INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/306

MEXICO

November 2020

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

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 18, 2020. Based on information available at the time of these discussions, the staff report was completed on November 3, 2020.

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

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International Monetary Fund
Washington, D.C.

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

FOR IMMEDIATE RELEASE

- The IMF completed its standard mid-term review of Mexico's qualification under the Flexible Credit Line (FCL), which was originally approved on November 22, 2019 with an access level of about US$61 billion.[1]
- Mexico continues to qualify for the FCL by virtue of its very strong fundamentals and institutional policy frameworks and track record of economic performance and policy implementation.
- The arrangement has bolstered confidence through the ongoing global pandemic and, combined with the comfortable level of international reserves and access to bilateral swap facilities, provides insurance against downside risks. The authorities intend to continue to treat the arrangement as precautionary.

Washington, DC – November 20, 2020: On November 18, 2020, the Executive Board of the International Monetary Fund (IMF) completed its review of Mexico's qualification for the arrangement under the Flexible Credit Line (FCL) and affirmed Mexico's continued qualification to access FCL resources. The current two-year FCL arrangement for Mexico in an amount equivalent to SDR 44.5635 billion (about US$61 billion) was approved by the IMF's Executive Board on November 22, 2019 (see Press Release No. 19/431). The Mexican authorities stated their intention to treat the arrangement as precautionary.

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

"Mexico has been buffeted by an extraordinary confluence of shocks from the COVID-19 pandemic, with a heavy toll on the Mexican people. The economy has nonetheless demonstrated resilience owing to its very strong policies and institutional policy frameworks, including a flexible exchange rate regime, a credible inflation targeting framework, a fiscal responsibility law, and a well-regulated financial sector.

"The Mexican economy remains exposed to external risks, including a global resurgence of the outbreak which could result in diminished external demand, a delay in the recovery of tourism, and a fall in oil prices. International tensions over health supplies, premature withdrawal of policy support in advanced economies, and lingering trade disputes could further disrupt market sentiment. The Flexible Credit Line (FCL) will continue to play an important role in supporting the authorities' macroeconomic strategy by providing insurance against tail risks and bolstering market confidence.

[1] Amount based on the Special Drawing Right (SDR) quote at the time of the approval on November 22, 2019 of 1 USD=SDR0.726187.

“The authorities have a track record of sound policy management and are firmly committed to maintaining prudent policies going forward. They intend to continue to treat the arrangement as precautionary. Owing to the heightened external risks associated with the pandemic, the authorities have paused their planned path of reductions in access levels. They have affirmed their intention not to make permanent use of the FCL and, as external risks facing Mexico recede, to resume their planned path to exit from the facility.”

INTERNATIONAL MONETARY FUND

MEXICO

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT

November 3, 2020

EXECUTIVE SUMMARY

Context. The Covid-19 shock this year has imposed an enormous strain on Mexico. Beside the staggering human cost, the economy faces a historic drop in output and employment and a sharp spike in poverty. It is expected to take many years for employment, income, and poverty to return to pre-pandemic levels.

Risks. The economy remains highly exposed to risks of renewed financial market volatility, declines in oil prices, and adverse growth outcomes in key trading partners. The path of the global pandemic is uncertain. Infections could rise again amid unclear prospects for effective treatments, which would result in renewed economic contraction and heightened risk aversion. Early withdrawal of stimulus in advanced economies, notably in the U.S., could also lead to adverse growth spillovers and higher risk aversion.

Flexible Credit Line (FCL). The FCL has served as an important buffer in recent years, supporting Mexico's pursuit of very strong macroeconomic policies and institutional policy frameworks. Mexico's eighth arrangement under the FCL was approved on November 22, 2019, in the amount of SDR 44.5635 billion (500 percent of quota, around US$61 billion). At the time of approval, the authorities stated their intention to request a reduction in access to SDR 35.6508 billion (400 percent of quota) at this mid-term review, conditional on a reduction of relevant external risks, and consistent with their strategy to gradually phase out use of the FCL. Given the elevated global risks around the Covid-19 shock and heightened uncertainty, the authorities are not requesting a reduction in access. Notwithstanding the drawdown of internal fiscal buffers in response to the Covid-19 shock, the authorities expect to continue to treat the FCL as precautionary.

Qualification. In staff's assessment, Mexico continues to meet the qualification criteria for access to FCL resources specified under the Executive Board decision on FCL arrangements (Decision No. 14283-(09/29), adopted on March 24, 2009, as amended). Staff recommends that the Board completes this review that would allow Mexico to make purchases until the expiration of the FCL arrangement on November 21, 2021.

Approved By
Krishna Srinivasan (WHD) and Delia Velculescu (SPR)

This report was prepared by a team comprising Rishi Goyal (head), Swarnali Ahmed Hannan and Kevin Wiseman (all WHD), Carolina Claver (LEG), Dimitris Drakopoulos (MCM), Mehdi Raissi (FAD), and Misa Takebe (SPR). Balazs Csonto (formerly SPR) provided inputs, and Juan Pablo Cuesta Aguirre and Javier Ochoa (WHD) provided excellent assistance.

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CONTEXT

1. **Mexico has pursued very strong macroeconomic policies and institutional policy frameworks in recent years.** The independent, inflation-targeting central bank has kept inflation expectations well anchored. The flexible exchange rate has facilitated absorption of external shocks. The external position has been broadly in line with fundamentals and desirable policies, while external debt has been relatively low. Public finances have been guided by the fiscal responsibility law. Banking sector fundamentals have also been broadly sound, underpinned by effective supervision. These policies have helped Mexico to exhibit resilience amid a historic combination of shocks associated with the Covid-19 pandemic thus far, as it has with previous external challenges including the global financial crisis , the taper tantrum, falling oil prices, and trade policy uncertainty, in the context of disappointing economic growth.

2. **The FCL has provided Mexico with an important buffer and signal of its policy strengths.** Mexico was the first member to sign on to the FCL when it was introduced in 2009 for members with very strong macroeconomic policies and frameworks that are confronted with adverse external shocks. Successive FCL arrangements have provided Mexico with a substantial buffer. Together with its international reserves and swap lines with the U.S. Treasury and Federal Reserve, the FCL has helped anchor market confidence in Mexico's macroeconomic policies and institutional frameworks. Thus far, the FCL has been treated as precautionary.

3. **This mid-term review of the 2019 FCL arrangement is taking place against the backdrop of the Covid-19 pandemic.** As noted in the 2020 Article IV consultation staff report, Mexico has been hit hard. The official death toll currently exceeds 90,000 and continues to rise, with unofficial estimates significantly higher based on excess mortality statistics. This is among the highest globally. The labor market has experienced historically large dislocations, with several million workers falling and remaining out of the workforce. The share of the working poor in the population jumped from 36 percent pre-pandemic to 48 percent in mid-2020. Output is forecast by staff to contract by 9 percent this year and recover modestly going forward. It is expected to take several years for employment, income, and poverty to return to pre-pandemic levels. Risks remain elevated and tilted to the downside.

4. **Pandemic-era macroeconomic policies have been very conservative while structural reform reversals risk weighing on the recovery and growth.** As also documented in the 2020 Article IV consultation staff report, the fiscal response to the pandemic has been very muted, risking a deeper contraction and prolonged economic scarring but minimizing the near-term accumulation of public debt. Meanwhile, fiscal gaps have increased to 1¼-2 percent of GDP over 2021-25. This heightens the importance of a medium-term tax reform, to be implemented when the recovery is firmly in train, to help finance increased public investment and social spending, close gaps, and lower public debt. Policy actions such as reform reversals in the energy sector and other actions that led to the cancelation of large private projects have weighed on the investment climate. This points towards not only further deterioration of growth-oriented policies but also a weaker recovery from the pandemic and lower potential GDP growth going forward, already a longstanding weakness.

RECENT DEVELOPMENTS

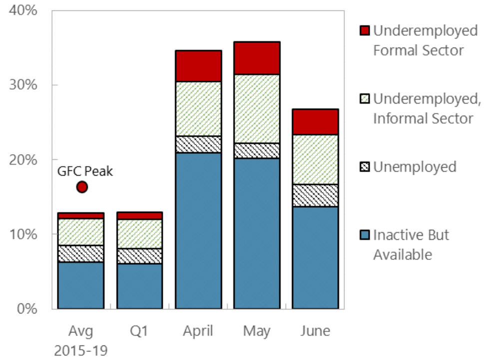
5. **Mexico entered 2020 in a mild recession.** Real GDP shrank by 0.1 percent in 2019, led by declines in investment and government consumption. The former reflected rising policy uncertainty while the latter reflected tight fiscal policy settings to achieve the authorities' targets. Given rising inflation, monetary policy rates were hiked to 8.25 percent by mid-2019 to anchor inflation expectations; subsequently, in the face of a widening negative output gap, they were lowered gradually through 25 basis point cuts to 7 percent before the Covid-19 pandemic struck in early 2020. In a benign international financial environment, significant carry trades were built up owing to large interest rate differentials. The 2019 external position was assessed to be broadly in line with medium-term fundamentals and desirable policies.

6. **Several adverse shocks in March and April led to a deep contraction through May.** Heightened global risk aversion fueled capital flight, unwinding of carry trades, and sharp currency depreciation. Sudden stops in economic activity in trading partners and an oil price collapse led to a collapse in exports. Domestic Covid-19 infections surged and domestic demand declined. The result was a historic contraction in GDP by 19 percent (y/y) in 2020Q2, driven by large declines in consumption and investment. Sizable policy support in major advanced economies led to a quick normalization of U.S. dollar funding markets and the beginnings of a recovery. Notwithstanding rising Covid-19 infections, Mexico re-opened several sectors, including auto production, to coordinate with faster-reopening countries in the North American supply chain and resurgent external demand. But while manufacturing has followed suit, domestic demand recovery has been weak. High frequency data on local mobility, international flights, and new job postings point to a subdued recovery. The contraction has been disproportionately borne by the most vulnerable.

7. **Much of the labor force remains displaced and underlying inflation appears contained.** Over 20 percent of workers lost their jobs in April, of which a third (about four million) remain economically inactive. An additional 11 percent of workers became underemployed, with more than 6 percent still underemployed in August. The unemployment rate has risen above 5 percent; it could continue to rise, considering still high levels of inactivity and underemployment.[1] Annual headline inflation was slightly under 4 percent through September, above the central bank's target of 3 percent. Elevated merchandise goods inflation owing to transitory effects of exchange rate passthrough and supply shocks resulted in core inflation near 4 percent as well. However, services inflation that better reflects underlying demand pressures remains below 2.5 percent.

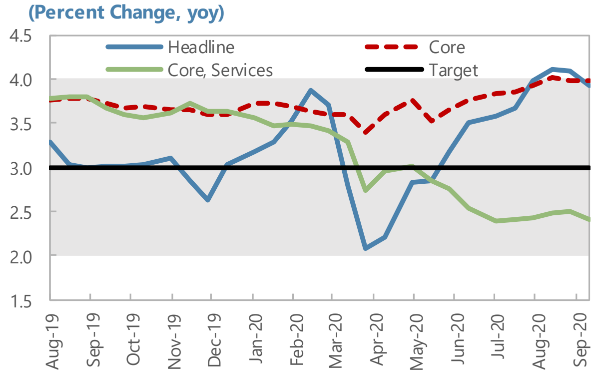
[1] These changes may partially reflect a change in measurement methodology as the employment survey moved to telephone-only in April 2020 on account of the pandemic, returning to mostly in-person interviews in July.

Vulnerable Workers
(cumulative share of working age population)



Source: INEGI ENOE and ETOE, IMF Staff calculations

Inflation and Components
(Percent Change, yoy)

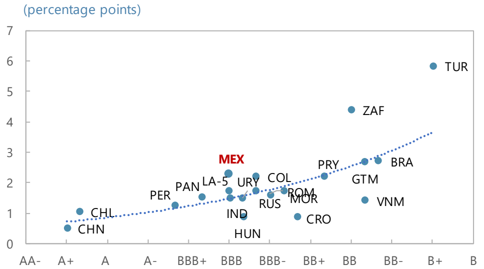


Source: INEGI and IMF Staff Calculations.

8. Amid capital outflows, the external accounts continue to demonstrate resilience. Exports and imports initially slumped by more than 30 percent y/y in Q2, although the recovery of manufacturing exports has outpaced other sectors. Remittances increased by 26 percent in pesos in the first seven months of 2020, reflecting resilient U.S. dollar flows and a weaker peso. Foreigners reduced their share of peso sovereign bond holdings through August to the lowest levels since 2011. Yet, gross international reserves rose to $200 billion in October from $183 billion at end-2019, now 130 percent of the Assessing Reserve Adequacy (ARA) metric. This increase is due mostly to the government's debt management operations and valuation changes. A swap line with the U.S. Federal Reserve was established for $60 billion, of which about $6 billion was tapped initially to help normalize dollar funding markets; use has declined below $2 billion. Mexico also benefited from the FCL for over $60 billion (500 percent of quota), which it has treated as precautionary.

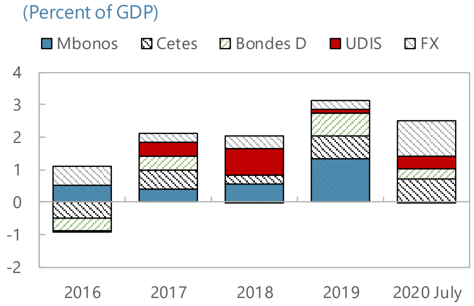
9. The sovereign's rating was downgraded but it maintains comfortable market access. Rating agencies downgraded the sovereign by one notch to an average equivalent of BBB, while, spreads are trading closer to BBB-, reflecting possible further downgrades. The national oil company, Pemex, lost its investment-grade status, becoming the world's largest "fallen angel", weighing further on the sovereign's outlook. In response to capital outflows, the authorities limited their domestic currency issuance and shortened maturities until Q3 2020, containing term premia. Instead, they increased external issuance sizes, despite the downgrades, as sovereign dollar

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



Source: Bloomberg.
Note: Credit ratings are calculated as the average rating across Fitch, Moody's, and S&P.
Spreads correspond to the Bloomberg Barclays EM Sovereign Index.
LA-5 is the average of Brazil, Chile, Colombia, Mexico, and Peru.
Data as of October 7, 2020.

Net Issuance by Instruments
(Percent of GDP)



Source: Banco de Mexico.

borrowing costs declined to historic lows of around 3-3.5 percent. They plan to increase domestic currency issuance of medium- to long-term fixed rate bonds in Q4 2020, thus helping to attenuate exchange rate risk. In October 2020, Pemex re-accessed international markets, raising US$1.5 billion at a yield of 6.95 percent on a 5-year bond.

10. The banking sector has remained broadly resilient so far and large corporates maintain comfortable market access. The banking sector is highly concentrated and mostly international, with sizable capital buffers, greater exposures to large corporates and sovereign-related entities, and low nonperforming loans (NPLs). Concentrations to SME and consumer loans, which are relatively more sensitive to a deterioration in the economic outlook, are higher in smaller and medium-sized banks. Profitability problems are becoming more evident in smaller banks; profitability has also been affected by increases in loan-loss provisioning. In response to the pandemic, the authorities have relaxed liquidity requirements and encouraged the use of capital conservation buffers, which should provide smaller domestic banks additional margins. NPLs remain low, and loan renegotiations have been subdued and the lowest among regional peers. Liquidity conditions remain well above regulatory requirements. Natural and financial hedges helped shield corporate balance sheets from exchange rate shocks. Local corporate bond market conditions were very weak in Q2 leading to large use of bank credit lines, but conditions strengthened thereafter. Large investment-grade corporates have maintained comfortable market access. Non-investment grade corporate access has been more subdued, but funding costs are returning to pre-pandemic levels.

11. The USMCA trade agreement opens a window of opportunity but investor sentiment has remained very weak. USMCA went into effect in July 2020, reducing uncertainty in Mexico's trade relations with its biggest trading partners and positioning Mexico to potentially benefit from re-shoring of supply chains to North America. However, as noted in the 2019 and 2020 Article IV consultation staff reports, investment sentiment has deteriorated owing to reversals of structural reforms, importantly in the energy sector, and other actions that led to the cancelation of certain large investment projects. The deterioration in the business climate risks weakening the recovery, lowering investment, and limiting the gains from USMCA.

OUTLOOK, RISKS, AND POLICIES

12. Amid significant uncertainty around the forecasts, Mexico's recovery is expected to be modest. Under current policies, staff projects output to contract by 9 percent this year and grow by 3½ percent next year; over the medium term, it is expected to grow near the potential rate of around 2 percent. Inflation is set to decline gradually because of sustained underlying demand weakness. Owing to the compression and slow recovery of domestic demand, the external current account is projected to increase to a modest surplus in 2020 and decline gradually over the medium term. Potential output by 2025 is projected at 9 percent below pre-pandemic projections, reflecting likely labor market scarring, diminished long-run growth, and foregone investment.

13. Mexico continues to face substantial downside risks. The current level of external pressures and outstanding risks significantly exceeds the levels foreseen at the time of the FCL approval. The path of the pandemic, the availability of effective treatments, and the associated impacts on economic activity are difficult to predict. A resurgence in the outbreak could prompt renewed restrictions on mobility and economic activity while delays in vaccine development could push off recovery in key sectors like tourism. On the external side, premature withdrawal of support in advanced economies, a fall in the oil price, international tensions over health supplies, and lingering trade disputes, among others, could reignite trade risks and further disrupt market sentiment. A renewed pandemic would put further pressure on high-contact services, tourism, and informal jobs while the materialization of the external shocks could pose a return to a difficult funding environment for corporates and put further pressure on banks. On the upside, rapid availability of an effective vaccine or therapy, or advanced economy buoyancy benefiting from large policy interventions, could boost confidence and exports.

14. Monetary policy has been eased against the backdrop of well-anchored inflation expectations. The floating exchange rate facilitated absorption of external shocks, with intervention limited to supporting U.S. dollar liquidity pressures in March-April 2020. The policy rate has been cut by 400 basis points since last summer, of which 275 basis points were since the outbreak of the pandemic in March 2020. However, at 4.25 percent, the policy rate remains high compared to the lows following the global financial crisis, especially considering the drop in output and sizable output gaps. Staff recognizes that the central bank must carefully manage a difficult tradeoff considering countervailing pressures on inflation as well as external risks. In that context, with 1-year ahead inflation expectations well anchored, staff believes that consideration could be given to further easing rates to support the economy while maintaining external financial stability. The central bank also created or expanded liquidity and credit facilities in April that bolstered confidence on announcement but the credit facilities have seen limited use.

15. The authorities' fiscal policy response to Covid-19 and its economic fallout has been very conservative. Covid-19 related discretionary budget support in 2020 amounted to 0.7 percent of GDP—the lowest among G20 economies. The draft 2021 budget continues this conservative approach with real spending increasing by just 0.1 percent. In staff's view, temporary near-term fiscal support of 2½–3½ percent of GDP could help better combat the pandemic and its effects. However, no new medium-term tax reforms or base-broadening efforts were announced. Stabilization and trust funds are expected to be drawn down substantially. The authorities' tax administration measures have yielded better-than-expected revenues so far in 2020. They have also proposed a pension reform that would raise replacement rates and improve pension adequacy and eligibility. It will be financed by gradually lifting the contribution rates of private employers, but consideration should be given to complementary measures to offset any impact on labor market informality.

16. In staff's view, additional measures will be needed to close fiscal gaps over the medium term and stabilize public debt.

- The budget forecasts an overall deficit (public sector borrowing requirement or PSBR) of 4.7 percent of GDP in 2020 and targets 3.4 percent of GDP in 2021.[2] The medium term guidelines indicate deficits of around 2½ percent of GDP. The budget forecasts public debt to stabilize in 2021 and decline marginally thereafter.

- Staff projects the overall deficit to widen to 5.8 percent of GDP in 2020 and estimates fiscal gaps of 1¼–2 percent of GDP in 2021 and beyond to meet the authorities' deficit targets. This is based on more prudent assumptions for nominal GDP growth, oil production, and revenue efficiency. If measures are identified to close the fiscal gaps, gross public debt would stabilize around 65 percent of GDP. Otherwise, debt would rise to 73 percent of GDP over the medium term. Historically, Mexico has closed budget gaps in line with its fiscal responsibility law, but past gaps were smaller and were closed through resort to revenue stabilization funds and other trusts as well as expenditure contractions. In staff's view, there is little scope for further expenditure cuts without significantly impairing the quality of public services and sustainability of the adjustment (see IMF Country Report No. 19/337), while stabilization funds and other trusts have declined.

- A quality medium-term tax reform—to be implemented when the recovery is firmly in train—is therefore needed to close gaps, lower public debt, and generate room for needed public investment and enhanced safety nets. Modifying Pemex's business strategy to focus on profitability and sustainability also remains key to further reduce strains on the budget and protect the value of Mexico's oil assets.

17. Additional steps are needed to safeguard medium-term sustainability and secure inclusive medium-term growth. Notwithstanding the authorities' announcement in October in conjunction with private sector representatives of a series of investment projects that could amount to 1¼ percent of GDP in the coming years, the deep contraction owing, partly, to limited policy support risks delaying a robust recovery and leaving lasting economic scars that could test fiscal resources over the medium term. It also risks weighing further on productivity growth, which has been relatively low and Mexico's long-standing weakness. Durably turning around productivity growth and boosting investment will require sustained implementation and broadening of high-quality reforms to, among others, reinforce the rule of law, improve the business climate, and tackle labor market informality. This would facilitate a stronger recovery and help Mexico to reap the gains from USMCA.

18. The authorities have noted that the Covid-19 environment has complicated plans to announce tax reforms. At the FCL request, the authorities had committed to prepare the ground for a comprehensive medium-term tax reform, among other measures to underpin sustainability and inclusive growth. They have informed staff that the Covid-19 context has complicated the take up of

[2] For 2021, there might be substantial one-off transfers from the central bank, related to the peso revaluation of international reserves.

these issues before the pandemic abates, with their focus currently on enhancing collection efficiency.

19. In view of the elevated pandemic-related external risks amid heightened uncertainty, the authorities are not requesting a change in access for this review. At the time of the approval of the FCL arrangement last year, the authorities were implementing a strategy of phasing out Mexico's prolonged use of the facility by reducing access from 700 percent to 600 percent of quota in 2018 and subsequently to 500 percent of quota last year. In that context, they had indicated an intention to request a further reduction in access to Fund resources to 400 percent of quota during the current review, conditional on a reduction of external risks facing Mexico. In the event, external risks have risen substantially (Box 1). The authorities consider unchanged access to provide them a timely and adequate buffer. However, they remain committed to continuing their exit strategy announced in 2017, consistent with and dependent on the exceptional set of risks in the global economy receding. The authorities expect to continue to treat the FCL as precautionary as reflected in their preference for drawing down internal fiscal buffers. However, in the context of heightened uncertainty and risks on the horizon, recourse to the FCL may be needed to address actual balance of payments pressures in line with the purpose of the instrument.

REVIEW OF QUALIFICATION

20. In staff's view, Mexico continues to meet the FCL qualification criteria (Figure 3):

- **Sustainable external position.** The 2019 external position was assessed to be broadly in line with medium-term fundamentals and desirable policies. The external current account is expected to be in surplus this year as exports have recovered faster than imports, tracking external demand. The updated external debt sustainability analysis (Figure 5) shows the external debt/GDP ratio is expected to increase by 9 percentage points of GDP this year reflecting a significant denominator effect from the output contraction, but it is expected to stabilize next year and converge to a small deficit over the next few years in line with medium-term fundamentals and desirable policies. Net foreign assets are projected to be around –55 percent of GDP through 2025.

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

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

- **Track-record of steady sovereign access to international capital markets at favorable terms.** Despite recent ratings downgrades, the sovereign continued to place debt successfully in local and especially international markets. Mexico weathered the financial market turbulence in March-April 2020 well. Mexico's sovereign bond (United Mexican States or UMS) spread and 5-year credit default swap rose in line with other EMs in March and April but have recovered substantially and stand close to pre-crisis levels at 245 and 128 basis points respectively (as of October 30th, 2020). In response to waning external flows, the reduction in supply of medium- to long-term fixed rate bonds (Mbonos) helped contain the term premia increases at the long end of the curve. Instead, the authorities have increased external issuance sizes and are utilizing resources from various stabilization or trust funds. Before the pandemic, 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 nearly 1,600 percent of Mexico's IMF quota.

- **Comfortable international reserve position.** Gross international reserves rose throughout the crisis reaching US$200 billion as of early-October 2020, compared to US$182.9 last September in advance of the approval of the FCL arrangement. 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 four years. The central bank has a temporary US$60 billion swap line with the U.S. Federal Reserve. This facility will continue to be complemented by a separate swap line of US$3 billion with the Federal Reserve associated with the North American Framework Agreement, and a US$9 billion swap line with the U.S. Treasury.

- **Sustainable public debt position and sound public finances.** Staff assesses Mexico's public debt to be sustainable with high probability (see Figures 6-8, and Annex IV of the 2020 Article IV staff report for Mexico). Fiscal policy is underpinned by the fiscal responsibility law.[4] Notwithstanding staff's view that there is some space for further temporary and targeted fiscal support to the economy, fiscal policy settings have been very conservative to contain new debt issuance.[5] The debt sustainability analysis shows that the debt risks are manageable despite the very deep contraction (Figure 7). Mexico's gross public debt is expected to rise by about 12 percent of GDP in 2020, owing to a sharp contraction in GDP and peso depreciation. If the authorities meet their fiscal targets over the medium-term, public debt should stabilize around 65 percent of GDP. The debt projection is sensitive to growth, exchange rate fluctuations, interest rates, and oil price shocks. The effects on debt and financing needs would be larger under a renewed Covid-19 shock paired with a risk-off shift in financial markets.

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

[5] An escape clause establishes that under exceptional circumstances there can be deviations from the rule, including in emergencies. Moreover, the regulations to the FRL (Article 11) also allow the deficit to be increased if the government introduces a new policy which incurs short-term fiscal costs, but which yields net fiscal benefits over the long term. The escape clause was used in 2010, 2011, 2012, and could be used again during the pandemic.

- **Low and stable inflation in the context of a sound monetary and exchange rate policy framework**. Mexico has maintained single digit inflation over the past five years. Supported by monetary action, headline inflation converged back to the 3 percent target in 2019. Headline inflation saw high volatility, tracking energy prices early in the pandemic, while core inflation has risen steadily to the top of the inflation band, driven by temporary factors such as exchange rate pass-through, supply constraints, and idiosyncratic food inflation (reflected in the inclusion of processed food in the core basket). Inflation is expected to subside under persistent demand shortfalls associated with the deep fall in output and given tight fiscal policy settings. One-year ahead and medium-to-long term inflation expectations have scarcely moved during this turbulent period, indicating a robust monetary anchor.

- **Sound financial system and the absence of solvency problems that may threaten systemic stability.** Mexico entered the crisis with a generally well-capitalized and profitable banking system and solid corporate fundamentals, and average capital adequacy ratios remain above regulatory thresholds. Corporate balance sheets were bolstered by natural and financial hedges against the exchange rate. Private pension funds, which hold assets of about 16 percent of GDP, have a conservative investment profile. Notwithstanding the failure of a small bank, the largest systemic banks have responded relatively well through the pandemic, with limited NPL growth so far, rising coverage ratios, and limited use of crisis-related forbearance measures. Having said that, close monitoring of risks in the banking sector remains crucial, particularly for small banks whose corporate loans were more affected than the larger ones during the pandemic.

- **Effective financial sector supervision.** Mexico adopted the Basel III capital rules in 2013, and the Basel Committee assessed it as compliant in 2015. Minimum liquidity coverage ratio requirements have been in place since January 2015. The 2016 FSAP found that significant progress had been achieved in strengthening financial sector prudential oversight and noted that the authorities have made several improvements to address past recommendations, including updates to the supervisory framework and tools and strengthening the legal framework for financial groups. Past FSAPs also recommended areas for further progress, e.g., regarding the definition of related parties and to strengthen the governance of the supervisory agencies and the deposit insurance scheme. The authorities should continue upholding minimum regulatory and supervisory standards, while using flexibility within the framework to cope with challenges.

- **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, according to staff's assessment that all relevant core indicators were met in each of the five most recent years.

21. Institutional quality demonstrates strengths and weaknesses. The institutional quality of macroeconomic policy is underpinned by the inflation-targeting framework (anchored by a strong, independent central bank), the fiscal responsibility law, and an effective prudential and regulatory framework for financial supervision. A weaker area, however, continues to be the control of corruption. A constitutional reform created the National Anti-Corruption System (NACS) in 2016, which provides an updated framework to combat corruption. The focus is moving toward effective implementation, prevention, and enforcement, with the authorities implementing the IMF's 2018 assessment recommendations in legislation now in congress and the Financial Intelligence Unit taking the lead on following up, although progress is still low subsequently in relation to investigation, prosecution and enforcement. As noted above, recent broader concerns about reform reversals have also been raised (¶11). These actions have led to elevated policy uncertainty and a deterioration in investment, alongside a perception of eroding independence and quality of regulation.

22. While the Mexican authorities have had a strong track record in responding to shocks, there remains room to respond more strongly to the Covid-19 pandemic.

- On one hand, Mexico has been able to navigate this year's unprecedented confluence of external and domestic shocks. The flexible exchange rate played a key role in helping the economy adjust to external shocks, with marginal interventions in the foreign exchange market this year and none in the previous two. Monetary policy has kept 1-year ahead inflation expectations anchored close to the inflation target. The central bank tightened monetary policy through the end of 2018 in the face of rising price pressures, but then eased monetary policy from mid-2019. Following the Covid-19 shock, it accelerated the pace of rate cuts , introduced new liquidity and credit facilities, and established a swap line with the U.S. Federal Reserve. Nevertheless, the policy rate remains high relative to the response to the Global Financial Crisis.

- On the other hand, fiscal policy has been very conservative. Fiscal policy was expansionary in the aftermath of the global financial crisis (GFC) and was broadly in line with the size of fiscal expansions in Mexico's regional and emerging market peers. The post-GFC period saw a significant increase in public debt that was arrested only in 2016 through both an increase in non-oil revenues and cuts in spending. However, the response has been muted in the current pandemic-related downturn—with a view to containing fiscal risks—albeit with some increase in health and social spending. This tight stance, however, risks a deeper downturn and a weaker recovery. Staff sees some room to ease. Early announcements of medium-term reforms in revenues and Pemex's business strategy could improve risk sentiment and investment while providing additional policy space at a time when recovery growth hangs in the balance.

SAFEGUARDS ASSESSMENT

23. Staff has completed the safeguards procedures for Mexico's 2019 FCL arrangement. EY Mexico (the external auditor) issued an unmodified audit opinion on Banco de Mexico's 2018 financial statements. Staff reviewed the 2018 audit results and discussed these with EY Mexico. Publication of the annual audited financial statements continues to be timely, with a translated

English version introduced for 2018. The Audit Committee exercises oversight on the external audit process. No significant issues emerged from the conduct of the safeguards procedures.

STAFF APPRAISAL

24. Mexico's successive FCL arrangements have supported the authorities' policies by providing a buffer against tail risks. These arrangements, along with sizable international reserves, have provided the authorities with valuable insurance in periods of high volatility. While the economic fallout of the pandemic has put additional pressures on the economy, including through notably reduced internal fiscal buffers, the authorities have communicated that they expect to continue treating the FCL as precautionary. The heightened external risks have put a pause for this review in Mexico's path to an exit from the facility, which would resume once external risks recede.

25. Staff's assessment is that Mexico continues to meet the qualification criteria for access to FCL resources. As noted in the Executive Board assessment of the 2020 Article IV consultation, Mexico has very strong macroeconomic policies and institutional policy frameworks as well as sound economic fundamentals. The authorities have a strong track record of conservative policy settings and have reiterated their commitment to maintaining very strong policies. Staff therefore recommends completion of the review under the FCL arrangement for Mexico.

Box 1. The Calculation of the External Economic Stress Index

The external economic stress index (ESI) for Mexico was initially presented in Mexico's staff report on the arrangement under the Flexible Credit Line, November 2014. Its methodology is explained in *Flexible Credit Line—Operational Guidance Note*, IMF Policy Paper, August 2018. The calculation of the index required three main choices: (i) selection of relevant external risks, (ii) selection of proxy variables capturing these risks, and (iii) choice of weights for these variables. The updated index is presented below using the same model and proxy variables as for the 2017 FCL request, the 2018 review, and the 2019 request, while the weights have been updated.

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 trade and fiscal revenues depend on world energy price developments.

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

Weights. The weights were estimated using balance of payment and international investment position data in 2019. The weight on U.S. growth (0.51) corresponds to the sum of exports, FDI, and remittances; the weights on the change in the U.S. long-term yield (0.34) and the VXEEM (0.13) 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. All variables are expressed in shares of GDP.

Baseline scenario. This scenario corresponds to the WEO projections for U.S. growth, oil prices, and the U.S. 10-year bond yield. The VXEEM is assumed to remain relatively high at the average of the first half of 2020 during the projection period, given the high uncertainty over Covid-19. Compared to the time of the 2019 request, the ESI under the baseline scenario indicates higher risks.

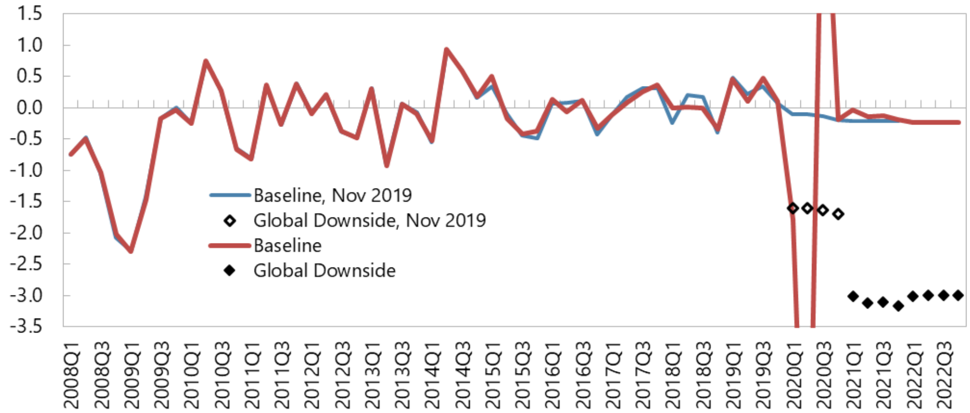
Global downside scenario. The downside scenario is based on the scenario in the October 2020 WEO, which points to a much larger shock than at the time of the 2019 request and would be broadly consistent with the current global tail risks relevant for Mexico. Under this scenario, progress on all fronts in the fight against the Covid-19 proves to be slower than assumed in the baseline, which leads to a significant deterioration in economic activity and tighter financial conditions. Global growth in 2020 is roughly ¾ percentage points weaker and growth in 2021 is almost 3 percentage points weaker in this scenario with a cumulative reduction of U.S. growth of 2.4 percentage point as well as lower oil prices by 6 percent over the next two years relative to the baseline WEO projection. 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). Against this backdrop, and the associated disruptions to financial flows, the risk premia for Mexico could increase and rollover rates decline.

Country-specific external downside scenario. The ESI global downside scenario shows that external risks are elevated compared to those in November 2019, reflecting an uncertain global economic and financial environment amid Covid-19. Country-specific uncertainties also remain high. Against the backdrop of a high degree of uncertainty around COVID-19 as well as Mexico's close trade relations with the United States and integration into global financial markets, Mexico could be affected by potential disruptions in value chains and an abrupt drop in FDI. The current ESI is not designed to reflect these country-specific uncertainties. Nevertheless, staff is of the view that a combination of global risks and country-specific uncertainties remains elevated.

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

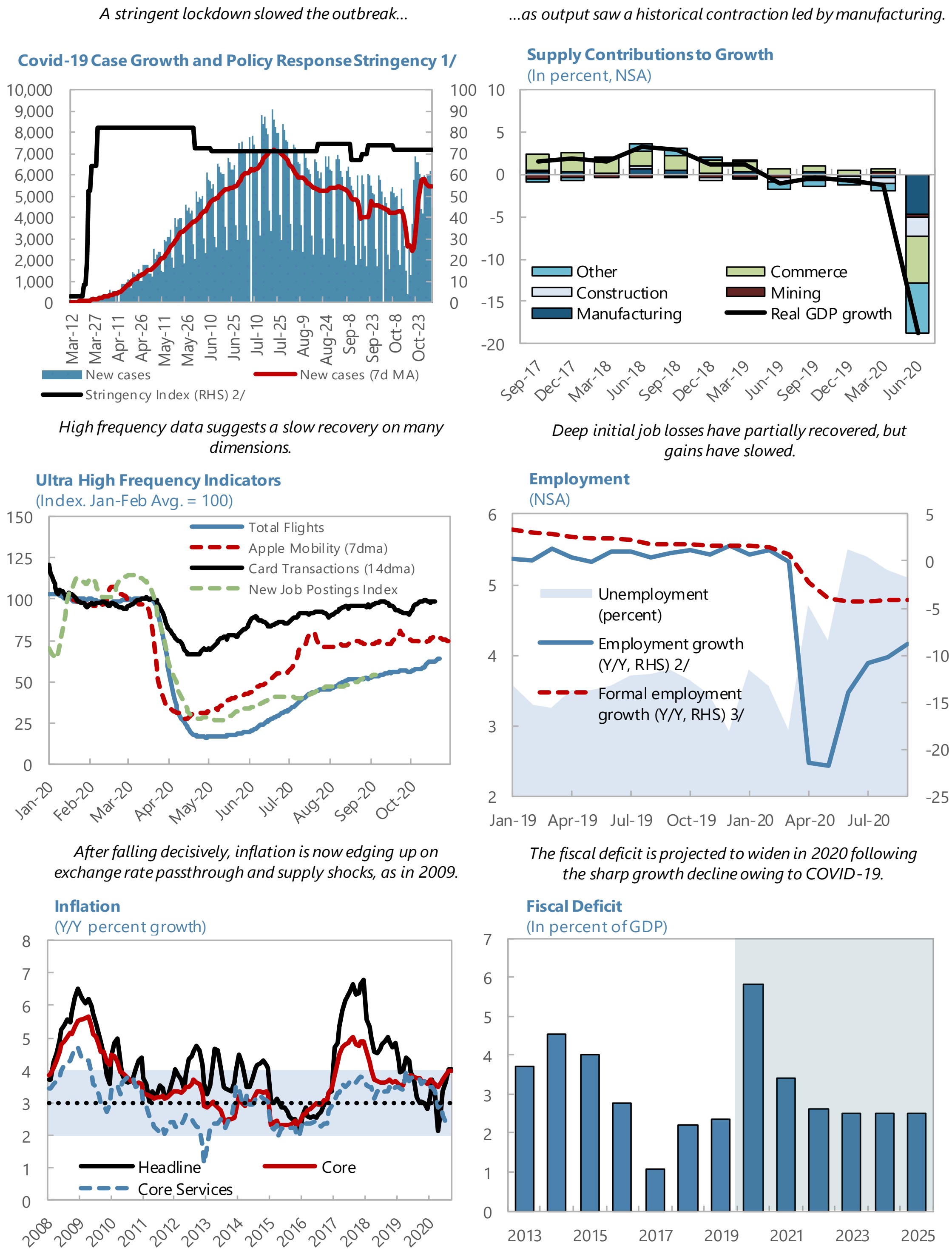
The global downside scenarios are illustrated in the chart by dots. The index would fall if the described shocks materialized in any given quarter.

External Economic Stress Index



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

Figure 1. Mexico: Recent Economic Developments

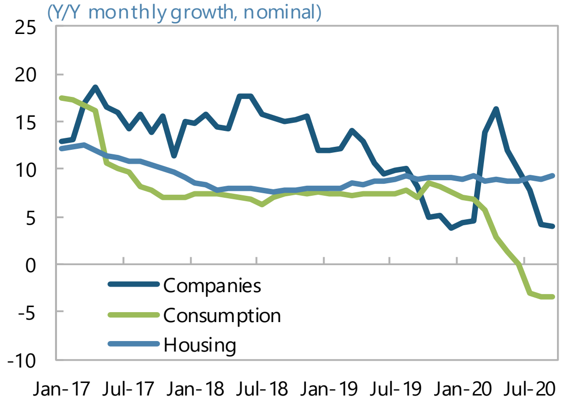


Sources: National authorities, Oxford University, Apple Mobility, Haver Analytics, Bloomberg, INDEED; and IMF staff calculations.
1/ Oxford University Stringency index of the health policy response. The Stringency index collects publicly available information on policies such as school closures, travel bans, etc, and records them on a scale from 0 to 100 (100 = more stringent).
2/ Employment growth is calculated as the growth in employment as a share of the economically active population.
3/ Formal employment growth is calculated as the growth in the number of IMSS-reporting employees, which does not capture self-employed formal workers.

Figure 2. Mexico: Recent Financial and External Developments

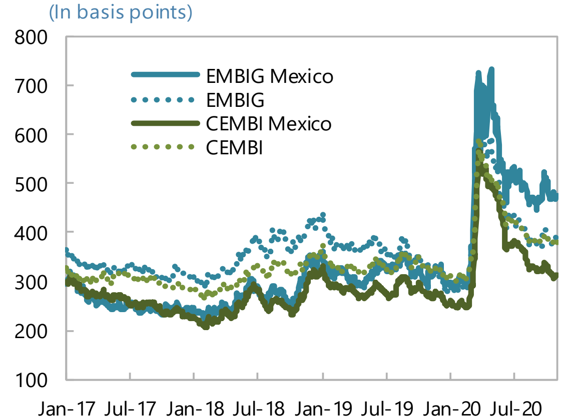
Bank credit to corporates has followed consumer credit after a spike in credit line draws...

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



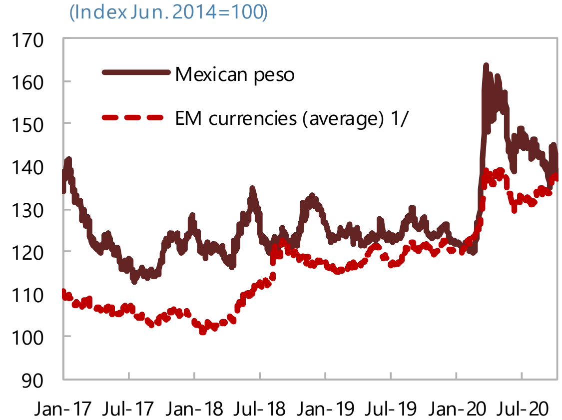
...while corporate debt markets have improved.

EMBIG and CEMBI Spreads
(In basis points)



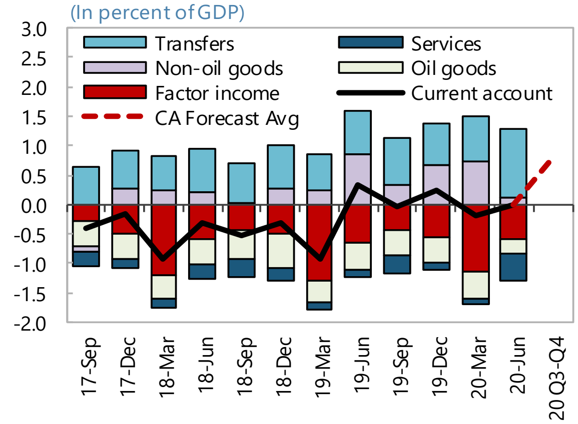
The exchange rate has partially recovered with foreign demand,...

Exchange Rates
(Index Jun. 2014=100)



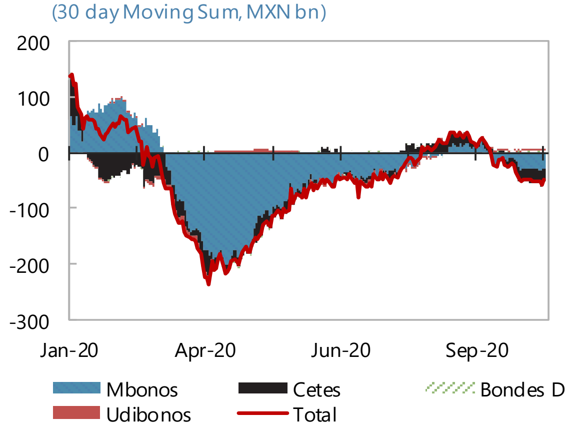
...which dampened the Q2 shock and is contributing to an expected surplus for the year.

Current Account Balance
(In percent of GDP)



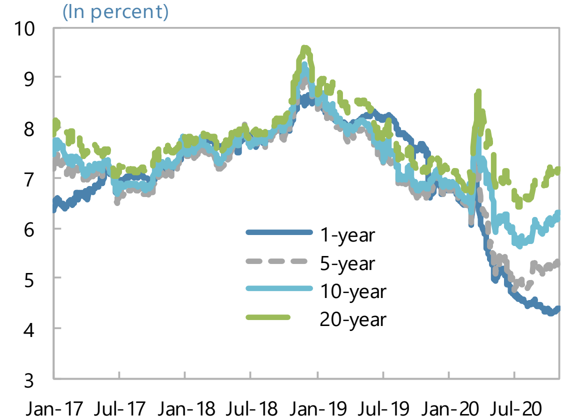
Local currency debt outflows have been stanched but have not recovered.

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



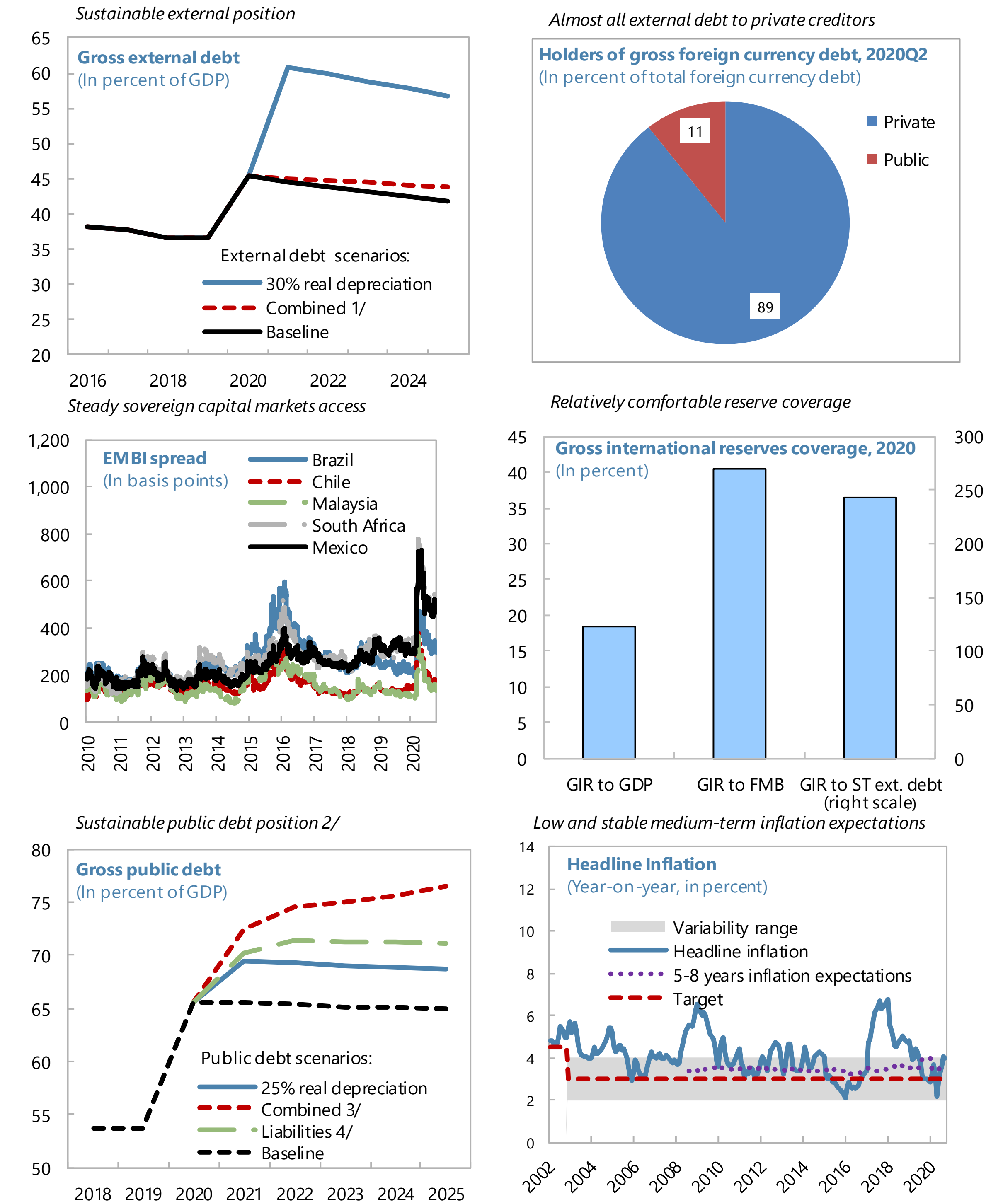
Initial turbulence has receded and nominal yields are low at the short end, steepening the yield curve.

Government Bond Yields
(In percent)



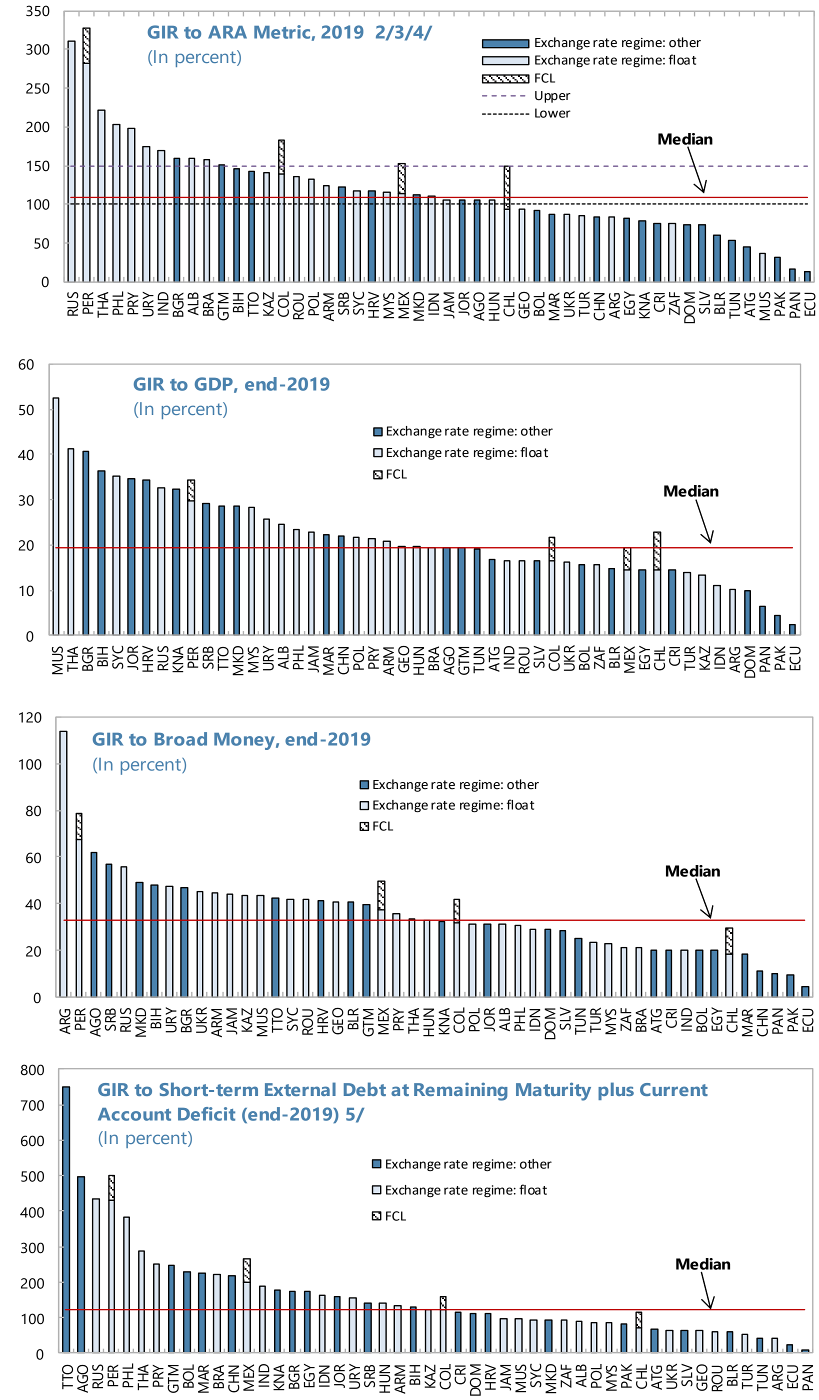
Sources: National authorities; Haver Analytics; Bloomberg; and IMF staff calculations.
1/ Includes Brazil, Chile, Colombia, Czech Republic, India, Indonesia, Korea, Poland, Russia, Thailand, and Turkey.

Figure 3. Mexico: Qualification Criteria



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

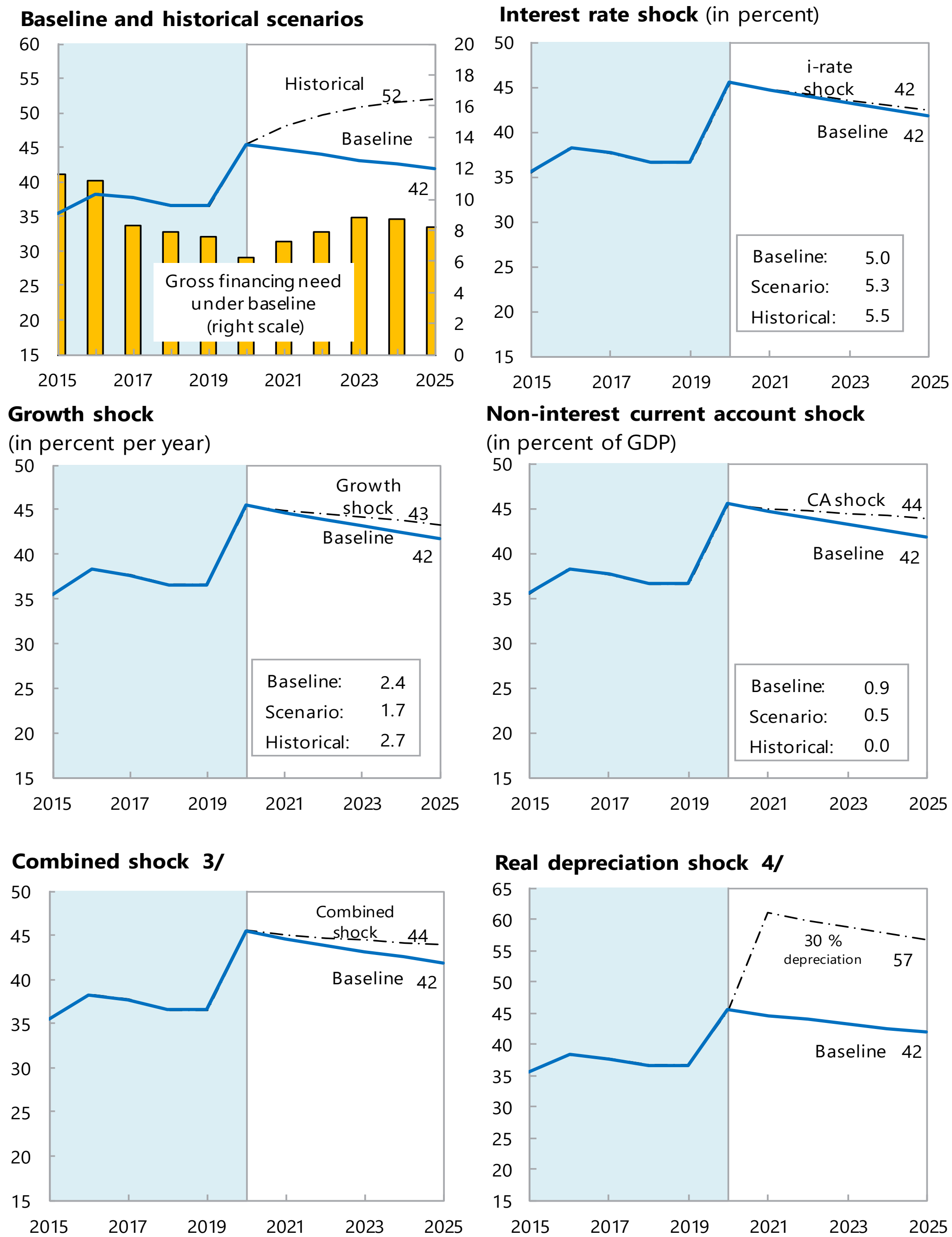
Figure 4. Mexico: Reserve Coverage and FCLs in an International Perspective1/



Sources: World Economic Outlook; IFS; and IMF staff estimates.
1/ The sample of countries included in these charts includes all EMEs for which data is available.
2/ The ARA metric provides a tool to help inform reserve adequacy assessments, but individual circumstances (for example, access to swap lines, market maturity, etc.) require additional judgment and, for this reason, mechanistic comparisons of the ARA metric do not provide a complete view.
3/ The ARA Metric is a weighted sum of potential drains on the BoP, depending on the country's exchange rate regime. For fixed exchange rates, ARA Metric = 10% × Exports + 10% × Broad Money + 30% × Short-term Debt + 20% × Other Liabilities. For floating exchange rates, ARA Metric = 5% × Exports + 5% × Broad Money + 30% × Short-term Debt + 15% × Other Liabilities. See "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations", IMF, 2016.
4/ The upper and lower lines denote the 100-150 percent range of ARA metric, which are considered broadly adequate for precautionary purposes.
5/ The current account balance is set to zero if it is in surplus.

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

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

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

4/ One-time real depreciation of 30 percent occurs in 2021.

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

(in percent of GDP unless otherwise indicated)

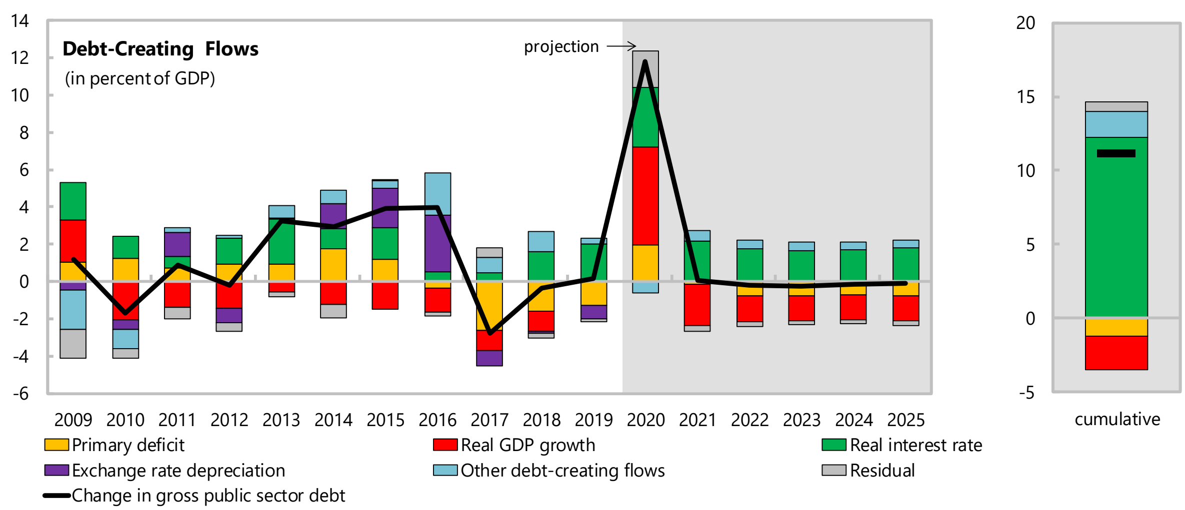
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	47.7	53.6	53.7	65.5	65.6	65.4	65.2	65.0	64.9
Public gross financing needs	11.7	7.8	10.7	14.7	11.9	11.5	11.5	11.9	11.5
Real GDP growth (in percent)	2.2	2.2	-0.1	-9.0	3.5	2.3	2.2	2.1	2.1
Inflation (GDP deflator, in percent)	4.4	4.9	4.0	2.2	2.9	3.2	3.2	3.1	3.0
Nominal GDP growth (in percent)	6.6	7.2	3.9	-7.1	6.6	5.6	5.5	5.3	5.2
Effective interest rate (in percent) [4/]	7.5	8.2	7.8	7.5	6.6	6.1	5.9	5.9	6.0

As of October 01, 2020		
Sovereign Spreads		
UMS (bp) 3/		256
5Y CDS (bp)		145
Ratings	Foreign	Local
Moody's	Baa1	Baa1
S&Ps	BBB	BBB+
Fitch	BBB-	BBB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.3	-0.4	0.1	11.8	0.1	-0.2	-0.2	-0.1	-0.1	11.2	
Identified debt-creating flows	1.7	-0.1	0.3	9.8	0.4	0.1	0.0	0.1	0.1	10.5	
Primary deficit	0.5	-1.6	-1.3	2.0	-0.2	-0.8	-0.7	-0.7	-0.8	-1.2	0.9
Primary (noninterest) revenue and grants	23.7	23.1	23.6	23.9	22.5	22.7	22.5	22.6	22.6	136.8	
Primary (noninterest) expenditure	24.3	21.5	22.4	25.9	22.4	21.9	21.7	21.8	21.8	135.6	
Automatic debt dynamics [5/]	0.9	0.4	1.2	8.4	0.0	0.4	0.3	0.4	0.5	10.0	
Interest rate/growth differential [6/]	0.3	0.5	2.0	8.4	0.0	0.4	0.3	0.4	0.5	10.0	
Of which: real interest rate	1.3	1.6	2.0	3.2	2.2	1.8	1.6	1.7	1.8	12.3	
Of which: real GDP growth	-0.9	-1.1	0.0	5.2	-2.2	-1.4	-1.3	-1.3	-1.3	-2.3	
Exchange rate depreciation [7/]	0.6	-0.1	-0.8	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.2	1.1	0.3	-0.6	0.5	0.5	0.5	0.4	0.4	1.7	
Change in assets	0.2	1.1	0.3	-0.6	0.5	0.5	0.5	0.4	0.4	1.7	
Residual, including asset changes [8/]	-0.4	-0.3	-0.1	2.0	-0.3	-0.3	-0.3	-0.2	-0.3	0.7	



Source: IMF staff.

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

2/ Based on available data.

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

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

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

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

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

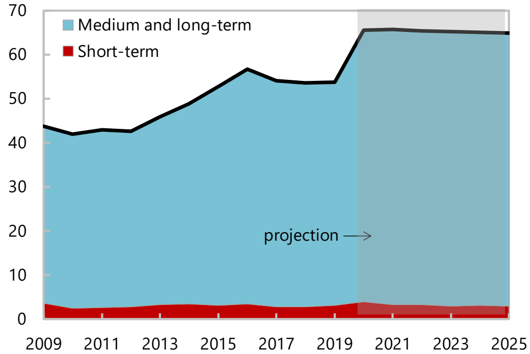
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

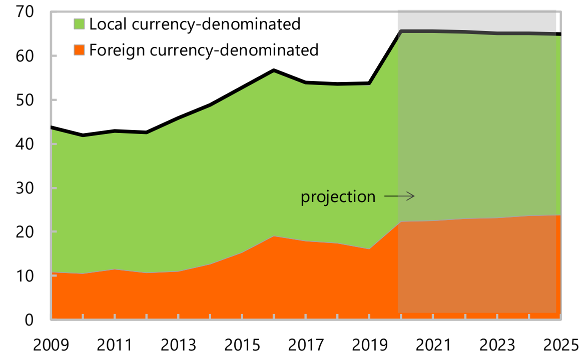
Figure 7. Mexico: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



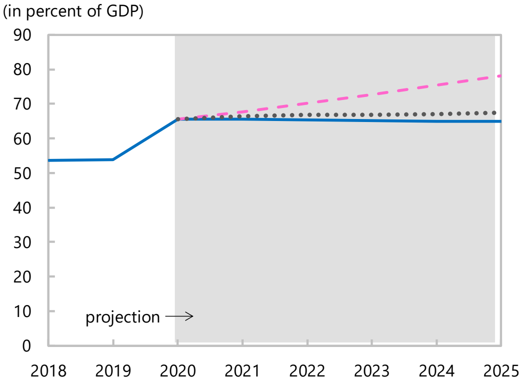
By Currency
(in percent of GDP)



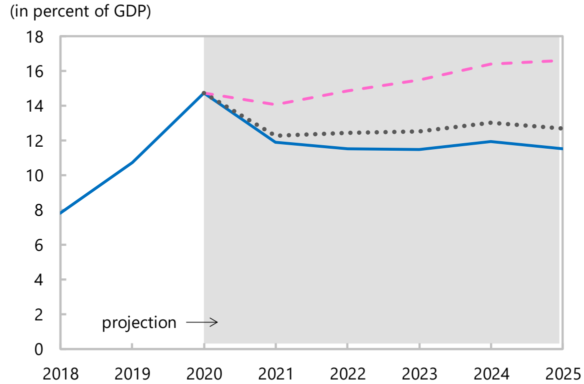
Alternative Scenarios

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)

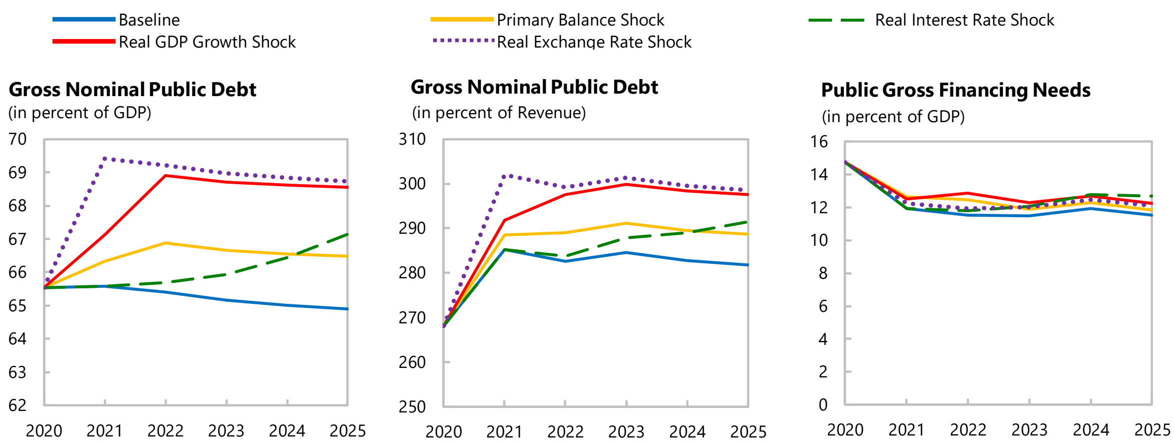
Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-9.0	3.5	2.3	2.2	2.1	2.1
Inflation	2.2	2.9	3.2	3.2	3.1	3.0
Primary Balance	-2.0	0.2	0.8	0.7	0.7	0.8
Effective interest rate	7.5	6.6	6.1	5.9	5.9	6.0
Constant Primary Balance Scenario						
Real GDP growth	-9.0	3.5	2.3	2.2	2.1	2.1
Inflation	2.2	2.9	3.2	3.2	3.1	3.0
Primary Balance	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Effective interest rate	7.5	6.6	6.1	5.9	5.9	6.0

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-9.0	2.7	2.7	2.7	2.7	2.7
Inflation	2.2	2.9	3.2	3.2	3.1	3.0
Primary Balance	-2.0	-0.1	-0.1	-0.1	-0.1	-0.1
Effective interest rate	7.5	6.6	6.0	5.8	5.7	5.8

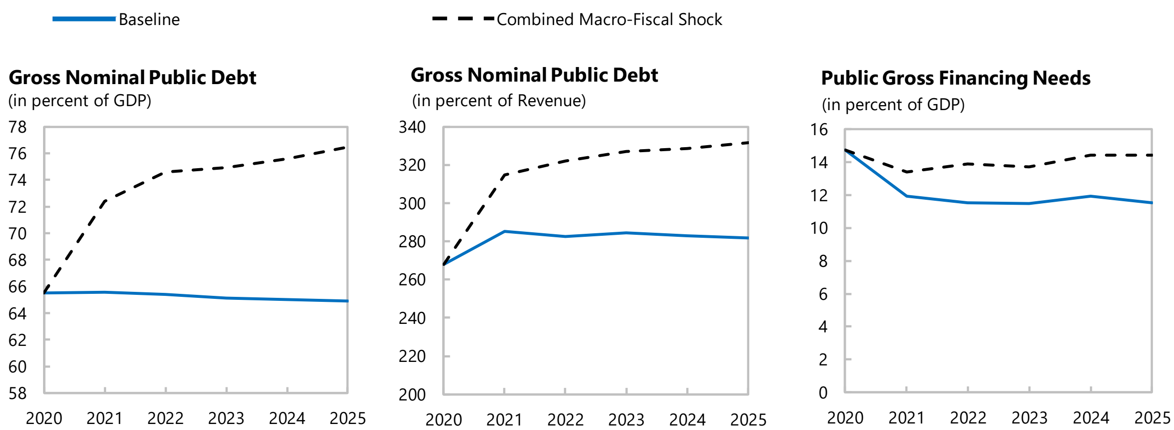
Source: IMF staff.

Figure 8. Mexico: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-9.0	3.5	2.3	2.2	2.1	2.1
Inflation	2.2	2.9	3.2	3.2	3.1	3.0
Primary balance	-2.0	-0.6	0.0	0.7	0.7	0.8
Effective interest rate	7.5	6.6	6.1	6.0	5.9	6.0
Real Interest Rate Shock						
Real GDP growth	-9.0	3.5	2.3	2.2	2.1	2.1
Inflation	2.2	2.9	3.2	3.2	3.1	3.0
Primary balance	-2.0	0.2	0.8	0.7	0.7	0.8
Effective interest rate	7.5	6.6	6.6	6.7	6.9	7.3
Combined Shock						
Real GDP growth	-9.0	2.1	0.8	2.2	2.1	2.1
Inflation	2.2	2.6	2.9	3.2	3.1	3.0
Primary balance	-2.0	-0.6	0.0	0.7	0.7	0.8
Effective interest rate	7.5	6.9	6.5	6.6	6.9	7.2

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-9.0	2.1	0.8	2.2	2.1	2.1
Inflation	2.2	2.6	2.9	3.2	3.1	3.0
Primary balance	-2.0	-0.2	0.0	0.7	0.7	0.8
Effective interest rate	7.5	6.6	6.1	6.0	5.9	6.0
Real Exchange Rate Shock						
Real GDP growth	-9.0	3.5	2.3	2.2	2.1	2.1
Inflation	2.2	4.5	3.2	3.2	3.1	3.0
Primary balance	-2.0	0.2	0.8	0.7	0.7	0.8
Effective interest rate	7.5	6.9	6.0	5.9	5.8	5.9

Source: IMF staff.

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

I. Social and Demographic Indicators

GDP per capita (U.S. dollars, 2019)	10,024	Poverty headcount ratio (% of population, 2018) 1/	41.9
Population (millions, 2019)	127	Income share of highest 20 perc. / lowest 20 perc. (2018)	9.7
Life expectancy at birth (years, 2019)	75.1	Adult literacy rate (2018)	95.4
Infant mortality rate (per thousand, 2019)	13.1	Gross primary education enrollment rate (2017) 2/	105.8

II. Economic Indicators

					Proj.	
	2016	2017	2018	2019	2020	2021
	(Annual percentage change, unless otherwise indicated)					
National accounts (in real terms)						
GDP	2.6	2.1	2.2	-0.1	-9.0	3.5
Consumption	3.5	2.8	2.6	0.3	-10.3	4.0
Private	3.7	3.2	2.5	0.6	-12.4	5.3
Public	2.6	0.7	2.9	-1.3	1.6	-2.1
Investment	0.5	-1.2	0.5	-5.7	-20.3	10.6
Fixed	0.8	-1.2	0.9	-4.6	-20.6	9.6
Private	1.2	0.9	1.3	-3.4	-22.0	13.4
Public	-0.8	-11.9	-1.3	-11.9	-12.0	-11.0
Inventories 3/	-0.1	0.0	-0.1	-0.2	0.0	0.2
Exports of goods and services	3.6	4.2	6.0	1.5	-10.2	13.6
Imports of goods and services	2.9	6.4	6.4	-0.7	-15.8	21.0
GDP per capita	1.5	1.0	1.1	-1.0	-9.9	2.6
External sector						
External current account balance (in percent of GDP)	-2.3	-1.8	-2.1	-0.3	1.2	-0.1
Exports of goods, f.o.b. 4/	-1.7	9.5	10.1	2.2	-12.9	19.4
Export volume	2.5	3.8	6.3	1.2	-9.2	13.9
Imports of goods, f.o.b. 4/	-2.1	8.6	10.4	-1.9	-14.3	20.8
Import volume	2.9	6.1	6.3	-0.8	-14.8	21.1
Net capital inflows (in percent of GDP)	-3.0	-2.5	-2.6	-1.4	0.5	-0.2
Terms of trade (improvement +)	0.7	3.0	-0.4	2.2	-4.7	5.0
Gross international reserves (in billions of U.S. dollars)	178.0	175.4	176.4	183.0	190.4	192.1
Exchange rates						
Real effective exchange rate (CPI based, IFS)						
(average, appreciation +)	-12.9	2.3	0.1	3.3	...	...
Nominal exchange rate (MXN/USD)						
(end of period, appreciation +)	-20.5	4.6	0.5	4.3	...	...
Employment and inflation						
Consumer prices (end-of-period)	3.4	6.8	4.8	2.8	3.7	2.9
Core consumer prices (end-of-period)	3.4	4.9	3.7	3.6	3.6	2.9
Formal sector employment, IMSS-insured workers (average)	3.8	4.4	4.1	2.3	...	...
National unemployment rate (annual average)	3.9	3.4	3.3	3.5	5.2	5.8
Unit labor costs: manufacturing (real terms, average)	5.1	2.2	3.2	4.4	...	...
Money and credit						
Financial system credit to non-financial private sector 5/	16.5	10.8	8.8	3.0	-1.4	6.1
Broad money	12.3	11.2	5.3	6.8	8.3	6.4
Public sector finances (in percent of GDP) 6/						
General government revenue	24.6	24.6	23.5	23.8	24.3	22.9
General government expenditure	27.4	25.7	25.7	26.2	30.1	26.3
Overall fiscal balance	-2.8	-1.1	-2.2	-2.3	-5.8	-3.4
Gross public sector debt	56.7	54.0	53.6	53.7	65.5	65.6
Memorandum items						
Nominal GDP (billions of pesos)	20,129.1	21,934.2	23,523.2	24,443.0	22,718.4	24,210.5
Output gap (in percent of potential GDP)	0.5	0.4	0.8	-0.9	-5.7	-4.1

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

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

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

(In percent of GDP)

	2017	2018	2019	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
Budgetary revenue, by type	**22.6**	**21.7**	**22.2**	**22.4**	**21.3**	**21.3**	**21.0**	**21.1**	**21.2**
Oil revenue	3.8	4.2	3.9	3.2	3.3	3.2	2.9	3.0	3.0
Non-oil tax revenue	13.0	13.0	13.2	13.4	13.6	13.7	13.7	13.7	13.8
Non-oil non-tax revenue 2/	5.8	4.6	5.1	5.8	4.4	4.4	4.4	4.4	4.4
Budgetary revenue, by entity	**22.6**	**21.7**	**22.2**	**22.4**	**21.3**	**21.3**	**21.0**	**21.1**	**21.2**
Federal government revenue	17.5	16.5	16.5	16.5	15.7	15.7	15.8	15.8	15.9
Tax revenue, *of which:*	13.0	13.0	13.2	13.4	13.6	13.7	13.7	13.7	13.8
Excises (including fuel)	1.7	1.5	1.9	1.9	2.1	2.1	2.1	2.0	2.0
Nontax revenue	4.5	3.4	3.3	3.1	2.0	2.0	2.1	2.1	2.1
Public enterprises	5.1	5.3	5.7	5.9	5.6	5.6	5.3	5.3	5.3
PEMEX	1.8	1.9	2.2	2.3	2.1	2.1	1.7	1.7	1.7
Other	3.3	3.4	3.5	3.6	3.5	3.5	3.6	3.6	3.6
Budgetary expenditure	**23.6**	**23.8**	**23.9**	**26.4**	**24.2**	**23.4**	**23.0**	**23.1**	**23.1**
Primary	21.2	21.1	21.1	23.2	22.5	22.2	22.0	22.2	22.4
Programmable	17.6	17.3	17.5	19.7	18.9	18.6	18.4	18.7	18.8
Current	14.0	14.2	14.4	16.1	15.5	15.6	15.7	16.0	16.2
Wages	5.2	5.2	5.0	5.8	5.7	5.7	5.7	5.7	5.7
Pensions 3/	3.2	3.4	3.6	4.3	4.4	4.6	4.8	5.1	5.3
Subsidies and transfers	2.9	2.7	2.9	3.3	3.1	3.1	3.1	3.1	3.0
Other	2.7	2.9	2.9	2.7	2.3	2.2	2.2	2.1	2.1
Capital	3.6	3.1	3.0	3.6	3.4	3.1	2.7	2.7	2.6
Physical capital	2.6	2.6	2.3	3.1	3.0	3.0	2.6	2.6	2.5
Financial capital 4/	1.0	0.4	0.7	0.5	0.4	0.1	0.1	0.1	0.1
Nonprogrammable	3.6	3.9	3.7	3.5	3.6	3.5	3.5	3.5	3.5
Of which: revenue sharing	3.5	3.6	3.6	3.4	3.5	3.4	3.4	3.4	3.4
Interest payments	**2.4**	**2.6**	**2.7**	**3.2**	**2.8**	**2.7**	**2.8**	**2.7**	**2.7**
Unspecified measures	**0.0**	**0.0**	**0.0**	**0.0**	**-1.2**	**-1.5**	**-1.7**	**-1.8**	**-2.0**
Traditional balance	**-1.1**	**-2.1**	**-1.6**	**-4.0**	**-2.9**	**-2.1**	**-2.0**	**-2.0**	**-2.0**
Adjustments to the traditional balance	**0.0**	**-0.1**	**-0.7**	**-1.8**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**
Public Sector Borrowing Requirements	**1.1**	**2.2**	**2.3**	**5.8**	**3.4**	**2.6**	**2.5**	**2.5**	**2.5**
Memorandum items									
Structural current spending 5/	10.1	9.9	9.7						
Structural current spending real growth (y/y, in percent)	-6.6	-0.2	-1.8						

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

1/ Data exclude state and local governments, and include state-owned enterprises and public development banks. For 2018 and 2019, the numbers are presented as a percent of aggregated quarterly nominal GDP for consistency with the authorities' presentation, as published in 2021 General Economic Policy Guidelines.

2/ Includes Bank of Mexico's operating surplus transferred to the federal government for 1.5 percent of GDP in 2017.

3/ Includes social assistance benefits.

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

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

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

(In percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Proj.					
Revenue	**24.6**	**23.5**	**23.8**	**24.3**	**22.9**	**23.1**	**22.8**	**22.9**	**22.9**
Taxes	**13.0**	**13.0**	**13.2**	**13.4**	**13.6**	**13.7**	**13.7**	**13.7**	**13.8**
Taxes on income, profits and capital gains	7.1	7.1	7.0	7.3	7.3	7.4	7.4	7.5	7.5
Taxes on goods and services	5.4	5.4	5.8	5.6	5.8	5.8	5.8	5.8	5.8
Value added tax	3.7	3.9	3.9	3.6	3.7	3.7	3.7	3.7	3.7
Excises	1.7	1.5	1.9	1.9	2.1	2.1	2.1	2.0	2.0
Taxes on international trade and transactions	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other taxes	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Social contributions	**2.1**	**2.1**	**2.2**	**2.3**	**2.2**	**2.2**	**2.3**	**2.3**	**2.3**
Other revenue	**9.5**	**8.3**	**8.4**	**8.7**	**7.0**	**7.1**	**6.9**	**6.9**	**6.9**
Property income 2/	4.6	3.5	3.4	3.4	2.3	2.2	2.3	2.3	2.3
Other	5.0	4.8	5.0	5.3	4.7	4.9	4.6	4.6	4.6
Total expenditure	**25.7**	**25.7**	**26.2**	**30.1**	**26.3**	**25.7**	**25.3**	**25.4**	**25.4**
Expense	**24.1**	**24.1**	**24.9**	**27.9**	**25.3**	**25.0**	**25.2**	**25.4**	**25.6**
Compensation of employees	3.4	3.4	3.2	3.7	3.6	3.6	3.6	3.6	3.6
Purchases of goods and services	3.3	3.6	3.8	3.5	3.1	2.9	2.8	2.8	2.8
Interest 3/	4.0	4.1	4.2	4.3	4.0	3.8	3.7	3.7	3.7
Subsidies and transfers	1.7	1.8	2.0	2.8	2.5	2.5	2.6	2.6	2.6
o/w fuel subsidy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants 4/	8.3	8.2	8.0	7.8	7.9	7.8	7.8	7.8	7.8
Social benefits	3.2	3.4	3.6	4.3	4.4	4.6	4.8	5.1	5.3
Other expense	0.1	-0.4	0.1	1.5	-0.2	-0.3	-0.2	-0.2	-0.3
Net acquisition of nonfinancial assets 5/	**1.6**	**1.6**	**1.3**	**2.2**	**2.2**	**2.2**	**1.8**	**1.8**	**1.8**
Unspecified measures	**0.0**	**0.0**	**0.0**	**0.0**	**-1.2**	**-1.5**	**-1.7**	**-1.8**	**-2.0**
Gross Operating Balance	**0.6**	**-0.6**	**-1.0**	**-3.6**	**-2.4**	**-1.9**	**-2.4**	**-2.5**	**-2.6**
Overall Fiscal Balance (Net lending/borrowing)	**-1.1**	**-2.2**	**-2.3**	**-5.8**	**-3.4**	**-2.6**	**-2.5**	**-2.5**	**-2.5**
Primary net lending/borrowing	**2.6**	**1.6**	**1.4**	**-2.0**	**0.2**	**0.8**	**0.7**	**0.7**	**0.8**
Memorandum items									
Primary expenditure	21.7	21.5	22.0	25.8	22.3	21.8	21.6	21.7	21.8
Current expenditure	24.1	24.1	24.9	27.9	24.1	23.5	23.5	23.6	23.6
Structural fiscal balance	-2.7	-2.8	-2.7	-4.3	-2.5	-2.0	-2.1	-2.4	-2.6
Structural primary balance 6/	1.0	1.0	1.1	-0.4	1.1	1.4	1.1	0.8	0.7
Fiscal impulse 7/	-1.9	0.0	0.0	1.5	-1.5	-0.3	0.3	0.3	0.1
Gross public sector debt 8/	54.0	53.6	53.7	65.5	65.6	65.4	65.2	65.0	64.9
In domestic currency (percentage of total debt)	66.7	67.5	69.7	66.0	65.7	64.8	64.4	63.5	63.2
In foreign currency (percentage of total debt)	33.3	32.5	30.3	34.0	34.3	35.2	35.6	36.5	36.8
Net public sector debt 9/	45.7	44.9	44.8	56.7	56.8	56.6	56.3	56.2	56.1

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

1/ Data exclude state and local governments, and include state-owned enterprises and public development banks. For 2018 and 2019, the numbers are presented as a percent of aggregated quarterly nominal GDP for consistency with the authorities' presentation, as published in 2021 General Economic Policy Guidelines.

2/ Includes Bank of Mexico's operating surplus transferred to the federal government for 1.5 percent of GDP in 2017.

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

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

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

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

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

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

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

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

	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Proj.			
Current account	**-20.5**	**-25.4**	**-4.4**	**13.0**	**-1.0**	**-10.5**	**-18.0**	**-22.4**	**-25.8**
Merchandise goods trade balance	-11.0	-13.6	5.4	10.9	7.3	-3.1	-11.4	-16.4	-21.3
Exports, f.o.b. 2/	409.4	450.7	460.7	401.3	479.0	500.1	524.3	546.3	565.2
o/w Manufactures	364.3	397.3	410.8	375.1	395.9	429.7	442.8	465.3	486.9
o/w Petroleum and derivatives 1/	23.7	30.6	25.8	16.7	19.8	21.4	23.4	26.5	27.5
Imports, f.o.b. 2/	420.4	464.3	455.3	390.3	471.7	503.2	535.7	562.7	586.5
o/w Petroleum and derivatives 1/	42.0	53.8	47.2	33.5	43.2	44.7	46.2	47.9	49.0
Services, net	-9.8	-11.2	-8.3	-7.4	-12.2	-14.4	-15.7	-16.6	-17.4
Primary income, net	-29.9	-33.3	-37.0	-30.7	-31.1	-32.2	-33.5	-35.2	-36.1
Secondary income (mostly remittances), net	30.1	32.9	35.7	40.1	35.1	39.2	42.7	45.8	49.0
Capital Account, net	**0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**
Financial Account (Net lending (+)/Net borrowing (-))	**-34.2**	**-31.8**	**-15.0**	**12.9**	**-1.0**	**-10.6**	**-18.0**	**-22.5**	**-25.9**
Foreign direct investment, net	-30.3	-25.4	-23.3	-14.5	-16.7	-18.8	-19.6	-20.6	-21.6
Net acquisition of financial assets	2.7	12.3	6.1	8.9	9.0	9.5	9.9	10.2	10.6
Net incurrence of liabilities	33.0	37.7	29.4	23.4	25.7	28.3	29.5	30.8	32.2
Portfolio investment, net	-10.2	-8.4	-6.0	-0.5	-12.5	-14.0	-14.4	-14.4	-14.4
Net acquisition of financial assets	13.8	1.1	3.6	9.0	4.0	2.5	2.0	2.0	2.0
Net incurrence of liabilities	24.0	9.5	9.6	9.5	16.5	16.5	16.4	16.4	16.4
Public Sector	5.8	10.7	3.2	7.5	11.0	11.0	10.9	10.9	10.9
o/w Local currency domestic-issued bonds	-0.3	0.1	1.3	-8.5	4.5	5.0	5.0	5.0	5.0
Private sector	18.3	-1.2	6.4	2.0	5.5	5.5	5.5	5.5	5.5
Securities issued abroad	7.9	-3.6	6.4	2.0	3.5	3.5	3.5	3.5	3.5
Equity	10.3	2.4	0.0	0.0	2.0	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
Financial derivatives, net	3.1	0.4	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Other investments, net	8.0	1.2	10.0	20.5	26.6	20.2	12.9	7.1	4.3
Net acquisition of financial assets	5.6	7.9	13.0	22.1	28.6	22.3	15.0	9.2	6.4
Net incurrence of liabilities	-2.4	6.7	2.9	1.6	2.1	2.1	2.1	2.1	2.1
Change in Reserves Assets	-4.8	0.5	2.6	7.4	1.6	2.0	3.1	5.3	5.8
Total change in gross reserves assets	-2.6	0.9	6.6	7.4	1.6	2.0	3.1	5.3	5.8
Valuation change	2.2	0.5	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	**-13.8**	**-6.3**	**-10.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
International Investment Position, net	**-554.8**	**-587.1**	**-652.3**	**-639.3**	**-640.4**	**-650.9**	**-669.0**	**-691.4**	**-717.3**
Memorandum items									
Hydrocarbons exports volume growth (in percent)	1.2	1.8	-0.2	8.3	13.6	5.2	6.7	11.1	3.8
Non-hydrocarbons exports volume growth (in percent)	3.9	6.5	1.2	-9.6	13.9	3.0	3.0	2.1	1.8
Hydrocarbons imports volume growth (in percent)	14.9	4.8	-2.1	-24.0	18.8	2.3	2.2	1.8	2.4
Non-hydrocarbons imports volume growth (in percent)	5.9	6.4	-0.8	-14.5	21.1	7.0	4.4	2.8	2.1
Crude oil export volume (in millions of bbl/day)	1.2	1.2	1.2	1.2	1.4	1.5	1.6	1.7	1.8
Gross international reserves (in billions of U.S. dollars)	175.4	176.4	183.0	190.4	192.1	194.0	197.1	202.4	208.2
Gross domestic product (in billions of U.S. dollars)	1,158.9	1,222.3	1,268.9	1,040.4	1,094.5	1,145.6	1,197.9	1,250.9	1,305.7

Sources: Bank of Mexico, National Institute of Statistics and Geography, and Fund staff estimates.
1/ Crude oil, derivatives, petrochemicals, and natural gas.
2/ Excludes goods procured in ports by carriers.

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

	2017	2018	2019	2020 Proj.	2021	2022	2023	2024	2025
Current account	**-1.8**	**-2.1**	**-0.3**	**1.2**	**-0.1**	**-0.9**	**-1.5**	**-1.8**	**-2.0**
Merchandise goods trade balance	-0.9	-1.1	0.4	1.1	0.7	-0.3	-1.0	-1.3	-1.6
Exports, f.o.b. 2/	35.3	36.9	36.3	38.6	43.8	43.7	43.8	43.7	43.3
o/w Manufactures	31.4	32.5	32.4	36.1	36.2	37.5	37.0	37.2	37.3
o/w Petroleum and derivatives 1/	2.0	2.5	2.0	1.6	1.8	1.9	2.0	2.1	2.1
Imports, f.o.b. 2/	36.3	38.0	35.9	37.5	43.1	43.9	44.7	45.0	44.9
o/w Petroleum and derivatives 1/	3.6	4.4	3.7	3.2	3.9	3.9	3.9	3.8	3.8
Services, net	-0.8	-0.9	-0.7	-0.7	-1.1	-1.3	-1.3	-1.3	-1.3
Primary income, net	-2.6	-2.7	-2.9	-2.9	-2.8	-2.8	-2.8	-2.8	-2.8
Secondary income (mostly remittances), net	2.6	2.7	2.8	3.9	3.2	3.4	3.6	3.7	3.8
Capital Account, net	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial Account (Net lending (+)/Net borrowing (-))	**-2.9**	**-2.6**	**-1.2**	**1.2**	**-0.1**	**-0.9**	**-1.5**	**-1.8**	**-2.0**
Foreign direct investment, net	-2.6	-2.1	-1.8	-1.4	-1.5	-1.6	-1.6	-1.6	-1.7
Net acquisition of financial assets	0.2	1.0	0.5	0.9	0.8	0.8	0.8	0.8	0.8
Net incurrence of liabilities	2.9	3.1	2.3	2.2	2.4	2.5	2.5	2.5	2.5
Portfolio investment, net	-0.9	-0.7	-0.5	0.0	-1.1	-1.2	-1.2	-1.1	-1.1
Net acquisition of financial assets	1.2	0.1	0.3	0.9	0.4	0.2	0.2	0.2	0.2
Net incurrence of liabilities	2.1	0.8	0.8	0.9	1.5	1.4	1.4	1.3	1.3
Public Sector	0.5	0.9	0.3	0.7	1.0	1.0	0.9	0.9	0.8
o/w Local currency domestic-issued bonds	0.0	0.0	0.1	-0.8	0.4	0.4	0.4	0.4	0.4
Private sector	1.6	-0.1	0.5	0.2	0.5	0.5	0.5	0.4	0.4
Securities issued abroad	0.7	-0.3	0.5	0.2	0.3	0.3	0.3	0.3	0.3
Equity	0.9	0.2	0.0	0.0	0.2	0.2	0.2	0.2	0.2
Pidiregas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives, net	0.3	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other investments, net	0.7	0.1	0.8	2.0	2.4	1.8	1.1	0.6	0.3
Net acquisition of financial assets	0.5	0.6	1.0	2.1	2.6	1.9	1.3	0.7	0.5
Net incurrence of liabilities	-0.2	0.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Change in Reserves Assets	-0.4	0.0	0.2	0.7	0.1	0.2	0.3	0.4	0.4
Total change in gross reserves assets	-0.2	0.1	0.5	0.7	0.1	0.2	0.3	0.4	0.4
Valuation change	0.2	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	**-1.2**	**-0.5**	**-0.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
International Investment Position, net	**-47.9**	**-48.0**	**-51.4**	**-61.5**	**-58.5**	**-56.8**	**-55.8**	**-55.3**	**-54.9**

Sources: Bank of Mexico, National Institute of Statistics and Geography, and Fund staff estimates.
1/ Crude oil, derivatives, petrochemicals, and natural gas.
2/ Excludes goods procured in ports by carriers.

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

	2017	2018	2019	2020	Latest data available 1/
Capital Adequacy					
Regulatory capital to risk-weighted assets	15.6	15.9	16.0	16.5	June
Regulatory Tier 1 capital to risk-weighted assets	14.2	14.2	14.4	14.8	June
Capital to assets	10.4	10.7	11.0	9.7	June
Gross asset position in financial derivatives to capital	71.1	63.3	51.3	112.5	June
Gross liability position in financial derivatives to capital	76.0	63.9	52.6	118.7	June
Asset Quality					
Nonperforming loans to total gross loans	2.1	2.1	2.1	2.0	June
Provisions to Nonperforming loans	154.9	152.4	146.2	165.0	June
Earnings and Profitability					
Return on assets	2.0	2.2	2.2	1.3	June
Return on equity	19.6	20.9	20.5	12.8	June
Liquidity					
Liquid assets to short-term liabilities	42.2	42.3	40.8	45.3	June
Liquid assets to total assets	32.0	31.6	31.1	32.4	June
Customer deposits to total (noninterbank) loans	91.4	89.3	90.7	92.8	June
Trading income to total income	5.0	4.5	5.8	4.8	June

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

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

	2017	2018	2019	2020	Latest data available
Financial market indicators					
Exchange rate (per U.S. dollar, period average)	18.9	19.2	19.3	21.8	Aug-20
(year-to-date percent change, + appreciation)	-1.4	-1.7	-0.1	-13.4	Aug-20
28-day treasury auction rate (percent; period average)	6.7	7.6	7.8	5.9	Aug-20
EMBIG Mexico spread (basis points; period average)	256	273	318	487	Sep-20
Sovereign 10-year local currency bond yield (period average)	7.2	7.9	7.6	6.4	Sep-20
Stock exchange index (period average, year on year percent change)	7.5	-3.8	-8.8	-10.0	Sep-20
Financial system					
Bank of Mexico net international reserves (US$ billion)	172.8	174.8	180.9	188.3	Proj.
Financial system credit on non-financial private sector (year on year percent change) 1/	10.8	8.8	3.0	-1.4	Proj.
Nonperforming loans to total gross loans (deposit takers)	2.1	2.1	2.1	2.0	Jul-20
External vulnerability indicators					
Gross financing needs (billions of US$) 2/	93.3	97.5	103.2	72.7	Proj.
Gross international reserves (end-year, billions of US$) 3/	175.4	176.4	183.0	197.1	Jun-20
Change (billions of US$)	-2.6	0.9	6.6	7.4	Jun-20
Months of imports of goods and services	4.6	4.2	4.4	5.4	Proj.
Months of imports plus interest payments	4.4	4.0	4.2	5.1	Proj.
Percent of broad money	41.1	39.1	36.3	40.8	Proj.
Percent of portfolio liabilities	35.2	36.5	35.1	35.9	Proj.
Percent of short-term debt (by residual maturity)	246.6	191.2	233.8	243.6	Proj.
Percent of ARA Metric 4/	121.9	118.1	116.8	124.3	Proj.
Percent of GDP	15.1	14.4	14.4	23.2	Jun-20
Gross total external debt (in percent of GDP)	37.7	36.6	36.6	45.5	Proj.
Of which: In local currency	9.3	8.9	9.0	10.1	Proj.
Of which: Public debt	25.6	25.0	24.6	30.8	Proj.
Of which: Private debt	12.1	11.5	11.9	14.7	Proj.
Financial sector	1.2	1.7	2.1		
Nonfinancial sector	10.9	9.8	9.9		
Gross total external debt (billions of US$)	436.6	446.8	463.8	473.3	Proj.
Of which: In local currency	107.2	108.5	114.0	105.5	Proj.
Of which: Public debt	296.6	306.0	312.4	320.0	Proj.
Of which: Private debt	140.0	140.8	151.4	153.3	Proj.
Financial sector	14.0	20.6	26.4		
Nonfinancial sector	126.0	120.1	125.0		
External debt service (in percent of GDP)	8.4	7.7	9.4	10.0	Proj.

Sources: Bank of Mexico, National Banking and Securities Commission, National Institute of Statistics and Geography, Ministry of Finance and Public Credit, and Fund staff estimates.
1/ Includes domestic credit by banks, nonbank intermediaries, and social housing funds.
2/ Corresponds to the sum of the current account deficit, amortization payments, and the change in gross international reserves.
3/ Excludes balances under bilateral payments accounts. 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.
4/ The ARA metric was developed by the Strategy and Policy Review Department at the IMF to assess reserve adequacy. Weights to individual components were revised in December 2014 for the whole time series.

Table 7. Mexico: Baseline Medium-Term Projections

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Proj.					
National accounts (in real terms, contributions to growth) 1/									
GDP	2.1	2.2	-0.1	-9.0	3.5	2.3	2.2	2.1	2.1
Consumption	2.2	2.0	0.3	-8.2	3.2	2.3	1.8	1.8	1.8
Private	2.1	1.7	0.4	-8.4	3.4	2.2	1.5	1.5	1.5
Public	0.1	0.3	-0.2	0.2	-0.3	0.1	0.3	0.3	0.3
Investment	-0.3	0.1	-1.2	-4.0	1.8	1.4	0.9	0.5	0.4
Fixed	-0.2	0.2	-0.9	-4.0	1.6	1.4	0.9	0.5	0.4
Private	0.2	0.2	-0.6	-3.7	1.9	1.8	0.9	0.4	0.4
Public	-0.4	0.0	-0.3	-0.3	-0.3	-0.3	0.0	0.2	0.1
Inventories	0.0	-0.1	-0.3	0.0	0.2	0.0	0.0	0.0	0.0
Exports of goods and services	1.4	2.1	0.5	-3.8	5.0	1.2	1.3	1.0	0.8
Oil exports	0.1	0.1	-0.1	0.0	0.1	0.1	0.1	0.1	0.0
Non-oil exports	1.4	2.1	0.6	-3.8	4.8	1.2	1.2	0.9	0.7
Imports of goods and services	2.2	2.3	-0.3	-5.8	7.2	2.8	1.8	1.2	0.9
Oil imports	0.1	0.2	0.1	-0.5	0.2	0.0	0.0	0.0	0.0
Non-oil imports	2.1	2.1	-0.3	-5.4	7.0	2.7	1.8	1.2	0.9
Net exports	-0.7	-0.2	0.8	2.1	-2.2	-1.5	-0.5	-0.2	-0.1
Consumer prices									
End of period	6.8	4.8	2.8	3.7	2.9	3.0	3.0	3.0	3.0
Average	6.0	4.9	3.6	3.4	3.3	3.0	3.0	3.0	3.0
External sector									
Current account balance (in percent of GDP)	-1.8	-2.1	-0.3	1.2	-0.1	-0.9	-1.5	-1.8	-2.0
Non-hydrocarbon current account balance (in percent of GDP)	-0.2	-0.2	1.4	2.9	2.0	1.1	0.4	-0.1	-0.3
Exports of goods, f.o.b.	9.5	10.1	2.2	-12.9	19.4	4.4	4.8	4.2	3.5
Imports of goods, f.o.b.	8.6	10.4	-1.9	-14.3	20.8	6.7	6.5	5.0	4.2
Terms of trade (improvement +)	3.0	-0.4	2.2	-4.7	5.0	1.4	-0.4	-0.4	-0.5
Crude oil export price, Mexican mix (US$/bbl)	46.4	61.7	56.1	32.9	36.0	37.0	37.9	38.7	38.7
Non-financial public sector									
Overall balance	-1.1	-2.2	-2.3	-5.8	-3.4	-2.6	-2.5	-2.5	-2.5
Primary balance	2.6	1.6	1.4	-2.0	0.2	0.8	0.7	0.7	0.8
Saving and investment 2/									
Gross domestic investment	22.9	22.7	21.1	19.3	20.5	21.4	21.6	21.4	21.1
Fixed investment	22.1	22.0	20.7	18.8	19.9	20.9	21.1	20.9	20.6
Public	3.1	3.0	2.6	2.9	2.5	2.0	2.0	2.0	2.0
Private	19.0	19.0	18.1	15.9	17.5	18.8	19.2	18.9	18.6
Gross domestic saving	21.1	20.7	20.7	20.5	20.4	20.4	20.1	19.6	19.1
Public	2.0	0.9	1.0	-2.9	-0.9	-0.6	-0.5	-0.5	-0.5
Private	19.1	19.7	19.7	23.4	21.3	21.0	20.7	20.0	19.5
Memorandum items									
Financial system credit to non-financial private sector	10.8	8.8	3.0	-1.4	6.1	6.9	7.7	8.0	8.0
Output gap (in percent of potential GDP)	0.4	0.8	-0.9	-5.7	-4.1	-2.8	-1.6	-0.4	0.0
Total population	1.1	1.0	1.0	1.0	0.9	0.9	0.9	0.8	0.8
Working-age population 3/	1.4	1.3	1.3	1.2	1.1	1.1	1.0	0.9	0.9

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

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

	2016	2017	2018	2019	Proj. 2020
Banco de México					
Net foreign assets	3,619	3,392	3,408	3,397	4,135
Net international reserves	3,682	3,457	3,471	3,457	4,208
Gross international reserves	3,683	3,458	3,472	3,457	4,208
Reserve liabilities	1	1	1	0	0
Other net foreign assets	-63	-65	-63	-60	-73
Net domestic assets	-2,198	-1,846	-1,734	-1,654	-2,247
Net domestic credit	-1,413	-1,627	-1,622	-1,706	-1,653
Net credit to non-financial public sector	-1,221	-1,516	-1,525	-1,640	-1,537
Credit to non-financial private sector	0	0	0	0	0
Net credit to financial corporations	-192	-112	-97	-66	-117
Net claims on other depository corporations	-192	-112	-97	-66	-117
Net claims on other financial corporations	0	0	0	0	0
Capital account	715	153	54	-113	530
Other items net	-70	-65	-59	-61	-64
Monetary base	1,420	1,546	1,674	1,742	1,888
Other Depository Corporations					
Net foreign assets	23	92	-32	-92	-99
Foreign assets	650	771	860	738	799
Foreign liabilities	627	679	893	830	899
Net domestic assets	7,079	7,794	8,225	8,935	10,093
Net credit to the public sector	2,854	3,071	3,190	3,750	4,523
Claims on non-financial public sector	3,272	3,526	3,688	4,214	4,958
in pesos	3,120	3,374	3,528	4,037	4,755
in FX	152	152	160	178	203
Liabilities to the nonfinancial public sector	418	455	499	464	435
Credit to the private sector	5,215	5,896	6,304	6,976	6,876
Local Currency	4,499	5,173	5,538	6,198	6,173
Foreign Currency	716	723	766	778	703
Net credit to the financial system	878	967	937	868	912
Other	-1,868	-2,140	-2,206	-2,659	-2,218
Liabilities to the private sector	7,102	7,886	8,192	8,843	9,993
Liquid liabilities	6,345	7,067	7,392	7,945	9,102
Local currency	5,780	6,373	6,775	7,369	8,583
Foreign currency	565	694	617	575	519
Non liquid liabilities	757	819	801	898	891
Local currency	730	786	765	861	857
Foreign currency	26	33	36	38	34
Total Banking System					
Net foreign assets	3,642	3,484	3,376	3,305	4,036
Net domestic assets	4,880	5,947	6,491	7,280	7,846
Liquid liabilities	7,766	8,613	9,066	9,687	10,990
Non-liquid liabilities	757	819	801	898	891
Memorandum items					
Monetary base (percent change)	14.4	8.8	8.3	4.1	8.3
Currency in circulation (percent change)	16.0	8.8	8.9	3.6	8.3
Broad money (percent change)	12.3	11.2	5.3	6.8	8.3
Bank credit to the non-financial private sector (growth rate)	17.7	13.0	6.9	10.7	-1.4
Bank credit to the non-financial private sector (as percent of GDP)	25.9	26.9	26.8	28.5	30.3

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

Table 9. Mexico: External Debt Sustainability Framework

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2015	2016	2017	2018	2019			2020	2021	2022	2023	2024	2025	Debt-stabilizing non-interest current account 6/
Baseline: External debt	35.5	38.3	37.7	36.6	36.6			**45.5**	**44.6**	**43.9**	**43.2**	**42.5**	**41.8**	**-2.6**
Change in external debt	3.1	2.7	-0.6	-1.1	0.0			8.9	-0.9	-0.7	-0.7	-0.7	-0.7	
Identified external debt-creating flows (4+8+9)	2.1	0.6	-4.0	-2.2	-3.5			0.4	-4.1	-2.9	-2.2	-1.9	-1.7	
Current account deficit, excluding interest payments	1.0	0.4	-0.1	0.2	-1.7			-3.7	-2.1	-1.2	-0.6	-0.3	0.0	
Deficit in balance of goods and services	-71.0	-75.9	-77.3	-80.6	-77.9			-81.5	-93.0	-93.9	-94.9	-95.1	-94.6	
Exports	34.5	37.0	37.7	39.3	38.8			40.9	46.3	46.2	46.3	46.2	45.8	
Imports	-36.5	-39.0	-39.5	-41.3	-39.1			-40.6	-46.7	-47.7	-48.6	-48.9	-48.8	
Net non-debt creating capital inflows (negative)	-2.5	-2.9	-3.0	-2.2	-2.5			-2.4	-2.7	-2.8	-2.8	-2.8	-2.8	
Automatic debt dynamics 1/	3.6	3.1	-0.9	-0.2	0.7			6.5	0.7	1.2	1.2	1.2	1.1	
Contribution from nominal interest rate	1.7	1.9	1.9	1.9	2.1			2.4	2.2	2.2	2.1	2.1	2.0	
Contribution from real GDP growth	-1.2	-1.0	-0.8	-0.8	0.0			4.0	-1.5	-1.0	-0.9	-0.9	-0.9	
Contribution from price and exchange rate changes 2/	3.1	2.3	-2.0	-1.3	-1.4			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	1.1	2.1	3.4	1.1	3.5			8.6	3.2	2.1	1.5	1.2	1.0	
External debt-to-exports ratio (in percent)	103.1	103.5	99.8	93.1	94.1			111.2	96.4	95.0	93.2	91.9	91.2	
Gross external financing needs (in billions of US dollars) 4/	136.1	120.5	95.9	96.5	96.5			65.3	79.8	90.2	105.6	108.8	107.1	
in percent of GDP	11.6	11.2	8.3	7.9	7.6	10-Year	10-Year	6.3	7.3	7.9	8.8	8.7	8.2	
Scenario with key variables at their historical averages 5/								**45.5**	**48.0**	**49.7**	**50.8**	**51.6**	**52.1**	**-1.6**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	3.3	2.6	2.1	2.2	-0.1	2.7	1.4	-9.0	3.5	2.3	2.2	2.1	2.1	
GDP deflator in US dollars (change in percent)	-13.7	-10.3	5.2	3.2	3.9	1.1	7.9	-9.9	1.6	2.4	2.3	2.3	2.2	
Nominal external interest rate (in percent)	4.7	4.8	5.2	5.3	5.9	5.5	0.5	5.5	5.2	5.1	5.0	5.0	4.9	
Growth of exports (US dollar terms, in percent)	-3.6	-1.3	9.8	9.8	2.6	7.6	9.3	-13.6	19.0	4.5	4.9	4.2	3.5	
Growth of imports (US dollar terms, in percent)	-1.5	-1.8	8.9	10.2	-1.8	7.0	9.0	-14.9	21.1	6.9	6.5	5.0	4.2	
Current account balance, excluding interest payments	-1.0	-0.4	0.1	-0.2	1.7	0.0	0.8	3.7	2.1	1.2	0.6	0.3	0.0	
Net non-debt creating capital inflows	2.5	2.9	3.0	2.2	2.5	2.3	0.6	2.4	2.7	2.8	2.8	2.8	2.8	

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

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

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

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

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

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

Table 10. Mexico: Indicators of Fund Credit

	Projections					
	2020	2021	2022	2023	2024	2025
Stocks from prospective drawings 1/						
Fund credit in millions SDR	44,563.50	44,563.50	44,563.50	44,563.50	22,281.75	0.00
In percent of quota	500	500	500	500	250	0
In percent of GDP	6	7	6	6	3	0
In percent of exports of goods and services	15	16	14	13	6	0
In percent of gross reserves	27	27	26	26	14	0
Flows from prospective drawings 2/						
Charges in millions of SDR	223	990	1,038	1,038	992	219
Debt service due on GRA credit in millions of SDR	223	990	1,038	1,038	23,273	22,500
In percent of quota	2.5	11.1	11.7	11.7	261.1	252.5
In percent of GDP	0.0	0.2	0.2	0.1	2.9	2.6
In percent of exports of goods and services	0.1	0.3	0.3	0.3	6.1	5.5
In percent of gross reserves	0.1	0.6	0.6	0.6	14.5	15.7
Memo Item:						
Total external debt (percent of GDP)	46.8	55.9	53.5	50.8	48.0	45.4

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 15, 2020. Includes GRA charges, surcharges under the system currently in force and service charges.