

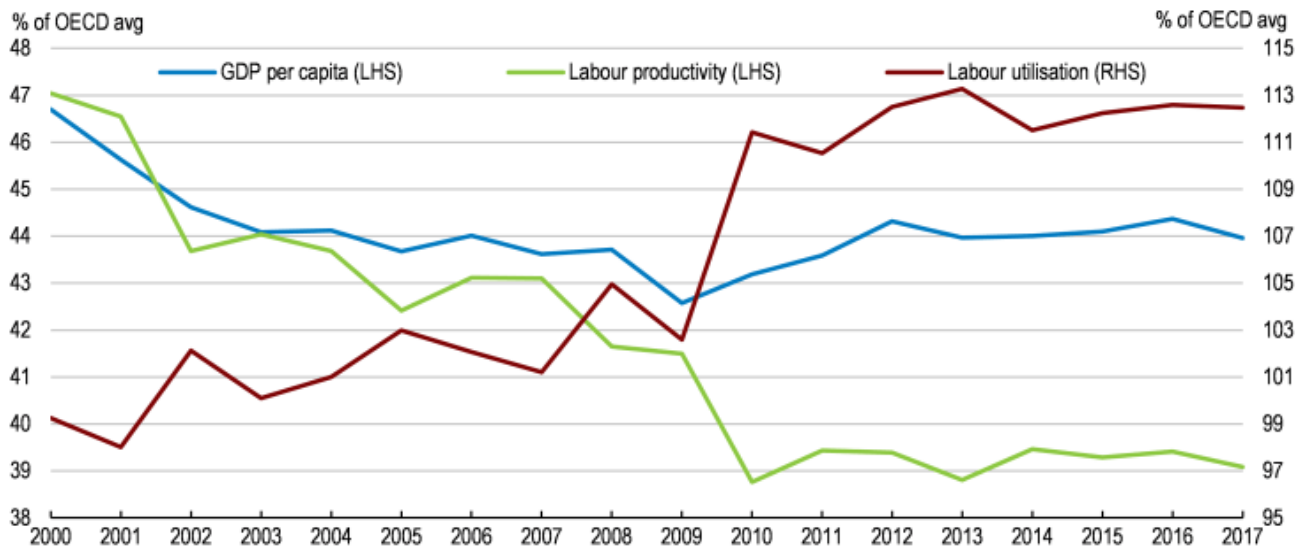
A renewed strategy to boost growth and well-being in Mexico

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The Mexican economy has benefited from strong fundamentals. A strong macroeconomic policy framework has underpinned moderate growth, in the face of a number of shocks the economy has experienced in the recent past. Monetary policy has successfully tamed inflation and prudent fiscal policy has halted the rise in the debt-to-GDP ratio. The financial system is strong and a number of financial buffers in the form of stabilisation funds and international reserves cushion against tail risks.

The macro framework has brought stability to the economy but it has not been enough to deliver strong growth. GDP growth has been moderate, particularly compared with other emerging market economies, averaging only 2.2% a year since 2009. The relatively modest growth that has occurred chiefly reflects a demographic bonus, as Mexico's young population entered the labour market. Mexicans work far longer days than anyone else in the OECD. But owing to low productivity, Mexico's GDPpc remains the lowest in the OECD as the country has not converged to higher living standards (Figure 1). Mexico has the macro right, now it is time to work on the micro.

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



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

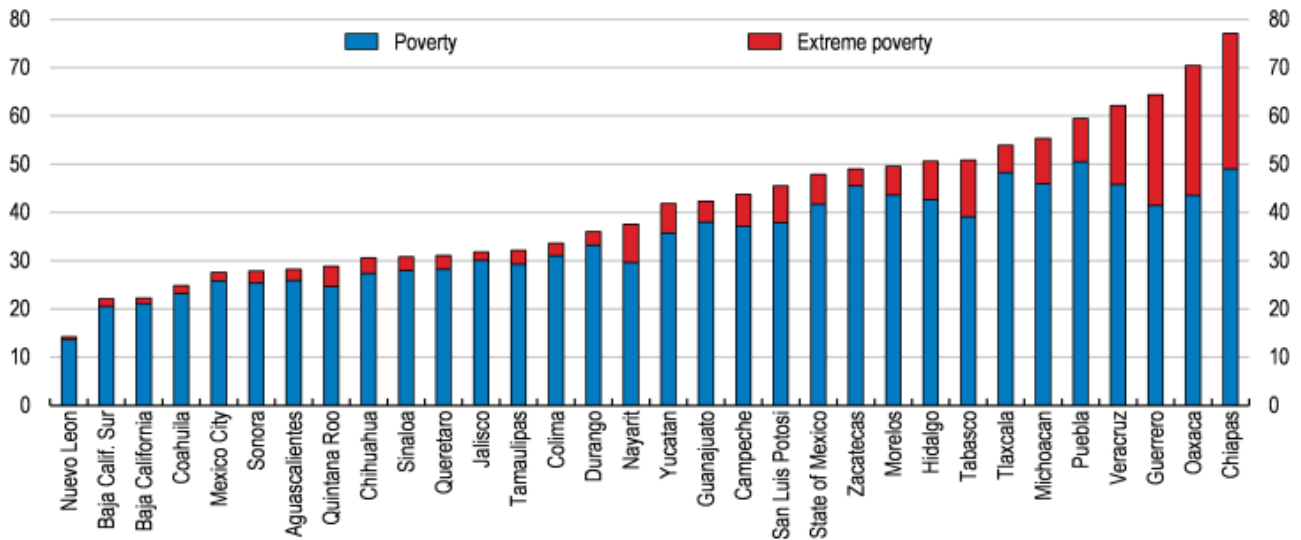
Source: OECD Productivity Database.

The 2019 OECD Economic Survey of Mexico looks into policies that will make growth more robust and equitable. The main findings are:

- Maintaining macroeconomic stability is key to smooth adjustment to shocks in the context of heightened uncertainty and to provide confidence to economic agents in the medium term.
- Implementing a comprehensive strategy to boost productivity and inclusiveness calls for an integrated package of reforms across several policy areas as policy complementarities matter.
- Increasing equity and providing opportunities for all, including women, indigenous populations, and lagging regions should be an integral element of the reform agenda to solve Mexico's stark disparities in economic dynamism, poverty and well-being (Figures 2 and 3).

Poverty rates are still high but differ greatly across states

Poverty and extreme poverty per state, %, 2016

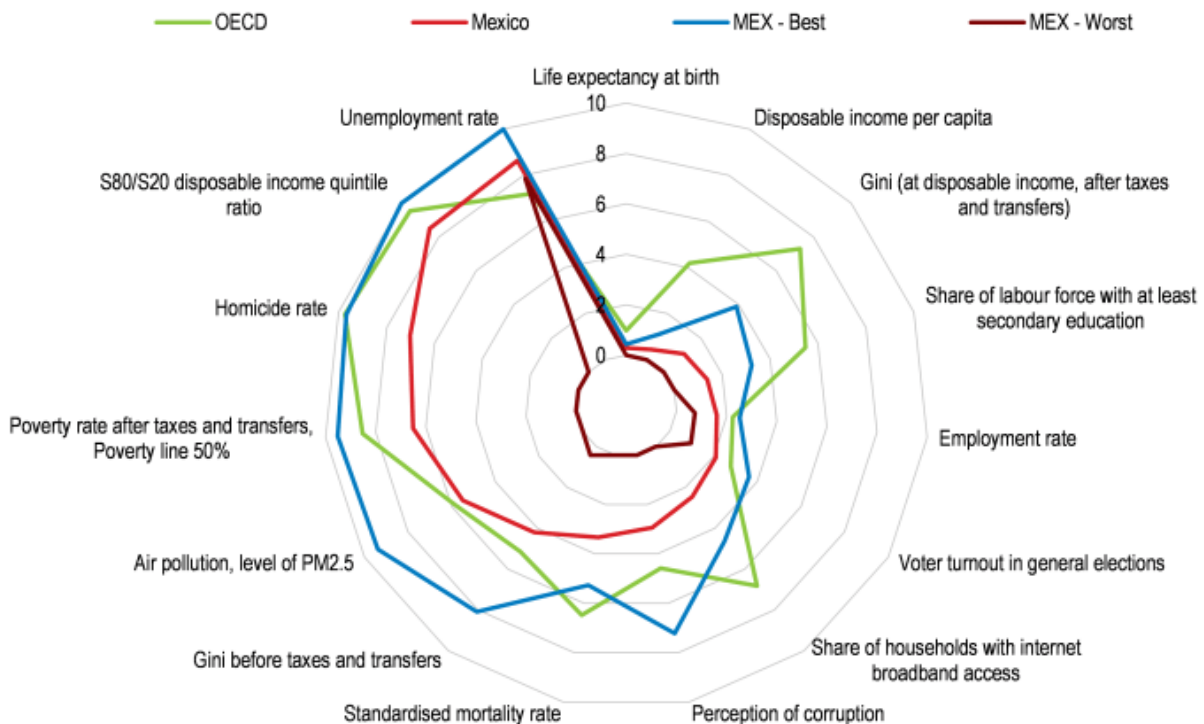


Note: CONEVAL's multi-dimensional poverty measure considers income plus six social dimensions of well-being. The population in extreme poverty is the group whose income cannot ensure adequate nutrition and who is deprived in at least three of the six social indicators. The population in poverty includes those whose income cannot ensure adequate access to nutrition and basic services and who are deprived in at least one of the social indicators.

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

Well-being varies greatly across states

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



Note: Indicators are normalised to a range of 0 (worst) to 10 (best) computed over OECD countries and Mexican states.

Source: OECD Regional Well-being database.

Many reforms are able to simultaneously lift growth and share the benefits more widely. These are: raising educational outcomes,

enhancing women's participation in the labour market, improving incentives to job and business formalisation, improving regulations to spur competition, boosting infrastructure, further enhancing trade and participation in global value chains, particularly SMEs. The redistributive role of fiscal policy also needs strengthening.

Stronger institutions are key to attaining stronger growth and increasing fairness and opportunities for all. Reducing corruption, insecurity and crime would boost economic activity and especially benefit the poor and underprivileged. They are also an integral ingredient to making all other reforms work. Mexico should continue efforts to reduce crime and impunity and complete the implementation of the National and Local Anticorruption Systems reforms and monitor the results, especially focusing on the capacity of the different states to strengthen their institutional arrangements.

Further reading:

OECD (2019), *OECD Economic Surveys: Mexico 2019*, OECD Publishing, Paris. <https://doi.org/10.1787/a536d00e-en>