



MEXICO

November 2023

ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE AND CANCELLATION OF CURRENT ARRANGEMENT— PRESS RELEASE; 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 15, 2023. Based on information available at the time of these discussions, the staff report was completed on October 31, 2023.
- A **Staff Supplement** of November 2, 2023 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.

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International Monetary Fund
Washington, D.C.



IMF Executive Board Approves New Two-Year US\$35 Billion Flexible Credit Line Arrangement with Mexico

FOR IMMEDIATE RELEASE

- The IMF approved on November 15, 2023, a successor two-year arrangement for Mexico under the Flexible Credit Line (FCL), designed for crisis prevention, of about US\$35 billion.
- Mexico qualifies for the FCL by virtue of its very strong economic fundamentals and institutional policy frameworks and track record of macroeconomic performance and policy implementation.
- The authorities intend to continue to treat the arrangement as precautionary and will reassess the outlook for external risks and their implications for access under the FCL at the time of the mid-term review next year.

Washington, DC — November 16, 2023: The Executive Board of the International Monetary Fund (IMF) approved yesterday a successor two-year arrangement for Mexico under the Flexible Credit Line (FCL) in an amount equivalent to SDR 26.7381 billion (about US\$35 billion,¹ equivalent to 300 percent of quota) and noted the cancelation by Mexico of the previous arrangement. The Mexican authorities stated their intention to treat the new arrangement as precautionary.

This is Mexico's tenth FCL arrangement since 2009. In recent years, Mexico has been gradually reducing access under its FCL arrangements. The arrangement approved on November 29, 2017 (see [Press Release No. 17/459](#)) was for an original access amount equivalent to SDR 62.3889 billion (about US\$88 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 (see [Press Release No. 19/431](#)) was for an access amount equivalent to SDR 44.5635 billion (about US\$61 billion), which was reduced in the successor arrangement approved in November 2021 (see [Press Release No. 21/340](#)) to SDR 35.6508 billion (about US\$50 billion).

Following the Executive Board's discussion on Mexico, Ms. Gita Gopinath, First Deputy Managing Director and Acting Chair, made the following statement:

The Mexican economy is in the midst of a broad-based expansion, with robust private consumption and investment. Mexico's macroeconomic policies and institutional policy frameworks remain very strong, with a flexible exchange rate regime, a credible inflation targeting framework, a fiscal responsibility law, and a well-regulated financial sector. Mexico continues to meet all the Flexible Credit Line (FCL) qualification criteria.

The authorities' policies have remained prudent. Monetary policy has focused on containing inflationary pressures, while fiscal policy has kept public debt in check. These efforts should continue, accompanied by supply-side reforms to address the existing bottlenecks, with an

¹ Amount based on the Special Drawing Rights (SDR) quote of November 15, 2023 of 1 USD = SDR 0.753948.

emphasis on combating climate change, strengthening the AML/CFT framework, addressing corruption, and improving the labor market.

Mexico remains exposed to elevated external tail risks, albeit lower than in previous years. These include risks of renewed volatility in the financial markets, increased risk premia, and capital outflows from emerging markets, as well as weaker U.S. growth and a global slowdown. Upcoming elections in Mexico and the U.S. could further exacerbate uncertainty. The new arrangement under the FCL will continue to play an important role in supporting the authorities' macroeconomic strategy and provide insurance against tail risks while bolstering market confidence.

The authorities intend to treat the arrangement as precautionary and are firmly committed to maintaining prudent policies going forward. The lower level of access is consistent with the authorities' approach of reducing access commensurate with reductions in external risks. At the time of the mid-term review of the FCL in November 2024, the authorities will reassess the outlook for external risks and their implications for access under the arrangement.

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

<https://www.imf.org/en/About/Factsheets/Sheets/2023/Flexible-Credit-Line-FCL>



MEXICO

ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE AND CANCELLATION OF CURRENT ARRANGEMENT

October 31, 2023

EXECUTIVE SUMMARY

Context. Economic growth has been robust, supported by strong domestic investment and consumption. Monetary policy is focused on containing inflationary pressures, while fiscal policy has kept public debt in check. The authorities remain committed to maintaining their very strong policies and policy frameworks, to ensure economic, fiscal, and financial stability.

Risks: External risks remain sizable, though lower than in previous years. The global economic environment continues to be uncertain. Mexico remains exposed to risks of renewed volatility in the financial markets, increased risk and term premia, and/or a sharp pull-back of capital from emerging markets. Moreover, weaker U.S. growth and an abrupt global slowdown would create additional downside external risks. Upcoming elections in Mexico and in the U.S. could also have implications for market dynamics. Materialization of these risks would result in lower economic growth, weaker exports, reduced remittances, and a less favorable financing environment.

Flexible Credit Line (FCL): The authorities are requesting a two-year FCL arrangement for SDR 26.7381 billion (300 percent of quota) and the cancellation of the current arrangement, approved on November 19, 2021 (SDR 35.6508 billion, 400 percent of quota). The authorities intend to continue to treat the FCL arrangement as precautionary and view it as a signal of their very strong macroeconomic policies and institutional policy frameworks, and a buffer against external tail risks. In staff's assessment, Mexico continues to meet the qualification criteria for the FCL arrangement. 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.

Approved By
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(SPR)

The report was prepared by a team comprising Bikas Joshi (head), Francisco Arizala, Jean-Marc Fournier, and Matteo Ghilardi (all WHD); Samir Jahan (FAD); Tomohide Mineyama (SPR); Adrian Wardzynski (LEG); and Jeffrey Williams (MCM). Laila Azoor and Hugo Tuesta (both WHD) provided editorial and research assistance.

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CONTEXT

1. **The global economic environment remains uncertain.** As noted in the October 2023 *World Economic Outlook*, despite economic resilience and progress in reducing inflation, the balance of risks to global growth remains tilted to the downside. While a “soft landing” scenario seems more likely, important regional differences are emerging, leaving little room for policy errors.
2. **Mexico has used the FCL arrangement since its inception in 2009.** The authorities continue to view the instrument as a signal of their very strong macroeconomic policies and institutional policy framework, and as a buffer against external tail risks. Access has, however, been gradually reduced over the years. Under the current FCL arrangement, approved in November 2021, access is 400 percent of quota. At the time of the request, the authorities had intended to further reduce access at the mid-term review. However, the Executive Board agreed in November 2022 that elevated global risks argued against such a reduction.
3. **The authorities are requesting a successor two-year FCL arrangement, with a further reduction in access.** They are requesting access of 300 percent of quota, consistent with their assessment of external risks and vulnerabilities. The authorities would consider appropriate access at the mid-term review next year, if supported by the evolution of external risks.

DEVELOPMENTS AND OUTLOOK

4. **Economic growth has been robust.** A delayed post-Covid recovery has continued through 2023, becoming more broad-based as sectors that earlier lagged picked up momentum. Annual growth is expected to reach 3.2 percent in 2023, driven by strong domestic investment and consumption (Figure 1). The strong demand has exhausted slack, with the unemployment rate down to 2.7 percent and manufacturing capacity utilization close to its record high. Growth is expected to slow to 2.1 percent in 2024, with the impact of looser fiscal policy blunted by binding capacity constraints, a continuation of tight monetary policy, and slowing growth in the U.S.
5. **Inflation is gradually returning to Banxico’s target of 3 percent.** Headline year-on-year inflation declined to 4.5 percent in September, from 7.8 percent at end-2022, mirroring developments in global food and energy prices. However, some core inflation items—particularly in the services sector—have remained sticky, reflecting higher business operating costs, solid demand, and wage pressures. The disinflationary process has been supported by a substantial monetary policy tightening, with Banxico increasing rates by 725 bps between June 2021 and March 2023 and providing forward guidance to help anchor long-term inflation expectations.
6. **The authorities plan to mitigate the expansion in the fiscal deficit in 2024 with consolidation in 2025 and a tight stance thereafter.** Fiscal discipline has facilitated a decline in public debt from 58.5 percent of GDP at end-2020 to 54.1 percent at end-2022. The expected outturn for 2023 (of 3.9 percent of GDP) extends the authorities’ track record in meeting their fiscal targets, with restraint in capital spending expected to more-than-offset the lower tax revenue. With

a deficit target of 5.4 percent of GDP—yielding a fiscal impulse of 2.4 percent of GDP—the fiscal stance for 2024 is procyclical at a time when the economy is above potential and inflation is still above target. The programmed fiscal consolidation post-2024 reflects the authorities' commitment to medium targets. Under these plans, debt should stabilize at around 56 percent.

7. The current account continues to register a modest deficit despite a strong peso. In nominal terms, the peso has appreciated over 10 percent against the U.S. dollar in the past year, benefitting from the historically high policy rate differential between Mexico and the U.S. Remittances and a strong recovery in tourism have also supported the peso. The oil trade deficit fell in the first half of 2023 as the spread between the price of crude and of refined products narrowed. Over the same period, the non-oil trade deficit shrunk due to strong exports of manufactured goods as Mexico increased its market share in the U.S. The current account deficit is projected at 1.5 percent of GDP for 2023, a moderate widening from 1.2 percent in 2022 reflecting a boost to imports from strong domestic demand (Figure 2). Capital flows remain resilient, supported by strong FDI inflows and with portfolio flows stabilizing.

8. The financial sector remains sound. The 2022 Financial Sector Assessment Program (FSAP) highlighted the robustness of the banking system, with high capital and liquidity buffers. This strength was demonstrated during the turmoil in the U.S. banking system earlier this year—Mexican bank stock valuations fell but there were no signs of deposit outflows. Banks are generally liquid, but loan concentration, exposures to contingent credit lines, and large holdings of sovereign debt securities merit continued supervisory attention. Household sector risks are contained reflecting low leverage, absence of signs of house price misalignment, and stable mortgage loan-to-value ratios.

9. External risks are broadly balanced and lower than in previous years. The main external risks—though lower compared to those faced at the time of the 2022 mid-year review—arise from developments in the U.S. and in oil prices, as well as changes in global risk aversion (Box 1). An abrupt slowdown in the U.S. would have a significant and negative impact on Mexico, while stickier-than-expected inflation in the U.S. would have negative spillover effects for Mexico through a higher path for U.S. interest rates. In addition, the upcoming presidential elections in the U.S. could create market volatility. On the other hand, near-term positive surprises to U.S. growth would also spill over to Mexico. While market conditions for EMs have improved since last year, increased global risk aversion could trigger capital outflows (including an unwinding of carry trade flows), weaken the peso, and increase financing costs. Negative shocks to world oil prices would weaken the fiscal position. Conversely, the materialization of nearshoring projects would boost foreign investment inflows, supporting growth over the medium term.

VIEWS ON POLICIES

10. Very strong macroeconomic policies and institutional policy frameworks have helped deliver economic stability in Mexico. Fiscal policy has been prudent, helping keep public debt in check. The independent and credible central bank has proactively responded to inflation pressures, leaving the flexible exchange rate to facilitate needed adjustments. Financial supervision and

regulation remain effective, limiting risks. Further advancing the agenda on structural reforms remains key to harnessing the opportunities from nearshoring and to boost inclusive growth.

11. Given the expansionary 2024 budget, future policy measures will be needed to safeguard medium-term fiscal sustainability. The 2024 budget is procyclical and meeting the planned targets for 2025 would require additional measures of 1.7 percent of GDP. Beyond that, further consolidation would be needed to put public debt on a downward path over the medium term. Nevertheless, public debt is assessed to be sustainable with high probability, with fiscal risks mitigated by the country access to international and domestic debt markets.

12. Financing medium-term fiscal priorities requires credible, revenue-increasing tax reforms. As noted in the 2023 AIV staff report, a gradual and permanent increase in non-oil revenues of about 2 to 3 percent of GDP would help close fiscal gaps while financing increases in spending to boost growth and tackle social inequities. Such additional resources should be geared towards boosting public investment, improving and expanding social programs, increasing the efficiency of education spending, and implementing policies to address gender gaps. This should be complemented by a stronger institutional fiscal framework, which would help increase the credibility of fiscal policy and allow for greater flexibility to respond to downside risks.

13. A proactive approach to monetary policy is helping contain inflationary pressures. Successive policy rate hikes and enhanced forward guidance have kept long-term inflation expectations anchored and led to a reversal of the 2021-2 upswing in inflation. However, inflation is not yet on a durably downward path, with services inflation proving to be particularly persistent. The budget for 2024, which includes a front-loaded increase in spending, represents a further near-term challenge to the inflationary outlook. Therefore, though the real rate is now firmly in contractionary territory, monetary policy will need to remain restrictive until inflation indicators are decisively heading toward the central bank's target. Based on the current macroeconomic outlook, this is likely to require maintaining the policy rate at current levels until mid-2024.

14. Deeper reforms are needed to boost growth, harness new trade opportunities, reduce gender gaps, and strengthen anti-corruption frameworks. Despite a significant increase in openness over the past 30 years, Mexico's per capita output growth has lagged that of its G20 peers. As foreign firms consider relocating to Mexico as part of their supply chain diversification strategy, supply-side constraints are becoming evident. Reforms to remove these constraints could comprise policies that facilitate greater female labor participation, tackle corruption and crime, improve access to finance, further reduce the costs of formalization, improve human capital and skills, and strengthen the supply of energy. A continuation of open trade policies would underpin these reforms, translating opportunities into growth outcomes. Further efforts are needed to effectively implement legal and institutional anti-corruption reforms and ensure their full operationalization and enforcement.

Box 1. The Calculation of the External Economic Stress Index

This box presents the external economic stress index (ESI) for Mexico, the methodology for which is explained in *Flexible Credit Line—Operational Guidance Note*, IMF Policy Paper, August 2018. The calculation of the index requires 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, 2019, and 2021 FCL arrangement requests and their reviews, with updated weights.

Risks. There are three key risk factors relevant for the Mexican economy. First, Mexico's exports, remittances, and inward FDI are closely related to economic developments in the U.S. 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.

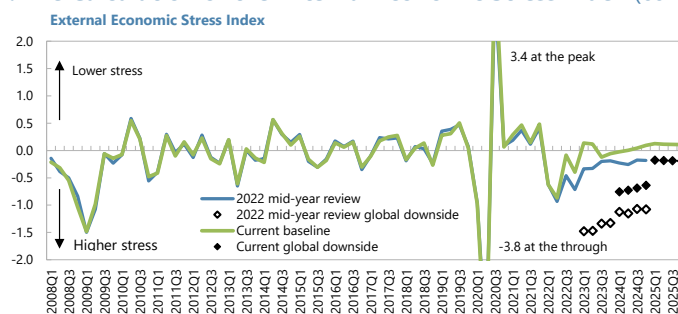
Variables. Risks to exports, remittances, and inward FDI are all proxied by U.S. growth. Risks to debt and equity portfolio flows are proxied by the change in the U.S. Treasury 10-year yield and the emerging market volatility index (VXEEM), respectively. Risks to the oil industry are proxied by the change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

Weights. The weights are data-based using balance of payments and international investment position data in 2022. The weight on U.S. growth (0.58) 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 (0.27) and the VXEEM (0.12) correspond to the stocks of foreign debt and equity as shares of GDP; and the weight on the change in the oil price (0.03) corresponds to oil exports as a share of GDP.

Baseline scenario. This scenario corresponds to the October 2023 WEO projections for U.S. growth, oil prices, and the U.S. 10-year bond yield. The VXEEM is assumed to remain constant over the projection period. The ESI under the baseline scenario indicates that the level of risks is somewhat lower than that in the 2022 FCL arrangement mid-year review due to stronger U.S. growth and attenuated VXEEM.

Global downside scenario. This scenario is based on the WEO adverse scenario and is consistent with global risks relevant for Mexico. Specifically, under the downside scenario, effects of global monetary policy tightening are greater than expected with longer transmission lags, leading to slowdown of the global economy, while emerging markets face tighter financial conditions, with the VXEEM rising by 3 standard deviations as assumed in previous FCL arrangements. Furthermore, the downside scenario assumes that there is no growth rebound in 2025. This scenario leads to a sizable deterioration in the stress index, with the impact diminishing in 2025. The level of stress is lower than in the downside scenario of the 2022 mid-year review, reflecting the more favorable baseline scenario and expected less severe slowdown of the U.S. economy with adverse shocks.

Country-specific external downside scenario. 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. Upcoming elections in Mexico and the U.S. could introduce additional uncertainty. The current ESI is not designed to reflect these country-specific uncertainties; for the illustrative scenario used in Box 2, staff assumes that a combination of global risks and country-specific uncertainties remains high, though lower than that in the 2022 mid-term review.

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

Note: The economic stress index reflects an assessment of the size of risks, with a lower value indicating a higher level of risks. Proxy variables are calculated by using the mean and standard deviation between 1995 and 2022. The sharp increase in the index (or a decline in stress) in the second half of 2020 reflects a technical rebound in U.S. growth after its sharp contraction in the first half.

REVIEW OF FCL QUALIFICATION

15. Mexico continues to meet the qualification criteria for an FCL arrangement. As described in recent Article IV staff reports, Mexico has a sustained track record of implementing strong macroeconomic policies and continues to have very strong economic fundamentals and institutional policy frameworks (Figure 3). In addition to assessing that Mexico meets all the FCL qualification criteria, staff does not see substantive changes in qualification since the mid-year review in November 2022, nor since the approval of the 2021 FCL arrangement. The assessments are summarized in Text Table 1.

- **Sustainable external position.** The external position in 2022 was moderately stronger than the level implied by medium term fundamentals and desirable policies. The current account deficit is projected to widen in the near term with imports boosted by strong demand, though stabilizing at a deficit of around 1 percent of GDP over the medium term. The external debt sustainability analysis projects external debt-to-GDP ratio to continue to decline in 2023 due to strong nominal growth (in U.S. dollar terms) and continued strong remittance inflows (Figure 4). The composition of external debt is favorable as around 30 percent of public sector external debt is peso-denominated, reducing the exposure to FX depreciation. FX risks of private sector external debt are also well covered by natural and financial hedges. Public sector external debt has a long duration with modest refinancing risks.
- **A capital account position dominated by private flows.** Private flows, underpinned by relatively stable FDI, remain dominant in the overall balance of payments flows. Public flows accounted for only 21 percent of Mexico's direct, portfolio, and other asset and liability flows on average over the last three years, lower than the FCL's threshold of 50 percent.¹
- **A track record of steady sovereign access to capital markets at favorable terms.** Mexico retains investment grade with all major rating agencies and did not lose market access at any

¹ Public flows are calculated as the sum of the absolute values of reserve assets flows, and portfolio and other asset and liability flows by general government and central bank. 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. Private flows are the difference between total and public flows.

point in the last year. Mexico's EMBI spread reversed its mid-2022 increases and currently (as of October 3, 2023) stands at 385 basis points, at around pre-Covid levels.² 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 360 percent of Mexico's IMF quota and over 570 percent including state-owned enterprises, which is well above the FCL threshold of 50 percent.

Text Table 1. Mexico: Summary of Qualification Assessments

	2021 FCL Request 1/	2022 Mid-Year Review 1/	2023 FCL Request
1. A sustainable external position (EBA assessment at least "moderately weaker").	Stronger	Broadly in line	Moderately stronger
2. A capital account dominated by private flows (share of private flows in total capital flows > 50 percent, on average over the last three years).	83 percent	88 percent	79 percent
3. A track record of steady sovereign access to sovereign markets at favorable terms (public sector bonds issued or loans disbursed in international markets in at least 3 of the last 5 years; cumulative amount during the last 5 years > 50 percent of the country's quota at the Fund).	900 percent of quota	700 percent of quota	570 percent of quota
4. A comfortable reserve position (reserves > 100 percent of ARA metric, on average over three (the current and the two previous years)).	127 percent	127 percent	125 percent
5. Sound public finances (debt sustainable with high probability).	Debt is sustainable with high probability	Debt is sustainable with high probability	Debt is sustainable with high probability
6. Low and stable inflation (inflation in single digits in the last 5 years preceding qualification).	4.2 percent ²	4.7 percent ²	5.1 percent ²
7. Sound financial system (the average capital adequacy ratio for the banking sector > regulatory thresholds; ³ no significant solvency risks or recapitalization needs).	Tier 1 capital ratio stood at 16.8 percent; No significant solvency risks or recapitalization needs	Tier 1 capital ratio stood at 17.3 percent; No significant solvency risks or recapitalization needs	Tier 1 capital ratio stood at 18.0 percent; No significant solvency risks or recapitalization needs
8. Effective financial sector supervision (no substantial concerns regarding the supervisory framework).	No substantial concern in supervisory framework	No substantial concern in supervisory framework	No substantial concern in supervisory framework
9. Data transparency and integrity (an SDDS subscriber or has made satisfactory progress toward meeting the SDDS requirements).	SDDS subscriber	SDDS subscriber	SDDS subscriber
1/ Reported indicators are those available at the time of the request and review, respectively. 2/ Headline and core inflation, as well as inflation expectations, are in single digits in each of the five years. 3/ The threshold for Tier 1 capital ratio is 6 percent.			

² The Bloomberg Emerging Markets Sovereign Index for Mexico, which excludes PEMEX bonds (included in the EMBI), currently (as of October 3, 2023) stands at 178 basis points.

- **A comfortable international reserve position.** Gross international reserves were US\$201 billion (14 percent of GDP) at end-2022, slightly increasing to US\$210 billion by end-September 2023 (Figure 5). Over three (current and two previous) years, Mexico's reserves are projected to stand on average at 125 percent of the ARA metric, exceeding the FCL threshold of 100 percent. The metric does not fall below 80 percent in any of these three years (hovering in the range of 120 to 130 percent). In addition, Mexico retains its swap line of US\$3 billion with the Federal Reserve associated with the North American Framework Agreement, and a US\$9 billion swap line with the U.S. Treasury.
- **Sound public finances, including a sustainable public debt position.** Fiscal policy is underpinned by a sound institutional budgetary framework, including the fiscal responsibility law. While the framework has helped enforce compliance with debt objectives, transparency and accountability of fiscal policymaking could be enhanced via a clearer link between the desired public debt level to annual budgetary decisions. The authorities met the balanced-budget rule requirement in 2022, missing only the PSBR target in large part due to the increased cost of inflation-linked debt. The authorities are on track to meet all the targets in 2023. Under current policies, gross public sector debt is expected to fall to 52.7 percent of GDP in 2023, well below its 2020 peak of 58.5 percent of GDP. Public debt is projected to rise to 54.7 percent of GDP at end-2024 given the larger planned deficit, before stabilizing at around 56 percent over the medium term, conditional on the needed adjustment being undertaken. As discussed in the 2023 Article IV staff report, the Sovereign Risk and Debt Sustainability Analysis indicates a moderate overall risk of sovereign stress (Figures 6-8). Staff assesses Mexico's public debt to be sustainable with high probability.
- **Low and stable inflation in the context of a sound monetary and exchange rate policy framework.** Mexico has had single-digit inflation since 2000, with monetary policy designed to help keep inflation and inflation expectations close to target. As inflation accelerated in early 2021, reflecting global commodity prices developments and supply-side constraints, Banxico responded by promptly and decisively tightening monetary policy. Going forward, the authorities have underscored the need to maintain the policy rate at the current level for an extended period, until inflation is on a clearly downward path, and have reiterated their commitment to the price stability and flexible exchange rate frameworks.
- **Sound financial system and the absence of solvency problems that may threaten systemic stability.** Capital positions of Mexican banks remain strong, with capital ratios continuing to improve. Tier 1 capital ratio stood at 18 percent in August 2023, while non-performing loans (NPL) were 2.1 percent of total gross loans. The financial system has high capital and liquidity buffers, low private sector leverage, and no sign of stretched asset prices. In the solvency and liquidity stress tests conducted under the 2022 FSAP, the banking system demonstrated resilience to a range of severe macro-financial shocks, although some smaller banks would require additional buffers to handle such stresses. While some NBFIs have come under stress, these firms do not pose a systemic risk to financial stability.

- **Effective financial sector supervision.** The 2022 FSAP found that the authorities have made considerable progress in strengthening banking regulation and supervision. Capital and liquidity tools, as well as D-SIB buffers, were introduced in line with Basel requirements. The authorities have already started implementing many recommendations from the 2022 FSAP, with some others pending, including measures to enhance the autonomy of regulatory government agencies and legal protection of supervisors. The most recent Article IV staff report did not raise substantial concerns regarding the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) supervisory framework of the financial sector. Mexico has also made progress with several technical compliance issues raised in its *2018 Mutual Evaluation Report* produced by the Financial Action Task Force (FATF).³ Areas for improvement highlighted in the Article IV staff report comprise issues such as the inability of the banking regulator (CNBV) to suspend or withdraw a banking license for AML/CFT breaches, and the need for the CNBV to enhance its risk-based supervision to focus further on cross-border illicit flows through banks and money remitters.
- **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 has subscribed 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. Staff assesses that all relevant core indicators have been met in each of the five most recent years.

16. While the quality of institutions relevant to FCL qualification is very strong, some weaknesses do exist in other areas. Mexico has strong macroeconomic institutions and policy management. The institutional quality of economic policy is underpinned by the inflation-targeting framework, the fiscal responsibility law, and an effective prudential and regulatory framework for financial supervision. Mexico recently volunteered to have its legal and institutional frameworks assessed to further address transnational aspects of corruption. However, weaknesses have emerged in other areas such as crime, corruption, and the rule of law. The 2023 Article IV staff report shows that Mexico scores below Latin American peers in those areas. In 2017 Mexico created the National Anti-Corruption System (NACS), which provides a framework to investigate, prosecute, and sanction corrupt activity. Institutions created under the NACS should be further empowered and resourced to ensure adequate fulfilment of their respective mandates. In addition, leveraging the AML framework could further help prevent, detect, and deter proceeds of corruption. These vulnerabilities, however, do not hamper Mexico's ability to respond to shocks.

³ For the 2018 *Mutual Evaluation Report* of Mexico adopted by the FATF and the subsequent *Follow-Up Reports* see <https://www.fatf-gafi.org/en/countries/detail/Mexico.html>.

ACCESS CONSIDERATIONS

17. Staff considers that access at 300 percent of quota is justified under a plausible tail risk scenario. The external economic stress index points to lingering but lower downside risk (Box 1). In line with the evolution of external risks and reflecting country-specific factors including uncertainty regarding upcoming elections, a quantitative adverse scenario is calibrated with shock parameters smaller than those in the 2021 FCL arrangement, resulting in a financing gap equivalent to 300 percent of quota (Box 2 and Table 8). Under the scenario, Mexico is assumed to contribute to the adjustment by drawing down its own international reserves by US\$36–39 billion. Even with this drawdown, reserves will remain above the adequate level of 100 percent of the ARA metric. This reduced access remains consistent with the authorities' stated intent to request access commensurate the risks faced by the country.

Box 2. Illustrative Adverse Scenario

Access of around US\$35 billion (300 percent of quota) can be justified under an illustrative downside scenario. The scenario assumes that the risks identified in the October 2023 WEO materialize, i.e., effects of global monetary policy tightening are greater than expected and emerging markets face tighter financial conditions; the scenario also reflects country-specific factors. Under the scenario, capital inflows would weaken, with the current account also deteriorating. However, external risks under this scenario are somewhat lower than in the 2022 FCL arrangement mid-year review, consistent with the change in the external stress index (see Box 1). As such, parameters for external financing requirements and sources are calibrated to be less severe than in the previous FCL arrangement.

Current account. A modest deterioration of the current account (0.2 percent of GDP) is assumed, smaller than in the 2021 FCL arrangement but similar to that in the 2019 arrangement. 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—most notably that of the U.S.—would adversely impact Mexico's 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.

Net foreign direct investment (FDI) inflows. As in the 2019 FCL arrangement, the scenario assumes a significant drop in net FDI inflows (to the level of 60 percent of the preceding three-year average). 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 reduction in FDI.

Net equity portfolio inflows. Loss of confidence following tighter financial conditions in emerging markets and heightened risk aversion would lead to a reduction in equity holdings by foreign investors. A shock of 1.6 standard deviations of the fluctuations in the past 10 years (roughly corresponding to the 95th percentile of distribution) is assumed.

Foreign currency-denominated debt. The current scenario assumes a rollover rate of 80 percent of long-term FX debt as foreign investors would reduce their exposure to Mexico with their higher risk aversion. The rollover rate for short-term debt is assumed to be higher than that for long-term 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 in past EM crises, given Mexico's relatively low credit risk.

Peso-denominated debt. The scenario assumes the same rollover rate (of 71 percent) as in the previous FCL arrangements. The ratio is set lower than for foreign currency-denominated debt to reflect a sizable reduction of foreign investors' holdings of peso-denominated debt under currency depreciation pressures.

Box 2. Illustrative Adverse Scenario (continued)

Resident portfolio outflows. Uncertainties about the exchange rate could lead to temporary capital flight by residents. A shock of 1.6 standard deviations of the fluctuations in the past 10 years (roughly corresponding to the 95th percentile of distribution) is assumed.

Use of reserves. The downside scenario assumes a drawdown of reserves of US\$36-39 billion. This amount is somewhat smaller than in the 2021 FCL arrangement (US\$39-41 billion), consistent with the lower external risks. The ARA metric would fall to around 110 percent after the drawdown, remaining within the adequate range of 100–150 percent.

Assumptions Underlying the Downside Scenarios

Assumptions	2023 FCL request	2021 FCL request	2019 FCL request	2018 mid-year review	2017 FCL request
Current Account Deficit	0.23% of GDP shock	0.45%	0.23%	0.23%	0.45%
Net FDI Inflows	60% of preceeding 3-year average	40%	60%	50%	40%
Equity Portfolio Inflows	1.6 std dev shock	2.0 std dev	1.6 std dev	1.6 std dev	1.6 std dev
Financing Through Bonds and Loans					
Public sector MLT financing					
FX denominated bonds	80%	80%	80%	80%	80%
Local currency bonds	71%	71%	71%	71%	71%
Private sector MLT financing					
FX denominated bonds	80%	80%	80%	80%	80%
FX Bank Financing	80%	80%	80%	80%	80%
Short-term financing					
Public sector local currency bonds	71%	71%	71%	71%	71%
Private sector	80%	80%	80%	80%	80%
Trade credit	80%	80%	80%	80%	80%
Other Flows					
Residents' foreign portfolio & other investment	1.6 std dev shock	2.5 std dev	1.6 std dev	1.6 std dev	1.6 std dev

Source: IMF staff calculations.

Key Contributions to Financing Gap under the Downside Scenarios 1/

(In billions of U.S. dollars, +: financing requirements)

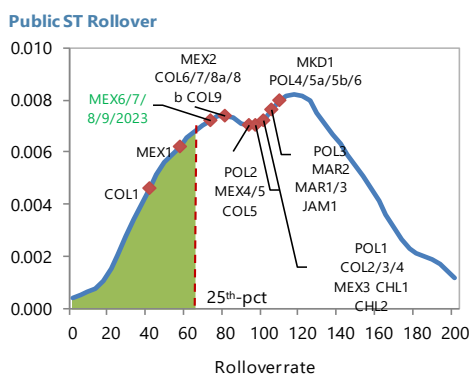
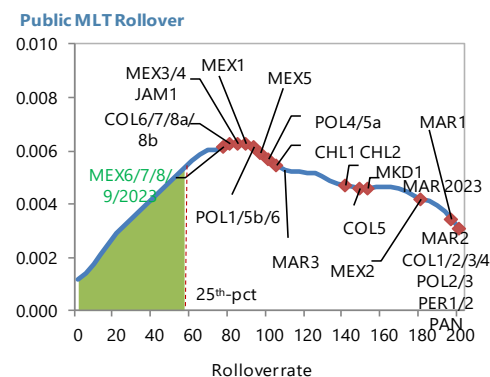
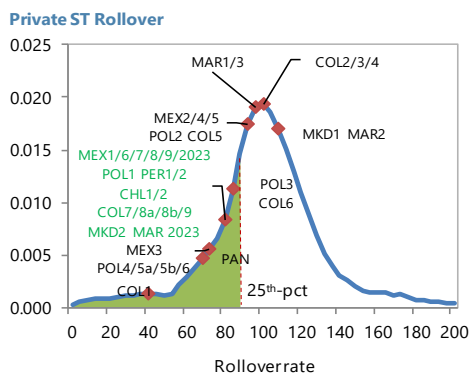
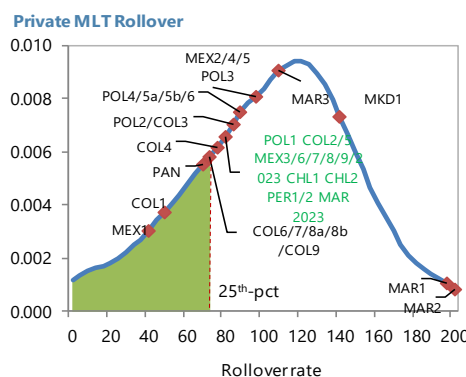
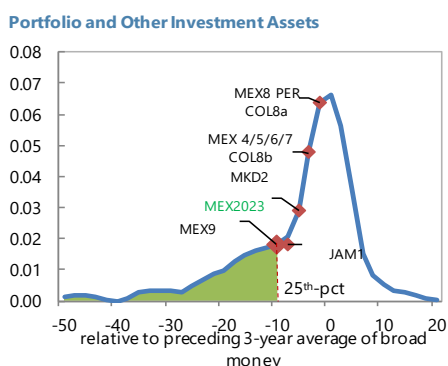
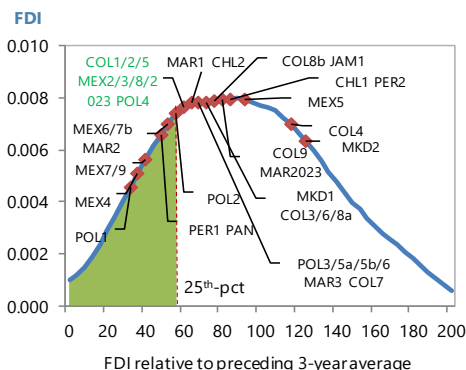
	2023 FCL request	2021 FCL request	2019 FCL request	2018 mid-year review	2017 FCL request
Current Account Deficit	4.6	6.2	3.0	3.0	5.6
Net FDI Inflows	11.3	15.7	11.8	16.3	15.5
Equity Portfolio Inflows	7.8	13.5	11.3	10.7	9.3
Financing Through Bonds and Loans	25.8	27.1	32.9	33.1	41.7
Other Flows	21.4	26.9	17.2	23.9	25.1
Change In International Reserves	-35.7	-39.0	-14.8	-14.0	-10.0
Residual Financing Gap	35.1	50.4	61.4	73.0	87.2
in percent of quota	300	400	500	592	697

Source: IMF staff calculations.

1/ Financing gap in the year following the approval (e.g., 2024 for the 2023 FCL request).

Box 2. Illustrative Adverse Scenario (concluded)

Illustrative Downside Scenario 1/ (Probability density)



Source: IMF staff calculations.

1/ The countries shown are previous FCL/PCL/PLL arrangements, numbered consecutively by country. MEX2023 is the proposed FCL arrangement.

IMPACT ON FUND FINANCES, RISKS, AND SAFEGUARDS

18. 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 300 percent of quota (SDR 26.7 billion) and cancellation of the current one (SDR 35.7 billion; 400 percent of quota) would increase the Fund's Forward Commitment Capacity. The impact of the proposed arrangement on the Fund's finances would be significant but manageable. If the full amount is drawn as a single drawing, that would be the single largest purchase in the Fund's history and accordingly represent the largest funding requirement from participants in the Fund's Financial Transactions Plan. Additionally, if resources available under the FCL arrangement were fully drawn, the GRA credit exposure to Mexico would represent a sizable share of the Fund's outstanding credit.

19. Mexico's capacity to repay the Fund remains strong. The authorities have indicated their intention 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 capacity to repay, including Mexico's adequate buffers, as well as very strong macroeconomic policies and institutional policy frameworks. In a scenario of full disbursement in 2023, under the downside scenario described in Box 2, total external debt would climb to a peak of 32.4 percent of GDP in 2024 and then decline over the medium term to 28.9 percent of GDP by 2028 (Table 9). Debt service to the Fund would peak at about SDR 14.7 billion (about 1.0 percent of GDP) in 2027. Moreover, Mexico has an excellent track record of meeting its obligations to the Fund.

20. FCL safeguards procedures are underway. Staff is conducting safeguards procedures for Banco de México's audited financial statements for FY 2022, including holding discussions with the central bank's external auditors. The results of these procedures will be included in the mid-term review of the FCL arrangement.

21. Enterprise risks associated with the FCL approval are largely mitigated by policy and program design. Financial risks to the Fund comprise mainly credit risk and adequacy of liquidity resources (liquidity risk). Credit risks arise from the SDR 26.7 billion commitment which contributes to the Fund's high credit concentration to WHD and, if drawn, would result in a credit outstanding of around 117 percent of precautionary balances. However, this is mitigated by the precautionary nature of the arrangement, which has gotten progressively lower in size (down from the current SDR 35.65 billion) and the expectation that members with access exceeding 200 percent of quota would gradually reduce access. Credit risk to the Fund is further mitigated by the design of the facility linked to the strength of member's policies and Mexico's adequate buffers and credible macroeconomic policies. Adequacy of liquid resources at the Fund would continue to be constrained by the FCL as this commitment is deducted from the FCC. Progressive reduction in the size of the FCL is an important mitigant to the Fund's liquidity risk. On the nonfinancial side, the proposed arrangement mitigates member engagement and reputation credibility risks for the Fund by appropriately responding to a precautionary lending request, in line with its policies.

STAFF APPRAISAL

22. Mexico continues to benefit from the FCL arrangement. The FCL is an important instrument to guard against external risks and a signal of the quality of their macroeconomic policies and institutional policy frameworks. The authorities' intention to continue to treat the FCL

arrangement as precautionary and request of a decline in access is in line with the evolution of external risks.

23. Mexico meets all the qualification criteria for an FCL arrangement. In the 2023 Article IV consultation with Mexico completed on October 30, 2023, the Fund acknowledged that Mexico continues to demonstrate external, financial, and fiscal stability, supported by very strong policies, policy and institutional frameworks, and economic fundamentals. The authorities remain firmly committed to maintaining the track record of very strong macroeconomic policies going forward.

24. Given the current risk environment, the proposed access at 300 percent of quota is appropriate. Though lower than those in the 2021 FCL arrangement, external tail risks remain elevated and in line with those outlined in the 2019 FCL arrangement. These include risks of renewed volatility in financial markets, increased risk premia, and sharp pull-back of capital from emerging markets, as well as weaker U.S. growth and a global slowdown. In addition, upcoming elections in Mexico and the U.S. could further exacerbate the uncertainty. The FCL would support the authorities' economic strategy and, combined with an adequate level of international reserves, provide insurance against tail risks. Staff supports the authorities' proposal.

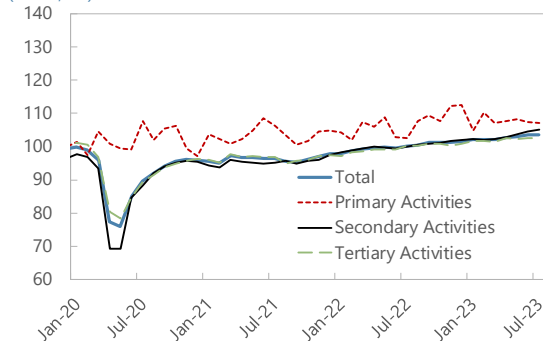
25. Staff judges the risks to the IMF arising from the proposed FCL arrangement to be manageable. While Mexico intends to treat the FCL arrangement as precautionary, the Fund's credit exposure would remain moderate even with a possible drawing under the new arrangement. Risks are contained given the excellent policy implementation track record, and the authorities' intention to maintain a very strong policy framework. In addition, Mexico's strong repurchase record with the Fund and its manageable external debt service profile even if the full amount of the FCL were to be drawn, represent additional mitigating factors. The proposed new commitment and cancellation of the current arrangement would have a net positive impact on the Fund's liquidity position.

Figure 1. Mexico: Recent Economic Developments

The economy has now broadly recovered from the Covid-19 crisis...

Global Indicator of Economic Activity (IGAE)

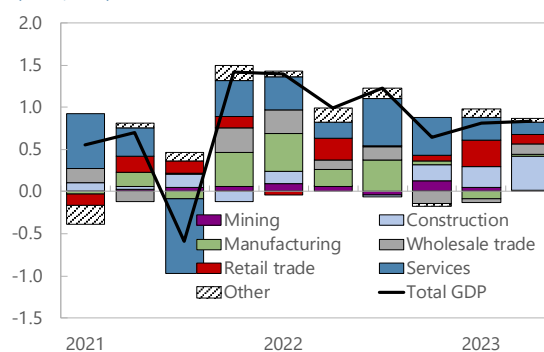
(Index, SA)



... with construction and services now leading this recovery.

Supply Contributions to GDP Growth

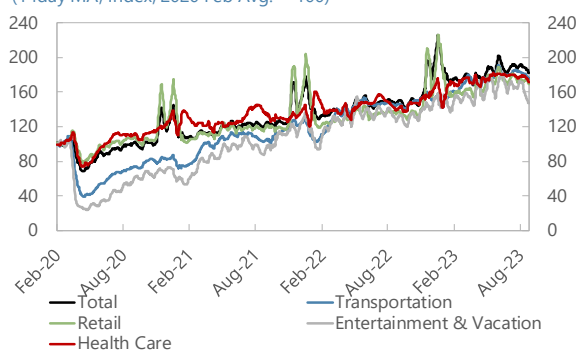
(SSAR, Q/Q)



Card transactions are stabilizing now...

Card Transactions

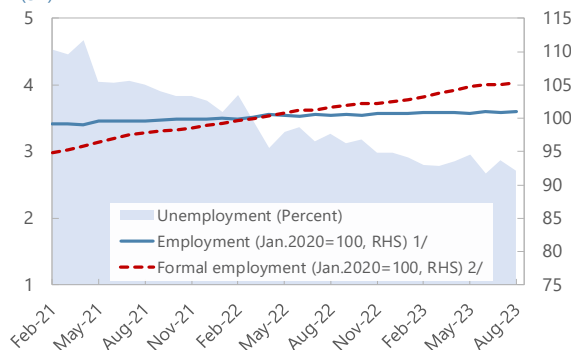
(14day MA, Index, 2020 Feb Avg. = 100)



... while job losses were steep but have largely recovered.

Employment

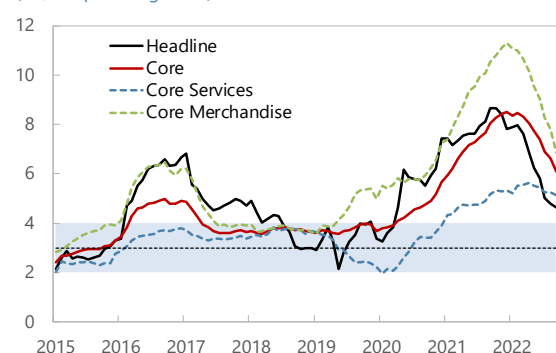
(SA)



Headline and core inflation have declined sharply

Inflation

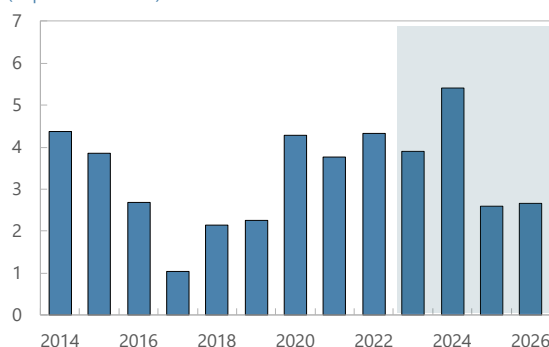
(SA, Y/Y percent growth)



The fiscal deficit is projected to decline over the forecast horizon.

Fiscal Deficit

(In percent of GDP)



Sources: National authorities, INEGI, Banxico, Haver Analytics, and IMF staff calculations.

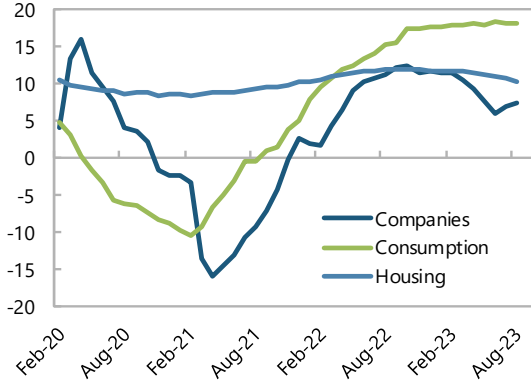
1/ Employment growth is calculated as the growth in employment as a share of the economically active population.

2/ 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 Developments

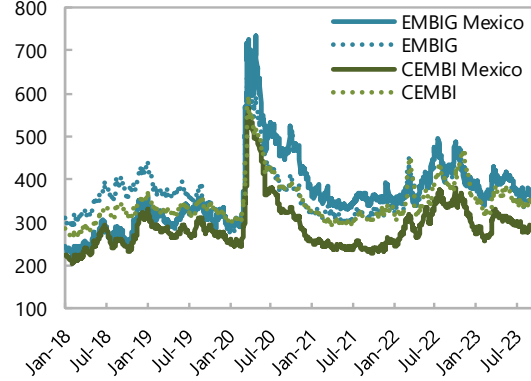
Consumption credit has been very dynamic...

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



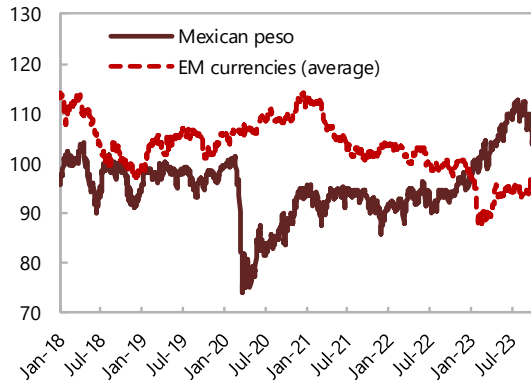
... while spreads have started to decline.

EMBIG and CEMBI Spreads
(In basis points)



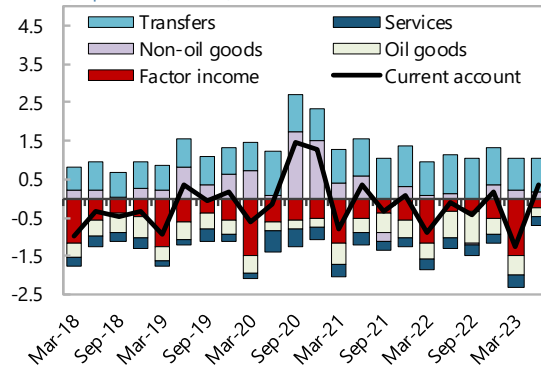
The exchange rate has substantially outperformed other EMs.

Exchange Rates 1/
(Index, Jan 2020 = 100, increase = appreciation)



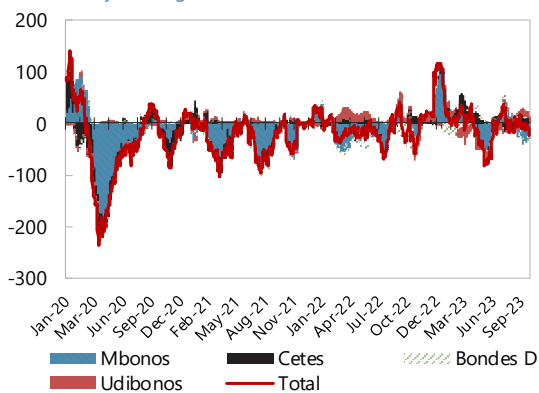
The current account balance has registered deficits so far this year.

Current Account Balance
(In percent of GDP)



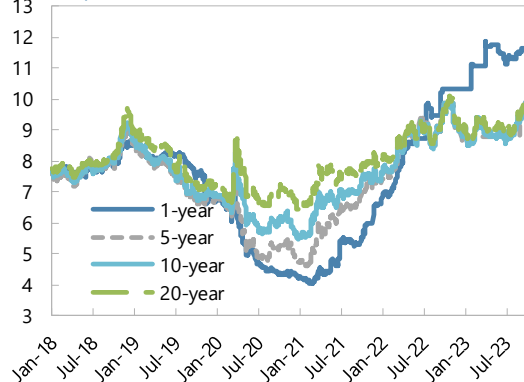
Bond flows have been stable, with less interest in inflation-linked bonds compared to 2022

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



Shorter-dated yields have risen in response to policy hikes, leading to a reversal in the yield curve

Government Bond Yields
(In percent)



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

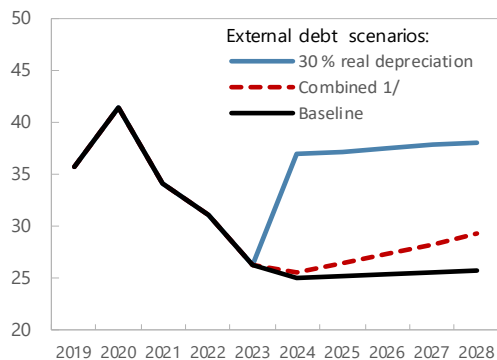
1/ Bilateral USD exchange rate. EM currencies average includes Brazil, Chile, Colombia, Czech Republic, India, Indonesia, Korea, Poland, Thailand.

2/ Flows associated with Pemex transaction on 11/20/2020 have been removed.

Figure 3. Mexico: Qualification Criteria

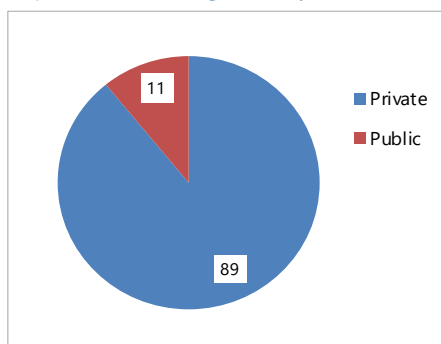
Sustainable external position

Gross External Debt
(In percent of GDP)



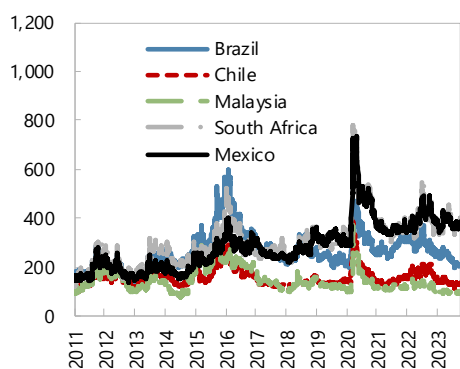
External debt mostly held by private investors

Holders of Gross Foreign Currency Debt, 2023 Q2
(In percent of total foreign currency debt)



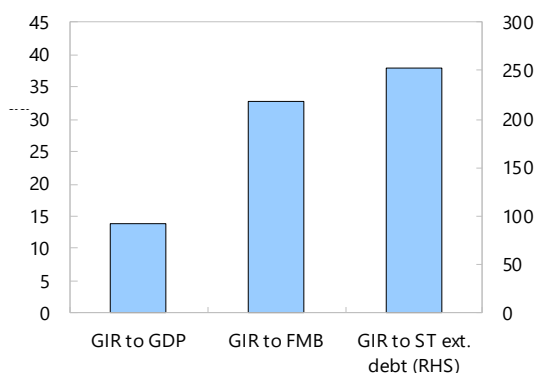
Steady sovereign capital markets access

EMBI Spread
(In basis points)



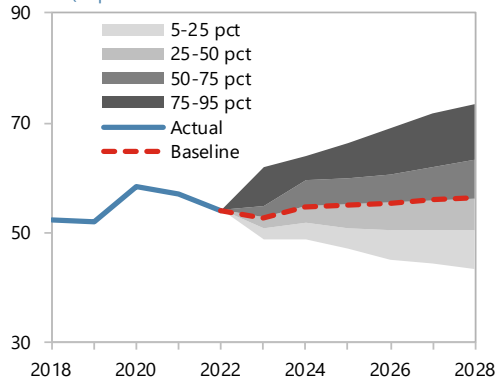
Relatively comfortable reserve coverage

Gross International Reserves Coverage, 2022
(In percent)



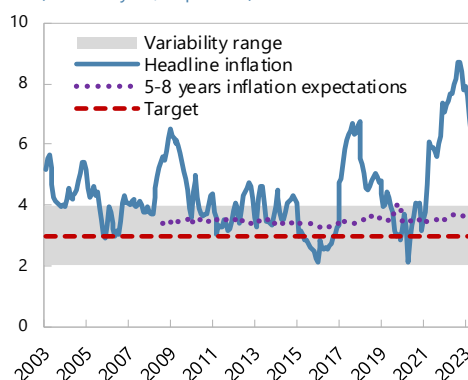
Sustainable public debt position 2/

Debt Fanchart
(In percent of GDP)



Low and stable medium-term inflation expectations

Headline Inflation
(Year-on-year, in percent)

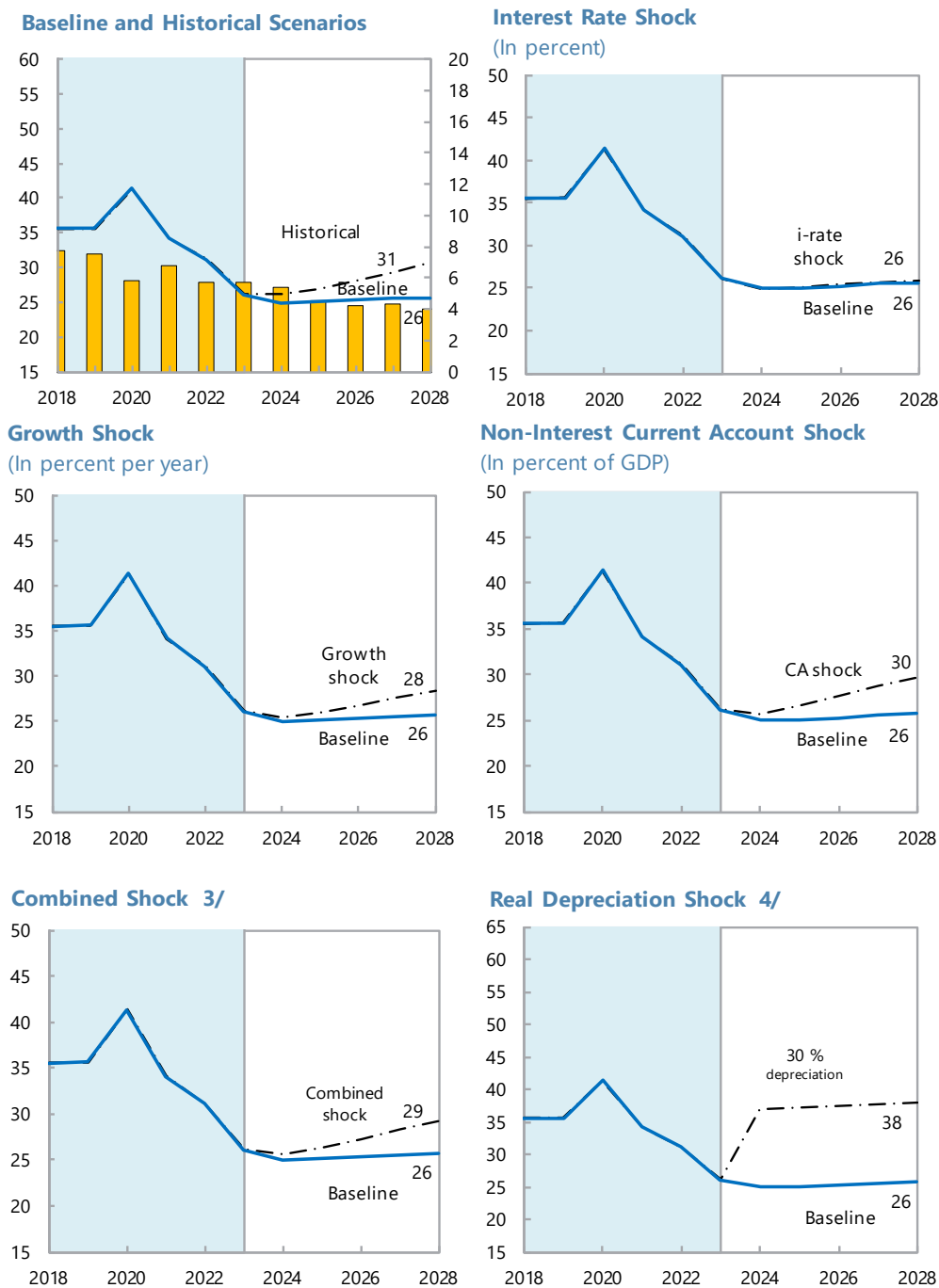


Sources: Bloomberg L.P., Datastream, EMED, Haver Analytics, and Fund staff estimates.

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.

Figure 4. Mexico: External Debt Sustainability: Bound Tests 1/ 2/



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.

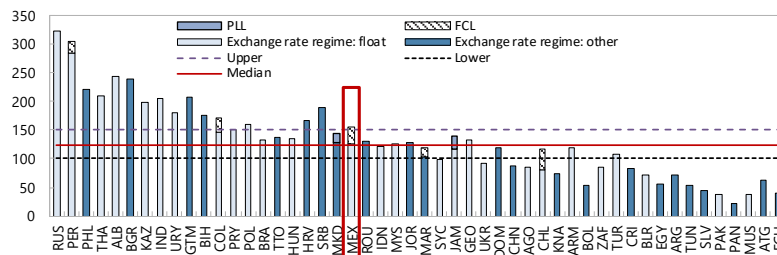
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent.

Figure 5. Mexico: Reserve Coverage in an International Perspective 1/

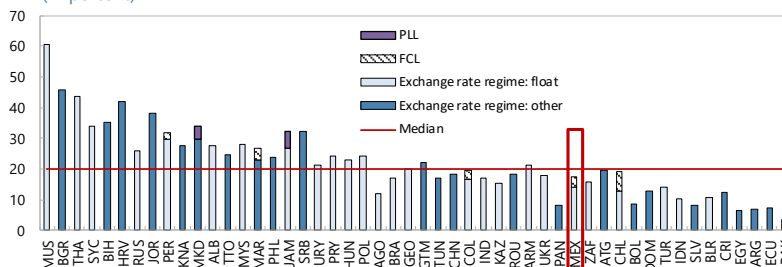
GIR to ARA Metric, 2022 2/3/4/

(In percent)



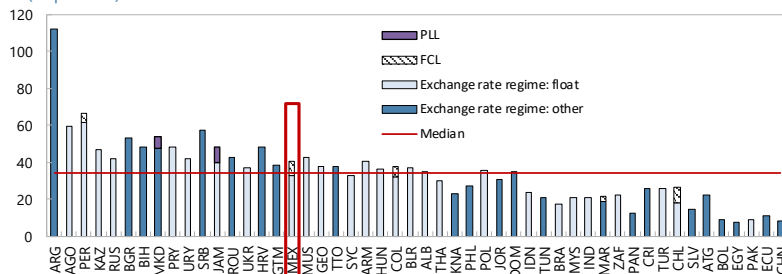
GIR to GDP, end-2022

(In percent)



GIR to Broad Money, end-2022

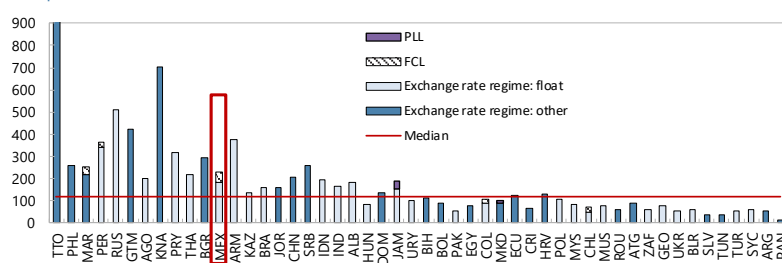
(In percent)



GIR to Short-term External Debt at Remaining Maturity plus Current

Account Deficit (end-2022) 5/

(In percent)



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 in form 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.

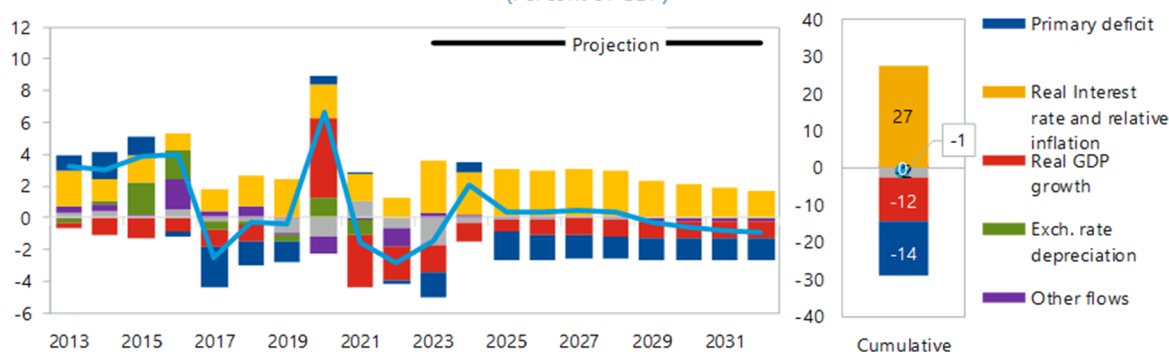
4/ The upper and lower lines denote the 100-150 percent range of ARA metric, which are considered broadly adequate for precautionary purposes.

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

Figure 6. Mexico: Sovereign Risk and Debt Sustainability Analysis—Baseline Scenario

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	54.1	52.7	54.7	55.1	55.5	55.9	56.3	56.0	55.4	54.6	53.7
Change in public debt	-2.8	-1.4	2.1	0.4	0.4	0.4	0.3	-0.3	-0.6	-0.8	-0.9
Contribution of identified flows	-2.2	0.3	2.4	0.5	0.4	0.5	0.4	-0.3	-0.6	-0.8	-0.9
Primary deficit	-0.2	-1.6	0.7	-1.8	-1.6	-1.5	-1.4	-1.4	-1.4	-1.4	-1.4
Noninterest revenues	23.9	23.6	23.5	23.5	23.3	23.3	23.1	23.1	23.1	23.1	23.1
Noninterest expenditures	23.7	22.0	24.2	21.7	21.7	21.8	21.7	21.7	21.7	21.7	21.7
Automatic debt dynamics	-0.9	1.6	1.5	2.2	1.9	1.8	1.7	1.3	1.0	0.8	0.7
Real interest rate and relative inflation	1.3	3.3	2.6	3.0	2.9	2.9	2.8	2.4	2.1	1.9	1.7
Real interest rate	1.4	3.1	2.2	2.8	2.7	2.7	2.6	2.2	1.9	1.7	1.5
Relative inflation	0.0	0.2	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Real growth rate	-2.1	-1.7	-1.1	-0.8	-1.0	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Real exchange rate	-0.1	...	...	...	...	...	...	...	...	...	...
Other identified flows	-1.1	0.3	0.3	0.1	0.1	0.1	0.1	-0.2	-0.2	-0.2	-0.2
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-1.1	0.3	0.3	0.1	0.1	0.1	0.1	-0.2	-0.2	-0.2	-0.2
Contribution of residual	-0.7	-1.7	-0.3	-0.1	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0
Gross financing needs	13.1	12.4	13.4	9.7	10.8	10.8	10.6	10.3	10.2	10.3	9.9
of which: debt service	13.6	14.2	12.9	11.7	12.6	12.5	12.2	11.8	11.7	11.8	11.5
Local currency	11.7	12.5	11.4	9.9	10.6	10.2	10.0	9.8	9.7	9.8	9.4
Foreign currency	1.9	1.7	1.5	1.8	2.0	2.3	2.2	2.1	2.0	2.0	2.1
Memo:											
Real GDP growth (percent)	3.9	3.2	2.1	1.5	1.8	2.0	2.1	2.0	2.0	2.0	2.0
Inflation (GDP deflator; percent)	6.7	5.2	5.6	3.5	3.4	3.0	3.0	3.0	3.0	3.0	3.0
Nominal GDP growth (percent)	10.9	8.5	7.9	5.0	5.2	5.1	5.2	5.1	5.1	5.1	5.1
Effective interest rate (percent)	9.4	11.4	10.1	8.8	8.5	8.2	8.0	7.1	6.6	6.2	5.9

Contribution to Change in Public Debt
(Percent of GDP)

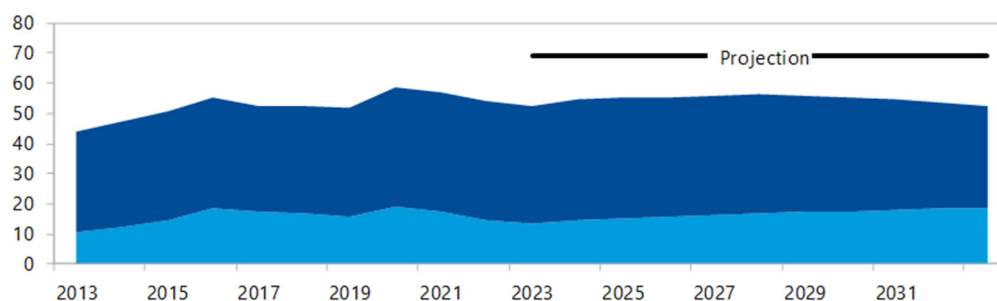


Commentary: A strong growth performance helped contain debt pressures in 2022 and is expected to work in tandem with a tighter fiscal stance to reduce the debt ratio in 2023. A large fiscal expansion in 2024 will exert upwards pressure on debt ratios in the medium-term despite a rapid consolidation thereafter. This persistence is due to high real interest rates (reflecting structural and conjunctural factors) and the need to finance the looser stance with greater debt issuance. As debt servicing costs begin to moderate by 2028, Mexico's tight fiscal stance and trend growth will dominate other debt drivers and serve to lower debt ratios in the extended projection period. The pace of fiscal tightening and sustained tight fiscal stance, though notable amongst emerging market peers, is within bounds for Mexico given a sustained track record of fiscal prudence.

Figure 7. Mexico: SRDSA—Public Debt Structure Indicators

Debt by Currency

(Percent of GDP)

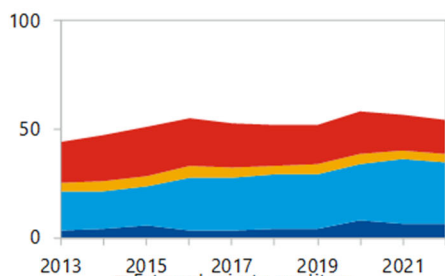


■ Foreign currency ■ Local currency ■ Local-linked

Note: The perimeter shown is consolidated public sector.

Public Debt by Holder

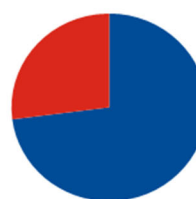
(Percent of GDP)



■ External private creditors
■ External official creditors
■ Domestic other creditors
■ Domestic commercial banks

Public Debt by Governing Law, 2022

(Percent)

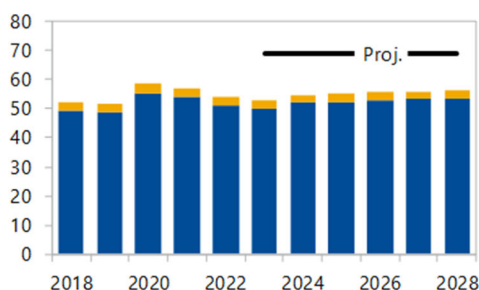


■ Domestic law
■ Foreign law ex. multilateral
■ Multilateral

Note: The perimeter shown is consolidated public sector. Note: The perimeter shown is consolidated public sector.

Debt by Instruments

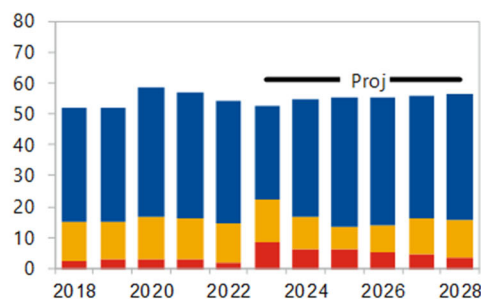
(Percent of GDP)



■ Marketable debt ■ Nonmarketable debt

Public Debt by Maturity (Percent of GDP)

(Percent of GDP)



Residual maturity: 10.6 years
■ ≤ 1 year ■ 1-5 years ■ ≥ 5 years

Note: The perimeter shown is consolidated public sector. Note: The perimeter shown is consolidated public sector.

Commentary: The shares of foreign and domestic currency-denominated liabilities in total public debt are expected to be broadly stable in the projection period. The rising share of domestic other creditors reflects the increased holdings of public debt liabilities by domestic pension funds following pension reforms. Small amounts of non-marketable debt principally relate to external official lending. While overall debt as a ratio to GDP will increase over the projection period, the share of liabilities with longer maturities is expected to increase relative to the pre-projection period, in-line with the government's debt management strategy.

Figure 8. Mexico: SRDSA—Medium-Term Risk Assessment

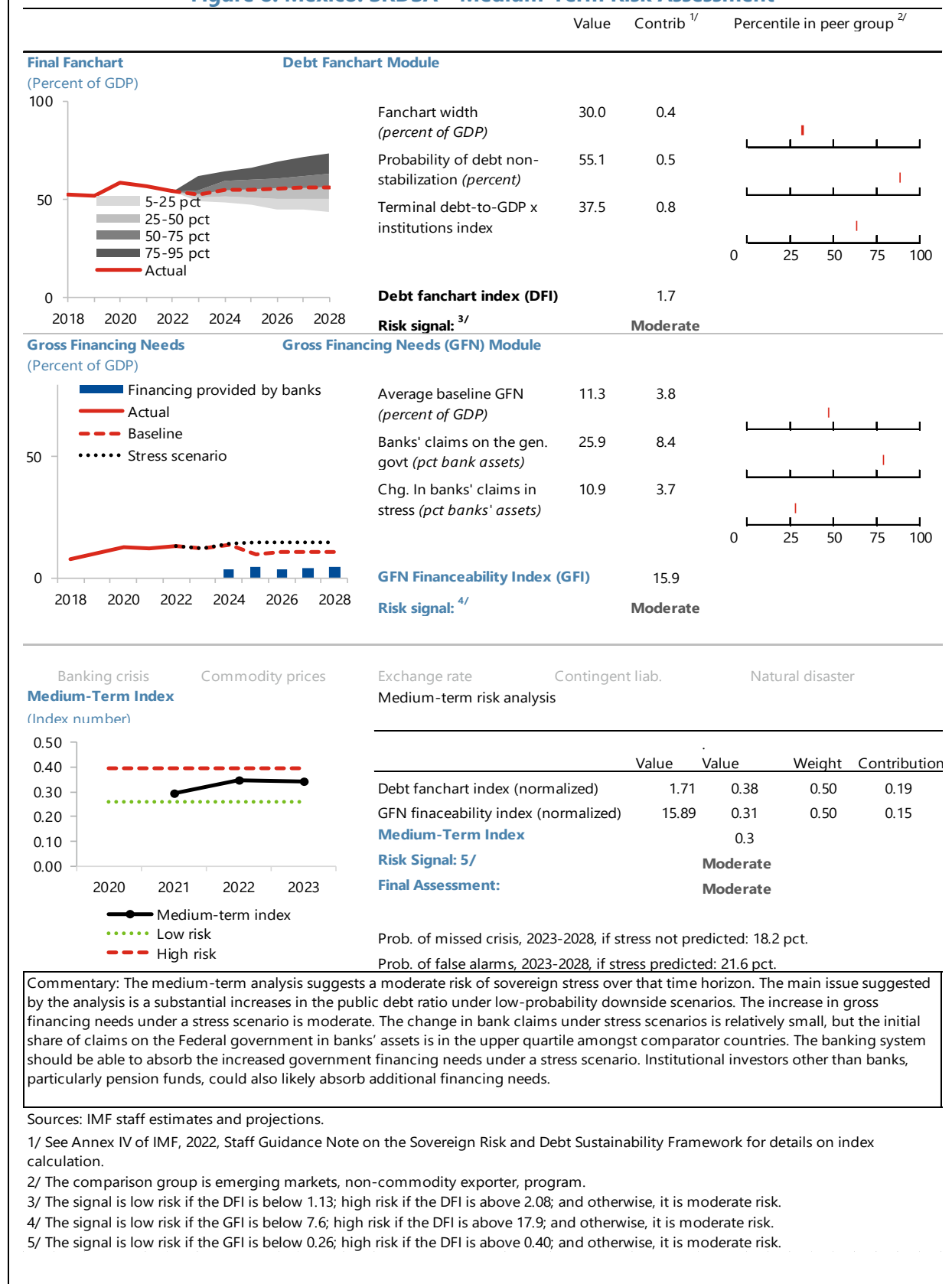


Table 1. Mexico: Selected Economic, Financial, and Social Indicators

I. Social and Demographic Indicators											
GDP per capita (U.S. dollars, 2022)	11,279.2	Poverty headcount ratio (% of population, 2022) 1/									36.3
Population (millions, 2022)	130.0	Income share of highest 20 perc. / lowest 20 perc. (2022)									8.4
Life expectancy at birth (years, 2022)	75.5	Adult literacy rate (2020)									95.2
Infant mortality rate (per thousand, 2021)	11.4	Gross primary education enrollment rate (2020) 2/									103.7
II. Economic Indicators											
	2019	2020	2021	2022	Proj.		2025	2026	2027	2028	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
(Annual percentage change, unless otherwise indicated)											
National Accounts (In Real Terms)											
GDP	-0.3	-8.7	5.8	3.9	3.2	2.1	1.5	1.8	2.0	2.1	
Consumption	0.8	-9.3	6.8	5.5	3.7	1.6	1.2	1.7	2.0	2.1	
Private	1.2	-10.6	8.1	6.2	4.0	1.6	1.1	1.6	1.9	2.1	
Public	-1.6	-0.7	-0.5	1.3	1.5	1.5	2.0	2.4	2.4	2.4	
Investment	-4.2	-18.4	10.2	8.5	14.4	0.7	1.4	1.8	2.0	2.1	
Fixed	-4.4	-17.3	9.3	8.6	14.6	0.6	1.4	1.9	2.0	2.1	
Private	-2.9	-18.6	11.2	9.5	15.2	0.6	1.4	1.8	2.0	2.1	
Public	-14.8	-6.6	-3.6	2.0	10.0	0.7	1.5	2.5	2.5	2.5	
Inventories 3/	0.0	-0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Exports of goods and services	1.2	-7.0	7.2	9.0	-2.6	2.9	2.2	3.0	3.1	3.1	
Imports of goods and services	-1.1	-12.0	15.0	8.9	6.5	1.0	1.4	2.7	3.0	3.1	
GDP per capita	-1.2	-9.4	5.2	3.1	2.3	1.3	0.6	1.0	1.2	1.3	
External Sector											
External current account balance (in percent of GDP)	-0.4	2.0	-0.6	-1.2	-1.5	-1.4	-1.1	-0.9	-0.9	-0.9	
Exports of goods, f.o.b. 4/	2.2	-9.4	18.6	16.7	2.2	5.4	4.0	4.9	4.7	4.4	
Imports of goods, f.o.b. 4/	-2.0	-15.9	32.0	19.6	2.9	6.4	3.4	3.9	4.7	4.6	
Net capital flows (in percent of GDP) 5/	-1.4	0.8	-0.9	-0.9	-2.1	-2.0	-1.6	-1.2	-1.3	-1.3	
Terms of trade (goods, improvement +)	2.3	0.8	-1.7	-2.1	8.8	-2.8	-0.2	0.6	-0.2	-0.2	
Gross international reserves (in billions of U.S. dollars)	183.0	199.1	207.7	201.1	212.3	224.5	234.4	242.3	249.8	257.5	
Exchange Rates											
Real effective exchange rate (avg, appreciation +)	3.2	-7.7	5.9	5.3	...	...	...	...	...	...
Nominal exchange rate (MXN/USD) (eop, appreciation +)	4.3	-5.9	-3.2	5.7	...	...	...	...	...	...
Inflation, Employment and Population											
Consumer prices (end-of-period)	2.8	3.2	7.4	7.8	4.5	3.2	3.0	3.0	3.0	3.0	
Core consumer prices (end-of-period)	3.6	3.8	5.9	8.3	5.0	3.1	3.0	3.0	3.0	3.0	
Formal sector employment, IMSS-insured workers (average)	2.3	-2.5	1.9	4.3	...	...	...	...	...	...
National unemployment rate (annual average)	3.5	4.4	4.1	3.3	2.9	3.1	3.4	3.6	3.7	3.7	
Unit labor costs: manufacturing (real terms, average)	3.6	10.4	4.3	11.3	...	...	...	...	...	...
Total population 6/	1.0	0.8	0.6	0.8	0.9	0.9	0.8	0.8	0.7	0.7	
Working-age population 6/	1.3	1.1	1.0	1.1	1.2	1.1	1.0	0.9	0.8	0.8	
Money and Credit											
Financial system credit to non-financial private sector 7/	3.0	0.9	4.2	10.9	7.1	6.4	3.6	3.8	3.6	3.8	
Broad money	4.7	13.4	9.5	7.3	8.0	7.3	4.5	4.7	4.5	4.7	
Public Sector Finances (In Percent Of GDP) 8/											
General government revenue	23.0	23.5	23.0	24.2	23.8	23.7	23.7	23.5	23.5	23.3	
General government expenditure	25.2	27.8	26.8	28.5	27.7	29.1	26.3	26.1	26.1	25.9	
Overall fiscal balance	-2.3	-4.3	-3.8	-4.3	-3.9	-5.4	-2.6	-2.7	-2.7	-2.7	
Structural primary balance 9/	1.0	0.5	0.4	0.9	1.4	-1.0	1.6	1.5	1.5	1.4	
Fiscal impulse 10/	0.0	0.5	0.1	-0.5	-0.5	2.4	-2.6	0.1	0.0	0.1	
Gross public sector debt	51.9	58.5	56.9	54.1	52.7	54.7	55.1	55.5	55.9	56.3	
Memorandum Items											
Nominal GDP (billions of pesos)	25,143.1	24,079.8	26,608.7	29,503.8	32,022.3	34,540.8	36,266.4	38,149.7	40,076.4	42,146.2	
Output gap (in percent of potential GDP)	2.4	-2.7	-2.0	0.0	1.1	1.2	0.5	0.2	0.0	0.0	

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

1/ CONEVAL uses a multi-dimensional approach to measure 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/ Excludes reserve assets

6/ Based on CONAPO population projections.

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

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

9/ Adjusting revenues for the economic and oil-price cycles and excluding one-off items (e.g. oil hedge income and Bank of Mexico transfers), in percent of potential GDP.

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

Table 2. Mexico: Statement of Operations of the Public Sector, Authorities' Presentation 1/
(In percent of GDP)

	2020	2021	2022	Proj.					
				2023	2024	2025	2026	2027	2028
Budgetary Revenue, By Type	22.2	22.4	22.4	21.7	21.3	21.2	21.1	21.1	21.1
Oil revenue	2.5	4.3	5.0	3.5	3.1	3.1	2.9	2.8	2.6
Non-oil tax revenue	13.9	13.4	12.9	13.9	14.3	14.2	14.2	14.3	14.4
Non-oil non-tax revenue	5.8	4.7	4.4	4.3	3.9	3.9	4.0	4.0	4.0
Budgetary Revenue, By Entity	22.2	22.4	22.4	21.7	21.3	21.2	21.1	21.1	21.1
Federal government revenue	17.0	16.2	16.2	16.1	16.0	15.9	15.8	15.9	16.0
Tax revenue, of which:	13.9	13.4	12.9	13.9	14.3	14.2	14.2	14.3	14.4
Excises (including fuel)	1.9	1.5	0.4	1.5	1.9	1.9	1.9	1.9	2.0
Nontax revenue	3.1	2.8	3.3	2.2	1.7	1.7	1.6	1.6	1.6
Public enterprises	5.2	6.2	6.1	5.6	5.3	5.3	5.2	5.1	5.1
PEMEX	1.7	3.0	2.9	2.3	2.2	2.2	2.0	1.9	1.8
Other	3.5	3.2	3.3	3.2	3.1	3.2	3.2	3.2	3.2
Budgetary Expenditure	24.9	25.3	25.6	25.0	26.1	23.3	23.2	23.2	23.2
Primary	22.0	22.7	22.8	21.6	22.5	22.0	21.9	21.6	21.6
Programmable	18.5	19.3	19.2	17.9	18.7	18.2	18.0	17.8	17.8
Current	15.2	14.9	14.9	14.5	15.5	15.3	15.3	15.1	15.2
Wages	5.4	5.1	4.8	4.8	5.1	4.8	4.8	4.7	4.7
Pensions 2/	4.0	3.9	4.0	4.2	4.4	4.5	4.6	4.7	4.9
Subsidies and transfers	3.2	3.1	3.2	3.2	3.7	3.7	3.6	3.5	3.5
Other	2.7	2.7	2.8	2.3	2.3	2.3	2.3	2.2	2.2
Capital	3.3	4.4	4.3	3.4	3.2	2.9	2.8	2.7	2.6
Physical capital	2.7	2.6	3.2	2.8	2.6	2.4	2.3	2.2	2.2
Financial capital 3/	0.6	1.8	1.2	0.6	0.6	0.5	0.4	0.4	0.4
Nonprogrammable	3.6	3.5	3.6	3.7	3.8	3.8	3.8	3.8	3.8
Of which: revenue sharing	3.5	3.4	3.6	3.6	3.7	3.7	3.7	3.7	3.7
Interest Payments	2.8	2.6	2.8	3.4	3.7	3.1	2.5	2.5	2.4
Unspecified Measures	0.0	0.0	0.0	0.0	0.0	-1.7	-1.2	-0.9	-0.8
Traditional Balance	-2.7	-2.9	-3.2	-3.3	-4.9	-2.1	-2.2	-2.2	-2.2
Adjustments To The Traditional Balance	-1.5	-0.9	-1.1	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5
Public Sector Borrowing Requirements 4/	4.3	3.8	4.3	3.9	5.4	2.6	2.7	2.7	2.7
Memorandum Items									
Structural current spending	10.5	9.9	9.9						
Structural current spending real growth (y/y, in percent)	2.1	-0.3	4.1						

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)

	2020	2021	2022	Proj.					
				2023	2024	2025	2026	2027	2028
Revenue	23.5	23.0	24.2	23.8	23.7	23.7	23.5	23.5	23.3
Taxes	13.9	13.4	13.4	13.9	14.3	14.2	14.2	14.3	14.2
Taxes on income, profits and capital gains	7.3	7.1	7.7	7.8	7.8	7.8	7.8	7.8	7.8
Taxes on goods and services	6.0	5.7	5.0	5.4	5.8	5.8	5.7	5.8	5.7
Value added tax	4.1	4.2	4.1	3.9	3.9	3.9	3.9	3.9	3.9
Excises	1.9	1.5	0.8	1.5	1.9	1.9	1.9	1.9	1.8
Taxes on international trade and transactions	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other taxes	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Social Contributions	2.4	2.3	2.3	2.2	2.2	2.3	2.3	2.3	2.3
Other Revenue	7.3	7.3	8.6	7.7	7.2	7.2	7.0	6.9	6.8
Property income	3.2	2.7	3.2	2.0	1.7	1.6	1.6	1.6	1.5
Other	4.0	4.6	5.4	5.7	5.5	5.5	5.4	5.3	5.2
Total Expenditure	27.8	26.8	28.5	27.7	29.1	26.3	26.1	26.1	25.9
Expense	26.1	25.1	26.3	25.7	27.0	26.0	25.6	25.5	25.3
Compensation of employees	3.5	3.3	3.3	3.2	3.4	3.3	3.3	3.2	3.2
Purchases of goods and services	3.6	3.5	3.0	2.5	2.8	2.8	2.7	2.7	2.6
Interest 2/	4.3	4.0	5.4	5.7	4.9	4.6	4.4	4.3	4.2
Subsidies and transfers	2.2	2.4	2.9	2.6	3.1	3.1	3.0	2.8	2.6
Grants 3/	8.2	7.7	7.6	7.4	7.7	7.8	7.8	7.8	7.8
Social benefits	4.0	3.9	4.0	4.2	4.4	4.5	4.6	4.7	4.9
Other expense	0.4	0.2	0.2	0.1	0.6	0.0	-0.1	0.1	0.0
Net Acquisition of Nonfinancial Assets 4/	1.7	1.7	2.2	2.1	2.1	2.0	1.7	1.6	1.5
Unspecified Measures	0.0	0.0	0.0	0.0	0.0	-1.7	-1.2	-0.9	-0.8
Gross Operating Balance	-2.6	-2.1	-2.1	-1.8	-3.3	-2.3	-2.1	-2.0	-2.0
Overall Fiscal Balance (Net lending/borrowing) 5/	-4.3	-3.8	-4.3	-3.9	-5.4	-2.6	-2.7	-2.7	-2.7
Primary Net Lending/Borrowing	-0.5	0.0	0.7	1.6	-0.7	1.8	1.6	1.5	1.4
Memorandum Items									
Primary expenditure	23.5	22.8	23.2	22.0	24.2	21.7	21.7	21.8	21.7
Current expenditure	26.1	25.1	26.3	25.6	27.0	24.2	24.5	24.6	24.5
Structural fiscal balance	-3.3	-3.3	-4.2	-4.2	-5.7	-2.8	-2.7	-2.7	-2.7
Structural primary balance 6/	0.5	0.4	0.9	1.4	-1.0	1.6	1.5	1.5	1.4
Fiscal impulse 7/	0.5	0.1	-0.5	-0.5	2.4	-2.6	0.1	0.0	0.1
Gross public sector debt 8/	58.5	56.9	54.1	52.7	54.7	55.1	55.5	55.9	56.3
In domestic currency (percentage of total debt)	67.7	69.3	73.0	74.0	73.7	72.6	71.5	70.9	70.3
In foreign currency (percentage of total debt)	32.3	30.7	27.0	26.0	26.3	27.4	28.5	29.1	29.7
Net public sector debt 9/	50.2	49.3	48.0	46.6	48.7	49.1	49.4	49.9	50.2

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), in percent of potential.

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

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

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

Table 4a. Mexico: Summary Balance of Payments
(In billions of U.S. dollars)

	2020	2021	2022	Proj.					
				2023	2024	2025	2026	2027	2028
Current Account	22.5	-8.3	-18.0	-26.6	-28.5	-23.6	-18.9	-21.1	-21.8
Merchandise goods trade balance	34.2	-10.8	-26.9	-32.2	-40.6	-38.3	-33.7	-35.7	-38.6
Exports, f.o.b. 2/	417.2	494.9	577.7	590.2	621.9	646.8	678.3	710.1	741.6
o/w Manufactures	373.8	436.1	508.4	534.9	565.0	589.7	615.7	641.9	678.9
o/w Petroleum and derivatives 1/	17.7	29.4	39.0	30.8	30.0	28.6	27.3	26.2	25.2
Imports, f.o.b. 2/	383.0	505.7	604.6	622.4	662.4	685.1	712.0	745.8	780.1
o/w Petroleum and derivatives 1/	31.4	53.9	74.1	57.9	57.9	57.8	57.7	57.5	57.7
Services, net	-15.5	-15.0	-15.2	-18.7	-18.3	-19.4	-20.2	-21.1	-21.5
Primary income, net	-37.0	-33.9	-33.8	-40.3	-38.8	-39.1	-41.7	-43.4	-43.8
Secondary income (mostly remittances), net	40.8	51.4	58.1	64.9	69.3	73.3	76.9	79.3	82.4
Capital Account, Net	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Financial Account (Net lending (+)/Net borrowing (-))	20.8	-1.7	-14.9	-26.7	-28.6	-23.6	-19.0	-21.2	-21.8
Foreign direct investment, net	-26.5	-34.0	-21.9	-24.6	-27.7	-31.3	-35.2	-39.4	-44.0
Net acquisition of financial assets	5.0	-0.2	17.2	17.8	18.4	18.7	19.2	19.7	20.2
Net incurrence of liabilities	31.5	33.7	39.1	42.4	46.1	50.0	54.4	59.1	64.2
Portfolio investment, net	10.3	41.6	5.1	-4.4	-11.8	-14.4	-16.8	-17.9	-19.2
Net acquisition of financial assets	16.5	22.7	-0.3	2.7	2.8	3.0	3.1	3.3	3.4
Net incurrence of liabilities	6.1	-18.9	-5.4	7.0	14.6	17.3	19.9	21.1	22.6
Public Sector 3/	0.3	-11.1	3.6	5.4	12.9	15.5	17.9	18.9	20.1
o/w Local currency domestic-issued bonds	-10.6	-13.6	2.3	-1.9	3.7	7.4	8.8	10.3	10.0
Private sector 4/	8.1	-9.8	-8.3	1.6	1.7	1.8	2.0	2.3	2.5
Securities issued abroad	7.9	-6.6	-3.7	0.6	0.6	0.6	0.7	0.8	0.9
Equity	0.2	-3.2	-4.7	1.0	1.1	1.2	1.3	1.5	1.6
Financial derivatives, net	-1.8	2.1	2.9	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Other investments, net	26.8	-21.7	0.6	-8.8	-1.2	12.2	25.2	28.7	33.7
Net acquisition of financial assets	23.1	-9.5	4.8	-2.3	3.8	15.2	27.7	30.7	34.8
Net incurrence of liabilities	-3.7	12.3	4.2	6.5	5.0	3.0	2.5	2.0	1.1
Change in Reserves Assets	12.0	10.3	-1.7	11.2	12.2	9.9	7.9	7.5	7.7
Total change in gross reserves assets	16.0	8.7	-6.6	11.2	12.2	9.9	7.9	7.5	7.7
Valuation change	4.0	-1.6	-4.9	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	-1.7	6.7	3.2	0.0	0.0	0.0	0.0	0.0	0.0
International Investment Position, Net	-551.9	-554.5	-614.9	-609.7	-635.7	-658.7	-677.5	-698.8	-721.6
Memorandum Items									
Hydrocarbons exports volume growth (in percent)	2.8	-6.2	-3.6	6.2	0.3	-0.5	-1.0	-1.1	-1.1
Non-hydrocarbons exports volume growth (in percent)	-5.1	5.9	8.7	-3.0	3.0	2.2	3.1	3.2	3.2
Hydrocarbons imports volume growth (in percent)	-30.3	-4.5	27.6	2.1	1.9	1.7	1.8	2.0	1.8
Non-hydrocarbons imports volume growth (in percent)	-10.5	15.9	8.5	6.4	1.0	1.4	2.7	3.0	3.1
Crude oil export volume (in millions of bbl/day) 5/	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Gross international reserves (in billions of U.S. dollars)	199.1	207.7	201.1	212.3	224.5	234.4	242.3	249.8	257.5
Gross domestic product (in billions of U.S. dollars)	1,120.7	1,312.6	1,465.9	1,811.5	1,994.1	2,081.2	2,171.3	2,260.1	2,356.8

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

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

2/ Excludes goods procured in ports by carriers.

3/ Public sector is the sum of central bank, general government, and other financial corporations (e.g. development banks).

4/ Private sector is the sum of deposit taking corporations (excl. the central bank), nonfinancial corporations, households, NPISHs, and pidiregas.

5/ Crude oil export volumes reported by PEMEX.

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

	2020	2021	2022	Proj.					
				2023	2024	2025	2026	2027	2028
Current Account	2.0	-0.6	-1.2	-1.5	-1.4	-1.1	-0.9	-0.9	-0.9
Merchandise goods trade balance	3.1	-0.8	-1.8	-1.8	-2.0	-1.8	-1.6	-1.6	-1.6
Exports, f.o.b. 2/	37.2	37.7	39.4	32.6	31.2	31.1	31.2	31.4	31.5
o/w Manufactures	33.4	33.2	34.7	29.5	28.3	28.3	28.4	28.4	28.8
o/w Petroleum and derivatives 1/	1.6	2.2	2.7	1.7	1.5	1.4	1.3	1.2	1.1
Imports, f.o.b. 2/	34.2	38.5	41.2	34.4	33.2	32.9	32.8	33.0	33.1
o/w Petroleum and derivatives 1/	2.8	4.1	5.1	3.2	2.9	2.8	2.7	2.5	2.4
Services, net	-1.4	-1.1	-1.0	-1.0	-0.9	-0.9	-0.9	-0.9	-0.9
Primary income, net	-3.3	-2.6	-2.3	-2.2	-1.9	-1.9	-1.9	-1.9	-1.9
Secondary income (mostly remittances), net	3.6	3.9	4.0	3.6	3.5	3.5	3.5	3.5	3.5
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 (-))	1.9	-0.1	-1.0	-1.5	-1.4	-1.1	-0.9	-0.9	-0.9
Foreign direct investment, net	-2.4	-2.6	-1.5	-1.4	-1.4	-1.5	-1.6	-1.7	-1.9
Net acquisition of financial assets	0.4	0.0	1.2	1.0	0.9	0.9	0.9	0.9	0.9
Net incurrence of liabilities	2.8	2.6	2.7	2.3	2.3	2.4	2.5	2.6	2.7
Portfolio investment, net	0.9	3.2	0.3	-0.2	-0.6	-0.7	-0.8	-0.8	-0.8
Net acquisition of financial assets	1.5	1.7	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Net incurrence of liabilities	0.5	-1.4	-0.4	0.4	0.7	0.8	0.9	0.9	1.0
Public Sector 3/	0.0	-0.8	0.2	0.3	0.6	0.7	0.8	0.8	0.9
o/w Local currency domestic-issued bonds	-0.9	-1.0	0.2	-0.1	0.2	0.4	0.4	0.5	0.4
Private sector 4/	0.7	-0.7	-0.6	0.1	0.1	0.1	0.1	0.1	0.1
Securities issued abroad	0.7	-0.5	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Equity	0.0	-0.2	-0.3	0.1	0.1	0.1	0.1	0.1	0.1
Financial derivatives, net	-0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other investments, net	2.4	-1.7	0.0	-0.5	-0.1	0.6	1.2	1.3	1.4
Net acquisition of financial assets	2.1	-0.7	0.3	-0.1	0.2	0.7	1.3	1.4	1.5
Net incurrence of liabilities	-0.3	0.9	0.3	0.4	0.3	0.1	0.1	0.1	0.0
Change in Reserves Assets	1.1	0.8	-0.1	0.6	0.6	0.5	0.4	0.3	0.3
Total change in gross reserves assets	1.4	0.7	-0.5	0.6	0.6	0.5	0.4	0.3	0.3
Valuation change	0.4	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	-0.2	0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0
International Investment Position, Net	-49.2	-42.2	-41.9	-33.7	-31.9	-31.7	-31.2	-30.9	-30.6

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

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

2/ Excludes goods procured in ports by carriers.

3/ Public sector is the sum of central bank, general government, and other financial corporations (e.g. development banks).

4/ Private sector is the sum of deposit taking corporations (excl. the central bank), nonfinancial corporations, households, NPISHs, and pidiregas.

Table 5. Mexico: Financial Soundness Indicators

(In percent)

	2020	2021	2022	2023	Latest data available 1/
Capital Adequacy					
Regulatory capital to risk-weighted assets	17.7	19.5	19.0	19.3	August
Regulatory Tier 1 capital to risk-weighted assets	16.1	18.1	17.6	18.0	August
Capital to assets	9.7	10.9	9.8	10.3	August
Gross asset position in financial derivatives to capital	82.7	49.4	62.9	49.6	August
Gross liability position in financial derivatives to capital	84.8	50.0	63.1	46.6	August
Asset Quality					
Nonperforming loans to total gross loans	2.6	2.0	2.1	2.1	August
Provisions to Nonperforming loans	152.4	147.0	160.1	155.2	August
Earnings And Profitability					
Return on assets	1.2	2.1	2.6	2.8	August
Return on equity	9.0	14.6	17.6	18.7	August
Liquidity					
Liquid assets to short-term liabilities	136.8	152.9	128.5	115.0	August
Liquid assets to total assets	33.1	34.5	30.1	29.4	August
Customer deposits to total (noninterbank) loans	105.8	109.3	106.3	104.7	August
Trading income to total income	5.5	6.7	9.5	10.0	August

Source: Financial Soundness Indicators.

1/ End of period.

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

	2020	2021	2022	2023	Latest data available
Financial Market Indicators					
Exchange rate (per U.S. dollar, period average)	21.5	20.3	20.1	17.9	Aug-23
(year-to-date percent change, + appreciation)	-11.5	5.6	0.7	11.8	Aug-23
28-day treasury auction rate (percent; period average)	5.3	4.4	7.6	11.1	Aug-23
EMBIG Mexico spread (basis points; period average)	474.4	354.2	404.3	382.5	Aug-23
Sovereign 10-year local currency bond yield (period average)	6.3	6.9	8.8	8.9	Aug-23
Stock exchange index (period average, year on year percent change)	-9.0	26.4	1.4	5.4	Aug-23
Financial System					
Bank of Mexico net international reserves (US\$ billion)	195.7	202.4	199.1	210.3	Proj.
Financial system credit on non-financial private sector (year on year percent change) 1/	0.9	4.2	10.9	7.1	Proj.
Nonperforming loans to total gross loans (deposit takers)	2.6	2.0	2.1	2.1	Aug-23
External Vulnerability Indicators					
Gross financing needs (billions of US\$) 2/	80.9	97.9	77.3	115.3	Proj.
Gross international reserves (end-year, billions of US\$) 3/	199.1	207.7	201.1	210.4	Aug-23
Change (billions of US\$)	16.0	8.7	-6.6	2.0	Aug-23
Months of imports of goods and services	5.6	4.5	3.6	3.7	Proj.
Months of imports plus interest payments	5.3	4.3	3.5	3.5	Proj.
Percent of broad money	37.9	37.3	31.7	27.6	Proj.
Percent of portfolio liabilities	37.6	40.5	41.9	43.5	Proj.
Percent of short-term debt (by residual maturity)	242.8	315.2	253.4	252.9	Proj.
Percent of ARA Metric 4/	127.2	130.5	121.7	123.1	Proj.
Percent of GDP	17.8	15.8	13.7	11.9	Jun-23
Gross total external debt (in percent of GDP)	41.4	34.1	31.1	26.1	Proj.
Of which: In local currency	8.5	6.1	5.6	4.4	Proj.
Of which: Public debt	27.8	22.5	20.4	16.9	Proj.
Of which: Private debt	13.6	11.6	10.7	9.3	Proj.
Financial sector	2.1	1.7			
Nonfinancial sector	11.5	9.9			
Gross total external debt (billions of US\$)	463.8	447.8	456.1	473.6	Proj.
Of which: In local currency	95.0	80.0	82.3	80.4	Proj.
Of which: Public debt	311.7	295.2	299.7	305.8	Proj.
Of which: Private debt	152.1	152.7	156.4	167.8	Proj.
Financial sector	23.0	22.9			
Nonfinancial sector	129.1	129.8			
External debt service (in percent of GDP)	10.0	8.0	6.2	5.7	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: Monetary Indicators 1/
(In billions of pesos)

	2019	2020	2021	2022	Proj. 2023
Banco De México					
Net foreign assets	3,397	3,876	3,941	3,636	3,415
Net international reserves	3,457	3,966	4,254	3,917	3,679
Gross international reserves 2/	3,457	3,966	4,254	3,917	3,679
Reserve liabilities	0	0	0	0	0
Other net foreign assets	-60	-90	-312	-281	-264
Net domestic assets	-1,654	-1,758	-1,500	-936	-497
Net domestic credit	-1,706	-1,640	-1,376	-1,143	-1,135
Net credit to non-financial public sector	-1,640	-1,778	-1,400	-1,045	-1,134
Credit to non-financial private sector	0	0	0	0	0
Net credit to financial corporations	-66	138	24	-98	-1
Net claims on other depository corporations	-66	138	24	-98	-1
Net claims on other financial corporations	0	0	0	0	0
Capital account	-113	53	52	-288	-707
Other items net	-61	-64	-72	-81	-70
Monetary base	1,742	2,118	2,441	2,700	2,916
Other Depository Corporations					
Net foreign assets	-60	142	340	287	310
Foreign assets	738	940	1,013	1,104	1,193
Foreign liabilities	798	798	672	817	883
Net domestic assets	8,646	9,230	9,863	10,592	11,421
Net credit to the public sector	3,750	4,239	4,437	4,588	4,945
Claims on non-financial public sector	4,214	4,644	4,880	5,096	5,497
in pesos	4,037	4,442	4,701	4,893	5,281
in FX	178	202	178	204	215
Liabilities to the nonfinancial public sector	464	405	442	508	552
Credit to the private sector	6,976	6,665	6,971	7,675	8,219
Local Currency	6,198	5,941	6,198	6,823	7,284
Foreign Currency	778	724	773	852	935
Net credit to the financial system	868	690	806	1,094	864
Other	-2,948	-2,364	-2,351	-2,765	-2,607
Liabilities to the private sector	8,586	9,372	10,204	10,879	11,731
Liquid liabilities	7,688	8,572	9,248	9,840	10,621
Local currency	7,112	7,905	8,481	9,068	9,773
Foreign currency	575	667	766	772	848
Non liquid liabilities	898	800	956	1,039	1,110
Local currency	861	762	915	981	1,047
Foreign currency	38	38	41	57	63
Total Banking System					
Net foreign assets	3,336	4,017	4,281	3,922	3,725
Net domestic assets	6,992	7,472	8,363	9,656	10,924
Liquid liabilities	9,430	10,691	11,688	12,540	13,538
Non-liquid liabilities	898	800	956	1,039	1,110
Memorandum Items					
Monetary base (percent change)	4.1	21.6	15.2	10.6	8.1
Currency in circulation (percent change)	4.0	21.6	15.2	10.3	8.1
Broad money (percent change)	4.7	13.4	9.5	7.3	8.1
Bank credit to the non-financial private sector (growth rate)	10.7	-4.5	4.6	10.1	7.1
Bank credit to the non-financial private sector (as percent of GDP)	27.7	27.7	26.2	26.0	25.7

Sources: 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 SDR 8.542 billion in the general SDR allocation in 2021.

Table 8. External Financing Requirements and Sources
(In billions of U.S. dollars)

	2022	2023	2024	2025	2024		2025	
					Adverse 2024	Contribution to Gap	Adverse 2025	Contribution to Gap
			Proj.					
Gross External Financing Requirements	77.3	115.3	119.1	104.3	87.9	-31.2	70.5	-33.8
Current Account Deficit	18.0	26.6	28.5	23.6	33.1	4.6	28.4	4.8
Amortization Of Bonds And Loans	65.9	82.0	88.4	80.8	88.4		80.8	
Public sector MLT coming due	17.4	29.7	32.8	23.9	32.8		23.9	
FX denominated bonds	0.3	6.0	12.6	10.1	12.6		10.1	
Local currency bonds	6.0	10.6	11.1	0.0	11.1		0.0	
FX Bank Financing	11.1	13.1	9.1	13.8	9.1		13.8	
Private sector MLT amortization	4.3	4.1	4.1	6.1	4.1		6.1	
FX denominated bonds	1.8	1.5	1.4	3.3	1.4		3.3	
Bank Financing	2.5	2.6	2.7	2.8	2.7		2.8	
Short term debt coming due	44.1	48.2	51.5	50.8	51.5		50.8	
Public sector	10.4	11.1	12.9	12.8	12.9		12.8	
FX denominated	8.3	8.7	8.7	8.7	8.7		8.7	
Local Currency	2.0	2.4	4.2	4.1	4.2		4.1	
Private sector ST bonds and loans	20.7	23.7	24.8	23.9	24.8		23.9	
Trade credit	13.1	13.4	13.8	14.1	13.8		14.1	
Change In International Reserves	-6.6	11.2	12.2	9.9	-23.6	-35.7	-28.7	-38.6
Available External Financing	77.3	115.3	119.1	104.3	52.8	66.3	35.4	68.9
Net FDI Inflows	21.9	24.6	27.7	31.3	16.5	11.3	16.5	14.9
Equity Portfolio Inflows	-4.7	1.0	1.1	1.2	-6.7	7.8	-6.6	7.8
Financing Through Bonds And Loans	76.5	87.8	98.2	93.2	72.4		68.4	
Public sector MLT financing	27.6	28.7	35.7	29.4	26.8		21.7	
FX denominated bonds	1.6	8.8	11.9	8.2	10.0	1.8	8.0	0.2
Local currency bonds	14.0	6.8	14.9	7.6	7.9	7.1	0.0	7.5
FX Bank Financing	12.0	13.0	8.9	13.7	8.9		13.7	
Private sector MLT financing	1.3	9.7	9.6	11.6	3.2		4.8	
FX denominated bonds	-3.8	1.9	1.8	3.7	1.1	0.7	2.6	1.1
FX Bank Financing	5.2	7.7	7.8	7.9	2.1	5.7	2.2	5.7
Short-term financing	47.6	49.5	52.8	52.1	42.3		41.8	
Public sector	10.7	11.1	12.9	12.8	11.7		11.6	
FX denominated	8.7	8.7	8.7	8.7	8.7		8.7	
Local Currency	2.0	2.4	4.2	4.1	3.0	1.2	2.9	1.2
Private sector	23.4	24.7	25.8	24.9	19.7	6.1	19.0	5.9
Trade credit	13.4	13.8	14.1	14.5	10.9	3.2	11.2	3.2
Other Flows	-16.4	1.8	-7.9	-21.4	-29.3		-42.9	
Residents' foreign portfolio & other investment	-4.6	-0.4	-6.6	-18.2	-28.0	21.4	-39.6	21.4
Financing Gap (USD Billions)						35.1		35.1
in SDR (1.31256 USD/SDR as of Oct 23, 2023)						26.7		26.7
Percent of quota						300		300
Memorandum Items								
Reserves (in billions of U.S. dollars)	201.1	212.3	224.5	234.4	188.8		195.8	
(percent of ARA)	122	123	126	127	109		109	

Sources: Bank of Mexico and Fund staff estimates.

Table 9. Mexico: Capacity to Repay Indicators 1/

	2022	2023	2024	2025	2026	2027	2028
Exposure and Repayments in SDR millions							
GRA credit to Mexico	0.0	26,738	26,738	26,738	26,738	13,369	0.0
(In percent of quota)	0.0	300.0	300.0	300.0	300.0	150.0	0.0
Charges due on GRA credit 2/	0.2	134	1,523	1,583	1,583	1,298	459
Debt service due on GRA credit 2/	0.2	134	1,523	1,583	1,583	14,667	13,828
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	31.1	29.7	32.4	30.6	30.4	29.6	28.9
Public external debt	20.4	19.9	21.6	20.4	20.3	19.5	18.8
GRA credit to Mexico	0.0	2.1	2.3	2.1	1.9	0.9	0.0
In percent of Gross International Reserves							
Total external debt	226.7	239.9	269.3	261.2	270.2	259.7	250.3
Public external debt	149.0	160.8	179.7	174.2	180.1	170.9	163.0
GRA credit to Mexico	0.0	16.8	19.0	17.7	16.7	7.9	0.0
In percent of Exports of Goods and Services							
Total external debt service	14.4	16.3	19.1	17.7	15.6	18.0	16.4
Public external debt service	6.6	7.7	8.4	6.7	6.3	8.9	7.7
Debt service due on GRA credit	0.0	0.0	0.3	0.3	0.3	2.6	2.3
In percent of Government Fiscal Revenue							
Total external debt service	25.4	25.3	32.4	28.8	24.7	28.7	26.6
Public external debt service	11.7	12.1	14.2	11.0	9.9	14.2	12.5
Debt service due on GRA credit	0.0	0.0	0.5	0.5	0.5	4.1	3.8
In percent of Total External Debt							
GRA credit to Mexico	0.0	7.0	7.1	6.8	6.2	3.1	0.0
In percent of Public External Debt							
GRA credit to Mexico	0.0	10.5	10.6	10.2	9.3	4.6	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, October 31, 2023

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

Dear Ms. Georgieva,

For many years, the United Mexican States (Mexico) has pursued very strong macroeconomic policies, which have promoted economic stability and anchored confidence in the country's economic outlook. We have broad-based economic growth with historically low unemployment rates. Monetary policy is helping contain inflationary pressures, while fiscal policy has kept public debt on a sustainable path.

These results come as the Mexican economy remains exposed to significant tail risks from external developments. Although risks have receded recently, the global economic environment remains uncertain. We remain exposed to risks of a decline in global growth, lower oil prices, renewed financial markets volatility, increased credit spreads associated with global risk premia, and capital outflows from emerging markets. Slower-than-expected growth in key trading partners, most notably the United States, would significantly and negatively impact our domestic economy. Given our strong financial and economic integration, Mexico is particularly vulnerable to unexpected shocks to the monetary policy normalization process in the United States.

We request a successor 24-month Flexible Credit Line (FCL) arrangement for Mexico, with access at 300 percent of Mexico's quota, or SDR 26.7381 billion. We believe this access level will provide an additional layer of insurance to our economy against severe tail-risk events. We intend to treat the arrangement as a precautionary support to our financial buffers, as we did with previous arrangements. We hereby notify you of our decision to cancel the current arrangement of 400 percent of quota (or SDR 35.6508 billion). The cancellation shall solely become effective upon the IMF Executive Board's approval of the referred successor arrangement.

Global risks at the time of the mid-term review of our current FCL arrangement precluded us from reducing access to 300 percent of quota, as we had originally intended. Our current request internalizes the lower risks and gradually reduces our access under the FCL arrangement. Conditional on a thorough assessment of external risks affecting Mexico and given the buffers Mexico has been building over the last years in its macroeconomic policy framework, we would consider the appropriate FCL access level at the time of the mid-term review.

Our economic policies will continue to preserve macroeconomic and financial stability, while strengthening our buffers.

- We are strongly committed to a sound fiscal policy. We expect the public sector borrowing requirement to reach a deficit of 3.9 percent of GDP in 2023, ensuring compliance with the

target set in the budget law. While the overall public sector deficit is expected to widen in 2024 to 5.4 percent of GDP due to end-of-administration commitments, our debt-to-GDP will remain below 50 percent, in line with our fiscal targets. In 2025, we are targeting a consolidation that will bring the deficit back to our medium-term target of 2.6 percent of GDP and keep the public debt-to-GDP ratio stable.

- Mexico's monetary policy continues to be underpinned by our highly credible inflation-targeting regime, which has effectively anchored medium-term inflation expectations. However, services inflation has proven persistent, and the inflation outlook remains challenging. To continue anchoring medium-term expectations and converge to the 3-percent inflation target, we must maintain the reference rate at its current level for an extended period. We remain committed to attaining our objective of low and stable inflation and will adjust the policy rate as necessary to keep inflation in line with the target over the policy horizon.
- The flexible exchange rate regime remains the key absorber of external shocks. We intervened marginally during the pandemic through non-deliverable forwards (NDF) but have started, since September 2023, to unwind these positions. We will continue to limit interventions to circumstances of clear disruptions in the proper functioning of the foreign exchange market.
- The financial sector remains sound, underpinned by a strong regulatory framework. Banks are profitable, well capitalized, liquid, compliant with Basel III risk-based capital standards and liquidity requirements, and resilient to credit and market risks. Insurance companies are well capitalized, and pension funds maintain conservative investment profiles. Furthermore, given the presence of foreign banks in our financial system, we closely monitor cross-border exposures.
- We are continuing our reform agenda to support equitable medium- and long-term growth with open trade policy, strategic investments in infrastructure, and enhanced labor laws and minimum-wage policy, to overcome social gaps and reduce poverty rates. These features should extend through the country as nearshoring opportunities materialize. We remain committed to combat climate change.

As IMF Executive Directors acknowledged in the recently concluded 2023 Article IV consultation, Mexico's policies and institutional frameworks remain very strong. Economic policies have responded promptly and appropriately to recent shocks while maintaining macroeconomic and financial stability. We will continue to react as needed within this framework to any future shocks that may arise. The insurance against tail risks, which the successor FCL arrangement would contribute to cover, will support the continued building of buffers, as the current arrangement contributed to maintaining a high degree of confidence in our economy.

Sincerely yours,

/s/

Rogelio Eduardo Ramírez de la O
Secretary of Finance and Public Credit

/s/

Victoria Rodríguez Ceja
Governor of Banco de México



MEXICO

November 2, 2023

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

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

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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 26.74 billion (300 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 decline in access under recent FCL arrangements for Mexico. Since the November 2017 arrangement, which was initially approved for SDR 62.39 billion (700 percent of quota), the authorities have gradually reduced access under FCL arrangements. Access was reduced to SDR 53.48 billion (600 percent of quota) at the mid-term review in November 2018, and then to SDR 44.56 billion (500 percent of quota) at the approval of the successor FCL arrangement in November 2019. Access was maintained at the mid-term review in November 2020 due to the Covid-19 pandemic. In the successor arrangement, approved in November 2021, access was reduced to SDR 35.65 billion (400 percent of quota). This access was maintained at the mid-year review in November 2022, given the elevated global risks arising from commodity and consumer price inflation, global monetary policy tightening, a global slowdown, and Russia’s invasion of Ukraine.

BACKGROUND

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

4. Mexico’s very strong macroeconomic policy frameworks and external buffers, complemented by the FCL arrangement, have supported market confidence. After experiencing a severe contraction at the onset of the pandemic, the Mexican economy followed a steady recovery path as the effects of the pandemic receded. Growth is becoming more broad-based as sectors that earlier lagged picked up momentum. In 2023, growth is projected at 3.2 percent, led by strong private consumption and investment.² Inflation is receding thanks to proactive monetary policy tightening, though some core inflation items have remained sticky. External financing conditions

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; and [Review of the Flexible Credit Line, The Short Term Liquidity Line and the Precautionary and Liquidity Line, and Proposals for Reform \(10/6/2023\)](#).

² Mexico - 2023 - Staff Report for the Article IV Consultation (SM/23/217, 10/17/23).

have been favorable. Mexico did not lose market access at any point despite the challenging global financial conditions in recent years. Sovereign bond spreads have reversed increases seen in mid-2022 and now stand in line with pre-pandemic levels. Gross international reserves stood at US\$201 billion (14 percent of GDP) as of end-2022. The level of reserves is adequate at 121 percent of the Reserve Adequacy metric (ARA) and 253 percent of short-term debt (at remaining maturity). Reserves slightly increased to US\$210 billion as of end-September 2023.

Table 1. External Debt and Debt Service (2018–23)^{1/}

	2018	2019	2020	2021	2022	2023 2/ Proj
(In billions of US dollars)						
Total external debt	446.8	464.8	463.8	447.8	456.1	473.6
Public	306.0	312.4	311.7	295.2	299.7	305.8
Private	140.8	152.4	152.1	152.7	156.4	167.8
Total external debt service	94.0	118.7	111.7	104.4	90.3	103.8
Public	53.2	66.2	56.3	60.9	41.6	49.4
Private	40.8	52.5	55.4	43.4	48.7	54.4
(In percent of GDP)						
Total external debt	35.6	35.6	41.4	34.1	31.1	26.1
Public	24.4	23.9	27.8	22.5	20.4	16.9
Private	11.2	11.7	13.6	11.6	10.7	9.3
Total external debt service	7.5	9.1	10.0	8.0	6.2	5.7
Public	4.2	5.1	5.0	4.6	2.8	2.7
Private	3.3	4.0	4.9	3.3	3.3	3.0
Memorandum item						
Public external debt service in percent of exports	10.8	13.2	12.7	11.4	6.6	7.7

Sources: Mexican authorities and IMF staff estimates.

1/ End of period, unless otherwise indicated.

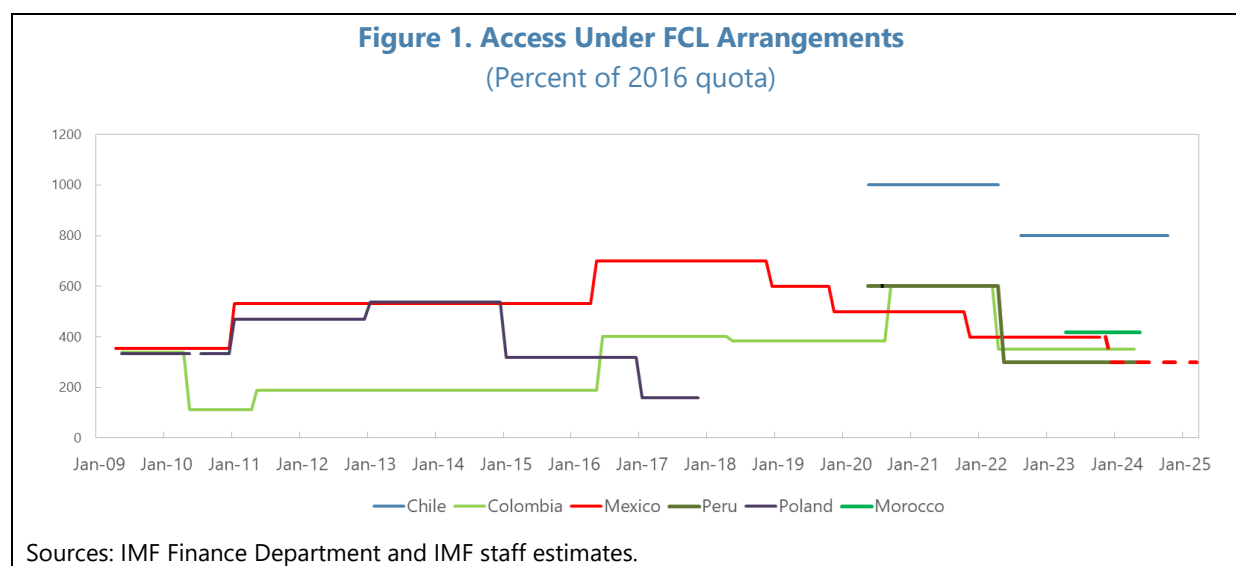
2/ Assumed potential disbursement under the proposed FCL and related interest are not included.

5. Total external debt has declined in recent years and is expected to remain stable over the medium term under the baseline. Mexico's external debt-to-GDP ratio, after peaking at 41.4 percent in 2020 mainly due to the sharp output contraction, has declined to a level well below the pre-pandemic level (Table 1). In 2023, it is expected to further decline thanks to strong nominal GDP growth and a modest current account deficit. External public debt accounts for roughly two thirds of total external debt and is expected to fall to 16.9 percent of GDP in 2023, under the baseline.

6. Despite a procyclical fiscal stance in 2024, public debt remains sustainable with high probability. Public debt declined from 58.5 percent of GDP at end-2020 to 54.1 percent at end-2022, reflecting a prudent fiscal response to the pandemic. It is projected to rise to 54.7 percent at end-2024 under the expansionary 2024 budget. Fiscal consolidation will be needed to put public debt on a downward path over the medium term. Fiscal risks are mitigated by Mexico's access to international and domestic debt markets.

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 in nominal terms, but a moderate share of Mexico's quota. The full amount of the proposed access 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 26.74 billion, the second largest credit exposure in nominal terms in the Fund's history.⁴ However, access relative to quota would be one of the two lowest under currently active FCL arrangements (Figure 1). If the full amount available under the proposed FCL arrangement were purchased, outstanding credit in percent of quota would also be significantly below the 2018 and 2022 arrangements for Argentina and for several earlier euro area exceptional access cases, such as Greece, Ireland, and Portugal.⁵



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

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 monthly credit exposure has been SDR 34.23 billion to Argentina, reached in March 2023. The largest previous monthly GRA credit exposure was SDR 24.75 billion to Greece in July 2013.

⁵ Greece's access under the 2010 SBA peaked at over 3,000 percent of quota. Ireland's and Portugal's access under the respective 2010 and 2011 EFF arrangements peaked at over 2,000 percent of quota.

moderate under a calibrated downside scenario⁶ and Mexico's debt burden would remain manageable over the medium term (Table 2):⁷

- In a downside scenario with full disbursement in 2023, Mexico's external debt would remain moderate, peaking at 32.4 percent of GDP in 2024 before declining over the medium term to below 29 percent of GDP. Public external debt would peak at 21.6 percent of GDP in 2024, with Fund credit representing 2.3 percent of GDP. Mexico's outstanding use of GRA resources would account for 7.1 percent of total external debt, and 10.6 percent of public external debt in 2024. In addition, Fund credit would account for 19 percent of Mexico's gross international reserves in 2024.
- 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 2027 at about SDR 14.7 billion, or 1.0 percent of GDP. Debt service to the Fund would peak at about 2.6 percent of exports of goods and services, and 4.1 percent of government fiscal revenues. Public external debt service would peak at 8.9 percent of exports of goods and services and 14.2 percent of fiscal revenues in 2027, with debt service to the Fund accounting for about 29 percent of total public external debt service.⁸

⁶ Capacity to repay indicators presented in Table 2 are projected under a downside scenario, based on the downside scenario in the October 2023 WEO. Under the scenario, effects of global monetary policy tightening are greater than expected with longer transmission lags, leading to a slowdown of the global economy, while emerging markets face tighter financial conditions, with the VXEEM rising by 3 standard deviations as assumed in previous FCL arrangements. Furthermore, the downside scenario assumes that there is no growth rebound in 2025. Under the scenario, the current account of Mexico would deteriorate further and capital inflows would weaken. Details are presented in Boxes 1 and 2 of the main FCL report, "Arrangement under the Flexible Credit Line and Cancellation of Current Arrangement."

⁷ 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.

⁸ For a broader analysis of public and external debt sustainability, see Annex I and Annex IV, 2023 Article IV report (SM/23/217, 10/17/23).

Table 2. Capacity to Repay Indicators (2022–28)^{1/}

	2022	2023	2024	2025	2026	2027	2028
Exposure and Repayments in SDR millions							
GRA credit to Mexico	0.0	26,738	26,738	26,738	26,738	13,369	0.0
(In percent of quota)	0.0	300.0	300.0	300.0	300.0	150.0	0.0
Charges due on GRA credit 2/	0.2	134	1,523	1,583	1,583	1,298	459
Debt service due on GRA credit 2/	0.2	134	1,523	1,583	1,583	14,667	13,828
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	31.1	29.7	32.4	30.6	30.4	29.6	28.9
Public external debt	20.4	19.9	21.6	20.4	20.3	19.5	18.8
GRA credit to Mexico	0.0	2.1	2.3	2.1	1.9	0.9	0.0
In percent of Gross International Reserves							
Total external debt	226.7	239.9	269.3	261.2	270.2	259.7	250.3
Public external debt	149.0	160.8	179.7	174.2	180.1	170.9	163.0
GRA credit to Mexico	0.0	16.8	19.0	17.7	16.7	7.9	0.0
In percent of Exports of Goods and Services							
Total external debt service	14.4	16.3	19.1	17.7	15.6	18.0	16.4
Public external debt service	6.6	7.7	8.4	6.7	6.3	8.9	7.7
Debt service due on GRA credit	0.0	0.0	0.3	0.3	0.3	2.6	2.3
In percent of Government Fiscal Revenue							
Total external debt service	25.4	25.3	32.4	28.8	24.7	28.7	26.6
Public external debt service	11.7	12.1	14.2	11.0	9.9	14.2	12.5
Debt service due on GRA credit	0.0	0.0	0.5	0.5	0.5	4.1	3.8
In percent of Total External Debt							
GRA credit to Mexico	0.0	7.0	7.1	6.8	6.2	3.1	0.0
In percent of Public External Debt							
GRA credit to Mexico	0.0	10.5	10.6	10.2	9.3	4.6	0.0

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

1/ Assumes full drawings under the FCL upon approval and economic indicators are those under the downside scenario. 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.

9. The approval of the proposed FCL arrangement and cancellation of the existing arrangement 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 35.65 billion, compared with SDR 26.74 billion committed

upon approval of the proposed arrangement. Accordingly, other things equal, under the proposed FCL arrangement the FCC would increase by SDR 8.91 billion (5.9 percent of current liquidity) (Table 3).

10. If a drawing were made, it could have a large impact on the Financial Transaction Plan (FTP), 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 FTP. If Mexico were to draw under the FCL, it would automatically be excluded from the list of members in the FTP, thus reducing the FCC. All other FTP members would be expected to participate.

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

	as of 10/06/2023
Liquidity measures	
Forward Commitment Capacity (FCC) before approval 1/	151,300
FCC on approval 2/	160,213
Change in percent	5.9
Prudential measures	
Fund GRA commitment to Mexico including credit outstanding	
in percent of current precautionary balances	116.7
in percent of total GRA credit outstanding 3/	27.8
Fund GRA credit outstanding to top five borrowers	
in percent of total GRA credit outstanding 3/	68.6
in percent of total GRA credit outstanding including Mexico's assumed full drawing	70.6
Mexico's projected annual GRA charges for 2024 in percent of the Fund's residual burden sharing capacity	109.5
Memorandum items	
Fund's precautionary balances (end July 2023)	22,910
Fund's Residual Burden Sharing Capacity 4/	1,391

Sources: IMF Finance Department, 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 cancelled 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.

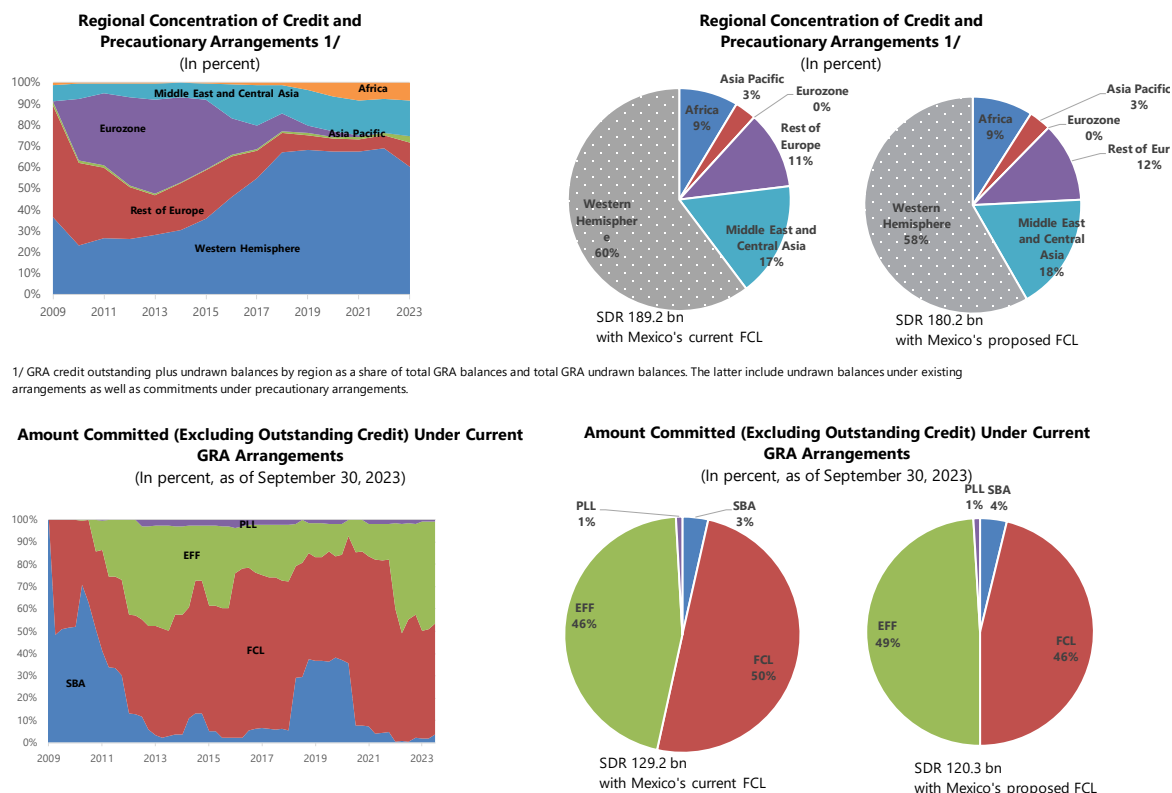
3/ As of October 6, 2023.

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.

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 60 percent of total commitments under the GRA (defined as outstanding credit plus other commitments, including for precautionary arrangements). With the proposed FCL arrangement for Mexico having reduced access relative to the current arrangement, that share would fall to 58 percent. The Fund experienced comparable regional concentration in the past, including in the aftermath of the global financial crisis, when total commitments to Europe accounted for over 60 percent of the total.
- Among the Fund's different facilities, the share of amount committed under FCL arrangements excluding outstanding credit in GRA total commitments (excluding outstanding credit) would decline moderately. Commitments under FCLs (excluding outstanding credit), which represent the bulk of precautionary arrangements, stood at SDR 64.5 billion on October 6, 2023, or nearly 50 percent of total commitments (excluding outstanding credit) under current GRA arrangements. With the proposed FCL arrangement for Mexico the share of Fund commitments from FCL arrangements (excluding outstanding credit) in total GRA commitments (excluding outstanding credit) would decrease to 46 percent.

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



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 about 28 percent of total GRA credit outstanding as of October 6, 2023, and about 22 percent of GRA credit outstanding including Mexico's purchase. It would be the second-largest Fund exposure after Argentina. The concentration of Fund credit among the top five users of GRA resources would increase modestly to about 70.6 percent, from 68.6 percent as of October 6, 2023. The lending concentration to the Fund's top two borrowers would also increase moderately, from 47.2 percent to 48.6 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 1.2 times the Fund's current precautionary balances.
- Were Mexico to accrue arrears on charges after drawing under the proposed arrangement, charges for Mexico would exceed the Fund's capacity to absorb charges in arrears through the burden-sharing mechanism. For example, charges in 2024 would be almost 1.1 times the current burden-sharing capacity.

ASSESSMENT

13. The proposed FCL arrangement would have a net positive impact on the Fund's liquidity position and reduce the Fund's credit commitments. On approval of the proposed 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. Similarly, the reduction in size of the proposed arrangement would lower the Fund's credit commitments. The concentration of the Fund's commitment portfolio to Latin America would decline slightly but remain elevated.

14. However, as was the case in Mexico's previously approved FCLs, a single drawing for the full amount of the proposed FCL arrangement would be the largest single purchase in the Fund's history. Hence, it would have a large impact on the FTP, the Fund's financing mechanism, potentially placing a burden on the other FTP members. Also, if the resources available under the proposed FCL arrangement were fully drawn, the GRA credit exposure to Mexico would represent about 22 percent of the Fund's outstanding credit and about 117 percent of precautionary balances.

15. Financial enterprise risks are mitigated by several factors. Mexico intends to treat the proposed FCL arrangement (which has progressively been declining in size) as precautionary, like its predecessors. The risks from the Fund's potential credit exposure are mitigated by Mexico's adequate buffers and the overall credibility of the country's macroeconomic policy framework, although weak governance, a lack of access to finance, and pervasive informality, among other factors, weigh on the country's medium-term growth prospects, and fiscal consolidation would be needed to put public debt on a downward path over the medium term.⁹ The Mexican authorities remain firmly committed to maintaining very strong macroeconomic policies and institutional policy frameworks. Also, Mexico's capacity to repay is assessed to remain strong, as 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.

⁹ See Mexico – Staff Report for the 2023 Article IV Consultation (SM/23/217, 10/17/23).

Annex I. History of Arrangements with the IMF

This annex provides a brief overview of Mexico's Fund arrangements since 1995.

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 1995 to 2000, Mexico had two Stand-By Arrangements (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 nine consecutive FCL arrangements,¹ but made no drawings.

- April 17, 2009: approval of a one-year FCL arrangement equivalent to SDR 31.5 billion (1,000 percent of quota at request) 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 (1,500 percent of quota at request).
- 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 (700 percent of 2016 quota).
- 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 (600 percent of 2016 quota) 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.

MEXICO

- November 22, 2019: approval of a two-year successor FCL arrangement with access reduced to SDR 44.5635 billion (500 percent of 2016 quota).
- November 19, 2021: approval of a two-year successor FCL arrangement with access reduced to SDR 35.6508 billion (400 percent of 2016 quota).

Table 1. IMF Financial Arrangements, 1995–2023

(In millions of SDR)

Year	Type of Arrangement	Date of Arrangement	Date of Expiration or Cancellation	Amount of New Arrangement	Amount Drawn	Purchases	Repurchases	Fund Exposure 1/
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	21-Nov-2019	62,389.0	0.0	0.0	0.0	0.0
2018	FCL 2/	26-Nov-2018	21-Nov-2019	53,476.2	0.0	0.0	0.0	0.0
2019	FCL	22-Nov-2019	18-Nov-2021	44,563.5	0.0	0.0	0.0	0.0
2021	FCL	19-Nov-2021	18-Nov-2023	35,650.8	0.0	0.0	0.0	0.0

Source: IMF Finance Department.

1/ As of end-December.

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