



SHCP

SECRETARÍA DE HACIENDA
Y CRÉDITO PÚBLICO

Outlook of the Mexican Economy and the Agenda for Growth

March, 2013

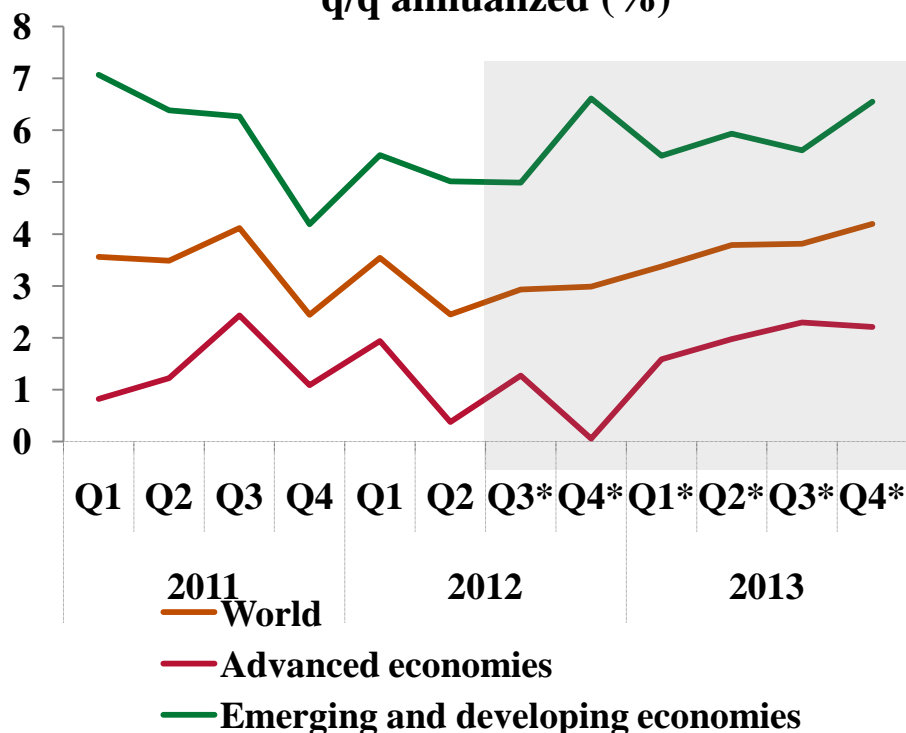
Contents

1. External Conditions
2. Recent Economic Activity
3. Strong Fundamentals
4. Agenda for Economic Growth
5. Concluding Remarks

1. External Conditions: Global Growth

- Although recent policy actions in the United States and Europe have reduced risks, economic growth is expected to remain low in advanced economies, and to decrease in the Euro-Zone.

GDP Growth Forecasts
q/q annualized (%)



Observed and Forecasted GDP Growth Rates y/y (%)

	2011	2012*	2013*	2014*
World	3.9	3.2	3.5	4.1
Advanced	1.6	1.3	1.4	2.2
EMDES/	6.3	5.1	5.5	5.9
Euro Zone	1.4	-0.4	-0.2	1.0
US	1.8	2.3	2.0	3.0
Japan	-0.6	2.0	1.2	0.7
China	9.3	7.8	8.2	8.5

*Forecast

/Emerging and developing economies

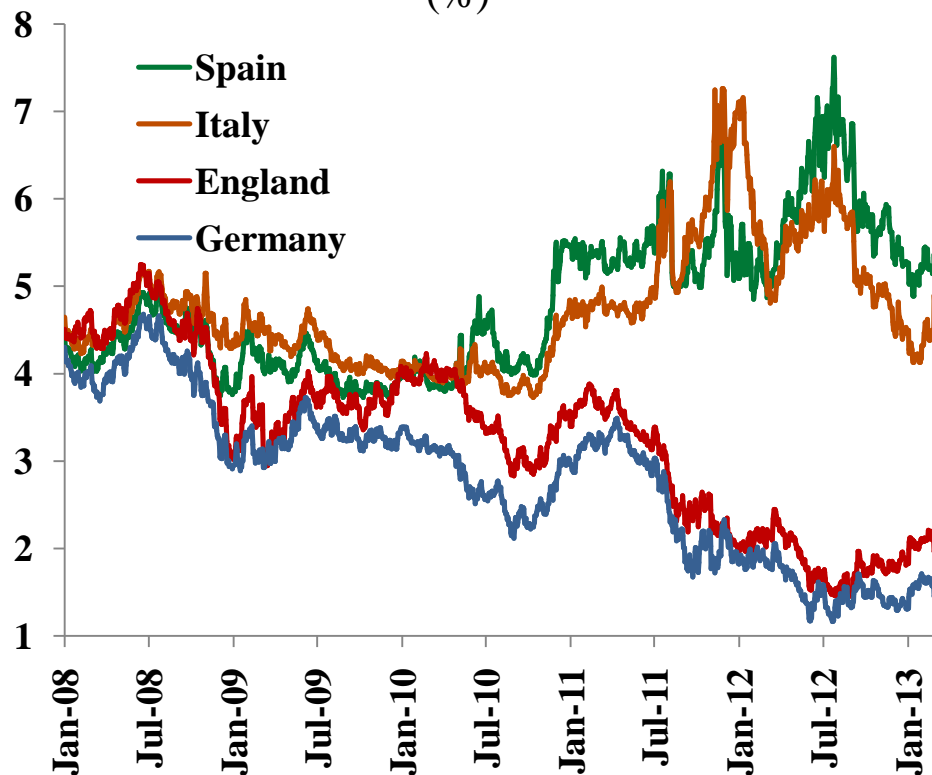
Source: WEO Update (January 2013)

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1. External Conditions: Europe

- The broad set of measures adopted in the Euro Area in 2012 have helped stabilize markets, but downside risks remain.

10y Bond Yields
(%)



Observed and Forecasted GDP Growth Rates in European Economies (%)

	2011	2012*	2013*	2014*
Portugal	-1.7	-3.0	-1.0	1.2
Spain	0.4	-1.5	-1.3	1.0
Italy	0.4	-2.3	-0.7	0.5
UK	0.8	-0.4	1.1	2.2
Germany	3.1	0.9	0.9	1.4

*Forecast

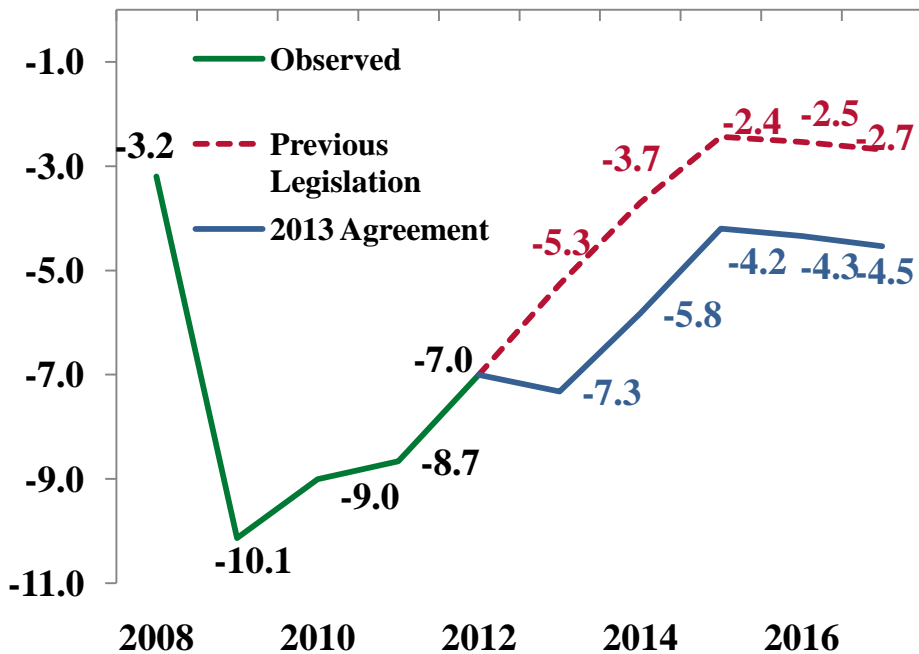
Source: WEO Update (January 2013)

Source: Bloomberg

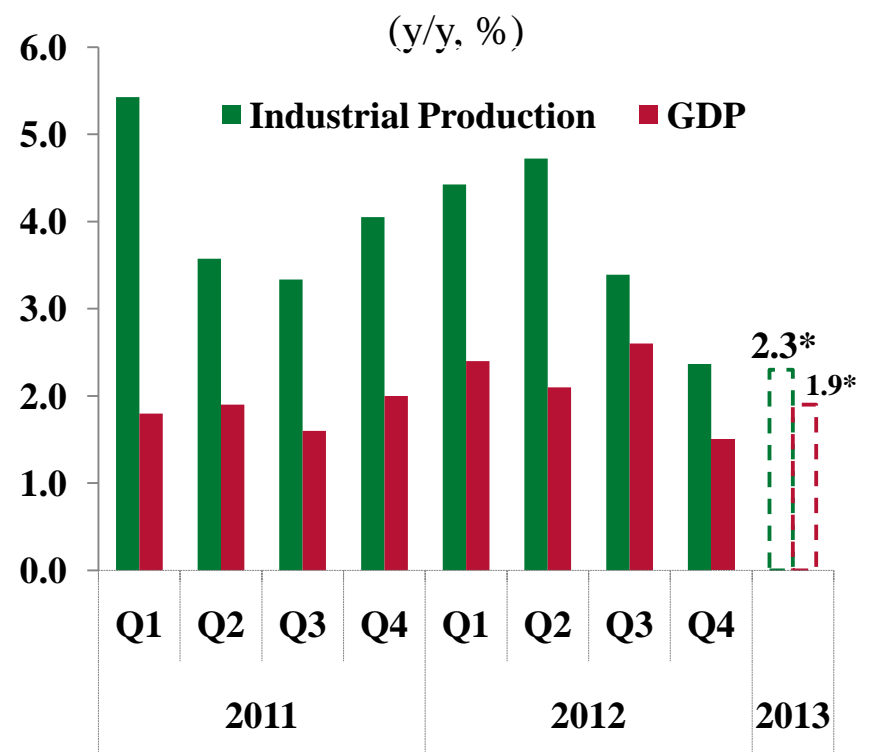
1. External Conditions: United States

- The budget cuts without any changes pose an important source of concern at a time when the economic recovery remains fragile.

US Total Deficit
(%GDP)



US Observed and Forecasted Growth Rates
2013
(y/y, %)



Source: CBO.

Previous Legislation (Fiscal Cliff) assumes payroll tax reduction expires, renewal of unemployment insurance benefits, extension of tax provisions that expire in 2013; unchanged payments for Medicare. The 2013 Agreement refers to the American Taxpayer Relief Act of 2012 enacted on January, 2013.

* Forecasts as of February 2013

Source: Blue Chip, Bureau of Economic Analysis and Federal Reserve.

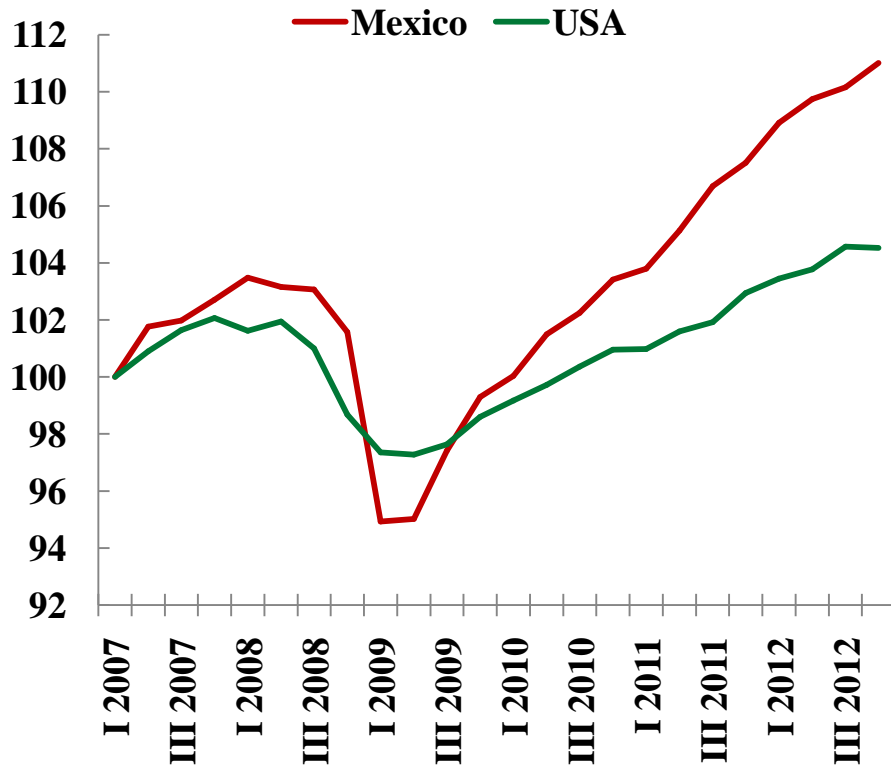
1. External Conditions: the Sequester

- On Friday, negotiations failed to avoid the implementation of federal spending cuts in the United States.
- The cuts amount to 2.3% of total federal spending and are concentrated in reducing discretionary spending mainly during Q2 and Q3.
- The macroeconomic effects will be negative but manageable.
 - According to analysts Sequestration is likely to reduce real GDP growth in 2013 to 1.9% (these effects would be concentrated in Q2 and Q3).
 - Approximately 700 thousand jobs are estimated to be lost due to the Sequester, however corporate profits are not expected to fall.

2. Recent Economic Activity

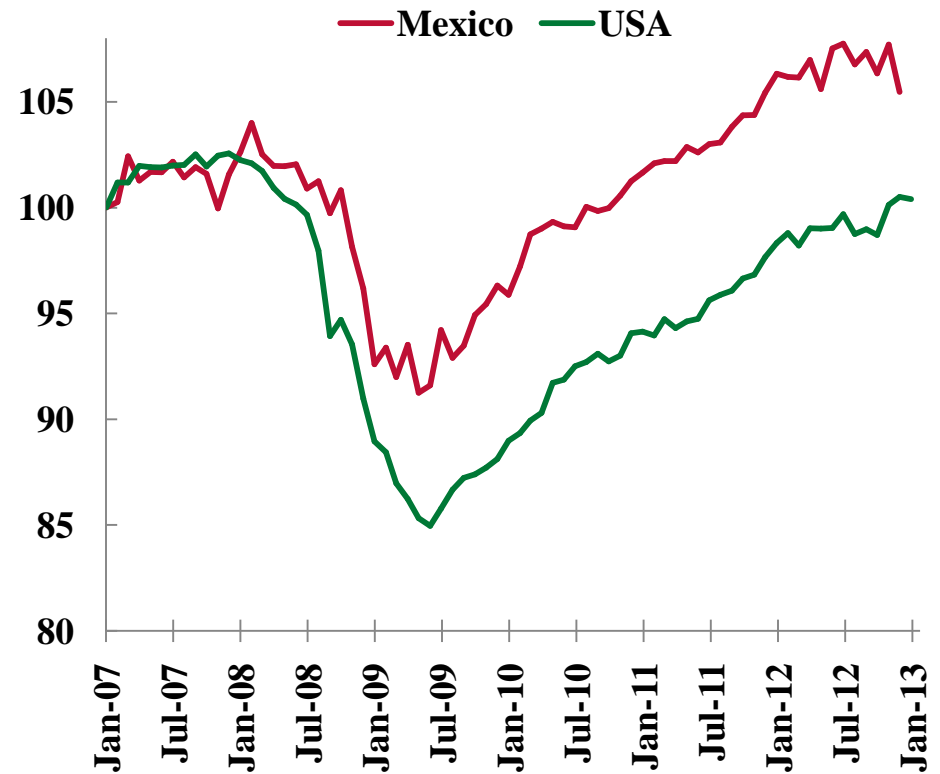
- Despite adverse conditions in the external sector, Mexico has been able to establish a sustained recovery of industrial production and growth.

GDP of Mexico and US
(Index, I-07=100, s.a.)



Source: INEGI & Bureau of Economic Analysis

Industrial Production
(Index, Jan-07=100, s.a.)



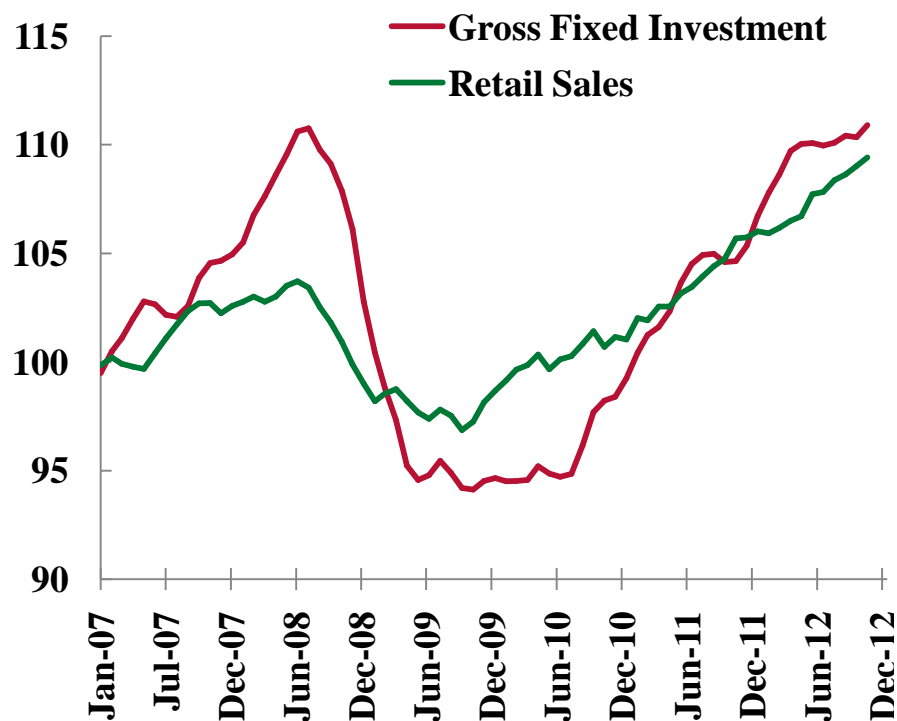
Source: INEGI & Bureau of Economic Analysis

2. Recent Economic Activity

- Mexican domestic demand shows signs of sustained recovery and external demand continues to expand.

Gross Fixed Investment and Retail Sales

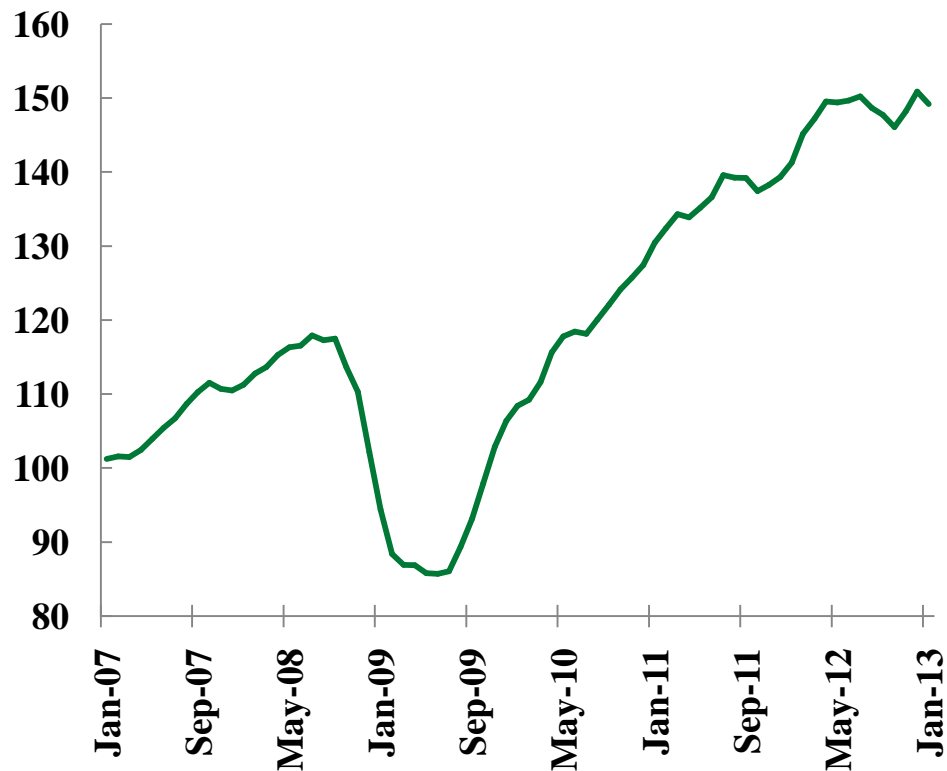
(Index, Jan-07=100, 3m moving average, s.a.)



Source: INEGI.

Non-Oil Exports

(Index, Jan-07=100, 3m moving average, s.a.)

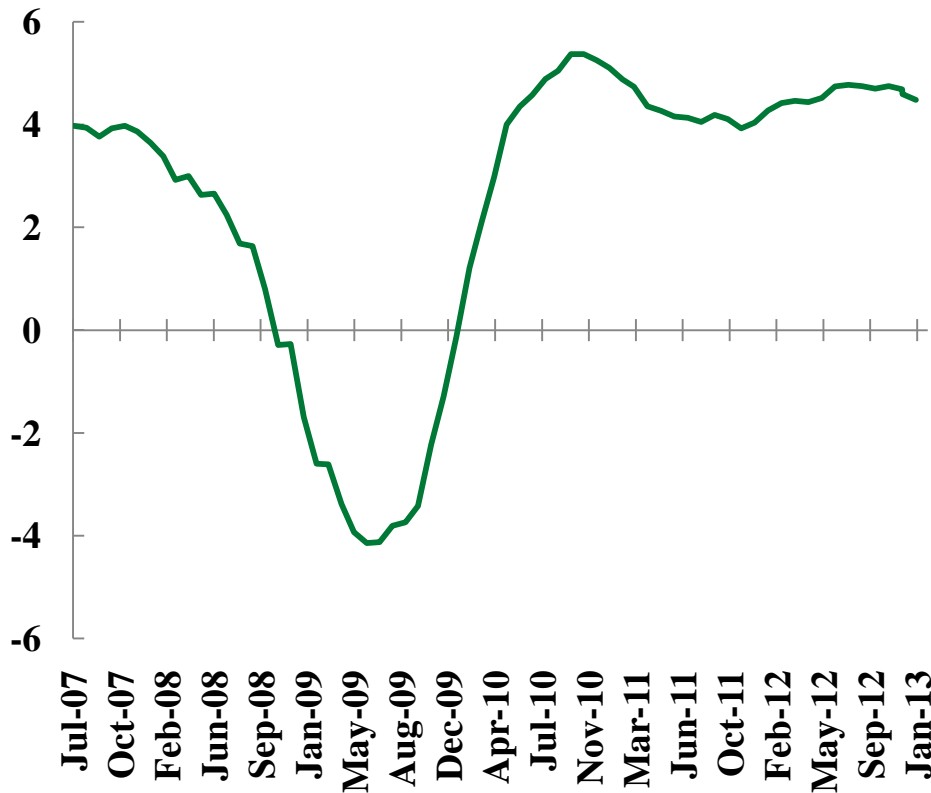


Source: Banxico.

2. Recent Economic Activity

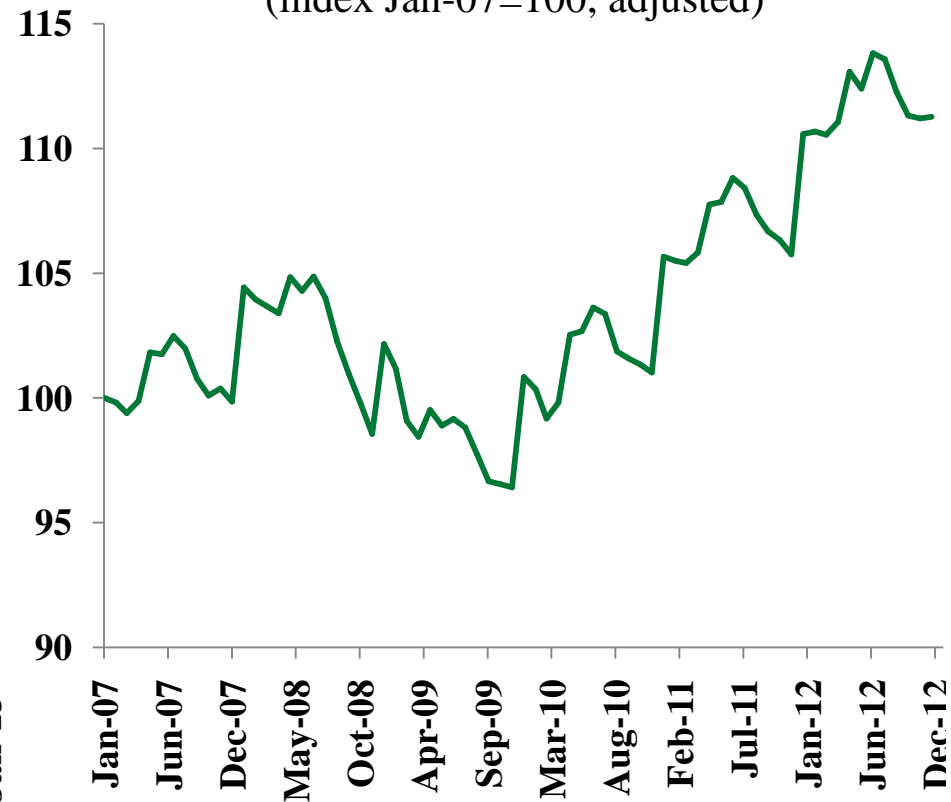
- Employment has grown at a sustained 4% rate (y/y) and the increase in labor income has supported the expansion in domestic demand.

Employment in Mexico
(annual growth, %)



Source: IMSS

Labor Income*
(index Jan-07=100, adjusted)



Source: IMSS

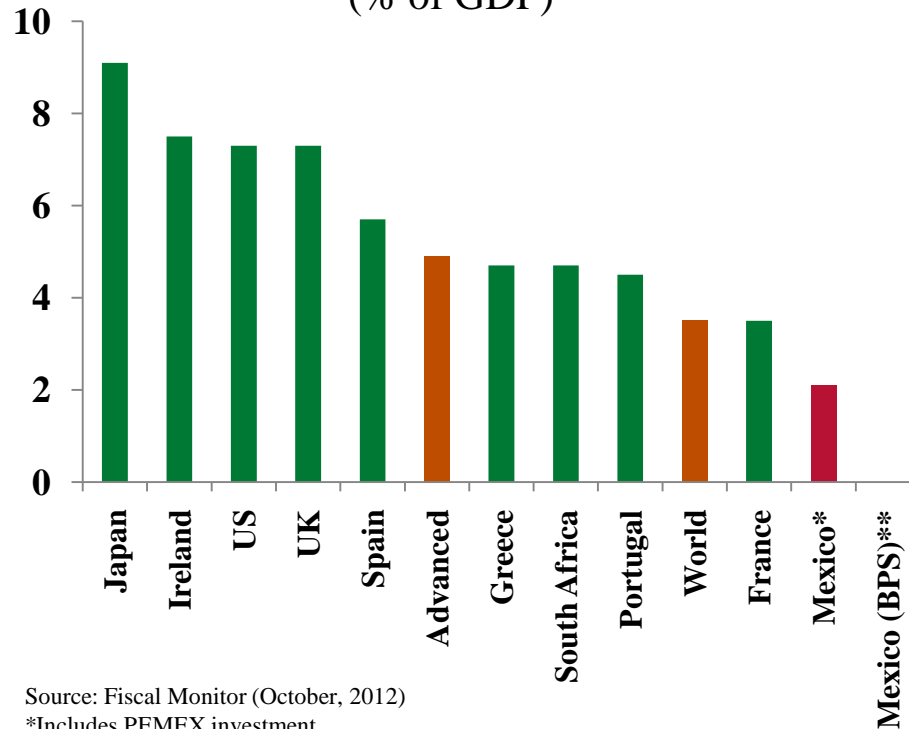
*Total workers multiplied by average wage

3. Strong Fundamentals: Fiscal and Debt Policy

- This Administration is committed to preserve macroeconomic stability.

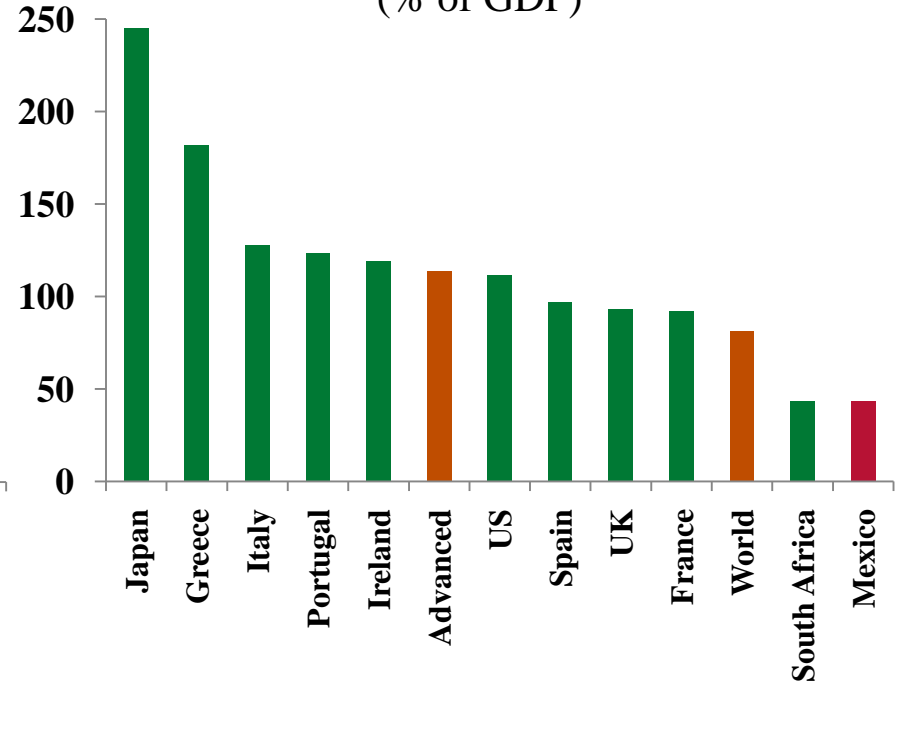
Expected General Government Overall Deficit for 2013

(% of GDP)



Expected General Government Gross Debt for 2013

(% of GDP)



Source: Fiscal Monitor (October, 2012)

*Includes PEMEX investment

** Budgetary Public Sector approved for 2013 without PEMEX investment.

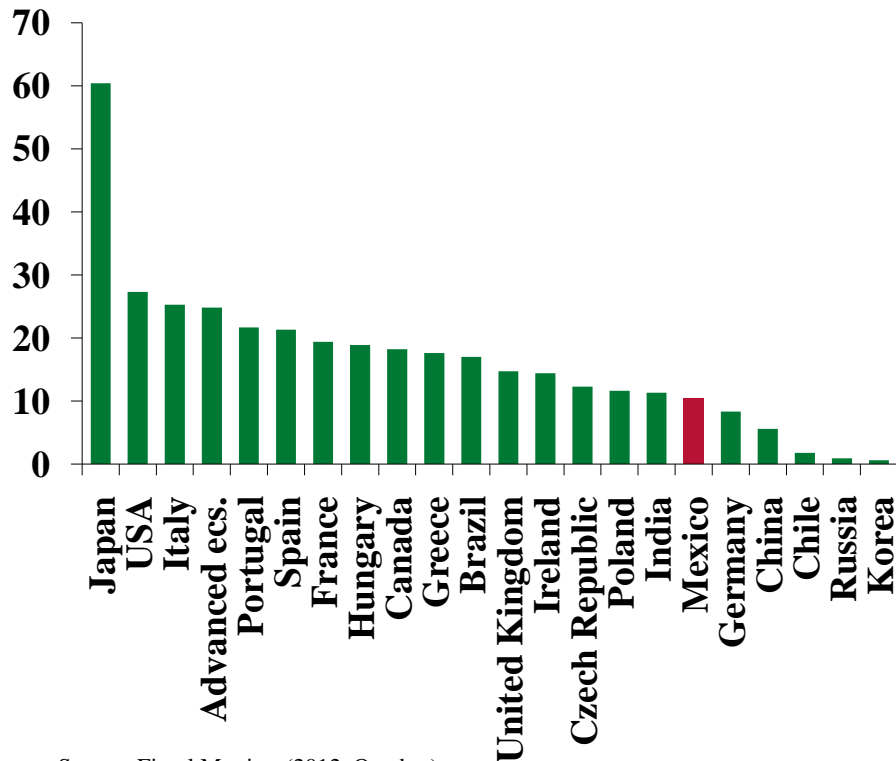
Source: Fiscal Monitor (October, 2012)

IMF: General Government includes Central Government (Budgetary Central Government, Extra Budgetary Units and Social Security Funds) and State and Local Governments.

3. Strong Fundamentals: Fiscal and Debt Policy

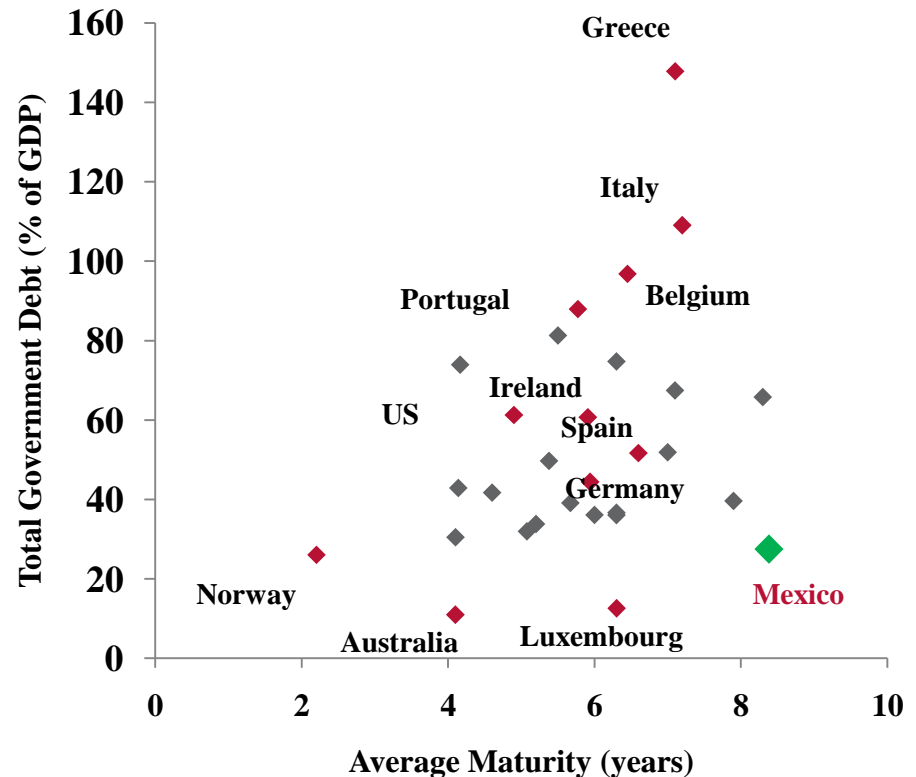
- Mexico maintains low levels of gross financing needs and a strong balance between low level of debt and extended average maturity.

General Government's Gross Financing Needs for 2013
(% of GDP)



Source: Fiscal Monitor (2012, October)

OECD Countries Level of Debt vs Refinancing Risk

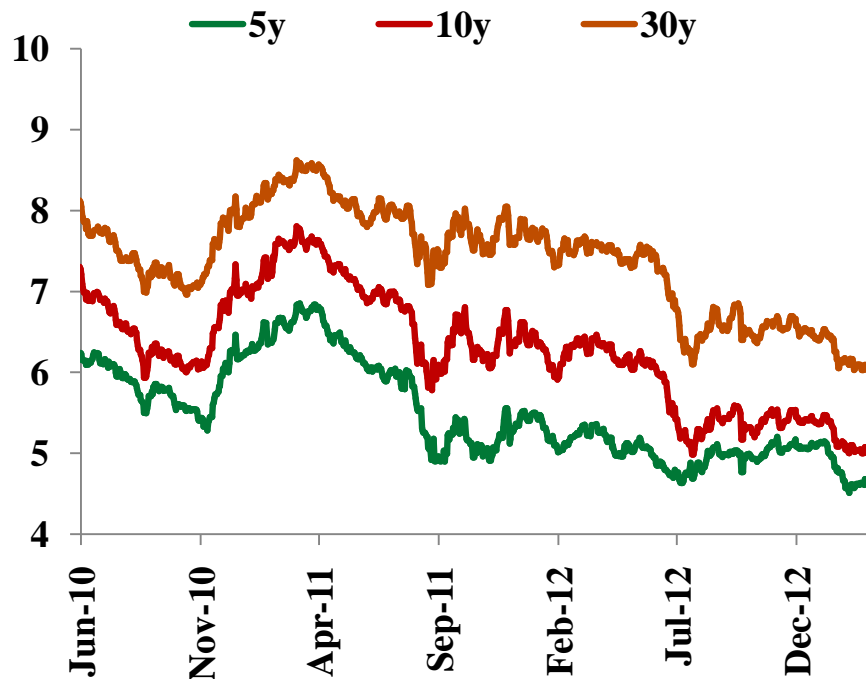


Source: OECD
As of 2010

3. Strong Fundamentals: Financial Markets

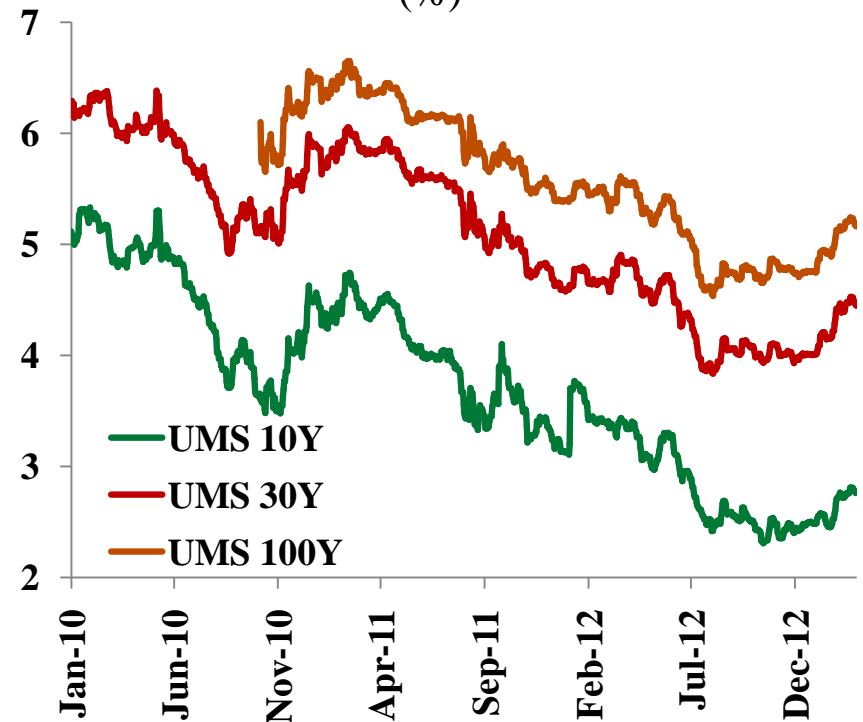
- The strength of the sovereign credit is reflected on a downward trend on interest rates, which have reached historical minimums.

Mexico's Nominal Fixed Rate Bond Yields (%)



Source: SHCP

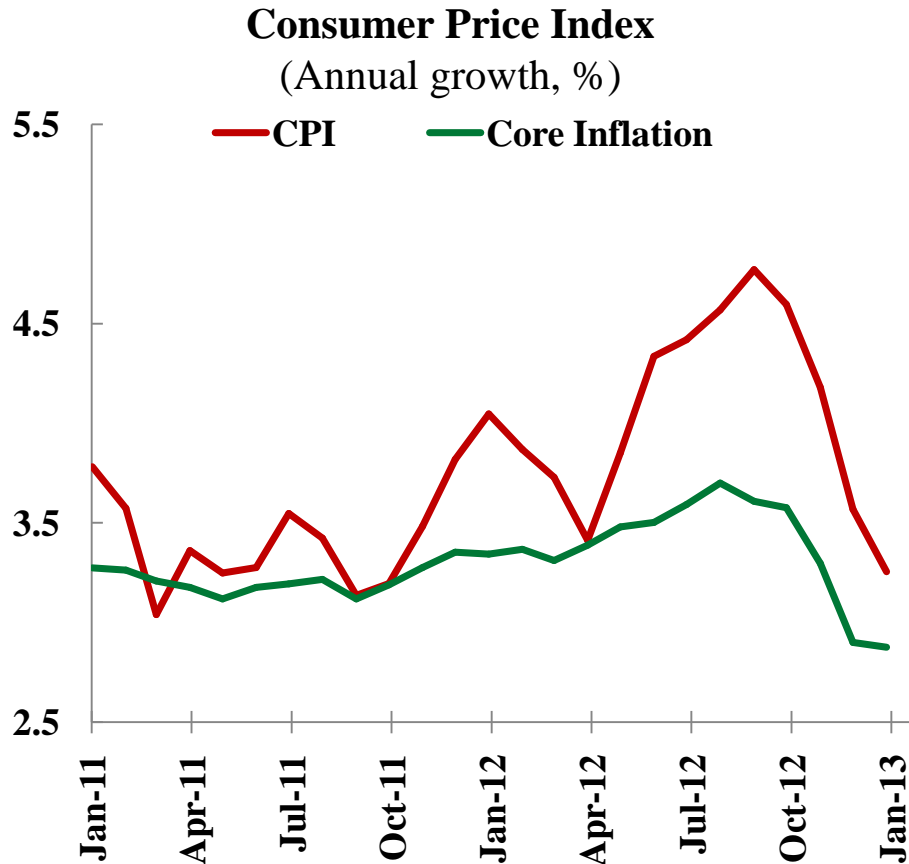
Mexico's US Denominated Bond Yields (%)



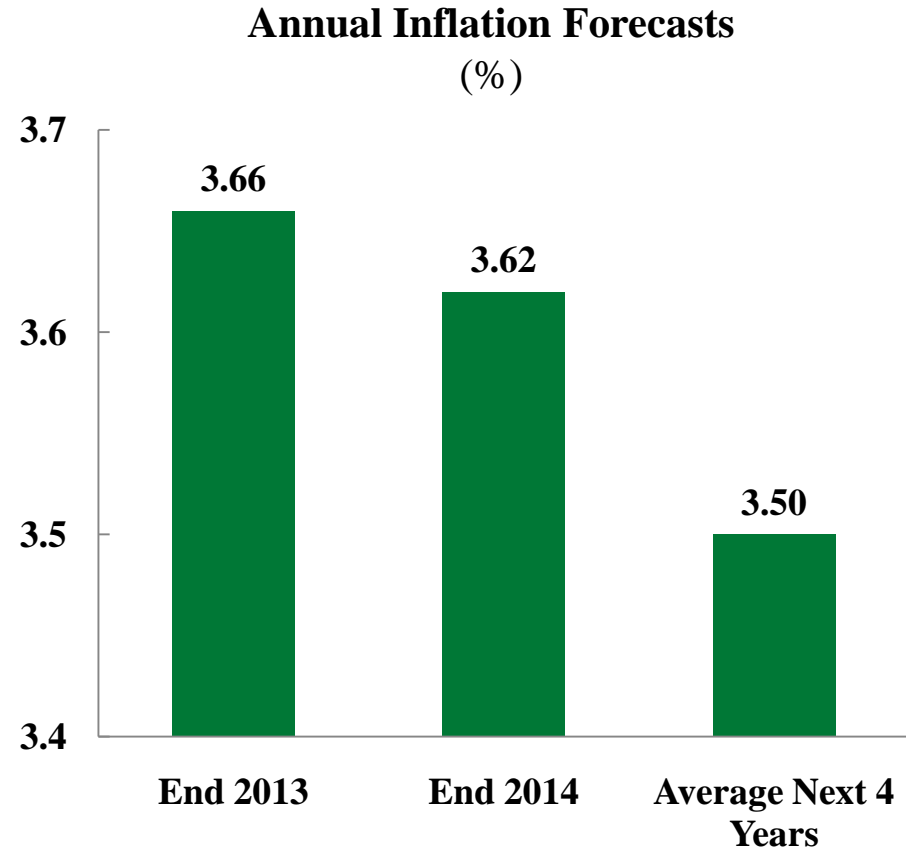
Source: SHCP

3. Strong Fundamentals: Low and Stable Inflation

- Medium-term inflation expectations are anchored around Banco de Mexico's target.



Source: Banxico & INEGI



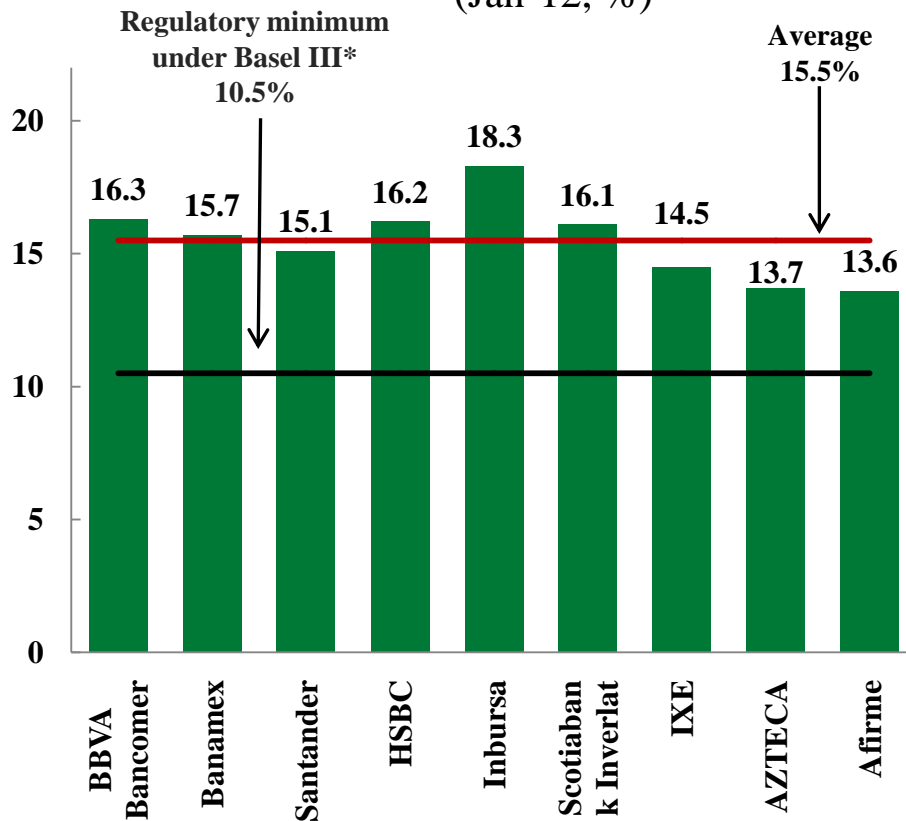
Source: Banxico Survey (as of March 2012)

3. Strong Fundamentals: Financial Sector

- The Mexican banking system is well capitalized, in full compliance with Basel III requirements and does not show signs of asset price bubbles.

Capitalization index of Mexican banks

(Jan-12, %)

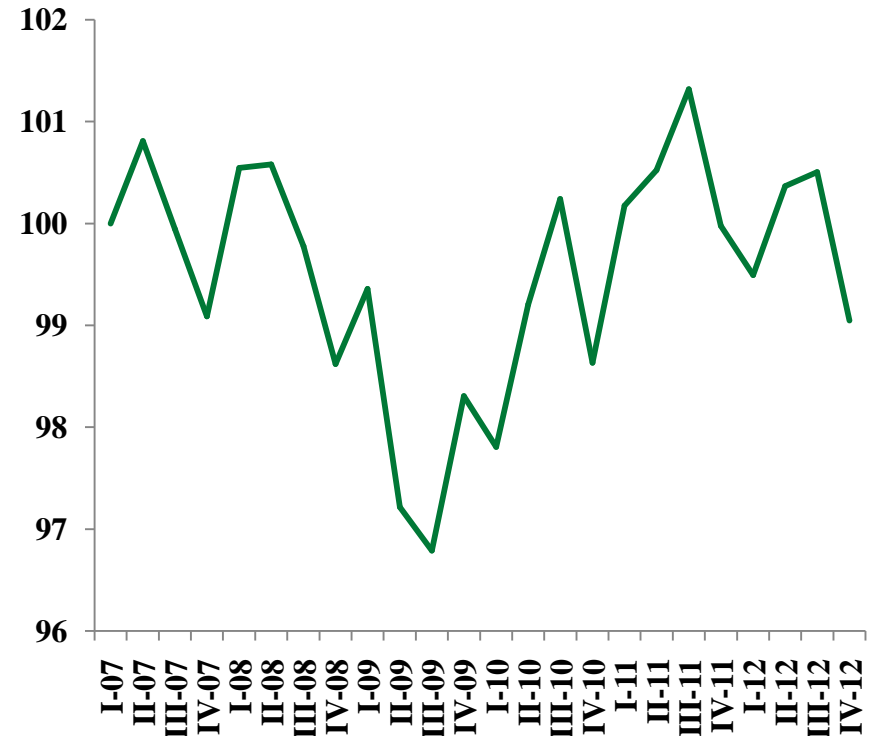


*According with Basel III. Data as of January 2012

Source: Banxico

Housing Relative Prices

(relative to the CPI, index, I-07=100)

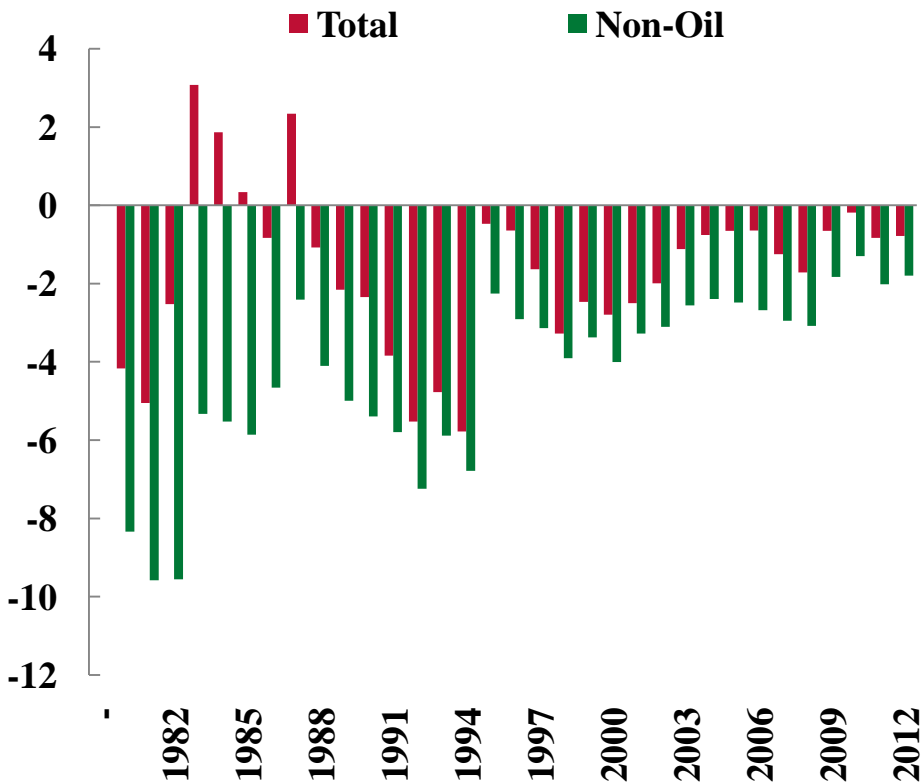


Source: INEGI and Sociedad Hipotecaria Federal.

3. Strong Fundamentals: External Sector

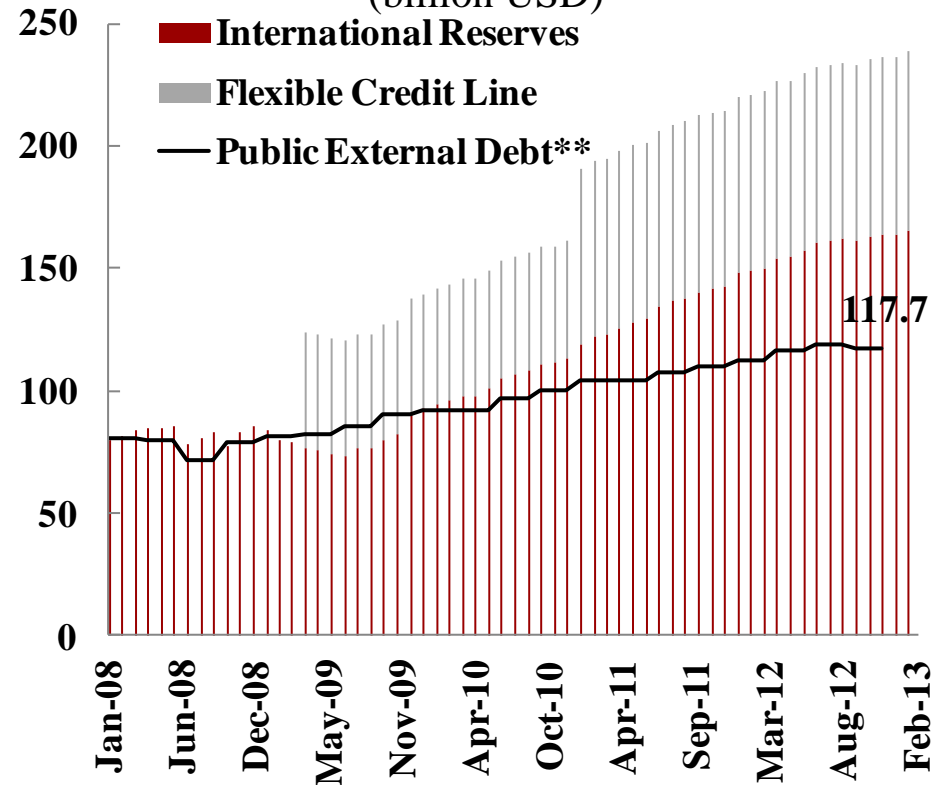
- The current account deficit is moderate and international reserves are at historical maxima.

Current Account Balance*
(% of GDP)



Source: Banxico

Foreign Exchange Reserves
(billion USD)



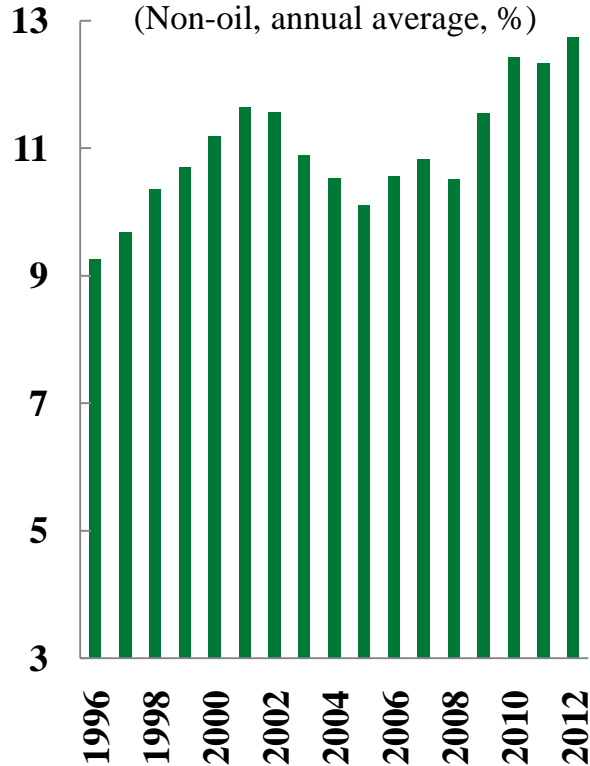
Source: Banxico

*Data as of February 22, 2013

3. Strong Fundamentals: External Sector

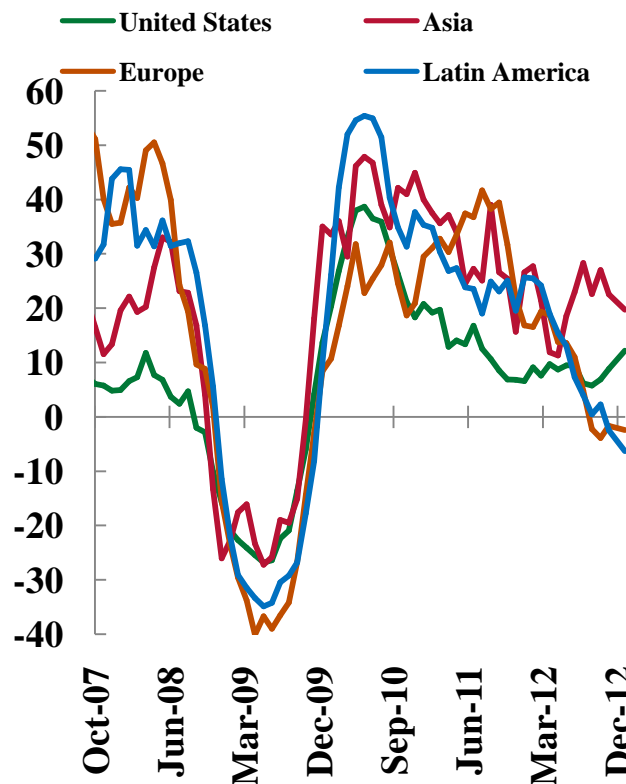
- Mexico has gained share in the U.S. imports while exports to countries different from the US have expanded, contributing to commercial diversification.

Participation of Mexico Exports in US Imports
(Non-oil, annual average, %)



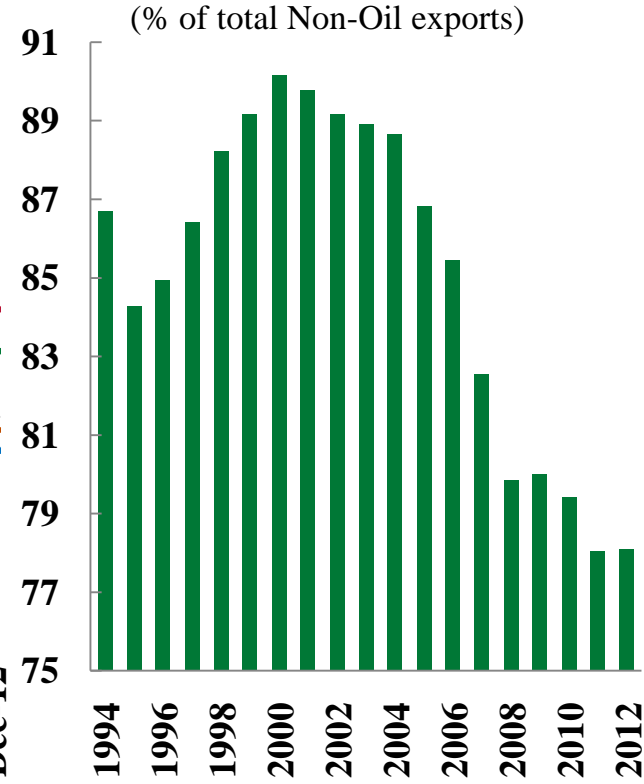
Source: Banxico & U.S. Census Bureau.

Mexican Non-Oil Exports
(Annual growth, 3m moving average, %)



Source: Banxico.

Participation of Mexican Non-Oil Exports to US
(% of total Non-Oil exports)

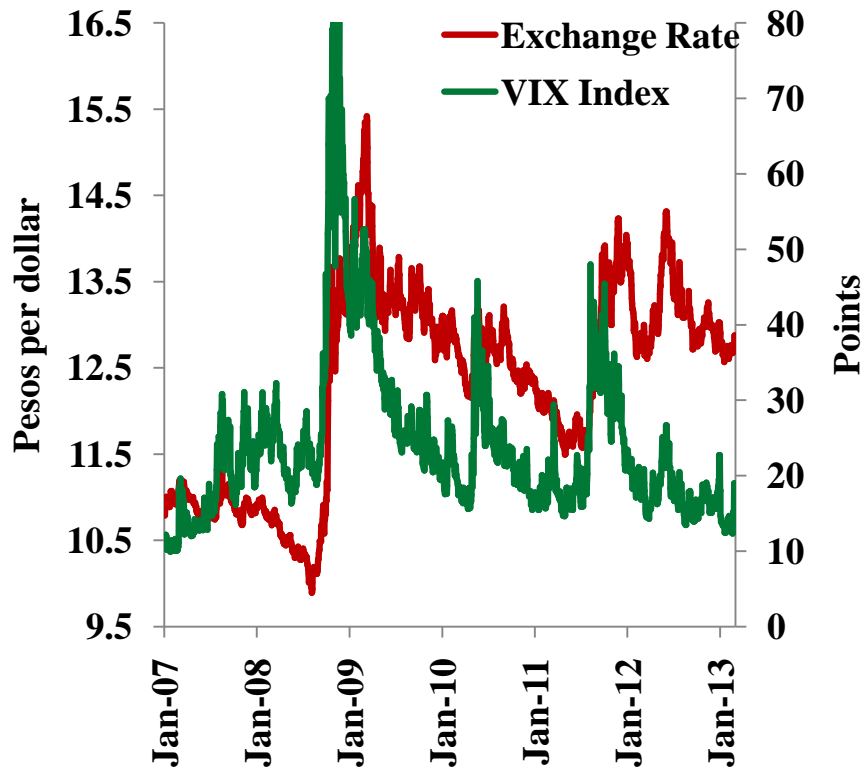


Source: Banxico & U.S. Census Bureau.

3. Strong Fundamentals: Exchange Rate

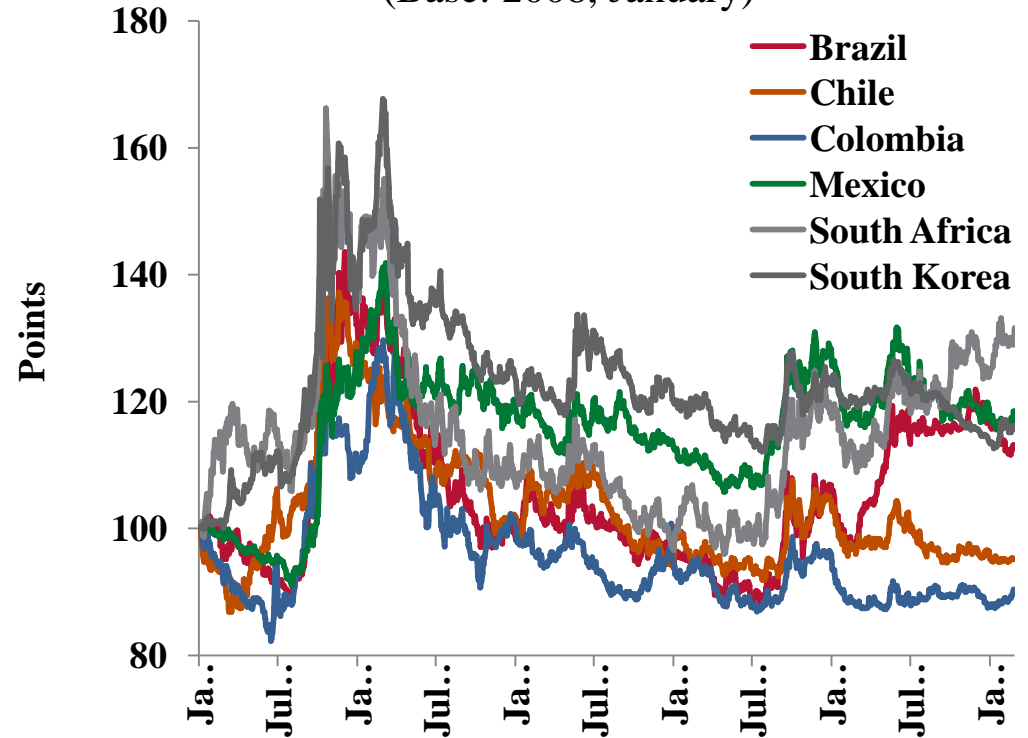
- The floating exchange rate regime has allowed the economy to face multiple external shocks while orderly absorbing portfolio capital inflows.

USD Dollar-Mexican Peso Exchange Rate and VIX



Source: Banxico and Bloomberg.

Emerging Markets Exchange Rates
(Base: 2008, January)



Source: Bloomberg. Data as of February 28th, 2013.

4. Agenda for Economic Growth, Employment and Competitiveness

- **Pacto por México** is a broad, multi-partisan alliance that provides an ambitious agenda to promote growth, and social development.
- The Pact contains 5 building blocks comprising 95 commitments covering:
 1. Social Security and Civil Rights
 2. Economic Growth, Employment and Competitiveness
 3. Security and Justice
 4. Transparency, Accountability and Fight Against Corruption
 5. Democratic Governance

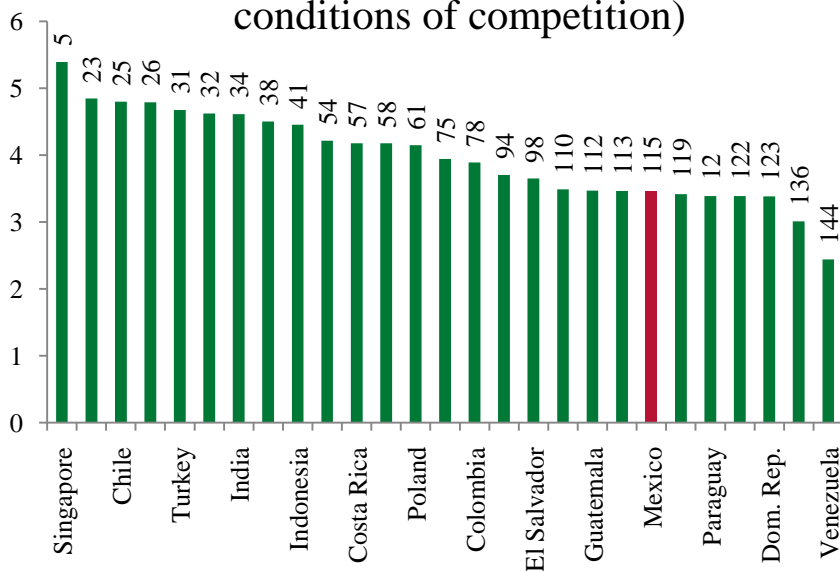
4. Agenda for Economic Growth, Employment and Competitiveness

A. Enhance Competition including telecommunications

- Strengthen the Federal Competition Commission.
- Create Courts of Law specialized in addressing economic competition and telecommunications.
- Promote competition in services offering: fixed and mobile phone, data services, radio, and television.

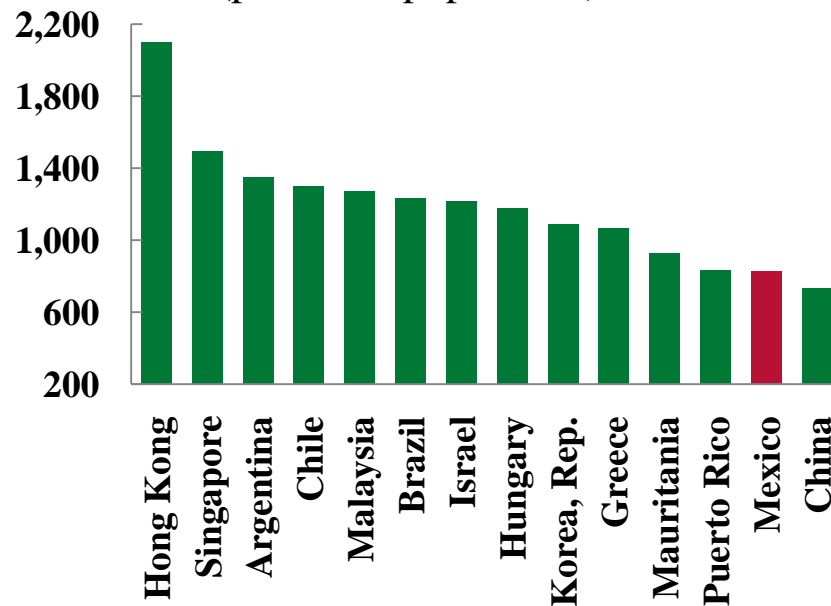
Effectiveness of the antitrust policy: 2012-2013 WEF ranking*

(scale 1-6, highest score indicates better conditions of competition)



*The number above the bar indicates the position of each country between the 144 ranked.

Cell phone users, 2011 (per 1,000 population)



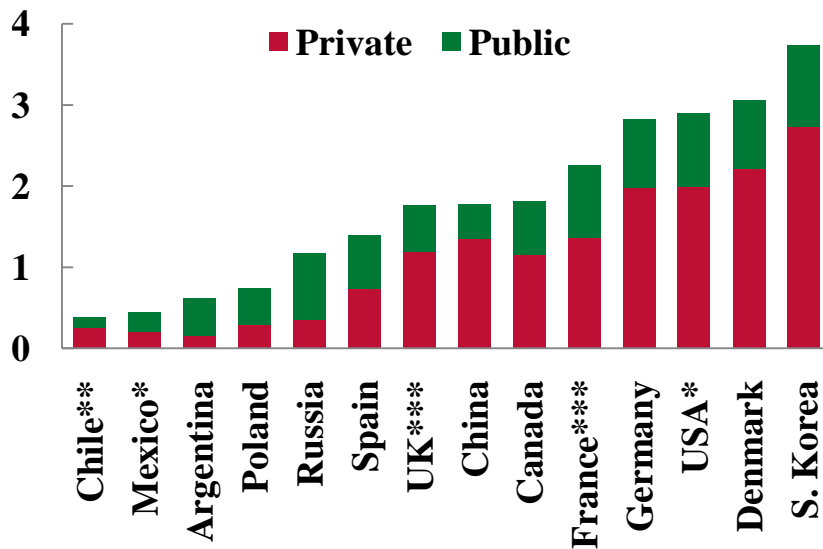
Source: WDI 2012, The World Bank

4. Agenda for Economic Growth, Employment and Competitiveness

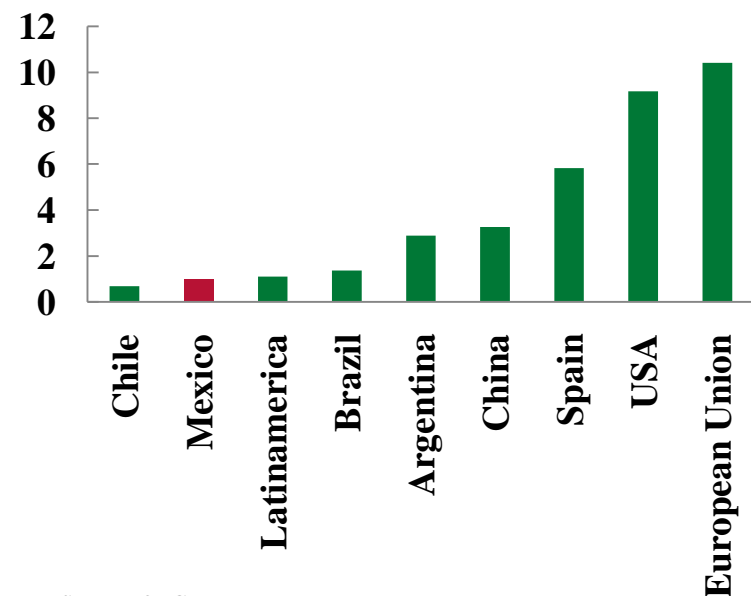
B. Promote Science and Technology Innovation

- Mexico lags in R&D investment.
 - Increase expenditure in scientific research and technology development to 1% of GDP.
 - Increase R&D centers.

Investment in R&D, 2010
(% of GDP)



Number of researchers per thousand members of the EAP, 2010



Source: OECD Stats, CONACYT for México.
* 2009. ** 2008. *** Preliminary.

Source: OECD

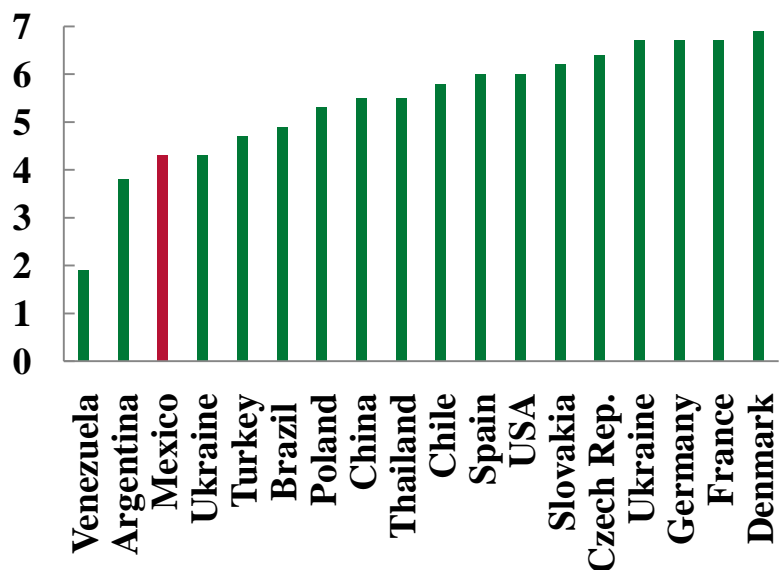
4. Agenda for Economic Growth, Employment and Competitiveness

C. Energy Reform to Promote Investment and Growth

- Energy Reform will promote the competitiveness of the Mexican Economy.
 - Strengthen the National Hydrocarbons Commission.
 - Promote the development of downstream supply-chains.
 - Promote natural gas as a cheaper input to produce electricity.
 - Reforms to enhance competitiveness in the refining, petrochemical and transport processes without privatizing PEMEX facilities.

Quality of electricity, 2010-2011

(interruptions and voltage fluctuations, weighted average)

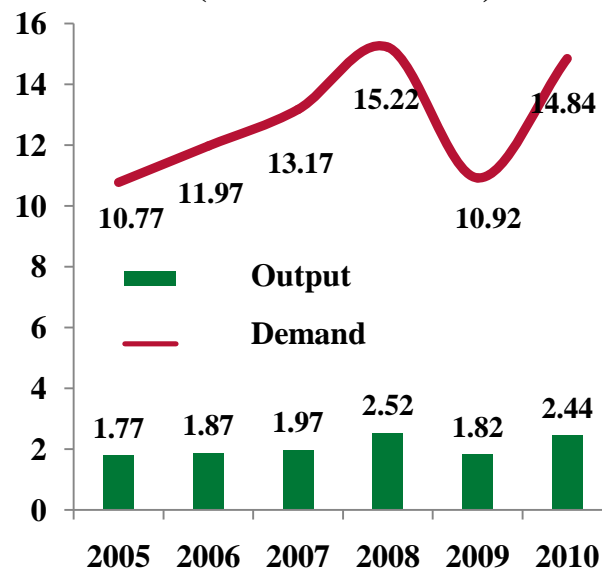


Note: higher values indicate better quality standards.

Source: WEF.

Production and demand for petrochemicals in Mexico

(billions of dollars)

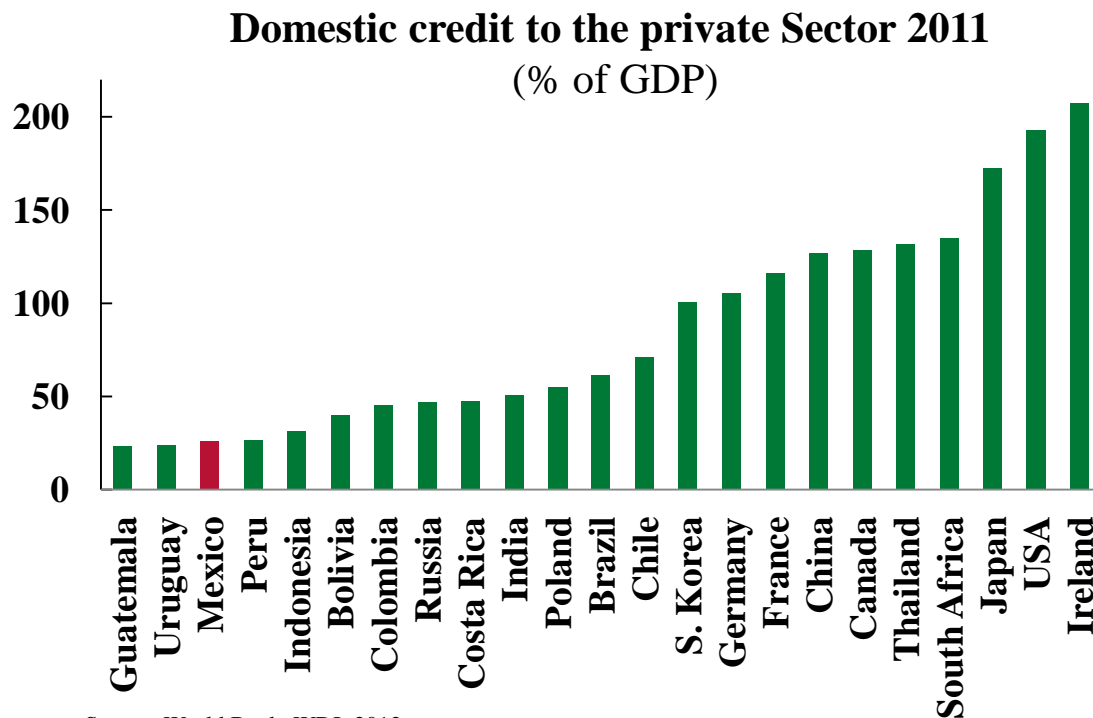


Source: SENER (SIE and BDI data).

4. Agenda for Economic Growth, Employment and Competitiveness

D. Facilitate Access to Financing for SMEs

- The specific actions to foster financial inclusion and development in households and corporations through access to financing include:
 - Modify the legal framework so that commercial banks and credit institutions provide more credit at more competitive interest rates, including a revision on the execution of guarantees.
 - Strengthen Development Banks, particularly to finance infrastructure, small and medium firms (SMEs), innovation and patent development.

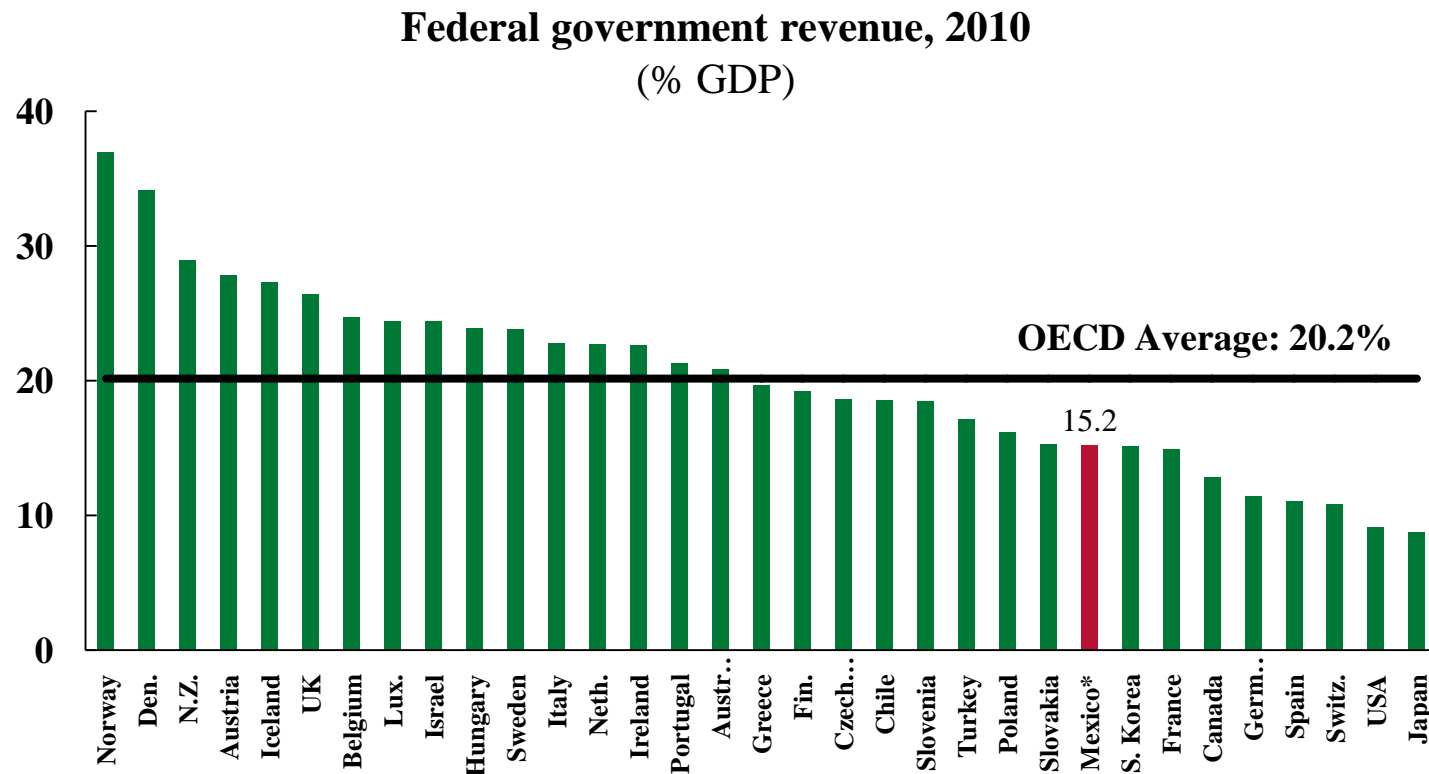


Source: World Bank, WDI, 2012.

4. Agenda for Economic Growth, Employment and Competitiveness

E. Efficient and equitable Fiscal Reform

- A comprehensive revision of the tax system is required to increase efficiency, reduce tax avoidance, and evasion.



Source: OECD

Amparo Law

- To address the abuse of economic “amparos” or “habeas corpus”, a major reform has been approved.

Insurance Law

- In the last days, the Mexican congress approved the Ley de Instituciones de Seguros y Fianzas which updates insurance regulation to modern standards adding a stronger corporate governance, solvency principles and transparency to the industry.

5. Concluding Remarks

- President Enrique Peña's Administration is committed to maintaining and strengthening macroeconomic stability.
- The structural reforms seek to “Democratize Productivity”.
- The new programs should foster formal employment in Mexico.

5. Concluding Remarks: Housing Policy

This administration is committed to the objective of fostering development and achieving greater prosperity for Mexico. The vision for the future of the housing sector is based on four main elements:

- **Better coordination between government agencies by ensuring a coherent and stable policy environment, coordinating all government agencies under a newly created Ministry (SEDATU).**
- **A more sustainable urban development model by using the policy instruments, mainly financing and subsidies to not only increase access to housing but to ensure that such housing is built according to good urban planning.**
- **Reducing the housing deficit by continuing support for a robust process of new home building and other solutions to eliminate the still large housing deficit.**
- **Access to a dignified home. A house is not a home unless it has all the basic services and is part of an environment that allow it to improve the quality of life.**

Yesterday, Sociedad Hipotecaria, in accordance to the policies announced by president Peña Nieto, launched a loan guarantee program for housing construction that covers up to 30% of portfolio losses. The program will have resources to guarantee loans to the amount of 15 billion (US billion) pesos for construction (bridge) loans. It is an open access program for all housing developers that qualify, the product will be offered mainly through commercial banks and other regulated intermediaries, following their best practices for loan origination and risk evaluation. This program will make financing bridge loans more attractive, creating incentives for more inflows into the sector.



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