

LACK OF REFORMS, POLICIES PROLONG MEXICO'S ECONOMIC STAGNATION

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During the third quarter the Mexican economy continued showing signs of weakness in both productive sectors and the domestic market, with significant consequences to unemployment and social well-being. While the U.S. economy showed a stronger recovery, the Mexican economy continued to be stagnant, due to the failure of the authorities to aid the recovery. The GDP grew 0.4 percent in the third quarter, after a rate of 0.2 percent in the second.

The management of fiscal and monetary policy has been consistent with the goal of macroeconomic stability. As a result, inflation has shown a downward trend, the country's attractiveness to foreign investors has been reduced (although not entirely lost), and the current account deficit has been adjusted downward, keeping it at sustainable levels. Despite widespread disappointment with the delay and uncertainty of structural reform and the lack of political leadership, financial markets have not been disturbed.

After the first three years of continued stabilization in the Fox administration, macroeconomic stability by itself seemed unable to stimulate productive investment and growth, as was expected by the authorities. In other words, macroeconomic stability has not been sufficient to generate economic growth in Mexico. In order to promote investment and growth, stability must be accompanied by direct policies to stimulate production. This has been missing in the last three years.

The lack of structural reforms and the absence of domestic policies to directly stimulate the economic recovery are two main reasons for the stagnation of the economy. This is responsible for the loss of competitiveness and the reduction of the economy's potential capacity to grow.

Certainly, savings/investment is one of the most important sources of economic growth, together with multifactor productivity. If an economy is not able to generate domestic savings to increase productive investment, its growth is limited and its capacity to grow is restricted. In this regard, the stagnation of the Mexican economy can be explained, to a great extent, by the inability to generate domestic savings, which in turn explains the contraction in investment. In fact, the Mexican economy not only has failed to increase the investment-output coefficient, but also to stop its contraction. Of course, the absence of a second round of structural reforms is one of the main reasons for the contraction of productive investment. Also, economic policy has been focused on preserving stability, not promoting growth.

In the short-run, fixed investment continues to be depressed with no sign of recovery. In the medium-run there is a probability of delay, or approval of partial reforms, which will limit the flow of investment with consequences to future economic growth. In that case, it is possible to foresee a scenario of more moderate recovery for the rest of the period. In other words, it is possible that a scenario of "recovery, but at limited rates" will appear. If the economy is not able to encourage increased domestic savings, it will not be possible to attain even the potential growth rate of 4.5–5.0 percent needed to preserve macroeconomic stability.

— Lic. J. Alfredo Coutiño

AMERICAN CHAMBER	1.0	2.1	1.3	(0.8)	1.3	0.0	3.7	10.780	6.1
BANAMEX	1.6	2.1	0.8	(3.2)	2.5	1.3	3.9	10.600	6.3
BANCOMER	1.6	1.5	(0.8)	0.2	6.7	2.7	3.9	10.590	6.8
CENTER KLEIN	1.2	2.7	2.2	(5.5)	3.0	1.8	3.9	10.780	6.1
CONSULTORES ECONOMICOS									
ESPECIALIZADOS	1.1	1.1	2.8	(0.1)	2.1	0.9	3.8	10.780	6.1
GRUPO FINANCIERO INVERLAT	2.1	2.6	2.8	0.4	1.0	0.8	4.3	10.700	6.5
LATIN SOURCE MEXICO	1.2	1.8	1.1	(2.6)	2.6	0.9	3.6	10.790	6.6
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CONSENSUS — THIS QUARTER	1.4	2.0	1.5	(1.7)	2.7	1.2	3.9	10.717	6.4
— LAST QUARTER	2.9	3.3	1.9	4.2	6.1	6.9	4.2	10.939	7.1

2004 MEXICO CONSENSUS ECONOMIC FORECAST

	Annual Percent Change 2004 from 2003							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	3.2	2.5	1.1	2.1	1.8	4.4	3.6	11.190	5.9
BANAMEX	4.0	3.9	2.0	4.7	4.3	6.2	3.7	10.630	6.4
BANCOMER	2.7	2.4	1.5	5.5	8.2	7.7	3.8	10.900	7.2
CENTER KLEIN	3.5	3.8	3.5	5.8	6.9	8.2	3.4	11.220	5.9
CONSULTORES ECONOMICOS									
ESPECIALIZADOS	3.6	3.2	4.4	4.2	5.0	7.1	4.4	11.280	6.0
GRUPO FINANCIERO INVERLAT	4.3	4.2	1.4	5.2	5.4	8.9	4.1	11.160	6.2
LATIN SOURCE MEXICO	3.2	3.6	1.0	5.1	6.8	7.6	4.0	11.350	6.0
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CONSENSUS — THIS QUARTER	3.5	3.4	2.1	4.7	5.5	7.2	3.9	11.104	6.2
— LAST QUARTER	4.4	4.1	2.8	5.7	7.6	8.9	4.0	11.189	8.4

HISTORICAL DATA

<i>Source:</i> INEGI	GDP – 1993 Pesos (billions)	Private Consumption 1993 Pesos (billions)	Government Consumption 1993 Pesos (billions)	Total Investment 1993 Pesos (billions)	Exports (Trade Bal.) US Dollars (millions)	Imports (Trade Bal.) US Dollars (millions)	Consumer Price Index June 02=100 Dec./Dec.	Exchange Rate Pesos/Dollars (annual av.)	CETES 28 Day (annual av.)
2002	1,611.7	1,175.1	153.1	360.8	160.8	168.7	102.9	9.803	7.18
Percent Change	0.9	1.3	(1.3)	1.2	1.5	0.2	5.7	4.6	(36.5)
2001	1,597.2	1,160.5	155.0	356.5	158.4	168.4	97.4	9.371	11.31
Percent Change	(0.3)	2.4	(1.2)	(5.8)	(4.8)	(3.5)	4.4	(1.7)	(26.3)
2000	1,602.3	1,133.8	157.0	378.6	166.5	174.5	93.2	9.535	15.36
Percent Change	6.6	7.6	2.0	11.4	22.0	22.9	9.0	(1.0)	(28.3)
1999	1,503.5	1,053.5	153.8	339.9	136.4	142.0	85.6	9.630	21.43
Percent Change	3.7	3.9	4.7	4.0	16.1	13.2	12.3	3.6	(13.3)
1998	1,449.3	1,013.8	146.9	327.0	117.5	125.4	76.2	9.293	24.73
Percent Change	4.9	5.3	2.3	9.9	7.7	14.2	18.6	16.3	25.0
1997	1,381.5	963.1	143.6	297.4	109.1	109.8	64.2	7.988	19.77
Percent Change	6.8	6.2	2.9	24.9	13.6	22.7	15.7	4.9	(36.9)