the government took steps to improve the structure and time horizon of its debts in this category. The average maturity of government bonds lengthened by almost 40%, and long-term saving instruments became the main source of government funding. The government began to issue 10-year development bonds at fixed nominal interest rates, to complement similar fixed-rate bonds issued in 2000 with maturities of between three and five years.

The liabilities of IPAB increased slightly to 788 billion pesos (US$ 84 billion), which was equivalent to 12.6% of GDP. The institute's net debt amounted to 750.904 billion pesos, 3.3% higher than in 2000.

(c) Monetary policy

Monetary policy had been kept very tight over the last few years, in order to bring inflation under control. In 2001, however, the policy stance was progressively relaxed in response to economic trends in the United States, as the international situation worsened. Policy remained tight in the early part of the year in order to meet the inflation target, but it was subsequently

Table 2
MEXICO: MAIN QUARTERLY INDICATORS

	1999				2000				2001 [a]				2002 [a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product [b] (change from same quarter of preceding year)	2.0	3.4	4.3	5.2	7.5	7.4	7.1	4.7	2.0	0.1	-1.5	-1.6	-2.0
Consumer prices (12-month variation, %)	18.2	17.4	15.8	12.3	10.1	9.4	8.8	9.0	7.2	6.6	6.1	4.4	4.7
Exports (billions of dollars)	29.9	33.6	35.3	37.5	38.1	41.1	43.0	44.2	39.6	40.8	39.0	39.0	36.6
Imports (billions of dollars)	31.1	34.6	36.3	40.0	39.2	42.5	44.9	47.9	41.9	42.5	40.8	43.2	38.4
International reserves (billions of dollars)	30.1	30.2	31.2	30.7	34.0	31.9	31.9	33.6	38.0	38.7	39.4	40.1	42.2
Real effective exchange rate [c] (index 1995=100)	76.1	70.6	69.1	68.8	66.6	67.0	65.0	64.4	65.2	61.4	61.3	60.6	58.9
Money (M1) (change from same quarter of preceding year)	-2.1	-1.0	6.6	13.3	12.9	15.5	11.3	6.0	5.8	3.9	7.2	10.2	13.8
Real interest rates (annualized,%)													
Deposit rate [d]	6.3	0.6	1.3	2.3	3.8	3.0	3.7	4.8	6.5	4.3	1.7	1.5	-6.0
Lending rate	13.4	5.4	6.3	6.5	6.9	7.6	7.7	9.6	10.3	7.6	4.9	5.4	-2.6

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on series that have not been seasonally adjusted, at constant domestic prices. [c] Refers to the exchange rate for imports. [d] 30-day deposits.

loosened as price trends and expectations became more favourable. As a result, liquidity constraints gradually eased, thereby helping to bring down interest rates, in a further reflection of developments in the United States. The leading benchmark deposit rate (28-day Treasury Certificates, or CETES) posted a single-digit average for the first time since 1994.

The monetary base expanded more slowly than projected by Banco de México, since economic growth undershot expectations. This aggregate grew by 3.4% in real terms, nonetheless, partly because of lower inflation, while net international reserve assets held by the central bank rose by nearly 25% from their 2000 level, to US$ 45 billion. As a result, net domestic lending by the central bank was negative for the seventh straight year; and, correspondingly, commercial bank credit to the non-bank private sector contracted by 7% in real terms, shrinking to a quarter of its 1994 volume. Housing (-16.5%) and business (-11%) were the hardest hit sectors, and the latter continued to make use of alternative non-bank sources of financing. A Banco de México survey of private firms shows that the main sources of financing in 2001 were suppliers (53%), commercial banks (21%), other firms within the same corporate group (13%) and, to a lesser extent, foreign banks, development banks and parent companies.

In contrast, private consumer credit expanded by 28% in real terms, thanks to lower real interest rates which enabled banks and commercial establishments to offer up to 12 months' interest-free finance, particularly on consumer durable purchases.

The floating exchange-rate regime adopted in 1995 was maintained, with sporadic minor interventions by the central bank. Foreign-exchange inflows, driven by FDI, boosted the value of the peso by 5% in real terms, bringing the cumulative appreciation over the last three years to 20%.

(d) Reforms

In April the government sent a package of financial and fiscal reforms for congressional approval. Congress passed the financial measures, but failed to agree on the comprehensive fiscal reform package to raise Mexico's tax burden, which is so low that it inhibits public investment and social spending. The measures proposed included extending the standard 15% rate of VAT to basic consumer items –mainly food and medicines– which are currently exempt or zero-rated. Congress was sharply divided over these proposals. Towards the end of the year it did approve a number of measures, but these fell far short of a genuine fiscal reform. They included amendments to income tax legislation (ISR) aimed at facilitating investment, and a reduction in the tax rate payable by private individuals. In addition, firms now have to fund the "wage credit", amounting to 3% of the payroll, which used to be paid by the government. This is the second largest tax revenue category, after income tax. The upper chamber of congress also approved a 5% VAT surcharge for certain luxury goods, on top of the normal 15% rate.

Labour-market and energy-sector reforms were not passed, and the Federal Telecommunications Act is also awaiting enabling regulations. These reforms are seen as necessary to avoid bottlenecks and encourage investment.

3. The main variables

(a) Economic activity

The economic slowdown in the United States began to be felt in Mexico during the second half of 2000, as productive activity lost momentum gradually before entering recession in mid-2001. Following growth of 1% in the first semester, output shrank by 1.6% in the second; as a result GDP contracted for the year as a whole, bringing a five-year growth cycle to an abrupt halt.

The export sector was the first to feel the effects of the downturn, while private consumption continued to grow strongly early in the year, largely because of higher real wages resulting from lower-than-expected inflation (which offset the effects of weakening employment), and because of the credit facilities offered on certain goods and services. In the second half of the year, however, demand contracted across the board. As a result of its initial buoyancy, private consumption was up by 3.4% for the year as a whole (8.3% in 2000). This was partly due to attractive credit packages offered by banks and commercial establishments, but also because wages held up well. Purchases of domestically produced consumer goods expanded by 2.2%, while the appreciation of the local currency boosted imports by 18%.

Gross fixed investment trended gradually downwards, dropping by 6% overall in contrast to the previous year's 11% increase. Expenditure on machinery and equipment declined by 6.9%. Among imported capital goods, radiophonic and telegraphic equipment, radios and television sets, metallic machinery, rubber and textiles all posted large falls. In the category of investment in locally produced machinery and equipment, purchases of automobiles, office machines and electric calculators, radios and television sets, and machinery and equipment for the oil and construction industries, were all down. Investment in construction fell back as a result of a slump in building projects of all kinds.

At the sectoral level, agriculture, forestry and fishing expanded by 2.5%, thanks to good harvests among bananas, cacao, apples, safflower, sugar cane, avocados and beans, among other crops, together with a larger catch of fish and shellfish, including abalone, squid, shrimp, tuna and sardines.

In 2001, activity declined in three of the four industrial sectors, shrinking on average by 3.5%. Construction and manufacturing were the worst affected (-4.5% and -3.9%, respectively); mining activity contracted slightly, while electric power generation, gas and water expanded by 1.7%, revealing their non-cyclical nature.

Output shrank in 34 of the 49 manufacturing segments, including those producing export and capital goods such as rubber, electrical machinery and equipment, leather goods and footwear, textiles, alcoholic beverages, along with motor vehicle engines, chassis, parts and accessories. As a result, output in *maquila* export enterprises shrank by much more (9.2%) than in non-*maquila* firms (3.4%). In contrast, production was buoyant among basic manufactures aimed at domestic consumption, especially sugar, fruit, pulses, soft drinks, meat and dairy products, among others.

The unprecedented slump in the *maquila* sector was wholly due to the slowdown in the United States economy. Value-added grew by just 4% in real terms

–the lowest rate for the last 20 years– and the number of establishments increased by just 2.6%, compared to an average of 9.3% during 1996-2000. Employment contracted by 6.5% –its steepest fall of the last two decades.

After several years of vigorous growth, output in the automotive industry shrank by 3.8% in 2001, mainly because of sagging demand in the United States. Production for export contracted by 3.5%, while domestic sales expanded by 5.2%, thanks partly to financing schemes offered by distributors.

The services sector contracted by 1.1%, chiefly because of a 1.3% dip in activity in the commerce, restaurants and hotels segment, while retail sales grew by 2.7%. Output in the transport, warehousing and communications segment expanded by 2.8%, thanks to demand for both fixed and cellular telephony services. Financial services, insurance and real-estate activities expanded by 4.1% driven by increased financial intermediation.

(b) Prices, wages and employment

The inflation target was met with room to spare for the third year running –4.4% being posted compared to a target of 6.5%. This was less than half the previous year's rate and the lowest for the last three decades, suggesting that the country is well on the way to achieving the 3% target set for 2003 by Banco de México. The inflation result was aided by real appreciation of the peso (which constrained price rises among tradable goods), together with tight monetary policy and failing aggregate demand. At the end of the year the underlying rate of inflation stood at 5.1%, compared to 7.5% a year earlier. The traditional gap between the headline and underlying rates of inflation was inverted, since price rises in a number of segments not considered when calculating the core rate slackened substantially.

Inflation eased because of smaller rises in agricultural prices (1.4%, compared to 10.1% in 2000), and in government-controlled prices and those determined through negotiations with the private sector (2.2%, as against 12.6% in 2000). These are major contributors to the overall figure.

The producer price index (which does not include oil or services) rose by 2.6%; this was 4.8 percentage points less than in 2000 and almost half the rate of inflation as measured by the consumer price index. This reflected the influence of the exchange rate on the prices of goods included in the index, which are generally traded internationally.

The labour market put out mixed signals, since employment contracted but real wages rose. Labour productivity growth slowed sharply overall, increasing by just 0.7% in manufacturing and declining in the maquila sector, construction (the worst affected) and commerce.

With the exception of commerce, all sectors saw unit labour costs rise by between 5.2% and 7.5%. Inflation-adjusted wages outpaced labour productivity across the board, and this undermined competitiveness, particularly in manufacturing where real average wages climbed by 6.4%. Firms responded by curtailing production and hours worked, and by limiting or cutting back on job creation. In the maquila sector, real wages rose by 7.2% –the highest rate for two decades– but hours worked fell by 1.6%.

Employment contracted sharply, marking a departure from the expansionary trend maintained since 1996. At year end, 12.196 million workers (either permanent or casual) were registered with the Mexican Social Security Institute (IMSS); this figure was about 374,000 less than a year earlier –a drop of 3%. The hardest hit sector was manufacturing, where 476,500 jobs were lost (a 10.8% reduction from the 2000 level). The number of workers employed in the maquila segment fell by 1.202 million, or 6.5% compared to the previous year. In the services and agricultural sectors, however, which depend more on domestic demand, employment grew by 2.1% and 3.8%, respectively.

Open unemployment averaged 2.4%, up from 2.2% in 2000. The part-time unemployment rate, which covers workers employed for less than 35 hours per week in addition to the open unemployment figure, was little changed from 2000 at 19%. The informal sector continued to absorb most of the work force displaced from the formal economy, together with new entrants to the labour market. This is shown by the fact that 47% of the economically active population did not receive any kind of social security benefit in 2001, compared to 46% in the previous year.

4. The external sector

Despite the sharp slowdown in GDP, the trade gap widened; this reflected reduced oil revenues and buoyant consumer spending, as exports stalled sooner than imports. Non-recurrent FDI inflows of US$ 24.7 billion, over half of which came from the sale of one of Mexico's largest financial groups, were more than enough to finance the balance-of-payments deficit on current account, which was the same size as in 2000.

Although the Mexican economy currently has ample access to foreign exchange –thanks to FDI, together with surpluses from the oil and maquila industries and remittances– rising trends in the trade and current account deficits suggest that economic growth could come up against foreign-currency constraints at some point in the future. In view of the volatility of oil revenues and the external vulnerability inherent in the maquila business, and compounded by the fact that the bulk of Mexico's exports go to a single market, economic and social actors have once again been advocating the need to strengthen the domestic market, promote domestic linkages and diversify trade –both geographically and by sector– in order to diversify and expand sources of value-added, employment and income.

(a) The current account

The balance-of-payments deficit on current account came in at US$ 17.5 billion or 2.8% of GDP, down from 3.1% in 2000. The deficit was financed with long-term funds obtained by the private sector, consisting mainly of FDI and loans to the non-bank private sector. The current account balance resulted from deficits on the trade account (US$ 9.7 billion), factor services (US$ 13.5 billion) and non-factor services (US$ 3.6 billion); these were offset by net inward transfers (US$ 9.3 billion) consisting mainly of remittances from Mexicans living abroad.

External trade contracted in the wake of the slowdown in the United States, which absorbs 90% of Mexico's exports and supplies over 80% of its imports. Exports shrank for the first time in 15 years, having grown on average by 15% annually over that period. The magnitude of the adjustment is illustrated by the 27 percentage point collapse in export growth between 2000 (22%) and 2001 (-5%). Imports slipped (-3.5%) for the first time since the 1995 crisis, after growing at an average annual rate of 18% for the last five years. As exports fell more steeply than imports, the trade deficit widened from US$ 8 billion in 2000 to nearly US$ 10 billion in 2001.

The production slowdown led to reduced imports of intermediate and capital goods (-5.7% and -6.8%, respectively); but robust private spending boosted consumer goods imports by 18.4%, causing their share of total imports to expand from under 10% in 2000 to nearly 12% in 2001. As the domestic economy slowed, however, this category of imports began to stall, retreating from 29% in January-March to 22%, 18% and 9%, in the following three quarters. Automobiles accounted for 26% of these imports.

The slump in exports was driven by both petroleum products (down by 22%, compared to an increase of 60% in 2000) and manufactures (-3%), which between them account for 90% of the country's total external sales. Crude oil exports fell by US$ 3.6 billion from the previous year's level, mainly because the price plummeted from US$ 24.6 per barrel in 2000 to US$ 14.3 in 2001. Among exports of manufactures, there were particularly steep falls in textiles and leather goods, iron and steel, plastic goods and electrical and electronic equipment and appliances. Exports by the automotive industry were practically unchanged, while maquila sales, which account for 54% of the total, fell by 3.3%.

Although the 2001 merchandise trade deficit can be blamed mainly on the slump in oil exports, a structural trend is also helping to widen the deficit of the non-maquila manufacturing sector, which grew to US$ 37 billion (6% of GDP). Together with the trade gap in agricultural goods and other products, this deficit amounted to US$ 40 billion, which would be unsustainable were it not for the surpluses achieved by the oil and maquila industries, amounting to US$ 20 billion and US$ 10.6 billion, respectively.

Although the events of 11 September in the United States discouraged international travel, inbound and outbound alike, this impact faded rapidly. The number of visitors entering Mexico dropped by 4.7%, but their average spending increased by 6.3%, so income from this segment rose by 1.3%. Non-factor services posted a deficit of US$ 3.6 billion overall, compared to one of US$ 2.3 billion in 2000.

The trade balance has a major impact on the current account, because the other segments (factor and non-factor services and transfers) tend to fluctuate less widely. Interestingly, the trade and current account balances were similar in 2000 and 2001, despite the economic growth slowdown. In addition to variations caused by circumstantial factors such as the plummeting oil price, this reflects Mexico's productive structure –with its weak domestic linkages and heavy reliance on imported inputs– and the buoyancy of consumer goods imports.

The deficit on the factor service income account narrowed by US$ 900 million, mainly because of a 7% reduction in net interest payments abroad (thanks to lower interest rates), which are the largest item on this account. The remainder of the factor services account turned in a negative balance of US$ 5 billion, consisting mainly of outflows relating to remitted and reinvested profits of foreign-owned firms.

The transfers account posted a surplus of over US$ 9 billion, thanks to family remittances amounting to nearly US$ 9.4 billion from Mexicans living abroad. This was US$ 2.3 billion more than in 2000, and was equivalent to 70% of oil exports and 1.4% of GDP.

(b) The capital account

The capital account of the balance of payments recorded its largest surplus for the last eight years (US$ 22.7 billion), chiefly attributable to long-term private-sector FDI and borrowing.

Total FDI amounted to US$ 24.7 billion, which was US$ 10.5 billion more than in 2000 and exceeded the current account deficit by 42%. Of this, US$ 12.5 billion came from the sale of the Banamex Accival group to Citigroup; without this operation, FDI flows would have contracted. Large amounts of FDI also went to manufacturing (18% of the total) and transport and communications (12%). The main investors came from the United States (82.5%), the Netherlands (9.7%) and Canada (3.5%). Net portfolio investment inflows totalled US$ 3 billion, of which US$ 151 million was invested in the stock market, US$ 941 million in the money market and US$ 1.911 billion in foreign-issued securities.

The net balance of external public debt was practically unchanged from the previous year at US$ 76.632 billion, equivalent to 12.4% of GDP. Private-sector foreign debt grew by 5.5% to approach US$ 56 billion. Non-bank private-sector firms issued new debt totalling US$ 2.255 billion with an average maturity of 6.3 years.