

Conclusions of IMF's Article IV revision – Strong macroeconomic policies poised to absorb the impact of external events

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- **The Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation with Mexico**
- **The IMF highlighted the importance of strong macroeconomic policies, however, they pointed out that continued fiscal consolidation is critical**
- **The IMF forecasted a 2.1% growth of the Mexican economy in 2016 and around 2.2% in 2017 with some downside risks:**
 - (1) **Protectionist trends globally;**
 - (2) **Lower than expected growth in the US;**
 - (3) **Increased volatility in international financial markets; and**
 - (4) **A bigger decline in Mexican oil output**
- **Moreover, they considered that the stance of monetary policy should be data-dependent, and they urged authorities to remain vigilant**
- **The IMF expressed that the implementation of structural reforms combined with solid macroeconomic policies will strengthen will mitigate the impact of adverse events**

The Executive Board of the International Monetary Fund (IMF) released the Article IV with Mexico. The IMF evaluates each year the economic and financial situation of its member countries. With that, the IMF draws up a report that is presented to the Board and makes conclusions and recommendations for each nation. In this regard, the IMF highlight that despite Mexico has faced a complex global environment with increased volatility in financial markets and sharp declines in oil prices. However, the country remains exposed to foreign risks, particularly in the face of commercial protectionist policies.

The IMF highlighted the importance of strong macroeconomic policies, however, they pointed out that continued fiscal consolidation is critical. The government's plan of achieving a gradual fiscal adjustment considers reducing the public sector borrowing to 2.5% of GDP by 2018. Meanwhile, current account deficit is expected to reach 2.9% in 2016, on the back of positive effects coming from currency depreciation are shown with a lag. Concerning state level debt, they highlighted the Federal Government's request to the World Bank in search of technical assistance to improve the financial standpoint of debt-ridden entities.

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The IMF forecasted a 2.1% growth of the Mexican economy in 2016 and around 2.2% in 2017. In the medium term, the institution expects growth to bounce back as a result of the structural reforms, reaching 2.7%. However, the downside risks are: (1) protectionist tendencies on a global scale; (2) lower than expected growth in the US; (3) increased volatility in international financial markets; and (4) a bigger fall in oil output.

The IMF highlights that the stance of monetary policy is near its neutral level. The directors pointed out that the central bank has acted in order to rebalance inflationary risks and to keep inflation expectations anchored. In the short term, they consider that monetary policy should remain steady, and only respond to second-round inflationary effects. Moreover, they mentioned that the central bank communications should be clear in order to guide market expectations.

Solid banking system. In regard to the financial sector, the Directors highlighted the results of different stress tests on financial institutions, which showed that banks have enough reserves and capital buffers to face economic turmoil.

In summary, the results indicate that the implementation of structural reforms combined with the strong macroeconomic policy framework will maintain the Mexican economy's resilience. The Directors mentioned that despite negative changes in the international outlook, Mexico has enough tools to face them. These tools include the IMF's Flexible Credit Line as well as the implementation of structural reforms and the efforts to further security and rule of law in order to reach potential growth in the medium term.

IMF: Economic indicators forecasts

% yoy	2016	2017
GDP	2.1	2.2
Gross Domestic Investment (% of GDP)	22.8	22.7
Gross National Savings	19.9	19.9
Inflation	2.8	3.4
Current Account (% of GDP)	-2.9	-2.8
External Debt (% of GDP)	42.0	42.4
Public revenues (% of GDP)	22.5	21.2
Public spending (% of GDP)	25.5	24.1
Banking credit	13.5	12.0

Source: INEGI, Banxico and IMF

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