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Mexico (http://www.worldbank.org/en/country/mexico)

Overview

Context

Strategy

Results

The Mexican economy is decelerating with annual GDP growth slowing to 2.3 percent in 2016, down from 2.6 percent in 2015. A challenging external environment of modest global growth and stagnant trade, tamed though gradually rising oil prices and diminished capital flows contributed to this reversal. Economic growth in 2016 was driven almost exclusively by private consumption supported by low inflation, workers' remittances, credit expansion, higher real wages and formal sector job creation.

Weakening external conditions led to a further depreciation of the Mexican peso against the US dollar. Pass-through of currency depreciation to inflation remained limited for most of 2015 and 2016, with an annual average of consumer price inflation of 2.7 and 3.4 percent, respectively. Nevertheless, additional currency weakness and possible non-linear effects in the pass-through to inflation led to a strong monetary policy response raising the overnight interest rate by a total of 350 basis points over the past 15 months, to 6.5 percent by March 2017. An increase in domestic fuel prices by some 15-20 percent in January 2017 raised annual consumer price inflation by February 2017 to 4.9 percent. A structural change in domestic fuel pricing policies shifting, among others, to a fixed excise tax on fuels, may increase the pass-through of currency depreciation to inflation.

Increased external competitiveness from currency depreciation has not yet led to a vigorous expansion of exports. A modest reduction in the current account deficit by US$ 5.5 billion to US$ 27.9 billion (2.7 percent of GDP) in 2016 was mainly the result of a decline in imports and a significant increase in workers' remittances (up by 8.8 percent to US$ 27 billion). A surge in Foreign Direct Investment (FDI) fully financed the current account deficit, thereby lessening reliance on diminishing portfolio capital flows.

A further economic slowdown is expected as uncertainty with respect to the scope of a potential renegotiation of the North American Free Trade Agreement (NAFTA) and the future of the U.S.-Mexico relations is holding back gross fixed investment in Mexico, particular with respect to the expansion of trade-related activities in the manufacturing industry.

The public sector met its deficit target with an overall fiscal deficit of 2.9 percent of GDP in 2016. The growth of non-oil tax revenue compensated for the fall in oil revenues and allowed the government to meet additional spending requirements, such as financial support to the National Oil Company PEMEX, increasing interest payments and pension costs. The ability of the public sector to contribute to growth is constrained by the need for fiscal consolidation and for stabilizing the debt-to-GDP ratio.

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LENDING

Mexico: Commitments by Fiscal Year (in millions of dollars)*

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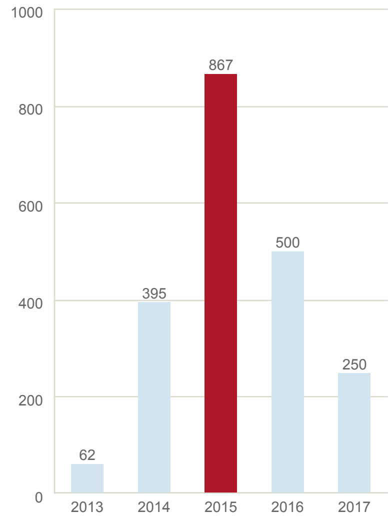

*Amounts include IBRD and IDA commitments

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