INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/347

MEXICO

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

November 2022

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 16, 2022. Based on information available at the time of these discussions, the staff report was completed on November 3, 2022.

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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PRESS RELEASE

PR22/384

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 19, 2021, with an access level of about US$50 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.
- In view of rising external risks since the beginning of the arrangement, the Mexican authorities have elected not to request a reduction in access during this review but remain committed to pursuing a gradual path to exit, conditional on the evolution of external risks. The authorities intend to continue to treat the arrangement as precautionary.

Washington, DC: On November 16, 2022, 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 35.6508 billion (400 percent of quota, about US$50 billion)[1] was approved by the IMF's Executive Board on November 19, 2021 (see Press Release No. 21/340). The Mexican authorities stated their intention to treat the arrangement as precautionary.

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

"Mexico's recovery from the pandemic is underway, but a more turbulent external environment, a surge in global inflation and tighter global financial conditions, and slowing U.S. economic activity present new challenges and risks to the recovery. 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. The global surge in inflation has touched off a round of monetary tightening and rising global risk aversion and threatened growth. Elevated risks from an advanced economy slowdown, disorderly global financial market tightening, Russia's invasion of Ukraine, slowdown in China, and changes in commodity prices continue to cloud the outlook. 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.

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[1] Amount based on the Special Drawing Right (SDR) quote at the time of the approval on November 19, 2021, of US$1 = SDR 0.715044. As of November 16, 2022, the SDR valuation was US$1 = SDR 0.760266, implying a U.S. dollar value of about US$47 billion of the arrangement.

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"The authorities have a track record of sound policy management and are firmly committed to maintaining prudent policies going forward. Owing to heightened external risks, they have decided to maintain their current access levels, but nevertheless reaffirmed their commitment to pursuing a gradual path to exit, conditional on the evolution of external risks. The authorities intend to continue to treat the arrangement as precautionary."

MEXICO

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT

November 3, 2022

EXECUTIVE SUMMARY

Context. Mexico has recovered more gradually from the pandemic than its peers and economic activity is expected to slow in the second half of this year and into 2023. Inflation increased as the economy emerged from the COVID-19 shock but is expected to plateau in the second half of 2022 and then gradually decline.

Risks. The Mexican economy is exposed to a further tightening of global financial conditions and the potential for a reversal of capital flows. A sharper-than-expected economic downturn in the U.S. would weigh on growth and remittance inflows. The emergence of new and more severe COVID-19 variants could weaken activity and disrupt supply chains. Other risks include shocks arising from Russia's invasion of Ukraine, slowdown in China, and changes in commodity prices.

Flexible Credit Line (FCL). The FCL has served as an important buffer, supporting Mexico's pursuit of very strong macroeconomic policies and institutional policy frameworks. Mexico's ninth arrangement under the FCL was approved on November 19, 2021, in the amount of SDR 35.6508 billion (400 percent of quota, around US$ 50 billion). At the time of approval, the authorities stated their intention to request a reduction in access to SDR 26.7381 (300 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 arising from commodity and consumer price inflation, global monetary policy tightening, an ongoing global slowdown, and Russia's invasion of Ukraine the authorities are not requesting a reduction in access. 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 recommend that the Board complete this review, which would allow Mexico to make purchases until the expiration of the FCL arrangement on November 18, 2023.

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

This report was prepared by a team comprising Thomas Helbling (head), Jean-Marc Fournier, Swarnali Ahmed Hannan, Kevin Wiseman (WHD); Carolina Claver (LEG); Samir Jahan (FAD); Faezeh Raei (SPR); and Jeffrey Williams (MCM). Misa Takebe (SPR) provided inputs, and Laila Azoor and Hugo Tuesta (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 through the pandemic and the recent tightening cycle, as it has with previous external challenges including the global financial crisis, the taper tantrum, falling oil prices, and trade policy uncertainty.

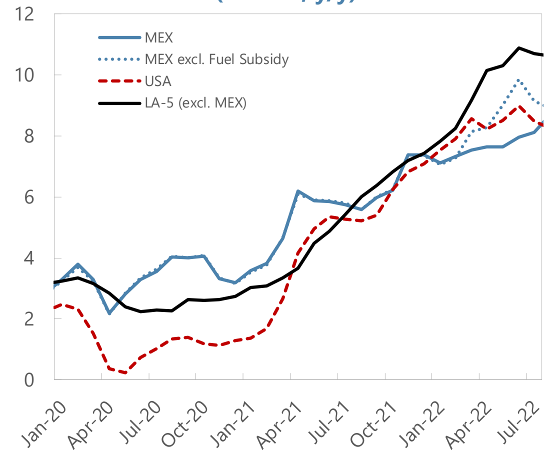
2. **The FCL has provided Mexico with an important buffer and signal of its policy strengths.** Mexico was the first member to sign on to the FCL when it was introduced in 2009 for members with very strong macroeconomic policies and frameworks that are confronted with adverse external shocks. Successive 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. **The mid-term review is taking place against the backdrop of a global slowdown, a broad-based surge in inflation, and tightening global financial conditions.** As noted in the 2022 Article IV consultation staff report, Mexico's pandemic recovery has been more gradual than in many peers, with output still below the pre-pandemic level as of mid-2022. Nevertheless, the economy has experienced surging import prices and supply frictions, in line with developments elsewhere, and inflation has risen to rates not seen for over two decades. This, in turn, has resulted in a proactive tightening of monetary policy which, alongside the slowdown in the U.S., is weighing on the growth outlook.

DEVELOPMENTS AND OUTLOOK

4. **Growth strengthened in early 2022 but is expected to moderate.** Domestic demand grew faster than output in the past year, partially reflecting pent up demand as the effects of the pandemic receded. Some sectors continue to perform strongly, notably manufacturing where utilization rates are at historic highs and the sector has benefited from strong goods demand in the U.S. Other drivers of growth are, however, relatively weak most notably in construction. The labor market has recovered well, with strong employment growth and falling unemployment and underemployment. Labor productivity, though, remains well below pre-pandemic levels. Output is expected to slow in the coming quarters as the effects of pent-up demand fade and spillovers from a weakening outlook in the U.S. become more apparent.

Headline Inflation
(Percent, y/y)



Source: Haver Analytics, Banxico; and EIA.

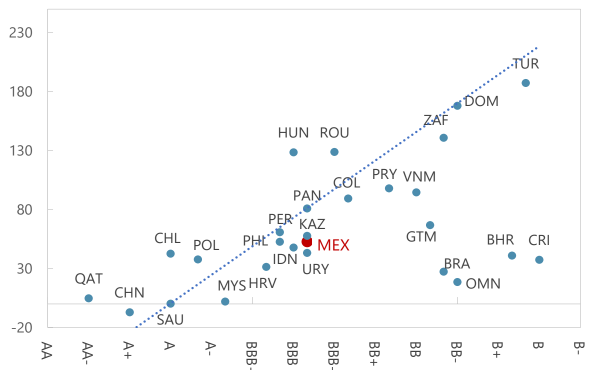
5. **Inflation has reached record levels and is expected to decline slowly.** Initially driven by energy prices in early 2021, inflation has generalized across product categories with a notable concentration in raw and especially processed foods. Year-on-year headline inflation reached nearly 9 percent in mid-September, a 20-year record. The upswing in inflation began somewhat earlier in Mexico than elsewhere but has been broadly in line with the U.S. and Latin American peers. Staff estimate that fuel subsidies helped reduce inflation by more than 2 percentage points during the early summer, but the impact has receded as global fuel prices have fallen. On the other hand, headline and core inflation have a larger weight on food and have been boosted by the rapid increase in food prices . Inflation is expected to peak in the second half of 2022 and subside gradually, falling to around 3 percent by end-2024.

6. **Banco de México (Banxico) began raising policy rates early in response to the rise in inflationary pressures.** The policy interest rate has been raised by 5.25 percentage points in 11 consecutive decisions beginning in June 2021, with the size of hikes increasing over time. The real ex ante policy rate has risen above the central bank's estimates of neutral, implying a contractionary stance. Banxico has strengthened its communications, updating its inflation forecasts at each policy meeting and providing guidance on a continued upward path for the policy rate. Banxico is widely expected by markets to continue to hike but at a slowing pace and maintain a contractionary stance until inflation is on a durable downward trajectory.

7. **The fiscal position has been managed conservatively.** Mexico's fiscal response to the pandemic was among the smallest in OECD countries which helped keep public debt at around 60 percent of GDP. The fiscal stance was broadly neutral in 2022 and is expected to remain so in 2023, implying a generally flat path for the debt-to-GDP ratio in the coming years. Higher global fuel prices have raised revenues and reduced the need to contribute fiscal resources to Pemex but these have been offset by increased spending on fuel subsidies.

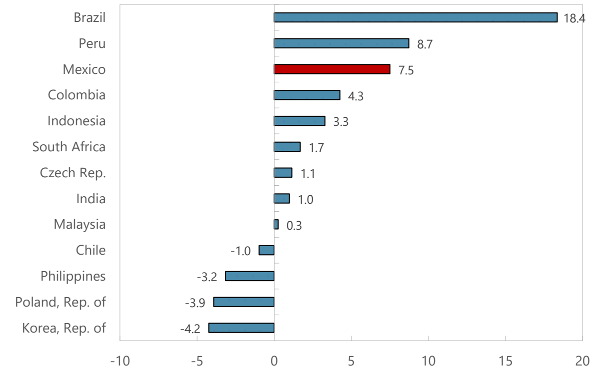
8. **External financial conditions have tightened but by less than in many emerging markets.** Mexican foreign currency bond yields have risen in line with widening spreads globally but remain somewhat below the level implied by the country's credit rating. The early increases in the policy rate, the strong fiscal position, and significant remittance inflows have supported the peso, despite a sustained period of reduced exposure to peso assets by nonresident investors. The external position is judged to be broadly in line with medium term fundamentals and desirable policies.

Spread Change of Dollar-Denominated Sovereign Bonds, Year-to-date bps



Sources: Bloomberg and IMF staff calculations.

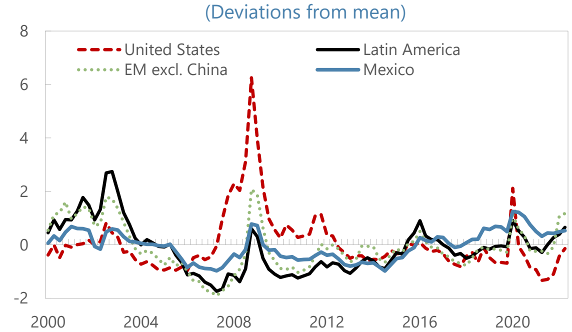
Nominal Effective Exchange Rate Appreciation
(Aug. 2022, Percent growth from Dec. 2021)



Source: IMF staff calculations.
Note: Nominal Effective Exchange Rate, Trade Partners by Consumer Price Index, Index.

9. Domestic financial conditions have tightened moderately. Local currency interest rates have risen substantially on rising inflation expectations and monetary policy tightening. Financial conditions, as measured by the IMF's Financial Conditions Index, have tightened moderately. Domestic credit has nevertheless expanded in the first half of 2022 and is expected to slightly outpace GDP growth for the year as a whole. Higher interest rates should increase banks' net interest margins but will reduce corporate debt issuance.

Financial Conditions Index
(Deviations from mean)



Source: IMF staff estimates.

10. The financial sector was resilient through the pandemic and has adequate buffers to address future challenges. A review of financial system health in the context of the IMF's quinquennial financial sector assessment program (FSAP) found that banks were broadly robust to solvency and liquidity shocks albeit with some pockets of weakness (See the 2022 Financial System Stability Assessment for Mexico). The banking system has managed to navigate the worst of the pandemic while maintaining relatively healthy balance sheets. The total capital adequacy ratio increased to over 19 percent in 2021, from 16 percent before the pandemic. The large institutions that comprise the bulk of the financial system maintain ample liquidity buffers. Large non-financial private corporations are recovering from the pandemic with improving profitability, liquidity, and leverage, in some cases reversing a decade of erosion.

RISKS AND POLICIES

11. External risks remain elevated this year and are tilted to the downside. They predominantly arise from downside risks to U.S. growth, given the tightly integrated manufacturing base between the two countries. The ongoing tightening of monetary policies in the advanced economies could accelerate in the face of upside risks to inflation, including from further increases in commodity prices associated with Russia's invasion of Ukraine. Weaker U.S. growth or a faster than expected tightening of policy could increase global risk aversion, resulting in capital outflows or turbulent market conditions. Mexico's deep, liquid currency market is often used to hedge against risk in less liquid EM markets and could see turbulence in risk-off events that goes beyond Mexico-specific factors. The emergence of more severe COVID-19 variants and climate-induced events are also important downside risks. On the other hand, Mexico may benefit from stronger-than-expected effects of nearshoring, including through higher FDI inflows. With no major macroeconomic imbalances, a strong fiscal position, large buffers in the financial system, and a flexible exchange rate that acts as a shock absorber, the Mexican economy is expected to remain resilient if these downside risks materialize.

12. Tackling high inflation requires continued assertive action by the central bank. Banxico reacted in a timely manner to the inflation surge and has continued to raise rates. Given the asymmetric risks to inflation and inflation expectations, a risk-based approach would argue for further increases in the policy rate and then to maintain that contractionary setting until inflation is on a durable path back to the central bank's 3 percent target. Continued improvements in communication have been beneficial and could be further strengthened by publishing information on the expected rate path that is consistent with the bank's inflation forecast (this could include information on what Banxico expects to be the terminal rate and/or the economic conditions it would expect to see before reducing the policy rate). Further large nominal increases in the minimum wage present upside risks to inflation. It would be preferable to align future increases in the minimum wage more closely with inflation and improvements in the productivity of lower income workers to reduce the inflationary impact and promote formalization.

13. A contingency plan should be developed to provide targeted support to households in the event of future commodity price shocks. The authorities have used largely untargeted subsidies to mitigate the rise in the cost of living, at an estimated cost of around 2 percent of GDP in 2022. Fuel subsidies resulted in retail fuel prices being as much as 30 percent lower than if global price increases had been fully passed through, reducing inflation by around 2 percentage points in mid-2022. Other interventions to dampen food price increases have been relatively modest. Going forward, future increases in the price of oil should be met with more targeted support to households rather than broad-based subsidies.

14. In the event of an unexpected tightening of global financial conditions and larger capital outflows, peso depreciation would act as a shock absorber. The peso has performed well this year against other currencies due to the high interest rate differential over U.S. rates, strong remittance growth, and a track record of fiscal discipline. Peso foreign exchange markets are deep and liquid, and the Mexican economy is expected to be resilient if the peso comes under pressure given the absence of material balance sheet mismatches. The freely floating exchange rate has served Mexico well and should be maintained as the first line of defense for external shocks with policy rates calibrated to counter the inflationary passthrough from a weaker currency. FX intervention could be considered in the event there were to be a rapid erosion of liquidity in the FX markets and/or a jump in bid-ask spreads. The IMF's Flexible Credit Line (FCL) provides an additional external buffer against such external risks and continues to contribute to market confidence.

15. Fiscal policy should prepare for downside risks for 2023 and beyond. Fiscal policy plays a central role in economic risk management and key policies will need to respond if these risks materialize.

- The neutral fiscal stance could be maintained under a mild downside growth scenario in order to support the central bank's disinflation efforts. However, additional fiscal support should be considered if there were a significant deterioration in growth prospects.

- More market-based fuel pricing should be put in place to allow for a greater passthrough in the event of an increase in global fuel prices. The resulting fiscal savings should be reinvested in targeted support for vulnerable households.

- With less than 0.1 percent of GDP left in the main stabilization fund, the authorities should advance proposed reforms in order to rebuild fiscal reserve funds to around 0.3 to 0.5 percent of GDP which would allow for some fiscal response to unanticipated events without jeopardizing sustainability.

- The current fiscal framework's emphasis on budget balance and restricted debt issuance has helped instill prudence and, as a result, public debt ratios are expected to remain stable over the projection period. However, the framework also places tight constraints on the use of fiscal policy for countercyclical purposes that could increase vulnerabilities in the event of downside shocks. Medium-term fiscal reforms could be considered to increase the scope for the deficit to act as a shock absorber while underpinning longer-term sustainability.

16. Improvements to financial oversight could strengthen the ability to respond to emerging challenges. Basel reform roll-out has made good progress. To prepare for future challenges, next steps should focus on the oversight and crisis management frameworks, including by strengthening the autonomy of regulatory government agencies and the legal protection of supervisors, and making sure they are adequately resourced; enhancing the framework for consolidated supervision, simplifying supervision by using more principle-based methodologies, and integrating climate risks; introducing limits on loan-to-value and debt-service-to-income ratios for mortgages and publishing a guideline for the countercyclical capital buffer; further enhancing financial system cyber resilience strategy, oversight, implementation, and information sharing, and careful consideration of CBDC design details; and removing impediments to bank's resolvability and barriers to effective resolution tools. The authorities could also build on improving but still low levels of financial inclusion by continuing to foster the development of the fintech environment and improving banking access and financial literacy. Mexico's AML/CFT framework is now closely aligned with FATF standards. the key priority going forward is to improve the effectiveness of the regime to tackle proceeds of corruption, organized crimes, and drug trafficking.

17. A long-term policy focus on more equitable growth—including addressing spending shortfalls in education, health, and social safety nets—would be beneficial. These increased outlays in social areas could be financed by revenue-increasing tax reforms that include eliminating most VAT zero-ratings, eliminating exclusions on personal income tax, supporting property tax improvements, and raising the carbon tax. Gains from higher spending could be complemented by efficiency gains, including reducing the leakage of social assistance benefits to high-income groups, eliminating overlaps and coverage gaps with the creation of single beneficiary registry, and better planning, budgeting, and intergovernmental cooperation on investment projects. Changes to Pemex's business plan are needed to reduce risks to Pemex's financial position and the government budget. Other growth-promoting efforts including a determined implementation of the anticorruption framework especially in the areas of investigation and enforcement, measures to reduce informality and promote financial inclusion, support for the USMCA and other trade-promoting initiatives, and restoring a more predictable and independent energy policy would also boost competitiveness and investment, raise incomes, and generate additional revenue for social programs.

18. In view of elevated 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 500 percent to 400 percent of quota. In that context, they had indicated an intention to request a further reduction in access to Fund resources to 300 percent of quota during the current review, conditional on a reduction of external risks facing Mexico. However, external risks have risen substantially since Board approval of the FCL, including as a result of Russia's invasion of Ukraine (Box 1). The authorities consider unchanged access will provide them a timely and adequate buffer to mitigate these increased external risks. However, they remain committed to continuing their exit strategy announced in 2017, conditional on the evolution of external risks. The authorities expect to continue to treat the FCL as precautionary. 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.

Box 1. The Calculation of the External Economic Stress Index

This box presents the external economic stress index (ESI) for Mexico. Its methodology is explained in *Flexible Credit Line—Operational Guidance Note*, IMF Policy Paper, August 2018. The calculation of the index required three main choices: (i) selection of relevant external risks; (ii) selection of proxy variables capturing these risks; and (iii) choice of weights for these variables. The index is presented below using the same model and proxy variables as for the 2017, 2019, and 2021 FCL arrangement requests and the 2018 and 2020 FCL arrangement reviews, while the weights have been updated.

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

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

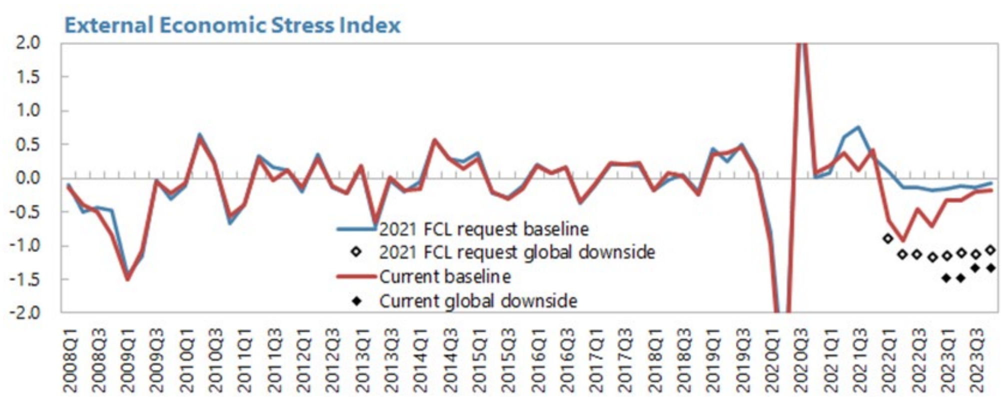
Box 1. The Calculation of the External Economic Stress Index (concluded)

Weights. The weights are data-based using balance of payment and international investment position data in 2021. The weight on U.S. growth (0.53) corresponds to the sum of exports, FDI, and remittances as shares of GDP; the weights on the change in the U.S. long-term yield (0.31) and the VXEEM (0.14) correspond to the stocks of foreign debt and equity as shares of GDP; and the weight on the change in the oil price (0.03) corresponds to oil exports as a share of GDP.

Baseline scenario. This scenario corresponds to the WEO projections for U.S. growth, oil prices, and the U.S. 10-year bond yield. The VXEEM is projected using VIX futures. The ESI under the baseline scenario indicates a substantial increase in risks relative to the level and forecasts at the time of the 2021 FCL request.

Global downside scenario. The downside scenario is based on the adverse scenario in the October 2022 WEO and is broadly consistent with the current global tail risks relevant for Mexico. Under this scenario, U.S. inflation expectations rise with a sequence of unexpected ½ percentage point shocks to U.S. inflation expectations over 2022–24 before fading out over 2025–26. U.S. growth in 2022 is roughly ⅓ percentage points weaker and in 2023 is almost ⅘ percentage points weaker. The scenario assumes faster monetary tightening and weaker growth in the U.S., in line with risks identified in the October WEO. The scenario also assumes a 15 percent decline in oil prices relative to the baseline (around 25 percentile of past EM crises) and a surge in global financial market volatility, with the VXEEM rising by 3 standard deviations as assumed in previous FCL arrangements. Against this backdrop, and the associated disruptions to financial flows, the risk premia for Mexico could increase and rollover rates could decline.

Country-specific external downside scenario. Mexico could be affected by other disruptions in global value chains and an abrupt drop in other FDI and capital flows, given its close relations with the U.S. As the current ESI is not designed to reflect these country-specific uncertainties, staff consider that a combination of global risks and country-specific uncertainties could be higher than those of the 2021 FCL request. The global downside scenarios are illustrated in the chart by dots. The index would fall if the described shocks materialized in any given quarter.



Note: The economic stress index reflects an assessment of the size of risks, with a lower value indicating a higher level of risks. Proxy variables are calculated by using the mean and standard deviation between 1995 and 2021. 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.

REVIEW OF QUALIFICATION

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

- **Sustainable external position.** The 2021 external position was assessed to be broadly in line with medium-term fundamentals and desirable policies. The current account deficit is expected to increase modestly this year, led by a continuing recovery in consumption and a worsening outlook in trade partners, but to remain in line with past years' EBA norms, and stabilize around this level. Mexico's external debt as a ratio to GDP is comparatively low and is projected to decline further below its pre-pandemic level in 2022 and stabilize afterwards (Figure 5).

- **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 an eighth of Mexico's direct, portfolio, and other asset and liability flows on average over the last three years.[1]

- **Track record of steady sovereign access to international capital markets at favorable terms.** Mexico continued to enjoy market access over the last 12 months at favorable terms despite rising global risk aversion (see ¶8 chart). Mexico has successfully issued debt in each of the last 5 years for a cumulative amount of over 350 percent of quota for the sovereign and over 700 percent of quota including state-owned enterprises. While Moody's recently reduced Mexico's rating, they revised up the outlook to stable from negative, and the country retains investment grade status by all three major agencies.

- **Comfortable international reserve position.** Gross international reserves rose through the pandemic and stood at US$ 202 billion in September. This level is comfortably above 100 percent of the IMF's ARA metric and other standard metrics of reserves sufficiency (Figure 4). The U.S. Federal Reserve's temporary COVID-related swap lines expired as planned at the end of 2021, including the line with Mexico, but Mexico retains its swap line of US$ 3 billion with the Federal Reserve associated with the North American Framework Agreement, and a US$ 9 billion swap line with the U.S. Treasury.

- **Sustainable public debt position and sound public finances.** Staff assess Mexico's public debt to be sustainable with high probability (see Figures 6–8, and Annex III of the 2022 Article IV staff report for Mexico). Fiscal policy is governed by a prudent institutional budgetary framework, underpinned by the fiscal responsibility law.[2] Staff see scope to improve this framework to facilitate countercyclical fiscal support, but the framework has succeeded in keeping debt levels contained. Gross public debt is projected to decline slightly in 2022 to 56 percent of GDP and then to converge slowly to about 60 percent of GDP over the medium term.

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[1] 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.

[2] 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.

The fiscal position is subject to the risks facing the Mexican economy including disappointing growth in trade partners, tightening financial conditions, and the potential for additional risk-off events. The favorable maturity and currency structure of public debt mitigates these risks (Figure 7).

- **Low and stable inflation in the context of a sound monetary and exchange rate policy framework**. Despite the recent global inflationary episode, Mexico has maintained single-digit inflation over the last five years. The central bank successfully responded to an idiosyncratic inflation episode towards the end of the previous decade, returning inflation to its target on the eve of the pandemic. The current inflation episode is global in nature, and inflation in Mexico is in line with or somewhat below the experience of the U.S. and regional peers. Timely intervention by the central bank including recently achieving a clearly restrictive real policy rate has demonstrated the institution's commitment to its inflation target. Long run inflation expectations have remained stable through this episode, though medium-term expectations have edged towards the upper end of the central bank's range of variation around its inflation target. The central bank has taken a number of steps to improve communication and transparency through the current episode which has allowed the current hiking cycle to proceed with minimal financial market turbulence. While anchored, long run expectations have consistently been about a half percentage point above the central bank's target, a phenomenon which could usefully be examined in a review of the monetary policy framework.

- **Sound financial system and the absence of solvency problems that may threaten systemic stability.** The financial system has emerged from the pandemic in good health. This year's FSAP assessment found that systemic vulnerabilities and system-wide liquidity risks in the financial system appear broadly contained, given high capital buffers in the system and low private sector leverage in international comparison. Non-performing loans (NPLs) rose modestly from low levels, capital adequacy ratios are high and rising, liquidity ratios are comfortable, and there are no signs of stretched asset prices. Bank profitability is recovering from the pandemic, while non-financial private corporations are seeing improvements in leverage and liquidity metrics.

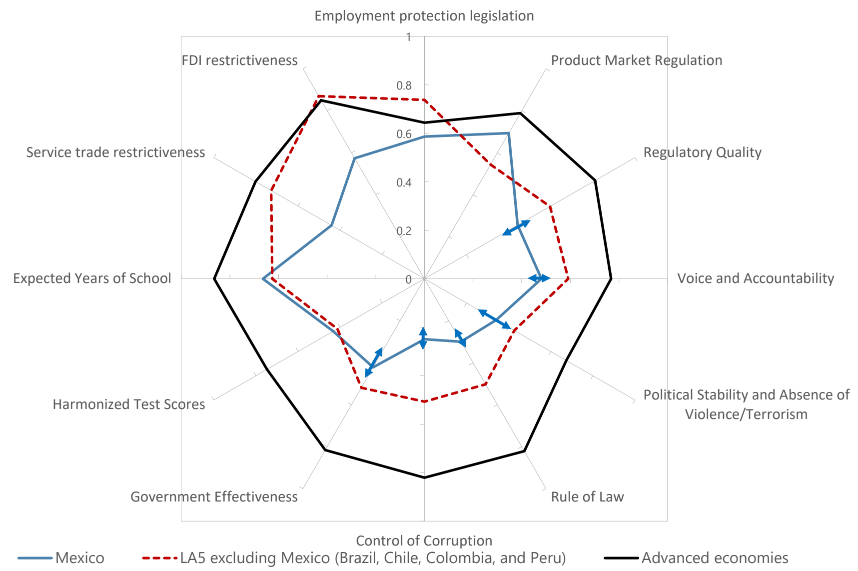
- **Effective financial sector supervision.** The 2022 FSAP assessment found that Mexico has made good progress on financial sector policies since the already strong finding of the 2016 assessment. Progress includes rolling out critical Basel reforms, improving supervisory techniques and methodologies, building cybersecurity capacity, and enhancing recovery and resolution planning of commercial banks. The latest FSAP did find scope for further improvement, especially in response to emerging challenges, including the independence and adequate resourcing of supervisory bodies, improvements to consolidated supervision of financial groups, completing the macroprudential toolkit, and further improvements to the cybersecurity infrastructure.

- **Data transparency and integrity.** The overall quality of Mexican data continues to be high and adequate to conduct effective surveillance as described in the December 2021 data ROSC. 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.

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

Structural Indicators, 2021 or Latest Available Year



Sources: OECD, World Bank; and Worldwide Governance Indicators.
Note: Higer values indicate values more favorable to growth. The Worldwide Governance Indicators (WGI) database reports normalized data, the blue arrows show 90 percent confidence intervals. Other indicators are rescaled so that the standard deviation across advanced economies and LA5 countries is equal to the average standard deviation across the 6 dimensions of the WGI for the same countries.

SAFEGUARDS ASSESSMENT

21. Staff have completed the safeguards procedures for Mexico's 2021 FCL arrangement. KPMG Cárdenas Dosal (the external auditor) issued an unmodified (clean) audit opinion on the Banxico's 2021 financial statements, which were published on the central bank's website in a timely fashion. Staff also reviewed the 2021 audit results and held discussions with KPMG. No significant issues emerged from the conduct of these procedures.

STAFF APPRAISAL

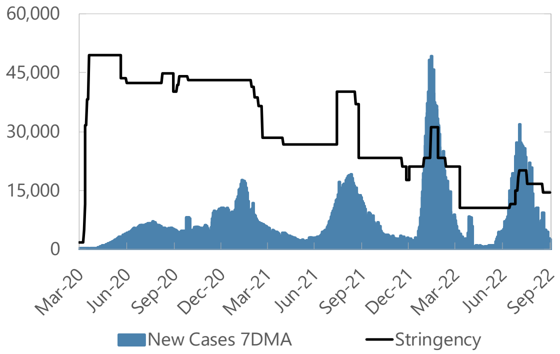
22. Mexico's successive FCL arrangements have supported the authorities' policies by providing a buffer against tail risks. These arrangements, along with sizable international reserves, have provided the authorities with valuable insurance in periods of high volatility. While rising financial market geopolitical risks have been a challenge, 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 conditional on the evolution of external risks.

23. 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 2022 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 prudent policy settings and have reiterated their commitment to maintaining very strong policies. Staff therefore recommend completion of the review under the FCL arrangement for Mexico.

Figure 1. Mexico: Recent Economic Developments

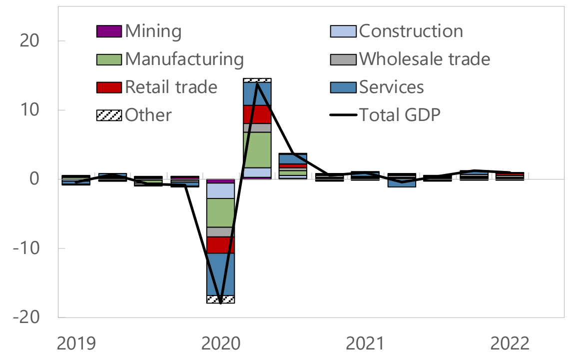
Covid-19 policy response stringency has waned as has the impact of recent waves on activity.

Covid-19 Case Growth and Policy Response Stringency 1/



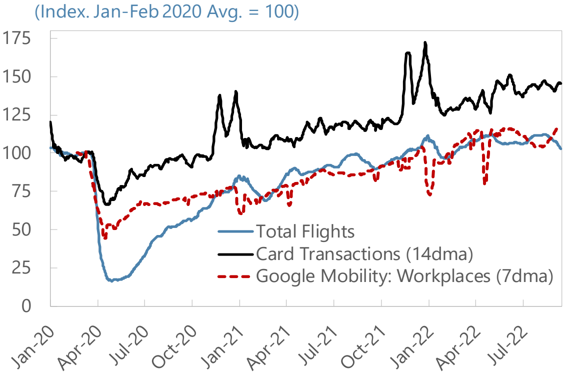
Manufacturing led the contraction and the early recovery, but services have taken a lead role this year.

Supply Contributions to GDP Growth
(SSAR, Q/Q)



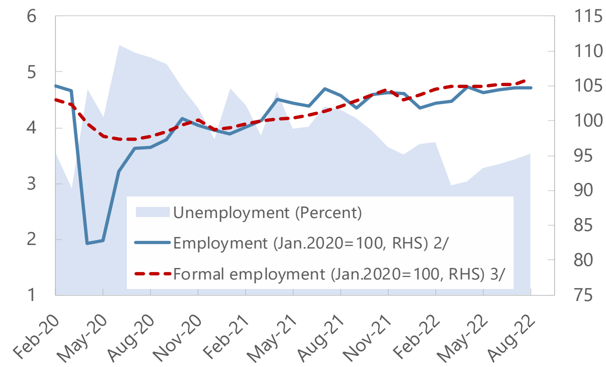
High frequency indicators have largely fully recovered from the pandemic.

High Frequency Indicators
(Index. Jan-Feb 2020 Avg. = 100)



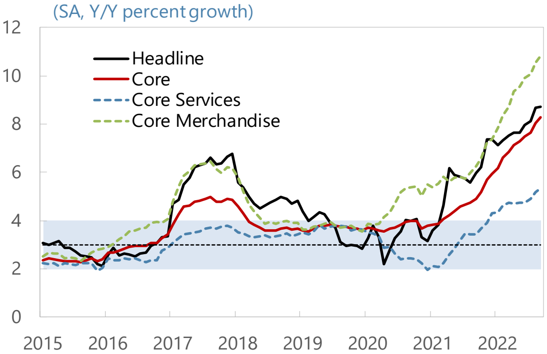
Deep job losses have broadly recovered.

Employment
(NSA)



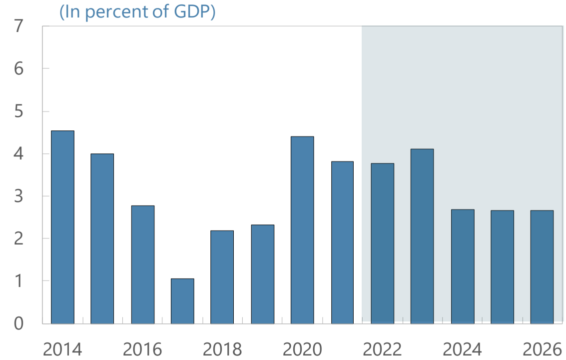
Headline and core inflation have risen to 20-year highs.

Inflation
(SA, Y/Y percent growth)



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

Fiscal Deficit
(In percent of GDP)

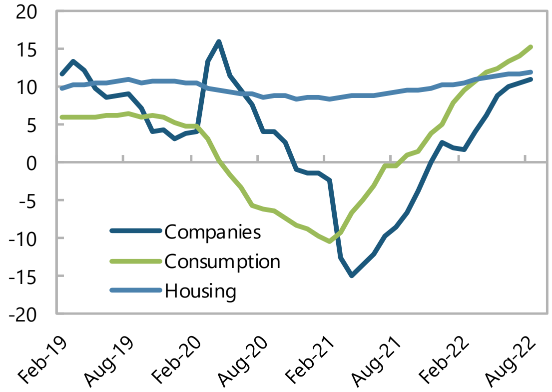


Sources: National authorities, Oxford University, Apple Mobility, Haver Analytics, Bloomberg, and IMF staff calculations.
1/ Oxford COVID-19 Government Response Tracker, Covid-19 Stringency Index.
2/ Employment growth is calculated as the growth in employment as a share of the economically active population.
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 External and Financial Developments

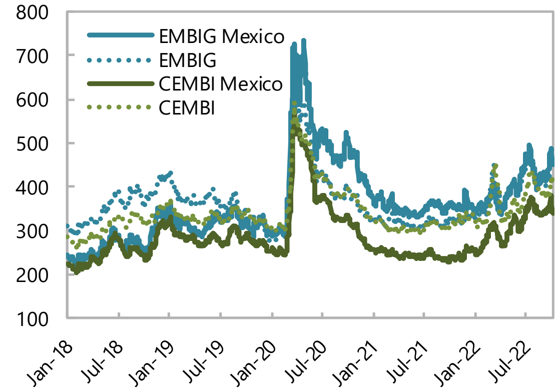
Bank credit has been recovering along with the economic recovery...

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



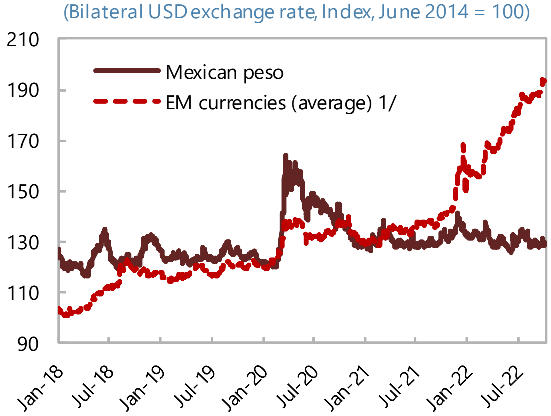
... while interest rates have been rising.

EMBIG and CEMBI Spreads
(In basis points)



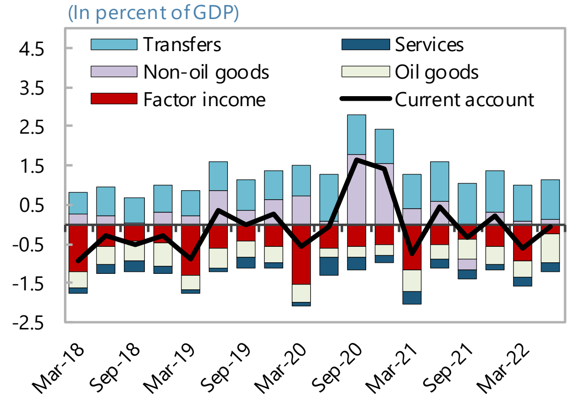
The exchange rate has sustantially outpeformed other EMs.

Exchange Rates
(Bilateral USD exchange rate, Index, June 2014 = 100)



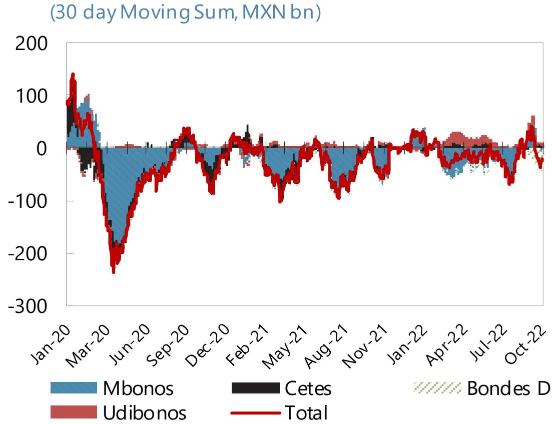
The current account is converging to its norm.

Current Account Balance
(In percent of GDP)



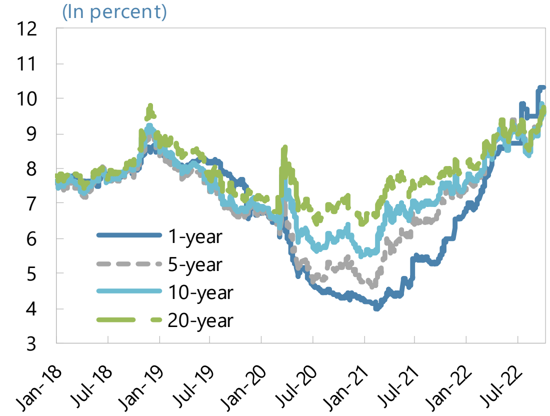
Local currency debt has seen recurring waves of outflows.

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



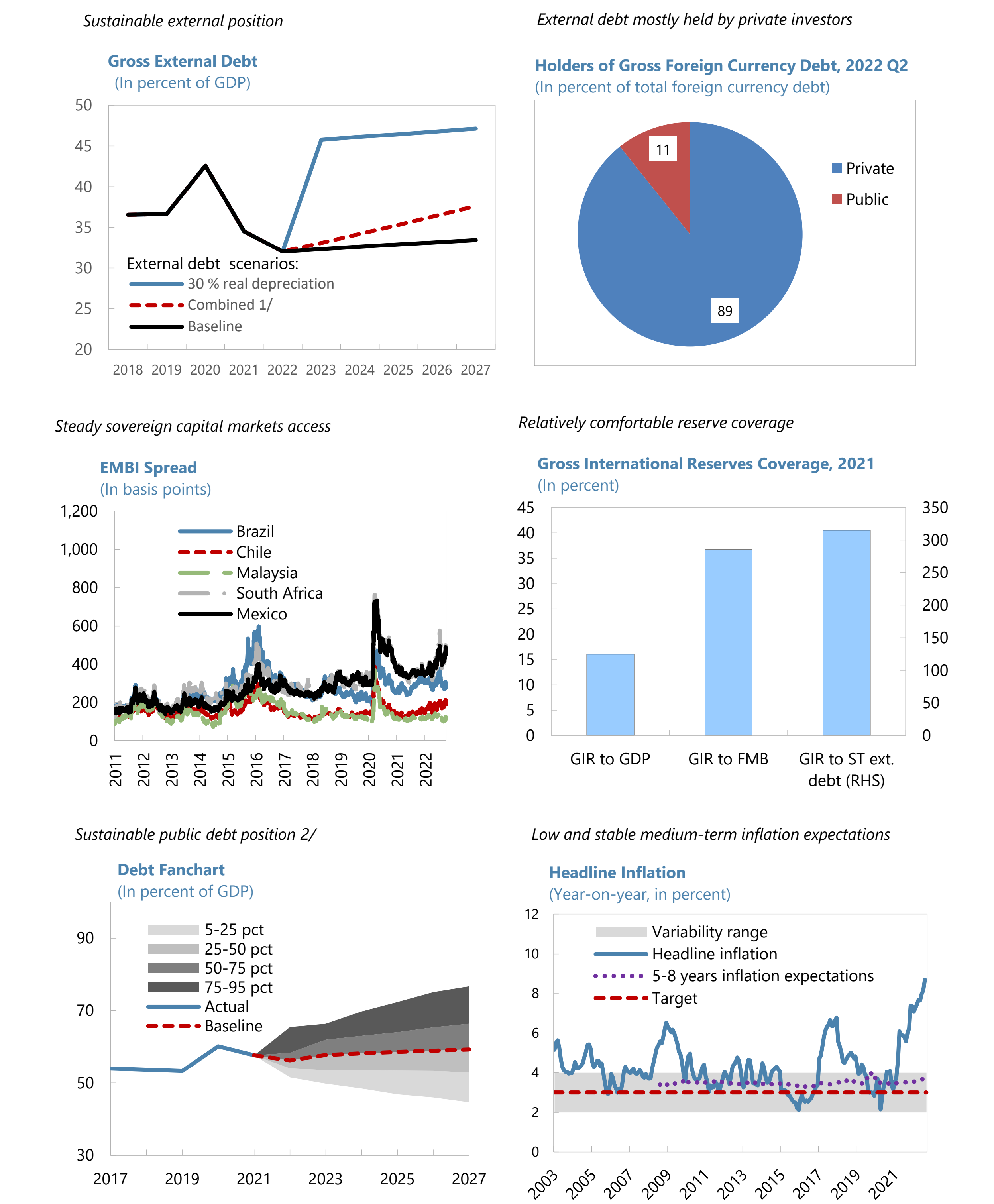
The yield curve has risen and inverted.

Government Bond Yields
(In percent)



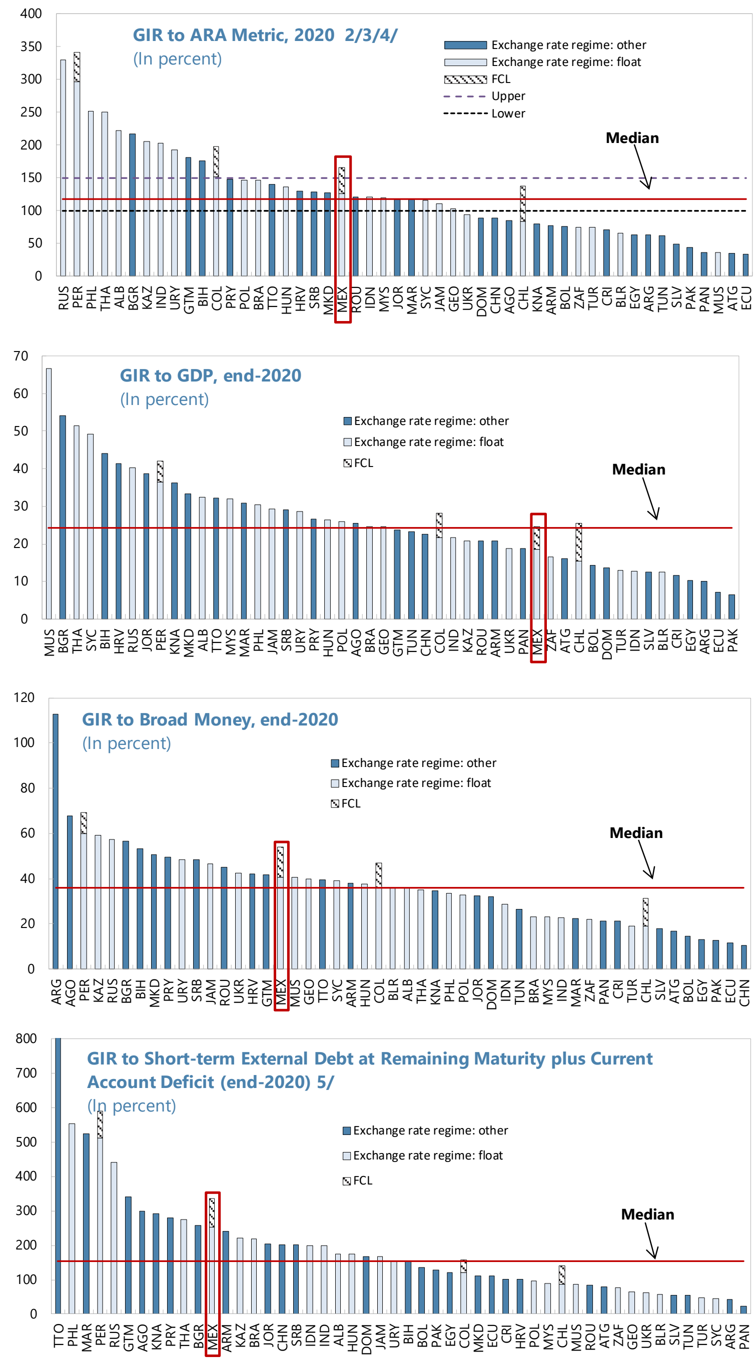
Sources: National authorities; Haver Analytics; Bloomberg, and IMF staff calculations.
1/ Includes Brazil, Chile, Colombia, Czech Republic, India, Indonesia, Korea, Poland, Russia, Thailand, and Turkey.
2/ Flows associated with Pemex transaction on 11/20/2020 have been removed.

Figure 3. Mexico: Qualification Criteria



Sources: Bloomberg L.P., Datastream, EMED, Haver Analytics, and Fund staff estimates.
1/ Combined permanent 1/4 standard deviation shocks applied to interest rate, growth, and current account balance.
2/ Not taking into account offsetting measures required under the balanced budget rule.

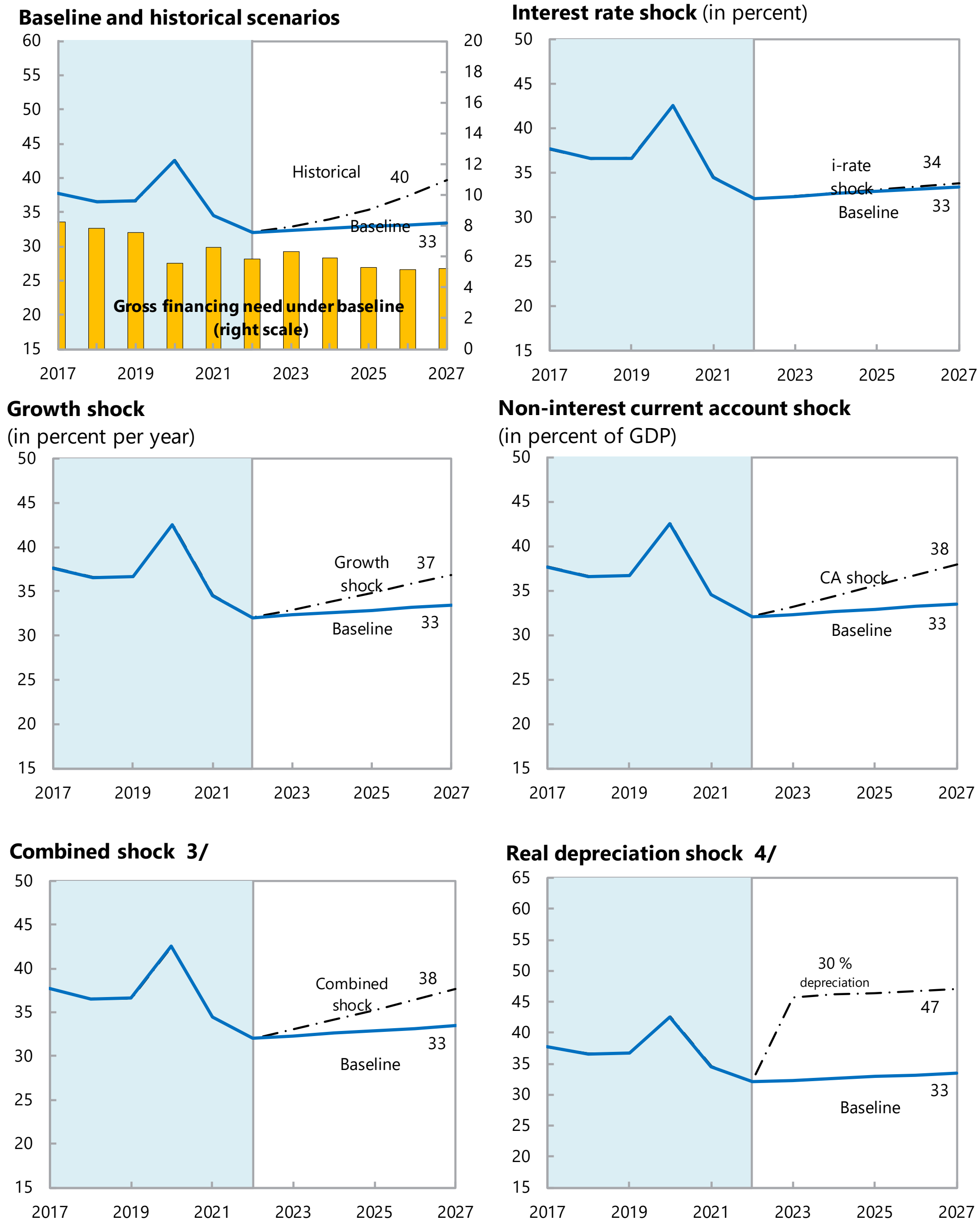
Figure 4. Mexico: Reserve Coverage and FCLs in an International Perspective 1/



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

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

(External debt in percent of GDP)



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

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

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

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

4/ One-time real depreciation of 30 percent.

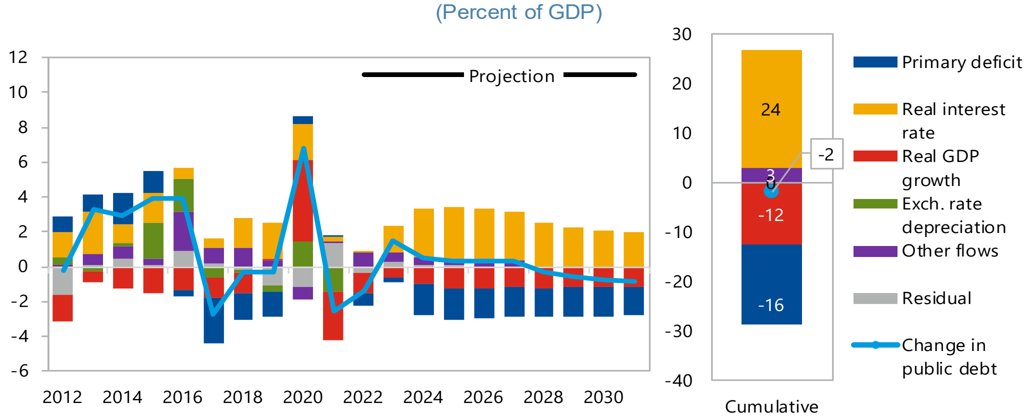
Figure 6. Mexico: Public Sector Debt Sustainability Analysis—Baseline Scenario

(In percent of GDP unless otherwise indicated)

	Actual	Medium-Term Projection						Extended Projection			
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Public debt	57.6	56.2	57.7	58.2	58.6	58.9	59.3	58.9	58.4	57.6	56.8
Change in public debt	-2.5	-1.4	1.5	0.5	0.4	0.4	0.3	-0.3	-0.6	-0.7	-0.8
Contribution of identified flows	-3.3	-0.7	1.6	0.6	0.5	0.5	0.5	-0.2	-0.4	-0.6	-0.7
Primary deficit	0.0	-0.7	-0.3	-1.8	-1.8	-1.8	-1.6	-1.6	-1.6	-1.6	-1.6
Noninterest revenues	23.0	24.1	23.9	23.9	23.7	23.7	23.8	23.8	23.8	23.8	23.8
Noninterest expenditures	23.1	23.3	23.7	22.0	21.9	21.9	22.1	22.1	22.1	22.1	22.1
Automatic debt dynamics	-3.5	-0.7	1.4	2.0	1.9	1.9	1.8	1.5	1.2	1.1	1.0
Int. rate-growth differential	-2.5	-1.1	0.9	1.8	1.7	1.7	1.6	1.3	1.1	0.9	0.8
Real interest rate	0.3	0.1	1.6	2.8	2.9	2.9	2.8	2.5	2.3	2.1	1.9
Real growth rate	-2.7	-1.2	-0.6	-1.0	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Real exchange rate	-1.5	…	…	…	…	…	…	…	…	…	…
Relative inflation	0.5	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other identified flows	0.1	0.8	0.5	0.4	0.4	0.4	0.4	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.1	0.8	0.5	0.4	0.4	0.4	0.4	0.0	0.0	0.0	0.0
Contribution of residual	0.8	-0.7	-0.1	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Gross financing needs	12.4	12.6	12.3	11.5	10.9	11.2	11.4	11.3	11.3	11.5	11.3
of which: debt service	12.7	13.6	12.8	13.5	12.9	13.1	13.2	13.1	13.1	13.3	13.1
Local currency	10.6	11.6	10.9	11.3	10.2	10.5	10.3	10.2	10.2	10.5	10.2
Foreign currency	2.1	1.9	1.9	2.1	2.6	2.6	2.9	2.9	2.9	2.9	2.9
Memo:											
Real GDP growth (percent)	4.8	2.1	1.2	1.8	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Inflation (GDP deflator; percent)	7.1	8.9	5.7	3.4	3.1	3.0	3.0	3.0	3.0	3.0	3.0
Nominal GDP growth (percent)	12.2	11.2	6.9	5.3	5.3	5.2	5.1	5.1	5.1	5.1	5.1
Effective interest rate (percent)	7.6	9.1	8.7	8.6	8.4	8.2	8.0	7.4	7.0	6.8	6.5

Contribution to Change in Public Debt

(Percent of GDP)

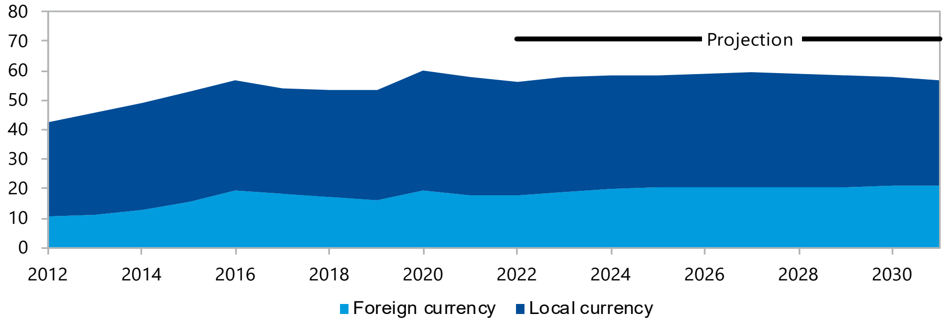


Staff commentary: As in 2021, the public debt to GDP ratio is expected to decline in 2022 with the economic recovery after the pandemic-related downturn in 2020 and exchange rate appreciation. However, with slowing GDP growth both globally and in Mexico in 2023, the public debt ratio is expected to increase again in that year despite the contribution from the primary budget deficit. Beyond 2023, Mexico’s relatively low trend growth, in real and nominal terms, and a relatively high average interest rate on public debt mean that r-g dynamics will not contribute to lowering the public debt ratio in the medium-term. However, the primary budget surplus is expected to offset the unfavorable automatic debt dynamics. Mexico has strong track record in maintaining a prudent fiscal policy stance.

Figure 7. Mexico: Public Debt Sustainability Analysis—Debt Structure Indicators

Debt by Currency

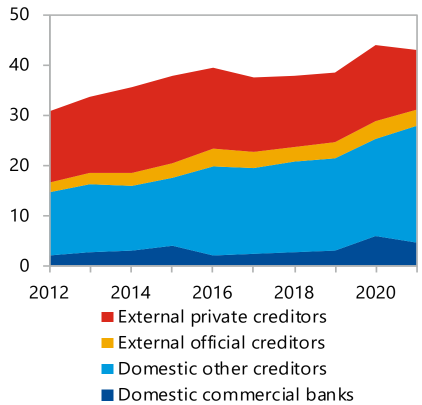
(Percent of GDP)



Note: The perimeter shown is consolidated public sector.

Public Debt by Holder

(Percent of GDP)



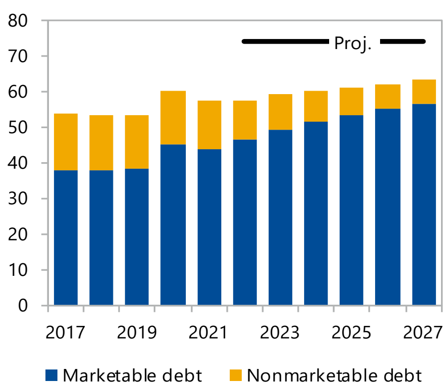
Public Debt by Governing Law, 2021

(Percent)

Note: The perimeter shown is general government.

Debt by Instruments

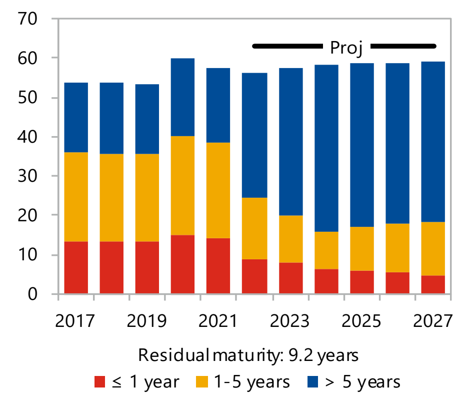
(Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity

(Percent of GDP)



Note: The perimeter shown is general government.

Staff Commentary: The shares of foreign and domestic currency-denominated liabilities in total public debt are expected to be broadly stable in the projection period. The rising share of domestic other creditors reflects the increased holdings of public debt liabilities by domestic pension funds following recent pension reforms. While overall debt as a ratio to GDP will remain broadly constant, the share of liabilities with longer maturities is expected to rise until 2025 and then stabilize, in-line with the government's debt management strategy. Data on the structure of debt holders are taken from the Arslanalp-Tsuda database. These data excludes SOEs, development banks, and other entities included in the Public Sector fiscal accounts perimeter. Hence debt as a share of GDP is lower than in other SRDSA outputs.

Figure 8. Mexico: Public Debt Sustainability Analysis—Medium-Term Risk Analysis

Debt Fanchart and GFN Financeability Indexes

(Percent of GDP unless otherwise indicated)

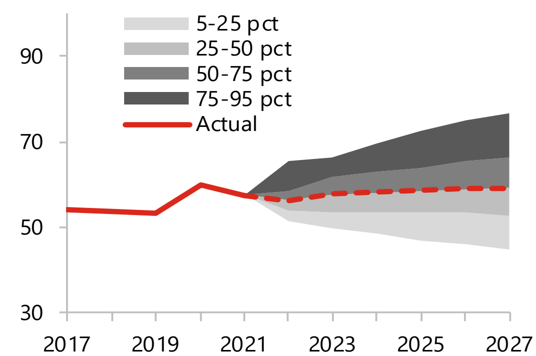
Module	Indicator	Value	Risk index	Risk signal
Debt fanchart module	Fanchart width	32.0	0.5	...
	Probability of debt not stabilizing (pct)	52.2	0.4	...
	Terminal debt level x institutions index	35.9	0.8	...
	Debt fanchart index	**...**	**1.7**	**Moderate**
GFN finance-ability module	Average GFN in baseline	11.6	4.0	...
	Bank claims on government (pct bank assets)	26.9	8.7	...
	Chg. in claims on govt. in stress (pct bank asse	12.1	4.1	...
	GFN financeability index	**...**	**16.8**	**Moderate**

Adv. Econ., Non-Com. Exp, Program: 0 25 50 75 100

Legend: Interquartile range   Mexico

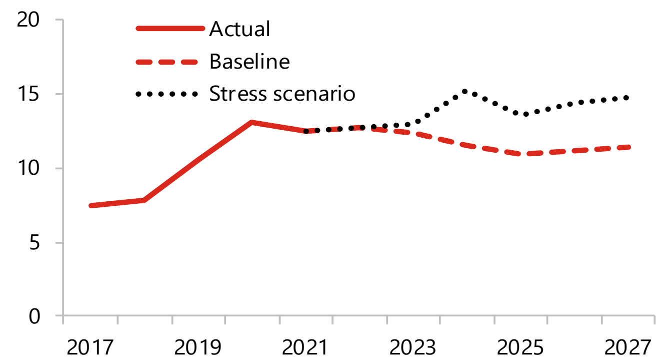
Final Fanchart

(Percent of GDP)



Gross Financing Needs

(Percent of GDP)

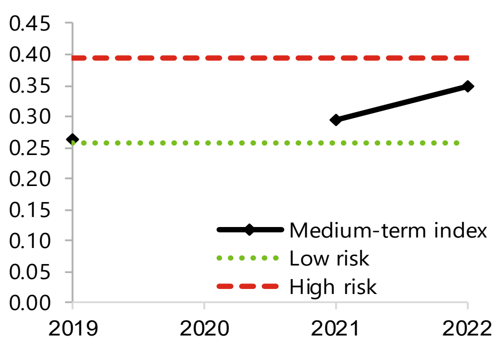


Triggered stress tests (stress tests not activated in gray)

Banking crisis   Commodity prices   Exchange rate   Contingent liab.   Natural disaster

Medium-Term Index

(Index number)



Medium-Term Risk Analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.4
GFN finaceability index	7.6	17.9	0.5	0.3
Medium-term index (MTI)	0.3	0.4	...	0.3, Moderate

Prob. of missed crisis, 2022-2027 (if stress not predicted): 27.3 pct.

Prob. of false alarm, 2022-2027 (if stress predicted): 21.6 pct.

Staff Commentary: The medium-term analysis suggests a moderate risk of sovereign stress over that time horizon. The main issue suggested by the analysis is the possibility of substantial increases in the public debt ratio under low-probability downside scenarios. The increase in gross financing needs under a stress scenario is moderate. The change in bank claims under stress scenarios is small, but the initial share of government assets in banks' assets, while only 27 percent, is outside the 25-75 percentile interval for comparators. The banking system should be able to absorb the increased government financing needs under a stress scenario. Institutional investors other than banks, such as pension funds, could also likely absorb additional financing needs. No customized debt stress scenarios were triggered.

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

GDP per capita (U.S. dollars, 2021)	10,048.8	Poverty headcount ratio (% of population, 2020) 1/	43.9
Population (millions, 2021)	129.0	Income share of highest 20 perc. / lowest 20 perc. (2020)	9.1
Life expectancy at birth (years, 2020)	75.1	Adult literacy rate (2019)	95.4
Infant mortality rate (per thousand, 2020)	11.8	Gross primary education enrollment rate (2020) 2/	104.7

II. Economic Indicators

					Proj.	
	2018	2019	2020	2021	2022	2023
(Annual percentage change, unless otherwise indicated)						
National accounts (in real terms)						
GDP	2.2	-0.2	-8.1	4.8	2.1	1.2
Consumption	2.6	0.0	-8.8	6.4	5.6	1.1
Private	2.6	0.4	-10.3	7.5	6.4	0.9
Public	2.9	-1.8	-0.2	1.0	1.0	1.9
Investment	0.4	-5.3	-19.0	10.8	5.3	1.9
Fixed	0.8	-4.7	-17.7	9.5	5.9	1.8
Private	1.2	-3.1	-19.2	10.1	6.4	1.7
Public	-1.3	-14.5	-7.5	5.8	2.4	1.8
Inventories 3/	-0.1	-0.2	-0.4	0.2	-0.1	0.0
Exports of goods and services	6.0	1.5	-7.3	6.9	6.1	-0.6
Imports of goods and services	6.4	-0.7	-13.8	13.6	8.9	1.1
GDP per capita	1.1	-1.2	-8.9	3.8	1.2	0.3
External sector						
External current account balance (in percent of GDP)	-2.0	-0.3	2.5	-0.4	-1.2	-1.2
Exports of goods, f.o.b. 4/	10.1	2.2	-9.4	18.6	14.0	2.4
Export volume	6.3	1.2	-4.7	5.2	5.2	-0.6
Imports of goods, f.o.b. 4/	10.4	-2.0	-15.9	32.0	17.0	1.1
Import volume	6.3	-0.8	-12.6	13.7	8.5	1.1
Net capital inflows (in percent of GDP)	-2.6	-1.5	0.9	-0.9	-1.1	-1.3
Terms of trade (goods, improvement +)	-0.4	2.2	-1.2	-2.9	0.5	3.0
Gross international reserves (in billions of U.S. dollars)	176.4	183.0	199.1	207.7	205.7	207.4
Exchange rates						
Real effective exchange rate (CPI based, IFS)						
(average, appreciation +)	-0.1	3.2	-7.7	5.9	...	...
Nominal exchange rate (MXN/USD)						
(end of period, appreciation +)	0.5	4.3	-5.9	-3.2	...	...
Employment and inflation						
Consumer prices (end-of-period)	4.8	2.8	3.2	7.4	8.5	4.8
Core consumer prices (end-of-period)	3.7	3.6	3.8	5.9	8.4	5.3
Formal sector employment, IMSS-insured workers (average)	4.1	2.3	-2.5	1.9	...	...
National unemployment rate (annual average)	3.3	3.5	4.4	4.1	3.4	3.7
Unit labor costs: manufacturing (real terms, average)	3.6	4.2	9.8	-9.1	...	...
Money and credit						
Financial system credit to non-financial private sector 5/	8.9	3.0	1.5	4.1	10.7	8.1
Broad money	4.5	4.7	13.4	9.5	11.0	7.3
Public sector finances (in percent of GDP) 6/						
General government revenue	23.5	23.6	24.2	23.3	24.3	24.1
General government expenditure	25.7	26.0	28.6	27.1	28.0	28.2
Overall fiscal balance	-2.2	-2.3	-4.4	-3.8	-3.8	-4.1
Gross public sector debt	53.6	53.3	60.1	57.6	56.2	57.7
Memorandum items						
Nominal GDP (billions of pesos)	23,524.4	24,445.7	23,415.6	26,273.5	29,225.2	31,235.6
Output gap (in percent of potential GDP)	0.8	-1.0	-4.7	-2.0	-0.6	-1.2

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

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

2/ Percent of population enrolled in primary school regardless of age as a share of the population of official primary education age.
3/ Contribution to growth. Excludes statistical discrepancy.
4/ Excludes goods procured in ports by carriers.
5/ 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)

	2019	2020	2021	Proj. 2022	2023	2024	2025	2026	2027
Budgetary revenue, by type	**22.0**	**22.8**	**22.7**	**22.3**	**22.4**	**22.1**	**22.0**	**22.0**	**22.1**
Oil revenue	3.9	2.6	4.4	5.0	4.5	4.4	4.2	4.2	4.1
Non-oil tax revenue	13.1	14.3	13.6	13.1	14.1	14.1	14.1	14.1	14.2
Non-oil non-tax revenue	5.0	6.0	4.7	4.3	3.8	3.7	3.7	3.7	3.8
Budgetary revenue, by entity	**22.0**	**22.8**	**22.7**	**22.3**	**22.4**	**22.1**	**22.0**	**22.0**	**22.1**
Federal government revenue	16.4	17.5	16.4	16.4	16.5	16.3	16.3	16.3	16.4
Tax revenue, *of which:*	13.1	14.3	13.6	13.1	14.1	14.1	14.1	14.1	14.2
Excises (including fuel)	1.9	2.0	1.5	0.3	1.4	1.4	1.4	1.4	1.4
Nontax revenue	3.3	3.2	2.9	3.3	2.4	2.2	2.2	2.2	2.2
Public enterprises	5.6	5.3	6.3	5.9	5.9	5.8	5.7	5.7	5.7
PEMEX	2.1	1.7	3.0	2.7	2.9	2.7	2.6	2.6	2.6
Other	3.5	3.6	3.2	3.2	3.0	3.1	3.1	3.1	3.1
Budgetary expenditure	**23.7**	**25.6**	**25.6**	**25.3**	**26.0**	**24.3**	**24.1**	**24.2**	**24.2**
Primary	21.0	22.7	23.0	22.3	23.2	21.7	21.7	22.0	22.3
Programmable	17.3	19.0	19.5	18.6	19.2	17.8	17.7	18.1	18.4
Current	14.3	15.6	15.1	14.8	15.4	15.5	15.5	15.8	16.1
Wages	5.0	5.5	5.1	5.0	5.1	5.1	5.1	5.1	5.2
Pensions 2/	3.6	4.1	4.0	4.1	4.3	4.4	4.5	4.6	4.7
Subsidies and transfers	2.9	3.3	3.2	3.1	3.5	3.6	3.5	3.6	3.7
Other	2.8	2.8	2.8	2.5	2.5	2.5	2.4	2.4	2.5
Capital	3.0	3.4	4.4	3.8	3.8	2.2	2.2	2.3	2.3
Physical capital	2.3	2.8	2.6	2.9	3.6	2.2	2.2	2.3	2.3
Financial capital 3/	0.7	0.6	1.8	1.0	0.2	0.0	0.0	0.0	0.0
Nonprogrammable	3.7	3.7	3.5	3.6	3.9	4.0	3.9	3.9	3.9
Of which: revenue sharing	3.6	3.6	3.5	3.6	3.8	3.8	3.8	3.8	3.8
Interest payments	**2.7**	**2.9**	**2.6**	**3.1**	**3.1**	**3.2**	**3.3**	**3.2**	**3.2**
Unspecified measures	**0.0**	**0.0**	**0.0**	**0.0**	**-0.2**	**-0.6**	**-0.8**	**-1.1**	**-1.3**
Traditional balance	**-1.6**	**-2.9**	**-2.9**	**-3.0**	**-3.6**	**-2.2**	**-2.1**	**-2.1**	**-2.2**
Adjustments to the traditional balance	**-0.7**	**-1.5**	**-0.9**	**-0.8**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**
Public Sector Borrowing Requirements 4/	**2.3**	**4.4**	**3.8**	**3.8**	**4.1**	**2.7**	**2.7**	**2.7**	**2.7**
Memorandum items									
Structural current spending	9.6	10.8	10.0						
Structural current spending real growth (y/y, in percent)	-2.6	2.8	-2.7						

Sources: Ministry of Finance and Public Credit; and IMF staff estimates.
1/ Data exclude state and local governments, and include state-owned enterprises and public development banks.
2/ Includes social assistance benefits.
3/ Due to lack of disaggregated data this item includes both financing and capital transfers.
4/ The 2020 PSBR is adjusted for some statistical discrepancies between above-the-line and below-the-line numbers.

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

(In percent of GDP)

				Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	**23.6**	**24.2**	**23.3**	**24.3**	**24.1**	**24.0**	**23.9**	**23.9**	**23.9**
Taxes	**13.1**	**14.3**	**13.6**	**13.6**	**14.1**	**14.1**	**14.1**	**14.1**	**14.2**
Taxes on income, profits and capital gains	6.9	7.5	7.2	7.9	7.7	7.7	7.7	7.7	7.7
Taxes on goods and services	5.7	6.2	5.8	5.2	5.8	5.9	5.9	5.9	6.0
Value added tax	3.8	4.2	4.3	4.4	4.4	4.4	4.4	4.4	4.5
Excises	1.9	2.0	1.5	0.8	1.4	1.4	1.4	1.4	1.4
Taxes on international trade and transactions	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other taxes	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Social contributions	**2.2**	**2.4**	**2.3**	**2.3**	**2.3**	**2.3**	**2.3**	**2.3**	**2.3**
Other revenue	**8.3**	**7.5**	**7.4**	**8.4**	**7.8**	**7.7**	**7.5**	**7.4**	**7.4**
Property income	3.4	3.3	2.7	3.1	2.4	2.2	2.2	2.2	2.1
Other	5.0	4.2	4.7	5.2	5.3	5.4	5.3	5.3	5.3
Total expenditure	**26.0**	**28.6**	**27.1**	**28.0**	**28.2**	**26.7**	**26.5**	**26.5**	**26.6**
Expense	**24.7**	**26.8**	**25.4**	**25.8**	**25.6**	**25.8**	**25.8**	**26.1**	**26.3**
Compensation of employees	3.2	3.6	3.3	3.3	3.3	3.3	3.3	3.3	3.4
Purchases of goods and services	3.7	3.7	3.6	3.2	3.3	3.2	3.1	3.2	3.2
Interest 2/	4.2	4.4	4.0	4.7	4.6	4.7	4.6	4.6	4.5
Subsidies and transfers	1.9	2.3	2.5	2.8	2.8	2.8	2.8	2.9	2.9
o/w fuel subsidy	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Grants 3/	8.0	8.4	7.8	7.9	8.1	8.1	8.1	8.1	8.1
Social benefits	3.6	4.1	4.0	4.1	4.3	4.4	4.5	4.6	4.7
Other expense	0.1	0.4	0.2	-0.2	-0.7	-0.7	-0.6	-0.6	-0.5
Net acquisition of nonfinancial assets 4/	**1.3**	**1.8**	**1.7**	**2.3**	**2.9**	**1.5**	**1.5**	**1.6**	**1.6**
Unspecified measures	**0.0**	**0.0**	**0.0**	**0.0**	**-0.2**	**-0.6**	**-0.8**	**-1.1**	**-1.3**
Gross Operating Balance	**-1.0**	**-2.7**	**-2.1**	**-1.5**	**-1.5**	**-1.8**	**-1.9**	**-2.2**	**-2.4**
Overall Fiscal Balance (Net lending/borrowing) 5/	**-2.3**	**-4.4**	**-3.8**	**-3.8**	**-4.1**	**-2.7**	**-2.7**	**-2.7**	**-2.7**
Primary net lending/borrowing	**1.4**	**-0.5**	**0.0**	**0.7**	**0.3**	**1.8**	**1.8**	**1.8**	**1.6**
Memorandum items									
Primary expenditure	21.8	24.2	23.1	23.3	23.7	22.0	21.9	21.9	22.1
Current expenditure	24.7	26.8	25.4	25.8	25.4	25.2	25.0	24.9	25.0
Structural fiscal balance	-1.9	-2.6	-3.1	-3.7	-4.1	-2.6	-2.6	-2.6	-2.7
Structural primary balance 6/	1.9	1.3	0.7	0.7	0.3	1.9	1.9	1.8	1.6
Fiscal impulse 7/	-0.4	0.6	0.6	-0.1	0.4	-1.6	0.0	0.1	0.1
Gross public sector debt 8/	53.3	60.1	57.6	56.2	57.7	58.2	58.6	58.9	59.3
In domestic currency (percentage of total debt)	69.7	67.6	69.3	68.1	67.0	65.7	65.5	65.2	65.2
In foreign currency (percentage of total debt)	30.3	32.4	30.7	31.9	33.0	34.3	34.5	34.8	34.8
Net public sector debt 9/	44.5	51.6	49.9	48.5	50.0	50.5	50.9	51.2	51.6

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

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

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

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

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

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

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

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

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

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

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

	2019	2020	2021	Proj. 2022	2023	2024	2025	2026	2027
Current account	**-3.4**	**27.1**	**-4.8**	**-17.3**	**-18.2**	**-17.2**	**-16.1**	**-15.0**	**-15.1**
Merchandise goods trade balance	5.2	34.2	-10.9	-27.4	-20.8	-10.4	-14.1	-13.6	-15.2
Exports, f.o.b. 2/	460.6	417.2	494.8	564.1	577.4	597.1	622.8	654.0	685.9
o/w Manufactures	410.8	373.8	436.1	488.0	494.3	508.0	534.6	561.7	589.2
o/w Petroleum and derivatives 1/	25.8	17.7	29.2	43.9	39.5	37.6	36.4	35.6	35.6
Imports, f.o.b. 2/	455.2	383.0	505.7	591.5	598.2	607.5	636.9	667.7	701.2
o/w Petroleum and derivatives 1/	47.2	31.4	53.9	75.9	69.3	63.8	62.8	62.0	62.3
Services, net	-7.9	-11.2	-11.6	-13.0	-13.8	-13.5	-14.3	-15.1	-15.9
Primary income, net	-36.9	-36.7	-33.6	-32.0	-39.7	-51.7	-49.4	-51.4	-52.3
Secondary income (mostly remittances), net	36.2	40.9	51.3	55.1	56.2	58.6	61.8	65.2	68.3
Capital Account, net	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial Account (Net lending (+)/Net borrowing (-))	**-16.1**	**21.3**	**-1.0**	**-17.4**	**-18.3**	**-17.2**	**-16.1**	**-15.0**	**-15.2**
Foreign direct investment, net	-23.7	-25.8	-33.0	-30.4	-32.9	-35.7	-38.7	-41.8	-45.1
Net acquisition of financial assets	6.0	5.6	0.4	5.8	6.2	6.7	7.2	7.9	8.7
Net incurrence of liabilities	29.7	31.4	33.4	36.2	39.1	42.4	45.9	49.7	53.8
Portfolio investment, net	-7.1	10.3	41.5	15.8	4.8	5.6	5.0	4.2	3.8
Net acquisition of financial assets	3.4	16.5	22.7	17.3	18.1	19.1	20.0	21.0	22.1
Net incurrence of liabilities	10.5	6.1	-18.9	1.5	13.4	13.5	15.0	16.8	18.3
Public Sector	3.5	0.5	-15.7	0.8	12.7	12.8	14.3	16.1	17.6
o/w Local currency domestic-issued bonds	1.3	-10.6	-13.6	-3.2	4.0	4.5	7.7	8.3	10.1
Private sector	7.0	5.6	-3.1	0.7	0.7	0.7	0.7	0.7	0.7
Securities issued abroad	7.0	5.4	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Equity	0.0	0.2	-3.2	0.5	0.5	0.5	0.5	0.5	0.5
Pidiregas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives, net	1.7	-1.8	2.1	0.7	0.7	0.7	0.7	0.7	0.7
Other investments, net	10.4	26.7	-21.9	-1.4	7.6	10.6	15.3	20.3	23.9
Net acquisition of financial assets	13.9	23.1	-9.5	-1.2	7.9	10.9	15.6	20.6	24.1
Net incurrence of liabilities	3.5	-3.6	12.4	0.3	0.3	0.3	0.3	0.3	0.3
Change in Reserves Assets	2.6	12.0	10.3	-2.0	1.6	1.6	1.6	1.6	1.6
Total change in gross reserves assets	6.6	16.0	8.7	-2.0	1.6	1.6	1.6	1.6	1.6
Valuation change	4.0	4.0	-1.6	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	**-12.7**	**-5.7**	**3.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
International Investment Position, net	**-615.0**	**-530.9**	**-544.0**	**-561.2**	**-561.8**	**-578.8**	**-594.8**	**-609.6**	**-624.6**
Memorandum items									
Hydrocarbons exports volume growth (in percent)	-22.1	10.1	-29.0	0.7	3.6	1.7	1.7	1.6	1.7
Non-hydrocarbons exports volume growth (in percent)	1.8	-5.0	6.0	5.3	-0.7	1.9	2.8	3.1	2.9
Hydrocarbons imports volume growth (in percent)	-12.9	-28.5	8.2	12.8	1.2	1.5	2.4	2.1	2.1
Non-hydrocarbons imports volume growth (in percent)	-0.4	-12.1	13.8	8.4	1.1	2.0	2.9	3.1	3.0
Crude oil export volume (in millions of bbl/day)	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.1	1.1
Gross international reserves (in billions of U.S. dollars)	183.0	199.1	207.7	205.7	207.4	209.0	210.7	212.3	213.9
Gross domestic product (in billions of U.S. dollars)	1,269.0	1,089.8	1,296.0	1,443.4	1,509.4	1,556.5	1,615.9	1,680.3	1,749.5

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)

	2019	2020	2021	Proj. 2022	2023	2024	2025	2026	2027
Current account	**-0.3**	**2.5**	**-0.4**	**-1.2**	**-1.2**	**-1.1**	**-1.0**	**-0.9**	**-0.9**
Merchandise goods trade balance	0.4	3.1	-0.8	-1.9	-1.4	-0.7	-0.9	-0.8	-0.9
Exports, f.o.b. 2/	36.3	38.3	38.2	39.1	38.3	38.4	38.5	38.9	39.2
o/w Manufactures	32.4	34.3	33.6	33.8	32.7	32.6	33.1	33.4	33.7
o/w Petroleum and derivatives 1/	2.0	1.6	2.3	3.0	2.6	2.4	2.3	2.1	2.0
Imports, f.o.b. 2/	35.9	35.1	39.0	41.0	39.6	39.0	39.4	39.7	40.1
o/w Petroleum and derivatives 1/	3.7	2.9	4.2	5.3	4.6	4.1	3.9	3.7	3.6
Services, net	-0.6	-1.0	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Primary income, net	-2.9	-3.4	-2.6	-2.2	-2.6	-3.3	-3.1	-3.1	-3.0
Secondary income (mostly remittances), net	2.9	3.8	4.0	3.8	3.7	3.8	3.8	3.9	3.9
Capital Account, net	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial Account (Net lending (+)/Net borrowing (-))	**-1.3**	**2.0**	**-0.1**	**-1.2**	**-1.2**	**-1.1**	**-1.0**	**-0.9**	**-0.9**
Foreign direct investment, net	-1.9	-2.4	-2.5	-2.1	-2.2	-2.3	-2.4	-2.5	-2.6
Net acquisition of financial assets	0.5	0.5	0.0	0.4	0.4	0.4	0.4	0.5	0.5
Net incurrence of liabilities	2.3	2.9	2.6	2.5	2.6	2.7	2.8	3.0	3.1
Portfolio investment, net	-0.6	0.9	3.2	1.1	0.3	0.4	0.3	0.2	0.2
Net acquisition of financial assets	0.3	1.5	1.7	1.2	1.2	1.2	1.2	1.3	1.3
Net incurrence of liabilities	0.8	0.6	-1.5	0.1	0.9	0.9	0.9	1.0	1.0
Public Sector	0.3	0.0	-1.2	0.1	0.8	0.8	0.9	1.0	1.0
o/w Local currency domestic-issued bonds	0.1	-1.0	-1.0	-0.2	0.3	0.3	0.5	0.5	0.6
Private sector	0.5	0.5	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Securities issued abroad	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Pidiregas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives, net	0.1	-0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other investments, net	0.8	2.4	-1.7	-0.1	0.5	0.7	0.9	1.2	1.4
Net acquisition of financial assets	1.1	2.1	-0.7	-0.1	0.5	0.7	1.0	1.2	1.4
Net incurrence of liabilities	0.3	-0.3	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in Reserves Assets	0.2	1.1	0.8	-0.1	0.1	0.1	0.1	0.1	0.1
Total change in gross reserves assets	0.5	1.5	0.7	-0.1	0.1	0.1	0.1	0.1	0.1
Valuation change	0.3	0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	**-1.0**	**-0.5**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
International Investment Position, net	**-48.5**	**-48.7**	**-42.0**	**-38.9**	**-37.2**	**-37.2**	**-36.8**	**-36.3**	**-35.7**

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 5. Mexico: Financial Soundness Indicators
(In percent)

	2016	2017	2018	2019	2020	2021	2022Q2
Capital Adequacy							
Regulatory capital to risk-weighted assets	14.9	15.6	15.9	16.0	17.7	19.5	18.7
Regulatory Tier 1 capital to risk-weighted assets	13.2	14.2	14.2	14.4	16.1	18.1	17.3
Capital to assets	9.9	10.4	10.7	11.0	10.7	11.8	10.8
Gross asset position in financial derivatives to capital	91.8	71.1	63.3	51.3	83.1	49.1	60.2
Gross liability position in financial derivatives to capital	96.5	76.0	63.9	52.6	85.1	49.7	59.7
Asset Quality							
Nonperforming loans to total gross loans	2.1	2.1	2.1	2.1	2.4	2.0	2.3
Provisions to Nonperforming loans	157.1	154.9	152.4	146.2	160.1	160.5	143.4
Earnings and Profitability							
Return on assets	1.7	2.0	2.2	2.2	1.2	2.1	1.9
Return on equity	16.3	19.6	20.9	20.5	11.7	18.6	17.4
Interest margin to gross income	73.8	73.3	74.5	74.3	76.0	72.7	76.0
Trading income to total income	4.4	5.0	4.5	5.8	5.5	6.7	9.4
Liquidity							
Liquid assets to short-term liabilities	31.4	32.0	31.6	31.1	35.7	36.3	38.5
Liquid assets to total assets	42.4	42.2	42.3	40.8	48.0	47.0	49.8
Customer deposits to total (noninterbank) loans	88.9	91.4	89.3	90.7	100.2	105.2	99.5
Trading income to total income	0.8	1.1	1.2	2.9	1.8	0.1	2.2

Sources: Mexican Authorities; and IMF Financial Soundness Indicators.

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

	2019	2020	2021	2022	Latest data available
Financial market indicators					
Exchange rate (per U.S. dollar, period average)	19.3	21.5	20.3	20.3	Jun-22
(year-to-date percent change, + appreciation)	-0.1	-11.5	5.6	-0.6	Jun-22
28-day treasury auction rate (percent; period average)	7.8	5.3	4.4	6.4	Jun-22
EMBIG Mexico spread (basis points; period average)	318.2	474.4	354.2	380.9	Jun-22
Sovereign 10-year local currency bond yield (period average)	7.6	6.3	6.9	8.4	Jun-22
Stock exchange index (period average, year on year percent change)	-8.8	-9.0	26.4	9.8	Jun-22
Financial system					
Bank of Mexico net international reserves (US$ billion)	180.9	195.7	202.4	200.4	Proj.
Financial system credit on non-financial private sector (year on year percent change) 1/	3.0	1.5	4.1	10.7	Proj.
Nonperforming loans to total gross loans (deposit takers)	2.1	2.4	2.0	2.3	Jun-22
External vulnerability indicators					
Gross financing needs (billions of US$) 2/	102.2	76.4	94.3	81.2	Proj.
Gross international reserves (end-year, billions of US$) 3/	183.0	199.1	207.7	203.6	Jun-22
Change (billions of US$)	6.6	16.0	8.7	-2.9	Jun-22
Months of imports of goods and services	4.4	5.8	4.6	3.9	Proj.
Months of imports plus interest payments	4.2	5.5	4.4	3.7	Proj.
Percent of broad money	37.3	37.9	37.3	32.9	Proj.
Percent of portfolio liabilities	35.0	38.2	40.8	40.3	Proj.
Percent of short-term debt (by residual maturity)	209.3	242.8	315.2	284.2	Proj.
Percent of ARA Metric 4/	116.2	128.5	131.2	123.3	Proj.
Percent of GDP	14.4	18.3	16.0	14.9	Mar-22
Gross total external debt (in percent of GDP)	36.6	42.6	34.6	31.6	Proj.
Of which: In local currency	9.0	8.7	6.2	5.3	Proj.
Of which: Public debt	24.6	28.6	22.8	20.6	Proj.
Of which: Private debt	12.0	14.0	11.8	11.1	Proj.
Financial sector	2.1	2.1	1.8		
Nonfinancial sector	9.9	11.8	10.0		
Gross total external debt (billions of US$)	464.8	463.8	447.8	456.6	Proj.
Of which: In local currency	114.0	95.0	80.0	76.8	Proj.
Of which: Public debt	312.4	311.7	295.2	297.0	Proj.
Of which: Private debt	152.4	152.1	152.7	159.6	Proj.
Financial sector	26.8	23.0	22.9		
Nonfinancial sector	125.5	129.1	129.8		
External debt service (in percent of GDP)	9.3	10.2	8.0	6.2	Proj.

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

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

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

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

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

Table 7. Mexico: Baseline Medium-Term Projections

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Proj.					
National accounts (in real terms, contributions to growth) 1/									
GDP	-0.2	-8.1	4.8	2.1	1.2	1.8	2.1	2.1	2.1
Consumption	0.0	-7.0	5.1	4.5	0.9	1.3	1.7	1.7	1.7
Private	0.2	-7.0	4.9	4.3	0.6	1.0	1.4	1.4	1.4
Public	-0.2	0.0	0.1	0.1	0.2	0.3	0.3	0.3	0.3
Investment	-1.1	-3.8	1.9	1.0	0.4	0.3	0.4	0.4	0.4
Fixed	-1.0	-3.4	1.6	1.1	0.3	0.3	0.4	0.4	0.4
Private	-0.5	-3.2	1.5	1.0	0.3	0.3	0.3	0.3	0.3
Public	-0.4	-0.2	0.1	0.1	0.0	0.0	0.1	0.1	0.1
Inventories	-0.2	-0.4	0.2	-0.1	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	0.5	-2.7	2.6	2.3	-0.2	0.7	1.1	1.2	1.1
Oil exports	-0.2	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil exports	0.7	-2.8	2.8	2.3	-0.3	0.7	1.1	1.2	1.1
Imports of goods and services	-0.3	-5.1	4.7	3.3	0.4	0.8	1.2	1.3	1.2
Oil imports	-0.1	-0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Non-oil imports	-0.1	-4.9	4.7	3.3	0.4	0.8	1.1	1.2	1.2
Net exports	0.8	2.4	-2.2	-1.0	-0.7	-0.1	-0.1	-0.1	-0.1
Consumer prices									
End of period	2.8	3.2	7.4	8.5	4.8	3.5	3.2	3.1	3.0
Average	3.6	3.4	5.7	8.0	6.3	3.9	3.3	3.1	3.0
External sector									
Current account balance (in percent of GDP)	-0.3	2.5	-0.4	-1.2	-1.2	-1.1	-1.0	-0.9	-0.9
Non-hydrocarbon current account balance (in percent of GDP)	1.4	3.7	1.5	1.0	0.8	0.6	0.6	0.7	0.7
Exports of goods, f.o.b.	2.2	-9.4	18.6	14.0	2.4	3.4	4.3	5.0	4.9
Imports of goods, f.o.b.	-2.0	-15.9	32.0	17.0	1.1	1.5	4.8	4.8	5.0
Terms of trade (improvement +)	2.2	-1.2	-2.9	0.5	3.0	1.9	-0.4	0.2	-0.1
Crude oil export price, Mexican mix (US$/bbl)	56.0	35.8	64.8	91.4	79.6	74.6	70.9	68.2	67.0
Non-financial public sector									
Overall balance	-2.3	-4.4	-3.8	-3.8	-4.1	-2.7	-2.7	-2.7	-2.7
Primary balance	1.4	-0.5	0.0	0.7	0.3	1.8	1.8	1.8	1.6
Saving and investment 2/									
Gross domestic investment	21.2	19.2	20.2	21.0	21.3	21.4	21.4	21.4	21.4
Fixed investment	20.6	18.9	19.7	20.6	20.9	21.0	21.0	21.1	21.1
Public	2.5	2.7	2.9	2.8	2.9	2.9	2.9	2.9	2.9
Private	18.1	16.2	16.8	17.8	18.1	18.2	18.2	18.2	18.2
Gross domestic saving	20.9	21.7	19.8	19.8	20.1	20.3	20.4	20.5	20.6
Public	0.2	-1.7	-0.9	-1.0	-1.3	0.2	0.2	0.2	0.2
Private	20.7	23.4	20.8	20.8	21.4	20.1	20.2	20.3	20.4
Memorandum items									
Financial system credit to non-financial private sector (nominal y/y growth)	3.0	1.5	4.1	10.7	8.1	6.5	6.6	6.5	6.4
Output gap (in percent of potential GDP)	-1.0	-4.7	-2.0	-0.6	-1.2	-1.1	-0.7	-0.3	-0.1
Total population 3/	1.0	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.8
Working-age population 3/	1.3	1.2	1.1	1.1	1.0	0.9	0.9	0.8	0.8

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

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

	2018	2019	2020	2021	Proj. 2022
Banco de México					
Net foreign assets	3,408	3,397	3,876	3,941	3,866
Net international reserves	3,471	3,457	3,966	4,254	4,173
Gross international reserves 2/	3,472	3,457	3,966	4,254	4,173
Reserve liabilities	1	0	0	0	0
Other net foreign assets	-63	-60	-90	-312	-306
Net domestic assets	-1,734	-1,654	-1,758	-1,500	-1,156
Net domestic credit	-1,622	-1,706	-1,640	-1,376	-1,558
Net credit to non-financial public sector	-1,525	-1,640	-1,778	-1,400	-1,558
Credit to non-financial private sector	0	0	0	0	0
Net credit to financial corporations	-97	-66	138	24	0
Net claims on other depository corporations	-97	-66	138	24	0
Net claims on other financial corporations	0	0	0	0	0
Capital account	54	-113	53	52	-466
Other items net	-59	-61	-64	-72	-64
Monetary base	1,674	1,742	2,118	2,441	2,710
Other Depository Corporations					
Net foreign assets	-12	-60	142	340	378
Foreign assets	860	738	940	1,013	1,125
Foreign liabilities	873	798	798	672	747
Net domestic assets	8,140	8,646	9,230	9,863	11,067
Net credit to the public sector	3,190	3,750	4,197	4,398	4,891
Claims on non-financial public sector	3,688	4,214	4,602	4,840	5,383
in pesos	3,528	4,037	4,400	4,661	5,189
in FX	160	178	202	178	194
Liabilities to the nonfinancial public sector	499	464	405	442	492
Credit to the private sector	6,304	6,976	6,708	7,011	7,759
Local Currency	5,538	6,198	5,984	6,238	6,924
Foreign Currency	766	778	724	773	835
Net credit to the financial system	937	868	689	806	825
Other	-2,282	-2,948	-2,364	-2,351	-2,408
Liabilities to the private sector	8,128	8,586	9,372	10,204	11,444
Liquid liabilities	7,327	7,688	8,572	9,248	10,385
Local currency	6,710	7,112	7,905	8,481	9,557
Foreign currency	617	575	667	766	828
Non liquid liabilities	801	898	800	956	1,060
Local currency	765	861	762	915	1,016
Foreign currency	36	38	38	41	44
Total Banking System					
Net foreign assets	3,396	3,336	4,017	4,285	4,244
Net domestic assets	6,406	6,992	7,472	8,363	9,911
Liquid liabilities	9,001	9,430	10,691	11,688	13,095
Non-liquid liabilities	801	898	800	956	1,060
Memorandum items					
Monetary base (percent change)	8.3	4.1	21.6	15.2	11.0
Currency in circulation (percent change)	8.9	3.6	23.0	16.8	11.0
Broad money (percent change)	4.5	4.7	13.4	9.5	11.0
Bank credit to the non-financial private sector (growth rate)	6.9	10.7	-3.8	4.5	10.7
Bank credit to the non-financial private sector (as percent of GDP)	26.8	28.5	28.6	26.7	26.5

Source: Bank of Mexico, National Institute of Statistics and Geography and Fund staff estimates.
1/ Data of the monetary sector are prepared based on the IMF's methodological criteria and do not necessarily coincide with the definitions published by Bank of Mexico.
2/ Excludes balances under bilateral payments accounts. Includes SDR2.337 billion of the general SDR allocation and SDR 0.224 billion of the special SDR allocation in 2009, and SDR 8.542 billion in the general SDR allocation in 2021.

Table 9. Mexico: External Debt Sustainability Framework

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2017	2018	2019	2020	2021			2022	2023	2024	2025	2026	2027	Debt-stabilizing non-interest current account 6/
Baseline: External debt	37.7	36.6	36.6	42.6	34.5			**32.0**	**32.3**	**32.6**	**32.9**	**33.2**	**33.4**	**-2.0**
Change in external debt	-0.6	-1.1	0.1	5.9	-8.0			-2.5	0.3	0.3	0.2	0.3	0.3	
Identified external debt-creating flows (4+8+9)	-4.0	-2.3	-3.6	0.3	-7.8			-1.5	-1.3	-1.7	-2.1	-2.3	-2.4	
Current account deficit, excluding interest payments	-0.1	0.1	-1.8	-4.7	-1.3			-0.5	-0.9	-1.2	-1.2	-1.2	-1.2	
Deficit in balance of goods and services	-77.3	-80.6	-77.9	-77.6	-82.2			-86.1	-83.4	-82.7	-83.2	-84.0	-84.6	
Exports	37.7	39.3	38.8	39.9	40.2			41.8	40.6	40.6	40.8	41.2	41.5	
Imports	-39.5	-41.3	-39.0	-37.8	-42.0			-44.3	-42.8	-42.1	-42.5	-42.8	-43.2	
Net non-debt creating capital inflows (negative)	-3.0	-2.2	-2.5	-2.1	-1.8			-2.0	-2.2	-2.3	-2.4	-2.5	-2.6	
Automatic debt dynamics 1/	-0.9	-0.2	0.7	7.1	-4.6			1.0	1.7	1.7	1.5	1.4	1.3	
Contribution from nominal interest rate	1.8	1.9	2.1	2.2	1.7			1.7	2.1	2.3	2.2	2.1	2.0	
Contribution from real GDP growth	-0.8	-0.8	0.1	3.4	-1.7			-0.7	-0.4	-0.6	-0.7	-0.7	-0.7	
Contribution from price and exchange rate changes 2/	-2.0	-1.3	-1.4	1.4	-4.6			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	3.4	1.2	3.6	5.6	-0.3			-1.0	1.6	2.0	2.3	2.5	2.7	
External debt-to-exports ratio (in percent)	99.8	93.1	94.3	106.8	85.8			76.7	79.6	80.4	80.7	80.6	80.6	
Gross external financing needs (in billions of US dollars) 4/	95.4	95.4	95.6	60.3	85.6			83.4	93.1	90.6	84.0	84.9	89.9	
in percent of GDP	8.2	7.8	7.5	5.5	6.6	10-Year	10-Year	5.9	6.3	5.9	5.3	5.1	5.2	
Scenario with key variables at their historical averages 5/								**32.0**	**32.8**	**33.9**	**35.4**	**37.3**	**39.6**	**-0.9**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	2.1	2.2	-0.2	-8.1	4.8	1.5	3.6	2.1	1.2	1.8	2.1	2.1	2.1	
GDP deflator in US dollars (change in percent)	5.2	3.2	4.0	-6.6	13.6	-0.1	8.2	7.5	2.5	1.6	1.7	1.9	2.0	
Nominal external interest rate (in percent)	5.2	5.2	5.9	5.2	4.8	5.2	0.4	5.4	6.7	7.3	7.0	6.5	6.3	
Growth of exports (US dollar terms, in percent)	9.8	9.8	2.6	-11.8	20.2	4.0	8.7	14.0	0.7	3.5	4.4	5.0	4.9	
Growth of imports (US dollar terms, in percent)	8.9	10.3	-1.9	-16.9	32.4	4.2	12.5	16.0	0.1	1.6	4.9	4.9	5.0	
Current account balance, excluding interest payments	0.1	-0.1	1.8	4.7	1.3	0.5	1.7	0.5	0.9	1.2	1.2	1.2	1.2	
Net non-debt creating capital inflows	3.0	2.2	2.5	2.1	1.8	2.4	0.5	2.0	2.2	2.3	2.4	2.5	2.6	

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					
	2022	2023	2024	2025	2026	2027
Stocks from prospective drawings 1/						
Fund credit in millions SDR	35,651	35,651	35,651	35,651	17,825	0
In percent of quota	400	400	400	400	200	0
In percent of GDP	3	4	4	3	2	0
In percent of exports of goods and services	8	8	7	7	3	0
In percent of gross reserves	19	23	23	22	11	0
Flows from prospective drawings 2/						
Charges in millions of SDR	178	1,498	1,563	1,562	1,353	408
Debt service due on GRA credit in millions of SDR	178	1,498	1,563	1,562	19,178	18,234
In percent of quota	2.0	16.8	17.5	17.5	215.2	204.6
In percent of GDP	0.0	0.2	0.2	0.1	1.7	1.5
In percent of exports of goods and services	0.0	0.3	0.3	0.3	3.8	3.4
In percent of gross reserves	0.1	1.0	1.0	1.0	12.2	12.1
Memo Item:						
Total external debt (percent of GDP)	35.8	40.5	39.8	38.9	36.4	34.0

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 under an adverse scenario. The scenario assumes inter alia decline in US growth and tighter global financial conditions. The Mexican authorities have expressed their intention to treat the arrangement as precautionary.

2/ Based on the rate of charge as of October 20, 2022. Includes GRA charges, surcharges under the system currently in place, and service charges.