



SHCP

SECRETARÍA DE HACIENDA
Y CRÉDITO PÚBLICO

MEXICO'S ECONOMIC OUTLOOK

MEETING WITH FOREIGN BANK OFFICES

February 18, 2016

EMERGING MARKETS ARE FACING A COMPLEX ECONOMIC OUTLOOK.

 SLOWER THAN EXPECTED GLOBAL ECONOMIC GROWTH AND PERSISTENT WORRIES OVER CHINA'S ECONOMY.

 CONSIDERABLE CONTRACTION OF COMMODITY PRICES, OIL IN PARTICULAR.

 INTEREST RATE HIKES IN THE US AND DIVERGENT PATHS IN MONETARY POLICIES IN MAJOR ADVANCED ECONOMIES.

WHAT IS MEXICO DOING TO DIFFERENTIATE ITSELF?

PILLARS TO MAINTAIN STABILITY AND PROMOTE GROWTH

1

**STRONG
MACROECONOMIC
FUNDAMENTALS**

PRUDENT FISCAL POLICY
(BUDGET ADJUSTMENTS)

SOUND MONETARY POLICY
(HISTORICALLY LOW INFLATION)

2

**DEEP
STRUCTURAL REFORM
AGENDA**

**ENERGY, TELECOMM,
FINANCIAL, FISCAL,
ANTITRUST, LABOR,
EDUCATION, ETC.**

FAST PACE IMPLEMENTATION

3

**NORTH AMERICAN
OPPORTUNITY**

MOST DYNAMIC REGION

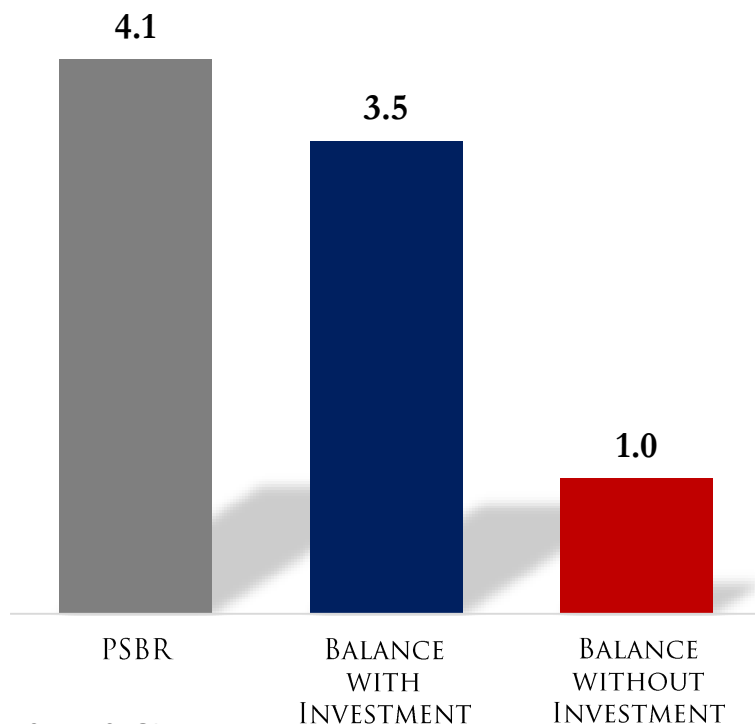
**LARGE MARKET ACCESS AND
LOW COSTS**

PUBLIC FINANCES FOR 2015.

THE FEDERAL GOVERNMENT MET ALL ITS PUBLIC DEFICIT GOALS.

- ✓ The Public Sector Borrowing Requirements (PSBR), the most ample balance measure consistent with the international best practices, resulted in 4.1% of GDP.
 - Decrease of 0.5% of GDP (vs. 2014) consistent with the multiyear strategy.

PUBLIC SECTOR BALANCE OBJECTIVES, 2015
(% of GDP)



- ✓ Tax revenues showed a real growth of **27.2%**, and now represent **13%** of GDP.
 - Above the PRONAFIDE goal of 11.6% of GDP for 2018.
- ✓ Oil revenues were only **19.7%** of total revenues, which contrasts with 39.4% observed in 2012.
- ✓ The preventive spending adjustment of 124 billion pesos allowed the accommodation of non-budgetary spending pressures and pensions.

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THE MAIN OBJECTIVE OF THE ECONOMIC PACKAGE FOR 2016 IS TO MAINTAIN MACROECONOMIC STABILITY.

PUBLIC SPENDING ADJUSTMENT

- **MULTIYEAR SPENDING ADJUSTMENT** THAT IS CONSISTENT WITH THE FISCAL CONSOLIDATION EFFORT COMMITTED IN 2013.

FEDERAL FISCAL RESPONSIBILITY LAW

- AMENDED TO SPECIFICALLY DEFINE THE USE OF BANK OF MEXICO'S **OPERATIONAL SURPLUS**: AT LEAST 70% OF THE RESOURCES SHOULD BE USED TO PREPAY EXISTING DEBT OR ISSUE LESS DEBT. THE REST, TO STRENGTHEN THE FINANCIAL POSITION OF THE PUBLIC SECTOR.

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MEXICO'S MINISTRY OF FINANCE AND THE CENTRAL BANK ANNOUNCED PUBLIC POLICY ACTIONS TO FACE A DETERIORATION OF THE GLOBAL ENVIRONMENT.

ADDITIONAL SPENDING ADJUSTMENT



132.3 BN PESOS
DURING 2016 (0.7% OF GDP),
MAINLY IN CURRENT
EXPENDITURES.

PEMEX **100 BN**



FED. GOV. **29.8 BN**



CFE **2.5 BN**



MONETARY MEASURES



INCREASE IN THE REFERENCE
INTEREST RATE FROM 3.25%
TO 3.75%.

EXCHANGE RATE MARKET MEASURES



SUSPENSION OF USD
AUCTIONS TO PRESERVE
SOLID FUNDAMENTALS.

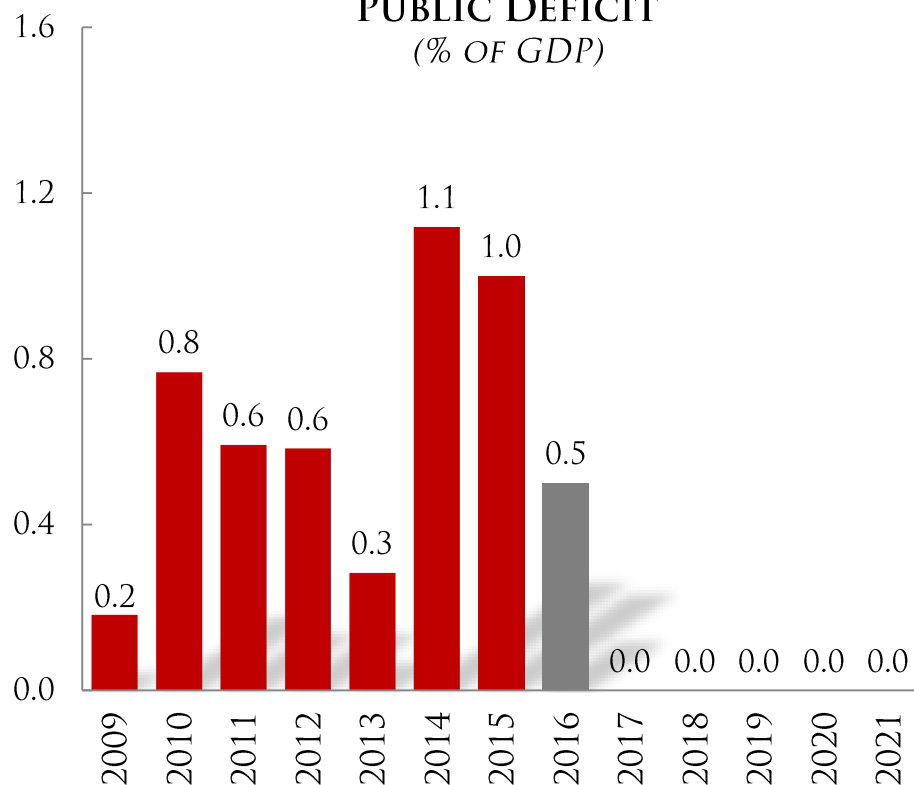


DISCRETIONAL
INTERVENTION IN CASE OF
EXCEPTIONAL CONDITIONS

ONGOING FISCAL CONSOLIDATION PROGRAM.

FOR 2016, A DEFICIT REDUCTION IS PLANNED, IN ACCORDANCE WITH THE DECREASING TRAJECTORY COMMITTED SINCE 2013.

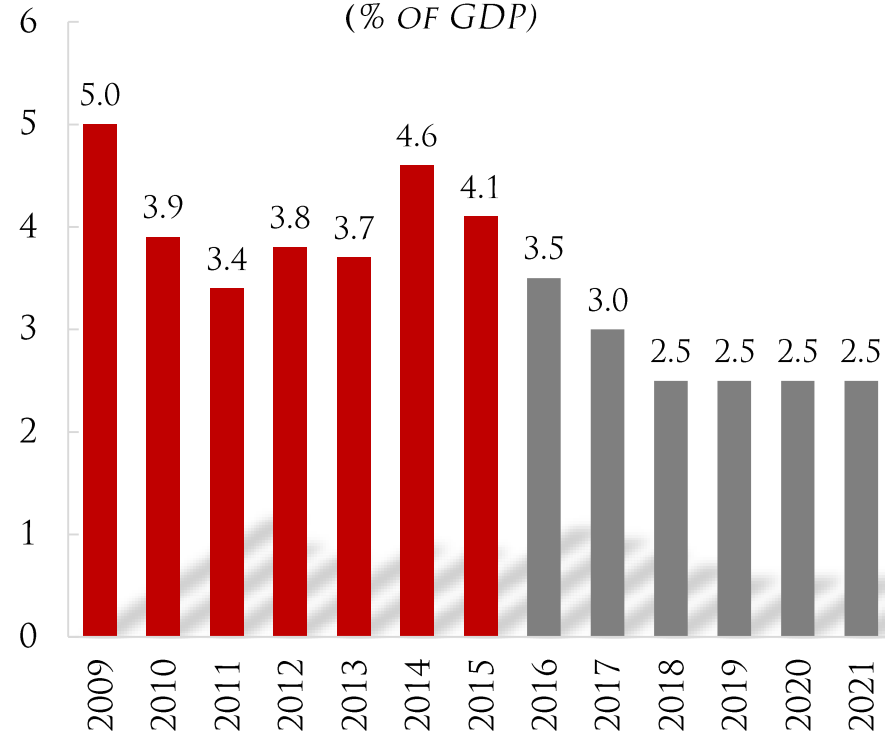
PUBLIC DEFICIT
(% OF GDP)



SOURCE: SHCP.

* ESTIMATES CONSISTENT WITH THE APPROVED FISCAL PACKAGE.

PUBLIC SECTOR BORROWING REQUIREMENTS
(% OF GDP)



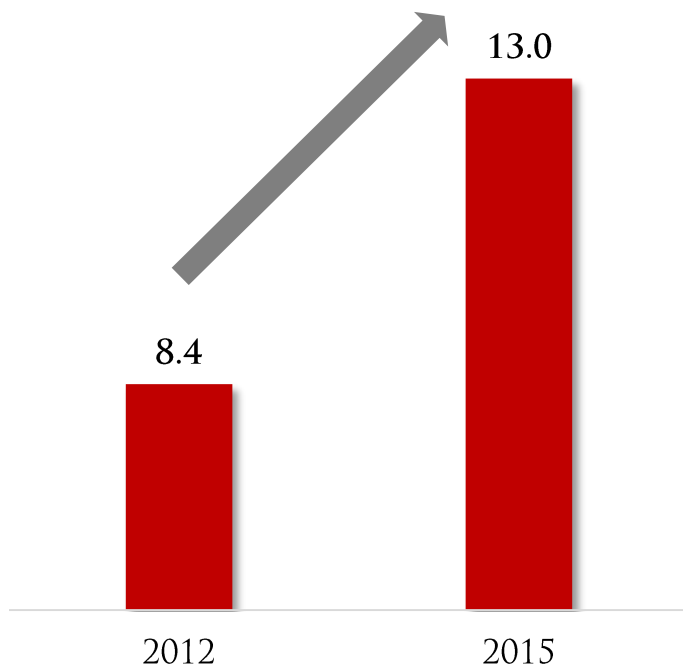
SOURCE: SHCP.

* ESTIMATES CONSISTENT WITH THE APPROVED FISCAL PACKAGE.

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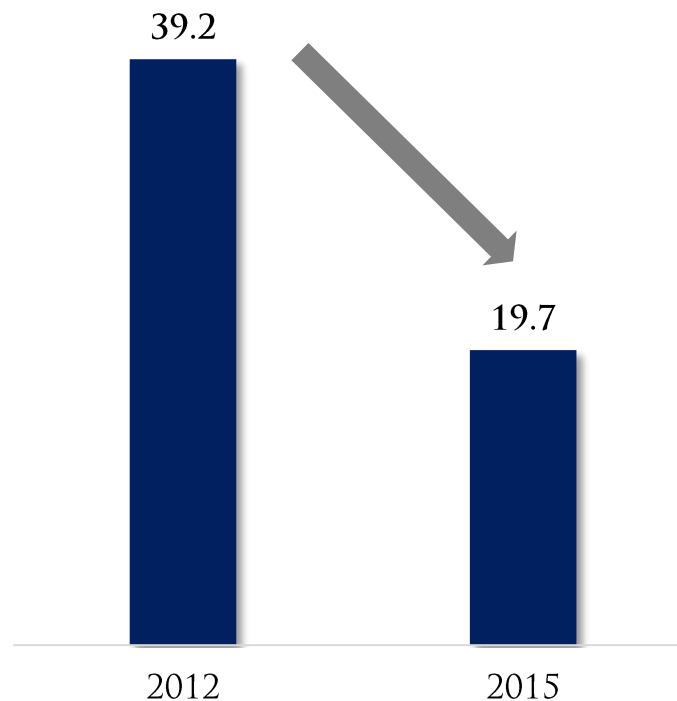
THE FISCAL REFORM HAS RESULTED IN A SIGNIFICANT INCREASE OF TAX REVENUES, ALLOWING THE FEDERAL GOVERNMENT TO OFFSET THE DECREASE IN OIL REVENUES.

TAX REVENUES (% OF GDP)



INCREASE OF **4.6 PP** OF GDP IN TAX COLLECTION.

OIL REVENUES (% TOTAL REVENUES)

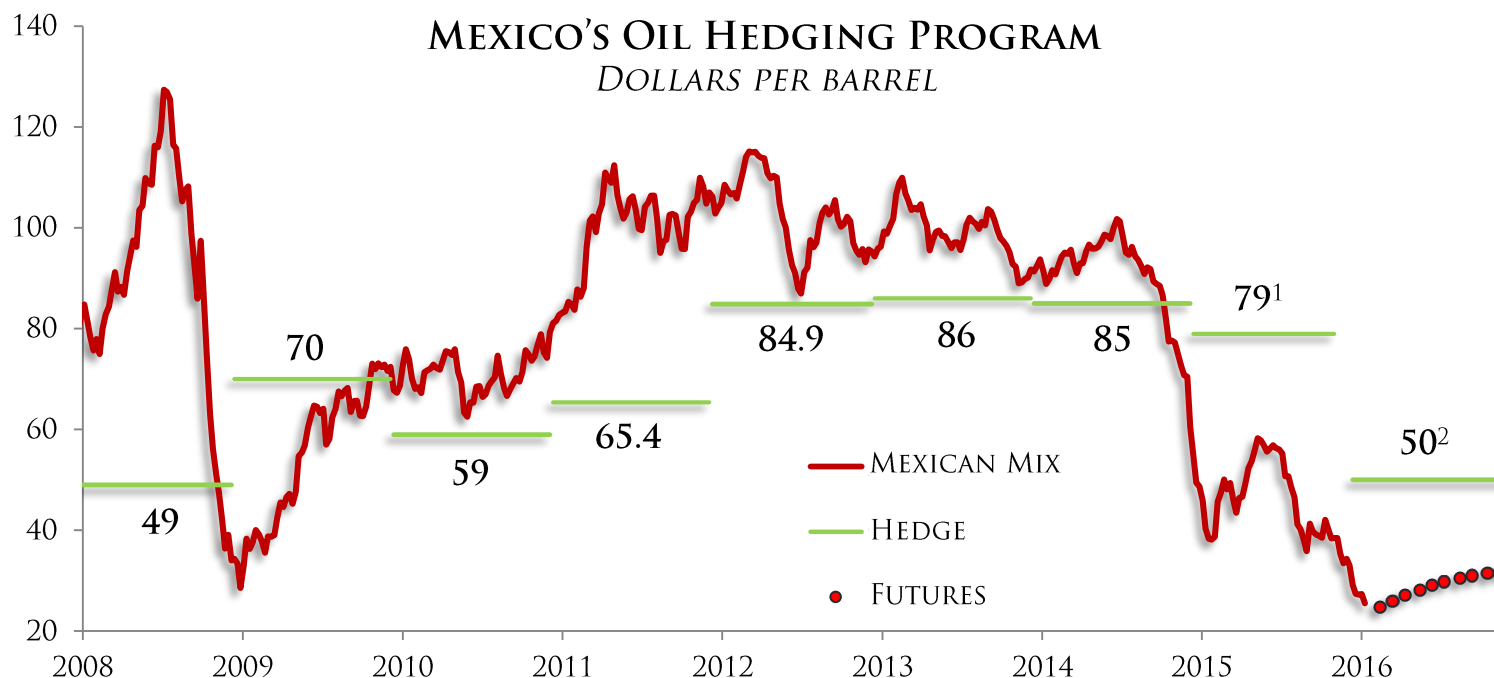


LESS THAN **20%** OF THE TOTAL REVENUES COME FROM OIL REVENUES.

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TO INSURE OIL REVENUES FROM A POTENTIAL REDUCTION IN OIL PRICES, THE MINISTRY OF FINANCE IMPLEMENTS A CRUDE OIL HEDGING PROGRAM.

- ✓ ON DECEMBER 7, 2015 THE FEDERAL GOVERNMENT RECEIVED **6.3 BILLION DOLLARS** FROM THE 2015 HEDGING PROGRAM.
- ✓ FOR **2016**, THE FEDERAL GOVERNMENT **HEDGED OIL REVENUES AT 49 DPB** AND RESERVED AN ADDITIONAL 3.2 BILLION PESOS TO HEDGE THE REMAINING 1 DPB. THUS, OIL REVENUES ARE HEDGED AT 50 DPB AS APPROVED IN THE FEDERAL INCOME LAW.
 - THE **CURRENT PRICE OF THE MEXICAN OIL MIX IS 25.6 DPB.**



* FUTURES WERE COMPUTED USING WTI FUTURE PRICES ADJUSTED FOR THE MEXICAN MIX DIFFERENTIAL.

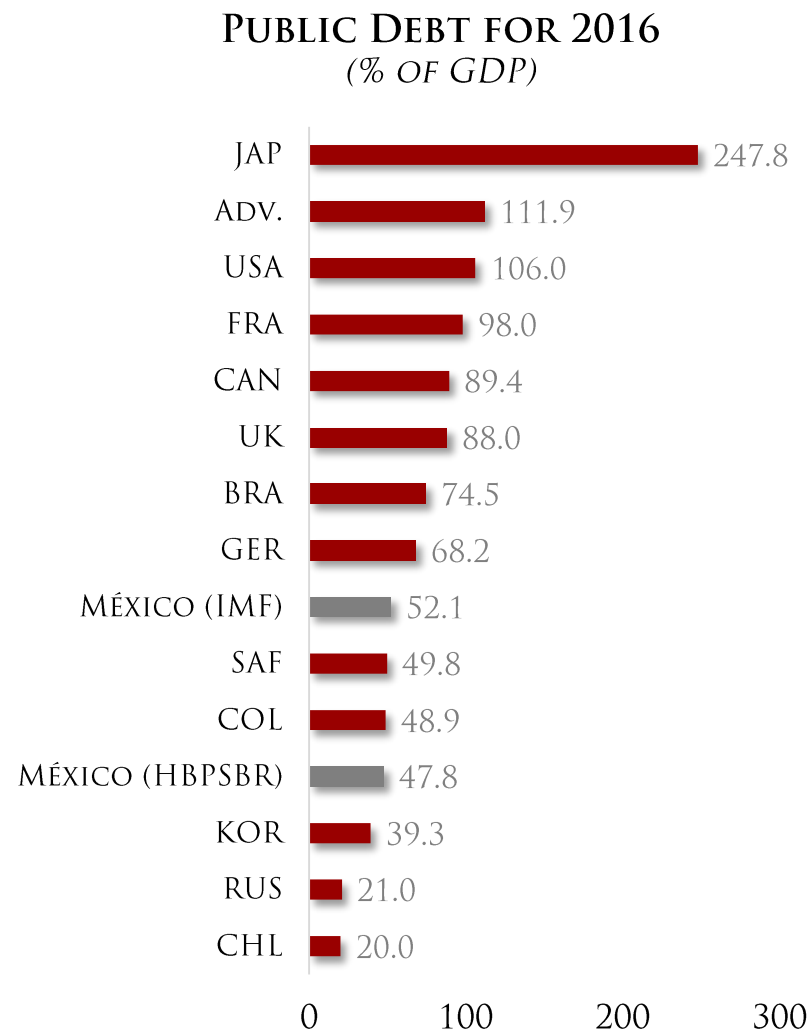
⁽¹⁾ IN 2015, THE FEDERAL GOVERNMENT ACQUIRED PUT OPTIONS AT AN AVERAGE PRICE OF 76.4 DPB AND ADDITIONALLY RESERVED 7.9 BILLION PESOS ON A SPECIAL ACCOUNT WITHIN THE FEIP TO HEDGE THE REMAINING 2.6 DPB.

⁽²⁾ IN 2016, THE FEDERAL GOVERNMENT ACQUIRED PUT OPTIONS AT AN AVERAGE PRICE OF 49 DPB AND ADDITIONALLY RESERVED 3.2 BILLION PESOS TO HEDGE THE REMAINING 1 DPB.

THE PROPOSED DEFICIT REDUCTION WILL STABILIZE THE DEBT-TO-GDP RATIO. THE HBPSBR IS EXPECTED TO STABILIZE AROUND 47.8% OF GDP IN 2016 AND 2017 AND TO DECREASE AFTERWARDS.

MEXICO HAS A **STRONG AND PRUDENT PUBLIC DEBT MANAGEMENT** BASED ON RISK DIVERSIFICATION AND SUSTAINABILITY.

- ✓ **LOW DEBT LEVEL** THAT COMPARES FAVORABLY VERSUS OTHER ECONOMIES.
 - **47.8%** OF GDP FOR 2016.^{1/}
- ✓ **LOW INTEREST RATE RISK.**
 - **83.3%** OF DOMESTIC DEBT IS COMPOSED OF FIXED RATE AND LONG TERM INSTRUMENTS (7.9 YEARS AVERAGE).^{2/}
- ✓ **LOW EXCHANGE RATE RISK.**
 - **77%** OF THE FEDERAL GOVERNMENT'S TOTAL NET DEBT IS DENOMINATED IN PESOS.^{2/}



1/ ESTIMATED. SOURCE: CGPE 2016.

2/ FIGURES AS OF DECEMBER 2015. SOURCE: SHCP.

SOURCE: FISCAL MONITOR, OCTOBER 2015.
HBPSBR = HISTORICAL BALANCE OF PUBLIC SECTOR BORROWING REQUIREMENTS (ECONOMIC PACKAGE 2016).

1

ON FEBRUARY 16, 2016, THE FEDERAL GOVERNMENT ISSUED TWO BONDS IN EUROS, FOR A TOTAL OF 2.5 BILLION, AND A DUE TERM OF 6 AND 15 YEARS RESPECTIVELY.

✓ REAFFIRMS **INVESTOR CONFIDENCE** IN MEXICO.

- PARTICIPATION FROM MORE THAN 280 INTERNATIONAL INVESTORS.
- DEMAND OF 4.4 BILLION EUROS, ALMOST TWICE THE AMOUNT PLACED.

✓ PLACEMENT UNDER **FAVORABLE CONDITIONS**.

- INTEREST RATES NEAR THE HISTORICAL MINIMUM.
- COVERS 80% OF THE FED. GOVT.'S EXTERNAL FINANCING NEEDS FOR 2016.

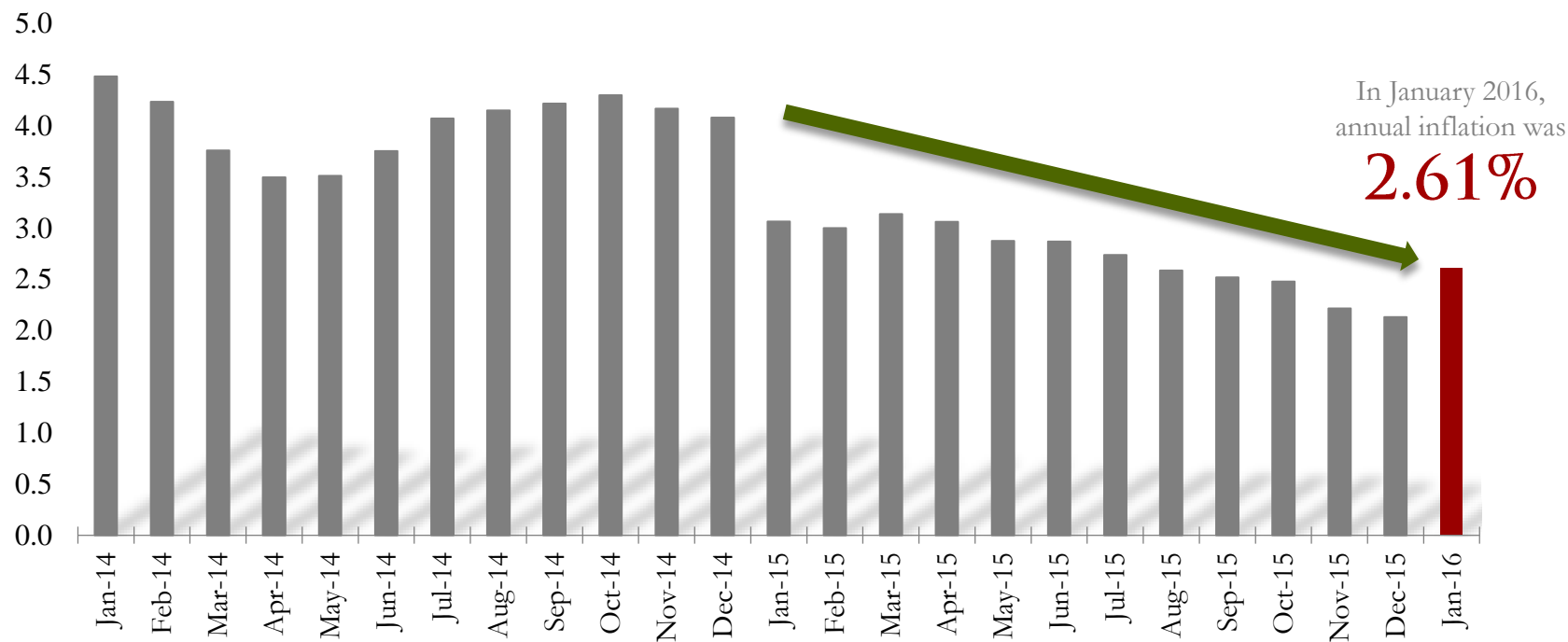
ISSUANCES BY THE FEDERAL GOVERNMENT IN 2015 AND 2016

CURRENCY	DATE	TERM (YEARS)	COUPON	YIELD	AMOUNT (MILLIONS)	DEMAND
USD	ENE, 2015	10	3.600%	3.56%	USD 1,000	3.5X
	ENE, 2015	30	4.600%	4.601%	USD 3,000	2.3X
EUR	MAR, 2015	9	1.625%	1.687%	EUR 1,250	4.0X
	MAR, 2015	30	3.000%	3.093%	EUR 1,250	3.0X
EUR	ABR, 2015	100	4.000%	4.20%	EUR 1,500	4.2X
USD	ENE, 2016	10	4.125%	4.165%	USD 2,250	2.9X
EUR	FEB, 2016	6	1.875%	1.985%	EUR 1,500	1.7X
	FEB, 2016	15	3.375%	3.424%	EUR 1,000	1.85X

AN INDEPENDENT CENTRAL BANK WITH A CLEAR LEGAL MANDATE TO PRESERVE PRICE STABILITY, AND A FAST-PACED IMPLEMENTATION OF THE STRUCTURAL REFORMS, HAVE RESULTED IN HISTORICALLY LOW INFLATION.

- ✓ DECREASE IN ELECTRICITY RATES.
- ✓ DECREASE IN TELEPHONE RATES.
- ✓ NEW POLICY FOR GASOLINE PRICES SINCE 2015.

CONSUMER PRICE INDEX
(ANNUAL CHANGE, %)



Source: INEGI.

1

DURING YEARS OF AMPLE LIQUIDITY IN INTERNATIONAL FINANCIAL MARKETS, MEXICO BUILT BUFFERS TO MANAGE VOLATILITY IN INTERNATIONAL FINANCIAL MARKETS.

FLEXIBLE CREDIT LINE (FCL)

- ✓ THE FCL IS A RECOGNITION FROM INTERNATIONAL ORGANIZATIONS OF THE STRENGTH OF THE MEXICAN ECONOMY.

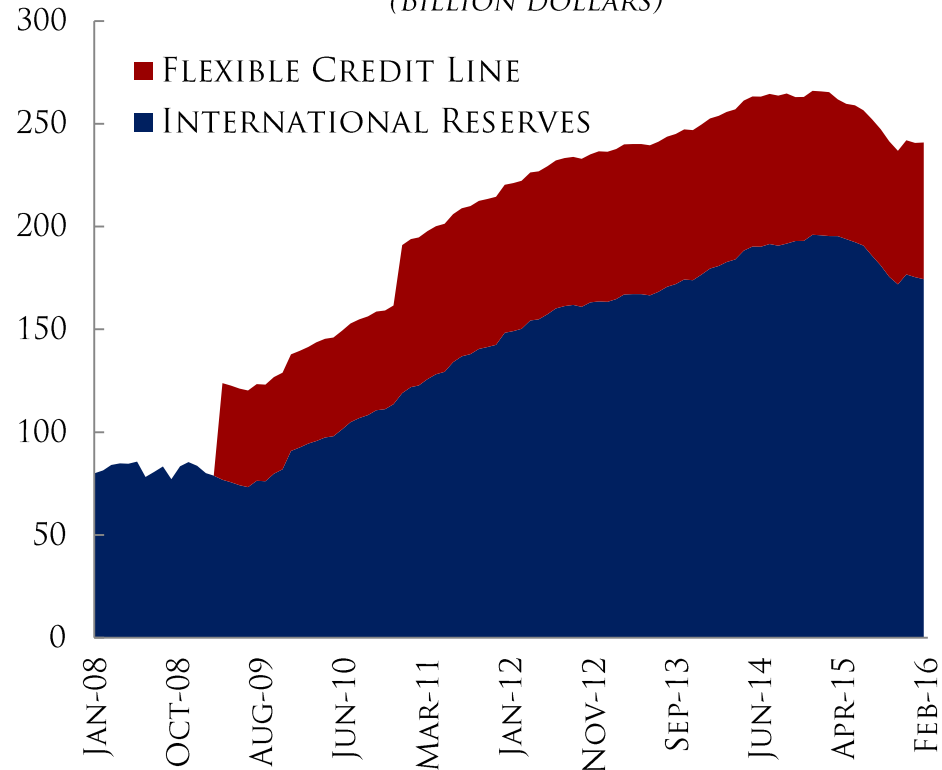
*“Mexico’s economy has shown **resilience** over the last year in a complex environment [...] This resilience reflects Mexico’s track record of prudent macroeconomic policies in the context of a strong policy framework.”*
– IMF*

- ✓ ONLY **3 COUNTRIES** HAVE RECEIVED THIS RECOGNITION (MEXICO, POLAND AND COLOMBIA).

INTERNATIONAL RESERVES

174 BN DOLLARS AS OF
FEBRUARY 12, 2016.

INTERNATIONAL RESERVES AND THE FCL
(BILLION DOLLARS)

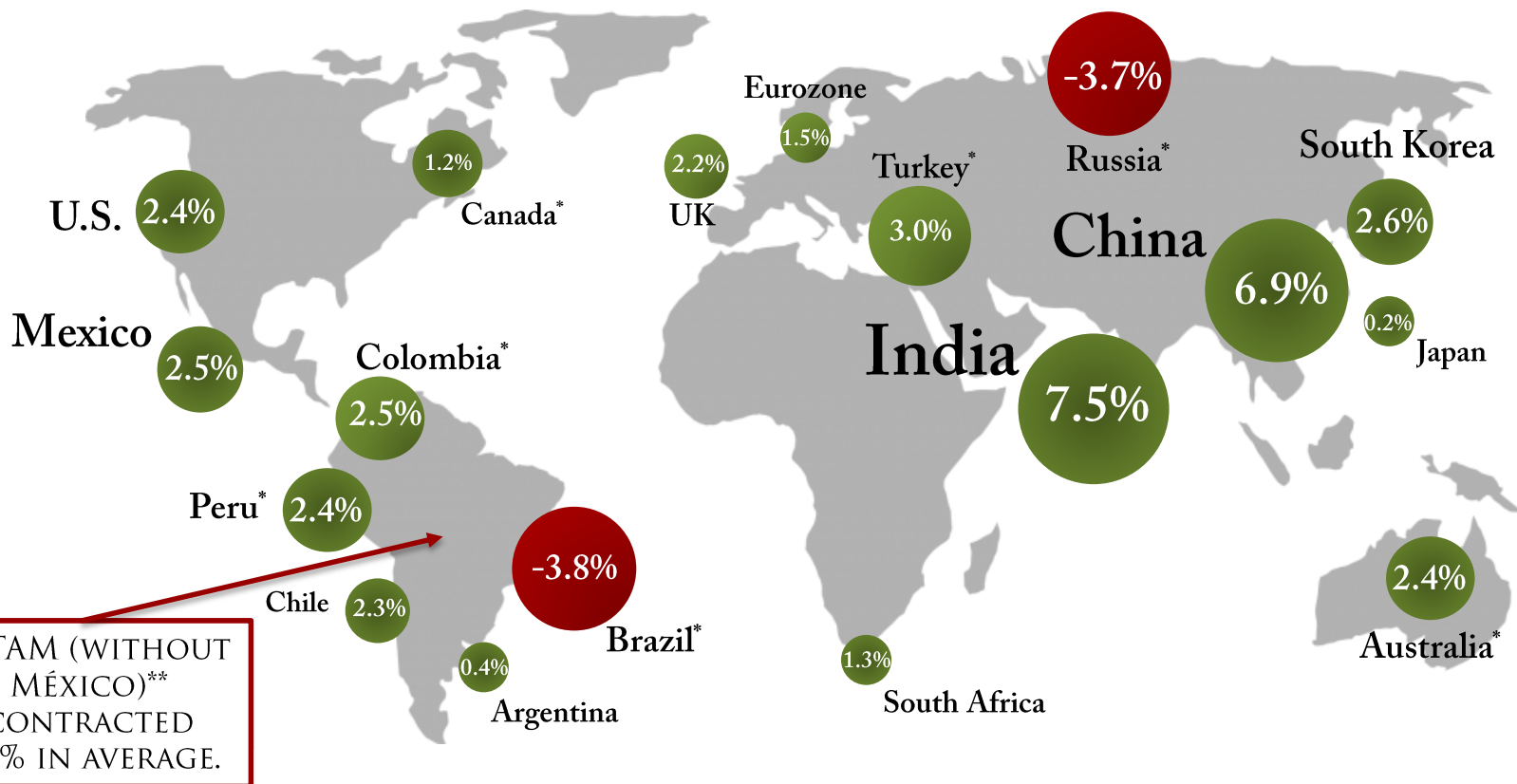


240 BN DOLLARS TO
FACE INTERNATIONAL
VOLATILITY

2

MEXICO IS GROWING FASTER THAN IN PREVIOUS YEARS, AND FASTER THAN LATIN AMERICA'S MAIN ECONOMIES AND SOME ADVANCED ECONOMIES.

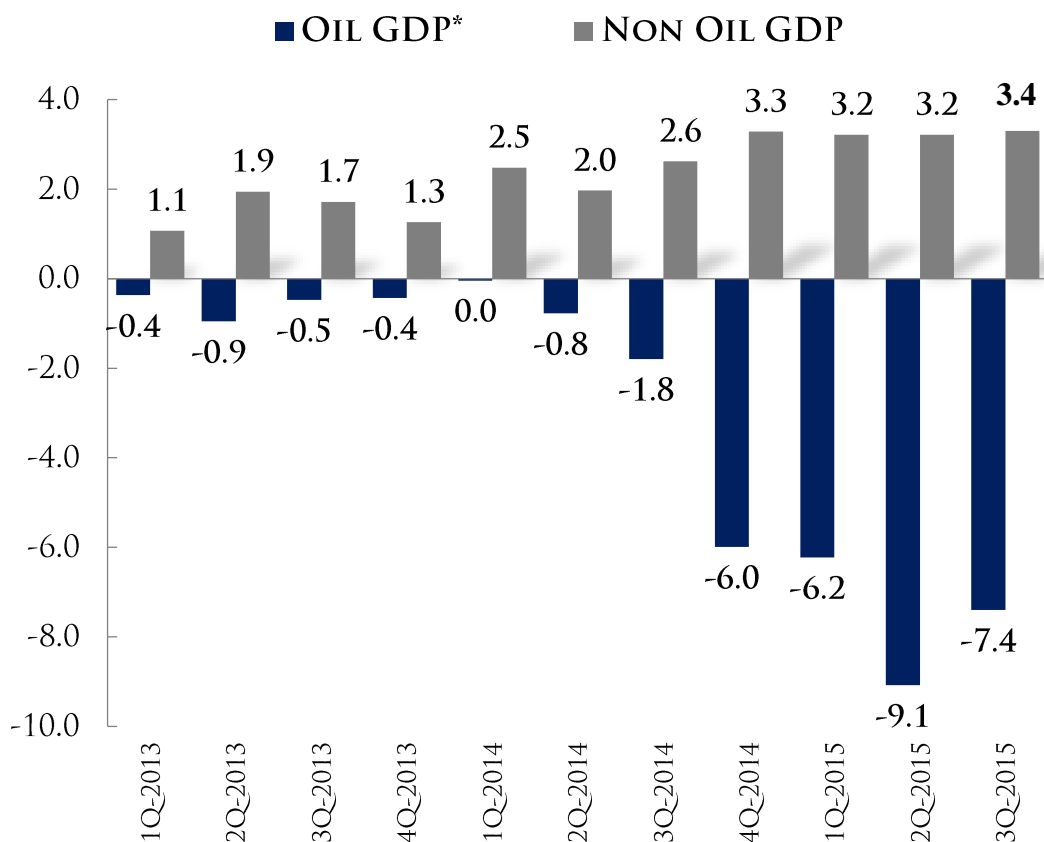
REAL GDP GROWTH IN 2015 OBSERVED OR IMF ESTIMATES (*)



SOURCE: BLOOMBERG. * IMF ESTIMATES. **INCLUDES: ARGENTINA, BOLIVIA, BRAZIL, CHILE, COLOMBIA, COSTA RICA, DOMINICAN REPUBLIC, ECUADOR, EL SALVADOR, GUATEMALA, HONDURAS, JAMAICA, NICARAGUA, PANAMA, PARAGUAY, PERU, URUGUAY AND VENEZUELA.

EXCLUDING THE OIL SECTOR, THE MEXICAN ECONOMY HAS GROWN AT A RATE OF OVER 3% SINCE THE END OF 2014.

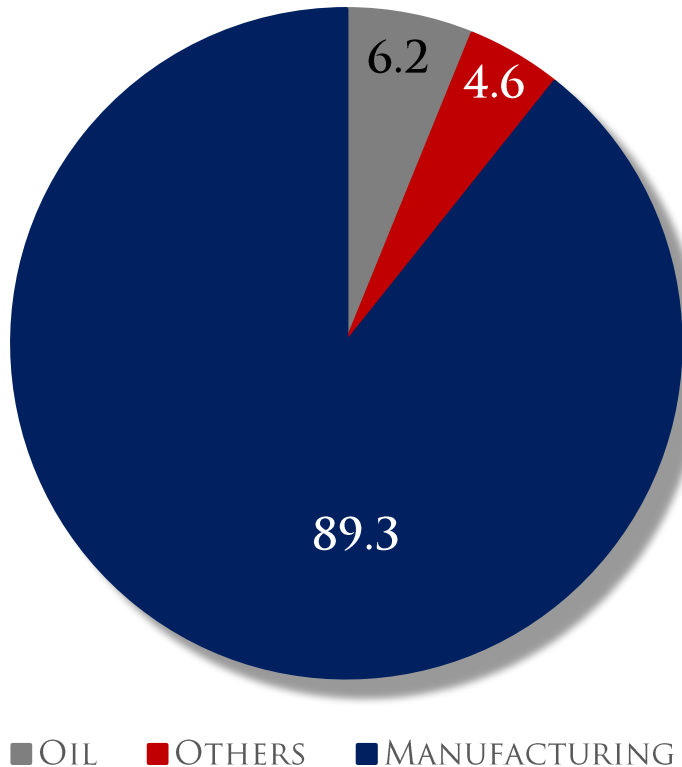
OIL AND NON-OIL GDP (ANNUAL GROWTH, %)



- OVER THE LAST YEARS THE MEXICAN ECONOMY HAS **REDUCED ITS DEPENDENCE** ON THE OIL INDUSTRY.
- OIL ACTIVITIES CONTRIBUTE WITH ONLY **6.4% OF GDP**.

THE MEXICAN ECONOMY IS INTEGRATED TO INTERNATIONAL MARKETS AND ITS EXPORTS ARE MOSTLY MANUFACTURING PRODUCTS.

MEXICAN EXPORTS, 2015
(% OF TOTAL)



- OIL EXPORTS ACCOUNT FOR ONLY **6.2%** OF TOTAL EXPORTS.

MEXICO'S GROWTH HAS BEEN DRIVEN MOSTLY BY DOMESTIC CONSUMPTION.



IN 2015, VEHICLES SALES GREW **19.0%**, THE HIGHEST LEVEL SINCE 2000. IN JANUARY 2016, VEHICLES SALES GREW **15.4%**.



TOTAL DEPARTMENT STORE SALES (ANTAD) IN 2015 INCREASED **7.4%** ANNUALLY IN REAL TERMS. IN JANUARY 2016, TOTAL STORE SALES GREW **8.8%**, THE HIGHEST INCREASE FOR THIS MONTH SINCE 2007.



BETWEEN JANUARY AND NOVEMBER 2015, REVENUES IN THE SERVICES SECTOR GREW **8.1%** ANNUALLY IN REAL TERMS, THE HIGHEST INCREASE FOR THIS PERIOD ON RECORD.

A FULL AND FAST-PACED IMPLEMENTATION OF THE STRUCTURAL REFORMS IS STRENGTHENING THE PERFORMANCE OF KEY SECTORS IN THE MEXICAN ECONOMY.



ENERGY



TELECOMM



FINANCIAL



ANTITRUST



FISCAL



LABOR



EDUCATION

THE ENERGY REFORM HAS HELPED REDUCE ELECTRICITY COSTS AND BOOST INVESTMENT OPPORTUNITIES.

LOWER ENERGY COSTS



↓ **3%** IN THE PRICES OF GASOLINE AND DIESEL FOR THE FIRST TIME IN MEXICO SINCE 1991



LOWER ELECTRICITY RATES

- ↓ **16.6%** HIGH VOLTAGE RATES
- ↓ **11.8%** MEDIUM VOLTAGE RATES
- ↓ **4.7%** COMMERCIAL VOLTAGE RATES
- ↓ **4.0%** DOMESTIC VOLTAGE RATE

HIGHER INVESTMENT



6.9 BN DOLLARS

ESTIMATED INVESTMENT AS A RESULT OF THE 3 BIDDING PHASES OF ROUND ONE



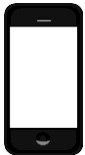
5,159 KM OF NEW PIPELINES IN THE 5YR NATIONAL INFRASTRUCTURE PLAN

THE **TELECOMM REFORM** HAS HELPED REDUCE TELEPHONE RATES AND BOOST INVESTMENT IN THE SECTOR.

LOWER TELECOMM COSTS



↓ **40.7%** INTERNATIONAL
LONG DISTANCE CALL
RATES



↓ **16.8%** MOBILE PHONE
RATES



↓ **4.2%** LANDLINE
PHONE RATES

HIGHER INVESTMENT



7.4 BILLION
DOLLARS



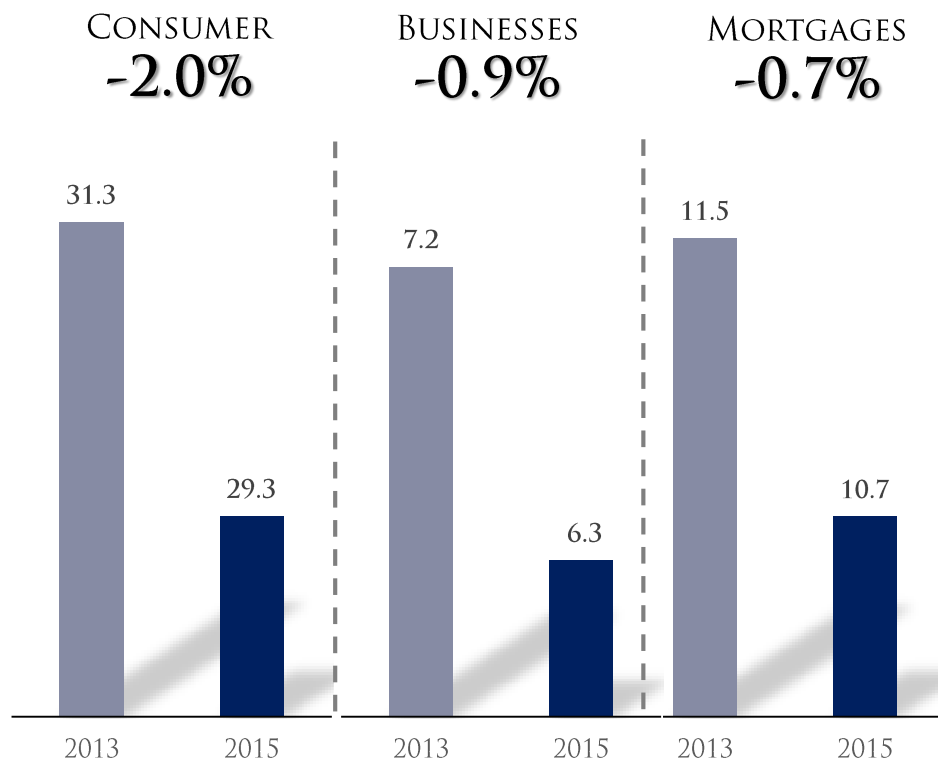
831
MILLION
DOLLARS



45 MILLION
DOLLARS

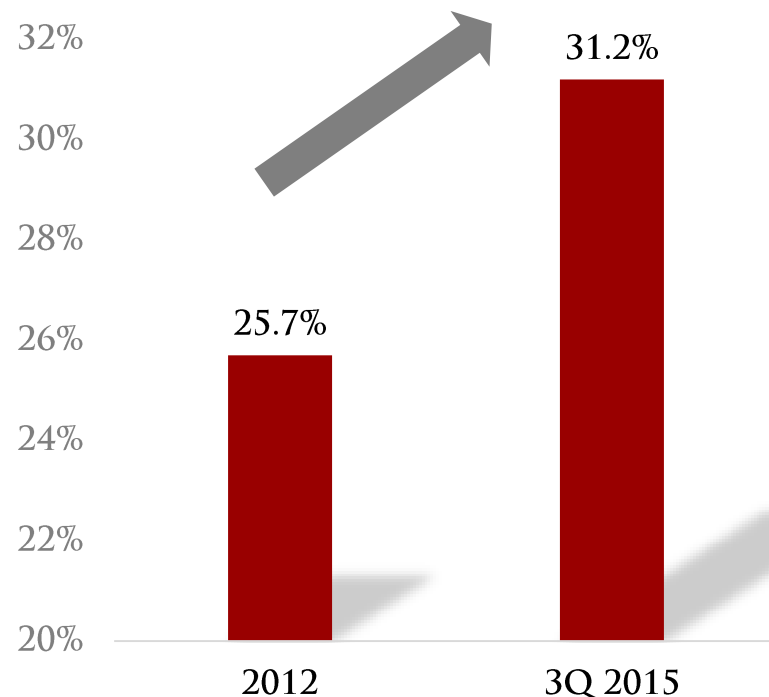
THE **FINANCIAL REFORM** HAS INCREASED COMPETITION, FOSTERING CREDIT FOR HOUSEHOLDS AND FIRMS AT LOWER COSTS.

- ✓ **INTEREST RATES ON CONSUMER LOANS, COMMERCIAL CREDIT AND MORTGAGES HAVE DECREASED.**

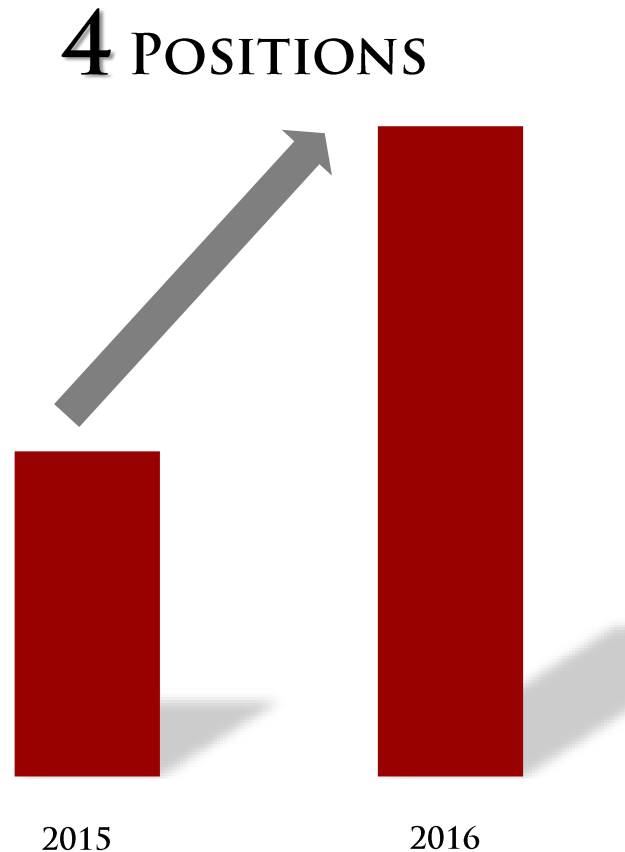


APPLICABLE INTEREST RATES (%)

- INCREASE ON PRIVATE SECTOR CREDIT**
(5.5 PP OF GDP)



DUE TO ITS REFORMS, MEXICO ADVANCED **4 POSITIONS** IN THE WORLD ECONOMIC FORUM'S GLOBAL COMPETITIVENESS INDEX.



↑ **17** POSITIONS IN FINANCIAL MARKET DEVELOPMENT



↑ **6** POSITIONS IN INFRASTRUCTURE AND TECHNOLOGICAL READINESS



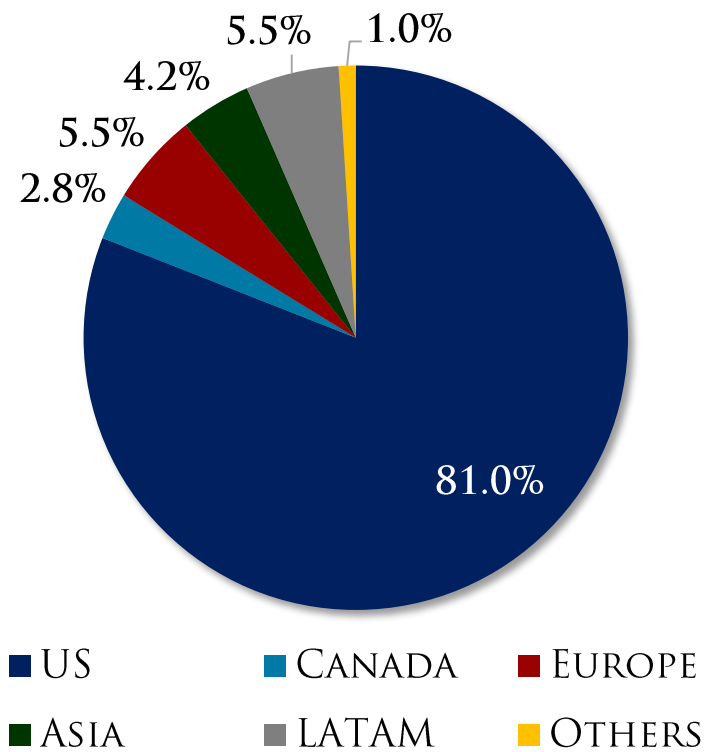
↑ **4** POSITIONS IN GOODS MARKET EFFICIENCY

GLOBAL COMPETITIVENESS INDEX

THROUGH NAFTA, MEXICO HAS INTEGRATED ITS ECONOMY WITH THE US AND CANADA.

- NAFTA REPRESENTS A GDP OF 20.5 TRILLION DOLLARS; THUS, JUST OVER **26%** OF THE WORLD'S GDP.
- FROM 1993 TO 2014, MEXICAN EXPORTS TO NORTH AMERICA GREW BY MORE THAN **600%**.
- MEXICO IS THE **THIRD** MOST IMPORTANT SUPPLIER TO THE UNITED STATES AND ITS **SECOND** MOST IMPORTANT CUSTOMER.
- MEXICO AND THE US MAINTAIN A HIGHLY INTEGRATED PRODUCTION CHAIN: **40%** OF THE CONTENT OF MEXICAN EXPORTS TO THE UNITED STATES WAS ORIGINALLY MANUFACTURED IN THE UNITED STATES.

MEXICAN EXPORTS BY DESTINATION
(% OF TOTAL)



3

NORTH AMERICA IS ONE OF THE MOST COMPETITIVE REGIONS IN THE WORLD, WITH GREAT PROSPECTS FOR GROWTH AND DEVELOPMENT.

1

NORTH AMERICA HAS BECOME ONE OF THE MOST **INTEGRATED AND INTERDEPENDENT** REGIONS IN THE WORLD; BRINGING MARKETS, COMPANIES AND PEOPLE CLOSER THAN EVER.

2

TECHNOLOGY AND INVESTMENT IN THE ENERGY SECTOR ARE PROVIDING **LOW-COST ENERGY** TO FUEL ECONOMIC GROWTH.




3

NORTH AMERICA'S ECONOMIES HAVE A GREAT DEGREE OF **COMPLEMENTARITY**, SPURRING THE CREATION OF VALUE CHAINS AND FOSTERING GROWTH ACROSS INDUSTRIES AND ECONOMIC SECTORS.

4

NORTH AMERICA IS ALREADY ONE OF THE **MOST DYNAMIC REGIONS** IN THE WORLD, AND ECONOMIC GROWTH IS EXPECTED TO OUTPACE OTHER REGIONS IN THE NEAR FUTURE.

WHAT CAN YOU EXPECT FROM MEXICO'S ECONOMIC POLICY?

-  DISCIPLINE AND CONSISTENCY IN FISCAL AND MONETARY POLICIES.
-  THOROUGH IMPLEMENTATION OF STRUCTURAL REFORMS.
-  ACTIVE COMMUNICATION WITH THE PRIVATE SECTOR.



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