

Secretaría de Hacienda y Crédito Público



Economic Outlook 2011

Mexican Housing Day

February 10, 2011

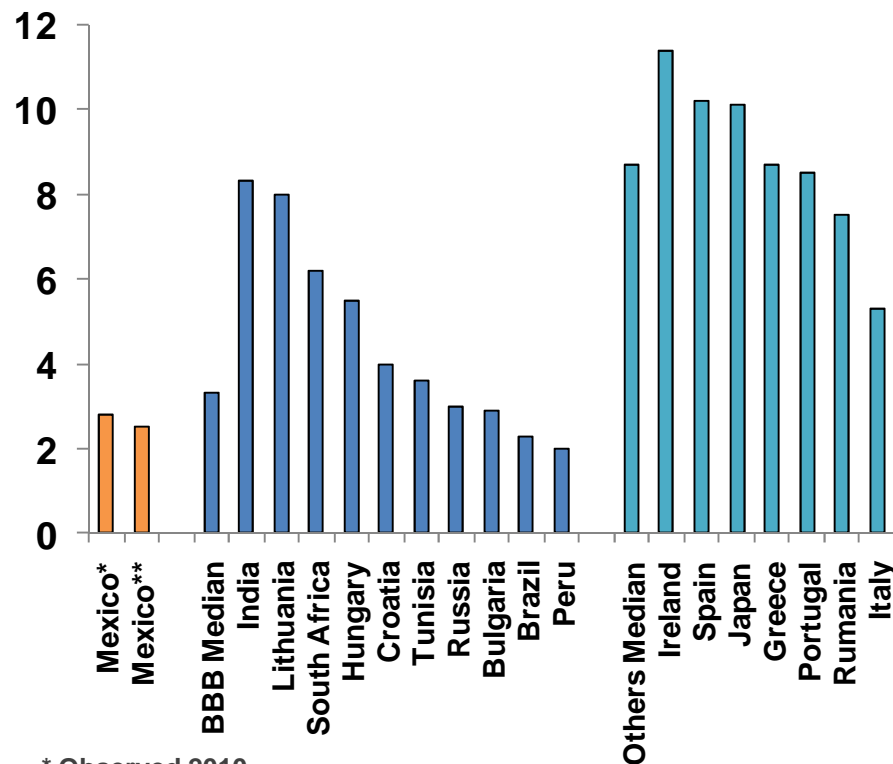
Discipline in Public Finances



SHCP

- Discipline in public finances has led to a moderate deficit and a declining trend in public debt.

General Gov. Financial Deficit 2010
(% of GDP)

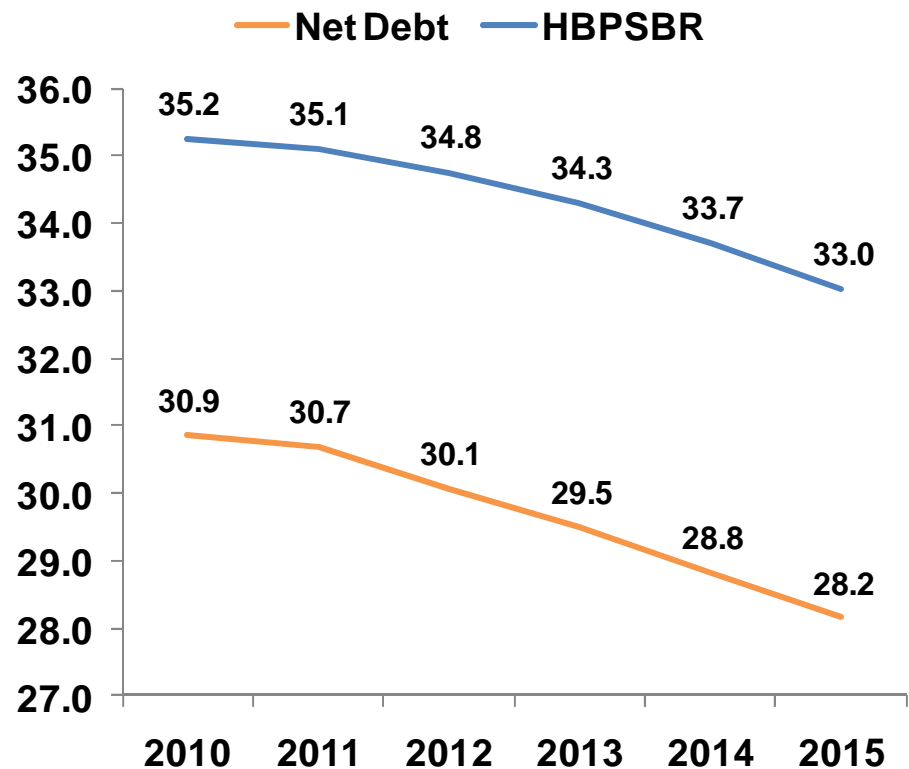


* Observed 2010

** Approved 2011

Source: SHCP, S&P (May 2010) for the rest.

Public Sector Debt
(% of GDP)



Source: SHCP

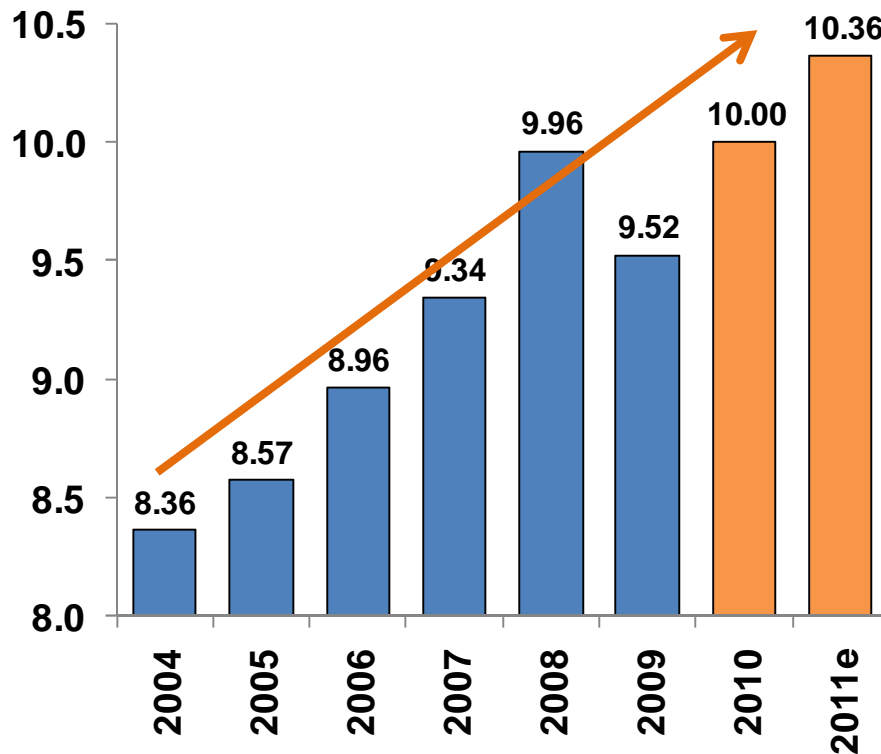
Tax Revenues



SHCP

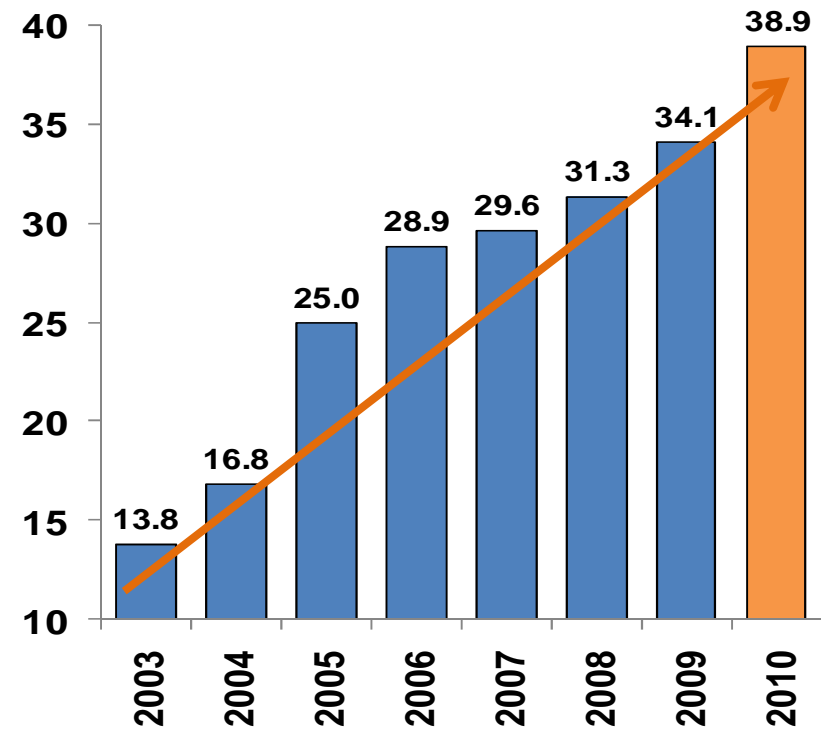
- There have been important efforts to substitute oil revenues and strengthen public finances.
- Significant progress has been made in expanding the tax base and in increasing tax revenues in recent years.

Non-Oil Tax Revenues (% of GDP)



Source: SHCP

Number of Tax Payers (millions)



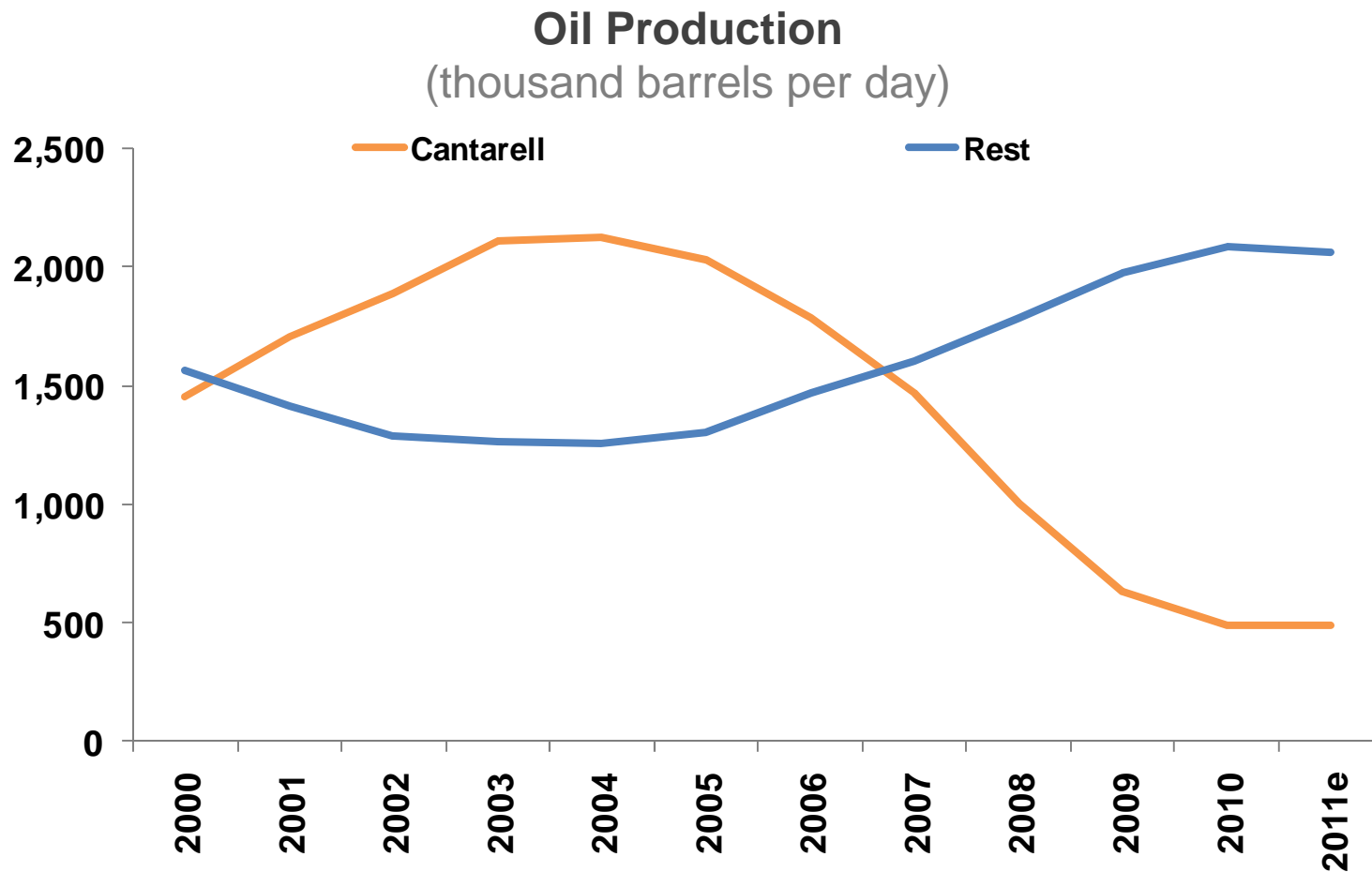
Source: SAT

Oil Production



SHCP

- The oil production platform has stabilized in the last years.
- The oil price was hedged for 2011.



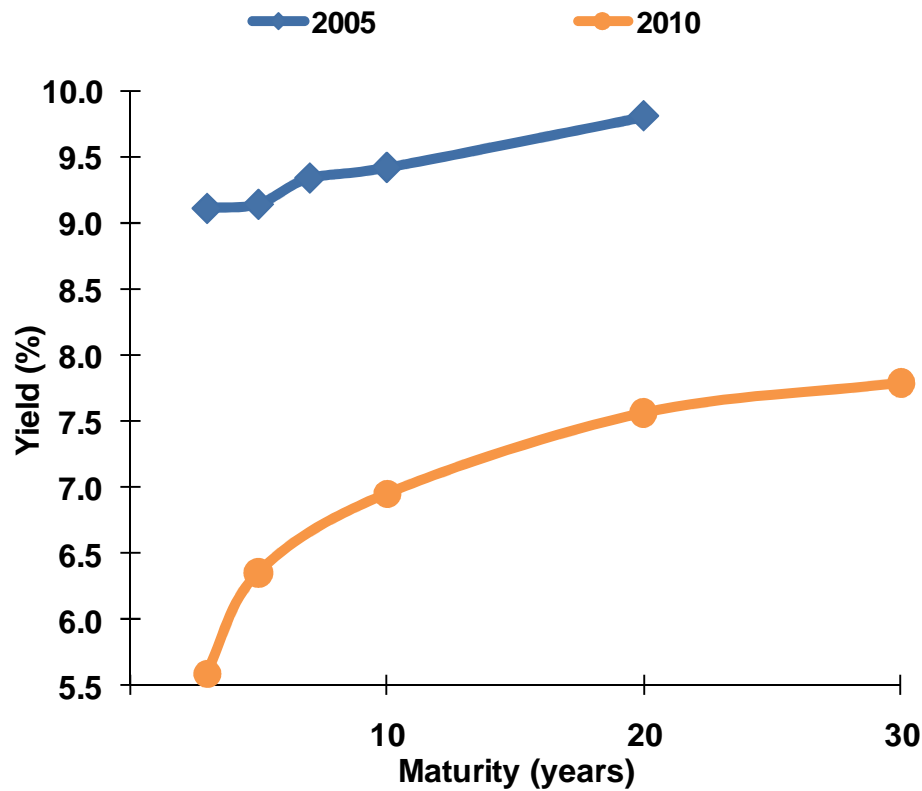
Source: PEMEX

Debt Management



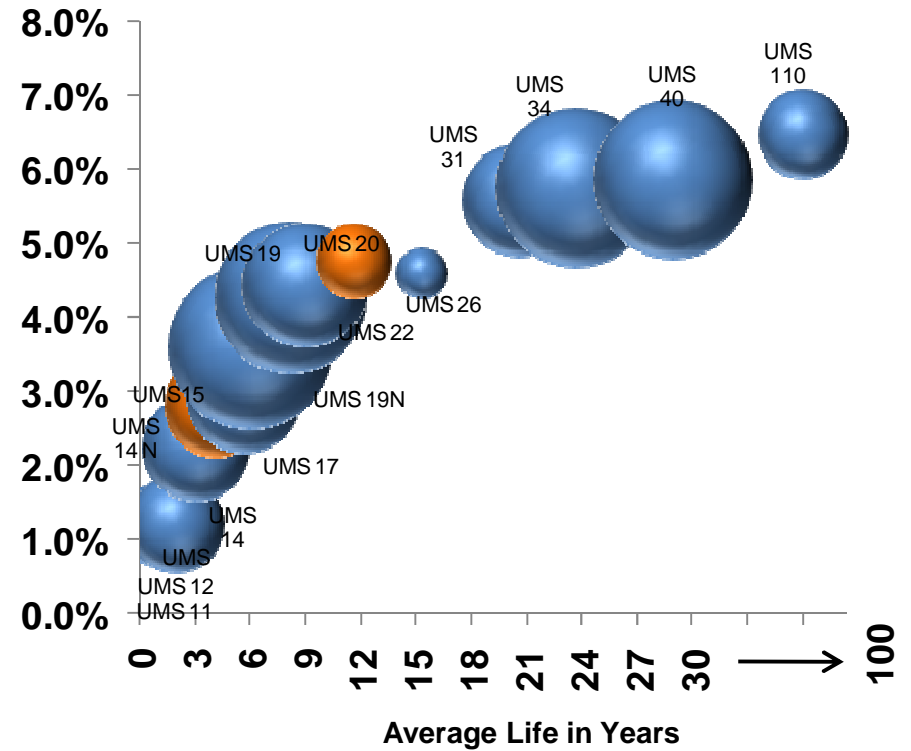
SHCP

Domestic Debt (pesos)



Source: SHCP

External Debt (dollars)



Source: SHCP

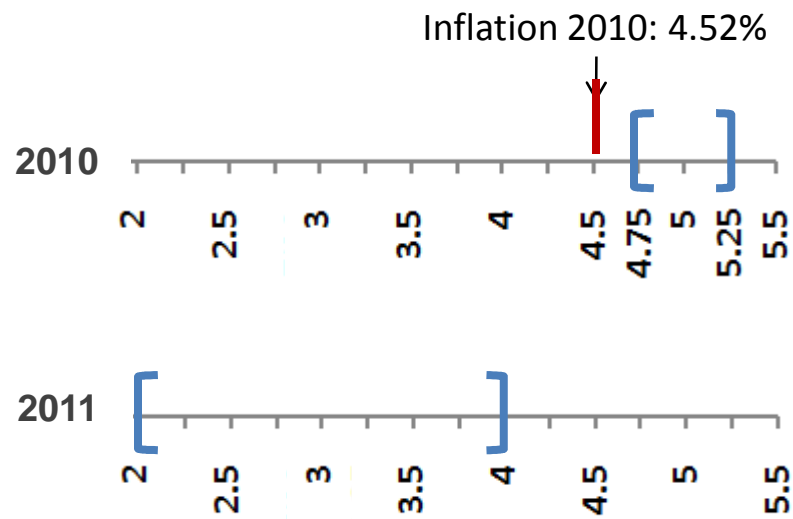
Inflation and Interest Rates



SHCP

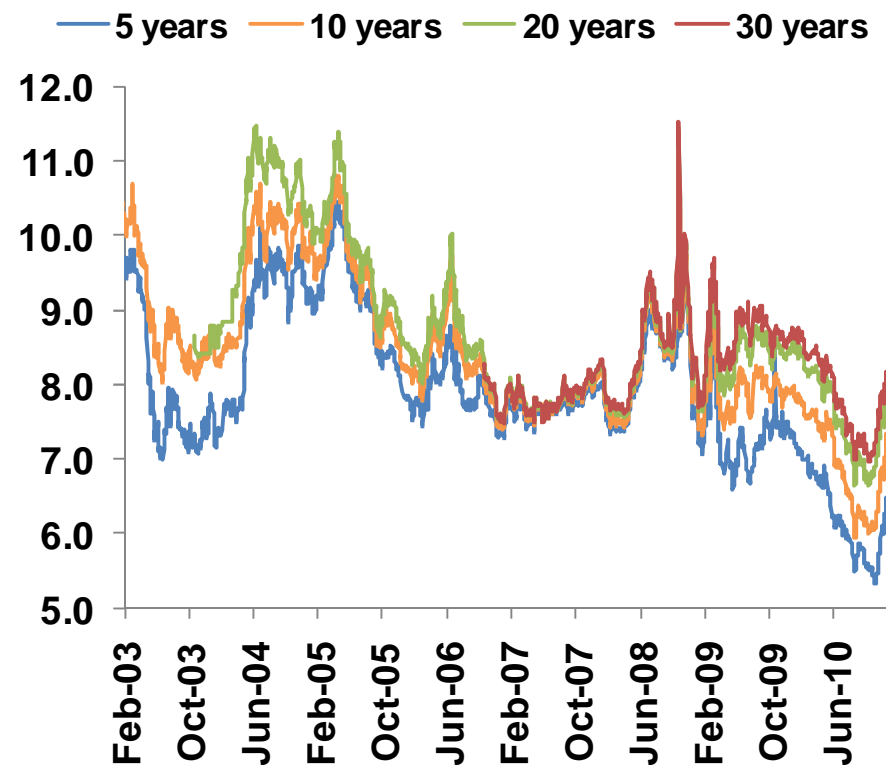
- Even though inflation suffered a temporary increase at the end of last year due to an increase in agricultural product prices, it remains below the crisis.
- Domestic interest rates are close to historical minimums, even with the recent increase due to market uncertainty associated with the European crisis and the events in Egypt.

Inflation Forecast (%)



Source: Banxico and SHCP

Government Bonds (%)



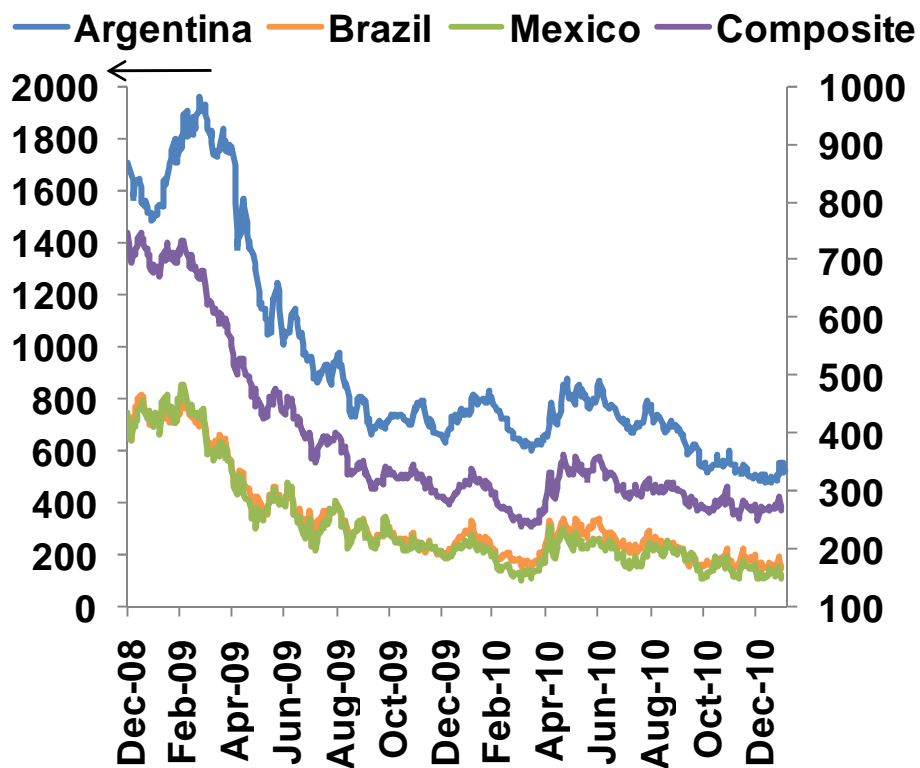
Sovereign Risk



SHCP

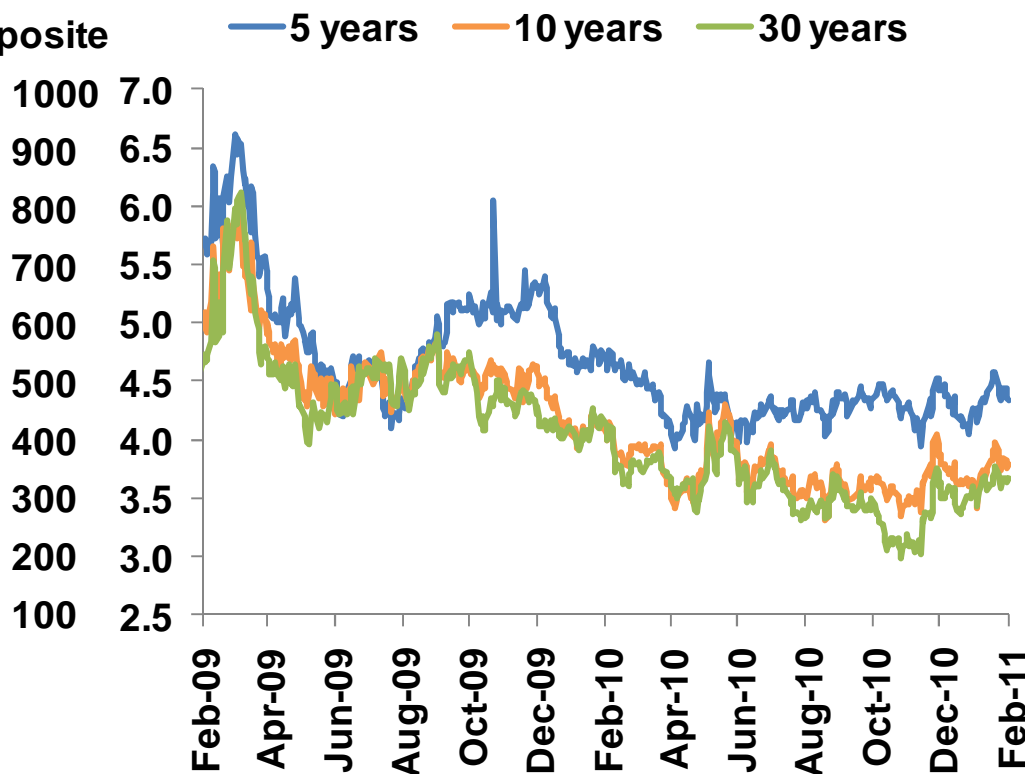
- Mexico's sovereign risk and the differential between long term domestic and foreign rates are close their historical minimum.

EMBI Global
(basis points)



Source: JP Morgan

Interest Spread Mexico and United States
(local rates on Government bonds, %)



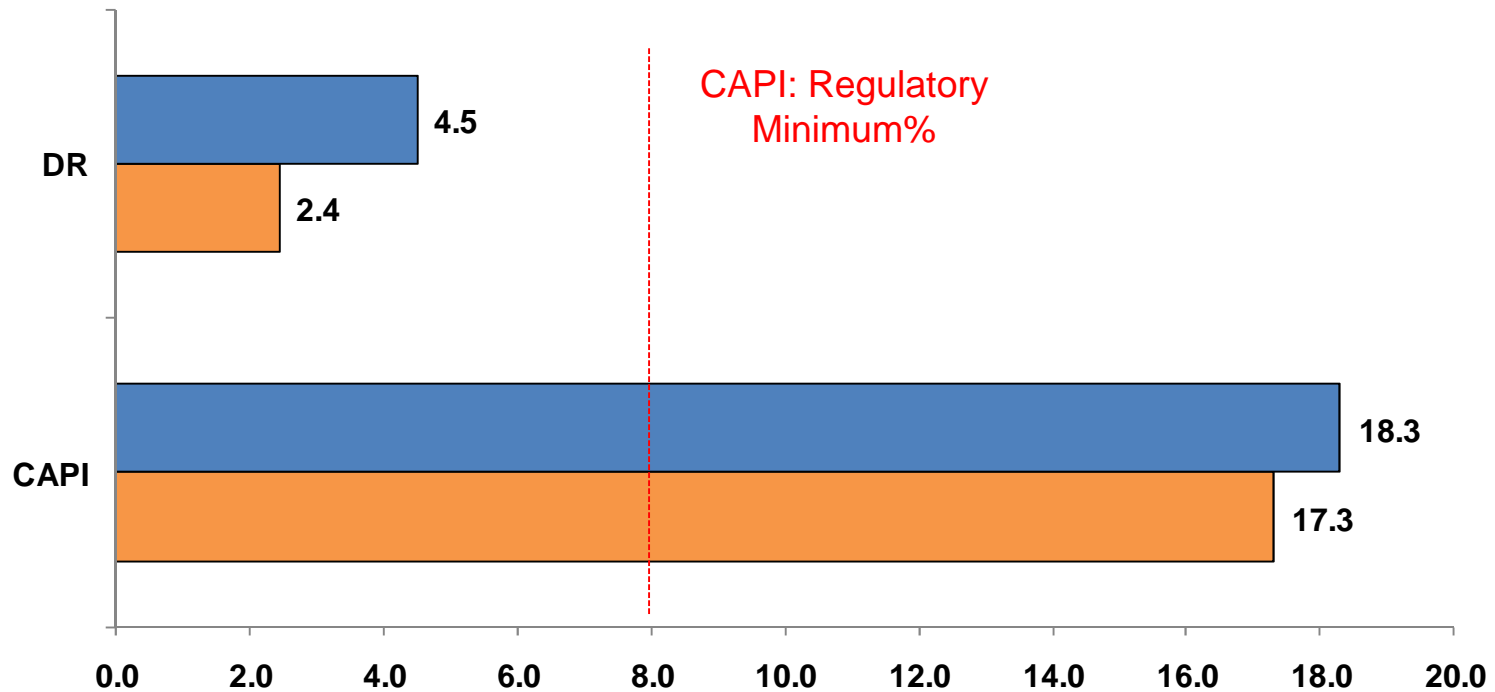
Source: SHCP

- With a capital level which is twice the regulatory minimum and a healthy portfolio, development banks are positioned to continue contributing to the expansion of bank credit to the productive and housing sectors.

Delinquency Rate and Capitalization Index

(%)

■ 2006 ■ nov-10



Source: Banxico

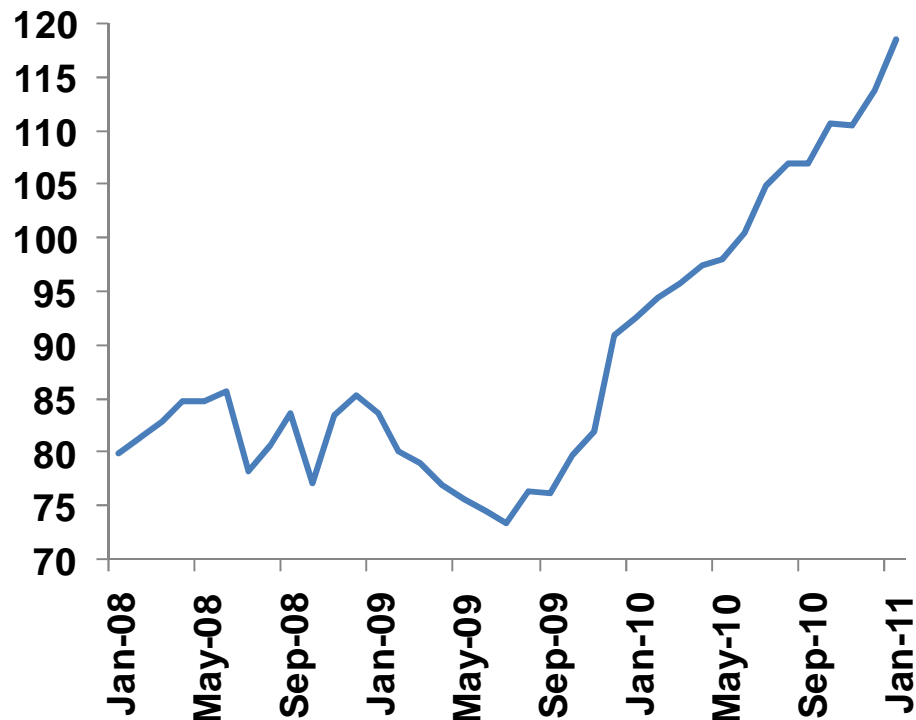
Risk Management



SHCP

- International reserves amount to 118 thousand million dollars (January 28, 2011).
- Additionally, Mexico requested the renewal of the Flexible Credit Line with the IMF for two more years and 72 thousand million dollars.

International Reserves
(thousand million dollars)



Source: Banxico

- The Mexican government contracted an oil price hedge for 2011.
- The government has the budgetary and financial capacity to respond to natural disasters for up to 50 thousand million pesos.

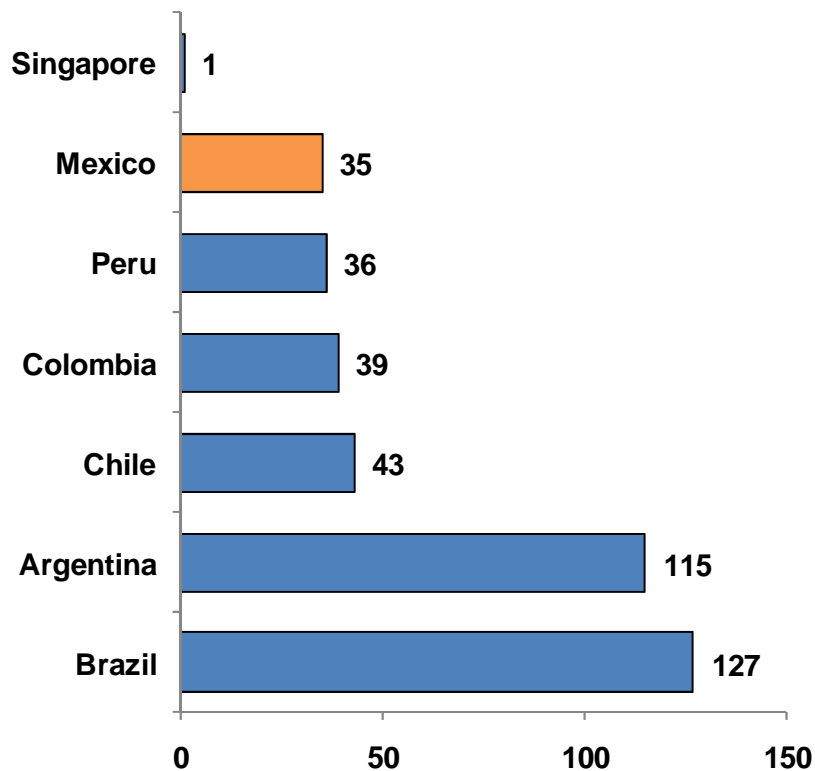
Deregulation and Simplification



SHCP

Mexico is ranked as the best country to establish a business in Latin America.

Ranking 2011 Doing Business



Source: World Bank.

The ranking measures the behavior in 183 countries of the following variables:

1. Starting a business
2. Dealing with construction permits
3. Registering property
4. Getting credit
5. Protecting investors
6. Paying taxes
7. Trading across borders
8. Enforcing contracts
9. Closing a business

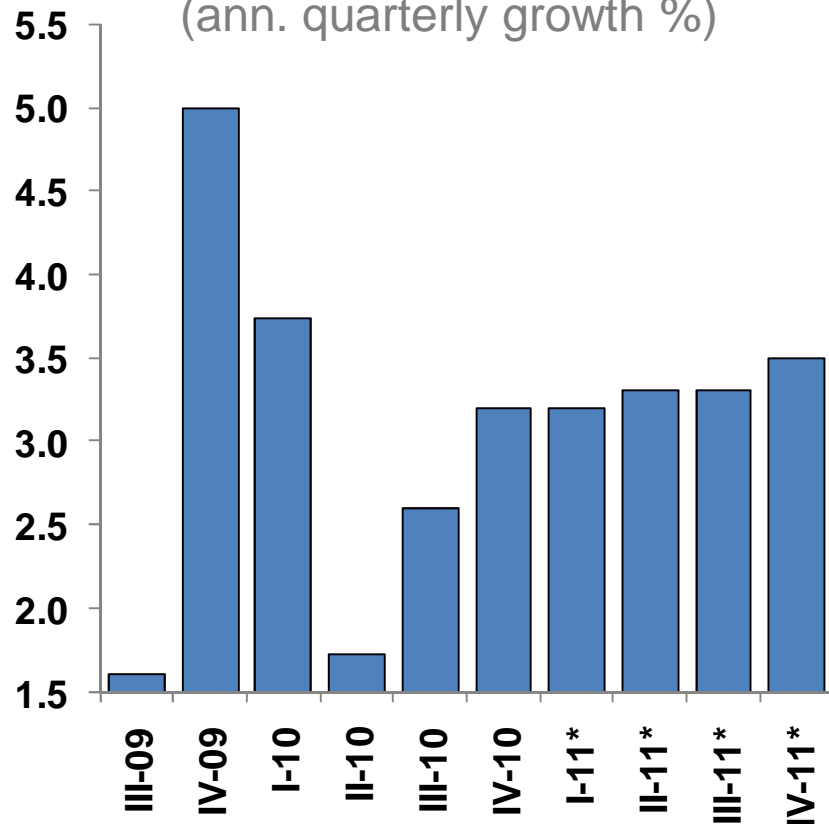
United States



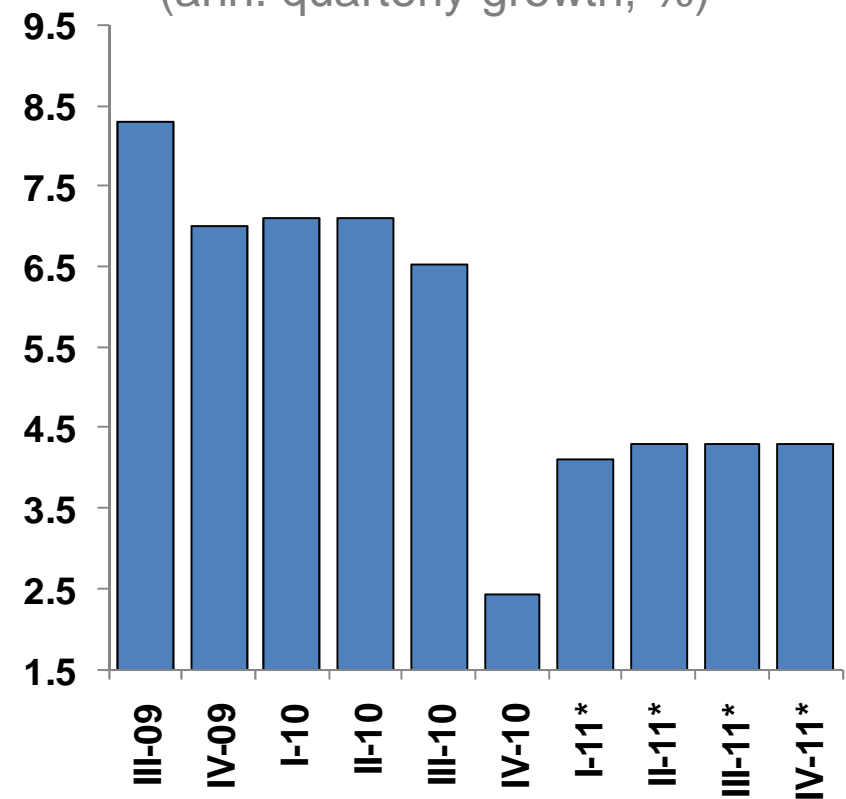
SHCP

- The United States economy is expected to accelerate during 2011. Expected growth for GDP and industrial production is 3.1 and 4.2%.
- The new fiscal stimulus of 2.7% of GDP for 2011 implies upside opportunities for United States growth.

GDP Growth Forecasts (ann. quarterly growth %)



Industrial Production Growth Forecasts (ann. quarterly growth, %)

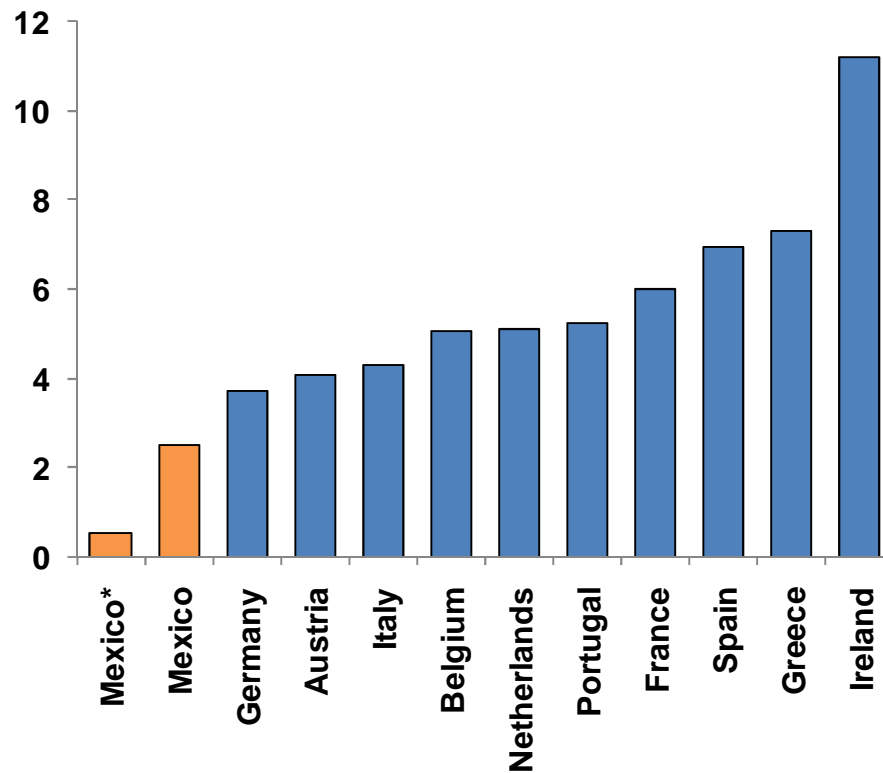


Source: Blue Chip.

* Forecasts.

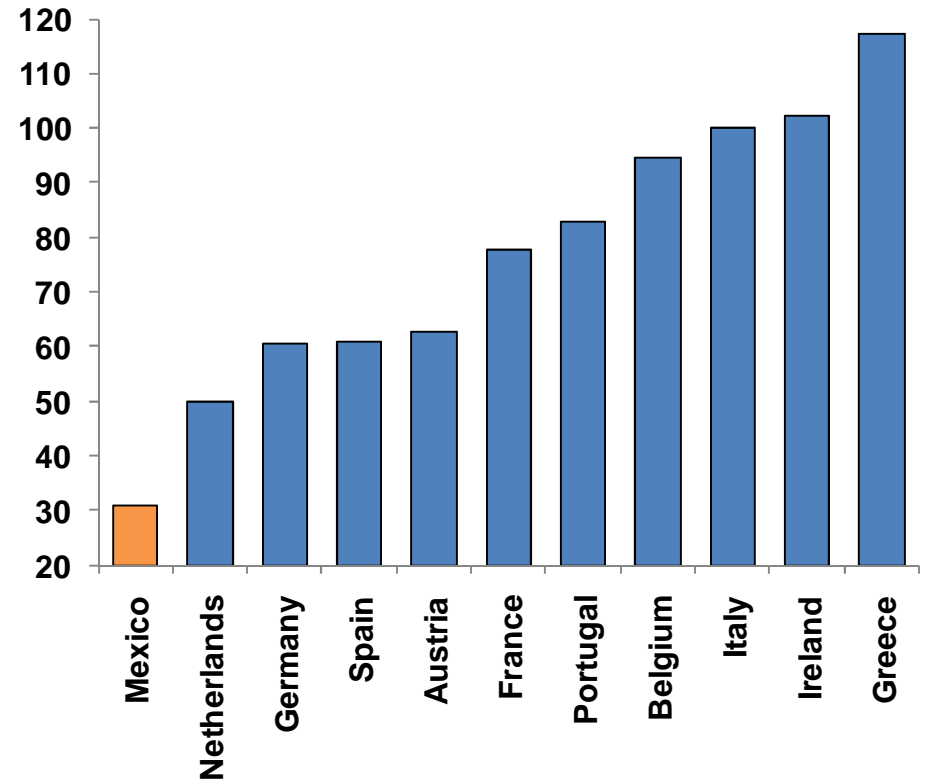
- The high deficit and debt situation in Europe continues to cause stress.

2011 Expected Public Deficit
(% of GDP)



*Without PEMEX investment.

2011 Expected Public Debt
(% of GDP)



Source: IMF and SHCP

Economic Growth



SHCP

- Private sector growth forecasts for 2010 and 2011 have been revised upwards.
- Given the delay in the revisions, forecasts for 2011 do not consider the new fiscal stimulus in the U.S.
- The income per capita is greater than other emerging economies.

2010

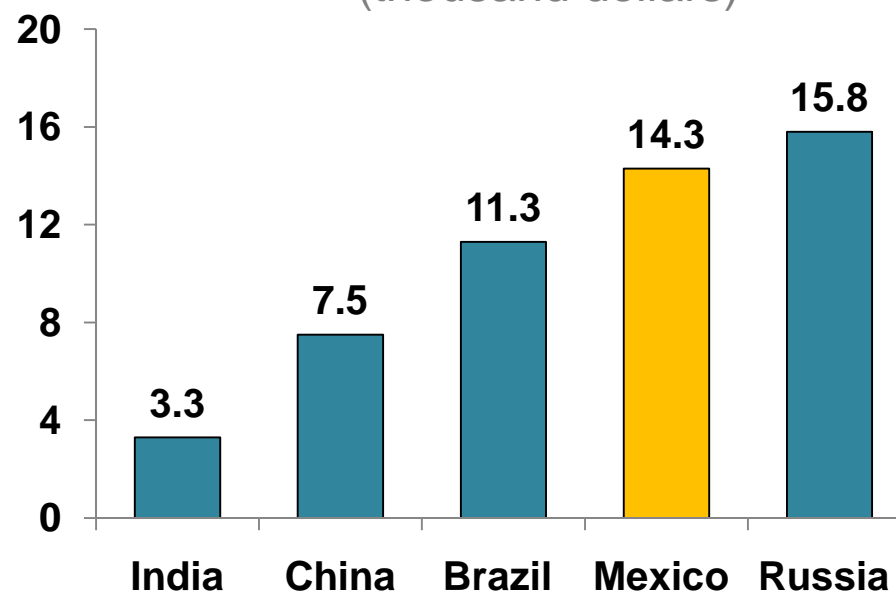
[5.3 - 5.6%]

2011

[4 - 5%]

Source: SHCP

GDP per capita*
(thousand dollars)



Source: IMF.

*Based on purchasing power parity (PPP).

** Observed 2010.

Domestic Driver

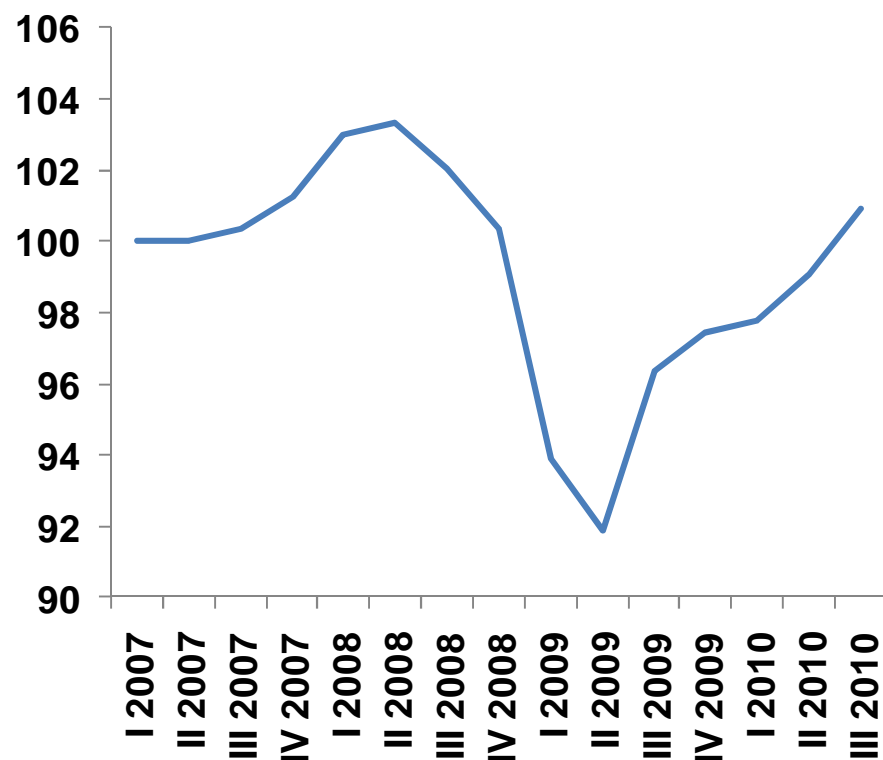


SHCP

- Total private consumption has picked up significantly since the second semester of 2009.
- Investment is gradually accelerating.

Private Consumption

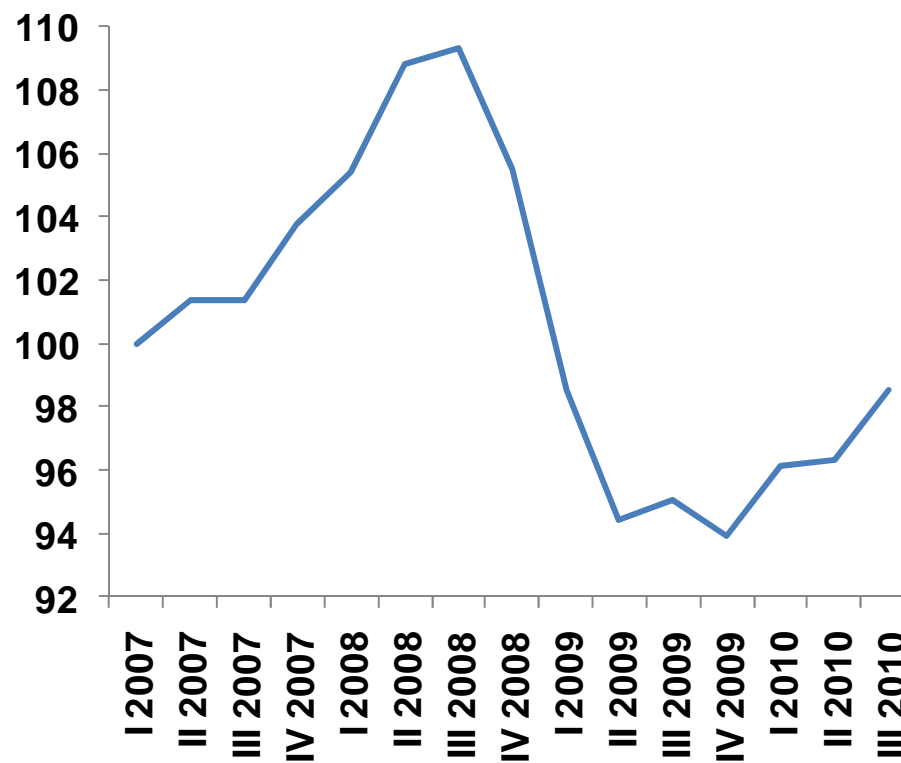
(index, I 2007=100)



Source: INEGI.

Gross Fixed Investment

(index, I 2007=100)



Source: INEGI.

Domestic Driver

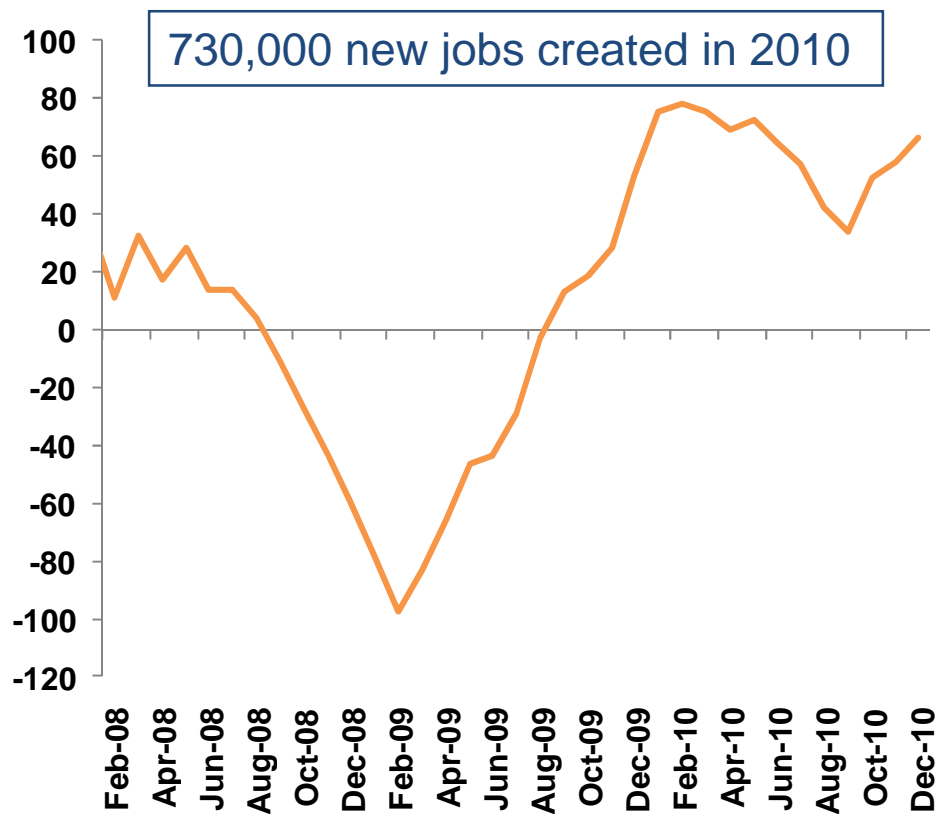


SHCP

- The expansion in employment has continued, and all jobs lost during the crisis have been recovered.

Employment

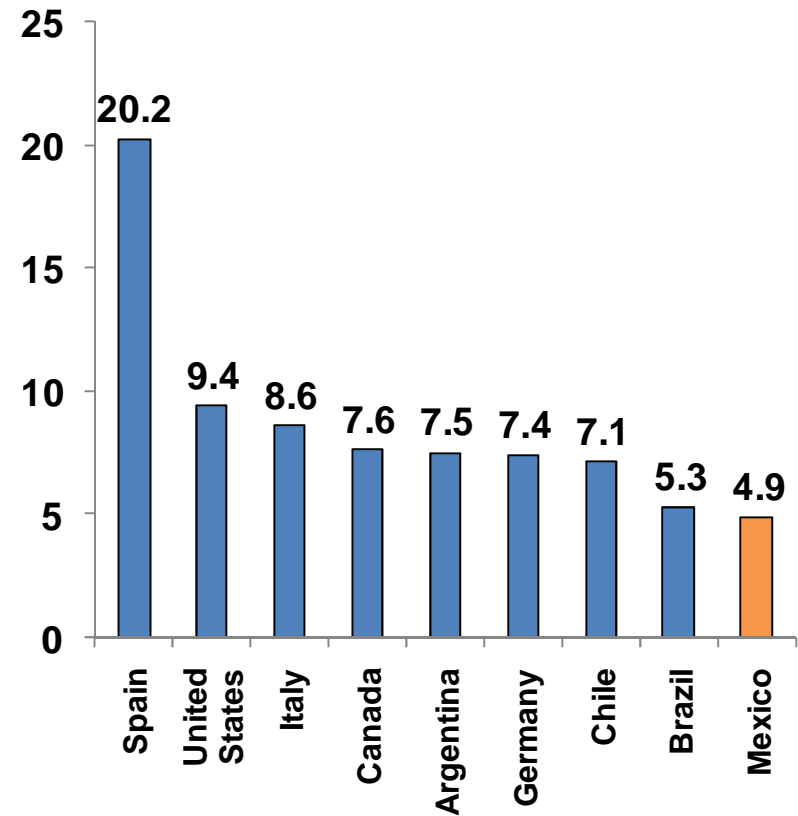
(monthly growth, 3m mov. avg., adjusted, thousands)



Source: IMSS

Unemployment Rate, 2010

(%)



Source: The Economist

Domestic Driver

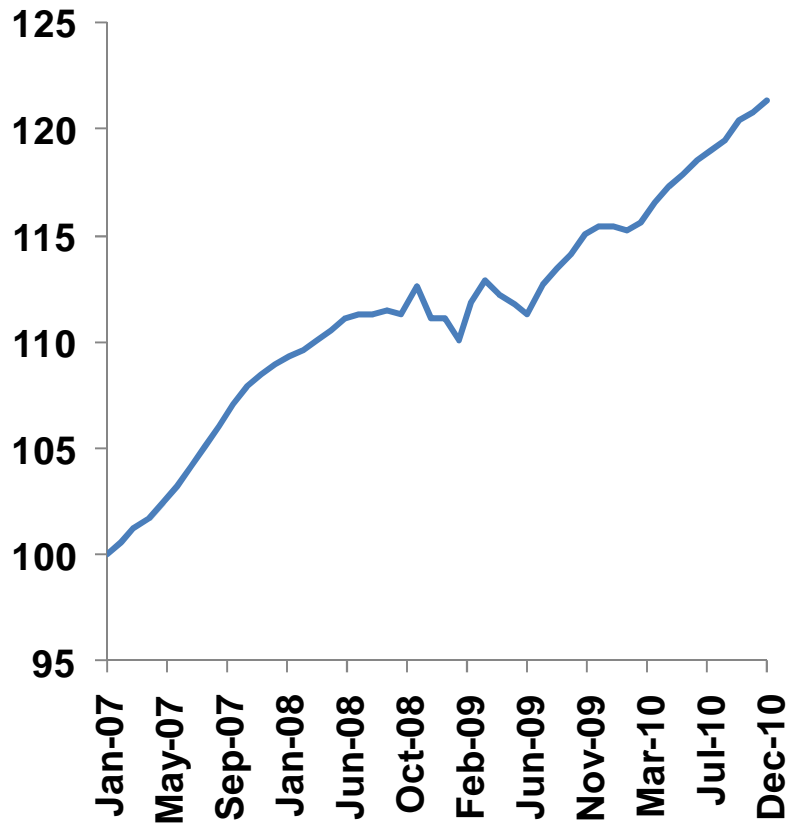


SHCP

- The recovery of the domestic market is observed in the increasing trend of retail sales.

ANTAD Sales

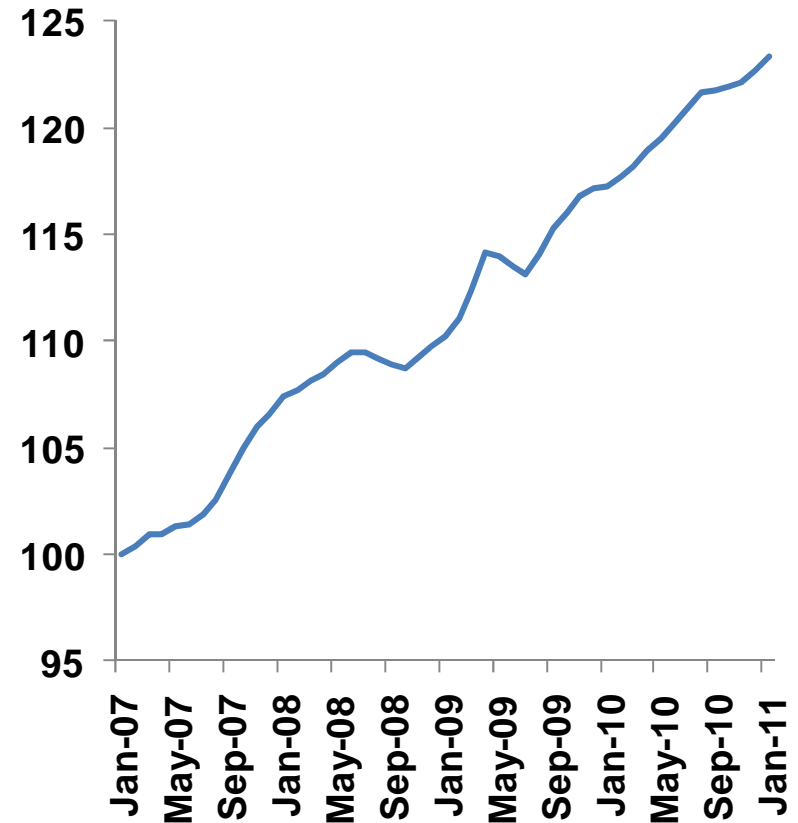
(index, jan-07 = 100, adjusted, 3m. moving avg.)



Source: INEGI.

Wal-Mart Sales

(index, jan-07 = 100, adjusted, 3m. moving avg.)



Source: SHCP with information from Wal-Mart.

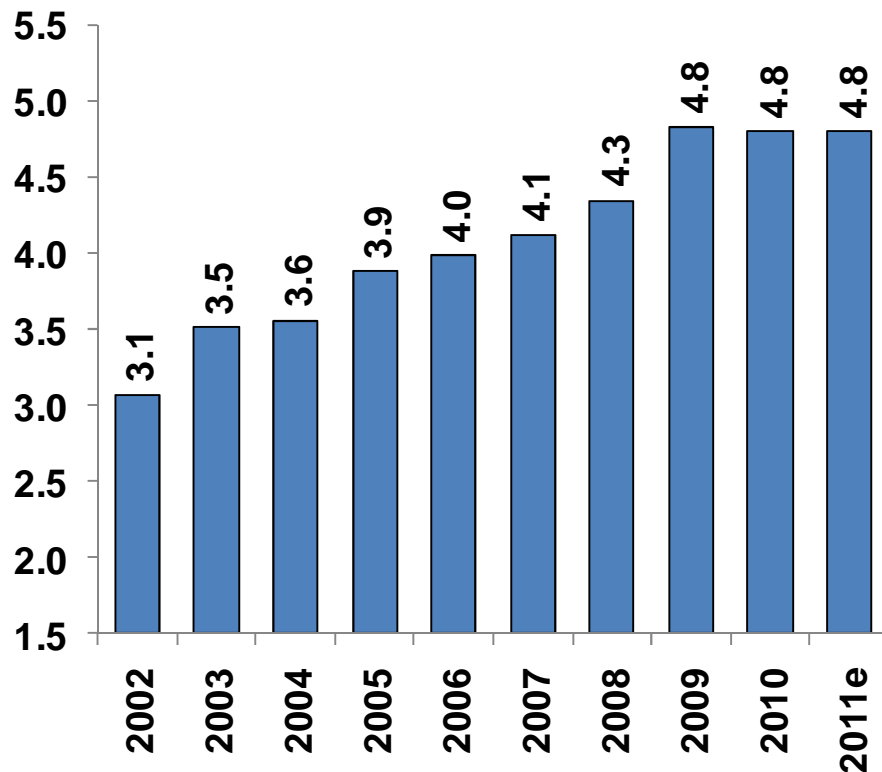
Domestic Driver



SHCP

- From 2000 to 2006 average annual budgetary investment in infrastructure was 3.5% of GDP, from 2007 to 2011 it will be 4.5% of GDP.

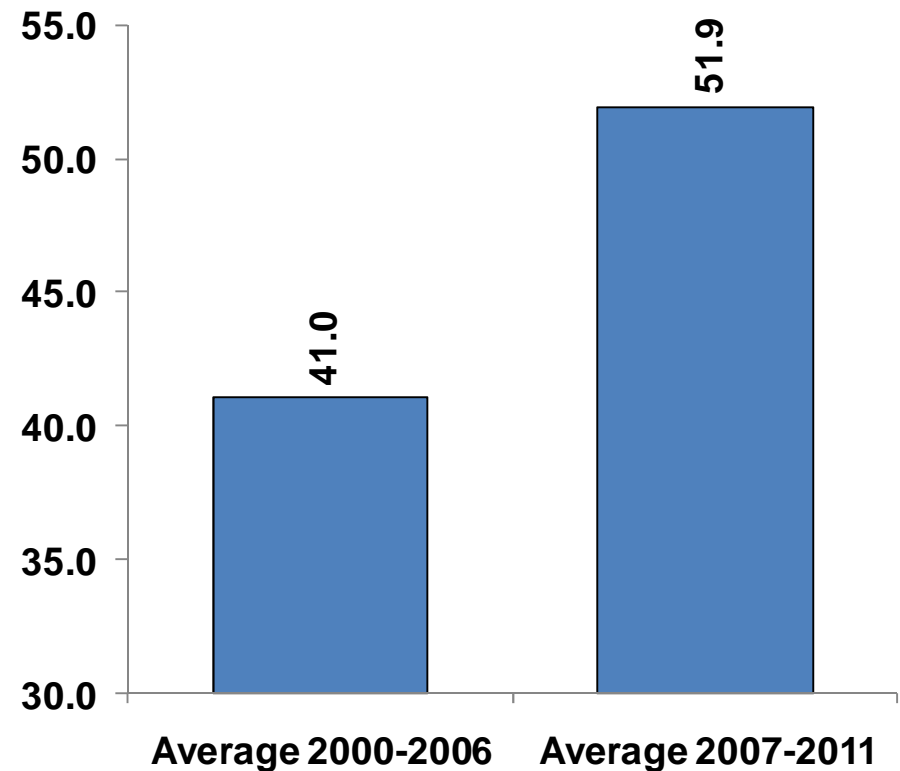
Investment Expenditure 2002 – 2011 (% of GDP)



* Approved 2011

Source: SHCP

Fostered Investment in Infrastructure 2000 – 2011 (2011 thousand million dollars)



* Approved 2011

Source: SHCP

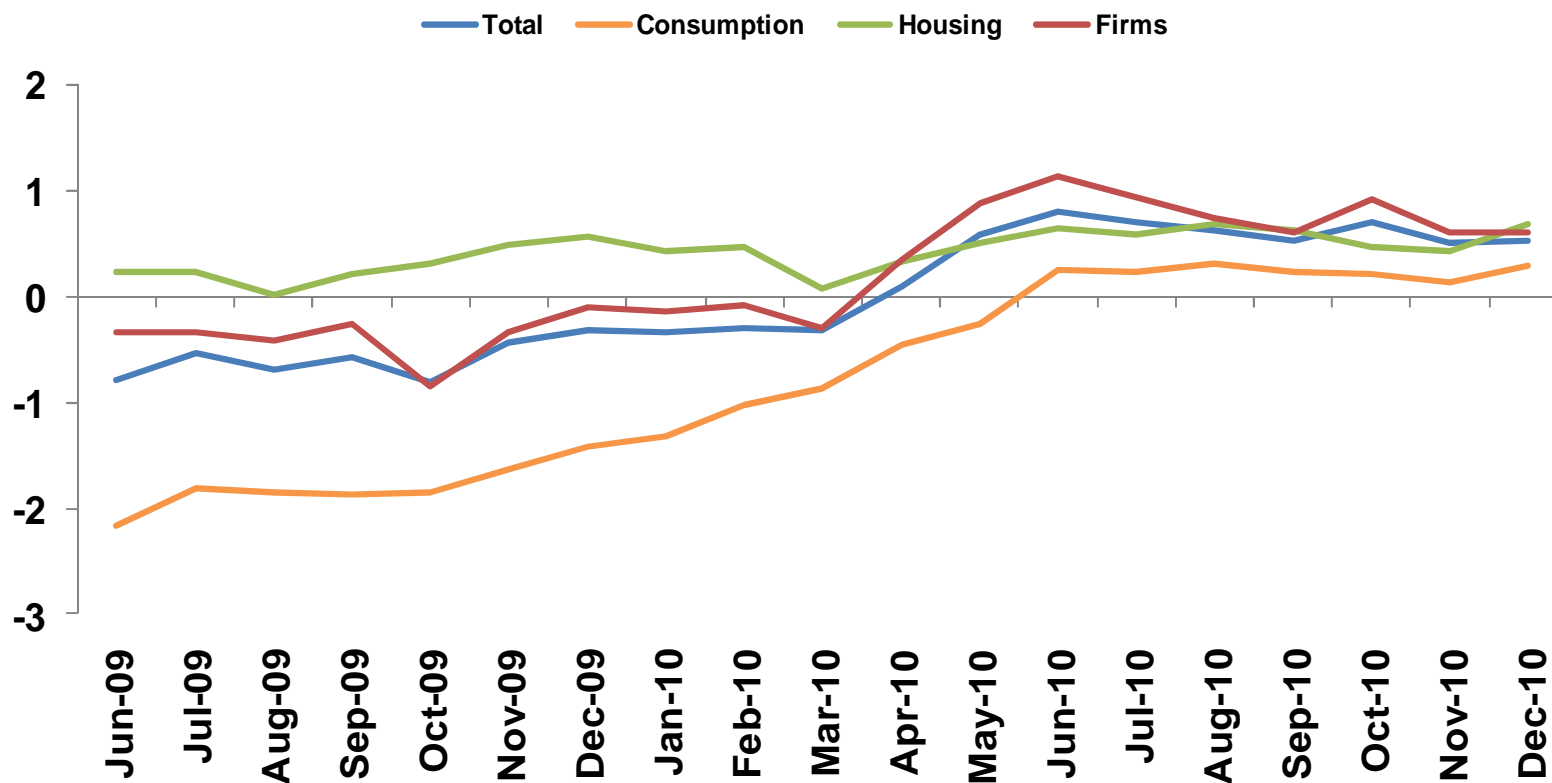
Domestic Driver



SHCP

- The Mexican banking system is solid and since the second quarter of 2010 positive monthly growth in credit has been observed.

Commercial and Development Bank Credit to Private Sector
(monthly change, 3m. moving avg., %)



Source: Banxico

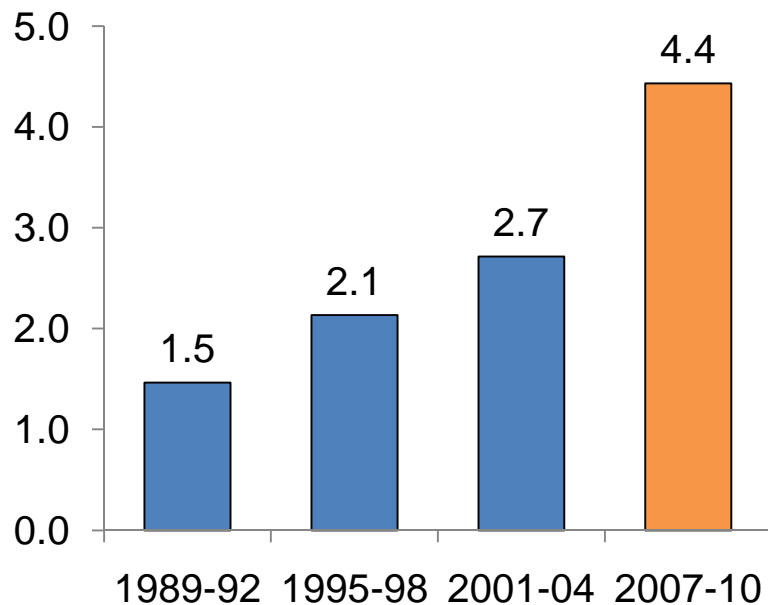
Housing Finance



SHCP

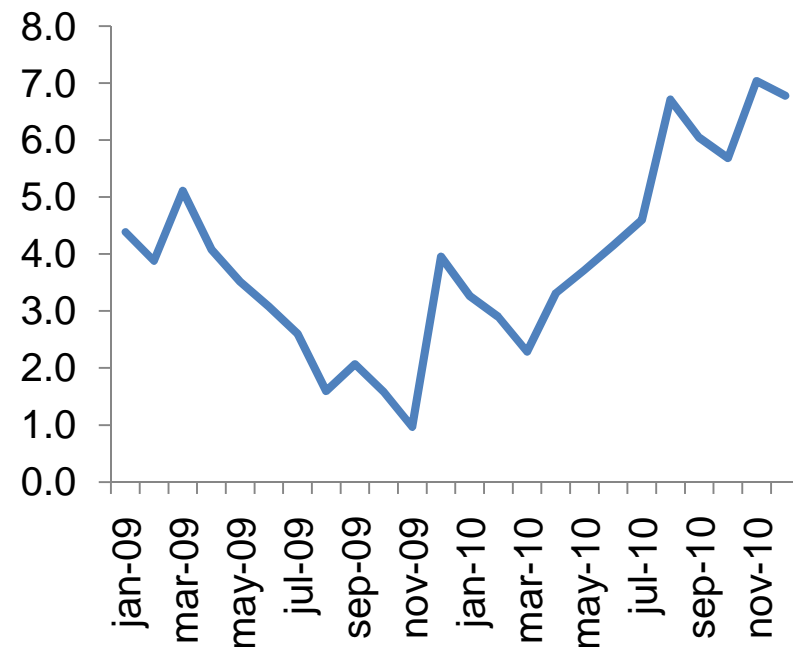
- In this administration housing finance has been a top priority.
- In the first four years of this administration 4.4 million housing actions have been reached, more than in any similar period of the last 3 administrations.
- In 2010 the recovery of housing finance and construction was mainly led by public housing institutes and commercial banks.

Housing Actions (million actions)



Source: CONAVI

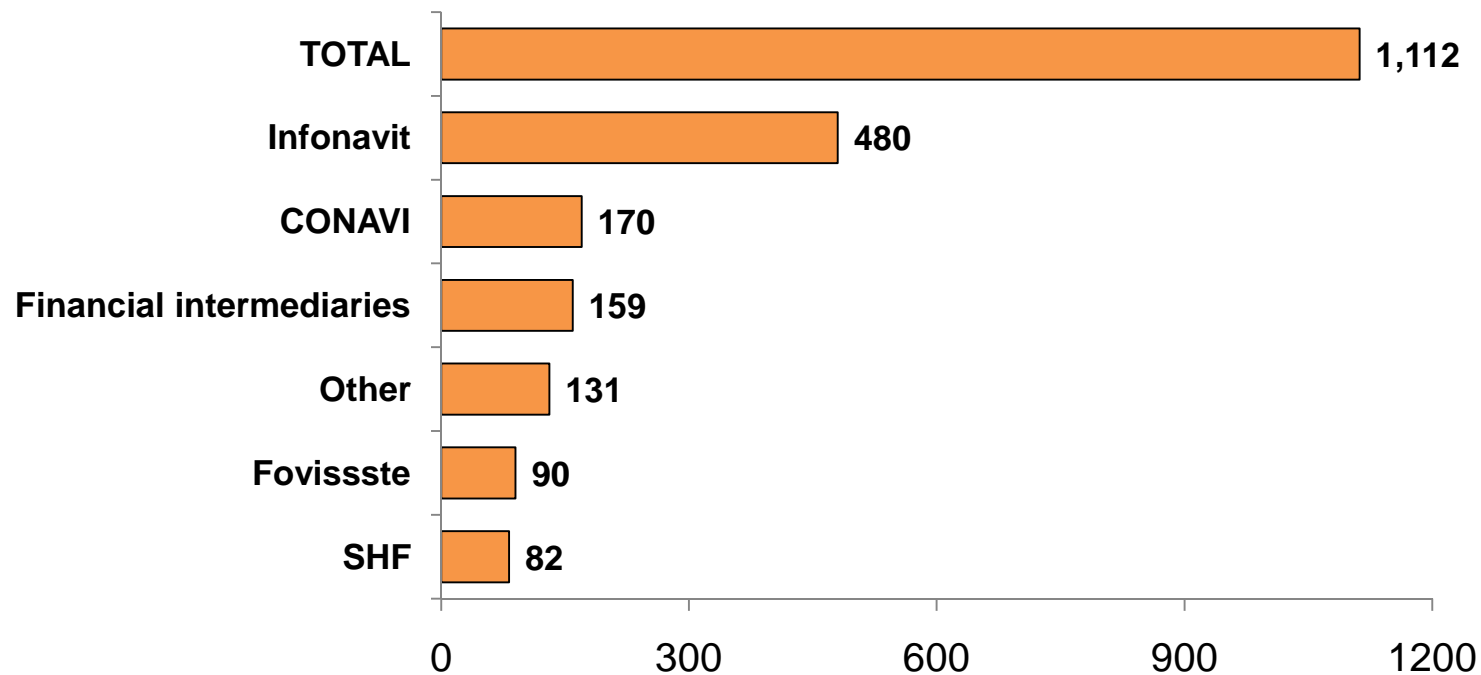
Commercial banks housing portfolio (real annual growth rate, %)



Source: Banxico

- It is expected that in 2011 public institutions and private financial intermediaries will reach 1.1 million housing actions (mortgages and subsidies).

2011 Expected Housing Actions
(thousand actions)



Source: CONAVI

Other: includes Fonhapo, CFE, Fonacot, Habitat, Issfam, OREVIS, PET, Pemex, PEFVM

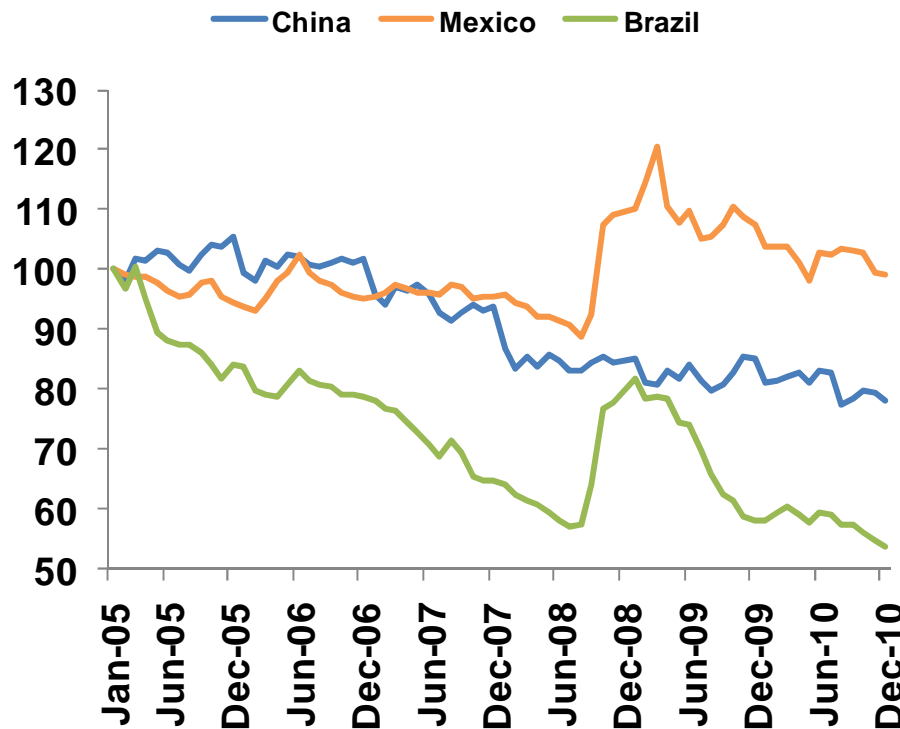
External Driver



SHCP

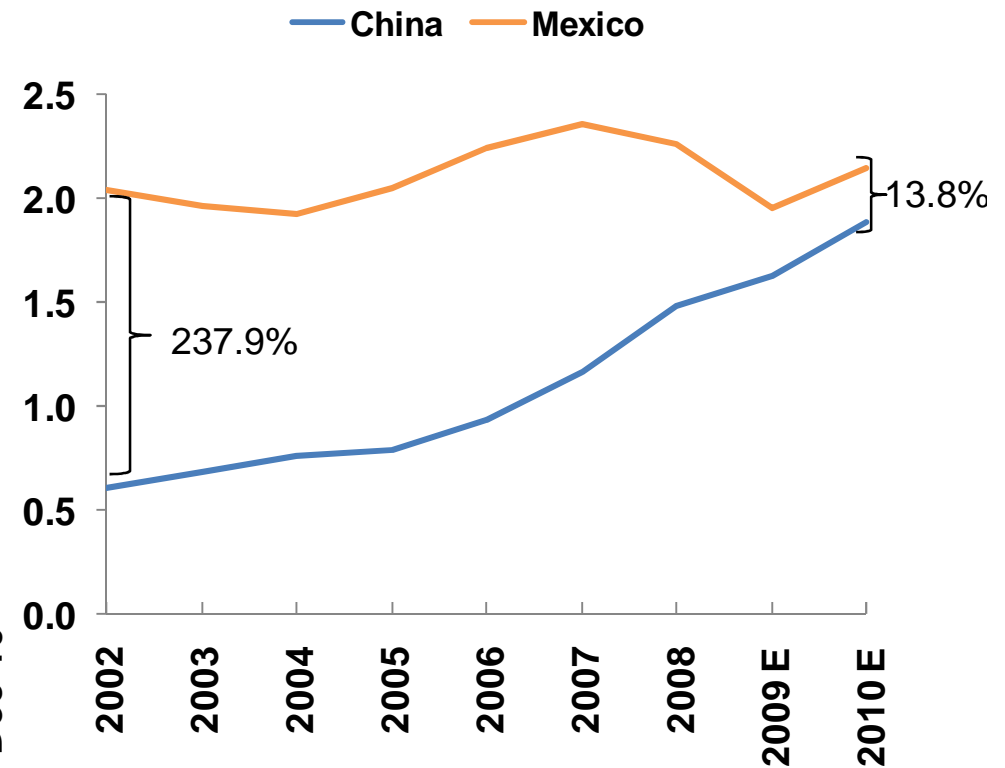
- Besides from the recovery associated with the global industrial cycle, Mexican manufacturing will benefit from a more competitive exchange rate.

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



Source: Central Banks.

Hourly Wage in Manufacturing
(dollars)



Source: International Labor Organization

External Driver

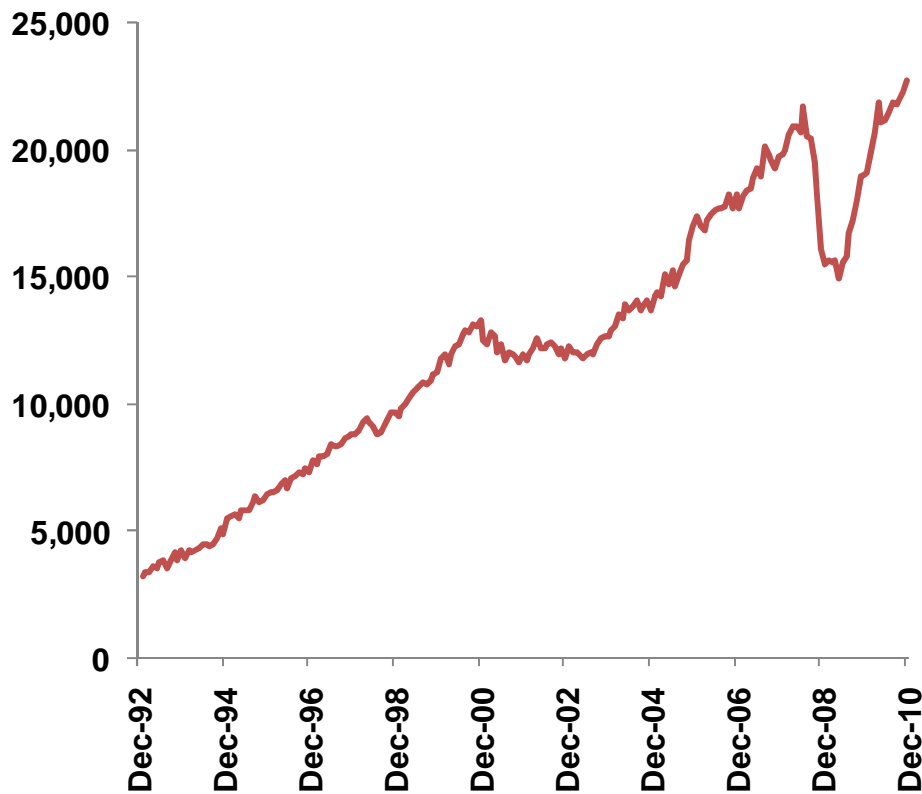


SHCP

- Non-oil exports have increased since 1993 as a result of Mexico's comparative advantages.
- Non-oil exports have recovered from the recent crisis.

Non-Oil Exports

(monthly, adjusted, million dollars)



Mexico is the most competitive country in auto parts manufacturing (KPMG). One of every 7 cars circulating in the U.S. is manufactured in Mexico.

The Mexican aerospace industry occupies the first place in manufacturing investment in the world (Deloitte).

Mexico is the biggest producer of smart phones in the world and the second greatest exporter of television sets.

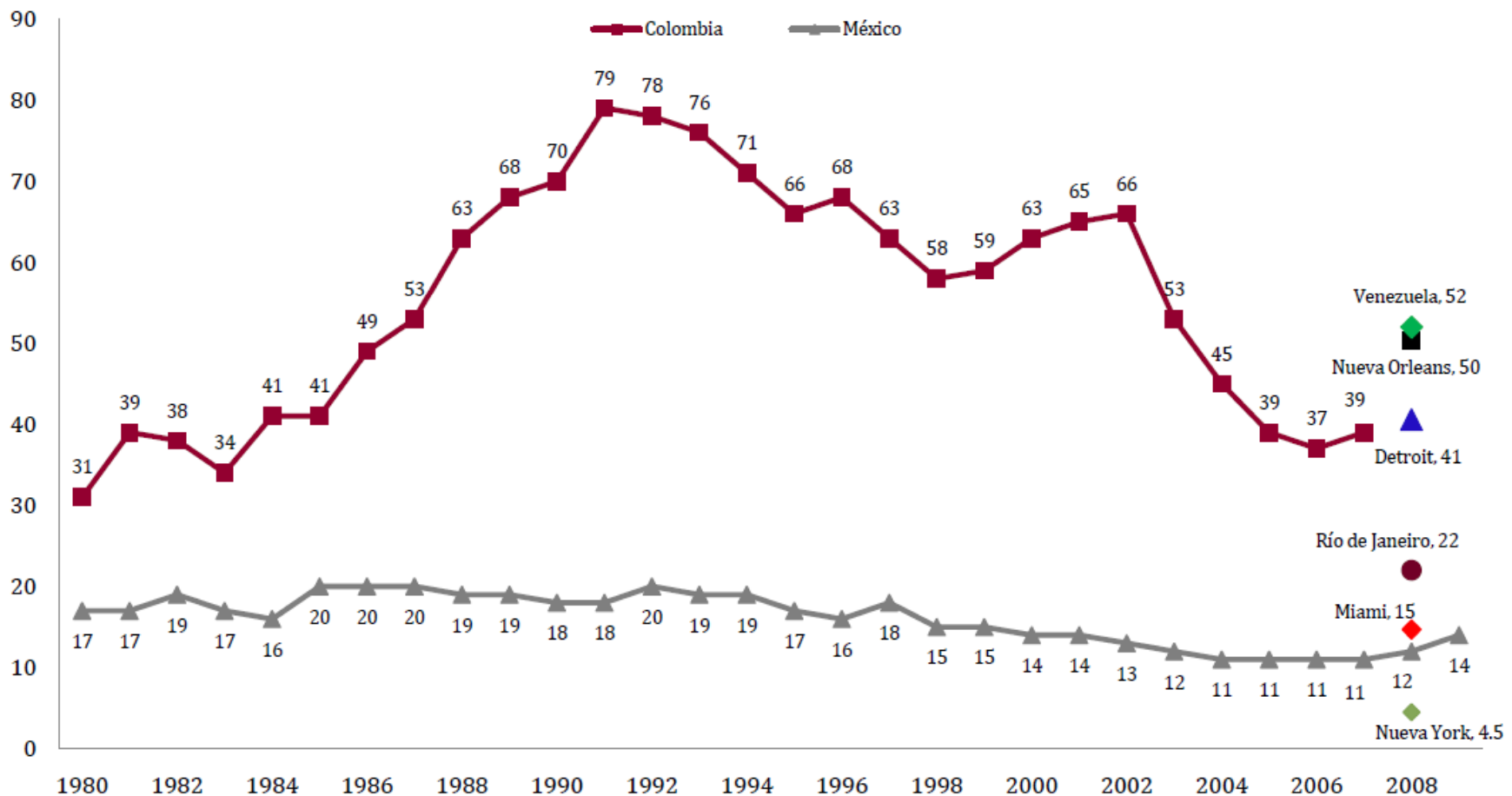
- **Second year with a solid economic growth.**
- **Balanced growth between the export sector and the domestic market.**
- **The soundness of the development banking system and the active participation of commercial banks contributed to the recovery of construction and housing finance in 2010.**
- **In 2011, Government policies will focus on green and sustainable housing as well as reducing the housing deficit.**

Criminal Diagnosis



SHCP

Criminal homicide rate related to organized crime
rate per 100,000 inhabitants, 2008



Source: FBI, UNODOC, Dirección de Investigación Criminal de Colombia, Instituto de Seguridad Pública de Rio de Janeiro, SE-SNSP

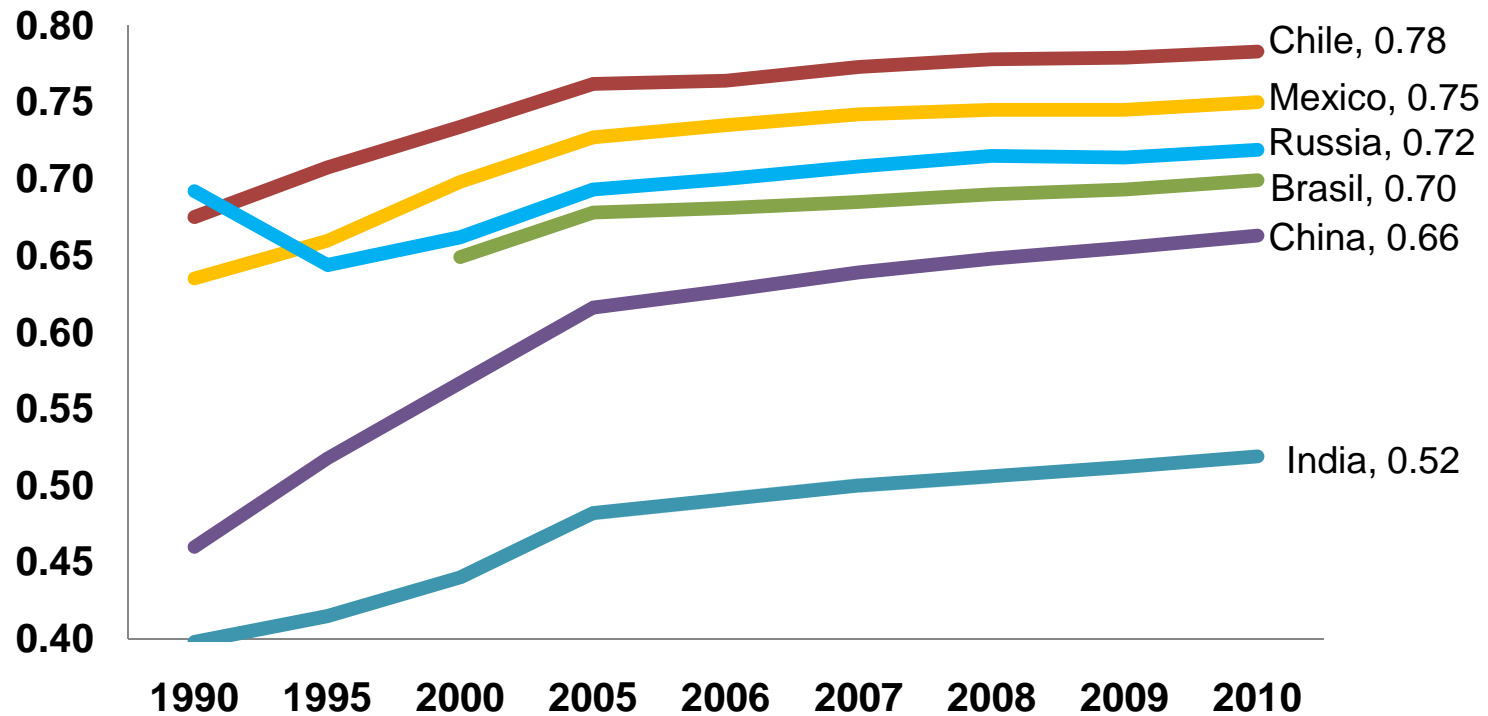
Human Development



SHCP

- The living standards of the Mexican population have improved.
- The Human Development Index measures education, health and per capita income.

Human Development Index



Source: United Nations Development Program (UNDP)