

Mexico's Economic Outlook

Last update: December 1st, 2021

HACIENDA

SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO



Mexico at a Glance



Mexico is the **15th largest** economy and **2nd one in Latin America**. By 2030, it will be the 9th.^{/1}



Large economically active population, **25% between 15 and 29 years old**. By 2030, Mexico will be the 9th most populous country in the globe.^{/2}



Strategic geographical position next to the largest consumption market in the world.



Mexico has **13 Free Trade Agreements (FTAs)** with more than 50 countries, reducing barriers to trade, including tariffs and import quotas.^{/3}

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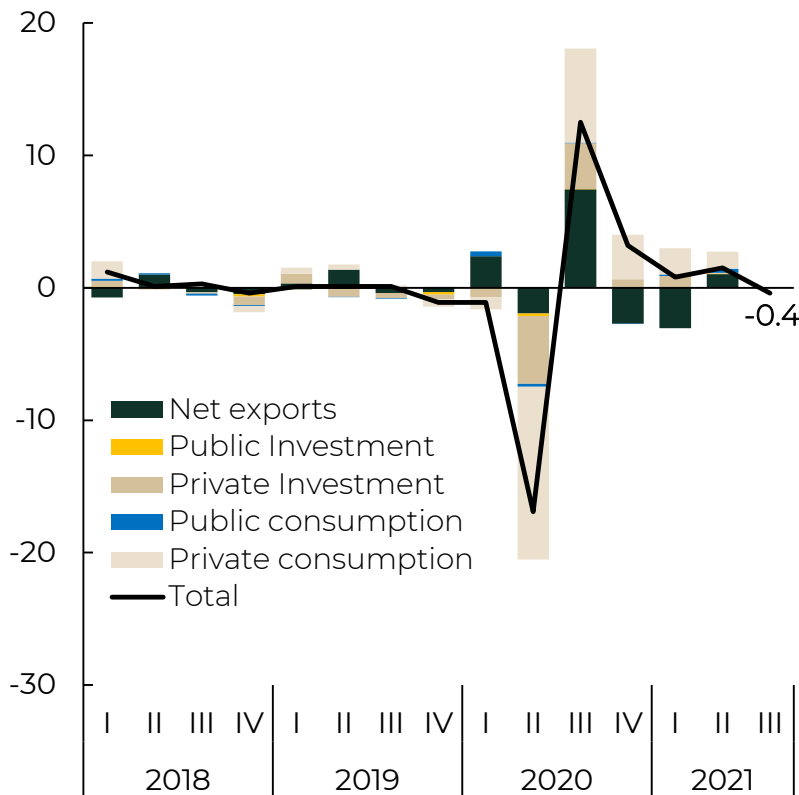
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Strong Economic Recovery

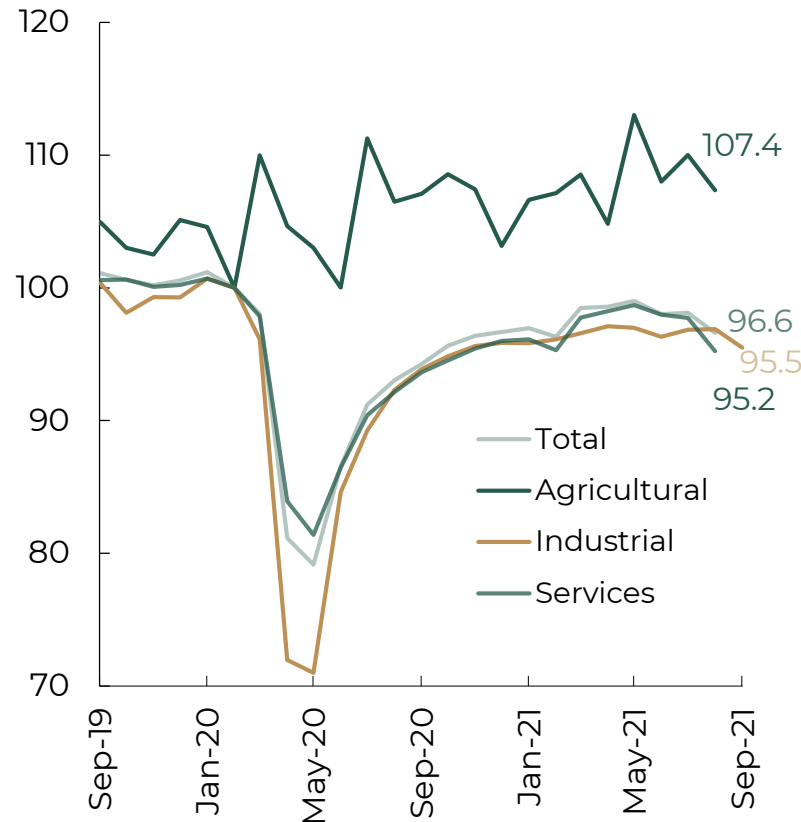
Despite the contraction in 3Q21, the Mexican economy is still on a path of full recovery. As for the 3Q21, GDP is at **98% of its pre-pandemic level (4Q19)**. Formal employment has shown a fast recovery, and it has reached its level before COVID-19 shock.

Contribution to the quarterly variation of GDP
Percentage points



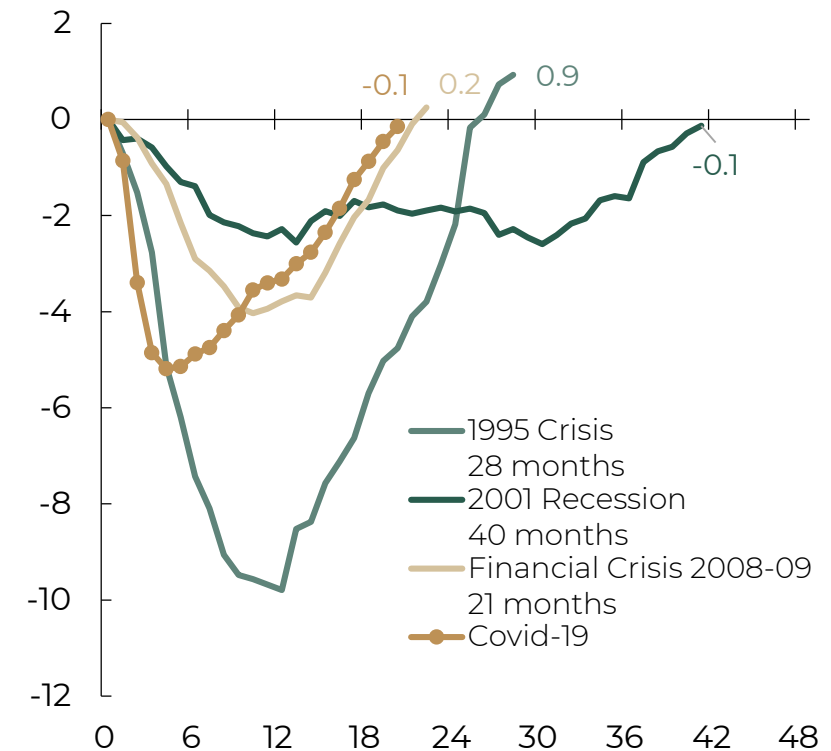
Source: INEGI.

Global Indicator of Economic Activity
Index Feb 2020=100



Source: INEGI.

Formal Employment¹
*Percent change from peak**



Source: Mexican Institute of Social Security.

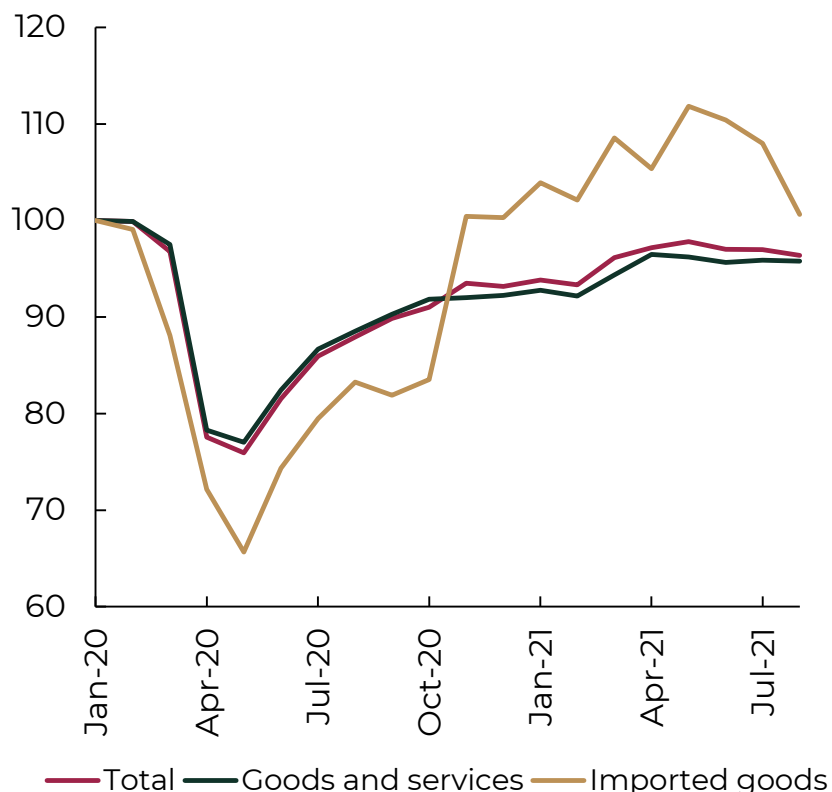
¹ Latest data as of October 2021. *Number of months since employment started to fall. Seasonal adjustment data.

Recovery in Employment and Consumption is Underway

The better performance in the domestic market conditions has been boosted by a solid **formal employment creation**. Private consumption is almost fully recovered. Supermarket and department stores sales are above their pre-pandemic levels. High-frequency data shows a recovery during 2Q21.

Private consumption

Index Jan 2020 = 100



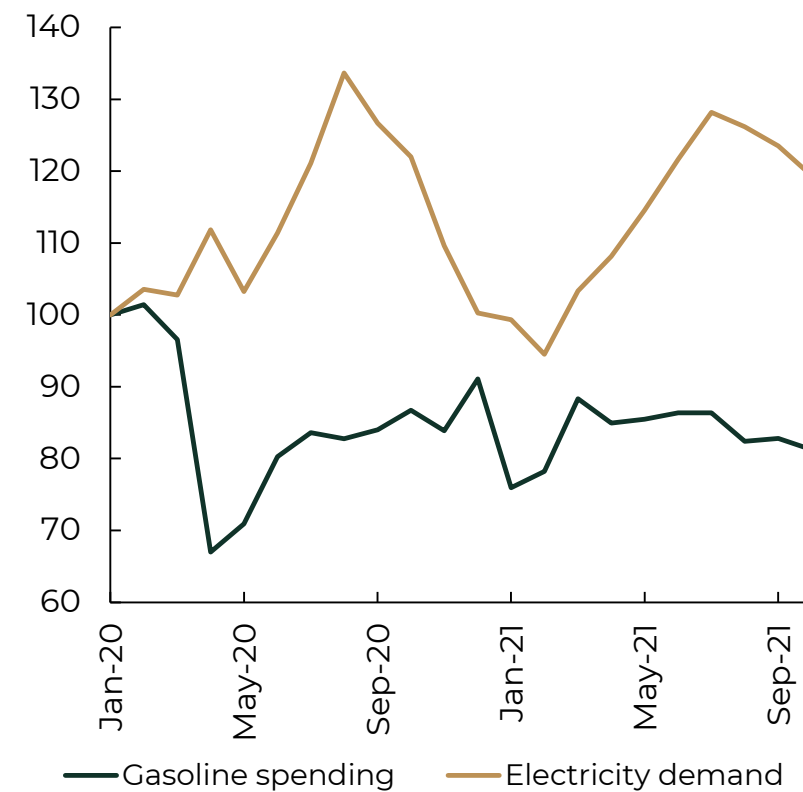
Supermarket and dept. stores sales

Index Jan 2020 = 100



Gasoline Spending and Electricity Demand

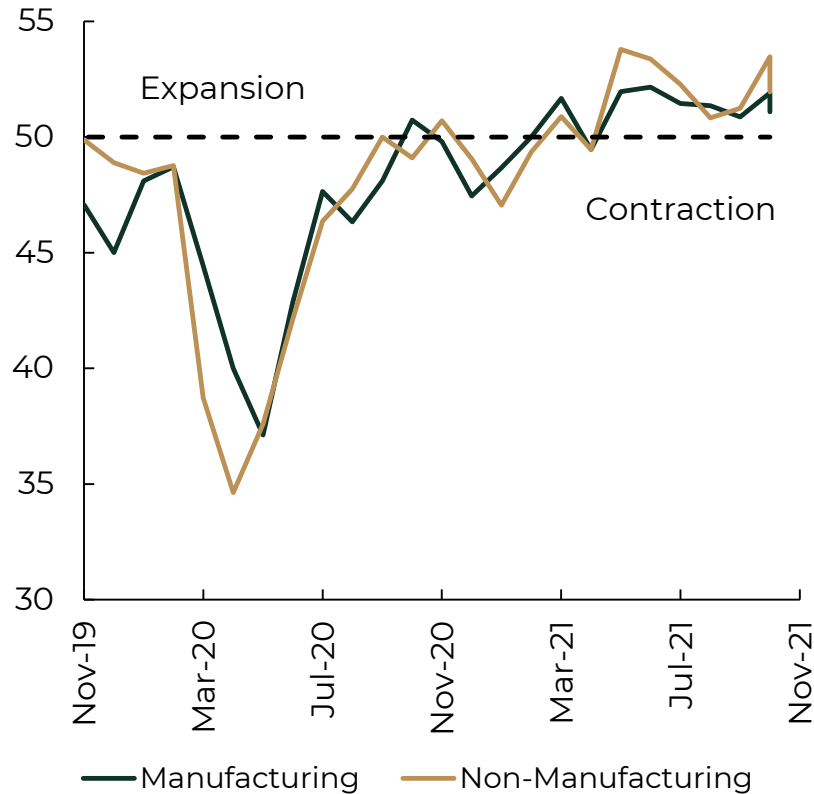
Index Jan 2020 = 100



Exports and Industrial Production Show a Rebound

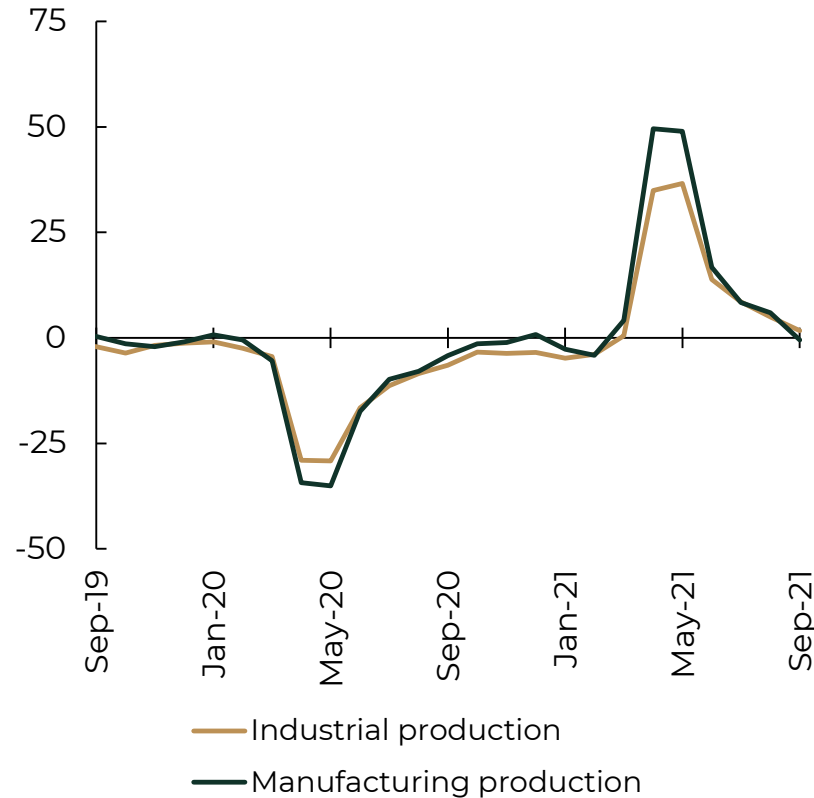
Manufacturing activity is in expansion territory while **industrial production continue growing although lost momentum**. Together with non-oil exports performance, they have supported the economic activity.

Manufacturing and Non-Manufacturing PMI
Index



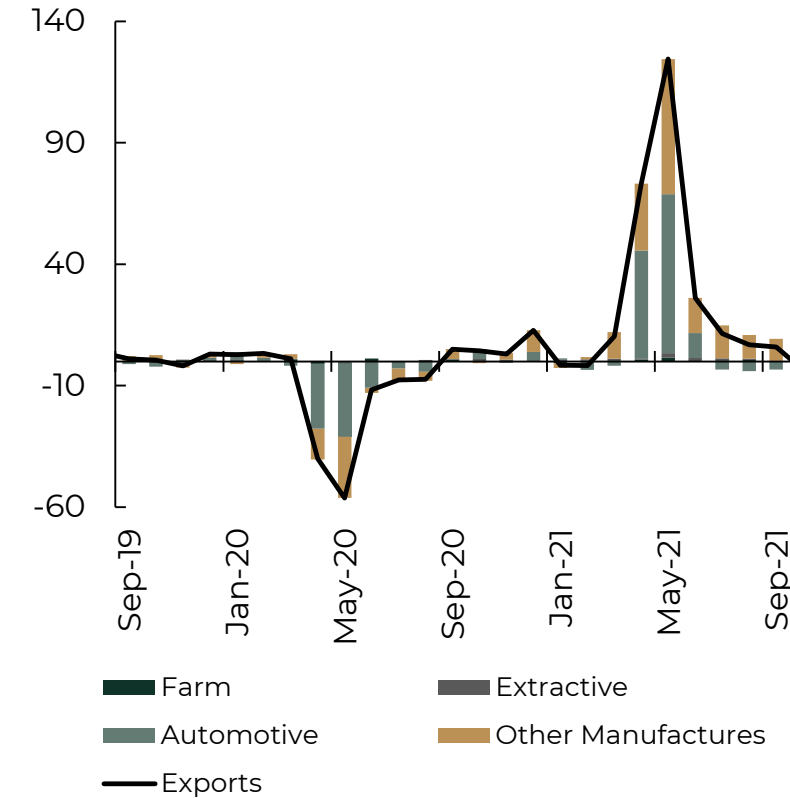
Source: IMEF.

Industrial Production
Annual % change



Source: INEGI.

Non-Oil Exports
Annual % change



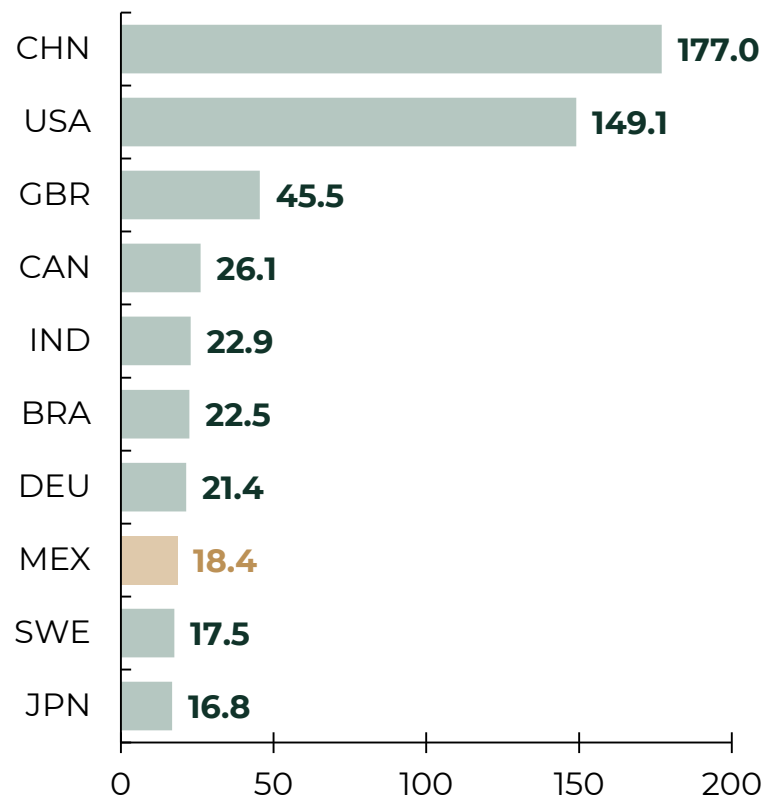
Source: INEGI.

Investment Has Been Resilient

In 2Q21, Mexico stood as the **8th economy in terms of Foreign Direct Investment (FDI) inflows** and continue showing resilience. During the first nine months of 2021 FDI was 5.7% higher than the same period of 2020. During 2Q21, gross fixed investment (GFI) as a percentage of GDP is close to the level registered in 1Q20.

Top 10 major FDI recipients, 2Q21

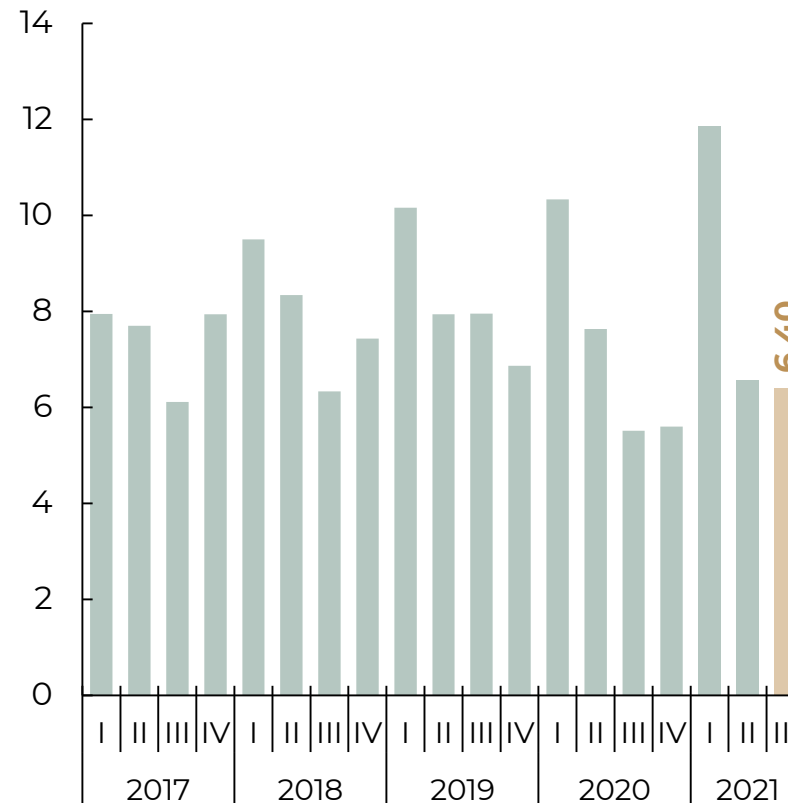
Billion dollars



Source: OECD.

FDI towards Mexico

Billion dollars¹

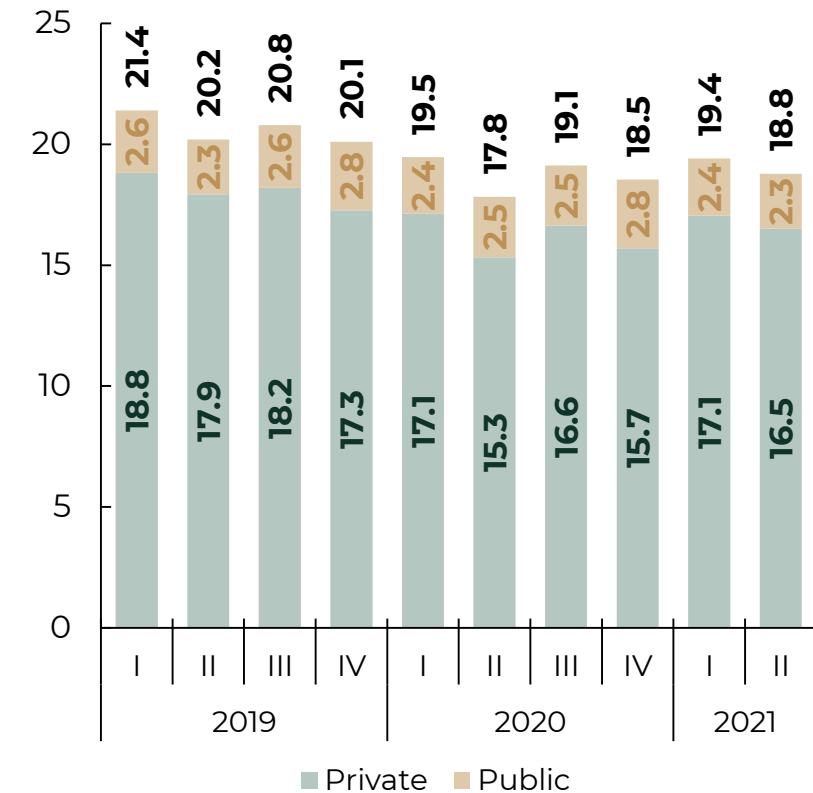


Source: Ministry of Economy.

¹ Preliminary figures.

GFI in Mexico

GDP %

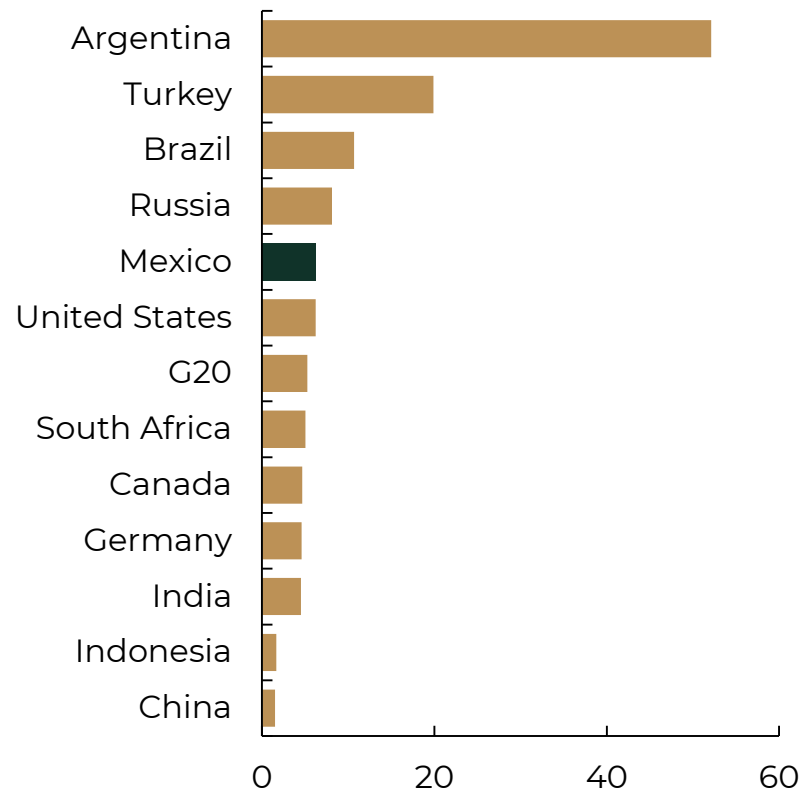


Source: INEGI.

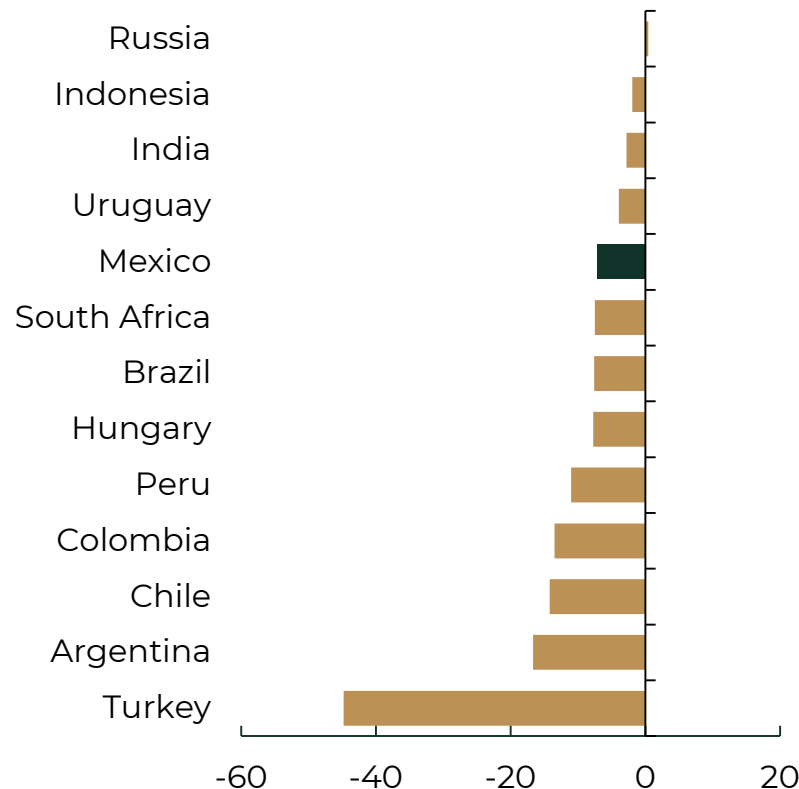
Low Inflation Level and High International Reserves

Central Bank's autonomy started in 1994. During 2021 worldwide economies have recorded a rise in inflation due to a fast recovery on demand-side after COVID-19 shock. The Mexican peso is one of the currencies with a minimum depreciation in 2021. Among EMEs, **Mexico has one of the highest level of international reserves**.

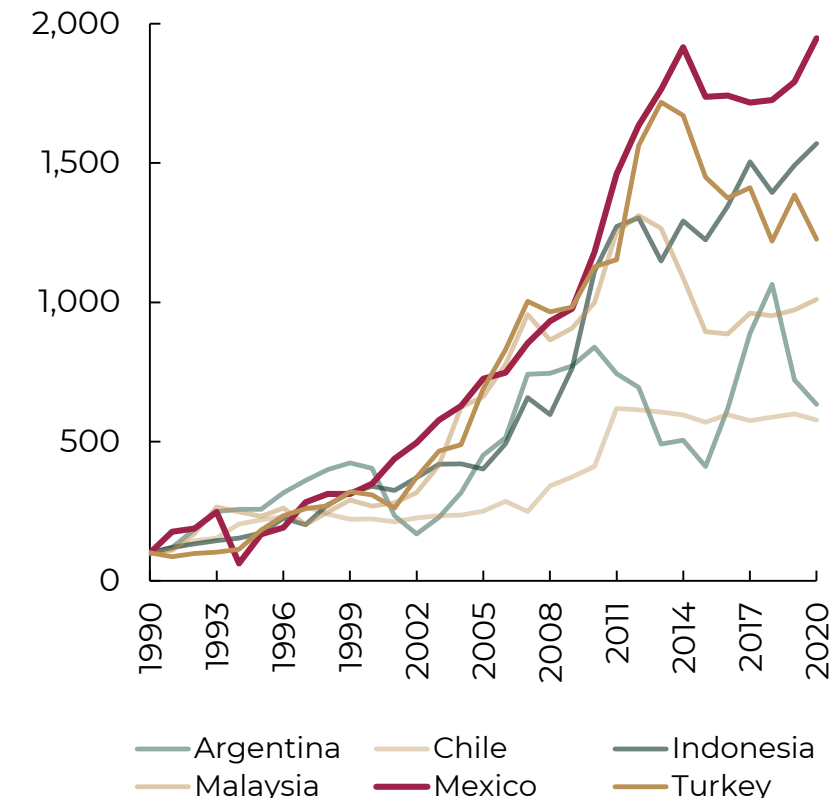
Headline inflation, all items¹
Annual % change



Exchange Rate Depreciation in 2021
% Change



High Level of International Reserves
Index 1990=100

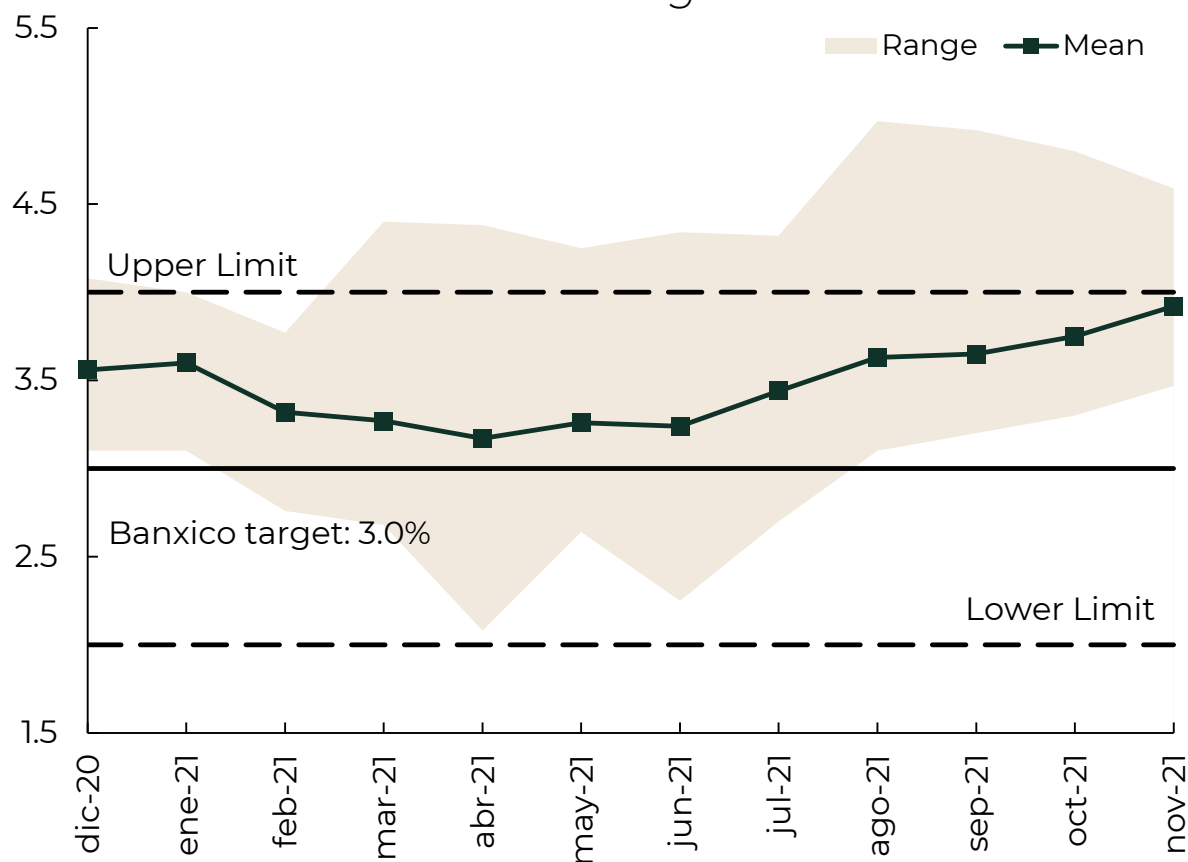


Inflation Expectations in the Medium and Long-term

Headline inflation has speeded-up in 2021 following the global upward trend in commodities and energy prices boosted by supply chain bottlenecks. Medium and long-term **expectations remain well-anchored**. The Central Bank started rising interest rates in Jun-21 and **expects inflation will be back around 3.0% in the 4Q22¹**.

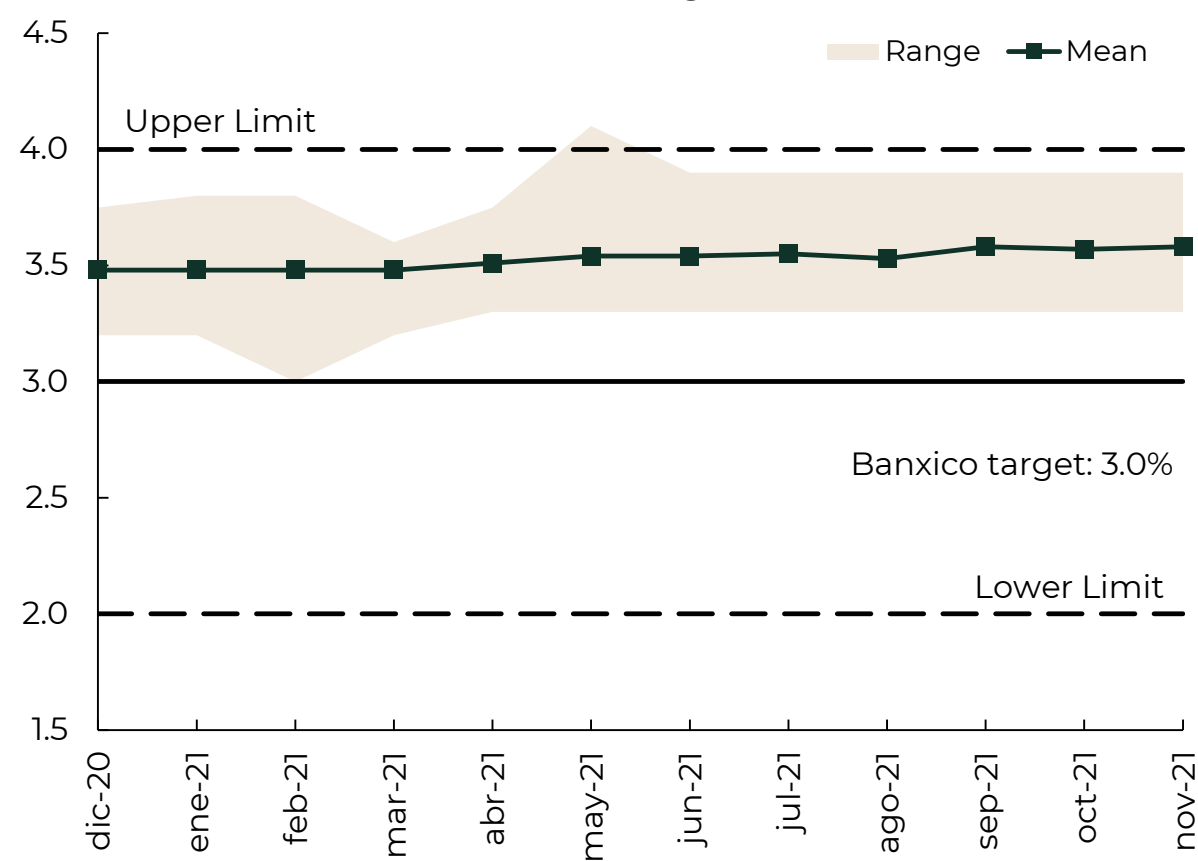
Inflation expectations for next 12 months²

Percentage



Inflation expectations for next 5 years³

Percentage



Source: Citibanamex survey.

¹ Quarterly Report July-September 2021, released on December 1st.

² Survey as of November 22nd.

Source: Citibanamex survey.

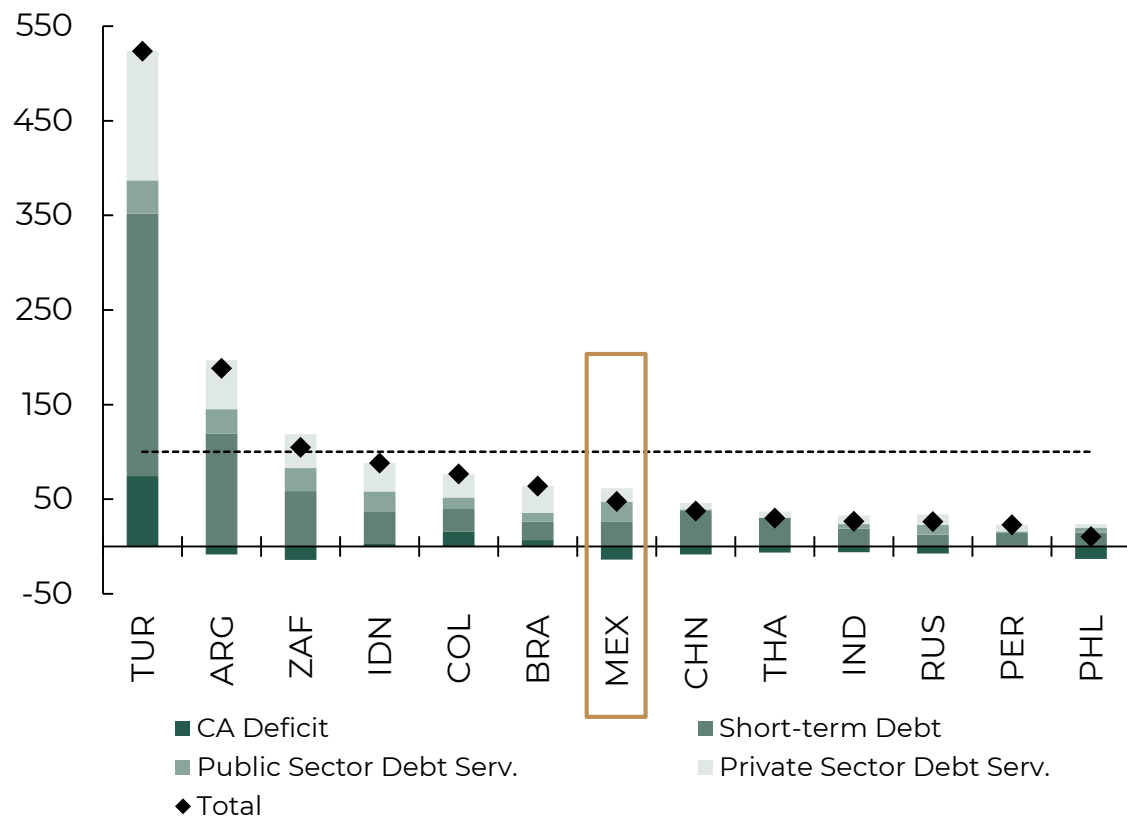
³ Survey as of November 22nd.

Limited External Financing Needs and Robust Banking Sector

Total external financing requirements are relatively contained while the Federal Government can count on **ample liquidity buffers to cushion possible external shocks**. The banking system is well-regulated and is capitalized significantly above the regulatory minimum.

External Financial Requirements

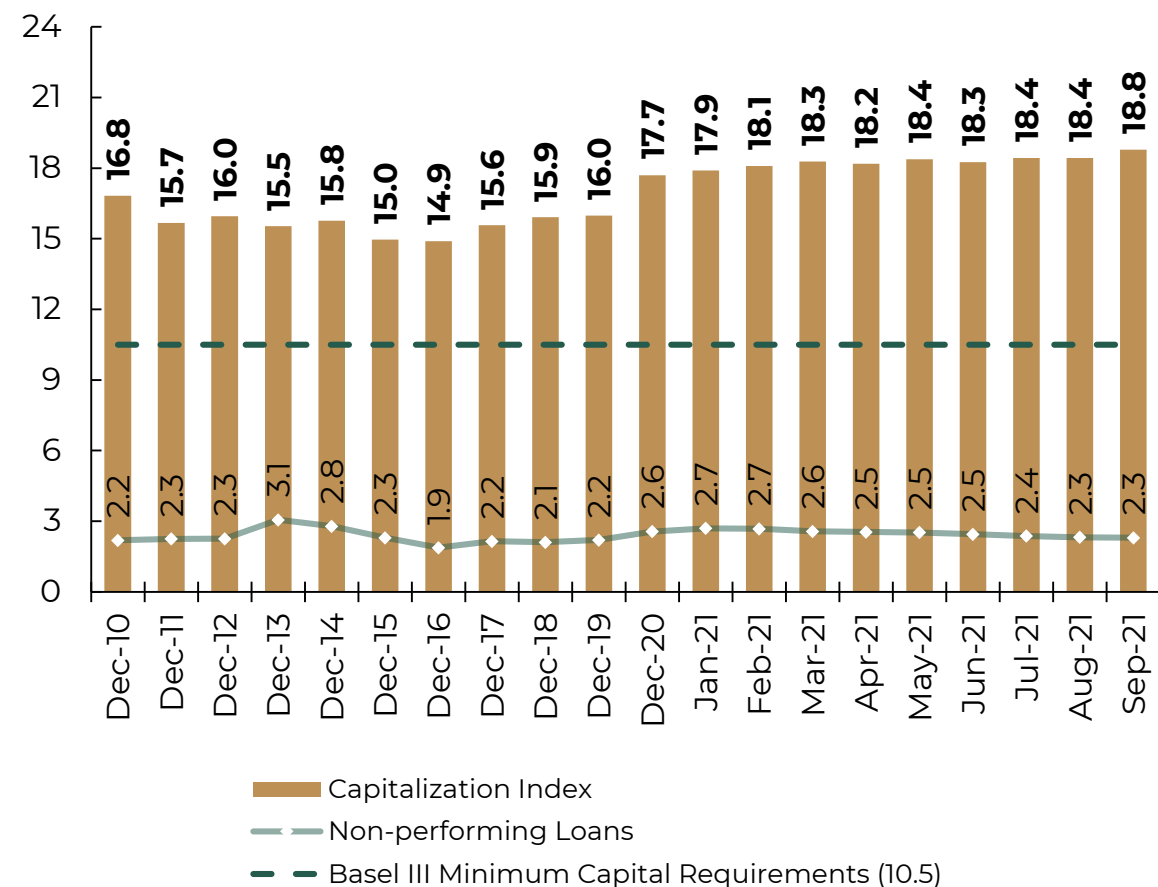
% of International Reserves, 2020



Source: World Bank, International Debt Statistics.

Mexican Banking System

Dec 2010 – Sep 2021, %

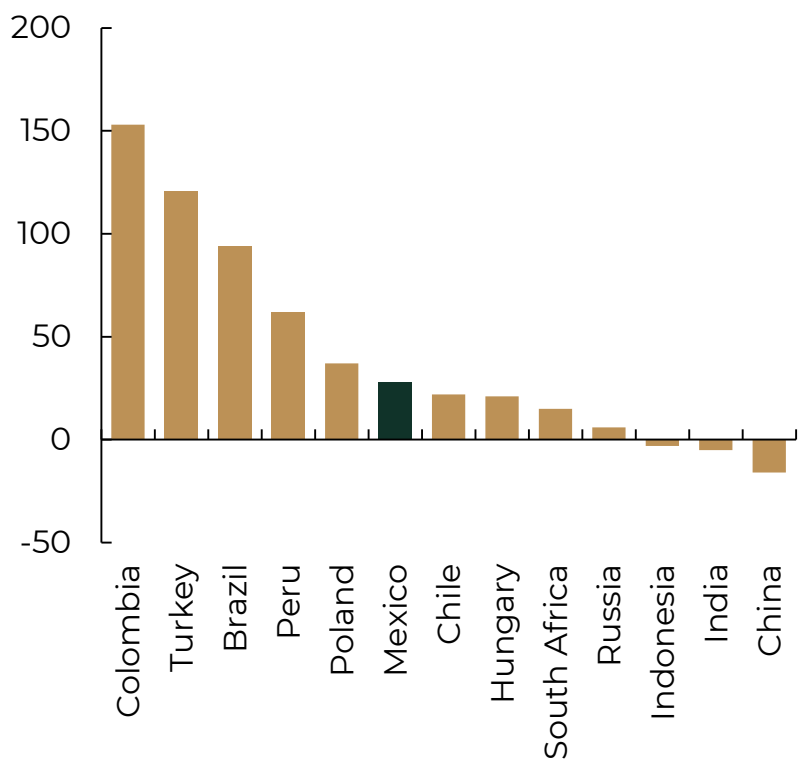


Source: Banco de México.

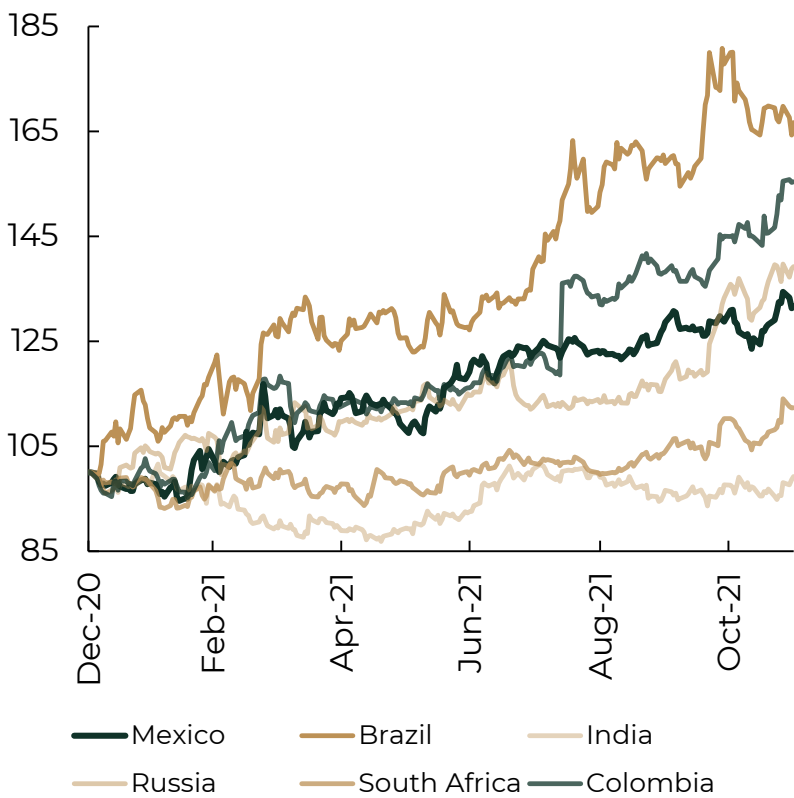
Risk Measures Have Decreased

Mexico's risk measures remain stable, improving investor's confidence. Mexico's risk indices remain below most of EMEs level. Total government securities holding by foreigners show a gradual fell.

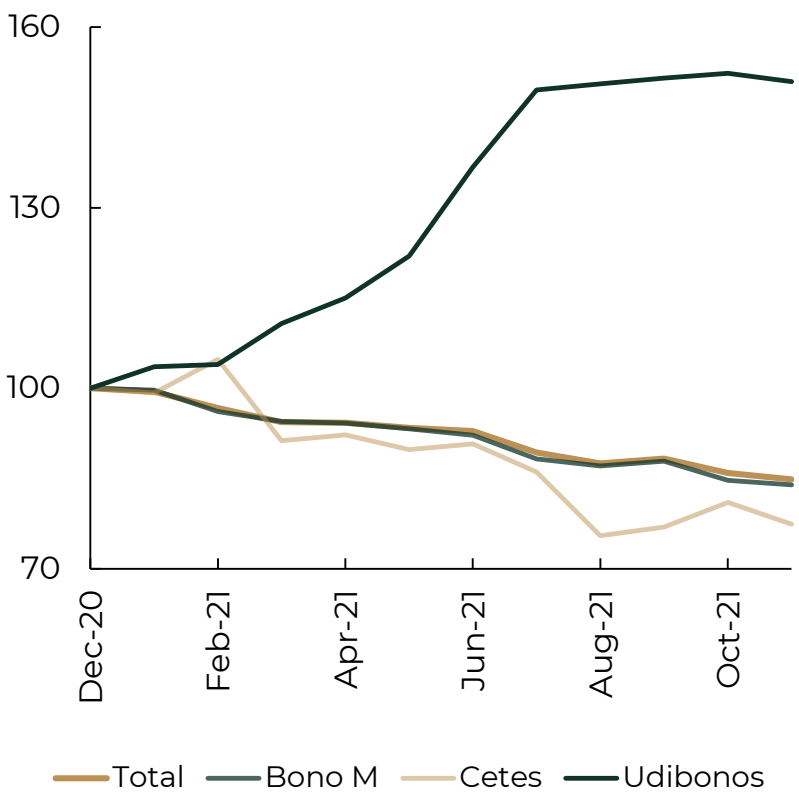
EMBI variation since 31-Dec-20¹
Basis Points



US Treasury vs Emerging Bonds²
Index, 31-Dec-20 = 100



Foreign Sovereign Holdings⁴
Index, 31-Dec-20 = 100



Source: Bloomberg.
¹ Latest data as of December 1st, 2021.

Source: Bloomberg.
² UST 10-year bond. Latest data as of December 1st, 2021.

Source: Banco de México.
⁴ Figures include all government values in effect at the date of consultation.
Latest data as of November 22nd, 2021.

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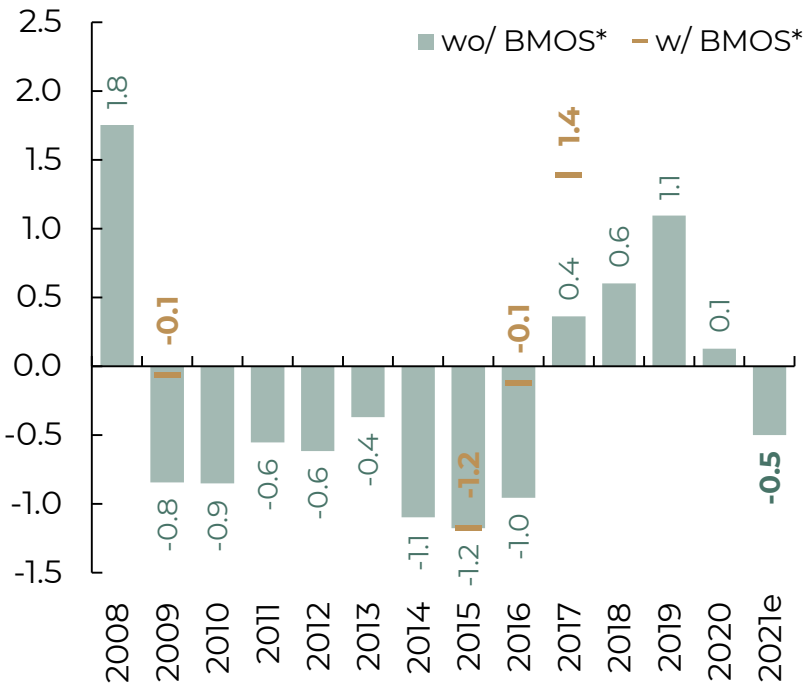
State-Owned Enterprises

Sound Public Finances

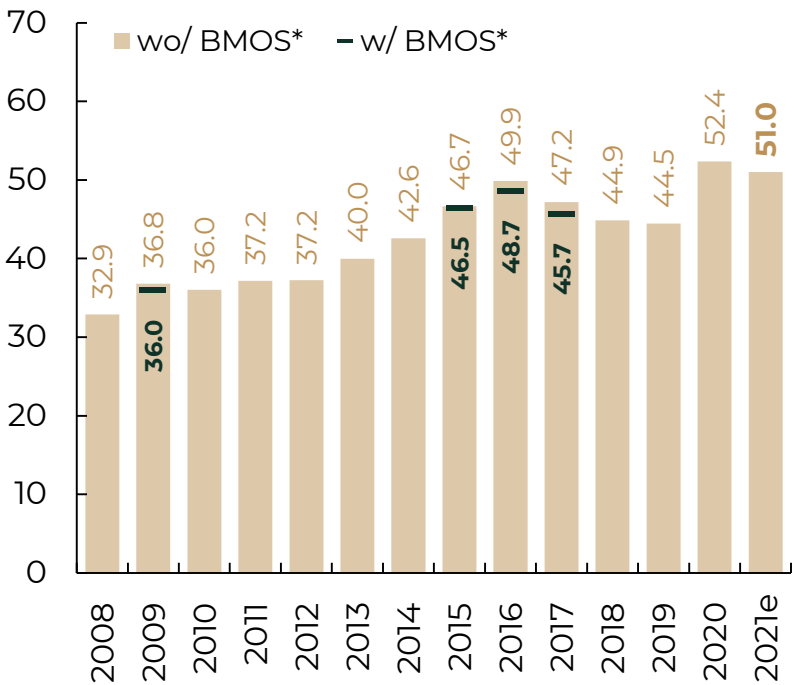
The Federal Government is committed to maintaining sound public finances and **ensuring prudent management of public debt** with a long-term perspective.

While in the G20 EMEs debt will increase by 8.1 pp between 2020 and 2026, in Mexico it will only be 0.4 pp..

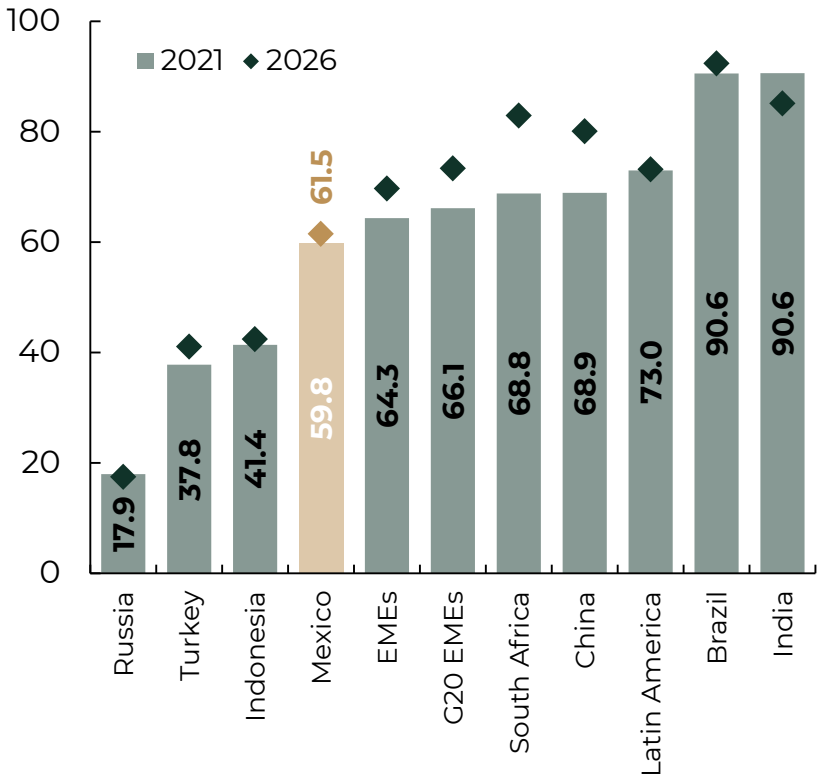
Primary Balance
% of GDP



Public Sector Net Debt^{/1}
% of GDP



Gross Debt Projections^{/2}
% of GDP



Source: Ministry of Finance.
* BMOS: Banco de México Operating Surplus.

Source: Ministry of Finance.
^{/1} Historical Balance of the Public Sector Borrowing Requirements.
* BMOS: Banco de México Operating Surplus.

Source: IMF, Fiscal Monitor: October 2021.
^{/2} General Government Gross Debt.

Public Finances as of October 2021

The Federal Government's finances are stronger and reflect the soundness of the Mexican economy and its gradual recovery.

REVENUES



- **Federal Government's revenues were higher than the program by 138.7 bn pesos** (tax revenues excluding fuel excise tax +93.9 bn pesos | non-tax revenues +154.9 bn pesos).

EXPENDITURE



- **Programmable expenditure** was higher than the program by 40.3 bn pesos.
- **Non-programmable expenditure** was 76.9 bn pesos lower than the program.

DEBT



- **Consistent with the debt ceilings authorized by the Congress**, Historical Balance of the Public Sector Borrowing Requirements amounted to 12,624.9 bn pesos and net public sector debt stood at 12,570.8 bn pesos.

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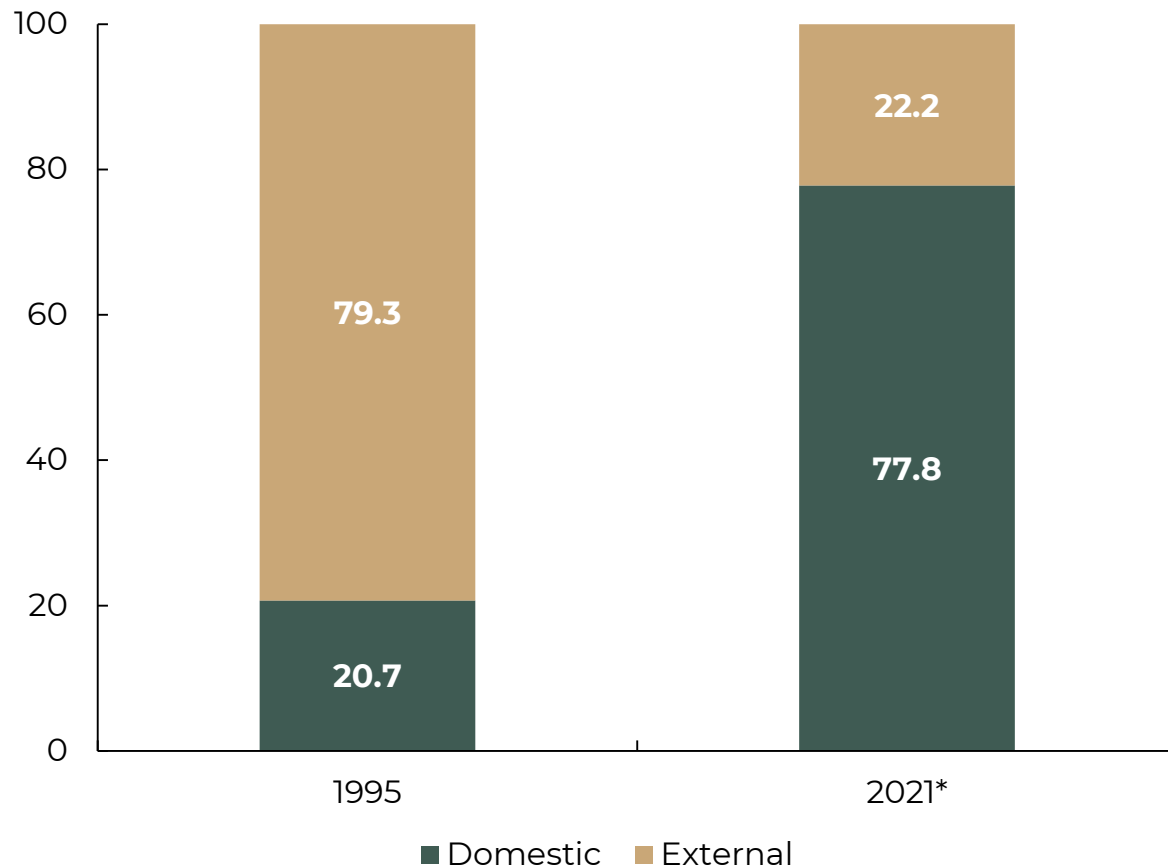
Solid Debt Portfolio

The Federal Government has a conservative and solid public debt portfolio to better manage periods of high volatility that could arise in the global financial markets.

Federal Government Debt Statistics

Federal Government Gross Debt Breakdown

1995 vs 2021, % of Total



EXTERNAL DEBT

9.0%
of GDP
as of 3Q21

21.3
years
average
maturity

100%
at a fixed rate

DOMESTIC DEBT

31.4%
of GDP
as of 3Q21

7.2
years
average maturity

79.6%
at a fixed rate

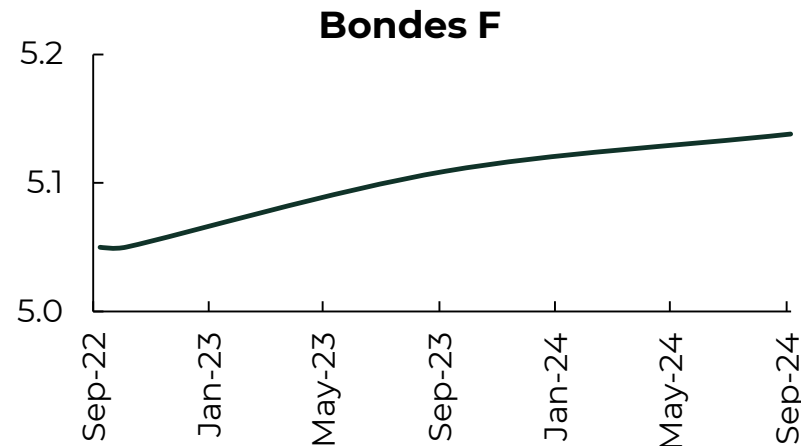
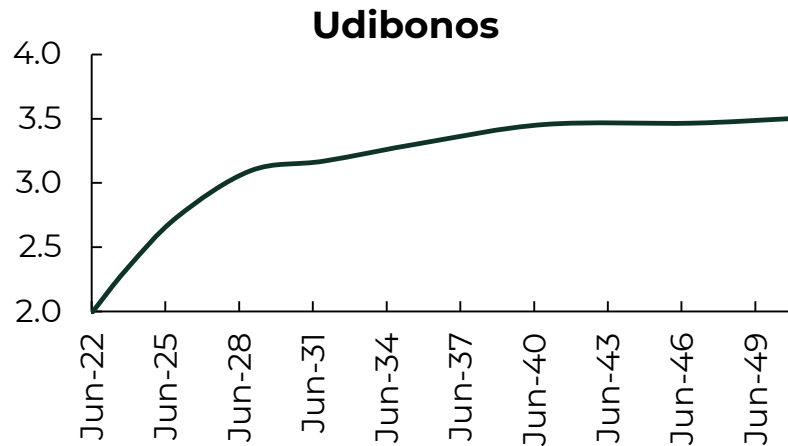
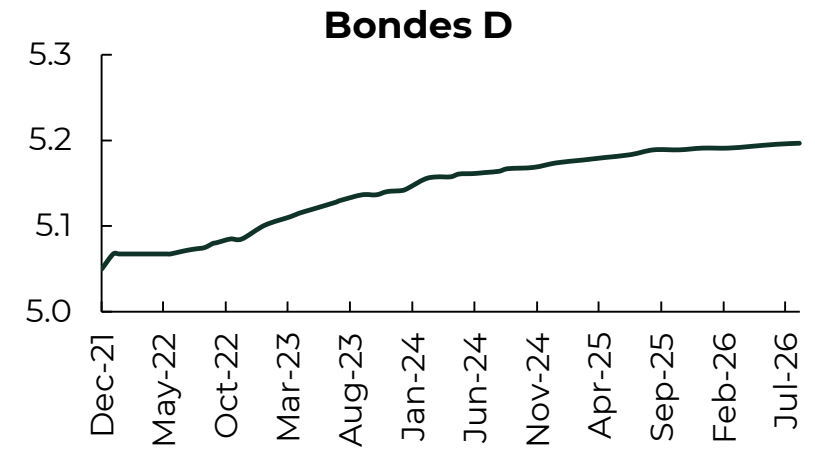
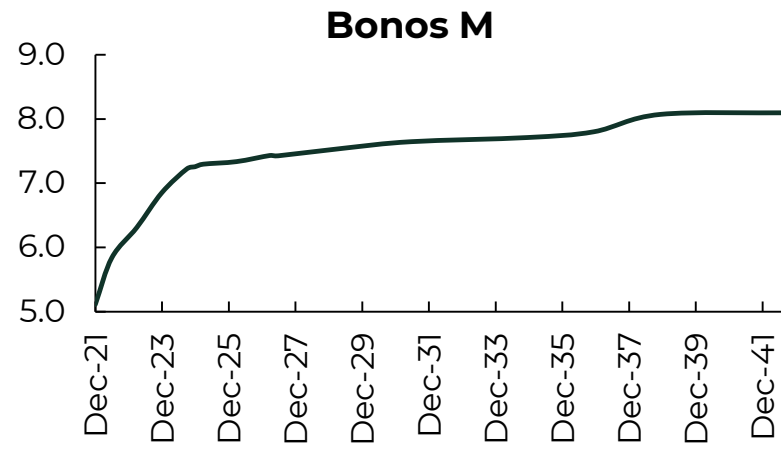
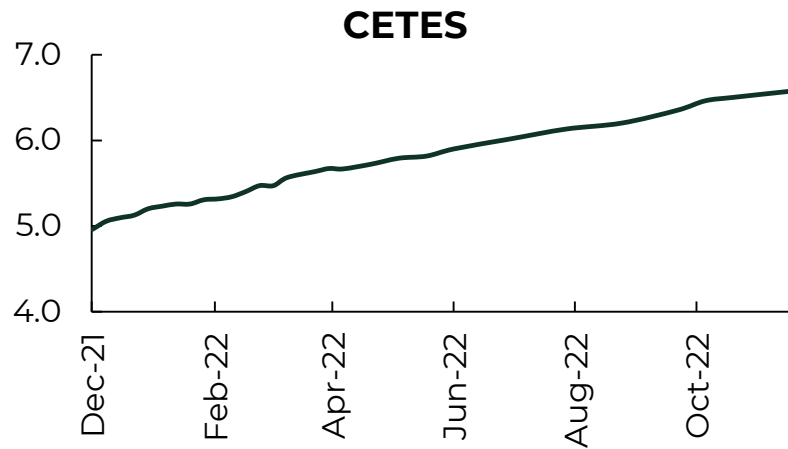
Source: Ministry of Finance.

* As of 3Q21.

Instruments' Yield Curves

The Mexican debt market has experienced an outstanding growth extending the yield curve to 30 years. This was due to the rapid growth of more domestic and foreign participants, with various investment horizons.

Yield Curves by Instrument¹
Percentage



Source: Ministry of Finance.

¹ Latest data as of December 2021.

Sustainable Sovereign Bond

The Mexican Government is committed to broaden its investor base through the issuance of sustainable finance instruments, aligned with the Sustainable Development Goals (SDGs) criteria to generate a positive social impact and competitive long-term financial returns.



In September 2020^{/1/2} Mexico became the **first country** in the world to issue a **sustainable sovereign bond** linked to the SDGs for an amount of **EUR 750 million**. In July 2021^{/3}, a second bond was placed for an amount of **EUR 1,250 million** which helps to consolidate Mexico's sustainable yield curve.

Both issuances allows to **broaden Mexico's investors' base** by accessing international funds committed to sustainable economic development. Furthermore, they place the country at the forefront in the **innovation of sustainable financing instruments**.



The first bond was placed for a **7-year term** offering a **coupon rate of 1.35%**. The second one was placed for a **15-year term** with a **coupon rate of 2.25%**.

The first issuance transaction reached a demand equivalent to **6.4 times the amount placed** with the participation of **267 institutional investors** worldwide. The second one reached a demand equivalent to **2.6 times the amount placed** with a participation of **154 international investors**.



Source: Ministry of Finance, 2021.

^{/1} [Announcement No. 071](#).

^{/2} In November 2021 the Ministry of Finance released the report: [Mexico's SDG Bond: Allocation and Impact Report 2021](#).

^{/2} [Announcement No. 041](#).

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