BANCO DE MÉXICO

Executive Summary

Quarterly Report April – June 2020

Summary

The COVID-19 pandemic has carried a high human toll and caused a significant economic impact worldwide, including Mexico. In this context, Banco de México continues to face a complex environment, in which the shocks of the pandemic have affected economic activity, inflation, and financial conditions in the country, with effects that span different horizons. Domestic financial markets were rapidly affected by the sudden increase in risk aversion, a situation that required a number of actions to ensure an orderly adjustment. On the other hand, the impact on economic activity and inflation has been materializing and it is expected to continue in a longer horizon. In particular, the pandemic and the measures for its containment have led to a deep contraction in the production of a broad range of goods and services, a significant fall in aggregate demand, and adjustments in relative prices. The weakness of demand will pressure inflation to the downside, while the exchange rate depreciation and supply disruptions are expected to affect inflation upwards. Thus, although the consequences of the pandemic on productive activity are clearly negative, and of great magnitude, the inflation outlook remains uncertain. In this adverse and volatile environment, Banco de México has conducted monetary policy in a timely and prudent manner, seeking conditions to preserve the domestic currency's purchasing power over time. Also, Banco de México has adopted several measures in line with its goals to promote the sound development of the financial system and the good functioning of the payment systems in the current juncture. In this manner, within the scope of its possibilities and goals, the central bank has contributed to mitigate the negative effects of the pandemic on Mexican households.

The international environment faced by Mexico during the period analyzed in this Report stands out by the deep impact on global economic activity of the COVID-19 pandemic and the measures adopted to prevent its spread. Available information indicates that after having declined sharply in March and April, the global economy began to show a slight recovery in May and June, albeit with a considerable heterogeneity across countries, depending on the evolution of the pandemic and the lockdown measures, as well as to the relative importance of the most affected sectors. For most of the period that this report covers, global economy growth forecasts by multilateral organizations and analysts were adjusted downwards. However, recently, such forecasts have exhibited some stability, anticipating a strong contraction for 2020 and a moderate growth for 2021. These forecasts are, nevertheless, subject to a high degree of uncertainty.

Social distancing measures imposed in most countries to cope with the COVID-19 pandemic have been necessary to contain its spread, although these have had important adverse effects on economic activity, by significantly restricting the population's mobility. The box *Effects of Lockdown Measures on Global Economic Activity* presents the evolution of mobility indicators in different economies and assesses the effect of the lockdown measures on some relevant macroeconomic variables. The results of this box suggest that a 1% reduction in mobility with respect to the levels prior to the pandemic translates into a 0.49% and 0.60% reduction in manufacturing activity and retail sales, respectively. Considering that mobility dropped drastically during the second quarter, the effects on economic activity and consumption were of unprecedented magnitude.

In this context, headline and core inflation in advanced economies remained below the targets of their respective central banks. In response, the latter have maintained interest rates at historically low levels and have continued using their balance sheets to foster an orderly functioning of financial markets, while in emerging economies several monetary authorities have continued to cut their policy rates and to adopt similar relief measures. Different countries have also announced additional fiscal stimulus measures to mitigate the negative effects on employment and the income of households and businesses.

The box *Developments in Inflation in Different Countries in the context of the COVID-19 Pandemic* shows that the health crisis has had relevant implications for inflation not only in Mexico, but in different countries too, both advanced and emerging. Downward pressures, such as those derived from reductions in energy prices, and upward pressures, such as those associated to higher food prices, have been observed in the analyzed countries. These shocks of significant magnitude, and in both directions (to the downside and to the upside), affect the reading of the development of inflation and the understanding of its possible path in the future.

In this context, considering the fiscal, financial, and monetary stimuli implemented in systemically important economies, global risk aversion was contained, and international financial markets recorded a recovery between the end of March and the beginning of June. Some factors added to the above, such as the gradual lifting of certain lockdown measures in some economies; the release of economic data, which revealed a slight recovery with respect to the historically low levels observed in March and April; and the news on progress in the development of treatments and vaccines to fight the COVID-19 pandemic. Nevertheless, due to the increase in new contagions in some countries, such as the U.S., China and Japan, episodes of volatility were registered in financial markets starting from the first half of June. More recently, said volatility has slightly declined in view of the new announcements of fiscal stimulus measures in some advanced economies and of the progress in developing a vaccine against COVID-19, among other factors, in a context in which monetary policy remains highly accommodative. In this environment, the balance of risks for global growth remains negative, above all, because of the possibility of imposing new lockdown measures in some economies that had already eased them previously. Consequently, new volatility episodes in global financial conditions cannot be ruled out, which would hinder economic recovery and generate greater risks to the financial system.

In addition to the direct risks generated by the evolution of the pandemic, others stand out, such as the high levels of indebtedness of the private sector, solvency problems in firms of the most affected sectors, a new escalation of trade tensions, the worsening of geopolitical and social conflicts in different regions of the world, uncertainty regarding the US presidential elections, and the risk of higher and more frequent economic and humanitarian costs derived from natural disasters.

The box *Recent Evolution of Monetary and Credit Aggregates in Different Economies* presents an international comparison of the dynamics of monetary aggregates and financing to the private sector in the aftermath of the pandemic spread. The analysis shows that the more liquid monetary aggregates have significantly accelerated both in advanced and emerging countries, mainly due to precautionary motives among households and businesses. Likewise, bank financing to firms has increased considerably in most analyzed economies, while financing to households has significantly decelerated in all countries under study.

In this context, Mexico has been affected by shocks derived from the COVID-19 pandemic, which have had an incidence on economic activity, and by a financial shock that was especially adverse in March. Regarding the latter, the country registered a considerable increase in global risk aversion, a fall in oil prices, and downgrades in the sovereign and Pemex's credit ratings, which in a very short term contributed to significant increases in interest rates and in risk premia, as well as to a considerable depreciation of the Mexican peso. Nevertheless, during the second quarter of 2020, financial asset prices in Mexico began to recover, in line with the previously described positive performance of international financial markets, and with the effects of the measures adopted by the Mexican authorities to preserve an orderly functioning of markets. Thus, government bond interest rates declined and the Mexican peso appreciated against the US dollar, although recently it has fluctuated in a limited range with some episodes of volatility. Despite the described recovery, financial markets have still not achieved pre-pandemic conditions. In this context, the uncertainty generated by the risks associated with the pandemic, the persistence of idiosyncratic risk factors regarding the country's fiscal

stance, and the sovereign and Pemex's credit ratings, among others, stand out.

The box *Evolution of Capital Flows and Risk Aversion* analyzes the recent changes in the relative importance of the determinants of capital flows to Mexico. The results obtained using a Vector Autoregression model show that the contribution of global risk aversion to capital flow dynamics increased in March 2020 as compared to the previous periods. Nonetheless, its relative importance decreased once again in the subsequent months. The results obtained using a panel model for emerging economies suggest that, in general, spreads between domestic and external interest rates have affected capital flows.

Regarding supply and demand shocks, their effects on the domestic economy operate over a larger horizon. Regarding the former, the measures adopted to contain the virus spread have implied the shutdown of production of different goods and services, thus affecting global value chains. In relation to the latter, the implemented social distancing measures, the population's fear of contagion, and lower businesses' and households' income, both at the international and national levels, have led to a significant fall in domestic and external demand, although the latter has recently recovered slightly. The health emergency has thus had strong repercussions on productive activity in Mexico, which during the second quarter of the year led to a strong decrease in GDP and to deep contractions of employment. In this context, looking ahead, greater slack conditions with respect to the estimate of the previous Quarterly Report are anticipated and considerable downward risks persist.

The box *The COVID-19 Pandemic and Economic Activity* uses regional heterogeneity regarding the severity of lockdown and social distancing to analyze the impact of a greater social confinement caused by the COVID-19 outbreak on economic activity in Mexico. The results show that although said measures have implied a negative impact on formal employment and households' consumption, they have also been related to a lower growth rate in the number of confirmed cases of this illness.

The effects of the COVID-19 pandemic on demand and consumption patterns, as well as the exchange rate shocks and supply shocks caused by this pandemic, have significantly determined the development of inflation during the reported quarter. In April, annual headline inflation reached 2.15%, its second lowest level on record. This largely resulted from sharp falls in energy prices, in a context of marked reductions in their international references. The fall in energy prices contributed to annual non-core inflation exhibiting negative figures for the first time on record in April. Likewise, annual rates of change of different services, such as tourism and restaurants, decreased as a result of the social distancing measures adopted to contain the spread of the pandemic. Thus, in April, downward pressures generated by said factors exceeded the upward pressures registered in the prices of some goods, such as certain food products, medicine, and household products, which exhibited a higher relative demand as a consequence of the lockdown. However, starting from May, annual headline inflation has increased, due to the following: i) international energy references have increased, and, accordingly, domestic energy prices, exerting upward pressure on non-core inflation, and ii) core inflation has rebounded. Regarding the latter, the evolution of the pandemic has generated adjustments in relative prices, with a recomposition within core inflation, as downward pressures have been observed in services prices and upward pressures in merchandise prices. Thus, core inflation lied at 3.62% during the second quarter and at 3.93% in the first fortnight of August. In turn, annual headline inflation lied at 2.77% and at 3.99% during said periods.

The box *Greater Volatility of Inflation and its Expectations in the Context of the COVID-19 Pandemic* presents evidence of how the fact that inflation is being subject to both upward and downward pressures has increased the dispersion of the rate of change of goods and services prices across the different sub-indices that comprise it. In turn, this has increased the uncertainty regarding the possible future path of inflation, generating greater dispersion in inflation expectations in the short term.

Regarding monetary policy decisions, since April 2020 to date, Banco de México's Governing Board lowered

the overnight interbank interest rate by 200 basis points. In particular, in an unscheduled meeting in April, as well as in the scheduled meetings of May, June, and August, the Board decided to reduce the reference rate by 50 basis points in each meeting, down to its current level of 4.5%. In the April decision, the Board considered the COVID-19-related risks for inflation, economic activity, and financial markets, which pose significant risks to monetary policy and the economy, in general. Moreover, it announced additional measures to foster an orderly functioning of financial markets, strengthen the provision of credit, and supply liquidity to foster the sound development of the financial system. In both May and June decisions, the Board considered that the challenges to monetary policy posed by the pandemic include both a significant impact on economic activity, and a financial shock. Hence, the Governing Board considered the risks for inflation, economic activity, and financial markets. In this context, the referred decisions were made based on the foreseen scenarios and considering the room for maneuver that, on balance, they provide to monetary policy. In turn, in the August decision, the Board highlighted that, looking ahead, the available room for maneuver will depend on the evolution of the factors that have an incidence on the outlook for inflation and its expectations, including the effects that the pandemic might have on both.

In addition to the above, and in order to mitigate the economic effects of the pandemic, the National Banking and Securities Commission (CNBV, for its acronym in Spanish) issued some temporary adjustments in its regulation. In this regard, the box *The Adoption of Special Accounting Criteria and their Effects on the Bank's Credit Portfolio to Non-financial Private Sector* shows that the implementation of said special accounting criteria, which allowed bank borrowers to partially or fully defer capital and interests payments for up to 6 months, result in an orderly evolution of the credit portfolio of the financial system. At the same time, the special criteria allow bank borrowers to better cope with the temporary shock generated by the pandemic and to maintain future access to credit.

Banco de México's expected macroeconomic outlook is the following:

GDP growth: The evolution of the COVID-19 pandemic is still in process, both internationally and domestically; thus, a high degree of uncertainty persists for any forecast of economic activity in Mexico. In particular, the pandemic's duration is still uncertain which, in turn, implies uncertainty about the duration and depth of the containment and social distancing measures that will need to be kept in place or about their medium- and long-term impact on the economy. Specifically, there are risks of additional outbreaks and it is still unknown when an effective treatment or a vaccine could be available. All of the above affects the time and pace at which the recovery and normalization of the country's economic activity can be expected. Additionally, the potential rebound might be uneven and intermittent, particularly from a higher frequency perspective and, as a result of the differences in the challenges faced for a full recovery, the dynamics among sectors and regions may be uneven.

In light of said uncertainty, as pointed out in the Quarterly Report of January – March, in the current juncture, it is not convenient to offer a central baseline scenario for economic activity, such as the one usually presented by Banco de México in its Quarterly Reports, given that such a scenario may suggest a higher level of precision than what the current environment or the available information allows. In this regard, considering different scenarios of the possible trajectories of economic activity in the country, such as those included in the previous Report, continues to be relevant in order to have a broad outlook of the possible behavior of GDP in 2020 and 2021. Thus, maintaining the approach of the previous Report and based on the available information, this document includes "type V, deep V, and deep U" impact scenarios that differ regarding the pace of recovery of economic activity. Given that more precise information is now available to determine the size of the shock on GDP in the second quarter, which, according to monthly data, showed its lowest level in May and certain recovery in June, the main difference among these scenarios lies in the duration of the effects and in the pace of normalization of economic activity from the third quarter onward (Chart 1):

In the type V impact scenario, the recovery observed in June –after the reopening of several sectors and the easing of certain social distancing measures– is assumed to continue at a high pace during the third quarter; thus, a significant rebound of economic activity is observed in said period, to continue afterwards with a gradual recovery in the rest of the forecast horizon. In this scenario, the variation of GDP for 2020 and 2021 is revised from -4.6 to -8.8% and from 4.0 to 5.6%, respectively.

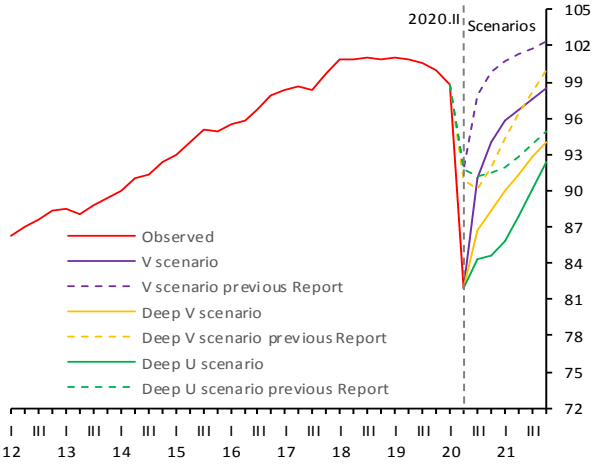
In the type deep V impact scenario, the assumption is that there will be a rebound of economic activity during the third quarter due to the reopening of activities, although lower than that expected in the previous scenario, and that a more gradual recovery is observed over the remaining forecast horizon, as a reflection of a possibly higher persistence of the pandemic in the country; of a gradual lifting of the measures adopted to face it; and a slow recovery of the global economy. In this scenario, the variation of GDP is revised from -8.8 to -11.3% in 2020 and from 4.1 to 2.8% in 2021.

Finally, in the type deep U impact scenario, the weakness of economic activity resulting from the shock during the first half of 2020 is assumed to extend during the rest of the year, due to a possible intensification of the pandemic or to a larger number of new outbreaks worldwide, in addition to more persistent effects on demand and supply. In this scenario, the variation of GDP is revised from -8.3 to -12.8% for 2020 and from -0.5 to 1.3% for 2021.

As more information about the dynamics of the pandemic and its impact on economic activity is available, it will be possible to determine the type of scenario that will materialize. It should be emphasized that the risk that economic activity follows lower or higher trajectories than the aforementioned persists.

As for the economy's cyclical position, under all scenarios, slack conditions are expected to remain considerably eased throughout the entire forecast horizon (Chart 2).

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

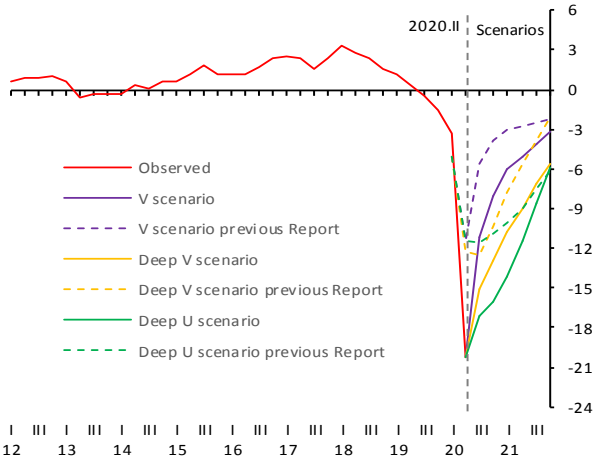


s. a. Seasonally adjusted figures.

Note: Part of the difference between the new trajectories compared to those in the previous Report is due to the modification of the seasonal adjustment model officially used by INEGI. In the scenarios of the present Report, the forecasts begin in Q3 2020, whereas the scenarios of the previous Report started in Q2 2020.

Source: INEGI and Banco de México.

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



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Source: Banco de México.

Employment: Although more information is available about the evolution of the number of IMSS-insured jobs, the uncertainty about growth expectations continues to lead, in turn, to uncertainty regarding its expected variation. Therefore, based on the preceding scenarios, a wide range of possible results for this indicator is presented. Thus, there could be a negative variation of between 1,100 and 750 thousand jobs in 2020, and a variation of between 100 and 450 thousand jobs for 2021.

Current account: The uncertainty about the performance of international trade and economic activity, both domestically and internationally, along with the volatility of the exchange rate, also lead to a wide uncertainty about trade flows and the other items of the current account. Therefore, similarly to the other forecast included in this Report, a wide range of expectations for the current account balance and the trade balance is presented. Thus, for 2020, there could be a trade balance of between USD 3.3 and 8.8 billion (0.3 and 0.9% of GDP) and a current account balance of between USD -6.0 and 5.0 billion (-0.6 and 0.5% of GDP). For 2021, there could be respective trade and current account balances of between USD -5.7 and 4.2 billion (-0.5 and 0.4% of GDP) and of between USD -18.1 and -2.3 billion (-1.5 and -0.2% of GDP).

Risks for growth: In an environment of marked uncertainty and where all scenarios incorporate a profound impact on economic activity, the various risks faced should be highlighted. Among the risks to the downside within the forecast horizon, the following stand out:

i. That, in order to avoid more infections or new outbreaks, social distancing measures are extended or stricter measures are taken, leading to a greater or longer than expected impact on economic activity, both internationally and domestically.

ii. That additional episodes of volatility in financial markets are observed due to a greater risk aversion or a loss of investor confidence depending on the evolution of the COVID-19 outbreak worldwide, or as a result of other events, such as the US electoral process or other geopolitical or international trade factors, that affect available financing flows to emerging economies.

iii. That the relief measures adopted both domestically and internationally are ineffective or lack sufficient scope to prevent more lasting changes in the productive apparatus as a result, for instance, of business bankruptcies or hysteresis in unemployment.

iv. That the effects of the impact of the pandemic on the economy are more permanent if, for instance, they imply disruptions to global value chains or greater protectionist stances in different countries.

v. That there is an additional downgrading of both the sovereign and Pemex's credit ratings, which may affect the access to financial markets.

vi. That the weakness observed even before the pandemic in the aggregate demand components persists. In particular, that the domestic environment of uncertainty that has affected investment persists, leading to a further postponement of investment plans or that consumers reduce their spending in a precautionary manner.

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

i. That the pandemic fades earlier than expected, possibly due to new treatments or the introduction of an effective vaccine, boosting confidence in the economy and expectations of a strong recovery.

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

iii. That the recent entry into force of the USMCA fosters greater-than-expected investment.

Inflation: The persisting uncertainty about the evolution of the pandemic and its effects on

Table 1
Headline and Core Inflation Forecasts
Annual change in percent

	2020				2021				2022	
	I	II	III	IV	I	II	III	IV	I	II
CPI										
Current report[1/]	3.4	2.8	3.9	3.7	3.6	4.2	3.1	2.9	2.8	2.8
Previous report[2/]	3.4	2.7	3.5	3.5	3.4	4.0	3.2	3.0	2.9	
Core										
Current report[1/]	3.7	3.6	3.9	3.8	3.8	3.5	3.0	2.8	2.7	2.7
Previous report[2/]	3.7	3.7	3.8	3.8	3.7	3.2	2.7	2.6	2.5	

Note: Projections for inflation were estimated based on the evolution of macroeconomic variables in the three scenarios described in this Report. The minimum and maximum for inflation between scenarios was estimated for each quarter on the forecast horizon. This Table reports the path that inflation would follow if it were to lay in the forecast horizon at an equidistant point to such maxima and minima.
1/ Forecast from August 2020.
2/ Forecast from May 2020.
Source: Banco de México with data from INEGI.

economic activity also implies that the inflation outlook remains uncertain. Thus, based on the different scenarios of economic activity, different paths were constructed for the possible development of inflation. Such paths consider both downward and upward pressures that inflation would face in the different scenarios.

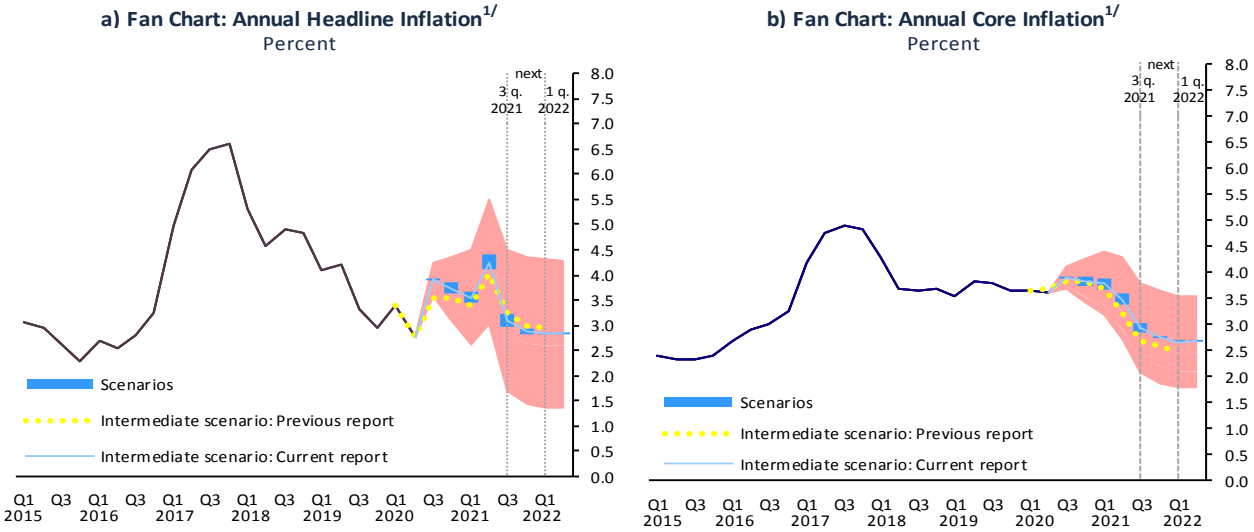
Just like in the previous Quarterly Report, regarding inflation expectations resulting from the three scenarios, Charts 3a and 3b use blue bars to indicate the minimum and maximum levels that headline and core inflation would reach in the estimates for each quarter in the forecast horizon. If inflation were to lie at the midpoint of these bars, the resulting path would be the one reported in Table 1, while the yellow dotted line would be the equivalent path of the previous Report. Uncertainty surrounding the path for the current Report may be represented with the red shaded area in Charts 3a and 3b, which correspond to the areas of the fan charts that are usually presented, but on this occasion, since in the current environment it is difficult to identify the effects of the different shocks on inflation, the different probability ranges are not specified.[1]

As for headline inflation, although its recent increases slightly modify to the upside its expected path in the short term, the rise in inflation is expected to be transitory, so that its forecasts for the medium term remain at similar levels and, in particular, in the 12-24 month forecast horizon, inflation is expected to lie around 3%. Specifically, the different forecast scenarios for headline inflation are adjusted upwards up to the second quarter of 2021 mainly due to the revision for non-core inflation associated with the upward adjustment of energy prices vis-à-vis the one anticipated in the previous Report. As of the third quarter of 2021, forecasts for headline inflation are similar to those of the previous Report. This is due to the downward arithmetic effect on non-core inflation in said quarter that results from the price increases registered so far during the same quarter of this year, which would be partially offset by the slight upward adjustment expected for core inflation for that horizon.

Regarding core inflation, it is also expected to lie at around 3% in the 12-24 month forecast horizon. In this case, forecasts remain at levels close to those expected in the previous Report throughout the entire forecast horizon, although, as stated above, with a slight upward adjustment starting from the second quarter of 2021, which reflects the behavior exhibited by merchandise in the context of the

[1] For accuracy, the red shaded area in the fan charts is estimated only for the inflation path where inflation would lie in the midpoint of the blue bars, which in turn represent the minimum and maximum levels that inflation would reach in each quarter across the three estimated scenarios.

Chart 3



1/ Quarterly average of annual inflation. The next four and six quarters are indicated with dotted vertical lines from the third quarter of 2020, that is, the third quarter of 2021and the first quarter of 2022 respectively, time frame in which the monetary policy transmission channel operates thoroughly. Projections for inflation were estimated based on the evolution of macroeconomic variables in the three scenarios described in this Reportt. Blue bars indicate the minimum and maximum for inflation accross scenarios on the forecast horizon. The red area corresponds to the fan chart area usually presented for inflation projections, and in this case is estimated for the inflation path reported on Table 1, where inflation lays at an equidistant point to such quarterly minima and maxima.

Source: Banco de México with data from INEGI.

pandemic and which suggests that, looking ahead, they could exhibit annual price variations greater than those previously anticipated. In addition, core inflation is still expected to follow a downward trend, thus reflecting estimations that the shocks it has been subject to start to fade and that the effects of slack conditions on the economy become more evident.

Inflation has been affected by several shocks of different size and in opposing directions, a situation which poses significant risks and dilemmas for monetary policy. Certain shocks such as the depreciation of the peso exchange rate, disruptions to global value chains or increases in input prices, combine with the changes in the composition of household spending, in a context of deep economic slack.

Therefore, in this environment where uncertainty persists about the upward and downward pressures that inflation could face ahead, the balance of risks for inflation remains uncertain. In particular, the following risks are considered.

To the downside:

i. A greater than expected impact of the widening of the negative output gap.

ii. Downward inflationary pressures worldwide.

iii. A lower demand for certain goods and services due to social distancing measures or concerns about contagion, involving changes in relative prices and contributing to the reduction of inflation.

iv. The peso exchange rate lying below expected figures.

v. A reversal in the recent increases in energy prices.

To the upside:

i. Additional episodes of foreign exchange depreciation.

ii. Logistical and supply-related problems concerning certain goods and services, as well as cost-related pressures associated with the adoption of sanitary measures.

iii. An increase in the relative demand for certain goods in the context of the health contingency, exerting upward pressures on prices.

iv. A greater persistence of core inflation.

v. Greater increases in energy prices.

Taking into account the shocks that are currently being faced, there could be nonlinearities or effects other than the usual ones that could lead inflation to follow a different behavior than that observed in less extreme circumstances. Indeed, the exchange rate pass-through on prices could be lower due to the sharp fall in economic activity. In addition, the economic slack may have a more immediate effect vis-à-vis the delay with which its impact on prices is usually observed. The overall global weakness may lead to falls in the prices of different inputs or finished goods worldwide, which could also be reflected in downward pressures on prices in Mexico. In contrast, the depreciation of the peso exchange rate could be perceived as more persistent, leading to a greater pass-through. That the pandemic continues to affect the terms, conditions and costs at which different goods and services are provided in the economy. The pressures that the pandemic may exert on public finances could lead to increases in risk premia, thus generating even greater pressure on the exchange rate. Likewise, in light of the uncertainty or supply restrictions, price setters may decide to refrain from reducing their prices despite the slack in the economy and rather wait until demand normalizes.

The COVID-19 pandemic poses a significant challenge to the design and implementation of economic policy in order to achieve an overall and fast recovery of economic activity that prevents negative effects of a more permanent nature on the economy. On the one hand, the macroeconomic fundamentals of the Mexican economy must be preserved and the necessary actions in the monetary and fiscal fields should be adopted. On the other hand, it is essential to continue working in solving the institutional and structural problems that have fostered low levels of investment and prevented the country from increasing its productivity, affecting the country's potential growth. In light of the current circumstances, it is fundamental to improve the perception about the country's business climate and reduce domestic economic uncertainty. In this context, the entry into force of the USMCA preserves and deepens the economic integration of North America, thus eliminating one of the uncertainty factors that have negatively affected the performance of the Mexican economy. Nevertheless, such stimulus might be insufficient if the authorities fail to address pending tasks such as promoting the conditions that allow to attract more investment, fostering greater competition for the benefit of consumers, and generating flexibility in the allocation of resources and proper microeconomic functioning, which , in the short term, are essential to face the health crisis and, in the medium term, to carry out the adjustments and readjustments in the functioning of the economy that the crisis imposes. Likewise, as mentioned in previous Reports, it is necessary to implement policies that strengthen the rule of law, fight insecurity, corruption, and impunity, and that ensure the respect for property rights. All these measures will allow for a stronger recovery of economic activity and employment, and will foster capital accumulation and productivity growth that allow for better development opportunities and a greater well-being for all the population.

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