

Banking Watch

Mexico

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Economic Analysis

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Global Competitiveness Index (GCI) of the World Economic Forum (WEF): a significant improvement is taking place in the development of Mexico's financial markets, but significant challenges remain.

- The financial markets development pillar for 2011-2012 showed improvement by 13 places, the second highest advance in ranking within the twelve variables of the GCI. Due to its contribution to the total score, this variable contributed 0.33 of the 4.3 points recorded for Mexico (7.5% over total score).
- Mexico as a whole improved its position compared to the previous year, moving forward by 8 places in the ranking from 66 (taking 139 countries in consideration) to 58 (out of 142 countries).
- The efficiency enhancers subindex, which contributes 50% of the global scoring and includes the financial market development pillar, showed a considerable improvement of eight places.
- In spite of the recorded improvements, the financial markets development pillar for Mexico remains in a position less favorable than that of the other pillars of competitiveness, with a ranking of 83, below the ranking of the efficiency enhancers subindex (53rd place) and the GCI (58th place).
- The World Economic Forum (WEF) report also shows an improvement in expectations concerning access to financing, which has been a factor hindering business. However, there is increased concern with regard to security factors such as crime and theft.

The Global Competitiveness Index (GCI) published by the World Economic Forum (WEF) is designed to evaluate micro and macroeconomic competitiveness fundamentals, measured as the combination of institutions, policies, and factors that determine the level of productivity of a country. The index is one of the most common references in the measurement of competitiveness as well as one of the most comprehensive in terms of the number of countries included (142 in the latest edition).

Apart from its 113 basic indicators, the GCI also uses additional variables to compute the stage of development each country, to perform the validation of data and to develop auxiliary empirical analysis. In total, some 20,000 data points are collected each year to calculate the index. Nearly 12,000 of these are from the Executive Opinion Survey of the WEF and the rest are from recognized external sources that provide quantitative or "hard" data.

In the 2011-2012 issue, Mexico improved its position compared to the previous year, moving forward by 8 places in the ranking from 66 (taking 139 countries in consideration) to 58 (out of 142 countries).

The GCI is composed by 12 variables or pillars that help to determine competitiveness. By ranking (Table 1), the subindex which for Mexico showed the most significant improvement was that evaluating sophistication and innovation (14 places), while by variable or pillar, those that showed the greatest progress were those linked to Innovation (15 places), development of financial markets (13 places) and goods market efficiency (12 places).

There is only one indicator showing diminished performance, the one linked to the macroeconomic environment (a fall of 11 positions). However, the data included in this pillar are not strictly comparable to those of the previous year given that a change in the source of information for various countries resulted in a break in the respective series.

**Table 1: Global Competitiveness Index of the World Economic Forum
Mexico's Evaluation**

	2011-2012		2010-2011		Change in ranking
	Ranking	Score	Ranking	Score	
Number of analyzed countries	142		139		
Global Competitiveness Index	58	4.3	66	4.2	8
Subindex I: Basic requirements	67	4.6	66	4.5	-1
Institutions	103	3.4	106	3.4	3
Infrastructure	66	4.0	75	3.7	9
Macroeconomic environment	39	5.2	28	5.2	-11
Health and primary education	69	5.7	70	5.7	1
Subindex II: Efficiency enhancers	53	4.2	61	4.1	8
Higher education and training	72	4.1	79	3.9	7
Goods market efficiency	84	4.1	96	3.9	12
Labor market efficiency	114	3.9	120	3.8	6
Financial market development	83	3.9	96	3.8	13
Technological readiness	63	3.7	71	3.6	8
Market size	12	5.6	12	5.5	0
Subindex III: Innovation and sophistication factors	55	3.7	69	3.5	14
Business sophistication	56	4.1	67	3.9	11
Innovation	63	3.2	78	3.0	15

Source: The Global Competitiveness Report (2011-2012 and 2010-2011)

The advance in each of the pillars has a differentiated impact depending on the development stage of each country, with the result that in order to measure its importance within global competitiveness, these variables are grouped in subindices with a different weight in the total scoring. The countries are grouped according to their development level in:

- **Stage I. Factor driven economies**, where countries compete based on their initial endowments in production factors. For these countries, the subindex of basic requirements has greater weight in the qualification,

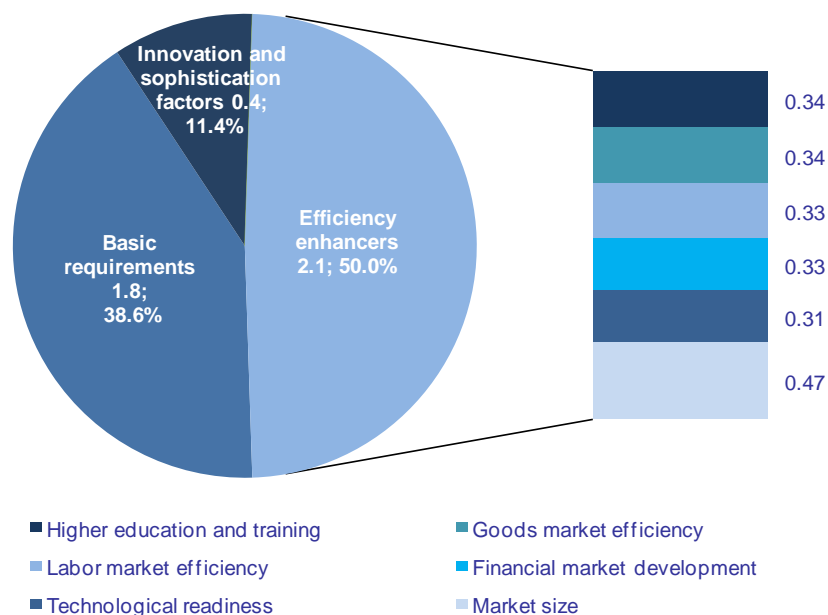
- **Stage II: efficiency driven economies**, where, in order to compete, countries must develop more efficient production processes and increase the quality of their products. The subindex of efficiency enhancers has greater weight in the score.
- **Stage II: innovation driven economies** stage in which companies in a country compete by producing new and different goods through innovation and sophisticated production processes. The subindex with the greatest weight in this case is that associated to sophistication and innovation.

In the case of **Mexico, which is categorized as a country in transition between stage II and III**, the subindex of basic requirements bears a weight of 38.6% in the overall score, the subindex of efficiency enhancers represents 50%, and the sophistication and innovation subindex contributes 11.4%. Therefore, due to its contribution to global scoring, advances seen in placement within the financial markets and goods markets efficiency have a greater impact than that recorded in the innovation pillar. In particular, the 4.3 score recorded for Mexico in the evaluation of competitiveness in 2011-2012 (from a maximum of 7 points) is composed of: a) 1.8 points contributed for the basic requirements subindex, b) 2.1 for the efficiency enhancers subindex and c) 0.4 points from the sophistication and innovation subindex (Chart 1).

Within the efficiency enhancers subindex (Table 1), **the greatest positive contribution factor to the total is that associated to market size (place 12) while one of the factors that impact competitiveness most negatively is labor market efficiency (place 114)**. Pillars linked to goods market efficiency and financial markets development has an even greater margin for improvement given that they are still below the corresponding subindex position and the global index.

Chart 1: Distribution of the GCI score for Mexico (Total=4.3)

Weighted Score 2011-2012; weight in total (%)



Source: BBVA Research with data from The Global Competitiveness Report 2011-2012.

In the 2011-2012 evaluation, **the financial market development pillar showed improvement by 13 places, the second highest advance in ranking within the twelve variables that make up the Global Index**. It should be noted that this pillar contributed 0.33 of the 4.3 points recorded for Mexico (Table 1), with a share of 7.5% over the global score.

Table 2: Financial Market Development Pillar
Mexico

	Ranking		Change in
	2011-2012	2010-2011	ranking
Number of analyzed countries	142	139	
GCI Mexico	58	66	8
Subindex II: Efficiency enhancers	53	61	8
Financial market development	83	96	13
Availability of financial services	69	79	10
Affordability of financial services	85	105	20
Financing through local equity market	74	94	20
Ease of access to loans	92	96	4
Venture capital availability	78	96	18
Soundness of banks	40	42	2
Regulation of securities exchanges	99	91	-8
Legal rights index, 0–10 (best)*	76	86	10

* Quantitative criteria, source: World Bank/IFC, *Doing Business 2011*
Source: The Global Competitiveness Report (2011-2012 and 2010-2011)

The financial market development pillar is composed of eight variables, seven of which are qualitative and obtained by surveys. All variables have equal weight in the calculation of the pillar score.

With respect to the previous year, the variable that showed most progress were (Table 2): affordability of financial services (20 places), financing through local capitals market (20 places), and venture capital availability (18 places). Only the regulation of security exchanges backtracked (by 8 places).

For Mexico, the variable that continues with **the best position within those associated to financial market development is that corresponding to the soundness of banks**, which this year was in place 40, higher than the ranking of the efficiency enhancers subindex (53rd place) and the GCI (58th place). On the other hand, variables in which **the country has better improvement opportunities are: regulation of securities exchange (place 99), ease of access to loans (92nd place) and, in spite of recorded advances, affordability of financial services (85th place)**.

In addition to the indicators associated to factors that drive or facilitate competitiveness, the surveys used by the WEF also include opinions with regard to factors that hinder it. **In the case of Mexico a change was recorded in the factors perceived as problems with regard to conducting business.** This year crime and theft represented 16.5% of the answers as the most problematic factor, an increase of 3.8 percentage points over the previous year (Chart 2). Another of the factors showing a significant increase was fiscal regulation (from 6.8 to 10.3%). Among the factors losing relevance compared to the previous year were access to financing (with a decrease from 13.0% to 10.7%) and inflation (from 3.4% to 1.1%).

Chart 2: The most problematic factors for doing business
(% of answers)



Source: BBVA Research with data from: The Global Competitiveness Report

Evaluation

Although the last GCI for Mexico shows significant advances in terms of global competitiveness, its ranking (58th among 142) is still modest, given its size and importance in the global economy. For Mexico, the subindex for efficiency enhancers is the one that could be most influential on improvement of global competitiveness, since its weight is greater considering the development stage, however the pillars that compose it still show considerable weakness. This is the case of the labor market efficiency, the goods market efficiency, and the financial market development pillars. Within the pillar of financial market development there is still ample margin to improve the perception of financial services affordability and bank credit accessibility. In the future, advances achieved in these indicators and pillars will be key to improve the perception of the competitiveness of our economy.

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