

The Mexican Government's Economic Response to the COVID-19 Pandemic

By Manuel Leon Hoyos

Original post [here](#).

Mexico, the second largest Latin American economy, has been hit hard by the COVID-19 crisis as the death count surpassed 46,000—making it [the third highest in the world](#). Unlike other countries in the region, though, its government has kept crisis spending relatively low, at about 3% of gross domestic product (GDP), to avoid massive government debt issuance.

Mexico's sovereign credit rating and the national oil company, Pemex, were downgraded [in April](#) and further again [in June](#). Since February, the Mexican peso has [depreciated by over 20%](#). The country has experienced shortages in foreign exchange liquidity and a sharp fall in commodity prices—particularly [crude oil prices](#). According to the Bank of Mexico, the crisis has brought “the greatest contraction ever recorded of holdings of emerging economies' assets, especially of fixed-income instruments” (see a [YPFS blog post](#) on the Bank of Mexico's liquidity measures). In April, Mexico's economy [contracted by 17.3%](#) as [12 million people dropped out of the labor force](#). The [second quarter contraction was 18.9%](#) in respect to last year. The [IMF currently expects a 10.5% GDP contraction in 2020](#).

While many Latin American countries have increased public debt to boost fiscal expenditures in response to the COVID-19 crisis, the Mexican government has taken a different stance. According to various estimates, economic packages in Latin American countries such as Brazil, Argentina, Chile, and Peru range between 5% and 10% of GDP. In Mexico, it is estimated to be lower at about 3% of its GDP ([Bloomberg](#), [IMF](#), [Statista](#)) including the [\\$7.7 billion \(0.7% of its GDP\) Emergency Prevention and Assistance Fund](#) announced in March through which the federal government directed additional resources to respond to the COVID-19 crisis.

Mexican President Andrés Manuel López Obrador has firmly committed that Mexico would not be issuing public debt to get out of the current COVID-19 crisis, but would rather reallocate resources and take austerity measures.

On [April 5](#), President López Obrador outlined the principles and measures for the Mexican government's economic response to the COVID-19 crisis. These were further outlined on [April 22](#) and established in a decree on [April 23](#).

The principles include an “austerity law” to reduce public expenses for non-priority programs. The President ordered the termination of federal public trusts (fideicomisos) deemed non-strategic and directed these resources for the current health and economic

emergency ([April 3](#)). These public trusts are established to support a variety of purposes, including the economy, health, arts, cinema, and sciences. The government's plan is financed with savings coming from the Stabilization Fund of Budgetary Revenues ([Fondo de Estabilización de los Ingresos Presupuestarios](#)) and commits to not increase Mexico's public debt, taxes, or gas prices, or to lay off government workers.

The President highlighted that in addition to strengthening social programs to protect the poor and credits for small businesses, the government will concentrate resources to prop up Mexico's national oil company Pemex and pay Mexico's public debt. "We are going to allocate most of the resources to the debt, because we do not want the debt to increase, we want to do everything possible to maintain the commitment to continue to ensure that there is no increase in public debt" ([April 3](#)).

In 2019, the Mexican Congress approved up to [\\$5.3 billion for external debt](#) for 2020. Despite having access to the [IMF Flexible Credit Line for \\$61.4 billion](#), the Mexican government plans not to make use of it. "The commitment is to get out of the crisis without getting into debt" ([April 16](#)).

President López Obrador said that in previous crises such as in 1994-1995, Mexico borrowed funds from international organizations and used those for the Bank Fund for Savings Protection (FOBAPROA), which were accompanied by a great deal of corruption. "The government bought portfolios and gave the banks promissory notes on behalf of the government, and all of this became the enormous public debt that paralyzed and prevented the country from growing for two decades" ([April 28](#)). He has opposed rescue packages and emphasized that his administration will not execute the "recipes of the neoliberal period because they do not solve the problem, but rather aggravate and deepen corruption" ([April 6](#)).

In late April, Mexico did conduct a \$6 billion bond issuance, [one of the country's largest](#), with an average rate of 4.7125%. Finance Minister Arturo Herrera [emphasized](#) that this will help consolidate the government's funding sources and operate programs responding to COVID-19 crisis. The bonds were issued at terms of 5, 12, and 31 years.

In May, Mexico received a [\\$1 billion loan from the World Bank](#). President López Obrador said that the transaction was a routine operation approved last year to manage government finances ([June 8](#)).

The economic measures outlined by the government include:

- A hiring freeze. No government workers will be fired. Wage payments for those unable to work due to lockdown measures are extended until August 1.
- Salaries for high-ranked government officials will be voluntarily reduced by up to 25% and they will not receive bonuses at the end of the year.

- Each government agency will only be allowed to use 25% of the allocated budget for general services, materials, and supplies.
- Government spending is postponed, with certain exceptions for priority social programs and major infrastructure projects.
- The elimination of 10 Under Secretaries. Employees of these Under Secretaries will preserve government employment with the same income.
- Beneficiaries of pension payments will receive two months upfront. These include over eight million senior citizens and 744,000 young people with disabilities, for up to \$2 billion overall ([July 2](#)).
- The government, through the Ministry of Economy and multiple national social institutions, will provide housing loans and four million credits of up to \$1,100 per credit, to small businesses and workers in both the formal and informal sector. By July 12, the government had granted over 1.4 million credits ([July 12](#)).
- Unemployment insurance for three months, for workers that hold a mortgage with [INFONAVIT](#).
- The creation of two million jobs through major infrastructure projects such as the “Maya” train in the Yucatan Peninsula, an oil refinery in the state of Tabasco, and a new airport in Mexico City-Santa Lucía.
- Provide liquidity support through development banks.
- The program of fiscal incentives and low gas and energy prices will continue at the northern border, as well as prompt VAT refunds to taxpayers.

Following the initial announcement of the government’s economic plan in April, [business groups criticized it](#) as “underwhelming” or “incomplete.” This month, a group of 30 Mexican writers and academic scholars criticized the management of the COVID-19 pandemic as “suicidal austerity” ([July 15](#)). President López Obrador has argued that critics seek to restore old neoliberal regimes, characterized by corruption and inequality ([July 16](#)).

A Bank of America report said that [Mexico could lose its investment grade credit rating](#) next year as public debt is expected to rise to [over 60% of GDP](#). The [Bloomberg Editorial Board](#) said that the President is making the crisis worse and that “the government’s indifferent fiscal response is inexcusable.” Minister of Economy Graciela Márquez Colín, has maintained that [Mexico cannot easily increase debt](#). She said that “if at a certain point we need to raise more debt, we will. It is not a closed-off road.” However, taking on debt, she said, could cause problems.

Recently, the Mexican Minister of Finance Arturo Hererra Gutiérrez said that although originally the international consensus estimated lockdown measures to last a couple of months followed by an immediate economic recovery, “the recovery horizon will be much longer, as long as an effective vaccine or treatment is not available, and therefore economic policy, particularly fiscal and financial, must adjust to the new reality” ([July 18](#)). Gerardo Esquivel, Bank of Mexico’s Deputy Governor appointed by President López Obrador last year, estimates that poverty will increase in the country as a result of the pandemic by at least nine million more people. He said that “it is essential that additional measures be taken to alleviate the enormous economic and social costs that this crisis will leave” and urged for action, “let’s learn from history, act smart, prevent more people from falling into poverty, and help weld the broken pipes of our economy. Let’s do it before it’s too late” ([July 29](#)).

In contrast, the Bank of Mexico quickly unveiled a series of liquidity measures totaling \$30 billion (3.3% of last year’s GDP) in April to “foster an orderly functioning of financial markets, strengthen the credit channels and provide liquidity for the sound development of the financial system.” The Bank of Mexico has cut its benchmark rate 225 basis points this year to a 5% target rate (see a [YPFS blog post](#) on the Bank of Mexico’s liquidity measures). The Bank of Mexico also holds [swap lines](#) with the US Federal Reserve and US Treasury for \$60 billion and \$9 billion respectively. The peak usage was at [\\$6.6 billion in April and currently about \\$5 billion is outstanding](#).

Other COVID-19 related responses within Mexico include the Mexican Business Council, in collaboration with [IDB Invest](#)—the private-sector arm of the [Inter-American Development Bank](#)—announcing [\\$12 billion in loans a year to SMEs](#).