Mexico

1. General trends

The growth rate of the Mexican economy fell from 3.3% in 2007 to 1.3% in 2008, which represented a meagre 0.2% rise in per capita GDP. This result may be attributed to a significant weakening of both external demand —associated with the international economic crisis— and domestic demand, reflecting the loss of momentum in private consumption and, to a lesser degree, in private investment. Exports dropped considerably beginning in the third quarter of 2008. Weakened demand can be traced to an upsurge in unemployment, a decline in consumer credit and fewer remittances from abroad. Inflation rose from an average of 4.0% in 2007 to 5.1% in 2008.

The slowdown in economic activity drained some buoyancy from imports, although these were boosted by the appreciation of the real exchange rate which prevailed until October, and rising international food and fuel prices. Overall, faster growth in imports than in exports led to a widening of the trade deficit. All of these factors, together with a 3.6% drop in international remittances, translated into a current account deficit equivalent to 1.5% of GDP (0.8% in 2007). The consolidated public sector balance reached virtual equilibrium thanks to the contribution of oil revenue, which increased by 14% in real terms.

The country faces an extremely harsh economic landscape in 2009. The situation is even more difficult than it was during the recession of 1995, when GDP fell by 6.2% but bounced back in less than 12 months on the back of surging exports. This option is not available this time since the world economy is navigating the worst crisis since the 1930s. Downturns in foreign direct investment (FDI), remittances, oil prices, tourism and access to financing only exacerbate the situation. Real GDP dropped 1.6% in the fourth quarter of 2008 and plummeted 8.2% in the first quarter of 2009.

Limited fiscal resources, short-term implementation difficulties with public spending and tighter credit for investment projects have curbed the effectiveness of the government's initiatives to counteract the effects of the external shock. The reactivation of the Mexican economy depends, in great measure, on momentum from the United States economy, which means that reaching a new growth phase could take even longer.

The various programmes implemented by the federal government to manage the crisis have thus far been unable to prevent sharp declines in economic activity and employment. Creation of quality employment has been severely limited by a shrinking economy and the saturation of 'escape valves', such as informal employment and migration, in addition to returning immigrants putting further pressure on the labour market. The fallout from the A (H1N1) influenza epidemic, which the government estimates at around 0.5% of GDP, is another consideration. ECLAC projections for 2009 show an economic contraction of between 6% and 7%, with severe job losses.

2. Economic policy

(a) Fiscal policy

Consistently with the federal budget and fiscal responsibility act, public finances were virtually balanced in 2008 (-0.1% of GDP). Government income grew by 9.5% in real terms, owing most notably to a 13.9% increase in oil income derived from high international prices, which was partly offset by lower production and export volumes, increased imports of petroleum derivatives and exchange-rate appreciation. Oil income accounted for 36.9% of government income. The average price of the Mexican oil mix rose to US$ 84.40 a barrel, or US$ 37.80 more than projected in the general economic policy guidelines for 2008.

Total public sector expenditures climbed 10.1% in real terms in 2008, with growth in capital expenditures outpacing that of current expenditures (25.1% and 7.1%, respectively). Within capital expenditures, physical investment was up by 12.2%. Within current spending, social development outlays rose by 7.0% and spending on personal services was up by 3.4%. The financial cost (consisting mainly of interest and commissions) recorded a decline of 9.6%, while government transfers to states increased by 21.1%.

The federal government's fiscal balance for 2008 showed a slight improvement of two-tenths of a percentage point, bringing the fiscal deficit to 1.6% of GDP. Non-oil tax revenues grew by 9.8% in real terms, mainly owing to higher takings from an excise tax on production and services (13.0%), income tax (9.9%), value added tax (6.5%) and import tax (5.8%). Revenue generated from the flat-rate business tax and a levy on cash deposits (both of which went into effect in 2008) contributed to these results. Total expenditures rose by 10.6%, largely owing to capital expenditures (21.9%).

The outlook promises great challenges for public finances in 2009, given the magnitude of the economic crisis. In the first quarter of 2009 real income fell by 9.1%, reflecting both oil income (-17.6%) and non-oil income (-11.4%), while spending climbed by 14.5%.

The loss of public income as a consequence of the progressive deterioration of the economy could spell a 1.5% drop in GDP for 2009, without taking into account the effects of lower tax collection due to the epidemiological emergency caused by the A(H1N1) influenza outbreak in May and June, which led to the closing of schools, restaurants and leisure and entertainment venues. Unless the government adopts new fiscal initiatives to combat the crisis, a fiscal deficit of at least 2% of GDP is projected for 2009. This assumes that the decrease in income would be partially offset by payoffs on oil-price hedging instruments, a further depreciation of the peso (which would boost the value in pesos of oil exports and the operating profits of the central bank) and reduced spending.

The Mexican government announced four programmes in 2008 and 2009 to address the deteriorating economic situation and to lessen its effects. The first two, announced in March and October 2008, were aimed at supporting businesses and families. Discounts were granted on firms' contributions to the Mexican Social Security Institute (IMSS) and on flat-rate income and business taxes, while families benefited from a cut in household electricity rates. Other initiatives included higher spending on infrastructure (including the construction of a refinery that will begin this year), assistance for small and medium-sized enterprises (SMEs) and a new tariff reduction and deregulation programme.

Another 25 measures were announced in early 2009 aimed at supporting employment and workers, household budgets, competitiveness and SMEs, and investment in infrastructure. Measures to mitigate the effects of the epidemiology emergency were also announced, including support targeting SMEs and businesses in the tourism, restaurants and leisure sector.

(b) Monetary policy

Based on the hypothesis that the international crisis would not have a serious impact on the Mexican economy but that rising inflation was a cause for concern, throughout 2008 the central bank continued to pursue stabilization as its main objective through a monetary policy aimed at tempering external inflationary pressures. To this end, in August the bank raised the target interest rate by 75 basis points, from 7.5% in May to 8.25%, where it remained for the rest of the year. The exchange rate remained generally stable, but showed some appreciation in real terms. Given the worsening economic situation abroad and the growing signs of its effects on the Mexican economy and employment however, the direction of monetary policy shifted and the benchmark interest rate was lowered by 300 basis points between January and May 2009.

The monetary base expanded by 9.6% in real terms in 2008, equivalent to half the increase seen in 2007. In the first quarter of 2009 the balance of the monetary base rose by 12.4% over the figure for March 2008. As defined by the country, M1 rose by 7.1% and M2 by 9.8%. M3 was somewhat less buoyant with a real growth rate of 8.6%. Notable within this aggregate were an increase of 6.4% in non-resident deposits and a significant 13.8% drop in public securities held by non-residents.

Lending to the non-financial private sector maintained a growth rate similar to that of 2007. In December 2008, this type of credit showed a balance equivalent to 30.7% of GDP, representing a real annual variation of 8.9% with respect to the year before. Total commercial bank lending to the private sector amounted to 13.7% of GDP, similar to the 2007 figure. Household consumer lending dropped 5.3% in 2008, following growth of 18.3% the previous year. The delinquency index rose to 3.21%. For consumer credit, this index stood at 8.04%, recording a 2.56 percentage point increase over 2007, and for credit card lending, it rose to 9.42%.

In the remainder of 2009 the central bank is expected to lower the benchmark interest rate somewhat with a view to helping to improve the economic situation, while still maintaining its primary objective of controlling inflation.

(c) Exchange-rate policy

Within the framework of a floating exchange rate, the peso progressively strengthened against the dollar in the first half of 2008, which reached its lowest price in August. Thereafter the Mexican currency depreciated steadily until March 2009 owing to the international financial crisis. The demand for dollars was also heightened by companies seeking to adjust their exposure in dollar-denominated derivatives. Thus, from early August 2008 to late March 2009 the peso cost of dollars rose by 43%. On average in 2008, however, the real bilateral exchange rate with respect to the dollar depreciated only 1.2%. The real effective exchange rate (with all the country's trading partners) depreciated by 2.1%.

The central bank implemented several measures to boost liquidity in the currency market, the stock market and the banking system. Dollars were injected into the currency market through extraordinary and daily auctions, and no-minimum-bid auctions were instituted in March 2009. Other contingent mechanisms were put in place to temporarily supply banks with local currency liquidity, and measures were taken to inject liquidity into domestic debt markets. The central bank also established a guarantee programme through the development bank for short-term private lending.

In late March the government secured a one-year, renewable contingent credit line with the International Monetary Fund of approximately US$ 47 billion. This amount, together with US$ 30 billion that can be accessed through the currency swap facility with the United States Federal Reserve —which is in place until October of this year— and the US$ 76.5 billion in international reserves (as of May 2009) total US$ 153.5 billion. All this, combined with the measures taken to halt the peso's rapid depreciation against the dollar, helped bring down the exchange rate from around 15 pesos per dollar in March to almost 13 pesos in May, affording the central bank more room to reduce the interest rate should the crisis deepen.

3. The main variables

(a) Economic activity

The momentum of the Mexican economy gradually slackened throughout 2008 in the context of a general downturn in external and domestic demand, and GDP growth dropped from 3.3% in 2007 to 1.3% in 2008. Private consumption edged up a mere 1.5% (3.9% in 2007) owing to weaker credit, a slowing of the real wage bill and decreased family remittances. Investment growth fell back from an average rate of 8% in the last four years to less than 5% in 2008. It remained, nevertheless, the most buoyant element of demand, although it continued to worsen in the last months of the year and especially in early 2009.

In 2008 production grew by 2.1% in the service sector and by 3.2% in the agricultural sector, while industry output slipped by 0.7%, owing mainly to manufacturing. The slowdown in services was caused by sluggish private consumption and a decline in foreign-trade-related services.

In manufacturing, the largest drops in 2008 came in computer equipment, electronic components and accessories (-13.6%) and in textile supplies (-38.3%). Production in the automotive industry was up 4%, thanks to robust exports in the first part of the year. Exports to the European Union increased by 9.8% and accounted for 12.9% of Mexican vehicle exports. The United States continued to be the principal export destination

Table 1

MEXICO: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Annual growth rates [b]									
Gross domestic product	6.6	-0.0	0.8	1.4	4.0	3.2	4.8	3.3	1.3
Per capita gross domestic product	5.1	-1.1	-0.1	0.6	3.2	2.3	3.7	2.2	0.2
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	0.4	5.9	-0.9	3.8	2.9	-0.7	3.9	2.0	3.2
Mining and quarrying	3.8	1.5	0.4	3.7	1.3	-0.3	1.4	-0.6	-2.3
Manufacturing	6.9	-3.8	-0.7	-1.3	3.9	3.5	5.1	2.7	-0.3
Electricity, gas and water	3.0	2.3	1.0	1.5	4.0	2.0	12.2	3.7	2.2
Construction	4.2	-5.7	2.1	3.3	5.3	2.5	7.9	4.4	-0.6
Wholesale and retail commerce, restaurants and hotels	12.2	-1.2	0.0	1.5	6.4	3.9	5.5	4.4	2.5
Transport, storage and communications	9.1	3.8	1.8	5.0	5.4	3.6	5.4	3.7	0.8
Financial institutions, insurance, real estate and business services	5.5	4.5	4.2	3.9	4.7	5.3	7.1	5.2	2.8
Community, social and personal services	2.9	-0.3	0.9	-0.6	2.1	3.5	2.5	2.1	1.1
Gross domestic product, by type of expenditure									
Consumption	7.4	1.9	1.4	2.1	4.4	4.6	4.8	3.6	1.4
General government	2.4	-2.0	-0.3	0.8	-2.8	3.5	0.3	2.1	0.6
Private	8.2	2.5	1.6	2.2	5.6	4.8	5.6	3.9	1.5
Gross fixed capital formation	11.4	-5.6	-0.6	0.4	8.0	6.5	9.6	7.2	4.9
Exports (goods and services)	16.3	-3.6	1.4	2.7	11.5	6.8	10.8	5.7	1.4
Imports (goods and services)	21.5	-1.6	1.5	0.7	10.7	8.5	12.8	7.0	4.3
Percentages of GDP									
Investment and saving [c]									
Gross domestic investment	27.5	22.1	22.7	22.9	24.7	23.9	25.7	25.4	26.0
National saving	24.5	19.5	20.7	21.9	24.0	23.3	25.2	24.6	24.5
External saving	2.9	2.6	2.0	1.0	0.7	0.5	0.5	0.8	1.5
Millions of dollars									
Balance of payments									
Current account balance	-18 683	-17 683	-14 137	-7 190	-5 169	-4 369	-4 375	-8 331	-15 725
Goods balance	-8 337	-9 617	-7 633	-5 779	-8 811	-7 587	-6 133	-10 074	-17 261
Exports, f.o.b.	166 121	158 780	161 046	164 766	187 999	214 233	249 925	271 875	291 343
Imports, f.o.b.	174 458	168 396	168 679	170 546	196 810	221 820	256 058	281 949	308 603
Services trade balance	-2 323	-3 558	-4 048	-4 601	-4 607	-4 713	-5 736	-6 305	-7 079
Income balance	-15 017	-13 847	-12 725	-12 313	-10 513	-14 207	-18 455	-18 368	-16 846
Net current transfers	6 994	9 338	10 269	15 503	18 762	22 138	25 949	26 415	25 461
Capital and financial balance [d]	25 793	25 008	21 227	16 628	9 227	11 533	3 372	18 617	23 163
Net foreign direct investment	17 789	23 045	22 158	15 183	19 216	15 325	13 558	19 022	21 264
Other capital movements	8 004	1 963	-931	1 445	-9 989	-3 791	-10 186	-404	1 899
Overall balance	7 110	7 325	7 090	9 438	4 058	7 164	-1 003	10 286	7 438
Variation in reserve assets [e]	-2 824	-7 325	-7 090	-9 438	-4 058	-7 164	1 003	-10 286	-7 438
Other financing	-4 286	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	94.4	94.0	104.5	108.3	104.6	104.7	105.8	108.1
Terms of trade for goods (index: 2000=100)	100.0	97.4	97.9	98.8	101.6	103.6	104.1	105.1	105.9
Net resource transfer (millions of dollars)	6 491	11 161	8 502	4 315	-1 286	-2 674	-15 083	250	6 317
Total gross external debt (millions of dollars)	148 652	144 526	140 099	140 554	139 152	130 731	117 506	141 823	150 142
Average annual rates									
Employment									
Labour force participation rate [g]	58.7	58.1	57.8	58.3	58.9	59.5	60.7	60.7	60.4
Open unemployment rate [h]	3.4	3.6	3.9	4.6	5.3	4.7	4.6	4.8	4.9
Visible underemployment rate [h]	…	…	…	…	…	7.5	6.9	7.2	6.9
Prices — **Annual percentages**									
Variation in consumer prices (December-December)	9.0	4.4	5.7	4.0	5.2	3.3	4.1	3.8	6.5
Variation in the national producer price index (December-December)	6.4	1.3	9.2	6.8	8.0	3.4	7.3	5.4	7.8
Variation in nominal exchange rate (annual average)	-1.1	-1.2	3.4	11.7	4.6	-3.5	0.1	0.2	2.1
Variation in average real wage	6.0	6.7	1.9	1.4	0.3	-0.3	0.4	1.0	0.7
Nominal deposit rate [i]	14.6	11.0	6.2	5.1	5.4	7.6	6.1	6.0	6.7
Nominal lending rate [j]	16.9	12.8	8.2	6.9	7.2	9.9	7.5	7.6	8.7

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Percentages of GDP				
Non-financial public sector									
Total income	19.7	20.0	20.2	21.2	20.7	21.2	22.0	22.3	23.8
Tax income	9.7	10.3	10.6	10.1	9.0	8.8	8.6	9.0	8.3
Total expenditure	20.7	20.6	21.3	21.8	20.9	21.3	21.9	22.3	23.8
Current expenditure	18.3	18.2	18.4	19.0	17.8	18.2	18.6	18.7	19.4
Interest	2.3	2.3	2.0	2.1	1.9	2.0	2.1	1.9	1.6
Capital expenditure	2.4	2.4	2.9	2.8	3.2	3.1	3.3	3.6	4.4
Primary balance [k]	1.3	1.7	0.9	1.6	1.7	1.9	2.1	1.9	1.6
Overall balance [k]	-1.0	-0.7	-1.1	-0.6	-0.2	-0.1	0.1	0.0	-0.1
Public-sector debt	25.3	24.1	25.7	26.1	24.2	23.0	22.7	23.0	27.2
Domestic [l]	11.8	12.6	13.8	14.4	13.8	14.6	16.9	17.6	20.8
External	13.5	11.5	11.8	11.8	10.4	8.4	5.8	5.4	6.4
Money and credit [m]									
Domestic credit	38.4	38.2	39.0	36.8	33.3	32.2	33.1	34.1	32.9
To the public sector	10.9	11.1	11.4	10.6	10.1	8.7	8.5	8.3	8.2
To the private sector	15.7	12.9	14.3	14.0	13.2	14.5	16.9	18.4	17.4
Others	11.8	14.2	13.3	12.0	9.7	9.0	7.8	7.4	7.2
Liquidity (M3)	39.1	43.3	44.4	45.6	45.0	48.6	49.5	50.4	54.8
Currency outside banks and local-currency deposits (M2)	37.8	41.6	42.9	44.4	43.6	47.1	48.1	49.2	53.4
Foreign-currency deposits	1.3	1.7	1.5	1.2	1.4	1.5	1.4	1.3	1.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Up to 2003, based on figures in local currency at constant 1993 prices. From 2004 onward, based on figures in local currency at constant 2003 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population, urban areas.
[h] Percentage of the economically active population, urban areas.
[i] Cost of term deposits in local currency in the multibanking system.
[j] Lending rate published by IMF.
[k] Does not Include non-budgeted expenditure.
[l] Federal-government domestic debt.
[m] The monetary figures are end-of-year stocks.

for Mexican-produced vehicles (70.8% of the total), but sales to this market dropped by 2.4%.

Economic activity continued to trend downwards in the first few months of 2009; GDP fell by 8.2% in real terms in the first quarter, owing in large measure to the United States recession, which caused a 29% decrease in manufacturing exports. Domestic spending lagged as a result of downturns in employment, purchasing power, consumer lending and remittances from workers abroad (which dropped off by almost 5.0% in the first quarter of 2009). Gross fixed capital investment also tumbled, in both machinery and equipment and construction.

Manufacturing slipped by 13.8% in the first quarter of 2009, with the sharpest declines in transportation equipment (-38.3%) and computer equipment, electronic components and accessories and other equipment (-29%). The only branches in which production did not suffer were food and beverages and tobacco, which posted growth rate of only 0.1% and 0.3%, respectively. Reflecting the crisis in the United States automobile industry, vehicle production in Mexico contracted by 42.3% in January-April 2009 with respect to the year-earlier period, and exports fell by 40.7%.

(b) Prices, wages and employment

The December-December inflation rate rose to 6.5% in 2008 (2.7 percentage points higher than in 2007), mainly owing to sharp international price rises for food commodities, metals and energy. The depreciation of the peso beginning in September helped fuel the rise in inflation in late 2008 and early 2009.

Year-on-year inflation was 6.2% in April 2009. This increase can be traced to patterns in non-core inflation, in which agricultural products —especially fruits and vegetables— recorded the sharpest price rises; thus, non-core inflation showed a year-on-year variation of 7.8%, while the core price index stood at 5.8%. A drop in inflation is anticipated in the coming months, which could bring average annual inflation to around 4.5%.

The nationwide open unemployment rate rose from 3.7% in 2007 to 4.0% in 2008, and was higher for women than for men (4.1% and 3.9% respectively). More than 12 million people currently work in the informal sector, which is equivalent to 28.1% of the employed population.

On average in 2008, nearly 280,000 workers registered with IMSS (an indicator of formal employment), which

Table 2
MEXICO: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	3.0	3.0	3.5	3.7	2.6	2.9	1.7	-1.6	-8.2	...
Goods exports, f.o.b. (millions of dollars)	60 269	67 656	70 269	73 681	70 084	79 403	78 467	63 389	50 067	...
Goods imports, f.o.b. (millions of dollars)	62 723	70 112	72 779	77 362	71 732	80 268	84 894	71 709	51 957	...
Gross international reserves (millions of dollars)	75 851	77 934	82 168	87 211	91 134	94 045	98 863	95 302	85 636	83 173 [c]
Real effective exchange rate (index: 2000=100) [d]	104.6	105.9	106.8	106.0	106.1	104.0	102.0	120.4	129.6	120.7 [c]
Unemployment rate	5.1	4.5	5.1	4.7	4.9	4.3	5.2	5.2	6.4	...
Consumer prices (12-month percentage variation)	4.2	4.0	3.8	3.8	4.2	5.3	5.5	6.5	6.0	5.7
Average nominal exchange rate (pesos per dollar)	11.0	10.9	11.0	10.9	10.8	10.4	10.3	13.1	14.4	13.3
Average real wage (variation from same quarter of preceding year)	1.4	0.2	0.4	0.9	0.5	0.6	1.5	0.9	0.8	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	5.8	5.9	6.0	6.2	6.4	6.5	…	7.2	6.7	5.2
Lending rate [f]	7.4	7.5	7.6	7.8	7.9	7.9	8.5	10.5	9.9	7.8 [c]
Interbank rate	7.4	7.6	7.7	7.9	7.9	8.0	8.5	8.7	8.0	5.9
Sovereign bond spread (basis points) [g]	99	95	112	149	168	172	252	376	379	233
Stock price index (national index to end of period, 31 December 2000=100)	509	551	536	523	547	520	440	396	347	431
Domestic credit (variation from same quarter of preceding year)	11.0	11.8	14.5	11.1	4.2	8.2	2.5	4.1	14.1	...
Non-performing loans as a percentage of total credit	2.2	2.3	2.5	2.5	2.5	2.8	3.0	3.2	3.4	3.6 [h]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2003 prices.
[c] Data to May.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Cost of term deposits in local currency in the multibanking system.
[f] Lending rate published by IMF.
[g] Measured by JP Morgan's EMBI+ index.
[h] Data to April.

is equivalent to a 2.0% increase, but between April 2008 and April 2009, 484,000 formal jobs were lost. In April 2009 alone —when the health emergency occurred— just over 31,000 jobs were lost, with 21,421 in manufacturing, followed by commerce and business, personal and household services, which lost 6,773 and 3,197 workers respectively.

Following a virtual standstill in 2007, and continuing the negative trend seen for several years, employment levels in manufacturing fell by 2.4% in 2008 and labour productivity rose by 2.5%. Average real wages in the economy as a whole grew by 0.9%, slightly less than the year before, and unit labour costs fell by 1.5%.

(c) The external sector

In value terms, export growth was less buoyant in 2008: 7.2% as compared with 8.8% in 2007. Oil exports climbed by 17.8% and non-oil exports by 5.2%. As in 2007, exports of the extractive industries were the fastest-growing (11.2%), while agricultural and manufacturing exports jumped 6.5% and 5.1%, respectively.

Goods imports rose by 9.5% thanks to increases in consumer goods, intermediate goods and capital goods (11.3%, 7.9% and 16.4%, respectively). This led to a widening of the trade gap in 2008 to US$ 17 billion (1.6% of GDP), which was US$ 7 billion more than in 2007.

Not including petroleum, the trade deficit grazed US$ 68 billion (6.2% of GDP). Thanks to higher oil prices, the terms of trade improved by 3.7% in 2008.

The balance-of-payments current account deficit was larger than in 2007 and closed at 1.5% of GDP. This result resulted from a combination of deficits in the trade balance (US$ 17.261 billion), the non-factor services balance (US$ 7.005 billion) and the factor services balance (US$ 17.152 billion) and a current transfers surplus of US$ 25.461 billion, of which remittances accounted for US$ 25.137 billion (a 3.6% drop compared with 2007).

The downtrend in trade worsened in early 2009. Exports plunged by 30.5% in the first four months, owing to the worsening economic situation in the United States (the destination market for 80% of Mexico's exports) and to lack of financing for production. This contraction in exports, along with sluggish domestic demand, led to an almost 31% drop in imports. Thus, in the first four months of 2009, the trade deficit stood at US$ 1.681 billion, 39% smaller than in the same period of 2008. When oil exports are excluded, however, the deficit was US$ 9.079 billion, 56% smaller than the same period in 2008.

The financial account recorded a surplus of US$ 23.163 billion, thanks to income from FDI, paydowns of external debt by the non-bank private sector and external financing of Projects with a Deferred Impact on Public Expenditure Recording (PIDIREGAS).[1] In terms of outlays, outgoings included international debt paydowns by the public sector and commercial banks, portfolio investment outflows and an increase in assets held abroad by Mexican residents.

FDI inflows were 20% down on the 2007 figure and net FDI stood at US$ 21.264 billion. This type of investment went chiefly to manufacturing (29%) and extraction activities (20%), and the main investors were the United States (41% of the total), Spain (20%) and Canada (11%). In the first quarter of 2009, FDI inflows totalled US$ 2.663 billion, 36.5% less than in the previous year, while outward investment amounted to US$ 2.939 billion. Net FDI in this period was thus negative by US$ 273 million. Total FDI for 2009 is expected to come to some US$ 15 billion.

1 Refers to extra-budgetary financial transactions.