SHCP

SECRETARÍA DE HACIENDA
Y CRÉDITO PÚBLICO

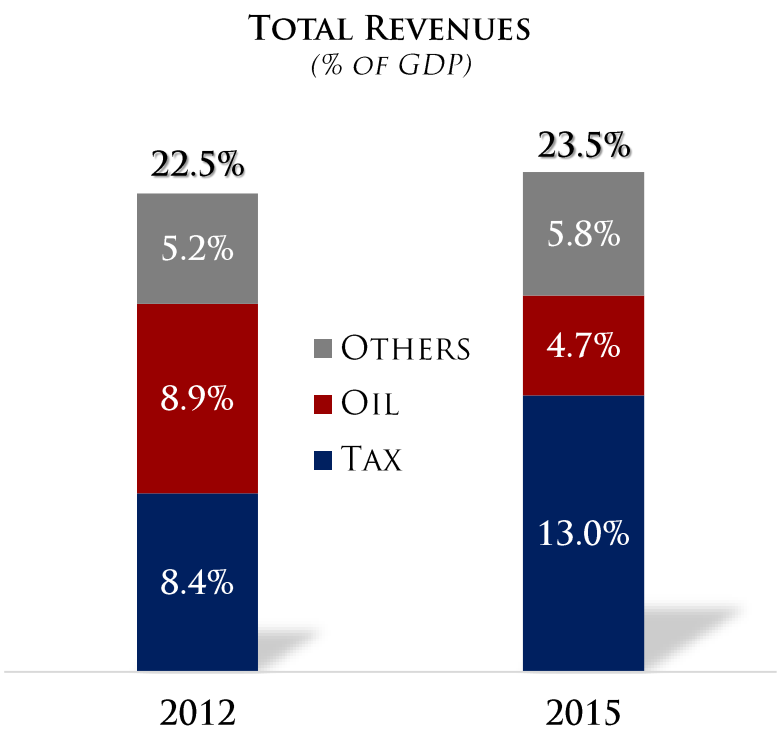
Recent Trends in the Mexican Economy

Houston, TX

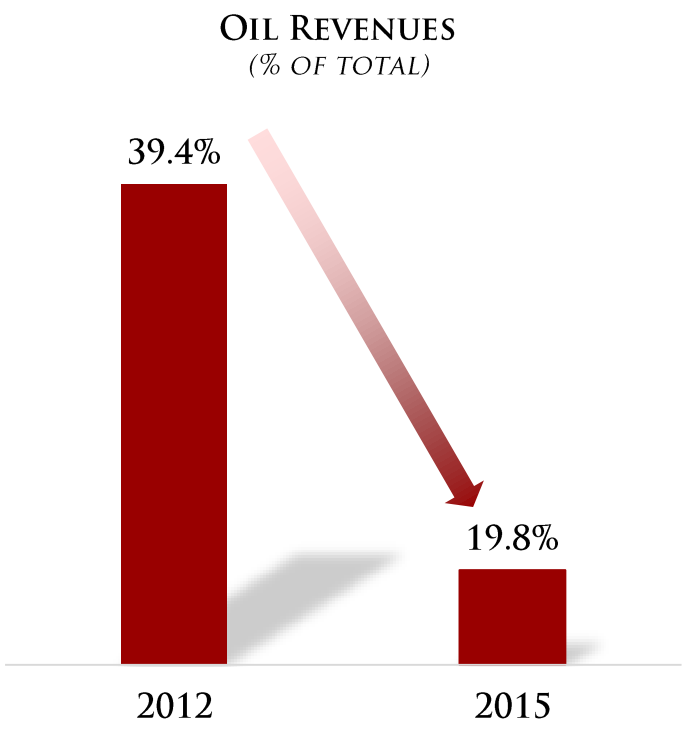
November 1, 2016

Structural Reforms | Fiscal Reform

The Fiscal Reform has strengthened tax revenues and has allowed Mexico to reduce its dependency on oil revenues.



Increase of **4.6 p.p.** of GDP in tax revenue collection.



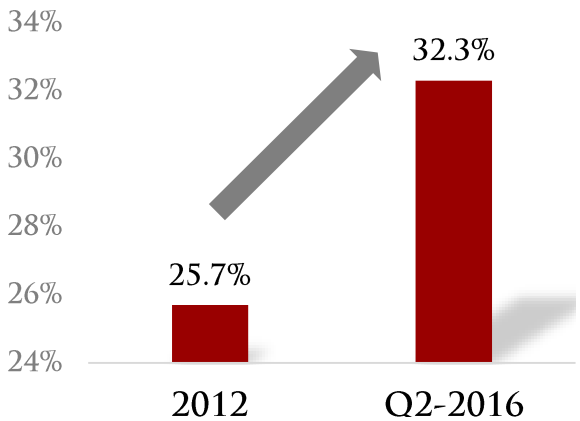
Less than **20%** of total revenues come from oil revenues.

Source: SHCP.

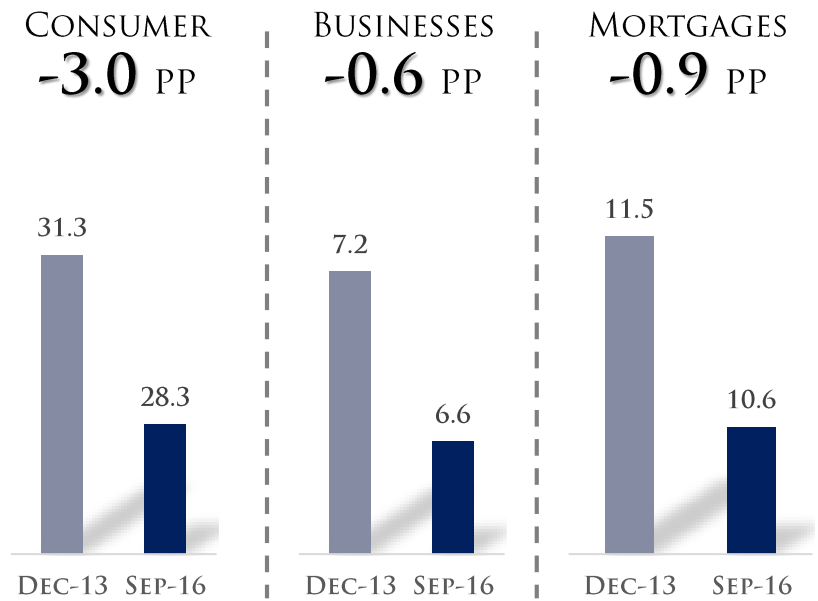
Structural Reforms | Financial Reform

The Financial Reform has increased credit and has lowered its cost for homes and businesses.

Internal Credit to the Private Sector
(% of GDP, +6.6 pp)



Implicit Interest Rates
(Dec-13 vs Sep-16)



Source: CNBV. Implicit rates = Bank revenues from interests / Total portfolio for each sector.

Credit Portfolio to the Private Sector
(Real total growth, Dec-13 vs Aug-16)

Businesses	Micro businesses	Personal Loans	Mortgages
+31.0%	+47.1%	+33.9%	+22.0%

Source: Banxico.

Energy and Telecom Reforms

As a result of these Reforms, energy and telecom costs have decreased, which has triggered investment in these strategic sectors.

Lower costs after the Reform

Electricity Rates*

- ↓ 16.1% Industrial high voltage
- ↓ 9.6% Industrial medium voltage
- ↓ 4.0% Commercial and domestic†

† Cumulative 2014-2016. * Total decrease Dec. 2013 – Sep. 2016.

Phone Rates**

- ↓ 42.8% Int. long distance
- ↓ 40.3% Mobile phone.
- ↓ 4.6% Land lines.

** Total decrease Jun. 2013 – Sep. 2016.

Higher Investment

18 BN USD expected from **Rounds 1 and 2**.

5,159 KM new **gas pipelines** from the Infrastructure Plan.

at&t: **7.4** BN USD from 2015 to 2018*

eutelsat: **831** MN USD from 2015 onwards

Virgin mobile: **45** MN USD from 2015 onwards

*AT&T: 3 BN in FDI + 4.4 BN from the acquisition of Iusacell and Nextel.

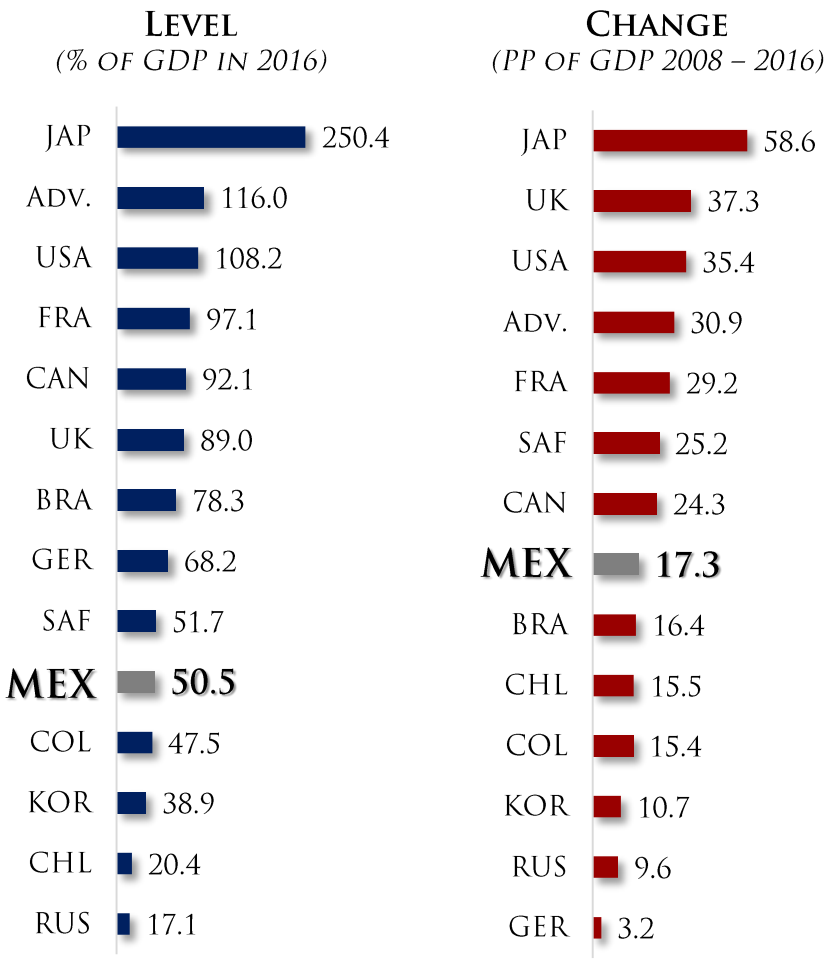
Fiscal Responsibility | Low and Stable Debt

Mexico has responsibly managed its public debt based on two main principles: risk diversification and stability.

- ✓ **Low debt level** that compares favorably against other emerging and advanced economies.
  - **50.5%** of GDP for 2016.[1/]
  - **50.2%** of GDP for 2017.[1/]
- ✓ **Low interest-rate risk.**
  - **83.6%** of Mexico's domestic debt is composed of fixed-rate and long-term instruments.
  - **100%** of Mexico's **bonds issued in international markets** have a **fixed rate.**
- ✓ **Low exchange rate risk.**
  - **75%** the Federal Government's total net debt is denominated in Mexican Pesos.[2/]
- ✓ **Long Maturity.**
  - Mexico's domestic debt has an **average term of 8 years.**[2/]

1/ Source: SHCP.
2/ Source: SHCP. Data as of September 2016.

General Government Gross Debt

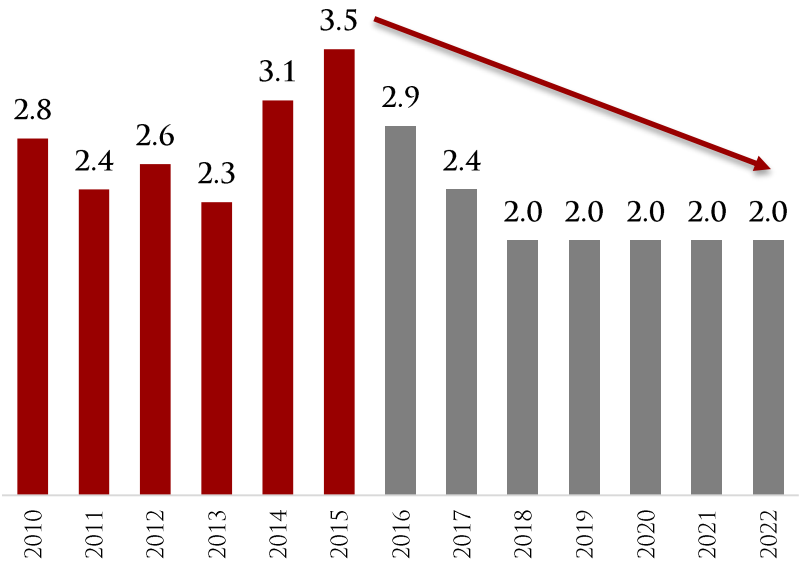


Source: IMF, *Fiscal Monitor*, October 2016. SHCP for Mexico.

Fiscal Responsibility | Public Balance

Lower Public Deficit

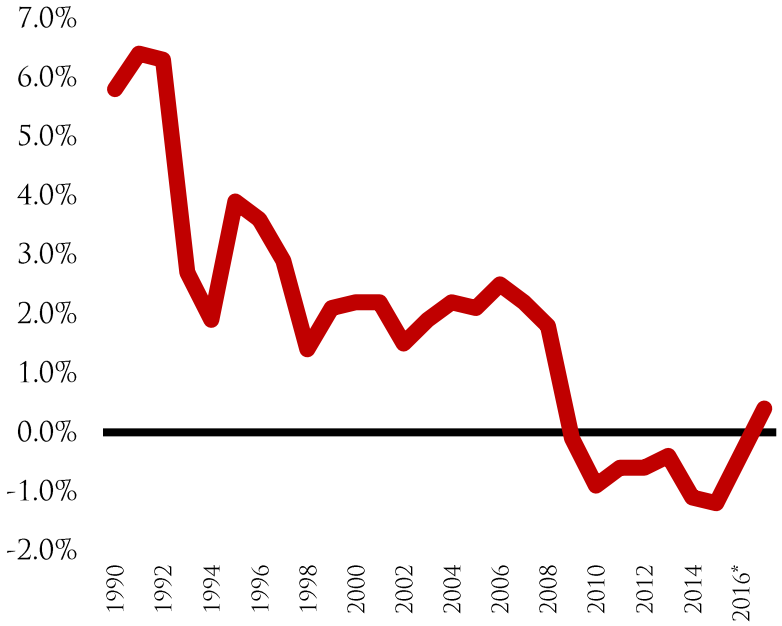
(% of GDP)



Source: 2016 Budget Guidelines (CGPE). Estimates as of 2016.

Primary Surplus

(% of GDP)



Source: SHCP. Estimates as of 2016.

Stable Growth | Strong Domestic Market

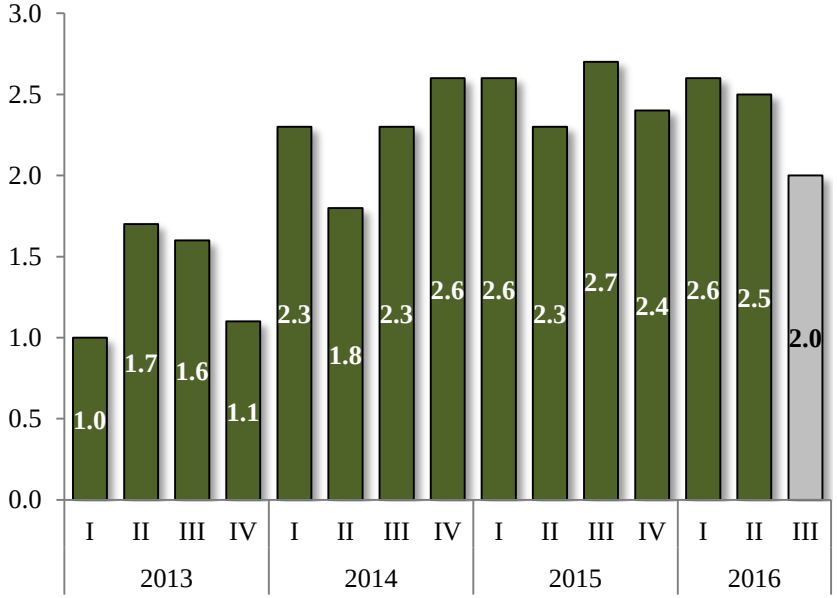
Between January and September, **real salaries** grew **1.5%**, their highest increase for this period since 2001. Meanwhile, during the current Administration, **2.3 million jobs** have been **created**.

Between January and September, **department same-store sales** showed a **real yearly growth** of **3.9%**; their **highest increase** for this period since 2006. **Wal-Mart same-store sales** showed a **real yearly growth** of **5.3%**; also their **highest increase** since 2006.

During September, **131,443 vehicles** were sold in the domestic market (+18.1% year-on-year); the **highest amount in history** for a month of September.

Stable Growth | Balanced GDP Growth

Gross Domestic Product
(Real Yearly Growth)



GDP by sector in Q3-2016
(Real Yearly Growth)

↑ 3.3% Services

↑ 4.9% Agriculture

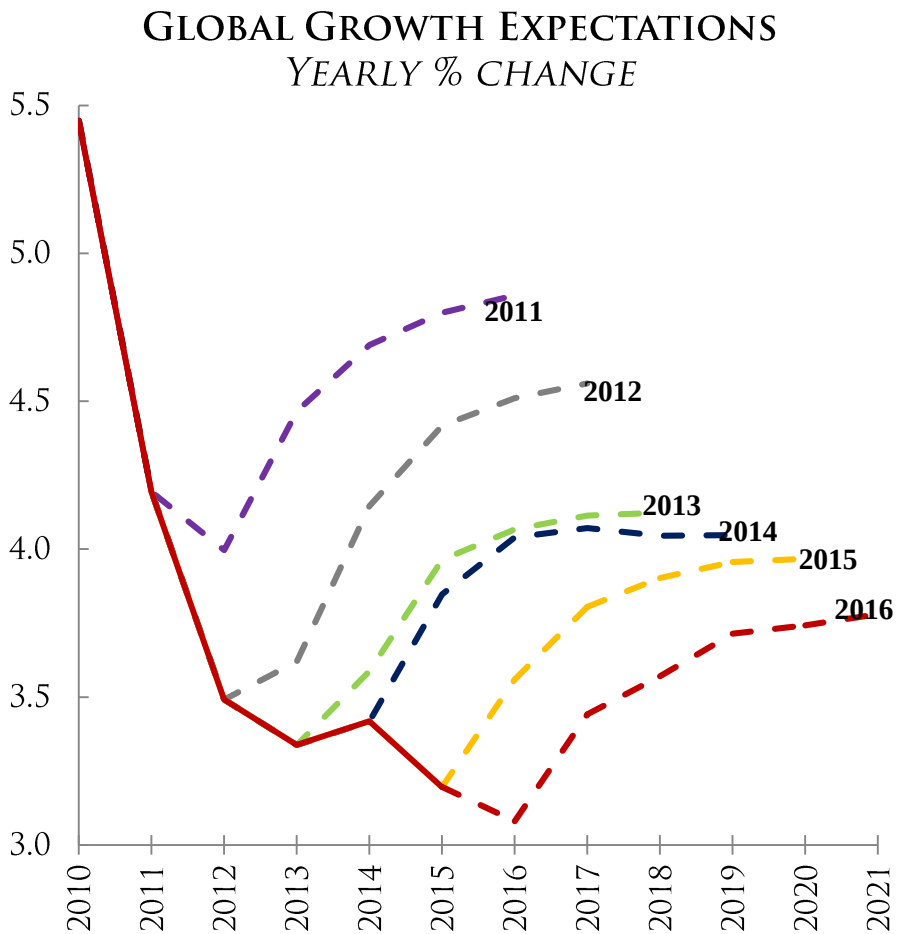
↓ 1.0% Industrial

Source: INEGI.

- ✓ Mexico's **preliminary GDP growth** for **Q3-2016** was **higher than expected** (Bloomberg: 1.9%).
- ✓ In the previous quarter, **excluding oil-related activities**, Mexico's **economy grew 3.0%**; for an **average growth** of **3.1%** over the **previous eight quarters**.

Stable Growth | Global Context

Mexico's Budget is presented in an extremely **adverse global context** in which **global growth expectations** have been adjusted **downwards.**



Source: IMF, World Economic Outlook, October 2016.

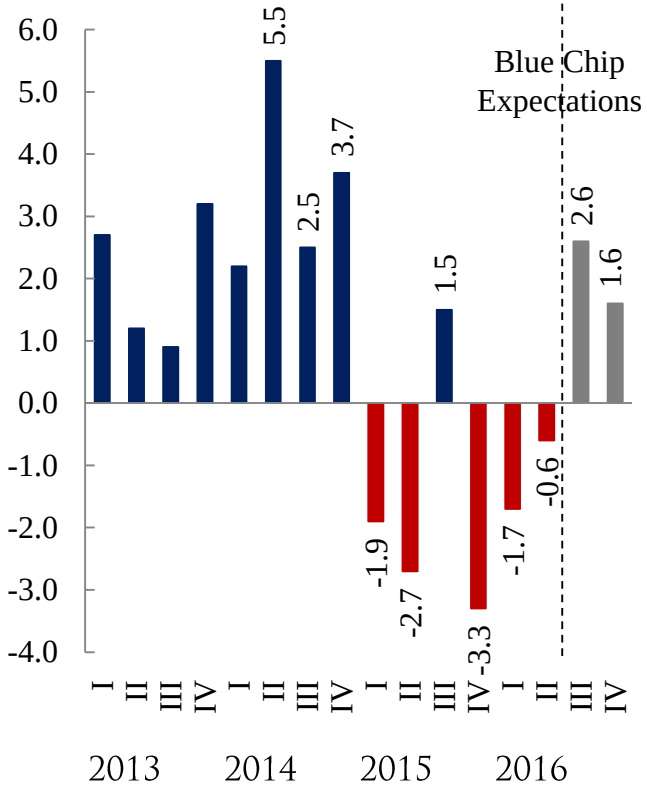
External Factors

1. *Slower global growth.*
2. *In specific, **US Industrial Production** (3.7% in Q4-2014 vs -0.6% in Q2-2016).*
3. *US Presidential Election.*
4. *Geo-political risks:*
   - *Brexit*
   - *China*
   - *Middle-East*

Stable Growth | Global Context

A **high volatility** in financial markets is persistent, as well as **uncertainty** regarding the growth path of **industrial production** in the US and the **performance of the oil market.**

US Industrial Production
Annualized quarterly change

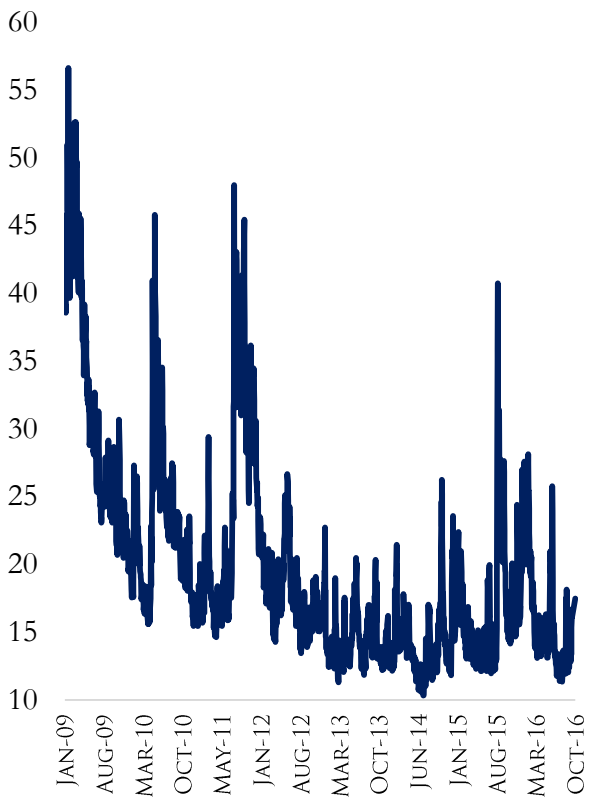


Source: Bureau of Economic Analysis.

Spot Oil Prices (WTI)
Dollars per barrel

Source: Bloomberg.

VIX Volatility Index
Index

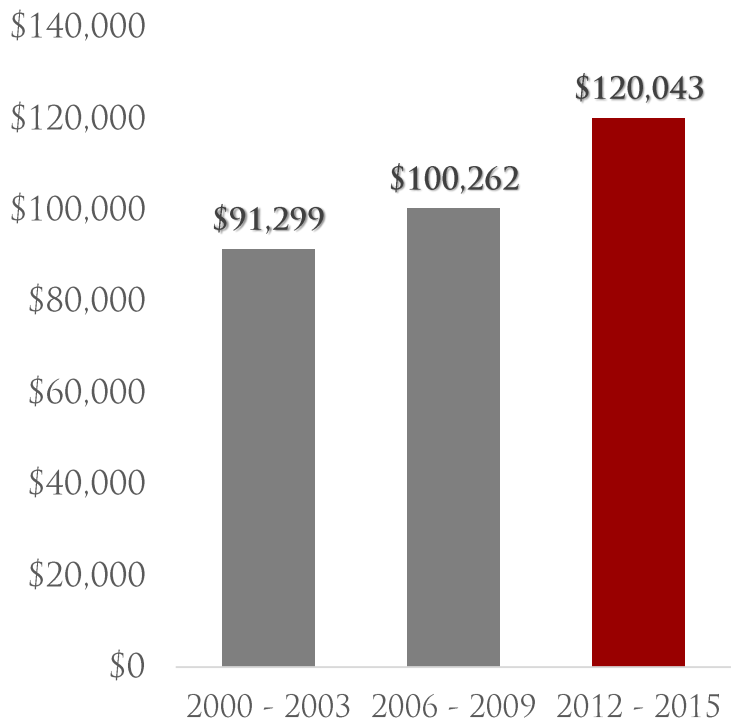


Source: Bloomberg.

Stable Growth | FDI

In spite of this global context, **Foreign Direct Investment** has continuously flowed into Mexico at increasing rates and is current at **historically high levels**.

Total FDI
(Millions USD)



4.0 BN USD
Between 2016 – 2018
(Announced Sep-2016)

1.6 BN USD
From 2018 onwards
(Announced Apr-2016)

1.3 BN USD
Between 2016 – 2020
(Announced Oct-2016)

Source: Mexican Ministry of Economics.

Stable Growth | Confidence in Mexico

Confidence in Mexico has remained high, as evidenced by the results from the most recent **external financing operation**.

Term	Amount	Yield	Results
8 yrs *(New bond)*	€ 1.2 bn	1.489%	Lowest yield in history for an issuance in Euros with a similar term.
15 yrs *(Re-opening)*	€ 700 mn	2.2%	Lowest yield in history for a 15-yr bond in Euros.

Social Progress | Poverty Reduction

Macro stability and **steady growth** have translated into **social improvement.** Mexico has made significant progress in all 6 indicators used to measure poverty.

Deficiency	% of People (millions)		Change
	2000	2015	
1) Health services	59% (57.2 millions)	17% (19.9 millions)	-42 pp (-37.3)
Deficiency	% of People (millions)		Change
	1990	2015	
2) Basic utilities			
Sewage	40% (32.8)	8% (9.5)	-32 pp (-23.3)
Water	24% (19.7)	5% (6.4)	-19 pp (-13.3)
Electricity	13% (10.7)	1% (1.1)	-12 pp (-9.6)
3) Quality and spaces of housing			
Overcrowding (>2.5 people)	29% (23.3)	10% (11.6)	-19 pp (-11.7)
Floors	21% (16.9)	4% (4.6)	-17 pp (-12.3)
Ceilings	12% (10.1)	2% (1.9)	-11 pp (-8.2)
Walls	7% (6)	2% (1.8)	-6 pp (-4.2)
4) Education	27% (21.6)	19% (22.2)	-8 pp (0.57)
Deficiency	% of People (millions)		Change
	2008	2014	
5) Social security	65% (72.5)	59% (70.1)	-7 pp (-2.4)
Deficiency	% of People (millions)		Change
	2008	2015	
6) Food	22% (24.3)	17% (19.9)	-5 pp (-4.4)

World Leadership | Global Presence

Mexico has an **important voice** in **international organizations**, forums, conferences and regional banks.

North America | USA – Mexico Relationship

Trade

- The **US and Mexico** exchange **annually** over **USD 531 BN** in goods and services. **Trade has grown** at an **average annual rate of 9.4%** since 1994.
- **Mexico** is the **US's 3rd trade partner** (14.2% of total trade – China: 16%; Canada: 15.4%) and **2nd importer** (15.7% of the US's exports).
- **Mexico is 1st or 2nd trade partner** for **29 out of 50 states** in the US.
- The **US** is **Mexico's 1st trade partner**: 63.9% of total trade.

Foreign Direct Investment

- The **US** is Mexico's **most important source of FDI**. Since 1999 **cumulative investments** amount to **USD 196.3 BN**.
- **Investments** from the US into Mexico grew at an **average annual rate of 29.6%** over the past 5 years.
- **Mexican investments** in the **US** amount to **USD 48.2 BN**.

Migration

- An estimated 35.3 million people of Mexican origins live in the US. That is **11% of the total population** and 63% of Hispanics.
  - California: 4.3 million; Texas: 2.5 million; Illinois: 700,000; Arizona: 513,000; Georgia & Florida: 270,000.
- **Mexicans** in the US **contribute with 8% of the GDP** and pay **USD 1,800 BN more in taxes** than what they receive in public services.

North America | USA – Mexico Relationship

Energy

- **Mexico** is the **US's 3rd source for oil**, after Canada and Saudi Arabia.
- **Mexico** is the **US's most important market for natural gas**: 59.6% of exports go to Mexico, 1.5 times more than to Canada.

Border Infrastructure

- There are **58 border crossings** along the 3,000 km US-Mexico border.
  - **1 million people** and **370,000 vehicles** cross the border **daily**.
- 70% of our bilateral trade is transported by trucks. Around 14,000 of them cross the border daily.
- Over **38 million tons in goods** were transported by train in 2014, through 7 crossings.
- The border is home to **14.6 million people** from both countries.

Mexico | The Road Forward

The economy is **growing steadily**, macroeconomic **fundamentals are sound** and **Structural Reforms** have been passed to improve efficiency in key sectors.

There are still challenges ahead, but we have identified them and have an action plan to over come them.

1 Fully implementing the reforms, particularly in the energy and telecom sectors

PEMEX

The Government's finances and Mexico's macro stability no longer fully depend on oil.

- ✓ The Energy Reform already helped improve Pemex's financial position by over USD 20 BN.
- ✓ The Forthcoming exploration and development of the offshore Trion field through partnerships is a major step in the opening up of Mexico's oil industry.
- ✓ PEMEX's business plan lays out strategies to successfully compete under the new conditions created by the Reform.

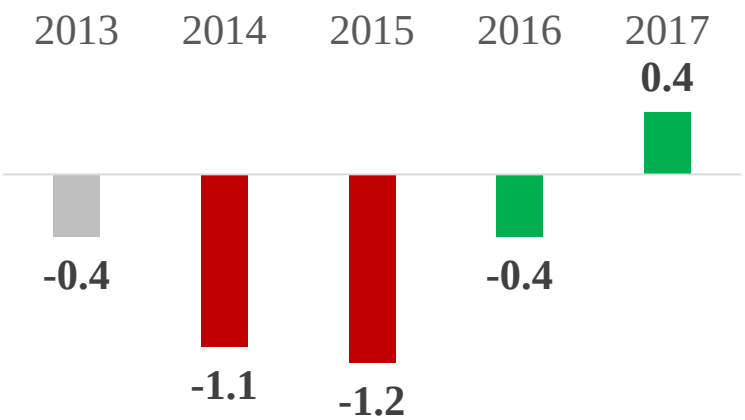
Mexico | The Road Forward

2 Reinforcing Mexico's macro stance by continuing on the path of fiscal consolidation

The 2017 Budget aims at investing in **economic growth** while maintaining **fiscal responsibility.**

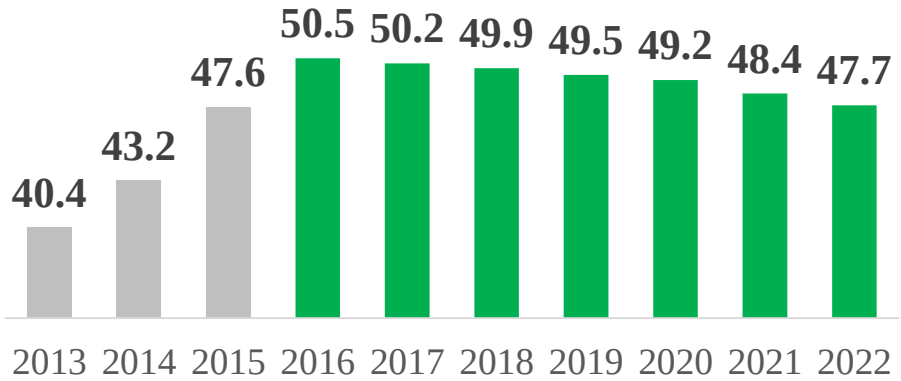
- ✓ Reduction in current spending: 1.2% of GDP.
- ✓ Projected Primary Balance: 0.4% of GDP – 1st surplus since 2008.

Primary Balance
(% of GDP)



Source: SHCP. Estimates are shown from 2016 onwards

SHFRSP (total net debt)
(% of GDP)



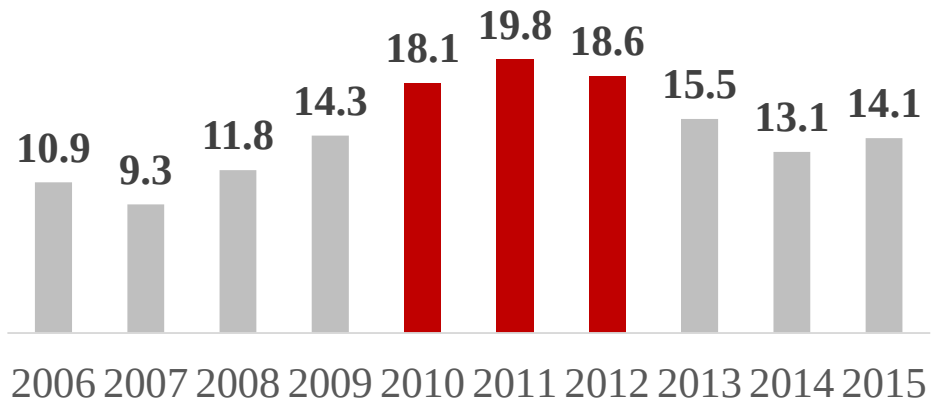
Source: SHCP. Estimates are shown from 2016 onwards

Mexico | The Road Forward

3 Further improving security

- Progress has been made towards increasing security across the country, and the Federal Government is working on enhancing the capacity of Mexico's institution to sustain the rule of law.
- Even at the height of security issues, Mexico never experienced the problems that affect other Emerging Countries on an ongoing basis.
- Crime rates in Mexico City are similar to those in Austin, TX.
- Homicides per 100 thousand inhabitants in Ciudad Juarez have declined steadily since 2010 --when they peaked– from over 200 to under 25 last year.

Intentional homicides
(per 100 thousand inhabitants)



Source: Secretariado Ejecutivo del Sistema Nacional de Seguridad Pública

Intentional homicides, 2015
(per 100 thousand inhabitants)

Country	Rate
United States	4
Chicago, IL	18
Russian Federation	10
Mexico	14
Puerto Rico	16
Colombia	25
Brazil	26
South Africa	33
Honduras	57
Venezuela	90
El Salvador	103

Source: Insight Crime and United Nations.

4 Strengthening the Rule of Law

Mexico is complementing the structural reforms with Judicial and other Reforms that increase access to justice, expedite processes and provide a sound framework to deter and punish corruption.

Anti-Corruption National System

- ✓ Established in 2015 by a constitutional amendment.
- ✓ Coordinates authorities at the federal, state, and municipal level.
- ✓ Citizens will actively participate in the governing committees.
- ✓ Independent body to prosecute corruption allegations.
- ✓ Evolution of wealth and names of public servants sanctioned or involved in procurement to be publicly available online.

Public Trials and "Day-to-day Justice"

- ✓ As of June 2016, oral public trials are the norm in Mexico's justice system, as an attempt to make the latter more transparent, fair and expedite.
- ✓ Moreover, in October, Congress approved a package of constitutional and legal reforms that seek to improve access to justice, and make the latter more efficient in day-to-day issues. Changes to justice in labor issues are particularly relevant.