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# **Mexico's Economic Agenda 2002.**

Promote job creation with stability  
and structural change.

February, 2002

# Index

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- I. Economic Performance in 2001
- II. Economic Agenda 2002
- III. Final Remarks

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## **Economic Performance in 2001**

# **In 2001, the Mexican economy was determined mainly by:**

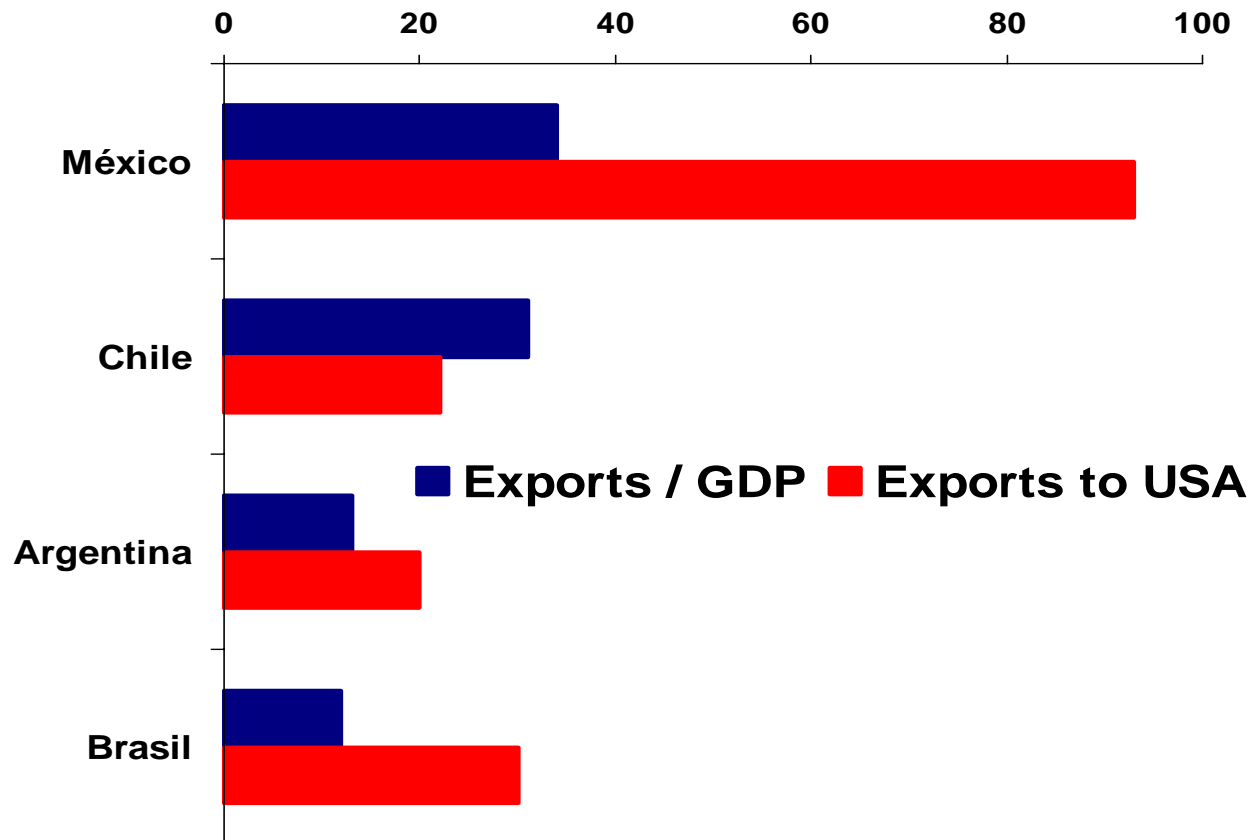
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- The slowdown of the world economy, particularly the economic slowdown in the U.S.
- Sharp decline of oil prices.
- Uncertainty following September 11.

# Mexico is highly connected with the recovery of the U.S. Economy, given the destination of its exports

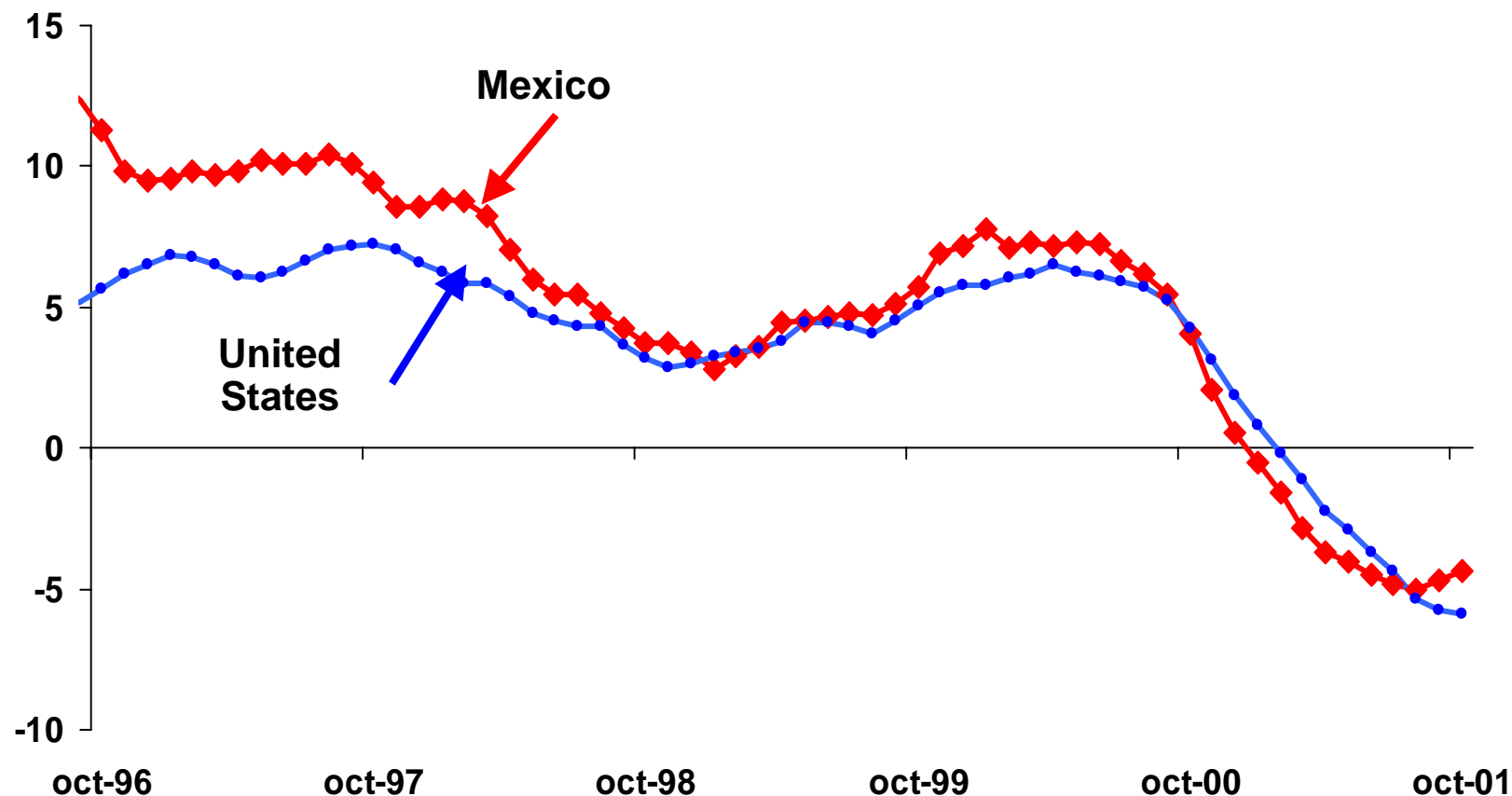
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## Open economies benchmark in Latinamerica Exports orientation to USA (%)

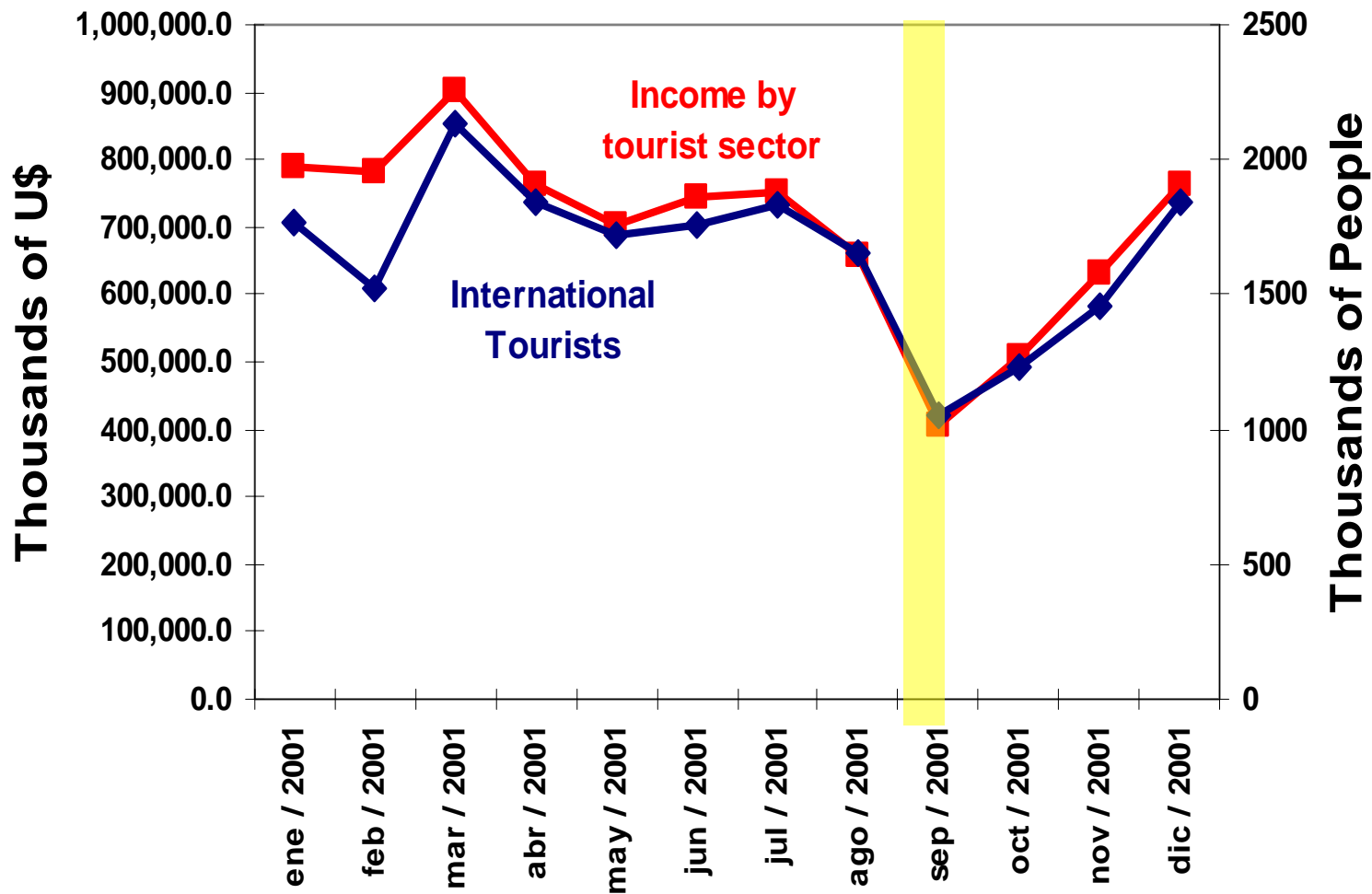


# The slowdown in economic activity was similar to that of our main trading partner

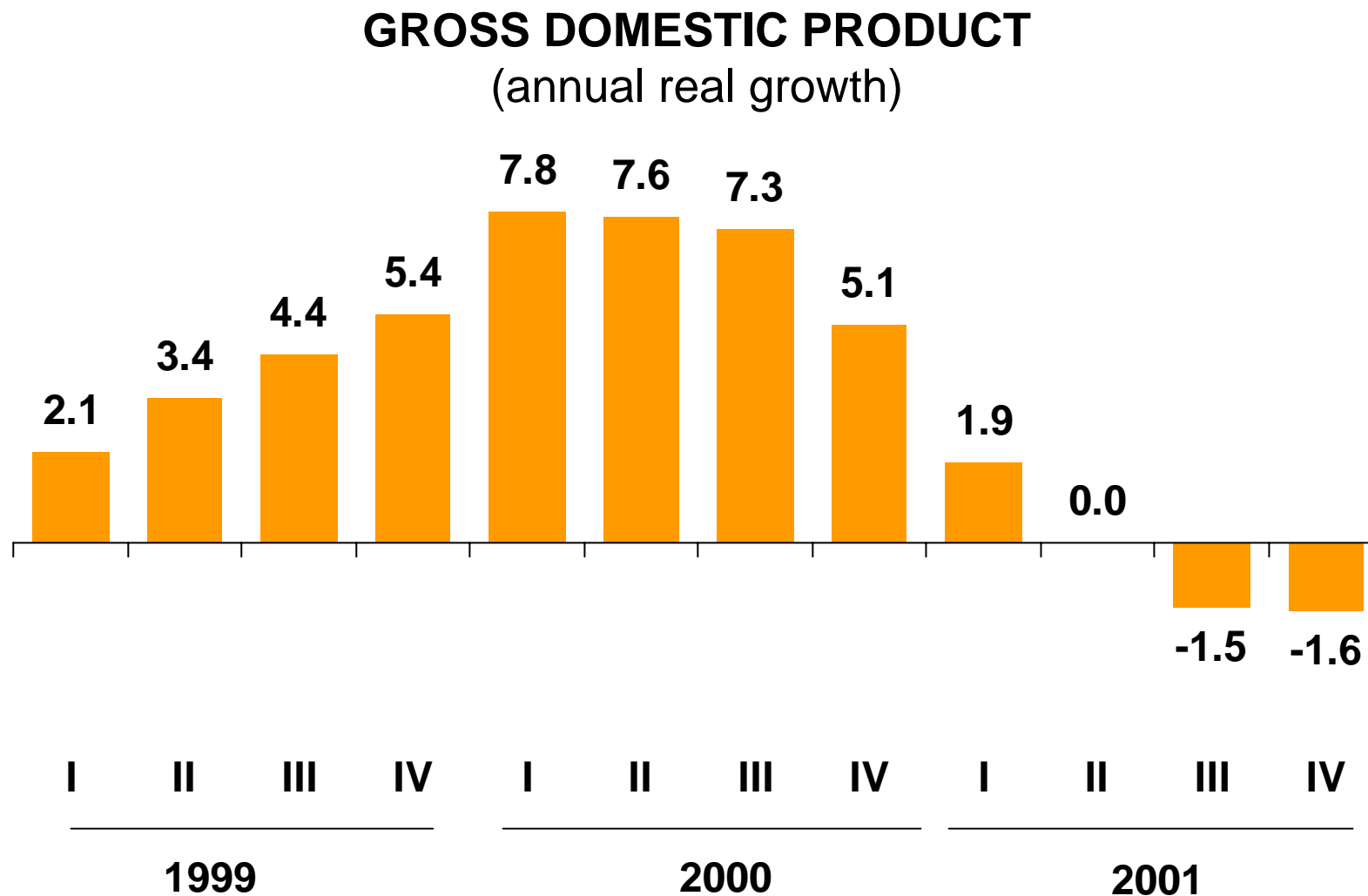
## ANNUAL GROWTH OF INDUSTRIAL PRODUCTION (%, quarterly moving average)



# Tourism



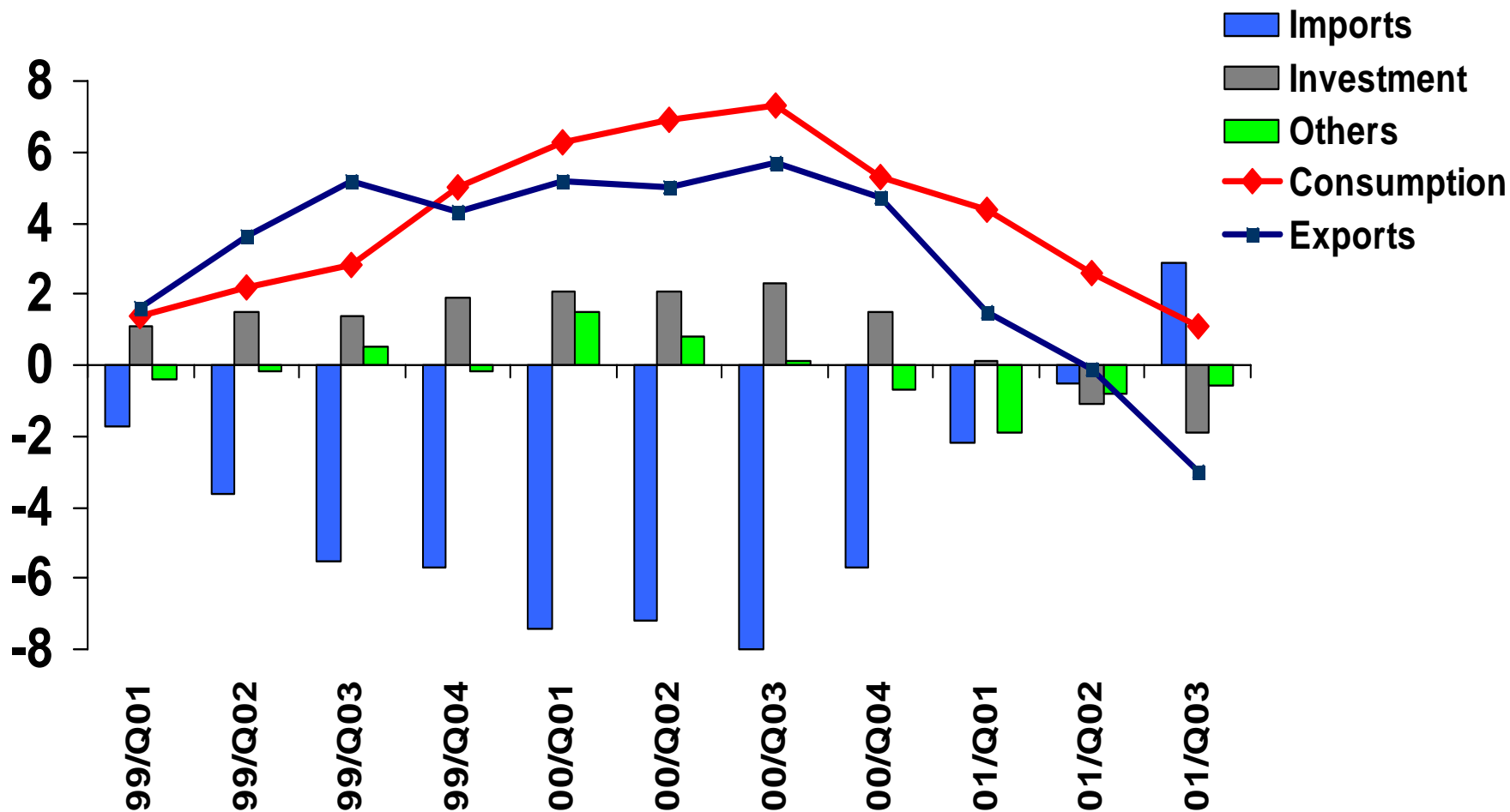
# As a consequence, Mexico's economic growth decelerated





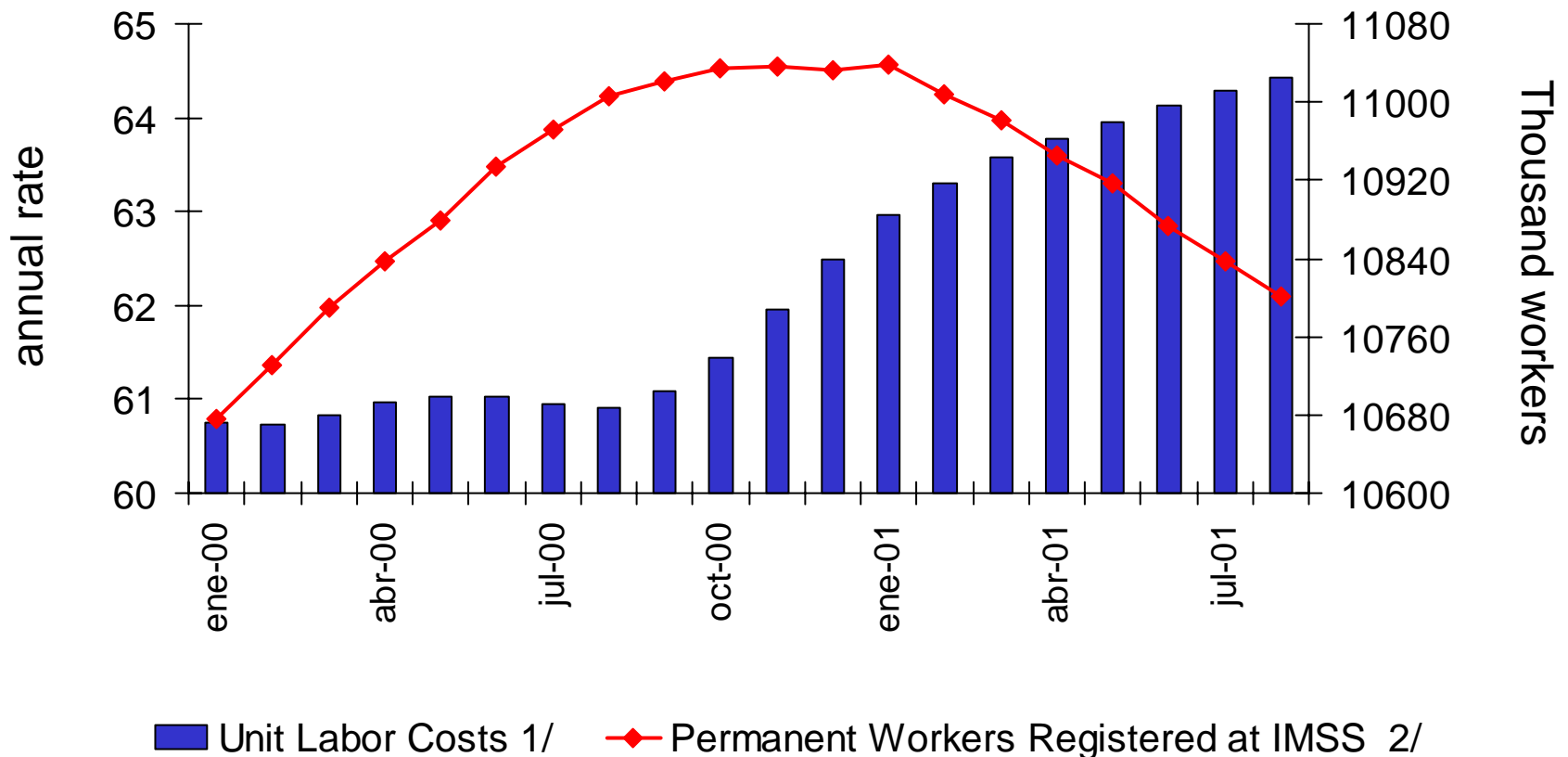
# Mexico: Sources of growth

Contribution to GDP (%)



# As a consequence, formal jobs were lost

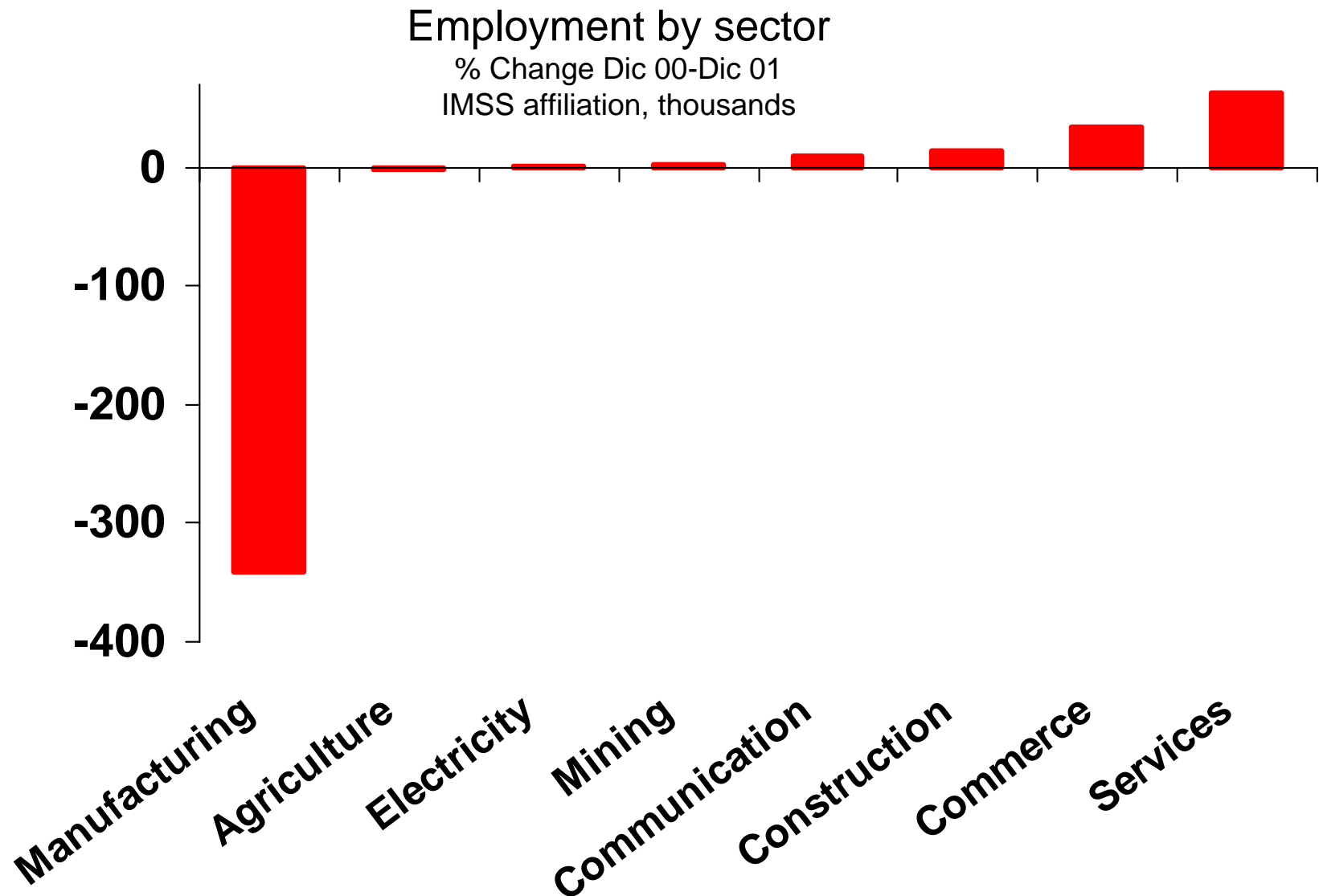
## UNIT LABOR COSTS AND EMPLOYMENT, 2000-2001



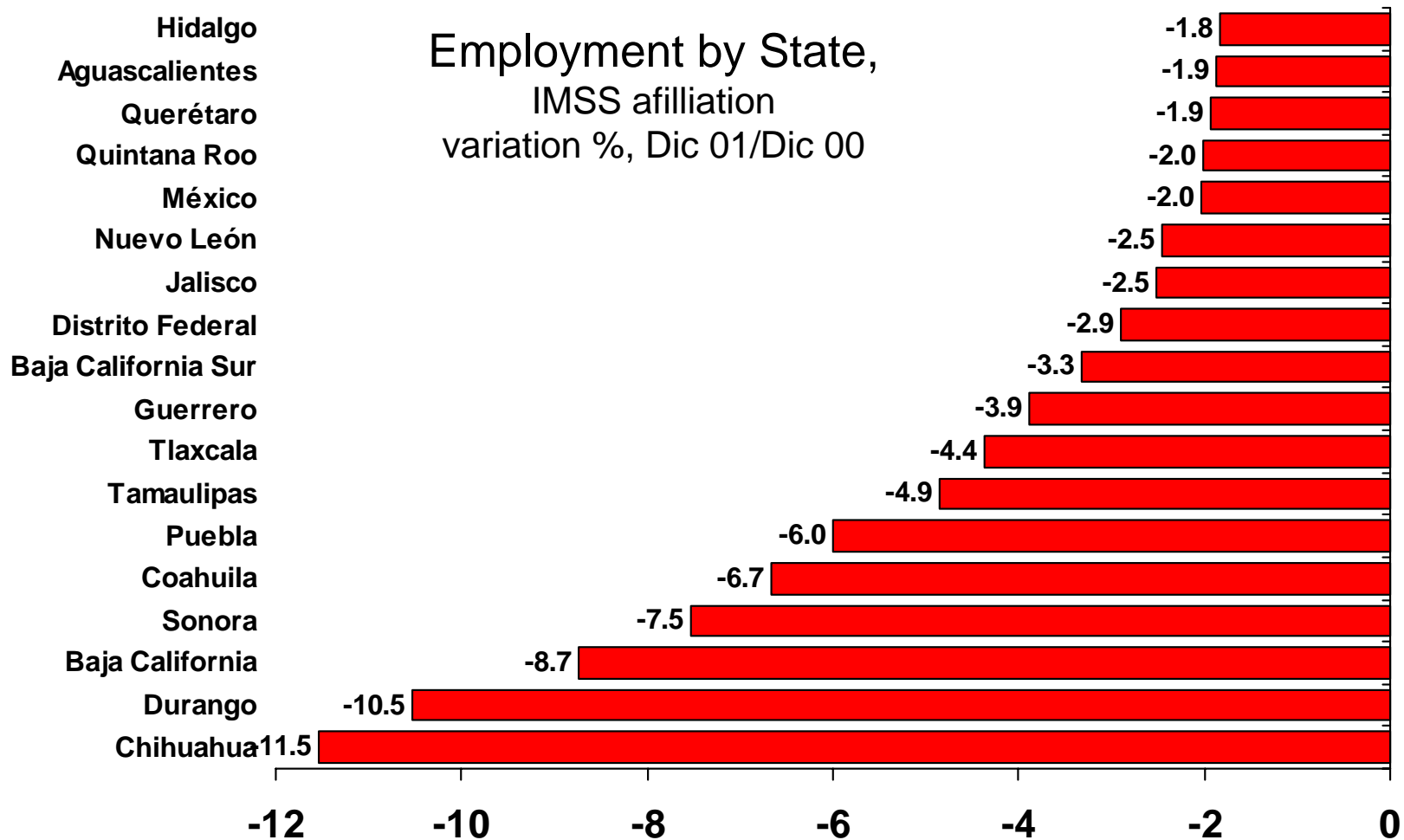
1/ Index 1993=100

2/ Seasonally adjusted

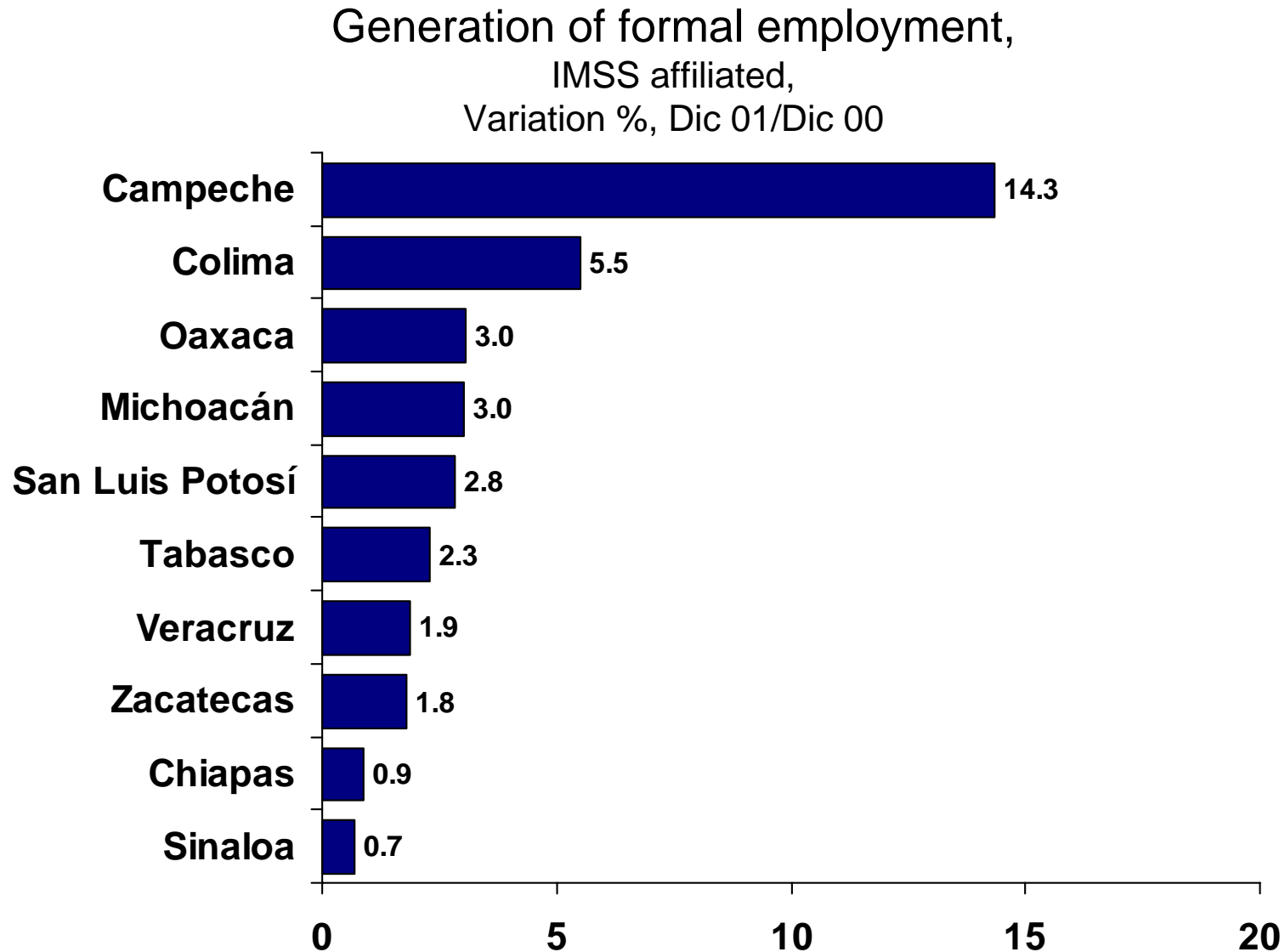
# The employment trend shows a sectorial differentiation



# The employment trend shows a regional differentiation

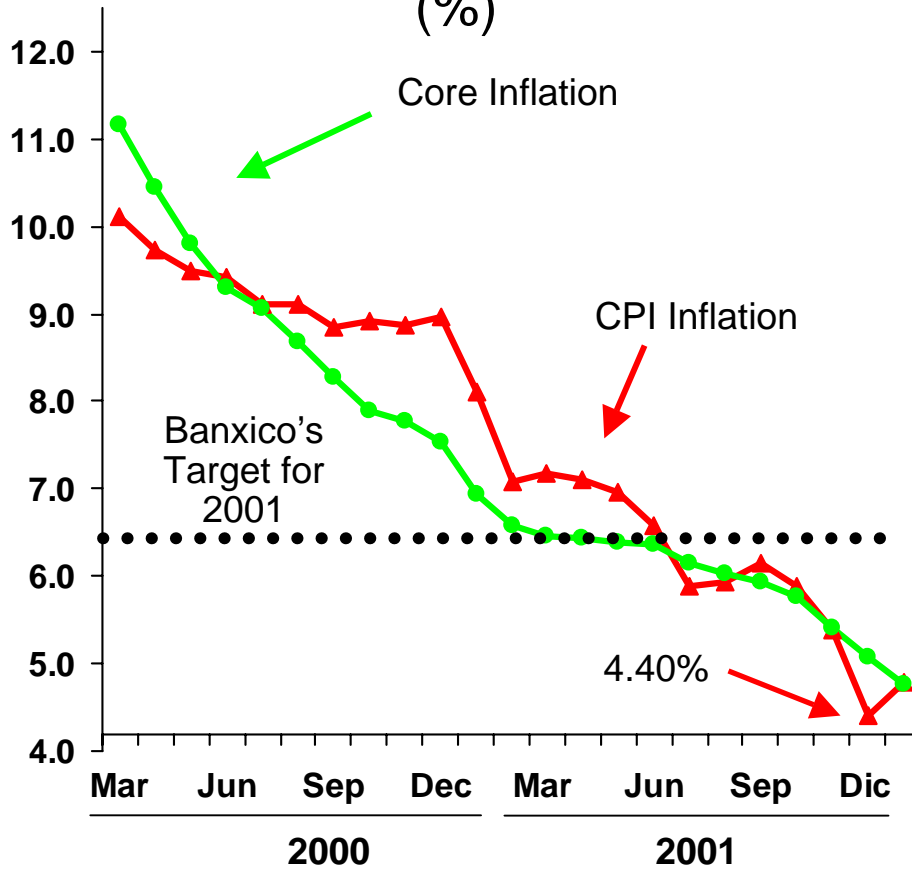


# The employment trend shows a regional differentiation

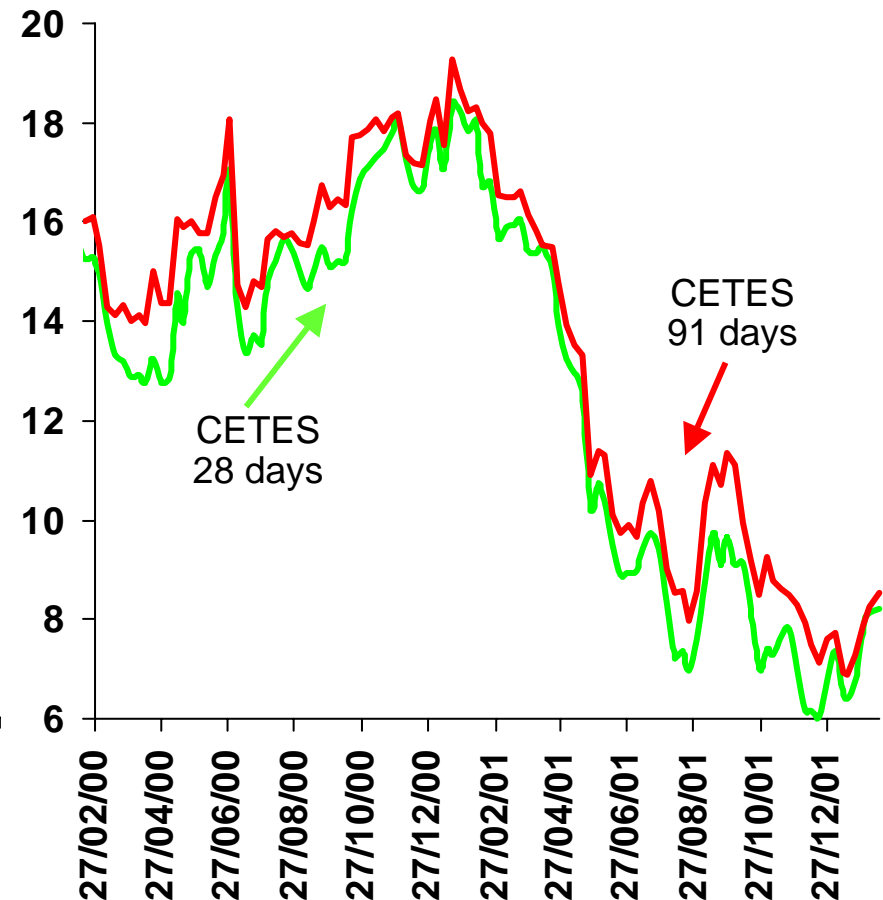


# Stability was maintained

**ANNUAL INFLATION  
2000-2001**  
(%)



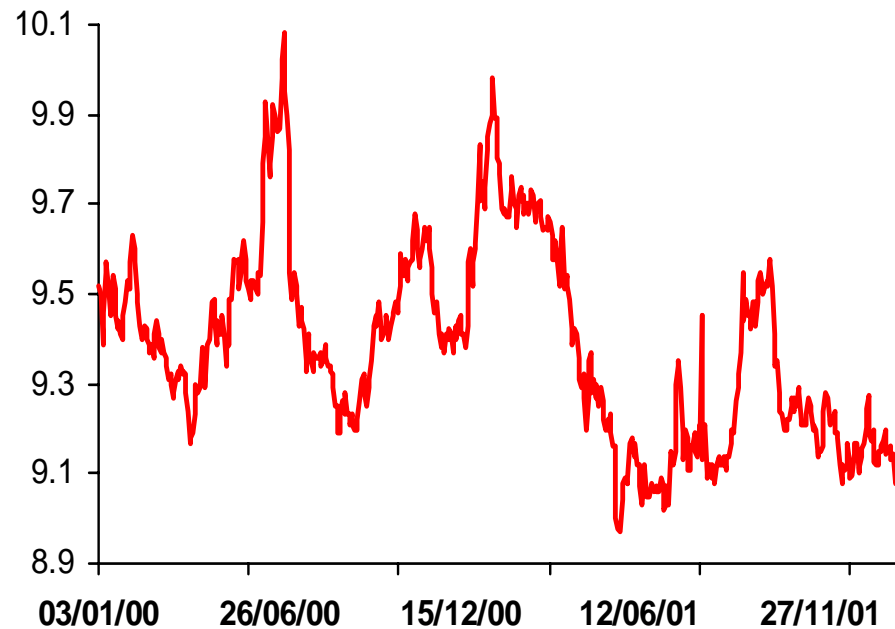
**INTEREST RATES**  
(Jan. 2000 – Jan. 2002)



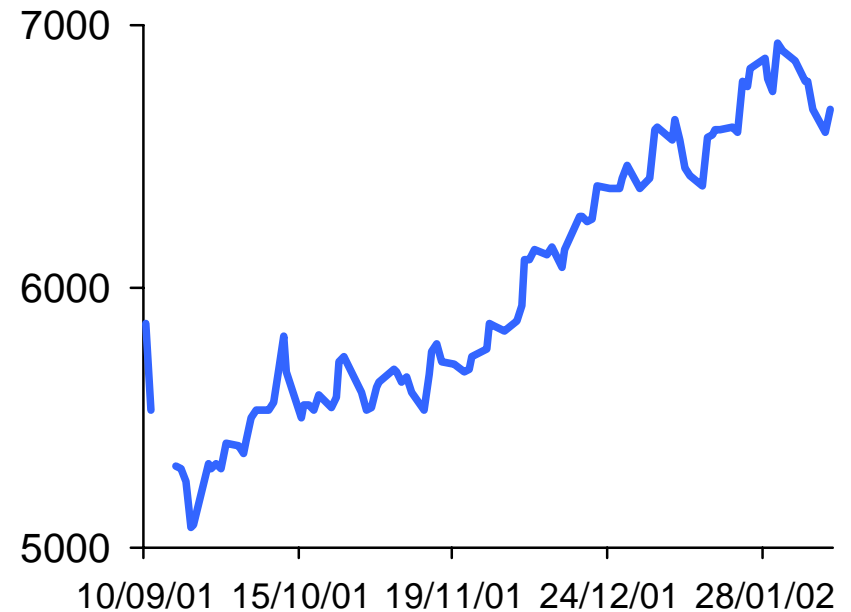
# Stability was maintained

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**Exchange rate  
(pesos/dollar)**



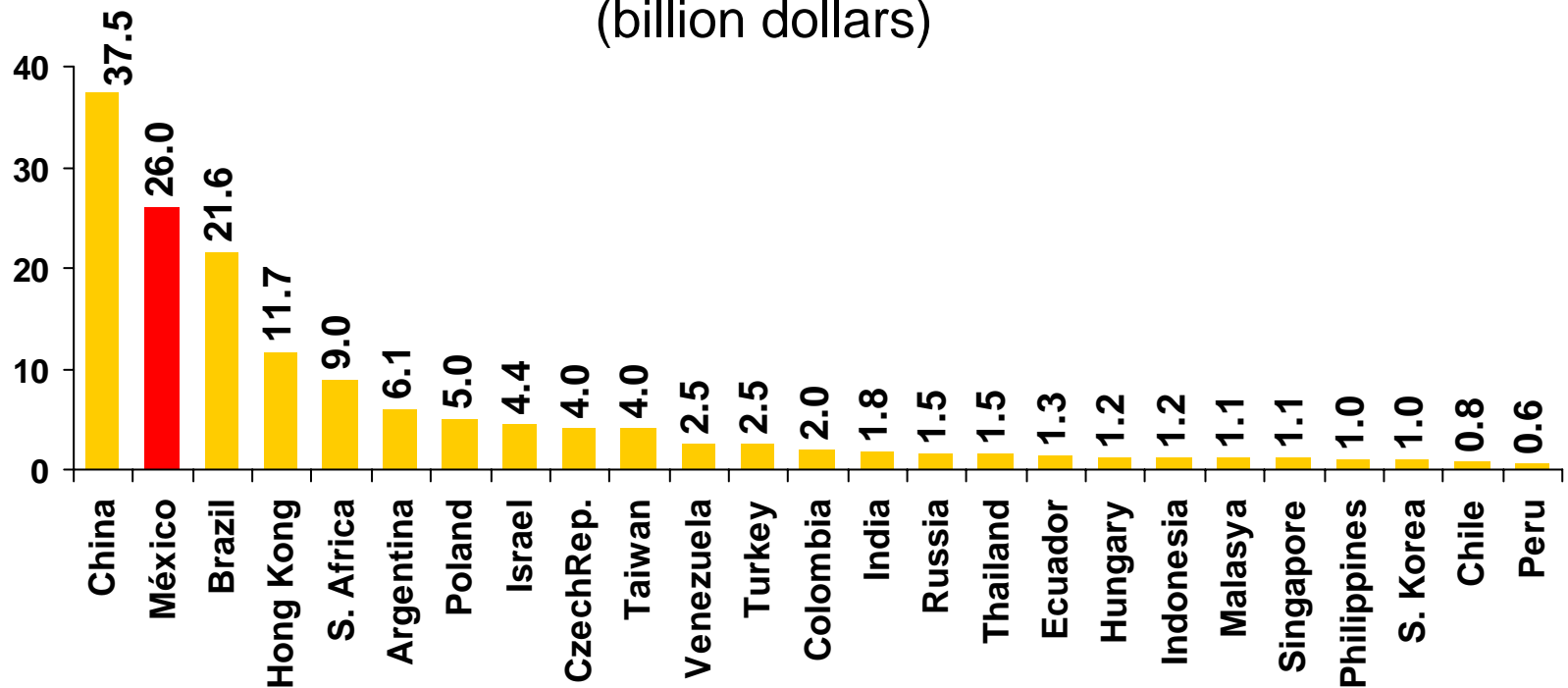
**Mexican Stock Market  
Index**



# Even in periods of global economic turmoil, Mexico has been an important destiny of foreign direct investment

- Free trade agreements, along with the confidence of investors in our medium term economic outlook have made of Mexico an important destiny for foreign investment

## FOREIGN DIRECT INVESTMENT IN 2001 (billion dollars)



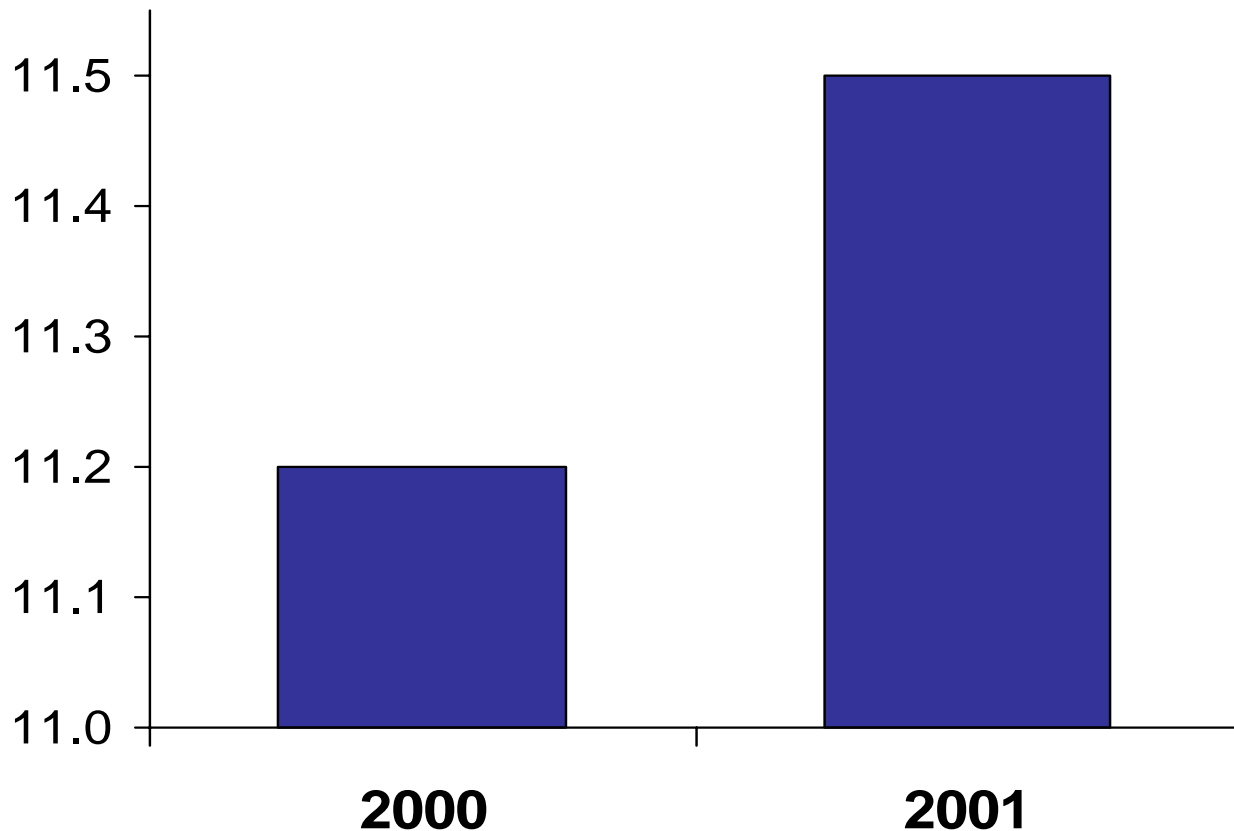
\*Source: Deutsche Bank. Emerging Markets Monthly, January 2001. Figures for Mexico correspond to official estimates.



# Mexican exports share in the U.S. market

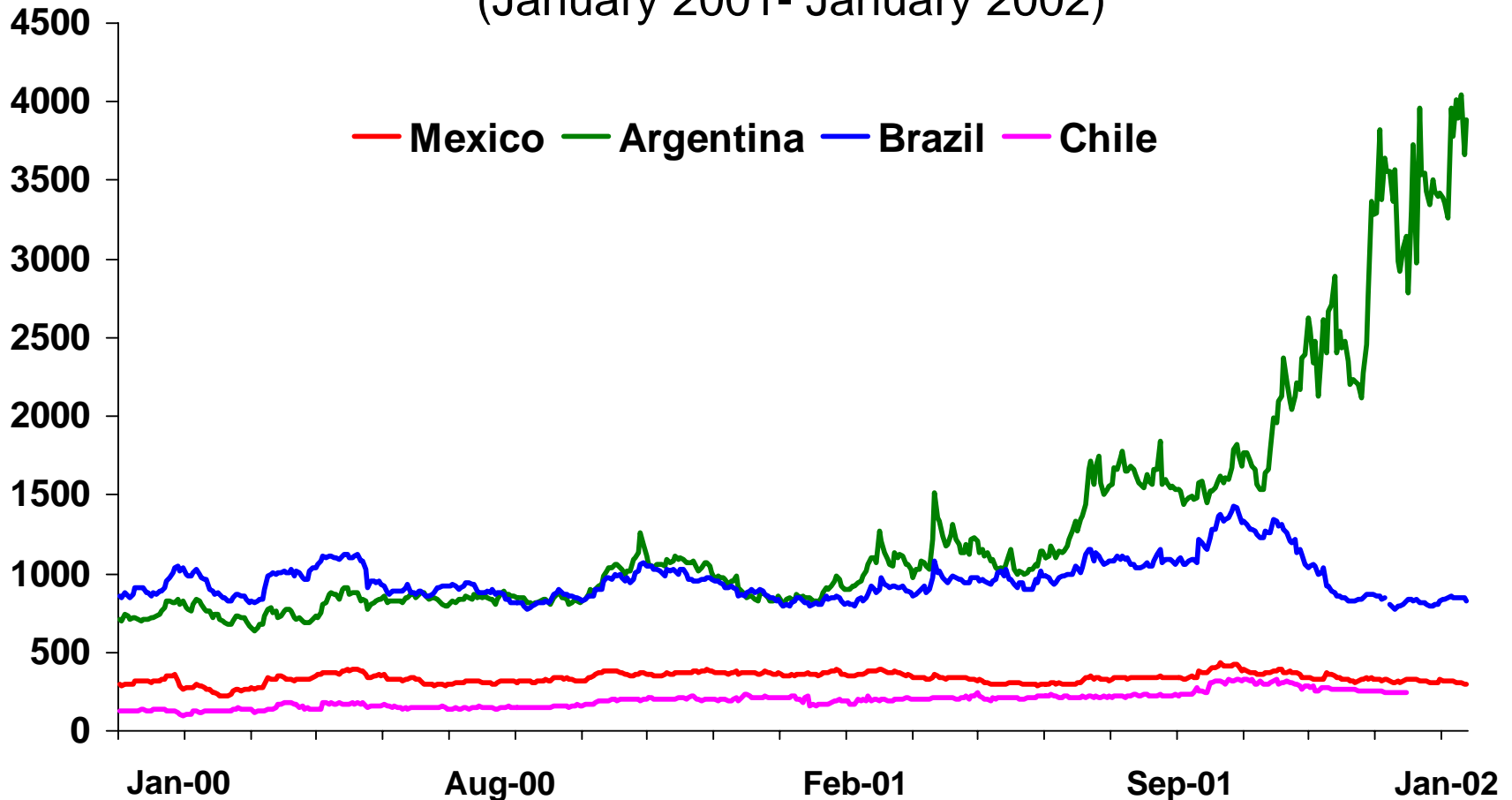
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**USA total imports**  
% (jan-nov)



# The Mexican economy has differentiated from other Latin-American economies

## SOVEREIGN RISK\*/ (January 2001- January 2002)



\* / Spreads over UST

# The most important rating agencies upgraded Mexico's long-term external debt ratings placing it in the "investment grade" category

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**The main reasons for the recent upgrades were the implementation of sound economic policies that have strengthened the fundamentals of the economy**

- On February 7, Standard and Poor's upgraded Mexico's external debt from BB+ to BBB-, placing it in the "investment grade" category.
- On February 6, Moody's upgraded Mexico's long-term foreign currency ceiling to Baa2, placing it one notch above the "investment grade" category.
- On January 15, Fitch upgraded Mexico's external debt to the "investment grade" category.

# External debt ratings: comparative ranking

	Moody's	S&P	Fitch
Taiwan	4	3	5
Czech Rep.	8	7	8
Hungary	7	7	7
Chile	8	7	7
Poland	8	8	8
South Korea	9	8	8
China	7	9	7
<b>MEXICO</b>	<b>9</b>	<b>10</b>	<b>10</b>
Philippines	11	11	11
Colombia	12	12	12
Peru	13	13	13
Brazil	14	13	13
Russia	13	14	14
Venezuela	15	15	15
Indonesia	16	18	16
Argentina	20	22	22

From 1 to 10:  
investment grade  
category.  
From  
11: speculative  
investment

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Actions to promote job creation with stability and structural change.

# Economic Agenda 2002

## Main Strategies

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1. Macroeconomic conveyance focused toward recovery in line with the world's economic cycle.
2. Adjustment of structural limitations in order to create investment opportunities.
3. Microeconomic conditions designed to trigger competitiveness and domestic markets.
4. Direct actions to promote employment and support income of vulnerable groups.
5. New Social Policy.

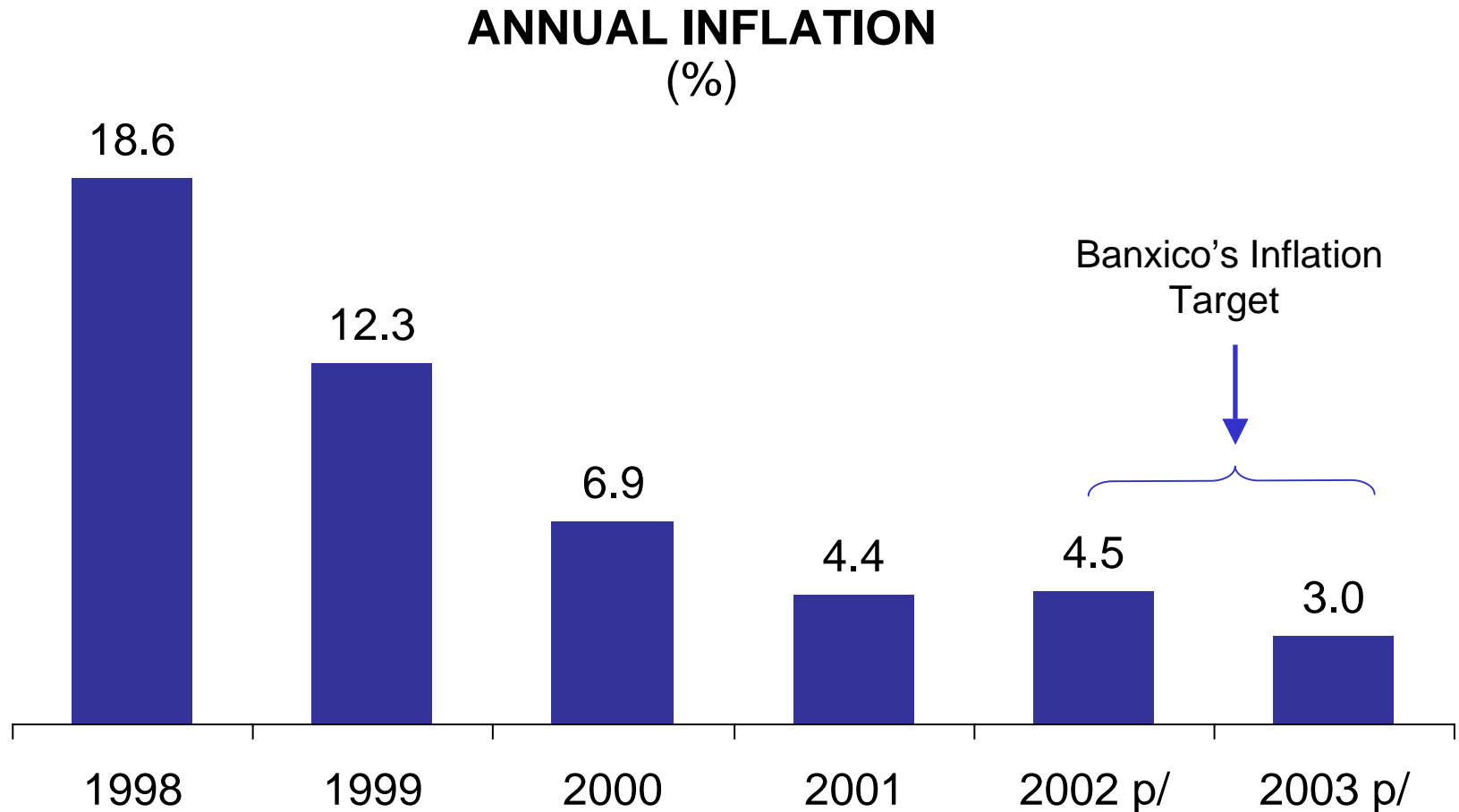
# Macroeconomic conveyance focused toward recovery in line with the world's economic cycle

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1. Agreement with the Congress on the fiscal deficit goal.
2. The Federal Budget Act 2002 contains a series of automatic stabilizers to ensure that the fiscal deficit target will be met.
3. Growth of tax revenues to GDP ratio.
4. Lower dependency on oil revenues.
5. Debt management: low external debt and better payment conditions.
6. The lowest public debt to GDP ratio in the last 30 years.

# The economic program for 2002 is in line with Mexico's central bank inflation target

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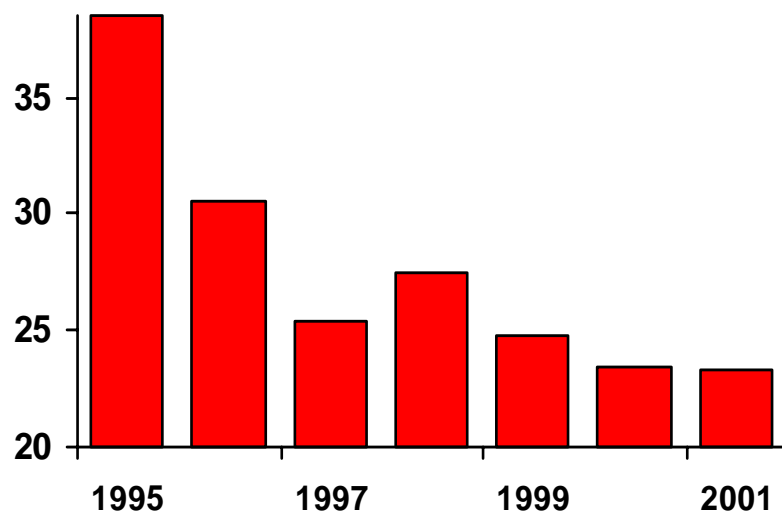


# Macroeconomic conveyance focused toward recovery in line with the world's economic cycle

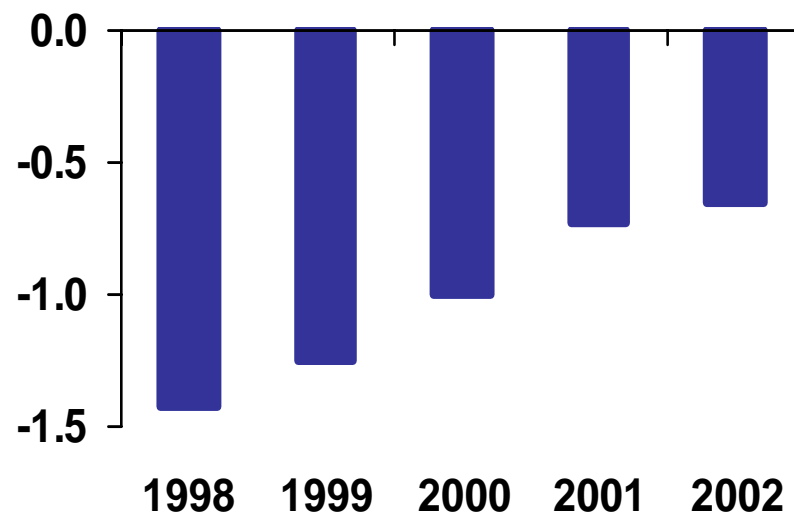
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Net Public Debt  
GDP Percentage, %



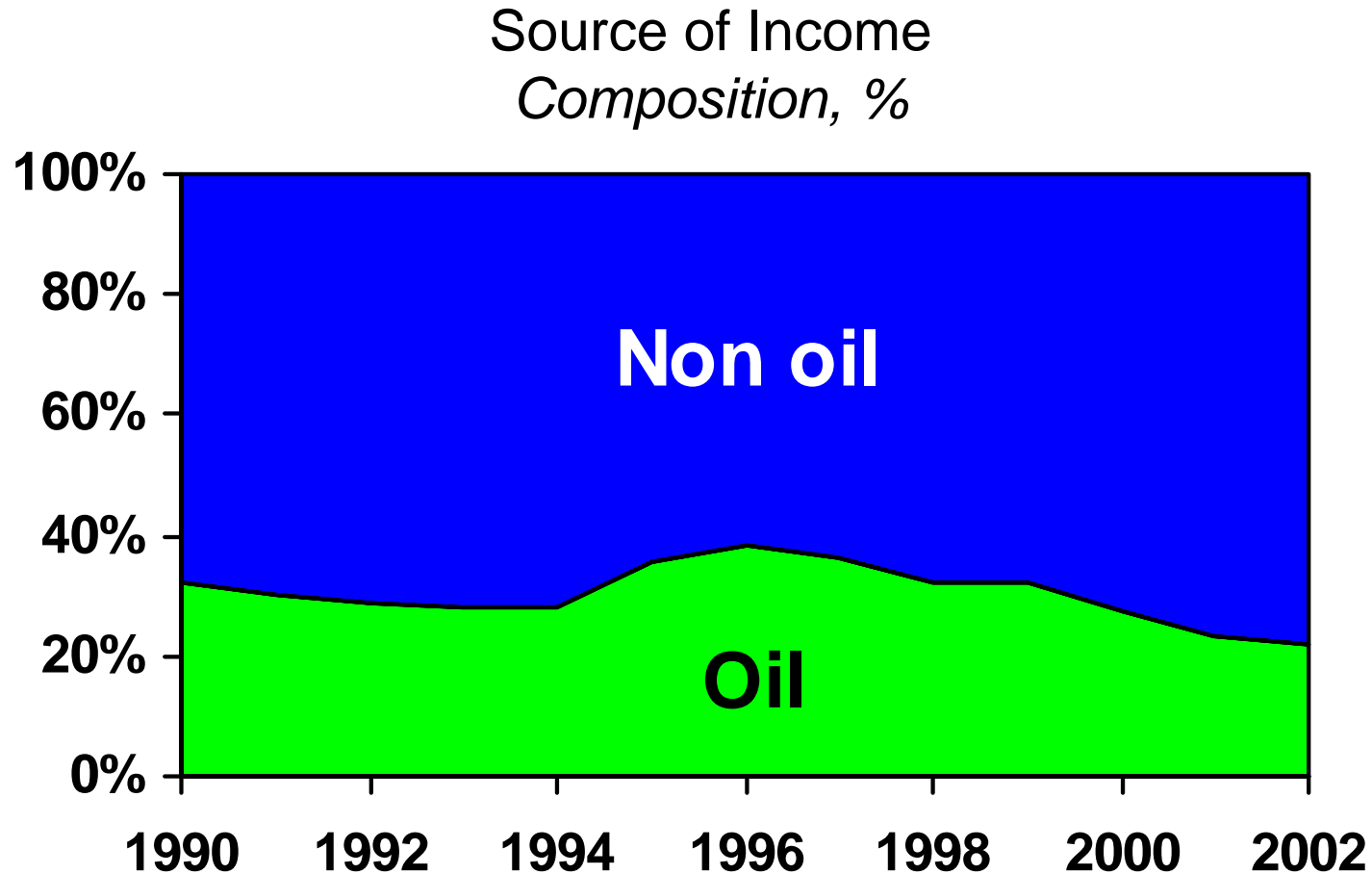
Fiscal Deficit  
GDP Percentage, %



# Macroeconomic conveyance focused toward recovery in line with the world's economic cycle

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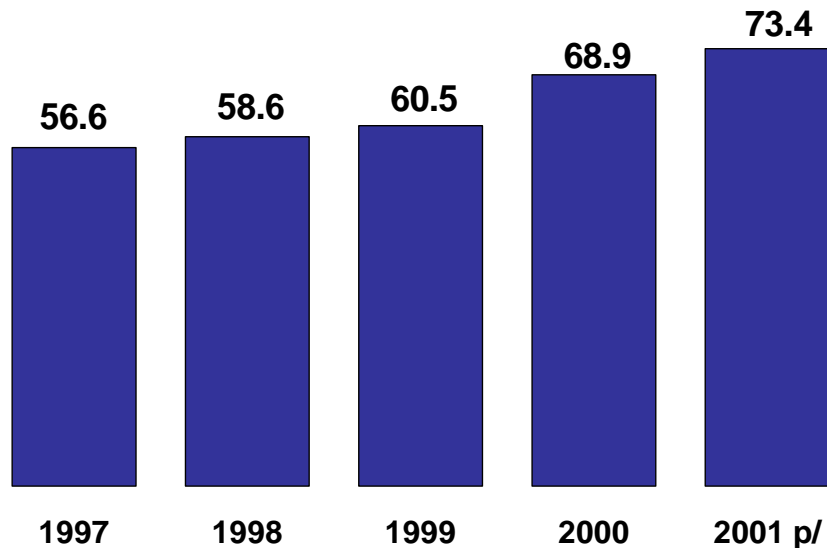


# Economic Agenda 2002

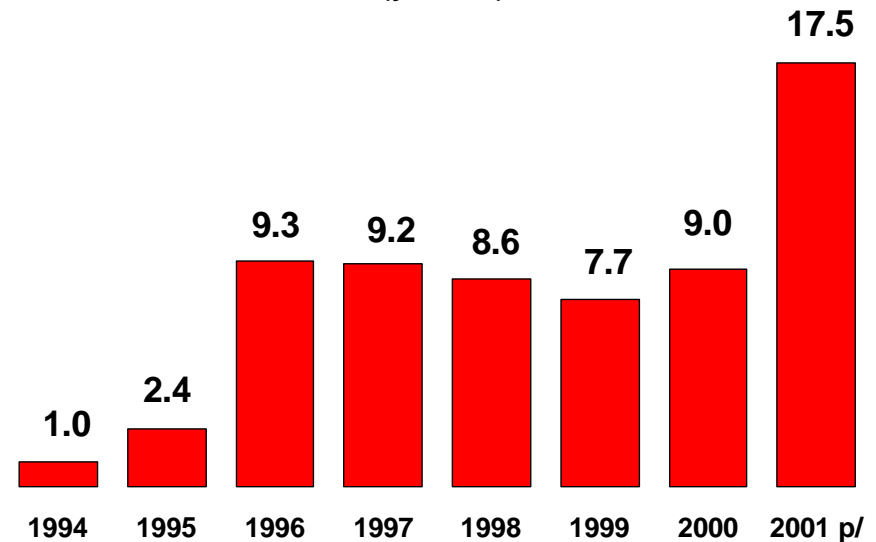
## External Debt Management

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**EXTERNAL PUBLIC DEBT  
WITH FIXED INTEREST RATE**  
(Gross Balance %)



**EXTERNAL PUBLIC DEBT  
AVERAGE MATURITY**  
(years)



# Economic Agenda 2002

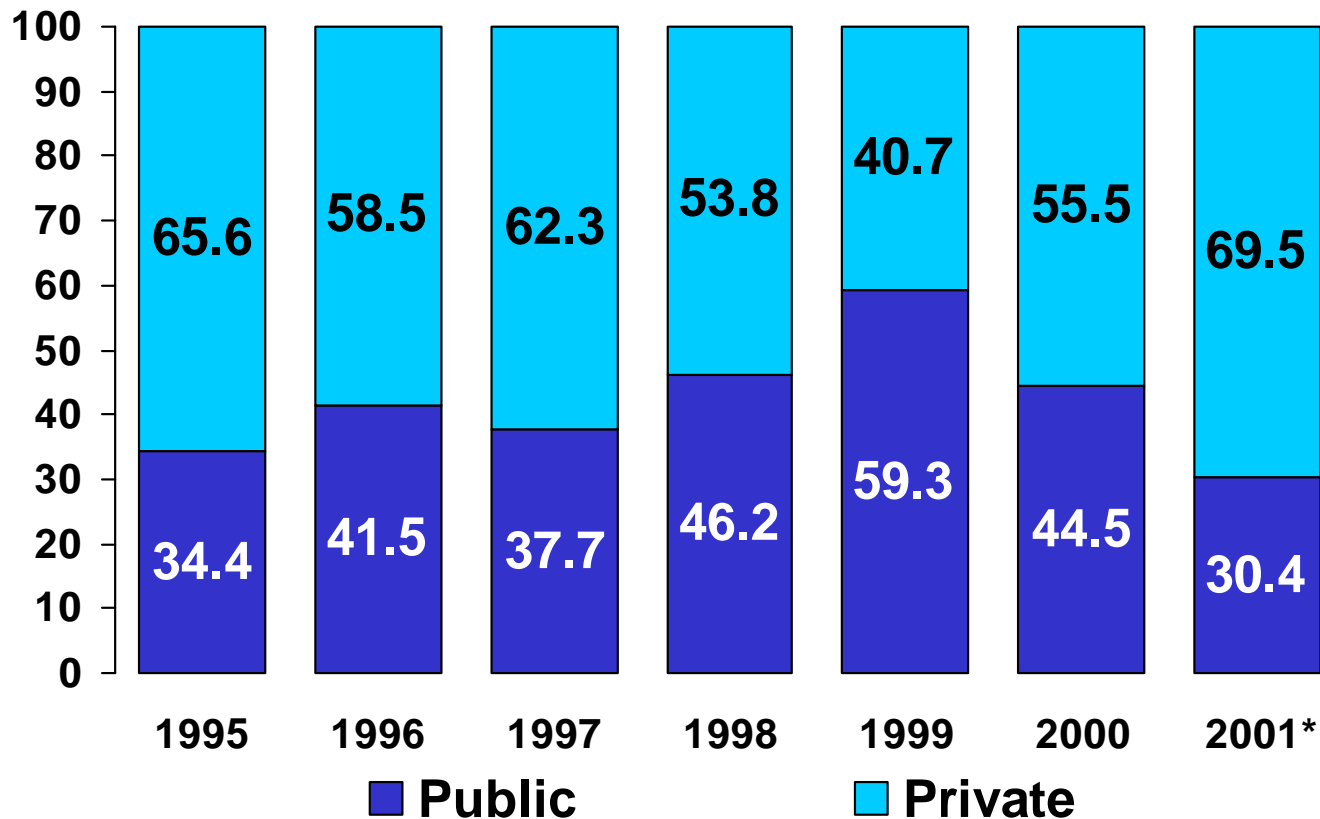
## Public Sector

### Borrowing Requirements (PSBR)

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**FINANCIAL SAVING USE BY ECONOMIC SECTOR**  
**1995-2001 (%)**



\* Estimated

# Adjustment of structural limitations: Structural reforms set the framework for a new growth pattern

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- Labor reform.
- Financial sector reform, consolidation.
- Energy sector reform.
- Telecommunication sector reform.
- Public Budget administrative reform.
- Judicial reform (mercantile law).

# Microeconomic conditions designed to trigger competitiveness and domestic markets

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**Regulation Framework**

**Easing the opening of new enterprises.**

**Technology**

**Support productive projects.**

**Smuggling interdiction**

**Fair competition.**

**Industrial value-chains**

**Strengthen producers' income.**

**Digital Government**

**Modernization of governmental services.**

# **Direct actions to promote employment and support income of vulnerable groups.**

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**Infrastructure**

**Housing**

**Temporary Employment Program**

**Training and support to  
unemployed workers**

**Productive projects**

# Physical investment promoted by the Public Sector

Billions of Mexican pesos

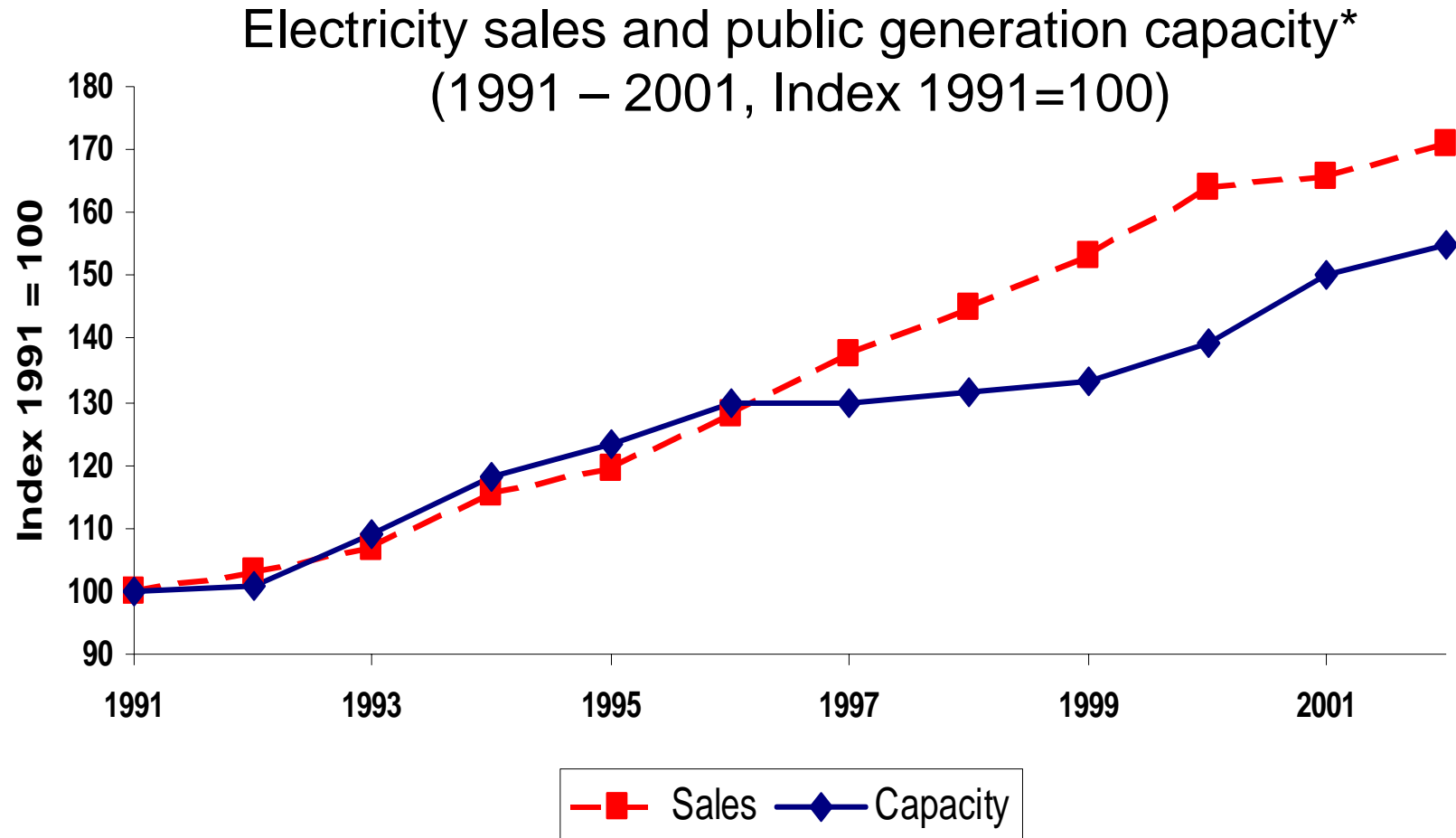
	Total			% del PIB			Var. Real	
	2001	2002		2001	2002		Var. Real	
	Close	Planned	Aproved*/	Close	Planned	Aproved		
	(1)	(2)	(3)				(2 / 1)	(3 / 1)
<b>TOTAL</b>	<b>214.8</b>	<b>234.1</b>	<b>272.6</b>	<b>3.5</b>	<b>3.8</b>	<b>4.4</b>	<b>9.0</b>	<b>26.9</b>
Budget	158.2	126.0	164.5	2.6	2.0	2.7	-20.4	4.0
Financed	64.8	123.6	123.6	1.1	2.0	2.0	90.8	90.8
Financ Amortization	8.2	15.5	15.5	0.1	0.2	0.2	88.1	88.1

\* / Preliminar

Source: SHCP



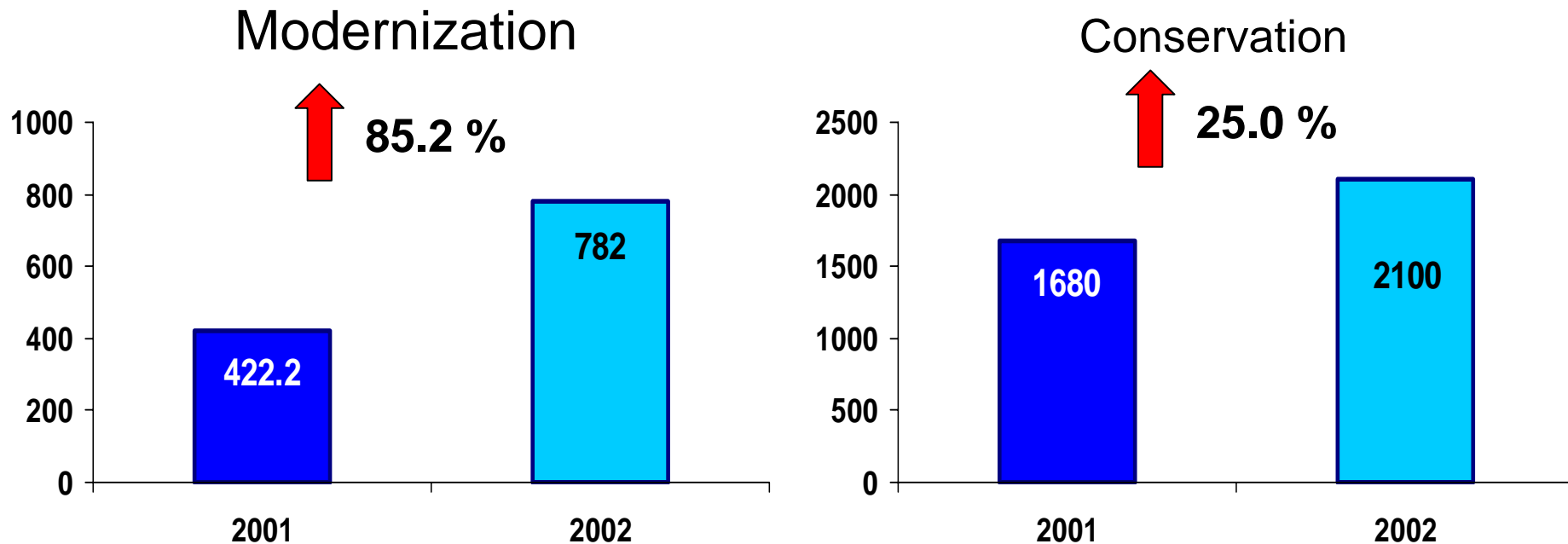
# Power generation



\*PIDIREGAS included

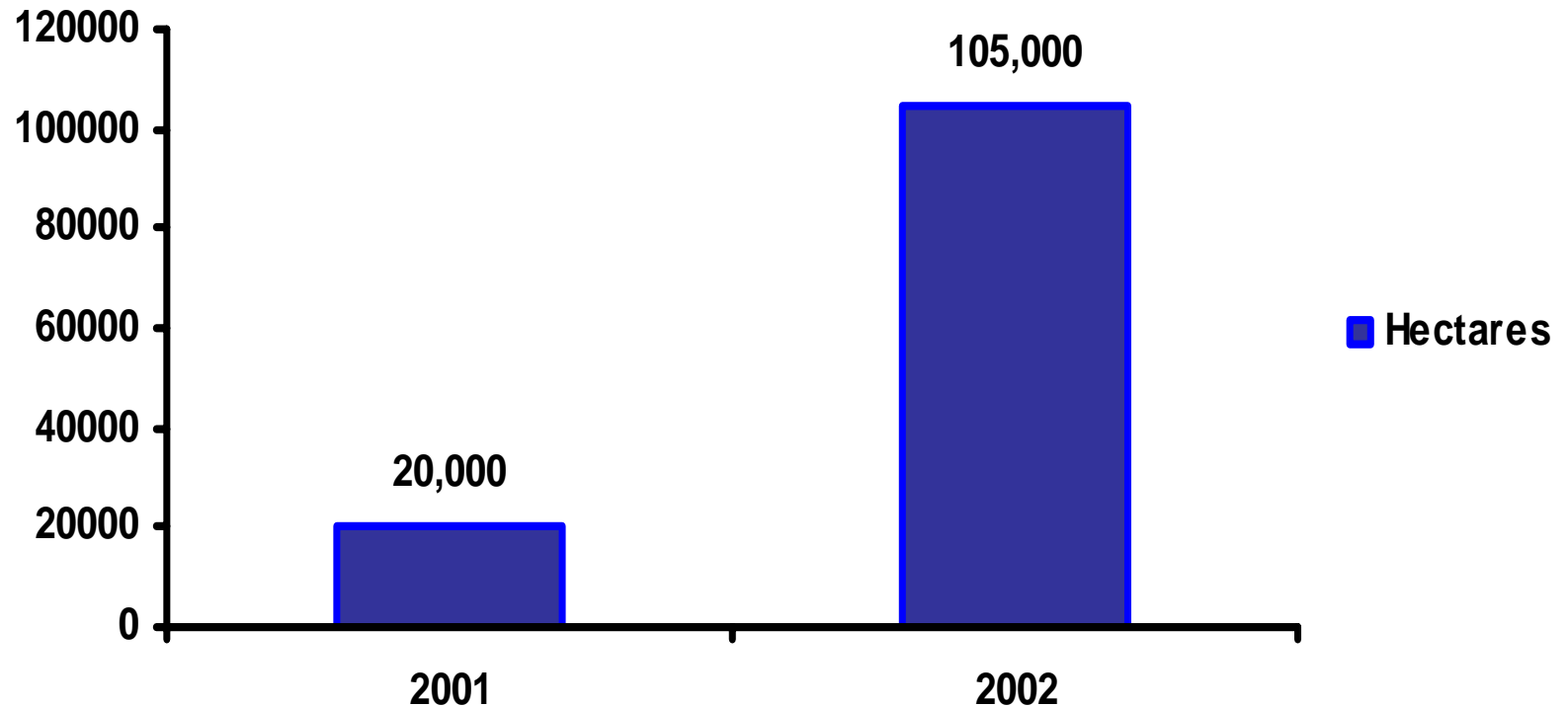
# Highway investment

Kilometers



# Commercial forest financing

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**During the XX century only 60,000 hectares of commercial wood were financed**

# Housing

## Goals 2002

ORGANISM		ADQUISITION 2002	INVESTMENT 2002 MM pesos	ADQUISITION 2006	INVESTMENT 2006 MM pesos
INFONAVIT		275,000	50,970.70	375,000	52,000.00
SHF/FOVI	(800)	74,000	19,759.50	130,000	22,000.00
FOVISSSTE		100,000	21,400.00	62,000	16,000.00
VIVAH	(200)	36,000	900.00	100,000	10,000.00
FONHAPO	(50)	10,000	500.00	10,000	
OTROS		5,000	500.00	73,000	40,000.00
TOTAL		500,000	94,030.2	750,000	140,000

# New Social Policy

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## Principles

- Integration.
- Coresponsability.
- Individual / Family and its life cycle as the center line.

## Axes

- To generate opportunities.
- To widen capabilities.
- To provide social protection.
- To support family wealth creation.

# New Social Policy

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## High impact sectors

- Education, health, nutrition.
- Local development.
- Health and Social welfare.
- Housing and savings.

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# Final remarks

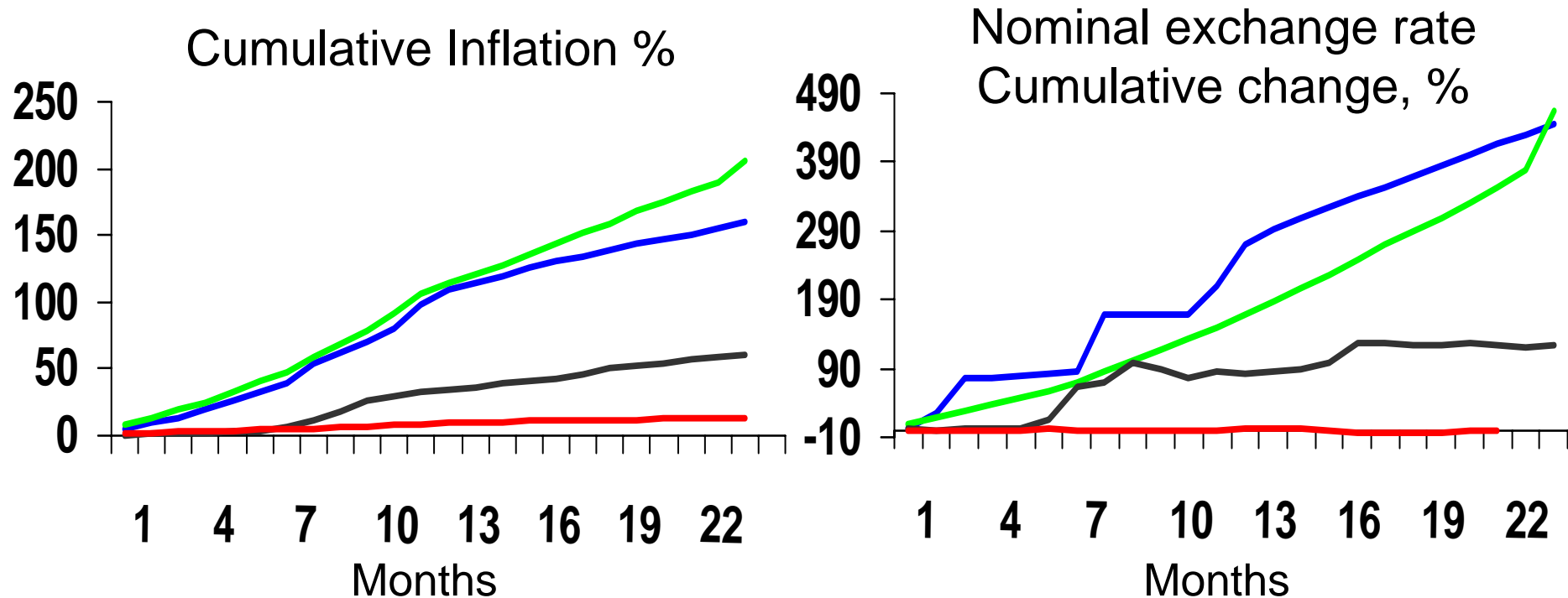
# **In 2001, Mexico experienced a traditional business cycle and not a crisis**

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- In contrast to previous episodes, the economic slowdown has occurred in a context of financial and price stability.
- Inflation and interest rates have declined to minimum records in decades. The access to international capital markets has not been hindered.



# Contrasting results: Mexico's economy facing economic contingencies in the past

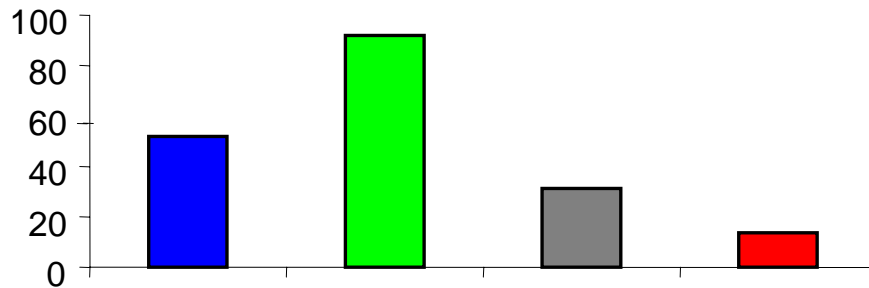


Contingencies  
(years)

1982 – 1983	<span style="display: inline-block; width: 20px; height: 15px; background-color: blue; border: 1px solid black;"></span>
1986 – 1987	<span style="display: inline-block; width: 20px; height: 15px; background-color: green; border: 1px solid black;"></span>
1994 – 1996	<span style="display: inline-block; width: 20px; height: 15px; background-color: grey; border: 1px solid black;"></span>
2000 – 2001	<span style="display: inline-block; width: 20px; height: 15px; background-color: red; border: 1px solid black;"></span>

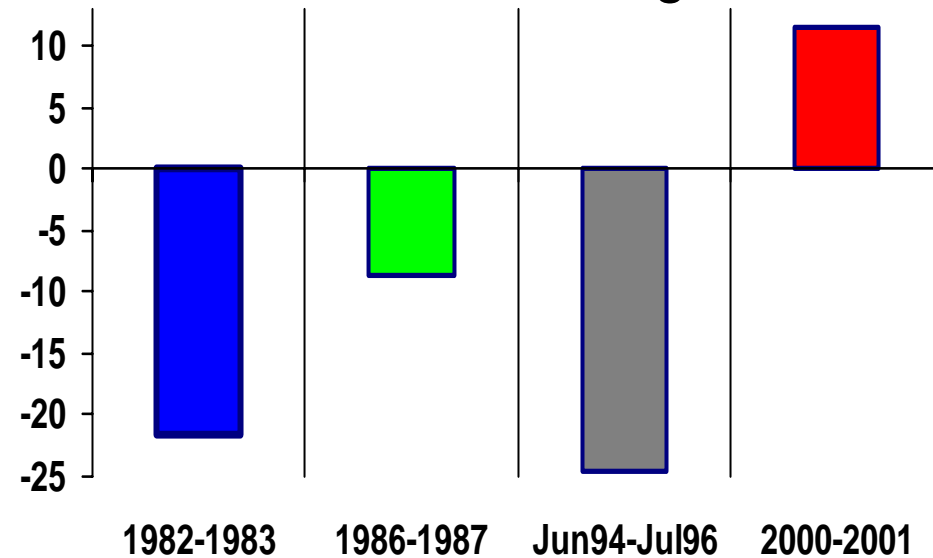
# Contrasting results: Mexico's economy facing economic contingencies in the past

Cete, 28 days, % Average



Contingencies  
(years)

Manufacturing  
real remunerations  
Cumulative change, %



1982 – 1983	<span style="display: inline-block; width: 15px; height: 15px; background-color: blue; border: 1px solid black;"></span>
1986 – 1987	<span style="display: inline-block; width: 15px; height: 15px; background-color: green; border: 1px solid black;"></span>
1994 – 1996	<span style="display: inline-block; width: 15px; height: 15px; background-color: grey; border: 1px solid black;"></span>
2000 – 2001	<span style="display: inline-block; width: 15px; height: 15px; background-color: red; border: 1px solid black;"></span>

# Mexico's Macroeconomic projections for 2002

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	<u>2002</u>
Gross Domestic Product (real annual growth)	1.7
Inflation (Dec./Dec.)	4.5
Interest rate, 28 days Cetes Nominal (average, %)	9.7
Nominal exchange rate (average)	10.1
Current Account (% of GDP )	-3.4
Public Balance (% of GDP)	-0.65

# Mexico: analysts macroeconomic projections for 2002

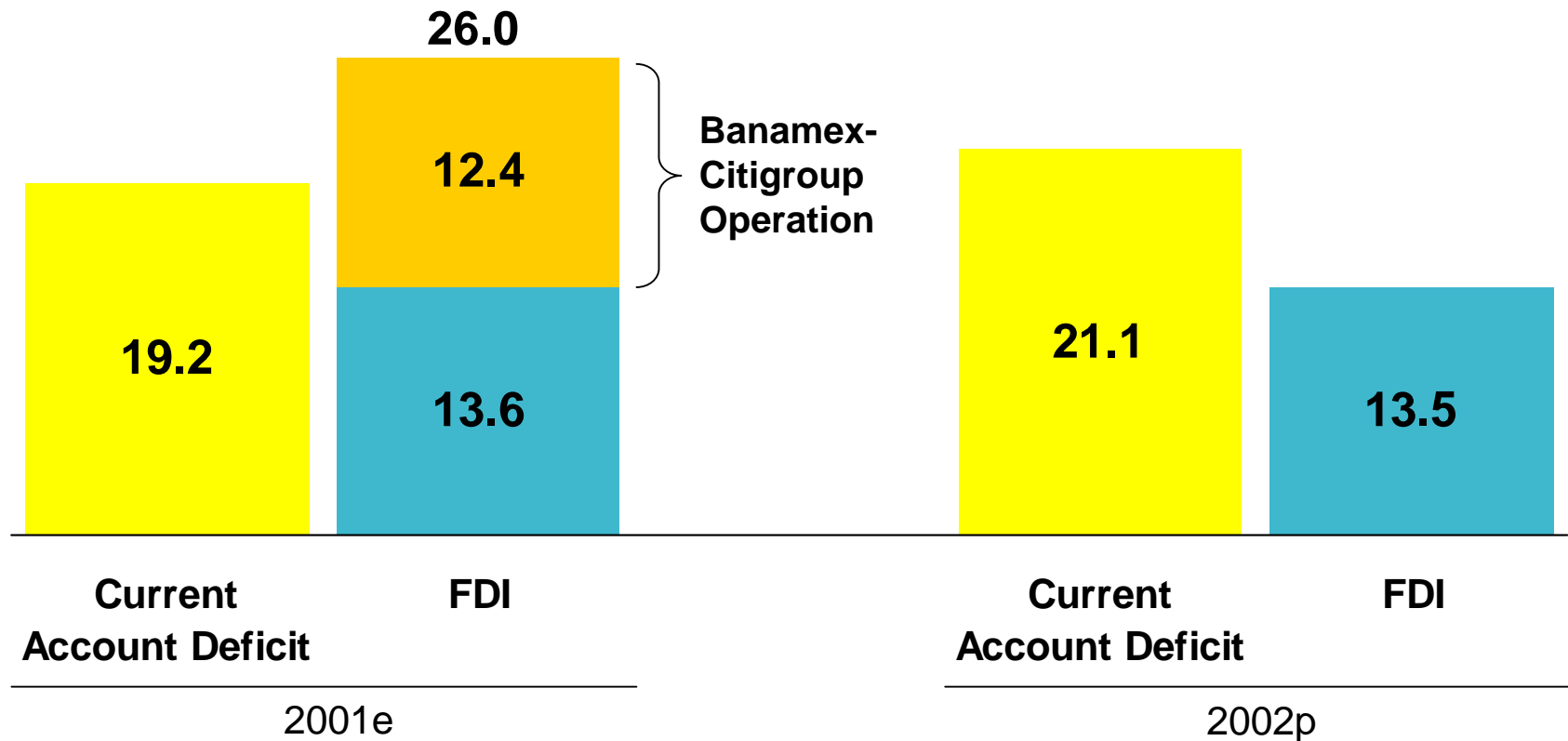
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	Annual growth, %	%	GDP percentage	
	GDP	Inflation	Fiscal Balance	Current Account
JP Morgan	1.0	5.5	-0.7	-4.2
Deutsche Bank	1.6	4.7	-0.7	-3.4
Goldman Sachs	1.7	4.5	-0.7	-3.2
Credit Suisse	1.5	4.2	-0.7	-2.7
Merrill Lynch	1.2	5.5	-0.7	-2.9

<b>Average</b>	<b>1.3</b>	<b>4.9</b>	<b>-0.7</b>	<b>-3.2</b>
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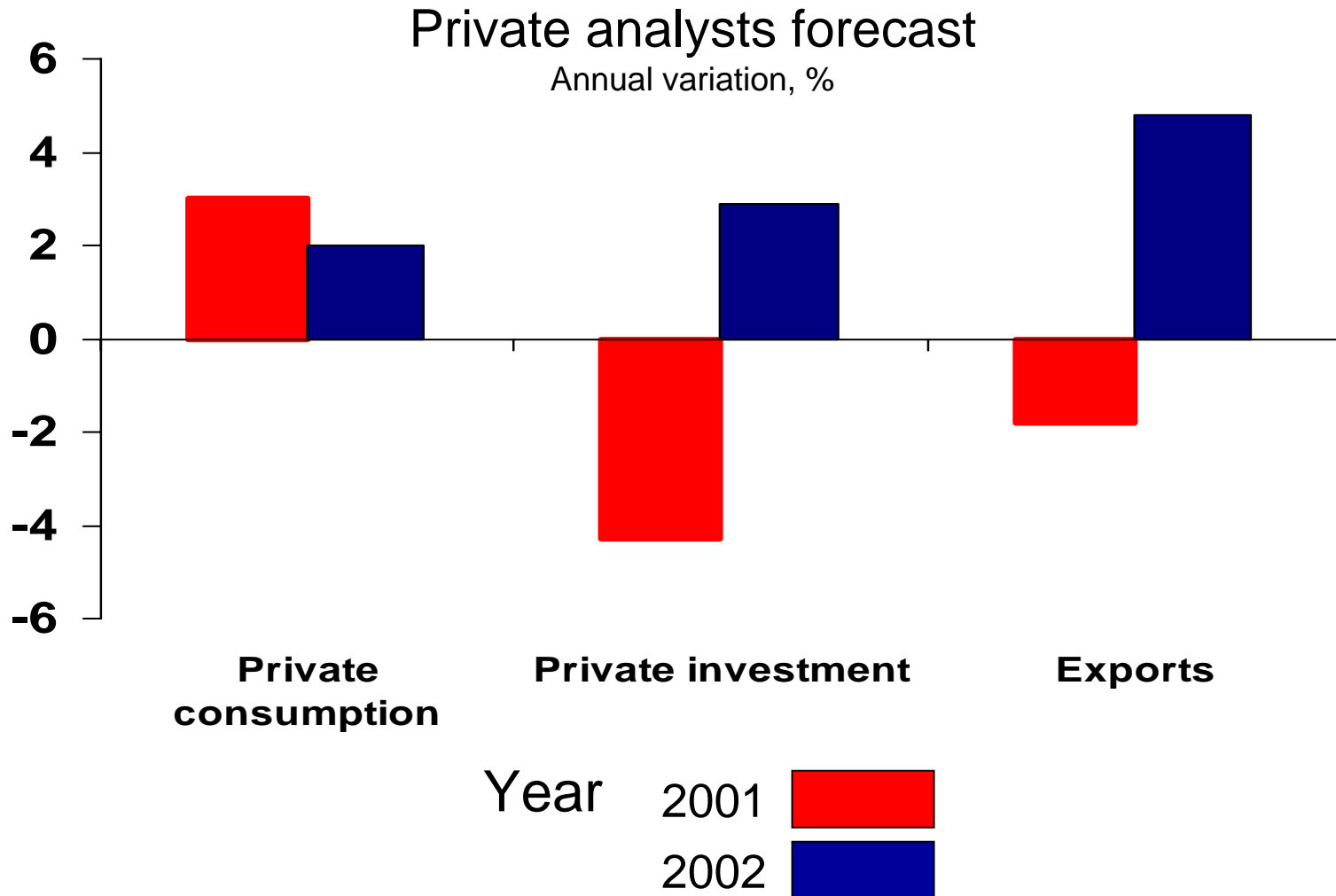
# The current account deficit for 2002 is consistent with the availability of long-term external resources

## CURRENT ACCOUNT DEFICIT AND FOREIGN DIRECT INVESTMENT (FDI) (billion dollars)



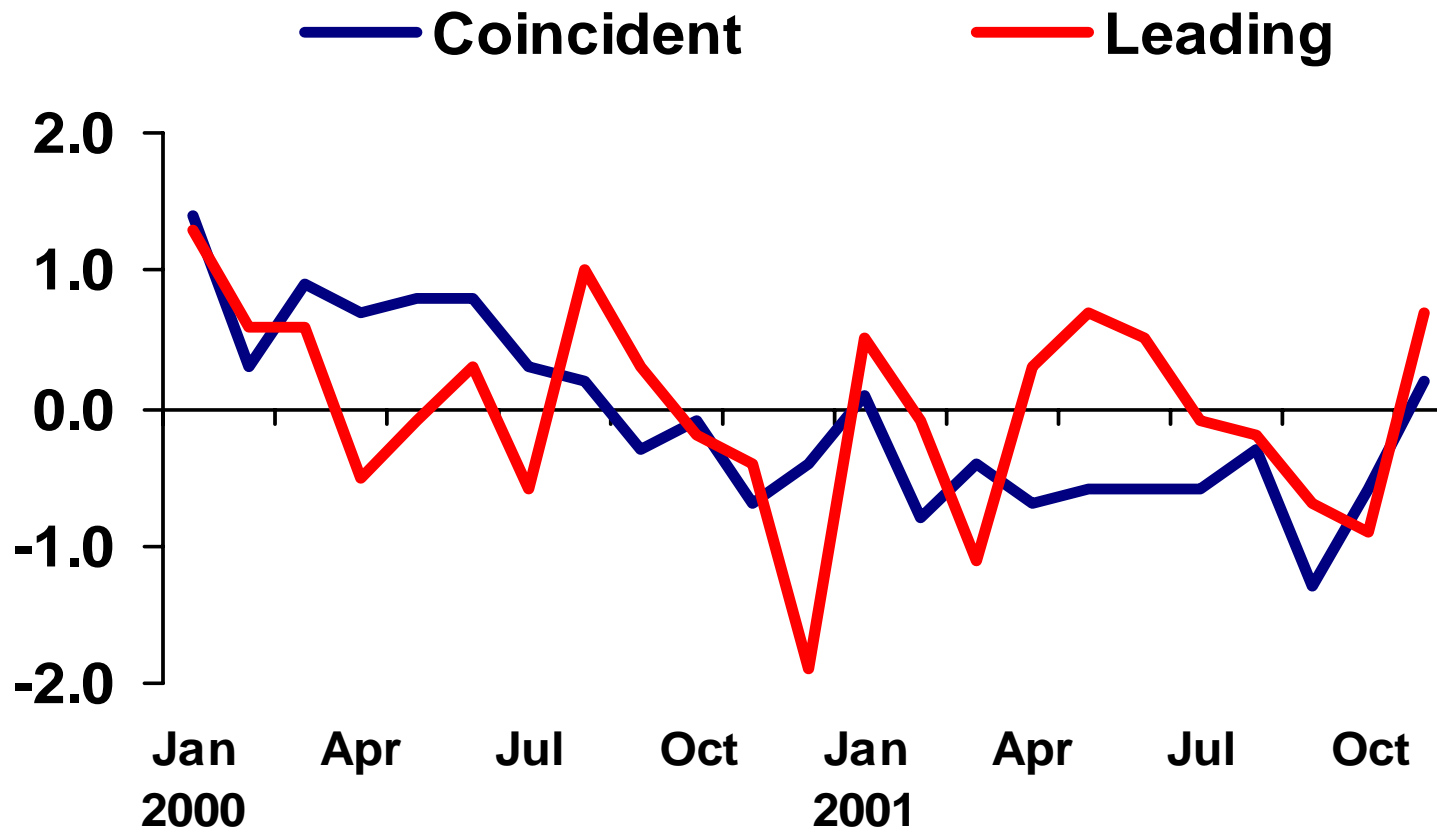
e/ estimated    p/ projected

# Mexico: Sources of growth



# Mexico: Leading indicators

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# Final Remarks

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- In contrast to previous contingencies of the last three decades, the current economic slowdown has not been accompanied by a crisis. Mexico's business cycle is similar to those of our main trading partners.
- Despite the economic slowdown, medium and long term perspectives are positive due to the strength of the fundamentals of the economy and the economic agenda...



# **Final Remarks**

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**... that seeks to achieve the following goals:**

- 1. Economic stability.**
- 2. Adjustment of structural limitations.**
- 3. Trigger competitiveness.**
- 4. Open new investment opportunities and foster employment.**
- 5. Create a new platform for social development.**

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# **Mexico's Economic Agenda 2002.**

Promote job creation with stability  
and structural change.

February, 2002