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Statement by Mr. Chodos, Mr. Lischinsky, and Mr. Vogel on Mexico (Preliminary) Executive Board Meeting November 2, 2020

We thank staff for the report and Mr. Guerra and Ms. Arevalo Arroyo for their helpful Buff statement.

First of all, we would like to express our deepest sympathies to the Mexican people for the human losses during the pandemic.

Mexico´s preconditions to the pandemic do not seem to be the best. In this regard, it is important to underline that in recent years Mexico has posted tepid growth rates (something above 2 percent), which were aggravated in 2019 with a decline to 0.1 percent. One of the most visible declines observed this past year was a substantial decline of investment, particularly public investment. Meanwhile, Figure 12 indicates that poverty continues to be high, at more elevated rates than the LAC6 average and, for instance, high poverty and inequality go along with higher-than-average infant mortality rates.

As underlined in the staff report, the COVID-19 pandemic is exacerbating many of the country´s pre-conditions, which, of course, include economic and social dimensions. GDP will record a decline of 9 percent this year, set to partially recover at 3.5 percent in 2021. However, figures from August show that a recovery may be on track which could improve projections for next year, electricity demand and gasoline sales have increased, while manufacturing production is close to February levels and exports are at 97 percent of those for that month. The ratification of the agreement with the USA and Canada will further strengthen Mexico's trade.

As worldwide, the labor market will suffer critically in Mexico, although figures presented in Table 1 of the report (national unemployment only increasing from 3.5 percent in 2019 to 5.2 percent in 2020) probably do not seem to reflect the whole picture. In this regard, we assume that part of the explanation is related to the relevance of the informal sector (as the staff reports points out, progress toward reducing informality has been limited, falling just 3 percentage points over the past decade to about 56 percent before this crisis), which, meanwhile, would indicate that part of the population is not sufficiently covered by a social safety net. However, as the Buff statement points out, before the pandemic hit the country, the government's main efforts were directed to reprioritize public spending and promote inclusive growth with a strong focus on strengthening the social safety net while reducing inequality. Not less important is the reform of the pension system to allow access to a universal pension.

In general, we favor, as Mexico does now, a forceful response to the crisis, especially to strengthen the country´s health system and protect the most vulnerable sectors of society, with the focus on ensuring broad and timely access to the vaccine. This would avoid temporary effects ending up as permanent ones. In that vein, the report stresses that a stronger near-term support could help better combat the pandemic and its effects. All in all, until now the support of the economy is around 5.3 percent of GDP. Regarding the estimated costs of key recommended measures, we observe, for instance, that three-month support for people at risk of extreme poverty and for informal workers in hard-hit sectors (both at an estimated cost of 0.3 percent of GDP) may be insufficient given the expected prolongation of the crisis.

At the same time, we recognize that details and countries' idiosyncratic elements are not negligible at the time of assessing and recommending particular responses. In this regard, we find merit in Mr. Guerra and Ms. Arevalo Arroyo's statement that "these comparisons should consider the state of the health system in each country", "the very distinct nature of the economic disruption during a pandemic", and "that pre-existing social programs (e.g. cash transfer programs, among others) … should also be included as part of the COVID-19 response". Beyond Mexico's case, we consider that these comments and the country's own characteristics should be necessarily considered in the staff's bilateral surveillance.

Given Mexico's historical relatively low tax revenue, we share the staff's recommendation on the need to design and implement a credible medium-term tax reform, which could help to significantly boost public income and make the system more progressive. We agree with the authorities that announcing a tax increase during the pandemic is not advisable, but the report clearly underscores that the reform could be implemented once the recovery is well in hand. We also agree that a reprioritization of public spending would promote inclusive growth, which should comprise the introduction of a nation-wide unemployment benefits system.

We also note some differences regarding the monetary stance, that staff considered "modestly accommodative", while the authorities say that "Banco de Mexico has responded swiftly yet prudently to the COVID-19 shock". *Maybe staff could elaborate further on the authorities' concerns regarding the contrast between most G20 countries and Mexico on inflation dynamics and inflationary expectations.* Meanwhile, we welcome the resilience shown by the Mexican financial sector and are encouraged by the authorities' awareness of the need to continue monitoring any potential risks in the financial sector closely, in line with staff's recommendation.

With these comments, we wish Mexico and its people every success in these difficult times.