The Federal Reserve Bank of Dallas hosted a conference last fall that examined macroeconomic reform in Mexico and the challenges our southern neighbor faces as it seeks to become one of the world's leading emerging market economies. I encourage you to read more about themes presented at the conference—"México: How to Tap Progress"—in this edition of *Southwest Economy*.

Mexico has made significant progress and, in the process, demonstrated far greater fiscal discipline than the United States. The country's 2012 budget deficit was a respectable 2.6 percent of real gross domestic product (GDP), which compares with 7 percent in the United States. Its national debt is stable at 28 percent of GDP—a dramatic turnabout from the 1980s, when Mexico was a poster child for the Latin American debt crises—while here debt raced past $16 trillion in 2012, about 105 percent of GDP.

Mexico's banking industry is growing, and financial access, while still limited, is expanding quickly. In 2012, the number of banks increased 14.3 percent in Mexico while contracting 3.1 percent in the U.S. Inflation is trending down, and a steady peso has protected the purchasing power of the Mexican consumer. Reforms have resulted in the development of a peso-denominated bond market and falling interest rates on government debt.

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Admittedly, it's not all good news. Growth so far this year has been weaker than expected, and structural reforms have been slow to follow the macroeconomic reforms of the last 20 years. For example, regulatory changes in Mexico's energy sector could open ample natural resources to foreign investment and dispatch new technologies that could reverse declining oil production—much as hydraulic fracturing has done in the U.S. (To that end, I also encourage you to read this issue's "On the Record" interview with Greg L. Armstrong, chairman and chief executive officer of Houston-based Plains All American Pipeline LP and chairman pro tem of the Dallas Fed's Houston Branch).

With a macroeconomic foundation largely in place, the time is right to build. Additional structural reforms that include bringing more of Mexico's workforce into its formal economy and increasing competition in telecommunications and other key industries will take time to achieve but offer significant rewards. I look forward to the time when there will be another Dallas Fed conference—this one to assess Mexico's ascendancy.

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