



Recent Economic Developments and the Maquiladora Industry

Everardo Elizondo

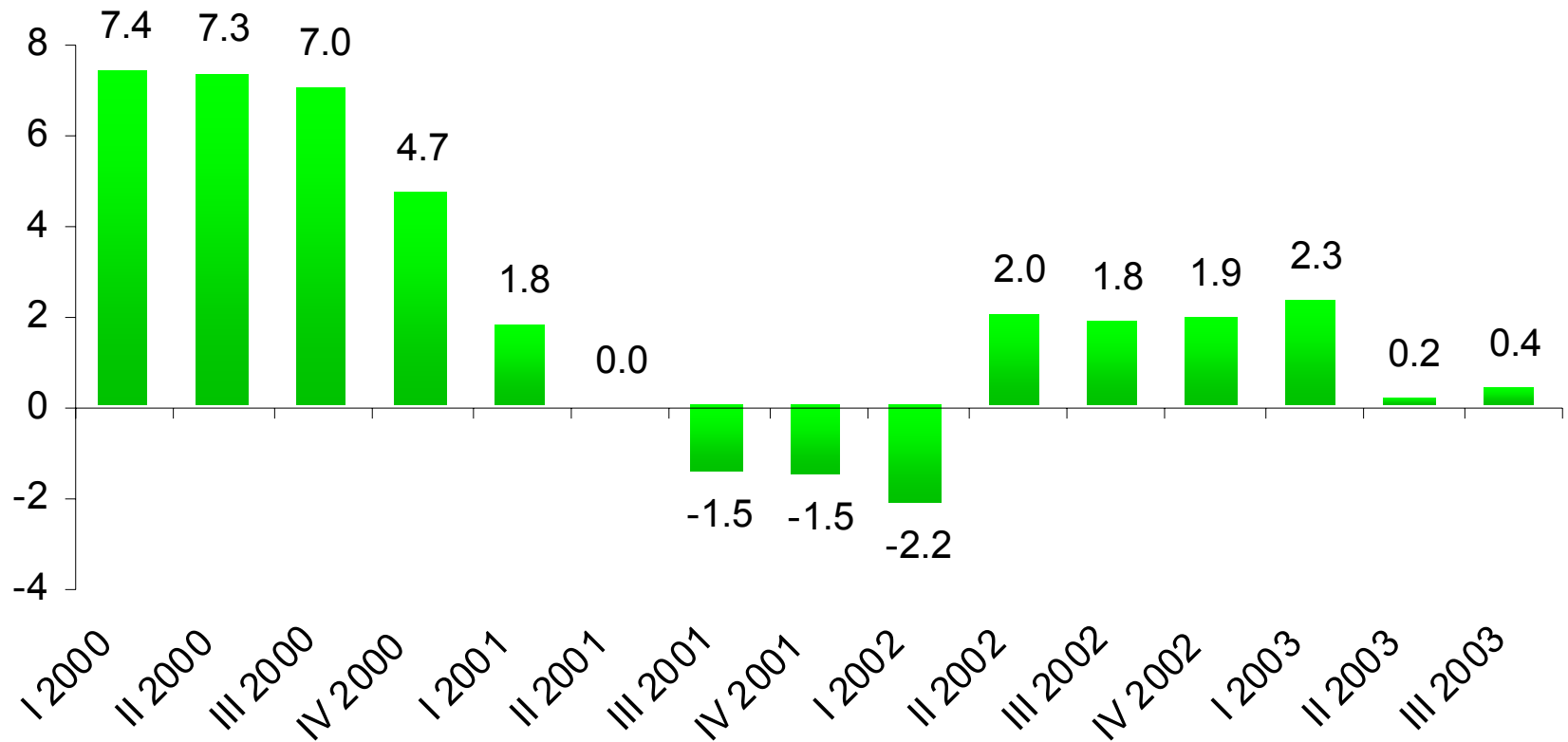
Deputy Governor, Banco de México

November 21, 2003

RECENT ECONOMIC DEVELOPMENTS

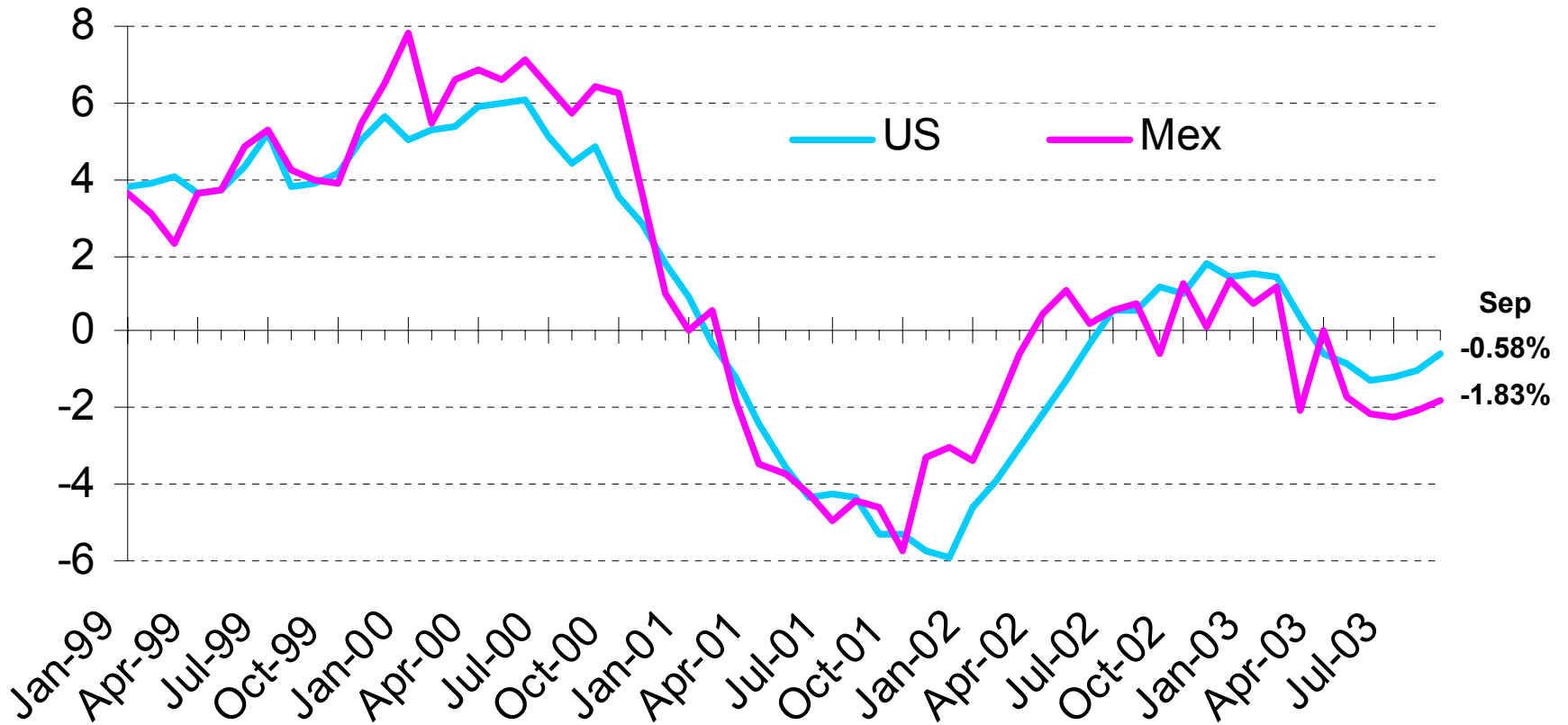
The Mexican economy shows no clear signs of recovery...

GDP growth, % yoy



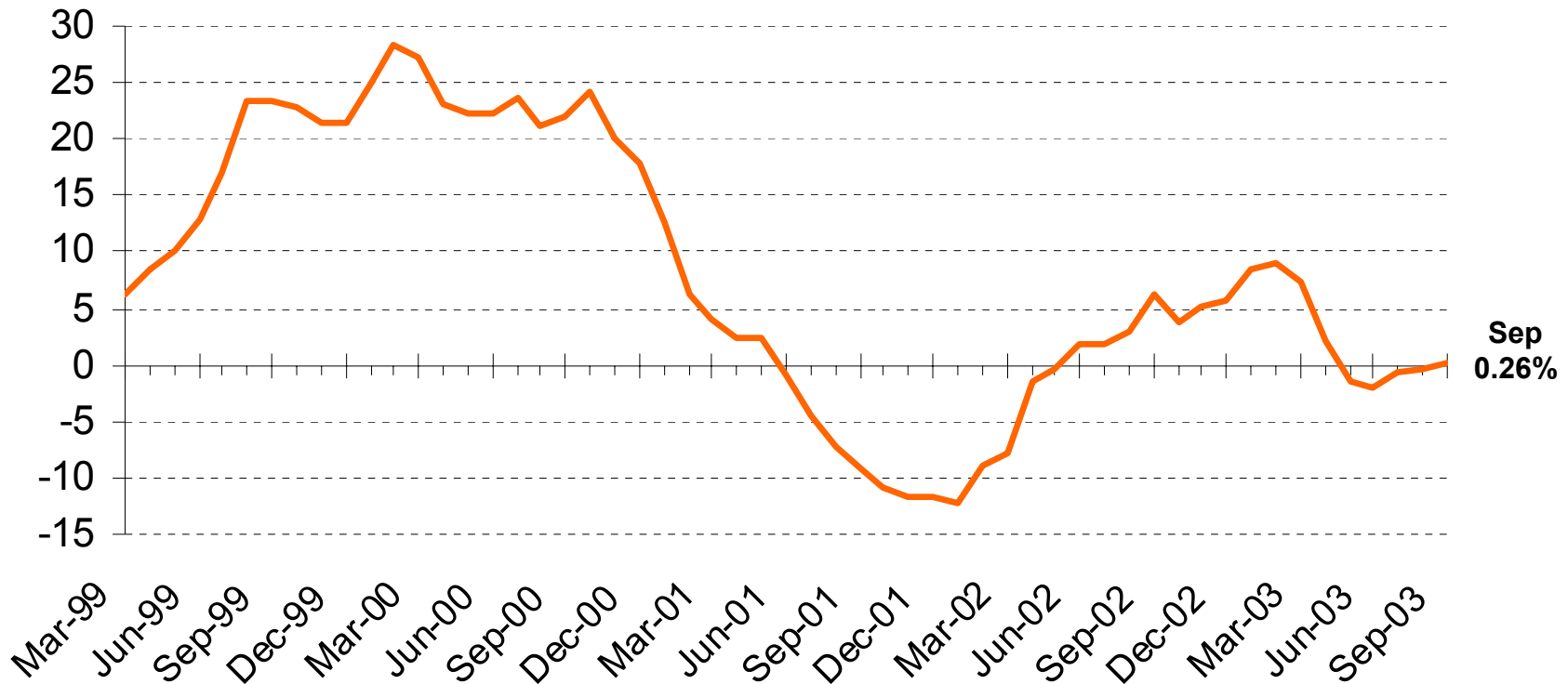
...but it seems that industrial production will follow that of US

Industrial production: Mexico and US, %yoy-sa



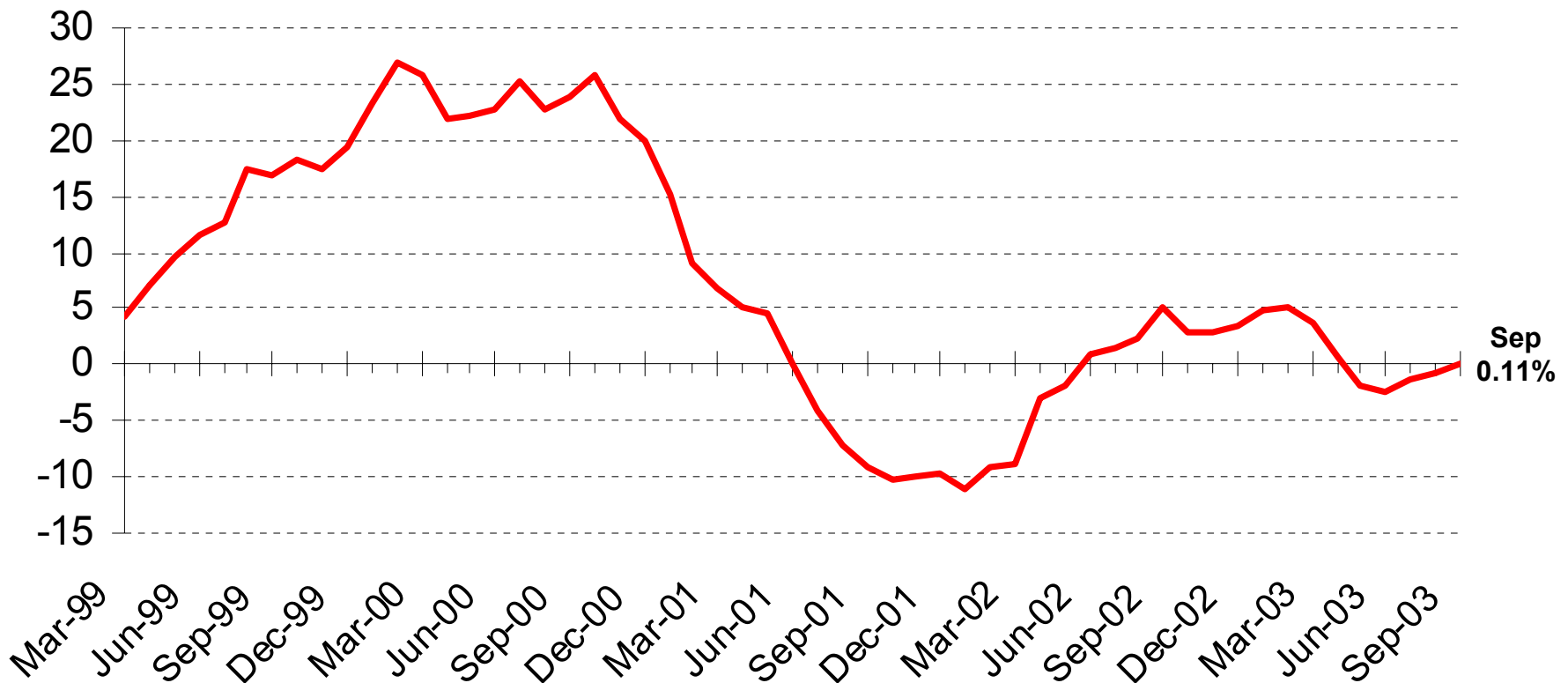
Exports have been affected by a weak external (US) demand, but the last readings suggest a light improvement

Total exports growth, 3mma, % yoy

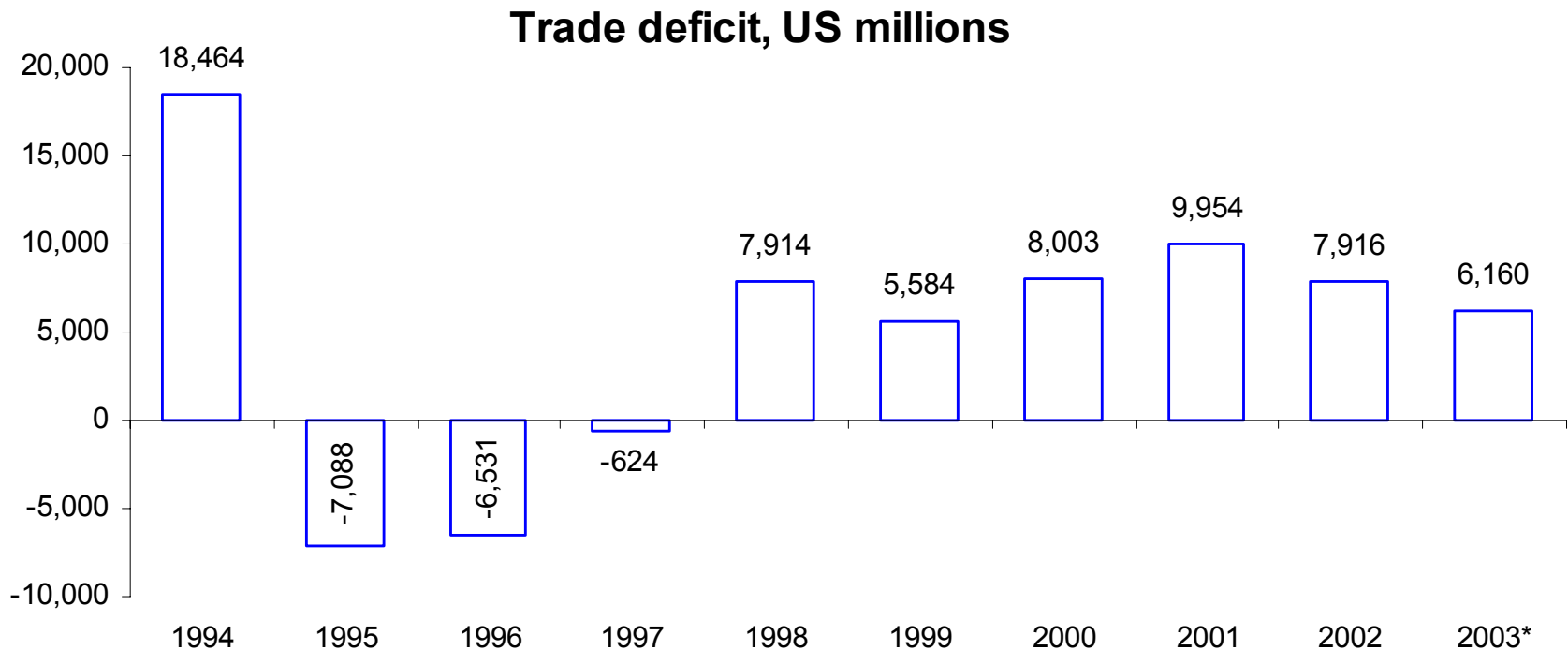


Imports have reflected a lackluster internal and external demand. They have shown some improvement lately

Total imports growth, 3mma, % yoy



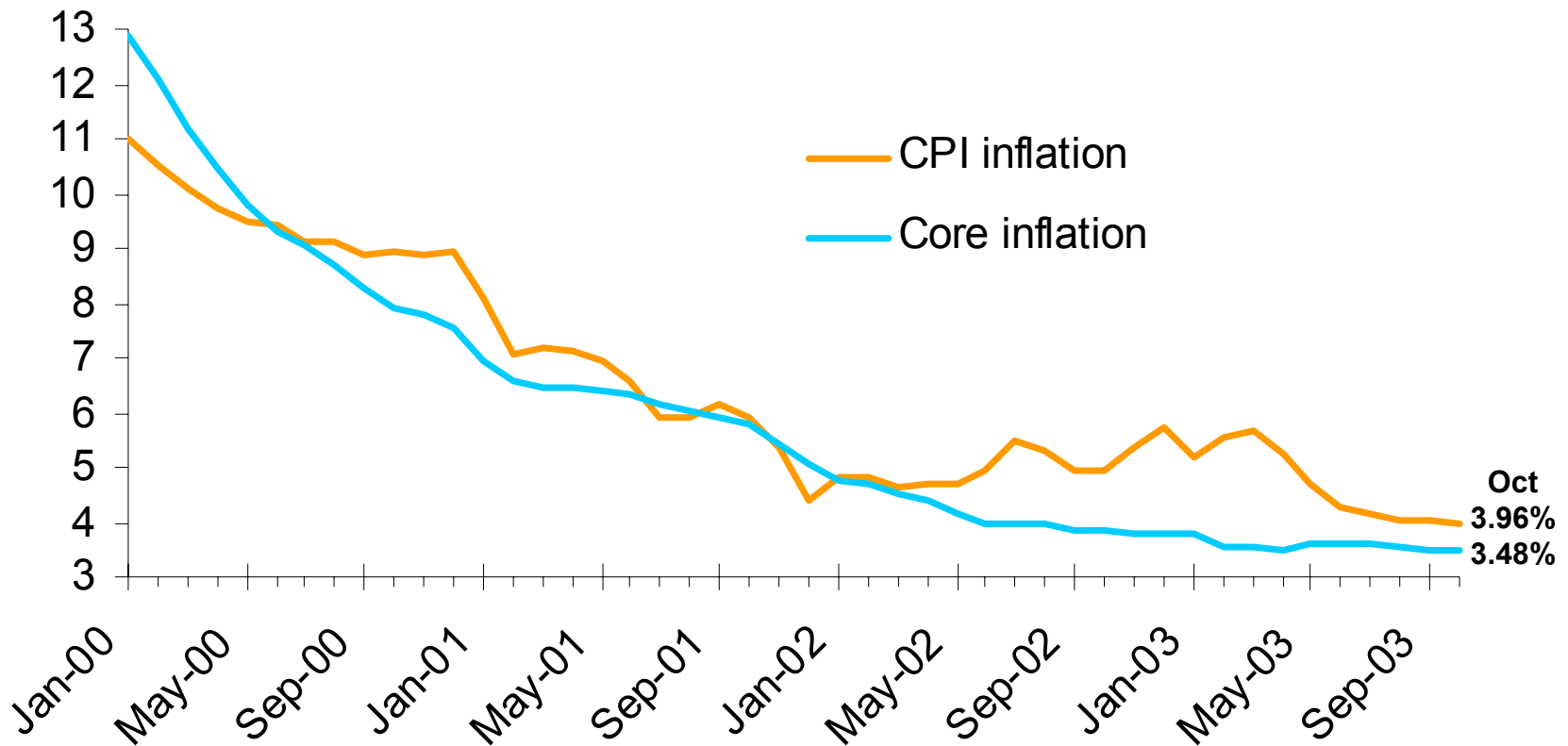
The trade deficit offers no reason for concern



* Expected, Banco de México's Consensus Survey, October 2003.

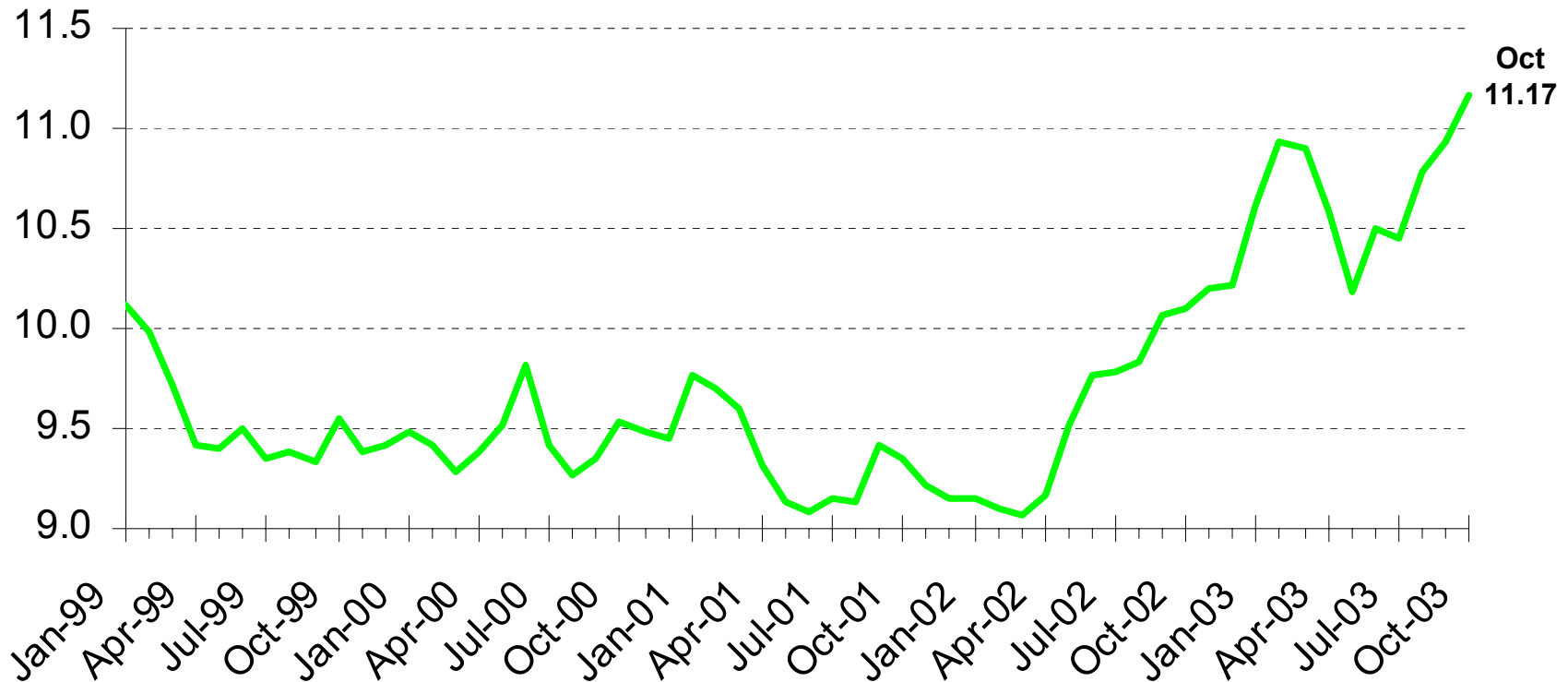
Inflation has been converging towards the 2003 official target (3%)

CPI and core inflation, %



The Mexican peso is freely fluctuating

Exchange rate,* pesos per dollar



* Sport exchange rate, daily average of the month.

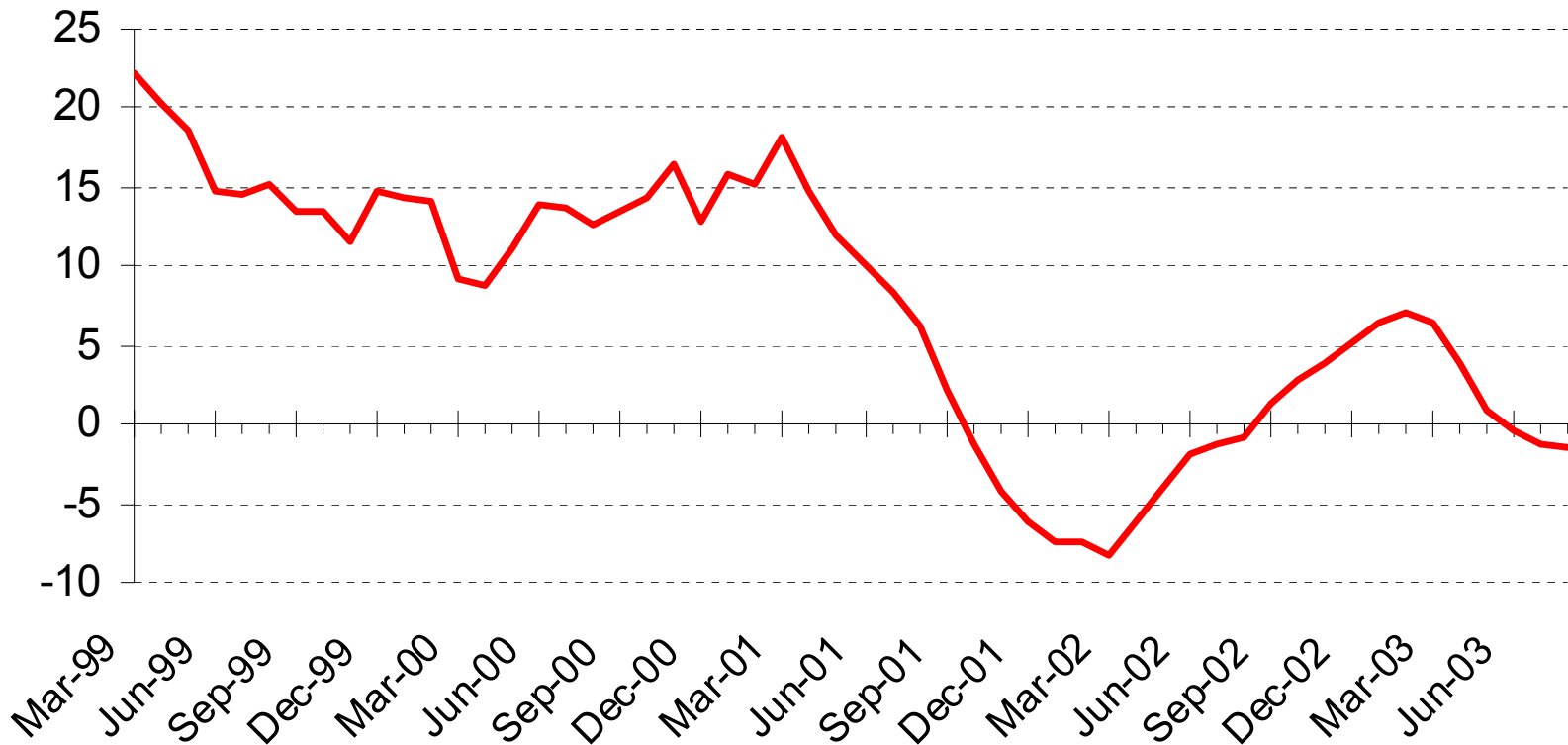
WHAT ABOUT THE MAQUILADORA INDUSTRY?


It has been hit by

- ① The US recession in 2001 and the slow recovery since then
- ② An increasing international competition, mainly from Asia
- ③ Loss of competitiveness and lack of reforms in the Mexican economy

There is light at the end of the tunnel (cyclical factors)

Value added of maquila exports, 3mma, % yoy





But the true challenge is competitiveness

- ❖ Structural reforms are required to improve comparative business environment in Mexico
- ❖ More specialization and better organization are needed to evolve into a difficult-to-beat industry. (The geographical advantage of Mexico won't disappear!)

FINAL REMARKS

Final remarks

- The Mexican economy is expected to gain from the current US recovery (a “pull” effect)
- Increasing competitiveness depends on “second generation” reforms
- The Maquiladora Industry will recover, but it faces a great challenge in terms of competitiveness



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