INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/332

MEXICO

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT—PRESS RELEASE; AND STAFF REPORT

November 2018

In the context of the Review Under the Flexible Credit Line Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 26, 2018. Based on information available at the time, the staff report was completed on November 7, 2018.
- A **Staff Statement** updating information on recent developments.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

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November 27, 2018

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Washington, D. C. 20431 USA

IMF Executive Board Completes Review of Mexico's Performance Under the Flexible Credit Line Arrangement

On November 26, 2018, the Executive Board of the International Monetary Fund (IMF) completed its review of Mexico's qualification for the arrangement under the Flexible Credit Line (FCL) and reaffirmed Mexico's continued qualification to access FCL resources. At the request of the Mexican authorities for a reduction of access under the FCL arrangement for Mexico consistent with their intention last year, the Executive Board approved the FCL access of SDR 53.4762 billion (about US$74 billion[1]). The Mexican authorities stated their intention to continue treating the arrangement as precautionary.

The current two-year FCL arrangement for Mexico was approved by the IMF's Executive Board on November 29, 2017 for an original access amount equivalent to SDR 62.3889 billion (about US$86 billion) (see Press Release No. 17/459). Mexico's first FCL arrangement was approved on April 17, 2009 (see Press Release No. 09/130), and was renewed on March 25, 2010 (see Press Release No. 10/114), January 10, 2011 (see Press Release No. 11/4), November 30, 2012 (see Press Release No. 12/465), November 26, 2014 (see Press Release No. 14/543), and May 27, 2016 (see Press Release No. 16/250).

Following the Executive Board's discussion on Mexico, Ms. Christine Lagarde, Managing Director and Chair, made the following statement:

Very strong policies and policy frameworks have helped Mexico navigate a complex external environment. Growth has remained resilient while inflation declined. Fiscal policy has stemmed the rise in the public debt-to-GDP ratio, monetary policy has maintained a prudent stance, and financial regulation and supervision remain strong. The flexible exchange rate has played a key role in helping the economy adjust to external shocks.

The current and the incoming administrations have stated their commitment to maintain very strong policies and policy frameworks, including the independence of economic-policy institutions. They are also committed to fostering a reform agenda to strengthen the rule of law and boost private investment. It will be important to adhere strictly to these commitments to preserve hard-won gains and instill policy predictability.

Given its openness to financial and trade flows, the Mexican economy remains exposed to external risks. These risks include renewed volatility and increased risk premia in global

[1] Amount based on the Special Drawing Right (SDR) quote of November 27, 2018 of I USD=SDR 0.724065.

financial markets, a sharp pull-back of capital from emerging market economies, as well as weakening global growth and intensified global trade tensions. The risk of an abrupt change in Mexico's trade relations, however, has receded.

The Flexible Credit Line arrangement plays an important role in supporting the authorities' macroeconomic strategy by providing insurance against tail risks and bolstering market confidence. In light of the dissipation of some of the risks facing Mexico and given Mexico's strong buffers, the authorities requested a reduction in access under the current arrangement, in line with the commitment they made at the time of its approval a year ago. The lower access is appropriate and consistent with the authorities' strategies that envisage a gradual phasing out of Mexico's use of the facility subject to a reduction in risks. Both current and incoming administrations intend to continue to treat the arrangement as precautionary.

INTERNATIONAL MONETARY FUND

MEXICO

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT

November 7, 2018

EXECUTIVE SUMMARY

Context: Mexico's economy has exhibited resilience in the face of a complex external environment. The current administration has responded appropriately to the recent external shocks and demonstrated its commitment to macroeconomic stability. The incoming administration is committed to maintaining very strong policies and policy frameworks going forward. Nevertheless, Mexico's strong trade and financial links to the global economy, and in particular the United States, make it susceptible to changes in investor sentiment.

Risks: Mexico continues to face substantial external downside risks. The country is exposed to the risk of renewed volatility in global financial markets, increased risk premia, and a sharp pull-back of capital from emerging markets. Although some uncertainty about Mexico's trade regime has receded following the conclusion of a new trade agreement with the United States and Canada (USMCA), a fall in global growth or an exacerbation of trade tensions among major economies would hamper Mexico's growth prospects due to its deep integration into global markets.

Flexible Credit Line (FCL): On November 29, 2017, the Executive Board approved a 24-month precautionary arrangement with Mexico under the FCL in the amount of SDR 62.3889 billion (700 percent of quota). The current administration is requesting a reduction in access to SDR 53.4762 billion (600 percent of quota). It considers that although the risk of an abrupt change in Mexico's trade relations with key trading partners has abated, other risks facing Mexico remain elevated. This reduction in access is consistent with the current and incoming administrations' exit strategies that envisage a gradual phasing out of Mexico's use of the facility subject to a dissipation of external risks facing Mexico. Both administrations intend to continue to treat the arrangement as precautionary.

Qualification: In staff's assessment, Mexico continues to meet the qualification criteria for access to FCL resources specified under the Executive Board decision on FCL arrangements (Decision No. 14283-(09/29), adopted on March 24, 2009, as amended). Moreover, the incoming administration provided assurances that it intends to maintain very strong policies and institutional policy frameworks. Therefore, staff supports the current administration's request and recommends that the Board completes the review under the FCL arrangement which would allow Mexico to make purchases until the expiration of the arrangement on November 28, 2019.

Approved By
Robert Rennhack (WHD) and Tamim Bayoumi (SPR)

This report was prepared by a team comprising Costas Christou (head), Jorge Alvarez, Frederic Lambert and Christian Saborowski (all WHD); Julia Bersch (SPR), Hui Miao (MCM), and Florian Misch (FAD). Juan Pablo Cuesta and Patricia Delgado (WHD) provided excellent assistance.

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CONTEXT

1. Very strong policies and policy frameworks have helped Mexico navigate a complex external environment. Fiscal policy has been successful in stemming the rise in the public debt ratio in the past two years, monetary policy maintains a cautious stance, and financial supervision and regulation are strong. The flexible exchange rate is playing a key role in helping the economy adjust to external shocks. Mexico's external position is broadly in line with macroeconomic fundamentals and desirable policy settings. The program of structural reforms initiated in 2012 has yielded some important transformations in the Mexican economy.

2. The FCL arrangement continues to provide a reassuring signal on the strength of Mexico's policies and a valuable insurance against external tail risks. Mexico has weathered the recent bouts of market turmoil well. Moreover, as during past episodes of increased volatility, market participants highlighted Mexico's access under the FCL arrangement during the recent episode, which sends a clear signal of the strength of Mexico's policy framework and provides a complement to Mexico's net international reserves. In concluding the 2018 Article IV consultation, Executive Directors noted Mexico's very strong policies and policy frameworks which should continue to underpin the economy's resilience. Directors also welcomed the commitment of the incoming administration—which will take office on December 1 following the July general elections—to maintain very strong economic policies and policy frameworks including fiscal consolidation and a reduction in public debt in relation to GDP.

3. Despite very strong fundamentals, the Mexican economy remains exposed to external risks. The likelihood of a surge in financial market volatility continues to be high. Mexico is particularly exposed to abrupt shifts in investor sentiment toward emerging markets. Moreover, the depth and liquidity of Mexico's foreign exchange markets have in the past led traders to use the peso as a proxy for EM currency risk.[1] The risk of a fundamental change in Mexico's trade regime with the United States that was highlighted at the time of the request of the current FCL arrangement has receded with the conclusion of the United States-Mexico-Canada trade agreement (USMCA). However, the risk of global trade tensions and a decline in global growth, which could affect Mexico through both trade and financial channels, remains.

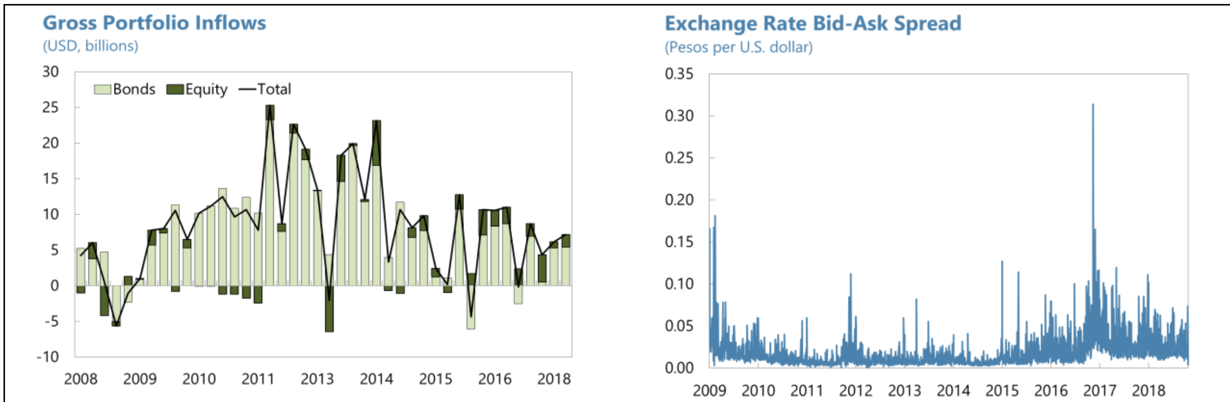
RECENT DEVELOPMENTS

4. Growth has remained resilient while inflation declined. Uncertainty surrounding Mexico's elections and its future trade relationship with the United States kept output growth flat at 2.2 percent in the first three quarters of 2018. Economic activity has been supported by private consumption and, more recently, net exports. Private investment has remained anemic. Core

[1] The current high profitability of the Mexican peso carry trade implies that using it as a proxy to shorten EM risk is costly and thus not as common as it has been in the past. However, Mexico's deep and liquid markets imply that the risk remains that Mexican assets could be used for that purpose again in the future should interest differentials and relative volatilities shift.

inflation has declined to 3.7 percent (y-o-y) in September 2018 amid a tight monetary policy stance. Headline inflation has also declined notably over the past year but has reversed its downward trend in recent months, accelerating from 4.65 percent in June to 5.0 percent in September amid rising energy prices.

5. Asset prices have withstood elevated levels of uncertainty. The peso weakened in the run-up to the elections before strengthening notably thereafter. Volatility remained high amid the turmoil in other emerging market economies. In recent weeks, the peso depreciated sharply, including in the context of the announcement by President-elect Lopez Obrador that he would cancel the partially-completed new Mexico City airport. In this context, sovereign CDS and bond spreads have risen somewhat over the past year, but less than in other EMs. The resilience of financial markets reflects Mexico's very strong domestic fundamentals and policies, but also the currently very high profitability of the Mexican peso carry-trade amid a large interest rate differential with other EM currencies. Moody's upgraded the outlook on Mexico's A3 credit rating to stable in April 2018. Fitch kept Mexico's rating at BBB+ in October 2018 but cut the outlook to negative from stable following the airport announcement. Moody's and S&P have to date not changed Mexico's rating or outlook following the airport announcement.



Sources: National authorities; Bloomberg, L.P.; and IMF staff calculations.

6. Mexico's external sector position remains strong. The current account deficit reached US$12.6 billion in the first half of 2018, broadly unchanged relative to the same period in 2017 and compared to US$19.5 billion (1.7 percent of GDP) in 2017 (full year) amid continued strong manufacturing exports and remittances, and despite a further weakening in the oil trade balance. At end-September 2018, the peso was 2.7 percent stronger in real effective terms relative to its 2017 average. Mexico's net international investment liability position has improved modestly to about minus 48 percent of GDP. The country has seen robust capital inflows over the past few years, but these inflows have not translated into external or domestic imbalances as the accumulation of gross external liabilities has been matched by a rise in external asset holdings (residents' foreign assets stood at 60 percent of GDP in June 2018). Foreign exchange reserves are adequate according to a range of indicators. Nevertheless, the strong presence of foreign investors leaves Mexico exposed to greater risk in terms of capital flows reversal and increased risk premia.

7. The financial sector remains sound. The banking sector remains well capitalized and highly profitable. As of July 2018, the sector's Tier-1 capital ratio stood at 14.0 percent and the return on equity at 20.7 percent, while the NPL ratio remained at a near record low of 2.1 percent. Commercial bank credit to the non-financial corporate sector strengthened by 9.4 percent (y-o-y) in real terms in September despite higher borrowing costs, while consumer credit growth slowed down to 1.5 percent. Household leverage remains low, with very limited FX lending and a household credit-to-GDP ratio of 16.1 percent compared to 39.8 percent on average for other emerging economies.

OUTLOOK, RISKS, AND POLICIES

8. Growth is expected to accelerate modestly in the near term. Growth will continue to be supported by private consumption and a small contribution from net exports while investment will remain weak, particularly in the export-oriented manufacturing sector. As uncertainty is being resolved and the economy reaps the full benefits of the continued implementation of structural reforms, growth would gradually converge to just under 3 percent over the medium term with private consumption and investment as the main drivers (see the 2018 Article IV staff report for coverage on the need for structural reforms).

9. Mexico continues to face substantial external downside risks. The risk of renewed volatility in global financial markets, increased risk premia, and a sharp pull-back of capital from emerging markets remains, and Mexico is particularly exposed to this risk due to its high share of non-resident holdings of government paper. Moreover, a fall in global growth or an exacerbation of trade tensions among major economies would hamper Mexico's growth prospects due to its deep integration into global markets. The updated external economic stress index (ESI) shows that external conditions are comparable to those at the time of the FCL request. The ESI global downside scenario shows a clear deterioration compared to the November 2017 global downside scenario (Box 1), but country-specific uncertainty has since abated.

10. The monetary stance remains appropriate and is consistent with achieving the inflation target. The Bank of Mexico increased its policy rate by 75 basis points in three steps, between December 2017 and June 2018 to 7.75 percent amid some upward inflation surprises and an uncertain external and domestic environment. Monetary conditions are projected to progressively tighten as inflation declines. A negative output gap will help keep inflation on track to converge toward the 3-percent target in the second half of 2019.

11. The government's continued adherence to its fiscal consolidation plan should yield a further reduction in public debt this year. The 2018 public sector borrowing requirement (PSBR) target of 2.5 percent of GDP is expected to be met and public debt is projected to continue to decline to around 53 percent of GDP from 54.3 percent in 2017, thanks to a primary surplus of 1.3 percent. For 2019, the incoming administration is preparing a budget with an unchanged PSBR target, and although details of the budget are not yet available, it assured staff that it would maintain very strong economic policies and policy frameworks and that its fiscal plans would be consistent with reducing the public-debt-to-GDP ratio from the current level.

12. The incoming administration plans to focus on fighting tax evasion and improving the efficiency and quality of public spending to create space for much-needed infrastructure spending. The incoming administration does not envisage changes to the tax system in the next couple of years, except for a reduction in the VAT and CIT in the northern border region. It is working on plans to centralize public procurements and to consolidate social programs and various government agencies to generate savings. Strengthening the fiscal framework is also among the incoming administration's priorities.

Box 1. The Calculation of the External Economic Stress Index

The external economic stress index (ESI) for Mexico was initially presented in Mexico's staff report on the arrangement under the Flexible Credit Line, November 2014. Its methodology is explained in *Flexible Credit Line—Operational Guidance Note,* IMF Policy Paper, August 2018. The calculation of the index required three main choices: (i) selection of relevant external risks, (ii) selection of proxy variables capturing these risks, and (iii) choice of weights for these variables. The updated index is presented below using the same model and proxy variables, and the weights as updated for the 2017 FCL request.

Risks. Mexico's exports, remittances, and inward FDI are closely related to U.S. economic developments. The open capital account and the significant stock of debt and equity portfolio investment expose Mexico to changes in global financial conditions. Finally, oil production and fiscal revenues depend on world energy price developments.

Variables. Risks to exports, remittances and inward FDI are all proxied by U.S. growth. Risks to debt and equity portfolio flows are proxied by the change in the U.S. Treasury 10-year yield and the emerging market volatility index (VXEEM), respectively. Risks to the oil industry are proxied by the change in world oil prices.

Weights. The weights were estimated using balance of payment and international investment position data, all expressed in shares of GDP. The weight on U.S. growth (0.50) corresponds to the sum of exports, FDI, and remittances; the weights on the change in the U.S. long-term yield (0.35) and the VXEEM (0.14) correspond to the stocks of foreign debt and equity; and the weight on the change in the oil price (0.02) corresponds to oil exports.

Baseline scenario. This scenario corresponds to the WEO projections for U.S. growth, oil prices, and the U.S. 10-year bond yield. The VXEEM projections are in line with the VIX futures as of October 9, 2018.

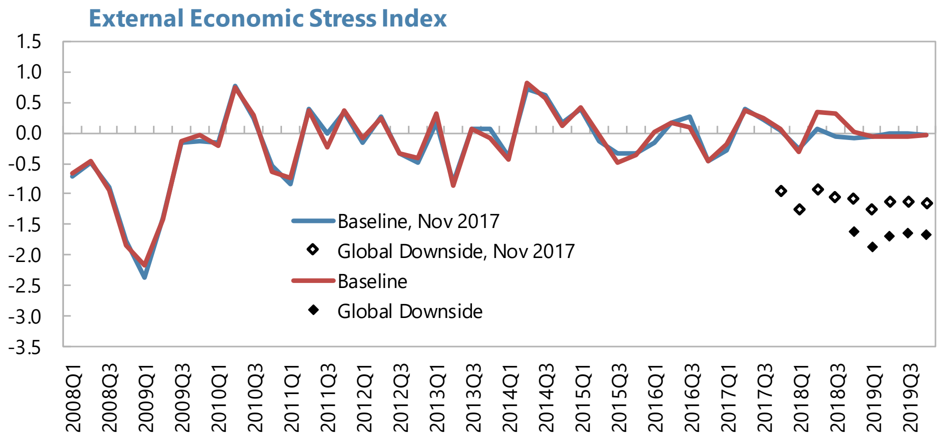
Global downside scenario. The downside scenario is based on the faster-than-expected tightening of global financial conditions scenario in the April 2018 WEO, and would be broadly consistent with the *global* tail risks relevant for Mexico: an inflation surprise in the United States, leading to a 100 basis points increase in the U.S. term premium, and heightened risk aversion, would cause a reduction of U.S. growth by 0.67 percentage point and lower oil prices by 5 percent relative to the baseline WEO projection.[1] The scenario also assumes a surge in global financial market volatility, with the VXEEM rising by 3 standard deviations (for comparison, the VXEEM increased by 4 standard deviations in both 2008:Q4 and 2011:Q3). A shock to a large emerging market, for example, and the associated disruptions to financial flows could increase risk premia for Mexico and reduce rollover rates. Rising global trade tensions, as illustrated in the October 2018 WEO scenario, would also reduce U.S. growth and negatively affect Mexico.

[1] The global downside scenario does not use the downside scenario in the Fall 2018 WEO since it focuses solely on trade tensions.

Box 1. The Calculation of the External Economic Stress Index (concluded)

Country-specific external downside scenario. The ESI global downside scenario shows a clear deterioration compared to that in November 2017 (which had not included trade risks), reflecting an uncertain global risk environment. At the same time, country specific uncertainties have receded somewhat, in particular, the likelihood of an abrupt change in Mexico's trade relations with the United States has declined notably. However, given ongoing global trade tensions, Mexico could still be affected by the imposition of tariffs and non-tariff barriers, as well as an abrupt drop in FDI, as foreign investors could re-organize their global supply chains (especially in export-oriented sectors) or hold-off on planned investments. The current ESI is not designed to reflect this country-specific uncertainty. Nevertheless, staff is of the view that a combination of global risks and country-specific uncertainties would improve somewhat on the November 2017 assessment.

The global downside scenarios are illustrated in the chart by dots, which represent the level to which the index would fall if the described shocks materialized in any given quarter.



THE FLEXIBLE CREDIT LINE AND REVIEW OF QUALIFICATION

13. The FCL has served the Mexican economy well, providing insurance against tail risks. The previous FCL arrangements have complemented Mexico's very strong policies and policy frameworks, and its international reserves. Over the past several years, Mexico has successfully weathered several bouts of volatility, including the episode during end-2016/early-2017 as well as the recent episode of stress in some emerging markets. The arrangement has been effective in bolstering market confidence, and the current and incoming administrations believe that the arrangement will continue to protect Mexico against external risks. Moreover, they are committed to continue enhancing Mexico's resilience to external shocks through further reducing the public-debt-to-GDP ratio from the current level, continued anchoring of inflation expectations and strong oversight of the domestic financial system.

14. The current and incoming administrations reaffirmed that Mexico does not intend to make permanent use of the FCL and will continue to treat the arrangement as precautionary. As they signaled at the time of the approval of this arrangement, the current administration is requesting a reduction in access to Fund resources to 600 percent of quota, reflecting a reduction of external risks affecting Mexico, including the dissipation of the risk of an abrupt change in Mexico's trade relations. This fits into their strategy for a gradual phasing out of Mexico's use of the facility.

A. Access Considerations

15. Financing needs would be substantial should external risks materialize. In response to the current administration's request to reduce access to Fund resources, staff reassessed the financing needs that could arise in an adverse scenario. The scenario assumes renewed volatility in global financial markets, and increased risk premia leading to a sharp pull-back of capital from emerging market economies as well as intensified global trade tensions and a significant decline in global growth, affecting Mexico through both trade and financial channels. A materialization of those risks would lead investors to reconsider their investments in Mexico. Inward FDI flows would decline as multinational firms reconsider the setup of their production chains. The associated confidence and growth shocks would lead to a reduction in portfolio inflows while domestic institutional investors would increase the share of foreign assets in their portfolios. At the same time, the positive impact of an exchange rate depreciation on the current account would initially (within the scenario's one-year projection horizon) be more than offset by a decline in net exports due to a disruption of global trade and the global growth slowdown.

16. Access at 600 percent of quota can be justified under a plausible tail risk scenario (Box 2). The magnitude of the simulated shock is projected to be lower than at the time of the approval of the current arrangement and Mexico would be expected to contribute to the adjustment by drawing on its own reserves. The assumed reserve drawdown is on average more than twice the one assumed in the 2016 arrangement, but would still ensure sufficient (and credible) buffers in light of uncertainty inherent in the estimation of the various balance of payments risks. The fact that the peso is the second most widely traded emerging market currency and has frequently been used as a proxy for other emerging market currencies would suggest that a strong reserve cover would remain crucial in the current environment.

Box 2. Illustrative Adverse Scenario[1]

Access in the amount of SDR 53.4762 billion (600 percent of quota) can be justified under a plausible downside scenario, with rollover rates around or above the 25th percentile in past crisis episodes. This scenario illustrates the potential impact on Mexico's balance of payments of adverse shocks associated with renewed volatility in global financial markets, and increased risk premia leading to a sharp pull-back of capital from emerging market economies as well as the risk of intensified global trade tensions and a significant decline in global growth affecting Mexico through both trade and financial channels. As the risk of renewed volatility in global financial markets, increased risk premia, and a sharp pull-back of capital from emerging markets remains elevated, shocks to portfolio and other flows are kept unchanged in the adverse scenario, while, reflecting more contained trade risks, the shocks to the current account and foreign investment are somewhat smaller than in the November 2017 FCL request.

Use of reserves. A sizeable drawdown of reserves, of $14 billion, is assumed in the downside scenario, as envisaged when the current arrangement was approved in November 2017, were the adverse shock to materialize in the second year of the arrangement. Reserve adequacy in terms of the ARA metric would be 108.2 percent in 2019. Remaining within the range for the reserve adequacy level would be desirable to ensure sufficient (and credible) buffers to deal with potential shocks facing the Mexican economy going forward.

Current account. Under this scenario, the positive impact on the current account following an exchange rate depreciation would initially be more than offset by a decline in net exports due to a decline in global growth and a disruption in Mexico's trade—possibly following the imposition of non-tariff barriers, increases in tariffs, or weakened external demand. As the USMCA agreement has notably reduced the risk of an abrupt change in Mexico's trade relations with the U.S., a smaller deterioration of the current account is assumed in this scenario than when the current arrangement was approved (0.23 percent of GDP rather than 0.45 percent). This widening in the current account deficit would be temporary and the current account would improve over time benefitting from the full effect of the exchange rate depreciation.

Foreign direct investment. A 50 percent drop in net FDI inflows is assumed (smaller than assumed at approval and in line with the assumed drop in the 2016 arrangement). As a significant share of FDI is related to export-oriented production facilities serving the North American market, a slowdown in U.S. imports and exports due to trade barriers would discourage FDI, though the impact would be more contained than a year ago, given the USMCA agreement.

Gross equity portfolio inflows. A loss of confidence, like a surge in global financial volatility and heightened risk aversion would lead to a reduction of equity holdings by foreign investors. The same shock (1.6 standard deviations) is assumed as at approval of the current arrangement.

Foreign currency-denominated debt. The scenario assumes a rollover rate of 80 percent of FX debt coming due, unchanged from the approval of the current arrangement, as the risk of foreign investors reducing exposure to Mexico remains very high.

Resident portfolio outflows. Uncertainties about the exchange rate could also lead to temporary capital flight by residents. The same shock (1.6 standard deviations) as at approval of the current arrangement is assumed. The shock is similar in magnitude to the experience in mid-2013, when residents increased their foreign asset holdings in response to the taper tantrum.

Peso-denominated debt. The assumed rollover rate of 71 percent is unchanged from the approval of the current arrangement. Although the peso strengthened following the Mexican elections, it subsequently weakened albeit at a slower pace compared with other EM currencies, and has come under renewed pressure in recent weeks. To this end, a sharp depreciation following an abrupt change in trade relations that would question Mexico's prospects could lead to a reduction of foreign investors' holdings of local currency debt.

Box 2. Illustrative Adverse Scenario[1] (continued)

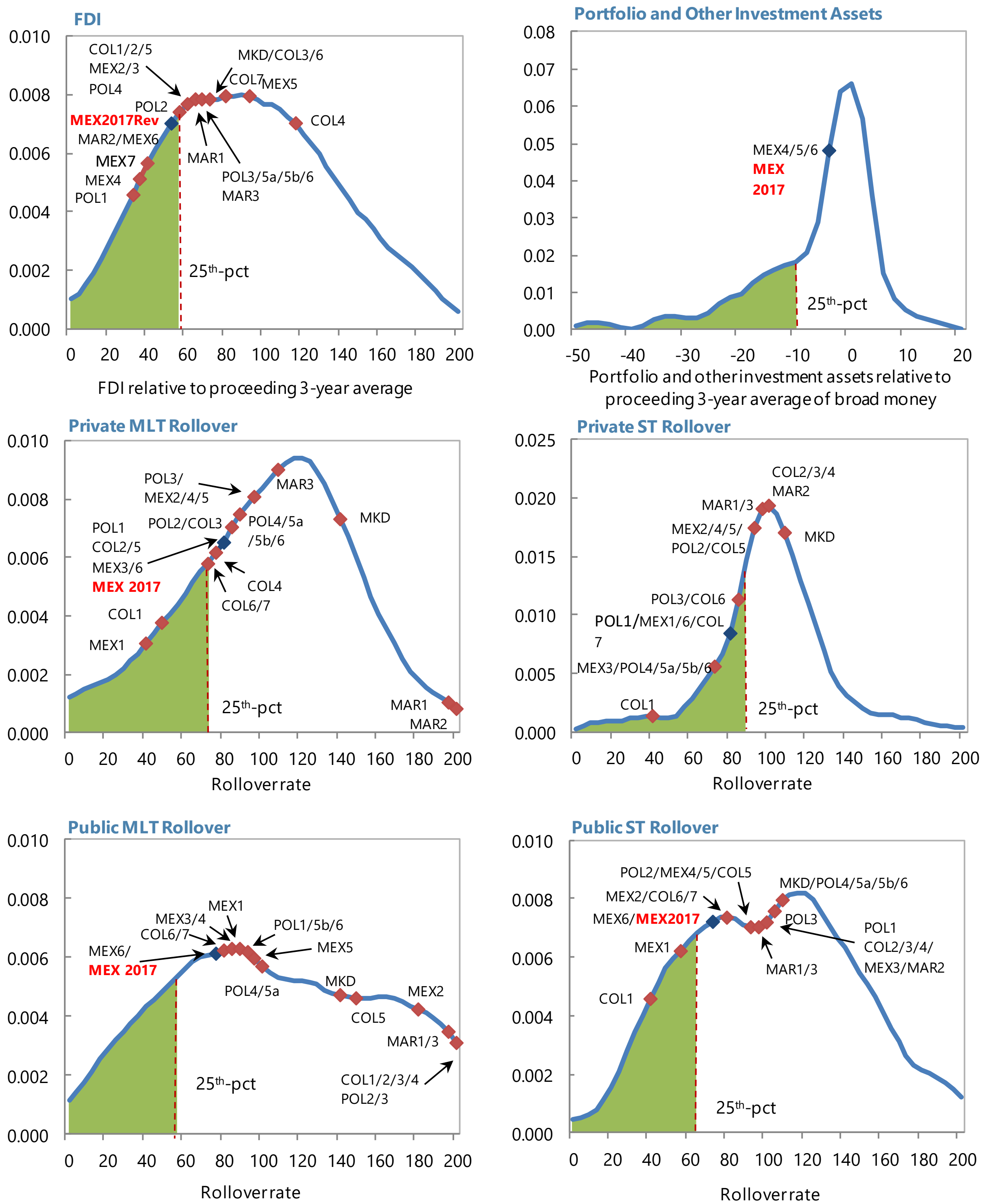
External Financing Requirements and Sources

(In billions of U.S. dollars)

	2016	2017	2018	2019	Adverse 2019	Contribution to Gap	Rollover /Shock	2017 Rollover /Shock	2016 Rollover /Shock	2014 Rollover /Shock	2012 Rollover /Shock
			Proj.								
Gross external financing requirements	**123.3**	**95.2**	**93.4**	**99.1**	**88.1**	**-11.0**					
Current account deficit	23.9	19.5	20.7	23.2	26.2	**3.0**	0.23% of GDP shock	0.45% of GDP shock	No net shock	No net shock	$10 bn shock
Amortization of Bonds and Loans	99.0	78.3	70.2	74.4	74.4						
Change in international reserves	0.4	-2.6	2.5	1.5	-12.5	-14.0	USD 14 bn	USD 10-14 bn	USD 5bn	USD 6-8 bn	No use of reserves
Available external financing	**123.3**	**95.2**	**93.4**	**99.1**	**15.1**	**84.0**					
Net FDI inflows	28.8	28.7	29.4	29.8	13.5	16.3	50%	40%	50%	90%	37%
Equity Portfolio Inflows	9.5	10.3	4.0	2.5	-8.2	10.7	1.6 std dev = USD 10.7bn	1.6 std dev = USD 9.3bn	1.6 std dev = USD 9.3bn	1.5 std dev = USD 8.7bn	1.9 std dev = USD 11bn
Financing through Bonds and Loans	118.2	105.0	93.9	91.5	58.3						
Public sector MLT financing	42.5	47.7	35.9	28.4	13.3						
FX denominated bonds	25.0	16.0	15.1	13.8	6.6	7.2	80%	80%	80%	95%	86%
Local currency bonds	0.6	15.6	12.1	12.5	4.6	7.9	71%	71%	71%	85%	80%
FX Bank Financing	16.9	16.2	8.7	2.2	2.2						
Private sector MLT financing	10.0	11.7	12.0	12.7	7.1						
FX denominated bonds	4.5	9.7	3.8	7.3	3.6	3.7	80%	80%	80%	95%	95%
FX Bank Financing	5.6	2.0	8.3	5.4	3.5	1.9	80%	80%	80%	95%	95%
Short-term financing	65.6	45.7	45.9	50.3	37.9						
Public sector	38.4	16.8	15.3	17.9	13.5						
FX denominated	3.1	3.3	3.1	3.1	3.1						
Local Currency	35.3	13.6	12.2	14.8	10.5	4.4	71%	71%	71%	90%	90%
Private sector	16.7	17.3	18.8	20.3	15.0	5.4	80%	80%	80%	90%	90%
Trade credit	10.5	11.5	11.8	12.1	9.4	2.7	80%	80%	80%	90%	90%
Other flows	-33.1	-48.9	-33.8	-24.7	-48.6						
Residents' foreign portfolio & other investment	-1.6	-16.8	-12.2	-11.4	-35.3	23.9	1.6 std dev = USD23.9bn	1.6 std dev = USD25.1bn	1.6 std dev = USD 25.1bn	1.5 std dev = USD 23.6bn	1.5 std dev = USD 23.6bn
Financing Gap (USD billions)						**73.0**					
SDR (1.38370575773803 USD/SDR, Oct. 26, 2018)						52.7					
Percent of quota						592					

Sources: Mexican authorities and IMF staff estimates.

Box 2. Illustrative Adverse Scenario[1] (concluded)



Source: IMF staff calculations.

1/ The countries shown are previous FCL/PCL/PLL arrangements, numbered consecutively by country. MEX2017 is thus the current FCL arrangement, and MEX2017Rev indicates if assumptions deviate from the 2017 approval.

B. Review of Qualification

17. Mexico continues to meet the qualification criteria for an FCL arrangement according to staff's assessment (Figure 3). The current administration has continued to implement, and have a sustained track record of implementing, very strong policies amid very strong economic fundamentals and institutional policy frameworks. Monetary policy is guided by a credible inflation-targeting framework in the context of a flexible exchange rate regime, while fiscal policy has been guided by the fiscal responsibility law. The incoming administration has provided assurances that it would maintain very strong economic policies and policy frameworks.

- **Sustainable external position.** The external current account deficit is low, is envisaged to remain moderate over the medium term, and the external position is broadly in line with medium-term fundamentals and desirable policies. The updated external debt sustainability analysis (Figure 5) continues to show that Mexico's external debt is relatively low (37 percent of GDP at end-March 2018) and would only slightly increase over the medium term. Net foreign assets are projected to remain at around minus 45 percent of GDP through 2023.

- **Capital account position dominated by private flows.** The bulk of Mexico's external debt is owed to private creditors. Private portfolio flows (debt and non-debt creating) and FDI continue to be large relative to the overall balance of payments flows. In total, public flows accounted for only around a fifth of Mexico's direct, portfolio and other asset and liability flows on average over the last three years. [2]

- **Track-record of steady sovereign access to international capital markets at favorable terms.** Mexico is among the highest-rated emerging markets. Mexico's sovereign bond (EMBIG) spread and five-year CDS spreads have partially reversed their increases that peaked in the runup to the elections; they now stand at 261 and 126 basis points, respectively (as of October 18th, 2018). Mexico continues to successfully place sovereign bonds in international capital markets, and the government has fully covered its external financing needs for 2018 and a substantial part of its 2019 external currency amortizations. The public sector issued or guaranteed external bonds or disbursements of public and publicly-guaranteed external commercial loans in international markets during each of the last five years, in a cumulative amount over that period equivalent to more than 1,400 percent of Mexico's Fund quota. Mexico did not, in staff's assessment, lose market access at any point in the last 12 months.

- **Relatively comfortable international reserve position.** Gross international reserves reached US$177.1 billion at end-September 2018, compared to US$176.4 billion at end-October 2017, just before the current FCL arrangement was approved. This level is comfortable relative to standard reserve coverage indicators (Figure 4). Mexico's reserves have exceeded 100 percent of

[2] Public flows are defined as net asset and liability flows related to the domestic public sector. Total public flows are calculated as the sum of the absolute values of reserve assets flows and general government and central bank portfolio as well as general government and central bank other asset and liability flows. Total flows are calculated as the sum of the absolute values of direct, portfolio, and other asset and liability flows as well as the absolute value of net reserve asset flows.

the ARA metric in each of the last three years. Mexico and the United States also agreed to update their exchange stabilization agreement and increase the potential size of the U.S. Treasury's swap line with Mexico from US$3 billion to US$9 billion in October 2018. This facility will continue to be complemented by a swap line of US$3 billion with the Federal Reserve.

- **Sustainable public debt position and sound public finances.** Fiscal policy remains prudent and is underpinned by the rules in the fiscal responsibility law. The current administration has been undertaking a fiscal consolidation plan—announced in 2014—that envisages reducing the PSBR from 4.5 percent of GDP in 2014 to 2.5 percent in 2018. The targets for 2015, 2016 and 2017 were met, and the 2018 target is also projected to be met. The transition team committed to a PSBR target of 2.5 percent of GDP for 2019 as well although the draft 2019 budget is still under preparation and is to be presented to congress by December 15. An updated debt sustainability analysis shows that the debt trajectory is overall robust to standard shocks (Figure 7). The debt projection is sensitive to growth, exchange rate fluctuations, interest rates, and the evolution of oil prices, but debt would remain contained even under severe negative shocks. Staff assesses Mexico's public debt to be sustainable with high probability.

- **Low and stable inflation in the context of a sound monetary and exchange rate policy framework**. Headline inflation has exceeded the 3 percent target for some time due to a series of shocks, including to energy prices and the exchange rate. However, inflation has already decelerated compared to a year ago and is expected to converge toward the target in the second half of 2019. Medium-term inflation expectations remain close to the target, pointing to the credibility of monetary policy. To achieve this, the Bank of Mexico tightened monetary policy considerably (by 450 basis points) since December 2015. Mexico has maintained single digit inflation over the past five years.

- **Sound financial system and the absence of solvency problems that may threaten systemic stability.** As of July 2018, the banking system's Tier-1 capital ratio stood at 14.0 percent, slightly lower than a year ago and provisioning at 150.7 percent of non-performing loans is high. Corporate balance sheets remain resilient to exchange rate shocks, helped by both natural and financial hedges. The broader financial system is also sound. Private pension funds, which hold assets of about 15.5 percent of GDP, have a conservative investment profile. Capital in the insurance sector also exceeds the minimum requirements, and all insurance companies comfortably satisfy the new capital requirements under the Solvency II regime adopted in April 2015. Real estate investment trusts have grown since 2011, but remain small and are financed mostly by equity, with new statutory limits on their leverage. The 2016 FSAP and the 2018 Article IV consultation did not highlight significant solvency risks or recapitalization needs.

- **Effective financial sector supervision.** The 2012 FSAP concluded that banking supervision in Mexico was effective, and the 2016 FSAP highlighted the improvements in supervision since 2012. Mexico adopted the Basel III capital rules in 2013, and the Basel Committee assessed it as compliant in 2015. Liquidity coverage ratio (LCR) minimum requirements have been in place since January 2015. The regulation of financial groups was enhanced in January 2014 through the implementation of supervision at the group level. The current administration monitors closely the operations of foreign bank subsidiaries—about 70 percent of banking system assets—to ensure compliance with regulatory norms. The 2016 FSAP found that significant progress had been achieved in strengthening financial sector prudential oversight since 2012, and recommended several areas for further progress, especially to strengthen the governance of the supervisory agencies and IPAB. The 2018 Article IV consultation with Mexico did not raise substantial concerns regarding the supervisory framework.

- **Data transparency and integrity.** The overall quality of Mexican data continues to be high and adequate to conduct effective surveillance as described in the June 2015 data ROSC update. Mexico remains in observance of the Special Data Dissemination Standards (SDDS).
- **Track record.** Mexico continues to have a sustained track record of implementing very strong policies, including according to staff's assessment that all relevant core indicators were met in each of the five most recent years.

18. International indicators of institutional quality show that Mexico has around average government effectiveness. The institutional quality of economic policy is underpinned by the inflation-targeting framework (anchored by a strong, independent central bank), the fiscal responsibility law, and the effective prudential and regulatory framework for financial supervision. According to the 2017 World Bank's Governance Indicators, Mexico's government effectiveness ranks at the 52nd percentile among all countries. A weaker area continues to be the control of corruption. However, a constitutional reform (adopted in May 2015) and secondary legislation (promulgated in July 2016) further empowers the federal government to investigate, prosecute, and sanction corrupt activity in Mexico. The reform creates a National Anticorruption System, increases transparency requirements in the use of public funds, and requires an appointment of an independent anti-corruption prosecutor. Implementation has begun with the institutional setting at the federal level nearing completion. Finally, Mexico underwent a full assessment of its anti-money laundering framework, and the report provided further recommendations for strengthening the effectiveness of anti-money laundering measures.

19. The Mexican authorities have a strong track record in responding to significant shocks, owing to very strong fiscal and monetary institutional frameworks. Mexico has been able to navigate successfully a complex external environment in recent years. The flexible exchange rate has been playing a key role in helping the economy adjust to external shocks, with no incidences of interventions in the foreign exchange market in 2018. Fiscal consolidation is on track, and monetary policy has kept inflation expectations anchored close to the inflation target. The current fiscal framework is anchored in the 2006 fiscal responsibility law, which was strengthened in 2014, and contributes to the accountability and transparency of fiscal policy. The 2014 reform of the fiscal responsibility law defined the Public Sector Borrowing Requirements as a fiscal target and set a cap on the real rate of growth of structural current spending. Targets for the publicly-owned companies PEMEX and CFE were also introduced. The central bank has been independent from the government since 1994, with a constitutional mandate to maintain the currency's purchasing power. It formally adopted an inflation-targeting framework in 2001, although inflation targets have been set since 1996. Regarding policy cyclicality, fiscal policy was strongly expansionary in the aftermath of the global financial crisis and in the presence of a large negative output gap. Following the fiscal reform in 2013/14, and in the context of a closed or even positive output gap, fiscal policy was generally contractionary, raising non-oil revenues to offset a continued decline in oil revenues. The central bank has increased the policy rate by 450 bps since end-2015 amid a series of inflationary shocks, succeeding in bringing inflation down from recent peaks and anchoring inflation expectations close to the target.

IMPACT ON FUND FINANCES, RISKS AND SAFEGUARDS

20. Staff has completed the safeguards procedures for Mexico's 2017 FCL arrangement. EY México (the external auditor) issued an unqualified audit opinion on Banco de México's 2016 financial statements. Staff reviewed the 2016 audit results and discussed these with EY México. Staff also noted the timely publication of the FY2016 financial statements. Banco de México's Law was amended to strengthen the Audit Committee's composition by including a majority of independent members. Since its reconstitution, the committee now meets regularly with the external auditors. No significant issues emerged from the conduct of the safeguards procedures. The FY 2017 financial statements have also recently been published.

21. The proposed reduction in access would have a positive impact on Fund liquidity. The proposed 14.3 percent (100 percent of quota) reduction in access would increase the Fund's Forward Commitment Capacity by about SDR 8.9 billion, or by 4.9 percent, compared to a scenario of unchanged access (Table 12).

22. Mexico's capacity to repay the Fund remains strong. The current and incoming administrations have confirmed their intention to treat the FCL arrangement as precautionary. Nonetheless, in the event of a shock, which could necessitate drawing of the full amount, Mexico should maintain capacity to fulfill its financial obligations to the Fund (Tables 10 and 11). In a scenario of full disbursement in 2018, total external debt would initially climb to 44.6 percent of GDP, but gradually decline thereafter. Fund credit would initially correspond to around 6.1 percent of GDP. Projected debt service to the Fund would reach a peak level of about SDR 28.5 billion (about 2.7 percent of GDP) in 2022.

STAFF APPRAISAL

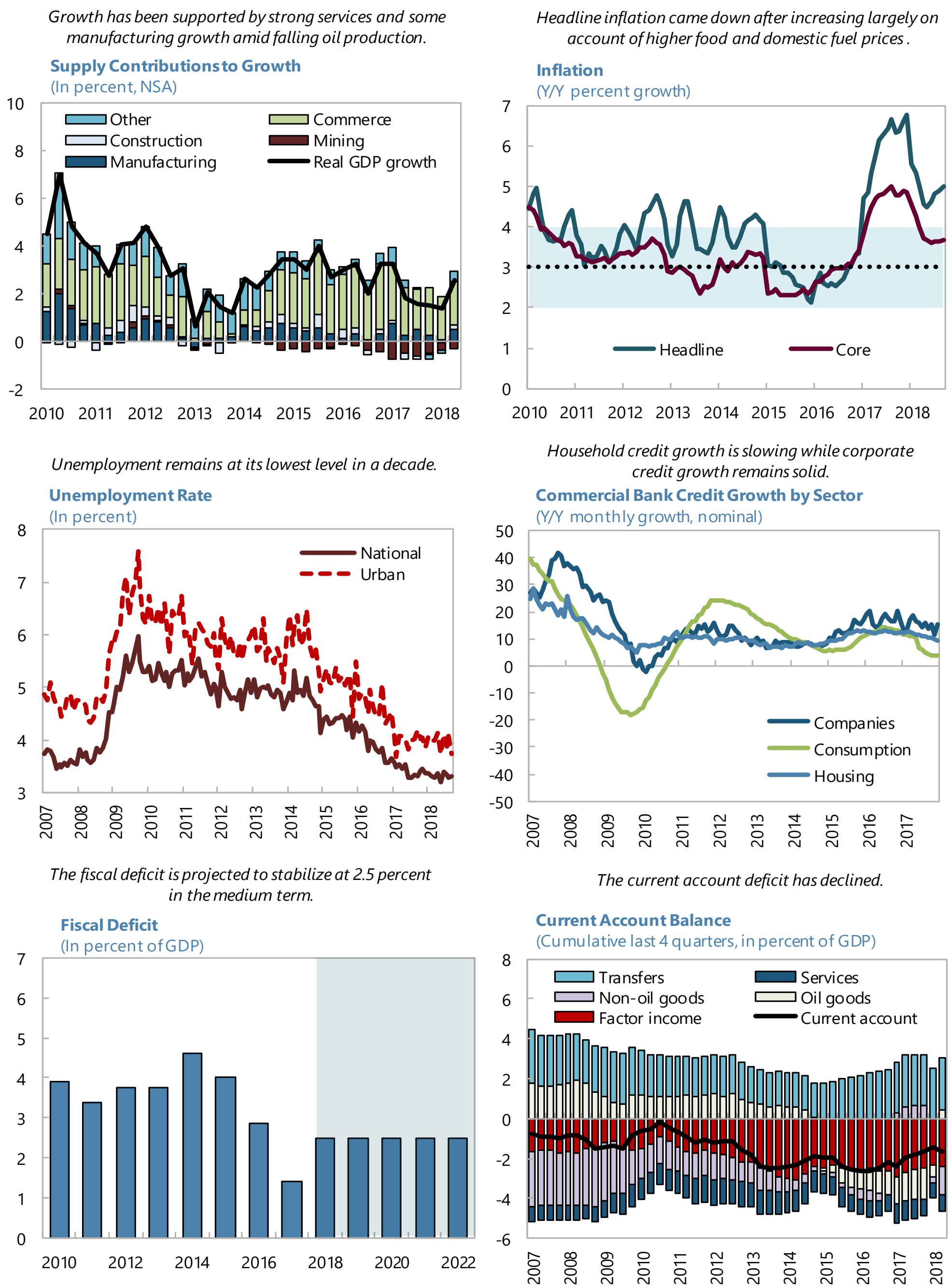
23. Mexico continues to benefit from the FCL arrangement. The country has weathered well bouts of volatility, while the FCL arrangement has supported market confidence by providing a reassuring signal on the strength of Mexico's institutions and policies, and has provided insurance against tail risks.

24. Staff considers that access at 600 percent of quota is appropriate given the current risk environment. Uncertainties surrounding Mexico's external environment remain elevated. These include renewed volatility and increased risk premia in global financial markets, leading to a sharp pull-back of capital from emerging market economies as well as the risks of intensified global trade tensions and a significant decline in global growth. The risk of an abrupt change in Mexico's trade relations, in turn, has dissipated. The current and incoming administrations intend to continue treating the FCL as precautionary and consider it a supplement to reserves.

25. Staff's assessment is that Mexico continues to meet the qualification criteria for access to FCL resources. The IMF Board assessment of the recently-completed 2018 Article IV consultation with Mexico noted Mexico's very strong policies and institutional policy frameworks. Mexico has demonstrated a successful record of very strong policy management, and the incoming administration has committed to prudent policies during its term in office. Staff therefore recommends completion of the review under the FCL arrangement for Mexico and supports Mexico's requested lower level of access.

26. The incoming administration's commitment to maintaining very strong policies and institutional policy frameworks is welcome. It would be important that they continue to build on progress achieved in recent years. In this regard, staff welcomes the commitment to preserve the strength and independence of economic-policy institutions, in particular an independent central bank as well as a commitment to a floating exchange regime that helps the economy adapt to shifting global conditions. Fiscal policy will continue to aim at gradually reducing public debt in relation to GDP and the incoming administration further assured staff that financial oversight will remain based on the sound regulatory and supervisory framework.

Figure 1. Mexico: Recent Economic Developments

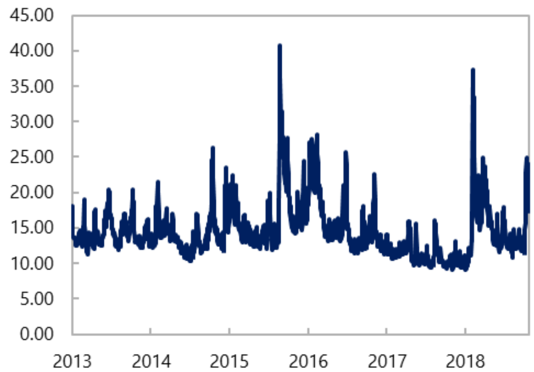


Sources: National authorities; Haver Analytics; Bloomberg; and IMF staff calculations.

Figure 2. Mexico: Recent Financial Developments

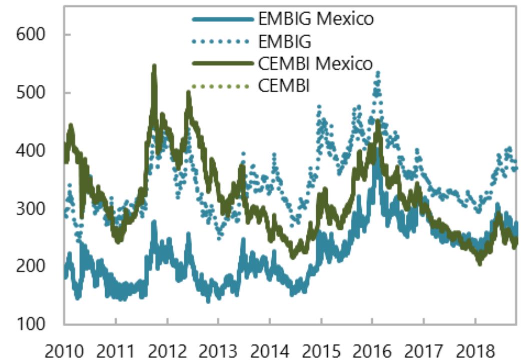
Stock market volatility has increased...

VIX Index
(Index)



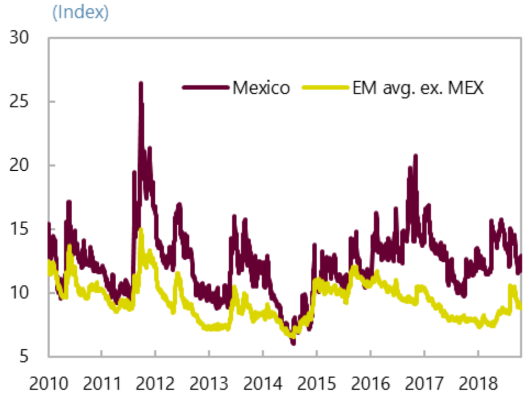
... amid an increase in corporate and sovereign risk premia...

EMBIG and CEMBI Spreads
(In basis points)



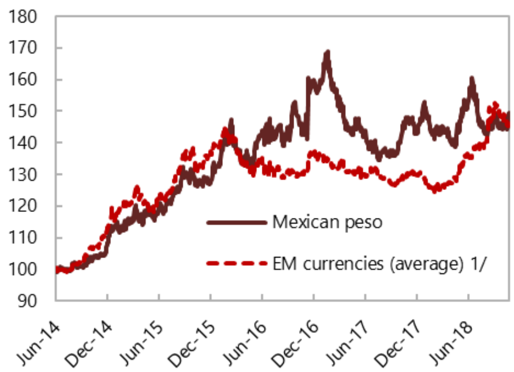
...and elevated exchange rate volatility.

Exchange Rate 3-Month Implied Volatility
(Index)



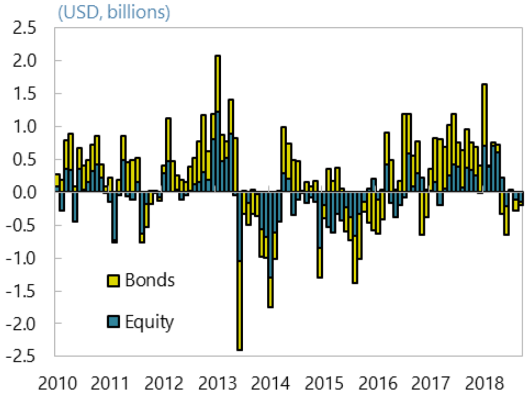
The peso depreciated in the run-up to the elections before recovering.

Exchange Rates
(Index Jun. 2014=100)



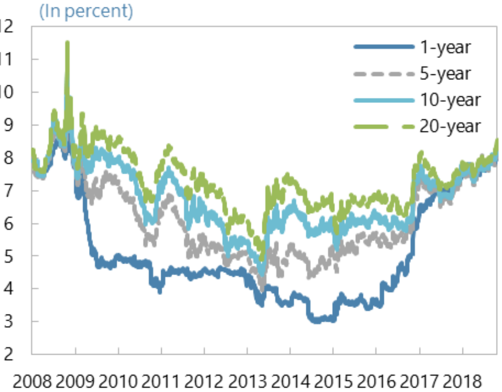
ETF and mutual funds' inflows into Mexico have turned modestly negative...

ETFs and Mutual Fund Flows
(USD, billions)



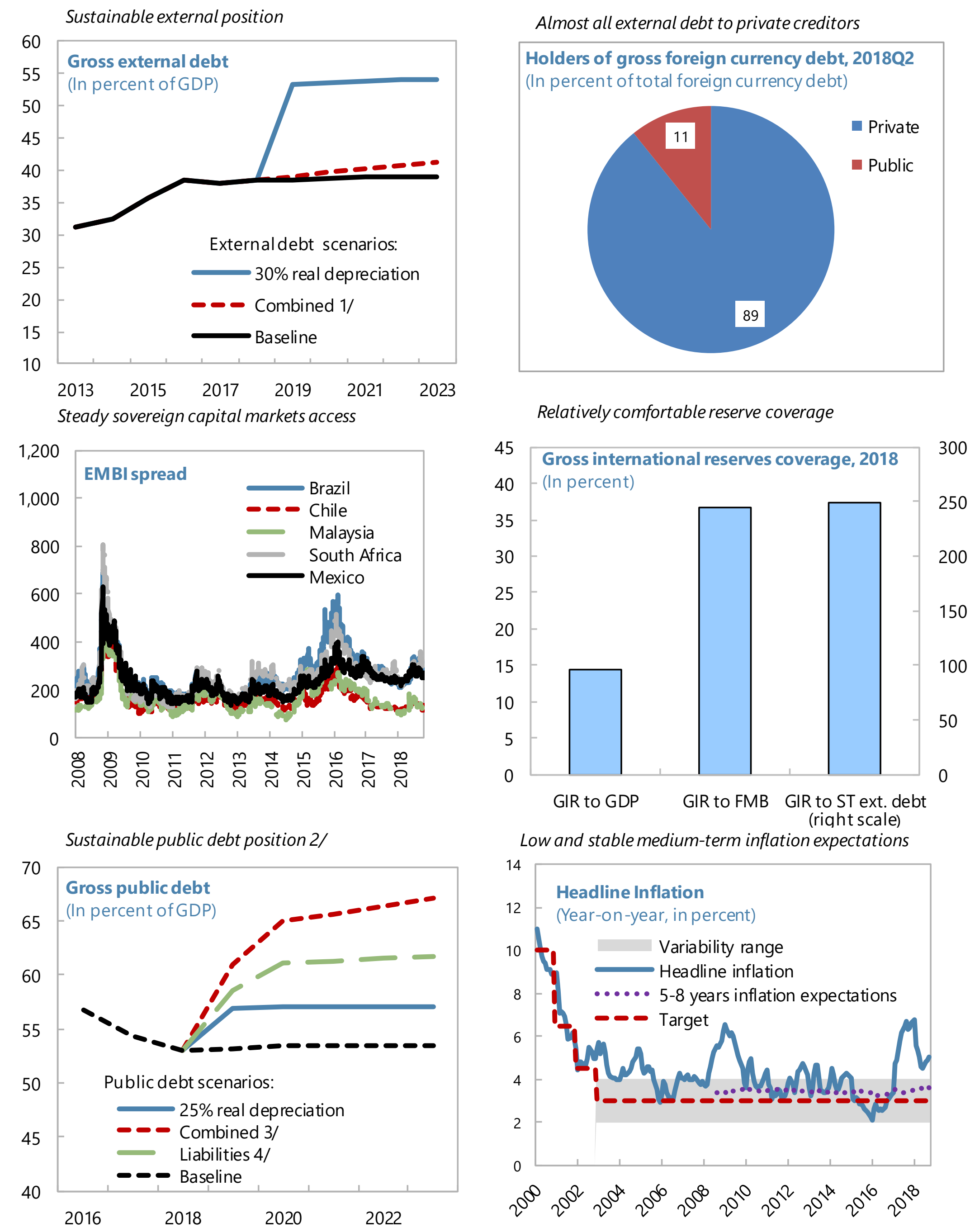
...while yields on local-currency government bonds have increased.

Government Bond Yields
(In percent)



Sources: National authorities; Haver Analytics; EPFR; INS; Bloomberg; and IMF staff calculations.
1/ Includes Brazil, Chile, Colombia, Czech Republic, India, Indonesia, Korea, Poland, Russia, Thailand, and Turkey.

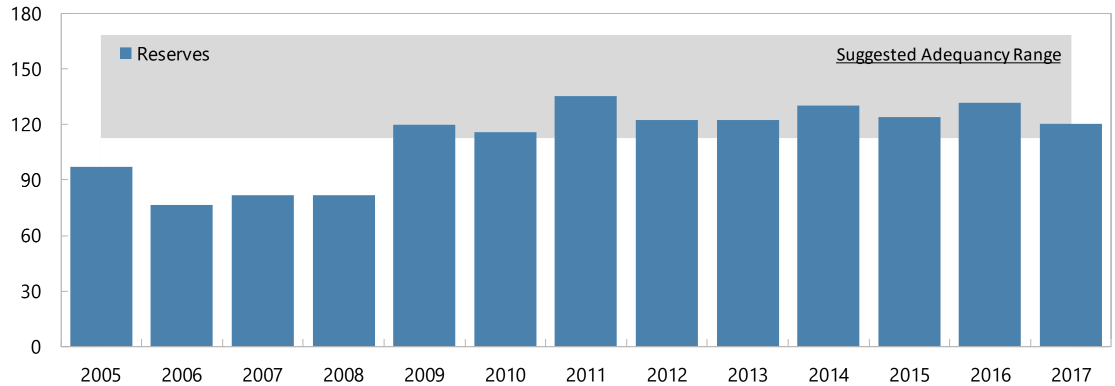
Figure 3. Mexico: Qualification Criteria



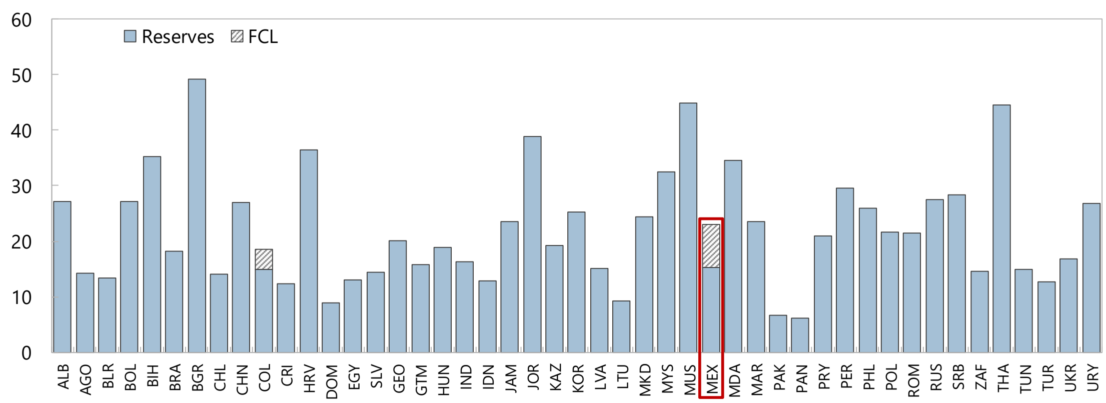
Sources: Bloomberg L.P., Datastream, EMED, Haver Analytics, and Fund staff estimates.
1/ Combined permanent 1/4 standard deviation shocks applied to interest rate, growth, and current account balance.
2/ Not taking into account offsetting measures required under the balanced budget rule.
3/ Combined 1 standard deviation reduction in GDP growth for two years, permanent 200bp shock applied to real interest rate, 25 percent real depreciation and 1/2 standard deviation shock to the primary balance for two years.
4/ One-time increase in non-interest expenditures equivalent to 10 percent of banking sector assets.

Figure 4. Mexico: Reserve Coverage in an International Perspective, 2017 1/

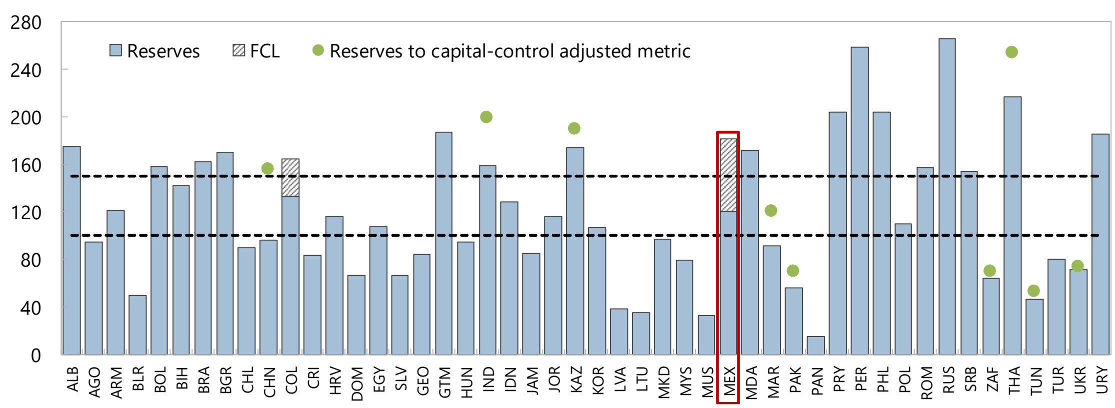
Reserves
(In percent of ARA Metric 1/)



Reserves
(In percent of GDP)



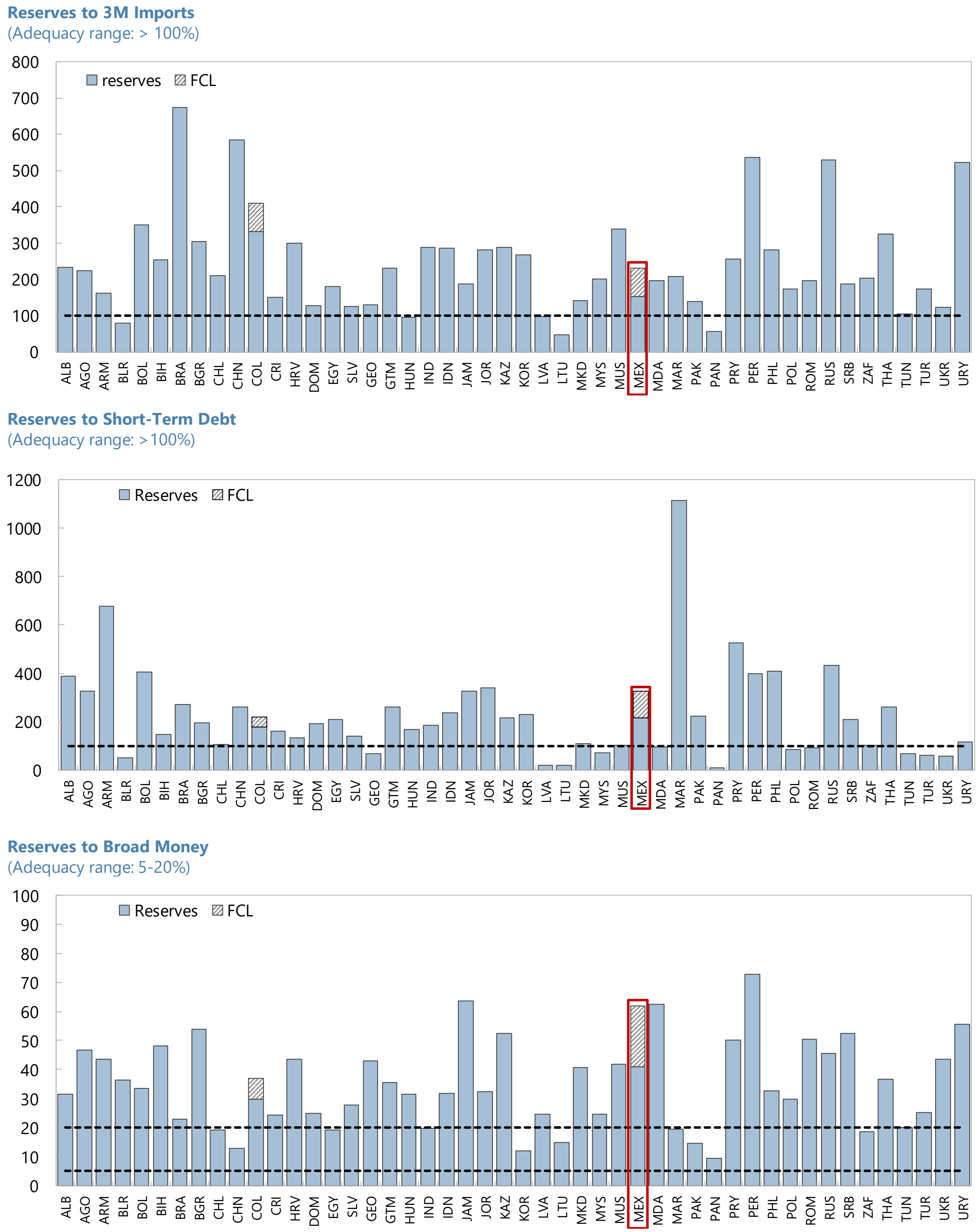
Reserves to ARA Metric 1/
(Adequacy range: 100-150%)



Sources: World Economic Outlook, Balance of Payments Statistics Database; and, IMF staff estimates

1/ The assessing reserve adequacy (ARA) metric for emerging markets comprises four components reflecting potential balance of payment drains: (i) export income, (ii) broad money, (iii) short-term debt, and (iv) other liabilities. The weight for each component is based on the 10th percentile of observed outflows from emerging markets during exchange market pressure episodes, distinguishing between fixed and flexible exchange rate regimes.

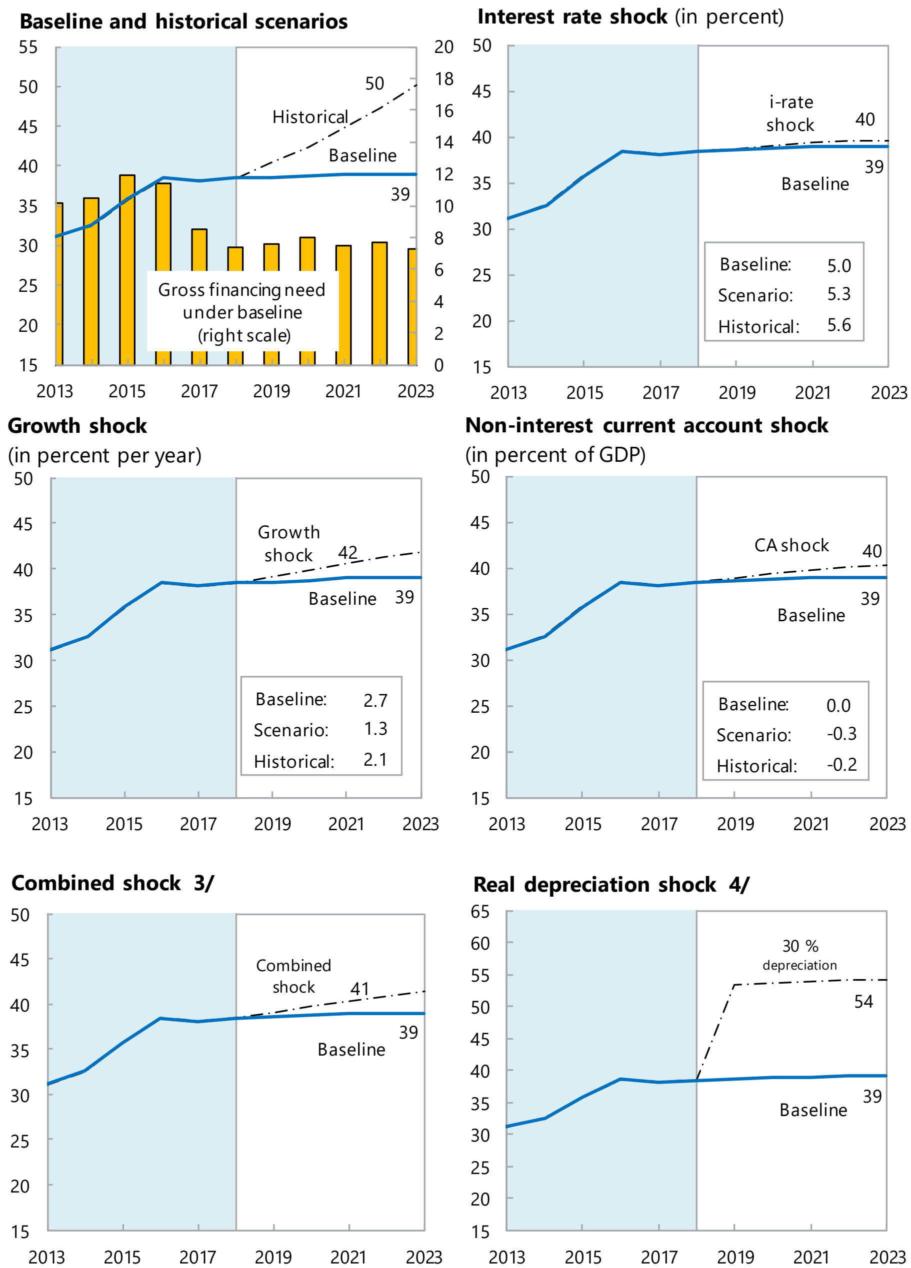
Figure 4. Mexico: Reserve Coverage in an International Perspective, 2017 (concluded)



Sources: World Economic Outlook, Balance of Payments Statistics Database; and, IMF staff estimates.

Figure 5. Mexico: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2017.

Figure 6. Mexico: Public DSA—Baseline Scenario

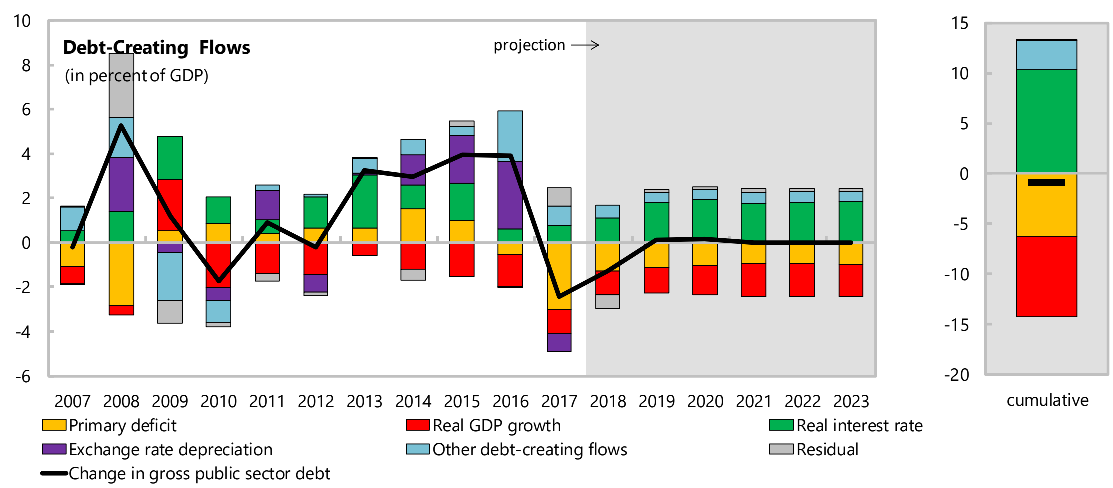
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of September 21, 2018		
	2007-2015 [2/]	2016	2017	2018	2019	2020	2021	2022	2023	Sovereign Spreads		
Nominal gross public debt	44.3	56.8	54.3	53.1	53.2	53.4	53.4	53.4	53.4	EMBIG (bp) 3/		263
Public gross financing needs	11.1	13.6	7.5	9.2	10.1	10.3	10.0	10.4	9.9	5Y CDS (bp)		116
Real GDP growth (in percent)	2.0	2.9	2.0	2.1	2.3	2.6	2.9	2.9	2.9	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	4.3	5.4	6.1	5.2	3.5	3.1	3.2	3.2	3.1	Moody's	A3	A3
Nominal GDP growth (in percent)	6.4	8.4	8.3	7.4	5.9	5.8	6.2	6.2	6.2	S&Ps	BBB+	A
Effective interest rate (in percent) [4/]	7.8	6.8	7.8	7.5	7.2	7.0	6.9	6.9	6.9	Fitch	BBB+	A-

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing
Change in gross public sector debt	1.7	3.9	-2.4	-1.3	0.1	0.2	0.0	0.0	0.0	-0.9	primary
Identified debt-creating flows	1.6	4.0	-3.3	-0.7	0.0	0.0	-0.1	-0.1	-0.1	-1.0	balance [9/]
Primary deficit	0.2	-0.6	-3.0	-1.3	-1.1	-1.0	-1.0	-1.0	-1.0	-6.3	0.8
Primary (noninterest) revenue and gra	24.0	24.6	24.8	23.5	21.7	21.8	21.7	21.7	21.8	132.0	
Primary (noninterest) expenditure	24.2	24.0	21.8	22.2	20.6	20.7	20.8	20.7	20.8	125.8	
Automatic debt dynamics [5/]	1.2	2.3	-1.1	0.1	0.7	0.6	0.3	0.3	0.4	2.4	
Interest rate/growth differential [6/]	0.6	-0.8	-0.3	0.1	0.7	0.6	0.3	0.3	0.4	2.4	
Of which: real interest rate	1.4	0.6	0.8	1.1	1.8	1.9	1.8	1.8	1.9	10.3	
Of which: real GDP growth	-0.8	-1.4	-1.1	-1.1	-1.2	-1.3	-1.5	-1.5	-1.5	-8.0	
Exchange rate depreciation [7/]	0.6	3.1	-0.8	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.2	2.2	0.8	0.6	0.5	0.5	0.5	0.5	0.5	2.9	
Please specify (1) (e.g., drawdown of	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in assets	0.2	2.2	0.8	0.6	0.5	0.5	0.5	0.5	0.5	2.9	
Residual [8/]	0.1	0.0	0.8	-0.6	0.1	0.1	0.1	0.1	0.1	0.1	



Source: IMF staff.

1/ Public sector is defined as the central government, state-owned enterprises, public sector development banks, and social security funds. Excludes local governments.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

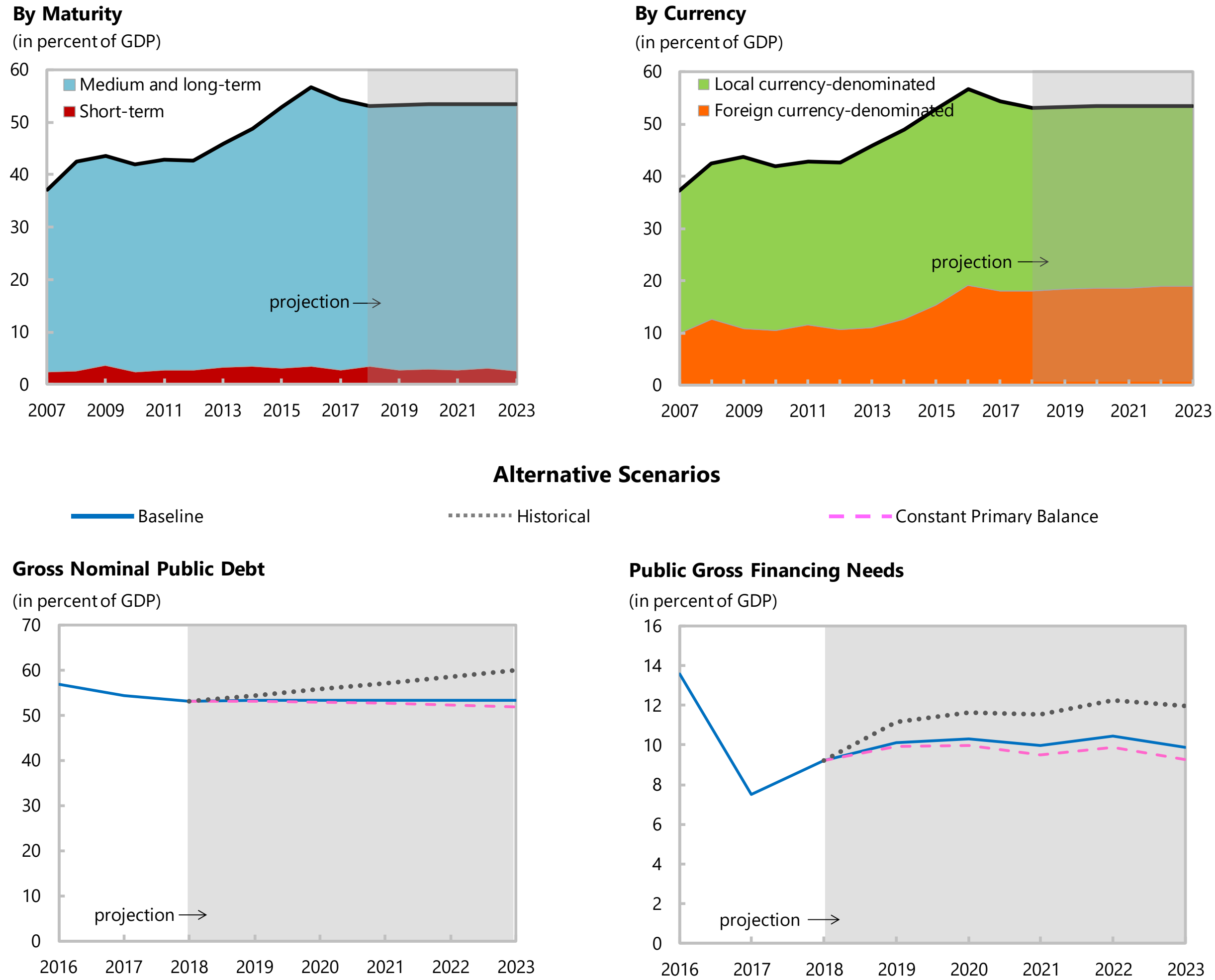
7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 7. Mexico: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt



Underlying Assumptions
(in percent)

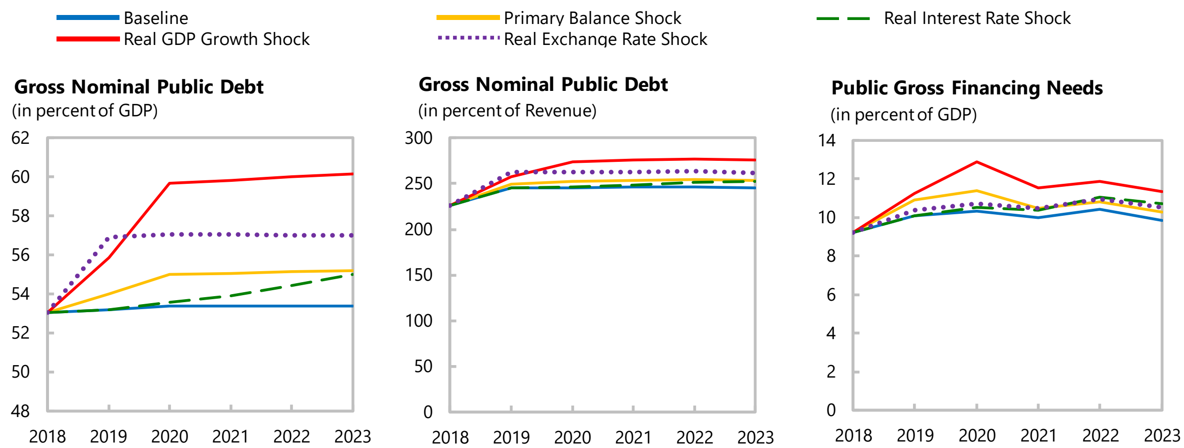
Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	2.1	2.3	2.6	2.9	2.9	2.9
Inflation	5.2	3.5	3.1	3.2	3.2	3.1
Primary Balance	1.3	1.1	1.0	1.0	1.0	1.0
Effective interest rate	7.5	7.2	7.0	6.9	6.9	6.9
Constant Primary Balance Scenario						
Real GDP growth	2.1	2.3	2.6	2.9	2.9	2.9
Inflation	5.2	3.5	3.1	3.2	3.2	3.1
Primary Balance	1.3	1.3	1.3	1.3	1.3	1.3
Effective interest rate	7.5	7.2	7.0	6.9	6.9	6.9

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	2.1	2.1	2.1	2.1	2.1	2.1
Inflation	5.2	3.5	3.1	3.2	3.2	3.1
Primary Balance	1.3	0.1	0.1	0.1	0.1	0.1
Effective interest rate	7.5	7.2	6.9	6.8	6.8	6.8

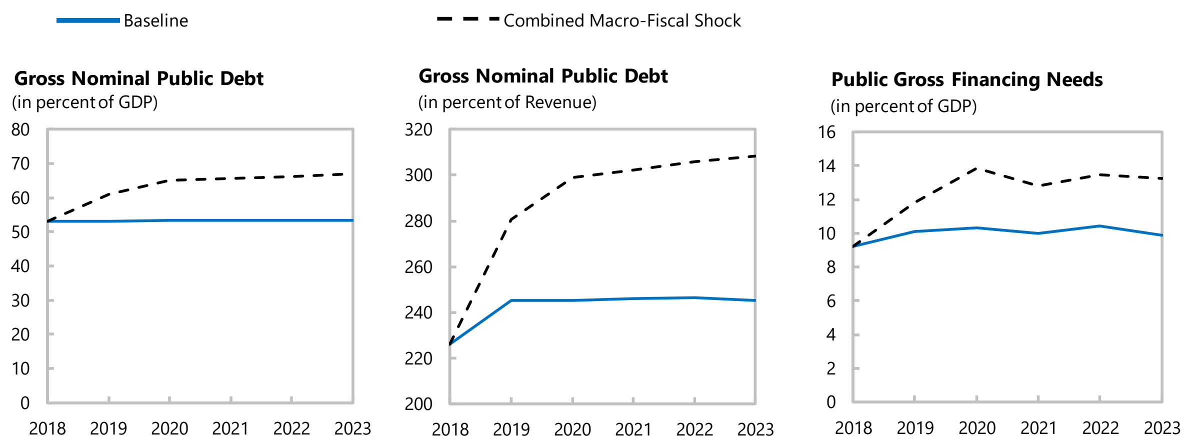
Source: IMF staff.

Figure 8. Mexico: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	2.1	2.3	2.6	2.9	2.9	2.9
Inflation	5.2	3.5	3.1	3.2	3.2	3.1
Primary balance	1.3	0.3	0.2	1.0	1.0	1.0
Effective interest rate	7.5	7.2	7.0	7.0	7.0	7.0
Real Interest Rate Shock						
Real GDP growth	2.1	2.3	2.6	2.9	2.9	2.9
Inflation	5.2	3.5	3.1	3.2	3.2	3.1
Primary balance	1.3	1.1	1.0	1.0	1.0	1.0
Effective interest rate	7.5	7.2	7.4	7.6	7.8	8.0
Combined Shock						
Real GDP growth	2.1	-0.5	-0.2	2.9	2.9	2.9
Inflation	5.2	2.8	2.4	3.2	3.2	3.1
Primary balance	1.3	0.3	-0.5	1.0	1.0	1.0
Effective interest rate	7.5	7.6	7.2	7.5	7.7	8.0

Real GDP Growth Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	2.1	-0.5	-0.2	2.9	2.9	2.9
Inflation	5.2	2.8	2.4	3.2	3.2	3.1
Primary balance	1.3	0.4	-0.5	1.0	1.0	1.0
Effective interest rate	7.5	7.2	7.0	7.0	7.0	7.0
Real Exchange Rate Shock						
Real GDP growth	2.1	2.3	2.6	2.9	2.9	2.9
Inflation	5.2	5.3	3.1	3.2	3.2	3.1
Primary balance	1.3	1.1	1.0	1.0	1.0	1.0
Effective interest rate	7.5	7.6	6.8	6.7	6.8	6.8

Source: IMF staff.

Table 1. Mexico: Selected Economic, Financial, and Social Indicators

I. Social and Demographic Indicators

GDP per capita (U.S. dollars, 2017)	9,318.8	Poverty headcount ratio (% of population, 2016) 1/	43.6
Population (millions, 2017)	123.5	Income share of highest 20 perc. / lowest 20 perc. (2016)	8.8
Life expectancy at birth (years, 2016)	77.1	Adult illiteracy rate (2015)	94.5
Infant mortality rate (per thousand, 2016)	12.6	Gross primary education enrollment rate (2016) 2/	103.9

II. Economic Indicators

					Proj.	
	2014	2015	2016	2017	2018	2019
	(Annual percentage change, unless otherwise indicated)					
National accounts (in real terms)						
GDP	2.8	3.3	2.9	2.0	2.1	2.3
Consumption	2.2	2.6	3.6	2.6	2.9	2.6
Private	2.1	2.7	3.8	3.0	3.0	2.6
Public	2.6	1.9	2.3	0.1	2.5	2.6
Investment	1.7	4.3	1.3	-1.6	1.5	1.9
Fixed	3.1	5.0	1.1	-1.5	1.5	2.0
Private	4.5	8.9	2.0	-0.5	1.4	2.0
Public	-2.3	-10.7	-3.4	-6.6	2.2	2.7
Inventories 3/	-0.3	-0.1	0.1	0.0	0.0	0.0
Exports of goods and services	7.0	8.4	3.5	3.8	6.3	4.0
Imports of goods and services	5.9	5.9	2.9	6.5	5.0	3.8
GDP per capita	1.7	2.2	1.8	1.0	1.1	1.3
External sector						
External current account balance (in percent of GDP)	-1.9	-2.6	-2.2	-1.7	-1.7	-1.8
Exports of goods, f.o.b. 7/	4.4	-4.1	-1.7	9.5	9.6	5.8
Export volume	6.5	7.6	2.3	3.7	6.3	4.0
Imports of goods, f.o.b. 7/	4.9	-1.2	-2.1	8.6	9.6	6.6
Import volume	6.2	6.2	2.9	6.5	5.0	3.8
Net capital inflows (in percent of GDP)	-4.5	-2.3	-3.0	-2.2	-1.9	-1.9
Terms of trade (improvement +)	-0.7	-4.2	0.9	3.4	-1.2	-1.0
Exchange rates						
Real effective exchange rate (CPI based, IFS)						
(average, appreciation +)	-1.0	-10.0	-13.4	2.4	...	...
Nominal exchange rate (MXN/USD)						
(end of period, appreciation +)	-12.6	-16.9	-20.5	4.6	...	...
Employment and inflation						
Consumer prices (end-of-period)	4.1	2.1	3.4	6.8	4.4	3.1
Core consumer prices (end-of-period)	3.2	2.4	3.4	4.9	3.4	3.1
Formal sector employment, IMSS-insured workers (average)	3.5	4.3	3.8	4.4	4.5	...
National unemployment rate (annual average)	4.8	4.3	3.9	3.4	3.5	3.6
Unit labor costs: manufacturing (real terms, average)	-1.2	1.6	3.5	0.7	...	...
Money and credit						
Financial system credit to non-financial private sector 4/	8.5	14.8	16.5	10.8	14.0	12.0
Broad money	12.2	12.3	12.5	11.1	9.6	7.9
Public sector finances (in percent of GDP) 5/						
General government revenue	23.4	23.5	24.6	24.8	23.5	21.7
General government expenditure	28.0	27.5	27.4	25.9	26.0	24.2
Overall fiscal balance	-4.5	-4.0	-2.8	-1.1	-2.5	-2.5
Gross public sector debt	48.9	52.8	56.8	54.3	53.1	53.2
Memorandum items						
Nominal GDP (billions of pesos)	17,473.8	18,551.5	20,115.8	21,785.3	23,386.7	24,762.5
Output gap	-0.1	0.7	1.0	0.4	-0.1	-0.4

Sources: World Bank Development Indicators, CONEVAL, National Institute of Statistics and Geography, National Council of Population, Bank of Mexico, Secretariat of Finance and Public Credit, and Fund staff estimates.

1/ CONEVAL uses a multi-dimensional approach to measuring poverty based on a "social deprivation index," which takes into account the level of income; education; access to health services; to social security; to food; and quality, size, and access to basic services in the dwelling.
2/ Percent of population enrolled in primary school regardless of age as a share of the population of official primary education age.
3/ Contribution to growth. Excludes statistical discrepancy.
4/ Includes domestic credit by banks, nonbank intermediaries, and social housing funds.
5/ Data exclude state and local governments and include state-owned enterprises and public development banks.

Table 2. Mexico: Statement of Operations of the Public Sector, Authorities' Presentation 1/

(In percent of GDP)

					Proj.					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Budgetary revenue, by type	**22.8**	**23.0**	**24.1**	**22.7**	**21.5**	**20.4**	**20.4**	**20.4**	**20.5**	**20.5**
Oil revenue	7.0	4.5	3.9	3.8	4.3	3.8	3.7	3.7	3.7	3.7
Non-oil tax revenue	10.3	12.8	13.5	13.1	13.1	12.7	12.7	12.7	12.7	12.7
Non-oil non-tax revenue 2/	5.5	5.7	6.7	5.8	4.1	4.0	4.0	4.0	4.1	4.1
Budgetary revenue, by entity	**22.8**	**23.0**	**24.1**	**22.7**	**21.5**	**20.4**	**20.4**	**20.4**	**20.5**	**20.5**
Federal government revenue	16.5	17.1	17.8	17.6	16.2	15.7	15.7	15.6	15.6	15.7
Tax revenue, *of which:*	10.3	12.8	13.5	13.1	13.1	12.7	12.7	12.7	12.7	12.7
Excises (including fuel)	0.6	1.9	2.0	1.7	1.5	1.6	1.6	1.6	1.6	1.6
Nontax revenue	6.2	4.4	4.3	4.5	3.2	3.0	3.0	3.0	3.0	3.0
Public enterprises	6.3	5.9	6.3	5.1	5.2	4.7	4.8	4.8	4.9	4.9
PEMEX	2.5	2.3	2.4	1.8	1.9	1.4	1.5	1.5	1.5	1.5
Other	3.7	3.5	3.9	3.3	3.4	3.3	3.3	3.3	3.4	3.4
Budgetary expenditure	**25.9**	**26.4**	**26.6**	**23.8**	**23.5**	**22.4**	**22.4**	**22.5**	**22.5**	**22.6**
Primary	23.9	24.2	24.2	21.3	20.7	19.8	19.9	20.0	20.0	20.1
Programmable	20.5	20.6	20.7	17.7	16.8	16.2	16.2	16.3	16.3	16.3
Current	15.3	15.6	14.8	14.1	13.8	13.4	13.4	13.4	13.4	13.4
Wages	5.8	5.8	5.5	5.3	5.2	5.2	5.2	5.2	5.2	5.2
Pensions 3/	3.0	3.2	3.2	3.2	3.5	3.5	3.5	3.5	3.5	3.5
Subsidies and transfers	3.6	3.6	3.4	2.9	2.6	2.6	2.6	2.6	2.6	2.6
Other	2.9	3.0	2.7	2.7	2.5	2.1	2.1	2.1	2.1	2.1
Capital	5.1	5.0	5.9	3.6	3.0	2.8	2.8	2.9	2.9	2.9
Physical capital	4.7	4.2	3.6	2.6	2.7	2.7	2.8	2.9	2.9	2.9
Financial capital 4/	0.4	0.9	2.3	1.0	0.4	0.1	0.1	0.1	0.1	0.1
Nonprogrammable	3.5	3.5	3.6	3.6	3.9	3.7	3.7	3.7	3.7	3.8
Of which: revenue sharing	3.3	3.4	3.4	3.5	3.6	3.4	3.5	3.6	3.6	3.6
Interest payments	**2.0**	**2.2**	**2.4**	**2.4**	**2.7**	**2.7**	**2.7**	**2.7**	**2.7**	**2.7**
Unidentified measures	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.1**	**-0.1**	**-0.2**	**-0.2**	**-0.2**
Traditional balance	**-3.1**	**-3.4**	**-2.5**	**-1.1**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.0**
Adjustments to the traditional balance	**-1.4**	**-0.6**	**-0.3**	**0.0**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**
Public Sector Borrowing Requirements	**4.5**	**4.0**	**2.8**	**1.1**	**2.5**	**2.5**	**2.5**	**2.5**	**2.5**	**2.5**
Memorandum items										
Structural current spending 5/	12.0	12.0	11.1	10.9						
Structural current spending real growth (y/y, in percent)	7.0	3.3	-5.0	0.4						

Sources: Ministry of Finance and Public Credit; and IMF staff estimates.

1/ Data exclude state and local governments, and include state-owned enterprises and public development banks.

2/ Includes revenues from the oil-price hedge for 0.6 percent of GDP in 2015 and 0.3 percent of GDP in 2016; and Bank of Mexico's operating surplus transferred to the federal government for 0.2 percent of GDP in 2015, 1.2 percent of GDP in 2016, and 1.5 percent of GDP in 2017.

3/ Includes social assistance benefits.

4/ Due to lack of disaggregated data this item includes both financing and capital transfers.

5/ The 2014 amendment to the FRL introduced a cap on the real growth rate of structural current spending set at 2.0 percent for 2015 and 2016, and equal to potential growth thereafter. Structural current spending is defined as total budgetary expenditure, excluding: (i) interest payments; (ii) non-programable spending; (iii) cost of fuels for electricity generation; (iv) public sector pensions; (v) direct physical and financial investment of the federal government; and (vi) expenditure by state productive enterprises and their subsidiaries.

Table 3. Mexico: Statement of Operations of the Public Sector, GFSM 2014 Presentation 1/

(In percent of GDP)

	2014	2015	2016	2017	Proj. 2018	2019	2020	2021	2022	2023
Revenue	**23.4**	**23.5**	**24.6**	**24.8**	**23.4**	**21.7**	**21.8**	**21.7**	**21.7**	**21.8**
Taxes	**10.6**	**12.7**	**13.5**	**13.1**	**13.1**	**12.7**	**12.7**	**12.7**	**12.7**	**12.7**
Taxes on income, profits and capital gains	5.5	6.6	7.1	7.2	7.1	6.6	6.6	6.6	6.6	6.6
Taxes on goods and services	4.7	5.7	6.0	5.4	5.6	5.6	5.7	5.7	5.7	5.7
Value added tax	3.8	3.8	3.9	3.7	4.1	4.1	4.1	4.1	4.1	4.1
Excises	0.9	1.9	2.0	1.7	1.5	1.6	1.6	1.6	1.6	1.6
Taxes on international trade and transactions	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other taxes	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Social contributions	**2.1**	**2.2**	**2.1**	**2.1**	**2.1**	**2.0**	**2.0**	**2.0**	**2.1**	**2.0**
Other revenue	**10.7**	**8.6**	**9.0**	**9.6**	**8.3**	**7.0**	**7.1**	**7.0**	**6.9**	**7.0**
Property income 2/	6.1	4.3	4.1	4.6	3.0	2.9	2.9	2.8	2.8	2.8
Other	4.6	4.3	4.8	5.0	5.3	4.1	4.2	4.2	4.1	4.2
Total expenditure	**28.0**	**27.5**	**27.4**	**25.9**	**26.0**	**24.2**	**24.3**	**24.2**	**24.2**	**24.3**
Expense	**24.7**	**24.7**	**24.7**	**24.2**	**24.2**	**22.5**	**22.5**	**22.5**	**22.4**	**22.5**
Compensation of employees	3.8	3.7	3.5	3.4	3.4	3.3	3.3	3.3	3.3	3.3
Purchases of goods and services	3.4	3.8	3.8	3.3	3.1	2.6	2.6	2.6	2.6	2.6
Interest 3/	3.0	3.0	3.3	4.1	3.8	3.6	3.5	3.5	3.5	3.5
Subsidies	2.4	2.0	2.0	1.9	1.5	1.5	1.5	1.5	1.5	1.5
o/w fuel subsidy	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants 4/	9.0	9.0	8.6	8.3	8.3	8.1	8.3	8.3	8.3	8.3
Social benefits	3.0	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Other expense	0.1	-0.1	0.2	0.1	0.9	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets 5/	**3.2**	**2.9**	**2.7**	**1.6**	**1.7**	**1.7**	**1.7**	**1.7**	**1.7**	**1.7**
Gross Operating Balance	**-1.3**	**-1.2**	**-0.1**	**0.5**	**-0.8**	**-0.8**	**-0.8**	**-0.8**	**-0.8**	**-0.8**
Overall Fiscal Balance (Net lending/borrowing)	**-4.5**	**-4.0**	**-2.8**	**-1.1**	**-2.5**	**-2.5**	**-2.5**	**-2.5**	**-2.5**	**-2.5**
Primary net lending/borrowing	**-1.5**	**-1.0**	**0.5**	**3.0**	**1.3**	**1.1**	**1.0**	**1.0**	**1.0**	**1.0**
Memorandum items										
Primary expenditure	24.9	24.5	24.0	21.8	22.2	20.6	20.7	20.8	20.7	20.8
Current expenditure	24.7	24.7	24.7	24.2	24.2	22.5	22.5	22.5	22.4	22.5
Structural fiscal balance	-4.7	-4.5	-4.0	-2.4	-2.6	-2.5	-2.5	-2.5	-2.5	-2.5
Structural primary balance 6/	-1.7	-1.5	-0.7	1.7	1.2	1.1	1.0	0.9	0.9	1.0
Fiscal impulse 7/	0.6	-0.2	-0.8	-2.4	0.5	0.1	0.1	0.1	0.0	0.0
Gross public sector debt 8/	48.9	52.8	56.8	54.3	53.1	53.2	53.4	53.4	53.4	53.4
In domestic currency (percentage of total debt)	74.0	70.9	66.3	66.7	65.8	65.2	65.1	65.3	64.6	64.5
In foreign currency (percentage of total debt)	26.0	29.1	33.7	33.3	34.2	34.8	34.9	34.7	35.4	35.5
Net public sector debt 9/	42.6	46.5	48.7	46.0	44.8	44.9	45.1	45.1	45.1	45.1

Sources: Ministry of Finance and Public Credit; and Fund staff estimates and projections.

1/ Data exclude state and local governments, and include state-owned enterprises and public development banks.

2/ Includes revenues from the oil-price hedge for 0.6 percent of GDP in 2015 and 0.3 percent of GDP in 2016, treated as revenues from an insurance claim. It includes also Bank of Mexico's operating surplus transferred to the federal government for 0.2 percent of GDP in 2015, 1.2 percent of GDP in 2016, and 1.5 percent of GDP in 2017.

3/ Interest payments differ from official data due to adjustments to account for changes in valuation and interest rates.

4/ Includes transfers to state and local governments under revenue-sharing agreements with the federal government.

5/ This category differs from official data on physical capital spending due to adjustments to account for Pidiregas amortizations included in budget figures and the reclassification of earmarked transfers to sub-national governments.

6/ Adjusting revenues for the economic and oil-price cycles and excluding one-off items (e.g. oil hedge income and Bank of Mexico transfers).

7/ Negative of the change in the structural primary fiscal balance.

8/ Corresponds to the gross stock of public sector borrowing requirements, calculated as the net stock of public sector borrowing requirements as published by the authorities plus public sector financial assets.

9/ Corresponds to the net stock of public sector borrowing requirements (i.e., net of public sector financial assets) as published by the authorities.

Table 4a. Mexico: Summary Balance of Payments

(In billions of U.S. dollars, unless otherwise indicated)

					Proj.					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Current account	**-24.6**	**-30.3**	**-23.9**	**-19.5**	**-20.7**	**-23.2**	**-25.2**	**-26.6**	**-28.6**	**-30.0**
Merchandise goods trade balance	-3.1	-14.7	-13.1	-11.0	-12.0	-16.7	-16.8	-15.1	-13.2	-12.1
Exports, f.o.b. 2/	396.9	380.5	373.9	409.4	448.7	474.5	502.7	529.9	567.1	600.4
o/w Manufactures	337.3	340.0	336.1	364.4	394.5	417.8	436.8	457.7	481.0	505.3
o/w Petroleum and derivatives 1/	42.4	23.1	18.8	23.7	29.9	28.0	27.1	28.7	30.4	31.5
Imports, f.o.b. 2/	400.0	395.2	387.1	420.4	460.7	491.2	519.5	545.0	580.4	612.5
o/w Petroleum and derivatives 1/	41.5	33.3	31.6	42.0	50.3	50.1	49.0	48.7	48.9	49.7
Services, net	-13.3	-9.7	-8.9	-9.8	-9.5	-9.7	-10.8	-11.5	-12.5	-13.4
Primary income, net	-31.3	-30.1	-28.4	-28.3	-30.6	-29.2	-31.5	-35.9	-40.8	-44.2
Secondary income (mostly remittances), net	22.8	24.1	26.5	29.7	31.3	32.5	33.9	35.9	37.9	39.8
Capital Account, net	**0.0**	**-0.1**	**0.0**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Financial Account (Net lending (+)/Net borrowing (-))	**-43.1**	**-43.1**	**-32.3**	**-29.7**	**-20.6**	**-23.0**	**-25.1**	**-26.5**	**-28.4**	**-29.8**
Foreign direct investment, net	-24.0	-24.5	-28.8	-28.7	-29.4	-29.8	-33.7	-36.5	-39.6	-44.6
Net acquisition of financial assets	7.0	12.3	6.7	3.4	3.4	3.5	3.5	3.5	3.5	3.5
Net incurrence of liabilities	31.0	36.8	35.4	32.1	32.7	33.3	37.2	40.0	43.1	48.1
Portfolio investment, net	-48.6	-25.0	-31.2	-8.1	-18.6	-11.3	-11.3	-15.2	-15.3	-15.2
Net acquisition of financial assets	0.7	-4.5	-1.6	15.8	2.0	6.0	5.0	4.0	2.5	2.0
Net incurrence of liabilities	49.2	20.5	29.7	24.0	20.6	17.3	16.3	19.2	17.8	17.2
Public Sector	36.0	16.9	21.4	5.8	15.5	11.5	11.0	13.9	12.5	11.9
o/w Local currency domestic-issued bonds	23.1	1.3	-1.5	-0.3	3.0	6.0	5.0	6.9	6.0	5.5
Private sector	13.2	3.6	8.2	18.2	5.1	5.8	5.3	5.3	5.3	5.3
Securities issued abroad	8.4	0.0	-1.2	7.9	1.1	3.3	3.3	3.3	3.3	3.3
Equity	4.8	3.6	9.5	10.3	4.0	2.5	2.0	2.0	2.0	2.0
Pidiregas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives, net	0.8	-4.6	-0.4	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investments, net	12.3	26.6	28.3	8.0	24.8	16.5	13.4	18.7	19.9	23.4
Net acquisition of financial assets	16.6	26.4	24.8	5.5	31.6	18.5	15.4	20.7	21.9	25.4
Net incurrence of liabilities	4.3	-0.3	-3.5	-2.4	6.8	2.0	2.0	2.0	2.0	2.0
Change in Reserves Assets	16.3	-15.7	-0.1	-4.8	2.5	1.5	6.5	6.5	6.5	6.5
Total change in gross reserves assets	15.5	-18.1	0.4	-2.6	2.5	1.5	6.5	6.5	6.5	6.5
Valuation change	0.8	2.4	-0.6	-2.2	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	**-18.5**	**-12.7**	**-8.4**	**-10.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
International Investment Position, net	**-602.4**	**-601.0**	**-530.9**	**-557.5**	**-575.1**	**-598.1**	**-623.2**	**-649.7**	**-678.1**	**-707.9**
Memorandum items										
Hydrocarbons exports volume growth (in percent)	-4.2	2.7	2.0	1.2	-0.1	-6.5	1.3	10.6	9.7	5.4
Non-hydrocarbons exports volume growth (in percent)	6.9	7.7	2.3	3.8	6.5	4.3	4.2	4.7	4.7	4.8
Hydrocarbons imports volume growth (in percent)	-4.4	16.0	15.5	12.3	8.0	2.8	2.6	3.1	2.7	2.8
Non-hydrocarbons imports volume growth (in percent)	6.5	6.0	2.6	6.3	4.9	3.8	4.6	4.8	5.0	5.0
Crude oil export volume (in millions of bbl/day)	1.1	1.2	1.2	1.2	1.1	1.1	1.1	1.2	1.3	1.4
Gross international reserves (in billions of U.S. dollars)	195.7	177.6	178.0	175.4	178.0	179.5	186.1	192.6	199.1	205.7
Gross domestic product (in billions of U.S. dollars)	1,314.6	1,170.6	1,077.8	1,151.0	1,227.8	1,294.3	1,359.8	1,433.2	1,509.9	1,590.2

Sources: Bank of Mexico, Ministry of Finance and Public Credit, and Fund staff estimates.
1/ Crude oil, derivatives, petrochemicals, and natural gas.
2/ Excludes goods procured in ports by carriers.

Table 4b. Mexico: Summary Balance of Payments

(In percent of GDP)

					Proj.					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Current account	**-1.9**	**-2.6**	**-2.2**	**-1.7**	**-1.7**	**-1.8**	**-1.9**	**-1.9**	**-1.9**	**-1.9**
Merchandise goods trade balance	-0.2	-1.3	-1.2	-1.0	-1.0	-1.3	-1.2	-1.1	-0.9	-0.8
Exports, f.o.b. 2/	30.2	32.5	34.7	35.6	36.5	36.7	37.0	37.0	37.6	37.8
o/w Manufactures	25.7	29.0	31.2	31.7	32.1	32.3	32.1	31.9	31.9	31.8
o/w Petroleum and derivatives 1/	3.2	2.0	1.7	2.1	2.4	2.2	2.0	2.0	2.0	2.0
Imports, f.o.b. 2/	30.4	33.8	35.9	36.5	37.5	38.0	38.2	38.0	38.4	38.5
o/w Petroleum and derivatives 1/	3.2	2.8	2.9	3.6	4.1	3.9	3.6	3.4	3.2	3.1
Services, net	-1.0	-0.8	-0.8	-0.9	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Primary income, net	-2.4	-2.6	-2.6	-2.5	-2.5	-2.3	-2.3	-2.5	-2.7	-2.8
Secondary income (mostly remittances), net	1.7	2.1	2.5	2.6	2.6	2.5	2.5	2.5	2.5	2.5
Capital Account, net	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial Account (Net lending (+)/Net borrowing (-))	**-3.3**	**-3.7**	**-3.0**	**-2.6**	**-1.7**	**-1.8**	**-1.8**	**-1.8**	**-1.9**	**-1.9**
Foreign direct investment, net	-1.8	-2.1	-2.7	-2.5	-2.4	-2.3	-2.5	-2.5	-2.6	-2.8
Net acquisition of financial assets	0.5	1.1	0.6	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Net incurrence of liabilities	2.4	3.1	3.3	2.8	2.7	2.6	2.7	2.8	2.9	3.0
Portfolio investment, net	-3.7	-2.1	-2.9	-0.7	-1.5	-0.9	-0.8	-1.1	-1.0	-1.0
Net acquisition of financial assets	0.1	-0.4	-0.1	1.4	0.2	0.5	0.4	0.3	0.2	0.1
Net incurrence of liabilities	3.7	1.7	2.8	2.1	1.7	1.3	1.2	1.3	1.2	1.1
Public Sector	2.7	1.4	2.0	0.5	1.3	0.9	0.8	1.0	0.8	0.7
o/w Local currency domestic-issued bonds	1.8	0.1	-0.1	0.0	0.2	0.5	0.4	0.5	0.4	0.3
Private sector	1.0	0.3	0.8	1.6	0.4	0.4	0.4	0.4	0.4	0.3
Securities issued abroad	0.6	0.0	-0.1	0.7	0.1	0.3	0.2	0.2	0.2	0.2
Equity	0.4	0.3	0.9	0.9	0.3	0.2	0.1	0.1	0.1	0.1
Pidiregas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives, net	0.1	-0.4	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Other investments, net	0.9	2.3	2.6	0.7	2.0	1.3	1.0	1.3	1.3	1.5
Net acquisition of financial assets	1.3	2.3	2.3	0.5	2.6	1.4	1.1	1.4	1.5	1.6
Net incurrence of liabilities	0.3	0.0	-0.3	-0.2	0.6	0.2	0.1	0.1	0.1	0.1
Change in Reserves Assets	1.2	-1.3	0.0	-0.4	0.2	0.1	0.5	0.5	0.4	0.4
Total change in gross reserves assets	1.2	-1.5	0.0	-0.2	0.2	0.1	0.5	0.5	0.4	0.4
Valuation change	0.1	0.2	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	**-1.4**	**-1.1**	**-0.8**	**-0.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
International Investment Position, net	**-45.8**	**-51.3**	**-49.3**	**-48.4**	**-46.8**	**-46.2**	**-45.8**	**-45.3**	**-44.9**	**-44.5**

Sources: Bank of Mexico, Ministry of Finance and Public Credit, and Fund staff estimates.
1/ Crude oil, derivatives, petrochemicals, and natural gas.
2/ Excludes goods procured in ports by carriers.

Table 5. Mexico: Financial Soundness Indicators

(In percent)

	2015	2016	2017	2018	Latest data available 1/
Capital Adequacy					
Regulatory capital to risk-weighted assets	15.0	14.9	15.6	15.9	August
Regulatory Tier 1 capital to risk-weighted assets	13.3	13.2	14.2	14.2	August
Capital to assets	10.4	9.9	10.4	10.7	August
Gross asset position in financial derivatives to capital	61.1	91.8	71.1	61.0	August
Gross liability position in financial derivatives to capital	65.1	96.5	76.0	61.4	August
Asset Quality					
Nonperforming loans to total gross loans	2.5	2.1	2.1	2.1	August
Provisions to Nonperforming loans	140.5	157.1	154.8	150.6	August
Earnings and Profitability					
Return on assets	1.6	1.7	2.0	2.2	August
Return on equity	15.4	16.3	19.6	20.7	August
Liquidity					
Liquid assets to short-term liabilities	45.5	42.4	42.2	41.2	August
Liquid assets to total assets	34.6	31.4	32.0	30.9	August
Customer deposits to total (noninterbank) loans	87.7	88.9	91.4	87.9	August
Trading income to total income	3.3	4.4	5.0	4.9	August

Sources: Financial Soundness Indicators.
1/ End of period.

Table 6. Mexico: Financial Indicators and Measures of External Vulnerabilities

	2015	2016	2017	2018	Latest data available
Financial market indicators					
Exchange rate (per U.S. dollar, average)	17.2	20.7	19.8	19.1	Oct-18
(year-to-date percent change, + appreciation)	-16.9	-20.5	4.6	-1.4	Oct-18
28-day treasury auction rate (percent; period average)	3.0	4.1	6.7	7.6	Oct-18
EMBIG Mexico spread (basis points; period average)	250.9	303.5	256.0	260.6	Nov-18
Sovereign 10-year local currency bond yield (period average)	6.0	6.2	7.2	7.8	Nov-18
Stock exchange index (period average, year on year percent change)	3.1	3.8	7.5	-2.1	Nov-18
Financial system					
Bank of Mexico net international reserves (US$ billion)	176.7	176.5	172.8	175.3	Proj.
Financial system credit on non-financial private sector (year on year percent change)	14.8	16.5	10.8	14.0	Proj.
Nonperforming loans to total gross loans	2.5	2.1	2.1	2.1	Aug-18
External vulnerability indicators					
Gross financing needs (billions of US$)	121.0	123.3	95.2	95.2	Proj.
Gross international reserves (end-year, billions of US$) 1/	177.6	178.0	175.4	178.0	Sep-18
Change (billions of US$)	-18.1	0.4	-2.6	0.4	Sep-18
Months of imports of goods and services	5.0	5.1	4.7	4.8	Proj.
Months of imports plus interest payments	4.8	4.9	4.5	4.6	Proj.
Percent of broad money	38.7	40.3	43.0	38.0	Proj.
Percent of portfolio liabilities	37.7	39.7	35.1	35.6	Proj.
Percent of short-term debt (by residual maturity)	185.2	234.7	264.8	264.8	Proj.
Percent of ARA Metric 2/	125.8	134.4	122.2	122.2	Proj.
Percent of GDP	15.2	16.5	15.2	14.7	Jun-18
Gross total external debt (in percent of GDP)	35.7	38.5	38.1	38.5	Proj.
Of which: In local currency	10.5	9.5	9.3	9.0	Proj.
Of which: Public debt	24.0	25.9	25.8	25.6	Proj.
Of which: Private debt	11.7	12.6	12.3	12.9	Proj.
Financial sector	1.3	1.3	1.0		
Nonfinancial sector	10.5	11.3	11.4		
Gross total external debt (billions of US$)	418.3	414.6	438.6	472.1	Proj.
Of which: In local currency	123.3	102.1	107.2	110.2	Proj.
Of which: Public debt	281.0	278.7	296.6	313.9	Proj.
Of which: Private debt	137.3	135.9	142.0	158.2	Proj.
Financial sector	16.3	15.5	14.0		
Nonfinancial sector	121.1	120.5	128.0		
External debt service (in percent of GDP)	10.7	10.8	8.5	7.2	Proj.

Sources: Bank of Mexico, National Banking and Securities Commission, National Institute of Statistics and Geography, Ministry of Finance and Public Credit, and Fund staff estimates.

1/ Excludes balances under bilateral payments accounts. For 2009, includes the allocation of SDR 2.337 billion in the general allocation implemented on August 28, 2009, and another SDR 0.224 billion in the special allocation on September 9.

2/ The ARA metric was developed by the Strategy and Policy Review Department at the IMF to assess reserve adequacy. Weights to individual components were revised in December 2014 for the whole time series.

Table 7. Mexico: Baseline Medium-Term Projections

	2014	2015	2016	2017	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.
	(Annual percentage change, unless otherwise noted)									
National accounts (in real terms)										
GDP	2.8	3.3	2.9	2.0	2.1	2.3	2.6	2.9	2.9	2.9
Consumption	2.2	2.6	3.6	2.6	2.9	2.6	2.4	2.4	2.5	2.5
Private	2.1	2.7	3.8	3.0	3.0	2.6	2.4	2.4	2.5	2.5
Public	2.6	1.9	2.3	0.1	2.5	2.6	2.6	2.6	2.6	2.6
Investment	1.7	4.3	1.3	-1.6	1.5	1.9	3.9	4.7	4.7	4.6
Fixed	3.1	5.0	1.1	-1.5	1.5	2.0	4.1	4.9	4.9	4.7
Private	4.5	8.9	2.0	-0.5	1.4	2.0	4.3	5.1	5.1	4.9
Public	-2.3	-10.7	-3.4	-6.6	2.2	2.7	2.7	3.7	3.7	3.7
Inventories 1/	-0.3	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	7.0	8.4	3.5	3.8	6.3	4.0	4.2	4.8	4.8	4.8
Oil exports	-4.2	2.7	2.0	1.2	-0.1	-6.5	1.3	10.6	9.7	5.4
Non-oil exports	7.3	8.6	3.5	3.9	6.5	4.2	4.2	4.7	4.7	4.8
Imports of goods and services	5.9	5.9	2.9	6.5	5.0	3.8	4.5	4.7	4.9	4.9
Oil imports	-4.4	16.0	15.5	12.3	8.0	2.8	2.6	3.1	2.7	2.8
Non-oil imports	6.2	5.7	2.6	6.1	2.7	4.5	4.8	5.0	4.9	4.8
Net exports 1/	0.3	0.7	0.2	-0.9	0.4	0.1	-0.1	0.0	-0.1	-0.1
Consumer prices										
End of period	4.1	2.1	3.4	6.8	4.4	3.1	3.0	3.0	3.0	3.0
Average	4.0	2.7	2.8	6.0	4.8	3.6	3.0	3.0	3.0	3.0
External sector										
Current account balance (in percent of GDP)	-1.9	-2.6	-2.2	-1.7	-1.7	-1.8	-1.9	-1.9	-1.9	-1.9
Non-hydrocarbon current account balance (in percent of GDP)	-1.9	-1.7	-1.0	-0.1	0.0	-0.1	-0.2	-0.5	-0.7	-0.7
Exports of goods, f.o.b.	4.4	-4.1	-1.7	9.5	9.6	5.8	5.9	5.4	7.0	5.9
Imports of goods, f.o.b.	4.9	-1.2	-2.1	8.6	9.6	6.6	5.8	4.9	6.5	5.5
Terms of trade (improvement +)	-0.7	-4.2	0.9	3.4	-1.2	-1.0	0.5	0.4	0.7	0.4
Crude oil export price, Mexican mix (US$/bbl)	87.7	44.3	35.8	46.4	60.7	60.1	57.4	55.1	53.6	52.6
	(In percent of GDP)									
Non-financial public sector										
Overall balance	-4.5	-4.0	-2.8	-1.1	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
Primary balance	-1.5	-1.0	0.6	3.0	1.3	1.1	1.0	1.0	1.0	1.0
Saving and investment 2/										
Gross domestic investment	21.9	23.3	23.7	23.1	23.1	23.1	23.2	23.5	23.7	23.9
Fixed investment	21.0	22.5	22.9	22.3	22.4	22.4	22.6	22.9	23.1	23.4
Public	4.1	3.6	3.5	3.2	3.4	3.4	3.4	3.4	3.4	3.4
Private	16.9	18.9	19.5	19.1	19.0	19.0	19.2	19.4	19.7	19.9
Gross domestic saving	20.0	20.7	21.5	21.4	21.4	21.3	21.4	21.6	21.8	22.0
Public	-0.4	-0.4	0.7	2.1	0.9	0.9	0.9	0.9	0.9	0.9
Private	20.4	21.0	20.8	19.2	20.5	20.3	20.4	20.7	20.9	21.1
	(Percent growth, unless otherwise noted)									
Memorandum items										
Financial system credit to non-financial private sector	8.5	14.8	16.5	10.8	14.0	12.0	10.5	10.5	10.5	10.5
Output gap (in percent of potential GDP)	-0.1	0.7	1.0	0.4	-0.1	-0.4	-0.4	-0.1	0.0	0.0
Total population	1.1	1.1	1.0	1.0	1.0	1.0	0.9	0.9	0.9	0.9
Working-age population 3/	1.9	1.8	1.6	1.6	1.5	1.5	1.4	1.3	1.3	1.2

Sources: Bank of Mexico, National Institute of Statistics and Geography, Ministry of Finance and Public Credit, Bloomberg, and IMF staff projections.
1/ Contribution to growth. Excludes statistical discrepancy.
2/ Reported numbers may differ from authorities' due to rounding.
3/ Based on United Nations population projections.

Table 8. Mexico: Monetary Indicators 1/
(In billions of Pesos)

	2014	2015	2016	2017	Proj. 2018
Banco de México					
Net foreign assets	2,847	3,019	3,619	3,392	3,472
Net international reserves	2,896	3,074	3,682	3,457	3,538
Gross international reserves	2,897	3,075	3,683	3,458	3,539
Reserve liabilities	1	1	1	1	1
Other net foreign assets	-50	-55	-63	-65	-66
Net domestic assets	-1,784	-1,777	-2,198	-1,846	-1,676
Net domestic credit	-1,647	-1,293	-1,413	-1,627	-1,661
Net credit to non-financial public sector	-1,563	-1,543	-1,221	-1,516	-1,627
Credit to non-financial private sector	0	0	0	0	0
Net credit to financial corporations	-84	250	-192	-112	-34
Net claims on other depository corporations	-101	250	-192	-112	-39
Net claims on other financial corporations	17	0	0	0	4
Capital account	72	419	715	153	-52
Other items net	-65	-66	-70	-65	-67
Monetary base	1,063	1,242	1,420	1,546	1,796
Other Depository Corporations					
Net foreign assets	-11	6	23	92	101
Foreign assets	637	700	650	771	845
Foreign liabilities	648	694	627	679	744
Net domestic assets	5,873	6,304	7,079	7,805	9,077
Net credit to the public sector	2,826	2,835	2,854	3,071	3,331
Claims on non-financial public sector	3,148	3,217	3,272	3,526	3,819
in pesos	3,054	3,115	3,120	3,374	3,660
in FX	94	103	152	152	159
Liabilities to the nonfinancial public sector	322	382	418	455	488
Credit to the private sector	3,833	4,432	5,215	5,896	6,721
Local Currency	3,395	3,843	4,499	5,173	5,897
Foreign Currency	438	589	716	723	824
Net credit to the financial system	686	475	878	967	751
Other	-1,472	-1,438	-1,868	-2,128	-1,726
Liabilities to the private sector	5,862	6,310	7,102	7,898	9,178
Liquid liabilities	5,093	5,675	6,345	7,079	8,245
Local currency	4,816	5,294	5,780	6,384	7,453
Foreign currency	277	381	565	694	791
Non liquid liabilities	769	635	757	819	934
Local currency	754	604	730	786	896
Foreign currency	15	31	26	33	37
Total Banking System					
Net foreign assets	2,836	3,025	3,642	3,484	3,573
Net domestic assets	4,090	4,527	4,880	5,959	7,401
Liquid liabilities	6,156	6,917	7,766	8,625	10,041
Non-liquid liabilities	769	635	757	819	934
Memorandum items					
Monetary base (percent change)	15.8	16.8	14.4	8.8	16.2
Currency in circulation (percent change)	17.1	17.2	16.0	8.8	16.2
Broad money (percent change)	12.2	12.3	12.5	11.1	9.6
Bank credit to the non-financial private sector (growth rate)	6.1	15.6	17.7	13.0	14.0
Bank credit to the non-financial private sector (as percent of GDP)	21.9	23.9	25.9	27.1	28.7

Source: Bank of Mexico, National Institute of Statistics and Geography and Fund staff estimates.
1/ Data of the monetary sector are prepared based on the IMF's methodological criteria and do not necessarily coincide with the definitions published by Bank of Mexico.

Table 9. Mexico: External Debt Sustainability Framework

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2013	2014	2015	2016	2017			2018	2019	2020	2021	2022	2023	**Debt-stabilizing non-interest current account 6/**
1 **Baseline: External debt**	31.1	32.5	35.7	38.5	38.1			**38.5**	**38.6**	**38.8**	**39.0**	**39.0**	**39.0**	**-2.4**
2 Change in external debt	2.3	1.4	3.2	2.7	-0.4			0.4	0.1	0.2	0.2	0.0	0.0	
3 Identified external debt-creating flows (4+8+9)	-1.9	-1.6	2.0	0.7	-3.7			-1.2	-1.0	-1.1	-1.3	-1.3	-1.5	
4 Current account deficit, excluding interest payments	1.0	0.3	0.9	0.3	-0.2			-0.1	0.0	0.1	0.1	0.0	-0.1	
5 Deficit in balance of goods and services	-63.8	-64.9	-71.1	-76.0	-77.8			-79.8	-80.4	-81.1	-81.0	-82.1	-82.5	
6 Exports	31.3	31.9	34.5	37.0	38.0			39.0	39.2	39.5	39.6	40.2	40.5	
7 Imports	-32.5	-33.1	-36.6	-39.0	-39.8			-40.8	-41.2	-41.6	-41.4	-41.9	-42.1	
8 Net non-debt creating capital inflows (negative)	-3.0	-2.1	-2.5	-2.8	-2.8			-2.2	-2.0	-2.0	-2.1	-2.1	-2.3	
9 Automatic debt dynamics 1/	0.1	0.2	3.6	3.1	-0.7			1.0	0.9	0.8	0.7	0.9	0.9	
10 Contribution from nominal interest rate	1.5	1.6	1.7	1.9	1.9			1.8	1.8	1.8	1.8	1.9	1.9	
11 Contribution from real GDP growth	-0.4	-0.8	-1.2	-1.1	-0.7			-0.7	-0.8	-1.0	-1.1	-1.1	-1.1	
12 Contribution from price and exchange rate changes 2/	-1.0	-0.5	3.1	2.4	-1.8			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	4.2	3.0	1.2	2.1	3.3			1.6	1.1	1.3	1.5	1.4	1.5	
External debt-to-exports ratio (in percent)	99.5	102.0	103.6	104.0	100.3			98.5	98.5	98.1	98.5	97.0	96.4	
Gross external financing needs (in billions of US dollars) 4/	129.1	136.9	139.0	122.9	97.8			90.9	97.6	109.0	107.0	115.9	116.3	
in percent of GDP	10.1	10.4	11.9	11.4	8.5	10-Year	10-Year	7.4	7.5	8.0	7.5	7.7	7.3	
Scenario with key variables at their historical averages 5/								**38.5**	**40.4**	**42.4**	**44.8**	**47.3**	**50.1**	**-0.2**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	1.4	2.8	3.3	2.9	2.0	2.1	2.8	2.1	2.3	2.6	2.9	2.9	2.9	
GDP deflator in US dollars (change in percent)	4.7	0.3	-13.8	-10.5	4.7	-0.7	9.2	4.5	3.0	2.4	2.4	2.4	2.3	
Nominal external interest rate (in percent)	5.5	5.2	4.7	4.8	5.2	5.6	0.6	5.0	4.8	4.9	4.8	5.2	5.3	
Growth of exports (US dollar terms, in percent)	2.8	5.0	-3.6	-1.3	9.8	4.9	12.9	9.6	5.8	6.0	5.5	7.1	6.0	
Growth of imports (US dollar terms, in percent)	2.8	5.1	-1.5	-1.8	9.0	4.8	12.8	9.3	6.5	5.9	5.1	6.6	5.7	
Current account balance, excluding interest payments	-1.0	-0.3	-0.9	-0.3	0.2	-0.2	0.5	0.1	0.0	-0.1	-0.1	0.0	0.1	
Net non-debt creating capital inflows	3.0	2.1	2.5	2.8	2.8	2.2	0.6	2.2	2.0	2.0	2.1	2.1	2.3	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period, excluding reserve accumulation.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table 10. Mexico: Capacity to Repay Indicators 1/

	2017	2018	2019	2020	2021	2022	2023
Exposure and Repayments (in SDR millions)							
GRA credit to Mexico	--	53,476.2	53,476.2	53,476.2	53,476.2	26738.1	--
(In percent of quota)	(0.0)	(600.0)	(600.0)	(600.0)	(600.0)	(300.0)	(0.0)
Charges due on GRA credit 2/	--	267.4	1,691.2	1,816.4	1,814.7	1,721.4	505.5
Debt service due on GRA credit 2/	--	267.4	1,691.2	1,816.4	1,814.7	28,459.5	27,243.6
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	38.1	44.6	44.4	44.3	44.3	41.5	39.0
Public external debt	25.4	31.6	31.7	31.7	31.6	28.9	26.1
GRA credit to Mexico	--	6.1	5.8	5.6	5.3	2.5	--
Total external debt service	8.5	7.2	7.5	7.6	7.4	9.9	9.6
Public external debt service	5.1	3.9	3.9	4.0	3.9	6.3	6.0
Debt service due on GRA credit	--	0.0	0.2	0.2	0.2	2.7	2.5
In percent of Gross International Reserves							
Total external debt	250.0	307.3	320.2	324.0	329.4	314.9	301.5
Public external debt	166.6	218.3	228.5	232.0	235.4	219.0	201.6
GRA credit to Mexico	--	42.1	42.0	40.7	39.5	19.2	--
In percent of Exports of Goods and Services							
Total external debt service	22.3	18.4	19.1	19.2	18.8	24.6	23.6
Public external debt service	13.3	10.0	10.0	10.1	9.7	15.7	14.9
Debt service due on GRA credit	--	0.1	0.5	0.5	0.5	6.7	6.1
In percent of Total External Debt							
GRA credit to Mexico	--	13.7	13.1	12.6	12.0	6.1	--
In percent of Public External Debt							
GRA credit to Mexico	--	19.3	18.4	17.5	16.8	8.8	--

Sources: Mexican authorities, Finance Department, World Economic Outlook, and IMF staff estimates.

1/ Assumes full drawings under the FCL upon approval. The Mexican authorities have expressed their intention to treat the arrangement as precautionary.

2/ Includes surcharges under the system currently in force and service charges.

3/ Staff projections for external debt ratios (to GDP, gross international reserves, and exports of goods and services) adjusted for the impact of the assumed FCL drawing.

Table 11. Mexico: Proposed Access

	Proposed Access FCL	Proposed Access (Percentile)	High-Access Cases 1/ 20th	65th	80th	Median
			Percentile (Ratio)			
Access						
In millions of SDRs	53,476	97	1,541	12,100	18,721	7,338
Total access in percent of: 2/						
Actual quota	600	47	400	801	1,091	600
Gross domestic product	6	55	3.5	7.4	9.2	6.1
Gross international reserves	42	42	25.2	54.2	86.5	48.3
Exports of goods and nonfactor services 3/	16	32	11.6	28.9	38.3	22.6
Imports of goods and nonfactor services	17	43	10.7	23.1	34.0	19.8
Total debt stock 4/						
Of which: Public	12	48	8	15	27	12
External	18	74	7	15	21	12
Short-term 5/	98	77	21	51	103	36
M2	16	66	6	16	24	12

Source: Executive Board documents, MONA database, and Fund staff estimates.

1/ High access cases include available data at approval and on augmentation for all the requests to the Board since 1997 which involved the use of the exceptional circumstances clause or SRF resources. Exceptional access augmentations are counted as separate observations. For the purpose of measuring access as a ratio of different metrics, access includes augmentations and previously approved and drawn amounts.

2/ The data used to calculate ratios is the actual value for the year prior to approval for public, external, and short-term debt, and the projection at the time of program approval for the year in which the program was approved for all other variables (projections for 2017 were used).

3/ Includes net private transfers.

4/ Refers to net debt.

5/ Refers to residual maturity.

Table 12. Mexico: Impact on GRA Finances
(millions of SDR unless otherwise indicated)

Liquidity measures	
Forward Commitment Capacity (FCC) before approval 1/	183,529.6
FCC on approval 2/	192,442.3
Change in percent	4.9
Prudential measures	
Fund GRA commitment to Mexico including credit outstanding	
in percent of current precautionary balances	307.3
in percent of total GRA credit outstanding 3/	101.1
Fund GRA credit outstanding to top five borrowers	
in percent of total GRA credit outstanding 3/	76.7
in percent of total GRA credit outstanding including Mexico's assumed full drawing	84.4
Memorandum items	
Fund's precautionary balances (FY18)	17,400
Total FCL commitments, including proposed FCL	61,324.2
Quota of FTP members with actual and proposed FCLs, in percent of total quota of FTP members	2.7

Source: IMF staff estimates.

1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. The FCC does not include resources under the 2016 Borrowing Agreements; these will only be counted towards the FCC once: (i) individual bilateral agreements are effective and (ii) the associated resources are available for use by the IMF, in accordance with the borrowing guidelines and the terms of the agreements.

2/ Current FCC plus approved access under the arrangement minus the proposed reduced access. The arrangement was approved after the February 2016 de-activation of the NAB and is fully financed with quota resources.

3/ As of October 30, 2018

Appendix I. Written Communication from the Current Administration Requesting a Reduction in Access

Mexico City, November 9, 2018

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431

Dear Ms. Lagarde,

As stated in previous letters addressed to you, the very strong economic policies implemented by the United Mexican States (Mexico) for many years have promoted macroeconomic stability and anchored confidence in the country's economic outlook.

At the same time, the Mexican economy remains prone to tail risks arising from external economic developments given its openness to foreign trade and financial flows and in particular the active participation of non-resident investors in Mexican financial markets. While the risk of an abrupt change in trade relations with our main trading partners has receded notably, we remain exposed to a significant decline in global growth, global trade tensions among major economies, renewed volatility in global financial markets, increased risk premia, and a sharp pull-back of capital from emerging markets. The country also faces the risk of further disruptions to financial flows in case of an economic crisis in a large emerging market. In addition, Mexico remains particularly vulnerable to shocks related to the process of normalization of U.S. monetary policy given its financial integration and economic-activity synchronization with the U.S.

The protection against external tail risks provided to Mexico by the Flexible Credit Line (FCL) has supported the rebuilding of buffers and the high degree of confidence in our economy.

As it was anticipated in the letter dated November 9, 2017, concerning the latest request for the IMF's approval of the current two-year FCL arrangement, subject to a reduction in the external risks affecting Mexico, including a dissipation of the risk of an abrupt change in Mexico's trade relations, and on a smooth continuation of the process of normalization of U.S. monetary policy, the buffers that Mexico has been building over the last years in its macroeconomic policy framework would allow us to begin to phase out Mexico's use of the FCL. Accordingly, we expressed in that letter our intention to request to set our access to the Fund's resources under the FCL to 600 percent of Mexico's quota at the time of the current FCL arrangement's mid-term review by the Executive Board. In such circumstances and in view of Mexico's strong buffers and the recent trade agreement reached by the governments of Mexico, Canada, and the U.S., which dissipates to a great extent the risk of an abrupt change in Mexico's trade relations, we hereby request to set Mexico's access to the FCL to 600 percent of Mexico's quota, equal to SDR 53.4762 billion, for the remaining period of twelve months of the FCL arrangement. Considering our buffers and the balance of risks, we believe that this access level would be adequate in insuring our economy against external tail risks. As before, we intend to treat the arrangement as precautionary. We do not intend to make permanent use of the FCL.

As the Executive Directors acknowledged in the latest Article IV consultation, Mexico's policies and institutional frameworks remain very strong. Their continuation will be crucial to address the domestic and external challenges facing the Mexican economy. Economic policies have responded in a timely and appropriate fashion to both the global financial crisis and more recent shocks, as well as to support economic activity. As indicated in the letter addressed to you by the Coordinator of the Economic Transition Team of the President-Elect, Mr. Carlos Urzúa, the Mexican authorities will maintain the same strategy in the future, reacting as needed within this framework to any future shocks that may arise. The IMF's support through the FCL is thus an integral part of our strategy, and we greatly appreciate this support.

Sincerely yours,

/s/

José Antonio González Anaya
Secretary of Finance and Public Credit

/s/

Alejandro Díaz de León Carrillo
Governor of Banco de México

Appendix II. Letter from the Transition Team

Mexico City, November 9, 2018

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431

Dear Ms. Lagarde,

On behalf of Mexico's President-Elect Andrés Manuel López Obrador, we remain firmly committed to maintaining Mexico's very strong economic policies and policy frameworks. These frameworks include an independent central bank, with a clear mandate to price stability and with a commitment to a floating exchange regime which is essential to help the economy adapt to shifting global conditions. As Mr. López Obrador has publicly declared and confirmed to you on a previous communication, fiscal policy will continue to aim at gradually reducing public debt in relation to GDP. This commitment will be demonstrated in the 2019 budget that will be submitted to congress, which will limit the public sector borrowing requirement to no more than 2.5 percent of GDP, and the medium-term fiscal plan with a primary surplus close to 0.8 percent of GDP as the main anchor. Financial oversight will remain based on the sound regulatory and supervisory framework.

We are also convinced that is critical to foster a reform agenda to strengthen the rule of law and the efficiency of public expenditure, particularly on infrastructure, to spur private investment and ultimately raise potential growth. Finally, we will preserve the strength and independence of economic-policy institutions.

We fully support the current administration's request for a reduction in access under the current two-year Flexible Credit Line (FCL) arrangement to 600 percent of Mexico's quota, or SDR 53.4762 billion (around USD 74.1 billion), for the remainder of the arrangement. As expressed in the letter from Messrs. Gonzalez Anaya and Diaz de Leon, the Mexican economy remains prone to tail risks arising from external economic developments given its openness to trade and financial flows and in particular the active participation of non-resident investors in our financial markets. Against this background, we believe that the current FCL arrangement will play a critical role in insuring our economy against external tail risks. As before, we intend to treat the arrangement as precautionary. We do not intend to make permanent use of the FCL.

Sincerely yours,

/s/

Carlos Urzua
Coordinator of the Economic Transition Team of the President-Elect

Statement by the Staff Representative on Mexico
November 26, 2018

This statement provides information that has become available since the staff report was finalized. This information does not alter the thrust of the staff appraisal.

1. **The central bank hiked its policy rate by 25 basis points on November 15.** The policy rate was increased from 7.75 to 8 percent in a majority decision (one member of the Board voted for an increase of 50 basis points). The central bank noted in its press release that the balance of risks for inflation was biased upwards and had deteriorated significantly. The press release highlighted that the recent peso depreciation was in part affected by the announcement of the intention to cancel the new Mexico City airport project and, in general, by markets' concerns regarding the incoming administration's policies and some legislative initiatives. In this context, the press release also noted sizable increases in sovereign risk premia and medium- and long-term interest rates.

2. **On November 12, the President-elect announced a new public consultation for November 24–25.** The consultation will seek public approval for a range of proposed infrastructure investments—including the planned new refinery, the Maya Railway and the Trans-Isthmic Railroad—and new social programs. The President-elect indicated that the consultation would follow the same process as the one held last month, which led to his decision to abandon the construction of Mexico City's new international airport.

3. **On November 8, the head of the Senate proposed to eliminate bank fees including on ATM withdrawals and balance requests.** However, the President-elect subsequently declared that he did not support the proposal and was not planning to change banking laws. In addition, the transition team stated in a press release that they had contacted the leaders of both parliamentary chambers to ensure that future initiatives would be coordinated with the Ministry of Finance.

4. **Mexican asset prices have been under pressure in recent weeks amid uncertainty about the incoming administration's policies.** The peso depreciated by some 5 percent since October 26 as the stock market fell by 9.5 percent, and the EMBIG and 5-year CDS spreads widened by 50 and 16 basis points, respectively.

5. **Headline inflation eased slightly to 4.9 percent (year-on-year) in October, down from 5.0 percent in September**. Energy and housing prices rose less than in the previous month. Core inflation edged up slightly to 3.73 percent from 3.67 percent in September.