



MEXICO

November 2015

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

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 23, 2015. Based on information available at the time, the staff report was completed on November 10, 2015.

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

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November 24, 2015

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

On November 23, 2015, 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 stated their intention 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\$65 billion¹) was approved by the IMF's Executive Board on November 26, 2014 (see [Press Release No. 14/543](#)). 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](#)), January 10, 2011 (see [Press Release No. 11/4](#)), and November 30, 2012 (see [Press Release No. 12/465](#)).

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

"Mexico's economy has shown resilience over the last year in a complex external environment characterized by falling commodity prices and heightened global financial market volatility. Moderate growth continues, inflation is close to target, and the external current account deficit is contained. Despite the increased volatility, foreign exchange and sovereign debt markets have continued to function well.

"This resilience reflects Mexico's track record of prudent macroeconomic policies in the context of a strong policy framework. Looking ahead, the authorities have reaffirmed their commitment to proceed with fiscal consolidation to lower the public debt-to-GDP ratio, and to rebuild foreign exchange reserves. The implementation of a broad range of structural reforms is expected to raise medium-term growth.

¹ Amount based on the Special Drawing Right (SDR) quote of November 23, 2015 of 1 USD = SDR 0.726977

“Mexico’s integration with the global economy is a source of strength but also increases its exposure to external shocks. The Flexible Credit Line arrangement, for which Mexico continues to meet the qualification requirements, will play an important role in supporting the authorities’ macroeconomic strategy by providing insurance against tail risks and supporting market confidence. The Mexican authorities continue to treat the arrangement as precautionary and have stated their intention to phase out access in any subsequent FCL arrangement conditional on a reduction in global risks affecting Mexico.”



MEXICO

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT

November 10, 2015

EXECUTIVE SUMMARY

Context: Mexico has navigated successfully a complex external environment, characterized by falling commodity prices, a sharp appreciation of the U.S. dollar, and heightened volatility in international financial markets. The economy continues to grow at a moderate rate and inflation is close to the target. Looking ahead, activity should be supported by strengthening external demand and by the implementation of the structural reforms. The main external risks are negative surprises to U.S. growth, or a renewed surge in capital flow volatility caused by uncertainty related to the path of U.S. monetary policy or by adverse developments in key emerging market economies.

Policies: Macroeconomic policies are focused on maintaining strong fundamentals and safeguarding financial stability. The authorities remain committed to a gradual reduction of the fiscal deficit over 2015–18, which would set the ratio of public debt to GDP on a downward path. The accommodative stance of monetary policy has helped support growth, while inflation is low and stable. Continued steady implementation of the structural reforms would boost potential growth in the medium term.

FCL: The fifth arrangement with Mexico under the FCL in the amount of SDR 47.292 billion (1,304 percent of quota) was approved on November 26, 2014.

Qualification: In staff's view, Mexico continues to meet the qualification criteria for access to FCL resources specified under the corresponding Executive Board decision. Staff recommends 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 25, 2016. The authorities intend to continue treating the arrangement as precautionary.

Approved By
**Robert Rennhack and
 Vivek Arora**

This report was prepared by a team comprising Dora Iakova (head), A. Klemm, F. Valencia (all WHD), J. Araujo (SPR), M. Chamon (RES), J. Chow (MCM), I. Rial (FAD). A. Herman (WHD) provided outstanding research assistance.

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CONTEXT

1. The Mexican economy has been resilient in the context of a complex global environment. International oil prices declined by more than 50 percent since mid-2014. In addition, emerging market asset prices have been affected by a rise in global financial volatility and a portfolio shift away from emerging markets, driven by slowing growth in key economies and uncertainty related to the path of U.S. monetary policy. Along with other emerging market currencies, the Mexican peso depreciated sharply against the U.S. dollar over the last year. Nonetheless, the yields on local-currency government bonds have increased only mildly, economic activity continues to grow at a steady pace, and inflation remains low and stable.

2. Mexico's macroeconomic policies and policy frameworks remain very strong. The flexible exchange rate has helped the economy adjust to external shocks. Monetary policy is guided by an inflation-targeting framework, and the financial regulatory and supervisory framework is strong. Fiscal policy is guided by the fiscal responsibility law, and the authorities are committed to a consolidation path that would lead to a gradual reduction of public debt over the medium term. The external current account deficit is low and stable, and there are no restrictions on capital flows. Steady implementation of the structural reform agenda would help raise the economy's potential growth in the medium term. At the conclusion of the 2015 Article IV Consultation, Executive Directors expressed confidence in Mexico's very strong economic fundamentals and policy frameworks.

3. Mexico's successive FCL arrangements have supported the authorities' policies by providing a buffer against tail risks. Mexico is deeply integrated into the global economy through both trade and financial channels, with particularly strong links to the United States. International investors held 45 percent of total public debt and 36 percent of local-currency-denominated sovereign bonds in 2015. Total foreign portfolio investment in Mexico reached US\$ 478 billion (37 percent of GDP) at the end of 2014. High foreign participation in domestic financial markets brings substantial benefits, such as lower cost of finance and a more diversified investor base. However, it also exposes Mexico to abrupt shifts in investor sentiment toward emerging markets. Based on BIS data, the Mexican peso is the most actively traded emerging market currency in the world, with a daily global trading volume of US\$135 billion. The authorities consider the FCL arrangement a valuable insurance against tail risks and continue to treat it as precautionary.

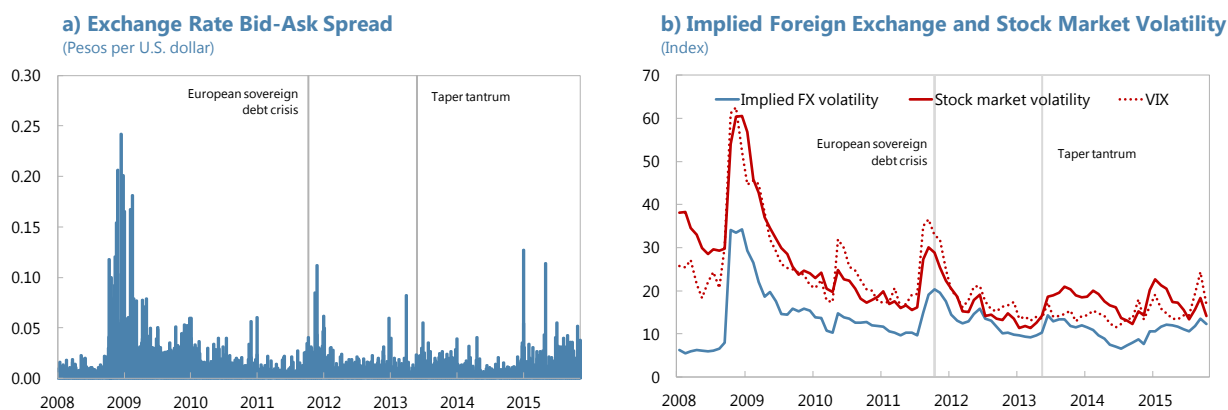
RECENT ECONOMIC AND POLICY DEVELOPMENTS

4. The economy continues to grow at a moderate pace. Growth is projected to be 2¼ percent in 2015, and to accelerate over the medium term (Figure 1). Stronger U.S. growth and the real depreciation of the currency should support Mexico's manufacturing production and exports, with positive spillovers to domestic demand. The boost to activity from lower electricity prices should largely offset the growth effects of lower public spending. Private consumption growth would continue to be supported by steady wage growth and rising employment. Inflation is low, and

is expected to remain close to the 3-percent target over the next year. The structural reforms are expected to raise potential growth over the medium term. Some of the benefits of the reform are already visible: private investment in gas pipelines, electricity generation, and telecommunications has picked up, the first auctions of oil fields have been completed, and the financial reform has helped spur competition in the banking sector.

5. Asset prices in Mexico have been affected by the rise in volatility in global financial markets. The peso had depreciated 30 percent against the U.S. dollar, and by 15 percent in real effective terms between mid-2014 and September 2015. Foreign exchange bid-ask spreads and stock market volatility increased to levels last seen during the euro area sovereign debt crisis in November 2011 and the taper tantrum, respectively. In response, the Foreign Exchange Commission reactivated two foreign exchange intervention schemes intended to reduce the risk of disorderly market conditions by increasing liquidity in exchange rate markets.¹ In contrast, the sovereign bond market has been relatively calm: the long end of the domestic-currency yield curve has shifted up only modestly over the last year. Total non-resident ownership of sovereign debt has been broadly stable since the end of 2014, though there has been a decline in non-resident holdings of short-term paper (Figure 2). Portfolio capital inflows moderated, but stayed positive in the first half of the year. Higher frequency partial data from ETF's and mutual funds suggest that outflow pressures intensified in July and August, and corporate bond issuance in foreign currency trailed off in the third quarter.

Bid-Ask Spread and Financial Market Volatility



Sources: Bloomberg L.P.; and IMF staff calculations.

¹ The first scheme, activated last December, is a minimum price FX auction of US\$200 million triggered when the currency depreciates by 1.5 percent vis-a-vis the US dollar with respect to the previous day (the threshold has been 1 percent since July 30). The second scheme, in place since March 2015, is a preannounced daily FX auction (initially of US\$52 million, raised to US\$200 million since July 30) with no minimum price. The two schemes will be active through the end of November. Both intervention modalities have been used in the past.

6. Monetary policy remains appropriately accommodative. Year-on-year inflation has fallen below the 3-percent target in 2015. The pass-through from the currency depreciation to inflation has been very low and limited only to durable goods prices, with no signs of spillovers to other prices or wages so far. Inflation expectations remain well anchored. Real wage growth has been modest and broadly in line with productivity gains. Slack in the economy is expected to diminish only gradually going forward, keeping inflation pressures in check.

7. The authorities are committed to a gradual fiscal consolidation over 2015–18, as announced last year. The public sector borrowing requirement (PSBR) is projected to decline to 4.1 percent of GDP this year (from 4.6 percent in 2014). It would be reduced further by about ½ percentage point per year to reach 2½ percent of GDP in 2018, despite a significant decline in oil prices and a downward revision of oil production forecasts. This plan will help set the public debt-to-GDP ratio on a downward path. Delivering on this commitment would be important to restore fiscal buffers and keep financing costs low. Mexico's sovereign debt ratings are high, with a stable outlook.

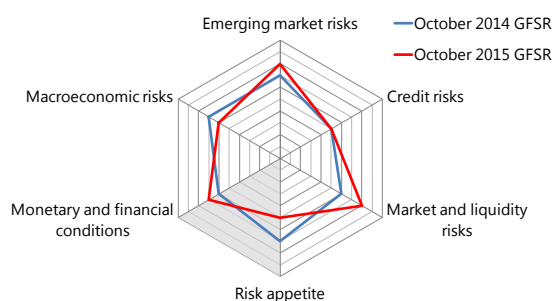
8. Mexico's external sector position remains strong. The current account deficit is projected to widen to 2¼ percent of GDP in 2015 (from 1.9 percent in 2014), reflecting a reduction in the hydrocarbons trade balance. The non-hydrocarbon trade balance should benefit from the depreciation of the currency going forward. Over the medium term, the current account deficit could increase temporarily due to higher FDI related to the structural reforms, and then improve as oil production and exports pick up. The current account deficit in 2015 is broadly in line with fundamentals and desirable policy settings. The real effective exchange rate is assessed to be temporarily undervalued (by 3–12 percent), reflecting an overshooting of the nominal exchange rate related to heightened volatility of the prices of risky assets. The net international investment liability position is broadly stable at around 33 percent of GDP. Foreign exchange reserves remain adequate according to a range of indicators, although the recent intervention has led to a decline in the level of gross reserves from US\$195.7 billion at end-2014 to US\$177 billion in October 2015 (Figure 5 and Table 7).

9. The financial sector remains sound, and domestic credit growth is close to trend. The commercial banking system remains well capitalized, liquid, and profitable. The authorities' stress tests and staff analysis suggest that banks and the corporate sector would be resilient to negative shocks to growth, interest rates, and asset prices. Annual nominal growth of bank credit to the nonfinancial private sector was around 10 percent in the first half of 2015, consistent with trend increase in financial intermediation.

10. External risks for Mexico remain high one year into the FCL arrangement. The updated external stress index (Box 1) shows that the external conditions have deteriorated only slightly since the approval of the FCL arrangement, but could worsen sharply in a downside scenario. Some of the risks identified last year have already materialized: asset price volatility increased significantly and oil prices fell. Given continued uncertainty about the path of U.S. monetary policy, a renewed increase in financial markets volatility is a distinct possibility. The downside scenario in the external stress Index does not assume a further fall in oil prices, as the risk of that has diminished. It is based on a

financial shock including a negative shock to emerging market asset prices, and a rise in U.S. interest rates not driven by positive growth prospects in the United States. The Global Financial Stability Map shows that emerging market risks, and market and liquidity risks, have increased over the last year.

Global Financial Stability Map



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

11. The authorities highlighted that the FCL arrangement continues to play an important role as insurance against tail

risks, and noted that Mexico has no intention of using the facility on a permanent basis. They consider that external risks remain elevated in the context of uncertainty about U.S. monetary policy normalization and continued geopolitical tensions amid a weaker outlook for global growth. Conditional on a reduction of global risks affecting Mexico, including risks related to the normalization of U.S. monetary policy, they intend to phase out the use of Fund resources in any subsequent FCL arrangements, with a view to eventually exit the facility. The ongoing fiscal consolidation and the implementation of structural reforms to boost growth would help improve resilience. The authorities are using foreign exchange interventions only on a temporary basis in response to heightened market volatility, and are committed to rebuilding reserve buffers in the future.

Box 1. The Updated External Economic Stress Index

The external economic stress index was initially presented Mexico's staff report on the arrangement under the Flexible Credit Line, November 2014 (based on the methodology in *The Review of Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument*, IMF Policy Paper, May 2014). The calculation of the index required three main choices: (i) selection of relevant external risks, (ii) selection of proxy variables capturing these risks, and (iii) choice of weights for these variables. The updated index is presented below (using the same risk variables with updated weights based on the latest data).

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

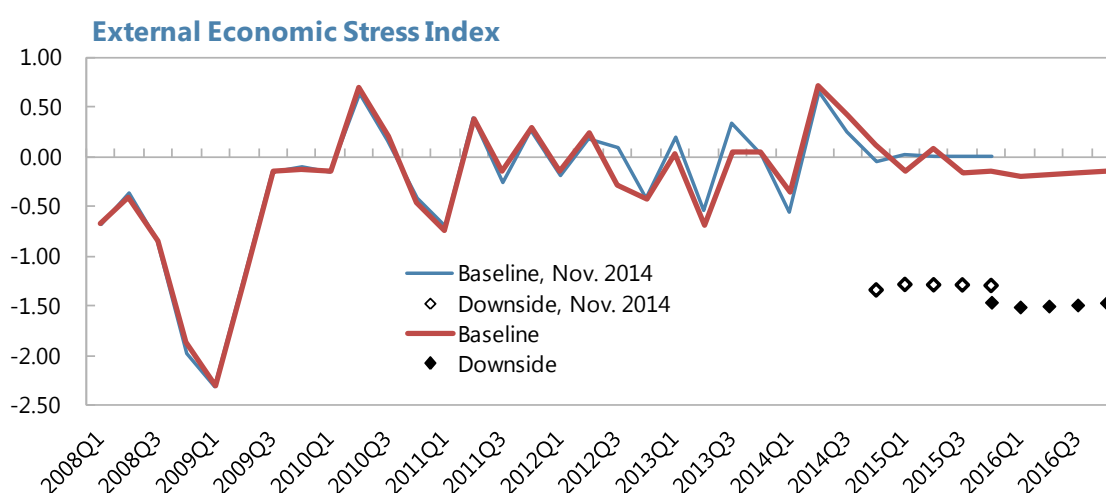
Variables. Risks to exports, remittances and inward FDI are all proxied by U.S. growth. Risks to debt and equity portfolio flows are proxied by the emerging market volatility index (VXEEM) and the change in the U.S. Treasury 10-year yield. Risks to the oil industry are proxied by the change in world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

Weights. The weights were estimated using balance of payment and international investment position data, all expressed in shares of GDP. The weight on U.S. growth (0.47) corresponds to the sum of exports, FDI, and remittances; the weights on the change in the U.S. long-term yield (0.33) and the VXEEM (0.16) correspond to the stocks of foreign debt and equity; and the weight on the change in the oil price (0.04) corresponds to oil exports.

Box 1. The Updated External Economic Stress Index (concluded)

Baseline scenario. This scenario corresponds to the WEO projections for U.S. growth, oil prices, and the U.S. 10-year bond yield. The VXEEM is assumed to remain unchanged at its end-September 2015 level.

Downside scenario. This scenario is the same as considered last year because the main risks are the same. The specific assumption is that U.S. long-term interest rates rise by 100 basis points in the absence of a positive U.S. growth shock (for example due to a decompression of term premium, financial stability concerns, shifts in investor confidence, or an inflationary shock). The tightening of financial conditions leads to a reduction in U.S. growth by 0.5 percentage points and an abrupt surge in global financial market volatility, with the VXEEM rising by 2 standard deviations (for comparison, the VXEEM increased by 4 standard deviations between 2008Q4 and 2011Q3). The associated volatility surge prompts sharp capital outflows from emerging markets. The downside scenario is illustrated in the chart by dots, which represent the level to which the index would fall if the described shock materialized in any given quarter.



REVIEW OF QUALIFICATION

12. Mexico continues to meet the qualification criteria for an FCL arrangement according to staff's assessment (Figure 3). Mexico has very strong economic fundamentals and institutional policy frameworks. Monetary policy is guided by a credible inflation-targeting framework in the context of a flexible exchange rate regime, and fiscal policy is guided by the fiscal responsibility law.

- **Sustainable external position.** The external current account deficit is small and is envisaged to remain close to its current level over the medium term. The updated external debt sustainability analysis shows that Mexico's external debt is relatively low, and would rise only moderately over the medium term even under negative shocks (Figure 4).
- **Capital account position dominated by private flows.** The bulk of Mexico's external debt is owed to private creditors. Private portfolio flows (debt and non-debt creating) and FDI continue to be large relative to the overall balance of payments flows.

- **Track record of steady sovereign access to international capital markets at favorable terms.** Mexico is among the highest-rated emerging markets. The 10-year sovereign bond (EMBIG) spread has risen to 275 basis points and five-year CDS spreads have also risen to around 152 basis points (as of end-October, 2015), but both remain lower than the spreads for most other emerging markets. Public debt has average maturity of close to 8 years, and Mexico continues to place successfully sovereign bonds in international capital markets at low yields.²
- **Relatively comfortable international reserve position.** Gross international reserves stood at US\$177 billion at end-October 2015. This level is comfortable relative to most reserve coverage indicators.
- **Sustainable public debt position and sound public finances.** Fiscal policy remains prudent. The authorities have started to reduce the PSBR in 2015, and plan to bring it down further in the coming years, which would put the debt-to-GDP ratio on a downward path. The updated debt sustainability analysis shows that the debt trajectory is overall robust to standard shocks (Figure 7 and Table 9). The debt projection is sensitive to growth and the evolution of oil prices, but debt would remain contained even under severe negative shocks.
- **Low and stable inflation.** Annual inflation is slightly below the permanent target of 3 percent and well within the 2–4 percent range. Inflation expectations are firmly anchored.
- **Sound financial system and the absence of solvency problems that may threaten systemic stability.** The capital adequacy ratio for the banking system stood at 15.4 percent in July 2015. Corporate balance sheets remain resilient to growth and asset price shocks. The broader financial system is also sound. Private pension funds, which hold assets of about 16 percent of GDP, have a conservative investment profile. All insurance companies comfortably satisfy the capital requirements under a Solvency II-type regime adopted in April 2015. Real estate investment trusts have grown since 2011, but remain small and are financed mostly by equity, with statutory limits on their leverage.
- **Effective financial sector supervision.** The latest FSAP concluded that Mexico’s financial sector supervision framework remains effective. Mexico adopted the Basel III capital rules in 2013, and the Basel Committee has assessed it as compliant earlier this year. Liquidity coverage ratio (LCR) minimum requirements have been in place since January 2015. The regulation of financial groups was enhanced in January 2014 through the implementation of supervision at the group level. The authorities monitor closely the operations of foreign bank subsidiaries—about 70 percent of banking system assets—to ensure compliance with regulatory norms and restrict potential funding drains.
- **Data transparency and integrity.** The overall quality of Mexican data continues to be high and adequate to conduct effective surveillance as described in the June 2015 data ROSC update. Mexico remains in observance of the Special Data Dissemination Standards (SDDS).

² In April 2015 Mexico issued its third century bond for EUR 1.5 billion with a yield of 4.2 percent.

13. International indicators of institutional quality show that Mexico has above average government effectiveness. The institutional quality of economic policy is underpinned by the inflation-targeting framework (anchored by a strong, independent central bank), the fiscal responsibility law, and the strong prudential and regulatory framework for financial supervision. According to the World Bank's Governance Indicators, Mexico's government effectiveness ranks at the 61st percentile among all countries in 2014. A weaker area is control of corruption, where Mexico stands at the 26th percentile. However, a recent constitutional reform (from May 2015) further empowers the federal government to investigate, prosecute, and sanction corrupt activity in Mexico. The Reform creates a National Anticorruption System, increases transparency requirements in the use of public funds, and raises the statute of limitations.

SAFEGUARDS ASSESSMENT

14. Staff has completed the safeguards procedures for Mexico's 2014 FCL arrangement. The authorities provided the necessary authorization for Fund staff to communicate directly with the Bank of Mexico's external auditor, PricewaterhouseCoopers (PwC) México. PwC issued an unqualified audit opinion on the Bank of Mexico's 2013 financial statements on April 25, 2014. Staff reviewed the 2013 audit results and discussed these with PwC. No significant safeguards issues emerged from the conduct of these procedures.

STAFF APPRAISAL

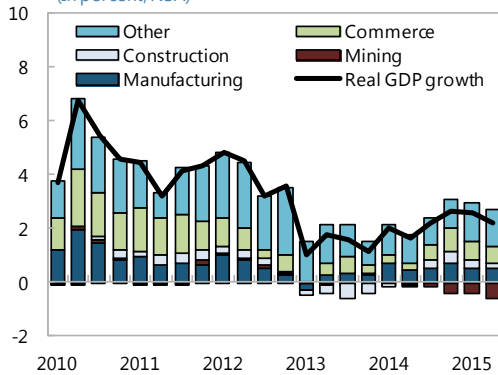
15. The FCL arrangement for Mexico provides protection against tail risks and is likely to have contributed to financial stability in Mexico. Uncertainty surrounding the global outlook, including risks related to the tightening of monetary policy in the United States, remains high. Mexico, with its open capital account and a large stock of foreign portfolio investment is exposed to changes in investors' preferences. Mexico's resilience to the recent bouts of emerging market volatility and the collapse of oil prices attests to its strong policies and fundamentals. The FCL has supported this resilience by serving as insurance against tail risks and authorities intend to treat it as precautionary. Conditional on a reduction of global risks affecting Mexico, including risks related to the normalization of U.S. monetary policy, they intend to phase out the use of Fund resources in any subsequent FCL arrangements, with a view to eventually exit the facility.

16. The staff's assessment is that Mexico continues to meet the qualification criteria for access to FCL resources. As noted in the board assessment of the 2015 Article IV consultation, Mexico has a very strong policy framework and economic fundamentals. The authorities have a successful record of sound policy management and remain committed to prudent policies going forward. Staff therefore recommends completion of the review under the FCL arrangement for Mexico.

Figure 1. Mexico: Recent Economic Developments

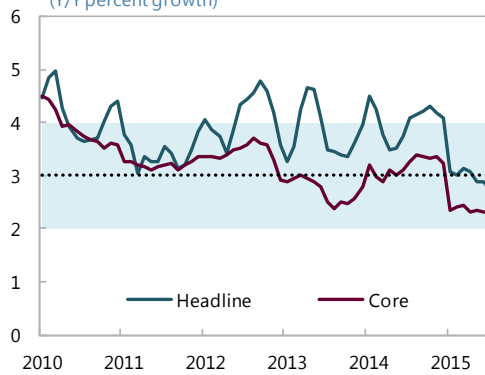
Mexico continues to grow at a moderate rate despite a negative contribution from falling oil production.

Supply Contributions to Growth
(In percent, NSA)



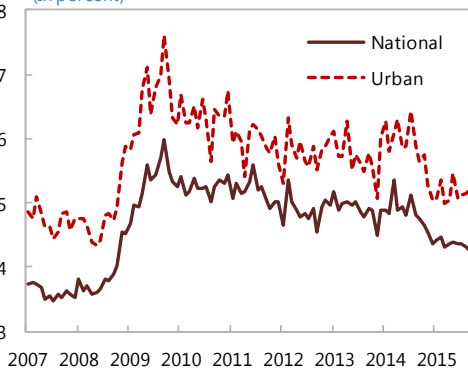
Core and headline inflation have declined in recent months, driven by a decline in the prices of telecom services and food.

Inflation
(Y/Y percent growth)



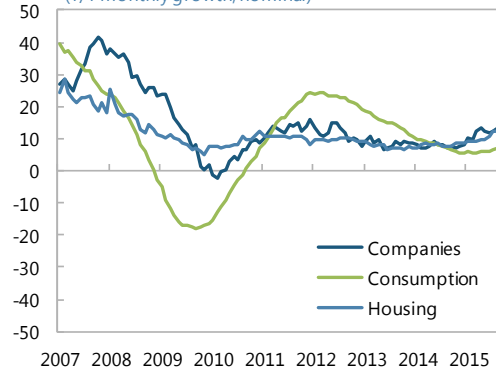
National unemployment has fallen to its lowest level since 2008.

Unemployment Rate
(In percent)



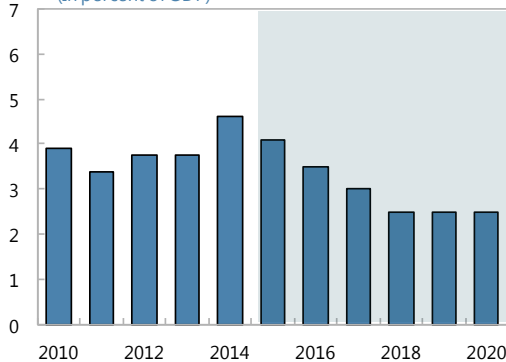
Commercial bank credit growth is picking up.

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



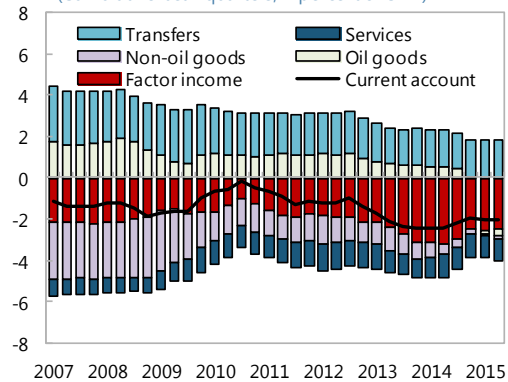
The fiscal deficit is projected to come down to 2.5 percent in the medium term.

Fiscal Deficit
(In percent of GDP)



The current account deficit remains stable.

Current Account Balance
(Cumulative last 4 quarters, in percent of GDP)

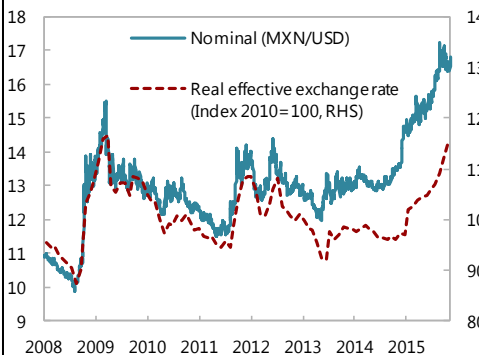


Sources: National authorities; Haver Analytics; Bloomberg; and IMF staff calculations.

Figure 2. Mexico: Recent Financial Developments

The peso has depreciated sharply vis-à-vis the U.S. dollar and in real effective terms.

Exchange Rate



Government bond yields in local currency have increased only marginally since late 2014.

Government Bond Yields (In percent)



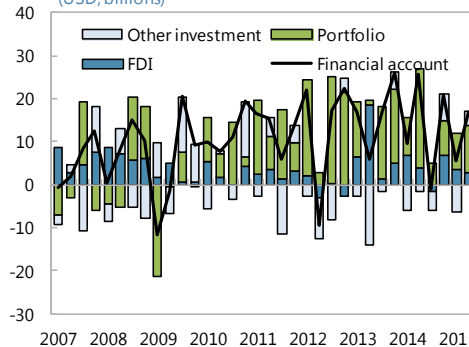
Corporate bond yields have inched up...

Corporate Bond Yields (CEMBI index)



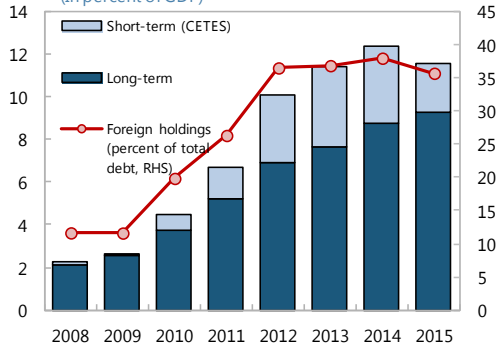
Nonetheless, net portfolio inflows remain robust.

Net Capital Flows (USD, billions)



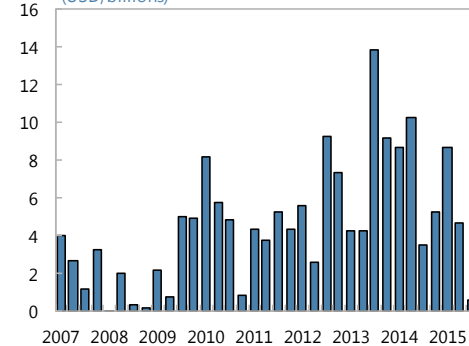
Foreign holdings of long-term debt continue to increase, although there have been outflows from short-term instruments.

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



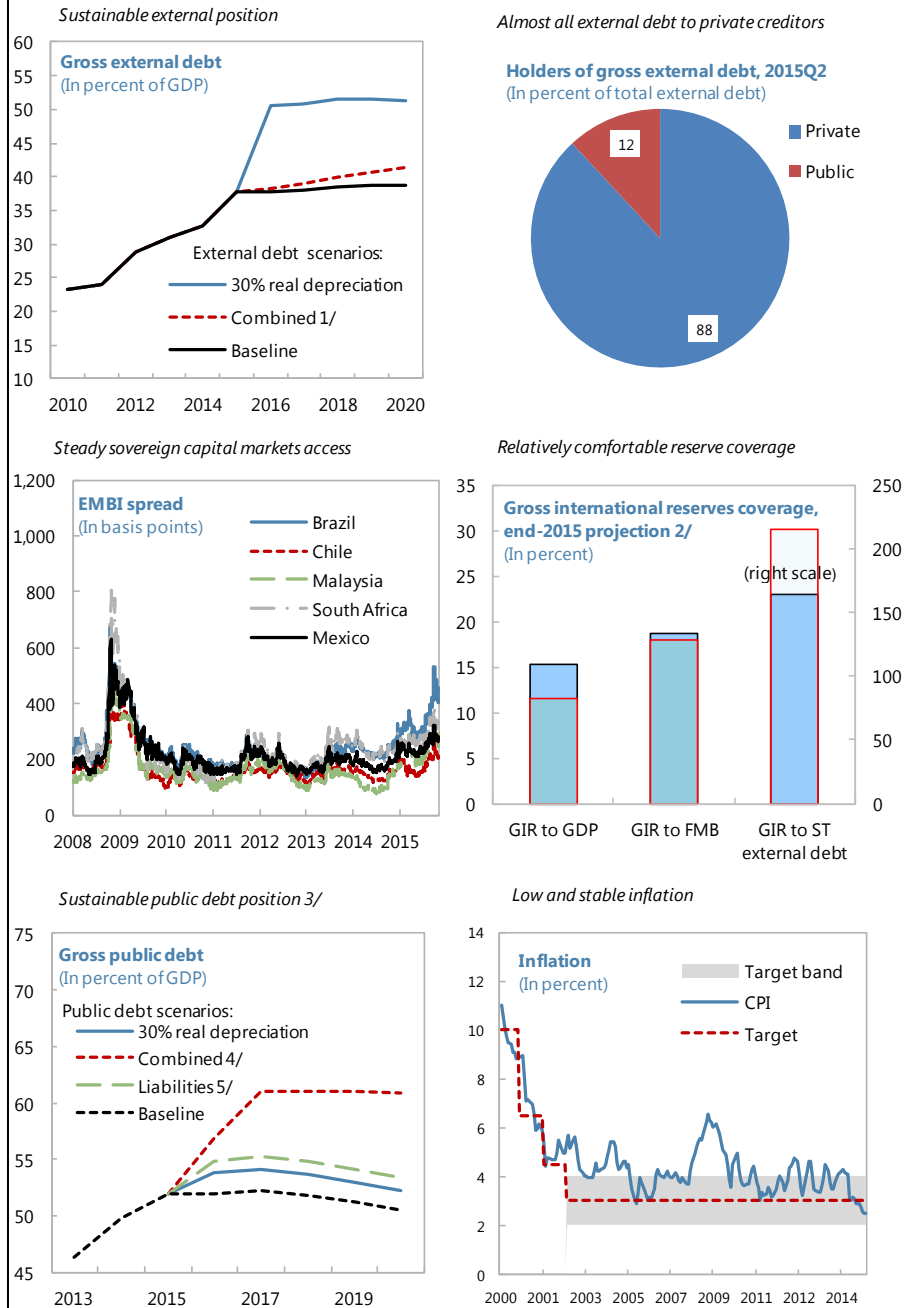
...while international placements have been strong.

Corporate Bond Issuance: Foreign Placements (USD, billions)



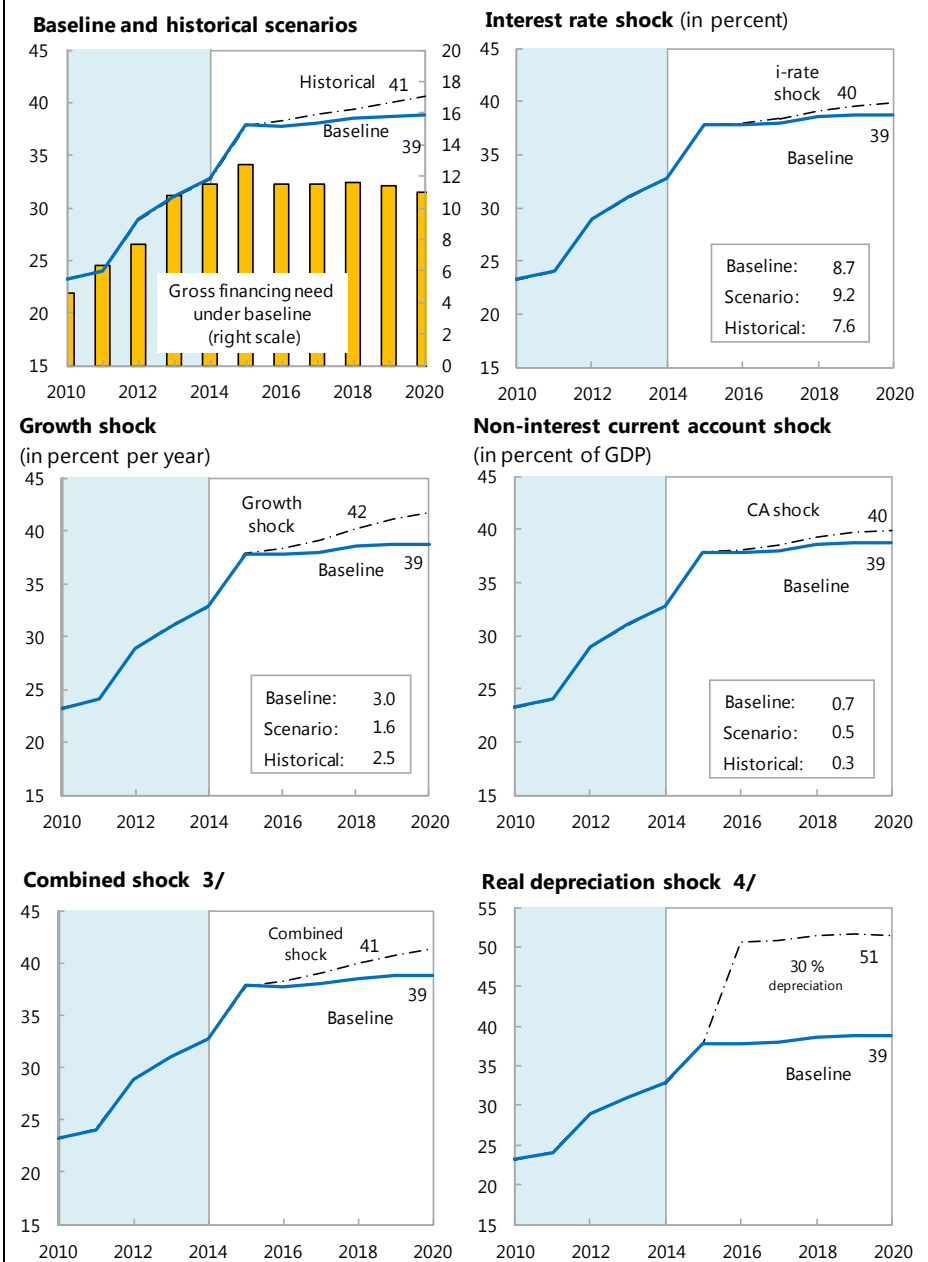
Sources: National authorities; Haver Analytics; Dealogic; EPFR; Bloomberg; and IMF staff calculations.

Figure 3. 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 current account balance.
 2/ Red bar shows ratio for end-year 2010, when FCL was approved.
 3/ Not taking into account offsetting measures required under the balanced budget rule.
 4/ Combined permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
 5/ One-time 10 percent of GDP increase in debt-creating flows.

Figure 4. Mexico: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



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

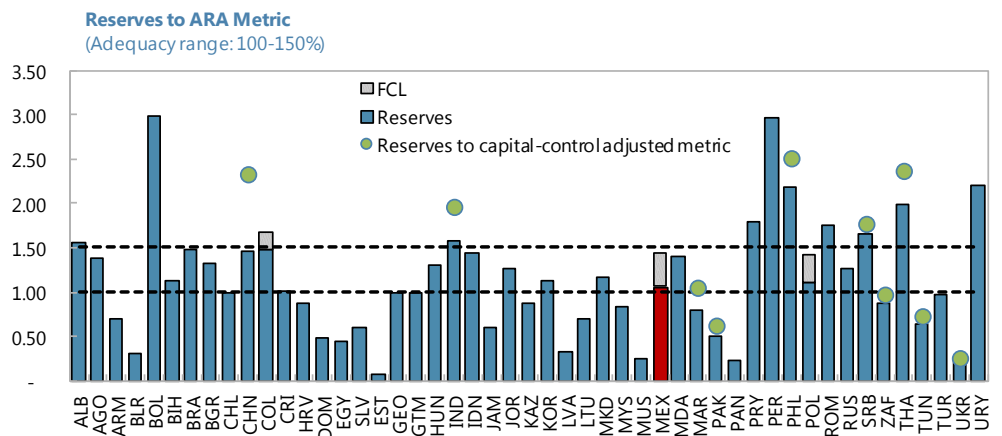
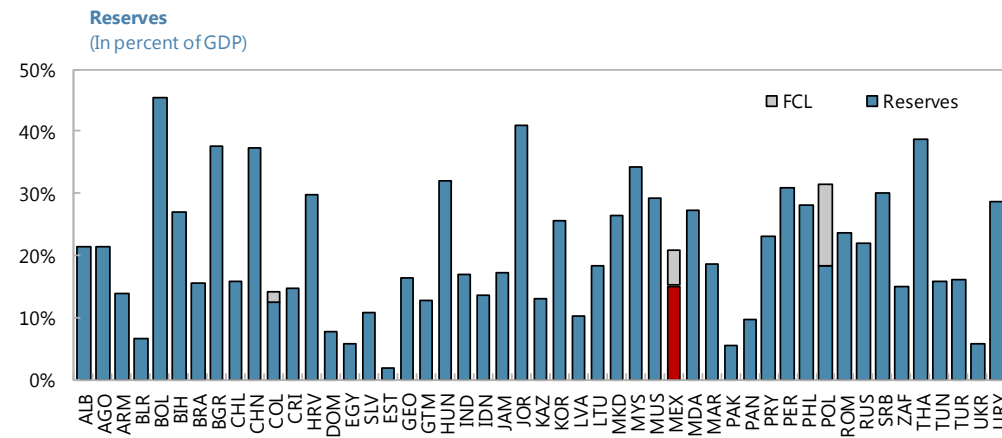
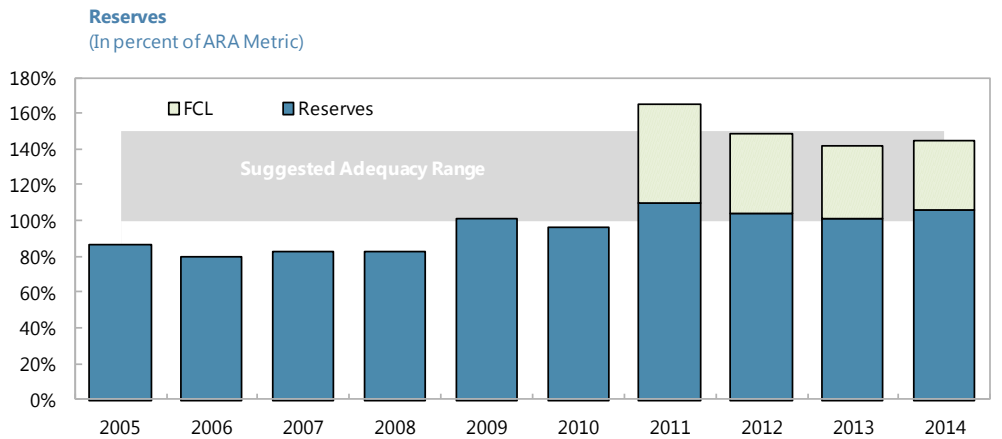
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

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

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

4/ One-time real depreciation of 30 percent occurs in 2014.

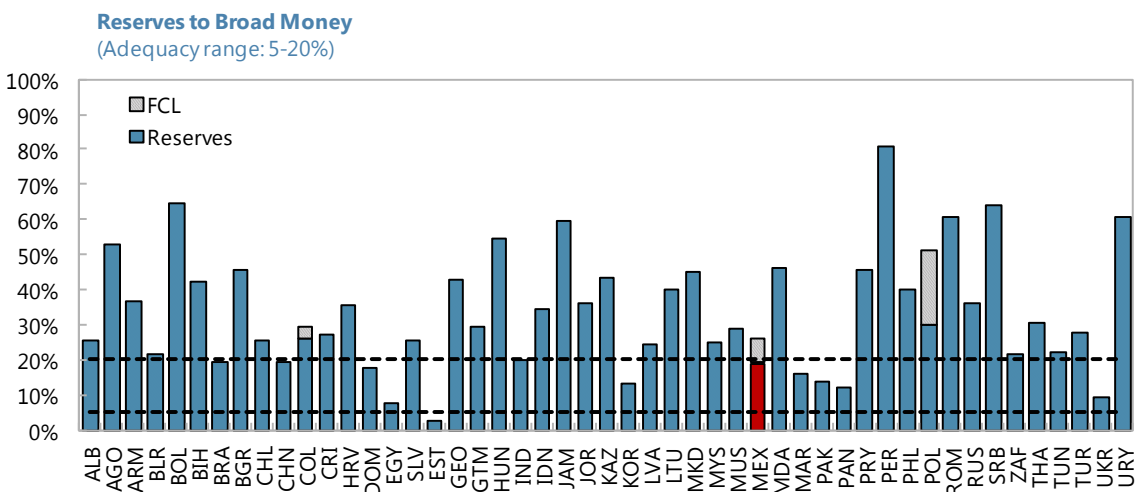
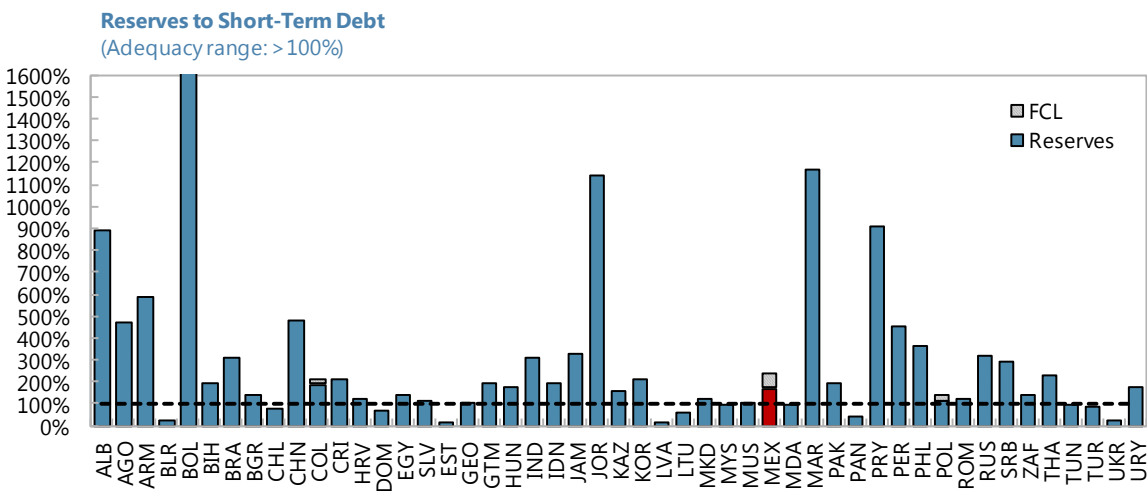
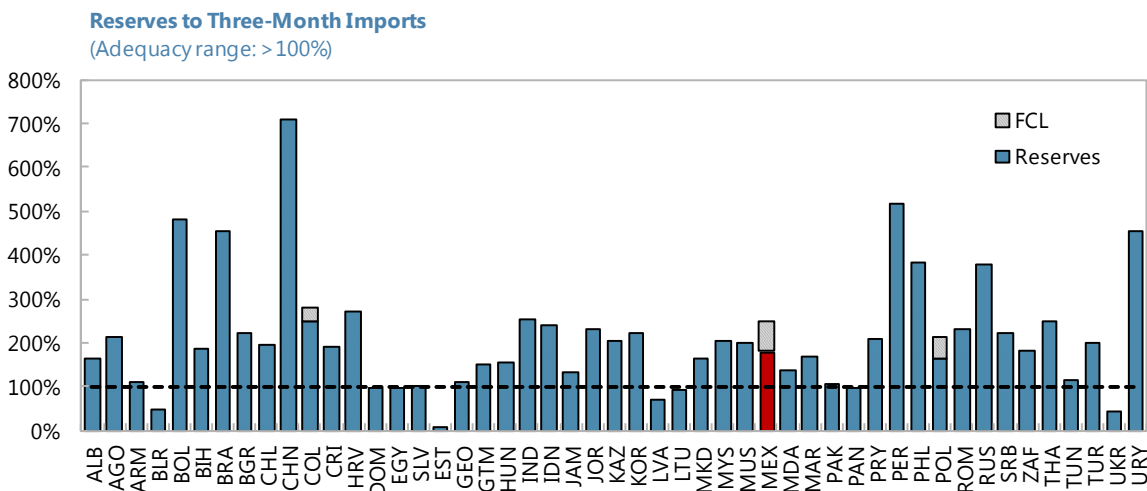
Figure 5. Mexico: Reserve Coverage in an International Perspective, 2014 1/



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

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

Figure 5. Mexico: Reserve Coverage in an International Perspective, 2014 (concluded)



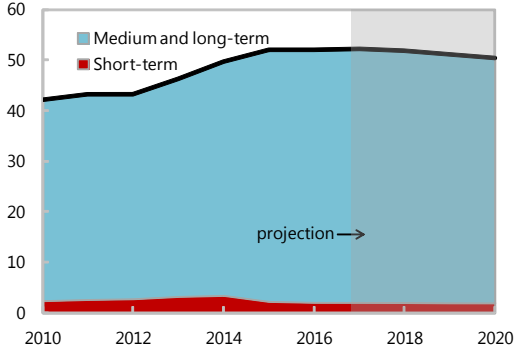
Sources: World Economic Outlook, and IMF staff estimates.

Figure 6. Mexico: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

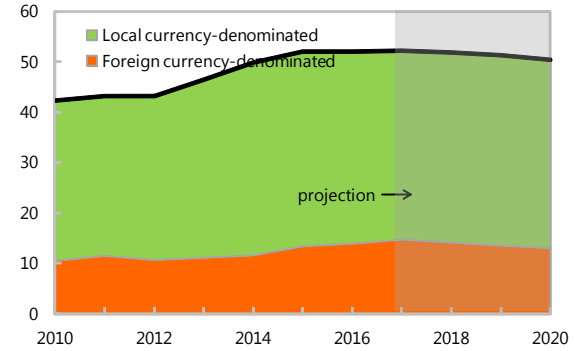
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)



Alternative Scenarios

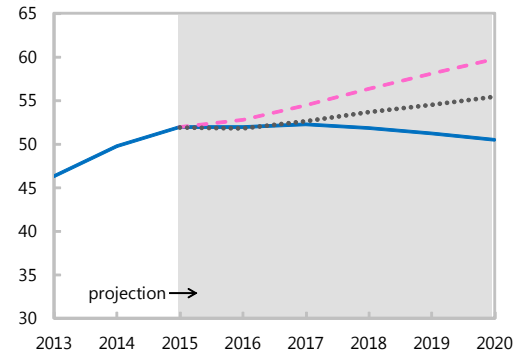
— Baseline

..... Historical

- - - Constant Primary Balance

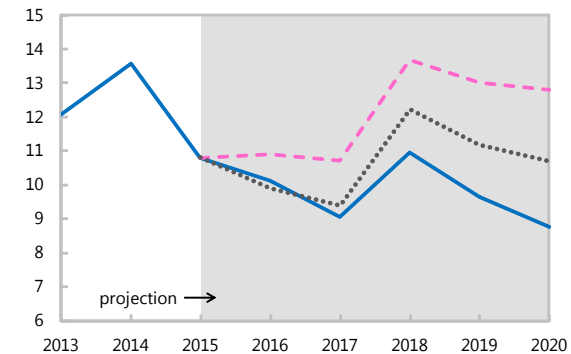
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario

	2015	2016	2017	2018	2019	2020
Real GDP growth	2.2	2.5	2.9	3.1	3.2	3.3
Inflation	4.1	4.4	2.9	3.0	3.3	3.5
Primary Balance	-1.3	-0.5	0.2	1.0	1.1	1.2
Effective interest rate	4.3	6.4	6.6	7.3	7.5	7.6

Historical Scenario

	2015	2016	2017	2018	2019	2020
Real GDP growth	2.2	2.5	2.5	2.5	2.5	2.5
Inflation	4.1	4.4	2.9	3.0	3.3	3.5
Primary Balance	-1.3	-0.3	-0.3	-0.3	-0.3	-0.3
Effective interest rate	4.3	6.4	6.4	6.8	6.9	7.0

Constant Primary Balance Scenario

	2015	2016	2017	2018	2019	2020
Real GDP growth	2.2	2.5	2.9	3.1	3.2	3.3
Inflation	4.1	4.4	2.9	3.0	3.3	3.5
Primary Balance	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Effective interest rate	4.3	6.4	6.6	7.1	7.3	7.5

Source: IMF staff.

Figure 7. Mexico: Public DSA - Stress Tests

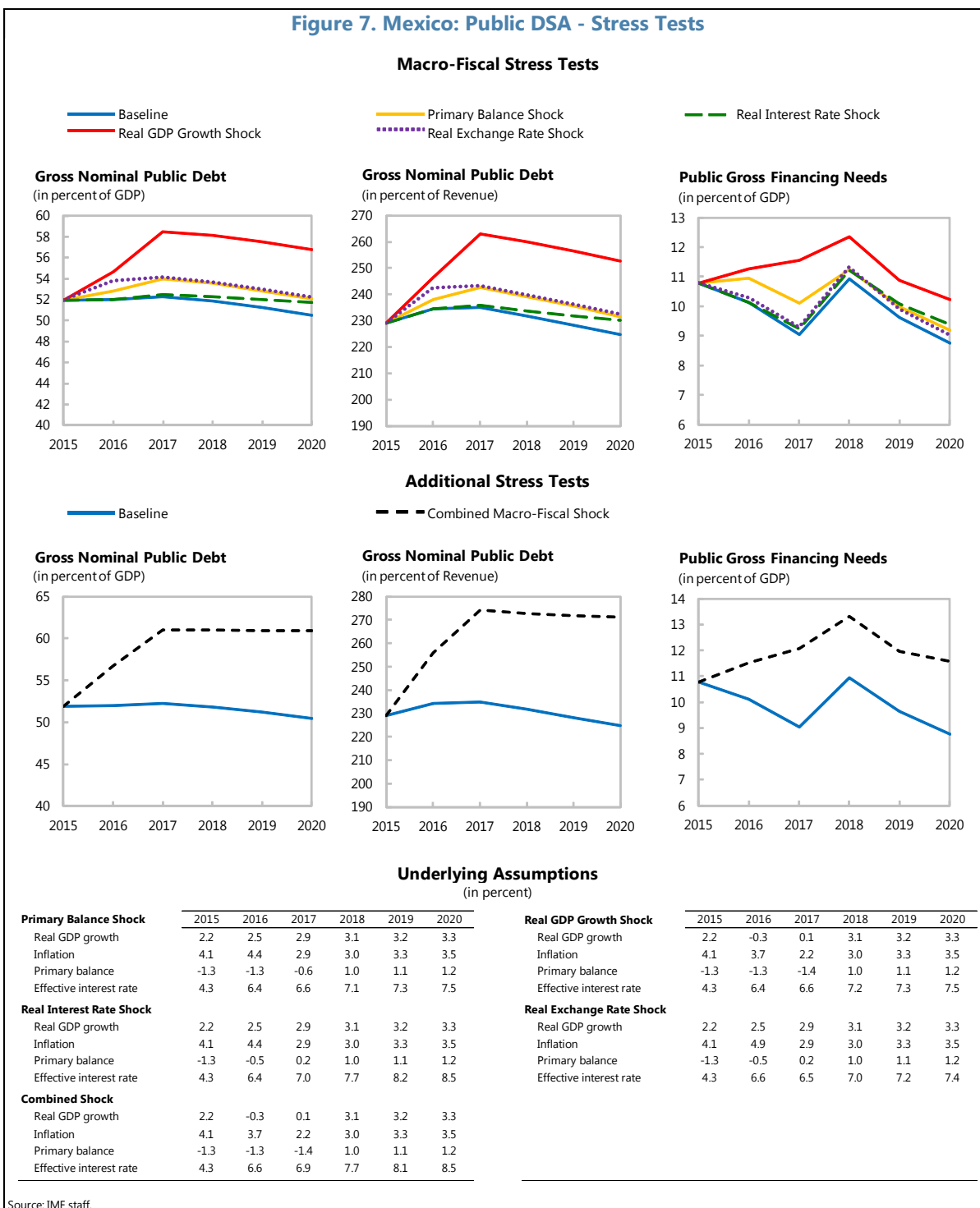


Table 1. Mexico: Indicators of Fund Credit

	Projections						
	2015	2016	2017	2018	2019	2020	2021
Stocks from prospective drawings 1/							
Fund credit in millions SDR	47,292	47,292	47,292	47,292	23,646	0	0
In percent of quota	1,304	1,304	1,304	1,304	652	0	0
In percent of GDP	6	5	5	5	2	0	...
In percent of exports of goods and services	16	15	14	13	6	0	...
In percent of gross reserves	37	37	37	38	19	0	...
Flows from prospective drawings 2/							
Charges in millions of SDR	236	1,152	1,224	1,225	1,250	355	4
Debt service due on GRA credit in millions of SDR	236	1,152	1,224	1,225	24,896	24,001	4
In percent of quota	6.5	31.8	33.8	33.8	686.6	662.0	0.1
In percent of GDP	0.0	0.1	0.1	0.1	2.5	2.2	...
In percent of exports of goods and services	0.1	0.4	0.4	0.3	6.1	5.5	...
In percent of gross reserves	0.2	0.9	1.0	1.0	19.9	19.2	...
Memo Item:							
Total external debt (percent of GDP)	43.5	43.1	43.2	43.5	41.1	38.6	...

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

1/ End of period. Assumes full drawings under the FCL upon approval of the review. The Mexican authorities have expressed their intention to treat the arrangement as precautionary.

2/ Based on the rate of charge as of October 22, 2015. Includes GRA charges, surcharges under the system currently in force and service charges.

	2011	2012	2013	2014	Staff projections					
					2015	2016	2017	2018	2019	2020
	(In billions of U.S. dollars)									
Gross financing needs (incl peso debt amortization)	103.5	108.6	149.1	163.7	130.2	142.2	149.9	158.7	165.7	171.0
Current account deficit	13.2	16.4	30.5	25.0	26.7	26.2	30.1	36.8	37.4	36.6
Amortization	61.6	74.4	105.5	123.2	120.8	115.4	119.6	121.8	128.0	132.5
Public sector	24.6	37.4	72.5	83.0	78.8	76.0	79.0	78.6	83.1	84.0
MLT bonds	5.5	6.8	11.3	14.1	14.8	13.6	15.9	15.7	20.5	21.0
FX	1.7	1.8	3.9	3.2	4.5	3.4	6.1	4.6	8.1	7.2
peso	3.8	5.0	7.4	10.9	10.3	10.2	9.9	11.1	12.4	13.8
MLT loans	6.7	8.4	11.2	8.7	6.0	3.7	3.7	2.8	1.8	1.5
ST loans	12.4	22.1	50.0	60.2	58.0	58.7	59.4	60.1	60.8	61.5
FX	2.3	2.8	3.1	3.5	4.8	5.5	6.2	6.9	7.6	8.3
peso	10.0	19.3	46.9	56.7	53.2	53.2	53.2	53.2	53.2	53.2
Private sector (estimated)	27.1	26.9	22.2	28.4	29.1	25.1	25.0	26.0	26.0	27.8
MLT bonds	3.7	4.5	5.2	6.7	4.5	4.2	3.7	7.0	5.4	7.1
MLT loans	1.9	2.0	1.7	1.9	2.4	2.2	2.2	1.9	2.1	2.0
ST loans and bonds (original maturity)	21.4	20.3	15.2	19.8	22.3	18.7	19.0	17.1	18.5	18.6
Trade credit	10.0	10.2	10.7	11.8	12.9	14.2	15.6	17.2	18.9	20.8
Gross reserve accumulation	28.6	17.8	13.2	15.5	-17.2	0.6	0.2	0.1	0.3	1.9
Available financing	103.5	108.6	149.1	163.7	130.2	142.2	149.9	158.7	165.7	171.0
FDI, net	10.7	-3.0	31.7	15.9	15.1	19.3	23.6	25.3	27.2	27.4
Portfolio flows	36.7	56.8	51.6	44.6	41.8	42.5	50.4	51.5	58.0	60.2
Private sector MLT bonds	13.8	15.7	20.1	13.0	13.0	15.4	13.8	14.1	14.4	14.1
Public sector bonds	22.9	41.1	31.6	31.5	28.8	27.1	36.6	37.4	43.6	46.2
FX	7.0	12.3	14.8	13.6	16.5	10.9	14.4	13.3	17.5	17.9
peso	15.9	28.8	16.8	17.9	12.3	16.2	22.2	24.1	26.1	28.2
MLT loan financing	9.9	6.1	11.6	17.8	3.9	6.3	3.3	7.6	5.9	7.0
Private sector	3.0	-0.8	3.0	7.5	-2.1	2.3	-0.7	3.6	1.9	3.0
Public sector (BoP basis)	6.9	6.9	8.6	10.3	6.0	4.0	4.0	4.0	4.0	4.0
ST financing	52.7	76.0	91.8	93.2	91.6	94.1	94.4	98.2	100.9	104.7
Private sector	20.3	15.2	19.8	22.3	18.7	19.0	17.1	18.5	18.6	19.6
Public sector	22.1	50.0	60.2	58.0	58.7	59.4	60.1	60.8	61.5	62.2
FX	2.8	3.1	3.5	4.8	5.5	6.2	6.9	7.6	8.3	9.0
peso	19.3	46.9	56.7	53.2	53.2	53.2	53.2	53.2	53.2	53.2
Trade credit	10.2	10.7	11.8	12.9	14.2	15.6	17.2	18.9	20.8	22.9
Other flows	-6.5	-27.3	-37.7	-7.7	-22.3	-20.0	-21.8	-23.8	-26.3	-28.3
o/w increase in portfolio and other investment assets	-3.7	-6.3	-27.3	-20.9	-9.4	-16.6	-18.1	-19.1	-20.2	-21.5
o/w oil hedge					6.8					

Sources: National authorities and IMF staff estimates.

Table 2. Mexico: External Financing Requirements and Sources, 2011-20

Table 3. Mexico: Selected Economic, Financial, and Social Indicators

I. Social and Demographic Indicators					
GDP per capita (U.S. dollars, 2014)	10,784	Poverty headcount ratio (% of population, 2012) 1/			45.5
Population (millions, 2014)	119.7	Income share of highest 20 percent / lowest 20 percent (2012)			11.1
Life expectancy at birth (years, 2013)	77.4	Adult illiteracy rate (2012)			5.8
Infant mortality rate (per thousand, 2013)	12.8	Gross primary education enrollment rate (2012) 2/			105.0
II. Economic Indicators					
	2012	2013	2014	Proj.	
				2015	2016
(Annual percentage change, unless otherwise indicated)					
National accounts (in real terms)					
GDP	4.0	1.4	2.1	2.2	2.5
Consumption	4.7	2.1	2.1	2.3	1.1
Private	4.9	2.3	2.0	2.4	2.1
Public	3.5	1.2	2.5	1.5	-5.1
Investment	5.9	-2.0	3.9	3.7	2.3
Fixed	4.8	-1.6	2.3	3.9	2.4
Private	9.0	-1.6	4.8	5.8	6.3
Public	-9.0	-1.3	-7.1	-4.8	-16.3
Inventories 3/	0.3	-0.1	0.4	0.0	0.0
Exports of goods and services	5.8	2.4	7.3	8.1	8.2
Imports of goods and services	5.5	2.6	5.7	5.6	6.8
External sector					
External current account balance (in percent of GDP)	-1.4	-2.4	-1.9	-2.3	-2.1
Exports of goods, f.o.b.	6.1	2.5	4.5	-3.2	7.6
Export volume	5.9	1.7	7.5	7.2	8.4
Imports of goods, f.o.b.	5.7	2.8	4.9	-2.0	6.9
Import volume	5.6	2.5	5.9	5.2	6.6
Net capital inflows (in percent of GDP)	4.4	5.2	4.3	1.7	2.2
Terms of trade (improvement +)	0.2	0.4	-1.9	-3.0	-1.0
Exchange rates					
Real effective exchange rate (CPI based, IFS)					
(average, appreciation +) 4/	-2.9	6.1	-1.0	-9.2	...
Nominal exchange rate (MXN/USD)					
(average, appreciation +) 5/	-6.0	3.0	-4.1	-18.9	...
Employment and inflation					
Consumer prices (average)	4.1	3.8	4.0	2.8	3.1
Core consumer prices (average)	3.4	2.7	3.2	2.3	3.0
Formal sector employment, IMSS-insured workers (average) 4/	4.6	3.5	3.5	3.7	...
National unemployment rate (annual average)	4.9	4.9	4.8	4.3	4.0
Unit labor costs: manufacturing (real terms, average) 4/	-2.6	1.0	0.0	1.1	...
Money and credit					
Financial system credit to non-financial private sector	10.9	9.1	8.5	9.8	11.4
Broad money (M4a) 6/	14.5	8.7	11.9	9.4	10.0
Public sector finances (in percent of GDP) 7/					
General government revenue	23.9	24.3	23.5	22.7	22.2
General government expenditure	27.7	28.0	28.1	26.8	25.7
Overall fiscal balance (public sector borrowing requirements)	-3.8	-3.7	-4.6	-4.1	-3.5
Gross public sector debt	43.2	46.4	49.8	51.9	52.0
Memorandum items					
Output gap	1.0	-0.2	-0.5	-0.8	-0.7
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.					
1/ CONEVAL uses a multi-dimensional approach to measuring poverty based on a "social deprivation index," which takes into account the level of income; education; access to health services; to social security; to food; and quality, size, and access to basic services in the dwelling.					
2/ Percent of population enrolled in primary school regardless of age as a share of the population of official primary education age.					
3/ Contribution to growth. Excludes statistical discrepancy.					
4/ 2015 based on data available through July 2015.					
5/ 2015 based on data available through September 2015.					
6/ Includes public sector deposits.					
7/ Data exclude state and local governments and include state-owned enterprises and public development banks.					

Table 4a. Mexico: Financial Operations of the Public Sector, Authorities' Presentation 1/

(In percent of GDP, except where noted)

	2011	2012	2013	2014	Staff Projections					
					2015	2016	2017	2018	2019	2020
Budgetary revenue, by type	22.5	22.5	23.6	23.2	22.7	22.2	22.2	22.4	22.4	22.5
Oil revenue	8.6	8.9	8.3	7.1	4.4	4.5	4.5	4.6	4.6	4.7
Non-oil tax revenue 2/	8.9	8.4	9.7	10.5	13.0	13.1	13.1	13.2	13.2	13.2
Non-oil non-tax revenue 3/	5.0	5.2	5.5	5.6	5.3	4.6	4.6	4.6	4.6	4.6
Budgetary revenue, by entity	22.5	22.5	23.6	23.2	22.7	22.2	22.2	22.4	22.4	22.5
Federal government revenue	15.9	15.7	16.8	16.8	17.4	16.6	16.7	16.7	16.8	16.7
Tax revenue, of which:	8.9	8.4	9.7	10.5	13.0	13.1	13.1	13.2	13.2	13.2
Excises (including fuel)	-0.5	-0.8	0.0	0.7	2.1	2.4	2.3	2.3	2.2	2.1
Nontax revenue	7.1	7.3	7.1	6.3	4.4	3.5	3.5	3.6	3.6	3.6
Public enterprises	6.5	6.8	6.8	6.4	5.3	5.6	5.6	5.6	5.7	5.7
PEMEX	2.7	3.0	3.0	2.6	1.9	2.3	2.2	2.3	2.3	2.4
Other	3.8	3.8	3.8	3.8	3.4	3.3	3.3	3.3	3.3	3.3
Budgetary expenditure	25.0	25.1	25.9	26.4	25.8	24.8	24.4	24.0	24.1	24.1
Primary	23.1	23.1	24.0	24.4	23.5	22.4	21.7	21.2	21.1	21.1
Programmable	19.7	19.9	20.6	20.8	19.7	18.8	18.1	17.6	17.5	17.4
Current	14.8	15.1	15.1	15.6	15.1	15.0	14.6	14.0	13.9	13.9
Wages	5.9	5.9	6.0	5.9	6.0	5.9	5.8	5.7	5.6	5.5
Pensions 4/	2.7	2.7	2.9	3.1	3.2	3.3	3.4	3.5	3.6	3.7
Subsidies and transfers	3.0	3.1	3.3	3.6	3.4	3.3	3.1	2.8	2.7	2.7
Other	3.2	3.3	3.0	3.0	2.6	2.5	2.2	2.0	2.0	2.0
Capital	4.8	4.7	5.4	5.2	4.6	3.7	3.6	3.6	3.6	3.6
Physical capital	4.5	4.4	4.6	4.8	4.1	3.6	3.5	3.5	3.5	3.5
Of which: Pemex	1.8	2.0	2.0	2.1	1.4	1.1	1.1	1.1	1.1	1.1
Financial capital 5/	0.4	0.4	0.9	0.4	0.5	0.2	0.1	0.1	0.1	0.1
Nonprogrammable	3.4	3.3	3.4	3.5	3.8	3.6	3.6	3.6	3.6	3.6
Of which: revenue sharing	3.3	3.2	3.3	3.4	3.6	3.4	3.5	3.5	3.5	3.5
Interest payments	1.9	2.0	2.0	2.0	2.3	2.5	2.7	2.8	3.0	3.0
Traditional balance	-2.5	-2.6	-2.3	-3.2	-3.1	-2.7	-2.2	-1.7	-1.7	-1.7
Adjustments to the traditional balance	1.0	1.2	1.4	1.4	1.0	0.8	0.8	0.8	0.8	0.8
Public sector borrowing requirements (PSBR)	-3.4	-3.8	-3.8	-4.6	-4.1	-3.5	-3.0	-2.5	-2.5	-2.5
Memorandum items										
Structural current spending 6/	11.3	11.3	11.6	12.2	11.8	11.6	11.4	11.3	11.2	11.0
Structural current spending real growth (y/y, in percent) 7/	7.1	3.3	1.4	7.8	0.2	1.8	1.8	2.0	2.0	2.0
Crude oil production (million barrels per day)	2.6	2.5	2.5	2.4	2.3	2.2	2.3	2.3	2.4	2.5
Crude oil export price, Mexican mix (US\$/bbl)	101	102	99	88	46	46	51	55	57	57
Structural Primary Fiscal Balance 8/	-1.5	-1.9	-1.7	-2.0	-1.5	-0.9	0.0	1.0	1.2	1.2
Gross public sector debt	43.2	43.2	46.4	49.8	51.9	52.0	52.2	51.8	51.2	50.5
Net public sector debt	37.5	37.7	40.4	43.4	45.5	45.6	45.8	45.4	44.8	44.1
Nominal GDP (billions of Mexican pesos)	14,550	15,627	16,116	17,161	18,254	19,533	20,694	21,969	23,423	25,041

Sources: Mexican authorities and IMF staff estimates.

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

2/ From 2015 onwards, in line with the 2015 Income Law, gasoline and diesel excises are classified as non-oil tax revenue.

3/ For 2015, it includes estimated inflows from the oil-price hedge for 107 billion pesos.

4/ Includes pensions and social assistance benefits.

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

6/ The 2014 amendment to the FRL introduced a cap on the real growth rate of structural current spending. The latter is defined as total budgetary expenditure, excluding: (i) interest payments; (ii) non-programable spending; (iii) cost of fuels for electricity generation; (iv) direct physical and financial investment of the federal government; and expenditure by state productive enterprises and their subsidiaries.

7/ The cap on structural current spending real growth was set at 2.0 percent for 2015 and 2016.

8/ Adjusting revenues for the economic and oil-price cycles.

Table 4b. Mexico: Financial Operations of the Public Sector, GFSM 2001 Presentation 1/

(In percent of GDP, except where noted)

	2011	2012	2013	2014	Staff Projections					
					2015	2016	2017	2018	2019	2020
Revenue 2/	23.7	23.9	24.3	23.5	22.7	22.2	22.2	22.4	22.4	22.5
Taxes	10.1	9.8	10.4	10.8	13.0	13.1	13.1	13.2	13.2	13.2
Taxes on income, profits and capital gains	5.3	5.1	5.9	5.7	6.6	6.5	6.5	6.6	6.7	6.7
Taxes on goods and services	4.3	4.3	4.1	4.7	6.0	6.2	6.2	6.2	6.2	6.2
Value added tax	3.7	3.7	3.5	3.9	3.9	3.9	3.9	3.9	4.0	4.0
Excises 2/	0.6	0.6	0.6	0.8	2.1	2.4	2.3	2.3	2.2	2.1
Taxes on international trade and transactions	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other taxes	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Social contributions	1.7	1.8	1.7	1.7	1.6	1.5	1.5	1.5	1.5	1.5
Other revenue	11.9	12.3	12.2	10.9	8.1	7.6	7.6	7.7	7.7	7.8
Property income 3/	7.0	7.2	7.0	6.3	4.3	3.5	3.5	3.5	3.5	3.5
Other	4.9	5.1	5.1	4.7	3.8	4.1	4.1	4.1	4.2	4.2
Total expenditure 2/	27.1	27.7	28.0	28.1	26.8	25.7	25.2	24.9	24.9	25.0
Expense	22.2	22.9	22.6	22.9	22.1	21.8	21.6	21.2	21.3	21.3
Compensation of employees	5.9	5.9	6.0	5.9	6.0	5.9	5.8	5.7	5.6	5.5
Purchases of goods and services	3.2	3.3	3.0	3.0	2.6	2.5	2.2	2.0	2.0	2.0
Interest 4/	2.4	2.5	2.5	2.6	2.8	3.0	3.2	3.5	3.6	3.7
Subsidies and transfers	4.2	4.6	4.0	3.8	3.4	3.3	3.1	2.8	2.7	2.7
o/w fuel subsidy	1.1	1.4	0.7	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Grants 5/	3.3	3.2	3.3	3.4	3.6	3.4	3.5	3.5	3.5	3.5
Social benefits 6/	2.7	2.7	2.9	3.1	3.2	3.3	3.4	3.5	3.6	3.7
Other expense 7/	0.5	0.6	0.9	1.0	0.5	0.4	0.4	0.2	0.2	0.3
Net acquisition of nonfinancial assets 8/	4.9	4.8	5.5	5.2	4.7	3.8	3.7	3.7	3.7	3.7
Gross Operating Balance	1.5	1.0	1.7	0.6	0.6	0.3	0.7	1.2	1.2	1.2
Overall Fiscal Balance (Net lending/borrowing)	-3.4	-3.8	-3.7	-4.6	-4.1	-3.5	-3.0	-2.5	-2.5	-2.5
<i>Primary net/lending borrowing</i>	-1.0	-1.2	-1.2	-2.0	-1.3	-0.5	0.2	1.0	1.1	1.2
Memo items:										
Oil revenue	8.6	8.9	8.3	7.1	4.4	4.5	4.5	4.6	4.6	4.7
Non-oil tax revenue	8.9	8.4	9.7	10.5	13.0	13.1	13.1	13.2	13.2	13.2
Non-oil non-tax revenue	5.0	5.2	5.5	5.6	5.3	4.6	4.6	4.6	4.6	4.6
Structural primary balance 9/	-1.5	-1.9	-1.7	-2.0	-1.5	-0.9	0.0	1.0	1.2	1.2
Gross public sector debt 10/	43.2	43.2	46.4	49.8	51.9	52.0	52.2	51.8	51.2	50.5
Net public sector debt 11/	37.5	37.7	40.4	43.4	45.5	45.6	45.8	45.4	44.8	44.1
Structural current spending 12/	11.3	11.3	11.6	12.2	11.8	11.6	11.4	11.3	11.2	11.0
<i>Structural current spending real growth (y/y, in percent) 13/</i>	7.1	3.3	1.4	7.8	0.2	1.8	1.8	2.0	2.0	2.0
Crude oil production (million barrels per day)	2.6	2.5	2.5	2.4	2.3	2.2	2.3	2.3	2.4	2.5
Crude oil export volume (million barrels)	488	460	434	417	425	401	403	422	458	497
Crude oil export price, Mexican mix (US\$/bbl)	101	102	99	88	46	46	51	55	57	57

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

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

2/ Revenue and expenditure figures differ from official data, because gasoline and diesel subsidies have been classified as expense in this table.

3/ For 2015, it includes estimated inflows from the oil-price hedge for 107 billion pesos, which are treated as revenues arising from an insurance claim.

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

5/ Includes revenue sharing between federal government and state and local governments.

6/ Includes pensions and social assistance benefits.

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

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

9/ Adjusting revenue for the economic and oil-price cycles.

10/ Corresponds to the gross stock of PSBR. It is calculated as the net stock of PSBR as published by the authorities, plus adjustments (to reflect additional public sector's liabilities not included in the headline official figures) plus public sector financial assets.

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

12/ The 2014 amendment to the FRL introduced a cap on the real growth rate of structural current spending. The latter is defined as total budgetary expenditure, excluding: (i) interest payments; (ii) non-programable spending; (iii) cost of fuels for electricity generation; (iv) direct physical and financial investment of the federal government; and expenditure by state productive enterprises and their subsidiaries.

13/ The cap on structural current spending real growth was set at 2.0 percent for 2015 and 2016, and equal to potential growth thereafter.

Table 5. Mexico: Summary Balance of Payments

	2012	2013	2014	Projections					
				2015	2016	2017	2018	2019	2020
	(In billions of U.S. dollars)								
Current account	-16.4	-30.5	-25.0	-26.7	-26.2	-30.1	-36.8	-37.4	-36.6
Merchandise goods trade balance	0.0	-1.2	-2.8	-7.5	-5.4	-8.0	-13.8	-14.1	-14.1
Exports	370.8	380.0	397.1	384.8	414.0	457.0	499.6	542.7	585.1
o/w Manufactures 1/	302.7	315.3	338.0	348.2	380.9	420.7	460.1	498.9	537.6
o/w Petroleum and derivatives	53.0	49.5	42.6	23.8	22.1	24.4	27.5	30.8	33.7
Imports	-370.8	-381.2	-400.0	-392.3	-419.3	-464.9	-513.4	-556.8	-599.2
o/w Petroleum and derivatives	-41.1	-40.9	-41.5	-29.8	-28.3	-31.7	-34.9	-37.0	-38.5
Net other goods 2/	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Net services	-14.6	-12.0	-13.9	-10.2	-12.7	-13.8	-15.0	-15.8	-16.2
Net factor income	-24.7	-39.2	-31.5	-33.5	-35.7	-39.6	-43.4	-47.3	-50.5
o/w Interest payments	-20.4	-23.3	-25.3	-29.8	-33.1	-38.8	-44.4	-49.4	-52.3
o/w Remitted profits	-8.3	-11.5	-4.0	-5.9	-5.9	-6.3	-6.2	-6.0	-6.7
o/w Reinvested earnings	-9.1	-15.7	-13.1	-9.5	-10.0	-10.1	-10.8	-11.4	-11.5
Net transfers (mostly remittances)	22.6	21.7	22.9	24.2	27.2	30.9	35.2	39.5	44.0
Financial Account	51.8	65.9	55.3	19.5	26.8	30.3	36.9	37.7	38.4
Foreign direct investment, net	-3.0	31.7	15.9	15.1	19.3	23.6	25.3	27.2	27.4
Direct investment into Mexico	19.5	44.9	24.2	22.1	26.7	31.4	33.5	35.9	36.6
Direct investment abroad	-22.5	-13.1	-8.3	-7.0	-7.4	-7.8	-8.2	-8.7	-9.3
Portfolio investment, net	71.5	48.2	45.2	20.4	23.0	28.9	26.9	30.1	30.1
Liabilities	80.0	50.3	45.9	22.9	25.6	31.7	29.7	33.1	33.3
Public Sector	56.9	33.2	36.0	14.0	13.5	20.7	21.7	23.1	25.2
o/w Local currency domestic-issued bonds	46.6	22.0	23.1	2.0	6.0	12.3	13.0	13.7	14.5
Private sector	23.1	17.1	9.9	8.8	12.1	11.0	8.0	10.1	8.1
Assets	-8.5	-2.1	-0.7	-2.4	-2.6	-2.7	-2.9	-3.0	-3.2
Other investments, net	-16.7	-14.1	-5.7	-16.1	-15.5	-22.2	-15.3	-19.6	-19.0
Liabilities	-10.4	13.2	15.2	-6.7	1.1	-4.1	3.8	0.6	2.6
Assets	-6.3	-27.3	-20.9	-9.4	-16.6	-18.1	-19.1	-20.2	-21.5
Errors and Omissions	-18.0	-17.6	-14.0	-10.0	0.0	0.0	0.0	0.0	0.0
Change in net international reserves	17.8	13.2	15.5	-17.2	0.6	0.2	0.1	0.3	1.9
o/w PEMEX-related transactions	16.9	17.3	10.0	0.0	0.0	0.0	0.0	0.0	1.6
o/w Market transactions (incl. interventions)	-0.6	0.0	-0.2	-24.5	0.0	0.0	0.0	0.0	0.0
Valuation adjustments	-0.3	4.6	0.8	0.0	0.0	0.0	0.0	0.0	0.0
	(In percent of GDP)								
Current account balance	-1.4	-2.4	-1.9	-2.3	-2.1	-2.3	-2.7	-2.6	-2.4
o/w Hydrocarbons trade balance 3/	1.0	0.7	0.1	-0.5	-0.5	-0.6	-0.5	-0.4	-0.3
o/w Petroleum and derivatives exports	4.5	3.9	3.3	2.1	1.8	1.9	2.0	2.1	2.2
o/w Non-hydrocarbons trade balance	-1.0	-0.8	-0.3	-0.1	0.1	0.0	-0.5	-0.5	-0.6
o/w Manufactures exports 1/	25.5	25.0	26.2	30.0	30.9	32.4	33.6	34.5	34.8
Net capital inflows	4.4	5.2	4.3	1.7	2.2	2.3	2.7	2.6	2.5
Net FDI inflows	-0.3	2.5	1.2	1.3	1.6	1.8	1.8	1.9	1.8
Net portfolio inflows	6.0	3.8	3.5	1.8	1.9	2.2	2.0	2.1	1.9
Net other investment inflows	-1.4	-1.1	-0.4	-1.4	-1.3	-1.7	-1.1	-1.4	-1.2
Memorandum items									
Hydrocarbons exports volume growth (in percent)	-5.7	-1.3	-4.9	2.6	-4.9	0.6	4.5	8.0	7.7
Non-hydrocarbons exports volume growth (in percent)	6.3	1.8	7.9	7.3	8.8	9.2	7.0	5.8	5.0
Hydrocarbons imports volume growth (in percent)	-3.1	3.4	-5.3	12.9	0.6	3.1	3.0	3.1	2.9
Non-hydrocarbons imports volume growth (in percent)	5.8	2.5	6.1	5.0	6.7	8.3	7.9	6.0	5.0
Crude oil export volume (in millions of bbl/day)	1.3	1.2	1.1	1.2	1.1	1.1	1.2	1.3	1.4
Gross international reserves (in billions of U.S. dollars)	167.1	180.2	195.7	178.5	179.1	179.3	179.4	179.6	181.5
Gross domestic product (in billions of U.S. dollars)	1,187	1,262	1,291	1,161	1,234	1,299	1,368	1,448	1,546
Sources: Bank of Mexico; Secretariat of Finance and Public Credit; and Fund staff projections.									
1/ Total exports are defined net of imports by the maquila sector. Correspondingly, total imports do not include maquila sector imports.									
2/ Goods procured in ports by carriers.									
3/ Oil, oil derivatives, petrochemicals and natural gas.									

Table 6. Mexico: Financial Soundness Indicators 1/

(In percent)

	2010	2011	2012	2013	2014	2015 2/
Capital Adequacy						
Regulatory capital to risk-weighted assets	16.9	15.7	15.9	15.6	15.8	15.3
Regulatory Tier 1 capital to risk-weighted assets	14.9	13.6	13.8	13.4	13.8	14.0
Capital to assets	10.4	9.9	10.6	10.4	10.8	10.5
Gross asset position in financial derivatives to capital	56.5	77.5	77.1	73.5	56.0	68.7
Gross liability position in financial derivatives to capital	55.6	79.6	76.1	72.7	59.6	73.6
Asset Quality						
Nonperforming loans to total gross loans	2.0	2.1	2.4	3.2	3.0	2.9
Provisions to Nonperforming loans	200.6	189.6	185.2	147.5	132.7	133.0
Earnings and Profitability						
Return on assets	1.8	1.5	1.8	2.1	1.7	1.8
Return on equity	16.8	15.5	17.5	19.3	15.9	16.9
Liquidity						
Liquid assets to short-term liabilities	58.2	55.3	49.5	47.7	47.1	46.4
Liquid assets to total assets	43.3	41.7	36.3	36.0	36.0	35.2
Customer deposits to total (noninterbank) loans	87.9	83.1	88.8	88.6	88.1	88.9
Trading income to total income	5.0	3.6	4.8	7.4	4.0	3.6

Sources: Financial Soundness Indicators

1/ End of period, unless otherwise noted.

2/ Data for end-August.

	2008	2009	2010	2011	2012	2013	2014	2015	Latest available data
Financial market indicators									
Exchange rate (per U.S. dollar, average)	11.2	13.5	12.6	12.4	13.2	12.8	13.3	15.8	October
(year-to-date percent change, + appreciation)	-1.8	-21.4	6.5	1.7	-6.0	3.0	-4.1	-18.9	October
28-day treasury auction rate (percent; period average)	7.7	5.4	4.4	4.2	4.2	3.8	3.0	3.0	September
EMBIG Mexico spread (basis points; period average)	254	302	187	186	188	189	182	248	October
Sovereign 10-year local currency bond yield (period average)	8.4	8.0	7.0	6.8	5.7	5.6	6.0	5.9	October
Stock exchange index (period average, year on year percent change)	-9.8	-5.5	31.6	8.0	10.6	5.6	1.4	3.3	October
Financial system									
Bank of Mexico net international reserves (US\$ billion)	85.4	90.8	113.6	142.5	163.5	176.5	193.2	180.4	September
Financial system claims on non-financial private sector (year on year percent change)	3.7	7.8	17.3	15.8	15.0	14.6	8.7	11.0	August
Nonperforming loans to total gross loans	2.7	3.1	2.0	2.1	2.4	3.2	3.0	2.9	August
External vulnerability indicators									
Gross financing needs (billions of US\$)	76.0	77.5	68.8	103.5	108.6	149.1	163.7	130.2	Proj.
Gross international reserves (end-year, billions of US\$) 1/	95.2	99.9	120.6	149.2	167.1	180.2	195.7	177.2	October
Change (billions of US\$)	8.0	4.6	20.8	28.6	17.8	13.2	15.5	-18.6	October
Months of imports of goods and services	3.7	5.1	4.8	5.1	5.4	5.7	5.9	5.5	September
Percent of broad money	18.4	17.2	17.5	21.2	19.3	19.2	21.0	21.5	September
Percent of foreign portfolio liabilities	34.9	41.7	39.4	47.8	38.9	38.0	40.9	40.4	June
Percent of short-term debt (by residual maturity)	161.7	243.4	215.3	217.8	168.7	155.1	170.4	173.5	June
Percent of ARA Metric 2/	87.0	100.1	96.1	113.5	103.5	101.9	108.6	108.4	June
Percent of GDP	8.6	11.2	11.5	12.7	14.1	14.3	15.2	15.8	June
Gross total external debt (in percent of GDP)	18.2	21.2	23.2	24.0	28.9	31.0	32.8	34.3	June
<i>Of which:</i> In local currency	1.8	2.7	4.6	6.0	10.2	11.1	11.1	11.0	June
<i>Of which:</i> Public debt	11.7	13.1	14.7	15.6	20.4	21.4	22.3	23.8	June
<i>Of which:</i> Private debt	6.4	8.1	8.4	8.4	8.5	9.6	10.5	10.5	June
Financial sector	0.4	0.6	1.6	1.4	1.1	1.3	1.4	1.0	June
Nonfinancial sector	6.1	7.5	6.9	7.0	7.4	8.3	9.1	9.5	June
Gross total external debt (billions of US\$)	200.0	189.8	243.8	281.4	342.8	391.6	423.1	423.3	June
<i>Of which:</i> In local currency	19.6	24.0	48.5	69.8	121.2	140.3	143.9	135.5	June
<i>Of which:</i> Public debt	129.2	117.6	155.0	182.9	242.5	270.1	287.3	293.7	June
<i>Of which:</i> Private debt	70.7	72.3	88.8	98.6	100.3	121.5	135.8	129.6	June
Financial sector	4.1	5.0	16.4	16.0	12.6	16.5	17.8	12.8	June
Nonfinancial sector	66.6	67.3	72.4	82.5	87.7	104.9	117.9	116.9	June
External debt service (in percent of GDP)	5.8	8.6	5.7	6.8	8.0	10.2	11.6	13.0	Proj.

Sources: Bank of Mexico; National Banking and Securities Commission; National Institute of Statistics and Geography; Secretary of Finance and Public Credit; and IMF staff estimates

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

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

Table 7. Mexico: Financial Indicators and Measures of External Vulnerabilities

Table 8. Mexico: Baseline Medium-Term Projections

	2011	2012	2013	2014	Staff projections					
					2015	2016	2017	2018	2019	2020
(Annual percentage change, unless otherwise indicated)										
National accounts (in real terms)										
GDP	4.0	4.0	1.4	2.1	2.2	2.5	2.9	3.1	3.2	3.3
Consumption	4.5	4.7	2.1	2.1	2.3	1.1	1.3	2.1	2.5	2.6
Private	4.8	4.9	2.3	2.0	2.4	2.1	2.3	2.6	2.6	2.7
Public	2.4	3.5	1.2	2.5	1.5	-5.1	-5.8	-1.5	2.0	2.4
Investment	5.4	5.9	-2.0	3.9	3.7	2.3	6.6	7.0	5.2	4.8
Fixed	7.8	4.8	-1.6	2.3	3.9	2.4	6.8	7.2	5.4	4.9
Private	12.1	9.0	-1.6	4.8	5.8	6.3	8.2	8.0	5.9	5.3
Public	-4.1	-9.0	-1.3	-7.1	-4.8	-16.3	-1.8	2.1	2.1	2.4
Inventories 1/	-0.5	0.3	-0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	8.2	5.8	2.4	7.3	8.1	8.2	9.0	7.0	5.9	5.1
Oil exports	-4.6	-5.7	-1.3	-4.9	2.6	-4.9	0.6	4.5	8.0	7.7
Non-oil exports	8.8	6.3	2.5	7.7	8.3	8.6	9.2	7.0	5.8	5.0
Imports of goods and services	8.0	5.5	2.6	5.7	5.6	6.8	8.2	7.8	6.0	5.0
Oil imports	0.0	-3.1	3.4	-5.3	12.9	0.6	3.1	3.0	3.1	2.9
Non-oil imports	8.3	5.7	2.6	6.0	5.5	6.9	8.4	7.9	6.1	5.1
Net exports 1/	0.0	0.1	-0.1	0.5	0.9	0.6	0.4	-0.2	0.1	0.1
Consumer prices										
End of period	3.8	3.6	4.0	4.1	2.6	3.1	3.0	3.0	3.0	3.0
Average	3.4	4.1	3.8	4.0	2.8	3.1	3.0	3.0	3.0	3.0
External sector										
Current account balance (in percent of GDP)	-1.1	-1.4	-2.4	-1.9	-2.3	-2.1	-2.3	-2.7	-2.6	-2.4
Non-hydrocarbon current account balance (in percent of GDP)	-2.3	-2.4	-2.8	-2.0	-1.8	-1.6	-1.8	-2.2	-2.2	-2.1
Exports of goods, f.o.b.	17.1	6.1	2.5	4.5	-3.2	7.6	10.4	9.3	8.6	7.8
Imports of goods, f.o.b.	16.4	5.7	2.8	4.9	-2.0	6.9	10.9	10.4	8.5	7.6
Terms of trade (improvement +)	-0.4	0.2	0.4	-1.9	-3.0	-1.0	-1.1	-0.2	0.2	0.1
Crude oil export price, Mexican mix (US\$/bbl)	100.9	101.8	98.8	87.7	46.4	45.9	50.6	54.6	56.7	57.4
(In percent of GDP)										
Non-financial public sector										
Overall balance	-3.4	-3.8	-3.7	-4.6	-4.1	-3.5	-3.0	-2.5	-2.5	-2.5
Primary balance	-1.0	-1.2	-1.2	-2.0	-1.3	-0.5	0.2	1.0	1.1	1.2
Saving and investment 2/										
Gross domestic investment	22.3	23.1	21.7	21.8	22.7	23.1	24.3	25.6	26.5	27.3
Fixed investment	21.7	22.3	21.1	20.9	21.8	22.2	23.4	24.7	25.7	26.5
Public	5.2	4.6	4.3	4.0	3.7	3.1	3.0	3.0	3.0	3.1
Private	16.5	17.8	16.7	16.9	18.1	19.1	20.4	21.7	22.6	23.4
Gross domestic saving	21.1	21.7	19.3	19.9	20.4	21.0	21.9	22.9	23.9	24.9
Public	1.8	0.8	0.8	-0.6	-0.4	-0.4	0.0	0.5	0.5	0.6
Private	19.3	20.8	18.5	20.4	20.8	21.4	22.0	22.4	23.4	24.4
Memorandum items										
Financial system credit to non-financial private sector	14.3	10.9	9.1	8.5	9.8	11.4	11.0	11.2	11.9	12.1
Output gap	-0.4	1.0	-0.2	-0.5	-0.8	-0.7	-0.3	0.0	0.0	0.0

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

1/ Contribution to growth. Excludes statistical discrepancy.

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

	Actual					Projections						Debt-stabilizing non-interest current account 6/ -0.8	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
1 Baseline: External debt	23.2	24.0	28.9	31.0	32.8	37.8	37.8	38.0	38.5	38.7	38.8		
2 Change in external debt	2.0	0.8	4.9	2.1	1.7	5.0	-0.1	0.2	0.5	0.2	0.0		
3 Identified external debt-creating flows (4+8+9)	2.7	-2.4	0.1	0.9	-0.8	0.1	-0.4	-0.6	-0.3	-0.5	-0.7		
4 Current account deficit, excluding interest payments	-0.9	-0.4	-0.3	0.6	0.0	-0.3	-0.6	-0.7	-0.6	-0.8	-1.0		
5 Deficit in balance of goods and services	3.8	2.7	1.4	1.2	1.0	1.5	1.4	1.7	2.1	2.0	2.0		
6 Exports	27.4	29.9	31.2	32.7	31.8	35.5	35.9	37.7	39.1	40.2	40.8		
7 Imports	31.2	32.6	32.6	32.8	33.7	37.0	37.3	39.3	41.2	42.2	42.8		
8 Net non-debt creating capital inflows (negative)	-1.1	-0.4	-0.6	-2.4	-1.6	-1.4	-1.6	-1.9	-1.9	-1.9	-1.8		
9 Automatic debt dynamics 1/	4.6	-1.7	1.0	2.7	0.8	1.8	1.8	1.9	2.1	2.2	2.2		
10 Contribution from nominal interest rate	1.8	1.5	1.7	2.0	2.0	2.6	2.7	3.0	3.2	3.4	3.4		
11 Contribution from real GDP growth	-1.2	-0.8	-1.0	-0.4	-0.6	-0.8	-0.9	-1.0	-1.1	-1.2	-1.2		
12 Contribution from price and exchange rate changes 2/	4.1	-2.3	0.3	1.1	-0.5		
13 Residual, incl. change in gross foreign assets (2-3) 3/	-0.7	3.3	4.7	1.3	2.6	4.9	0.3	0.8	0.9	0.7	0.7		
External debt-to-exports ratio (in percent)	84.8	80.4	92.6	94.9	103.1	106.5	105.2	100.9	98.5	96.4	95.0		
Gross external financing needs (in billions of US dollars) 4/	48.1	74.9	90.8	135.9	148.2	147.5	141.6	149.7	158.6	165.4	169.1		
in percent of GDP	4.6	6.4	7.7	10.8	11.5	10-Year	10-Year	12.7	11.5	11.5	11.6	11.4	11.0
Scenario with key variables at their historical averages 5/						37.8	38.3	38.9	39.4	39.9	40.6	-0.9	
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation						
Real GDP growth (in percent)	5.1	4.0	4.0	1.4	2.1	2.5	2.8	2.2	2.5	2.9	3.1	3.2	3.3
GDP deflator in US dollars (change in percent)	-15.3	11.6	-2.6	-2.7	0.2	3.1	7.5	-12.0	3.7	2.3	2.1	2.6	2.9
Nominal external interest rate (in percent)	7.5	7.3	7.2	6.8	6.5	7.6	1.1	7.0	7.5	8.3	9.0	9.4	9.3
Growth of exports (US dollar terms, in percent)	28.3	16.4	6.0	3.4	4.5	8.3	12.7	-1.5	7.4	10.5	9.4	8.7	8.0
Growth of imports (US dollar terms, in percent)	-22.5	16.5	5.3	5.4	5.2	7.9	12.6	-1.2	7.2	10.9	10.4	8.5	7.6
Current account balance, excluding interest payments	0.9	0.4	0.3	-0.6	0.0	0.3	0.4	0.3	0.6	0.7	0.6	0.8	1.0
Net non-debt creating capital inflows	1.1	0.4	0.6	2.4	1.6	1.6	0.8	1.4	1.6	1.9	1.9	1.9	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, excluding reserve accumulation.

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

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