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January 10, 2011

The Acting Chair's Summing Up
Mexico—Arrangement Under the Flexible Credit Line and
Cancellation of the Current Arrangement
Executive Board Meeting 11/2
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Executive Directors noted that Mexico's macroeconomic performance in the years before the global crisis had been impressive, reflected in solid growth with low inflation, reduced public and private debt levels, and strengthened balance sheets. External stability had been maintained, and the banking system was well-capitalized and profitable. These successes had been underpinned by a very strong and credible policy framework, including: the balanced-budget fiscal rule; a successful inflation targeting regime; a clear commitment to the flexible exchange rate system; and robust financial sector regulation and supervision.

Directors noted that the Mexican economy, after being hit hard by the global financial crisis, has experienced a robust cyclical recovery since mid-2009. Asset prices have gradually risen from the troughs reached during the crisis and domestic financial stability has been preserved. Swift action to secure an arrangement under the Flexible Credit Line (FCL) with the Fund has helped maintain external confidence.

Looking ahead, Directors considered that Mexico's strong economic fundamentals and solid policy framework put it in a strong position to effectively manage potential shocks and so sustain its favorable economic performance. Nonetheless, they emphasized that heightened risks to the global economic outlook, stemming from pressures on global investor confidence and capital flows, pose significant challenges to emerging markets, and in particular to Mexico owing to its large and open financial markets.

Directors agreed that Mexico continues to meet the qualification criteria for an arrangement under the FCL with the Fund. They welcomed the authorities' continued commitment to the rules-based macroeconomic framework and their intention to adjust their policies as needed in response to any future shocks. Accordingly, Directors supported the authorities' strategy of seeking additional external insurance through a successor FCL arrangement, which provides further flexibility in terms of access and length, and the authorities intend to use as precautionary. Many Directors, however, remained unconvinced about the high level of access. A number of Directors called for an early review of the FCL.

Directors welcomed the authorities' continued commitment to reform as demonstrated by their ability to advance key policy changes in challenging times, including important revenue measures in 2010 which will strengthen the fiscal position. They noted that the recently approved 2011 budget is consistent with the medium-term fiscal consolidation plan and commended the authorities for the establishment of the high-level council to improve systemic risk monitoring. Directors encouraged the authorities to continue advancing growth-enhancing reforms, including of the labor market and competition framework.