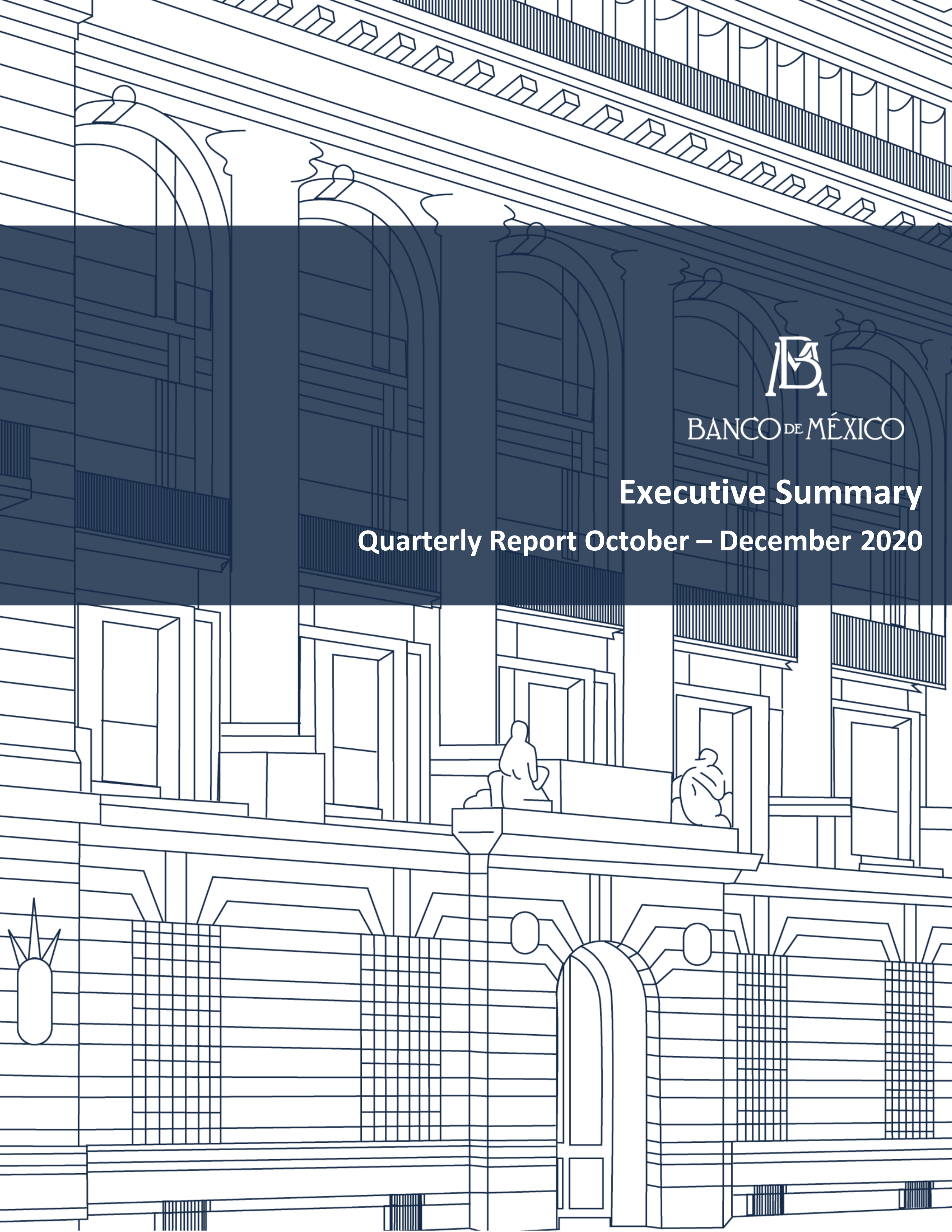

BANCO DE MÉXICO

Executive Summary

Quarterly Report October – December 2020

Summary

During 2020, the Mexican economy faced significant shocks and an environment of high uncertainty. This was mainly due to the impact of the COVID-19 pandemic and the measures implemented to contain its spread. Economic activity, inflation, and financial conditions in Mexico have been affected significantly by this adverse and volatile environment. In this context, Banco de México's strategy has been to implement monetary policy in a timely and prudent manner, taking into account all available information so that the policy stance leads to an orderly and sustained convergence of inflation to its target within the forecast horizon, and also that it contributes to an orderly adjustment in Mexican financial markets and economic activity. Additionally, given the complex current conditions, the Governing Board implemented a number of measures in line with the objectives of promoting a sound development of the financial system and the well functioning of the payment systems, and to strengthen the economy's credit provision channels.

The Box *Effects of Financial Conditions on Mexico's Economic Outlook* presents an estimation of the effects of the extraordinary measures implemented by Banco de México, announced on March 20 and April 21, 2020, on financial conditions in Mexico, as well as the implications of the latter on the economic growth outlook. A vector autoregression (VAR) model, through a counterfactual exercise, yields that financial conditions observed in 2020 are less tight than those that would have been registered if the aforementioned extraordinary measures had not been implemented. Afterwards, a growth-at-risk exercise shows that more favorable financial conditions contribute to reduce the probability of a more adverse growth scenario with respect to a scenario in which the extraordinary measures were not adopted.

During the period covered by this Report, world economic activity continued to recover, although at a more moderate and differentiated pace across countries and sectors. In addition, the recovery in many economies has been affected by the measures implemented to contain new COVID-19 infections. Higher frequency indicators suggest that this slowdown could persist throughout the first quarter of 2021, as lockdown measures continue in some countries. Regarding the outlook for the world economy, international organizations still anticipate that, after a significant fall in 2020, global GDP will recover in 2021, because of a greater dynamism expected during the second half of the year. The latter is partly due to the expected progress in the vaccination process against COVID-19 and also to the fiscal stimulus programs in some of the main economies. However, risks to world economic growth persist, such as the evolution of the pandemic and possible delays in the vaccination process, as well as to the continuation of the implemented stimuli, and possible effects on global supply chains. There are also longer-term risks associated to the effects of environmental degradation and the possible negative impact on potential GDP in some economies, among others.

In advanced economies, headline inflation has remained at low levels, below the targets of their respective central banks, while in emerging economies the performance of this variable has been more heterogeneous. Authorities have maintained and, in some cases, expanded their monetary and fiscal stimuli to mitigate the negative effects of the pandemic. The conclusion of the electoral process in the United States (U.S.), the expected continuation of countercyclical policies, as well as the progress in vaccine production and distribution have contributed to a favorable performance of financial markets during most of the period analyzed in this Report. Nevertheless, a rebound in volatility has been observed recently, along with increases in interest rates, mostly long-term ones, in advanced and emerging economies. This occurred in the context of a significant increase in longer-term interest rates in the U.S., associated with the expected approval of a considerable fiscal stimulus program and its effects on economic growth and inflation. In addition to the abovementioned risks to world economic growth, there are others that could affect international financial markets' stability. Among these, the following stand out: that possible distortions in asset prices would lead to imbalances and to an eventual correction; that the economic recovery in some advanced economies with a considerable fiscal stimulus would propitiate a rise in inflation; that the increase in long-term interest rates in the U.S. would tighten global financial conditions; that excess liquidity in international markets may revert in a disorderly manner; as well as the presence of risks associated with insolvency problems and firms' bankruptcies, and with the high levels of indebtedness in both public and private sectors.

During the fourth quarter of 2020, economic activity in Mexico continued to recover, although with a clearly heterogeneous behavior across sectors and components of aggregate demand, due to the type of shocks that have been faced. By the end of the reported period and the beginning of 2021, certain weakening was observed due to the intensification of the pandemic and the new restrictions to production and mobility implemented in some states to counter it. Even though progress in the development, production and distribution of vaccines against COVID-19 could support the recovery, especially during the second half of 2021, an environment of high uncertainty and weak domestic demand are foreseen to prevail in the short term.

The Box *Impact of the COVID-19 Pandemic on Sectoral Economic Activity in Mexico and in the U.S.* estimates, using econometric methods, the contribution of supply and demand shocks to the change in sectoral production in both countries. The results show the heterogeneous effects of supply and demand factors on economic activity at a sectoral level, during both the most critical moment of the pandemic and the recovery period.

During most of the period analyzed in this Report, financial asset prices in Mexico displayed a positive performance overall, which was mainly associated to the above described favorable global financial conditions. Government bonds' interest rates decreased, especially longer-term ones, and the Mexican peso appreciated. However, in recent weeks, interest rates, particularly medium- and long-term ones, increased, while the Mexican peso depreciated. This was associated with a significant increase in long-term rates in the U.S. Looking ahead, the possibility of additional episodes of risk aversion and volatility remains, which will depend on the evolution of the pandemic and on other idiosyncratic and external factors.

The Box *Evolution of Exchange Rate Volatility* analyzes the trajectory of said indicator in a group of emerging economies and its determinants for Mexico. The estimation of the first principal component of the term structure of volatility implicit in exchange rate options (or volatility curve) shows that the volatility of the Mexican peso has followed an orderly downward adjustment, which was also of a greater magnitude with respect to other emerging economies. Moreover, a vector autoregression (VAR) model yields that global risk aversion, economic activity in Mexico, and the interest rate spread relative to the U.S. are important drivers of the Mexican peso's volatility.

The evolution of inflation in Mexico has continued to reflect different shocks observed as a consequence of the pandemic. In particular, a combination of supply and demand shocks have led to a significant adjustment in relative prices, in which the inflation of merchandises has increased and the inflation of services has declined. As for supply shocks, the measures adopted to contain the contagions have led to disruptions in global supply chains and to production cuts, while production costs have increased. Social distancing measures have also resulted in a lower demand for certain goods, and, particularly, for various services, while the relative demand for food has increased. Thus, households' spending has shifted from services to certain merchandises. In a related manner, the pandemic and the measures to contain it have led to an ample slack in the economy, which in turn have put downward pressure on inflation. In the context of the health emergency, certain volatility in the prices of some products has also been observed, as that originated by *El Buen Fin* discount sales, or that coming from changes in the U.S. demand for food produced in Mexico. The Mexican economy also faced a financial shock, which was particularly sharp at the beginning of the health crisis and which implied an exchange rate depreciation. This shock has been fading out, although the observed exchange rate adjustment has given rise to inflation pressures, particularly in the case of non-food merchandises. Thus, the environment for inflation in Mexico remains complex, imposing significant challenges and trade-offs for monetary policy implementation.

The Box *Intensive and Extensive Margin of* El Buen Fin *Effects in 2020 on Non-food Merchandise Inflation* shows that the downward contribution of discount sales to November inflation in said goods was notably larger in 2020 than in 2019. The proposed quantification indicates that this result was influenced by both a greater share of goods with discount sales (the extensive margin), and larger discount rates (the intensive margin). Thus, the health crisis seems to have affected considerably the decisions by establishments regarding sales, since the period of discount sales was longer and greater discounts were offered.

In this context, between the third and fourth quarters of 2020, annual headline inflation in Mexico declined from an average of 3.90% to 3.52%, ending at 3.84% in the first fortnight of February 2021. The quarterly downward adjustment of headline inflation was determined by the lower levels of both core and non-core inflation. Annual core inflation decreased from an average of 3.94% to 3.82% in said quarters, locating at 3.84% in the first fortnight of February 2021. This reflects the reduction in the inflation of services as well as a certain decrease in the inflation of food merchandises, and some upward pressures on the inflation of non-food merchandises. In addition, the latter registered volatility associated with *El Buen Fin* discount sales. Meanwhile, non-core annual inflation decreased from an average of 3.77% to 2.62% between the third and fourth quarters, which was determined mainly by the lower inflation of energy prices, while inflation of fruit and vegetables decreased throughout the fourth quarter, and more noticeably in December. In January and in the first fortnight of February 2021, annual inflation of energy products increased, while inflation of agricultural and livestock products kept decreasing, making annual non-core inflation reach 3.85% during said fortnight.

Regarding monetary policy decisions, during the fourth quarter of 2020, Banco de México's Governing Board left the target for the overnight interbank interest rate unchanged at 4.25%, while in the February 2021 decision, it lowered said target by 25 basis points to 4%. In the November and December 2020 decisions, the convenience of making a pause to confirm the decreasing trajectory of both headline and core inflation towards the 3% target was taken into consideration, while in the February meeting, the Governing Board highlighted that it was necessary to foster an orderly adjustment that would allow a change in relative prices without affecting the price formation process and inflation expectations. The Board also noted that recent information allows for an adjustment in the monetary policy stance, maintaining inflation forecasts in line with the trajectory of convergence towards the 3% target. It mentioned that, looking ahead, monetary policy implementation will depend on the evolution of factors that affect both headline and core inflation, in their trajectories foreseen within the forecast horizon, and in their expectations.

The Governing Board has stressed that it will take the necessary measures considering additional information, in order for the reference rate to be consistent with an orderly and sustained convergence of headline inflation to the 3% target in the horizon in which monetary policy operates. It stated that it is necessary to safeguard the institutional environment, strengthen the macroeconomic fundamentals, and adopt the necessary actions on both monetary and fiscal policy fronts to enable a better adjustment of Mexican financial markets, and of the economy as a whole.

Regarding the macroeconomic scenario foreseen by Banco de México, the following stands out:

GDP growth: The economic recovery continued during the fourth quarter of 2020, at a rate slightly higher than that expected during the previous Report. Nonetheless, economic activity remains below the level registered prior to the health emergency and faces an environment of high uncertainty. As in other countries, since the end of 2020 the pandemic has intensified in Mexico, leading to new restrictions to some activities across different states, and which were extended to other states in early 2021. In addition, in February 2021 interruptions in power and gas supply were registered in some states, mainly in northern Mexico, associated with the freezing of gas pipelines in Texas, which has temporarily affected some activities, especially manufacturing. In the short term, the above is expected to have certain negative effects on the path of recovery. At the same time, favorable news on the development, production and distribution of vaccines against COVID-19 have allowed for a more positive outlook in the medium term, although challenges remain, especially regarding the vaccination process and its effectiveness.

In this environment, the outlook for GDP growth for 2021 in the baseline scenario of this Report is adjusted upwards from 3.3% in the previous Report to 4.8% in the current one, while expectations for 2022 are adjusted from 2.6% to 3.3% in the same comparison. Specifically, said adjustments derive both from a higher growth base at the end of 2020, and from a higher growth forecast for industrial activity in the U.S., which in the short term will be partially offset by a greater economic weakness in early 2021 given the evolution of the pandemic in Mexico (Chart 1).

As in the previous Quarterly Report, the baseline scenario includes an upper and a lower limit in the level of activity that reflect the high degree of uncertainty that still prevails. The trajectories of activity in the upper and lower limits are adjusted with respect to those presented in the previous Report under the following considerations: [1]

a) The upper limit assumes less weakness at the beginning of 2021 and, later, a faster recovery than in the baseline scenario. This, as a result of a lower effect on economic activity from the tightening of measures to contain the pandemic, a greater boost from external demand, as well as a greater reactivation of various economic sectors and of the labor market as compared to the baseline scenario. The latter could be related with a greater progress in the vaccination campaign, both domestically and internationally. Under this trajectory, GDP forecasts for 2021 and 2022 are 6.7% and 3.4%, respectively, rates above those of 5.3% and 2.7 % of the previous Report.

b) The lower limit assumes a greater impact on economic activity at the beginning of 2021. This, as a result of longer and deeper effects of the measures to contain the pandemic than in the baseline scenario, as well as the uncertainty regarding the continuation of fiscal stimulus programs in several countries. Under this trajectory, GDP forecasts for 2021 and 2022 are 2.8% and 3.0%, respectively, as compared to 0.6% and 3.8 % of the previous Report.[2]

It is worth noting that, under the baseline scenario, economic activity would recover to the level observed at the end of 2019 by the end of 2022. However, if the forecasts of the upper limit were met, said levels could be achieved by the end of 2021.

The performance of the economy remains subject to fluctuations, given that the pandemic is still ongoing and the dynamics will respond to the differentiated behavior of the components of demand and productive sectors.

As to the economy's cyclical position, after having continued to narrow during the fourth quarter of 2020, slack conditions are expected to remain wide throughout the forecast horizon, although gradually narrowing (Chart 2).

Employment: Based on the forecasts presented and on updated information about this indicator, a variation of between 250 and 570 thousand jobs is expected for 2021, as compared to that of the previous Report of between 150 and 500 thousand jobs. For 2022, a variation of between 390 and 590 thousand jobs is expected, as compared to the figures published in the previous Report of between 300 and 500 thousand jobs.

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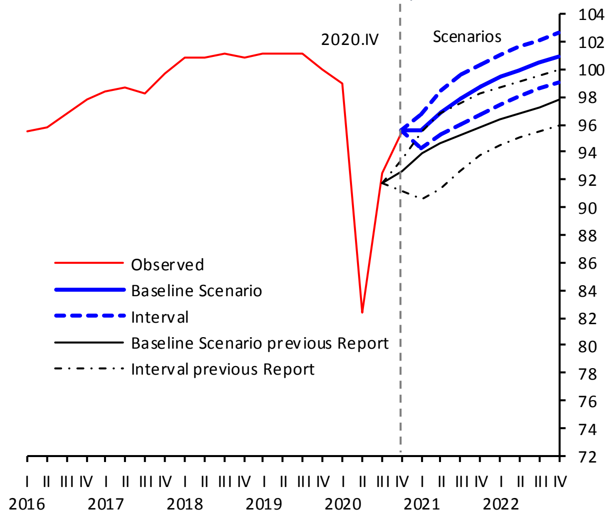
1 As can be seen in Chart 1, the level of economic activity in the forecast horizon at the upper limit is greater than that in the baseline scenario, and that the latter is, in turn, higher than that at the lower limit, each leading to the respective growth rates for the year as a whole. Although this ranking of levels of economic activity persists in 2022, given that the pace of growth across scenarios is similar in that year, the annual growth rates for that year tend to be similar.

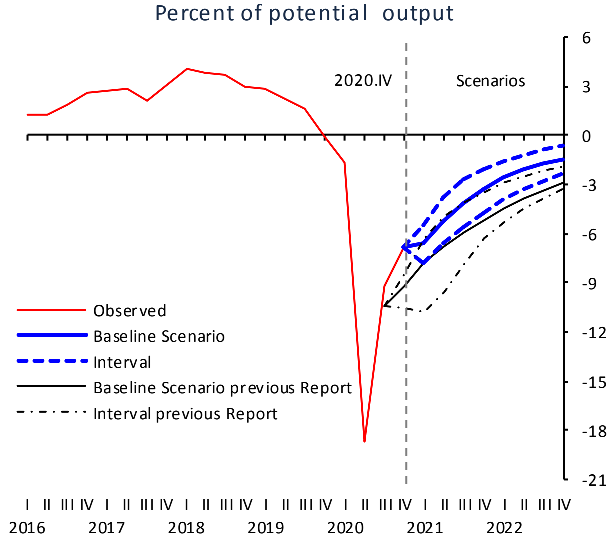
2 The economic activity levels of the lower limit in this Report are higher than those of the previous Report for the entire forecast horizon. However, the lower pace of recovery during 2021 vis-a-vis the previously assumed, leads to an arithmetic effect that reduces the growth rate for 2022 from 3.8 to 3.0%.

Chart 1
GDP Estimates
Index base 2019 Q4 = 100, s. a.



s. a. Seasonally adjusted figures.
Note: In the present Report the forecast begins in Q12021 The scenarios included in the previous Report began in Q4 2020.
Source: INEGI and Banco de México.

Chart 2
Output Gap Estimates, s. a.
Percent of potential output



s. a. Seasonally adjusted figures.
Note: In the present Report the forecast begins in Q12021 The scenarios included in the previous Report began in Q4 2020.
Source: Banco de México.

The Box *Labor Participation Rate in Light of the COVID-19 Shock* shows that the initial impact of the pandemic on men's and women's employment rates was similar. However, for different reasons, the recovery has been differentiated, with women's employment rates showing a more gradual improvement, both in terms of returning to the labor force and their employment.

Current account: In line with the activity forecasts described above, for 2021 a trade balance of between USD 1.5 and 6.5 billion (0.1 and 0.5% of GDP) and a current account balance of between USD -7.1 and 3.5 billion (-0.5 and 0.3% of GDP) are foreseen. These figures compare to those expected in the previous Report of a trade balance of between USD 1.0 and 9.2 billion (0.1 and 0.8% of GDP) and a current account balance of between USD -9.4 and 1.9 billion (-0.8 and 0.2% of GDP). For 2022, a trade balance of between USD -6.5 and -1.5 billion (-0.5 and -0.1% of GDP) and a current account balance of between USD -13.0 and -2.5 billion (-0.9 and -0.2% of GDP) are foreseen. These figures are compared to those foreseen in the previous Report of a trade balance of between USD -5.0 and 0.0 billion (-0.4 and 0.0% of GDP) and a current account balance of between USD -12.5 and -4.4 billion (-1.0 and -0.4% of GDP).

Risks for growth: Despite the recent announcements of progress in the development of several vaccines and the beginning of vaccination campaigns in various countries, including Mexico, the risks to the baseline scenario are considered to remain biased to the downside, although to a lower extent than in the previous Report. In particular, an environment of high uncertainty persists worldwide, given the high number of infections that prevail in several countries; that the details of the fiscal stimulus packages that could be implemented in the major economies are unknown; and that the domestic challenges faced due to the weakness of domestic demand and the labor market are still observed. It is worth noting that many of these risks could mutually reinforce each other. In particular, among the risks to the downside, the following stand out:

i. That social distancing measures are extended, or stricter measures are taken domestically and worldwide, leading to a greater or longer impact on economic activity; or that there are delays in the production, distribution or application of vaccines.

ii. That additional episodes of volatility in international financial markets are observed, affecting the financing flows to emerging market economies. This may occur as a result of episodes of greater risk aversion, due to an increase in long-term interest rates in the U.S., or a loss of investor confidence depending on the evolution of COVID-19 outbreaks worldwide.

iii. That the effects of the pandemic are larger than foreseen, or that its adverse consequences on the economy are more permanent.

iv. That additional downgrades to both the sovereign and Pemex's credit ratings are observed, which could affect the access to financial markets.

v. That the domestic environment of uncertainty that has affected investment persists, leading to a delay or canceling of investment plans, or that consumers reduce their spending in a precautionary manner.

vi. That an agreement is not reached regarding outsourcing regulation that allows to both protect employment and workers' rights, and to achieve an efficient and flexible labor allocation.

Among the risks to the upside in the forecast horizon, the following stand out:

i. That the pandemic fades in the short term, due to new treatments or the introduction, distribution and application of an effective vaccine, boosting confidence in the economy, and expectations of a vigorous recovery.

ii. That the stimuli granted internationally and domestically contribute to protect employment and the productive apparatus, to preserve global value chains, diminish systemic risks, restore consumer and investor confidence and, overall, to offset the aftermath of the pandemic and support the recovery of the global economy.

iii. That the recovery of external demand, particularly in the U.S., gives a greater-than-expected boost to exports.

iv. That the recent entry into force of the USMCA promotes higher investment levels than expected.

v. That, as has been observed in previous episodes, the ongoing election process leads to greater levels of aggregate spending.

Income from remittances and foreign exchange earnings from tourism account for an important part of the income of many Mexican households. The Box *Foreign Exchange Flows to Mexico and Measures to Support Mexican Migrants and their Families* shows that there is broad coverage of financial services for foreign exchange transactions in the country overall, although there are areas of opportunity to expand financial services in some regions of the country. Thus, the box describes the measures announced jointly by Banco de México and other competent authorities on February 8 of the current year to reduce the costs and risks associated with cash transactions and improve the exchange rate received by Mexican migrants and their families.

Inflation: The evolution of the pandemic and its effects on economic activity and financial markets imply that the environment for inflation in Mexico remains complex. In particular, it has enabled a significant adjustment in relative prices, due to supply, demand, and financial shocks. In this context, the expected trajectories of headline and core inflation in the forecast horizon are similar to those published in the previous Report, although with certain volatility for headline inflation largely associated with the anticipated behavior of annual variations in energy prices. In particular, annual headline inflation is expected to increase in the second quarter of 2021, mainly due to the arithmetic effects resulting from the fall of energy prices during the previous year. This effect would be particularly noticeable in April. The rise in inflation would be reverted in the third quarter, but a new increase would be observed by the fourth quarter, although of a lower magnitude. This behavior at the end of 2021 would be influenced by the comparison base effect of the greater intensity of *El Buen Fin* discount sales in

November 2020, which is assumed not to be of the same magnitude in 2021, as well as by the behavior of the annual variation of energy prices. The latter would reflect a comparison base effect and the forecast of a slightly increasing trajectory in its price levels. Subsequently, headline inflation would decrease in 2022. As compared to the previous Report, the current forecast incorporates an increase in energy prices, although this would be partially offset by the lower-than-anticipated increases in the prices of livestock and agricultural products, with said effects fading in 2022. Thus, annual headline inflation is still expected to be around 3% in the forecast horizon of 12 to 24 months (Table 1 and Charts 3a, and 3b).

Core inflation forecasts consider, on the one hand, that the exchange rate, despite recent pressures, is expected to be at slightly more appreciated levels than those considered in the forecast of the previous Report; on the other hand, that slack conditions are now foreseen to be narrower than in the previous Report, although they continue to be ample. Moreover, the effect of the 15% increase in minimum wages granted for 2021 is also incorporated, although it is expected to be limited given the weakness of the labor market and of economic activity. The indirect effects of the rise in energy prices on core inflation are also incorporated. These factors, which tend to offset each other, imply that the forecast for core inflation in the current Report remains at the levels anticipated in the previous Report during 2021, and is only slightly higher in 2022. Thus, core inflation is anticipated to be around 3% since the third quarter of 2021.

Chart 4 shows, for headline and core inflation, the rates for the annual variation and the seasonally adjusted annualized quarterly variation in the forecast horizon. As it can be seen, for core inflation both variation rates are expected to decrease in 2021. It also stands out that seasonally adjusted quarterly rates for that year are below the annual rates, which are affected for 12 months by the short-terms shocks that inflation may have been subject to.

The evolution of inflation and its different components continues to be affected by shocks of diverse magnitude and direction, which entails significant challenges and trade-offs for monetary policy implementation. Thus, the ample slack in the economy and changes in the composition of spending stemming from the COVID-19 pandemic, coexist along with pressures on input prices worldwide, with affected costs and value chains, and with an exchange rate adjustment with respect to pre-pandemic levels. In this context, the balance of risks for the expected trajectory of inflation just described is uncertain. In particular, the following risks stand out:

To the downside:

i. A greater-than-expected effect of the negative output gap, or additional social distancing measures that decrease the demand for goods and services.

ii. Lower inflationary pressures worldwide.

iii. An appreciation of the peso exchange rate.

iv. Energy prices below the expected figures.

v. Given the slack conditions in the economy, that wage revisions do not exert pressures on prices.

To the upside:

i. Core inflation pressures generated by the re-composition of expenditure.

ii. Episodes of foreign exchange rate depreciation.

iii. Cost pressures due to logistics problems, the implementation of sanitary measures, or upward wage revisions, or in hiring conditions that end up being passed on to consumer prices despite the ample slack in the economy.

iv. An increase in the relative demand and pressures on certain goods prices, in the context of the health crisis.

v. Energy prices lying at higher-than-anticipated levels.

There is still the possibility that additional shocks or nonlinearities associated with the impact from the current evolution of the pandemic are observed, which could affect inflation differently than what would be observed in less extreme circumstances. Thus, in an environment where slack persists, the pass-through of the exchange rate to prices could be lower than usual. Likewise, the resurgence of infections and new lockdown measures worldwide may affect the price of different inputs or finished goods, which may also affect the behavior of prices in Mexico. In a related manner, although some productive activities have been adapting to the new circumstances, the pandemic could continue to affect the terms, conditions, and costs at which various goods and services are supplied to the economy. In addition, pressures on public finances related to the pandemic could exert pressures on risk premia and the exchange rate.

Table 1
Headline and Core Inflation Forecasts
Annual change in percent

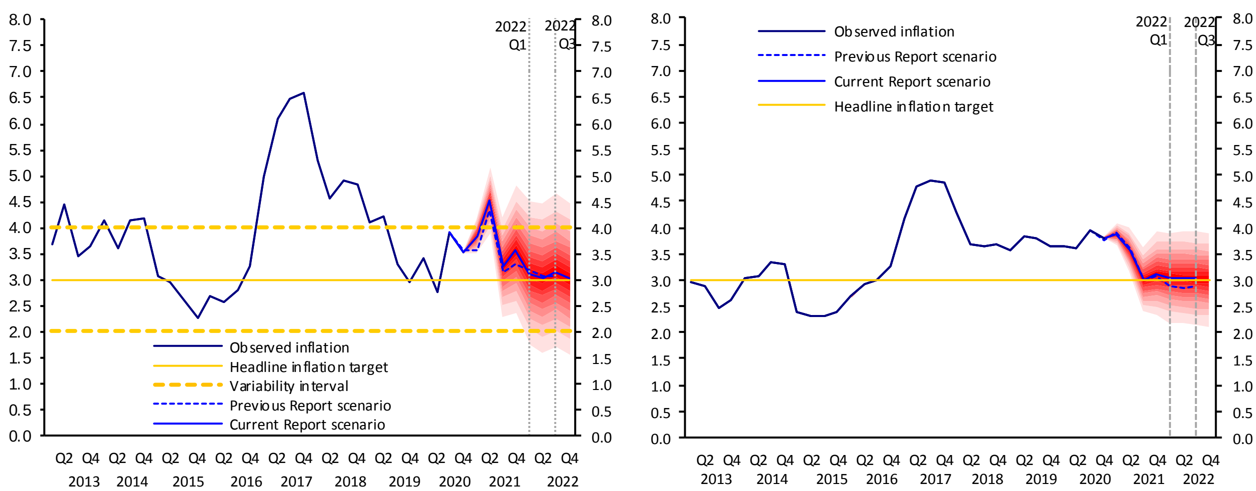
	2020		2021				2022			
	III	IV	I	II	III	IV	I	II	III	III
CPI										
Current report[1/]	3.9	3.5	3.8	4.5	3.2	3.6	3.1	3.0	3.2	3.0
Previous report[2/]	3.9	3.6	3.6	4.3	3.1	3.3	3.2	3.1	3.1	
Core										
Current report[1/]	3.9	3.8	3.9	3.6	3.0	3.1	3.0	3.0	3.0	3.0
Previous report[2/]	3.9	3.8	3.9	3.6	3.0	3.1	2.9	2.9	2.9	

1/ Forecast from February 2021.
2/ Forecast from November 2020.
Source: Banco de México with data from INEGI.

Chart 3

a) Fan Chart: Annual Headline Inflation[1/]
Percent

b) Fan Chart: Annual Core Inflation[1/]
Percent

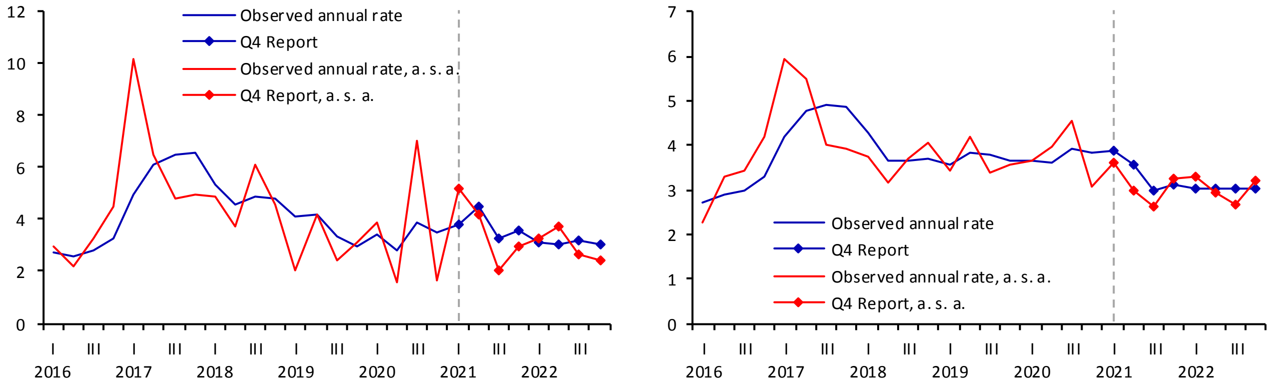


1/ Quarterly average of annual inflation. The next four and six quarters are indicated with vertical lines, using as a reference the first quarter of 2021, that is, until the first and third quarters of 2022, respectively, time frames in which the transmission channels of monetary policy fully operate.
Source: Banco de México and INEGI.

Chart 4

a) Headline Index
Quaterly variation, annualized and s.a., and annual variation in percent

b) Core Index
Quaterly variation, annualized and s.a., and annual variation in percent



s.a. seasonally adjusted figures.
a.s.a. annualized seasonally adjusted figures.
Vertical line corresponds to first quater of 2021
Source: Banco de México and INEGI.

Progress in the development of vaccines against COVID-19 has allowed several countries, including Mexico, to begin vaccination campaigns for their populations. This has improved expectations regarding the recovery and normalization of global economic activity, particularly in the medium term. However, the increase in the number of infections, both worldwide and particularly in Mexico, has implied new restrictions on mobility, and on the production of goods and services that could affect the performance of the economy, particularly in the first half of 2021. The production, distribution and application of vaccines on a large scale –including their acceptance by the population– represents a challenge both domestically and globally. Moreover, the more lasting implications and effects on the economy, and its potential growth, remain to be determined. In this context of high uncertainty, economic policy, including both the monetary and fiscal fronts, faces the challenge of supporting a widespread, sound, and speedy recovery of the economy and the labor market, while preserving solid macroeconomic fundamentals. Such reactivation also requires fostering the conditions to attract more investment, improve the perception on the country's business climate, and preserve and strengthen the institutional environment. In addition, the institutional and structural problems that have prevented higher levels of investment and productivity must be solved. Similarly, it is essential to allow flexibility in the allocation of resources and the microeconomic adjustments required to boost the reactivation of productive activity and employment in response to the effects of the health emergency. Finally, as underlined in previous Reports, efforts to strengthen the rule of law, fight insecurity, corruption and impunity, and ensure respect for property rights must also continue. All of these measures will allow to consolidate a faster and more orderly recovery in the medium and long term, and lead to a greater dynamism in the economy, thereby allowing better development opportunities, and a greater well-being for all the population.

The Box *The Reform to Mexico's Pension System: Potential Effects on Retirement, the Dynamics of Mandatory Savings, and Public Finances* describes the main elements of the pension system reform recently approved by Congress. The box shows that said reform will lead mainly to: i) a greater number of workers entitled to receive a pension; ii) a higher pension due to the increase of contributions to workers' individual accounts, and the flexibilization of the Minimum Guaranteed Pension; iii) a sustained increase of domestic savings, which would allow a greater availability of resources to finance productive projects in the long term; and, iv) a fiscal benefit for around two decades, and a moderate fiscal cost afterwards.

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