BBVA | RESEARCH

Mexico Economic Outlook

Third Quarter 2014
Economic Analysis

- GDP growth will increase, driven principally by a rise in exports
- At times of global financial stress, Mexico enjoys positive differentiation thanks to the low vulnerability of its economy
- Public investment makes an important contribution to medium- and long-term growth in Mexico, so it would be helpful if the additional resources in the public sector were spent here

BBVA Bancomer

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Closing Date: August 1, 2014

1. Summary

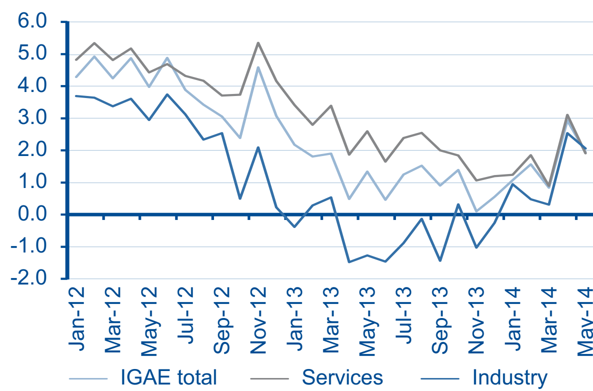
Economic activity has begun to improve in the second quarter, driven mainly by external demand. However, domestic demand is still not showing clear signs of acceleration. The Mexican economy performed poorly in the first quarter of 2014 reflecting a similar situation in the United States, exacerbated by a greater than expected impact on consumption and investment as a result of tax rises nationally and other domestic factors, such as the slow recovery in construction and the slide in oil production.

For the second quarter of this year we are forecasting higher GDP growth linked principally to exports, thanks to the uptick in the US economy. In the coming quarters, as well as an improvement in external demand, increasing public sector expenditure in Mexico should also contribute to better performance on the part of national production. When it comes to public sector spending, investment in infrastructure is one of the most efficient mechanisms for promoting a country's long-term economic growth. According to our estimates, in Mexico public sector investment has a 50% higher impact on GDP than current public sector spending within two and a half years. As such, it is crucial that the additional resources flowing into the public coffers are directed for the most part towards infrastructure developments, which must be designed and planned so as to ensure they contribute to increased productivity. This will help the economy to expand in the long term, rather than representing just a short-term boost.

The scenario for YoY growth assumes that the US economy will accelerate in upcoming quarters, growing 2.0% in 2014 and 2.5% in 2015, and also that public expenditure in Mexico will continue to rise, particularly on infrastructure, since some important projects have already been approved and are about to start construction. Thus, we expect GDP to grow by 2.5% and 3.5% in 2014 and 2015 respectively.

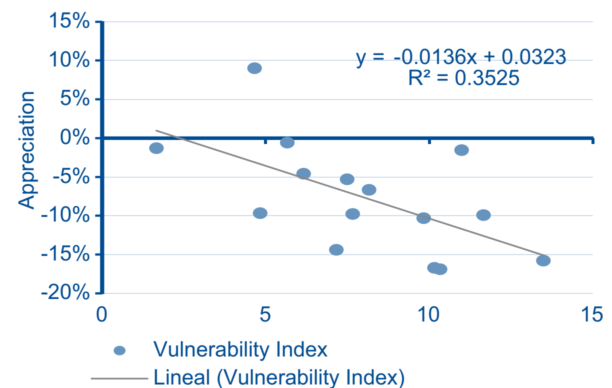
The debate about, and on-going approval of, structural reforms in our country continues. Specifically, the secondary legislation for the telecoms reform has gone through, while the regulations for energy reform are in their final stage. The telecoms reform is expected to bring prices down and encourage more investment in the sector. The reduction in prices as a result of doing away with long-distance charges and of greater competition will help to reduce annual inflation by around 0.2pp in 2015.

Chart 1
Global Economic Activity Index and its components (YoY % change, sa)



sa=seasonally adjusted. YoY=Year on Year
Source: BBVA Research with information from INEGI

Chart 2
Appreciation(+)/depreciation(-) of currencies against the US dollar and emerging economies vulnerability index



Note: the percentage appreciation for EM currencies against the dollar was measured from 30 April 2013 to 28 July 2014
Source: BBVA Research

Over the next few years, the far-reaching reform agenda should help the Mexican economy to enjoy more dynamic growth, which will improve the population's standard of living while promoting further development. If the reforms are implemented successfully, growth could top 4.0% in the coming years.

Inflation has increased as a result of raising taxes in the tax reform. However, the effect has proven temporary and there have not been secondary effects on other prices. In fact, inflation came in at 3.5% in May and after an uptick, which is forecast to last just a few months, will reach levels of around 4.0% as a result of an annual comparison effect; it is estimated to return to its trend to the downside, closing the year at around 3.7%. By 2015 inflation is expected to stand at around 3.0% due to the favourable effect of the annual comparison generated by the tax rise in 2014; by the telecoms reform eliminating long distance charges and which encourage competition in the sector; and by the slack in the economy as a result of lower than expected GDP growth.

In June, the central bank surprised with a cut in the monetary policy target rate to 3.0%, which led to the short-term real rate going into negative territory. This cut was mainly a response to the surprise to the downside in first-half growth. At the time of announcing this decision the central bank indicated that it did not think changes to the monetary rate in the foreseeable future were advisable. In view of the extensive slack in the economy, and a real rate which will remain close to zero in an environment of controlled inflation, we expect a prolonged monetary pause. In the medium term, as economic growth accelerates, the monetary policy rate will start to rise gradually and in parallel with the increase in monetary rate in the United States.

On the financial markets, the volatility of the various financial variables has calmed considerably, reaching pre-crisis levels. The main factor behind this reduction in volatility is the Fed's (Federal Reserve) communication policy, added to the fact that it is taking place in an environment of moderate growth. Specifically, the Fed has successfully convinced the market that even when it stops making asset purchases, the federal funds rate is guaranteed to stay at current levels for a considerable length of time, subscribing to the outlook of high liquidity for a good while yet.

In the future, and subject to the economic data, the variable to watch is still the Fed's communication. As the Fed comes to the end of its asset purchasing (forecast for October 2014), the markets are expected to focus all their attention on the possible start of the cycle of federal fund rate rises. In this context of reduced liquidity on the horizon, the exchange rate is expected to depreciate, although estimates put the upward move as being moderate. Specifically, we expect a rate of around USDMXN 13.30 by the end of this year.

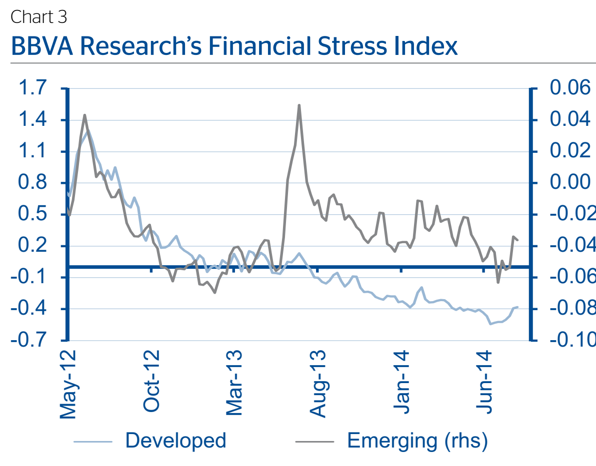
At this juncture we should bear in mind that during episodes of financial stress the financial markets appear to discriminate between emerging countries based on their economies' degrees of vulnerability. In particular, emerging economies with relatively more vulnerable economic variables experienced more intense depreciations and higher sovereign debt yield rises. Mexico has low vulnerability and as such is well positioned to keep the volatility of its financial variables within limits during an episode of global financial stress. This is due to the efforts it has made to keep inflation under control, contain total public sector debt, reduce foreign borrowing and accumulate international reserves, among other measures. Nevertheless, Mexico is still far behind the emerging Asian economies, which are much better positioned in terms of their lower vulnerability. That is why the reform agenda that has been passed in our country is so important. Furthermore, it is crucial to keep the economic variables which have enabled Mexico to enjoy a degree of favourable differentiation in good health.

2. The global scenario is improving, but more slowly than expected

The global leading indicators are consistent with a favourable scenario for growth

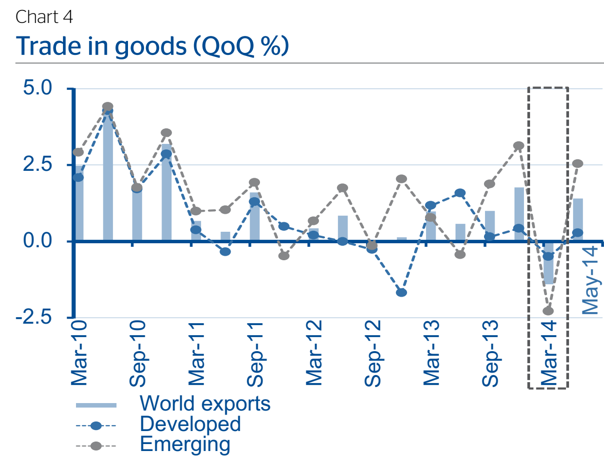
First, tensions in financial markets remain low, according to our indicators, in both emerging[1] and developed markets (Chart 3). Second, in the year to May, worldwide industrial activity continued to grow at around 3.4% YoY, above the 3% mark reached by the end of 2013, while global trade also recovered in the same period from the intense and geographically extensive downward correction in the first quarter of 2014 (Chart 4).

Chart 3
BBVA Research's Financial Stress Index



Source: BBVA Research

Chart 4
Trade in goods (QoQ %)



Source: CPB, BBVA Research

All of this is taking place in a global environment in which geopolitical risk events, while not causing outright disruption to economic activity, are cropping up everywhere, and as such increasing uncertainty. It is hard to assess the economic impact of geopolitical occurrences, and not only because of the inherent difficulty in predicting their outcome, intensity and scope of influence. We also have to take into account the different means of action this type of risks have on decision-making by economic agents. These range from future growth and savings expectations to effective interruptions of the flows of goods and services, including financial contagion to assets and geographies that in principle are less directly linked to an outbreak of tension. For the moment, financial volatility is at historically low levels, since the factor dominating the behaviour of global financial markets is the Fed, and this institution is carefully managing a very gradual exit from the exceptional monetary measures implemented in the last few years, helped by moderate growth in the US economic cycle and well-anchored inflation expectations.

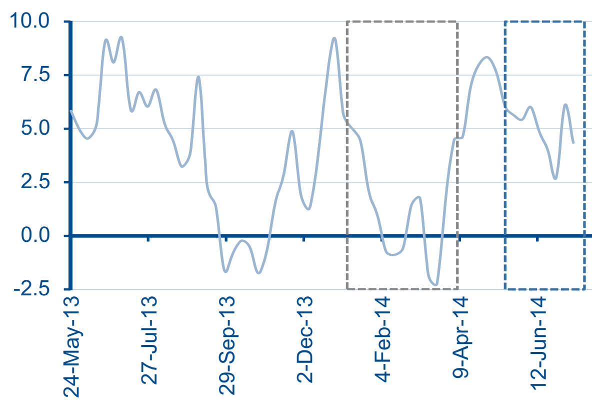
The risk of a hard landing in China, predicted by some a few months ago, is receding, thanks to the improvement in exports and in fiscal and monetary support measures. Increased external demand and the brake put on the appreciation of the yuan have helped exports to recover, while monetary policy has been relaxed by cutting the bank reserve ratios, thus favouring credit. Shadow banking controls and plans to liberalise the more regulated part of the banking sector are enabling most of this new financing to be provided by the latter segment. This combination of supervisory measures and simultaneous liberalisation to help traditional banking entities compete (freedom to set interest rates, easing the entry of private investment, promoting lending to private companies over those in the public

[1] The recent upturn of financial tensions in emerging markets (second half of July) is limited to Russia, which has a heavy weighting in the indexes.

sector) should enable the deleveraging process to take place in an orderly manner, without any sharp corrections. Finally, more focused fiscal policy measures than on other occasions have also been introduced, above all in relation to the increase in infrastructure spending.

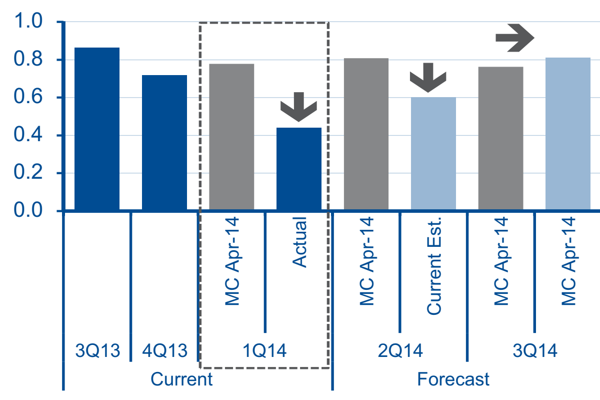
All in all, our outlook is for a very controlled deceleration, with growth easing to 7% in 2015, from 7.7% in 2013. Furthermore, this movement is linked to a long-term trend of an increase in household consumption over business investment, while at the same time the Chinese currency returns to its previous appreciation trend against the dollar. In short, an economic rebalancing, with a moderate increase in debt, for which the authorities have the room for manoeuvre provided by their high level of reserves and control of their current account, together with high levels of private savings and relatively low public-sector debt.

Chart 5
US BBVA Research's Weekly Activity Index



Source: BBVA Research

Chart 6
Global GDP growth (QoQ %)

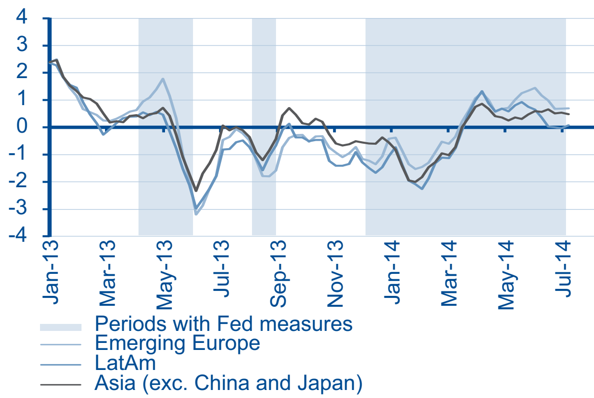


Source: BBVA Research

The fall in US GDP during the first quarter of 2014 was mainly due to transitory factors, but the intensity of the correction made us revise our growth forecast downward for 2014 from 2.5% to 2%. The 2.1% quarterly drop, in annual terms, of US GDP is the sharpest of the historical series in a cyclical growth phase. The most recent information on the situation (Chart 5) shows that the US economy has recovered from the intense, but transitory, effect of the bad weather and from the steep fall in the accumulation of stocks. A good demonstration of the negative surprise caused by US 1Q14 GDP can be seen in the impact it had on our estimates and short-term forecasts for world growth (Chart 6)

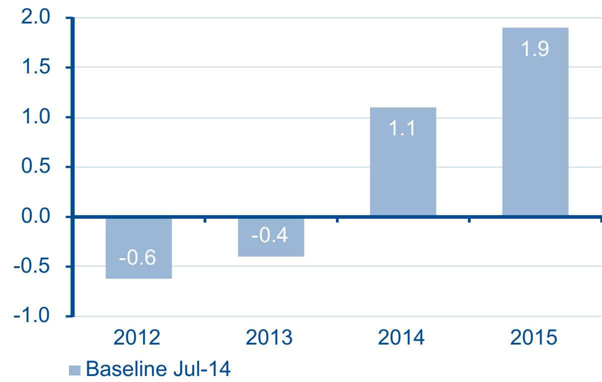
There is greater uncertainty about the perspective of monetary tightening by the Fed and, in particular, about the global impact this will have on financial markets. The Fed will stop expanding its balance sheet in October, starting a phase in which rates and monetary measures will be determined based on the incoming information about the strength of the economic cycle and the anchoring of inflationary outlooks. In our most likely scenario, the first rise in the Fed funds rate will be in 3Q15, with a bias towards this happening closer to the middle of that year. In this scenario, the US central bank's communication policy on its view of the economic situation will become more important; as such, an increase in global financial market uncertainty is also a possibility. While the measures taken to avoid economic depression have been exceptional in terms of their intensity and duration, their withdrawal may also have effects that have not been seen before on both global capital flows and on asset prices, especially in the case of emerging economies. We have already seen an example of the impact that changes in the Fed's policy could have - however likely it is that monetary policy is going to be tighter in future - between April and May 2013. The change in tone of the US central bank's communication policy then, with a reference to the likelihood of higher interest rates on the horizon, caused a reallocation of global flows from emerging markets (Chart 7) to developed markets with the consequent volatility, currency depreciation and higher interest rates in the former.

Chart 7
Portfolio capital flows to emerging markets
% of AUM, moving 4-week average



Source: EPFR and BBVA Research

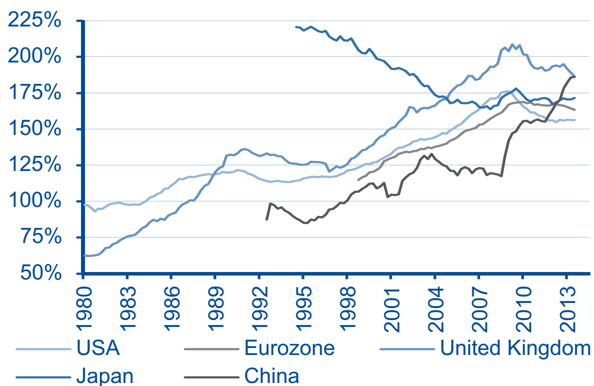
Chart 8
Eurozone, GDP growth
YoY%



Source: BBVA Research

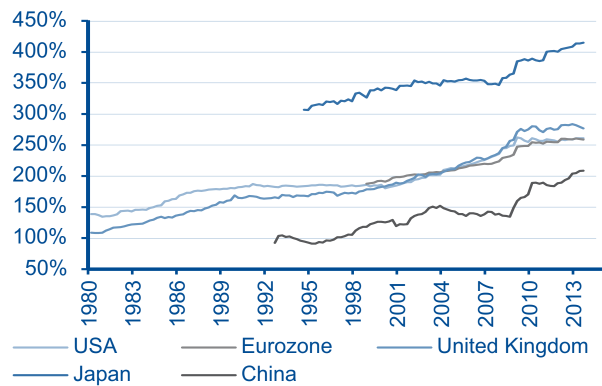
The anchoring of global financial tensions at near to all-time lows, supportive domestic demand policies and progress in banking union are improving the outlook in the eurozone. Leading indicators in the eurozone are consistent with a slight recovery in GDP, which should grow by around 0.3% in 2Q14 (vs. 0.2% in 1Q14), in line with our forecast of 1.1% for the year as a whole, the first annual growth since 2011. Sustained improvement in access to financial markets, particularly for more stressed economies on the periphery of the eurozone, is the main factor supporting the area's growth, together with the relaxation in public deficit targets in the short term and an external environment which, with the ups and downs and uncertainties described above, is nevertheless more positive. Ultimately, there are essentially two reasons for this virtuous circle. First, the confidence gained as a result of the decisions taken by the euro area authorities to strengthen the single market in the financial sector, and the ECB's reinforcement of monetary policy, which goes beyond what might have been foreseen just a few quarters ago. The ECB is aiming to anchor interest rates at low levels, support bank funding and, at the same time, open up credit availability for households and companies. Second is the anchoring of global financial tensions at minimum levels in a scenario dominated by the Fed, as described above. As well as all this, the public accounts of the economies on the periphery of the eurozone have improved, as a result both of being in a better stage of the cycle and of the consolidation measures introduced. In addition, the reforms undertaken in the markets of productive factors in some economies, designed to improve competitiveness, are another positive factor.

Chart 9
Non-financial private sector debt
% GDP



Source: BIS, Haver and BBVA Research

Chart 10
Total debt (public and non-financial private sectors)
% GDP



Source: BIS, Haver and BBVA Research

All in all, although we are sticking to our growth forecasts of 1.1% in 2014 and 1.9% for 2015, the bias for these is to the upside if the potential impact of the measures announced by the ECB is taken into account. This impact on inflation would also be to the upside, as inflation remains too low, far from the ECB's target of price stability. The upwards influence on prices would come from both the cyclical improvement and from the effects of the monetary policy transmission mechanism, through the banking system and the availability of credit.

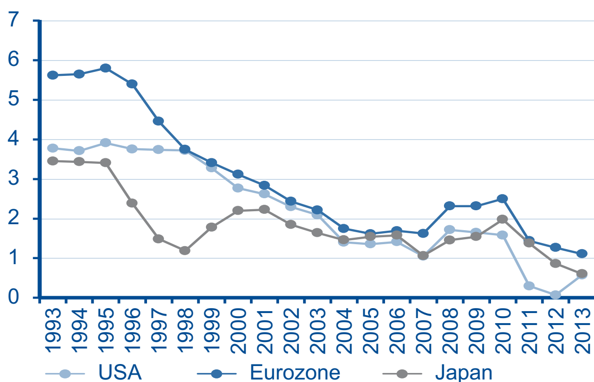
All of the above does not, however, rule out the existence of risk to the downside which could be triggered by the worsening crisis in the Ukraine and the knock-on effects of economic sanctions imposed on Russia, which the eurozone would be far from immune to, and in particular some of its principal countries.

Where is the global economic scenario heading? The repair of the balance sheets has to continue

In our most likely scenario, the slowdown in global growth in the first part of 2014 has already ended. The most recent indicators of cyclical confidence and financial volatility are consistent with a gradual improvement, which should enable worldwide growth to reach 3.3% in 2014, 30bp higher than in 2013. Maintaining favourable global financing conditions and supporting economic demand policies will help growth to accelerate faster in 2015 at rates close to 3.8%, with an increase in the contribution made by the more developed economies, which could gradually start positioning themselves for the withdrawal of the exceptional stimulus of the last few years. The uncertainty within this baseline scenario continues to the downside because of the re-emergence of geopolitical risks and the doubts about the global impact on capital flows and asset prices caused by the proximity of interest-rate hikes in the US. But this scenario, including its risks, is not the only possible one; there are alternative ones to a cyclical recovery. By areas, as well as the growth we have mentioned in the US, China and the eurozone, GDP growth is expected to hold in Japan at slightly above 1% in 2014 and 2015. In Latin America, we forecast an acceleration in activity to 2.5% in 2015 (1.6% in 2014) thanks to improvements expected principally in Mexico and in the Andean economies, supported by a favourable foreign environment worldwide.

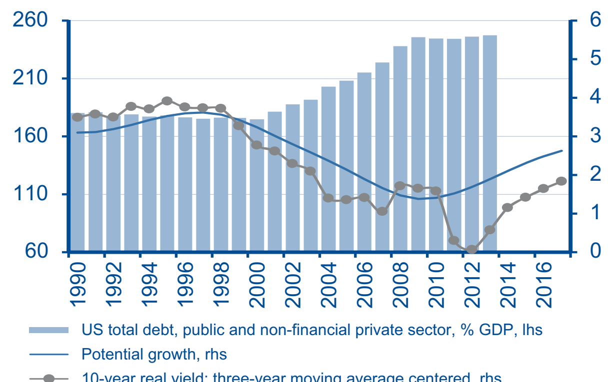
The situation in which the most important economies in the world find themselves in the current recovery phase has some original features, which may account for the limited intensity of the improvement in activity and the risks it faces. In general, leveraging has not ceased in the most important economies. Deleveraging in the private sector has been going on for some time in certain countries, such as the US, the UK and Japan, while debt in the eurozone has stopped rising, with different situations by countries within the monetary zone (Chart 9). However, total borrowing, including that of the public sector, continues to rise in the economies mentioned and also in China, where non-financial private-sector debt is also rising fast (Chart 10). What is more, in this high debt scenario, the speed of exit from the recession looks very moderate in relative historical terms, and even more so given the intensity and duration of the monetary and fiscal policy support measures since 2009. Third, inflation remains at very low levels, with well-anchored and stable expectations, even below the price stability targets in some developed economies, such as the eurozone and Japan, which justifies the measures being taken by their respective central banks.

Chart 11
Real long-term interest rates%, nominal performance of long-term sovereign bonds, discounting inflation, moving 3-year average



Source: Haver and BBVA Research

Chart 12
US debt, GDP growth and interest rates



Source: BBVA Research

Consistent with the moderate growth, anchored inflation and the dominant role of central banks in the more developed economies in their support of the economic cycle, nominal interest rates remain at historical lows, both short term, as in the case of policy rates at zero, or longer-term rates that are also very low levels. In real terms, long-term interest rates in the US, the eurozone and Japan were at their 20-year lows in 2013 (Chart 11), something which is in turn consistent with the increase in debt in the last two decades.

In summary, high levels of debt, low growth and low inflation (which makes it difficult for the debtor to deleverage), interest rates at all-time lows, together with central banks and fiscal authorities with generally little room for manoeuvre, or measures that have already been used very intensely, represent a combination of factors which do not point to a "rapid" return to growth, interest rates or inflation above current levels. Debt service is a heavy burden on spending decisions and the credit channel is currently under repair, at least in the eurozone. This means that the repair of agents' balance sheet, which is still pending, may end up generating a scenario of prolonged stagnation, especially if the economic reforms do not spur growth.

3 Growth pace improves mainly from rise in exports

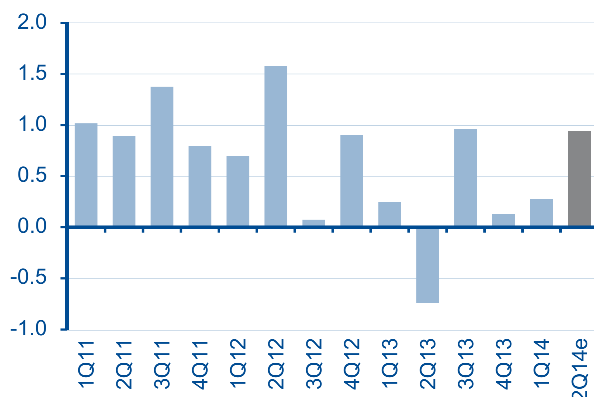
3.1 Economic activity will improve from the second half, driven by foreign demand. We expect domestic demand to proceed at its current slow pace

Mexico's economy performed weakly in the first quarter of 2014, with a seasonally-adjusted (sa) GDP growth rate of 0.28% QoQ. This resulted from a contraction in the US economy of 0.53% QoQ sa caused by weather problems, a higher-than-expected effect on consumption and investment from the tax hike in Mexico, and other domestic factors such as the slow recovery in construction and the drop in oil production.

For the year's second quarter, we expect improved performance in GDP growth (close to 0.9% QoQ sa), almost entirely associated with foreign factors, as the weakness in domestic demand, reflected by low consumption, is restricting economic growth (see Chart 13).

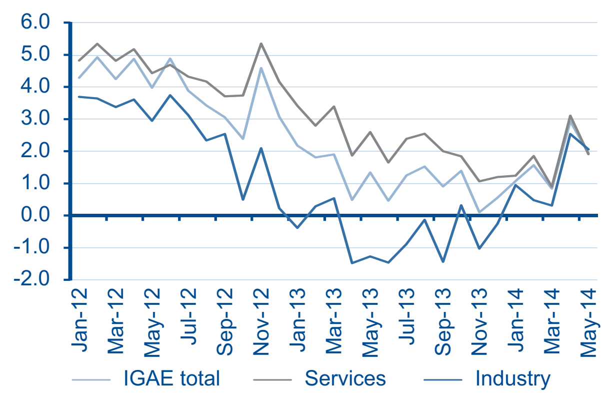
Furthermore, we expect more dynamic economic activity to be attained in the second half, thanks to a pickup in the US economy over the next quarters, and a more efficient use of public sector spending in Mexico over the rest of the year, particularly by allocating a higher share to infrastructure. Both factors are required to reach an economic growth of close to 2.5% in 2014.

Chart 13
Gross Domestic Product 2011-14 (QoQ % change, sa)



sa=Seasonally Adjusted. E=BBVA Estimates. QoQ=Quarter over Quarter.
Source: BBVA Research with INEGI (National Institute of Statistics and Geography) data

Chart 14
Global Economic Activity Indicator and its Components 2012-14 (YoY % change, sa)



sa=Seasonally Adjusted. YoY=Year over Year.
Source: BBVA Research with INEGI data

3.1.1 Foreign sector: one of the main sources of growth of the Mexican economy

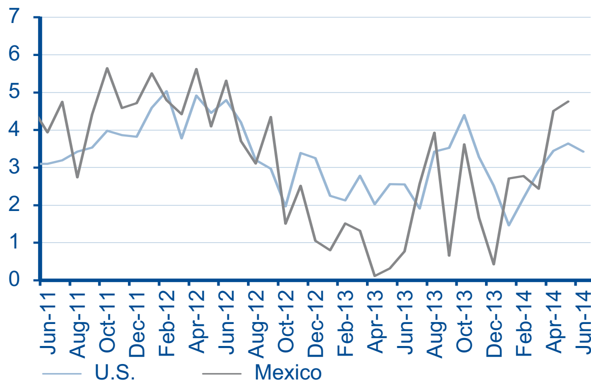
The evolution of economic activity towards the second quarter of 2014 is still moderate. This is because foreign demand has been the country's main driving factor for economic growth, as the domestic market has remained weak in light of the moderate expansion of the labour market.

The Global Economic Activity Indicator's (IGAE) growth rates for April and May were 2.9% and 1.9% YoY sa respectively. In May, and by IGAE sectoral component, agriculture grew 2.7% YoY, industry rose 2.1% YoY and services expanded 1.9% YoY, all figures seasonally adjusted (see Chart 14). However, and in monthly terms, the IGAE fell by 0.1% in the fifth month of the year. This negative result was mainly due to the fall in services (0.2% MoM) and to moderate rises in industry (0.1% MoM) and agriculture (1.0% MoM), in seasonally-adjusted figures. These results, which are associated with the domestic market, are clearly not a good sign for economic performance in the second quarter of the year.

Manufacturing production showed the highest dynamism among industrial sector components, with a MoM growth of 0.4% in May sa. This performance was highly related to foreign demand, specifically to the US manufacturing sector (see Chart 15). This improvement in foreign demand is reflected by the pickup in total goods exports over the first five months of the year, which grew 3.5% annually in real terms. This contrasts significantly with the 0.1% rate they recorded for the same period in 2013.

Chart 15

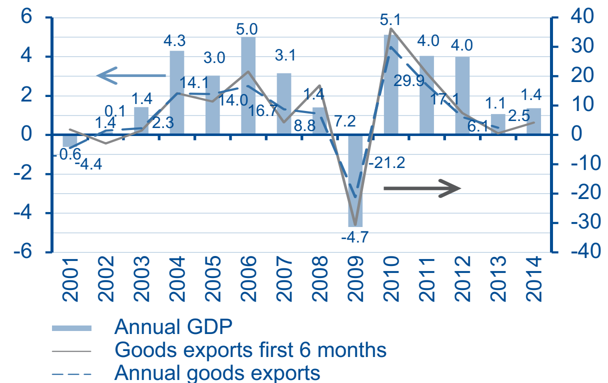
Mexico and US manufacturing production 2011-14 (YoY % change, sa)



sa=Seasonally Adjusted. YoY=Year over Year.
Source: BBVA Research with INEGI and BEA data

Chart 16

GDP growth rate and goods exports 2001-14 (YoY % change)



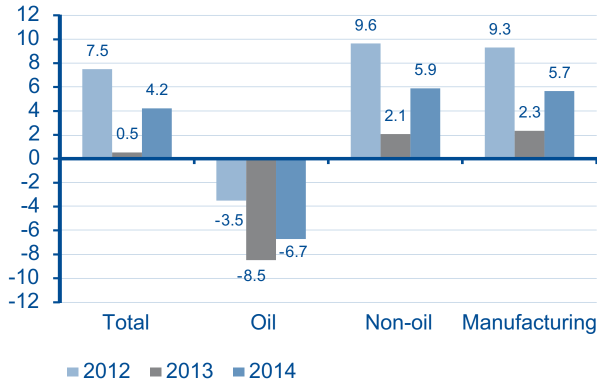
YoY=Year over Year.
Source: BBVA Research with INEGI data

In this regard, it should be noted that Mexico's GDP growth rate is tightly linked to the growth rate of goods exports (Chart 16). With respect to this issue, to the degree that US manufacturing production grows at higher rates, Mexico's goods exports to the US could rise, supporting an expansion of Mexico's GDP leading to higher growth rates.

Over the first six months of the year, the performance of total exports was favourable, manufacturing in particular. Total exports recorded a 4.2% growth rate in the first half of 2014, versus the 0.5% for the same period in 2013. For their part, manufacturing exports grew 5.7% in the first half of 2014, higher than the 2.3% recorded in 2013. Furthermore, manufacturing exports were the main driving component of goods exports in the first half of 2014.

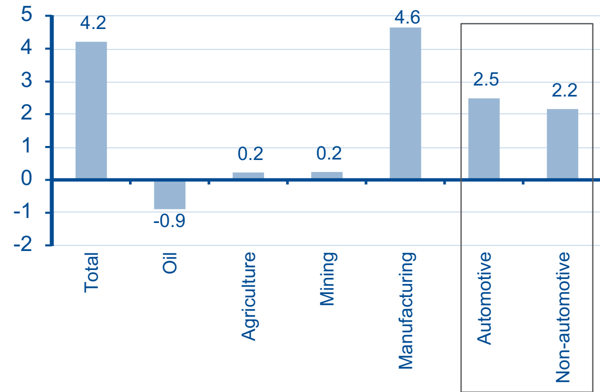
Thus, of the 4.2 percentage points (pp) of growth in total goods exports, 4.6pp came from manufacturing exports. Within the latter are automotive exports, which contributed 2.5pp to total exports growth, while the remaining non-automotive manufacturing exports contributed 2.2pp.

Chart 17
Cumulative growth rate of goods exports - Jan-Jun each year (YoY % change)



YoY=Year over Year.
Source: BBVA Research with INEGI data

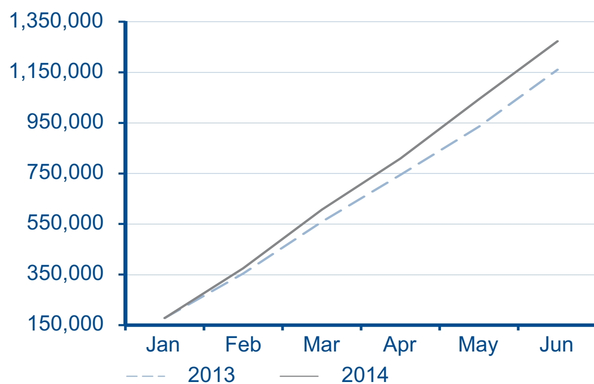
Chart 18
Cumulative goods exports Jan-Jun 2014: contribution to growth by component (percentage points, pp)



Source: BBVA Research with INEGI data

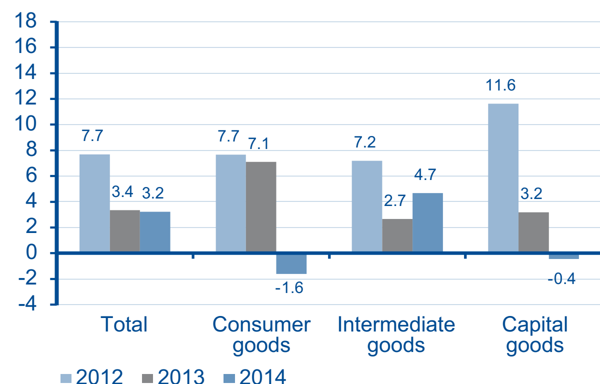
The evolution of automobile exports was favourable over all months of the year. According to the Automotive Industry Association of Mexico, cumulative exports of vehicles recorded a growth rate of 9.7% in June 2014 (see Chart 19). In this regard, the ongoing growth of automobile exports will remain a major driving factor for growth in the country's manufacturing industry.

Chart 19
Automobile exports: 2013 and 2014 (cumulative sales of units)



Source: BBVA Research with INEGI data

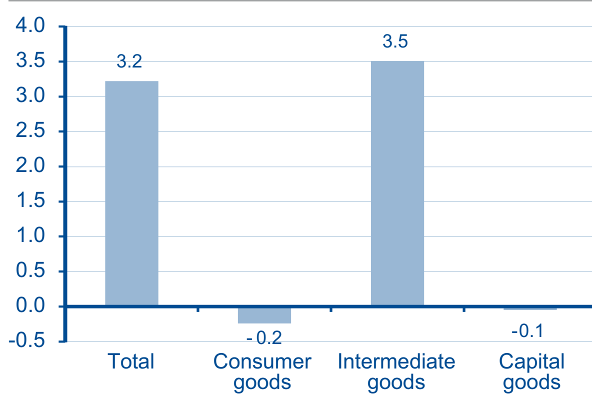
Chart 20
Goods imports over the first six months of each year (Annual % change)



Source: BBVA Research with INEGI data

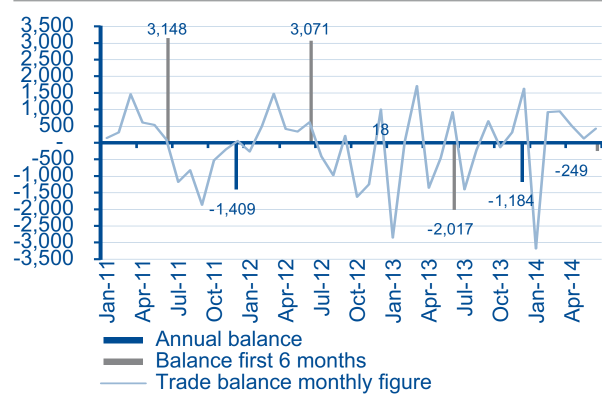
On another note, the contribution of both agricultural exports and the extractive industries was 0.2pp. Oil exports provided a negative contribution of 0.9pp. To the degree that oil exports cease to record negative growth rates, higher dynamism in the country's total exports will be seen. This, in turn, will provide greater support to GDP expansion.

Chart 21
Total goods imports over the first six months of 2014: contribution to growth by component (percentage points, pp)



Source: BBVA Research with INEGI data

Chart 22
Balance of trade: monthly, yearly and first six months of 2014 (USD mn)



Source: BBVA Research with INEGI data

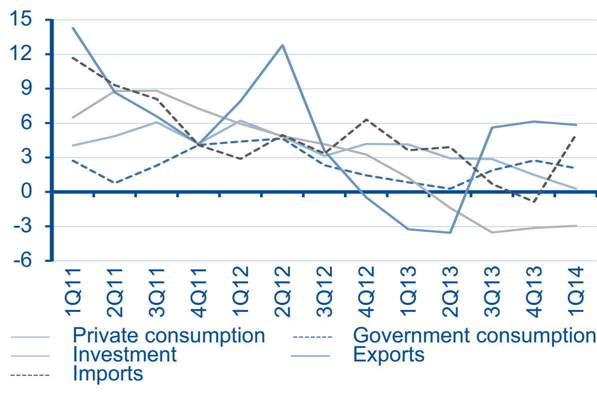
For their part, goods imports grew only 3.2% annually over the first six months of the year (see Chart 20). When looking at its components, we see that imports of consumer goods dropped (1.6%), as did capital goods imports (0.4%). This last type of imports seems to be more associated with domestic demand, and thus might be reflecting the reduced momentum that private sector consumption and gross fixed investment have shown. Intermediate goods imports recorded a growth rate of 4.7% in the first half of 2014. Moreover, intermediate goods imports was the only goods imports component to have a positive contribution to total imports growth (3.5pp), because the negative growth of consumer and capital goods imports provided respective negative contributions of 0.2 and 0.1pp to total goods imports growth (see Chart 21).

Lastly, we should mention that, as at June 2014, the balance of trade showed a deficit of nearly USD250mn, a figure that is significantly lower than the nearly USD1.2bn recorded in this account for the same period in 2013 (see Chart 22). The higher dynamism seen in exports versus imports contributed to shrinking this deficit. Furthermore, were this behaviour to continue, the balance of trade could record a very small deficit, or even a surplus, at the end of the year.

3.1.2 Domestic sector: barely incipient improvements

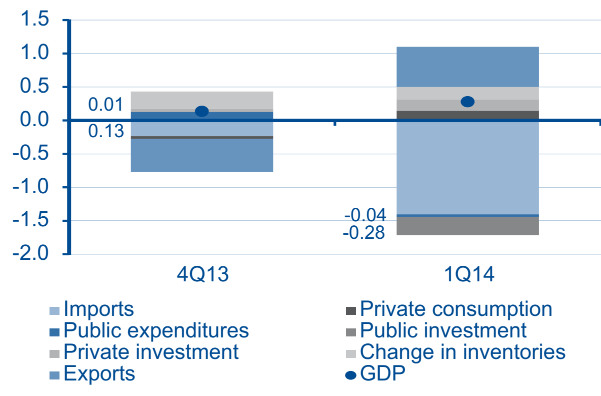
In the first quarter of 2014, most of the country's aggregate demand components performed poorly; even investment remained in a negative phase (-2.9% YoY sa). Consumption also continued to record moderate performance, due to insufficient job creation and the limited rise in real wages (see next section for further detail). For example, private consumption grew barely 0.3%, while public consumption rose by 2.1%, versus the 4.2% and 0.8%, respectively, for the same quarter last year, in seasonally-adjusted figures (see Chart 23). To an extent, this might be associated with the negative effect of the tax reform on household income. Furthermore, the year's first quarter saw a negative contribution of some GDP components, such as the expenditure and public investment categories. This generates uncertainty over the contribution of said components to GDP over the rest of the year (see Chart 24). In this regard, what is key to the recovery is that the expansion of public spending centres on productive infrastructure projects with a dynamising and permanent effect on GDP growth (see Box 1).

Chart 23
Aggregate demand: components 2011-14 (YoY % change, sa)



sa=Seasonally Adjusted. YoY=Year over Year.
Source: BBVA Research with INEGI data

Chart 24
Contribution to GDP growth 4Q13-1Q14 (percentage points, QoQ, sa)



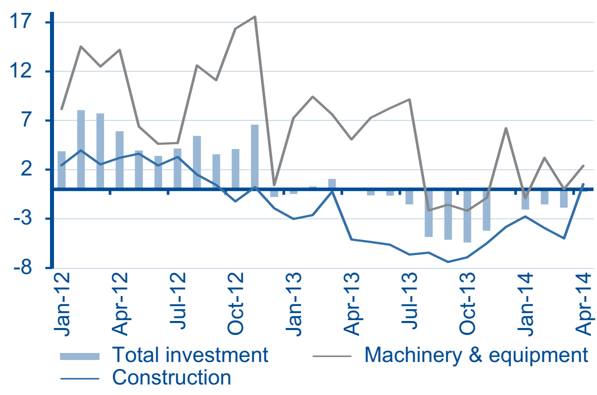
sa=Seasonally Adjusted. QoQ=Quarter over Quarter.
Source: BBVA Research with INEGI data

We expect total gross fixed investment and its components to show signs of recovery in the second quarter of 2014. There were some signs of this in April when, for the first time since November 2012, all investment components including construction had positive annual variation rates in seasonally adjusted terms. The machinery and equipment component grew 2.4%. The domestic sub-component rose 3.9% and the imported one climbed 3.0%. Construction rose 0.5% (see Chart 25). Nevertheless, the simple average of the first four months of the year shows a 1.4% fall in investment.

The latter investment data reveal that there is still not enough drive to achieve dynamic and sustained growth. To this end, higher private investment and the complementarity of public investment are required. The latter point is in line with the higher budget for 2014 approved by Congress, and the start-up of additional infrastructure works, scheduled in the 2014-18 National Infrastructure Programme. Therefore, we expect the execution of these public resources over the next months to be done productively, efficiently and transparently, with the goal of driving the expansion of economic activity in our country.

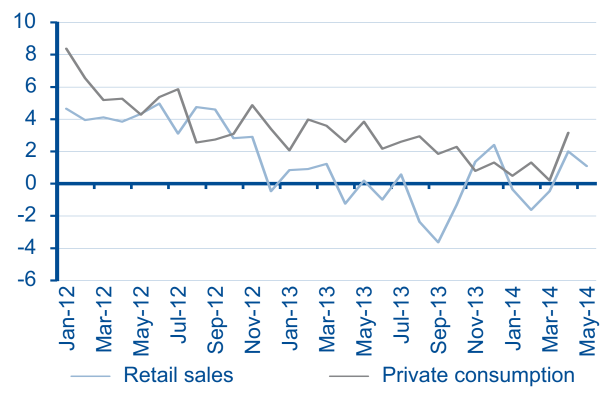
Furthermore, retail sales recorded negative growth rates over the first quarter of the year. They had an annual variation of -0.7% on average, sa. In contrast, seasonally adjusted retail sales rose 2.0% and 1.2% annually in April and May. The latter provides signs of a moderate economic recovery, given that the rates are still lower than the 4.0% levels seen in the same months of 2012 (see Chart 26).

Chart 25
Investment: components 2012-14 (YoY % change, sa)



sa=Seasonally Adjusted. YoY=Year over Year.
Source: BBVA Research with INEGI data

Chart 26
Retail sales and private consumption 2012-14 (YoY % change, sa)



sa=Seasonally Adjusted. YoY=Year over Year.
Source: BBVA Research with INEGI data

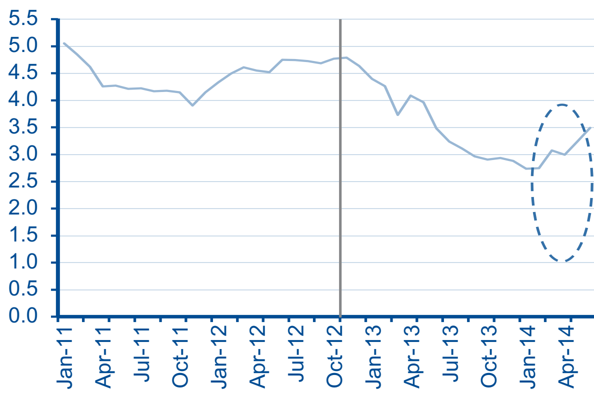
Furthermore, June's economic agents' confidence revealed a slight improvement, but has yet to reach its levels of one year ago. The Producer Confidence Index remained at 51.1 points in June. Meanwhile, the Consumer Confidence Index hit 91.3 points. This last figure equates to a monthly rise of 0.8% sa, which means there is a prevalent perception of a certain improvement in domestic economic activity over the next months.

3.1.3 IMSS-registered employment: formal employment remains on the rise

The annual growth rate of the total number of workers registered with the Mexican Social Security Institute (IMSS) shrank from 4.8% in November 2012 to 2.7% in January 2014. From that month forward, the growth rate of this type of formal employment rose to 3.5% in June 2014 (see Chart 27). The dynamism in new formal employment measured by new IMSS-registered workers is also reflected by the rise in the number of jobs considered over the last 12 months. Thus, as at January 2014, close to 441,000 new jobs had been created in the last 12 months, with a higher figure as at June 2014 of 571,000 (see Chart 28).

Chart 27

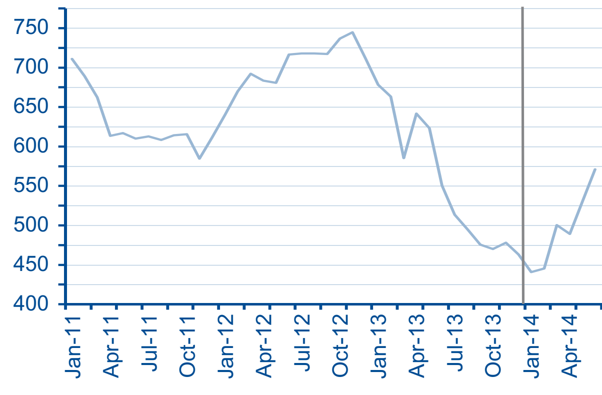
Total number of IMSS-registered workers 2011-14 (YoY % change)



YoY=Year over Year.
Source: BBVA Research with IMSS data

Chart 28

IMSS-registered workers 2011-14 (thousands of new registered workers in the last 12 months)



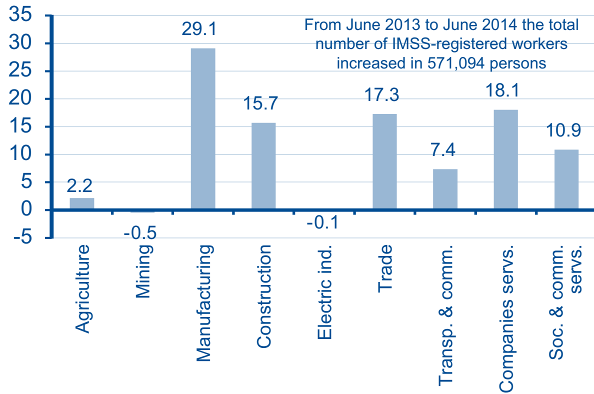
Source: BBVA Research with IMSS data

On another note, close to 30% of the new formal employment in the last 12 months from the rise in IMSS-registered workers came from the processing or manufacturing sectors. The latter are followed by the business and household services (18.1%), trade (17.3%) and construction (15.7%) sectors. On the other hand, employment slightly contracted in the extractive industries and electricity sectors (see Charts 29 and 30).

The above data reveal that the performance of formal employment, according to the total number of IMSS-registered workers, evolved positively in the first half of 2014, given the rise in its annual growth rate and the total number of jobs generated over the last year.

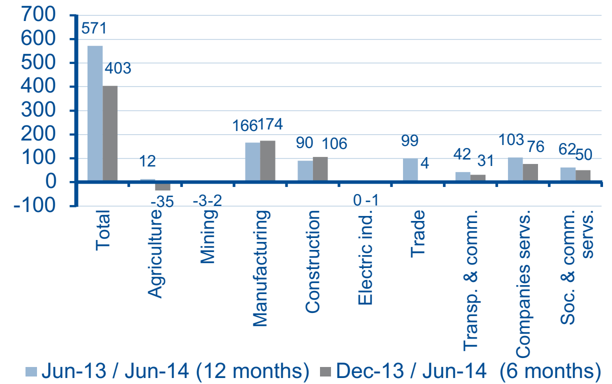
The factors that seem to underlie the recent improvement in the number of IMSS registrations are a higher level of economic activity, on the one hand, and the employment formalisation promoted by the Secretariat of Labour and Social Welfare (STPS), on the other. Although no statistics are available to itemise each factor's contribution, from the perspective of the number of new IMSS-registered workers, the data for the first half of 2014 reveal significant progress by the country in this area.

Chart 29
Rise in total number of IMSS-registered workers: June 2013 to June 2014 (percentage structure, %)



Source: BBVA Research with IMSS data

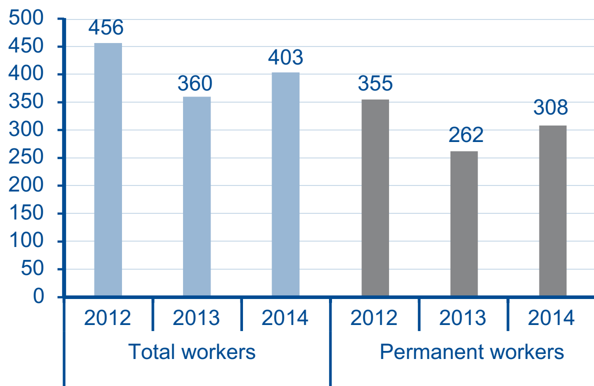
Chart 30
Number of new IMSS-registered workers: comparison of 6- and 12-month rises in 2013 and 2014 (in thousands)



Source: BBVA Research with IMSS data

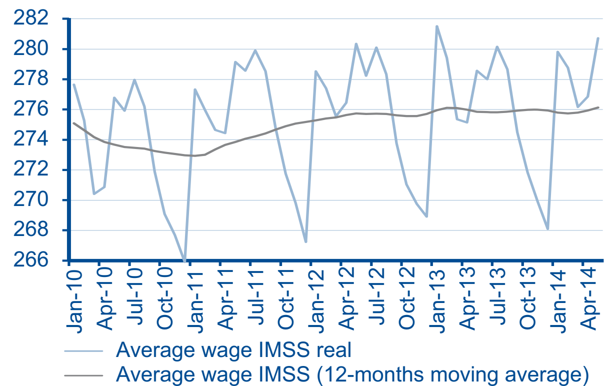
Furthermore, the total number of new IMSS-registered workers in the first half of 2014 is greater than the figure for 2013, which is also the case for the number of new permanent jobs or number of workers with a permanent employment contract (see Chart 31). In contrast, the average daily contribution basis wage of IMSS-registered workers in constant terms has barely risen since 2012 (see Chart 32). Based on the 12-month moving average, the average IMSS contribution basis wage was MXN274.1 in 2011; rose 0.5% in 2012 to MXN275.6; increased by 0.1% in 2013 to MXN275.9, and the average wage for the 12 months ending June 2014 was nearly MXN275.9.

Chart 31
Total number of new IMSS-registered workers in the first half of the year 2012-14 (thousands of workers)



Source: BBVA Research with IMSS data

Chart 32
Average daily IMSS contribution basis wage (December 2013 MXN)



Source: BBVA Research with IMSS data

3.1.4 Recent behaviour of public finances

Total cumulative budgetary public sector revenues from January to May 2014 recorded a real growth rate of 3.2%. Among public sector revenue line items, tax revenues showed the highest growth rate, at 8.7%. Within the latter, revenues from income taxes and VAT recorded a real growth rate for the period of 10.1% and 20.3% respectively. In other words, the performance of public sector revenues was favourable on the side of non-oil revenues, tax revenues in particular.

Table 1

Cumulative budgetary public sector revenues in the first five months of the year (MXN bn)

	Jan-May 2014		
	Amount	Real % chge.	Struc. %
Total	**1,610.1**	**3.2**	**100.0**
Oil	491.0	-0.5	30.5
Non-oil	1,119.0	4.9	69.5
Federal Government	873.6	4.8	54.3
Taxes	799.5	8.7	49.7
Non-tax	74.0	-24.2	4.6
Agencies & Companies	245.5	5.0	15.2

Source: BBVA Research with SHCP data

Table 2

Cumulative budgetary public sector expenditures in the first five months of the year (MXN bn)

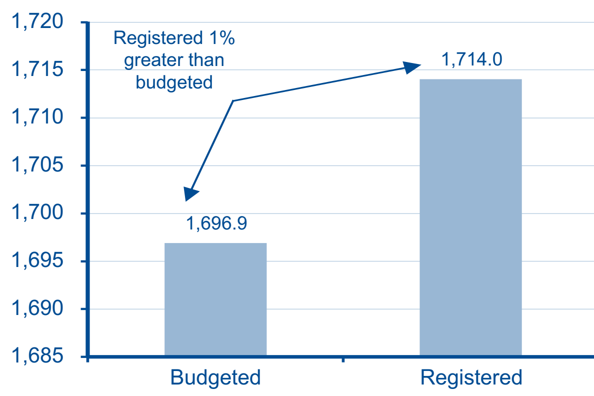
	Jan-May 2014		
	Amount	Real % chge.	Struc. %
Total	**1,714.0**	**12.6**	**100.0**
Programm. Expenditures	1,377.7	14.3	80.4
Current Expenditures	1,041.3	9.7	60.8
Capital Expenditures	336.4	31.4	19.6
Non-Prog. Expenditures	336.4	5.9	19.6
Investments in States	258.2	10.5	15.1
Borrowing Costs	60.1	-7.1	3.5

Source: BBVA Research with SHCP data

With respect to total budgetary public sector expenditures, their real annual growth rate for the cumulative period from January to May 2013 was higher than that of public sector revenues, at a real 12.6%. For their part, programmable expenditures grew by 14.3%, and the capital expenditures line item rose much more than current expenditures: 31.4% versus 9.7%. In principle, this warrants the expectation that a significant rise in public spending on infrastructure will take place over the course of the year, which in turn provides permanent support to the country's economic growth process.

Chart 33

Cumulative budgetary public sector expenditures from January to May 2014: observed vs. programmed (MXN bn)



Source: BBVA Research with SHCP data

Table 3

Public sector financial position Jan – May (MXN bn)

	2013	2014	Real % chng.
Public Balance	56.0	-91.7	ns
Budgetary Balance	36.3	-104.0	ns
Federal Government	16.7	-88.0	ns
Agencies and Companies	19.5	-16.0	ns
Pemex	-16.6	-76.1	ns
Other Entities	36.1	60.1	60.2
Entities under Indirect Control	19.8	12.3	-40.2
Primary Balance	109.0	-26.0	ns
Budgetary Balance	98.5	-43.8	ns
Federal Government	61.5	-45.0	ns
Agencies and Companies	37.0	1.1	-97.1
Pemex	-4.1	-64.3	ns
Other Entities	41.1	65.4	53
Entities under Indirect Control	10.4	17.9	54.5

ns=non-significant
Source: BBVA Research with SHCP data

For their part, public sector expenditures have been executed as programmed since last year. Thus, total expenditures executed from January to May 2014 came in 1% higher than programmed expenditures (see Chart 33). The latter reveals that expenditures are being executed in a timely manner, which we expect will continue over the rest of the year.

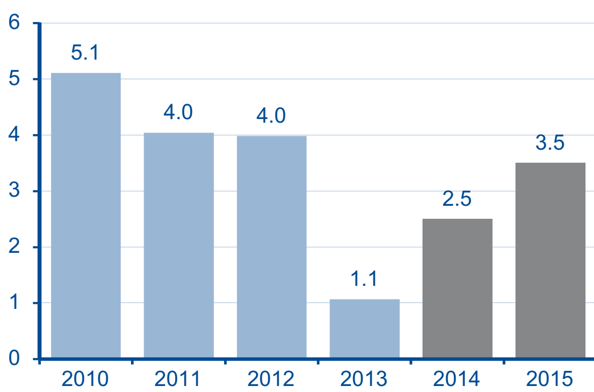
The higher dynamism in public sector expenditures with respect to revenues was reflected by a deficit in the public sector financial position. This position is included in the public sector financial budget for this year. Some time ago, the Secretariat of Finance and Public Credit (SHCP) mentioned that there would be a public sector deficit of 1.5 percentage points of GDP in 2014. To the extent that both public sector revenues and expenditures are received and disbursed over the course of 2014 as planned, the public sector financial position will be the same as that approved in the public sector budget.

3.1.5 Outlooks: the economy will pick up over the next months, but certain risks still remain

The poor weather conditions in the US affected the demand for Mexican products in the first quarter of 2014. Furthermore, consumption and private investment still remain weak, on the one hand, due to a greater-than-expected effect from the tax reform and, on the other, due to labour market weakness. Therefore, the expectation of a higher level of economic growth for 2014 mostly depends on the acceleration of growth in the US economy, and on the efficient and productive use of public spending in Mexico. As a result of these two factors, we estimate a growth of 2.5% for 2014. This scenario does have its risks, however. The economic performance of the US remains insufficiently robust, given the mixed indicators that are being released, which generate some uncertainty over the pace of growth for the coming months. Furthermore, notwithstanding the rise in public spending in Mexico, there are yet no clear signs that the higher amount of executed resources has had a dynamising impact on the economy. A watchful eye must thus be kept on its progress.

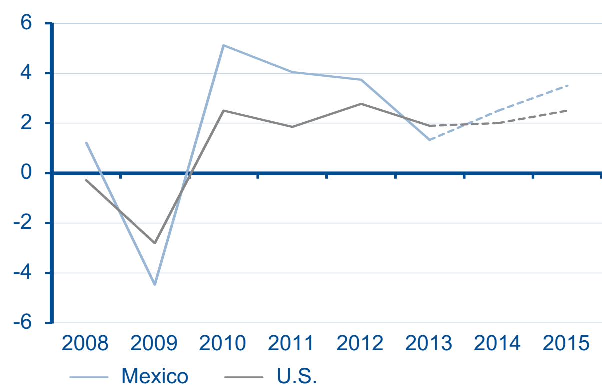
To the extent that the structural reforms mature, we expect Mexico's economy to display more dynamic growth, one which will enable greater development and a higher provision of public goods and services, such as safety, education and healthcare. We expect that the structural reforms might start to bear their first (albeit modest) fruit in 2015, which would be reflected by a growth of around 3.5% annually for that year (see Charts 34 and 35).

Chart 34
Mexico annual GDP growth 2010-15 (YoY % change)



YoY=Year over Year.
Source: BBVA Research with INEGI data

Chart 35
Mexico and US GDP 2008-15 (YoY % change, sa)



sa=Seasonally Adjusted. YoY=Year over Year.
Source: BBVA Research with INEGI and BEA data

Box 1: Infrastructure as a catalyst for economic growth

One of the key mechanisms available to the authorities to encourage economic growth in an economy is public spending on infrastructure investment. The economic literature generally finds a positive link between these two variables and, for example, the successful case of China looks like a case study in favour of investing in infrastructure. Similarly, according to a World Bank analysis, if Latin American infrastructure were of a similar level in terms of quantity and quality to that in eastern Asia, the growth rates in LatAm countries could be between 1pp and 5pp higher a year, depending on the country's degree of underdevelopment, with the countries lagging most enjoying the highest rates of growth.

Investment in infrastructure, like current expenditure, provides significant impetus to GDP. Nevertheless, the factor that is really important is the long-term effect of infrastructure, which works along two channels. In the first, investment in infrastructure implies an increase in available revenue as a result of reduced transaction costs, for example in commercial activities with the creation of a new motorway or bridge. Furthermore, this type of investment generates or opens the way to a wider choice of products available in a region. Second, this type of investment allows growth to occur when the flow of people and the flow of human capital increase, with more availability of information causing productivity in the region to expand. In other words, public sector expenditure which is channelled into infrastructure may have a permanent effect on the country's productive structure, since it expands the economy's production capacity, an advantage which spending on consumption lacks, and that includes public sector consumption.

In the first quarter of the year, the contribution of public investment to GDP growth in Mexico was negative (see Chart 24). If we take on board the argument above and its potential positive effects, then public investment must rises and its expansion rate needs to accelerate throughout the year. The 2014-18 National Infrastructure Programme is a positive initiative in medium-term national planning, as well as a tool for increasing the economy's growth rate. To achieve the former, it is crucial that the projects move ahead on time and as planned. It is worth bearing in mind that gross fixed investment in the public sector represents 40% of this sector's consumption expenditure.

According to our estimates, in Mexico public investment has about 50% more of an effect on GDP than current public spending does.[1] However, examples exist which prove that design and planning is very important in infrastructure projects, because if they lack these components, some projects can actually have adverse effects on the population where the project is being executed. For example, if the projects have the collateral effect of moving people to areas which increase the transfer and service provision costs, then these projects will not have the looked-for positive effects. In addition, it may be the case that some projects reduce the efficiency generated by hub or cluster effects in existing activities. Alternatively, the entry of new products into zones that have been recently connected because of these new infrastructure projects may displace local producers. Furthermore, certain features of the Mexican economy which could mean that public spending expansion has a smaller-than expected impact on GDP growth need to be borne in mind. Specifically, this latter scenario may come about as a result of the openness of the Mexican economy and its flexible exchange rate. In this case, the favourable effect on the economy of an expansion of public spending could be offset by an increase in imports and currency appreciation.

Therefore, it is crucial that the additional resources flowing through the public sector should be spent principally on developing productive infrastructure which is well designed and planned. This will help the economy to expand in the long term and provide more than a short-term fillip.

Bibliography

"The Effects of Infrastructure Development on Growth and Income Distribution", by César Calderón and Luis Servén. World Bank Policy Research Working Papers, September 2004

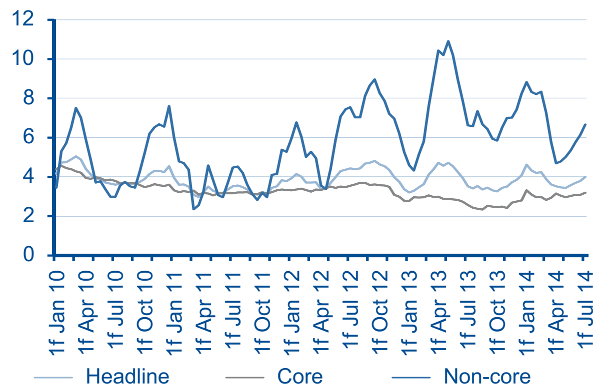
The variable benefits of investing in infrastructure. The Economist, July 19th 2014.

[1] Estimates based on a quarterly econometric model of the Mexican economy. This model is based on information provided by the INEGI about two components of aggregate supply and demand for goods and services. The model was estimated from the first quarter of 2006 (1Q06) up to the same period in 2014 (1Q14); statistical trials were conducted to evaluate the model's efficiency in forecasting GDP growth within the sample, with favourable results, with a margin of error of about 5%. The procedure consisted of carrying out GDP growth simulations by exogenously modifying public expenditure and investment. Specifically, these variables were raised by 10% each. Based on the simulations and their comparison with the baseline scenario without these increases, the effect of each variable on GDP can be calculated.

3.2 Inflation to rise temporarily in 3Q14 before falling toward 3.7% at year-end. Downward revision to our 2015 forecasts

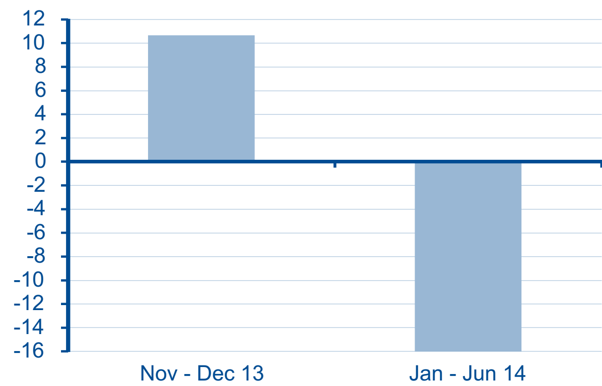
Inflation behaved as we expected this year, with the annual rate temporarily rising to 4.5% in January due to the fiscal changes, falling to levels of under 4.0% in March and revisiting 4.0% levels in July, as a result of an unfavourable annual comparison effect. The inflation trends in 2014 were mainly explained by two factors: a) the absence of second-order effects on price formation from the new taxes; and b) the fact that the supply shocks that affected produce prices in 4Q13 faded over the course of this year. Produce prices rose significantly over the last two months of 2013, but then fell considerably over the first half of 2014 (see Chart 37). Thus, the fact that the change in some relative prices due to the tax changes did not affect the price formation process, and that the supply shocks seen in produce prices in 4Q13 faded, to large extent explains the downward trend in headline inflation seen over 2Q14. Over the second half of the year, we expect inflation to remain slightly above 4.0% on average from July to September, before declining to 3.7% at year-end. For its part, we expect core inflation to remain under control for the rest of the year, though it is likely to pick up mildly in the second half of the year to 3.3% on average versus the 3.0% average in the first half of the year, depending on the expected recovery in the economy. We revised our 2015 forecasts to the downside, due to the favourable effects of the recently-approved telecommunications reform on prices.

Chart 36
Inflation and Components
YoY % change, bi-weekly series



Source: BBVA Research with INEGI data

Chart 37
Produce Inflation
Cumulative % change



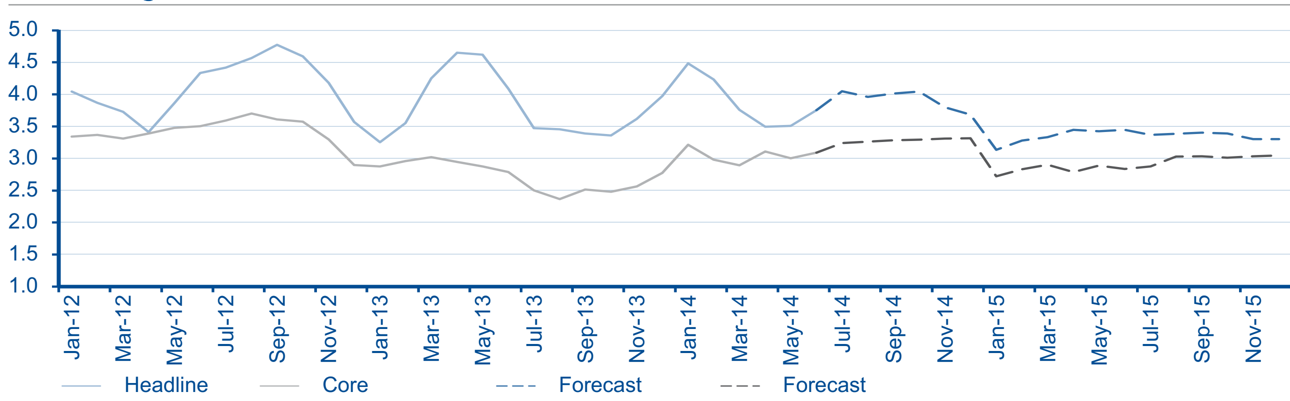
Source: BBVA Research with INEGI data

When considering core inflation, the best indicator of medium-term price evolution, recent behaviour has remained favourable, notwithstanding the fiscal shock observed in January of this year. Core inflation trended down over the first three quarters of 2013, assisted by the weakness in the economic cycle and the consequent slack, which translated into a lack of demand pressure on prices. Core inflation averaged under 3.0% in all of last year's quarters: 2.95% in 1Q13, 2.87% in 2Q13, 2.46% in 3Q13 and 2.61% in 4Q13, with the yearly close (2.78%), annual average (2.72%) and August bottom (2.37%) all setting historical lows. The fiscal changes implemented in January of this year temporarily interrupted this trend, and the annual rate climbed to 3.2%. Nevertheless, it once again registered an average level just shy of 3.0% (2.99%) from February to April. The persistent economic weakness this year over the first quarter and the start of the second continues to restrain rises in the selling prices achieved by companies , favouring the stability of core inflation. It thus remained at levels of close to 3.0% (3.07%) on average in the second quarter of 2014. We expect core inflation to remain low, within a context of a lack of demand pressures. Furthermore, we do not expect any financial stresses that would materially depreciate the peso, nor a global pickup significant enough to cause a considerable acceleration in commodity prices. However, while core inflation will remain moderate for a longer period, the gradual improvement in the economic cycle should lead this component to pick up mildly over the rest of the year. Specifically, it is likely to accelerate in the second half of the year (to 3.28% versus the 3.05% average in the first half of the year). We thus anticipate core inflation to average 3.17% in 2014 versus the 2.7% average seen in 2013.

Headline inflation rose considerably at the end of 2013, from 3.36% in October to 3.97% in December, mainly due to supply shocks in agricultural markets and some rate changes authorised by the government (e.g., an increase in the metro fare). The new fiscal measures that came into force in January 2014 caused an additional pickup, taking headline inflation to 4.5% annually. Subsequently, and as we expected, inflation resumed a downward trend as the effects of these shocks started fading. Our belief that there would be no second-order effects on the price formation process was confirmed, and inflation fell back within the central bank's target range of 3.0% +/- 1 pp in March, by coming in at 3.76%. The downward trend continued up to the first half of May, when annual inflation came in at levels of 3.44%. These levels were made possible mainly by a very favourable behaviour of the non-core component and by the slack in the economy, which has enabled core inflation to remain at subdued levels. As we expected, the annual inflation rate remained close to 3.5% in May and then rose gradually in June, reaching 3.75%. The last reading for the first half of July confirmed our expectation that the annual rate would continue climbing toward 4.0-4.1% over the following months, before declining toward 3.7% at the end of the year. Inflation will come in slightly over 4.0% on average during the July-October period, due to the calculational effect of a low basis of comparison (see Chart 38). Nevertheless, as it mostly results from basis effects, we expect this rise to be temporary, leading inflation outlooks to remain favourable. The annual rate will fall back within the central bank's target range in November, and thenceforth adopt a downward trend that will place it at 3.7% in December 2014 and at 3.1% in January 2015.

The considerable decline expected for headline inflation in January 2015 mainly stems from two factors. The first one was already factored into our scenario for some time, to wit, the disappearance of the temporary effect of the January 2014 tax changes on the annual inflation rate. The second one arose in recent weeks, after the secondary laws of the telecommunications reform were passed by Congress (see Box 2). The first factor is that the fading of the basis effect of the January 2014 tax changes on the annual rate (i.e., no further tax changes are expected in view of announcements by the authorities in this regard) was implying that inflation would drop to around 3.3% in January 2015 and come in at 3.5% at the end of the year. The second factor causes an additional cut to our forecasts, by including the potential effect on prices of changes in the fixed and mobile telephony market. We now expect inflation to be around 0.15 percentage points (pp) lower in January 2015, and around 0.2pp lower for the year overall. Thus, our new scenario is that inflation will drop to 3.1% in January 2015 (from 3.7% in December 2014), with an average and closing rate for 2015 of 3.3% (see Chart 38).

Chart 38
Inflation Outlooks
YoY % change



Source: BBVA Research with INEGI data

Furthermore and beginning in 2015, there are two significant factors that raise the likelihood of the central bank permanently reaching its inflation target over the next years. The first one is that, starting in January 2015, increases in gasoline prices will be determined as a function of expected inflation. It should be noted that in past years the rises in this sub-index had by far exceeded the average prices in the economy, which caused downward stiffness in inflation. This stiffness will now disappear. The second factor is the changes in the telecommunications market, which will not only lead to lower prices for fixed and mobile telephony services in 2015, but will also potentially have persistent effects in the medium and long term, due to the higher competition that should result in lower prices for consumers. If these two factors were to be coupled with higher competition in other markets of the economy, there would be a higher likelihood of permanently reaching the 3.0% inflation target. For the time being, we stand by our medium-term annual inflation forecasts of 3.3% (lower than the consensus since some time back). However, should the potential positive changes in the way of higher competition in the economy's different sectors be confirmed, our current downward bias would lead us to revise these forecasts slightly to the downside, toward levels even closer to 3.0%.

Box 2: Correction to the downside of our forecasts for 2015, thanks to the favourable effects of the telecoms reform on prices

The telecoms reform is predicted to have a favourable effect on prices in 2015. Now that Congress has passed the secondary legislation underpinning this reform, there are essentially four changes which we believe will translate into lower inflation during 2015: i) eliminating national long-distance charges; ii) eliminating roaming charges for mobiles; iii) the requirements that companies supply unlocked mobile phones which can be used with any operator and allow the customer to change their provider in under 24 hours; and iv) eliminating preferential tariffs (i.e., calls to phones operating through other telecom companies will cost the same as those to phones registered with the same provider). The first two changes will have an immediate effect on prices, while the other two will have a gradual effect over the course of the year. These last two could give a major boost to the competition, but the extent of the effect they could have on mobile phone tariffs is still unclear. In view of this uncertainty, we have applied a moderate effect in our calculations.

In table 4 we summarise the effects we considered when revising our 2015 forecasts. Eliminating long-distance charges will have an immediate effect in January of -0.1pp on inflation, thanks to its relative weighting in the National Consumer Price Index (NCPI). The suppression of roaming charges in the same months for mobile phone customers could shave a further 0.03pp off monthly inflation. In terms of the possibility of lower prices as a result of increased competition, we have taken into account two points in our revised forecast: i) that these changes will be gradual and will take place throughout the year, and ii) although they will have a favourable effect, this could be moderate, within the range of a further -0.11pp and -0.21pp. In short, these modifications would imply that 2015 inflation will be 0.2pp lower than earlier forecast. Nevertheless, even with the downwards revision in our forecasts, we believe that increased competition may translate into a more intense effect to the downside than foreseen, so even after the revision, the bias for inflation in 2015 will be to the downside.

Table 4
Estimated effect of the telecoms reform on inflation in 2015

		Estimated impact on inflation	
	NCPI weighting	Moderate[1]	High[2]
National long distance	0.10	-0.10	-0.10
Mobile telephony	2.11	-0.11	-0.21
Total (sum)		**-0.20**	**-0.31**

1 We assume that mobile telephony tariffs will fall by 5% once roaming charges have been eliminated and greater competition pushes prices downwards.
2 We assume that mobile telephony tariffs will fall by 10% once roaming charges have been eliminated and greater competition pushes prices downwards.
Source: BBVA Research

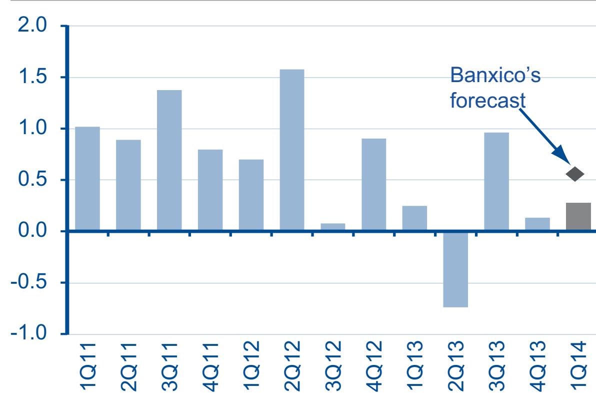
3.3 Unexpected monetary policy cut in response to economic growth data below expectations in the first quarter

In a decision that surprised both the market and analysts, the central bank reduced monetary policy by 50bp in its June meeting, bringing it down to 3.0%. This decision was based mainly on lower-than-expected growth in economic activity in the first quarter. The economy grew at a rate of 0.27% in the first three months of the year with seasonally adjusted figures (sa), less than half the 0.6% rate expected by the monetary authority in its first quarter inflation report (see Chart 39), published two days before the GDP figure, and two weeks before the monetary policy decision. The argument supporting the cut was supported by good inflation performance and emphasised the expected lack of pressures on prices over the horizon forecast within which monetary policy operates. Specifically, Banxico made it clear in its statement that the likelihood of annual inflation being close to 3.0% from January 2015 onwards had significantly increased. Thus, its theory of efficient convergence was sustained (i.e. reducing inflation towards the target at the lowest cost possible in terms of economic activity). That is, a further cut in an environment of lower-than-expected economic growth with inflation that is falling and which is expected to converge with the target as soon as next year.

The decision to cut the rate was not unanimous within the steering committee. Most members of the board who voted for the reduction stuck to the argument referred to above of efficient convergence, which has been mentioned in the minutes since March 2012 and was also used to justify the cuts last year. The two members who voted to keep the rate stable based their decision on the following arguments, in synthesis: 1) concern about the possible effects of maintaining a real negative rate for a prolonged period. In particular, reducing incentives for formal saving and possibly adopting excessive risks. The fact is that, although inflation has come down, it has been above the monetary policy rate since November 2013 (see Chart 40), a situation which is expected to continue for the rest of the year. In its monetary policy announcement, Banxico indicated that inflation might converge to levels close to 3.0% from January 2015, which seems to indicate that the real rate will not be in negative territory for a prolonged period; 2) possible costs in terms of lost credibility. Credibility would be affected because, after last October's cut, it was explicitly said that additional cuts to the reference rate would not be advisable. Furthermore, at that point a member of the committee stated that the economic situation in Mexico did not warrant a negative real rate; 3) uncertainty about the lag in monetary policy. The possible effect a cut might have on economic activity could occur when the economy is already expanding. On top of this, the level of rates before the cut does not seem to have had a negative effect on growth; 4) the adverse effects on inflation and financial stability of possible episodes of volatility. The opposing arguments in favour and against the cut reveal that most of the steering committee's members gave more weight to supporting cost reduction in economic activity terms, since they think the reduction of inflation towards its target is feasible. The two remaining members, however, appear to give more weight to complying with the inflation goal, they doubt that it is a good idea to reduce the rate in view of international market risks or else they do not believe that the prevailing level of rates will stifle growth.

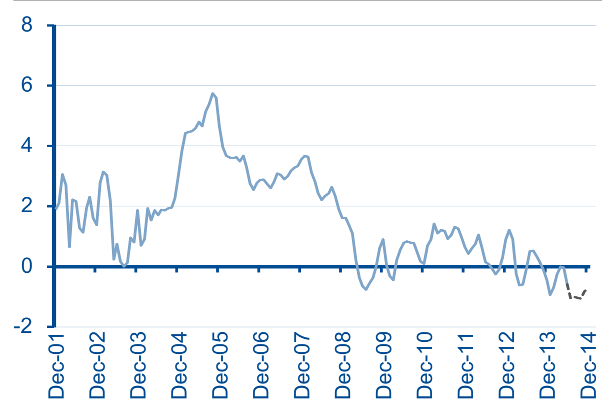
Bearing in mind the context in which this surprising cut took place we can learn several lessons. First, as mentioned in Mexico Economic Outlook in the fourth quarter of 2013, the criterion for efficient convergence appears to prevail among most members of the steering committee. After four cuts, based on this premise and in view of an environment of controlled inflation, it looks as though economic activity has taken a significant role in the central bank's decisions. Second, the appearance of unexpected data may make the central bank modify the monetary policy rate even though it does not change its tone in a prior statement, if it believes that this is the most recommended course of action in the light of changed circumstances. Nevertheless, we need to acknowledge that both high volatility and the lack of conclusive data and clarity on the economic environment may give rise to a situation in which the central bank is unable to communicate its forthcoming steps; even so it should not fail to apply as needed the policy it considers most appropriate.

Chart 39
GDP growth (% YoY)



Source: BBVA Research with data from INEGI

Chart 40
Real interest rate (%)



Source: BBVA Research with data from Banxico

For the future, we believe that the monetary pause will remain in place at least for the rest of the year because the central bank has indicated that it does not believe an additional cut is necessary in the foreseeable future, and also because the surprise cut was a response to an unexpected moderation in growth. Furthermore, in BBVA Research's central scenario, economic growth will accelerate in the second half of the year, closing at around 2.5% YoY, and prices will remain free of demand-side pressure, all of which is consistent with a monetary pause.

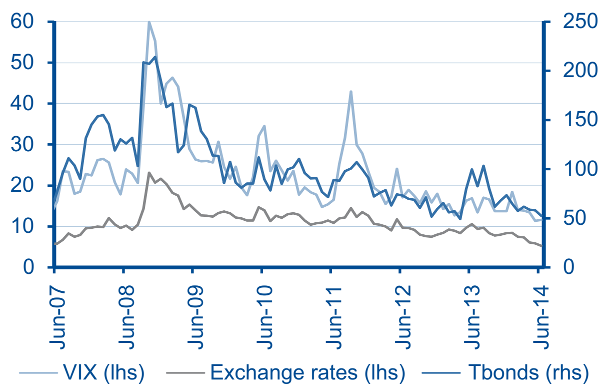
3.4 The volatility of financial variables remains at pre-crisis levels supported by the Federal Reserve's communication policy

A year after Ben Bernanke shook up the markets when he announced the possible reduction in asset purchases on the part of the Federal Reserve (the Fed), volatility levels have fallen to levels not seen since 2007. Whether it is FX, debt or shares, price movements remain contained and have even moderated during periods of rising geopolitical risks. What is the main reason for this? More than anything else, it is the Federal Reserve's communication policy, plus an environment of moderate growth. The Chair of the Fed indicated in March that between stopping buying debt and starting the cycle of raising monetary rates there could be an interval of around six months; in subsequent meetings since, the Fed's communication has modified, focussing on guaranteeing that even when asset purchases stop, the federal funds rate will remain at current levels for a considerable period. Furthermore, there have been repeated assurances that even when inflation and employment come close to levels consistent with the Fed's mandate, the economic conditions will be such that they will guarantee that the federal fund rate stays below the levels which the Federal Open Market Committee (FOMC) considers normal in the long term. Thus, this relaxed tone has taken the VIX vulnerability index (a global risk aversion measurement) to levels just above 10%, as low as they were in 2008, and more than 10% below their average in the last seven years. Echoing this, the exchange rate's implied volatility in Mexico at one month is around 5.5%, a level not seen since 2008 (see Chart 41).

In the light of this reduction in volatility levels, we have seen a concomitant rise in US stock markets to record highs (see Chart 42), and the debate about possible excessive risk taking by investors has been revived. In its annual report, BIS (Bank of International Settlements) warned that euphoria in financial markets is a result of a disconnect with economic reality, due, to a large degree, to monetary easing throughout the world. The report added that, although these macro-prudential measures have proved to be useful in increasing the financial system's resilience, they are no substitute for a restrictive monetary policy if we are to avoid the formation of imbalances. In an opposing stand, the Chair of the Fed declared that the central bank would not use monetary policy to limit excessive risk taking. In fact, in her appearance before the US Congress, she highlighted that stock market valuations are close to record highs, although she warned about the increase of the debt of companies without investment grade status (so-called "high yield") and the prices of some biotechnology and social media firms' stocks.

Chart 41

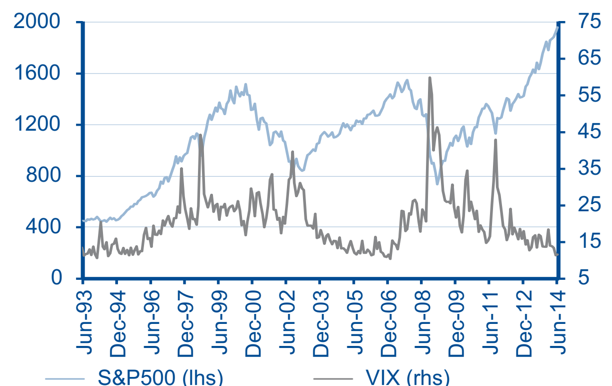
Global risk aversion and implied volatility in FX and Treasury debt (%, index)



Source: BBVA Research with data from Bloomberg

Chart 42

Global risk aversion and US stock market (%, pp)

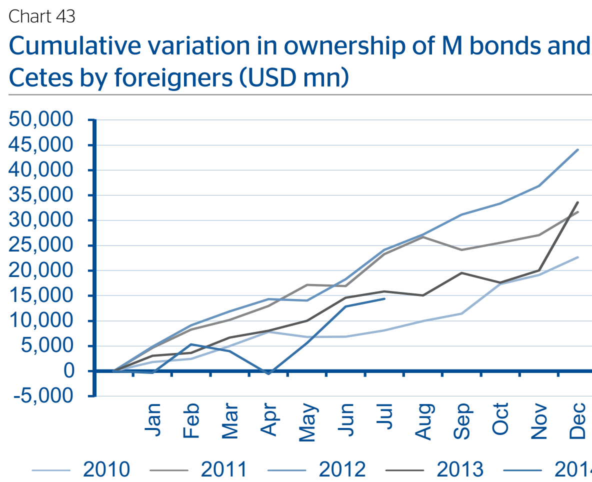


Source: BBVA Research with data from Bloomberg

Despite these low volatility levels, in Mexico the surprise cut to monetary policy rate on 6 June contributed to the movement of Mexican markets. The immediate reaction to the cut was a 0.48% depreciation of the peso, the biggest depreciation among emerging currencies, taking it to over 13 pesos to the dollar. Interest rates fell 42bp and 31bp respectively in the middle and long ends of the curve. On subsequent days the peso recovered its link with global low volatility and moved below USDMXN13.20. Meanwhile the 10Y sovereign yields initially went up over 5.8% before falling again to levels recorded after the cut of around 5.6%.

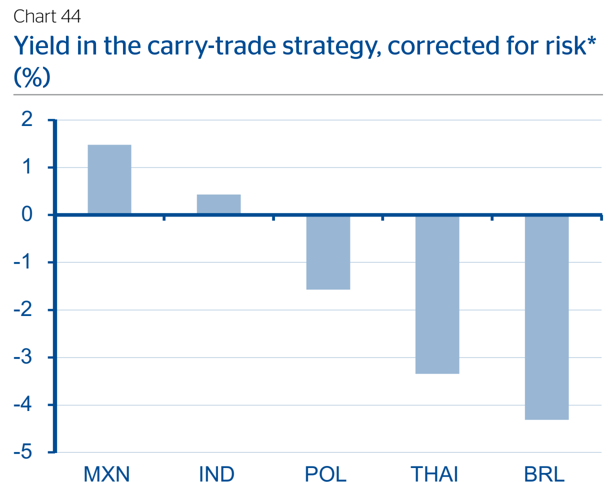
In terms of ownership of fixed income instruments by foreigners, these recorded their biggest growth of the year in June, thanks to an increase of over USD6bn in Cetes; ownership of M bonds rose by only USD762mn, the second time this year that this figure was less than USD1bn (see Chart 43). A possible explanation of foreigners' high demand for short-term debt, even when Banxico cut the monetary policy rate, seems to lie in the low volatility of the exchange rate. In other words, when YoY yields are calculated in dollars of the investment in Cetes, corrected for risk, we see that Mexican debt continues to be attractive compared with that of other emerging markets (see Chart 44). In addition, the credit risk of Mexican debt, measured by the 5Y credit default swap (CDS), has reached its lowest level for the last seven years, standing at 64bp.

Chart 43
Cumulative variation in ownership of M bonds and Cetes by foreigners (USD mn)



Source: BBVA Research with data from Banxico

Chart 44
Yield in the carry-trade strategy, corrected for risk* (%)



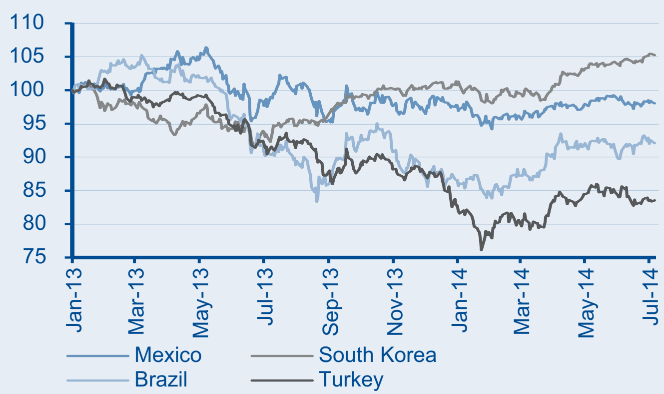
*YoY yield by unit of implied volatility. Calculated as net yield in dollars of an investment in a discounted instrument in the foreign country, divided by the implied volatility over one month of the currency in question.
Source: BBVA Research with data from Bloomberg.

In the future, the variable to watch will still be the Federal Reserve's communication. With the end of asset purchases estimated to coincide with the FOMC meeting in October, we believe, economic data permitting, that the prior meeting, in September, could mark the beginning of the change in communication and, with it, an increase in market volatility. We should recall that in the September meeting, as well as the statement, all the FOMC members will present their economic forecasts and the Chair will give a press conference. Nevertheless, the Federal Reserve's meeting in Kansas City at the end of August should be closely followed too, since in previous years several changes in the Fed's communication have been announced there. With this panorama in mind, we expect the exchange rate to register a depreciation as the Fed's period of asset purchases comes to an end (estimated for October 2014) and the markets focus all their attention on the start of the rise of federal fund rates, although we believe the upward movement will be moderate. Specifically, we expect that the exchange rate by the end of 2014 to be around USDMXN 13.30.

Box 3: The relative performance of financial variables in episodes of financial stress depends on each country's economic vulnerabilities

There have been two episodes since the beginning of 2013 when financial tensions in emerging economies suffered a significant upturn. The first occurred between May and September 2013 (see Chart 45). Financial conditions in emerging economies stabilised in general after September, but financial tension increased again in January of this year. In these upturns in risk perception, the financial markets in emerging economies suffered capital outflows, depreciations in their currencies against the dollar and significant drops in the price of sovereign debt, reflected in significant increases in the yield rates.

Chart 45
Exchange rates against the US dollar of selected EM currencies
2 Jan, 2013=100



Source: BBVA Research with data from Bloomberg

The tensions were sparked in May 2013 in response to statements made by the Fed indicating that it would probably start to reduce its large-scale asset purchases at the end of 2013. These signals caused a surge in uncertainty and volatility on global financial markets. Until that point, the extraordinarily low interest rates in the United States and huge liquidity in global markets had encouraged investors to take advantage of the situation by investing in emerging market economies (EMEs), with higher rates than those prevailing in developed economies, carrying out short-term investment operations, known as carry trade. These transactions have higher margins when EME currencies remain stable or appreciate. But when the expectation of a slowing rate of asset purchases on the part of the Fed led to higher interest rates in the US, investors rapidly reversed these operations, which were then accompanied by significant depreciations in EME currencies against the dollar and major falls in asset prices.

In December 2013, when the Fed finally announced a reduction in asset purchases, the reaction on the part of financial markets in the EMEs was moderate. The main reason was that the Fed's statement back in September had removed the uncertainty caused up to that point by the difficulty of explaining the distinction between the decisions that would be taken about unconventional monetary stimulus and decisions about the forthcoming return to conventional monetary policy (i.e. the cycle of hikes in the target monetary rate) which was still far off on the horizon, further away than the markets were expecting at that point. Then, in January 2014, volatility returned to these markets. Unlike the first episode, in this there were no important changes in the expectations for US monetary policy. It was rather that this second episode of risk aversion was characterised by a series of adverse events: a weaker than expected result in China's manufacturing industry, the devaluation of the Argentine peso, the intervention in Turkey propping up its currency and the geopolitical tensions resulting from the crisis in Ukraine.

During both risk-aversion episodes, the financial conditions in the EMEs were affected, although there was differentiation between countries, which suggests that, even when the wave of EME asset sales was driven by shared factors, investor decisions also were nuanced by these economies' differing conditions. Chart 45 illustrates that although one can see that all currencies were affected, some were more resilient than others. The same thing happened with sovereign yields. This suggests that the differentiation may be in response to investor perception of economic vulnerabilities in the EMEs.

Emerging Market Economy Vulnerability Index

In order to quantify this differentiation and forecast the resilience of financial markets in the EMEs in future episodes of financial tensions, the vulnerability index built by the Federal Reserve (published in its February 2014 Monetary Policy Report) has been reproduced and is compared with the performance of a range of financial variables over stress periods.

The relative vulnerability index for EMEs is prepared using a sample of 15 EMEs[1] and based on six indexes: (1) current account balance as a percentage of gross domestic product (GDP), (2) gross public debt as a percentage of GDP, (3) annual average inflation in the last three years, (4) the change over the last five years in banking lending to the private sector as a percentage of GDP, (5) the relationship between total external debt and annual exports, and (6) international currency reserves as a percentage of GDP. In order to build the index, the 15 EMEs were ranked by each one of the six indexes, starting at least vulnerable (ranking of 1) to most vulnerable (ranking of 15). Then the average ranking of each EME was calculated to obtain the index score for each EME. Thus, from the way the index was constructed, the higher the index score, the higher the vulnerability.

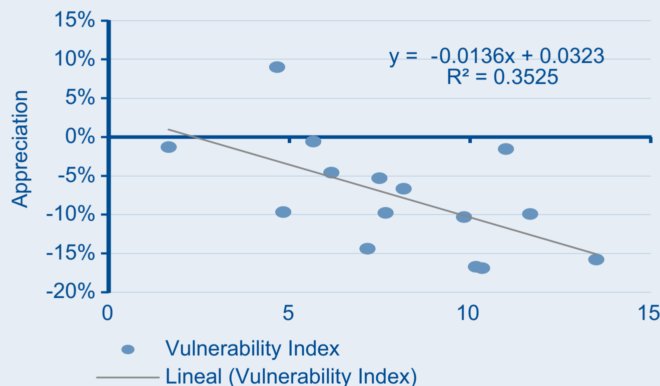
As Charts 46 and 47 illustrate, the emerging economies which are relatively more vulnerable according to the index experienced more intense depreciations and larger rises in their sovereign debt yields. Two conclusions can be drawn from this: (1) although the EMEs will continue to be exposed to future variations in risk perception, (2) the more vulnerable EMEs will continue to show less resilience against external shocks. Therefore, reducing economic vulnerabilities is important if economies are to be more resilient to external shocks.

Mexico has a good position in the index, with a score of 8.17, the second of the Latin American EMEs, just one point below Chile, the best positioned economy in this region. This position is possible thanks to the permanent efforts being made to maintain macroeconomic stability, improve the economy's structural conditions and reduce vulnerability to external shocks. These endeavours, which have been underway for many years, include inflation control, total public debt limitation, reduction of external indebtedness and the accumulation of international reserves. In consequence, Mexico's degree of vulnerability is now lower and our country better positioned than in the past to absorb external shocks and limit volatility in the financial markets.

Nevertheless, Mexico is still a long way behind the emerging Asian economies, which are by far the best positioned according to the index, which the financial markets have confirmed, insofar as that their movements were more moderate during the recent bouts of financial stress. That is why the long-term changes in which our country is immersed, with the agenda of reforms already approved or on the way to being approved, are so important. These structural changes will not only increase the economy's growth potential, they will also reduce economic vulnerabilities, allowing Mexico to gain a relatively stronger position, enabling it to allay investor nerves when high volatility events occur on the financial markets in the future.

Chart 46

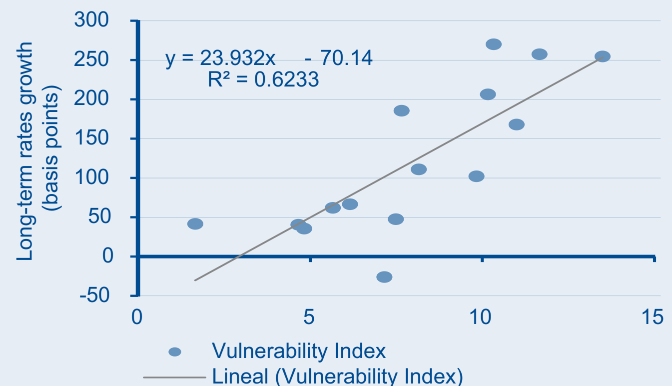
Currency appreciation (+)/depreciation (-) against the US dollar and emerging economies vulnerability index



Note: the percentage appreciation of EME currencies against the dollar is measured from 30 April 2013 to 7 July 2014
Source: Haver Analytics and BBVA Research calculations

Chart 47

Increase in 10Y yields and emerging economies vulnerability index



Note: the change in base points of yields is measured from 30 April 2013 to 7 July 2014
Source: Haver Analytics and BBVA Research calculations

[1] Brazil, China, Chile, Colombia, Indonesia, India, South Korea, Malaysia, Mexico, Philippines, Russia, South Africa, Taiwan, Thailand and Turkey.

Nevertheless, Mexico is still a long way behind the emerging Asian economies, which are by far the best positioned according to the index, which the financial markets have confirmed, insofar as that their movements were more moderate during the recent bouts of financial stress. That is why the long-term changes in which our country is immersed, with the agenda of reforms already approved or on the way to being approved, are so important. These structural changes will not only increase the economy's growth potential, they will also reduce economic vulnerabilities, allowing Mexico to gain a relatively stronger position, enabling it to allay investor nerves when high volatility events occur on the financial markets in the future.

References

"*Financial Stress and Vulnerabilities in the Emerging Market Economies*", Federal Reserve Monetary Policy Report, 11 February, 2014, pages 28 and 29.

4. Indicators and forecasts

Table 5

Macroeconomic forecasts: Gross Domestic Product

(YoY growth rate)	2011	2012	2013	2014	2015
United States	1.8	2.8	1.9	**2.0**	**2.5**
EMU	1.6	-0.6	-0.4	**1.1**	**1.9**
Germany	3.4	0.9	0.5	**1.9**	**2.0**
France	2.1	0.4	0.4	**0.7**	**1.4**
Italy	0.6	-2.4	-1.8	**0.3**	**1.3**
Spain	0.1	-1.6	-1.2	**1.3**	**2.3**
UK	1.1	0.3	1.7	**2.9**	**2.5**
Latin America *	4.1	2.6	2.4	**1.6**	**2.5**
Mexico	3.9	3.8	1.1	**2.5**	**3.5**
Brazil	2.7	1.0	2.5	**1.3**	**1.6**
EAGLES **	7.3	5.5	5.3	**5.1**	**5.4**
Turkey	8.9	2.4	3.8	**2.5**	**4.2**
Asia-Pacific	6.1	5.2	5.2	**4.1**	**4.1**
Japón	-0.5	1.5	1.5	**1.1**	**1.3**
China	9.3	7.7	7.7	**7.2**	**7.0**
Asia (exc. China)	3.8	3.5	3.4	**1.8**	**2.0**
World	4.0	3.2	3.0	**3.3**	**3.8**

* Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela
** Brazil, Corea, China, India, Indonesia, Mexico, Russia, Taiwan, Turkey
Closing date: July 31, 2014
Source: BBVA Research

Table 6

Macroeconomic Forecasts: inflation (Average)

(YoY growth rate)	2011	2012	2013	2014	2015
United States	3.2	2.1	1.5	**1.9**	**2.2**
EMU	2.7	2.5	1.4	**0.6**	**1.1**
Germany	2.5	2.1	1.6	**0.9**	**1.5**
France	2.3	2.2	1.0	**0.7**	**1.0**
Italy	2.9	3.3	1.3	**0.4**	**0.9**
Spain	3.2	2.4	1.4	**0.1**	**0.9**
UK	4.5	2.8	2.6	**1.7**	**1.7**
Latin America *	8.0	7.6	8.9	**12.2**	**10.9**
Mexico	3.4	4.1	3.8	**3.9**	**3.3**
Brazil	6.6	5.4	6.2	**6.4**	**6.1**
EAGLES **	6.5	4.9	5.2	**4.8**	**4.8**
Turkey	6.4	8.7	7.6	**8.3**	**5.8**
Asia-Pacific	4.9	3.4	3.5	**2.9**	**3.0**
Japón	-0.3	0.0	0.4	**2.2**	**1.5**
China	5.4	2.6	2.6	**2.6**	**3.3**
Asia (exc. China)	4.6	4.0	4.2	**3.1**	**2.7**
World	5.1	4.2	3.8	**3.9**	**4.0**

* Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela
** Brazil, Corea, China, India, Indonesia, Mexico, Russia, Taiwan, Turkey
Closing date: July 31, 2014
Source: BBVA Research

Table 7

United States indicators and forecasts

	2012	2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Macroeconomic Indicators												
GDP (real % change)	2.8	1.9	**2.0**	**2.5**	1.1	2.5	4.1	2.6	-2.9	**4.8**	**3.8**	**3.5**
Personal consumption (real % change)	2.2	2.0	**2.1**	**1.7**	2.3	1.8	2.0	3.3	1.0	**2.3**	**2.5**	**2.4**
Gov. consumption (real % change)	-1.0	-2.2	**-1.0**	**0.1**	-4.2	-0.4	0.4	-5.2	-0.8	**0.4**	**0.4**	**0.0**
Gross fixed investment (real % change)	8.3	4.5	**4.6**	**5.9**	-1.5	6.5	5.9	2.8	-1.8	**10.7**	**8.1**	**7.4**
Construction	3.4	3.1	**4.5**	**4.2**	3.8	-1.5	5.7	4.0	6.3	**4.1**	**4.1**	**4.5**
Industrial prod. (real annual % change)	3.8	2.9	**4.0**	**3.9**	3.0	2.5	2.7	3.3	3.3	**4.2**	**4.4**	**4.0**
Current account balance (% of GDP)	-2.7	-2.3	**-2.2**	**-2.0**	-2.6	-2.6	-2.4	-2.0	-2.6	**-2.2**	**-2.2**	**-2.2**
Final annual inflation	1.7	1.5	**2.1**	**2.2**	1.5	1.8	1.2	1.5	1.5	**2.1**	**2.1**	**2.1**
Average annual inflation	2.1	1.5	**1.9**	**2.2**	1.7	1.4	1.6	1.2	1.4	**2.1**	**2.1**	**2.1**
Primary fiscal balance (% of GDP)	-6.8	-4.1	**-3.0**	**-2.7**				-4.1				**-3.0**

Note: **Bold** figures are forecast
Source: BBVA Research

Table 8

Mexico Indicators and Forecasts

	2012	2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Economic Activity												
GDP (seasonally-adjusted series)												
Real annual % change	3.8	1.1	**2.5**	**3.5**	2.6	0.2	1.1	0.5	0.7	**2.4**	**2.8**	**4.1**
Per inhabitant (US dollars)	10,134	10,600	**10,713**	**11,366**	10,459	10,623	10,469	10,850	10,394	**10,775**	**10,794**	**10,889**
US$ billions	1,186.2	1,255.0	**1,282.5**	**1,375.4**	1,238.3	1,257.8	1,239.4	1,284.6	1,244.3	**1,289.9**	**1,292.2**	**1,303.6**
Inflation (average, %)												
Headline	4.1	3.8	**3.9**	**3.3**	3.7	4.5	3.4	3.7	4.2	**3.6**	**4.0**	**3.8**
Core	3.4	2.7	**3.2**	**2.9**	3.0	2.9	2.5	2.6	3.0	**3.1**	**3.2**	**3.3**
Financial Markets (eop, %)												
Interest rates												
Bank funding	4.5	3.5	**3.0**	**3.5**	4.0	4.0	3.8	3.5	3.5	**3.0**	**3.0**	**3.0**
28-day Cetes	3.9	3.2	**3.0**	**3.5**	4.2	3.9	3.5	3.2	3.3	**2.8**	**2.8**	**3.0**
28-day TIIE	4.8	3.8	**3.4**	**3.9**	4.4	4.3	4.0	3.8	3.8	**3.4**	**3.4**	**3.4**
10-year Bond (%, average)	5.7	5.7	**6.1**	**6.6**	5.1	5.3	6.2	6.2	6.3	**6.1**	**6.0**	**6.2**
Exchange rate (average)												
Pesos per dollar	12.9	13.0	**13.3**	**13.2**	12.3	12.9	13.1	13.0	13.2	**13.0**	**13.3**	**13.4**
Public Finances												
*FRPS (% of GDP)	-3.1	-2.3	**-3.5**	**-3.0**	-	-	-	-2.3	-	**-**	**-**	**-3.5**
External Sector[3]												
Trade balance (US$ billions)	0.0	-1.2	**2.7**	**6.3**	-1.1	-0.9	-1.0	1.8	-1.3	**1.1**	**1.9**	**1.0**
Current account (US$ billions)	-15.1	-25.9	**-22.2**	**-26.4**	-7.1	-5.5	-5.7	-7.5	-4.5	**-8.0**	**-4.7**	**-5.0**
Current account (% of GDP)	-1.2	-2.1	**-1.7**	**-1.9**	-2.3	-1.8	-1.8	-2.3	-1.5	**-2.5**	**-1.4**	**-1.5**
Oil (Mexican mix, dpb, eop)	102.0	98.6	**98.4**	**98.8**	103.0	98.6	100.5	92.1	92.3	**100.1**	**101.0**	**100.2**
Employment												
Formal Private (annual % change)	4.6	3.5	**3.0**	**3.5**	4.1	3.8	3.1	2.9	2.9	**2.9**	**2.9**	**3.1**
Open Unemployment Rate (% active pop.)	5.0	4.9	**4.9**	**4.9**	5.0	5.0	4.9	4.7	4.9	**5.0**	**5.0**	**4.9**

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Mexico Indicators and Forecasts

	2012	2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Aggregate Demand [4] (annual % change, seasonally-adjusted)												
Total	3.9	1.1	**2.8**	**3.8**	2.9	1.0	0.9	-0.1	0.9	**2.1**	**3.6**	**4.7**
Domestic Demand	3.3	1.1	**2.4**	**3.8**	4.9	2.4	-0.5	-2.2	-0.8	**1.6**	**3.9**	**4.8**
Consumption	4.4	2.2	**2.7**	**3.6**	3.2	2.1	2.3	1.4	1.2	**2.5**	**3.0**	**3.9**
Private	4.6	2.4	**1.6**	**3.0**	3.7	2.4	2.4	1.1	0.3	**1.5**	**1.9**	**2.7**
Public	3.2	1.4	**9.1**	**6.9**	0.7	0.1	1.8	2.9	6.4	**8.8**	**9.6**	**11.4**
Investment	4.0	-1.0	**1.1**	**6.1**	3.3	-0.6	-3.4	-3.3	-3.2	**-0.4**	**3.4**	**4.9**
Private	8.1	-0.1	**-1.1**	**6.1**	6.2	0.9	-3.2	-4.0	-4.9	**-2.7**	**0.7**	**2.7**
Public	-9.3	-4.5	**10.1**	**6.1**	-7.1	-6.4	-4.0	-0.4	3.6	**8.9**	**14.2**	**13.8**
External Demand	5.9	1.3	**4.3**	**4.0**	-3.2	-3.4	5.4	7.0	6.2	**3.6**	**2.9**	**4.4**
Imports	4.4	1.3	**3.9**	**4.8**	3.9	3.5	0.2	-2.2	1.4	**1.4**	**6.2**	**6.9**
GDP by sectors (annual % change, seasonally-adjusted)												
Primary	6.7	0.2	**4.6**	**3.7**	-2.2	2.8	0.7	-0.4	4.9	**3.9**	**3.4**	**6.3**
Secondary	2.8	-0.7	**1.5**	**2.3**	-0.1	-1.8	-0.5	-0.4	-0.1	**1.6**	**1.8**	**2.4**
Mining	1.3	-2.0	**0.0**	**-0.6**	-1.5	-2.3	-2.6	-1.6	-0.1	**-0.4**	**-0.6**	**1.3**
Electricity	2.4	0.1	**2.4**	**2.7**	-1.0	0.3	0.8	0.5	1.6	**2.7**	**1.3**	**3.8**
Construction	2.1	-4.4	**n.d.**	**n.d.**	-1.1	-5.3	-6.4	-4.8	-4.7	**n.d.**	**n.d.**	**n.d.**
Manufacturing	3.5	1.9	**3.5**	**3.8**	2.1	0.6	2.8	2.1	2.6	**3.9**	**3.7**	**4.0**
Tertiary	4.3	2.3	**3.0**	**4.2**	3.7	1.9	2.5	1.2	1.0	**2.7**	**3.4**	**4.9**
Retail	4.1	3.4	**3.2**	**5.4**	4.9	1.8	4.5	2.4	0.1	**2.7**	**3.7**	**6.3**
Transportation, mail and warehouse	3.9	1.6	**3.8**	**5.5**	2.3	1.2	1.9	1.0	0.9	**3.3**	**4.3**	**6.9**
Massive media information	16.5	5.4	**4.4**	**6.5**	10.6	6.9	4.7	0.0	2.9	**4.7**	**4.4**	**5.8**
Financial and insurance	8.6	3.9	**5.1**	**6.2**	4.2	7.1	3.0	1.4	2.0	**5.0**	**7.3**	**6.2**
Real-estate and rent	2.6	1.5	**3.0**	**3.1**	1.7	1.7	1.4	1.1	2.2	**2.8**	**3.1**	**4.0**
Prof., scientific and technical servs.	1.1	-1.2	**1.6**	**2.0**	2.2	-1.3	-3.9	-1.8	-1.4	**2.2**	**2.3**	**3.4**
Company and corporate management	6.8	-5.4	**2.5**	**3.0**	1.4	-5.3	-3.6	-13.6	0.4	**1.6**	**2.4**	**6.0**
Business support services	4.3	3.9	**0.3**	**3.5**	6.5	3.9	3.2	2.0	-0.4	**-0.7**	**1.5**	**0.8**
Education	2.2	1.1	**1.5**	**1.6**	0.9	0.8	1.3	1.4	1.4	**1.2**	**1.3**	**2.0**
Health and social security	2.2	2.0	**1.3**	**1.6**	3.5	2.7	0.9	1.0	0.2	**1.4**	**1.4**	**2.1**
Cultural and sport	2.8	0.2	**1.1**	**2.2**	3.4	-1.4	-0.8	-0.5	-3.4	**2.0**	**3.0**	**2.7**
Temporary stay	5.5	2.1	**2.8**	**2.9**	4.1	1.3	1.6	1.6	1.9	**3.3**	**2.5**	**3.6**
Other services, except government activities	2.1	1.7	**0.7**	**1.5**	2.4	2.0	1.6	0.7	-0.6	**0.4**	**1.0**	**2.1**
Government activities	3.8	0.8	**4.2**	**4.3**	-0.1	-1.3	2.8	1.9	3.7	**3.0**	**3.0**	**7.1**

1: Residential investment
2: Fiscal balance (% GDP)
3: Accumulated, last 12 months
4: Base 1993=100; GDP by sector base 2003=100. The observed data of the primary sector, secondary and tertiary seasonally-adjusted by INEGI, the rest own seasonally-adjusted
bd: billions of dollars
dpb: dollars per barrel
*FRPS: Financial Requirements of the Public Sector
na: not available
Note: **Bold** figures are forecast
Source: BBVA Research with Federal Reserve, Bureau of Labor Statistics, Banco de Mexico, INEGI and SHCP data

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