

## THE RESTRICTIONS OF ECONOMIC GROWTH IN MEXICO

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The Mexican economy grew 1.8 percent in the third quarter, 2.1 percent in the second, and at a negative rate of 2.0 percent in the first quarter. The performance of the economy during the third quarter was just a continuation of the incipient recovery, but at a slightly slower pace. Certainly, the economy emerged from the recession in the second quarter, and it seems to be on the path of a recovery along with the U.S. economic cycle.

The recession lasted for six consecutive quarters (2000.Q4–2002.Q1) in seasonally adjusted figures, but just for three quarters in non-seasonal annualized figures (2001.Q3–2002.Q1). During the third quarter of this year the recovery was still in place, but it was not as strong as expected.

There are three important factors contributing to the weakness of the Mexican recovery: the international volatility, the weakness of the U.S. recovery, and the absence of structural reforms in Mexico. The first two can be classified as short-term factors from the external environment, and the third is just a structural problem. The effects of the international volatility plus those derived from the uncertainty about the structural reform materialized in a reduction of capital inflows from abroad. Thus, during the first half of this year, foreign direct investment decreased to \$6.1 billion, compared with \$7.2 billion in the same period of last year. Meanwhile, while portfolio investment registered a negative amount of \$0.8 billion, versus a positive flow of \$4.3 billion in the first semester last year.

During this year, thanks to the implementation of a consistent macroeconomic policy, the economy was able to absorb external shocks to a higher degree through the financial variables. However, economic activity did not take off in the last two quarters as anticipated.

In addition to the short-term negative circumstances faced by the Mexican economy, mentioned above, there also is a structural factor explaining its weakness. This has to do with the absence of structural reforms in the economy in the last two years. The lack of structural reforms to promote national savings has resulted in a decrease of the savings rate. Effectively, the saving-investment coefficient decreased from a rate of 23.6 percent of GDP to 19.0 percent from 2000 to 2002.

Certainly, investment is one of the most important sources of sustainable economic growth. In an open economy, domestic and external savings finance gross investment. In 2000, the last year of president Zedillo, the economy grew at a rate of 6.6 percent with a saving-output coefficient of 23.6 percent, from which domestic savings represented 20.4 percent and external savings 3.1 percent. In 2001, the saving-output ratio fell to 20.7 percent, domestic savings decreased to 17.8 percent, and external savings declined slightly to 2.9 percent. During the first half of this year, the savings coefficient continued falling to 19.0 percent, domestic savings fell to 16.9 percent and external savings declined to 2.1 percent.

All this implies that, if Mexico is not able to deepen structural reforms in order to promote and to increase the savings-investment ratio, it will not be able to attain growth rates higher than 3–4 percent in the years to come.

— **Lic. J. Alfredo Coutiño**  
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	Annual Percent Change 2002 from 2001						Annual Average		
	GDP 1993 Peso	Private Con- sumption	Government Con- sumption	Total Invest- ment	Exports	Imports	Consumer Price Index	Exchange Rate	CETES 28 Day
AMERICAN CHAMBER MEXICO	1.3	2.1	-0.6	1.3	2.2	1.1	5.2	9.690	7.2
BANAMEX	1.3	1.6	0.0	1.8	1.8	0.6	5.4	9.640	7.2
BANCOMER	1.1	1.2	-1.6	2.7	2.1	1.5	5.1	9.640	7.1
CAIE-ITAM									
CENTER KLEIN	1.5	2.0	1.2	2.5	2.1	0.7	5.5	9.660	7.1
CONSULTORES ECONOMICOS ESPECIALIZADOS	1.1	0.9	-0.4	2.2	0.9	1.4	5.2	9.660	7.1
GEA	1.2	1.5	0.4	-0.1	0.9	-0.5	5.1	9.660	7.1
GRUPO FINANCIERO INVERLAT									
LATIN SOURCE MEXICO									
<b>CONSENSUS – 4TH QUARTER</b>	<b>1.3</b>	<b>1.6</b>	<b>-0.2</b>	<b>1.7</b>	<b>1.7</b>	<b>0.8</b>	<b>5.3</b>	<b>9.658</b>	<b>7.1</b>
<b>– 3RD QUARTER</b>	<b>1.7</b>	<b>1.7</b>	<b>0.6</b>	<b>3.0</b>	<b>2.7</b>	<b>2.2</b>	<b>5.0</b>	<b>9.548</b>	<b>7.1</b>

	Annual Percent Change 2003 from 2002						Annual Average		
	GDP 1993 Peso	Private Con- sumption	Government Con- sumption	Total Invest- ment	Exports	Imports	Consumer Price Index	Exchange Rate	CETES 28 Day
AMERICAN CHAMBER MEXICO	3.0	2.7	1.8	2.5	3.0	4.4	4.6	10.340	7.9
BANAMEX	3.5	3.8	2.1	4.2	7.1	8.6	4.2	10.190	8.1
BANCOMER	2.9	2.9	1.8	5.4	9.8	10.7	3.5	9.960	6.7
CAIE-ITAM									
CENTER KLEIN	3.5	3.7	2.5	6.5	6.0	6.4	4.0	10.280	7.5
CONSULTORES ECONOMICOS ESPECIALIZADOS	3.4	2.9	0.8	5.0	9.5	11.1	4.5	10.340	8.1
GEA	2.4	2.9	1.9	4.0	6.0	7.3	4.5	10.270	7.8
GRUPO FINANCIERO INVERLAT									
LATIN SOURCE MEXICO									
<b>CONSENSUS – 4TH QUARTER</b>	<b>3.1</b>	<b>3.2</b>	<b>1.8</b>	<b>4.6</b>	<b>6.9</b>	<b>8.1</b>	<b>4.2</b>	<b>10.230</b>	<b>7.7</b>
<b>– 3RD QUARTER</b>	<b>4.2</b>	<b>4.3</b>	<b>2.2</b>	<b>5.9</b>	<b>9.4</b>	<b>10.4</b>	<b>3.9</b>	<b>10.009</b>	<b>7.5</b>

	GDP – 1993 Pesos (billions)	Private Consumption 1993 Pesos (billions)	Government Consumption 1993 Pesos (billions)	Total Investment* 1993 Pesos (billions)	Exports** US Dollars (millions)	Imports** US Dollars (millions)	Consumer Price Index 1994 Base Dec./Dec.	Exchange Rate (Pesos/Dollars)	CETES 28 Day
2001	1598.8	1118.3	154.7	351.3	158.5	168.3	344.4	9.4	11.3
Percent Change	-0.6	-0.1	-2.1	-5.7	-4.7	-3.6	6.4	-0.9	
2000	1609.1	1119.0	158.0	372.6	166.4	174.4	323.8	9.5	15.4
Percent Change	7.2	9.4	6.6	12.5	22.1	22.9	9.5	-1.1	
1999	1501.0	1022.7	148.1	331.1	136.3	141.9	295.8	9.6	21.4
Percent Change	3.7	4.3	1.0	1.5	16.1	13.2	16.6	4.7	
1998	1448.1	980.3	146.7	326.1	117.5	125.4	253.7	9.1	24.5
Percent Change	4.8	5.4	2.2	9.6	6.4	14.2	15.9	15.4	
1997	1381.5	930.2	143.6	297.4	110.4	109.8	218.8	7.9	19.8
Percent Change	6.8	6.5	2.9	24.9	15.0	22.7	20.6	4.2	
1996	1293.9	873.7	139.6	238.2	96.0	89.5	181.4	7.6	31.4
Percent Change	5.1	2.2	-0.7	25.6	20.7	23.5	34.4	18.4	



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