INTERNATIONAL MONETARY FUND

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MEXICO

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT

November 2013

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

- The **Staff Report** on the review under the Flexible Credit Line Arrangement, prepared by a staff team of the IMF for the Executive Board's consideration on November 25, 2013. Based on information available at the time, the staff report was completed on November 11, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A **Press Release** including a statement by the Chair of the Executive Board.

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

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EXECUTIVE SUMMARY

- **Background and Outlook.** Mexico has been resilient to global uncertainty, in large part due to confidence in the strong policy framework and sound policy management, which are underpinned by a broad consensus about macroeconomic stability and by the signaling and insurance benefits of the FCL arrangement. Significant progress has been made in advancing far-reaching structural reforms, signaling Mexico's commitment to address deep-rooted impediments to growth. The economy slowed down in early 2013, but is expected to recover starting in the second half of the year. Mexico's financial markets have functioned reasonably well through the recent global volatility, although with some currency depreciation and a rise in long-term government bond yields. Given Mexico's open capital account and large balance sheet exposures to portfolio investment, risks are associated with unsettled external conditions, especially the risk of a possible disorderly exit from Unconventional Monetary Policy (UMP) in the U.S.

- **FCL.** The fourth arrangement with Mexico under the FCL for 1,304 percent of quota (in an amount equivalent to SDR 47.292 billion) was approved on November 30, 2012. The authorities intend to continue treating the arrangement as precautionary.

- **Qualifications.** The staff assess that Mexico continues to meet the qualification criteria for access to FCL resources specified under the Executive Board decision on FCL arrangements (Decision No. 14283-(09/29), adopted on March 24, 2009, as amended) and therefore recommend that the Board completes the review under the FCL arrangement which would allow Mexico to make purchases before the expiration of the arrangement on November 29, 2014.

Approved By
Adrienne Cheasty and Vivek Arora

This report was prepared by a staff team comprising Robert Rennhack, Esteban Vesperoni, Herman Kamil (all WHD), Phil de Imus (SPR), Roberto Guimaraes-Filho (MCM), and Santiago Acosta Ormaechea (FAD).

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CONTEXT

1. Mexico's resilience in the face of global uncertainty comes in large part from confidence in the economic policy framework. Mexico's strong policy framework and sound policy management are underpinned by a deep-rooted consensus for macroeconomic stability, and have been critical in a period of protracted global volatility. Fiscal policy has been guided by the Fiscal Responsibility Law (FRL), while monetary policy operates under an inflation targeting framework. The financial regulatory and supervisory framework is sound and banks are well-capitalized, profitable and liquid. There has been no recourse to capital flow management measures and the macro-prudential framework limits maturity and currency mismatches in the financial system. Mexico's international reserve position is adequate, and the FCL arrangement continues to serve as a key complement to reserves in the event that global tail risks materialize.

2. The government that took office last December is pursuing an ambitious agenda of structural reforms. Congress has approved a broad fiscal reform, significantly enhancing the fiscal policy framework, reforming the main taxes, broadening access to financial services and introducing a universal pension scheme and unemployment insurance. Currently under discussion is a fundamental reform to the energy sector, which would open the door to private investment. The latter aimed at enhancing Mexico's already strong financial regulatory framework and increase competition, in line with FSAP recommendations. Laws have already been approved to upgrade public education, make labor markets more flexible, and foster competition in telecommunications. Few, if any, other countries are undertaking such a broad agenda of transformative structural reforms.

3. Mexico's successive FCL arrangements have supported the authorities' policies by providing a buffer against global tail risks. Mexico pioneered the use of this instrument with the first FCL arrangement in an amount of SDR 31.5 billion approved in April 2009, and a successor arrangement in the same amount on March 2010. The third arrangement in January 2011 increased access to SDR 47.3 billion on account of heightened global risks, and this nominal level of access was maintained in the fourth arrangement. The authorities consider the FCL arrangement as an effective complement to their own international reserves buffers, and continue to treat the facility as a precautionary instrument. During the recent bout of global volatility, market participants and rating agencies highlighted the insurance and signaling role played by the FCL arrangement.

RECENT ECONOMIC AND POLICY DEVELOPMENTS

4. In the face of a dip in growth in 2013, policy management has retained confidence in the strength of Mexico's fundamentals. Growth has slowed unexpectedly in 2013, but medium term prospects remain sound. Weakening external demand, a decline in construction activity, and lower government spending trimmed GDP growth in the first half of 2013. While a recovery in U.S. manufacturing and public investment is supporting activity in the second half of the year, GDP growth would still slow to 1.2 percent—from 3.6 percent in 2012. Growth is projected to pick up to

3 percent in 2014; and further to 3½ to 4 percent in coming years, as structural reforms gradually boost potential growth. Headline inflation is projected at about 3½ percent for end-2013. The banking system has been resilient, with adequate profitability and capitalization. The external current account balance and the real effective exchange rate are consistent with underlying fundamentals and desired policies.

5. The policy mix in 2013 has combined a supportive monetary policy with no major change in the stance of fiscal policy. The central bank has responded to the slowdown in activity by reducing the policy rate by 100 basis points to 3.5 percent. Staff considers that the monetary policy stance is appropriate taking into account the slow-down in economic activity in the first half of 2013—which has opened up a negative output gap. In the first half of the year, despite weak oil revenue, the public sector borrowing requirement (PSBR) fell to 1.0 percent of GDP, as tax revenues performed well while the government under-executed its spending program and scaled back fuel subsidies. During the second half of the year, though, a recovery in public spending is giving place to some fiscal stimulus, and the PSBR is expected to reach 4.1 percent of GDP this year, compared with 3.7 percent of GDP in 2012.

6. Fiscal deficits in 2012 and 2013 will exceed previous projections, and this prompted the authorities to strengthen the fiscal framework. While budgetary spending was in line with projections, revenues were sluggish and net inflows to the oil stabilization funds failed to materialize. In light of this, the FRL has been amended to build on the strengths of the previous fiscal framework by making the PSBR a fiscal target in addition to the traditional deficit—hence providing a closer link between fiscal policy and public debt. The amendments also require the government to set a cap on real expenditure growth— to help contain spending, especially during periods of revenue windfalls—and the tax reform would boost revenue collection. The government defined a path for the PSBR to reduce it to 2.5 percent of GDP by 2017—a medium-term anchor that would gradually lower public debt.

7. The flexible exchange rate regime has continued to play a key buffering role in the recent episode of heightened global risk aversion. Mexico is well positioned to let the exchange rate play this role given the well-anchored inflation expectations and cyclical position—which further limits an already low pass through from the exchange rate to prices—and resilient public and private sector balance sheets. External vulnerabilities are low, with a small external current account deficit and a moderate external debt in relation to GDP. The central bank has continued to build up its international reserve buffers, mainly by acquiring net foreign exchange receipts from Pemex. As of end September 2013, gross international reserves stood at US$172 billion, about US$9 billion higher than at the time of the approval of the most recent FCL arrangement in November 2012.

8. The economy continues to face an uncertain external environment, mainly associated with changing expectations about U.S. monetary policy. The announcement of exit from UMP in the U.S. has already triggered an increase in long-term government bond yields, high volatility in the exchange rate, and some portfolio outflows. The fiscal debate in the U.S. could also resurface and lead to volatile financial markets. Other possible risks would be related to the re-emergence of financial stress in the euro area as a result of stalled or incomplete delivery of policy commitments at the national or Euro area level, a negative assessment of the asset quality review combined with insufficient backstops, or adverse developments in some peripheral countries. A deeper than expected slowdown in China and other EMs could also drive up global risk aversion, triggering a selloff of emerging market assets. Contagion risks and international financing conditions are particularly relevant for Mexico, given its high integration with international capital markets and the large foreign participation in bond and equity markets.

9. The authorities highlighted that the FCL arrangement remains a critical support to their macroeconomic strategy, providing an insurance against tail risks. They reaffirmed the usefulness of the FCL as a complement to reserves and to reassure markets of Mexico's strong policy framework. The authorities considered that external risks remain elevated, and most likely subject to protracted uncertainty due to the unwinding of unconventional monetary policies in advanced economies, the next round of discussions on the U.S. debt limit as well as the ongoing structural challenges facing Europe. In this context, the authorities stressed that they will continue taking stock of evolving global conditions, and that they intend to take further steps towards exit when global conditions allow.

REVIEW OF QUALIFICATIONS

10. Staff assesses that Mexico continues to meet the qualification criteria for an arrangement under the FCL arrangement. The authorities have continued to implement very strong policies in line with their frameworks. Monetary policy has continued to be guided by the inflation targeting framework in the context of the flexible exchange regime, while fiscal policy has been anchored by the fiscal responsibility law. Moreover, congress has already approved reforms to the fiscal policy framework that will strengthen the fiscal anchor, showing that the authorities remain committed to maintaining such policies in the future.

11. Underpinned by these policy frameworks, the authorities remain committed to take appropriate actions if downside risks materialize. In the context of its very strong policy track record and frameworks, Mexico retains policy space to contain the fallout from the materialization of downside risks:

- **Sustainable external position.** The updated external debt sustainability analysis (Figure 1) continues to show that Mexico's external debt remains moderate (below 30 percent of GDP) and is expected to remain stable over the medium term even if shocks were to materialize. This reflects the low current account deficits and a manageable net foreign asset position at minus 40 percent of GDP.

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

- **Track record of steady sovereign access to international capital markets at favorable terms.** Mexico is among the highest rated emerging markets and its sovereign spreads remain low. Mexico's 10-year local-currency government bond yields increased during the recent surge in global risk aversion, but they have partially reversed—yields increased by around 170 bps between mid-May and end-August, but declined by around 40 bps to about 6 percent since then. Despite the initial volatility after the Fed's announcement, the sovereign issued in local-currency and in Japanese yen at historically low coupon rates in July, and issued a U.S. dollar bond at a spread of 135 basis points over U.S. Treasuries in September, narrower than its previous issue.

- **Relatively comfortable reserve position.** Gross international reserves reached US$172 billion at end-September, about US$9 billion above the level at the time of the approval of the latest FCL arrangement. This level is adequate relative to standard reserve coverage indicators (Figure 2).

- **Sustainable public debt position and sound public finances.** Fiscal policy remains underpinned by the rules in the fiscal responsibility law and the authorities' commitment to keep the augmented public sector deficit at a level that stabilizes the total public debt-to-GDP ratio. Despite a slower than envisaged fiscal consolidation, the updated debt sustainability analysis continues to show that the public debt ratio presents a downward trend over the medium term, and suggests that the debt trajectory is broadly robust to standard shocks (Figures 3 and 4). The fiscal outlook remains sensitive to growth and the evolution of oil prices, but the budget fiscal rules provide assurances of fiscal sustainability.

- **Low and stable inflation.** Inflation has converged close to the 3 percent inflation target. Headline inflation stood at 3.4 percent in September and core inflation reached historical lows at 2.5 percent. Inflation expectations remain firmly anchored at 3.5 percent.

- **Absence of systemic bank solvency problems that pose an immediate threat of banking crisis.** As of July 2013, the system's capital adequacy ratio stood at 15.6 percent, largely unchanged from a year ago. Larger banks generally have more comfortable ratios, but even the smallest banks are well above the new regulatory minimum adopted after the implementation of Basel III.

- **Effective financial sector supervision.** The 2011 FSAP Update concluded that Mexico's overall financial sector supervision framework remains effective. Furthermore, Mexico is one of the early adopters of Basel III capital requirements, and the authorities monitor closely the operations of foreign bank subsidiaries—about 70 percent of banking system assets—to ensure compliance with regulatory norms and restrict potential funding drains.

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

SAFEGUARDS ASSESSMENT

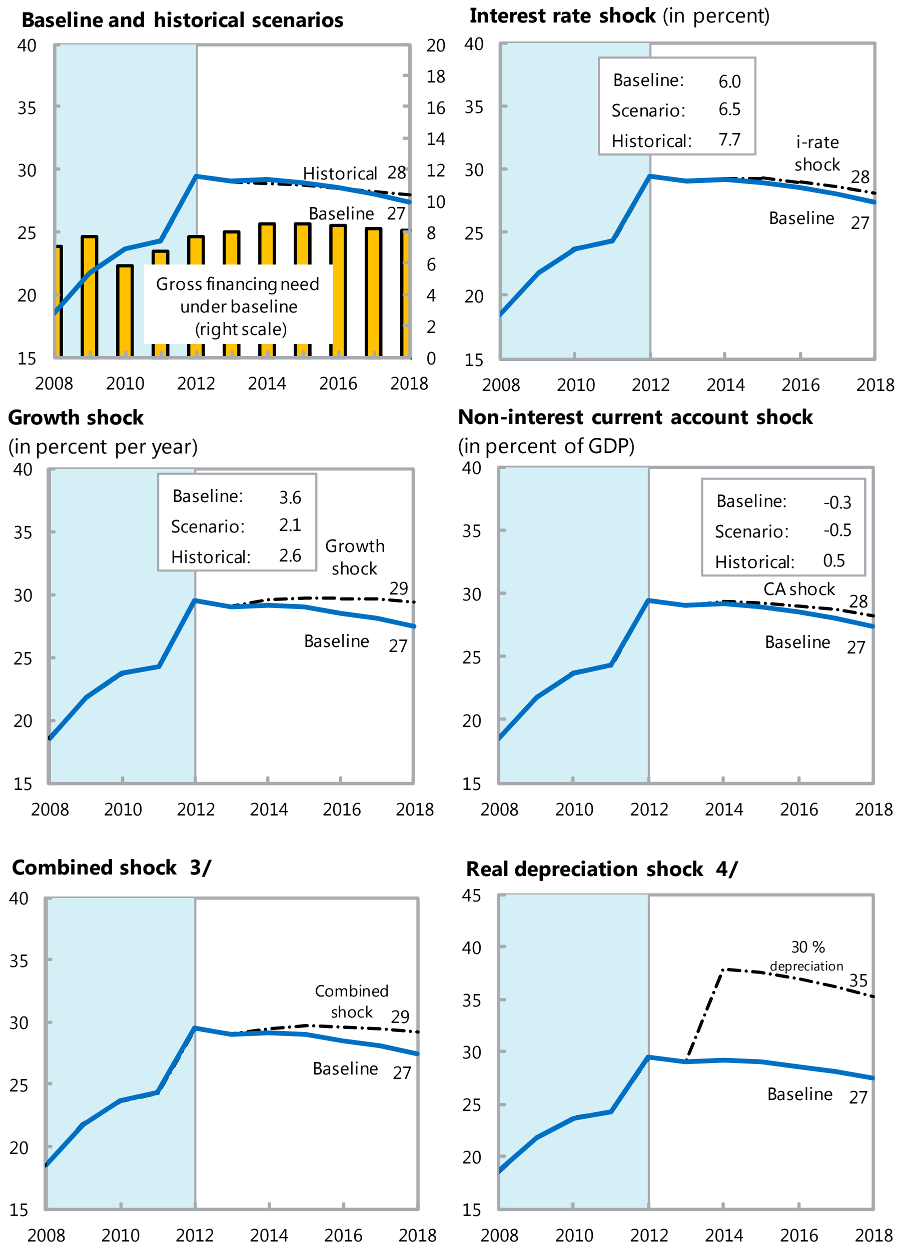
12. Staff has completed the safeguards procedures for Mexico's FCL arrangement. The authorities provided the necessary authorization for Fund staff to communicate directly with the Bank of Mexico's external auditor, PricewaterhouseCoopers (PwC) Mexico. PwC issued an unqualified audit opinion on the bank's 2012 financial statements on March 27, 2013. Staff reviewed the 2012 audit results and discussed these with PwC. No significant safeguards issues emerged from the conduct of these procedures.

STAFF APPRAISAL

13. The FCL arrangement for Mexico has supported a reduction in perception of tail risks and contributed to maintaining orderly conditions in financial markets. The lowered perception of risks, together with skillful policy management, has been instrumental to Mexico's resilience during recent bouts of emerging market and global financial stress.

14. Staff assesses that Mexico continues to meet the qualification criteria for access to FCL resources and remains committed to responding appropriately to actual or potential balance of payments difficulties. In view of this, staff recommends completion of the review under the FCL arrangement for Mexico, subject to the Board's assessment in the context of the 2013 Article IV consultation.

Figure 1. Mexico: External Debt Sustainability Analysis 1/ 2/



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2013.

Figure 2. Mexico: Cross-Country Indicators of Reserve Adequacy

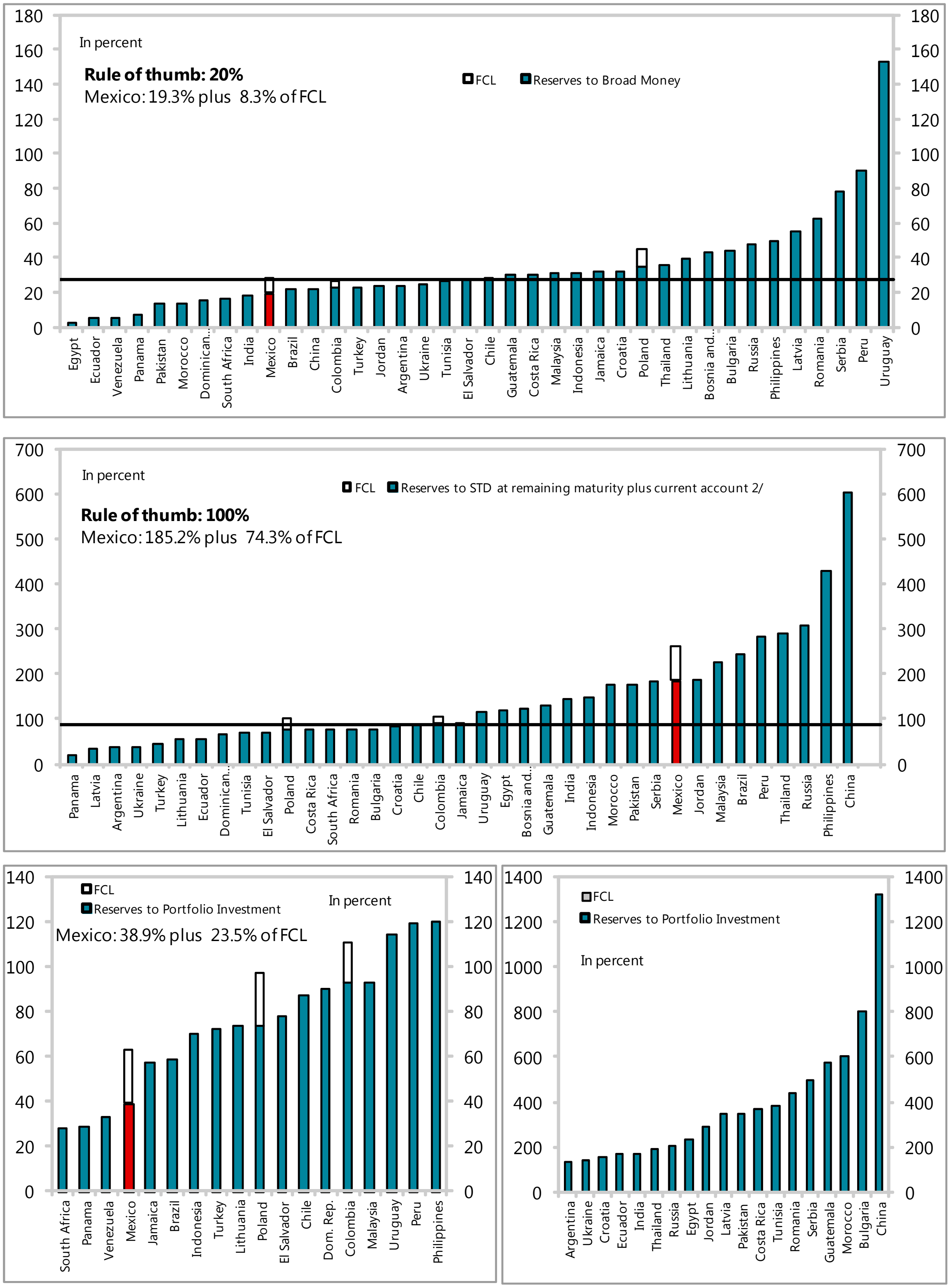
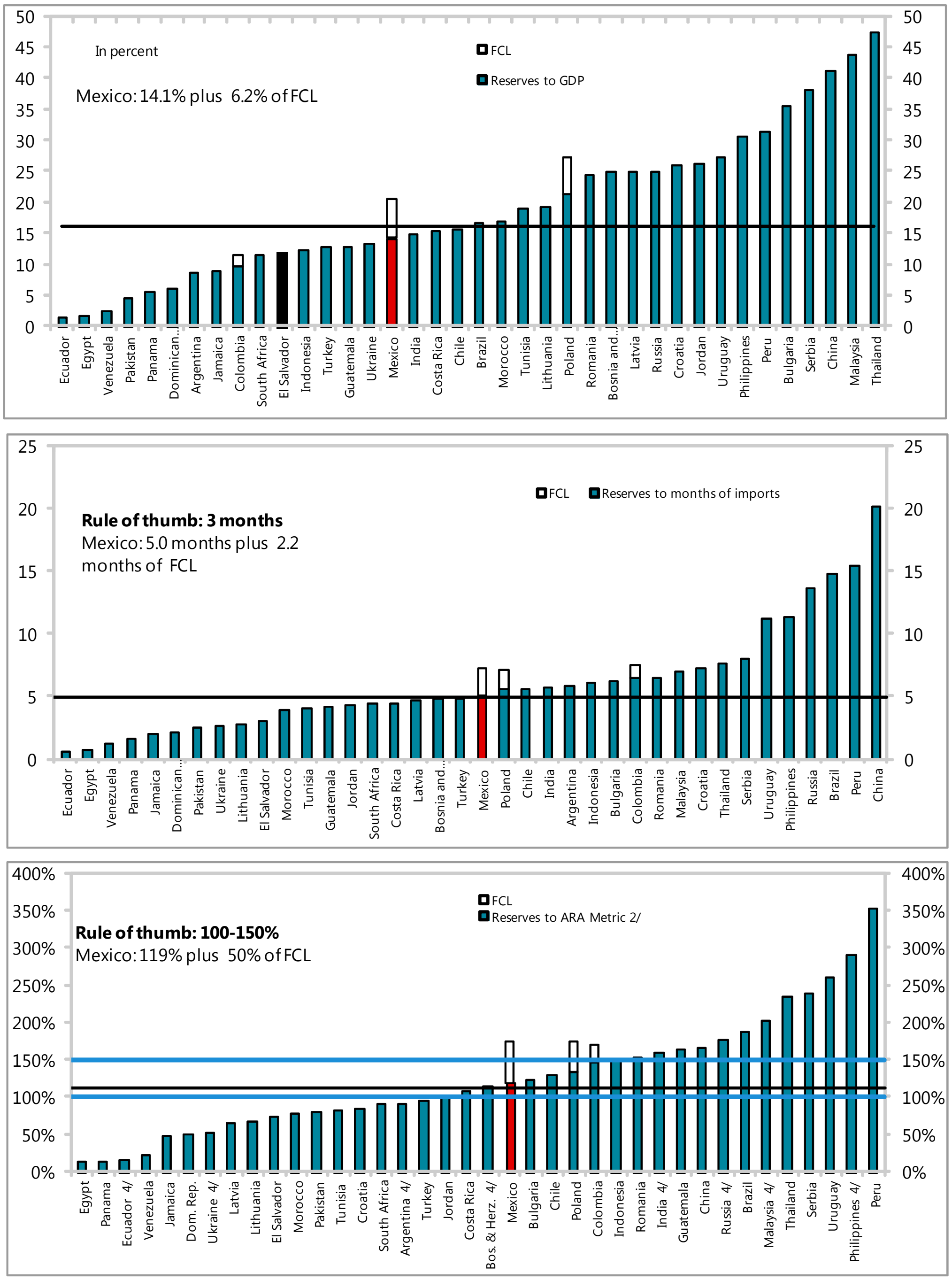


Figure 2. Mexico: Cross-Country Indicators of Reserve Adequacy (concluded)



Sources: World Economic Outlook, Balance of Payments Statistics Database, and IMF staff estimates.

1/ Horizontal lines represent median in all the charts.

2/ Reserves at the end in percent of short-term debt at remaining maturity and estimated current account deficit in 2012. The current account is set to zero if it is in surplus.

3/ The ARA metric was developed by SPR to assess reserve adequacy. For the stock of porfolio liabilities, data on 2011 or 2012 is used depending on data availability.

Figure 3. Mexico: Public Debt Sustainability Analysis

(in percent of GDP unless otherwise indicated)

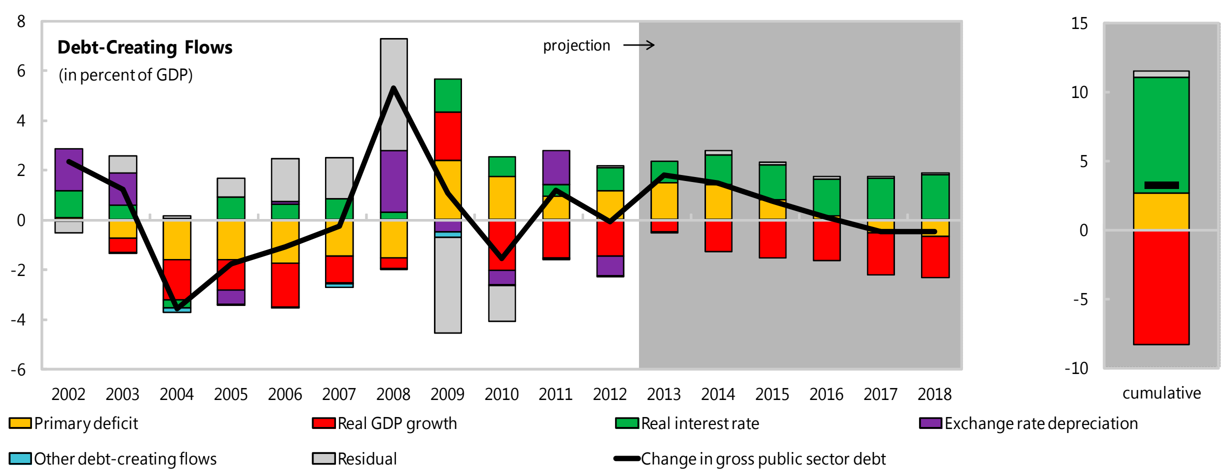
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2002-2010 [2/]	2011	2012	2013	2014	2015	2016	2017	2018
Nominal gross public debt	41.2	43.6	43.5	45.3	46.8	47.6	47.7	47.2	46.8
Public gross financing needs	10.6	10.9	11.5	11.4	10.3	8.9	10.2	9.1	7.3
Real GDP growth (in percent)	2.1	4.0	3.6	1.2	3.0	3.5	3.7	3.8	3.8
Inflation (GDP deflator, in percent)	5.4	4.8	3.8	4.3	3.4	3.0	3.0	3.0	3.0
Nominal GDP growth (in percent)	7.6	9.0	7.5	5.5	6.5	6.7	6.8	6.9	6.9
Effective interest rate (in percent) [4/]	7.3	6.2	6.3	6.4	6.3	6.3	6.4	6.9	7.2

As of October 24, 2013		
Sovereign Spreads		
EMBI (bp) 3/		193
CDS (bp)		104
Ratings	Foreign	Local
Moody's	Baa1	Baa1
S&Ps	BBB+	A-
Fitch	BBB+	A-

Contribution to Changes in Public Debt

	Actual			Projections							
	2002-2010	2011	2012	2013	2014	2015	2016	2017	2018	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.2	1.18	-0.08	1.8	1.5	0.8	0.1	-0.5	-0.5	3.2	
Identified debt-creating flows	-0.2	1.23	-0.15	1.8	1.5	0.8	0.1	-0.5	-0.5	3.3	
Primary deficit	-0.5	1.0	1.2	1.5	1.4	0.8	0.2	-0.5	-0.7	2.7	0.2
Primary (noninterest) revenue and grants	21.2	23.1	23.6	22.3	22.8	22.7	22.5	22.6	22.7	135.7	
Primary (noninterest) expenditure	20.6	24.1	24.7	23.8	24.2	23.5	22.7	22.1	22.0	138.4	
Automatic debt dynamics [5/]	0.4	0.3	-1.3	0.3	0.1	0.0	-0.1	0.1	0.2	0.6	
Interest rate/growth differential [6/]	-0.1	-1.1	-0.5	0.4	-0.1	-0.1	-0.2	0.0	0.2	0.1	
Of which: real interest rate	0.7	0.5	1.0	0.9	1.2	1.4	1.5	1.7	1.8	8.4	
Of which: real GDP growth	-0.8	-1.6	-1.5	-0.5	-1.3	-1.5	-1.6	-1.7	-1.7	-8.3	
Exchange rate depreciation [7/]	0.4	1.4	-0.8	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
General government net privatization proceeds (negative)	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(Specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.4	0.0	0.1	-0.1	0.2	0.1	0.1	0.1	0.1	0.5	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ EMBI.

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

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

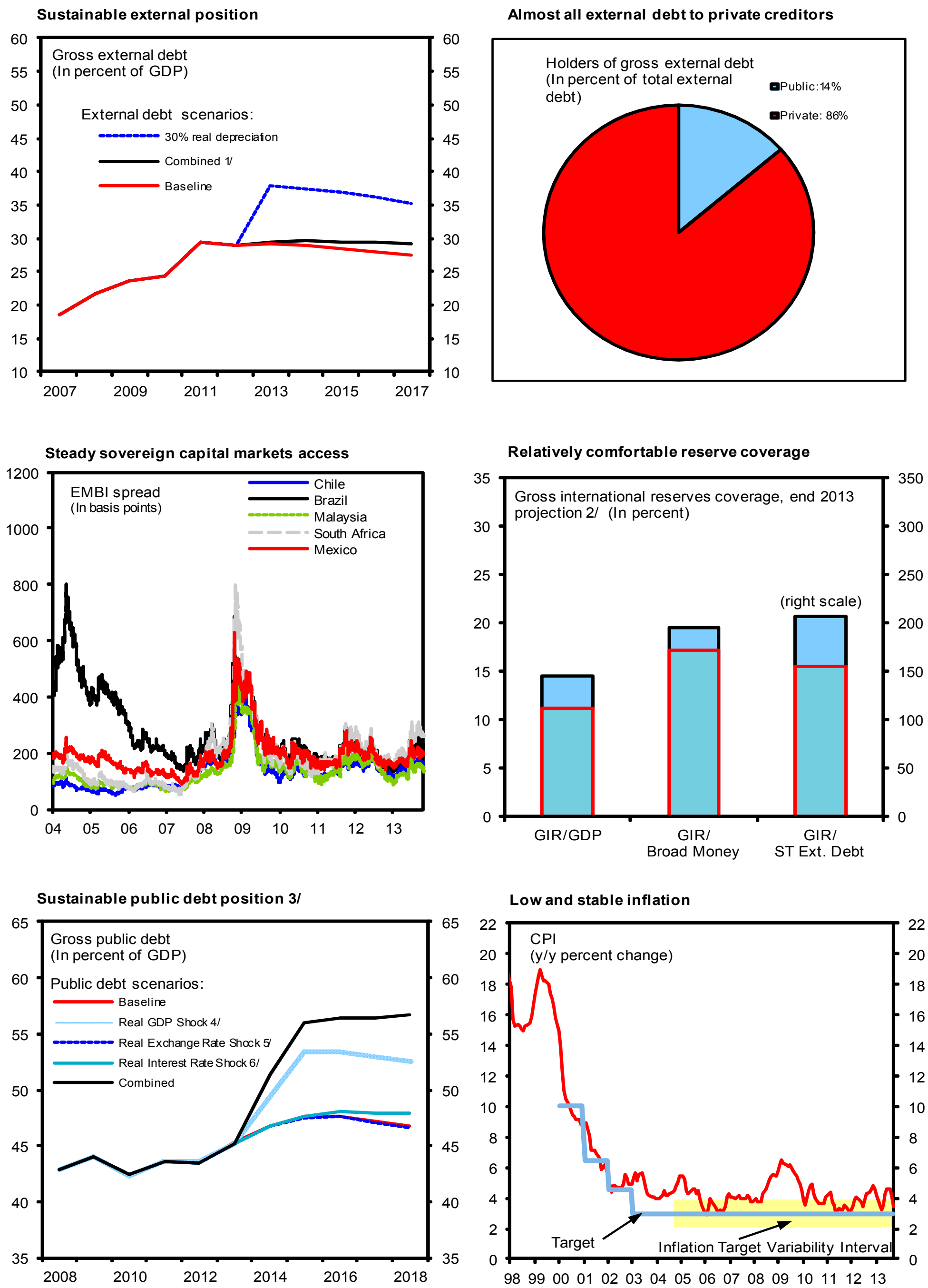
6/ The real interest rate contribution is derived from the denominator in footnote 4 as r - π (1+g) and the real growth contribution as -g.

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

8/ For projections, this line 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 4. FCL Qualification Criteria



Sources: Bloomberg L.P.; Datastream; EMED; Haver Analytics; and IMF staff calculations.
1/ Combined permanent 1/4 standard deviation shocks applied to interest rate, growth, and primary current account balance.
2/ Red bar shows ratio for end-year 2009, when FCL was approved.
3/ Not taking into account offsetting measures required under the balance budget rule.
4/ Reduction of real GDP growth by 1 standard deviation for 2 consecutive years.
5/ Estimate of real exchange rate overvaluation, or maximum historical movement of exchange rate over 10 years, whichever is highest.
6/ Nominal interest rate increases by the difference between the maximum real interest rate over history (last 10 years) and the average real interest rate level over projection, or by 200bp, whichever is larger.

Table 1. Mexico: Selected Economic, Financial, and Social Indicators, 2009–2014

I. Social and Demographic Indicators

GDP per capita (U.S. dollars, 2012)	10,063	Poverty headcount ratio (% of population, 2010) 1/	51.3
Population (millions, 2012)	117.1	Income share of highest 20 percent / lowest 20 percent	11.3
Life expectancy at birth (years, 2012)	74.3	Adult illiteracy rate (2011-2012)	6.4
Infant mortality rate (per thousand, 2012)	13.2	Gross primary education enrollment rate (2010)	114.1

II. Economic Indicators

	2009	2010	2011	2012	Proj. 2013	Proj. 2014
(Annual percentage change, unless otherwise indicated)						
National accounts in constant prices						
Real GDP	-4.5	5.1	4.0	3.6	1.2	3.0
External sector						
Exports of goods, f.o.b.	-21.2	29.9	17.1	6.1	2.6	5.0
Export volume	-7.7	15.8	2.2	9.0	2.4	5.3
Imports of goods, f.o.b.	-24.1	28.5	16.4	5.7	3.8	5.7
Import volume	-21.1	23.2	8.5	4.6	3.5	5.8
Terms of trade (deterioration -)	-11.2	7.6	6.8	-3.6	-0.2	-0.1
Exchange rates						
Nominal exchange rate (US$/Mex$)						
(average, depreciation -)	-17.6	6.9	1.7	-5.7	...	...
Real effective exchange rate (CPI based)						
(average, depreciation -)	-12.4	8.6	0.4	-2.9	8.4	0.9
Employment and inflation						
Consumer prices (annual average)	5.3	4.2	3.4	4.1	3.6	3.0
Formal sector employment, IMSS-insured workers (annual average)	-3.1	3.8	4.3	4.6	...	...
National unemployment rate (annual average)	5.5	5.4	5.2	5.0	4.8	4.5
Unit labor costs: manufacturing (real terms, annual average)	1.1	-6.7	-1.8	-2.8	...	...
Money and credit						
Bank credit to non-financial private sector (nonminal percent growth) 2/	-1.0	10.0	17.2	12.0	11.0	11.0
Broad money (M4a)	6.1	12.0	15.7	14.5	9.6	9.6
(In percent of GDP)						
Nonfinancial public sector						
Government revenue	23.3	22.4	22.7	22.7	22.8	22.9
Government expenditure	25.6	25.2	25.2	25.3	25.2	25.7
Traditional balance 3/	-2.3	-2.8	-2.5	-2.6	-2.4	-3.5
Augmented balance 4/	-5.1	-4.3	-3.4	-3.7	-4.1	-4.1
Gross public sector debt	43.9	42.4	43.6	43.5	45.3	46.8
Savings and investment						
Gross domestic investment 5/	22.9	22.1	22.4	22.9	21.3	21.5
Public	6.0	5.6	5.3	5.4	5.0	5.1
Private	16.5	15.5	16.6	17.2	16.3	16.3
Gross domestic saving 5/	22.2	21.9	21.5	21.7	19.6	19.6
Public 6/	0.8	0.9	1.4	1.2	0.4	0.5
Private	21.4	21.0	20.1	20.5	19.3	19.1
External current account balance	-0.9	-0.3	-1.0	-1.2	-1.7	-1.9
Memorandum items						
Gross external debt (in percent of GDP, end of period)	21.8	23.7	24.3	29.4	29.0	29.1
Total external debt service (in percent of exports and other FX income) 6/	6.7	4.8	4.9	4.8	5.3	5.5
Crude oil export price, Mexican mix (US$/bbl)	57.4	72.5	101.1	101.8	101.3	98.3

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 IMF staff estimates.

Note: All national accounts data is seasonally adjusted, with base year 2008.
1/ Broadest national definition (CONEVAL).
2/ Total bank credit outstanding plus non-performing loans from commercial and development banks.
3/ Authorities' definition. The break in the series in 2009 is due to definitional and accounting changes of PIDIREGAS.
4/ Federal Government plus Social Security and State-owned Companies, excl. nonrecurring revenue and transfers to stabilization funds.
5/ Difference in historical series between aggregate and public/private breakdown is due to rounding decimals and statistical discrepancies.
6/ Estimated as the difference between the augmented fiscal balance, as reported by SHCP, and public investment, as reported in the national accounts.

Table 2. Mexico: Financial Operations of the Public Sector, 2009–2018

(In percent of GDP)

	2009	2010	2011	2012	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
Budgetary revenue, by type	**23.3**	**22.4**	**22.7**	**22.7**	**22.8**	**22.9**	**23.0**	**22.8**	**22.9**	**23.0**
Oil revenue	7.2	7.4	7.6	7.6	7.5	7.8	7.7	7.5	7.6	7.7
Crude oil export value		3.4	4.3	4.0	3.4	3.1	3.0	2.8	2.8	3.0
Net sales oil derivatives		3.3	2.8	3.2	3.6	4.2	4.2	4.3	4.3	4.2
Net sales natural gas		0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Net sales petrochemicals		0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Non-oil tax revenue 1/	9.3	9.9	10.0	9.8	10.0	10.5	10.6	10.6	10.6	10.6
Income taxes	4.8	5.1	5.3	5.2	5.3	5.4	5.5	5.5	5.5	5.6
VAT	3.4	3.8	3.7	3.7	3.8	3.9	4.0	4.0	4.0	4.0
Excises (excl. fuel excises)	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6
Other taxes (import tariffs; IDE; automotive taxes; payroll taxes	0.8	0.6	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Non-oil non-tax revenue	6.8	5.1	5.1	5.2	5.3	4.7	4.7	4.7	4.7	4.7
Budgetary revenue, by entity	23.3	22.4	22.7	22.7	22.8	22.9	23.0	22.8	22.9	23.0
Federal government revenue	16.5	15.7	16.1	15.8	16.7	17.4	17.6	17.8	18.0	17.9
Tax revenue, *of which:*	9.3	9.5	9.0	8.5	9.4	10.4	10.9	11.1	11.4	11.5
excises (including fuel)	0.4	0.0	-0.5	-0.8	-0.1	0.6	0.9	1.1	1.3	1.4
Nontax revenue	7.2	6.2	7.1	7.3	7.3	7.0	6.8	6.6	6.6	6.4
Public enterprises	6.8	6.7	6.6	6.8	6.1	5.5	5.4	5.1	5.0	5.1
PEMEX	3.2	2.9	2.7	3.0	2.3	1.8	1.7	1.4	1.3	1.4
Other	3.6	3.7	3.9	3.9	3.8	3.7	3.7	3.7	3.7	3.7
Budgetary expenditure	**25.6**	**25.2**	**25.2**	**25.3**	**25.2**	**26.4**	**26.0**	**25.3**	**24.9**	**25.0**
Primary	23.4	23.3	23.3	23.3	23.1	23.7	23.5	22.9	22.4	22.4
Programmable	20.2	19.8	19.8	20.0	19.8	20.2	20.0	19.5	18.9	18.9
Current	15.1	14.8	15.0	15.2	15.4	15.8	15.6	15.6	15.4	15.4
Wages	6.3	6.0	6.0	6.0	6.0	5.9	5.8	5.8	5.8	5.7
Pensions	2.4	2.6	2.7	2.8	2.9	3.3	3.4	3.5	3.6	3.7
Subsidies and transfers	2.9	2.8	3.1	3.2	3.2	3.4	3.3	3.2	3.1	3.0
Other	3.5	3.3	3.2	3.3	3.3	3.2	3.1	3.0	3.0	2.9
Capital	5.0	5.0	4.9	4.8	4.3	4.4	4.4	3.9	3.5	3.6
Physical capital	4.5	4.7	4.5	4.4	4.3	4.4	4.4	3.9	3.5	3.6
Of which: non Pemex	*2.5*	*2.7*	*2.7*	*2.4*	*2.3*	*2.4*	*2.4*	*1.9*	*1.5*	*1.6*
Financial capital 2/	0.5	0.3	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Nonprogrammable	3.2	3.5	3.4	3.3	3.4	3.5	3.5	3.5	3.5	3.5
Of which: revenue sharing	3.1	3.3	3.3	3.2	3.3	3.4	3.4	3.4	3.4	3.4
Interest payments 3/	2.2	1.9	1.9	2.0	2.1	2.2	2.3	2.4	2.5	2.6
Unallocated buffers 4/	…	…	…	…	…	0.5	0.2	0.0	0.0	0.0
Traditional balance 5/	**-2.3**	**-2.8**	**-2.5**	**-2.6**	**-2.4**	**-3.5**	**-3.0**	**-2.5**	**-2.0**	**-2.0**
Traditional balance for balanced budget rule	-0.2	-0.8	-0.6	-0.6	-0.4	-1.5	-1.0	-0.5	0.0	0.0
Adjustments to the traditional balance	**2.8**	**1.5**	**0.9**	**1.1**	**1.7**	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**
PIDIREGAS	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
IPAB	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Budgetary adjustments	0.3	0.4	0.2	0.5	0.6	0.3	0.3	0.2	0.2	0.2
PEMEX, oil stabilization fund, FARP (-: net inflows)	1.2	0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FARAC/FONADIN	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debtor support	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development banks (changes in capital)	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Nonrecurring revenue	1.3	0.4	0.7	0.5	1.1	0.2	0.2	0.2	0.2	0.2
Augmented balance 6/	**-5.1**	**-4.3**	**-3.4**	**-3.7**	**-4.1**	**-4.1**	**-3.6**	**-3.0**	**-2.5**	**-2.5**
Augmented interest expenditure 7/	2.7	2.5	2.4	2.6	2.6	2.7	2.8	2.9	3.1	3.2
Augmented primary balance	-2.4	-1.7	-1.0	-1.2	-1.5	-1.4	-0.8	-0.2	0.5	0.7
Memorandum items										
Total revenue 8/	22.0	22.0	22.0	22.1	21.7	22.7	22.8	22.6	22.7	22.8
Total expenditure 9/	27.1	26.2	25.3	25.9	25.9	26.8	26.4	25.7	25.3	25.3
Total primary expenditure 10/	24.4	23.7	22.9	23.3	23.2	24.1	23.6	22.8	22.2	22.1
Structural current spending 11/	13.7	13.0	13.0	13.1	13.0	12.9	12.7	12.5	12.3	12.1
Structural current spending real growth (y/y, in percent) 11/	4.7	-0.3	5.7	4.6	0.7	3.0	2.0	2.0	2.0	2.0
Crude oil export price, Mexican mix (US$/bbl)	57	72	101	102	101	98	92	88	86	84
Non-oil augmented balance 12/	-9.1	-8.4	-8.1	-8.3	-8.6	-8.8	-8.2	-7.5	-7.1	-7.2
Structural Primary Fiscal Balance	-2.4	-2.2	-1.9	-1.9	-1.8	-1.5	-0.8	-0.2	0.6	0.9
Fiscal Impulse 13/	2.5	-0.2	-0.3	0.0	-0.1	-0.3	-0.7	-0.7	-0.8	-0.2
Gross public sector debt	43.9	42.4	43.6	43.5	45.3	46.8	47.6	47.7	47.2	46.7
Domestic (percentage of total debt)	75.2	74.9	73.2	75.0	76.3	76.6	76.9	76.8	76.6	76.3
External (percentage of total debt)	24.8	25.1	26.8	25.0	23.7	23.4	23.1	23.2	23.4	23.7
Net public sector debt	36.3	36.4	37.8	38.0	39.7	41.2	42.0	42.1	41.6	41.2
Nominal GDP (billions of Mexican pesos)	12,089	13,226	14,420	15,506	16,359	17,428	18,592	19,858	21,230	22,689

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

1/ Total tax revenue excluding excise tax on gasoline.
2/ Due to lack of disaggregated data this item includes both financing and capital transfers.
3/ Includes transfers to IPAB and debtor support programs.
4/ Given by revenue assumptions based on a higher-than-budgeted oil price. Specific allocations will be determined when revenue materializes.
5/ The break in the series in 2009 is due to definitional and accounting changes.
6/ Public Sector Borrowing Requirements.
7/ Treats transfers to IPAB as interest payments.
8/ Budgetary revenue, excluding nonrecurrent revenue.
9/ Budgetary expenditure, including adjustments to the traditional balance with the exception of adj. for nonrecurrent revenue.
10/ Total expenditure minus augmented interest payments.
11/ Total budgetary spending, excluding: (i) interest payments; (ii) non-programable spending; (iii) fuel costs of CFE; and (iv) direct physical and financial investment of the federal government.
12/ Excludes oil revenue (oil extraction rights, PEMEX net income, oil excess return levies, excise tax on gasoline) and PEMEX operational and physical capital expenditure.
13/ Negative of the change in the structural primary fiscal balance, measured adjusting tax revenue for the cycle and oil net exports using a long-term moving average of oil prices.

Table 3. Mexico: Summary Balance of Payments, 2009–2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
					Staff Projections					
					(In billions of U.S. dollars)					
Current account	-7.7	-3.2	-11.8	-14.2	-22.4	-26.0	-28.5	-28.9	-30.0	-30.2
Merchandise trade balance, f. o. b.	-4.7	-3.0	-1.5	0.0	-5.1	-8.0	-10.2	-10.7	-9.9	-6.5
Exports	229.7	298.5	349.4	370.7	380.2	399.4	428.5	462.1	502.7	549.7
Of which:										
Petroleum and derivatives	30.8	41.7	56.4	52.9	48.9	47.0	47.5	46.3	49.7	54.8
Manufactures	189.7	245.7	278.6	302.0	315.0	335.1	364.7	400.6	439.3	476.5
Imports	-234.4	-301.5	-350.8	-370.8	-385.3	-407.4	-438.7	-472.8	-512.6	-556.3
Petroleum and derivatives	-20.5	-30.2	-42.7	-41.1	-41.8	-41.8	-40.7	-40.4	-40.5	-40.1
Factor Income	-14.2	-11.3	-18.8	-22.4	-24.5	-25.6	-26.3	-26.8	-29.2	-33.1
Net services	-10.2	-10.6	-14.8	-14.6	-15.7	-16.2	-16.7	-17.3	-17.9	-18.7
Net transfers	21.6	21.5	23.0	22.6	22.9	23.7	24.8	25.9	27.0	28.2
Of which: Remittances	21.3	21.3	22.8	22.4	…	…	…	…	…	…
Financial account	15.4	43.5	50.7	48.4	49.9	41.0	43.6	43.7	45.8	45.9
Public sector 1/	11.9	33.3	37.0	56.9	23.6	19.0	17.9	13.9	14.9	15.9
Medium- and long-term borrowing	8.0	10.2	5.3	10.2	8.0	7.5	8.2	8.9	9.6	10.3
Disbursements	19.1	18.8	14.6	18.3	18.1	18.5	19.0	17.7	18.4	19.1
Amortization 2/	11.1	8.7	9.3	8.0	10.1	11.0	10.8	8.8	8.8	8.8
Pidiregas, net 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other, including short-term borrowing and change in assets	4.0	23.1	31.6	46.6	15.6	11.5	9.7	5.0	5.3	5.6
Of which: oil hedging capital income	5.1	…	…	…	…	…	…	…	…	…
Private sector	3.4	10.2	13.8	-8.5	26.3	22.0	25.6	29.8	30.9	30.0
Direct investment, net	7.0	7.5	10.9	-8.0	20.1	20.2	21.1	21.9	22.8	23.7
Bonds and loans	-7.6	35.0	7.4	5.7	2.1	-2.5	0.0	3.0	2.9	0.7
Equity investments and change in assets abroad	-9.4	-30.5	-4.7	9.9	4.0	4.3	4.5	4.9	5.2	5.6
Errors and omissions and valuation adjustments	-3.1	-19.6	-10.3	-16.4	-10.0	0.0	0.0	0.0	0.0	0.0
Net international reserves (increase -)	-5.4	-22.8	-28.9	-21.0	-17.5	-15.0	-15.1	-14.8	-15.8	-15.7
					(In percent of GDP, unless otherwise indicated)					
Memorandum items										
Current account balance	-0.9	-0.3	-1.0	-1.2	-1.7	-1.9	-2.0	-1.9	-1.9	-1.8
Nonoil current account balance 4/	-2.0	-1.4	-2.2	-2.2	-2.3	-2.3	-2.5	-2.3	-2.5	-2.7
Nonoil trade balance	-1.7	-1.4	-1.3	-1.0	-1.0	-1.0	-1.2	-1.1	-1.2	-1.3
Oil trade balance	1.2	1.1	1.2	1.0	0.6	0.4	0.5	0.4	0.6	0.9
Gross financing needs (billions of US$) 4/	73.3	76.7	117.8	114.3	120.5	128.1	145.6	147.4	160.5	165.6
Gross international reserves (change, billions of US$) 5/	4.6	20.7	28.6	17.8	17.5	15.0	15.1	14.8	15.8	15.7
End-year (billions of US$)	99.9	120.6	149.2	167.1	184.6	199.5	214.7	229.4	245.2	261.0
Months of imports of goods and services	5.1	4.8	5.1	5.4	5.7	5.9	5.9	5.8	5.7	5.6
Months of imports plus interest payments	4.7	4.5	4.7	5.0	5.3	5.4	5.4	5.4	5.3	5.1
Percent of broad money	17.2	17.5	21.2	19.3	19.3	19.4	19.2	18.9	18.5	18.1
Percent of foreign portfolio liabilities	41.6	39.6	48.2	39.0	39.3	40.9	42.1	43.2	44.3	45.2
Percent of short-term debt (by residual maturity) 6/	154.9	174.0	180.4	194.2	207.4	209.3	217.6	223.3	229.6	232.9
Crude oil export volume (millions of bbl/day)	1.2	1.4	1.3	1.3	1.2	1.2	1.3	1.3	1.3	1.3
Crude oil export price, Mexican mix (US$/bbl)	57.4	72.5	101.1	101.8	101.3	98.3	92.4	88.5	85.8	84.0
Gross total external debt	21.8	23.7	24.3	29.4	29.0	29.2	28.9	28.5	28.0	27.4
Of which: Public external debt	13.4	15.2	16.0	21.0	21.1	21.7	21.9	21.6	21.3	21.1
Gross total external debt (billions of US$)	195.0	247.9	282.2	346.9	372.6	389.1	407.0	423.9	441.7	458.3
Of which: Public external debt	120.4	158.9	186.2	246.9	270.5	289.5	307.4	321.3	336.2	352.1
External debt service (in percent of exports and other FX)	6.7	4.8	4.9	4.8	5.3	5.5	5.3	4.7	4.5	4.6
					(Annual percentage change)					
Export volume	-7.7	15.8	2.2	9.0	2.4	5.3	7.9	7.9	8.2	8.6
Non-oil exports	-7.3	17.3	3.3	9.8	4.0	6.2	8.0	8.6	7.9	8.2
Import volume	-21.1	23.2	8.5	4.6	3.5	5.8	8.6	8.0	8.1	8.1
Consumer goods	-31.8	23.7	19.6	5.3	2.1	6.3	6.3	5.3	5.4	5.2
Intermediate goods	-19.0	29.3	6.1	7.5	5.2	8.4	8.1	9.6	10.1	9.8
Capital goods	-22.4	-3.9	10.8	11.8	-5.4	-12.7	16.9	0.2	-5.7	-4.5

Sources: Bank of Mexico; Secretary of Finance and and Public Credit< and IMF staff projections.

1/ Including the financing of PIDIREGAS.

2/ Includes pre-payment of external debt.

3/ Break in the series in 2009 due to accounting changes.

4/ Excluding oil exports and petroleum products imports.

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

6/ In percent of short-term debt by residual maturity. Historical data include all prepayments.

Table 4. Mexico: External Financing Requirements and Sources 2009–2014

(In billions of US dollars)

	2009	2010	2011	2012	Proj. 2013	Proj. 2014
Gross financing requirements	73.8	81.4	107.3	108.9	120.9	129.2
Current account deficit	7.7	3.2	11.8	14.2	22.4	26.0
Public sector medium and long term amortization 1/	11.1	8.7	9.3	8.0	10.1	11.0
of which:						
Public sector bonds 2/	4.9	5.5	1.7	1.8	3.9	3.9
Public sector MLT debt	6.2	3.2	7.5	6.2	6.2	7.2
PIDIREGAS 3/	0.0	0.0	0.0	0.0	0.0	0.0
Private sector medium and long term amortization 4/	14.0	13.7	29.2	30.2	29.6	36.2
Private sector bonds 4/	6.6	7.3	10.6	13.5	17.2	21.4
Private sector medium and long term debt 4/	7.4	6.3	18.6	16.6	12.3	14.7
Short term financing	36.4	35.1	28.3	38.6	40.9	41.0
Public sector 2/	9.4	7.2	2.1	2.1	7.4	9.0
Private sector 4/ 5/	13.1	13.0	11.3	18.6	18.7	14.3
Trade credit 6/	13.9	14.8	14.9	17.9	14.8	17.7
Change in international reserves	4.6	20.7	28.6	17.8	18.0	15.0
Available financing	73.8	81.4	107.3	108.9	120.9	129.2
FDI, net	7.0	7.5	10.9	-8.0	20.1	20.2
Public sector MLT flows 1/	22.6	42.0	46.3	64.9	33.7	30.0
of which:						
Public sector bonds 2/	10.7	10.4	7.1	12.0	11.4	11.4
memo: o/w nonresidents' holdings of peso denominated debt 3/	5.9	25.6	42.2	61.8	51.9	41.2
Public sector MLT debt	8.4	8.4	7.5	6.2	6.7	7.2
PIDIREGAS 3/	0.0	0.0	0.0	0.0	0.0	0.0
Net change in nonresidents' holdings of peso denominated debt	3.5	23.1	31.6	46.6	15.6	11.5
Private sector MLT flows 4/	8.0	38.4	39.7	37.3	36.3	27.6
Private sector bonds	8.7	16.7	20.6	28.3	30.0	15.9
Private sector MLT debt	-0.7	21.7	19.1	9.0	6.3	11.7
Short-term financing	35.6	28.3	38.6	40.9	41.0	39.9
Public sector 2/	7.7	2.1	2.1	7.4	9.0	9.0
Private sector 4/ 5/	13.0	11.3	18.6	18.7	14.3	9.6
Trade credit 6/	14.8	14.9	17.9	14.8	17.7	21.3
Other flows	0.7	-34.9	-28.2	-26.2	-10.2	11.4
of which:						
Increase in residents' portfolio and other investment assets	-9.3	-32.9	1.6	-0.1	-1.1	-1.1

Sources: Mexican authorities and IMF staff estimates.

Notes:
1/ Including PIDIREGAS.
2/ On a BoP basis.
3/ Includes bonds and loans. For 2006-08, staff estimates based on the stock of debt at original maturity, estimated duration, and net financing data from the Balance of Payments. In 2009, assets from the PEMEX's Master Trust were used to pay down the stock of PIDIREGAS debt.
4/ Gross financing figures for 2006-09 are staff estimates based on data on the stock of debt by residual maturity, estimated duration, and net financing data from the Balance of Payments.
5/ Loans and money market instruments, estimates on original maturity basis.
6/ Includes accounts payable to suppliers and long-term trade credit.

Table 5. Mexico: External Debt Sustainability Framework, 2008-2018

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2008	2009	2010	2011	2012			2013	2014	2015	2016	2017	2018	Debt-stabilizing non-interest current account 6/
Baseline: External debt	18.5	21.8	23.7	24.3	29.4			**29.0**	**29.1**	**28.9**	**28.5**	**28.0**	**27.4**	**-1.8**
Change in external debt	-0.4	3.3	1.9	0.6	5.2			-0.4	0.1	-0.2	-0.4	-0.5	-0.6	
Identified external debt-creating flows (4+8+9)	-1.3	3.5	-3.4	-1.6	0.3			-0.5	-0.8	-0.9	-0.9	-1.0	-1.0	
Current account deficit, excluding interest payments	0.3	-0.6	-1.0	-0.5	-0.5			0.2	0.3	0.4	0.4	0.3	0.1	
Deficit in balance of goods and services	2.4	1.7	1.3	1.4	1.3			1.6	1.8	1.9	1.9	1.8	1.5	
Exports	27.8	27.3	30.0	31.4	32.8			30.8	31.2	31.7	32.3	33.2	34.1	
Imports	30.2	29.0	31.3	32.8	34.1			32.5	33.0	33.6	34.2	34.9	35.7	
Net non-debt creating capital inflows (negative)	-2.1	-1.2	-0.8	-0.4	-0.2			-2.0	-1.9	-1.9	-1.9	-1.8	-1.8	
Automatic debt dynamics 1/	0.5	5.3	-1.6	-0.7	1.0			1.2	0.8	0.6	0.6	0.6	0.7	
Contribution from nominal interest rate	1.5	1.4	1.4	1.5	1.7			1.6	1.6	1.6	1.6	1.6	1.7	
Contribution from real GDP growth	-0.2	1.0	-0.9	-0.9	-0.9			-0.3	-0.8	-1.0	-1.0	-1.0	-1.0	
Contribution from price and exchange rate changes 2/	-0.8	2.8	-2.0	-1.4	0.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	0.9	-0.2	5.4	2.2	4.9			0.1	0.9	0.7	0.5	0.5	0.4	
External debt-to-exports ratio (in percent)	66.5	79.7	79.0	77.3	89.7			94.1	93.5	91.2	88.1	84.5	80.3	
Gross external financing need (in billions of US dollars) 4/	78.9	69.3	60.7	78.7	91.0			102.9	114.2	120.2	125.0	129.9	135.5	
in percent of GDP	7.1	7.7	5.8	6.8	7.7	10-Year	10-Year	8.0	8.6	8.5	8.4	8.2	8.1	
Scenario with key variables at their historical averages 5/								**29.0**	**28.9**	**28.7**	**28.5**	**28.2**	**27.9**	**-0.9**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	1.2	-4.5	5.1	4.0	3.6	2.6	2.8	1.2	3.0	3.5	3.7	3.8	3.8	
GDP deflator in US dollars (change in percent)	4.3	-14.9	11.3	6.6	-2.1	2.2	7.7	7.8	0.9	1.8	2.0	2.2	2.2	
Nominal external interest rate (in percent)	8.5	6.3	7.3	7.1	7.2	7.7	1.0	5.8	5.7	5.8	5.8	6.0	6.6	
Growth of exports (US dollar terms, in percent)	6.9	-20.9	28.3	16.3	6.0	9.1	12.8	2.3	5.1	7.3	7.8	8.7	9.2	
Growth of imports (US dollar terms, in percent)	9.0	-22.4	26.0	16.5	5.3	8.7	12.9	3.7	5.6	7.5	7.6	8.2	8.3	
Current account balance, excluding interest payments	-0.3	0.6	1.0	0.5	0.5	0.5	0.3	-0.2	-0.3	-0.4	-0.4	-0.3	-0.1	
Net non-debt creating capital inflows	2.1	1.2	0.8	0.4	0.2	1.6	0.9	2.0	1.9	1.9	1.9	1.8	1.8	

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.

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 6. Mexico: Indicators of Fund Credit 2013–2018

	Projections					
	2013	2014	2015	2016	2017	2018
Stocks from prospective drawings 1/						
Fund credit in millions USD	72,737	72,737	72,737	72,737	36,369	0
Fund credit in millions SDR	47,292	47,292	47,292	47,292	23,646	0
In percent of quota	1,304.4	1,304.4	1,304.4	1,304.4	652.2	0
In percent of GDP	5.7	5.4	5.2	4.9	2.3	0
In percent of exports of goods and services	18.4	17.5	16.3	15.1	7.0	0
In percent of gross reserves	28.3	26.7	25.3	24.1	12.9	0
Flows from prospective drawings 2/						
Charges (Millions SDR)	236	1,144	1,239	1,240	1,269	378
Debt Service due on GRA credit (Millions SDR)	236	1,144	1,239	1,240	24,915	24,024
In percent of quota	6.5	31.6	34.2	34.2	687.2	662.6
In percent of GDP	0.0	0.1	0.1	0.1	2.4	2.2
In percent of exports of goods and services	0.1	0.4	0.4	0.4	7.3	6.5
In percent of gross reserves	0.1	0.6	0.7	0.6	13.6	14.1
Memo Item:						
Total External Debt (percent of GDP)	34.4	34.3	33.8	33.1	30.0	27.2

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

1/ End of period. Assumes full drawings under the FCL approval, which implies that repayment starts in early 2017. The Mexican authorities have expressed their intention to treat the arrangement as precautionary. At a SDR/US$ rate of 0.650178 as of October 31, 2013.
2/ Based on the rate of charge as of October 24, 2013. Includes surcharges under the system currently in force and service charges.

Table 7. Mexico: Financial Soundness Indicators

(In percent)

	2009	2010	2011	2012	2013 1/
Capital Adequacy					
Regulatory capital to risk-weighted assets	15.9	17.1	16.4	15.8	16.6
Regulatory Tier 1 capital to risk-weighted assets	14.0	15.1	14.3	13.8	14.9
Capital to assets	9.8	10.8	10.0	10.5	11.1
Gross asset position in financial derivatives to capital	82.3	65.1	72.8	78.4	74.2
Gross liability position in financial derivatives to capital	85.5	65.8	72.6	78.1	72.5
Asset Quality 2/					
Nonperforming loans to total outstanding loans 3/	3.7	2.8	2.9	2.9	4.0
Provisions to Nonperforming loans	157.2	175.2	176.4	179.8	174.2
Earnings and Profitability					
Return on assets	1.6	2.0	1.6	1.9	2.5
Return on equity	17.2	18.1	15.9	18.3	23.1
Liquidity					
Liquid assets to short-term liabilities	56.7	56.8	56.9	50.9	47.3
Liquid assets to total assets	41.5	41.8	42.5	37.7	35.0
Customer deposits to total (noninterbank) loans	88.8	85.9	82.8	88.6	87.3

Sources: Financial Soundness Indicators

1/ As of March 2013.

2/ Data on asset quality is as of September 2013.

3/ Includes both commerical and development bank loans to the non-financial private sector.

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International Monetary Fund
Washington, D.C. 20431 USA

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

On November 25, 2013, 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 reaffirmed Mexico's continued qualification to access FCL resources. The Mexican authorities have indicated that they intend to continue treating the arrangement as precautionary.

The two-year FCL arrangement for Mexico in an amount equivalent to SDR 47.292 billion (about US$73 billion[1]) was approved by the IMF's Executive Board on November 30, 2012 (see Press Release No. 12/465). Mexico's first FCL arrangement was approved on April 17, 2009 (see Press Release No. 09/130), and was renewed on March 25, 2010 (see Press Release No. 10/114) and January 10, 2011 (see Press Release No. 11/4).

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

"Mexico continues to have in place strong policy frameworks aimed at maintaining prudent macroeconomic policies and fostering long-term potential growth. Fiscal policy is governed by a fiscal responsibility law; monetary policy operates under a credible inflation targeting framework with a firm commitment to exchange rate flexibility; financial oversight is sound; and the macroprudential framework contains maturity and currency mismatches in the banking system.

"The government has also made impressive strides in advancing structural reforms to upgrade education, increase labor market flexibility, and foster competition in telecommunications. The congress has modified the fiscal framework, reformed the main taxes, introduced a universal pension and unemployment insurance, and is discussing energy sector and financial markets reforms.

[1] Amount based on the Special Drawing Right (SDR) quote of November 30, 2012 of 1 USD = SDR 0.652

"Mexico's economic performance has been resilient to global volatility. The current policy mix and exchange rate flexibility are consistent with macroeconomic stability and a return to faster economic growth in the period ahead.

"The country's close ties with the global economy are a source of strength but heighten the economy's exposure to external risks. The arrangement under the Fund's FCL, which the authorities are treating as precautionary, will continue to play an important role in supporting the authorities' macroeconomic strategy by providing insurance against global downside risks and bolstering market confidence. The authorities will continue to assess global conditions and intend to take further steps toward exit from FCL support when those global conditions allow."