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CONSENSUS ECONOMIC FORECAST

MÉXICO

W. P. CAREY
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Consenso de Pronósticos Económicos
Bank One Economic Outlook Center • L. William Seidman Research Institute

ARIZONA STATE UNIVERSITY

The Importance of a Consistent Economic Policy

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Presidential elections will be held next year in Mexico, a cause for anxiety because previous transitions (with the exception of 2000) have been followed by economic troubles. These troubles have emerged, not from the political matters per se, but from the mishandling of the economic policy prior to elections.

There is substantial empirical evidence in many countries that significant imbalances in some key economic variables tend to produce sharp adjustments in the economic environment. Two variables so disposed are: the fiscal balance and the current account.

A fiscal deficit (FD) means that the public sector is spending well above its income. As with almost all debt, some could be healthy, but a lot could be devastating. A fiscal deficit above 5 percent of Gross Domestic Product (GDP) seems to be difficult to sustain. The problem is its correction, as there are two choices: higher taxes or lower expenses. In both cases, the usual response of the economy is a slower pace of growth.

A current account deficit (CAD), on the other hand, means that the economy as a whole is spending above its income capabilities and becoming indebted to the rest of the world. A current account deficit of more than 5 percent of GDP is difficult to sustain, causing adjustments in the economy. If these adjustments are purposefully induced, they could be less dramatic than if the economy adjusts without intervention.

In the years prior to the 1976 election, both the FD and the CAD were growing, reaching 9.3 percent and 5.0 percent of GDP by 1975 respectively. The next year saw a 58 percent devaluation of the exchange rate. However, no lesson was learned because in 1981, the FD reached 14.1 percent and the CAD 6.2 percent of GDP. In 1982 there was a 466 percent devaluation of the peso and a 0.5 percent drop in GDP that reached 3.5 percent in 1983. The imbalances built during these years were so severe and the first economic policy response so mild that in 1985 there was a new economic crisis. In the 1985 episode, the current account showed a surplus of 0.4 percent of GDP, but the FD was 9.6 percent of GDP. By the end of 1987, the peso depreciated by 398 percent, and the GDP fell 3.1 percent in 1986.

By the end of 1993 the FD was corrected, resulting in a surplus of 0.7 percent. Many economists thought that, as public finances were healthy, the CAD of 6 percent of GDP was not a problem. However, by the end of the year, the new administration modified the exchange rate regime and by the end of 1995, the exchange rate had lost 59 percent of its value, and the GDP fell by 6.2 percent.

In the year 2000, the lesson of not allowing significant imbalances to build seemed to be learned. CAD was 3.1 percent of GDP and FD was only 1.1 percent of GDP. Despite the political noise generated by the elections and the surprising result that a new political party won after 70 years of one-party rule, the exchange rate appreciated. That year, it improved by 0.8 percent.

One of the main strengths of the Mexican economy today is the macroeconomic stability built over the last 10 years. Let's hope that the first official statement of the next Ministry of Finance is that macroeconomic stability should and will be maintained by the new administration.

— **Mario Correa**
Scotia Inverlat

2005 MEXICO CONSENSUS ECONOMIC FORECAST

	Annual Percent Change 2005 from 2004							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	4.0	4.2	1.0	4.7	8.4	10.4	4.0	11.240	9.7
BANAMEX	4.0	4.6	2.0	6.5	7.7	9.7	3.8	11.330	6.8
BANCOMER	3.8	4.1	5.2	5.6	4.5	7.1	3.7	11.800	7.1
CENTER FOR ECONOMIC FORECASTING OF MEXICO	3.5	4.2	1.5	5.5	6.6	7.3	3.9	11.400	9.6
GRUPO FINANCIERO INVERLAT	4.1	4.6	1.8	4.3	6.4	7.5	4.0	11.630	9.3
LATIN SOURCE MEXICO	3.9	3.7	1.3	4.6	11.1	10.6	4.2	11.196	9.5
CONSENSUS — THIS QUARTER	**3.9**	**4.2**	**2.1**	**5.2**	**7.5**	**8.8**	**3.9**	**11.433**	**8.7**
— LAST QUARTER	**3.9**	**4.1**	**3.5**	**5.3**	**5.7**	**7.3**	**4.2**	**11.8**	**8.3**

2006 MEXICO CONSENSUS ECONOMIC FORECAST

	Annual Percent Change 2006 from 2005							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	3.6	4.1	2.2	2.7	4.2	7.1	4.6	12.240	11.0
BANAMEX	3.3	3.9	1.7	4.7	5.7	7.8	3.7	12.020	9.1
BANCOMER									
CENTER FOR ECONOMIC FORECASTING OF MEXICO	4.5	4.6	3.5	12.5	6.8	7.5	3.5	12.100	10.3
GRUPO FINANCIERO INVERLAT	3.7	4.3	3.1	7.7	4.7	9.7	4.1	12.170	9.7
LATIN SOURCE MEXICO	3.7	3.6	2.6	3.5	9.9	9.7	3.9	11.511	9.4
CONSENSUS — THIS QUARTER	**3.7**	**4.1**	**2.6**	**6.2**	**6.3**	**8.4**	**4.0**	**12.008**	**9.9**
— LAST QUARTER	**3.7**	**4.2**	**2.9**	**4.5**	**6.0**	**8.4**	**3.9**	**12.104**	**9.0**

HISTORICAL DATA

Source: 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.)
2004	1,709.8	1,268.6	153.2	352.2	188.0	196.8	112.6	11.361	8.5
Percent Change	*4.4%*	*5.6%*	*-1.2%*	*1.5%*	*14.1%*	*15.4%*	*4.2%*	*4.2%*	*36.5%*
2003	1,638.3	1,200.8	155.1	346.9	164.8	170.5	107.0	10.906	6.23
Percent Change	*1.4%*	*2.3%*	*0.8%*	*-4.2%*	*2.4%*	*1.1%*	*4.0%*	*11.3%*	*-12.1%*
2002	1,615.6	1,173.4	153.9	362.0	161.0	168.7	102.9	9.803	7.09
Percent Change	*0.8%*	*1.4%*	*-0.3%*	*-1.1%*	*1.4%*	*0.2%*	*5.7%*	*4.6%*	*-37.3%*
2001	1,602.3	1,157.0	154.4	366.2	158.8	168.4	97.4	9.371	11.31
Percent Change	*-0.2%*	*2.1%*	*-2.0%*	*-3.9%*	*-4.4%*	*-3.5%*	*4.4%*	*-1.7%*	*-25.8%*
2000	1,604.8	1,133.3	157.5	381.2	166.1	174.5	93.2	9.535	15.24
Percent Change	*6.6%*	*7.6%*	*2.4%*	*11.5%*	*21.8%*	*22.9%*	*9.0%*	*-1.0%*	*-28.8%*
1999	1,505.4	1,053.5	153.8	341.9	136.4	142.0	85.6	9.630	21.41
Percent Change	*3.9%*	*3.9%*	*4.7%*	*4.6%*	*16.1%*	*13.3%*	*12.3%*	*3.6%*	*-13.5%*

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