

The contents of this document are preliminary and subject to change.

GRAY/21/2864

November 1, 2021

**Statement by Mr. Mohieldin, Mr. Alhosani, and Ms. Choueiri on Mexico
(Preliminary)
Executive Board Meeting
November 3, 2021**

1. Owing to very strong macroeconomic policy and institutional policy frameworks, the Mexican economy has successfully maintained external, financial, and fiscal stability in a very challenging environment. The economy is rebounding from its deepest recession in decades, driven by strong U.S. growth and rising vaccination rates. Nonetheless, similar to many other countries, the burden of the COVID-19 pandemic is being borne disproportionately by the poor and the vulnerable, despite the authorities' efforts to preserve the most vulnerable households, workers, and firms. We welcome the broad agreement between the authorities and staff that the priorities ahead are to safeguard the recovery, preserve economic stability, and promote inclusive growth. We appreciate the details, conveyed by Mr. Guerra and Ms. Arevalo Arroyo in their helpful Buff statement, on the authorities' policy priorities in these areas, including measures to strengthen the social safety net since 2019, which has helped cushion the impact of the pandemic.

2. Staff deems the authorities' fiscal stance to be conservative through the pandemic and in the draft 2022 budget. We can understand the authorities' relative prudence given Mexico's sovereign rating downgrade by all three rating agencies last year, partly as a result of projected increase in the public debt-to-GDP ratio. Emerging market countries typically have more limited fiscal space than advanced economies. The authorities and staff do not concur on the merit of a fiscal relaxation in 2022, and while we agree with staff that higher near-term public spending could be accommodated with medium-term measures aimed at putting debt/GDP on a downward path, we understand the authorities' concern about announcing tax increases or new taxes in the midst of a pandemic. *Given that efforts to combat tax evasion have contributed to better-than-expected revenues, we would appreciate staff's views on the scope to further increase revenue by tackling tax evasion, particularly*

that the new simplified tax regimes could facilitate compliance and reduce burdens, as argued by the authorities. We see merit in staff's suggestions to contain rising pension costs.

3. Banco de Mexico's cautious approach to inflation and monetary policy, as discussed in the context of last year's article IV consultation, was warranted. With inflation rising above its target range, Banco de Mexico raised the policy rate to 4.75 percent since June 2021, although it considers that current price pressures are predominantly exogenous and are expected to be temporary. The central bank's skillful monetary management carefully weighs factors affecting capital flows and investor confidence. We positively note the important role of the recent enhancement of communication tools in helping markets to better understand the central bank's outlook while underscoring that they remain data dependent. We share the authorities' view that monetary policy framework reviews could be considered once the COVID-19 shock is over and the longer-lasting effects of the pandemic, including on potential output and neutral interest rates, are better understood.

4. We welcome the focus in the report on mitigating the scars of the pandemic and are encouraged that sustainable development ranks high on the authorities' agenda, as reflected in Mexico being the first country to issue a sustainable sovereign bond linked to the UN Sustainable Development Goals last year. We encourage the authorities to continue exploring growth and productivity enhancing structural reforms and see merit in staff's recommendations to tackle informality and calibrate minimum wage increases to productivity growth. Consideration could also be given to reforming Pemex's business strategy to improve efficiency and governance.

With these remarks, we wish Mexico and the Mexican people well in these challenging times.