



OECD ECONOMIC SURVEYS: MEXICO 2019

*Towards stronger and more
inclusive growth*

Mexico City, 2 May 2019

<http://www.oecd.org/economy/surveys/mexico-economic-snapshot/>



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Key Messages

- Continue pursuing strong macroeconomic policies to maintain resilience to shocks.
- Strengthening institutional quality will be key to making all other reforms effective, boosting growth and improving well-being and equity.
- Many policies will allow for more robust and inclusive growth.

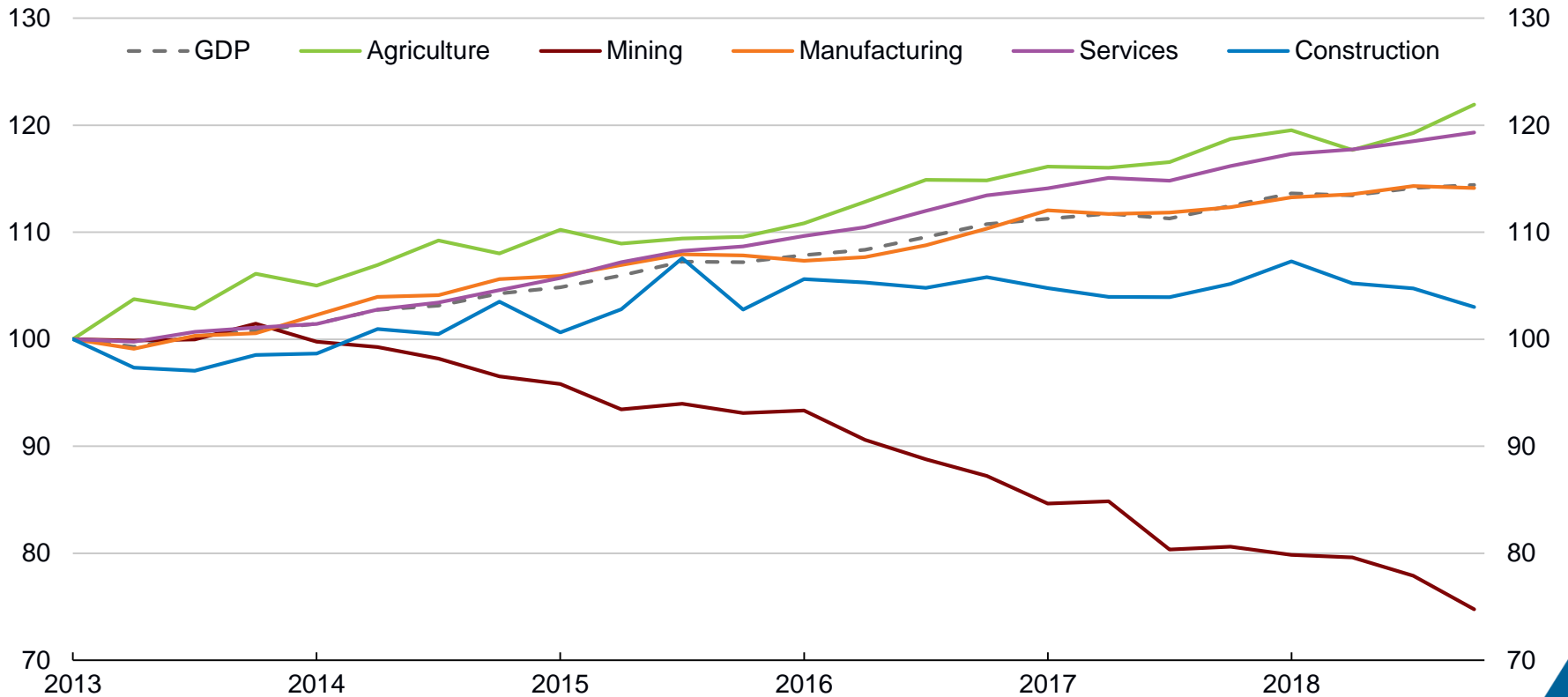


Growth has decelerated



Oil production is weighing on economic activity

GDP by sector
2013Q1=100

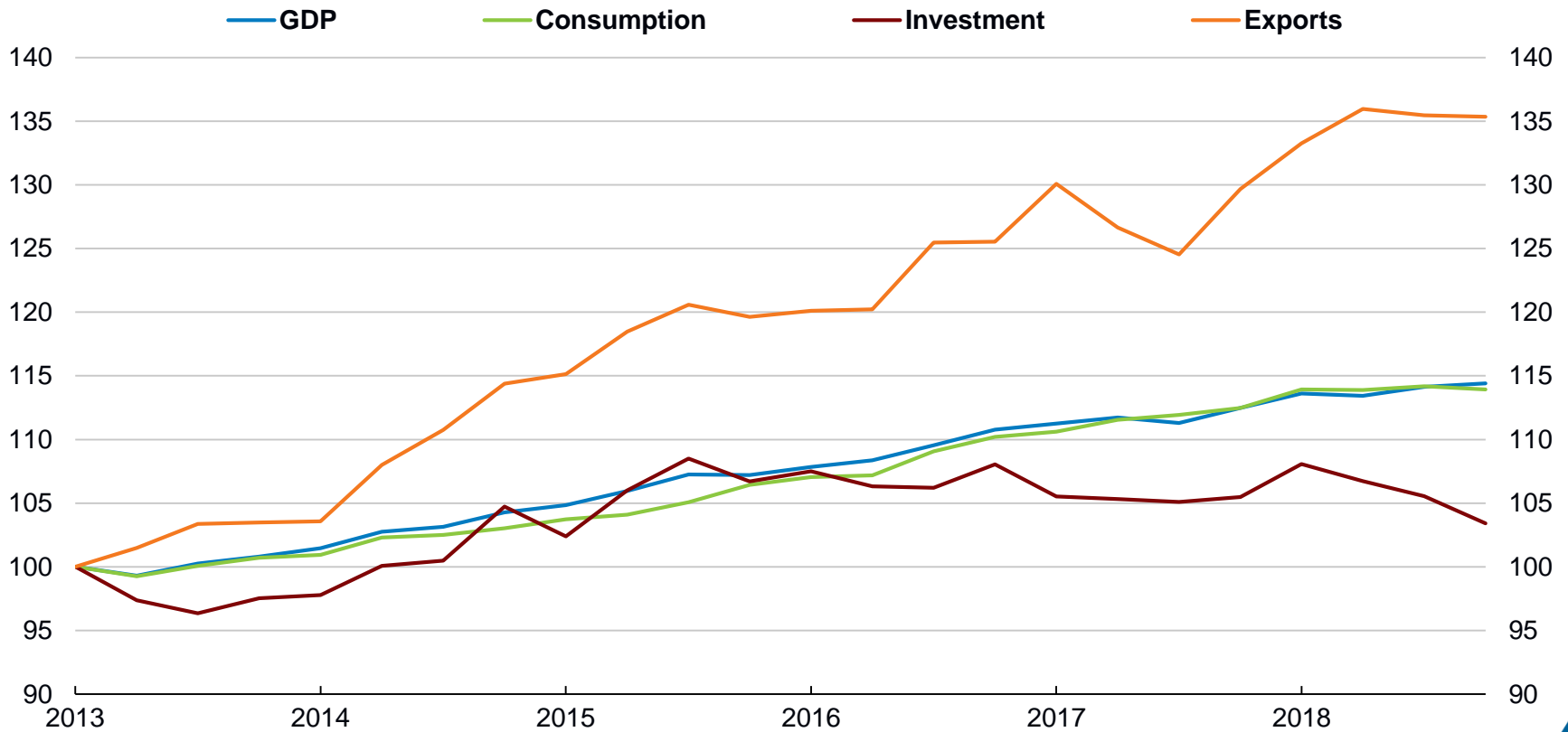


Source: INEGI.



Investment is low

2013Q1=100



Source: INEGI.



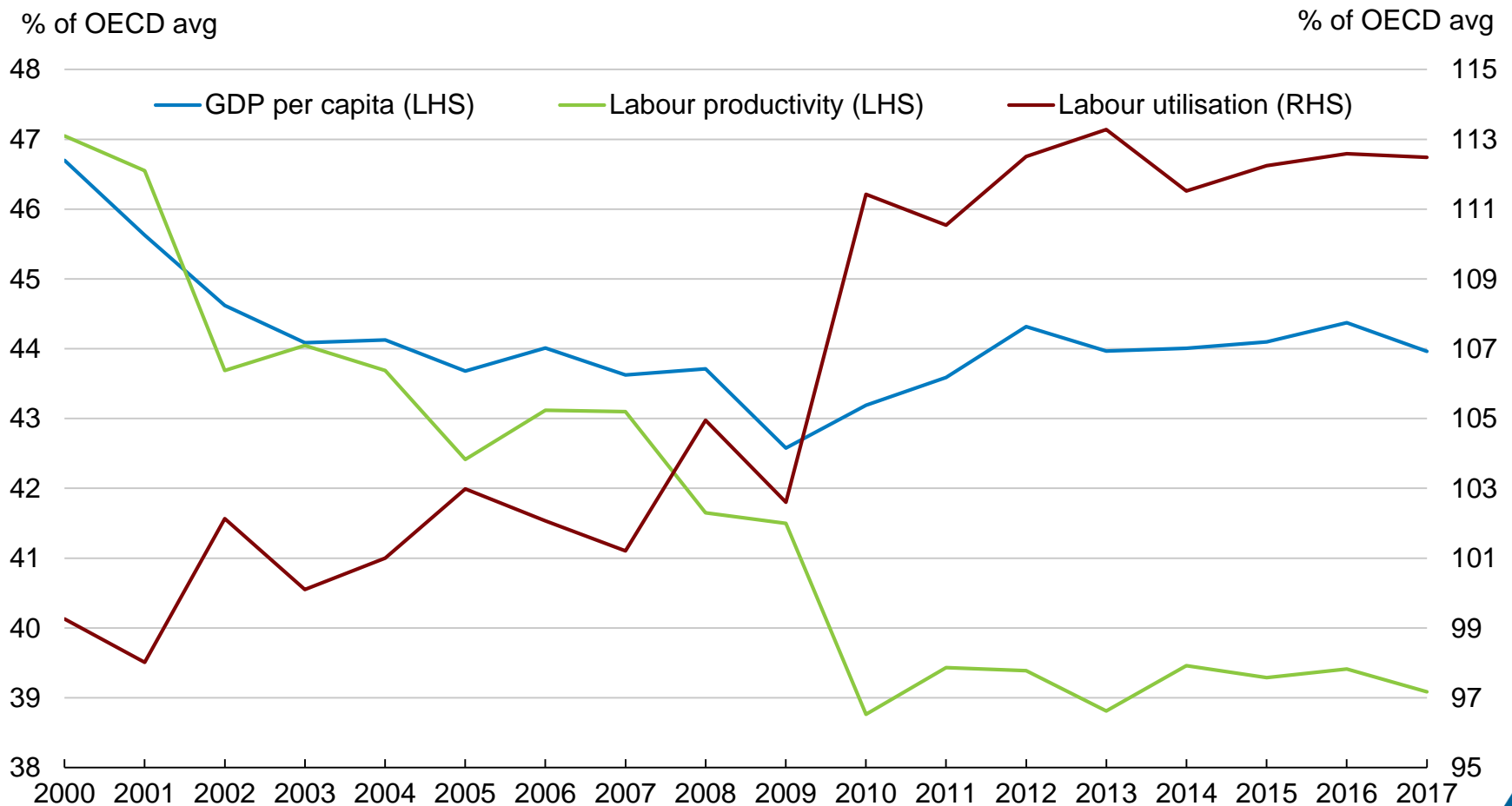
Growth will remain moderate

% change	2018	2019	2020
Gross domestic product (GDP)	2.0	1.6	2.0
Private consumption	2.2	1.3	2.2
Government consumption	1.4	-0.6	0.3
Gross fixed capital formation	0.6	-1.8	2.2
Exports of goods and services	5.7	2.9	4.9
Imports of goods and services	6.2	4.2	4.5
Consumer price index	4.9	3.8	3.6
Current account balance (% GDP)	-1.8	-1.9	-1.8

Source: OECD.



Growth has not been strong enough to allow for convergence to higher living standards



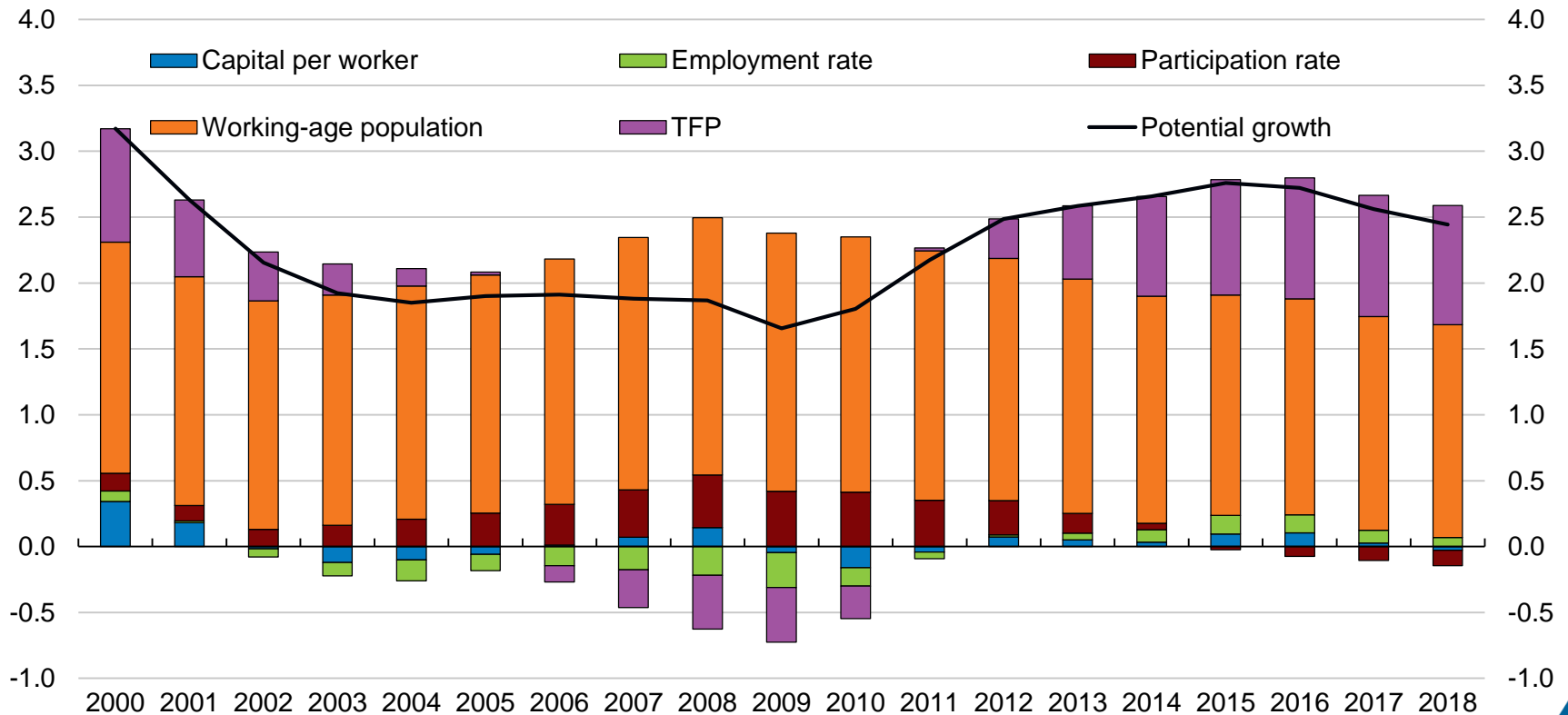
Note: GDP per capita and labour productivity relative to the OECD average in constant PPP-adjusted USD terms. Labour productivity is GDP per hour worked. Labour utilisation is hours worked per capita.

Source: OECD Productivity Database.



Growth has mainly reflected a population bonus

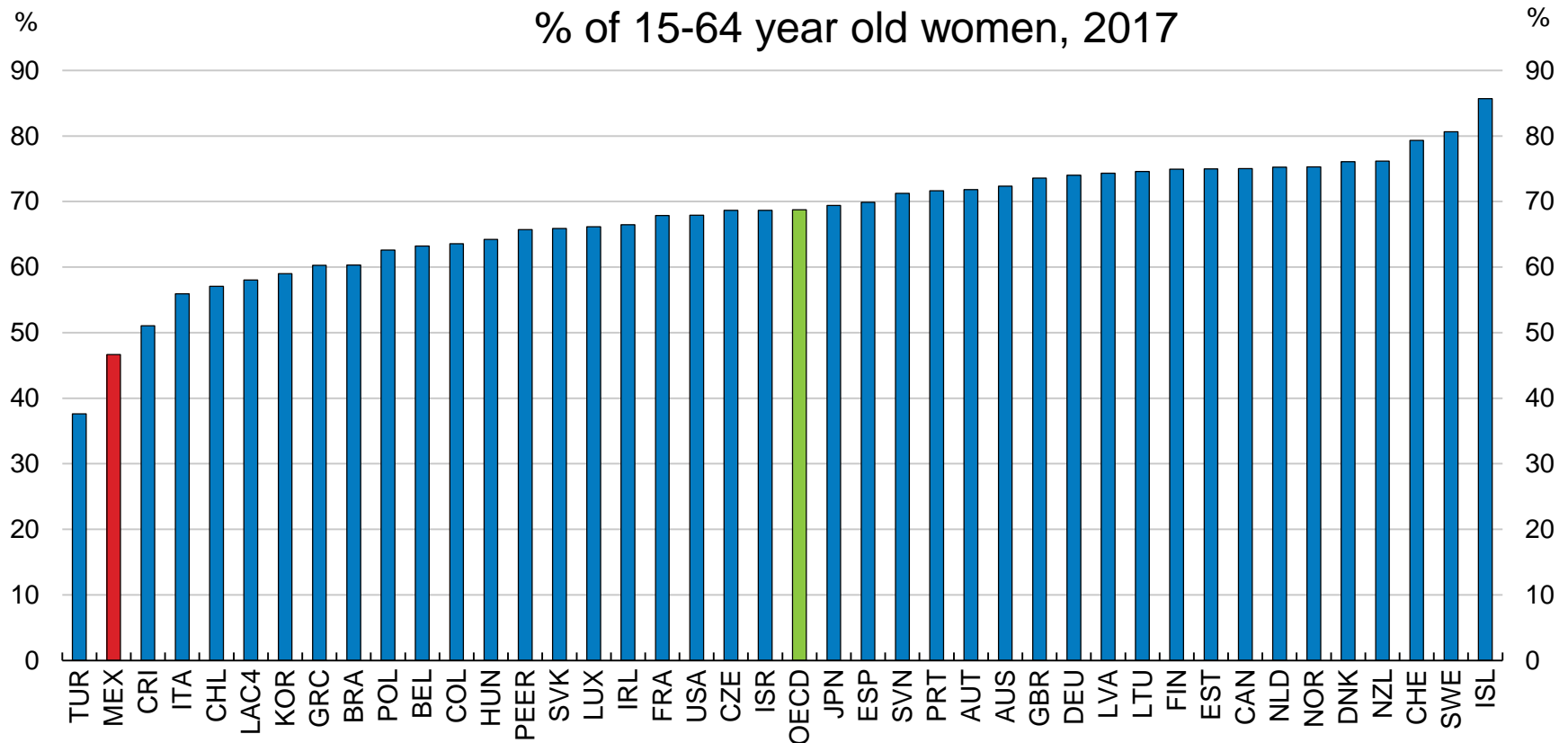
Decomposition of potential GDP growth
% per year



Source: OECD Analytical Database; OECD Demography and Population Database.



Female labour market participation remains low



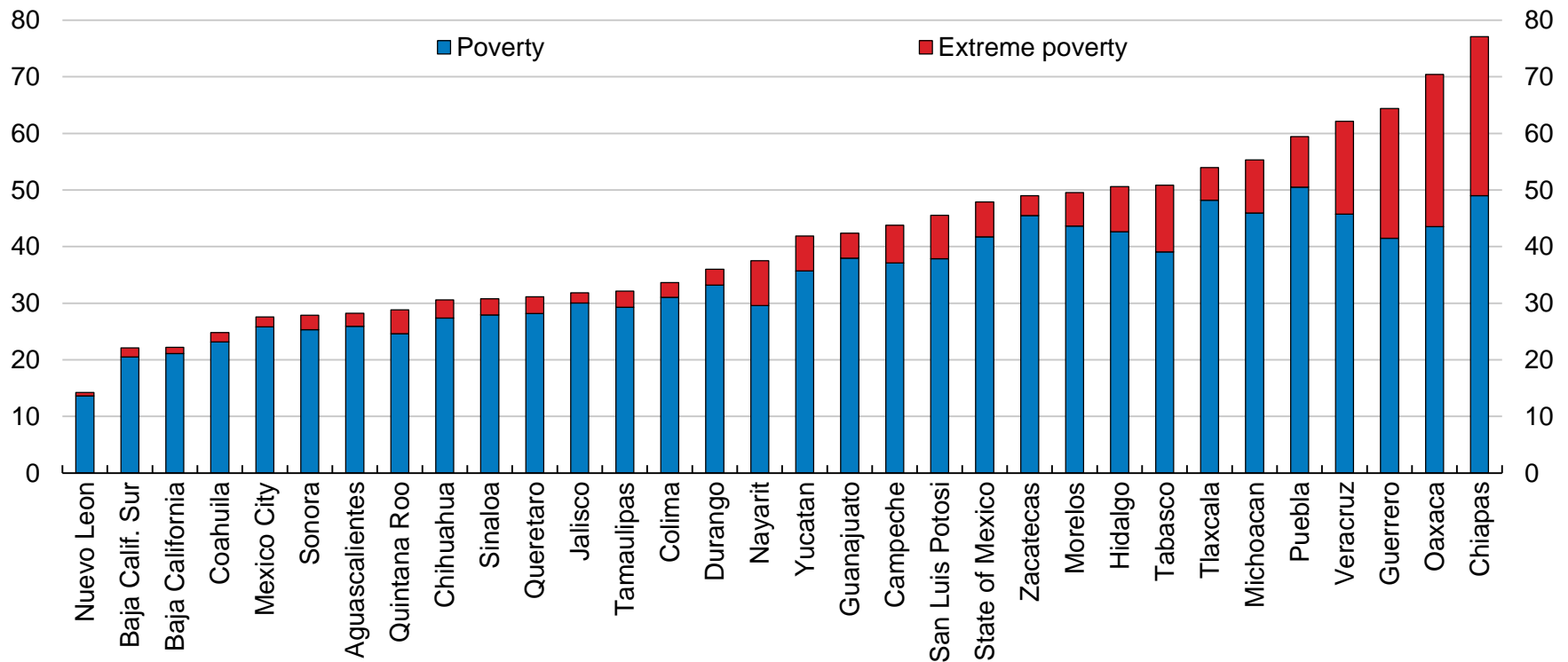
Note: LAC4 is an unweighted average of Brazil, Chile, Colombia, and Costa Rica. PEER is an unweighted average of the 10 non-Latin American OECD countries with the lowest PPP-adjusted GDP per capita: Estonia, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Slovak Republic, Slovenia, and Turkey.

Source: OECD Social Protection and Well-Being Database.



Poverty rates are high and differ greatly across states

Poverty and extreme poverty per state
%, 2016

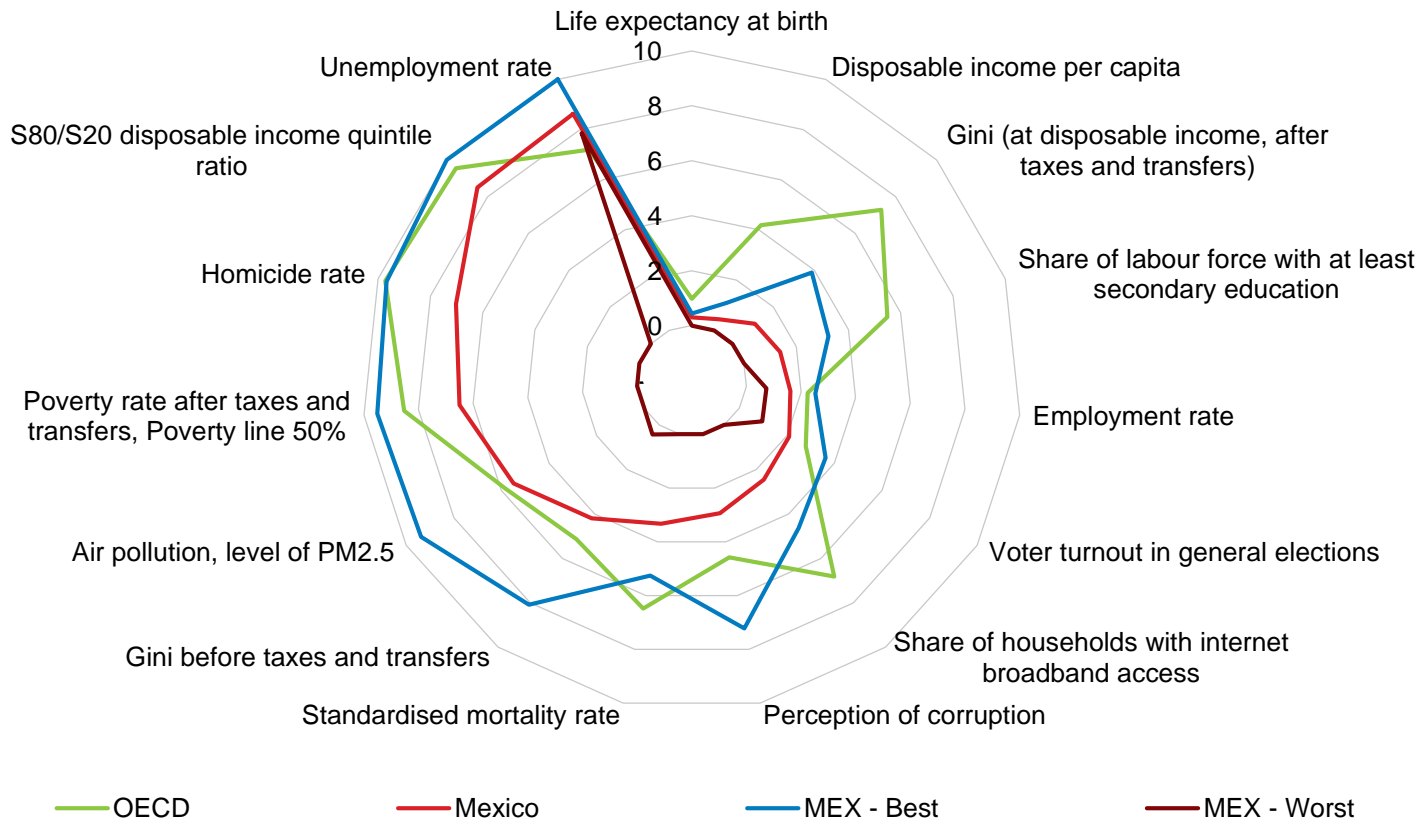


Source: CONEVAL (Consejo Nacional de Evaluación de la Política de Desarrollo Social).



Well-being varies greatly across states

Well-being indicators for Mexico and OECD countries
2014 or latest available year

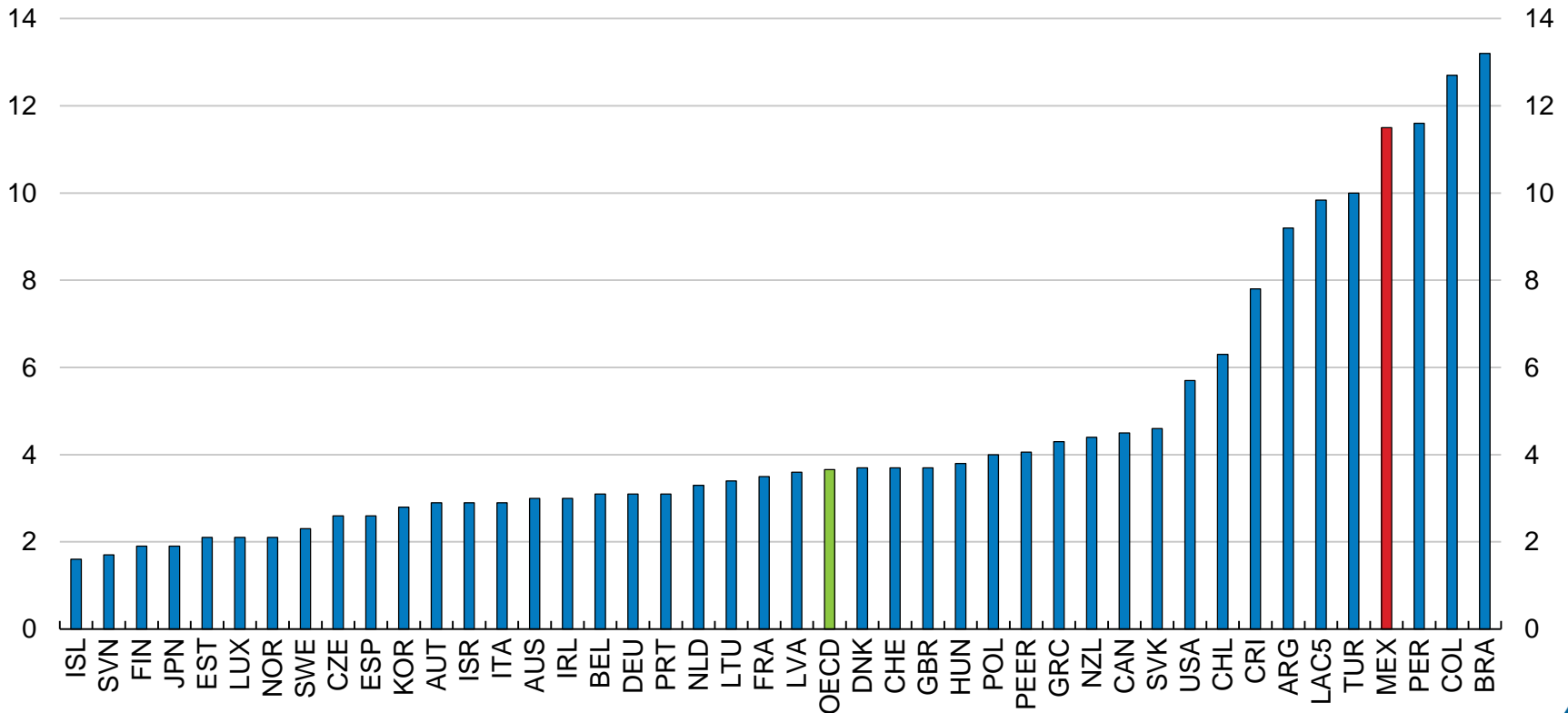


Note: Indicators are normalised to a range of 0 (worst) to 10 (best) computed over OECD countries and Mexican states.
Source: OECD Regional Well-being database.



Infant mortality rates are the highest in the OECD

Probability of dying between birth and age 1 per 1000 live births, 2017

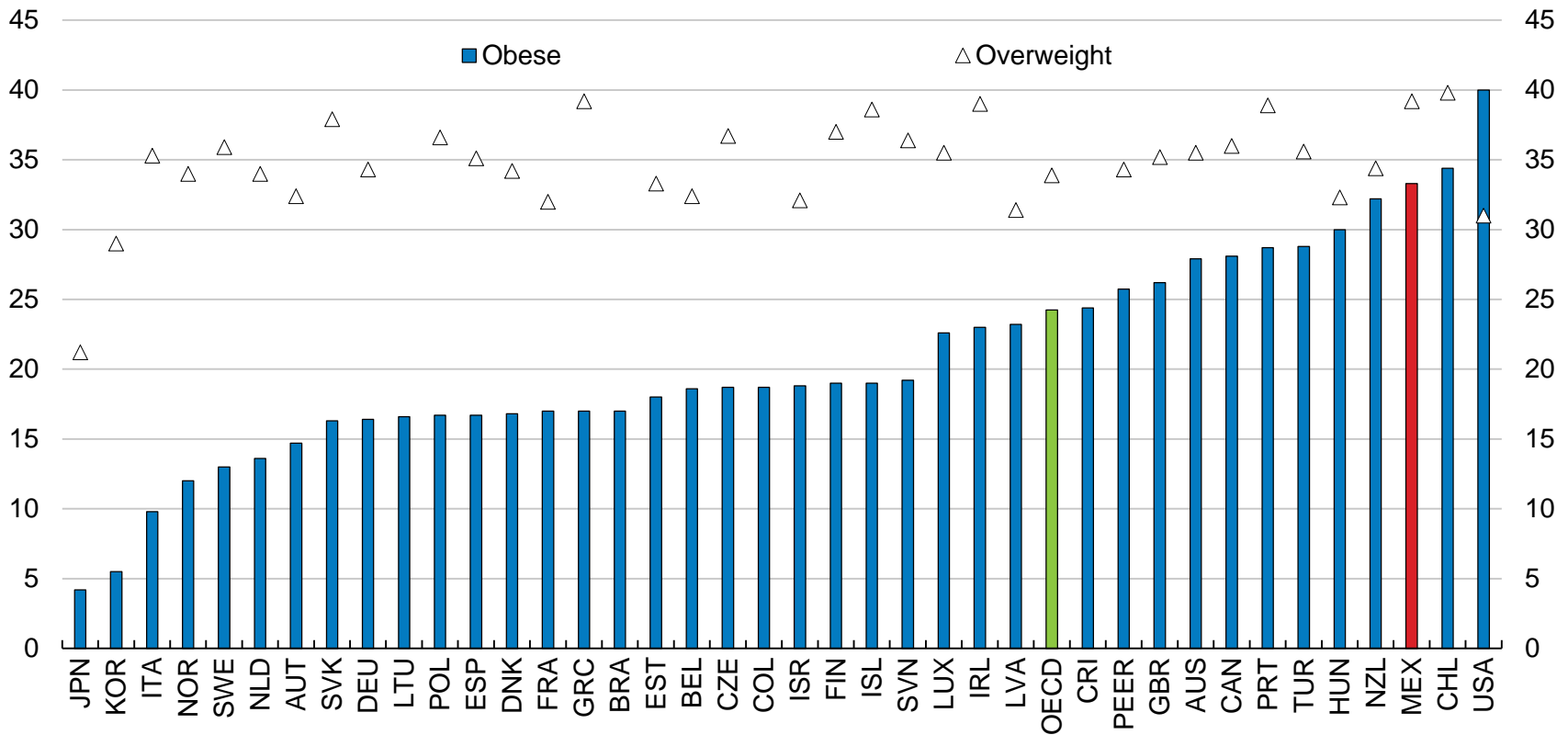


Source: World Health Organisation.



Mexico has one of the highest rates adult obesity in the OECD

Obese or overweight population
Measured or self-reported, %, 2017 or latest available year

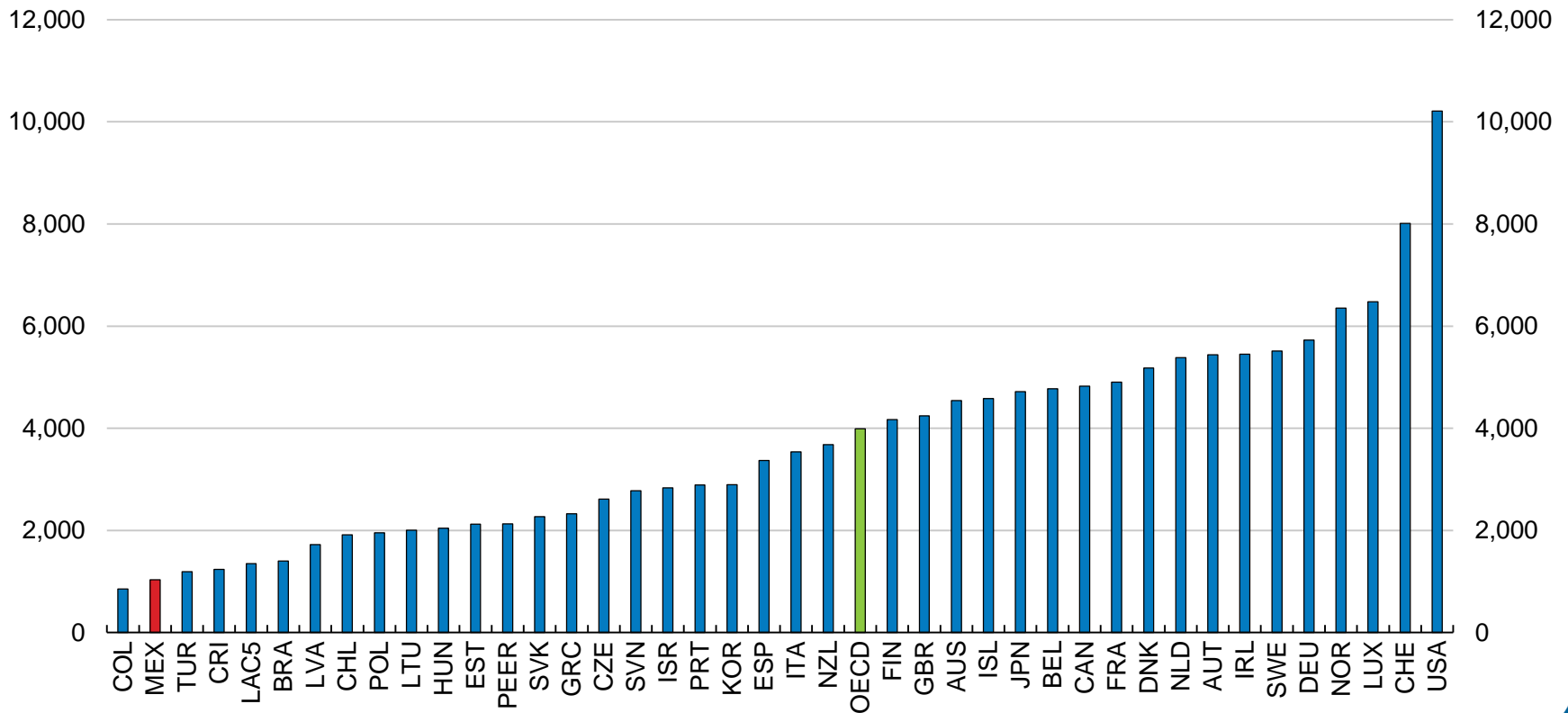


Note: Data for Mexico refer to 2016.
Source: OECD Health Statistics Database.



Spending on health is low

Total expenditure per capita on all healthcare services
PPP-adjusted current USD, 2017 or latest available year

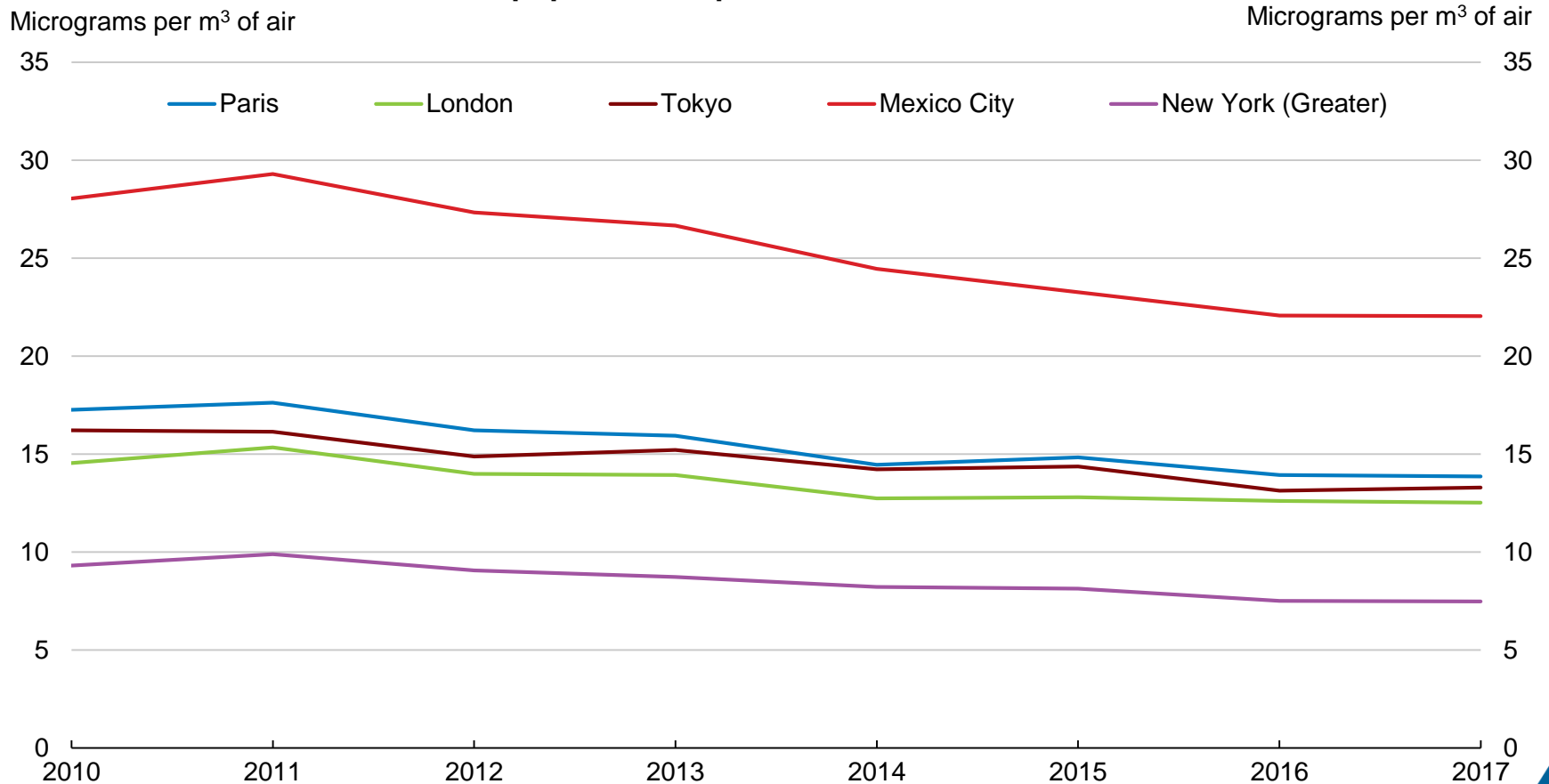


Source: OECD Health Statistics Database.



Air pollution is high, impacting on health and labour productivity

Mean population exposure to PM2.5 emissions



Note: Refers to the mean number of microgrammes of PM2.5 per cubic metre of air people are exposed to.

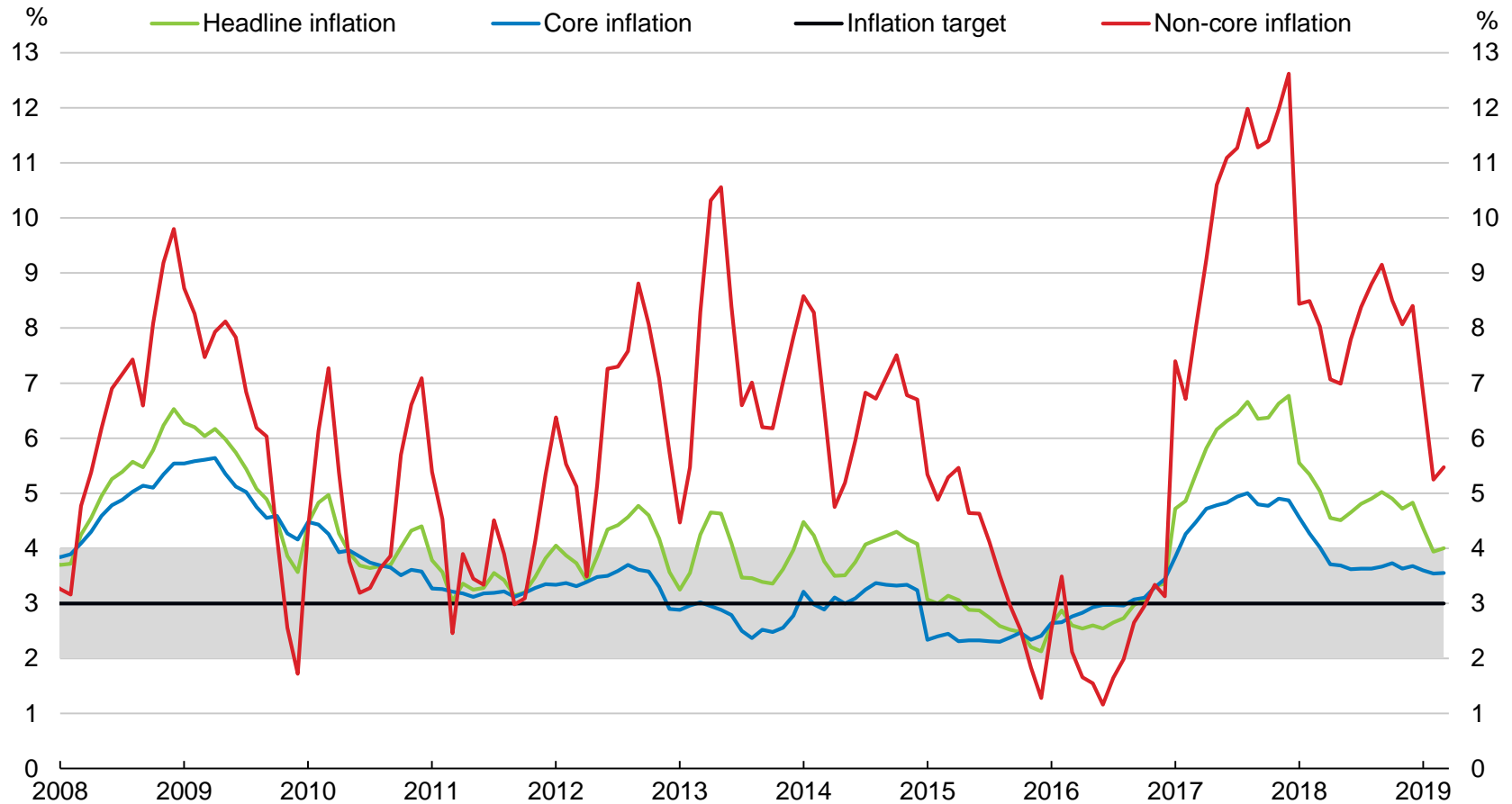
Source: OECD Environment Database.



The macroeconomic framework is strong



Inflation has moderated

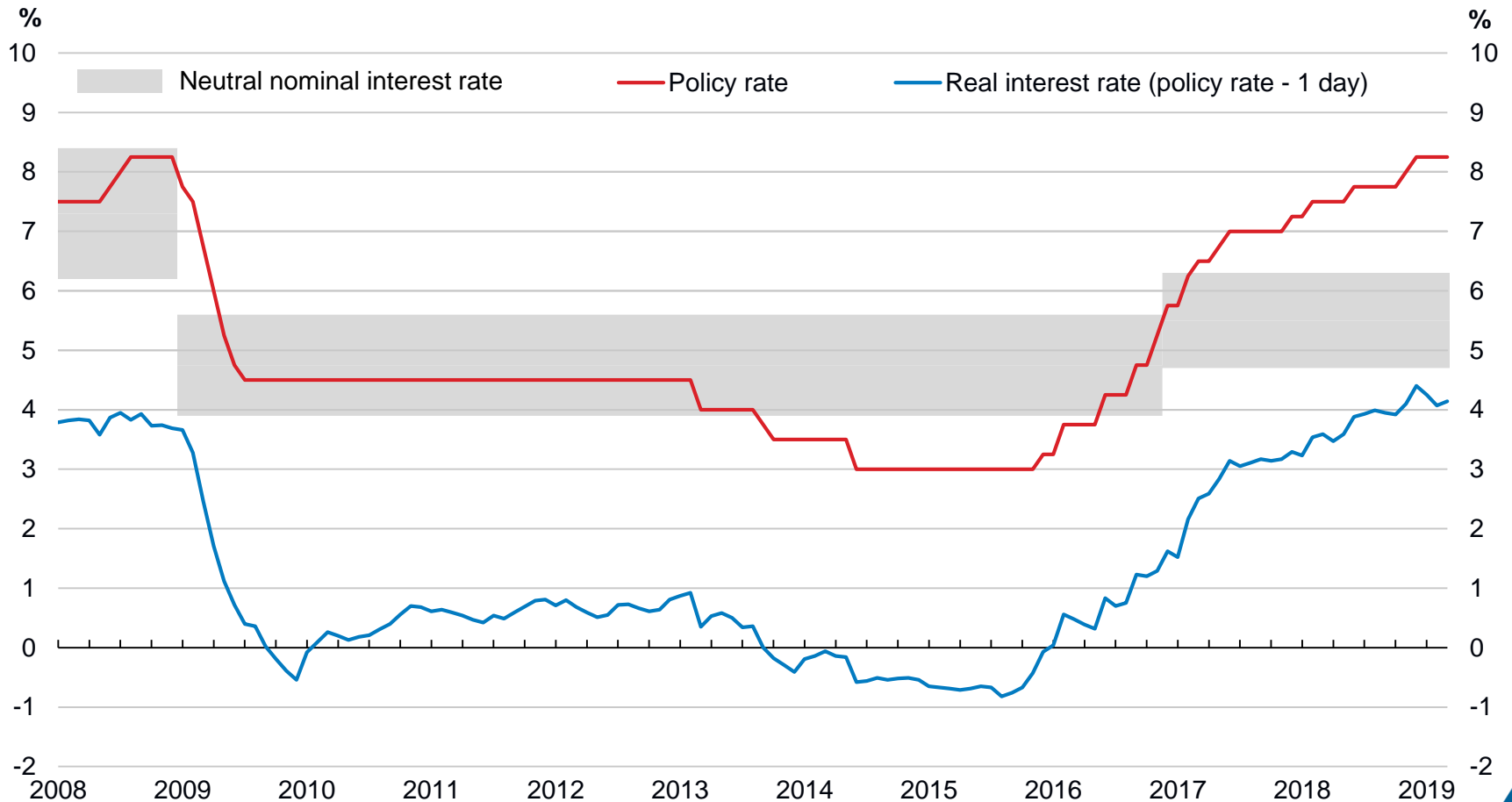


Note: The grey area in represents the inflation target range.

Source: Banco de México.



Monetary policy is appropriately tight

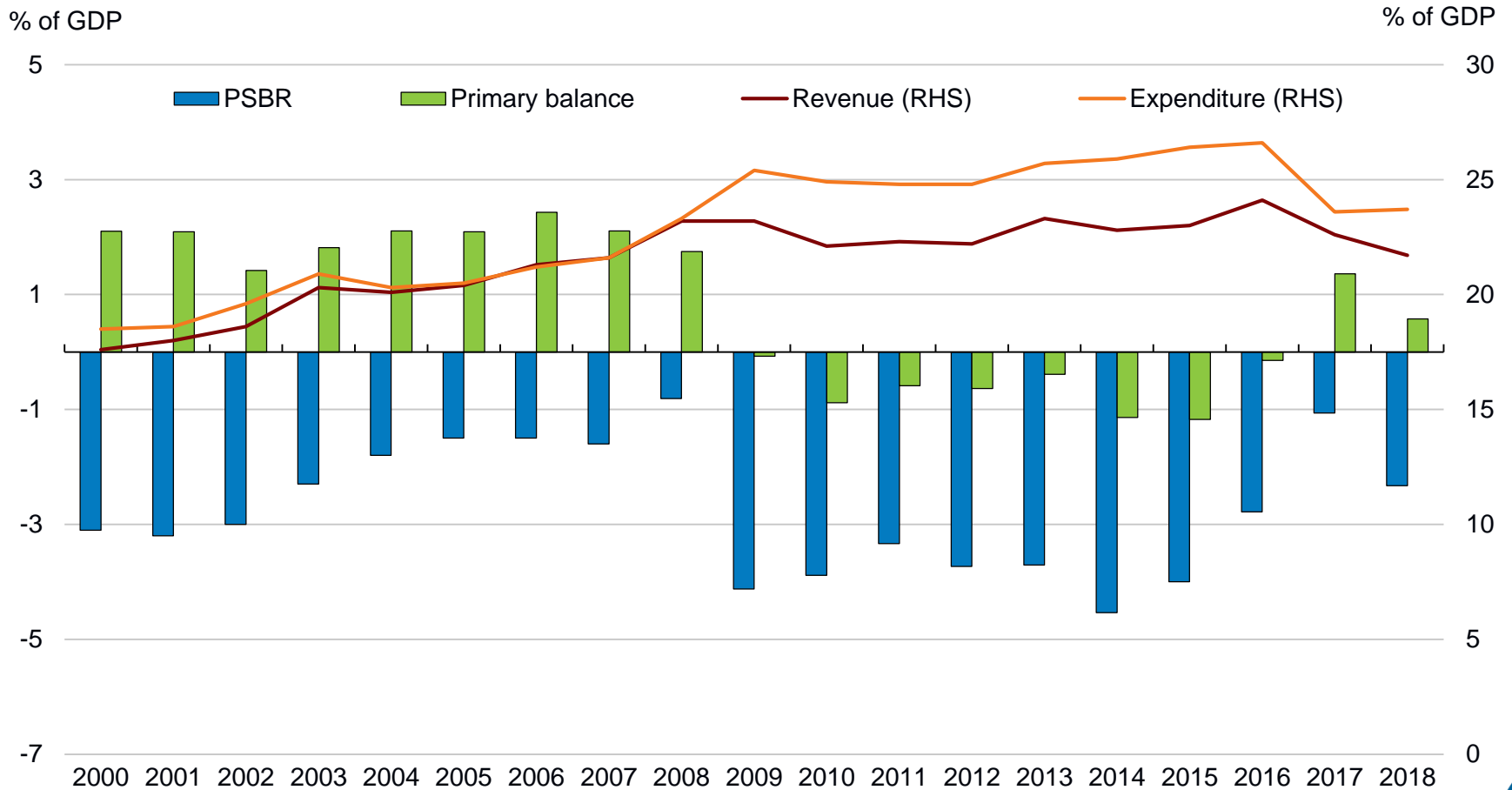


Note: The (ex-ante) real interest rate is calculated as the policy rate minus inflation expectations for the next 12 months. The grey area represents the neutral nominal interest rate range.

Source: Banco de México.



Fiscal performance has improved

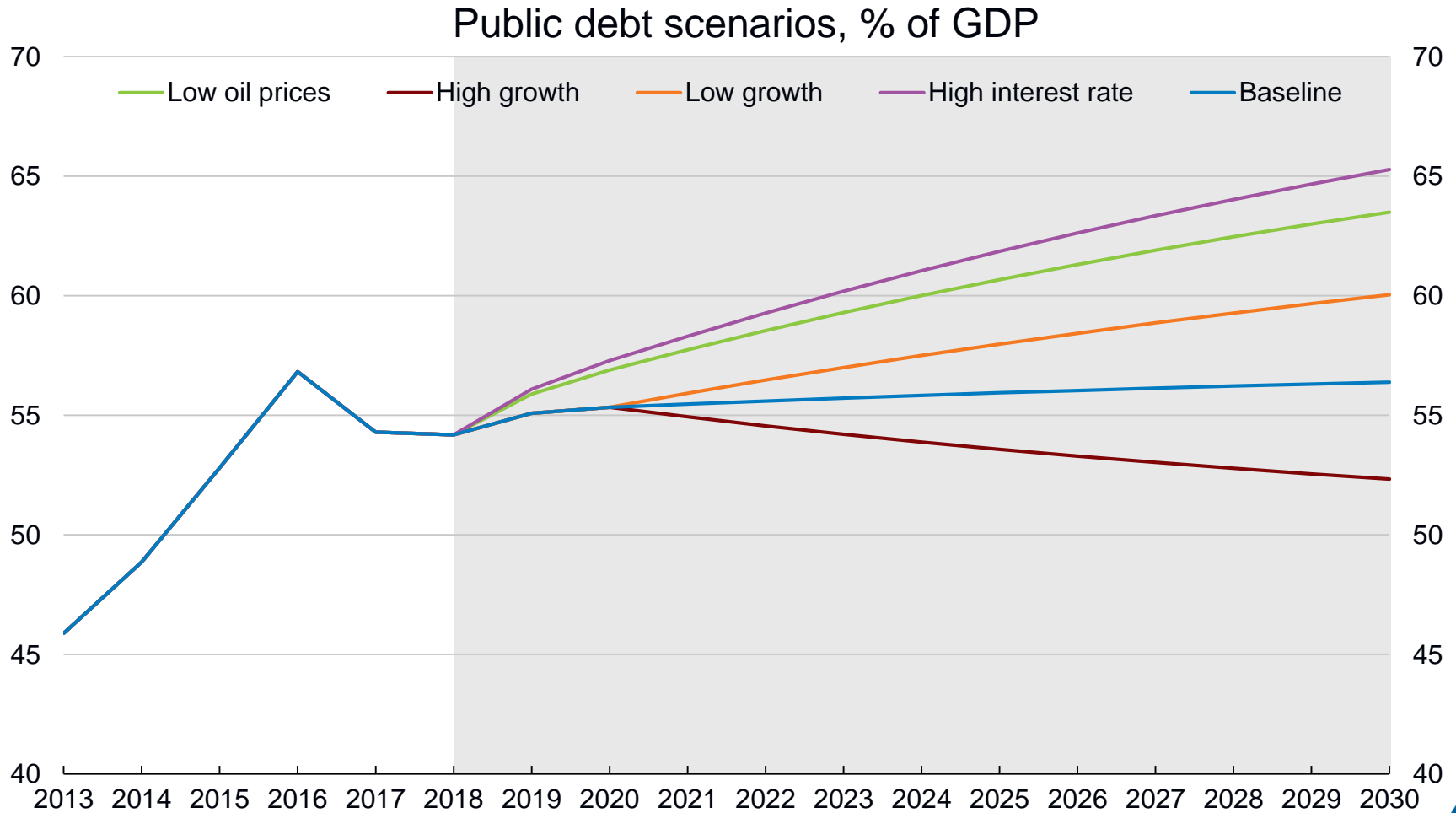


Note: The primary balance in 2017 is net of one-offs. PSBR: Public sector borrowing requirement.

Source: Secretaría de Hacienda y Crédito Público.



Fiscal prudence needs to be maintained



Source: OECD Secretariat estimates based on data from SHCP (Secretaría de Hacienda y Crédito Público).

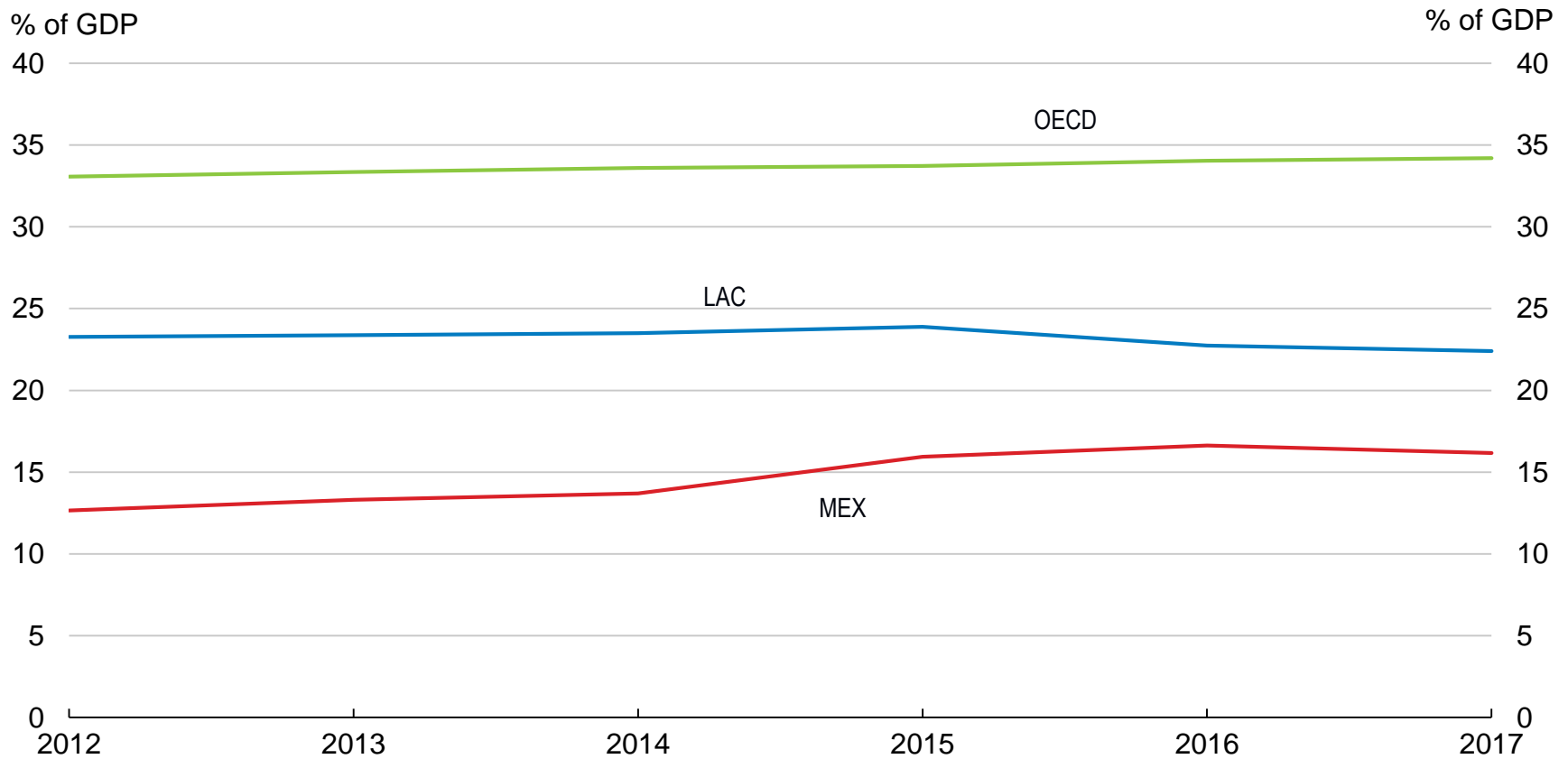


Finding resources for more equitable growth



Tax revenue collection is low

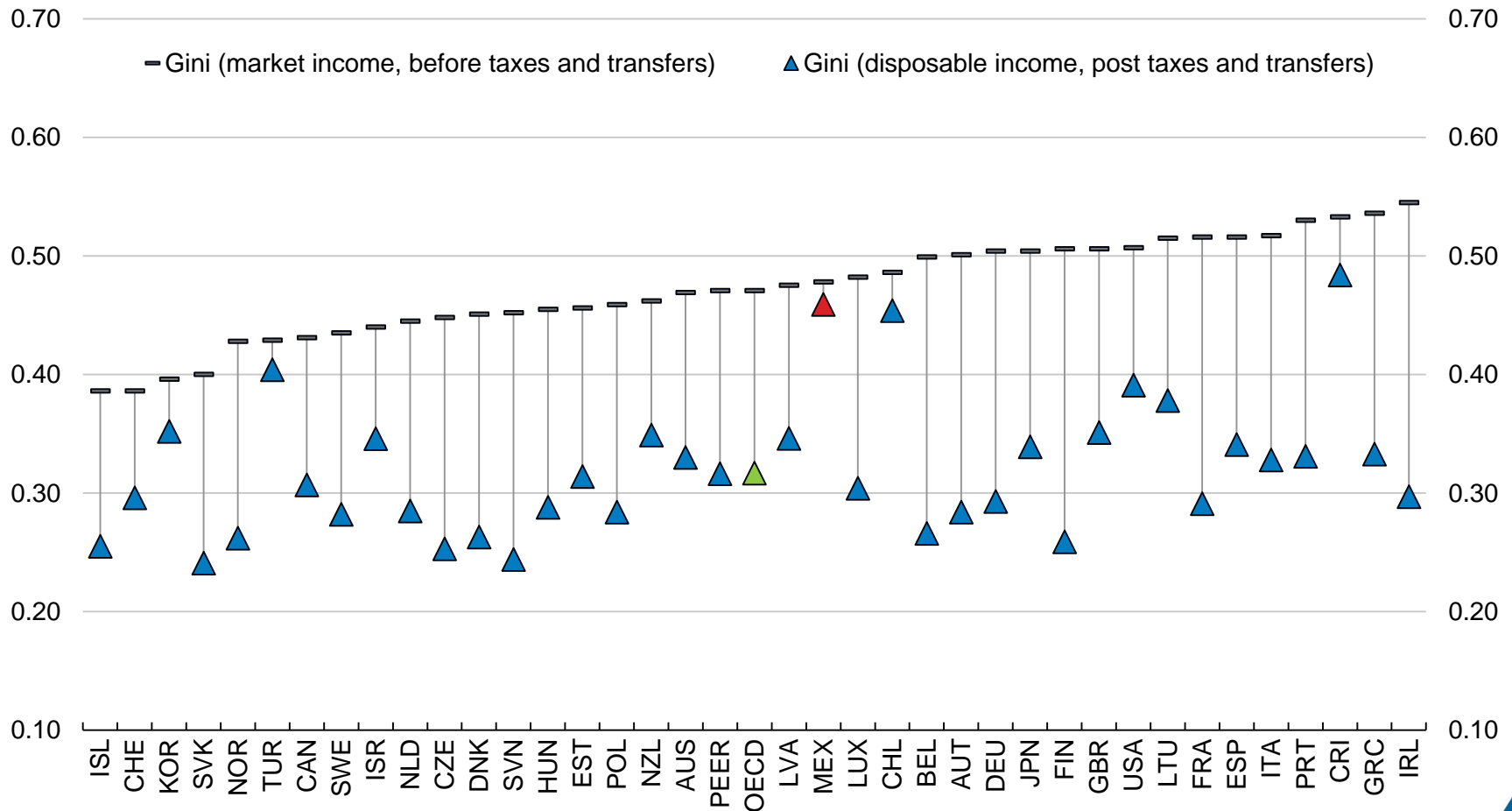
Total tax revenue



Source: OECD Global Revenue Statistics Database.

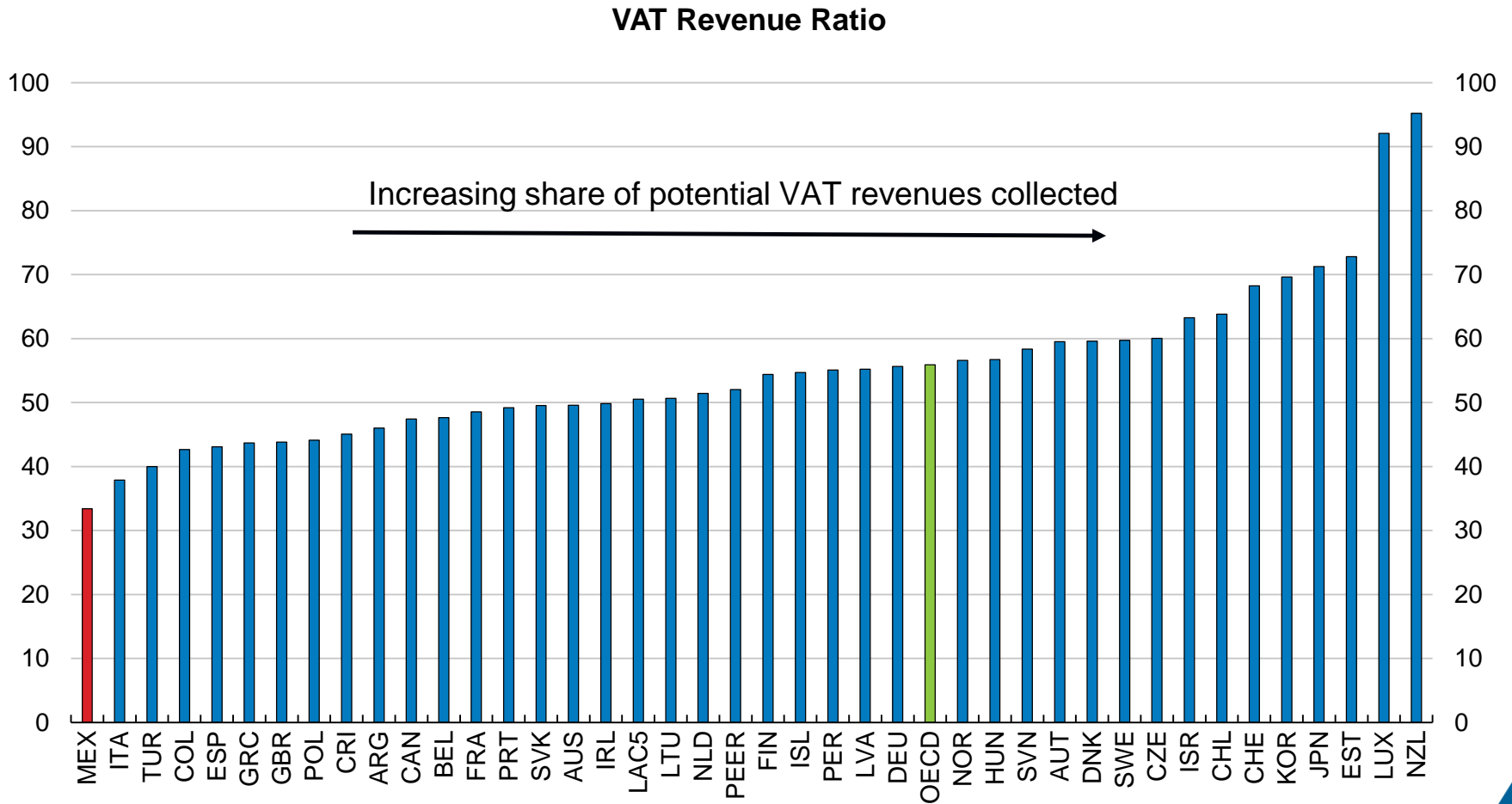


The tax and transfer system does little to reduce inequality





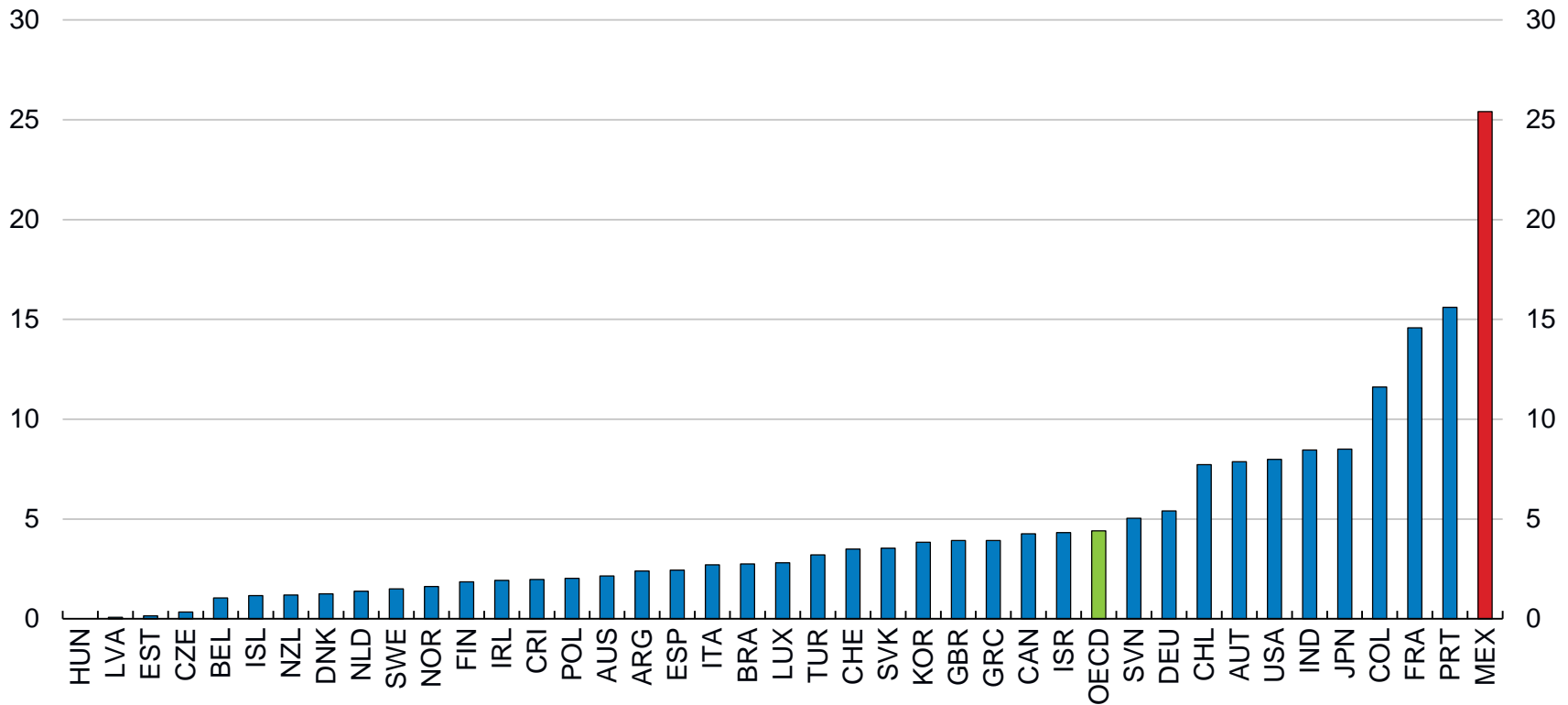
The VAT revenue ratio is the lowest among OECD countries





There is room to increase revenues and the progressivity of Personal Income Tax

Income threshold where single taxpayers start paying the top statutory PIT
As a multiple of the average wage, 2017



Source: OECD calculations based on the Taxing Wages models; OECD Taxing Wages in Latin America and the Caribbean (2016), OECD Taxing Wages (2018), OECD Tax database.



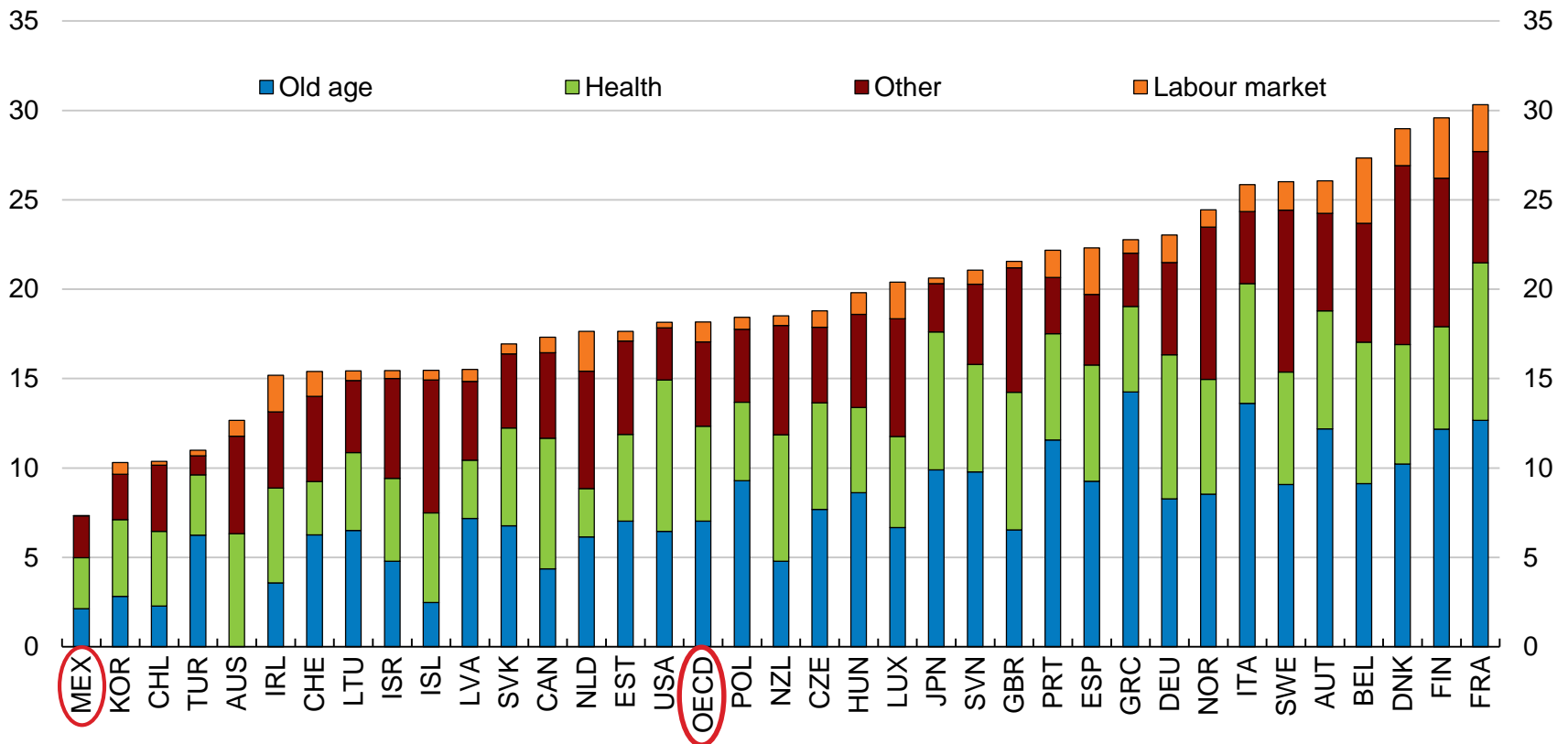
Recommendations to increase tax collection

Measure	Change in the fiscal balance (percentage points of GDP)
Reduce exemptions in CIT	Up to 0.52
Reduce exemptions in PIT	Up to 0.97
Broaden the VAT tax base	Up to 1.36
Raise property taxes to the LAC average (0.6%)	0.30
Reduce exemptions and subsidies in the state tax on motor vehicles (tenencia)	0.05
Raise the efficiency of state payroll tax collection (nómina)	0.15-0.20
Potential increase in fiscal revenues of implementing all tax recommendations	3.4



Social spending is low

Social spending
% of GDP, 2017 or latest year available



Source: OECD Social Expenditure Database.



Recommendations to improve social spending

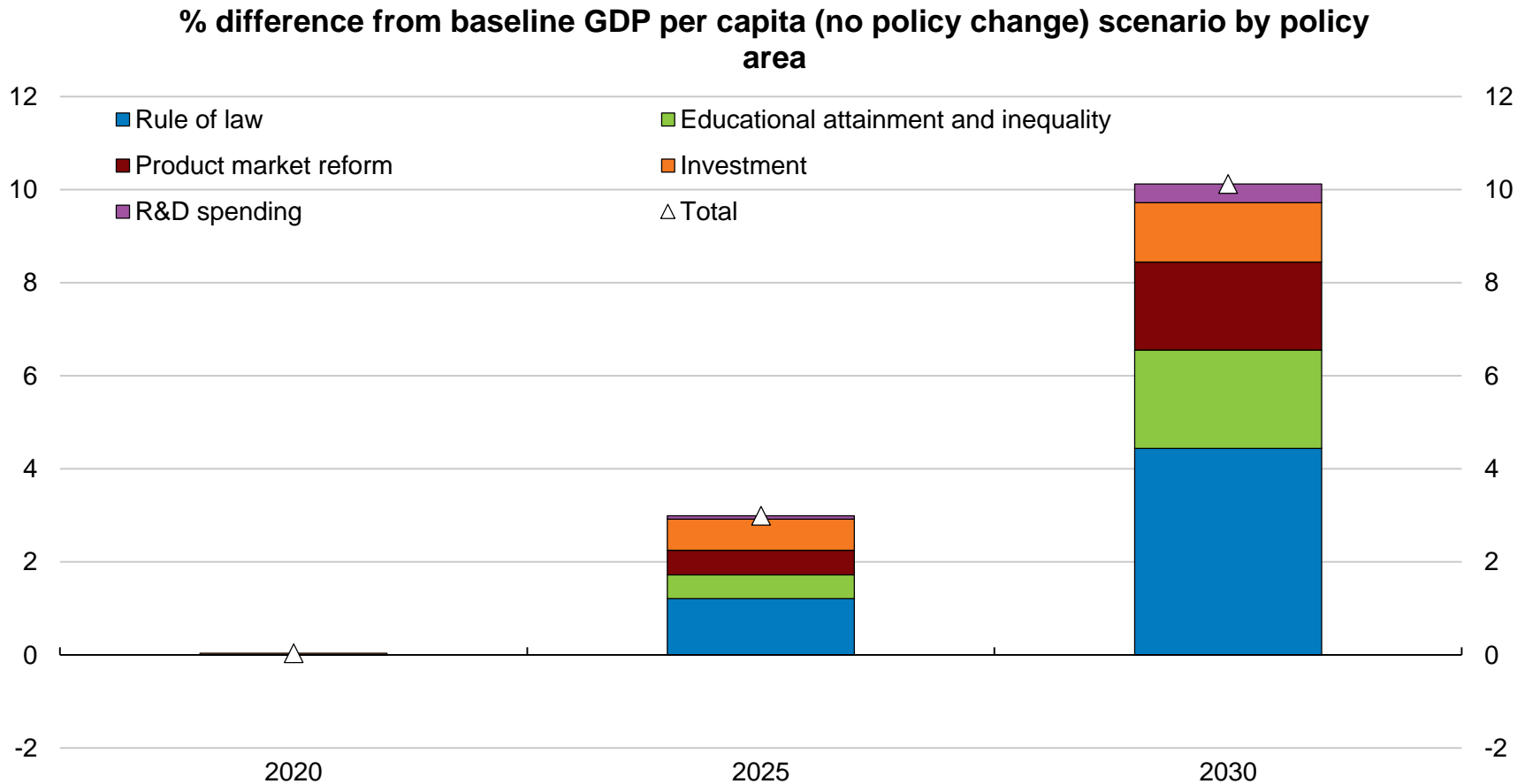
Measure	Reduction in spending (percentage points of GDP)
Reduce administrative and insurance costs in the health sector from 9% of total current expenditures to the OECD average of 3%	0.15
Eliminate beneficiary overlaps across the different health insurance schemes	0.15
Eliminate leakages in social assistance programmes benefiting the top 40% of the income distribution	0.10
Potential reduction in spending of implementing all social spending recommendations	0.4



Reforms to re-ignite productivity and achieve stronger and equitable growth



There is large potential for policy reforms to raise living standards



Source: Estimates based on "OECD Long-Term Scenarios for the World Economy" database.

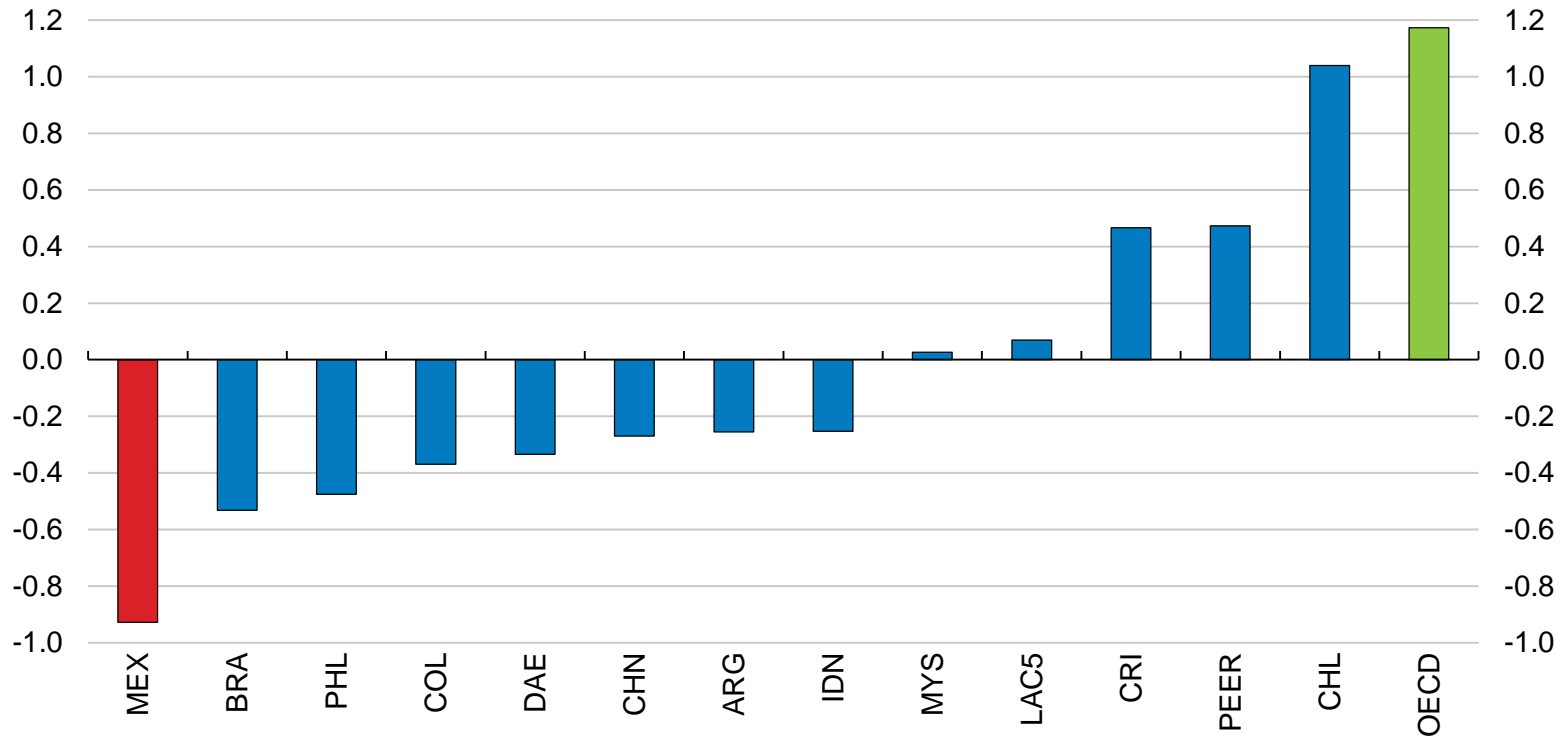


Institutions



The quality of Mexico's institutions is low

Control of corruption, 2018
Index, -2.5 to 2.5 (best)



Note: LAC5 is a simple average of Argentina, Brazil, Chile, Colombia and Costa Rica. DAE is a simple average of People's Republic of China, Indonesia, Malaysia, the Philippines, Thailand and Viet Nam.

Source: World Bank World Governance Indicators.



Recommendations to improve institutional quality

- Complete the implementation of the National and Local Anticorruption Systems reforms and monitor the results.
- Consider introducing a specialist, independent anticorruption agency that takes into account the federal structure of the government.
- Continue efforts to reduce impunity.
- Ensure that the competition authorities and sector regulators have adequate resourcing and independence to carry out their mandates effectively.

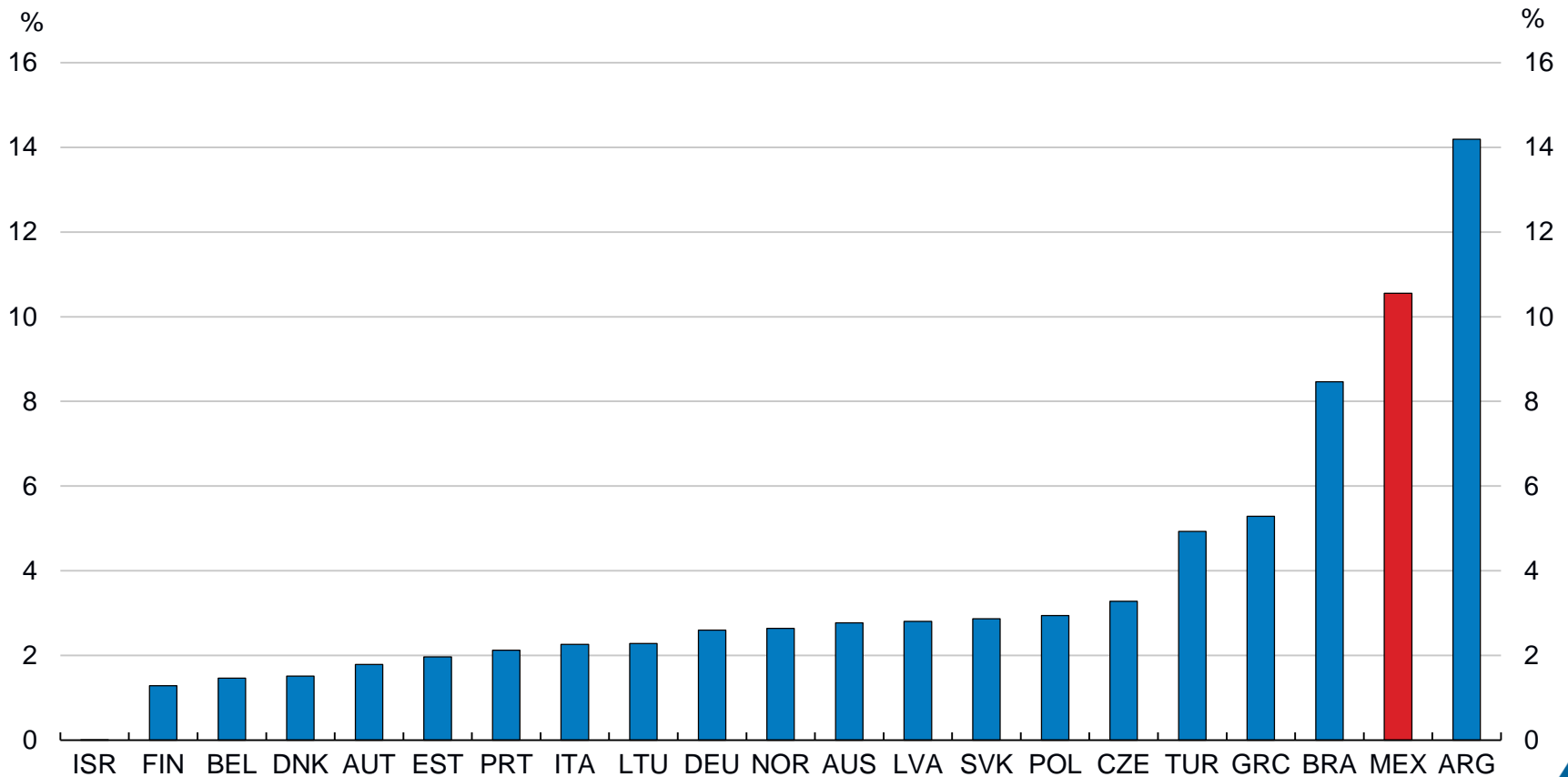


Strengthening financial inclusion and competition in the banking sector



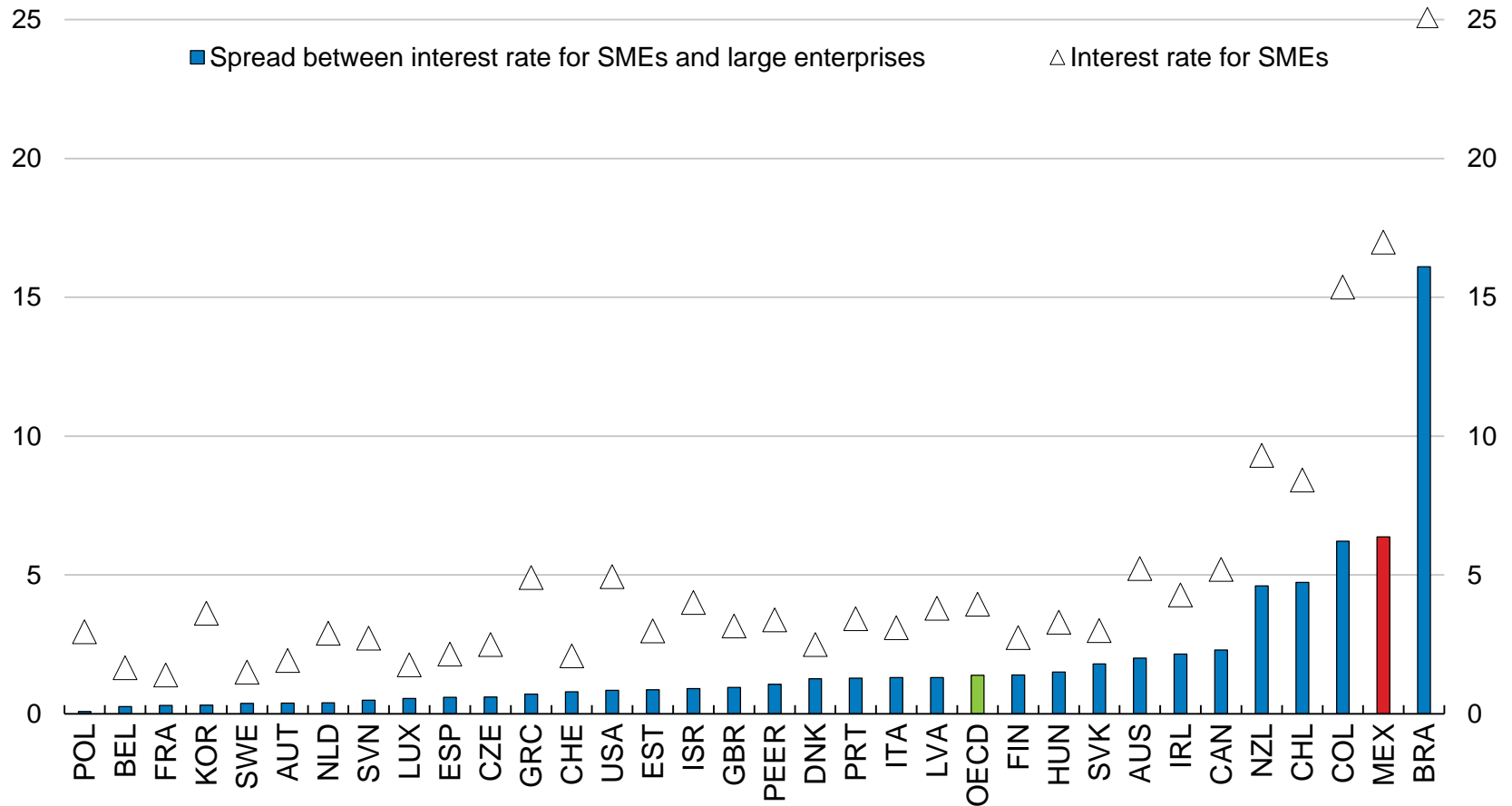
Competition in the banking sector is low

Spread between lending and deposit rates, 2017





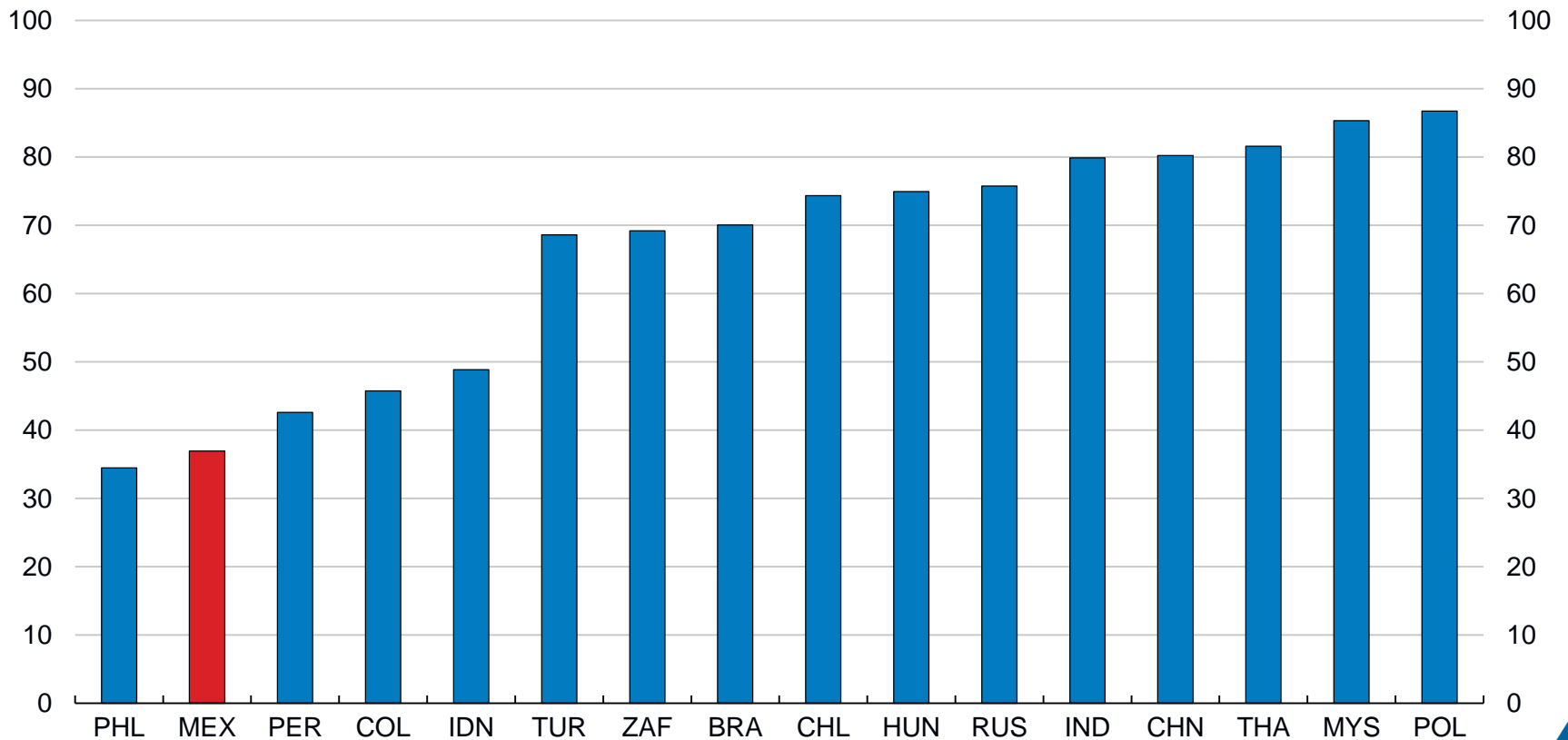
Mexican SMEs face high borrowing costs





Financial inclusion remains low

Share of adults holding an account
%, 2017



Source: World Bank, Global Findex database (2017).



Recommendations to strengthen financial inclusion and competition in the banking sector

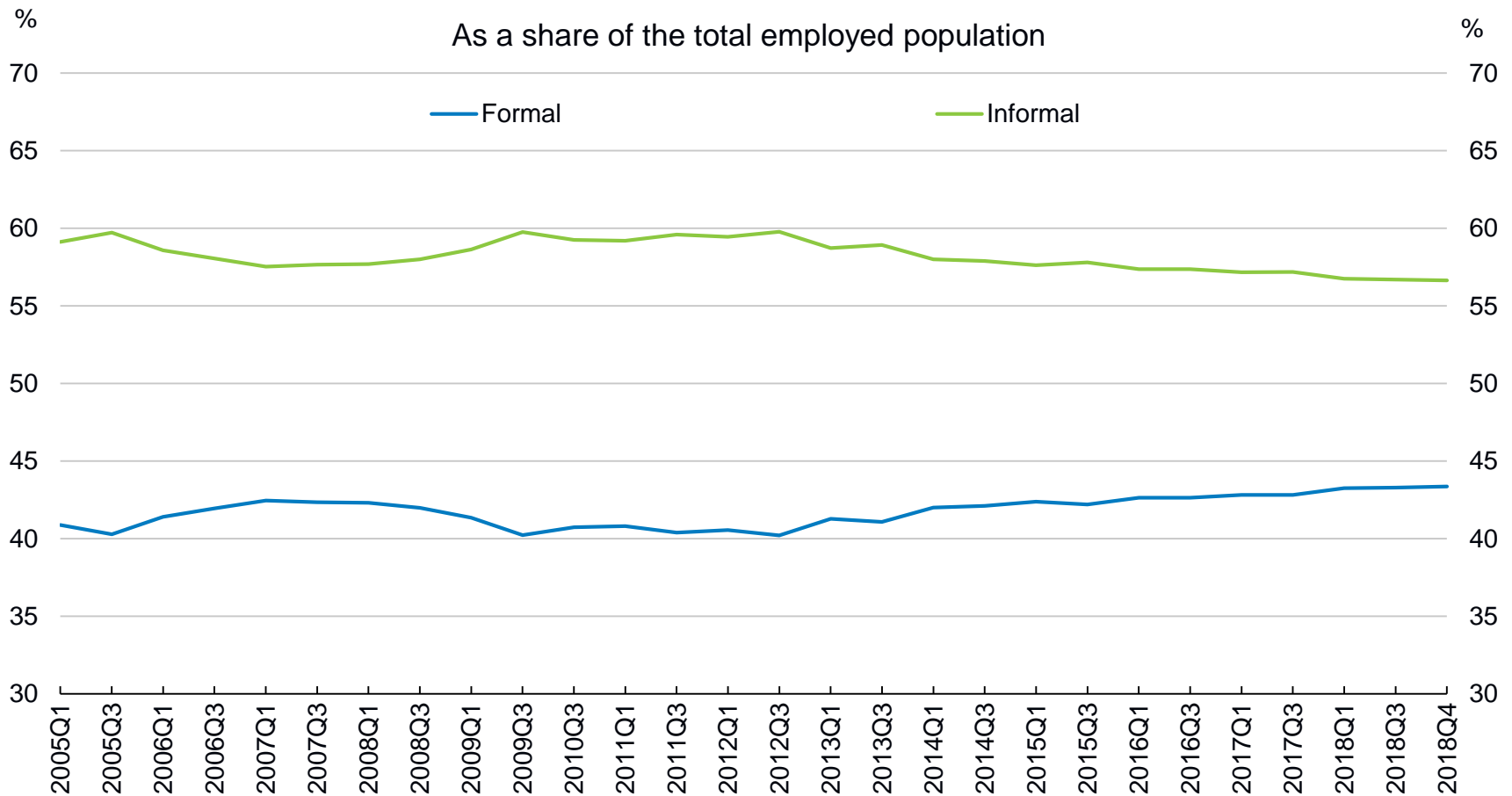
- Accelerate the current initiatives to enhance financial inclusion, financial literacy and competition. Monitor outcomes.
- Move towards making all government transfers to households through bank accounts or electronic means.



Lowering high informality rates



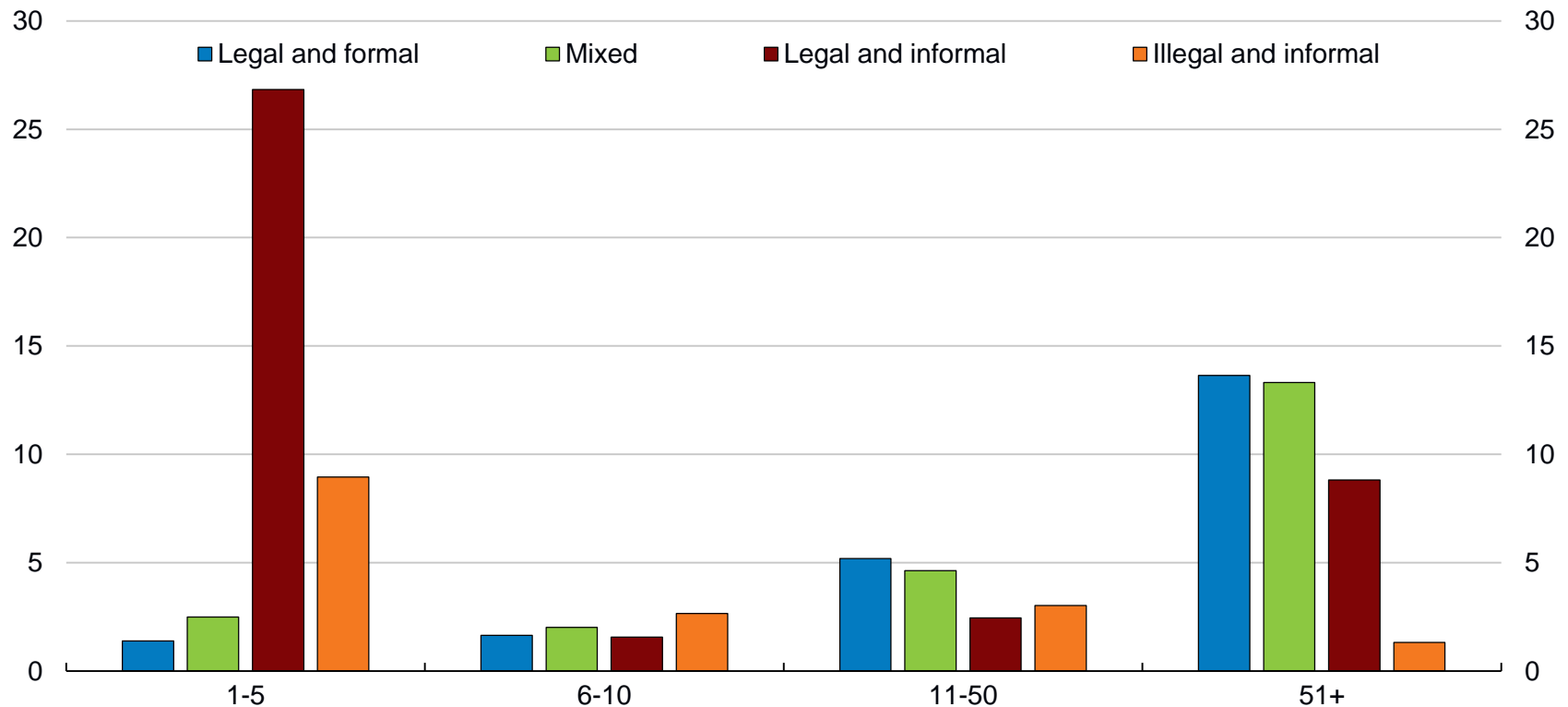
Informality remains high





Informal but legal firms account for a large share of workers

Distribution of workers by firm size (number of workers) and type
% share, 2013



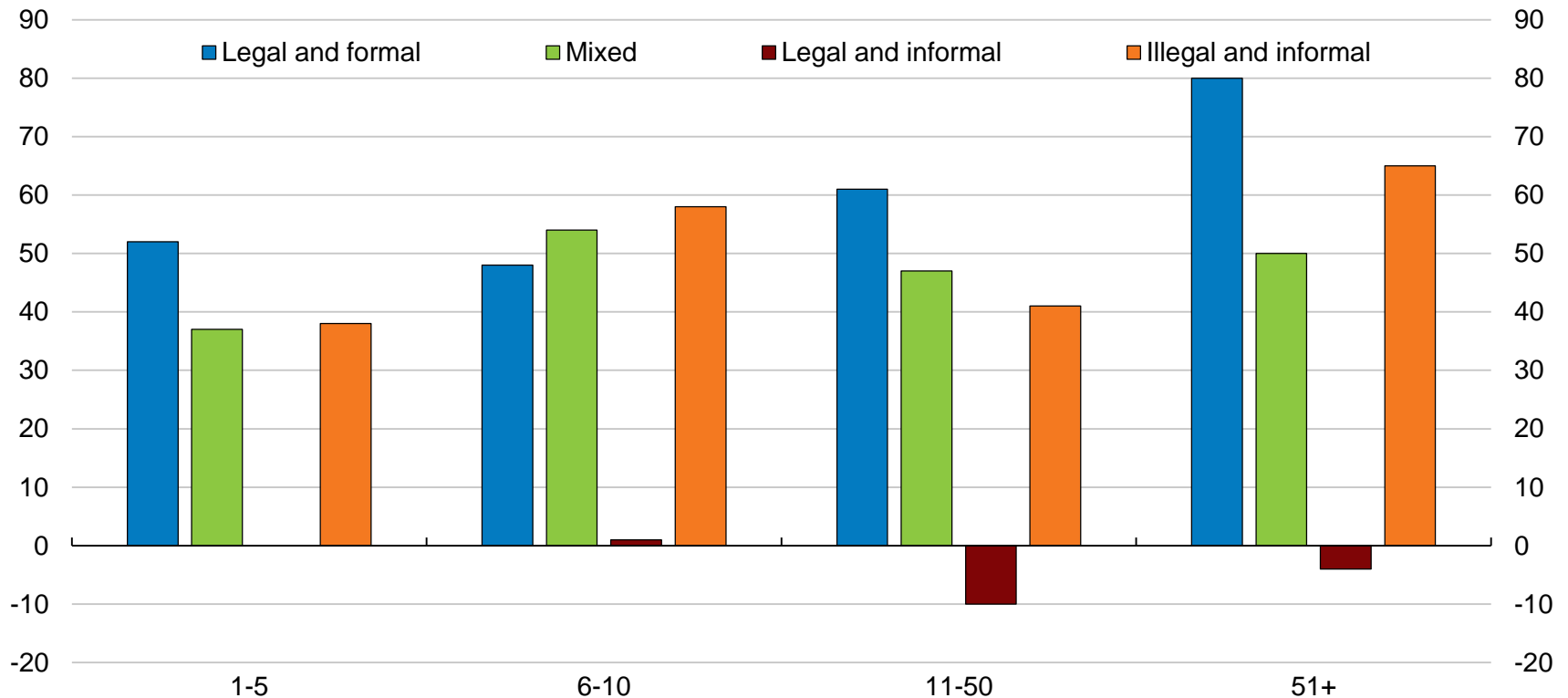
Note: 'Legal and formal' firms employ only legal, salaried workers. 'Mixed' firms employ some legal, salaried workers and some non-salaried, informal workers. 'Legal and informal' firms employ non-salaried, informal workers. 'Illegal and informal' firms hire illegal salaried workers.

Source: Levy (2018), Under-rewarded Efforts: The Elusive Quest for Prosperity in Mexico.



Informal but legal firms have the lowest productivity levels

Revenue productivity by firm size (number of workers) and type
% difference in revenue productivity relative to legal informal firms with 1-5 workers, 2013



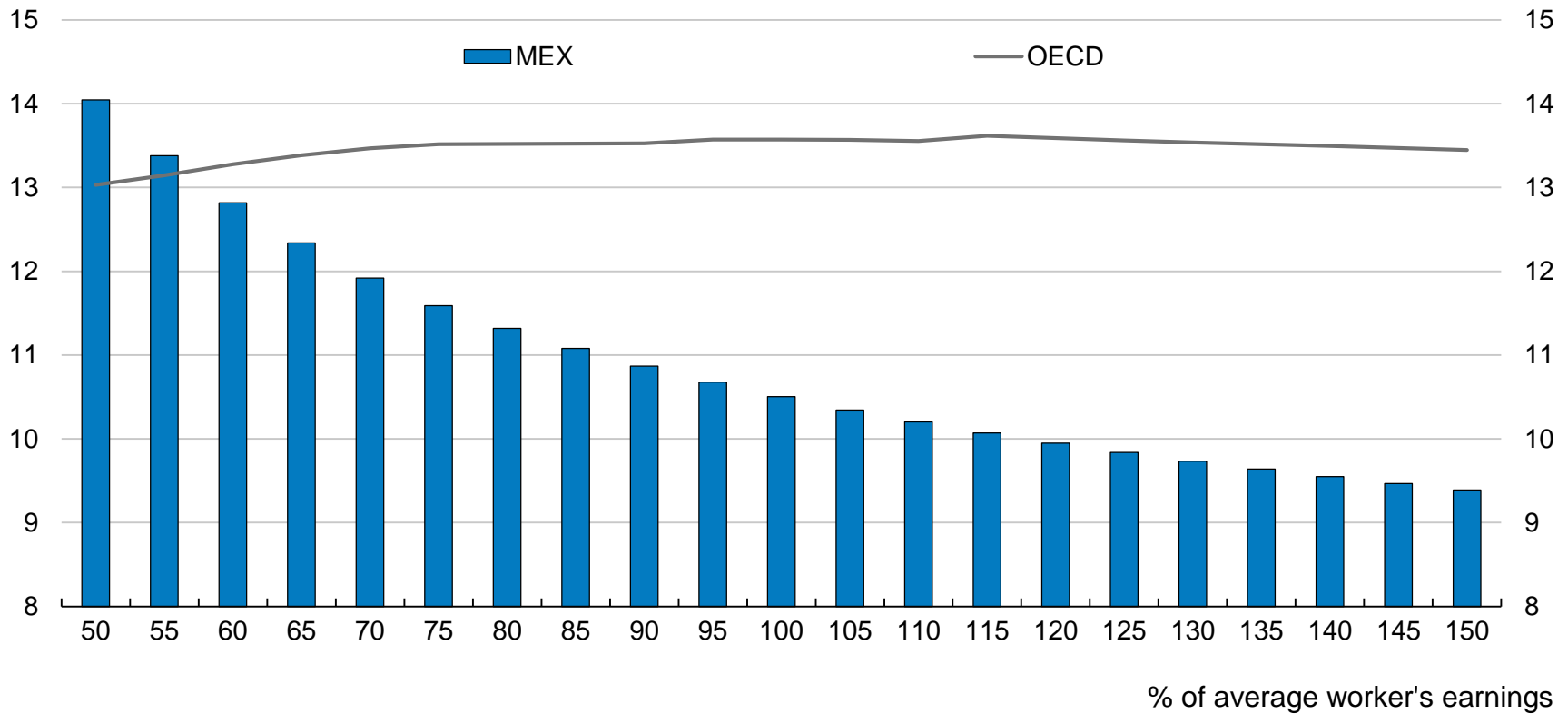
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Employers' social security contributions are high for low-income earners

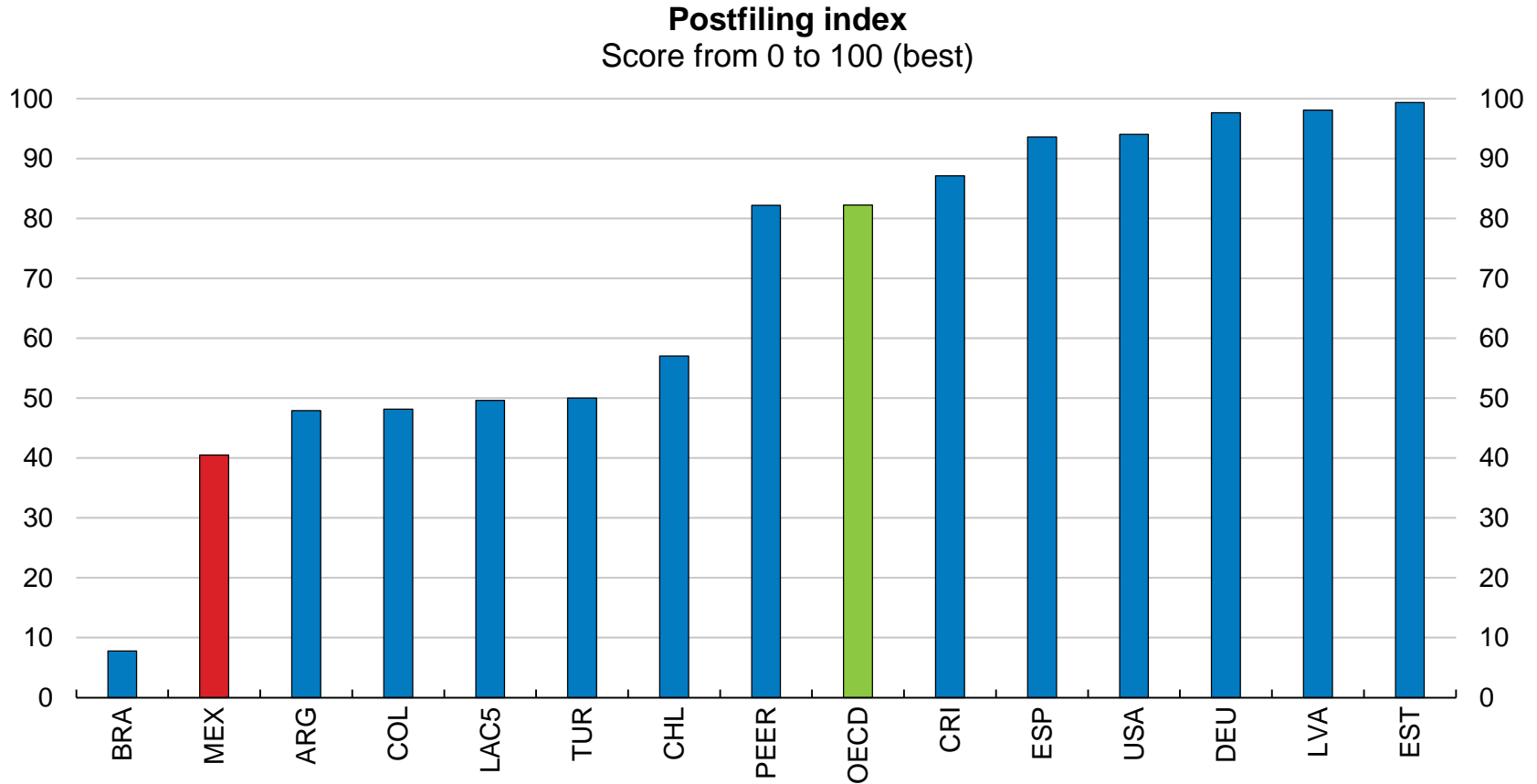
Single-earner married couple, 2 children
% of total labour cost



Source: OECD Public Sector, Taxation and Market Regulation Database.



Tax compliance costs are high



Note: LAC5 is an unweighted average of Argentina, Brazil, Chile, Colombia, and Costa Rica. PEER is an unweighted average of the 10 non-Latin American OECD countries with the lowest PPP-adjusted GDP per capita: Estonia, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Slovak Republic, Slovenia, and Turkey.

Source: World Bank Doing Business 2019.



Recommendations to incentivise informality

- Implement a coordinated approach to reduce informality, comprising:
 - Lower administrative burdens to doing business
 - Lower tax compliance costs
 - Lower dismissal costs
 - Stepping up social protection.
- Lower social security contributions for low wage earners
- Set minimum protection standards for all type of labour relationships
- Step up enforcement
- Lead by example and progressively reduce the number of informal workers in the public sector

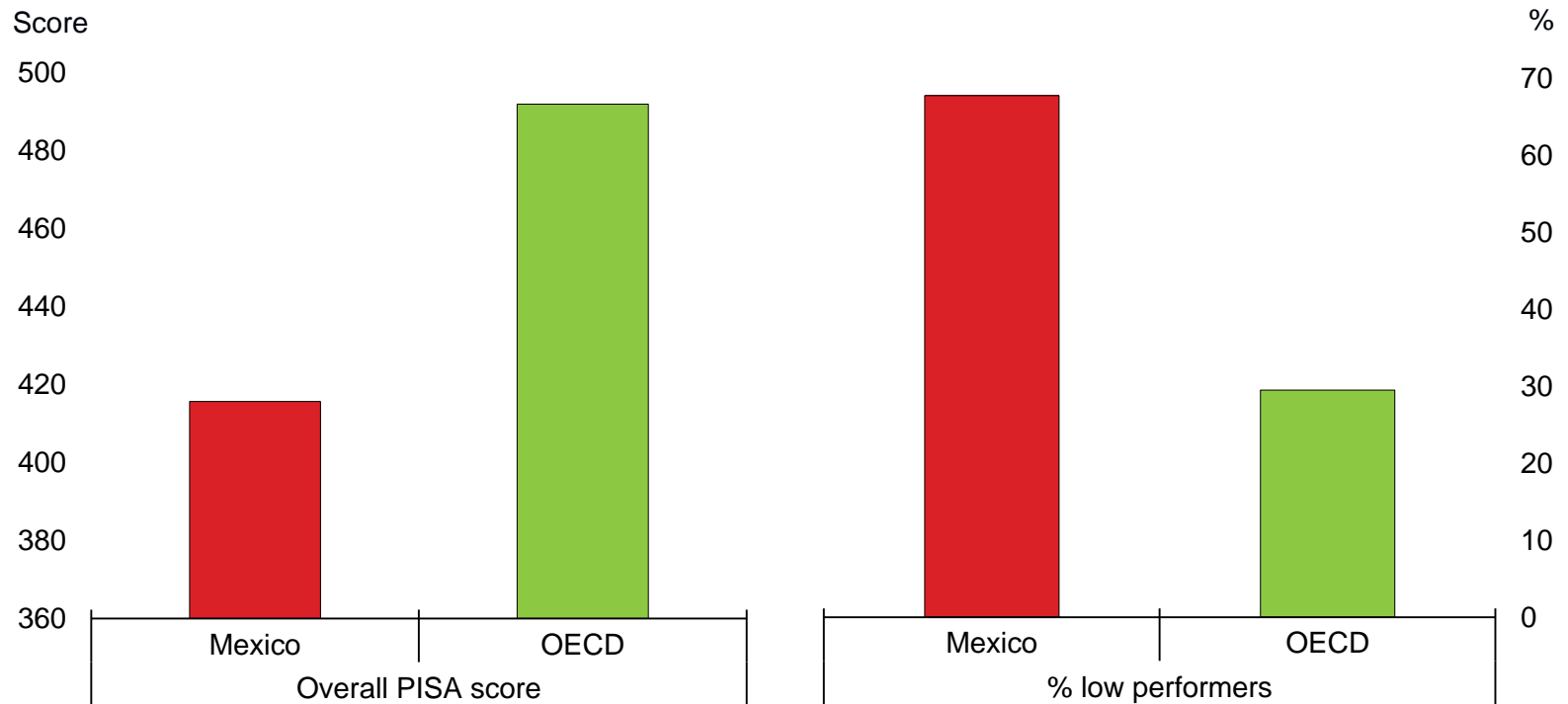


Improving access to and the quality of education



Education outcomes are low

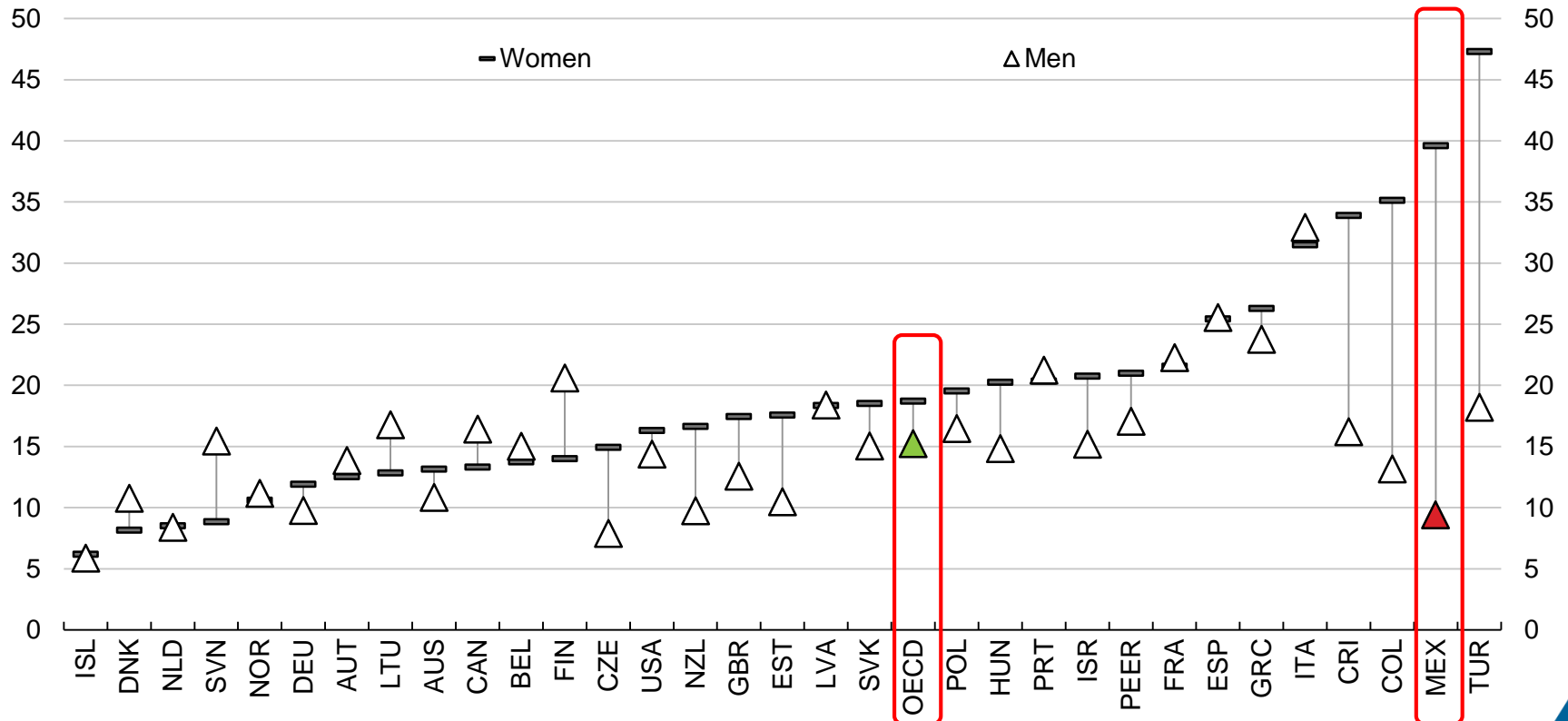
2015 PISA results





Youth not in education, employment or training are predominantly women (NEETs)

% of young people aged 20-24 who are not in education, training or work by gender, 2016



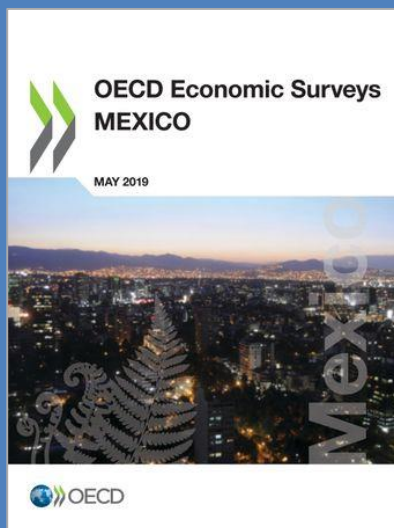


Recommendations to improve access to and the quality of education

- Raise the quality and coverage of early childhood education and care programmes and delink them from parents' labour market status.
- Ensure that funding resources are distributed equitably among schools.
- Provide additional support to students from lower socio-economic backgrounds.
- Clarify fiscal federal relationships in the delivery of education services, simplify funding mechanisms and increase transparency in the allocation of resources at the state level.
- Continue efforts to step up monitoring and evaluation at the subnational level.
- Continue to expand VET coverage, assess the results of the internship programmes and encourage female participation.

More information...

<http://www.oecd.org/economy/surveys/mexico-economic-snapshot/>



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