



**BANCO DE MÉXICO**

---

**PRESS RELEASE**

**Mexico City, October 27<sup>th</sup>, 2008**

**The Ministry of Finance and Public Credit and Banco de México announce measures to improve the operation of domestic financial markets**

- ✓ **The issuance of long-term instruments by the Federal Government is reduced for the remaining auctions scheduled in the fourth quarter of 2008**
  - ✓ **The weekly issuance of IPAB instruments is reduced**
- ✓ **Banco de Mexico will implement a repurchase program of instruments issued by the IPAB of up to Ps. 150 billion**
  - ✓ **An interest rate swap facility of up to Ps. 50 billion is established through Banco de México**
- ✓ **The Federal Government's expected financing from Multilateral Financial Organisms is increased in 2008 and 2009 by 5 billion dollars**
- ✓ **Financial Institutions will be temporarily enabled to provide liquidity to Investment Funds that belong to the same financial group**

The mortgage and financial crisis in the United States and other industrialized countries has had important repercussions on international financial markets and on economic perspectives of developed and emerging countries. As a response, several governments from Asia, Europe and the United States have implemented different schemes aimed at reversing the deterioration observed in their markets. Nevertheless, the depth of the financial crisis has implied that these measures have not yet reestablished orderly conditions in international financial markets.

Within this context, financial variables in Mexico have recently experienced a higher volatility. The exchange rate, the stock market and domestic and external long-term interest rates have registered important fluctuations.

In this situation, the Federal Government and Banco de México have jointly designed a series of preventive actions aimed at reducing liquidity problems, with the objective of restoring an orderly operation of domestic financial markets.

## 1. Modifications to the Government securities' auction program for the fourth quarter of 2008

The modifications consist of reduction in the amount to be auctioned of long-term fixed rate bonds in pesos and udis, and an increase in the amount of Cetes to be auctioned. These changes will start applying in the auction of November 4, according to the following:

### Government Securities' Auctions for November and December, 2008 Amounts Offered by Auction (million pesos)

Instrument	Original Auction 4th quarter 2008	Frequency	Modified Auction 4th quarter 2008	Frequency
<b>Cetes</b>				
28 days	4,500	Weekly	<b>6,000</b>	Weekly
91 days	6,000	Weekly	<b>7,000</b>	Weekly
182 days	6,000	Weekly	<b>7,000</b>	Weekly
364 days	6,000	Every 4 weeks	<b>7,000</b>	Every 4 weeks
<b>Nominal Fixed Rate Bonos</b>				
Bonos 3 years	3,100	Every 4 weeks	3,100	Every 4 weeks
Bonos 5 years	4,500	Every 4 weeks	4,500	Every 4 weeks
Bonos 10 years	7,650	Every 6 weeks	<b>1,000</b>	Every 6 weeks
Bonos 20 years	4,650	Every 6 weeks	<b>1,000</b>	Every 6 weeks
Bonos 30 years	4,650	Every 6 weeks	<b>1,000</b>	Every 6 weeks
<b>Udibonos (million Udis)</b>				
Udibonos 3 years	400	Every 4 weeks	400	Every 4 weeks
Udibonos 10 years	550	Every 4 weeks	<b>300</b>	Every 4 weeks
Udibonos 30 years	550	Every 4 weeks	<b>300</b>	Every 4 weeks
<b>Bondes D</b>				
Bondes D 5 years	1,500	Every 2 weeks	1,500	Every 2 weeks

It is worth highlighting that with these modifications, the total placement of securities during the quarter remains practically unchanged with respect to the original auction schedule.

## 2. Modifications to the IPAB's securities auction program for the fourth quarter of 2008

IPAB will reduce the amount of Savings Protection Bonds in their three modalities of BPAs, BPATs and BPA182, from Ps. 3.85 billion on a weekly basis previously announced for the present quarter to Ps.1.85 billion during the remaining auctions of this year.

Worth mentioning is that the reduction in the placement of debt titles of the Institute will be compensated with financing operations in the banking market.

### **3. Repurchase auctions of Savings Protection Bonds (BPAs)**

Banco de México will initiate a repurchase program of titles issued by the IPAB of up to Ps. 150 billion. These auctions will take place according to the corresponding general rules and announcement to be issued by Banco de México and will be open for all IPAB securities in circulation.

The first repurchase auction will be next Tuesday 4th of November for Ps. 50 billion.

### **4. Auctions of interest rates swaps**

Banco de México will establish a program of auctions of interest rate swaps for up to Ps. 50 billion, through which market participants will be able to exchange their exposure to long-term fixed interest rates for short-term variable interest rates. This will allow portfolios of long-term fixed rate instruments to reduce their sensitivity to interest rate fluctuations.

Mexican banking institutions will be able to participate in the auctions according to the conditions of a general nature established by Banco de México. Auctions will take place in successive rounds of different maturities, according to the prevailing conditions in national financial markets. This program of auctions will begin before November 14.

### **5. Financing Program with Multilateral Financial Organisms**

The Federal Government will increase the financing scheduled for 2008 and 2009 with Multilateral Financial Organisms – such as the Inter-American Development Bank and the World Bank – up to 5 billion dollars, according to the external debt limits contemplated in the Revenues' Law for each year. This represents a significant increase in multilateral financing considering that in the past two years a net dis-indebtedness of more than 8 billion dollars was recorded with these institutions.

The financing with multilateral institutions is particularly attractive in the current market conditions because its cost does not depend on prevailing financing conditions in the international financial markets. This measure will give more flexibility in the use of other financing sources such as local and international markets.

In addition, the programs that will be implemented with financial support from these institutions for the housing sector, small and medium sized firms, and infrastructure will contribute to economic activity and job creation in Mexico.

### **6. Regulatory Facilities for the Investment Funds**

The National Banking and Securities Commission will publish this week a temporary norm to allow financial institutions to buy and sell government instruments from the investment funds that are part of the same financial group, with the aim of providing them with greater flexibility in their portfolio adjustments, maintaining best practices in terms of transfer pricing.