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MEXICO

Table 1	2021
Population, million	126.4
GDP, current US$ billion	1295.4
GDP per capita, current US$	10249.5
International poverty rate ($2.15)[a]	3.1
Lower middle-income poverty rate ($3.65)[a]	9.9
Upper middle-income poverty rate ($6.85)[a]	32.5
Gini index[a]	45.4
School enrollment, primary (% gross)[b]	104.7
Life expectancy at birth, years[b]	75.1
Total GHG emissions (mtCO2e)	686.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2017 PPPs.
b/ Most recent WDI value (2020).

Real GDP growth is projected to expand by 1.8 percent in 2022, with inflation at its highest level in 20 years. Growth is projected lower in 2023 and pick up in 2024, with risks of more persistent than anticipated inflation; accelerated monetary policy normalization in the U.S.; and supply chain disruptions. Monetary poverty is projected to decline due to significant job creation and higher real per capita labor incomes. Addressing structural constraints to economic growth and inclusion remains critical for a robust medium-term economic recovery.

Key conditions and challenges

Mexico's economic growth is supported by its trade openness, a strong export manufacturing base connected to Global Value Chains that are integrated with the U.S., and a stable macroeconomic framework. Mexico's potential output growth has declined in the last decade due to weak productivity growth and low investment. Private investment and productivity growth are hampered by limited access to finance, insecurity, high regulatory burdens, infrastructure bottlenecks, uncertain business environment, and inadequate provision of public services, with significant heterogeneity across sectors, regions, and firms. Mexico is one of the few countries that has not recovered to pre-pandemic economic levels.

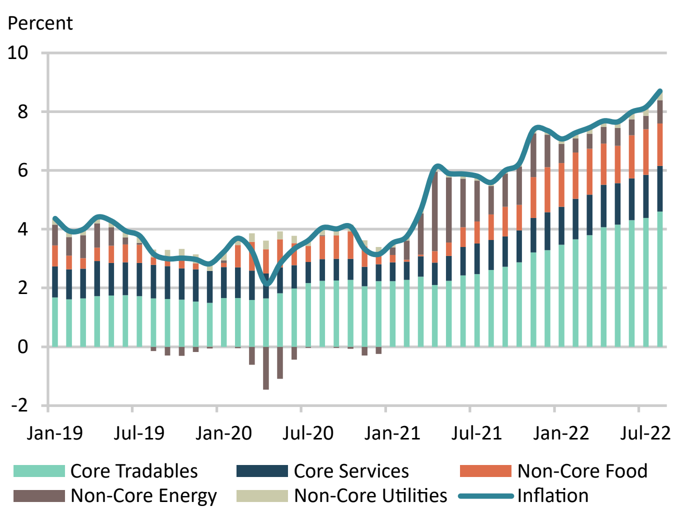
The challenges to household income generation persist, particularly in rural areas in the southern states. Multidimensional poverty rates vary widely by state, ranking from 22.5 percent in Baja California to 75.5 percent in Chiapas. About 8.5 percent of the Mexican population lived in extreme multidimensional poverty in 2020, but deprivations are significant in non-monetary dimensions; for example, 52 percent of the population lacked housing quality and space.

The economy faces significant and persistent inflation, which started in 2021 with external shocks, primarily in energy prices, and was exacerbated by food inflation and supply chain disruptions. The Central Bank has acted swiftly, raising the policy rate by more than 400 basis points since early 2021. The federal government has also reacted by reducing fuel taxes, increasing electricity subsidies, incentivizing grain production through price guarantees and fertilizer distribution, reducing tariffs and quotas for fertilizers, and freezing transportation costs. These measures are estimated to cost around 2 percent of GDP. Since 2020, Mexico's fiscal position has improved, thanks to the contained fiscal response to the pandemic, tax settlements with large companies, and a boost in oil revenues. However, deficit and debt levels are still above pre-pandemic levels. Mexico needs broader revenue-enhancing reforms to preserve debt sustainability, particularly given the current deficit and additional spending pressures required to increase access to quality public services and infrastructure. PEMEX's challenging financial situation calls for a turnaround.

Recent developments

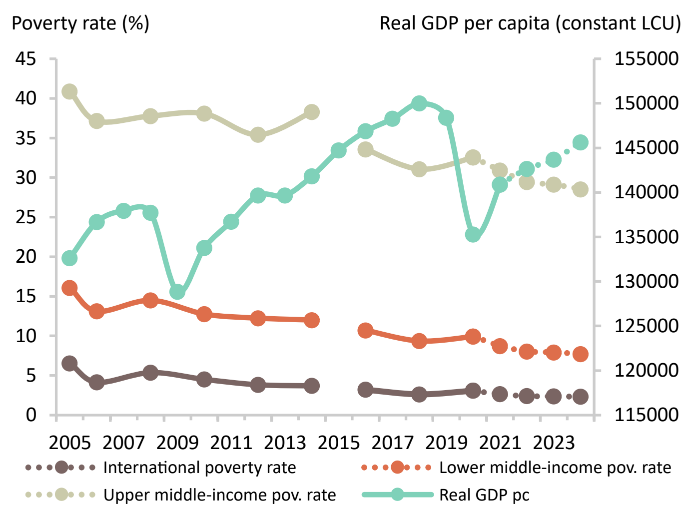
Real GDP grew 1.9 percent in the first half of 2022, compared to the same period last year. Correspondingly, real per capita labor income increased by 4.8 percent over the same period. Transportation, food, and services sectors drove the recovery. Between 2021 Q2 and 2022 Q2, the economy added 2.2 million jobs, although most gains correspond to informal and low-earning positions. Unemployment and underemployment rates and female labor force participation are almost back to pre-pandemic levels.

FIGURE 1 Mexico / Inflation, and core/non-core components contribution to overall inflation



Source: INEGI.

FIGURE 2 Mexico / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

The current account deficit was 1.3 percent of GDP in the first half of 2022. Imports recovered due to inventory re-stocking and a return to normalcy in supply chains. Imports dynamism was attenuated by exports performance. Despite international turbulence and volatility, the exchange rate has remained stable. From January to July, remittances amounted to US$32.8 billion.

Annual headline (core) inflation reached 8.7 (8.1) percent in August 2022, with the cost of the basic basket of goods increasing by 9.9 percent. Food and energy-related goods and services explain the bulk of total inflation. The Central Bank increased the policy rate from 5.5 in December 2021 to 8.5 percent in August 2022 to maintain medium-term inflation expectations within the target (3 ± 1 percent).

Despite inflation, job gains, higher labor earnings, and remittances are expected to support higher real household incomes. Monetary poverty using the US$6.85 a day per capita (2017 PPPs) poverty line is projected to decline by 1.4 percentage points between 2021 and 2022, from 30.9 to 29.5 percent.

The fiscal deficit was 1.8 percent of GDP in the first half of 2022. Public sector revenues benefited from the economic recovery and higher oil prices, but higher revenues were partially offset by the fiscal stimulus to contain inflation. Expenditures remained limited, with a focus on completing public investment projects. Mexico's credit rating remains investment grade, despite Moody's downgrade in July 2022.

Outlook

The economy is expected to expand by 1.8 percent in 2022, 1.5 percent in 2023, and 2.1 percent in 2024, reaching pre-pandemic levels at the end of 2023. The main driver of this trajectory is the economic slowdown in the U.S. At the same time, high inflation and moderate recovery in labor income are projected to continue to weigh on consumption. Private investment is expected to remain weak as regulatory uncertainties persist.

The Central Bank is anticipated to further raise its policy rate to contain inflation, anchor inflation expectations, and accommodate the normalization of monetary policy in the U.S. Inflation is projected to fall within the target band by the end of 2023.

The 2023 public budget will continue the fiscal consolidation process, aiming to stabilize the public debt-to-GDP ratio around 50 percent, supported by the enacted tax administration reform, economic growth, and high oil prices. The fiscal deficit is expected to decrease considerably by 2024 as public infrastructure projects are completed.

Poverty is expected to continue its decline but at a lower speed due to a slower economic recovery and to job gains being concentrated in low-pay positions. The poverty rate (US$6.85 a day per capita, 2017 PPPs) is projected to decline to 29.1 and 28.5 percent in 2023 and 2024, respectively. Risks of climate change, inflation, and global markets disruption could contribute to a greater risk of food insecurity, as nearly 52 (33.9) percent of the rural (urban) population had incomes below the basic food basket in 2022 Q2.

Risks are mostly tilted to the downside. Lasting inflationary pressures may further erode households' purchasing power and keep interest rates high, affecting investment and consumption. Global uncertainties may affect external financial conditions, especially in emerging markets, and worsen international supply chain disruptions. Lower-than-expected growth or a faster than anticipated normalization of the policy rates in the U.S. could impact the Mexican economy. New waves of COVID19 could affect mobility and private consumption. Regulatory uncertainty, mainly around the energy sector, may result in international disputes and restrained private investment.

TABLE 2 Mexico / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-0.2	-8.1	4.8	1.8	1.5	2.1
Private Consumption	0.4	-10.3	7.5	1.7	1.5	2.2
Government Consumption	-1.8	-0.2	1.0	0.6	0.3	0.1
Gross Fixed Capital Investment	-4.7	-17.7	9.5	2.1	2.0	1.8
Exports, Goods and Services	1.5	-7.3	6.9	6.9	5.3	6.5
Imports, Goods and Services	-0.7	-13.8	13.6	6.7	5.2	6.0
Real GDP growth, at constant factor prices	-0.2	-7.8	4.7	1.8	1.5	2.1
Agriculture	-0.3	0.3	2.2	1.9	1.5	1.6
Industry	-1.8	-9.5	6.4	2.5	1.7	2.1
Services	0.6	-7.5	4.1	1.4	1.4	2.1
Inflation (Consumer Price Index)	3.6	3.4	5.7	8.0	5.3	3.5
Current Account Balance (% of GDP)	-0.3	2.5	-0.4	-1.2	-1.7	-1.6
Net Foreign Direct Investment Inflow (% of GDP)	1.9	2.4	2.6	2.3	2.2	2.0
Fiscal Balance (% of GDP)	-2.3	-3.9	-3.8	-4.0	-4.2	-2.9
Debt (% of GDP)	44.5	51.6	49.9	48.8	50.0	50.0
Primary Balance (% of GDP)	0.4	-1.0	-1.2	-0.8	-0.7	0.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.0	3.1	2.6	2.4	2.4	2.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.0	9.9	8.7	8.0	7.9	7.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	0.0	32.5	30.9	29.5	29.1	28.5
GHG emissions growth (mtCO2e)	0.2	-2.2	4.6	2.1	1.2	1.6
Energy related GHG emissions (% of total)	63.6	63.4	64.5	64.7	64.7	64.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on SEDLAC harmonization, using 2020-ENIGHNS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Based on the microsimulation model for 2021-22. For 2023-24, assumes neutral distribution (2020) with pass-through=0.87 based on GDP per capita.