

Mexico

Country Report

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Country Snapshot

Government

Head of State	Enrique Peña Nieto
Ruling party	Institutional Revolutionary Party (PRI)
Main opposition parties	National Action Party (PAN), the Party Dem. Ver. (PRD)
Elections	Last Pres. elections were held in 2012. Next elections due in 2018.

Demographics and social indicators

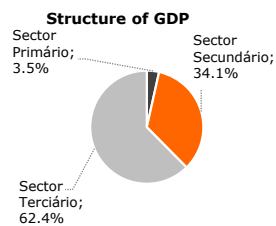
Population	121.7 million (CIA, est.2015)
Main Language	Spanish (92.7%)
Life expect. at birth	75.65 years (CIA, est.2015)
Literacy %(adults>15)	95.1% (CIA, est.2012)
Urban population	79.2% (CIA, 2015)

Economic structure

GDP USD bn	1,297.9 (2015)
GDP per capita USD	9,009.3 (2015)

GDP structure (% of the nominal VAB)

Primary Sector	3.5%
Secondary Sector	34.1%
Tertiary Sector	62.4%



	1980-89	1990-99	2000-09	2010-15
Real GDP growth*	2.4%	3.5%	1.8%	3.2%

* Average growth rates from the WEO (IMF)

Trade Structure - Main partners by destination/origin

Exports		Imports	
	% of total		% of total
USA	81.2%	USA	47.4%
Canada	2.8%	China	17.7%
China	1.3%	Japan	4.4%
Brazil	1.0%	Rep. Of Korea	3.7%
Colombia	1.0%	Germany	3.5%

Source: ITC

Trade structure - Top product groups

Exports		Imports	
	% of total		% of total
Transport equipment	23.7%	IT & consum. Electron.	22%
IT & consum. Electron.	21.3%	Machines	17%
Machines	15.5%	Vehicles	9%
Mineral fuels	6.0%	Mineral fuels	7%
Optical instr.	4.0%	Plastics	6%

Source: ITC



Country Rating

	Rating	Last change	Outlook
S&P	BBB+	Dec 2013	Stable
Moody's	A3	Feb 2014	Negative
Fitch	BBB+	May 2013	Stable

Business Development Indicators

	Last update
Global Competitiveness Index	
Ranking 57 (out of 140 countries)	2016 ↑
Ease of Doing Business	
Ranking 38 (out of 189 countries)	2016 ↑
Human Development Index	
Ranking 74 (out of 188 countries)	2015 ↓
Corruption Perceptions Index (Transparency.org)	
Ranking 95 (out of 168)	2015 ↑

General assessment

Strengths	Weaknesses
<ul style="list-style-type: none"> Structural reforms Comfortable international reserves Strong fiscal position Diversified economy, with a relatively developed manufacturing industry Strong ties with the US 	<ul style="list-style-type: none"> High inequalities Weak infrastructures Open economy and capital account significantly exposed to external developments Exposed to oil prices

Outlook and Risks

Economic growth should decelerate in 2016 to 2.4%, resulting from the slowdown in the US economy, with which it experiences a significant correlation
 Main risks to economic activity include: further economic slowdown in the US; increased volatility in the markets and impact in capital flows; drop in national oil production and/or further drop in international oil prices; drop in Chinese demand for Mexican exports.

Key Macroeconomic Indicators

	Source	2011	2012	2013	2014	2015 E	2016 P
GDP (real % change)	IMF	4.0%	1.3%	2.3%	2.5%	2.5%	2.6%
Nominal GDP (pesos bn)	IMF	15,626.9	16,116.1	17,251.6	18,135.7	19,445.8	20,637.1
Nominal GDP (USD bn)	IMF	1,186.6	1,261.8	1,297.9	1,144.3	1,082.4	1,166.6
Unemployment rate	IMF	4.9%	4.9%	4.8%	4.3%	4.0%	3.9%
Per capita GDP (USD)	IMF	9,720.6	10,197.5	10,350.9	9,009.3	8,414.9	8,958.5
CPI (% change, anual avg.)	IMF	4.1%	3.8%	4.0%	2.7%	2.9%	3.0%
Trade balance (USD million)	IIF	18.3	-1,195.1	-2,848.5	-14,609.5	-16,293.5	-16,782.3
Exports of Goods (USD million)	IIF	370,769.9	380,015.1	397,128.7	380,624.0	373,011.5	384,201.9
Imports of Goods (USD million)	IIF	370,751.6	381,210.2	399,977.2	395,233.5	389,305.0	400,984.1
Balance on Services, Income and Transf.(USD million)	IIF	-16,382.2	-29,274.1	-21,996.4	-17,264.7	-17,873.0	-18,382.0
Current account balance (% GDP)	IMF	-1.4%	-2.4%	-1.9%	-2.8%	-2.6%	-2.6%
Fiscal balance (% of GDP)	IMF	-3.8%	-3.7%	-4.6%	-4.1%	-3.5%	-3.0%
Public Debt (% of GDP)	IMF	37.7%	40.4%	43.2%	47.6%	48.6%	48.6%
External Debt (% GDP)	IIF	29.3%	31.7%	33.8%	39.5%	45.2%	45.7%
Mexican peso/USD (period average)	IIF	13.2	12.8	13.3	15.9	18.0	18.0
International Reserves (USD million)	IIF	160,413	175,432	190,923	173,975	172,966	177,934
in months of imports of goods and services	IMF	4.4	4.5	4.8	4.4	4.4	4.4

Sources: IMF, World Bank, CIA factbook and IIF

* World Bank classification - Poverty headcount ratio at national poverty lines (% of population)

Economic activity supported by structural reforms

Mexico has a large and well diversified economy, with manufacturing industry weighing around 17% on the GDP (mostly related to the automotive sector). Furthermore, Mexico has a relatively open economy, well integrated in the global trade, and therefore relatively exposed to external developments and in particular to the developments in the USA economy. As a result economic growth decelerated somehow in 2013/2014, but has recovered successfully against a complicated global environment. The economy has, nevertheless, grown a mere 2.5% in 2015, supported by the American economic recovery. For 2016, the IMF is anticipating a mild deceleration of economic activity, still benefiting from trade with the US and a favourable behaviour of domestic demand. Nevertheless, the fragile industrial production in the US and the economic transformation in China are factors that put the evolution of Mexican economic activity at risk. Since 2014, Mexico has been pursuing a number of reforms aimed at improving the competitiveness of its economy and its growth potential in various sectors of activity (energy, telecommunications, competition law, labour market and financial services). As a matter of fact, effects are being felt already, namely in the prices of telecommunications, and the opening of this sector to foreign investors, the increase in competition in the banking sector, and the auctioning of oil blocs. In general, there is hope that the consequences of these reforms can stimulate the growth potential of the Mexican economy in the medium term.

Inflation remains at low levels

The levels of inflation have been kept well anchored, near the target of 3% determined by the Central Bank, despite a depreciation of the domestic currency, whose effects to the price level have been limited so far. The inflation rate decreased from 4.0% in 2014 to 2.7% in 2015, mostly due to one-off causes (lower prices in telecommunications, mild adjustments to administrative fuel prices, absence of effects from tax increases enacted in 2014). This has allowed the Central Bank to maintain an accommodative policy throughout 2015, keeping the interest rate at 3% for almost all of the year, which helped support economic growth. However, the reference rate was increased to 3.25% in December, and raised various times in 2016, standing now at 4.25%. The goal of this policy is to avoid that the depreciation of the domestic currency observed in the last few months (3% in the first seven months of the year; 16% in total in 2015) should translate into a deviation upwards of inflation, in comparison with the goal of 3%.

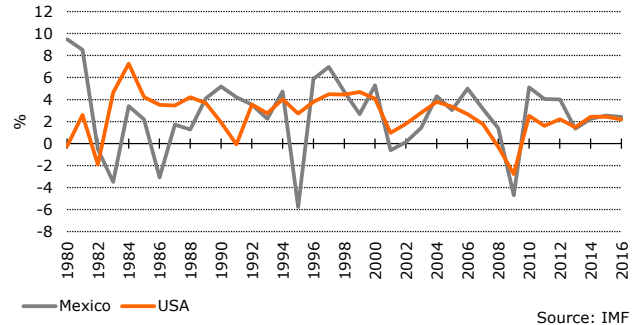
Sustainable public finances, albeit restricted

Fiscal position is relatively strong, and fiscal policies have been prudent with low fiscal deficits and sustainable debt ratios (in comparison with other Latin American countries). The budget deficit has decreased in the last year to 4.1% of the GDP, despite the impact of the fall in oil prices to the collection of fiscal revenue. The Executive benefitted still from the effects of a tax reform applied in 2013, which allowed for a larger than expected revenue, mainly due to vehicle and income taxes. In addition, the Government has shielded itself from the risk of a lower oil price regarding a possible fall in export revenues. The IMF expects the budget balance to improve this year, result of the commitment of the Mexican authorities to a fiscal consolidation path, namely through rationalizing public spending.

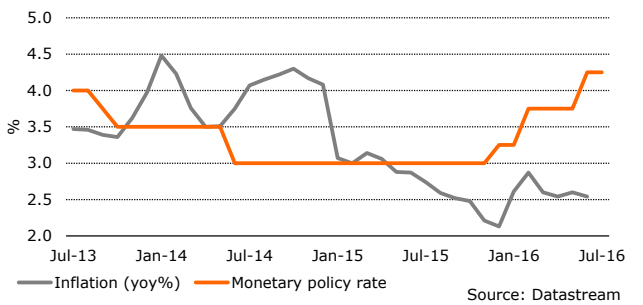
Economy dependent on external developments

The external sector is one of the main engines of Mexican economic growth. The trade balance typically shows a slight deficit in percentage of the GDP, while the balance of services and primary income shows a larger negative imbalance. and the the balance of secondary income normally shows a relatively large surplus, (resulting from the sizable amount of remittances sent by Mexicans abroad - 6% of all good imports in 2015). The current account posted a deficit close to 3% of the GDP, but the IMF expects this figure to decrease throughout this year. The exchange rate has been pressured since mid-2014, due to the evolution of oil prices and the appreciation of the USD against emerging currencies. Moreover, this could also reflect the perspectives of lower investment in the Mexican oil sector, according to the IMF.

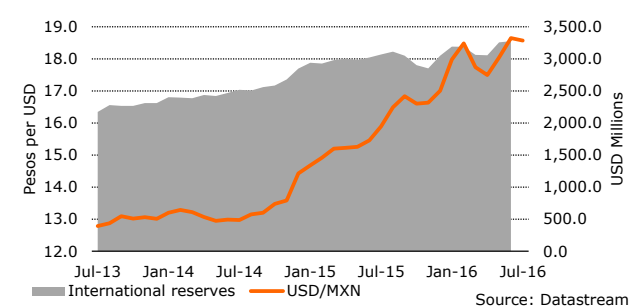
Economic growth



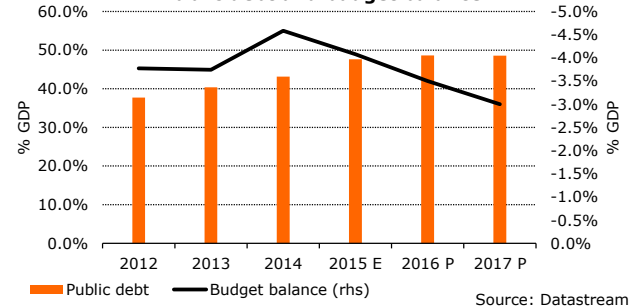
Inflation and monetary policy



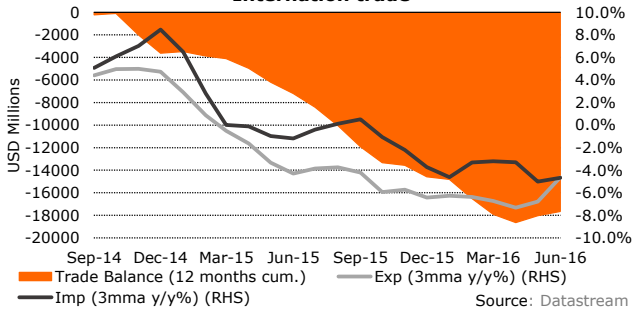
International reserves and exchange rate



Public debt and budget balance



International trade



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