

Mexican Ministry of Finance and Public Credit



The Mexican Economy: Recent Developments and Outlook 2012

Mexican Housing Day

March 2012



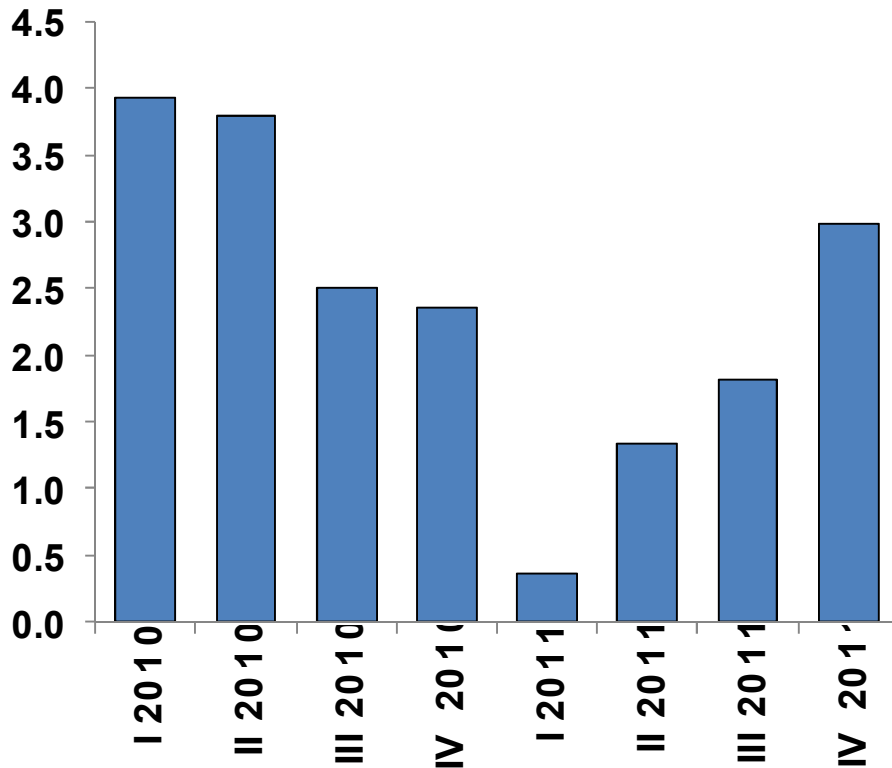
1. Macroeconomic Outlook

2. Housing: Achievements, Challenges and Policy



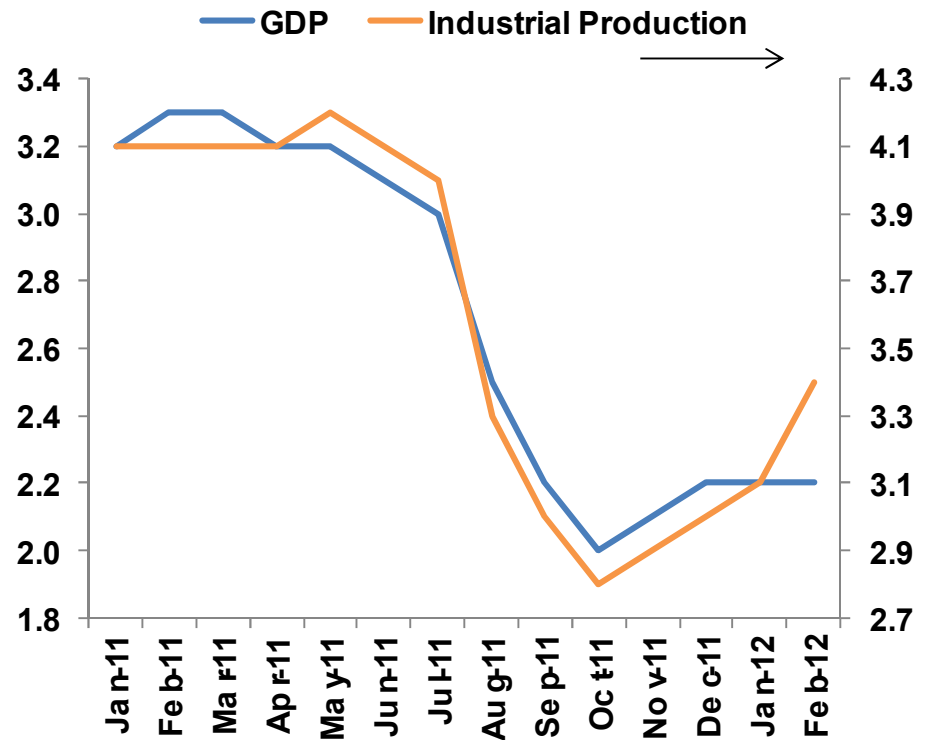
The U.S. economy has accelerated gradually, leading to a recent stabilization of growth forecasts.

United States GDP
(annualized quarterly change, %)



Source: Federal Reserve

Growth Forecasts
(2012)



Source: Blue Chip Economic Indicators.

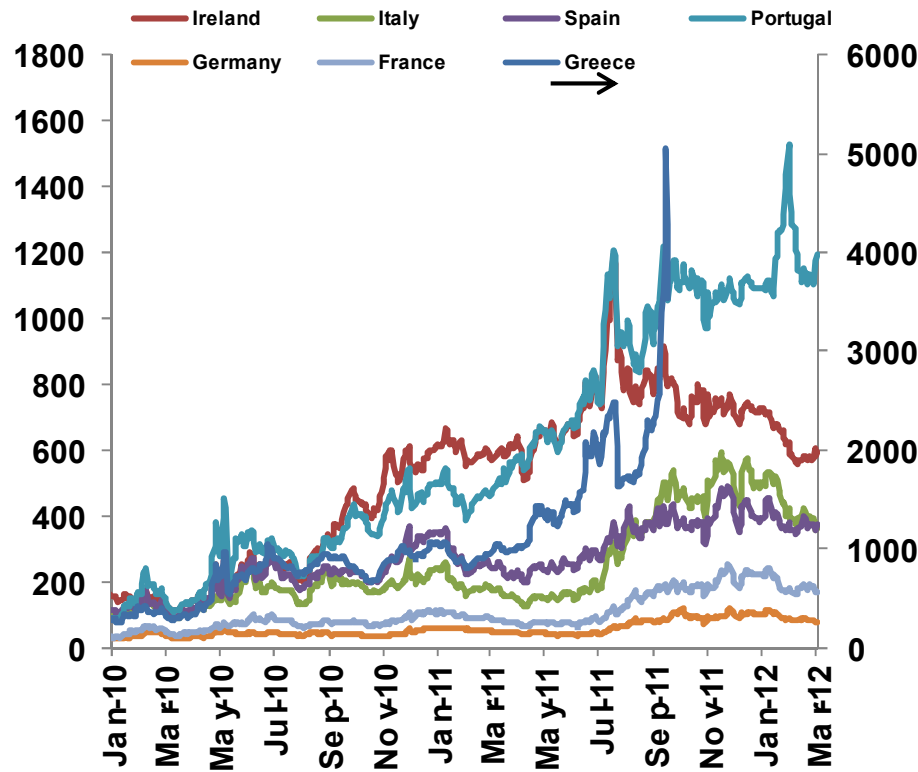
1.- Macroeconomic Outlook – Europe



SHCP

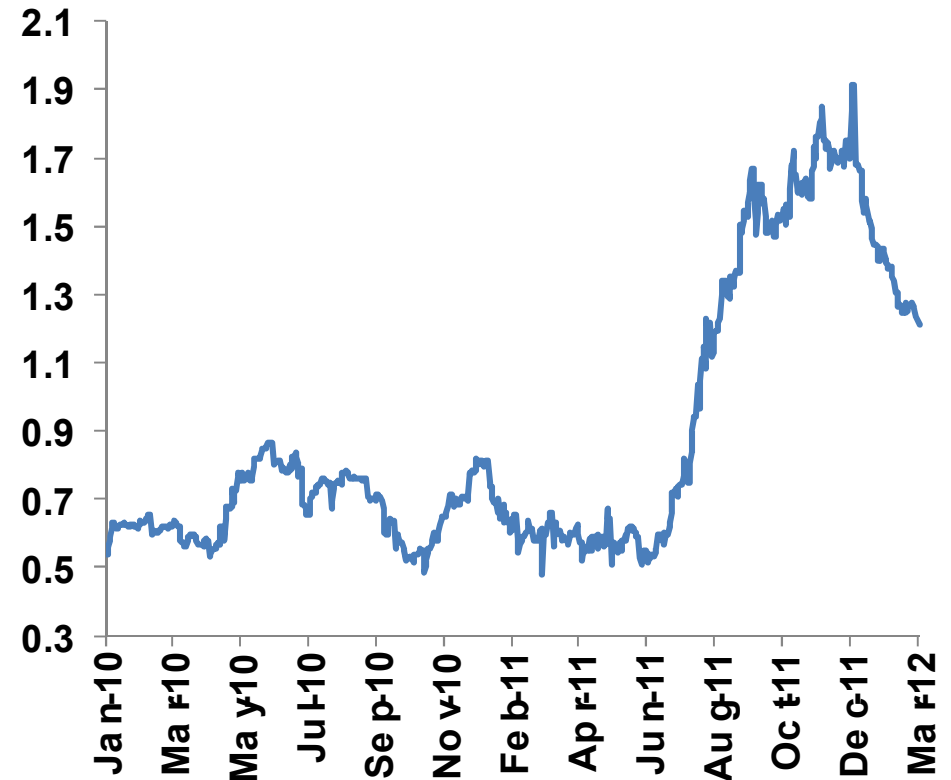
While the announced measures have reduced financial stress, it is necessary for Europe to continue a timely and complete implementation of all the measures.

CDS Spreads
(5 years, basis points)



Source: Bloomberg.

European Interbank Rates Spread
(6 months, %)



Source: Bloomberg.

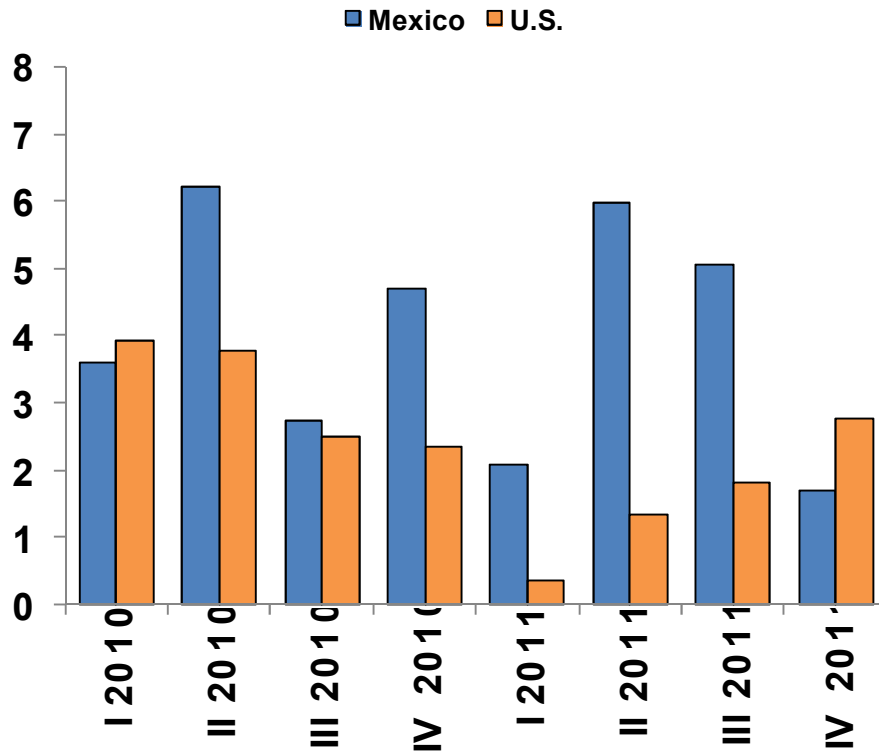
The Mexican economy has maintained a favorable pace of growth due to the following:

- Domestic demand has accelerated.
- The economy is not hampered by imbalances.
- Competitiveness has increased and exports have gradually diversified.
- Growth was 3.9% in 2011 and is expected to be between 3.3 and 3.5% in 2012.



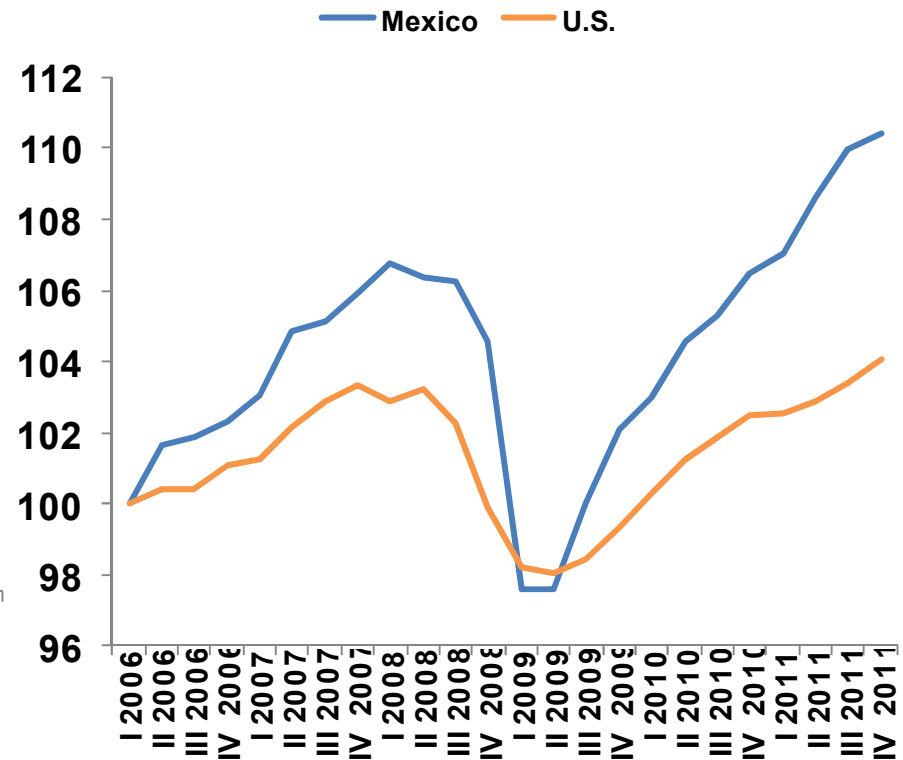
With the exception of the marked industrial cycle in 2008-2009, Mexico has recently outperformed the United States.

GDP Growth in Mexico and U.S.
(annualized quarterly growth, %)



Source: Federal Reserve and INEGI.

GDP of Mexico and U.S.
(index, I-2006=100, s.a.)



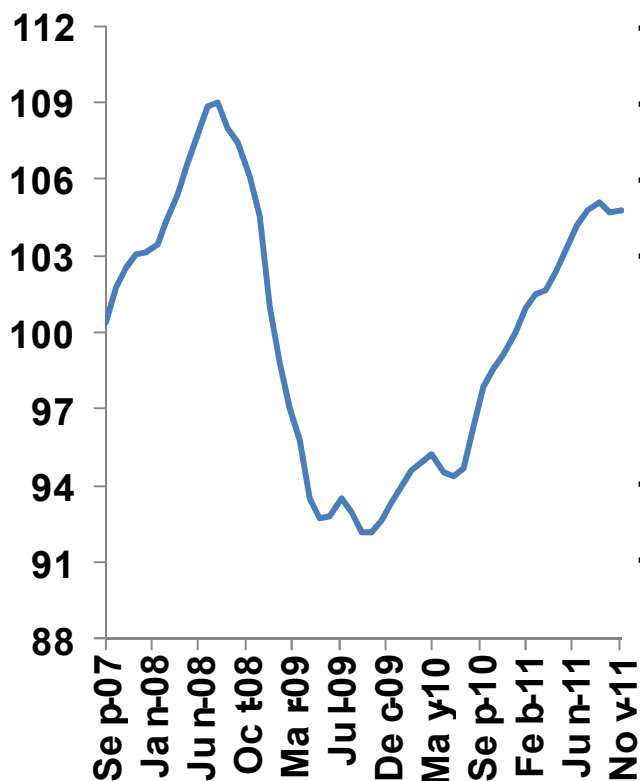
Source: Federal Reserve and INEGI.



Investment and consumption accelerated in 2011.

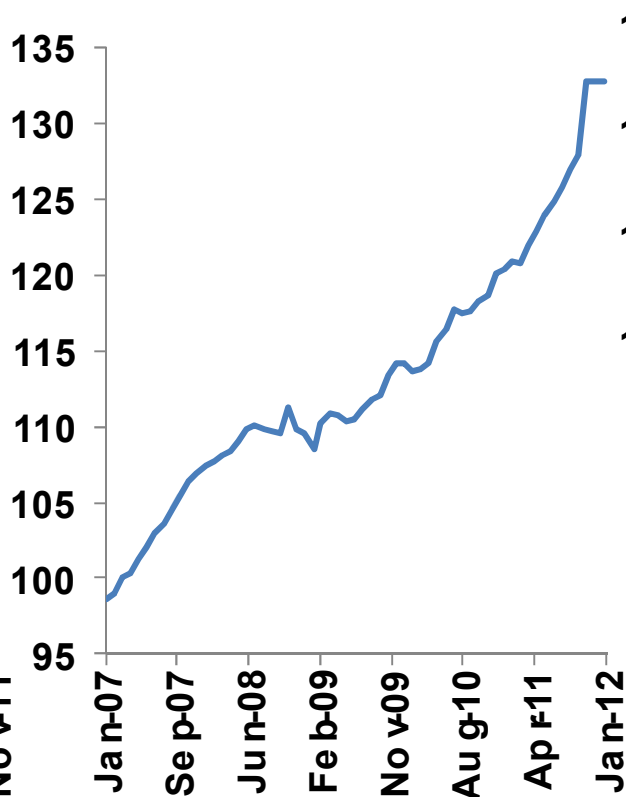
Gross Fixed Investment

(index, Jul-07=100, 3m moving average., s.a.)



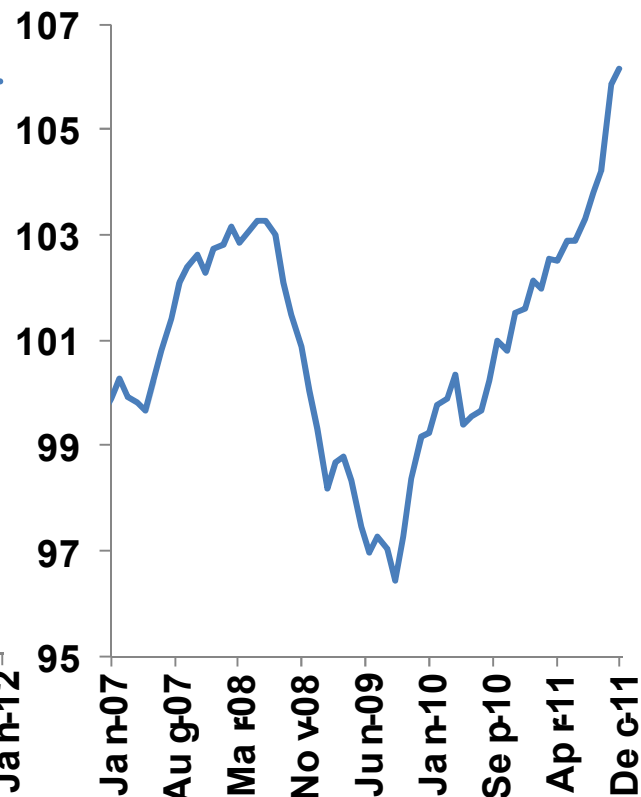
ANTAD Sales

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



Retail Sales

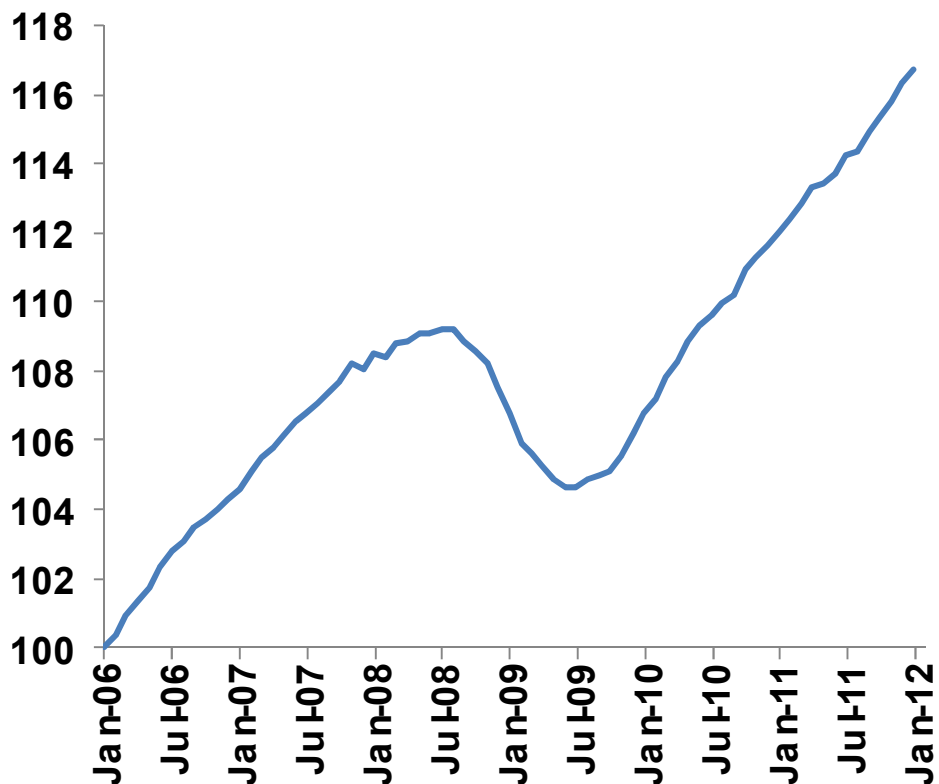
(index, Jan-07=100, 3m. moving average, s.a.)



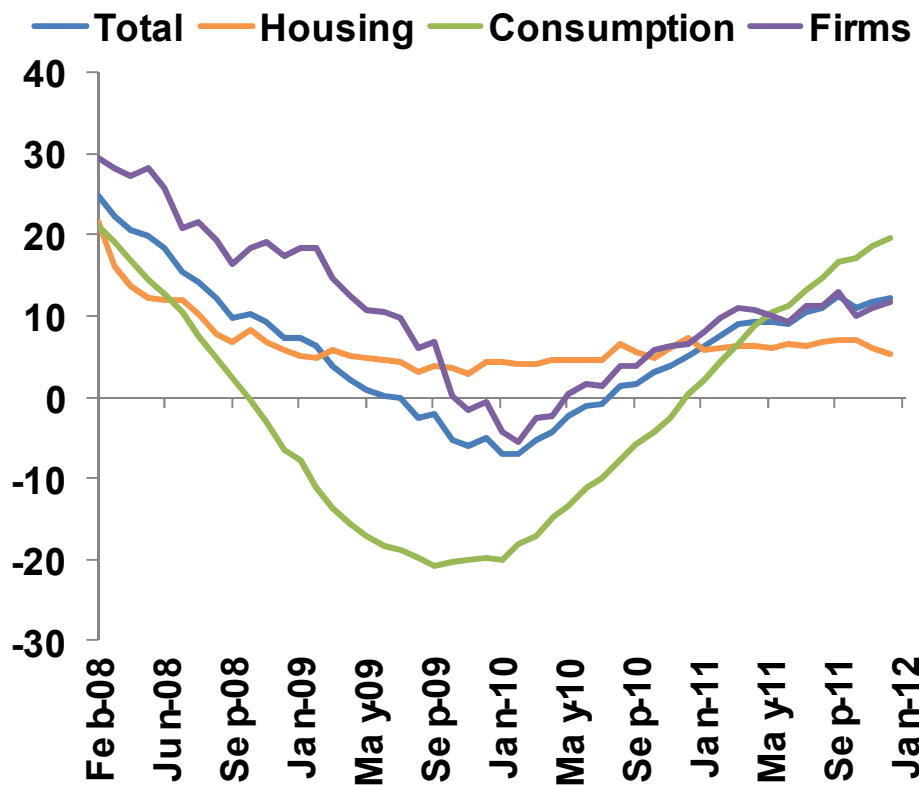


Domestic demand is driven by the recovery in employment and credit.

Employment in Mexico *
(index, Jan-06=100, adjusted series)



Commercial and Development Bank Credit to Private Sector
(annual change, %)



*Workers insured at IMSS.

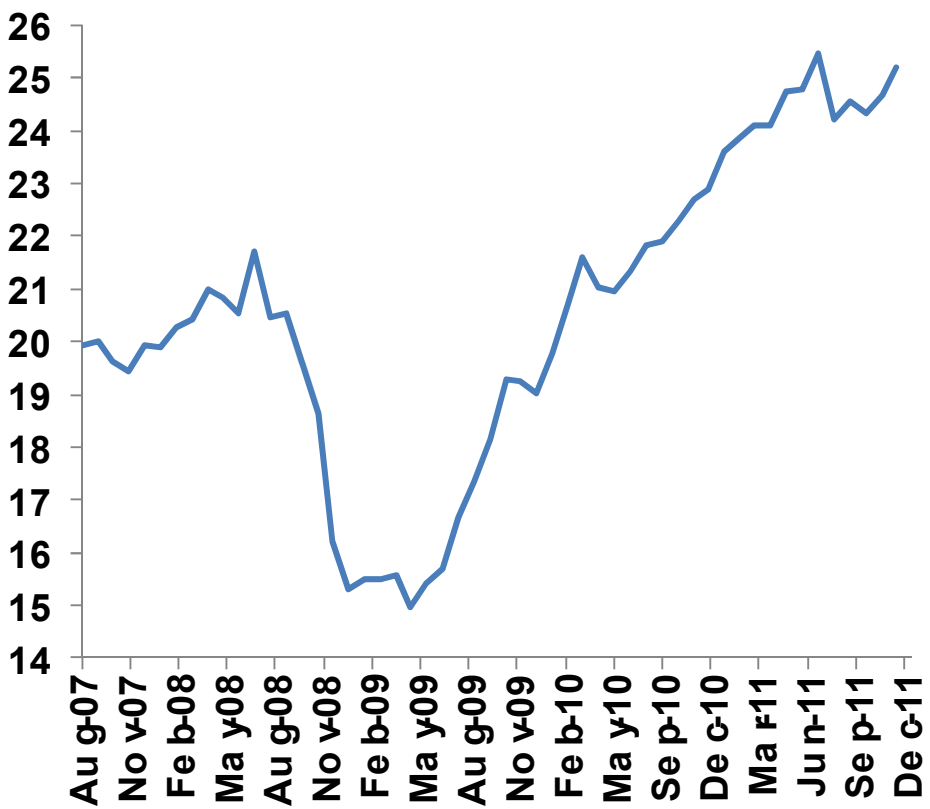
1.- Macroeconomic Outlook – External Driver



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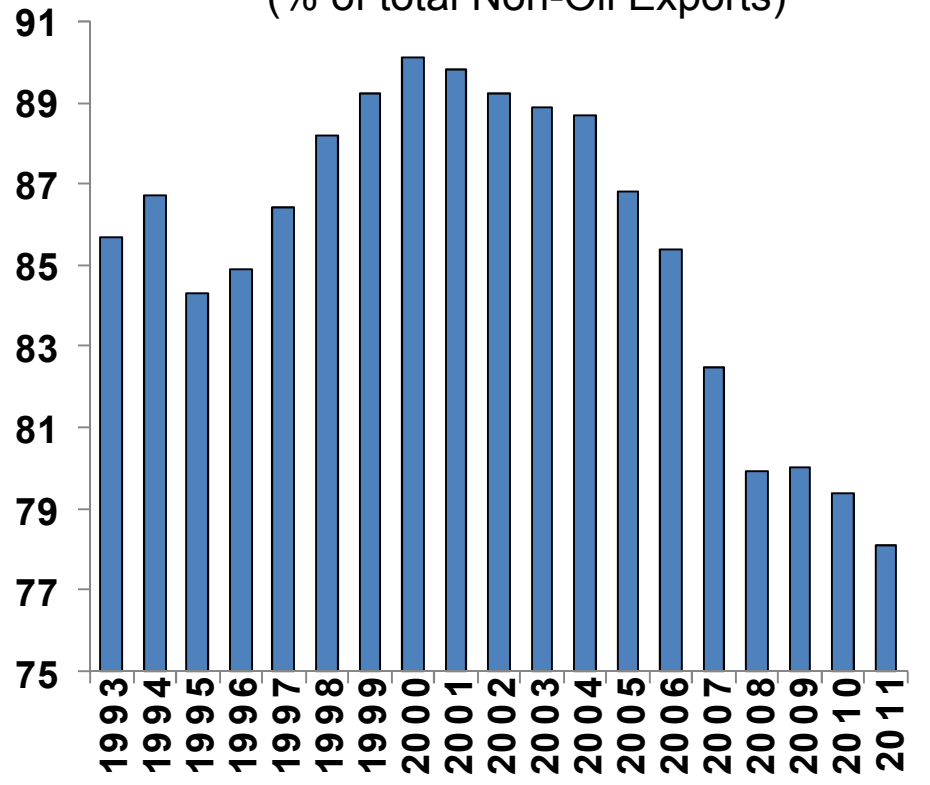
Exports are significantly higher than before 2008-2009 crisis, and an important process of diversification is taking place.

Non-Oil Exports
(billion dollars, adjusted series)



Source: Banxico

Participation of Mexican Non-Oil Exports to U.S.
(% of total Non-Oil Exports)



Source: Banxico

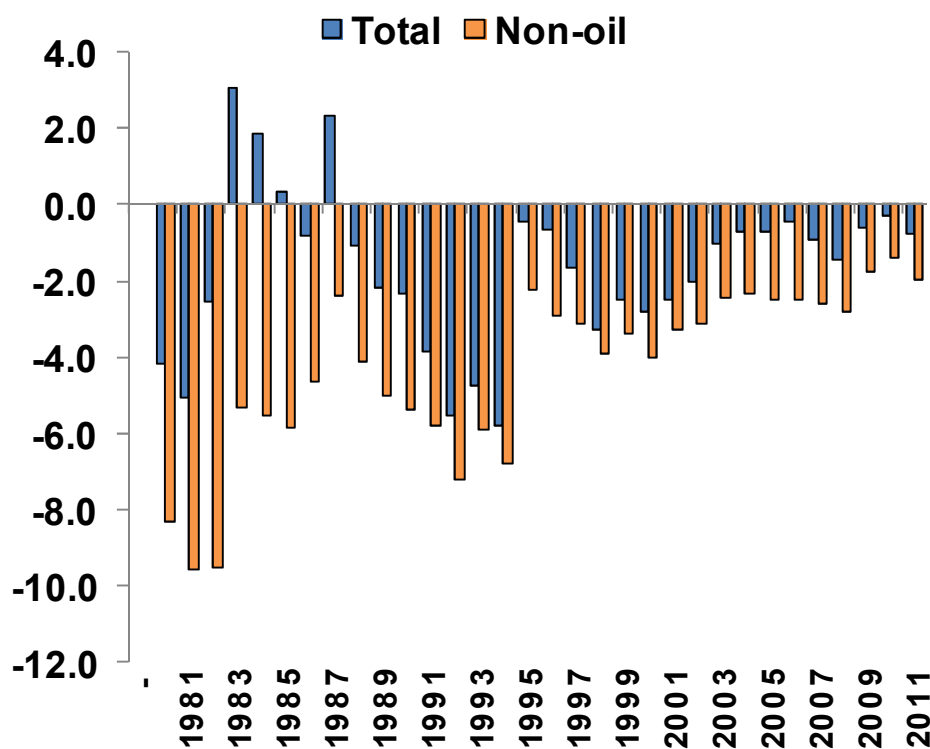
1.- Macroeconomic Outlook – Fundamentals



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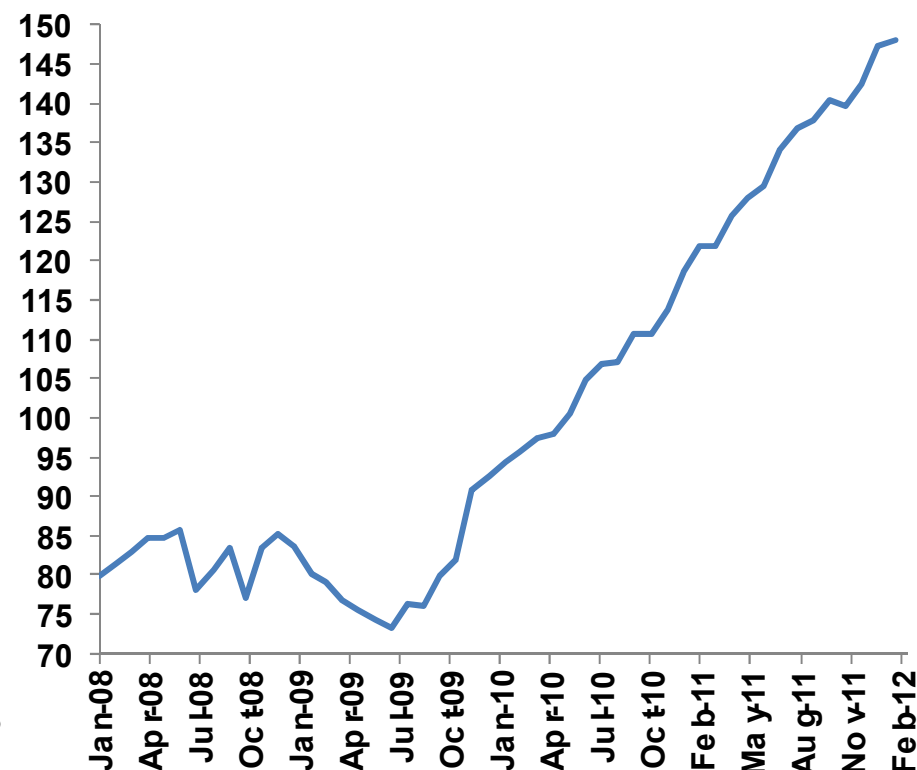
The external balance is the highest in decades and international reserves are at historical maxima. Along with the FCL, this implies that Mexico has almost 3 times the liquidity it had in 2008.

Current Account Balance (% of GDP)



Source: Banxico.

International Reserves (billion dollars)



Source: Banxico

1.- Macroeconomic Outlook – Fundamentals

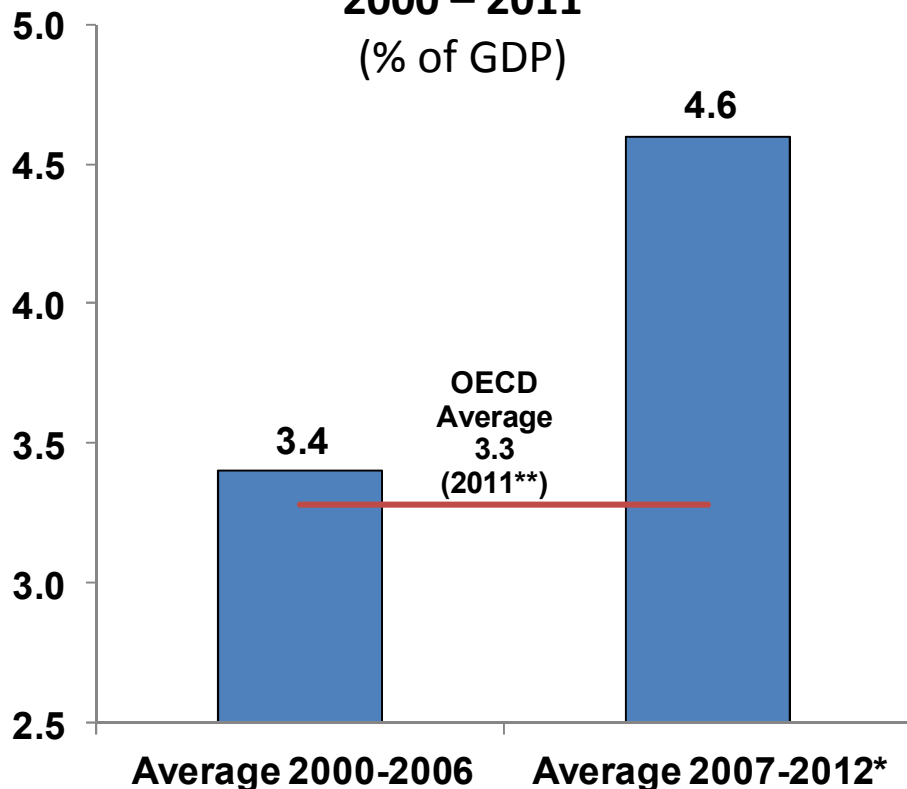


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In the past five years, fostered investment in infrastructure was higher by 62.2% (vs. 2000-2006), attaining historical levels of close to 5% of GDP. That number excludes an additional 0.45% by FONADIN.

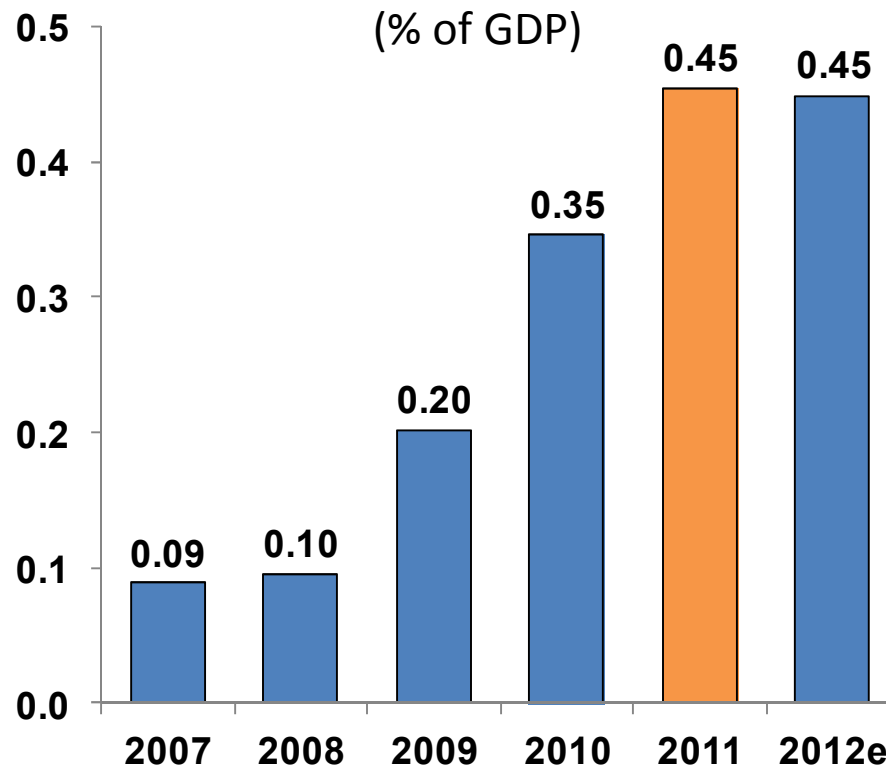
Fostered Investment in Infrastructure

2000 – 2011
(% of GDP)



Fostered Investment in Infrastructure

from FONADIN, 2007 – 2012*
(% of GDP)



Source: SHCP

*Approved for 2012.

**Estimated for 2011, OECD, Going for Growth 2010.

*The amount of each year represents the total investment projects authorized by the Fund.

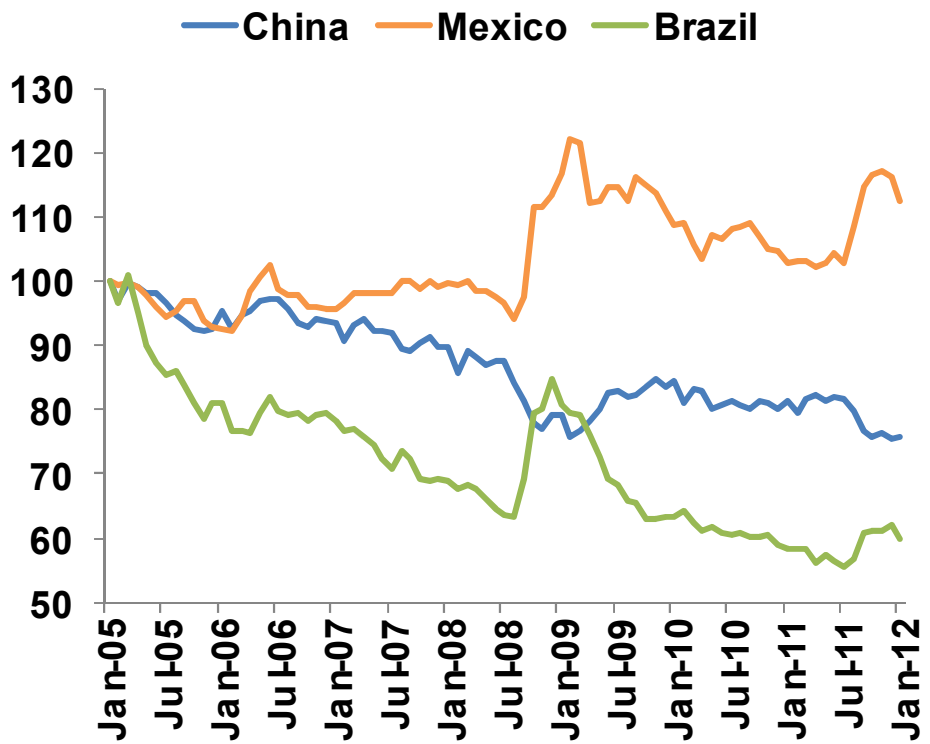
1.- Macroeconomic Outlook – Fundamentals



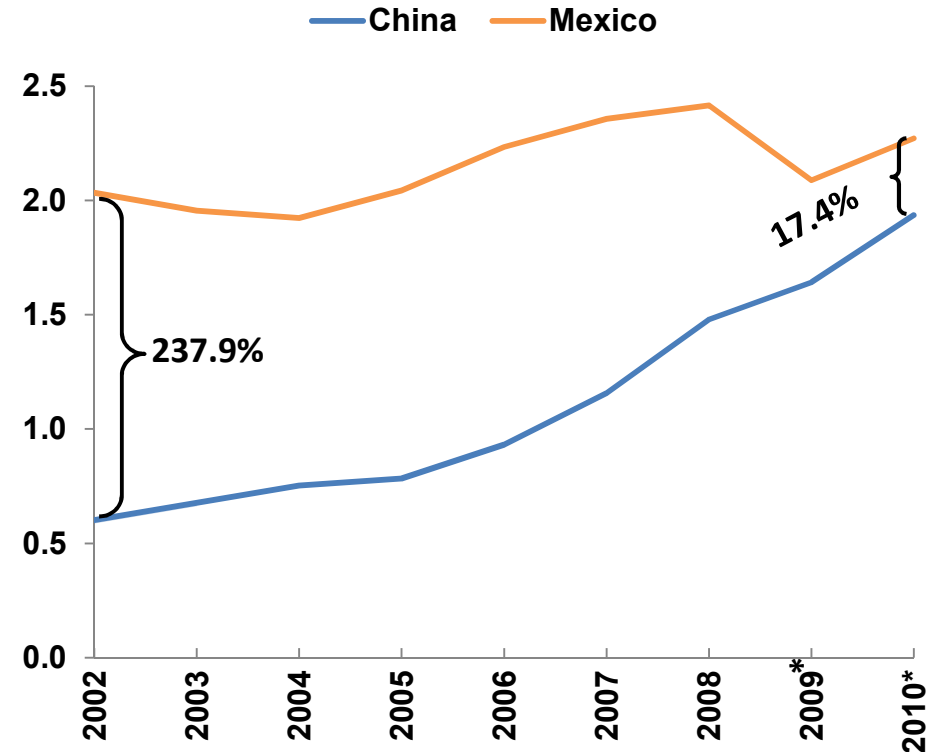
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Beyond the recovery due to the global business cycle, a flexible exchange rate, wage convergence with China and proximity to the US (especially with high oil prices) will benefit Mexican manufacturing.

Real Exchange Rate
(index, Jan-05=100)



Hourly Wage in Manufacturing
(dollars)



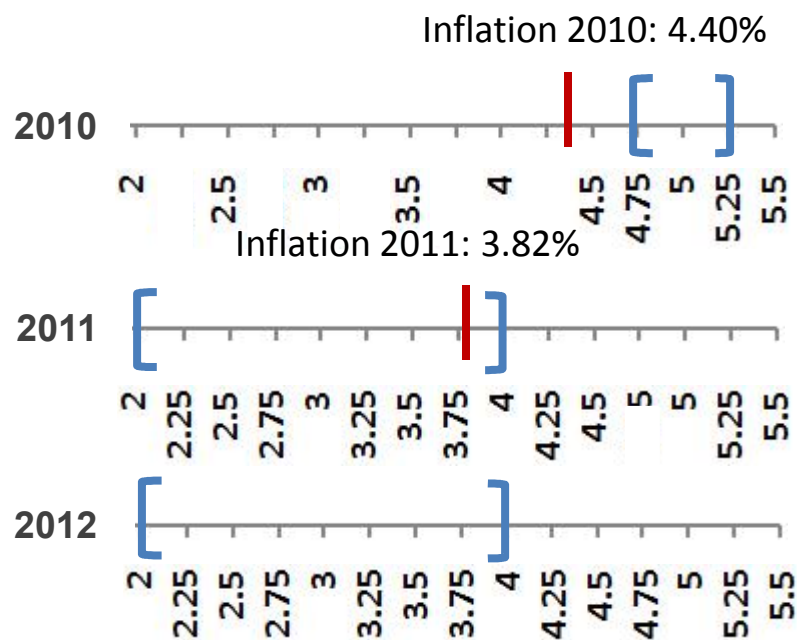
Source: BIS.

Source: ILO and INEGI.
*Estimate for China.

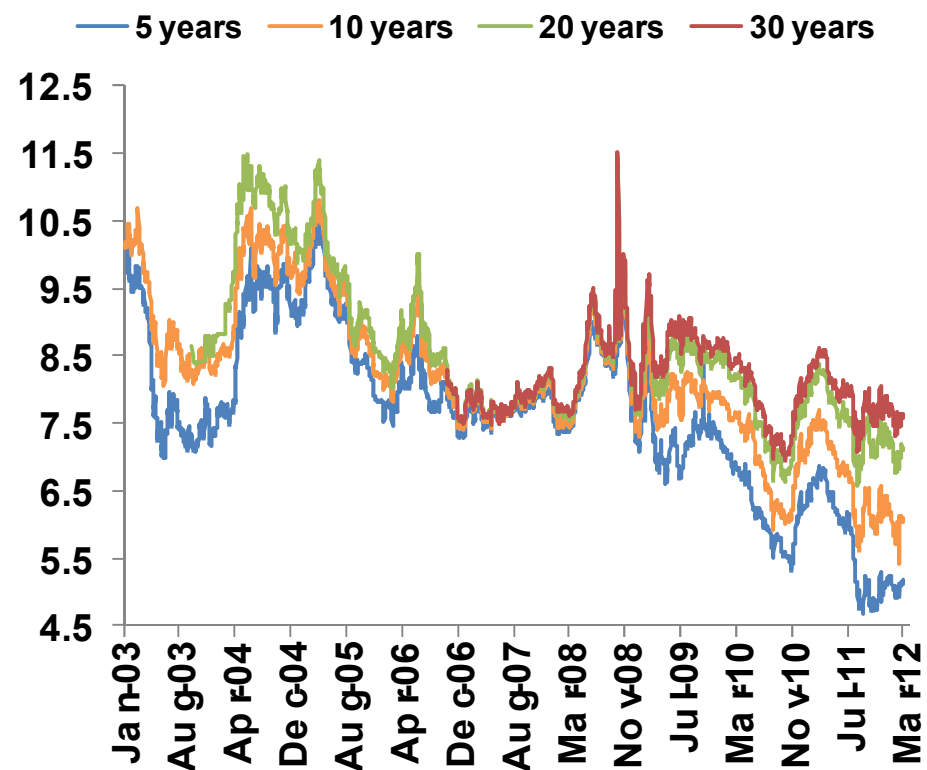


Although inflation suffered a temporary increase late in 2011, it remains at moderate levels and domestic interest rates are close to historical minimums.

Inflation Forecast
(%)



Government Bonds
(%)

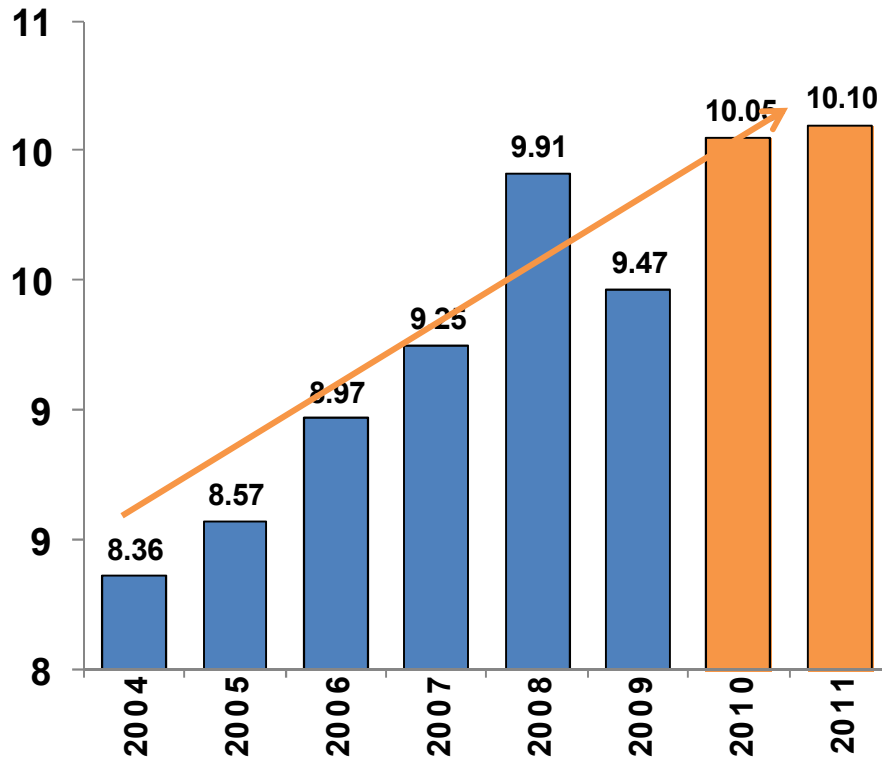


Source: Banxico and SHCP



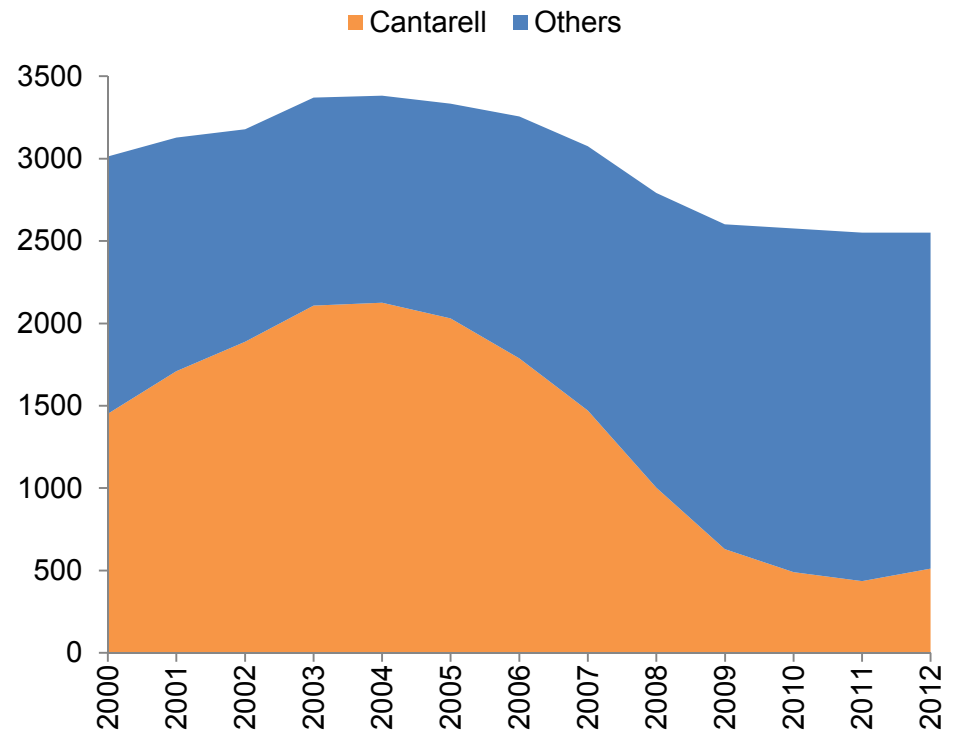
Non-oil tax revenues are at historical maxima and oil production has stabilized.

Non-Oil Tax Revenues (% of GDP)



Source: SHCP

Oil Production (thousand daily barrels)

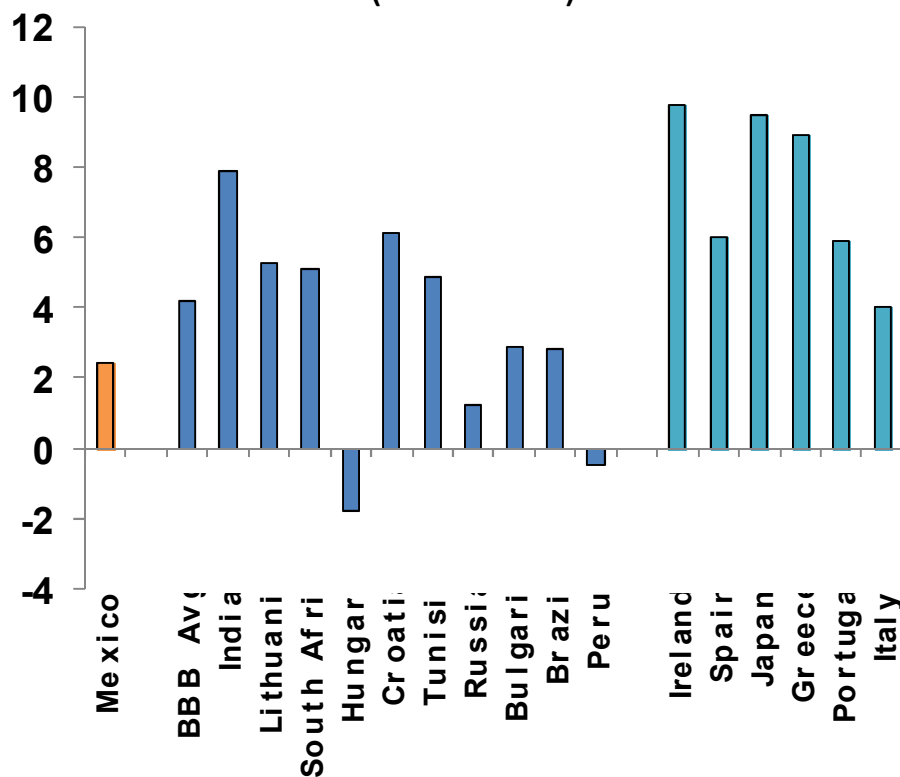


Source: PEMEX

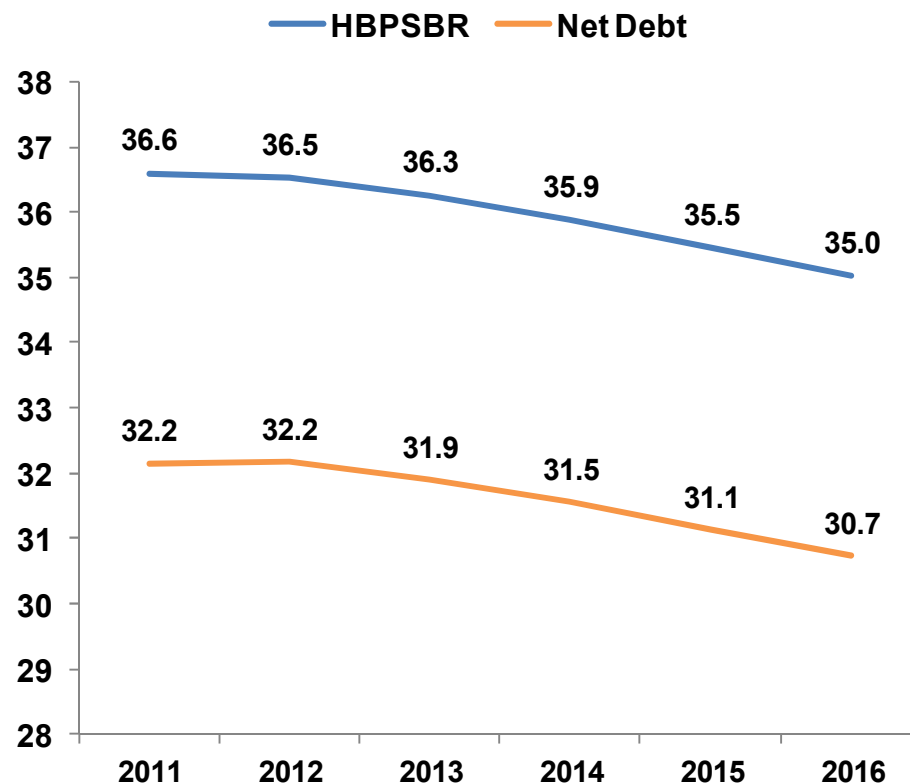


Discipline in public finances has led to a moderate deficit and a stable level of public debt.

General Gov. Fiscal Deficit 2011
(% of GDP)



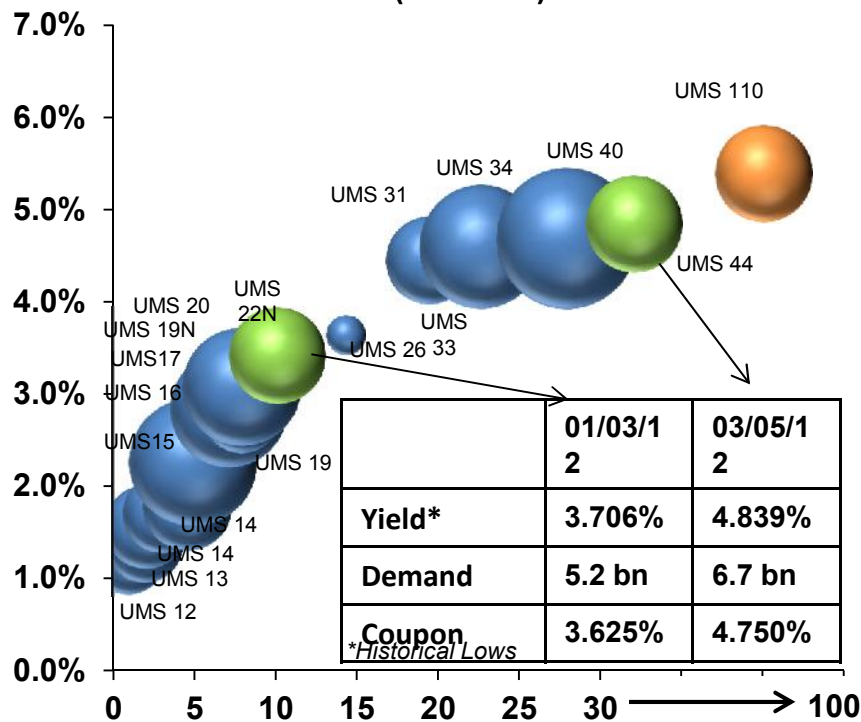
Public Sector Net Debt
(% of GDP)



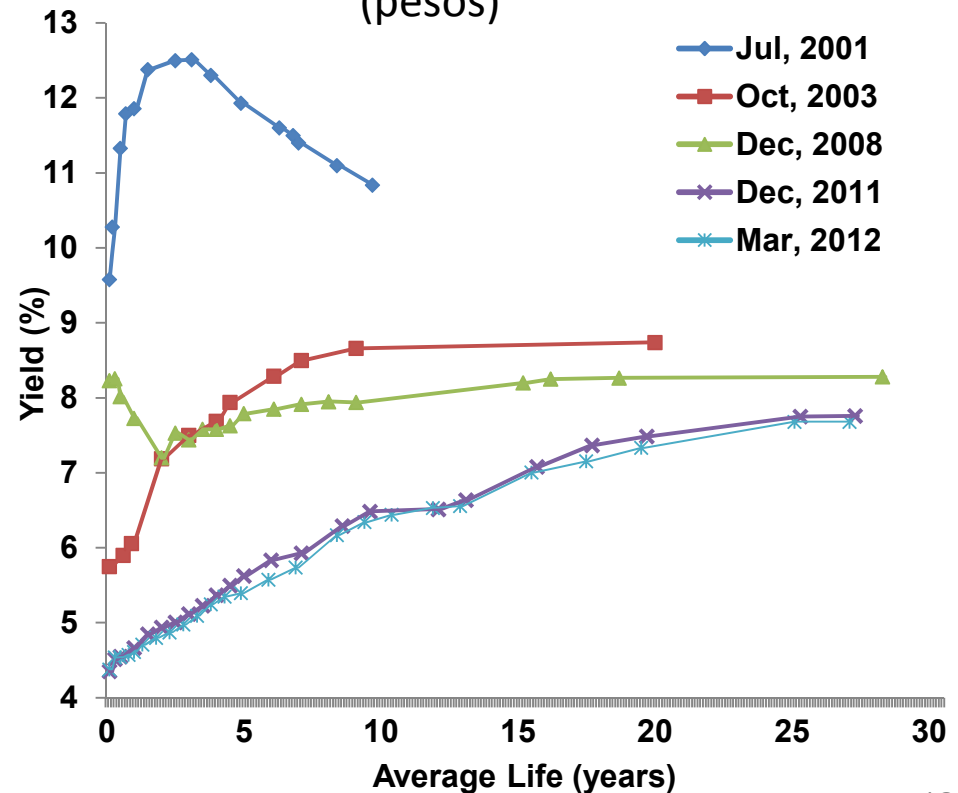
Source: Fitch (September 2011)
*Approved for 2012.

The strength of our economy allowed the Federal Government to issue 4 billion dollars in 2012 through new 10 and 30 year benchmarks at yields of 3.71% and 4.84%, historical lows for both tenors.

External Debt (dollars)



Domestic Debt (pesos)



Mexico has progressed with the structural reform agenda, complemented by a solid budget that generates confidence.

Recent reforms:

- Antitrust Federal Law Reform.
- Auction of incentivized PEMEX contracts.
- Public Private Partnerships
- INFONAVIT reform

2012's Budget :

- Objective economic projections, which are similar to those of private sector economic analysts → Promotes credibility
- It is consistent with the multi-year public finance strategy which was announced since 2009 → Promotes credibility
- It maintains a countercyclical stimulus associated with a moderate and temporary deficit → Supports domestic demand



1. Macroeconomic Outlook

2. Housing: Achievements, Challenges and Policy

Mexico has reached important housing goals in both economic and social impact terms during the present administration despite a global housing finance environment that suffered setbacks.

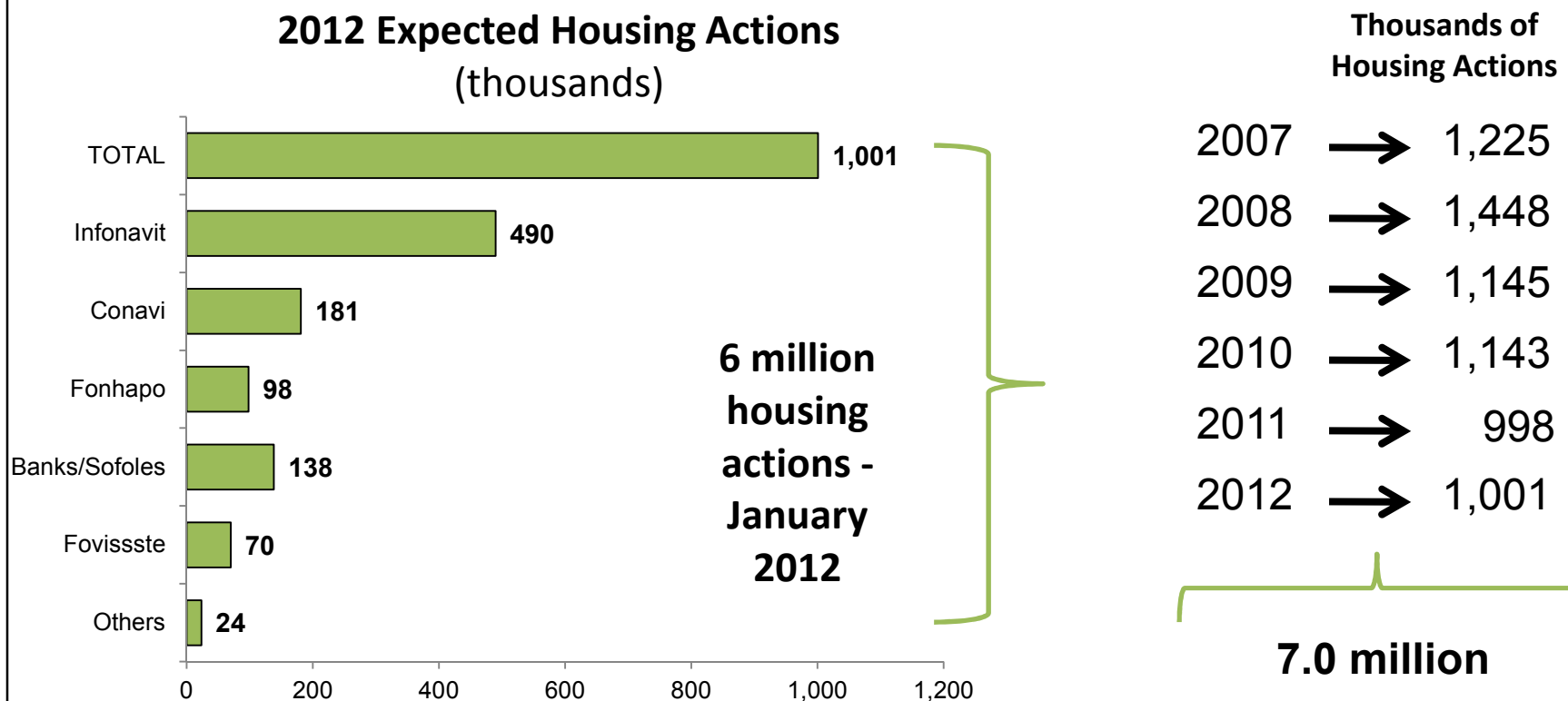
- We achieved, almost a year ahead of schedule, 100% of our six-year goal:
 - 6 million actions related to housing (mortgages and subsidies).
 - An investment worth 1.4 trillion pesos.
- We still have important challenges ahead:
 1. The sector is maturing but there is still a large housing deficit, now concentrated in the unaffiliated sector.
 2. The government needs to evolve its policy instruments and the private sector needs to refocus its skills to meet this challenge.
 3. The next leg in the process of abating the housing deficit requires a more robust effort in terms of urban planning to make our cities sustainable.

2.- Housing-Financing achievements



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Public institutions and private financial intermediaries expect to achieve 1 million housing actions in 2012 (Exceeding our target by 15%)



Source: CONAVI

Others: includes CFE, Fonacot, Habitat, Issfam, OREVIS, Pemex y Banjercito.

Our policy agenda tackles the main challenges ahead: i) Attention to unaffiliated population, ii) Sustainable urban planning, and iii) Strengthen financing alternatives for the private sector.

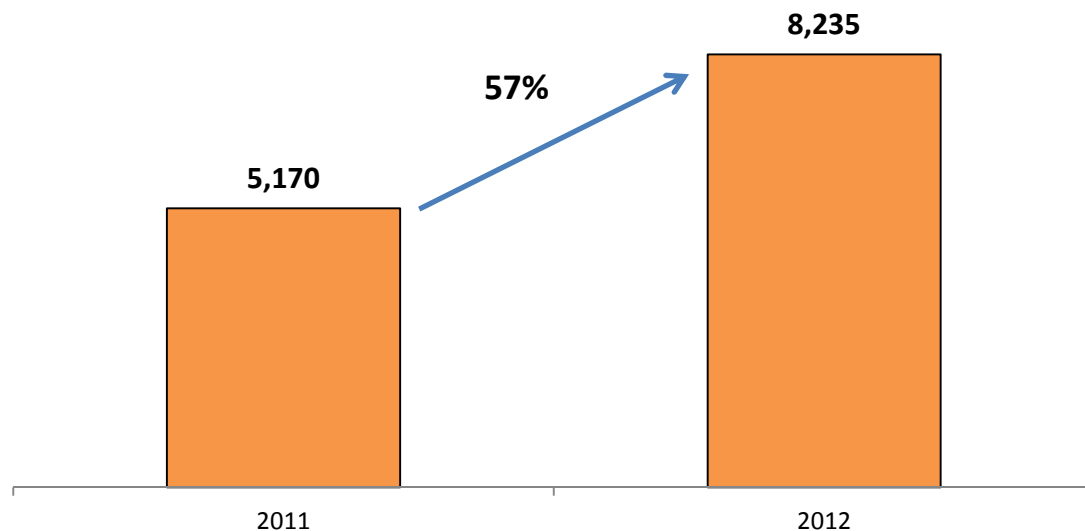
The housing sector in Mexico has grown strongly and is reaching a natural level of maturity that requires adjustments in terms of policy and business strategy.

We will maintain the pace of financing and subsidies but also use four policy pillars to meet the challenges ahead:

- I. Stronger and more focalized housing subsidy policies.
- II. Promoting sustainable urban planning.
- III. Development of financial products that allow us to reach the unaffiliated population.
- IV. The implementation of INFONAVIT's recent reform and increasing financing alternatives for the private sector (covered bonds and securitizations).

The “Esta es Tu Casa” subsidy program will increase 57% in real terms for 2012 with new rules to induce more sustainable development models for housing.

“Ésta es Tu Casa” Subsidies Program
(million pesos of December 2012¹)



- Higher home values (with better amenities) are allowed.
- Houses that don't meet sustainability criteria are penalized or excluded.
- Through this program more than 30 billion pesos have been granted in the last six years.

We are coordinating the actions of federal agencies and local authorities giving incentives for improved urban planning.

Integrated Sustainable Urban Developments (DUIS)

- We have implemented the legal framework and broadened the scope of the program to give it continuity and a larger impact (CIV, Comisión Intersecretarial de Vivienda).
- DUIS are integrally planned urban developments. Federal, States and Municipal governments, housing developers and landowners come together to coordinate infrastructure, services, equipment, trade, education, health, industry, recreation and other inputs. We align federal incentives to foster more sustainable schemes.

2011 DUIS Projects

- Till December 2011 eight DUIS were authorized.
- 312,648 households and about 9,242 hectares.
- 1,250,000 people.
- An estimated investment of 61 billion pesos.

2012 DUIS Projects

- Five more DUIS in are expected to be authorized in 2012.

2.- Housing Policy Pillars for 2012: Non-affiliated population



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Non affiliated population represents almost 70% of the housing deficit in Mexico. Two new products for this segment have been recently launched.

CREDIFERENTE

For acquisition. The pilot program involves the development of 20,000 homes in 12 months. The Federal Government guarantees credits to financial intermediaries.

FONAGAVIP

For improvements and self-production. The program could boost more than 200 thousand housing actions for low-income families.

A recent legal reform to INFONAVIT, along with further policy actions, will allow for improved financing alternatives in partnership with the private sector.

Main components of the reform :

1. Eliminates the restriction of one mortgage per worker during their lifetime.

2. Allows INFONAVIT to give loans denominated in pesos (instead of minimum wages).

- Additionally, based on a broader regulatory and market standardization effort, we are working to encourage financing alternatives to the private sector (mortgage securitizations / covered bonds).

- Despite a difficult external environment, the Mexican economy has performed well.
- Lack of imbalances at households, business, fiscal, financial and external's sectors imply a solid set of fundamentals.
- The budget for 2012 is a responsible and objective proposal, which at the time, will foster economic activity during the year.
- In 2012, our housing finance and subsidy policy will remain strong as we implement new policy initiatives that allow us to meet the new challenges ahead.