

The IMF renews Mexico's FCL in its annual revision, keeping the amount unchanged

- **The Foreign Exchange Commission (FEC) and the IMF announced today that the annual revision of the two-year arrangement (approved in 2021) regarding the Flexible Credit Line (FCL) was successfully completed**
- **The amount agreed upon stands close to US\$46.7 billion (unchanged in SDR, at 35.7 billion). The previous strategy of gradually decreasing the FCL was suspended due to an increase in external risks**
- **This announcement, as well as a healthy buffer of international reserves and a solid macroeconomic framework, remain as a key part of the country's economic policy toolkit**

Mexico's Flexible Credit Line gets renewed by the IMF as part of its annual revision. 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 annual revision (mid-term) regarding Mexico's Flexible Credit Line (FCL). This happened after the approval that took place in 2021 for a new term of two years. It is worth noting that the first agreement was ratified in 2009. The buffer remained unchanged at 35.7 billion Special Drawing Rights (SDR). Given the current value of the SDR, this is equivalent to nearly US\$46.7 billion. As previously, government officials stated their intention to treat this arrangement as precautionary. The IMF once again quoted several factors for the ratification, including strong macroeconomic and institutional policy frameworks, a flexible exchange rate regime, credible inflation-targeting framework, and a well-regulated financial sector.

Suspending the policy of reducing the FCL due to a more challenging external backdrop. Since 2017 –and excluding 2020 because of the pandemic– the Mexican government had been implementing a gradual reduction of the outstanding amount of the FCL on the grounds of a more efficient asset and liability management. However, the FEC mentioned that they decided to keep the amount unchanged this time around due to a more challenging external backdrop. As headwinds, they highlighted: (1) The weakening of the global economy because of the pandemic; (2) the economic shock from the conflict in Ukraine; and (3) global monetary tightening. However, they will continue to evaluate the exit strategy, which will in turn depend on the risks faced by the country.

The arrangement continues to support Mexico's economic policy toolkit. On top of building upon US\$197.9 billion in international reserves, this action solidifies Mexico's external position. In particular, the IMF stated that *"...the Mexican economy remains exposed to external risks [...] Such shocks could increase yields, risk premia, and capital outflows..."*. However, they state that the agreement is important given that it works *"...by providing insurance against tail risks and bolstering market confidence"*. We believe this announcement –despite being widely expected– contributes favorably to the perception of the country's external position, particularly in a backdrop in which risks have increased and conditions could deteriorate amid expectations of a global recession.

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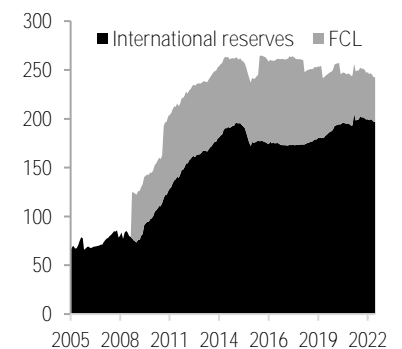
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International reserves and FCL
US\$ billion



Source: Banxico, IMF, Bloomberg

Winners of the award for best economic forecasters for Mexico in 2021, given by Refinitiv



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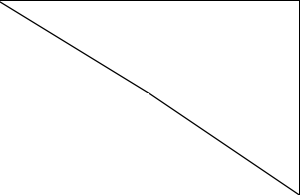
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