Mexico gets a successful review on its *Flexible Credit Line* with the IMF

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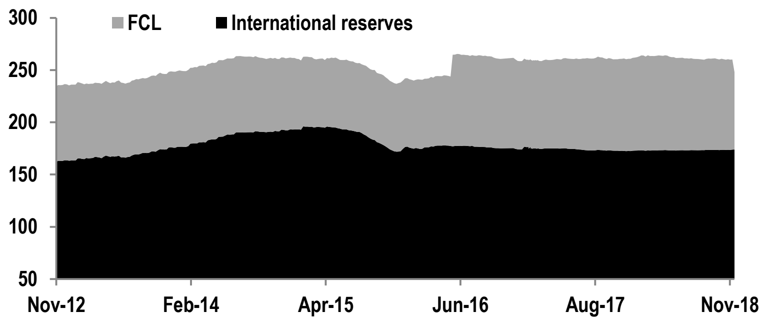
- **The IMF informed today that the Executive Board completed the review of Mexico's performance under the *Flexible Credit Line* (FCL) Agreement**
- **A review is held every year although the FCL is approved for a two-year period, with the currently outstanding facility approved last in November 2017**
- **The IMF approved Mexico's government request of reducing the total amount under the FCL to US$74 bn from US$86bn previously**
- **The institution highlighted that both current and incoming administrations have reaffirmed their commitment to maintaining very strong policies and policy framework to instill credibility**
- **In our view, the successful review of the FCL by the IMF is evidence of the confidence that this institution places in the macroeconomic policies followed by Mexico**

The IMF finished the review of Mexico's Flexible Credit Line (FCL). Today, the International Monetary Fund (IMF) finished the yearly review process under the terms and conditions of the agreement of the FCL, reaffirming Mexico's continued qualification to access to these resources. It is worth noting that the last renewal of the facility was in November 2017 for a two-year period. As a result, this is almost the 10th consecutive year in which the IMF grants Mexico access to the facility, with the first line having been approved on April 2009.

Reduction in borrowing facility at the request of Mexico's authorities. According to the release, the IMF approved a reduction in the total amount available under the FCL and as a result of the petition made by Mexico's authorities last year, going from the current amount of *Special Drawing Rights* (SDR) 62.3889 to 53.4762 billion. At the relevant exchange rates, this would amount to a reduction from around US$86bn to 74 billion (see chart below). According to Banxico's press release, this reduction was due to the lower risk associated with an abrupt change in Mexico's trade relationships. In addition, this decision was made in agreement among the Ministry of Finance, Banxico, and members of the transition team responsible for economic matters of the incoming administration. Moreover, we should remember that the facility is associated with a commitment fee payment that depends on the level of resources relative to the country's quota, and which ranges between 15-60bps per year, among other costs.

The successful review reaffirms the IMF's confidence in Mexico's macroeconomic policies. The decision was highly expected by the market, more so after the comments of the institution on Mexico according to the Article IV. For details, see: *"IMF's Article IV consultations – Mexico is a stable economy with important challenges ahead"*, published on November 9th, 2018, <pdf>. Regarding the reduction in the amount, the IMF also acknowledged that the risk of an abrupt change in Mexico's trade relations has receded. Moreover, the Fund affirmed that: "…*the lower access is appropriate and consistent with the authorities' strategies that envisage a gradual phasing out of Mexico's use of the facility subject to a reduction in risks...*". Finally, the IMF included the comment that both the current and incoming administrations intend to continue to use the facility only as precautionary.

International reserves and the Flexible Credit Line
US$bn



Source: Banxico, Bloomberg

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