INTERNATIONAL MONETARY FUND

MEXICO

Review Under the Flexible Credit Line Arrangement

Prepared by the Western Hemisphere Department
(In consultation with other Departments)

Approved by David J. Robinson and Aasim Husain

October 16, 2009

Summary

- ***Background***. Mexico has been hard hit by the global crisis—with the situation compounded by the H1N1 virus outbreak—but a very strong policy framework and the authorities' quick response have helped stabilize the situation. As such, financial market conditions have generally improved in the last months, buoyed also by improved global sentiment. However, the economy is in the deepest recession since the 1994–95 crisis which has led to some weakening in credit quality, though the banking system remains well capitalized.

- ***FCL***. An arrangement with Mexico under the FCL for 1,000 percent of quota (in an amount equivalent to SDR 31.528 billion) was approved on April 17, 2009. The authorities intend to continue to treat the arrangement as precautionary.

- ***Outlook***. Real GDP is now expected to contract by 7.3 percent y/y in 2009 before recovering to 3.1 percent y/y in 2010. Inflation is expected to converge towards the 3 percent target by early 2011. The balance of payments is projected to continue to gradually strengthen. The proposed 2010 budget is consistent with a 1 percent of GDP reduction in the augmented deficit to about 4 percent of GDP, reaching about 3 percent of GDP by 2012.

- ***Qualification***. The staff assesses that Mexico continues to meet the qualification criteria for access to FCL resources specified under the Board decision on FCL arrangements (Decision No. 14283-(09/29), adopted March 24, 2009) and therefore recommends that the Board complete the review under the FCL arrangement which would allow Mexico to make purchases before the expiration of the arrangement on April 16, 2010.

- ***Team***. This report was prepared by a staff team led by Vikram Haksar, comprising Kornélia Krajnyák and Ivanna Vladkova-Hollar (all WHD), Geremia Palomba (FAD), Marcos Souto (MCM), and Mercedes Vera-Martin and Bikas Joshi (SPR).

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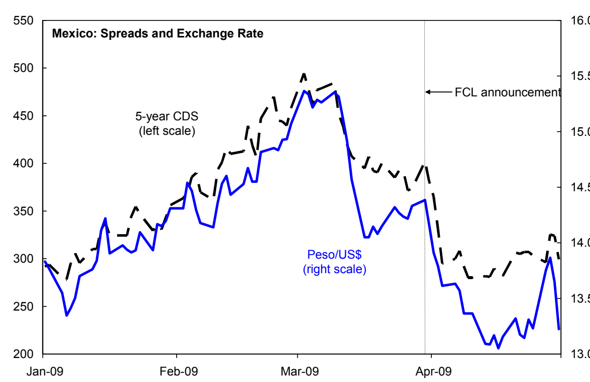
I. Context

1. ***Mexico has been hard hit by the global crisis, essentially for reasons outside the authorities' control***. Financial conditions tightened sharply following the failure of Lehman Brothers last September. At the height of the turmoil, some Mexican corporates incurred large losses on foreign currency derivatives transactions, which put substantial pressure on the exchange rate and credit spreads. As the U.S. downturn intensified—especially the collapse of industrial production which has large spillovers to Mexico—real activity weakened very sharply. Combined with still heightened financial market strains, concerns arose earlier this year over tail risks of a downward spiral as discussed in IMF Country Report No. 09/126.

2. ***The authorities' policy response has helped stabilize the situation***. Mexico's very strong policy framework has helped cushion the impact of the global crisis. The flexible exchange rate has adjusted, the inflation targeting framework has provided an anchor for expectations, and the fiscal rule and strengthened public sector balance sheets have averted disruptive moves in fiscal risk premia. Substantial liquidity was provided to the foreign exchange market. Support was put in place for a variety of domestic financial market segments. External financing from the World Bank and IDB of about US$7½ billion was arranged. Insurance was sought from the Fed and the Fund to ward off tail risks, through a US$30 billion swap line (extended through February 2010) and a US$47 billion arrangement under the FCL, respectively.

II. Economic and Policy Developments Since Approval of the FCL

3. ***Financial market conditions have generally improved in the last months***. Around the announcement of the intent to seek support under the FCL, Mexican CDS spreads and the exchange rate staged a strong recovery (see Text Figure) while risk relativities versus other emerging market peers also improved. Since then, credit risk spreads for both the sovereign and corporates have continued to fall as global risk aversion has abated, though by less than in some emerging market peers. This likely reflects stronger growth prospects elsewhere in Latin America but also investor concerns over the possibility of a ratings downgrade for Mexico which have arisen in the last months.[1] The stock market has recovered to levels of mid-2008 (Figure 1).



Source: Datastream; EMED; and Fund staff calculations.

[1] All the major ratings agencies rate Mexico two notches above investment grade. However, Fitch and S&P have moved this year to put Mexico on a negative outlook for a ratings downgrade (Moody's reaffirmed a stable outlook in August).

4. ***Nonetheless, the economy is in the deepest recession since the tequila crisis***. GDP growth plunged at a 21.2 percent rate (saar) in the first quarter as industrial production and manufacturing related services collapsed, especially reflecting strong linkages to the U.S., including for automobile production. Labor market conditions worsened and private consumption fell considerably. The economy weakened further in the second quarter as the economic disruptions from the H1N1 virus also hit home. Recent indicators show some signs of recovery and growth overall is projected to pick up in the second semester. The economy is now expected to contract by 7.3 percent in 2009, but recover in 2010 and grow by 3.1 percent. The output gap is expected to remain sizeable in this period.

5. ***The overall balance of payments outlook remains broadly as expected earlier this year, though the composition has changed***. A stronger current account adjustment is expected on account of the sharp compression in imports more than off-setting the weaker performance of exports, as already observed in the first semester. Corporate external financing conditions have improved since the second quarter, and companies have been able to refinance external debt. As such, overall rollover rates remain broadly in line with those envisaged earlier this year. Net FDI in the first semester has been stronger than expected, and financial inflows are also projected to pick up later this year as proceeds from the hedging of Mexican oil export prices (see IMF Country Report No. 09/53, Box 2) are realized. However, the overall capital account outlook is somewhat weaker reflecting lower projected portfolio flows and greater asset accumulation overseas by residents. Altogether, net international reserves—which the authorities intend to strengthen by the SDR allocations—are expected to rise slightly this year by US$1½ billion to about US$87 billion by end-2009.

6. ***Mexican banks have been relatively resilient in the face of the global financial crisis but the sharp downturn is putting stress on credit quality***. As of June 2009, the aggregate capital adequacy ratio for the commercial banking system was at 16.2 percent, well above the 8 percent requirement, though previously buoyant income growth has slowed since the onset of the crisis. Banking system credit likewise continues to decelerate across both domestic and foreign banks, particularly for consumer credit (which has been shrinking at a rate of around 25 percent y/y, for the largest banks). Overall gross NPLs have risen by about 1 percentage point since June 2008 (larger increases have occurred in the consumer loan portfolio), though at 3.6 percent of total loans (as of August 2009), the level remains manageable. Indeed, provisions cover over 150 percent of NPLs. Net lending by Mexican subsidiaries of global banks to their parents is moderate—albeit somewhat above pre-crisis levels—and bank liquidity has improved in recent months.

7. ***Economic policies this year have evolved along the lines laid out in the authorities' letter attached to IMF Country Report 09/126.***

- **Monetary policy** has continued to be guided by the inflation targeting framework. With inflation pressures expected to be muted by the sizeable economic slack, Banxico began easing in February this year and cut rates substantially through July, to the current historic low of 4½ percent. Inflation has fallen, albeit gradually, and is expected to be just over 4 percent y/y by end-year. Banxico has since put its easing cycle on hold, with further actions dependent on the balance of risks to the economic outlook and inflation's continued convergence to the 3 percent target. Liquidity has increased through the year in the foreign exchange market, facilitating a reduction in central bank intervention and currency volatility.

- **Fiscal policy** plans for a significant stimulus in 2009 are being implemented, though spending will be cut somewhat to adhere to the balanced budget target in the face of larger than expected declines in non-oil revenues. The 2010 budget proposal (see Box) includes:

    - Invoking the exceptional circumstances clause in the balanced budget rule, to smooth the withdrawal of fiscal support to the still-weak economy. This is done by easing the balanced budget target (excluding Pemex) by ½ percent of GDP in 2010, and gradually returning to balance by 2012;

    - Beginning the process of gradually strengthening the medium-term fiscal position through: (i) a stronger than previously expected tax reform package expected to yield 1.7 percent of GDP, (ii) expenditure restraint and a re-prioritization of spending to further increase the anti-poverty focus.

  As a result, the augmented deficit should fall by about 1 percent of GDP to 3.7 percent of GDP in 2010. This likely implies a withdrawal of stimulus of up to about 2 percent of GDP in 2010.[2] Gross public debt should peak at about 48 percent of GDP in 2010 (net debt reaches about 41 percent of GDP), before declining over the medium term. The authorities have focused their fiscal reform agenda for next year on boosting structural revenues to offset the decline in oil-related revenues—reforms of the fiscal framework could be taken up later. However, room for saving windfall revenues is to be increased for 2010 by eliminating caps on stabilization funds in that year.

[2] The staff's assessment of stimulus is based on its estimates of changes in the structural augmented balance adjusted for use of external resources from oil exports.

Box: Mexico—The 2010 Budget Proposal

The proposed budget aims to smooth the withdrawal of support to the still-weak economy while beginning the process of fiscal consolidation. The authorities propose to increase the traditional deficit measure by about ½ percent of GDP in 2010 (Text Table) but gradually eliminate it by 2012. However, staff analysis suggests that the broader augmented fiscal deficit would narrow by about 1 percent of GDP in 2010 reflecting reduced recourse to non-recurrent revenues and savings in stabilization funds.[1] Given the declining contribution of external oil-related fiscal resources, there will likely be a withdrawal of fiscal stimulus of up to about 2 percent of GDP. Net public debt is projected to increase slightly in 2010 to about 41 percent of GDP before declining gradually over the medium term.

Mexico. 2010 Budget Proposal

	2009	2010	
	Proj.	Budget	Proj.
Revenue 1/	22.5	22.1	22.4
Oil	7.4	6.9	7.4
Tax	9.2	10.8	10.8
Other	5.9	4.4	4.2
Expenditures	24.7	24.6	25.0
Traditional balance	-2.1	-2.5	-2.5
Without PEMEX investment	0.0	-0.5	-0.5
Adjustments 2/	2.8	1.9	1.2
o/w non-recurrent revenue	1.0	0.4	0.4
stabilization funds	0.4	0.4	-0.3
Augmented balance 2/	-4.9	-4.4	-3.7
Memo item:			
Net public sector debt 2/	40.0	...	40.7

1/ 2009 projections include one-off oil hedge revenue of 0.7 percent of GDP.
2/ Preliminary estimates.

Tax reforms considered in the budget are estimated to yield 1.7 percent of GDP, about 1 percent of GDP higher than contemplated at the time of the FCL approval. Changes have been proposed to both consumption and income taxes (Text Table); the most important is the introduction of a new permanent and broad-based 2 percent sales tax, estimated to boost revenues by 0.6 percent of GDP or more. The tax package represents an important step toward increasing the low tax ratio and reducing budget reliance on declining oil revenues. However, the broad-based sales tax applies to politically sensitive items including food and medicines, and is facing significant opposition.

Mexico. 2010 Budget: Tax Reform Proposal
Expected yield, percent of GDP

Total	**1.7**
Sales tax (2 %)	0.6
Limitations to loss carry forward	0.2
Increases in the CIT/PIT top rate	0.4
Changes in excises	0.2
IDE increase	0.0
Tightened IETU credits	0.0
Tax administration and other	0.4
Memo:	
Permanent measures	1.3
Temporary measures	0.4

While overall spending is budgeted to grow broadly in line with GDP, discretionary spending is proposed to be contained. Administration costs and public consumption are to be trimmed. The budget also proposes to reallocate spending in line with poverty reduction goals, targeting an increase in real social expenditures of 2.5 percent relative to the 2009 program.

No substantial change in the fiscal framework is planned. The budget invokes the existing exceptional circumstances clause under the rule that allows a temporary widening of the deficit. The deep recession and associated drop in revenues is cited as the basis for the exception. The size of the deficit is explained in terms of a cyclical drop in tax revenues. These steps remain within the existing framework; introducing a formal structural fiscal rule at a later stage would be another option to enhance fiscal flexibility. Limits on accumulation of windfall revenues in existing stabilization funds—a key source of procyclicality—are being eliminated, but at this stage only for 2010.

[1] Staff projections are based on higher medium-term oil prices from the WEO than medium-term prices derived from the fiscal rule used in the budget. Resulting higher revenues are assumed to be saved in the stabilization funds.

- **Financial stability policy**: The authorities continue to monitor developments closely, and have focused particularly on common exposure of banks to large corporations. Public financial institutions continue to expand their operations to partially offset declining credit from private banks. Some important financial sector reforms are in train, improving the transparency of financial markets and institutions, strengthening the power of the supervisory agency (CNBV) over some non-bank financial institutions, and promoting a more efficient protection of consumer rights.[3]

8. ***In midterm elections in July, the opposition won a majority in the lower house of congress***. As a result, the opposition PRI has gained control over an important economic committee in the lower house where economic legislation originates. The ruling PAN continues to head the other key economic committee and have a plurality of seats in the senate which must confirm economic legislation. Presidential elections are due in 2012.

III. Review of Qualification Criteria

9. ***The staff assesses that Mexico continues to meet the qualification criteria identified in paragraph 2 of the FCL decision***. There have been few changes vis-à-vis these criteria since the approval of the FCL arrangement on April 17, 2009, and the current status is summarized below. The authorities have continued to implement very strong policies in line with policy frameworks described in the letter attached to IMF Country Report No. 09/126.

- ***Sustainable external position***. The updated medium-term balance of payments projections indicate that reserves are expected to remain stable going ahead. The revised external DSA (Figure 3 and Tables 5-6) shows that external debt—which is moderate compared with other emerging markets—is expected to fall and remain robust to a variety of shocks.

- ***Capital account position dominated by private flows***. The bulk of external debt remains due to private creditors, while private non-debt creating flows are large relative to overall non-debt creating balance of payments flows.

- ***Steady sovereign external access at favorable terms***. Sovereign spreads have fallen since the first quarter, with the reduction in global risk premia likely dominating

[3] Legislation has been approved by Congress on measures to promote good practices in credit card operations, by increasing and standardizing the information available to customers. In addition, the mandate of the national commission for consumer protection has been strengthened. Also, legislation has been proposed to Congress to increase the number of non-bank mortgage companies (Sofomes) under CNBV's scrutiny, to include those that issue debt, those that have links to credit unions, and other small non-bank financial institutions.

Mexico-specific ratings concerns (see footnote 1). Indeed, the authorities successfully placed in mid-September external sovereign bonds worth US$1.8 billion.[4]

- ***Relatively comfortable reserve position***. Reserve coverage remains comfortable for "normal" times and continues to more than cover short-term debt by residual maturity.

- ***Sustainable public debt and sound public finances.*** Fiscal policy remains underpinned by the balanced budget rule. The sharp economic slowdown and higher fiscal deficit are expected to contribute to a noticeable increase in the gross public debt to GDP ratio during 2008–10.[5] Nevertheless, fiscal plans set out in the 2010 budget[6] show a clear commitment to safeguarding sustainability by outlining the adjustment path back to narrower deficits and revenue measures to strengthen the medium-term position (Box). An important aspect of policy (currently estimated by staff to be equivalent to about 1 percent of GDP in oil revenue over the medium term) will also be ensuring that domestic fuel prices evolve more in line with global oil prices that are currently projected to rise by almost 40 percent over the next 5 years per the latest WEO. Altogether, fiscal adjustment of the size contemplated would facilitate a gradual reduction in public debt in line with analysis in IMF Country Report No. 09/126. Indeed, the revised DSA (Figure 4 and Tables 7–8) shows that the public debt and financing profile remain generally robust to a range of shocks. Nonetheless, risks to the medium-term outlook (including uncertainties regarding potential growth after the crisis) underscore the importance of the authorities' commitment and demonstrated track record to taking additional measures as needed to bringing debt levels down.

- ***Low and stable inflation***: Headline inflation has been falling, and expectations remain well-anchored.

- ***Absence of bank solvency problems***: The banking system remains well capitalized. There are no bank solvency problems that pose a systemic risk. Stress tests conducted by the authorities discussed in Banxico's July 2009 Financial Stability Report (FSR)[7]

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[4] The authorities issued US$1 billion in 10 year bonds at a coupon spread of 235 bps and US$750 million in 30 year bonds at a coupon spread of 155 bps over treasuries.

[5] Of the 4.6 percentage point increase in the gross public debt-to-GDP ratio between 2008 and 2010, 3.2 percentage points reflects the effect of the higher primary deficit, and 1.9 percentage points the effects of lower real growth, in addition to other offsetting factors (see Table 7).

[6] See http://www.shcp.gob.mx/FINANZASPUBLICAS/finanzas_publicas_criterios/CGPE%202009_060908_VF%20Sin%20Cambios.pdf.

[7] See http://www.banxico.org.mx/documents/%7B5286741D-A39E-9745-B393-AF3DF0A5AE85%7D.pdf.

indicate that system capital adequacy ratio would remain above the 8 percent requirement even under scenarios of extreme stress, though there might be individual pressure points.[8]

- ***Effective financial sector supervision***. The overall financial sector supervision framework remains strong as described in IMF Country Report No. 09/126. This year, a number of steps have been taken to further strengthen the framework as discussed in ¶7.

- ***Data transparency and integrity***. The overall quality of Mexican data remains good as described in the 2003 data ROSC. In response to a request from the authorities, the Statistics Department plans a data ROSC update mission in early 2010 to review areas for further improvement, including possibly in the national accounts. Mexico remains in observance of the Special Data Dissemination Standard (SDDS).

IV. Other Issues

10. ***Safeguards***. Staff did not become aware of any significant safeguards issues during the conduct of FCL safeguards procedures related to Banxico.

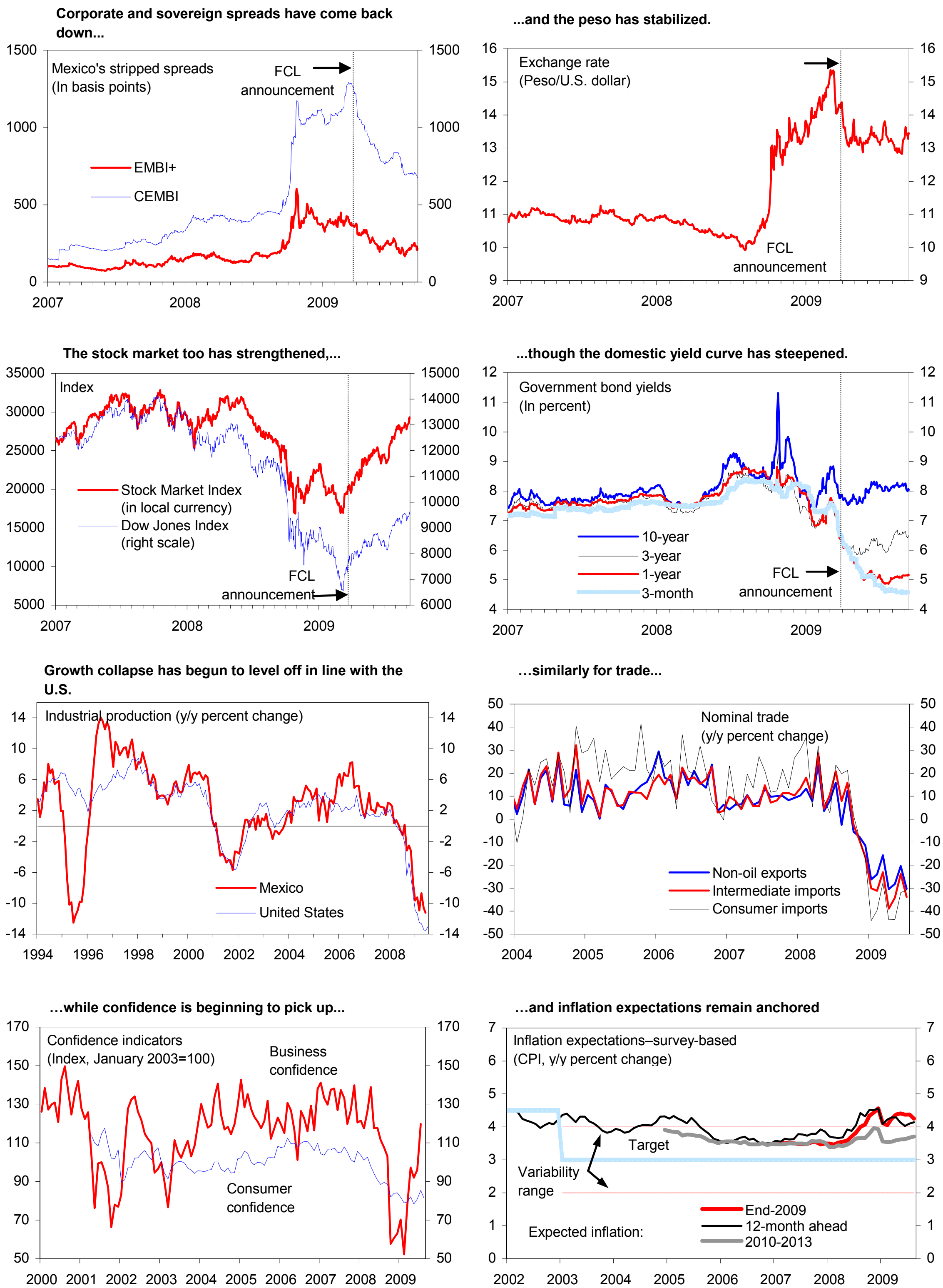
V. Staff Appraisal

11. ***The FCL arrangement for Mexico has supported a reduction in perceptions of tail risks and contributed to maintaining orderly conditions in financial markets***.

12. The 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 pressures. Thus, the staff recommends completion of the review under the FCL arrangement for Mexico.

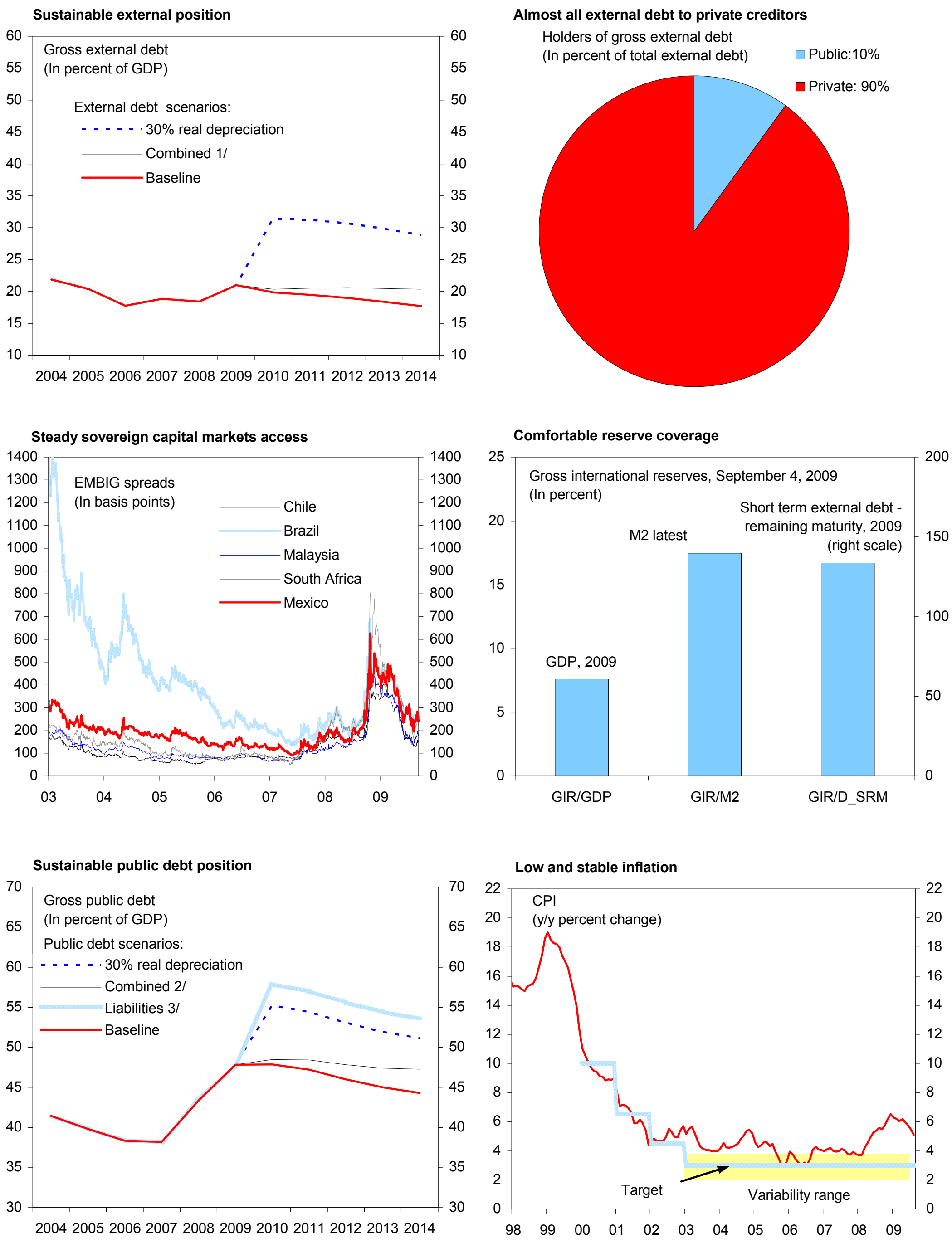
[8] For instance, one scenario considered in the July 2009 FSR assumes a tripling of NPLs over the next 18 months to about 10 percent of all loans, before coming back to current levels at the end of 36 months. In this scenario, overall system capital would remain above the regulatory minimum, though some institutions would need to raise additional capital.

Figure 1. Mexico: Recent Developments



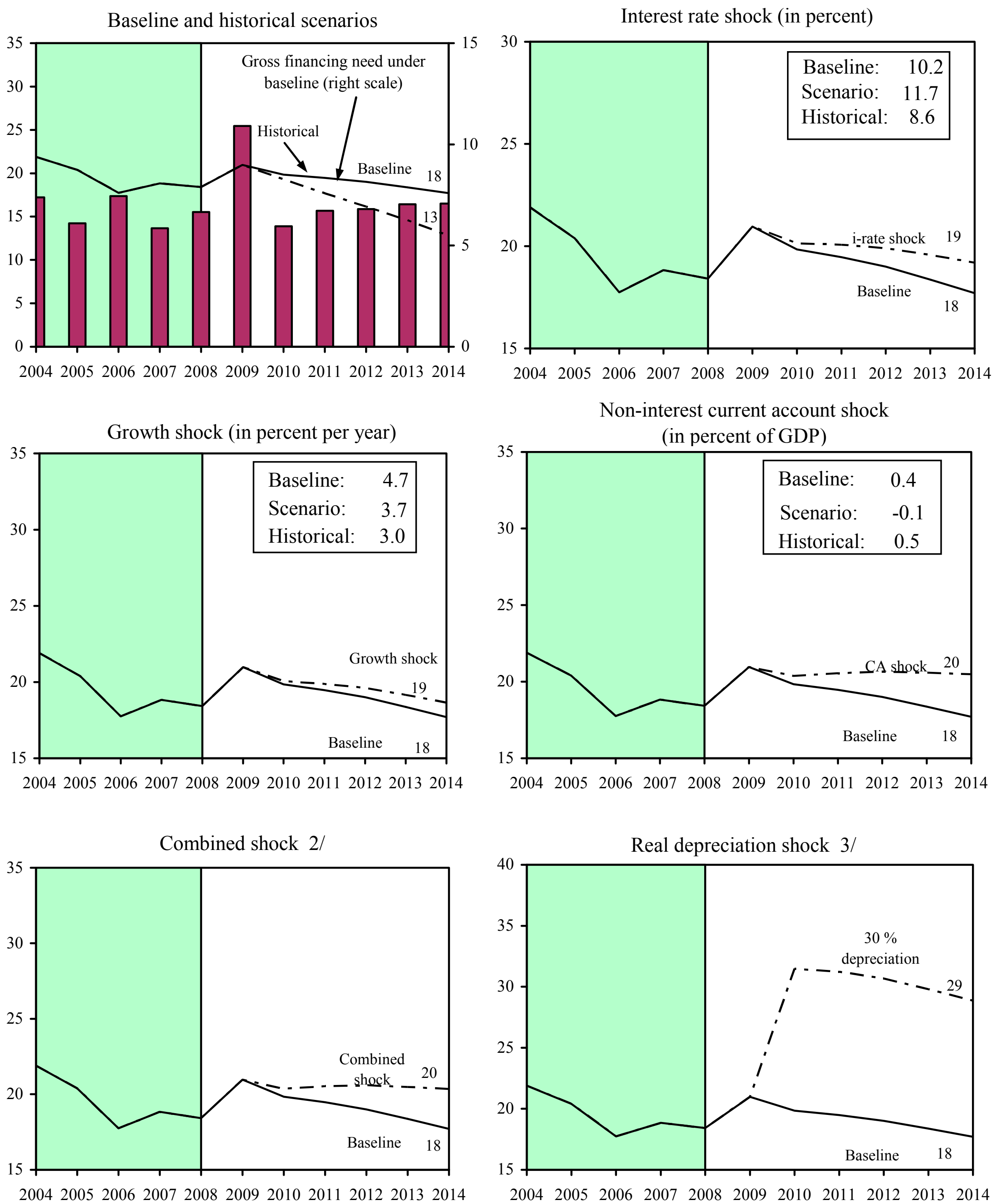
Sources: Datastream; Bloomberg L.P.; EMED; Haver Analytics; and IMF staff calculations.

Figure 2. Mexico: Qualification Criteria



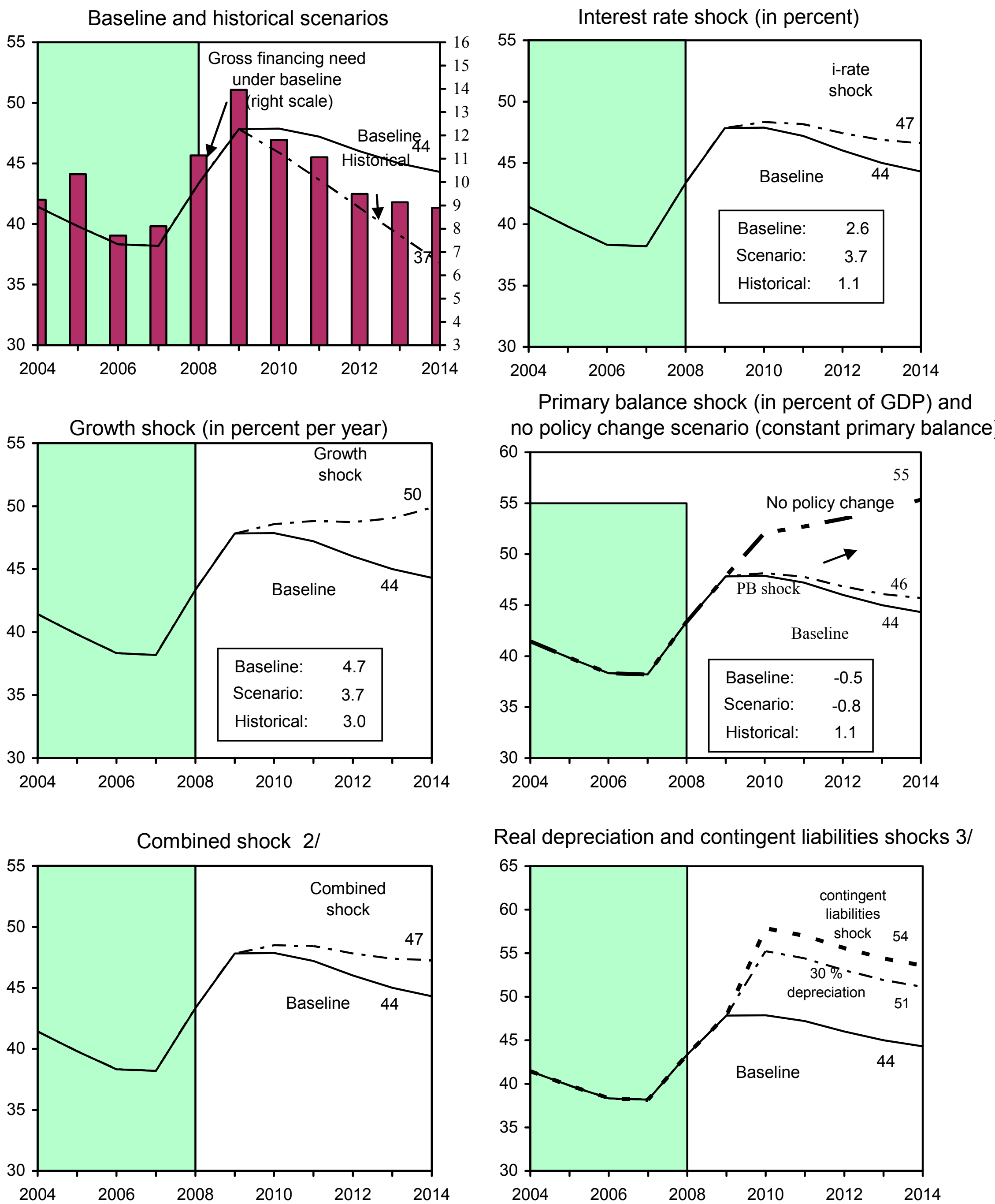
Sources: Bloomberg L.P.; Datastream; EMED; Haver Analytics; and IMF staff calculations.
1/ Combined permanent 1/4 standard deviation shocks applied to interest rate, growth, and primary current account balance.
2/ Combined permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time 10 percent of GDP increase in debt-creating flows.

Figure 3. Mexico: External Debt Sustainability: Bound Tests 1/
(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/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2010.

Figure 4. Country: Gross Public Debt Sustainability: Bound Tests 1/
(Gross public debt in percent of GDP)



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

Table 1. Mexico: Selected Economic, Financial, and Social Indicators, 2004–2010

I. Social and Demographic Indicators

GDP per capita (U.S. dollars, 2007)	9,693	Households below the poverty line (percent, 2002)	33.0
Population (millions, 2007)	105.8	Income share of highest 20 percent / lowest 20 percent	12.8
Life expectancy at birth (years, 2006)	74.5	Adult illiteracy rate (2005)	8.4
Under 5 mortality rate (per thousand, 2006)	35.3	Gross primary education enrollment rate (2006)	112.7

II. Economic Indicators

	2004	2005	2006	2007	2008	Proj. 2009	Proj. 2010
(Annual percentage change, unless otherwise indicated)							
National accounts in constant prices							
Real GDP	4.0	3.2	5.1	3.3	1.3	*-7.3*	*3.1*
Net exports (contribution)	0.0	-0.6	-0.7	*-0.6*	*-1.0*	*1.3*	*-0.3*
Total domestic demand	3.9	3.7	5.7	*3.8*	*2.3*	*-8.4*	*3.3*
Private consumption	5.6	4.8	5.7	*3.9*	*1.5*	*-8.2*	*3.0*
Public consumption	-2.8	2.4	1.7	*2.1*	*0.6*	*2.1*	*1.3*
Gross fixed private investment	6.1	7.1	13.0	*5.8*	*2.1*	*-15.6*	*2.2*
Gross fixed public investment 1/	15.4	8.7	-1.6	*12.9*	*15.8*	*7.3*	*-0.2*
Change in business inventories (contribution)	-1.0	-1.2	-0.3	*-0.5*	*0.1*	*-0.8*	*0.8*
External sector							
Exports, f.o.b.	14.1	14.0	16.7	8.8	7.2	*-22.3*	*9.3*
Export volume	2.1	5.3	8.5	3.5	-2.4	*-11.3*	*3.2*
Imports, f.o.b.	15.4	12.7	15.4	10.1	9.5	*-23.9*	*8.4*
Import volume	9.3	7.3	10.4	4.4	1.0	*-16.3*	*2.1*
Petroleum exports (percent of total exports)	12.6	14.9	15.6	15.8	17.4	*13.2*	*14.6*
Terms of trade (deterioration -)	5.8	3.0	2.9	-0.3	1.3	*-3.6*	*-0.2*
Exchange rates							
Nominal exchange rate (US$/Mex$)							
(average, depreciation -)	-4.6	3.4	0.0	-0.3	-1.8	...	...
Real effective exchange rate (CPI based)							
(average, depreciation -)	-3.8	4.1	0.5	-0.1	-0.7	...	...
Employment and inflation							
Consumer prices (end of year)	5.2	3.3	4.1	3.8	6.5	*4.3*	*4.1*
Formal sector employment (annual average)	2.0	3.2	4.7	4.2	2.1	...	...
Formal sector unemployment rate (annual average)	3.9	3.6	3.6	3.7	4.0	*5.3*	*5.0*
Real manufacturing wages (annual average)	0.3	-0.2	0.4	1.0	0.9	...	...
Money and credit							
Broad money (M4a)	12.6	15.0	12.8	11.5	17.2	*2.0*	*7.7*
Treasury bill rate (28-day cetes, in percent, annual average)	6.8	9.2	7.2	7.2	7.7	...	...
(In percent of GDP)							
Nonfinancial public sector							
Augmented balance 2/	-1.7	-1.3	-0.6	-1.4	-1.8	*-4.9*	*-3.7*
Non-oil augmented balance	-6.1	-6.4	-5.8	-6.5	-7.4	*-8.8*	*-7.7*
Augmented primary balance	1.2	1.6	2.2	1.2	0.8	*-2.2*	*-1.0*
Traditional balance 3/	-0.2	-0.1	0.1	0.0	-0.1	*-2.1*	*-2.5*
Gross public sector debt	41.4	39.8	38.3	38.2	*43.3*	*47.8*	*47.9*
Net public sector debt	36.8	35.2	32.4	31.4	*35.8*	*40.0*	*40.7*
o/w percent in foreign currency	39.1	34.8	28.9	26.4	*25.8*	*30.6*	*29.8*
Savings and investment							
Gross domestic investment	24.8	24.4	26.1	25.8	*26.4*	*22.3*	*22.8*
Public investment	4.3	4.6	4.3	4.7	*5.5*	*5.9*	*5.7*
Private investment	15.4	15.6	16.5	16.7	*16.6*	*16.1*	*15.7*
Change in inventories	5.1	4.2	5.3	4.5	*4.2*	*0.2*	*1.5*
Gross national saving	24.1	23.8	25.7	25.0	*24.9*	*21.0*	*21.6*
Public saving 4/	2.6	3.2	3.7	3.3	*3.7*	*1.0*	*1.9*
Private saving	21.6	20.6	22.0	21.7	*21.2*	*20.0*	*19.6*
External current account balance	-0.7	-0.5	-0.5	-0.8	-1.4	*-1.2*	*-1.2*
Non-oil external current account balance	-2.3	-2.3	-2.5	-2.7	-3.0	*-2.4*	*-2.0*
Foreign direct investment	2.5	1.8	1.4	2.7	2.1	*2.6*	*2.5*
(In percent of exports of goods, nonfactor services, and transfers)							
Public external debt service 5/	14.2	9.4	14.3	7.5	*6.8*	*17.2*	*7.4*
(In billions of U.S. dollars, unless otherwise indicated)							
Net international reserves	61.5	68.7	67.7	78.0	85.4	*87.1*	*91.1*
Gross official reserves in percent of short-term debt 6/	135.3	111.4	147.8	153.9	113.8	*216.8*	*189.3*
Gross external debt (in percent of GDP, end of period)	21.9	20.4	17.7	18.8	18.4	*21.0*	*19.8*
Crude oil export price, Mexican mix (US$/bbl)	31.0	*42.8*	53.1	61.7	84.4	*53.7*	*66.5*

Sources: National Institute of Statistics and Geography; Bank of Mexico; Secretariat of Finance and Public Credit; and IMF staff estimates.

1/ Staff estimates.
2/ Includes adjustments for development banks, Pidiregas, oil stabilization fund, IPAB.
3/ The break in the series in 2009 is due to definitional and accounting changes.
4/ Estimated as the difference between the augmented fiscal balance, as reported by SHCP, and public investment, as reported in the national accounts.
5/ Debt service on gross external debt of the federal government, development banks and nonfinancial public enterprises (adjusted for Pidiregas). In 2009, reflects the operation of paying down the stock of Pidiregas debt from assets of the Pemex Master Trust.
6/ In percent of short-term debt by residual maturity. Historical data include all prepayments.

Table 2. Mexico: Summary Balance of Payments, 2004–14

	2004	2005	2006	2007	2008	Projections 2009	2010	2011	2012	2013	2014
	(In billions of U.S. dollars)										
Current account	-5.2	-4.4	-4.4	-8.3	-15.8	-10.8	-11.9	-14.8	-18.1	-17.7	-17.5
Merchandise trade balance, f.o.b.	-8.8	-7.6	-6.1	-10.1	-17.3	-8.4	-7.1	-12.1	-17.0	-18.8	-20.4
Exports	188.0	214.2	249.9	271.9	291.3	226.3	247.3	265.1	285.1	306.2	328.7
Imports	-196.8	-221.8	-256.1	-281.9	-308.6	-234.8	-254.4	-277.2	-302.1	-325.0	-349.1
Factor income	-10.5	-14.2	-18.5	-18.4	-16.9	-18.8	-21.8	-21.0	-21.0	-20.6	-20.5
Net services	-4.6	-4.7	-5.7	-6.3	-7.1	-5.8	-6.0	-6.7	-7.3	-7.9	-8.4
Net transfers	18.8	22.1	25.9	26.4	25.5	22.3	23.0	25.0	27.2	29.6	31.9
of which Remittances	18.3	21.7	25.6	26.1	25.1	21.2	20.7	22.8	25.6	27.7	30.3
Financial account	13.2	15.0	-1.8	21.1	24.6	16.0	15.9	18.2	20.6	20.2	17.5
Public sector 1/	6.5	1.4	-12.5	14.1	14.9	19.7	12.5	0.4	0.7	1.3	1.8
Medium- and long-term borrowing	-2.8	-7.3	-20.5	-5.1	-1.1	14.0	8.8	-2.0	-1.9	-1.5	-1.0
Disbursements	13.3	6.8	9.8	6.6	10.0	27.0	19.9	14.2	14.1	14.3	14.7
Amortization 2/	16.1	14.1	30.3	11.7	11.1	13.0	11.1	16.2	16.0	15.8	15.7
Pidiregas, net 3/	5.9	8.7	7.0	13.2	12.9	0.0	0.0	0.0	0.0	0.0	0.0
Other, including short-term borrowing and change in assets	3.3	0.0	0.9	6.0	3.1	5.7	3.7	2.4	2.6	2.8	2.8
Of which: oil hedging capital income	…	…	…	…	…	5.7	…	…	…	…	…
Private sector	6.7	13.6	10.6	7.1	9.7	-3.7	3.4	17.8	19.9	19.0	15.8
Direct investment, net	19.2	15.5	13.7	19.3	21.8	18.5	18.3	19.1	20.0	21.0	20.6
Bonds and loans	-2.9	1.9	5.2	8.8	-0.9	-8.2	-5.4	8.2	10.2	8.1	5.7
Equity investments and change in assets abroad	-9.9	-4.4	-9.4	-22.3	-11.9	-13.9	-9.5	-9.5	-10.2	-10.1	-10.6
Errors and omissions and valuation adjustments	-6.8	-2.9	6.4	-1.3	-1.1	-3.6	0.0	0.0	0.0	0.0	0.0
Net international reserves (increase -)	-4.1	-7.1	1.0	-10.4	-7.4	-1.6	-4.0	-3.4	-2.5	-2.5	0.0
	(In percent of GDP, unless otherwise indicated)										
Memorandum items:											
Current account balance	-0.7	-0.5	-0.5	-0.8	-1.4	-1.2	-1.2	-1.5	-1.7	-1.5	-1.4
Nonoil current account balance 4/	-2.3	-2.3	-2.5	-2.7	-3.0	-2.4	-2.0	-1.7	-1.4	-0.9	-0.4
Nonoil trade balance 4/	-2.8	-2.7	-2.6	-2.9	-3.1	-2.1	-1.5	-1.5	-1.3	-1.0	-0.6
Oil trade balance	1.6	1.8	2.0	1.9	1.5	1.2	0.7	0.3	-0.2	-0.6	-1.0
Gross financing needs (billions of US$) 4/	60.1	59.0	69.9	70.3	79.9	96.1	60.6	71.5	77.1	85.8	90.0
Gross international reserves (change, billions of US$) 5/		9.9	2.2	10.9	8.1	1.6	4.0	3.4	2.5	2.5	0.0
End-year (billions of US$)	64.2	74.1	76.3	87.2	95.3	96.9	100.9	104.3	106.8	109.3	109.3
Months of imports of goods and services	3.2	3.2	3.0	3.1	4.4	4.2	4.0	3.8	3.6	3.5	n.a.
Months of imports plus interest payments	3.3	3.4	3.1	3.3	4.7	4.5	4.3	4.1	3.8	3.6	n.a.
Percent of short-term debt (by residual maturity) 6/	135.3	111.4	147.8	153.9	113.8	216.8	189.3	184.7	163.0	151.0	…
Gross total external debt	21.9	20.4	17.7	18.8	18.4	21.0	19.8	19.5	19.0	18.4	17.7
Of which: Public external debt	13.9	12.4	9.8	10.0	10.3	14.6	14.3	13.3	12.1	11.1	10.2
Gross total external debt (billions of US$)	166.2	173.1	169.0	193.1	200.4	181.7	188.8	197.4	208.2	217.5	225.1
Of which: Public external debt 7/	105.3	104.9	93.1	102.6	112.2	126.2	136.4	134.4	132.5	131.0	130.0
Public external debt service (in percent of exports of goods, services, and transfers) 8/	11.3	9.4	14.3	7.5	6.8	17.2	7.4	8.8	8.3	7.4	6.7

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

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

Table 3. Mexico: External Financing Requirements and Sources, 2004-10

(In billions of U.S. dollars)

	2004	2005	2006	2007	2008	2009	2010
						Proj.	
Gross financing requirements	60.1	59.0	69.9	70.3	79.9	96.1	60.6
Current account deficit	5.2	4.4	4.4	8.3	15.8	10.8	11.9
Public sector medium and long term amortization 1/	18.2	16.4	33.3	15.2	14.4	37.5	11.1
Public sector bonds 2/	7.5	8.8	13.8	8.8	6.9	3.6	5.2
memo: o/w nonresidents' holdings of peso denominated deb	0.2	0.7	1.0	1.3	2.0	1.9	1.9
Public sector MLT debt	8.6	5.3	16.5	2.9	4.2	9.4	5.9
PIDIREGAS 3/	2.1	2.3	3.0	3.5	3.2	24.5	0.0
Private sector medium and long term amortization 4/	11.5	11.5	12.8	13.9	15.5	20.6	10.9
Private sector bonds 4/	4.6	4.6	5.7	5.9	6.7	6.0	4.5
Private sector medium and long term debt	6.9	6.9	7.1	8.0	8.8	14.7	6.4
Short term financing	21.2	19.5	20.4	22.6	26.8	25.6	22.7
Public sector 2/	6.5	6.3	6.7	7.0	9.4	7.1	5.8
Private sector 4/ 5/	6.2	4.4	5.8	6.2	7.1	6.9	5.3
Trade credit 6/	8.5	8.9	7.9	9.4	10.2	11.6	11.6
Change in international reserves	4.1	7.2	-1.0	10.3	7.5	1.6	4.0
Available financing	60.1	59.0	69.9	70.3	79.9	96.1	60.6
FDI, net	19.2	15.5	13.7	19.3	21.8	18.5	18.3
Public sector MLT flows 1/	26.5	21.3	23.5	32.3	32.9	27.0	22.2
Public sector bonds 2/	8.2	2.1	3.3	3.3	3.5	8.8	11.5
Public sector MLT debt	5.2	4.7	6.6	3.3	6.5	18.2	8.4
PIDIREGAS 3/	8.0	11.1	10.0	16.7	16.1	0.0	0.0
Net change in nonresidents' holdings of peso denominated debt	5.2	3.3	3.7	9.1	6.7	0.0	2.3
Private sector MLT flows 4/ 7/	10.1	12.9	16.1	21.0	13.4	14.0	7.2
Private sector bonds	4.2	7.6	6.5	8.9	4.1	1.1	1.5
Private sector MLT debt	6.0	5.3	9.6	12.0	9.3	13.0	5.7
Short-term financing 7/	18.0	17.2	20.7	22.5	25.1	24.0	23.1
Public sector 2/	4.8	3.5	5.1	5.2	6.6	7.1	7.2
Private sector 4/ 5/	4.4	5.8	6.2	7.1	6.9	5.3	3.6
Trade credit 6/	8.9	7.9	9.4	10.2	11.6	11.6	12.3
Other flows	-13.8	-7.8	-4.1	-24.8	-13.3	37.1	-10.2
of which:							
Increase in portfolio and other investment assets	-7.3	-7.7	-12.2	-21.8	-7.9	18.5	-7.5
of which: Oil price hedge						5.7	
PEMEX's Master Trust						24.5	

Sources: Mexican authorities and IMF staff estimates.

1/ Including PIDIREGAS.

2/ On a BoP basis.

3/ Includes bonds and loans. For 2004-08, 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 2004-08 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.

7/ 2009 estimates for available financing for the private sector are based on the following assumptions (i) rollover rate for medium-and long-term bonds and loans at around 70 percent; rollover rate for short-term debt at 30 percent; and (iii) rollover rate for trade credit at 100 percent, yielding an aggregate rollover rate of 75 percent.

Table 4. Mexico: Financial Operations of the Public Sector, 2005–2014
(In percent of GDP)

	2005	2006	2007	2008	2009		2010		2011	2012	2013	2014
					Budget	Proj.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.
Budgetary revenue, by type	**21.1**	**21.8**	**22.2**	**23.6**	**21.7**	**22.5**	**22.1**	**22.4**	**22.3**	**22.5**	**22.4**	**22.1**
Oil revenue	7.9	8.3	7.9	8.7	7.9	7.4	6.9	7.4	7.0	7.0	6.7	6.4
Non-oil tax revenue 1/	8.6	9.0	9.3	10.0	9.8	9.3	10.8	10.8	11.1	11.3	11.5	11.5
Non-oil non-tax revenue	4.6	4.5	5.0	4.9	4.0	5.9	4.4	4.2	4.2	4.2	4.2	4.2
Budgetary revenue, by entity												
Federal government revenue	15.3	15.0	15.3	16.9	14.9	16.2	15.9	15.9	15.8	16.1	16.1	15.9
Tax revenue, *of which:*	8.8	8.6	8.9	8.2	9.0	9.4	10.9	10.8	11.2	11.6	11.8	11.8
excises (including fuel)	0.5	-0.1	-0.1	-1.4	-0.5	0.5	0.7	0.3	0.4	0.6	0.6	0.6
Nontax revenue	6.5	6.4	6.3	8.7	5.9	6.8	5.0	5.1	4.6	4.5	4.3	4.1
Public enterprises	5.8	6.8	6.9	6.7	6.8	6.4	6.1	6.5	6.5	6.4	6.3	6.2
PEMEX	2.0	3.1	3.3	3.0	3.2	2.8	2.7	3.0	3.0	2.9	2.8	2.7
Other	3.8	3.7	3.6	3.7	3.6	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Budgetary expenditure	**21.2**	**21.7**	**22.2**	**23.7**	**23.4**	**24.7**	**24.6**	**25.0**	**24.6**	**24.6**	**24.5**	**24.2**
Primary	18.9	19.3	20.0	21.8	21.2	22.2	22.2	22.6	22.3	21.8	21.8	21.6
Programmable	15.8	16.0	16.9	18.3	17.8	18.9	18.5	18.8	18.6	18.0	18.0	17.8
Current	12.7	12.7	13.3	13.9	13.2	14.1	14.3	14.4	14.2	14.0	13.8	13.8
Wages	6.0	5.9	5.8	5.9	6.1	6.5	6.5	6.5	6.2	6.0	5.7	5.5
Pensions	1.9	1.9	2.1	2.1	2.0	2.2	2.4	2.4	2.5	2.6	2.8	2.9
Subsidies and transfers	2.2	2.2	2.3	2.7	2.3	2.5	2.3	2.3	2.3	2.3	2.3	2.3
Other	2.5	2.8	3.1	3.2	2.8	2.8	3.2	3.2	3.2	3.1	3.0	3.0
Capital	3.1	3.2	3.6	4.4	4.6	4.8	4.2	4.5	4.3	4.0	4.1	4.0
Physical capital	2.5	2.6	2.8	3.1	4.2	4.6	4.2	4.1	4.1	3.8	4.0	3.9
Financial capital	0.6	0.6	0.8	1.3	0.4	0.2	0.0	0.3	0.2	0.2	0.2	0.2
Nonprogrammable	3.1	3.4	3.1	3.6	3.4	3.3	3.7	3.8	3.8	3.8	3.8	3.8
Of which: revenue sharing	3.0	3.2	3.0	3.5	3.3	3.1	3.5	3.6	3.6	3.7	3.7	3.6
Interest payments 2/	2.3	2.4	2.1	1.9	2.3	2.5	2.4	2.4	2.3	2.8	2.7	2.6
Traditional balance 3/	**-0.1**	**0.1**	**0.0**	**-0.1**	**-1.8**	**-2.1**	**-2.5**	**-2.5**	**-2.4**	**-2.1**	**-2.1**	**-2.1**
Traditional balance for balanced budget rule	…	…	0.0	-0.1	0.0	0.0	-0.5	-0.5	-0.3	0.0	0.0	0.0
Adjustments to the traditional balance	**1.2**	**0.7**	**1.5**	**1.7**	**0.8**	**2.8**	**1.9**	**1.2**	**1.1**	**1.0**	**1.0**	**1.0**
PIDIREGAS	0.8	1.1	0.9	1.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
IPAB	0.2	0.1	0.1	0.2	0.2	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Budgetary adjustments	0.1	0.2	0.4	0.3	0.2	0.4	0.3	0.3	0.3	0.2	0.2	0.2
PEMEX, oil stabilization fund, FARP (-: net inflows)	-0.1	-0.5	-0.4	-1.0	-0.2	0.6	0.4	-0.3	-0.2	-0.2	-0.2	-0.2
FARAC	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debtor support	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development banks	-0.1	-0.5	0.0	0.4	0.4	0.7	0.5	0.5	0.4	0.4	0.4	0.4
Nonrecurring revenue	0.2	0.3	0.6	0.7	0.0	1.0	0.4	0.4	0.4	0.4	0.4	0.4
Augmented balance 4/	**-1.3**	**-0.6**	**-1.4**	**-1.8**	**-2.6**	**-4.9**	**-4.4**	**-3.7**	**-3.5**	**-3.1**	**-3.1**	**-3.1**
Augmented interest expenditure	2.9	2.8	2.7	2.5	2.5	2.7	2.5	2.7	2.5	2.9	2.8	2.8
Augmented primary balance 5/	1.6	2.2	1.2	0.8	-0.1	-2.2	-1.9	-1.0	-0.9	-0.2	-0.3	-0.3
Memorandum items												
Crude oil export price, Mexican mix (US$/bbl)	42.8	53.1	61.7	84.4	70.0	53.5	53.9	66.5	69.1	70.4	72.2	73.7
Augmented balance excluding development banks	-1.5	-1.1	-1.5	-1.4	-2.2	-4.3	-3.9	-3.2	-3.1	-2.7	-2.7	-2.7
Non-oil augmented balance 6/	-6.4	-5.8	-6.5	-7.4	...	-8.8	...	-7.7	-7.1	-6.7	-6.4	-6.2
Non-oil augmented balance excluding development banks	-6.5	-6.3	-6.5	-7.1		-8.2		-7.2	-6.7	-6.3	-6.0	-5.8
Oil augmented balance	5.0	5.2	5.0	5.7	...	3.9	...	4.0	3.6	3.6	3.3	3.1
Oil-related expenditure	2.8	3.1	2.8	3.0	...	3.5	...	3.4	3.4	3.4	3.4	3.4
Transfers to state and local governments	6.9	6.9	6.7	7.3	...	7.1	...	7.7	7.6	7.6	7.6	7.5
Total investment spending	3.4	3.7	3.7	4.2	4.3	4.8	4.3	4.2	4.1	3.8	4.0	3.9
Gross public sector debt	39.8	38.3	38.2	43.3	...	47.8	...	47.9	47.2	46.0	45.0	44.3
Domestic (percentage of total debt)	67.9	73.5	73.0	70.3	...	69.6	...	70.1	71.9	73.7	75.4	76.9
External (percentage of total debt)	32.1	26.5	27.0	29.7	...	30.4	...	29.9	28.1	26.3	24.6	23.1
Net public sector debt	35.2	32.4	31.4	35.8	...	40.0	...	40.7	40.6	40.0	39.5	39.2
Nominal GDP (billions of Mexican pesos)	9,253	10,380	11,206	12,111	12,883	11,770	12,793	12,770	13,894	15,169	16,522	17,887

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

1/ Total tax revenue excluding excise tax on gasoline.
2/ Includes transfers to IPAB and the debtor support programs.
3/ The break in the series in 2009 is due to definitional and accounting changes.
4/ Public Sector Borrowing Requirements excl. nonrecurrent revenue.
5/ Treats transfers to IPAB as interest payments.
6/ Excludes oil revenue (oil extraction rights, PEMEX net income, oil excess return levies, excise tax on gasoline) and PEMEX operational expenditure, interest payments, and capital expenditure.

Table 5. Mexico: External Debt Sustainability Framework, 2004-14
(In percent of GDP, unless otherwise indicated)

		Actual					Projections						
		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	**Debt-stabilizing non-interest current account 7/**
1	**Baseline: External debt**	21.9	20.4	17.7	18.8	18.4	**21.0**	**19.8**	**19.5**	**19.0**	**18.4**	**17.7**	**-1.5**
2	Change in external debt	-1.3	-1.5	-2.6	1.1	-0.4	2.6	-1.1	-0.4	-0.5	-0.6	-0.7	
3	Identified external debt-creating flows (4+8+9)	-3.0	-3.9	-3.5	-2.5	-0.7	1.4	-0.9	-1.2	-1.2	-1.3	-1.2	
4	Current account deficit, excluding interest payments	-0.8	-0.9	-1.0	-0.6	0.1	-0.6	-0.8	-0.6	-0.3	-0.2	-0.1	
5	Deficit in balance of goods and services	1.8	1.4	1.2	1.6	2.2	1.6	1.4	1.9	2.2	2.3	2.3	
6	Exports	26.6	27.1	27.9	28.2	28.4	28.1	27.8	28.0	27.8	27.6	27.6	
7	Imports	28.4	28.6	29.2	29.8	30.7	29.7	29.2	29.8	30.0	29.9	29.9	
8	Net non-debt creating capital inflows (negative)	-1.9	-2.1	-1.7	-2.1	-1.1	-1.6	-1.5	-1.7	-1.9	-1.8	-1.7	
9	Automatic debt dynamics 1/	-0.3	-0.9	-0.7	0.2	0.3	3.6	1.5	1.1	0.9	0.8	0.7	
10	Contribution from nominal interest rate	1.5	1.4	1.5	1.4	1.3	1.9	2.1	2.0	1.9	1.7	1.5	
11	Contribution from real GDP growth	-0.9	-0.6	-0.9	-0.5	-0.2	1.7	-0.6	-0.9	-1.0	-0.9	-0.8	
12	Contribution from price and exchange rate changes 2/	-1.0	-1.7	-1.3	-0.7	-0.8	3.0	...	...	...	...	...	
13	Residual, incl. change in gross foreign assets (2-3) 3/	1.7	2.4	0.8	3.6	0.3	-1.8	-0.2	0.8	0.7	0.6	0.5	
	External debt-to-exports ratio (in percent)	82.3	75.2	63.5	66.7	64.8	74.6	71.3	69.6	68.3	66.5	64.1	
	Gross external financing need (in billions of US dollars) 4/	56.1	51.8	70.9	60.0	72.5	94.5	56.6	68.1	74.6	83.3	90.0	
	in percent of GDP	7.4	6.1	7.4	5.9	6.7	10.9	5.9	6.7	6.8	7.0	7.1	
	Scenario with key variables at their historical averages 5/						**21.0**	**19.3**	**17.7**	**16.2**	**14.6**	**12.8**	**-2.2**
	Key Macroeconomic Assumptions Underlying Baseline												
	Real GDP growth (in percent)	4.0	3.2	5.1	3.3	1.3	-7.3	3.1	4.9	5.5	5.3	4.9	
	GDP deflator in US dollars (change in percent)	4.3	8.3	6.7	4.2	4.7	-14.1	6.5	1.6	2.5	2.6	2.4	
	Nominal external interest rate (in percent)	6.9	7.4	8.1	8.8	7.5	8.1	10.8	10.8	10.7	9.6	8.9	
	Growth of exports (US dollar terms, in percent) 6/	13.9	14.0	15.6	8.7	6.9	-21.3	8.8	7.0	7.5	7.4	7.3	
	Growth of imports (US dollar terms, in percent) 6/	14.8	12.6	14.6	10.0	9.2	-22.8	7.9	8.8	8.8	7.6	7.4	
	Current account balance, excluding interest payments	0.8	0.9	1.0	0.6	-0.1	0.6	0.8	0.6	0.3	0.2	0.1	
	Net non-debt creating capital inflows	1.9	2.1	1.7	2.1	1.1	1.6	1.5	1.7	1.9	1.8	1.7	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

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

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

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

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

6/ Goods and nonfactor services.

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

Table 6. Mexico: External Sustainability Framework--Stress Tests 2004-2014

	Actual					Projections					
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
I. Baseline Projections											
Gross external debt in percent of GDP	21.9	20.4	17.7	18.8	18.4	21.0	19.8	19.5	19.0	18.4	17.7
in billions of U.S. dollars	166.2	173.1	169.0	193.1	200.4	181.7	188.8	197.4	208.2	217.5	225.1
II. Stress Tests											
Gross external debt in percent of GDP											
A. Alternative Scenarios											
A1. Key variables are at their historical averages in 2010-14 1/						21.0	19.3	17.7	16.2	14.6	12.8
B. Bound Tests											
B1. Nominal interest rate is at baseline plus one-half standard deviations						21.0	20.1	20.1	19.9	19.6	19.2
B2. Real GDP growth is at baseline minus one-half standard deviations						21.0	20.1	19.9	19.6	19.2	18.6
B3. Non-interest current account is at baseline minus one-half standard deviations						21.0	20.4	20.6	20.7	20.6	20.5
B4. Combination of B1-B3 using 1/4 standard deviation shocks						21.0	20.4	20.5	20.6	20.5	20.4
B5. One time 30 percent nominal depreciation in 2010						21.0	31.5	31.2	30.7	29.8	28.9
Gross external debt in billions of U.S. dollars											
A. Alternative Scenarios											
A1. Key variables are at their historical averages in 2010-14 1/						181.7	182.6	182.8	182.5	179.6	172.3
B. Bound Tests											
B1. Nominal interest rate is at baseline plus one-half standard deviations						181.7	191.6	203.4	218.1	231.8	244.1
B2. Real GDP growth is at baseline minus one-half standard deviations						181.7	188.9	197.6	208.5	218.0	225.6
B3. Non-interest current account is at baseline minus one-half standard deviations						181.7	193.9	208.4	226.3	243.8	260.4
B4. Combination of B1-B4 using 1/4 standard deviation shocks						181.7	192.8	206.0	222.3	237.9	252.4
B5. One time 30 percent nominal depreciation in 2010						181.7	191.6	202.5	215.0	225.9	234.8

1/ 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.

Table 7. Mexico: Gross Public Sector Debt Sustainability Framework, 2004-2014
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	**Debt-stabilizing primary balance 9/**
Baseline: Gross public sector debt 1/	41.4	39.8	38.3	38.2	43.3	**47.8**	**47.9**	**47.2**	**46.0**	**45.0**	**44.3**	**-1.0**
o/w foreign-currency denominated 7/	14.6	12.8	10.2	10.3	12.9	14.6	14.3	13.3	12.1	11.1	10.2	
Change in gross public sector debt	-4.1	-1.6	-1.5	-0.1	5.2	4.5	0.0	-0.7	-1.2	-1.0	-0.7	
Identified debt-creating flows (4+7+12)	-5.1	-2.6	-3.8	-2.0	1.0	5.2	-0.5	-0.8	-1.3	-1.1	-0.8	
Primary deficit	-1.2	-1.6	-2.2	-1.2	-0.9	2.2	1.0	0.9	0.2	0.3	0.3	
Revenue and grants	19.3	20.8	21.4	21.4	22.9	21.5	22.0	21.9	22.1	22.0	21.7	
Primary (noninterest) expenditure	18.1	19.2	19.2	20.2	22.0	23.7	23.0	22.8	22.3	22.2	22.0	
Automatic debt dynamics 2/	-2.6	-0.8	-1.3	-0.1	2.6	4.0	-1.1	-1.3	-1.0	-0.9	-0.7	
Contribution from interest rate/growth differential 3/	-2.5	-0.1	-1.6	-0.2	-0.1	4.0	-1.1	-1.3	-1.0	-0.9	-0.7	
Of which contribution from real interest rate	-0.9	1.1	0.3	1.0	0.3	0.7	0.3	0.8	1.3	1.3	1.4	
Of which contribution from real GDP growth	-1.6	-1.2	-1.8	-1.2	-0.5	3.3	-1.4	-2.1	-2.4	-2.3	-2.0	
Contribution from exchange rate depreciation 4/	-0.1	-0.7	0.2	0.1	2.8	...	...	...	...	...	...	
Other identified debt-creating flows	-1.3	-0.2	-0.3	-0.6	-0.7	-1.0	-0.4	-0.4	-0.4	-0.4	-0.4	
Privatization receipts (negative)	-1.3	-0.2	-0.3	-0.6	-0.7	-1.0	-0.4	-0.4	-0.4	-0.4	-0.4	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	1.0	1.0	2.3	1.8	4.2	-0.7	0.5	0.2	0.1	0.1	0.1	
Gross public sector debt-to-revenue ratio 1/	214.6	191.3	179.1	178.4	189.0	222.6	217.8	216.0	208.3	204.9	204.2	
Gross financing need 6/	9.2	10.3	7.7	8.1	11.1	14.0	11.8	11.1	9.5	9.1	8.9	
in billions of U.S. dollars	70.2	87.8	73.4	83.1	121.2	120.9	112.3	112.3	104.0	108.2	113.1	
Scenario with key variables at their historical averages 7/						**47.8**	**45.9**	**43.6**	**41.3**	**39.0**	**36.8**	**-1.1**
Scenario with no policy change (constant primary balance) in 2009-2014						**47.8**	**52.1**	**52.7**	**53.5**	**54.2**	**55.3**	**-1.1**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	4.0	3.2	5.1	3.3	1.3	-7.3	3.1	4.9	5.5	5.3	4.9	
Average nominal interest rate on public debt (in percent) 8/	7.3	7.6	7.8	7.5	7.7	6.1	6.1	5.8	6.8	6.7	6.7	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-1.8	3.0	1.1	3.0	1.0	1.2	0.8	2.0	3.3	3.3	3.5	
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.8	4.8	-1.6	-1.0	-21.1	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	9.1	4.6	6.7	4.5	6.6	4.9	5.3	3.8	3.5	3.4	3.2	
Growth of real primary spending (deflated by GDP deflator, in percent)	-6.9	9.6	5.1	8.3	10.6	-0.2	0.1	3.9	3.1	5.2	3.9	
Primary deficit	-1.2	-1.6	-2.2	-1.2	-0.9	2.2	1.0	0.9	0.2	0.3	0.3	

1/ Public sector includes federal government, Pemex and other public companies, development banks, Pidiregas, IPAB, debtors' program, and Farac.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.
7/ External debt is converted in pesos using end of period exchange rates.

Table 8. Mexico: Gross Public Sector Debt Sustainability Framework--Stress Tests, 2004-2014
(In percent of GDP, unless otherwise indicated)

	Actual					Projections					
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
						I. Baseline Projections					
Gross Public Sector Debt	41.4	39.8	38.3	38.2	43.3	47.8	47.9	47.2	46.0	45.0	44.3
in billions of U.S. dollars	318.5	346.4	368.0	392.1	379.5	429.5	449.4	475.8	502.2	530.8	561.6
						II. Stress Tests					
Gross Public Sector Debt											
A. Alternative Scenarios											
A1. Key variables are at their historical averages in 2009-14 1/						47.8	45.9	43.6	41.3	39.0	36.8
A2. No policy change (constant primary balance) in 2009-14						47.8	52.1	52.7	53.5	54.2	55.3
B. Bound Tests											
B1. Real interest rate is at baseline plus one-half standard deviations						47.8	48.4	48.2	47.4	46.9	46.6
B2. Real GDP growth is at baseline minus one-half standard deviations						47.8	48.6	48.8	48.7	49.0	49.9
B3. Primary balance is at baseline minus one-half standard deviations						47.8	48.2	47.8	46.8	46.1	45.7
B4. Combination of B1-B3 using 1/4 standard deviation shocks						47.8	48.5	48.4	47.8	47.4	47.3
B5. One time 30 percent real depreciation in 2010 2/						47.8	55.2	54.4	53.1	51.9	51.1
B6. 10 percent of GDP increase in other debt-creating flows in 2010						47.8	57.9	57.0	55.6	54.4	53.6
Gross public sector debt in billions of U.S. dollars											
A. Alternative Scenarios											
A1. Key variables are at their historical averages in 2009-14 1/						429.5	430.3	431.4	432.0	431.2	428.7
A2. No policy change (constant primary balance) in 2009-14						429.5	398.7	430.0	471.3	516.9	566.0
B. Bound Tests											
B1. Real interest rate is at baseline plus one-half standard deviations						429.5	454.0	485.4	517.7	552.8	591.0
B2. Real GDP growth is at baseline minus one-half standard deviations						429.5	451.5	482.3	516.3	555.7	601.4
B3. Primary balance is at baseline minus one-half standard deviations						429.5	452.1	481.4	511.3	543.7	579.0
B4. Combination of B1-B3 using 1/4 standard deviation shocks						429.5	453.0	483.3	514.3	547.9	584.4
B5. One time 30 percent real depreciation in 2010 2/						429.5	348.4	368.4	389.1	411.4	435.5
B6. 10 percent of GDP increase in other debt-creating flows in 2010						429.5	543.3	574.2	606.7	641.5	679.1

1/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
2/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 9. Mexico: Indicators of Fund Credit 2007-2014

			Projections					
	2007	2008	2009	2010	2011	2012	2013	2014
Stocks from prospective drawings 1/								
Fund credit in millions SDR	0	0	31,528	31,528	31,528	31,528	15,764	0
In percent of quota	0	0	1,000	1,000	1,000	1,000	500	0
In percent of GDP	0	0	6	5	5	5	2	0
In percent of exports of goods and services	0	0	21	19	18	16	8	0
In percent of gross reserves 2/	0	0	52	50	48	47	23	0
Flows from prospective drawings 3/								
Charges (Millions SDR)	0	0	192	842	842	851	782	174
Debt Service due on GRA credit (Millions SDR)	0	0	192	842	842	851	16,546	15,938
In percent of quota	0	0	6	27	27	27	525	506
In percent of GDP	0	0	0.0	0.1	0.1	0.1	2.2	2.0
In percent of exports of goods and services	0	0	0.1	0.5	0.5	0.4	8.0	7.2
In percent of gross reserves 2/	0	0	0	1	1	1	24	23
Memo Item:								
Total External Debt, assuming full drawing (% of GDP)	19	19	27	25	24	24	20	18

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

1/ End of period. Assumes full drawings under the FCL upon approval of the review. The Mexican authorities have expressed their intention to treat the arrangement as precautionary. At an SDR/US$ rate of 0.629895 as of September 17, 2009.

2/ Excludes IMF purchases.

3/ Based on the rate of charge as of September 17, 2009. Includes surcharges under the system currently in force and service charges.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

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

The Executive Board of the International Monetary Fund (IMF) today completed its six-month 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 and do not intend to draw on the line.

The one year arrangement for Mexico for SDR 31.5 billion (about US$47 billion), approved in April 17, 2009 (see Press Release No. 09/130) was the first commitment under the IMF's FCL, which was created in the context of a major overhaul of the Fund's lending framework on March 24, 2009 (see Press Release No. 09/85 and Public Information Notice 09/40).

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

"Six months ago, with the global financial crisis near its peak, the IMF Executive Board approved for Mexico the first Flexible Credit Line (FCL) arrangement in the history of the Fund. The goal of the FCL is to provide insurance against tail risks beyond the control of country authorities. In Mexico, the authorities' responsive policy actions, additional financing from the international community, coupled with the FCL have in the last months supported a reduction in perceptions of tail risks and contributed to stabilization in financial market conditions. Today, the IMF Executive Board has completed a review that reaffirmed that Mexico continues to meet the qualification criteria for access to FCL resources.

"Despite its strong policy frameworks, the current global economic and financial environment has hit Mexico harder than expected. The economy is in the deepest recession since the 1994-95 crisis, reflecting especially close links to the U.S. economy. However, recent indicators show some signs of recovery and overall growth is expected to pick up in the second semester of this year. Meanwhile, corporate external financing conditions have eased and the balance of payments situation remains manageable.

"However, Mexico's very strong policy framework, which underpins its qualification for the FCL, has helped cushion the impact of the global crisis. The flexible exchange rate has adjusted, the inflation targeting framework has provided an anchor for expectations, and the fiscal rule and strengthened public sector balance sheets have averted disruptive moves in risk premia. The well capitalized banking system and strong supervisory framework provide assurances that challenges to the financial sector from the sharp growth slowdown will be met.

"In a signal of their commitment to pursuing very strong policies, the authorities have proposed an ambitious fiscal reform to the Congress that seeks to strike a balance between the need to begin the process of fiscal consolidation, while smoothing as much as possible the withdrawal of fiscal support to the economy. The proposed measures, in conjunction with the existing fiscal framework, continue to ensure medium term fiscal sustainability. Monetary policy continues to be guided by the inflation targeting framework and expectations remain well anchored.

"Against this backdrop of very strong policy frameworks and actions, the Executive Board today reaffirmed that Mexico continues to meet the qualification criteria for the FCL. Accordingly, resources under the FCL—which the authorities have indicated that they intend to continue to treat as precautionary—will remain available through April next year," Mr. Lipsky said.