MEXICO

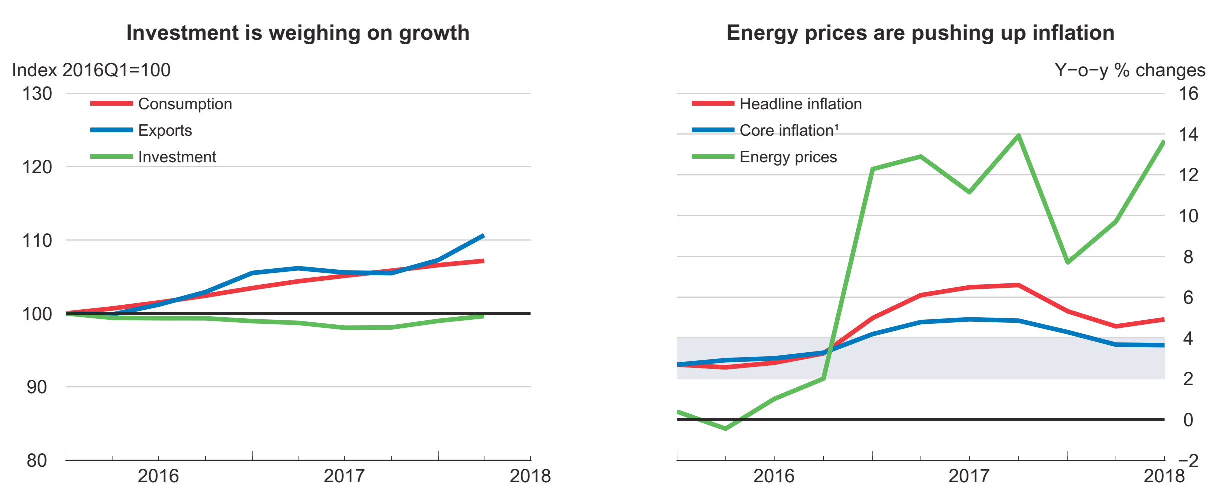
Growth is projected to pick up to 2¾ per cent by 2020. Low unemployment, strong remittances and the recovery of real wages will support household consumption. Investment, which has been persistently low, will strengthen on the back of announced public investment plans and increased confidence associated with the US-Mexico-Canada trade agreement. Export growth will decline owing to less favourable global conditions, especially in the United States. Inflation has been pushed up by rising energy prices, but expectations and core inflation remain anchored and within the central bank's target band. Informality is declining slowly but remains elevated, contributing to persistently high inequalities and low productivity.

Monetary policy is projected to ease slightly as inflation gradually moderates. Risks to inflation are considerable, stemming from energy prices and renewed peso depreciation pressures. Inflation expectations remain well anchored. The authorities would need to raise interest rates should these risks produce higher inflationary pressures. Maintenance of fiscal discipline is important to keep the debt-to-GDP ratio on a declining path. However, large social needs may require better targeting of expenditures and increasing currently low tax collection. Broadening the tax base and changing the mix could also reduce informality.

Domestic consumption and strong exports are driving growth

The economy has continued to benefit from strong external demand, particularly in the United States. Low unemployment and greater job formalisation, especially in the expanding tertiary sector, strong remittances and the recovery of real wages are supporting household consumption. Investment has remained subdued owing to fiscal consolidation and persistent uncertainty about the future course of policies and trade agreements. Declining oil production continues to be a drag on growth. The disinflation process that started early in 2018 has been temporarily reversed due to continuous increases in energy

Mexico



1. Core inflation excludes energy, agricultural, and administered prices.
Source: OECD Economic Outlook 104 database; and Central Bank of Mexico.

StatLink http://dx.doi.org/10.1787/888933877050

Mexico: **Demand, output and prices**

	2015	2016	2017	2018	2019	2020
	Current prices MXN billion	Percentage changes, volume (2013 prices)				
GDP at market prices	18 562.5	2.6	2.3	2.2	2.5	2.8
Private consumption	12 167.2	3.5	3.3	2.6	2.2	2.5
Government consumption	2 287.9	2.3	0.1	2.3	1.2	1.2
Gross fixed capital formation	4 179.1	1.1	-1.5	2.7	2.3	3.3
Final domestic demand	18 634.2	2.8	1.8	2.6	2.1	2.6
Stockbuilding[1]	309.0	0.1	-0.1	-0.1	-0.1	0.0
Total domestic demand	18 943.2	2.8	1.7	2.4	1.9	2.5
Exports of goods and services	6 410.1	3.5	3.9	7.6	6.0	5.3
Imports of goods and services	6 790.7	2.4	7.0	5.9	3.9	4.5
Net exports[1]	- 380.6	0.3	-1.3	0.5	0.8	0.3
Memorandum items						
GDP deflator	_	5.5	6.0	5.7	5.6	4.6
Consumer price index	_	2.8	6.0	4.9	4.2	3.4
Core inflation index[2]	_	3.0	4.7	3.8	3.6	3.4
Unemployment rate[3] (% of labour force)	_	3.9	3.4	3.3	3.3	3.2
Public sector borrowing requirement[4]	_	-0.5	-1.1	-2.5	-2.4	-2.4
Current account balance (% of GDP)	_	-2.2	-1.7	-2.0	-2.1	-2.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding volatile items: agricultural, energy and tariffs approved by various levels of government.
3. Based on National Employment Survey.
4. Central government and public enterprises. In 2016 and 2017, the public sector borrowing requirement includes the operating surplus of the central bank.

Source: OECD Economic Outlook 104 database.

StatLink http://dx.doi.org/10.1787/888933877981

prices. However, inflation expectations and core inflation remain stable and within the central bank's target band of 2-4%.

Lifting growth and well-being requires further policy actions

A strong macroeconomic framework underpins stable growth and resilience to external and domestic shocks. The tight monetary policy stance is appropriate in view of persistent upward pressures on inflation. However, in the absence of further shocks, inflation should ease gradually and monetary policy should have room to support credit and investment growth.

Fiscal policy commitments to put the debt-to-GDP ratio on a downward path are on track. However, the adjustment is being achieved by constraining public investment and social spending, which undermine longer-term growth and aggravate inequity. Therefore, announced plans to increase investment in infrastructure and strengthen social programmes are welcome, provided they can be implemented while maintaining fiscal discipline. Improving the quality of spending, by consolidating social programmes and reducing fragmentation in health systems, would allow for a more effective delivery of services. Increasing weak tax collection, by reducing evasion, eliminating exemptions, and making more use of property and green taxes, would raise equity and resources for priority spending.

Modest growth has not permitted significant reductions in high poverty and informality rates. The government has enacted an ambitious programme of structural reforms to boost investment, productivity and further job formalisation. Accelerating reform implementation across the country in key policy areas, such as judicial reforms, is crucial to improve the business environment. Maintaining a supportive business environment is necessary for the reforms to result in higher investment and growth rates. Continuing to enhance women's participation in the labour market, expanding access to good quality education, and reducing informality are all keys to boosting growth and well-being.

Growth is set to rise as risks have diminished but challenges persist

Growth is projected to pick up in the coming two years. Expected increases in real wages, low unemployment and high remittances will support domestic consumption. The US-Mexico-Canada trade agreement, once ratified, will clear the way for deferred private investment plans to go ahead. Announced public investment plans by the incoming administration will also strengthen growth. A projected slowdown in the US economy in 2020 will, however, restrain exports. A risk to the outlook is that an escalation of trade tensions more broadly will prevent deferred investment from materialising and reduce exports. Faster-than-expected tightening of global financial conditions could lead to capital outflows and exchange rate depreciation, which might prompt the central bank to raise interest rates to contain inflation. A positive risk is a faster implementation of oil investment plans, which would boost exports, improve the terms of trade and lower the energy trade deficit.