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MEXICO'S RESPONSE TO THE CRISIS

Severe recession and deteriorating labour market

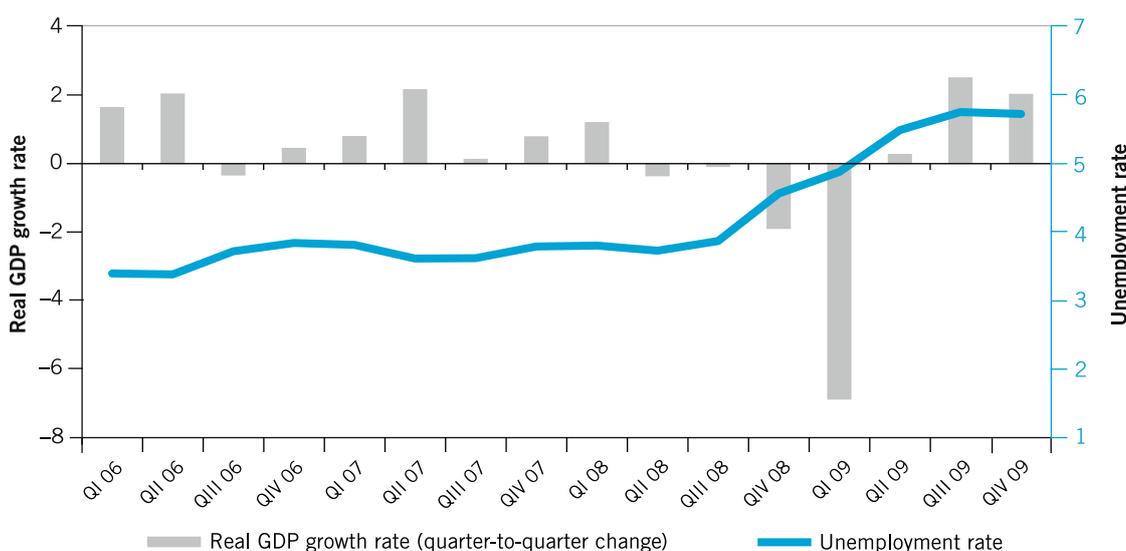
The Mexican economy experienced moderately strong growth during the pre-crisis period of 2004-2007, as real gross domestic product (GDP) expanded by about 4 per cent a year. Amid national and international economic uncertainty, GDP began to contract in the second and third quarters of 2008, followed by steep declines, particularly in the first quarter of 2009, when output was down by 6.9 per cent compared with the previous quarter. Growth in GDP returned in the second quarter of 2009 and picked up later that year.

In 2008, Mexico recorded growth of about 1.5 per cent, while in 2009 the economy contracted by 6.5 per cent. The decline in GDP reflects a number of factors, including lower oil prices, reduced exports, the outbreak of A (H1N1) influenza, declining tourism and lower remittances from workers abroad.

The economic contraction quickly passed through to the labour market. Prior to the crisis, the number of formal workers registered by the Mexican Social Security Institute (IMSS) increased between 2006 and 2007 by 560,926, of whom 84 per cent got permanent jobs. Between 2007 and 2008 job creation decelerated to half this pace, with 279,619 new formal jobs registered. The recession led to a loss of formal employment and by June 2009 the number of formal full-time and temporary workers registered by the IMSS had declined by 596,200 compared with a year earlier, of whom 94.4 per cent were full-time workers. The rate of job loss has slowed since July 2009 and by January 2010 total formal employment was 17,623 lower than January 2009. The fall in total employment occurred in several economic sectors, but it was especially severe in manufacturing.

Despite moderately strong economic growth in 2006 and 2007, the unemployment rate remained virtually unchanged at 3.6 per cent and 3.7 per cent, respectively. In 2008, unemployment crept up to

Figure 1. Real GDP growth rate and unemployment rate, by quarter, 2006–2009 (percentage)



Source: INEGI. Data are seasonally adjusted.

4 per cent of the economically active population. The recession pushed up unemployment sharply to an historic high of 6.3 per cent in August 2009, or nearly 3 million people. The rate for women rose to 6.2 per cent from 3.8 per cent a year earlier, while for men it increased to 5.6 per cent from 3.9 per cent.

Underemployment in Mexico, defined as the share of the employed population that desires more hours of work, reached slightly over 4.8 million people during the second quarter of 2009, a rise of 1.8 million compared with the same quarter of the previous year. The number of underemployed as a percentage of total employment increased by 3.5 percentage points from the second quarter of 2008 to the second quarter of 2009, growing from 6.5 per cent to 10 per cent. More men (10.1 per cent) than women (7.8 per cent) were underemployed in August 2009.

Broad-based stimulus

Among the main measures of the government's programme to mitigate the adverse effects of the crisis in 2008 were the creation of the National Infrastructure Fund in February 2008 and the launch of the Programme of Support to the Economy, Investment and Employment in March. These two elements, together with an increased Federal Budget, formed Mexico's counter-cyclical policy strategy.

Faced with a significant deterioration of global growth, especially in the United States, an additional Programme to Boost Growth and Employment (PICE) was adopted in October 2008.¹ This integrated short-term measures to address the immediate effects of the crisis with structural measures designed to promote growth in the long term. The PICE provided a fiscal stimulus to the economy of 90.3 billion Mexican pesos (US\$6.39 billion),² equivalent to 0.7 per cent of GDP, and included measures to support small and medium-sized enterprises (SMEs), agriculture, housing and infrastructure.

Mexico's development banks (*Nacional Financiera* and *Banco Nacional de Comercio Exterior*) will contribute an additional amount of up to 35 billion pesos to boost SME development. The National Infrastructure Fund is providing support of 125 billion pesos over three years to initiate infrastructure projects – 35 billion pesos in 2009, 40 billion pesos in 2010 and 50 billion pesos in 2011. A Federal Programme of Support to Mass Transport was established to support urban transportation in major cities, involving additional investment in the sector of up to 17.5 billion pesos (US\$1.24 billion) for 2009, supported by the National Infrastructure Fund.

In addition to these measures, a comprehensive reform of the investment scheme of *Petroleos Mexicanos* (PEMEX) provides greater transparency regarding the agency's investments and facilitates the handling of such investments, while reducing administrative costs and increasing accountability. PEMEX will receive

an additional 12 billion pesos for investment in a new plant.

Due to the deepening impact of the international crisis on Mexico in the last months of 2008, the government adopted additional counter-cyclical measures. In early January 2009, the National Agreement for Family Economy and Employment (ANEFE),³ put into effect 25 measures to protect Mexican employment and the economy. These were grouped into five areas: support for employment and workers; support to families and households; support for competitiveness and SMEs; investment in infrastructure for competitiveness and employment; and promotion of a transparent and efficient public spending.

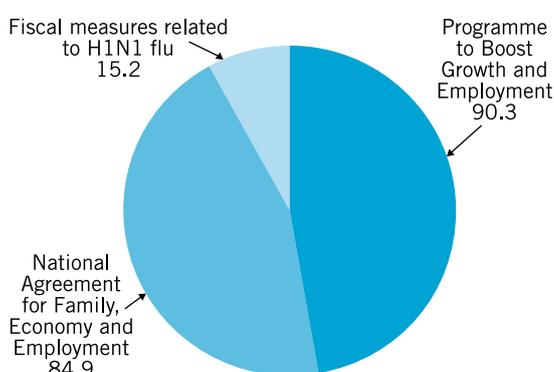
ANEFE involves a government stimulus to internal demand of 120 billion pesos, or 1 per cent of GDP.

On the employment side, the government expanded the Programme of Temporary Employment by 64 per cent with the aim of reaching expenditure of 2.5 billion pesos (US\$181.8 million) and generating 250,000 temporary positions;⁴ established the Employment Preservation Programme, with a contribution of 2 billion pesos to support businesses obliged to curb production and introduce work stoppages, mainly in the automotive sector; broadened social security coverage for unemployed workers through a government contribution of up to 2.6 billion pesos; and strengthened the National Unemployment Service. The latter involves a budget of 1.2 billion pesos.

The government also decided to support families and households through a grant of 750 million pesos for low-income families to replace their old domestic appliances with new, more energy-efficient ones, as well as increased credit support for families by 28 per cent. To enlarge income available to families and businesses, the price of gasoline was frozen and prices for liquefied petroleum gas were reduced by 10 per cent in 2009.

To boost competitiveness and SMEs, industrial electricity rates were reduced. In addition, the government decided to make at least 20 per cent

Figure 2. Composition of the fiscal stimulus package in 2009 (billions of pesos)



Source: Table 1.

of its purchases from SMEs in 2009. A credit line from development banks of up to 125 billion pesos in 2009 was made available to SMEs, representing an increase of more than 26 per cent.

Regarding infrastructure, the National Programme of Infrastructure was expected to foster public and private investment of 570 billion pesos in 2009. The Bank for Public Works and Services and the National Infrastructure Fund granted credits and guaranties of 45 billion pesos for infrastructure projects.

In addition, the federal government adopted measures aimed at ensuring efficient, timely and transparent public spending. These included a new Act on Government Accounting and the decision to accelerate implementation of approved expenditures in 2009.

In 2009, Mexico faced the H1N1 influenza outbreak. In this context, the government announced a recovery package of 15.2 billion pesos (US\$1.1 billion), aimed at aiding industries and companies badly affected by the flu outbreak. These resources came from a series of fiscal measures (table 1).

Expanded Temporary Employment Programme

The budget for the Programme of Temporary Employment (PET)⁵ was increased by 64 per cent in 2009, and its coverage extended to include urban areas in addition to the rural areas previously covered. The programme grants temporary income for men and women aged 16 or older in periods of low labour demand and during natural emergencies through participation in family or community projects in the areas of health, education, conservation of cultural and archeological sights and building rural roads.⁶ The amount of time spent in such work depends on the type of project and must not exceed 132 working days per year.

Between January and December 2009, the PET carried out 22,466 projects, with an investment of 2.47 billion pesos, and 722,352 unemployed people benefited. The budget proposed for 2010 is 2.86 billion pesos.⁷

Table 1. Fiscal stimulus programmes of the federal government in 2009 (billions of pesos)

	Fiscal cost
Total	190.4
Programme to Boost Growth and Employment	90.3
– Programme of additional expenditure	53.1
– Compensation for lower revenues and major non-programmable expenditures	25.2
– PEMEX infrastructure projects	12.0
National Agreement for Family Economy and Employment	84.9
– Reduction in the price of gasoline, the price of liquefied petroleum gas and electricity fees	47.4
– Investment by PEMEX and federal states	30.0
– Programme for promoting the development of national suppliers and contractors for PEMEX	1.5
– Employment programmes (2.6), expansion of medical insurance (2.6), and programme for saving energy (0.8)	6.0
Fiscal measures related to outbreak of H1N1 influenza	15.2
– Compensation for decrease in tax revenues	10.0
– Reduction of overpayment made to a Single Rate Business Tax (IETU) against the monthly income tax (ISR)	2.0
– Reduction of 20% in employers' contributions to the Mexican Social Security Institute (IMSS)	2.2
– Partial offsetting of cuts in payroll and accommodation taxes (25%)	0.5
– 50% discount on air traffic-related taxes and 50% exemption from fees for harbourmaster services	0.3
– Establishment of a tourism promotion fund	0.2

Source: Secretaría de Hacienda y Crédito Público (SHCP).

Stronger National Employment Service

Since 2008, the National Employment Service (SNE) has operated emergency programmes designed to address the needs of people in employment contingencies due to natural, economic and/or social difficulties. In order to meet the needs of the Mexican population, the SNE has diversified, positioning itself as an instrument of dynamic employment policy, able to adapt to labour market demands and respond effectively and in a timely manner.

The SNE expanded its coverage and refocused its attention to address not only the unemployed and underemployed, but to include workers who are at risk of losing their jobs or whose income has been affected. New programmes added in 2009 led to the following: 5,078 people were employed in temporary compensation schemes; 37,819 people were linked into the SNE Temporary Employment Programme; 66,555 people were able to keep their jobs or income through the training of temporarily laid-off workers and programmes to support employment and the tourism sector.

Outlook and challenges

Following its sharp contraction in 2009, Mexico's economy is projected to return to growth in 2010, with the Bank of Mexico forecasting that GDP will increase by between 3.2 per cent and 4.2 per cent.

Employment creation in 2010 is not expected to be strong enough to make up for the jobs lost in 2009, and buoyant job creation is needed given continuing growth in the working-age population. The Bank of

Mexico estimates that between 300,000 and 400,000 jobs will be created in the formal sector of the economy in 2010. This is fewer than those lost in the recession, and much less than the growth in the population seeking jobs. As a result, the weak labour market will continue to pose challenges in 2010.

An integrated fiscal reform and agenda for competitiveness, growth, employment and poverty reduction is therefore important. The country's economic package for 2010 includes a 2.5 per cent rise in expenditure on social development. Increases for social security and assistance amount to 15 per cent and 21.9 per cent, respectively.

¹ SHCP: Programa para Impulsar el crecimiento y el empleo, Comunicado de Prensa, Octubre 8, México, DF, 2008 http://www.hacienda.gob.mx/SALAPRENSA/doc_comunicados_prensa/2008/octubre/comunicado_079_2008_08102008_184121.pdf

² Based on an exchange rate of US\$1=14.13 Mexican pesos. There are slight variations in the exchange rates used in this brief, reflecting currency fluctuations.

³ http://www.presidencia.gob.mx/infografias/2009/enero/070109_economia_empleo/index.html

⁴ The number of beneficiaries is actually likely to have been greater because of the focus on high-impact projects of a short duration and the high turnover among workers.

⁵ Ministry of Labour and Social Welfare (STPS).

⁶ The PET involves participation of a cross-section of ministries, which cooperate to generate employment. These include the Ministry of Social Development (SEDESOL), the Ministry of Environment and Natural Resources (SEMARNAT), and the Ministry of Communication and Transportation (SCT). The Ministry of Labour and Social Welfare (STPS) took charge of coordinating the PET in the beginning of 2009.

⁷ STPS: Información proporcionada por las dependencias operadoras del programa (SCT, SEDESOL y SEMARNAT)