MEXICO

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Macroeconomic Situation

The Mexican economy showed differentiated behavior during 2003. Since the last quarter of 2002, the Mexican GDP had begun a gradual expansion process, which was interrupted by weak industrial activity in the United States. Consequently, economic activity to the first half of the year showed only a slight annual growth of 0.11%.

However, during the second half of the year, industrialized economies' GDP growth rates rebounded. This expansion had a positive effect on the Mexican activity reflecting the high linkage between United States and Mexican economies[2]. The macroeconomic indicators for the fourth quarter of 2003 clearly showed that the Mexican economy had entered a more dynamic stage, reaching a 2% GDP annual growth rate.

Beyond the United States' GDP expansion, other factors contributed to the consolidation of this outcome. Both prudent and responsible macroeconomic policies and compliance with fiscal and monetary policy targets have strengthened the fundamentals of the economy, guaranteeing stability and an environment of certainty. On one hand, fulfilling the fiscal deficit target allowed a considerable reduction of domestic interest rates and an expansion of private credit. On the other hand, reaching the monetary policy target ended the increasing inflation that occurred during the beginning of 2003 and generated the necessary conditions to reach the lowest level of annual consumer prices inflation in 34 years.

The U.S. spillover effect has been uneven within the economic sectors in Mexico in 2003. While the GDP secondary sector registered a -0.8% annual growth rate, the tertiary sector grew at 2.1% and the primary sector (which included some of the most dynamic economic activities during the year), reached a 3.9% annual growth rate.[3]

At the end of 2003, the total occupied population in Mexico was 40,633,197 persons, of which 17% were occupied in primary activities, 24.6% in activities related with secondary sector, and 57% in tertiary activities.[4]

This performance in the Mexican labor market is in line with the development process and the behavior of economic activity. This is explained, in part, because the primary sector registered a drop in the number of persons employed; however these persons were employed mainly in the tertiary sector, reflecting an economic phenomenon inherent to the development process. Also, the observed decline of people employed in the secondary sector was mainly a consequence of the low GDP performance of this sector.

It is important to point out that the reduction observed in consumer prices was the result of both the timely and responsible implementation of monetary policy and the prudent and disciplined fiscal policy. Annual December–December inflation was 3.98 percent; one-half basis point lower than that observed in 2002.[5] The inflationary abatement and fiscal discipline generated historically low interest rates and expanded banking and non-banking credit to the private sector.

These have been the main determinants of the increase in personal consumption expenditures that have smoothed the downturn. Resilient consumption expenditures have resulted from an economic policy that aims to support a recovery of domestic sources of growth while preserving financial stability in Mexico.

Likewise, the disciplined fiscal and monetary policy in recent years has allowed Mexico to achieve an important structural economic transition. For example, foreign direct investment (FDI) flows have enabled financing of the current account deficit, which has been maintained in acceptable levels. This situation has brought about a reduction of country risk. In November 2003, Mexico's country risk spread reached a historically low level. This spread increased marginally in December to end the year at 199 basis points; 13 basis points lower than the level posted one quarter earlier.[6]

The free-floating exchange rate policy that has been implemented in Mexico since 1995 has been demonstrated to be an efficient tool to absorb external shocks and to mitigate financial speculations. During 2003, in the middle of economic pressures derived from the context of international geopolitical turbulence, the Mexican exchange rate registered a depreciation equivalent to 11% with respect to the US dollar.

With respect to public finances, in 2003, the public sector registered a deficit of 41.7 billion pesos, an amount 47.2 percent lower, in real terms, than that registered at the end of 2002. This result includes the expenditure related to the Voluntary Retirement Program (PSV), which was carried out during the year. This program eliminated more than 49,000 public sector positions, generating savings equivalent to 1 billion pesos in personal related expenditures.[7]

During 2003, Mexico's foreign trade registered a significant expansion. Total exports amounted to US$164,860 million, 2.5% higher than in 2002. Of the total, 93.0% corresponded to the APEC area in 2003. It is important to note that Mexico has diversified its export supply. While 1982 oil exports represented 69% of total Mexican exports, in 2003, this figure was equivalent to 11%.[8]

Likewise, total imports expanded to US$170,551 million, 1.1% higher with respect to the previous year. Of this total, 83% came from the APEC area. In this context, the trade balance in 2003 registered a deficit of US$5,690 million, 39% higher than in 2002.[9]

The current account deficit during 2003 totaled US$11,847.0 million, equivalent to 1.9% of GDP. This deficit was lower than that registered in 2002 both in dollar terms (US$14,058.3 million) and as a percentage of GDP (2.2%). As in previous years, the current account deficit was financed with long-term private external resources, concentrated mainly in foreign direct investment.

The capital account registered a surplus of US$17,528 million during 2003. This result was largely due to substantial inflows from the private sector. In particular, FDI during 2002 totaled US$12,495.8 million, a significant amount considering the volatility in international markets. It is worth mentioning that foreign investment in 2003 amounted to US$10,731 million, of which 74.1% was direct investment and 24% was short-term investment.[10]

Finally, it is important to point out that 2003 was a significant political year in Mexico. The National Congress was renewed, and it took a new configuration with a majority from opposite parties. The new composition of the chamber (de diputados) is now composed of *Partido Acción Nacional (PAN)* (30.2%), *Partido Revolucionario Institucional* (44.8%), *Partido de la Revolución Democrática* (19.4%), and others (5.6%).[11] The new shape of the National Congress means a new institutional challenge for the Mexican state.

Policy Guidelines for 2004

The main challenge for 2004 will be generating the macroeconomic conditions for a recovery and increasing formal employment. These goals will require pushing through the agenda of structural reforms and consolidating the macroeconomic stability achieved so far.

Regarding the structural reform agenda, it should be noted that the efforts should concentrate on achieving the necessary consensus to advance in the fiscal, electric, and pension reforms. Additionally, the Mexican government will continue to consolidate its trade openness, by simplifying and modernizing customs, as well as improving its trade infrastructure.

On the subject of consolidating macroeconomic stability, the following issues related to fiscal policy are significant:

- Prudent and disciplined fiscal management will reduce uncertainty and will generate incentives for investment projects by corporations and individuals. Incentives to invest will result from fiscal policy actions that help inflationary abatement, reduce crowding out in domestic financial markets, avoid interest rate increases, and give certainty to business earnings forecasts.
- The reorientation of fiscal expenditure will benefit those productive projects which, by nature, have the largest impact on payrolls.

Fiscal policy will reaffirm its commitment to gradually reducing the fiscal deficit by setting a 0.3 percent of GDP target for 2004, so fiscal discipline will continue to be the backbone of the macroeconomic strategy in 2004. The fiscal deficit's target for the year will be 0.3 percent of GDP.

Nevertheless, non-recurrent and oil revenues continue to play an important role in Mexican fiscal accounts. Public expenditure would have to be adjusted if these non-recurrent revenues fail to materialize in the amounts that have been budgeted.

Economic Perspectives for 2004

The macroeconomic framework for 2004 is based on the following international assumptions:

- Real U.S. GDP growth of 3.8 percent, and a real 4.0 percent expansion of manufacturing production in the same country
- An average oil price of 20 U.S. dollars per barrel.

The international oil price is expected to decline from its relatively high current levels during 2004. An orderly adjustment in the price is foreseen, given expectations of a marginally larger international oil supply with respect to demand as well as continued supply adjustments by OPEC to ensure that prices remain within their target limits.

Additionally, an adequate availability of external financing for emerging markets is expected, given higher levels of global economic growth.

The economic policy strategy is geared towards strengthening internal sources of growth, reactivating investment spending, and continuing the expansion of consumption. The real annual expansion rate of GDP is expected to be 3.1 percent. December-to-December inflation is expected to be 3.0 percent, and the current account deficit is anticipated at US$16.4 billion.

Food prices and Consumption

The food, beverages, and tobacco price index, included in the basic consumption basket, showed an increase equivalent to 4.3% in 2003. This figure was above the general consumer index increase (3.98%). Among the products that showed the higher variations were bread, cereals, and tortillas (9.22%); vegetable oils (14.8%); and milk and eggs (7.3%). Likewise, the national agricultural and livestock index showed a 3.7% increase, which is below the general index.[12]

The National Producer Price Index increased by 6.2% during 2003. In 2002, this index showed an increase equivalent to 6.3% with respect to the previous year.

As a result of an improved population purchasing power in the recent years, per capita consumption of some agricultural products has decreased, and consumption of other more value-added agricultural and processed food products has increased. For example, between 1980 and 2003, the consumption of major livestock products has experienced a significant increase. In the same period, poultry *per capita* consumption registered an increase of 185%; eggs, 184%; milk, 63.2%; beef, 57%; and pig meat, 9.5%.

According to the 2000 National Household Income and Expenditure Survey, an average household spends about 22.7 percent of its total expenditure on food. Meanwhile, on average, a rural household spends about 31 percent of its total expenditure on food.[13]

Food Processing and Marketing

During 2002, the processed food and beverages sector share in manufacturing GDP was 26.7%, which is 2.2 percentage points below the same figure in 2002. With respect to national GDP, this sector's share was maintained at 4.9%. As we noted above, the manufacturing sector showed a slowed dynamic as a consequence of external economic behavior. In the case of the processed food and beverages sector, GDP real positive growth was 1.2%.

In 2003, foreign direct investment in the agricultural sector amounted to US$773 million.[14] From 1994 to 2003, FDI reached a cumulative level of US$1,039.3 million, of which 74.1% came from countries belonging to the APEC area. Likewise, FDI in agrifood[15] amounted in 2003 to US$784.3 million.[16] From 1994 to 2003, the FDI cumulative level reached US$10,521.8 million, of which 58.1% came from countries belonging to the APEC area.[17]

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2 Currently, the 89% of total Mexican exports are oriented to the United StatesUSA and the 63% of total Mexican imports comes from this country. Moreover, 75% of total through Foreign Direct Investment inflows have theirits origin in the United StatesSA.

3 The pPrimary sector is composed ofby: agriculture, livestock, forestry, and fisheries. The sSecondary sector is composed ofby: mining;, manufacturing,; construction, and utilities (electricity, gas, and water). The tertiary sector is composed ofby commerce, restaurants, and hotels; transportation,; communications; and financial and personal services.

4 Source: Secretaría del Trabajo y Previsión Social.

5 Source: Banco de México

6 Measured according to JP Morgan'´s EMBI + sovereign spread index.

7 Source: Secretaría de Hacienda y Crédito Público.

8 Source: Banco de México.

9 Source: Banco de México.

10 Source: Secretaría de Hacienda y Crédito Público.

11 Source: Honorable Congreso de la Unión. Cámara de Diputados

12 All figures correspond to the December 2003—December 2002 variation of the index.

13 2002 is the last year available.

14 Data until September of 2003. Source: Secretaría de Economía.

15 Includes a: Agriculture, livestock, forestry, fisheries, hunting, processed food, beverages, and tobacco.

16 Data until September of 2003. Source: Secretaría de Economía.

17 Source: Secretaría de Economía.

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	Units	1990	1991	1992	1993	1994	1996	1997	1998	1999	2000	2001	2002	2003p
FOOD CONSUMPTION PATTERNS														
Per capita caloric intake	Cal/day	3,038	3,038	3,053	3,053	3,053	3,137	na	na	na	na	3,231	na	na
From animal products	Cal/day	474	474	512	512	512	na	na	na	na	na	na	na	na
From vegetable products	Cal/day	2,564	2,564	2,541	2,541	2,541	na	na	na	na	na	na	na	na
INCOME AND FOOD PRICES														
Per capita income *1*	US$/capita	2,815	3,303	3,745	4,102	4,207	3,178	3,760	3,927	4,431	5,237	5,545	5,753	5,447
% of disposable income spent on food *2*	%		na		na	33.6	26.1	na	25.5	na	22.7	na	23.6	n.a
% spent eating out *2*	%								na	na	3.6	na	4.4	n.a
Food price index *3 a/, e/*	1990=100	100	120	134	142	150	296	352	436	466	503	530	552	579
General price index (CPI) *3*	1990=100	100	123	142	156	166	302	364	422	492	539	573	602	630
POPULATION *4*														
Total population	Million	81	na	86	na	na	93.2	94.7	96.7	98.1	100.6	101.8	103.0	104.2
Urban	Million	58	na	na	na	na	68.8	70.3	72.1	73.6	75.3	76.4	77	78.5
Non-Urban	Million	23	na	na	na	na	24.4	24.4	24.6	24.5	25.3	25.4	26.0	25.7
SHARE OF POPULATION IN THE FOLLOWING AGE GROUPS *5*														
0-4 years	%	12.5	na	12.3	na	na	11.9	12.1	12.3	12.5	11.1	10.7	10.3	10.0
5-14 years	%	25.8	na	25.3	na	na	23.7	24.1	24.4	24.8	22.6	22.4	22.1	21.8
15-19 years	%	11.9	na	11.7	na	na	11.2	11.4	11.6	11.7	10.6	10.5	10.4	10.3
20-44 years	%	34.1	na	34.2	na	na	34.7	35.2	35.8	36.4	38.7	38.9	39.2	39.4
45-64 years	%	10.9	na	12.1	na	na	11.5	11.7	11.9	12.1	12.5	12.8	13.2	13.6
65-79 years	%	3.2	na	4.4	na	na	3.3	3.4	3.4	3.5	3.7	3.8	3.9	4.0
80-over years	%	1.0	na	na	na	na	1.0	1.0	1.0	1.0	0.9	0.9	1.0	1.0
Average age of population *5*	Years	24.1	24.3	24.5	24.7	25.0	25.5	25.7	26.0	26.3	26.6	27.0	27.3	27.6
Female labour force participation *5*	%	na	30.7	na	30.9	na	32.7	33.9	32.0	34.0	37.0	35	35.2	39.3
LIFE EXPECTANCY*5*														
Males	Years	68	69	69	70	70	70.3	70.6	70.8	71.2	72	71.9 F	72.1F	72.4F
Females	Years	74	75	75	75	75	75.4	75.7	75.9	76.1	77	76.8 F	77.1F	77.4F
FOOD INFRASTRUCTURE														
Trade capacity														
Grain exports *4 b/*	1000 Tons	na	na	na	na	na	202	568	481	385	578	538	619	602
Grain imports *4 b/*	1000 Tons	na	na	na	na	na	5,886	6,259	7,261	17,763	18,466	20,258	18,884	17,896
Total food and agricultural trade *4*	Million US$	7,614	7,843	9,284	9,598	11,391	13,533	14,077	15,501	15,541	18,196	19,209	20,016	22,151
Total food and agricultural exports *4*	Million US$	2,910	3,200	3,141	3,683	4,116	5,782	6,379	6,868	6,986	8,361	8,132	8,316	9,285
Exports of perishable products *6 c/*	Million US$	na	na	na	na	na	2,341	2,374	2,713	2,845	2,922	3,044	3,009	3,778
Fishery exports *4*	Million US$	52	82	60	55	62	207	172	107	125	150	129	185	200
Total food and agricultural imports *4*	Million US$	4,704	4,643	6,143	5,915	7,274	7,752	7,698	8,633	8,555	9,835	11,077	11,700	12,866
Imports of perishable products *6 c/*	Million US$	na	na	na	na	na	335	359	482	535	643	720	732	726
Fishery imports *4*	Million US$	9	9	13	16	26	17	27	37	45	52	51	87	126
Port capacity *3 d/*	1000 M2	2,367	2,628	2,824	2,824	2,824	2,824	3,475	3,724	5,316	5,539	5,553	5,647	5,700
Road access *3*	1000 Kms	239	242	244	245	303	312	322	322	330	334	340	348	349
Rail access *3*	1000 Kms	26	26	27	27	27	27	27	27	27	27	27	27	27
Telecommunications *3*	1000 lines	5,355	6,025	6,753	7,621	8,355	8,826	9,254	9,927	10,927	12,332	13,774	14,942	16,100
Power generation (domestic sales) *3*	Million US$	4,454	5,588	6,485	6,971	6,963	5,101	6,759	6,869	7,887	9,847	10,596	11,806	11,702
Percent of lodgings with refrigerators *7*	%	na	na	na	na	64.1	na	na	na	na	69	na	na	na
FOREIGN INVESTMENT IN THE FOOD SECTOR *8*														
Inward FDI in the food sector, total	Million US$	na	na	na	na	1,760	500	2,953	725	1,118	1,288	610	609	519 e/
From other PECC economies	Million US$	na	na	na	na	na	421	1,133	622	460	363	484	246	417 e/
ROLE OF AGRICULTURE AND TRADE IN THE ECONOMY														
Agriculture as a share of GDP *9*	%	6.6	6.5	6.2	6.3	6.0	6.5	6.1	6.0	5.8	5.5	5.8	5.7	5.3
Policy Transfers to Agriculture *10*														
Consumer subsidy equivalents	%	-7.1	-24.9	-24.1	-25.4	-10.8	3.7	-9.2	-13.1	-14.9	-19.9	-16.3	-22.6	-14.7
Total transfers for agriculture *g/*	Million US$	7,736	9,999	11,471	12,304	10,310	3,764	6,454	6,908	6,789	8,991	8,054	9,515	6,655
Total transfers per capita	US$/capita	95	na	134	na	na	40	68	71	69	89	79	92	64
MACROECONOMIC INDICATORS														
GDP Growth *9*	Percent	5.1	4.2	3.6	2.0	4.4	5.2	6.8	5.0	3.6	6.6	0.0	0.7	1.3
Interest Rate *11*	Percent	34.8	19.3	15.7	14.8	14.0	31.3	19.8	24.6	21.3	15.3	11.3	7.1	6.2
Exchange Rate *12*	MXPeso/US$	2.8	3.0	3.1	3.1	3.4	7.6	7.9	9.2	9.6	9.5	9.3	9.7	10.8

p = preliminar data
na = not available.
f= forecast
a/ Index for Food, Beverages and Tobacco
b/ Includes dried edible beans, wheat, barley, maize, rice, sorghum, soybean, cotton seed, sesame seed and safflower
c/ Includes chapter 7 and 8 of the Harmonized Nomenclature System
d/ Includes Pacific and Gulf sea-board
e/ Data up to September 2003
g/ Total Support Estimate

Sources:
1 Elaborated with data of National Institute of Statistics, Geography and Informatics (INEGI) and Banco de México
2 National Survey of Households Income and Expenditure, INEGI
3 Informe de Gobierno
4 Banco de México
5 National Population Council (CONAPO)
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