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Mexico´s Economic Outlook in 2010[1]

Background

In 2009, Mexico was hard hit by the global financial crisis –with the situation compounded by the H1N1 virus outbreak. Mexico authorities´ quick response to the financial crisis helped to stabilize the economy, and since then (second quarter of 2009) financial market conditions have generally improved. Nevertheless, the Mexican economy will likely post a contraction close to 7 percent for the 2009 year.

Outlook

Real GDP is expected to recover in 2010 with a growth of 3.1 percent, according to IMF estimates. Inflation is expected to converge towards the 3 percent target of the Central Bank by early 2011. The balance of payments is projected to continue to gradually strengthen. The public deficit this year is projected to be less than 1 percent of the country´s GDP, and budget expenditures approved by the Mexican Congress at the end of last year will be generally balanced in 2010.

Mexican banks have been relatively resilient in the face of the global financial crisis but the sharp downturn has put pressures on credit for consumers. This situation however has begun to improve in the last quarter of 2009 as it is being reflected in the uptick in consumer demand for durable goods since October last year. For instance, sales of new automobiles accelerated during the October – December period by 8.7 percent from the previous quarter of last year.

The Mexican Government implemented a series of fiscal stimulus that helped to ameliorate impacts, particularly on the labor market, industrial production and among consumers. The stimulus ranged from direct subsidies to industry sectors to tax credits and tax reductions to stimulate demand.

Although recovery in employment will be weak in the first semester of this year, it is expected to gradually increase during the second part of 2010, as industrial production, services and manufacturing fully recover to the level previous to the ensuing of the financial crisis.

Recent strong performance indicators in the U.S. economy point out towards sustained growth which in turn will help Mexico to achieve healthy economic growth in 2010 and 2011. Mexico´s exports to its main trading partner have resumed growth in December, albeit modestly.

The 2010 budget approved with fiscal changes in the consumption tax (VAT) from 15 to 16 percent will yield 1.8 percent of GDP in fiscal revenue to the Government. The tax package represents an important step towards increasing the low tax ratio and reducing budget reliance on declining oil revenues.

1.- Information compiled from data published by Mexico´s Secretary of Finance and Public Credit, and the International Monetary Fund. Embassy of Mexico in Japan.

For further information please visit the website of the Presidency of Mexico (www.presidencia.gob.mx), the Embassy of Mexico in Japan (www.sre.gob.mx/japon) or contact the Economic Section of the Embassy (Tel. 03-3581-1131).