Mexico

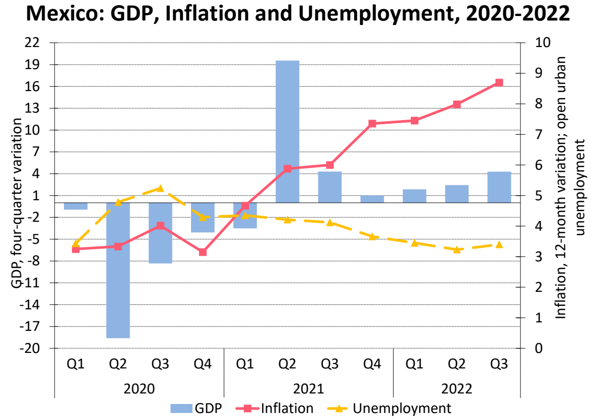
The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that Mexico's GDP —measured using the original seasonally unadjusted series— will grow by 2.9% in real terms in 2022, following the 4.7% expansion recorded in 2021. This slowdown is explained mainly by the dissipation of the statistical effect of the low comparison base, the adverse effects of the Russian Federation's invasion of Ukraine (which has fuelled inflationary pressures worldwide), higher interest rates and the persistence of restrictions in global supply chains for production. Nonetheless, exports to the United States and domestic demand both strengthened more than expected.

Year-on-year inflation is forecast to be around 7.7% in late 2022 (compared to 7.4% in December 2021), mainly owing to stronger consumption and higher international commodity prices. The unemployment rate is expected to fall to 3.3% (from 4.1% in 2021), reflecting increased job creation in the wake of the recovery in economic activity. The fiscal deficit of the non-financial public sector is expected to represent 3.0% of GDP (compared to 2.9% in 2021), and the primary balance is set to show a small surplus, equivalent to 0.1% of GDP. The current account of the balance of payments is forecast to record a deficit equivalent to 1.0% of GDP (compared to a deficit of 0.4% of GDP in 2021), thus maintaining the trend of recovering trade flows, with more buoyant imports.

From January to October 2022, non-financial public sector budgetary incomes increased by 5.0% in real terms compared to the same period in 2021, as a result of a slight reduction in non-oil income (-1.0%) and a surge in oil revenues (+35.7%). Meanwhile, net budgetary expenditure of the non-financial public sector grew by 4.9% in real terms, due mainly due to an increase in revenue sharing (financial support provided to the Mexican states) (+7.0%) and an increase in both current spending (+2.9%) and capital spending (+6.1%). As a result, the public deficit in that period amounted to 456.312 billion pesos, compared to the prior year deficit of 351.035 billion pesos (20.5% in real terms year-on-year). Owing to the fuel subsidy, by the end of the year, a revenue loss is projected of around 1.5% of GDP from the special tax on production and services (IEPS) and value added tax (VAT), which would be partially offset by the exceptional revenues earned by Petróleos Mexicanos (PEMEX) thanks to the rise in the international price of oil.

The total non-financial public sector debt remains on a sustainable path and is expected to reach 49.0% of GDP by the end of 2022 (49.6% in 2021). This reflects both an increase in GDP and inflation, which will cushion the rise in interest rates. As of November 2022, the country's sovereign debt ratings, awarded by Fitch Ratings and S&P Global Ratings, remained unchanged. S&P Global Ratings changed its outlook from negative to stable, given the expectation of a cautious execution of fiscal and monetary policies. Moody's Investors Service lowered its rating from Baa1 to Baa2, but changed the outlook from negative to stable.

Mexico: GDP, Inflation and Unemployment, 2020-2022



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

In August 2022, the Ministry of Finance and Public Credit issued the third sovereign bond linked to the Sustainable Development Goals (SDGs), for US$ 2.2 billion with a coupon rate of 4.875% and a ten-year term. In September, it submitted the 2023 Economic Package to Congress, which did not include substantive changes to tax collection; only the fees and rates were updated in line with the inflation indices registered in 2022 and expected for 2023. The balance as of September in the different stabilization funds amounted to 69,243 million pesos, 26.7% more than at the end of 2021.

In response to persistent inflationary pressures, Banco de México raised the interbank interest rate successively in February, March and May 2022, by 50 basis points each time; and again in June, August, September and November, by a further 75 basis points each time, to reach 10.0%, its highest historical level since the adoption of inflation targeting as a monetary policy instrument. In November, real lending and deposit rates were 20.8% and 0.0%, respectively, displaying a slight downtrend compared to 2021, linked to the uptick in inflation. In October 2022, the commercial banking sector’s portfolio of performing loans to the private sector displayed real growth of 4.5%, owing to the increase in lending to companies and sole traders (+3.4%), housing credit (+3.2%) and consumer loans (+8.3%).

Mexico: main economic indicators, 2020-2022

	2020	2021	2022 [a]
	Annual growth rate		
Gross domestic product	-8.0	4.7	2.9
Per capita gross domestic product	-9.0	3.7	1.9
Consumer prices	3.2	7.4	8.4 [b]
Real average wage [c]	3.8	2.9	...
Money (M1)	17.4	14.7	11.1 [d]
Real effective exchange rate [e]	8.6	-6.7	-1.1 [b]
Terms of trade	-1.1	-1.4	-6.1
	Annual average percentage		
Open urban unemployment rate	4.4	4.1	3.2 [f]
Public-sector			
Overall balance / GDP [g]	-2.9	-2.9	...
Nominal deposit rate [h]	5.2	4.0	5.9 [b]
Nominal lending rate [i]	30.2	29.4	29.5 [j]
	Millions of dollars		
Exports of goods and services	851 689	1 017 325	1 219 032
Imports of goods and services	794 630	1 050 756	1 285 296
Current account balance	677	-1 222	-2 048
Capital and financial balance [j]	1 235	1 681	...
Overall balance	1 911	459	...

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/ Figures as of September.
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/ Figures as of April.
k/ Includes errors and omissions.

As of November 2022, the exchange rate averaged 20.2 pesos per dollar, boosted, partly, by a record increase in remittance flows, the hike in Banco de México’s target interest rate and the weakening of the dollar —the latter related to the slowdown in economic activity in the United States in the second half of 2022. As of 2 December 2022, the balance of international reserves amounted to US$ 198.89 billion, 1.7% less than at the close of 2021 and sufficient to cover six months of total imports. In addition, the US$ 50 billion flexible credit line arrangement with the International Monetary Fund (IMF) is currently in force (until November 2023). As a result, the central bank has more than US$ 248 billion at its disposal to confront exchange rate and financial turbulence.

Between January and October 2022, Mexico’s merchandise trade balance posted a deficit of US$ 27.309 billion, compared to a US$ 11.495 billion shortfall recorded in the year-earlier period. Total exports increased in by 19.5% and total imports grew by 22.8%; non-oil exports to the United States, which accounted for 82.6% of total exports, increased at an annual rate of 19.2%, and those sent to the rest of the world grew by 12.6%. Remittances amounted to US$ 48.338 billion, registering a year-on-year increase of 14.6% over the same period in 2021. Meanwhile, as of September, foreign currency inflows from international tourism were up by a cumulative 54.1% since January.

Between January and September 2022, the current account of the balance of payments recorded a deficit of US$ 15.271 billion, equivalent to 1.1% of GDP, compared to a deficit of 0.6% of GDP in the equivalent prior-year period. Moreover, foreign direct investment (FDI) flows totalled US$ 32.147 billion in the year to September, 13.0% more than in the first three quarters of 2021. Excluding the exceptional flow arising from the merger of the television companies Televisa and Univision and the restructuring of the airline Aeroméxico, FDI flows totalled US$ 25.272 billion, 11.1% down on the same period in 2021. Meanwhile, net FDI amounted to US$ 20.56 billion, 18.8% less than a year earlier.

In the first three quarters of 2022, GDP (with original figures) increased by 2.9%, on average, relative to the same period in 2021. Primary activities expanded year-on-year by 1.4%, secondary activities by 3.3%, and tertiary activities by 2.5%. In the January–September period, private consumption increased by an annual average of 7.3%, and gross fixed investment grew by 5.4%.

Prices continued to rise throughout 2022. In the face of persistent inflation, the Office of the President of the Republic and the Ministry of Finance and Public Credit, together with some of Mexico's largest producers and distributors, agreed in April to create the Anti-Inflation and Deficit Package (PACIC), with the aim of lowering the price (by between 10% and 20%) —or preventing an increase— of 24 items in the basic food basket (which encompasses more than 40 products). A total of 16 measures, including an increase in grain production, a freeze on highway tolls and lower tariffs on fertilizer imports, are included in the package presented. A second phase of this initiative was announced in October, with the signing of the Market Opening Agreement to Combat Inflation and Scarcity (APECIC), which facilitates coordinated action by the government, producers and supermarkets to reduce the average maximum price of a basic basket of 24 products by 8.0% until 28 February 2023. In addition, in response to the rise in the international price of oil, the Ministry of Finance and Public Credit partially subsidized fuel and electricity prices to reduce their impact on inflation, with favourable results. In November 2022, year-on-year inflation was 7.8%, with inflationary pressures related mainly to the rise in the prices of some food and services, as well as electricity and gasoline.

In October 2022, the employed population totalled 58.4 million people, 2.0 million more than in the same month of 2021. A total of 4.4 million were underemployed (7.5% of the employed population), representing a reduction a of 1.9 million relative to the year-earlier level. The unemployment rate was 3.3%, 0.6 percentage points lower than in October 2021; while labour informality was 55.4%, slightly below the 55.6% rate recorded a year earlier.

In 2022, the general minimum wage and that of the Northern Border Free Zone were raised by 22%; and this wage will be lifted by a further 20% in 2023. The basic wage will rise from 260 pesos to 312 pesos in the Northern Border; and, in the rest of the country, the payment will be 207 pesos per day as of January 1.

For 2023, ECLAC projects Mexico's GDP to grow by 1.1% in real terms, owing mainly to the slacker momentum of exports to the United States, linked to the sharp economic slowdown experienced in that country, and to the dampening effects of inflation and interest rate hikes on domestic demand. Factors that could modify the forecast in either direction include the pace of global economic activity, the attraction of domestic and foreign investment, and the international availability of inputs for production. Year-on-year inflation is expected to be around 5.0%, due to the persistent rise in raw material prices and value-chain constraints. The unemployment rate will be around 3.5%, in line with the slowdown in economic activity. The non-financial public sector fiscal deficit is forecast to be around 3.5% of GDP (with a primary deficit of 0.2%); and the current account deficit of the balance of payments will be equivalent to 0.5% of GDP, in keeping with the trend of faltering trade flows.