

Ministry of Finance and Public Credit



Economic Outlook and Economic Program for 2010

November 2009

We have adopted a two tier strategy to promote macroeconomic stability and growth, as was announced by President Calderon on the 2nd of September:

- Tier 1: A process of fiscal consolidation, which is a necessary condition for higher growth
 - Tier 2: An acceleration of the structural reform agenda to support the economic recovery that is already in place and to increase medium term growth
- Significant progress has been achieved on both accounts

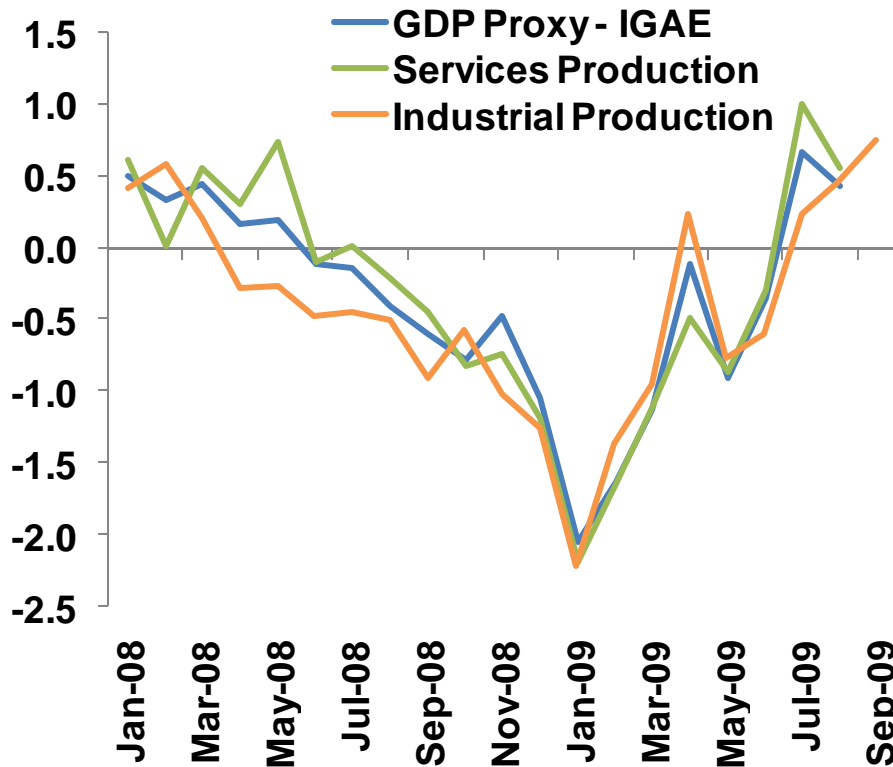
The Mexican economy is expected to experience high positive growth during the second half of 2009 and an expansion of 3% in 2010.

- Available information of the second half of 2009 indicates that both external and domestic demand are expanding.
- Indicators of production of all sectors of economic activity and of employment indicate positive growth in the second half of 2009.
- The recovery is being driven both by the global recovery and by an improvement in domestic confidence.

The increase in demand has translated into a recovery in all productive sectors and the creation of 206 thousand jobs from May to October

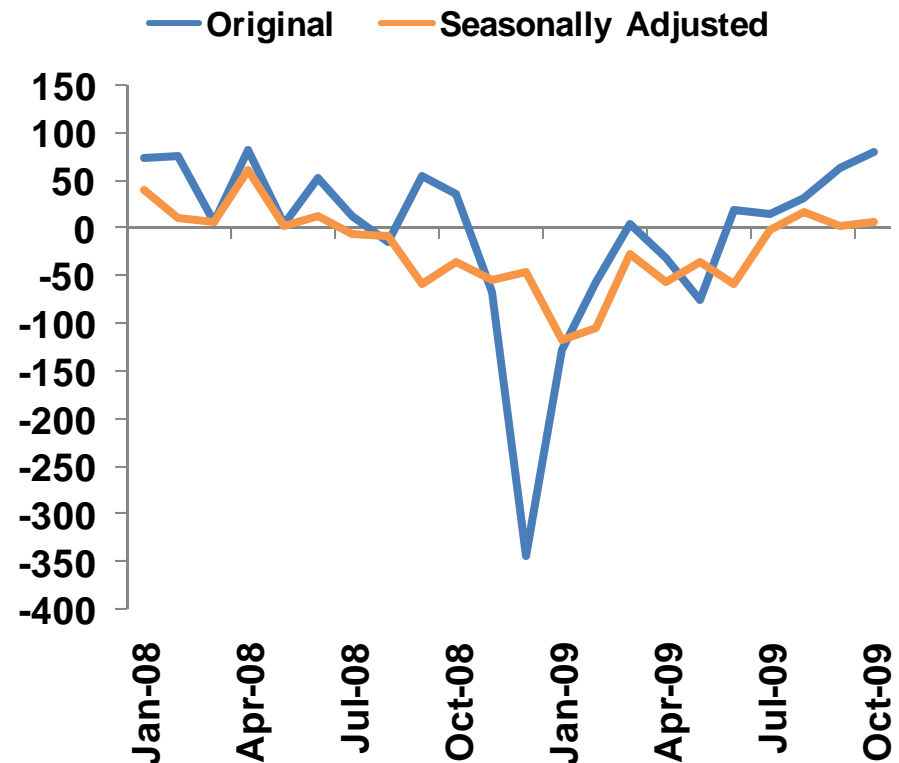
Production

(monthly growth rate, 3 mth mvg avg, %)

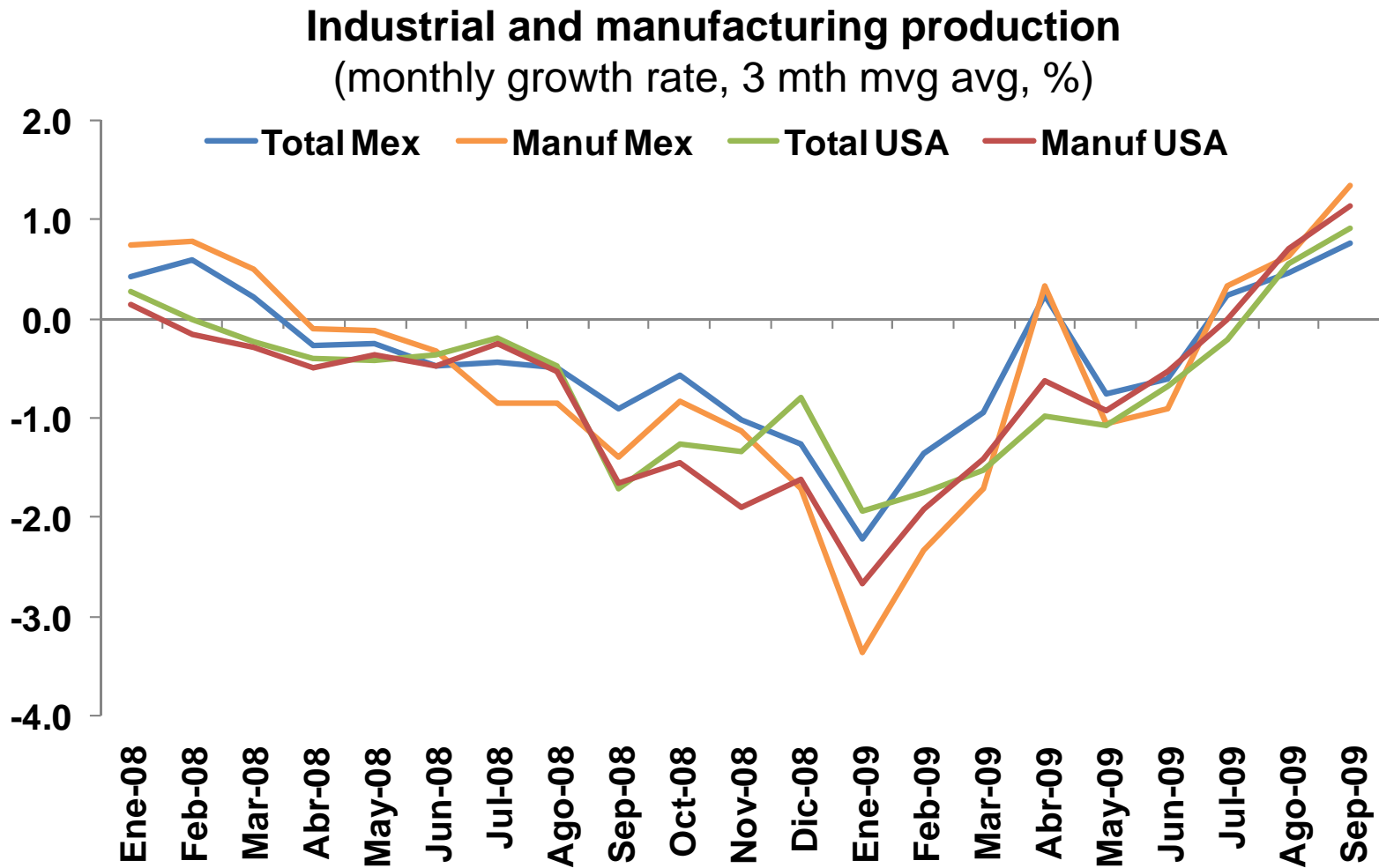


Employment

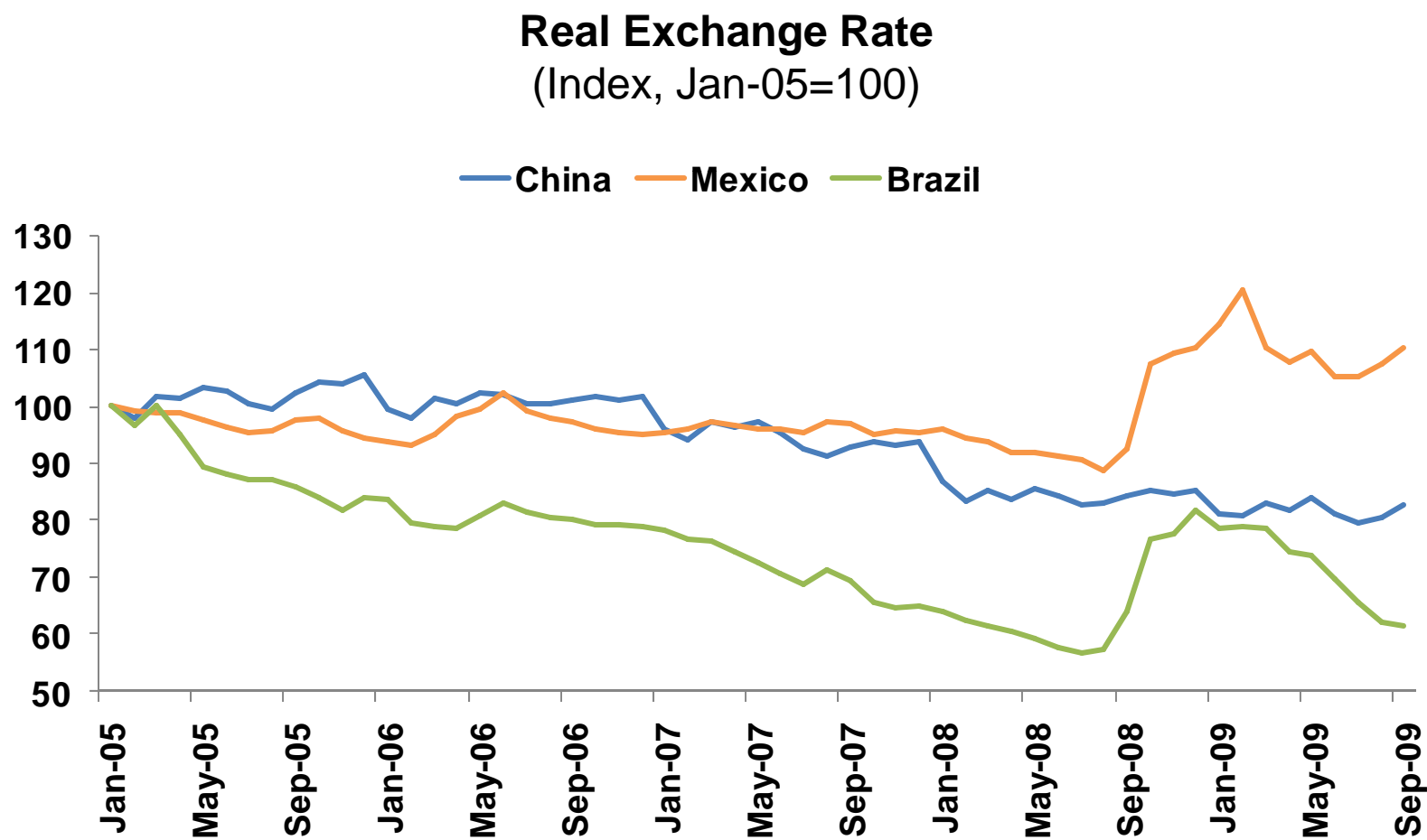
(monthly growth rate, thousands)



The recovery in industrial and manufacturing production is being driven by that in the US:



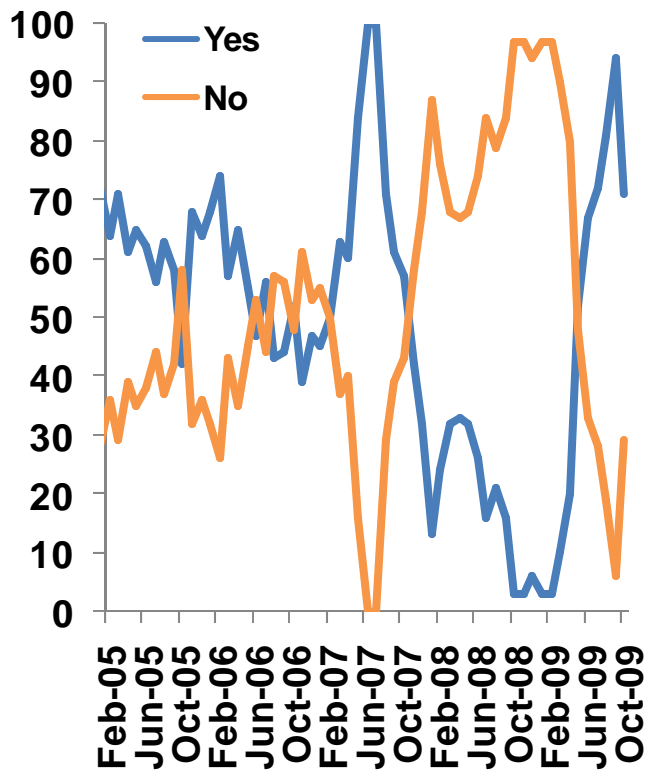
The depreciation of the real exchange rate should contribute to a faster recovery in the tradable goods sector.



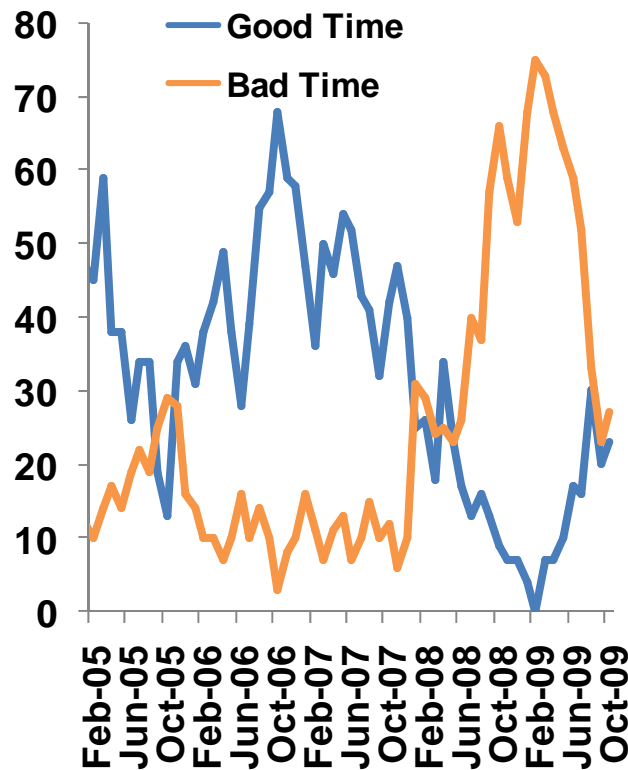


Producer and Consumer confidence have staged a rebound.

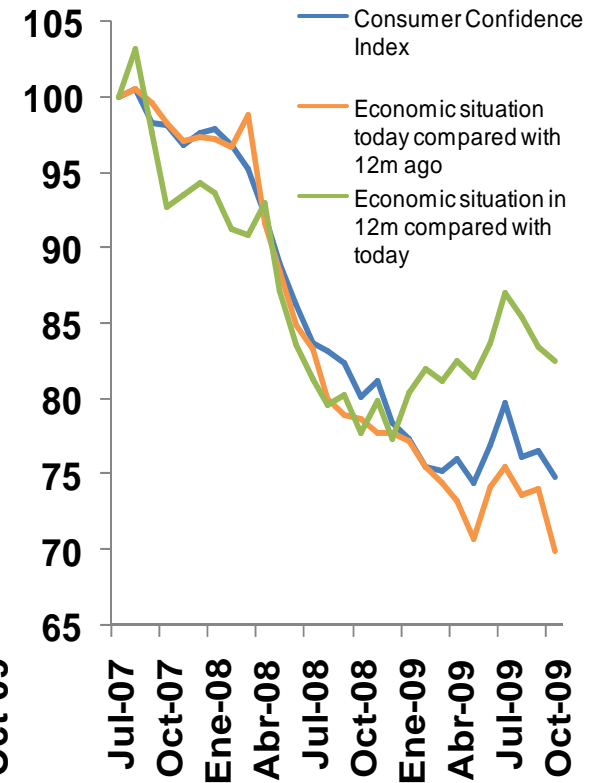
Confidence Indicator: Will the economic evolution be favorable in the next six months?
(percentage of answers)



Confidence Indicator: Given the current economic situation, is it a good or bad time to invest?
(percentage of answers)



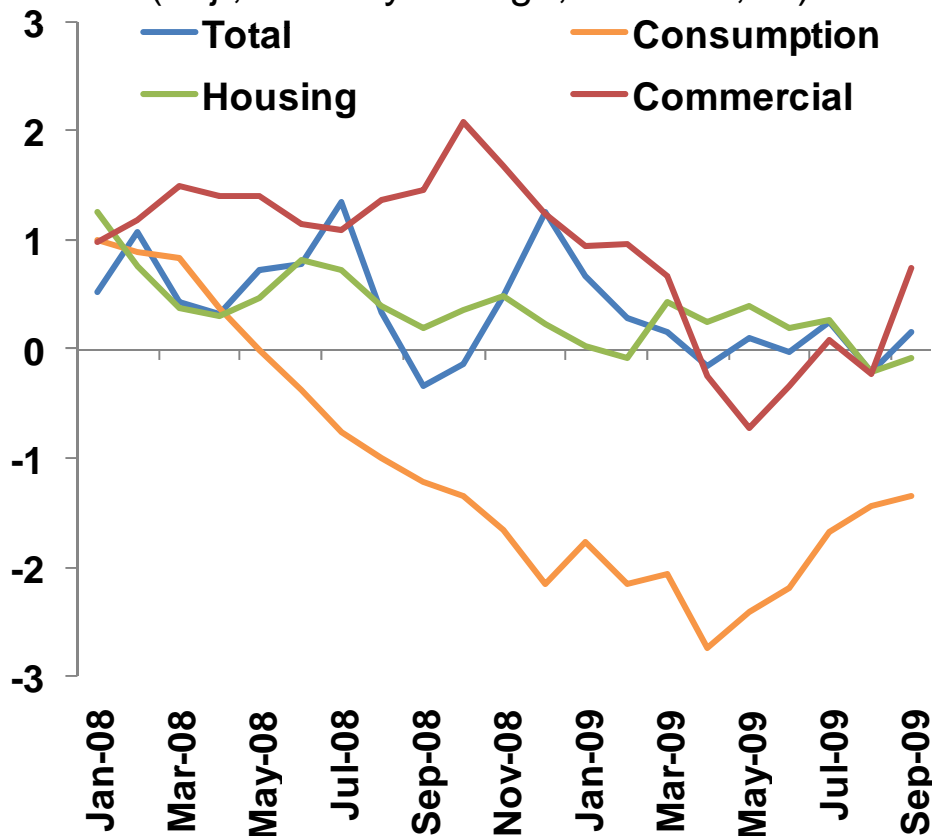
Consumer Confidence Index
(Index, Jul-07=100)



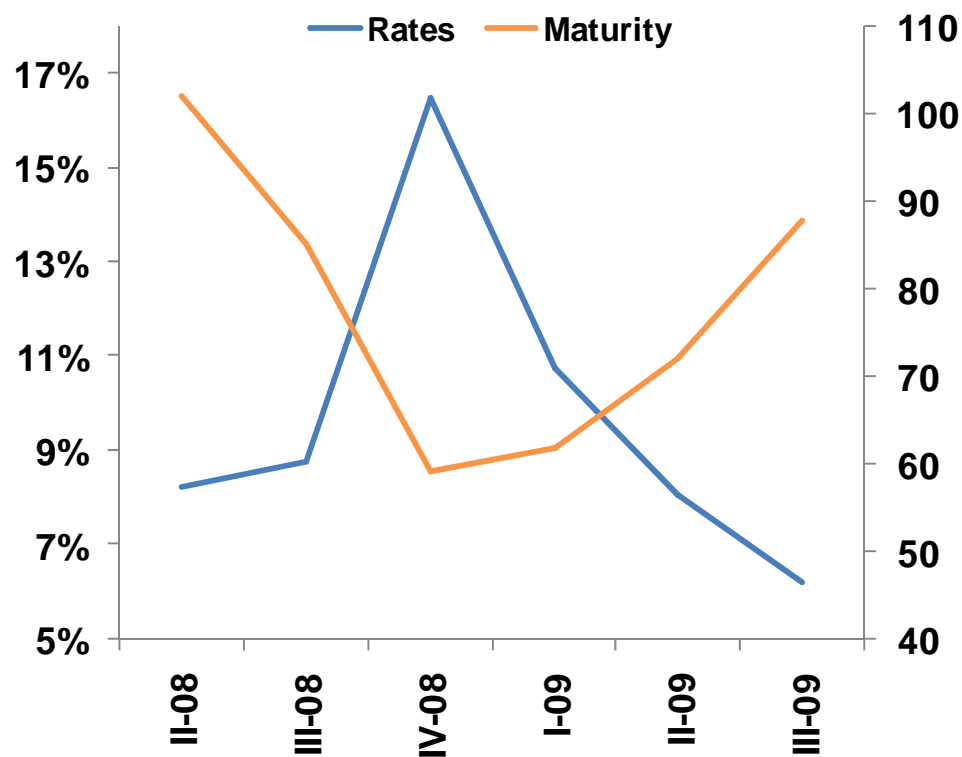
In domestic markets, the trend in credit growth has changed, especially for consumption credit, and the conditions for debt issuance by corporates have improved. Starting in July, Mexican corporates have accessed international capital markets for 2,780 million dollars.

Commercial and Development Banks' Credit to the Private Sector

(adj., monthly change, 3m m.a., %)



Short Term Debt Issuance by Corporates (rates and maturity)



Positive annual growth of at least 3% is anticipated in 2010. The recovery next year will be driven by:

- **External side:** Growth in global industrial production.
- **Domestic side:** Improvement in consumption and investment as confidence improves, employment expands during the second half of 2009 and financial markets return to normal conditions and consumption credit goes back to positive growth rates.
- A recovery in the housing sector and infrastructure investment.
- Structural reforms such as the closing of Luz y Fuerza del Centro and higher competition in telecommunications.
- Nevertheless, there are still risks associated with the strength of the recovery in the US.

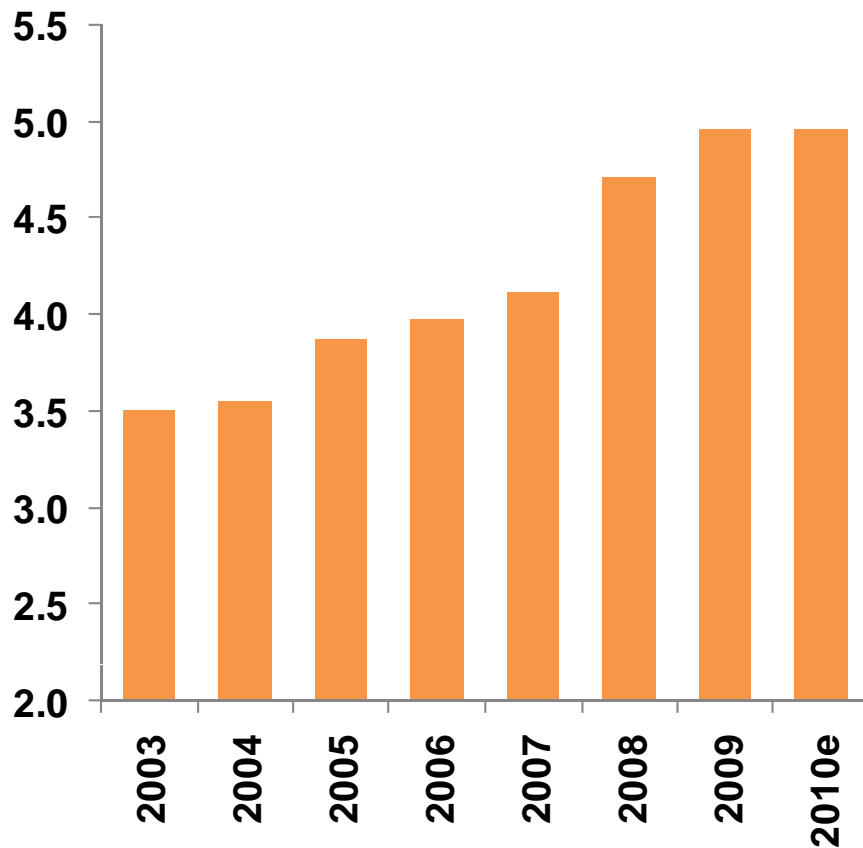
2009 – 2010 Projects



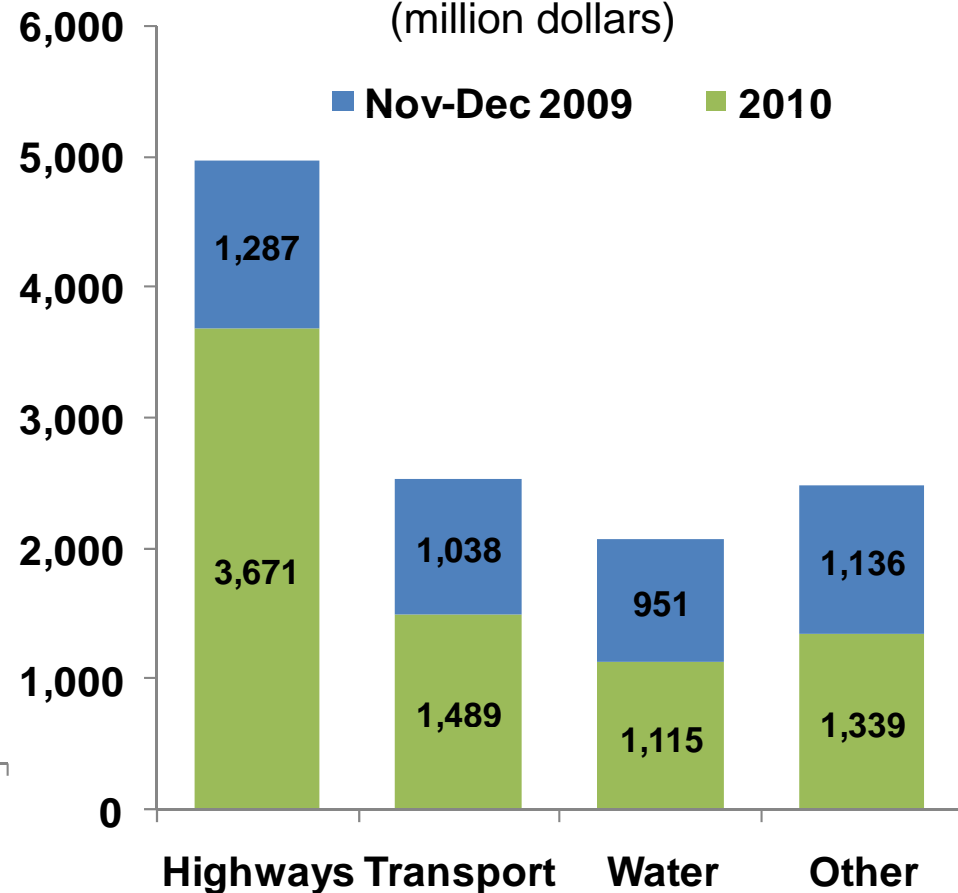
SHCP

Budgetary investment in infrastructure has increased significantly. This has been complemented by the Fonadin, which in 2009 and 2010 will promote 50 infrastructure projects in the following sectors: highway, transport, water supply, tourism among others.

Fostered Investment
(% of GDP)



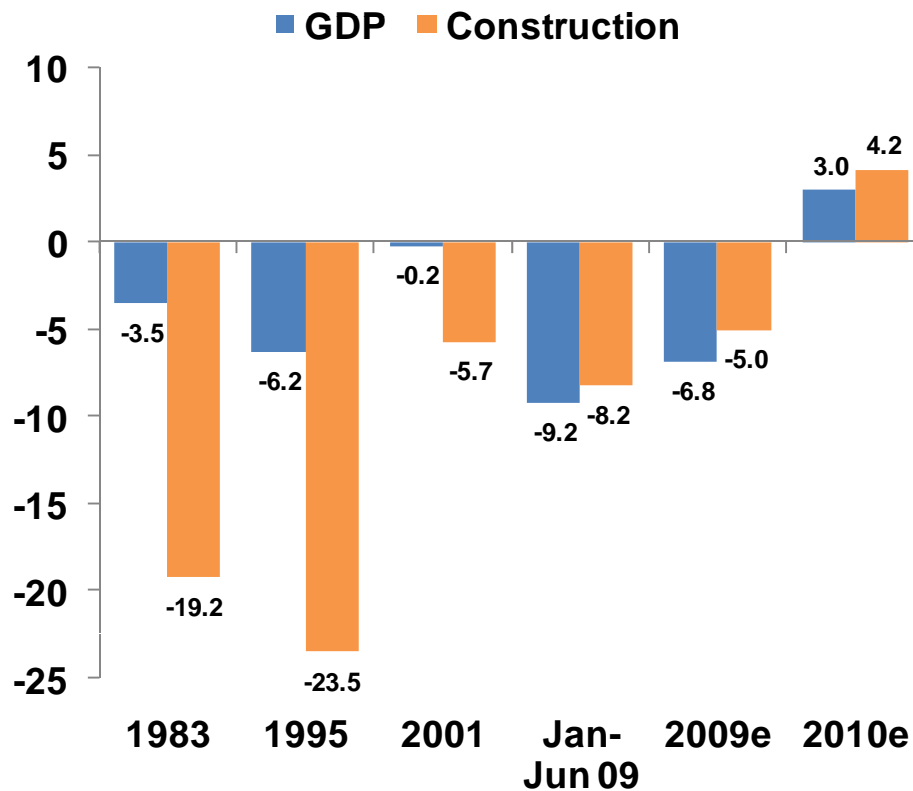
Fonadin Fostered Investment by Sector
Approved Projects, Nov-Dec. 2009 / 2010
(million dollars)



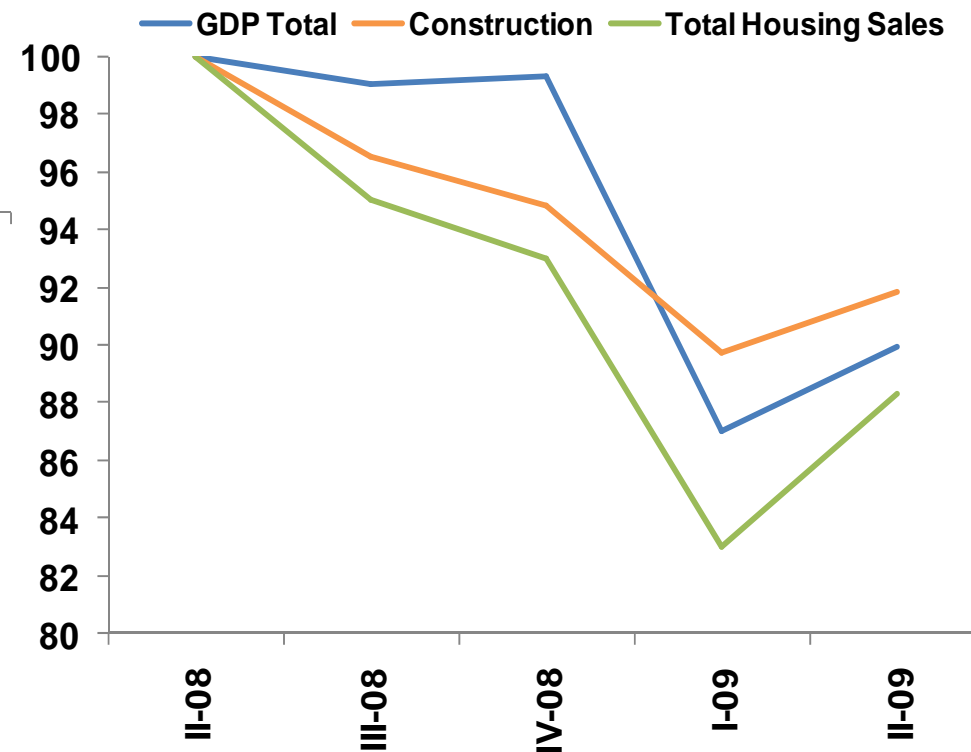
*Source: Fonadin. Exchange Rate: 13.2 MXN per USD

The construction sector has been less affected than in previous crisis, and a recovery in housing is in progress.

GDP and Construction
(annual variation, %)



GDP and Housing Sector
(Index, II-08=100)



The approved Fiscal Package together with the closing of Luz y Fuerza del Centro (LFC) represents a major adjustment in public finances.

- **Tax measures.** Revenue proposals were approved with modifications that do not imply a significant deterioration of expected additional income vis-à-vis the original proposal.
- **LFC.** The closure of LFC, unanticipated at the time that the economic package was sent, will have major implications for growth and public finances.

Within the fiscal adjustment by 1.9% of GDP, the increase in revenues due to higher non-oil tax revenues and public sector prices is equivalent to 1.4% of GDP

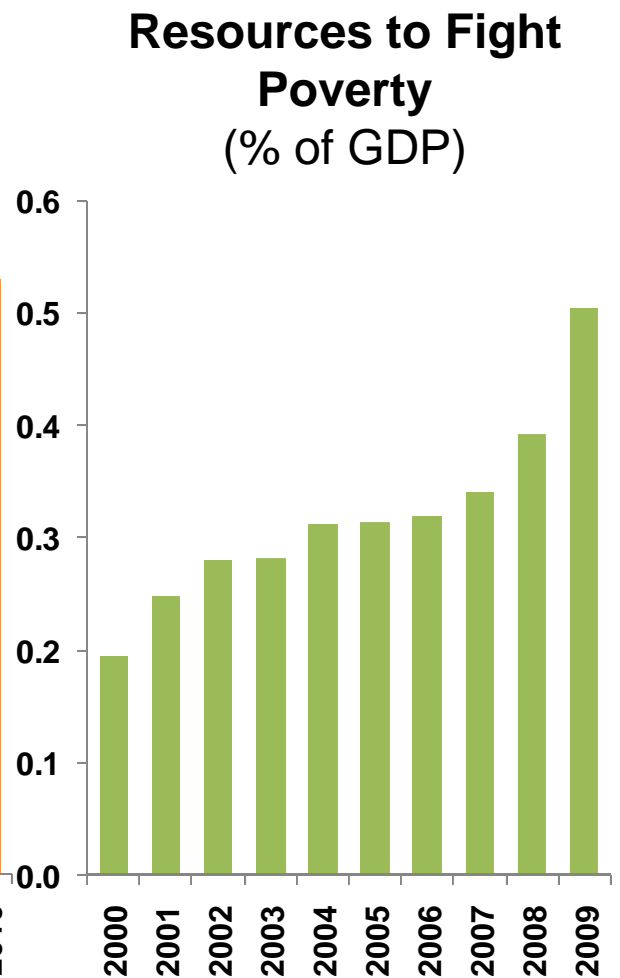
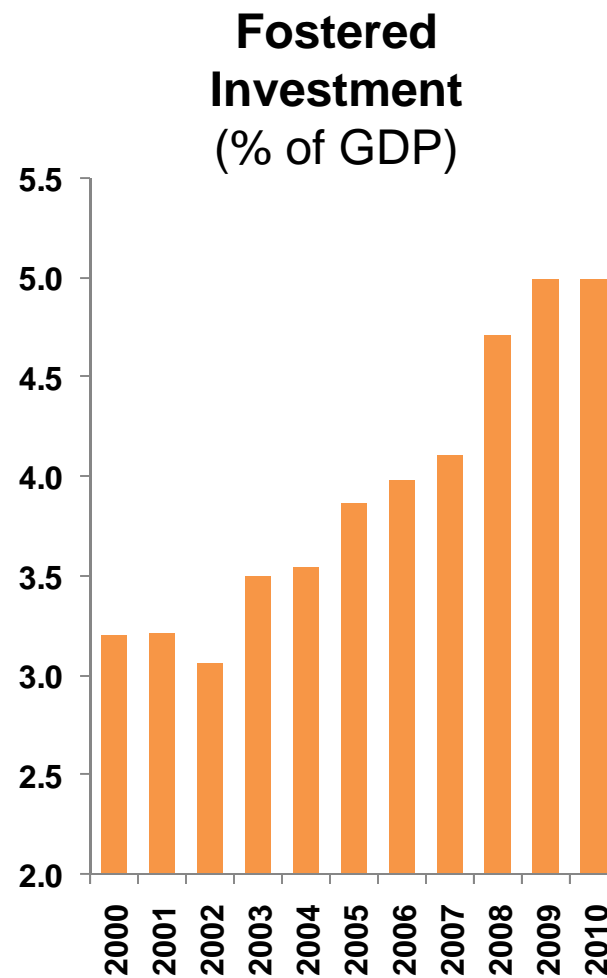
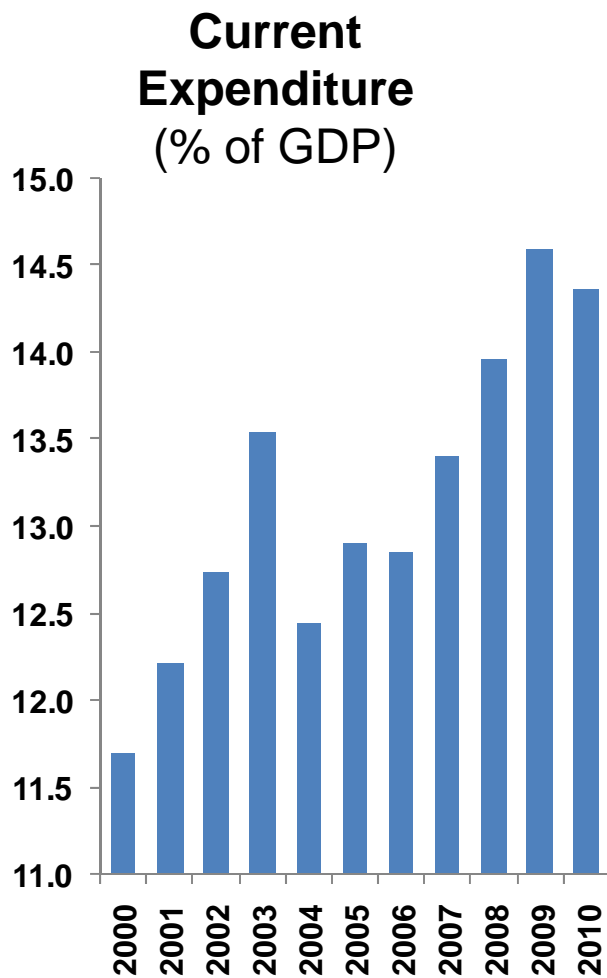
- Among the measures to increase the efficiency in tax administration are the new schemes for electronic invoicing, and the strengthening of the process for precautionary seizure of assets.

| Adjustment in Revenues and Expenditure | |
|-----------------------------------------------|------------|
| (billion pesos, Ps.) | |
| 1. Tax Measures | 116 |
| 2. Higher efficiency in tax administration | 20 |
| 3. Real increase in public sector prices | 25 |
| 4. Reduction in programmable expenditure | 70 |
| Total | 232 |
| Total (% of GDP) | 1.9 |

The closing down of Luz y Fuerza del Centro is a major structural measure on several dimensions:

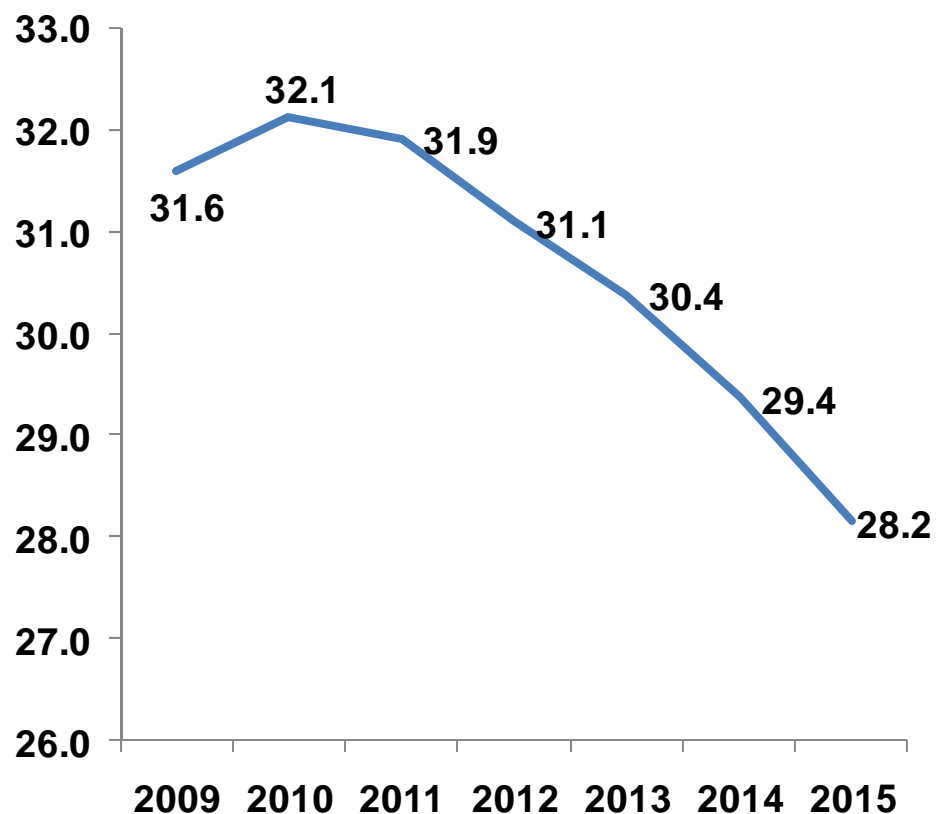
1. It will lead to higher competitiveness in the central region of the country, leading to higher investment and growth. Luz y Fuerza supplied 21% of all electricity in Mexico.
2. It implies large fiscal savings with annual flows of 0.17% of GDP in 2010, and 0.23% on average in 2011 and 2012, with a total NPV of 5% of GDP.
3. It is a clear sign that the government maintains the ability to carry out important structural reforms that previous governments were not able to undertake.
4. More than 60% of workers have already accepted their severance payment.

On the expenditure side, a significant effort was done to cut current expenditures, protect investment and increase resources to fight poverty.

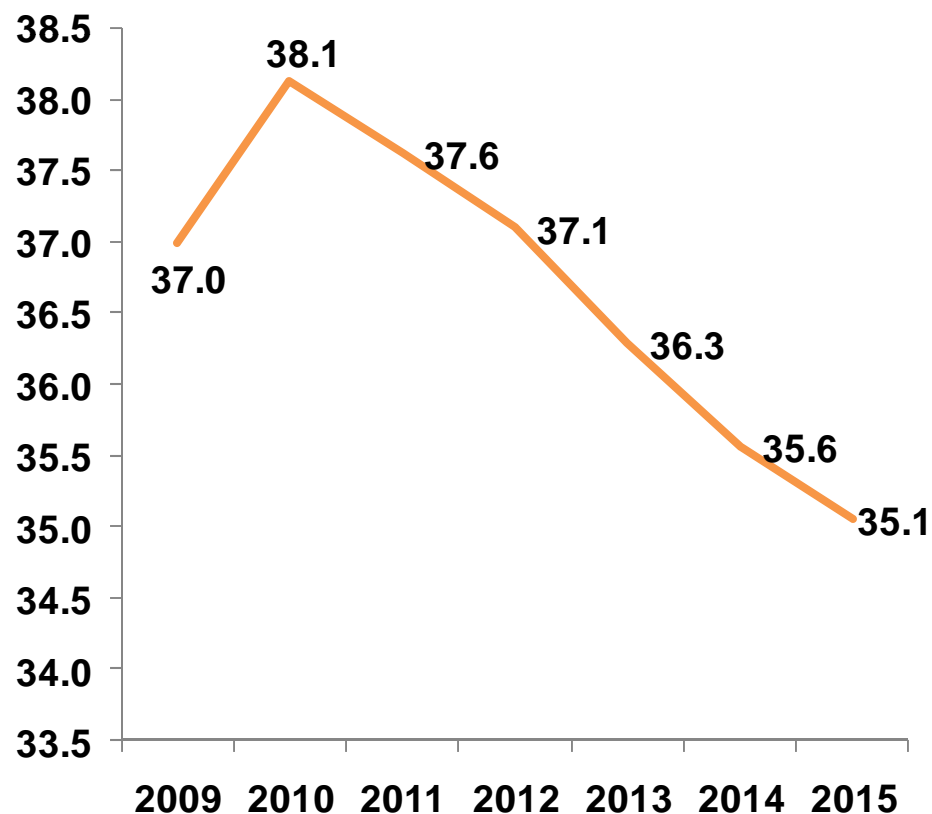


The Federal Government's debt and the Historical Balance of the PSBRs are estimated at 32.1% and 38.1% of GDP at the end of 2010, and would decline from 2011 onwards.

Public Sector Debt
(% of GDP, with proposal)

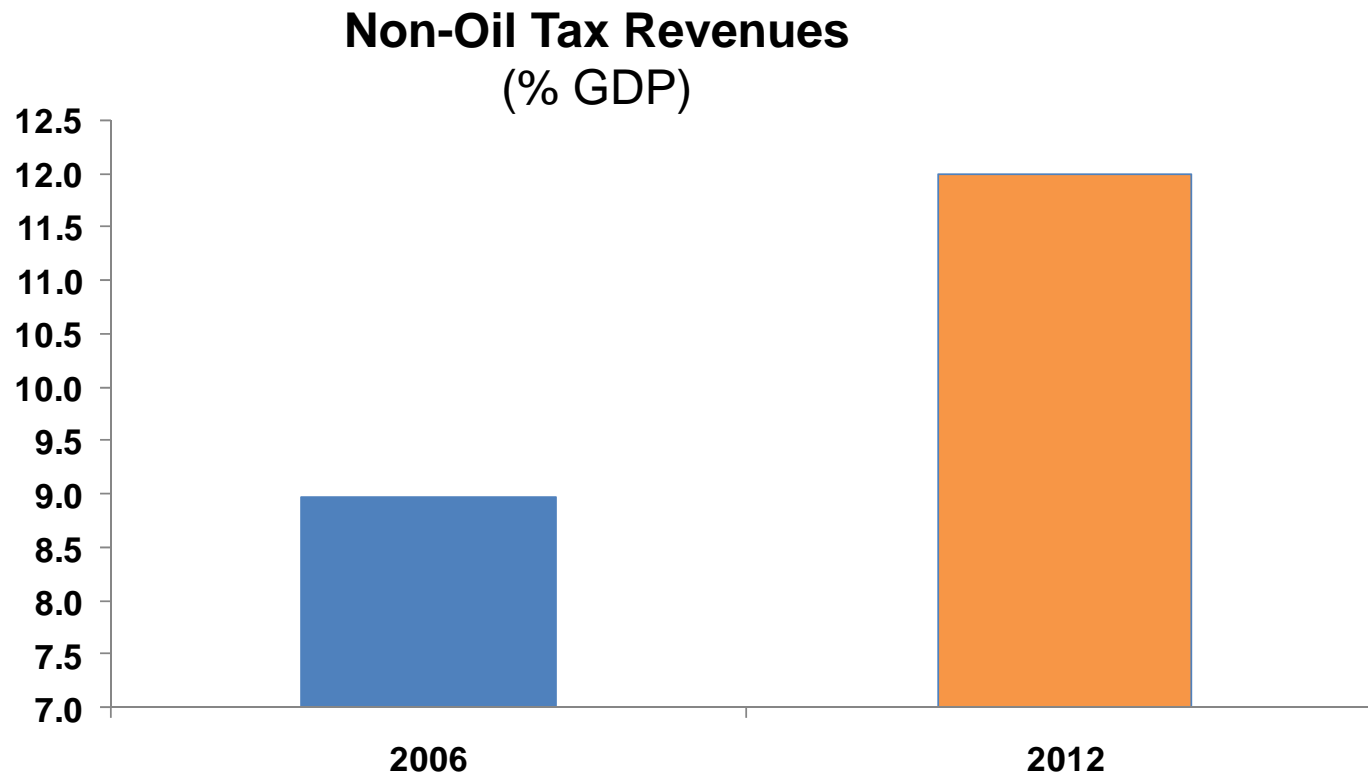


HBPSBR
(% of GDP, with proposal)



During the first three years of this Administration important structural changes have been achieved that improve public finances.

- ① Two fiscal reforms were approved that increase non-oil tax revenues from 9% of GDP in 2006 to at least 12% of GDP in 2012.

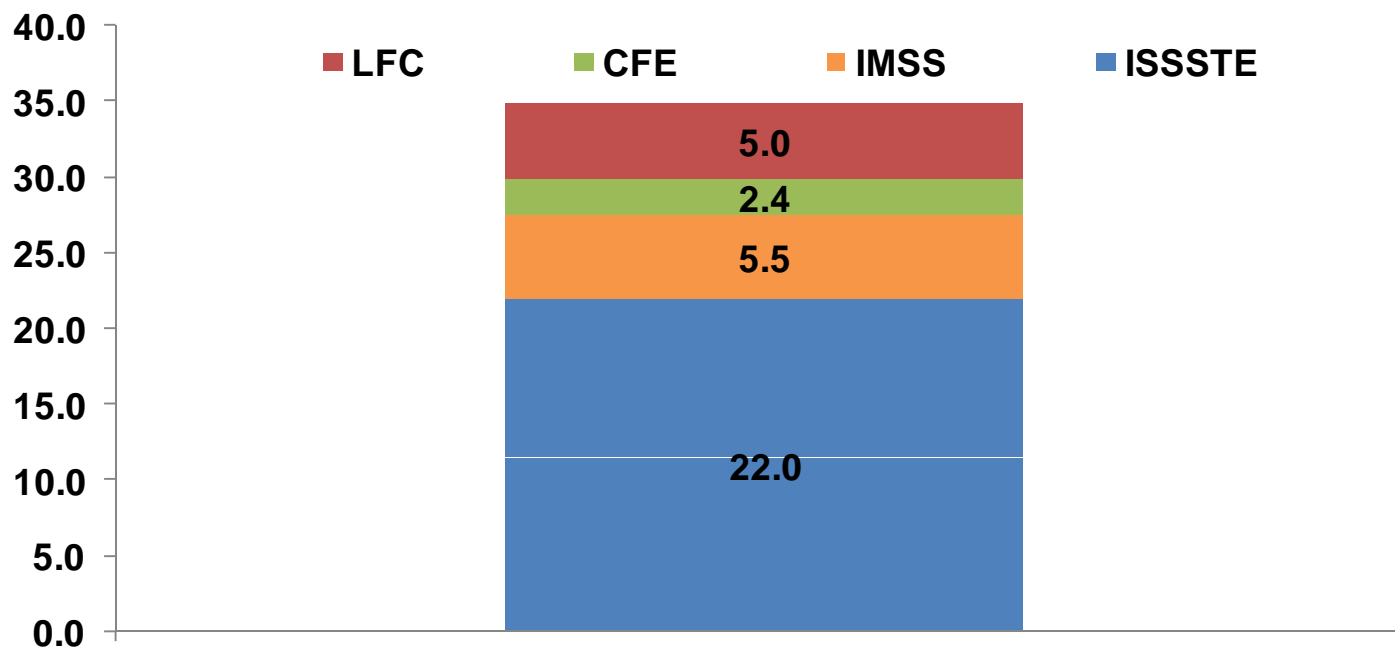


Structural Reforms

- ② Reforms to the pensions systems of public sector workers that together with the closing of LFC represent savings in NPV of at least 34.9% of GDP. Within these are: IMSS (5.5% of GDP), ISSSTE (22.0% of GDP) and CFE (2.4% of GDP).

Reduction in Fiscal Liabilities

(% of GDP)



A group of legal reforms was announced on October 1st to promote the supply of long-term resources for investment, including infrastructure:

1. Afores will be allowed to acquire equity in infrastructure and other productive projects, and directly acquire stocks of firms that are not included in indexes.
2. The legal framework for Public-Private partnerships will be modernized in order to reduce costs and increase the flexibility in infrastructure investment projects.

Additional measures that will take place in the short run include:

- **PEMEX contracts.** The first auctions are expected in the first semester 2010
- **Actions in the telecommunication sector.**
 - The auction process for three 10 MHz blocks for wireless communications services.
 - The auction process for two lines of non-illuminated optic fiber (in three routes) of the CFE's network.
- **Competition Law:** a reform giving stronger precautionary and sanction powers to the Federal Competition Commission as well as increasing the options for more “out of court” settlements.

Significant progress has been made in the two tier strategy of President Calderon:

- The fiscal consolidation process has led to a significant strengthening of revenues and a large reduction of implicit and contingent liabilities
- Major structural changes have taken place in the electricity and infrastructure sectors, and additional actions will soon take place in other sectors