

Article IV of IMF – Macroeconomic policies absorbs 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 highlights the importance of strong and steady macroeconomic policies**
- **The IMF also emphasized the progress reached in the implementation of structural reforms**
- **Moreover, they consider that the accommodative stance of monetary policy is appropriate and inflation expectations are anchored**
- **According to the document, Mexico's external position remains broadly consistent with fundamentals and desirable policy settings**
- **The IMF expressed that the implementation of structural reforms combined with solid macroeconomic policies will strengthen foreign investment and mitigate the impact of adverse events**

Miguel Calvo

Economist, Regional and Sectorial
miguel.calvo@banorte.com

Saúl Torres

Analyst, Mexico
saul.torres@banorte.com

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, the Mexican economy continues to grow at a moderate pace and pressures in capital outflows have been limited.

IMF highlights the progress reached in the implementation of structural reforms. The IMF underlines the immediate benefits achieved with the implementation of structural reforms in our country. Among others, an increase in investment, particularly in telecommunications and energy sectors; a better supply of credit, due to increased competition and protection of users of the banking sector; a reduction in the prices of telecommunications services and smaller increases in energy prices. Moreover, the Executive Board also estimated that the implementation of structural reforms in the medium term, contribute to a higher potential GDP.

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The IMF emphasized that the accommodative stance of monetary policy is appropriate, as well as the incorporation of reforms to fiscal responsibility framework. The IMF supported the commitment by the Central Bank to make adjustments to its monetary policy in order to maintain the effects of possible inflationary pressures. However, at least in the short term, the IMF considered that the accommodative stance of monetary policy remains appropriate derive from the economic slack that persists in the country. In this regard, the IMF highlighted that: (1) the inflation remained below 3%; (2) inflation expectations are anchored; and (3) inflationary pressures are contained.

Moreover, the government's responsible fiscal has been reflected in a significant reduction of public sector borrowing requirement to 4.1% of GDP this year from 4.6% in 2014. Similarly, the IMF expects that current account deficit expands to 2.25% in 2015, which would reflect a reduction in the trade balance of oil. We highlight that the IMF welcomed the federal government's commitment to consolidate public finances gradually and reduce public debt as a percentage of GDP.

In terms of federal entities, the IMF highlighted the government proposal of a fiscal responsibility framework within these federal entities. The IMF suggested continues to strength the Fiscal Responsibility Law in the future.

Solid banking system. According to the report, the IMF commended Mexico's sound financial sector and the progress made in strengthening the regulation framework. The IMF suggested a rigorous monitoring to corporate leverage, a further strengthening of the judicial processes to enforce contracts, improved access to financial services, and high credit quality (especially in the development bank).

In summary, the results indicate that the implementation of structural reforms combined with the strong macroeconomic policy framework will attract investor confidence. The implementation of structural reforms with perseverance, and in line with our view, is key to increase GDP growth in the short term, and will mitigate the impact of adverse external events.

IMF: Economic indicators forecasts

% yoy	2015	2016
GDP	2.25	2.5
Gross Domestic Investment (% of GDP)	22.7	23.1
Gross National Savings	20.4	21.0
Inflation	2.8	3.1
Current Account (% of GDP)	-2.3	-2.1
External Debt (% of GDP)	37.8	37.8
Public revenues (% of GDP)	22.7	22.2
Public spending (% of GDP)	26.8	25.7
Banking credit	9.8	11.4

Source: INEGI, Banxico and IMF

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Rey Saúl Torres Olivares	Analyst	saul.torres@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Juan Carlos Alderete Macal, CFA	FX Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates/Financials/ Mining/ Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
Marisol Huerta Mondragón	Equity Research Analyst – Food/Beverages	marisol.huerta.mondragon@banorte.com	(55) 1670 - 1746
José Itzamna Espitia Hernández	Equity Research Analyst – Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto parts	valentin.mendoza@banorte.com	(55) 1670 - 2250
María de la Paz Orozco García	Analyst	maripaz.rozco@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	ricardo.velazquez@banorte.com	(55) 5268 - 9879
Víctor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454