IMF Country Report No. 17/355

MEXICO

November 2017

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 29, 2017, following discussions that ended October 6, 2017, with the officials of Mexico on economic developments and policies underpinning the IMF arrangement under the Flexible Credit Line. Based on information available at the time of these discussions, the staff report was completed on November 15, 2017.
- A **Staff Supplement** of November 15, 2017 on the assessment of the impact of the proposed Flexible Credit Line arrangement 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
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November 30, 2017

International Monetary Fund
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Washington, D. C. 20431 USA

IMF Executive Board Approves New Two-Year US$88 Billion Flexible Credit Line Arrangement with Mexico

The Executive Board of the International Monetary Fund (IMF) yesterday approved a successor two-year arrangement for Mexico under the Flexible Credit Line (FCL) in an amount equivalent to SDR 62.3889 billion (about US$88 billion) and canceled the previous arrangement in the same amount. The Mexican authorities stated their intention to treat the arrangement as precautionary.

The FCL was established on March 24, 2009 as part of a major reform of the Fund's lending framework (see Press Release No. 09/85). The FCL is designed for crisis prevention purposes as it provides the flexibility to draw on the credit line at any time. Disbursements are not phased nor conditioned on compliance with policy targets as in traditional IMF-supported programs. This flexible access is justified by the very strong track records of countries that qualify for the FCL, which gives confidence that their economic policies will remain strong.

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

"Mexico's macroeconomic policies and policy frameworks remain very strong. Monetary policy is guided by an inflation-targeting framework in the context of a flexible exchange rate. Fiscal policy is anchored by the fiscal responsibility law, and the authorities are committed to a consolidation path that would lead to a reduction of the public debt-to-GDP ratio over the medium term. The financial regulatory and supervisory framework is strong. The authorities have implemented an ambitious structural reform agenda that is beginning to show results and should help boost medium-term growth.

"The Mexican economy has successfully navigated a complex external environment. Economic activity has shown resilience, although near-term growth is projected to slow down amid prolonged uncertainty related to Mexico's future trade relations, as well as tighter macroeconomic policies. Inflation has started to decelerate following a pick-up owing to temporary shocks, and the financial system is sound. Nevertheless, given Mexico's close ties with the global economy, particularly the United States, its economy remains exposed to external risks through both trade and financial channels.

"The global risk environment has improved, but the risk of an abrupt change in Mexico's trade relations, or of a surge in financial market volatility and a sharp pull-back of capital from emerging markets, continues to be high. The new arrangement under the Flexible Credit Line (FCL), with an unchanged level of access, will continue to play an important role in supporting the authorities' macroeconomic strategy by providing insurance against external risks and bolstering market confidence.

"The authorities remain committed to enhancing Mexico's resilience to external shocks further through steadfast implementation of the ongoing fiscal consolidation plans, continued anchoring of inflation expectations, gradual rebuilding of reserve buffers, strong oversight of the domestic financial system, and steadfast implementation of structural reforms. The authorities do not intend to make permanent use of the FCL, and will continue to treat the arrangement as precautionary. They intend to gradually phase out Mexico's use of the facility, conditional on a reduction in external risks affecting Mexico."

INTERNATIONAL MONETARY FUND

MEXICO

November 15, 2017

ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE AND CANCELLATION OF CURRENT ARRANGEMENT

EXECUTIVE SUMMARY

Context: Mexico's economy has exhibited resilience in the face of a complex external environment. The authorities have responded appropriately to the recent external shocks and demonstrated their commitment to macroeconomic stability. They also remain committed to maintaining prudent policies going forward. Nevertheless, Mexico's strong trade and financial links to the global economy, and in particular the United States, make it susceptible to changes in investor sentiment.

Risks. Although the global risk environment has improved recently, Mexico continues to face significant uncertainty regarding the pace and outcome of the negotiations on the North American Free Trade Agreement (NAFTA). A fundamental change in Mexico's trade regime with the U.S. could have significant implications on Mexico. This scenario could lead to a sudden pull-back of capital triggered by a re-evaluation by investors of Mexico's growth prospects. Moreover, Mexico is exposed to the risk of renewed volatility in global financial markets, increased risk premia, and a sharp pull-back of capital from emerging markets.

Flexible Credit Line (FCL): The authorities are requesting a two-year precautionary FCL arrangement in the amount of SDR 62.3889 billion (700 percent of quota) and the cancellation of the current arrangement, approved on May 27, 2016, (SDR 62.3889 billion, 700 percent of quota). They consider that, in an environment where external risks affecting Mexico remain elevated, an FCL arrangement in the requested amount will play a critical role in supporting their overall macroeconomic strategy, preserving investor confidence, and providing insurance against tail risks. The authorities' exit strategy envisages the gradual phasing out of Mexico's use of the facility subject to a reduction in external risks affecting Mexico. In the staff's assessment, Mexico continues to meet the qualification criteria for access under the FCL arrangement, and staff supports the authorities' request.

Fund liquidity: The proposed commitment would have a manageable impact on the Fund's liquidity position.

Process: An informal meeting to consult with the Executive Board on a possible new FCL arrangement for Mexico was held on November 8, 2017.

Approved By
Robert Rennhack (WHD) and Vikram Haksar (SPR)

This report was prepared by a team comprising Costas Christou (head), Frederic Lambert and Christian Saborowski (all WHD); Charlotte Lundgren (SPR), Hui Miao (MCM), and Florian Misch (FAD).

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CONTEXT

1. **Mexico's macroeconomic policies and policy frameworks remain very strong.** Monetary policy is guided by an inflation targeting framework in the context of a flexible exchange rate regime which has helped the economy adjust to external shocks. Fiscal policy is anchored by the fiscal responsibility law, and the authorities are committed to a consolidation path that would lead to a reduction of the public debt-to-GDP ratio. The external current account deficit is low and stable, and the real effective exchange rate is in line with economic fundamentals. The 2016 FSAP found that significant progress had been made in strengthening supervision since 2012, when the FSAP had concluded that supervision was effective. Moreover, the banking sector is compliant with Basel III risk-based capital standard and liquidity requirements. Since 2013 the government has made significant progress in advancing an ambitious agenda of structural reforms in a broad range of areas.

2. **Despite sound fundamentals, the Mexican economy remains exposed to external risks.** Mexico has close ties with the global economy, and particularly with the United States, through both trade and financial channels. Foreign portfolio inflows into the domestic sovereign market continue to be strong, and international investors now hold about 51 percent of total public debt (as of end-2016), and 33 percent of local currency-denominated sovereign bonds. This reflects the strength of the Mexican economic policy framework, and the depth and liquidity of its foreign exchange and bond markets. At the same time, however, Mexico is exposed to abrupt shifts in investor sentiment toward emerging markets. Based on BIS data, the Mexican peso is the second most actively traded emerging market currency in the world, with a daily global OTC turnover of US$97 billion.

RECENT DEVELOPMENTS

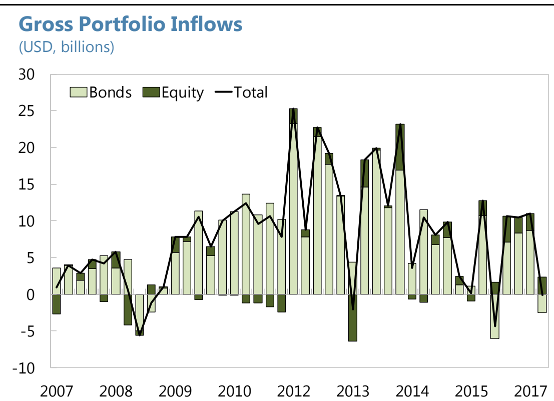
3. **Growth has remained resilient.** Real GDP growth reached 2.5 percent y-o-y in 2017:H1, despite heightened uncertainty about the future economic relationship between Mexico and the United States (Figure 1).[1] Economic activity has been driven by robust private consumption and manufacturing exports, while private investment has remained sluggish and public investment contracted. Unemployment has continued to decline to 3.3 percent in September 2017 without evidence of growing wage pressures so far.

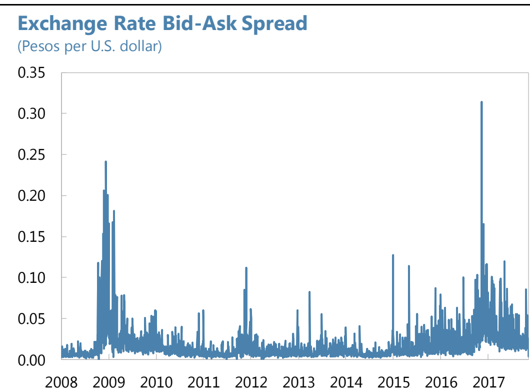
4. **Inflation is starting to decelerate.** Headline inflation had been on an accelerating trend from January 2017 to August 2017, reflecting mainly the temporary increase in gasoline prices liberalized in January 2017 but also the delayed pass-through effect of the significant peso depreciation until January 2017. More recently, a substantial increase in some agricultural prices has also contributed to a pick-up in inflation. However, headline inflation started to decelerate in

[1] At end-October, the National Statistics Office published revised national accounts data series with a new base year of 2013. The series reflect many methodological and coverage improvements, including recommendations in the 2015 Report on the Observation of Standards and Codes (ROSC). The revisions in the historical data have been incorporated in this report's macroeconomic tables and have been reflected in the macroeconomic projections.

September, reaching 6.4 percent in October. Core inflation reached 4.8 percent in the same month, compared with 3.4 percent at end-2016.

5. Mexico weathered well the heightened market volatility earlier this year but also recently. After sharply depreciating until January 2017, the peso strengthened substantially, exceeding its pre-U.S. elections level by mid-September 2017. However, it weakened recently to a five-month low amid renewed uncertainty regarding the outcome of the NAFTA negotiations. Bid-ask spreads widened dramatically in November 2016 before tightening as foreign exchange volatility declined and amid the implementation by the central bank of a new framework for FX interventions through non-deliverable forwards. Equity markets rose by more than 12 percent between January and July reaching record highs. The spread between the USD 10-year Mexican government bond and U.S. treasury bond yields is close to a multi-year low, despite the recent slight widening. The improved market outlook reflects steady domestic economic fundamentals but lessened global external risks. Capital inflows have been robust. Foreign ownership of government debt has remained broadly stable. In April 2017 Moody's affirmed its A3 sovereign rating for Mexico, and in July and August, both S&P and Fitch respectively raised their outlooks on Mexico sovereign ratings BBB+ to stable from negative.





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

6. Mexico's external position remains broadly consistent with medium-term fundamentals and desirable policy settings. The current account deficit shrank in the first half of 2017, and is projected to narrow to 2 percent of GDP this year. The peso was 10 percent stronger in real effective terms relative to its 2016 average at end-August 2017. In staff's assessment, the peso and the current account deficit are currently broadly in line with medium-term fundamentals and desirable policy settings.

7. Mexico's net international investment liability position has remained relatively stable at about 40 percent of GDP. The country has seen robust capital inflows over the past few years, but these inflows have not translated into external or domestic imbalances as the accumulation of gross external liabilities has been matched by a rise in external asset holdings (residents' foreign assets stood at 60 percent of GDP in June 2017). Foreign exchange reserves are well above established minimum benchmarks for a range of reserve adequacy indicators, including the ARA metric (Figure 4). Nevertheless, the strong presence of foreign investors leaves Mexico exposed to greater risk in terms of capital flows reversal and increase risk premia.

OUTLOOK, RISKS, AND POLICIES

8. Near-term growth prospects are projected to remain subdued, while inflation would gradually return to target. Staff projects output growth to slow to 2.21 and 2.1 percent in 2017 and 2018, respectively. Prolonged uncertainty related to Mexico's trade regime along with political uncertainty in the run-up to the July 2018 general elections and tighter global monetary conditions would increasingly weigh on consumption and investment, particularly in the export-oriented manufacturing sector. These factors would more than offset the positive contribution from external demand. On the assumption that uncertainty is resolved with a mutually-beneficial NAFTA outcome, growth would gradually converge to 3.0 percent over the medium term. Inflation would continue to decelerate in the rest of this year and would drop sharply in early 2018, as the effects of domestic fuel price increases and the depreciation until early-2017 dissipate, and the monetary tightening continues to take effect. Headline and core inflation is thus expected to converge toward the 3-percent target by end-2018.

9. Mexico continues to face substantial external downside risks. Heightened and prolonged uncertainty regarding the pace and outcome of the NAFTA negotiations, along with uncertainty about Mexico's future trade relations with the U.S. could weigh on growth.[2] Since Mexico is particularly vulnerable to changes in its trade regime with the U.S., an abrupt change in trade relations could have a significant impact on consumer sentiment, capital flows, and growth. Moreover, the risk of renewed volatility in global financial markets, increased risk premia, and a sharp pull-back of capital from emerging markets remains, and Mexico is particularly exposed to this risk due to its high share of non-resident holdings of government paper. Markets are already pricing in a high currency risk premium as measured by the interest rate spread between peso- and U.S. dollar-denominated sovereign bonds.

10. The monetary stance remains appropriate and is consistent with achieving the inflation target. With inflation on a temporary rise and the peso depreciating until January 2017, the Bank of Mexico raised the policy interest by 400-basis points during December 2015-June 2017. This stance was successful in keeping medium- and long-term inflation expectations anchored to close to the 3-percent inflation target. The Bank of Mexico has kept its policy rate at 7.0 percent since July. With the effects of the factors that pushed inflation sharply higher since January 2017 wearing off and inflation projected to get onto a downward path, the pause in the monetary

[2] NAFTA negotiations began in August 2017 and initially envisaged seven rounds of discussions to be completed by end-2017. Four rounds of discussions have been completed and the fifth one is currently under way; while the timeframe for completions has been extended to the first quarter of 2018.

tightening cycle was warranted. The authorities are monitoring the price and wage developments closely and would adjust policy as needed to keep inflation in line with the target.

11. **The government has adhered to its fiscal consolidation plan**. The 2017 public sector borrowing requirement (PSBR) is projected to fall to 1.4 percent of GDP, as the government will achieve its original target of a deficit of 2.9 percent of GDP and save all the 1.5-percent-of-GDP one-off transfer of central bank profits. Moreover, the 2018 budget aims at a PSBR of 2.5 percent of GDP, that would result in a reduction in public debt to 51.8 percent of GDP. The authorities are committed to keeping the PSBR at 2.5 percent over the medium term, which would stabilize debt at around that level.

12. **The authorities will continue to focus on improving the efficiency of tax collection, and the quality of public expenditure to create space for much-needed infrastructure spending.** The 2013 tax reform resulted in significant revenue gains and going forward further improvements in the efficiency of tax collections could further boost non-oil tax collections. Public expenditures are projected to drop by 4.3 percentage points of GDP between 2013 and 2017, mainly due to a contraction in public investment by 2.5 percentage points of GDP but also a decline in subsidies and the wage bill. Finally, PEMEX's financial situation has stabilized since the record losses of 2015 and the state-owned oil company is on track to meeting its production and financial objectives for the second consecutive year.

13. **The authorities remain committed to further strengthening the regulatory and supervisory framework of the financial sector.** A financial sector reform was approved in 2014. It enhanced the collection of credit information for individuals and businesses through extending reporting requirements to the credit bureaus to a wide set of entities. In addition, the legal framework for bank resolution has been strengthened in line with the 2012 FSAP recommendations. Another important aspect of the reform was the easing of legal hurdles for banks to repossess collateral through the creation of specialized federal courts. Financial supervision has progressed since 2012, when it was already judged to be effective. In particular, the supervision framework for large financial groups has improved.

14. **The authorities have been implementing an ambitious reform agenda.** The *Pacto por México* aimed at boosting competition and increasing access to services across a range of industries while addressing current and future pressures from declining oil revenues and population aging, and exploiting synergies between the broad range of reforms. While the implementation of the energy and telecom reforms, the tax policy reform and the financial sector liberalization are well advanced, the implementation of the education, labor market and judicial process reforms have yet to be completed. Important progress has been made over the past year in liberalizing gasoline prices and progressing with licensing rounds and farm-out contracts for crude oil and natural gas production. A constitutional reform created the National Anti-Corruption System, but the appointment of a special prosecutor for anti-corruption is still pending.

THE ROLE OF THE FLEXIBLE CREDIT LINE

15. The FCL has served the Mexican economy well, providing insurance against tail risks. The previous FCL arrangements have complemented Mexico's very strong policies and policy frameworks, and its international reserves. Over the past several years, Mexico has successfully weathered several bouts of volatility, including the most recent episode during end-2016/early-2017. The arrangement has been effective in bolstering market confidence, and the authorities believe that a successor arrangement will continue to protect Mexico against the external risks highlighted above. Given that the current arrangement would expire only a few weeks before the July 2018 elections, the authorities prefer to de-link the renewal process from the electoral cycle and advance their request for a new arrangement while cancelling the current arrangement. Moreover, they are committed to continue enhancing Mexico's resilience to external shocks through steadfast implementation of the ongoing fiscal consolidation plans, continued anchoring of inflation expectations, gradual rebuilding of reserve buffers, strong oversight of the domestic financial system and steadfast implementation of structural reforms.

16. The authorities consider that the requested new FCL arrangement for two years at the same level of access as the current FCL arrangement is appropriate in the current complex external environment. In their view, although some global risks highlighted at the time of the request of the 2016 FCL arrangement have receded, uncertainty about Mexico's future trade relations with key advanced economies has increased. The authorities are also concerned about a renewed surge in capital flow volatility or a rapid rebalancing of investor portfolios away from emerging markets, especially associated with the process of normalization of U.S. monetary policy, which could affect Mexico, given its close trade and financial links to the U.S. Mexico has also made substantial progress in the implementation of structural reforms, and expects sizeable foreign investments especially in the energy sector. In this vein, financial market disruptions could endanger this process and hamstring FDI flows. The authorities also highlighted that emerging geopolitical risks had the potential to significantly disrupt growth as well as risk sentiment towards emerging markets. In their view, a renewal of the FCL arrangement for the next two years would help limit the risk that disruptive financial conditions and trade developments would halt the economic recovery or diminish the effectiveness of structural reforms.

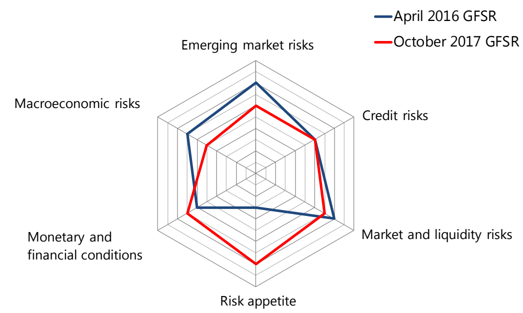
A. Access Considerations

17. External risks to Mexico remain elevated. Although the global risk environment has improved since the approval of the 2016 FCL arrangement, the risk of protectionist tendencies in some advanced economies remains and the likelihood of a surge in financial market volatility continues to be high. The bout of financial market volatility at end-2016/early-2017 highlights the risk of sudden shifts in investor risk appetite, which could lead to a rapid reassessment of Mexico's risk profile.

- The latest GFSR points to a decline in near-term global financial stability risks with the strengthening global recovery. However, medium-term vulnerabilities are building as the search for yields intensifies. Prolonged low volatility, further compression of spreads, and rising asset prices have raised the sensitivity of the financial system to market and liquidity risks, while credit risks are already elevated. Investors' concerns about debt sustainability could eventually materialize and prompt a reappraisal of risks. In such a downside scenario, a shock to individual credit and financial markets well within historical norms could decompress risk premiums and reverberate worldwide, with a significant impact on Mexico.

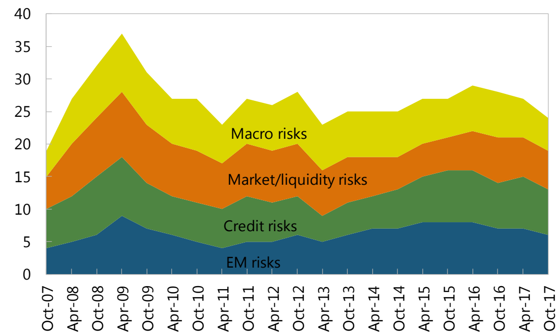
- The risk of an abrupt change in trade relations with some of Mexico's key trading partners remains. Prolonged and heightened uncertainty regarding Mexico's future trade regime has already weighed on FDI in the first half of 2017 and FDI into Mexico is projected to decline by 17 percent this year. A continuation of this uncertainty alone could further reduce Mexico's attractiveness for FDI. Moreover, although portfolio investment has remained resilient, an abrupt change in Mexico's trade relations could result in a severe shock to Mexico's external balance of payments.

Global Financial Stability Map



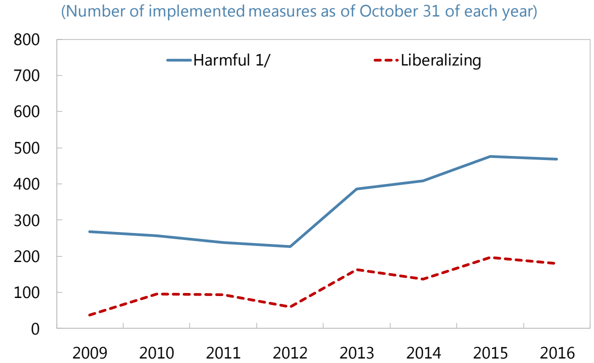
Source: Global Financial Stability Report.
Note: Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.

Global Financial Stability Map Risk Indicators
(Notches)



Source: Global Financial Stability Report.

Worldwide Trade Measures
(Number of implemented measures as of October 31 of each year)



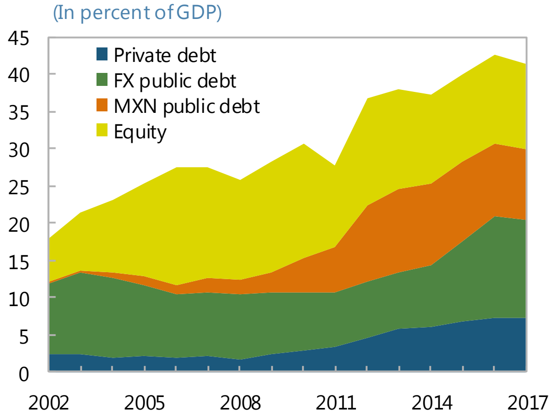
Sources: Global Trade Alert.
1/ Trade-distorting measures.

- Other potential triggers for a balance of payments need include a sudden disorderly pull-back of capital from emerging market economies, which could be triggered by a crisis in one or more emerging markets. This shock would likely trigger safe-haven capital flows and a sharp retreat from emerging markets, but the impact would be particularly large if this risk were to materialize simultaneously with the materialization of the protectionism risk.

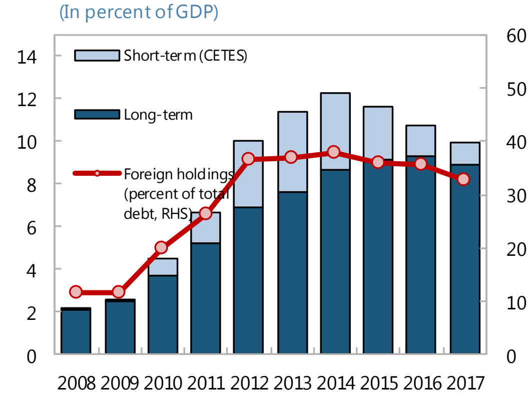
- An external economic stress index for Mexico (Box 1) shows that external conditions are expected to improve slightly under the baseline scenario, but could deteriorate rapidly if risks materialize.

18. The materialization of these risks could affect Mexico disproportionately given its open current and capital accounts and sizeable stock of foreign portfolio investment, thus justifying the need for maintaining strong protection against balance of payments shocks. Portfolio flows to Mexico have increased significantly, with the increase being more pronounced in the local-currency sovereign debt markets. The high foreign holdings of domestic assets expose Mexico to shifts in global risk aversion. Moreover, Mexico's FX and bond markets are among the most liquid in the emerging market universe, which could make it vulnerable to greater outflows during stress periods. Investors facing large redemptions are likely to base their asset divestment not only on fundamentals, but also on market liquidity, which would affect countries with deep markets such as Mexico.

Foreign-Held Portfolio Liabilities
(In percent of GDP)



Non-Residents' Holdings of Local Sovereign Debt
(In percent of GDP)



Sources: National authorities; and IMF staff calulations.

Box 1. The Calculation of the External Economic Stress Index

The external economic stress index (ESI) for Mexico was initially presented in Mexico's staff report on the arrangement under the Flexible Credit Line, November 2014. Its methodology is explained in *Flexible Credit Line—Operational Guidance Note,* IMF Policy Paper, June 2015. The calculation of the index required three main choices: (i) selection of relevant external risks, (ii) selection of proxy variables capturing these risks, and (iii) choice of weights for these variables. The updated index is presented below using the same model and proxy variables, but with updated weights reflecting the latest data.

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

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

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

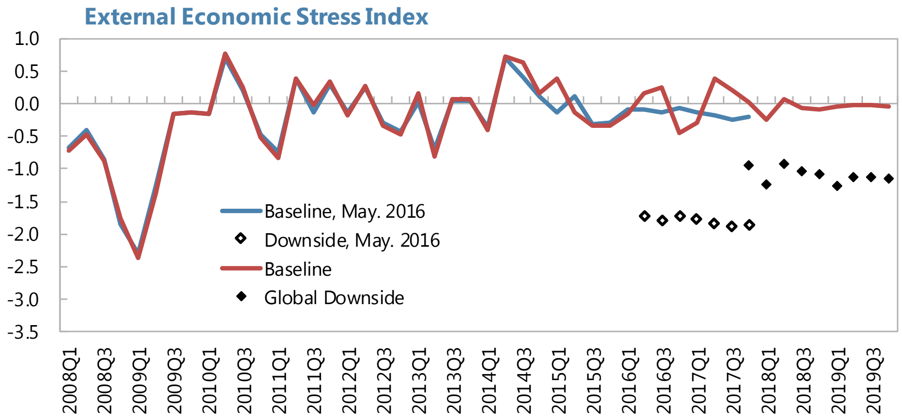
Baseline scenario. This scenario corresponds to the WEO projections for U.S. growth, oil prices, and the U.S. 10-year bond yield. The VXEEM projections are in line with the VIX futures as of September 29, 2017.

Global downside scenario. The downside scenario is based on the global market disruption scenario in the October 2017 GFSR, and would be broadly consistent with the *global* tail risks relevant for Mexico: a global financial downturn, including higher risk premia, falling asset prices, and increased volatility, would cause a reduction of U.S. growth by 1.3 percentage points and a reduction in US 10-year treasury yields by 0.67 percentage points relative to the baseline WEO projection. As a result of weaker global growth, oil prices would be about 13 percent lower than the baseline. The scenario also assumes a surge in global financial market volatility, with the VXEEM rising by 3 standard deviations (for comparison, the VXEEM increased by 4 standard deviations in both 2008:Q4 and 2011:Q3).

Country-specific external downside scenario. The ESI global downside scenario shows a clear improvement compared to that in May 2016 in line with the more favorable global risk environment. However, country specific uncertainties are critical to a risk assessment for Mexico at this juncture. A severe disruption to Mexico's trade relations with its key trading partner—which could entail the imposition of non-tariff barriers as well as increases in tariffs—would lead to a temporary but sharp reduction in trade and net exports (given that 80 percent of Mexico's exports and less than half of its imports would be affected directly). In addition, there could be an abrupt drop in FDI as foreign investors would re-organize their global supply chains (especially in export-oriented sectors). Notably, the mere uncertainty about Mexico's future trade relations has already led to the cancelation and/or postponement of investment projects. This adverse impact on trade and FDI would likely come with temporarily reduced portfolio investment and increased risk premia for Mexico as investors re-evaluate Mexico's growth prospects. The current ESI is not designed to reflect this country-specific uncertainty. Nevertheless, staff is of the view that a combination of global risks and country-specific uncertainties would, at a minimum, be comparable to the May 2016 downside scenario.

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

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



B. Adverse Scenario

19. Staff's estimate of financing needs in an adverse scenario shows a significant drain on reserves, driven mostly by a reduction in net FDI inflows and a turnaround in portfolio flows. A materialization of the trade regime risk would lead investors to reconsider their investments in Mexico and interrupt supply chains. Inward FDI flows would decline sharply as multinational firms reconsider the setup of their production chains. The associated confidence and growth shocks would lead to a reduction in portfolio inflows while domestic institutional investors would increase the share of foreign assets in their portfolios. At the same time, the positive impact of an exchange rate depreciation on the current account would initially (within the scenario's one-year projection horizon) be more than offset by a decline in net exports due to a disruption of bilateral trade with Mexico's main trading partner. This would be the case in a scenario entailing severe non-tariff and/or tariff barriers. Following an initial period of turmoil, the net effect on the current account could turn positive (outside the scenario's one-year projection horizon) as supply chains reconstitute themselves and the exchange rate adjustment takes full effect.

20. Access at 700 percent of quota can be justified under a plausible tail risk scenario (Box 2). As country-specific uncertainties related to Mexico's integration in global production chains has increased, some shocks are greater than assumed in the current FCL arrangement. As the magnitude of the simulated shock is projected to be slightly higher than in the 2016 FCL arrangement, Mexico would be expected to contribute more to the adjustment by drawing more on its own reserves. Hence the assumed reserve drawdown is on average more than twice the one assumed in the current arrangement, but would still ensure sufficient (and credible) buffers in light of uncertainty inherent in the estimation of the various balance of payments risks. The fact that the peso is the second most widely traded emerging market currency and is frequently used as a proxy for or to hedge against other emerging market currencies would suggest that a strong reserve cover would remain crucial in the current environment.

Box 2. Illustrative Adverse Scenario

Access in the amount of SDR 62.3889 billion (700 percent of quota) can be justified under a plausible downside scenario, with rollover rates around or above the 25th percentile in past crisis episodes. This scenario illustrates the potential impact on Mexico's balance of payments of adverse shocks associated with renewed volatility in global financial markets, and increased risk premia leading to a sharp pull-back of capital from emerging market economies as well as the risk of an abrupt change in Mexico's trade relations, implying a reorganization of cross-border production chains and a loss of confidence on the part of investors.

Use of reserves. A sizeable drawdown of reserves, of $10-14 billion, is assumed in the downside scenario, more than twice the amount assumed in the current arrangement. Reserve adequacy in terms of the ARA metric would be 113.8 and 108.4 percent in 2018 and 2019, respectively. Remaining within the range for the reserve adequacy level would be desirable to ensure sufficient (and credible) buffers to deal with potential shocks facing the Mexican economy going forward.

Current account. The positive impact on the current account following an exchange rate depreciation under this scenario would initially be more than offset by a decline in net exports due to a disruption in Mexico's trade relations—possibly following the imposition of non-tariff barriers as well as increases in tariffs—as it would take time for companies to re-assess their business models and re-organize cross-border supply chains accordingly. The current account is thus assumed to deteriorate by 0.45 percentage points of GDP (less than in the 2012 FCL arrangement) during the year of the shock. This widening in the current account deficit would be temporary and the current account would improve over time benefitting from the full effect of the exchange rate depreciation.

Foreign direct investment. A 60 percent drop in net FDI inflows is assumed (also smaller than in the 2012 arrangement and close to the assumed drop in the 2016 arrangement). As a significant share of FDI is related to export-oriented production facilities serving the North American market, a slowdown in U.S. imports and exports due to trade barriers would discourage FDI.

Gross equity portfolio inflows. A loss of confidence, like a surge in global financial volatility and heightened risk aversion would lead to a reduction of equity holdings by foreign investors. The same shock (1.6 standard deviations) as in the 2016 arrangement is assumed.

Resident portfolio outflows. Uncertainties about the exchange rate could also lead to temporary capital flight by residents. The same shock (1.6 standard deviations) as in the 2016 arrangement is assumed. The shock is similar in magnitude to the experience in mid-2013, when residents increased their foreign asset holdings in response to the taper tantrum.

Foreign currency-denominated debt. The scenario assumes a rollover rate of 80 percent of FX debt coming due, similar to the rate assumed in the 2016 arrangement, as the risk of foreign investors reducing exposure to Mexico remains very high.

Peso-denominated debt. The assumed rollover rate of 71 percent is again similar to the one considered in the 2016 arrangement. Although the peso recovered most of the losses of the aftermath of the U.S. elections by mid-September 2017 since the rhetoric had improved, it has been under renewed pressure in recent weeks. To this end, a sharp depreciation following an abrupt change in trade relations that would question Mexico's prospects could lead to a reduction of foreign investors' holdings of local currency debt.

Box 2. Illustrative Adverse Scenario (continued)

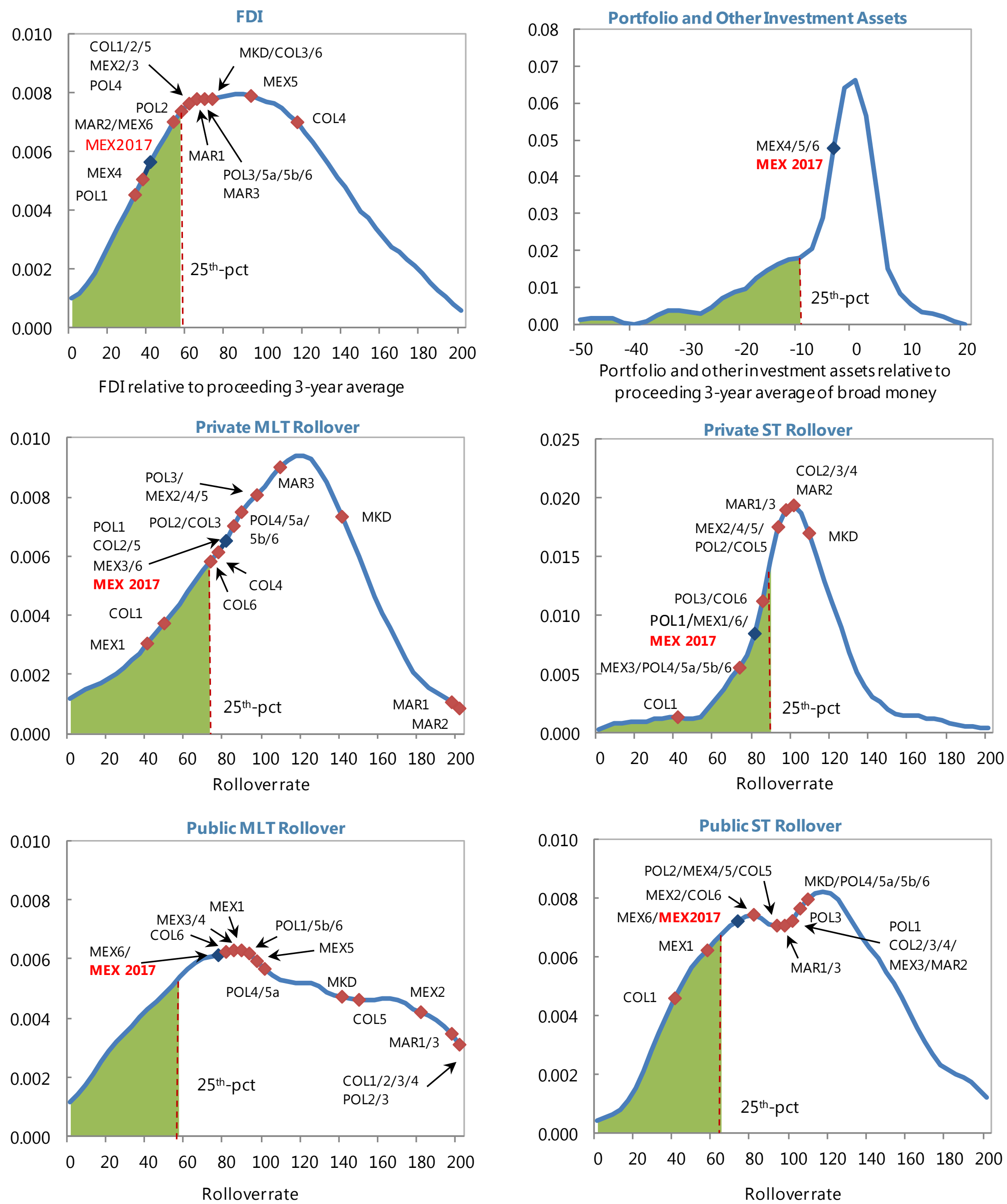
Table A. Mexico: External Financing Requirements and Sources

(In billions of U.S. dollars)

	2015	2016	2017	2018	2019	Adverse 2018	**Contribution to Gap**	Adverse 2019	**Contribution to Gap**	Rollover /Shock	2016 Rollover /Shock	2014 Rollover /Shock	2012 Rollover /Shock
			Proj.										
Gross external financing requirements	**121.3**	**123.5**	**92.5**	**106.0**	**117.7**	**101.6**	**-4.4**	**109.7**	**-8.0**				
Current account deficit	28.8	23.0	23.1	29.2	32.5	34.9	**5.6**	38.5	**6.0**	0.45% of GDP shock	No net shock	No net shock	$10 bn shock
Amortization of Bonds and Loans	110.5	86.4	68.2	75.1	83.7	75.1		83.7					
Change in international reserves	-18.1	0.4	-0.3	4.1	6.6	-5.9	-10.0	-7.4	-14.0	USD 10-14 bn	USD 5bn	USD 6-8 bn	No use of reserves
Available external financing	**121.3**	**123.5**	**92.5**	**106.0**	**117.7**	**14.5**	**91.5**	**-95.5**	**95.5**				
Net FDI inflows	23.9	28.4	21.5	25.2	28.7	9.7	15.5	9.7	19.0	40%	50%	90%	37%
Equity Portfolio Inflows	3.6	9.5	2.0	2.0	1.5	-7.3	9.3	-7.8	9.3	1.6 std dev = USD 9.3bn	1.6 std dev = USD 9.3bn	1.5 std dev = USD 8.7bn	1.9 std dev = USD 11bn
Financing through Bonds and Loans	108.7	95.3	81.5	87.2	87.0	61.0		62.6					
Public sector MLT financing	32.5	42.5	29.8	40.2	34.0	20.2		15.1					
FX denominated bonds	17.2	25.0	10.7	13.7	16.4	6.7	7.0	7.8	8.6	80%	80%	95%	86%
Local currency bonds	5.3	0.5	14.4	22.1	15.4	9.2	12.9	5.2	10.3	71%	71%	85%	80%
FX Bank Financing	9.9	16.9	4.7	4.4	2.1	4.4		2.1					
Private sector MLT financing	6.2	9.2	9.1	11.6	15.1	7.1		7.8					
FX denominated bonds	2.9	4.2	3.3	5.4	8.3	3.5	1.9	4.1	4.3	80%	80%	95%	95%
FX Bank Financing	3.3	5.0	5.7	6.2	6.7	3.6	2.6	3.7	3.0	80%	80%	95%	95%
Short-term financing	70.1	43.7	42.6	35.4	37.9	33.6		39.6					
Public sector	38.4	16.8	12.8	18.5	20.8	9.9		14.0					
FX denominated	3.2	3.1	3.1	3.1	3.1	3.1		3.1					
Local Currency	35.3	13.7	9.7	15.4	17.7	6.8	8.6	10.9	6.9	71%	71%	90%	90%
Private sector	22.2	18.2	20.2	21.7	23.2	16.1	5.6	17.3	5.9	80%	80%	90%	90%
Trade credit	9.5	8.8	9.6	10.6	11.6	7.7	2.9	8.4	3.2	80%	80%	90%	90%
Other flows	-14.9	-9.8	-12.5	-8.4	0.5	-33.5		-24.6					
Residents' foreign portfolio & other investment	-7.8	-1.3	-12.1	-11.6	-11.1	-36.7	25.1	-36.2	25.1	1.6 std dev = USD 25.1bn	1.6 std dev = USD 25.1bn	1.5 std dev = USD 23.6bn	1.5 std dev = USD 23.6bn
Financing Gap (USD billions)							**87.2**		**87.5**				
SDR (1.40355210967918 USD/SDR, Nov. 8, 2017)							62.1		62.3				
Percent of quota							697		700				

Sources: Mexican authorities and IMF staff estimates.

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



Source: IMF staff calculations.

1/ The countries shown are previous FCL/PCL/PLL arrangements, numbered consecutively by country. MEX2017 is the current FCL arrangement.

C. Exit Strategy

21. The authorities reaffirmed that Mexico does not intend to make permanent use of the FCL and will continue to treat the arrangement as precautionary. The requested two-year arrangement would provide Mexico access to Fund resources of 700 percent of quota for the entire duration of the arrangement subject to the successful completion of the mid-term review. The authorities intend to request a reduction in access to Fund resources to 600 percent of quota at the time of the mid-term review of the arrangement, conditional on a reduction of external risks affecting Mexico, including a dissipation of the risk of an abrupt change in Mexico's trade relations, and on a smooth continuation of the process of normalization of U.S. monetary policy, also barring emergence of new external risks. This fits into their strategy for a gradual phasing out of Mexico's use of the facility. At the same time, the authorities are committed to continue enhancing Mexico's resilience to external shocks, including through the steps outlined in ¶15.

REVIEW OF QUALIFICATION

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

- **Sustainable external position.** The external current account deficit is low, is envisaged to remain moderate over the medium term, and the external position is broadly in line with medium-term fundamentals and desirable policies. The updated external debt sustainability analysis (Figure 5) continues to show that Mexico's external debt is relatively low (40 percent of GDP at end-June 2017), and would slightly decline over the medium term. The net foreign liability position is projected to remain at around 39 percent of GDP by 2022.

- **Capital account position dominated by private flows.** The bulk of Mexico's external debt is owed to private creditors. Private portfolio flows (debt and non-debt creating) and FDI continue to be large relative to the overall balance of payments flows. In total, public flows accounted for only around 20 percent of Mexico's direct, portfolio and other asset and liability flows on average over the last three years. [3]

- **Track-record of steady sovereign access to international capital markets at favorable terms.** Mexico is among the highest-rated emerging markets. Mexico's sovereign bond (EMBI+) spread and five-year CDS spreads have partially reversed their increases toward the end of 2016

[3] Public flows are flows to and from the domestic public sector, and are defined as the sum of the absolute values of reserve assets flows, and general government and central bank portfolio and other debt liability flows. Total flows are calculated as the sum of the absolute values of direct, portfolio and other assets and liabilities as well as reserve assets.

and in early 2017; and now stand at 188 and 106 basis points, respectively (as of November 6, 2017). Mexico continues to place successfully sovereign bonds in international capital markets, recently placing a US$1.88 billion 30-year bond with a coupon of 4.6 percent that was heavily over-subscribed. The government has fully covered external financing needs for 2017 while its 2018 external currency amortizations are limited. The public sector issued or guaranteed external bonds or disbursements of public and publicly-guaranteed external commercial loans in international markets during each of the last five years, in a cumulative amount over that period equivalent to almost 1,400 percent of Mexico's Fund quota. Mexico did not, in staff's assessment, lose market access at any point in the last 12 months.

- **Relatively comfortable international reserve position.** Gross international reserves reached US$174.6 billion on November 10, 2017, compared to US$182 billion at end-April 2016, just before the current FCL arrangement was approved. This level is comfortable relative to standard reserve coverage indicators (Figure 4). Mexico's reserves have exceeded 100 percent of the ARA metric in each of the last three years.

- **Sustainable public debt position and sound public finances.** Fiscal policy remains prudent and is underpinned by the rules in the fiscal responsibility law. The authorities are undertaking a fiscal consolidation plan—announced in 2014—that envisages reducing the PSBR from 4.5 percent of GDP in 2014 to 2.5 percent in 2018. The targets for 2015 and 2016 were met, and the 2017 target is also projected to be met even without the transfer from the central bank, which is expected to be used in its entirety to reduce the PSBR. The 2018 budget approved by Congress envisages a PSBR target of 2.5 percent of GDP and would lead to a reduction in the debt-to-GDP ratio to 51½ percent. An updated debt sustainability analysis shows that the debt trajectory is overall robust to standard shocks (Figure 7). The debt projection is sensitive to growth, exchange rate fluctuations, and the evolution of oil prices, but debt would remain contained even under severe negative shocks. Staff assesses Mexico's public debt to be sustainable with high probability.

- **Low and stable inflation in the context of a sound monetary and exchange rate policy framework**. Headline inflation has exceeded the 3 percent target owing mainly to a sharp temporary increase in the prices of domestic fuel, as part of the process of liberalization of these prices, and the temporary pass-through effect from the currency depreciation until January 2017. However, inflation has already started to decelerate and is expected to converge to the target by end-2018. Medium-term inflation expectations remain close to the target, pointing to the transitory nature of much of the current inflation pressure as well as the credibility of monetary policy. To achieve this, the Bank of Mexico tightened monetary policy considerably (by 400 basis points) during December 2015–June 2017. Mexico has maintained single digit inflation over the past five years.

- **Sound financial system and the absence of solvency problems that may threaten systemic stability.** As of July 2017, the banking system's capital adequacy ratio stood at 15.6 percent, slightly higher than a year ago and provisioning at 159.3 percent of non-performing loans is high. Corporate balance sheets remain resilient to exchange rate shocks as large corporations are naturally-hedged. The broader financial system is also sound. Private pension funds, which held assets of about 16 percent of GDP, have a conservative investment profile. Capital in the insurance sector also exceeds the minimum requirements, and all insurance companies comfortably satisfy the new capital requirements under the Solvency II regime adopted in April 2015. Real estate investment trusts have grown since 2011, but remain small and are financed mostly by equity, with new statutory limits on their leverage. The 2016 FSAP and the 2017 Article IV consultation did not highlight significant solvency risks or recapitalization needs.

- **Effective financial sector supervision.** The 2012 FSAP concluded that banking supervision in Mexico was effective, and the 2016 FSAP highlighted the improvements in supervision since 2012. Mexico adopted the Basel III capital rules in 2013, and the Basel Committee assessed it as compliant in 2015. Liquidity coverage ratio (LCR) minimum requirements have been in place since January 2015. The regulation of financial groups was enhanced in January 2014 through the implementation of supervision at the group level. The authorities monitor closely the operations of foreign bank subsidiaries—about 70 percent of banking system assets—to ensure compliance with regulatory norms. The 2016 FSAP found that significant progress had been achieved in strengthening financial sector prudential oversight since 2012, and recommended several areas for further progress, especially to strengthen the governance of the supervisory agencies and IPAB. The 2017 Article IV consultation with Mexico did not raise substantial concerns regarding the supervisory framework.

- **Data transparency and integrity.** The overall quality of Mexican data continues to be high and adequate to conduct effective surveillance as described in the June 2015 data ROSC update. Mexico remains in observance of the Special Data Dissemination Standards (SDDS).

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

23. International indicators of institutional quality show that Mexico has above average government effectiveness. The institutional quality of economic policy is underpinned by the inflation-targeting framework (anchored by a strong, independent central bank), the fiscal responsibility law, and the effective prudential and regulatory framework for financial supervision. According to the 2016 World Bank's Governance Indicators, Mexico's government effectiveness ranks at the 60^{th} percentile among all countries. A weaker area continues to be the control of corruption, where Mexico finds itself close to the 25^{th} percentile. However, a constitutional reform (adopted in May 2015) and secondary legislation (promulgated in July 2016) further empowers the federal government to investigate, prosecute, and sanction corrupt activity in Mexico. The reform creates a National Anticorruption System, increases transparency requirements in the use of public funds, and lengthens the statute of limitations. Implementation has begun with the institutional setting at the federal level nearing completion. Finally, Mexico underwent a full assessment of its anti-money laundering framework, and the report (expected in late 2017) will provide further recommendations to the authorities for strengthening the effectiveness of anti-money laundering measures.

24. The authorities have a strong track record in responding to significant shocks, owing to very strong fiscal and monetary institutional frameworks. Mexico has been able to navigate successfully a complex external environment over the last year. The flexible exchange rate has been playing a key role in helping the economy adjust to external shocks. Fiscal consolidation remains on track, while monetary policy has kept inflation expectations anchored close to the inflation target. The current fiscal framework is anchored in the 2006 fiscal responsibility law, which was strengthened in 2014, and contributes to the accountability and transparency of fiscal policy. The 2014 reform of the fiscal responsibility law defined the Public Sector Borrowing Requirements as a fiscal target and set a cap on the real rate of growth of structural current spending. Targets for the publicly-owned companies PEMEX and CFE were also introduced. The central bank has been independent from the government since 1994, with a constitutional mandate to maintain the currency's purchasing power. It formally adopted an inflation-targeting framework in 2001, although inflation targets have been set since 1996.

IMPACT ON FUND FINANCES, RISKS, AND SAFEGUARDS

25. As is the case with the current FCL arrangement with Mexico, access of 700 percent of quota (SDR 62.3889) under the proposed FCL would be substantial, but the impact on Fund liquidity would be manageable. The approval of the proposed arrangement and cancellation of the current one would have no impact on Fund liquidity. However, if drawn, the proposed FCL arrangement would be the Fund's largest single credit exposure by a wide margin, although the Fund's liquidity is expected to remain adequate after an approval of the proposed FCL arrangement for Mexico.

26. The risks to the Fund from a potential large credit exposure to Mexico are mitigated by several factors. The authorities have, as with previous FCL arrangements, stated that they intend to treat the proposed arrangement as precautionary. Even if a full drawing under the arrangement were to be made, several factors would mitigate risks to the Fund, including Mexico's adequate buffers, very strong policies, and the credibility of its policy framework. Mexico's external debt would remain moderate at about 45.2 percent of GDP in 2017. Debt service is projected to peak at about 10.1 percent of GDP in 2021. Moreover, Mexico has a demonstrated excellent track record of meeting its obligations to the Fund.

27. FCL safeguards procedures are underway. The authorities have provided authorization for the central bank's external auditors to hold discussions with FIN staff. In addition, staff has obtained copies of the central bank's audited financial statements and management letter for FY2016. Once completed, the results of the procedures will be included in the 2018 Article IV staff report for Mexico.

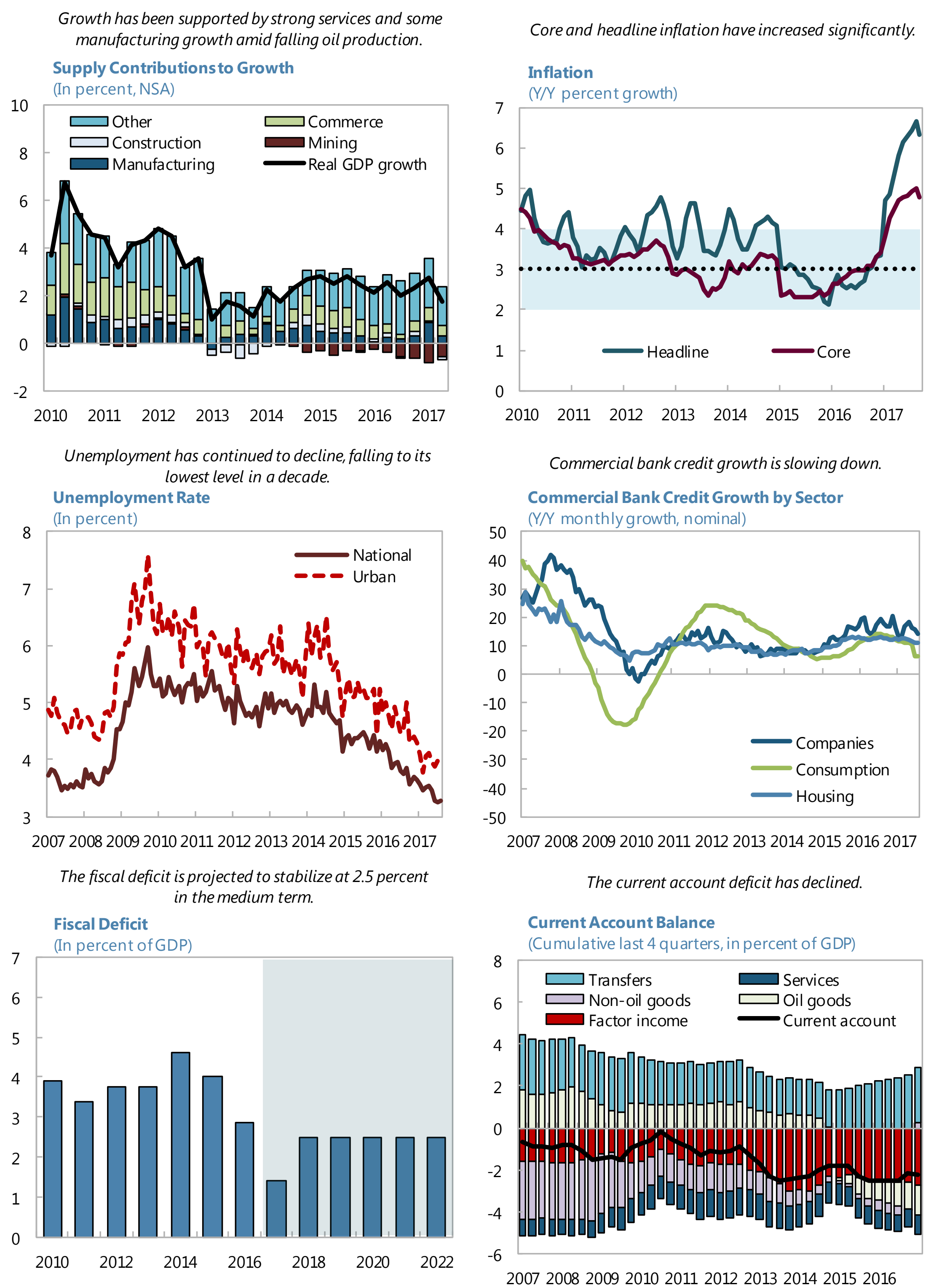
STAFF APPRAISAL

28. Staff's assessment is that Mexico continues to meet the qualification criteria for access to FCL resources. In the 2017 Article IV consultation with Mexico completed on November 8, 2017, the Fund noted that Mexico has very strong policies and institutional policy frameworks. The authorities have a successful record of sound policy management and are firmly committed to maintaining prudent policies going forward.

29. Staff considers the proposed access level of SDR 62.3889 billion (700 percent of quota) to be appropriate. Uncertainties surrounding Mexico's external environment, including, most importantly, risks of an abrupt change in Mexico's trade relations but also the normalization of monetary policy in the United States, remain high. Mexico, with its open capital account and significant stocks of foreign portfolio investment is vulnerable to changes in investors' preferences, and plausible downside scenarios would create substantial downside risks. The bout of volatility between November 2016 and January 2017 along with the more recent episode highlight the risk of sudden shifts in investor risk appetite. The proposed new FCL arrangement would continue to support the authorities' overall economic strategy, and would supplement Mexico's external buffers by providing insurance against tail risks. Staff supports the authorities' view that the proposed access under the two-year FCL arrangement is advisable in the case of Mexico, given uncertainty regarding the pace and outcome of the ongoing negotiations on NAFTA. The requested two-year arrangement would provide Mexico access to Fund resources of 700 percent of quota for the entire duration of the arrangement subject to the successful completion of the mid-term review. Staff welcomes the authorities' exit strategy, which foresees their intention to gradually phase out Mexico's use of the facility subject to a reduction in relevant external risks. They authorities intend to request a reduction in access to 600 percent of quota at the time of the mid-term review of the arrangement, conditional on a reduction in external risks affecting Mexico, including a dissipation of the risk of an abrupt change in Mexico's trade relations, and on a smooth continuation of the process of normalization of U.S. monetary policy, also barring emergence of new external risks.

30. Staff judges the risks to the IMF arising from the proposed FCL arrangement to be manageable. While the requested amount is substantial, the authorities have an excellent policy implementation track record, and they intend to maintain a very strong policy framework. Risks to the Fund are further contained by the authorities' intent to treat the FCL arrangement as precautionary, Mexico's strong repurchase record with the Fund, and its manageable external debt service profile even if the full amount of the FCL were to be drawn.

Figure 1. Mexico: Recent Economic Developments

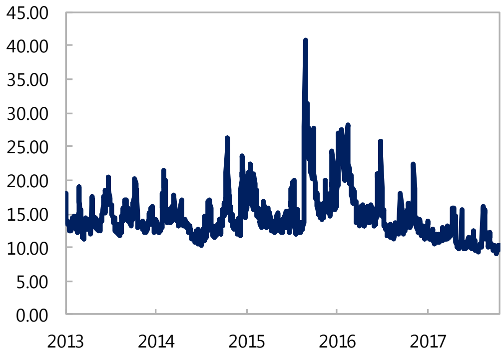


Sources: National authorities; Haver Analytics; Bloomberg; and IMF staff calculations.

Figure 2. Mexico: Recent Financial Developments

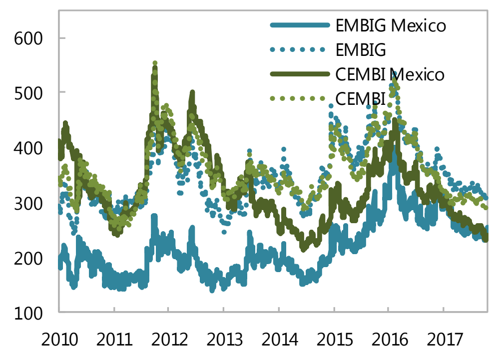
Global financial markets volatility has declined since 2016...

VIX Index
(Index)



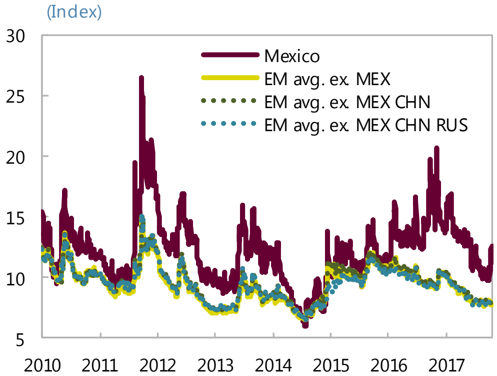
...along with corporate and sovereign risk premiums...

EMBIG and CEMBI Spreads
(In basis points)



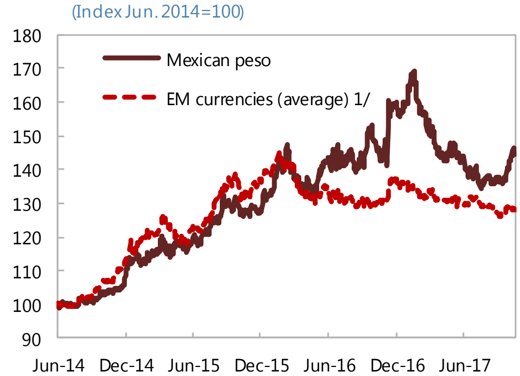
...and the volatility in foreign exchange markets.

Exchange Rate 3-Month Implied Volatility
(Index)



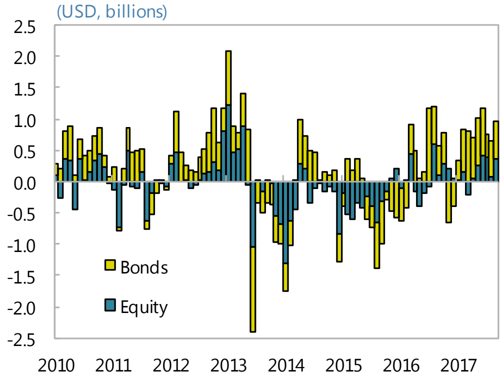
The peso depreciated rapidly in 2016 before recovering until September.

Exchange Rates
(Index Jun. 2014=100)



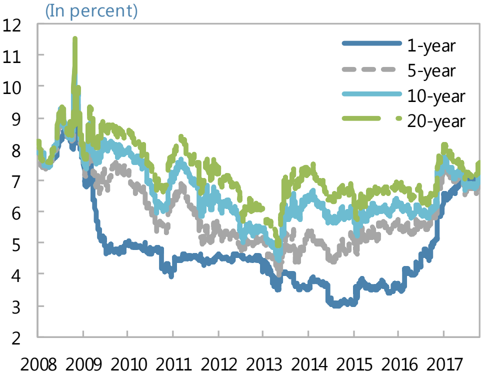
ETF and mutual funds' inflows have recovered since the decline in late 2016...

ETFs and Mutual Fund Flows
(USD, billions)



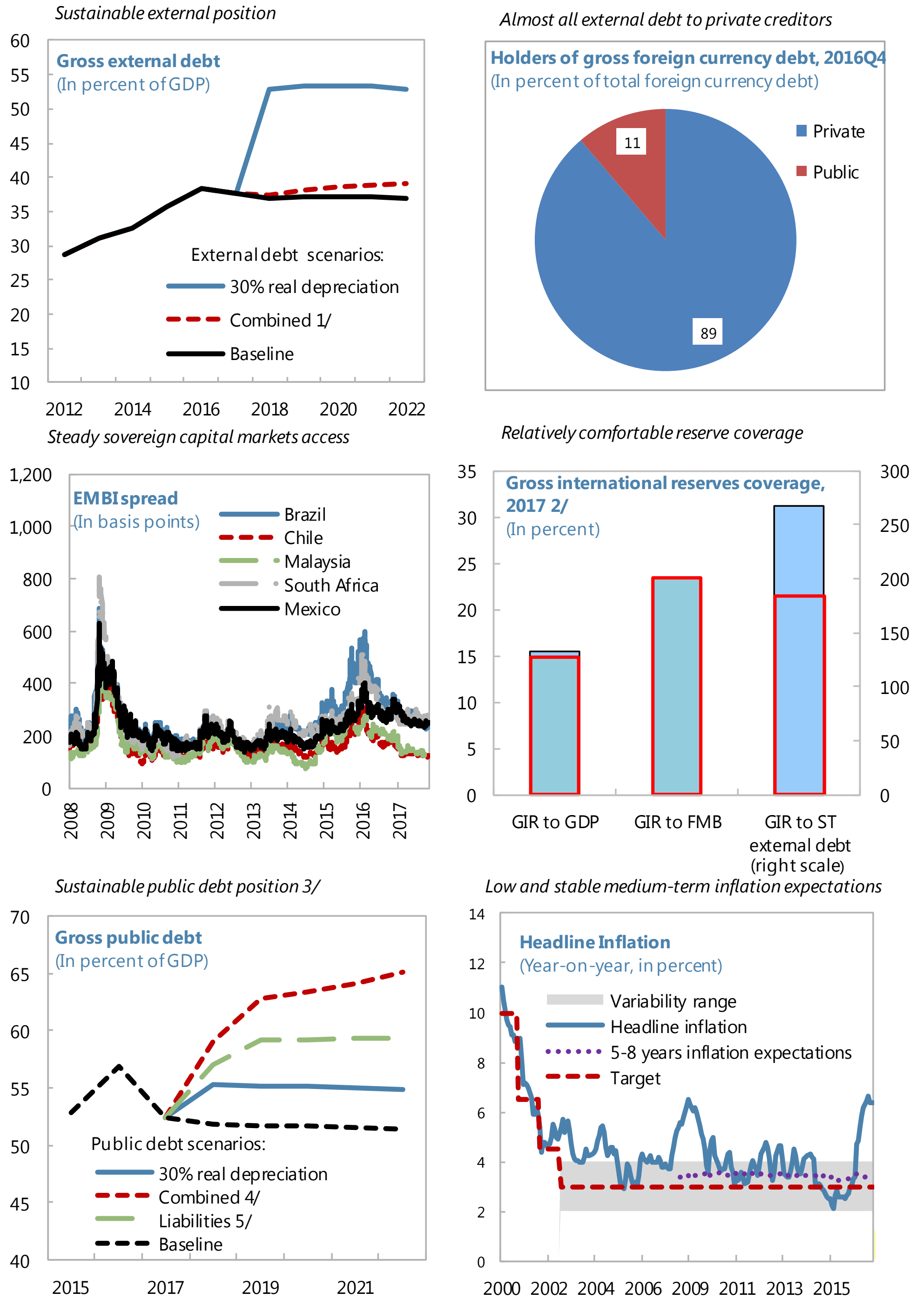
...while yields on local-currency government bonds have decreased.

Government Bond Yields
(In percent)



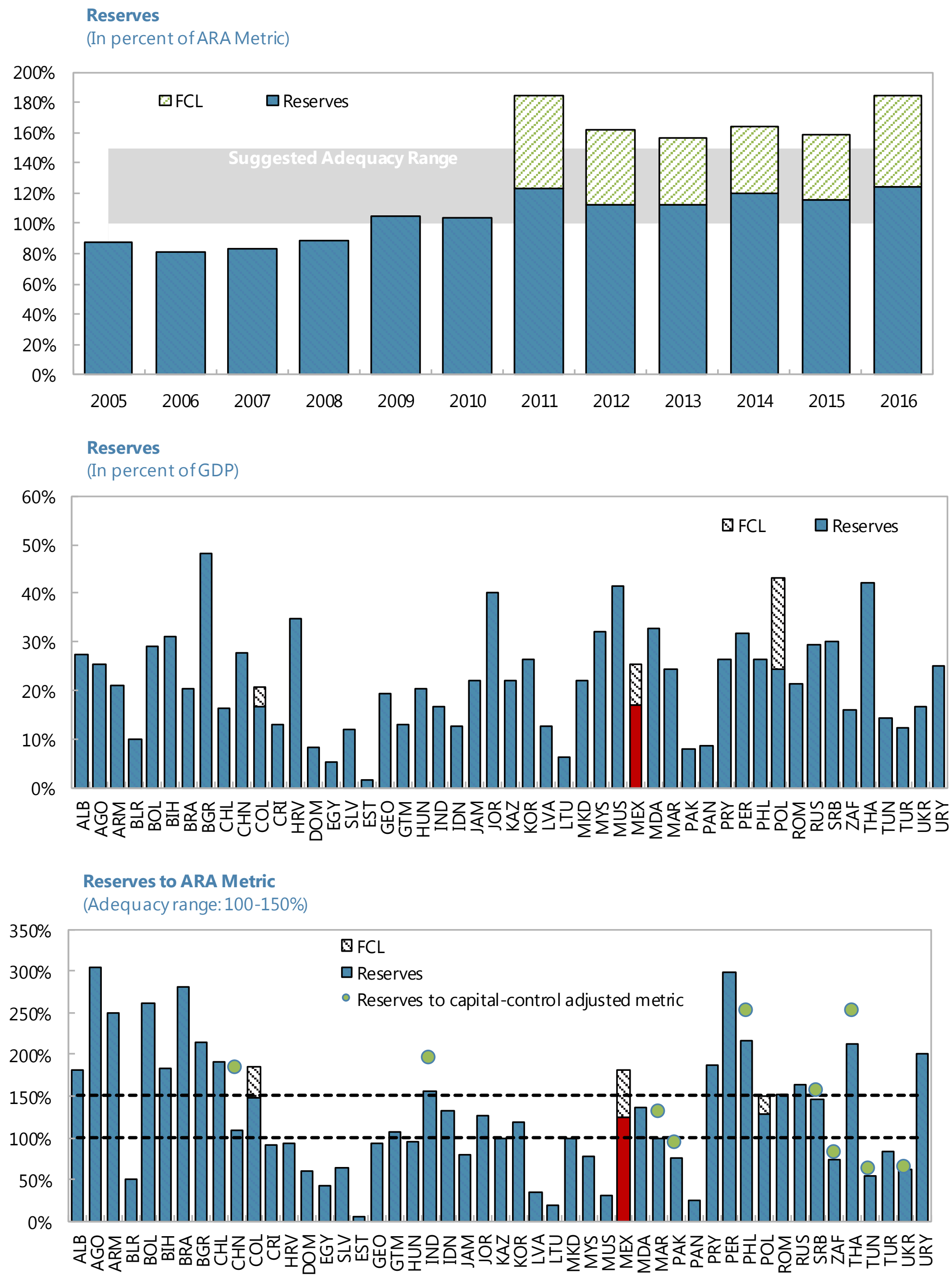
Sources: National authorities; Haver Analytics; EPFR; INS; Bloomberg; and IMF staff calculations.
1/ Includes Brazil, Chile, Colombia, Czech Republic, India, Indonesia, Korea, Poland, Russia, Thailand, and Turkey.

Figure 3. Mexico: Qualification Criteria



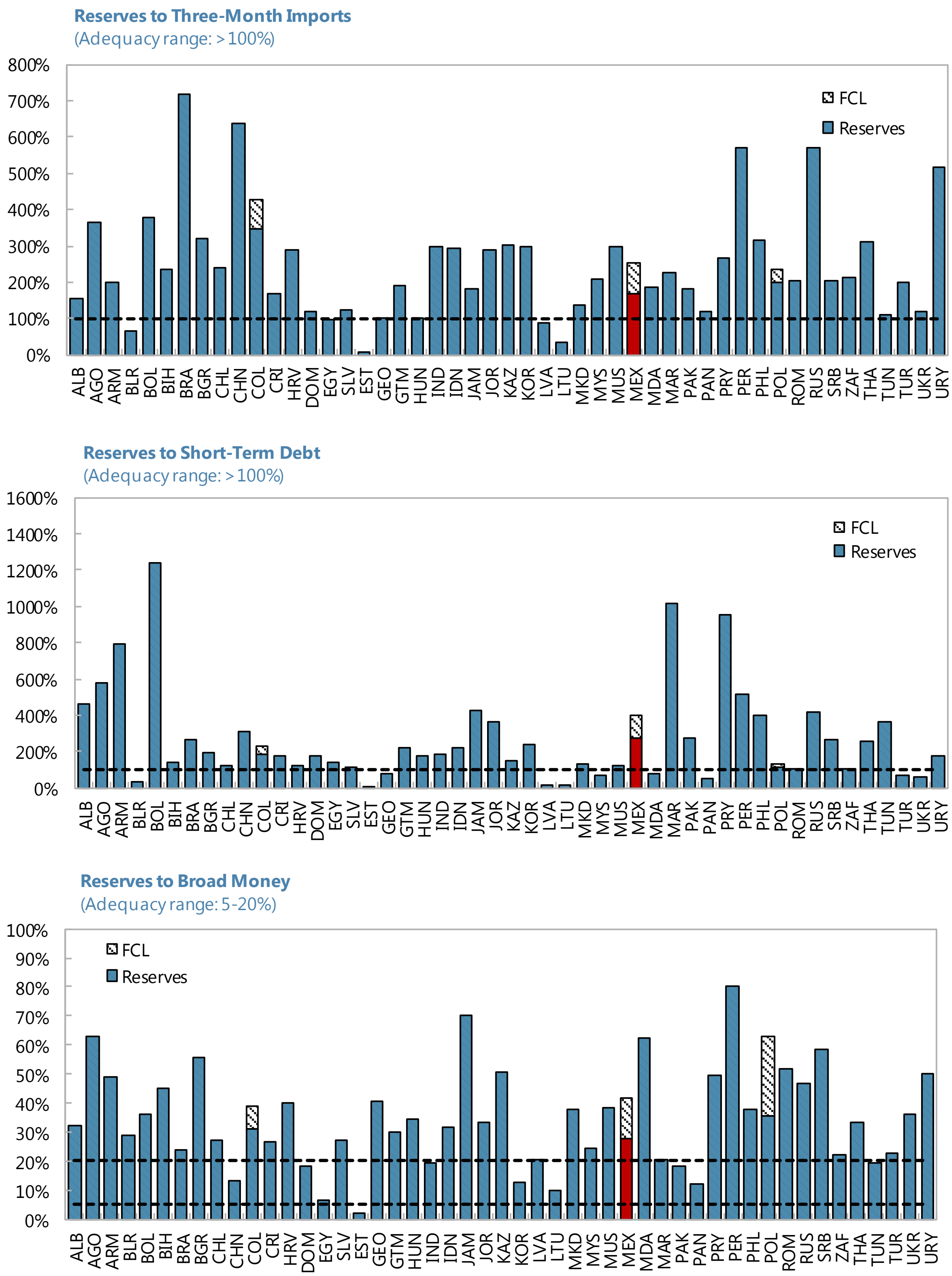
Sources: Bloomberg L.P., Datastream, EMED, Haver Analytics, and Fund staff estimates.
1/ Combined permanent 1/4 standard deviation shocks applied to interest rate, growth, and current account balance.
2/ Red bar shows ratio for end-year 2016.
3/ Not taking into account offsetting measures required under the balanced 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 4. Mexico: Reserve Coverage in an International Perspective, 2016 1/



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

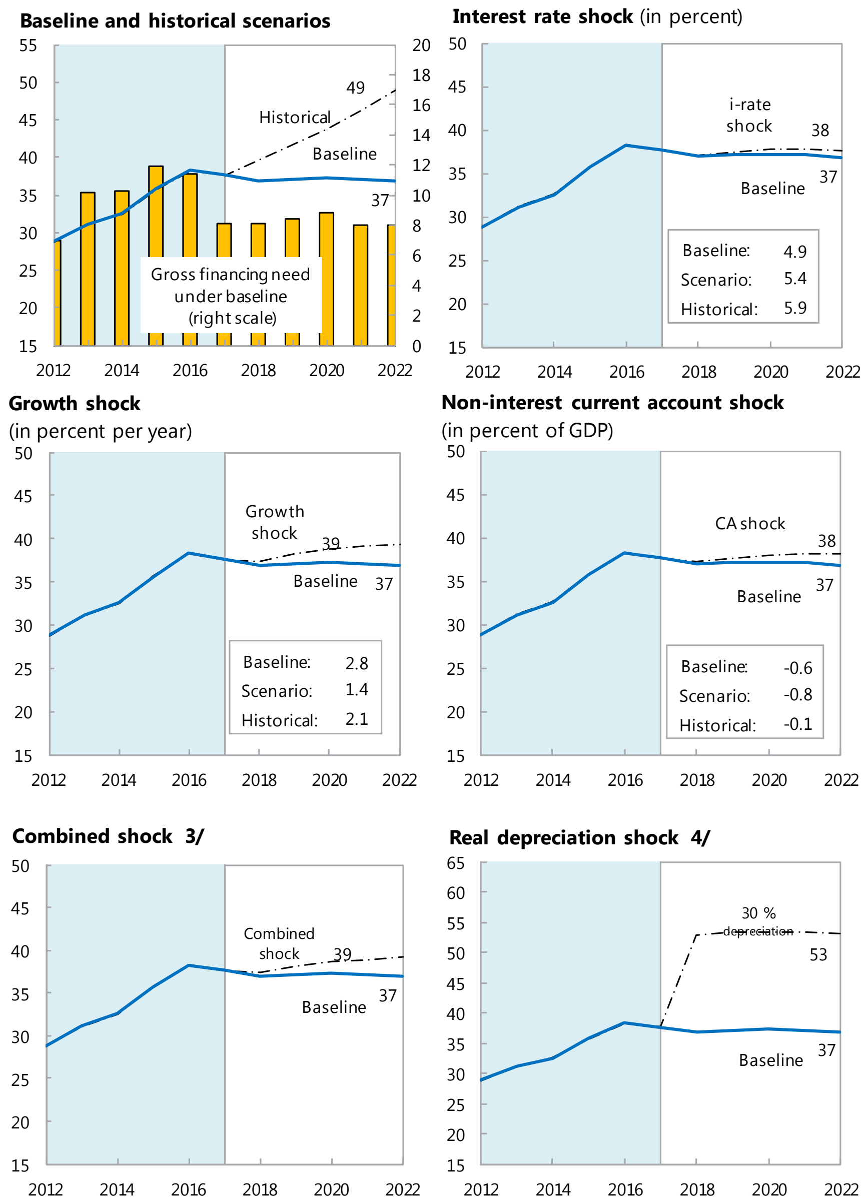
Figure 4. Mexico: Reserve Coverage in an International Perspective, 2016 (concluded)



Sources: World Economic Outlook, and IMF staff estimates.

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

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2016.

Figure 6. Mexico: Public DSA – Baseline Scenario

(in percent of GDP unless otherwise indicated)

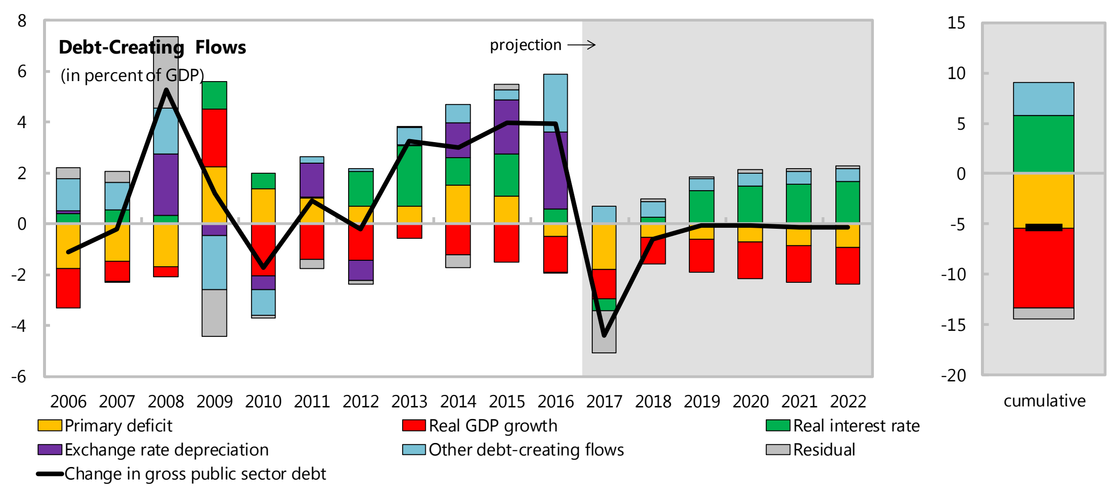
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	42.6	52.9	56.8	52.4	51.8	51.7	51.7	51.6	51.5
Public gross financing needs	10.9	12.5	13.6	8.6	8.9	10.1	9.7	10.2	10.0
Real GDP growth (in percent)	2.1	3.3	2.9	2.2	2.1	2.7	3.0	3.0	3.0
Inflation (GDP deflator, in percent)	4.7	2.7	5.4	6.9	5.6	3.6	3.4	3.6	3.6
Nominal GDP growth (in percent)	7.0	6.1	8.4	9.3	7.9	6.4	6.6	6.7	6.7
Effective interest rate (in percent) [4/]	7.0	6.4	6.7	6.1	6.3	6.4	6.6	6.9	7.1

As of November 08, 2017		
Sovereign Spreads		
EMBIG (bp) 3/	251	
5Y CDS (bp)	109	
Ratings	Foreign	Local
Moody's	A3	A3
S&Ps	BBB+	A
Fitch	BBB+	A-

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.2	4.0	3.9	-4.4	-0.6	-0.1	-0.1	-0.1	-0.1	-5.4	
Identified debt-creating flows	1.1	3.8	4.0	-2.7	-0.7	-0.1	-0.2	-0.2	-0.2	-4.2	
Primary deficit	0.3	1.1	-0.5	-1.8	-0.6	-0.6	-0.7	-0.8	-0.9	-5.4	0.7
Primary (noninterest) revenue and gra	23.2	22.7	22.5	22.0	20.2	19.9	20.0	20.2	20.1	122.4	
Primary (noninterest) expenditure	23.5	23.8	22.0	20.2	19.6	19.3	19.3	19.3	19.2	117.0	
Automatic debt dynamics [5/]	0.5	2.3	2.2	-1.6	-0.8	0.0	0.0	0.1	0.2	-2.1	
Interest rate/growth differential [6/]	0.1	0.1	-0.9	-1.6	-0.8	0.0	0.0	0.1	0.2	-2.1	
Of which: real interest rate	0.9	1.6	0.6	-0.5	0.3	1.3	1.5	1.6	1.7	5.8	
Of which: real GDP growth	-0.8	-1.5	-1.4	-1.2	-1.0	-1.3	-1.5	-1.5	-1.4	-7.9	
Exchange rate depreciation [7/]	0.4	2.1	3.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.3	0.4	2.3	0.7	0.6	0.5	0.5	0.5	0.5	3.3	
Please specify (1) (e.g., drawdown of	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in assets	0.3	0.4	2.3	0.7	0.6	0.5	0.5	0.5	0.5	3.3	
Residual [8/]	0.1	0.2	0.0	-1.7	0.1	0.1	0.1	0.1	0.1	-1.1	



Source: IMF staff.

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

2/ Based on available data.

3/ EMBIG.

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

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

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

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

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

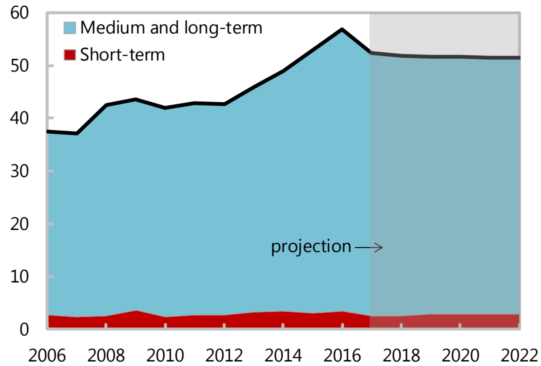
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

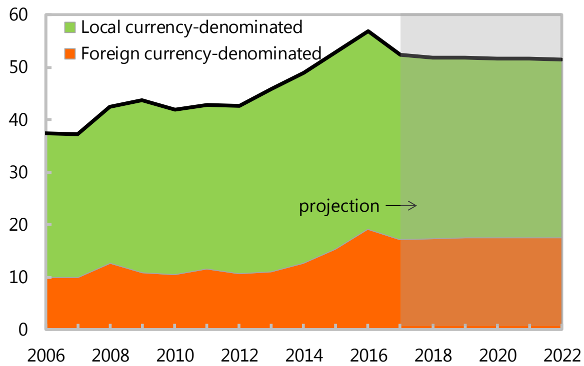
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

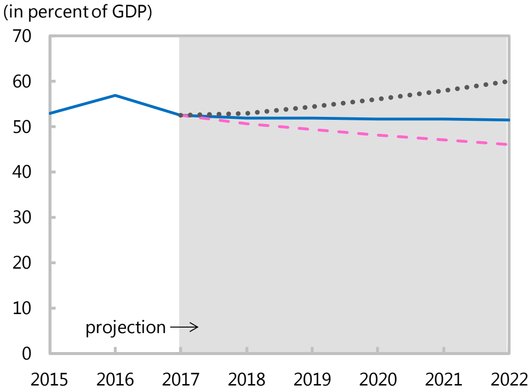


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

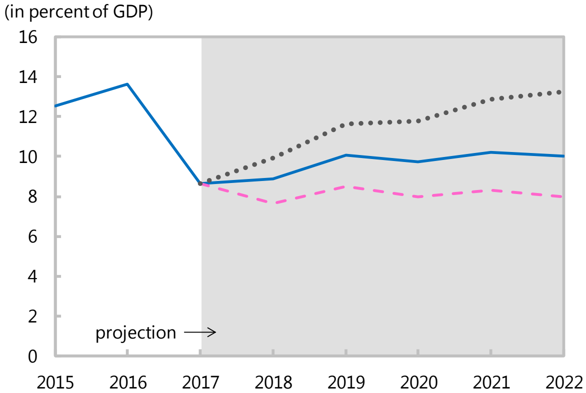
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	2.2	2.1	2.7	3.0	3.0	3.0
Inflation	6.9	5.6	3.6	3.4	3.6	3.6
Primary Balance	1.8	0.6	0.6	0.7	0.8	0.9
Effective interest rate	6.1	6.3	6.4	6.6	6.9	7.1
Constant Primary Balance Scenario						
Real GDP growth	2.2	2.1	2.7	3.0	3.0	3.0
Inflation	6.9	5.6	3.6	3.4	3.6	3.6
Primary Balance	1.8	1.8	1.8	1.8	1.8	1.8
Effective interest rate	6.1	6.3	6.3	6.5	6.8	7.0

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	2.2	2.1	2.1	2.1	2.1	2.1
Inflation	6.9	5.6	3.6	3.4	3.6	3.6
Primary Balance	1.8	-0.5	-0.5	-0.5	-0.5	-0.5
Effective interest rate	6.1	6.3	6.4	6.7	7.1	7.4

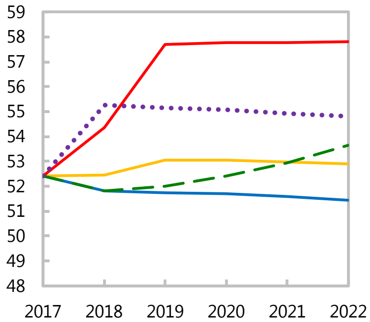
Source: IMF staff.

Figure 8. Mexico: Public DSA – Stress Tests

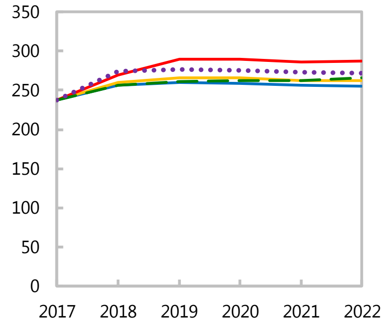
Macro-Fiscal Stress Tests

Baseline — Real GDP Growth Shock — Primary Balance Shock — Real Exchange Rate Shock — Real Interest Rate Shock

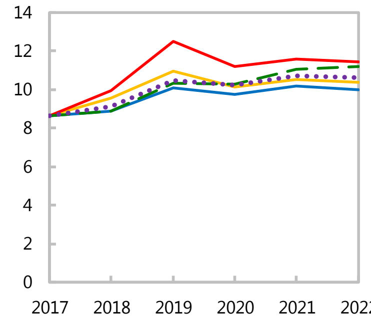
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



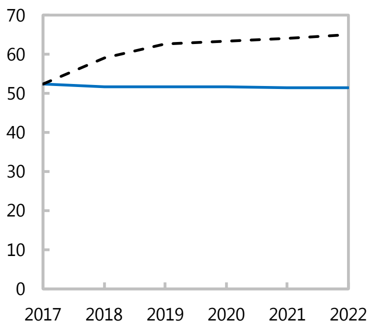
Public Gross Financing Needs
(in percent of GDP)



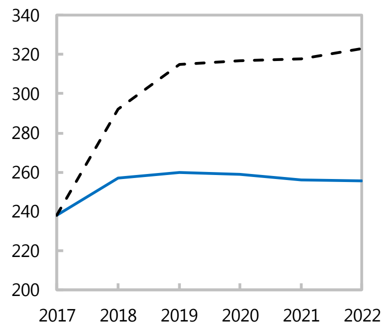
Additional Stress Tests

Baseline — Combined Macro-Fiscal Shock

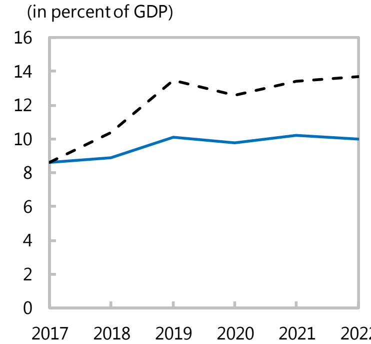
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Primary Balance Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	2.2	2.1	2.7	3.0	3.0	3.0
Inflation	6.9	5.6	3.6	3.4	3.6	3.6
Primary balance	1.8	-0.1	0.0	0.7	0.8	0.9
Effective interest rate	6.1	6.3	6.4	6.7	7.0	7.2
Real Interest Rate Shock						
Real GDP growth	2.2	2.1	2.7	3.0	3.0	3.0
Inflation	6.9	5.6	3.6	3.4	3.6	3.6
Primary balance	1.8	0.6	0.6	0.7	0.8	0.9
Effective interest rate	6.1	6.3	6.9	7.6	8.2	8.8
Combined Shock						
Real GDP growth	2.2	-0.7	-0.2	3.0	3.0	3.0
Inflation	6.9	4.9	2.9	3.4	3.6	3.6
Primary balance	1.8	-0.1	-0.8	0.7	0.8	0.9
Effective interest rate	6.1	6.7	6.8	7.6	8.2	8.7

Real GDP Growth Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	2.2	-0.7	-0.2	3.0	3.0	3.0
Inflation	6.9	4.9	2.9	3.4	3.6	3.6
Primary balance	1.8	-0.1	-0.8	0.7	0.8	0.9
Effective interest rate	6.1	6.3	6.4	6.7	7.0	7.2
Real Exchange Rate Shock						
Real GDP growth	2.2	2.1	2.7	3.0	3.0	3.0
Inflation	6.9	7.5	3.6	3.4	3.6	3.6
Primary balance	1.8	0.6	0.6	0.7	0.8	0.9
Effective interest rate	6.1	6.7	6.3	6.5	6.8	7.0

Source: IMF staff.

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

I. Social and Demographic Indicators

GDP per capita (U.S. dollars, 2016)	8,807	Poverty headcount ratio (% of population, 2016) 1/	43.6
Population (millions, 2016)	122.3	Income share of highest 20 percent / lowest 20 percent (2014)	10.8
Life expectancy at birth (years, 2015)	76.9	Adult illiteracy rate (2015)	5.5
Infant mortality rate (per thousand, 2015)	11.3	Gross primary education enrollment rate (2014) 2/	103.4

II. Economic Indicators

					Projections	
	2013	2014	2015	2016	2017	2018
	(Annual percentage change, unless otherwise indicated)					
National accounts (in real terms)						
GDP	1.4	2.8	3.3	2.9	2.2	2.1
Consumption	1.6	2.2	3.1	3.5	1.9	2.3
Private	1.8	2.1	3.4	3.7	2.2	2.2
Public	0.5	2.9	1.9	2.4	0.1	2.6
Investment	-2.1	1.7	4.3	1.5	-2.1	0.5
Fixed	-3.4	3.1	5.0	1.1	-1.9	0.5
Private	-3.8	4.5	8.9	2.2	-0.2	1.5
Public	-1.6	-2.4	-10.8	-4.2	-11.7	-5.3
Inventories 3/	0.3	-0.3	-0.1	0.1	-0.1	0.0
Exports of goods and services	1.4	7.0	8.4	3.5	6.1	3.1
Imports of goods and services	2.1	5.9	5.9	2.9	5.6	2.8
GDP per capita	0.2	1.7	2.2	1.8	1.2	1.1
External sector						
External current account balance (in percent of GDP)	-2.4	-1.8	-2.5	-2.1	-2.0	-2.3
Exports of goods, f.o.b.	2.5	4.4	-4.2	-1.8	8.5	3.5
Export volume	1.7	7.1	9.6	0.1	6.9	6.2
Imports of goods, f.o.b.	2.8	4.9	-1.2	-2.1	8.0	5.9
Import volume	2.5	6.2	9.1	1.3	2.5	4.4
Net capital inflows (in percent of GDP)	-5.0	-4.1	-2.1	-3.1	-2.0	-2.7
Terms of trade (improvement +)	0.5	-0.7	-4.2	0.9	0.0	-2.6
Exchange rates						
Real effective exchange rate (CPI based, IFS)						
(average, appreciation +)	6.1	-1.0	-10.1	-13.3	-0.3	…
Nominal exchange rate (MXN/USD)						
(average, appreciation +)	-0.5	-12.6	-16.9	-20.5	9.3	-0.8
Employment and inflation						
Consumer prices (end-of-period)	4.0	4.1	2.1	3.4	6.4	3.0
Core consumer prices (end-of-period)	2.8	3.2	2.4	3.4	4.8	3.1
Formal sector employment, IMSS-insured workers (average)	3.5	3.5	4.3	3.8	4.4	…
National unemployment rate (annual average)	4.9	4.8	4.3	3.9	3.3	3.4
Unit labor costs: manufacturing (real terms, average)	1.0	-1.2	1.6	3.5	0.5	…
Money and credit						
Financial system credit to non-financial private sector 4/	9.2	8.7	14.6	16.5	10.8	10.2
Broad money (M2a) 5/	8.3	10.2	7.9	10.6	12.3	10.9
Public sector finances (in percent of GDP) 6/						
General government revenue	24.0	23.0	22.7	22.5	22.0	20.2
General government expenditure	27.7	27.5	26.8	25.3	23.4	22.7
Overall fiscal balance	-3.7	-4.5	-4.0	-2.8	-1.4	-2.5
Gross public sector debt	45.9	48.9	52.9	56.8	52.4	51.8
Memorandum items						
Nominal GDP (billions of pesos)	16,277	17,471	18,537	20,100	21,962	23,692
Output gap	-0.6	-0.4	0.2	0.4	-0.1	-0.6

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

1/ CONEVAL uses a multi-dimensional approach to measuring poverty based on a "social deprivation index," which takes into account the level of income; education; access to health services; to social security; to food; and quality, size, and access to basic services in the dwelling.

2/ Percent of population enrolled in primary school regardless of age as a share of the population of official primary education age.

3/ Contribution to growth. Excludes statistical discrepancy.

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

5/ Includes public sector deposits.

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

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

(In percent of GDP)

					Projections					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Budgetary revenue, by type	**23.6**	**23.1**	**23.4**	**24.1**	**22.0**	**20.2**	**19.9**	**20.0**	**20.2**	**20.1**
Oil revenue	8.3	7.1	4.6	3.9	3.8	3.5	3.2	3.2	3.3	3.3
Non-oil tax revenue	9.7	10.5	12.9	13.5	12.6	12.7	12.8	12.8	12.9	12.9
Non-oil non-tax revenue 2/	5.5	5.5	5.8	6.7	5.6	3.9	3.9	4.0	4.0	4.0
Budgetary revenue, by entity	**23.6**	**23.1**	**23.4**	**24.1**	**22.0**	**20.2**	**19.9**	**20.0**	**20.2**	**20.1**
Federal government revenue	16.8	16.7	17.4	17.8	16.9	15.2	14.9	15.0	15.1	15.1
Tax revenue, *of which:*	9.7	10.5	12.9	13.5	12.6	12.7	12.8	12.8	12.9	12.9
Excises (including fuel)	0.0	0.6	1.9	2.0	1.7	1.8	1.8	1.8	1.9	1.9
Nontax revenue	7.1	6.3	4.5	4.3	4.2	2.5	2.1	2.1	2.2	2.2
Public enterprises	6.8	6.3	6.0	6.3	5.2	5.0	5.0	5.0	5.0	5.1
PEMEX	3.0	2.6	2.4	2.4	1.9	1.7	1.7	1.7	1.8	1.8
Other	3.8	3.8	3.6	3.9	3.3	3.3	3.3	3.3	3.3	3.3
Budgetary expenditure	**25.9**	**26.2**	**26.8**	**26.6**	**23.3**	**22.2**	**21.9**	**22.0**	**22.2**	**22.2**
Primary	**24.0**	**24.2**	**24.6**	**24.3**	**20.6**	**19.3**	**19.3**	**19.3**	**19.3**	**19.3**
Programmable	20.6	20.7	21.0	20.7	17.0	15.7	15.7	15.7	15.7	15.7
Current	15.1	15.5	15.8	14.8	13.8	13.2	13.2	13.2	13.2	13.2
Wages	6.0	5.9	5.9	5.5	5.3	5.3	5.3	5.3	5.3	5.3
Pensions 3/	2.9	3.0	3.2	3.2	3.3	3.4	3.4	3.4	3.4	3.4
Subsidies and transfers	3.3	3.6	3.7	3.4	2.7	2.5	2.5	2.5	2.5	2.5
Other	3.0	3.0	3.0	2.7	2.5	2.1	2.1	2.1	2.1	2.1
Capital	5.4	5.2	5.1	5.9	3.2	2.5	2.5	2.5	2.5	2.5
Physical capital	4.6	4.8	4.2	3.6	2.8	2.4	2.4	2.4	2.4	2.4
Financial capital 4/	0.9	0.4	0.9	2.3	0.5	0.1	0.1	0.1	0.1	0.1
Nonprogrammable	3.4	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Of which: revenue sharing	3.3	3.4	3.4	3.5	3.5	3.4	3.4	3.4	3.5	3.5
Interest payments	**2.0**	**2.0**	**2.2**	**2.4**	**2.6**	**2.8**	**2.9**	**2.8**	**2.8**	**2.9**
Traditional balance	**-2.3**	**-3.1**	**-3.4**	**-2.5**	**-1.2**	**-2.1**	**-2.0**	**-2.0**	**-2.0**	**-2.0**
Adjustments to the traditional balance	**-1.4**	**-1.4**	**-0.6**	**-0.3**	**-0.2**	**-0.4**	**-0.5**	**-0.5**	**-0.5**	**-0.5**
Public Sector Borrowing Requirements	**3.7**	**4.5**	**4.0**	**2.8**	**1.4**	**2.5**	**2.5**	**2.5**	**2.5**	**2.5**
Memorandum items										
Structural current spending 5/	11.5	12.0	12.0	11.1						
Structural current spending real growth (y/y, in percent)	3.6	7.1	3.3	-4.9						

Sources: Mexican authorities and IMF staff estimates.

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

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

3/ Includes social assistance benefits.

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

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

Table 3. Mexico: Statement of Operations of the Public Sector, GFSM 2001 Presentation 1/

(In percent of GDP)

					Projections					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	**24.0**	**23.0**	**22.7**	**22.5**	**22.0**	**20.2**	**19.9**	**20.0**	**20.2**	**20.1**
Taxes	**10.2**	**10.6**	**12.7**	**13.5**	**12.6**	**12.7**	**12.8**	**12.8**	**12.9**	**12.9**
Taxes on income, profits and capital gains	5.8	5.5	6.6	7.1	6.6	6.6	6.6	6.6	6.6	6.6
Taxes on goods and services	4.0	4.7	5.7	6.0	5.6	5.7	5.8	5.8	5.9	5.9
Value added tax	3.4	3.8	3.8	3.9	3.9	3.9	4.0	4.0	4.0	4.0
Excises	0.6	0.9	1.9	2.0	1.7	1.8	1.8	1.8	1.9	1.9
Taxes on international trade and transactions	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Other taxes	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Social contributions	**1.7**	**1.7**	**1.7**	**1.6**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**
Other revenue	**12.0**	**10.7**	**8.3**	**7.4**	**7.9**	**6.0**	**5.6**	**5.7**	**5.8**	**5.8**
Property income 2/	7.0	6.2	4.4	4.2	4.2	2.5	2.1	2.1	2.2	2.2
Other	5.1	4.6	3.9	3.1	3.7	3.5	3.5	3.5	3.6	3.6
Total expenditure	**27.7**	**27.5**	**26.8**	**25.3**	**23.4**	**22.7**	**22.4**	**22.5**	**22.7**	**22.6**
Expense	**22.3**	**22.4**	**21.9**	**21.2**	**20.5**	**20.1**	**19.8**	**19.9**	**20.1**	**20.1**
Compensation of employees	5.9	5.8	5.8	5.5	5.3	5.3	5.3	5.3	5.3	5.3
Purchases of goods and services	2.9	2.9	3.0	2.7	2.5	2.1	2.1	2.1	2.1	2.1
Interest 3/	3.0	3.0	2.9	3.3	3.2	3.1	3.1	3.2	3.3	3.4
Subsidies	3.9	3.8	3.6	3.4	2.7	2.5	2.5	2.5	2.5	2.5
o/w fuel subsidy	0.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants 4/	3.3	3.3	3.4	3.5	3.5	3.4	3.4	3.4	3.5	3.5
Social benefits 5/	2.9	3.0	3.2	3.2	3.3	3.4	3.4	3.4	3.4	3.4
Other expense 6/	0.4	0.5	0.0	-0.3	0.0	0.4	0.1	0.0	0.0	-0.1
Net acquisition of nonfinancial assets 7/	5.4	5.1	4.8	4.0	2.9	2.6	2.6	2.6	2.6	2.6
Gross Operating Balance	1.7	0.6	0.8	1.3	1.5	0.1	0.1	0.1	0.1	0.1
Overall Fiscal Balance (Net lending/borrowing)	**-3.7**	**-4.5**	**-4.0**	**-2.8**	**-1.4**	**-2.5**	**-2.5**	**-2.5**	**-2.5**	**-2.5**
Primary net lending/borrowing	**-0.7**	**-1.5**	**-1.1**	**0.5**	**1.8**	**0.6**	**0.6**	**0.7**	**0.8**	**0.9**
Memo items:										
Primary expenditure	24.7	24.5	23.8	22.0	20.2	19.6	19.3	19.3	19.3	19.2
Current expenditure	22.3	22.4	21.9	21.2	20.5	20.1	19.8	19.9	20.1	20.1
Structural fiscal balance	-4.2	-4.7	-4.5	-4.0	-2.8	-2.4	-2.4	-2.5	-2.5	-2.5
Structural primary balance 8/	-1.2	-1.7	-1.5	-0.8	0.4	0.7	0.7	0.7	0.8	0.9
Fiscal impulse 9/	-0.2	0.6	-0.2	-0.8	-1.1	-0.3	0.0	-0.1	-0.1	-0.1
Gross public sector debt 10/	45.9	48.9	52.9	56.8	52.4	51.8	51.8	51.7	51.6	51.5
In domestic currency (percentage of total debt)	75.8	74.0	70.9	66.3	67.2	66.5	66.2	66.2	65.9	66.0
In foreing currency (percentage of total debt)	24.2	26.0	29.1	33.7	32.8	33.5	33.8	33.8	34.1	34.0
Net public sector debt 11/	40.0	42.6	46.6	48.7	44.4	43.8	43.7	43.6	43.5	43.4

Sources: Mexico authorities; and Fund staff estimates and projections.

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

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

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

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

5/ Includes pensions and social assistance benefits.

6/ Includes Adefas and other expenses, as well as the adjustments to the "traditional" balance not classified elsewhere.

7/ This category differs from official data on physical capital spending due to adjustments to account for Pidiregas amortizations included in budget figures.

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

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

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

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

Table 4. Mexico: Summary Balance of Payments 1/
(In billions of USD, unless otherwise indicated)

					Projections					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Current account	-31.1	-23.1	-28.8	-23.0	-23.1	-29.2	-32.5	-33.2	-33.5	-33.2
Merchandise goods trade balance	-0.9	-2.8	-14.6	-13.1	-12.4	-22.9	-20.5	-19.3	-20.3	-21.1
Exports	380.7	397.6	381.0	374.3	406.0	420.1	443.1	474.7	507.4	536.6
o/w Manufactures	314.6	337.3	340.0	336.1	363.9	376.9	398.4	426.9	454.8	479.5
o/w Petroleum and derivatives 2/	49.5	42.4	23.1	18.8	20.7	21.3	22.5	24.4	28.0	30.9
Imports	381.6	400.4	395.6	387.4	418.4	443.0	463.6	494.0	527.7	557.7
o/w Petroleum and derivatives 2/	40.9	41.5	33.3	31.6	35.2	33.9	34.5	35.6	37.0	37.8
Services, net	-14.1	-13.3	-9.8	-9.0	-9.5	-9.9	-10.6	-11.3	-12.0	-12.8
Primary income, net	-37.6	-29.8	-28.6	-27.5	-30.3	-29.2	-37.6	-42.3	-44.6	-46.8
Secondary income (mostly remittances), net	21.5	22.8	24.1	26.5	29.1	32.7	36.2	39.7	43.4	47.4
Capital Account, net	2.3	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Financial Account *(Net lending (+)/Net borrowing (-))*	**-46.0**	**-37.3**	**-40.1**	**-33.5**	**-23.2**	**-29.3**	**-32.6**	**-33.3**	**-33.6**	**-33.3**
Foreign direct investment, net	-35.5	-21.6	-23.9	-28.4	-21.5	-25.2	-28.7	-32.6	-35.3	-38.2
Net acquisition of financial assets	11.6	8.5	12.3	5.5	6.5	6.8	7.1	7.4	7.7	8.0
Net incurrence of liabilities	47.1	30.1	36.2	33.9	28.0	32.0	35.8	40.0	42.9	46.1
Portfolio investment, net	-42.9	-46.8	-23.6	-32.1	-11.3	-20.5	-20.3	-19.3	-17.2	-18.9
Net acquisition of financial assets	6.7	2.5	-3.1	-2.5	2.2	1.6	1.0	0.5	0.5	0.5
Net incurrence of liabilities	49.6	49.3	20.5	29.6	13.5	22.1	21.3	19.8	17.7	19.4
Public Sector	33.2	36.0	16.9	21.4	10.2	18.6	16.1	14.6	12.5	14.2
o/w Securities issued abroad	11.2	13.0	15.7	22.9	4.9	9.5	8.0	7.5	6.6	7.6
o/w Local currency domestic-issued bonds	22.0	23.1	1.3	-1.5	5.3	9.1	8.1	7.1	5.9	6.6
Private sector	16.4	13.3	3.6	8.2	3.3	3.5	5.2	5.2	…	…
Securities issued abroad	18.9	8.4	0.0	-1.3	1.3	1.5	3.7	3.7	3.7	3.7
Equity	-2.4	4.8	3.6	9.5	…	…	…	…	…	…
Pidiregas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives, net	0.5	0.8	-4.8	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Other investments, net	14.2	13.9	27.9	27.6	9.9	12.3	9.8	12.0	11.7	14.5
Net acquisition of financial assets	18.7	15.7	26.5	25.9	13.3	15.5	12.8	15.0	14.7	16.5
Net incurrence of liabilities	4.6	1.7	-1.4	-1.7	3.4	3.2	3.0	3.0	3.0	2.0
Public sector	-2.6	2.9	0.1	-2.7	1.0	0.5	0.0	0.0	0.0	0.0
Non-banking sector	-3.0	2.3	1.0	-2.4	1.0	0.5	0.0	0.0	0.0	0.0
Banco de Mexico	0.0	-0.3	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Development banks	0.4	0.9	-0.7	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Private sector	7.1	-1.1	-1.5	1.0	2.4	2.7	3.0	3.0	3.0	3.0
Commercial banks	5.2	-4.9	-2.2	0.0	1.0	1.0	1.0	1.0	1.0	1.0
Non-banking sector	1.9	3.8	0.7	1.0	1.4	1.7	2.0	2.0	2.0	2.0
Pidiregas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in Reserves Assets	17.8	16.3	-15.7	-0.1	-0.3	4.1	6.6	6.6	7.2	9.3
Total change in gross reserves assets	13.2	15.5	-18.1	0.4	-0.3	4.1	6.6	6.6	7.2	9.3
Valuation change	4.6	0.8	2.4	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	-17.3	-14.2	-11.1	-10.4	0.0	0.0	0.0	0.0	0.0	0.0
					(In percent of GDP)					
Current account balance	-2.4	-1.8	-2.5	-2.1	-2.0	-2.3	-2.4	-2.4	-2.2	-2.1
o/w Hydrocarbons trade balance 1/	0.7	0.1	-0.9	-1.2	-1.3	-1.0	-0.9	-0.8	-0.6	-0.4
o/w Petroleum and derivatives exports	3.9	3.2	2.0	1.7	1.8	1.7	1.7	1.7	1.9	2.0
o/w Non-hydrocarbons trade balance (goods)	-0.8	-0.3	-0.4	0.0	0.2	-0.8	-0.6	-0.6	-0.8	-0.9
o/w Manufactures exports	24.7	25.7	29.1	31.2	31.7	30.0	30.0	30.3	30.5	30.4
o/w Services trade balance	-1.1	-1.0	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Net capital inflows	-5.0	-4.1	-1.7	-3.1	-2.0	-2.7	-3.0	-2.8	-2.7	-2.7
Net FDI inflows	-2.8	-1.6	-2.0	-2.6	-1.9	-2.0	-2.2	-2.3	-2.4	-2.4
Net portfolio inflows	-3.4	-3.6	-2.0	-3.0	-1.0	-1.6	-1.5	-1.4	-1.2	-1.2
Net other investment inflows	1.1	1.1	2.4	2.6	0.9	1.0	0.7	0.8	0.8	0.9
International Investment Position, net	-44.8	-41.3	-45.7	-42.9	-39.2	-38.2	-38.6	-38.8	-38.9	-38.9
Memorandum items										
Hydrocarbons exports volume growth (in percent)	-1.7	-3.7	2.7	2.0	-9.6	1.1	5.1	7.4	14.2	11.2
Non-hydrocarbons exports volume growth (in percent)	1.3	6.9	7.7	2.3	6.4	3.2	3.5	4.9	5.1	5.1
Hydrocarbons imports volume growth (in percent)	3.3	-4.1	16.0	15.5	3.7	-0.1	2.6	2.6	3.2	2.9
Non-hydrocarbons imports volume growth (in percent)	2.1	6.5	6.0	2.6	5.6	2.9	4.0	4.9	5.1	4.9
Crude oil export volume (in millions of bbl/day)	1.2	1.1	1.2	1.2	1.0	1.0	1.1	1.2	1.4	1.5
Gross international reserves (in billions of U.S. dollars)	180.2	195.7	177.6	178.1	177.8	181.9	188.5	195.2	202.3	211.6
Gross domestic product (in billions of U.S. dollars)	1,274.4	1,314.4	1,169.6	1,076.9	1,149.0	1,254.7	1,328.7	1,407.2	1,489.9	1,578.9

Sources: Bank of Mexico, Ministry of Finance and Public Credit, and Fund staff estimates.
1/ Since May 2017, Mexico's authorities publish balance of payment data in accordance with the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6).
2/ Crude oil, oil derivatives, petrochemicals, and natural gas.

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

	2013	2014	2015	2016	2017	Latest available data
Capital Adequacy						
Regulatory capital to risk-weighted assets	15.6	15.8	15.0	15.2	15.6	July
Regulatory Tier 1 capital to risk-weighted assets	13.4	13.8	13.3	13.5	14.3	July
Capital to assets	10.4	10.8	10.4	10.7	10.8	July
Gross asset position in financial derivatives to capital	73.5	56.0	61.1	64.1	61.2	July
Gross liability position in financial derivatives to capital	72.7	59.6	65.1	68.6	63.7	July
Asset Quality						
Nonperforming loans to total gross loans	3.2	3.0	2.5	2.2	2.1	July
Provisions to Nonperforming loans	147.5	132.7	140.5	153.5	159.3	July
Earnings and Profitability						
Return on assets	2.1	1.7	1.6	1.7	2.0	July
Return on equity	19.3	15.9	15.4	16.5	19.7	July
Liquidity						
Liquid assets to short-term liabilities	47.7	47.1	45.5	43.6	41.8	July
Liquid assets to total assets	36.0	36.0	34.6	32.7	31.7	July
Customer deposits to total (noninterbank) loans	88.7	89.5	87.7	87.1	90.1	July
Trading income to total income	7.4	4.0	3.3	4.8	6.1	July

Sources: Financial Soundness Indicators.

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

	2013	2014	2015	2016	2017	Latest available data
Financial market indicators						
Exchange rate (per U.S. dollar, average)	13.1	14.7	17.2	20.7	18.8	October
(year-to-date percent change, + appreciation)	-0.5	-12.6	-16.9	-20.5	-1.9	October
28-day treasury auction rate (percent; period average)	3.8	3.0	3.0	4.1	6.6	October
EMBIG Mexico spread (basis points; period average)	188.7	182.5	250.9	303.5	258.5	October
Sovereign 10-year local currency bond yield (period average)	5.6	6.0	6.0	6.2	7.1	October
Stock exchange index (period average, year on year percent change)	5.6	1.4	3.1	3.8	7.9	October
Financial system						
Financial system credit on non-financial private sector (year on year percent change)	9.2	8.7	14.6	16.5	11.9	June
Nonperforming loans to total gross loans	3.2	3.0	2.5	2.2	2.1	July
External vulnerability indicators						
Gross financing needs (billions of US$)	142.1	150.9	121.3	123.5	92.5	Proj.
Gross international reserves (end-year, billions of US$) 1/	180.2	195.7	177.6	178.1	176.5	October
Change (billions of US$)	13.2	15.5	-18.1	0.4	-1.6	October
Months of imports of goods and services	5.2	5.4	5.0	5.1	4.8	Proj.
Months of imports plus interest payments	5.0	5.2	4.8	4.9	4.6	Proj.
Percent of broad money	23.3	25.9	25.4	27.8	24.1	September
Percent of portfolio liabilities	38.0	40.6	38.9	39.8	46.4	Proj.
Percent of short-term debt (by residual maturity)	169.2	183.3	182.8	269.9	267.3	Proj.
Percent of ARA Metric 2/	111.8	120.3	115.8	123.7	117.9	Proj.
Percent of GDP	14.1	14.9	15.2	16.5	15.3	Proj.
Gross total external debt (in percent of GDP)	31.1	32.5	35.7	38.3	39.6	June
Of which: In local currency	11.0	10.9	10.5	9.5	10.8	June
Of which: Public debt	21.2	21.9	24.0	25.9	27.4	June
Of which: Private debt	9.9	10.6	11.7	12.4	12.2	June
Financial sector	1.3	1.4	1.3	1.3	1.3	June
Nonfinancial sector	8.6	9.3	10.4	11.1	10.9	June
Gross total external debt (billions of US$)	396.8	427.3	417.9	412.0	438.3	June
Of which: In local currency	140.3	143.9	123.3	102.1	119.8	June
Of which: Public debt	270.1	287.3	281.0	278.7	303.4	June
Of which: Private debt	126.6	139.9	136.9	133.4	134.9	June
Financial sector	17.3	19.6	16.3	15.5	14.3	June
Nonfinancial sector	109.4	120.3	120.7	117.9	120.6	June
External debt service (in percent of GDP)	8.8	9.7	10.8	10.9	7.6	Proj.

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

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

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

Table 7. Mexico: Baseline Medium-Term Projections

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					Projections					
	(Annual percentage change, unless otherwise indicated)									
National accounts (in real terms)										
GDP	1.4	2.8	3.3	2.9	2.2	2.1	2.7	3.0	3.0	3.0
Consumption	1.6	2.2	3.1	3.5	1.9	2.3	2.6	2.7	2.7	2.5
Private	1.8	2.1	3.4	3.7	2.2	2.2	2.6	2.8	2.9	2.9
Public	0.5	2.9	1.9	2.4	0.1	2.6	2.4	2.2	1.5	0.1
Investment	-2.1	1.7	4.3	1.5	-2.1	0.5	3.7	4.0	3.9	4.2
Fixed	-3.4	3.1	5.0	1.1	-1.9	0.5	3.9	4.2	4.1	4.3
Private	-3.8	4.5	8.9	2.2	-0.2	1.5	5.1	5.2	5.5	5.9
Public	-1.6	-2.4	-10.8	-4.2	-11.7	-5.3	-4.1	-3.3	-6.9	-8.9
Inventories 1/	0.3	-0.3	-0.1	0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	1.4	7.0	8.4	3.5	6.1	3.1	3.6	4.9	5.3	5.2
Oil exports	-1.7	-3.7	2.7	2.0	-9.6	1.1	5.1	7.4	14.2	11.2
Non-oil exports	1.5	7.3	8.6	3.5	6.5	3.2	3.5	4.9	5.1	5.1
Imports of goods and services	2.1	5.9	5.9	2.9	5.6	2.8	3.9	4.9	5.0	4.9
Oil imports	3.3	-4.1	16.0	15.5	3.7	-0.1	2.6	2.6	3.2	2.9
Non-oil imports	2.1	6.2	5.7	2.6	5.7	2.9	3.9	4.9	5.1	4.9
Net exports 1/	-0.3	0.3	0.8	0.2	0.2	0.1	-0.1	0.0	0.1	0.1
Consumer prices										
End of period	4.0	4.1	2.1	3.4	6.4	3.0	3.0	3.0	3.0	3.0
Average	3.8	4.0	2.7	2.8	6.0	3.6	3.0	3.0	3.0	3.0
External sector										
Current account balance (in percent of GDP)	-2.4	-1.8	-2.5	-2.1	-2.0	-2.3	-2.4	-2.4	-2.2	-2.1
Non-hydrocarbon current account balance (in percent of GDP)	-3.1	-1.8	-1.6	-0.9	-0.7	-1.3	-1.5	-1.6	-1.6	-1.7
Exports of goods, f.o.b.	2.5	4.4	-4.2	-1.8	8.5	3.5	5.5	7.1	6.9	5.8
Imports of goods, f.o.b.	2.8	4.9	-1.2	-2.1	8.0	5.9	4.7	6.6	6.8	5.7
Terms of trade (improvement +)	0.5	-0.7	-4.2	0.9	0.0	-2.6	1.1	0.5	-0.2	-0.2
Crude oil export price, Mexican mix (US$/bbl)	98.8	87.7	44.3	35.8	43.6	44.0	44.3	44.8	45.5	45.5
	(In percent of GDP)									
Non-financial public sector										
Overall balance	-3.7	-4.5	-4.0	-2.8	-1.4	-2.5	-2.5	-2.5	-2.5	-2.5
Primary balance	-0.7	-1.5	-1.1	0.5	1.8	0.6	0.6	0.7	0.8	0.9
Saving and investment 2/										
Gross domestic investment	22.5	21.9	23.3	23.7	23.3	23.0	23.4	23.9	24.4	24.9
Fixed investment	21.3	21.0	22.5	22.9	22.4	22.0	22.5	23.0	23.5	24.0
Public	4.4	4.1	3.6	3.4	3.2	3.0	2.8	2.6	2.4	2.2
Private	16.8	16.9	18.9	19.5	19.2	19.1	19.7	20.3	21.0	21.9
Inventories	1.2	0.9	0.7	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Gross domestic saving	20.1	20.1	20.8	21.6	21.3	20.6	20.9	21.5	22.1	22.8
Public	0.7	-0.4	-0.4	0.6	1.8	0.5	0.3	0.2	-0.1	-0.3
Private	19.4	20.5	21.2	21.0	19.5	20.2	20.6	21.4	22.2	23.1
	(Percent growth, unless otherwise indicated)									
Memorandum items										
Financial system credit to non-financial private sector	9.2	8.7	14.6	16.5	10.8	10.2	10.2	10.4	10.9	10.9
Output gap (in percent of potential GDP)	-0.6	-0.4	0.2	0.4	-0.1	-0.6	-0.5	-0.2	0.0	0.0
Total population	1.1	1.1	1.1	1.0	1.0	1.0	1.0	0.9	0.9	0.9
Working-age population 3/	2.0	1.9	1.8	1.6	1.6	1.5	1.5	1.4	1.3	1.3

Sources: Bank of Mexico, National Institute of Statistics and Geography, Secretary of Finance and Public Credit, and IMF staff projections.

1/ Contribution to growth. Excludes statistical discrepancy.

2/ Reported numbers may differ from authorities' due to rounding.

3/ Based on United Nations population projections.

Table 8. Mexico: External Debt Sustainability Framework

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2012	2013	2014	2015	2016			2017	2018	2019	2020	2021	2022	Debt-stabilizing non-interest current account 6/
Baseline: External debt	28.8	31.1	32.5	35.7	38.3			**37.6**	**36.9**	**37.2**	**37.2**	**37.1**	**36.9**	**-2.8**
Change in external debt	4.9	2.3	1.4	3.2	2.5			-0.7	-0.7	0.3	0.1	-0.2	-0.2	
Identified external debt-creating flows (4+8+9)	-1.2	-1.8	-1.7	2.0	0.7			-1.0	-0.5	-0.7	-1.0	-1.2	-1.3	
Current account deficit, excluding interest payments	-0.1	0.9	0.2	0.8	0.3			0.2	0.9	0.7	0.5	0.4	0.3	
Deficit in balance of goods and services	-65.8	-63.8	-65.0	-71.1	-76.1			-77.3	-74.2	-73.6	-74.3	-75.0	-74.9	
Exports	32.3	31.3	31.9	34.5	37.0			37.7	35.8	35.7	36.1	36.4	36.4	
Imports	-33.5	-32.5	-33.1	-36.6	-39.1			-39.6	-38.4	-38.0	-38.2	-38.6	-38.5	
Net non-debt creating capital inflows (negative)	-1.7	-2.9	-2.0	-2.4	-2.7			-2.2	-2.1	-2.2	-2.3	-2.4	-2.4	
Automatic debt dynamics 1/	0.7	0.2	0.2	3.7	3.1			1.0	0.7	0.8	0.8	0.7	0.7	
Contribution from nominal interest rate	1.5	1.5	1.6	1.7	1.9			1.8	1.4	1.7	1.8	1.8	1.8	
Contribution from real GDP growth	-0.9	-0.4	-0.9	-1.2	-1.1			-0.8	-0.7	-0.9	-1.1	-1.1	-1.0	
Contribution from price and exchange rate changes 2/	0.1	-1.0	-0.5	3.1	2.4			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	6.1	4.2	3.0	1.3	1.8			0.3	-0.2	1.0	1.1	1.0	1.1	
External debt-to-exports ratio (in percent)	89.2	99.5	102.0	103.5	103.3			99.7	103.1	104.2	103.2	101.8	101.3	
Gross external financing needs (in billions of US dollars) 4/	84.1	129.0	135.4	139.4	123.1			92.8	101.9	111.0	123.9	119.2	126.5	
in percent of GDP	7.0	10.1	10.3	11.9	11.4	10-Year	10-Year	8.1	8.1	8.4	8.8	8.0	8.0	
Scenario with key variables at their historical averages 5/								**37.6**	**39.6**	**41.6**	**43.9**	**46.2**	**49.0**	**-0.1**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	3.6	1.4	2.8	3.3	2.9	2.1	2.8	2.2	2.1	2.7	3.0	3.0	3.0	
GDP deflator in US dollars (change in percent)	-1.8	4.7	0.3	-13.8	-10.5	-0.6	9.3	4.4	6.9	3.1	2.8	2.8	2.9	
Nominal external interest rate (in percent)	6.2	5.6	5.2	4.7	4.8	5.9	0.9	5.0	4.1	4.9	5.2	5.1	5.1	
Growth of exports (US dollar terms, in percent)	6.0	2.8	5.0	-3.6	-1.2	4.9	12.8	8.6	3.6	5.5	7.1	6.9	5.9	
Growth of imports (US dollar terms, in percent)	5.2	2.8	5.1	-1.5	-1.7	4.9	12.8	8.2	5.8	4.8	6.6	6.8	5.8	
Current account balance, excluding interest payments	0.1	-0.9	-0.2	-0.8	-0.3	-0.1	0.5	-0.2	-0.9	-0.7	-0.5	-0.4	-0.3	
Net non-debt creating capital inflows	1.7	2.9	2.0	2.4	2.7	2.2	0.5	2.2	2.1	2.2	2.3	2.4	2.4	

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

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

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

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

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

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

Table 9. Mexico: Indicators of Fund Credit

	Projections					
	2017	2018	2019	2020	2021	2022
Stocks from prospective drawings 1/						
Fund credit in millions SDR	62,389	62,389	62,389	62,389	31,194	0
In percent of quota	700	700	700	700	350	0
In percent of GDP	8	7	7	6	3	0
In percent of exports of goods and services	20	20	19	17	8	0
In percent of gross reserves	49	48	47	45	22	0
Flows from prospective drawings 2/						
Charges in millions of SDR	312	1,784	1,932	1,933	1,887	565
Debt service due on GRA credit in millions of SDR	312	1,784	1,932	1,933	33,081	31,759
In percent of quota	3.5	20.0	21.7	21.7	371.2	356.3
In percent of GDP	0.0	0.2	0.2	0.2	3.1	2.8
In percent of exports of goods and services	0.1	0.6	0.6	0.5	8.6	7.8
In percent of gross reserves	0.2	1.4	1.4	1.4	23.1	21.1
Memo Item:						
Total external debt (percent of GDP)	45.1	43.9	43.8	43.5	40.0	36.9

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.

2/ Based on the rate of charge as of October 31, 2017. Includes GRA charges, surcharges under the system currently in force and service charges.

Table 10. Mexico: Proposed Access

	Proposed Arrangement FCL	High-Access Cases 1/ Proposed Arrangement (Percentile)	20th Percentile (Ratio)	65th Percentile (Ratio)	80th Percentile (Ratio)	Median
Access						
In millions of SDRs	62,389	99	1,522	11,332	15,500	6,934
Average annual access (percent of quota)	350	60	177	401	646	281
Total access in percent of: 2/						
Actual quota	700	57	356	800	1,015	600
Gross domestic product	8	68	2.9	7.3	9.3	5.8
Gross international reserves	49	53	24.5	54.0	84.0	45.2
Exports of goods and nonfactor services 3/	19	43	11.3	28.6	36.3	22.4
Imports of goods and nonfactor services	19	51	10.4	23.0	33.9	18.3
Total debt stock 4/						
Of which: Public	14	57	8	15	28	12
External	21	80	7	15	21	12
Short-term 5/	131	87	20	48	101	35
M2	11	40	6	14	23	12

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

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

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

3/ Includes net private transfers.

4/ Refers to net debt.

5/ Refers to residual maturity.

Appendix I. Letter from the Authorities Requesting an FCL Arrangement

Mexico City, November 9, 2017

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street NW

Washington, DC 20431

Dear Ms. Lagarde,

For many years, the United Mexican States (Mexico) has been implementing very strong economic policies that have promoted macroeconomic stability and anchored confidence in the country's economic outlook.

At the same time, the Mexican economy remains prone to tail risks arising from external economic developments given its open capital account and the active participation of non-resident investors in our financial markets. Continued uncertainty regarding the ongoing modernization process on the North American Free Trade Agreement constitutes a major external risk, which might have an impact specific to Mexico. A fundamental change in our trade regime could significantly disrupt trade flows and lead to a sudden pull-back of capital, including Foreign Direct Investment. In addition, although some global risks highlighted at the time of the request for the 2016 FCL arrangement in May 2016 have somewhat receded, we remain exposed to renewed volatility in global financial markets, increased risk premia, and a sharp pull-back of capital from emerging markets. Mexico is particularly vulnerable to shocks related to the process of normalization of U.S. monetary policy given our financial integration and economic-activity synchronization with the U.S. Moreover, emerging geopolitical risks have the potential to significantly disrupt global growth as well as risk appetite for emerging markets. Finally, changes in the structure of financial markets over recent years have increased the probability of recurrent episodes of reduced liquidity and high asset-price volatility. These changes include new financial regulation that has diminished the role of banks as market makers, a rise in algorithm-based trading, and a greater role for asset managers and other non-banks, which are more prone to herding behavior than banks.

For these reasons, we hereby notify our decision to cancel the current arrangement and request a successor 24-month FCL arrangement for Mexico, with unchanged level of access at 700 percent of Mexico's quota, or SDR 62.3889 billion. Such cancellation shall solely be effective upon approval of the referred successor arrangement. We believe that the above-mentioned access level will play a critical role in insuring our economy against severe tail risk events. As before, we intend to treat the arrangement as precautionary. We do not intend to make permanent use of the FCL. Conditional on a reduction of external risks affecting Mexico, including a dissipation of the risk of an abrupt change in Mexico's trade relations, and on a smooth continuation of the process of normalization of U.S. monetary policy, the buffers Mexico has been building over the last years in its macroeconomic policy framework will allow us to begin to phase out Mexico's use of the FCL. Accordingly, we intend to request a reduction in access to Fund resources to 600 percent of quota at the time of the mid-term review by the Executive Board under the successor arrangement requested hereby.

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

- On fiscal policy, we are committed to our consolidation plan announced in 2013 of keeping the overall fiscal deficit at 2.5 percent over the medium term, which, according to our projections, would bring the public debt-to-GDP ratio to a downward path. The 2017 overall balance is projected to fall to 1.4 percent of GDP, for we will save the entirety of the 1.5-percent-of-GDP one-off transfer from the Central Bank. Likewise, for the first time since 2008, without the one-off transfer from the Central Bank, the structural primary balance will show a surplus of 0.4 percent of GDP, and will increase to 1.4 percent of GDP when including it.[1]
- Our monetary policy continues to be underpinned by our inflation-targeting regime, which has effectively anchored medium- and long-term inflation expectations. With inflation on a temporary rise and the peso depreciating until January 2017, we raised the policy rate by a cumulative 400 basis points since December 2015. This stance was successful in keeping medium- and long-term inflation expectations anchored to close to the 3-percent inflation

[1] 30 percent of the Central Bank's one-off transfer is not reflected as an improvement in the primary balance because it is registered as an expenditure at the moment it is deposited into the Budgetary Revenues Stabilization Fund (FEIP).

target. Headline inflation has started declining in August of this year and is expected to converge toward the 3-percent target by end-2018. The central bank remains fully committed to adjusting the policy interest rate as necessary to keep inflation in line with the target over the medium term.

- The flexible exchange rate regime will continue to act as the key shock absorber during periods of global financial turmoil. We have used foreign exchange interventions judiciously over the last year, and exclusively to smooth excess volatility and prevent disorderly market conditions. We intend to further build up reserves over the medium term, subject to market conditions.

- We are implementing structural reforms to support medium- and long-term growth. In this regard, GDP growth average over the period 2014-2017 is 2.9 percent. We have made important progress over the past year in liberalizing gasoline prices and progressing with licensing rounds and farm-out contracts for crude oil and natural gas production. To strengthen Mexico's institutional framework, a constitutional reform created the National Anti-Corruption System.

- The financial sector remains sound, underpinned by a strong regulatory framework. Banks are profitable, well capitalized, liquid and resilient to credit and market risks. Insurance companies are well capitalized, while pension funds maintain conservative investment profiles. Our banking sector is compliant with Basel III risk-based capital standard and liquidity requirements. Furthermore, in light of the presence of foreign banks in our financial system, we continue to monitor cross-border exposures closely, including home-host supervisory colleges, and active involvement in international regulatory forums.

In sum, as the Executive Directors acknowledged in the latest Article IV consultation, Mexico's policies and institutional frameworks remain very strong. Economic policies have responded in a timely and appropriate fashion to both the global financial crisis and more recent shocks, as well as to support economic activity. We are maintaining the same strategy in the future, reacting as needed within this framework to any future shocks that may arise. The insurance against tail risks, which would be covered by the successor FCL arrangement, will support the continued rebuilding of buffers, like the current arrangement contributed to keep a high degree of confidence in our economy. The IMF's support through the FCL is thus an integral part of our strategy, and we greatly appreciate this support.

Sincerely yours,

/s/	/s/
José Antonio Meade Kuribreña	Agustín Guillermo Carstens Carstens
Secretary of Finance and Public Credit	Governor of Banco de Mexico

INTERNATIONAL MONETARY FUND

MEXICO

November 15, 2017

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

Approved By
Andrew Tweedie and Vikram Haksar

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

CONTENTS

INTRODUCTION

1. This note assesses the impact of the proposed Flexible Credit Line (FCL) arrangement for Mexico on the Fund's finances and liquidity position, in accordance with the policy on FCL arrangements.[1] The proposed arrangement would cover a 24-month period and access would be in an amount of SDR 62.389 billion (700 percent of quota). Access would remain unchanged from the existing FCL arrangement, which would be cancelled upon approval of the proposed arrangement. The full amount of access proposed would be available throughout the arrangement period, in one or multiple purchases.[2] The authorities intend to treat the arrangement as precautionary. Furthermore, they indicated their intention to request, at the time of the mid-term review of the proposed arrangement, a reduction in access to 600 percent of quota, conditional on a reduction of external risks facing Mexico.

BACKGROUND

2. Since the 2008 global economic and financial crisis, Mexico has entered into six FCL arrangements with the Fund and has treated all of them as precautionary. A one-year FCL arrangement equivalent to SDR 31.5 billion (1,000 percent of quota) was approved on April 17, 2009. This arrangement was succeeded by another FCL arrangement on identical terms approved on March 25, 2010. Subsequently, three two-year FCL arrangements in the amount of SDR 47.292 billion each were approved. The first, approved on January 10, 2011 was cancelled before its expiration upon approval, on November 30, 2012, of a successor FCL arrangement in the same amount. The 2012 arrangement was cancelled on November 26, 2014 and succeeded by another FCL arrangement approved the same day on identical terms. As external risks facing Mexico were deemed more elevated, the 2014 FCL arrangement was cancelled on May 27, 2016, and succeeded on the same day by the current FCL arrangement in the amount of SDR 62.389 billion (700 percent of quota).

3. Mexico has not made a drawing under any of its FCL arrangements. Mexico's very strong policy framework and fundamentals have helped it weather the sluggish global recovery in the wake of the global financial crisis and bouts of stress in global financial markets. In recent years, relatively strong demand from the US, to which Mexico's economy is closely connected, and robust

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

[2] 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.

private consumption growth underpinned by steady wage growth and rising employment have supported Mexico's economic recovery. Nevertheless, Mexico has also been exposed at times to shifts in global risk aversion, heightened market volatility, and uncertainty regarding the outcome of the NAFTA negotiations, as discussed in the main staff report (see ¶5). Mexico has a history of strong performance under earlier Fund arrangements and an exemplary record of meeting its obligations to the Fund (see Annex).

Table 1. Mexico: External Debt and Debt Service, 2012-17 /1

	2012	2013	2014	2015	2016	2017 2/
	(In billions of US dollars)					
Total external Debt	345.9	396.8	427.3	417.9	412.0	431.9
Public	242.5	270.1	287.3	281.0	278.7	289.9
Private	103.4	126.6	139.9	136.9	133.4	142.1
Total external debt service	81.9	112.2	127.2	126.7	117.3	86.8
Public	43.5	77.8	85.5	82.0	74.4	49.1
Private	38.4	34.3	41.7	44.7	42.9	37.6
	(In percent of GDP)					
Total external Debt	28.8	31.1	32.5	35.7	38.3	37.6
Public	20.2	21.2	21.9	24.0	25.9	25.2
Private	8.6	9.9	10.6	11.7	12.4	12.4
Total external debt service	6.8	8.8	9.7	10.8	10.9	7.6
Public	3.6	6.1	6.5	7.0	6.9	4.3
Private	3.2	2.7	3.2	3.8	4.0	3.3
Memorandum item						
Public external debt service in percent of exports	11.2	19.5	20.4	20.3	18.7	11.3

Source: 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.

4. Total external and public debt levels are moderate and are expected to remain stable over the medium term under the baseline. External debt has increased by nearly 6¼ percentage points of GDP over the period 2014–2016. Nonetheless, at about 38⅓ percent of GDP as of end-2016, with nearly 26 percent of GDP accounted for by public external debt, Mexico's external debt is not very high compared to other emerging markets as noted in the Article IV consultation report (see http://www.imf.org/en/Publications/CR/Issues/2017/11/10/Mexico-2017-Article-IV-Consultation-Press-Release-and-Staff-Report-45398, Annex III p. 54). Gross public debt is estimated to have increased from 49 percent of GDP at end-2014 to nearly 56¾ percent of GDP at end-2016. The depreciation of the peso was the main factor behind the increase in the public debt-to-GDP ratio during 2015–2016, and that ratio is projected to fall to 51½ percent of GDP over the medium term under the baseline scenario. Debt sustainability analyses suggest that both external and public debt would remain manageable under a range of scenarios.

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

5. **The proposed FCL arrangement would remain the largest Fund commitment to date and, if drawn, would result in a record high credit exposure in nominal terms**. The amount of the FCL arrangement is proposed to remain unchanged from the Mexico's current FCL arrangement, the largest nominal General Resources Account (GRA) arrangement in the Fund's history. If the full amount available under the proposed FCL arrangement were drawn, Mexico's outstanding use of GRA resources would reach SDR 62.389 billion, almost 2.7 times as large as the Fund's largest credit exposure to date.[3]

6. **If the full amount available under the proposed FCL arrangement were disbursed, Fund exposure to Mexico would be large, as noted above, and Mexico's debt ratios would deteriorate but still remain relatively moderate over the medium term.**[4]

- Access would be at a record high in the Fund's history in absolute terms. Relative to quotas, however, it would be significantly below several earlier euro area exceptional access cases such as Greece, Ireland, and Portugal.

- Mexico's external debt would remain moderate, with Fund credit representing a non-trivial share of this debt. Total external debt would rise to about 45¼ percent of GDP initially, and public external debt would rise to close to 33 percent of GDP, with Fund credit representing almost 7½ percent of GDP (Table 2). Mexico's outstanding use of GRA resources would account for almost 17 percent of total external debt, 23¼ percent of public external debt, and almost 49½ percent of gross international reserves.

- External debt service would increase over the medium-term, but remain manageable under staff's medium-term macro projections (Table 2). Mexico's projected debt service to the Fund would peak in 2021 at about SDR 33.1 billion, or nearly 3 percent of GDP.[5] In terms of exports of goods and services, debt service to the Fund would peak at about 8½ percent. Public external debt service would peak at almost 19 percent of exports of goods and services and debt service to the Fund would then account for about 45½ percent of total public external debt service.

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[3] The largest GRA credit exposure has been SDR 23.359 billion to Brazil in 2003.

[4] As with other precautionary arrangements, the baseline indicators should be interpreted with caution. The economic situation could be considerably weaker in circumstances where Mexico chooses to draw under its FCL arrangement, and the indicators would be affected in such a scenario.

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

Table 2. Mexico: Capacity to Repay Indicators, 2016–22 /1

	2016	2017	2018	2019	2020	2021	2022
Exposure and Repayments (in SDR millions)							
GRA credit to Mexico	0.0	62,388.9	62,388.9	62,388.9	62,388.9	31,194.5	0.0
(In percent of quota)	(0.0)	(700.0)	(700.0)	(700.0)	(700.0)	(350.0)	(0.0)
Charges due on GRA credit 2/	0.0	312.3	1,784.0	1,932.1	1,933.0	1,886.9	564.8
Debt service due on GRA credit 2/	0.0	312.3	1,784.0	1,932.1	1,933.0	33,081.4	31,759.3
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	38.3	45.2	43.9	43.8	43.5	40.0	36.9
Public external debt	25.9	32.9	31.6	31.1	30.4	26.6	23.2
GRA credit to Mexico	0.0	7.6	7.0	6.6	6.3	3.0	0.0
Total external debt service	10.9	7.6	6.9	7.2	7.5	10.1	9.5
Public external debt service	6.9	4.3	3.7	4.0	4.2	6.9	6.4
Debt service due on GRA credit	0.0	0.0	0.2	0.2	0.2	3.1	2.8
In percent of Gross International Reserves							
Total external debt	231.4	292.4	302.8	308.6	313.5	294.7	274.9
Public external debt	156.5	212.5	218.2	219.1	219.1	195.8	173.1
GRA credit to Mexico	0.0	49.4	48.4	46.7	45.1	21.7	0.0
In percent of Exports of Goods and Services							
Total external debt service	29.4	20.1	19.3	20.3	20.8	27.8	26.2
Public external debt service	18.7	11.4	10.3	11.1	11.7	18.9	17.5
Debt service due on GRA credit	0.0	0.1	0.6	0.6	0.5	8.6	7.8
In percent of Total External Debt							
GRA credit to Mexico	0.0	16.9	16.0	15.1	14.4	7.4	0.0
In percent of Public External Debt							
GRA credit to Mexico	0.0	23.3	22.2	21.3	20.6	11.1	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 and service charges.
3/ Staff projections for external debt ratios (to GDP, gross international reserves, and exports of goods and services) adjusted for the impact of the assumed FCL drawing.

7. **The approval of the proposed arrangement and cancellation of the existing FCL would have no net impact on the Fund's liquidity as measured by the forward commitment capacity (FCC).** The existing arrangement and the proposed one have the same access level (SDR 62.389 billion) and are both financed in full with quota resources.[6] The cancellation of the existing arrangement would free up SDR 62.389 billion and approval of the proposed arrangement would reduce the FCC by the same amount. Accordingly, other things equal, the net impact of the proposed FCL arrangement on the FCC would be nil (Table 3).

[6] All arrangements approved after the February 25, 2016 deactivation of the New Arrangements to Borrow (NAB) for financing new Fund commitments are not eligible for financing with NAB resources.

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

	as of 10/31/2017
Liquidity measures	
Forward Commitment Capacity (FCC) before approval 1/	209,538.1
FCC on approval 2/	209,538.1
Change in percent	0.0
Prudential measures	
Fund GRA commitment to Mexico including credit outstanding	
in percent of current precautionary balances	373.6
in percent of total GRA credit outstanding 3/	137.8
Fund GRA credit outstanding to top five borrowers	
in percent of total GRA credit outstanding 3/	76.0
in percent of total GRA credit outstanding including Mexico's assumed full drawing	86.4
Mexico's projected annual GRA charges for 2017 in percent of the Fund's residual burden sharing capacity	423
Memorandum items	
Fund's precautionary balances (FY17)	16,700
Fund's Residual Burden Sharing Capacity 4/	73.8

Sources: 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 about US$450 billion in bilateral commitments from members to boost IMF resources. These resources will only be counted towards the FCC once: (i) individual bilateral agreements are effective and (ii) the associated resources are available for use by the IMF, in accordance with the borrowing guidelines and the terms of these agreements.
2/ Current FCC minus access under the proposed arrangement plus the quota-financed portion of the arrangement being cancelled. The arrangement to be cancel 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 leaves the FCC unchanged as the access amount for both arrangements are identical (SDR 62,389 billion).
3/ As of October 31, 2017
4/ Burden-sharing capacity is calculated based on the floor for remuneration at 85 percent of the SDR interest rate. Residual burden-sharing capacity is equal to the total burden-sharing capacity minus the portion being utilized to offset deferred charges and takes into account the loss in capacity due to nonpayment of burden sharing adjustments by members in arrears.

8. **If a drawing were made, the proposed FCL arrangement could have a large impact on the Fund's financing mechanism**. As is the case for the current FCL, a single drawing by Mexico for the full amount under the proposed FCL arrangement would be by far the largest single purchase in the Fund's history and accordingly represent the largest funding requirement from participants in the Fund's Financial Transactions Plan (FTP). Accordingly, all remaining FTP members would be expected to participate.[7]

9. **If the resources available under the FCL arrangement were fully drawn, credit concentration would increase and the GRA credit exposure to Mexico would be large (Table 3).**

[7] If Mexico were to draw under the FCL, it would automatically be excluded from the list of members in the FTP, which currently comprises 51 participants.

- Fund credit to Mexico would represent about 137¾ percent of total GRA credit outstanding as of October 31, 2017, and nearly 58 percent of GRA credit outstanding including Mexico's purchase. It would also be the single largest Fund exposure. The concentration of Fund credit among the top five users of GRA resources would increase to about 86½ percent, from 76 percent as of October 31, 2017.

- Relative to the Fund's current level of precautionary balances, potential GRA exposure to Mexico would be substantial. Fund credit to Mexico would be nearly 3¾ times the Fund's current precautionary balances.

- Were Mexico to accrue arrears on charges after drawing under the proposed arrangement, the Fund's burden sharing mechanism would be clearly insufficient. In a low interest rate environment, such as the current one, potential charges for Mexico would substantially exceed the Fund's limited capacity to absorb charges in arrears through the burden-sharing mechanism.

ASSESSMENT

10. The proposed FCL arrangement would have a significant but manageable impact on the Fund's finances. On approval of the proposed new FCL arrangement, the Fund's prevailing liquidity position would be unaffected as the cancellation of Mexico's existing FCL arrangement would fully offset the liquidity effect from the proposed new arrangement. However, a single drawing for the full amount of Mexico's proposed FCL arrangement would be by far the largest single purchase in the Fund's history and would have a large impact on the Fund's financing mechanism. Moreover, the persistence of downside global risks, especially those facing the emerging markets universe, could result in an increased demand for Fund resources. Therefore, a close monitoring of the Fund's liquidity position remains important.

11. If drawn in full, Mexico's FCL would become by far the Fund's largest credit exposure, but risks to the Fund are mitigated by several factors. As has been the case with all its FCL arrangements to date, Mexico intends to treat the proposed FCL arrangement as precautionary. Moreover, the authorities have indicated that they intend to request, at the time of the mid-term review of the proposed arrangement, a reduction in access to 600 percent of quota, conditional on a reduction of external risks facing Mexico. In any case, the risks from the Fund's potential credit exposure to Mexico would be mitigated by Mexico's adequate buffers and the credibility of its policy framework. Mexico has a sustained track record of implementing very strong policies, including during the global financial crisis, and the authorities are committed to continue to implement such policies in the future and further enhance Mexico's resilience to external shocks. Also, while Mexico's overall external debt and debt service ratios would deteriorate assuming full drawing under the proposed arrangement, they would generally remain in the range of recent exceptional access cases though external public debt service relative to exports would be relatively high. Against this backdrop, Mexico's capacity to repay is projected to remain strong.

Annex I. History of Arrangements with the IMF

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

Prior to the FCL arrangements approved in April 2009, March 2010, January 2011, in November 2012, in November 2014, and in May 2016, Mexico had several Fund arrangements in the 1980s and 1990s. It fully repaid its remaining outstanding credit in 2000 (Table I.1). Mexico has an exemplary track record of meeting its obligations to the Fund.

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

- In February 1995, the Fund approved an SBA equivalent to SDR 12.1 billion (688 percent of quota) to support Mexico's adjustment program to deal with a major financial and economic crisis. Under that arrangement, Mexico made purchases totaling SDR 8.8 billion, and its outstanding credit peaked at SDR 10.6 billion (607 percent of quota) at end-1995 (Figure I.1). 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 six FCL arrangements under which no drawings have been made. A one-year FCL arrangement equivalent to SDR 31.5 billion was approved on April 17, 2009 to support Mexico's economic policies and bolster confidence during the crisis. A successor FCL arrangement on identical terms was approved on March 25, 2010. This arrangement was cancelled and a new two-year FCL was approved in January 2011 increasing the access to SDR 47.3 billion. On November 30, 2012, a two-year successor FCL arrangement was approved for the same access as the January 2011 FCL. On November 26, 2014, a two-year successor FCL was approved for the same access. This arrangement was cancelled and a new FCL arrangement was approved on May 27, 2016 with access increased to SDR 62.389 billion.

Annex Table I.1. Mexico: IMF Financial Arrangements, 1983-2016
(In millions of SDR)

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

Source: Finance Department.

1/ As of end-December.
2/ Includes a first credit tranche purchase of SDR 291.4 million.
3/ Includes a purchase of SDR 453.5 million under the Compensatory Financing Facility.