

Economic update

The peso took a pummelling this week as market jitters due to the Greece crisis. The currency fell by 51 per cent against the dollar. However, the Governor of Mexico's Central Bank, Agustin Carstens, argued that the peso's fall should be a temporary issue, given that there is a very limited possibility that the turmoil ongoing turmoil in Europe could affect emerging markets.

Whether turns out to be the case or not, what is clear is that Mexico's economy is yet to enter a more accelerated phase of growth. According to Mexico's National Institute of Statistics, the coinciding indicator, which attempts to measure the overall state of the economy, fell by .03 points in April compared to the month prior. Moreover, the forward indicator, which attempts measure movements in the coinciding indicator, also fell 0.05 points in said month.

These results are in line with discouraging results in Mexico's construction sector, the value of which fell by 0.4 per cent month on month in April, bringing down employment and real wages in the sector by 0.8 per cent and 0.3 per cent respectively compared to march.

Furtgermore the mining index had a significant decrease, given that it fell by 3.9 per cent in April on an annual basis. Gains in silver, gold, sulphur and zinc were more than offset by setbacks in iron pellets, coal, bronze and coke.

Energy update

Mexio's Ministry of Energy revealed that in September it will formally present a five-year plan for the oil blocks to be auctioned throughout that the period, which could reach as high as 914, 670 of which would be exploration blocks and 670 of which would be extraction blocks.

As part of the announcement, the Ministry also informed that it will publish a new online tool in which exploration and production companies can point which blocks they would be interested in and when they believe they could start producing the first barrel of oil.

Government tightens spending

In the context of low oil prices staying put in the medium term, the Mexican government announced a few months ago that it would intend to reduce public spending, given that a third of its budget comes from oil revenues and that its hedging programme would likely prove less effective in years to come.

More specifically, the government announced that it would implement a zero based budget, i.e. one in which every expense must be justified so as to cut away inertial spending.

Given that President Enrique Peña Nieto secured a majority in the lower house of congress during the past mid-term elections on June 7th, this is exactly the type of policy for which his government has sufficient room to manoeuvre without gruelling legislative tussles.

As a result of the first review carried out by the Ministry of Finance, there is an expected reduction of 22 per cent of budgetary programmes (falling from 1,097 to 851). At least 15 programmes that were used to support international organizations are among those facing the chopping board. Savings are expected to reach at least 402 billion pesos (£16 billion).

Analysts in Mexico have argued that, in light of the scopes of this project, it is unlikely that the government could truly implement a zero-based budget and even less so in a short window of time.

Nonetheless, this is a welcome move by the federal government, given that public spending had increased from 24 per cent of GDP in 2010 to 26.4 per cent of GDP in 2014 and debt levels have also increased from 36.3 per cent to 41.1 per cent of GDP during said period.

Although it is inevitable the cuts will have a negative impact on certain sectors of the economy, it should also be noted that according the Mexico's National Institute of Statistics, public spending contributed in no way whatsoever to the country's 2.1 per cent year on year GDP growth and only 0.1 per cent out of the 1.4 per cent GDP growth in the year prior.

Furthermore, the National Council for the Assessment of Poverty (CONEVAL as known by its Spanish acronym) has repeatedly pointed out that many of the federal and local social development programmes (which are often redundant) are ineffective. This week there was a stark reminder of this point in the form of a new report produced by Oxfam, which revealed that the top 1 per cent of Mexico's population own 20 per cent of the country's wealth.