

TABLE OF CONTENTS

ASSESSMENT AND RECOMMENDATIONS.....	8
I. FOSTERING FASTER GROWTH.....	16
Introduction	16
Why has Mexico's growth not been stronger over the past decade?	16
Mexico's growth performance.....	16
The positive contribution from relatively high employment growth.....	19
... is largely offset by weak gains in productivity	19
On the demand side, growth has been export-led.....	26
Recent economic developments and prospects	29
Recent trends in perspective	29
Short-term prospects and risks.....	30
The challenge is to boost medium-term growth.....	31
Medium-term growth prospects are unsatisfactory... ..	31
...they would be boosted by forceful action in key areas.....	32
II. CHALLENGES AHEAD FOR MACRO-ECONOMIC POLICY AND THE FINANCIAL SECTOR....	34
Fiscal policy	34
Fiscal policy in the short run	34
There is no room for manoeuvre on fiscal policy.....	41
Strengthening the fiscal position should not be delayed.....	42
Setting fiscal policy in a medium-term framework	46
Monetary policy	48
The monetary stance remains cautious	48
The monetary framework has been strengthened	50
Monetary policy in the medium-term	51
Is the financial system in shape to resume broad-based and sound lending to the private sector?	52
The health of the banking sector and the regulatory framework have continued to improve.....	52
Strengthening and developing alternative sources of financial intermediation	54
Developing the domestic financial market	55
III. STRUCTURAL REFORMS FOR SUSTAINING HIGH GROWTH	56
Enhancing human capital	56
The new challenges ahead for the education system	58
Current reforms and further options to improve human capital	61
Towards a more efficient labour market	64
Labour market performance and issues	64
Making the formal market more attractive	69
The reform under discussion	72
Strengthening competition policy and moving forward on the regulatory reform agenda.....	74
Reinforcing the institutional design.....	74
Progress in sectoral reforms.....	74
Fostering entrepreneurship, investment and new technology diffusion.....	78
Sustainable development in Mexico.....	85
Air pollution	86
Sustainable management of natural resources: water	91
Water pollution	94

IV. MIGRATION: THE ECONOMIC CONTEXT AND IMPLICATIONS	97
Introduction	97
Characteristics of migration in Mexico	97
Emigration has been growing	97
The emigrant profile is changing	100
Migration policies	103
Emigration from Mexico to the United States	103
Immigration	105
Economic aspects of migration	106
Labour market and human capital	106
Fiscal impacts	111
The cost of smuggling	111
Remittances	112
Conclusions	119

Notes

Bibliography

Annexes

- I. Background information to Chapter I
 - I.A. Output growth and productivity: figures and tables
 - I.B. The transition of the agricultural sector
 - I.C. Recent economic developments
 - I.D. Poverty alleviation
- II. Background information on fiscal policy
- III. Background information to chapter III
 - III.A. Education programmes
 - III.B. Existing support to job search
 - III.C. The recent development of e-Mexico
- IV. Background information to chapter IV
- V. Chronology of main economic events

Boxes

- Box 1. The informal labour market
- Box 2. *Maquiladoras* exporting industries
- Box 3. Poverty alleviation
- Box 4. The public sector debt and its management
- Box 5. The oil stabilisation fund
- Box 6. PIDIREGAS and other investment projects involving private investors
- Box 7. The *corto/largo* mechanism and recent changes
- Box 8. Main characteristic of unemployment insurance savings accounts in Chile
- Box 9. Key features of the labour law reform proposal
- Box 10. Summary of assessment and recommendations
- Box 11. The integration of policies across sustainable development areas

Annex

Annex I.B. The *ejido* sector

Annex II. Main changes to the tax regime 2002-2003

Annex III.C. The goals of e-Mexico

Tables

- Table 1. Sources of growth in real GDP per capita: selected OECD countries
- Table 2. Determinants of labour force growth
- Table 3. Change in the trade specialisation of Mexico
- Table 4. Short-term outlook
- Table 5. Public sector financial accounts
- Table 6. Performance of education programmes in 2001/2002
- Table 7. Active labour market policies
- Table 8. Social contributions and fringe benefits
- Table 9. Percentage of days above national air quality standards 2001 for selected Mexican cities
- Table 10. Ambient air quality: an international comparison
- Table 11. Underground water use by region
- Table 12. Pollution status of river basins
- Table 13. Characteristics of Mexico-born migrants compared with Mexico's and US' populations
- Table 14. Households and remittances

Annex

- Annex I.A. Table 1. GDP growth in OECD countries
- Annex I.A. Table 2. Intra-firm trade of the United States, with selected trading partners
- Annex I.A. Table 3. Manufacturing intra-industry trade
- Annex I.C. Table 1. Demand and output
- Annex I.C. Table 2. Indicators of investment activity
- Annex I.C. Table 3. Aggregate saving and investment
- Annex I.C. Table 4. Labour market indicators
- Annex I.C. Table 5. Current external account
- Annex I.C. Table 6. Capital account and the balance of payments
- Annex I.D. Table 1. Socioeconomic Indicators by States, 2000
- Annex I.D. Table 2. Poverty indicators, 2000
- Annex II. Table 1. Federal government budget
- Annex II. Table 2. Public enterprises under budgetary control: financial accounts
- Annex II. Table 3. Public expenditure by sector
- Annex III.C. Table. Some e-government applications

Figures

- Figure 1. Mexico's output and growth performance in comparison
- Figure 2. GDP and private consumption levels in selected OECD countries
- Figure 3. Productivity in the non-farm sector
- Figure 4. Labour productivity in the manufacturing sector
- Figure 5. Fixed investment ratios and their main components
- Figure 6. Foreign trade and the current account
- Figure 7. Real effective exchange rates
- Figure 8. Activity in the United States and Mexican exports

- Figure 9. Public sector budget aggregates
- Figure 10. Fiscal consolidation in selected OECD countries
- Figure 11. Total net debt of the public sector
- Figure 12. Oil prices and budget assumptions
- Figure 13. Tax revenue and the level of income in comparison
- Figure 14. Inflation objectives
- Figure 15. Monetary policy actions
- Figure 16. Mexican monetary conditions index
- Figure 17. Recent trends in domestic credit to the private sector
- Figure 18. Educational attainment of the population in OECD countries
- Figure 19. Student performance in selected countries
- Figure 20. Expenditure on education in OECD countries
- Figure 21. Tax wedge on labour in OECD countries
- Figure 22. Average tax wedge by level of income, 2002
- Figure 23. Wage distribution in Mexico
- Figure 24. Aggregate infrastructure indicators in OECD countries
- Figure 25. Telecommunication networks in OECD countries
- Figure 26. Telecommunication prices in OECD countries
- Figure 27. World competitiveness indicators in selected countries
- Figure 28. Governance indicators
- Figure 29. Ambient air quality for three metropolitan areas
- Figure 30. Infant mortality from water infectious intestinal diseases
- Figure 31. Migration flows between Mexico and the United States
- Figure 32. Net immigration and natural increase of population in selected OECD and non-OECD countries
- Figure 33. Gross immigration flows of Mexicans in the United States by legal status
- Figure 34. Hourly pay in manufacturing - Mexico and the United States
- Figure 35. The Mexican labour force in the United States
- Figure 36. Smuggler use rates and fees
- Figure 37. Workers' remittances
- Figure 38. Remittances and federal public transfers in the traditional states of emigration, 2001

Annex

- Annex I.A. Figure 1. Per capita GDP in the OECD countries, 2000
- Annex I.A. Figure 2. Employment data
- Annex I.A. Figure 3. Total and non-structured GDP
- Annex I.A. Figure 4. Size of the ICT industry in selected OECD countries
- Annex I.C. Figure 1. Wages, labour productivity and unit labour costs
- Annex I.C. Figure 2. Unemployment in urban areas