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- The persistently wide gap in GDP per capita relative to the most advanced OECD countries is driven primarily by the low level and growth rate of labour productivity. Total factor productivity growth was negative for some years after the financial crisis, but is showing signs of a pick-up following the recent reforms.
- Inequality has remained among the highest in OECD countries, due in particular to high poverty prevalence.
- Mexico has rolled out major macroeconomic and structural reforms in recent years that have led to important progress across a range of areas. Key laws and constitutional amendments were approved, and secondary laws or regulations passed. Progress has been made to make sectors such as energy and telecoms more open to competition. Institutional designs have been improved with the new Productivity Commission, a strengthened competition authority, and expanded sectoral regulators. Initial progress has been made with education and social benefits, although parts of this plan have run into difficulties.
- With very limited productivity gains over the recent years, it is essential to boost absorptive capacity in order to benefit from knowledge spillovers. Raising educational achievement, further reducing barriers to FDI and start-ups and strengthening innovation policies are needed to boost labour productivity and reduce inequalities. Full implementation of the reform package is essential, and a renewed push to boost anti-corruption efforts and to fight informality will help to make growth more inclusive.

Going for Growth 2017 priorities

Raise education achievement. Low levels of equity and efficiency in education hamper productivity and increase income inequality.

Actions taken: The education reform includes a legal framework for the professional development of teachers, principals and supervisors, and mandates a National Evaluation System, which is now in effect. Teacher evaluations have been performed in most states and they were made mandatory in 2016. New programmes were introduced in 2015 to improve school infrastructure, including through the introduction of Educational Infrastructure Certificates.

Recommendations: Improve both equity and efficiency by refocusing spending on pre-primary, primary and secondary education. Increase professionalisation of the education system, through teacher training programmes and merit-based organisational schemes, as a way to improve the quality of education.

Improve the rule of law. Weaknesses in the legal system hurt the efficacy of contracts and the security of property rights, reducing firms' investment.

Actions taken: Judicial reform has made rapid progress, meeting a 2016 deadline for implementation of the criminal justice reforms to use oral trials. Most states have also begun to implement the new oral trials in commercial disputes, although only for larger cases so far. A new anti-corruption system has been adopted, and state-level systems are being set up.

Recommendations: Enact and implement a second wave of legal reform to civil and commercial justice. Pursue the transition from written to oral trials to improve the outcomes of economic disputes, such as those related to contract enforcement. Complete the setup of anti-corruption systems at the state level, in particular to improve the consistency with which regulations are applied.

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Growth performance and inequality indicators

A. Growth

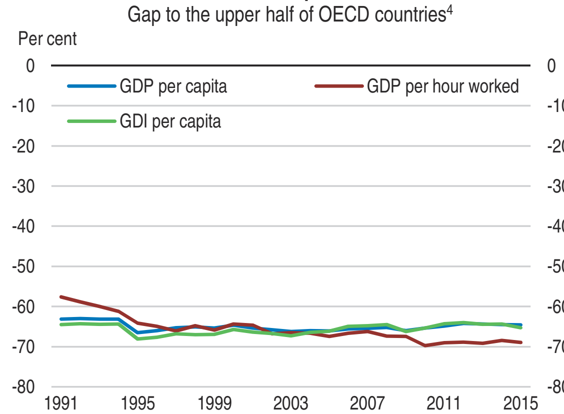
Average annual growth rates (%)		2003-09	2009-15
GDP per capita		0.7	2.0
Labour utilisation		-0.4	0.5
of which:	Labour force participation rate	0.0	-0.5
	Employment rate[1]	-0.4	0.2
	Employment coefficient[2]	0.0	0.8
Labour productivity		0.2	0.6
of which:	Capital deepening	1.0	0.0
	Total factor productivity	-0.7	0.6
Dependency ratio		0.8	0.9

B. Inequality

	Level	Annual variation (percentage points)
	2014	2008-14
Gini coefficient[3]	45.9 (31.7)*	0.1 (0)*
Share of national disposable income held by the poorest 20%	5 (7.7)*	0.1 (0)*

** OECD average*

C. Gaps in GDP per capita and productivity are wide and persistent
Gap to the upper half of OECD countries[4]



1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
4. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, *Economic Outlook No. 100 Database*; Panel B: OECD, *Income Distribution Database*; Panel C: OECD, *National Accounts and Productivity Databases*.

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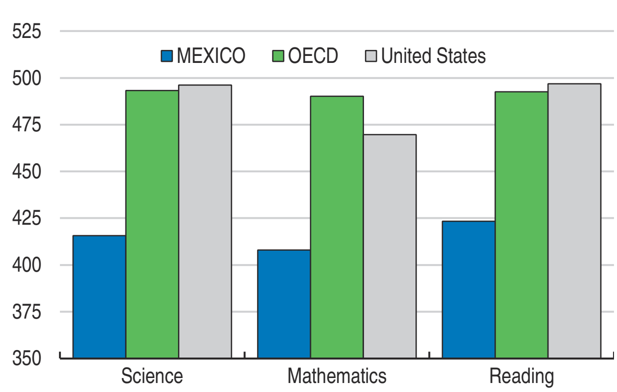
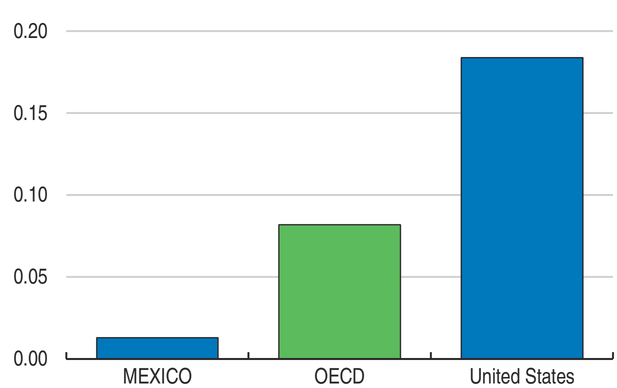
Policy indicators

A. Educational outcomes are weak
Mean PISA scores, 2015



B. Direct public funding of business R&D is comparatively low
2012-14[1]



1. Data refer to 2011 for Mexico and to 2012-13 for the United States.

Source: Panel A: OECD, *PISA Database*; Panel B: OECD, *Science and Technology Indicators Database*.

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Reduce barriers to foreign direct investment. Barriers to foreign direct investment (FDI) in services and infrastructure are among the more stringent in the OECD, harming knowledge diffusion and hampering the capacity of Mexico to improve its position in global value chains.

Actions taken: Selected network industries (i.e., broadcasting and telecommunications) and the energy sector have been substantially opened to FDI in recent years.

Recommendations: Continue to lift FDI restrictions in key sectors, such as transport and banking. Improve the business climate to attract FDI in services, in part by enhancing the transparency of regulatory policies.

Reduce barriers to entry and competition. Anti-competitive product market regulation hampers productivity by limiting new entry. Costly registration procedures in many localities and lack of contestability remain detrimental to competition and productivity.

Actions taken: Regulations in the energy sector have been revamped, making private participation easier. A framework for developing Special Economic Zones (SEZs) was ratified in 2016, to start in 2017.

Recommendations: Facilitate and support firm entry. Ease entry regulations in professional services and licensing requirements in retail trade to foster formal employment.

Strengthen innovation policies. Innovation spending is well below the upper half of OECD countries, limiting absorptive capacity, hampering productivity growth and contributing to limited catch-up.

Actions taken: A new R&D tax credit regime was introduced in the 2017 budget. Measures were also taken in 2016 to promote collaborations between academic and industrial chambers.

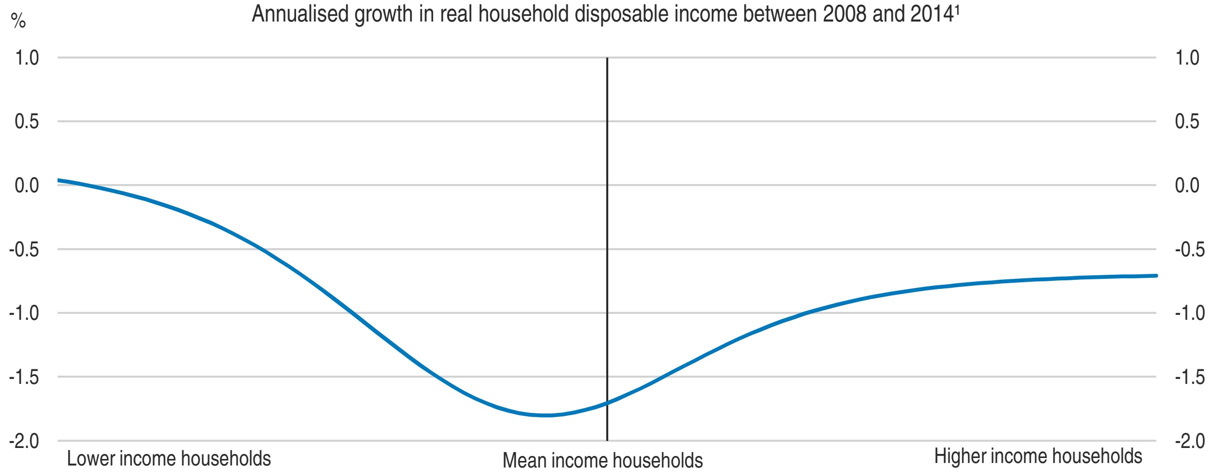
Recommendations: Promote early-stage financing and industry co-operation with research institutes by strengthening industry networks, particularly through facilitation of clusters. Create public programmes promoting innovation in local firms and linkages with foreign affiliates.

MEXICO

Beyond GDP per capita: Other policy objectives

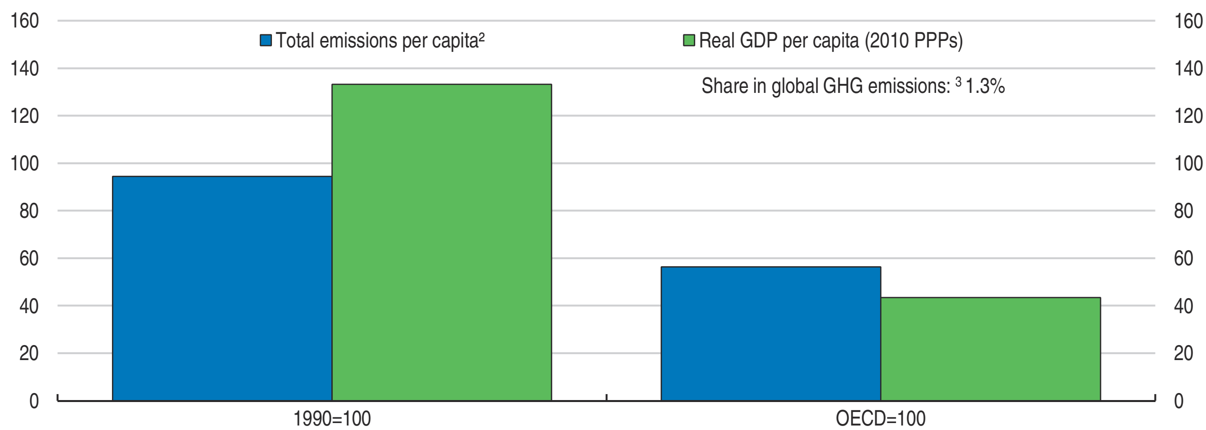
A. Income fell for all households, especially for the middle class

Annualised growth in real household disposable income between 2008 and 2014[1]



B. Emissions per capita are slightly below 1990 levels

Average of years 2010 and 2013



1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2008 and 2014. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: OECD, *Income Distribution Database*; Panel B: OECD, *National Accounts, Energy (IEA) and Greenhouse gas emissions Databases*.

StatLink http://dx.doi.org/10.1787/888933456122