

Ministry of Finance and Public Credit

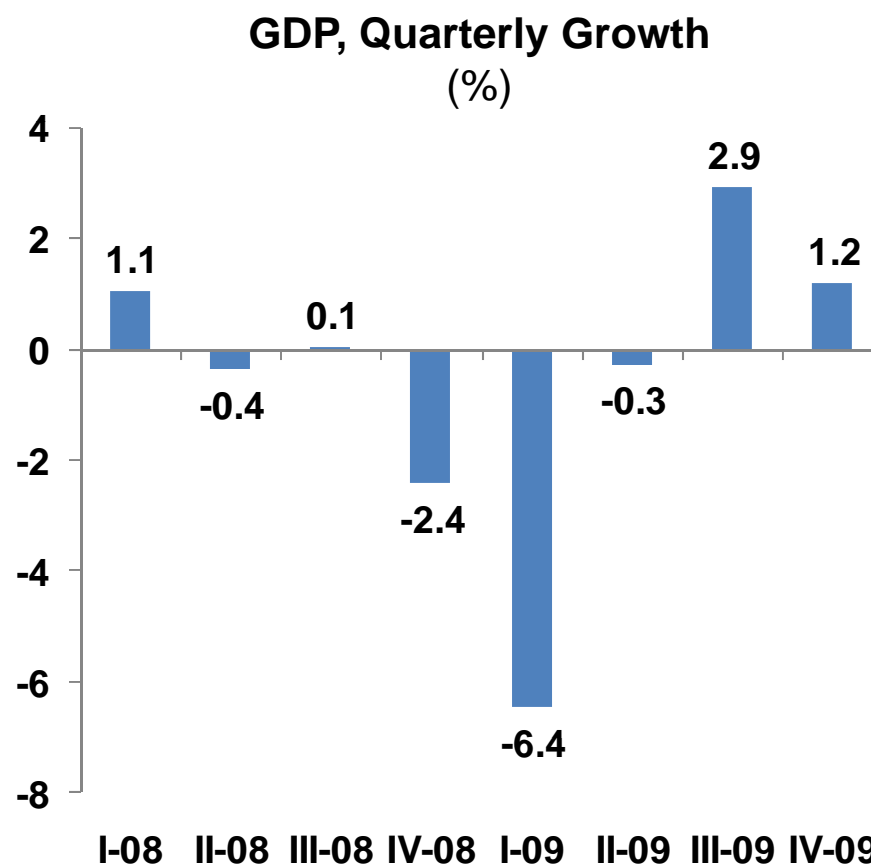
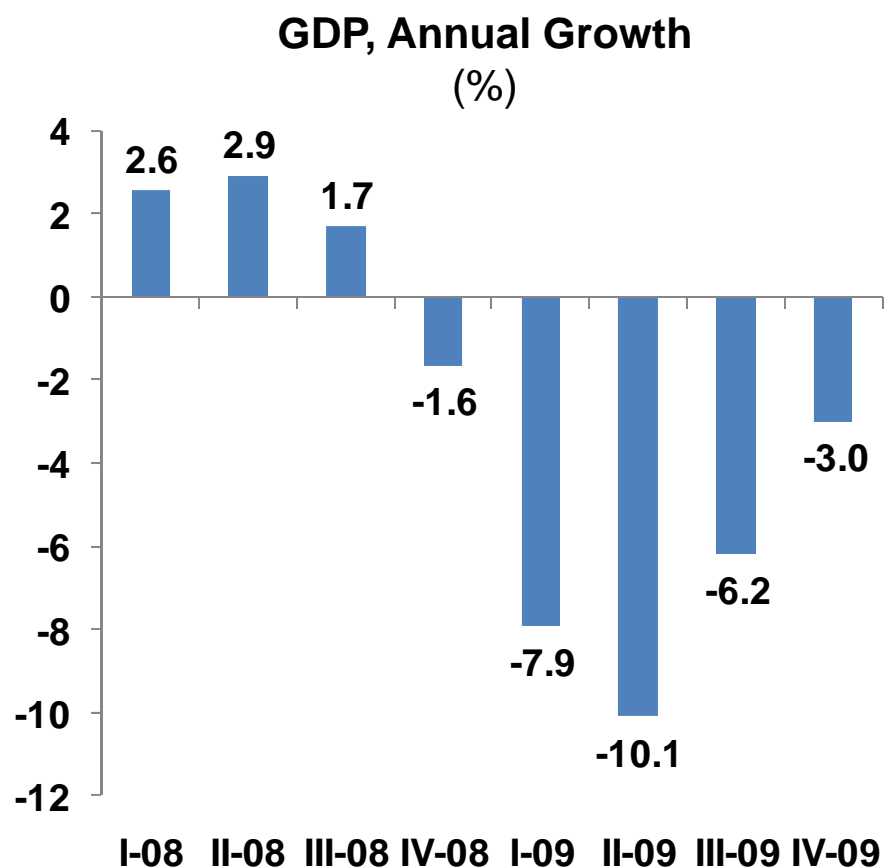


The Mexican Economy: Recent Developments and Outlook for 2010

Mexican Housing Day

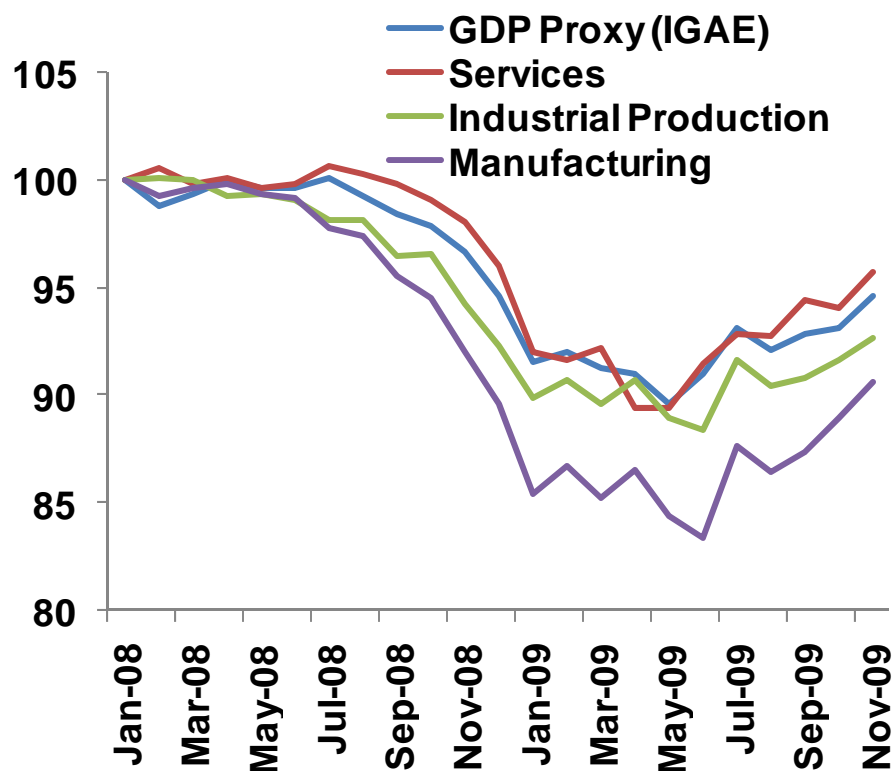
February, 2010

An annual contraction of 3% and quarterly growth of 1.2% are expected for Q4 2009.



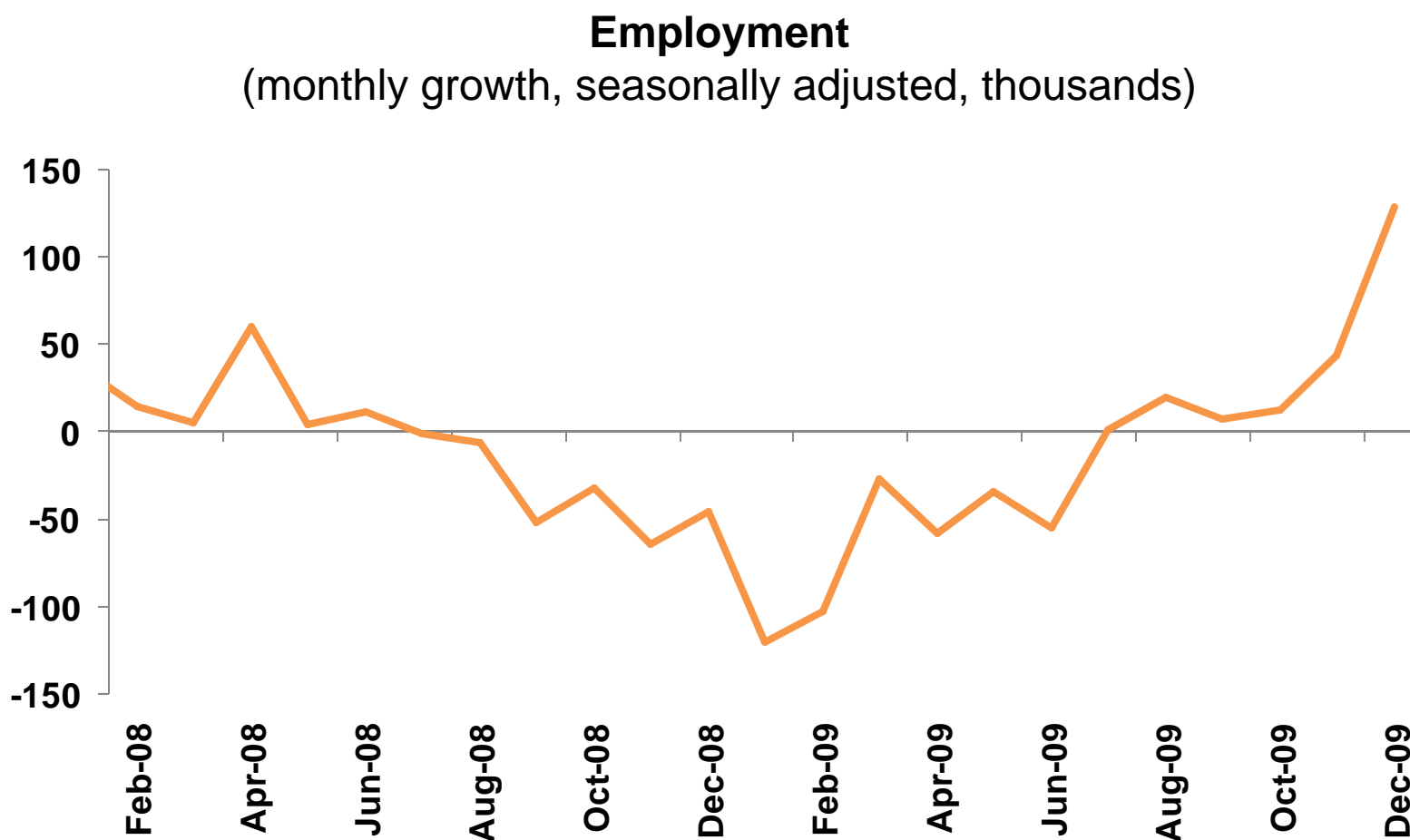
The recovery in production began last June.

IGAE and Industrial Production
(Index, Jan-08=100)

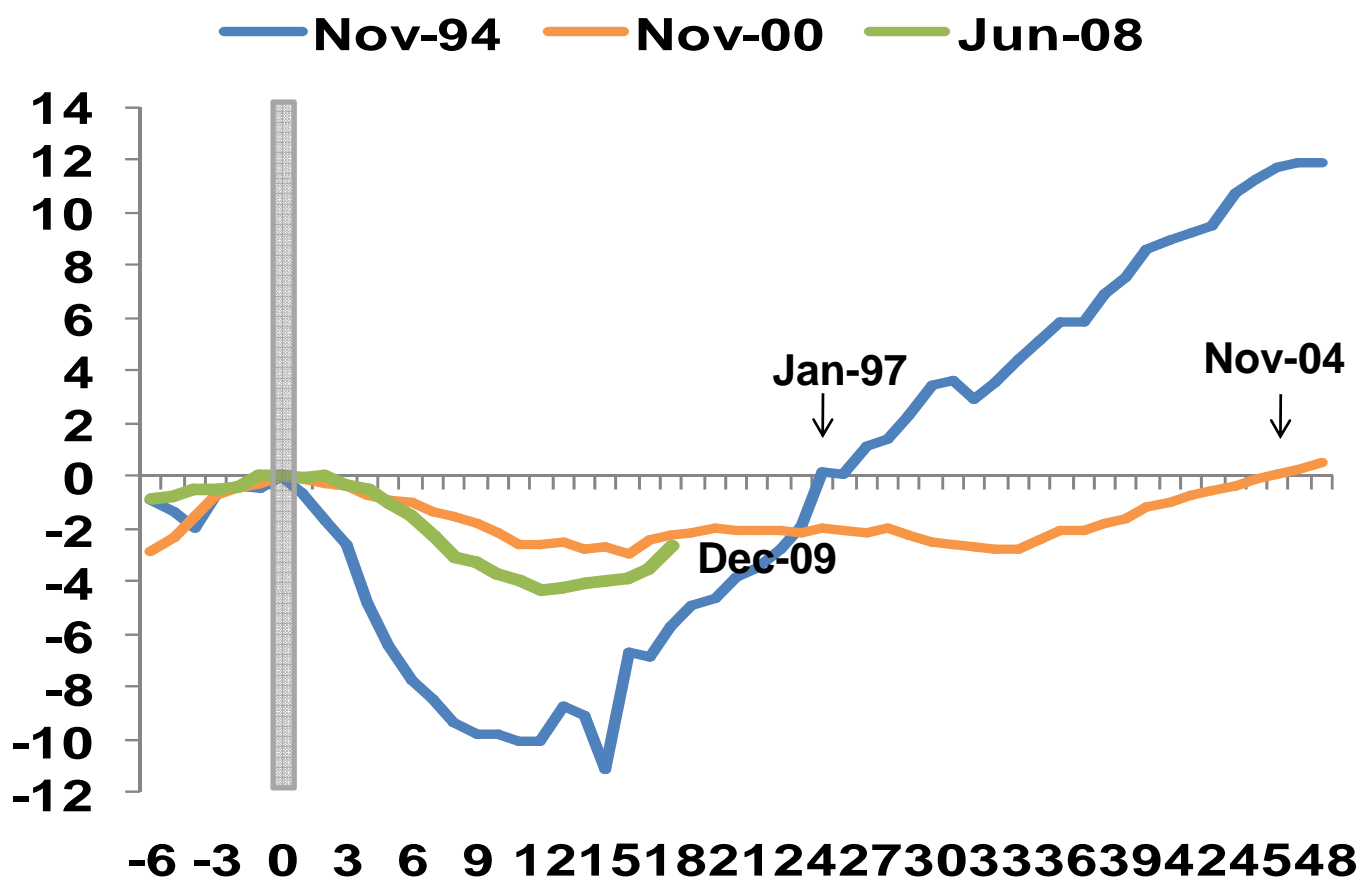


Growth in Production		
		Period
GDP Proxy (IGAE)	5.5%	May-Nov
Industrial Production	4.8%	Jun-Nov
Manufacturing Production	7.4%	Jun-Nov
Automotive Production	86.6%	Jun-Dec
Services	7.0%	May-Nov

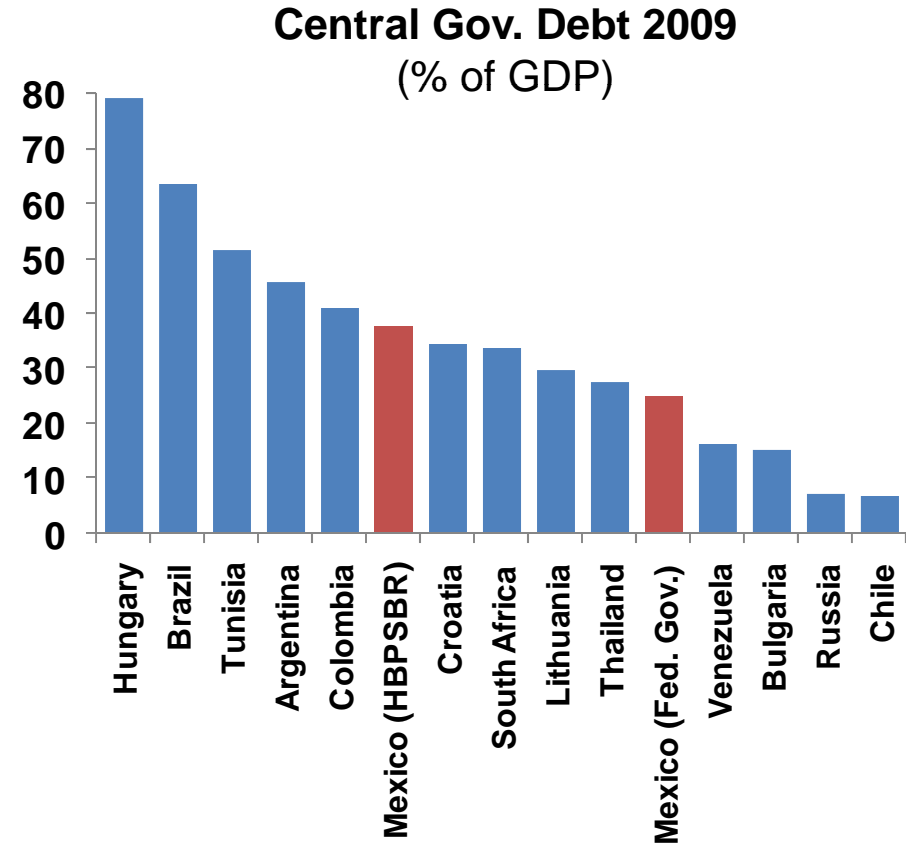
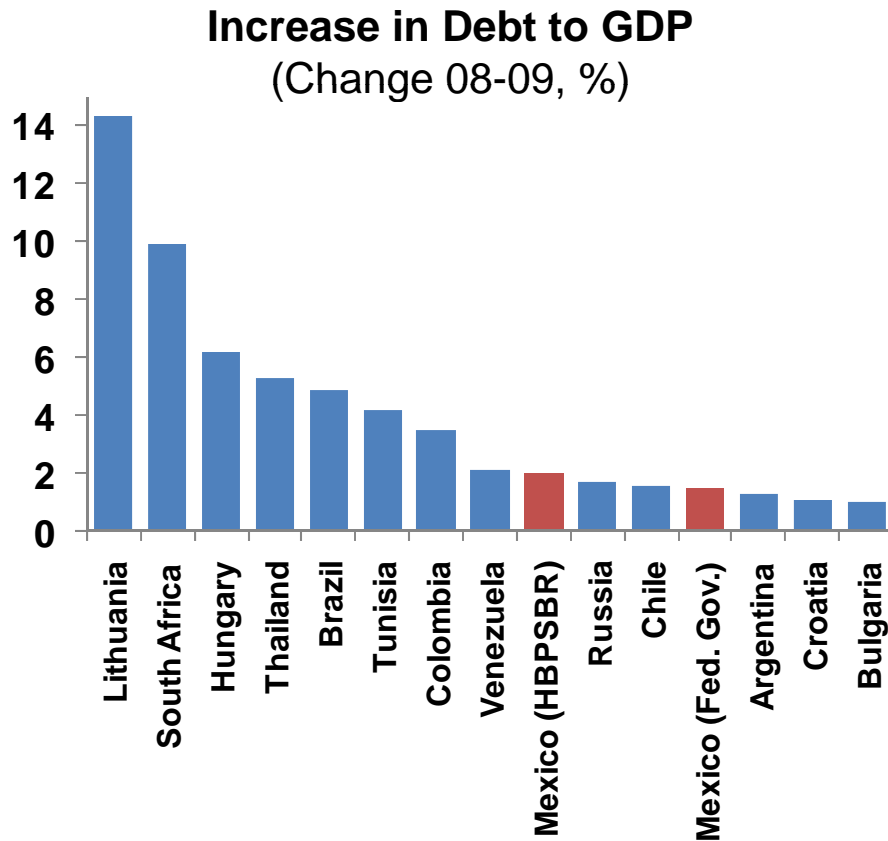
December was the sixth month in a row of employment growth. The unemployment rate stabilized since October.



Employees registered with social security (IMSS), (accumulated percentage variation from max. level, adjusted)



The low deficits in 2009 implied that the increase in debt to GDP was moderate and it remains low relative to peers



Source: Moody's & SHCP

GDP Growth: 3%

Industrial Production Growth: 5.2%

Inflation: 5%

Fiscal Deficit : 0.7%



Exports

Global Recovery
Competitiveness

Aggregate Demand

Confidence
Credit Expansion
Infrastructure
Reforms

Strong Public Finances and Economic Solvency

In recent years Mexico has strengthened its public finances:

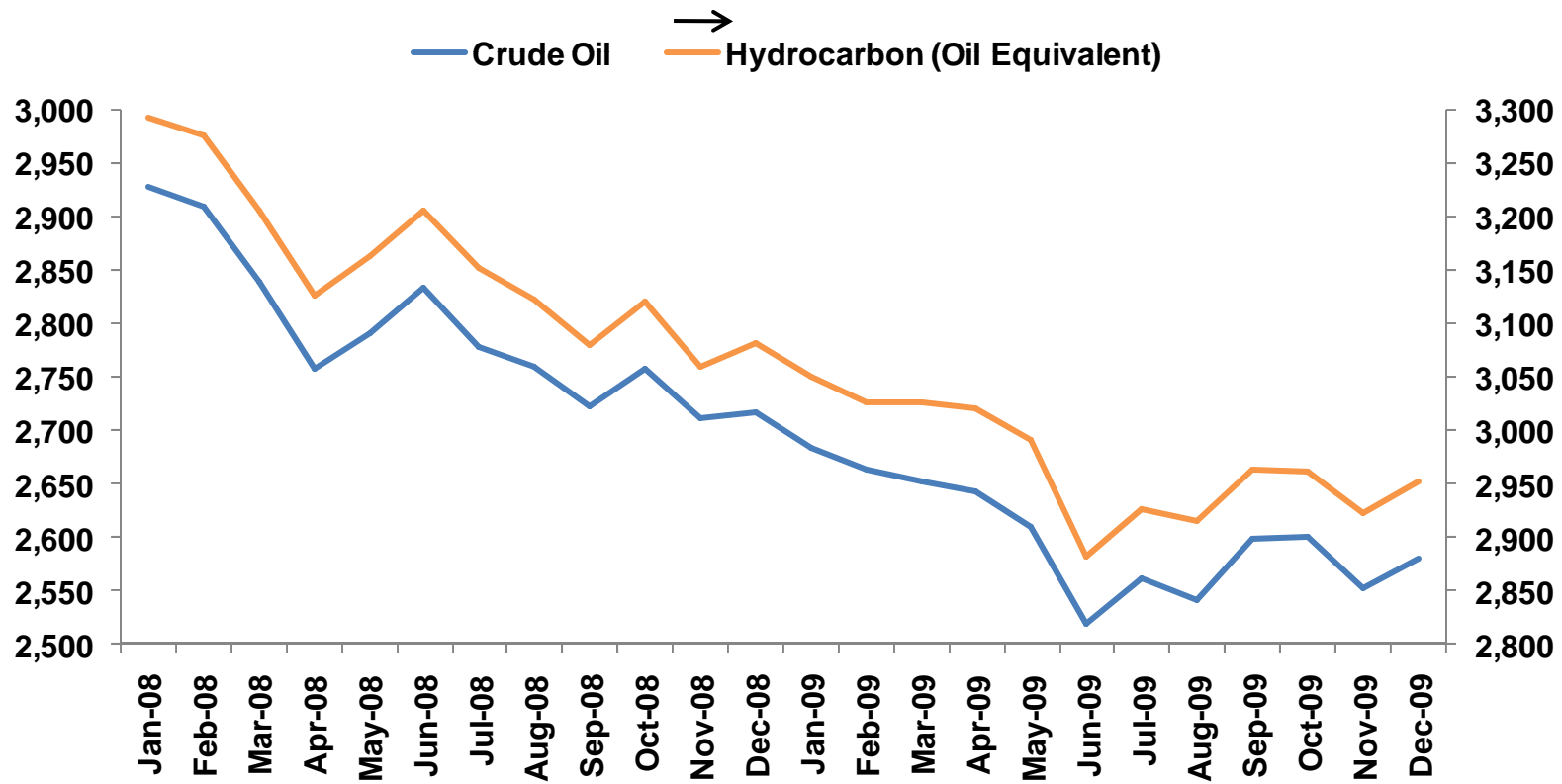
- Two fiscal reforms that will generate additional 3% of GDP in non oil revenues.
- A reform in several pension systems of public servants that represent savings of 30% in GDP in present value.
- Practice of hedging the oil price.
- Savings in stabilization funds.

Several margins imply that the level of debt to GDP could stay constant and that additional resources may be allocated to the stabilization funds in 2010

- A scenario with a more appreciated exchange rate and higher growth would lead to a constant level of debt to GDP with respect to 2009
- Higher oil prices and growth could lead to a revenues windfall which would feed the stabilization funds.

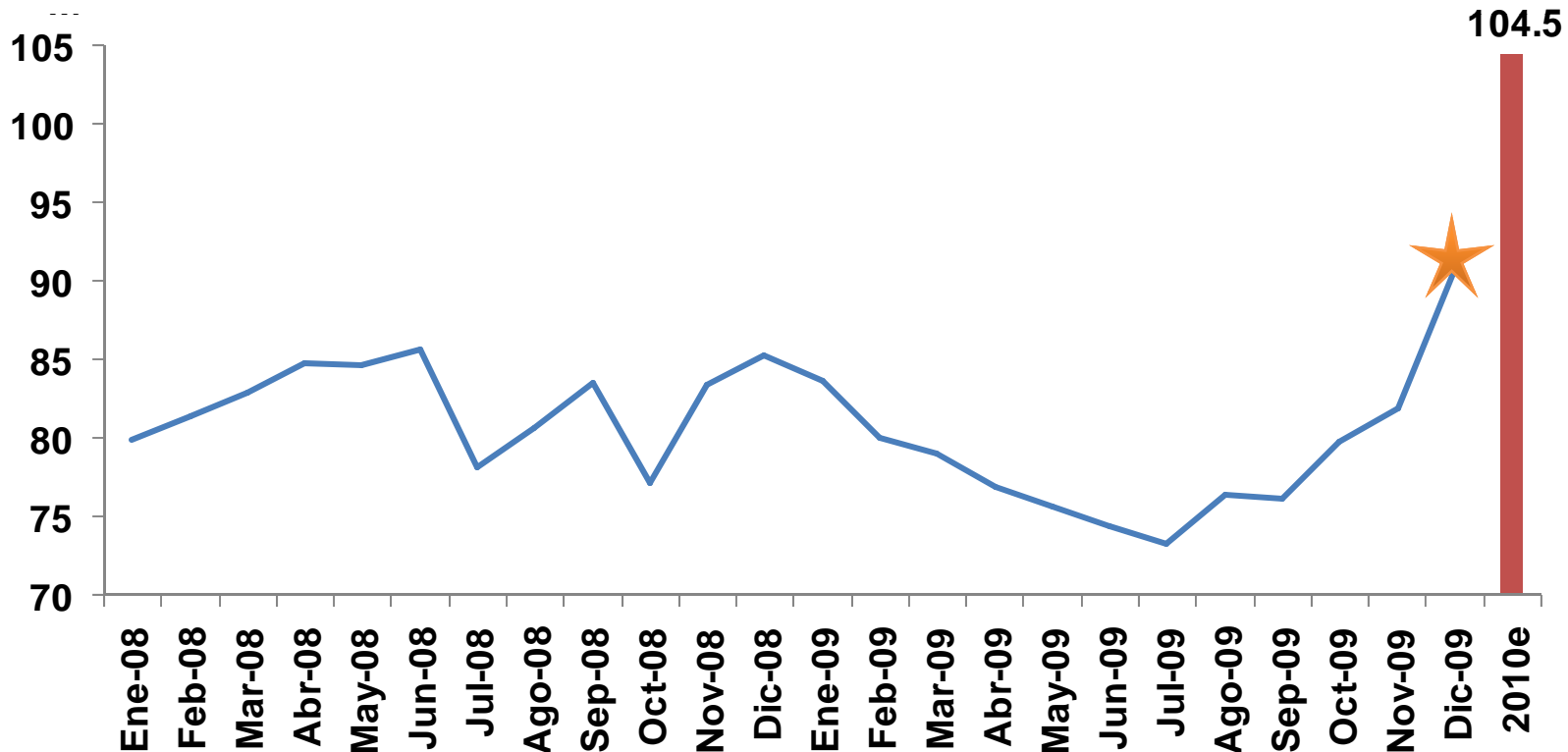
Oil production by PEMEX stabilized in the second half of 2009 and finished the year at 2,615 thousand barrels per day.

Monthly Oil Production (thousands of barrels)



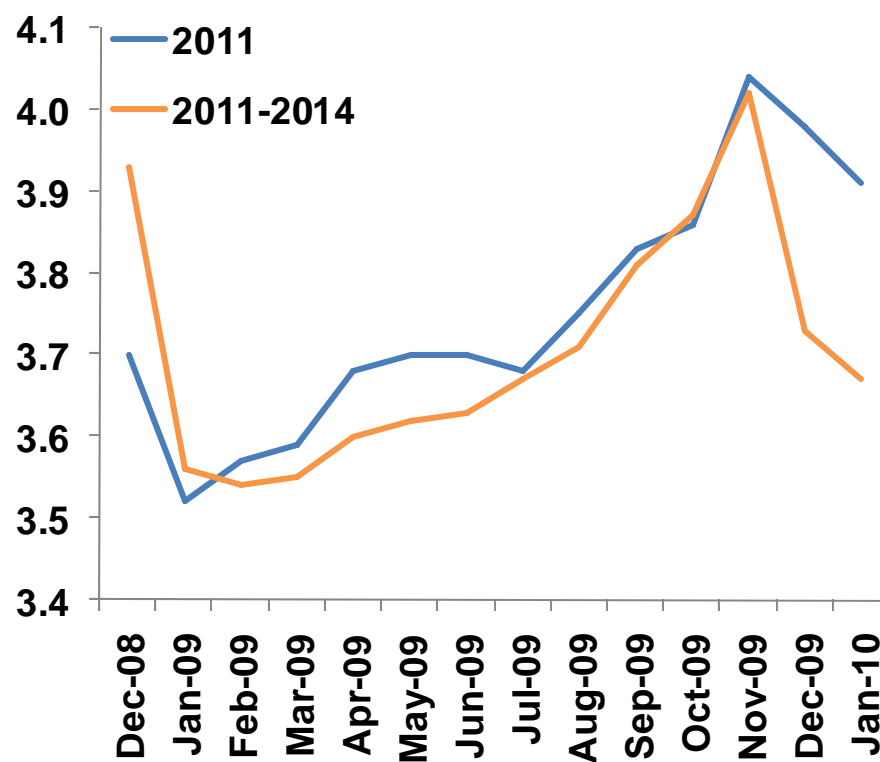
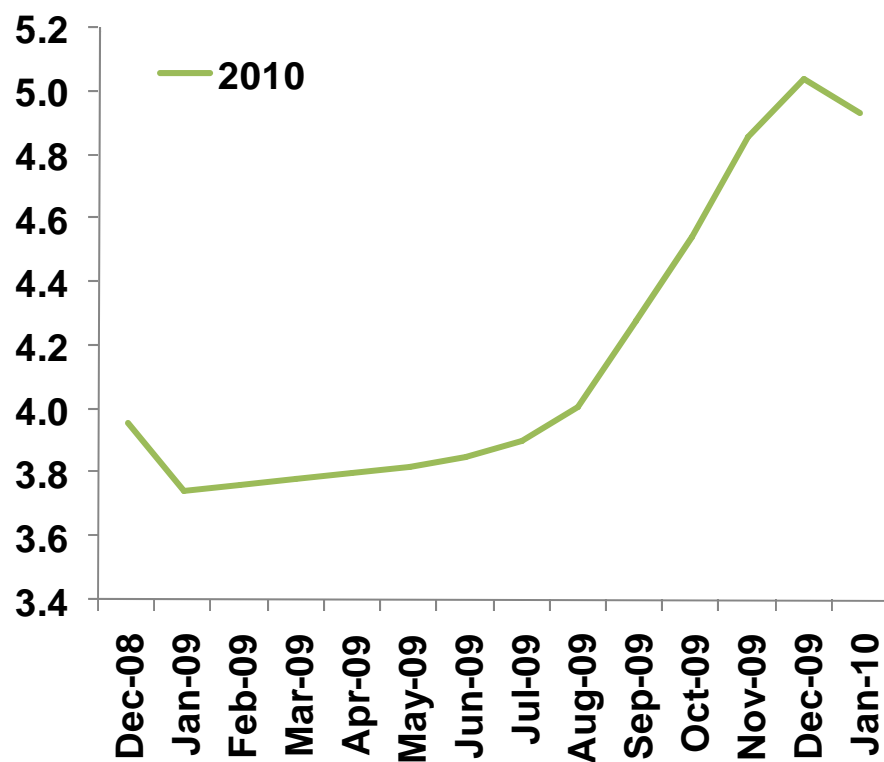
Regarding the external accounts, the level of international reserves is now higher than before the crisis started and is expected to increase further in 2010.

International Reserves (billion dollars)

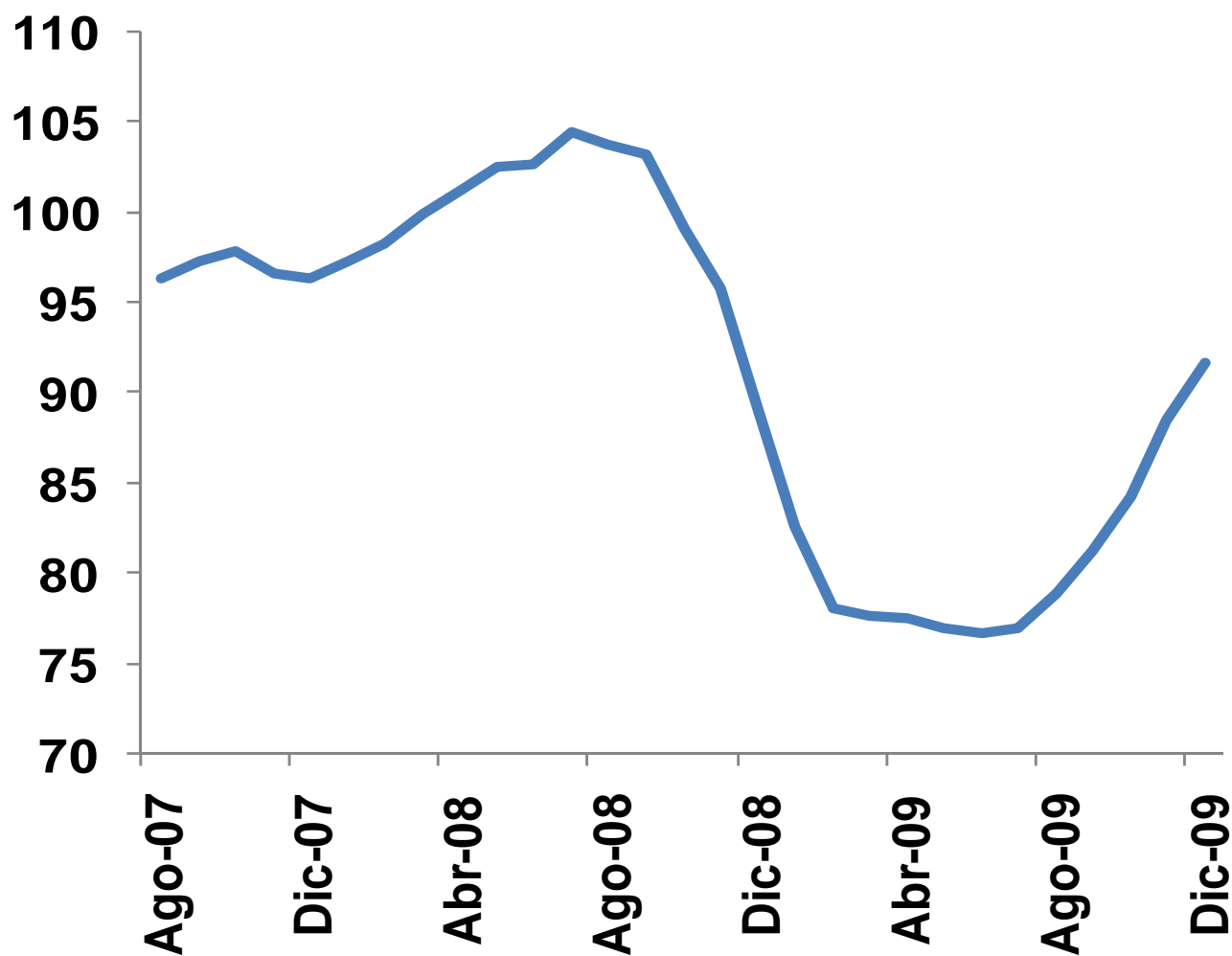


Although a temporary increase in inflation is expected for 2010, higher stability associated with the Fiscal Reform translated into lower medium term inflation expectations.

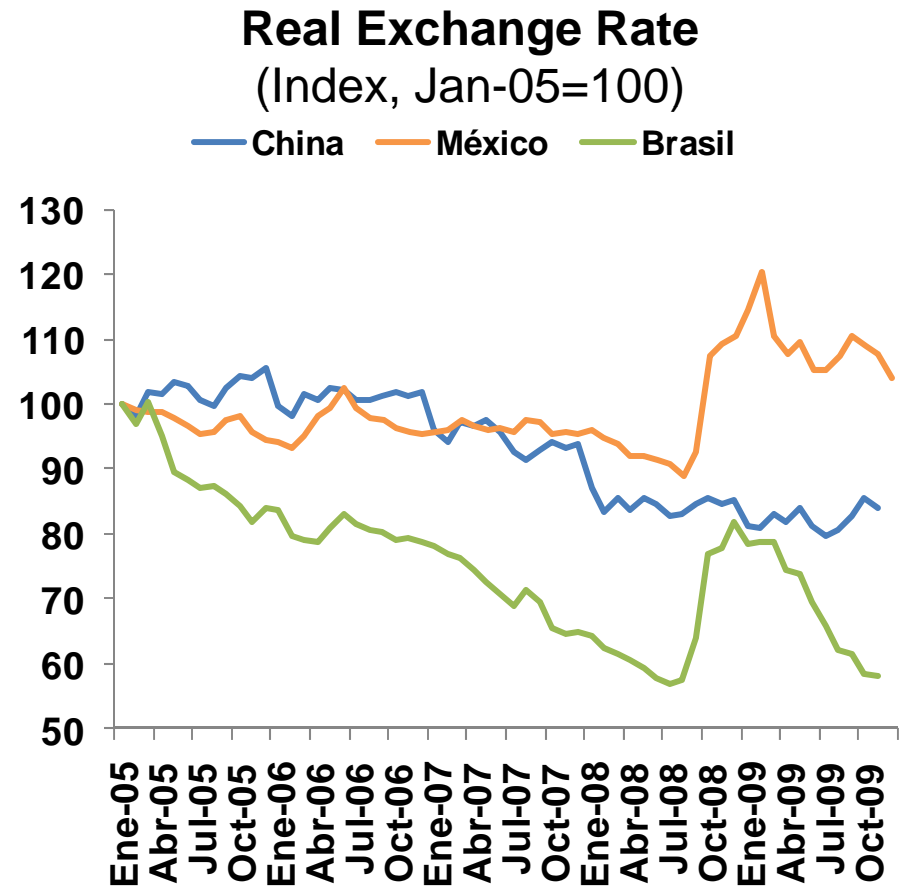
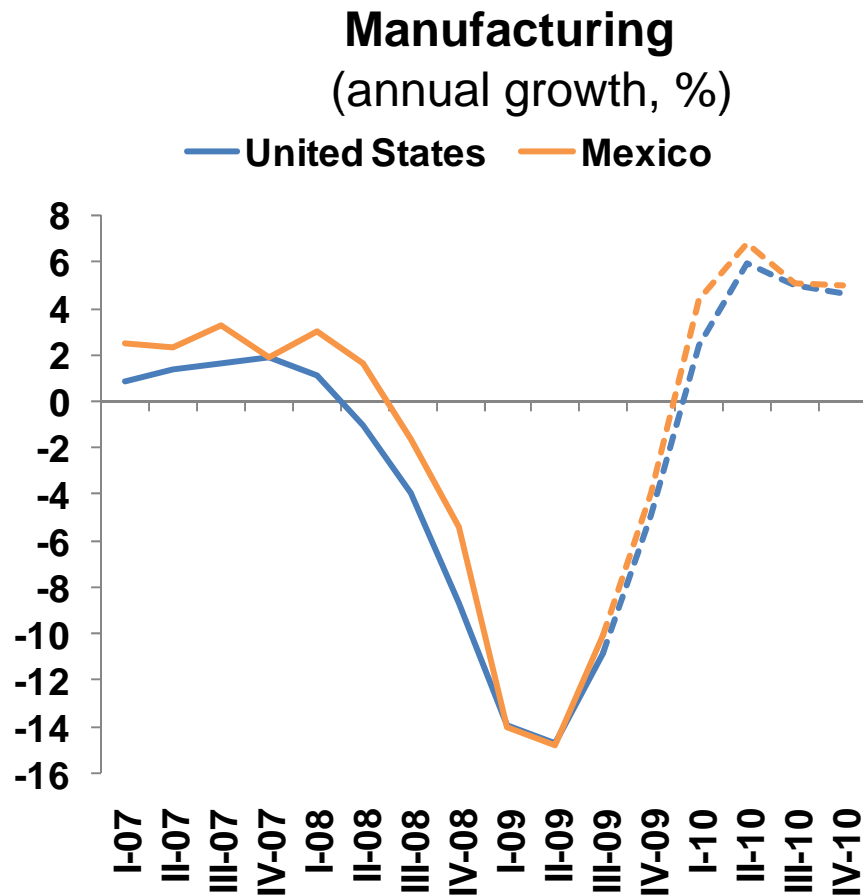
Inflation Expectations (%)



Non-Oil Exports (mov. av. 3m, Index Aug-07=100)



In addition to the turnaround in the global industrial cycle, Mexican manufactures will benefit from a more competitive exchange rate, leading to growth of 5.2% in the sector.



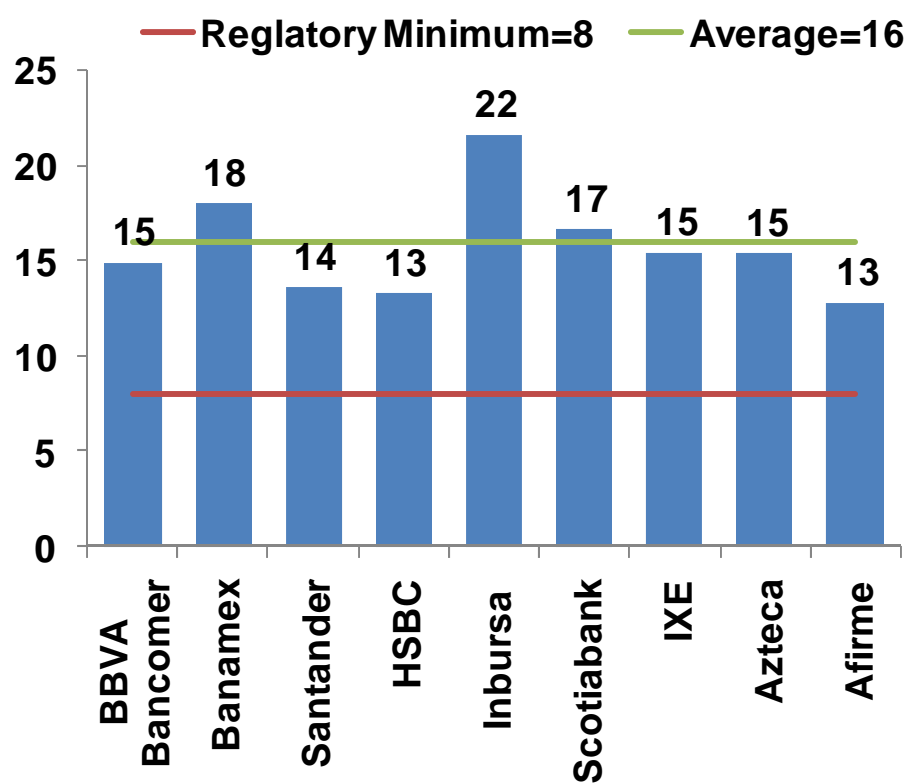
Internal Driver: Aggregate Demand



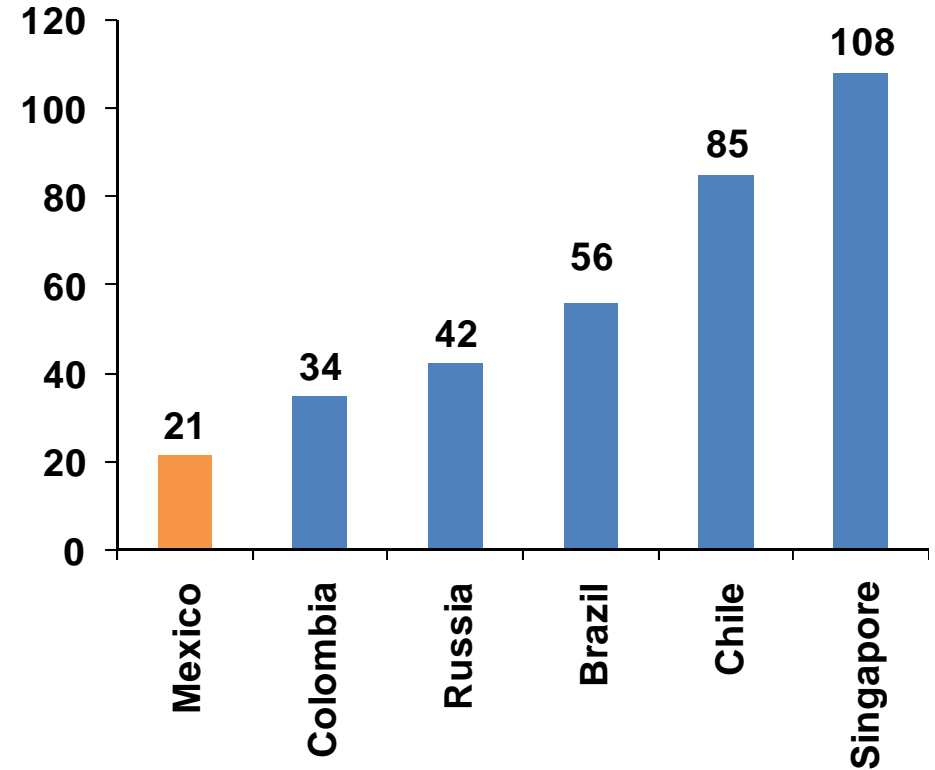
SHCP

The banking sector was not affected by the crisis and has a large margin to increase credit.

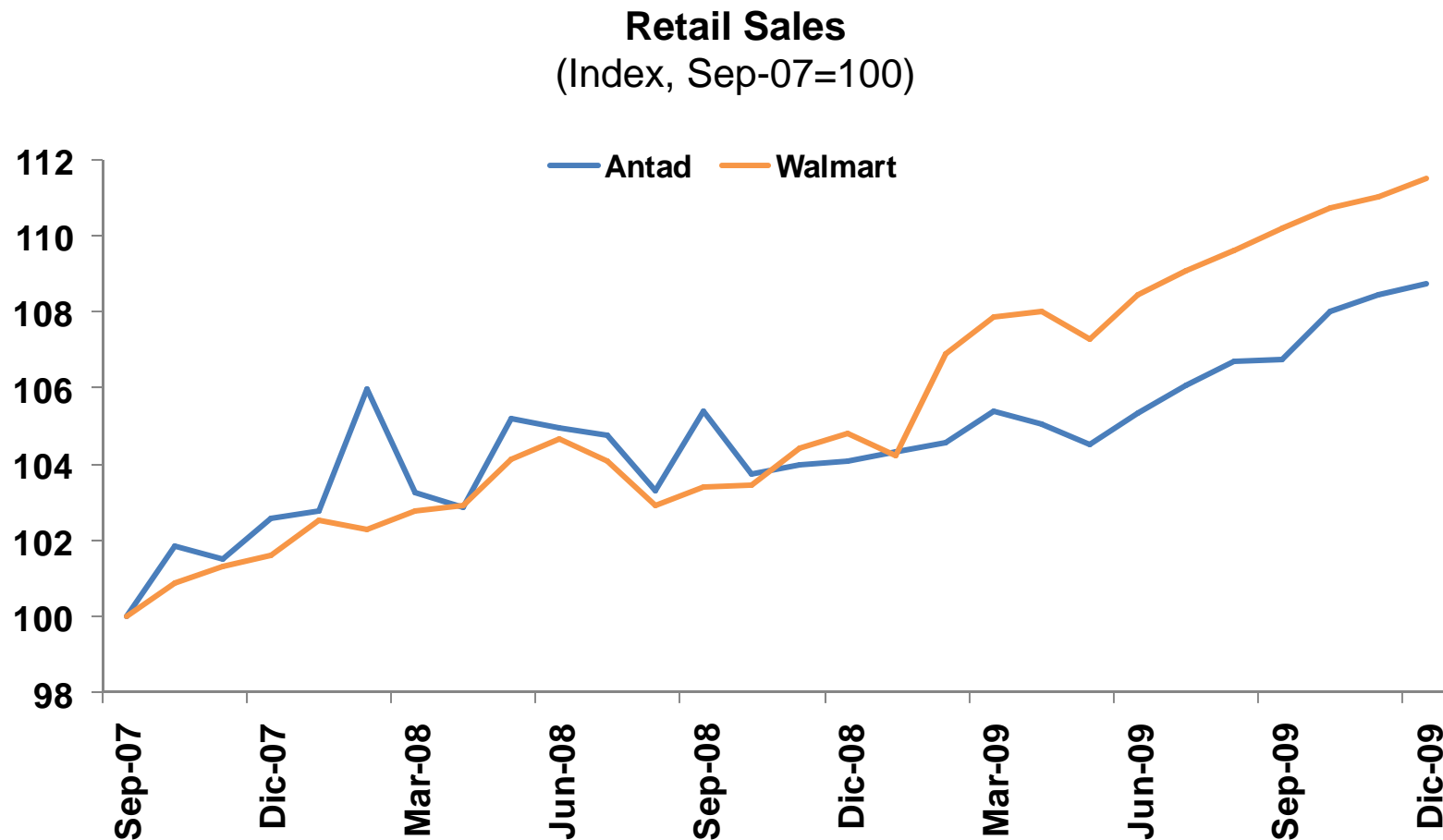
Banks' Capitalization Index Sep-09 (%)



Credit to Private Sector (% of GDP)

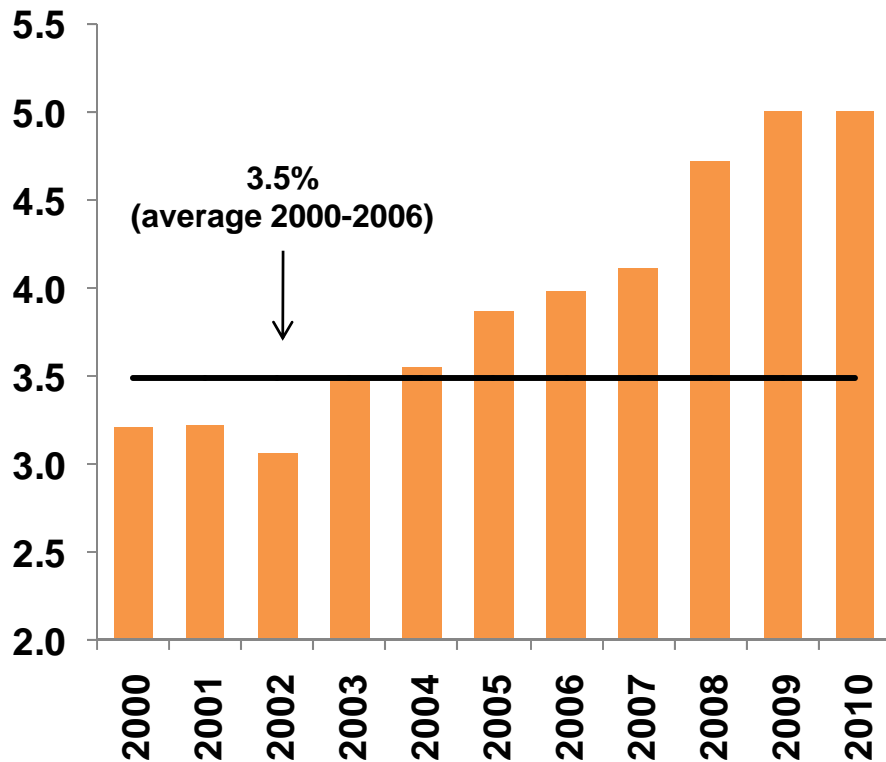


Recent indicators regarding aggregate demand have improved significantly.

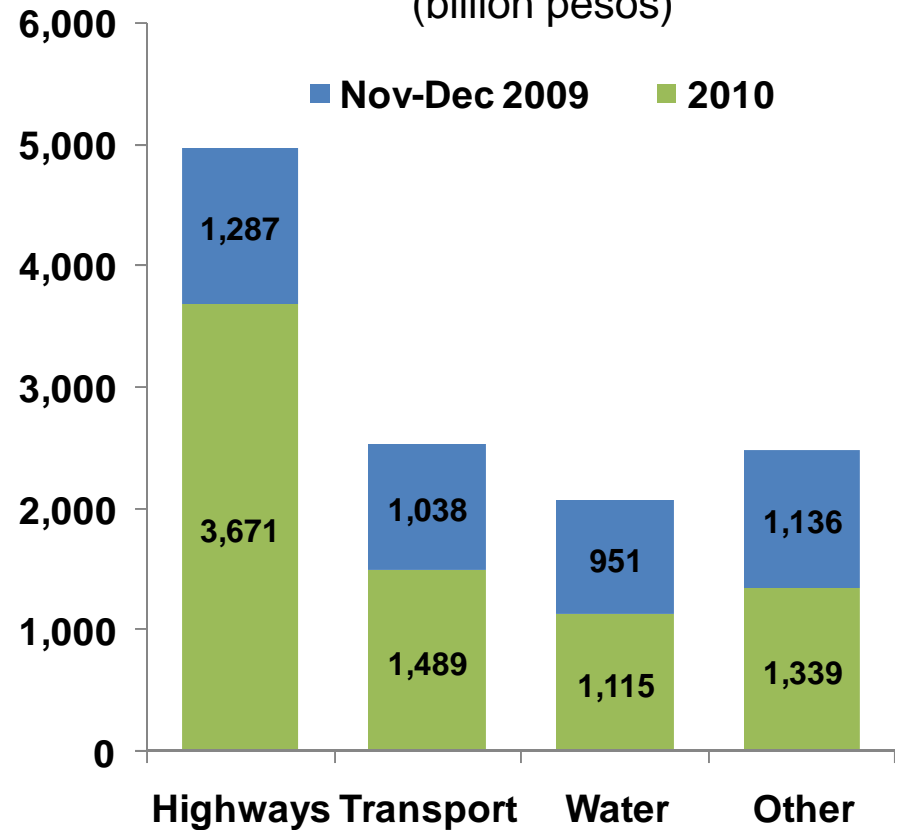


Fostered investment in infrastructure will be 44% higher than the one observed in 2000-2006, and Fonadin will develop projects in all infrastructure sectors.

Fostered Investment (% of GDP)



Fostered Investment by Sector Nov-Dec 2009/2010 (billion pesos)

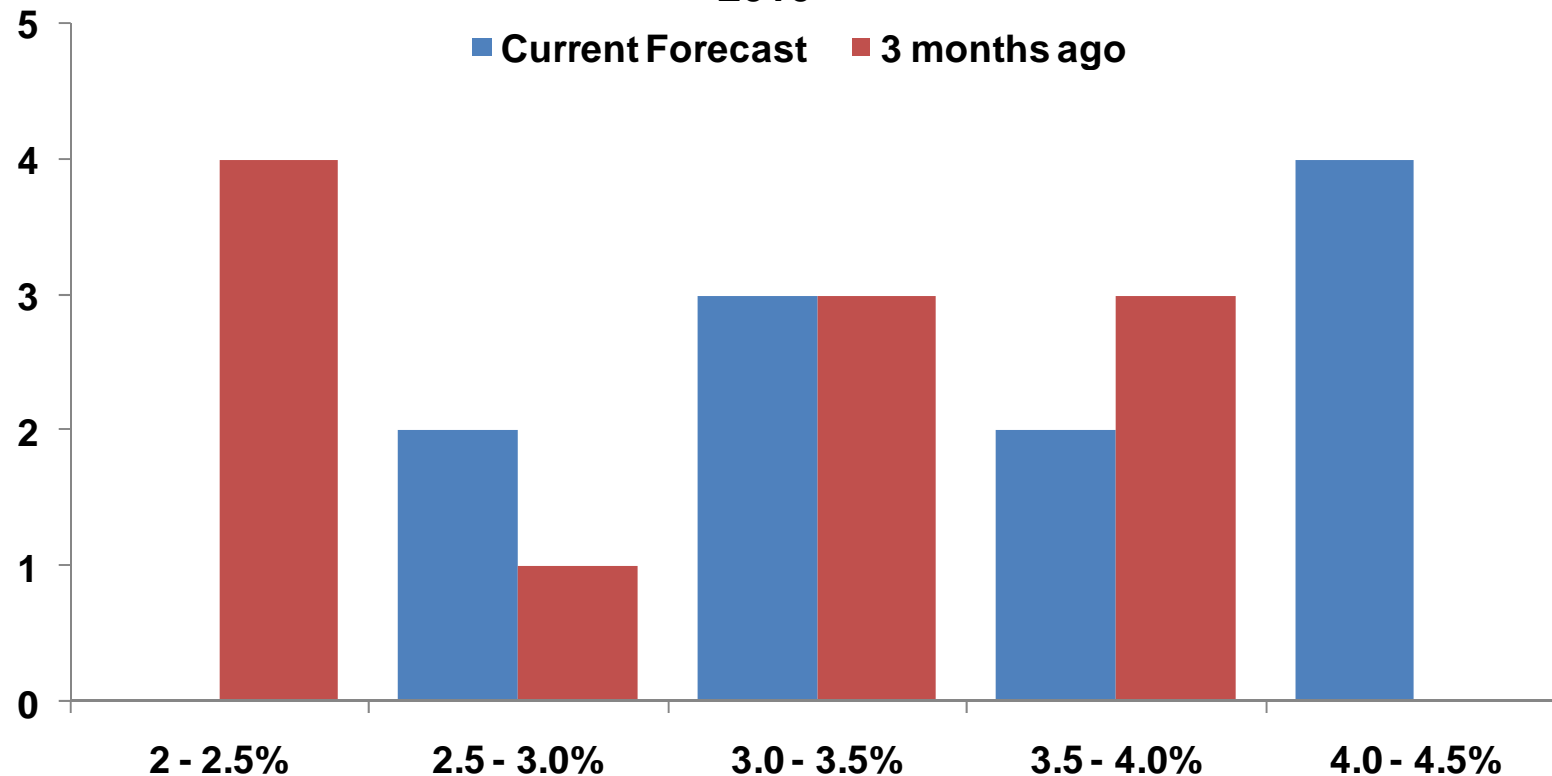


Recent reforms and decisions that will translate into higher competitiveness and growth are the following:

1. The closing down of Luz y Fuerza del Centro.
2. The Energy Reform and new contracts in PEMEX.
3. Allocation of pension funds in long term projects of infrastructure.
4. The auction of part of the fiber optic network of CFE.

Taking the previous elements into account, several analysts have revised their growth forecasts for 2010 to close to 4%.

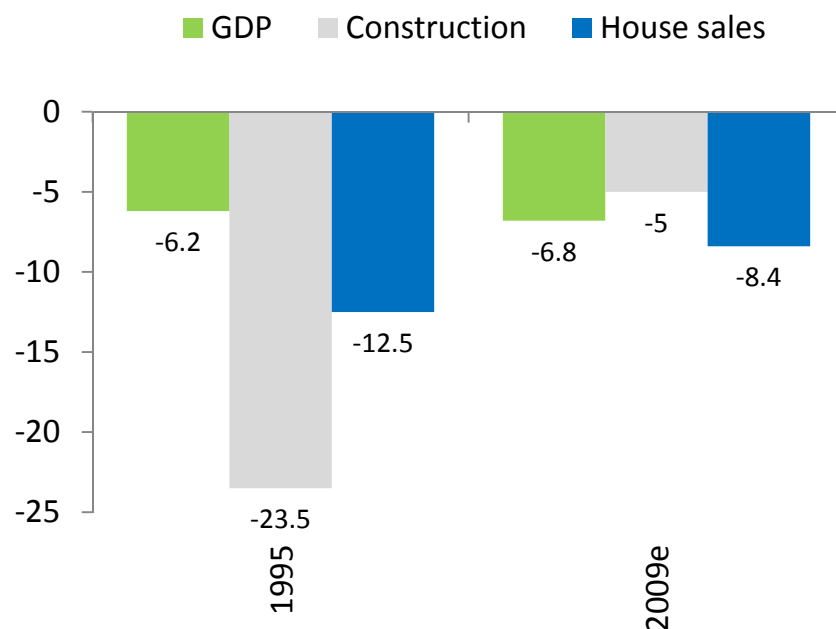
Frequency of GDP Growth Forecasts for Mexico 2010*



*Santander, Deutsche Bank, Bancomer, Banxico's Analysts' Survey, Scotiabank, Blue Chip, JP Morgan, Morgan Stanley, IMF, Banamex, Credit Suisse, Goldman Sachs

The previous elements should lead to a recovery in domestic demand and in the housing sector. Already in 2009, financial stability lessened the effects of the crisis on the construction and housing sector, compared to the 1995 crisis. Housing finance declined by 10% in real terms.

GDP, Construction and House Sales (annual change,%)



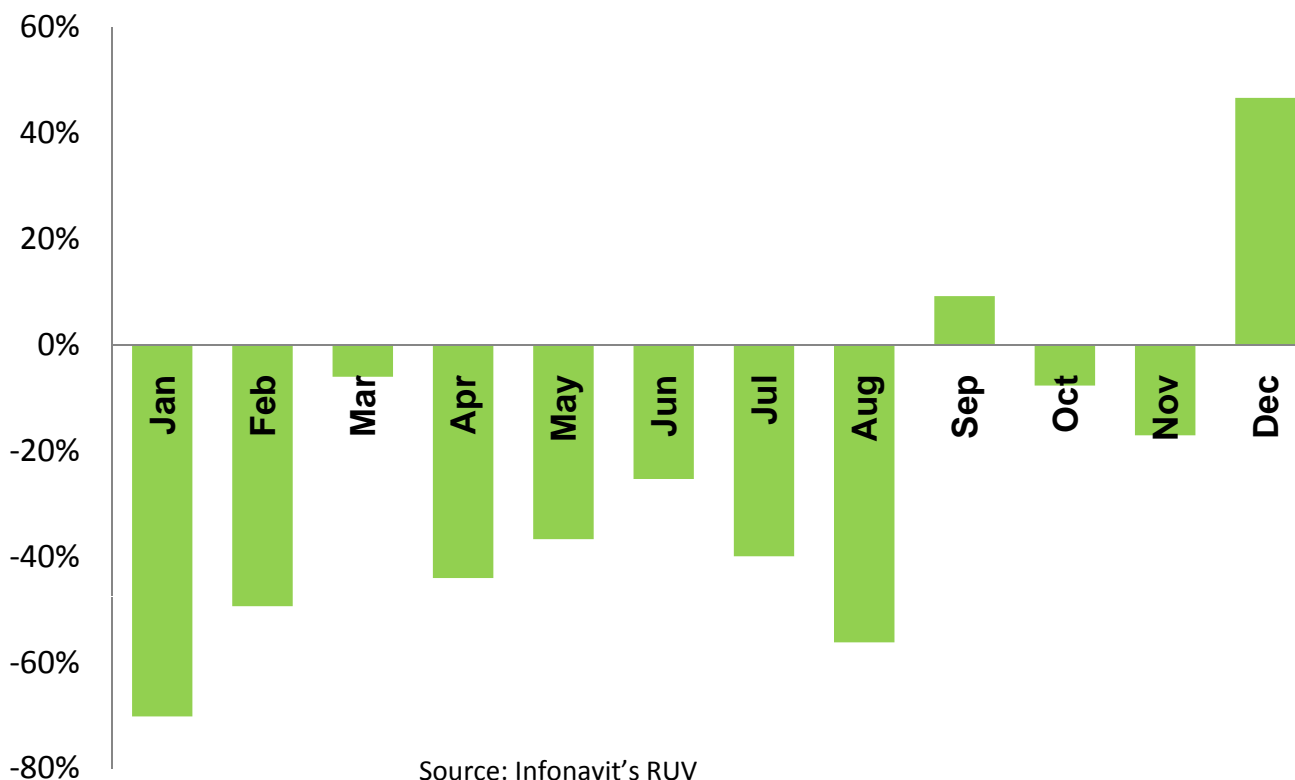
Source: INEGI, Softec, CONAVI, AHM

Construction finance in 2009 was supported by the public sector.

- Public sector **fostered investment** represented 5% of GDP (the highest figure of the decade)
- **Banobras** expanded its credit in 26 billion pesos, 25% increase.
- The **National Infrastructure Fund** promoted 21 billion pesos in investments.
- **Fovissste** reached the historical number of 100 thousand loans granted, for a total amount of 47 billion pesos financed.
- **Sociedad Hipotecaria Federal** increased its credit balance in 60 billion pesos, a 42% annual growth rate.
- **Infonavit** formalized 447 thousand loans with an investment of 98 billion.
- **CONAVI** transferred almost 5 billion pesos in subsidies.

The reduction in housing finance had a significant impact on construction. Housing starts decreased until August 2009 and have seen a change in trend since September, reaching a 46% annual increase in December.

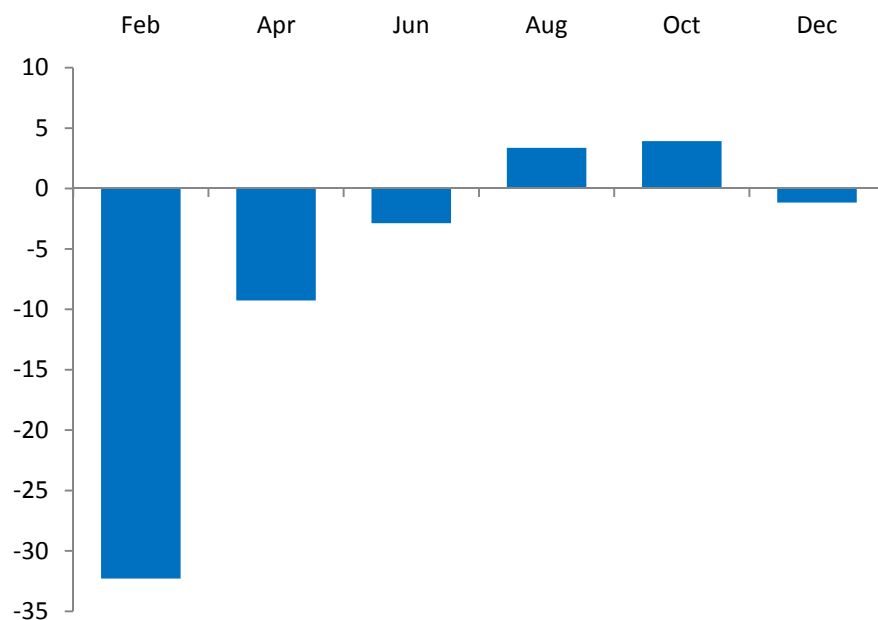
Housing starts
(annual change 2008/2009, %)



Source: Infonavit's RUV

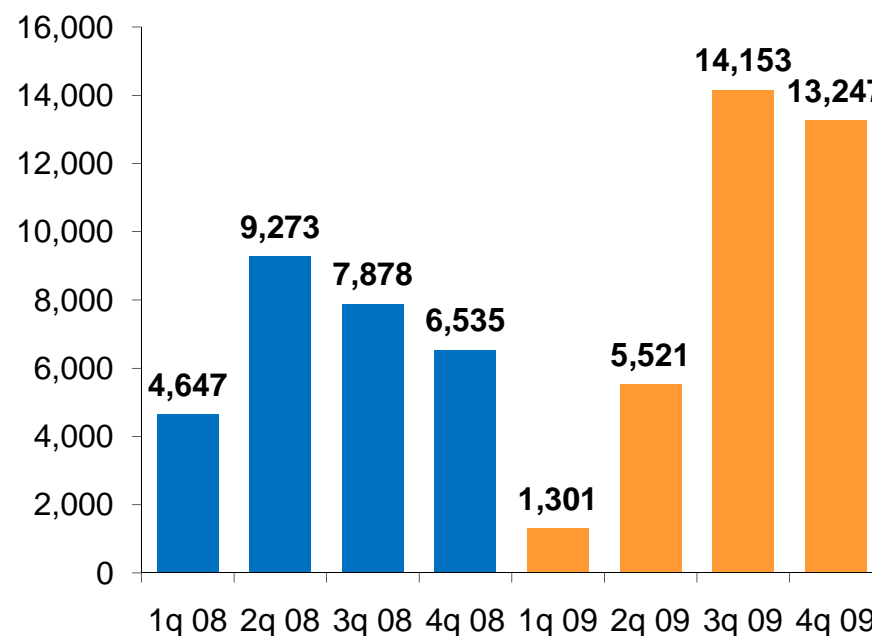
After a slow start, housing finance changed its declining trend in the second half of 2009 and the conditions for debt issuance improved.

Infonavit and Fovissste's housing finance
(annual growth 2008/2009, %)



Source: CONAVI

Issuance of housing mortgage backed securities
(million pesos of 2009)



Source: BMV

To strengthen the financial soundness of the housing sector, new products have been designed by SHF and new regulation and legislation is being drafted.

Recent measures

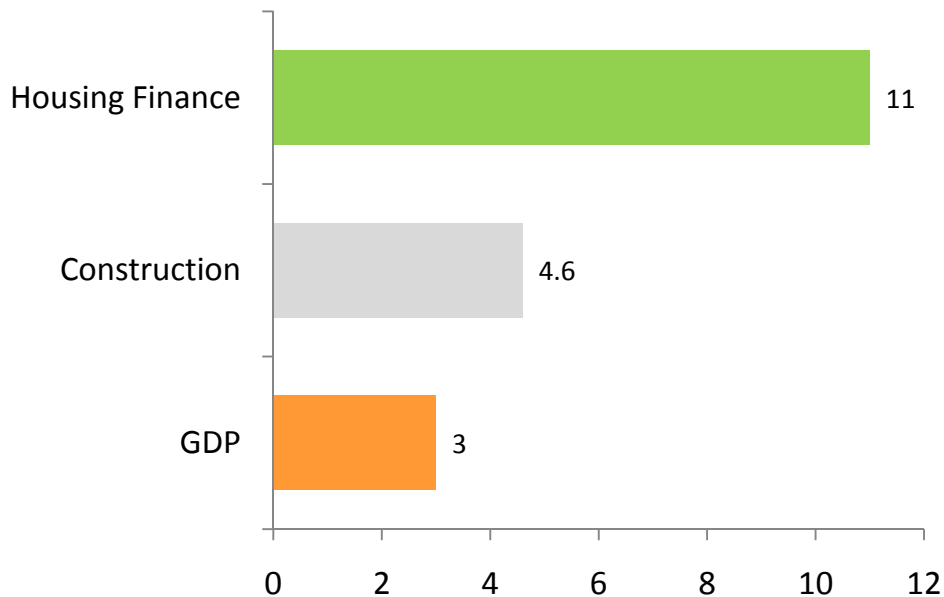
- To attract investment to housing construction by private funds and banks, SHF is releasing new products that provide funding and risk sharing capacity to investors in these market
- Regulation for niche banks is already in place
- The regulation of securitizations has been strengthened:
 - Skin in the game: issuers are required to hold bonds that bear first losses
 - Increase information revelation to investors

Changes in process

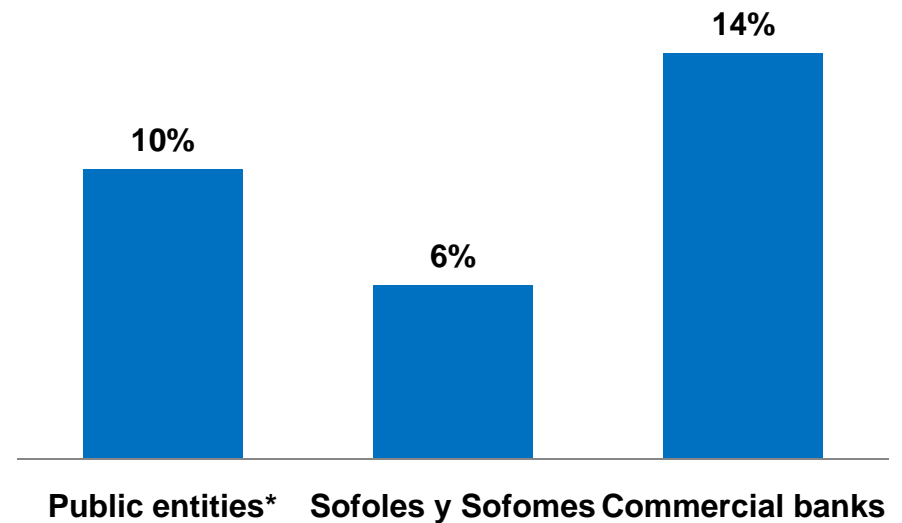
- Unregulated sofomes that raise money in the market will be regulated
- Covered bonds will be introduced, which will provide investors with an investment alternative

Based on the previous elements, construction is expected to increase in 2010 by 4.6% and housing finance by 11% in real terms.

Expected growth rate (%)



Expected real annual growth rate of housing finance (%)



Source: CONAVI, AHM

*/ Includes INFONAVIT, FOVISSSTE, SHF and CONAVI

Construction and housing are expected to recover their growth trend in 2010, driven by the following elements:

- A stronger demand for housing based on higher levels of employment and income.
- As financial markets return to normal conditions, the banking sector will increase its credit to its traditional sectors: consumption, housing and construction.
- A 10% increase in housing finance from public sector entities.
- 16% additional resources for CONAVI subsidies.
- The public policy to support the creation of large, urban housing developments (DUIS).