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IMF Executive Board Approves US$47 Billion Arrangement for Mexico Under the Flexible Credit Line

The Executive Board of the International Monetary Fund (IMF) today approved a one year SDR 31.5 billion (about US$47 billion) arrangement for Mexico under the Flexible Credit Line (FCL). The Mexican authorities have stated they intend to treat the arrangement as precautionary and do not intend to draw on the line.

The arrangement for Mexico is 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). The FCL is particularly useful for crisis prevention purposes as it provides the flexibility to draw on the credit line at any time. Disbursements are not phased nor conditioned on compliance with policy targets as in traditional IMF-supported programs. This flexible access is justified by the very strong track records of countries that qualify for the FCL, which gives confidence that their economic policies will remain strong.

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

"Today is a historic occasion. The IMF Executive Board has approved the first Flexible Credit Line (FCL) arrangement and, at the same time, the largest financial arrangement in the Fund's history. The approval of this arrangement for Mexico represents the consolidation of a major step in the process of reforming the IMF and making its lending framework more relevant to member countries' needs.

"For over a decade, Mexico's macroeconomic performance has been very strong, exemplified by solid growth with low inflation; a steady reduction in public debt, and strengthened corporate balance sheets; a contained current account deficit; and a profitable and well capitalized banking sector. This has been underpinned by a highly credible and very strong policy framework, including a successful inflation targeting regime that has supported the commitment to the flexible exchange rate; a rules-based fiscal framework; and strong and sophisticated financial sector supervision.

“However, the current difficult global economic and financial environment poses challenges even for countries with very strong fundamentals. As the global situation has deteriorated, Mexican asset prices have fallen sharply in line with the global market sell off, and GDP growth has slowed sharply. While Mexico’s underlying fundamentals remain very strong, and the balance of payments position is manageable, the open capital account and close global financial linkages—on top of close trade links with the United States—could expose the country to potential downside risks.

“The authorities have taken robust and timely measures to respond to the deteriorating global situation, including steps to maintain orderly functioning of domestic markets, and to facilitate the refinancing of corporate external debt; fiscal stimulus to support demand, while simultaneously announcing measures to ensure medium term fiscal sustainability; and monetary policy easing. Looking forward, policies will continue to be underpinned by the rules based macroeconomic framework, accompanied by continued close monitoring of financial and corporate sector developments, and the authorities intend to continue to react as needed to any future shocks that may arise.

“It is against this background that, at the authorities’ request, the Executive Board today approved a one year arrangement under the IMF’s FCL, which the authorities intend to treat as precautionary. The Executive Board considered that Mexico was an excellent candidate to pioneer this facility. The FCL will play an important role in supporting the authorities’ overall macroeconomic strategy and in bolstering confidence until external conditions improve, complementing the previously agreed swap line with the U.S. Federal Reserve, as well as financing from other multilaterals. All told, Mexico’s combination of strong macroeconomic policies, institutional policy frameworks, and economic fundamentals, together with the additional insurance provided by the arrangement under the FCL, provides assurance that Mexico is in a very strong position to manage any potential risks and pressures in the event that the global situation were to deteriorate further,” Mr. Lipsky said.