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November 1, 2021

**Statement by Ms. Lim and Mr. Nghiem on Mexico
(Preliminary)
Executive Board Meeting
November 3, 2021**

We thank staff for the insightful report and Mr. Guerra and Ms. Arevalo Arroyo for their informative Buff statement. We broadly concur with the thrust of the staff's report and offer the following comments for emphasis.

We commend the authorities for the strong macroeconomic policy and institutional policy framework, which have contributed to external, financial, and fiscal stability and economic recovery in Mexico. We welcome the vaccination strategy and urge the authorities to continue facilitation of vaccine campaign to reach the vaccinated population target set for early 2022. However, with risks to growth tilted to the downside amid the possible emergence of new COVID-19 variants and global supply chain bottlenecks, we underscore the significance of close monitoring and calibrating macroeconomic policies to mitigate adverse effects on the economy, and to promote strong recovery and inclusive growth in the medium term.

Fiscal policy should be designed to protect the poor, support the recovery, and safeguard fiscal sustainability. The authorities have maintained conservative fiscal policy throughout the pandemic to contain public debt. We welcome the authorities' fiscal measures to increase health and social spending, labor and pension reforms to boost private consumption. We view that pragmatic tax reforms are warranted in the medium term to raise revenue and promote formalization of labor market. We also welcome the authorities' strategy to fight and reduce smuggling by enforcing transport services to have digital bill of

lading for close monitoring of legality and ownership of every exchange of merchandise throughout the value chain.

We commend the authorities' flexible conduct of monetary policy and effective communication strategy to anchor inflation expectations. As inflation has exceeded the authorities' target range, even though it is considered to be transitory, we share staff's view that policy will need to remain highly attuned to the evolution of inflation and policy tightening could be warranted if medium-term inflation expectations rise. We encourage the authorities to continue the pursuit of flexible exchange rate policy to help act as a shock absorber to external developments.

The banking system continues to be well-capitalized and liquid. Nevertheless, further measures should be put in place to boost credit and enhance financial inclusion. In this regard, we welcome the authorities' plans to foster the development of Fintech, including acceleration of payments digitalization, and to promote competition as well as financial literacy.

We encourage the authorities to continue their commitment to enhance governance and anti-corruption measures which help improve the business climate. We welcome the recent enactment of new law which empowers the institutions in charge of investigations, prosecution, and oversight of public spending to combat corruption and strengthen AML/CFT framework.