

**FOR
AGENDA**

SM/10/50
Supplement 1

March 1, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Mexico—Staff Report for the 2010 Article IV Consultation—
Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2010 Article IV consultation with Mexico (SM/10/50, 3/1/10), which is tentatively scheduled for discussion on **Wednesday, March 10, 2010**. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Mexico indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Haksar (ext. 37157), Ms. Vladkova Hollar (ext. 39695), and Mr. Tang (ext. 38672) in WHD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Tuesday, March 9, 2010; and to the European Commission, the European Investment Bank, the Inter-American Development Bank, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being disseminated in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

MEXICO

Staff Report for the 2010 Article IV Consultation—Informational Annex

Prepared by the Western Hemisphere Department

March 1, 2010

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ANNEX I. MEXICO—FUND RELATIONS

(As of January 31, 2010)

The 2010 Article IV discussions were held in Mexico City during February 2–12, 2010. The staff team comprised V. Haksar (Head), I. Vladkova Hollar and M.K. Tang (both WHD), G. Gasha (MCM), B. Joshi (SPR), G. Palomba (FAD), and K. Magnusson Bernard (EP-WHD). D. J. Robinson (WHD) joined for the second half of the mission and N. Eyzaguirre for the concluding meetings. The mission met with the Minister of Finance, the Governor and the members of the Board of the Bank of Mexico, senior staff of several government ministries and agencies, representatives of regulatory agencies, and private sector representatives. Messrs. Perez-Verdia and Jimenez (OED) attended most meetings.

Mexico has accepted the obligations of Article VIII, sections 2, 3, and 4, and does not have restrictions on payments for current international transactions.

Comprehensive economic data are available for Mexico on a timely basis. It subscribes to the SDDS, and economic data are adequate to conduct surveillance.

I. Membership Status: Joined December 31, 1945; Article VIII.

| II. General Resources Account: | SDR Million | % Quota |
|---------------------------------------|--------------------|----------------|
| Quota | 3,152.80 | 100.00 |
| Fund holdings of currency | 2,539.79 | 80.56 |
| Reserve position in Fund | 613.06 | 19.44 |

| III. SDR Department: | SDR Million | % Allocation |
|-----------------------------|--------------------|---------------------|
| Net cumulative allocation | 2,851.20 | 100.00 |
| Holdings | 2,886.66 | 101.24 |

IV. Outstanding Purchases and Loans: None**V. Latest Financial Arrangements:**

| Type | Arrangement Date | Expiration Date | Amount Approved (SDR Million) | Amount Drawn (SDR Million) |
|-------------|-------------------------|------------------------|--------------------------------------|-----------------------------------|
| FCLC | Apr 17, 2009 | Apr 16, 2010 | 31,528.00 | 0.00 |
| Stand-by | Jul 07, 1999 | Nov 30, 2000 | 3,103.00 | 1,939.50 |
| Stand-by | Feb 01, 1995 | Feb 15, 1997 | 12,070.20 | 8,758.02 |
| EFF | May 26, 1989 | May 25, 1993 | 3,729.60 | 3,263.40 |

VI. Projected Payments to the Fund (SDR million):

| | Forthcoming | | | | |
|--------------------|-------------|-------------|-------------|-------------|-------------|
| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> |
| Principal | | | | | |
| Charges / Interest | <u>0.21</u> | <u>0.21</u> | <u>0.21</u> | <u>0.21</u> | <u>0.21</u> |
| Total | <u>0.21</u> | <u>0.21</u> | <u>0.21</u> | <u>0.21</u> | <u>0.21</u> |

VII. Exchange Rate Arrangement: Mexico has a floating exchange rate regime since December 22, 1994. Mexico maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

VIII. Article IV. Consultation: The last Article IV consultation was concluded by the Executive Board on February 6, 2009. The relevant staff report was IMF country Report No. 09/53.

IX. Technical Assistance

| Year | Dept. | Purpose |
|-------------|--------------|---|
| 2009 | STA | National Accounts |
| 2009 | FAD | Fiscal Framework |
| 2008 | FAD | Customs Administration |
| 2007 | FAD | Intergovernmental Fiscal Relations |
| 2007 | FAD | Customs Administration |
| 2007 | FAD | Treasury |
| 2007 | MCM | Accounting and Budgeting Functions, BoM |
| 2005 | STA | National Accounts |

X. Resident Representative: None

ANNEX II. MEXICO—RELATIONS WITH THE WORLD BANK

Mexico has had a longstanding partnership with the World Bank Group encompassing the delivery of the full menu of financial, knowledge, and coordination and convening services. Beginning in mid-2008, Mexico faced a deteriorating global environment and the parallel negative impacts of the food crisis and the influenza pandemic, as well as other internal issues related to organized crime. The IBRD was able to quickly respond to the need for increased financing by the federal government, while continuing to deliver on a broad knowledge agenda.

Crisis support has included higher levels of financing and Bank knowledge support. In responding to the crisis the program has evolved to include a few large DPLs and several quick-disbursing investment loans targeted to the poor. The program of support includes a major effort to alleviate the expected human consequences of the economic downturn, as well as efforts to promote the basis for gradual reactivation of the economy by strengthening the financial sector and supporting investment in infrastructure. At the same time, the Bank program responding as Mexico moves aggressively to mainstream climate change considerations in its infrastructure and social programs and to become a model and global champion for the climate change agenda. Going forward, strong demand for financing is likely to continue at least through calendar year 2010. Beyond 2010, a continuation of a strong knowledge and innovation-focused partnership is likely, but with a higher level of base financing as compared to pre-global crisis expectations.

As of January 31, 2010, Mexico was the Bank's second largest borrower with US\$ 10.5 billion debt outstanding, representing 9.2 percent of the IBRD's total portfolio. As of this date, Mexico had the seventh largest portfolio under supervision in terms of net IBRD commitments with US\$3,947 million of which US\$957 million remained undisbursed. The active portfolio comprised 15 projects. In the first half of FY10, the Bank approved three projects for a total amount of approximately US\$3.5 billion. FY10 total new lending is envisaged at US\$6.7 billion. The Progress Report for the FY08-13 Country Partnership Strategy (CPS) which was discussed in April 2008, will be circulated to the Board on March 25, 2010.

ANNEX III. MEXICO—STATISTICAL ISSUES

The overall quality of Mexican statistics is good. A data ROSC for Mexico was completed on May 23, 2003 and was subsequently published as IMF Country Report No. 03/150. A data ROSC update was conducted in February 2010 and the draft report is being reviewed by the authorities. There are various areas where improvements could be made. The authorities are aware of this situation and are continuing work in this regard. Mexico observes the Special Data Dissemination Standards (SDDS) and its metadata are posted on the Dissemination Standards Bulletin Board (DSBB). In a number of cases, the periodicity and timeliness of disseminated data exceed SDDS requirements.

Although some items of the **balance of payments statistics** conform to the fifth edition of the Balance of Payments Manual, a full transition has not yet been completed. Several measures to improve **external debt statistics** have been carried out, including the compilation of data on external liabilities of the private sector and publicly traded companies registered with the Mexican stock exchange (external debt outstanding, annual amortization schedule for the next four years broken down by maturity, and type of instrument). **International reserves** data are compiled according to the Operational Guidelines for the Data Template on International Reserves and Foreign Currency Liquidity of the IMF (2001).

The **national accounts** statistics generally follow the recommendations of the *System of National Accounts, 1993 (1993 SNA)*. Source data and statistical techniques are sound and most statistical outputs sufficiently portray reality. A broad range of source data are available, with economic censuses every five years and a vast program of monthly and annual surveys. For most surveys, scientific sampling techniques are used. Nonetheless, most samples exclude a random sample of small enterprises. Changes in inventories are obtained as residuals, so there is no independent verification between the production and expenditure measures of GDP. Some statistical techniques need enhancement. For example taxes and subsidies on products at constant prices are estimated by applying the GDP growth rate; a deviation from best practice.

The concepts and definitions for both the **CPI and PPI** meet international standards. The PPI is only compiled by product and not by economic activity.¹ Source data for the CPI and PPI are comprehensive and meet the needs for both indices.. Price and product specification data collected for the fortnightly price survey, as well as expenditure data collected for the ENIGH, are processed and audited according to procedures established as part of the total quality management system ISO 9001.

The authorities compile **fiscal statistics** following national concepts, definitions, and classifications that make international comparison difficult. The statistics are comprehensive and timely, except for states and municipalities. The new government accounting law mandates accounting standards that follow international standards for all levels of

¹ The BANXICO has virtually completed an update of both the CPI and PPI in preparation for the transfer of the compilation of these series to INEGI. The new index series will not be officially published until July 2010.

government, and that take into account the information needs of international organizations and national accounts.

The methodological foundations of **monetary statistics** are generally sound. However, the recording of financial derivative and, to a lesser extent, repurchase agreements transactions are overstating the aggregated other depository corporations (ODC) balance sheet and survey. The accuracy and reliability of the monetary statistics are supported by comprehensive source data. The coverage of nonbank ODC is complete, but time delays in the submission of such data and the processing of the reports impedes timely dissemination of the ODC survey. Availability of quarterly data on other financial intermediaries such as insurance companies and pension funds allow for the construction of a financial corporations survey with full coverage of the Mexican financial system, which is published at the BM website on a regular basis.

MEXICO: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
AS OF FEBRUARY 26, 2010

| | Date of latest observation | Date received | Frequency of Data ⁷ | Frequency of Reporting ⁷ | Frequency of publication ⁷ | Memo Items: | |
|---|----------------------------|---------------|--------------------------------|-------------------------------------|---------------------------------------|--|--|
| | | | | | | Data Quality – Methodological soundness ⁸ | Data Quality Accuracy and reliability ⁹ |
| Exchange Rates | February 2010 | February 2010 | D | D | D | | |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹ | January 2010 | February 2010 | M | M | M | | |
| Reserve/Base Money | January 2010 | February 2010 | M | D, M | W | LO, LO, O, O | LO, O, O, O, O |
| Broad Money | December 2009 | February 2010 | M | M | M | | |
| Central Bank Balance Sheet | December 2009 | February 2010 | W | W | W | | |
| Consolidated Balance Sheet of the Banking System | January 2010 | February 2010 | M | M | M | | |
| Interest Rates ² | February 2010 | February 2010 | D | D | D | | |
| Consumer Price Index | January 2010 | February 2010 | Bi-W | Bi-W | Bi-W | O, O, LNO, O | LO, LNO, O, O, LNO |
| Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴ | | | | | | LO, LNO, LNO, O | O, O, O, O, O |
| Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government | December 2010 | January 2010 | M | M | M | | |
| Stocks of Central Government and Central Government-Guaranteed Debt ⁵ | December 2010 | January 2010 | M | NA | M | | |
| External Current Account Balance | Q4 2000 | February 2010 | Q | Q | Q | LO, LO, LO, LO | LO, O, O, O, LO |
| Exports and Imports of Goods and Services | January 2010 | February 2010 | M | M | Bi-W | | |
| GDP/GNP | Q4 2009 | February 2010 | Q | Q | Q | O, O, LO, O | LO, LNO, O, LO, LO |
| Gross External Debt | December 2009 | February 2010 | M | M | M | | |
| International Investment Position ⁶ | 2008 | June 2009 | A | A | A | | |

1 Any reserve assets that are pledged of otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

2 Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

3 Foreign, domestic bank, and domestic nonbank financing.

4 The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

5 Including currency and maturity composition.

6 Includes external gross financial asset and liability positions vis-à-vis nonresidents.

7 Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

8 Reflects the assessment provided in the data ROSC published on May 23, 2003 and based on the findings of the mission that took place during February 20 to March 7, 2002. A new data ROSC update was conducted in February 2010 and the draft report is being reviewed by the authorities. For the dataset corresponding to the variable in each row, the assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

9 Same as footnote 8, except referring to international standards concerning source data, assessment and validation of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.