INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/248

MEXICO

November 2021

ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE AND CANCELLATION OF CURRENT ARRANGEMENT—PRESS RELEASE; STAFF SUPPLEMENT; AND STAFF REPORT

In the context of the Arrangement Under the Flexible Credit Line and Cancellation of Current 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 19, 2021. Based on information available at the time of these discussions, the staff report was completed on November 5, 2021.
- A **Staff Supplement** of November 5, 2021 on the assessment of the impact of the proposed arrangement under the Flexible Credit Line on the Fund's finances and liquidity position.

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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR21/340

IMF Executive Board Approves New Two-Year US$50 Billion Flexible Credit Line Arrangement with Mexico

FOR IMMEDIATE RELEASE

- The IMF approved today a successor two-year arrangement for Mexico under the Flexible Credit Line (FCL), designed for crisis prevention, of about US$50 billion.
- As with all their FCL arrangements to date, the Mexican authorities stated their intention to treat this new arrangement as precautionary.
- In recent years, Mexico has been on a path of gradually reducing access under its FCL arrangements, and the new arrangement continues on this path. Conditional on the evolution of external risks, the Mexican authorities have also stated their intention to request a further reduction in access at the mid-term review next year.

Washington, DC – November 19, 2021: The Executive Board of the International Monetary Fund (IMF) approved today a successor two-year arrangement for Mexico under the Flexible Credit Line (FCL) in an amount equivalent to SDR 35.6508 billion (about US$50 billion[1], equivalent to 400 percent of quota) and noted the cancelation by Mexico of the previous arrangement. The Mexican authorities stated their intention to treat the arrangement as precautionary.

This is Mexico's ninth FCL arrangement. Mexico's first FCL arrangement was approved on April 17, 2009 (see Press Release No. 09/130). It 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), May 27, 2016 (see Press Release No. 16/250), November 29, 2017 (see Press Release No. 17/459), and November 22, 2019 (see Press Release No. 19/431). In recent years, Mexico has been on a path of gradually reducing access under its FCL arrangements. The arrangement approved on November 29, 2017 was for an original access amount equivalent to SDR 62.3889 billion (about US$86 billion), which, at the request of the Mexican authorities, was reduced to SDR 53.4762 billion (about US$74 billion) on November 26, 2018 (see Press Release No. 18/440). The arrangement approved on November 22, 2019 was for an access amount equivalent to SDR 44.5635 billion (about US$61 billion).

Following the Executive Board's discussion on Mexico, Mr. Geoffrey Okamoto, First Deputy Managing Director and Acting Chair, made the following statement:

"The Mexican economy is rebounding from its deepest recession in decades, spurred by strong U.S. growth and rising vaccination rates. The authorities have successfully maintained external, financial, and fiscal stability, despite the pandemic-related challenges. Mexico's macroeconomic policies and institutional policy frameworks remain very strong, including a flexible exchange rate regime, a credible inflation targeting framework, a fiscal responsibility law, and a well-regulated financial sector.

[1] Amount based on the Special Drawing Right (SDR) quote of November 18, 2021 of 1 USD = SDR 0.713896.

700 19th Street NW
Washington, DC 20431
USA

"Nevertheless, the Mexican economy remains exposed to external risks, including from renewed waves of the COVID-19 pandemic, as well as international financial volatility, for instance, from a rise in inflation expectations in advanced economies and a corresponding faster-than-expected normalization of their monetary policies. Such shocks could increase yields, risk premia, and capital outflows from Mexico. The new arrangement under the Flexible Credit Line will continue to play an important role in supporting the authorities' macroeconomic strategy by providing insurance against tail risks and bolstering market confidence.

"The authorities intend to treat the arrangement as precautionary. The lower level of access is appropriate given the decline in risks compared to last year and also resumes the authorities' pre-pandemic strategy of gradually phasing out the use of the facility. The authorities intend to reduce access further during the mid-term review, contingent on the evolution of external risks."

For more information on the IMF's Flexible Credit Line:

https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/20/40/Flexible-Credit-Line

INTERNATIONAL MONETARY FUND

MEXICO

November 5, 2021

ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE AND CANCELLATION OF CURRENT ARRANGEMENT

EXECUTIVE SUMMARY

Context. The government has successfully maintained external, financial, and fiscal stability despite the deepest recession in decades. However, Mexico is bearing a very heavy humanitarian, social, and economic cost from COVID-19, including over half a million excess deaths, sizable under-employment, and an increase in poverty.

Risks. Although external risks have abated since last year, they remain sizable. Key among them are new COVID-19 variants that exacerbate economic and financial volatility, a rise in international financial volatility owing for instance to a sharper-than-expected rise in inflation expectations in advanced economies, and disappointing growth in key trading partners. Materialization of these risks could diminish recovery prospects through reduced external demand, lower remittance flows, a less favorable financing environment, and capital outflows.

Flexible Credit Line (FCL). The authorities are requesting a two-year FCL arrangement for SDR 35.6508 billion (400 percent of quota) and the cancellation of the current arrangement, approved on November 22, 2019 (SDR 44.5635 billion, 500 percent of quota). They intend to reduce access further at the mid-term review to 300 percent of quota, contingent on the evolution of external risks. In staff's assessment, Mexico continues to meet the qualification criteria for the FCL. The proposed reduction in access reflects the authorities' intention to gradually exit from the instrument. Staff supports the authorities' request.

Fund liquidity: The proposed new commitment and cancellation of the current arrangement would have a net positive impact on the Fund's liquidity position.

Process. An informal meeting to consult the Executive Directors on a possible new FCL arrangement for Mexico was held on November 3, 2021.

Approved By
Nigel Chalk (WHD) and Bikas Joshi (SPR)

The report was prepared by a team comprising Rishi Goyal (head), Swarnali Ahmed Hannan and Kevin Wiseman (all WHD), Carolina Claver (LEG), Jean-Marc Fournier (FAD), Misa Takebe (SPR), and Jeffrey Williams (MCM). Laila Azoor, Juan Pablo Cuesta Aguirre, Rozi Lamprakaki and Evelyn Carbajal (WHD) provided excellent assistance.

CONTENTS

APPENDIX

THE AUTHORITIES' REQUEST

1. Mexico has been a user of the FCL since the inception of the instrument in 2009. The authorities value the FCL as a buffer against external tail risks and as a validation of the strength of their macroeconomic policies and institutional policy frameworks.

2. In recent years, the Mexican authorities have been on a gradual path to reducing access under the FCL arrangement, with the goal of eventually exiting. Under the current (eighth) arrangement, access is 500 percent of quota. It was 700 percent of quota under the previous arrangement that was approved in November 2017. Since then, access was reduced by 100 percent of quota each in 2018 and 2019, but the process was temporarily paused last year given the exigencies of the pandemic.

3. The authorities are requesting a new two-year FCL arrangement, with a further reduction in access. They are requesting access of 400 percent of quota and intend to lower access to 300 percent of quota at the mid-term review in November next year, contingent on the evolution of external risks.

DEVELOPMENTS AND OUTLOOK

4. The economy is recovering from its deepest recession in decades. Growth in 2020 was -8.3 percent and among the lowest in the G20. Thanks to strong U.S. growth and rising vaccination rates, growth is forecast at 6.2 percent in 2021 and 4 percent in 2022. An initial two-speed recovery, spurred by exports and manufacturing, has become more broad-based as improving health metrics and mobility have supported a recovery of services since Spring 2021.

5. Nonetheless, Mexico is facing a very heavy humanitarian, social, and economic cost from COVID-19. This includes over 595,000 excess deaths[1], under-employment that is above the peak of the global financial crisis, and an increase in already high rates of poverty. Education gaps were large before the pandemic and could worsen, given uneven access and coverage of digital infrastructure. The pandemic is likely to exacerbate Mexico's long-standing concerns of low growth and weak productivity. Staff projects real GDP per capita will return to the pre-pandemic peak only in 2025 and will remain about 4 percent below pre-pandemic projections.

6. Inflation has been well above the central bank's target of 3 percent since March 2021, prompting the central bank to raise rates. Notwithstanding a negative output gap of around 4 percent of potential GDP, inflation has remained well above the central bank's target. Elevated commodity and traded goods inflation, supply chain constraints in manufacturing, and local demand outpacing supply in certain services as the economy re-opens have maintained pressure on inflation and could continue to do so in the near term. As supply constraints are alleviated and normalization of activity locally proceeds apace, staff expects inflation to gradually return to the

[1] Total deaths by any cause, including registered COVID-19 deaths, less the number of deaths expected statistically.

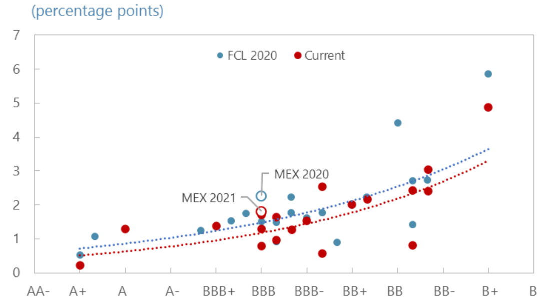
central bank's target over the next 1½ years, although inflation risks are to the upside of this expected path. To firmly anchor medium-term inflation expectations and guard against second-round effects, the central bank raised the policy rate by 75 basis points to 4.75 percent between June and September 2021.

7. To anchor fiscal sustainability and limit the increase in public debt, the authorities have implemented a conservative fiscal policy. Mexico's fiscal response to COVID-19 has been an outlier in the G20 (2020 Article IV Staff Report, IMF/20/215). Gross public debt increased to 61 percent of GDP in 2020, owing largely to the fall in GDP, and is projected to remain broadly stable at that level going forward.

8. The large current account surplus is moderating. Last year, strong U.S. demand, remittance inflows, and weak domestic demand led to a current account surplus of 2.4 percent of GDP. This is largely a result of fiscal policy responding to the pandemic by less than Mexico's trading partners. The current account is expected to return to deficit over the medium term.

9. External financing conditions remain favorable. Spreads on the government's U.S. dollar bonds have returned near pre-pandemic levels despite being downgraded one notch by all three major rating agencies in early 2020. However, spreads remain above similarly rated countries. The government borrowed a record USD 15 billion externally last year and USD 10 billion thus far in 2021. Net portfolio capital inflows remain anemic as new issuances were offset by amortization and nonresidents sold local currency government bonds.

EM USD Sovereign Spreads and Credit Risk Ratings
(percentage points)



Source: Bloomberg.
Note: Credit ratings are calculated as the average rating across Fitch, Moody's, and S&P. Spreads correspond to the Bloomberg Barclays EM Sovereign Index.
LA-5 is the average of Brazil, Chile, Colombia, Mexico, and Peru.
Data as of October 13, 2021.

10. The general SDR allocation further solidified Mexico's external buffers. Mexico's SDR allocation of USD 12.1 billion or 1 percent of GDP increased gross international reserves to USD 212 billion in late-October, or 134 percent of the Reserve Adequacy metric. Other buffers include the USD 60 billion swap line with the Federal Reserve (which is scheduled to expire at end-2021) and access to USD 12 billion in other pre-existing swap lines with U.S. entities related to the North America Framework Agreement.

11. Capital positions in Mexico's banks have remained strong with profitability recovering after the pandemic, while corporates remain resilient. The tier 1 capital ratio improved to a record high of 16.8 percent in August 2021, driven by larger sovereign debt holdings and lower credit to the private sector. Despite overall strength, there are pockets of weakness related to some small institutions. Most of the central bank's liquidity and credit support facilities have expired, with the credit facilities providing a useful backstop but having seen little use. System-wide liquidity has increased. Nonperforming loans peaked at the beginning of 2021 following the expiration of credit relief programs and remain very low at 2.4 percent of loans despite the downturn. The average return on equity is 11 percent after declining in 2020, largely because of higher loan loss provisions.

Lending conditions for corporations remain tight, especially for small and medium-sized enterprises owing in part to pandemic-related strains. Nevertheless, the corporate sector remains broadly healthy with profits recovering as credit spreads have returned to pre-pandemic levels and liquidity remains strong.

12. **However, Pemex has faced recurrent financing problems.** After losing investment grade status in 2020, the state-owned oil company's rating was further downgraded in July 2021. It has not accessed markets since October 2020. The sovereign has continued to provide significant support in tax relief, transfers for debt repayments, and funding for the Dos Bocas refinery. Pemex's external debt maturities amount to around USD 4¼ billion (about ⅓ percent of GDP) in each of 2022 and 2023.

13. **Reform reversals have continued to weigh on Mexico's investment environment and could hamper the strength of the recovery and lower potential growth.** The government has continued to privilege state-owned energy producers and reverse the 2013 energy reforms. Actions to favor Pemex include easing revocation of licenses to the private sector, imposing onerous storage capacity constraints on competitors, and declaring Pemex the operator of an oil field that spanned private and public claims. For the state electricity company CFE, actions include privileging CFE's own brown energy generation over cheaper green energy sources and stalling the granting of permits for new green installations. A proposed constitutional amendment seeks to overhaul the institutional framework underpinning electricity generation, including significantly enhancing CFE's role, limiting private participation, and dissolving the regulatory bodies overseeing competition and granting of permits. Concerns about the strength and staffing of independent government bodies more generally as well as the cancellation and renegotiation of large public and private investment projects has also weighed on investor sentiment.

14. **External risks tilt the outlook to the downside, although these are lower than last year.** The main external risks include the possibility of a renewed and more intense COVID-19 wave, lower growth in key trading partners, and a less favorable international financing environment. The materialization of such risks would diminish recovery prospects through reduced external demand, lower remittance flows, a repricing of risk, and capital outflows. For instance, a more virulent strain of COVID-19 that leads to renewed lockdowns or supply chain disruptions would set back growth and could exacerbate international financial volatility. A sharper-than-expected rise in medium-term inflation expectations in key advanced economies (Box 1) could lead major central banks to notably bring forward policy rate increases that tighten international financial conditions, raise credit spreads in Mexico, spill over into peso depreciation and higher domestic inflation, and require decisive policy tightening in Mexico.

Box 1. The Calculation of the External Economic Stress Index

This box presents the external economic stress index (ESI) for Mexico. 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 index is presented below using the same model and proxy variables as for the 2017 and 2019 FCL arrangement requests and the 2018 and 2020 FCL arrangement reviews, while the weights have been updated.

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

Risks. First, Mexico's exports, remittances, and inward FDI are closely related to U.S. economic developments. Second, the open capital account and the significant stock of debt and equity portfolio investment held by foreigners expose Mexico to changes in global financial conditions. Third, oil trade 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.

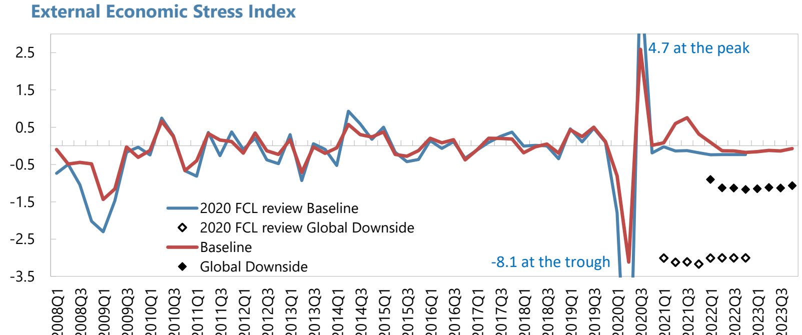
Weights. The weights are data-based using balance of payment and international investment position data in 2020. The weight on U.S. growth (0.49) corresponds to the sum of exports, FDI, and remittances as shares of GDP; the weights on the change in the U.S. long-term yield (0.36) and the VXEEM (0.13) correspond to the stocks of foreign debt and equity as shares of GDP; and the weight on the change in the oil price (0.02) corresponds to oil exports as a share of GDP.

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 is assumed to remain at the average between June 2020 and July 2021, given the still elevated uncertainty over COVID-19. The ESI under the baseline scenario indicates existence of risks but the level of risks is lower than that of the 2020 FCL arrangement review.

Global downside scenario. The downside scenario is based on the adverse scenario in the October 2021 WEO and is broadly consistent with the current global tail risks relevant for Mexico. Under this scenario, U.S. inflation expectations rise more than expected with a sequence of unexpected ½ percentage point shocks to U.S. inflation expectations over 2022–24 before it fades out over 2025–26. U.S. growth in 2022 is roughly ⅓ percentage points weaker and in 2023 is almost ⅘ percentage points weaker as well as oil prices are lower by 8 percent over the next two years relative to the WEO baseline. The scenario assumes a surge in global financial market volatility, with the VXEEM rising by 3 standard deviations as assumed in previous FCL arrangements. Against this backdrop, and the associated disruptions to financial flows, the risk premia for Mexico could increase and rollover rates could decline.

Country-specific external downside scenario. The ESI global downside scenario shows that external risks are lower than those of the 2020 FCL arrangement review, reflecting reduced uncertainties for the global economic and financial environment related to COVID-19. Mexico could be affected by other disruptions in global value chains and an abrupt drop in FDI and capital flows, given its close relations with the U.S. Although the current ESI is not designed to reflect these country-specific uncertainties, staff considers that a combination of global risks and country-specific uncertainties is still lower than those of the 2020 FCL arrangement review.

External Economic Stress Index



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

Note: Proxy variables are calculated by using the mean and standard deviation between 1995 and 2019. The sharp increase in the second half of 2020 reflects a technical rebound in U.S. growth after its sharp contraction in the first half.

VIEWS ON POLICIES

15. Mexico has pursued very strong macroeconomic policies and institutional policy frameworks that have delivered fiscal, external, and financial stability as noted above. The independent, inflation-targeting central bank has kept medium-term inflation expectations well anchored. The flexible exchange rate has facilitated absorption of external shocks. The 2020 external position is assessed as stronger than the level implied by medium-term fundamentals and desirable policies, while external debt is relatively low. Banking sector fundamentals are broadly sound, underpinned by effective supervision. However, changes in structural policies have adversely impacted the investment climate that, together with a restrained policy response to COVID-19, could weigh on prospects for inclusive growth.

16. The macroeconomic policy mix is relatively tight, considering the slack in the economy and the scars of the pandemic. The authorities have implemented a conservative fiscal policy during the pandemic, with a focus on containing the rise in public debt. The 2022 draft budget maintains a broadly neutral fiscal stance, with an overall deficit target of 3.5 percent of GDP.[2] The budget increases resources allocated for social (non-contributory) pensions for the elderly, Pemex, public investment projects, and health, and restrains spending in other areas. The authorities are also seeking to deepen efforts to tackle tax evasion which, despite the historic downturn last year, boosted revenues. The budget includes a simplification of the tax regimes for SMEs and the self-employed, moving mainly to a cash basis and granting accelerated depreciation to support investment. After lowering the policy rate from 7 percent in February 2020 to 4 percent in February 2021, the central bank raised the policy rate by 75 basis point between June and September 2021 in response to inflationary pressures. Market expectations of policy rate increases have been brought forward. Survey-based expectations of the policy rate for end-2022 are around 6 percent, while the market-implied policy rate is above 7 percent in 2023 and would take the policy rate above the authorities' estimates of the neutral rate.

17. In staff's view, Mexico would benefit from higher, front-loaded fiscal spending, alongside measures to improve efficiency. Mexico has some fiscal space and enjoys comfortable market access. Stronger and well-targeted social assistance in the coming year would reduce the burdens on the vulnerable and mitigate poverty. A structural increase in education, health, and public investment spending would help secure a durable and inclusive recovery and mitigate hysteresis effects from the pandemic. These would need to be combined with measures to improve the efficiency and targeting of social assistance programs, rebalance education spending toward investment in equipment and facilities, target health sector investment toward impoverished areas, and ensure high quality public investment, including through a process of external review to underpin project selection. They would also need to be coupled with measures to contain pension costs (e.g., reforming the design of the minimum pension and aligning the special regimes with the

[2] Based on staff's macroeconomic forecasts, there is a fiscal gap of ¼ percent of GDP in 2022, which gradually increases to around 1 percent of GDP by 2026. In recent years, the authorities have closed expected gaps through revenue and spending measures and modest changes in the target.

broader system) and maintain the level of social (non-contributory) pensions in real terms going forward. Pemex's ongoing losses are burdening the budget and increasing fiscal risks, while past corruption scandals underscore the importance of strengthening governance and procurement processes. Changes to its business plan are needed to prioritize financial objectives and strengthen governance and transparency.

18. A credible medium-term tax reform—to be implemented once the recovery is firmly entrenched—will be needed to finance this higher public spending and ensure that debt/GDP is on a firm downward path. Such a reform should be designed and legislated over the next year and phased in gradually over the medium term as the economy strengthens, with a goal of raising 3–4 percent of GDP. Efforts should also continue in parallel to further strengthen tax administration. Combining this reform with an increase in social assistance will promote progressivity. Considering that Mexico's non-oil revenue collections are well below those of Latin American and OECD peers, there is room for a well-calibrated and gradual reform that could draw from a menu of options, involving reforming the VAT, broadening the personal income tax base, raising subnational (property) taxes, moving toward a more market-based gasoline excise, comprehensively pricing carbon emissions, and gradually strengthening carbon pricing.

19. A gradual path of monetary policy normalization would offer a reasonable balance between promoting the recovery while ensuring that the medium-term inflation expectations remain well-anchored. The expectation that price pressures are largely transitory, the persistence of slack, and the fact that Mexico did not cut its policy rate abruptly in 2020 could give the central bank more time to assess how price pressures are evolving. That said, policy will need to remain highly attuned to the evolution of inflation expectations. A somewhat faster pace of policy tightening could be called for if medium-term inflation expectations rise. Further steps to provide more details about the central bank's forecasts, including eventually publishing the policy rate path that underpins the forecasts, would help guide market participants and facilitate orderly adjustments across the yield curve. Exchange rate flexibility would continue facilitating adjustment to shocks, with foreign exchange intervention limited to instances of disorderly market conditions.

20. Measures to promote labor market formality, narrow gender gaps, enhance financial depth, strengthen the anti-corruption frameworks, and improve the rule of law would foster inclusive growth. Despite policies that have underpinned macroeconomic stability and facilitated open trade, Mexico has struggled to achieve strong inclusive growth. Turning around growth will require sustained implementation of a reform program that tackles several long-standing impediments to higher productivity—informality, lack of financial inclusion, barriers to entry, crime, and corruption. Among other measures, calibrating minimum wage increases in line with labor productivity growth and taking a comprehensive approach, including reducing regulatory costs of formalizing a business, would raise incentives for formalization. Improving access to and quality of childcare would increase female labor force participation. Boosting competition for financial services and tackling impediments such as timely legal enforcement of contracts would lower costs and enhance access to finance. Strengthening the business climate would raise productivity and investment. Building on recent progress such as a law to facilitate investigations and improvements of the AML/CFT legal and regulatory framework, enhancing the national anti-corruption and AML/CFT frameworks would further support investment and inclusive growth.

REVIEW OF FCL QUALIFICATION

21. In staff's view, Mexico continues to meet the FCL qualification criteria. As described in recent Article IV consultation staff reports, Mexico has very strong macroeconomic policies and institutional policy frameworks, which the authorities remain committed to.

- **Sustainable external position.** The 2020 external position is assessed as stronger than the level implied by medium-term fundamentals and desirable policies. The external current account is projected to be broadly balanced this year, driven by a strong recovery of imports with the re-opening of the economy. The updated external debt sustainability analysis shows the external debt/GDP ratio is projected to decline to its pre-pandemic ratio in 2021 owing largely to the economic rebound. The composition of external debt is favorable with long maturity and sizable peso-denominated debt for sovereign bonds and high natural and financial hedges for corporate bonds.

- **Capital account position dominated by private flows.** Private flows remain large relative to the overall balance of payments flows. In total, public flows accounted for only around a sixth of Mexico's direct portfolio, and other asset and liability flows on average over the last three years, lower than the FCL threshold of 50 percent.[3]

- **Track-record of steady sovereign access to international capital markets at favorable terms.** Mexico's sovereign bond spread has been stable near pre-pandemic levels at 185 basis points (as of November 3, 2021). The cumulative public sector issued or guaranteed external bonds or disbursements of public and publicly guaranteed external commercial loans in international markets during the last five years is equivalent to about 900 percent of Mexico's IMF quota, which is well above the FCL threshold of 50 percent. Mexico did not lose market access at any point in the last year.

- **Comfortable international reserve position.** Gross international reserves increased to USD 212 billion in late-October 2021 from USD 200 billion in September 2020, comfortably reaching standard reserve coverage indicators (Figure 4). Mexico's gross international reserve is projected to stand at 127 percent on average over three (the current and the two previous) years, exceeding the FCL threshold of 100 percent of the ARA metric and has never been below 80 percent of ARA metric in each of the last four years. Moreover, the central bank has a temporary USD 60 billion swap line with the U.S. Federal Reserve (until end-2021), a separate

[3] 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.

swap line of USD 3 billion with the Federal Reserve associated with the North American Framework Agreement, and a USD 9 billion swap line with the U.S. Treasury.

- **Sustainable public debt position and sound public finances.** Staff assesses Mexico's public debt to be sustainable with high probability (see Figures 6–8, and Annex III of the 2021 Article IV Staff Report for Mexico). Fiscal policy is underpinned by a sound institutional budgetary framework, including the fiscal responsibility law.[4] Gross public debt is projected to be broadly stable at about 60 percent of GDP in 2021 as well as over the medium term if the authorities meet their fiscal targets. Debt could rise if there are fiscal slippages, including from Pemex, or if a renewed COVID-19 shock results in growth underperformance and a risk-off shift in financial markets. However, the favorable maturity and currency structure of public debt mitigates risks (Figure 7).

- **Low and stable inflation in the context of a sound monetary and exchange rate policy framework**. Mexico has maintained single-digit inflation over the past five years. Headline inflation has risen well above the central bank's target of 3 percent and the central bank has raised the policy rate. The upward price dynamics, however, appear to be largely transitory, reflecting idiosyncratic supply-demand mismatches that could wash through the system in the coming months as the economy re-opens fully. With strong central bank credibility, medium- to long-term inflation expectations have been well anchored at their historical average of 3.5 percent.

- **Sound financial system and the absence of solvency problems that may threaten systemic stability.** Mexican banks' capital positions have remained strong, and profitability is recovering. The average capital adequacy ratio remains above regulatory thresholds with the tier 1 capital ratio improving to a record 16.8 percent in August 2021, driven by larger sovereign debt holdings and lower credit to the private sector. The authorities conducted stress tests in June 2021, which revealed that all large banks and most smaller banks would remain above the regulatory minimum capital ratios even under severe stress (although there are pockets of weakness related to some small institutions). There were no significant solvency risks or recapitalization needs identified.

- **Effective financial sector supervision.** The 2016 FSAP found that significant progress had been achieved in strengthening financial sector prudential oversight and noted that the authorities have made several improvements to address past recommendations, including updates to the supervisory framework and tools and strengthening the legal framework for financial groups. Past FSAPs also recommended areas for further progress, e.g., regarding the definition of related parties and to strengthen the governance of the supervisory agencies and the deposit insurance

[4] The current fiscal framework includes three rules and two revenue stabilization funds. The "balanced budget rule" requires the federal budget to be balanced on a cash basis after discounting up to 2 percent of GDP in Federal government, CFE, and Pemex investment. The "Public Sector Borrowing Requirement (PSBR) rule" aims at strengthening the link between the fiscal balance and public debt dynamics. The "Structural Current Spending Rule" aims at limiting the pro-cyclicality of fiscal policy.

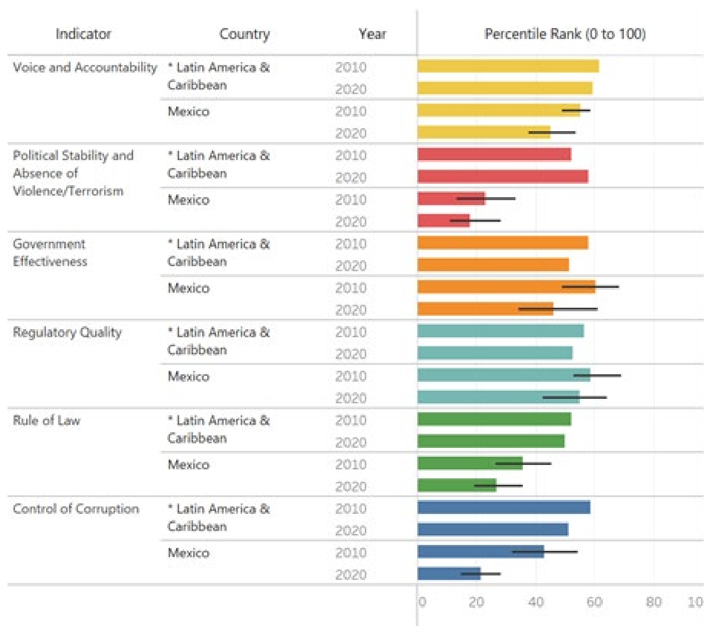
scheme. The 2021 Article IV report did not raise substantial concerns regarding the supervisory framework.

- **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 2021 data ROSC update. Mexico subscribes to the Special Data Dissemination Standards (SDDS) since August 1996. In a number of data categories, the periodicity and timeliness of disseminated data exceed SDDS requirements.

- **Track record.** Mexico continues to have a sustained track record of implementing very strong policies, according to staff's assessment that all relevant core indicators were met in each of the five most recent years.

22. The quality of macroeconomic institutions pertinent to FCL qualification is very strong, although there are growing weaknesses elsewhere. Macroeconomic policy management is underpinned by the inflation-targeting framework (anchored by a strong, independent central bank), the fiscal responsibility law, and an effective prudential and regulatory framework for financial supervision. However, there are some areas of growing weaknesses, including related to crime, corruption, and the rule of law compared to the regional average according to the Worldwide Governance Indicators. As noted above, broader concerns relate to reform reversals that have led to elevated policy uncertainty and a deterioration in investment, alongside a perception of eroding independence and quality of regulation.

Text Figure 1. Worldwide Governance Indicators



Note: The black lines show the 90 percent confidence intervals.
Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), "The Worldwide Governance Indicators: Methodology and Analytical Issues".

ACCESS CONSIDERATIONS

23. Staff considers that access at 400 percent of quota is justified under a plausible tail risk scenario. The FCL arrangement offers a reliable buffer to which Mexico may need access in an extreme tail risk scenario. Box 2 provides a quantitative analysis of external financing requirements. Shocks are assumed to be somewhat milder than at the time of the 2020 FCL arrangement review to reflect the positive developments on vaccines and improved global economic and financial conditions. Mexico is also assumed to contribute to the adjustment somewhat more aggressively than previous FCL arrangements by a drawdown of its own international reserves of about USD 40 billion. Given the increased level of international reserves that were in part helped by the general SDR allocation, the assumed reserve drawdown still ensures that Mexico's reserve level is comfortable. The Assessing Reserve Adequacy (ARA) coverage stays well within the adequate range of 100–150 percent. The reduced access is also in line with the authorities' exit path of reducing access.

Box 2. Illustrative Adverse Scenario

Access in the amount of about USD 50 billion (400 percent of quota) can be justified under an illustrative downside scenario. If, as assumed in the WEO adverse scenario, medium-term U.S. inflation expectations rise faster than expected, external risks for Mexico will increase considerably, with renewed volatility in global financial markets and significantly lower global economic growth (see Box 1). External risks under this scenario are broadly similar to previous FCL arrangements, albeit somewhat milder than in 2020.

Use of reserves. A somewhat higher drawdown of reserves of about USD 40 billion is assumed in the downside scenario compared to previous FCL requests, given Mexico's increased international reserve buffer reflecting the recent general SDR allocation. The ARA metric would fall to around 115 percent after the drawdown but remain comfortably within the adequate range of 100–150 percent. Compared to previous FCL requests, maintaining adequate reserves is particularly critical to deal with potential further shocks in the current conjecture when the risks of rising global inflation expectations and endemic COVID-19 remain high.

Current account. A modest deterioration of the current account (0.45 percent of GDP) is assumed, similar to previous FCL arrangements. An orderly exchange rate depreciation is envisaged under the flexible exchange rate regime. While exchange rate depreciation would positively impact the current account, slower global growth would adversely impact exports. 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. The deterioration in the current account balance could be transitory.

Net foreign direct investment inflows. A significant drop in net FDI inflows (to the level of 40 percent of the average of the previous three years) is assumed as in previous FCL arrangements. As a large share of FDI in Mexico is related to export-oriented production facilities serving the North American market, a slowdown in U.S. demand could lead to a substantial reduction in FDI.

Net equity portfolio inflows. A loss of confidence following a surge in global financial volatility and heightened risk aversion would lead to a reduction in foreign investors' equity holdings. A similar shock (USD 13.5 billion) to the previous FCL arrangements is assumed.

Foreign currency-denominated debt. The current scenario assumes a rollover rate of 80 percent of long-term FX debt as in the previous FCL arrangements as foreign investors would reduce their exposure to Mexico with their higher risk aversion. The rollover rate of short-term debt is assumed higher than long-term

Box 2. Illustrative Adverse Scenario (continued)

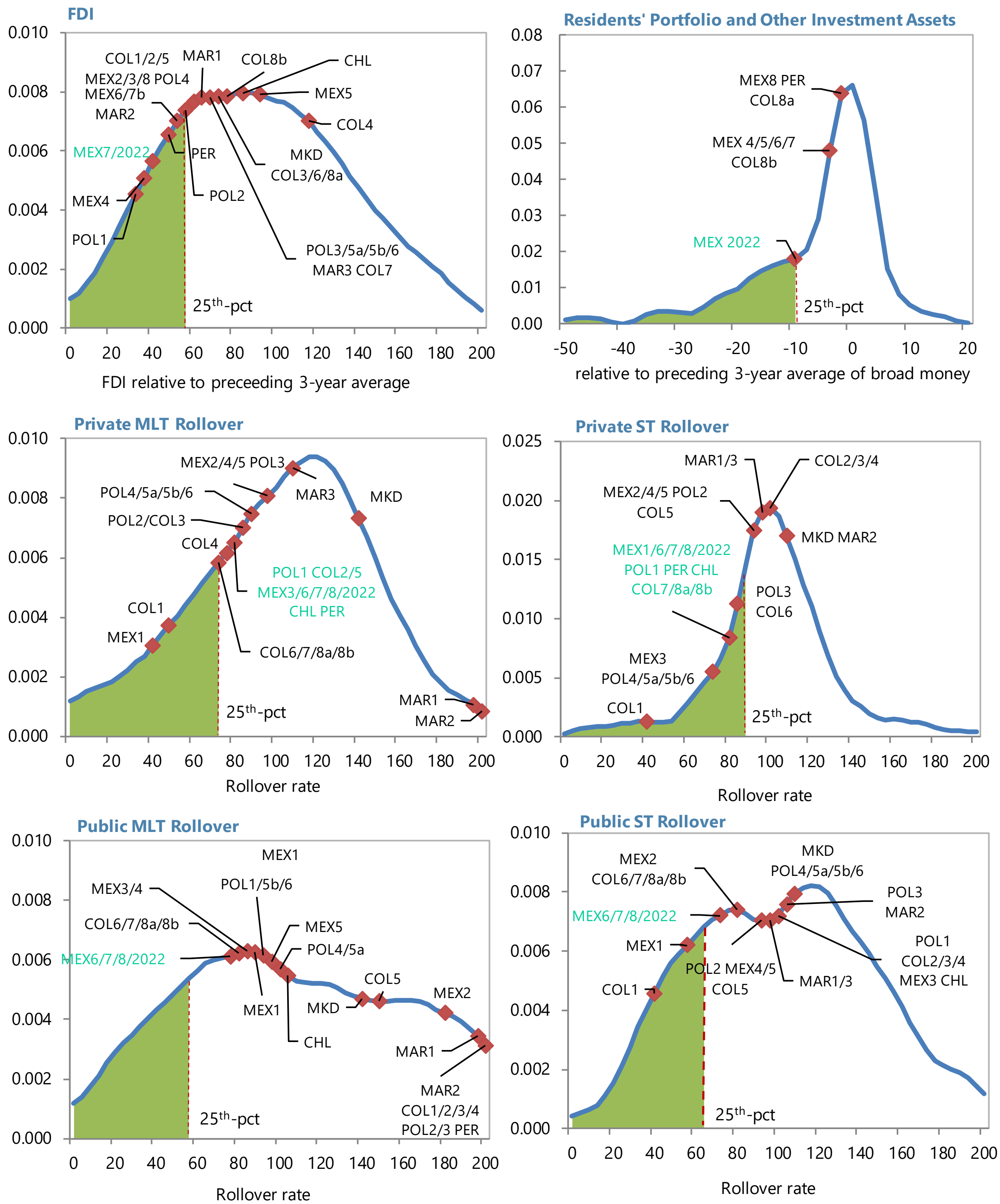
debt (100 percent for FX sovereign debt and 80 percent for private debt) because investors would shift part of their assets to shorter-term assets. The rollover rates are assumed to be higher than those of the past EM crises, owing to Mexico's relatively low credit risks.

Peso-denominated debt. A lower rollover rate of 71 percent is assumed similar to previous FCL arrangements. Renewed financial market volatility, together with currency depreciation pressures, would lead to a sizable reduction of foreign investors' holdings of peso-denominated debt.

Resident portfolio outflows. Uncertainties about the exchange rate could lead to temporary capital flight by residents. A shock of USD 27 billion is assumed, which is at around the 25th percentile of past crisis episodes in EMs.

	2020	2021	2022	2023	2022		2023		Current Rollover /Shock	2019 Rollover /Shock	2017 Rollover /Shock	2016 Rollover /Shock
			Proj.		Adverse 2022	**Contribution to Gap**	Adverse 2023	**Contribution to Gap**				
Gross external financing requirement	**77.3**	**74.7**	**75.6**	**86.2**	**42.8**	**-32.8**	**51.8**	**-34.5**				
Current account deficit	-26.1	-0.4	3.5	6.4	9.7	6.2	12.9	6.5	0.45% of GDP shock	0.23% of GDP shock	0.45% of GDP shock	No net shock
Amortization of Bonds and Loans	87.4	62.4	62.5	69.7	62.5		69.7					
Change in international reserves	16.0	12.8	9.6	10.1	-29.4	-39	-30.9	-41	About USD 40 bn	USD 15-19 bn	USD 10-14 bn	USD 5bn
Available external financing	**77.3**	**74.7**	**75.6**	**86.2**	**-7.7**	**83.3**	**1.3**	**84.9**				
Net FDI inflows	24.9	24.5	25.6	26.8	9.9	15.7	9.9	17.0	40%	60%	40%	50%
Equity Portfolio Inflows	0.2	0.0	0.5	0.5	-13.0	13.5	-13.0	13.5	USD 13.5bn	USD 11.3bn	USD 9.3bn	USD 9.3bn
Financing through Bonds and Loans	96.2	84.5	79.6	85.1	52.5		58.3					
Public sector MLT financing	31.6	37.1	30.0	34.3	15.8		21.0					
FX denominated bonds	21.1	6.0	8.2	7.3	0.2	7.9	1.2	6.1	80%	80%	80%	80%
Local currency bonds	-6.2	9.7	10.5	13.7	4.2	6.2	6.5	7.2	71%	71%	71%	71%
FX Bank Financing	16.7	21.5	11.4	13.3	11.4		13.3					
Private sector MLT financing	17.8	9.2	8.5	8.4	3.6		3.6					
FX denominated bonds	17.0	6.7	3.7	3.5	1.4	2.3	1.2	2.3	80%	80%	80%	80%
FX Bank Financing	0.8	2.5	4.8	5.0	2.2	2.6	2.3	2.6	80%	80%	80%	80%
Short-term financing	46.8	38.2	41.2	42.4	33.0		33.7					
Public sector	21.9	11.4	10.7	10.7	9.4		9.3					
FX denominated	6.1	6.1	6.1	6.1	6.1		6.1					
Local Currency	15.8	5.3	4.6	4.6	3.3	1.4	3.2	1.4	71%	71%	71%	71%
Private sector	14.1	15.7	19.1	20.1	14.9	4.2	15.4	4.7	80%	80%	80%	80%
Trade credit	10.8	11.1	11.3	11.6	8.8	2.5	9.0	2.6	80%	80%	80%	80%
Other flows	-44.0	-34.4	-30.1	-26.2	-57.0		-53.8					
Residents' foreign portfolio & other investment	-35.8	-25.7	-29.7	-26.0	-56.6	26.9	-53.6	27.7	About USD27 bn	USD17.2bn	USD25.1bn	USD 25.1bn
Financing Gap (USD billions)						**50.4**		**50.4**				
in SDR (1.41501 USD/SDR as of Oct 22, 2021)						35.7		35.7				
Percent of quota						400		400				

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. MEX2022 is the current FCL arrangement.

IMPACT ON FUND FINANCES, RISKS, AND SAFEGUARDS

24. The lower access of the proposed new FCL arrangement compared to the current one would have a net positive impact on Fund liquidity. The approval of the proposed arrangement of 400 percent of quota (SDR 35.6508 billion) and cancellation of the current one (SDR 44.5635 billion; 500 percent of quota) would increase the Fund's Forward Commitment Capacity.

25. Mexico's capacity to repay the Fund remains strong. The authorities have indicated that they intend to treat the proposed arrangement—like all its predecessors—as precautionary. Even if a full drawing under the arrangement were to be made, several factors would mitigate risks to the Fund, including Mexico's adequate buffers, as well as very strong macroeconomic policies and institutional policy frameworks. In a scenario of full disbursement in 2021, total external debt would initially remain below its 2020 level as in the baseline. It would then climb to a peak of 46.5 percent of GDP in 2022 before declining over the medium term to about 46 percent of GDP by 2026 (Table 10). Debt service to the Fund would peak at about SDR 18.5 billion (about 2.0 percent of GDP) in 2025. Moreover, Mexico has an excellent track record of meeting its obligations to the Fund.

26. FCL safeguards procedures are underway. The authorities have provided authorization for the central bank's external auditors to hold discussions with staff. In addition, staff has obtained copies of the central bank's audited financial statements and the management letter for FY2020. Once completed, the results of the procedures will be included in the staff report for Mexico's 2021 FCL arrangement.

STAFF APPRAISAL

27. Mexico continues to benefit from the FCL. The authorities value the FCL as insurance against tail risks and as validation of the quality of their macroeconomic policies and institutional policy frameworks. Prior to the pandemic, Mexico was on a path to gradually reduce access, but the process was temporarily paused last year owing to the exigencies of the pandemic.

28. Mexico is assessed as meeting the qualification criteria for an FCL arrangement. Mexico continues to demonstrate external, financial, and fiscal stability despite the deepest recession in decades. It meets all quantitative qualification criteria, and its macroeconomic policies and institutional policy frameworks meet the test of being very strong. The authorities remain firmly committed to maintaining sound macroeconomic policies going forward.

29. The proposed access of 400 percent of quota, with an intention to lower access by 100 percent of quota at the mid-term review contingent on the evolution of external risks, is appropriate. Although external tail risks are lower than those at the time of the 2020 FCL arrangement review, they remain material. The most relevant risks relate to a resurgence of COVID-

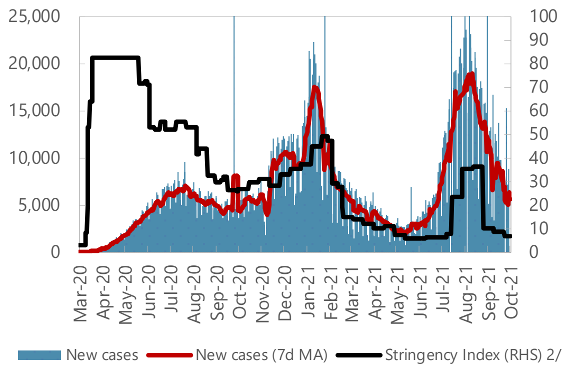
19 waves and international financial volatility associated, for instance, with faster-than-expected increases in medium-term inflation expectations in advanced economies. Such shocks could raise yields and risk premia and lead to capital outflows. The proposed new FCL arrangement would support the authorities' overall economic strategy and supplement Mexico's external buffers against tail risks. Coupled with an intention to reduce access by 100 percent of quota in the mid-term review subject to the evolution of external risks, the authorities' proposal is a pragmatic exit strategy that demonstrates a clear intention for a phased reduction in access, after more than 12 years of continuous resort to the instrument.

30. Staff judges the risks to the IMF arising from the proposed FCL arrangement to be manageable. While the requested amount remains substantial, the authorities track record and intention to maintain a very strong macroeconomic policy framework ameliorates risks to the Fund. Risks are further contained by the authorities' intention to treat the FCL arrangement as precautionary, Mexico's strong repurchase record with the Fund, and its manageable external debt service profile even if the full amount under the FCL arrangement were to be drawn.

Figure 1. Mexico: Recent Economic Developments

Confirmed COVID-19 cases fell through the Spring but set a new peak in August, now rapidly abating.

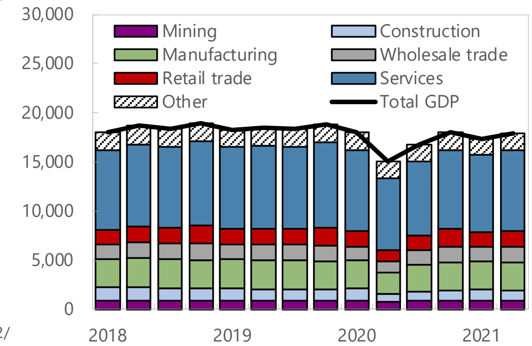
COVID-19 Case Growth and Policy Response Stringency 1/



Manufacturing led the contraction and the early recovery, but services have taken a lead role this year.

Supply Contributions to GDP

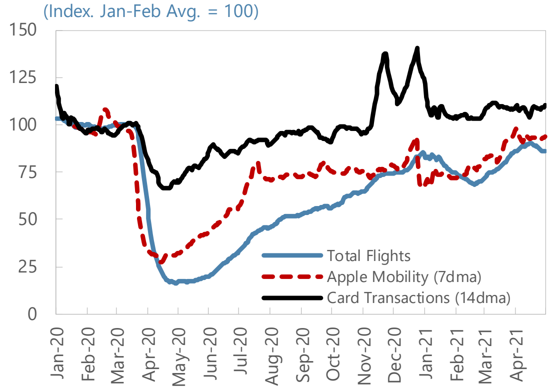
(NSAAR, Billions of 2013 Pesos)



High frequency data suggests a continued recovery with some softening due to the Delta wave.

High Frequency Indicators

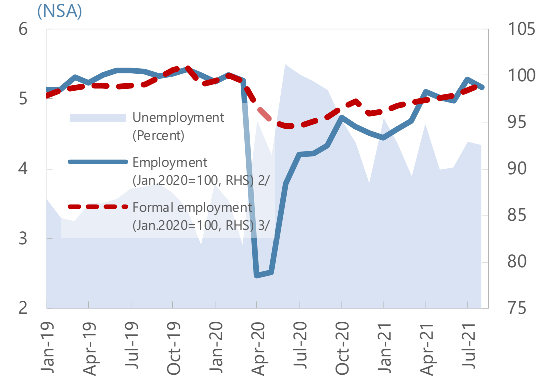
(Index. Jan-Feb Avg. = 100)



Deep job losses have largely recovered (though slack remains).

Employment

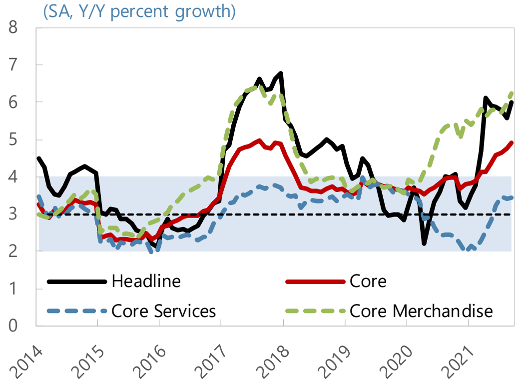
(NSA)



Headline and core inflation have risen to 2017 levels in 2021H1, initially on merchandise inflation but also from services between COVID-19 waves.

Inflation

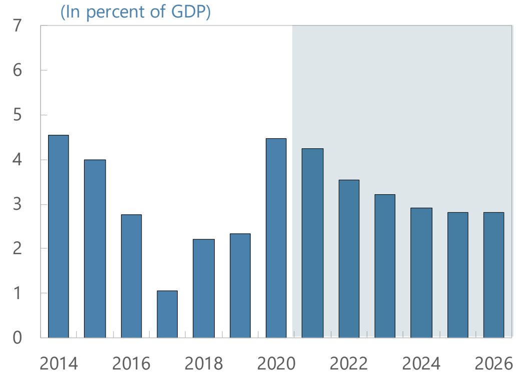
(SA, Y/Y percent growth)



The fiscal deficit is projected to narrow to 4.2 percent in 2021 as the economy recovers.

Fiscal Deficit

(In percent of GDP)

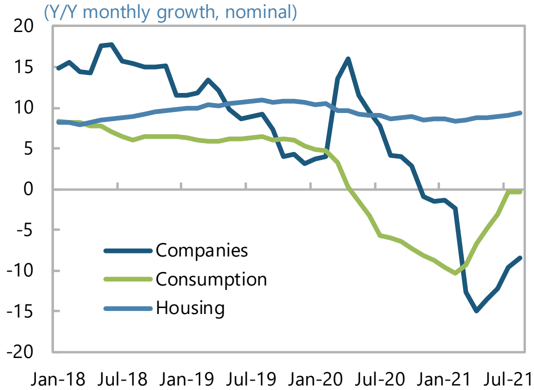


Sources: National authorities, Oxford University, Apple Mobility, Haver Analytics, Bloomberg; and IMF staff calculations.
1/ Stringency calculated as the Oxford University Stringency index of the health policy response multiplied by a simple average of state risk levels given by the national "traffic light" system with red=1, organge =0.5, yellow=0.25 and green =0.
2/ Employment growth is calculated as the growth in employment as a share of the economically active population.
3/ Formal employment growth is calculated as the growth in the number of IMSS-reporting employees, which does not capture self-employed formal workers.

Figure 2. Mexico: Recent Financial and External Developments

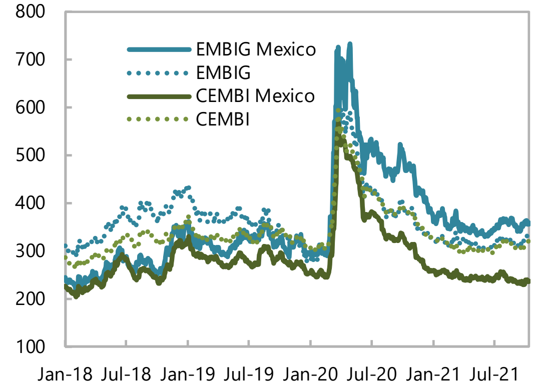
Bank credit has been recovering along with the economic recovery...

Commercial Bank Credit Growth by Sector
(Y/Y monthly growth, nominal)



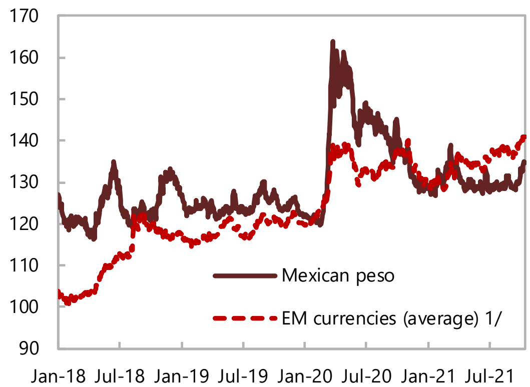
...amid stable external funding markets.

EMBIG and CEMBI Spreads
(In basis points)



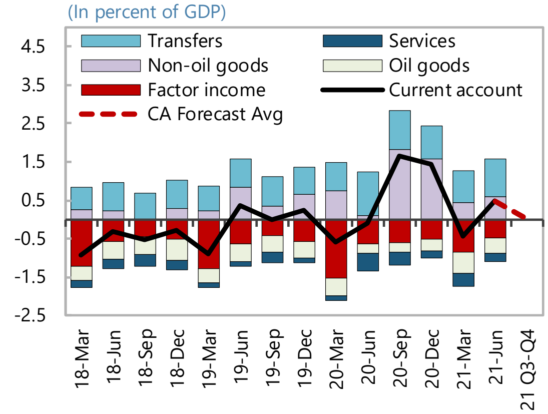
The exchange rate was broadly stable in 2021 but remains sensitive to external conditions.

Exchange Rates
(Index Jun. 2014=100)



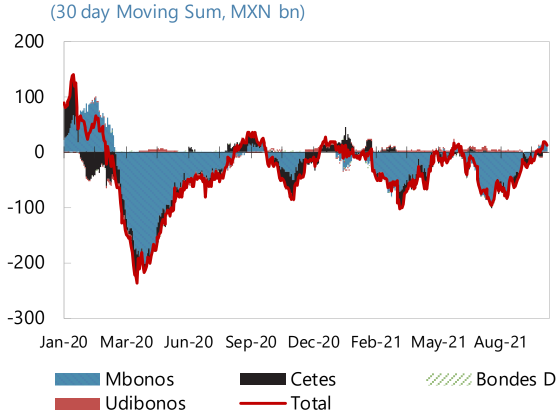
The large current account surplus is moderating.

Current Account Balance
(In percent of GDP)



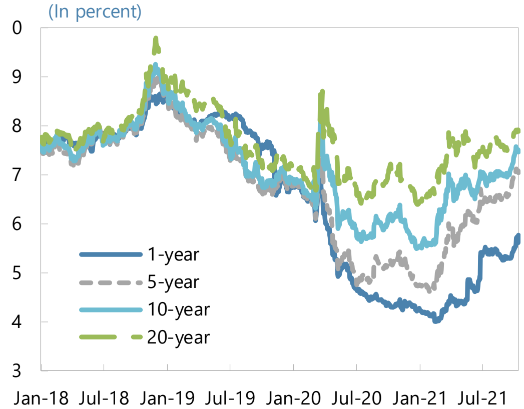
Local currency debt has seen recurring waves of outflows.

Foreign Inflows in Local Currency Debt 2/
(30 day Moving Sum, MXN bn)



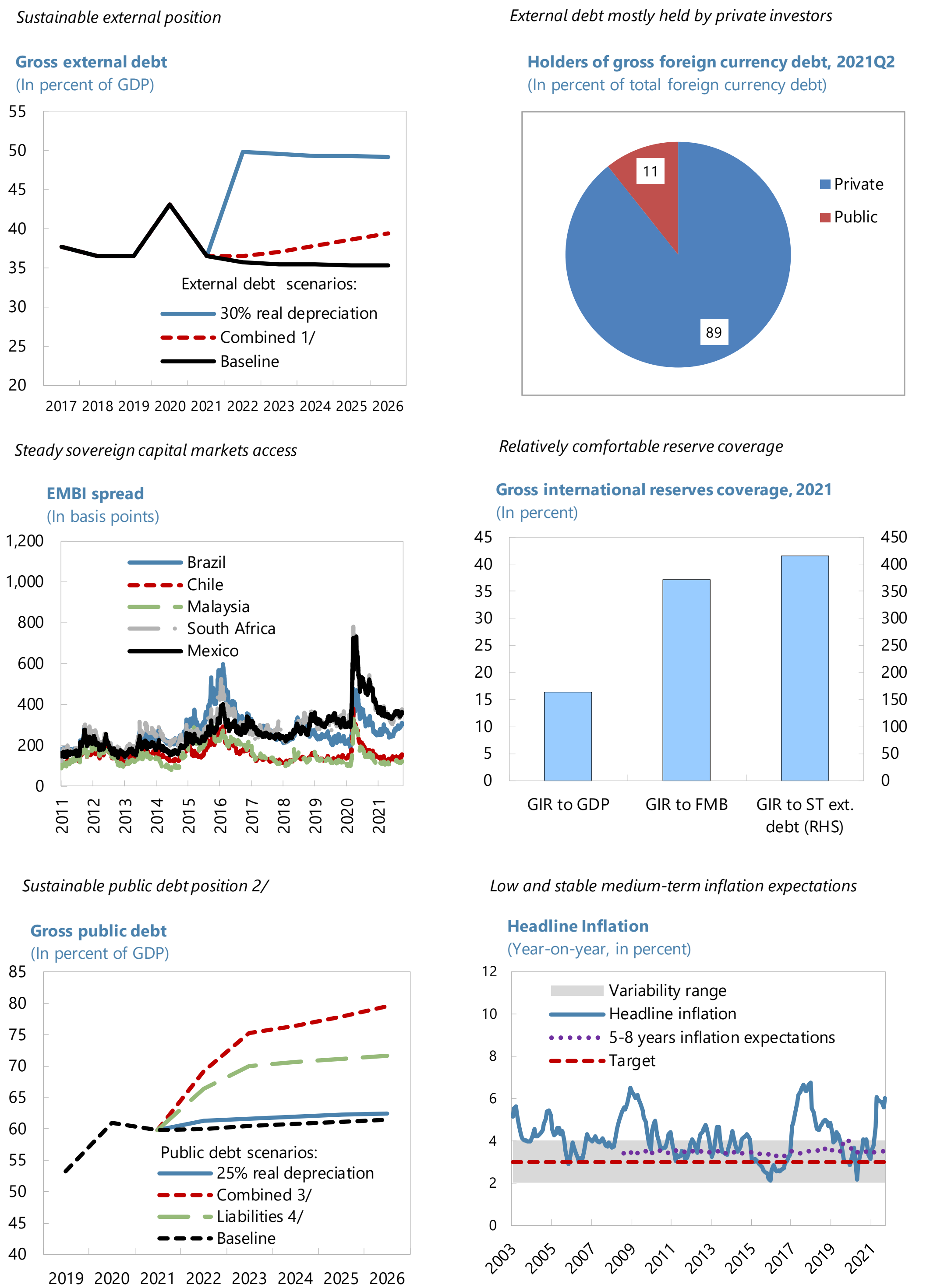
Bond yields are rising on the long end, with the short end now catching up.

Government Bond Yields
(In percent)



Sources: National authorities; Haver Analytics; Bloomberg; and IMF staff calculations.
1/ Includes Brazil, Chile, Colombia, Czech Republic, India, Indonesia, Korea, Poland, Russia, Thailand, and Turkey.
2/ Flows associated with Pemex transaction on 11/20/2020 have been removed.

Figure 3. Mexico: Qualification Criteria



Sources: Bloomberg L.P., Datastream, EMED, Haver Analytics, and Fund staff estimates.

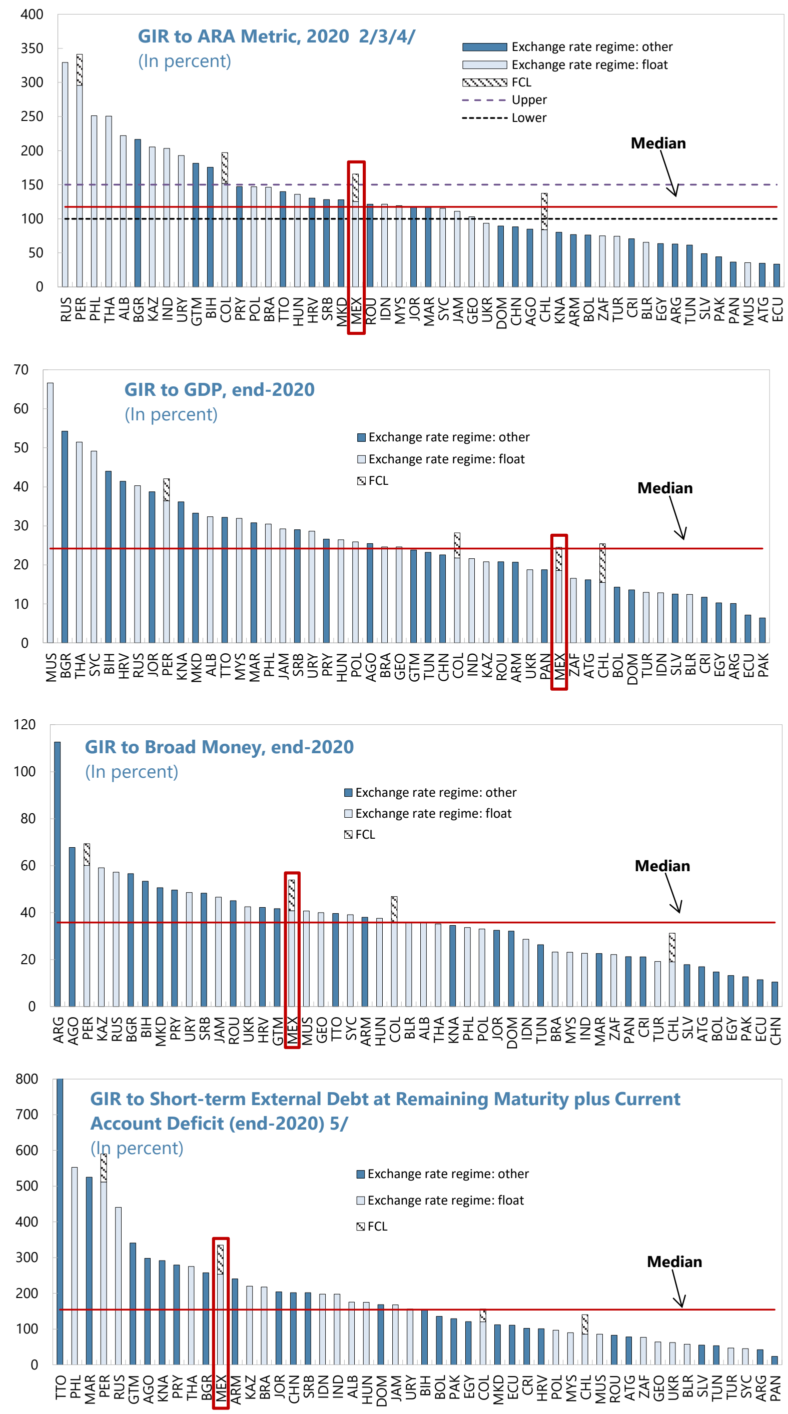
1/ Combined permanent 1/4 standard deviation shocks applied to interest rate, growth, and current account balance.

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 and FCLs in an International Perspective 1/



Sources: World Economic Outlook; IFS; and IMF staff estimates.

1/ The sample of countries included in these charts includes all EMEs for which data is available.

2/ The ARA metric provides a tool to help inform reserve adequacy assessments, but individual circumstances (for example, access to swap lines, market maturity, etc.) require additional judgment and, for this reason, mechanistic comparisons of the ARA metric do not provide a complete view.

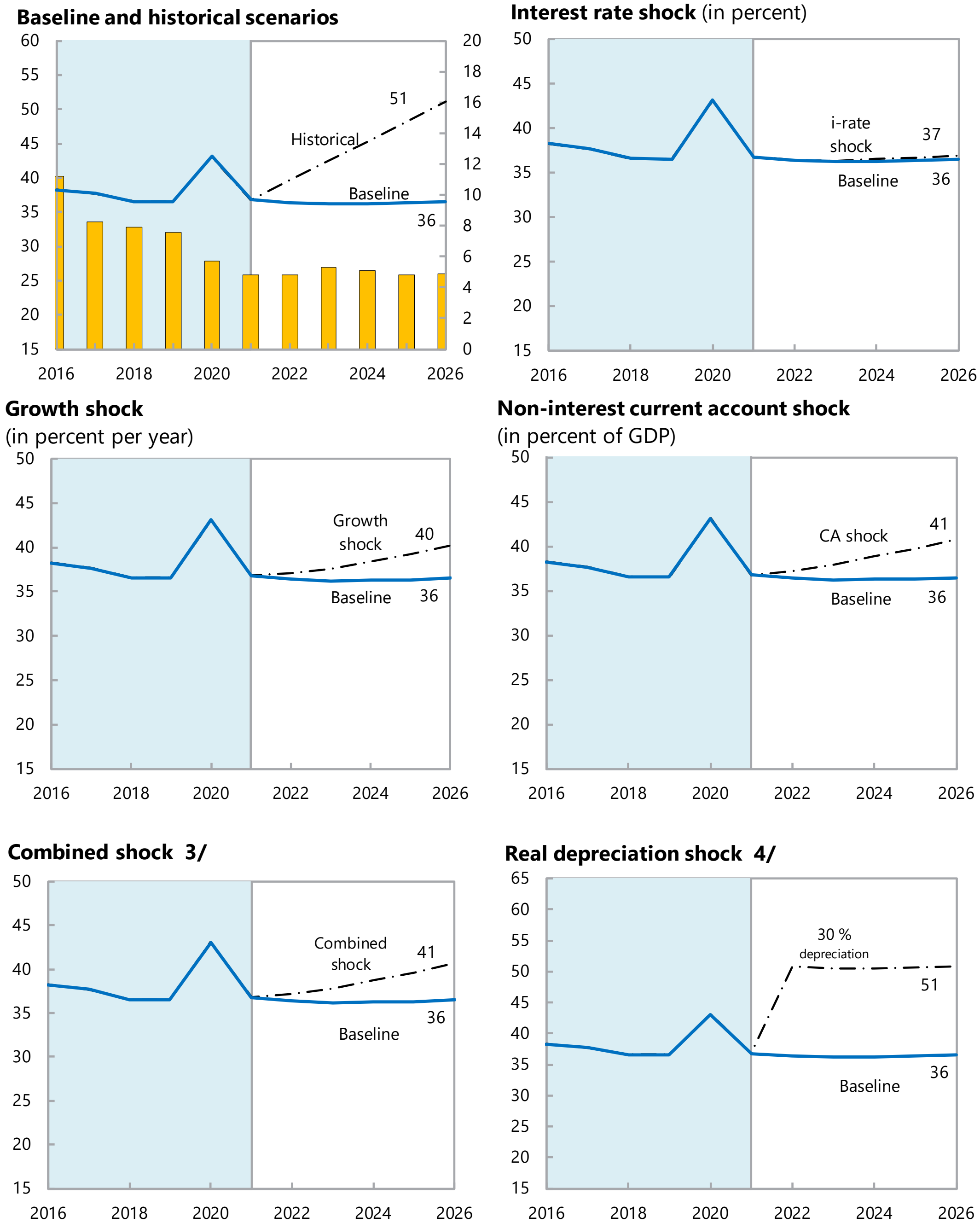
3/ The ARA Metric is a weighted sum of potential drains on the BoP, depending on the country's exchange rate regime. For fixed exchange rates, ARA Metric = 10% × Exports + 10% × Broad Money + 30% × Short-term Debt + 20% × Other Liabilities. For floating exchange rates, ARA Metric = 5% × Exports + 5% × Broad Money + 30% × Short-term Debt + 15% × Other Liabilities. See "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations", IMF, 2016.

4/ The upper and lower lines denote the 100-150 percent range of ARA metric, which are considered broadly adequate for precautionary purposes.

5/ The current account balance is set to zero if it is in surplus.

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 2021.

Figure 6. Mexico: Public Sector Debt Sustainability Analysis—Baseline Scenario

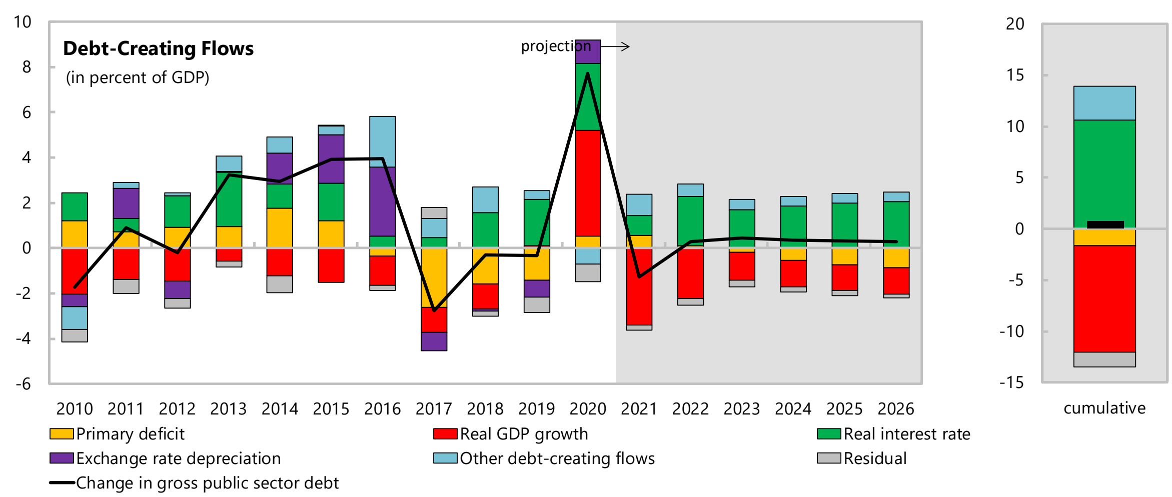
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of November 02, 2021		
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026	Sovereign Spreads		
Nominal gross public debt	48.8	53.3	61.0	59.8	60.1	60.5	60.9	61.2	61.5	EMBIG (bp) 3/		175
Public gross financing needs	10.9	10.5	13.2	13.0	11.3	12.2	12.0	11.8	11.7	5Y CDS (bp)		105
Real GDP growth (in percent)	3.0	-0.2	-8.3	6.2	4.0	2.2	2.0	2.0	2.0	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	4.5	4.1	2.9	5.6	2.8	3.5	3.3	3.2	3.3	Moody's	Baa1	Baa1
Nominal GDP growth (in percent)	7.6	4.0	-5.6	12.1	7.0	5.8	5.4	5.3	5.3	S&Ps	BBB	BBB+
Effective interest rate (in percent) [4/]	7.4	8.1	7.9	7.5	6.8	6.6	6.6	6.7	6.9	Fitch	BBB-	BBB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing
Change in gross public sector debt	1.1	-0.3	7.7	-1.3	0.3	0.5	0.3	0.3	0.3	0.4	primary
Identified debt-creating flows	1.4	0.4	8.5	-1.0	0.6	0.7	0.6	0.5	0.5	1.9	balance [9/]
Primary deficit	0.2	-1.4	0.5	0.6	0.1	-0.2	-0.6	-0.7	-0.9	-1.7	1.3
Primary (noninterest) revenue and grants	23.7	23.2	24.0	23.6	22.8	22.6	22.6	22.7	22.8	137.2	
Primary (noninterest) expenditure	24.0	21.8	24.6	24.2	22.9	22.4	22.1	22.0	21.9	135.6	
Automatic debt dynamics [5/]	0.5	1.4	8.7	-2.5	-0.1	0.4	0.7	0.8	0.9	0.2	
Interest rate/growth differential [6/]	-0.1	2.2	7.6	-2.5	-0.1	0.4	0.7	0.8	0.9	0.2	
Of which: real interest rate	1.2	2.1	2.9	0.9	2.2	1.7	1.8	2.0	2.0	10.6	
Of which: real GDP growth	-1.3	0.1	4.7	-3.4	-2.2	-1.3	-1.1	-1.2	-1.2	-10.4	
Exchange rate depreciation [7/]	0.6	-0.7	1.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.6	0.4	-0.7	0.9	0.6	0.5	0.4	0.4	0.4	3.3	
Change in assets	0.6	0.4	-0.7	0.9	0.6	0.5	0.4	0.4	0.4	3.3	
Residual, including asset changes [8/]	-0.3	-0.7	-0.8	-0.2	-0.3	-0.3	-0.2	-0.2	-0.2	-1.5	



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/ Long-term bond spread over U.S. bonds.

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

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) 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 - π (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).

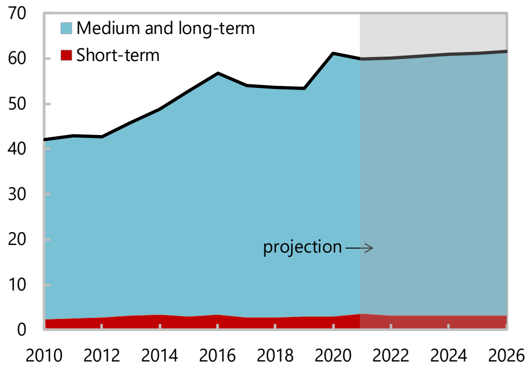
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

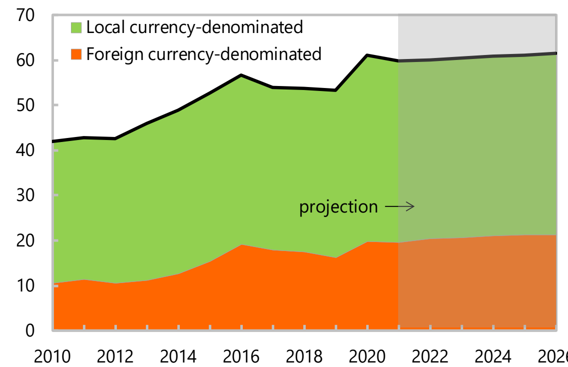
Figure 7. Mexico: Public Debt Sustainability Analysis—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



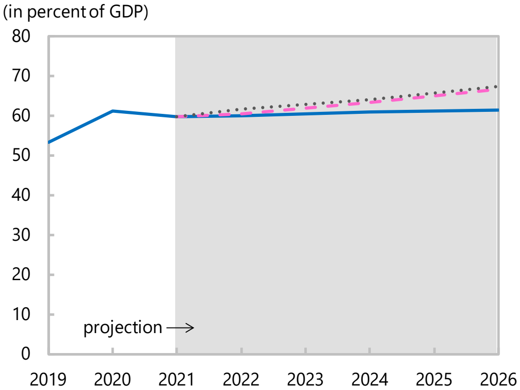
By Currency
(in percent of GDP)



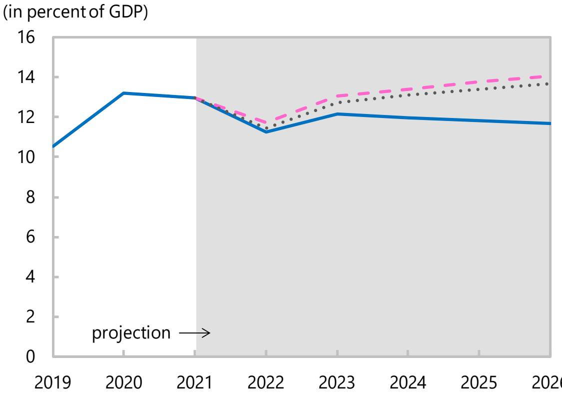
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

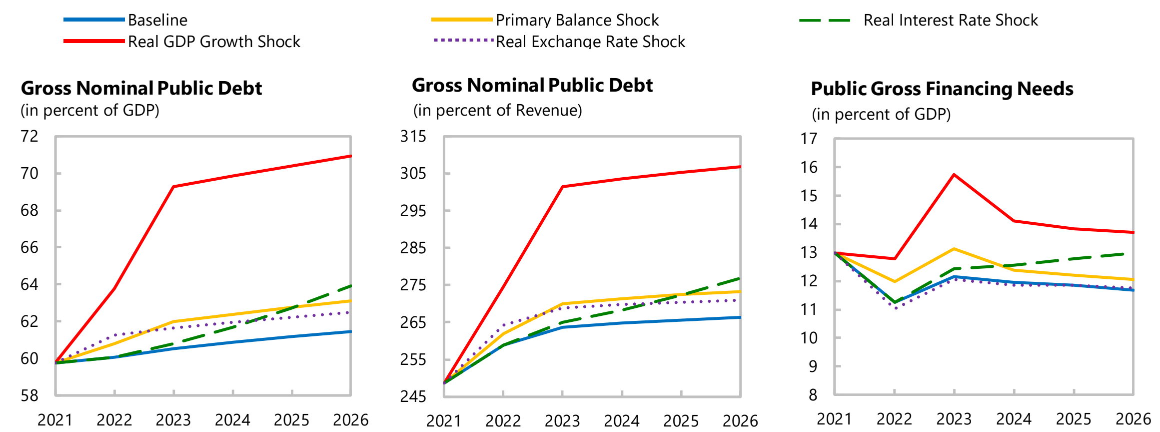
Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	6.2	4.0	2.2	2.0	2.0	2.0
Inflation	5.6	2.8	3.5	3.3	3.2	3.3
Primary Balance	-0.6	-0.1	0.2	0.6	0.7	0.9
Effective interest rate	7.5	6.8	6.6	6.6	6.7	6.9
Constant Primary Balance Scenario						
Real GDP growth	6.2	4.0	2.2	2.0	2.0	2.0
Inflation	5.6	2.8	3.5	3.3	3.2	3.3
Primary Balance	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Effective interest rate	7.5	6.8	6.6	6.6	6.7	6.9

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	6.2	1.3	1.3	1.3	1.3	1.3
Inflation	5.6	2.8	3.5	3.3	3.2	3.3
Primary Balance	-0.6	0.0	0.0	0.0	0.0	0.0
Effective interest rate	7.5	6.8	6.6	6.6	6.7	6.9

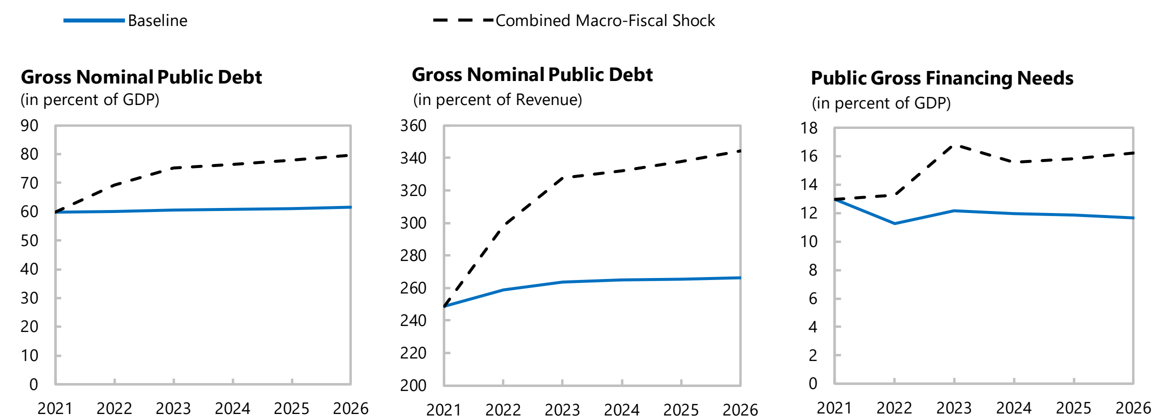
Source: IMF staff.

Figure 8. Mexico: Public Debt Sustainability Analysis—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	6.2	4.0	2.2	2.0	2.0	2.0
Inflation	5.6	2.8	3.5	3.3	3.2	3.3
Primary balance	-0.6	-0.8	-0.5	0.6	0.7	0.9
Effective interest rate	7.5	6.8	6.6	6.7	6.8	6.9
Real Interest Rate Shock						
Real GDP growth	6.2	4.0	2.2	2.0	2.0	2.0
Inflation	5.6	2.8	3.5	3.3	3.2	3.3
Primary balance	-0.6	-0.1	0.2	0.6	0.7	0.9
Effective interest rate	7.5	6.8	7.1	7.5	7.9	8.4
Combined Shock						
Real GDP growth	6.2	0.4	-1.4	2.0	2.0	2.0
Inflation	5.6	1.9	2.6	3.3	3.2	3.3
Primary balance	-0.6	-1.1	-1.9	0.6	0.7	0.9
Effective interest rate	7.5	7.3	7.0	7.5	7.9	8.3

Real GDP Growth Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	6.2	0.4	-1.4	2.0	2.0	2.0
Inflation	5.6	1.9	2.6	3.3	3.2	3.3
Primary balance	-0.6	-1.1	-1.9	0.6	0.7	0.9
Effective interest rate	7.5	6.8	6.6	6.8	6.8	7.0
Real Exchange Rate Shock						
Real GDP growth	6.2	4.0	2.2	2.0	2.0	2.0
Inflation	5.6	9.7	3.5	3.3	3.2	3.3
Primary balance	-0.6	-0.1	0.2	0.6	0.7	0.9
Effective interest rate	7.5	7.3	6.5	6.5	6.6	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, 2020)	8,403.6	Poverty headcount ratio (% of population, 2020) 1/	43.9
Population (millions, 2020)	127.8	Income share of highest 20 perc. / lowest 20 perc. (2020)	9.1
Life expectancy at birth (years, 2019)	75.1	Adult literacy rate (2018)	95.4
Infant mortality rate (per thousand, 2019)	12.2	Gross primary education enrollment rate (2017) 2/	105.8

II. Economic Indicators

					Proj.	
	2017	2018	2019	2020	2021	2022
(Annual percentage change, unless otherwise indicated)						
National accounts (in real terms)						
GDP	2.1	2.2	-0.2	-8.3	6.2	4.0
Consumption	2.8	2.6	0.1	-8.6	7.7	4.4
Private	3.2	2.6	0.4	-10.5	9.1	4.9
Public	0.7	2.9	-1.3	2.3	0.8	2.0
Investment	-1.2	0.4	-5.3	-18.1	15.1	8.4
Fixed	-1.2	0.8	-4.7	-18.3	14.0	8.8
Private	0.9	1.2	-3.2	-19.7	15.8	9.1
Public	-11.9	-1.3	-13.6	-8.6	4.3	6.8
Inventories 3/	0.0	-0.1	-0.2	-0.1	0.2	0.0
Exports of goods and services	4.2	6.0	1.5	-7.3	7.8	5.7
Imports of goods and services	6.4	6.4	-0.7	-14.6	17.3	7.3
GDP per capita	1.0	1.1	-1.2	-9.2	5.3	3.1
External sector						
External current account balance (in percent of GDP)	-1.8	-2.1	-0.3	2.4	0.0	-0.3
Exports of goods, f.o.b. 4/	9.5	10.1	2.2	-9.5	15.7	2.2
Export volume	3.8	6.3	1.2	-4.7	8.7	5.7
Imports of goods, f.o.b. 4/	8.6	10.4	-2.0	-15.9	25.7	1.6
Import volume	6.1	6.3	-0.7	-13.4	17.6	7.3
Net capital inflows (in percent of GDP)	-2.5	-2.7	-1.5	0.6	-1.0	-1.0
Terms of trade (improvement +)	3.0	-0.4	2.2	-2.1	-0.4	2.1
Gross international reserves (in billions of U.S. dollars)	175.4	176.4	183.0	199.1	211.8	221.5
Exchange rates						
Real effective exchange rate (CPI based, IFS)						
(average, appreciation +)	2.3	0.1	3.3	-7.6	...	...
Nominal exchange rate (MXN/USD)						
(end of period, appreciation +)	4.6	0.5	4.3	-5.9	...	...
Employment and inflation						
Consumer prices (end-of-period)	6.8	4.8	2.8	3.2	5.9	3.1
Core consumer prices (end-of-period)	4.9	3.7	3.6	3.8	4.7	3.1
Formal sector employment, IMSS-insured workers (average)	4.4	4.1	2.3	-2.5	...	...
National unemployment rate (annual average)	3.4	3.3	3.5	4.4	4.1	3.7
Unit labor costs: manufacturing (real terms, average)	2.2	3.6	4.2	10.3	...	...
Money and credit						
Financial system credit to non-financial private sector 5/	10.8	8.9	3.0	1.5	3.3	5.9
Broad money	11.2	4.5	4.7	13.4	9.2	6.6
Public sector finances (in percent of GDP) 6/						
General government revenue	24.6	23.5	23.6	24.5	24.0	23.2
General government expenditure	25.7	25.7	26.0	29.0	28.3	26.8
Overall fiscal balance	-1.1	-2.2	-2.3	-4.5	-4.2	-3.5
Gross public sector debt	54.0	53.6	53.3	61.0	59.8	60.1
Memorandum items						
Nominal GDP (billions of pesos)	21,934.2	23,524.4	24,453.9	23,073.7	25,876.7	27,676.0
Output gap (in percent of potential GDP)	0.4	0.8	-1.0	-5.6	-4.0	-2.2

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/ Excludes goods procured in ports by carriers.

5/ Includes domestic credit by banks, nonbank intermediaries, and social housing funds.

6/ 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)

	2018	2019	2020	Proj. 2021	2022	2023	2024	2025	2026
Budgetary revenue, by type	**21.7**	**22.0**	**23.1**	**22.7**	**21.8**	**21.5**	**21.5**	**21.6**	**21.6**
Oil revenue	4.2	3.9	2.6	4.3	3.6	3.3	3.3	3.3	3.3
Non-oil tax revenue	13.0	13.1	14.5	13.6	14.0	14.0	14.0	14.1	14.1
Non-oil non-tax revenue	4.6	5.0	6.0	4.7	4.1	4.2	4.2	4.2	4.3
Budgetary revenue, by entity	**21.7**	**22.0**	**23.1**	**22.7**	**21.8**	**21.5**	**21.5**	**21.6**	**21.6**
Federal government revenue	16.5	16.4	17.7	16.6	16.0	16.0	16.1	16.1	16.2
Tax revenue, *of which:*	13.0	13.1	14.5	13.6	14.0	14.0	14.0	14.1	14.1
Excises (including fuel)	1.5	1.9	2.0	1.6	1.8	1.9	1.9	1.9	2.0
Nontax revenue	3.4	3.3	3.2	2.9	2.1	2.1	2.0	2.1	2.1
Public enterprises	5.3	5.6	5.4	6.1	5.7	5.4	5.4	5.5	5.5
PEMEX	1.9	2.1	1.8	2.8	2.5	2.1	2.1	2.1	2.1
Other	3.4	3.5	3.7	3.4	3.3	3.3	3.3	3.3	3.4
Budgetary expenditure	**23.8**	**23.7**	**26.0**	**25.8**	**24.9**	**24.2**	**23.9**	**23.9**	**23.9**
Primary	21.1	21.0	23.0	23.1	22.5	22.1	21.8	21.9	22.0
Programmable	17.3	17.3	19.3	19.4	18.8	18.4	18.2	18.3	18.4
Current	14.2	14.3	15.9	15.1	15.3	15.4	15.5	15.6	15.6
Wages	5.2	5.0	5.6	5.4	5.3	5.3	5.3	5.3	5.3
Pensions 2/	3.4	3.6	4.1	4.1	4.2	4.3	4.4	4.5	4.6
Subsidies and transfers	2.7	2.9	3.3	3.2	3.3	3.4	3.5	3.5	3.5
Other	2.9	2.8	2.8	2.4	2.5	2.4	2.3	2.2	2.2
Capital	3.1	3.0	3.4	4.3	3.5	3.1	2.7	2.7	2.8
Physical capital	2.6	2.3	2.8	3.0	3.2	3.0	2.7	2.7	2.7
Financial capital 3/	0.4	0.7	0.6	1.3	0.4	0.0	0.0	0.0	0.0
Nonprogrammable	3.9	3.7	3.7	3.7	3.7	3.6	3.6	3.6	3.6
Of which: revenue sharing	3.6	3.6	3.7	3.6	3.6	3.5	3.5	3.5	3.5
Interest payments	**2.6**	**2.7**	**3.0**	**2.8**	**2.7**	**2.6**	**2.7**	**2.8**	**2.8**
Unspecified measures	**0.0**	**0.0**	**0.0**	**0.0**	**-0.3**	**-0.5**	**-0.6**	**-0.8**	**-1.0**
Traditional balance	**-2.1**	**-1.6**	**-2.9**	**-3.1**	**-3.1**	**-2.7**	**-2.4**	**-2.3**	**-2.3**
Adjustments to the traditional balance	**-0.1**	**-0.7**	**-1.5**	**-1.1**	**-0.4**	**-0.5**	**-0.5**	**-0.5**	**-0.5**
Public Sector Borrowing Requirements 4/	**2.2**	**2.3**	**4.5**	**4.2**	**3.5**	**3.2**	**2.9**	**2.8**	**2.8**
Memorandum items									
Structural current spending	9.9	9.6	10.9						
Structural current spending real growth (y/y, in percent)	-0.2	-2.6	4.0						

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 social assistance benefits.

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

4/ The 2020 PSBR is adjusted for some statistical discrepancies between above-the-line and below-the-line numbers.

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

(In percent of GDP)

				Proj.					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Revenue	**23.5**	**23.6**	**24.5**	**24.0**	**23.2**	**22.9**	**23.0**	**23.0**	**23.1**
Taxes	**13.0**	**13.1**	**14.5**	**13.6**	**14.0**	**14.0**	**14.0**	**14.1**	**14.1**
Taxes on income, profits and capital gains	7.1	6.9	7.6	7.1	7.2	7.2	7.2	7.2	7.2
Taxes on goods and services	5.4	5.7	6.3	6.0	6.3	6.3	6.3	6.4	6.4
Value added tax	3.9	3.8	4.3	4.4	4.4	4.4	4.4	4.4	4.4
Excises	1.5	1.9	2.0	1.6	1.8	1.9	1.9	1.9	2.0
Taxes on international trade and transactions	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Other taxes	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Social contributions	**2.1**	**2.2**	**2.5**	**2.3**	**2.3**	**2.3**	**2.3**	**2.4**	**2.4**
Other revenue	**8.3**	**8.3**	**7.6**	**8.1**	**6.9**	**6.6**	**6.6**	**6.6**	**6.6**
Property income	3.5	3.4	3.4	3.1	2.2	2.2	2.2	2.2	2.2
Other	4.8	5.0	4.2	4.9	4.7	4.4	4.5	4.4	4.4
Total expenditure	**25.7**	**26.0**	**29.0**	**28.3**	**26.8**	**26.2**	**25.9**	**25.9**	**25.9**
Expense	**24.1**	**24.6**	**27.2**	**26.1**	**24.7**	**24.5**	**24.7**	**24.8**	**25.0**
Compensation of employees	3.4	3.2	3.6	3.5	3.4	3.4	3.4	3.4	3.4
Purchases of goods and services	3.6	3.7	3.8	3.3	3.3	3.2	3.1	3.0	2.9
Interest 2/	4.1	4.2	4.4	4.1	3.8	3.7	3.8	3.9	4.0
Subsidies and transfers	1.8	1.9	2.3	2.5	2.5	2.7	2.8	2.8	2.8
o/w fuel subsidy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants 3/	8.2	7.9	8.5	8.5	8.4	8.4	8.4	8.4	8.4
Social benefits	3.4	3.6	4.1	4.1	4.2	4.3	4.4	4.5	4.6
Other expense	-0.4	0.1	0.4	0.2	-1.0	-1.2	-1.2	-1.2	-1.2
Net acquisition of nonfinancial assets 4/	**1.6**	**1.3**	**1.8**	**2.2**	**2.4**	**2.2**	**1.8**	**1.8**	**1.9**
Unspecified measures	**0.0**	**0.0**	**0.0**	**0.0**	**-0.3**	**-0.5**	**-0.6**	**-0.8**	**-1.0**
Gross Operating Balance	**-0.6**	**-1.0**	**-2.7**	**-2.1**	**-1.5**	**-1.5**	**-1.7**	**-1.8**	**-1.9**
Overall Fiscal Balance (Net lending/borrowing) 5/	**-2.2**	**-2.3**	**-4.5**	**-4.2**	**-3.5**	**-3.2**	**-2.9**	**-2.8**	**-2.8**
Primary net lending/borrowing	**1.6**	**1.4**	**-0.5**	**-0.6**	**-0.1**	**0.2**	**0.6**	**0.7**	**0.9**
Memorandum items									
Primary expenditure	21.5	21.8	24.6	24.2	22.9	22.4	22.1	22.0	21.9
Current expenditure	24.1	24.6	27.2	26.1	24.4	24.0	24.1	24.0	24.0
Structural fiscal balance	-2.3	-2.1	-2.9	-3.5	-3.3	-3.0	-2.8	-2.8	-2.8
Structural primary balance 6/	1.5	1.6	1.0	0.2	0.2	0.4	0.7	0.8	0.9
Fiscal impulse 7/	0.0	-0.2	0.6	0.8	0.1	-0.2	-0.3	-0.1	-0.1
Gross public sector debt 8/	53.6	53.3	61.0	59.8	60.1	60.5	60.9	61.2	61.5
In domestic currency (percentage of total debt)	67.5	69.7	67.6	67.3	66.0	65.8	65.3	65.3	65.3
In foreign currency (percentage of total debt)	32.5	30.3	32.4	32.7	34.0	34.2	34.7	34.7	34.7
Net public sector debt 9/	44.9	44.5	52.4	51.1	51.4	51.9	52.2	52.5	52.8

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

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

4/ 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.

5/ The 2020 PSBR is adjusted for some statistical discrepancies between above-the-line and below-the-line numbers.

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 1/
(In billions of U.S. dollars)

				Proj.					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Current account	**-25.1**	**-3.9**	**26.1**	**0.4**	**-3.5**	**-6.4**	**-9.5**	**-13.8**	**-16.8**
Merchandise goods trade balance	-13.6	5.4	34.0	0.8	3.4	4.2	4.6	4.1	4.3
Exports, f.o.b. 3/	450.7	460.6	417.0	482.4	492.8	524.1	552.3	581.8	612.5
o/w Manufactures	397.3	410.8	373.8	441.0	452.5	482.8	515.5	549.8	584.6
o/w Petroleum and derivatives 2/	30.6	25.8	17.5	26.8	27.5	27.1	26.8	27.4	27.6
Imports, f.o.b. 3/	464.3	455.2	383.0	481.6	489.4	519.9	547.7	577.7	608.3
o/w Petroleum and derivatives 2/	53.8	47.2	31.4	55.5	58.2	54.1	52.6	53.7	54.8
Services, net	-11.5	-8.3	-11.1	-12.7	-14.3	-15.0	-15.9	-16.7	-17.5
Primary income, net	-33.3	-37.0	-36.9	-39.7	-41.3	-45.1	-50.0	-55.3	-59.9
Secondary income (mostly remittances), net	33.4	36.2	40.1	52.1	48.7	49.5	51.8	54.1	56.5
Capital Account, net	**-0.1**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial Account (Net lending (+)/Net borrowing (-))	**-31.9**	**-15.9**	**18.6**	**0.4**	**-3.5**	**-6.4**	**-9.5**	**-13.8**	**-16.8**
Foreign direct investment, net	-25.6	-23.6	-24.9	-24.5	-25.6	-26.8	-28.4	-30.0	-31.7
Net acquisition of financial assets	12.1	5.8	6.1	8.4	9.0	9.4	9.7	9.9	10.2
Net incurrence of liabilities	37.7	29.4	31.0	32.9	34.5	36.2	38.0	39.9	41.9
Portfolio investment, net	-8.3	-6.1	10.6	11.6	-1.9	-0.3	-6.0	-9.0	-10.5
Net acquisition of financial assets	1.2	3.5	16.7	12.5	13.0	13.0	9.0	6.0	6.0
Net incurrence of liabilities	9.5	9.6	6.1	0.9	14.9	13.3	15.0	15.0	16.5
Public Sector	10.7	3.2	0.3	-1.0	12.3	10.3	12.0	12.0	13.6
o/w Local currency domestic-issued bonds	0.1	1.3	-10.6	-6.4	4.4	4.6	5.1	5.8	6.7
Private sector	-1.2	6.4	5.9	1.9	2.6	2.9	2.9	2.9	2.9
Securities issued abroad	-3.6	6.4	5.7	1.9	2.1	2.4	2.4	2.4	2.4
Equity	2.4	0.0	0.2	0.0	0.5	0.5	0.5	0.5	0.5
Pidiregas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives, net	0.4	1.7	-1.8	0.0	0.0	0.0	0.0	0.0	0.0
Other investments, net	1.0	9.4	22.6	0.6	14.3	10.5	14.5	14.7	15.1
Net acquisition of financial assets	7.9	13.0	19.0	13.2	16.7	13.0	17.0	17.1	17.5
Net incurrence of liabilities	6.9	3.5	-3.6	12.6	2.4	2.4	2.4	2.4	2.4
Change in Reserves Assets	0.5	2.6	12.0	12.8	9.6	10.1	10.3	10.5	10.4
Total change in gross reserves assets	0.9	6.6	16.0	12.8	9.6	10.1	10.3	10.5	10.4
Valuation change	0.5	4.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	**-6.8**	**-11.9**	**-7.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
International Investment Position, net	**-583.5**	**-648.5**	**-591.4**	**-590.9**	**-594.4**	**-600.9**	**-610.3**	**-624.2**	**-640.9**
Memorandum items									
Hydrocarbons exports volume growth (in percent)	1.8	-5.9	5.8	-5.7	4.2	3.6	2.8	2.2	0.8
Non-hydrocarbons exports volume growth (in percent)	6.5	1.4	-5.0	9.1	5.7	2.0	1.7	1.7	1.7
Hydrocarbons imports volume growth (in percent)	4.8	-12.9	-28.5	-9.5	4.0	2.2	1.7	2.3	2.0
Non-hydrocarbons imports volume growth (in percent)	6.4	-0.4	-13.0	18.2	7.4	2.2	2.0	2.0	2.0
Crude oil export volume (in millions of bbl/day)	1.2	1.1	1.1	1.0	1.0	1.1	1.1	1.1	1.1
Gross international reserves (in billions of U.S. dollars)	176.4	183.0	199.1	211.8	221.5	231.6	241.9	252.5	262.8
Gross domestic product (in billions of U.S. dollars)	1,222.4	1,269.4	1,073.9	1,285.5	1,371.6	1,446.8	1,518.9	1,591.4	1,665.6

Sources: Bank of Mexico, National Institute of Statistics and Geography, and Fund staff estimates.
1/ The new general SDR allocation in August 2021 is included in these figures.
2/ Crude oil, derivatives, petrochemicals, and natural gas.
3/ Excludes goods procured in ports by carriers.

Table 4b. Mexico: Summary Balance of Payments 1/
(In percent of GDP)

				Proj.					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Current account	**-2.1**	**-0.3**	**2.4**	**0.0**	**-0.3**	**-0.4**	**-0.6**	**-0.9**	**-1.0**
Merchandise goods trade balance	-1.1	0.4	3.2	0.1	0.2	0.3	0.3	0.3	0.3
Exports, f.o.b. 3/	36.9	36.3	38.8	37.5	35.9	36.2	36.4	36.6	36.8
o/w Manufactures	32.5	32.4	34.8	34.3	33.0	33.4	33.9	34.5	35.1
o/w Petroleum and derivatives 2/	2.5	2.0	1.6	2.1	2.0	1.9	1.8	1.7	1.7
Imports, f.o.b. 3/	38.0	35.9	35.7	37.5	35.7	35.9	36.1	36.3	36.5
o/w Petroleum and derivatives 2/	4.4	3.7	2.9	4.3	4.2	3.7	3.5	3.4	3.3
Services, net	-0.9	-0.7	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.1
Primary income, net	-2.7	-2.9	-3.4	-3.1	-3.0	-3.1	-3.3	-3.5	-3.6
Secondary income (mostly remittances), net	2.7	2.9	3.7	4.1	3.6	3.4	3.4	3.4	3.4
Capital Account, net	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial Account (Net lending (+)/Net borrowing (-))	**-2.6**	**-1.3**	**1.7**	**0.0**	**-0.3**	**-0.4**	**-0.6**	**-0.9**	**-1.0**
Foreign direct investment, net	-2.1	-1.9	-2.3	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9
Net acquisition of financial assets	1.0	0.5	0.6	0.6	0.7	0.7	0.6	0.6	0.6
Net incurrence of liabilities	3.1	2.3	2.9	2.6	2.5	2.5	2.5	2.5	2.5
Portfolio investment, net	-0.7	-0.5	1.0	0.9	-0.1	0.0	-0.4	-0.6	-0.6
Net acquisition of financial assets	0.1	0.3	1.6	1.0	0.9	0.9	0.6	0.4	0.4
Net incurrence of liabilities	0.8	0.8	0.6	0.1	1.1	0.9	1.0	0.9	1.0
Public Sector	0.9	0.3	0.0	-0.1	0.9	0.7	0.8	0.8	0.8
o/w Local currency domestic-issued bonds	0.0	0.1	-1.0	-0.5	0.3	0.3	0.3	0.4	0.4
Private sector	-0.1	0.5	0.5	0.2	0.2	0.2	0.2	0.2	0.2
Securities issued abroad	-0.3	0.5	0.5	0.2	0.2	0.2	0.2	0.2	0.1
Equity	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pidiregas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives, net	0.0	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other investments, net	0.1	0.7	2.1	0.0	1.0	0.7	1.0	0.9	0.9
Net acquisition of financial assets	0.6	1.0	1.8	1.0	1.2	0.9	1.1	1.1	1.1
Net incurrence of liabilities	0.6	0.3	-0.3	1.0	0.2	0.2	0.2	0.2	0.1
Change in Reserves Assets	0.0	0.2	1.1	1.0	0.7	0.7	0.7	0.7	0.6
Total change in gross reserves assets	0.1	0.5	1.5	1.0	0.7	0.7	0.7	0.7	0.6
Valuation change	0.0	0.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	**-0.6**	**-0.9**	**-0.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
International Investment Position, net	**-47.7**	**-51.1**	**-55.1**	**-46.0**	**-43.3**	**-41.5**	**-40.2**	**-39.2**	**-38.5**

Sources: Bank of Mexico, National Institute of Statistics and Geography, and Fund staff estimates.

1/ The new general SDR allocation in August 2021 is included in these figures.

2/ Crude oil, derivatives, petrochemicals, and natural gas.

3/ Excludes goods procured in ports by carriers.

Table 5. Mexico: Financial Soundness Indicators
(In percent)

	2018	2019	2020	2021	Latest data available 1/
Capital Adequacy					
Regulatory capital to risk-weighted assets	15.9	16.0	17.7	18.4	May
Regulatory Tier 1 capital to risk-weighted assets	14.2	14.4	16.1	16.8	May
Capital to assets	10.7	11.0	10.7	11.2	May
Gross asset position in financial derivatives to capital	63.3	51.6	83.1	54.1	May
Gross liability position in financial derivatives to capital	63.9	52.8	85.1	54.6	May
Asset Quality					
Nonperforming loans to total gross loans	2.1	2.1	2.4	2.4	May
Provisions to Nonperforming loans	152.4	147.0	160.1	149.5	May
Earnings and Profitability					
Return on assets	2.2	2.2	1.2	1.8	May
Return on equity	20.9	20.6	11.7	16.1	May
Liquidity					
Liquid assets to short-term liabilities	42.3	41.0	48.0	47.6	May
Liquid assets to total assets	31.6	31.2	35.7	36.9	May
Customer deposits to total (noninterbank) loans	89.3	90.5	100.2	102.1	May
Trading income to total income	4.5	5.8	5.5	6.3	May

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

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

	2018	2019	2020	2021	Latest data available
Financial market indicators					
Exchange rate (per U.S. dollar, period average)	19.2	19.3	21.5	20.1	Aug-21
(year-to-date percent change, + appreciation)	-1.7	-0.1	-11.5	7.6	Aug-21
28-day treasury auction rate (percent; period average)	7.6	7.8	5.3	4.2	Aug-21
EMBIG Mexico spread (basis points; period average)	272.8	318.2	474.4	353.5	Oct-21
Sovereign 10-year local currency bond yield (period average)	7.9	7.6	6.3	6.7	Oct-21
Stock exchange index (period average, year on year percent change)	-3.8	-8.8	-9.0	27.2	Oct-21
Financial system					
Bank of Mexico net international reserves (US$ billion)	174.8	180.9	195.7	198.4	Proj.
Financial system credit on non-financial private sector (year on year percent change) 1/	8.9	3.0	1.5	3.3	Proj.
Nonperforming loans to total gross loans (deposit takers)	2.1	2.1	2.4	2.4	Jul-21
External vulnerability indicators					
Gross financing needs (billions of US$) 2/	97.1	102.8	77.3	74.7	Proj.
Gross international reserves (end-year, billions of US$) 3/	176.4	183.0	199.1	200.5	Jul-21
Change (billions of US$)	0.9	6.6	16.0	0.1	Jul-21
Months of imports of goods and services	4.2	4.4	5.8	4.9	Proj.
Months of imports plus interest payments	4.0	4.2	5.5	4.7	Proj.
Percent of broad money	39.4	37.3	37.9	37.3	Proj.
Percent of portfolio liabilities	36.5	35.1	38.3	40.7	Proj.
Percent of short-term debt (by residual maturity)	191.2	209.3	313.5	416.3	Proj.
Percent of ARA Metric 4/	118.2	116.2	130.8	134.2	Proj.
Percent of GDP	14.4	14.4	18.5	15.5	Jun-21
Gross total external debt (in percent of GDP)	36.5	36.5	43.1	36.8	Proj.
Of which: In local currency	8.9	9.0	8.8	6.9	Proj.
Of which: Public debt	25.0	24.6	29.0	24.2	Proj.
Of which: Private debt	11.5	11.9	14.1	12.6	Proj.
Financial sector	1.7	2.1	2.1		
Nonfinancial sector	9.8	9.8	12.0		
Gross total external debt (billions of US$)	446.8	463.8	462.9	472.9	Proj.
Of which: In local currency	108.5	114.0	95.0	88.6	Proj.
Of which: Public debt	306.0	312.4	311.7	311.0	Proj.
Of which: Private debt	140.8	151.4	151.1	161.9	Proj.
Financial sector	20.6	26.4	22.5		
Nonfinancial sector	120.1	125.0	128.6		
External debt service (in percent of GDP)	7.7	9.4	10.4	6.9	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/ Includes domestic credit by banks, nonbank intermediaries, and social housing funds.

2/ Corresponds to the sum of the current account deficit, amortization payments, and the change in gross international reserves.

3/ Excludes balances under bilateral payments accounts. Includes SDR2.337 billion of the general SDR allocation and SDR 0.224 billion of the special SDR allocation in 2009, and SDR 8.542 billion in the general SDR allocation in 2021.

4/ 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

	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Proj.					
National accounts (in real terms, contributions to growth) 1/									
GDP	2.2	-0.2	-8.3	6.2	4.0	2.2	2.0	2.0	2.0
Consumption	2.1	0.1	-6.8	6.1	3.6	1.4	1.7	1.7	1.7
Private	1.7	0.3	-7.1	6.0	3.3	1.1	1.4	1.4	1.4
Public	0.3	-0.2	0.3	0.1	0.2	0.3	0.3	0.3	0.3
Investment	0.1	-1.1	-3.6	2.7	1.6	0.9	0.5	0.4	0.4
Fixed	0.2	-0.9	-3.5	2.4	1.6	0.9	0.5	0.4	0.4
Private	0.2	-0.6	-3.3	2.3	1.5	0.8	0.4	0.3	0.3
Public	0.0	-0.4	-0.2	0.1	0.2	0.1	0.1	0.1	0.1
Inventories	-0.1	-0.2	-0.1	0.3	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	2.1	0.5	-2.7	2.9	2.2	0.8	0.7	0.7	0.6
Oil exports	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil exports	2.1	0.6	-2.8	3.0	2.1	0.8	0.6	0.6	0.6
Imports of goods and services	2.3	-0.3	-5.4	6.0	2.8	0.9	0.8	0.8	0.8
Oil imports	0.0	-0.1	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0
Non-oil imports	2.3	-0.1	-5.1	6.0	2.8	0.8	0.8	0.8	0.8
Net exports	-0.2	0.8	2.7	-3.1	-0.6	-0.1	-0.1	-0.1	-0.1
Consumer prices									
End of period	4.8	2.8	3.2	5.9	3.1	3.0	3.0	3.0	3.0
Average	4.9	3.6	3.4	5.4	3.8	3.0	3.0	3.0	3.0
External sector									
Current account balance (in percent of GDP)	-2.1	-0.3	2.4	0.0	-0.3	-0.4	-0.6	-0.9	-1.0
Non-hydrocarbon current account balance (in percent of GDP)	-0.2	1.4	3.7	2.3	2.0	1.4	1.1	0.8	0.6
Exports of goods, f.o.b.	10.1	2.2	-9.5	15.7	2.2	6.4	5.4	5.3	5.3
Imports of goods, f.o.b.	10.4	-2.0	-15.9	25.7	1.6	6.2	5.3	5.5	5.3
Terms of trade (improvement +)	-0.4	2.2	-2.1	-0.4	2.1	0.2	0.3	0.2	0.3
Crude oil export price, Mexican mix (US$/bbl)	61.7	56.1	35.8	60.9	59.7	56.7	54.6	54.6	54.6
Non-financial public sector									
Overall balance	-2.2	-2.3	-4.5	-4.2	-3.5	-3.2	-2.9	-2.8	-2.8
Primary balance	1.6	1.4	-0.5	-0.6	-0.1	0.2	0.6	0.7	0.9
Saving and investment 2/									
Gross domestic investment	22.7	21.2	19.3	20.7	21.8	22.1	22.1	22.1	22.0
Fixed investment	22.0	20.6	18.8	19.9	21.0	21.4	21.4	21.3	21.3
Public	3.0	2.6	2.5	2.6	2.7	2.8	2.7	2.7	2.7
Private	19.0	18.0	16.2	17.2	18.3	18.6	18.6	18.6	18.5
Gross domestic saving	20.7	20.9	21.7	20.7	21.5	21.7	21.5	21.2	21.0
Public	0.8	0.2	-1.9	-1.6	-0.8	-0.5	-0.2	-0.1	-0.1
Private	19.8	20.6	23.7	22.3	22.3	22.1	21.7	21.3	21.1
Memorandum items									
Financial system credit to non-financial private sector (nominal y/y growth)	8.9	3.0	1.5	3.3	5.9	7.5	7.5	7.4	7.5
Output gap (in percent of potential GDP)	0.8	-1.0	-5.6	-4.0	-2.2	-1.5	-0.9	-0.4	0.0
Total population	1.0	1.0	1.0	0.9	0.9	0.9	0.8	0.8	0.8
Working-age population 3/	1.3	1.3	1.2	1.1	1.1	1.0	0.9	0.9	0.8

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)

	2017	2018	2019	2020	Proj. 2021
Banco de México					
Net foreign assets	3,392	3,408	3,397	3,876	4,162
Net international reserves	3,457	3,471	3,457	3,966	4,259
Gross international reserves 2/	3,458	3,472	3,457	3,966	4,259
Reserve liabilities	1	1	0	0	0
Other net foreign assets	-65	-63	-60	-90	-96
Net domestic assets	-1,846	-1,734	-1,654	-1,758	-1,962
Net domestic credit	-1,627	-1,622	-1,706	-1,640	-2,028
Net credit to non-financial public sector	-1,516	-1,525	-1,640	-1,778	-1,994
Credit to non-financial private sector	0	0	0	0	0
Net credit to financial corporations	-112	-97	-66	138	-34
Net claims on other depository corporations	-112	-97	-66	138	-34
Net claims on other financial corporations	0	0	0	0	0
Capital account	153	54	-113	53	-129
Other items net	-65	-59	-61	-64	-62
Monetary base	1,546	1,674	1,742	2,118	2,201
Other Depository Corporations					
Net foreign assets	92	-32	-92	107	117
Foreign assets	771	860	738	940	1,027
Foreign liabilities	679	893	830	833	910
Net domestic assets	7,794	8,160	8,678	9,265	10,212
Net credit to the public sector	3,071	3,190	3,750	4,197	4,748
Claims on non-financial public sector	3,526	3,688	4,214	4,602	5,203
in pesos	3,374	3,528	4,037	4,400	4,981
in FX	152	160	178	202	222
Liabilities to the nonfinancial public sector	455	499	464	405	454
Credit to the private sector	5,896	6,304	6,976	6,708	6,931
Local Currency	5,173	5,538	6,198	5,984	6,193
Foreign Currency	723	766	778	724	738
Net credit to the financial system	967	929	868	689	865
Other	-2,140	-2,262	-2,916	-2,329	-2,333
Liabilities to the private sector	7,886	8,128	8,586	9,372	10,328
Liquid liabilities	7,067	7,327	7,688	8,572	9,501
Local currency	6,373	6,710	7,112	7,905	8,820
Foreign currency	694	617	575	667	681
Non liquid liabilities	819	801	898	800	827
Local currency	786	765	861	762	788
Foreign currency	33	36	38	38	39
Total Banking System					
Net foreign assets	3,483	3,375	3,304	3,982	4,279
Net domestic assets	5,947	6,426	7,024	7,507	8,250
Liquid liabilities	8,613	9,001	9,430	10,691	11,702
Non-liquid liabilities	819	801	898	800	827
Memorandum items					
Monetary base (percent change)	8.8	8.3	4.1	21.6	3.9
Currency in circulation (percent change)	8.8	8.9	3.6	21.6	3.9
Broad money (percent change)	11.2	4.5	4.7	13.4	9.2
Bank credit to the non-financial private sector (growth rate)	13.0	6.9	10.7	-3.8	3.3
Bank credit to the non-financial private sector (as percent of GDP)	26.9	26.8	28.5	29.1	26.8

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.
2/ Excludes balances under bilateral payments accounts. Includes SDR2.337 billion of the general SDR allocation and SDR 0.224 billion of the special SDR allocation in 2009, and SDR 8.542 billion in the general SDR allocation in 2021.

Table 9. Mexico: External Debt Sustainability Framework

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2016	2017	2018	2019	2020			2021	2022	2023	2024	2025	2026	Debt-stabilizing non-interest current account 6/
Baseline: External debt	38.3	37.7	36.5	36.5	43.1			**36.8**	**36.4**	**36.2**	**36.3**	**36.3**	**36.5**	**-1.5**
Change in external debt	2.7	-0.6	-1.1	0.0	6.6			-6.3	-0.4	-0.2	0.1	0.1	0.2	
Identified external debt-creating flows (4+8+9)	0.6	-4.0	-2.3	-3.5	0.9			-4.2	-3.0	-2.2	-1.9	-1.7	-1.6	
Current account deficit, excluding interest payments	0.4	-0.1	0.2	-1.8	-4.7			-2.0	-1.6	-1.4	-1.3	-1.1	-1.0	
Deficit in balance of goods and services	-75.9	-77.3	-80.6	-77.9	-78.7			-79.1	-75.9	-76.4	-76.7	-77.1	-77.5	
Exports	37.0	37.7	39.3	38.8	40.4			39.1	37.5	37.8	38.0	38.2	38.4	
Imports	-39.0	-39.5	-41.3	-39.1	-38.3			-40.0	-38.3	-38.6	-38.7	-38.9	-39.2	
Net non-debt creating capital inflows (negative)	-2.9	-3.0	-2.2	-2.5	-2.1			-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	
Automatic debt dynamics 1/	3.1	-0.9	-0.2	0.7	7.8			-0.3	0.5	1.1	1.2	1.3	1.3	
Contribution from nominal interest rate	1.9	1.9	1.9	2.1	2.3			2.0	1.9	1.9	1.9	1.9	2.0	
Contribution from real GDP growth	-1.0	-0.8	-0.8	0.1	3.6			-2.2	-1.4	-0.8	-0.7	-0.7	-0.7	
Contribution from price and exchange rate changes 2/	2.3	-2.0	-1.3	-1.4	1.9			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.1	3.4	1.1	3.5	5.6			-2.2	2.6	2.0	2.0	1.8	1.7	
External debt-to-exports ratio (in percent)	103.5	99.8	93.1	94.2	106.6			94.1	96.9	95.7	95.5	95.2	95.1	
Gross external financing needs (in billions of US dollars) 4/	120.6	95.8	96.2	96.1	61.3			61.9	66.0	76.1	77.7	76.1	80.8	
in percent of GDP	11.2	8.3	7.9	7.6	5.7	10-Year	10-Year	4.8	4.8	5.3	5.1	4.8	4.9	
Scenario with key variables at their historical averages 5/								**36.8**	**39.6**	**42.4**	**45.3**	**48.1**	**51.1**	**0.1**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	2.6	2.1	2.2	-0.2	-8.3	1.3	3.6	6.2	4.0	2.2	2.0	2.0	2.0	
GDP deflator in US dollars (change in percent)	-10.3	5.2	3.2	4.0	-7.7	-0.8	7.4	12.7	2.6	3.2	2.9	2.7	2.6	
Nominal external interest rate (in percent)	4.8	5.2	5.3	5.9	5.3	5.4	0.5	5.5	5.4	5.4	5.4	5.6	5.8	
Growth of exports (US dollar terms, in percent)	-1.3	9.8	9.8	2.6	-11.9	3.6	7.9	15.8	2.4	6.3	5.3	5.3	5.2	
Growth of imports (US dollar terms, in percent)	-1.8	8.9	10.3	-1.9	-17.0	2.6	9.1	25.1	2.2	6.2	5.3	5.4	5.2	
Current account balance, excluding interest payments	-0.4	0.1	-0.2	1.8	4.7	0.4	1.7	2.0	1.6	1.4	1.3	1.1	1.0	
Net non-debt creating capital inflows	2.9	3.0	2.2	2.5	2.1	2.3	0.6	1.9	1.9	1.9	1.9	1.9	1.9	

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/

	2020	2021	2022	2023	2024	2025	2026
Exposure and Repayments (in SDR millions)							
GRA credit to Mexico	0.0	35,650.8	35,650.8	35,650.8	35,650.8	17,825.4	0.0
(In percent of quota)	(0.0)	(400.0)	(400.0)	(400.0)	(400.0)	(200.0)	(0.0)
Charges due on GRA credit 2/	0.1	178.3	716.2	753.3	753.7	688.2	142.9
Debt service due on GRA credit 2/	0.1	178.3	716.2	753.3	753.7	18,513.6	17,968.3
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	43.1	42.8	46.5	45.0	46.0	46.0	46.1
Public external debt	29.0	29.6	31.8	30.2	30.5	29.7	29.0
GRA credit to Mexico	0.0	4.2	4.6	4.3	4.0	2.0	0.0
Total external debt service	10.4	7.3	7.5	7.6	6.7	8.2	8.2
Public external debt service	5.2	3.5	4.0	4.3	3.7	5.1	5.0
Debt service due on GRA credit	0.0	0.0	0.1	0.1	0.1	2.0	2.0
In percent of Gross International Reserves							
Total external debt	232.5	208.0	288.1	278.2	283.3	285.7	289.1
Public external debt	156.6	143.7	196.8	187.0	187.3	184.1	181.6
GRA credit to Mexico	0.0	20.3	28.4	26.4	24.7	12.3	0.0
In percent of Exports of Goods and Services							
Total external debt service	25.8	17.7	16.6	17.3	15.4	18.3	17.8
Public external debt service	13.0	8.6	8.9	9.8	8.5	11.4	10.9
Debt service due on GRA credit	0.0	0.1	0.2	0.2	0.2	4.6	4.2
In percent of Total External Debt							
GRA credit to Mexico	0.0	9.7	9.8	9.5	8.7	4.3	0.0
In percent of Public External Debt							
GRA credit to Mexico	0.0	14.1	14.4	14.1	13.2	6.7	0.0

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, service charges and interest on SDRs.

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.

Appendix I. Letter from the Authorities Requesting an FCL Arrangement

Mexico City, November 4, 2021

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

Dear Ms. Georgieva,

The United Mexican States (Mexico) has pursued very strong macroeconomic policies for many years, which have underpinned economic stability and anchored confidence in the country's economic outlook. Despite the deepest recession in decades last year owing to the COVID-19 pandemic, Mexico has successfully maintained external, financial, and fiscal stability. The economy is rebounding strongly in 2021 and is expected to continue doing so in 2022.

At the same time, given its openness to international trade and financial flows, the Mexican economy remains exposed to significant tail risks from external developments. Although risks have declined since last year, Mexico remains vulnerable to renewed waves of the pandemic as well as to international financial volatility, for instance, from a rise in medium-term inflation expectations globally and a corresponding faster-than-expected normalization of monetary policy in advanced economies. Materialization of such risks would lead to rising yields and risk premia, and possibly capital outflows. Combined with slower-than-expected growth in our major trading partners, it could weigh importantly on Mexico's recovery prospects.

For these reasons, we request a successor 24-month Flexible Credit Line (FCL) arrangement with access at 400 percent of Mexico's quota, or SDR 35.6508 billion. This will play a critical role in insuring our economy against severe tail risk events. As before, we intend to treat the arrangement as precautionary. We hereby notify our decision to cancel the current arrangement of 500 percent of quota (SDR 44.5635 billion). The cancellation shall solely be effective upon approval of the referred successor arrangement.

We do not intend to make permanent use of the FCL. Prior to the pandemic, we were on a path of gradually reducing access. However, the exigencies of the pandemic last year resulted in a decision to maintain the level of access during the 2020 mid-term review of the FCL arrangement. At this time, we would like to resume our pre-pandemic exit strategy of gradually phasing out the use of the FCL. Accordingly, conditional on the evolution of external risks facing Mexico, we intend to request a reduction in access to Fund resources to 300 percent of quota (SDR 26.7381 billion) at the time of the mid-term review by the Executive Board under the successor arrangement requested hereby.

We remain firmly committed to preserving macroeconomic and financial stability, while strengthening our buffers.

- We are strongly committed to a sound fiscal policy. Although the Public Sector Borrowing Requirements (PSBR) widened somewhat owing to the pandemic, we are targeting a gradual narrowing of the PSBR from 4.2 percent of GDP in 2021 to 2.8 percent of GDP over the medium term. This will maintain a stable and sustainable public debt/GDP ratio. Despite the historical recession last year, our enhancements to the tax framework have boosted revenues. Our 2022 budget seeks to protect the poor, support the recovery and an inclusive growth path, and safeguard fiscal sustainability.

- Our monetary policy is underpinned by a highly credible inflation-targeting regime, which has effectively anchored medium-term inflation expectations. In response to the pandemic, we had lowered the policy rate to 4 percent. However, with inflation well above the target, we have raised the policy rate by 75 basis points since June 2021 to keep medium-term inflation expectations anchored and guard against second-round effects. These actions have enabled an orderly adjustment of interest rates along the yield curve and contained risk premia at longer tenors. We remain vigilant and ready to act further to ensure we achieve our objective of a low and stable inflation.

- The flexible exchange rate regime will continue to act as the key absorber of external shocks. We intervened marginally in the non-deliverable forward market during the peak market stress of 2020 to promote more orderly conditions. We will continue to limit foreign exchange intervention to instances of disorderly market conditions.

- The financial sector is sound, underpinned by a strong regulatory framework. The banking sector is well-capitalized, liquid, profitable, and resilient to credit and market risks. Insurance companies are well-capitalized, while pension funds maintain conservative investment profiles. Furthermore, given the presence of subsidiaries of foreign banks in our financial system, we continue to monitor cross-border exposures closely.

- We are implementing initiatives to promote trade, develop poorer regions, improve logistics infrastructure, and increase formalization and financial depth. We are also committed to our emission reduction targets, which are the starting point for greater ambition in combating climate change.

In sum, as Executive Directors acknowledged at the latest Article IV consultation, Mexico's macroeconomic policies and institutional policy frameworks are very strong. We remain firmly committed to macroeconomic and financial stability, reacting as needed within this framework to future shocks that may arise. The insurance against tail risks, which would be covered by the successor FCL arrangement, will support the continued strengthening of buffers and foster a high degree of confidence in our economy.

Sincerely yours,

/s/	/s/
Rogelio Eduardo Ramírez de la O	**Alejandro Díaz de León Carrillo**
Secretary of Finance and Public Credit	**Governor of Banco de México**

MEXICO

ASSESSMENT OF THE IMPACT OF THE PROPOSED ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE ON THE FUND'S FINANCES AND LIQUIDITY POSITION

November 5, 2021

Approved By
Zuzana Murgasova (FIN) and Bikas Joshi (SPR)

Prepared by the Finance and Strategy, Policy, and Review Departments (in consultation with other departments).

CONTENTS

INTRODUCTION

1. **This note assesses the impact of the proposed Flexible Credit Line (FCL) arrangement for Mexico on the Fund's finances and liquidity position, in accordance with the policy on FCL arrangements.**[1] The proposed arrangement would cover a 24-month period and access would be in an amount of SDR 35.65 billion (400 percent of quota). It would succeed the existing FCL arrangement, which would be cancelled upon approval of the proposed arrangement. As was the case for all previous FCL arrangements with Mexico, the authorities intend to treat the proposed arrangement as precautionary.

2. **Access under the proposed arrangement would represent a further reduction compared with the current FCL arrangement, and continue the gradual reduction in access under recent FCL arrangements for Mexico**. The November 2017 arrangement was initially approved for SDR 62.39 billion (700 percent of quota) and access was subsequently reduced to SDR 53.48 billion (600 percent of quota) at the mid-term review in November 2018. Access was further reduced to SDR 44.56 billion (500 percent of quota) at the approval of the successor FCL arrangement in November 2019. Access at the mid-term review in November 2020 was maintained due to the Covid-19 pandemic. In line with the authorities' FCL exit strategy under the proposed FCL, they have indicated their intention to request, at the time of the mid-term review in November 2022, a further reduction in access to 300 percent of quota, conditional on the evolution of external risks.

BACKGROUND

3. **Mexico has not made purchases under any of the FCL arrangements it has had in over a decade** (Annex I). Since the global financial crisis, Mexico has had eight FCL arrangements, including the existing arrangement. Mexico has a history of strong performance under earlier Fund arrangements and an exemplary record of meeting its obligations to the Fund. All of Mexico's FCL arrangements have remained precautionary.

4. **Mexico's very strong macroeconomic policy frameworks and external buffers, complemented by the FCL arrangement, have supported market confidence**. External financing conditions have been favorable. Spreads on the government's U.S. dollar bonds have returned to near pre-pandemic levels. While Mexico's sovereign ratings have been downgraded one notch by all three major rating agencies early in 2020, they remain at investment grade. In 2020 growth was - 8.3 percent, reflecting one of the most severe pandemic contractions among the G20. Starting in the second half of 2020, Mexico experienced a two-speed recovery as U.S. growth fueled

[1] See *GRA Lending Toolkit and Conditionality—Reform Proposals* (3/13/09) and *Flexible Credit Line (FCL) Arrangements*, Decision No.14283-(09/29), adopted March 24, 2009 as amended by Decision No. 14714-(10/83), adopted August 30, 2010; the *Fund's Mandate—The Future Financing Role: Reform Proposals* (http://www.imf.org/external/np/pp/eng/2010/062910.pdf, 6/29/2010) and *the IMF's Mandate—The Future Financing Role: Revised Reform Proposals and Revised Proposed Decisions* (http://www.imf.org/external/np/pp/eng/2010/082510.pdf, 8/25/2010); *Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument—Specific Proposals* (http://www.imf.org/external/np/pp/eng/2014/043014.pdf, 5/1/2014 and Decision No. 15593-(14/46)).

manufacturing while construction and services lagged, owing to pandemic-related closures of workplaces and reduced demand in contact-intensive sectors.[2] Economic growth is projected to rebound to over 6 percent, thanks to improvements in health metrics since the Spring of 2021 that have facilitated a re-opening of the economy and a broadening of the recovery. At 128 percent of the Reserve Adequacy metric (ARA) and 281 percent of short-term debt (at remaining maturity), the end-2020 level of foreign reserves was adequate. Mexico's external buffers have been further strengthened by the August 2021 general SDR allocation. Mexico's allocation amounted to about SDR 8.5 billion (equivalent to about USD 12.1 billion or 1 percent of GDP). As a result, gross international reserves increased to USD 212 billion at end-September 2021 (134 percent of the ARA metric).

Table 1. Mexico: External Debt and Debt Services (2016–21)[1/]

	2016	2017	2018	2019	2020	2021 2/
			(In billions of US dollars)			
Total external debt	412.6	436.6	446.8	463.8	462.9	472.9
Public	278.7	296.6	306.0	312.4	311.7	311.0
Private	133.9	140.0	140.8	151.4	151.1	161.9
Total external debt service	116.4	97.0	94.3	118.7	111.8	88.9
Public	74.4	58.3	53.2	66.2	56.3	43.1
Private	41.9	38.7	41.1	52.5	55.6	45.9
			(In percent of GDP)			
Total external debt	38.3	37.7	36.5	36.5	43.1	36.8
Public	25.8	25.6	25.0	24.6	29.0	24.2
Private	12.4	12.1	11.5	11.9	14.1	12.6
Total external debt service	10.8	8.4	7.7	9.4	10.4	6.9
Public	6.9	5.0	4.4	5.2	5.2	3.3
Private	3.9	3.3	3.4	4.1	5.2	3.6
Memorandum item						
Public external debt service in percent of exports	18.7	13.3	11.1	13.4	13.0	8.6

Sources: Mexican Authorities and IMF Staff Estimates.
1/ End of period, unless otherwise indicated.
2/ Assumed potential disbursement under the proposed FCL and related interest are not included.

5. **Total external debt remains moderate and is expected to remain stable over the medium term under the baseline**. Mexico's external debt has been broadly stable, averaging around 37 percent of GDP in the 4 years preceding the pandemic (Table 1). In 2020, external debt remained stable in dollar terms but increased as a share of GDP because of the sharp output contraction, though remaining at modest levels compared to other emerging markets. External

[2] Mexico - 2021 - Staff Report for the Article IV Consultation (SM/21/180, 10/20/21).

public debt accounted for nearly 25 percent of GDP just before the pandemic and, after edging up to 29 percent of GDP in 2020, is expected to fall to 25.4 percent in 2021, under the baseline.

6. **Public debt levels are also moderate and are expected to remain stable**. Public debt rose by around 8 percent of GDP in 2020 owing mainly to the drop in GDP, and reached 61 percent of GDP. Public debt is forecast to decline slightly to about 60 percent of GDP in 2021 and broadly stabilize at around this ratio over the medium term. The long average maturity and favorable currency composition of debt mitigate risks arising from the relatively high foreign ownership.

THE NEW FLEXIBLE CREDIT LINE ARRANGEMENT—IMPACT ON THE FUND'S FINANCES AND LIQUIDITY POSITION

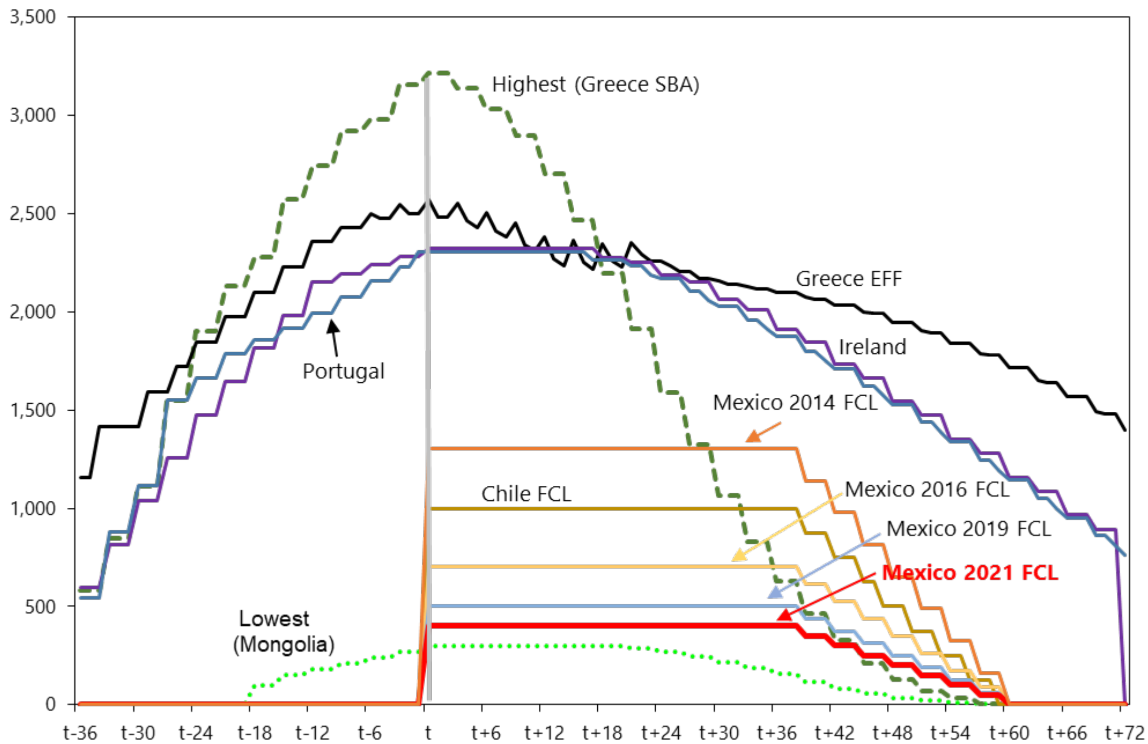
7. **The proposed FCL arrangement would be among the largest Fund commitments to date and, if drawn, would result in a record high credit exposure in nominal terms**. The Fund's commitment under the proposed FCL arrangement would be surpassed only by its commitments to Mexico under previous FCL arrangements (Figure 1). The full amount of access proposed would be available throughout the arrangement period in one or multiple purchases.[3] If the full amount available under the proposed FCL arrangement were drawn, Mexico's outstanding use of Fund resources would reach SDR 35.6508 billion, the largest credit exposure in nominal terms in the Fund's history.[4] Relative to quota, a single purchase would be above the normal annual access limit, but outstanding credit would be below the cumulative exceptional access threshold. Outstanding credit in percent of quota would also be significantly below the 2018 arrangement for Argentina and arrangements for several earlier euro area exceptional access cases, such as Greece, Ireland, and Portugal.

[3] If the full amount is not drawn in the first year of the arrangement, subsequent purchases can only be made following completion of a review of Mexico's continued qualification for the FCL arrangement.

[4] The largest GRA credit exposure has been SDR 31.914 billion to Argentina, reached in mid-July 2019 out of a total commitment of SDR 40.714 billion under the 2018 Stand-By Arrangement. The largest previous GRA credit exposure was SDR 23.359 billion to Brazil in 2003.

Figure 1. Projected Fund Credit Outstanding in GRA Around Peak Borrowing 1/

(in percent of quota)



Sources: Finance Department and IMF staff estimates.

1/ t represents the time when outstanding credit to the Fund is at its peak. Time is expressed in months. For illustrative purposes it is assumed that Mexico's FCL is fully drawn down at the time of Board approval.

8. If Mexico were to purchase the full amount available under the proposed FCL arrangement, the Fund's exposure relative to Mexico's relevant economic indicators would be moderate and Mexico's debt burden would remain manageable over the medium term (Table 2):[5, 6]

- Mexico's external debt is projected to remain moderate, though with Fund credit representing a non-trivial share. In a downside scenario with full disbursement in 2021, total external debt would climb to a peak of 46.5 percent of GDP in 2022 before declining over the medium term to around 46 percent of GDP. Public external debt would peak at 31.8 percent of GDP in 2022, with Fund credit representing almost 4.6 percent of GDP. Mexico's outstanding use of GRA resources would account for 9.8 percent of total external debt, and 14.4 percent of public external debt in

[5] Capacity to repay indicators presented in Table 2 are projected under a downside scenario, based on the adverse scenario in the October 2021 WEO. The scenario assumes that U.S. inflation expectations rise more than expected; global financial market volatility surges, with the VXEEM rising by 3 standard deviations as assumed for previous FCL arrangements. Against this backdrop, and the associated disruptions to financial flows, the risk premia for Mexico increase and rollover rates decline.

[6] The projected figures on debt service used in this report are calculated assuming that the full amount available under the arrangement is purchased upon approval of the arrangement, and that all repurchases are made as scheduled.

2022. In addition, Fund credit would account for about 28 percent of Mexico's gross international reserves.

- External debt service would increase over the medium term, but remain manageable under staff's medium-term macro projections. Mexico's projected debt service to the Fund would peak in 2025 at about SDR 18.5 billion, or 2.0 percent of GDP. In terms of exports of goods and services, debt service to the Fund would peak at about 4.6 percent. Public external debt service would peak at 11.4 percent of exports of goods and services in 2025, with debt service to the Fund accounting for about 40 percent of total public external debt service.[7]

Table 2. Mexico: Capacity to Repay Indicators (2020–26) 1/

	2020	2021	2022	2023	2024	2025	2026
Exposure and Repayments (in SDR millions)							
GRA credit to Mexico	0.0	35,650.8	35,650.8	35,650.8	35,650.8	17,825.4	0.0
(In percent of quota)	(0.0)	(400.0)	(400.0)	(400.0)	(400.0)	(200.0)	(0.0)
Charges due on GRA credit 2/	0.1	178.3	716.2	753.3	753.7	688.2	142.9
Debt service due on GRA credit 2/	0.1	178.3	716.2	753.3	753.7	18,513.6	17,968.3
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	43.1	42.8	46.5	45.0	46.0	46.0	46.1
Public external debt	29.0	29.6	31.8	30.2	30.5	29.7	29.0
GRA credit to Mexico	0.0	4.2	4.6	4.3	4.0	2.0	0.0
Total external debt service	10.4	7.3	7.5	7.6	6.7	8.2	8.2
Public external debt service	5.2	3.5	4.0	4.3	3.7	5.1	5.0
Debt service due on GRA credit	0.0	0.0	0.1	0.1	0.1	2.0	2.0
In percent of Gross International Reserves							
Total external debt	232.5	208.0	288.1	278.2	283.3	285.7	289.1
Public external debt	156.6	143.7	196.8	187.0	187.3	184.1	181.6
GRA credit to Mexico	0.0	20.3	28.4	26.4	24.7	12.3	0.0
In percent of Exports of Goods and Services							
Total external debt service	25.8	17.7	16.6	17.3	15.4	18.3	17.8
Public external debt service	13.0	8.6	8.9	9.8	8.5	11.4	10.9
Debt service due on GRA credit	0.0	0.1	0.2	0.2	0.2	4.6	4.2
In percent of Total External Debt							
GRA credit to Mexico	0.0	9.7	9.8	9.5	8.7	4.3	0.0
In percent of Public External Debt							
GRA credit to Mexico	0.0	14.1	14.4	14.1	13.2	6.7	0.0

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, service charges and interest on SDRs.
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.

[7] For a broader analysis of public and external debt sustainability, see Annex III, 2021 Article IV report (SM/21/180, 10/20/21).

9. The approval of the proposed FCL arrangement and cancellation of the existing one would have a positive net impact on the Fund's liquidity as measured by the forward commitment capacity (FCC). As noted above (¶2), access under the proposed FCL arrangement would be lower than under the existing arrangement. Commitments for the new arrangement would continue to be covered in-full from quota resources, with the cancellation of the existing arrangement freeing up SDR 44.56 billion, compared with SDR 35.65 billion committed upon approval of the proposed arrangement. Accordingly, other things equal, the positive net impact of the proposed FCL arrangement on the FCC would be SDR 8.9 billion, or 5.6 percent (Table 3).

10. If a drawing were made, the proposed FCL arrangement could have a large impact on the Fund's financing mechanism. A single drawing by Mexico for the full amount under the proposed FCL arrangement would be by far the largest single purchase in the Fund's history and accordingly represent the largest funding requirement from participants in the Fund's Financial Transactions Plan (FTP). Accordingly, all remaining FTP members would be expected to participate.[8]

Table 3. Mexico: Impact on GRA Finances
(Millions of SDR, unless otherwise noted)

	as of 10/12/2021
Liquidity measures	
Forward Commitment Capacity (FCC) before approval 1/	160,500
FCC on approval 2/	169,413
Change in percent	5.6
Prudential measures	
Fund GRA commitment to Mexico including credit outstanding	
in percent of current precautionary balances	184.8
in percent of total GRA credit outstanding 3/	39.5
Fund GRA credit outstanding to top five borrowers	
in percent of total GRA credit outstanding 3/	68.0
in percent of total GRA credit outstanding including Mexico's assumed full drawing	73.2
Mexico's projected annual GRA charges for 2021 in percent of the Fund's residual burden sharing capacity	1,165
Memorandum items	
Fund's precautionary balances (end July 2021)	19,287
Fund's Residual Burden Sharing Capacity 4/	15.3

Sources: Finance and 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 from currently unactivated lines of credit, including the New Arrangements to Borrow or bilateral commitments from members to boost IMF resources.
2/ Current FCC minus access under the proposed arrangement plus the quota-financed portion of the arrangement being cancelled. The arrangement to be canceled was approved after the February 2016 de-activation of the NAB and is, as the proposed successor arrangement, fully financed with quota resources. The concomitant cancellation of the existing arrangement and approval of the proposed arrangement improves the FCC as the access amount for the proposed arrangement is lower.
3/ As of October 12, 2021.
4/ Burden-sharing capacity is calculated based on the floor for remuneration at 85 percent of the SDR interest rate. Residual burden-sharing capacity is equal to the total burden-sharing capacity minus the portion being utilized to offset deferred charges and takes into account the loss in capacity due to nonpayment of burden sharing adjustments by members in arrears.

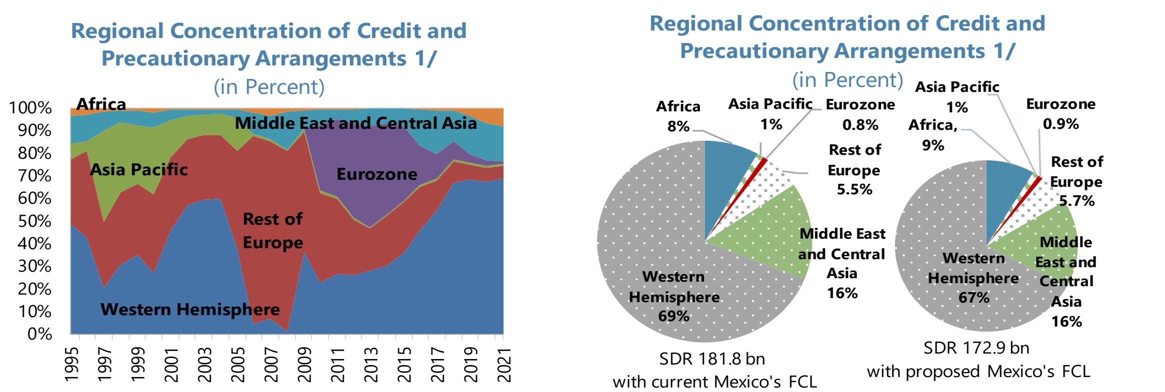
[8] If Mexico were to draw under the FCL, it would automatically be excluded from the list of members in the FTP, which currently comprises 50 participants.

11. The proposed FCL would have a moderate impact on the concentration of the Fund's lending portfolio, both in terms of regions and among Fund facilities (Figure 2):

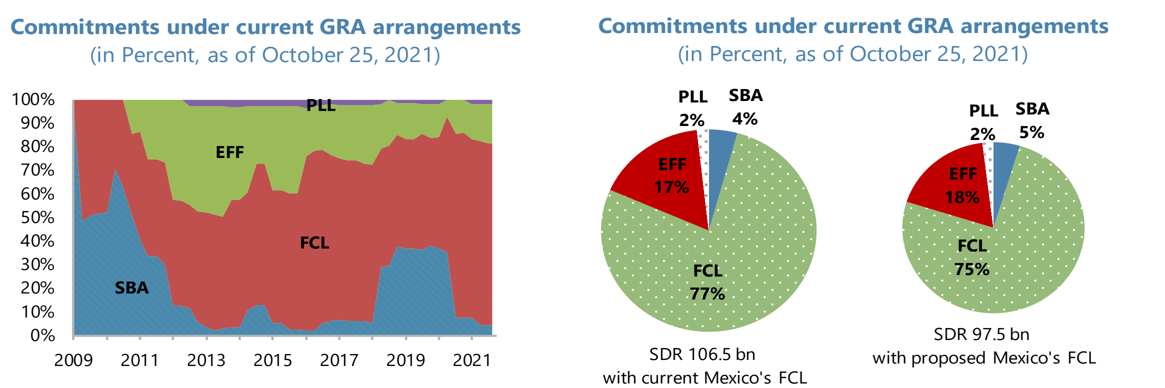
- Regional concentration to Latin America would decline slightly. Currently, the Western Hemisphere accounts for about 69 percent of GRA credit and undrawn balances, including for precautionary arrangements. With the proposed FCL arrangement for Mexico having reduced access relative to the current one, that share would fall to 67 percent. The Fund experienced comparable regional concentration in the past, including in the aftermath of the global financial crisis, when lending to Europe accounted for the bulk of the Fund's lending exposure.

- Among the Fund's different facilities, the share of FCL commitments in total GRA commitments would decline moderately. Commitments under FCLs, which represent the bulk of precautionary arrangements, stood at SDR 82.3 billion on October 25, 2021, or 77 percent of total GRA commitments. With the proposed FCL arrangement for Mexico, which has lower access that than the current one, the share of Fund commitments from FCL arrangements in total GRA commitments would decrease to 75 percent.

Figure 2. IMF Lending Concentration—By Region and by Lending Instrument



1/ GRA credit outstanding plus undrawn balances by region as a share of total GRA balances and total GRA undrawn balances. The latter include undrawn balances under existing arrangements as well as commitments under precautionary arrangements.



Source: IMF Finance Department.

12. If the resources available under the FCL arrangement were fully drawn, the GRA credit exposure to Mexico would represent a large share of the Fund's outstanding credit (Table 3).

- Fund credit to Mexico would represent nearly 40 percent of total GRA credit outstanding as of October 12, 2021, and about 28 percent of GRA credit outstanding including Mexico's purchase. It would also be the single largest Fund exposure. The concentration of Fund credit among the top five users of GRA resources would increase modestly to about 73.1 percent, from 68 percent as of October 12, 2021. The lending concentration to the Fund's top two borrowers would also increase moderately, from 49.7 percent to 52.6 percent.

- Relative to the Fund's current level of precautionary balances, potential GRA exposure to Mexico would be substantial. Fund credit to Mexico would be about 1.8 times the Fund's current precautionary balances.

- Were Mexico to accrue arrears on charges after drawing under the proposed arrangement, charges for Mexico would substantially exceed the Fund's limited capacity to absorb charges in arrears through the burden-sharing mechanism as the ratio. For example, for 2021 charges would be over 10 times the current burden-sharing capacity.

ASSESSMENT

13. The proposed FCL arrangement would have a significant but manageable impact on the Fund's finances. On approval of the proposed new FCL arrangement, the Fund's liquidity position would increase as the cancellation of Mexico's existing FCL arrangement would more than offset the liquidity effect from the proposed new arrangement.

14. However, a single drawing for the full amount of Mexico's proposed FCL arrangement would be the largest single purchase in the Fund's history and would have a large impact on the Fund's financing mechanism. Given a highly uncertain global growth outlook that is subject to elevated downside risks and the potential for new demand for Fund resources, it remains essential to continue monitoring the Fund's liquidity position closely.

15. These financial and associated enterprise risks are mitigated by several factors. Mexico intends to treat the proposed FCL arrangement—like its predecessors—as precautionary. The risks from the Fund's potential credit exposure to Mexico are mitigated by Mexico's adequate buffers and the overall credibility of the country's macroeconomic policy framework, although reform reversals in the energy sector weigh on Mexico's investment environment.[9] The Mexican authorities remain firmly committed to maintaining very strong macroeconomic policies and institutional policy frameworks. Also, Mexico's capacity to repay would remain strong. Mexico's overall external debt and debt service ratios would deteriorate only moderately over the medium-term in a downside scenario assuming full drawing under the proposed arrangement. Looking ahead, a further mitigating factor is the authorities' intention to request, at the time of the mid-term review of the proposed arrangement, a reduction in access to 300 percent of quota, conditional on the evolution of external risks.

[9] See Mexico - Arrangement Under the Flexible Credit Line and Cancellation of Current Arrangement (EBS/21/96).

Annex I. History of Arrangements with the IMF

This annex provides a brief overview of Mexico's Fund arrangements from 1983 to present.

Mexico has an exemplary track record of meeting its obligations to the Fund under past Fund arrangements. Mexico had several Fund arrangements in the 1980s and 1990s and fully repaid its remaining outstanding credit in 2000 (Annex Table I.1).

From 1983 to 2000, Mexico had two arrangements under the Extended Fund Facility (EFF) and three Stand-By Arrangements (SBAs). Under the two most recent SBAs:

- In February 1995, the Fund approved an SBA equivalent to SDR 12.1 billion (688 percent of quota) to support Mexico's adjustment program to deal with a major financial and economic crisis. Under that arrangement, Mexico made purchases totaling SDR 8.8 billion, and its outstanding credit peaked at SDR 10.6 billion (607 percent of quota) at end-1995. After regaining access to international capital markets in the second half of 1996, Mexico made sizable advance repurchases.
- In July 1999, an SBA equivalent to SDR 3.1 billion was approved as the recovery in economic performance was disrupted by unsettled conditions in international capital markets. Solid performance under the program supported by this SBA allowed Mexico to fully repay all its outstanding obligations to the Fund through a series of advance repurchases before the SBA expired in November 2000.

Since the global financial crisis, Mexico has had eight FCL arrangements,[1] but made no drawings.

- April 17, 2009: approval of a one-year FCL arrangement equivalent to SDR 31.5 billion to support Mexico's economic policies and bolster confidence during the crisis.
- March 25, 2010: approval of a successor FCL arrangement on identical terms.
- January 10, 2011: approval of a two-year FCL arrangement with access increased to SDR 47.3 billion.
- November 30, 2012: approval of a two-year successor FCL arrangement for the same access.
- November 26, 2014: approval of a two-year successor FCL arrangement for the same access.
- May 27, 2016: approval of a two-year FCL arrangement with access increased to SDR 62.389 billion.
- November 29, 2017: approval of a two-year successor FCL arrangement for the same access. Access under this arrangement was reduced to SDR 53.4762 billion at the time of the mid-term review concluded on November 26, 2018.

[1] Upon approval of a new FCL arrangement, the member's existing unexpired FCL arrangement is cancelled.

- November 22, 2019: approval of a two-year successor FCL arrangement with access reduced to SDR 44.5635 billion.

Annex Table I.1. Mexico: IMF Financial Arrangements, 1983–2019

(In millions of SDR)

Year	Type of Arrangement	Date of Arrangement	Date of Expiration or Canellation	Amount of New Arrangement	Amount Drawn	Purchases	Repurchases	Fund Exposure 1/
1983	EFF	1-Jan-83	31-Dec-85	3,410.6	2,502.7	1,003.1	0.0	1,203.8
1984						1,203.8	0.0	2,407.5
1985						295.8	0.0	2,703.3
1986	SBA	19-Nov-86	1-Apr-88	1,400.0	1,400.0	741.4 2/	125.4	3,319.3
1987						600.0	280.0	3,639.3
1988						350.0	419.0	3,570.3
1989	EFF	26-May-89	25-May-93	3,729.6	3,263.4	943.0 3/	639.6	3,873.6
1990						1,608.4	877.1	4,604.9
1991						932.4	807.4	4,729.9
1992						233.1	636.1	4,327.0
1993						0.0	841.7	3,485.2
1994						0.0	841.0	2,644.2
1995	SBA	1-Feb-95	15-Feb-97	12,070.2	8,758.0	8,758.0	754.1	10,648.1
1996						0.0	1,413.6	9,234.5
1997						0.0	2,499.2	6,735.2
1998						0.0	783.7	5,951.5
1999	SBA	07-Jul-1999	30-Nov-2000	3,103.0	1,939.5	1,034.4	3,726.7	3,259.2
2000						905.1	4,164.3	0.0
...								
2009	FCL	17-Apr-2009	16-Apr-2010	31,528.0	0.0	0.0	0.0	0.0
2010	FCL	25-Mar-2010	09-Jan-2011	31,528.0	0.0	0.0	0.0	0.0
2011	FCL	10-Jan-2011	09-Jan-2013	47,292.0	0.0	0.0	0.0	0.0
2012	FCL	30-Nov-2012	29-Nov-2014	47,292.0	0.0	0.0	0.0	0.0
2014	FCL	26-Nov-2014	25-Nov-2016	47,292.0	0.0	0.0	0.0	0.0
2016	FCL	27-May-2016	26-May-2018	62,389.0	0.0	0.0	0.0	0.0
2017	FCL	29-Nov-2017	28-Nov-2019	62,389.0	0.0	0.0	0.0	0.0
2018	FCL 4/	26-Nov-2018	28-Nov-2019	53,476.2	0.0	0.0	0.0	0.0
2019	FCL	22-Nov-2019	21-Nov-2021	44,563.5	0.0	0.0	0.0	0.0

Source: Finance Department.

1/ As of end-December.

2/ Includes a first credit tranche purchase of SDR 291.4 million.

3/ Includes a purchase of SDR 453.5 million under the Compensatory Financing Facility.

4/ This is not a new arrangement but rather a reduction in access under the 2017 FCL arrangement.