

SU/18/149

November 6, 2018

**The Acting Chair's Summing Up
Mexico—2018 Article IV Consultation
Executive Board Meeting 18/90
November 5, 2018**

Executive Directors agreed with the thrust of the staff appraisal. They noted that Mexico's very strong policies and policy frameworks, along with important structural reforms, have underpinned its resilience to a complex external environment. They noted that Mexico's external position remains strong and welcomed the conclusion of the new trade agreement with Canada and the United States. Looking forward, Directors viewed the global economic environment as challenging, and underscored the need for continued sound economic management and perseverance with the structural reform agenda to boost growth, improve living standards, and reduce poverty and inequality.

Directors commended the authorities for adhering to their fiscal consolidation plan and welcomed the commitment to fiscal discipline and to put the public debt-to-GDP ratio on a downward trajectory. Strengthening the fiscal framework by setting up a non-partisan, adequately financed fiscal council with a formal mandate to independently evaluate policy would add credibility to the administration's plans. Directors highlighted the need to boost non-oil tax revenue and cautioned against the introduction of tax exemptions or reduced rates which could create distortions and erode the tax base. They saw scope for boosting VAT and fuel excise revenues and strengthening tax administration. Directors also recommended restraint in current spending and improvements in spending efficiency to create room for much-needed infrastructure investment and other priorities. They underscored that a strengthening of Pemex's financial situation was a prerequisite to contemplating new investments in refining.

Directors considered the current monetary policy stance appropriate. Going forward, they encouraged the Banco de México to remain prudent, vigilant and guided by data developments. The policy rate could be gradually reduced once inflation is firmly on a downward path, expectations remain well anchored, and uncertainty recedes. Directors commended the central bank for improving its communication strategy. They emphasized that the flexible exchange rate should remain the key shock absorber for the Mexican economy.

Directors noted that the financial sector remains resilient and supported continued close monitoring. They welcomed the authorities' efforts to increase financial deepening and

inclusion and to regulate the rapidly evolving Fintech industry. Directors noted the positive role of development bank lending in promoting financial inclusion. They encouraged the authorities to close remaining gaps in the regulatory framework to enhance the effectiveness of supervision, and to strengthen the resolution and crisis management framework. Further enhancing the AML/CFT framework also remains a priority.

Directors emphasized the need to rekindle the structural reform agenda to boost growth and reduce poverty and inequality. They urged the authorities to fully implement the National Anti-Corruption System. Directors called for a continuation of the energy sector reform and private participation in the oil and gas sector to bring in necessary investment and boost production and growth. They noted that better enforcement of labor market regulations, the introduction of unemployment insurance, improvements in the defined-contribution pension system, and a strengthening of the social safety net would encourage formal employment and help reduce poverty and inequality.

It is expected that that the next Article IV consultation with Mexico will be held on the standard 12-month cycle.