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## Country Report

# Mexico

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"0 or 0.0" means nil or negligible; "n/a" means not available; "-" means not applicable

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# Briefing sheet

Editor: **Mark Keller**  
 Forecast Closing Date: **April 30, 2020**

## Political and economic outlook

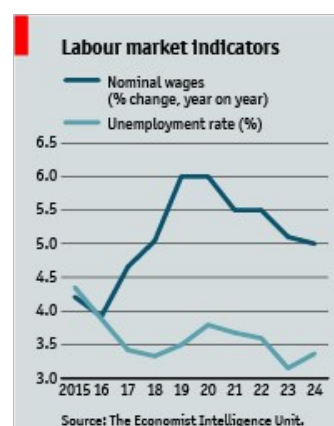
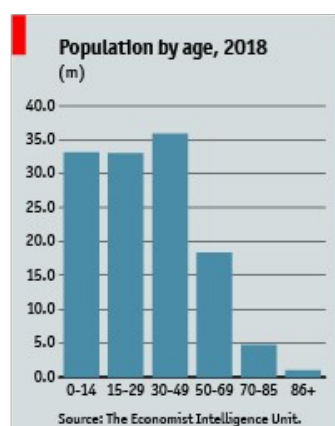
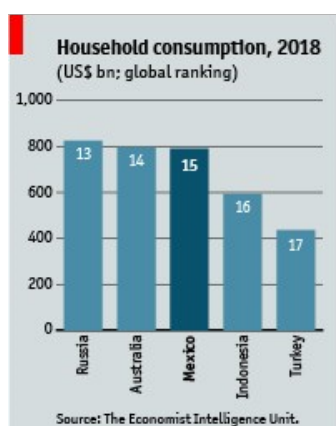
- The president, Andrés Manuel López Obrador of the leftist Movimiento Regeneración Nacional, was late in addressing the novel coronavirus (Covid-19) pandemic. This will cost him politically, adding to voter disappointment over his lacklustre performance so far.
- Policymaking will slow ahead of the 2021 mid-term elections as the response to the social and economic consequences of the pandemic saps political energy and the opposition becomes increasingly emboldened by voter disenchantment with Mr López Obrador.
- Real GDP will contract steeply in 2020, owing to the fallout from the pandemic, and will stage only a weak recovery in 2021. It will pick up later in the 2020-24 forecast period.
- Expected stimulus and the poor health of the state-owned oil firm, Pemex, weigh on the fiscal outlook. The Economist Intelligence Unit expects an average deficit of 4.5% of GDP in 2020-21. The public debt/GDP ratio will rise by over 10 percentage points in 2020-21.
- Weak consumer demand and an output gap will cause inflation to ease in 2020-21, before higher oil prices and a recovery in consumer demand drive prices up in 2022-24.
- The peso has depreciated by over 30% since the start of the year amid concerns about the impact of the pandemic on the economy. We expect the peso to find some stability in the coming months, and to strengthen in 2022-24 on the back of higher oil prices.
- The current-account deficit will widen, to 2.3% of GDP in 2020, as the pandemic hits export revenue and remittances. It will narrow thereafter but remain covered by healthy inflows of foreign direct investment (FDI), assuming that these recover as expected.

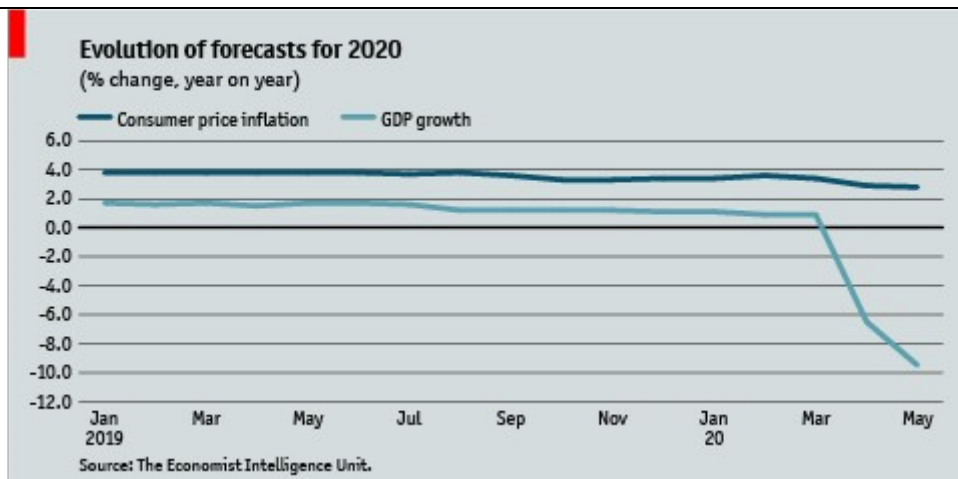
### Key indicators

	2019 <sup>a</sup>	2020 <sup>b</sup>	2021 <sup>b</sup>	2022 <sup>b</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>
Real GDP growth (%)	-0.1	-9.5	3.5	3.1	2.1	2.7
Consumer price inflation (av; %)	3.6	2.8	2.6	3.9	3.5	3.2
Government balance (% of GDP)	-1.7	-4.7	-4.2	-2.9	-2.5	-2.7
Current-account balance (% of GDP)	-0.2	-2.3	-1.9	-2.0	-1.6	-1.8
Money market rate (av; %)	8.3	7.1	6.2	5.1	5.5	5.5
Unemployment rate (%)	3.5 <sup>c</sup>	3.8	3.7	3.6	3.2	3.4
Exchange rate Ps:US\$ (av)	19.26	23.40	23.30	22.20	21.31	21.94

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> Economist Intelligence Unit estimates.

## Market opportunities





## Key changes since April 3rd

- Preliminary first-quarter real GDP data released by the national statistics office (INEGI) show that real GDP contracted by 1.6% quarter on quarter; this contraction is steeper than we had anticipated.
- Given weaker first quarter growth, we have brought down our full-year real GDP forecast, from a contraction of 6.5% to a contraction of 9.5%. We expect a steep contraction in the second quarter (particularly in April), given the lack of fiscal stimulus so far.

## The month ahead

- **TBC—Stimulus measures:** The government has yet to adopt any fiscal stimulus or economic support measures for workers displaced by the crisis, although monetary stimulus and state-level measures have been extended. We expect measures to be announced in the coming weeks, but there is a high degree of risk to this forecast.
- **May 12th—Industrial production (March):** Industrial production contracted by 0.6% month on month in February (and 3.5% year on year). As the global crisis took hold in March, we expect to see a steeper contraction for that month.

## Major risks to our forecast

Scenarios, Q2 2020	Probability	Impact	Intensity
Drug-related violence continues to increase at an alarming rate	Very high	High	20
Supply chain disruptions last throughout 2021	Very high	High	20
The government fails to provide fiscal stimulus in the face of the coronavirus pandemic	Moderate	Very high	15
Endemic corruption impairs government effectiveness and adds significant cost to businesses	High	Moderate	12
Strike action increases, given empowered labour unions	High	Moderate	12

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: The Economist Intelligence Unit.

# Outlook for 2020-24

## Political stability

The president, Andrés Manuel López Obrador, will face challenges in the months ahead as the government struggles to contain the health and economic impact of the novel coronavirus (Covid-19) pandemic. The government declared a voluntary quarantine in March, but has so far offered only limited economic support measures. Mr López Obrador has rejected calls for fiscal stimulus, on the basis that the government should not take on debt to support companies. As economic costs mount, pressure will grow on the president, who has consistently downplayed the severity of the pandemic. The president's foot-dragging on a response to the coronavirus has cost him in popularity. Recent polls show that the president's approval rate has fallen below 50% for the first time since he took office in December 2018, marking an official end to his prolonged honeymoon period. The results show that these latest missteps have added to growing citizen concerns regarding the president's failures to enact other parts of his agenda, including battling insecurity and corruption.

The coronavirus crisis will sap political energy from the president's goal to "transform" Mexico, especially before the July 2021 mid-term elections. Opposition parties will feel increasingly emboldened to challenge Mr López Obrador. Until recently the president appeared invincible, securing high levels of public support and rapidly asserting dominance over Mexico's political institutions. His populist rhetoric also allowed him to dominate the political narrative and deflect criticism on tough issues. However, Mr López Obrador is supported by majorities in both houses of Congress, through the Juntos Haremos Historia coalition, which includes the president's left-wing Movimiento Regeneración Nacional (Morena) and several smaller, ideologically diverse parties. The coalition holds seven of the 32 state governorships, and Morena and its allies control 18 of the 32 state legislatures. Furthermore, high levels of political polarisation have allowed Mr López Obrador to place loyalists in important posts that were vacated owing to policy disagreements (the president takes a highly personal approach and clashes publicly with those who disagree with him). In addition, the government's fiscal austerity has caused experienced personnel to leave the public sector. These changes call into question the independence of institutions, which remains a weak point in the country's relatively young democracy.

Crime and corruption will remain serious causes for concern among the public and investors alike; 2019 was another record year for homicides, and Mexico continues to score poorly in corruption indicators. Crime is likely to worsen as a result of the pandemic as people's economic conditions deteriorate. Mr López Obrador has not yet succeeded in producing a comprehensive strategy to combat these intertwined issues and has been hostile to the necessary institution-building that such an effort would require. The Economist Intelligence Unit does not, therefore, expect a significant reduction in violence in the 2020-24 forecast period.

## Election watch

The next elections (congressional, provincial and municipal) are due in July 2021. Their outcome will depend on Mr López Obrador's ability to manage the coronavirus crisis and whether he is able to regain public trust. If he is not, traditional opposition parties (such as the Partido Revolucionario Institucional and the Partido Acción Nacional, both of which suffered heavy losses in the 2018 elections) will be more likely to gain at Morena's expense. However, there is also a risk that anti-incumbency sentiment will lead to an even greater breakdown of the traditional party structure.

Congress has approved a constitutional amendment that will allow a public consultation on revoking the president's mandate in the fourth year of his six-year term (fulfilling one of his campaign promises). We expect that this recall vote will be held in 2022 and that Mr López Obrador will be confirmed in office (although risks to this forecast are now elevated). There have been concerns that the president would try to engineer his re-election in 2024, but he has vowed to respect the constitution (which permits just one term for presidents); we expect him to stick to this pledge.

## International relations

Foreign policy has taken a back seat under Mr López Obrador, and we expect this trend to continue, despite the global demands of the pandemic. The president has focused on domestic policy, with little emphasis on Mexico's international role. He has not travelled abroad as president and has missed important global meetings.

However, the president cannot afford to ignore Mexico's ties with the US, the country's dominant trade and investment partner, and home to almost all of its 12m emigrants. Despite occasional harsh rhetoric (and the threat by the US president, Donald Trump, in June 2019 to unilaterally impose tariffs on Mexico unless the country did more to combat Central American migration to the US), the relationship has remained cordial. All parties have now approved the US-Mexico-Canada Agreement (USMCA)—the successor to the North American Free-Trade Agreement—and we expect it to come into force later this year.

Relations with the Asia-Pacific region are anchored by the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, an 11-member free-trade bloc that came into effect at end-2018. Mexico will seek to broaden its relations with China (which Mexico has traditionally viewed as a rival for the US market), but progress is—and will continue to be—limited by its need to avoid antagonising the US.

## Policy trends

In the short term the government will be preoccupied with its response to the coronavirus outbreak, rather than addressing Mexico's structural shortcomings. So far the government has issued a recommended quarantine and some employment protection for formal sector workers. The government's efforts have been aimed at Mexico's poorest; Mr López Obrador has vowed to improve conditions for this group. Since coming to power in 2018 he has implemented a cumulative 39% rise in the minimum wage, to Ps123.2 (US\$5) per day. To combat the pandemic, the administration has re-oriented US\$10bn in government spending towards programmes targeted at helping the poorest, although this has come at the expense of reinforced austerity elsewhere, including a further reduction in public-sector salaries. However, the government has yet to announce economic support measures for companies or workers; this will be particularly important for Mexico's informal sector employees, who make up about 60% of the labour force. In the absence of government support, states and the private sector have stepped into the void. States have offered to suspend tax payments for businesses, and Mexico's powerful business group, the Consejo Coordinador Empresarial, has agreed US\$12bn in loans from IDB Invest (part of the Inter-American Development Bank) to help Mexican small and medium-sized enterprises (SMEs) to weather the crisis.

The government's weak response to the coronavirus crisis will hit investment hard, especially bearing in mind that uncertainty regarding contract rights, the rule of law, economic policymaking and the business environment will persist. Mr López Obrador has relied on public consultations (in the form of referendums) on several policy issues and investment projects. Such referendums have been used to cancel a handful of multibillion-dollar investment projects amid local opposition. The financial health of Pemex, the state oil firm, will also weigh on the outlook. The company's debt was downgraded to junk by Moody's in April (following a downgrade by Fitch in June 2019), which has increased financing costs and triggered a debt sell-off. The strain on Pemex—the most indebted oil company in the world—puts into question Mr López Obrador's plans to use Pemex as an engine of the country's development.

Policymaking later in the forecast period will hinge on the outcome of the 2021 elections, and whether Morena and its allies will continue to hold their majority. Longer-term challenges for policymakers include poor educational outcomes, low levels of banking penetration, weak competition in some domestic sectors and high levels of informal employment. Recent reforms to address some of these areas will be slow to bear fruit, given institutional weaknesses and the nebulous nature of the president's policy proposals.

## Fiscal policy

The coronavirus pandemic will put strain on the public finances in 2020-21, given our expectation of government stimulus and lower revenue collection amid a weak economy. We also expect higher debt-servicing costs, owing to credit-rating downgrades to Pemex and the sovereign. We expect the fiscal deficit to widen, from 1.7% of GDP in 2019 to 4.7% of GDP in 2020. It will narrow slightly in 2021 but remain wide, at 4.2% of GDP, given our expectation of a weak economic recovery and further stimulus measures that year. However, owing to unpredictability surrounding the eventual extent of the spread of the virus in Mexico, there are significant downside risks to these forecasts. As the virus is contained and an economic recovery gathers pace, we expect the fiscal deficit to narrow gradually, averaging 2.7% of GDP in 2022-24. This will be supported by higher oil prices, given oil's contribution to revenue.

The crisis and problems with Pemex will cause a rapid rise in the public debt/GDP ratio, which will be exacerbated by recent peso depreciation. We anticipate that public debt will rise from 47.1% of GDP in 2019 to 58.7% of GDP in 2020 and 60.7% of GDP in 2021. The ratio will then fall gradually, to 57.9% of GDP in 2024, as the government returns to fiscal orthodoxy and the GDP growth outlook starts to improve. We do not expect the government to struggle to meet its financing requirement, but financing may become more expensive as local conditions deteriorate. In April the government placed US\$6bn in bonds on global markets, albeit at slightly higher rates than its January issuance. In November 2019 the IMF renewed a US\$61bn flexible credit line (FCL) for two years, which we expect the government to tap in the current crisis.

## Monetary policy

Given high real interest rates (by regional comparison), the Banco de México (Banxico, the central bank) has space to use monetary stimulus to help to combat the economic fallout from the coronavirus pandemic. At an extra-ordinary meeting in April, Banxico cut the monetary policy rate by 50 basis points, leaving the rate at 6%. This was the sixth cut since August 2019; it has cut the rate by a total of 225 basis points since then. We expect that Banxico will make a further 50-basis-point cut at the next meeting (in May) and that rates will end 2020 at 4.5%, although there is a strong chance that rates will be cut much further. At its April meeting, Banxico offered a number of other stimulus measures amounting to US\$30bn to support the economy, including increased liquidity, a corporate bond repurchasing facility and lending for businesses.

We expect that Banxico will resume a tightening of monetary policy from 2022 as the economy recovers, and that real lending rates will be about 2%, in line with the historical average. The central bank's mission to maintain domestic liquidity will be aided by a US\$60bn dollar swap line with the Federal Reserve (Fed, the US central bank) in March; Banxico has already begun to use it.

## International assumptions

	2019	2020	2021	2022	2023	2024
<b>Economic growth (%)</b>						
US GDP	2.3	-2.9	1.9	2.0	1.8	2.2
OECD GDP	1.6	-3.6	1.6	1.9	1.9	1.9
World GDP	2.2	-2.5	3.0	2.9	2.8	2.8
World trade	0.9	-15.3	22.8	3.6	3.7	3.7
<b>Inflation indicators (% unless otherwise indicated)</b>						
US CPI	1.8	0.1	1.3	1.7	2.0	1.9
OECD CPI	1.9	1.0	1.6	1.9	2.1	2.0
Manufactures (measured in US\$)	-1.2	0.1	3.6	3.8	3.5	3.1
Oil (Brent; US\$/b)	64.0	36.0	40.0	58.5	65.0	62.5
Non-oil commodities (measured in US\$)	-6.2	-1.9	4.5	3.5	1.1	1.3
<b>Financial variables</b>						
US\$ 3-month commercial paper rate (av; %)	2.2	1.5	0.7	0.5	0.9	1.4
Exchange rate: ¥:US\$ (av)	109.0	108.3	108.0	104.2	102.4	98.5
Exchange rate: US\$:€ (av)	1.12	1.10	1.12	1.17	1.21	1.24

## Economic growth

### The impact of the coronavirus: global and regional assumptions

The novel coronavirus (Covid-19) that originated in December 2019 in Wuhan, central China, is now a global pandemic. The Economist Intelligence Unit assumes that the virus will affect about 50% of the world population, including asymptomatic cases. Of the symptomatic cases, about 20% will experience severe symptoms and about 1% will not recover. Death ratios will depend on a country's capacity to detect, track and contain the virus, and the capacity of its national health system. We believe that a mass vaccine will be available at end-2021 (at the earliest) and that the coronavirus will become a seasonal disease, with another outbreak likely in winter 2020/21.

Quarantine and social-distancing measures will be effective in limiting the spread, but they will have severe negative economic consequences. Disruptions to global supply chains will also be severe. Overall, we forecast that global output will contract by 2.5% in 2020, and that global trade will drop by 15.3%. All G7 countries and almost all G20 countries will experience a full-year recession. We forecast real GDP growth in China of only 1% in 2020 and a full-year recession in the US, with a contraction of 2.9%. We assume that oil prices will be 40% lower this year, averaging US\$36/barrel. Most countries have responded with huge fiscal expansion to support businesses and households, raising the risk of sovereign debt crises in the medium term. Central banks have cut interest rates and, more importantly, have stepped up as buyers of last resort for government and corporate debt.

The infection curve in Latin America is about four to six weeks behind that of European countries and about two to three weeks behind that of the US. As such, cases are expected to peak in May in Latin America. Managing the health crisis in the region is particularly challenging, given overstretched hospitals, limited fiscal resources and the fact 80% live in cities (global average 50%) with many in very precarious conditions and where social distancing is challenging. Although containment measures will remain the priority in the short term, the policy debate in Latin America will soon begin to turn towards how to plan for an easing of lockdown measures. In formulating exit strategies, Latin American governments will draw on all the data available relating to the progression of the pandemic and experiences in other regions. Their challenge will be to get the timing and phasing right, so that the numbers of coronavirus cases and deaths remain under control, health services can cope, public confidence in the handling of the crisis remains strong and the economy can recover. Exit strategies will be implemented gradually and reviewed on a regular basis. There is a risk that even a gradual and phased easing will expose countries to a second wave of infections (as has happened in Singapore and South Korea).

The coronavirus pandemic will have a severe economic impact. We forecast a Latin American recession in 2020, with a contraction of 5%, with output in all of the major economies contracting. Some Caribbean countries, which depend on tourism, will be hit even harder. Quarantine measures will result in a sharp supply-side shock, hitting working hours and productivity, and manufacturers will suffer from a disruption to global supply. Supply-side disruptions will be short-lived, but demand effects will be long-lasting. A decline in confidence is likely to persist after quarantine measures are lifted. For fear of contagion, people may continue to avoid public spaces, and tourism may not resume immediately. Households will limit their consumption in response to a loss of income, and businesses will delay investment.

The longer-lasting political and geopolitical impact of the crisis will be significant. The pandemic has resulted in an extraordinary expansion of executive powers, with limited parliamentary oversight. Elections have been cancelled, or delayed, in some countries. When the pandemic has passed, governments will face intense scrutiny on their response. A failure to address the humanitarian crisis triggered by the coronavirus could further erode trust in national institutions. A severe global economic crisis, followed by renewed fiscal austerity and large-scale unemployment, will fuel a new wave of popular protests. The crisis may encourage support for the nation state and a backlash against globalisation and open borders. The competition for global leadership between China and the US will intensify as a result of the crisis, and a realignment of geopolitical spheres of influence may ensue in Europe, Africa and other regions. This will provide a challenging environment for Latin America over the medium term as the region tries to grapple with the debt overhang from the extra spending measures and the hit to revenue, as well as lower

potential growth rates, owing to the damage to productive sector value chains, particularly small and medium-sized enterprises (SMEs).

## Economic growth

The coronavirus pandemic will exact a huge economic toll on Mexico. Given preliminary real GDP data for the first quarter that showed a quarter-on-quarter contraction of 1.6% (deeper than we had forecast), and the lack of fiscal stimulus so far, we have brought down our full-year real GDP forecast. We now forecast a full-year contraction of 9.5% in real GDP this year (down from 6.5% previously). This will be driven by steep contractions in private consumption and investment, and only a modest increase in government consumption amid expected stimulus. On a quarterly basis, the contraction will be especially steep in the second quarter (particularly in April) as containment measures in Mexico and weak external global demand deal a severe blow to the economy. We expect the effect of weak external and domestic demand to persist into the summer, given the country's relatively late response to the crisis. Recovery in GDP growth will be weak in 2021, at 3.5%, owing primarily to a strong carry-over effect. Growth will remain weak, given slowness in restoring global supply chains in manufacturing, a slow pick-up in tourism (as concerns about the virus persist), a weak recovery in workers' remittances (which support Mexican consumption) and continued weak investor confidence. We do not expect real GDP to return to 2018 levels until 2024.

Real GDP growth will average 2.6% per year in 2022-24. Our medium-term projections assume that structural reforms implemented in recent years will not achieve their full potential, owing to institutional deficiencies and the president's policy priorities. Weak public investment and high levels of poverty will also constrain growth.

On the supply side, export-orientated manufacturing is threatened by possible protectionist measures from the US, although the ratification of the USMCA removes some uncertainty. However, longer-term prospects for export-orientated manufacturing remain good in view of low wages, a relatively skilled workforce and deep integration into US value chains. The energy sector will be boosted by reforms and increased output as concessions to private firms come on stream, but progress will be slow and will not materialise until later in the forecast period. Lower electricity prices and greater interconnection with the North American energy grid will help to reduce input costs for businesses. Tourism will perform well once the virus is contained, but other services subsectors will be sluggish, owing to weak competition and regulation.

### Economic growth

%	2019 <sup>a</sup>	2020 <sup>b</sup>	2021 <sup>b</sup>	2022 <sup>b</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>
GDP	-0.1	-9.5	3.5	3.1	2.1	2.7
Private consumption	0.6	-10.4	3.6	2.4	2.5	3.0
Government consumption	-1.5	1.2	-1.0	0.9	1.5	1.8
Gross fixed investment	-4.9	-15.3	3.3	1.9	2.5	2.7
Exports of goods & services	1.1	-10.6	4.6	4.9	3.7	4.4
Imports of goods & services	-1.1	-10.9	4.8	5.1	3.9	4.4
Domestic demand	-0.9	-10.4	3.0	2.8	2.2	2.8
Agriculture	1.9	1.5	3.8	3.5	3.5	3.5
Industry	-1.8	-7.0	2.0	2.0	2.0	2.0
Services	0.4	-14.5	4.2	3.6	2.1	3.0

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit forecasts.

## Inflation

The peso's value has dropped dramatically this year; in normal circumstances, we would expect this to create substantial price pressures. However, in the current environment, we expect exchange-rate pass-through to be limited. Weak consumer demand and lower oil prices during the pandemic will cause inflation to slow to an average of 2.8% in 2020 and 2.6% in 2021.

As the economy and consumer demand recover, we expect inflation to average 3.5% in 2022-24. However, it will remain within the 2-4% target band throughout the forecast period. There are some risks to our forecast, which assumes that demand effects outweigh the exchange-rate shock. In this context, we will be looking closely at indicators such as inflation expectations in the coming weeks.

## Exchange rates

The peso's value plummeted in March amid the oil price collapse. On April 28th it stood at Ps24.4:US\$1, representing a 31% depreciation from the start of 2020. The peso will be subject to significant volatility amid the ebb and flow of the crisis, including announcements of any forthcoming stimulus measures.

However, we expect the currency to stabilise in the coming months and start to gain ground later this year, supported by the Fed swap and the country's access to finance such as the IMF FCL. The peso should resume a modest appreciation from 2022 amid an economic recovery and higher oil prices, but in real, trade-weighted terms, it will remain below its ten-year average, supporting export competitiveness.

## External sector

Lower prices for Mexican exports, a dramatic drop in tourist arrivals and reduced remittances from the US amid the pandemic will widen Mexico's current-account deficit, from 0.2% of GDP in 2019 to 2.3% of GDP in 2020, despite our expectation of severe import compression. The deficit will narrow slightly thereafter, as oil prices, tourism and remittances recover, but it will remain manageable in 2021-24, averaging 1.8% of GDP.

Although we expect a dramatic fall in foreign direct investment (FDI) and portfolio inflows in 2020, these will recover thereafter—supported by investment in infrastructure, tourism, manufacturing and telecommunications—and should be sufficient to cover the current-account deficit in 2021-24 (we expect FDI inflows to average 2.5% of GDP in 2021-24). Mexico has a solid cushion of foreign reserves, and although we expect reserves to fall this year, they should still provide about four months of import cover in 2020-24.

## Forecast summary

### Forecast summary

(% unless otherwise indicated)

	2019 <sup>a</sup>	2020 <sup>b</sup>	2021 <sup>b</sup>	2022 <sup>b</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>
Real GDP growth	-0.1	-9.5	3.5	3.1	2.1	2.7
Industrial production growth	-1.8 <sup>c</sup>	-9.5	-1.4	1.9	2.0	2.0
Gross fixed investment growth	-4.9	-15.3	3.3	1.9	2.5	2.7
Unemployment rate (av)	3.5 <sup>c</sup>	3.8	3.7	3.6	3.2	3.4
Consumer price inflation (av)	3.6	2.8	2.6	3.9	3.5	3.2
Consumer price inflation (end-period)	2.8	2.8	3.4	3.9	3.3	3.1
Lending interest rate	8.5	7.3	6.4	5.3	5.7	5.7
Budgetary public-sector balance (% of GDP)	-1.7	-4.7	-4.2	-2.9	-2.5	-2.7
Exports of goods fob (US\$ bn)	461.5	373.0	380.5	435.6	458.0	465.0
Imports of goods fob (US\$ bn)	455.8	377.8	387.8	445.8	467.1	473.4
Current-account balance (US\$ bn)	-2.4	-22.3	-20.0	-23.5	-21.2	-23.9
Current-account balance (% of GDP)	-0.2	-2.3	-1.9	-2.0	-1.6	-1.8
External debt (end-period; US\$ bn)	454.1 <sup>c</sup>	449.4	458.0	474.2	490.0	504.1
Exchange rate Ps:US\$ (av)	19.26	23.40	23.30	22.20	21.31	21.94
Exchange rate Ps:US\$ (end-period)	18.85	23.55	22.52	22.21	22.08	23.16
Exchange rate Ps:€ (av)	21.57	25.75	26.16	25.87	25.68	27.16
Exchange rate Ps:€ (end-period)	21.17	25.90	25.79	26.32	27.05	28.72

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> Economist Intelligence Unit estimates.

## Quarterly forecasts

### Quarterly forecasts

	2019				2020				2021			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
<b>GDP</b>												
% change, quarter on quarter	-0.1	-0.1	-0.1	-0.1	-1.6	-15.0	4.0	7.7	0.0	0.1	0.2	0.2
% change, year on year	0.0	0.1	-0.2	-0.4	-1.9	-16.5	-13.2	-6.4	-4.9	12.1	8.0	0.6
<b>Private consumption</b>												
% change, quarter on quarter	0.0	0.5	0.5	0.0	-2.2	-15.6	3.3	7.1	0.4	0.5	0.6	0.6
% change, year on year	0.0	0.7	0.7	1.0	-1.2	-17.1	-14.8	-8.7	-6.3	11.6	8.7	2.2
<b>Government consumption</b>												
% change, quarter on quarter	0.0	-0.3	-0.8	0.9	-0.3	2.1	18.3	-31.8	-4.0	-4.0	-4.1	138.2
% change, year on year	-1.3	-2.6	-1.8	-0.1	-0.5	1.8	21.5	-17.9	-20.9	-25.6	-39.7	110.6
<b>Gross fixed investment</b>												
% change, quarter on quarter	2.5	-3.6	-2.2	-1.4	-3.1	-16.3	2.4	6.0	0.9	1.0	1.0	1.1
% change, year on year	-2.8	-5.8	-6.4	-4.7	-9.9	-21.7	-18.1	-12.0	-8.4	10.5	9.1	4.0
<b>Exports of goods &amp; services</b>												
% change, quarter on quarter	0.4	2.3	-0.7	-4.6	-0.9	-15.1	6.3	8.6	-0.3	0.4	-0.7	-0.2
% change, year on year	1.9	2.7	2.8	-2.7	-4.0	-20.3	-14.7	-2.9	-2.3	15.5	7.9	-0.9
<b>Imports of goods &amp; services</b>												
% change, quarter on quarter	-2.1	-0.3	0.3	-2.4	-1.7	-15.0	3.9	7.5	0.5	0.7	0.7	0.8
% change, year on year	-0.2	0.7	0.0	-4.5	-4.1	-18.2	-15.3	-6.6	-4.5	13.0	9.5	2.7
<b>Domestic demand</b>												
% change, quarter on quarter	0.1	-0.3	0.0	-0.3	-2.7	-13.6	5.4	0.6	0.0	0.2	0.3	14.0
% change, year on year	-1.1	-1.2	-1.1	-0.4	-3.2	-16.1	-11.6	-10.9	-8.4	6.2	1.1	14.5
<b>Consumer prices</b>												
% change, quarter on quarter	0.9	0.1	0.4	1.4	1.4	-0.3	0.0	1.4	0.8	0.0	0.8	1.6
% change, year on year	4.1	4.2	3.3	2.9	3.4	2.9	2.5	2.4	1.8	2.2	3.1	3.4
<b>Producer prices</b>												
% change, quarter on quarter	-0.4	0.8	0.5	-0.2	0.4	1.7	0.9	1.0	1.4	1.1	0.8	0.9
% change, year on year	4.4	3.1	2.1	0.6	1.4	2.4	2.8	4.0	5.0	4.4	4.3	4.3
<b>Exchange rate Ps:US\$</b>												
Average	19.21	19.13	19.43	19.28	19.85	24.02	25.08	24.64	24.07	23.75	22.59	22.79
End-period	19.32	19.14	19.64	18.85	23.51	24.55	24.86	23.55	23.91	23.17	22.69	22.52
<b>Interest rate (%; av)</b>												
Money market rate	8.6	8.5	8.4	7.9	7.4	7.9	6.8	6.4	6.3	6.1	6.2	6.0
Long-term bond yield	8.3	8.2	7.8	7.2	6.8	8.2	7.7	6.8	6.8	6.9	7.2	7.1

# Data and charts

## Annual data and forecast

	2015 <sup>a</sup>	2016 <sup>a</sup>	2017 <sup>a</sup>	2018 <sup>a</sup>	2019 <sup>a</sup>	2020 <sup>b</sup>	2021 <sup>b</sup>
<b>GDP</b>							
Nominal GDP (US\$ bn)	1,171.3	1,076.7	1,158.5	1,221.3	1,259.0	974.9	1,034.3
Nominal GDP (Ps bn)	18,563	20,096	21,927	23,503	24,252	22,810	24,100
Real GDP growth (%)	3.3	2.9	2.1	2.1	-0.1	-9.5	3.5
<b>Expenditure on GDP (% real change)</b>							
Private consumption	2.7	3.7	3.2	2.3	0.6	-10.4	3.6
Government consumption	1.9	2.6	0.7	3.0	-1.5	1.2	-1.0
Gross fixed investment	5.0	1.0	-1.6	0.9	-4.9	-15.3	3.3
Exports of goods & services	8.4	3.6	4.2	5.9	1.1	-10.6	4.6
Imports of goods & services	5.9	2.8	6.4	5.9	-1.1	-10.9	4.8
<b>Origin of GDP (% real change)</b>							
Agriculture	2.1	3.5	3.4	2.4	1.9	1.5	3.8
Industry	1.2	0.4	-0.2	0.5	-1.8	-7.0	2.0
Services	4.3	3.9	3.1	2.9	0.4	-14.5	4.2
<b>Population and income</b>							
Population (m)	121.9	123.3	124.8	126.2 <sup>c</sup>	127.6 <sup>c</sup>	128.9	130.3
GDP per head (US\$ at PPP)	18,296	19,293	19,810	20,407	20,489 <sup>c</sup>	18,678	19,493
Recorded unemployment (av; %)	4.4	3.9	3.4	3.3	3.5 <sup>c</sup>	3.8	3.7
<b>Fiscal indicators (% of GDP)</b>							
Public-sector revenue	23.0	24.1	22.6	21.8	22.2	20.8	21.4
Public-sector expenditure	26.4	26.6	23.6	23.8	23.9	25.5	25.6
Public-sector balance	-3.4	-2.5	-1.1	-2.0	-1.7	-4.7	-4.2
Net public debt	45.4	49.4	46.9	46.9	47.1	58.7	60.7
<b>Prices and financial indicators</b>							
Exchange rate Ps:US\$ (end-period)	17.21	20.73	19.79	19.68	18.85	23.55	22.52
Consumer prices (end-period; %)	2.1	3.3	6.8	4.8	2.8	2.8	3.4
Producer prices (av; %)	0.4	5.4	7.7	6.6	2.5	2.7	4.5
Stock of money M1 (% change)	16.4	15.5	10.2	5.4	4.7	-2.7	8.9
Stock of money M2 (% change)	6.4	13.3	9.5	5.0	5.7	-12.1	8.3
Money market interest rate (av; %)	3.3	4.5	7.1	8.0	8.3	7.1	6.2
<b>Current account (US\$ m)</b>							
Trade balance	-14,599	-13,070	-10,984	-13,796	5,624	-4,812	-7,214
Goods: exports fob	380,977	374,305	409,806	451,054	461,451	373,014	380,550
Goods: imports fob	-395,575	-387,375	-420,790	-464,850	-455,828	-377,826	-387,764
Services balance	-9,777	-8,966	-9,868	-8,924	-6,172	-9,688	-10,210
Primary income balance	-30,925	-29,354	-29,759	-33,169	-37,175	-34,036	-31,395
Secondary income balance	24,290	27,079	30,116	32,885	35,279	26,192	28,820
Current-account balance	-31,011	-24,311	-20,495	-23,004	-2,444	-22,345	-20,000
<b>External debt (US\$ m)</b>							
Debt stock	426,905	422,601	441,577	452,991	454,144 <sup>c</sup>	449,399	458,040
Debt service paid	54,148	79,068	65,628	58,388	51,924 <sup>c</sup>	57,495	57,519
Principal repayments	31,756	59,129	38,062	32,418	31,938 <sup>c</sup>	36,173	38,075
Interest	22,392	19,939	27,566	25,970	19,986 <sup>c</sup>	21,322	19,443
<b>International reserves (US\$ m)</b>							
Total international reserves	177,990	178,373	175,318	176,343	182,552	145,506	148,617

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> Economist Intelligence Unit estimates.

Source: IMF, International Financial Statistics.

## Quarterly data

	2018			2019				2020
	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
<b>Non-financial public sector (Ps bn)</b>								
Revenue	1,242.6	1,289.5	1,323.6	1,295.4	1,327.1	1,354.0	1,407.8	n/a
Expenditure	1,412.4	1,321.5	1,478.7	1,347.5	1,426.9	1,411.3	1,600.7	n/a
Balance	-169.8	-32.0	-155.1	-52.2	-99.8	-57.3	-192.9	n/a
<b>Industrial production (2003=100)</b>								
General	105.9	105.0	103.0	103.6	102.7	103.5	100.9	n/a
Manufacturing	115.3	115.1	114.0	113.9	115.1	116.6	112.1	n/a
Mining	78.7	77.2	73.9	74.4	72.5	74.0	73.6	n/a
<b>Employment, wages and prices</b>								
Employment (% change, year on year) <sup>a</sup>	3.0	3.0	2.5	2.4	2.1	2.2	2.7	n/a
Unemployment rate (% of the labour force)	3.3	3.5	3.3	3.4	3.5	3.8	3.3	3.4
Consumer prices (Jul 16th-31st 2018=100; seasonally adjusted)	99.2	100.4	102.3	103.2	103.4	103.8	105.3	106.7
Consumer prices (% change, year on year)	4.6	4.9	4.8	4.1	4.2	3.3	2.9	3.4
Producer prices (Jun 2012=100; seasonally adjusted)	96.6	97.9	99.2	98.7	99.5	100.0	99.7	100.1
Producer prices (% change, year on year)	7.1	8.3	7.0	4.4	3.1	2.1	0.6	1.4
<b>Financial indicators</b>								
Exchange rate Ps:US\$ (av)	19.38	18.99	19.83	19.21	19.13	19.43	19.28	19.85
Exchange rate Ps:US\$ (end-period)	20.06	18.90	19.68	19.32	19.14	19.64	18.85	23.51
Deposit rate (av; %)	3.1	3.4	3.5	3.7	3.7	3.6	3.1	2.6
Lending rate (av; %)	7.9	8.1	8.5	8.7	8.7	8.5	8.1	7.6
3-month money market rate (av; %)	7.9	8.1	8.3	8.6	8.5	8.4	7.9	7.4
M1 (end-period; Ps bn)	4,286	4,159	4,492	4,316	4,352	4,331	4,702	n/a
M1 (% change, year on year)	12.6	7.8	5.4	4.3	1.5	4.1	4.7	n/a
M2 (end-period; Ps bn)	8,567	8,509	8,816	8,826	8,934	9,046	9,316	n/a
M2 (% change, year on year)	11.6	8.4	5.0	6.3	4.3	6.3	5.7	n/a
BMV stockmarket index (% change, year on year)	-14.7	-5.7	-15.2	-11.0	-5.1	-16.4	9.2	-34.4
<b>Sectoral trends</b>								
Crude oil production (m barrels/day)	1.85	1.81	1.72	1.67	1.67	1.69	1.69	n/a
Crude oil production (% change, year on year)	-8.2	-3.8	-8.6	-10.9	-9.7	-6.8	-1.9	-
<b>Foreign trade and payments (US\$ m)</b>								
Exports fob	113,881	113,989	117,518	108,052	119,222	116,953	116,890	108,686
Manufacturing <sup>b</sup>	99,827	101,347	104,765	94,617	106,047	105,499	104,674	96,161
Oil	7,964	8,115	7,152	7,001	6,880	6,140	5,963	5,356
Imports fob	116,622	119,743	120,913	109,868	114,260	117,411	113,757	104,800
Intermediate goods <sup>b</sup>	89,932	91,162	92,139	85,495	88,991	91,551	86,304	82,125
Trade balance	-2,741	-5,754	-3,395	-1,817	4,962	-458	3,133	3,887
Services balance	-2,433	-2,922	-1,942	-497	-1,665	-2,890	-1,120	n/a
Primary income balance	-7,028	-5,437	-6,197	-15,459	-8,080	-5,253	-8,383	n/a
Net transfer payments	9,130	8,532	9,046	7,926	9,479	9,773	9,181	n/a
Current-account balance	-3,405	-5,892	-2,816	-10,134	4,385	820	2,487	n/a
Reserves excl gold (end-period)	173,172	172,448	171,445	177,071	180,762	177,178	177,177	183,567

<sup>a</sup> Registered with the Mexican Social Security Institute. <sup>b</sup> Including maquila.

Sources: IMF, International Financial Statistics; Banco de México, Indicadores Económicos; Instituto Nacional de Estadística y Geografía; Secretaría del Trabajo y Previsión Social.

## Monthly data

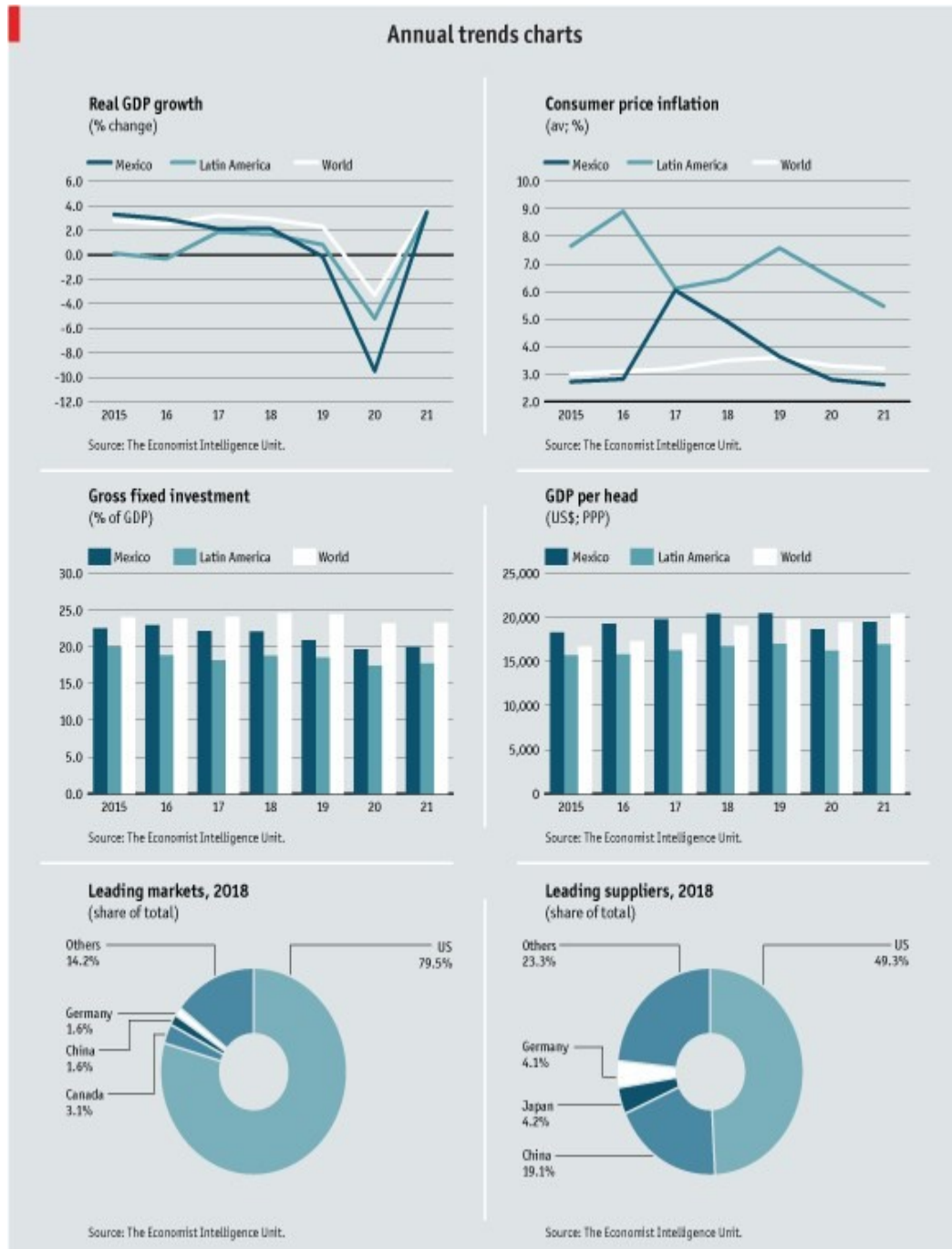
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Exchange rate Ps:US\$ (av)</b>												
2018	19.00	18.63	18.68	18.35	19.49	20.31	19.12	18.81	19.05	19.06	20.25	20.18
2019	19.22	19.19	19.23	19.02	19.09	19.29	19.07	19.59	19.62	19.37	19.29	19.18

2020	18.81	18.77	21.97	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Exchange rate Ps:US\$ (end-period)</b>												
2018	18.62	18.65	18.33	18.86	19.75	20.06	18.55	19.07	18.90	19.80	20.41	19.68
2019	19.00	19.16	19.32	18.94	19.24	19.14	19.09	20.03	19.64	19.12	19.56	18.85
2020	18.71	19.16	23.51	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Public-sector budget revenue (Ps m)</b>												
2018	465.2	389.2	405.0	457.7	378.2	406.6	511.0	403.9	374.6	429.3	435.3	459.0
2019	446.0	406.5	442.9	491.0	413.1	423.1	428.5	428.9	496.6	391.2	473.4	543.2
2020	540.3	394.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Public-sector budget expenditure (Ps m)</b>												
2018	491.6	443.1	442.0	431.9	414.3	566.2	434.7	431.7	455.1	401.2	454.5	623.1
2019	507.9	391.5	448.2	426.0	424.5	576.4	480.1	394.4	536.8	394.2	477.1	729.4
2020	504.6	433.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Public-sector budget balance (Ps m)</b>												
2018	-26.4	-53.9	-37.0	25.8	-36.1	-159.6	76.3	-27.8	-80.4	28.1	-19.1	-164.1
2019	-61.9	15.0	-5.3	64.9	-11.4	-153.3	-51.6	34.6	-40.2	-3.0	-3.6	-186.2
2020	35.7	-38.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>M1 (% change, year on year)</b>												
2018	6.9	7.3	9.4	8.7	11.1	12.6	9.2	11.1	7.8	7.2	8.9	5.4
2019	6.1	5.7	4.3	3.6	4.4	1.5	3.3	4.6	4.1	3.2	3.7	4.7
2020	6.0	6.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>M2 (% change, year on year)</b>												
2018	8.3	8.9	10.2	11.2	12.0	11.6	9.0	10.5	8.4	7.7	7.9	n/a
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2020	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Industrial production (% change, year on year)</b>												
2018	0.2	1.0	0.9	0.5	2.1	0.8	1.3	0.2	2.0	-0.3	-1.0	-2.8
2019	-1.3	-0.5	-2.5	-0.4	-3.3	-2.1	-2.4	-0.9	-2.2	-3.0	-1.7	-1.0
2020	-1.9	-3.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Retail sales (% change, year on year)</b>												
2018	-0.5	-0.3	3.7	-0.6	1.6	2.6	1.5	1.7	3.2	2.1	3.8	-0.5
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2020	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Unemployment rate (% of the labour force)</b>												
2018	3.4	3.2	2.9	3.4	3.2	3.4	3.5	3.5	3.6	3.2	3.3	3.4
2019	3.6	3.3	3.3	3.5	3.5	3.6	3.7	3.7	3.8	3.7	3.4	2.9
2020	3.8	3.6	2.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Deposit rate (av; %)</b>												
2018	2.9	3.1	3.1	3.1	3.1	3.1	3.4	3.4	3.5	3.5	3.5	3.6
2019	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.6	3.4	3.2	3.1	3.0
2020	3.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Lending rate (av; %)</b>												
2018	7.7	7.8	7.9	7.9	7.9	8.0	8.1	8.1	8.2	8.2	8.4	9.0
2019	8.7	8.6	8.7	8.7	8.6	8.7	8.6	8.5	8.3	8.2	7.9	8.1
2020	7.6	7.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Stockmarket index (BMV; end-period, October 1978=0.78)</b>												
2018	50,456	47,438	46,125	48,358	44,663	47,663	49,698	49,548	49,504	43,943	41,733	41,640
2019	43,988	42,824	43,281	44,597	42,749	43,161	40,863	42,623	43,011	43,337	42,820	43,541
2020	44,108	41,324	34,555	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Consumer prices (av; % change, year on year)</b>												
2018	5.5	5.3	5.0	4.6	4.5	4.6	4.8	4.9	5.0	4.9	4.7	4.8
2019	4.4	3.9	4.0	4.4	4.3	3.9	3.8	3.2	3.0	3.0	3.0	2.8
2020	3.2	3.7	3.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Producer prices (av; % change, year on year)</b>												
2018	3.8	3.8	4.7	5.0	7.0	9.2	8.5	8.0	8.6	7.9	7.0	6.1
2019	4.4	4.6	4.4	4.8	2.8	1.6	2.5	2.0	1.8	0.7	0.1	1.0
2020	1.0	1.1	2.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Total exports fob (US\$ m)</b>												
2018	30,719	35,094	39,485	37,182	39,214	37,484	36,743	39,546	37,701	41,357	38,609	37,552
2019	32,621	36,414	39,017	39,447	41,825	37,949	39,301	40,430	37,222	40,731	37,496	38,663
2020	33,653	36,634	38,399	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Total imports cif (US\$ m)</b>												
2018	35,141	34,150	37,735	37,472	40,766	38,383	39,612	42,130	38,002	44,291	40,929	35,693
2019	37,263	35,074	37,531	38,077	40,795	35,388	40,417	39,655	37,338	41,456	36,705	35,595

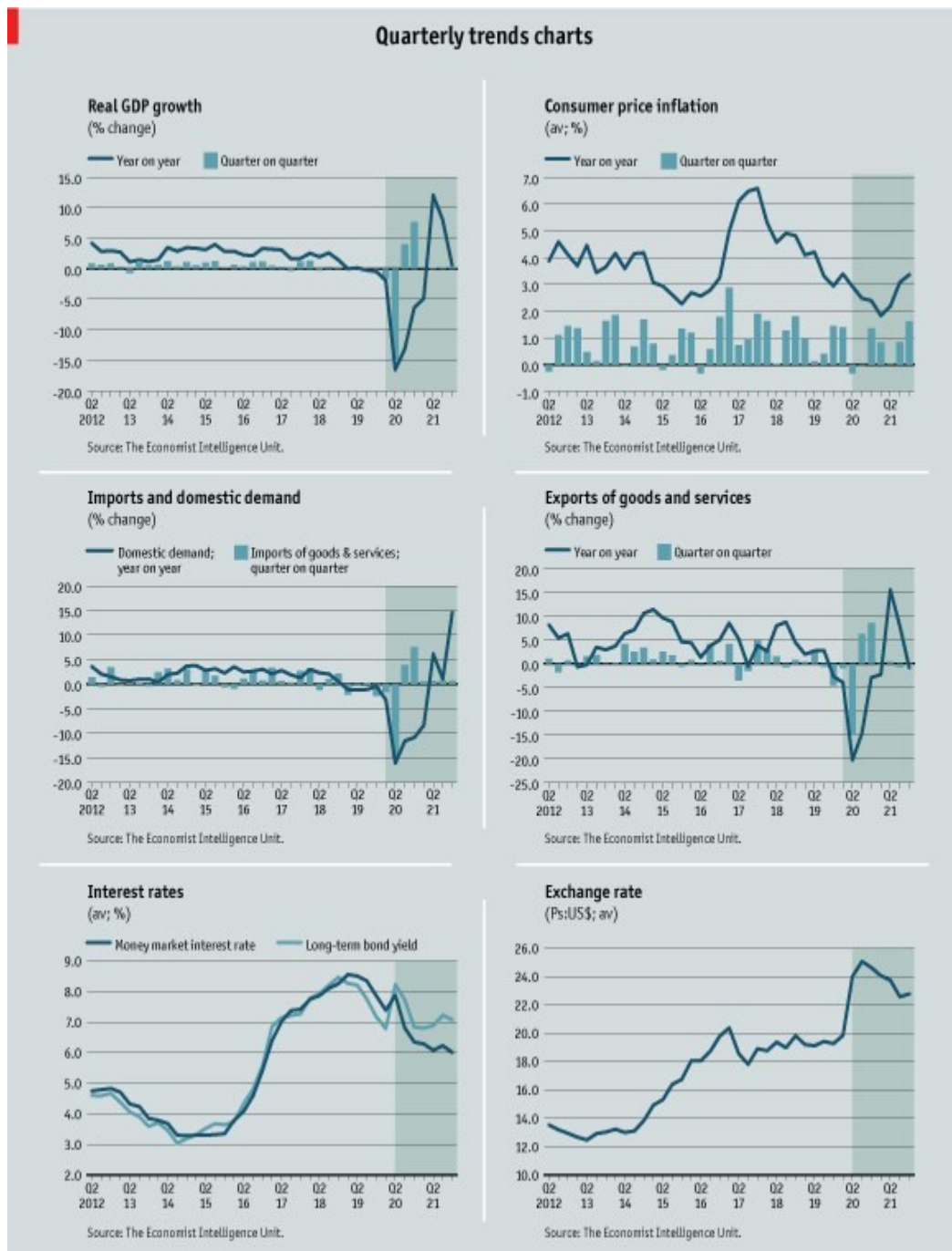
2020	36,069	33,724	35,007	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Trade balance fob-cif (US\$ m)</b>												
2018	-4,422	944	1,750	-290	-1,552	-899	-2,870	-2,584	-301	-2,934	-2,320	1,859
2019	-4,643	1,340	1,486	1,370	1,031	2,561	-1,117	775	-116	-726	790	3,068
2020	-2,416	2,911	3,392	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Foreign-exchange reserves excl gold (US\$ m)</b>												
2018	174,115	172,526	172,435	172,106	173,387	173,172	171,902	171,851	172,448	171,884	171,871	171,445
2019	175,243	175,922	177,071	179,699	180,410	180,762	182,438	183,456	177,178	177,881	179,655	177,177
2020	183,040	182,193	183,567	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

## Annual trends charts



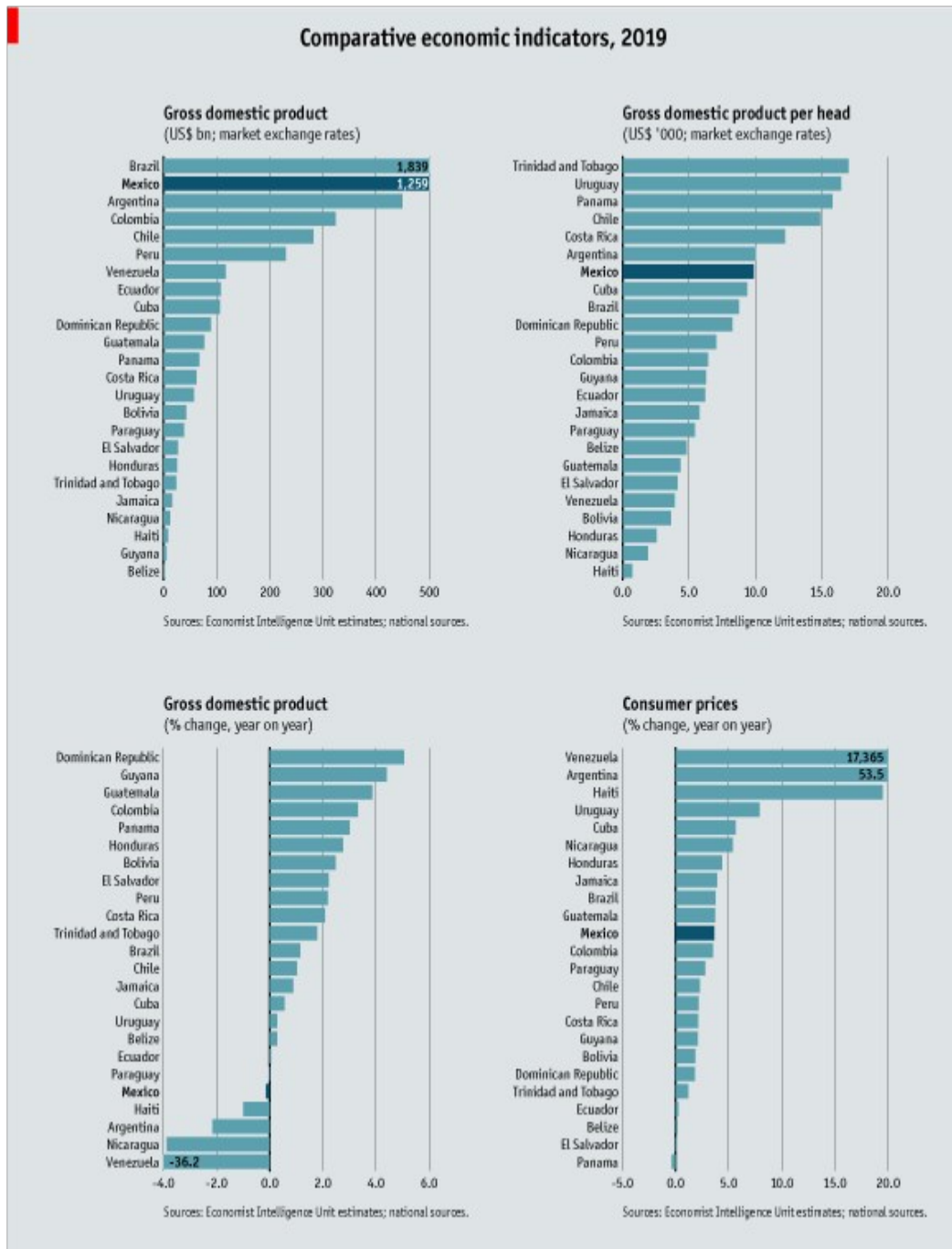
# Quarterly trends charts



# Monthly trends charts



# Comparative economic indicators



## Basic data

### Land area

1,964,375 sq km

### Population

128.6m (2016; UN estimate)

### Main towns

Population (m), 2010 (government data for metropolitan areas)

Mexico City (capital): 20.1

Guadalajara: 4.4

Monterrey: 4.1

Puebla: 2.7

## Climate

Tropical in the south, temperate in the highlands, dry in the north

## Weather in Mexico City (altitude 2,309 metres)

Hottest month, May, 12-26°C (average daily minimum and maximum); coldest month, January, 6-19°C; driest month, February, 5 mm average rainfall; wettest month, July, 170 mm average rainfall

## Languages

Spanish is the official language. More than 60 indigenous languages are also spoken, mainly Náhuatl (1.2m speakers), Maya (714,000), Zapotec (403,000) and Mixtec (387,000)

## Measures

Metric system

## Currency

Peso (Ps). Average exchange rate in 2019: Ps19.26:US\$1; end-2019 rate: Ps18.85:US\$1

## Time

Mexico City is six hours behind GMT

## Public holidays 2020

January 1st (New Year's Day); February 3rd (Constitution Day); March 16th (Benito Juárez); April 9th (Maundy Thursday); April 10th (Good Friday); May 1st (Labour Day); September 16th (Independence Day); November 16th (Mexican Revolution); December 25th (Christmas Day)



## Political structure

### Official name

United Mexican States

### Political divisions

31 states and the capital, Mexico City; states are divided into municipalities

### Form of government

Presidential, with a constitutionally strong Congress

### The executive

The president is elected for a non-renewable six-year term and appoints the cabinet

### National legislature

Bicameral Congress: 128-member Senate (upper house), elected for a six-year term, with 64 seats elected on a first-past-the-post (FPTP) basis, 32 using the first minority principle and 32 by proportional representation (PR); 500-member Chamber of Deputies (lower house), elected for a three-year term, with 300 seats elected by FPTP and 200 by PR

### Regional governments

State governors are elected for six-year terms; each state has a local legislature and has the right to levy state-wide taxes; municipal presidents are elected for three-year terms

### Legal system

There are 68 district courts and a series of appellate courts with a Supreme Court; federal legal

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system, with states enjoying significant autonomy

## National elections

Presidential and congressional elections were last held on July 1st 2018. The next congressional elections are due in July 2021 and the next presidential election in July 2024

## National government

The president, Andrés Manuel López Obrador of the Movimiento Regeneración Nacional (Morena), holds majorities in both houses of Congress

## Main political organisations

Government: Juntos Haremos Historia coalition, between Morena and the Partido del Trabajo (PT)

Opposition: Partido Acción Nacional (PAN); Partido de la Revolución Democrática (PRD); Partido Revolucionario Institucional (PRI), Partido Verde Ecologista de México (PVEM); Movimiento Ciudadano (MC)

President: Andrés Manuel López Obrador

## Cabinet members

Agrarian, territorial & urban development: Román Meyer Falcón

Agriculture & rural development: Víctor Manuel Villalobos

Attorney-general: Alejandro Gertz Manero

Communications & transport: Javier Jiménez Espriú

Culture: Alejandra Frausto Guerrero

Economy: Graciela Márquez Colín

Energy: Rocío Nahle García

Environment & natural resources: Víctor Toledo Manzur

Finance & public credit: Arturo Herrera

Foreign relations: Marcelo Ebrard

Health: Jorge Alcocer Varela

Interior: Olga Sánchez Cordero

Labour & social welfare: Luisa María Alcalde

National defence: Luis Sandoval

Public administration: Irma Sandoval-Ballesteros

Public education: Esteban Moctezuma Barragán

Public security: Alfonso Durazo Montaña

Tourism: Miguel Torruco Marqués

Welfare: María Luisa Albores

## Central bank governor

Alejandro Díaz de León

# Recent analysis

Generated on May 20th 2020

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

## Politics

### Forecast updates

#### AMLO's popularity stabilises, but Morena's plummets

May 14, 2020: Political stability

### Event

Approval ratings for the president, Andrés Manuel López Obrador (AMLO), appear to have hit a floor or even rebounded, according to a number of recent polls. However, support for the ruling party, Movimiento Regeneración Nacional (Morena), has plummeted.

### Analysis

A poll of polls shows that Mr López Obrador's approval rating rebounded to 66% in April, from a recent low of 60% in March, reversing three consecutive months of declines. The proportion of those who disapproved of the president's performance fell from 35% to 29%, the lowest level since January. Unsurprisingly, 56% of respondents considered the coronavirus pandemic the country's main issue. Public security fell to third, at just 10%, well below its normal level of 60-70%. The government also saw a surge in support for its handling of healthcare, which swung to a net positive of 24%. The opposite was true for its handling of the economy, which widened to a net negative of 28%.

However, other polls tell a different story. The daily AMLO Tracking Poll by Consulta Mitofsky, a local pollster, saw the president's support flip from net positive to net negative in March; it has remained that way since, although the gap narrowed throughout April. On May 5th his disapproval rating reached 50.6%, with approval standing at 48.9%. At least three other major polls showed a decline in approval in April, although the rating was still in net positive territory.

More concerning, however, is Morena's low approval ratings. One poll showed Morena's net approval swinging into negative territory for the first time in March. In terms of preferences for the mid-term elections, which are to be held in just over a year's time, Morena's support fell to just 18%, although its ratings are still higher than its two main rivals, the Partido Acción Nacional (PAN) at 10%, and the Partido Revolucionario Institucional (PRI).

The April results may reflect the fact that—despite initial missteps—the pandemic has not yet got out of hand, and may also demonstrate strong public confidence in the country's "coronavirus czar", Hugo López-Gatell, who is currently one of Mexico's most popular public figures.

### Impact on the forecast

Mr López Obrador's popularity will be tied increasingly to the outcome of the ongoing coronavirus crisis and the fate of the economy, which contracted by 1.6% in the first quarter of 2020 and is heading for an even more severe downturn in the second quarter. We expect a gradual decline in the months ahead.

## New decree deepens militarisation of public security

May 15, 2020: Political stability

### Event

A decree by the president, Andrés Manuel López Obrador, published on May 11th, will allow the military to undertake public security activities until 2024.

### Analysis

The decree comes amid rising drug cartel violence, [particularly in March](#), which saw one of the highest numbers of homicides in recent months. The decree is meant to complement the activities of the National Guard, the country's gendarmerie-type force that was set up to take on the main role of combating cartels. Consequently, military activity is permitted only until the National Guard becomes a fully trained and operational force, which will be no later than 2024.

The decree has sparked strong objections by the opposition as well as civil society, given that it further entrenches the role of the military in fighting crime; Mr López Obrador initially campaigned against this but reversed his view once in office. According to the government, the role of the military will be regulated, transparently financed, respectful of human rights and subordinate to the National Guard. However, a slew of human rights violations since the war against the drug cartels began in 2006 has put this into doubt. Furthermore, the effectiveness of the National Guard has also been questioned, particularly as a large part of it has been used not to fight crime, but to police the southern border. A number of recent corruption scandals have also tainted the supposedly "incorruptible" organisation; videos have emerged of local commanders committing extortion and meeting cartel members.

More concerning is that the decree appears to be merely a continuation of the failed security policies of the last two administrations, which suggests that it will produce few visible results. Although the coronavirus pandemic may ease crime levels at least temporarily, crime in current hotspots—such as the central Pacific region, Guanajuato and the metropolitan area around Mexico City, the capital—is likely to flare up again once pandemic-related restrictions are eased.

### Impact on the forecast

Barring major structural reforms to police forces as well as more optimal social conditions, we expect drug-related violence to remain high into the medium term.

# Economy

## Forecast updates

### Preliminary data show sharp contraction in real GDP in Q1

May 1, 2020: Economic growth

#### Event

Preliminary real GDP data from the national statistics office (INEGI) showed a contraction of 1.6% in seasonally adjusted, quarter-on-quarter terms. Most of the decline came in March, indicating the scale of the economic impact of the coronavirus pandemic.

#### Analysis

According to the release (which has historically varied little from the actual data), two of the three main economic sectors contracted; agriculture was the only one that reported growth (of 0.5% compared to the fourth quarter of 2019). In contrast, both industry and services contracted by 1.4%. The results were similar in year-on-year terms, with agriculture expanding by 1.2%, whereas industry declined by 3.8% and services by 1.4%.

In annualised terms, the contraction in the first quarter was 6.2%, illustrating the scale of the economic hit taking place as a result of pandemic-related social-distancing measures, as well as the collapse of international travel, which fuels a large segment of the Mexican economy and was one of the first sectors to be affected. Furthermore, the bulk of the contraction occurred in March; the economic activity index (IGAE) showed only weak contractions of 0.01% in January and 0.2% in February.

The government currently estimates that Mexico will hit its peak rate of infections in late May and has mooted the possibility that some restrictions might be eased in June. Although the rate of infections now appears to be growing in a linear rather than exponential manner, the country's extremely low rates of testing suggest that infection and death levels may be being underestimated. Nevertheless, even assuming that restrictions are eased, a return to normal economic activity is highly unlikely until much later in the year, and the lack of a comprehensive federal government rescue package for workers and businesses may end up exacerbating the economic fallout of the pandemic.

#### Impact on the forecast

We expect to see a much more pronounced contraction in the second quarter, almost certainly the deepest in Mexico's modern economic history. This underpins our downgrade to a 7.3% contraction in real GDP for the year as a whole (down from 6.5% previously), with risks tilted to the downside.

## Auto production and sales plummet in March

May 1, 2020: Economic growth

### Event

According to recent data from the national statistics office (INEGI), auto production and sales plummeted in March, revealing the scale of the impact of the coronavirus pandemic on Mexico's vital manufacturing sector.

### Analysis

Motor vehicle production plummeted by almost 28% month on month in March. Nonetheless, particularly strong output in January (when production was up by 24% month on month) meant that growth in total motor vehicle manufacturing was still up by 8.5% quarter on quarter for the first quarter as a whole. However, this strong performance is largely due to base effects; on a year-on-year basis, motor vehicle production was 10% lower in the first quarter.

The collapse in auto production reflects a drop in domestic production amid quarantine measures suggested by the government in March. However, it also indicates a collapse in external demand. Although Mexico is one of the world's largest motor vehicle producers, the bulk of auto production is exported, with only about 25% of production destined for the domestic market. Still, sales to the domestic market contracted by 26% year on year in March, making for a contraction of 10.9% year on year for the first quarter.

The March results are an early warning of the reduction in manufacturing output as a result of the pandemic-related recession. This is particularly concerning for the automobile sector, which is one of Mexico's most important sectors and one of the country's largest sources of exports. The government recently announced that it would allow some *maquila* plants (local production for re-export plants, many of which are located along the US border) to reopen from May 4th. Many of these are involved in the auto parts sector.

However, production is still likely to suffer from some supply chain disruption. This was already evident among some manufacturers in February, given the reduced production of parts in China; we expect this trend to continue in the months ahead. In addition, the reopening of some factories could increase the risk of workers being infected and lead to future factory closures. The border city of Tijuana, for example, is currently one of the most infected cities in Mexico.

### Impact on the forecast

We expect the auto sector's fortunes to decline in line with general economic activity, with exports lagging slightly compared to sales and production. In the light of this and other issues, we will be making downward adjustments to our real GDP forecast this month.

## Pemex records huge quarterly loss

May 5, 2020: Policy trends

### Event

Pemex, the state-owned oil firm, registered a Ps562.5bn (US\$23.6bn) loss during the first quarter of the year, mostly as a result of a depreciated peso and a sharp decline in oil prices. This raises further questions about the company's financial outlook.

### Analysis

The total first quarter losses [exceeded those of 2019](#) as a whole (US\$17.5bn), which was itself one of the most turbulent years for the embattled oil company; with liabilities of US\$104.8bn, it is the most indebted oil firm in the world.

Despite the grim numbers, the bulk of the losses in the quarter were due to accounting losses on the company's external debt owing to the deterioration of the exchange rate, which was Ps\$23.5:US\$1 in March, compared with Ps\$18.8:US\$1 in December 2019. As such, this did not reflect actual cash losses aside from those on debt that were due during the three months in question.

Still, notwithstanding the large exchange-rate losses, the company's finances deteriorated on the back of a 20.3% drop in sales—domestic sales fell by 20.7% and exports fell by 19.4%—as well as the collapse in oil prices amid the coronavirus pandemic. Additionally, Pemex continued to face a hefty fiscal burden, as Ps167.8bn was earmarked for the federal government through taxes and other contributions. Excluding these expenses, the company recorded Ps53bn in earnings before interest, taxes, depreciation and amortisation (EBITDA), and an operating profit of Ps30.2bn.

Despite the losses, the company highlighted a 4.1% increase in oil production, to 1.8m barrels per day, although this has yet to factor in the expected cut of 100,000 barrels per day that Mexico will be forced to make as a result of a [recent agreement](#) with the OPEC+ group of countries. The government's insistence on ramping up refining activity, which is currently one of the company's major sources of losses not related to the exchange rate, is fuelling investor concerns about whether the company's business plan is viable.

### Impact on the forecast

The huge exchange-rate losses seen in the first quarter are unlikely to be repeated, barring a further depreciation on the scale seen this year. However, lower sales and exports will continue to affect the company's net earnings. We expect the company to continue operating, depending on government support in order to remain viable.

## Business confidence falls sharply in April

May 14, 2020: Policy trends

### Event

According to the national statistics institute (INEGI), business confidence suffered a brutal hit in April, with the full impact of the coronavirus (Covid-19) pandemic being felt across all three sectors covered in the index.

### Analysis

Confidence for manufacturing slumped by 6.2 points, to 37.4 (out of 100, with 50 being the threshold of optimism), with all five sub-categories showing declines, including a double-digit decline (to 18.9) in whether manufacturers believe that now is the right moment to invest. On the positive side, expectations for the future economic conditions of companies declined by less than three points and remained in optimistic territory (51.3). Nonetheless, this is still the lowest level since early 2009.

Of the three sectors, commerce showed the sharpest decline, of 6.8 points, to reach 38.5. Companies believing that this is the right time to invest plunged by 12.6 points, to just 7.9, the lowest of any sub-category in the index. The smallest declines echoed those in manufacturing, and future expectations for the national economy and for the firm remained in positive territory. Lastly, construction declined by 6.5 points, to 38.5. The results from the five sub-categories also paralleled those of commerce, with the belief that this is the right moment to invest dropping the most steeply of any category in the index, by 14.7 points, to 8.6.

The results come as no surprise against the backdrop of the contraction in economic activity that began in March and extended into April. The weaker declines seen in business expectations, particularly those for the firm, are a positive surprise, given that the government has not announced any major business support measures, although many businesses have managed to remain partly or fully open, as lockdown and self-isolation measures have been voluntary.

INEGI also announced that the monthly consumer confidence release had been cancelled for April and May. It is reasonable to assume that consumer confidence also suffered a sharp contraction, although some major retailers have remained open. There is evidence that some big-ticket items have suffered major declines; auto sales collapsed by 64.5% year on year in April.

### Impact on the forecast

Business confidence will continue to worsen, although news that the government is seeking to reopen certain sectors of the economy, starting with export-oriented manufacturing (to the US) from mid-May, should help. However, this will be balanced by the potential for a worsening of the pandemic and continued weak global economic conditions.

## Car production collapses to almost zero in April

May 14, 2020: Economic growth

### Event

Car production plummeted by 99% year on year in April, as a result of the coronavirus (Covid-19) pandemic, which has essentially put the entire industry on hold.

### Analysis

The monthly decline in production is the largest in the history of Mexico's car industry and far exceeds [the decline recorded in March](#). Of the 12 car companies that currently have productive facilities in the country, only two showed activity—Kia (South Korea) with 3,704 units (down from 24,400 last year), and Ford (US) with just 18 units (down from 22,296 last year). As such, the total reached just 3,722 vehicles, compared with 300,106 in April 2019. For the first four months of the year as a whole, production has fallen by 29.5% year on year.



The figures for exports were also dramatic, showing a 90% drop year on year to just 27,889 units (from 284,471 in 2019). Only BMW (Germany), FCA (Italy), General Motors (US), and Kia had exports of over 1,000 units. Domestic car sales were also down by 64.5%. These include both domestic production and imports.

Given the importance of the automotive industry (particularly as a source of exports), there has been intense pressure to reopen the sector in conjunction with that in the US. Many carmakers that operate in Mexico have announced factory reopenings in the US or Europe starting from early May. The US government has also urged Mexico to begin reopening factories, given the deep supply chain linkages between the two countries (some 40% of parts in US car production come from Mexico). The Mexican government has announced that some automotive plants will be able to restart operations from May 18th.

Nevertheless, there are questions as to whether the industry is capable of reopening with proper safety precautions, which could increase the risk of localised outbreaks. There have been numerous government closures of plants along the border, and many border cities (site of most manufacturing) remain the most affected after the capital, Mexico City.

### Impact on the forecast

Production should slowly restart from May 18th, but demand will remain depressed in the near term. The collapse in production of one of Mexico's most important exports is in line with our forecast for a deep 9.5% contraction in real GDP this year, which remains unchanged.

## Banxico makes further interest rate cut

May 19, 2020: Monetary policy outlook

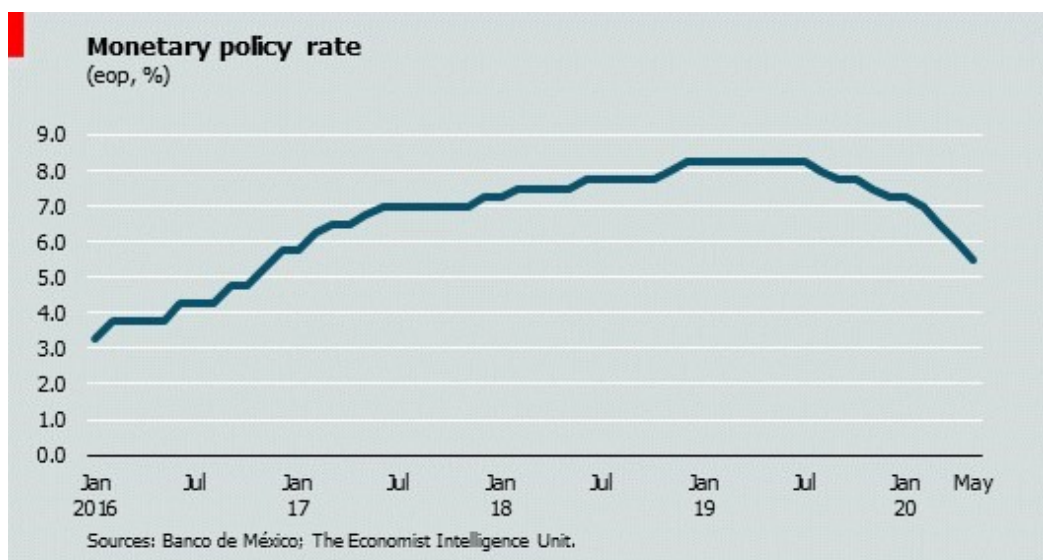
### Event

The Banco de México (Banxico, the central bank) has made a 50-basis-point cut to its monetary policy rate—which now stands at 5.5%—as evidence emerges of a deepening recession, owing to the coronavirus (Covid-19) pandemic.

### Analysis

Banxico's move comes a few weeks after preliminary data for the first quarter [showed a 1.6% quarter on quarter contraction](#) in real GDP. Much of this was driven by reduced economic activity resulting from voluntary quarantine measures imposed in March. Given current observance levels as the measures remain in effect, we expect an even steeper contraction in the second quarter. Banxico noted that this has created a wide output gap and, coupled with easing inflation (just 2.2% in April mostly as a result of the decline in non-core prices), has created the space for a rate cut.

Banxico mostly identified downside risks to inflation as a result of the output gap and lower global prices, mainly in energy. Upside risks included a more persistent or higher pace of depreciation, as well as potential supply chain disruptions in various key goods and services. Overall, however, monetary authorities did not specify which risk offsets the other. Following its sharp early March depreciation, the peso has gained some modest ground over the course of May, and currently stands below Ps24:US\$1.



The rate cut was expected, given the need for a more accommodative monetary policy stance amid the economic challenges from the pandemic fallout. Previously, Banxico had introduced a number of additional measures to support financial markets and businesses, although no new measures were announced this month. At 5.5%, however, the policy rate still remains high by recent historical comparison, which suggests that there is plenty of leeway for further cuts. Still, we expect Banxico to be more cautious going forward, given sensitivity around a weaker exchange rate and potential pass-through to inflation.

### Impact on the forecast

We expect Banxico to be more cautious with further rate cuts, and for the rate to end 2019 at 4.5%. However, risks are tilted towards more aggressive cuts, particularly if the second-quarter contraction in real GDP is steeper than we currently anticipate.

### Analysis

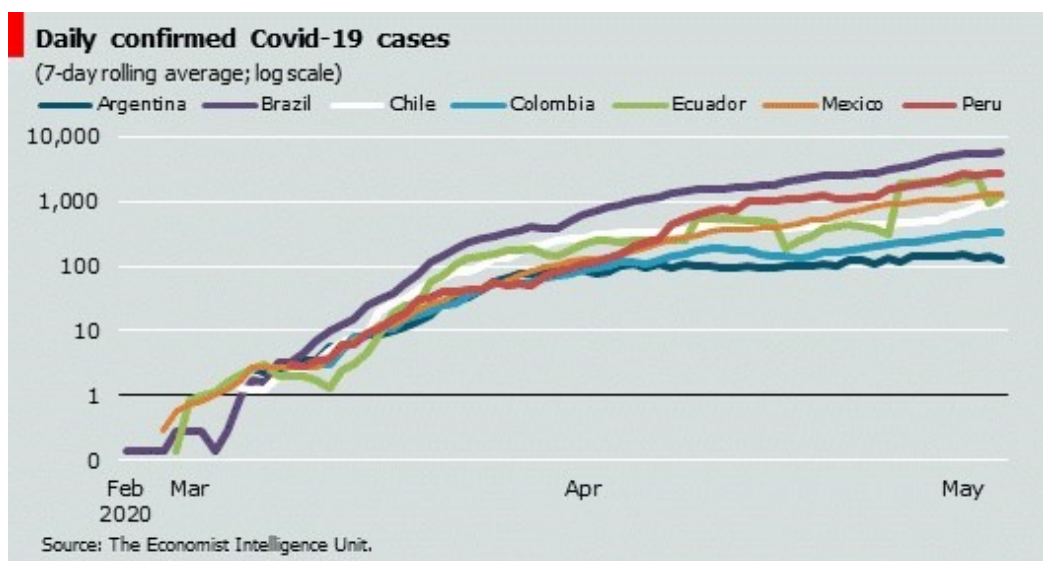
## Latin America coronavirus weekly brief: May 5th

May 5, 2020

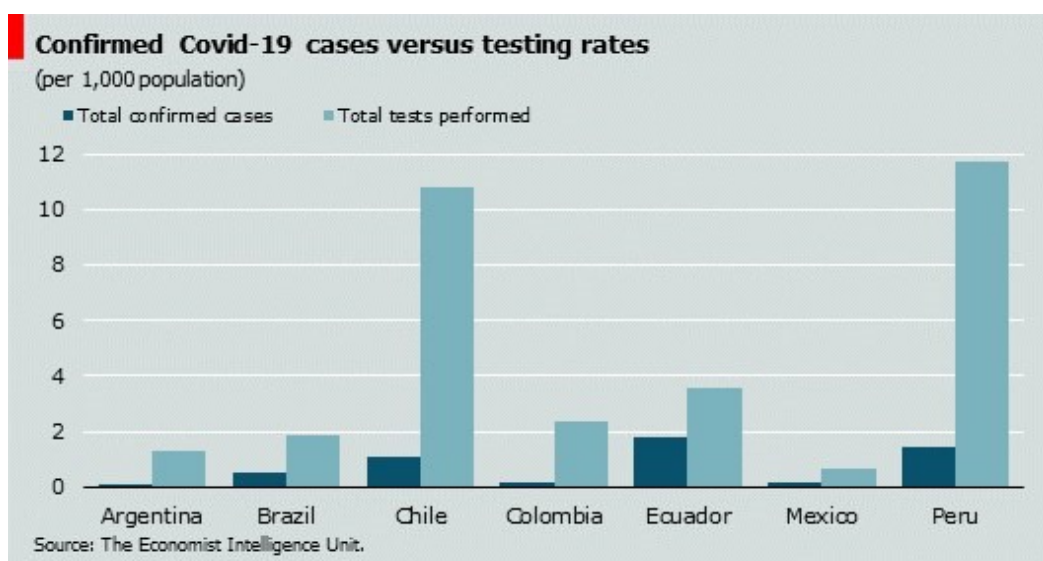
Countries in the region have had varying degrees of success in containing the novel coronavirus (Covid-19). However, amid mounting political and economic pressure, and in the context of limited room for continued stimulus, policymakers across the region are now assessing how best to lift quarantine measures and to pave the way for a gradual economic normalisation. The Economist Intelligence Unit does not expect an easing of nationwide lockdowns to imply a return to "business as usual" anywhere in the region. By contrast, poorly implemented exit strategies could produce a second wave of coronavirus infections, further delaying prospects of economic recovery.

### Is Latin America flattening the curve?

Broadly speaking, there is no clear indication that the coronavirus caseload has peaked in region. With the possible exception of Argentina, the number of daily infections in Latin America's seven largest economies (LAC7) continues to trend upwards.



The implementation of mandatory quarantine measures by federal and local governments across the region has helped to contain the spread of the virus somewhat, with most countries seeing significant increases in their doubling times. However, even a fairly aggressive suppression strategy has not prevented coronavirus hotspots from popping up in the region, as evidenced by the rapidly deteriorating situation in Guayaquil (Ecuador).



We are especially concerned that the official data considerably understate the extent of transmission within the region, given the extremely low level of testing. Unsurprisingly, there is a

strong correlation between the testing rate in a country and its detection of coronavirus infections. Among the LAC7, the governments of Chile and Peru have acted the most expeditiously to purchase testing equipment and to expand laboratory capacity—giving those countries an "early mover" advantage. By contrast, in Brazil and Mexico, a failure on the part of the federal government to recognise the severity of the crisis meant that the burden of testing fell disproportionately on state and local governments in those countries. That said, in most other LAC countries, political will was not an impediment to an aggressive testing strategy. Instead, the majority of governments found themselves the victims of circumstance; a spike in global demand for testing equipment and chemical reagents meant that LAC's low- and middle-income countries had to compete against wealthier economies, effectively forcing them to the back of the queue.

Assessing the on-the-ground situation in Latin America is complicated by poor data availability. Even official figures on coronavirus-induced deaths are problematic, given high levels of misreporting. Although data on excess mortality are not available for Latin American countries, statistics from other developing economies may serve as a guide for the scale of misreporting. For instance, in Jakarta (Indonesia), data on excess deaths suggest that official coronavirus figures there might have captured as little as 5% of the true toll.

## A risky reopening

The lack of reliable data creates significant challenges for policymakers in formulating their exit strategies. Nonetheless, most governments lack the resources and the operational capacities to provide economic support to consumers and businesses for months at a time, making a gradual easing of quarantine measures a hard necessity.

Given the unprecedented nature of the pandemic, there is no set playbook for policymakers to resort to and each economic reopening is likely to have its peculiarities. In [Ecuador](#), the administration of Lenín Moreno has created a "traffic light" framework, wherein the reopening will be heterogeneous across the country, with local governments deciding on the extent to which quarantine measures should be eased in their respective regions. Although the system could ease the economic fallout in the country, the variance in opening times will pose significant co-ordination and communication challenges that may well undermine containment efforts.

Elsewhere, in [Chile](#), the government of the president, Sebastián Piñera, is pushing forward with plans to issue identity cards to individuals who have recovered from a bout of the coronavirus and who are perceived to have developed immunity. The cards are part of the government's Safe Return programme, which seeks to gradually dilute restrictions on movement and activity, and to reopen the economy amid the pandemic. The concept, however, has faced widespread criticism as it could create a false sense of security among the population and lead to cases of reinfection.

In [Argentina](#), [Colombia](#), and [Peru](#), respective governments are adopting more of a sectoral approach to reopening the economy, with priority given to non-labour intensive industries and to activities in low-infection localities. In the region's two largest economies, Brazil and Mexico, the debate on exit strategy is still some time away, given that these countries were among the last to implement containment measures and are therefore more exposed to the risk of a full-blown public health crisis.

In the coming days and weeks, we will closely monitor the implementation of the various exit strategies that have been developed by regional policymakers. We expect there to be a high degree of flexibility in the approach taken by a given country, owing to the uncertainty surrounding potential public health and economic outcomes. Broadly speaking, the risks to our outlook remained skewed to the downside. Even a relatively successful economic reopening is unlikely to produce a V-shaped recovery, given that consumer and business sentiment will not quickly recover to pre-coronavirus levels. Moreover, a poorly implemented exit strategy could well generate a second wave of coronavirus infections—especially as the southern hemisphere moves towards winter—and portend a much deeper economic catastrophe.

## Some indicators surprise on the upside amid economic crisis

May 15, 2020

**The Mexican economy [contracted by 1.6%](#) quarter on quarter (seasonally adjusted) in the first quarter of the year, with many other indicators, such as a collapse in car production,**

**highlighting the scale of the slump. However, a number of indicators appear to be bucking the trend, at least temporarily. These include an increase in fiscal revenue in the first quarter, as well as a rise in workers' remittances to record levels in March and April. The unemployment rate also fell in March, despite rising formal job losses. However, it is unlikely that these trends will be maintained as the recession deepens.**

The 1.6% first-quarter contraction was mainly driven by March data, which highlight the impact of coronavirus-related reductions in economic activity. These vary by state, but have affected many key sectors such as tourism and hospitality, as well as manufacturing. Social-distancing measures have been voluntary but nevertheless resulted in a decline in commercial activity, although many low-income workers—particularly those who are self-employed in the informal sector—have been forced to continue working, given the lack of government support for small businesses or independent workers.

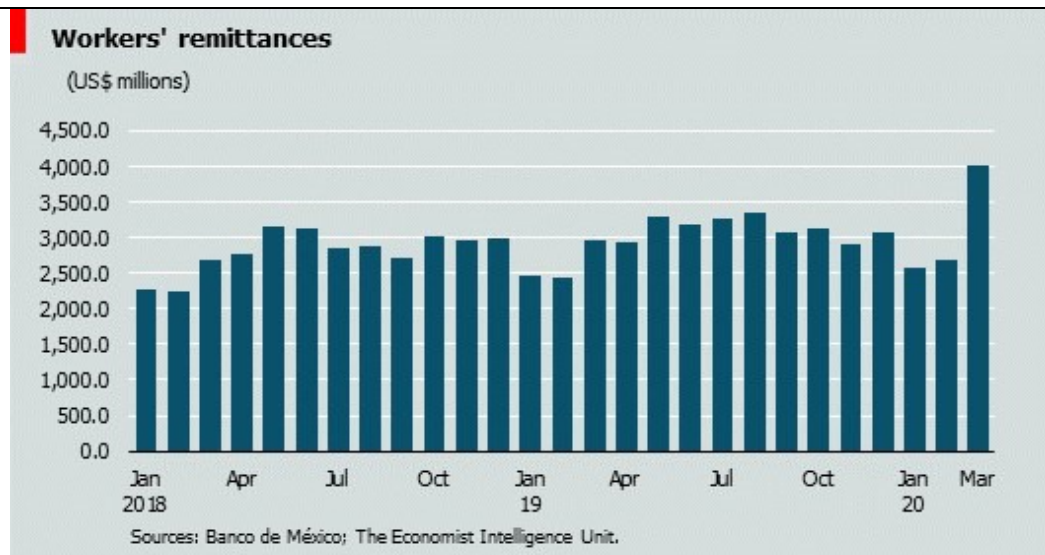
## **Tax revenue on the rise**

Despite these economic challenges, the government recorded an unexpectedly sharp rise in fiscal revenue in the first quarter. Overall fiscal revenue was up by 9.2% in real terms, to 6% of officially estimated GDP. The increase in tax revenue alone was even more impressive, rising by 13.3% to 4.1% of GDP (the highest-ever recorded tax take in a quarterly period as a share of GDP). The unexpectedly strong tax increase was reflected across all tax subsectors and was due to increased vigilance by tax authorities and fines applied for past tax avoidance.

Given that the performance was driven largely by fines, revenue growth is unlikely to maintain its strong streak going forward. Amid the recession, we expect to see a sharp decline in income taxes and value-added tax (VAT), in line with output. Fiscal dynamics will also be affected by a rise in the debt stock, which grew to 48.7% of GDP, nearly halfway towards the government's projected end-year total of 52.1%. This is almost entirely due to the sharp depreciation of the peso over the quarter, rather than reflecting a major build-up in debt. In line with our expectation for a deeper economic contraction than that assumed by the government, and assuming that the fiscal accounts deteriorate substantially on the first-quarter level, our forecast also assumes a higher end-year debt stock, of 58.7% of GDP, a level which will put additional pressure on creditworthiness and affect financing costs.

## **Remittances at recent highs**

Another surprise in the March data came from workers' remittances. Despite the slowing global economy, record remittances were received in Mexico during March, with the total figure jumping by an extraordinary 36% in US dollar terms, to US\$4bn. This was due to a larger number of transactions (up by 15%, to 10.6m), as well as a higher average transaction size (up by 18%, to US\$378m). In peso terms, remittance inflows were even more dramatic, representing an increase of 55% compared to March 2019. Various factors accounted for this increase. Peso depreciation will have incentivised Mexicans in the US to send more, and some Mexicans returning to Mexico as a result of job losses in the US will have taken their savings with them. A similar phenomenon was experienced during the 2008-09 recession.



In line with the March surge, we expect that remittance flows will decline gradually over the coming months, particularly in view of huge job losses in the US seen so far during the pandemic, particularly in industries that employ large numbers of Mexican workers, such as retail, construction and hospitality. The US unemployment rate hit 14.7% in April, but the rate among the Hispanic population was much higher, at 18.9%.

## Headline unemployment holds up

Perhaps the most surprisingly resilient indicator, on the face of it, was the unemployment rate, which actually declined in March, to 3.3%, from 3.7% in February, in seasonally adjusted terms. However, this will reflect the statistical impact of a large decline in labour force participation as people stopped looking for work. Underemployment increased from February, but only slightly, by 0.1 percentage points (to 9.3%). These figures are particularly striking in the light of the heavy losses seen in formal employment in March, with the number of workers with social security affiliation (the closest proxy to formal employment) down by 0.6%. Although a possible interpretation is that there was a substitution of formal for informal jobs, the latter also declined in March, to 55.8% of the total.

The March results, of course, will not be reflective of the full scale of the looming jobs crisis, bearing in mind that about 500,000 more formal sector job losses were recorded in April (overall unemployment figures for April have not yet been released). The country's high levels of informality may cushion the unemployment rate and may therefore be understating the scale of job losses, or rather the loss of working hours, which may be reflected more in the underemployment rate.

Overall, the fiscal, remittance, and unemployment figures are unlikely to hold up for long, in view of evidence that the recession deepened considerably in April. However, the encouraging figures for tax revenue suggest that the government has more leeway than expected towards ramping up health spending or offering financial support for workers and businesses (although it has so far been unwilling to extend this). The increase in remittances may also offer lower-income families some extra financial cushioning during the peak months of the pandemic. Lastly, unemployment figures will rise in the months ahead as the data come to grips with the reality on the ground. Still, the country's high rate of labour informality will hide the true extent of unemployment.

## Latam coronavirus weekly brief: the outlook for trade

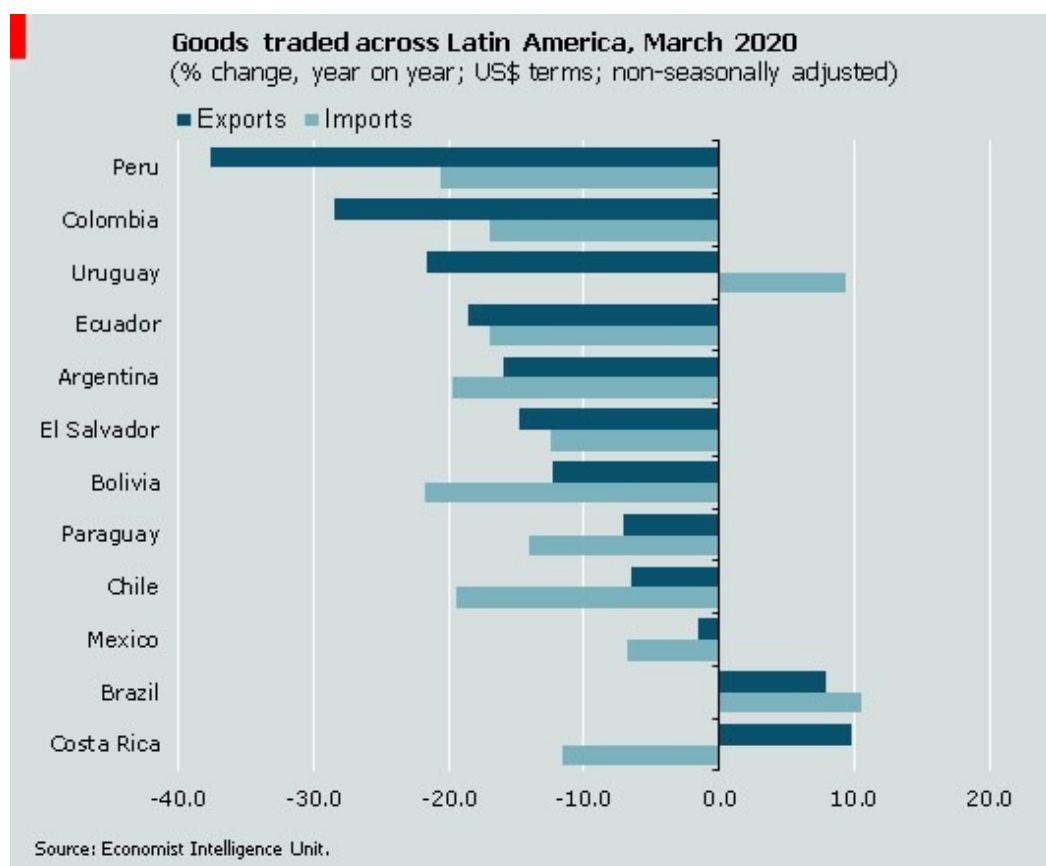
May 19, 2020

- **The latest trade data for Latin America reveal the severity of the initial impact of the novel coronavirus (Covid-19) pandemic on goods trade throughout the region. The March data that are now available for the major economies show double-digit declines in export earnings for the vast majority of countries in the region.**
- **For countries in Latin America and the Caribbean, the full impact of this year's trade downturn will depend on a variety of factors, including commodity dependence, trade openness**

and the structure of trade—including the composition of trade by country. For example, in March-April there were signs of a pick-up in exports to China, even as exports to North America and Europe fell sharply.

- From a balance-of-payments perspective, the collapse in exports will be outweighed in the vast majority of cases by import compression, which will contain current-account imbalances and provide some support for reserves coverage ratios (although these will still be pressured in some cases by sharp portfolio outflows).
- The medium-term outlook for the region's commodity and manufacturing exporters will be shaped by a subdued global recovery, shorter global supply chains, and shifting geopolitical dynamics and protectionism in the context of the growing US-China strategic rivalry. For importers to Latin America, the enormous hit to Latin American households and businesses is likely to make for a slow recovery, although the picture is varied.

Although one month of data does not provide a full picture, the available data for March do show some emerging trends and suggest a varied outlook across the region, reflecting numerous factors including falls in commodity prices, trade disruption and the different government responses to combat the pandemic. Some governments implemented strict quarantine measures early in March (such as Argentina and Peru), while others, notably Brazil and Mexico, dithered. There were clear trends by sector and by trade partner: Latin American exports to China (mainly non-oil commodities) held up better than to the US (industrial goods). On the import side, the recent performance reflects the effects of collapsing demand and weaker currencies, as well as softer commodities prices (giving net oil importers, in particular, some respite).

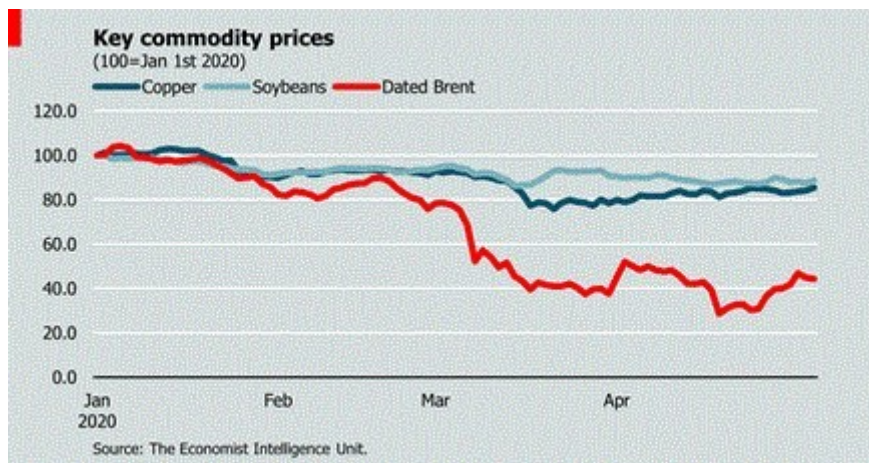


## Weak demand and supply-side shocks hit trade

Across the region, the hit to exports varied substantially by sector. Although industrial goods exporters and diversified economies fared relatively well, commodities exporters and poorly diversified economies were hit hard. Among the commodity producers, moreover, exporters of hard commodities (oil, gas and minerals) were hit harder overall than exporters of soft commodities (agricultural products): hard commodity exports from 12 selected large Latin American countries declined on average by around 24% year on year, whereas soft commodity exports from the same group of countries down by only 15%. Weak demand for industrial raw materials, particularly in China and the US, and falling commodity prices, especially oil, were the main factors behind this

sharp decline.

The collapse in oil demand because of the pandemic (as well as a price war triggered by Saudi Arabia) saw international oil prices plummet earlier this year, whereas prices of minerals, ores, metals and agricultural goods have declined with the global shock, but by much less. Economies dependent on hydrocarbons exports, such as Colombia, Ecuador and Bolivia, were particularly affected by the oil shock, with export revenue overall falling year on year by 29%, 19% and 12%, respectively. Entering the coronavirus crisis, commodity prices were already on a downward trend, and we expect prices to remain subdued for the remainder of 2020, which will hurt South American countries hardest.



Global prices and demand were not the only factors at play, however, as was demonstrated by the contrasting performance of the region's two big copper exporters—Chile and Peru. Exports from Peru were much more affected than those from Chile, as Peru quickly imposed some of the strictest containment measures in the region, while Chile enforced relatively mild restrictions. In fact, in Chile, mines (mostly located in isolated areas) largely have been allowed to remain open. As a result, while both countries' exports were hit by the pandemic, Peru's overall exports in March dropped by nearly 40% year on year, whereas Chile's declined by 7%.

A supply-side shock consisting of severe disruptions to global supply chains was another important driver of falling exports in the region in March. This has hurt regional trade and exports of light manufacturing goods to the US, in particular. El Salvador, one of the Central American countries most dependent on the US for its garment exports, saw its exports contract by 15% in March year on year. Assuming that a recovery in global manufacturing will be slow to materialise this year, we expect textile and other light manufacturing exports from the region to remain subdued for at least the rest of this year.

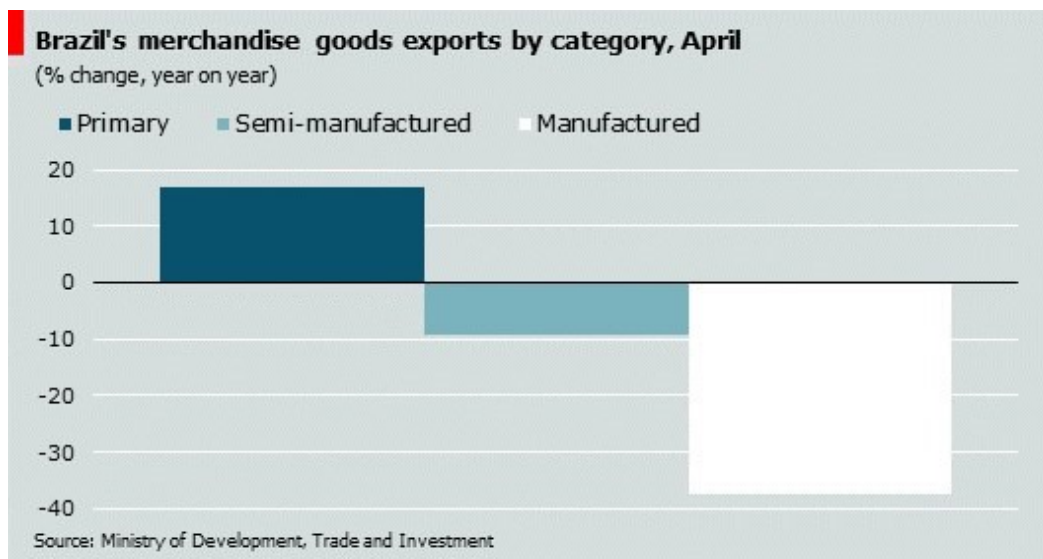
## Pockets of resilience

Despite the pandemic's damage to production and exports, some pockets of relative resilience were observed in the March data, notably in Brazil, Costa Rica and Mexico. In Costa Rica, exports grew by 10% year on year and were mainly driven by an increase in precision and medical equipment exports (one of the country's main exports), reflecting a rise in US demand for medical supplies amid the pandemic. Assuming that countries across the world continue to increase the capacity of their health systems until a treatment and vaccine becomes widely available (which we do not expect to occur before end-2021), this should provide continued momentum to Costa Rica's exports.

In Mexico, trade contracted in March year on year, but significantly less than the majority of other countries in the region, owing to the country's relaxed containment response to the pandemic. The demand slump in the US for (non-medical) capital goods and the collapse of global oil prices were the underlying drivers of the drop in trade in March. However, total export earnings decreased by just 2% year on year to US\$38bn (there was a 1% decline in exports to the US). Although industrial production has been severely hit by the pandemic, we assume a resumption of automotive production by June to lead to a modest recovery of the sector's performance.

Brazil was probably the biggest outlier in the region, with both export earnings and imports growing in March year on year, although performance weakened somewhat in April—the first full

month of quarantine (April data are not available for most countries). A record soybean harvest and exports to China (which was eager to ensure supplies of foodstuffs fearing logistical disruptions) helped to explain Brazil's relative resilience in March-April. For example, in April exports (mainly commodities) to China grew by 28% year on year, while those to the US (including more manufactured goods) fell by 32%. Brazil's primary goods exports grew by over 20%, while sales of manufactured and semi-manufactured goods fell by 34% and 5%, respectively. Meanwhile, imports started to slump in April amid steep currency depreciation, meaning that Brazil registered trade surpluses in March and April.



## Import compression visible in Chile's April data

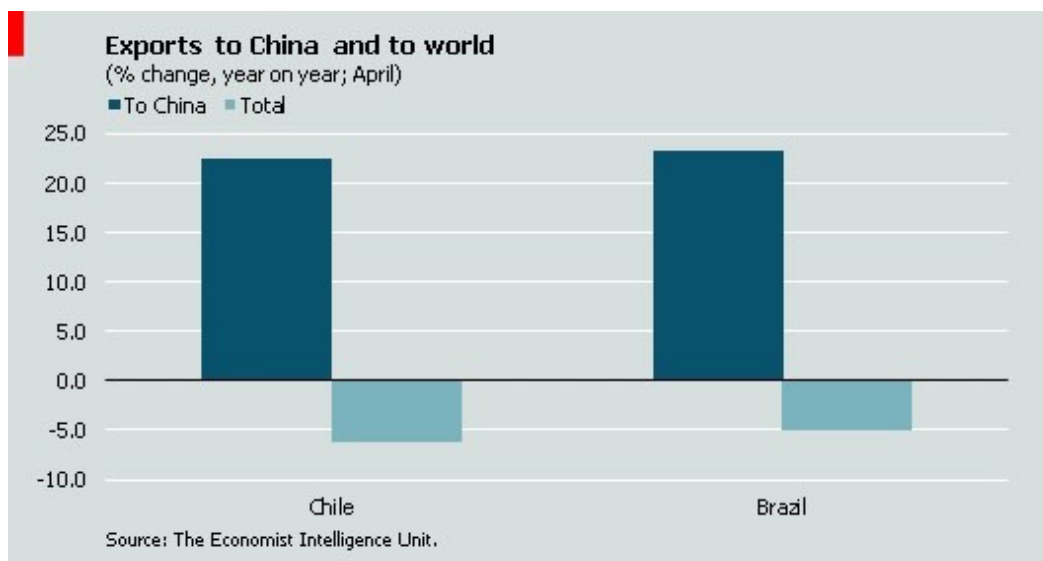
Brazil is one of the few countries in the region to run structural trade surpluses (at least when the Real is not overvalued as it was during the commodity boom of 2005-12), owing to its huge agro-industrial complex. In the rest of the region, although export earnings are falling, we believe that balance-of-payments pressures are unlikely to emerge from the goods trade account because of steep import compression. This is reflected, for example, in Chile, which has also published data for April. Chile posted a US\$1.2bn trade surplus in April, as the import bill fell by more than 20% year on year, outweighing a 6% decline in export earnings. For the vast majority of the region's economies, we expect a similar trend to take hold, as it has during past recessions, keeping the current-account deficit in check. The main exception to this outlook is probably Colombia, which was already running a fairly high current-account deficit and will be hit hard by the collapse of oil prices.

## Looking ahead: trade dynamics will reflect U-shaped global recovery

From a balance-of-payments perspective, the hit to the region's goods export earnings is unlikely to cause severe external pressures, although some pressures on the current account will be felt by countries that are more heavily reliant on services exports (tourism) and workers' remittances (from the US)—both of which will be hit hard. We will be looking at these pressures in forthcoming articles. As for goods trade, the medium-term outlook for a recovery from the 2020 *annus horribilis* (we expect global trade values to fall by about 25%) is clouded by what will probably be a U-shaped global and regional economic recovery—as well as dynamics associated with growing protectionism in the context of post-coronavirus shortening of supply chains and the strategic US-China rivalry. The latter, at least, provides some opportunities for greater hemispheric trade integration with the US, with Mexico best positioned to benefit.

We will be looking at the opportunities and challenges for Latin America as it seeks to take advantage of shifting supply chains in a forthcoming article. However, in the near term, developments are likely to follow trends that were already evident in the data: big soft commodity producers will be hit the least hard and oil producers will be hit the hardest. The mining and manufacturing sectors will be able to operate logistically in accordance with social distancing, but

demand will remain subdued for some time. Domestic demand will, in turn, remain depressed. Combined with recent currency depreciation in much of the region (particularly in Brazil, Mexico and Colombia), this will complicate the outlook for importers into Latin America for quite some time.



One trade bright spot in the near term comes from China, which has entered into economic recovery earlier than the rest of the world, and which is bolstering the export outlook for Latin America somewhat. In this environment, Latin American exporters who are more dependent on the US and Europe may lag behind in coming months. That said, the recovery will depend not just on external demand, but also on domestic capacity; for some exporters, such as Peru, the key challenge will be in devising a successful exit strategy that will allow export activity to get back to a semblance of normality.

## EIU Global Forecast - Sovereign debt crises are coming

May 20, 2020

**The coronavirus pandemic is a game-changer for the global economy; 2020 and 2021 will be lost years in terms of growth. We only expect the global economy to recover to pre-coronavirus levels in 2022. The effects of the pandemic will be felt beyond economic losses; sovereign debt crises are likely. Governments in many developed countries have concluded that increasing public expenses, and therefore public debt levels, is preferable to the widespread destruction of productive capacity during the epidemic. As a result, public debt levels will increase sharply this year. For the most reliable sovereigns, the cost of servicing these much higher levels of public debt will not be an immediate cause for concern.**

### Public debt is piling up

However, the debt pile-ups will eventually have to be confronted. To curb fiscal deficits, governments in most developed countries will not be able to pursue austerity strategies as many did after the global financial crisis. Austerity absorbs political capital, and there might not be enough left to pursue such a plan, especially given that for many countries the last period of belt-tightening was so recent. Governments are also unlikely to be able to make the sorts of savings that could meaningfully reduce debt stocks; in many economies the public sector is much smaller than before the 2008-09 financial crisis, and cuts to healthcare spending, for instance, are unlikely, as the epidemic has brought to light the stress that health systems are under as a result of recent austerity measures.

### Governments have little fiscal room for manoeuvre

Rather than dramatically cutting spending, governments are likely to look at the other side of their balance sheets and consider raising fiscal revenue. Among advanced economies, the trend over the past 40 years has been one of lower corporate and personal income taxes. Demographic changes were going to force governments to reverse this eventually; the coronavirus crisis might

mean that they will have to do it sooner. However, it is not clear whether governments will be able to raise taxes quickly enough for such measures to be sufficient. Investors' appetite for increased amounts of sovereign debt may also wane.

## Sovereign debt crises will quickly spread across the world

As a result, some developed countries will, in the medium term, find themselves on the brink of a debt crisis. This is compounded by the fact that many of the European countries that are among the worst affected by the epidemic, such as Italy and Spain, already had weak fiscal positions before the coronavirus outbreak. South European states are still recovering from years of austerity, combined with high levels of public debt, an ageing population (which is more vulnerable to severe forms of the coronavirus) and persistent fiscal deficits. A debt crisis in any of these countries could quickly spread across the globe, sending the global economy into another economic crisis.

## Multilateral assistance will give poor countries some breathing space

Poorer countries might be among the hardest hit in such a scenario. In an effort to mitigate the economic impact of the pandemic, multilateral financial institutions, together with the world's wealthiest countries, have now offered substantial financial support to help to ease the financial burden on low-income and emerging-market economies. The IMF, the World Bank and other multilateral development banks have ramped up their emergency funding support, debt relief is on the agenda, and the G20 is offering substantial financial support by temporarily suspending debt repayments. These efforts will give the world's poorer countries some short-term breathing space on their balance of payments and free up resources for them to beef up healthcare spending and implement economic stimulus and relief programmes.

## Poorer countries will emerge from the coronavirus crisis even more indebted

However, most new funding (albeit on concessional terms) will be added to the balance sheets of emerging economies, and the debt-assistance package from the G20 is a delay rather than a write-off, so debt repayments will remain outstanding and continue to accrue interest. Many countries will emerge from the current virus-driven economic crisis even more indebted and financially stressed than before. This will raise concerns about their ability to repay external debt in the absence of more comprehensive debt-relief plans.

## Are massive debt restructurings on the cards?

Attention could turn to more widespread debt restructuring and debt relief as the coronavirus crisis unfolds in the developing and emerging world. Steps in this direction would require the leadership of the G20, the backing of multilateral financial institutions and, crucially, the full engagement of China, the world's largest lender to low-income and emerging markets. Adding private creditors to the mix would provide a substantial boost, but this is unlikely. The current fractious nature of global geopolitics and historical precedents suggest that any debt restructuring or write-offs are more likely to occur on a case-by-case basis rather than as a broad-brush policy.

### World economy: forecast summary

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Real GDP growth (%)</b>										
<b>World (PPP<sup>a</sup> exchange rates)</b>	<b>3.4</b>	<b>3.3</b>	<b>3.8</b>	<b>3.5</b>	<b>2.7</b>	<b>-3.4</b>	<b>4.1</b>	<b>3.5</b>	<b>3.5</b>	<b>3.3</b>
<b>World (market exchange rates)</b>	<b>2.8</b>	<b>2.5</b>	<b>3.2</b>	<b>2.9</b>	<b>2.2</b>	<b>-4.2</b>	<b>3.7</b>	<b>2.9</b>	<b>2.8</b>	<b>2.7</b>
US	2.9	1.6	2.4	2.9	2.3	-4.0	2.4	2.2	2.0	1.8
Euro area	2.0	1.9	2.7	1.9	1.2	-8.0	3.8	2.1	1.7	1.6
Europe	2.0	1.9	2.8	2.1	1.5	-7.1	3.4	2.2	1.9	1.7
China	6.9	6.7	6.8	6.6	6.1	1.0	8.0	5.3	5.1	4.7

Asia and Australasia	4.6	4.5	4.9	4.3	3.9	-1.6	5.1	4.0	4.1	3.8
Latin America <sup>b</sup>	0.1	-0.3	1.9	1.7	-0.3	-5.4	3.7	2.7	2.7	2.6
Middle East & Africa	2.3	4.9	1.3	1.0	0.2	-4.1	1.4	3.0	3.3	3.4
Sub-Saharan Africa	2.7	0.8	2.3	2.4	2.0	-3.5	1.7	3.7	3.9	4.3
<b>World inflation (%; av)<sup>b</sup></b>	<b>3.0</b>	<b>3.1</b>	<b>3.2</b>	<b>3.5</b>	<b>3.5</b>	<b>3.1</b>	<b>3.2</b>	<b>3.3</b>	<b>3.2</b>	<b>3.1</b>
<b>World trade growth (%)</b>	<b>2.2</b>	<b>2.1</b>	<b>5.8</b>	<b>3.7</b>	<b>0.9</b>	<b>-24.8</b>	<b>20.9</b>	<b>4.0</b>	<b>3.8</b>	<b>3.8</b>
<b>Commodities</b>										
Oil (US\$/barrel; Brent)	52.4	44.0	54.4	71.1	64.0	38.1	44.0	58.5	65.0	62.5
Industrial raw materials (US\$; % change)	-15.2	-2.2	20.2	2.2	-8.6	-8.5	6.5	3.0	5.1	3.0
Food, feedstuffs & beverages (US\$; % change)	-18.4	-3.5	-1.0	1.6	-4.3	0.9	2.0	1.6	1.8	1.5
<b>Exchange rates (av)</b>										
¥:US\$	121.0	108.8	112.1	110.4	109.0	109.0	107.8	104.2	102.4	98.5
US\$:€	1.11	1.11	1.13	1.18	1.12	1.10	1.12	1.17	1.21	1.24

<sup>a</sup> Purchasing power parity. <sup>b</sup> Excludes Venezuela.

Source: The Economist Intelligence Unit.