Mexico

The Mexican economy shrank by 6.7% in 2009, owing to across-the-board weakness in aggregate demand caused by the global recession. The economic slump led to a reduction in the wage bill and credit, which, in turn, triggered a fall in consumption. As the year moved forward, the recessive trends deepened and investment contracted —according to estimates, by more than 10%. The main channels of transmission of the global crisis have been dwindling global trade, alongside, to a lesser extent, declining foreign investment, tourism and remittances from workers abroad.

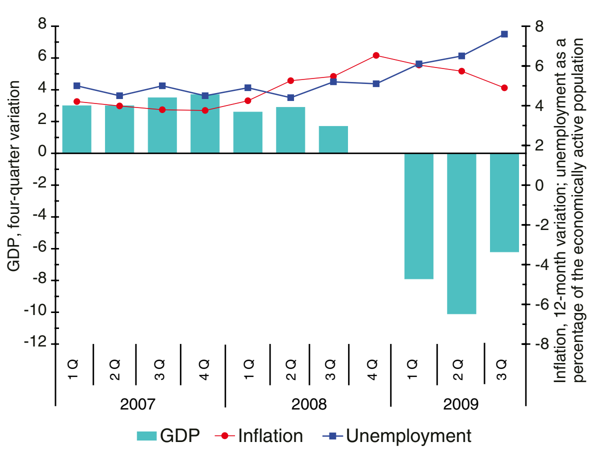
Decreasing economic activity led to a reduction in public revenue. However, total public spending —which was mainly focused on meeting social needs— is projected to have declined by a smaller proportion than has public revenue. The low tax burden made it difficult to implement large-scale fiscal measures to address the crisis. Moreover, by preferring the nominal stability of the economy over real stability, the authorities did not take advantage of the healthy public debt position in order to obtain loans with which to implement a countercyclical policy that would have provided a stronger boost to aggregate demand.

Annual inflation is projected to come in at 4% in 2009 as a result of falling prices for raw materials and energy, sluggish demand and the easing of pressure on the exchange rate. Public-sector borrowing requirements are estimated at 3.0% of GDP (up from 2.1% in 2008). In light of weak external demand, especially from the United States, and the consequent decline in imports due to lower consumption, the trade balance and balance-of-payments current account deficits are expected to be lower than in 2008.

The Mexican economy should enter a period of recovery in 2010 (with 3.5% growth), spearheaded by the expected upturn in the United States economy. However, not until 2011 is the economy expected to return to the level of activity seen in 2008. Inflation is projected to rise to 5%, partly because of the increase in value added tax (VAT) and the other taxes slated to be introduced in 2010 in a context of moderately higher consumption.

Real public-sector revenue fell by 8.7% between January and September 2009 because of the decline both in oil revenue and in non-oil tax receipts (down 24.4% and 12.8%, respectively). The drop in oil revenue stemmed from falling prices on world markets, production levels and exports. Tax receipts fell as collections of VAT dropped by 19.5%, income tax by 12.0% and the flat-rate business tax (IETU) by 7.5%. In response to the revenue shortfall, the authorities cut projected spending by the equivalent of 0.9% of GDP for the year. However, social programmes were left untouched by the budget cuts. The rest of the budget shortfall was offset with an operating surplus of Banco de México (for 95 billion pesos) and with oil price hedges and other non-recurring revenue (totalling 247.9 billion pesos).

MEXICO: GDP, INFLATION AND UNEMPLOYMENT



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

Real public-sector budget spending rose by 4.2% from January to September 2009 as a result of a 36.8% increase in capital spending and a 1.0% drop in current expenditures. For the year overall, real spending is expected to rise slightly. Together with declining revenue, this should lead to an increase in the traditionally calculated deficit, from 0.1% of GDP in 2008 to 2.1% according to official estimates in 2009. The balance of the external public debt in September was 9.6% of GDP, compared with 21.1% for domestic debt. Starting in 2009, both figures include debt on Projects with a Deferred Impact on Public Expenditure Recording (PIDIREGAS), which raised the debt-to-GDP ratio from 21% to 31%. In late November 2009, the government secured a one-year credit line of approximately US$ 1.504 billion with the World Bank to mitigate the impact of the financial crisis and improve the conditions for growth to resume in the medium term.

In 2010, new taxes will be introduced while others will be raised. A new 3% tax will be charged on telecommunications; temporarily the maximum individual and corporate income tax rate will rise from 28% to 30%; VAT will increase from 15% to 16%; and the tax on gaming and lotteries will jump from 20% to 30%. Levies on tobacco, beer and other alcoholic beverages will also go up.

The benchmark interest rate was lowered as a consequence of the global recession, falling international prices for raw materials and the freeze on certain domestic energy prices. In the first seven months of 2009, the central bank lowered the benchmark rate by 375 basis points, to a slightly negative real rate of 4.5%. The average market deposit rate was also negative in real terms, while lending rates remained relatively high. The benchmark rate remained stable from August to October 2009, and from January to September the monetary base expanded by 9.1% in real terms. The M1 and M2 monetary aggregates grew by 8.2%, while M3 and M4 increased by more than 6%.

Until September, commercial bank lending to the private sector had fallen by 4.9%, in real terms, while consumer lending had plummeted by 21.7%. The rate of growth of lending to non-financial companies and self-employed individuals slowed to only 3.9%, from 17.6% in 2008.

After appreciating in real terms from 2005 to August 2008, the peso depreciated abruptly (16% in real terms) in October 2008 and continued falling until March 2009. It stabilized in subsequent months. The real value of the peso declined by an average of 19% in the first 10 months of the 2009, on a year-on-year basis. Banco de México intervened in the exchange market throughout the year. In response to speculative pressure, in February the central bank injected dollars into the currency market and the following month it began holding daily auctions for US$ 100 million. The central bank also left open the possibility of conducting special sales of hard currency if market conditions necessitated doing so. In April, a one-year, US$ 47 billion contingent line of financing from the International Monetary Fund (IMF) was announced. Although the credit has not been used, it has helped relieve pressure on the peso.

In May, the gradual easing of pressure in the foreign-exchange market led the authorities to reduce the amount of the daily auction from US$ 100 million to US$ 50 million. In addition, the amount of the daily auction offered in the event of a peso slide of more than 2% from one business day to the next was reduced from US$ 300 million to US$ 250 million, although the possibility of conducting special sales of foreign currency remained. In October, the US$ 50 million daily auctions were suspended. Fluctuations in the country's international reserves reflected conditions in the currency market. Up to July, the country's reserves generally trended downwards; from August they recovered and reached nearly US$ 82 billion, that is, to US$ 1 billion below their level at the beginning of the year.

The Mexican economy entered into recession in the last quarter of 2008. The global crisis exposed its structural deficiencies and its vulnerability to external shocks as well as the weakness and lack of resilience of its productive base and the limited manoeuvring room there was for public policy to counteract the effects of those shocks.

MEXICO: MAIN ECONOMIC INDICATORS

	2007	2008	2009 [a]
	Annual percentage growth rates		
Gross domestic product	3.4	1.3	-6.7
Per capita gross domestic product	2.3	0.3	-7.7
Consumer prices	3.8	6.5	4.5 [b]
Average real wage [c]	1.0	2.2	0.6 [d]
Money (M1)	11.7	9.0	12.7 [b]
Real effective exchange rate [e]	1.1	2.2	17.6 [f]
Terms of trade	0.9	0.8	-1.1
	Annual average percentages		
Urban unemployment rate	4.8	4.9	6.8 [g]
Public sector overall balance/GDP	0.0	-0.1	-2.1
Nominal deposit interest rate	6.0	6.7	5.3 [h]
Nominal lending interest rate	7.6	8.7	7.6 [i]
	Millions of dollars		
Exports of goods and services	289 365	309 383	243 056
Imports of goods and services	305 743	333 723	256 668
Current account balance	-8 335	-15 806	-6 074
Capital and financial account balance [j]	18 621	23 244	-1 422
Overall balance	10 286	7 438	-7 496

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

[a] Preliminary estimates.
[b] Twelve-month variation to October 2009.
[c] Manufacturing sector.
[d] Estimate based on data from January to September.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Year-on-year average variation, January to October.
[g] Estimate based on data from January to October.
[h] Average from January to October, annualized.
[i] Average from January to September, annualized.
[j] Includes errors and omissions.

In the first half of the year, economic activity decreased by 9.2%. In the third quarter, it contracted by 6.2%, and for the year overall, the projected decline is 6.7%. Accordingly, the economy is expected to turn the corner in the fourth quarter as a prelude to a recovery in 2010. Activity declined sharply in the commerce and construction sectors, while in September industrial output fell for the fourteenth consecutive month.

In terms of spending, private consumption and investment are estimated to have decreased by 6.5% and 11%, respectively. Exports fell by 23% in the first semester, while imports were down 25%.

The A (H1N1) influenza epidemic dealt a severe blow to the economy: tourism flows dwindled, and drastic measures were taken to cope with the epidemic (suspension of activities, principally in Mexico City). ECLAC estimates that the impact was equivalent to a loss of about 0.7% of GDP. Sectors associated with tourism (commerce, restaurants and hotels) were the hardest hit.

The automobile industry was the most affected within the manufacturing sector due to its strong ties to the United States economy. The automobile industry's contribution to total GDP (3.3%) and total exports (24%), as well as its linkages with 33 branches of production (including 30 in manufacturing), was a key factor in the country's economic slowdown. Automobile output fell by 35% and auto exports by 33%, in real terms, between January and October 2009. If these figures hold true for the year overall, 1.1 percentage points of the overall decline in GDP will be the direct consequence of the automobile industry slump alone —without taking into account the concomitant multiplier effects.

The fall in output also took a toll on the labour market. The open unemployment rate continued to trend upward, rising from 3.9% in September 2007 to 4.3% a year later and to 6.4% in September 2009. Given that the informal sector absorbed 28% of the economically active population, more than one third of the workforce was either unemployed or underemployed.

The number of workers registered at the Mexican Social Security Institute (IMSS) decreased by nearly 500,000, or 3.4%, between October 2008 and October 2009. The sectors that shed the largest number of jobs were manufacturing (-7.0%), construction (-9.5%) and transportation (-4.3%).

Exports were the main channel of transmission of the international financial crisis. Given that exports account for a high proportion of GDP (35%), the repercussions of lower exports spread quickly and forcefully. The value of total exports fell by 28.7% between January and September while that of imports dropped by 29.6%. Imports of consumer goods contracted the most (36.8%), followed by capital goods and intermediate goods, owing to the sharp drop in exports and the reduction in private consumption. In addition, the dwindling volume of petroleum exports and falling international prices slashed oil revenue by 53% in the same period. The trade deficit decreased by just over US$ 4.6 billion from January to September 2009 compared with the same period the previous year, to US$ 4.329 billion (0.51% of GDP). Excluding oil, the trade deficit exceeded US$ 25 billion (3% of GDP) in the same period.

The financial crisis in the United States had a considerable impact on remittances to Mexico. Between January and October 2009, the accumulated value of remittances was US$ 18.127 billion, which represented a 16.1% year-on-year decrease. FDI continued to slide, and the estimated value of FDI inflows —between US$ 13 and US$ 15 billion in 2009— is between 33% and 42% lower than in 2008.