

DEVELOPMENT OF THE SUSTAINABLE LOCAL MARKET

**Building Prosperity: Financing Sustainable Development
Goals for an Inclusive Economy**

MINISTRY OF FINANCE AND PUBLIC CREDIT
April 2022



HACIENDA

SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO



2022 *Ricardo Flores*
Año de Magón
PRECURSOR DE LA REVOLUCIÓN MEXICANA

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As part of Mexico's commitment to promote an inclusive economy and fulfill the United Nations 2030 Agenda for Sustainable Development (2030 Agenda), the Ministry of Finance and Public Credit (SHCP) introduces its SDG Sovereign Bond Framework aimed at achieving the environmental and sustainable development goals (SDGs) of the 2030 Agenda, while promoting transparency in public spending and better monitoring the fulfilment of the UN's 2030 Agenda.



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Sovereign SDG Bond: Framework and Reporting Highlights



Building a Sustainable Yield Curve in the Local Market



Solid Macroeconomic Fundamentals

SDG Sovereign Bond Framework



1. First SDG Sovereign Bond in local market



- The Framework provides the Government with the flexibility to issue Social, Green or Sustainable bonds linked to SDGs depending on the underlying use-of-proceeds.
- The framework is based on an innovative methodology that links budget lines with the contribution to the SDGs.

2. The Framework combines program and geospatial eligibility (granular targeting at regional level)



- Only budgetary programs targeting the most disadvantaged areas, and vulnerable populations.
- The eligibility criteria is based on 7 filters that guarantee the allocation of resources to the areas with the highest index of social gap.

3. Solid and completely transparent governance

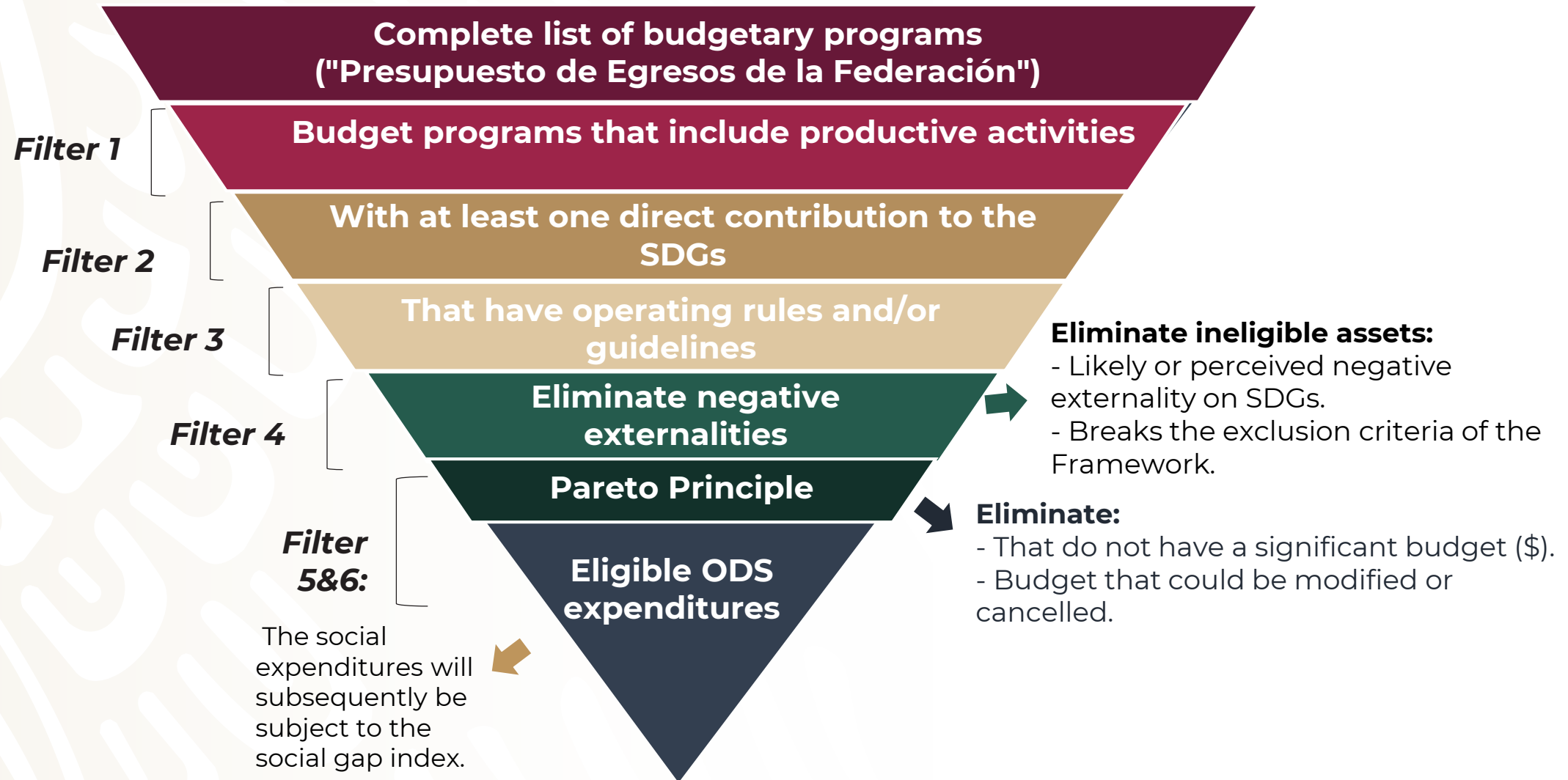


- The methodology is public, and we invite other issuers to use and improve it.
- Solid governance including the participation of the National Institute of Statistics.
- Aligned with the development of sustainable taxonomies.

Consult in finanzaspublicas.hacienda.gob.mx

Eligible Sustainable Expenditures: Selection Process

- A robust decision-making process for choosing eligible expenditures that contribute to the SDGs.





UNDP's Opinion of Mexico's SDG Sovereign Bond Framework



“UNDP concludes that the SDG Sovereign Bond proposed has the potential to advance Mexico's commitment towards the SDGs in three areas: strengthening budget transparency, increasing the amount of resources earmarked towards sustainable social development policies, and supporting the development of capital markets to finance sustainable development at the national and international level.

The use of the Social Gap Index to define eligibility and sub-regional targeting (geospatial criterion to ensure proceeds are used in areas that are lagging the furthest behind), the proposed indicators, and the defined exclusions for screening expenditures, further supports the aim of selecting expenditures in accordance with the SDGs.”



In addition, the SDG Sovereign Bond Framework has won two awards from Environmental Finance for its innovation.



First Issuance of the SDG Sovereign Bond

On September 14, 2020, Mexico issued the world's first SDG Sovereign Bond for EUR 750 million. The new SDG Bond inaugurated our sustainable financing program with the construction of a “sustainable yield curve”.

United Mexican States	
Currency	EUR
Tenor	7 year
Maturity	September 18, 2027
IPT	+235 bps
Benchmark	-0.347%
Spread	+195 bps
Yield	1.603%
Coupon	1.35%







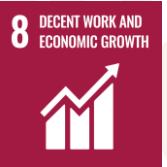

Achievements

1. The second lowest coupon in the euro market in UMS's history (1.35%).
2. A high-quality book building process which allowed achieving a negative new issue premium of ~7bps (with a total demand of 6.5 times the offered amount).
3. An expansion of Mexico's investor base (around 44% of the offering was allocated to 78 new accounts focused solely on ESG-driven investments).





Resources and Beneficiaries by SDG

	 Number of eligible expenditures	 Amount USD*	 Beneficiaries
 SDG 2	4	139 MM	185,032 farmers
 SDG 3	10	291 MM	331,868 people & 347 health establishments
 SDG 4	15	270 MM	1,930,743 people & 9,626 schools and municipalities, states, or NGO centers
 SDG 8	3	48 MM	723,904 people
 SDG 9	5	105 MM	670,554 people and 225 km of targeted roads

Source: Ministry of Finance and Public Credit.
*: May not add up due to rounding

SDG Eligible Expenditures Report – Case Studies



Health Care and Free Medicine for the Population without Labor Social Security



Purpose:

Providing universal social health protection for vulnerable people that remain outside the social security system, or are not able to afford health insurance, reducing household spending on healthcare.



Allocated resources:

- **US\$ 256 million***



Output/Outcome results

- ~326 health establishments (fixed and mobile) have received subsidies to improve infrastructure as well as to provide medicines and supplies, medical equipment, and personnel.
- 2.7 million people benefited from the program in 2020.



*: Approximate amount previously budgeted.

SDG Eligible Expenditures Report – Case Studies



Scholarship for High School Students



Purpose:

Reducing drop-out rates in high-school, focusing on the low-income sector and indigenous regions.



Allocated resources:

- **US\$ 30 million***



Output/Outcome results

- +84,700 students in high-school received a scholarship at the beginning of the school year.
- +80,000 (~95%) students with a scholarship finished the school year.
- ~1,100 schools targeted by the program were located in municipalities with an SGI equal or above “medium level”.



*: Approximate amount previously budgeted.



Mexico's SDG Bond: Allocation and Impact Report 2021



For more detailed information, refer to our Impact Report at finanzaspublicas.hacienda.gob.mx



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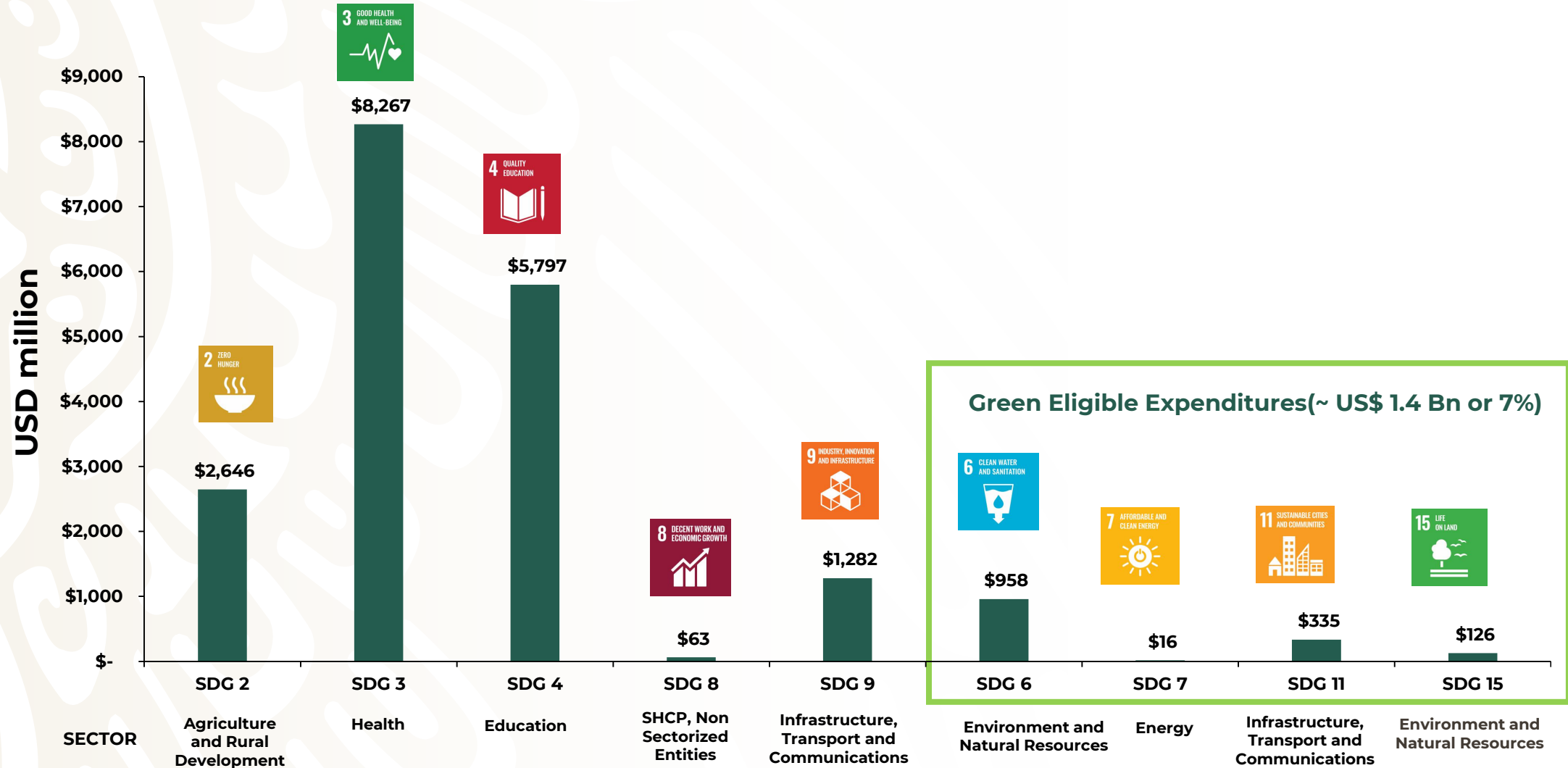


Building a Sustainable Yield Curve in the Local Market



Solid Macroeconomic Fundamentals

2022 Eligible Expenditures Breakdown by SDG (~ US\$ 19.5 Bn)



Note: May not add up due to rounding
Source: Ministry of Finance and Public Credit

Eligible Expenditures Categories



■ Social Eligible Expenditures



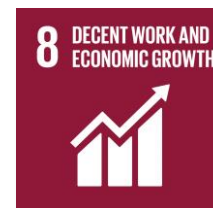
- Production incentives to small and medium-sized farmers.
- Training to small and medium-sized farmers.
- Free school meals.
- Basic food products to vulnerable population.



- Research and technological development funding.
- Provision / distribution of healthcare equipment and services.
- Support to workers through supply of equipment, mobility and training.



- Construction and improvement of public schools, campuses and student housing.
- Scholarships (to cover fees or living cost) for basic education or high school.
- Training programs for teachers.



- Access to financing and financial services to all population.
- Employment in sustainable tourism for indigenous people and afro-Mexicans.
- Build new financial infrastructure in isolated areas.



- Roads construction in areas that lack connectivity, or areas lacking access to key social infrastructure.



Eligible Expenditures Categories



■ Green Eligible Expenditures

6 CLEAN WATER AND SANITATION



- Construction and improvement of water treatment infrastructure.
- Construction and/or maintenance of water distribution network.
- Sanitation projects.
- Rehabilitation of treatment facilities.

11 SUSTAINABLE CITIES AND COMMUNITIES



- Rail transport infrastructure for freight and/or passenger transport and acquisition of new equipment.

7 AFFORDABLE AND CLEAN ENERGY



- Training programs to ease efficient integration of renewable energy.
- Programs dedicated to energy efficiency improvements in private and public sectors.

15 LIFE ON LAND



- Improve management and maintenance of National Parks and Conservation Areas.
- Support for sustainable forestry development.
- Wildlife conservation programs.



Second Party Opinion

Mexico has obtained a Second Party Opinion from Moody's - Vigeo Eiris to confirm the alignment of Mexico's SDG Sovereign Bond Framework with the ICMA 2021 Green Bond Principles and Social Bond Principles.



Second Party Opinion on Mexico's SDG Sovereign Bond Framework

"V.E considers that Mexico's SDG Bond Sovereign Framework is aligned with the four core components of the ICMA's Green Bond Principles and Social Bond Principles.

The Issuer has formalized fourteen SDG Eligible Categories (the "Eligible Categories") in the SDG Sovereign Bond Framework. The net proceeds of the 2022 Bond will exclusively finance, in part or in full, expenditures ("the Eligible Sustainable Expenditures" or "the Eligible Expenditures") falling under eleven of the fourteen Eligible Categories."

Context of Mexican Government Floating Rate Bonds

- BONDES F is the current Mexican Government floating-rate bond.
- Face value is 100 Mexican pesos and the bonds have tenors from 1 to 7 years.
- Mexico decided to issue these bonds, replacing the previous floating-rate bond, referenced to the new local Risk-Free Reference Rate known as Overnight Equilibrium Interbank Interest Rate (TIIE de Fondeo).

BONDES F	
Face Value	100 mxn
Tenor	1 to 7 years
Coupon Frequency	28 days
Interest Rate	Overnight Equilibrium Interbank Interest Rate (TIIE de Fondeo)
First Issuance	October 2021

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Macroeconomic Assumptions for 2022

A macroeconomic framework, built with the best information available, was used for these estimates of public finance

		2021	2022	
	GDP Growth	4.8%	3.4%	Consistent with the orderly reactivation in progress of foreign and domestic markets, which is expected to continue this year.
	Oil Price Oil Production	65.3 US\$/b 1,757 mmb/d	92.9 US\$/b 1,820 mmb/d	Considers current international market conditions and forecasts a growth in production.
	Exchange Rate (closing)	20.4 MXN/USD	20.6 MXN/USD	In line with the stronger stability observed in financial markets.
	Inflation (dec/dec)	7.36%	5.5%	Inflation is expected to converge later this year due to lower distortions between supply and demand of key inputs.
	Interest Rate (average)	4.3%	6.67%	Consistent with the evolution of inflation, well-anchored expectations and economic conditions.

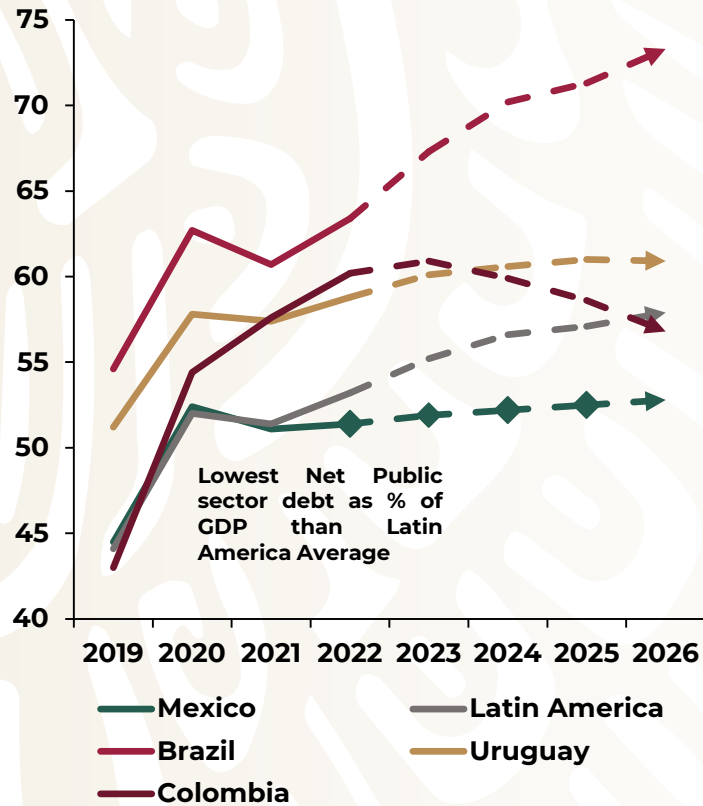




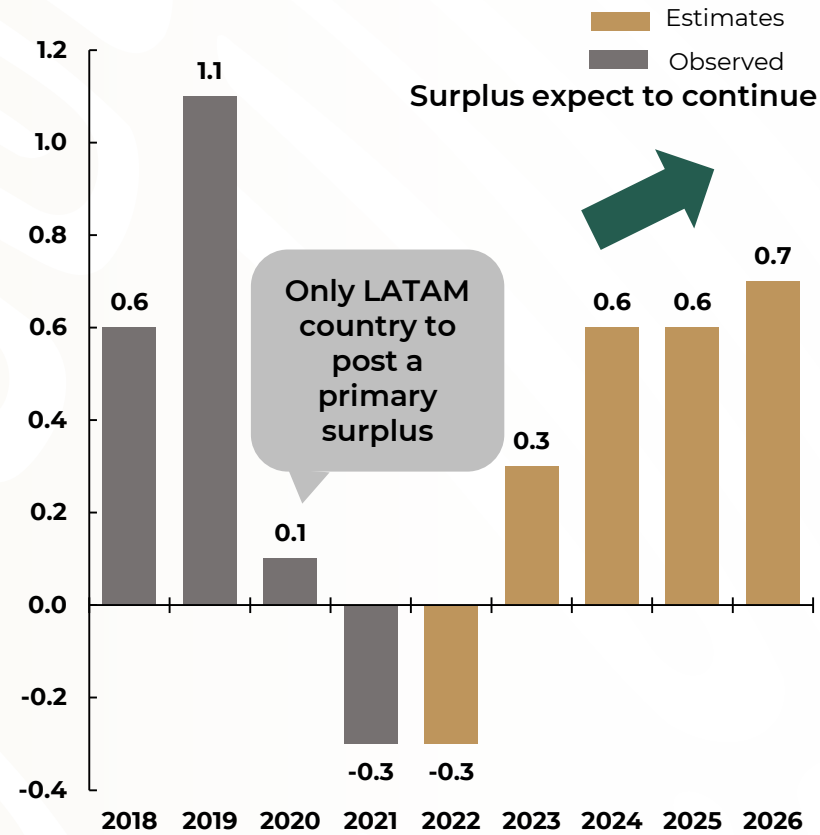
Commitment to Maintain Fiscal Discipline



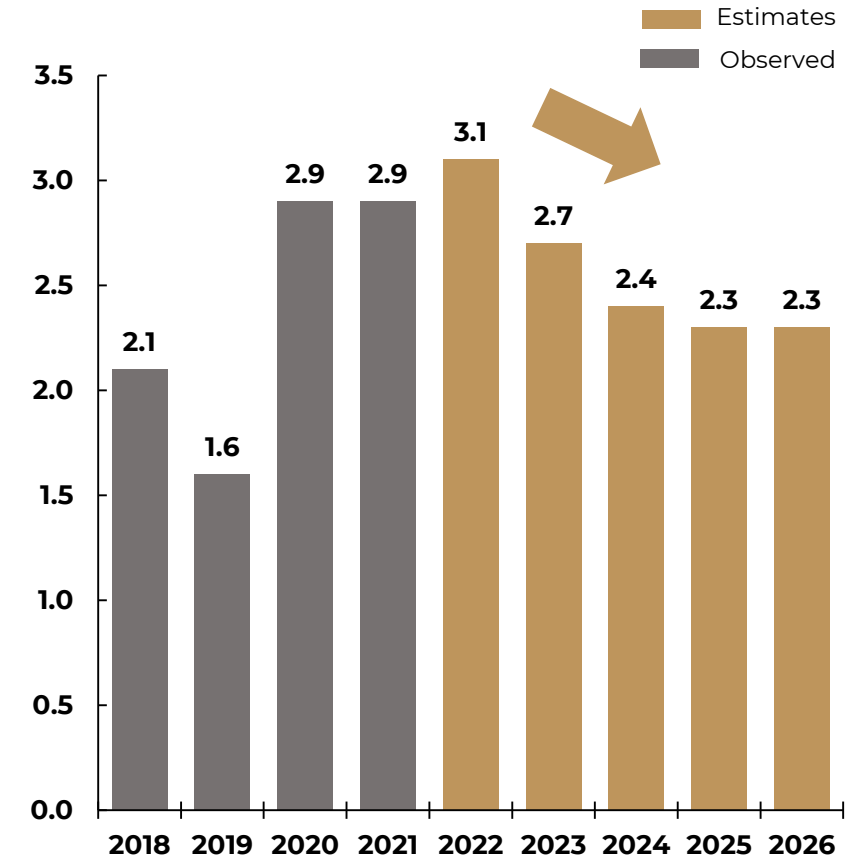
Net Public Sector Debt % of GDP



Public Sector Primary Balance % of GDP



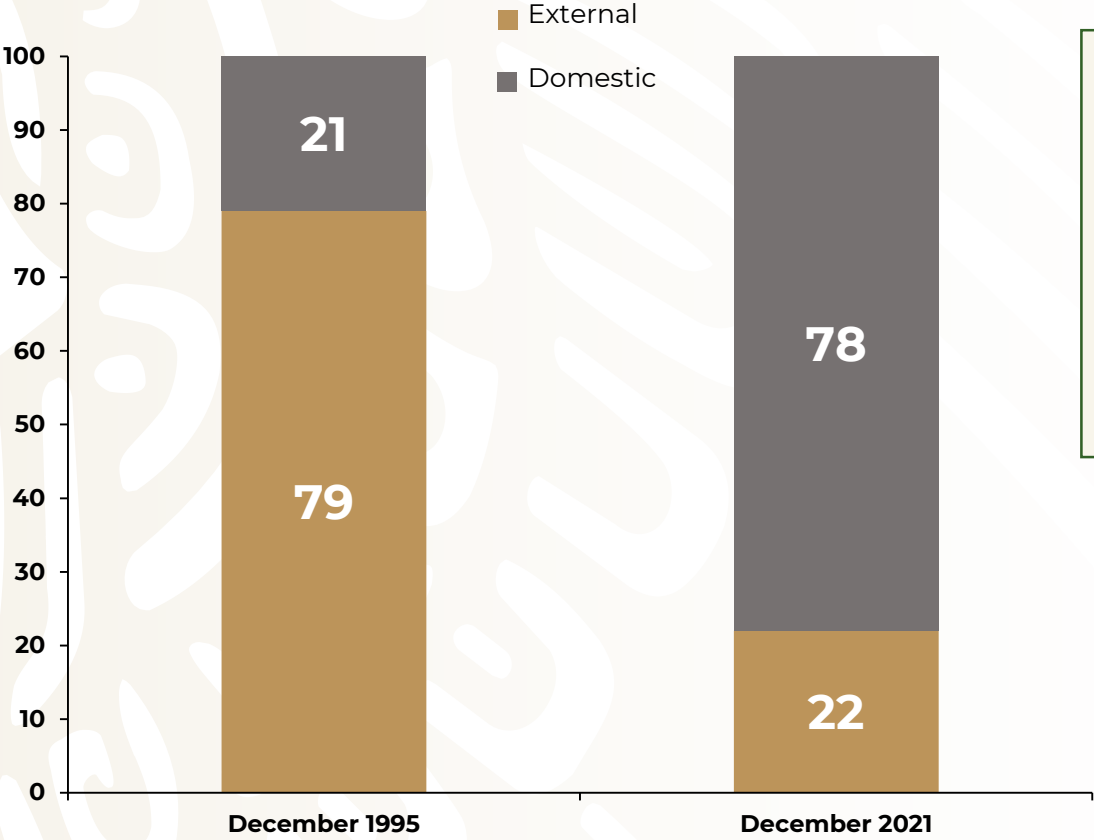
Public Sector Deficit % of GDP





Solid Debt Portfolio

Debt Breakdown
(Dec 1995 vs Dec 2021, % of Total)



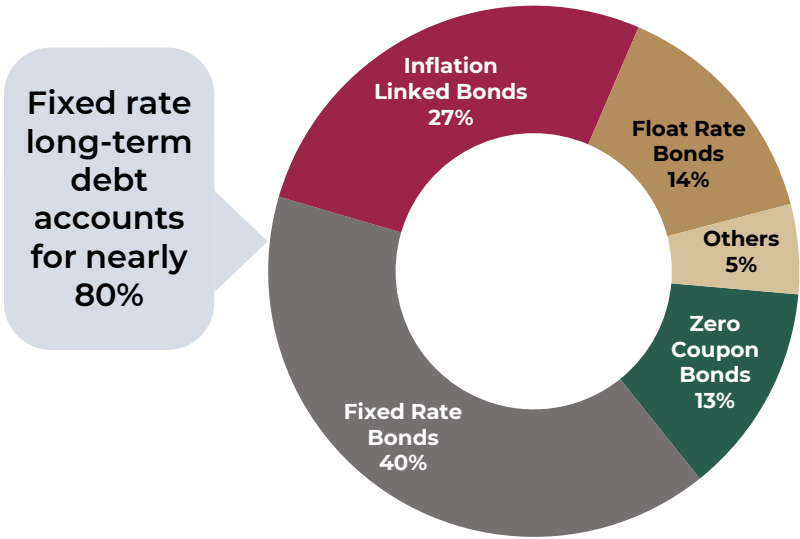
Mexico has a solid debt portfolio, to face episodes of high volatility that could arise in the global financial markets.

Source: Ministry of Finance and Public Credit.

Debt Statistics

DOMESTIC DEBT		EXTERNAL DEBT	
US\$ 415 bn	7.3 years	US\$ 117 bn	21 years
as of Dec-2021	average life	as of Dec-2021	average life
4.5 years	duration	11.7 years	duration

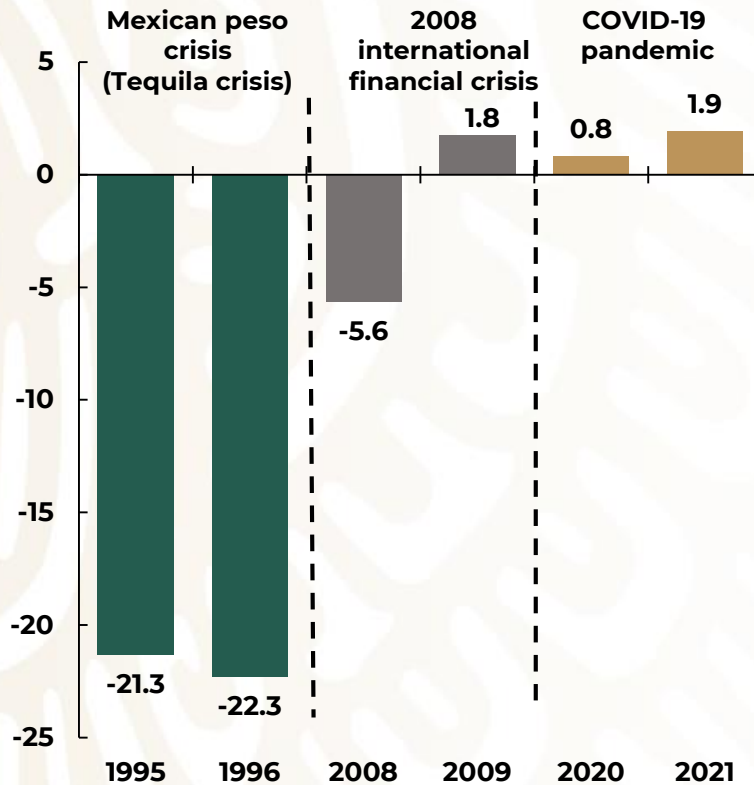
Internal Debt Composition (%)



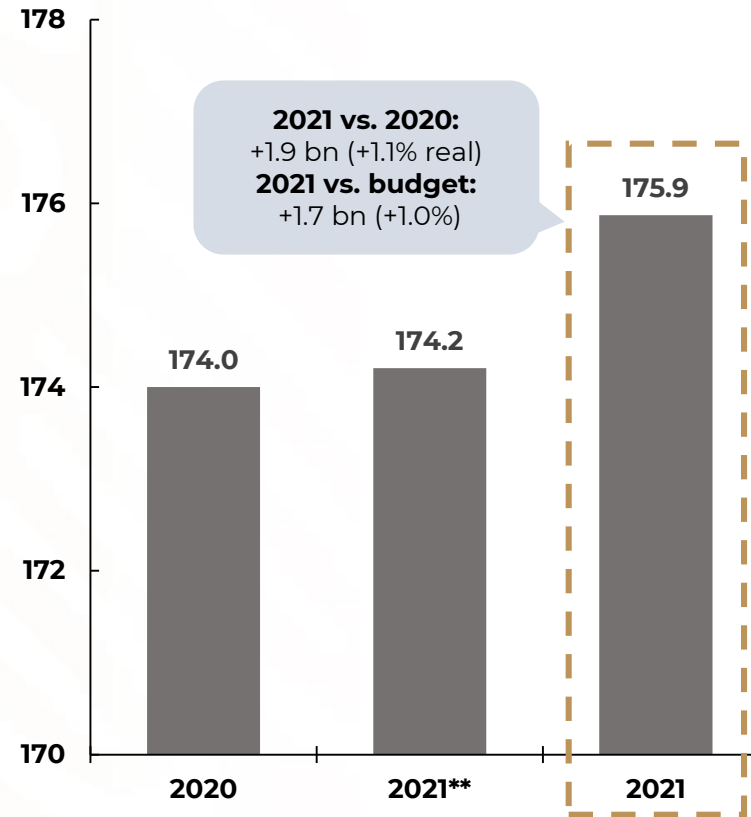
Exceptional Tax Revenue Performance



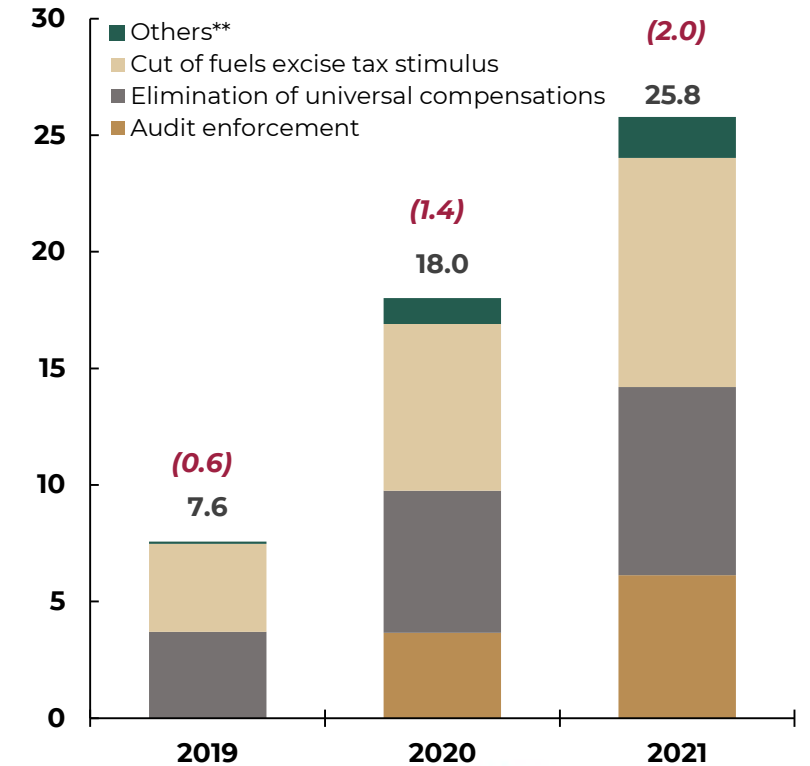
**Tax Revenue Performance during crisis periods
(Real Growth Rate)**



**Tax Revenues Performance (2021)
US\$ billion***



**Tax Revenue Gains from
Fiscal Measures
US\$ billion* (% of GDP)**





Strategic Alignment of 2022 Economic Projects

Currently, 78% of our Budget programs are aligned with at least one SDG.

Our Sustainable Bond Framework provides transparency and accountability in our efforts to achieve the goals of the 2030 Agenda

Regional Integration

Focus public investment in those regions that have been traditionally left behind, in order to extinguish regional differences.

Infrastructure Overhaul

- Modernization of ports, railways and highways.
- Digital development based on the newest technologies.
- Opening of industrial parks in strategic regions.
- Modernizing customs.

Foreign trade and nearshoring

In line with the increase in FDI, a potential relocation of companies is being sought by taking advantage of trade agreements, tax incentives and financing strategies between multilaterals and development banks to encourage investment and formal employment.

Create supply-side public policies

The best strategy for the future is to continue to advance supply-side policies that will allow UMS to strengthen government finances, while creating better conditions for investment and growth.



Economic Projects 2022: Inter-Oceanic Corridor



Railroads, Highways, and Airports



Optical Fiber and Digital Development



Industrial and Commercial Parks



Refineries and Natural Gas Pipelines

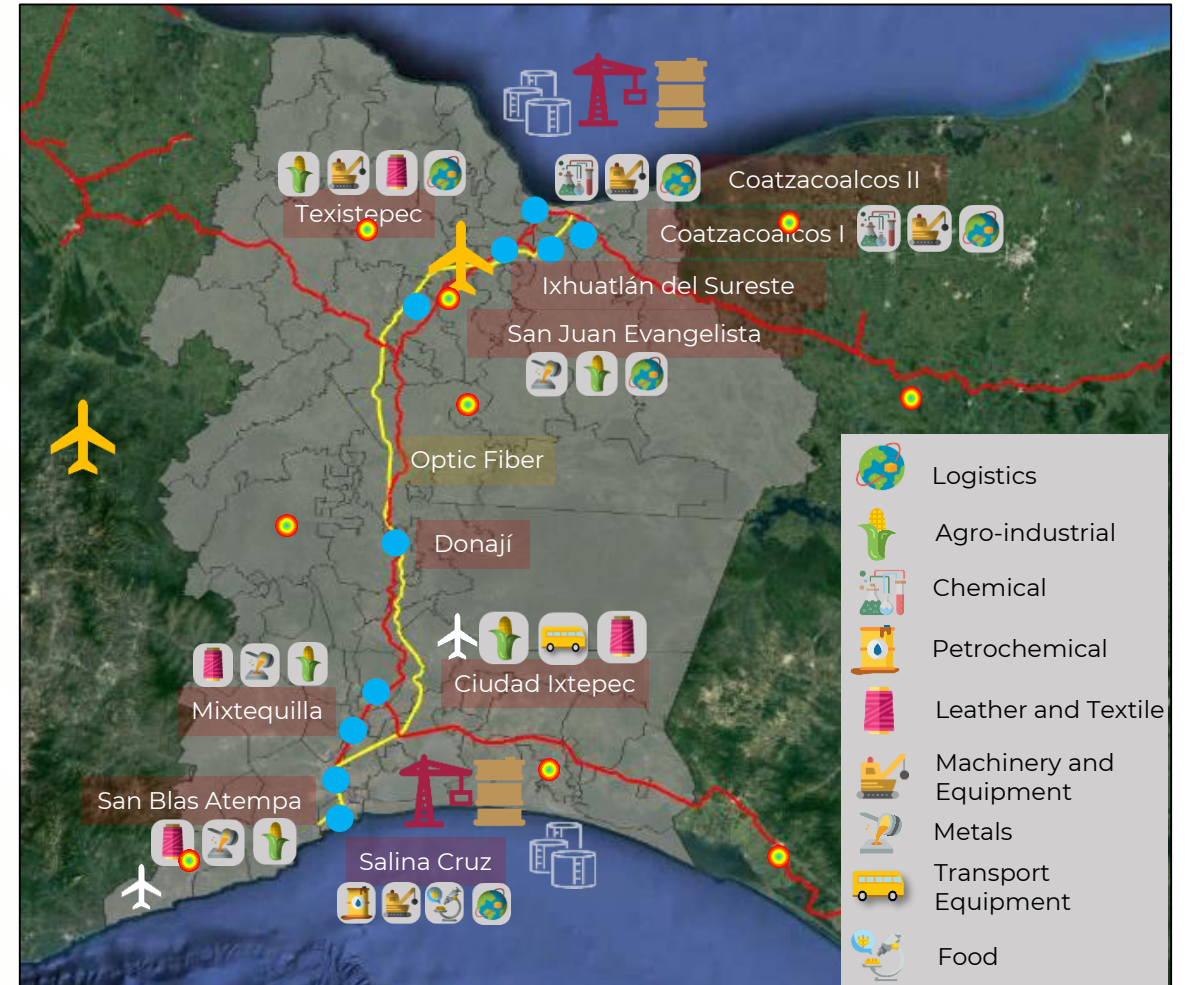


Strategic belt for homeland security

Total Investment 2019-2023 → US\$6.1 BN

Public Investment US\$3.7 BN

Private Investment US\$2.4 BN



Muchas Gracias



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