



OECD Economic Surveys

# Mexico 2024

Executive summary

February 2024



- Growth is resilient and nearshoring is bringing new opportunities
- Raising tax revenues and upgrading the fiscal framework
- Boosting productivity and fighting climate change
- Reducing inequalities and bolstering growth
- Improving housing and urban development



## About the OECD

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

## About the Country Studies Branch

The Country Studies Branch helps countries reform providing the best information and analysis. Our Economic Surveys assess a country's economic condition in a tailored way, with special features illuminating the most pressing challenges the country is facing. The Surveys set out concrete steps policymakers could take to deliver reforms to make growth work for all, making economies more resilient and raising well-being. We have been conducting Surveys for over 60 years, each one of them based on close engagement with national authorities. These relationships of trust enable us to gain insight into the reforms that improve people's lives. Our teams all have the 'reform state of mind', and our expertise, perspective and history help governments adopt it too.

The full book is accessible at  
**OECD ECONOMIC SURVEYS:  
MEXICO 2024**



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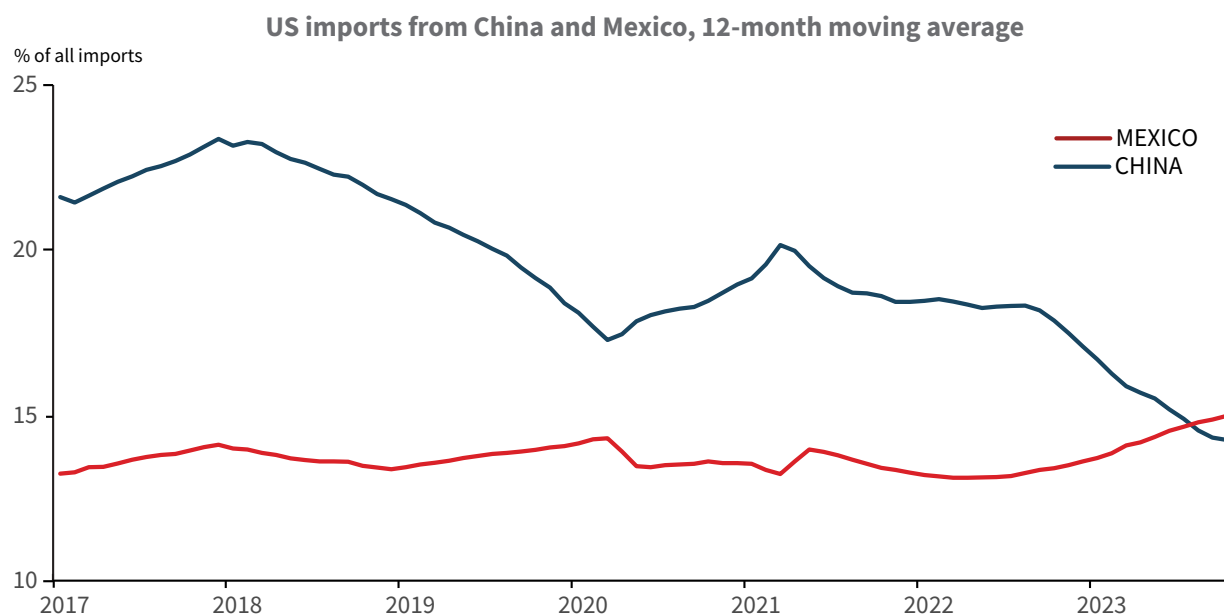
## GROWTH IS RESILIENT AND NEARSHORING IS BRINGING NEW OPPORTUNITIES

The economy is navigating well the uncertain global economic environment. Headline inflation is gradually receding, but core inflation is persistent. Mexico has started to benefit from nearshoring (Figure 1.), but fully harnessing its potential requires tackling long-standing challenges such as low productivity, and high inequalities.

**Growth has held up well thanks to a resilient domestic demand.** Consumption is supported by a strong labour market. Investment is trending up, supported by public infrastructure projects in the south and by private investment in machinery. Exports have kept their dynamism.

**Monetary policy reacted decisively to high inflation.** Headline inflation has softened and core inflation, while being more persistent, has also gradually fallen, although services inflation remain high. The strong appreciation of the peso has contributed to contain inflation.

» **Figure 1. Mexico has become the main import provider to the United States**



Source: UN Comtrade.



**GDP growth is expected to decelerate to 2.5% in 2024 (Table 1).** Domestic demand will sustain growth, while exports will suffer from the slowing in the United States. Headline and core inflation will continue slowing down. A sharper deceleration in

the United States and more persistent inflation than anticipated, requiring keeping rates high for longer, are key downside risks. On the upside the ongoing reconfiguration of global value chains could boost investment more than anticipated.

**Table 1. Macroeconomic projections**

Annual average growth, unless specified	2023	2024	2025
Gross domestic product (GDP)	3.1	2.5	2.0
Unemployment rate	2.8	3.0	3.1
Headline inflation index	5.5	4.1	3.2
Core inflation index	6.7	4.2	3.2
Public net debt (% of GDP)	46.8	48.7	48.6

Source: OECD Interim Economic Outlook database.





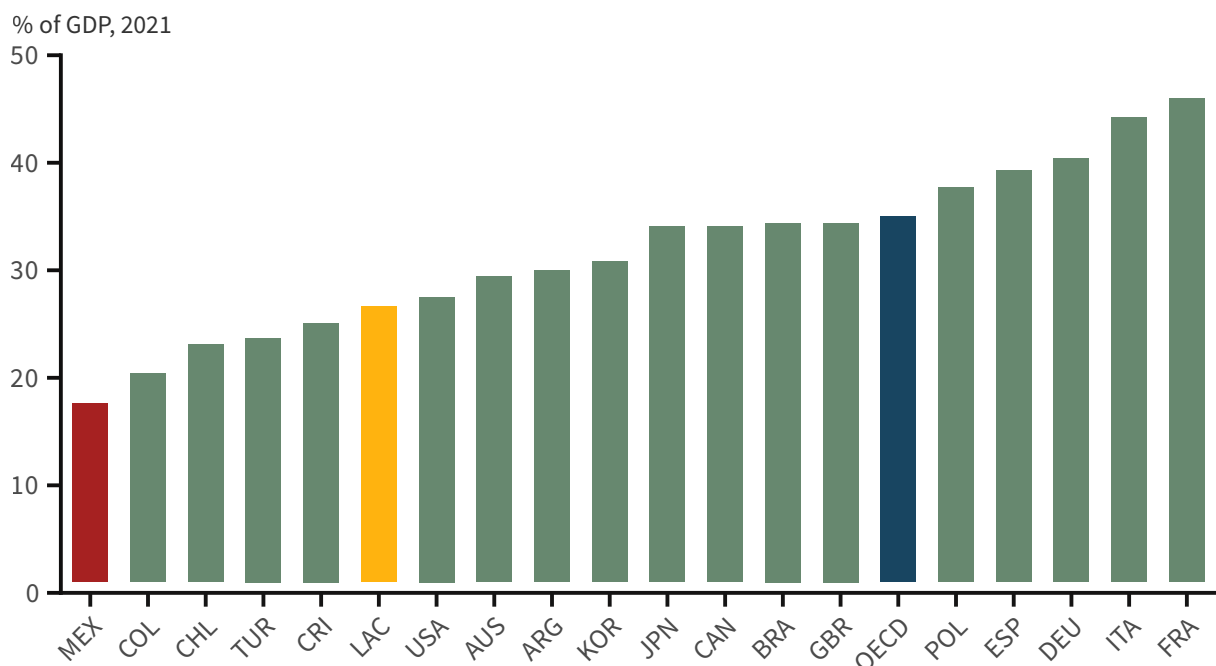
## RAISING TAX REVENUES AND UPGRADING THE FISCAL FRAMEWORK

Fiscal policy has a robust track record in attaining fiscal targets and keeping public debt low. However, higher tax revenues are needed to keep fiscal prudence and to address important spending needs in productivity enhancing areas, such as education, infrastructure, the digital and green transitions, and the fight against corruption and crime. Moreover, upgrading the fiscal framework would facilitate providing support during downturns.

**Mexico has the lowest tax-to-GDP ratio in the OECD (Figure 2).** There is room to raise more revenues from the property tax, environmental taxes and to make the tax system more effective and progressive by reducing tax expenditures benefiting the more affluent. Boosting public spending efficiency could also free up additional resources. This will require a more systematic use of cost-benefit analysis in infrastructure projects and systematic evaluations and wider use of means testing in social programmes.

**The fiscal framework's ability to deliver countercyclical fiscal policies is limited.** Existing fiscal rules encourage pro-cyclical fiscal policy, as they favour discretionary and sharp cuts in spending to achieve fiscal targets. The coverage of the spending rule is too narrow to smooth spending over the cycle. The lack of a medium-term budget framework implies an almost exclusive focus on next year's spending allocation and fiscal target during budget preparation and discussion.

**Figure 2. Tax revenues are low**



Source: OECD Revenue Statistics database.

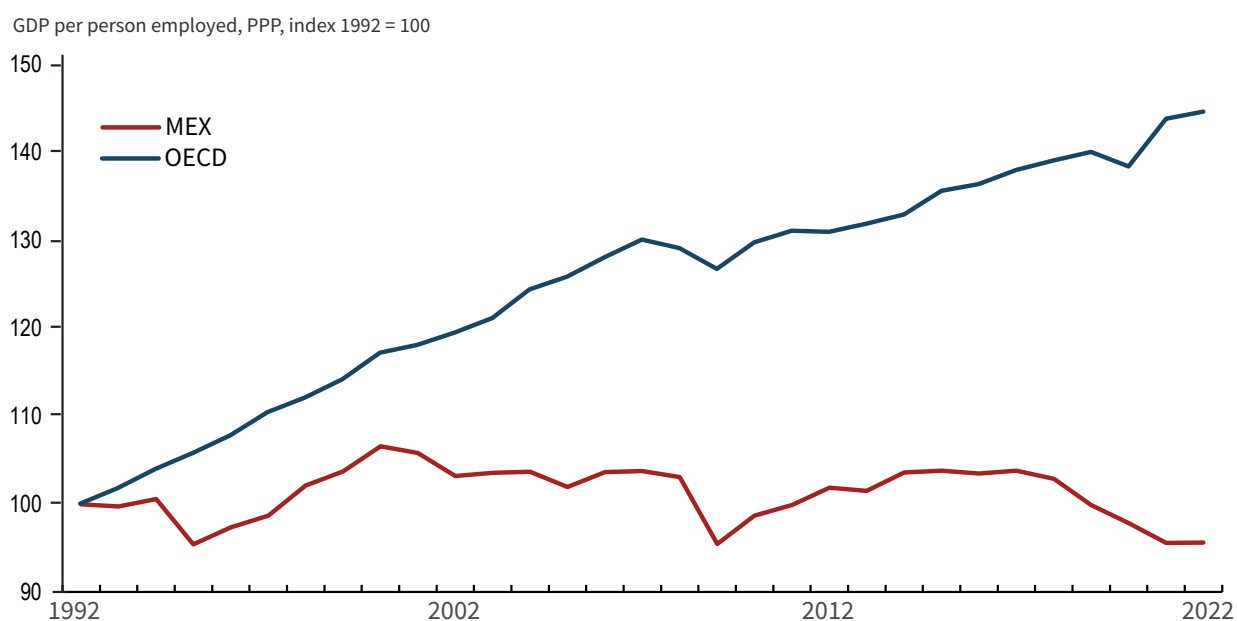




## BOOSTING PRODUCTIVITY AND FIGHTING CLIMATE CHANGE

Mexico has large potential to attract investment from companies looking to relocate their operations to North America. This is also a significant opportunity to spread the benefits of trade throughout the country, integrate SMEs more forcefully into trade and to create more and better value chain linkages. Fully harnessing these opportunities will require tackling long-standing challenges, such as low productivity (Figure 3), and shifting to renewables and improving water management.

» Figure 3. Productivity has been low



Source: OECD Productivity database.





**Boosting digital connectivity can help to connect regions and SMEs into trade.** Despite recent investments in digital infrastructure, many parts of the country still lack access to high-speed internet and other digital services, and broadband penetration is relatively low. Multiple government agencies and regulatory bodies are involved in overseeing different aspects of the sector. The telecommunications market is highly concentrated.

**Perceived corruption is high.** Mexico has been making efforts to fight corruption, including through the launch of a National Anti-Corruption System, but strengthening anti-corruption agencies, including at state level, remains a priority. Increasing the share of public procurement undertaken digitally and limiting direct awards of contracts could help to reduce opportunities for corruption.

**Making the most out of nearshoring requires shifting to renewables.** With global manufacturing activity increasingly seeking to decarbonize its production processes, Mexico's abundant renewable energy resources could be a substantial competitive advantage. However, the share of electricity generated from renewable sources remains low. Private renewables generation has suffered from high regulatory uncertainty. Mexico is highly vulnerable to extreme climate related weather events. Increasing the share of renewables in the energy matrix would significantly reduce emissions.

**Efficient water management would enhance the reliability of water supply and safeguard the country's limited resources.** By reducing operational risks and costs and promoting environmental sustainability, it would make Mexico an even more appealing destination for nearshoring. Water governance is highly fragmented, hampering policy coordination and accountability.





## REDUCING INEQUALITIES AND BOLSTERING GROWTH

Despite important improvements, inequality remains high in Mexico. Improving education outcomes and reducing gender gaps and informality would help to continue the recent fall in income inequality, while also strengthen the country's growth potential.

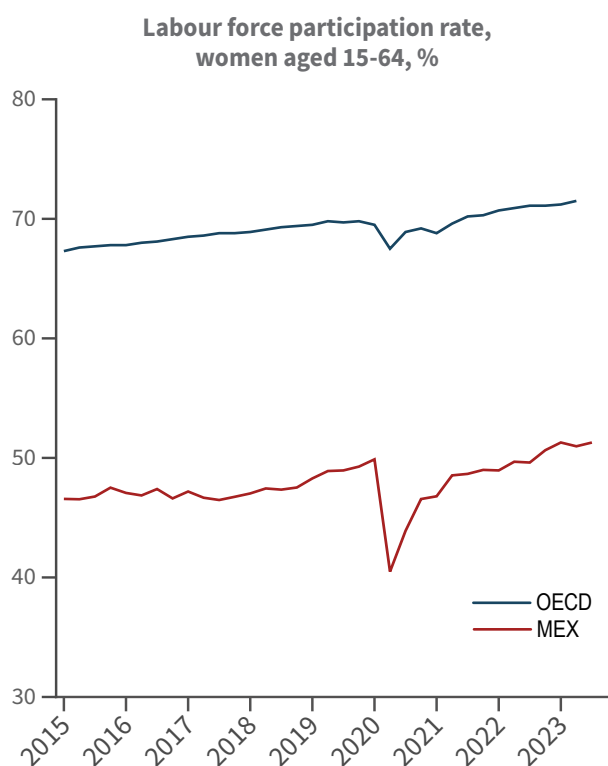
**Efforts to enhance human capital should be stepped up.** Access to education is nearly universal but still too many students leave the education system without completing secondary education. There is also a need to boost education quality, which suffers from large regional differences.

**Despite a recent increase, female labour participation is low (Figure 4).** Domestic and care responsibilities fall disproportionately on women, hampering their prospects to complete education or be in the labour force. Plans for establishing a federal early education and care network should be prioritised. Expanding elderly formal care services would also support female labour market participation at a limited budgetary cost.

**Recent labour market reforms have increased inclusiveness, but informality remains high.** Reforms to enhance conflict resolution, workers representation and collective bargaining are paying off. Actions are needed in different policy areas to reduce informality further, which affects more than half of the labour force.



**Figure 4. There is room to increase female labour market participation**



Source: OECD Short-term Labour Statistics.

## IMPROVING HOUSING AND URBAN DEVELOPMENT

**Housing supply has increased but quality is low. Around one dwelling out of four has poor construction material, is overcrowded, or lacks basic facilities. Purchasing a house is a challenge for low to middle-income households (Figure 5). Housing policies have become more targeted towards low-income households.**

**The size of the rental market is small and low-income households access to credit limited.** A strong preference for homeownership and a housing policy biased towards acquisition contribute to the limited size of the rental market. Access to credit by low-income households, where informality is prevalent, could improve by using alternative information (e.g. regular payment of utility or phone bills) to assess creditworthiness.

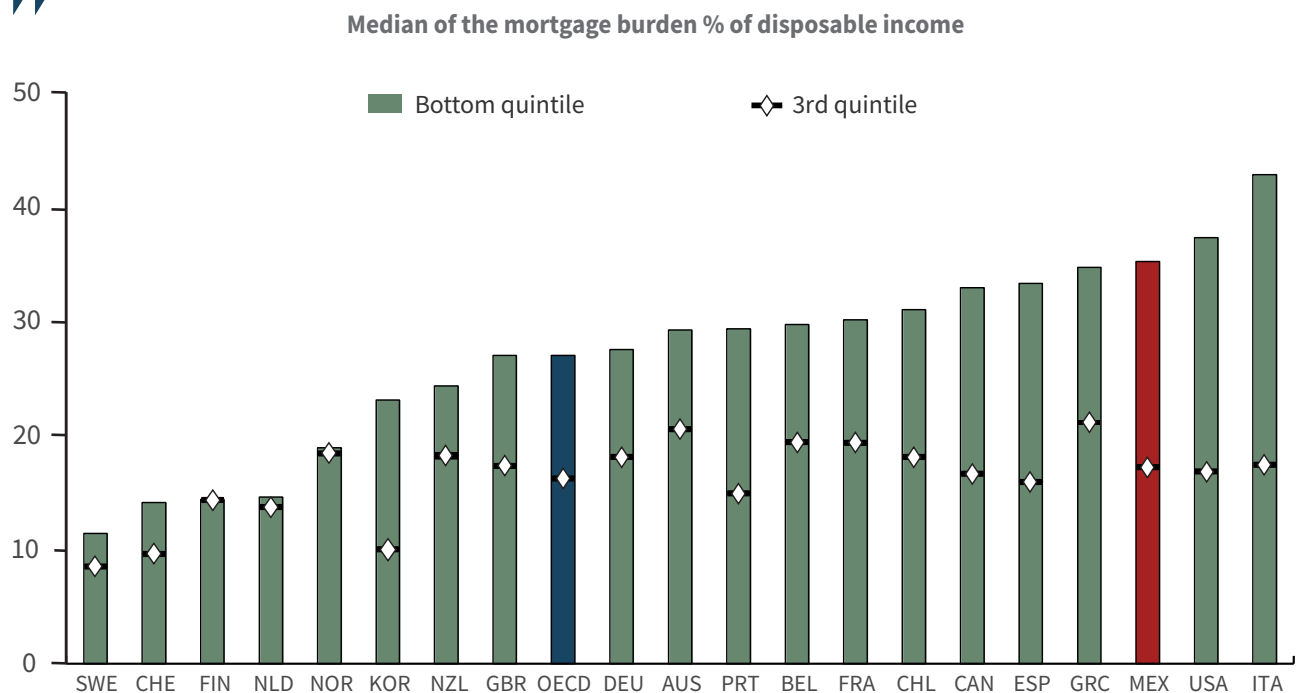
**Ensuring that housing and urban development policies are coordinated is key.** Administrative fragmentation prevents local policies from aligning

with national targets and weak inter and cross-government coordination provokes disordered urban development and spatial segregation. Municipalities often lack the technical capacity to attend the urban development challenges.

**Large commuting costs hamper access to jobs and living conditions.** Massive transport remains a marginal mode of transport in Mexico, except for Mexico City. The public transport system is based on a weakly regulated model with many small private concessionaires running low capacity and old-technology minibuses.



**Figure 5. The share of low-income households overburdened by housing costs is high**



Source: OECD Affordable Housing Database, 2020.



## ■ Main findings | ● Key recommendations

### FURTHER BUTTRESSING MACROECONOMIC POLICIES

- *Inflation has softened but services inflation is persistent and one-year ahead inflation expectations are still above target.*
  - **Keep monetary policy restrictive to ensure that inflation decreases durably towards its target.**
- *The fiscal stance for 2024 is expansionary, with social spending and public investment increasing. This could help to address social needs and support medium-term growth, but also increases the risk of high inflation.*
  - **Make fiscal policy less expansionary by targeting the increase of social spending and energy support measures towards low-income households and basing public investment projects on sound cost-benefit analysis.**
- *Public spending is low in international perspective. Spending on pensions is trending up, while spending in other key areas, such as education, has fallen as % of GDP. Measures taken to reduce tax evasion and fraud have supported tax collection but the tax-to-GDP ratio is the lowest in the OECD. There is room to increase the progressivity of the tax system.*
  - **Gradually increase public spending in productivity-enhancing areas, such as education, the digital and green transition and the fight against crime.**  
**Gradually increase tax revenues by:**
    - **fostering immovable property tax collection.**
    - **phasing out inefficient and regressive personal income tax exemptions and lowering the income threshold for the top rate.**
    - **gradually broaden the VAT base.**
    - **continue to facilitate tax compliance.**
- *The gains from higher spending in key areas would be maximised if more spending is coupled with more efforts to increase efficiency.*
  - **Make a more systematic use of spending reviews, of cost-benefit analysis in public infrastructure projects and of means-testing and periodic evaluations in social programmes.**
- *There is a strong commitment with fiscal prudence, but the current fiscal framework favors sharp reductions in spending to attain fiscal targets and its ability to provide support in the event of a negative shock is limited.*
  - **In the short-term establish a multi-year budget framework. In the medium-term replace the two balanced-budget rules with a debt anchor and widen the coverage of the expenditure rule.**
- *PEMEX is a large contingent liability for the government. Despite the favorable oil price environment and the continuous support from government, its situation continues to be challenging, as it faces negative free cash flow and large refinancing needs.*
  - **Condition any additional support on PEMEX putting in place a transparent and credible strategy to improve its ESG track record and align all SOEs governance with the OECD Guidelines on Corporate Governance of State-owned Enterprises.**

### HARNESSING NEARSHORING OPPORTUNITIES BY BOOSTING PRODUCTIVITY AND FIGHTING CLIMATE CHANGE

- *Many parts of the country still lack access to high-speed internet. Regional differences in digital connectivity are large. The telecommunications market remains very concentrated.*
  - **Streamline and harmonize e-communications regulations.**
  - **Maintain an independent and well-resourced telecommunications regulator and ensure that existing regulations to foster competition are fully applied.**
- *The regulatory framework is complex and implies high compliance costs, particularly for SMEs, due to differences in requirements and standards across states and municipalities.*
  - **Continue to deploy e-government platforms at state and municipal level to allow firms to submit and track all regulatory requirements online.**



## ■ Main findings | ● Key recommendations

- *Corruption perceptions remain high.*
  - **Continue to strengthen the fight against corruption, including by strengthening the resources, technical expertise, and independence of anti-corruption agencies, including at the state level.**
- *The bulk of primary energy use comes from fossil fuels. Mexico's renewable resources potential are large and well distributed throughout the country. Regulation uncertainty undermines renewable generation. Transmission and distribution grids suffer from underinvestment.*
  - **Adopt regulations that promote private sector participation in renewables generation, ensure legal certainty and expand and improve electricity transmission and distribution infrastructure.**
- *The carbon price is well below the low-end estimate of climate-related costs of carbon emissions.*
  - **Gradually increase the carbon tax, broaden its base, and use part of the revenues to offset the effects of higher energy prices on low-income households.**

### REDUCING INEQUALITIES AND BOLSTERING GROWTH

- *Too many students leave the education system without completing secondary education. There is room to increase education quality and to reduce regional inequalities*
  - **Identify students in need of support, provide them with targeted tutoring and assess and resolve teachers training needs.**
- *Despite a recent increase, female labour force participation, at 50%, lags participation in OECD and other Latin America countries. Domestic and care responsibilities fall disproportionately on women.*
  - **Establish a federal network of early education and care facilities giving priority to low-income households.**
  - **Expand elderly formal care services, including home- and community-based care.**
- *55% of workers are informal, hindering well-being and productivity.*
  - **Pursue a comprehensive strategy to reduce informality, including by providing income support to low-income households through the personal income tax or reducing firms registration and licensing costs at state and municipal level.**

### IMPROVING HOUSING AND URBAN DEVELOPMENT

- *Social rental housing is marginal.*
  - **Support the creation of a social rental housing sector by setting up an adequate funding strategy and strong legal and regulatory frameworks.**
- *Coordination and cooperation across levels of government is weak and hampers the implementation of national urban and housing policy.*
  - **Task states with ensuring that municipalities comply with federal and state urban and housing laws.**
- *Public transport is expensive, inefficient, and polluting, commutes are long and access to basic services difficult.*
  - **Set quality standards and environmental criteria for public transport and promote an integrated transport system in metropolitan areas.**





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