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Mexico: Review Under the Flexible Credit Line Arrangement—Staff Report; and Press Release on the Executive Board Discussion

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

- The staff report for Mexico on the Review Under the Flexible Credit Line arrangement, prepared by a staff team of the IMF, based on information available as of December 6, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release summarizing the views of the Executive Board as expressed during its December 21, 2011 discussion of the staff report that completed the request.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

MEXICO

Review Under the Flexible Credit Line Arrangement

Prepared by Western Hemisphere Department
(In consultation with other departments)

Approved by Gilbert Terrier and Aasim Husain

December 6, 2011

Executive Summary

- **Background and Outlook.** Strong fundamentals and skillful policy management have underpinned the rapid recovery of the Mexican economy after the global crisis. The policy stance has focused on balancing domestic and external conditions, supporting the recovery while rebuilding policy buffers through fiscal consolidation and reserve buildup. Growth was resilient during the first half of this year and it is expected to continue into next year, albeit at a more moderate pace. Downside risks remain elevated, associated with possibly protracted low growth in the U.S. and bouts of heightened global risk aversion from unsettled market conditions in Europe.

- **FCL.** The third arrangement with Mexico under the FCL for 1,500 percent of quota (in an amount equivalent to SDR 47.292 billion) was approved on January 10, 2011. The authorities intend to continue treating the arrangement as precautionary.

- **Qualifications.** The staff assess that Mexico continues to meet the qualification criteria for access to FCL resources specified under the Board decision on FCL arrangements (Decision No. 14283-(09/29), adopted on March 24, 2009, as amended) and therefore recommends that the Board completes the review under the FCL arrangement which would allow Mexico to make purchases before the expiration of the arrangement on January 9, 2013.

- **FSSA**. The financial system is sound, underpinned by a strong regulatory and supervisory framework. Stress tests confirm the banking system resilience, albeit further efforts are needed to address concentration and conglomeration issues.

- **Team.** This report was prepared by a staff team comprising Enrique Flores, Martin Kaufman (Mission Chief), and Esteban Vesperoni (all WHD), Gilda Fernandez (SPR), Patrick Imam (MCM), and Pablo Lopez-Murphy (FAD).

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I. Context

1. **Mexico's rapid rebound from the global crisis attests to its strong fundamentals and the authorities' skillful policy management.** Mexico's large fallout from the global crisis stemmed significantly from its strong linkages with the U.S. The authorities' effective policy response, along with sound public, financial, and private balance sheets, underpinned the V-shaped recovery, with output now surpassing the pre-crisis level. The credible policy space and broad resilience of balance sheets corroborate Mexico's strong policy track record and frameworks.

2. **The authorities' comprehensive policy response aimed at maintaining orderly market conditions and providing a significant countercyclical impulse.** Well-targeted interventions in financial and foreign exchange markets, including the provision of dollar funding and local currency liquidity in the midst of the market freeze, helped maintain orderly market conditions. The strengthening of balance sheets and frameworks over the previous decade allowed the exchange rate to play a buffering role and the implementation of a significant counter-cyclical policy response. Moreover, confidence was buttressed by contingent financing through a swap line with the U.S. Federal Reserve and the Fund's Flexible Credit Line (FCL) arrangement approved in April 2009.[1]

3. **Mexico's successive FCL arrangements sought to support the authorities' macroeconomic policies by providing a buffer against global tail risks.** The Fund has supported the authorities' policies through three successive FCL arrangements. Mexico pioneered the use of this instrument with the first FCL in an amount of SDR 31.528 billion approved on April 17, 2009, and a successor arrangement in the same amount on March 25, 2010. The latest arrangement approved in January 2011 increased access to SDR 47.292 billion (1,500 percent of quota) on account of heightened global risks. The authorities consider the FCL arrangement as an effective complement to their own international reserves buffers against the tail risk of renewed major global dislocations.

4. **With the economic recovery well underway, the authorities have focused on rebuilding policy buffers amid lingering heightened global risks.** The authorities started fiscal consolidation in 2010, while monetary policy remained supportive of economic growth. Along with the floating exchange rate regime, this policy mix helped to contain capital inflow pressures and reestablish some policy space. Moreover, the authorities built up reserves, and access under the FCL arrangement was increased.

[1] The US$30 billion swap line with the U.S. Federal Reserve expired in January 2010.

II. Economic and Policy Development Since the Last Article IV

5. **Growth has remained resilient during the first half of this year and it is expected to continue into next year, albeit at a more moderate pace.** Growth is projected at 3¾ percent in 2011 and 3½ percent in 2012, slightly above potential growth, but below previous projections (at 4½ percent and 4 percent, respectively, in the Article IV staff report), as the U.S. growth was marked down significantly. External and domestic demands have been driven by the relative resilience of manufacturing in the U.S. and improvements in employment and credit conditions in Mexico, with the recovery in investment particularly strong in recent months. The formal sector wage bill has recovered and continues to grow, while unemployment and underemployment have declined, while remaining still somewhat above pre-crisis levels. Inflation has converged to the 3 percent target, with both headline and core inflation at 3.1 percent in September, while inflation expectations remain firmly anchored.

6. **The recent increase in global risk aversion affected Mexico similarly to other liquid emerging markets.** The Mexican peso has depreciated by about 8 percent in nominal effective terms since the beginning of the turmoil in Europe. The sovereign risk premium has increased about 80 basis points to 276 bps, while the equity market has experienced heightened volatility. Currency pressures during the August–September period reflected in part a rush by investors to cover long peso positions associated with earlier expectations of policy tightening in Mexico. Global liquidity preference resulted in limited outright divestment from Mexican sovereign paper, with the depreciation of the peso increasing the cost of Mexico as a source of dollar liquidity. Non-resident holdings of government debt are still close to the high levels reached in mid-2011, and there are no signs of significant subsidiary-to-parent flows in foreign banks. Despite the depreciation, no significant financial or corporate sector strains have surfaced.

7. **The present macroeconomic policy stance appropriately balances current domestic and external conditions, supporting the recovery and gradually rebuilding policy buffers.** Policies have remained guided by the inflation targeting, floating exchange rate, and fiscal frameworks, as described in EBS/10/240.

a. **Monetary.** The monetary stance has been supportive of the economic recovery, amid benign inflation conditions. With medium-term inflation expectations firmly anchored, there should be space to lower rates if downside risks to global growth were to materialize. The Central Bank has appropriately conditioned its monetary policy decisions going forward on, inter alia, external developments, and some market participants see a chance of a 25 basis point reduction in the policy rate in the coming months. As described in the last Article IV consultation, the authorities have further bolstered the inflation targeting framework by enhancing the communication strategy of Banxico, publishing the minutes of the policy committee meetings and providing greater details of the assessment of risks in the inflation report.

b. **Fiscal.** The authorities have continued with their strategy of gradual consolidation and rebuilding of policy buffers. Following the fiscal consolidation efforts in 2010 and 2011, the 2012 budget entails a somewhat more gradual pace of consolidation than envisaged at the time of the Article IV, linked to a more moderate growth outlook. Fiscal outturns in 2011 are broadly in line with the budget and staff projections, and fuel prices have been raised as envisaged at the time of the August 2011 Article IV consultation. As in past years, the authorities have hedged the net oil exports of the state oil company Pemex for 2012, limiting the impact of potentially lower oil prices on the fiscal accounts. Longer term fiscal challenges discussed in the last Article IV report, associated with population aging and oil revenues, would entail, *inter alia*, further advancing tax mobilization efforts to address public investment needs.

c. **Exchange rate.** The floating exchange rate regime has continued to play its key buffering role in the recent episode of heightened global risk aversion. Mexico is well positioned to let the exchange rate play this role given the well-anchored inflation expectations and cyclical position (limiting the pass through), and resilient fiscal, financial, and private balance sheets. The central bank has built up its reserve buffers through (a) rule-based intervention; (b) by retaining net foreign exchange receipts from Pemex; and (c) by external debt placements of the federal government.[2] As of end-October, gross international reserves stood at US$145 billion, about US$25 billion higher than at the time of the FCL approval. In late November, as a preemptive measure against potential disorderly market conditions from the global financial turmoil, the Foreign Exchange Commission suspended the accumulation of reserves through the auction of FX options and announced that the central bank stood ready to provide FX liquidity for up to US$400 million a day whenever the currency depreciated by more than 2 percent from the previous day's rate.

III. Risks to the Outlook

8. **Downside risks remain elevated, linked to the possibility of protracted low growth in the U.S. and heightened global risk aversion from an intensification of market turbulence in Europe.** Protracted low growth in the U.S., particularly in manufacturing, would be a material drag to growth in Mexico, given the integration of the manufacturing sectors (the US accounts for about 80 percent of Mexico's manufacturing exports). The direct impact from Europe is expected to be contained because of limited trade links and the fact that the Mexican subsidiaries of European banks are well ring-fenced.[3]

[2] Reserve accumulation through the auctioning of FX options has amounted to nearly US$5 billion this year, and US$16 billion through Pemex's foreign exchange sales to the Central Bank.

[3] The subsidiaries of Spanish banks are largely financed through domestic deposits, and liquidity transfers to parent banks are limited through regulations on related party lending.

However, it is conceivable that a significant and lasting increase in global risk aversion could affect strong and liquid sovereigns like Mexico's.

9. **Underpinned by Mexico's very strong policy frameworks, the authorities remain committed to take appropriate actions if downside risks materialize.** As noted above, the main risks to the outlook are associated with a deterioration of external conditions, particularly in the U.S. and Europe. Mexico retains policy space—particularly monetary—to contain the fallout from the materialization of external downside risks, with the exchange rate as the first line of defense. Moreover, the authorities have a track record of skillful policy management, evidenced most recently during the global financial crisis.

10. **The authorities considered that the FCL has successfully supported their macroeconomic strategy, providing an insurance against tail risks.** They reaffirmed the usefulness of the FCL as a complement to reserves and to reassure markets of Mexico's strong policies and frameworks, which is particularly important at the current juncture. While reserves have increased, the authorities considered that the external environment has become riskier, with a higher likelihood of tail events. They also noted that the FCL introduced a key crisis prevention facility to the Fund's toolkit.

IV. Review of Qualifications

11. **Staff assesses that Mexico continues to meet the qualification criteria for an arrangement under the FCL**. The authorities have continued to implement very strong policies in line with their frameworks described in EBS/10/240, and remain committed to maintaining such policies in the future. Monetary policy has continued to be guided by the inflation targeting framework, in the context of the floating exchange regime, while fiscal policy has been anchored by the balanced budget framework. In this context, the Executive Board commended Mexico's very strong policy track record and frameworks at the conclusion of the 2011 Article IV consultation.

- **Sustainable external position**. The current account deficit is small and is envisaged to remain moderate over the medium term, while the exchange rate remains broadly in line with fundamentals. The updated external debt sustainability analysis (Table 6 and Figure 4) continues to show that Mexico's external debt remains moderate and is expected to fall over the medium term even if shocks were to materialize.

- **Capital account position dominated by private flows**. The bulk of Mexico's external debt is owed to private creditors, and private non-debt creating flows have continued to be large relative to overall balance of payments flows.

- **Track record of steady sovereign access to international capital markets at favorable terms**. Mexico is among the highest rated emerging markets and its sovereign spreads remain low. As for other deep and liquid emerging economies, Mexico's spreads increased during the recent surge in global risk aversion associated with market turbulence in Europe, but have reversed considerably—the increase in CDS spreads reached 105 bps at its peak (October 4) but has subsequently declined to 32 bps. Moreover, under the current FCL arrangement, the government has continued improving its debt profile, successfully placing US$3 billion in sovereign bonds in international markets at historically low yields.[4]

- **Relatively comfortable reserve position**. Gross international reserves reached US$145 billion at end-October, about US$24 billion above the level at the time of the approval of the FCL arrangement. This level is comfortable relative to standard reserve coverage indicators (see Figure 2).[5]

- **Sustainable public debt position and sound public finances**. Fiscal policy remains underpinned by the balance budget rule and the authorities' commitment to keep the augmented public sector deficit at a level that maintains the total public debt-to-GDP ratio. The authorities have a strong track record of sound public finances. Following the 2009 fiscal stimulus, they started a fiscal consolidation process in 2010 with a tax reform package. The updated debt sustainability analysis continues to show a small decline in the public debt ratio over the medium term and suggests that the debt trajectory is broadly robust to standard shocks (Table 5 and Figure 3). The fiscal outlook remains sensitive to growth and the evolution of oil revenues, as well as challenges from population aging, but the balanced-budget fiscal rule provides assurances of fiscal sustainability.

- **Low and stable inflation**. Inflation has converged to the 3 percent target (with a variability interval of ±1 percent). Headline and core inflation stood at 3.1 percent in September, while inflation expectations remain firmly anchored.

- **Absence of systemic bank solvency problems that pose an immediate threat of banking crisis**. The FSSA has concluded that the banking system remains sound and well placed to implement Basel III (Box 1). Banks are well capitalized, liquid and profitable, and are well placed to implement Basel III capital requirements ahead of schedule.[6]

[4] The authorities placed 10-year bonds in February for US$1 billion, at a yield of 4.84 percent; 30-year bonds in April for US$1 billion, at a yield of 5.95 percent; and re-opened a 100-year bond issue in August for US$1 billion, at a yield of 5.96 percent.

[5] The new ARA metric is projected at 133 percent for 2011, within the 100–150 percent rule of thumb.

[6] The banking system Tier 1 capital- asset ratio stands at 15 percent, while non-performing loans remain low at 2.3 percent of total loans.

Box 1. FSSA Main Findings

The financial system is sound, underpinned by strong regulation and supervision. The system is well capitalized, liquid and profitable, with banks already complying with Basel III capital requirements. Regulation and supervision remain effective and good progress has been made since the 2006 FSAP-Update, becoming more risk-focused, albeit some further improvements are still needed.

- **Stress tests confirm the banking system resilience**. The resilience to the 2009 global crisis, which entailed a 6 percent drop in output, attests to the strength of the system. The stress tests concluded that banks are well positioned to weather a prolonged period of stress, and that their ability to retain strong profit margins further strengthens resilience.

- **Further efforts are needed to move to risk-based supervision and address concentration and conglomeration.** The regulatory framework is comprehensive, aligned with emerging risks and supported by well-developed supervisory methodologies and processes. A fully risk-based regulatory system (Pillar 2) is yet to be implemented, and would require further independence of the supervisor, as well as stronger legal protection for supervisors and enhanced budget autonomy and accountability for supervisory agencies. Issues related to limits on single and related party exposures, as well as powers to regulate conglomerates, will need to be further strengthened.

Legal and institutional safety arrangements for financial safety net are strong but could be further improved. Following significant progress since the last FSAP update, the arrangements for systemic liquidity and bank resolution are broadly aligned with international standards, but important challenges remain for the deposit insurance scheme.

- **Liquidity assistance**. The central bank has established a new facility for short-term liquidity at lower cost which accepts a broader menu of assets as collateral, to complement the emergency liquidity assistance (ELA) facility. Internal policies and procedures for the ELA facility have been developed, but not disclosed publicly.

- **Bank resolution**. Legal changes have clarified the causes for revoking a license, set deadlines and specified responsibilities for each agency, introduced a distinction between systemic and non-systemic banks, and added resolution options in line with good international practices. Arrangements could be further strengthened by adding liquidity indicators as triggers for prompt corrective actions, developing procedures for the transfer of asset and liabilities to trust funds, and shortening the period to exercise the right to appeal.

- **Deposit insurance**. While the deposit insurance scheme complies with most international standards, the fees that charges are high and largely devoted to pay for the cost of the 1995 crisis rather than building a reserve. Staff recommended that legacy liabilities be absorbed by the federal government and fees used to build a reserve fund.

- **Effective financial sector supervision**. The FSSA has also concluded that Mexico's overall financial sector supervision framework remains effective. During the last Article IV consultation, the Executive Board praised financial supervision, including the establishment of the Financial System Stability Council. The authorities have taken some steps to address concentration issues, including by tightening rules on related party lending as well as on disclosure of lending to sub-national governments.

- **Data transparency and integrity**. The overall quality of Mexican data remains good as described in the 2010 data ROSC, and Mexico is in observance of the Special Data Dissemination Standards (SDDS).

V. Safeguard Assessment

12. **Staff has completed the safeguards procedures applicable to an FCL arrangement.** Under these procedures, staff reviews the most recent independent external audit of a member's central bank. The authorities provided the necessary authorization for staff to communicate directly with the Banxico's external auditor, PricewaterhouseCoopers (PwC) Mexico. PwC issued an unqualified audit opinion on the Banxico's 2010 financial statements in March 2011. Staff has reviewed the 2010 audit results and discussed them with PwC. No significant safeguards issues emerged from the conduct of these procedures. Banxico publishes only its balance sheet and audit opinion as part of the annual report.

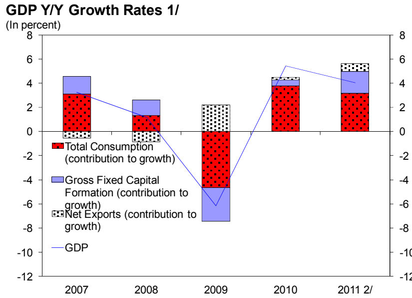
VI. Staff Appraisal

13. **The FCL arrangement for Mexico has supported a reduction in perception of tail risks and contributed to maintaining orderly conditions in financial markets.** The lowered perception of risks has been instrumental to Mexico's rapid recovery, along with the skillful policy management after the global financial crisis.

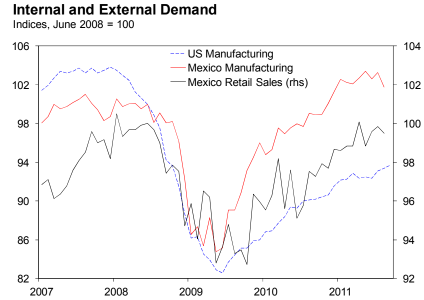
14. **Staff assesses that Mexico continues to meet the qualification criteria for access to FCL resources and remains committed to responding appropriately to actual or potential balance of payments difficulties.** In view of this, staff recommends completion of the review under the FCL arrangement for Mexico.

Figure 1. Mexico: Recent Economic Developments

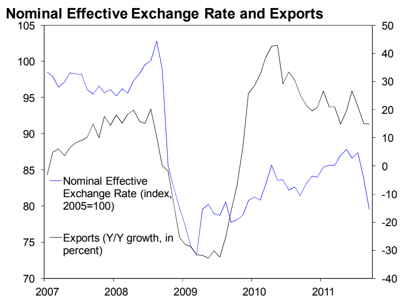
Growth has been resilient during first half of 2011…



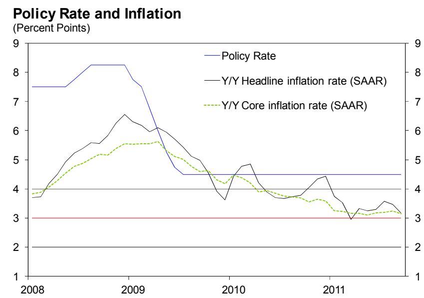
…but activity is moderating in the second half.



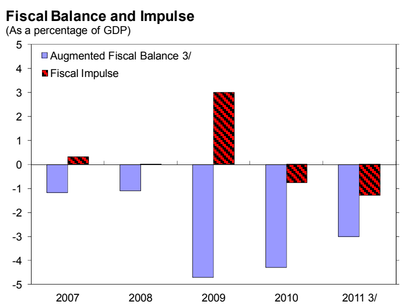
The exchange rate continues to play a major buffering role against external shocks.



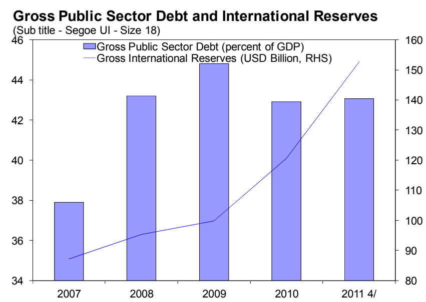
Monetary conditions have been supportive, with inflation around the target…



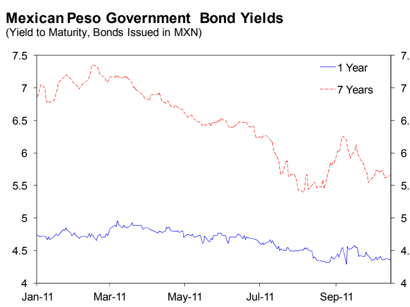
…while the government has pursued a steady fiscal consolidation after the 2009 fiscal stimulus…



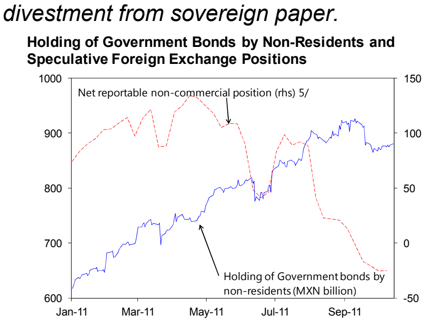
… rebuilding buffers against the global tail risks.



The recent global financial turmoil increased bond yields, albeit the trend has reversed in recent weeks…



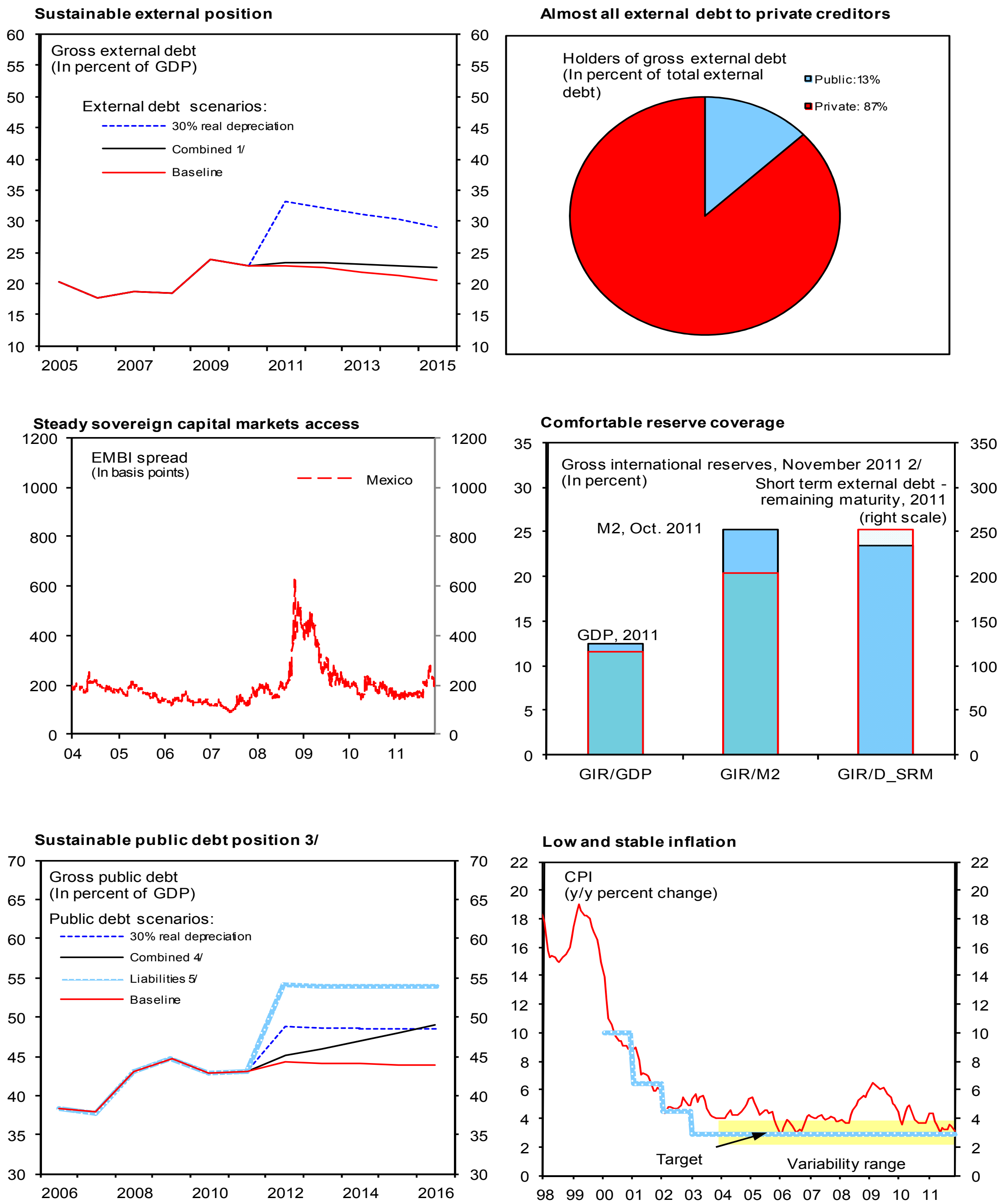
…as investors close their long peso positions but without major divestment from sovereign paper.



1/ Difference between growth and contributions in chart explained by contributions from inventories.
2/ 2011: Annualized growth rate of first half of 2011.
3/ Measured as the change in the ciclically adjusted balance (including net lending of development banks) net of net exports of oil.
4/ Projections for 2011.
5/ Defined as the difference between the number of long and short Mexican peso contracts in the Chicago Mercantile Exchange.

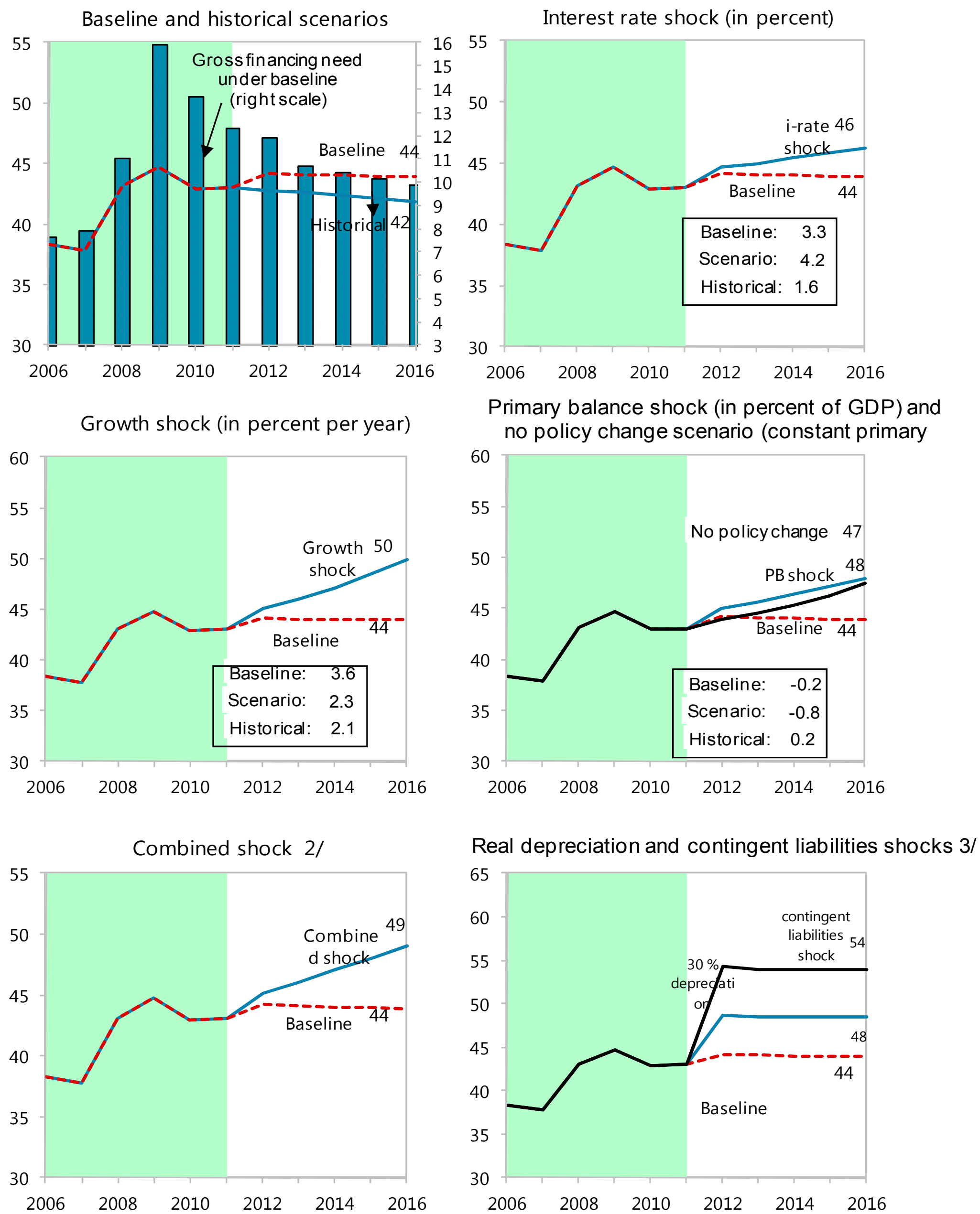
Sources: Banxico, Haver Analytics, and IMF staff calculations.

Figure 2. Mexico: Qualification Criteria



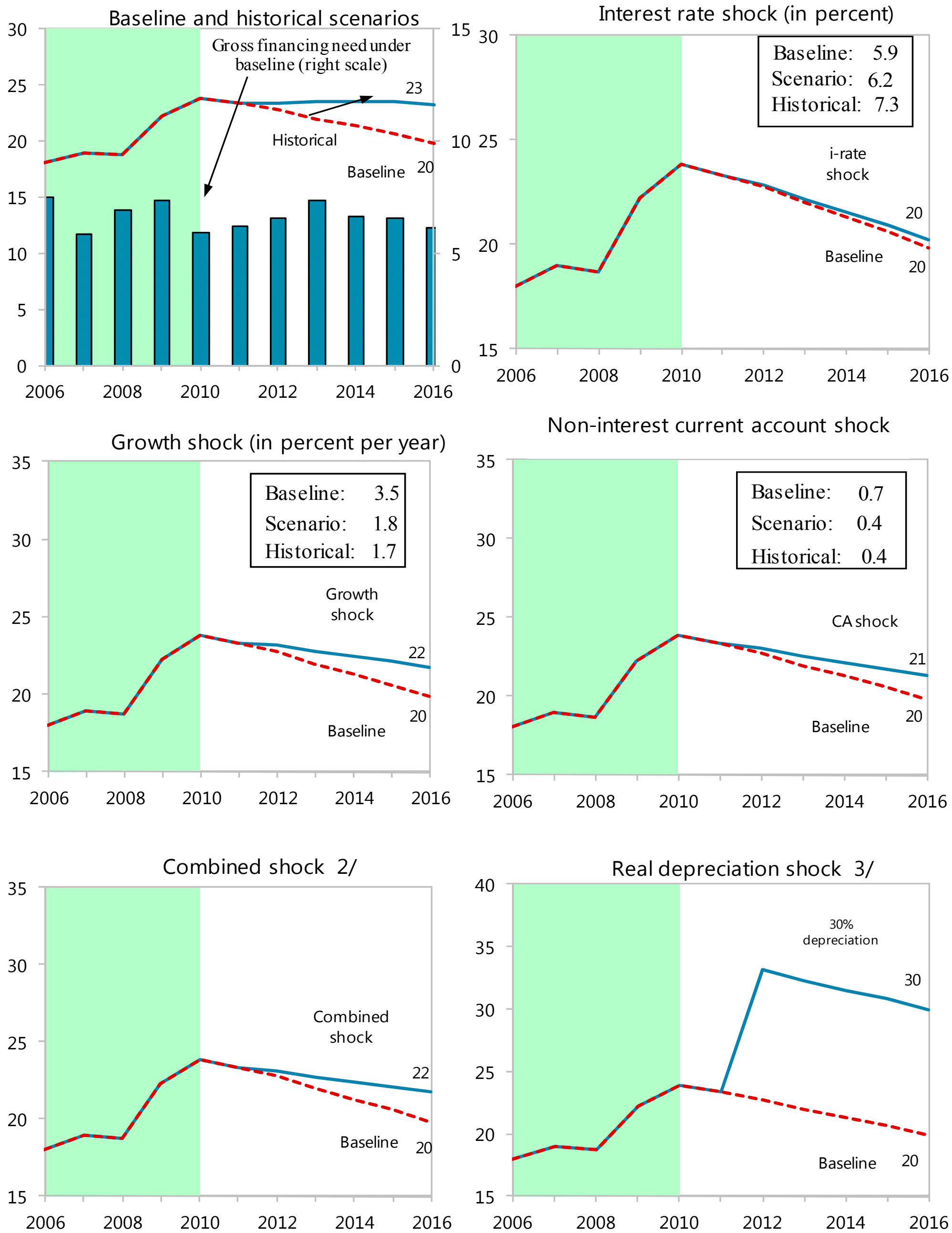
Sources: Bloomberg L.P.; Datastream; EMED; Haver Analytics; and IMF staff calculations.
1/ Combined permanent 1/4 standard deviation shocks applied to interest rate, growth, and primary current account balance.
2/ Red bar shows ratio as in the FCL approval (SM/11/11).
3/ Not taking into account offsetting measures required under the balance budget rule.
4/ Combined permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
5/ One-time 10 percent of GDP increase in debt-creating flows.

Figure 3. Mexico: Gross Public Debt Sustainability: Bound Tests 1/
(Gross public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

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



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/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2011.

Table 1. Mexico: Selected Economic, Financial, and Social Indicators, 2007–2012

I. Social and Demographic Indicators

GDP per capita (U.S. dollars, 2009) 1/	7963	Poverty headcount ratio (percent of population, 2008) 1/	44.2
Population (millions, 2009) 1/	110.8	Income share of highest 20 percent / lowest 20 percent	10.3
Life expectancy at birth (years, 2009)	75.3	Adult illiteracy rate (2009)	6.6
Under 5 mortality rate (per thousand, 2009)	16.8	Gross primary education enrollment rate (2008)	114.3

II. Economic Indicators

	2007	2008	2009	2010	Proj. 2011	Proj. 2012
(Annual percentage change, unless otherwise indicated)						
National accounts in constant prices						
Real GDP	3.4	1.2	-6.3	5.8	3.7	3.4
Net exports (contribution)	-0.6	-0.7	2.1	0.0	0.3	0.5
Total domestic demand	3.7	1.9	-8.0	5.1	3.3	3.0
Total consumption	3.9	1.6	-5.9	4.8	2.8	3.1
Gross fixed investment	6.9	5.5	-11.8	6.4	6.2	4.5
Change in business inventories (contribution)	-0.6	-0.6	-0.9	0.5	-0.5	-0.2
External sector						
Exports, f.o.b.	8.8	7.2	-21.2	29.9	26.2	5.2
Export volume	3.5	-2.4	-7.7	15.8	14.3	4.7
Imports, f.o.b.	10.1	9.5	-24.0	28.6	24.4	4.6
Import volume	4.4	1.0	-21.0	23.3	15.3	4.0
Terms of trade (deterioration -)	-0.3	1.3	-11.2	7.6	2.4	-0.1
Exchange rates						
Nominal exchange rate (average US$/Mex$, depreciation -)	-0.3	-1.8	-21.4	6.5	...	...
Real effective exchange rate (CPI based, average, depreciation -)	-1.1	-1.6	-12.4	8.6	...	...
Employment and inflation						
Consumer prices (end of year)	3.8	6.5	3.6	4.4	3.3	3.0
Unemployment rate (annual average)	3.7	4.0	5.5	5.4	5.2	4.8
Money and credit						
Broadmoney (M4a)	11.2	16.8	6.1	12.0	...	...
Treasury bill rate (28-day cetes, in percent, annual average)	7.2	7.7	5.4	4.4	...	...
(In percent of GDP)						
Nonfinancial public sector						
Government Revenue	21.3	23.0	22.3	22.0	21.6	21.9
Government Expenditure	22.5	24.1	27.0	26.3	24.6	24.7
Augmented balance 2/	-1.2	-1.1	-4.7	-4.3	-3.0	-2.8
Augmented primary balance	1.5	1.4	-1.9	-1.7	-0.3	0.0
Traditional balance 3/	0.0	-0.1	-2.3	-2.8	-2.5	-2.4
Gross public sector debt	37.8	43.1	44.7	42.9	43.1	44.2
Savings and investment						
Gross domestic investment	26.3	26.7	23.4	23.6	25.9	26.1
Public investment	4.6	5.6	6.1	6.1	4.7	4.4
Private investment	21.7	21.1	17.3	17.4	21.1	21.7
Gross national saving	25.5	25.3	22.5	24.4	25.3	25.8
Public saving 4/	2.8	3.6	0.6	1.1	1.3	1.1
Private saving	22.7	21.7	21.9	23.3	24.0	24.7
External current account balance	-0.9	-1.5	-0.7	-0.5	-0.6	-0.3
Non-oil external current account balance	-2.5	-2.8	-1.9	-1.7	-1.4	-1.0
Net international reserves (In billions of U.S. dollars)	78.0	85.4	90.8	113.6	145.6	155.6
Gross external debt (in percent of GDP, end of period)	19.0	18.5	22.2	23.8	23.3	22.8
Crude oil export price, Mexican mix (US$/bbl)	61.6	84.4	57.4	72.3	94.5	91.5

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

1/ Estimated, the figures of population for 2001-2009 are under revision by INEGI and CONAPO.
2/ Federal Government plus Social Security and State-owned Companies, excl. nonrecurrent revenue and net lending of development banks.
3/ Authorities definition. The break in the series in 2009 is due to definitional and accounting changes of PIDIREGAS.
4/ Estimated as as the difference between the augmented fiscal balance, as reported by SHCP, and public investment, as reported in the national accounts.

Table 2. Mexico: Financial Operations of the Public Sector, 2007–2016

(In percent of GDP)

	2007	2008	2009	2010	2011	2012		2013	2014	2015	2016
					Proj.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.
Budgetary revenue, by type	**22.0**	**23.5**	**23.8**	**22.6**	**21.9**	**21.9**	**22.1**	**22.4**	**22.0**	**21.7**	**21.4**
Oil revenue	7.8	8.7	7.9	7.4	7.5	7.7	7.7	8.0	7.7	7.4	7.2
Non-oil tax revenue 1/	9.3	9.9	9.5	10.1	9.9	9.9	9.9	10.0	9.8	9.8	9.8
Non-oil non-tax revenue	4.9	4.9	6.4	5.1	4.4	4.3	4.4	4.4	4.4	4.4	4.4
Budgetary revenue, by entity	22.0	23.5	23.8	22.6	21.9	21.9	22.1	22.4	22.0	21.7	21.4
Federal government revenue	15.2	16.9	16.9	15.9	15.5	15.3	15.6	15.7	15.2	14.9	14.6
Tax revenue, *of which:*	8.9	8.2	9.5	9.6	9.0	9.7	9.5	10.0	9.9	9.8	9.8
excises (including fuel)	-0.1	-1.4	0.4	0.0	-0.4	0.3	0.1	0.5	0.5	0.5	0.5
Nontax revenue	6.3	8.7	7.4	6.3	6.5	5.6	6.1	5.8	5.4	5.0	4.8
Public enterprises	6.9	6.7	6.9	6.7	6.3	6.6	6.5	6.7	6.7	6.8	6.8
PEMEX	3.3	3.0	3.2	2.9	2.6	2.8	2.7	2.9	3.0	3.0	3.1
Other	3.5	3.7	3.7	3.8	3.7	3.8	3.7	3.7	3.7	3.7	3.7
Budgetary expenditure	**22.0**	**23.6**	**26.1**	**25.5**	**24.4**	**24.3**	**24.5**	**24.3**	**23.8**	**23.4**	**23.0**
Primary	19.9	21.8	23.9	23.5	22.3	22.2	22.3	22.0	21.4	20.9	20.5
Programmable	16.8	18.2	20.6	20.0	18.8	18.8	18.8	18.5	18.0	17.6	17.2
Current	13.2	13.8	15.4	15.0	14.0	14.5	14.6	14.4	14.3	14.2	14.3
Wages	5.8	5.8	6.5	6.1	6.0	6.0	6.1	5.9	5.8	5.7	5.6
Pensions	2.1	2.1	2.4	2.6	2.7	2.6	2.9	3.0	3.1	3.2	3.4
Subsidies and transfers	2.3	2.7	3.1	3.1	2.7	3.1	2.8	2.8	2.8	2.8	2.8
Other	3.0	3.2	3.4	3.2	2.6	2.7	2.8	2.7	2.6	2.5	2.5
Capital	3.6	4.4	5.1	5.0	4.8	4.3	4.2	4.1	3.7	3.3	3.0
Physical capital	2.8	3.1	4.6	4.8	4.7	4.2	4.1	3.8	3.4	3.1	2.7
Of which: non Pemex	*2.5*	*2.5*	*2.5*	*2.7*	*2.6*	2.2	*2.0*	*1.9*	*1.6*	*1.4*	*1.1*
Financial capital	0.8	1.3	0.5	0.3	0.1	0.2	0.2	0.3	0.2	0.2	0.2
Nonprogrammable	3.1	3.6	3.3	3.5	3.5	3.4	3.5	3.6	3.4	3.4	3.3
Of which: revenue sharing	2.9	3.5	3.2	3.3	3.4	3.3	3.4	3.4	3.3	3.2	3.1
Interest payments 2/	2.1	1.9	2.2	2.0	2.1	2.1	2.2	2.3	2.4	2.4	2.5
Traditional balance 3/	**0.0**	**-0.1**	**-2.3**	**-2.8**	**-2.5**	**-2.4**	**-2.4**	**-1.9**	**-1.8**	**-1.7**	**-1.6**
Traditional balance for balanced budget rule	0.4	0.5	-0.2	-0.8	-0.5	-0.4	-0.4	0.0	0.0	0.0	0.0
Adjustments to the traditional balance	**1.2**	**1.0**	**2.4**	**1.5**	**0.5**	**0.5**	**0.4**	**0.2**	**0.2**	**0.2**	**0.2**
PIDIREGAS	0.9	1.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
IPAB	0.1	0.2	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Budgetary adjustments	0.4	0.3	0.3	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2
PEMEX, oil stabilization fund, FARP (-: net inflows)	-0.4	-1.0	0.7	0.4	-0.1	0.0	-0.2	-0.3	-0.2	-0.2	-0.2
FARAC/FONADIN	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debtor support	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development banks (changes in capital)	-0.1	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Nonrecurring revenue	0.6	0.5	1.3	0.4	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Augmented balance (excl. net lending of dev. banks) 4/	**-1.2**	**-1.1**	**-4.7**	**-4.3**	**-3.0**	**-3.0**	**-2.8**	**-2.1**	**-2.0**	**-1.9**	**-1.8**
Augmented interest expenditure	2.6	2.5	2.8	2.6	2.7	2.7	2.7	2.5	2.6	2.7	2.7
Augmented primary balance (excl. dev. Banks) 5/	1.5	1.4	-1.9	-1.7	-0.3	-0.3	-0.1	0.4	0.6	0.7	0.9
Memorandum items											
Crude oil export price, Mexican mix (US$/bbl)	62	85	58	72	94	85	92	91	89	88	87
Development banks	0.0	0.4	0.5	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Augmented balance (incl. net lending of dev. banks) 4/	-1.3	-1.5	-5.3	-4.7	-3.5	-3.1	-3.3	-2.6	-2.5	-2.4	-2.3
Augmented primary balance (incl. net lending of dev. Banks) 5/	1.4	1.0	-2.5	-2.2	-0.8	...	-0.6	-0.1	0.1	0.3	0.4
Non-oil augmented balance 6/	-7.1	-9.0	-9.6	-9.1	-8.4	...	-7.9	-7.2	-6.9	-6.6	-6.4
Oil augmented balance	5.8	7.4	4.3	4.3	5.0	...	4.7	4.6	4.4	4.2	4.1
Fiscal Impulse 7/	0.3	0.0	3.0	-0.8	-1.3	...	-0.4	-0.8	-0.2	-0.2	-0.1
Gross public sector debt	37.9	43.2	44.8	42.9	43.1	...	44.2	44.1	44.0	43.9	43.9
Domestic (percentage of total debt)	73.0	70.3	75.2	74.9	77.0	...	78.3	79.4	80.3	81.2	82.1
External (percentage of total debt)	27.0	29.7	24.8	25.1	23.0	...	21.7	20.6	19.7	18.8	17.9
Net public sector debt	31.2	35.6	39.2	39.3	39.5	...	40.6	40.5	40.5	40.4	40.3
Nominal GDP (billions of Mexican pesos)	11,291	12,153	11,845	13,076	14,119	15,130	14,931	16,040	17,123	18,245	19,340

Sources: Mexican authorities; and IMF staff estimates. Data refer to non-financial public sector, including PEMEX and other public enterprises but excluding state and local governments (except as noted).

1/ Total tax revenue excluding excise tax on gasoline.

2/ Includes transfers to IPAB and the debtor support programs.

3/ The break in the series in 2009 is due to definitional and accounting changes.

4/ Public Sector Borrowing Requirements excl. nonrecurrent revenue.

5/ Treats transfers to IPAB as interest payments.

6/ Excludes oil revenue (oil extraction rights, PEMEX net income, oil excess return levies, excise tax on gasoline) and PEMEX operational expenditure, interest payments, and capital expenditure.

7/ Change in the structural balance measured using a domestic resource approach (adjusting tax revenue for the cycle, excluding PEMEX external trade balance, and oil hedges).

Table 3. Mexico: Summary Balance of Payments, 2006–16

						Projections					
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
					(In billions of U.S. dollars)						
Current account	-4.3	-8.6	-16.0	-6.1	-5.7	-6.5	-3.4	-6.5	-7.4	-10.4	-10.1
Merchandise trade balance, f.o.b.	-6.1	-10.1	-17.3	-4.7	-3.0	1.6	4.0	0.7	0.9	-2.6	-3.2
Exports	249.9	271.9	291.3	229.7	298.5	376.7	396.3	423.2	457.4	496.1	536.0
Imports	-256.1	-281.9	-308.6	-234.4	-301.5	-375.1	-392.3	-422.5	-456.5	-498.6	-539.2
Factor income	-17.7	-18.6	-17.0	-14.4	-13.9	-19.3	-19.2	-19.2	-19.3	-18.5	-18.4
Net services	-6.4	-6.3	-7.1	-8.6	-10.3	-12.1	-12.6	-13.5	-16.1	-18.3	-19.1
Net transfers	25.9	26.4	25.5	21.5	21.5	23.2	24.3	25.6	27.1	29.0	30.7
of which Remittances	25.6	26.0	25.1	21.2	21.2	22.9	24.0	25.3	26.8	28.6	30.3
Financial account	-2.5	22.8	28.3	19.2	36.7	38.5	13.4	16.5	17.4	20.4	20.1
Public sector 1/	-10.6	18.2	14.2	11.9	33.3	15.5	4.4	5.3	4.5	3.7	4.0
Medium- and long-term borrowing	-20.5	-5.3	-2.4	13.6	10.2	-2.5	-1.9	-1.0	-1.0	-1.0	-1.0
Disbursements	9.8	6.4	8.8	24.7	18.8	12.8	12.1	13.1	14.0	14.2	11.1
Amortization 2/	30.3	11.7	11.1	11.1	8.7	15.3	14.0	14.1	15.0	15.2	12.1
Pidiregas, net 3/	7.0	13.2	12.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other, including non-resident purchases of domestic bo	2.8	10.2	3.7	-1.6	23.1	18.0	6.3	6.3	5.5	4.7	5.0
Of which: oil hedging capital income	...	...	...	5.1	...	...	...	...	...	...	...
Private sector	8.1	4.7	14.1	7.3	3.4	23.0	9.0	11.2	12.9	16.7	16.1
Direct investment, net	14.2	21.8	25.8	8.6	6.1	22.1	23.8	24.8	25.4	27.1	28.8
Bonds and loans	5.2	9.2	-0.9	-3.7	14.8	10.6	-3.2	-1.1	-0.2	0.4	-2.1
Equity investments and change in assets abroad	-9.4	-22.3	-11.4	2.4	-17.8	-9.7	-11.6	-12.5	-12.3	-10.8	-10.6
Errors and omissions and valuation adjustments	6.0	-3.7	-4.5	-7.5	-8.3	0.0	0.0	0.0	0.0	0.0	0.0
Net international reserves (increase -)	1.0	-10.4	-7.4	-5.4	-22.8	-32.0	-10.0	-10.0	-10.0	-10.0	-10.0
					(In percent of GDP, unless otherwise indicated)						
Memorandum items:											
Current account balance	-0.5	-0.9	-1.5	-0.7	-0.5	-0.6	-0.3	-0.5	-0.6	-0.7	-0.7
Nonoil current account balance 8/											
Nonoil current account balance 4/	-2.5	-2.5	-2.8	-1.9	-1.7	-1.4	-1.0	-1.0	-0.9	-1.0	-0.8
Nonoil trade balance 4/	-2.7	-2.7	-2.9	-1.7	-1.4	-0.7	-0.3	-0.5	-0.3	-0.4	-0.3
Merchandise exports	26.3	26.3	26.4	26.1	28.8	32.2	33.0	33.5	34.5	35.7	36.9
Petroleum and derivatives exports	4.1	4.2	4.6	3.5	4.0	4.4	4.1	3.9	3.6	3.4	3.3
Merchandise imports	-26.9	-27.2	-27.9	-26.6	-29.1	-32.1	-32.6	-33.4	-34.4	-35.9	-37.1
Petroleum and derivatives imports	2.1	2.5	3.2	2.3	2.9	3.5	3.4	3.4	3.3	3.2	3.1
Oil trade balance	2.0	1.7	1.4	1.2	1.1	0.8	0.7	0.5	0.4	0.2	0.1
Gross financing needs (billions of US$) 4/	70.0	73.2	83.7	67.2	74.4	100.2	82.4	79.0	79.8	83.2	79.7
Gross international reserves (change, billions of US$) 5/	2.2	10.9	8.1	4.6	20.7	32.0	10.0	10.0	10.0	10.0	10.0
End-year (billions of US$)	76.3	87.2	95.3	99.9	120.6	152.6	162.6	172.6	182.6	192.6	202.6
Months of imports of goods and services	3.0	3.1	4.4	3.7	3.6	4.3	4.3	4.2	4.1	4.0	...
Months of imports plus interest payments	3.2	3.3	4.7	3.8	3.7	4.5	4.5	4.4	4.2	4.1	...
Percent of short-term debt (by residual maturity) 6/	113.8	154.4	158.7	170.0	188.1	217.6	248.0	229.3	270.8	290.3	...
Gross total external debt	18.0	19.0	18.5	22.2	23.8	23.3	22.8	22.0	21.3	20.6	19.8
Of which: Public external debt	9.8	9.9	10.2	10.9	10.7	9.2	8.8	8.3	7.8	7.4	7.0
Gross total external debt (billions of US$)	171.4	196.4	204.8	195.7	246.6	272.6	273.8	278.0	282.4	286.5	288.4
Of which: Public external debt 7/	93.1	102.6	112.2	96.4	110.4	107.9	106.0	105.0	104.0	103.0	102.0
Public external debt service (in percent of exports of goods, services, and transfers) 8/	14.2	7.5	6.8	6.7	4.8	5.6	5.0	4.8	4.7	4.6	3.9

Sources: Bank of Mexico; Secretariat of Finance and Public Credit; and Fund staff projections.

1/ Including the financing of PIDIREGAS.
2/ Includes pre-payment of external debt.
3/ Break in the series in 2009 due to accounting changes.
4/ Excluding oil exports and petroleum products imports.
5/ Excludes balances under bilateral payments accounts. For 2009, includes the allocation of SDR 2.337 billion in the general allocation implemented on August 28, 2009, and another SDR 0.224 billion in the special allocation on September 9.
6/ In percent of short-term debt by residual maturity. Historical data include all prepayments.
7/ Includes gross external debt of the federal government, development banks and nonfinancial public enterprises, and is adjusted for PIDIREGAS.
8/ Includes amortization on medium and long-term bonds and debt, and interest payments.

Table 4. Mexico: External Financing Requirements and Sources, 2007-12

(In billions of U.S. dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
							Proj.			
Gross financing requirements	73.2	83.7	67.2	74.4	100.2	82.4	79.0	79.8	83.2	79.7
Current account deficit	8.9	16.3	6.4	5.7	6.5	3.4	6.5	7.4	10.4	10.1
Public sector medium and long term amortization 1/	15.2	14.4	11.1	8.7	15.3	14.0	14.1	15.0	15.2	12.1
Public sector bonds 2/	8.8	6.9	4.9	5.5	8.2	8.1	7.9	7.7	7.9	6.9
memo: o/w nonresidents' holdings of peso denominate	2.7	4.4	2.4	2.5	10.5	14.4	15.8	17.2	18.4	19.4
Public sector MLT debt	2.9	4.2	6.2	3.2	7.1	5.9	6.2	7.3	7.3	5.3
PIDIREGAS 3/	3.5	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector medium and long term amortization 4/	13.9	15.5	14.9	15.1	17.8	19.0	20.8	21.2	21.5	22.1
Private sector bonds 4/	5.9	6.7	6.0	6.7	9.5	10.0	10.8	10.2	10.5	11.2
Private sector medium and long term debt 4/	8.0	8.8	9.0	8.4	8.3	9.0	10.1	11.0	11.0	11.0
Short term financing	25.0	30.0	29.4	22.3	28.5	36.0	27.6	26.3	26.1	25.4
Public sector 2/	7.0	9.4	7.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Private sector 4/ 5/	6.2	7.1	6.9	6.0	9.4	16.1	6.8	4.5	3.4	1.6
Trade credit 6/	11.9	13.4	15.2	14.1	17.0	17.8	18.7	19.6	20.6	21.6
Change in international reserves	10.3	7.5	5.4	22.8	32.0	10.0	10.0	10.0	10.0	10.0
Available financing	73.2	83.7	67.2	74.4	100.2	82.4	79.0	79.8	83.2	79.7
FDI, net	21.8	25.8	8.6	6.1	22.1	23.8	24.8	25.4	27.1	28.8
Public sector MLT flows 1/	30.9	30.8	28.2	42.0	30.8	18.4	19.4	19.5	18.9	16.1
of which:										
Public sector bonds 2/	3.1	2.2	10.7	10.4	5.7	6.2	6.4	6.7	6.9	5.9
memo: o/w nonresidents' holdings of peso denominate	10.5	10.3	5.9	25.6	28.5	20.7	22.1	22.7	23.1	24.3
Public sector MLT debt	3.3	6.5	14.0	8.4	7.1	5.9	6.7	7.3	7.3	5.3
PIDIREGAS 3/	16.7	16.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net change in nonresidents' holdings of peso denominated	7.8	5.9	3.5	23.1	18.0	6.3	6.3	5.5	4.7	5.0
Private sector MLT flows 4/	20.5	13.0	13.3	23.6	21.8	25.1	21.9	22.1	23.6	22.6
Private sector bonds	8.9	4.1	8.1	15.5	11.0	12.7	8.9	11.1	12.7	11.7
Private sector MLT debt	11.6	8.9	5.2	8.1	10.7	12.4	13.1	11.0	11.0	11.0
Short-term financing	30.0	29.4	22.3	28.5	36.0	27.6	26.3	26.1	25.4	23.9
Public sector 2/	9.4	7.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Private sector 4/ 5/	7.1	6.9	6.0	9.4	16.1	6.8	4.5	3.4	1.6	-1.0
Trade credit 6/	13.4	15.2	14.1	17.0	17.8	18.7	19.6	20.6	21.6	22.7
Other flows	-30.0	-15.2	-5.1	-25.7	-10.5	-12.5	-13.4	-13.3	-11.9	-11.7
of which:										
Increase in portfolio and other investment assets	-21.8	-7.9	-11.0	-18.4	-12.0	-14.0	-15.0	-15.0	-15.0	-15.0
of which: In banks abroad	-17.0	-5.8	-14.8	-20.8	-10.0	-11.0	-11.0	-11.0	-11.0	-11.0
Oil price hedge			5.1							
Memorandum items:										
Gross financing requirements net of reserve accumulation	62.9	76.3	61.8	51.7	68.2	72.4	69.0	69.8	73.2	69.7
PEMEX's Master Trust			0.7							

Sources: Mexican authorities and IMF staff estimates.

1/ Including PIDIREGAS.

2/ On a BoP basis.

3/ Includes bonds and loans. For 2006-08, staff estimates based on the stock of debt at original maturity, estimated duration, and net financing data from the Balance of Payments. In 2009, assets from the PEMEX's Master Trust were used to pay down the stock of PIDIREGAS debt.

4/ Gross financing figures for 2006-09 are staff estimates based on data on the stock of debt by residual maturity, estimated duration, and net financing data from the Balance of Payments.

5/ Loans and money market instruments, estimates on original maturity basis.

6/ Includes accounts payable to suppliers and long-term trade credit.

Table 5. Mexico: Gross Public Sector Debt Sustainability Framework, 2006-2016
(In percent of GDP, unless otherwise indicated)

	Actual						Projections					
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	**Debt-stabilizing primary balance 9/**
Baseline: Gross public sector debt 1/	38.4	37.8	43.1	44.7	42.9	43.1	**44.2**	**44.1**	**44.0**	**43.9**	**43.9**	**-0.2**
o/w foreign-currency denominated	10.2	10.2	12.8	12.1	10.0	9.2	8.8	8.3	7.8	7.4	7.0	
Change in gross public sector debt	-1.5	-0.5	5.3	1.6	-1.8	43.1	1.1	-0.2	0.0	-0.1	0.0	
Identified debt-creating flows (4+7+12)	-4.2	-2.3	0.4	6.6	1.1	0.6	0.7	-0.7	-0.5	-0.5	-0.4	
Primary deficit	-2.2	-1.4	-1.0	2.5	2.2	0.8	0.6	0.1	-0.1	-0.3	-0.4	
Revenue and grants	21.8	22.0	23.5	23.7	22.7	21.9	22.1	22.4	22.0	21.7	21.4	
Primary (noninterest) expenditure	19.6	20.6	22.5	26.2	24.8	22.6	22.6	22.5	21.9	21.4	21.0	
Automatic debt dynamics 2/	-1.4	-0.6	2.4	3.3	-1.5	0.0	0.3	-0.5	-0.2	0.0	0.2	
Contribution from interest rate/growth differential 3/	-1.5	-0.5	-0.2	3.8	-1.5	0.0	0.3	-0.5	-0.2	0.0	0.2	
Of which contribution from real interest rate	0.3	0.6	0.3	1.1	0.7	0.0	1.7	1.0	1.4	1.3	1.6	
Of which contribution from real GDP growth	-1.8	-1.1	-0.4	2.7	-2.2	0.0	-1.4	-1.6	-1.6	-1.4	-1.3	
Contribution from exchange rate depreciation 4/	0.1	0.0	2.5	-0.5	...	...	...	...	...	...	...	
Other identified debt-creating flows	-0.5	-0.4	-1.0	0.7	0.4	-0.1	-0.2	-0.3	-0.2	-0.2	-0.2	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or 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 (specify, e.g. bank recapitalization)	-0.5	-0.4	-1.0	0.7	0.4	-0.1	-0.2	-0.3	-0.2	-0.2	-0.2	
Residual, including asset changes (2-3) 5/	2.7	1.8	4.9	-5.0	-2.9	0.0	0.4	0.6	0.5	0.4	0.4	
Gross public sector debt-to-revenue ratio 1/	175.8	172.2	183.5	188.6	189.5	196.9	200.3	196.6	200.4	202.8	205.2	
Gross financing need 6/	7.7	7.9	11.1	15.9	13.7	12.3	11.9	10.7	10.4	10.1	9.9	
in billions of U.S. dollars	73.0	81.9	120.9	139.5	141.6	144.0	143.3	134.9	137.8	140.9	144.0	
Scenario with key variables at their historical averages 7/							**42.8**	**42.6**	**42.4**	**42.1**	**41.8**	**-0.4**
Scenario with no policy change (constant primary balance) in 2010-2015							**44.0**	**44.5**	**45.3**	**46.3**	**47.4**	**-0.1**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	5.1	3.2	1.2	-6.2	5.4	3.7	3.4	3.8	3.8	3.4	3.2	
Average nominal interest rate on public debt (in percent) 8/	7.8	7.5	7.2	6.2	6.4	6.8	6.6	6.1	6.3	6.4	6.5	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	1.1	1.9	0.8	2.3	2.0	2.6	4.3	2.6	3.5	3.4	3.8	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-0.9	0.1	-19.7	3.7	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	6.7	5.6	6.4	4.0	4.4	4.2	2.3	3.5	2.8	3.1	2.7	
Growth of real primary spending (deflated by GDP deflator, in percent)	5.8	8.5	10.5	9.3	-0.3	-5.4	3.5	3.1	1.0	1.2	1.2	
Primary deficit	-2.2	-1.4	-1.0	2.5	2.2	0.8	0.6	0.1	-0.1	-0.3	-0.4	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

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

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

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

Table 6. Mexico: External Debt Sustainability Framework, 2006-2016
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	**Debt-stabilizing non-interest current account 7/**
Baseline: External debt	18.0	19.0	18.7	22.3	23.8	**23.3**	**22.8**	**22.0**	**21.3**	**20.6**	**19.8**	**-1.9**
Change in external debt	-2.4	1.0	-0.3	3.5	1.6	-0.5	-0.5	-0.8	-0.7	-0.7	-0.8	
Identified external debt-creating flows (4+8+9)	-3.5	-2.9	-1.0	3.5	-4.0	-2.3	-2.6	-2.5	-2.4	-2.2	-2.2	
Current account deficit, excluding interest payments	-1.0	-0.6	0.2	-0.6	-0.7	-0.6	-0.9	-0.7	-0.6	-0.5	-0.6	
Deficit in balance of goods and services	1.3	1.6	2.2	1.5	1.3	0.9	0.7	1.0	1.1	1.5	1.5	
Exports	27.9	27.9	28.2	27.8	30.3	33.6	34.3	34.8	35.8	37.0	38.2	
Imports	29.2	29.5	30.5	29.3	31.6	34.5	35.1	35.8	37.0	38.5	39.8	
Net non-debt creating capital inflows (negative)	-1.7	-2.3	-1.4	-1.8	-1.2	-2.1	-2.1	-2.1	-2.2	-2.3	-2.3	
Automatic debt dynamics 1/	-0.8	0.0	0.3	5.9	-2.1	0.4	0.4	0.3	0.4	0.6	0.7	
Contribution from nominal interest rate	1.4	1.4	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.3	1.3	
Contribution from real GDP growth	-0.9	-0.5	-0.2	1.4	-1.0	-0.8	-0.8	-0.8	-0.8	-0.7	-0.6	
Contribution from price and exchange rate changes 2/	-1.3	-0.9	-0.8	3.1	-2.3	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	1.1	3.9	0.7	0.0	5.5	1.8	2.1	1.7	1.7	1.5	1.4	
External debt-to-exports ratio (in percent)	64.5	68.0	66.3	80.2	78.7	69.5	66.3	63.1	59.4	55.6	51.9	
Gross external financing need (in billions of US dollars) 4/	71.8	61.0	75.7	64.8	61.3	72.5	79.4	93.2	88.3	91.7	89.9	
in percent of GDP	7.5	5.9	6.9	7.4	5.9	6.2	6.6	7.4	6.7	6.6	6.2	
Scenario with key variables at their historical averages 5/						**23.3**	**23.4**	**23.5**	**23.5**	**23.4**	**23.3**	**-1.5**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	5.1	3.2	1.2	-6.2	5.4	3.7	3.4	3.8	3.8	3.4	3.2	
GDP deflator in US dollars (change in percent)	6.7	5.4	4.5	-14.4	11.6	8.9	-0.5	1.4	1.0	1.4	1.3	
Nominal external interest rate (in percent)	7.9	8.6	7.4	5.7	6.5	5.5	5.3	5.4	5.6	6.2	6.8	
Growth of exports (US dollar terms, in percent) 6/	15.6	8.7	6.9	-20.9	28.3	25.2	5.2	6.7	7.9	8.4	8.0	
Growth of imports (US dollar terms, in percent) 6/	14.7	9.7	9.1	-22.7	26.9	23.3	4.6	7.5	8.2	9.3	7.9	
Current account balance, excluding interest payments	1.0	0.6	-0.2	0.6	0.7	0.6	0.9	0.7	0.6	0.5	0.6	
Net non-debt creating capital inflows	1.7	2.3	1.4	1.8	1.2	2.1	2.1	2.1	2.2	2.3	2.3	

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

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

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

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

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

6/ Goods and nonfactor services.

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

Table 7. Mexico: Indicators of Fund Credit 2011-2016

	Projections					
	2011	2012	2013	2014	2015	2016
Stocks from prospective drawings 1/						
Fund credit in millions SDR	47,292	47,292	47,292	47,292	23,646	0
In percent of quota	1,500	1,500	1,500	1,500	750	0
In percent of GDP	6	6	6	6	3	0
In percent of exports of goods and services	19	18	17	16	7	0
In percent of gross reserves	33	32	30	29	16	0
Flows from prospective drawings 2/						
Charges (Millions SDR)	237	1,164	1,348	1,348	1,384	468
Debt Service due on GRA credit (Millions SDR)	237	1,164	1,348	1,348	25,030	24,114
In percent of quota	8	37	43	43	794	765
In percent of GDP	0	0.2	0.2	0.2	2.9	2.6
In percent of exports of goods and services	0	0.4	0.5	0.5	7.7	6.9
In percent of gross reserves	0	1	1	1	17	19
Memo Item:						
Total External Debt (percent of GDP)	29.7	29.0	27.9	27.0	23.3	19.8

Sources: IMF Finance Department; Mexican authorities, and Fund staff estimates

1/ End of period. Assumes full drawings under the FCL upon approval of the review . The Mexican authorities have expressed their intention to treat the arrangement as precautionary. At a SDR/US$ rate of 0.63056 as of October 31, 2011.

2/ Based on the rate of charge as of October 31, 2011. Includes surcharges under the system currently in force and service charges.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

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FOR IMMEDIATE RELEASE
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International Monetary Fund
Washington, D.C. 20431 USA

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

The Executive Board of the International Monetary Fund (IMF) completed on December 21, 2011 its review of Mexico's qualification for the arrangement under the Flexible Credit Line (FCL) and reaffirmed Mexico's continued qualification to access FCL resources. The Mexican authorities have indicated that they intend to continue treating the arrangement as precautionary.

The two year arrangement for Mexico for SDR 47.292 billion (about US$73 billion), approved in January 10, 2011 (see Press Release No. 11/4), was the first under the reforms to the FCL approved in August 30, 2010 (see Press Release No. 10/321).

Following the Executive Board discussion of Mexico, Mr. David Lipton, First Deputy Managing Director and Acting Chairman of the Board, made the following statement:

"The FCL arrangement for Mexico, approved a year ago in a context of heightened risks to the global economic outlook, has played an important role in supporting the authorities' overall macroeconomic strategy, providing an insurance against global tail risks and bolstering market confidence. Today, the Executive Board reaffirmed that Mexico continues to meet the qualification criteria for access to FCL resources.

"Mexico's rapid rebound from the global crisis and the resilience of economic activity in recent months bear witness to Mexico's sound fundamentals and skillful policy management. The strong policy track record and frameworks, including a balanced-budget rule, a credible inflation targeting regime, and prudent financial oversight, have underpinned sound public and private balance sheets.

"The authorities are committed to rebuilding policy buffers gradually in light of heightened global risks. Fiscal consolidation and supportive monetary policy will be maintained, and the accumulation of foreign reserves will continue as market conditions permit. The floating exchange rate regime will continue to play a key role in buffering external shocks.

"Downside risks to Mexico's near-term outlook arise from unsettled global growth prospects and the turbulence in international financial markets. However, Mexico retains ample policy space to contain the potential fallout from external shocks, supported by the FCL arrangement, and the authorities remain committed to the rules-based macroeconomic framework and to adjust policies as needed," Mr. Lipton said.