Mexico

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that Mexico's GDP will grow by 5.8% in real terms (taking the original, non-seasonally adjusted series) in 2021, compared to a fall of 8.2% in 2020, mainly owing to a boost from exports to the United States, a statistical rebound owing to the relatively low base of comparison in 2020 and, to a lesser extent, the gradual recovery of the domestic market.

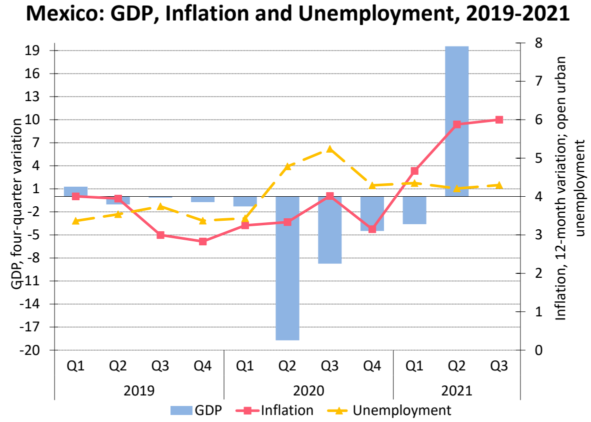
Year-on-year inflation is projected to be around 7.5% at the end of 2021 (compared to 3.2% in December 2020), pushed up by recovering demand and higher international commodity prices, including energy prices. The unemployment rate is projected to decline slightly to 4.0% (from 4.4% in 2020). The non-financial public sector fiscal deficit is expected to be 4.2% of GDP (compared to 2.9% in 2020), owing to higher social and economic development spending. A deficit of 0.6% of GDP is expected for the balance-of-payments current account (compared to a surplus of 2.3% of GDP in 2020), owing to a substantial increase in goods imports.

In the period January–October 2021, public sector budget revenues were up by 5.1% in real terms on the prior-year period as lower non-oil revenues (-1.8%) were more than offset by higher oil revenues (64.3%). Meanwhile, net public sector budget expenditure increased by 5.0% in real terms. This was the result of increases in capital spending (30.4%) and current spending (2.8%), which includes social spending. The result was a public sector deficit of 351.035 billion pesos in the first 10 months of 2021, compared with one of 327.387 billion pesos in the same period of 2020. Net public debt is expected to fall to 49.9% of GDP by the end of 2021 (from 51.5% of GDP in 2020) as a result of prudential management of public liabilities (especially during the most difficult phase of the pandemic), an increase in GDP, stable interest rates and higher inflation. In July 2021, Mexico issued the second sovereign bond linked to the Sustainable Development Goals (SDGs), with the lowest ever coupon rate (2.25%) for a 15-year euro-denominated bond. The Ministry of Finance and Public Credit presented the 2022 Economic Package in September and included a proposal for administrative improvements in revenue collection. The balance in the different stabilization funds as of September was 68.18 billion pesos.

In February 2021, the Bank of Mexico lowered its benchmark rate by 25 basis points to 4.0%, the lowest level since June 2016. Owing to inflationary pressures, however, the rate was increased by 25 basis points in June and then again in August, September and November, and in December it was raised by 50 basis points to 5.5%.

In October 2021, the commercial banking sector's portfolio of performing loans to the private sector declined by 6.1% year on year in real terms. This performance was due to the reduction of consumer lending (-4.5%) and of lending to companies and sole traders (-9.4%). Housing credit expanded slightly (3.2%). The lending rate (the average total annual cost of credit cards and

Mexico: GDP, Inflation and Unemployment, 2019-2021



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

mortgages) and the deposit rate (paid by commercial banks on term deposits) were 21.5% and -2.0% in real terms, respectively, maintaining the spread with respect to the previous year.

The country's sovereign debt ratings from Standard & Poor's (S&P), Fitch Ratings and Moody's Investors Service remained unchanged in the first 11 months of 2021, except for the outlook, which is now negative for S&P. However, the high liquidity risk of Petróleos Mexicanos (PEMEX) and its growing indebtedness led Moody's to downgrade the oil company's rating to Ba3 (three notches below investment grade) from Ba2 while maintaining its negative outlook.

Mexico: main economic indicators, 2019-2021

	2019	2020	2021 [a]
	Annual growth rate		
Gross domestic product	-0.2	-0.1	5.8
Per capita gross domestic product	-1.3	-9.1	4.7
Consumer prices	2.8	3.2	6.0 [b]
Real average wage [c]	2.9	3.8	1.7 [b]
Money (M1)	5.2	17.4	15.3 [d]
Real effective exchange rate [e]	-3.1	8.9	-7.8 [b]
Terms of trade	2.2	-1.2	-6.1
	Annual average percentage		
Open urban unemployment rate	3.5	4.4	4.3 [b]
Public-sector			
Overall balance / GDP [f]	-1.7	-2.8	...
Nominal deposit rate [g]	7.2	5.2	3.9 [b]
Nominal lending rate [h]	30.3	30.2	29.5 [d]
	Millions of dollars		
Exports of goods and services	492 635	434 179	525 242
Imports of goods and services	495 748	411 255	537 423
Current account balance	-3 945	26 122	-1 536
Capital and financial balance [i]	6 583	-14 133	...
Overall balance	2 638	11 990	...

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/ Federal public sector.
g/ Cost of term deposits in the multibanking system.
h/ Average interest rate for credit cards from commercial banks and the TAC rate (Total Annual Cost).
i/ Includes errors and omissions.

In December 2021, the exchange rate averaged 21.0 pesos to the dollar. In August 2021, the international reserves balance rose to US$ 205.391 billion, mainly owing 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$ 201.441 billion as of 10 December 2021 (equivalent to 5.9 months' total imports), which was slightly more (3.0%) than at the end of 2020. In addition, a flexible credit line of US$ 50 billion with the IMF is in place. The Bank of Mexico and the Federal Reserve extended a currency swap facility worth up to US$ 60 billion until at least December 2021, with the aim of supporting the provision of United States dollar liquidity in the domestic interbank market. As a result, the central bank has more than US$ 311 billion available to deal with foreign-exchange and financial turbulence.

In April 2021, Congress approved a comprehensive reform of the labour subcontracting regime to prevent the use of simulated contracts, tax evasion and practices that enable employers to withhold recognition for employees' length of service and avoid paying social security contributions and profits, and that affect other benefits established by law. This reform is expected to benefit more than 4.6 million workers employed on this basis. In early 2021, reforms to the laws of the Mexican Social Security Institute (IMSS) and the Retirement Saving System (SAR) were also approved. These will affect finance and employment conditions, mainly via an increase in social security contributions (from 6.5% to 15.0% of the base wage used to calculate contributions, over a period of eight years starting in 2023), and will cap the commissions of the Retirement Fund Administrators (AFORE) from 2022, while changing the amount of the Guaranteed Minimum Pension.

In mid-2021, the Trade Continuity Agreement between the United States of Mexico 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.

As of November 2021, Mexico's goods trade balance was in deficit by US$ 12.081 billion, compared with a surplus of US$ 27.834 billion in the year-earlier period. Total exports increased by 19.4% in the first 11 months of the year and were one of the main drivers of the country's economic growth in 2021, while total imports grew by 32.5%. In the same period, non-oil exports to the United States, which takes 81.9% of total Mexican exports, increased at an annual rate of 16.8%, while those to the rest of the world grew by 19.5%. Family remittance flows up to October 2021 totalled US$ 42.168 billion (equivalent to 3.5% of GDP), 25.6% up on the same period of 2020, mainly owing to favourable labour conditions for migrants from Mexico in the United States. In this period, foreign-exchange earnings from international tourism were up by a cumulative 70.6% over the same period in 2020.

In the period January–September 2021, the current account of the balance of payments showed a deficit of US$ 4.722 billion, equivalent to 0.4% of GDP, compared with a deficit of 0.8% of GDP in the same period of 2020. Meanwhile, 295.408 billion pesos (equivalent to just over US$ 14 billion) in government securities were liquidated up to November, owing to uncertainty about the direction of domestic public policies and the beginning of the withdrawal of monetary stimulus in the United States. Foreign direct investment (FDI) inflows up to September totalled US$ 24.832 billion, 1.9% less than in the same period of 2020. However, net FDI inflows totalled US$ 21.432 billion, 8.5% up on the corresponding period of 2020.

Seasonally adjusted GDP is estimated to have been 6.4% higher year on year in the first three quarters of 2021. Primary activities expanded by 1.9% in annual terms, tertiary activities by 5.6% and secondary activities by 8.6%. In the period January–September, private consumption grew by an average of 10.2% year on year and gross fixed investment by 14.1%. Factors that have prevented a more rapid economic revival include large sectoral differences in the recovery of production, uncertainty about the country's public policies, the shortage of production inputs (especially semiconductors) and the loss of value added resulting from the drop in outsourcing employment, which has not been offset by stronger job creation in companies' in-house activities.

Prices were 0.10% higher in the first fortnight of December 2021 than in the previous fortnight, and annual inflation was 7.45%. Inflationary pressures have come from higher prices for energy products, government-authorized tariffs and some foodstuffs.

In November 2021, the employed population was 56.5 million, an increase of 3.7 million over a year. Of this total, the number of underemployed persons —those reporting that they needed and were available to work more hours— was 5.9 million (10.5% of the employed population). The rate of informal employment was 55.6%. The unemployment rate was 3.7%, 0.7 percentage points lower than in November 2020.

In 2021, the general minimum wage and the minimum wage in the northern border free zone increased by 15.0%, the former rising from 123.22 pesos per day in 2020 to 141.71 pesos per day in 2021 and the latter from 185.56 to 213.39 pesos per day in the same period.

For 2022, ECLAC forecasts that Mexico's GDP will increase by 2.9% 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 usual growth path. However, factors associated with the pace of recovery of global economic growth, the attraction of domestic and foreign investment, the international availability of production inputs and the evolution of the pandemic could move the figure up or down. Year-on-year inflation is expected to be around 4.0%, mainly owing to the stronger demand resulting from the economic upturn and the rise in commodity prices. The unemployment rate is forecast at about 4.0%, 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 minimum wage will increase by 22%. The fiscal deficit of the non-financial public sector is expected to be about 3.5% of GDP (with a primary balance of -0.3% of GDP), while the balance-of-payments current account deficit should come in at 0.5% of GDP as a result of recovering trade flows and, especially, imports.