

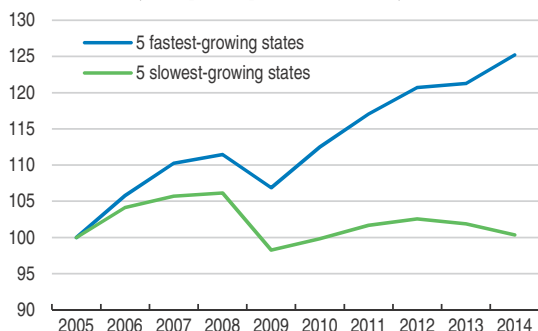
Executive summary

- *Growth is strong, but disparities persist across Mexico*
- *Productivity is picking up thanks to ambitious structural reforms*
- *Income inequality and gender gaps remain high*

Growth is strong, but disparities persist across Mexico

Growth disparities across Mexican states are increasing

(GDP per capita, 2005 = 100)



Source: INEGI.

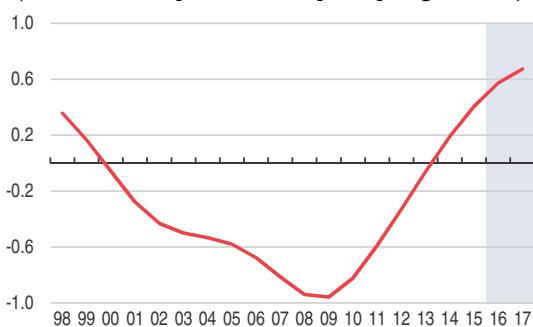
StatLink <http://dx.doi.org/10.1787/888933444350>

Ambitious structural reforms and sound macroeconomic policies have ensured the resilience of the highly-open Mexican economy in the face of challenging global conditions. Yet, growth has not been inclusive enough to achieve better living conditions for many Mexican families. Disparities between a highly productive modern economy in the North and in the Centre and a lower-productivity traditional economy in the South, have increased. Mexico can reignite growth by reprioritising its public spending towards infrastructure, training, health, and poverty reduction.

Productivity is picking up thanks to ambitious structural reforms

Total factor productivity is recovering

(contribution to potential GDP per capita growth, %)



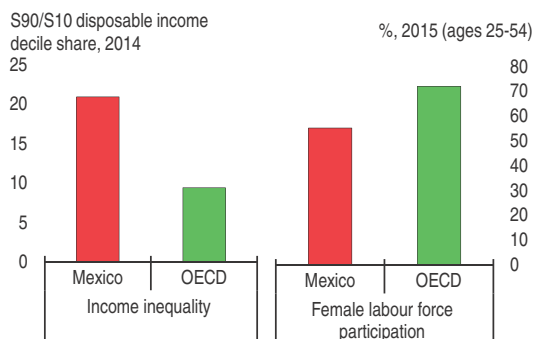
Source: OECD (2016a), Economic Outlook database.

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Mexico's productivity growth has recently picked up in sectors that benefitted from structural reforms – energy (electricity, oil and gas), financial, and telecom sectors. Trade openness, foreign direct investment, integration into global value chains, and innovation incentives have boosted exports, notably of autos. Yet other sectors lag behind, suffering from overly stringent local regulations, weak legal institutions, rooted informality, corruption and insufficient financial development. Further reform is essential to address these problems.

Income inequality and gender gaps remain high

Income inequality is high and female labour force participation is lagging



Source: OECD Income Distribution and Poverty Database and OECD Labour Force Statistics Database.

StatLink <http://dx.doi.org/10.1787/888933444377>

Income remains highly concentrated, many families live in poverty, insecurity is high and children's opportunities to do better than their parents could be improved. Past policies have begun to correct these trends. But more needs to be done, especially for women, who suffer from many types of discrimination. For mothers of young children, participating in the labour market is a challenge, reflecting insufficient provision of affordable and quality childcare. Business practices could also foster inclusiveness and be more responsible towards women, the disabled and other groups that suffer discrimination.

MAIN FINDINGS	KEY RECOMMENDATIONS
<i>Make fiscal policy more inclusive, sustainable, and transparent</i>	
Social expenditure is too low to eliminate poverty and make society more inclusive	Strengthen social expenditure on programmes to eradicate extreme poverty, such as <i>Prospera</i> . Raise and broaden the minimum pension to expand the old-age safety net.
Tax evasion and tax avoidance lower government revenue	Co-ordinate the collection of income taxes and social security contributions. Make greater use of property taxes. Further broaden income tax bases and remove inefficient tax expenditures.
Fiscal data are difficult to interpret on an international basis	Fully separate PEMEX from the federal budget when feasible. Present budget documents and fiscal data on both domestic and national accounts standards.
Fiscal relations with SOEs are distortive	Normalise the taxation of state-owned enterprises (SOEs) by shifting to a tax regime similar to that of the private sector.
<i>Adopt policies towards sustainable development</i>	
People in extreme poverty are excluded from the social safety net	Simplify the administrative procedures for accessing cash transfers. Increase the role of social workers in reaching out to marginalised families.
Teachers' performance evaluations have not been fully applied	Make transfers to Mexican states conditional on implementing the national standard-setting for primary and secondary teacher performance.
Female participation lags behind male's in the labour market and women suffer from discriminatory practices	Expand public early childcare and pre-school coverage. Extend the length of paternity and maternity leaves. Better enforce the constitutional provision on gender discrimination, particularly in the workplace, boardrooms and credit markets.
<i>Make growth more inclusive</i>	
High informality is closely related to poverty and gender inequalities	Strengthen awareness of in-work subsidies for formal workers. Focus enforcement on large formal firms employing informal workers.
Innovation performance is weak	Focus financing on early stages of co-operation of public research institutes and innovative private businesses. Continue to improve the business environment, including for foreign innovative firms.
Corruption and crime remain widespread	Build capacity of the sub-national level entities involved in the new anti-corruption system. Encourage more states to establish integrated state-wide police forces.
Judicial processes are unreliable	Extend oral trials to all civil and commercial cases. Boost training, resources and technology for the judiciary.



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