Mexico

For 2020, the Economic Commission for Latin America and the Caribbean (ECLAC) forecasts that Mexico's GDP will fall by 9.0% (compared with a 0.1% drop in 2019), the largest contraction in the country's economic activity since 1932, with declining domestic supply and demand being compounded by lower economic activity around the world, and particularly in the United States.
Inflation of 3.5% and an unemployment rate of 5.1% are expected for 2020. The fiscal deficit of the non-financial public sector is forecast to come in at 2.9% of GDP, forcing the authorities to abandon the goal of a primary surplus of 0.7% of GDP and settle for one of 0.1% of GDP, while the balance-of-payments current account is expected to be in surplus by 1.5% of GDP.

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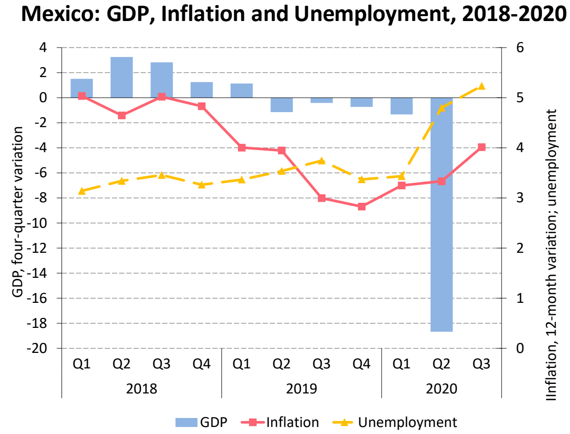
On 30 March 2020, the Board of Health declared a health emergency in Mexico. On 21 April, the Ministry of Health declared the start of phase 3 of the response to the coronavirus disease (COVID-19), decreed the temporary closure of parks, stadiums, bars, beaches and places of worship, and restricted mobility. The government implemented various economic and social instruments to counteract the negative impact of the health crisis. Fiscal support has been the equivalent of 1.1% of GDP and has been financed by reallocating fiscal resources, without taking on any additional debt beyond what was planned. Economic activity in the country began to resume gradually on 1 June, in a context where infection rates were still high.

In April 2020, as a result of the health crisis, total non-financial public sector (NFPS) budget revenues contracted by 19.0% in real terms year on year. The declines in May and June were 23.1% and 6.9%, respectively. In the period from January to October 2020, these revenues were down by 4.9% in real terms compared with the same period in 2019 owing to a collapse in oil revenues (-42.9%), even though an increase in non-oil revenues (3.1%) partially offset this (some of these resources came from the Budgetary Revenue Stabilization Fund (FEIP)). Meanwhile, net public sector budgetary expenditure decreased by 2.0% in real terms. This was the result of lower capital expenditure (-8.2%), as current expenditure remained unchanged (0.0%) and public sector financing costs increased (1.9%). The public deficit was 105.5% higher in real terms in the first 10 months of 2020 than in the same period of 2019.

Mexico: GDP, Inflation and Unemployment, 2018-2020



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

On 18 March 2020, the Chamber of Deputies approved the creation of the Emergency Prevention and Response Fund, totalling 180.733 billion pesos (0.7% of GDP), to deal with the COVID-19 pandemic. To raise these resources, the target of a primary surplus equivalent to 0.7% of GDP originally set for the government in the 2020 General Economic Policy Criteria (GEPC) was completely abandoned.

Debt is expected to represent at least 56.0% of GDP in 2020 (as compared with 45.5% of GDP in 2019), mainly because of exchange-rate depreciation and the contraction of economic activity, even if no further public debt is taken on.

In September 2020, the government had 114.67 billion pesos (equivalent to US$ 5.368 billion) in the public finance stabilization funds, 52.2% less than at the end of 2019. In 2020, almost all these resources and those in various trusts (accounted for as non-oil non-tax revenues) will be used to offset the loss of federal government revenue due to the reduction in economic activity resulting from the pandemic.

Mexico: main economic indicators, 2018-2020

	2018	2019	2020 [a]
	Annual growth rate		
Gross domestic product	2.2	-0.1	-9.0
Per capita gross domestic product	1.1	-1.1	-10.0
Consumer prices	4.8	2.8	4.0 [b]
Real average wage [c]	0.8	2.9	3.7 [b]
Money (M1)	9.8	5.2	15.9 [d]
Real effective exchange rate [e]	-0.6	-3.1	10.1 [b]
Terms of trade	-0.4	2.2	-2.7
	Annual average percentage		
Open urban unemployment rate	3.3	3.5	4.5
Public-sector			
Overall balance / GDP [f]	-2.0	-1.7	...
Nominal deposit rate [g]	6.7	7.2	5.4 [b]
Nominal lending rate [h]	28.3	30.3	31.1 [i]
	Millions of dollars		
Exports of goods and services	480 096	492 735	192 630 [j]
Imports of goods and services	505 052	495 794	194 977 [j]
Current account balance	-25 340	-4 364	-2 292 [j]
Capital and financial balance [k]	25 823	7 002	13 147 [j]
Overall balance	483	2 638	10 855 [j]

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/ Figures as of March.
j/ Cumulative figures to the second quarter of 2020.
k/ Includes errors and omissions.

In February 2020, the one-day interbank interest rate, which is the Bank of Mexico's benchmark rate, was cut by 25 basis points to 7.0%. Given the sharp fall in international oil prices at the start of the year and the spread of the COVID-19 pandemic, the board of directors of the Bank of Mexico decided to lower this rate by a further 50 basis points on five occasions (March, April, May, June and August 2020) and 25 basis points in September, bringing it down to 4.25%, its lowest level since June 2016. In addition, the Bank of Mexico adopted measures worth 750 billion pesos (equivalent to 3.3% of GDP) in 2020 to promote the orderly functioning of financial markets in the face of the pandemic, strengthen lending channels and provide liquidity to the financial system.

In October 2020, the commercial banking sector's outstanding portfolio of credit to the private sector showed a year-on-year decline of 2.5% in real terms, associated with a drop in consumer lending (-10.9%) and loans to companies and individual traders (-1.2%). Mortgage lending rose slightly (4.7%).

Also in September 2020, the average lending interest rate for credit cards and mortgage loans was a nominal 29.8% (equivalent to 24.8% in real terms, 2.5 percentage points lower than in the same month of 2019). Meanwhile, the deposit rate, defined as the average cost of term deposits at commercial banks, was a nominal 4.3% (equivalent to 0.3% in real terms, which was 3.8 percentage points lower than in the same month of 2019).

In the first half of 2020, Standard & Poor's, Fitch Ratings and Moody's Investors Service all downgraded the credit rating of Petróleos Mexicanos (PEMEX) and the country's sovereign debt. This adjustment was made because the spread of COVID-19 in Mexico and the United States, its main trading partner, coupled with the fall in international oil prices, was expected to have a large negative impact on the economy.

From January to July 2020, the peso was hit hard by the health crisis. By the end of July 2020, the exchange rate against the dollar had weakened to 22.2 pesos per dollar from 18.9 pesos at the close of 2019, a change equivalent to a nominal depreciation of 17.7%. From August to November there was a modest appreciation, bringing the exchange rate to 20.1 pesos per dollar. Before this, in March 2020, the Foreign Exchange Commission had announced that the size of the peso hedge programme would be increased from US$ 20 billion to US$ 30 billion with the aim of protecting the orderly functioning of the currency market. That same month, the Bank of Mexico and the Federal Reserve announced the creation of a currency swap mechanism worth up to US$ 60 billion in order to support the provision of United States dollar liquidity on Mexico's interbank market. This mechanism will be operative until 31 March 2021.

The central bank reported that the international reserves balance stood at US$ 194.359 billion on 4 December 2020, up 7.5% from the end of 2019. In addition, the flexible credit line of US$ 61 billion with the International Monetary Fund (IMF) is operational. This gave the central bank over US$ 315 billion to deal with exchange-rate and financial turbulence. The Bank of Mexico used some of these resources to hold dollar auctions with a view to buttressing the exchange rate of the peso against the dollar.

The Agreement between the United States, Mexico and Canada (USMCA) came into force on 1 July 2020, replacing the North American Free Trade Agreement (NAFTA) after 26 years of operation. In April 2020, Mexico and the European Union completed negotiations to modernize the free trade agreement in force since July 2000.

From January to October 2020, the value of total merchandise exports and imports declined at year-on-year rates of 12.6% and 18.8%, respectively. In the reference period, non-oil exports to the United States, which represented 82.1% of total exports, fell at an annual rate of 11.2%, while shipments to the rest of the world contracted by 12.0%. The trade balance thus presented a surplus of US$ 25.182 billion, well up on the US$ 1.507 billion for the same period in 2019. From January to October 2020, currency receipts from tourism, one of the sectors most affected by the pandemic, fell by 55.9% from the same period of 2019.

Family remittances sent to Mexico in the first 10 months of 2020 were a cumulative US$ 33.564 billion, 10.4% up on the figure for the same period in 2019. This performance was due to a wide range of factors, most particularly migrants' solidarity in the face of the health and economic crisis, greater use of electronic channels to send remittances, and currency depreciation.

The balance-of-payments current account was in surplus by US$ 12.909 billion in the first three quarters of 2020. This was equivalent to 1.2% of GDP and exceeded the deficit in the first three quarters of 2019, which represented 0.6% of GDP.

Net foreign direct investment in the first nine months of 2020 totalled US$ 17.478 billion, 18.3% less than in the same period of 2019. This negative performance owed something to the pandemic, but also to the uncertainty created by recent public policy decisions that have directly affected FDI projects in the areas of energy, airports and beverage manufacturing, among others.

GDP is estimated to have fallen by a seasonally adjusted 9.8% in the first three quarters of 2020 compared to the same period in 2019. Primary activities expanded by 2.7% annually, while tertiary and secondary activities declined by 8.8% and 12.6%, respectively. From January to September, private consumption fell by an average of 12.3% year on year and gross fixed investment by 20.6%.

Year-on-year inflation was 3.3% in November 2020, compared to 3.0% in the same month of 2019, owing to increases in the prices of certain agricultural products, medical inputs, medications, petrol and public services, and to currency depreciation.

From January to October 2020, there was a net loss of 518,609 formal jobs registered with the Mexican Social Security Institute (IMSS) relative to the end of 2019. In 2020, the general minimum wage increased by 20.0%, from 102.68 to 123.22 pesos per day, the largest annual increase in 44 years. The wage on the northern border increased by 5.0%.

For 2021, ECLAC forecasts that Mexico's GDP will increase by 3.8%, mainly owing to a gradual recovery in economic activity. A slow roll-out of a vaccine against COVID-19 could mean lower GDP. Inflation is expected to be around 3.5% and the unemployment rate around 4.8%. The fiscal deficit of the non-financial public sector is expected to come in at about 2.9% of GDP (with a primary balance of 0.0% of GDP) and the balance-of-payments current account deficit at 1.0% of GDP.