BBVA Research

Economic Outlook

Mexico

Second Quarter 2012

Mexico City, May 9, 2012

Contents

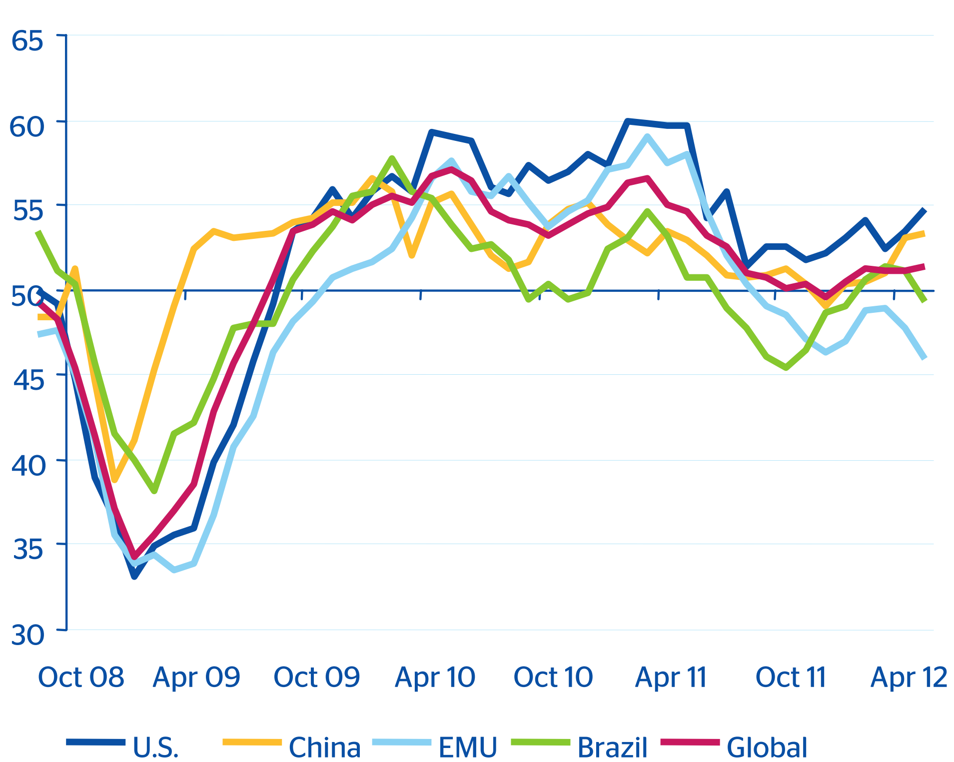
Global environment: gradual and heterogeneous recovery

Available indicators show that **economic activity recovering gradually from the levels at the close of 2011**.

Heterogeneous progress of USA and the main Emerging Markets on the one hand and the euro zone on the other. But improvements are very limited.

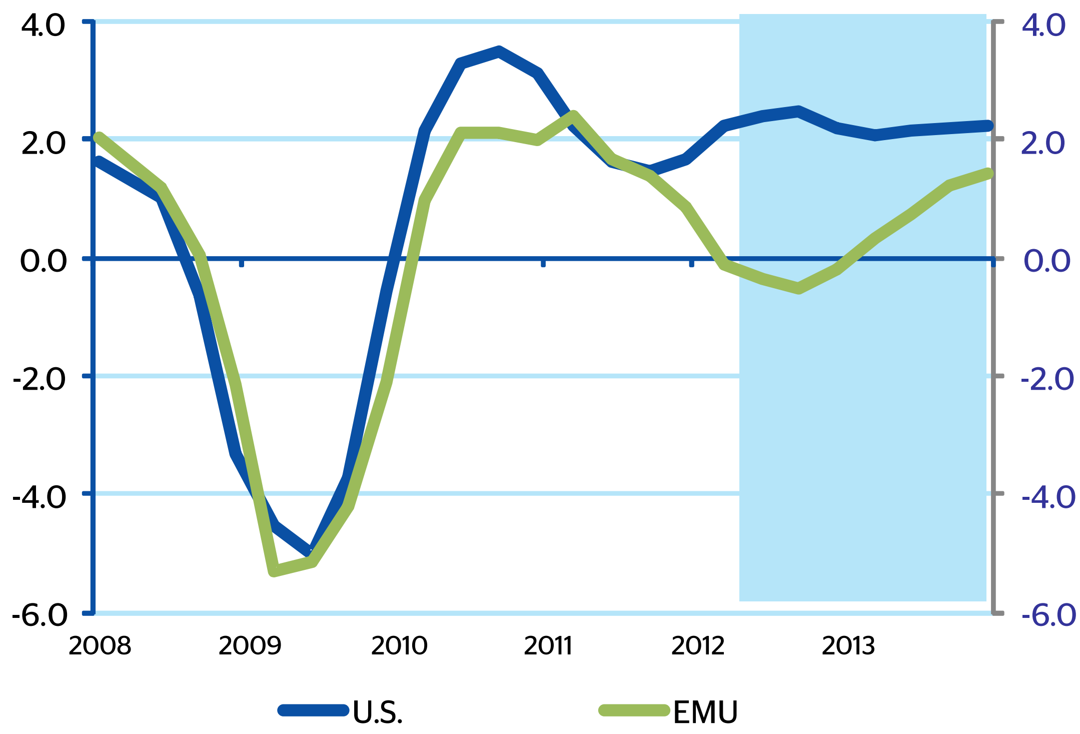
Purchasing Managers' Index (PMI)

Source: BBVA Research



Economic Growth (% of GDP, year-on-year)

Source: BBVA Research

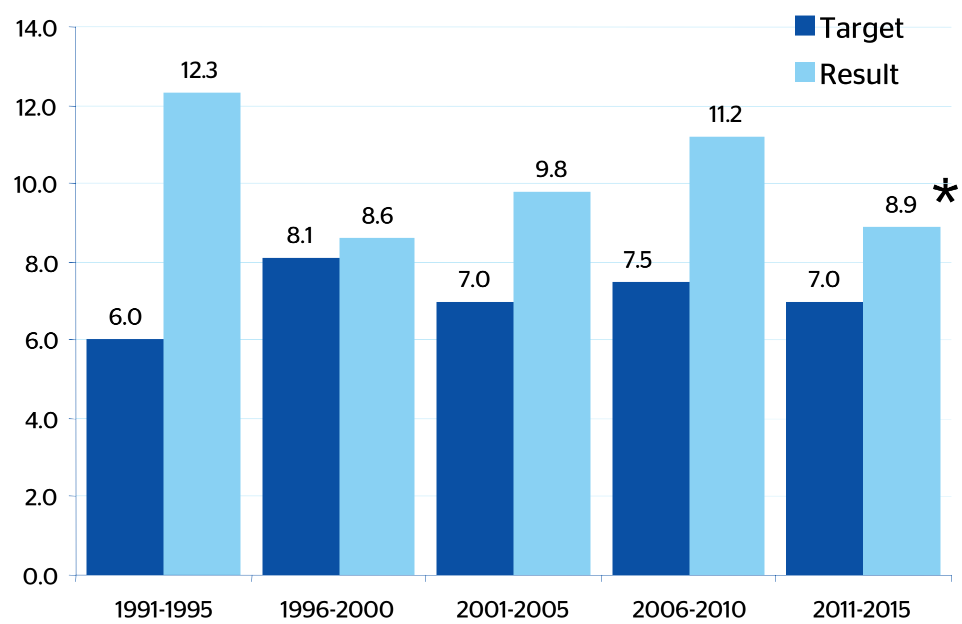


Emerging Markets: a soft landing

Among emerging markets, **China** maintains its gradual **slowdown** within the **margin afforded by its monetary and fiscal policies**, while in Latin **America**, the **limited financial impact of the European crisis** and the **strength of domestic demand as well as commodity prices** make it possible to expect a gentle recovery.

China: observed growth and five-year targets

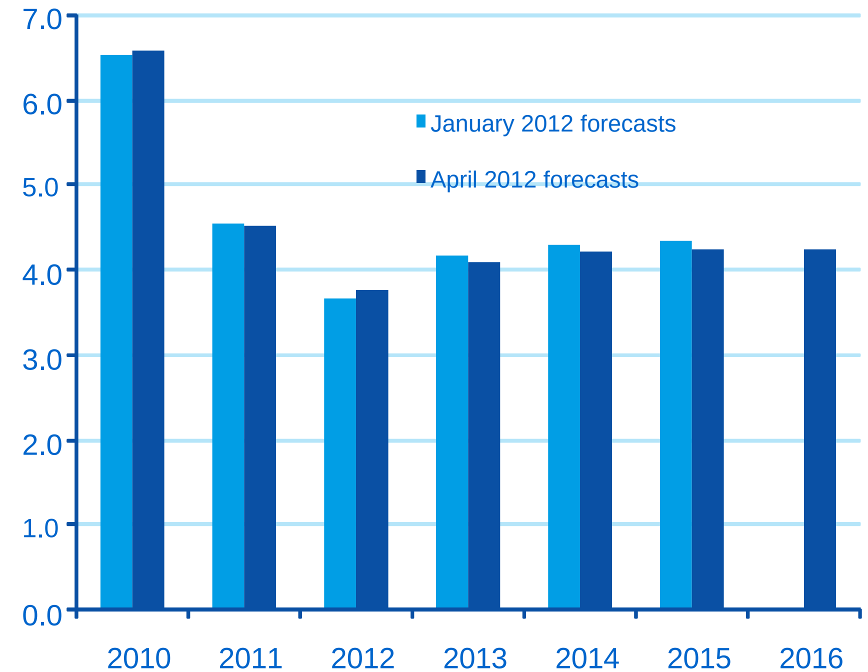
Source: BBVA Research and CEIC



* BBVA forecast

Latin America, growth prospects

Source: BBVA Research



Latam 6: ARG, BRA, COL, CHI, PER, VEN

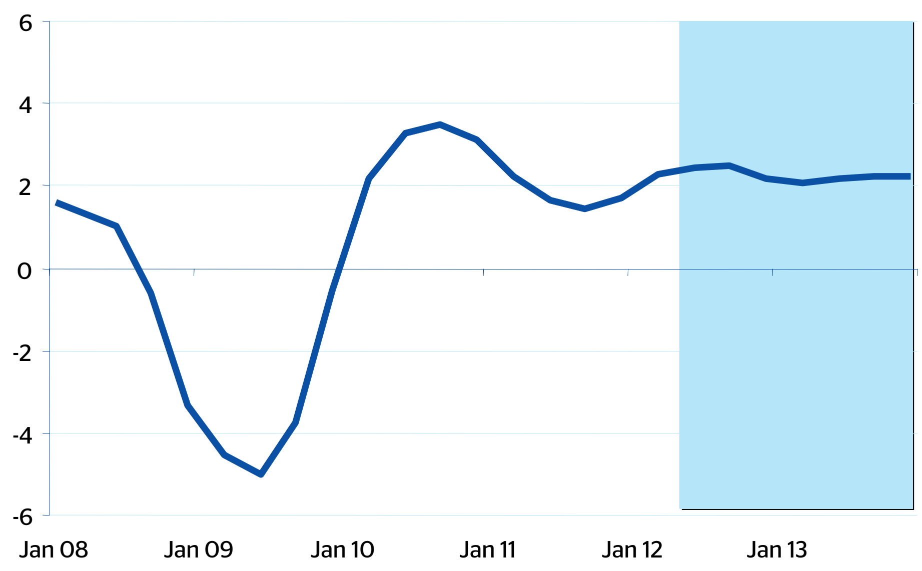
US: limited recovery

Growth **will improve in 2012**, but will be limited by the deleveraging **process**.

The **reduction of the unemployment rate is moderate,** given the limited cyclical recovery after the recession; it has to be remembered that this reduction is also taking place during a **fall in the activity rate**.

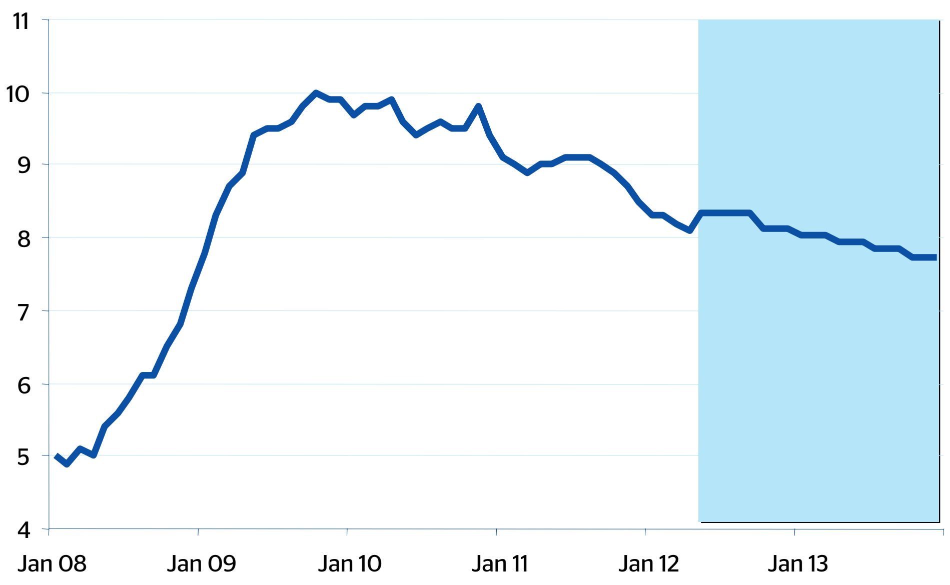
US: GDP Growth (% year on year)

Source: BBVA Research



US: Unemployment rate

Source: BBVA Research and Haver



US: ... with uncertainty in fiscal consolidation

Monetary policy is bearing most of the weight of maintaining private sector demand. **Fiscal policy** and structural reforms must have a medium-term perspective, so the **degree of uncertainty is high**.

Monetary Policy

The recovery reduces the probability of another quantitative easing (QE3)

Interest rates will remain low for a very extended period of time

In all, greater quantitative expansion will quickly take place in case of diminishing growth

Fiscal Policy

If measures are not changed, a strong fiscal contraction will take place at the end of 2012, which could adversely affect economic activity

In spite of uncertainty surrounding the elections, we expect gradual fiscal consolidation, which will slightly affect growth in 2013

The main problem is the lack of progress made in tackling long-term consolidation

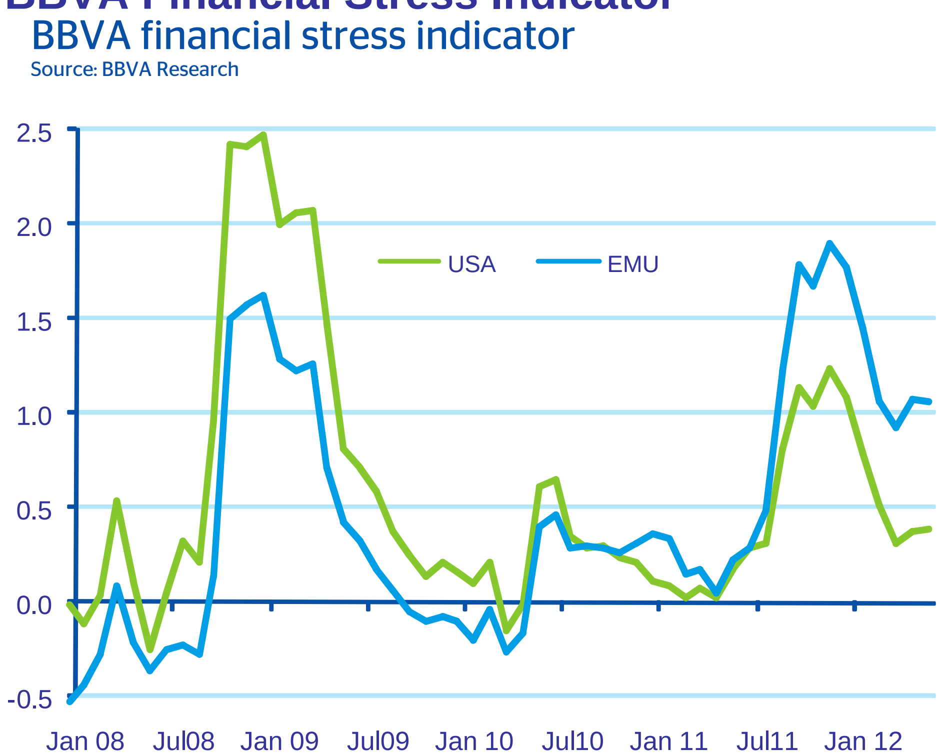
Euro zone: recession in 2012, heterogeneousness, and downturn risks

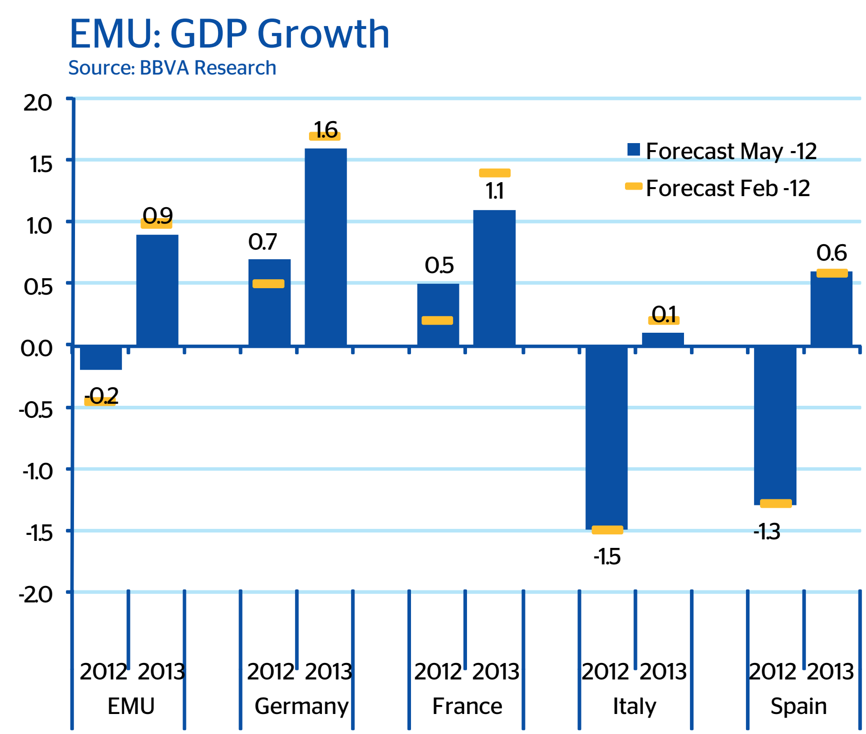
Financial **tensions have** resurged, especially in peripheral countries, as the effect of the ECB's long-term liquidity auctions fades.

The **baseline scenario** assumes that **decisive measures will continue to be taken** to gradually diminish financial tension. The **risks** associated with this scenario are **strongly tilted to the downside**.

Growth in the area will be slow and **very heterogeneous between euro zone countries**, with **peripheral economies most affected by financial tension and fiscal consolidation**.

BBVA Financial Stress Indicator





The European debt crisis: progress, but issues still to be solved

Some progress...	... but issues remain
1. Implementation of the Greek debt write-down	A credible sovereign firewall
2. Approval of the fiscal compact	Greater progress toward fiscal union
3. Provision of long-term liquidity by the ECB	Agenda to promote growth

The authorities continue to lag behind events

1 The sovereign firewall (EFSF/ESM) is not sufficient to calm the markets

Agreement on March 30 (ESM)

New loan capacity: EUR 500 billion (in addition to the EUR 200 billion already committed in the EFSF)

EFSF can continue to lend up to halfway through 2013, in order to capitalize the ESM

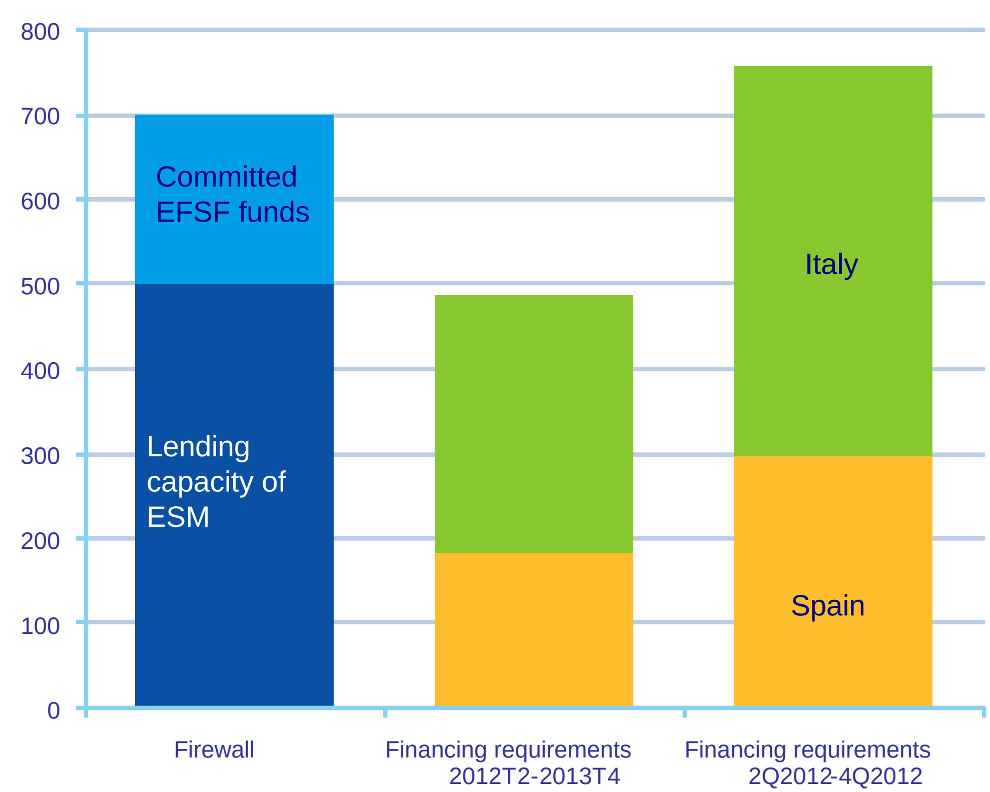
But...

This is not sufficient to credibly cover the financing needs of Spain and Italy

The increase in IMF resources (EUR 330 billion) would not necessarily be allocated to Europe

ESM/EFSF resources and gross financing needs in Spain and Italy (deficit and long-term debt)

Source: BBVA Research and Bloomberg



2 The fiscal compact has been approved, but a road map is still needed

The fiscal compact obliges governments to establish **constitutional rules** limiting structural **deficits to a maximum of 0.5% of GDP**.

It includes reverse majority voting rules to avoid sanctions amounting to 0.1% of GDP for non-compliance.

In all, **there is no progress with respect to a fiscal union**.

Fiscal compact

- Relatively lax: temporary deviations are permitted from the structural deficit rule for "extraordinary circumstances"
- Risk that it will not be effective in keeping deficits under control on the long term
- It appears not ambitious enough to justify more decisive action on the ECB's part with support from Germany

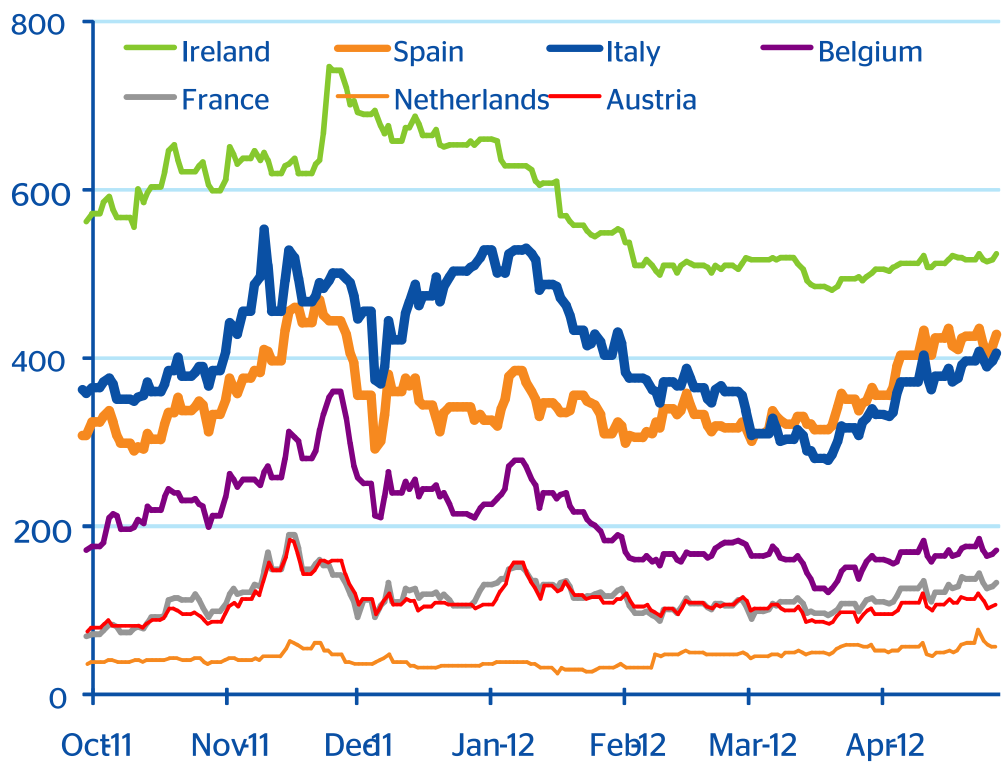
Still pending: a road map toward fiscal union.

- Eurobonds: convenient as an insurance mechanism
- The proposal for "blue" and "red" bonds has the advantage of maintaining a certain market discipline
- Not necessarily a union with fiscal transfers

3 The ECB's long-term liquidity temporarily calmed the markets...

Sovereign spreads vs. Germany (10-year bond, bps)

Source: Bloomberg and BBVA Research



In the first quarter, the European banks' liquidity risk diminished...

... and the financial markets reopened with a some caution, thus helping reduce sovereign risk premiums,

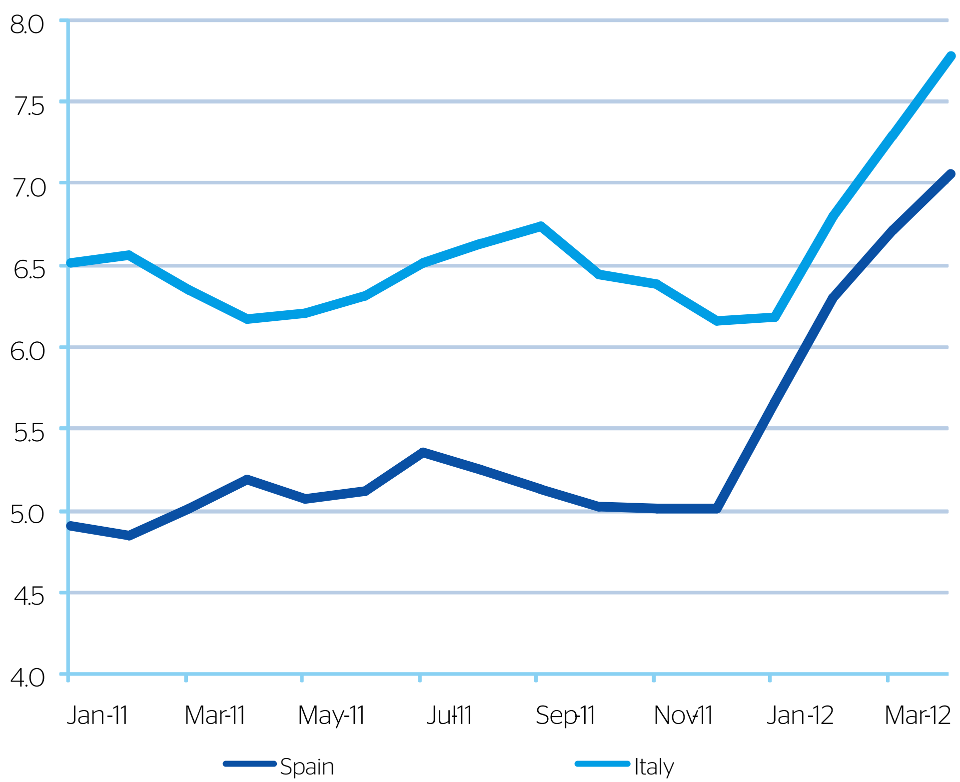
But these effects have been temporary. Recent doubts over Spain have increased tensions.

In any case, the ECB may only serve as a bridge toward the long term, which depends on structural reforms and an agenda for growth.

3 ... but it also increased the exposure of banks to sovereign debt

Bond holdings in the euro zone as percentage of total assets in the banking system (%)

Source: ECB and BBVA Research



Indirect intervention by the ECB in the sovereign bond market through banks

Increase of the banks' exposure to sovereign debt in turn increases the potential for negative feedback between the two

It increases the need for a definitive solution to the question of sovereign creditworthiness and a mechanism for liquidity provision

The European crisis still represents the greatest risk for the global economy

Crisis	It is a matter for concern that tensions quickly returned after: (a) the injection of long-term liquidity by the ECB; (b) the structural reforms in Spain and Italy; and (c) the Decisions on the ESM and the fiscal compact.
Why?	Risk of negative feedback between austerity and recession Risk of sovereign restructuring and the ESM's senior status
Solution: eliminate "tail" scenarios	Roadmap to fiscal integration
	Fiscal consolidation must be gradual and with an explicit plans over a multi-year horizon. It must be focused on structural deficits.
	The effort must not be directed entirely to austerity measures, but also structural reforms allowing for a growth strategy
	Relaunch European infrastructure investment

Global environment: gradual recovery with downturn risks in Europe

1. **Global growth will recover steadily in 2012** from the slump in the fourth quarter of 2011. It will remain between 3.5% and 4% in 2012 and 2013.

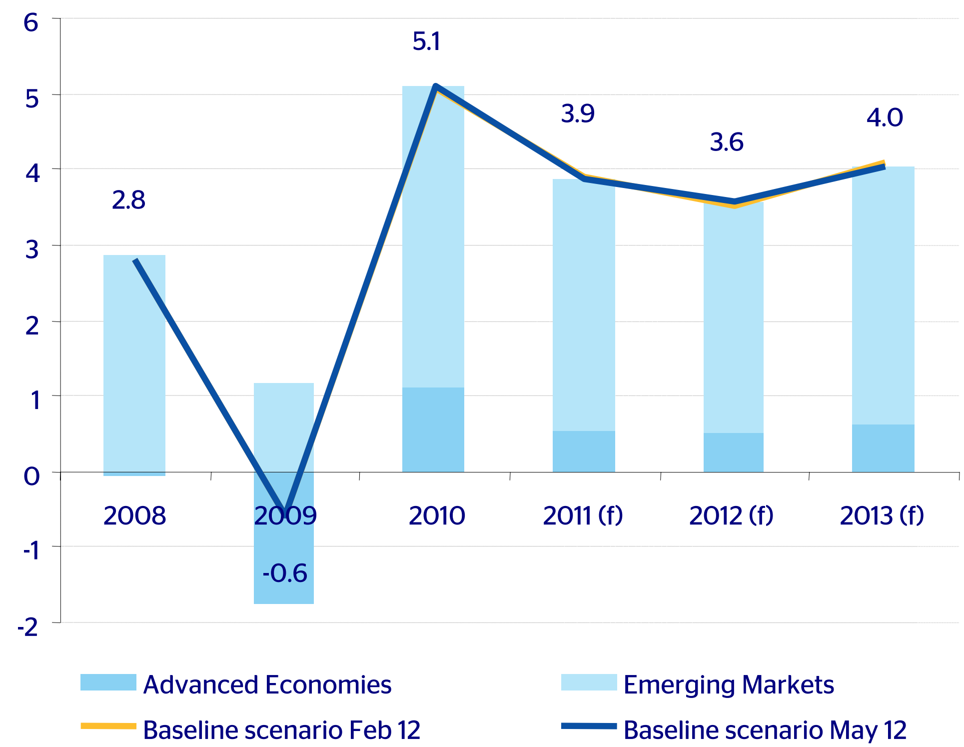
2. **The risks to global growth have a strong downward bias** due to the continued crisis in Europe.

3. **Some progress has been made to resolve the crisis, but important steps still have to be taken:** a more powerful sovereign firewall, a roadmap for fiscal union, and an agenda for growth.

4. **Emerging markets continue on the way to a soft landing,** and will contribute 80% of global growth in 2012 and 2013.

Global Growth (%)

Source: BBVA Research



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The figures point to continued growth at the start of 2012

Most indicators of expectations, economic activity, employment, and spending are consistent with a scenario of **growth** that in the early months of 2012 **would improve on the GDP results for 4Q11**

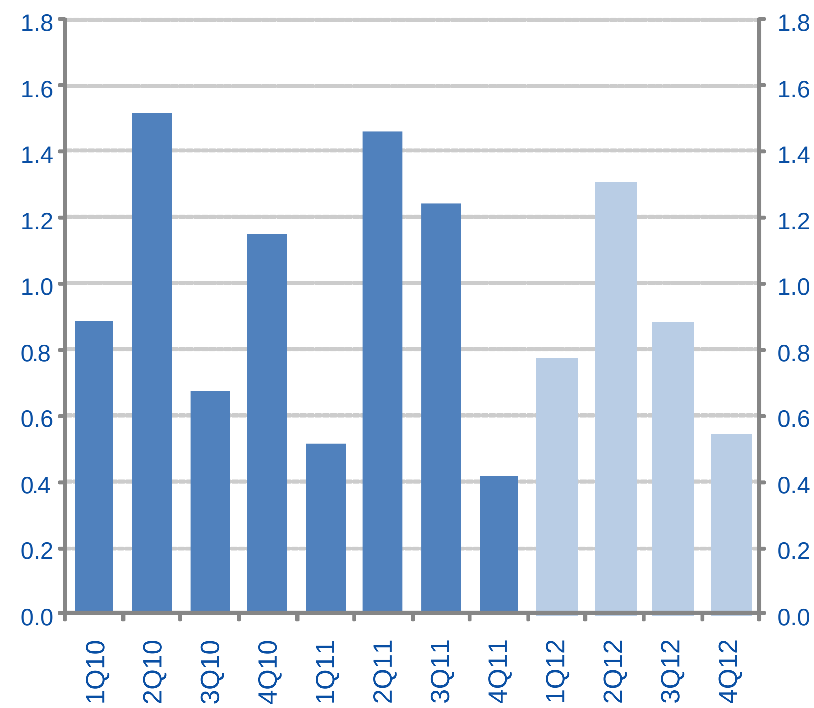
Mexico: evaluation of economic indicators

Source: BBVA Research, INEGI, AMIA, IMSS

Indicator	Evaluation 4Q 2011	Evaluation 1Q 2012	Jan 12	Feb 12	Mar 12	Apr 12
Consumer Confidence	In line	In line	Above	Below	In line	In line
Retail Sales	Below	In line	In line	In line	N/A	N/A
Automotive Output	In line	In line	In line	Above	In line	N/A
CPI	In line	In line	In line	Below	Below	N/A
Manufacturing Confidence	In line	Above	In line	Above	In line	In line
Industrial Output	Below	In line	Above	Below	N/A	N/A
Manufacturing Exports	In line	In line	Below	In line	N/A	N/A
Formal private-sector employment	In line	In line	In line	In line	In line	Below
Unemployment Rate	Below	In line	In line	In line	In line	N/A

Mexico: GDP, % q/q

Source: BBVA Research



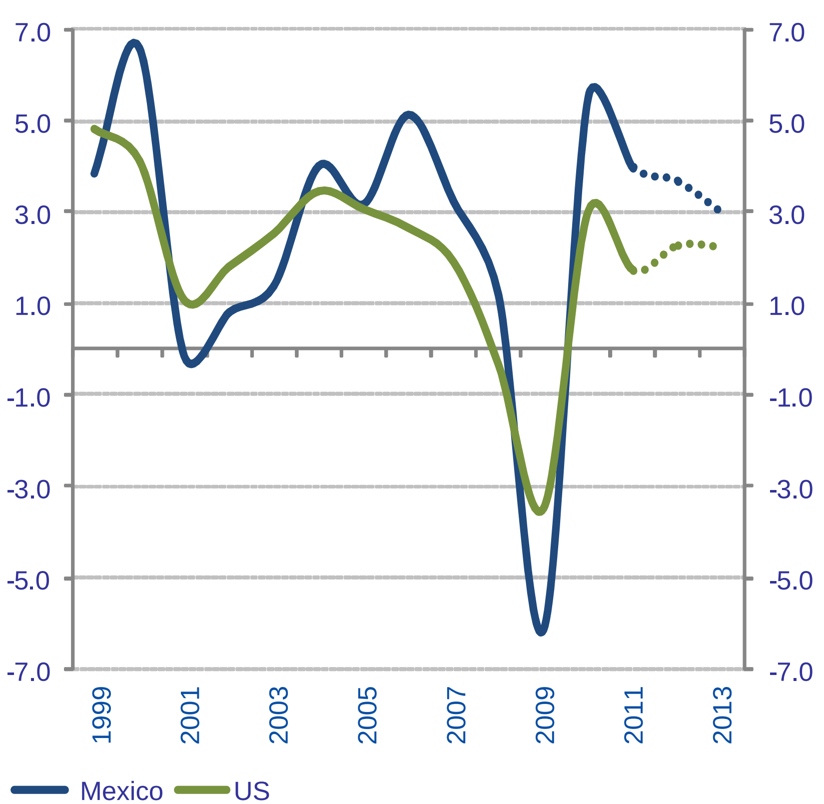
Mexico will grow over 3.5% in 2012 thanks to its competitiveness and stability

Mexico's current GDP growth exceeds the levels seen before the 2009 recession, despite the US recovery not being especially intense. This is due to: a) gains in **competitiveness**; b) a **domestic scenario of stability with stable inflation** and **favorable financing conditions** that boost domestic demand.

Mexico and the US, economic growth

GDP year-on-year change

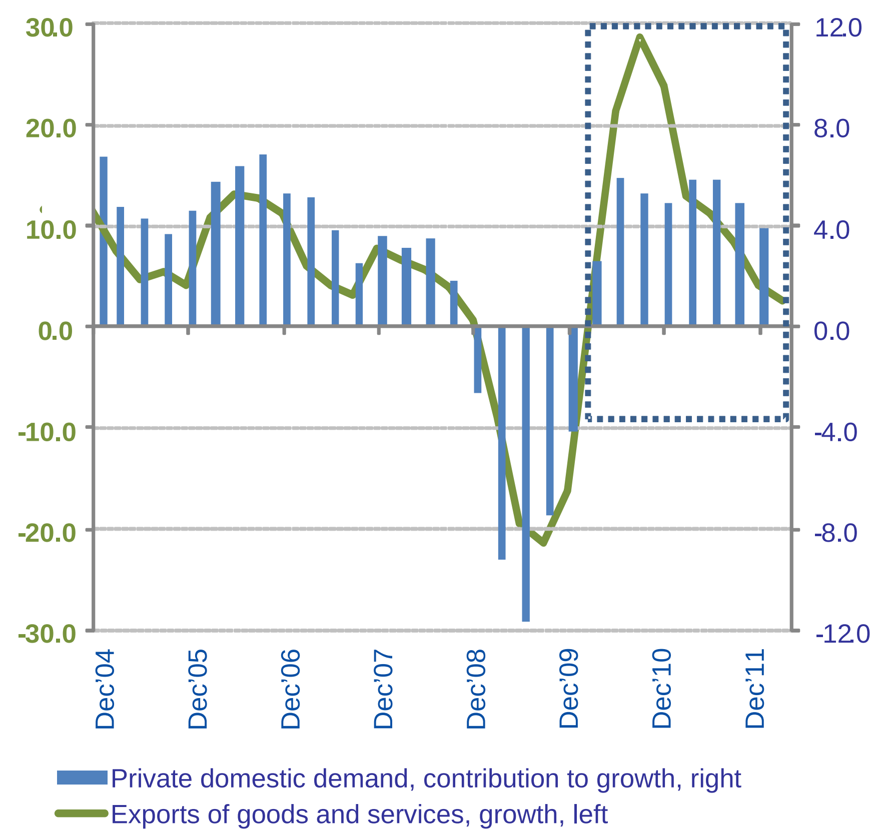
Source: BBVA Research



Mexico, exports and domestic demand

Annual growth and contribution to growth

Source: BBVA Research

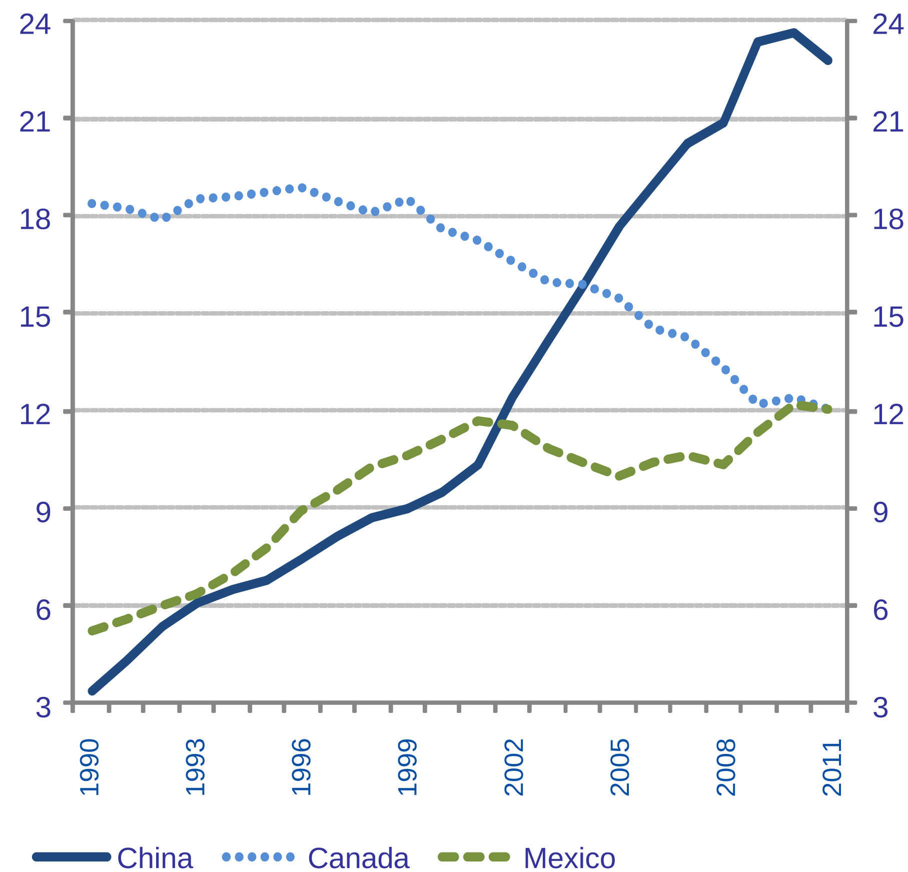


The increased market share in the US is a result of improvements in sector competitiveness...

The improved competitiveness of Mexican exports is not only the result of a devaluation of the real effective peso exchange rate, given that it is more pronounced in sectors that are integrated in an international value chain and with greater FDI increases.

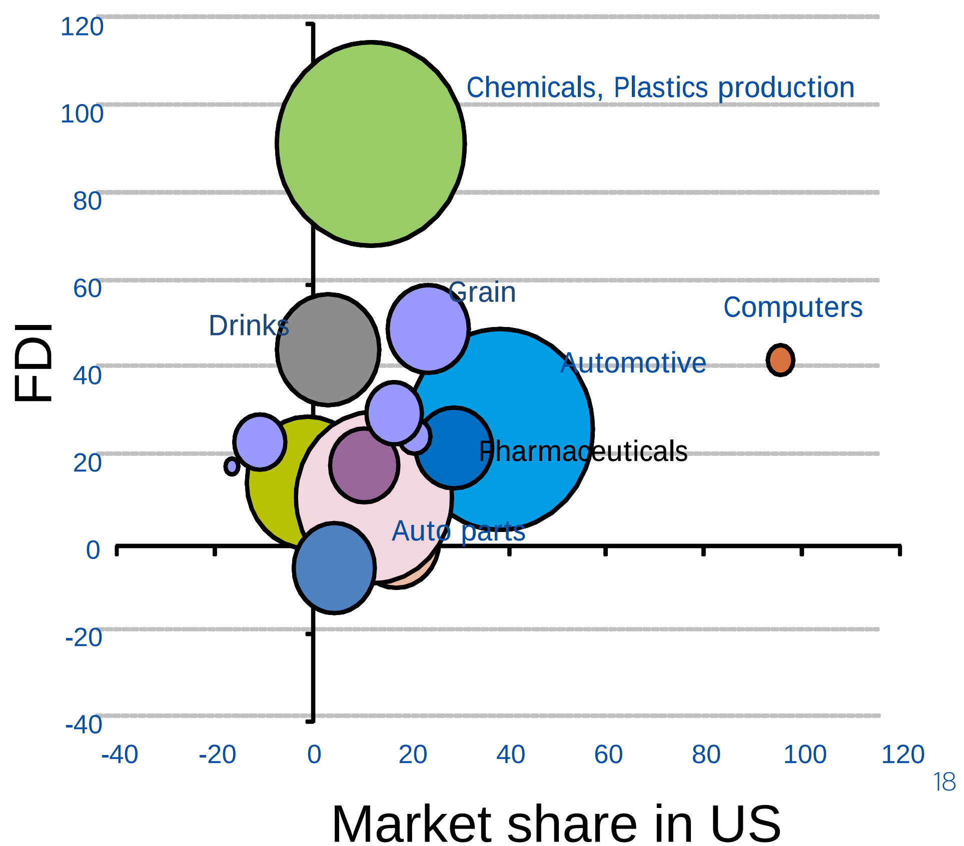
Market Share in the US
Share of US manufactured imports (%)

Source: BBVA Research with data from the US Department of Labor



Mexico, market share in US by sector and FDI
Average percentage change in 2008-2011. The size of the circle represents the relative weight in Mexican manufacturing output

Source: BBVA Research with data from the US Department of Labor and INEGI



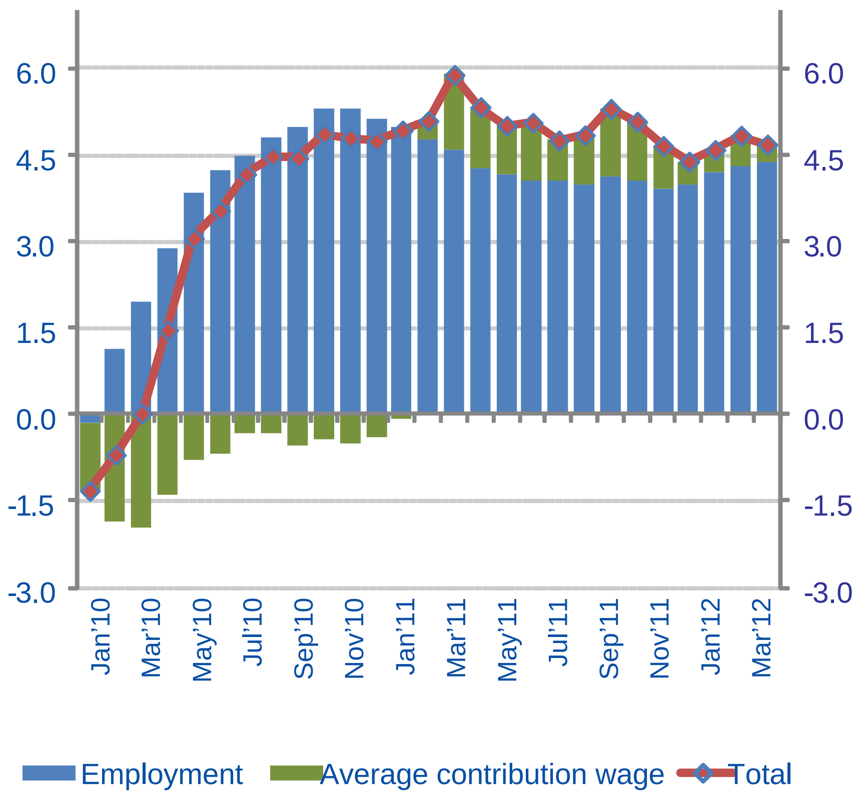
The strength of domestic demand is based on disposable income and finance

Household **disposable income**, especially those that receive wages in the formal sector, together with **financial credit terms** supporting growth, explain the strength of domestic demand

Mexico, total wage bill in the formal private sector

Growth and contributions, % and pp

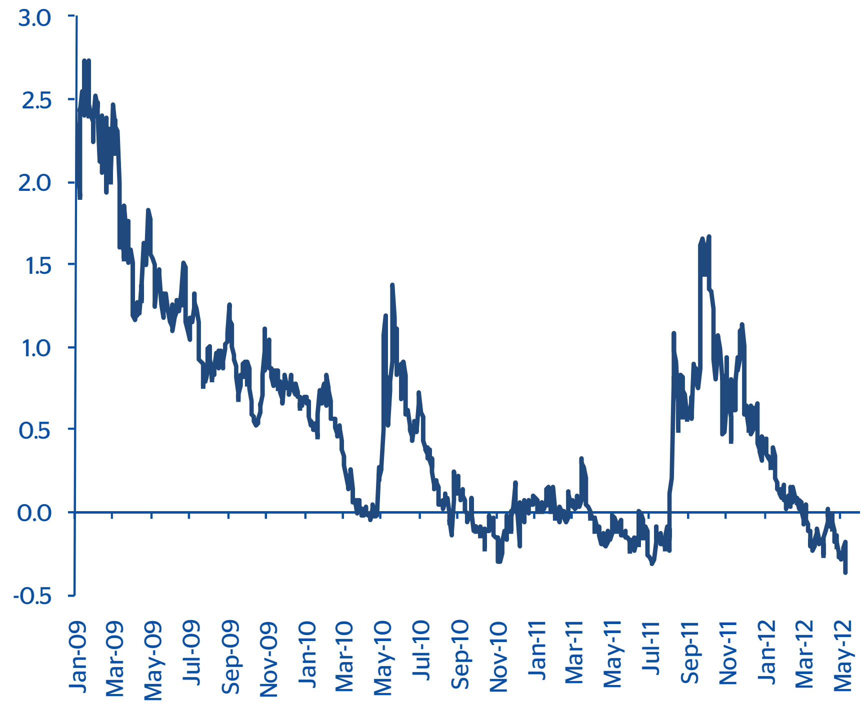
Source: BBVA Research with INEGI data



Mexico, financial stress indicator

Points

Source: BBVA Research



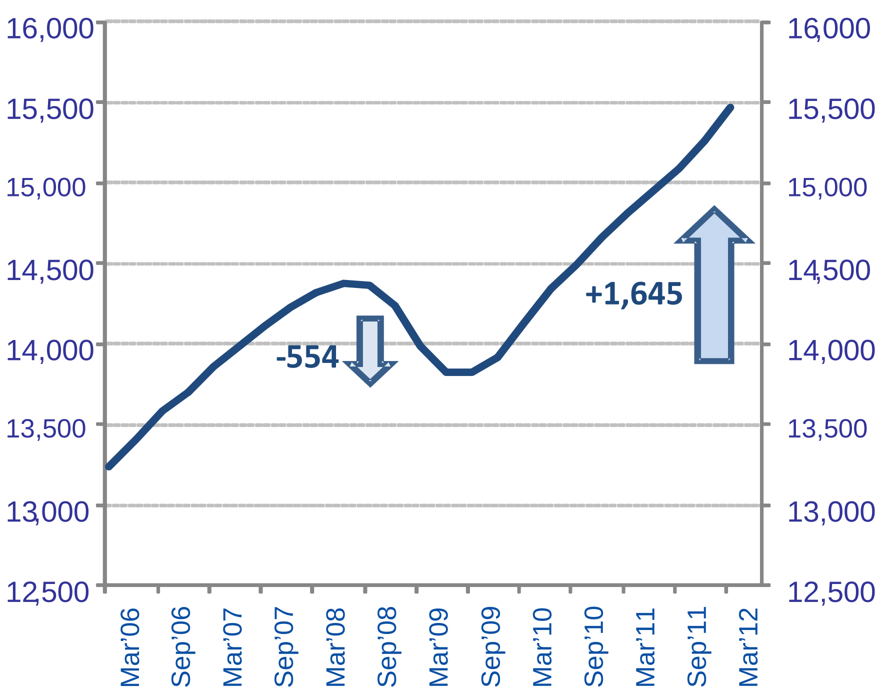
The strength of domestic demand is based on disposable income and finance

The **growth of employment**, especially in the private formal sector, and the **capacity of the banking system to meet credit demand from solvent borrowers** lie behind the sustained growth of household and corporate spending.

Mexico, employment

Formal private-sector employment, thousands

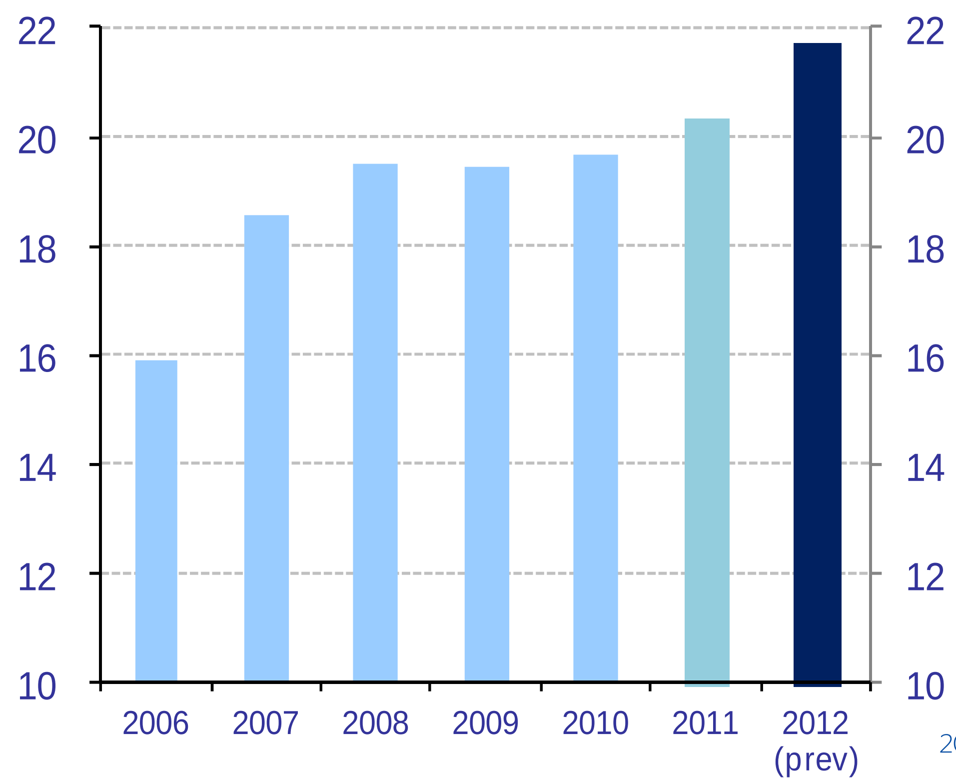
Source: BBVA Research with INEGI data



Mexico, bank credit to the private sector

% GDP

Source: BBVA Research with Banxico and INEGI data

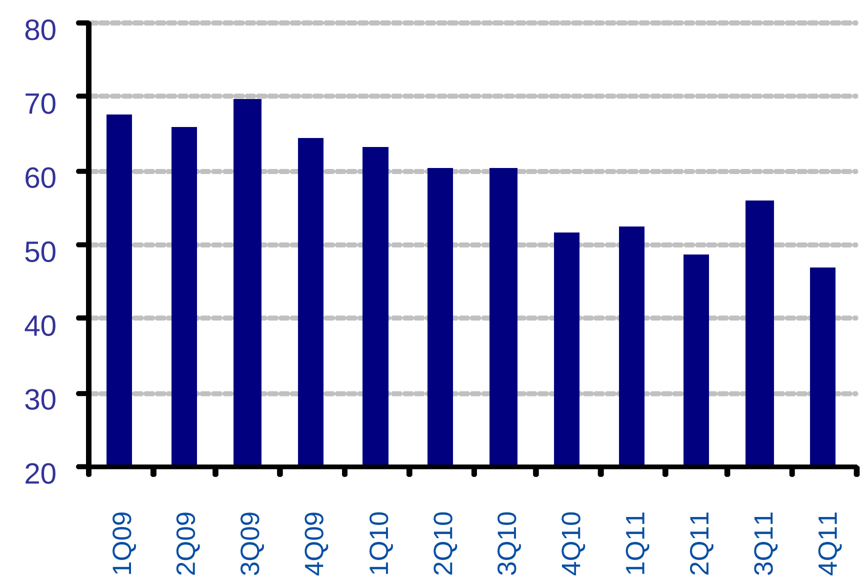


...with a contribution from an improvement in the supply of bank credit

Available indicators show **increasingly favorable bank credit supply conditions**, while the **real cost of bank credit remains at historically low levels**

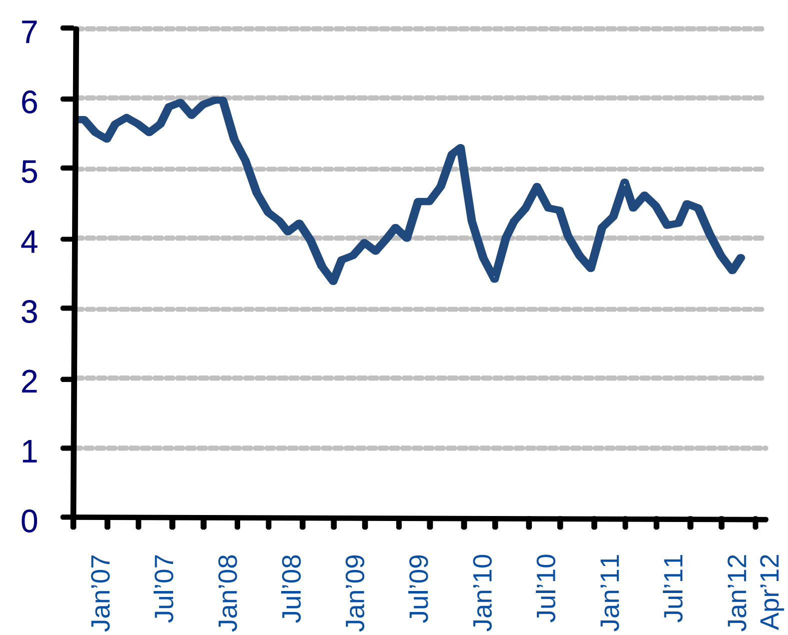
Access conditions and the cost of bank credit are a limiting factor for the operation of your business (% of responses)

Source: Banxico Credit Market Quarterly Survey



Difference between the implicit interest rate of corporate bank credit and inflation, last 12 months

Source: BBVA Research



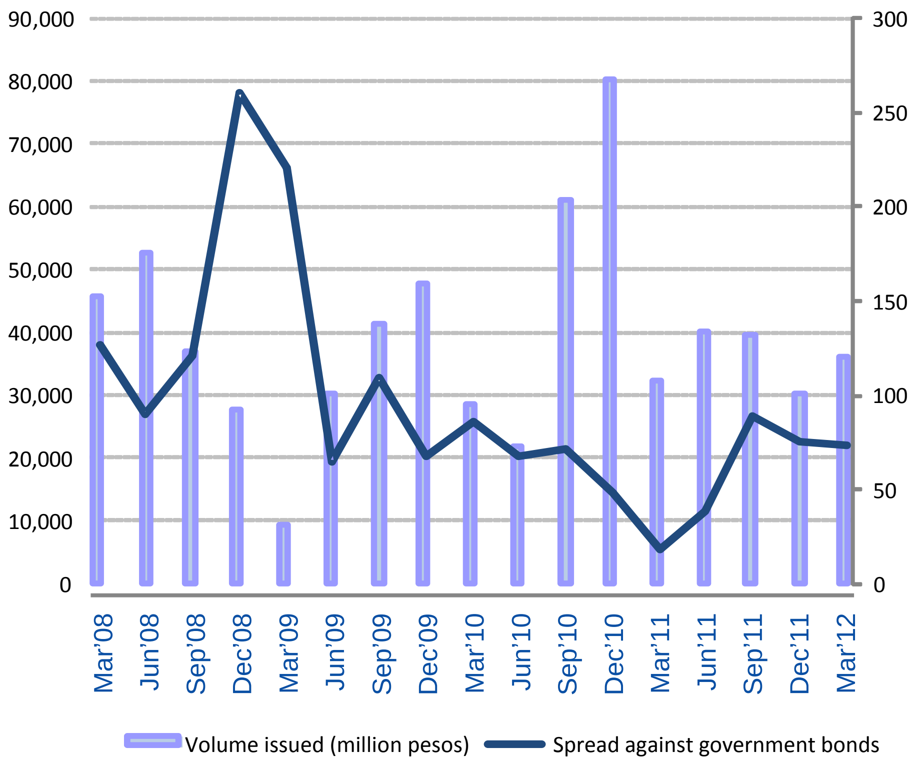
Stable financing conditions

The **price and volume of corporate debt issuance** in the primary market has remained stable over recent months.

In the **dollar debt market**, the yield of Mexican bonds is near a low for the last four years, while the volume of issuance is moderate.

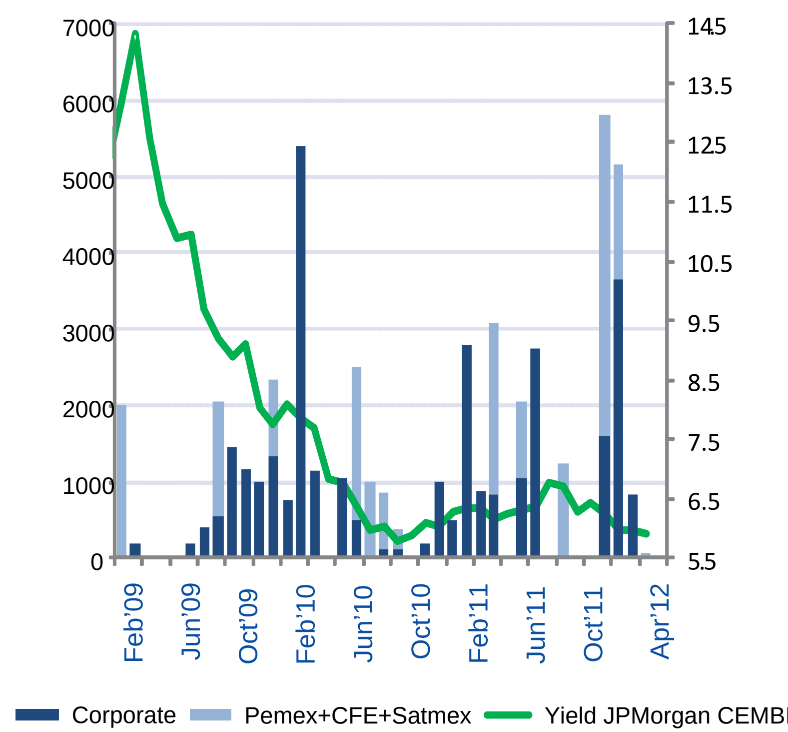
Volume and spread in corporate debt issuance in pesos (millions and bps, primary market)

Source: Semana Deuda Corporativa. Banamex



Volume and yield of corporate debt issuance in dollars (millions and %)

Source: BBVA Research and Bloomberg



Mexico's macroeconomic soundness is a differentiating factor in the global environment

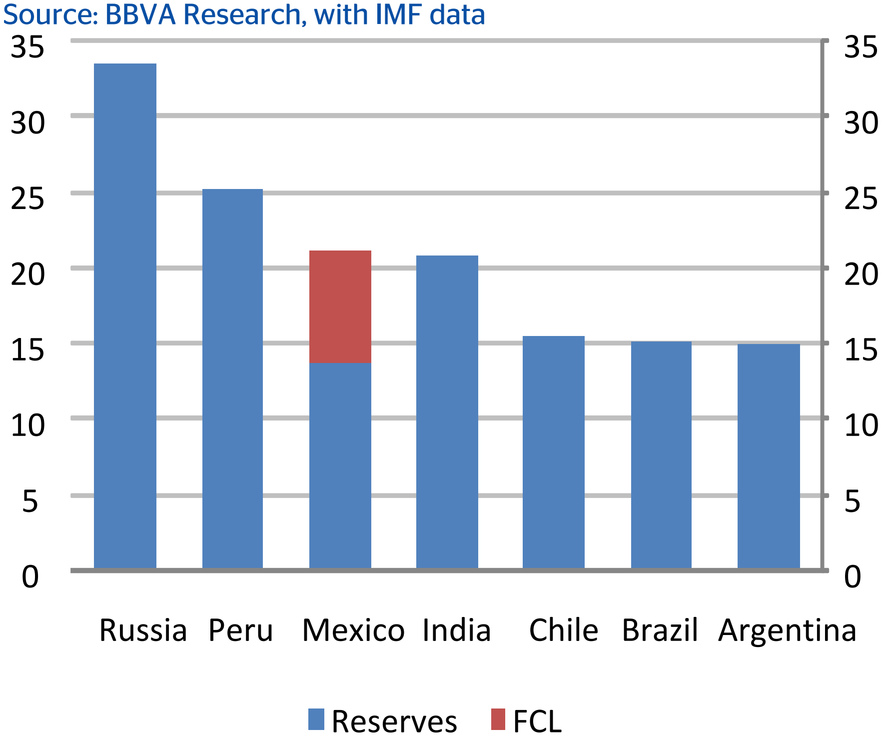
Without external imbalances and with a **viable fiscal policy**, Mexico has the support of the IMF.

Credit risk is low (due to public debt and international reserve levels) With an increase in global risk, **stabilizing the debt and controlling the deficit are key objectives**.

Availability of reserves

(% GDP)

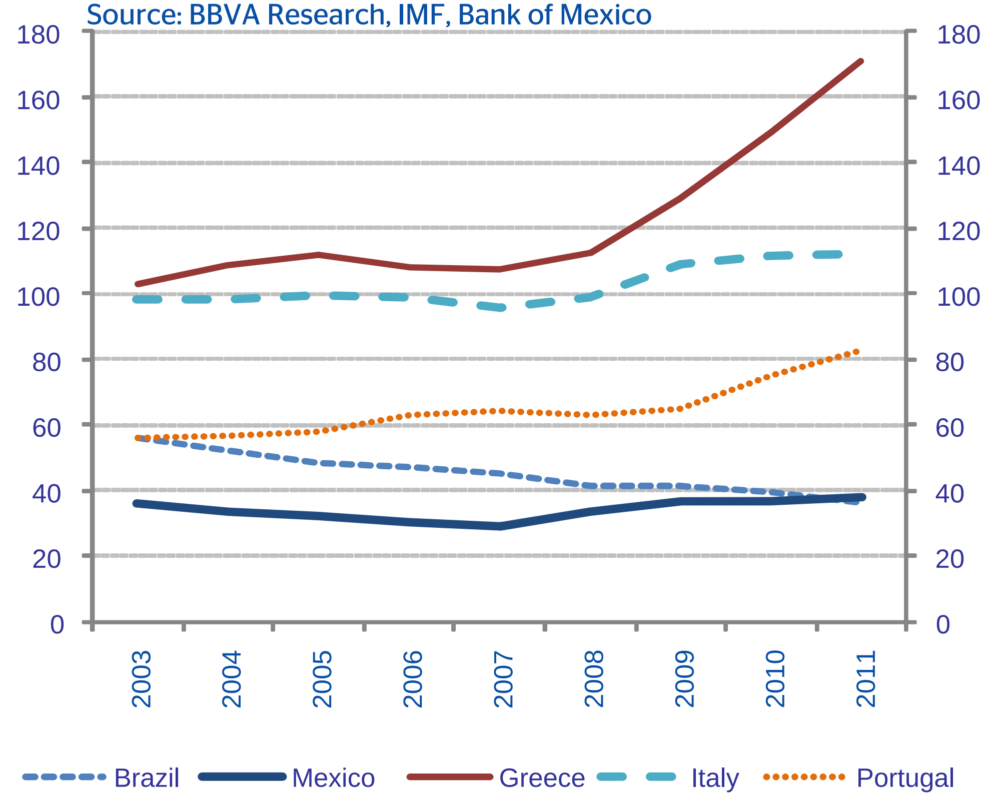
Source: BBVA Research, with IMF data



Public debt

(% GDP)

Source: BBVA Research, IMF, Bank of Mexico



Inflation: improved outlook as volatile factors ease and without demand pressures

The **more volatile prices drop surprisingly** and reduce the inflation outlook for 2012:

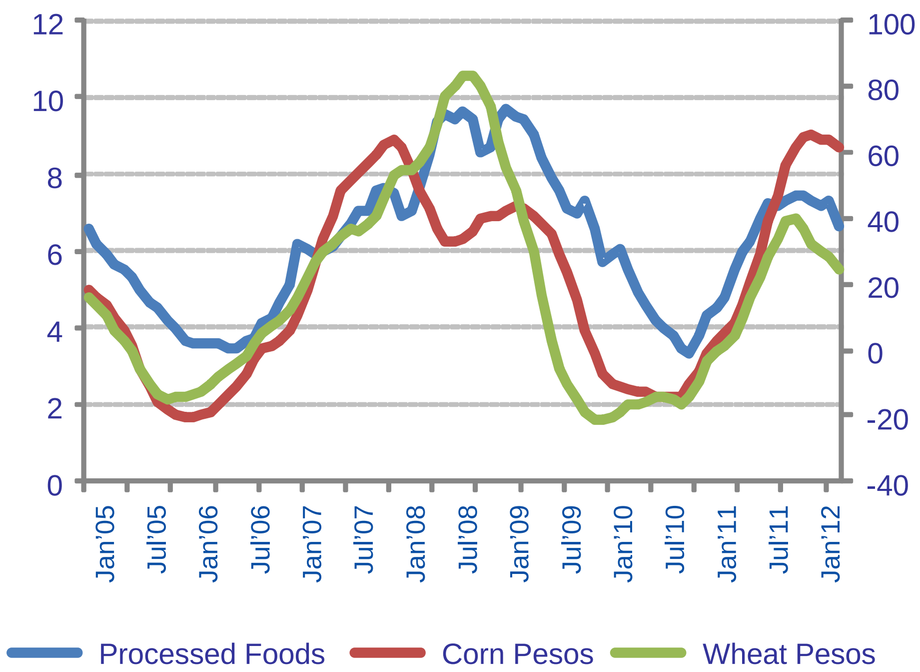
- The fall of corn and wheat prices will moderate food inflation, although the effect will not be as abrupt as the rises were, because of the negative effect of the drought on supply

The slack in the economy offsets the increase in imported goods prices

The current **rise in oil prices** is **only temporary**; this means that electricity tariffs will help slow down consumer prices

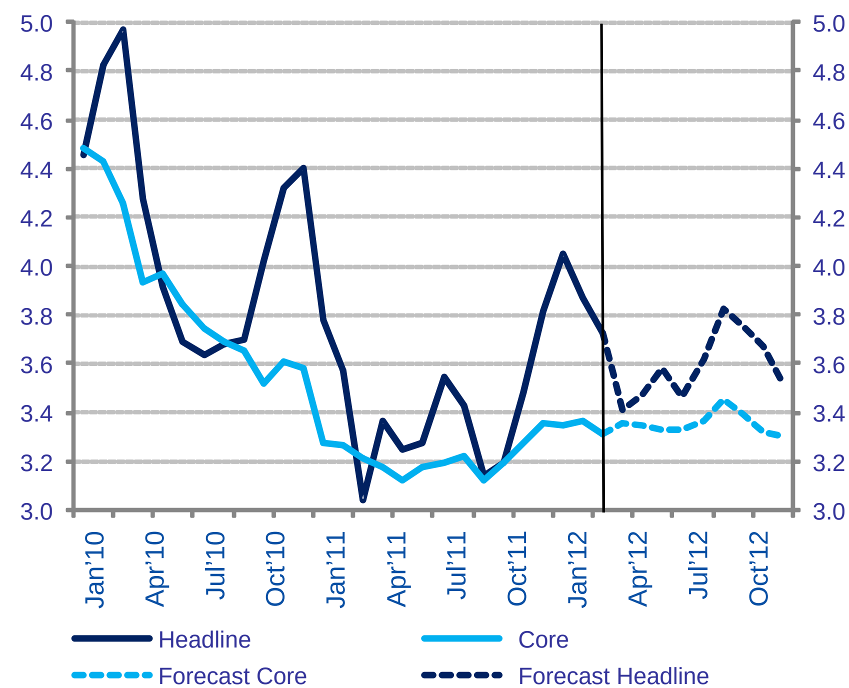
Processed food and corn prices on international markets in pesos (y/y % change)

Source: BBVA Research



Annual inflation, forecast (%)

Source: BBVA Research



Inflation: uncertainty in check, high probability of maintaining course toward target

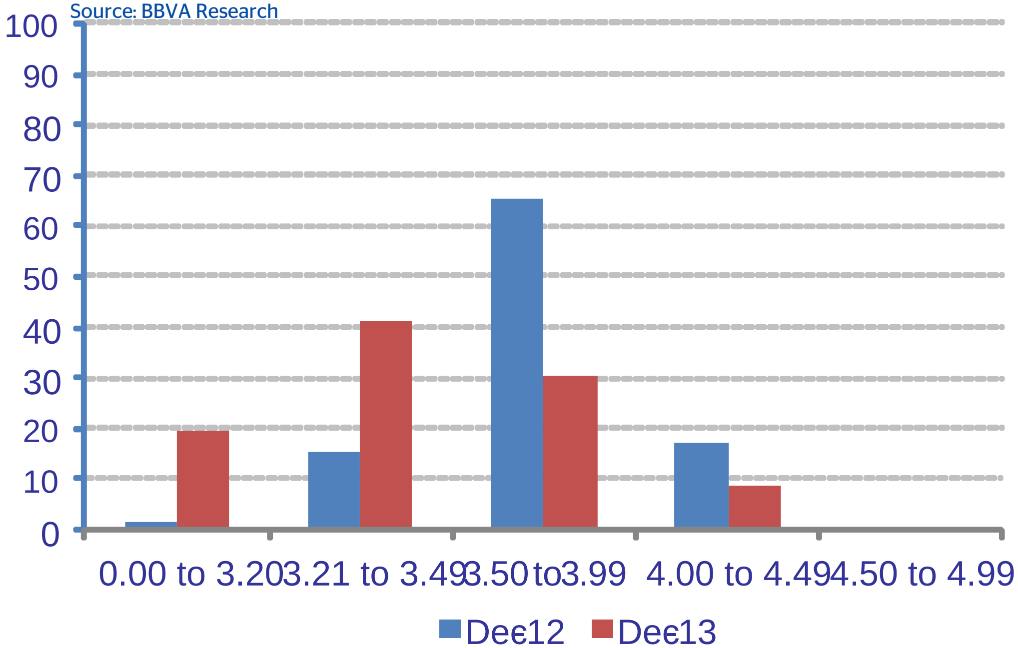
The probability of **inflation remaining within the Central Bank's target range at the end of 2012 is estimated at 80%,** with a 20% probability of it being above 4%.

The probability that inflation will reach **end 2012 and 2013 at around 3% (between 2.9% and 3.2%) is of 2% and 20%**, respectively. However, **it remains on course to convergence, with a probability of 40% that it will settle at a level of between 3.2% and 3.5% in December 2013.**

Inflation should fall moderately to levels of between 3% and 4% in 2013, according to the BBVA scenario

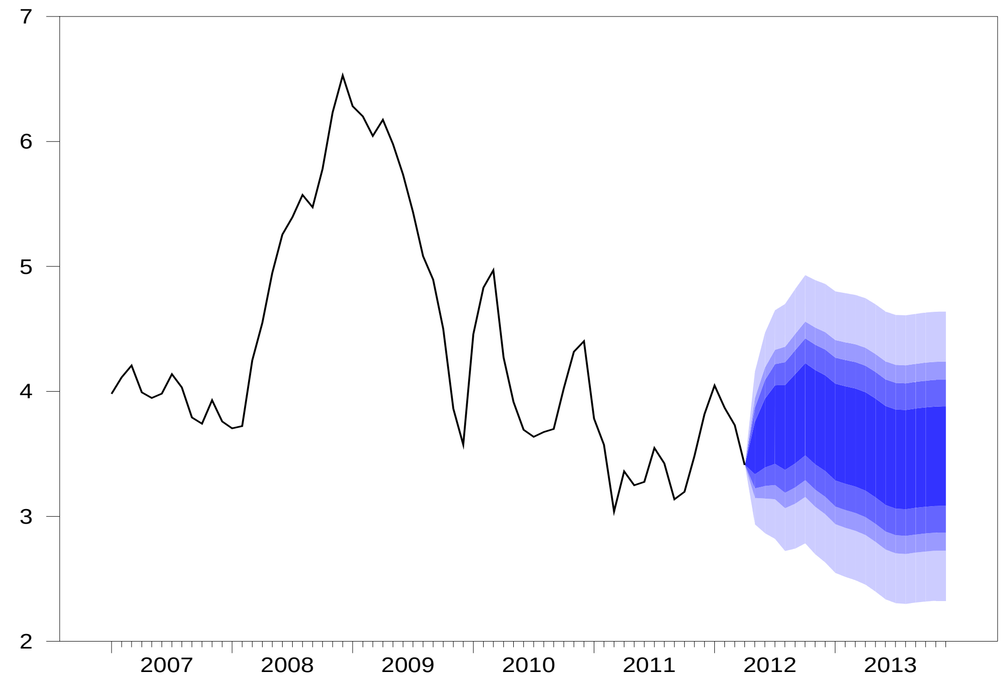
Probability of inflation ranges for December 2012 and 2013

Source: BBVA Research



Annual inflation, fan chart (%)

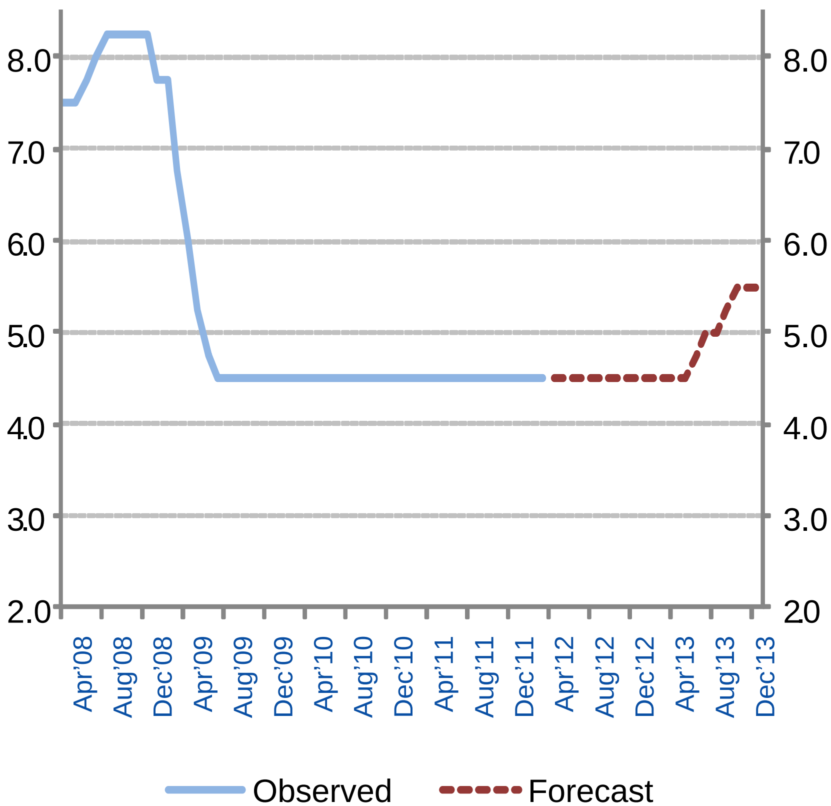
Source: BBVA Research



Banxico's monetary stance: wait and see

The minutes from the last monetary policy meeting on March 16 reflect **intense debate on the appropriateness of a lending rate cut**. In the statement made on **April 27** the lending rate was maintained unchanged at 4.5%, and a less accommodative **tone was adopted**.

Mexico, bank lending rate (%)
Source: BBVA Research with Banxico data



The debate on the need to reduce the rate will continue into the forthcoming meetings.

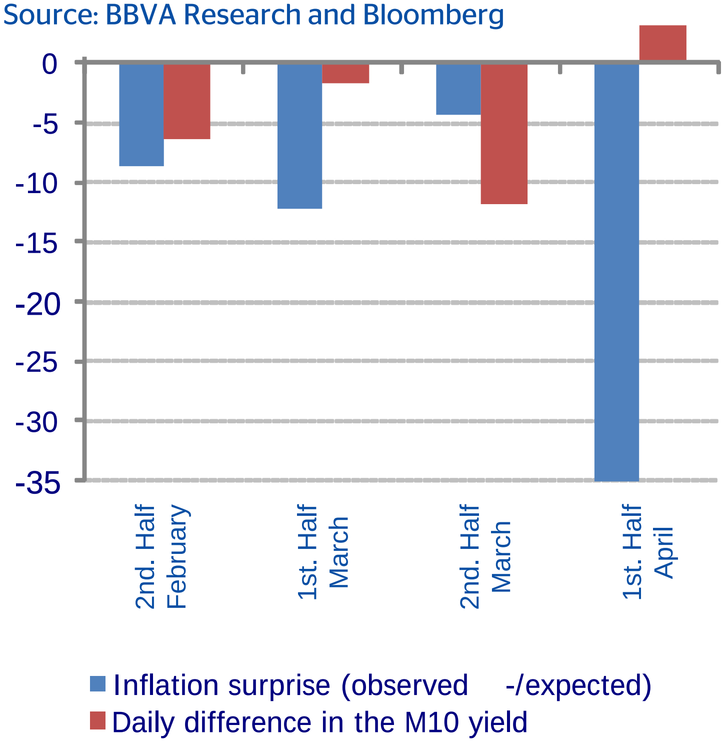
We thus maintain our forecast of a **monetary pause to remain in place through June 2013** We nevertheless consider that **if the rate does move before this, it is more likely to be a cut**, given that the **risks affecting economic activity and inflation show a downward bias**, more so in the case of economic activity than inflation.

Government yields: in keeping with inflation and monetary policy

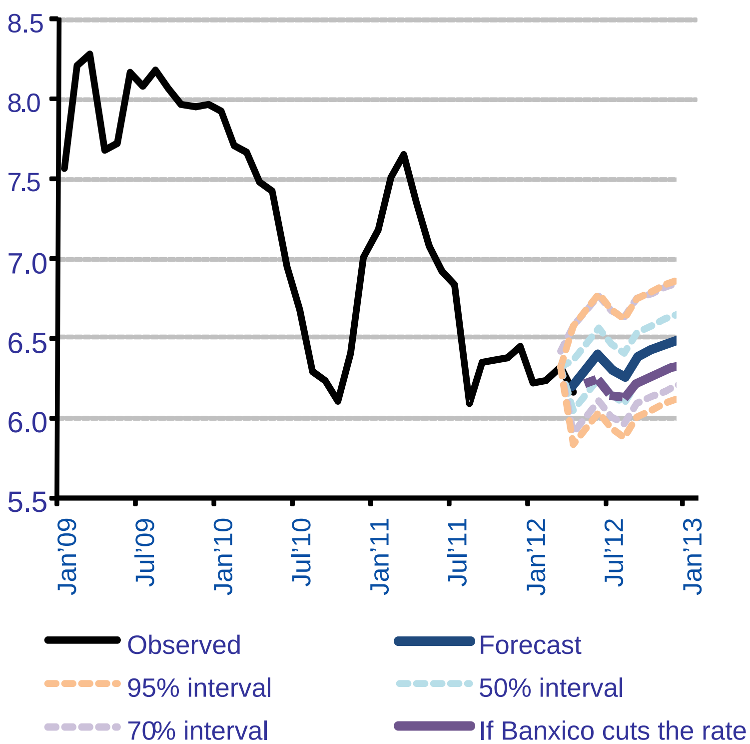
The **inflation surprises reduced government bond yields** in an environment marked by a statement from the Central Bank that generated **a feeling of relaxation.**

Given the outlook **of moderate inflation and growth**, and an unchanged monetary policy rate, yields on medium and long-term sovereign debt will increase **gradually**. The yield of the 10-year bond could remain around 6.5% at the end of 2012, or some 15 bps lower in the case of a cut in the lending rate.

An inflationary surprise and the difference in the daily yield of the 10-year bond after the announcement of inflation (bps)
Source: BBVA Research and Bloomberg



10-year bond yield (%)
Source: BBVA Research



The exchange rate will rise as global uncertainty is reduced.

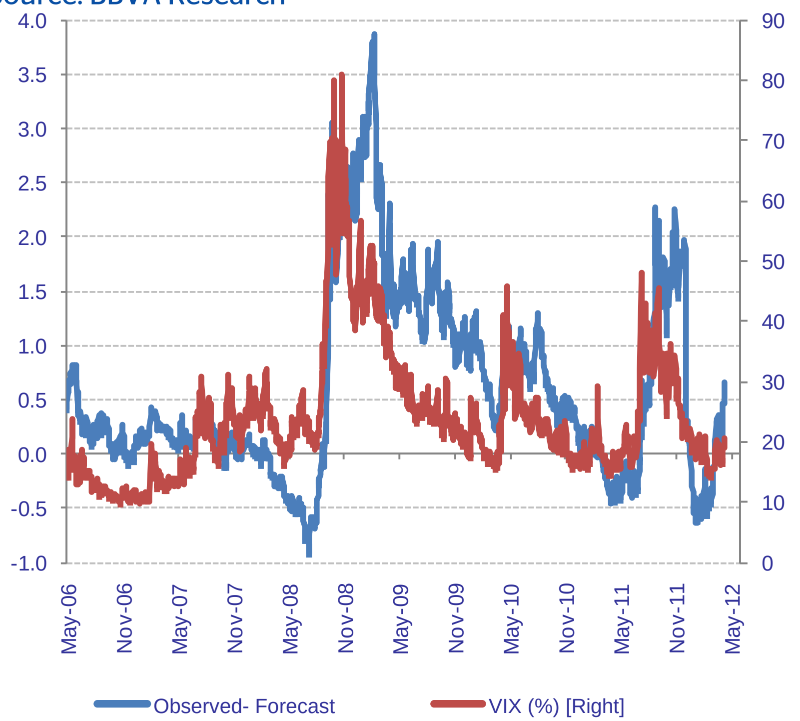
The exchange rate of the peso (the emerging currency with most liquidity after the Korean won) against the dollar is influenced by **changes in global risk aversion**. However, on the domestic front, fiscal and monetary policies aimed at stability help mitigate external shocks.

In a scenario of growth that is favorable for Mexico with respect to the US, and with inflation in the two countries running in parallel, **the peso would tend to appreciate up to what is considered its long-term level**.

Mexico, exchange rate and global volatility

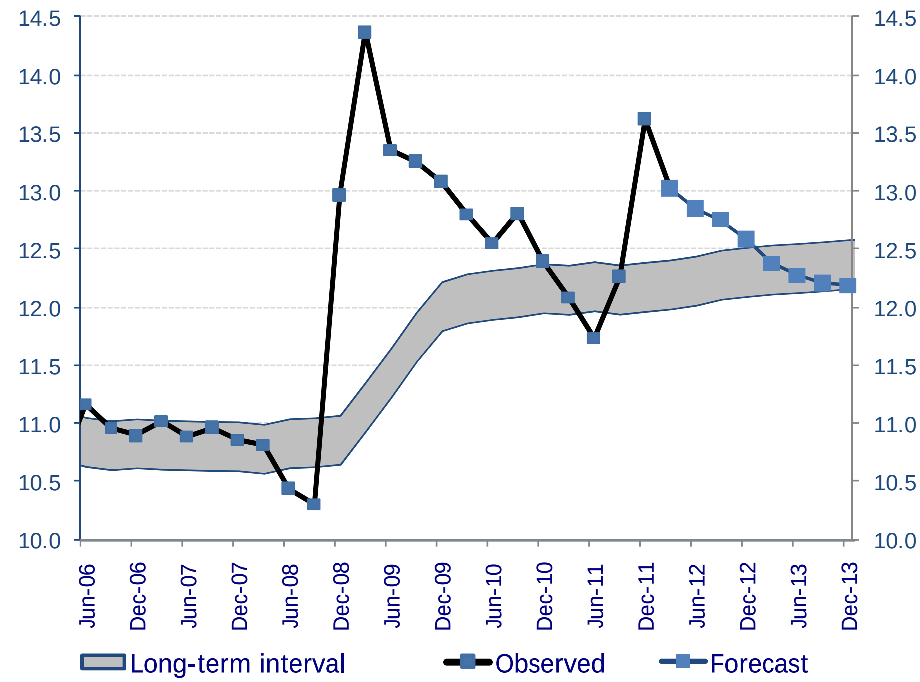
Difference between the recorded and estimated interest rate using fundamental indicators and a volatility index

Source: BBVA Research



Mexico, peso/dollar exchange rate

Source: BBVA Research



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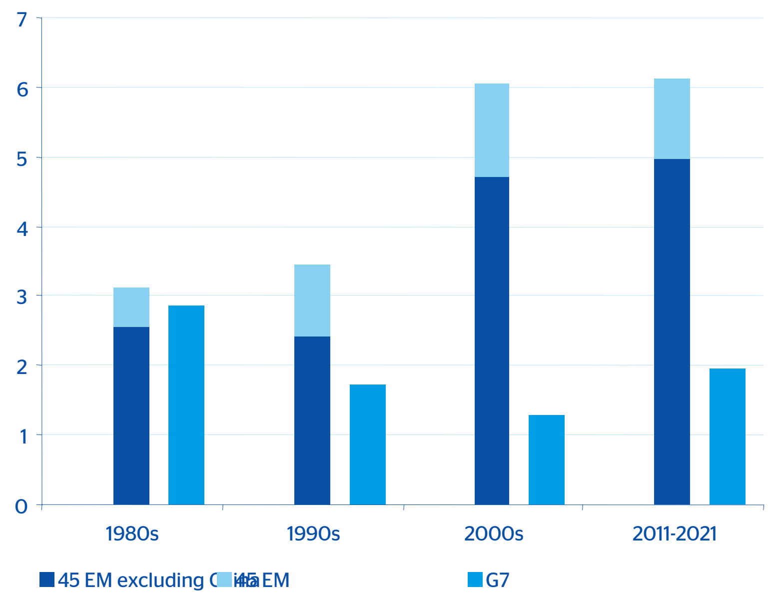
Strength of emerging markets

2012 is the year in which **emerging markets will reach the size of their developed counterparts**

Growth of the **G7 countries** will be **under 2% over the next 10 years**

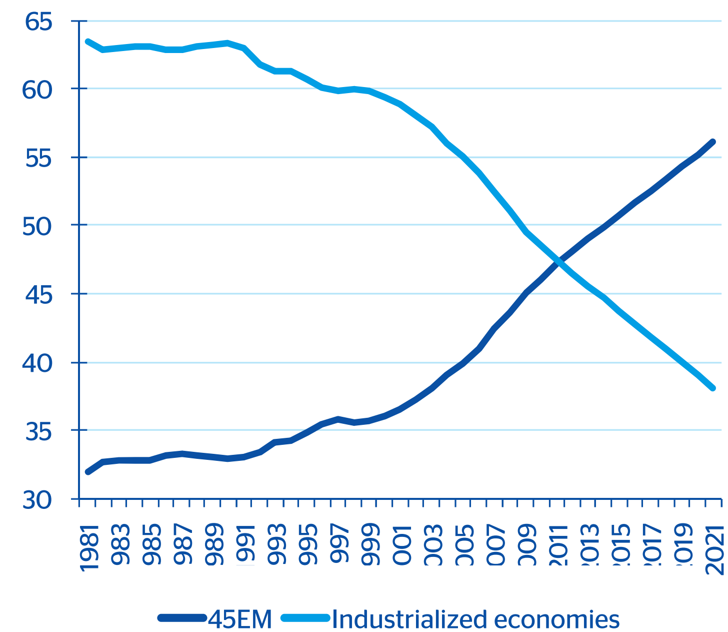
The **growth of emerging markets will exceed that of the G7 countries by four points**, or three points excluding China

GDP growth (adjusted for PPP)



Share of global GDP adjusted for PPP: 45 emerging markets vs. industrialized countries

Source: BBVA Research and IMF (WEO)

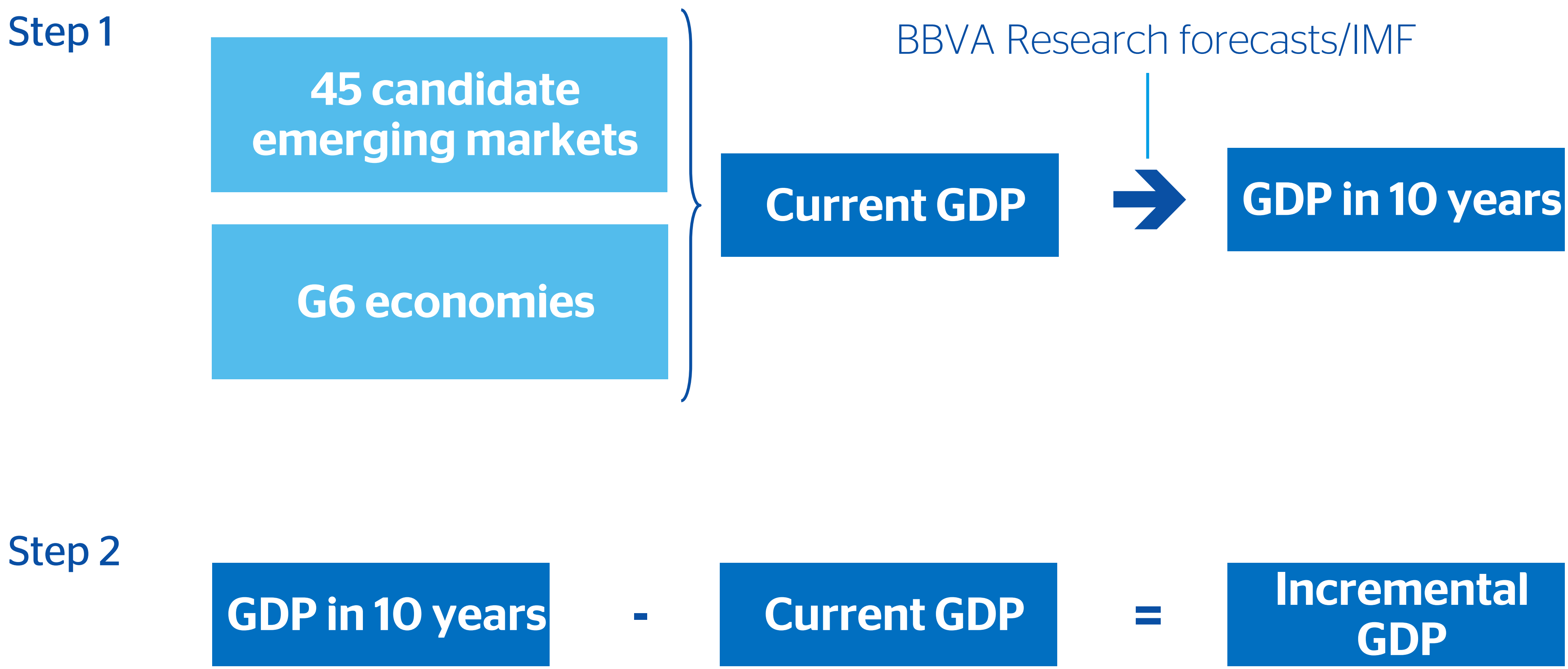


Note:

45 emerging markets: Argentina, Bahrain, Bangladesh, Brazil, Bulgaria, Chile, China, Colombia, the Czech Republic, Egypt, Estonia, Hungary, India, Indonesia, Iran, Jordan, Korea, Kuwait, Latvia, Lithuania, Malaysia, Mauritius, Mexico, Morocco, Nigeria, Oman, Pakistan, Peru, the Philippines, Poland, Qatar, Romania, Russia, Slovakia, South Africa, Sri Lanka, Sudan, Taiwan, Thailand, Turkey, Ukraine, UAE, Venezuela, and Vietnam.

Industrialized economies: Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Malta, the Netherlands, New Zealand, Norway, Portugal, Singapore, Slovenia, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

Methodology: a mixture of size and growth



Methodology: a mixture of size and growth

Step 3

Criteria for classification and selection according to incremental GDP

Higher incremental GDP

EAGLEs

G6 Average

NEST

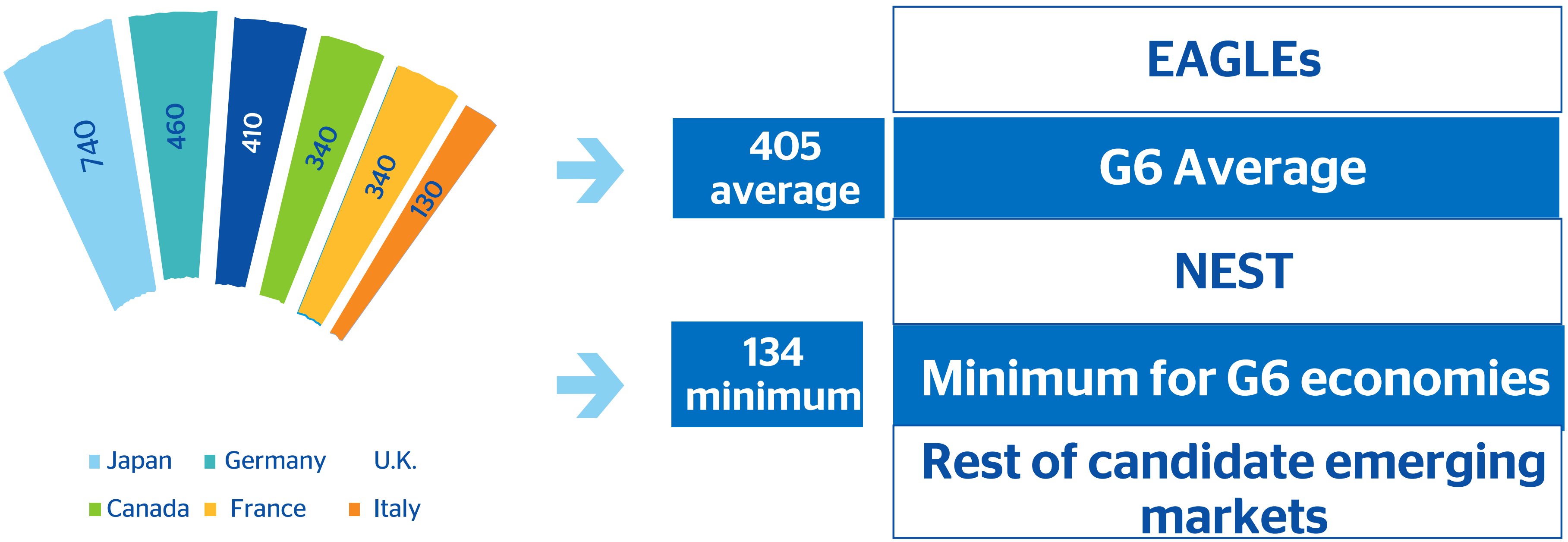
Minimum for G6 economies

Rest of candidate emerging markets

Lower incremental GDP

How to decide which countries are EAGLEs: The threshold

Incremental GDP in G6 economies (change between 2011 and 2021)

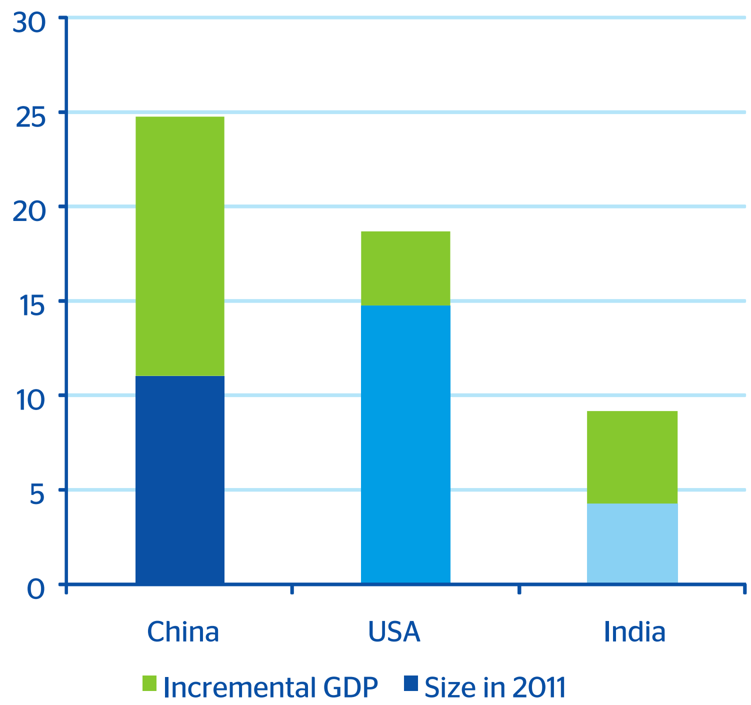


- EAGLEs: Any economy with an incremental GDP > USD 405 billion
- NEST: Economies with an incremental GDP greater than USD 134 billion but lower than USD 405 billion

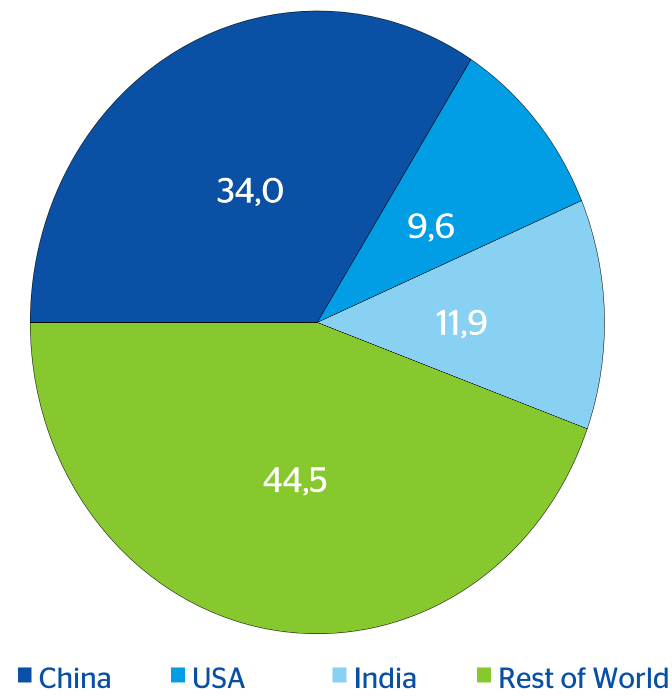
China and India are the largest EAGLEs

China is in its own league due to its size and growth prospects
India will contribute more to world growth than the US

Global leaders over the next 10 years: PPP-adjusted GDP
(USD billion)
Source: BBVA Research and IMF (WEO)



Global leaders over the next 10 years: Contribution to global growth
(%)
Source: BBVA Research and IMF (WEO)

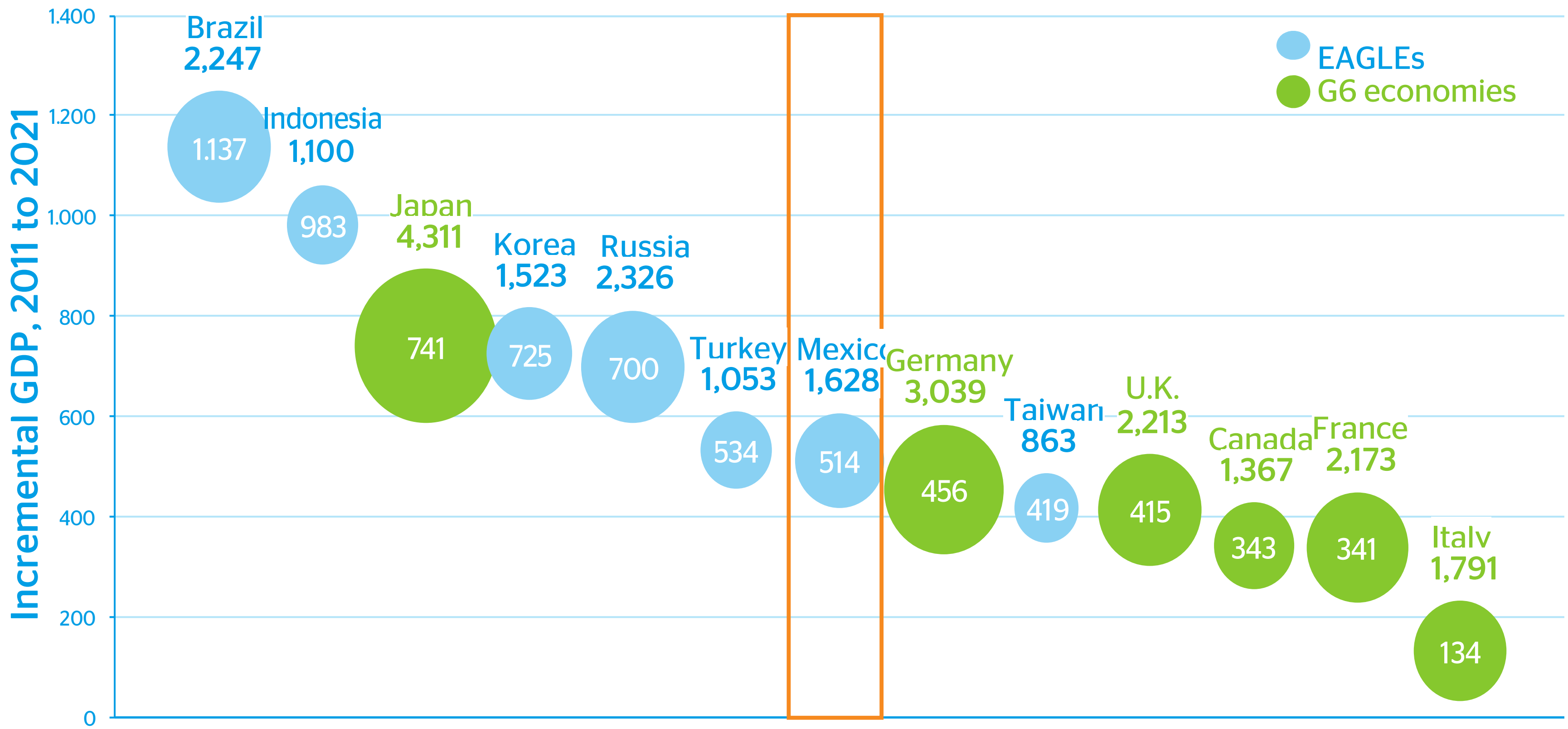


Other EAGLEs are also global players

BBVA EAGLEs: China, India, Brazil, Indonesia, Korea, Russia, Mexico, Turkey, and Taiwan. Predominance of Asian economies.

EAGLEs (excluding China and India) * vs. G6 economies:
Current size (2011) and contribution to global growth between 2011 and 2021**
(PPP-adjusted USD billion and percentage)

*The incremental GDP forecast for China is USD 13.718 billion and for India 4,820 billion, compared with a current size (2011) of 11,067 billion and 4,314 billion respectively.
**The size of the bubble indicates current GDP (2011), whose value is given with the country name; inside the bubble is the value of the incremental GDP
Source: BBVA Research and IMF (WEO)

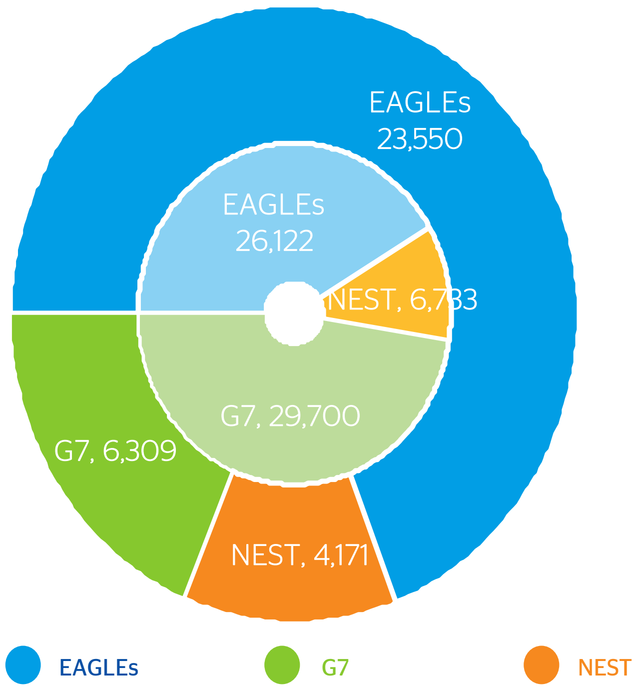


EAGLEs vs. G7: A new G?

The EAGLEs will account for about 60% of the increase in global GDP in absolute terms over the next 10 years, the NEST countries will contribute about 9% (G7: 16%)

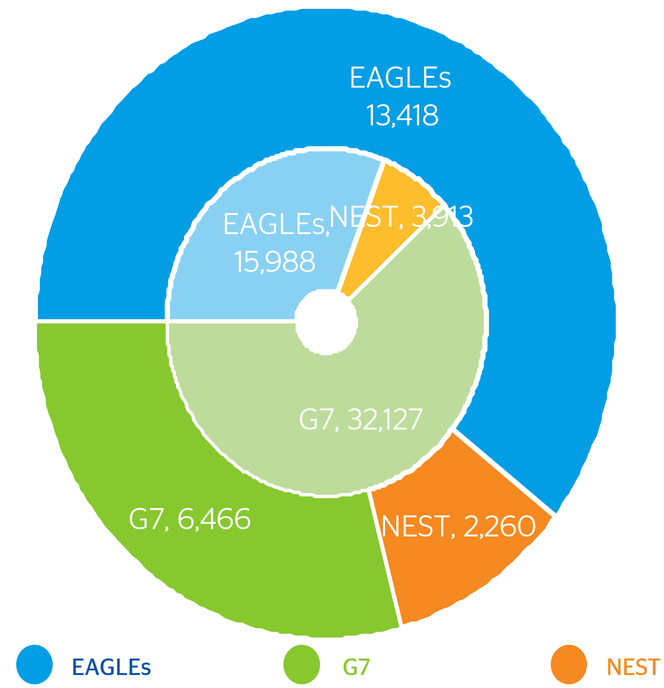
EAGLEs, NEST, and G7: current size and incremental GDP, 2011 to 2021 (PPP-adjusted USD billion)

Source: BBVA Research and IMF (WEO)



EAGLEs, NEST, and G7: current size and incremental GDP, 2011 to 2021 (USD billion)

Source: BBVA Research and IMF (WEO)



Trade flows: potential to improve Mexico's balance with China

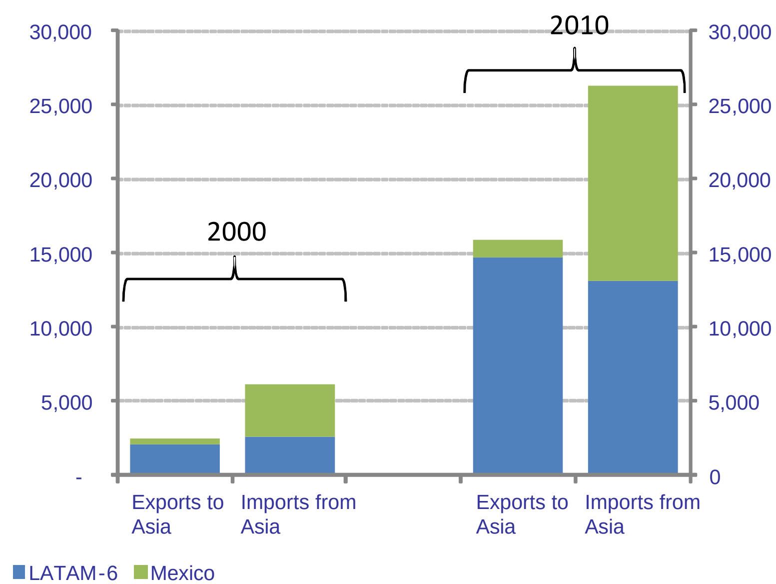
Trade flows between the two regions have multiplied in the last decade, although with a **deficit for Mexico**.

China's export structure and Mexico's import structure are increasingly similar.

The reverse is also true, with Mexico's exports and China's imports. **There is a potential for sales from Mexico to China to increase**

Trade flows with Asia (USD million)

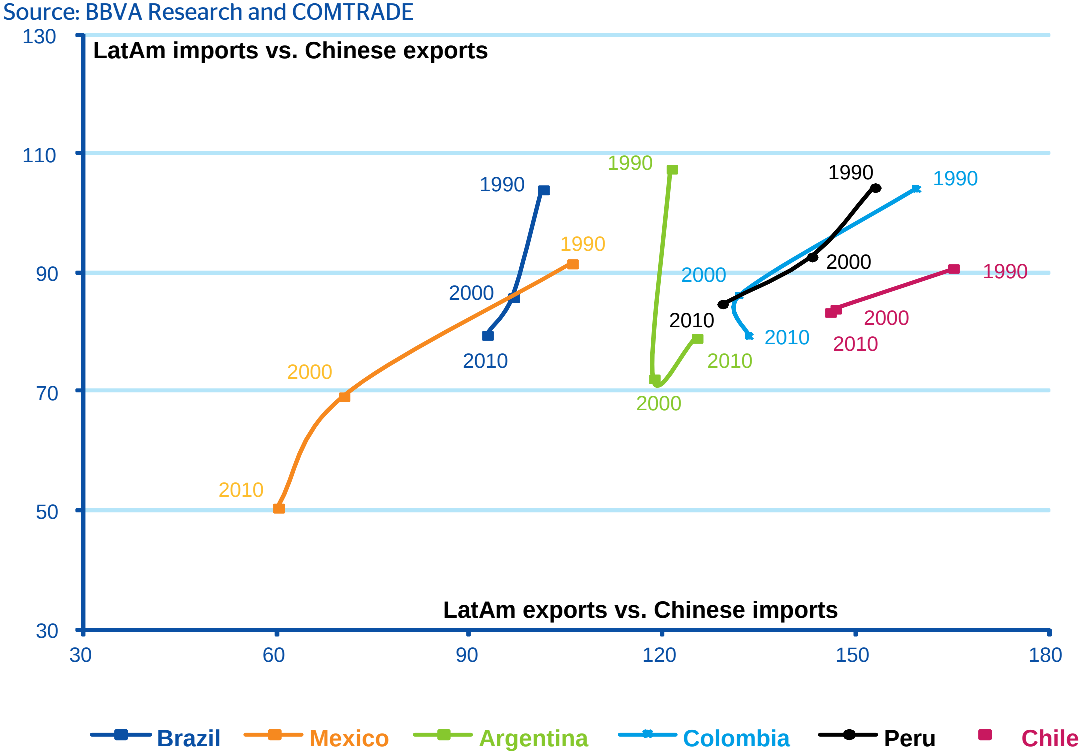
Source: BBVA Research and CEPAL



Index of similarity of export vs. import structures

(Index, 0 = identical; 200 = completely different)

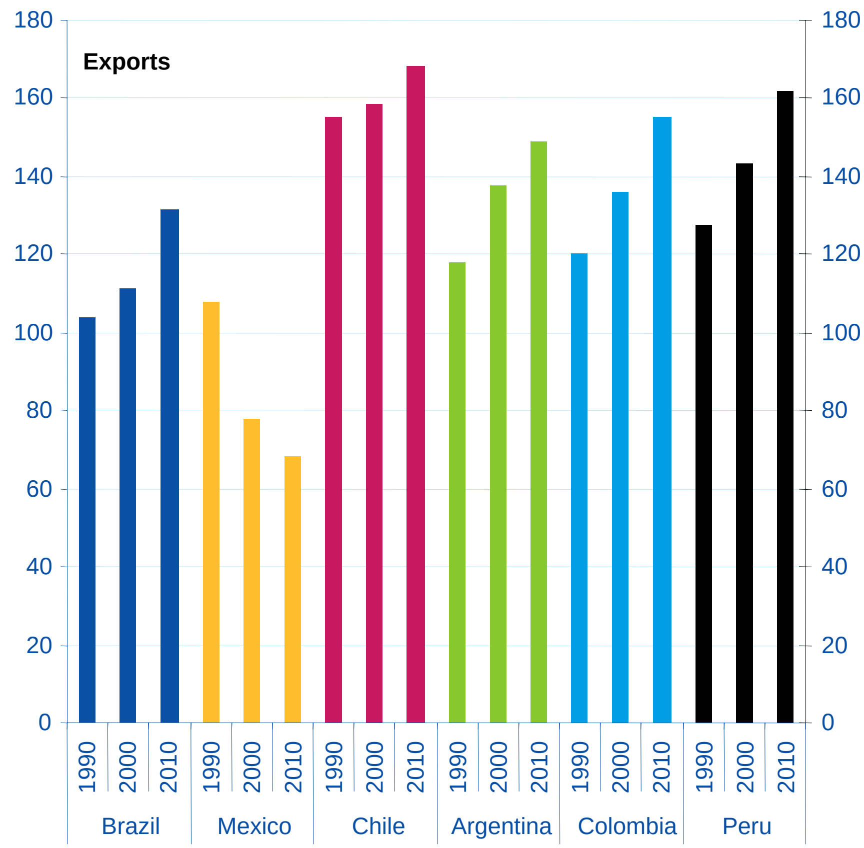
Source: BBVA Research and COMTRADE



Trade flows: … and competition in third markets

Comparison of export structures between LatAm and Asia (China) demonstrates that **competition in third markets is important for Mexico**.

Index of similarity of export structures with China
(Index, 0 = identical; 200 = completely different)
Source: BBVA Research and COMTRADE



- Among the big countries in Latin America, **only Mexico has an export structure that is increasingly similar to that of Asia (China)**.
- **The competition between Mexico and China is increasingly intense in the US**, the main destination of Mexican exports and second most important for China.

Trade flows: ... and competition in third markets

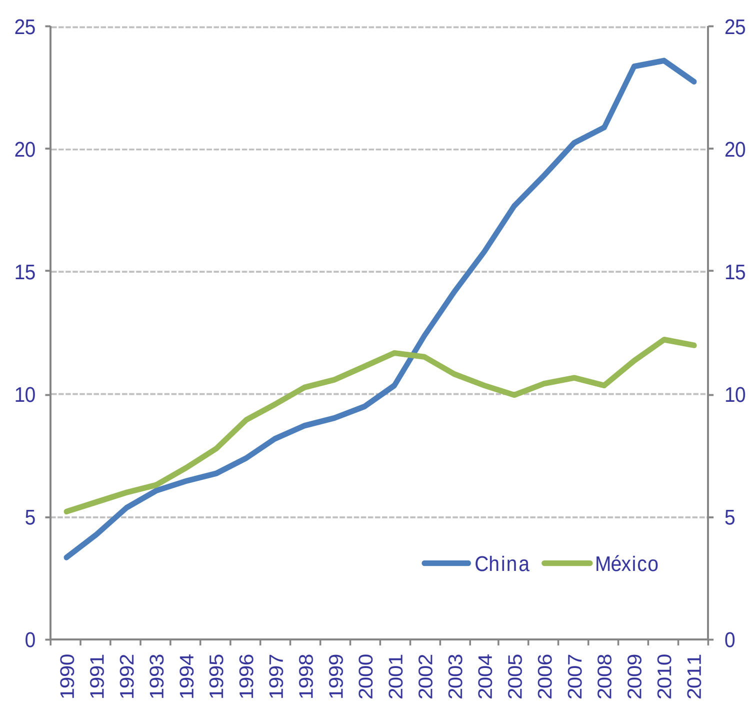
For Mexico and China, the **US is one of their main customers (1st and 2nd, respectively).** Its position has been strengthened by the signing of the **NAFTA agreement** and the **entry of China into the global trading system.**

Since 2009, **the balance of relative competitiveness with the US is leaning toward Mexico, with gains in market share helped by the exchange rate**

Percentage of US imports

(% of total)

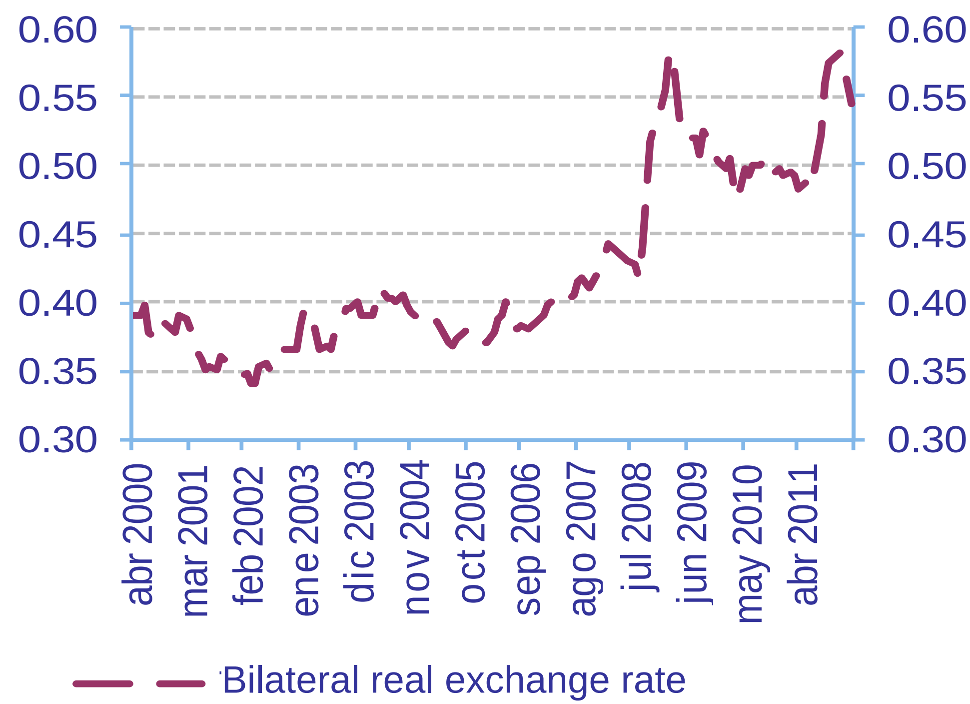
Sou



Real bilateral peso/yuan exchange rate

(rising line: weaker Mexican peso)

Source: BBVA Research



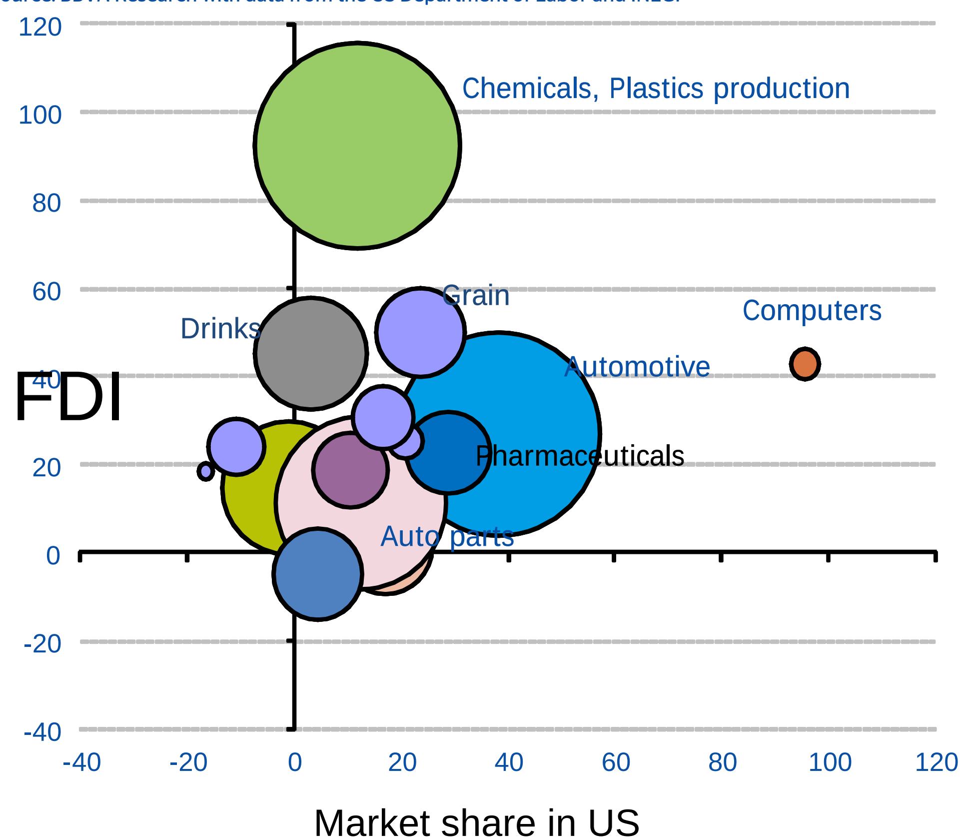
Trade flows: ... and competition in third markets. Competitiveness

... but the issue is not only gains in competitiveness and price; increased **investment in the sectors helps explain gains in market share,** boosted by the **absolute location advantages of the Mexican economy.**

Mexico, market share in US by sector and FDI

Average percentage change in 2008-2011. The size of the circle represents the relative weight in Mexican manufacturing output

Source: BBVA Research with data from the US Department of Labor and INEGI



Distance to main centers (shipping days by sea)

Source: BBVA Research with BCG data

	Mexico	China	India	Brazil	Korea	US
US (NY)	5	32	25	15	21	-
US (LA)	4	18	31	23	17	-
Europe (Rotterdam)	16	32	20	17	33	11
Japan (Yokohama)	19	4	17	35	3	15

Mexico: growth at 3.7%, inflation anchored, improved competitiveness and favorable financing conditions

1. **Mexico will grow by 3.7% in 2012, with inflation not exceeding 4% and interest rates at historically low and stable levels.**

2. **The strength of the Mexican economic situation is based on inflation stabilizing at low levels, improved competitiveness, and favorable financing conditions.**

3. **Mexico has room to maneuver to tackle downside risks in the global environment,** given the strength of its macroeconomic policies.

4. **Mexico, one of the economies in the EAGLE group**, will have to meet the challenge of increasing its trade exchanges with Asia.

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Mexico Watch

Second Quarter 2012

Mexico City, May 9, 2012

Appendix: Forecasts

Country	Mexico	2008	2009	2010	2011	2012	2013
Activity							
Real GDP (y/y %)		1.2	-6.2	5.5	**4.0**	**3.7**	**3.0**
Consumption		1.6	-5.8	4.8	**4.0**	**3.1**	**2.7**
Private consumption		1.7	-7.2	5.3	**4.6**	**3.4**	**2.8**
Public consumption		1.1	3.8	2.1	**0.6**	**1.6**	**2.0**
Gross Capital Formation		5.2	-11.5	6.4	**8.3**	**5.1**	**5.9**
Domestic demand (contribution to growth)		2.1	-8.5	5.6	**4.8**	**3.8**	**3.6**
Exports		0.5	-13.9	21.7	**6.8**	**5.6**	**6.5**
Imports		3.0	-18.8	20.6	**6.8**	**5.9**	**8.0**
Foreign demand (contribution to growth)		-0.8	2.2	0.0	**-0.1**	**-0.2**	**-0.6**
Labor market							
Employment*	y/y %	2.0	-3.1	3.7	**4.3**	**3.6**	**2.9**
Unemployment rate (% of active population)*		4.0	5.5	5.4	**5.2**	**5.1**	**4.8**
Foreign sector							
Current account balance	% GDP	-1.6	-0.6	-0.3	**-0.8**	**-1.3**	**-1.4**
Fiscal balance[1]	% GDP	-1.6	-2.6	-3.5	**-3.0**	**-3.0**	**-2.8**
Prices							
CPI, %	average	5.1	5.3	4.2	**3.4**	**3.7**	**3.5**
CPI, %	EoP	6.5	3.6	4.4	**3.8**	**3.5**	**3.2**
Exchange rate							
Exchange rate (against USD)	average	11.2	13.5	12.6	**12.4**	**12.8**	**12.2**
Exchange rate (against USD)	EoP	13.4	12.9	12.4	**13.8**	**12.5**	**12.2**
Interest rates							
Official rate (lending rate)	average	7.9	5.4	4.5	**4.5**	**4.5**	**4.9**
Official rate (lending rate)	EoP[2]	8.3	4.5	4.5	**4.5**	**4.5**	**5.5**
10-year rate (M10)	average	8.3	8.1	6.6	**6.8**	**6.4**	**7.0**
10-year rate (M10)	EoP	8.3	8.0	5.8	**6.4**	**6.6**	**7.5**

BBVA Research

1. PSBR

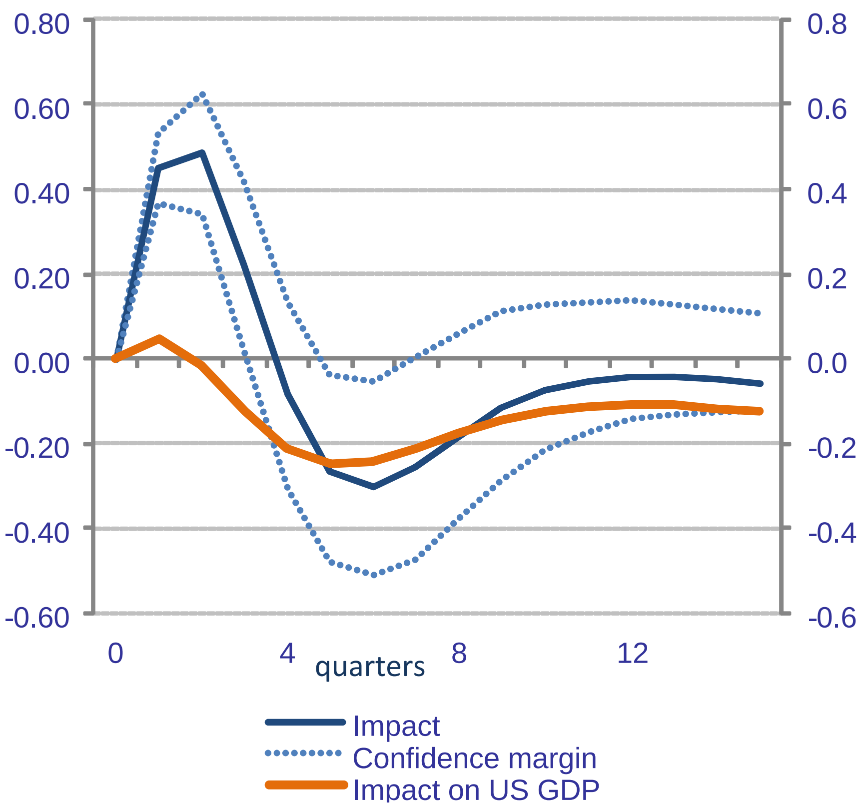
2. December

Mexico has benefited from oil price increases that do not limit demand from its trading partners

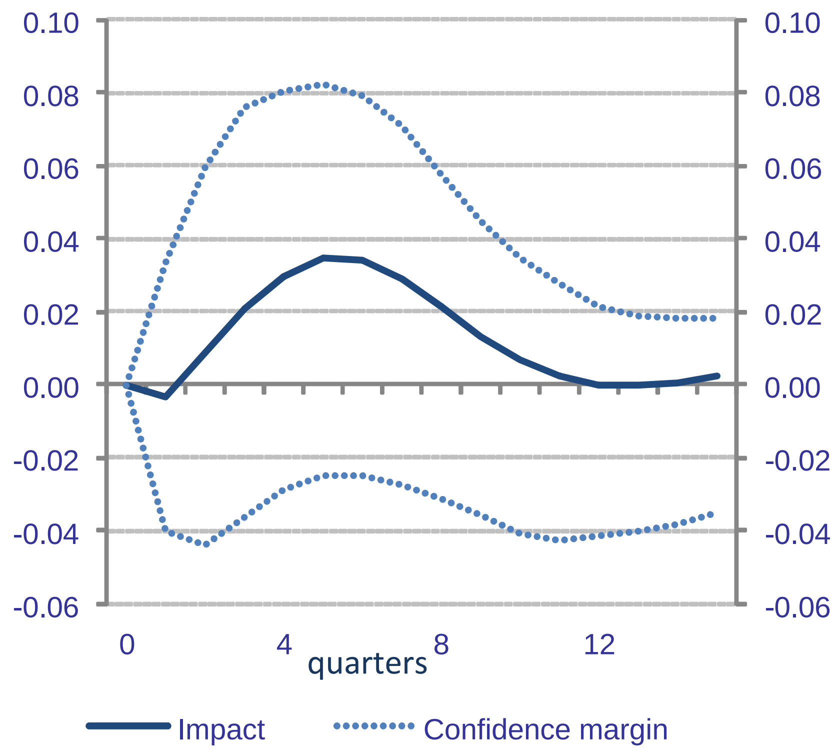
A **higher** oil price **increases Mexico's GDP in the short term**. However, in the medium term the effect of a lower demand in the US becomes key, due to the downward effect on US GDP of rises in the oil price.

The effect on **inflation** is **upward**, but **extremely limited by energy subsidies**.

The impact on GDP growth in Mexico of a 10% increase in the oil price without any supply-side restrictions (percentage points)
Source: BBVA Research



The impact on annual inflation in Mexico of a 10% increase in the price of oil without any supply-side restrictions (percentage points) Source: BBVA Research



Mexico has benefited from oil price increases that do not limit demand from its trading partners

If the price of the Mexican mix is around 22 dollars a barrel above expectations for the yearly average, the additional public revenues would be around 1.5% of GDP in 2012, as follows:

Breakdown of the government's additional revenues from crude oil exports in 2012

		Extraordinary right (% GDP)	Surplus revenues (% GDP)				
Average price expected from the Mexico oil mix in 2012 (dollars per barrel)	Extra government revenues (% GDP)	Revenues from states	Revenues from states, 25%	Infrastructure of individual states, 10%	Stabilization Fund, 40%	PEMEX infrastructure, 25%	IEPS gasoline (% GDP)
104	1.48	0.19	0.15	0.06	0.25	0.15	0.67
Memorandum:							
States	0.41						
Stabilization Fund	0.25						
PEMEX Infrastructure	0.15						

Notes:

GDP growth expected for 2012: 3.7%

Oil price in the revenue estimate USD 84.9

Special right: 13.1% is applied to the difference between the sale price of oil and the budgeted price

Assuming that the IEPS (Special Tax on Products and Services) on gasoline is financed from surplus oil revenues

Oil production for 2012: 2,560 thousand barrels per day

Average estimated exchange rate, 12.8 pesos per dollar

Source: BBVA Research with data from the Secretariat for Finance