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The Secretaria de Hacienda y Credito Publico (SHCP) and the Banco de Mexico (central bank) have reduced their projections for GDP growth to between 3% and 3.3%, compared with an earlier projection of 3.75%. The downward revision, announced in late April, came after the Mexican economy showed signs of weakness during the first quarter of the year.

Mexico recorded a GDP growth of 4.8% in 2006, the highest level attained during the administration of former President Vicente Fox. However, the average GDP growth for Fox's six years in office was 2.9%. The SHCP and the central bank attributed the downward revision in the GDP projection to a slowdown in the US and the global economy since the end of 2006. "The slowdown in external demand, particularly from the US, will be especially evident in the first six months of the year, which will have an impact on Mexican exports," said the central bank.

"Mexico's economic cycle is very closely linked to industrial production of the US, and expectations are that US industrial output will weaken in the first six months of this year," said Banco de Mexico economist Manuel Ramos Francia.

Banco de Mexico officials said the original projections for Mexico's GDP had been linked to a forecast of a 4% growth in US industrial production in 2007, but those estimates have revised downward to 1.9% growth. The slowdown in the US economy is expected to have an impact on Mexico's automobile industry, which accounts for a large share of Mexican exports to the US. Other economists said Mexico's economy has become more closely integrated with that of the US since the North American Free Trade Agreement (NAFTA) was enacted in 1994.

While this has created some advantages for the Mexican economy, such as an increase in foreign direct investment (FDI), it has created many disadvantages for Mexico. One example, said economist Walter Molano of BCP Securities, is the reversal of Mexico's trade balance. Mexico's trade deficit is projected at US$8.5 billion in 2007, which compares with a trade surplus of US$6.5 billion just a decade ago.

The SHCP reported the country's trade deficit in the first quarter of the year at US$2.6 billion despite the continuation of high oil-export prices. Molano's comments were contained in a special report about Mexico released in early January. The economist said Mexico's current account deficit is expected to reach US$8 billion this year despite the influx of more than US$20 billion in remittances from expatriates in the US.

Other recent reports noted a structural weakness in the Mexican economy. In a publication released in late April, the Instituto Mexicano para la Competividad (IMCO) reported that Mexico had fallen

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in its index of competitiveness. The report said Mexico ranked 33 in the index of 45 countries in 2006, compared with a ranking of 30 in 2004.

IMCO said Mexico ranks below not only developed countries like the US and Japan but also developing countries like South Korea, Ireland, Finland, Costa Rica, and Chile. Even El Salvador is higher on the IMCO index. IMCO said Mexico declined in five categories: legal system, macroeconomy, political system, government, international relations, and economic sectors. It maintained its low ranking (40th) in sustainable management of the economy.

The organization attributed Mexico's lack of competitiveness to an outdated tax system, which has forced Mexico to depend primarily on oil exports to obtain revenues. "The most important of the reforms is in the tax system, which would provide the government with the necessary financial resources to meet its social obligations like education, health, infrastructure, water, housing, and other needs," said IMCO.

Another factor is the lack of competition in energy, telecommunications, and transportation. "Curiously, the sectors that are most fundamental to promote competitiveness in our country are the least competitive," said IMCO. "We have seen the profit margins for businesses involved in some of these industries increase significantly." The dominant company in the telecommunications sector is TELMEX, owned by Mexican billionaire Carlos Slim Helu. Just this year, Slim rose to second place in Forbes magazine's annual list of the world's richest men with a fortune of US$53 billion.

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