



SHCP

The Mexican Economy: Recent Developments and Outlook for 2009

Mexican Housing Day

February 6, 2009



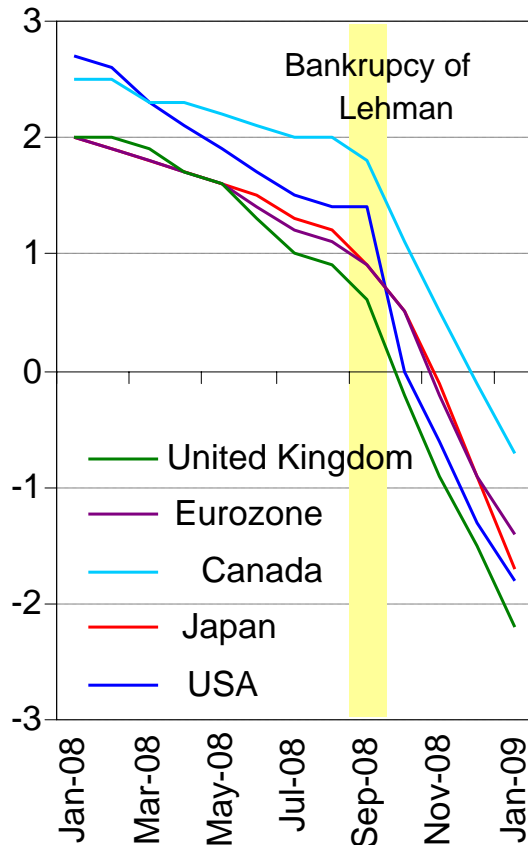
The economic crisis has developed gradually from a mortgage and credit problem in industrialized countries into a systematic financial crisis and a generalized collapse of confidence which has affected the world economy.

- The international crisis is the deepest in the post-war period and is characterized by the following:
 - A global financial crisis.
 - A process of deleveraging in the international financial system.
 - A run in favor of more liquid and less risky financial instruments.
 - A generalized lack of confidence.
 - An adjustment in households' balance sheets, with an increase in savings and lower consumption.
- Negative growth is expected for the main economies in the world, followed by a slow recovery given the weakness in the balance sheets of households and financial intermediaries.

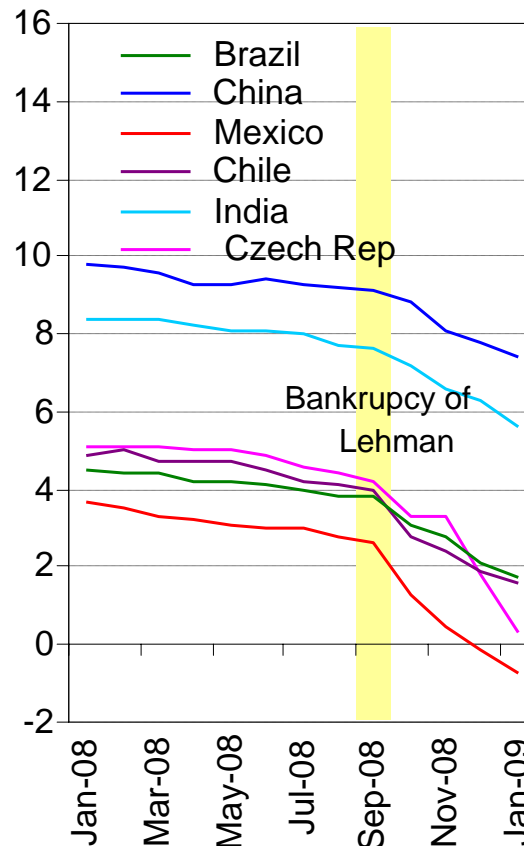


The latest expectations for the United States are of a fall of 2% and 7% in GDP and industrial production in 2009, with a recession in other industrial countries and a deceleration in Emerging Markets.

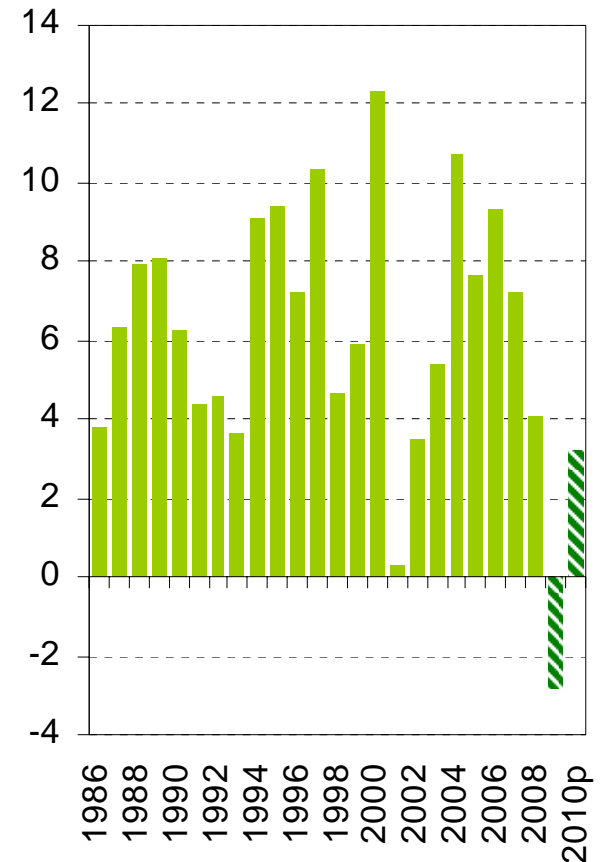
Growth Expectations of Industrial Economies for 2009
(%)



Growth Expectations of Emerging Economies for 2009
(%)

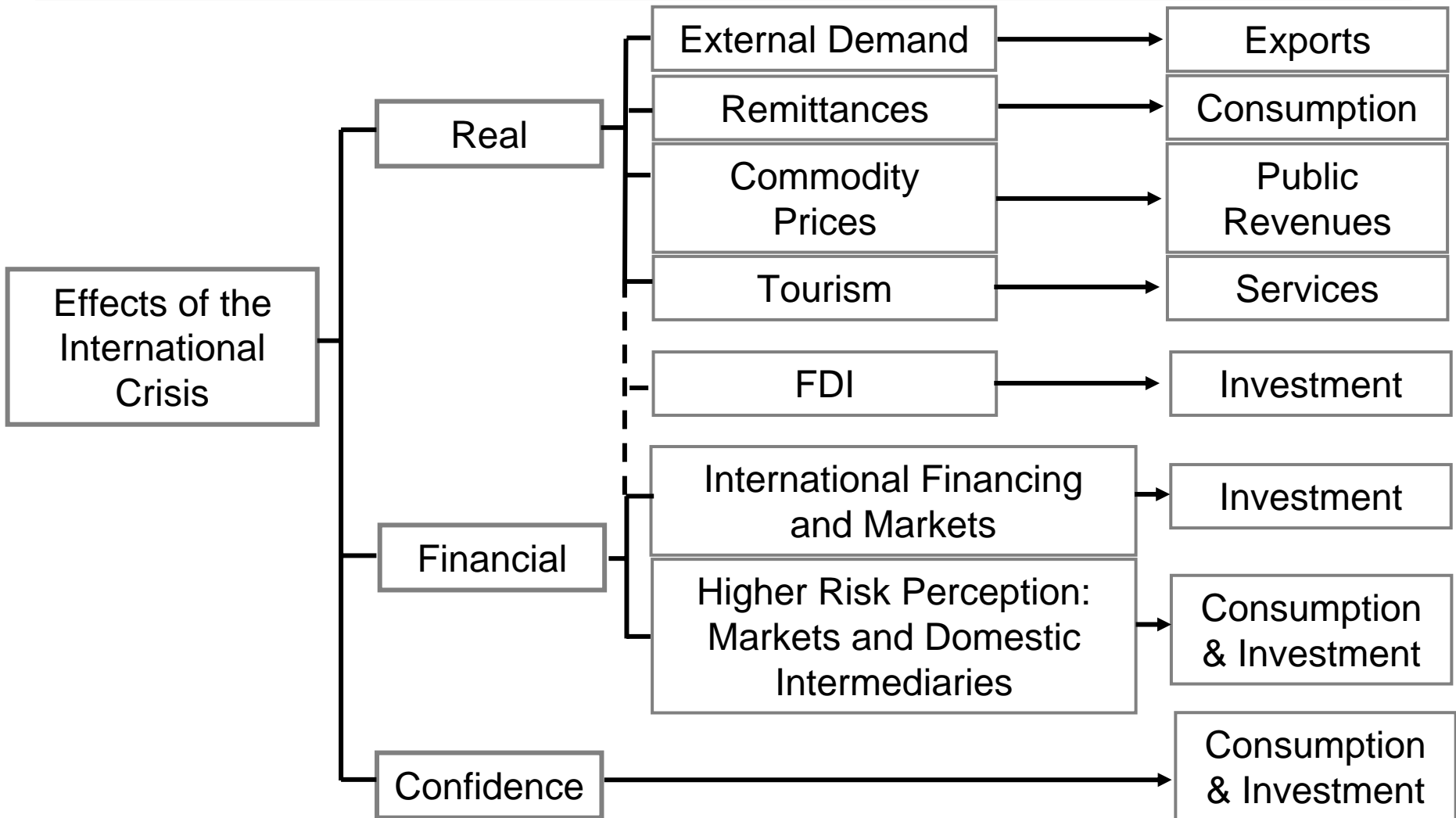


International Trade Volume of Goods and Services
(annual change, %)





The Mexican economy, which had resisted the initial effects of the crisis, has been recently affected through the following channels:

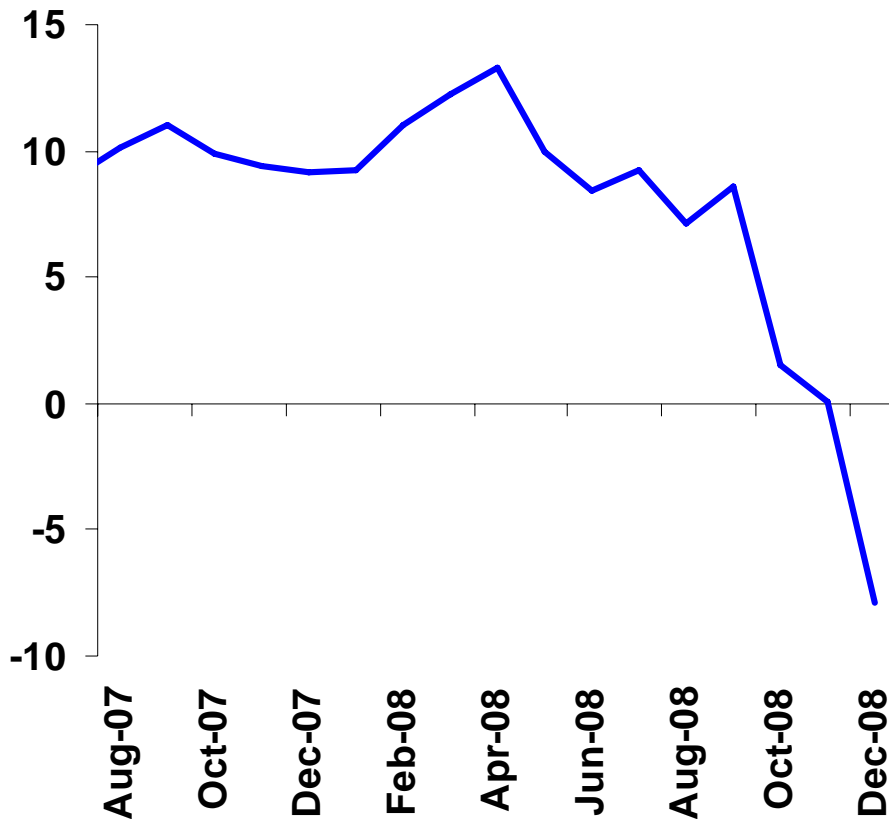




The evolution of the economy was favorable during the first semester of the year. Since then, lower external demand has led to a sharp deceleration of industrial production. The effect on other components of production has been more limited due to the counter-cyclical policies adopted during 2008.

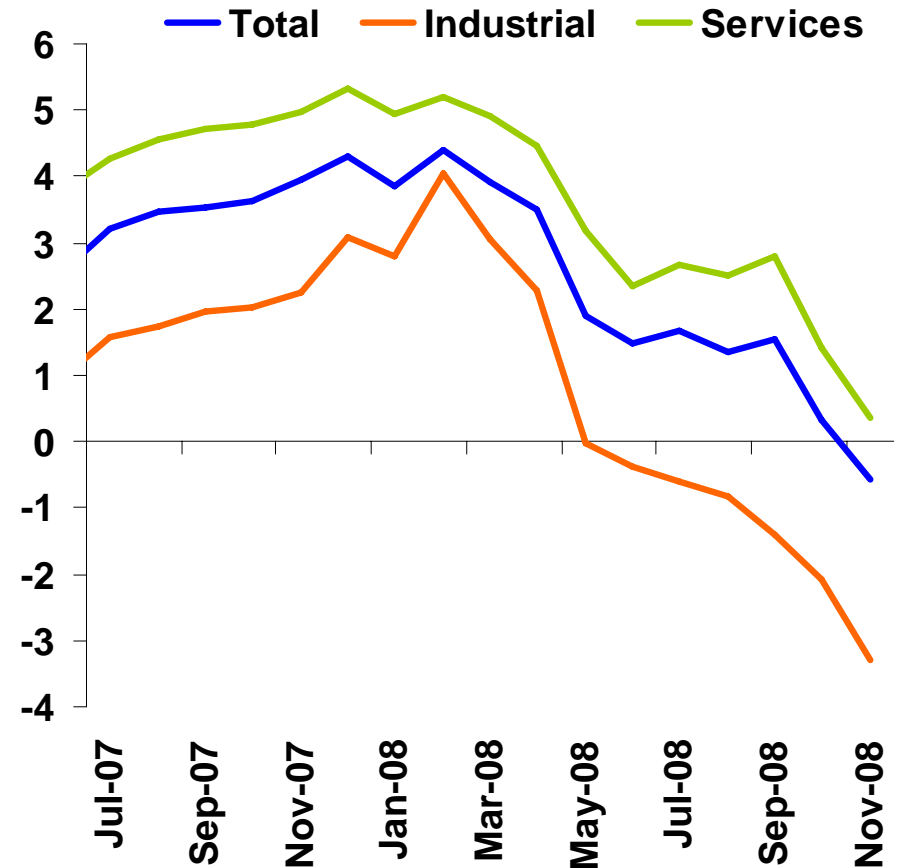
Non-Oil Exports

(annual change 3m moving average, %)



GDP Proxy

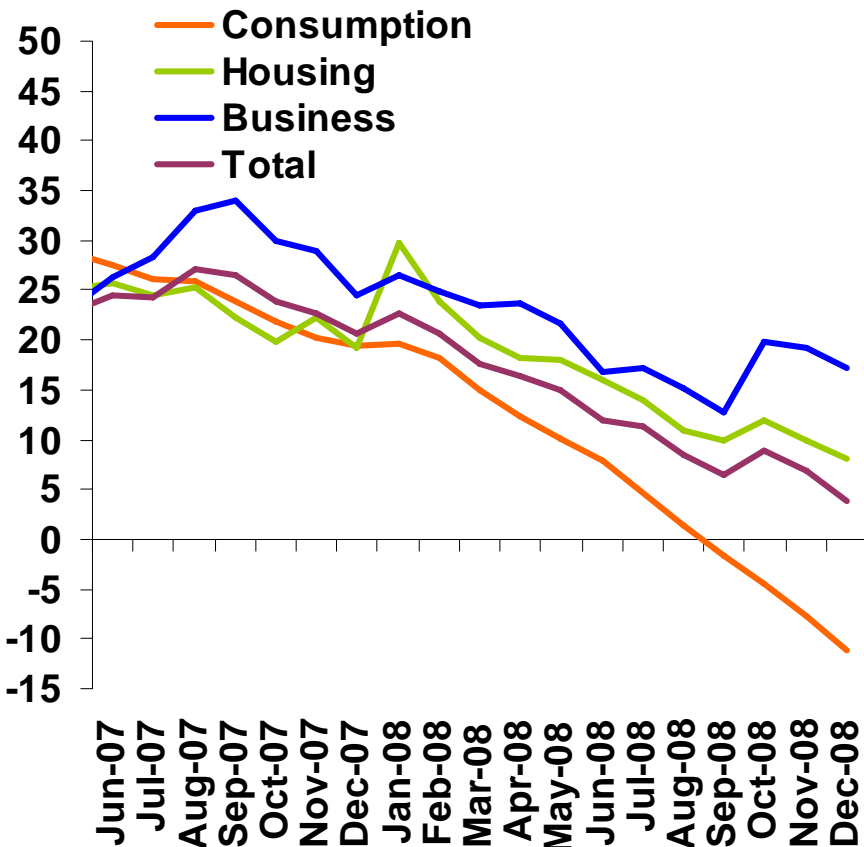
(annual change 3m moving average, %)





Commercial Banks' credit maintains high growth rates, except for consumption. During 2008, credit induced by development banks grew by 23%.

Commercial Banks Credit
(annual change, %)



Direct and Fostered Credit by the Development Banks

(billions of December 2008 pesos)

Sector	2007	2008	annual change (%)
Business	100,067	140,664	40.6
Infrastructure	69,497	100,946	45.3
Housing	141,171	142,021	0.6
Rural	66,154	81,297	22.9
Other	6,132	7,840	27.9
Total	383,021	472,768	23.4

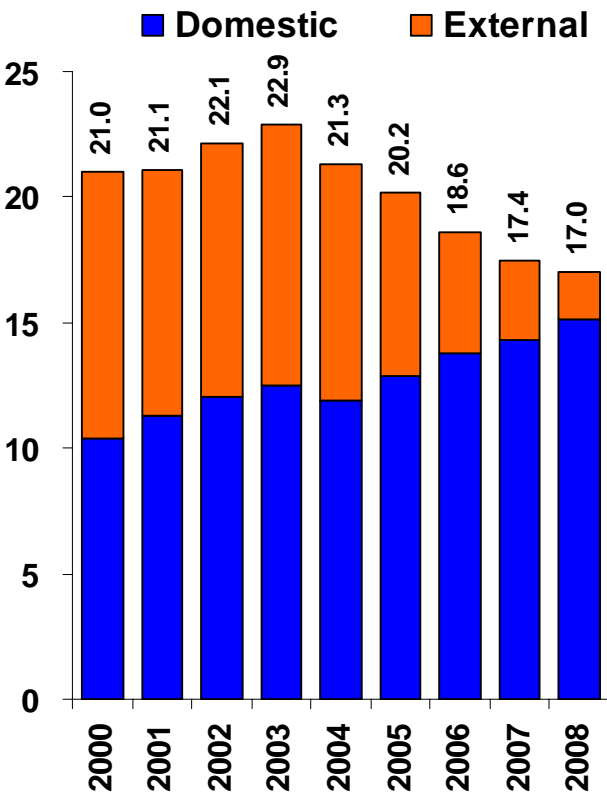
Public finances had a very favorable evolution during 2008, with an increase of close to 7.5% in total revenues and 7.9% in non-oil tax revenues.

Public Finances, 2007-2008							
	(billion pesos)				(real change, %)	(% of GDP)	
	2007	2008			vs. 2007	2007	
		Aprov.	Obs.	Diff.	Obs.		Obs.
Budgetary Balance	3.3	0.0	-8.1	-8.1	N.A.	0.03	0.00
Total Revenues	2,485.8	2,545.5	2,857.1	311.6	7.47	22.24	23.43
Oil Revenues	880.7	865.7	1,051.2	185.5	11.60	7.88	8.62
Tax Revenues	1,047.3	1,208.4	1,208.3	-0.1	7.88	9.37	9.91
Other Revenues	557.8	471.4	597.6	126.2	0.17	4.99	4.90
Total Net Expenditure	2,482.5	2,545.5	2,865.3	319.8	7.92	22.21	23.50
Programmable	1,890.7	1,875.9	2,200.6	324.7	8.83	16.92	18.05
Investment	407.8	390.9	530.6	139.7	21.66	3.65	4.15
Other	1,482.9	1,485.0	1,670.0	185.0	5.30	13.27	13.90
Non-Programmable	591.8	669.5	664.7	-4.8	5.02	5.29	5.45

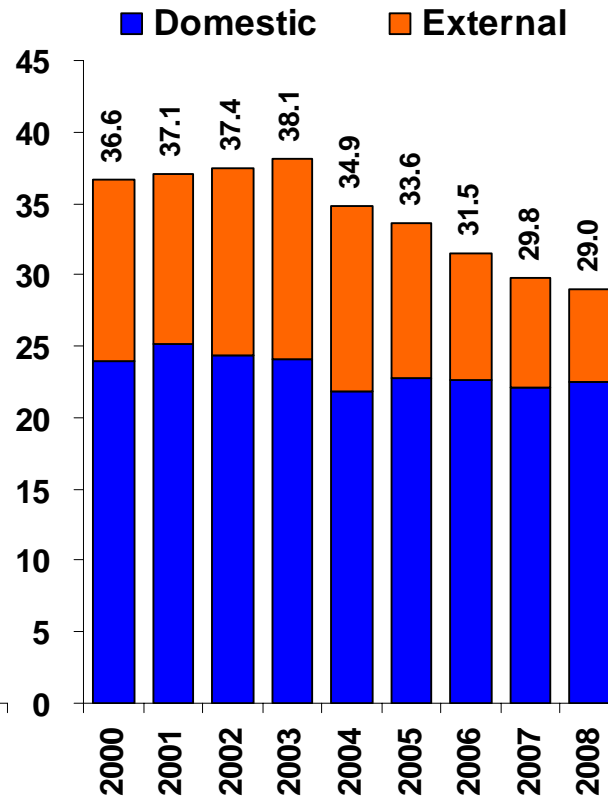


The stock of public debt, particularly external, has continued to decline and its maturity to increase.

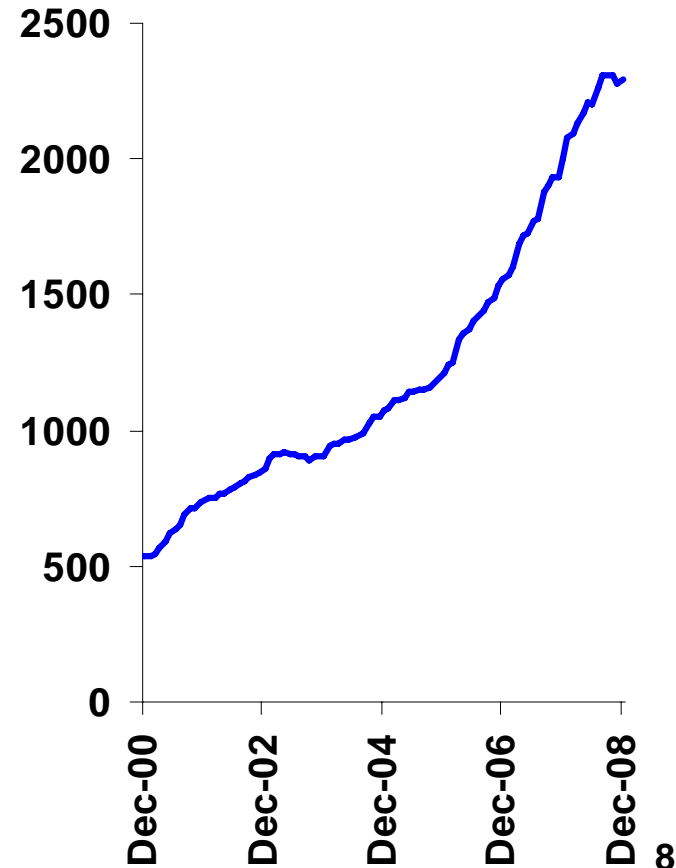
Public Debt
(% of GDP)



Historical Balance of the
Public Sector Borrowing
Requirements
(% of GDP)



Average Debt Maturity
(days)





In response to the external deterioration, the Federal Government has implemented several counter-cyclical measures since early 2008:

First Half of 2008

- The approved budget for 2008
- The Program to Support the Economy
- The creation of the National Infrastructure Fund
- The Food Support Program “Vivir Mejor”

Second Half of 2008

- The Program to Promote Growth and Employment



In 2009, due to the additional deterioration of economic perspectives, the Federal Government promoted the National Accord in Favor of Households and Employment.

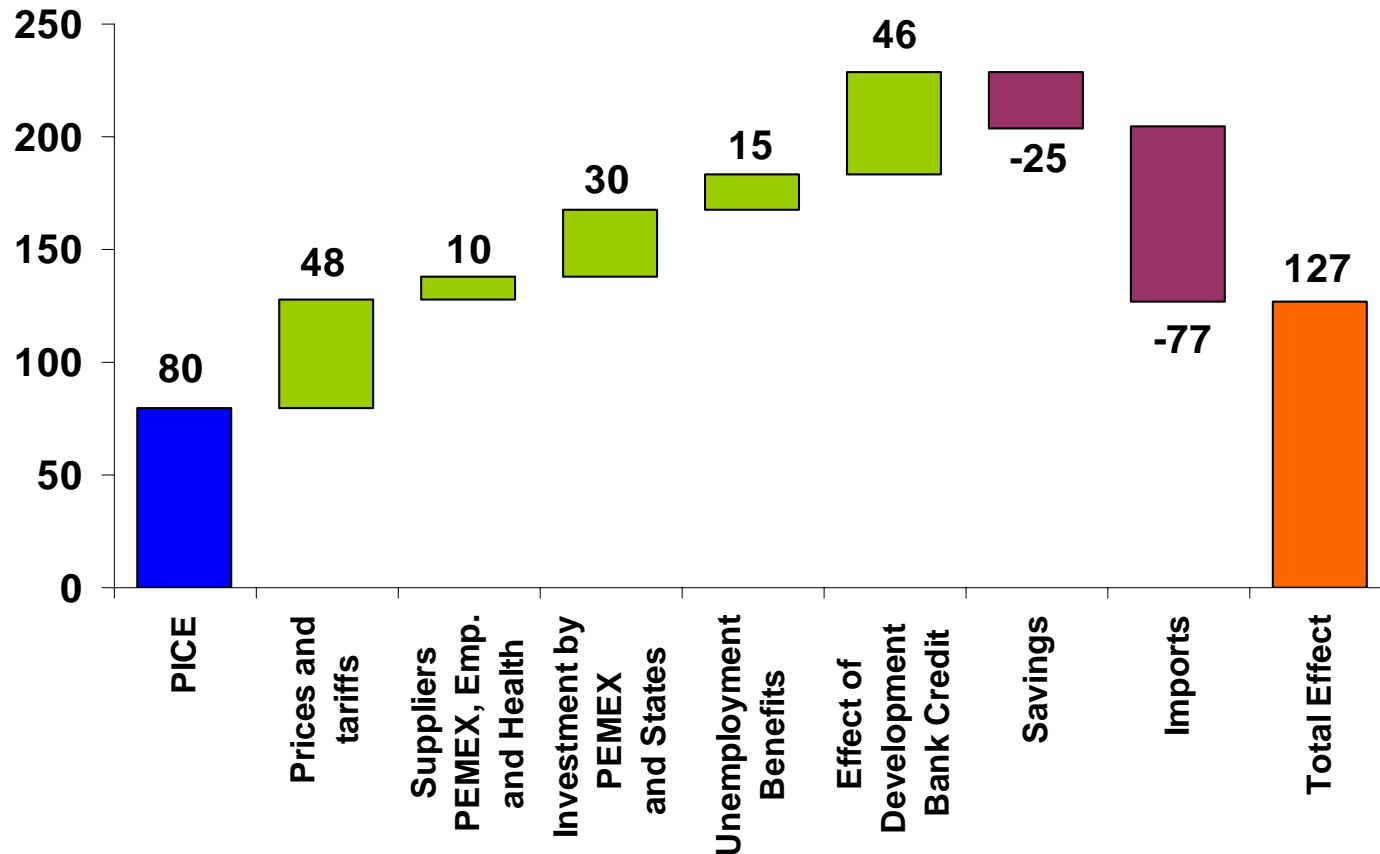
The Federal Government's commitments can be grouped in:

- Resources for households and firms.
- Public expenditures and investment in infrastructure.



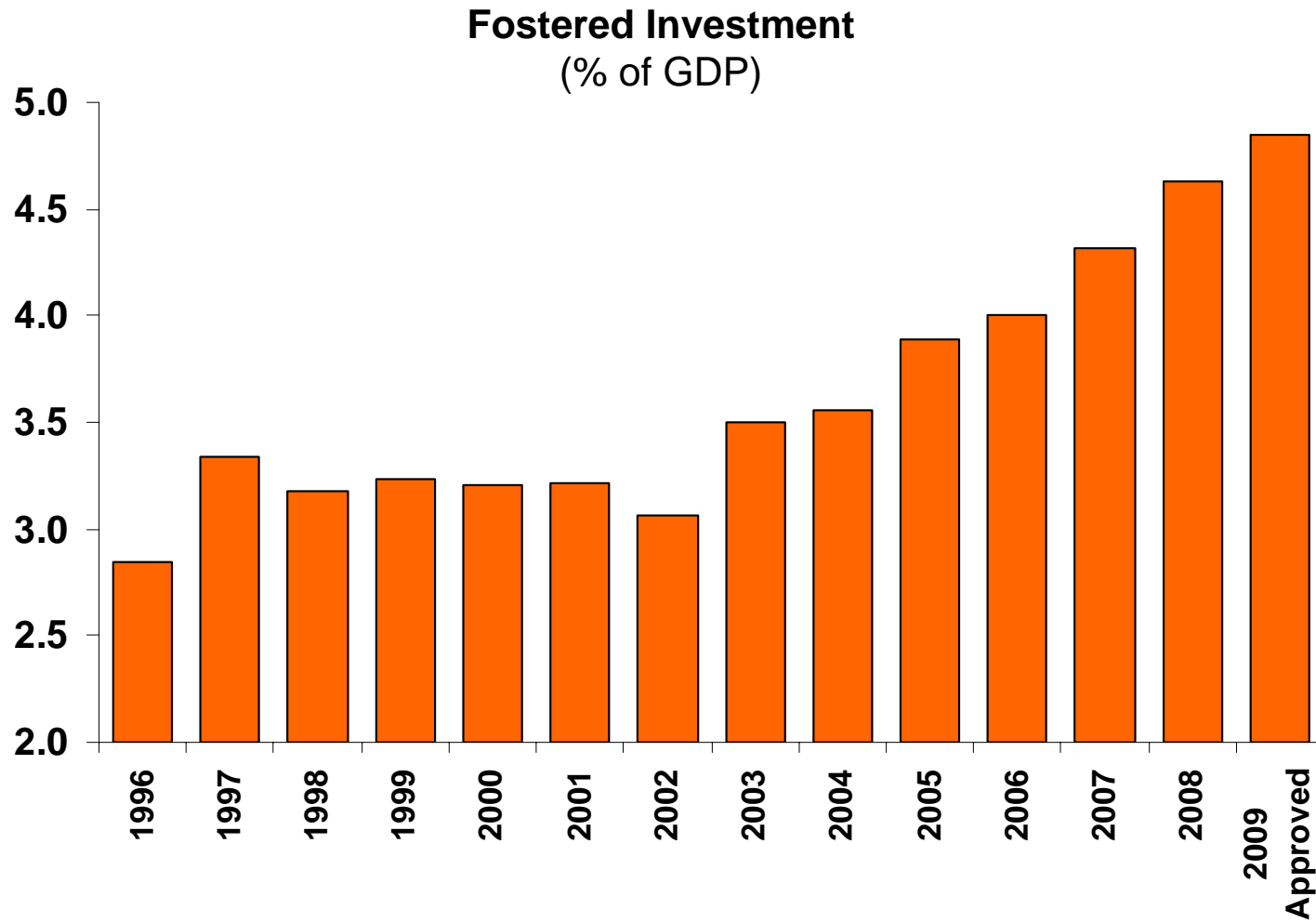
A conservative estimation implies a direct effect on GDP from the fiscal measures of 72 billion pesos or 0.6% of GDP. Together with the effect of higher unemployment benefits and credit by the development banks of 0.4% of GDP, this implies a total direct impact of 127 billion pesos or 1% of GDP.

Impact of Countercyclical Measures
(billion pesos)





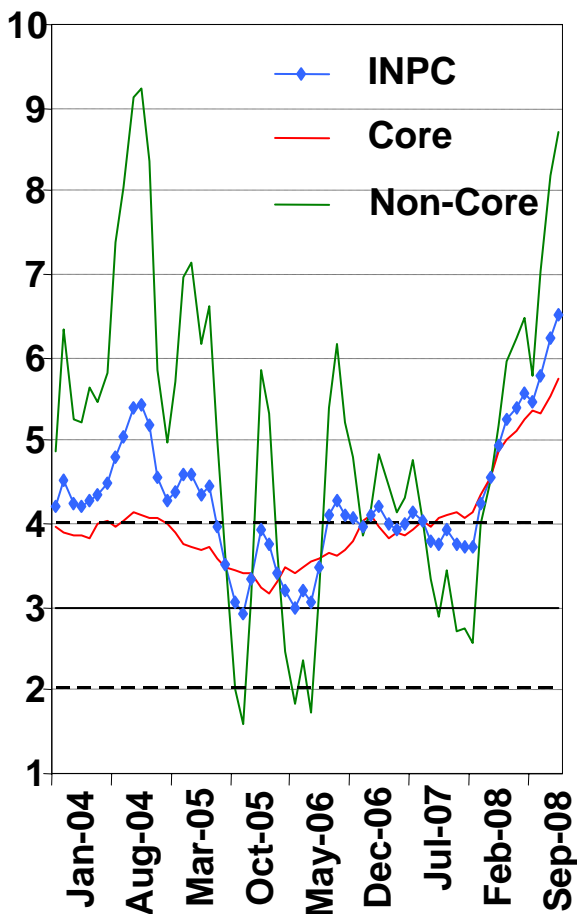
The approved budget together with the countercyclical measures imply that fostered investment will be the highest in the last 25 years.



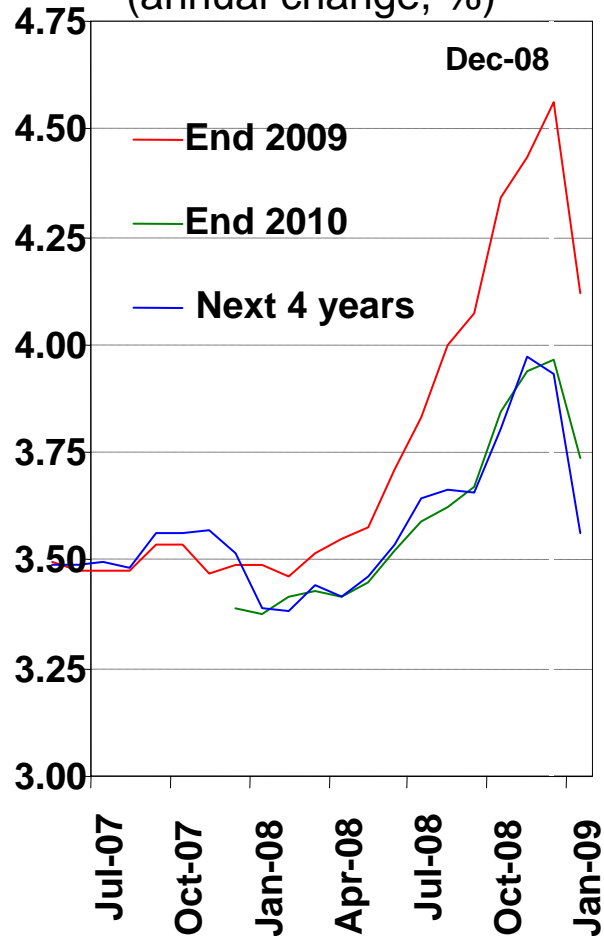


Inflation accelerated mainly due to higher commodity prices in 2009, and is now expected to converge to Banco de Mexico's target for 2010, which already allowed it to reduce rates in January and will give it space to continue reducing rates during the year.

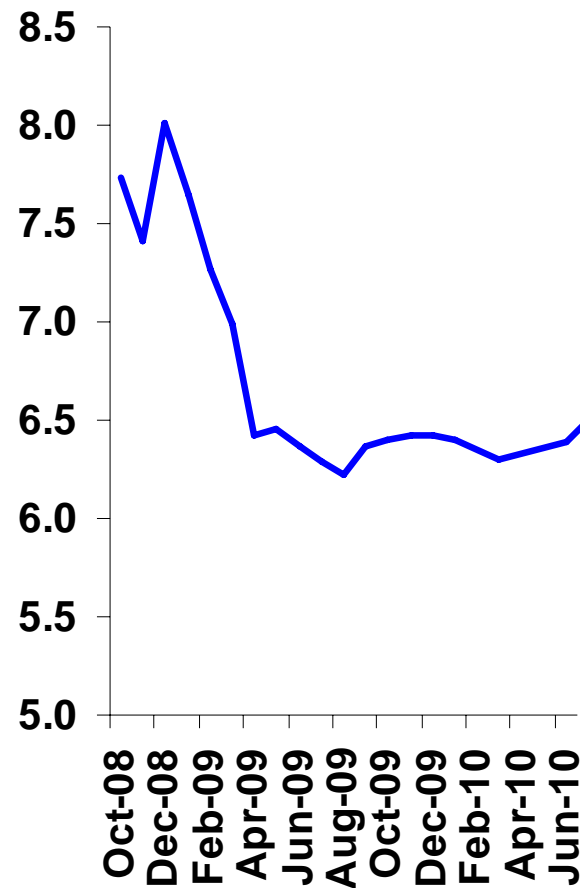
Inflation
(annual change, %)



General Inflation Expectations
(annual change, %)



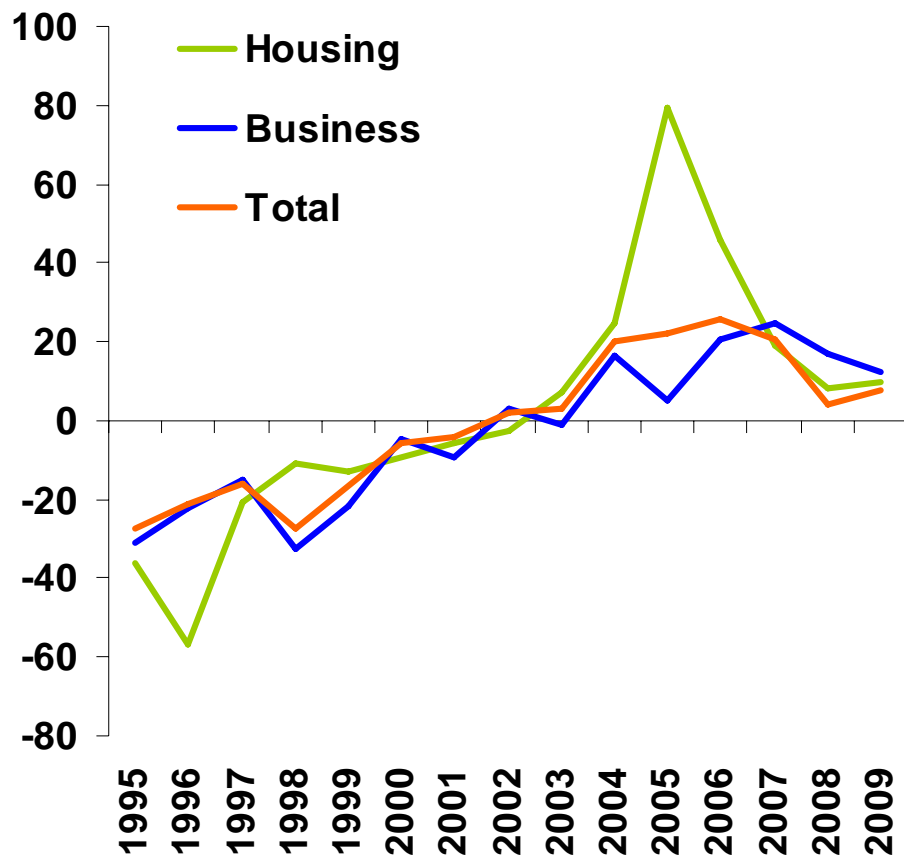
Domestic Rates
(Cetes - 28, %)





In contrast to the period before 2003, total commercial bank credit is expected to increase by 8% during 2009, and it will be complemented by an ambitious credit expansion by the development banks.

Credit by Commercial Banks
(annual change, %)



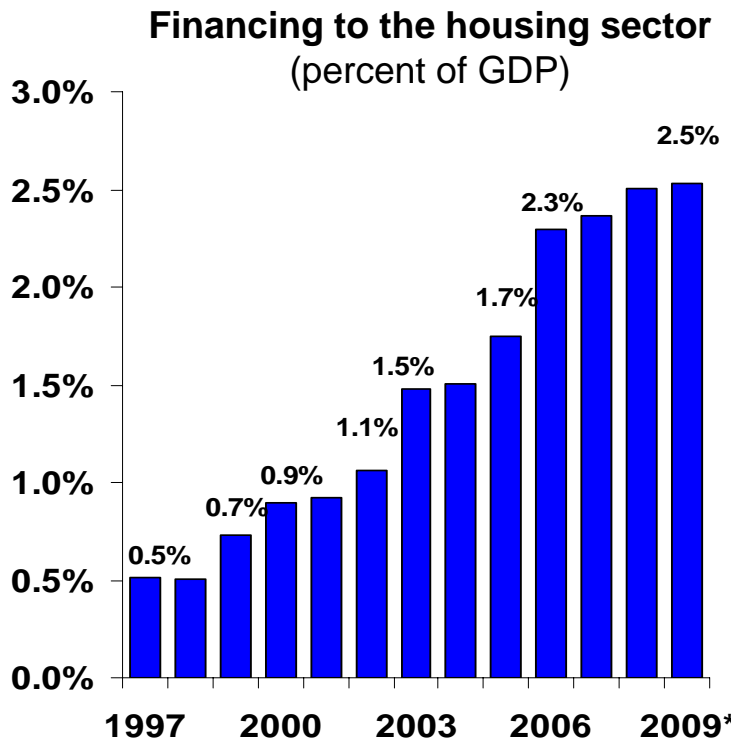
Direct and Fostered Credit by the Development Banks
(millions of December 2008 pesos)

Sector	2008	2009	Change 08/09	
	(mp)		(mp)	(%)
Business	140,664	176,041	35,377	25.1
Infrastructure	100,946	117,085	16,139	16.0
Housing	142,021	211,428	69,407	48.9
Rural	81,297	89,427	8,130	10.0
Others	7,840	9,722	1,882	24.0
Total	472,768	603,702	130,935	27.7

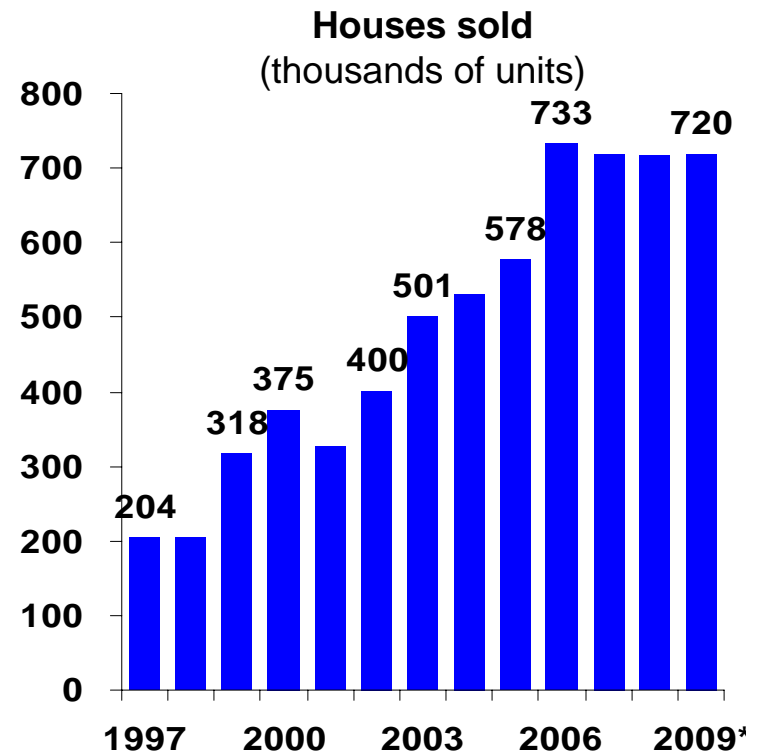


Financing to the housing sector grew from 0.5 to 2.5 percent of GDP between 1997 and 2008 and is expected to remain constant in 2009.

- Financing fostered the number of houses sold. Between 1997 and 2008 the number of houses sold increased from 204 to 717 thousand. In 2009 the number of houses sold is expected to remain constant.



* 2009 data is projected.



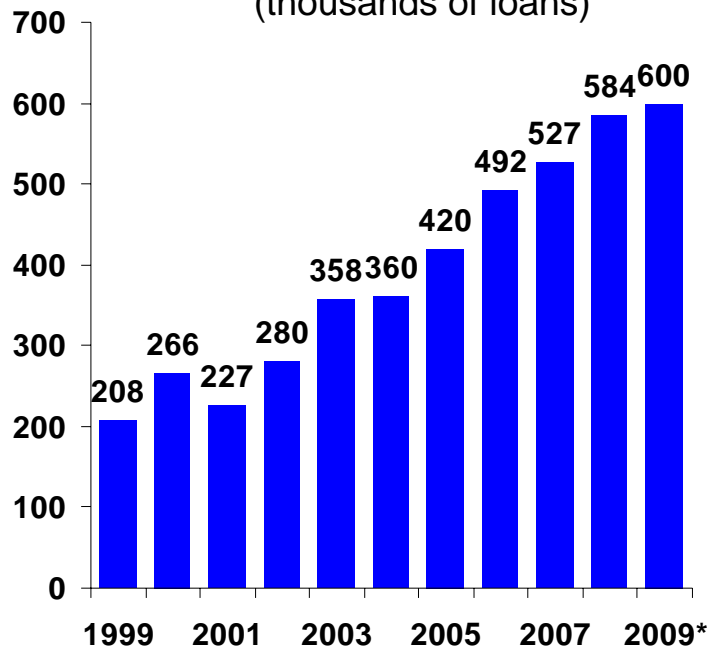
* 2009 data is projected.



Financing provided by public entities is expected to grow in 2009. They account for approximately 80% of total financing.

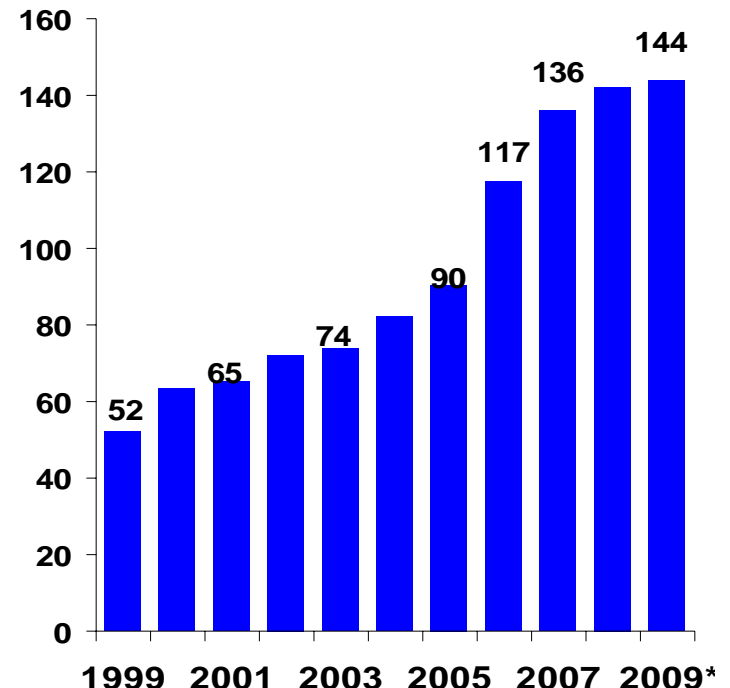
- Sociedad Hipotecaria Federal (SHF) will increase its credit in 60 billion pesos in 2009 to support new housing developments, provide liquidity to SOFOLES and promote the expansion of the mortgage-backed-security market.

Loans granted by INFONAVIT and FOVISSSTE
(thousands of loans)



* 2009 data is projected.

Financing by INFONAVIT and FOVISSSTE
(billion pesos of 2008)

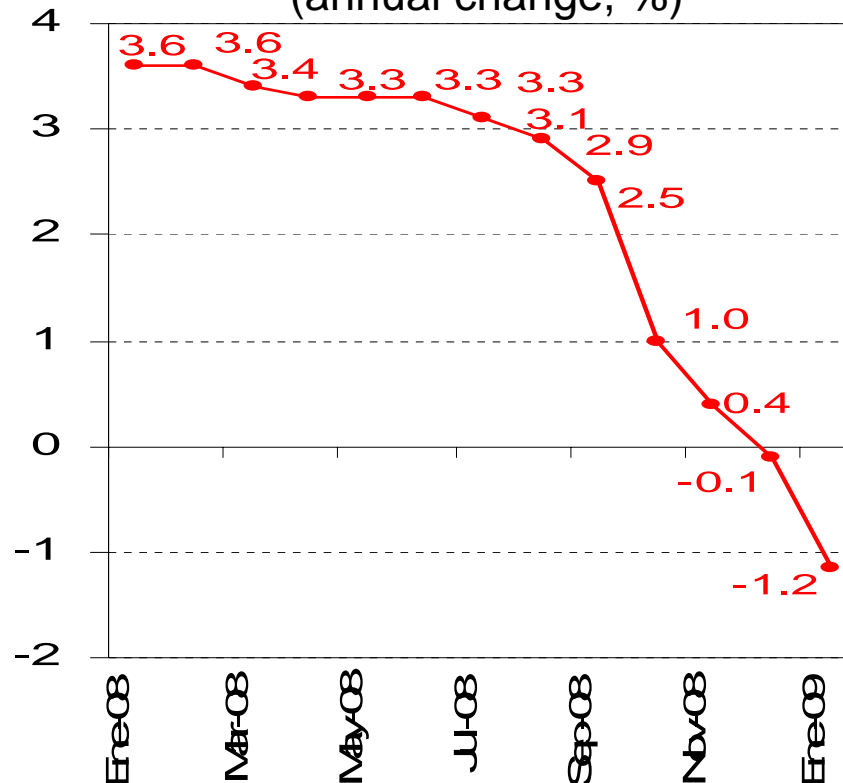


* 2009 data is projected.



In spite of the actions that have been taken, the Mexican economy is expected to have zero or negative growth in 2009 due to a contraction during the first quarters of the year. The Accord will allow us to partially mitigate the impact of the recent external deterioration.

Banxico Survey Growth Expectations for Mexico in 2009
(annual change, %)



Concluding Remarks

- No doubt Mexico will be affected by the current negative environment
- The impact will be mitigated by:
 - A strong underlying macroeconomic structure
 - A sound financial sector
 - Countercyclical fiscal and monetary policies
- No financing problems are in sight
- Growth remains the medium-term main challenge
- Structural reforms are of the essence