

MEXICO SUSTAINABLE YIELD CURVE

1. MEXICO'S FACTSHEET

1.1 Economic Recovery

- As the economy continues to reopen, it will keep driving a steady recovery for the country. Our internal economic projections have been revised upward for 2021 and 2022, as well as projections by other private analysts.
- The last three quarters showed a positive growth leaving the GDP at 96% of its pre-pandemic level (Q4 2019).
- Domestic demand and the external sector are playing an important role in pushing the economy back to pre-pandemic levels.
- The global vaccination rollout is key to boost both local services and tourism-related activities.
- Since the lockdown started to lift, 12 million jobs have been recovered due to a more robust economic activity. The formal labor market has shown a faster recovery. Thus, we expect by the end of this year to see a full recovery.

1.2 Public Finances and Debt

- Public finances remain solid, supported mainly by a strong performance in tax revenues. Between 2018 and 2020, revenues registered a permanent gain of 1.4% of GDP as a result of the efforts made to increase the Government's collection capacity.
- We estimate debt to decrease this year without public spending cuts or any tax increase.
- Regarding peer economies, Mexico has a favorable debt profile, which brings up more room for maneuvering.
- Leading credit ratings agencies have reaffirmed their investment grade rating for Mexico's sovereign debt. They highlight prudent macroeconomic policies and solid public finances as having contributed to the macroeconomic stability and investor confidence in the country.

2. CHARACTERISTICS OF MEXICO'S SDG BOND FRAMEWORK

- Mexico's SDG Bond Framework reflects Mexico's strong commitment to the United Nation's 2030 Agenda and to continuing to implement the necessary mechanisms to reach it. Mexico's SDG bond issued in September 2020 and



any future issuances are innovative instruments that help address both social and environmental gaps in the country and are supported by a sound governance structure that guarantees transparency, coherence and planning and monitoring mechanisms to reach the SDGs at the national and sub-national levels.

- Mexico's SDG Bond Framework has remained without changes since the last transaction in September 2020.
- The pool of eligible expenditures for in Mexico's 2021 budget follow the SDG Bond Framework criteria and no new budgetary programs were added compared to the 2020 budget eligible expenditures.
- Although Health and Education will remain as the main categories related the SDG eligible expenditures (representing more than 60%), this issuance will also be aimed at other Social SDGs, including: Zero Hunger, Good Health and Well-Being, Quality Education, Decent Work and Economic Growth and Industry, Innovation and Infrastructure (SDGs: 2,3,4,8 & 9).
- An updated SPO has been provided by Vigeo Eiris to reassure the alignment between the Framework and the 2021 ICMA principles (green & social bonds principles and sustainable guidelines).
- The SDG Bond Framework relies on robust and exhaustive SDG decision-making. The eligible sustainable expenditures are selected from the Federal Budget items previously approved by Congress. Moreover, we choose only budgetary programs which comply with 6 additional different criteria established on our Framework. By doing this, we guarantee to set a pool of eligible sustainable expenditures that have i) at least one direct contribution to an SDG, ii) no negative spillovers and iii) ensured permanence.
- Additionally, the eligible expenditures related to Social SDGs are subject to a geospatial criterion to address the most vulnerable regions with higher social gaps.
- This strategy ensures transparency in the budgetary process and clearly reflects how spending impacts the SDGs and is translated into tangible social outcomes.
- In this way, our Framework gives the flexibility to issue SDG Sovereign Bonds under any of the SDG Green, SDG Social or SDG Sustainable categories.
- The eligible sustainable expenditures related to Social SDGs total approximately 15.5 billion dollars, around 5 billion dollars higher than last year.
- This mirrors Mexico's priority to reorient sources towards integral social programs, especially related to health, education and ensure food security, access to essential services, and guarantying continuity of the social programs over the years.
- Why are these expenditures are priority? Closing the gender, financial, regional and income gaps is the missing link to reach sustainable growth where economic growth can actually be translated into national welfare.



- So now, below some examples where eligible expenditures can be expressed into reality:

Example of SDG 3

- Aiming to provide universal healthcare coverage to all the population - especially during the recent health crisis- by providing vaccines and free medicines, 43% of the eligible expenditure was allocated to impact Good Health and Well Being (SDG 2). One of the most important programs is to guarantee the right to healthcare treatments and universal access to free medical care and medicines to the population without increased social security. This budget line is the largest eligible expenditure within this group in order to grant to all people health services. This program is part of the National Health System and we look to gradually increase its scope in order to achieve universal coverage.

Example of SDG 4

- Following the rational of the Federal Government's priorities, the next highest SDG category of 2021 eligible sustainable expenditures is Education. Mexico's Government believes in one of its most valuable assets: human capital. In this way, the eligible expenditures are focused on programs that promote access to quality education and reduce permanent human capital lost by providing scholarships in all education stages. Offering the necessary resources for continuing education can change a person's life.

Example of SDG 2

- Regarding the second SDG which seeks sustainable solutions to end hunger on all its forms, we implemented the program Sembrando Vida, or Sowing Life. The program contributes to increased productivity in rural areas, establishes effective agrarian production systems that enhance employability and reduces vulnerabilities for small farmers that live in marginalized areas. The program promotes regional development in the short, medium and long term, and is one of the most important programs in our sample of eligible expenditures since it is a true alternative against rural and food poverty. As of March 2021, this program during has covered more than 425 thousand people.¹

¹ <https://pub.bienestar.gob.mx/pub/programasIntegrales>



- Complementary to this, the program Production for Wellbeing, supports nearly 2.2 million producers across the country with direct transfers so producers can invest in their farms. This program aims at increasing agricultural productivity of small and medium-size farmers while ensuring the availability of basic food products. This year, this program includes 250 thousand producers from indigenous communities in high and very high marginalized regions.

Example of SDG 9

- By developing quality, reliable, sustainable and resilient infrastructure we aim to close the regional gap, meeting the 9th SDG. The eligible program is designed to build rural roads, aiming to connect remote communities and improve their access to broader markets and basic services such as education.

Example of SDG 8

- The programs related to financial inclusion are an example of the eligible expenditures that will have a direct contribution to SDG 8 by promoting decent work and economic growth. The programs are implemented by the *Banco de Bienestar* –one of our development banks- in the most distant and highly marginalized localities. Using their wide network of branches and their institutional agreements they can provide the most vulnerable populations, including indigenous people access to banking services. This program contributes to the development of the economy by providing financial education and increasing access of financial products and services.
 - The Ministry of Finance has been developing a business literacy program for firms run by women entrepreneurs with a strong component on financial education. Banco de Bienestar has incorporated this material in order to better assess microentrepreneurs in rural communities.

3. MEXICO TOWARDS SUSTAINABLE GROWTH

- Mexico has strongly emphasized that sustainable development is an essential factor for national well-being, specifically aimed at the most disadvantaged population. In this sense, the issuance of the inaugural SDG Sovereign Bond 2020 was not an isolated effort, it was part of an integrated approach taken by the current administration to boost growth, reduce poverty and inequality and improve well-being for all.



- The objective is to build a stronger pathway towards sustainability. Therefore, new actions are being implemented looking to serve as building blocks for shaping a sustainable financial ecosystem.
- First, the federal budget was linked to the SDGs at program level. This allows us to consolidate the SDG Sovereign Bond Framework by targeting specific social and environmental pre-defined objectives and programs. The sovereign framework specifies the main eligible categories within the budget which are matched to 11 out of the 17 SDGs.
- Second, a sound governance structure has been built in order to achieve the 2030 Agenda. This guarantees policy coherence and coordination within federal institutions, local governments and non-governmental actors. Two solid figures have been created. One – the National Council for the 2030 Agenda – is responsible for coordinating and evaluating the strategies and actions to achieve the sustainable development goals. The second organism – the Specialized Technical Committee – ensures accountability by measuring performance with the creation of KPIs and the necessary data to construct sustainable indicators. Anyone can track Mexico's progress towards the 2030 Agenda based on official data in the Information System of Sustainable Development Goals website.
- Third, Mexico is designing a unified green and social taxonomy that will help build momentum for climate and social-friendly investments. Developing a methodology to identify and differentiate sustainable activities will facilitate investors to choose among their sustainability preferences, and limit the risk of greenwashing.
- Fourth, we are improving the regulatory framework by framing an environmental and social investment policy for institutional investors –such as pension funds, insurance companies and development banks. As the local sustainable market develops, our objective is that a higher proportion of its funds incorporate ESG considerations into the investment process.
- Fifth, we have a commitment to keep developing broad financial instruments linked to the 2030 Agenda. In particular, we want to develop a sustainable local financial market that encourages ownership for the achievement of the 2030 Agenda and where a transparent price formation will allow us to measure the social cost and the future risk of not acting now.
- We are entering into a new era of sustainable investing. Many firms now consider ESG bonds as an integral part of their fixed income portfolio allocation, by actively changing their investment and issuing policies and increasing their positioning in new instruments across the globe either looking for diversification, to align their strategies with organizational values or to generate higher risk-adjusted returns over the long term.



- Considering the issuances emitted globally so far in 2021, we observe that 6.8 billion dollars were related to sustainable bonds while USD 300 million were linked to green bonds.
- In the same way, we are observing a clear consolidation and diversification of the sustainable bond market in Mexico. In less than 4 years, the total amount of corporate issuances has nearly doubled from USD 510 million in 2017 to USD 980 million in June 2021. These bonds are currently distributed as follows: i) Sustainable issuances at 43.4% of the total amount; ii) Green issuances, 37.1%; and iii) Social issuances, 19.5%.
- In this context, the Federal Government expects to play a central role by building a sound sustainable yield curve and promoting the continued development of financial markets towards sustainability by:
 - i. Promoting capital mobilization and broader investor's base
 - ii. Developing new funding sources and benchmark references in different economic segments such as commercial banks, development banks and corporates
 - iii. Improving the efficiency in the price discovery processes for both public and private sectors
 - iv. Allowing market integration through a variety of financial instruments and facilitating their development in different capital markets and currencies.
 - v. Promoting transparency in public spending and high commitment to achieve the objectives established within the 2030 Agenda by a continuous monitoring for the fulfillment of its SDG goals
 - vi. Keeping Mexico's leading role as an innovative Latin American and EM Sovereign issuer towards sustainable financing.
 - vii. Aligning supply and demand dynamics, because the ever-increasing appetite for ESG investment represents a great financial opportunity to endure episodes of high volatility and diversification.

Mexico is committed to continued efforts to achieve the 2030 Agenda. We will keep designing and acting upon innovative strategies to reduce social and economic gaps and combat climate change. We will continue working to strengthen governance mechanisms and guarantee transparency in our actions in order to mobilize capital towards the SDGs.

Ministry of Finance and Public Credit
Mexico

