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Foreign Currency Ratings

Long Term	HR A- (G)
Short Term	HR2 (G)
Perspective	Stable

Local Currency Ratings

Long Term	HR A- (G)
Short Term	HR2 (G)
Perspective	Stable

The assigned rating indicates that the issue or issuer offers acceptable safety for timely payment of debt obligations. Maintains low credit risk. A “-” indicates relative weakness within the rating grade.

HR Ratings has assigned a long-term rating of HR A- (G) to the sovereign debt of the United Mexican States. This includes all currency denominations: the peso, UDIs and foreign currency. For short-term debt the assigned rating is HR2 (G). The perspective is Stable.

The rating is based on the prudent conduct of fiscal policy extending through at least three presidential administrations, including different political parties, suggesting that a broad consensus for such policies exists. These policies have emphasized limited budget deficits with the result that current debt levels are manageable. Additionally, Mexico’s current account deficit has in recent years been small, increasing the confidence of investors (including non-residents) in the credit quality of Mexican government debt. Most significantly, the performance of the economy and public finances during the severe 2009 recession and its aftermath demonstrates Mexico’s ability to handle stress. Other relevant points include:

- A comparison of Mexico with other sovereigns on a variety of relevant metrics supports the assigned ratings, especially vs. large economies which generally have higher credit ratings even with poorer credit quality fundamentals.
- Our base forecast for Mexico sees the “on-Budget” financial deficit rising to 3.06% of GDP in 2019 with the debt reaching 41.7%. We regard this deterioration (from 2.5% and 31.7% for the last twelve months through June 2012 and as of 2019, respectively) as fully consistent with our rating.
- Although Mexico’s recent growth performance has been positive, our long-term view remains cautious, albeit with some upside risk to our forecast assumptions. Although Mexico’s inflation remains above targeted levels significant progress has been made in stabilizing it, especially at the core level, thus significantly reducing upside risk from current levels. Furthermore, the current rate at above 4% appears to be related to transitory factors.
- A major concern is the long-term growth prospects for the United States (US), on whose economy Mexico is strongly dependent. This is despite some recent degree of diversification in its trade patterns.
- With a new administration from a different party taking office in December there exists some risk that past policies will change. One possibility is the creation of expansive new entitlement programs in health and pensions. Our assumption is that the consensus on prudent fiscal results generally will continue and, on the whole, will take priority over possible new programs, thus limiting their scope, at least in the short term. Nevertheless our forecasts do assume that economic and political pressures will produce deficits that will gradually lead to a rising debt to GDP ratios.
- Deficiencies in public security continue to be a problem. Although they probably have had an impact on growth, its extent is extremely difficult to determine, especially in the context of Mexico’s strong recent performance. We see no reason at this point to assume any forthcoming change in this regard.

Introduction

This report is divided into three main sections. In the first we show how Mexico compares to different categories of sovereigns on the basis of different metrics. We believe that this section fully justifies the credit rating that we have assigned to its sovereign debt. Indeed, versus the category of the so-called “large economies”, for example, Mexico’s credit rating is low given the metrics that it displays, especially in terms of its public debt and its balances on the current account.

In the second section we discuss major themes of relevance to Mexico and how our evaluation of them has affected our credit rating. This includes a consideration of Mexico’s growth and inflation prospects, its dependence on petroleum revenue, the absence of structural reforms, the low level of revenue collection on the part of the public sector, and the evolution of its external accounts. We assume that Mexico’s growth will remain relatively low, a factor that introduces a somewhat conservative bias into our base forecast as described in the third section of this report. Inflation is somewhat on the high side and we assume that this will continue. On the positive side, we believe that the negative implications generally given to Mexico’s dependence on petroleum income have been exaggerated. Indeed, Mexico has become less dependent on petroleum while his role as an exporter of manufactured products has increased. In some respects, Mexico has emerged from the 2009 crisis stronger than it was prior to its initiation. The evolution of Mexico’s current account over this period has shown its ability to adapt to crises and to absorb stress. As for its capital account, a major development over the last few years has been the country’s ability to attract even larger amounts of capital inflows into its public debt markets. This reflects growing investor confidence in Mexico and serves to diversify the base for servicing its public debt.

In the third section we provide a highly detailed base scenario of where we see Mexico’s “on-Budget” Federal Public Sector debt reaching over the next seven years. Although the result of this analysis shows both the deficit and the debt on an increasing trend, we believe the expected levels are fully consistent with the assigned rating. Indeed, assuming that the next decade could be one of slow global growth given the developments in Europe, the US, China and other developing economies, the relatively moderate expected increase in sovereign debt for Mexico is encouraging.

Mexico vs. other Sovereigns

In this section of our report we compare Mexico to different sets of sovereigns. The comparisons in our view suggest that the assigned rating is justifiable on the basis of current standings relative to key indicators. We focus on debt to GDP, as we regard it as the most important variable. We also look at growth. This variable is important, among other reasons, because it increases the likelihood of keeping the historical debt contained relative to the size of the economy. Thirdly, we evaluate inflation. This is important, for if controlled it tends to lower the cost of financing the debt and makes investors more willing to purchase it with a lower risk premium for future inflation. Finally, we also look at the current account

deficit. This, like inflation, increases confidence of investors in a country's ability to maintain the value of its currency and to permit the future repatriation of their investments.

Below we show the four categories of sovereigns that we use to compare Mexico. For each category we calculate the median value for each variable. For this part of our analysis we use data from the IMF, including for Mexico.

Categories			
Latin America	Large Economies	AAA Sovereigns	Major Petroleum Prod
Description			
Corresponds to the major countries of the region	Corresponds to relatively large economies, sovereigns associated with them and sovereigns which have at least until recently enjoyed ratings greater than A-.	Sample of sovereigns that typically have AAA ratings	Countries whose petroleum production represents a significant portion of the world's total
Countries			
Argentina	Germany	Germany	Abu Dhabi, EAU
Bolivia	Australia	Australia	Saudi Arabia
Brazil	Austria	Austria	Brazil
Chile	Belgium	Canada	Canada
Colombia	Canada	Denmark	China
Costa Rica	Spain	United States	United States
Ecuador	United States	Finland	Mexico
Mexico	France	Hong Kong	Nigeria
Panama	Italy	Luxembourg	Russia
Paraguay	Japan	Norway	Venezuela
Peru	Portugal	Netherlands	
Uruguay	United Kingdom	Singapour	
Venezuela	Russia	Sweden	
		Switzerland	

Source: HR Ratings

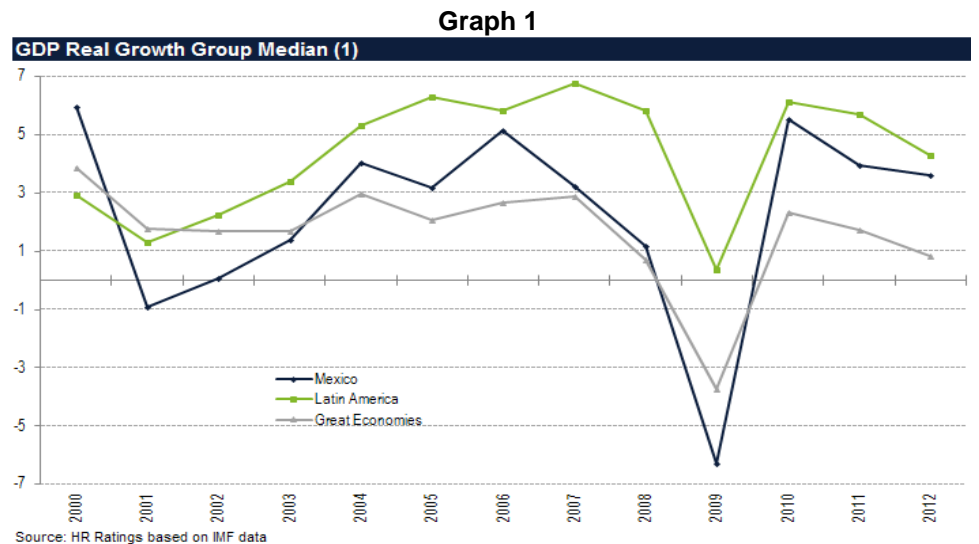
As we shall see, Mexico does not fare as well as do countries generally regarded as "AAA" or as well as the petroleum producers, which despite having this common characteristic are diverse in other respects. Nevertheless, their petroleum reserves do give them important advantages that countries absent of petroleum do not have. Our sample of petroleum producers does not include Norway. Although its production is not large by world standards, it is a factor that provides support to that country's economy and is a factor giving it an AAA rating.

What is most interesting in our view are the superior metrics of Mexico vs. the so-called "large" economies on some key variables. In most cases, the rating assigned to Mexico in this report is below the rating typically given to the sovereigns in the large economy category. Furthermore, sovereigns such as Spain and Italy have until very recently enjoyed ratings superior to that assigned

to Mexico. We believe that the relatively favorable position of Mexico vs. these economies fully justifies our A- (G) opinion.

Economic Growth

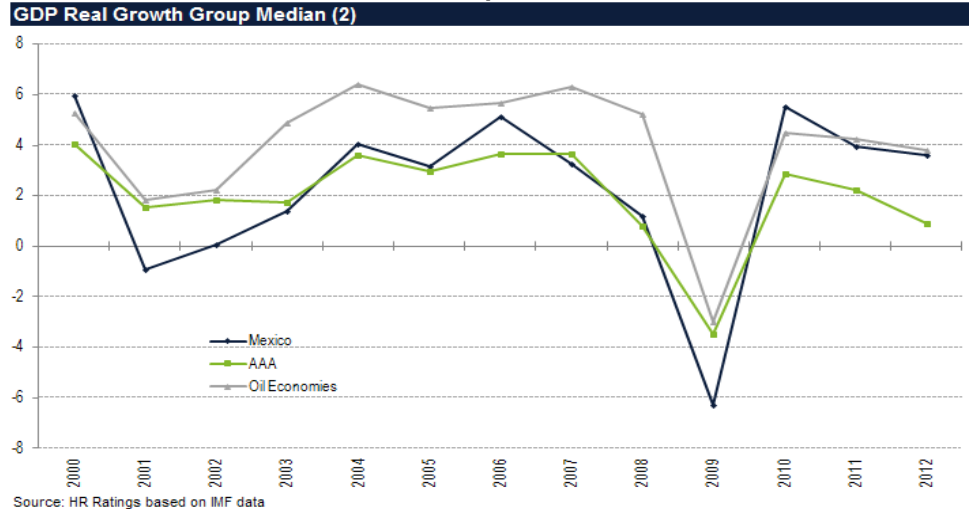
One of our major concerns for Mexico is what we regard as its limited long-term growth prospects. Yet as the following graphs suggest, within a comparative context and over a limited time period, Mexico does not look that unfavorable. Below, Graph 1 shows that Latin America (LATAM) has turned in a strong performance. Much of it is due, in our opinion, to growth and demand for foodstuffs and raw materials coming from China.



Relative to the large economies Mexico turned in a slightly better performance and is doing particularly well since its recovery from the steep recession of 2009. Thus Mexico has a much smaller sovereign debt (following section) load than this latter category of economies and somewhat better economic growth. How much longer Mexico will be able to surpass the growth of the larger economies remains to be seen, but for the moment at least it is doing very well, supportive of our credit rating.

In Graph 2 below we show Mexico's comparative evolution vs. AAA rated economies and major petroleum producers. Interestingly, Mexico recently is matching the performance of the petroleum powers and even doing slightly better than the highest rated sovereigns.

Graph 2



Sovereign Debt to GDP

In graphs 3 and 4 we show the relationship across time between sovereign debt and GDP. To insure consistency we use the data as presented by the IMF. Thus, in the case of Mexico there may be discrepancies between the metric used by the IMF and that employed in this report.

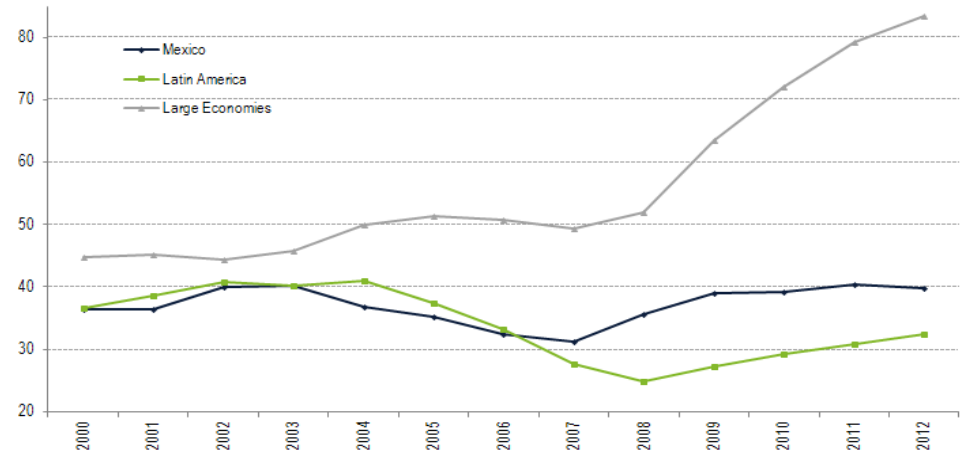
In Graph 3 we compare Mexico to our sample of Latin American sovereigns and the large economies. This is perhaps the most significant graph presented in this analysis. Clearly the large economies are in serious difficulty on this score and the trend line shows it becoming even worse over time. It should be pointed out that the large debt of the US combined with the size of the economy does not disproportionately distort the numbers for the large countries, or the AAA countries, as we are calculating the median. Even before the crisis the large countries were at a disadvantage on this key indicator.

Significantly, many, if not most, of the countries in the large economies categories have sovereign credit ratings higher than Mexico and in the case of Spain and Italy enjoyed higher credit ratings until relatively recently. Mexico's debt ratio is higher than its LATAM peers although the gap is not large and, significantly, appears to be diminishing.

In Graph 4 we show the debt of countries still generally rated AAA, along with petroleum producers, compared to Mexico. Clearly the now diminished class of AAA sovereigns shows a substantially reduced level of debt to GDP, although even for those countries the ratio is on the rise. The petroleum producers have a higher level of debt, although it is generally lower than Mexico's but is also on the rise compared to the relative stability of Mexico (at least on the basis of the IMF measure).

Graph 3

Sovereign Net Debt Group Median as Percentage of GDP (1)

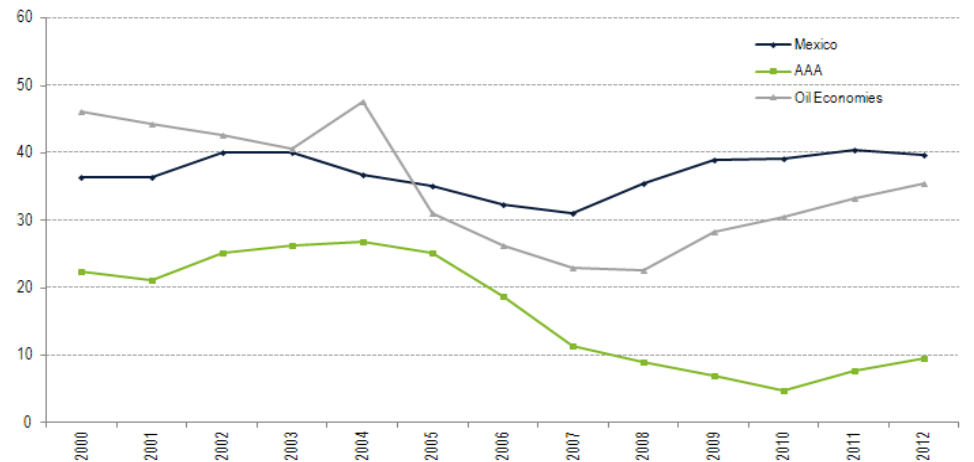


Source: HR Ratings based on IMF data

As for the large economies, it could very well be that their size, and thus presence in international debt markets, made it possible for them to finance large deficits; a temptation that they could not resist. It remains to be seen how much longer they can leverage their size and importance to run levels of debt that smaller sovereigns would not be able to finance.

Graph 4

Sovereign Net Debt Group Median as Percentage of GDP (2)

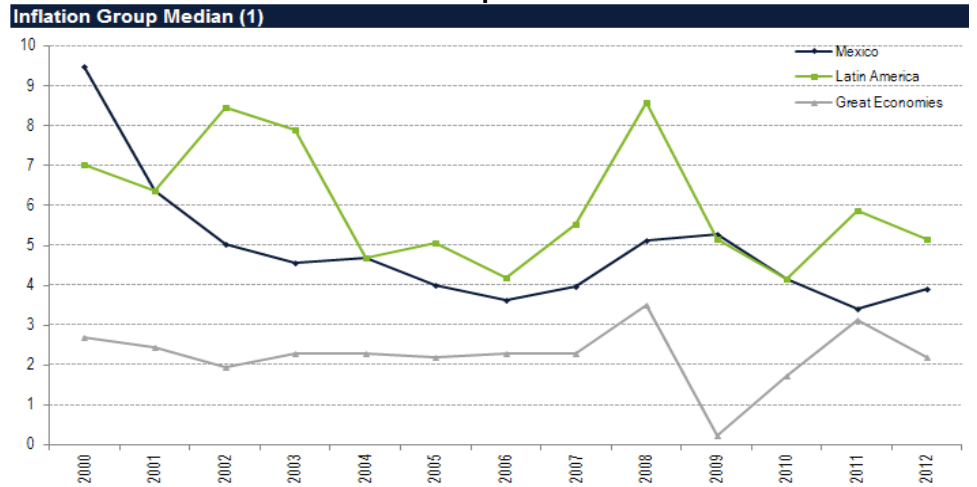


Source: HR Ratings based on IMF data

Inflation

We regard Mexico's level of inflation as one of its more serious economic challenges as it raises the cost of its debt and on that measure, at least, reduces the advantage of a relatively small debt (at least vs. the large economies). Indeed, the next graph shows how Mexico's inflation has been higher than the median of the large economies although the gap has been coming down. This relatively positive trend for Mexico is somewhat supportive of our rating for that sovereign and offsets some of the negative implications of a historically high level of inflation. Mexico's inflation is lower than that of its LATAM peers, reducing somewhat the marginal advantage that they have in terms of higher growth. Furthermore as the graph shows inflation has been coming down. We discuss inflation in more detail in a subsequent section of this report.

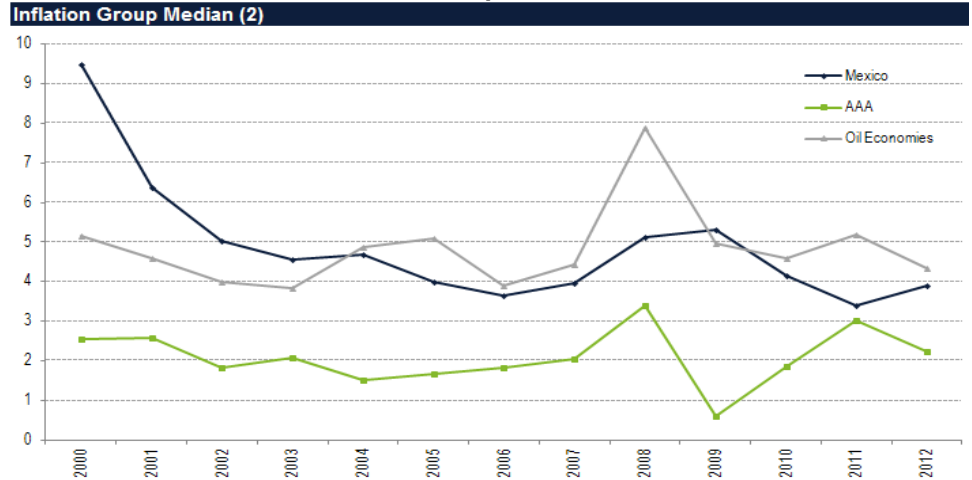
Graph 5



Source: HR Ratings based on IMF data

In the Graph 6 we show Mexico's recent inflation performance compared to AAA rated countries and petroleum produces. Again, Mexico is in the middle and not surprisingly the AAA sovereigns display a low level of inflation.

Graph 6



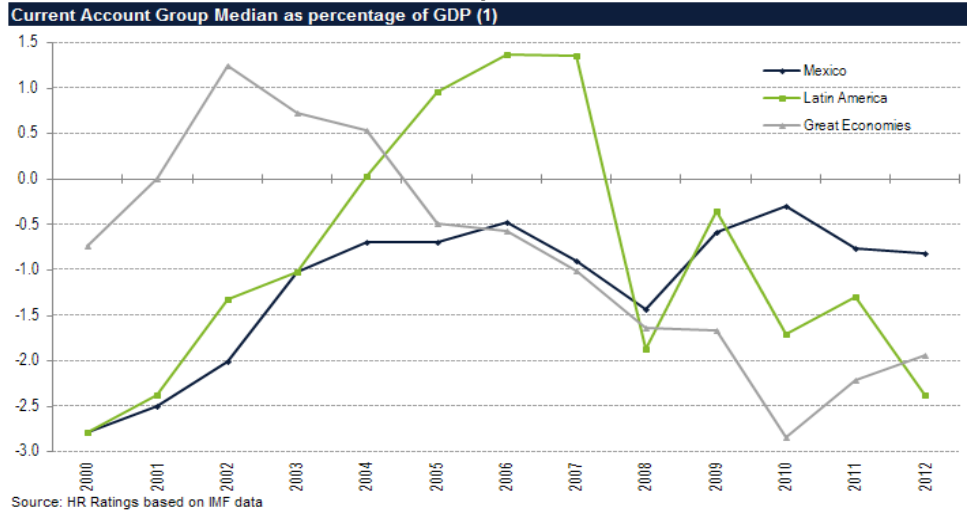
Source: HR Ratings based on IMF data

Current Account

In Graph 7 we see how Mexico has been improving its position on current account moving from a relatively large deficit to GDP of nearly 3% in 2000 to roughly -0.80% expected (by the IMF) for 2012. Among other factors, this reflects the emergence of Mexico as a major manufacturer and the rise of transfers from abroad, most notably the United States. Were we to take a look at the capital account we would see substantial inflows of monies into the debt markets as investors show increasing appetite for Mexican paper (we discuss this in another section of this report). We believe that part of the reason for the movement of portfolio flows into Mexico is its ability to close its current account deficit thus reducing the fear of devaluation and currency controls.

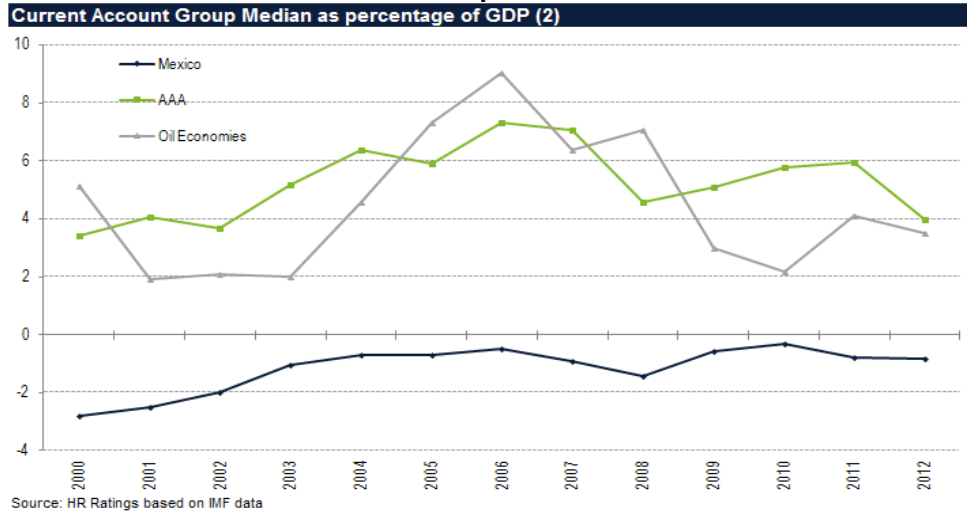
The positive evolution in Mexico's current account situation is also seen on a comparative basis. At the same time that Mexico has seeing an improvement, its LATAM peers have been showing a steady decline. As for the large economies, these have also been experiencing substantial erosion in their current account moving from positive territory to negative balances.

Graph 7



In Graph 8 we display Mexico's current account evolution in the context of AAA countries and petroleum exporters. Not too surprisingly both show much stronger levels than Mexico. The tripe AAA countries, as a group, show why they have this rating while the petroleum exporters show the advantages of possessing this natural resource. As we shall see, Mexico's advantage as a petroleum producer has been seriously eroded due to production constraints and the need to import large quantities of refined products such as gasoline.

Graph 8



Major Themes for Mexico's Credit Rating

In this section we discuss some of the major issues that have been raised in the context of the evaluation of Mexican credit risk and, in general, its long-term economic prospects. These include the risks associated with Mexico's dependence on volatile oil prices, the small ratio of tax revenue to GDP, the need for structural reforms, and the evolution of the country's external accounts, slow economic growth and high inflation. These themes, obviously, are closely interrelated, as in the case of structural reforms and growth.

Petroleum Dependence and Volatility

The high dependence of petroleum revenues for Mexico's Federal Government has long been a cause of some concern among analysts. The dependence on a single commodity makes Mexico vulnerable to volatile commodity prices. We believe this argument has been somewhat exaggerated, and furthermore, the dependence that does exist has been declining.

Mexico's Federal Government in 2011 received 30.5% of its total revenues from the petroleum sector. However, this includes both petroleum revenues raised domestically as well as those derived from exports. We believe that this is an extremely important distinction as the Mexican government always has the option, in the event of a decline in international petroleum prices, of keeping domestic prices relatively high. Thus the real volatility derives from exports, and more particularly from Pemex net exports. During 2011 such exports represented only 28.2% of the public sector's petroleum revenues. Applying this percentage we calculate that for 2011 net petroleum exports represented only 8.6% of total Federal Government revenues. Thus we believe that the 30% figure generally cited represents an exaggerated measure of the dependence of the Mexican Federal Government on volatile commodity prices.

The ability of Mexican public finances to absorb the shock of abrupt price declines is clearly seen in the reaction to the 2009 financial crisis. During 2009 the average price at which Pemex exported its crude fell roughly 32% in USD. This resulted in a smaller 24% decline in net exports in nominal peso terms. Tellingly, our measure of other or domestic petroleum revenues fell only 14%.

Additionally, the Federal Government has a program by which it hedges, through the purchase of derivatives, against the effects on petroleum income from abrupt changes in international oil prices. This program was especially valuable in 2008 and 2009 in protecting against otherwise sharp drops in public sector revenues.

The Mexican Federal Government, now as a regular practice, transfers back to Pemex a share of its petroleum revenues in order to compensate the latter for the reduced margin it receives in selling gasoline and diesel at below "market" rates. This is generally referred to as a subsidy to the consumer. When the domestic price is at, or above, "market" rates, no transfer is made to Pemex and the Federal Government receives a gain from the special sales tax (*Petroleum IEPS*) that is charged to consumers for the purchased gasoline and diesel. In 2008 this tax represented an outflow for the Federal Government of 1.79% of GDP. In 2009,

however, it represented an inflow of 0.03%, as domestic prices did not decline in tandem with international prices.

Thus the Mexican public sector has the ability to compensate for losses derived from declines in international crude prices by altering the amount on such transfers. In Table 1 we show the evolution of the Petroleum IEPS relative to GDP. The larger the negative value the greater is the loss in revenue for the Federal Government when, for example, prices charged to the Mexican public for gasoline and diesel were not raised in response to increases in international oil prices. Looking forward, a negative value indicates that were international oil prices to decline the government could increase revenues simply by deciding not to reduce internal prices in response.

Table 1: Federal Government Petroleum IEPS

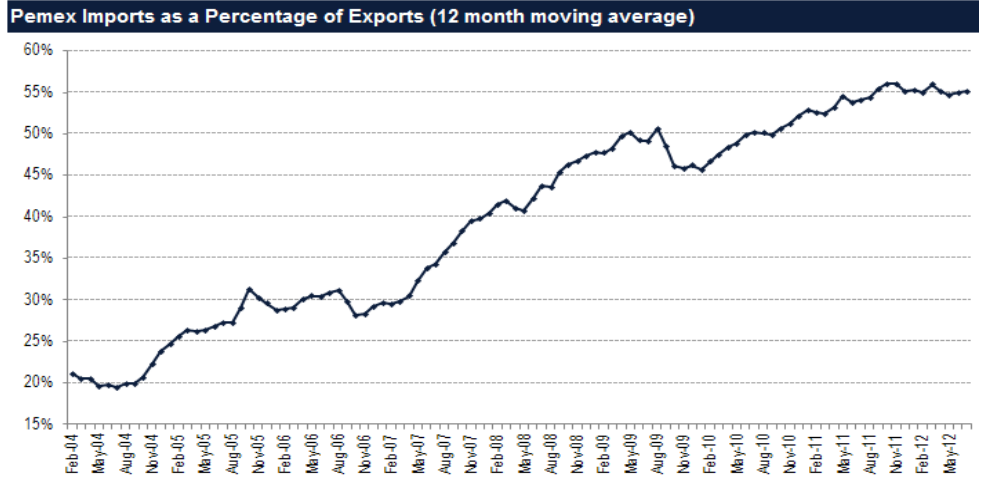
Year	as Percentage of GDP
2000	1.04%
2001	1.31%
2002	1.65%
2003	1.16%
2004	0.62%
2005	0.16%
2006	-0.41%
2007	-0.43%
2008	-1.79%
2009	0.03%
2010	-0.43%
2011	-1.02%
2012f	-1.40%

Source: HR Ratings based on data from SHCP and INEGI

As for net exports, it is important to note that given the difficulties that Pemex has faced in maintaining its level of crude production, imports have risen substantially relative to exports. Thus in 2005 Pemex imports represented 30% of exports. By 2007 that relationship had risen to 40% and reached 55% of exports in 2011. This means that the effect on total net exports coming from changes in petroleum prices has been declining. The increase in imports means less net export revenues, but on the positive side it also suggests less downside risk for income than otherwise would be the case when international oil prices fall. Another factor to consider is that in the event of a drop in petroleum prices, a likely consequence would be a devaluation of the peso. This has the effect of marginally reducing, in peso terms, the impact of dollar net exports in terms of dollars.

In Graph 9 below we see the evolution of Pemex imports to exports. More specifically, from August 2008 through August 2009 trailing twelve-month Pemex exports fell from US\$55.9 billion (bn) to US\$28.5bn, a total of US\$27.4bn. However, net exports dropped a still large but smaller US\$17.5bn. In percentage terms, the decline in net exports was 55.4% while we estimate that in pesos revenues fell 46%.

Graph 9



Source: HR Ratings with data from Pemex

We can gain additional insight into this subject by comparing the volatility of federal government revenues for Mexico and the United States. As a benchmark, we compare changes from 2007. Using last twelve months data, we found that US Federal Government revenues in real dollar terms (using the LTM CPI) fell 24% from 2007 through January 2009 (the low point on this metric). In contrast, the largest real peso decline for total revenue for the Mexican Federal Government was a mere 6.6%. This measure eliminates from revenues the non-tax non-petroleum account. This account benefited from extraordinary income received by Mexico during 2009. Without making this adjustment, revenues for Mexico did not fall in real terms during this period. Relative to GDP US Federal Government revenues fell from 18.5% in 2007 to a low of 14.7% in 2009, recovering to 15.4% in 2011. In contrast, Mexican Federal Government revenues actually increased from 15.1% in 2007 to 16.8% in 2009, declining slightly to 16.2% in 2011.

On the basis of this evidence it appears difficult to justify any penalization of Mexico's sovereign credit rating as a consequence of the volatility of its revenues derived from the dependence on petroleum. If anything it would appear that it is the U.S. that is much more vulnerable to economic shocks. US revenues depend significantly on volatile capital gains tax receipts. In contrast, in Mexico the Federal Government revenue stream relies in part on less volatile valued added taxes.

Low Tax Collection

Non-petroleum tax collection in Mexico is low by international standards. This fact has been often noted as being a negative for Mexico's sovereign credit rating. Indeed, it is a significant problem. However, it is important to put the issue into its proper context in order to determine the impact it should have on Mexico's sovereign credit rating. First we examine the actual size of non-petroleum revenue for the federal public sector. We then comment on the implications for credit risk.

In 2011 Federal Government non-petroleum tax revenues reached 10% of domestic product. Were we to add non-tax, non-petroleum income, these revenues represented 11.24% of GDP. Finally, were we to add the revenues coming from non-Pemex Parastate entities¹ total income would reach 15.1%. The number is still low, although not as depressed were we to consider only Federal Government non-petroleum tax revenues. On the other hand we also need to recognize that the utilization of these revenues is limited by the fact that the Federal Government sends roughly 50% of its income to the states and municipalities limiting resources for its own use still further (around 7% of GDP). At the same time, we estimate that federal revenues represent roughly 90% of state government income and around 80% for municipalities. This suggests that total Mexican public sector revenues are small relative to domestic product.

How should these numbers be evaluated? In first place we would argue that a low tax base does not necessarily limit maneuvering room in case of a future financial shock. In fact, one could argue that it provides more margin as the tax burden, measured as a percentage of GDP, is relatively low.

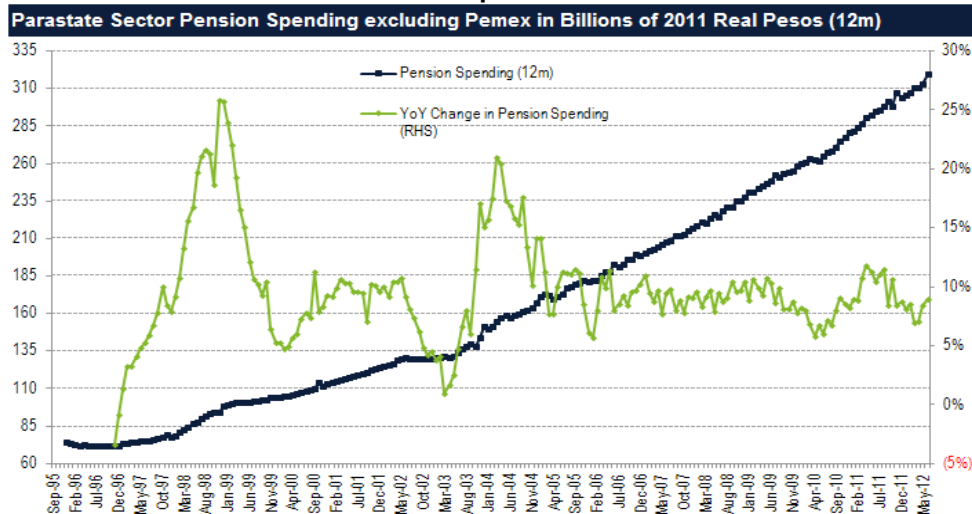
However, the low level of taxation leaves little room for the government to make needed investments in human (education, health services) and physical capital (roads, water systems). Such investments are necessary if the country is to be able to achieve higher levels of long-term economic growth. With rising pension and public security costs, the limitations on income become even more relevant.

Pemex investment needs. In terms of the impact on growth, the limited tax base is especially relevant for the petroleum sector. We are less concerned about the impact of possible changes in the price of crude than we are about the possibility that the Federal Government's limited revenue base means depriving Pemex of resources needed to finance investments in additional production capacity.

Pensions. The limits on Federal Government income have become even more stretched given the increasing amount of resources that need to be spent on pensions and public safety. We estimate that public sector spending on pensions as a percentage of GDP has risen from 1.5% in 2004 to 2.32% in 2011 and we expect that they could reach nearly 2.4% this year. The evolution of pension spending is seen in Graph 10. In real peso terms, growth has been around 8%.

¹ The electricity utility, CFE represented 53% in 1H12 while the social security institutes (IMSS and the ISSSTE) contributed 47%.

Graph 10



Source: HR Ratings with information from Mexico's SHCP

Public Safety. As for public safety spending, we estimate that as a percentage of GDP this has increased from 0.52% in 2005 to 0.94% last year. Although spending on pensions and public safety may be perfectly appropriate and necessary, we cannot regard it as productive spending on human and physical capital.

Partnering with the private sector in infrastructure. Possibly offsetting these shortcomings in terms of income are the compensations that the Mexican government has implicitly made in terms of its spending commitments. In the case of infrastructure, the public sector has managed to reduce its investment requirements by utilizing private sector capital. The role of the private sector is especially noteworthy in highway infrastructure in Mexico, where concessions granted to the private sector for the building and operation of toll roads represent a dominant component. Private participation in the electric industry (as independent power generators and suppliers of natural gas) is also significant. There is also an incipient, and potentially significant, effort to expand the role of private sector participation in oil exploration and extraction. Much of the private sector investment in these areas is from foreign capital and thus implies a reduced immediate impact on domestic capital

One can debate the relative merits of this private participation. For example, should motorists pay as in a toll road scheme, or should highways be “free”, paid for by the general taxpayer. Nevertheless, it is important to recognize that the pressures on public sector revenues have been reduced by the use of private sector recourses.

Pension privatization and medical care. The revenue needs of the Federal government have also been mitigated by the privatization of the pension system for non-public sector employees and their families. This, over time, will substantially reduce spending obligations on the part of the Mexican Public Sector

as Mexico's population ages. In addition to pensions, the other major entitlement is for health care. In contrast to the United States, at least, the Mexican public sector has the advantage of not having to pay for services provided by third parties. Medical services are provided directly by the government to non-public sector individuals and to public sector employees and their dependents. This gives the government greater room to determine the level and quality of the service that it deems practicable to provide. Finally, and also in contrast to the United States, at least, Mexico does not have to play the same foreign policy role and thus, does not have to spend as much on national defense. However, as we noted before, costs for public safety represent a growing demand for public sector resources.

New entitlements in the future? Going forward, however, we have to be cognizant of possible changes given campaign statements by President-elect Enrique Peña Nieto. During the president campaign Mr. Peña spoke of a possible major expansion in the entitlements to which the Federal Government would commit itself including expanded medical benefits and pensions for individuals in the private sector, beyond those in the current defined-obligation regime. At this point in time we have not incorporated any related entitlement program expansion into our analysis. However, the fact that an expansion became an issue in the campaign underscores the limits on a policy of minimal revenue generation.

The above analysis reflects our view that a low level of tax collection is not necessarily a negative for sovereign credit risk. The level has to be incorporated into a broader examination of what are the state's commitments and the possible involvement of the private sector. On a more conceptual level, we also have to evaluate the relative effect on productivity and economic growth of diverting resources away from the private sector and toward the public sector. We cannot assume that greater government spending via higher tax rates; for example, will automatically produce stronger sustained growth. Indeed, the opposite could very well occur.

As we will see later in this report, we place a great deal of weight on our long-term forecasts for the evolution of sovereign debt relative to GDP. A major factor affecting this evolution is economic growth, which is impacted by government fiscal policy. Thus, in our opinion the level of government revenue has relatively little direct relevance to our evaluation of sovereign credit risk. To the extent that it affects growth, its impact will be reflected in the outcome of our projections. Also note that a high level of resource extraction by the public sector can just as easily be negative as it can be positive depending upon how the revenue is spent.

Structural Reforms

An often-repeated negative factor for Mexico is the lack of structural reforms. We agree with this argument. However, as in the case of a limited tax base, it is not a factor that directly affects our evaluation of Mexican sovereign credit risk. Rather, it is a factor that affects growth and thus affects our projection of the relationship of debt to GDP, which is our single most important metric.

The call for structural reforms reflects the understandable frustration with Mexico's low long-term growth rate (which we discuss in a separate section

below). Perhaps the most important reform areas are: fiscal, energy, education, labor, regulation, and competition.

Fiscal reform: taxes and informality. On the fiscal side, we have already discussed in detail the issue of the public sector's low tax base. The income taxes (ISR and IETU) take in roughly 5.3% of GDP. For its part, the country's value added tax (IVA) with a nominal rate of 16% takes in a mere 3.75%. In the case of the IVA, a number of exemptions and preferential rates, as well as the large size of the country's informal economy, explain the limited level of collection. Raising the nominal rate is likely to be counterproductive, as it would more likely only serve to increase the size of the informal economy. The reform argument is to lower the rate and expand the base. However, this potentially would produce a more regressive structure and thus, it is politically dangerous. The political risk could be offset by promises to use the higher tax revenue to provide more public services to groups with reduced purchasing power. The effectiveness of such a strategy, however, depends on the ability to reduce the degree of informality in the economy, which is another, and closely related, reform goal. The reduction in informality would be part of a regulatory reform plan.

Fiscal reform: user charges. Other fiscal reform ideas have to do with more effectively charging users (including at the municipal level) for the services they receive from publicly owned companies. This, for example, involves water and electricity. Improvements here would presumably lead to a more rational utilization of these resources, to a reduction in the level of informality and to a better funding base that would in turn increase the investment in infrastructure necessary to meet the water and electricity needs of consumers and industrial users. The impact of successful reform in this area on growth could be important. It would increase Mexico's attractiveness as a manufacturing base.

Energy reform: risk contracts. This basically involves the opening of Pemex to private sector investment. This presumably involves foreign private capital. Some progress has been made on this front. Specifically, some limited progress has been made in the effort to increase the ability to contract the services of private companies in the exploration and extraction of crude oil and natural gas. It remains to be seen whether the incentives allowed under the current contract regime are sufficiently attractive to entice private investors.

Energy reform: selling equity. On a more radical basis there is the option of converting Pemex into a company totally independent of government budgetary control, with publicly traded shares that can be purchased by private, including foreign, equity investors. In order to make Pemex attractive to foreign investors it would be necessary to radically change its tax regime that currently allows the Federal Government to siphon off an extremely large portion of its free cash flow. However, to compensate for this loss of income, the government would have to bet that private investment would lead to a more profitable Pemex that would generate more tax revenues in the long run. In the short-run the government would benefit from the proceeds from the sale of a substantial minority portion of its current 100% equity stake in the company. Also, in order to make Pemex attractive to equity investors, it is likely that the role of the union in the governance of the company might have to be reduced. This would be politically difficult. On another point, private investors would need to see some reduction in the

unfunded pension liabilities of Pemex. Some of these might have to be reduced and formally passed to the Federal Government or a parastate entity.

Education reform. On the educational front the issues are similar to those facing the United States: the disappointing level of performance of a large numbers of students in the public school system. As in the United States, reform proposals have often faced the strong opposition of teachers unions. In Mexico the reform proposals have called for changes in the procedures used to evaluate teacher performance. In the long-term an improvement in the effectiveness of the educational system would have a substantially positive impact on growth prospects. However, at this point in time it is not at all clear that the proposals on the table will be fully implemented, and if implemented, what their effect on student performance will be.

Labor reform. This involves the creation of a more flexible structure for the hiring and firing of employees. The idea is that the cost to the worker of fewer protections and benefits would be more than offset by a more dynamic labor market, creating more opportunities for workers, with more mobility. Greater mobility would lead to a more efficient utilization of the labor force with a positive impact on economic growth. Greater flexibility would also presumably have the benefit of reducing the level of informality in the labor market leading to a higher level of tax collection.

Regulatory reform overlaps greatly with the previous point, as it involves the creation of a more flexible labor market regime. It also involves the creation of an administrative structure that is more conducive to the creation of new businesses. Indeed, this has been a major focus of policy over the last several years. The consequences, however, have been small probably due to limited reforms in related areas such as the labor market.

It appears that the Mexican Congress is close to approving, with modifications, legislation sent to it by the Calderon administration calling for greater flexibility in labor contracts. Although we have not yet analyzed what the full impact on growth will be, the greater flexibility for hiring is positive. Our assumption as to higher non-Pemex Parastate revenue (discussed later in this report) in part attempts to incorporate the effect of the new labor legislation regime.

Market competition. Regulatory reforms also overlaps with the issue of competition and the argument that certain areas, most specifically telecommunications, need to be altered in order to allow the entrance of a larger number of strong players. This presumably would lead to the faster introduction of new products and the lowering of prices for consumers. As we discuss in a different section of this report, Mexico also has a relatively high level of inflation, at least vs. advanced economies. It is possible that a reduced level of competition could play a role in the difficulty of bringing inflation down to the long-targeted 3% level, let alone to the 2% level targeted by the US Fed. Thus, this last point in the reform agenda could have an impact on inflation as well as on growth.

Given the scope and nature of the reform issues discussed in the previous section, the implications for long-term economic growth are substantial. Economic growth in Mexico has indeed been disappointing. We incorporate the limited

extent of reforms into our growth projections, along with the impact that has on the evolution of the public sector's debt.

External Accounts

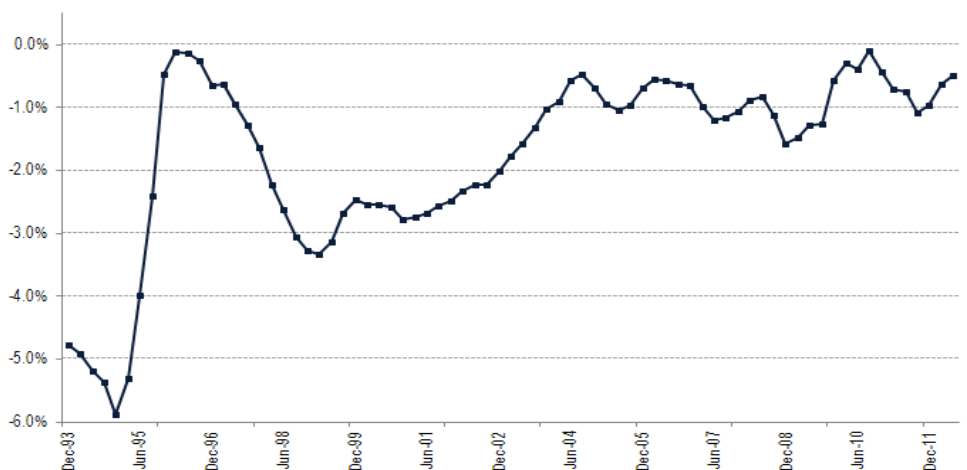
We believe that a country's current account situation has an important relationship to its sovereign credit risk rating. This is even true for countries with low levels of foreign currency denominated debt. A strong current account likely involves a strong trade balance, which, in turn, means that the external sector is contributing to GDP growth. A strong current account situation, including the implied prospects for a stable currency, increases investor confidence and lowers required rates of returns both for equity and debt. The larger foreign investor base makes it easier to finance deficits and to refinance debt as amortization payments come due. A stable currency, that is made more likely by a strong account balance, also makes it easier to reduce capital outflows on the part of residents. This in turn strengthens the domestic investor base for the servicing of the sovereign debt.

In addition to the current account, we also examine the overall foreign accounts situation including foreign direct and portfolio investment and the level of international reserves.

Mexico's current account balance is not especially strong although it is certainly acceptable and implies a limited degree of risk. Mexico typically runs a deficit although it in recent years it has been quite small relative to GDP. In Graph 11 we show the evolution of Mexico's balance relative to domestic product. Noteworthy is the dramatic change from the large deficits of the 90s. We would also point out the country's ability to quickly correct imbalances after the devaluation of December 1994 and its ability to absorb the shocks of the 2008-2009 global financial crisis.

Graph 11

Mexico current account deficit as a percentage of GDP (trailing four quarters)



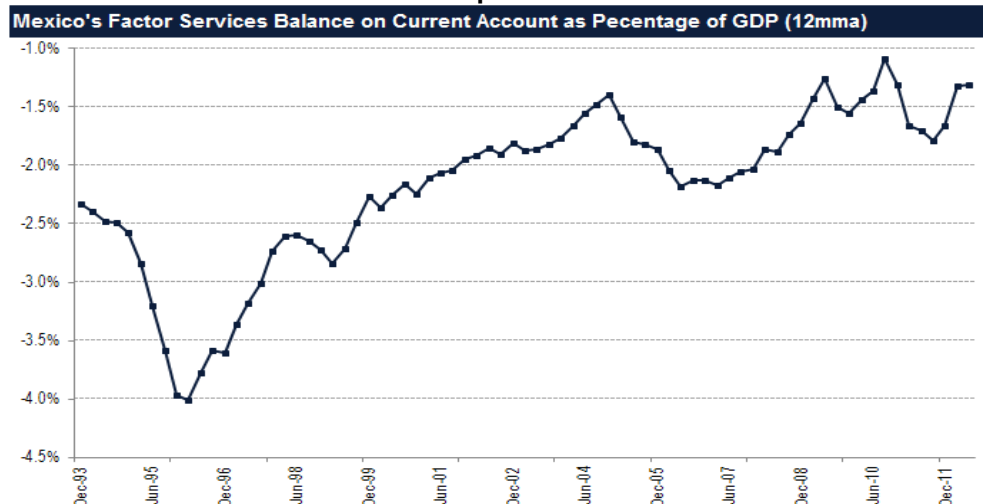
Source: HR Ratings based on data from Banxico and INEGI.

From 2004 through 2011, for example, the deficit has averaged only 0.73%. For the eight years prior to 2004, however, it was a different story with an average current account deficit equal to 2%. In December 1994 Mexico suffered a severe devaluation as a result of sustained deficits in previous years, typically reaching 4% and 5%. The experience of the 1990s (together with other major devaluations in the previous two decades) appears to have taught Mexico the dangers of running large deficits in current account. Thus policy management in recent years has been prudent. Nevertheless, the evaluation of that performance has to be tempered by the excess of a not too distant past.

Still, we are impressed by the resilience that Mexico showed during the 2009 crisis. The largest deficit during the eight-year period cited above was in 2008, which represented the peak for Mexico in the last growth cycle. That year the deficit reached a still modest 1.58% of domestic product. In 2009 the balance improved substantially, reaching only 0.6% of GDP. This represents an ability to take the measures necessary to deal with stress, which is an important indicator for credit risk evaluation.

Another element of improvement has been the decline in net financial servicing payments (interest and dividends, or “factor services”) paid to investors relative to GDP. For the five-year period ending in 1997 these represented a substantial 3%. In 2002 the service costs had declined to 2%, falling still further to 1.8% in 2007 and for the last five year period ending in 2011 was a small 1.5%. The evolution of the factor services balance on a trailing four-quarter basis is seen in Graph 12 below. This includes net interest payments as well as other items such as dividends.

Graph 12



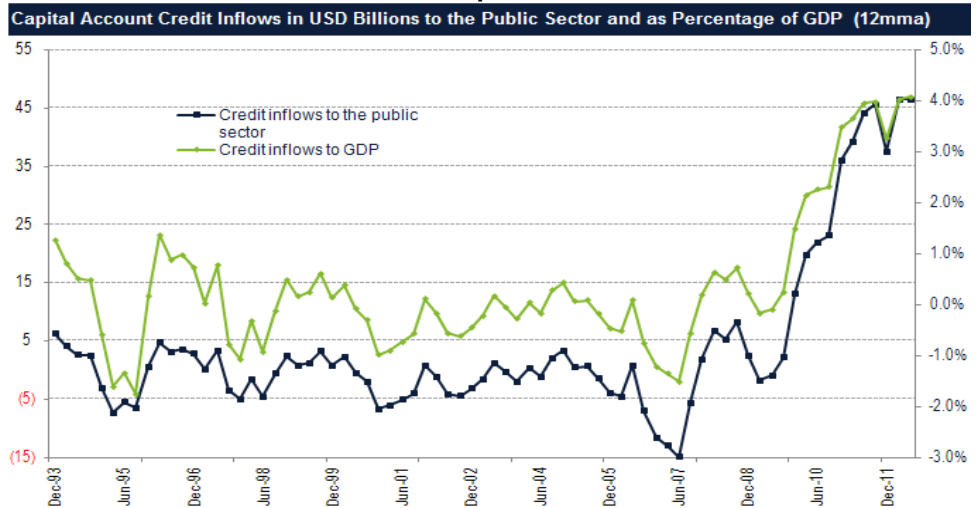
Source: HR Ratings based on data from Banxico and INEGI.

Noteworthy, of course, is the fact that over the last few quarters and despite low international interest rates, the trailing four-quarter ratio to GDP has been climbing upward although still substantially below the levels of the 90s. This is the

inevitable result of the large flows of foreign investment into Mexico in recent years. This has especially been the case for portfolio investment into Mexican government securities, particularly in peso denominated instruments. In Graph 13 below we show the capital account inflows of credit to the Mexican public sector (not including development banks). The inflows since 2008 have been spectacular. They reflect the growing confidence held by international markets in the management of Mexico's fiscal and monetary policy. Of course, interest rate differentials also play a part. Currently, the yield to maturity on a government peso denominated 10-year fixed rate bond is roughly 5.4% vs. a 1.7% yield on USD Treasuries. Mexico's current account balances give investors a degree of confidence in the strength of the peso, making the yield differentials attractive to investors.

The capital outflow for the four-quarter period that ended in June 2007 was probably the result of investor concerns in 2006 over the controversy surrounding the Presidential election of July of that year.

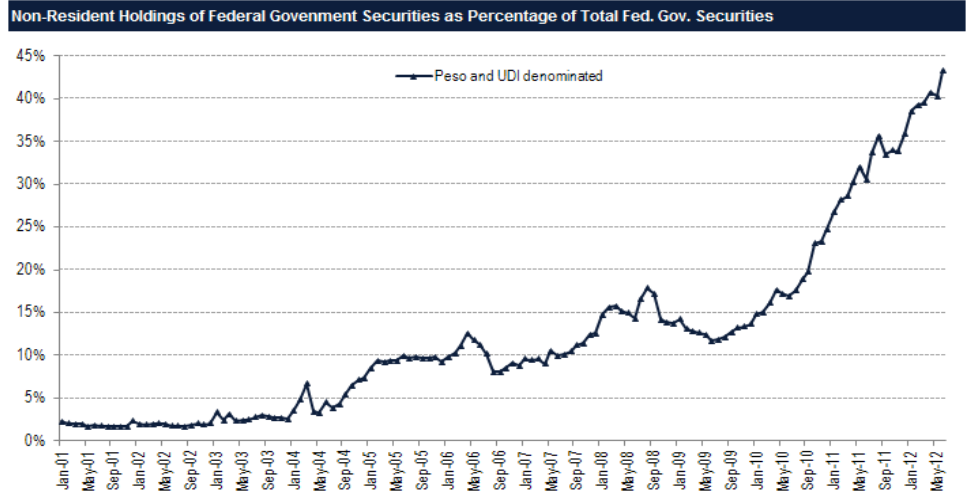
Graph 13



Source: HR Ratings based on data from Banxico and INEGI.

The effect of capital inflows into Mexican government securities is especially noticeable in the holdings by non-residents of Federal Government peso denominated securities. In Graph 14 we show these holdings as a percentage of total Federal Government peso debt securities (including inflation adjusted "Udibonds").

Graph 14

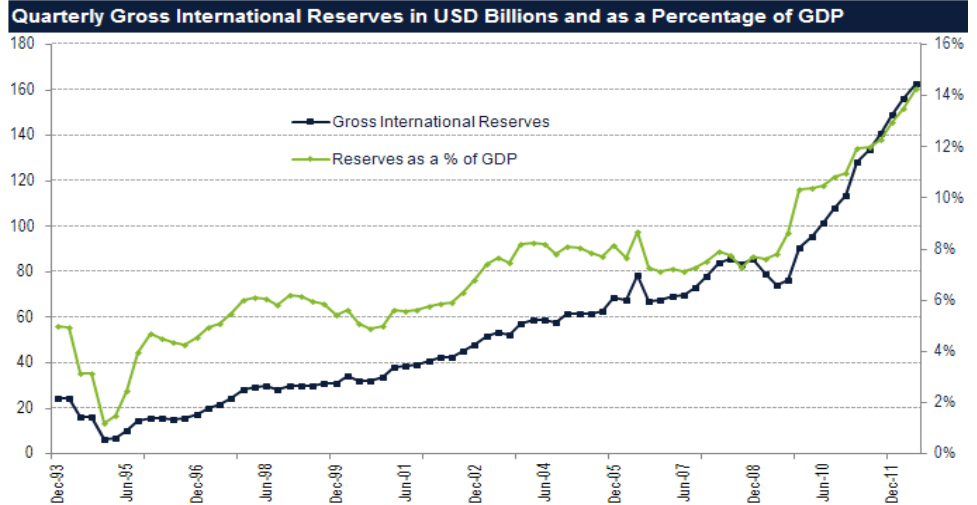


Source: HR Ratings estimates based on data from Banxico and SHCP

Due to the nature of the information provided by both, the Central Bank (Banxico) and SHCP, the data shown in Graph 14 probably overestimate the amount of Federal Government debt held by non-residents, perhaps by around 10 percentage points for the last data point. This is because Banxico, for monetary regulation purposes, also issues the same securities as does the Federal Government. Nevertheless, the upward trend is indisputable.

As a sign of the strength of Mexico's external position we point to the growth of the international reserves held by Banxico. The evolution of Mexico's gross international reserves is seen in Graph 15. From June 2009 (roughly the bottom of the financial crisis) these have more than doubled reaching roughly US\$160bn from US\$74bn. In contrast, from a pre-crisis quarterly high of US\$86bn in June 2008, international reserves fell a relatively modest US\$11bn to the above-mentioned US\$74bn a year later. This relatively modest decline in the midst of a major global crisis reflects the confidence of investors in the management of Mexico's external accounts and its public sector finances.

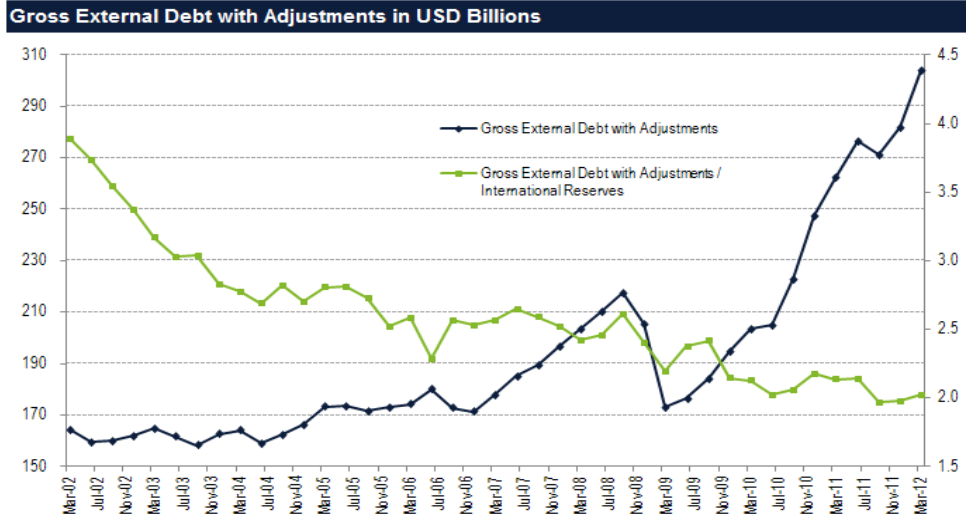
Graph 15



Source: HR Ratings based on data from Banxico and INEGI.

Although a country's international reserve position is a useful indicator of the strength of its currency and investor confidence in it, we have to appreciate its limitations. One of these is the size of the foreign debt held in the country that can be taken out by investors. The central bank estimates that as of March 2012 Mexico's gross external debt had reached US\$213bn. This includes public sector debt of US\$121bn and private sector debt of \$92bn. Additionally, the central bank adds "adjustments" to its external debt calculation. These consist of peso denominated debt held by foreigners. This total adjusted gross external debt reached US\$304bn in March (Graph 16). This represented 2.02x international reserves. In contrast, in June 2009, the ratio of adjusted gross external debt to international reserves was a larger 2.46x and in June of 2007 it was at 2.59x. Thus the strong increase in international reserves in the last three years does not necessarily reflect a rising vulnerability to the risk of future sudden capital outflows but actually suggests a greater degree of stabilization. Furthermore were we to include the IMF lines of credit available to Mexico of approximately US\$72bn to the gross reserves of over US\$160bn the ratio would be even lower.

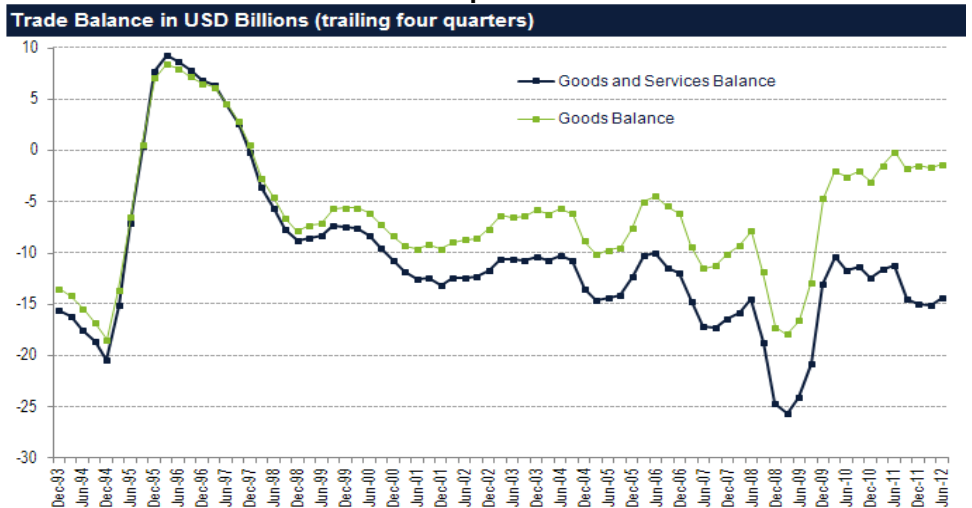
Graph 16



Source: HR Ratings estimates based on Banxico data

A critical component of the external accounts is the trade balance. The relatively small size of Mexico's overall trade balance is one of the reasons why the overall current account balance has become manageable, especially in recent years (see Graph 11). Another important element of the trade balance is the rapidity with which it absorbs shocks by being able to move to lower deficit levels. In Graph 17 we show the evolution of the balance of goods and services and the balance on merchandise trade alone. (i.e., excluding services).

Graph 17



Source: HR Ratings based on data from Banxico

The devaluation of December 1994 occurred at a time in which the trade deficit (trailing four quarter basis) had reached unsustainable levels. At that time the deficit was at 4% of GDP (5.4% for the overall current account). However, in three quarters the balance was positive, moving from a deficit of US\$20bn to a surplus of US\$400m.

Although much less dramatic, a similar situation was seen in the 2008 crisis. The yearly trade deficit reached its high point in 1Q09 at US\$25.6bn or 2.5% of GDP. A year later (1Q10), the deficit had fallen to US\$10.35bn, or 1.1% of GDP. Although the turnaround was less dramatic than that of 1994-1995 the environment was much more difficult. The 1994-1995 crisis was largely internally driven with a vast supportive global economy. In 2008-2009 the entire world economy was in recession. Roughly two years later (2Q12 vs. 1Q10) the trade deficit remains manageable. In USD terms, it ended June at US\$14.4bn or 1.26% of domestic product.

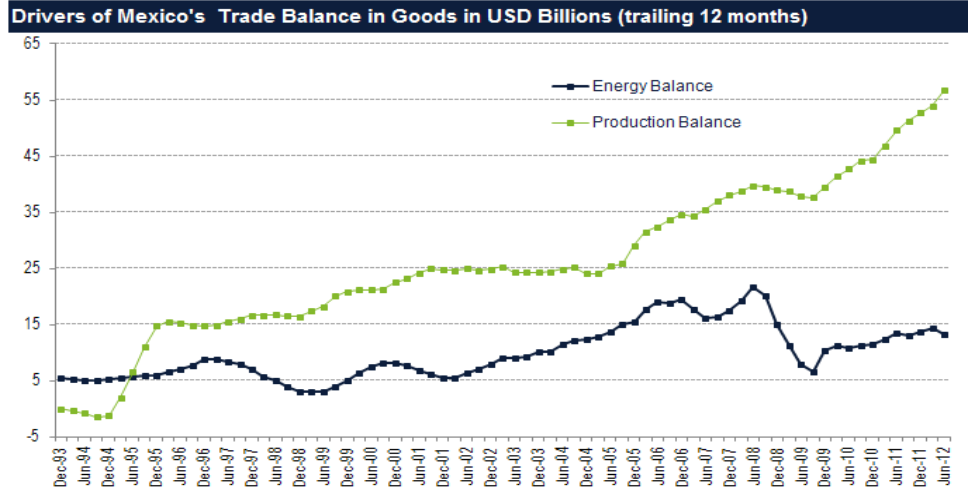
Mexico's proven ability to absorb shocks (of internal or external origins), we believe, is a major justification for the assigned credit rating.

In a previous section we discussed the question of Mexico's dependence on volatile commodity prices, specifically oil. In that case, the context was Mexico's public finances. We concluded that although volatility is a risk it does not appear to be as great as one might imagine. We now look at oil price risk in the context of Mexico's external accounts. In the context of public finances we focused on Pemex's trade balance. However, from the broader perspective of the country's external accounts, the appropriate focus is on the overall net energy balance. That is, the net of all energy related imports and exports, including substantial energy imports by the private sector, which are also vulnerable to price changes. Our conclusion is that Mexico's dependence on energy (and thus its vulnerability to oil price changes) is dramatically lower now than it was roughly twenty years earlier. For all of 1994 Mexico's energy trade balance was US\$5.2bn while its "production" balance was a negative US\$1.3bn.² In Graph 18 we show the evolution of these two balances. Mexico's energy balance reached its all time high in June 2008 of US\$21.6bn. However, by that time the production balance had surpassed it at US\$39.7bn. Over the next four years, through June 2012, the gap has expanded considerably as the graph demonstrates.

Although Mexico's external accounts are substantially less vulnerable to changes in the international price of oil, they remain vulnerable to changes in world demand for its exports. Presumably, these are less volatile than are oil prices, but still they can be affected by changes in the level of global demand. Perhaps more importantly, with Mexico still sending 78% of its manufacturing exports to the US, it remains vulnerable to the strength of the US economy.

² We measure the production balance as the net of manufacturing, mining and agricultural exports less non-petroleum intermediate imports.

Graph 18



Source: HR Ratings based on data from Banxico

Our discussion of Mexico's external accounts situation has been an extended one. That is because strong external accounts play a central role in our view of the credit quality of sovereign debt. On a local scale basis sovereign debt is generally AAA. A major distinguishing factor between locally rated and globally rated sovereign debt is the risk, incorporated in the latter, of exchange controls and limitations on convertibility. From a global scale perspective the ability of a currency to maintain a reasonable value vs. other currencies and the ability of the investor to repatriate his capital to other jurisdictions is a major element in credit risk evaluation. Generally, the healthier a nation's external accounts the lower is the risk of restrictions on repatriation and of currency debasement. This applies not only on foreign currency denominated sovereign debt but also on local currency debt. This applies equally to resident holders of sovereign debt as to non-resident investors. It is for this reason that generally we see little difference in the rating of foreign currency or local currency denominated debt. Weak external accounts not only increase the risk that the sovereign does not have the resources to pay investors in foreign currency debt, but also the risk that investors in local currency debt will be restricted in terms of their ability to convert their holdings into foreign currency and repatriate it.

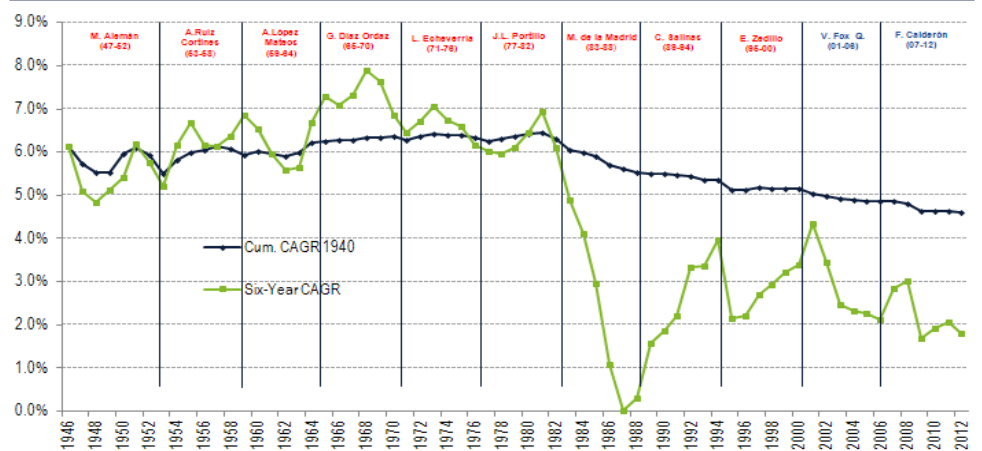
Economic Growth

A major issue for Mexico is its limited economic growth. As we see in Graph 19 below, the long-term trend has been decidedly downward. Even with Mexico's strong recovery from the 2009 recession, the compound average rate of growth for the last six years will be around 2%. For credit rating purposes, slow growth makes it difficult to reduce the size of sovereign debt relative to GDP. This is certainly the case for Mexico and the impact of this phenomenon is incorporated into our long-term scenario for the evolution of sovereign debt. There we assume that growth will come in at around 2.6%. Another implication for slow growth is that it can create political discontent that forces policy makers to adopt pro-growth policies that have inflationary dangers associated with them. In the long run these

reactions to slow economic expansion can be counterproductive. At this point in time we have not seen significant evidence in Mexico of this kind of policy response. If anything, what we have seen are political obstacles to structural reforms that would allow for more growth, as we have discussed above.

Graph 19

Mexican Six-Year and Cumulative Long-Term Growth



Source: HR Ratings with data from INEGI and for 1970-1980 period from Mexico's Chamber of Deputies

The disappointment over Mexico's weak growth over the last ten to fifteen years or so is significantly attributable to the stronger growth seen in other "emerging" economies, most notably the so-called "BRICS". Over the last year or so, perceptions are beginning to change, as growth appears to be decelerating especially in Brazil, India and, most significantly for world growth, in China. In contrast, Mexican growth remains surprisingly strong with GDP expected to rise by almost 4% in 2012. This has given rise to expectations that Mexico has found a way to substantially improve on its historically slow growth, based on rising manufacturing exports. Indeed, in our analysis of Mexico's external accounts we have emphasized the importance of the manufacturing sector. Although this is possible, our outlook for long-term growth for the United States does not support this view.

In the long-term we believe that weak US growth will offset the advantage that Mexico is gaining from a possibly increasing share of US domestic demand, especially in the automotive market. Much of the recent increase in Mexican exports is due to the strong growth in US demand for durable goods. This growth is due to pent up demand from the 2009 recession, to falling real prices for durables and for low interest rates. We do not see these advantages lasting indefinitely. At the same time, Mexico has diversified its non-petroleum exports, lowering the percentage sent to the US. However, with the rest of the global economy decelerating, the advantage to be gained from this process is less clear. Neither is it clear how much further this diversification will go.

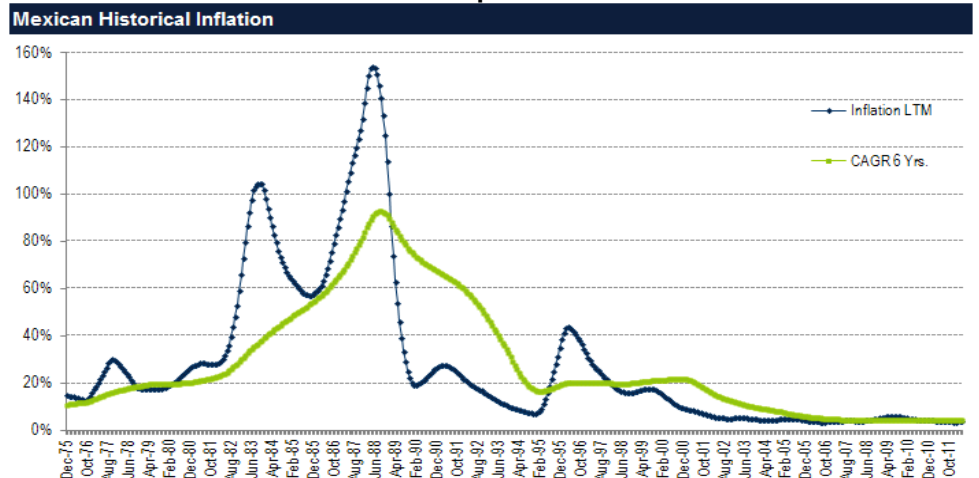
In this report our underlying assumption is that real GDP growth for Mexico will be 2.67% from 2012 through 2019. Growth for 2013 would be 3.0%. We are assuming that much of Mexico's strong growth in 2011 and 2012 is due more to short-term factors and less to structural changes. For example from 2Q09 (the bottom of the recession) through 2Q12 spending in the US on durable goods rose at an annual rate of 7.2% in real terms. In contrast, spending on non-durable goods and services was only 2% and 1.4%. We believe that this has helped lead to the surge in Mexican exports, and that this rate of growth is not sustainable in the long-term.

The recently announced QE3 could be positive for Mexico should it encourage consumers to continue to shift their purchasing patterns toward interest rate sensitive durable goods. This would imply strong demand for Mexican exports. It may also be the case that the rising competitiveness of Mexico, producing an expanded market share, will offset the expected weakness in US internal demand. In this sense it is possible that our growth assumptions have a certain degree of upside risk. This would only lend support to our rating.

Inflation

In addition to slow growth, another complicating for Mexico is its level of inflation. The Central Bank has, for all intents and purposes, been unable to bring inflation down to its 3% target and has often been unable to keep it within its 1% (i.e., 4%) range of tolerance above that target. Inflation has the disadvantage of generally keeping interest rates high. This often includes high real rates of interest as a consequence of monetary policy designed to combat unacceptable rates of price increases. This leads to large financial costs for sovereign debt. High real interest rates can also have a negative impact on growth with the consequences that involves. Since mid-July 2009 the Central Bank's reference rate has been kept at 4.5%. Mexico's long-term inflation history is seen in Graph 20 below.

Graph 20



Source: HR Ratings with data from INEGI

However, the story is not all negative. On a purely quantitative basis, the high level of inflation means that nominal GDP growth has been substantial. This increases the size of GDP and thus helps to reduce the ratio of debt to domestic product. In fact, inflation as measured by the GDP deflator has been substantially greater than inflation as measured by the consumer price index. For example, from the second quarter of 2000 to 2Q12 Mexico's consumer inflation has increased at an average annual rate of 4.52%. In contrast, deflator inflation has risen by 5.59%, a difference of 24%. Fortunately, with the 2Q12 report deflator inflation at 4.23% (YoY) was closer to consumer inflation at 3.87% (2Q12 vs. 2Q11), a 9% difference. Thus there is some reason to hope that going forward the economy's overall level of inflation will not be as strong as a factor in tending to keep consumer inflation from weakening.

Another positive consideration is the fact that trailing core services inflation has been showing significant progress in recent months. In fact it has been below 3% since February 2011. This is the inflation metric that is most related to internal demand. In contrast, for example, merchandise food inflation reached 6.6% in July. This metric is significantly related to international pressures that are more difficult for the Central Bank to control. For its part, non-processed agricultural inflation reached 11.3% in July and has been affected by extraordinary events. Finally, energy prices largely controlled by the government rose by 8.0% in July. While unfortunate, this at least means that the government has resisted the political temptation in an election year to keep prices in this key sector artificially low.

In the view of HR Ratings inflation in Mexico generally is largely due to difficulties in controlling external factors, transient developments in local agricultural production and to inefficient markets that make it easier for producers and sellers to pass prices increases on to the consumer. Significantly, in our view, we do not see inflation as being driven by government policies (either monetary or fiscal) designed to encourage growth at the expense of long-term price stability.

In our projections we are assuming that inflation, as measured by the GDP deflator, will average 3.9% from 2012 through 2019. It would finish the period at 3.65% but stay above 4% through 2014.

Long-Term Projections

Total Federal Sector Debt

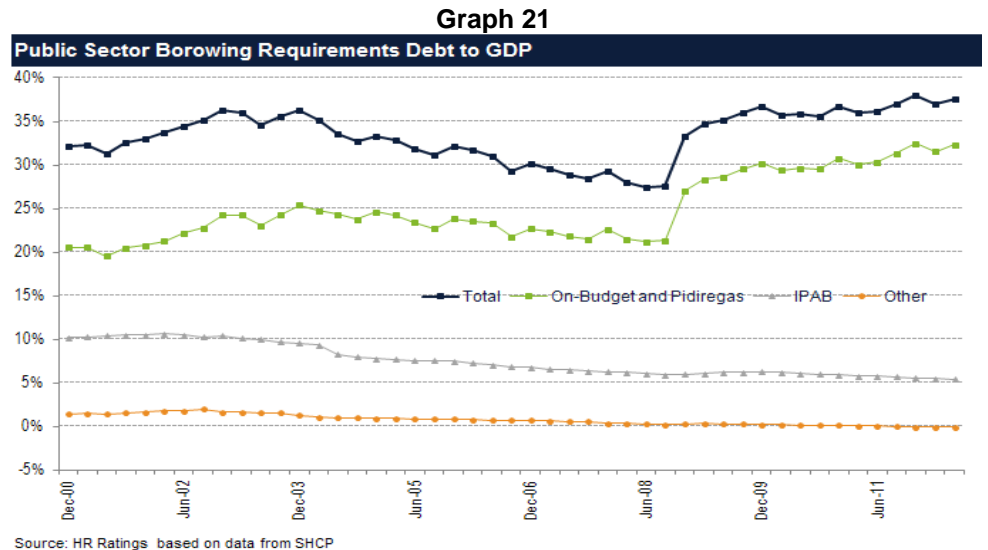
In this section we discuss our long-term base scenario for the evolution of the net debt of the "on-Budget" entities belonging to the Federal Public Sector. Although we see it expanding, we believe the rate of increase is fully consistent with our assigned rating. Most tellingly, for example, by the end of 2019 we see the debt to GDP ratio at 41.7%. This is still dramatically lower than the 73% public debt to GDP ratio for the US expected by the end of the 2012 fiscal year.

Before entering into the details of our scenario we place our key debt metric within the context of other debt measures. By the broadest metric used by Mexican authorities to measure federal public sector debt, its ratio to GDP reached 37.6%

as of June 2012.³ In this report we will largely focus our analysis, and most importantly our forecasts, on the debt of so-called “Budgetary” sector. This includes the Federal Government and the Parastate sector that comes under the direct budgetary control of the Federal Government. The Parastate sector includes the government’s petroleum monopoly Pemex, the IMSS, ISSSTE and CFE.⁴ The Budgetary sector has shown the fastest growth in terms of its debt to GDP. In June its debt represented 31.7% of GDP, an increase of 195bps. vs. a year earlier. In contrast, the rest of the SHRFSP debt declined from 6.4% to 6.0%.

The increase in our measure of the on-Budget debt of 195bps is largely the result of the depreciation of the peso during this time and the impact that had on foreign currency denominated debt. Local currency on-Budget debt vs. GDP rose a small 44pbs from 21.0% to 21.45%. Had the peso not depreciated from the strong level it had reached in June 2011, total on-Budget debt would have reached 30.3% of GDP (not the 31.7% reported level) for an increase of only 60bps (and not the 195bps). This shows the sensitivity of the debt to GDP ratio to volatile moves in the currency, also suggesting the degree of fiscal restraint being exercised by the authorities.

In Graph 21 below we show the evolution of Federal public sector debt to GDP since 2000. Our analysis will largely focus on the on-Budget portion, which in addition to being the largest component, by far, is also the one that has been growing. The green line in the graph includes the Pidiregas debt. However, that has remained stable at around 0.65% of GDP. The other components, mostly IPAB debt, have been declining vs. GDP.



³ The SHRFSP by its Spanish language acronym, referring to the debt accumulated from the Public Sector Financial Requirements

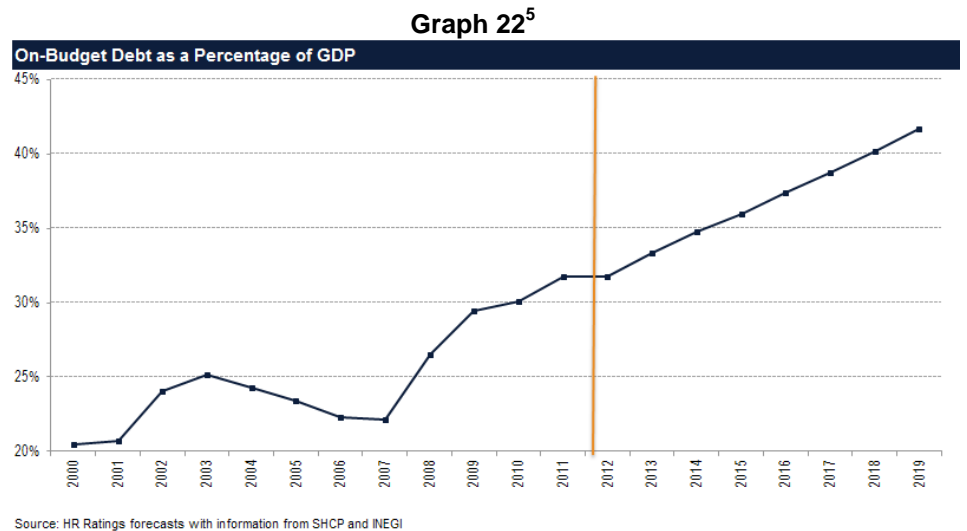
⁴ The IMSS and ISSSTE are entities that provide social security services to private sector individuals and government employees, respectively. The CFE is the electricity monopoly.

The modest increase in the debt to GDP ratio commented above is due largely to the relatively reduced size of the reported Public Sector deficit to GDP. For the twelve-month period ending in June this represented 2.47% of trailing twelve month GDP. In June of 2011 the deficit had represented a larger 2.89%.

Scenario 2012-2019

These are historical data. The more important part of our analysis is where we see the deficit going over the next several years, specifically by year-end 2019.

Our long-term base forecast sees the on-Budget net debt reaching 41.7% of GDP by 2019. This is an increase of 990bps from the 31.8% level it reached at the end of 2011. We believe that this is a relatively modest increase vs. the current level and supports our credit rating. The rise in the size of the debt is due to the combined effect of various minor changes. These include: 1) a stable primary deficit, 2) rising financial costs and 3) adjustments to the debt not captured directly in the financial balance itself.



A major driver behind this increase in the debt is our assumption that the consolidated on-Budget primary balance will remain in the red in future years. We see it ending our forecast period at 0.76% of GDP vs. 0.60% in 2011 and an estimated 0.42% for 2012. Most significantly, it has not been able to return to the surplus that it enjoyed several years ago. During 2005-2007, the primary balance was positive averaging 1% of domestic product (please see note to Graph 33 below)⁶.

⁵ In 2009 the on-Budget debt increased significantly as a result of the incorporation of most of the Pidiregas debt that previously had been excluded. In order to provide more comparable information over time, our data assumes that the incorporation was effected at the beginning of the time period shown, based on our estimates of what the amounts would have been.

⁶ Beginning in 2009 the official data begin to incorporate all of Pemex's investment spending into the calculation of the on-Budget primary balance. In order to maintain greater comparability in our data we have incorporated our estimate of this change in all the years covered in this report

A second major driver of our forecast increase in the debt is the assumption that financial costs will increase as a share of GDP. We estimate that they reached 1.91% of GDP in 2011 and that they will rise slightly to 1.96% this year. However, by the end of our forecast period in 2019 we see those equaling 2.3% of domestic product.

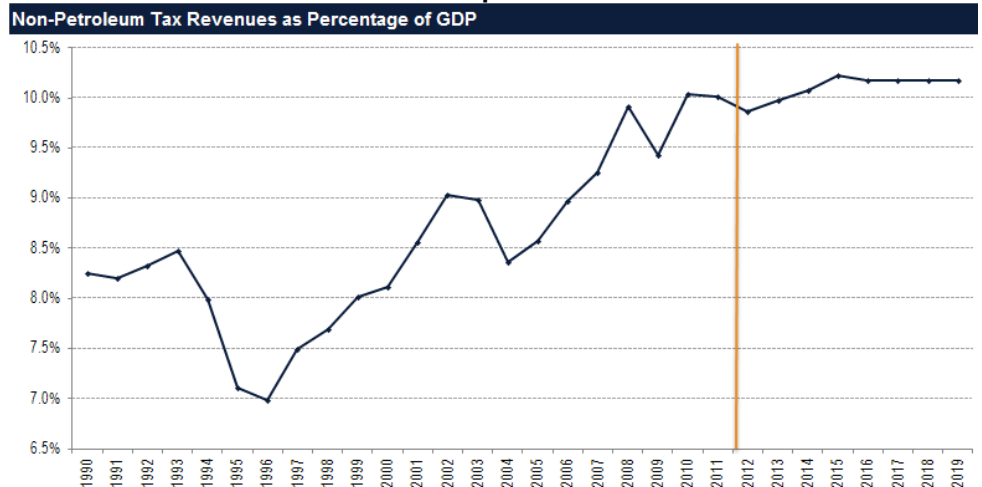
A third factor is the effect of increases in the debt that are due to adjustments that are not incorporated into the formal calculation of Budgetary sector's financial balance. These adjustments include the increase in the debt due to the effect of inflation on UDI denominated debt instruments. There is also the modest impact of the expected peso's nominal depreciation vs. the USD on external currency denominated debt. Finally there are other elements involved that largely impacts the size of the debt of the Parastate sector.

What is important to recognize is that the debt can increase by amounts substantially larger than what could be expected simply from the size of the financial balance.

Federal Government Non-Petroleum Income

This forecast level is based on a detailed model of government finances, which we explain in this section. On the income side we assume that Federal Government non-petroleum tax revenue will increase through 2015 and then stabilize at around 10.2% of GDP vs. our expectation of 9.9% for 2012. The expected future increase is based on various reforms implemented over the last five years, the effects of which have not yet been fully realized due to the economic challenges presented by the crisis of 2008 and the recession of 2009. The Federal Government has made significant progress in the area of tax collection with levels of 8.6%, 9.0% and 9.3% in 2005, 2006 and 2007 respectively, and the 9.9% expectation for 2012.

Graph 23



HR Ratings forecasts with data from SHCP and INEGI

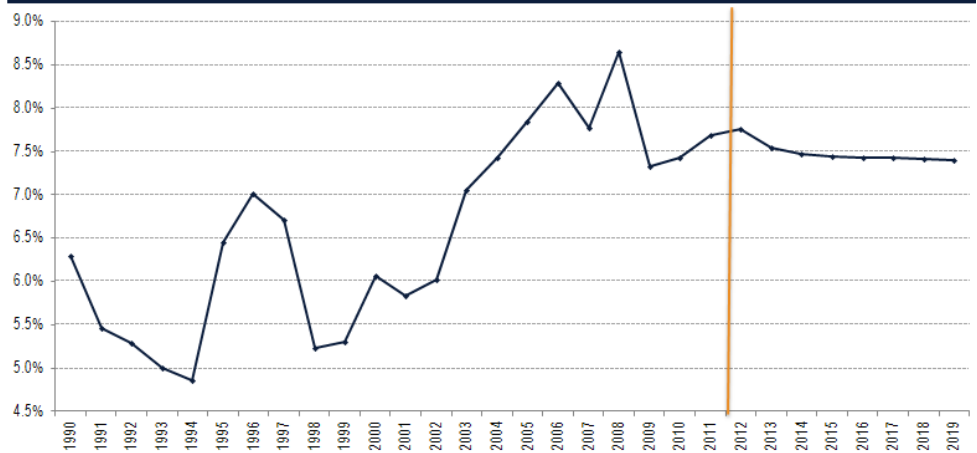
We also assume that non-petroleum non-tax revenues will stabilize at around 1% of GDP. This represents a relatively low level and reflects our assumption of somewhat higher generalized risks going forward. It also represents a decline from what appears to be a high level for 2012 based on information through August. This income source has seen substantial volatility in recent years, as by its nature often represents extraordinary items. Thus, in 2009, this account brought in revenues equal to 3.2% (the result of the successful oil hedge operation for that year as previously discussed), a full two percentage points higher than the amount reported in 2008. The extraordinary income of that year went a long way to reduce the negative effects on the budget of the sharp 6% drop in GDP.

Petroleum Income

Perhaps the biggest revenue side impact on our debt forecast is the expected decline in petroleum revenue as a percentage of GDP. In 2011 public sector petroleum revenues represented 7.68% of domestic product. Although this represented a substantial increase over the levels captured in 2009 and 2010, it still is lower than the historical high of 8.7% in 2008. For 2012 we are estimating that petroleum revenues equal an even higher (vs. 2010 and 2011) 7.76% of GDP. However, going forward, we assume that the ratio to GDP will fall reaching only 7.41% in 2019.

Graph 24

Public Sector Petroleum Revenue as Percentage of GDP



Source: HR Ratings forecasts with information from SHCP and INEGI

For the purpose of our forecast analysis, we divide total public sector petroleum income into two components. The first is net exports; the second is the remainder (“other” in our table in the Appendix). The second essentially represents petroleum revenue extracted from the domestic economy while the former represents revenues derived from the rest of the world. This second component is important because it theoretically does not represent a drain on domestic demand, as potentially do other sources of revenues such as taxes.

Net exports represented over 2% of GDP from 2005 through 2008. In 2006 they reached a high of 2.9% of domestic product. After falling to 1.9% in 2009 and 2010, net exports rebounded once again to above 2% reaching 2.2%. We expect they will reach 2.04% this year. However, going forward, we assume that net exports will fall to only 1.61% GDP. As this represents resources coming from the rest of the world, with no corresponding drag on economic growth, the decline is significant.

Our model for net exports incorporates the following variables: 1) volume exports, 2) price of exports per barrel, 3) non-crude Pemex exports, 4) Pemex imports.

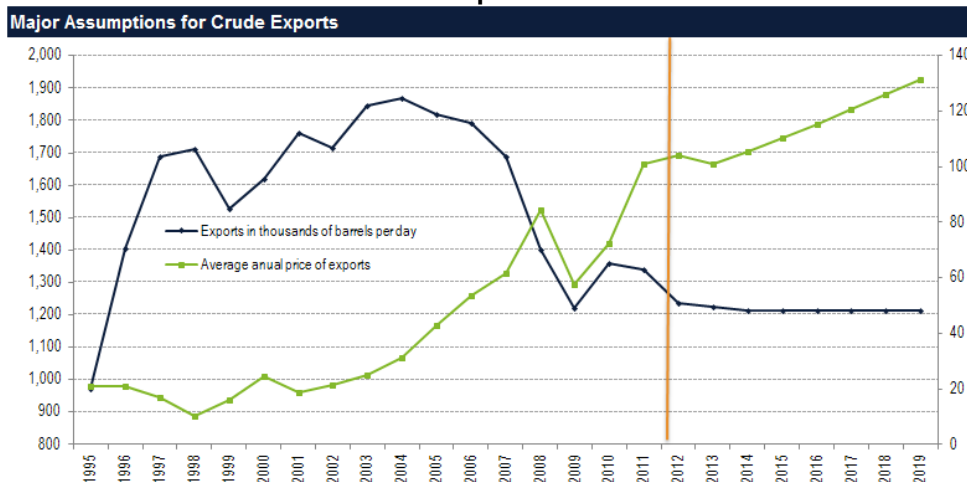
For exports we are assuming that these will fall a modest 1% in 2013 reaching 1.225mbd (millions of barrels per day) decline an additional 1% in 2014 to 1.213mbd and thereafter remain at that level. Pemex crude exports have been declining for several years although the rate of decline has abated in recent years. The export high was reached back in 2003 at 1.844mbd. Thus the average annual rate of decline through 2011 was 4%. Although the decline in export volumes was indeed modest in 2011 at 1.7%, through the first semester of 2012 exports fell 9.5%. On the positive side, total crude production fell a modest 1% through the same period of time. Thus the decline in exports does not reflect continued declines in production.

It is for this reason that we are assuming that exports will suffer limited declines going forward on the expectation that further reductions in extraction will also be limited. Thus the pressure to further cut exports would be modest.

As for the important ratio of imports to exports, this has not changed much through the first semester. For the first half of 2012 the ratio was 54.8% vs. 55.2% during the same period in 2011. The increase in the ratio of imports to exports has been considerable and explains the opportunity cost that Mexico has paid for its declines in production. In 2003 energy related imports represented 21.5% of exports vs. the near 55% currently. Going forward we assume that the ratio of imports to exports will stabilize at 55% (see Graph 9 for historical evolution of this variable).

As for the average price at which Pemex exports its crude, we assume that it will average US\$104pb in 2012 vs. US\$101 in 2011. We are assuming that a continued weak global economy will lead to lower prices next year but rising again at a 4.5% average annual rate beginning in 2014. In Graph 25 we show the historical trend and our assumptions going forward relative to volume exports and prices.

Graph 25



Source: HR Ratings forecasts with information from SHCP and INEGI

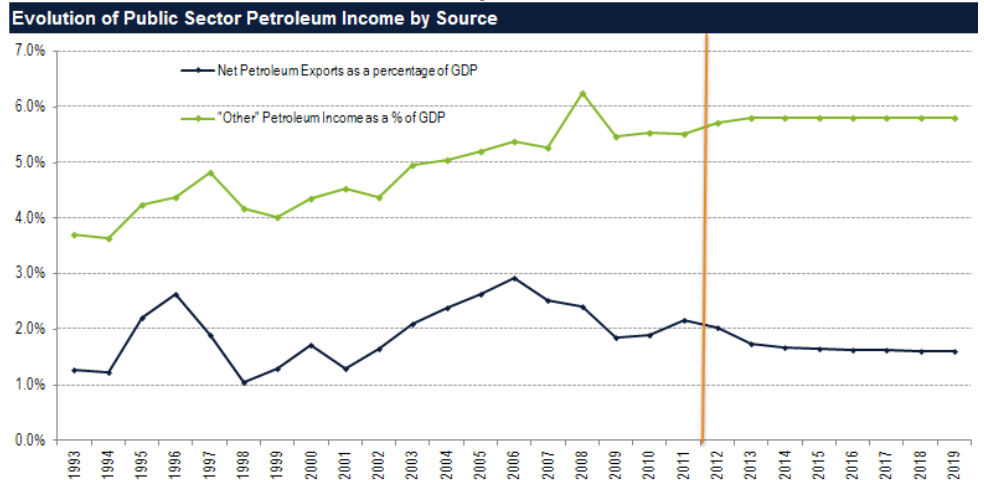
We also make assumptions as to the ratio of non-crude Pemex exports to crude exports in order to complete our external trade balance model. We assume that the moderately downward trend observed in recent years will continue with non-crude exports representing 11.5%. We expect that this year the ratio will be 12.2% vs. 13.1% in 2011 and 16.8% back in 2008.

The final assumption for the calculation of net exports is the exchange rate. We assume that the peso will experience a nominal depreciation of roughly 0.40% vs. the USD over the forecast time period.

The net result of these assumptions is that net exports in USD terms would decline at an average annual rate of only 0.20% per year from 2012 onward. In nominal pesos these would increase 0.60%.

As the previous section indicates, our forecasts for net petroleum exports are based on a variety of assumptions over a range of variables. This is not the case for domestically generated petroleum revenues. Our assumptions for this variable basically reflects historical experience and our perception of how much the public sector will be able to charge the private sector for products sold by Pemex. In 2009, 2010 and 2011; domestic petroleum revenues represented roughly 5.5% of GDP. Even with what is generally regarded as rising subsidies to the consumer, it appears that domestically generated petroleum revenues are advancing vs. GDP in 2012. Through the first six months of the year these have risen 20% in nominal terms. We assume that for the entire year the increase will be a more subdued but still substantial 13%. This would be enough to increase the share of domestic petroleum revenue to 5.7% of GDP vs. the 5.5% levels of the previous three years. In our forecasts we are assuming that domestic petroleum revenues will stabilize at around 5.8% of GDP. This would be a historically high level although still below the maximum reached in 2008 of 6.3%.

Graph 26



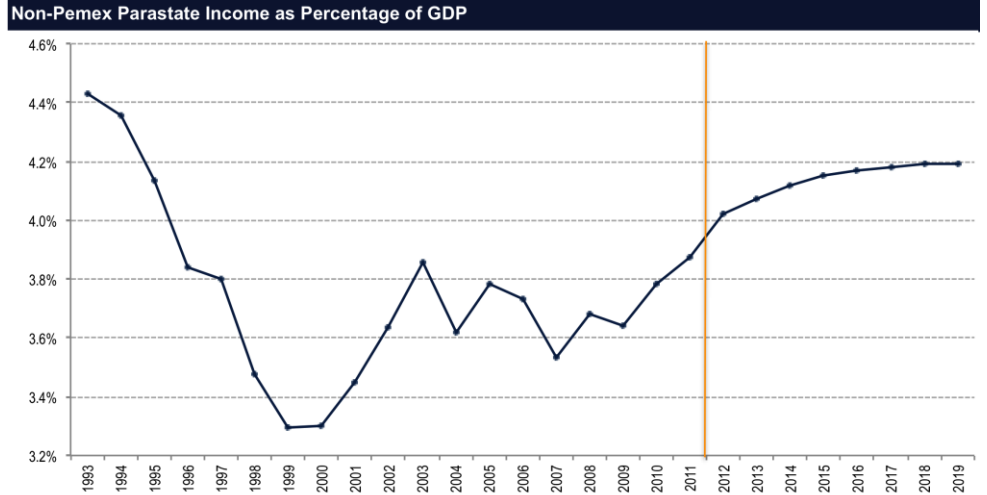
Source: HR Ratings forecasts with information from SHCP and INEGI

In addition to the set of assumptions relative to total petroleum revenue, we also make assumptions as to the distribution of those revenues between the Federal Government and Pemex. The share of petroleum revenue received by the Federal Government has experienced a significant degree of volatility. In 2005 it reached 74.5% and fell to 56.3% in 2009. In 2010 the Federal Government's share was only 60.4% but increased to 64.1% in 2011. Going forward we are assuming a participation of 62%. During the first semester the Federal Government retained 63.7% of petroleum revenues, down from 68.2% during the same period in 2011.

Non-Pemex Parastate Income

The final components of revenues that we need to consider are those received by the non-Pemex parastate sector. During the first semester of 2012 the government electricity monopoly (CFE) generated 53% of this sector's revenues, the social security institute IMSS (covering the general population) received 36% while the ISSSTE (public sector employees) received 11%. The non-Pemex parastate sector has received revenues equal to between 3.6% and 3.9% of GDP. Over the last two years its share has been on the rise, advancing from 3.78% in 2010 to 3.87% in 2011. Based on the strong increase in revenues through the first half of 2012 of nearly 15% in nominal terms we expect that its share of GDP will rise still more this year to reach 4.02% of the economy. Given our assumptions that net petroleum exports will decline relative to the economy and that expenditures will rise marginally (as we discuss below), additional income vs. GDP will be needed in order to prevent an excessive increase in deficits and in the debt. Thus our model assumes that non-Pemex parastate consolidated revenue will continue to increase vs. GDP. By 2019 this revenue source would represent 4.19% of GDP. Revenues could come from reforms that reduce the informal size of the economy relative to the formal. In this context, CFE would be able to reduce unauthorized electricity usage while IMSS registrations would continue their recent strong increases. The evolution of non-Pemex parastate revenue is shown in Graph 27 below.

Graph 27



HR Ratings forecasts with data from SHCP and INEGI

Primary Expenditures

Before beginning our discussion and due to the detailed nature of the information provided by the SHCP, below we present Table 2, which describes the different categories of spending.

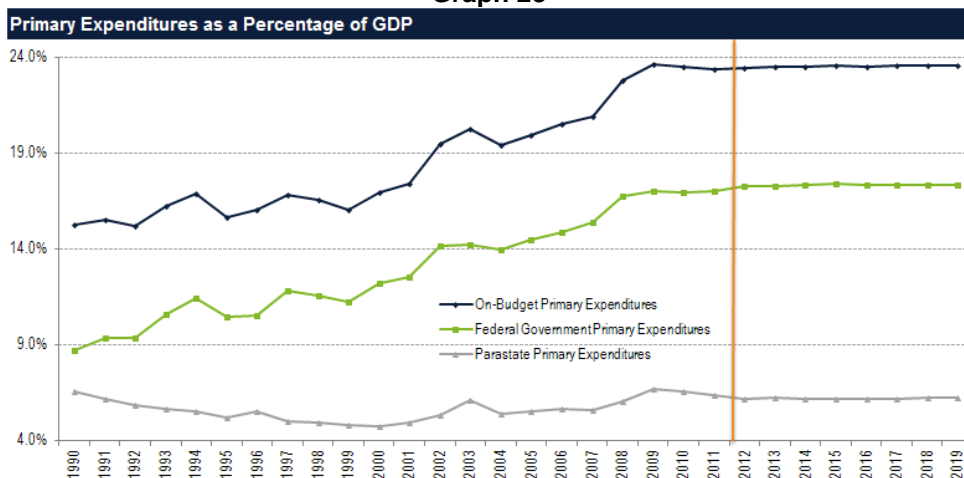
	Discretionary	Non-Discretionary
Primary	Personal Services Materials and supplies General Services Investment Transfers and Grants Other	Revenue Sharing (Participaciones) Adefas
Financial Costs		Interest Payments Traditional debt CFE's Pidiregas Financial healing Support Programs

Source: HR Ratings based on SHCP

Our basic assumption on expenditures is that at the primary level (i.e., excluding financial costs) these will remain largely stable relative to GDP. Specifically, we assume that on-Budget primary spending will finish our forecast period in 2019 at 23.58% of GDP virtually the same as the 23.48% level that we expect for 2012. We are expecting that primary spending will rise 9.1% in 2012. Through the first six months of 2012 these expenditures have risen 12.9%. On a trailing twelve

month basis the increase has been a more modest 10.7%. Over the last several years total primary spending has been increasing as a percentage of GDP. In 2005 it was at 20%, increasing to 23.7% in 2009. However, over the last three years (including our forecast for 2012), the ratio to GDP has stabilized at the around the 23.5% level. Thus we believe that stability vs. the domestic product is a reasonable assumption going forward. Although we see pension expenditures increasing (vs. GDP) we also see declines in Pemex investment spending. One risk to our forecast is the assumption that Federal Government grants to the states and municipalities will hold steady while revenue sharing will decline marginally.

Graph 28



Source: HR Ratings forecasts with data from SHCP and INEGI. As of 1998 includes HR estimates of Pemex investment spending. Formally included as of 2009

Primary spending by the Federal Government represents almost three quarters of the total on-Budget amount. Primary spending by the Federal Government has been rising significantly over the last few years relative to GDP. We are assuming that this increase is coming to an end. We expect that Federal Government primary spending will finish the year increasing by 10.2% in nominal terms. This would increase its relationship to GDP to 17.28% vs. 17.05% in 2011. Going forward we are assuming that it will remain at this level. If we look at the trends over the last few years it does appear that Federal Government primary spending is leveling off after important prior year increases. In 2005 primary spending by the Federal Government was only 14.5% and rose steadily topping off at 17% in 2009 where it remained for 2010 and 2011. Given the restraint in 2010 and 2011 we are assuming that this year's level will represent a ceiling.

Federal Government primary spending is divided into two sub-groups, so-called discretionary (or programmable) and non-discretionary (but continuing to be non-financial). Discretionary spending represents roughly 80% of Federal Government primary expenditures. This year's expected increase in primary spending relative to GDP is due to discretionary expenditures. For purposes of our analysis we have divided discretionary spending into the following categories: a) transfers, b) grants to states and municipalities and c) other discretionary spending.

Transfers and Non-Pemex Parastate Spending

Transfers represent Federal Government monies sent to the IMSS and the ISSSTE to support their obligations to the general public and public sector employees. Transfers have been relatively stable vs. GDP. In 2005 they reached 2.2%, fell to 2.1% in 2011 and we are expecting them to increase to 2.29% in 2012 and thereafter to stabilize at 2.46%. The primary driver behind this increase is pension spending which we discuss below. For the first semester transfers rose 17.3% in nominal terms vs. the same period in 2011. We are assuming that for the entire year transfers will rise 18.5%.

Parastate Spending. Given the importance of transfers to the non-Pemex Parastate sector we discuss our assumptions for those entities before continuing with our analysis of other Federal Government spending. In discussing Parastate spending it is important to note that expenditures can be presented on a non-consolidated or on a consolidated basis. Non-consolidated spending includes the spending that is financed by transfers received from the Federal Government as well as a small amount of spending that is also separately registered by the Federal Government. On a consolidated (i.e., consolidated with the Federal Government) basis we exclude transfers and these other spending accounts.

As a percentage of GDP, non-Pemex consolidated spending has been relatively stable at around 3.4% of GDP. In 2011 it rose to 3.5% of domestic product but appears to be heading downward again to 3.35% this year. We assume that going forward these discretionary expenditures will remain at 3.35% of GDP. In fact, in real peso terms, the growth in this spending category has been trending downward since August of 2011.

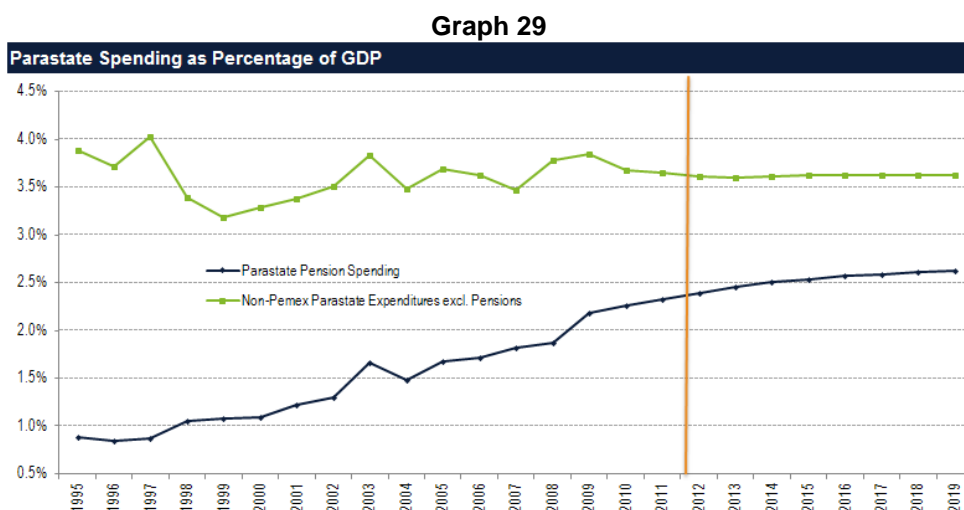
On a consolidated basis (i.e., excluding spending financed by transfers from the Federal Government) non-Pemex Parastate spending is dominated by the CFE with 58% of the total, through the first half of 2012. Another 41.5% is by the IMSS with negligible spending by the ISSSTE. Including transfers, which all go to the IMSS and the ISSSTE, the CFE represents 31.6% of spending while the IMSS spends another 47.8% and the ISSSTE contributes another 20.5%.

One element of concern for Parastate spending is pensions. Federal Government pension obligations are channeled through the ISSSTE, thus we do not explicitly consider them in our forecasts for that entity. For the first six months of 2012 pension spending represented 40.1% of discretionary spending, including transfers. The high level is due to the very nature of these organizations. In the case of the CFE, its pension spending represents 7.2% of discretionary expenditures. Excluding the CFE, pension spending represented 55% of the total.

Pension spending has been rising steadily as a percentage of GDP in recent years. In 2005 it consumed 1.53% (excluding Pemex) of GDP and in 2011 represented 2.12%. We believe it is headed on a course to reach 2.19% of domestic product this year. For the first half of 2012 pension spending increased 15.3% in nominal terms and we are forecasting a 12.4% rise for the full year. This assumption is based on a downward trend that we have observed based on trailing twelve-month data. We assume that relative to GDP pension spending will continue to advance reaching 2.24% in 2013 and ending 2019 at 2.34%. These

increases are incorporated within our forecasts for Federal Government transfer spending.

In Graph 29 we show the evolution of non-consolidated spending by the non-Pemex Parastate sector, excluding pensions. This spending has been on a slightly downward trend. The graph also shows the upward trend of pension spending (including Pemex) and where we see it heading by the end of our forecast period.



Source: HR Ratings forecasts with information from SHCP and INEGI. Non-Pension spending is before consolidation with Fed. Gov.

Our forecasts for non-Pemex parastate discretionary spending make an important assumption about non-pension spending. We are assuming that the recent declines in this account relative to GDP will largely be sustainable. In 2009 discretionary expenditures (excluding pensions) for the non-Pemex on-Budget Parastate sector reached a high 3.85%. In 2012 we see it heading for a 3.61% ratio. Going forward we see this as increasing only to 3.63%. We show our assumptions for Pemex spending in Graph 30 below.

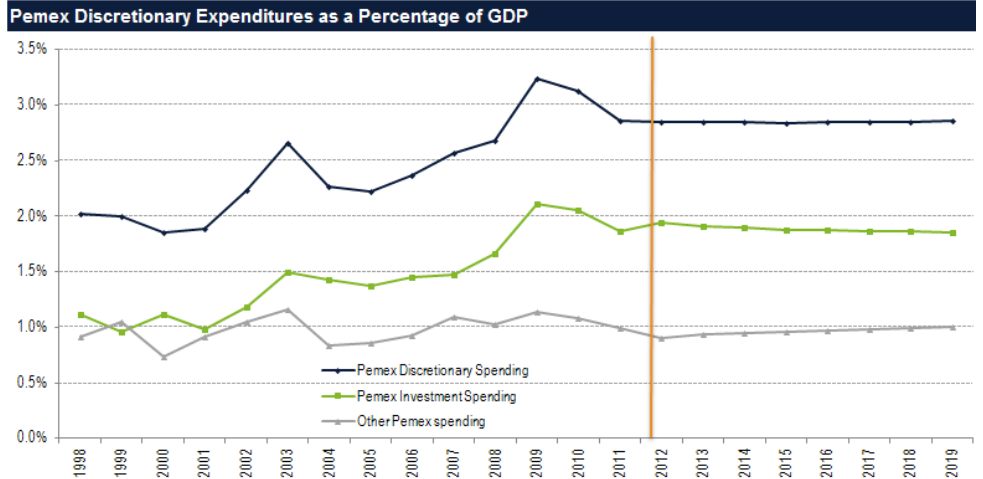
Pemex Discretionary Spending

In a similar vein we also see Pemex discretionary (i.e., non financial) spending falling relative to GDP. In 2009 spending reached a high 3.24% of domestic product. We see it declining for a third consecutive year falling to 2.84%. Going forward we assume that it will rise only very slightly reaching 2.86% of GDP. The forecast increase is driven exclusively by the expected rise in Pemex pension costs, which we assume will advance from 0.20% in the last three years (2012-2012) to 0.28% in 2019. In contrast, we assume that investment spending will decline from 1.94% in 2012 to 1.85%. This does not mean that Pemex investment spending will decline in nominal or real terms. In nominal terms, for example, we expect it to increase, beginning in 2013 by 6.7% per year.

Consequently, our model implicitly assumes that this level of investment will permit the expected increase (in absolute terms) in net exports as delineated in a previous section as well as to meet the needs of the domestic market in terms of the distribution and production of non-imported finished products.

Prior to 2008, a substantial portion of Pemex investment expenditures was accounted for as Pidiregas spending and thus not incorporated formally within Pemex. Neither did it form part of on-Budget spending. In order to avoid the abrupt change in 2009 we have attempted to incorporate beginning in 1998 our estimate of Pidiregas Pemex spending.

Graph 30



Source: HR Ratings forecasts with data from SHCP and INEGI. As of 1998 includes HR estimates of Pemex investment spending. Formally included as of 2009

Other Federal Government non-Financial Spending

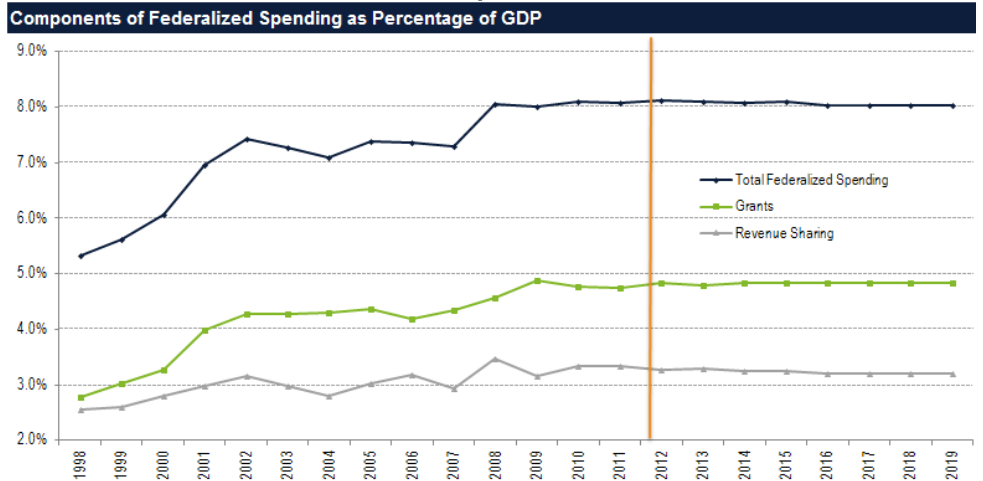
In the above section we used our analysis of Federal Government transfers to discuss the related issue of Parastate sector spending. Having concluded that, we now proceed to discuss other Federal Government spending accounts. The most important of these are payments made to states and municipalities. These are basically divided into two general categories: Grants (mostly labeled as “Aportaciones” in Spanish) and Revenue Sharing (Participaciones). The major difference between the two is that the former generally have to be spent in a particular area or program. In the case of shared revenues, these are not tied and can be spent at the discretion of the receiving entity.

From the perspective of the Federal Government, Grants are considered discretionary, the amounts appropriated for each category is determined each year by the Chamber of Deputies. However, the amount of monies sent to sub-national entities under the Revenue Sharing account are determined on the basis of income generated for the Federal Government derived from previously established formulas. Revenue sharing expenditures are thus non-financial (and consequently form part of “Primary” spending). However, they are also non-

discretionary (or “Programable”). The total of all the different grant programs plus revenue sharing represents approximately 47% of Federal Government primary spending. It also represents roughly 50% of Federal Government revenue. This reflects the substantial degree to which Federal Government fiscal policy is limited.

The various grant programs have shown an irregular but generally increasing share of GDP. In 2006 for example, they equaled 4.18% of GDP and reached a peak of 4.87% in 2009. The ratio to GDP declined a bit in 2010 and 2011 and we expect that it will increase to 4.84% for 2012. Going forward we assume that grants will largely remain at that current high level vs. domestic product.

Graph 31



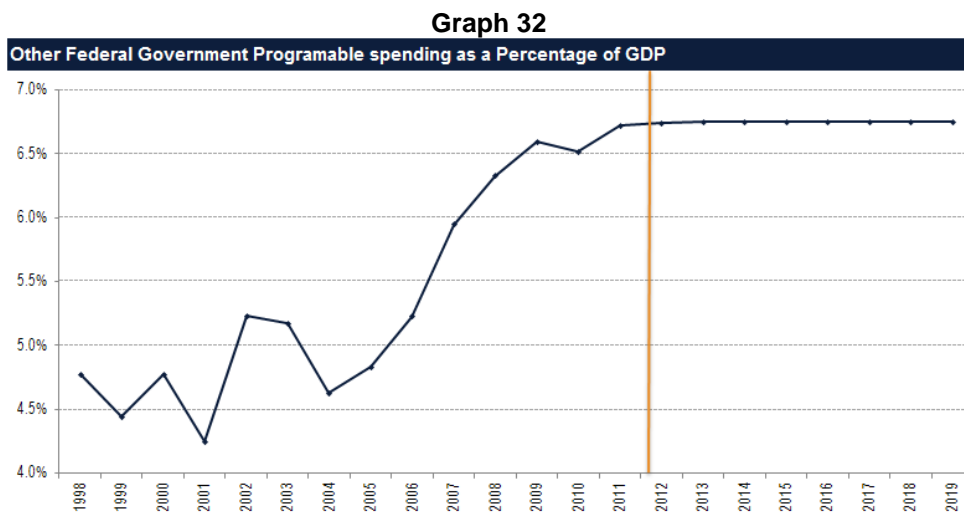
Source: HR Ratings forecasts with data from SHCP and INEGI.

As for revenue sharing, the level of spending has been even more volatile ranging from a recent low of 2.94% of GDP in 2007 to a high 3.48%, the very next year in 2008. We are assuming that it will reach 3.28% this year and that it will continue to fall slightly reaching 3.20% at the end of our forecast horizon. With the combination of grants and revenue sharing total “Federalized” spending would end our forecast period at 8.04%, a historically high level.

Finally, we incorporate the rest of Federal Government discretionary spending into one expenditure category. This has been showing a generally upward, but somewhat irregular, trend in recent years. We are assuming that it will stabilize going forward. That is based on our conclusion that the trends in the last three years suggest that the fiscal authorities are trying to contain the sharp growth observed through 2009. This assumption potentially represents a major risk to our base forecast scenario.

In 2005 the rest of Federal Government discretionary spending (excluding transfers and grants) represented 4.83% of GDP. By 2009 this level had risen to 6.60%. For this year we are assuming that it will reach 6.74% of GDP. Part of this

assumption is based on our interpretation of the government's 2012 fiscal program. However, given the level of spending reported during the first half of the year we assume that YoY spending in real terms will fall in the second half of 2012. Beyond 2012 we assume that the same 6.75% ratio to GDP will be maintained. This is a major challenge but appears feasible given the more limited increases in immediately prior years.



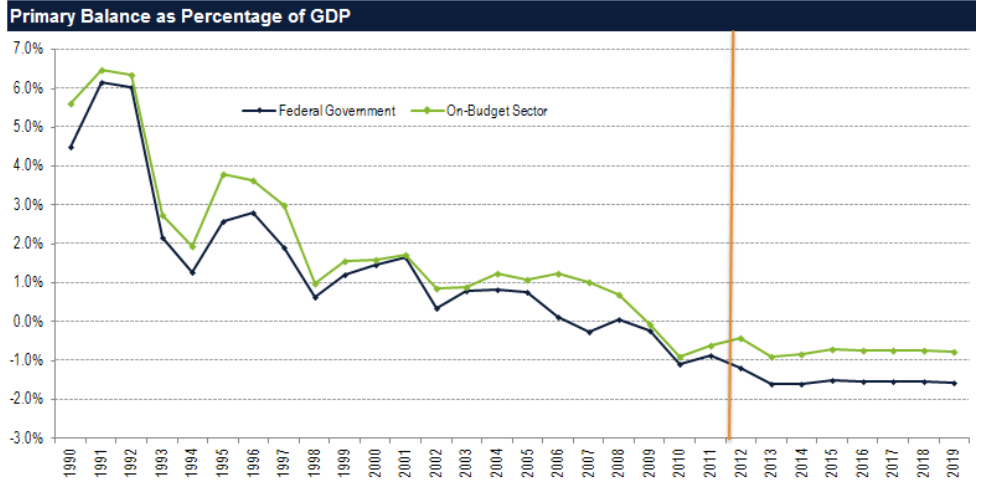
Source: HR Ratings forecasts with data from SHCP and INEGI. Excludes Transfers and Federalized Spending

Primary Balance

On the basis of the above we are assuming that the primary balance for the public sector entities analyzed above will reach P\$65bn pesos in 2012 or 0.42% of GDP. Going forward the above analysis sees the primary deficit rising slightly vs. GDP reaching 0.76% by 2019. This 34bps increase is due to a 10bps increase in primary expenditures and a 0.24% decline in revenue. The major driver on the expenditure side is pension spending, which in our model would be assumed by the Federal Government via higher transfers to the parastate sector. On the income side the major drivers are non-petroleum tax revenues and non-Pemex parastate income. We expect that these (combined with others such as domestic petroleum revenues) will offset the expected drop in petroleum net exports. We are also assuming a decline in non-tax, non-petroleum revenues from a somewhat high level expected for 2012.

In Graph 33 we present the long-term evolution of the primary balance both for the entire on-Budget sector and for the Federal Government. The fact that the deficit for the former is less negative than it is for the latter implies that the parastate sector as a whole enjoys a primary surplus. Note that the long-term trend shows that the primary balance has suffered a major deterioration during the period shown. Thus going forward we are assuming that this deterioration will stop and that the deficit will largely stabilize.

Graph 33

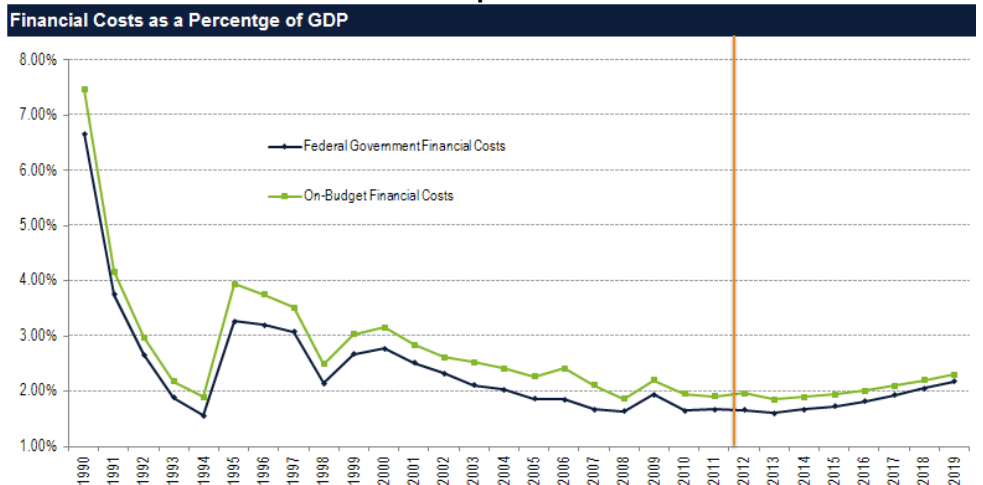


Source: HR Ratings forecasts with information from SHCP and INEGI. From 1998 includes HR Ratings estimates of Pemex investment spending

Financial Costs and Financial Balance

The major component left in our analysis in order to arrive at the expected overall financial balance is financial costs. We are forecasting that these will reach 1.96% of GDP in 2012. With this the total on-Budget deficit would approximate 2.38% of GDP. Graph 34 displays our forecast evolution of financial costs.

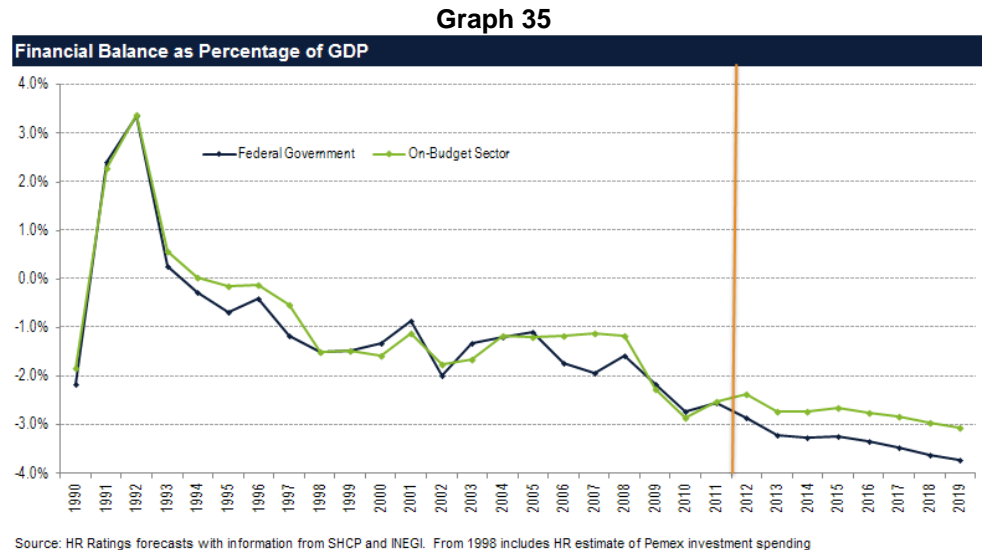
Graph 34



Source: HR Ratings forecasts with information from SHCP and INEGI.

The expected financial costs for 2012 would represent a slight increase over the 1.91% that we estimate for 2011. Our model suggests a decline to 1.85% in 2013 but that afterwards we see it rising reaching 2.30% by 2019. This 34bps rise (vs. 2012) adds to further pressures on the deficit such that by the end of our forecast

period the financial balance reaches 3.06% of domestic product. The evolution of the financial balance is displayed in Graph 35



Going forward we see financial costs ending and reversing their long-term downward trend relative to GDP. This is a logical consequence of the slight increase in primary balances as seen in Graph 33. Nevertheless, the expected increase in interest costs is very modest and in large part reflects the growing confidence of international investors in the conduct of fiscal and monetary policy. For example the Federal Government has recently issued USD denominated debt at rates of 2.52%, 3.93% and 4.67% for maturities of 10, 30 and 100 years respectively.

The increase in financial costs comes exclusively from the Federal Government. We see the Federal Government as having increasingly large primary deficits while the Parastate sector (thanks in part to Federal Government transfers) as a whole would have important surpluses. The Federal Government's primary deficits drive up the debt while the larger debt drives up financial costs.

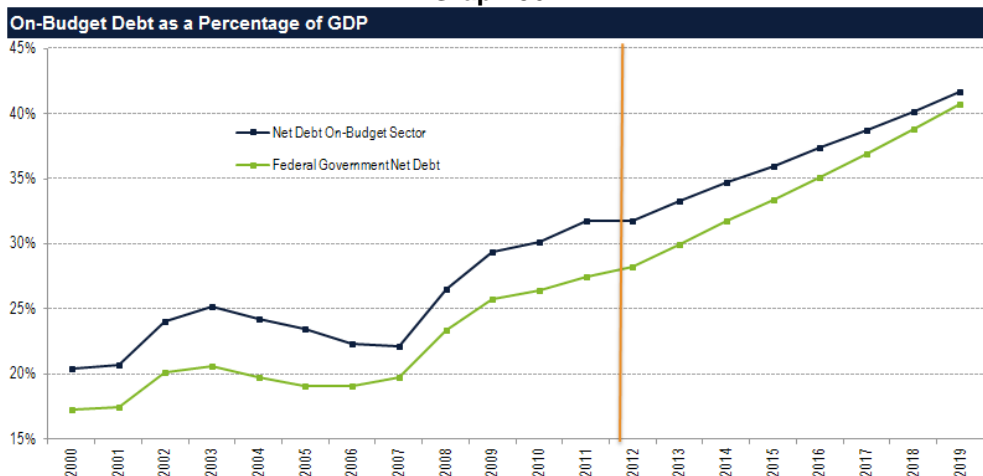
As for interest rates we assume that in peso terms these will continue to decline slightly over most of the forecast period. We generally assume the same for dollar denominated debt although in the last two to three years of our forecast period we expect that rates will gradually rise given the current unsustainably low interest rates in the US.

Evolution of On-Budget Debt

As is seen in Graph 36, the above set of assumptions shows that the on-Budget debt would continue its increase vs. GDP that began in 2008. That increase had reversed several years of declines in the debt to GDP ratio. The increase in 2008

was largely the result of the peso's devaluation that year. This had the effect of increasing the peso value of foreign currency denominated debt.⁷

Graph 36



Source: HR Ratings forecasts with information from SHCP and INEGI

Our projection of the debt is largely driven by the forecast deficits. We make separate projections for Federal Government and Parastate sector debt. Although the deficit is the primary driver, we also attempt to incorporate non-deficit related adjustments to the debt. In the case of Federal Government debt we make adjustments to the value in pesos of UDI denominated instruments. For both the Federal Government and the Parastate sector we make adjustments to the peso value of the external debt as a function of the forecast evolution in the exchange rate.

In the case of the Federal Government we assume the same composition of the debt relative to peso denominated (62%), UDI (17%) and external (21%)

As for consolidated Parastate debt, our observation of its evolution suggests that it consistently expands beyond what could be expected from the financial balances (surplus in nature, thus implying downward pressures on the debt) and movements in the peso (in either direction, depending upon the time period). Going forward we incorporate an estimate of this upward adjustment into our projection of the debt. These additional adjustments are seen in Graph 37; and for past periods include additional adjustments in the Federal Government debt.

The graph shows, for example, that in 2008 the debt rose significantly above what we estimate can be attributable to the effect of the devaluation that year. The

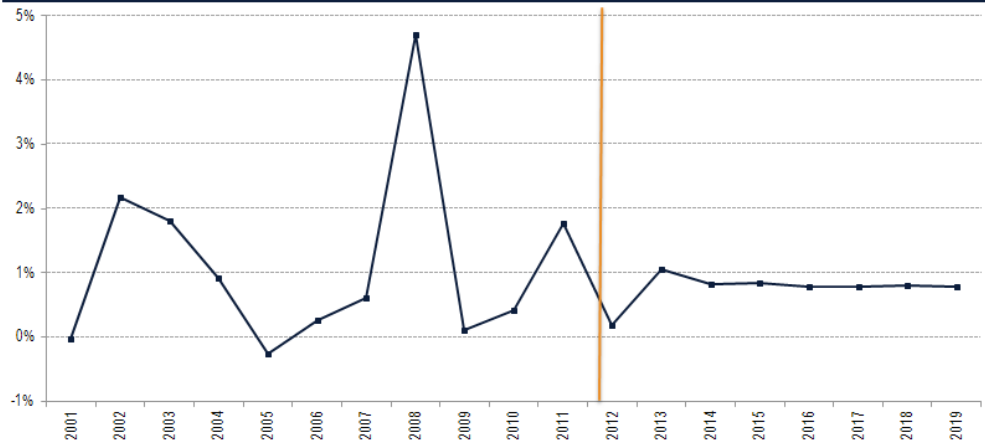
⁷ Graph 36 does not show any extraordinary increase in the debt in 2009 when in fact there was such an increase. In that year most of the Pidiregas debt was transferred to the Parastate component of on-Budget Debt. In order to avoid the effect that this would have (and thus complicate the interpretation of the graph) we have attempted to incorporate the effect as if the change had occurred in 2000 when Pidiregas debt was much smaller.

strong upward move in 2008 was largely the result of the increase in Federal Government debt, which in turn was due to a special bond issued in order to finance the transition to a defined obligation pension regime for government employees.

Going forward, the adjustment incorporated into our model equals 0.8% of GDP. Of these adjustments, roughly 16% are attributable to movements in the currency, and 40% due to the effect of inflation on inflation adjustment instruments.

Graph 37

Non-Financial Balance Adjustments to On-Budget Sector Net Debt

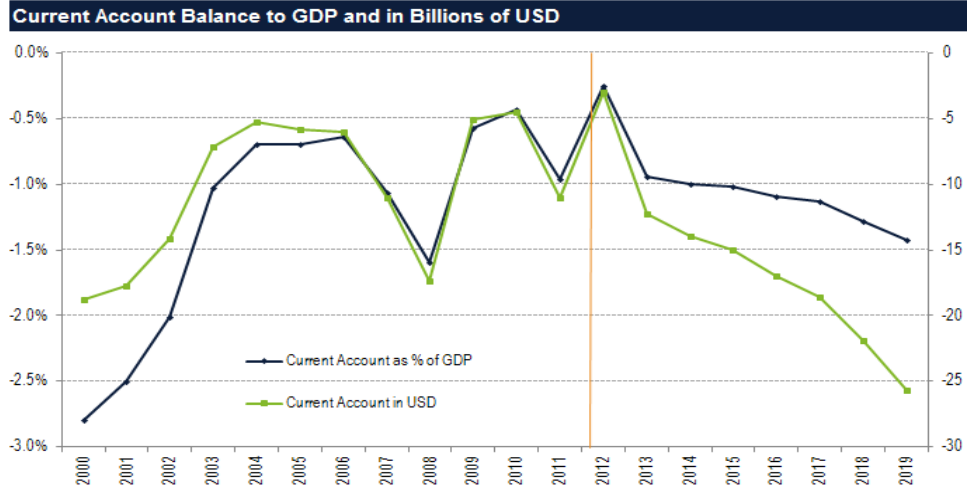


Source: HR Ratings forecasts with information from SHCP and INEGI

Evolution of the Current Account

Given the importance that we place on a country's external accounts we also present our forecasts relative to Mexico's current account. In his respect we see only marginal deterioration in the overall balance, which we believe will end our forecast period in 2019 with a deficit equal to 1.43% of GDP (please see Appendix for details). We expect the current account balance to be in the red by approximately 0.3% of GDP for 2012. Graph 38 below shows the forecast evolution of Mexico's current account.

Graph 38



Source: HR Ratings with data from Banxico and INEGI.

A major driver of our forecasts is the assumption that interest costs will rise to 1.85% of domestic product vs. 1.53% in 2011. In terms of trade we are assuming that the overall goods and services balance will advance to 1.44% of GDP in 2019 vs. 1.30% in 2011. We assume that the merchandise trade deficit will reach a very modest 0.38% vs. a deficit of 0.13% in 2011. As for net transfers we are making a conservative assumption that these will decline to 1.74% of domestic product vs. the roughly 2% that it has averaged over the last three years (including our forecast for 2012). We are expecting limited migration to the United States given the lack of dynamism in that economy.

Within the merchandise trade model we are assuming that the negligible deficit of US\$1.5bn that was reported in 2011, and the small surplus that we expect to see this year, will turn into a still moderate deficit of US\$6.9bn by 2019. The biggest positive driver for the trade balance is our expectation that Mexico's "production" balance (please see note 2 above) will advance from US\$53bn in 2011 to US\$101bn by 2019. In contrast, we are making a rather conservative assumption for Mexico's energy balance, which we see declining to a surplus of only US\$7.8bn vs. a surplus of US\$13.7bn in 2011. This is almost exclusively due to the expected increases in private sector imports. Thus we are expecting that Mexico's manufacturing sector will represent a major positive for Mexico's external accounts and overall growth going forwards.

Appendix

On-Budget Revenues in billions of nominal pesos															
	2005	2006	2007	2008	2009	2010	2011	2012P	2013P	2014P	2015P	2016P	2017P	2018P	2019P
Petroleum Revenues	727	861	881	1,055	874	973	1,102	1,211	1,263	1,338	1,426	1,515	1,609	1,709	1,816
Net Exports	245	303	285	293	222	248	312	318	291	299	315	333	352	372	394
Others	482	558	596	761	653	725	790	893	972	1,038	1,111	1,182	1,257	1,337	1,422
Non-Petroleum Revenues	1,221	1,402	1,605	1,806	1,943	1,987	2,169	2,385	2,531	2,731	2,954	3,137	3,338	3,552	3,778
Tax Revenues	793	931	1,047	1,208	1,125	1,314	1,437	1,538	1,673	1,805	1,958	2,073	2,204	2,344	2,493
Income tax, IETU & IDE	385	448	527	627	595	680	759	820	888	958	1,044	1,101	1,170	1,245	1,324
VAT	318	381	409	457	408	505	537	575	623	671	722	768	817	869	924
Other Tax Revenues	90	102	111	124	123	130	140	144	161	176	192	204	217	231	245
Non-Tax Revenues	78	84	158	150	383	178	177	220	176	188	201	214	228	242	257
Non-Pemex Parastate Rev.	350	387	400	448	435	495	556	627	682	738	795	850	906	966	1,027
On-Budget Revenues	1,948	2,264	2,486	2,861	2,817	2,960	3,271	3,596	3,795	4,068	4,380	4,651	4,947	5,261	5,593
Petroleum Revenues by Recipient															
Pemex	186	318	375	363	382	385	395	460	480	508	542	576	611	649	690
Federal Government	541	544	506	692	492	588	707	751	783	829	884	939	997	1,060	1,126
F.G. as % of Petroleum Revenues	74.5%	63.1%	57.4%	65.6%	56.3%	60.4%	64.1%	62.0%	62.0%	62.0%	62.0%	62.0%	62.0%	62.0%	62.0%
Total F.G. Revenues	1,413	1,559	1,711	2,050	2,000	2,080	2,320	2,509	2,632	2,822	3,043	3,226	3,429	3,646	3,876

Source: HR Ratings forecasts, based on information of SHCP and INEGI

On-Budget Revenues as % of GDP															
	2005	2006	2007	2008	2009	2010	2011	2012P	2013P	2014P	2015P	2016P	2017P	2018P	2019P
Petroleum Revenues	7.85%	8.30%	7.78%	8.66%	7.32%	7.43%	7.68%	7.76%	7.54%	7.47%	7.44%	7.43%	7.42%	7.42%	7.41%
Net Exports	2.65%	2.92%	2.52%	2.41%	1.86%	1.89%	2.17%	2.04%	1.74%	1.67%	1.64%	1.63%	1.62%	1.62%	1.61%
Others	5.21%	5.38%	5.26%	6.25%	5.47%	5.54%	5.51%	5.73%	5.80%	5.80%	5.80%	5.80%	5.80%	5.80%	5.80%
Non-Petroleum Revenues	13.20%	13.51%	14.18%	14.83%	16.28%	15.18%	15.12%	15.30%	15.10%	15.25%	15.42%	15.39%	15.40%	15.41%	15.41%
Tax Revenues	8.57%	8.97%	9.25%	9.91%	9.43%	10.04%	10.02%	9.87%	9.98%	10.08%	10.22%	10.17%	10.17%	10.17%	10.17%
Income tax, IETU & IDE	4.16%	4.32%	4.66%	5.14%	4.98%	5.19%	5.29%	5.26%	5.30%	5.35%	5.45%	5.40%	5.40%	5.40%	5.40%
VAT	3.44%	3.67%	3.61%	3.75%	3.42%	3.85%	3.75%	3.69%	3.72%	3.75%	3.77%	3.77%	3.77%	3.77%	3.77%
Other Tax Revenues	0.97%	0.98%	0.98%	1.02%	1.03%	0.99%	0.98%	0.92%	0.96%	0.98%	1.00%	1.00%	1.00%	1.00%	1.00%
Non-Tax Revenues	0.85%	0.81%	1.40%	1.23%	3.21%	1.36%	1.23%	1.41%	1.05%	1.05%	1.05%	1.05%	1.05%	1.05%	1.05%
Non-Pemex Parastate Rev.	3.78%	3.73%	3.53%	3.68%	3.64%	3.78%	3.87%	4.02%	4.07%	4.12%	4.15%	4.17%	4.18%	4.19%	4.19%
On-Budget Revenues	21.05%	21.81%	21.96%	23.49%	23.60%	22.62%	22.81%	23.06%	22.64%	22.72%	22.87%	22.82%	22.83%	22.83%	22.82%
Petroleum Revenues by Recipient															
Pemex	2.01%	3.06%	3.31%	2.98%	3.20%	2.94%	2.76%	2.95%	2.86%	2.84%	2.83%	2.82%	2.82%	2.82%	2.81%
Federal Government	5.85%	5.24%	4.47%	5.68%	4.12%	4.49%	4.93%	4.81%	4.67%	4.63%	4.61%	4.61%	4.60%	4.60%	4.59%
Total Federal Government	15.27%	15.02%	15.12%	16.83%	16.76%	15.89%	16.18%	16.09%	15.70%	15.76%	15.89%	15.83%	15.82%	15.82%	15.81%
Implicit Deflator Change	4.54%	6.69%	5.63%	6.33%	4.20%	3.91%	5.45%	4.82%	4.31%	4.11%	4.28%	3.70%	3.65%	3.65%	3.65%
GDP Real Growth	3.21%	5.15%	3.26%	1.19%	-5.95%	5.53%	3.91%	3.72%	3.04%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%
Real GDP	8,114	8,532	8,810	8,915	8,384	8,848	9,194	9,536	9,826	10,082	10,344	10,613	10,889	11,172	11,462
Nominal GDP	9,252	10,379	11,321	12,181	11,937	13,090	14,342	15,593	16,760	17,903	19,155	20,380	21,673	23,048	24,510

Source: HR Ratings forecasts, based on information of SHCP and INEGI

On-Budget Balance Structure in billions of nominal pesos

	2005	2006	2007	2008	2009	2010	2011	2012P	2013P	2014P	2015P	2016P	2017P	2018P	2019P
Federal Government Primary Balance	72	12	(30)	8	(29)	(142)	(124)	(186)	(270)	(284)	(288)	(312)	(335)	(357)	(381)
Pemex Primary Balance	(21)	72	84	36	(5)	(25)	(14)	17	2	(2)	(2)	(4)	(6)	(8)	(10)
Non-Pemex Parastate Primary Balance	48	46	59	40	25	49	52	104	120	137	153	167	179	193	205
On-Budget Parastate Primary Balance	27	118	144	76	20	24	38	120	122	136	150	163	173	185	195
On-Budget Primary Balance	99	130	114	83	(9)	(118)	(86)	(65)	(148)	(148)	(137)	(149)	(161)	(172)	(186)
Federal Government Financial Balance	(101)	(181)	(218)	(193)	(260)	(358)	(365)	(444)	(540)	(583)	(619)	(683)	(753)	(832)	(916)
Parastates Financial Balance	(11)	60	93	49	(12)	(15)	5	74	81	96	111	124	138	152	166
On-Budget Financial Balance	(111)	(120)	(125)	(144)	(272)	(374)	(360)	(371)	(459)	(487)	(508)	(559)	(616)	(680)	(749)
Balance as % of GDP															
Federal Government Primary Balance	0.78%	0.11%	-0.26%	0.06%	-0.24%	-1.09%	-0.87%	-1.19%	-1.61%	-1.58%	-1.50%	-1.53%	-1.54%	-1.55%	-1.55%
Pemex Primary Balance	-0.22%	0.69%	0.74%	0.29%	-0.04%	-0.19%	-0.10%	0.11%	0.01%	-0.01%	-0.01%	-0.02%	-0.03%	-0.03%	-0.04%
Non-Pemex Parastate Primary Balance	0.52%	0.45%	0.53%	0.33%	0.21%	0.38%	0.37%	0.67%	0.72%	0.77%	0.80%	0.82%	0.83%	0.84%	0.84%
On-Budget Parastate Primary Balance	0.29%	1.14%	1.27%	0.62%	0.17%	0.19%	0.27%	0.77%	0.73%	0.76%	0.78%	0.80%	0.80%	0.80%	0.80%
On-Budget Primary Balance	1.07%	1.25%	1.01%	0.68%	-0.07%	-0.90%	-0.60%	-0.42%	-0.88%	-0.83%	-0.72%	-0.73%	-0.74%	-0.75%	-0.76%
Federal Government Financial Bal.	-1.09%	-1.74%	-1.93%	-1.58%	-2.18%	-2.74%	-2.54%	-2.85%	-3.22%	-3.26%	-3.23%	-3.35%	-3.48%	-3.61%	-3.74%
Parastates Financial Balance	-0.11%	0.58%	0.82%	0.40%	-0.10%	-0.12%	0.03%	0.47%	0.49%	0.53%	0.58%	0.61%	0.63%	0.66%	0.68%
On-Budget Financial Balance	-1.20%	-1.16%	-1.11%	-1.18%	-2.28%	-2.85%	-2.51%	-2.38%	-2.74%	-2.72%	-2.65%	-2.74%	-2.84%	-2.95%	-3.06%

Source: HR Ratings forecasts, based on information of SHCP and INEGI.

On-Budget Debt Structure in billions of nominal pesos

	2005	2006	2007	2008	2009	2010	2011	2012P	2013P	2014P	2015P	2016P	2017P	2018P	2019P
On-Budget Net Debt	2,167	2,314	2,510	3,228	3,513	3,941	4,554	4,953	5,589	6,223	6,893	7,613	8,401	9,264	10,209
Federal Government Net Debt	1,765	1,980	2,237	2,843	3,075	3,456	3,946	4,400	5,029	5,686	6,390	7,159	8,007	8,946	9,980
Parastates Net Debt	402	334	273	385	439	485	609	553	560	538	503	455	394	318	228
Internal Net Debt	1,184	1,435	1,666	2,205	2,388	2,743	3,071	3,404	3,900	4,422	4,984	5,597	6,276	7,028	7,858
External Net Debt in Pesos	983	880	843	1,023	1,125	1,198	1,484	1,549	1,689	1,801	1,910	2,016	2,125	2,236	2,351
External Net Debt in USD	92	81	78	76	86	97	106	120	127	134	141	147	153	159	165
Federal Government Internal Net Debt	1,183	1,547	1,788	2,333	2,471	2,809	3,112	3,477	3,974	4,493	5,050	5,657	6,328	7,070	7,888
Debt in Pesos	1,088	1,392	1,553	1,998	2,041	2,279	2,470	2,747	3,139	3,549	3,989	4,468	4,998	5,584	6,230
Debt in UDIs in Peso terms	95	155	235	335	431	530	642	731	835	944	1,061	1,189	1,330	1,486	1,658
Debt in UDIs in UDIs terms	26	41	60	80	99	117	137	149	163	177	190	206	222	239	258
UDI value (year-end)	3.64	3.79	3.93	4.18	4.34	4.53	4.69	4.92	5.13	5.35	5.58	5.78	5.99	6.21	6.43
Fed. Gov. External Net Debt in Pesos	582	433	449	510	603	647	834	923	1,055	1,192	1,340	1,501	1,679	1,876	2,093
Fed. Gov. External Net Debt in USD	55	40	41	38	46	52	60	72	79	89	99	109	121	133	147
End-year Peso	10.64	10.88	10.87	13.54	13.06	12.36	13.98	12.90	13.33	13.43	13.58	13.73	13.90	14.08	14.26
Parastates Internal Net Debt	1	(112)	(122)	(128)	(83)	(66)	(41)	(73)	(74)	(71)	(66)	(60)	(52)	(42)	(30)
Parastates External Net Debt in Pesos	401	447	395	513	522	551	650	626	634	609	570	515	446	360	258
Parastates External Net Debt in USD	38	41	36	38	40	45	46	49	48	45	42	38	32	26	18

Source: HR Ratings forecasts, based on information of SHCP and INEGI. Includes estimates of PIDIREGAS debt incorporation prior to 2009

On-Budget Debt Structure as % of GDP

	2005	2006	2007	2008	2009	2010	2011	2012P	2013P	2014P	2015P	2016P	2017P	2018P	2019P
On-Budget Net Debt	23.4%	22.3%	22.2%	26.5%	29.4%	30.1%	31.8%	31.8%	33.3%	34.8%	36.0%	37.4%	38.8%	40.2%	41.7%
Federal Government Net Debt	19.1%	19.1%	19.8%	23.3%	25.8%	26.4%	27.5%	28.2%	30.0%	31.8%	33.4%	35.1%	36.9%	38.8%	40.7%
Parastates Net Debt	4.3%	3.2%	2.4%	3.2%	3.7%	3.7%	4.2%	3.5%	3.3%	3.0%	2.6%	2.2%	1.8%	1.4%	0.9%
Internal Net Debt	12.8%	13.8%	14.7%	18.1%	20.0%	21.0%	21.4%	21.8%	23.3%	24.7%	26.0%	27.5%	29.0%	30.5%	32.1%
External Net Debt in Pesos	10.6%	8.5%	7.4%	8.4%	9.4%	9.2%	10.3%	9.9%	10.1%	10.1%	10.0%	9.9%	9.8%	9.7%	9.6%
Federal Government Internal Net Debt	12.8%	14.9%	15.8%	19.2%	20.7%	21.5%	21.7%	22.3%	23.7%	25.1%	26.4%	27.8%	29.2%	30.7%	32.2%
Debt in Pesos	11.8%	13.4%	13.7%	16.4%	17.1%	17.4%	17.2%	17.6%	18.7%	19.8%	20.8%	21.9%	23.1%	24.2%	25.4%
Debt in UDIs in Peso terms	1.0%	1.5%	2.1%	2.7%	3.6%	4.0%	4.5%	4.7%	5.0%	5.3%	5.5%	5.8%	6.1%	6.4%	6.8%
Fed. Gov. External Net Debt in Pesos	6.3%	4.2%	4.0%	4.2%	5.1%	4.9%	5.8%	5.9%	6.3%	6.7%	7.0%	7.4%	7.7%	8.1%	8.5%
Parastates Internal Net Debt	0.0%	-1.1%	-1.1%	-1.0%	-0.7%	-0.5%	-0.3%	-0.5%	-0.4%	-0.4%	-0.3%	-0.3%	-0.2%	-0.2%	-0.1%
Parastates External Net Debt in Pesos	4.3%	4.3%	3.5%	4.2%	4.4%	4.2%	4.5%	4.0%	3.8%	3.4%	3.0%	2.5%	2.1%	1.6%	1.1%

Source: HR Ratings forecasts, based on information of SHCP and INEGI. Includes estimates of PIDIREGAS debt incorporation prior to 2009

Mexico's Merchandise Trade in US\$(m)

Concept / Year	2007	2008	2009	2010	2011	2012p	2013p	2014p	2015p	2016p	2017p	2018p	2019p
Total Exports	271,875	291,343	229,704	298,473	349,375	374,377	396,461	426,383	457,354	489,903	525,089	558,679	592,644
Petroleum	43,014	50,635	30,831	41,693	56,385	53,360	49,411	49,664	50,367	52,357	54,843	55,849	57,349
Crude	37,937	43,342	25,614	35,919	49,322	46,979	43,811	44,258	45,143	46,913	49,126	50,012	51,339
Others	5,077	7,294	5,217	5,775	7,063	6,381	5,600	5,406	5,224	5,444	5,717	5,837	6,010
Non-Petroleum	228,861	240,707	198,872	256,780	292,990	321,017	347,050	376,719	406,987	437,546	470,245	502,830	535,295
Agricultural	7,415	7,895	7,726	8,610	10,309	11,480	12,399	13,391	14,462	15,474	16,557	17,551	18,604
Extractive	1,737	1,931	1,448	2,424	4,063	5,029	5,784	6,507	7,158	7,802	8,348	8,765	9,204
Manufacturing	219,709	230,882	189,698	245,745	278,617	304,507	328,868	356,821	385,367	414,270	445,340	476,514	507,487
Total Imports	281,949	308,603	234,385	301,482	350,843	373,153	400,414	430,591	461,808	494,786	529,924	564,533	599,512
Consumer Goods	43,055	47,941	32,828	41,423	51,790	53,137	56,323	59,408	62,753	66,867	71,247	75,522	80,086
Petroleum	10,932	15,805	8,930	12,820	18,965	19,029	18,026	18,385	18,869	19,977	21,185	21,839	22,573
Non-Petroleum	32,123	32,136	23,898	28,602	32,826	36,028	36,458	38,654	40,912	43,295	45,816	48,484	51,308
Intermediate Goods	205,295	221,565	170,912	229,812	264,020	281,589	302,974	327,394	352,420	378,486	406,524	433,990	461,379
Petroleum	14,537	19,852	11,533	17,391	23,740	22,758	21,558	21,988	22,567	23,892	25,337	26,119	26,997
Non-Petroleum	190,758	201,714	159,379	212,422	240,281	258,831	281,416	305,406	329,853	354,593	381,188	407,871	434,382
Capital Goods	33,599	39,097	30,645	30,247	35,032	38,427	41,117	43,789	46,636	49,434	52,153	55,021	58,047
Energy Related Imports	25,469	35,657	20,462	30,211	42,704	41,787	39,584	40,373	41,435	43,870	46,521	47,958	49,570
Trade Balance	(10,074)	(17,261)	(4,681)	(3,009)	(1,468)	1,224	(3,953)	(4,208)	(4,454)	(4,883)	(4,835)	(5,855)	(6,868)
Net Energy Exports	17,545	14,978	10,369	11,482	13,681	11,573	9,827	9,292	8,932	8,488	8,322	7,890	7,780
Non-Energy Balance	(27,618)	(32,239)	(15,050)	(14,491)	(15,149)	(10,349)	(13,780)	(13,499)	(13,386)	(13,371)	(13,157)	(13,745)	(14,648)
Net Non-Energy Prod. Exports*	38,103	38,994	39,493	44,358	52,709	62,186	65,634	71,313	77,133	82,952	89,058	94,959	100,912

Source: HR Ratings forecasts based on data from INEGI

*Non petroleum exports less non-petroleum intermediate imports

Mexico's Current Account Balance (millions of USD)

Concept / Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Current Account Balance	(11,069)	(17,334)	(5,064)	(4,456)	(11,073)	(3,013)	(12,235)	(13,972)	(14,972)	(17,030)	(18,546)	(21,926)	(25,678)
Inflows	323,532	343,475	273,293	343,233	397,560	412,134	410,177	410,972	412,308	412,991	414,160	415,141	416,231
Exports of Goods	271,875	291,343	229,704	298,473	349,375	374,377	396,461	426,383	457,354	489,903	525,089	558,679	592,644
Exports of Services	17,567	18,119	15,001	15,554	15,868	16,729	17,398	18,094	18,817	19,570	20,353	21,167	22,014
Factor Services	7,577	8,417	6,934	7,583	9,165	13,313	11,745	13,276	14,772	15,544	16,331	17,150	18,010
Interest	6,130	6,015	4,236	3,376	3,551	3,308	2,918	3,299	3,671	3,862	4,058	4,261	4,475
Others	1,446	2,402	2,699	4,206	5,613	10,005	8,827	9,977	11,102	11,681	12,273	12,888	13,535
Transfer Pmts.	26,513	25,597	21,653	21,623	23,152	23,925	24,882	25,877	26,912	27,989	29,109	30,273	31,484
Outflows	334,600	360,809	278,357	347,689	408,633	413,192	413,503	412,126	412,678	412,174	412,188	412,001	411,884
Imports of Goods	281,949	308,603	234,385	301,482	350,843	373,153	400,414	430,591	461,808	494,786	529,924	564,533	599,512
Imports of Services	23,881	25,480	23,284	25,010	29,319	30,124	31,480	32,896	34,377	35,924	37,540	39,229	40,995
Factor Services	28,662	26,598	20,627	21,112	28,293	27,893	30,669	33,959	36,487	39,170	41,807	45,275	49,166
Interest	16,294	16,133	12,306	13,973	17,547	18,442	20,881	23,059	24,670	26,424	28,089	30,527	33,318
Others	12,368	10,465	8,321	7,139	10,746	9,451	9,788	10,900	11,818	12,746	13,718	14,749	15,848
Transfer Pmts.	108	128	60	86	178	186	159	156	156	156	156	156	156
Sub-Balances													
Trade in Goods	(10,074)	(17,261)	(4,681)	(3,009)	(1,468)	1,224	(3,953)	(4,208)	(4,454)	(4,883)	(4,835)	(5,855)	(6,868)
Petroleum	17,545	14,978	10,369	11,482	13,681	11,573	9,827	9,292	8,932	8,488	8,322	7,890	7,780
Non-Petroleum	(27,618)	(32,239)	(15,050)	(14,491)	(15,149)	(10,349)	(13,780)	(13,499)	(13,386)	(13,371)	(13,157)	(13,745)	(14,648)
Trade in Services	(6,314)	(7,360)	(8,283)	(9,455)	(13,450)	(13,395)	(14,082)	(14,803)	(15,559)	(16,353)	(17,187)	(18,062)	(18,981)
Goods and Services	(16,388)	(24,621)	(12,964)	(12,464)	(14,918)	(12,172)	(18,035)	(19,010)	(20,014)	(21,236)	(22,022)	(23,917)	(25,849)
Factor Services	(21,086)	(18,182)	(13,693)	(13,529)	(19,129)	(14,580)	(18,923)	(20,683)	(21,715)	(23,626)	(25,476)	(28,126)	(31,157)
Transfers	26,405	25,469	21,593	21,537	22,974	23,739	24,724	25,721	26,756	27,833	28,952	30,117	31,328
Non-Trade	5,319	7,287	7,900	8,008	3,845	9,159	5,800	5,038	5,041	4,207	3,476	1,991	171
Balances as Percentage of GDP													
Trade in Goods	-0.97%	-1.59%	-0.53%	-0.29%	-0.13%	0.10%	-0.30%	-0.30%	-0.30%	-0.31%	-0.30%	-0.34%	-0.38%
Total Trade	-1.58%	-2.26%	-1.47%	-1.20%	-1.30%	-1.03%	-1.38%	-1.36%	-1.35%	-1.37%	-1.35%	-1.39%	-1.44%
Non Trade	0.51%	0.67%	0.90%	0.77%	0.33%	0.78%	0.44%	0.36%	0.34%	0.27%	0.21%	0.12%	0.01%
Factor Services	-2.04%	-1.67%	-1.55%	-1.31%	-1.67%	-1.24%	-1.45%	-1.48%	-1.47%	-1.52%	-1.56%	-1.64%	-1.73%
Transfers	2.55%	2.34%	2.45%	2.08%	2.00%	2.01%	1.89%	1.84%	1.81%	1.79%	1.77%	1.76%	1.74%
Total Current Account	-1.07%	-1.59%	-0.58%	-0.43%	-0.96%	-0.26%	-0.94%	-1.00%	-1.01%	-1.10%	-1.14%	-1.28%	-1.43%
GDP USD*	1,036	1,088	881	1,035	1,148	1,179	1,305	1,397	1,477	1,554	1,633	1,715	1,801

Source: HR Ratings based on data from Banxico and INEGI.

* Indicates that the corresponding metric is in US\$ Billions

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