Mexico

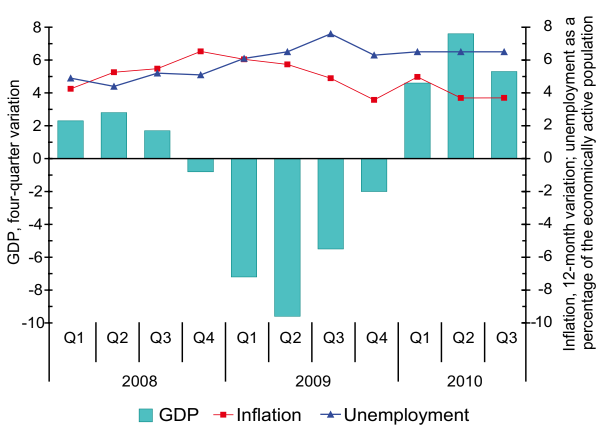
Real GDP in Mexico increased by 5.3% in 2010 after contracting by 6.1% in 2009. This partial recovery in economic activity was mainly sustained by the dynamism of exports. Consumption picked up only moderately owing to a fall in real wages and weakness in the labour market, while gross fixed investment experienced only a slight expansion. Inflation was about 4.2% at year's end, down on the 5.3% of a year earlier. The urban open unemployment rate improved to 6.6% in the third quarter of 2010 from 7.7% in the same quarter of 2009. The current account deficit declined slightly as a percentage of GDP to 0.6% from the 0.7% recorded in 2009, as exports grew strongly. The public-sector fiscal deficit, including investment by Petróleos Mexicanos (PEMEX), will close 2010 at 2.7%, an increase on the 2009 figure of 2.3%.

ECLAC estimates that the economy will expand by 3.5% in 2011, as export growth tails off and domestic demand remains slack. The Bank of Mexico expects its annual inflation target of 3% to be met in late 2011, which is feasible if there are no new external shocks and the trend towards higher international commodity prices seen in late 2010 does not persist. Expectations are for a fiscal deficit of 2.3%, including PEMEX investment. The 2011 revenue act provides for minor changes, most notably an increase in special taxes, leaving for later a comprehensive fiscal reform to make fiscal revenues less heavily dependent on oil. This law assumes an average exchange rate of 12.9 pesos to the dollar in its estimates of fiscal revenue associated with oil exports. If the currency continued to appreciate, there would be additional fiscal pressures.

Public-sector budgetary revenues grew by 0.1% in real terms between January and September 2010 over the year-earlier period. Tax revenues were 10% of GDP and total oil revenues grew by 4.9% in real terms, as lower volumes were offset by higher prices. Value added tax (VAT) revenue increased by 19.9% in real terms thanks to an increase in the VAT rate from 15% to 16% and renewed economic growth. Similarly, an increase from 28% to 30% in the top income tax rate produced real-term growth of 12.5% in the yield from this tax. This is explained by the substantial non-recurring revenues received in 2009 from the Bank of Mexico operating surplus and the recovery of Oil Revenues Stabilization Fund (FEIP) resources, while in 2010 special fiscal benefits were granted to the areas affected by Hurricane Alex.

Budgeted spending increased by 2.2% in real terms between January and September 2010 compared with the same period in 2009, with particularly large rises in social development spending (5.7%) and transfers to the states (14%). Domestic borrowing was the main source of financing for the fiscal deficit (about two thirds of the total). Conversely, physical investment fell by 4% in real terms. At the close of the third quarter, net federal public-sector debt was worth 30.7% of GDP (0.6 percentage points above the closing figure for 2009), which was lower than the average for the member countries of the Organisation

MEXICO: GDP, INFLATION AND UNEMPLOYMENT



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

for Economic Co-operation and Development (OECD) but higher than the Latin American average. Of this total, domestic debt represented 21.1% of GDP and net external debt 9.6% of GDP (0.5 and 0.1 percentage points more than at the close of 2009, respectively).

The federal government carried out two major bond sales on international markets, which should enable it to meet its financing needs for the next two years. In early October it issued US$ 1 billion worth of 100-year bonds with an annual yield of 6.1%, with Mexico thereby becoming the first country in Latin America to issue debt of this kind with such a long maturity. A few days later it sold about US$ 1.8 billion of yen-denominated paper, known as samurai bonds.

In an environment of low inflation, the Bank of Mexico kept its reference interest rate, the one-day interbank rate, unchanged at 4.5% for the first 11 months of the year. This contrasts with the rate reduction policy followed in 2009, which brought rates down by 375 basis points between January and July. Nonetheless, in 2010 there was a flattening of the yield curve due to lower inflationary expectations, an improved perception of country risk and a focusing of demand for government paper on long-term issues. Real deposit rates remained positive, and 28-day Federation Treasury Certificates (CETES) were offering a real annual rate of 0.5% at the close of the third quarter.

The nominal exchange rate was highly volatile throughout the year, but with a tendency to appreciate in the last four months because of substantial capital inflows. Some of the factors accounting for massive capital inflows are: improved performance of the Mexican economy, the inclusion of some public securities in the Citibank World Government Bond Index (WGBI) from October and the positive interest-rate spread relative to levels in developed countries. In November, foreign investors were the second-largest cumulative buyers of paper backed by the Mexican federal government, essentially bonds and CETES, ranking behind only the Specialized Retirement Fund Investment Companies (SIEFORES). By the end of the month, the interbank exchange rate was 12.46 pesos to the dollar, which represents an appreciation of 3.7% from the beginning of the year. The real bilateral exchange rate against the dollar showed a 3% appreciation between January and October 2010.

In October 2010, the M1 and M3 monetary aggregates were up by 8.6% and 12.9%, respectively, in nominal terms on the same month the year before, outstripping nominal economic growth. In the first 10 months of the year, financing provided by commercial banks was up by 4.1% on the same period the previous year. Business and housing loans grew by 5.1% and 10.6%, respectively, but consumer credit shrank by 4.3%.

MEXICO: MAIN ECONOMIC INDICATORS

	2008	2009	2010[a]
	Annual percentage growth rates		
Gross domestic product	1.4	-6.1	5.3
Per capita gross domestic product	0.5	-7.0	4.3
Consumer prices	6.5	3.6	4.3[b]
Average real wage [c]	2.2	0.8	-0.6[d]
Money (M1)	9.0	7.8	13.5[e]
Real effective exchange rate [f]	2.8	14.1	-8.1[g]
Terms of trade	0.8	-3.2	1.9
	Annual average percentages		
Urban unemployment rate	4.9	6.7	6.5[h]
Public sector overall balance / GDP	-0.1	-2.3	-2.7
Nominal deposit interest rate	6.7	5.1	4.2[i]
Nominal lending interest rate	8.7	7.1	5.3[j]
	Millions of dollars		
Exports of goods and services	309 383	244 550	309 076
Imports of goods and services	334 022	257 557	323 012
Current account	-16 514	-6 228	-6 154
Capital and financial account [k]	24 595	10 755	19 954
Overall balance	8 080	4 527	13 800

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2010.
[c] Manufacturing sector.
[d] Estimate based on data from January to September.
[e] Twelve-month variation to August 2010.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Year-on-year variation, January to October average.
[h] Estimate based on data from January to October.
[i] Average from January to November, annualized.
[j] Average from January to September, annualized.
[k] Includes errors and omissions.

With a view to strengthening the economy against possible external shocks, the Foreign Exchange Commission, comprising the Bank of Mexico and the Secretariat of Finance and Public Credit, decided to increase the pace of its international reserves build-up. Accordingly, these reserves grew strongly over the year (from US$ 91 billion at its start to US$ 110.544 billion towards its end). A flexible credit line of US$ 48 billion was renewed with the International Monetary Fund (IMF) in March for the same purpose.

The Mexican Stock Exchange Index of Prices and Quotations (IPyC) rose substantially, particularly towards the end of the year, thanks to the improvement in the Mexican economy and the prospect of low interest rates in the medium term. At the end of November, the main indicator, the IPyC, stood at 36,817 as compared with 32,758 at the start of the year, a rise of 12.4%. Furthermore, 2010 was a record year for share issues.

Regarding Mexico's position in the global economy, November saw the announcement of the formal start of negotiations between Brazil and Mexico on a strategic economic integration agreement. This agreement between the two largest economies of Latin America is expected to include not just tariff reductions but also matters relating to services, investment, government procurement and intellectual property, among other things.

Economic activity expanded strongly in the first three quarters of the year, with average growth of 5.8%. There was a slowdown in the third quarter (5.3%) because of softer external demand. In the same period, agriculture recorded average growth of 4.4%. Manufacturing industry staged a remarkable recovery, with average growth of 11.2%. Nonetheless, preliminary figures to September reflect the beginnings of a slowdown in manufacturing, associated with the slackening of growth in the United States economy. Among tertiary activities, there was particularly strong growth in commerce (14.8%) and transport (7.6%).

The moderate pace of recovery in domestic demand, large amounts of idle capacity and the appreciation of the exchange rate all helped to keep inflation low. The year-on-year increase in consumer prices was 4.1% in October, and the index will end the year slightly above the official target range of between 2% and 4%.

Formal employment, measured by the number of workers registered with the Mexican Social Security Institute (IMSS), grew steadily in the first 10 months of the year and by 31 October had exceeded its pre-crisis level (14.8 million workers). Nonetheless, the proportion of people who were underemployed or working in the informal economy remained high at 8.4% and 27.3% of the economically active population, respectively. The real minimum wage was down by 1.2% in October on its level at the start of 2010.

Exports recovered strongly. Goods exports totalled US$ 243 billion between January and October, 32% up on the same period in 2009, while those of manufactures had increased by a substantial 31.9%. In fact, Mexico overtook Canada to become the second-largest exporter of manufactures to the United States after China. Nonetheless, growth began to slow in September, doubtless because of the loss of dynamism in the United States economy. Oil exports grew by 36.5% between January and October thanks to higher international prices.

Imports were 30.4% higher in the first 10 months of the year than in the same period the year before. Imports of consumer goods were up by 27.8% and those of intermediate goods by 36.7%, while capital goods imports were 2% lower. By contrast with earlier upturns, and thanks to the dynamism of exports, recovery was not accompanied on this occasion by any marked deterioration in the current account balance.

Remittances are expected to total about US$ 22 billion in 2010, just 4% above the previous year's figure and well below their 2007 peak. Foreign direct investment totalled US$ 14.4 billion between January and September 2010, exceeding the US$ 11.9 billion received in the same period of 2009.