The IMF ratifies Mexico's Flexible Credit Line in its mid-term review

November 20, 2020

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- **The Foreign Exchange Commission (FEC) announced today that the IMF successfully completed the standard mid-term review of Mexico's FCL for nearly US$61 billion for the next 12 months, based on the country's strong economic track record and policy framework**
- **This amount is in addition to US$194 billion of international reserves, representing a significant buffer against external shocks**
- **The FEC refrained from continuing the strategy of gradually reducing the FCL amount, amid risks associated with the COVID-19 pandemic**

Mexico continues to qualify for IMF's Flexible Credit Line. The Foreign Exchange Commission (FEC), composed by officials from the Ministry of Finance and Banxico, announced today that the IMF's Executive Board has successfully completed the standard mid-term review of Mexico's Flexible Credit Line program (FCL) which was originally approved on November 22, 2019 for a two-year horizon. Mexico will have a buffer of nearly 44.5 billion *Special Drawing Rights* (SDR) equivalent to nearly US$61 billion –based on prices as of November 2019– for the next 12 months, with government officials stating their intention to treat this arrangement as precautionary. This amount adds to the US$194.4 billion in international reserves (see chart below), representing a significant shield to cope with a complex environment due to the COVID-19 pandemic or any other risk that could arise. The arrangement also constitutes a positive factor to boost investors' confidence on Mexico's macroeconomic framework. This shock-absorbing mechanism allows the country to fulfill proper international standards in terms of imports, external debt or total liabilities with foreign investors (see table below). According to the FEC's statement, the IMF ratified Mexico´s FCL acknowledging the accomplishment of key criteria: (1) Sound fiscal accounts and sustainable public debt; (2) relatively low and stable inflation under solid monetary and foreign exchange policies; (3) favorable conditions for the government's access to external funding in global financial markets; (4) a healthy stance of international reserves; and (5) a solvent and sturdy financial system accompanied by an effective supervision.

Winners of the award for best economic forecasters for Mexico in 2019, given by *Refinitiv*

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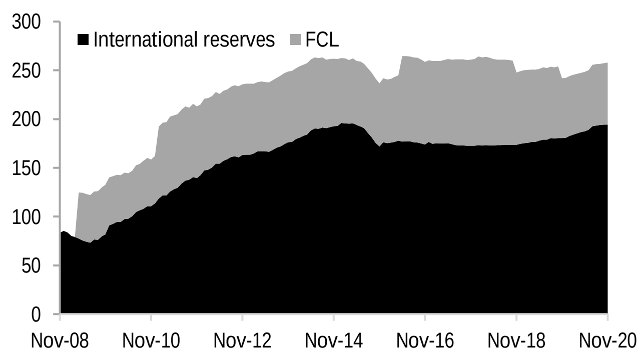
International reserves and Flexible Credit Line
US$ billion



Source: Banxico, FMI, Bloomberg

Selection of relevant external variables
Reserves +FCL divided by relevant variable

	2020[1]	2019	2018
Imports (months)	5.5	4.4	4.5
External debt[2] (%)	116.8	123.0	126.9
External debt + domestic debt in hands of foreigners[3] (%)	85.2	78.0	81.7

Notes: 1. Figures until September, imports using 12-month sum. 2. Measured with the external component of the HBPSBR; 3. Incorporates local denominated assets, excluding UMS
Source: Banorte with data from Banxico, FMI, Bloomberg, MoF

The FEC halts its strategy of gradually reducing the FCL arrangement amid risks associated with the pandemic. Headwinds and risks associated with the current pandemic influenced Mexico's decision to leave unchanged the amount of its FCL arrangement, despite the intention from the FEC since 2017 to gradually reduce the amount. This strategy relies on a more efficient asset and liability management from the government. In this regard, FEC´s announcement stressed out that they would continue analyzing this possibility in a post-COVID scenario ahead.

The FCL is a key component of IMF's lending framework to tackle the adverse effects of the COVID-19 pandemic. The IMF launched the Flexible Credit Line program within its lending framework in 2009 to deal with the complex environment steered by the 2008-2009 great financial crisis. Mexico had access to the FCL program for the first time since April 17, 2009 (with nearly US$47 billion) and has continuously renewed this lending facility since then. This has boosted the country's firepower to tackle shocks and improve investor confidence. Within Latin America, Chile and Peru have recently joined Colombia and Mexico as countries with access to FCL. Together, they have a buffer of nearly US$107 billion.

Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

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