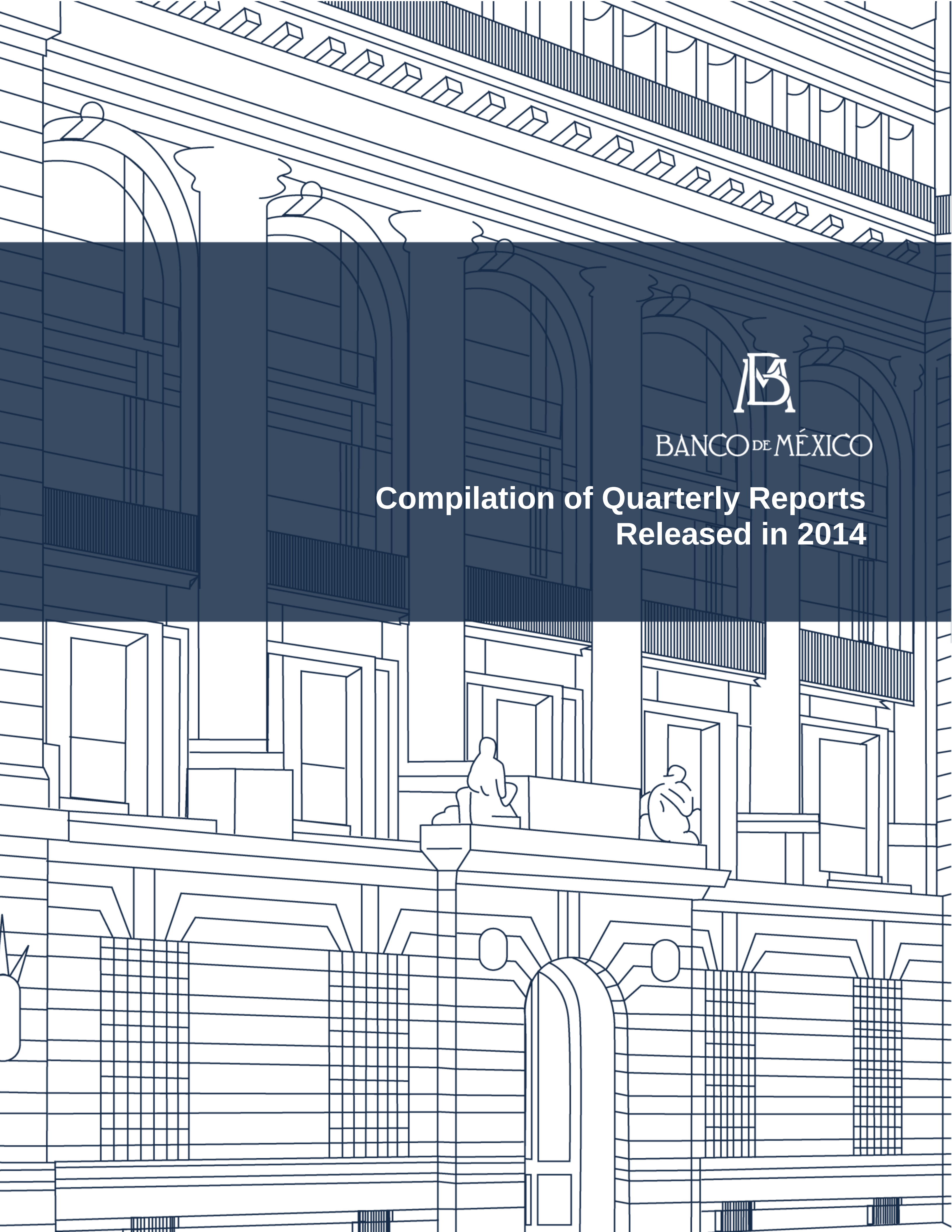


BANCO DE MÉXICO

Compilation of Quarterly Reports Released in 2014

PRESENTATION

This document is a compilation of four Quarterly Reports of 2014, released in line with Article 51 of Banco de México's Law and in accordance with the calendar published in advance by this Central Institute.

These Quarterly Reports address inflation, the evolution of economic activity and the performance of other economic indicators of Mexico over the referred period. Likewise, the monetary policy conduction in the reference year, as well as other activities of Banco de México in each respective period are discussed.

In addition, this document includes a statistical appendix with relevant annual data of the Mexican economy and an annex reporting the relation between Mexico and some international bodies and forums.

We trust that this compilation will provide the public with an easier access to the relative data of the reference year, by bringing this information together in a single document.

FOREWARNING

This text is provided for the reader's convenience only. Discrepancies may possibly arise due to the translation of the original document to English. The original and unabridged Compilation of Quarterly Reports in Spanish is the only official document.

Figures are preliminary and subject to changes. Although data are consistent within each section, figures from different sections may differ because they have been estimated according to different sources and methodologies.

CONTENTS

Section I: Quarterly Report January - March 2014 1

CONTENTS

BOXES

Section I: Quarterly Report January - March 2014

1. Introduction

The conduction of the monetary policy in Mexico has sought an efficient inflation convergence towards its 3 percent permanent target, i.e., at the minimum cost to society in terms of economic activity. In late 2013 and early 2014, in light of the occurrence of some supply shocks and once new fiscal measures came into force in 2014, inflation in Mexico went up. Subsequently, as anticipated, it resumed its downward trend, when the effects of some of these shocks began to dissipate. Meanwhile, medium- and long-term inflation expectations remained stable, and the price formation process of the economy has not been contaminated. Banco de México has repeatedly indicated that supply shocks or relative price shocks, in a context of well-anchored inflation expectations, only propitiate temporary inflation increments. Therefore, the referred shocks do not justify upward adjustments in the reference interest rate, since it would imply an unnecessary tightening of the monetary policy stance, as, by the moment the increase in the reference interest rate affects inflation, the transitory impact of this shock on inflation will have faded already. In view of the above, the monetary policy stance was not modified in the period covered by this Quarterly Report, even though this Central Institute remained alert, so that no second round effects are generated in the price system of the economy.

At the beginning of the first quarter of 2014, the weakness that the economic activity in Mexico registered in the last quarter of 2013 persisted, which points to a lower average growth during the analyzed quarter than anticipated some months ago. Although some aggregate demand components registered certain stagnation in early 2014, by the end of the first quarter different indicators related to them started to perform more favorably. In particular, given that some of the negative shocks that affected productive activity in the last few months of 2013 and in early 2014 seem to have been transitory and started to revert, more timely data indicate an incipient reactivation of the economy.

The referred events in Mexico unfolded in a context of moderate world economic growth in the first quarter of 2014. This expansion was mainly motivated by the dynamism observed in some advanced economies, given that the growth rate of the emerging ones decreased in the first months of the year. Although the U.S. economic activity expanded less than anticipated, largely due to the impact of winter weather conditions, by the end of the quarter it resumed greater dynamism. In this context, the Federal Reserve continued with a gradual process of normalization of the U.S. monetary policy. As a result, following the episode of high uncertainty in international financial markets in January, the referred markets performed better from February onwards. Also, capital flows to emerging markets were observed again, and those destined to the countries on the European periphery were accentuated. This was partly due to the economic policy response in some of emerging economies, but principally due to a perception of reduced uncertainty regarding the future conduction of the U.S. monetary policy. However, the possibility of new volatility episodes in international financial markets cannot be ruled out, given that this perception could present a sudden change.

It is expected that, once the effects of the temporary factors on productive activity fade, economic growth in Mexico will benefit from higher external demand and from the fiscal and monetary impulses that are underway. Still, the economic slowdown registered in late 2013 and in early 2014 inevitably implies a downward adjustment of the growth forecast for 2014 as a whole. In particular, the forecast interval for the GDP growth rate in 2014 is revised from 3.0 to 4.0 percent to 2.3 to 3.3 percent. For 2015, a GDP growth rate between 3.2 and 4.2 percent is still anticipated. In this context, slack conditions in the economy are estimated to prevail over the forecast horizon, so that no demand-related pressures are anticipated on either inflation or the external accounts of Mexico.

The forecast for annual headline inflation remains unchanged with respect to that released in the previous Quarterly Report. Thus, in the second quarter it is expected to lie within the variability interval of plus/minus one percentage point around the 3 percent target. In the second half of 2014, due to the arithmetic effect coming from a low comparison base, as well as the volatility of the non-core component, inflation could locate above 4 percent in a few months, although it is expected to conclude the year below this level. From January 2015 onwards, annual headline inflation is estimated to significantly decrease, in particular, if just as established by the Federal Income Law 2014, from 2015 onwards gasoline prices are adjusted in accordance with the expected inflation, estimating that it will persist slightly above 3 percent for the rest of the year. Annual core inflation is forecast to lie around 3 percent in 2014 and below this level in 2015.

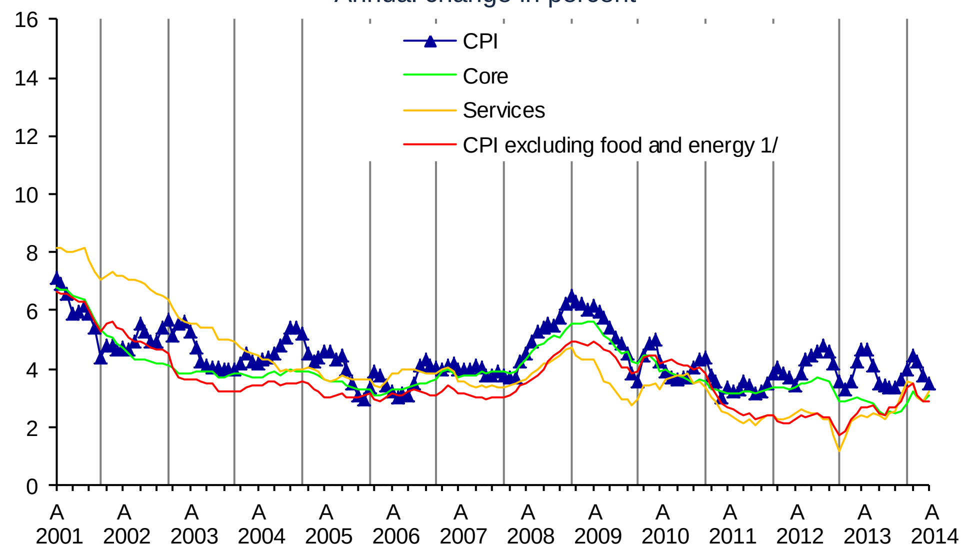
In this context, Banco de México's Board of Governors estimates that the monetary policy stance is congruent with the efficient convergence of inflation to its 3 percent target. Still, in the future it will monitor all factors that may affect inflation and its expectations in the medium and long term, particularly the evolution of the degree of slack in the economy. Likewise, it will monitor the implications of the monetary policy stance of Mexico relative to the U.S. onto the inflation outlook, so as to reach the abovesaid inflation target.

2. Recent Developments of Inflation

2.1. Inflation

Following an increase in annual headline inflation in late 2013, derived from higher public transport fares in some cities in Mexico and higher prices of some vegetables, as a result of adverse weather conditions, the entry into force of the fiscal measures caused this indicator to lie in January and February 2014 above the upper limit of the variability interval of plus/minus one percentage point around the 3 percent inflation target (Table 1 and Chart 2). However, from the second fortnight of January onwards, annual headline inflation observed a downward trend and located at levels clearly below 4 percent from the first fortnight of March onwards. The above revealed the temporary nature and the focus of the different shocks' effects onto inflation, as well as the anchoring of its expectations.

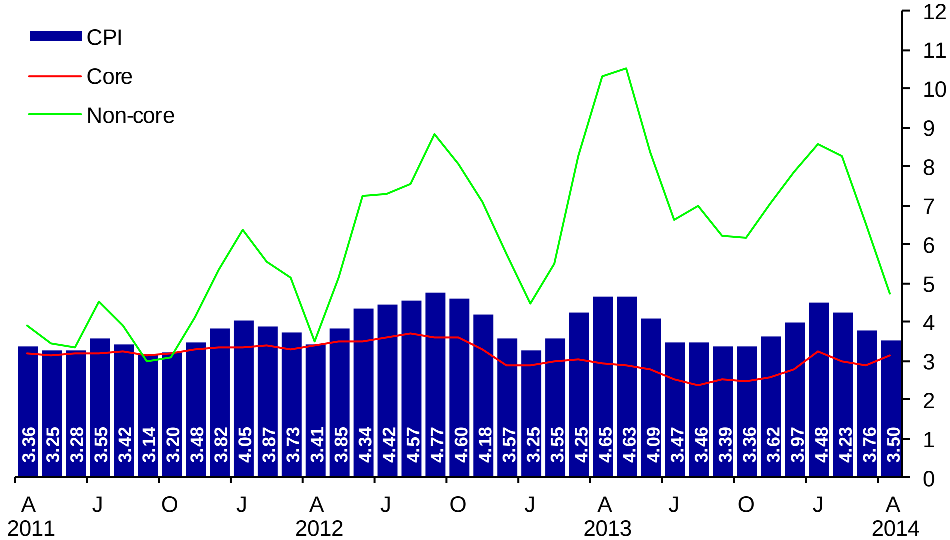
Chart 1
Consumer Price Index
Annual change in percent



1/ Excludes food at home (processed food, non-alcoholic beverages and agricultural products), food away from home and energy products.
Source: Banco de México and INEGI.

Analyzing more in depth the abovesaid, in 2014 new fiscal changes came into force, consisting in new tax rates set on flavored drinks and high-calorie density food, the equalization of VAT in the border region to the rate prevailing in the rest of the country, as well as increments in the prices of energy products. Thus, annual headline inflation shifted from 3.97 percent in December 2013 to 4.48 percent in January 2014, with the highest figure registered in the first fortnight of January (4.63 percent). It should be noted that the inflation increase was concentrated in the group of goods and services affected by fiscal changes, without generating second round effects on the price formation process. As a consequence, annual headline inflation dropped to 3.76 percent in March. Subsequently, in April headline inflation located at 3.50 percent (Table 1 and Chart 2).

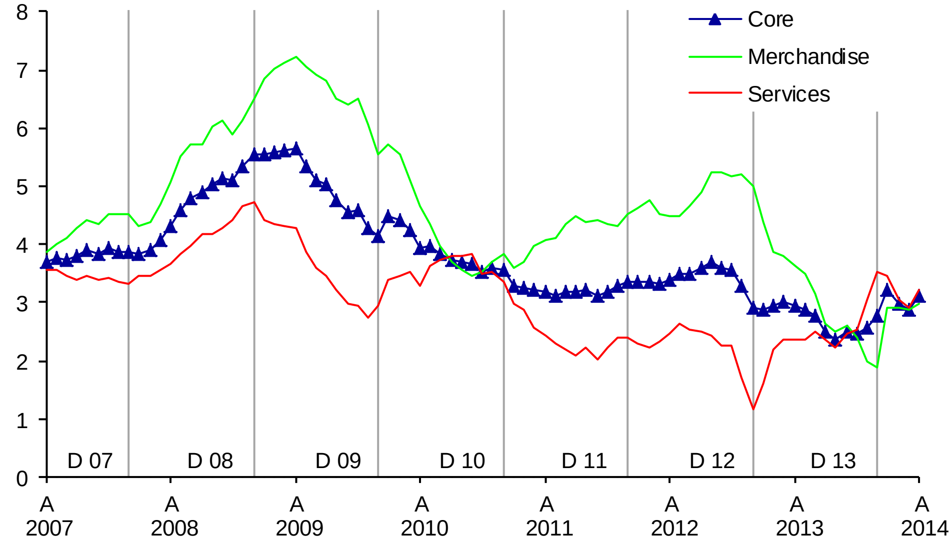
Chart 2
Consumer Price Index
Annual change in percent



Source: Banco de México and INEGI.

After remaining under 3 percent throughout most of 2013, the abovereferred fiscal changes triggered the increase of the annual change of the core price index from 2.78 percent in December 2013 to 3.21 percent in January 2014 (3.33 percent in the first fortnight of January). Still, over the following two months annual inflation of the said indicator diminished to 2.89 percent in March. Indeed, in February and March, the monthly core inflation recorded 0.28 and 0.21 percent, respectively, which represents historical minimums for the referred months, and which contributed to the good performance of annual core inflation. Later on, in April, the annual change of this indicator rebounded slightly to 3.11 percent, due to a low comparison base in the item of tourism services in 2013, given that the Holy Week was in March, and hence generating an effect that is expected to revert over the following months (Table 1, Chart 3 and Chart 4b).

Chart 3
Core Price Index
Annual change in percent

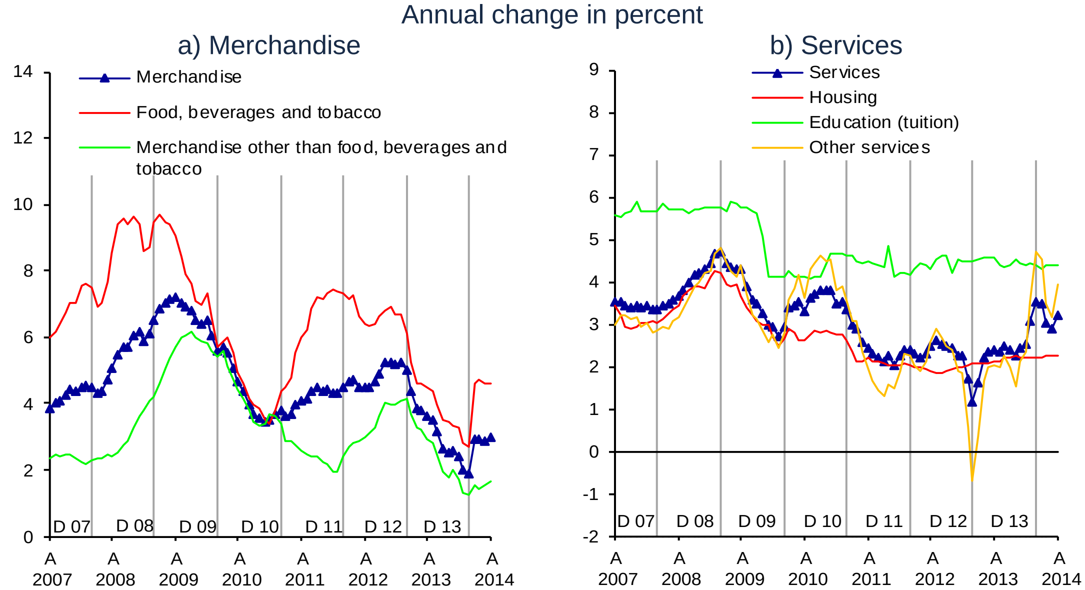


Source: Banco de México and INEGI.

Most of the impact generated by fiscal changes concentrated in the subindex of merchandise prices, which grew 1.89 percent in annual terms in December 2013, registering 2.93 percent in January 2014 and sliding to 2.88 percent in March (2.97 percent in April). In that regard, price increments of products directly affected by fiscal measures stood out at the beginning of the year, as was the case of various food merchandise products, mainly flavored drinks and sweet bread. Thus, in December 2013 the annual change of this price subindex was 2.67 percent, rising to 4.64 percent in January and to 4.73 percent in February, to subsequently slide to 4.60 percent in April. Meanwhile, the annual growth rate of the non-food merchandise shifted from 1.26 to 1.67 percent between December 2013 and April 2014 (Table 1, Chart 3 and Chart 4a). The factor that should be emphasized is that following the immediate impact of fiscal measures on inflation of the affected subindices in January, inflation did not accelerate, nor did it contaminate the prices of goods and services that had not been directly affected. The higher inflation level in the group of food merchandise will surely revert in January 2015.

In December 2013, the subindex of services' prices presented an annual change of 3.54 percent, which steadily declined over the subsequent months, reaching 2.90 percent in March 2014. The above was due to the performance of the group of services other than education and housing, whose annual change in December 2013 was 4.69 percent, and which dropped to 3.17 percent in March 2014, as a result of lower annual growth rates registered in the prices of cellular phone services and in the tourism services. The referred performance of the annual change of the cellular phone services' prices is related to the effect of a high comparison base, while the tourism services' prices reflect a calendar effect due to the occurrence of the Holy Week in March in 2013 and in April in 2014. Subsequently, as a result of this last factor, the annual change rate of the services' price subindex located at 3.23 percent in April, an increase which is expected to revert in the course of the following months (Table 1 and Chart 4b).

Chart 4
Core Price Index: Merchandise and Services
Annual change in percent



Source: Banco de México and INEGI.

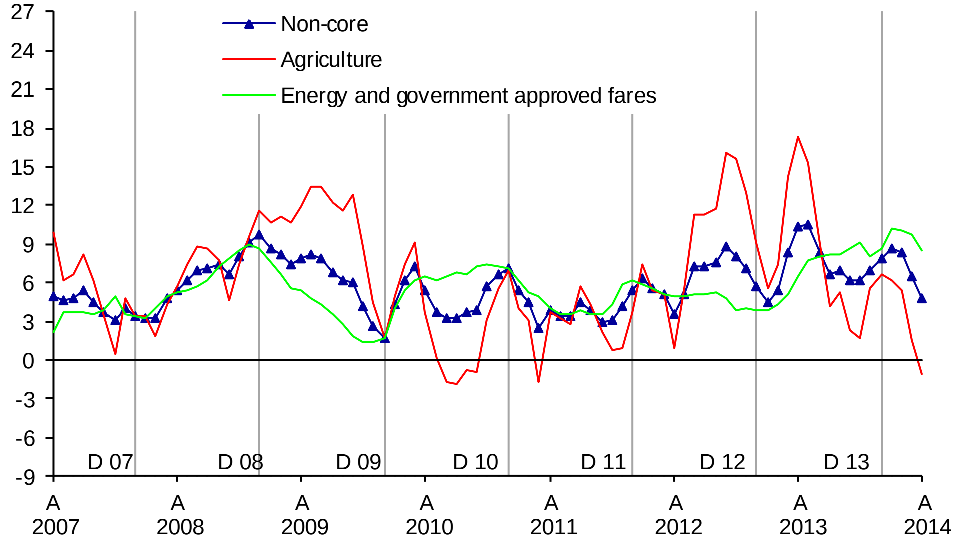
Table 1
Consumer Price Index and Components
Annual change in percent

	Annual change							Average percent	
	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014	Abril 2014	Q IV 2013	Q I 2014
CPI	**3.36**	**3.62**	**3.97**	**4.48**	**4.23**	**3.76**	**3.50**	**3.65**	**4.16**
Core	**2.48**	**2.56**	**2.78**	**3.21**	**2.98**	**2.89**	**3.11**	**2.61**	**3.03**
Merchandise	**2.41**	**1.99**	**1.89**	**2.93**	**2.91**	**2.88**	**2.97**	**2.09**	**2.91**
Food, beverages and tobacco	3.28	2.82	2.67	4.64	4.73	4.58	4.60	2.92	4.65
Packaged soft drinks	3.82	3.46	3.49	16.10	17.28	17.15	16.82	3.59	16.84
Sweet bread	3.71	2.37	2.41	8.24	9.60	9.75	9.91	2.82	9.20
Non-food merchandise	1.71	1.33	1.26	1.56	1.45	1.52	1.67	1.43	1.51
Services	**2.54**	**3.06**	**3.54**	**3.47**	**3.05**	**2.90**	**3.23**	**3.04**	**3.14**
Housing	2.19	2.20	2.19	2.21	2.25	2.24	2.24	2.19	2.24
Education (tuitions)	4.42	4.43	4.42	4.32	4.38	4.39	4.39	4.42	4.36
Other services	2.34	3.54	4.69	4.53	3.50	3.17	3.94	3.52	3.73
Cellular phone services	-0.98	23.56	50.91	27.42	1.34	-1.79	-3.73	20.84	7.44
Tourist services (packages)	0.77	0.35	4.90	2.39	2.78	-2.37	13.02	2.06	0.85
Air transportation	-18.26	-18.84	0.20	-9.29	-14.09	-12.01	1.89	-12.46	-11.84
Non-core	**6.18**	**7.02**	**7.84**	**8.58**	**8.28**	**6.54**	**4.75**	**7.02**	**7.79**
Agriculture	**1.67**	**5.53**	**6.67**	**6.21**	**5.43**	**1.49**	**-1.13**	**4.62**	**4.33**
Fruit and vegetables	1.10	11.46	13.89	10.54	6.73	-2.81	-9.90	8.77	4.54
Tomato	-5.02	43.00	63.89	18.36	-9.89	-33.89	-7.34	32.37	-8.63
Tomatillo	36.25	32.96	21.83	-0.95	-29.57	-60.29	-68.85	30.07	-38.50
Zucchini	1.64	11.30	17.34	0.84	-22.19	-50.93	-48.75	9.91	-28.94
Lemon	19.41	15.15	24.98	56.55	160.18	161.98	32.89	19.90	130.71
Livestock	1.92	2.03	2.43	3.65	4.58	4.14	4.39	2.13	4.12
Beef	4.01	3.68	3.79	4.40	5.21	6.81	8.23	3.83	5.47
Pork	2.11	1.93	2.12	2.17	3.47	4.64	8.48	2.05	3.42
Energy and government approved fares	**9.07**	**8.01**	**8.65**	**10.13**	**10.12**	**9.73**	**8.52**	**8.57**	**9.99**
Energy	9.62	8.20	8.30	9.67	10.10	9.83	9.45	8.69	9.87
Gasoline	11.37	11.08	11.23	12.24	12.00	11.54	11.69	11.23	11.92
Electricity	3.45	3.72	3.63	5.06	5.69	5.66	4.11	3.61	5.47
Domestic gas	8.41	8.25	8.37	10.41	11.88	11.34	10.30	8.34	11.21
Government approved fares	7.83	7.65	9.32	11.02	10.14	9.55	6.86	8.27	10.23
Subway or electric transportation	0.79	0.79	30.97	51.20	51.20	51.20	51.01	10.85	51.20
Public transport fares	12.05	11.81	12.22	12.52	12.40	12.48	6.16	12.02	12.47
Vehicle procedures	71.05	71.05	71.06	68.11	45.56	11.54	2.76	71.05	37.66
CPI excluding food (at home and away from home) and energy [1/]	**2.68**	**2.89**	**3.35**	**3.53**	**3.06**	**2.91**	**2.85**	**2.97**	**3.17**

1/ Excludes food at home (processed food, non-alcoholic beverages and agricultural and livestock products), food away from home and energy products.
Source: Banco de México and INEGI.

The annual change of the non-core price index lied at 7.84 percent in December 2013, rising to 8.58 percent in January and later decreasing to 6.54 percent in March and to 4.75 percent in April. The lower inflation of this index, recorded from February onwards, reflected lower growth rates of the agricultural products' subindex, the prices of which offset the high rates in the subindex of energy products and government approved fares (Table 1 and Chart 5).

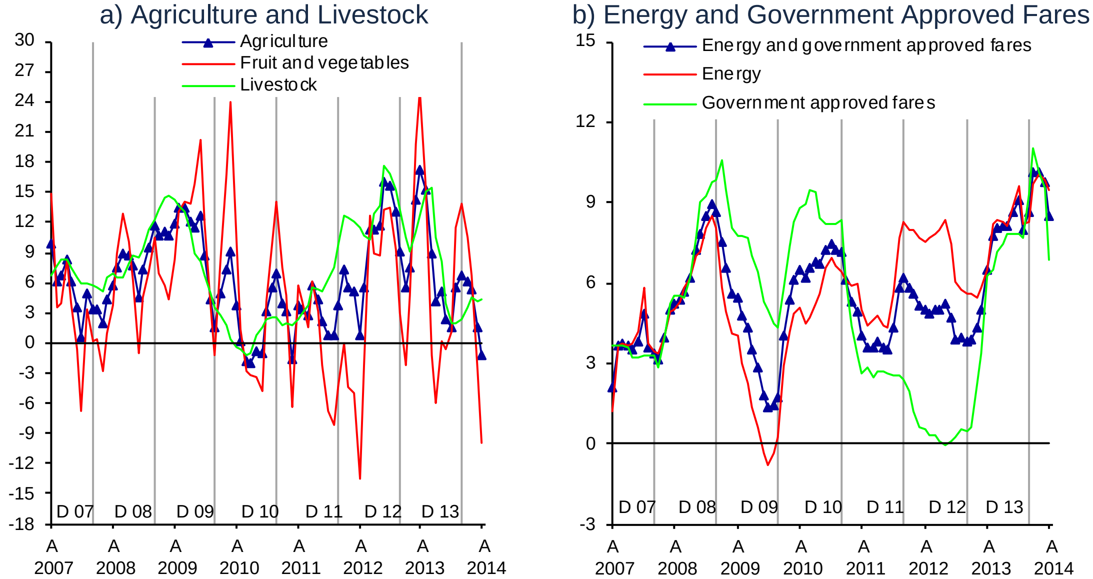
Chart 5
Non-core Price Index
Annual change in percent



Source: Banco de México and INEGI.

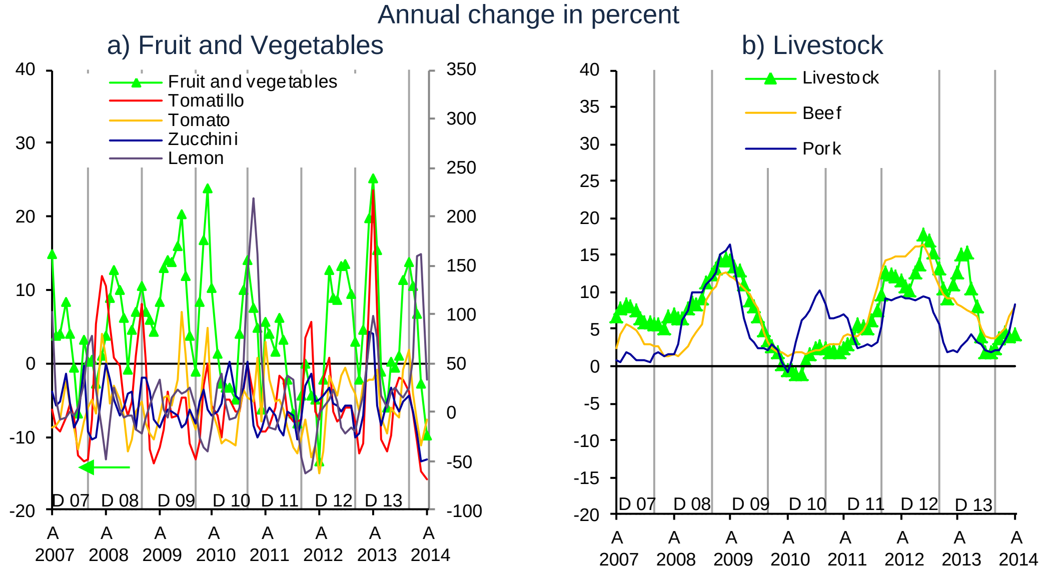
In this respect, it should be pointed out that by the end of last year, the subindex of agricultural products' prices observed increments in the prices of a reduced number of foods, as a result of weather conditions that delayed their production in the previous months, derived from which in December 2013 the annual change of this subindex lied at 6.67 percent. In the period analyzed in this Report, despite a significant rebound in the price of lemon in February and March, the reduction in the prices of various fruit and vegetables, particularly tomato, and the arithmetic effect coming from a low comparison base, contributed to lowering the annual change of this subindex, which recorded 1.49 percent in March 2014. Afterwards, in April additional decreases in the prices of different fruit and vegetables, as well as reductions in the lemon price were recorded, which offset higher growth rates observed in the prices of livestock products. Thus, the annual change of the agricultural products' prices located at -1.13 percent in April (Table 1, Chart 6a and Chart 7).

Chart 6
Non-core Price Index
Annual change in percent



Source: Banco de México and INEGI.

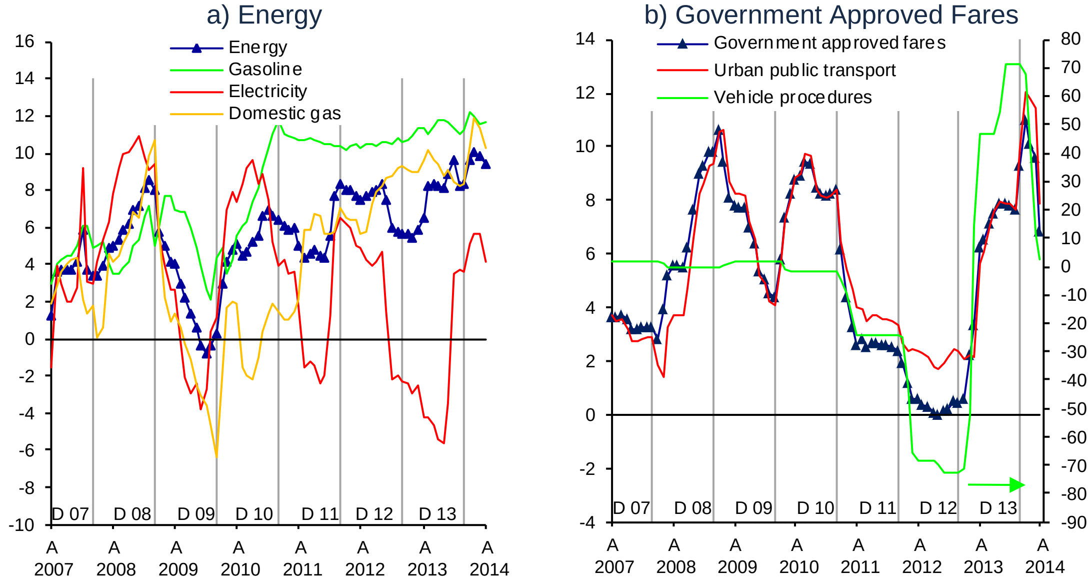
Chart 7
Agricultural Price Index
Annual change in percent



Source: Banco de México and INEGI.

The subindex of energy prices and government approved fares keeps exhibiting high annual growth rates. In December 2013, it presented an annual change of 8.65 percent, which went up to 9.73 percent in March, to later go down to 8.52 percent in April. This dynamics resulted from a series of adjustments in public fares and prices, which affected both components of this subindex. The annual change of energy products rose from 8.30 percent in December 2013 to 9.45 percent in April, derived from higher increments in gasoline prices, the equalization of VAT in the electricity tariffs in the border region and higher prices of domestic gas. It is noteworthy that the referred increments were attenuated by the lower price of natural gas in March and April, which, in turn, was reflected in lower annual growth rates of the electricity tariff. Meanwhile, the group of government approved fares shifted from an annual growth rate of 9.32 percent in December 2013 to 6.86 percent in April. This was consequent on the fact that the increments in the public transport fares and taxi fares in Mexico City, which took place in April 2013, did not occur again (Table 1, Chart 6b and Chart 8).

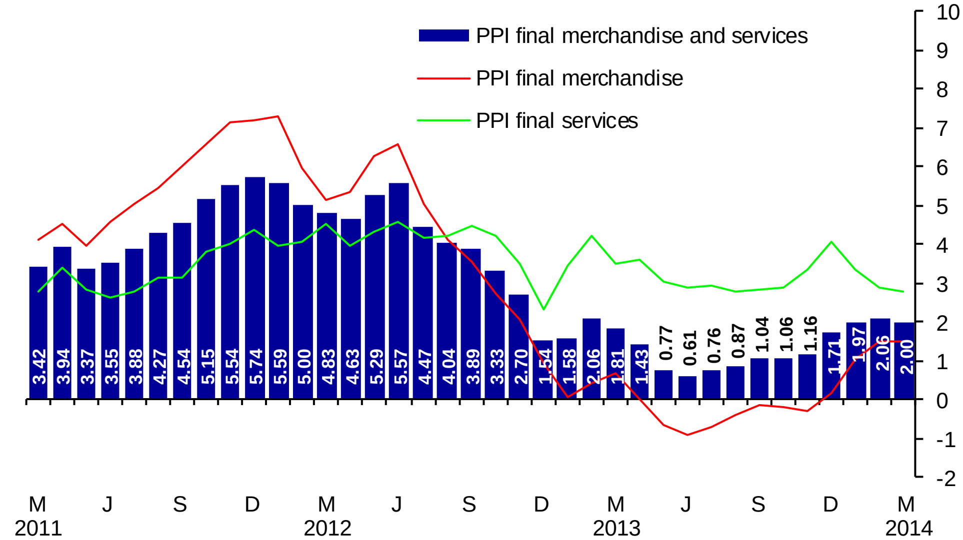
Chart 8
Non-core Price Index
Annual change in percent



Source: Banco de México and INEGI.

Meanwhile, in March 2014 the Producer Price Index (PPI) of finished merchandise and services, excluding crude oil, observed an annual change rate of 2.00 percent, while in December 2013 it was 1.71 percent (Chart 9). This higher annual change rate basically reflects the evolution of the merchandise price subindex, the annual change rate of which shifted from 0.13 percent in December 2013 to 1.48 percent in March of the current year. In contrast, the annual change rate of the services' price subindex dropped from 4.04 to 2.77 percent between December 2013 and March 2014.

Chart 9
Producer Price Index
Annual change in percent



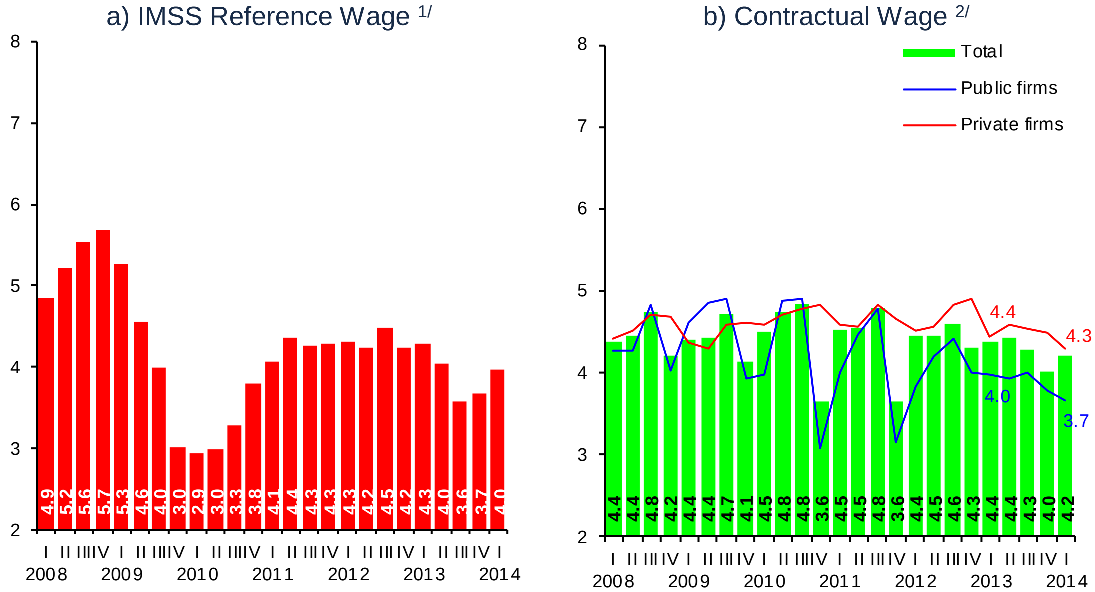
Source: Banco de México and INEGI.
.

2.2. Wages

The evolution of the main wage indicators in the first quarter of 2014 suggests that labor costs still do not represent an element generating inflationary pressures. The annual change rate of the reference wage of IMSS-insured workers increased from 3.7 percent in the fourth quarter of 2013 to 4.0 percent in the first quarter of 2014. Despite this, it should be stated that this indicator still lies below the levels registered in the first half of 2013 (Chart 10a).

The increment in the contractual wage negotiated by firms under federal jurisdiction was 4.2 percent in the first quarter of 2014, a figure lower than in the same quarter of the previous year (4.4 percent). This difference was due to lower changes in contractual wages of both public and private firms. In particular, public firms negotiated an average increase of 3.7 percent from January to March 2014 (4.0 percent in the same quarter of 2013), while private firms negotiated an increase of 4.3 percent (4.4 percent in the same quarter of last year, see Chart 10b).

Chart 10
Wage Indicators
Annual change in percent



Source: Calculated by Banco de México with data from IMSS and STPS.
1/ During the first quarter of 2014 an average of 16.7 million contributors were registered in IMSS.
2/ The contractual wage increase is an average weighted by the number of involved workers. The number of workers in firms under federal jurisdiction that annually report their wage increases to the Secretary of Labor and Social Welfare (*Secretaría del Trabajo y Previsión Social*, STPS) equals approximately 2 million.

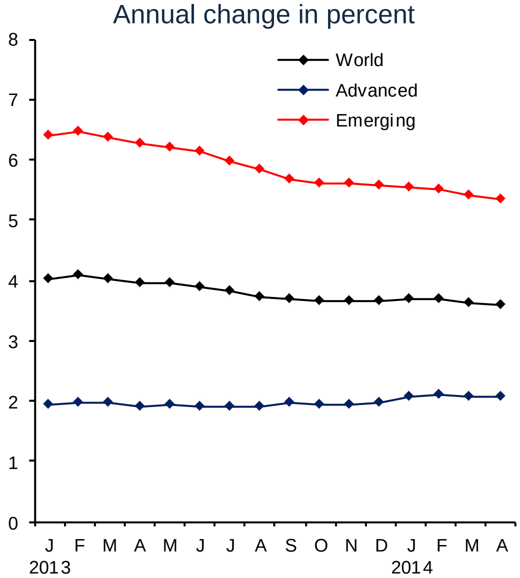
3. Economic and Financial Environment

3.1. International Environment

The world economy recovered moderately in the first quarter of 2014, mostly driven by greater dynamism of some advanced economies, the growth outlook of which has improved, backed by the strengthening of the balance sheets of the public and the private sectors, and by still accommodative economic policies. In contrast, in emerging economies, growth has generally been lower than expected (Chart 11). In an environment of uncertainty regarding the process of monetary policy normalization in the U.S., and given some concern over the soundness of some emerging economies' macroeconomic fundamentals, volatility in international financial markets rebounded at the beginning of the quarter. Nonetheless, from February onwards, conditions in these markets began improving, partly due to the economic policy response of some emerging economies, but principally due to the perception of a more gradual process of monetary policy normalization in the U.S. and the Federal Reserve's efforts to make the adjustment more predictable. Structural problems in some emerging economies, together with the fact that Japan and Europe have not managed to achieve stable and sustained growth, imply that, even though world economic growth outlook has improved, downward risks still prevail.

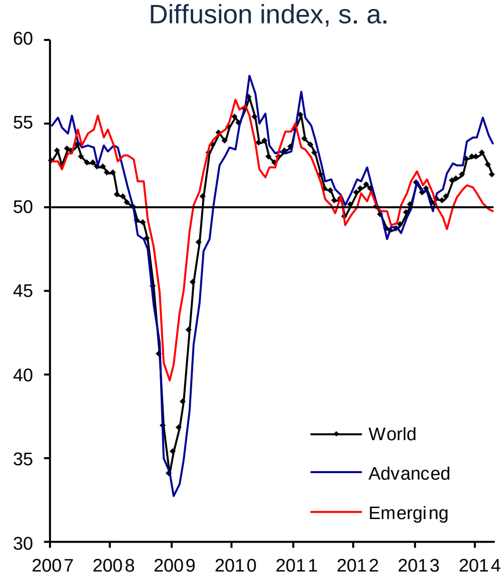
Chart 11
Indicators of Advanced and Emerging Economies

a) Evolution of GDP Growth Expectations for 2014 1/
Annual change in percent



1/ Calculated as a weighted average using each country's GDP, based on the purchasing power parity with respect to the world total GDP in the corresponding year.
Source: Prepared by Banco de México with data from the IMF and from Consensus Forecasts.

b) Purchasing Managers' Index of the Manufacturing Sector
Diffusion index, s. a.



s. a. / Seasonally adjusted figures.
Source: Prepared by Banco de México with data from the IMF, ISM and Markit.

3.1.1. World Economic Activity

In the U.S., economic activity significantly decelerated in early 2014, mainly as a reflection of adverse weather conditions, even though by the end of the first quarter signs of improvement were recorded. Still, on average, in the reference quarter the economic activity had a weak performance. In accordance with the initial estimate, the U.S. GDP grew at an annualized quarterly rate of only 0.1 percent in the first quarter of 2014, as compared to the growth of 2.6 percent in the fourth quarter of 2013. However, the indicators of March and April began to recover considerably, suggesting faster growth for the rest of the year. The recovery estimated for 2014 is a consequence of both the improved private domestic demand and the lower fiscal restraint.[1]

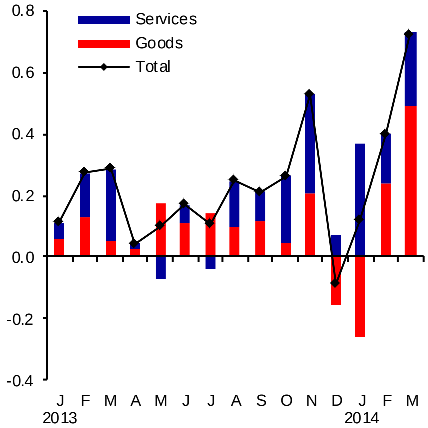
Growth of private domestic expenditure in that country moderated in the first quarter of 2014, reflecting principally a drop in private investment. Although investment in equipment contracted, partly due to the expiration of fiscal benefits for its depreciation, it showed some signs of recovery by the end of the first quarter. Residential investment decreased for the second consecutive quarter, although less than observed in the previous one. Meanwhile, private consumption, after being affected by adverse weather conditions at the beginning of the year, from February onwards expanded significantly, supported by higher expenditure on healthcare, as a result of the increased coverage of healthcare programs, such as Medicaid (Chart 12a). In turn, net exports contributed negatively to GDP growth.

Labor market in the U.S. kept improving, even though most indicators still do not reach pre-crisis levels. Non-farm payroll recovered from February onwards, after being affected by adverse weather conditions. Thus, employment expanded by 222 and 203 thousand jobs in February and March, respectively, compared to only 144 thousand jobs in January. This recovery persisted in April, with the employment growth of 288 thousand jobs. In turn, the unemployment rate has not changed significantly between December 2013 and March 2014, locating at 6.7 percent in the latter month, but in April it dropped to 6.3 percent, mainly due to a fall in the labor participation rate (Chart 12b)

[1] According to the International Monetary Fund (IMF) estimates, the negative effects of fiscal consolidation on the GDP growth will decrease in 2014, from an interval of 1.25 to 1.5 percentage points in 2013 to an estimate of 0.25 to 0.5 percentage points in 2014. This is partly due to the reductions in automatic cuts in public expenditure, passed by the U.S. Congress last December.

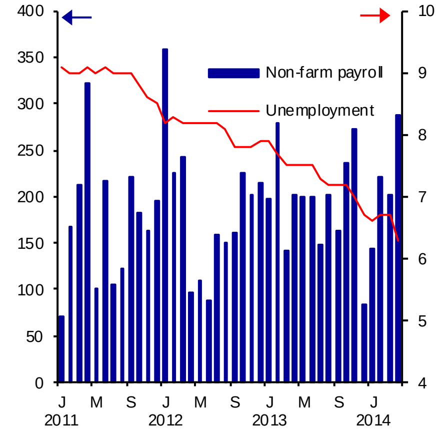
Chart 12
U.S. Economic Activity

a) Contribution to Growth of Real Private Consumption
Monthly change in percentage points, s. a.



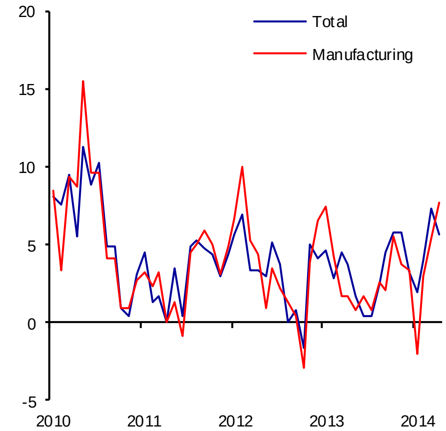
s. a. / Seasonally adjusted figures.
Source: BEA.

b) Monthly Change in Non-farm Payroll and Unemployment Rate
In thousands of jobs and percent of labor force, s. a.



s. a. / Seasonally adjusted figures.
Source: BLS.

c) Industrial and Manufacturing Production
Annualized quarterly change in percent, s. a.



s. a. / Seasonally adjusted figures.
Source: Federal Reserve.

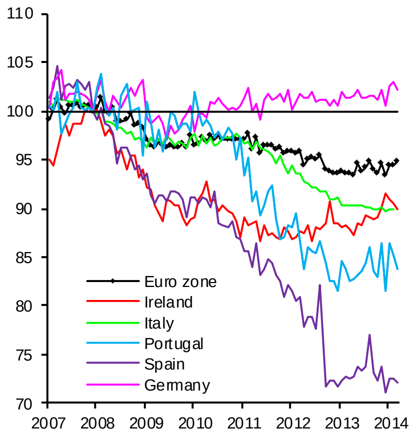
Industrial production, including manufacturing, decelerated in early 2014, which was caused by an adjustment in the level of inventories and a temporary shutdown of manufacturing plants, as a result of adverse weather conditions. Still, industrial activity improved from February onwards (Chart 12c), while the outlook of the sector, measured by means of the purchasing managers' index, points to greater production growth, sustained by an expansion of private demand in the U.S.

In this environment, the Federal Reserve modified its communication strategy in March, by adopting a more qualitative approach in its forward guidance for the reference interest rate. As further described below, the change in the communication strategy, in an environment of expected inflation persisting at low levels, allowed the Federal Reserve to convey to the markets its intention to maintain a highly accommodative monetary policy for an extended period of time.

In the Euro zone, the economic activity growth in the first quarter of 2014 was similar to that registered in the previous quarter. Some indicators, such as the low level of retail sales and a high unemployment rate, suggest that this recovery remains weak (Chart 13a and Chart 13b). In fact, the purchasing managers' index and the household confidence index persist at a level consistent with a continued, but weak expansion of the economy (Chart 13c). The ample slack in the labor market, the considerable idle capacity and a continuous strengthening of the balance sheets of the public and private sectors are anticipated to keep limiting the recovery rate of the region. Nonetheless, the decrease in sovereign risk premia, especially in the countries of the periphery, and an improved situation of banks' funding could relax credit conditions for businesses and households over the next months.

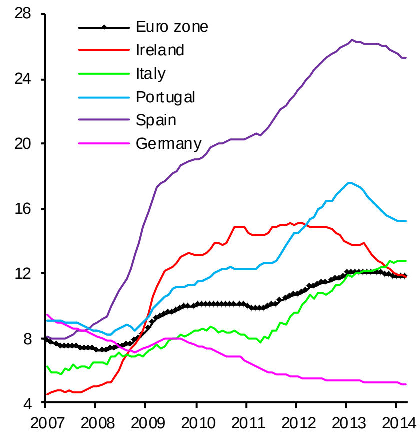
Chart 13
Euro Area Economic Indicators

a) Retail Sales [1/]
Index December 2007=100, s. a.



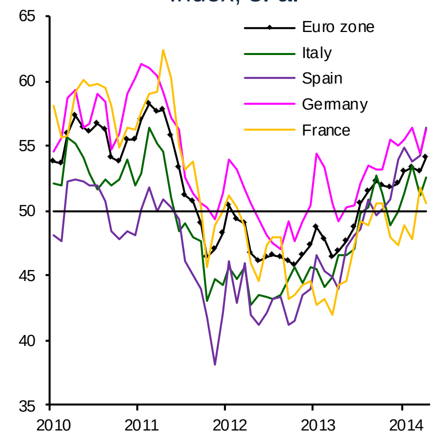
s. a. / Seasonally adjusted figures.
1/ Excluding car sales.
Source: Eurostat.

b) Unemployment Rate
In percent of economically active population, s. a.



s. a. / Seasonally adjusted figures.
Source: Eurostat.

c) Purchasing Managers' Index in the Manufacturing and Services Sector
Index, s. a.



s. a. / Seasonally adjusted figures.
Source: Markit.

It should be noted that sustained growth in the Euro zone requires the implementation of structural reforms, as well as the establishment of a Banking Union that would foster confidence and stability of the financial market. In late March 2014, the European Parliament and the Council of the European Union reached a provisional agreement regarding the legislative proposal of one of the fundamental elements of the Banking Union, the Single Resolution Mechanism (SRM).[2]

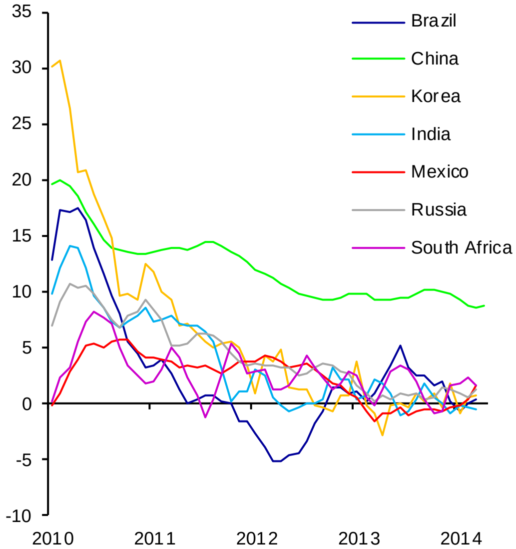
Meanwhile, economic activity in the United Kingdom recorded robust growth in the first quarter of the year. Household expenditure strengthened, while industrial production expanded despite adverse weather conditions at the beginning of the year. Likewise, housing prices and housing credit improved. In Japan, different indicators observed greater dynamism over the first quarter of 2014, after lower than expected growth in the last three months of 2013. Thus, at the beginning of the year, industrial production registered robust growth and retail sales increased at their highest annual rate over the period of more than one year, while the business expectations' indices presented a positive trend. The increase in the tax on consumption, which came into force in April, is expected to affect the evolution of household expenditure in the following months.

Activity in emerging economies decelerated in the first quarter of the year. Industrial production observed lower dynamism, investment registered low growth rates and the purchasing managers' index recorded low levels, especially in China (Chart 14a). Additionally, exports of main emerging economies decelerated in the quarter, in some cases even reverting part of the increment observed in the second half of 2013 (Chart 14b). However, stronger external demand in advanced economies is expected to support growth in emerging economies over the following quarters.

[2] This legislation, approved by the European Parliament in mid-April, establishes new rules for restructuring the European Union (EU) banks in crisis and for revisions to the deposit insurance. The SRM will complement the Single Supervisory Mechanism (SSM, for its acronym in English), in which the European Central Bank will supervise banks in the Euro area, which decide to join the Banking Union.

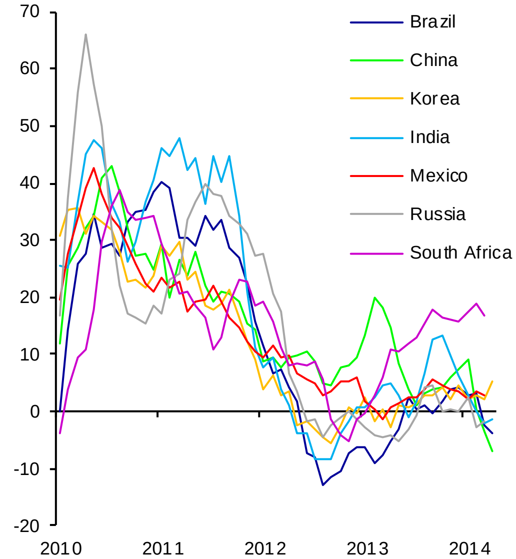
Chart 14
Economic Activity in Emerging Economies

a) Industrial Production
Annual change of the 3-month moving average in percent



Source: Haver Analytics.

b) Exports
Annual change of the 3-month moving average in percent

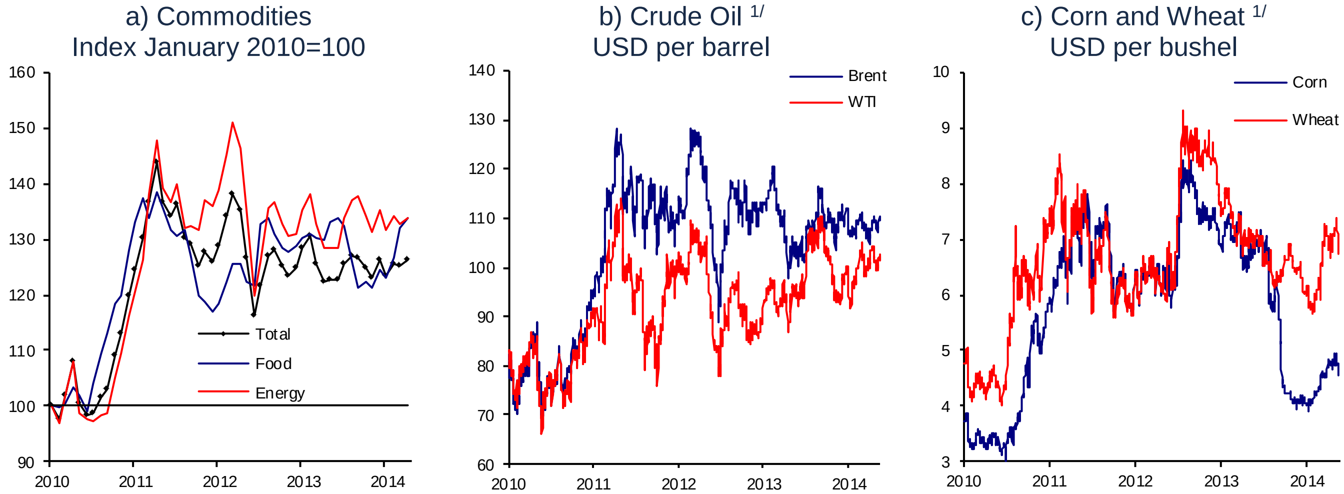


Source: Haver Analytics.

3.1.2. Commodity Prices

International commodity prices presented a mixed trend over the analyzed period (Chart 15a). Crude oil prices were volatile, due to geopolitical risks and a larger oil supply by the Organization of the Petroleum Exporting Countries (OPEC) (Chart 15b). In turn, corn and wheat prices maintained their upward trend, mainly due to concern over the possible effects of droughts on harvests in the U.S. producing regions, although these prices still remain at levels below those achieved in early 2013. As regards the wheat price, the geopolitical risks related to the Ukraine crisis were reflected in its greater volatility (Chart 15c). Finally, the prices of industrial metals dropped, as a result of concerns over a lower demand in China.

Chart 15
International Commodity Prices



Note: Monthly figures as of April 2014.
Source: International Monetary Fund.

1/ Spot prices.
Source: Bloomberg.

1/ Spot prices.
Source: Bloomberg.

3.1.3. World Inflation Trends

World inflation remained at reduced levels in the first quarter, as a result of a considerable slack in advanced economies and the deceleration of various emerging economies (Chart 16). In fact, in some of the main advanced economies, despite the accommodative monetary policy, risks related to low inflation levels emerged, particularly in the Euro zone. Thus, world inflation is expected to remain under control in an environment of relatively stable commodity prices and a persistent slack in most economies.

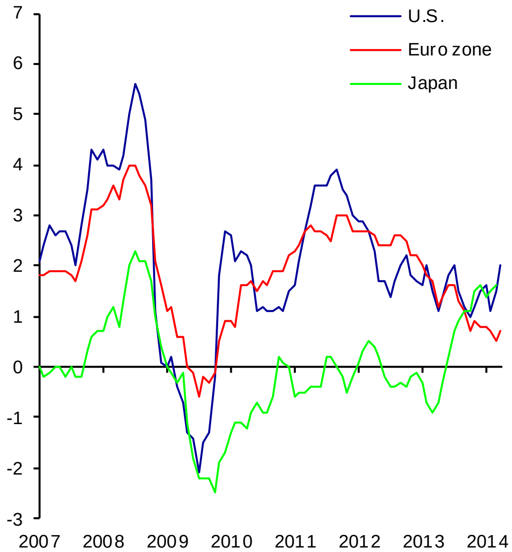
In the U.S., annual headline inflation was 2.0 percent in April, while core inflation located at 1.8 percent. In turn, the annual change of the personal consumption expenditure deflator was 1.1 percent in March, which was below the long-term Federal Reserve target of 2 percent, and its core measure was 1.2 percent.

In the Euro zone, inflation kept presenting a downward trend in the first quarter of the year, even observing deflation in some countries of the region. Hence, annual headline inflation lied at 0.7 percent in April, while core inflation was 1.0 percent in the same month, well below the European Central Bank target of a figure below but close to 2 percent in the medium term. Even though inflation is expected to increase insofar as the economic activity recovers, it is anticipated to remain at a low level for an extended time period.

In Japan, annual inflation lied at 1.6 percent in March, while core inflation was 0.7 percent (excluding food and energy products). Over the next months, inflation may rebound due to the increase in the tax on consumption from 5 to 8 percent in April.

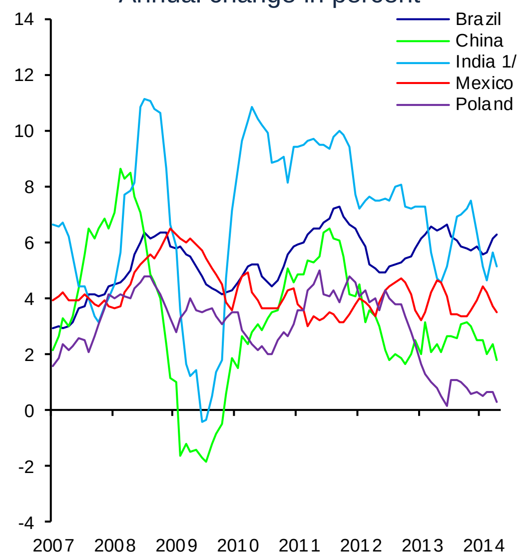
Chart 16
Headline Inflation in Advanced and Emerging Economies

a) Advanced Economies
Annual change in percent



Source: BLS, Eurostat and Japan Statistics Bureau.

b) Emerging Economies
Annual change in percent



1/ It refers to inflation of wholesale prices.
Source: National Statistics Bureaus.

3.1.4. International Financial Markets

In an environment of slack conditions in advanced economies, the deceleration in the emerging ones and lower inflation at the global level, monetary policy in most advanced and emerging economies is anticipated to remain accommodative for a prolonged period of time. In the medium term, it is expected to start normalizing, as in fact it has been gradually happening in the U.S. However, a differentiated withdrawal of the monetary stimulus among advanced economies is expected, depending on the different stages of the business cycle they are going through.

In its monetary policy meetings of December 2013, and January, March and April 2014, the Federal Open Market Committee (FOMC) announced reductions of USD 10 billion in its monthly asset purchases, taking effect in the month following the announcement. Thus, the monthly purchases dropped from USD 85 billion in December 2013 to USD 45 billion in May 2014. Furthermore, the Committee ratified that its decisions regarding the rate of purchases will not follow a predetermined pattern and will depend on the outlook for the labor market and inflation, as well as the cost-effectiveness analysis of the referred purchases. Likewise, the Committee decided to maintain unchanged the target range of the federal funds' rate between 0 and 0.25 percent.

Additionally, in its March monetary policy meeting the Federal Reserve changed its communication strategy. Specifically, as regards the forward guidance for the federal funds rate, it dropped reference to the explicit threshold, regarding the unemployment rate and the expected inflation established in December 2012, so as to focus on the qualitative assessment of the progress of a broad range of economic indicators. This assessment will include labor market conditions, the indicators of inflation pressures and inflation expectations, as well as the evolution of financial markets. In addition, the Federal Reserve noted that the target for its reference rate will remain within its current interval for a considerable period of time, once the program of asset purchases is concluded. Moreover, it mentioned that, if the economic conditions call for it, the reference rate will persist below the levels considered as normal in the long term, even if the unemployment and inflation levels are close to those congruent with the mandate. Also, in the minutes of this meeting, the need to provide the public with additional information regarding the possible evolution of short-term interest rates was discussed, once the first increment in the target for its reference rate takes place. Thus, the new communication strategy has allowed the Federal Reserve to better convey its intention to the markets to maintain a highly accommodative monetary policy for an extended period of time.

The European Central Bank maintained unchanged its reference interest rates and strengthened its forward guidance of the monetary policy during the analyzed period. After having adopted a series of measures in recent years to attenuate the risks to the financial stability in the Euro zone, the ECB faces new challenges derived from the heterogeneity in the growth rates and inflation among different countries of the region. In its last meeting, the Governing Council of this central bank indicated its disposition to use different monetary policy instruments to effectively tackle the risk of an extended period of very low inflation.

In turn, over the referred period, the Bank of Japan (BJ) left unchanged its programmed levels of asset purchases, at an annual rate of JPY 60 and JPY 70 trillion, in order to achieve its 2 percent inflation target over a period of approximately two years. The BJ emphasized that the increase in the tax on consumption in April will produce a negative impact on domestic demand.

Emerging economies kept registering important differences in their monetary policy conduction. On the one hand, both inflation levels and the inflation forecast higher than its target, caused the central banks of Brazil, India, Indonesia, Russia, South Africa and Turkey to raise their interest rates, so as to attenuate the inflationary pressures, stemming mostly from a sharp depreciation of their currencies in the previous months. In contrast, slack conditions in the economy and low inflation with well-anchored expectations have allowed some countries of Emerging Europe and Latin America to maintain unchanged their monetary policy stance, and, in some cases, even to lower their reference rates to support the economic activity.

In this context, financial markets registered higher volatility at the beginning of the year, due to the uncertainty over the process of the U.S. monetary policy normalization. This was also contributed to by concern over the weakness of some emerging economies’ macroeconomic fundamentals. However, from February onwards greater stability in international financial markets was observed, which was reflected in resumed capital flows to emerging markets and in intensified flows to the countries on the European periphery. This was due to the perception that the Federal Reserve will adjust its monetary policy stance in a gradual and more predictable manner, and due to adjustments in the macroeconomic stances of some emerging economies so as to address concerns over their vulnerability.

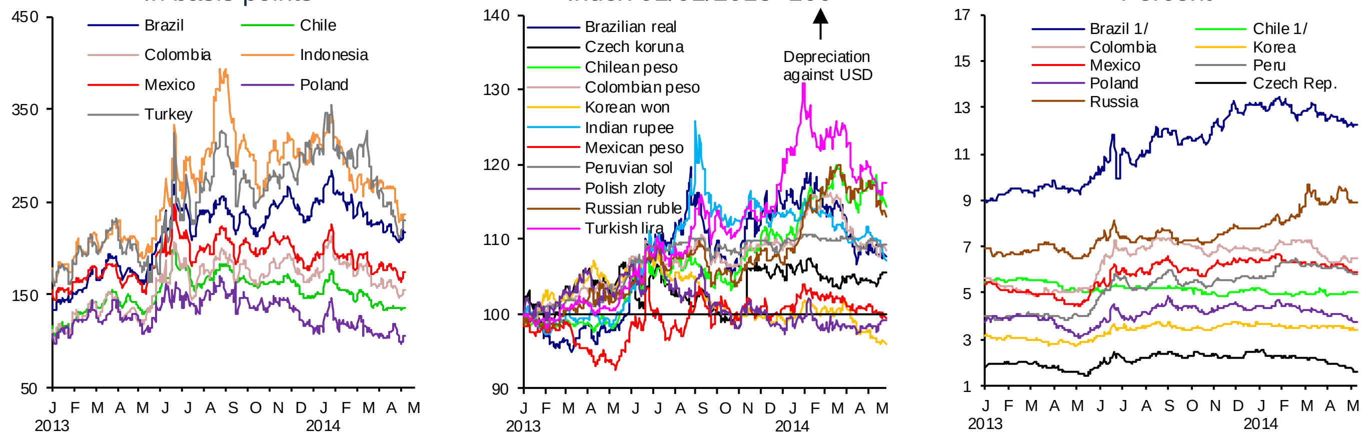
Derived from the abovesaid, a partial correction of the deterioration registered by different financial variables in emerging economies in 2013 and in early 2014 was seen. From February onwards, the prices of emerging economies’ financial assets recovered, with appreciations in most of their currencies, reductions in the interest rates of their government securities and gains in their stock market indices (Chart 17). Thus, in some cases, these increments managed to reverse the losses registered in the first weeks of the year.

Chart 17
Financial Indicators of Emerging Economies

a) Sovereign Spreads
In basis points

b) Exchange Rate
Index 01/01/2013=100

c) 10-year Bond Rates
Percent



Source: Bloomberg.

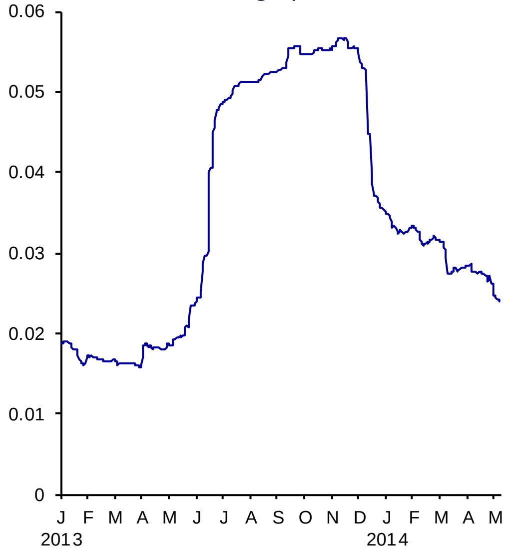
Source: Bloomberg.

1/ It refers to 9-year bonds.
Source: Bloomberg.

Better conditions were also reflected in a significantly decreased volatility of some financial asset prices in emerging economies (Chart 18). In this context, there has been a renewed interest in constructing carry trade in those currencies, whose economies are characterized by higher interest rates with lower exchange rate volatility, as is the case of many emerging ones. It should be pointed out that it is during these episodes of apparent stability when the search for yield in financial markets can generate higher capital flows to emerging economies, an inadequate risk assessment and an asset price misalignment with respect to their fundamentals. In this context, new episodes of correction, which propitiate a disorderly adjustment in capital flows to emerging economies, cannot be ruled out, in particular in the economies with weaker macroeconomic fundamentals. Thus, in some of these economies the size and the structure of the external debt represent an important risk factor. Given this, the need to maintain the macroeconomic policy that would ensure robust growth with stable prices and that would at the same time reduce external financial requirements should be highlighted.

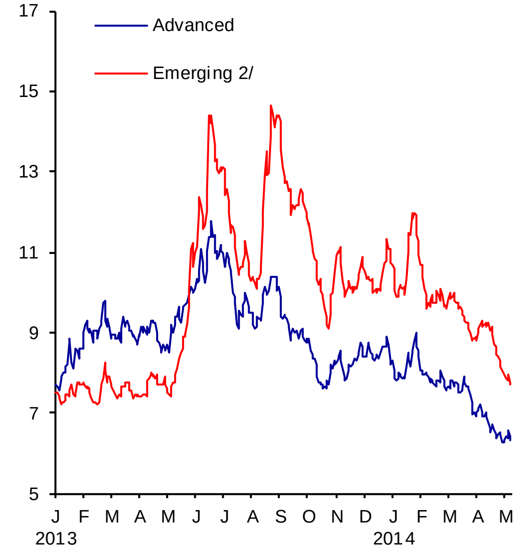
Chart 18
Financial Indicators of Emerging Economies

a) Volatility in Sovereign Bond Yields 1/
Percentage points 1/



1/ Moving standard deviation in past 180 days of daily changes in the Global Diversified EMBI yield.
Source: Prepared by Banco de México with data from Bloomberg.

b) Volatility in Exchange Markets 1/
Percent



1/ Refers to implied volatility derived from 1-month options.
2/ Refers to the simple average of exchange rate options of Brazil, Chile, Korea, India, Mexico, Peru, Poland, South Africa and Turkey.
Source: Bloomberg.

3.2. Developments of the Mexican Economy

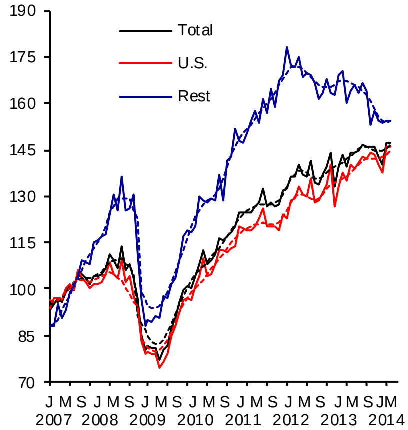
3.2.1. Economic Activity

By the end of 2013 and early 2014, the Mexican economy decelerated, mainly due to temporary factors. These factors seem to have started to reverse, so that by the end of the first quarter of the current year some indicators of the economy started to improve. This has been more evident in external demand and incipient in some domestic demand-related indicators. However, given the low dynamism of the economy at the beginning of the year, for the analyzed quarter it is expected to have expanded less than anticipated in the previous Report.

On further analysis, even though manufacturing exports presented a monthly seasonally adjusted decrease in January, mostly as a result of adverse weather conditions in the U.S., in February and March an improvement was observed in these exports. In particular, this performance reflects greater dynamism registered by exports to the U.S. in these months, especially automobile exports (Chart 19). In that regard, it should be noted that despite volatility in manufacturing exports to the U.S. in recent months, and, therefore, certain weakness in the Mexican manufacturing sector as compared to the U.S., evidence suggests that it is due to transitory factors and that the close link between the manufacturing sectors of Mexico and the U.S. has not been structurally affected (see Box 1).

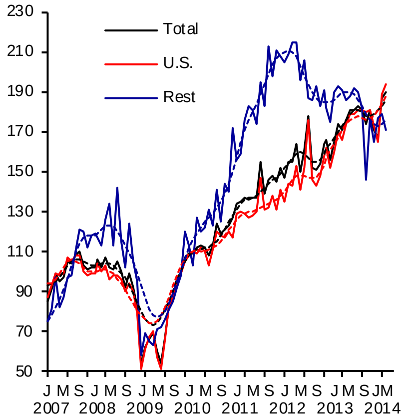
Chart 19
Indicators of Manufacturing Exports
Index 2007=100, s. a.

a) Manufacturing Exports by Region of Destination



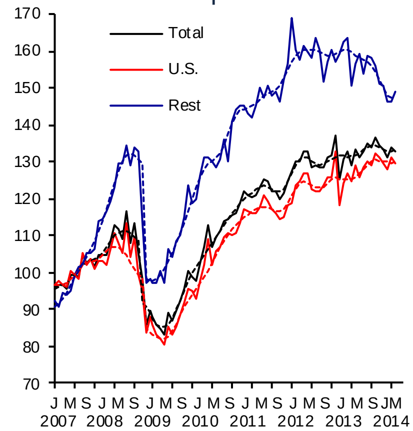
s. a. / Seasonally adjusted series and trend series. The former is represented with a solid line and the latter, with a dotted line.
Source: Banco de México.

b) Automobile Manufacturing Exports



s. a. / Seasonally adjusted series and trend series. The former is represented with a solid line and the latter, with a dotted line.
Source: Banco de México.

c) Non-automobile Manufacturing Exports



s. a. / Seasonally adjusted series and trend series. The former is represented with a solid line and the latter, with a dotted line.
Source: Banco de México.

Even though weakness of domestic demand, registered in late 2013, persisted at the beginning of the first quarter of 2014, by the end of the same quarter an incipient improvement was recorded in some of its indicators.

i. In particular, although the contraction of private consumption in January implied that ANTAD sales contracted in the quarter as a whole, it is noteworthy that these sales tended to increase in February and March (Chart 20a). In turn, although commercial establishments' wholesale and retail sales stagnated in recent months, the trend of the monthly indicator of private consumption in the domestic market, which also includes the purchase of services, has recovered slightly (Chart 20b and Chart 20c).

Box 1
Synchronization of Economic Activity between Mexico and the U.S.

1. Introduction

Since the signing of the North American Free Trade Agreement (NAFTA), Mexico and the U.S. have presented highly synchronized economic cycles. In particular, the Mexican economy has presented a tendency to closely follow the U.S. economy throughout the economic cycle, both when it expands and when the productive activity in the U.S. decreases. This seems to be a consequence of the greater trade and productive integration between the two countries, as a result of which the respective manufacturing sectors share both a common long-term trend and the same cyclical component. This Box presents evidence of the referred synchronization.

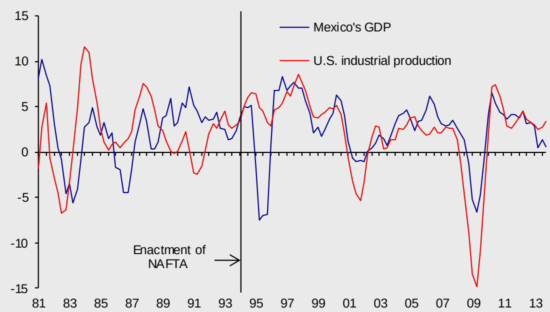
Despite the above mentioned, in recent months concern has surged regarding the apparent weakening of the economic link between the two countries. In this context, it will also be shown that, although recently the Mexican economy indeed seems to have expanded below what would be expected considering the performance of the U.S. economy, this apparent dissociation could have been caused by transitory factors, and not necessarily by a permanent structural change in the relation between these two countries' economies. Thus, the economic cycles of Mexico and the U.S. are still anticipated to remain synchronized.

2. Integration of the Mexican and the U.S. Economies

From 1996 onwards, after the immediate effects of the 1995 crisis faded, the U.S. industrial production and Mexico's GDP have recorded similar growth rates and a very similar dynamic throughout the economic cycle (Chart 1). This contrasts with the performance prior to NAFTA, when the correlation between the economic cycles of Mexico and the U.S. was clearly lower.[1]

Although the commercial links between Mexico and the U.S. were evident even prior to NAFTA, the implementation of the treaty reinforced them. Indeed, this agreement consolidated trade of manufactured goods, which has predominantly been intra-industry trade and has derived from different agreements of shared production between these countries. In particular, NAFTA has allowed to further exploit the comparative advantages of each country in different processes throughout the production chain. This vertical integration led to an increased trade between these two countries, to a similar response of the manufacturing sectors of both countries to demand shocks on manufactured goods, and to stronger ties between these sectors throughout the productive chain. In turn, as a result of these, after signing the agreement, a common long-term trend emerged in the manufacturing sectors of Mexico and the U.S. (Chiquiar and Ramos Francia, 2005).

Chart 1
Mexico's GDP and U.S. Industrial Production
Annual change in percent, s.a.



s.a./ Seasonally adjusted data.
Source: INEGI, Federal Reserve Board and Banco de México's calculations.

Below, evidence is presented suggesting a link between these economies at a higher frequency than previously documented. In particular, the reported econometric estimation shows that not only is there a long-term relation between the manufacturing activities of Mexico and the U.S., but also that the economic cycles of these countries have been more synchronized since 1996. That is, it is observed that after signing the NAFTA, the structural association of the Mexican economy with the U.S. economy has increased, both at the low frequency and at the frequency of the economic cycle.

To illustrate the above, the methodology of Vahid and Engle (1993) was used, which allows conducting synchronization tests, as well as estimating the parameters that describe the relations between the studied variables, which in this case are the manufacturing production in Mexico and in the U.S. This methodology is an extension of the vector autoregression model (VAR) with restrictions on long- and short-term relations between the variables included in the VAR. The test is carried out in two stages.

First, it is analyzed if there is a long-term relation (cointegration) between the variables included in the VAR, for which Vahid and Engle suggest applying the Johansen trace test (1991). This test consists in determining, in the particular case of series with a unit root (I(1)), if there is at least one linear combination of

[1] Between 1981 and 1993 the correlation between the annual growth rates of Mexico's GDP and the U.S. industrial production was 0.14, while that corresponding to the period from 1994 to 2013 is 0.64.

these series in levels without a unit root. Thus, it is possible to determine if there is a common trend between the variables included in the VAR and what the coefficients' vector that reflects this relation is.

Afterwards, once the cointegration between the series has been proved, Vahid and Engle propose a test of "common cycles". In statistical terms, a series is considered to present a cyclical behavior, if it has a given pattern of serial autocorrelation. In this context, it is stated that there is a common cycle between two series if a linear combination of the referred series, expressed in first differences (stationary) is identified, so that this combination no longer shows the serial autocorrelation pattern shown by the series individually.

The methodology of Vahid and Engle was applied to a VAR, which includes the logarithms of Mexico's manufacturing GDP and the U.S. manufacturing production, using quarterly seasonally adjusted data for the period from 1996-I to 2013-IV.[2] The first two lags of each variable were included in the VAR, which was determined based on the Schwarz Bayesian criterion. The results of the applied cointegration test indicate that the null hypothesis of no-cointegration is rejected at the 1 percent significance level (Table 1). Thus, the previous results suggest that there is a long-term relation between the manufacturing production in Mexico and in the U.S. in the analyzed period.

On the other hand, the null hypothesis that the number of common cycles is greater than zero cannot be rejected at the 1 percent significance level, while the hypotheses that the number of common cycles is above one is rejected at the same significance level (Table 2). In this way, the Vahid and Engle test suggests the presence of a common cycle between the manufacturing production of Mexico and that of the U.S. Thus, the evidence shown points to the existence of a significant synchronization between these two variables, both at a low frequency (long-term trend) and throughout the economic cycle. It should be noted that the abovedescribed tests were also carried out for the samples that began before the enactment of NAFTA. No evidence of either a long-term relation or common cycles was found, which reinforces the perception that a close link between the manufacturing production of Mexico and that of the U.S. occurred above all after the signing of the referred agreement.

The strengthening of the structural relation between the manufacturing sectors of Mexico and the U.S. since the signing of NAFTA, in turn, led to a greater synchronization of the Mexican economy with the U.S. industrial sector at a more aggregated level. Indeed, using an analysis similar to the one described above, evidence was found that for the period 1996-2013 total GDP of Mexico shows both a significant cointegration relationship and a common cycle with the U.S. total industrial production. On the other hand, the results of the analysis for samples starting before the implementation of NAFTA suggest that this close link is only observed after the introduction of the treaty.

[2] This analysis is an extension of that performed in Herrera (2004), which was carried out to analyze the economic synchronization at the GDP level of Mexico and the U.S.

Table 1
Cointegration Analysis between Manufacturing GDP of Mexico and U.S. Manufacturing Production
1996-I to2013-IV

Null hypothesis on the number of cointegrating vectors:	Trace statistic	1% Critical value 1/
None	20.01*	19.94
Maximum 1	2.90	6.63
	y1	y2
Cointegrating vector:	1	-1.02

* Rejects the null hypothesis at the 1 percent significance level.
Where:
y1 is the logarithm of the real manufacturing GDP of Mexico, seasonally adjusted figures.
y2 is the logarithm of the U.S. manufacturing production index, seasonally adjusted figures.
1/ Critical values taken from MacKinnon et al. (1999).

Table 2
Common Cycle Analysis between Manufacturing GDP of Mexico and U.S. Manufacturing Production1/
1996-I to 2013-IV

Null hypothesis on the number of common cycles:	Common cycle test statistic	1% Critical value 2/
More than 0	10.76	13.28
More than 1	102.48*	23.21
	Δ(y1)	Δ(y2)
Common cycle vector	1	-0.94

* Rejects the null hypotheses at the 1 percent significance level.
Where:
Δ is the change with respect to the previous period in the logarithm of the variable in parenthesis.
y1 is the logarithm of the real manufacturing GDP of Mexico, seasonally adjusted figures.
y2 is the logarithm of the U.S. manufacturing production index, seasonally adjusted figures.
1/ Suggested by Vahid and Engle (1993).
2/ Critical values obtained from the χ^2 distribution with degrees of freedom computed, according to Vahid and Engle (1993).

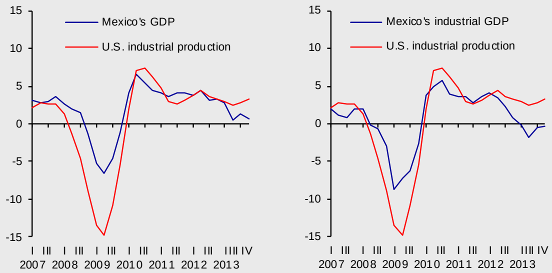
3. Recent Evolution of the Relationship between the Economies of Mexico and the U.S.

From the second half of 2012 onwards, the Mexican economy experienced a deceleration that was more pronounced than anticipated, given the performance of the U.S. economy. This can be observed in the evolution of seasonally adjusted annual rates at the end of the sample of Mexico's GDP, as compared to those of the U.S. industrial production (Chart 2a). The divergence at the end of the sample is more evident when the growth rates of the industrial activity indices of both countries are analyzed (Chart 2b), which has generated concern regarding a possible dissociation between the economies of Mexico and the U.S.

Chart 2

a) Mexico's GDP and U.S. Industrial Production
Annual change in percent, s.a.

b) Industrial Production of Mexico and the U.S.
Annual change in percent, s.a.

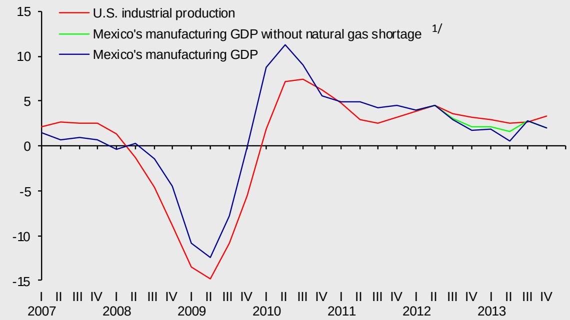


s.a./ Seasonally adjusted figures.
Source: INEGI and Federal Reserve Board.

Despite this, the apparent dissociation recently presented between the economies of Mexico and the U.S. could be caused by the fact that specific temporary shocks, such as those described in the last Quarterly Reports, negatively affected only the performance of the Mexican economy. These factors could have affected growth of the industrial production in Mexico in the short term, without necessarily implying a rupture in the structural integration of productive chains between Mexico and the U.S.

For example, the negative trend in the construction sector observed throughout the last economic cycle led to greater weakness of Mexico's industrial production, in terms relative to the performance of the domestic manufacturing activity. Once this negative factor is controlled for and attention is drawn to the manufacturing sector, the growth rates of this sector's production and of the U.S. industrial production indicate a very close dynamics, even though the weaker dynamism of the economic activity in Mexico is still observed as compared that in the U.S. (Chart 3). However, it is relevant to recall that, in early 2013, and above all in the second quarter of that year, the production of the manufacturing sector in Mexico was limited due to a problem of natural gas shortage (see Box "Impact of the Natural Gas Shortage on the Economic Activity" in the Inflation Report July – September 2013). Once this effect is controlled for as well, using the reported estimates of the referred Box, an even closer performance between the series of the U.S. industrial production and the manufacturing production of Mexico is observed (Chart 3). Other temporary shocks that, to a lesser extent, may also have affected the recent performance of the economic activity in Mexico, in terms relative to the U.S., is a delay in public expenditure during 2013 and the reduced consumer confidence at the end of last year and at the beginning of the current one.

Chart 3
Mexico's Manufacturing GDP and U.S. Industrial Production
Annual change in percent, s.a.



1/ Estimate based on the Box "Impact of the Natural Gas Shortage on the Economic Activity" in the Inflation Report July - September 2013.
s. a./ Seasonally adjusted figures.
Source: INEGI, Federal Reserve Board and Banco de México's estimate.

Thus, the referred domestic factors seem to largely account for the apparent dissociation between the two economies, recently observed. Below, a more detailed analysis is presented to evaluate if there is evidence of a dissociation in the productive chains of both countries, which may imply or not a structural change. For that, in addition to considering the relation between the manufacturing production of Mexico and the U.S. as a whole, the relation at the level of each manufacturing sector in particular was also analyzed. The analysis is based first on a descriptive exercise of the relations between the evolution of Mexican exports and the U.S. manufacturing production, and, afterwards, on statistical tests of the rupture in the relation of cointegration at the end of the sample, using the methodology of Andrews and Kim (2006).

In particular, first the correlations between the annual variations of Mexico's manufacturing exports to the U.S. by sector and those of the U.S. manufacturing production of the corresponding sector were calculated.[3] Furthermore, the correlations between total Mexican manufacturing exports to the U.S. and total manufacturing production of that country were estimated. Likewise, the correlation between these two items excluding the automobile sector was calculated. The correlations were calculated for a sample covering from the first quarter of 2008 to the second one of

[3] Seasonally adjusted data were used. To classify exports in accordance with the North American Industry Classification System (NAICS) and to link them to U.S. industrial production data, "the Correlation Table between the General Imports and Exports Tariff (TIGIE) and the North American Industrial Classification System (NAICS)" was used, which is the bridge between the two referred classifications. In addition, export data were deflated by the U.S. consumer price index to express them in real terms.

2012, before the signs of the presented dissociation.[4] Second, the same correlations were calculated, but extending the sample until the first quarter of 2014, the last period with available data.

As can be seen in Table 3, it stands out that the correlation between the growth rates of Mexico's manufacturing exports to the U.S. and the U.S. manufacturing production practically did not change between the two considered periods. This evidence points to the fact that the synchronization between Mexico and the U.S. has persisted. Once the results by sector are analyzed, a slight reduction in the correlation of some of them is observed. However, this decrease is relatively small and may still be affected by short-term events, reason for which below a more formal analysis of the long-term relation between the manufacturing sectors of Mexico and the U.S. is conducted.

In particular, to formally evaluate a hypothesis of a possible dissociation between these sectors, the Andrews and Kim test (2006) was used. The aim of this test is to identify possible ruptures in the cointegration between two series at the end of the sample. Based on a cointegartion relation between two variables in most of the sample, the test consists in verifying that such relationship can be sustained for the data at the end of the sample. For that, the statistical properties of the residuals of the relation between the variables subject to analysis are used. The test verifies that there is no significant change in the parameters of the cointegrating relation in the part of the sample before the period in which a structural change is presumed to have possibly taken place in relation to the rest of the sample, based on a comparison of the performance of residuals before and after the point in which a possible structural change is presumed.

The test was implemented to verify that the cointegrating relationship between Mexico's manufacturing exports to the U.S. and the U.S. industrial production, at the level of each sector, did not undergo a structural change from October 2013 onwards. As shown in Table 4, only in 3 sectors, indicated in red, evidence is found of a possible breakdown of the relation of cointegration over the last six months of the sample. Such subsectors are: the plastic and rubber industry, the nonmetallic mineral non-metal products' manufacturing, and the furniture and related products' manufacturing. It should be noted that these subsectors as a total represent 4 percent of the Mexican manufacturing exports to the U.S. in 2013. Therefore, the results suggest that for the sectors that represent 96 percent of Mexico's manufacturing exports to the U.S., no evidence of a structural change in its long-term relation with the U.S. manufacturing production is found. In accordance with this, a rupture in its cointegrating relationship with the U.S. manufacturing production in the total manufacturing exports over the last six months is not identified either.

[4] A precise classification of exports according to the NAICS can only be obtained from 2007 onwards.

Table 3
Correlation between Mexico's Manufacturing Exports to the U.S. and U.S. Manufacturing Production*

Subsector	Percentage of total manufacturing exports in 2013	From 2008:I to 2012:II	From 2008:I to 2014:I
Total manufacturing	**100.00**	**0.83**	**0.78**
Manufacturing excl. motor vehicles and their comp.	**68.73**	**0.69**	**0.60**
Motor vehicles and their components	31.27	0.94	0.93
Communications, computer and other equip.	24.79	0.50	0.46
Accesories and electric power generation equip.	8.87	0.78	0.75
Machinery and equipment	8.66	0.80	0.78
Primarly metal industry	3.51	0.86	0.70
Food, beverage and tobacco industries	3.51	-0.19	-0.35
Fabricated metal products	3.36	0.95	0.94
Other manufacturing industries	2.92	0.62	0.46
Plastic and rubber industry	2.18	0.91	0.88
Apparel	2.09	0.94	0.84
Transportation and aerospace equipment	2.02	0.65	0.62
Chemicals	2.02	0.69	0.58
Oil and coal	1.47	-0.45	-0.21
Nonmetallic mineral products	1.12	0.89	0.89
Textile inputs manufacturing	0.72	0.86	0.85
Furniture and related products	0.71	0.76	0.79
Paper	0.46	0.68	0.61
Printing and related industries	0.15	0.68	0.61
Wood products	0.15	0.85	0.80

* Correlations between the annual percentage change rate of the seasonally adjusted quarterly series of Mexican manufacturing exports to the U.S. and that corresponding to the U.S. manufacturing production are reported.

Table 4
End of Sample Cointegration Breakdown Tests between Mexico's Manufacturing Exports to the U.S. and U.S. Manufacturing Production

Subsector	P-Value*		Percentage of total manufacturing exports in 2013
	Pc	Rc	
Total manufacturing	47.37	51.32	
Motor vehicles and components	22.37	23.68	31.27
Communications, computer and other equip.	63.16	52.63	24.79
Accessories and electric power generation equip.	34.21	30.26	8.87
Machinery and equipment	69.74	61.84	8.66
Primarly metal industries	72.37	73.68	3.51
Food, beverage and tobacco industry	86.84	71.05	3.51
Fabricated Metal products	35.53	31.58	3.36
Other manufacturing industries	82.89	57.89	2.92
Plastic and rubber industry	7.89	6.58	2.18
Apparel	96.05	100	2.09
Transportation and aerospace equipment manufacturing	31.58	19.74	2.02
Chemicals	39.47	28.95	2.02
Oil and coal	67.11	89.47	1.47
Nonmetallic mineral products	9.21	9.21	1.12
Textile inputs	31.58	23.68	0.72
Furniture and related products	2.63	3.95	0.71
Paper	53.95	53.95	0.46
Printing and related industries	51.32	52.63	0.15
Wood industry	34.21	23.68	0.15

* P-value for each test is reported in percent. For P-values over 10 the null hypothesis sustaining that the cointegrating relatioship is the same for the whole sample is not rejected.

4. Conclusions

This Box shows, though an econometric exercise, that there is a long-term relationship between Mexico's productive activity and the U.S. industrial sector, and that these countries' economic cycles tend to be synchronized. In this context, although in recent months a divergence has been registered between the growth rates of GDP and of the manufacturing sectors in the referred countries, this could be a temporary event. Indeed, it was argued that this performance is congruent with the presence of different temporary shocks that affected exclusively the performance of the Mexican economy in the short term. In fact, evidence of stability in the long-term relation at the end of the sample between Mexico's manufacturing exports to the U.S. and the U.S. manufacturing production was presented. Thus, it is anticipated that, in the absence of new domestic shocks, greater dynamism of the U.S. economy could be translated into a greater impulse to the growth of Mexico's manufacturing sector.

However, the long-term relation and the synchronization of the economic cycles of Mexico and the U.S. cannot be taken for granted in the future. If changes in the composition of the U.S. manufacturing production are to occur, in particular with a greater bias towards activities of highest technology in which Mexico could have a less close relation, or towards a rupture in the vertical integration due to a change in the U.S. production structure, which would reduce the importance of processes intense in the labor factor, weakening of the link between the two countries could occur. Another element to consider is that Mexico could remain connected in sectors that in the long run have tended to observe a reduction in their participation within the U.S. industrial activity, such as the case of, for example, the textile and apparel industry. In this context, the importance of advancing with structural reforms in Mexico, that can boost productivity and the allocation of resources towards their most productive uses stands out. In this way, in addition to generating domestic sources of growth, the reallocation of resources towards the sectors in which comparative advantages persist, despite the changes in the productive composition of the main trading partner of the country, could be facilitated.

References

[1] Andrews, D., and J. Kim, (2006), "Tests for cointegration breakdown over a short time period," Journal of Business and Economic Statistics 24(4): 379-394.

[2] Chiquiar, D. and M. Ramos Francia, (2005), "Trade and business-cycle synchronization: evidence from Mexican and U.S. manufacturing industries", North American Journal of Economics and Finance 16 187–216.

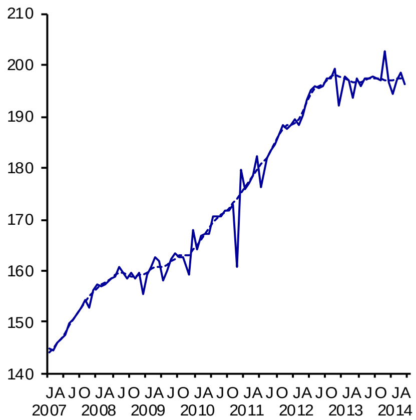
[3] Herrera, J., (2004), "Business cycles in Mexico and the United States: Do they share common movements?" Journal of Applied Economics VII (2): 303-323.

[4] Johansen, S., (1991), "Estimation and Hypothesis Testing of Cointegration Vectors in Gaussian Vector Autoregressive Models," Econometrica 59: 1551-1580.

[5] Vahid, F., and R. Engle, (1993), "Common Trends and Common Cycles," Journal of Applied Econometrics 8: 341-360.

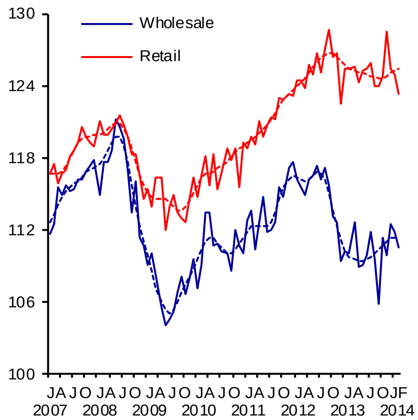
Chart 20
Consumption Indicators

a) Total ANTAD Sales
Index 2003=100, s. a.



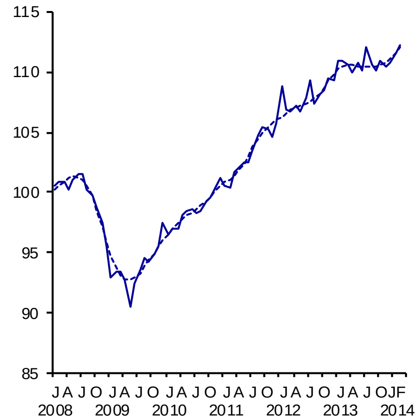
s. a. / Seasonally adjusted series and trend series. The former is represented with a solid line and the latter, with a dotted line.
Source: Prepared by Banco de México with ANTAD data.

b) Commercial Establishments' Sales
Index 2003=100, s. a.



s. a. / Seasonally adjusted series and trend series. The former is represented with a solid line and the latter, with a dotted line.
Source: Monthly Survey of Commercial Establishments, INEGI.

c) Monthly Indicator of Private Consumption in the Domestic Market
Index 2008=100, s. a.

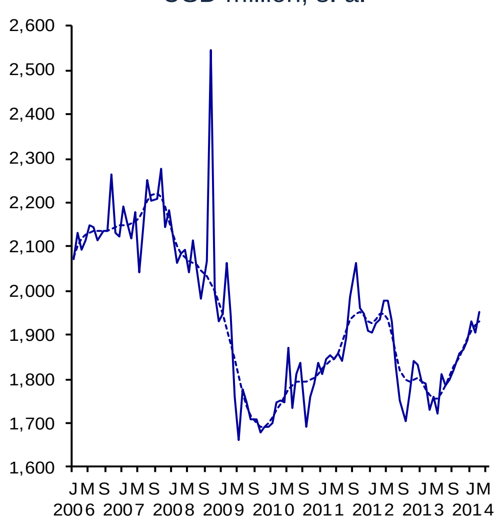


s. a. / Seasonally adjusted series and trend series. The former is represented with a solid line and the latter, with a dotted line.
Source: INEGI.

ii. Furthermore, in recent months the performance of some consumption determinants improved incipiently, as is the case of workers' remittances (Chart 21a). In turn, the consumer confidence index rebounded in the period of February-April 2014, albeit from the low levels registered after the decreases of December and January (Chart 21b).

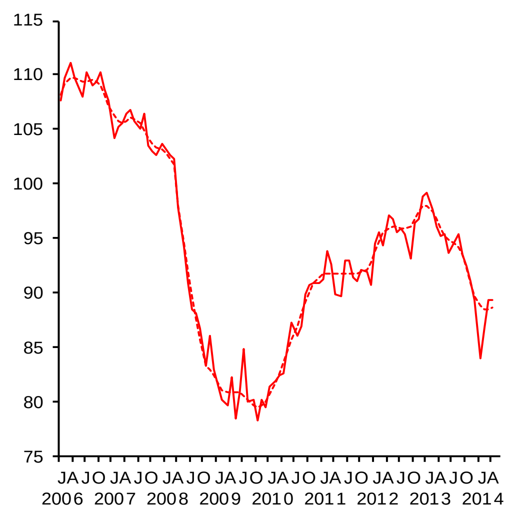
Chart 21
Consumption Determinants

a) Workers' Remittances
USD million, s. a.



s. a. / Seasonally adjusted series and trend series. The former is represented with a solid line and the latter, with a dotted line.
Source: Banco de México.

b) Consumer Confidence Index
Index Jan 2003=100, s. a.

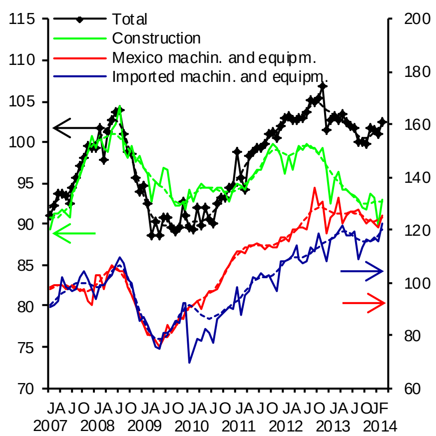


s. a. / Seasonally adjusted series and trend series. The former is represented with a solid line and the latter, with a dotted line.
Source: National Consumer Confidence Survey (ENCO), INEGI and Banco de México.

iii. Some gross fixed investment indicators started to observe a favorable change in trend, although still an incipient one. In particular, imports of capital goods have presented a positive trend since late 2013, while investment in housing construction has not registered a negative evolution since November 2013 (Chart 22).

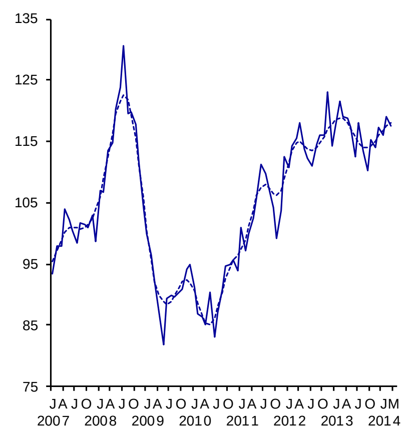
Chart 22
Indicators of Investment

a) Investment and its Components
Index 2008=100, s. a.



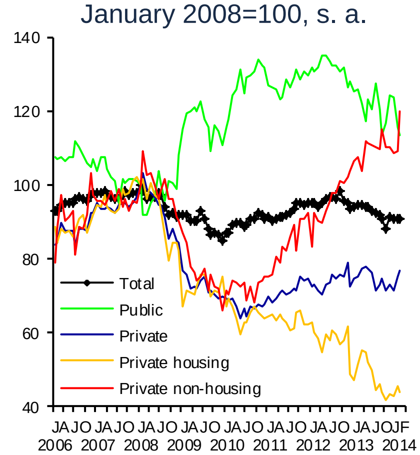
s. a. / Seasonally adjusted series and trend series. The former is represented with a solid line and the latter, with a dotted line.
Source: Mexico's System of National Accounts, INEGI.

b) Imports of Capital Goods
Index 2007=100, s. a.



s. a. / Seasonally adjusted series and trend series. The former is represented with a solid line and the latter, with a dotted line.
Source: Banco de México.

c) Real Value of Production in the Construction Sector by Contracting Institutional Sector
January 2008=100, s. a.



s. a. / Seasonally adjusted data. For public and private construction (housing and total private non-housing), the seasonal adjustment was prepared by Banco de México with data from INEGI.
Source: INEGI..

iv. During the first quarter of 2014, public expenditure was exercised in line with the original program, registering high annual growth rates. In particular, higher expenditure on public investment and higher subsidies and transfers, which encompass the Mexican government social programs, are noteworthy.

Based on the described evolution of external and domestic demand, the main components of productive activity remained weak in the analyzed quarter as a whole, even though by the end of this quarter a modest reactivation was observed (Chart 23a). In particular,

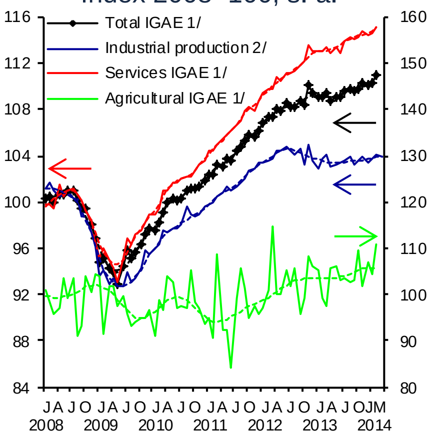
- Over the first months of the year, industrial production improved moderately, even though it was observed after the contraction of December 2013. This evolution largely reflected the reactivation of the manufacturing industry as compared to the low levels registered in late 2013. On the other hand, the construction sector does not seem to present a negative trend any longer (Chart 23b).

- Although the services' sector stagnated in January, principally derived from the contraction in domestic demand-related services, such as professional services, corporate services and business support services, and recreation services and other, in February this sector as a whole registered a rebound. This improvement reflected, in line with the recovery of the manufacturing exports in February 2014, greater dynamism of external demand-related services (Chart 23c).

- The positive trend of the agricultural activity in the first quarter of 2014 largely derived from a higher crop yield of the autumn-winter cycle. Notably, as a consequence of heavy rainfall in September 2013 due to the hurricanes "Ingrid" and "Manuel", the country's main dams reached high storage levels, which led to both a greater cultivated area and to higher crop yields.

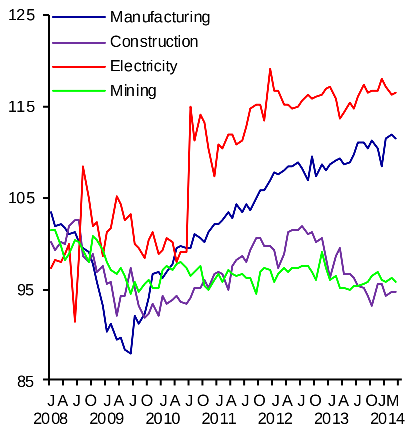
Chart 23
Indicators of Production

a) Economic Activity Indicators
Index 2008=100, s. a.



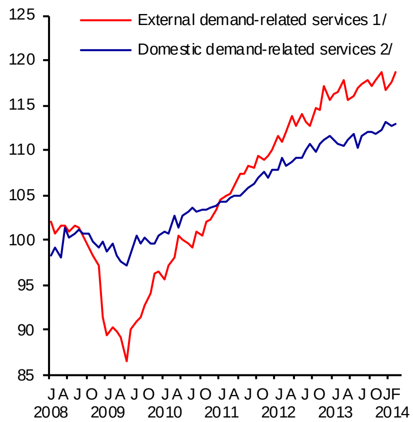
1/ Data as of February 2014.
2/ Data as of March 2014 of the Indicator of Industrial Activity.
s. a. / Seasonally adjusted series and trend series. The former is represented with a solid line and the latter, with a dotted line.
Source: Mexico's System of National Accounts, INEGI.

b) Industrial Activity
Index 2008=100, s. a.



s. a. / Seasonally adjusted data.
Source: Indicators of Industrial Activity (Mexico's System of National Accounts, SCNM), INEGI.

c) IGAE of the Services Sector
Index 2008=100, s. a.



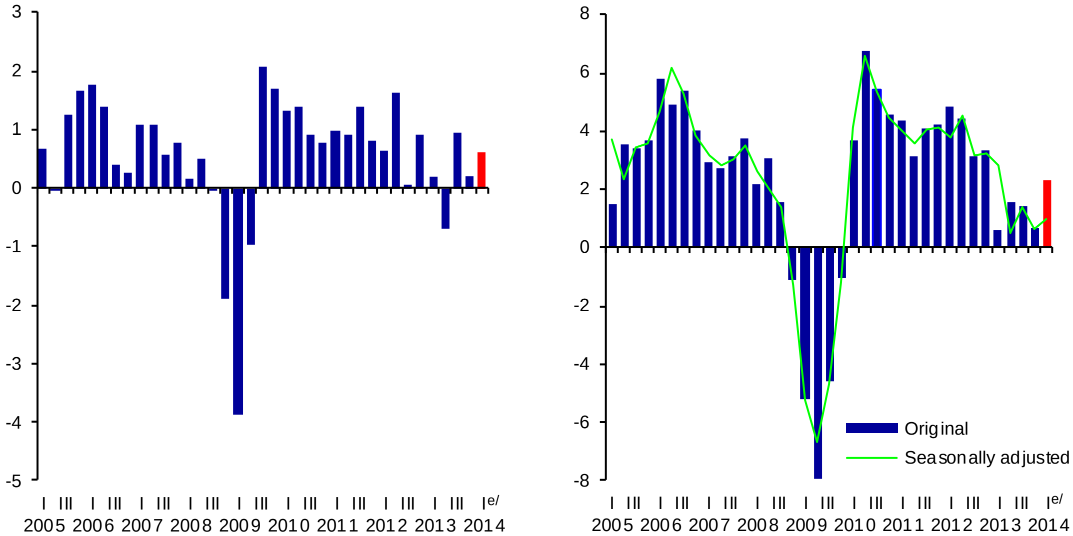
1/ It includes commerce, transport, mail and warehousing, and mass media services.
2/ It includes the remaining sectors of tertiary activities.
s. a. / Seasonally adjusted data.
Source: Prepared by Banco de México with data from Mexico's System of National Accounts, INEGI.

As a result of the abovesaid, for the first quarter of 2014 Mexico's GDP is estimated to have registered a quarterly seasonally adjusted growth around 0.6 percent, a figure that is compared to the growth of -0.69, 0.95 and 0.18 percent in the previous three quarters (Chart 24a). An annual seasonally adjusted GDP growth of about 1.0 percent is estimated for the first quarter of 2014, as compared to 0.5, 1.4 and 0.6 percent observed over the last three quarters, respectively. It should be clarified that, based on data without seasonal adjustment, an annual GDP growth of 2.3 percent is anticipated in the quarter, a figure that is positively affected by the fact that the Holy Week took place in April, while in 2013 it was in March (Chart 24b). For the same reason, the annual GDP growth without seasonal adjustment will tend to be affected negatively in the second quarter of the year.

Chart 24
Gross Domestic Product

a) Quarterly Change
Percent, s. a.

b) Annual Change
Percent

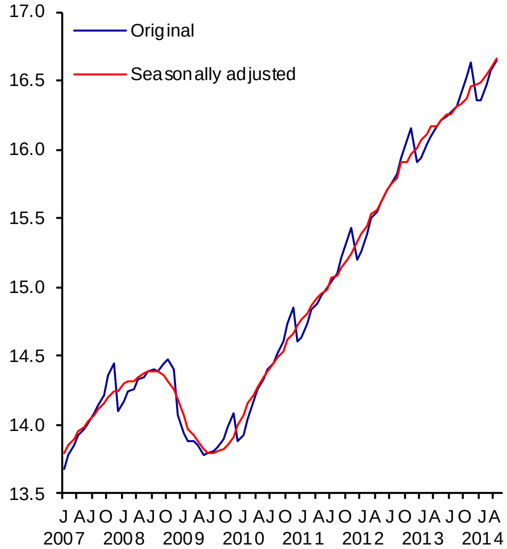


s. a. / Seasonally adjusted data.
e/ Estimated by Banco de México.
Source: Mexico's System of National Accounts, INEGI. Seasonal adjustment up to the first quarter of 2014 by Banco de México.

In this context, available data suggest that ample slack conditions persist in the labor market. Indeed, although the number of IMSS-insured workers maintained an upward trend (Chart 25a), the national and urban unemployment rates are at higher levels with respect to the pre-crisis ones, and there was even a rebound at the end of the first quarter (Chart 25b). The output gap is still negative, reflecting an ample slack in the economy as a whole. Hence, no inflationary pressures are anticipated over the following months, derived from the expected evolution of aggregate demand.

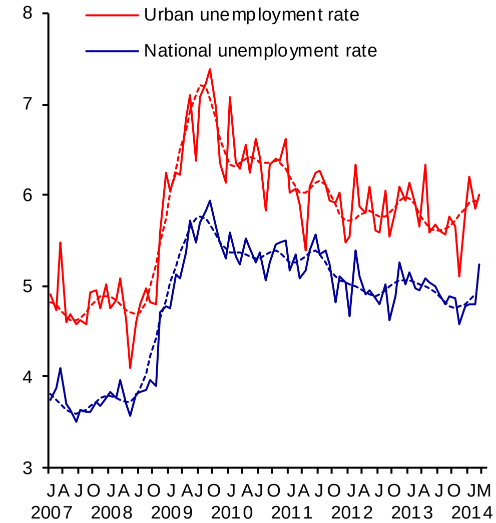
Chart 25
Labor Market Indicators

a) IMSS-insured Workers [1/]
Millions of workers



1/ Permanent workers and temporary workers in urban areas.
Source: IMSS. Seasonal adjustment by Banco de México.

b) National and Urban Unemployment Rates
Percent, s. a.

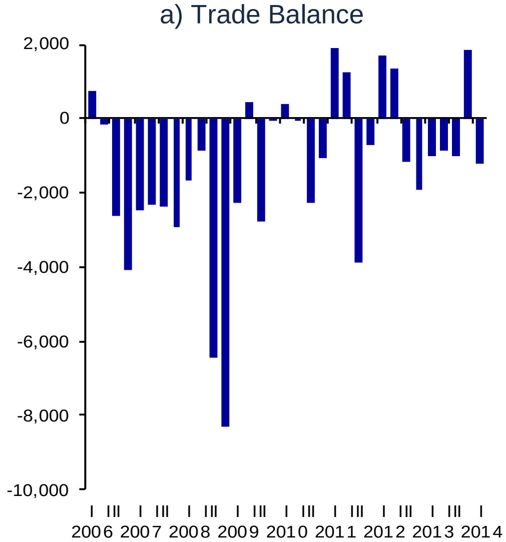


s. a. / Seasonally adjusted series and trend series. The former is represented with a solid line and the latter, with a dotted line.
Source: National Employment Survey (ENOE), INEGI.

Finally, as regards the external accounts, in the first quarter of 2014 the trade balance recorded a deficit of USD 1,192 million (Chart 26a). Available data suggest that in this period the current account will have observed a moderate deficit and that the country continued receiving capital flows via the financial account, sufficient to allow an easy financing of the referred deficit (Chart 26b).

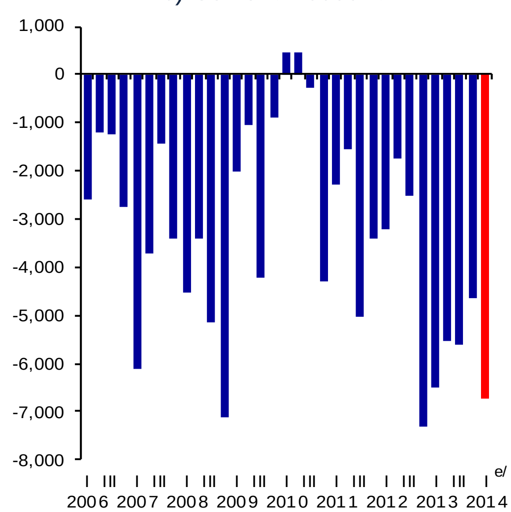
Chart 26
Trade Balance and Current Account
USD million

a) Trade Balance



Source: Banco de México.

b) Current Account



e/ Estimated by Banco de México.
Source: Banco de México.

3.2.2. Financial Saving and Financing in Mexico

In the first three months of the year, the monetary base presented an average annual nominal rate of change of 9.6 percent, which was above the 6.8 percent rate observed in the last quarter of 2013.[3] This was mainly due to the fact that the monetary base expansion in 2013 was impacted by a reversal of the greater demand observed in 2012 as a result of the electoral period.

In the first quarter of 2014 the sources of financial resources of the economy continued increasing at a similar rate to that observed in the previous quarter. This expansion was observed in both domestic and external sources of resources (Table 2). With regard to the domestic sources, the domestic financial saving –defined as the monetary aggregate M4 minus the stock of currency held by the public– expanded at an annual rate similar to that of the previous quarter (Chart 27a). This resulted from sustained growth in voluntary financial saving (Chart 27b). In contrast, the stock of compulsory financial saving continued to show a low expansion rate in real annual terms. This is largely a result of the significant increase in medium- and long-term interest rates that has been taking place since May 2013, which implied lower valuations of public debt instruments held by pension funds.

[3] The monetary base is defined as the sum of currency in circulation plus bank deposits in Banco de México.

Table 2
Total Funding for the Mexican Economy (Sources and Uses)
Percentage of GDP

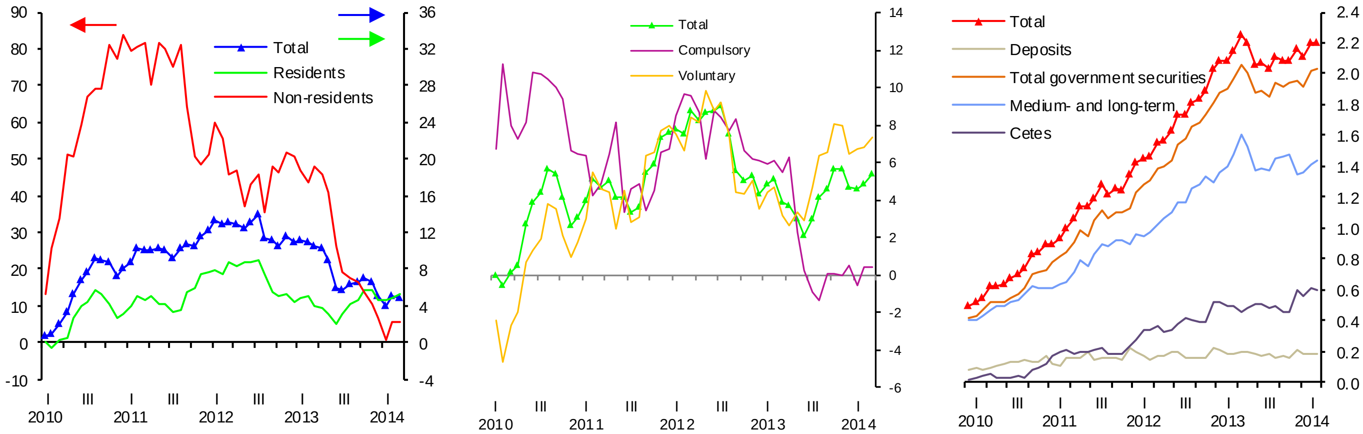
	Annual flows						Stock 2014 I[e/]	
	2012 IV	2013 I	2013 II	2013 III	2013 IV	2014 I[e/]	% GDP	Est. %
Total sources	**10.0**	**10.2**	**7.2**	**7.9**	**8.5**	**8.8**	**93.7**	**100.0**
Domestic sources [1/]	4.4	4.4	3.3	4.3	4.8	5.1	60.0	64.0
Foreign sources [2/]	5.6	5.8	3.9	3.7	3.7	3.7	33.7	36.0
Total uses	**10.0**	**10.2**	**7.2**	**7.9**	**8.5**	**8.8**	**93.7**	**100.0**
Public sector financing	3.7	3.1	3.3	3.6	3.4	3.9	43.7	46.7
Public Sector Borrowing Requirements (PSBR) [3/]	3.2	2.7	2.9	3.3	3.0	3.6	40.7	43.4
States and municipalities	0.5	0.4	0.4	0.4	0.4	0.3	3.0	3.3
International reserves [4/]	1.8	1.4	0.8	0.8	1.0	1.3	14.6	15.6
Private sector	3.1	2.9	3.0	3.2	3.9	4.0	36.2	38.6
Households	1.4	1.3	1.2	1.2	1.1	1.2	15.0	16.0
Consumption	0.6	0.6	0.6	0.6	0.5	0.5	4.8	5.1
Housing [5/]	0.8	0.6	0.6	0.6	0.6	0.7	10.3	11.0
Firms	1.7	1.7	1.8	2.1	2.8	2.8	21.2	22.6
Domestic [6/]	1.0	1.0	1.0	1.0	1.3	1.0	12.0	12.8
Foreign	0.8	0.7	0.8	1.1	1.5	1.7	9.2	9.8
Commercial banks' foreign assets [7/]	-0.1	0.0	0.0	-0.3	0.0	-0.1	1.2	1.3
Other [8/]	1.5	2.8	0.1	0.5	0.2	-0.3	-2.1	-2.2

Source: Banco de México.
Note: Figures may not add up due to rounding. Preliminary figures expressed in percent of average GDP of the last four quarters. The information on (revalued) flows is stripped from the effect of exchange rate fluctuations.
e/ Figures estimated based on available data for the first quarter of 2014.
1/ It includes the monetary aggregate M4 held by residents. Annual revalued flows of domestic sources exclude the effect of the reform to the ISSSTE Law on the monetary aggregate M4. Information on the stock of domestic sources includes the effect of this reform.
2/ It includes the monetary aggregate M4 held by non-residents, foreign financing for the federal government, public institutions and entities, and foreign financed investment projects (PIDIREGAS), commercial banks' foreign liabilities and financing to the non-financial private sector.
3/ Public Sector Borrowing Requirements (*Requerimientos Financieros del Sector Público*, RFSP or PSBR, for its acronym in English) and historical stock of Public Sector Borrowing Requirements (HSPSBR or SHRFSP, for its acronym in Spanish) as reported by the Ministry of Finance (SHCP). Figures of revalued flows exclude the impact of the reform to the ISSSTE Law on PSBR. Information on HSPSBR does include the effect of this reform on the public debt.
4/ As defined by Banco de México's Law.
5/ Total portfolio of financial intermediaries, of the National Housing Fund (*Instituto del Fondo Nacional de la Vivienda para los Trabajadores*, Infonavit), and of the ISSSTE Housing Fund (*Fondo de la Vivienda del ISSSTE*, Fovissste). It includes debt-restructuring programs.
6/ Total portfolio of financial intermediaries. It includes debt-restructuring programs.
7/ It includes assets from abroad and foreign financing.
8/ It includes capital accounts and results and other assets and liabilities of commercial and development banks, Banco de México, non-bank financial intermediaries and INFONAVIT, as well as non-monetary liabilities from IPAB, among others.

As regards external sources of resources, the increase in the stock of non-resident financial savings was primarily accounted for by greater holdings of medium- and long-term government securities (Chart 27c). It is worth emphasizing that –despite the uncertainty prevailing in financial markets at the beginning of the year– a favorable perception of macroeconomic policy in the country, expectations about the potential impact of the structural reforms approved in recent months, and the upgrading of Mexico's credit rating by Moody's from Baa1 to A3, three credit ratings above the minimum investment threshold, contributed to mitigate the deterioration of financial market conditions in the country. Subsequently, improvements in international financial markets from February onwards were also reflected in domestic markets.

Chart 27
Financial Saving Indicators

a) Total Financial Saving [1/] Real annual change in percent | b) Resident Financial Saving [1/] Real annual change in percent | c) Non-resident Financial Saving MXN trillion as of March 2014



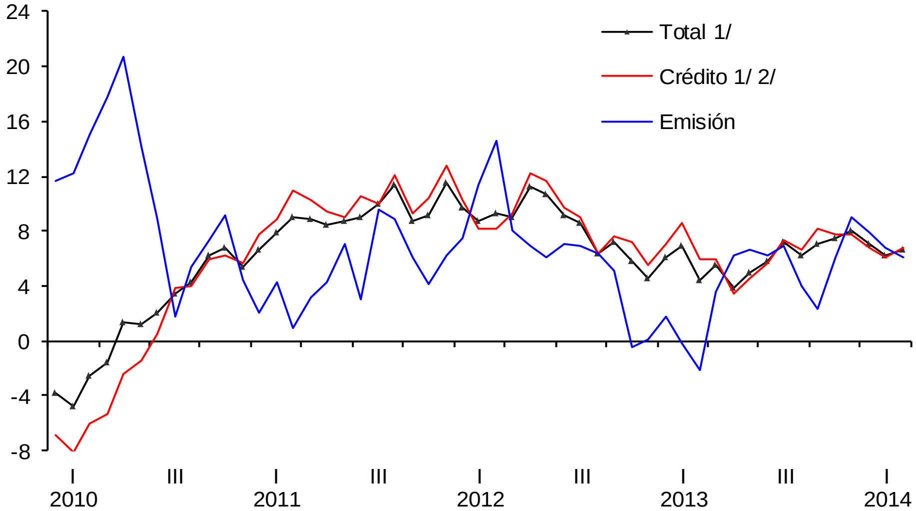
Source: Banco de México.
1/ Defined as the monetary aggregate M4 minus the stock of currency held by the public.

Regarding the use of financial resources in the economy, in line with the annual target established in the economic package approved for 2014, in the first quarter of the current year, Public Sector Borrowing Requirements (PSBR) exceeded those recorded in the previous quarter. This implied a higher annual flow of financing to the public sector with respect to that registered in the last quarter of 2013 (Table 2). On the other hand, the annual flow of financing to states and municipalities was similar to that registered in the period of October-December 2013. The use of resources from the accumulation of international reserves amounted to a figure higher than in the last quarter, as a result of higher sales of U.S. dollars by Pemex to Banco de México. Finally, total financing to the non-financial private sector decelerated at the margin, in agreement with the low dynamism of economic activity.

About the latter, in the first quarter of the year, financing to non-financial private firms presented a slight drop in its real annual rate of growth. This stemmed from a moderation in the expansion of commercial bank credit, as well as a lower volume of corporate placements in the domestic debt market (Chart 28). Foreign financing, especially through the issuance of debt securities in international markets, was also less vigorous compared to the previous quarter.

In the domestic credit market, commercial bank credit to non-financial private firms moderated its growth pace (Chart 29a). The above was the result of the lower dynamism of credit granted to large firms, given that the credit portfolio of small and medium-sized enterprises continued expanding at high rates. Interest and and delinquency rates of commercial bank credit to firms remained stable in the first quarter (Chart 29b and Chart 29c). Meanwhile, development bank credit to non-financial private firms presented growth rates similar to those observed in the previous quarter (Chart 29a). In the context of this portfolio expansion, the corresponding interest rates did not present any major changes, while delinquency rates remained at stable levels (Chart 29b and Chart 29c).

Chart 28
Domestic Financing to Non-financial Private Firms
Real annual change in percent



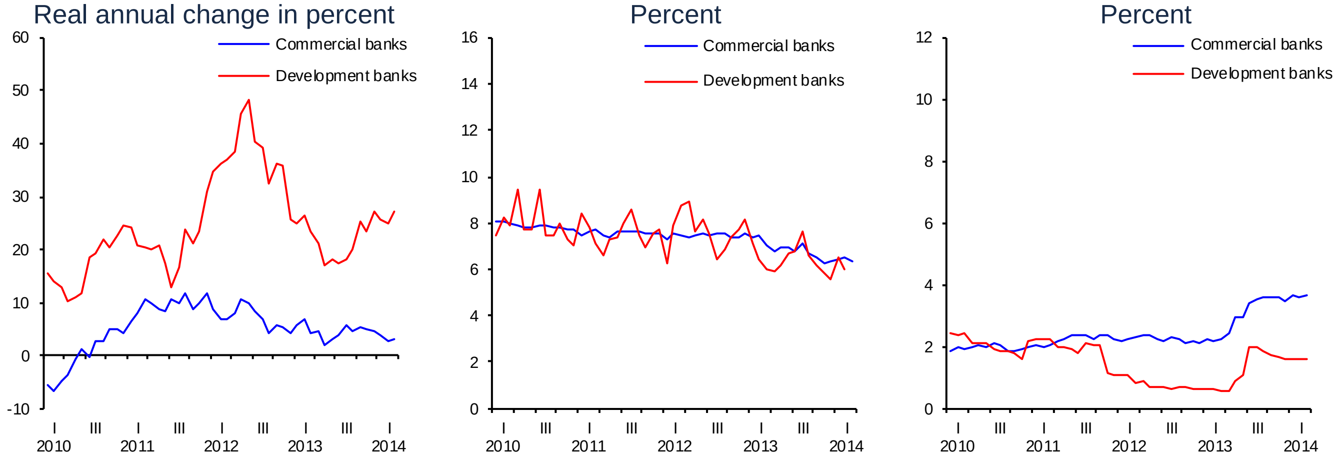
Source: Banco de México.
1/ These figures are affected by the disappearance of some non-banking financial intermediaries and their conversion to non-regulated Sofom.
2/ It refers to the performing and non-performing portfolio, and includes credit from commercial and development banks, as well as nonbank financial intermediaries.

Chart 29
Bank Credit to Non-financial Private Firms

a) Performing Credit to Non-financial Private Firms
Real annual change in percent

b) Interest Rates of New Credits to Non-financial Private Firms 1/
Percent

c) Delinquency Rates of Credit to Non-financial Private Firms 2/
Percent

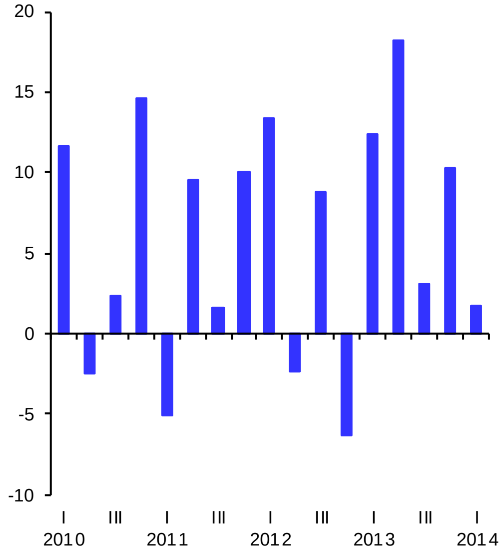


Source: Banco de México.
1/ It refers to the interest rate of new bank credits to non-financial private firms, weighted by the associated stock of the performing credit and for all credit terms requested.
2/ The delinquency rate is defined as the stock of non-performing loans divided by the stock of total loans.

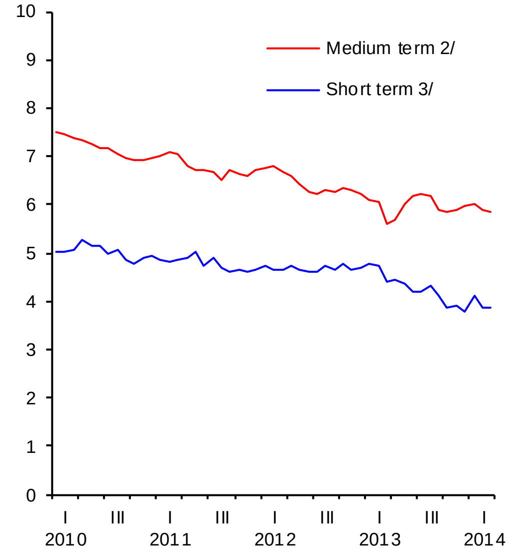
In debt markets, non-financial private firms continued to issue securities both in the international and in the domestic market, although issuance was lower as compared to the fourth quarter of 2013. The lower activity in domestic debt markets in the first quarter of 2014, in particular, was reflected in the net issuance of medium-term debt of MXN 1.7 billion, lower than the net issuance of MXN 10.2 billion, recorded in the previous quarter (Chart 30a). These securities continued to be issued amidst favorable conditions in terms of maturities and interest rates. The average maturity of medium-term securities issued by private firms was around 8 years. Interest rates of securities issued by private firms registered similar levels to those in the previous quarter, both in the case of medium- and short-term issuances (Chart 30b).

Chart 30
Domestic Market Securities of Non-financial Private Firms

a) Net Placement of Medium-term Securities Issued by Non-financial Private Firms [1/]
MXN billion



b) Interest Rates of Securities Issued by Non-financial Private Firms
Annual percent



Source: Banco de México, with data from Valmer and Indeval.
1/ Placements excluding amortizations in each month (securities and prepayments).
2/ Placements of more than one year.
3/ Placements of up to one year.

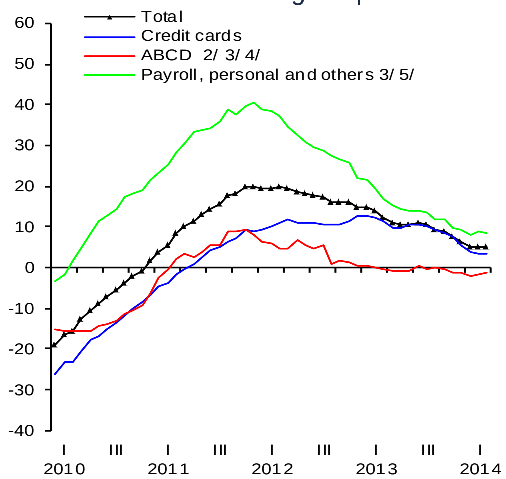
Credit to households granted by commercial banks, public entities that issue credit for home buying and other non-bank financial intermediaries continued expanding in the first quarter of the year, although at lower rates as compared to those observed by the end of 2013. This was principally due to the deceleration registered in the consumer credit portfolio.

In particular, commercial bank consumer performing credit increased in the period of January-March 2014 at an average rate of 5.1 percent, a figure below the 7.6 percent recorded in the fourth quarter of last year (Chart 31a). This slowdown was generalized, and was more pronounced in the segments of credit cards and personal credit. In this environment, the corresponding interest rates and delinquency rates did not observe significant changes. Still, in line with the current cyclical phase of the economy, the adjusted delinquency rate –which takes into account bad debt write-offs accumulated in the last twelve months– has deteriorated gradually (Chart 31b).

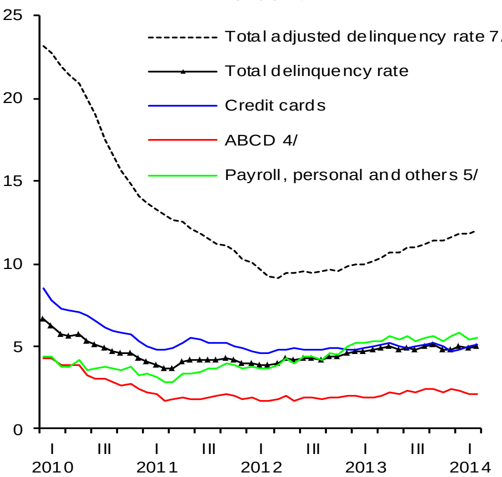
In turn, mortgage loans showed a mixed performance. In the first quarter of 2014, the performing mortgage loan portfolio of commercial banks and sofomes saw an average annual growth rate similar to the previous quarter, of around 6.0 percent, albeit displaying certain volatility during the quarter.[4] This occurred in a context of stable interest rates and delinquency rates of this credit portfolio. Separately, the performing credit portfolio of the National Housing Fund (*Instituto del Fondo Nacional de la Vivienda para los Trabajadores*, Infonavit) continued to present low dynamism, recording a real average annual growth rate of 2.2 percent in the period of January-March of the present year, below the 2.9 percent observed in the period of October-December 2013 (Chart 32a), while the respective delinquency rate displayed a modest deterioration (Chart 32b).

Chart 31
Commercial Bank Consumer Credit

a) Commercial Bank Performing Consumer Credit 1/
Real annual change in percent



b) Delinquency Rate of Commercial Bank Consumer Credit 1/ 6/
Percent



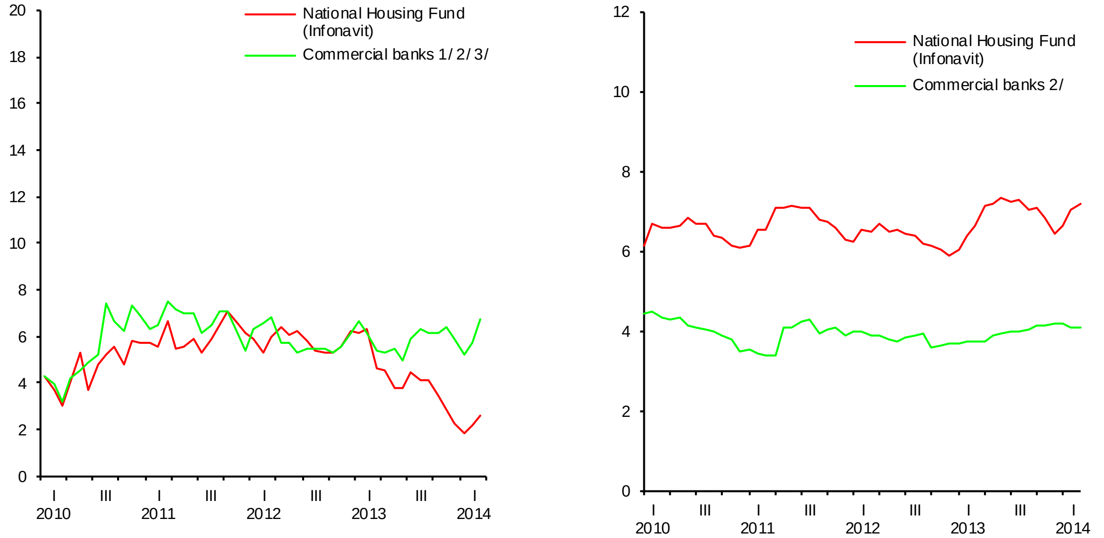
Source: Banco de México.
1/ It includes loans by credit card-regulated sofomes: Tarjetas Banamex, Santander Consumo, Banorte-Ixe Tarjetas and Sociedad Financiera Inbursa.
2/ Between June 2010 and May 2011, figures are adjusted in order to avoid distortions due to the purchase of one banking institution's automobile loan portfolio.
3/ From July 2011 onwards, figures are adjusted in order to avoid distortions due to the reclassification from durable goods (ABCD) to other consumer credits by one banking institution.
4/ It includes credit for property acquisition and automobile credit.
5/ "Others" refers to credit for payable leasing operations and other consumer credits.
6/ The delinquency rate is defined as the stock of non-performing loans divided by the stock of total loans.
7/ The adjusted delinquency rate is defined as a non-performing portfolio plus punishments accumulated over the last 12 months divided by total portfolio plus punishments accumulated over the last 12 months.

[4] These growth rates consider the incorporation of a new sofom to mortgage loans' statistics, as a result of its conversion from an unregulated sofom to a regulated sofom.

Chart 32
Housing Credit

a) Performing Housing Credit [1/]
Real annual change in percent

b) Delinquency Rates of Housing Credit [4/]
Percent



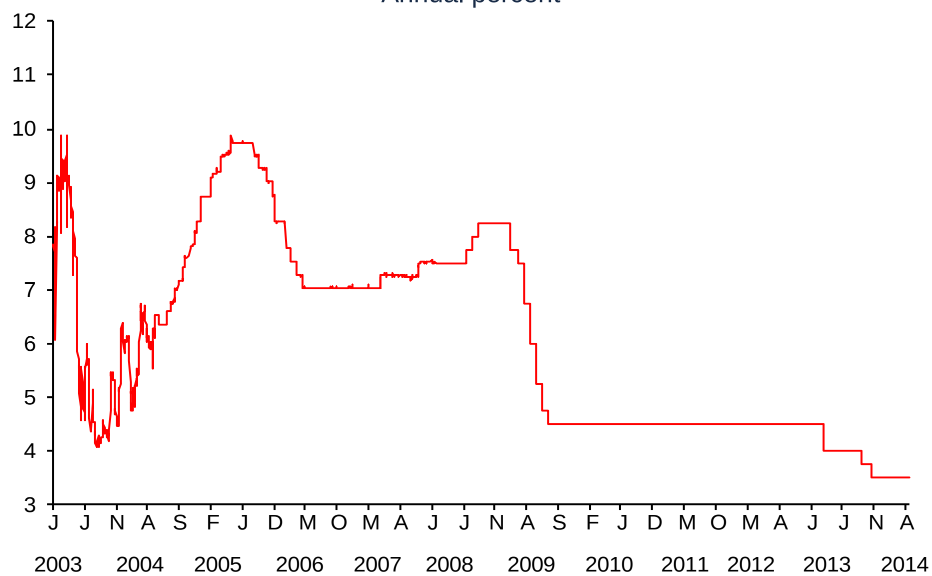
Source: Banco de México.
1/ Figures are adjusted in order to avoid distortions by the pass-through effect of the UDIS trust portfolio to the balance sheet of commercial banks and by the reclassification of credit in direct portfolio to ADES.
2/ Included to commercial banks' sofomes.
3/ Figures are adjusted to avoid distortions of regulated sofomes to the bank credit statistics.
4/ The delinquency rate is defined as the stock of non-performing loans divided by the stock of total loans.

In sum, the deceleration of total financing to the non-financial private sector is congruent with the current cyclical phase of the economy. Indeed, both firms and households have signaled a lower appetite for financing, thus reflecting the mixed performance of the aggregate demand components. Insofar as the country's productive activity observes a more favorable evolution, credit and debt markets are expected to exhibit greater dynamism.

4. Monetary Policy and Inflation Determinants

The monetary policy implemented by Banco de México has fostered the process of efficient convergence of inflation to its 3 percent permanent target. Thus, although some shocks of relative prices propitiated an inflation increase in late 2013 and early 2014, it resumed its downward trend insofar as the effects of the referred shocks started to dissipate, just as anticipated. Medium- and long-term inflation expectations remained stable, so that the process of price determination of the economy was not contaminated. Thus, the evolution of inflation and its expectations over the period covered by this Quarterly Report did not require adjustments in the target of the monetary policy reference interest rate. Therefore, Banco de México's Board of Governors maintained the target for the Overnight Interbank Interest Rate at 3.5 percent in its monetary policy meetings of January and March, as well as in its first meeting of the following quarter (Chart 33).

Chart 33
Overnight Interbank Interest Rate 1/
Annual percent



1/ The target for the Overnight Interbank Interest Rate is shown since January 21, 2008.
Source: Banco de México.

Among the elements taken into account for the monetary policy conduction over the period covered in this Quarterly Report, the following stand out:

a) That ample slack conditions persist, both in the labor market and in the economy as a whole, and that no aggregate demand-related inflationary pressures are anticipated in the horizon over which monetary policy operates.

b) That, as expected, even though headline inflation rebounded in the period from the end of 2013 till the first fortnight of January 2014, it resumed its downward trend from the second fortnight of January onwards, to reach levels well below 4 percent from the first fortnight of March and it is expected to continue gradually converging to the 3 percent target.

c) That in February and March, the increase that core inflation had registered reversed and it is expected to remain around 3 percent over the rest of 2014 and at a level below it in 2015.

d) That the evolution of inflation and its expectations confirmed that no second round effects on the price formation process in the economy were observed, as a result of the referred changes of relative prices, including those derived from the fiscal measures in force since January 2014.

e) That lower uncertainty in international financial markets, following the period of turbulence in January 2014, has contributed to the fact that adjustments in domestic financial markets continue taking place in an orderly manner and even that the adjustments in prices of different financial assets, which had been registered in the first weeks of the year, reversed.

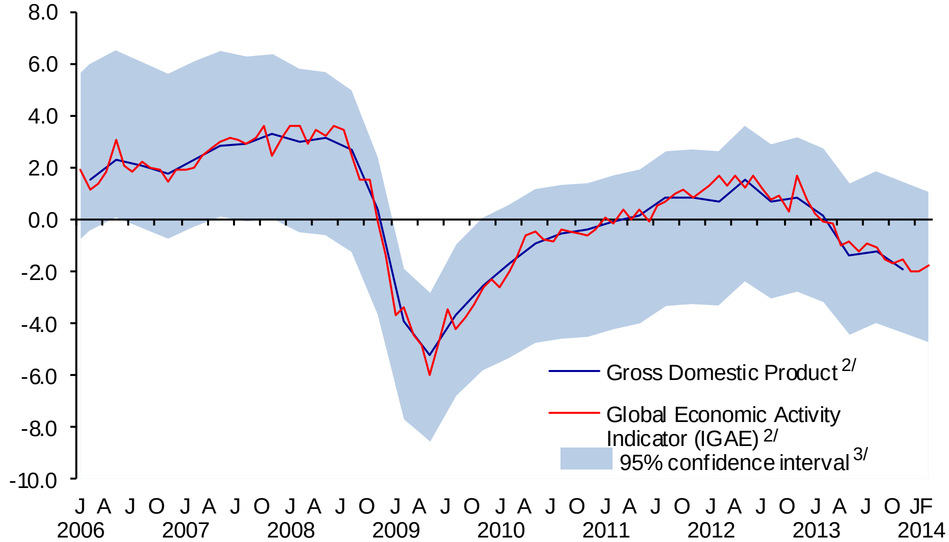
The recent performance of inflation and its expectations is largely a result of the credibility achieved in recent years regarding Banco de México's commitment to ensure, above all, price stability. In particular, this Central Institute has reaffirmed that inflation shocks, such as those recently observed, are adjustments in relative prices that, in a context of well-anchored inflation expectations, only affect inflation in a transitory manner and do not contaminate the price formation process of the economy. This is what indeed occurred. Of course, during the period covered by this Quarterly Report, Banco de México's Board of Governors remained alert so that this process would indeed take place.

The slowdown of the economic activity in late 2013 and in early 2014, as well as the slack conditions that persist in the main input markets of the country, indicate that no demand-related pressures either on prices or on external accounts are currently observed. In particular:

a) As a result of the recent evolution of the economy, the output gap remained at negative levels and in fact widened with respect to the previous quarter (Chart 34).[5]

[5] Considering that this indicator's estimation is subject to a certain degree of uncertainty, it should be carefully interpreted, given that, from a statistical point of view, it does not register levels significantly different from zero.

Chart 34
Output Gap Estimation 1/
Percentage of potential output, s. a.



1/ Estimated using the Hodrick-Prescott (HP) filter with tail corrections; see Banco de México (2009), "Inflation Report, April - June 2009", p.69.
2/ GDP figures up to the fourth quarter of 2013, IGAE figures up to February 2014.
3/ Confidence interval for the output gap calculated with an unobserved components' method.
s. a. / Prepared with seasonally adjusted figures.
Source: Prepared by Banco de México with data from INEGI.

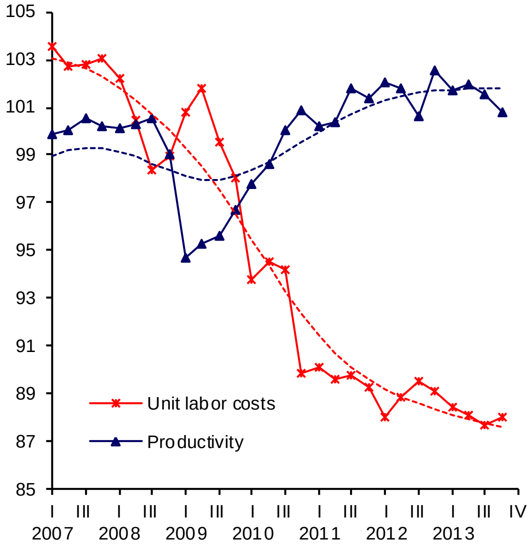
b) Ample slack conditions prevail in the labor market (see Section 3.2.1).

c) In the first quarter of 2014, the main wage indicators continued increasing moderately. As a result of this and the tendency of the average labor productivity, the unit labor costs located at low levels (Chart 35).

d) As compared with the second half of 2013, the domestic financing to the non-financial private sector and to households registered a lower growth rate in the first months of the year.

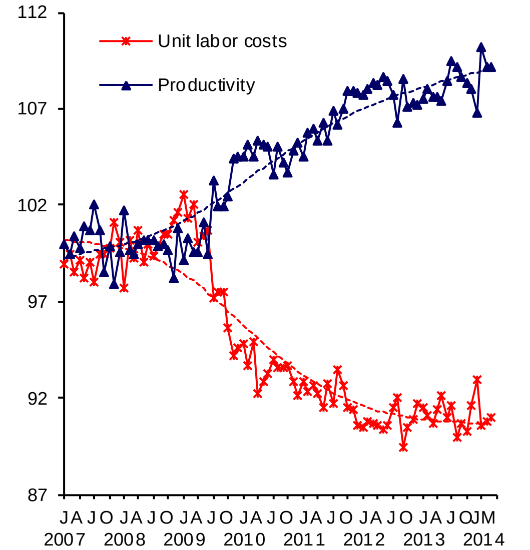
Chart 35
Productivity 1/ and Unit Labor Cost

a) In the Economy
Index 2008=100, s. a.



s. a. / Seasonally adjusted and trend series. The former is represented with a solid line, the latter, with a dotted line. Trends estimated by Banco de México.
1/ Productivity based on the amount of hours worked.
Source: Unit cost prepared by Banco de México based on data from INEGI. The Global Index of Labor Productivity in the Economy (IGPLE), as released by INEGI.

b) In the Manufacturing Sector
Index 2008=100, s. a.



s. a. / Seasonally adjusted and trend series. The former is represented with a solid line, the latter, with a dotted line.
1/ Productivity based on the amount of hours worked.
Source: Prepared by Banco de México with seasonally adjusted data from the Monthly Manufacturing Business Survey and the Indicator of Industrial Activity of the Mexico's System of National Accounts, INEGI.

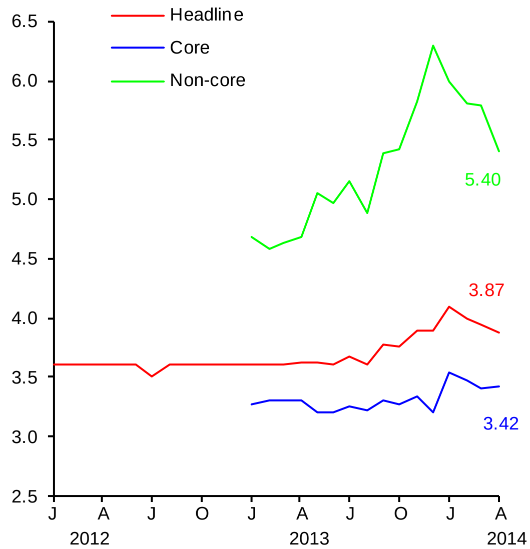
In line with Banco de México's expectation survey among private sector analysts, the median of headline inflation expectations for the end of 2014 increased from 3.90 percent in December 2013 to 4.10 percent in January of the current year. Afterwards, when inflation in January and February turned out lower than expected by these analysts, the median of the referred expectations was revised downwards to 3.87 percent in April.[6] The median of core inflation expectations for the end of 2014 recorded a similar performance, going up from 3.20 to 3.55 percent between December 2013 and January 2014, to later gradually diminish till 3.42 percent in April. The non-core inflation expectation implicit in the previously mentioned medians progressively decreased from 6.30 to 5.40 percent in the period from December 2013 to April 2014 (Chart 36a). It should be noted that not only the median of inflation expectations for the end of 2014 has been decreasing, but also the dispersion related to them. This lower dispersion reflects the environment of greater certainty regarding the inflation evolution this year, despite the above referred relative price shocks (Chart 36b). Meanwhile, longer-term inflation expectations remained stable around 3.50 percent over the period analyzed by this Quarterly Report (Chart 37a).[7]

[6] According to Banamex Survey of Financial Market Analysts' Expectations, the median of headline inflation expectations for the end of 2014 presented a similar performance, lying at 3.90 percent in the survey of December 17, 2013, to later increase to 3.97 percent in the survey of February 20, 2014 and to gradually decline to 3.90 percent in the surveys of April 22 and May 6, 2014.

[7] This figure coincides with the results of the Banamex survey, whose median of long-term inflation expectations (period 2016-2020) remained at 3.48 percent in the survey of January 7 and of May 6, 2014.

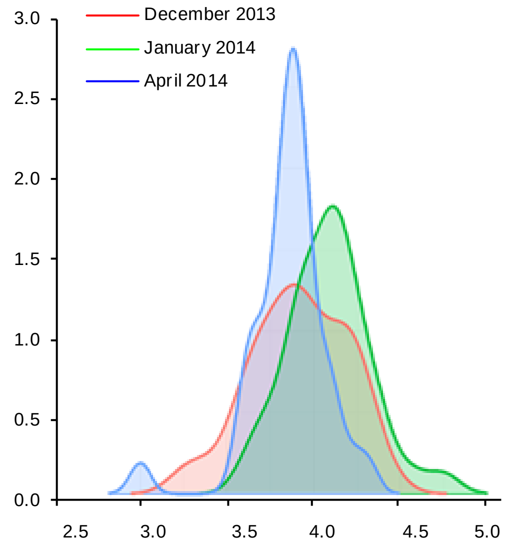
Chart 36
Inflation Expectations

a) Medians of Headline, Core and Non-core Inflation Expectations as of End of 2014
Percent



Source: Banco de México's Survey.

b) Distribution of Headline Inflation Expectations as of End of 2014
Percent



Source: Estimated based on Banco de México's Survey.

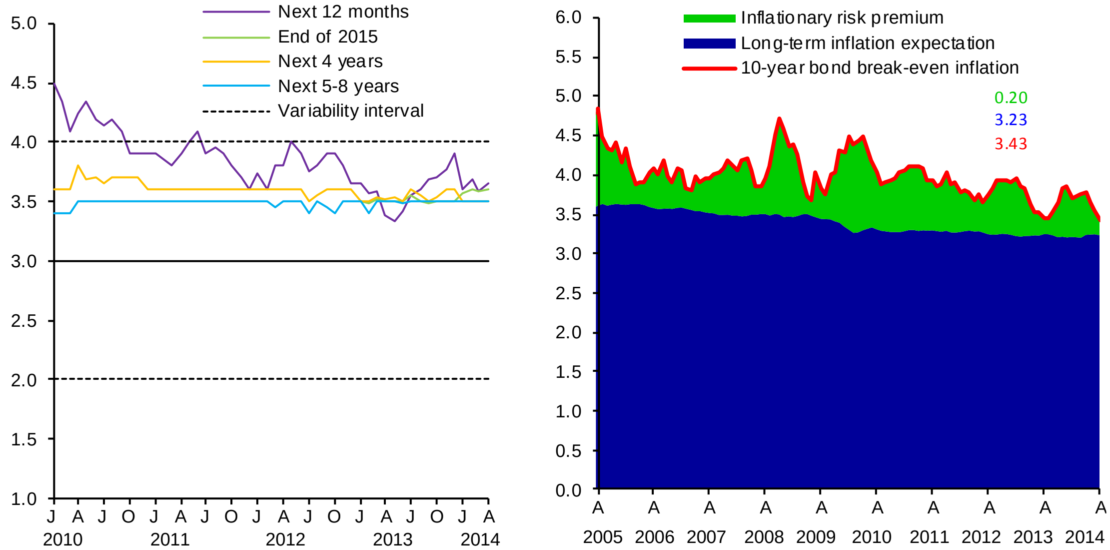
Besides inflation expectations directly collected by surveys, there are those implicit in the market pricing of instruments at nominal and real rates, based on which the break-even inflation can be estimated (the difference between long-term nominal and real interest rates). In the first months of the year, this break-even inflation dropped from an average level of 3.75 percent in December 2013 to a level of 3.43 percent in April 2014, close to historical minimum levels. This reduction reflects that nominal instrument holders demanded a lower future inflation coverage, because of a lower related perceived risk. This derived from the fact that inflation expectations implicit in these instruments remained relatively stable around 3.2 percent between December 2013 and April 2014, while the inflationary risk premia dropped from approximately 55 to 20 basis points over the same period (Chart 37b).[8] It is noteworthy that these inflation expectations are not observed directly, but rather they are estimated using different econometric methods. Stemming from daily financial data, they incorporate information faster than the expectations obtained from analysts' surveys and reflect positions in investors' portfolios. While the median of long-term inflation expectations remained stable at 3.5 percent in recent years, the expectations calculated using long-term market-based instruments gradually decreased to 3.2 percent.

[8] For a description of the estimate of long-term inflation expectations, see the Box "Decomposition of the Break-even Inflation" in the Quarterly Report October-December 2013.

Chart 37
Inflation Expectations

a) Medians of Headline Inflation Expectations across Different Terms 1/
Percent

b) Decomposition of Break-even Inflation
Percent



1/ Latest available data: April 2014.
Source: Banco de México's survey.

Source: Estimated by Banco de México.

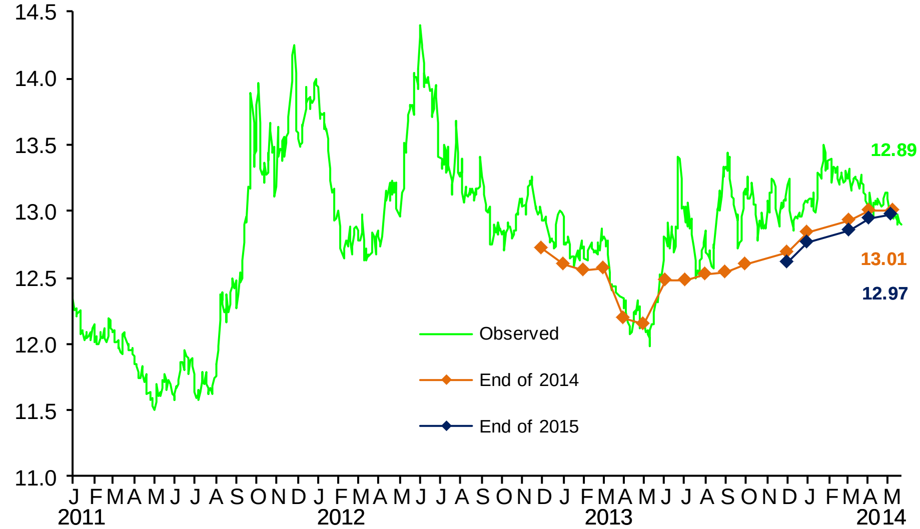
This confirms that the unexpected adjustments in relative prices in late 2013, as well as the fiscal changes, moderately affected inflation and did not generate second round effects. Thus, it is confirmed that inflation expectations become increasingly less responsive to the changes in relative prices, which contributed to strengthening the credibility of Banco de México's monetary policy conduction.[9]

Between December 2013 and January 2014, the exchange rate depreciated, as the average MXN/USD exchange rate shifted from 13.06 to 13.36, with a high volatility. Later on, from February onwards an appreciation was registered, when it lied below MXN 13 over the first weeks of May, as well as a considerable reduction in its volatility. Therefore, in the period covered by this Report, the MXN appreciated slightly, although with certain volatility (Chart 38). It should be recalled that the depreciation of other emerging economies' currencies in 2013 was significantly higher (10.62 percent on average in 2013) than the depreciation of 0.9 percent registered by the Mexican currency over the same period.[10]

[9] For a study on strengthening the anchoring of inflation expectations see the Box "Anchoring of Medium- and Long-term Inflation Expectations in light of Adverse Supply Shocks" in the Inflation Report January-March 2013.

[10] The depreciation of other emerging economies' currencies considers the average performance of the currencies of Brazil, Chile, Colombia, India, Peru, Czech Republic, Russia, Thailand and Turkey against the USD and is calculated with Bloomberg data.

Chart 38
Nominal Exchange Rate and Exchange Rate Expectations as of End of 2014 and 2015 1/
MXN/USD

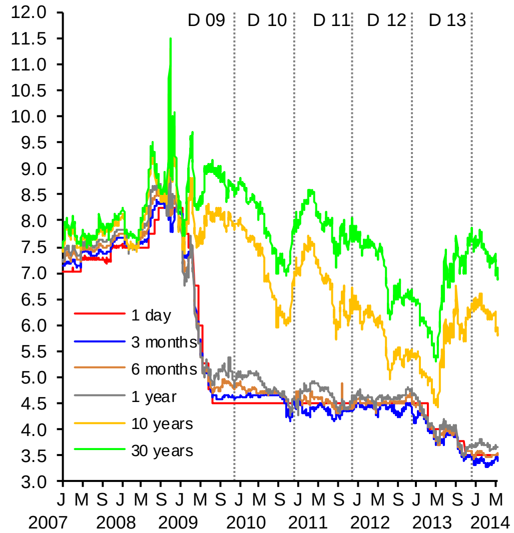


1/ The observed exchange rate is the daily datum of the FIX exchange rate. The latest datum of the observed exchange rate corresponds to May 19, 2014. For its expectations, the latest datum corresponds to the survey of April 2014.
Source: Banco de México and Banco de México's Survey.

In turn, following a widespread increase in long-term interest rates as a result of the decompression process of risk premia in international financial markets, registered from May 2013 onwards, and after a period of high volatility in the first weeks of 2014, medium- and long-term interest rates of Mexico decreased from February onwards. In particular, the interest rate of 10-year government bonds reached a level of around 6.6 percent in early February to later fall to 5.8 percent in mid-May. These levels are even below those registered at the end of 2013 (6.4 percent). Thus, in the period covered by this Quarterly Report this rate dropped 60 basis points, even though with certain volatility. On the other hand, short-term interest rates remained stable in line with the monetary policy reference rate. In particular, the interest rate of 3-month government securities continued unchanged around 3.4 percent in the period analyzed by this Report. In light of this evolution of interest rates, the slope of the yield curve (the difference of 10 years and 3 months) flattened, shifting from 300 to 240 basis points from the end of 2013 to mid-May 2014 (Chart 39). This favorable performance of the yield curve reflects the fact that the monetary policy has contributed to anchoring inflation expectations, despite the recent changes in relative prices and the orderly functioning in domestic financial markets. Thus, both monetary and financial conditions have supported the economy, given the current phase of the economic cycle it is going through.

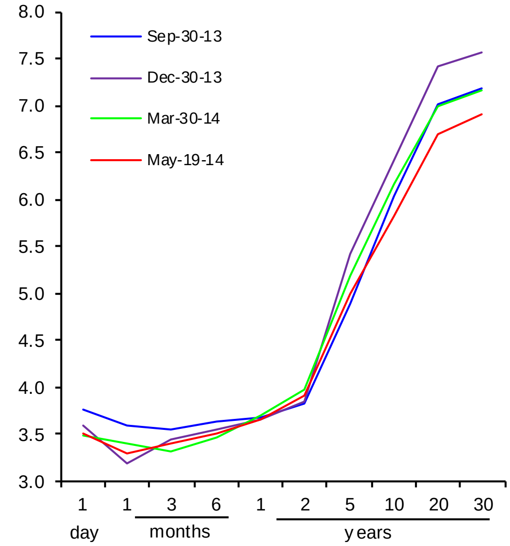
Chart 39
Interest Rates in Mexico

a) Government Securities Interest Rates [1/]
Percent



1/ Since January 21, 2008, the one-day (overnight) interest rate corresponds to the target for the Overnight Interbank Interest Rate.
Source: *Proveedor Integral de Precios* (PiP).

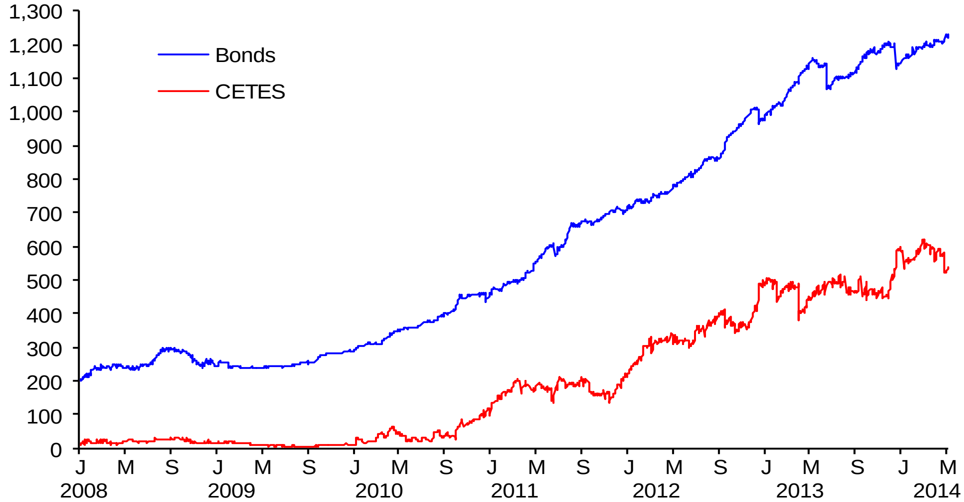
b) Yield Curve
Percent



Source: *Proveedor Integral de Precios* (PiP).

It should be pointed out that an additional factor that contributed to the favorable performance of fixed-income and exchange rate markets in Mexico is the current higher sovereign credit rating of the country. As a result, the Mexican peso-denominated financial assets were relatively more attractive to international investors. In particular, as mentioned in Section 3.2.2, during the first quarter of 2014, Mexico continued receiving resources from abroad for the acquisition of financial instruments at a similar pace to the one registered in the last quarter of 2013. In this regard, it stands out that, even though the short-term government securities' holdings tended to stabilize, the holdings of medium- and long-term government securities increased and remained at high levels in recent weeks (Chart 40).

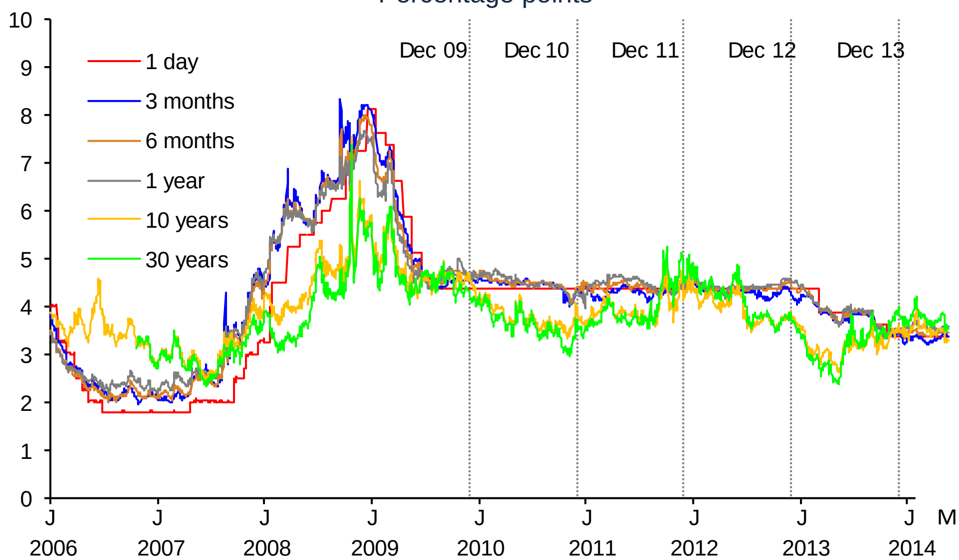
Chart 40
Government Securities' Holdings by Foreign Investors
MXN billion



Source: Banco de México.

As a result of the above, long-term interest rate spreads between Mexico and the U.S. increased in the first weeks of the year, shifting from 350 to 370 basis points between the end of 2013 and the beginning of February 2014. Subsequently, they dropped to 330 basis points, below the levels registered at the end of last year (Chart 41).

Chart 41
Interest Rate Spreads between Mexico and the U.S. 1/
Percentage points



1/ For the U.S. target rate, the average of the interval considered by the U.S. Federal Reserve is considered.
Source: *Proveedor Integral de Precios* (PiP) and U.S. Department of the Treasury.

Below, the evolution of long-term interest rates in Mexico is analyzed in further detail by means of the evolution of their components: a) the short-term interest rate (the reference interest rate); b) the expected short-term interest rates, which consider medium- and long-term inflation expectations; and c) the risk premia. In general, it stands out that:

a) The overnight interbank interest rate, which is the reference rate for the monetary policy, remained at 3.5 percent over the period covered by this Quarterly Report.

b) In light of slack conditions prevailing in the economy and given the stable medium- and long-term inflation expectations, the expected short-term interest rates also remained unchanged. In particular, in line with Banco de México's survey among private sector analysts, the median of the expectations for the 28-day Cetes interest rate as of end of 2014 persists at 3.5 percent. A similar message is inferred from the evolution of these expectations, obtained from the prices of the market-based instruments. Thus, the interest rates of government securities of up to one year locate around 3.5 percent.

c) The evolution of different risk premia in Mexico has been supported by the improved credit rating and greater confidence in the economy. Thus:

   i. Although different indicators of sovereign risk premium for Mexico presented certain volatility over the period covered by this Report, by mid-May 2014 they located close to 80 basis points, 10 basis points below those observed in late 2013 (see Box 2).[11]

   ii. The inflationary risk premium maintained its downward trend over the first months of the year, once the recent evolution of inflation and its expectations confirmed the prevision that the inflation increase in early 2014 was temporary and did not generate second round effects. In particular, so far this year, this premium has reduced by around 35 basis points as compared to the end of 2013 (Chart 37b).

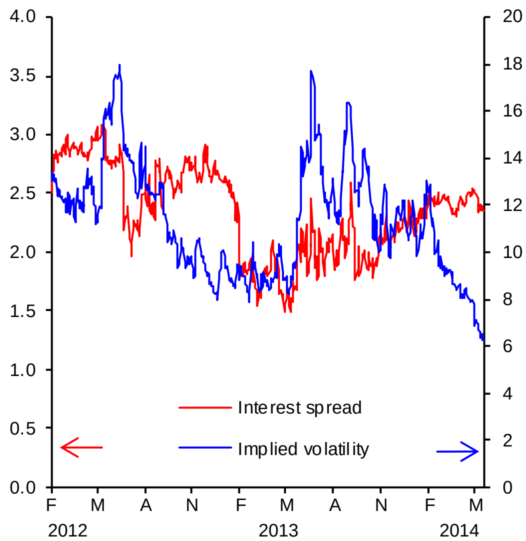
   iii. As regards the performance of the exchange rate risk premium, which is estimated through the spread between the 10-year government bond interest rate issued in Mexican pesos and the government bond of the same term issued in U.S. dollars, it has remained around 2.5 percentage points. This level is located close, but still slightly above the level of 2.4 percentage points observed in late 2013 (Chart 42a).

   iv. As stated in the previous Reports, given the decompression process of risk premia, which started in May 2013 in the U.S., the term premium (measured as the difference between the 10-year and the 2-year interest rates) in this country increased, leading to an increment in the term premium in Mexico. Thus, the higher long-term interest rate in Mexico from this date onwards mainly resulted from the evolution of the term premium in the U.S. With respect to the recent performance, between the end of 2013 and mid-May 2014, it dropped by approximately 70 basis points, declining from 2.6 to 1.9 percentage points (Chart 42b).

[11] It refers to a 5-year Credit Default Swap.

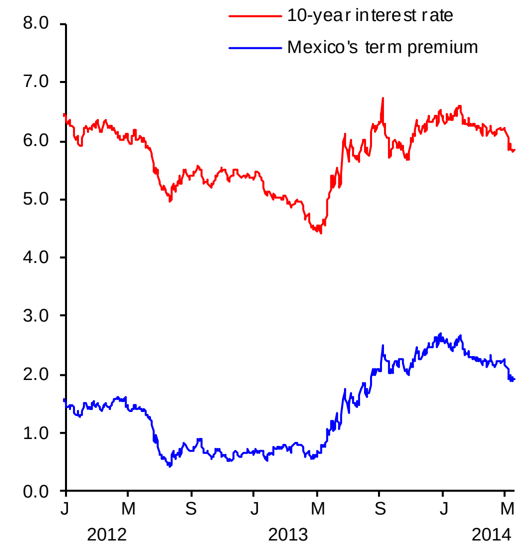
Chart 42
Risk Premia

a) Spread between the 10-year Bond Rate in MXN and in USD, and Implied Volatility in Exchange Rate Options 1/
Percentage points, percent



1/ Volatility implied in exchange rate options refers to options with a monthly term.
Source: Bloomberg, *Proveedor Integral de Precios* and Valmer.

b) Interest Rate in Mexico of the 10-year Government Bond and the Term Premium 2/
Percentage points, percent



2/ The term premium refers to the difference between the 10-year and the 2-year interest rate.
Source: Banco de México.

In sum, for the case of Mexico it stands out that the performance of long-term interest rates can be mainly attributed to the evolution of term premium, given that the sovereign risk premium has remained stable and the expectations for short-term interest rates remained practically unchanged, given the anchoring of inflation expectations. The above contrasts with the case of other emerging economies, in which the short-term interest rate, the expectations of the referred rates and other risk premia different from the term premium have contributed to the upward trend in their long-term interest rates. A detailed analysis of these differences is presented in Box 2.

In this sense, the solid framework of the macroeconomic policy is expected to continue supporting the orderly adjustment in domestic financial markets. Furthermore, it is important to note that, if the progress in the secondary legislation and the implementation of the recently approved structural reforms in the country continues, investors' confidence in the Mexican economy is estimated to keep consolidating, which would contribute to an additional reduction in the risk premia, with a consequent effect on interest rates in Mexico.

Box 2
Recent Evolution of Long-term Interest Rates in Emerging Market Economies

1. Introduction

Over the last year, emerging market economies (EMEs) faced a complicated external environment. In May 2013, news of the possible reduction in the pace of the large-scale asset purchases by the Federal Reserve generated an environment of high volatility in international financial markets, which prevailed over the rest of 2013 and the beginning of 2014. Despite the recent decrease in this volatility, the normalization process of the U.S. monetary conditions generated important effects on the prices of financial assets through different channels. Among these, the decompression of term premium, which led to increases in long-term interest rates in the U.S. and other advanced and emerging countries, is noteworthy.[1,2] In particular, these rates in the EMEs have registered average increases of approximately 170 basis points since May 2013.[3]

This Box briefly describes the performance of financial markets in the EMEs since 2013. Afterwards, the evolution of some of the components of long-term interest rates for a group of EMEs is analyzed, such as the observed short-term interest rate and its expectations, as well as different risk premia, so as to understand what components contributed to higher long-term interest rates. The analysis shows that, in contrast to other EMEs, the performance of these rates in Mexico is mainly accounted for by the evolution of the term premium.

2. Recent Performance of Financial Markets

In the referred context of high volatility, global risk aversion increased, which triggered significant adjustments in international investor's portfolios, who reduced their EMEs asset holdings affecting hence EMEs asset's valuation. This generated a considerable increase in the volatility of exchange rate and debt markets in these countries.

Although this evolution of financial markets was widespread across EMEs, there were differences among them. The countries that accumulated significant macroeconomic imbalances, such as high fiscal and current account deficits, as well as a considerable credit expansion, were more affected during these volatility episodes.[4] An example of this is the performance of the exchange rates in EMEs during 2013, which greatly depreciated in the economies with weaker macroeconomic fundamentals.[5]

3. Evolution of Long-term Interest Rates of some EMEs and their Components

From May 2013 onwards, there was a generalized increment in long-term interest rates of most EMEs (Chart 1). It should be noted that these rates were stable during the first months of 2013, and even decreased, which was the case of Mexico. Even though the initial adjustment was abrupt and of a considerable magnitude in all cases, the total accumulated increase from May 2013 up to date has been differentiated. In particular, the cases of Brazil, Peru, Turkey and South Africa stand out, where the referred rates increased by over 200 basis points.

Below, the evolution of the components of long-term interest rates of the considered economies is analyzed. In particular, one way in which these rates can be decomposed is given by the following expression:

$$i_t^{LT} \approx i_t^{MP} + E_t i_{t+1}^{MP} + \cdots + E_t i_{t+N-1}^{MP} + \rho_t^{\pi} + \rho_t^{credit} + \rho_t^{term} + \rho_t^{other}$$

in which the long-term nominal interest rate, i_t^{LT}, is approximated via the performance of the monetary policy interest rate, i_t^{MP}, the expectation in time t regarding the monetary policy interest rates in the period $t+i$ with $i = 1, \ldots, N-1$, where N is the number of periods over which the long-term investment is active, $E_t i_{t+i}^{MP}$, and various risk premia, among which the following stand out: the inflationary risk premium, ρ_t^{π}; the sovereign risk premium, ρ_t^{credit}; the term premium ρ_t^{term}; and where ρ_t^{other} represents other risk premia (e.g. liquidity).

[1] The term premium is an additional yield demanded by investors to maintain a long-term asset instead of investing consecutively in short-term assets with the same characteristics. It is approximated as the difference between 10-year and 2-year government bond interest rates. Given that both instruments are issued by the same country and in nominal terms, the difference between their rates is not affected by inflationary risk premia and sovereign risk premia.

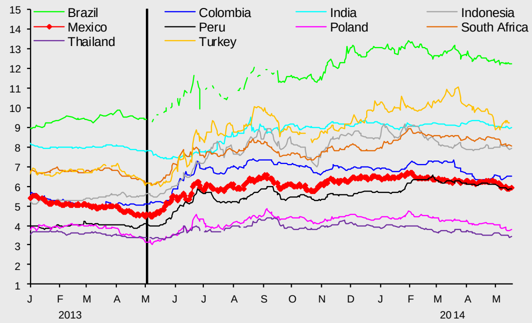
[2] See Box "Process of Risk Premia Decompression and its Effect on Longer-term Interest Rates in the U.S. and the Rest of the World" in the Inflation Report April-June 2013.

[3] The EMEs considered are: Brazil, Colombia, India, Indonesia, Mexico, Peru, Poland, South Africa, Thailand and Turkey.

[4] The World Economic Outlook of April 2014 and the Federal Reserve Monetary Policy Report of February 2014 present studies on the EMEs facing greater macroeconomic vulnerabilities.

[5] An analysis of the effects of uncertainty in international financial markets on the exchange rates in EMEs with weaker macroeconomic fundamentals was presented in the Quarterly Report October-December 2013.

Chart 1
10-year Government Bond Rates 1/
Percent

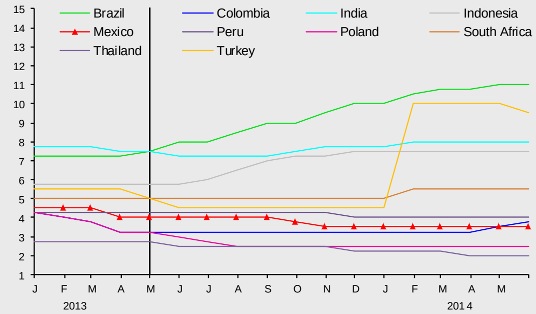


1/ All charts show a vertial line corresponding to May 22, 2013, the date of the onset of discussions of the possible normalization process of the U.S. monetary policy with the statements of the President of the Federal Reserve.
Source: Bloomberg.

The monetary policy interest rates (Chart 2) remained stable in most EMEs, except for those with greater vulnerabilities. In the latter group, the central banks increased their reference rates so as to counteract the capital outflows and the consequent depreciation of their currencies, and, thus, to contain the possible pass-through to inflation. This was the case of Brazil, Turkey, South Africa, Indonesia and India. As a consequence, in these economies, the expected short-term interest rates, approximated by the 2-year interest rate swaps, registered an increase of between 140 to 420 basis points from May 2013 up to date. Nonetheless, after the referred increments in their reference rates, the expectation of additional increases in their short-term interest rates moderated (Chart 3).

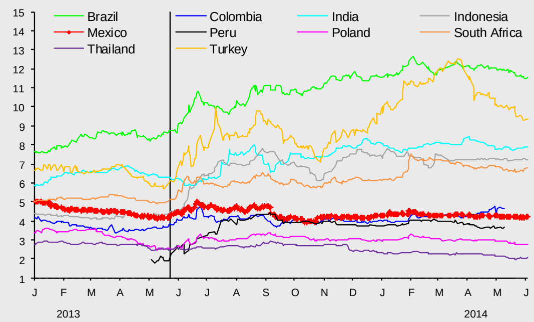
In turn, the favorable world inflation outlook was reflected in relatively stable inflation expectations in general terms for EMEs. Still, the depreciations of the currencies in India, Turkey and Indonesia were translated in considerably higher inflation rates (Chart 4) –deviating from their respective targets– and in higher inflation expectations (Chart 5). Likewise, when analyzing an approximate measure of the inflationary risk premium, such as the expected inflation gap, it has remained stable but at positive levels in most EMEs, and in the case of those with weak fundamentals, it has recently stabilized after registering increments in the previous months.

Chart 2
Monetary Policy Interest Rates
Percent



Source: Bloomberg.

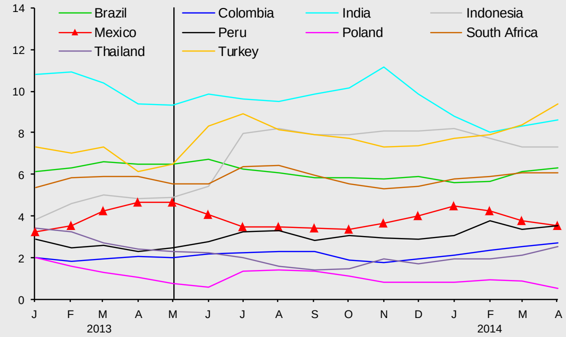
Chart 3
Fixed Rate Agreed in
2-year Interest Rate Swaps 1/ 2/
Percent



1/ It referes to the "fixed leg" agreed in this instrument for the exchange of cash flows.
2/ For Indonesia and Peru, the interest rate of 2-year instruments was used.
Source: Bloomberg.

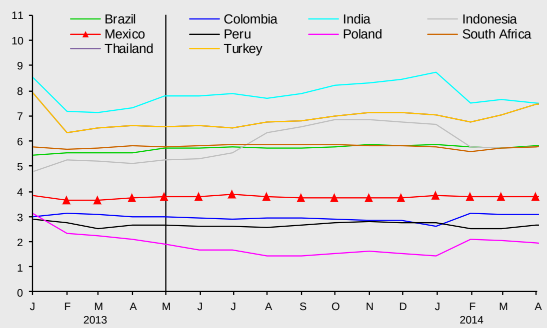
On the other hand, the sovereign risk premia presented a generalized increase in EMEs after May 2013. This can be observed in the evolution of market indicators that measure the sovereign credit risk (Chart 6). Notably, in the case of Mexico, they have been decreasing over the recent months and even located at levels similar to those observed in early 2013. Indeed, Mexico received an upgrade in the sovereign debt rating by two rating agencies in December 2013 and February 2014 reflecting Mexico's solid macroeconomic fundamentals and a favorable outlook with respect to the possible impact of the progress regarding the structural reforms.

Chart 4
Observed Inflation
Percent



Source: Bloomberg.

Chart 5
Expected Inflation [1/]
Percent

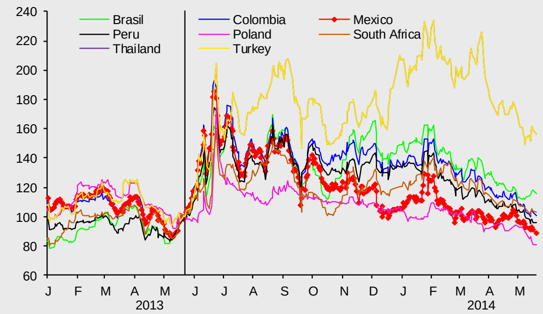


1/ For each country, expected inflation for the next 12 months is estimated as an average of inflation expectations at the end of the current year and at the end of the following year.
Source: Consensus Forecasts.

Finally, as a result of a high degree of liquidity in international financial markets, the term premia of this group of economies, measured as the difference between the interest rates of 10- and 2-year government bonds, located close to their historical minimum levels in early 2013 (Chart 7). However, from May 2013 onwards, the decompression process of this premium in the U.S. led to higher term premia for other economies, including the emerging ones. In this respect, the considerable increment in the term premium of Mexico is notable.

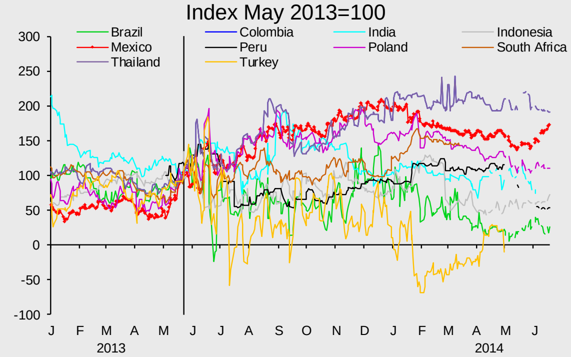
Thus, in the analysis of the components of long-term interest rates, it stands out that the increase in Mexico has largely derived from the decompression process of the U.S. term premium, given that the evolution of the rest of the components of this rate remained relatively stable in the reference period.

Chart 6
Credit Default Swaps [1/]
Index May 2013 = 100



1/ 5-year Credit Default Swap.
Source: Bloomberg.

Chart 7
Term Premium (10y – 2y)
Index May 2013=100



Source: Bloomberg.

4. Final Remarks

In the present world economic environment, EMEs have faced important challenges. The normalization process of monetary conditions in the U.S. has generated volatility in international financial markets, mainly those of EMEs, as well as a widespread increase in medium- and long-term interest rates. In this context, the heterogeneity of the EMEs has been evident, mainly in light of the macroeconomic vulnerabilities of some of them.

The analysis of the evolution of the components of long-term interest rates for a group of EMEs presented in this Box shows that the increase in their long-term interest rates reflects increments in their different components. In particular, it is found that for the case of Mexico, the adjustments in long-term interest rates are principally accounted for by the evolution of the term premium, since other components, such as the short-term interest rate and their expectations, as well as the inflationary risk premia, remained stable.

5. Inflation Forecast and Balance of Risks

As indicated above, the Mexican economy decelerated at the end of 2013 and early 2014. In particular, at the beginning of 2014 the economic activity was mainly affected by transitory factors, such as the decrease in the U.S. external demand, given the adverse weather conditions in that country. However, insofar as these factors have been reverting, the economy began to observe greater dynamism. For the rest of the year, it is anticipated that a more dynamic external demand, improvement in the housing construction sector, higher public expenditure and the monetary policy will positively impact the economic activity. Hence, GDP is estimated to register a favorable trend throughout 2014. Still, the economic slowdown registered in late 2013 and in early 2014 inevitably implies a downward adjustment of the growth forecast for 2014 as a whole, although the positive growth trend is expected to continue in 2015.

The expectations regarding the U.S. economic activity, which represent the basis for Mexico's macroeconomic framework, are the following:[12]

a) The U.S. expected GDP growth is reduced from the 2.9 percent considered in the previous Quarterly Report to 2.4 percent. For 2015, the forecast for this indicator's growth rate remains at 3.0 percent.

b) U.S. industrial production is anticipated to grow 3.7 and 3.6 percent in 2014 and 2015, respectively. These figures compare to the forecast of 3.6 and 3.5 percent for 2014 and 2015, in the same order, reported in the previous Quarterly Report.

Growth of the Mexican Economy: Considering the performance of GDP in Mexico in recent months, as well as the expectations of the economic growth determinants, in particular growth expectations in the U.S., the forecast interval for the GDP growth rate of Mexico in 2014 is revised from 3.0 to 4.0 percent in the previous Report, to 2.3 to 3.3 percent (Chart 43a). For 2015, a GDP growth rate between 3.2 and 4.2 percent is still anticipated.

Employment: The expected increase in the number of IMSS-insured workers (permanent workers and temporary workers in urban areas) in 2014 is revised downwards, in accordance with the adjustment in the economic growth expectations. In particular, an increment of 570 to 670 thousand IMSS-insured workers is estimated for 2014, as compared to an expected increase of 620 to 720 thousand workers in the previous Report. For 2015, an increment of 620 to 720 thousand IMSS-insured workers is still anticipated.

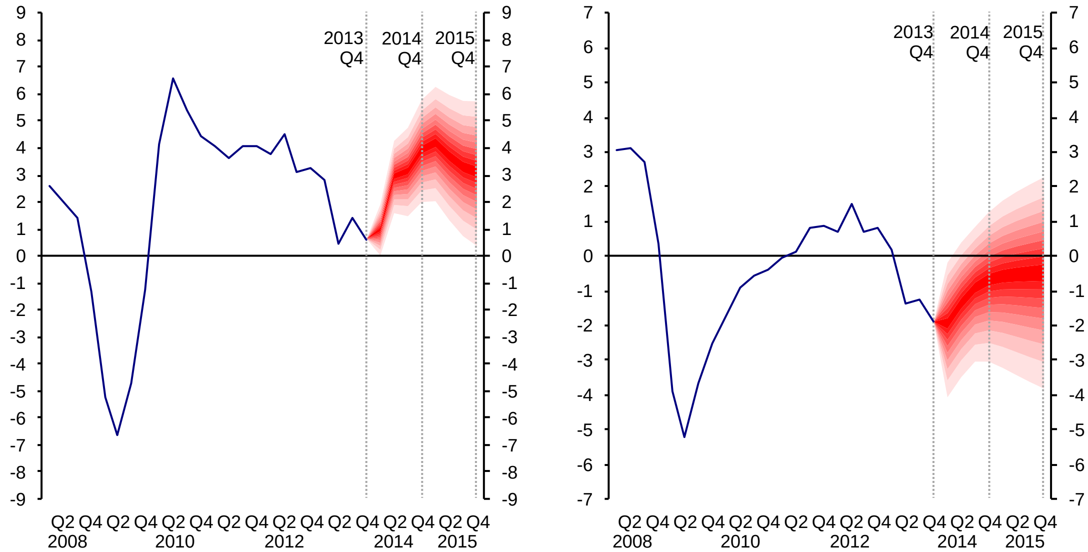
Current Account: For 2014, deficits in the trade balance and the current account of USD 4.9 and 25.4 billion are estimated, respectively (0.4 and 2.0 percent of GDP, in the same order). For 2015, deficits in the trade balance and the current account are expected to amount to USD 6.9 and 28.5 billion, respectively (0.5 and 2.1 percent of GDP, in the same order).

[12] Expectations for the U.S. economy are based on the consensus of analysts surveyed by Blue Chip in May 2014.

Chart 43
Fan Charts: GDP Growth and Output Gap

a) GDP Growth, s. a.
Annual percent

b) Output Gap Estimate, s. a.
Percentage of potential GDP



s. a. / Seasonally adjusted figures.
Source: INEGI and Banco de México.

s. a. / Based on seasonally adjusted figures.
Source: Banco de México.

Given the recent performance of the Mexican economy, as well as the above referred estimates, no aggregate demand-related pressures on either inflation or the external accounts are anticipated. In particular, the output gap is estimated to remain negative in the forecast horizon, even though gradually narrowing over time (Chart 43b).

In this environment, there are risks to the growth scenario for 2014 and 2015. Among the main downward risks the following stand out:

I. That consumer and producer confidence do not improve fast enough, and, therefore, that private sector expenditure does not recover at the rate foreseen in the central scenario.

II. That the process of the monetary policy normalization in the U.S. does not take place in an orderly manner.

Despite the abovesaid, it should be pointed out that, along with the improved world economic outlook, the perceived vulnerability in most emerging economies has been reduced, due to their stronger macroeconomic stances and, especially, due to lower uncertainty regarding the normalization of the U.S. monetary policy. Hence, considering that certain advanced economies have been consolidating their recovery and that the perception of vulnerability in some emerging ones has decreased, the forecast for the Mexican economy is also subject to upward risks. Particularly, the possibility that the recovery of the U.S. economic activity accelerates is noteworthy.

Inflation: With respect to annual headline inflation forecasts, as pointed out in the previous Quarterly Report, in the second quarter of 2014 it is expected to remain below the upper bound of the variability interval around the 3 percent target. For the second half of the year, due to the arithmetic effect coming from a low comparison base, as well as the volatility of the non-core component, headline inflation could locate above 4 percent in a few months, although it is expected to conclude the year below this level. From January 2015 onwards, annual headline inflation is estimated to significantly decrease and to remain at levels slightly above 3 percent for the rest of the year (Chart 44). This expected inflation performance will be consequent on the fact that in 2015 no fiscal measures, that could impact prices as they did in 2014, are anticipated to be taken. Additionally, it was considered that the gasoline price adjustment will be determined from January 2015 onwards, based on the expected inflation, just as established by the Federal Income Law 2014.

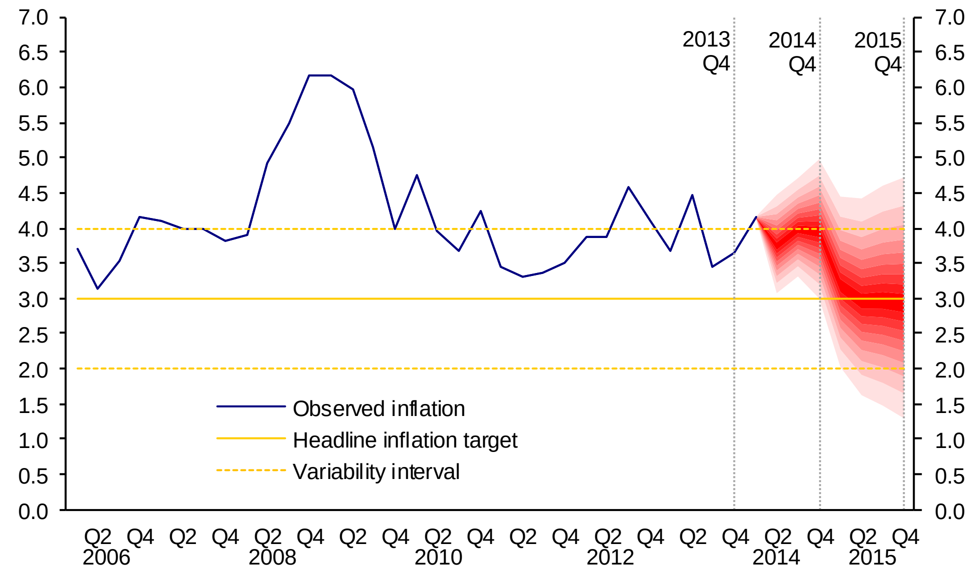
According to the estimates of annual core inflation, it will remain at levels around 3 percent in 2014 and below this level in 2015 (Chart 45). As regards non-core inflation, it is expected to plunge in early 2015, when gasoline prices are adjusted in accordance with the referred Federal Income Law, even though its other components could register volatility during the year.

The inflation outlook is not risk-free:

i. An upward risk refers to exchange rate adjustments as a result of high volatility in international financial markets or other factors. However, in such case, the impact on inflation is anticipated to be transitory and moderate, given a low pass-through of exchange rate fluctuations onto prices, even more so if the output gap is considered to remain negative.

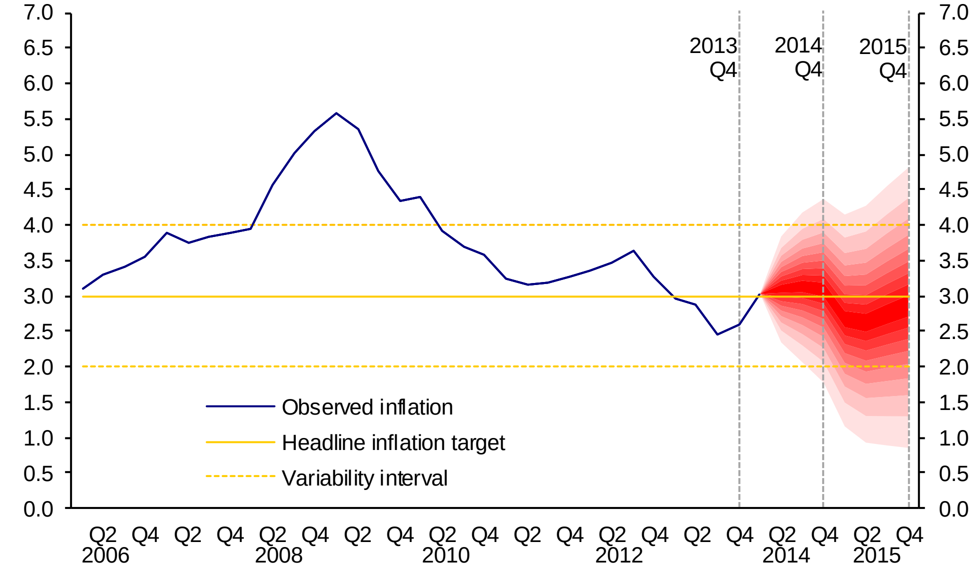
ii. A downward risk that still prevails is a lower than anticipated economic activity recovery.

Chart 44
Fan Chart: Annual Headline Inflation [1/]
Percent



1/ Quarterly average of annual headline inflation.
Source: INEGI and Banco de México.

Chart 45
Fan Chart: Annual Core Inflation [1/]
Percent



1/ Quarterly average of annual core inflation.
Source: INEGI and Banco de México.

Banco de México's Board of Governors has estimated that the monetary policy stance has so far been congruent with the efficient convergence of inflation to its 3 percent target. Therefore, it has maintained the Overnight Interbank Interest Rate at 3.5 percent in its Monetary Policy meetings of January, March and April 2014. Still, in the future it will monitor all factors that may affect inflation and its expectations in the medium- and long term, particularly the evolution of the degree of slack in the economy. Likewise, it will monitor the implications of the monetary policy stance of Mexico relative to the U.S. onto the inflation outlook, so as to reach the abovesaid inflation target.

Finally, the juncture the Mexican economy is going through is propitious to reflect on the importance of strengthening the domestic sources of growth over the coming years. In this regard, it is important to keep in mind that, from a long-run perspective, the economic growth of Mexico has been unsatisfactory. One of the main reasons behind the reduced growth that Mexico has been presenting for decades is the low growth rate of productivity. It should be noted that for a country to significantly increase its productivity, thus leading to persisting increments in its growth rates, a comprehensive transformation process of the national life is required, which can take a long period of time to be implemented, given that, in turn, this process generally requires deep changes in the institutions governing the economic activity. The historical evidence of numerous countries supports this statement. This suggests that achieving higher productivity and stronger potential growth in Mexico poses a considerable challenge. In this context, it is encouraging that structural reforms aimed at increasing productivity are being carried out. Indeed, among other reforms, the amendments to the Constitution, which have been approved recently in the areas of telecommunications, economic competition, energy and education, represent a crucial step in the process of structural change required by the country. Nevertheless, it is imperative that this progress is backed by secondary legislation that preserves the spirit of the constitutional amendments. Likewise, for the reforms to unlock their full potential onto productivity growth, and, therefore, on economic activity and welfare, it is also necessary to ensure that they are adequately put into practice in the course of the following years.

Section II: Quarterly Report April - June 2014 63

CONTENTS

BOX

Section II: Quarterly Report April - June 2014

1. Introduction

The monetary policy implemented by Banco de México has focused on reaching an efficient inflation convergence towards its 3 percent target, that is, at the minimum cost to society in terms of economic activity. This has been possible, in part, due to the credibility of the Bank's commitment to price stability. Thus, there has been a positive feedback between the conduction of monetary policy, the environment of low and stable inflation and the anchoring of inflation expectations.

Therefore, the conduction of monetary policy, among other factors, contributed to inflation evolving as expected during the first two quarters of the current year, while inflation expectations for end of 2014 and 2015 diminished. Meanwhile, during the first quarter economic activity registered a lower performance than initially anticipated; contributing to a higher degree of slack in the economy than that foreseen a few months ago. In this context, considering the favorable evolution of inflation, the prevision that it will stay at levels close to 3 percent from early 2015 onwards and the weak economic activity, the Board of Governors decided to decrease the target for the Overnight Interbank Interest Rate from 3.5 to 3.0 percent in June. However, it considered that, given the expected recovery of the economy and the monetary policy stance of Mexico relative to the U.S., a further reduction in this target was not recommendable, thus it remained unchanged in July.

Economic activity in Mexico showed an improvement during the second quarter of the current year in relation to the weak behavior observed in the previous two quarters. This evolution has been mainly due to the dynamism of the external sector, since the recovery of the domestic demand is not yet very strong. Despite the mentioned recovery, the prevailing degree of slack in the economy is greater than the one anticipated in the previous Report.

During the second quarter, the international environment was characterized by a recovery of the world economy. In advanced economies, the effects of a lower fiscal consolidation and a very accommodative monetary policy contributed to boosting economic activity, while in emerging economies weak conditions prevailed. The expansion of the world economy was supported by the fading of transitory factors that led to lower than expected growth in the first quarter, mainly in the U.S. In this context, the Federal Reserve reaffirmed that it anticipates a gradual normalization of its monetary policy stance. Meanwhile, the European Central Bank announced major measures of monetary easing. Thus, the expectation that the considerable monetary stimulus in advanced economies will prevail for an extended period of time contributed to a low volatility in financial markets and a recovery of capital flows to emerging economies. However, even if most market participants expect monetary policies in advanced economies to normalize in an orderly manner, new episodes of volatility cannot be ruled out, as was the case at the end of July and the beginning of August. This since the normalization process may turn out more complicated than expected, especially in the U.S.

Despite the greater dynamism of the Mexican economy in the second quarter and the expectation of a stronger recovery in the second half of the year, the fact that its performance was lower than anticipated in the first quarter, together with the perception of a more modest than previously expected growth of domestic demand, lead to a downward revision of the GDP growth forecast for 2014. In particular, the forecast interval for Mexico's GDP growth in 2014 is revised from 2.3 to 3.3 percent in the previous Report to 2.0 to 2.8 percent. For 2015, the forecast interval is maintained between 3.2 to 4.2 percent. Although the output gap is anticipated to close gradually, it is likely to remain in negative levels until the end of 2015. In sum, aggregate-demand related pressures on inflation are not expected during the next 18 months.

The outlook for annual headline inflation continued being positive. As in the previous Report, inflation is expected to converge to the 3 percent target in 2015. As foreseen, it is expected to remain close to 4 percent during the second half of 2014, although due to the high volatility that characterizes the prices of agricultural products it may exceed that level at some point, as in fact happened in July. However, it is expected that towards the end of this year, headline inflation will be below 4 percent, given the fading effect of changes in relative prices that took place in November and December of 2013. For 2015, annual headline inflation is anticipated to rapidly decrease to levels close to 3 percent, as the arithmetic effect derived from the fiscal measures, which came into force in early 2014, vanishes, and the increases in gasoline prices from 2015 onwards are consistent with expected inflation, as established by the Federal Income Law 2014. The annual core inflation forecasts indicate that it will remain around 3 percent for the rest of 2014 and below this level in 2015.

In this context, the Board of Governors considers that the monetary policy stance is consistent with the efficient convergence of inflation towards its 3 percent target. However, the Board will closely monitor the performance of all determinants of inflation and inflation expectations for medium- and long-term horizons, including the expected recovery of the economy and the monetary policy stance of Mexico relative to the U.S., in order to be able to reach the target of 3 percent for headline inflation.

2. Recent Development of Inflation

2.1. Inflation

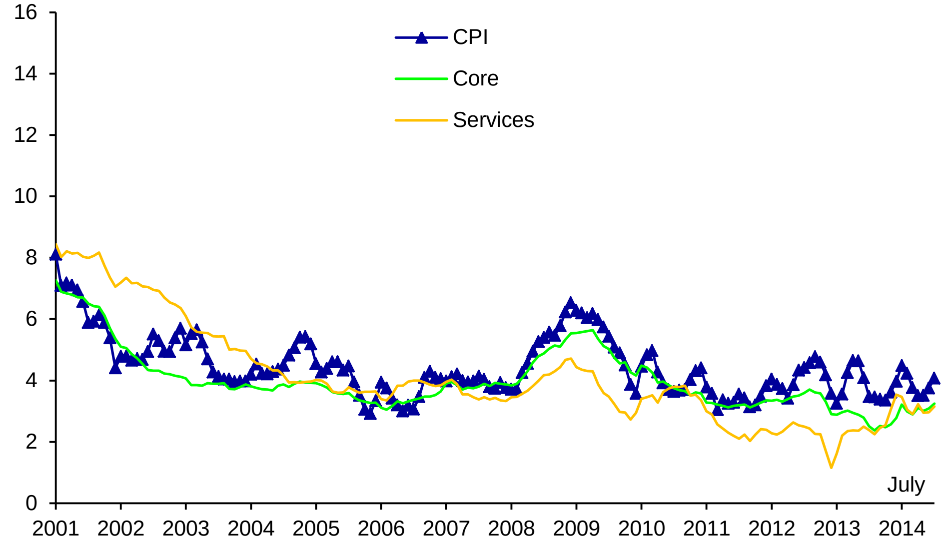
The conduction of monetary policy, among other factors, contributed to the decrease in annual headline inflation in the second quarter. This indicator's average went from 4.16 to 3.59 percent between the first and second quarter of the year, proving the absence of second round effects on the price formation process derived from diverse fiscal changes that came into force in early 2014 (Table 3 and Chart 46).). Later, as expected, annual headline inflation rebounded, mainly due to the arithmetic effect of a low comparison base in the non-core component, namely the agricultural price subindex, and the increase in air transport and tourism package prices, which are expected to revert in the next months. Thus, annual headline inflation was 4.07 percent in July (Table 3 and Chart 47).

Table 3
Consumer Price Index and Components
Annual change in percent

	Annual change							Average percent	
	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014	July 2014	QI 2014	QII 2014
CPI	**4.48**	**4.23**	**3.76**	**3.50**	**3.51**	**3.75**	**4.07**	**4.16**	**3.59**
Core	**3.21**	**2.98**	**2.89**	**3.11**	**3.00**	**3.09**	**3.25**	**3.03**	**3.07**
Merchandise	**2.93**	**2.91**	**2.88**	**2.97**	**3.08**	**3.24**	**3.37**	**2.91**	**3.10**
Food, beverages and tobacco	4.64	4.73	4.58	4.60	4.76	5.06	5.20	4.65	4.81
Non-food merchandise	1.56	1.45	1.52	1.67	1.73	1.78	1.88	1.51	1.72
Services	**3.47**	**3.05**	**2.90**	**3.23**	**2.94**	**2.96**	**3.15**	**3.14**	**3.04**
Housing	2.21	2.25	2.24	2.24	2.21	2.15	2.11	2.24	2.20
Education (tuitions)	4.32	4.38	4.39	4.39	4.42	4.46	4.38	4.36	4.42
Other services	4.53	3.50	3.17	3.94	3.28	3.40	3.90	3.73	3.54
Mobile phone services	27.42	1.34	-1.79	-3.73	-6.77	-5.67	-3.15	7.44	-5.39
Tourism packages	2.39	2.78	-2.37	13.02	4.34	1.95	5.02	0.85	6.42
Air transport	-9.29	-14.09	-12.01	1.89	-4.43	0.87	12.36	-11.84	-0.53
Non-core	**8.58**	**8.28**	**6.54**	**4.75**	**5.19**	**5.96**	**6.83**	**7.79**	**5.29**
Agriculture	**6.21**	**5.43**	**1.49**	**-1.13**	**0.67**	**3.37**	**5.78**	**4.33**	**0.94**
Fruit and vegetables	10.54	6.73	-2.81	-9.90	-7.97	-2.15	3.22	4.54	-6.86
Lemon	56.55	160.18	161.98	32.89	-11.85	1.92	8.22	130.71	10.45
Onion	40.73	32.26	20.36	-11.97	1.51	13.99	26.82	30.54	-1.03
Green tomato	-0.95	-29.57	-60.29	-68.85	-63.07	-19.95	14.64	-38.50	-58.97
Tomato	18.36	-9.89	-33.89	-7.34	-30.06	-22.73	3.77	-8.63	-20.46
Zucchini	0.84	-22.19	-50.93	-48.75	-10.92	10.85	2.84	-28.94	-23.45
Livestock	3.65	4.58	4.14	4.39	5.70	6.34	7.14	4.12	5.49
Energy and government approved fares	**10.13**	**10.12**	**9.73**	**8.52**	**8.14**	**7.59**	**7.47**	**9.99**	**8.09**
Energy	9.67	10.10	9.83	9.45	8.86	8.42	8.38	9.87	8.92
Gasoline	12.24	12.00	11.54	11.69	11.89	10.97	10.74	11.92	11.51
Electricity	5.06	5.69	5.66	4.11	-0.19	0.17	0.66	5.47	1.57
Domestic gas	10.41	11.88	11.34	10.30	10.05	9.91	9.80	11.21	10.08
Government approved fares	11.02	10.14	9.55	6.86	6.89	6.18	5.92	10.23	6.64
Public transport	12.52	12.40	12.48	6.16	5.79	4.40	3.59	12.47	5.44
Vehicle procedure fees	68.11	45.56	11.54	2.76	2.79	2.82	2.82	37.66	2.79
City buses	8.10	7.76	5.89	5.74	6.21	5.48	5.44	7.25	5.81

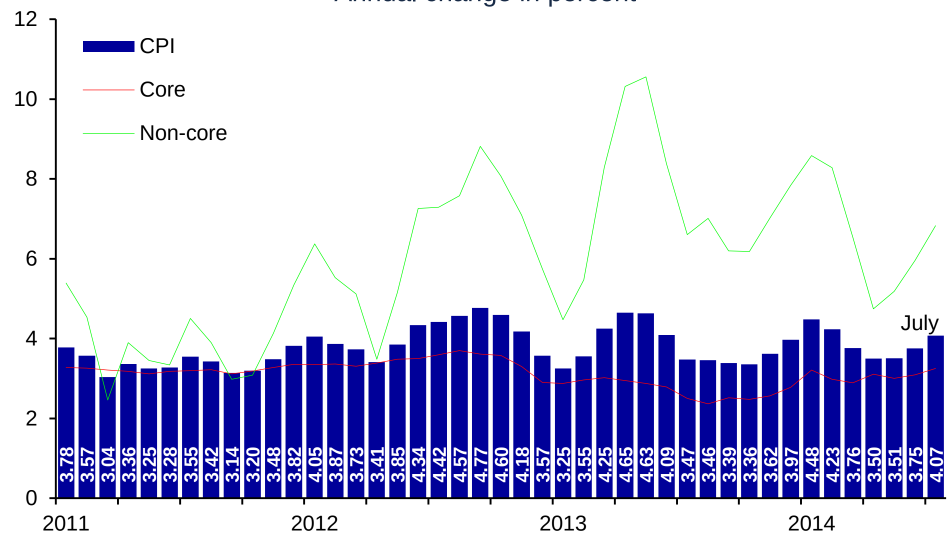
Source: Banco de México and INEGI.

Chart 46
Consumer Price Index
Annual change in percent



Source: Banco de México and INEGI..

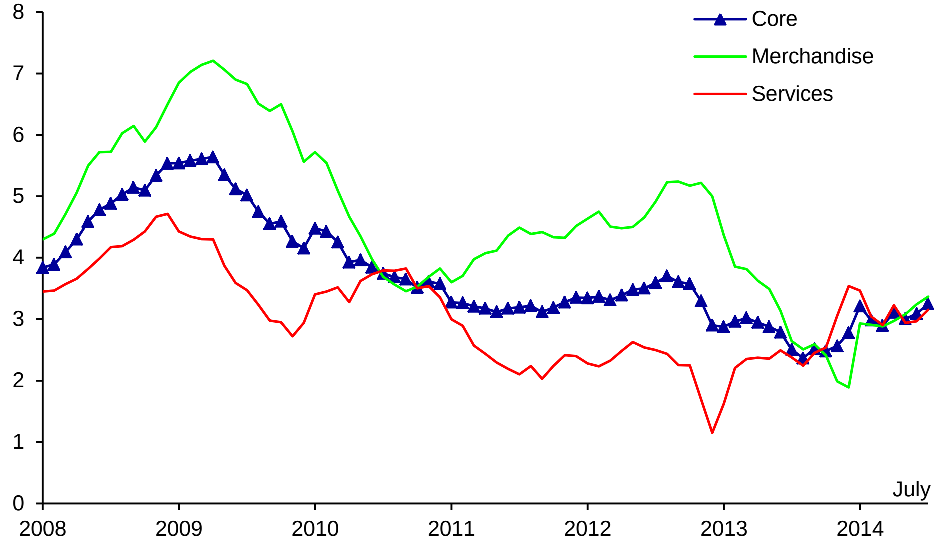
Chart 47
Consumer Price Index
Annual change in percent



Source: Banco de México and INEGI.

Although an important number of the referred tax changes affected the core price index, in particular diverse food items, this indicator's annual change maintained at levels close to 3 percent. Thus, in the first quarter of the year average annual core inflation was 3.03 percent and in the second quarter it was 3.07 percent. In July the annual change was 3.25 percent (Table 3, Chart 48 and Chart 49a).

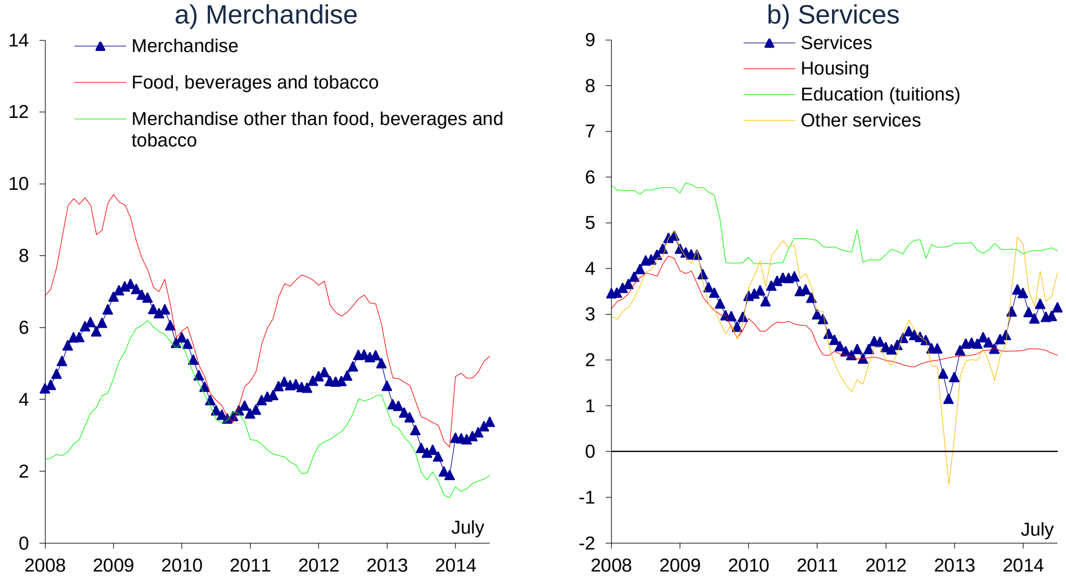
Chart 48
Core Price Index
Annual change in percent



Source: Banco de México and INEGI.

The merchandise price subindex went from an average annual change of 2.91 percent in the first quarter of 2014 to one of 3.10 percent in the second quarter, registering a variation of 3.37 percent in July. This was mainly due to the behavior of the food items' group, which still reflects the arithmetic effect of fiscal changes at the beginning of the year, as its average annual change rate increased from 4.65 in the first quarter of the year to 4.81 percent in the second one. During July this group recorded an annual change of 5.20 percent, with high growth rates of beer and some cold cuts prices standing out. Meanwhile, the non-food merchandise group partly compensated the referred increments in the food merchandise subindex, by maintaining annual growth rates below 2 percent, changing from an average of 1.51 to 1.72 percent in the mentioned quarters (1.88 percent in July) (Table 3, Chart 48 and Chart 49a).

Chart 49
Core Price Index: Merchandise and Services
Annual change in percent

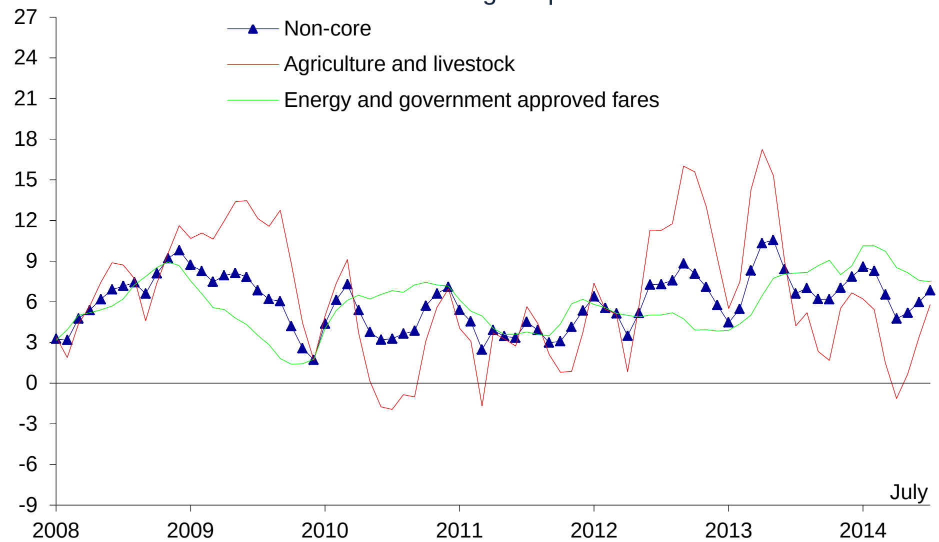


Source: Banco de México and INEGI.

The average annual change of the service price subindex decreased from 3.14 percent in the first quarter of 2014 to 3.04 percent in the second quarter, while in July it was 3.15 percent. This evolution can be mainly explained by the trajectory of prices of the services other than education and housing group. This happened, despite the seasonal effect of Easter holiday registered in the tourism service prices, whose annual change rates increased between the first and second quarter, given that the referred vacations took place in April this year, while in 2013 it was in March. On the other hand, the rest of this group's components showed a favorable trajectory, in particular, declines were registered in the mobile phone service charges. In this way, the average annual change of the group of services other than education and housing went from 3.73 percent in the first quarter to 3.54 percent in the second quarter of the year. Later, in July it was 3.90 percent, due to the transitory increments of tourism service prices, derived from the beginning of the summer holidays, which have been higher than those observed during the same period of the previous year, possibly associated with the modified school calendar that implied that vacations started later than last year and lasted less (Table 3 and Chart 49b).

During the period covered in this Report, annual non-core inflation presented lower levels than those observed at the beginning of the year, as effects of some vegetable price shocks from the previous quarters continued vanishing. Additionally, in the second quarter some energy prices decreased and public transport fares increased less than last year. Therefore, average annual non-core inflation dropped from 7.79 percent in the first quarter of 2014 to 5.29 percent in the second quarter. It stands out that towards the end of the quarter, the annual change rate of the agricultural price subindex, as expected by the Central Institute, increased as reflection of the arithmetic effect of a lower comparison base, besides the transitory price increments of some fruit and vegetables, caused by harvest problems after heavy rains, leading to an annual non-core inflation of 6.83 percent in July (Table 3, Chart 50 and Chart 51).

Chart 50
Non-core Price Index
Annual change in percent



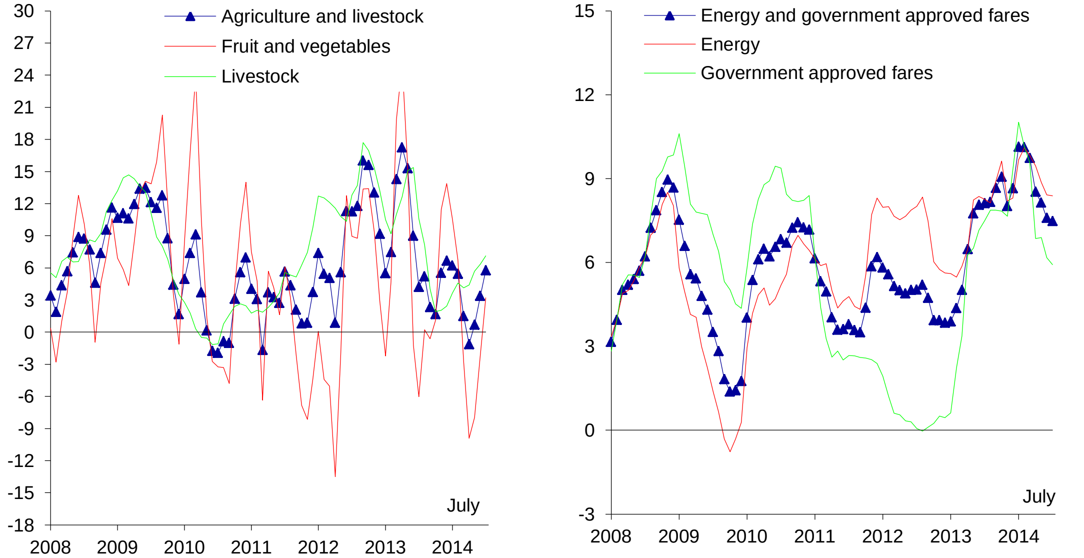
Source: Banco de México and INEGI.

The subindex of agricultural and livestock product prices reduced its average annual change from 4.33 percent in the first quarter of 2014 to 0.94 percent in the second quarter. As anticipated, this result was due to an arithmetic effect of a high comparison base, given the climate and sanitary effects during the same period last year, which significantly increased prices of some agricultural products, especially onion, tomato and zucchini. However, since June and as expected, the mentioned arithmetic effect diluted, and the annual change of the agricultural product price subindex went from 3.37 percent in June to 5.78 percent in July. It should be remembered that last year the prices of some vegetables, like green tomato and zucchini, reported important declines, as supply recovered after frost having affected production in the second quarter of 2013. Thus, the group of fruit and vegetables went from an annual change of -2.15 percent in June to 3.22 percent in July. Likewise, in the group of livestock products, the recent egg price decreases were less than those presented last year, when production re-established after being affected by the avian flu at the end of the first quarter of 2013. In this way, the annual change of livestock products increased from 6.34 percent in June to 7.14 percent in July (Table 3, Chart 51a and Chart 52).

In the subindex of energy prices and government approved fares, high annual change rates still prevail, which went from an average of 9.99 percent in the first quarter of 2014 to 8.09 percent in the second quarter, registering a level of 7.47 percent in July. The group of energy products exhibited a slower growth pace, as the price of natural gas for domestic use reduced and gas prices in the border region, in general, increased less pronounced, as compared to last year. As to the fares approved by different government levels, lower growth rates are mainly due to less intense increases in public transport fares, as compared to last year (Table 3, Chart 51b and Chart 53).

Chart 51
Non-core Price Index
Annual change in percent

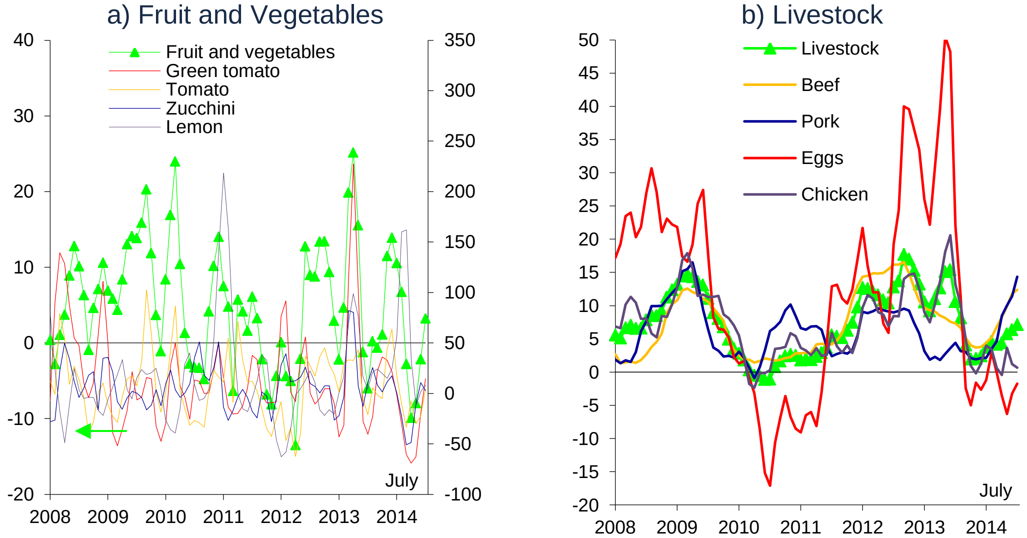
a) Agriculture and Livestock b) Energy and Government Approved Fares



Source: Banco de México and INEGI.

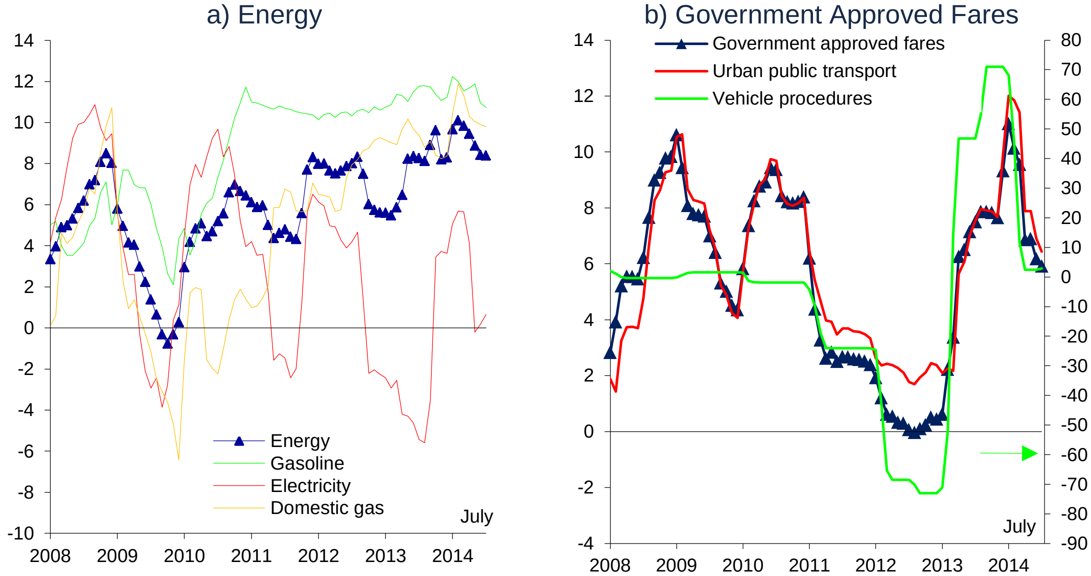
Chart 52
Agricultural Price Index
Annual change in percent

a) Fruit and Vegetables b) Livestock



Source: Banco de México and INEGI.

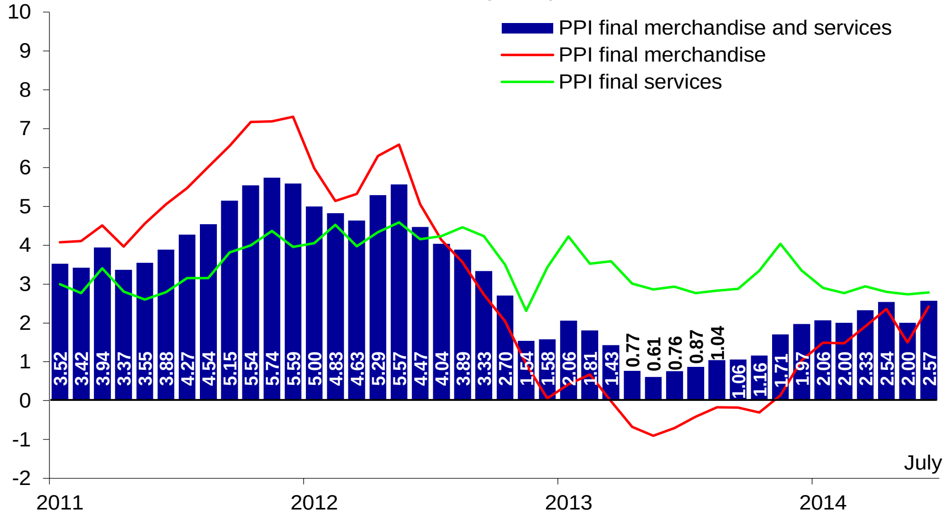
Chart 53
Non-core Price Index
Annual change in percent



Source: Banco de México and INEGI.

In the second quarter of 2014, the Producer Price Index (PPI) of finished merchandise and services, excluding crude oil, registered an average annual change rate of 2.29 percent, while in the first quarter it was 2.01 percent (**¡Error! No se encuentra el origen de la referencia.**). This behavior was due to the fact that price reductions observed for most PPI finished merchandise groups, among which transport equipment and machinery and equipment stand out, were mainly offset by the rebound of construction sector prices (concrete, asphalt and other chemicals, and rod), basic metal export industries, and some processed foods (sugar, meat and lard, gold coffee). In July 2014, the annual change of the referred indicator was 2.57 percent.

Chart 54
Producer Price Index
Annual change in percent



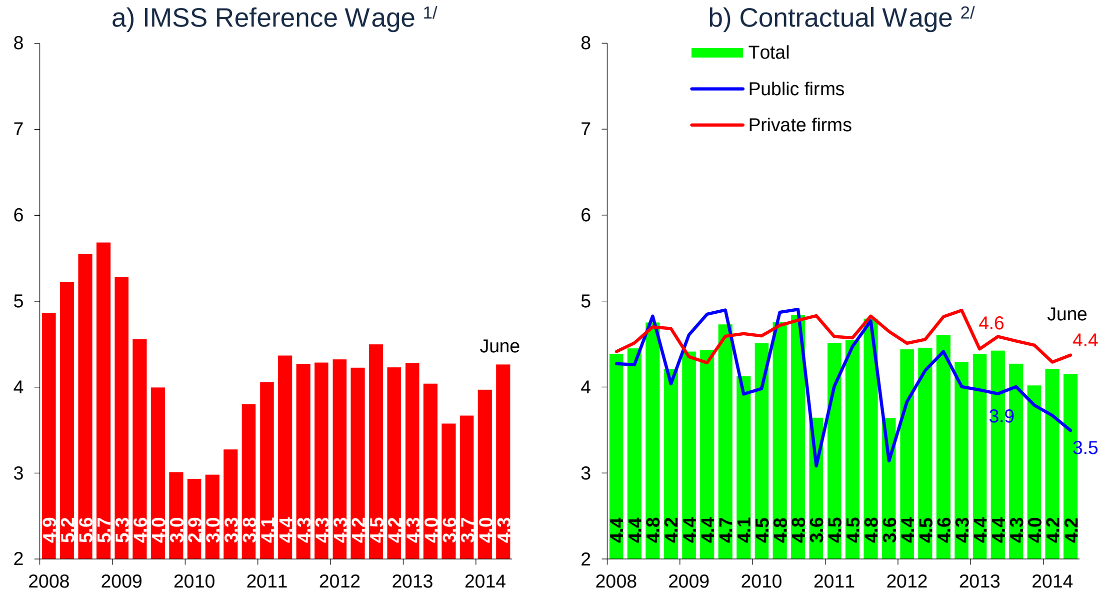
Source: Banco de México and INEGI.

2.2. Wages

The evolution of the main wage indicators in the second quarter of 2014 suggests that labor costs did not generate inflationary pressures. The reference wage of IMSS-insured workers increased 4.3 percent during the second quarter of 2014, while in the previous quarter this figure was 4.0 percent (Chart 55a). Thereby, this indicator returned to levels registered at the beginning of the previous year.

The increment in the contractual wage negotiated by firms under federal jurisdiction was 4.2 percent in the second quarter of 2014, which was lower than the figure of 4.4 percent registered in the same quarter last year. This difference derived from lower changes in contractual wages of both public and private firms. In particular, public firms negotiated an increase of 3.5 percent (3.9 percent in the same quarter of 2013). Private firms negotiated an increment of 4.4 percent in the period from April to June 2014 (4.6 percent in the second quarter of 2013, Chart 55b).

Chart 55
Wage Indicators
Annual change in percent



1/ During the second quarter of 2014 an average of 16.9 million contributors were registered in IMSS.
2/ The contractual wage increase is an average weighted by the number of involved workers. The number of workers in firms under federal jurisdiction that annually report their wage increases to the Secretary of Labor and Social Welfare (*Secretaría del Trabajo y Previsión Social*, STPS) equals approximately 2 million.
Source: Calculated by Banco de México with data from IMSS and STPS.

3. Economic and Financial Environment

3.1. International Environment

The growth of the world economy showed a greater dynamism during the second quarter, after a weaker than expected onset of the year. This was due to the recovery of advanced economies, while in the emerging ones weak conditions prevailed. Leading indicators suggest the recovery of the world growth pace to continue in the next months, although there are downward risks. International financial markets registered very low volatility levels, since monetary conditions in advanced economies are expected to remain accommodative for an extended period. However, by the end of July and early August, these conditions in international financial markets have been affected by a more favorable evolution of the U.S. economy during the second quarter of the year, arousing expectations about an anticipated adjustment of this country's monetary conditions.

3.1.1. World Economic Activity

In the U.S., after a significant contraction in the first quarter, mainly caused by temporary factors, among which severe climate conditions stand out, economic activity resumed its growth in the second quarter. According to preliminary information, GDP expanded 4.0 percent in this quarter, after having contracted 2.1 percent in the previous quarter. Likewise, leading indicators suggest that the recovery will continue in the second half of the year, supported by a lesser fiscal restriction, an accommodative monetary policy, additional gains in households' net wealth, favorable credit conditions and an increase in employment. Despite the aforementioned, and mainly due to the slowdown in the first quarter, the growth forecast for the entire year 2014 has been revised downwards, as compared to the forecast in the previous Report.

In the second quarter, the main U.S. aggregate demand components recovered. Private consumption grew at a moderate rate, partly due to improved household confidence (Chart 56a). On the other hand, although residential investment grew for the first time since the third quarter last year, in part as a result of normalizing weather conditions, its recovery is still weak. After contracting in the previous quarter, fixed investment in equipment grew slightly during the quarter, and it maintains a favorable outlook. Finally, net exports contracted in the referred period, although to a lesser extent than in the previous quarter.

Conditions in the U.S. labor market further improved. In the second quarter, the non-farm payroll grew on average 277 thousand jobs per month, its fastest growth pace since the first quarter of 2006. In July, this recovery continued with a monthly job creation of more than 200 000 jobs for the sixth consecutive time (209 thousand jobs). Likewise, the unemployment rate fell from 6.7 percent in March to 6.2 percent in July, although it remains above the long-term level estimated by the U.S. Federal Reserve.[13] However, there is uncertainty as to the extent to which a decline in that rate represents a reduction in the degree of slack in the labor market. Although the drop in the unemployment rate was partly due to a lower labor participation rate, which was driven by demographic factors and the effects of an extended period of high unemployment, it is also likely to reflect demoralized individuals that

[13] In June, the Federal Reserve estimated the central trend of the long-term unemployment rate between 5.2 and 5.8 percent.

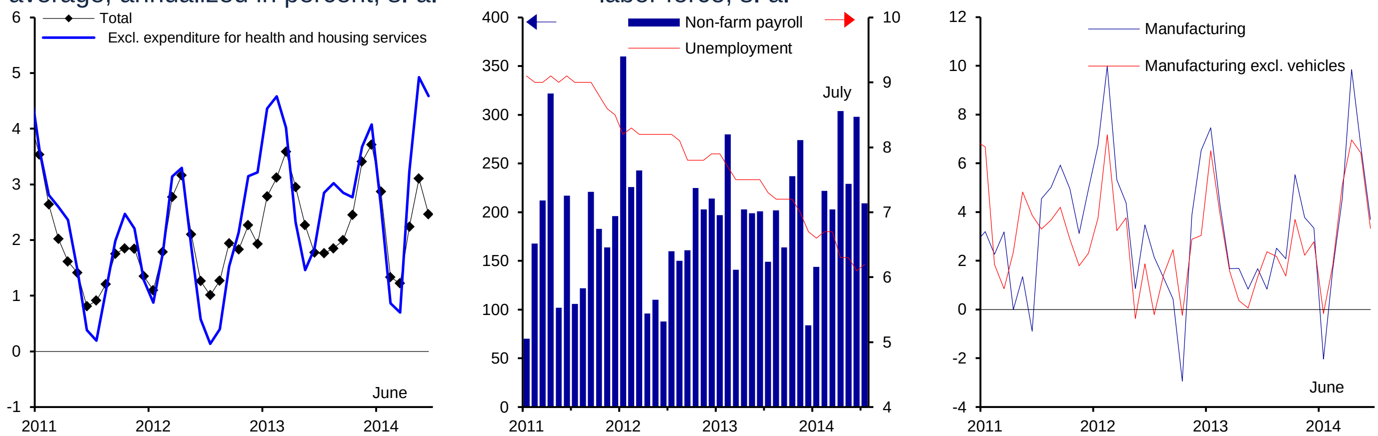
abandoned the labor force because of economic reasons, but who could rejoin once the recovery consolidates.

Chart 56
U.S. Economic Activity

a) Personal Consumption Expenditure
Quarterly change of 3-month moving average, annualized in percent, s. a.

b) Monthly Change of Non-farm Payroll and Unemployment Rate
In thousands of jobs and percent of labor force, s. a.

c) Manufacturing Production
Annualized quarterly change in percent, s. a.



s. a. / Seasonally adjusted figures.
Source: BEA.

s. a. / Seasonally adjusted figures.
Source: BLS.

s. a. / Seasonally adjusted figures.
Source: Federal Reserve.

Manufacturing production presented solid growth during the period, widespread across different industries, with the automobile industry standing out (Chart 56c). Leading indicators, such as the manufacturing sector's Purchasing Managers' Index, are recording the highest levels in more than three years and point to a further strengthening of the sector in the second half of the year.

In this environment, the Federal Reserve, as will be explained in detail below, expects inflation to increase towards its 2 percent target, in line with the expectation of a further improvement of the labor market and persisting well-anchored long-term inflation expectations. Additionally, this Institution reaffirmed its anticipation of a gradual normalization of its monetary policy, depending on the performance of the relevant indicators. The recent, better than expected, information, led some market participants to expect an earlier normalization process.

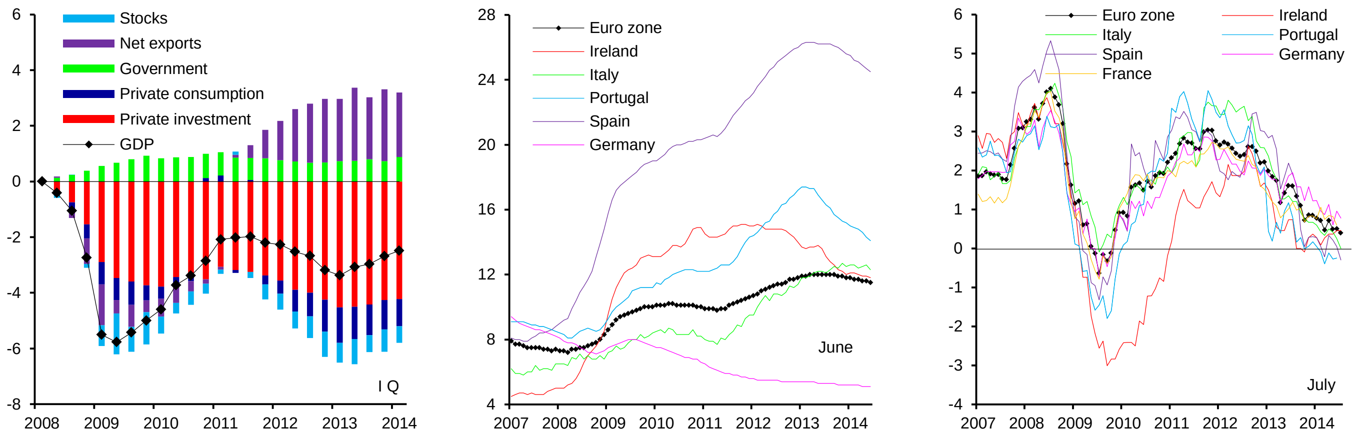
In the Euro zone, economic recovery remained weak and heterogeneous, with GDP still below pre-crisis levels, due to a low growth of investment and consumption, being reflected in still very high unemployment levels (Chart 57a and Chart 57b). This lack of momentum of domestic private demand was partly due to less dynamic bank credit, principally that granted to small enterprises. The region's economic activity outlook is mixed, given the relative dynamism of Germany and Spain and the stagnation of France and Italy. The inflation rate remained at levels significantly below the European Central Bank's (ECB) target (Chart 57c).

Chart 57
Euro Zone Economic Activity

a) Real GDP and Contribution of Components (2008-1Q=0)
In percent and percentage points, s. a.

b) Unemployment Rate
In percent of economically active population, s. a.

c) Inflation Rate
Annual change in percent



s. a. / Seasonally adjusted figures.
Source: Eurostat and Haver Analytics.

s. a. / Seasonally adjusted figures.
Source: Eurostat.

Source: Eurostat.

In response to the aforementioned, in June the ECB announced important measures to support the reactivation of the credit channel in the Euro zone. These measures are expected to contribute to greater easing of credit conditions and expansion for financing, particularly to small and medium enterprises in periphery countries. However, the reactivation of private sector financing also depends on the successful completion of the asset quality review and stress tests applied to banks by monitoring authorities, whose results will be published in October. The ECB informed in July that banks facing a capital shortfall have to submit capital plans in November. These plans will be evaluated and closely monitored by the ECB-led Joint Supervisory Teams and responsible national authorities.

The U.K. registered an annualized quarterly GDP growth rate of 3.2 percent in the second quarter, similar to that of the last quarter, driven by the expansion of investment and private consumption, and accompanied by strong job creation. The Bank of England (BI) has noted the presence of certain risks in the financial system, due to which it implemented macroprudential measures in order to limit the increase in housing prices and to prevent households' over-indebtedness.

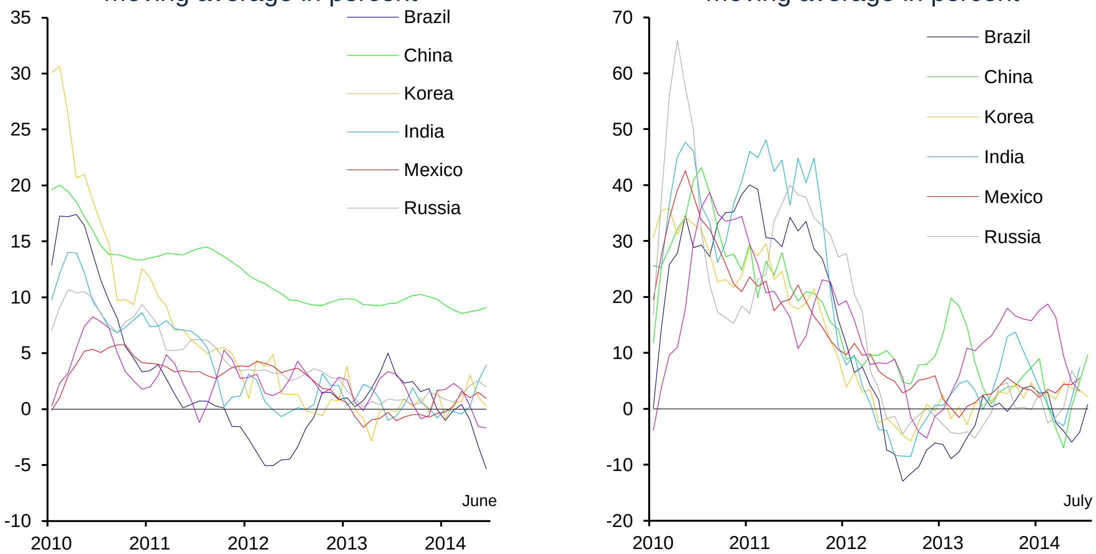
With respect to Japan, economic activity is estimated to contract during the second quarter, mainly due to the negative effect of the consumption tax raise in April on domestic demand and the weakness of exports. Available indicators point to a sharp decline in personal consumption spending and private investment, especially at the beginning of the quarter. Real exports contracted towards the end of the referred period. However, GDP is expected to resume its modest growth pace in the next quarters, given the improvement observed in the labor market and the announcement of new structural reforms, aimed at increasing productivity, particularly in the non-manufacturing sector, and improving the business environment.

In emerging economies, conditions of relative weakness prevailed during the second quarter, especially as concerns domestic demand. The growth of retail sales has remained stable so far, although at relatively low rates. In contrast, in line with the improvement in advanced economies, emerging countries' exports performed better and are expected to boost industrial activity in the next quarters (Chart 58). Nevertheless, there are risks to financial stability in some of these economies, derived from high credit growth in previous years and the increase in external debt issuance by the corporate sector.

Chart 58
Emerging Economies' Economic Activity

a) Industrial Production
Annual change of 3-month moving average in percent

b) Exports
Annual change of 3-month moving average in percent



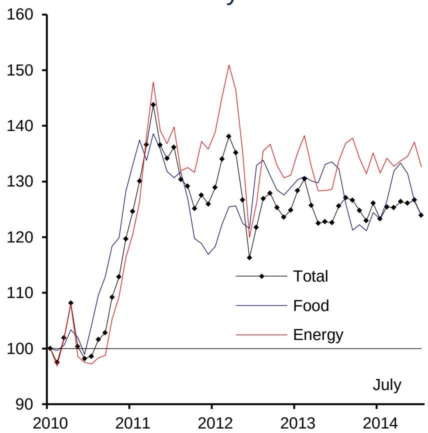
Source: Haver Analytics.

3.1.2. Commodity Prices

International commodity prices registered a mixed performance during the period covered by this Report (Chart 59a). Crude oil prices displayed high volatility as a response to changes in geopolitical risks in the Middle East (Chart 59b). Meanwhile, grain prices dropped during the referred period, in face of the expectation that global wheat and corn harvests for the 2014-2015 season will be close to record levels (Chart 59c).

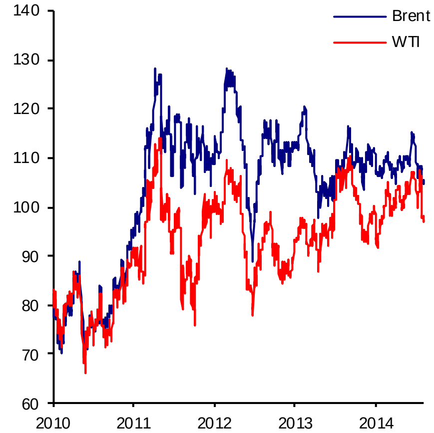
Chart 59
International Commodity Prices

a) Total Commodities, Food and Energy
Index January 2010=100



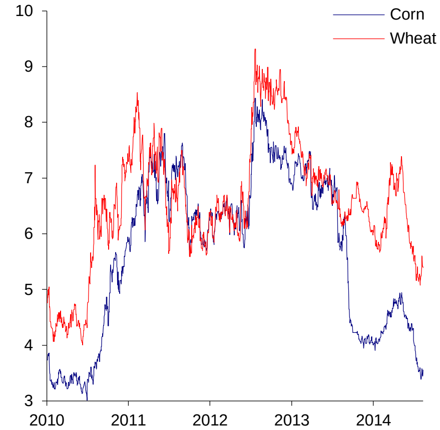
Source: IMF.

b) Crude Oil [1/]
USD per barrel



1/ Spot prices.
Source: Bloomberg.

c) Corn and Wheat [1/]
USD per bushel



1/ Spot prices.
Source: Bloomberg.

3.1.3. World Inflation Trends

In general, global inflation remained at low levels during the second quarter. The case of the Euro zone stands out, as deflation risks prevail. On the contrary, inflation in the U.S. increased in the referred quarter, although it locates below the Federal Reserve's 2 percent target and medium-term inflation expectations remain stable (Chart 60). Meanwhile, in many emerging economies, inflationary pressures decreased due to weak domestic demand and lower grain prices, although in several of these economies relatively high inflation rates persist.

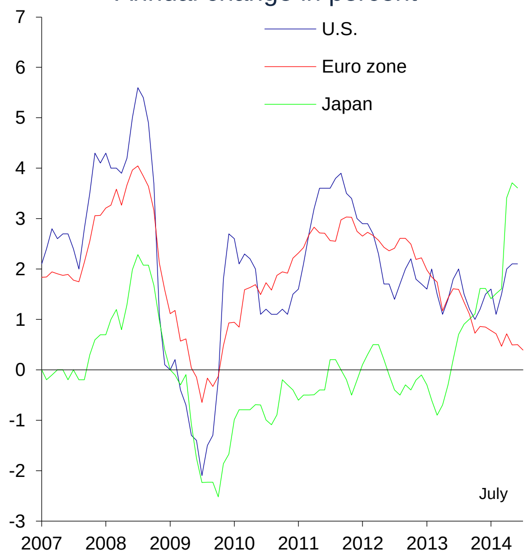
In the U.S., annual headline inflation was 2.1 percent in June, while core inflation was 1.9 percent. The annual change of the personal consumption expenditure (PCE) deflator was 1.6 percent in June and the core PCE, 1.5 percent.

In the Euro zone, inflation continued a decreasing trend in the second quarter of the year, even with negative annual rates in some countries of the region. Annual headline inflation was 0.4 percent in July, while core inflation was 0.8 percent in the same month, considerably below the European Central Bank's (ECB) medium-run target of inflation below, but close to 2 percent. According to the ECB, inflation will remain at low levels in the next months, before gradually increasing during 2015 and 2016. It also considers that the appreciation of the Euro since mid-2012 contributed to the price dynamics, and that in the current context its appreciation trend jeopardizes reaching the inflation target. Indeed, modifying this trend is one of the objectives pursued by the ECB by means of the monetary easing last June.

In the U.K., headline inflation was 1.9 percent in June (2.0 percent in the case of core inflation). This represents an increase as compared to May, mainly due to volatile components. Thus, inflation is expected to slightly decrease as the effect of the mentioned components fades, although the economy also strengthened more than expected. In Japan, inflation rebounded significantly during the quarter, reaching 3.6 percent in June, while core inflation (excluding food and energy) ended the reference period with 2.3 percent, as compared to 0.6 percent in March. This increase was to a great extent due to the raise in the consumption tax from 5 to 8 percent in April.

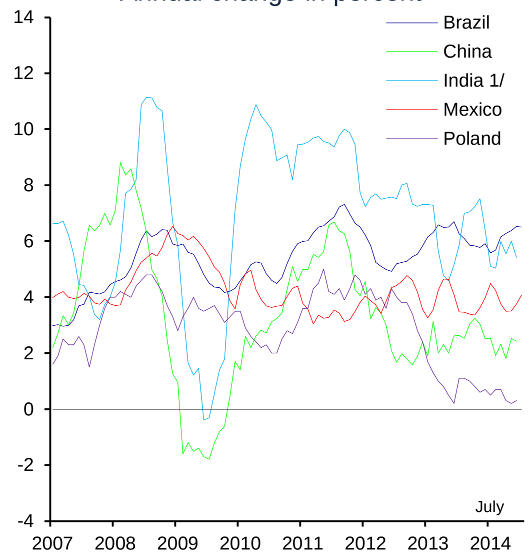
Chart 60
Headline Inflation in Advanced and Emerging Economies

a) Advanced Economies
Annual change in percent



Source: BLS, Eurostat and Japan Statistics Bureau.

b) Emerging Economies
Annual change in percent



1/ It refers to inflation of wholesale prices.
Source: National Statistics Bureaus.

3.1.4. International Financial Markets

Considering the current environment of global growth and inflation, the monetary policy stance in most economies is expected to stay accommodative in the next quarters. However, given the different stages of the economic cycle advanced economies are going through, the withdrawal of the accommodative measures is also anticipated to be differentiated.

In the case of the U.S., the Federal Reserve reaffirmed in its June and July meetings its strategy of gradually withdrawing the monetary stimulus. In particular, it reiterated that the recent range of the federal funds rate will most likely be maintained for a considerable time period after the asset purchase program finishes, especially if projected inflation continues below the 2 percent target and inflation expectations remain well-anchored. However, in its July meeting, it pointed out that inflation has been approaching this target and is less likely to persistently stay below it. With respect to the labor market, the Federal Reserve considered that several indicators suggest that a significant underuse of labor resources remains, although the unemployment rate was no longer considered as high. Furthermore, it also decided to further reduce the amount of asset purchases from August onwards from USD 35 to 25 billion each month and anticipated that this program could end in October of this year. However, it stressed that the future trajectory of the federal fund rate will depend on the evolution of the economy. The tone of the Federal Open Market Committee (FOMC) statement reflects a more cautious stance of the Federal Reserve with respect to the future behavior of economic activity.

The Bank of England, in its monetary policy meetings during the period covered by this Report, maintained the reference rate at 0.5 percent, and did not change the balance of its asset purchase program or the forward guidance on the reference rate. However, in the minutes of the June and July meeting and in recent interventions of Monetary Policy's Committee members, the increasing possibility of a tightening of monetary policy towards the end of this year was emphasized, given the favorable performance of economic activity. As already mentioned before, the Financial Policy Committee (FPC) established in June new macroprudential measures, as a response to indirect risks to financial stability, derived from substantial increases in residential real estate prices, which, in turn, have been accompanied by over-indebtedness of households.[14]

On the contrary, in the Euro zone, the ECB announced in its June meeting important monetary stimulus and private sector financing measures in order to improve the functioning of the monetary policy transmission mechanism. Among these measures the following stand out: the decrease of the main interest rates, including a negative rate for commercial bank deposits in the Central Bank; the introduction of new targeted longer-term refinancing operations (TLTRO);[15] preparatory work related to outright purchases of asset-backed securities; and the prolongation of the fixed rate, full allotment tender procedures until the end of 2016. Later, in its July and August meetings, the ECB maintained the interest rates and forward guidance unchanged. It also mentioned that the monetary operations in the next months will continue increasing monetary stimulus and will help inflation to return to levels close to, but below 2 percent, emphasizing its intention to safeguard the anchoring of inflation expectations over the medium term.

The Bank of Japan (BJ), in its meetings during the period April-August, maintained the programmed level of asset purchases unchanged at an annual amount of between JPY 60 to 70 trillion, aimed at reaching the 2 percent inflation target in a two-year horizon. BJ mentioned that the monetary easing had the expected effects, and hence the Institution will continue this program as long as necessary in order to maintain target inflation stable.

It is noteworthy that the U.S. and U.K. economies are in an advanced stage of the economic cycle, as compared to the Euro zone and Japan. In this way, the outlook points to a divergence in advanced economies' monetary policy stances. While in the former, the gradual liftoff of monetary stimulus is about to start, in the latter the monetary policy is expected to still remain very accommodative for an extended period, in order to boost the slow recovery of their economies. This discrepancy between monetary policy stances could increase exchange rate volatility, with possible repercussions on economic activity and the international financial system.

Emerging economies kept showing differences in the conduction of the monetary policy. In some cases, like Brazil, Malaysia, Russia and South Africa, the increase

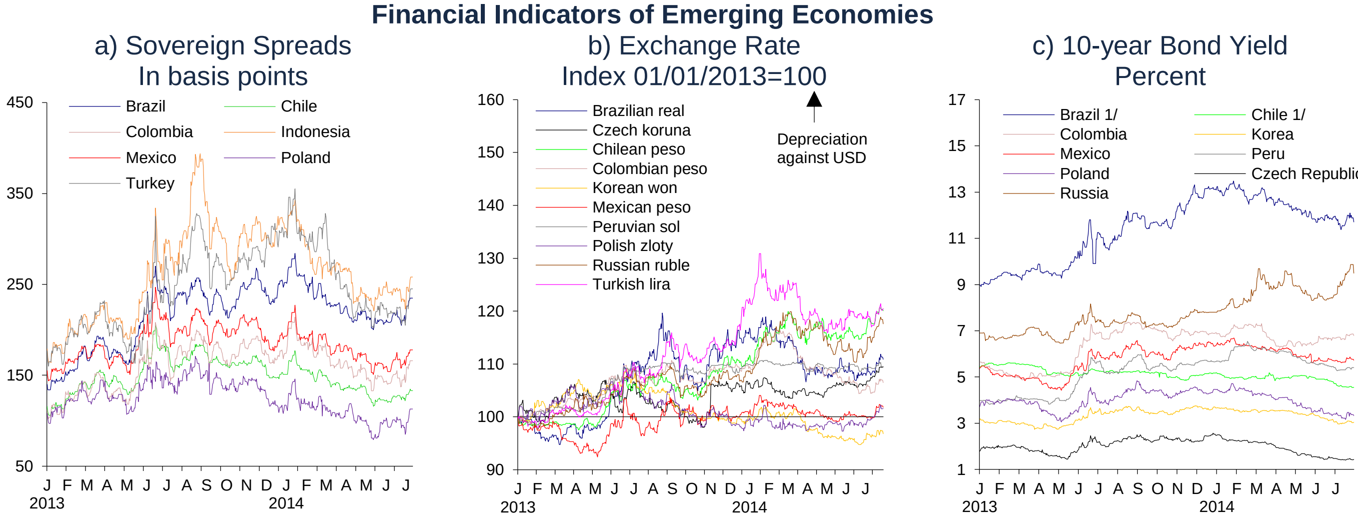
[14] The FPC set a limit for new mortgage lenders of 15 percent of their total number of new residential mortgages at loan to income ratios at or greater than 4.5 and established stricter tests of affordability, assessing whether borrowers could confront a 300 basis point increase in the rate in the first five years of the loan.

[15] These operations will provide financing to banks in the next 4 years at low cost (main refinancing rate (MRO) plus 10 basis point spread), for a total amount of up to EUR 1 trillion, depending on the credits that banks granted to the non-financial private sector. The initial amount of these operations amounts to EUR 400 billion (7 percent of performing loans to non-financial firms and households, excluding house purchase loans), to be conducted in September and December this year. The remaining amount will be assigned quarterly, depending on new financing provided as compared to a benchmark, in the next two years.

in inflationary pressures led their central banks to raise their reference interest rate. In contrast, central banks of Chile, Hungary and Peru decreased their interest rates in face of the outlook of lower growth and absence of inflationary pressures.

During the period covered by this Report, low volatility was registered in most financial markets, since the monetary policy stance in the main advanced economies was expected to remain accommodative. In this context, with respect to the first quarter of the year, long-term interest rates in advanced economies dropped, partly reflecting the expected lower reference rates in the medium term. This perception intensified investors' search for yield, which led to a recovery of capital flows to emerging economies, a drop in sovereign bond yields, progress in stock markets and an appreciation of most currencies against the USD, despite weak economic conditions prevailing in some of these economies (Chart 61).

Chart 61
Financial Indicators of Emerging Economies



Source: Bloomberg.

Source: Bloomberg.

1/ It refers to 9-year bonds.
Source: Bloomberg.

Derived from the aforesaid, it should be noted that there is a risk that changes in the perception of the monetary policy normalization process in main advanced economies could provoke a sudden reversal of capital flows, in favor of safer assets. In particular, although the central scenario of many market participants regarding the normalization of the U.S. monetary policy is that of a gradual increase in interest rates from the second half of 2015 onwards, there is uncertainty about this process, and therefore, episodes of volatility that affect emerging markets, cannot be ruled out. After FOMC's July meeting, this type of behavior was observed in the markets, although apparently to a limited extent. Mexican authorities exhorted national financial institutions and firms to strengthen their risk control and management processes. Thus, some possible scenarios of U.S. interest rate increases and implications for the stability of the financial system have been analyzed. In particular, each year stress tests for the Mexican financial system have been carried out. The most recent results show, in general, important strengths in terms of the market position, as well as the portfolio or funding concentration.[16] On the other

[16] See Annual Report for information about Mexico's Financial Systems Stability and the activities undertaken by the Financial System Stability Council, March 2014.

hand, it cannot be ruled out that some of the geopolitical conflicts, which have intensified during the recent months, can become factors of volatility.

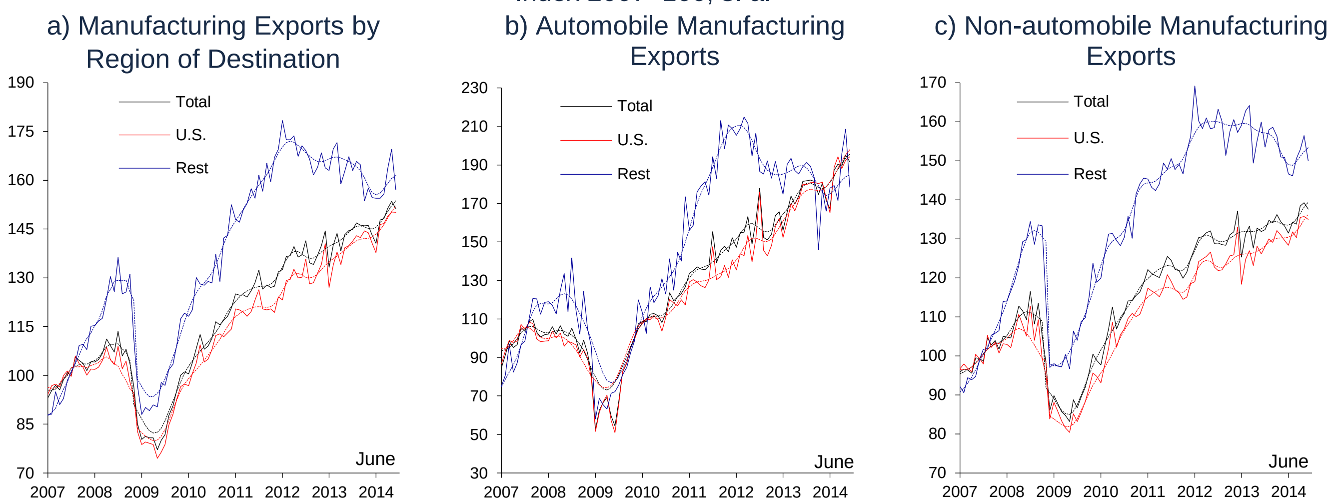
3.2. Development of the Mexican Economy

3.2.1. Economic Activity

During the second quarter of 2014, economic activity in Mexico registered a greater dynamism than in the previous two quarters. This evolution was mainly the result of the dynamism of external demand, since the recovery of domestic demand is still not very strong.

Available indicators of the performance of foreign trade show that, after the drop observed in December 2013 and January 2014, manufacturing exports displayed a widespread improvement in their growth rate at the end of the first quarter of this year, which continued in the second quarter. In fact, higher growth was registered for both manufacturing exports to the U.S. and to the rest of the world (Chart 62a). Further, this rebound of manufacturing exports has been present in the automobile, as well as in other manufacturing sectors (Chart 62b and Chart 62c).

Chart 62
Indicators of Manufacturing Exports
Index 2007=100, s. a.



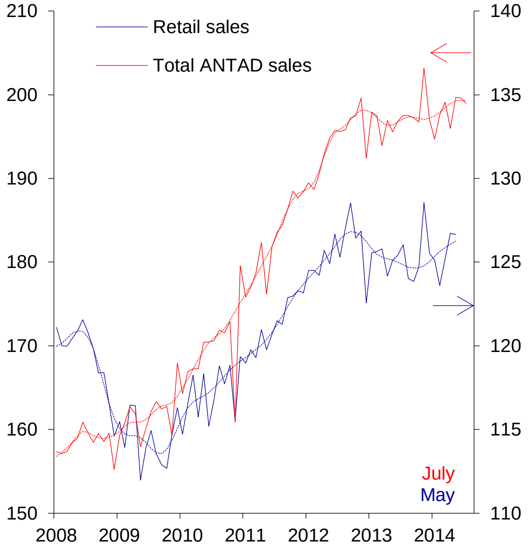
s. a. / Seasonally adjusted and trend data. The former is represented by a solid line; the latter by a dotted line.
Source: Banco de México.

Regarding domestic spending, private consumption and gross fixed investment indicators showed certain improvement in the second quarter, as compared to the previous one.

ii. As for private consumption, some of its indicators showed a change in their trend. In particular, in the second quarter of 2014, ANTAD sales rebounded, after having dropped in the previous quarter. Commercial establishment retail sales reached a higher level in the months of April and May, as compared to the first quarter average (Chart 63a). While the expansion in April of monthly private domestic consumption, which also includes services, suggests a certain recovery of consumption at the beginning of the second quarter (Chart 63b).

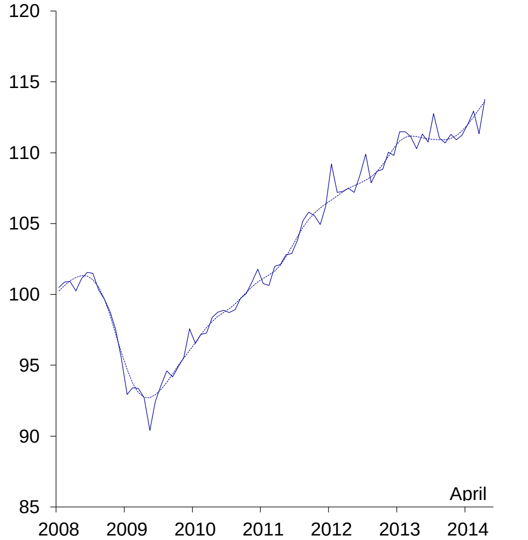
Chart 63
Consumption Indicators

a) Total ANTAD Sales and Commercial Establishments' Retail Sales
Index 2003=100, s. a.



s. a. / Seasonally adjusted and trend data. The former is represented by a solid line; the latter by a dotted line.
Source: Prepared by Banco de México with ANTAD data and Monthly Survey of Commercial Establishments, INEGI.

b) Monthly Indicator of Private Consumption in the Internal Market
Index 2008=100, s. a.

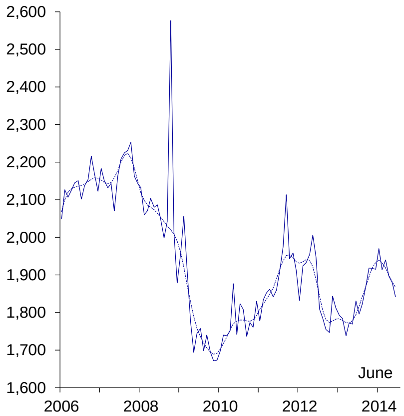


s. a. / Seasonally adjusted and trend data. The former is represented by a solid line; the latter by a dotted line.
Source: INEGI.

iii. Despite the abovementioned, various determinants of private consumption continue showing signs of weakness. In fact, in the last months, workers' remittances levels contracted, while the real wage bill of all workers maintained still low levels (Chart 64a and Chart 64b). As to the consumer confidence index, although it kept improving in the second quarter of 2014, it is still below the levels of early 2013 (Chart 64c).

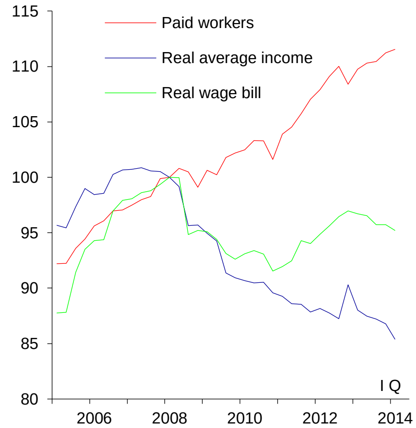
Chart 64
Consumption Determinants

a) Workers' Remittances
USD million, s. a.



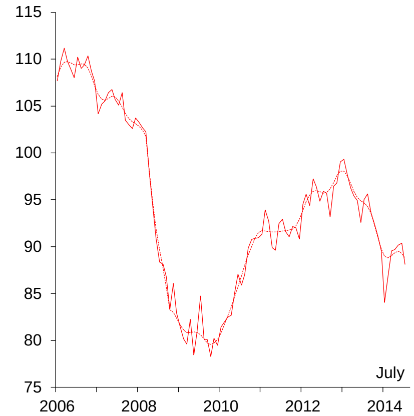
s. a. / Seasonally adjusted and trend data. The former is represented by a solid line; the latter by a dotted line.
Source: Banco de México.

b) Real Total Wage Bill 1/
Index I-2008=100, s. a.



s. a. / Seasonally adjusted figures.
1/ Figures adjusted according to CONAPO demographic projections 2010-2050.
Source: Prepared by Banco de México with data from the National Employment Survey, INEGI.

c) Consumer Confidence Index
Index Jan 2003=100, s. a.

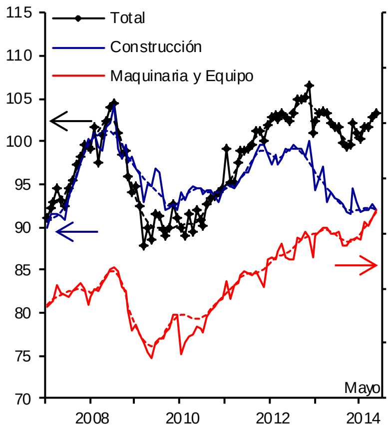


s. a. / Seasonally adjusted and trend data. The former is represented by a solid line; the latter by a dotted line.
Source: National Consumer Confidence Survey, INEGI and Banco de México.

iv. Even though gross fixed investment remains at relatively low levels, its recent evolution seems to indicate a gradual improvement, after the weak performance shown during most of 2013 and early 2014 (Chart 65a). In particular, investment in machinery and equipment presented an upward trend, while investment in housing construction registered a certain rebound (Chart 65b and Chart 65c).

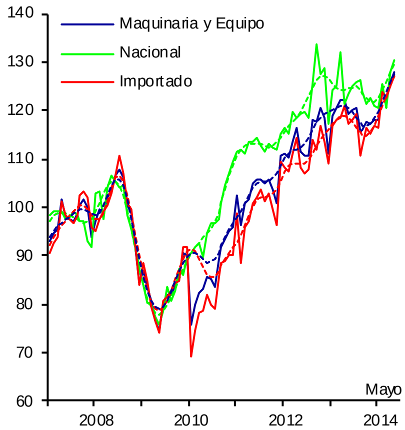
Chart 65
Investment Indicators

a) Investment and its Components
Index 2008=100, s. a.



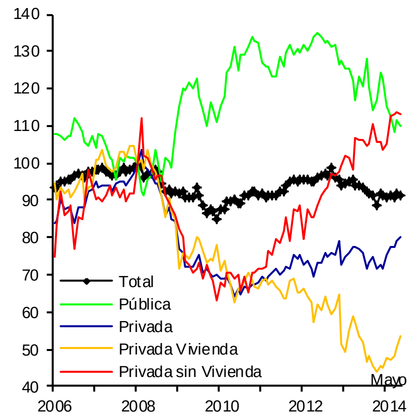
s. a. / Seasonally adjusted and trend data. The former is represented by a solid line; the latter by a dotted line.
Source: Mexico's System of National Accounts, INEGI.

b) Investment in Machinery and Equipment
Index 2008=100, s. a.



s. a. / Seasonally adjusted and trend data. The former is represented by a solid line; the latter by a dotted line.
Source: Mexico's System of National Accounts, INEGI.

c) Real Value of Production in the Construction Sector
Index January 2008=100, s. a.



s. a. / Seasonally adjusted figures. For public and private construction (housing and total private non-housing), the seasonal adjustment was prepared by Banco de México with data from INEGI.
Source: INEGI.

The described performance of both external and domestic demand was reflected in an increase in dynamism of production during the second quarter of 2014, as compared to the previous two quarters (Chart 66a). In particular:

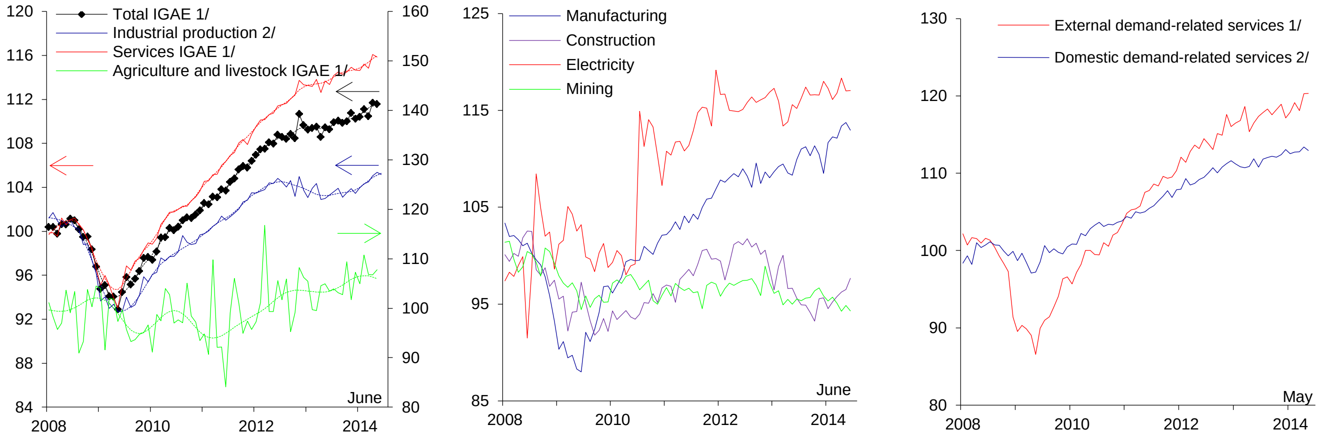
- The positive trend exhibited by industrial production in the first quarter of 2014, after having contracted at the end of the previous year, continued in the second quarter. This recovery can be mainly explained by the rebound in both, the manufacturing and construction industry, since the improvement of the electricity sector is still weak and the mining sector continues registering a negative trend (Chart 66b).
- At the beginning of the second quarter 2014, the growth pace of the services sector also recovered, after having stagnated in late 2013 and early 2014. This reflects, in line with the dynamism observed in the export sector, a rebound in external demand-related services, although those more related to domestic demand also improved at the margin (Chart 66c).
- Primary sector activities developed positively in the first months of the second quarter of the year, in part as a response to greater availability of water, which favored seeding in the spring-summer season. Likewise, perennial crops and livestock products performed favorably.

Chart 66
Production Indicators

a) Economic Activity Indicators
Index 2008=100, s. a.

b) Industrial Activity
Index 2008=100, s. a.

c) Services Sector IGAE
Index 2008=100, s. a.



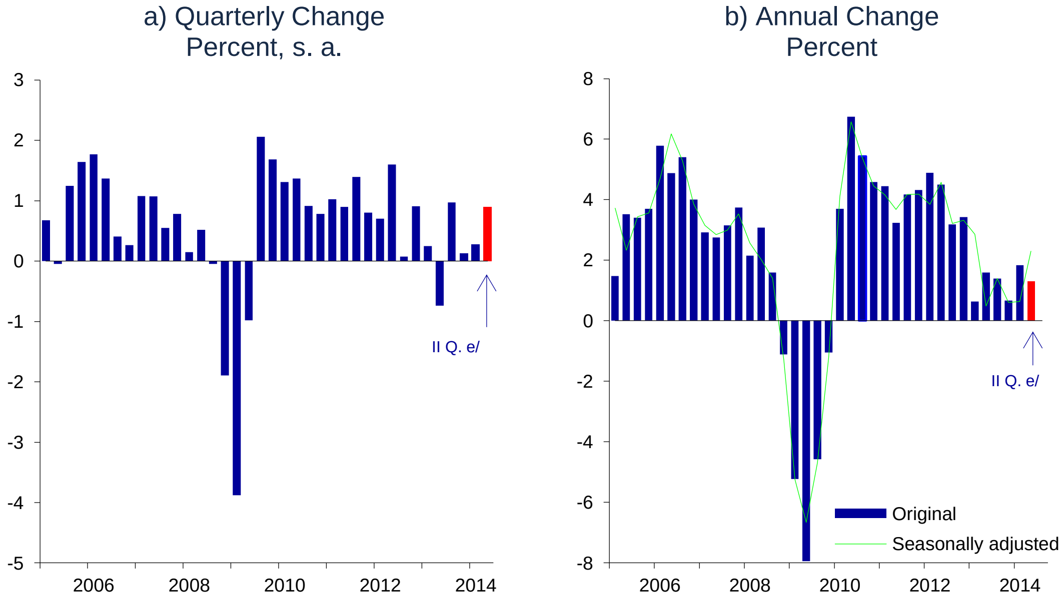
s. a. / Seasonally adjusted and trend data. The former is represented by a solid line; the latter by a dotted line.
1/ Figures as of May 2014.
2/ Figures as of June 2014.
Source: Mexico's System of National Accounts, INEGI..

s. a. / Seasonally adjusted figures.
Source: Industrial Activity Indicators (SCNM), INEGI.

s. a. / Seasonally adjusted figures.
1/ It includes commerce, transport, mail and warehousing sectors, and mass media services.
2/ It includes the rest of the sectors of tertiary activities.
Source: Prepared by Banco de México with data from Mexico's System of National Accounts, INEGI.

As a result of the above mentioned, for the second quarter of 2014, Mexico's GDP is expected to increase at a quarterly seasonally adjusted rate of around 0.9 percent, as compared to increases of 0.97, 0.13 and 0.28 percent in the previous three quarters, in chronological order (Chart 67a). In annual seasonally adjusted terms, GDP growth is estimated to be around 2.5 percent for the second quarter of this year, compared to 1.4, 0.6 and 0.6 percent in the previous three quarters. Based on data without seasonal adjustment, the annual change of GDP is estimated at 1.3 percent in the second quarter, figure biased downwards since this year Easter holiday took place in April, while in 2013 it was in March (Chart 67b).

Chart 67
Gross Domestic Product

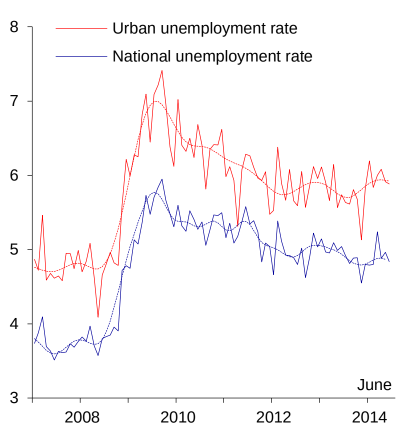


s. a. / Seasonally adjusted data.
e/ Estimated by Banco de México.
Source: Mexico's System of National Accounts, INEGI. Seasonal adjustment of the second quarter of 2014 realized by Banco de México.

Despite the greater dynamism of economic activity, latest data suggest that during the second quarter of 2014 slack conditions persisted in the labor market. In fact, national and urban area unemployment rates continued above those reported in late 2013, and close to those of the first quarter of 2014 (Chart 68a). It is worth noting, however, that since mid-2012, despite the deceleration of economic activity, the number of IMSS-insured workers maintained a high dynamism, above that of production. In contrast, the growth pace of total economy's employment slowed down, in line with lower economic growth (Chart 68b). Thus, the greater dynamism of formal employment in relation to informal employment seems to indicate a recomposition of employment, as reflected in the negative trend of the labor informality rate presented since mid-2012 (Chart 68c).

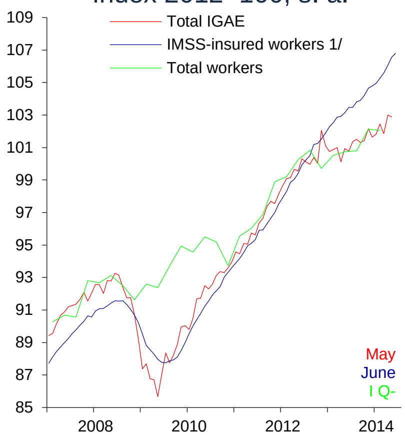
Chart 68
Labor Market Indicators

a) National and Urban Unemployment Rates
Percent, s. a.



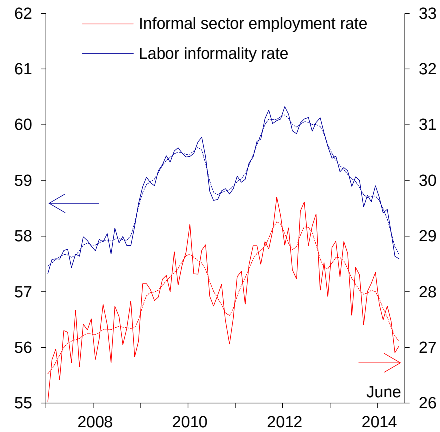
s. a. / Seasonally adjusted and trend data. The former is represented by a solid line; the latter by a dotted line.
Source: National Employment Survey (ENOE), INEGI.

b) IGAE Total, IMSS-insured Workers and Total Workers
Index 2012=100, s. a.



s. a. / Seasonally adjusted data.
1/ Permanent and temporary workers in urban areas.
Source: IMSS and INEGI (SCNM and ENOE). Seasonal adjustment realized by Banco de México, except for IGAE.

c) Labor Informality Rate
Percent, s. a.

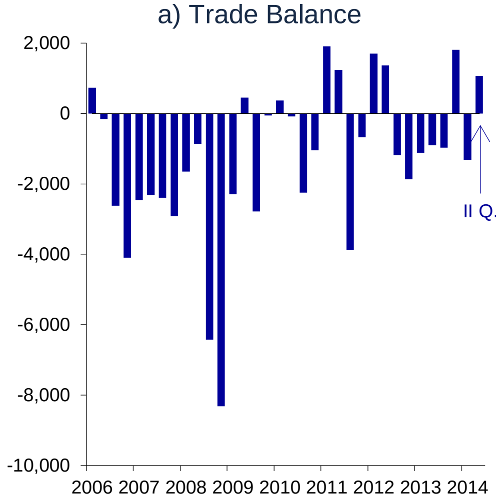


s. a. / Seasonally adjusted and trend data. The former is represented by a solid line; the latter by a dotted line.
Source: Seasonal adjustment realized by Banco de México with information from the National Employment Survey (ENOE), INEGI..

In the second quarter of 2014, the trade balance registered a surplus of USD 1,065 million (Chart 69a). In turn, available data suggest that the current account will have presented a moderate deficit in the same period and that the country continued receiving capital inflows via the financial account sufficient to allow an easy financing of this deficit (Chart 69b).

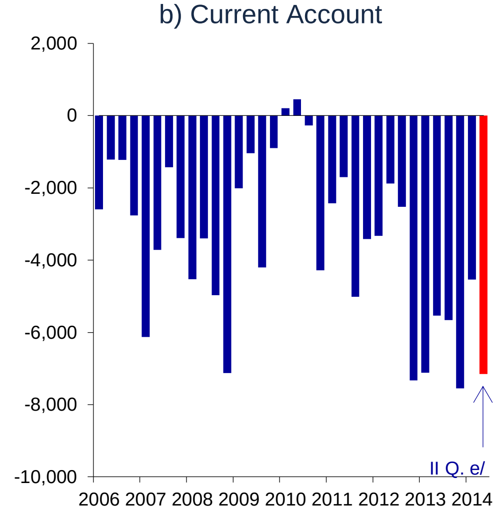
Chart 69
Trade Balance and Current Account
USD million

a) Trade Balance



Source: Banco de México.

b) Current Account



e/ Estimated by Banco de México.
Source: Banco de México.

3.2.2. Financial Saving and Financing in Mexico

In the period April-June 2014, the sources of financial resources of the economy expanded at a greater pace than in the previous quarter, which was reflected in an increased annual flow of resources at the end of this quarter, as compared to the previous one (Table 4**¡Error! No se encuentra el origen de la referencia.**). This was mainly the result of the dynamism of domestic sources, while external sources recovered from their sluggish performance in 2013 when uncertainty prevailed in international financial markets.

With respect to domestic sources, in line with the improvement of economic activity in Mexico, the monetary base grew at an average annual rate of 13.2 percent, figure above the 9.6 percent rate observed in the first quarter of the year.[17] The stock of domestic financial saving -defined as the monetary aggregate M4 minus the stock of currency held by the public- increased at a faster rate, mainly due to the expansion of the compulsory saving component, particularly pension funds administered by Siefores (Chart 70). This resulted, on the one hand, from a higher valuation of medium- and long-term securities comprising these portfolios, associated with the reduction of these instruments' interest rates during the second quarter of 2014, and on the other hand, from a base effect given the decrease in the market value of these instruments in May and June of last year. Meanwhile, the indicator of the stock of resident voluntary financial saving kept increasing at a rate similar to that in the previous quarter.

[17] The monetary base is defined as the sum of currency in circulation plus bank deposits in Banco de México.

Table 4
Total Funding for the Mexican Economy (Sources and Uses)
Percentage of GDP

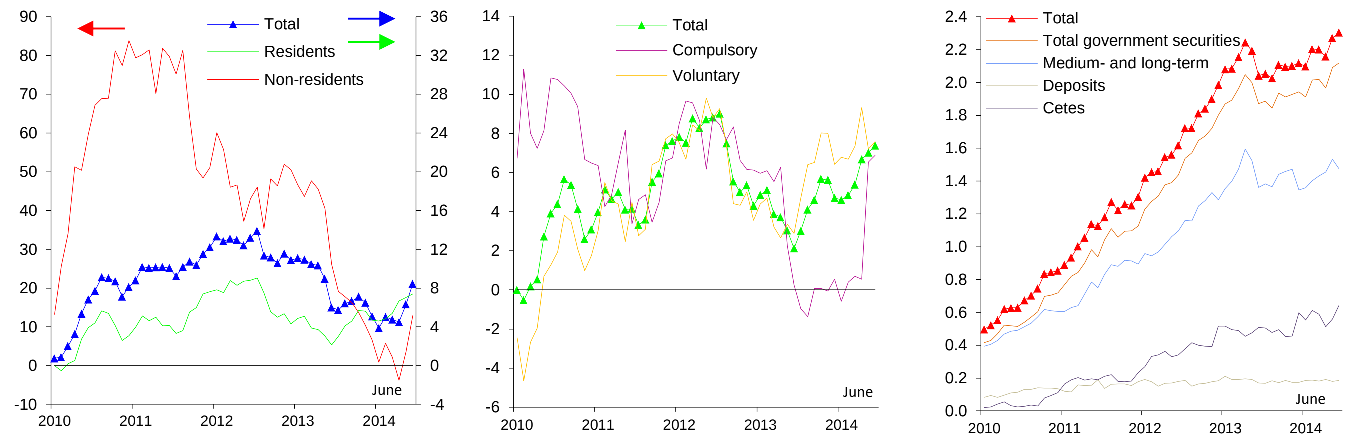
	Annual flows						Stock 2014 II e/	
	2013 I	**2013 II**	**2013 III**	**2013 IV**	**2014 I**	**2014 II e/**	**% GDP**	**Est. %**
Total sources	**10.2**	**7.2**	**7.9**	**8.5**	**8.7**	**12.0**	**95.4**	**100.0**
Domestic sources 1/	4.4	3.3	4.3	4.8	5.1	6.4	60.8	63.8
Foreign sources 2/	5.8	3.9	3.7	3.7	3.6	5.6	34.5	36.2
Total Uses	**10.2**	**7.2**	**7.9**	**8.5**	**8.7**	**12.0**	**95.4**	**100.0**
Public sector financing	3.1	3.3	3.6	3.4	3.9	4.2	44.3	46.4
Public Sector Borrowing Requirements (PSBR) 3/	2.7	2.9	3.3	3.0	3.6	3.9	41.2	43.2
States and municipalities	0.4	0.4	0.4	0.4	0.3	0.3	3.1	3.2
International reserves 4/	1.4	0.8	0.8	1.0	1.3	1.9	14.9	15.7
Private sector financing	2.9	3.0	3.2	3.9	3.9	4.0	36.3	38.0
Households	1.3	1.2	1.2	1.1	1.2	1.1	14.9	15.7
Consumption	0.6	0.6	0.6	0.5	0.4	0.4	4.8	5.0
Housing 5/	0.6	0.6	0.6	0.6	0.7	0.7	10.2	10.7
Firms	1.7	1.8	2.1	2.8	2.7	2.9	21.3	22.3
Domestic 6/	1.0	1.0	1.0	1.3	1.1	1.0	12.1	12.7
Foreign	0.7	0.8	1.1	1.5	1.6	1.9	9.2	9.6
Commercial banks' foreign assets 7/	0.0	0.0	-0.3	0.0	-0.1	0.2	1.3	1.4
Other 8/	2.8	0.1	0.5	0.2	-0.3	1.7	-1.4	-1.5

Note: Figures may not add up due to rounding. Figures expressed in percent of nominal annual average GDP. The information on (revalued) flows is stripped from the effect of exchange rate fluctuations.
e/ Data estimated based on data of the second quarter of 2014.
1/ It includes the monetary aggregate M4 held by residents. Annual revalued flows of domestic sources exclude the effect of the reform to the ISSSTE Law on the monetary aggregate M4. Information on the stock of domestic sources includes the effect of this reform.
2/ It includes the monetary aggregate M4 held by non-residents, foreign financing for the federal government, public institutions and entities, and foreign financed investment projects (PIDIREGAS), commercial banks' foreign liabilities and financing to the non-financial private sector.
3/ Public Sector Borrowing Requirements *(Requerimientos Financieros del Sector Público*, RFSP or PSBR, for its acronym in English) and historical stock of Public Sector Borrowing Requirements (HSPSBR or SHRFSP, for its acronym in Spanish) as reported by the Ministry of Finance (SHCP). Figures of revalued flows exclude the impact of the reform to the ISSSTE Law on PSBR. Information on HSPSBR does include the effect of this reform on the public debt.
4/ As defined by Banco de México's Law.
5/ Total portfolio of financial intermediaries and of the National Housing Fund *(Instituto del Fondo Nacional de la Vivienda para los Trabajadores*, Infonavit), and of the ISSSTE Housing Fund *(Fondo de la Vivienda del ISSSTE*, Fovissste). It includes debt-restructuring programs.
6/ Total portfolio of financial intermediaries. It includes debt-restructuring programs.
7/ It includes assets from abroad and foreign financing.
8/ It includes capital accounts and results and other assets and liabilities of commercial and development banks, Banco de México, non-bank financial intermediaries and INFONAVIT, as well as non-monetary liabilities from IPAB, among others.

As regards the external sources of financial resources, the stock of non-resident financial saving expanded more than in the first quarter (**¡Error! No se encuentra el origen de la referencia.** 70). This was the result of inflows directed towards the acquisition of short-, medium- and long-term government bonds, as well as of the increase in the valuation of these instruments in face of the generalized decline in interest rates. This, in turn, was a consequence of the reduced volatility in international financial markets and the strengthening of investors' appetite for emerging countries' financial assets, as the monetary policy stance in advanced economies may continue being accommodative in the next quarters.

Chart 70
Financial Saving Indicators

a) Total Financial Saving 1/ Real annual change in percent | b) Resident Financial Saving Real annual change in percent | c) Non-resident Financial Saving MXN trillion as of June 2014



1/ Defined as the monetary aggregate M4 minus the stock of currency held by the public.
Source: Banco de México.

In line with the above, the use of the economy's financial resources increased in the second quarter, as compared to the previous quarter. As anticipated in the Economic Package 2014, Public Sector Borrowing Requirements (PSBR) have been increasing vis-à-vis last year, which has implied an increase in the annual flow of financing to the public sector in the second quarter in comparison to the first quarter (**¡Error! No se encuentra el origen de la referencia.** 4). As concerns financing to the states and municipalities, the annual flows at the end of the second quarter were similar to those observed at the end of the first quarter of the year. Meanwhile, in annual flow terms, the accumulation of international reserves was higher in June than in March 2014. Finally, the annual flow of financing to the non-financial private sector at the end of the second quarter was similar to that in the previous quarter (Table 4 and Chart 71).

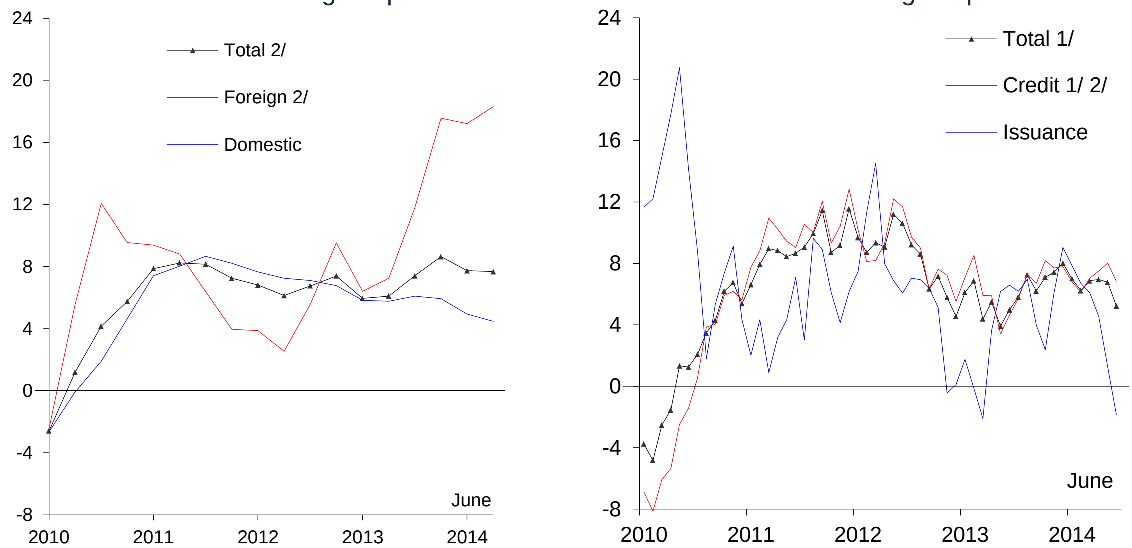
Delving into this last point, in the period April-June, the expansion of financing to non-financial private firms was stable, albeit its components showed a mixed evolution. On the one hand, external financing presented a greater dynamism during the second quarter of 2014 due to an increase in the issuance of corporate debt in international markets. On the other hand, domestic financing expanded at a more moderate rate than in the previous quarter, as a result of a reduction in the net placement of private debt, although bank credit granted to firms continued evolving favorably (Chart 71).

With respect to the latter, commercial bank credit to firms grew faster than in the first quarter of the year (Chart 72a). Within this portfolio, loans to small and medium enterprises continued exhibiting the greatest dynamism. In this context, interest rates and delinquency rates of commercial banks' credit to firms remained basically unchanged (Chart 72b and Chart 72c). As refers to the credit portfolio of development banks, its growth rate in April-June was higher than in the period January-March 2014, while the corresponding interest rates and delinquency indices remained stable.

Chart 71
Total Financing to the Non-financial Private Sector

a) Total Financing to the Non-financial Private Sector 1/
Real annual change in percent

b) Domestic Financing to Non-financial Private Firms
Real annual change in percent



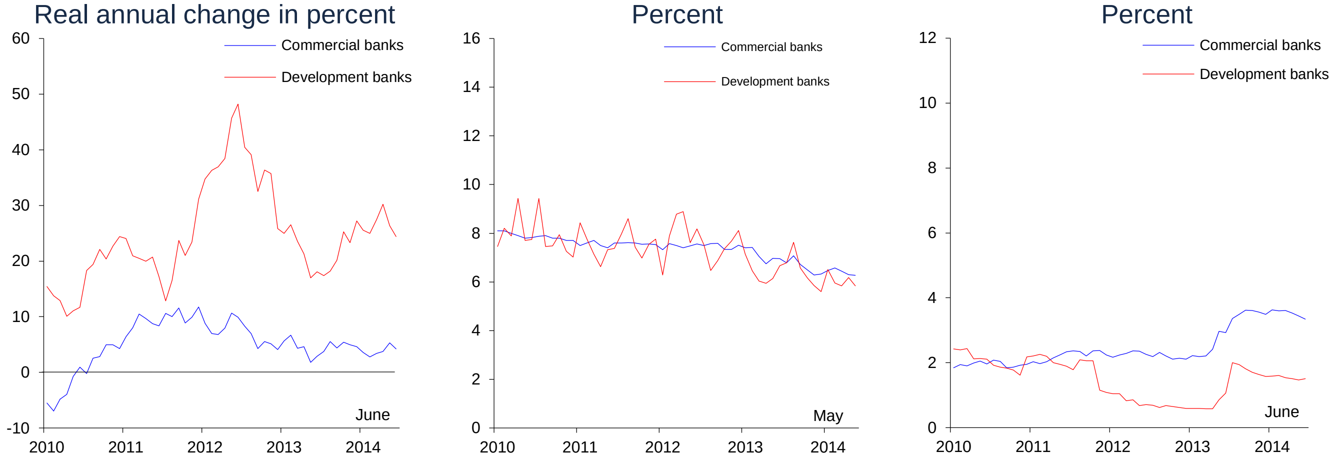
1/ Figures adjusted for exchange rate changes.
2/ Data for external financing corresponding to the second quarter of 2014 are preliminary.
3/ These figures are affected by the disappearance of some non-banking financial intermediaries and their conversion to non-regulated sofomes.
4/ It refers to the performing and non-performing portfolio, and includes credit from commercial and development banks, as well as non-bank financial intermediaries.
Source: Banco de México.

Chart 72
Bank Credit to Non-financial Private Firms

a) Performing Credit to Non-financial Private Firms
Real annual change in percent

b) Interest Rates of New Credits to Non-financial Private Firms 1/
Percent

c) Interest Rates of New Credits to Non-financial Private Firms 1/
Percent



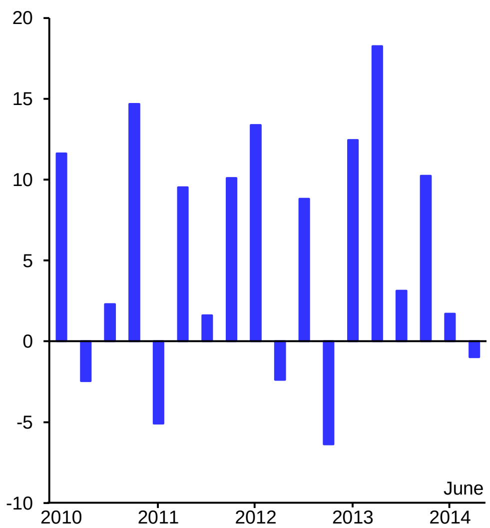
1/ It refers to the interest rates of new bank credits to non-financial private firms, weighted by the associated stock of the performing credit and for all credit terms requested.
2/ The delinquency rate is defined as the stock of non-performing loans divided by the stock of total loans.
Source: Banco de México.

In the domestic debt market, firms kept funding their operations through the placement of securities, albeit a relatively high amount of amortizations led to a lower net placement than in the previous quarter. It is also evident that large

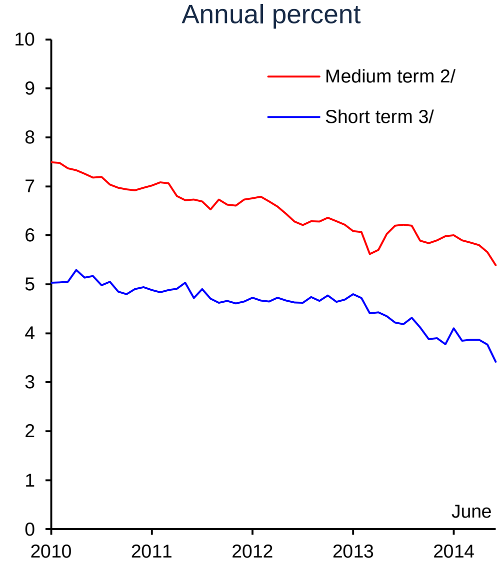
Mexican firms have taken advantage of the high degree of liquidity in international markets, issuing debt at very attractive terms and interest rates, at the expense of domestic bond issuance. Net placement of medium- and long-term securities by non-financial private firms was MXN -1.0 billion (which resulted from gross placements of MXN 11.2 billion and gross amortizations of MXN 12.2 billion), as compared to MXN 1.7 billion in the first three months of the year (Chart 73a). Interest rates of private securities showed a generalized decrease at all maturities, in response to the 50 basis-point reduction of the Overnight Interbank Interest Rate, by Banco de México that took place in June (Chart 73b).

Chart 73
Securities of Non-financial Private Firms

a) Net Placement of Medium-term Securities Issued by Non-financial Private Firms 1/
MXN billion



b) Interest Rates of Securities Issued by Non-financial Private Firms
Annual percent

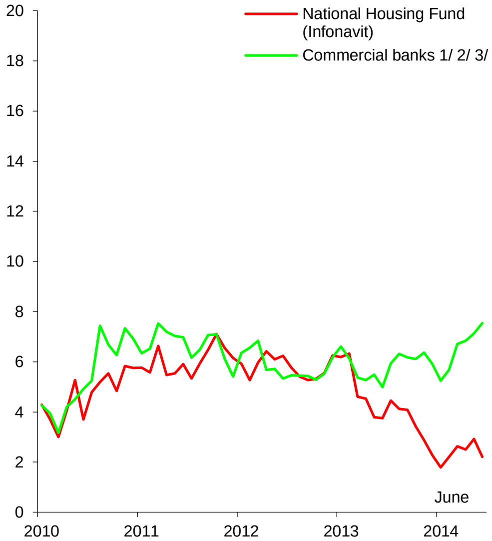


1/ Placements excluding amortizations in each month (securities and prepayments).
2/ Placements of more than one year.
3/ Placements of up to one year.
Source: Banco de México, with data from Valmer and Indeval.

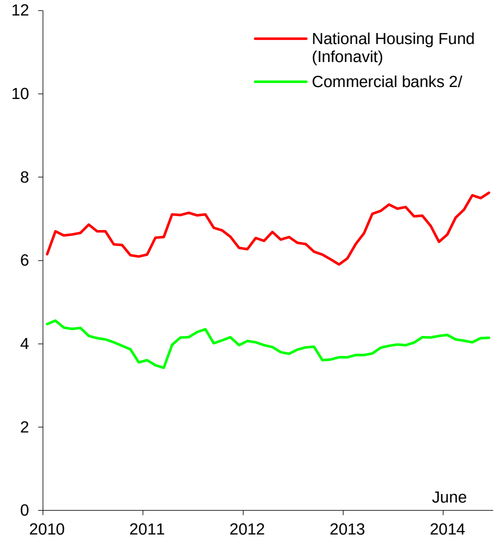
Credit to households grew at a faster rate in the second quarter than in the previous quarter, as a result of the greater dynamism of commercial bank mortgage loans (Chart 74a). Indeed, in April-June the performing mortgage loan portfolio of commercial banks and sofomes expanded at an average annual rate of 7.2 percent, a figure above the 5.9 percent rate recorded in January-March 2014. This took place in an environment, in which interest rates and delinquency rates did not show significant changes (Chart 74b). Meanwhile, the performing portfolio of the National Housing Fund (Instituto del Fondo Nacional de la Vivienda para los Trabajadores, Infonavit) maintained its low dynamism, registering real average annual growth rates of 2.5 percent in the period April-June (2.2 percent in the first quarter) (Chart 74a). In terms of the delinquency rate of this portfolio, its increase in recent months has been more moderate relative to the first months of the year (Chart 74b). Insofar as economic activity in Mexico continues strengthening, this indicator is expected to stabilize and even to start declining.

Chart 74
Housing Credit

a) Performing Housing Credit
Real annual change in percent



b) Delinquency Rates of Housing Credit 4/
Percent



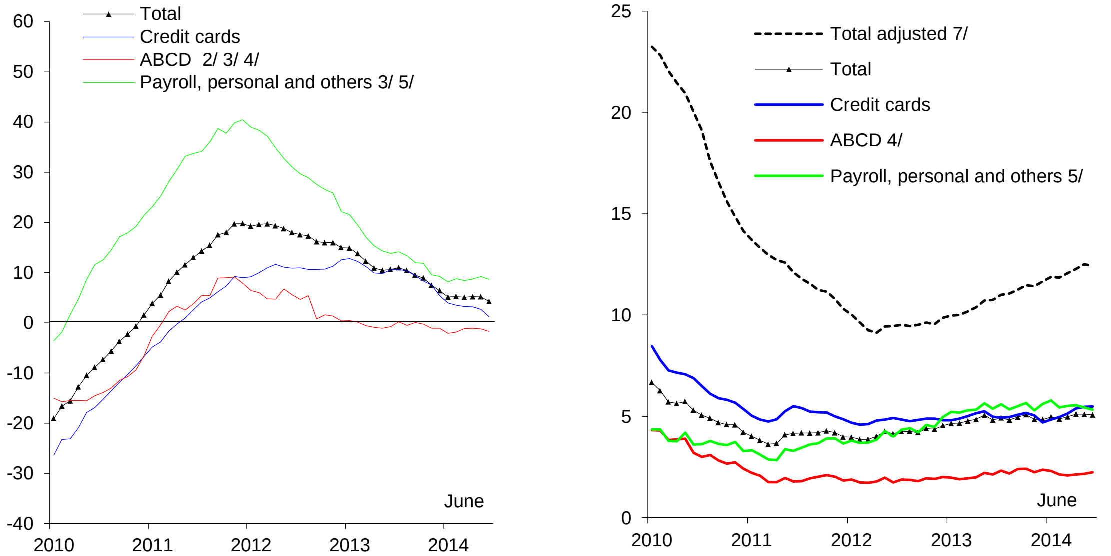
1/ Figures are adjusted in order to avoid distortions by the pass-through effect of UDIS trust portfolio to the balance sheet of commercial banks and by the reclassification of credit in direct portfolio to ADES.
2/ It includes sofomes of commercial bank.
3/ Figures are adjusted to avoid distortions due to the inclusion of some regulated sofomes to the bank credit statistics.
4/ The delinquency rate is defined as the stock of non-performing loans divided by the stock of total loans.
Source: Banco de México.

Consumer credit in its different segments expanded at a slightly lower rate than in the previous quarter (Chart 75a). The performing consumer credit portfolio of commercial banks increased during April-June at a real average annual rate of 4.9 percent, while in January-March 2014 it grew at 5.1 percent. The credit cards segment kept decelerating, while the growth of credit for durable consumption goods (ABCD, for its Spanish acronym) remained stable. In contrast, the payroll and personal credit portfolio, which had shown a gradual deceleration since 2012, expanded more vigorously than in the previous quarters. In this environment, interest rates did not present significant changes. With regard to delinquency rates, the adjusted rate —which takes into account bad debt write-offs accumulated in the last twelve months— continued increasing, in line with the deceleration of the economy's growth pace in the previous year (Chart 75b). However, the accumulation of such write-offs has moderated in recent months.

Chart 75
Commercial Bank Consumer Credit

a) Commercial Bank Performing Consumer Credit [1/]
Real annual change in percent

b) Delinquency Rate of Commercial Bank Consumer Credit 1/ 6/
Percent

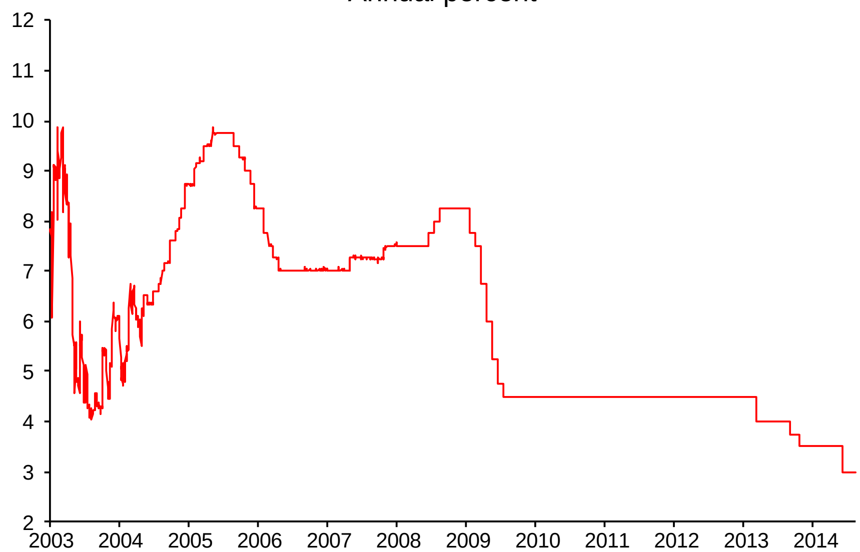


1/ It includes loans by credit card-regulated sofomes: Tarjetas Banamex, Santander Consumo, Ixe Tarjetas and Sociedad Financiera Inbursa.
2/ Between June 2010 and May 2011, figures are adjusted in order to avoid distortions due to the purchase of one banking institution's automobile loan portfolio.
3/ From July 2011 onwards, figures are adjusted in order to avoid distortions due to the reclassification from durable goods (ABCD) to other consumer credits by one banking institution.
4/ It includes credit for property acquisition and automobile credit.
5/ "Others" refers to credit for payable leasing operations and other consumer credits.
6/ The delinquency rate is defined as the stock of non-performing loans divided by the stock of total loans.
7/ It is defined as a non-performing portfolio plus punishments accumulated over the last 12 months divided by total portfolio plus punishments accumulated over the last 12 months.
Source: Banco de México.

4. Monetary Policy and Inflation Determinants

The evolution of inflation and inflation expectations was favorable during the first half of the year. To this contributed, besides the monetary policy, the increase of slack conditions in the economy, mainly because dynamism of economic activity was lower than expected in the first months of the year. On the other hand, inflation expectations for 2014 are below 4.0 percent and inflation is anticipated to converge to the 3.0 percent target in early 2015. Considering all this, Banco de México's Board of Governors decided in June to reduce the Overnight Interbank Interest Rate by 50 basis points, from 3.5 to 3.0 percent, after leaving it unchanged in April. Taking into account the foreseen recovery of the economy and the monetary policy stance of Mexico relative to the U.S., the Board further announced that additional reductions of the reference rate were not recommendable. Accordingly, the referred target remained unchanged in July (Chart 76).

Chart 76
Overnight Interbank Interest Rate [1/]
Annual percent



1/ The target for the Overnight Interbank Interest Rate is shown since January 21, 2008.
Source: Banco de México.

To be more specific, among the elements considered for the conduction of the monetary policy during the period analyzed in this Report, stand out:

a) That the evolution of inflation and inflation expectations confirmed the absence of second round effects on the price formation process in the economy, derived from the relative price changes in late 2013 and early 2014, including those associated with fiscal modifications.

b) That annual headline inflation is estimated to decrease to levels close to 3 percent in early 2015, with core inflation below this level.

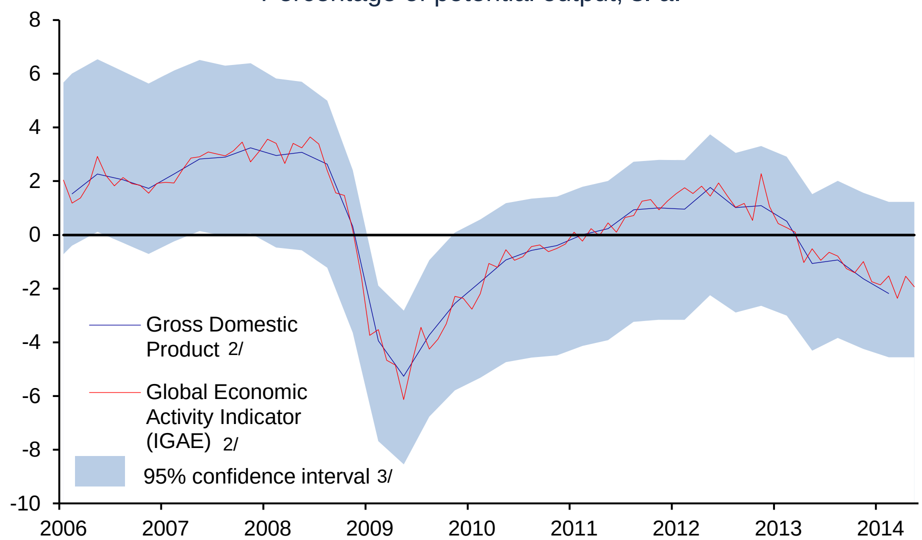
c) That inflation expectations derived from market instruments for the medium- and long-term have shown a downward trend, currently locating very close to 3 percent, while expectations derived from surveys for long-term horizons have remained stable and those corresponding to the end of 2014 have declined below 4 percent.

d) That, derived from the evolution of economic activity in the first quarter, the output gap widened and, despite the foreseen recovery of the economy, it will probably remain at negative levels until the end of 2015. Thus, no aggregate demand-related pressures on inflation are anticipated in the horizon where monetary policy has an effect.

e) That in an environment of less uncertainty and low levels of volatility in international financial markets, induced by the central banks of main advanced economies announced intention of maintaining an accommodative monetary policy stance for an extended period, the functioning of financial markets in Mexico has been orderly. This does not imply that episodes of high volatility, which could lead to currency depreciations, can be ruled out, as observed in late July and early August. However, experience has shown that, in general, the pass-through of exchange rate variations to prices is low, especially if there is a high degree of slackness in the economy.

Due to the deceleration of the Mexican economy since mid-2012, despite the greater dynamism exhibited in the first months of the second quarter of 2014, there were no demand-related pressures on inflation or external accounts in the analyzed period. In particular:

Chart 77
Output Gap Estimation [1/]
Percentage of potential output, s. a.



s. a. / Prepared with seasonally adjusted figures.
1/ Estimated using the Hodrick-Prescott (HP) filter with tail corrections; see Banco de México (2009), "Inflation Report, April - June 2009", p.69.
2/ GDP figures as of the first quarter of 2014, IGAE figures as of May 2014.
3/ Confidence interval for the output gap calculated with an unobserved components' method.
Source: Prepared by Banco de México with data from INEGI.

a) The output gap remained at negative levels, even below those estimated in the previous Report (**¡Error! No se encuentra el origen de la referencia.**).[18]

b) As mentioned, slack conditions persisted in the labor market (see Section 3.2.1).

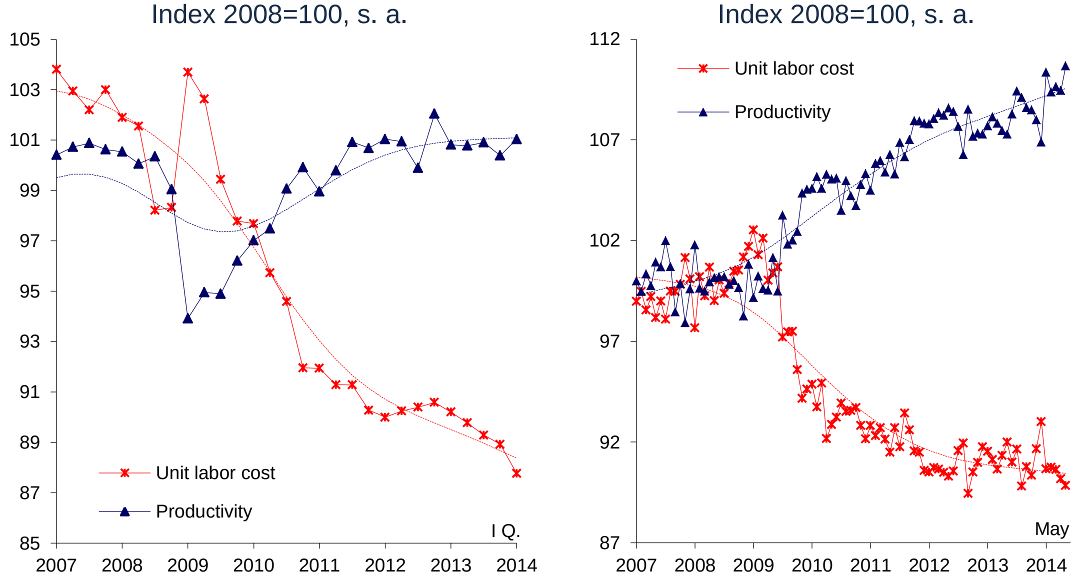
c) The increments in the main wage indicators registered during the second quarter of 2014 continue being moderate. This, together with the trend of average labor productivity, contributed to the fact that unit costs remained at significantly low levels (Chart 78).

d) The reactivation of domestic financing to the non-financial private sector has been moderate, and interest rates and delinquency rates, in general, have remained stable.

Chart 78
Productivity [1/] and Unit Labor Cost

a) In the Economy
Index 2008=100, s. a.

b) In the Manufacturing Sector
Index 2008=100, s. a.



s. a. / Seasonally adjusted and trend data. The former is represented by a solid line; the latter by a dotted line. Trend estimated by Banco de México.
1/ Productivity based on the amount of hours worked.
Source: Unit cost prepared by Banco de México based on data from INEGI. The Global Index of Labor Productivity in the Economy (IGPLE), as released by INEGI.

a. e. / Seasonally adjusted and trend data. The former is represented by a solid line; the latter by a dotted line. Trend estimated by Banco de México.
1/ Productivity based on the amount of hours worked.
Source: Prepared by Banco de México with seasonally adjusted data from the Monthly Manufacturing Business Survey and the monthly indicator of the Mexico's System of National Accounts, INEGI.

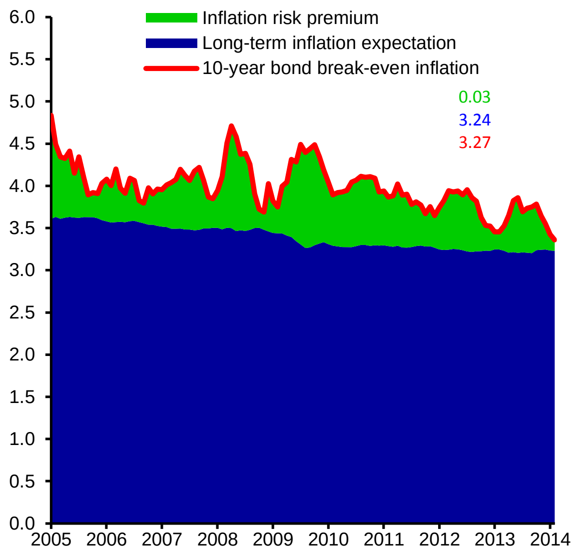
Regarding inflation expectations, it is noteworthy that those implicit in long-term market instruments have been gradually declining in the last years, currently reaching levels close to 3 percent. It should be noted that these inflation expectations are not directly observed, but are estimated with diverse econometric methods. It is important to point out that, since they are based on daily financial

[18] Considering that this indicator's estimation is subject to a certain degree of uncertainty, it should be carefully interpreted, given that, from a statistical point of view, it does not register levels significantly different from zero.

data, they incorporate information more rapidly than those obtained through surveys to analysts, and reflect positions of a wide range of investors. Thus, in the period analyzed in this Report, the indicator of inflation expectations estimated from 10-year bonds remained stable around 3.2 percent. The associated inflationary risk premium reduced from approximately 31 to 3 basis points from March to July 2014 (Chart 79a). As a reflection of the aforesaid, break-even inflation (the difference between long-term nominal and real interest rates), decreased from an average level of 3.55 percent to 3.27 percent during the same period, registering record lows (Chart 79b). The reduction of this indicator implies that holders of nominal rate-indexed instruments have been requesting less coverage for future inflation, possibly due to the less inherent risk perceived.

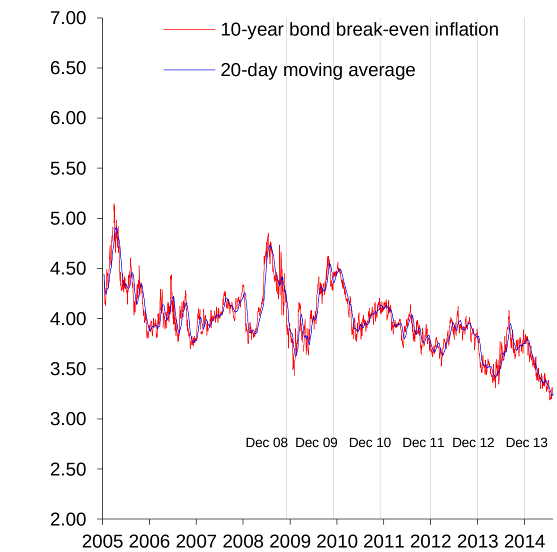
Chart 79
Inflation Expectations

a) Decomposition of Break-even Inflation and Inflation Risk 1/
Percent



1/ Last data available: July 2014.
Source: Estimated by Banco de México.

b) Break-even Inflation
Percent



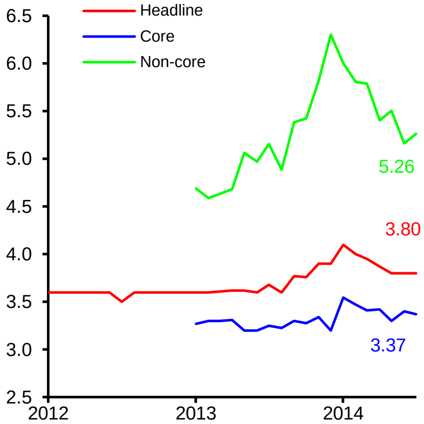
Source: Estimated by Banco de México with data from Valmer and Bloomberg.

Regarding inflation expectations obtained through Banco de México's surveys to private sector analysts, it stands out that in the period covered in this Report, the median for end 2014 remained below 4 percent and continued decreasing from 3.95 percent in March to 3.80 percent in July. The expectation for core inflation for end 2014 showed a stable performance, remaining around 3.40 percent between March and July 2014, while non-core inflation expectation, implicit in previous median estimates, declined from 5.79 to 5.26 percent (Chart 80a). It should be noted that not only the median of the responses of inflation expectations for the end of 2014 has been declining, but also its associated dispersion (Chart 80b).

On the other hand, the median of headline inflation for 2015 reduced slightly, shifting from 3.60 to 3.50 percent in the period March-July. The median of core inflation expectations remained stable at 3.2 percent, while the implicit non-core inflation expectation went from 5.0 to 4.6 percent. Finally, longer-term expectations remained at a stable level of around 3.50 percent (Chart 80c).[19]

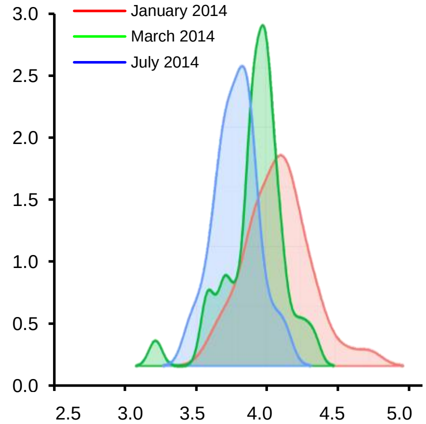
Chart 80
Inflation Expectations

a) Medians of Headline, Core and Non-core Inflation Expectations for the End of 2014 1/
Percent



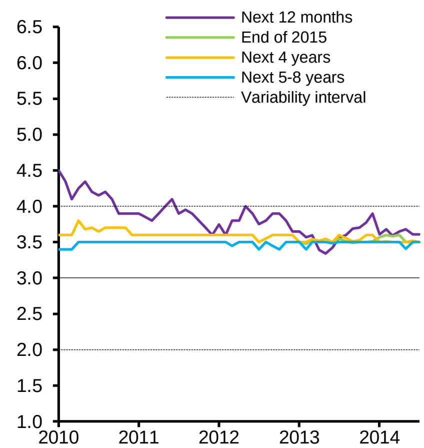
1/ Latest available data: July 2014.
Source: Banco de México survey.

b) Distribution of Headline Inflation Expectations for the End of 2014
Percent



Source: Estimated with data from Banco de México surveys.

c) Medians of Headline Inflation Expectations for Different Terms 1/
Percent



1/ Latest available data: July 2014.
Source: Banco de México survey.

It should be mentioned that expectations for 2015 do not seem to fully incorporate two factors, which alone should produce a convergence of headline inflation to 3.0 percent at the beginning of that year: i) the elimination of the numeric impact caused by tax measures implemented in early 2014, and ii) the Federal Government's commitment to reduce in 2015 the adjustment of gasoline prices to expected inflation, as stipulated in the Federal Income Law for 2014.

The reaction of national financial markets to the target interest rate cut last June 6, 2014 was favorable. Specifically:

a) An important pass-through of the reference rate reduction to medium- and long-term-market interest rates was registered, shifting the entire yield curve downwards.

b) The trajectory of the market-implicit and survey-derived short-term interest rates adjusted downwards after the reference interest rate cut. As a result, expectations of this rate for end 2014 and 2015 were lower than those prevailing before the adjustment.

c) The foreign exchange market maintained an orderly functioning and its volatility remained at record lows.

d) Short- and long-term inflation expectations remained stable after that movement.

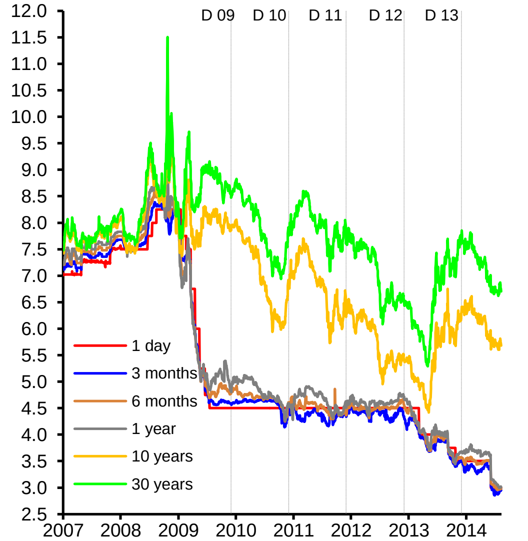
[19] This figure matches the results of the Banamex survey, given that the median of longer-term expectations (period 2016-2020) is around 3.5 percent in the March 20 survey and decreased slightly to 3.4 percent in the August 5, 2014 survey.

Derived from the abovementioned, ex-ante real interest rates for different terms, that is, those obtained from the difference between nominal interest rates and inflation expectations, of the same terms respectively, presented a decline. In particular, the ex-ante real interest rate associated with the nominal reference rate and Banco de México's 12-month inflation forecast, which, as will be shown below, locates inflation very close to 3 percent from the beginning of 2015 onwards, is at levels close to zero. In the future, this ex-ante real interest rate is estimated to gradually increase, in accordance with the additional decrease foreseen for inflation in the second half of 2015. This is congruent with the cyclic recovery of economic activity in the next quarters.

As to the behavior of interest rates for different terms in Mexico, in face of the previously mentioned important pass-through of the reference rate cut to the short-, medium- and long-term interest rates, the entire yield curve shifted downwards during the period analyzed in this Report. In particular, the interest rate of 3-month government bonds went from 3.30 percent at the end of March 2014 to 2.85 percent at the end of June, recently locating at 2.90 percent. The 10-year bonds rate declined from around 6.20 percent in late March to 5.70 percent in late June, ranging at a level close to 5.75 percent in the last days, although with certain volatility. It should be noted that even though this interest rate had declined by around 20 basis point from late March to early June, after the downward adjustment of the reference rate on June 6, this interest rate presented further reductions of around 30 basis points. Given the development of these interest rates, the slope of the yield curve (difference between 10-year and 3-month rate) remained relatively stable, shifting from around 290 basis points at the end of March to 285 basis points at the end of June, remaining close to this level since then (Chart 81). In this way, both monetary and financial conditions supported the economy, given the current phase of the economic cycle.

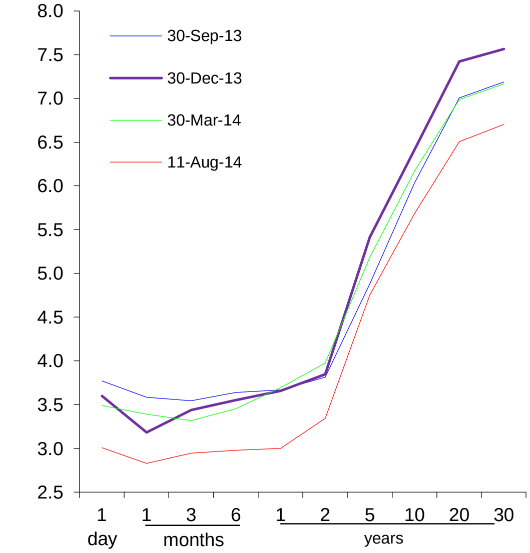
Chart 81
Interest Rates in Mexico

a) Government Securities Interest Rates 1/
Percent



1/ Since January 21, 2008, the one-day (overnight) interest rate corresponds to the target for the Overnight Interbank Interest Rate.
Source: *Proveedor Integral de Precios* (PiP).

b) Yield Curve
Percent



Source: *Proveedor Integral de Precios* (PiP).

In the following, the dynamics of long-term interest rates in Mexico are analyzed in more detail, particularly, through the evolution of its components: a) short-term interest rate (reference rate); b) the expected short-term interest rates that consider the medium- and long-term inflation expectation; and c) the risk premia. In general, stands out that:

a) As mentioned before, the Overnight Interbank Interest Rate, which is the reference rate for the monetary policy, was reduced from 3.5 to 3.0 percent during the period analyzed in this Report..

b) Given the reference interest rate cut, together with the slack prevailing in the economy, and the fact that medium- and long-term inflation expectations remained stable, expected short-term interest rates declined. In particular, according to Banco de México's survey to private sector analysts, the median of the expectations for the interbank interest rate at the end of 2014 reduced from 3.5 percent in the March survey to 3.0 percent in the July survey.

c) Finally, the evolution of different risk premia in Mexico was heterogeneous. Thus:

   i. Diverse indicators of the sovereign risk premium for Mexico decreased during the period analyzed in this Report. In particular, market indicators that measure the sovereign credit risk registered a 15 basis point reduction from end of March 2014 to end of June, locating close to record lows.[20]

[20] It refers to 5-year Credit Default Swap.

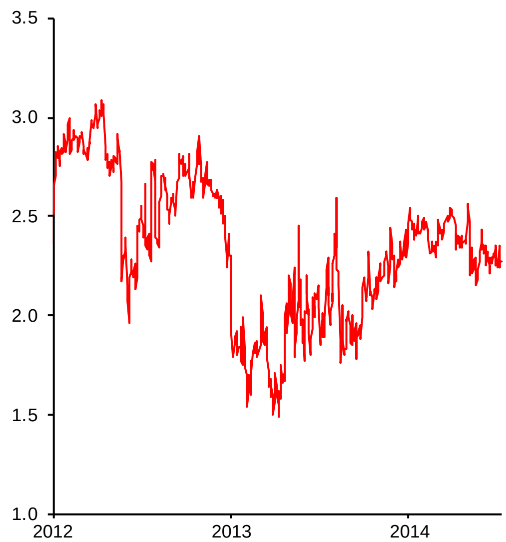
ii. Regarding the inflation risk premium, it continued its downward trend in the period covered in this Report, as the evolution of inflation and inflation expectations confirmed the prospect that the increase of inflation in early 2014 was transitory and that there were no second round effects. In particular, during the second quarter of 2014, this premium dropped around 20 basis points compared to the previous quarter (Chart 79b).

iii. As to the performance of exchange risk premium, the spread between the interest rate of the 10-year government bond issued in MXN and the government bond of the same term issued in USD, it stayed relatively stable around 2.4 percentage points, level close to that observed at the end of 2013 (Chart 82a).

iv. As mentioned in previous Reports, given the process of risk premia decompression since May 2013 in the U.S., the term premium (estimated as the difference between the 10-year and 2-year interest rates) in this country increased, leading to an increase in the term premium in Mexico. In this way, the rise registered in Mexico's long-term interest rate since that date and until the end of January 2014 was mainly due to the evolution of the term premium in the U.S. Later, in the first months of 2014, this indicator presented an important decline until reaching levels below 200 basis points, and later, driven by the reference rate cut, corrected to levels close to 235 basis points (Chart 82b).

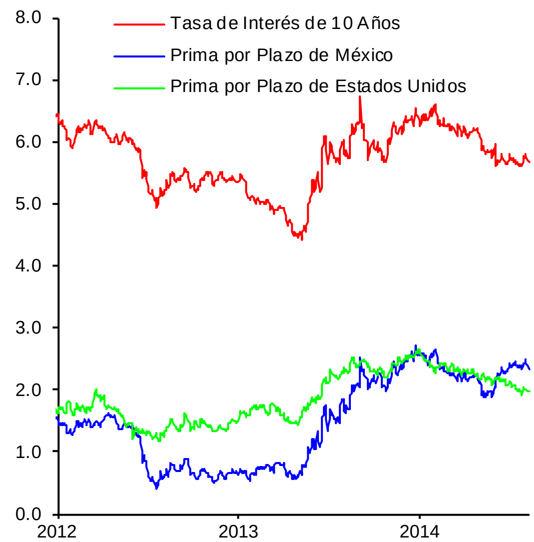
Chart 82
Risk Premia

a) Spread between MXN- and USD-indexed 10-year Bond Rate
Percentage points



Source: Bloomberg, Proveedor Integral de Precios (PiP) and Valmer.

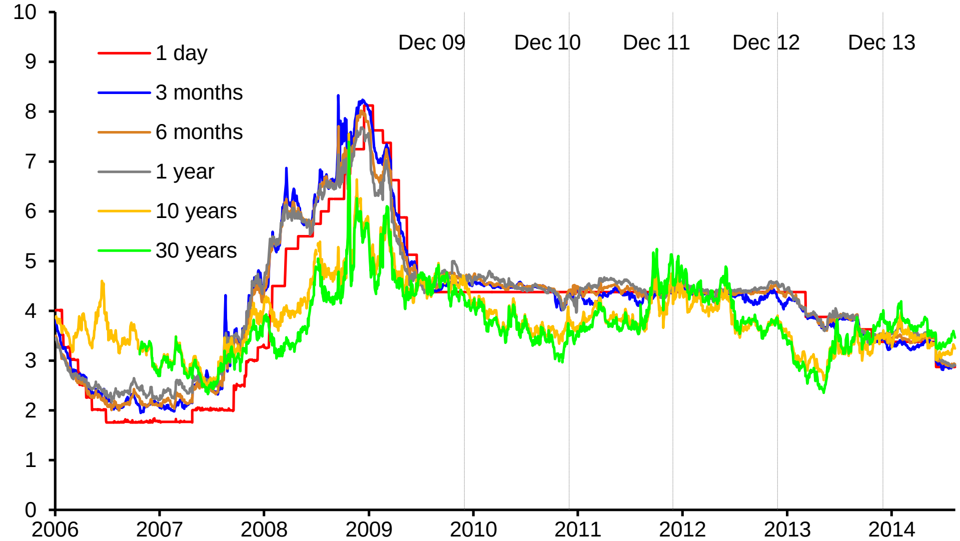
b) Mexico's 10-year Government Bond Interest Rate and the Term Premium [1/]
Percentage points, percent



1/ The term premium refers to the difference between the 10-year and the 2-year interest rate.
Source: Banco de México, Proveedor Integral de Precios (PiP) and Bloomberg.

In addition to the abovementioned, it is noteworthy that the spread between U.S. and Mexican long-term interest rates remained stable during April and May, and decreased after the reference rate adjustment in June. In particular, the 10-year interest rate spread dropped from 340 to 310 basis points approximately from end of March to end of June. In the last weeks, this spread hovered around 320 basis points (Chart 83).

Chart 83
Interest Rate Spreads between Mexico and the U.S [1/]
Percentage points



1/ For the U.S. target rate, the average of the interval considered by the U.S. Federal Reserve is considered.
Source: Proveedor Integral de Precios (PiP) and U.S. Department of the Treasury.

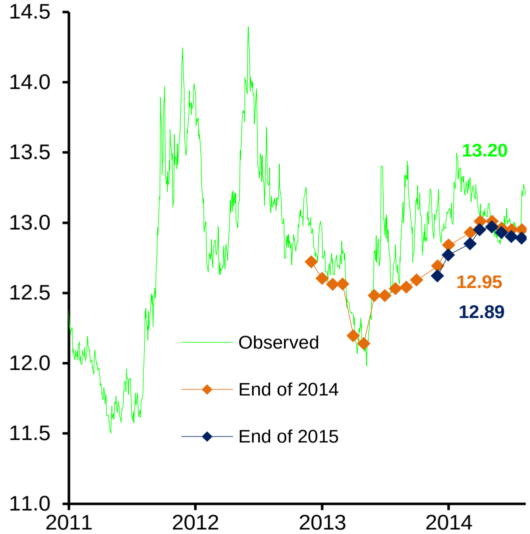
In the environment of low volatility prevailing in international financial markets until mid-July, international financial conditions were affected by investors' intensified search for yield process. In this context, the evolution of the national currency's exchange rate continued showing low volatility and remained relatively stable, changing from an average level of 13.20 MXN/USD in March 2014 to an average of 13.00 MXN/USD in June and July (Chart 84a). Despite that, at the end of July, the exchange rate depreciated to levels close to 13.25 MXN/USD. This, in light of the increased volatility in international financial markets, which was registered as a response to some better than expected figures of the U.S. economy, and the fact that the last announcement of the U.S. Federal Reserve seems to indicate that the conditions that might determine a reference rate adjustment could be anticipating, among other factors, as mentioned in Section 3.1.4 (Chart 84b).

It stands out that the flexible exchange rate regimen that characterizes the Mexican peso, has allowed this variable to function as a buffer for external shocks. Thus, an increase in exchange rate volatility would not necessarily represent an important risk to inflation and the entire economy, due to various factors, among which stand out: first, the fact that the pass-through of exchange rate fluctuations to prices reduced in last years; second, that a wide derivatives market has developed in Mexico, allowing economic agents to hedge against currency risks; and, third, that the national currency market operates under conditions of ample liquidity, as it is the currency with the highest trading volume among emerging economies.

The mentioned environment has also been reflected in the recovery of capital flows to emerging economies, including Mexico. In particular, as described in Section 3.2.2, during the first quarter of 2014, Mexico continued receiving resources from abroad aimed at the acquisition of financial instruments. With respect to this, it stands out that short-term government bond holdings recovered during the second quarter of 2014, while those corresponding to the medium and long term maintained high levels (Chart 85).

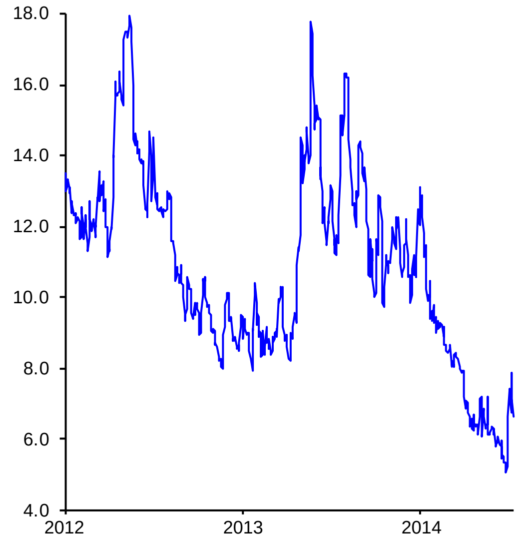
Chart 84
Exchange Rate

a) Nominal Exchange Rate and Exchange Rate Expectations for the End of 2014 and 2015 1/
MXN/USD



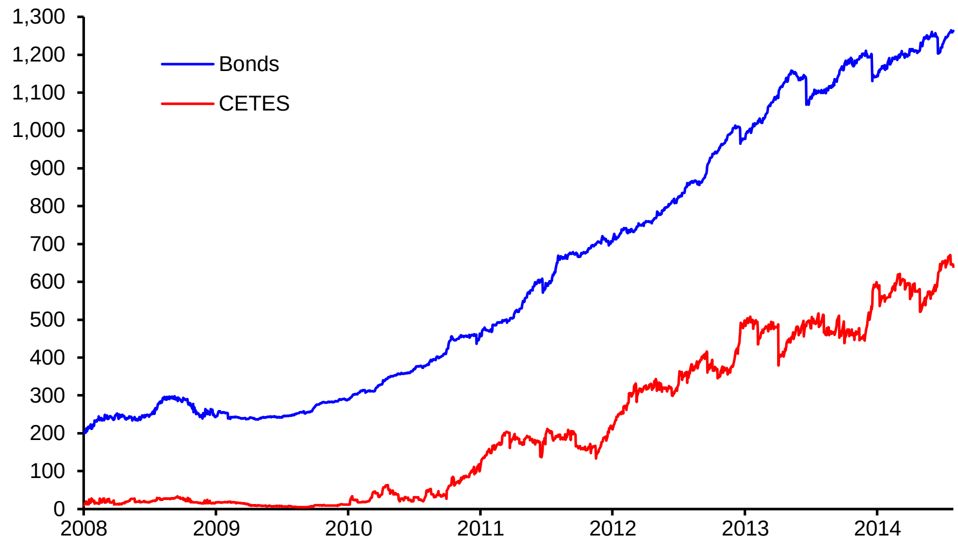
1/ The observed exchange rate is the daily quote of the FIX exchange rate. The latest quote of the observed exchange rate corresponds to August 11, 2014. For its expectations, the latest quote corresponds to the survey of July 2014.
Source: Banco de México and Banco de México's Survey.

b) Currency Option Implied Volatility 2/
Percent



2/ It refers to one-month options.
Source: Bloomberg.

Chart 85
Government Securities' Holdings by Foreign Investors
MXN billion



Source: Banco de México.

Furthermore, the framework for the conduction of the macroeconomic policy in Mexico is expected to continue supporting the stable functioning of the national financial markets. In particular, the orderly implementation of public finances, as well as the conclusion of the legislative stage of the recent structural reform process that could increase total factor productivity and ultimately, potential GDP, are expected to contribute to a further reduction in the risk premia with the subsequent effect on longer-term interest rates in Mexico.

5. Inflation Forecast and Balance of Risks

The expectations regarding the U.S. economic activity that are used for the construction of Mexico's macroeconomic framework are the following:[21]

a) Expected U.S. GDP growth is revised downwards from 2.4 percent in the previous Quarterly Report to 2.1 percent in the present one. This adjustment is mainly due to the revision of the U.S. GDP growth in the first quarter, which contracted more than previously expected. For 2015, GDP growth expectation remains at 3.0 percent.

b) U.S. industrial production is anticipated to grow 4.0 and 3.7 percent in 2014 and 2015, respectively. These figures are compared to the forecasts of 3.7 and 3.6 percent for 2014 and 2015, in the same order, published in the previous Report.

Growth of the Mexican Economy: During the first quarter of 2014, Mexico's GDP recorded a quarterly seasonally adjusted growth of 0.28 percent (lower than the 0.6 percent anticipated in the previous Report). In fact, as shown in this Report, although the aforementioned manufacturing exports rebounded, after having stagnated, in the previous quarter, domestic demand components continued showing weakness. Likewise, even though a more dynamic evolution is expected for the second quarter, this expectation mainly reflects a more noticeable rebound in foreign demand since the recovery of domestic demand is not yet very strong.

In this context, although a strengthening of economic activity in the second half of the year is still expected, the fact that its performance was lower than anticipated at the beginning of the year implies the need to revise downwards the growth estimate for the entire year of 2014. Additionally, the fact that the recovery of domestic demand has been more moderate than what was considered in the previous Report also suggests that the dynamism of the economy for the rest of 2014 could be lower than previously expected.

These elements lead to a downward revision of the GDP growth forecast for 2014 and the forecast for 2015 remains unchanged. Particular, the forecast interval for Mexico's GDP growth in 2014 is revised from 2.3 to 3.3 percent in the previous Report to 2.0 to 2.8 percent in the present one (Chart 86a). For 2015, the forecast interval remains between 3.2 and 4.2 percent. It is worth mentioning that the interval for GDP growth in 2014 in the present Inflation Report is narrower than the interval presented in the previous Report. In fact, the information presented in the present Report for the first quarter and that available so far for the second quarter suggests that it is possible to reduce the range of the interval. With regard to the aforementioned, it should be noted that in last years' Quarterly Reports the forecast interval of the GDP growth rate of the current year had a width of one percentage point in the Reports of the first two quarters, half percentage point in the third quarter Report and a point estimate in the fourth quarter Report. From here onwards, in the

[21] Expectations for the U.S. economy are based on the consensus of analysts surveyed by Blue Chip in August 2014.

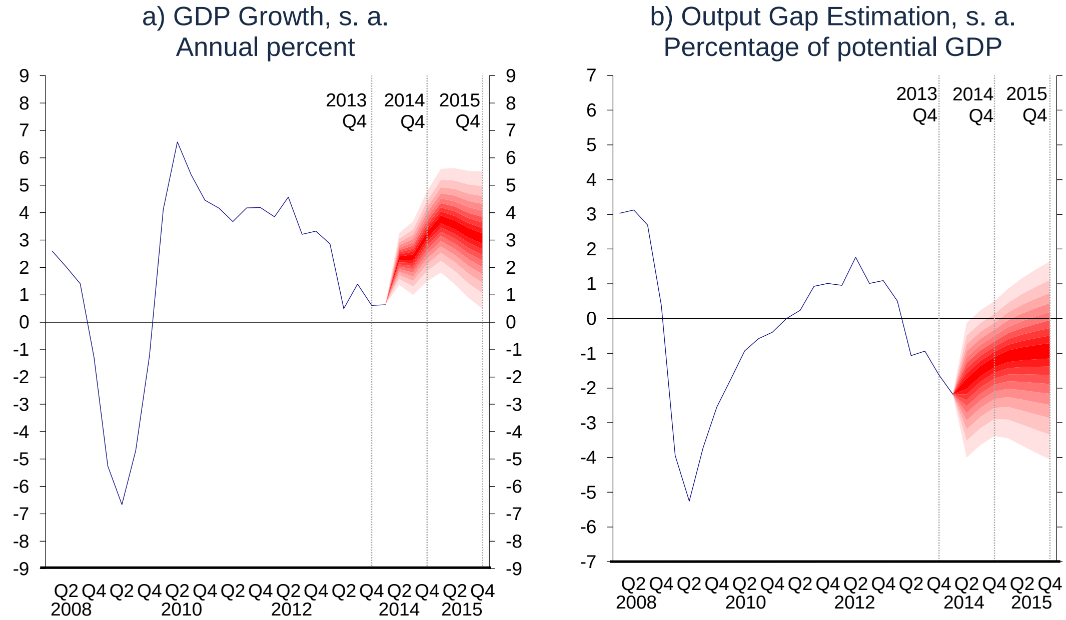
second quarter Report the forecast range for the current year will be reduced to 0.8 percentage points, as in the present Report, since more information is available.

It is worth mentioning that the described forecasts involve a gradual strengthening of the domestic demand in the second half of 2014 and in 2015, which is derived from both a stronger impact of the rebound in the external demand on the domestic market and the effects that recent developments in the structural reform process could have on consumer and producer confidence. However, as shown in previous Reports, it should be recognized that the favorable effects of this process on economy's growth will materialize gradually and will be more notorious in the medium term.

Employment: Regarding employment levels, it stands out that despite the weakness of economic activity in 2013 and early 2014, the number of IMSS-insured workers continued to show a positive trend. In fact, as noted above, the growth of formal employment in the economy exceeded that of informal employment. Thus, the previsions of the previous Report for the variation in the number of IMSS-insured workers remain unchanged, considering the following aspects. On the one hand, during the first quarter of this year this indicator showed a good performance, despite the weakness of economic activity in that period. On the other hand, during the second quarter it continued showing a positive trajectory. Additionally, this growing trend is still anticipated to prevail, given the expected recovery of the economy. In particular, an increase of between 570 to 670 thousand workers (permanent and urban temporary) in 2014, and between 620 to 720 thousand workers in 2015 is expected.

Current Account: For 2014, trade balance and current account deficits of USD 3.9 and 26.7 billion respectively are expected (0.3 and 2.0 percent of GDP, in the same order). For 2015, these deficits are estimated to amount to USD 5.7 and 28.9 billion, respectively (0.4 and 2.0 percent of GDP, in the same order)

Chart 86
Fan Charts: GDP Growth and Output Gap



s. a. / Seasonally adjusted figures.
Source: INEGI and Banco de México.

s. a. / Based on seasonally adjusted figures.
Source: Banco de México.

Due to the sharp slowdown of economic activity in late 2013 and early 2014, the level of slack in the economy is greater than anticipated in the previous Report and the output gap remains in negative levels. Moreover, despite the expected recovery for the rest of 2014 and 2015, the output gap is expected to remain in negative levels by the end of 2015, but it will be gradually closing. Thus, no-aggregate demand-related pressures on inflation or external accounts are perceived in the horizon in which monetary policy has an effect (Chart 86b).

The prevailing weakness of some indicators suggests downward risks to the growth scenario for Mexico. In particular:

i. Economic agents' confidence might recover more slowly than anticipated, which would delay a full recovery of domestic demand.

However, this scenario could be positively affected by the following upward risks:

i. The possibility of a more vigorous than expected U.S. economic recovery.

ii. The possibility of a better than expected implementation of structural reforms, with its consequent impact on investors' and economic agents' expectations.

Inflation: Taking into consideration the degree of slack prevailing in the economy and the absence of second round effects derived from changes in relative prices that occurred in late 2013 and early 2014, which include those derived from fiscal measures, it is anticipated that annual headline inflation will remain close to 4 percent during the second half of 2014, although due to the high volatility that characterizes the prices of agricultural products it may exceed that level at some point, as in fact happened in July (Chart 87). This path for headline inflation is consistent with the forecasts of Banco de México released in the previous Report. As mentioned, its level in the second half of 2014 would mainly be reflecting the arithmetic effect coming from a low comparison base. In particular, low change rates of some agricultural product prices were observed during several months of the second half of 2013, once their production re-established after being affected by climate and sanitary events during most of the first half of the previous year. However, it is expected that towards the end of the current year, headline inflation will be below 4 percent given the fading effect of changes in relative prices that took place in November and December of 2013.

Furthermore, annual headline inflation is expected to decrease to levels close to 3 percent from early 2015 onwards and to remain near that level during the rest of the year (Chart 87). Factors favoring this evolution, besides the monetary policy stance, are the vanishing of the effects of the aforementioned changes in relative prices, and according to the Federal Income Law 2014, the increases in gasoline prices in 2015 consistent with expected inflation.

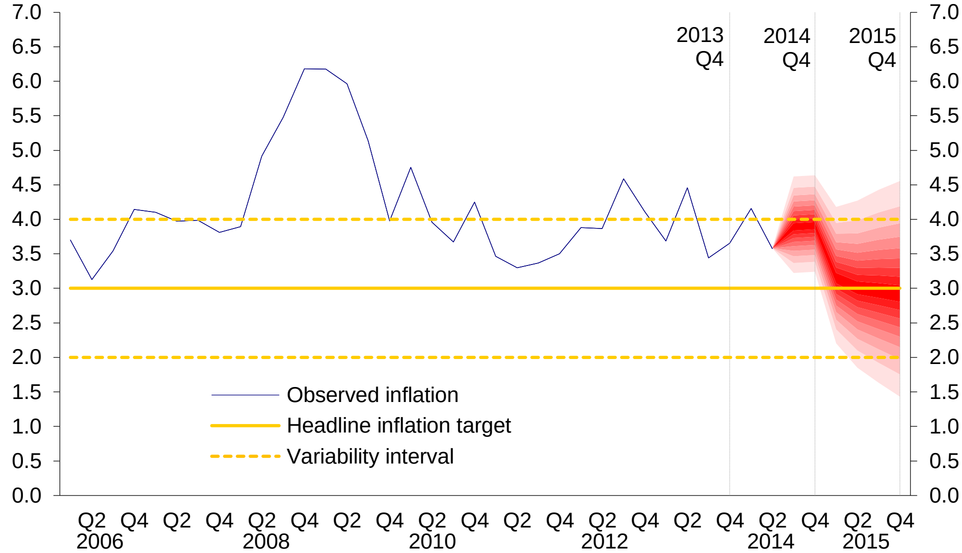
The annual core inflation forecasts for 2014 indicate that it will remain around 3 percent for the rest of 2014 and below this level in 2015 (**¡Error! No se encuentra el origen de la referencia.** 88).

The foreseen path for inflation may be affected by certain risks, among which stand out:

i. Downward, the possibility that economic activity in the country recovers less than anticipated.

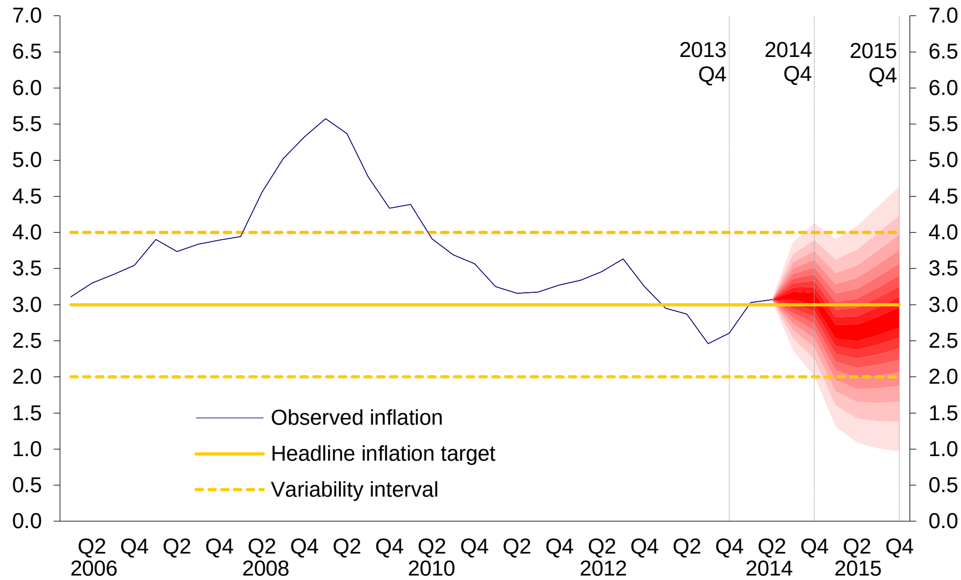
ii. Upward, new episodes of volatility in international financial markets that imply adjustments to the exchange rate with their consequent effect on inflation. However, in this case, only a moderate and transitory effect on inflation would be expected, because of the low pass-through of exchange rate variations to prices and the degree of slack that prevails in the economy.

Chart 87
Fan Chart: Annual Headline Inflation 1//
Percent



1/ Quarterly average.
Source: INEGI and Banco de México.

Chart 88
Fan Chart: Annual Core Inflation 1/
Percent



1/ Quarterly average.
Source: INEGI and Banco de México.

The credibility of the Central Bank's commitment to ensure the national currency's purchasing power stability has increased the degrees of freedom to conduct the monetary policy in Mexico. In this environment, after having maintained unchanged the Overnight Interbank Interest Rate in April, Banco de Mexico's Board of Governors decided to reduce this target rate by 50 basis points, from 3.5 to 3.0 percent, in June, aimed at inflation converging to its 3 percent target in early 2015, precisely at lower interest rate levels. In the future, the Board will closely monitor the performance of all inflation determinants and inflation expectations for medium- and long-term horizons, including the expected recovery of the economy and the monetary policy stance of Mexico relative to the U.S., in order to be able to reach the target of 3 percent for headline inflation.

6. Structural Reforms and Final Considerations

It is encouraging that the legislative stage of the recently discussed structural reforms, aimed at increasing the country's productivity, has successfully concluded. The approval of the pending secondary legislation of the reforms on economic competition, telecommunications and broadcasting and energy is an indispensable step in the right direction. It is anticipated that these structural changes to the institutional framework of the country will have a positive impact on its potential growth and on the investment climate, so that the low rate of expansion that Mexico has exhibited from a long-term perspective could be reverted. Indeed, it is foreseeable that these modifications will boost the competitiveness of the economy and promote a more efficient allocation of resources to their most productive uses by means of removing entry barriers and of increasing competition in the markets, particularly in those referred to inputs.

It is appropriate to present a recapitulation about the reforms that have been achieved, and their main features, simply to visualize their scope. The focus is on the reforms that implied modifications of the Constitution: the education, economic competition, telecommunications and broadcasting and energy reforms. In the following, main aspects of each reform are described, highlighting the mechanisms through which they are expected to increase the country's productivity and thus to generate higher growth rates.

Among the constitutional reforms, the education reform was the first to be enacted on February 25, 2013. The corresponding secondary laws were enacted on September 10, 2013. This reform is expected to increase the quality of education and, thus, to increase the country's human capital, although its effects could take several years to be notorious. More human capital does not only directly increase productivity, but it also facilitates innovation and the introduction of new technologies. In this sense, it allows the country to produce goods of higher value added. Additionally, the increase in human capital is also anticipated to lead directly to an increase in the population's income.

Evaluation is one of the main tools used by the education reform to achieve the increase in educational quality. In particular, the reform introduces the Professional Teaching Service *(Servicio Profesional Docente),* establishing the base for hiring, promotion and retention of teachers through evaluation and competition processes. The National Institute for the Evaluation of Education (*Instituto Nacional para la Evaluación de la Educación* (INEE)), body with constitutional autonomy, is in charge of the National Evaluation System, which, among others, has the task of providing better coordination among different government bodies and of promoting the adoption of best practices in terms of education. In this context, INEE conducted, in collaboration with INEGI, the Census of Schools, Teachers and Students of Basic and Special Education *(Censo de Escuelas, Maestros y Alumnos de Educación Básica y Especial),* during the year 2013. More information about the education system will allow taking better decisions about how to improve education quality, while evaluation could also generate incentives for students, teachers and schools to address their commitments with greater effort.

The constitutional reform on economic competition, telecommunications and broadcasting promulgated on June 10, 2013 (and whose secondary laws were enacted on May 22 and July 14, 2014, respectively) pursues the main objective of reaching greater economic efficiency in the markets in general, and in the area of telecommunications and broadcasting in particular, given the importance of this sector. Therefore, two constitutional autonomous entities, with legal personality, own patrimony and greater competency were founded: Federal Economic Competition Commission (*Comisión Federal de Competencia Económica* (COFECE)) and the Federal Telecommunications Institute *(Instituto Federal de Telecomunicaciones* (IFT)). Their rules and acts can only be challenged by an indirect *amparo* trial and they will not be subject to suspension.[22] Only the severe cases of fines or the divestiture of assets imposed by COFECE will be executed after resolving the *amparo* trial, if promoted. Additionally, special courts expert in economic competition, broadcasting and telecommunications have been established, which will facilitate the adequate and timely implementation of the new legal regulations. Thereby, a solid institutional framework has been consolidated in order to implement an effective antitrust policy, as well as to promote practices that favor greater market competition. Greater strength of the authority allows implementing necessary measures that avoid rent seeking and allow an efficient resource allocation.

One of the new instruments COFECE and IFT will be provided with to fulfill their functions is the possibility to mandate structural measures, in particular the divestiture of assets, rights, social share or stocks of economic agents in the proportions necessary to avoid anti-competitive effects. In this context, they should verify that all measures taken to determine access to essential inputs or elimination of competition barriers increase market efficiency. The catalogue of criminal sanctions for absolute anticompetitive practices, which are particularly harmful, has been updated.

These measures will allow for increased market competition, thus directly benefiting households through lower prices, and through higher quality and diversity of products. Moreover, from a long-term perspective, it is also anticipated that a more competitive environment will encourage the adoption of improved technologies and induce a better organization of work, which will necessarily translate into increases in productivity and, therefore, in higher economic growth.

In this context, it is noteworthy that information recently collected by Banco de México provides an insight into the challenge faced by the antitrust policy. In particular, information on the perception of competition in Mexico has been obtained through surveys to different economic agents. The results manifest the need to intensify competition in several sectors of the economy, as well as to attain greater efficiency of the antitrust policy (see Box 1). This represents a challenge and, at the same time, an opportunity for the new regulatory entities, which by means of the new instruments provided through the recent reforms, will be in position to promote greater economic competition.

With respect to telecommunications, it should be mentioned that they are a fundamental input for economic development in any country. For instance,

[22] The aspect of indirect *amparo* trial is relevant, given that these recently created entities' resolutions can only be challenged through this constitutional control measure, unlike what happened in the case of the former entities Federal Competition Commission *(Comisión Federal de Competencia)* and the Federal Communications Commission *(Comisión Federal de Telecomunicaciones),* whose resolutions could also be challenged through litigation administrative procedures.

broadband allows high-speed data transfer, reducing transaction costs and providing greater flexibility to firms. Likewise, the use of telecommunications by households also generates important positive externalities, given the advantages of information transmission through internet use. The changes introduced by this sector's reform are aimed at reaching greater penetration of telecommunications and broadcasting, with the corresponding benefits. In particular, a new fundamental right was created: the right of access to information and communication technologies and to telecommunication and broadcasting services. The new law mandates the creation of a backbone network with national broadband coverage for wholesale services, thus facilitating the fulfillment of this fundamental right. Additionally, the reform is anticipated to impulse greater penetration, mainly by increasing the competition between providers of these services. In fact, among the changes directed at reaching this goal is the possibility of greater participation of foreign investment in the sector and the reallocation of the radiocommunication spectrum to more valuable uses, once the digital transition concludes. Further, the IFT, which is qualified to regulate, promote and monitor the access to essential inputs, as well as to impose asymmetric regulation for preponderant economic agents with substantial power, has already issued pro-competition provisions according to its mandate. Among them stand out the definition of preponderant economic agents, the elimination of roaming charges by the preponderant mobile phone operator and the establishment of general guidelines about *must-carry* and *must-offer.* Besides, IFT published a call for tender for two new national TV broadcast networks.

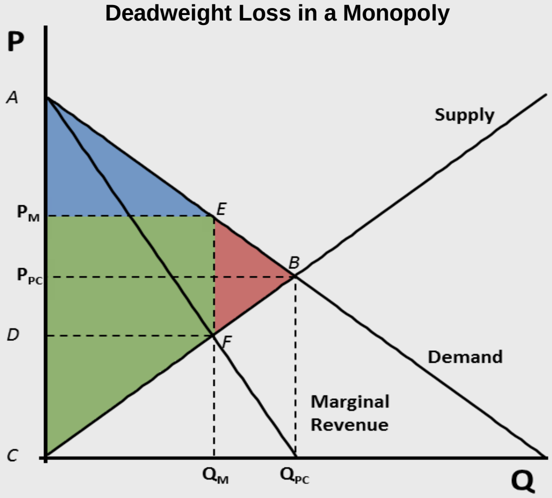
Box 1
Perception of Economic Competition in National Markets Obtained through Banco de México Surveys

1. Introduction

The constitutional reform on telecommunications, broadcasting and economic competition and the approval of the secondary legislation represent an important progress in order to boost greater competition in Mexican markets, which leads to a better resource allocation and an increase in the productivity of the national economy.

Market equilibrium in the case of one single producer leads to an allocation with less quantity and higher price, as compared to one in which different producers compete with each other. The functioning of the market under economic competition generates higher producer and consumer surpluses (social welfare) than in the case of monopolistic conditions. This is due to the fact that in the second case, quantities of those goods, whose value to consumers is higher than their production costs, are no longer produced and consumed. To illustrate this, Figure 1 presents a market with equilibrium quantities and prices under perfect competition (Q_{PC} and P_{PC}) and under monopolistic competition (Q_M and P_M). The triangle EBF measures the deadweight loss (difference in social welfare under competition (triangle ABC) and a monopoly (area AEFC)).

Figure 1
Deadweight Loss in a Monopoly



Thus, since April 2014, Banco de México, with the aim of evaluating the conditions of economic competition in the national markets before the approval of the previously mentioned secondary legislation, started consulting economic specialists, financial managers of non-financial firms, business agents, and representatives of firms of the manufacturing and non-manufacturing sectors about three fundamental aspects of economic competition in Mexico.

The topics of the survey were: first, the perception about the intensity of competition in national goods and inputs markets; second, the economic consequences of the lack of competition in the markets; and third, the perception of the efficiency of antitrust policies in the country before the reforms (Table 1).

Table 1
Aspects of Competition and Sources of Information

Topics	Sources	Private sector economic specialists[1]	Financial managers[2]	Business leaders[3]	Firms' represen-tatives[4]
Intensity of competition	Domestic market	✓	✓		
	Input market				✓
	Own product's market				✓
	Sectors with competition problems	✓	✓	✓	
Consequences of the lack of competition	Prices, quality of goods and services			✓	
	Obstacle to doing business	✓	✓		
	Obstacle to economic growth	✓	✓		
Effectiveness of antitrust policy[5]	Percepction of antitrust policy	✓	✓	✓	

1/ It refers to the specialists consulted in the Survey on Expectations of Private Sector Economic Specialists of July; 30 specialists answered the survey.
2/ It refers to the managers consulted in the Credit Market Evaluation Survey from July and early August, with answers from around 480 managers.
3/ It refers to the business agents from Banco de Mexico's regional contact network, surveyed between March 18 and April 16. Around 500 managers answered the survey.
4/ It refers to the firms' representatives interviewed in the Regional Economic Activity Survey of April; around 1500 representatives responded.
5/ It refers to the policy in place before the reforms.

This Box summarizes the results obtained from the conducted surveys.

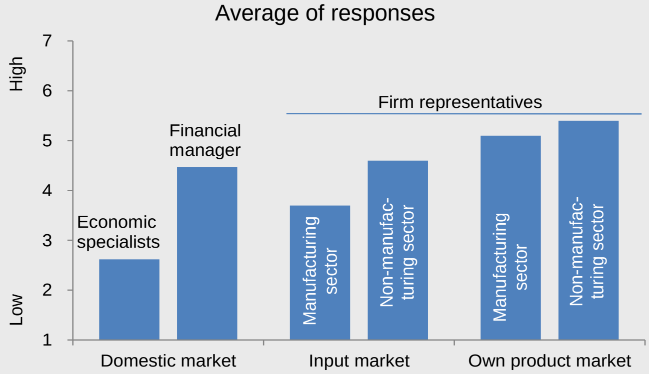
2. Results

2.1 Intensity of Competition

On the one hand, economic specialists consider that the intensity of competition in the domestic market is low. On the other hand, non-financial firms' financial managers and manufacturing and non-manufacturing sector business representatives perceive higher intensity. In particular, the latter pointed out that competition in input markets is moderate, while competition faced in the market of their main product or service is intense (Chart 1).

The differences in the perception of intensity of competition in the domestic market between economic specialists and firms' financial managers and firms' representatives can be associated with their perspective of the economy: the specialists' aggregate perspective of less competitive markets, and the specific perspective of market participants (firms' financial managers and representatives) of higher competition.

Chart 1
Intensity of Competition in Domestic Markets 1/
Average of responses

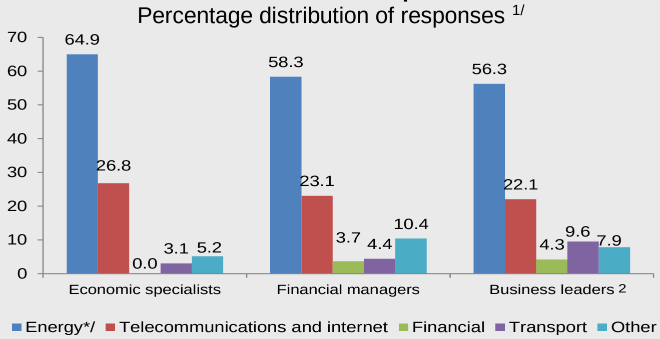


1/ Survey question: How would you assess the intensity of competition in Mexican markets? (1 = low in most markets; 7 = high in most markets).
Source: Banco de México.

2.2 Sectors Perceived as Problematic in Terms of Competition

The results of the surveys and interviews agree that the sectors with most competition problems are those related to oil and derived products, electricity, telecommunications and internet. Although some economic agents indicate that financial and transportation sectors present competition problems, the percentage of answers in these cases was considerably lower (Chart 2).

Chart 2
Sectors with Low Level of Competition in Mexico
Percentage distribution of responses 1/



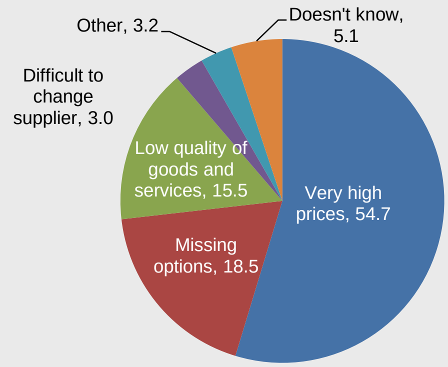
1/ Distribution with respect to total answers of specialists/financial managers, who could name up to three sectors, which they consider face competition problems. Survey question: In your opinion, which sectors have a lack or low level of competition?
2/ In the realized interviews, the business agents exclusively stated which sector with competition problems they considered the most important.
*/ The energy sector includes oil, petrol, gas and electricity.
Source: Banco de México.

2.3 Consequences of the Lack of Competition

High Prices

Interviewed business agents state that the main consequence of the lack of competition in the mentioned sectors is the high price of goods and services provided. Further repercussions of the absence of competition are missing options and low quality of goods and services provided (Chart 3).

Chart 3
Main Consequences of the Lack of Competition, according to Business Agents 1/
Percentage distribution of responses



1/ Interview question: Which is the main consequence of the lack of competition in the sector you mentioned before?
Source: Banco de México.

Obstacles to Economic Growth

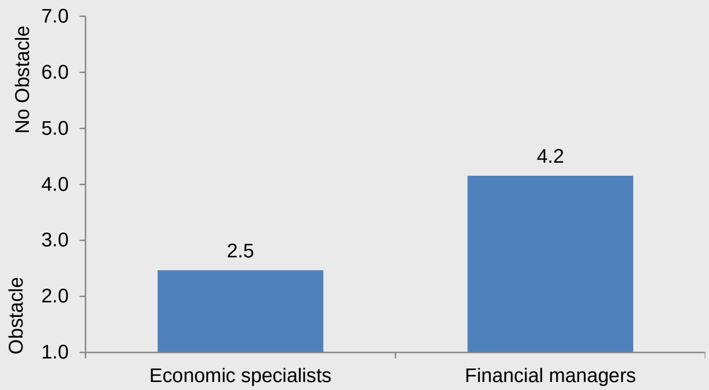
The opinion of consulted specialists and financial managers suggests that the existence of dominant firms, or the lack of competition, is a limiting factor for doing business in Mexico (Table 2). Furthermore, they consider that prevailing competition conditions hinder economic growth, although financial managers' perception of that impact is moderate as compared to that of specialists (Chart 4).

Table 2
Main Obstacles to Doing Business in Mexico
Percentage distribution of responses 1/

Percentage distribution of responses	Economic specialists	Financial managers
Corruption	30.9	23.7
Bureaucracy	17.5	17.8
Access to financing	12.4	3.1
Crime	9.3	12.9
Dominance of existing firms/ Lack of competition	8.2	3.7
Legal status/ secure property rights	6.2	4.1
Taxes	6.2	22.1
Others	9.3	12.7

1/ Distribution with respect to total answers of surveyed persons, who could name up to three obstacles. Survey question: In your opinion, what are the main obstacles faced by business agents to doing business in Mexico?
Source: Banco de México.

Chart 4
Competition Conditions in Mexico as Obstacle to Economic Growth 1/
Average of responses

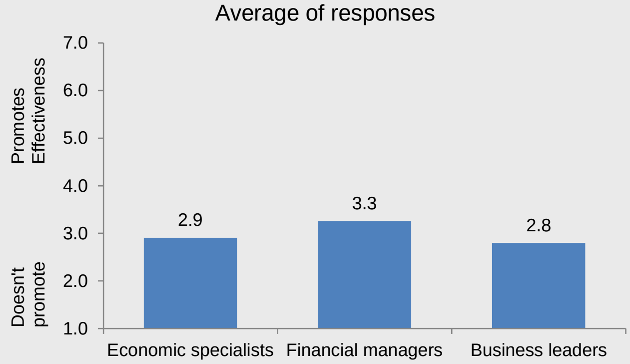


1/ Survey question: In your opinion, are the competition conditions prevailing in Mexican markets an obstacle to economic growth? (1 = severe obstacle; 7 = no obstacle to economic growth at all).
Source: Banco de México.

2.4 Effectiveness of Antitrust Policy

According to the interviewees' opinion, the effectiveness of antitrust policies in promoting competition is low (Chart 5).

Chart 5
Effectiveness of Antitrust Policy in Promoting Economic Competition 1/
Average of responses



1/ Survey and interview question: In your opinion, how effective is the antitrust policy in Mexico? (1 = it does not promote competition; 7 = promotes competition effectively).
Source: Banco de México.

It stands out that, given the approval of the constitutional reform on telecommunications, broadcasting and economic competition and of their secondary legislation, this opinion reflects the perception of consulted sources based on their experience of previous years, before the recent legislative changes. Thus, these results could be considered as a benchmark for future evaluations of the progress of competition policy.

3. Final Considerations

The analysis of the surveys and interviews showed, on the one hand, that the perception of the intensity of competition in the country's markets is low in the case of economic specialists and higher among market participants; and, on the other hand, that there is a widespread opinion regarding the following three aspects: first, that the energy, telecommunications and internet sectors are those with the lowest level of competition; second, that the absence of competition leads to higher product and service prices, as well as hurts economic growth; and third, that the effectiveness of the antitrust policy in promoting competition, in the period before the approval of the recent reforms, is low.

The approval of the constitutional reform on telecommunications, broadcasting and economic competition and of the energy reform, as well as their secondary legislation, provides an opportunity to promote greater competition in the referred markets, which would result in a more efficient resource allocation and hence, in productivity gains, greater economic growth and lower prices.

Thus, it is necessary to monitor the correct implementation of the approved reforms, such that, with the new instruments assigned to both the Federal Telecommunications Institute (IFT) and the Federal Economic Competition Commission (COFECE) greater economic competition could be effectively promoted in the mentioned key sectors, which, eventually, would favorably impact the price formation process and economic growth in Mexico. This would support Banco de Mexico's task of inflation convergence to the permanent 3.0 percent target.

The constitutional reform on energy, enacted on December 20, 2013, whose secondary legislation was promulgated on August 11, 2014, provides the sector with a completely new institutional arrangement, by opening it to the private sector basically at all stages of the production chain of the electricity, oil and gas sectors. This reform takes on special relevance given that Mexico has not taken full advantage of its comparative advantage in the energy sector. In this sector the market structure and technological, financial and operational capacity of Pemex *(Petróleos Mexicanos)* and the Federal Electricity Commission (CFE) is insufficient to cover the big investments and technologies necessary to exploit unconventional, currently not exploited, resources, where Mexico has a great potential such as, for instance, in deep water and shale fields (shale oil y shale gas).

Among the main modifications to the oil and gas sectors stand out the opening of the production chain to private investment, including exploration and extraction, refining processes and petrochemical development, as well as transport, storage and distribution. The Nation maintains the inalienable and imprescriptible property of underground oil and hydrocarbons and oil revenues, but contracts with private parties for exploration and extraction will be allowed. It is noteworthy, that the reform is not only expected to increase oil and gas production, with its subsequent direct impact on GDP, but also to generate efficiency and productivity gains due to the environment of economic competition at different stages of the production chain.

With respect to the electricity sector, the private sector will be allowed to participate in the generation and commercialization of electricity and the State could conclude contracts with private parties to expand and strengthen transport and distribution networks. As a result of the reform, not only are energy prices expected to decrease, but also quality is expected to improve. This will lower both firms' direct and indirect costs and thus, increase productivity given the particular importance of electricity as input.

The new institutional framework clarifies the qualifications of the entities participating in the energy sector, ensuring a more effective level of coordination. Further, the institutional structure has been changed in order to control the operations associated with the different links in the production chains of oil, gas and electricity. In this context, Pemex and CFE become productive state enterprises and will be able to participate and compete alongside private participants. Thus, the strengthening of institutions will allow the good functioning of the sector, yielding higher production and efficiency gains. Further, the Mexican Oil Fund for Stabilization and Development *(Fondo Mexicano del Petróleo para la Estabilización y el Desarrollo)* will be created, a trust managed by Banco de Mexico as trustee.

The recent process of structural change involved, besides the reforms mentioned above, modifications to the labor and financial legislation, which did not represent constitutional changes. With respect to the labor reform, enacted on November 29, 2012, the main changes are aimed at reaching higher flexibility in this market by introducing new contractual forms and greater transparency of labor unions.

Regarding the financial reform promulgated on January 9, 2014, the four pursued objectives can be summarized as follows: i) increase competition in the financial sector; ii) promote credit through the development bank, redefining its mandate to grant credit to priority areas of national interest, promote financing to small and medium firms, and support export firms; iii) boost the amount of credit extended by private financial institutions by improving the system and by establishing incentives to expand credit supply and to reduce interest rates; and iv) ensure the soundness and prudence of the financial sector. In this way, this reform will reaffirm the strength of the Mexican financial system. Additionally, in the context of the structural change process, it is expected to facilitate availability of resources that might be necessary for the financing of projects that could arise from the introduction of the remaining reforms mentioned before. Thereby, a more active and solid financial system, together with an impulse to productivity from a microeconomic perspective derived from the approval of a broad set of structural reforms, puts Mexico into a unique position to stand out among emerging economies. This fact is especially relevant given the recent, particularly difficult, international economic environment.

Besides the fact that, as described before, each reform by itself represents progress in the improvement of the institutional framework that will allow increasing country's productivity, it is also possible that synergies arise among them, thereby further stimulating employment, wages and economic growth. The structural reforms will not only result in a more vigorous expansion of the economy, but will also favor an environment of low and stable inflation. Indeed, higher productivity will allow reaching higher aggregate demand and supply growth rates without generating inflationary pressures. This will be more likely given that the mentioned reforms were achieved in an environment of macroeconomic stability. Along these lines, as firms become more productive they will have more degrees of freedom to face uncertain scenarios without having to increase their prices.

In addition to the important progress reached, as is evident from the previous description, this structural change process cannot be considered as fulfilled, since it is still imperative to implement the recently approved reforms adequately. It is important that this challenge is resolved effectively, so that the potential of the reforms to boost growth in the Mexican economy is achieved.

Finally, it should be mentioned that the improvement of the institutional framework should be a permanent objective, always seeking to align economic agents' incentives towards the creation of higher value. In this sense, it is crucial to identify the main causes of inefficient resource allocations that generate lower economic growth. Of course, in addition to the aforementioned, the strengthening of the framework for the conduction of macroeconomic policy should continue. On this regard, it stands out that the benefits of the efforts undertaken in the past years in that direction have been evident in face of recent episodes of uncertainty in international financial markets.

Section III: Quarterly Report July - September 2014............... 127

CONTENTS

BOX

Section III: Quarterly Report July - September 2014

1. Introduction

By constitutional mandate, the monetary policy in Mexico seeks to ensure stability of the national currency's purchasing power. As a consequence, in recent years, significant progress in curbing inflation has been made; in particular, the following has been achieved: a reduction of the inflation's level and volatility, an absence of second round effects derived from changes in relative prices, better-anchored inflation expectations and a decrease in the inflation risk premium. The referred progress has enhanced the effectiveness of the monetary policy. In this regard, over the past two years, given a favorable inflation environment, characterized by a path of convergence of inflation towards its permanent target, stable medium and long-term inflation expectations and slack conditions in the economy, the Board of Governors took advantage of the circumstances to adjust the monetary policy stance and to support the recovery of the economic activity. Thus, between March 2013 and June 2014 the Board reduced the reference interest rate by 150 basis points, acting, at all times, in accordance with its primary mandate and without compromising the process of inflation convergence towards its 3 percent target.

In the third quarter of 2014, annual headline inflation exceeded 4 percent, reflecting mainly the fading of a high comparison base effect in the subindex of fruit and vegetables, as well as the increase in the relative prices of livestock products. Considering the transitory nature of this shock on inflation, that inflation expectations are well-anchored, and that a significant decrease in inflation is anticipated by the end of 2014 and early 2015, over the period covered by this Report the Board of Governors considered that, given the performance of all inflation determinants, the monetary policy stance was conducive to an inflation convergence towards the 3 percent target in 2015, reason for which it maintained the target for the Overnight Interbank Interest Rate at 3 percent.

In the third quarter of 2014, economic activity in Mexico kept recovering, although at a more moderate pace as compared to the previous quarter. This performance reflects the dynamism of external demand, mainly stemming from the U.S., as well as a slow reactivation of domestic demand. In line with the abovesaid, in the quarter analyzed in this Report, slack conditions persisted in the economy, even though they are estimated to continue declining over the next quarters. Consistent with the above, no pressures on labor and credit markets have been perceived.

The current international environment has turned especially complex and uncertain, which implies the need for more caution in conducting the country's macroeconomic policy. First, the world economy kept showing signs of weakness in the third quarter, while inflation decreased worldwide. In Japan and the Euro area, economic activity remained weak, while in the U.S. and the U.K. it continued expanding. Hence, the expectations for the monetary policy stance in the main advanced economies took opposite directions during the period covered by this Report. The Federal Reserve confirmed its strategy of a gradual withdrawal of the monetary stimulus, while the European Central Bank and the Bank of Japan announced additional monetary easing measures. Likewise, some of the main emerging economies, especially Brazil, China and Russia, registered a lower dynamism of economic activity.

Second, concerns over the world economic outlook, uncertainty regarding a possible response of monetary policy in the main advanced economies, geopolitical risks and the alert triggered by the Ebola virus outbreak caused a sharp increase in international financial markets' volatility over the referred period. This situation generated adverse implications for asset prices and currencies in emerging economies. In this respect, greater concern is notable regarding the possibility that the weakness of global growth, which has been lower than expected in recent years, might be a reflection of structural problems in the world economy rather than a reflection of cyclical factors. Finally, it is also noteworthy that this environment led to lower international commodity prices, including oil.

Significant adjustments in international financial markets were reflected in the Mexican markets. So far, the referred adjustments have taken place in an orderly manner and under appropriate liquidity conditions. In particular, in the period analyzed by this Report, the Mexican peso depreciated, the Mexican Stock Market index presented volatility and interest rates for different terms increased marginally, although the year to date interest rates have declined. In fact, adjustments in financial variables in Mexico were smaller when compared to most emerging economies. Still, possible additional adjustments in the national financial markets cannot be ruled out and, thus, the need to remain alert to any event that could affect the stability of the national economy persists. In order to avoid risks to macroeconomic and financial stability, caution must be maintained when conducting the economic policies and, in particular, the fiscal, the monetary and the financial ones. This takes on greater relevance in a context where the possible persistent fall in the oil prices can constitute an additional risk to the external accounts and to the country's public finances.

The reactivation of the Mexican economy is expected to persist, supported mainly by the impulse of external demand, as well as by a gradual improvement of domestic expenditure. The GDP growth rate in Mexico is anticipated to locate in 2014 between 2.0 and 2.5 percent, as compared to an interval of 2.0 to 2.8 percent in the previous Report. For 2015, the GDP growth rate is forecast to lie between 3.0 and 4.0 percent, while for 2016 this interval is from 3.2 to 4.2 percent, sustained by the expectation of a proper implementation of the recently approved structural reforms. Based on these prospects, it is estimated that in the future slack conditions in the economy will continue to gradually diminish.

Annual headline inflation is forecast to drop in late 2014, to conclude the year around 4 percent and to converge to its 3 percent target in 2015. In particular, given the fading of the effects of changes in relative prices derived from the fiscal measures in early 2014, as well as the elimination of long-distance national phone charges and a lower annual growth rate of gasoline prices, annual headline inflation is anticipated to decrease considerably in early 2015 and to lie around 3 percent from mid-2015. In this regard, it should be noted that the decrease in the growth rate of gasoline prices represents a very important change in the price determination process of the economy. The reason for this is that over the last 4 years the annual change of gasoline prices was above 10 percent while the target for headline inflation was 3 percent. This difference clearly implied upward pressures onto inflation and its expectations in recent years. Thus, the estimated variation in the annual change rate of gasoline prices is estimated to directly contribute to a lower headline inflation and that, besides, inflation expectations and other prices in the economy will adjust in line with the 3 percent target. Annual core inflation is expected to persist at levels close to 3 percent over the rest of 2014 and below this level in 2015. Finally, for 2016 both headline and core inflation are estimated to lie at levels close to 3 percent.

Considering all of the above, the Board of Governors estimates that currently the monetary policy stance is congruent with the efficient convergence of inflation to its 3 percent target. In the future, it will remain alert to the performance of all inflation determinants and its expectations for the medium- and long-term horizons. In particular, it will monitor the evolution of the degree of slack in the economy in light of the foreseen recovery, including the possible effects of structural reforms on the potential output of the economy and on the aggregate demand. Likewise, it will continue monitoring the monetary policy stance of Mexico relative to that of the U.S., all this in order to achieve the above referred inflation target.

2. Recent Development of Inflation

2.1. Inflation

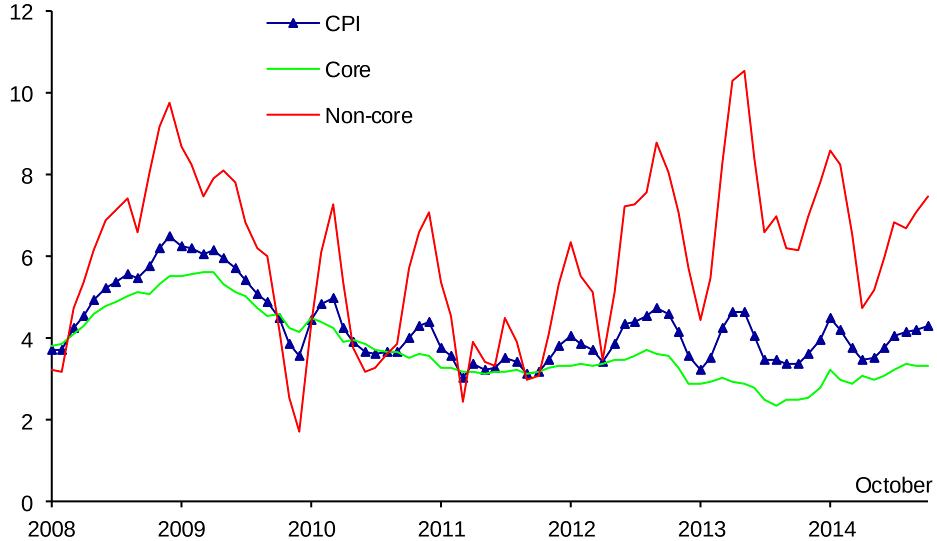
At the end of the second quarter and at the beginning of the third one, inflation rebounded, which was mainly related to the fading of a high comparison base effect in the non-core subindex (Table 3 and Chart 89). Furthermore, the referred increment was also contributed to by higher prices of meat products and some of their derivatives, as a reflection of supply shocks from the U.S. onto these products. Hence, average annual headline inflation shifted from 3.59 percent in the second quarter of 2014 to 4.15 percent in the third one. In October, annual headline inflation was 4.30 percent.

Table 5
Consumer Price Index and Components
Annual change in percent

	Annual change							Average	
	April 2014	May 2014	June 2014	July 2014	August 2014	September 2014	October 2014	Q II 2014	Q III 2014
CPI	**3.50**	**3.51**	**3.75**	**4.07**	**4.15**	**4.22**	**4.30**	**3.59**	**4.15**
Core	**3.11**	**3.00**	**3.09**	**3.25**	**3.37**	**3.34**	**3.32**	**3.07**	**3.32**
Merchandise	**2.97**	**3.08**	**3.24**	**3.37**	**3.56**	**3.46**	**3.53**	**3.10**	**3.46**
Food, beverages and tobacco	4.60	4.76	5.06	5.20	5.41	5.36	5.33	4.81	5.32
Cold cuts	4.89	7.21	7.91	8.64	9.49	10.05	10.90	6.67	9.39
Sw eet bread	9.91	10.60	10.81	11.24	11.39	11.34	11.25	10.44	11.32
Canned soft-drinks	16.82	16.25	16.16	16.15	15.76	15.70	15.50	16.41	15.87
Non-food merchandise	1.67	1.73	1.78	1.88	2.06	1.94	2.07	1.72	1.96
Services	**3.23**	**2.94**	**2.96**	**3.15**	**3.22**	**3.24**	**3.14**	**3.04**	**3.21**
Housing	2.24	2.21	2.15	2.11	2.07	2.13	2.14	2.20	2.11
Education (tuitions)	4.39	4.42	4.46	4.38	4.19	4.30	4.31	4.42	4.29
Other services	3.94	3.28	3.40	3.90	4.17	4.12	3.86	3.54	4.06
Mobile phone services	-3.73	-6.77	-5.67	-3.15	-1.60	-4.11	-8.99	-5.39	-2.95
Air transport	1.89	-4.43	0.87	12.36	16.63	20.14	16.72	-0.53	16.15
Non-core	**4.75**	**5.19**	**5.96**	**6.83**	**6.72**	**7.11**	**7.51**	**5.29**	**6.89**
Agriculture	**-1.13**	**0.67**	**3.37**	**5.78**	**6.22**	**7.57**	**8.46**	**0.94**	**6.53**
Fruit and vegetables	-9.90	-7.97	-2.15	3.22	0.13	1.20	1.31	-6.86	1.48
Green tomato	-68.85	-63.07	-19.95	14.64	34.79	3.57	-21.93	-58.97	16.19
Tomato	-7.34	-30.06	-22.73	3.77	-10.39	-5.54	-2.22	-20.46	-4.52
Serrano pepper	-11.26	-19.48	11.00	32.78	44.43	39.73	24.67	-8.48	38.99
Livestock	4.39	5.70	6.34	7.14	9.64	11.22	12.62	5.49	9.33
Beef	8.23	9.92	11.78	12.38	14.71	17.85	19.73	9.98	14.99
Pork	8.48	10.01	11.43	14.37	19.58	19.16	18.78	9.98	17.70
Energy and government approved fares	**8.52**	**8.14**	**7.59**	**7.47**	**7.03**	**6.82**	**6.93**	**8.09**	**7.11**
Energy	9.45	8.86	8.42	8.38	7.83	7.56	7.74	8.92	7.92
Gasoline	11.69	11.89	10.97	10.74	10.22	9.53	9.59	11.51	10.16
Electricity	4.11	-0.19	0.17	0.66	1.07	1.49	2.81	1.57	1.07
Domestic gas	10.30	10.05	9.91	9.80	8.17	8.25	8.49	10.08	8.74
Government aproved fares	6.86	6.89	6.18	5.92	5.65	5.55	5.48	6.64	5.71
Public transport	6.16	5.79	4.40	3.59	2.74	2.53	2.48	5.44	2.95

Source: Banco de México and INEGI.

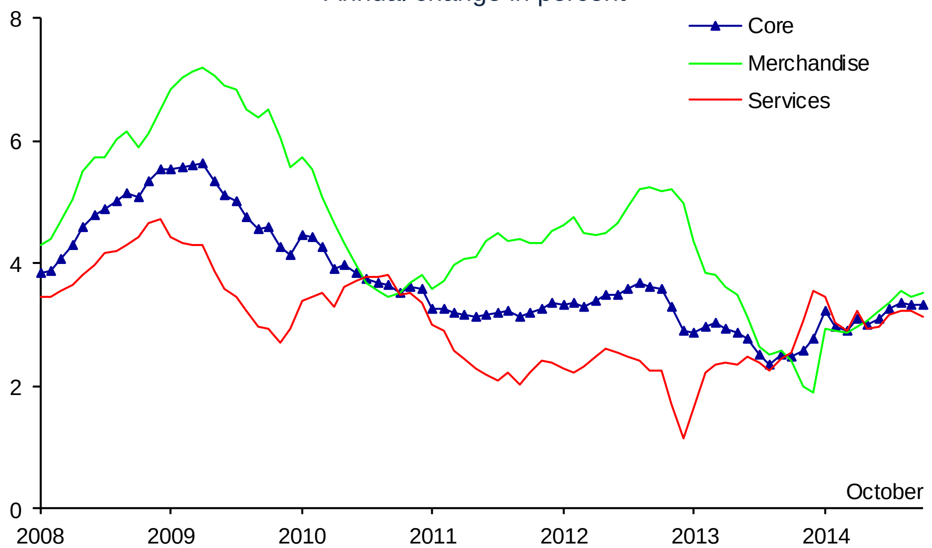
Chart 89
Consumer Price Index
Annual change in percent



Source: Banco de México and INEGI.

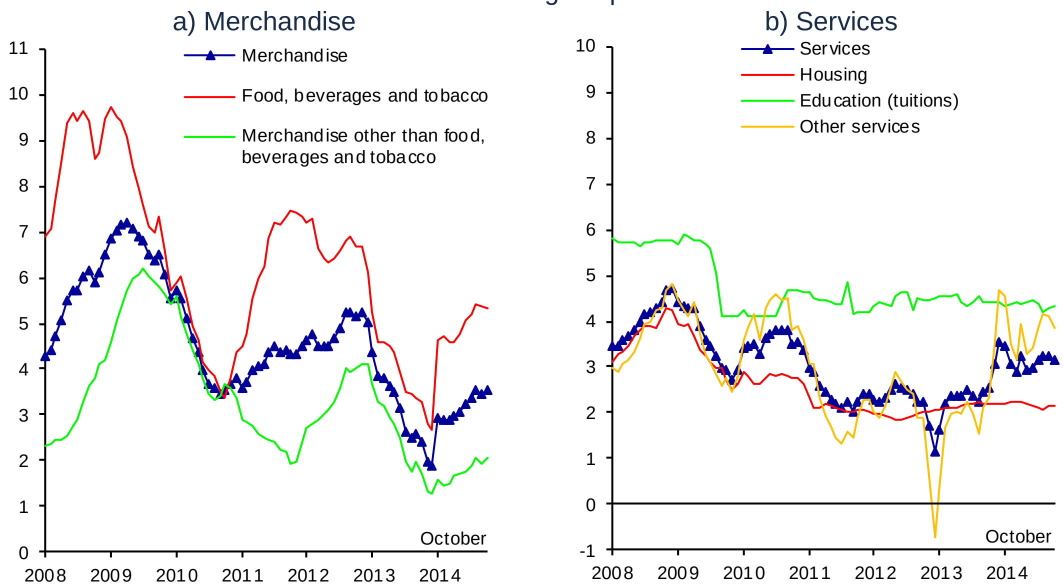
Average annual core inflation went up from 3.07 to 3.32 percent between the second and the third quarters, lying at 3.32 percent in October (Table 3 and Chart 90). Average annual inflation of the merchandise price subindex was 3.10 percent in the second quarter of 2014, while in the third one it was 3.46 percent. In October this subindex variation was 3.53 percent. The said increment was largely due to the performance of the food merchandise group, given that some goods derived from livestock products, such as cold cuts, increased their prices. Therefore, the referred group increased its average annual change from 4.81 to 5.32 percent between the indicated quarters, registering 5.33 percent in October. The average annual change of the non-food merchandise group rose slightly, from 1.72 to 1.96 percent over the same time period and to 2.07 percent in October (Table 3, Chart 90 and Chart 91a).

Chart 90
Core Price Index
Annual change in percent



Source: Banco de México and INEGI.

Chart 91
Core Price Index: Merchandise and Services
Annual change in percent

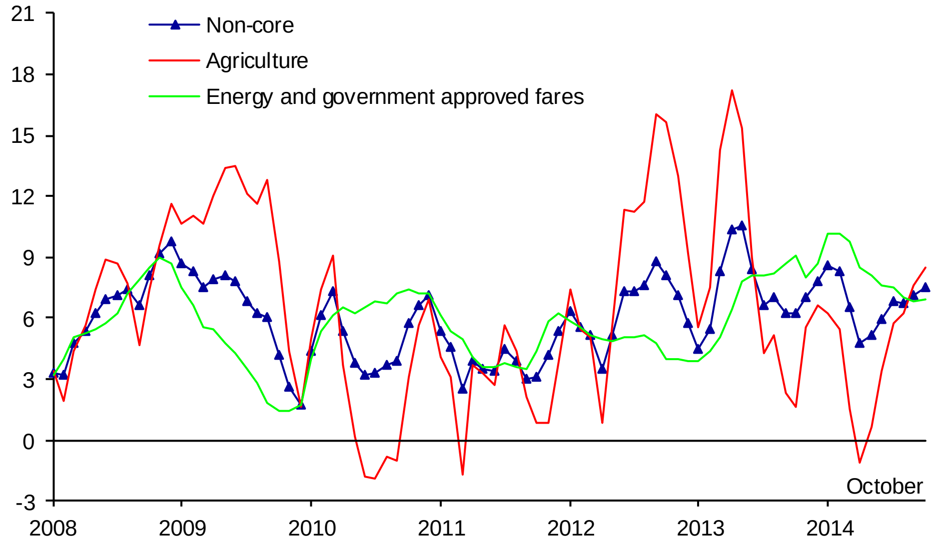


Source: Banco de México and INEGI.

Between the second and the third quarters of 2014, average annual inflation of the services subindex went up from 3.04 to 3.21 percent and subsequently decreased to 3.14 percent in October. The said increment was related to the performance of the group of services other than education and housing, in particular other than air transportation, given that greater increases in these fares were observed as compared to the same period of 2013, due to higher demand for this service. Thus, the average annual change of the group of services other than education and housing shifted from 3.54 to 4.06 percent between the referred quarters. Afterwards, the said indicator lied at 3.86 percent in October. This reduction mainly reflected the introduction of new plans and special offers by some mobile phone companies (Table 3 and Chart 91b).

The fading of a high comparison base effect in the subindex of fruit and vegetables, as well as unfavorable supply conditions that drove the prices of some meat products upwards, generated an increase in the average annual change rate of the non-core subindex from 5.29 to 6.89 percent between the second and the third quarter. Subsequently, in October annual inflation of this component lied at 7.51 percent (Table 3, Chart 92 and Chart 93).

Chart 92
Non-core Price Index
Annual change in percent



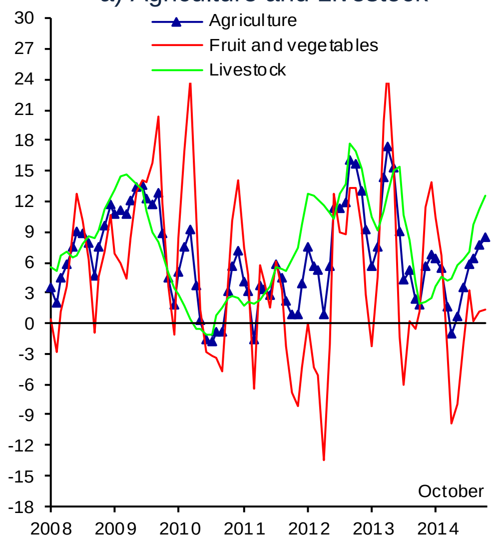
Source: Banco de México and INEGI.

Between the second and the third quarters of 2014, the average annual change of the subindex of agricultural prices soared from 0.94 to 6.53 percent, reaching 8.46 percent in October (Table 3, Chart 93a and Chart 94). The average annual change of the group of fruit and vegetables shifted from -6.86 to 1.48 percent between the referred quarters. This increment reflects the fading of a high comparison base effect and recent increases in the price of serrano pepper and tomato, although in the latter case the annual change rate was still negative. Subsequently, in October this indicator located at 1.31 percent, driven mostly by lower prices of some vegetables, such as green tomato. Meanwhile, the group of livestock products accelerated significantly its average annual change in the referred time period, spiking from 5.49 to 9.33 percent, registering 12.62 percent in October. As mentioned above, this increment was due to the negative supply conditions in the U.S., as a result of which beef and pork prices went up.

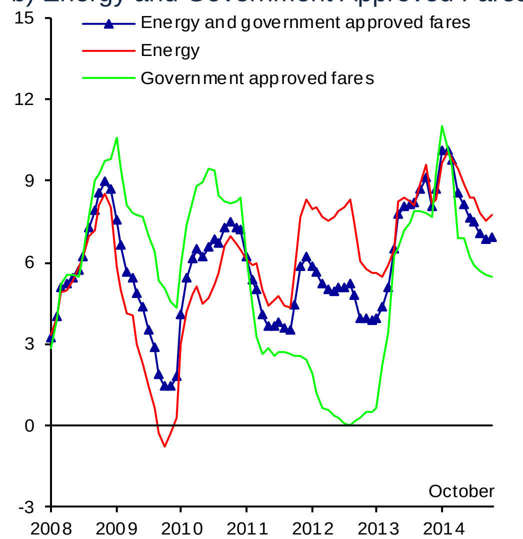
The average annual change rate of the subindex of energy prices and government approved fares dropped from 8.09 to 7.11 percent between the second and the third quarters, locating at 6.93 percent in October (Table 3, Chart 93b and Chart 95). The group of energy prices reduced its average annual change in the referred quarters from 8.92 to 7.92 percent and to 7.74 percent in October, due to lower gasoline prices in the Northern border region and due to smaller increments of domestic gas prices. The group of government approved fares changed from an average annual change of 6.64 to 5.71 percent over the same time period, registering 5.48 percent in October. This outcome is largely accounted for by upward adjustments in the public transport fares in different cities that were not as intense as last year.

Chart 93
Non-core Price Index
Annual change in percent

a) Agriculture and Livestock



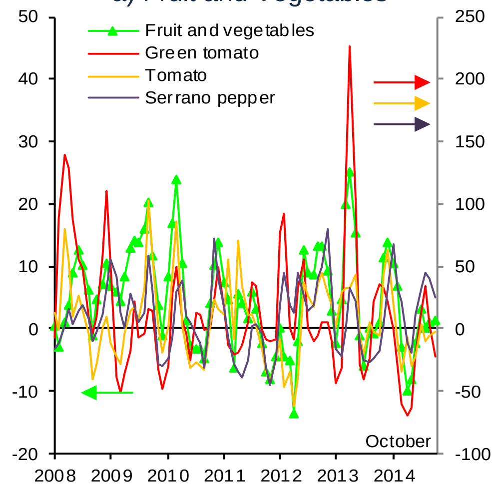
b) Energy and Government Approved Fares



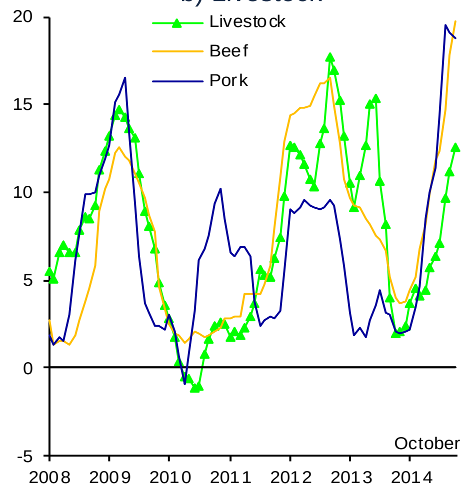
Source: Banco de México and INEGI.

Chart 94
Agricultural Price Index
Annual change in percent

a) Fruit and Vegetables

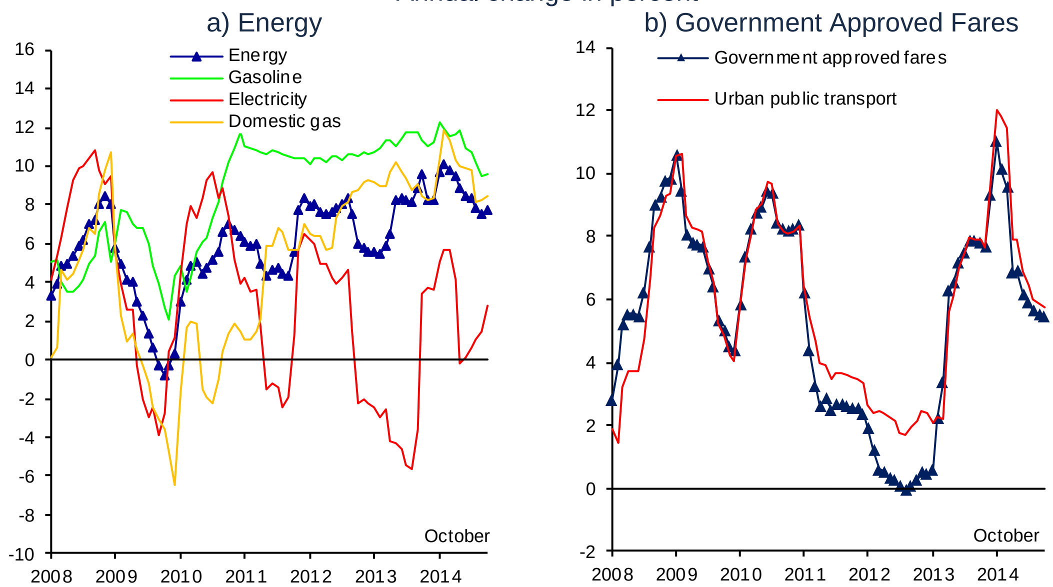


b) Livestock



Source: Banco de México and INEGI.

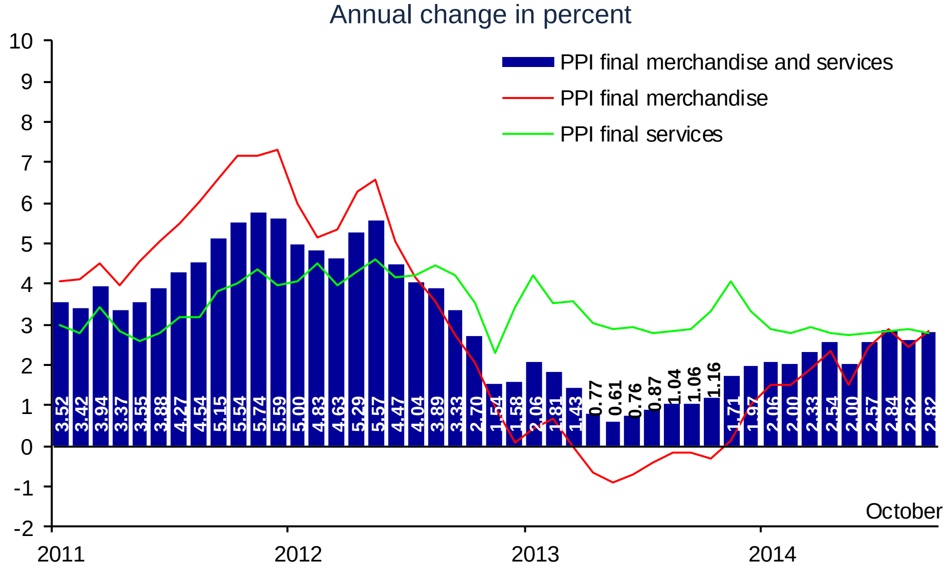
Chart 95
Non-core Price Index
Annual change in percent



Source: Banco de México and INEGI.

In the third quarter of 2015, the Producer Price Index (PPI) of finished merchandise and services, excluding crude oil, registered an average annual change rate of 2.68 percent, while in the previous quarter it was 2.29 percent (Chart 96). This behavior was largely due to the price increments of agricultural products, some processed foods and goods related to the construction industry. In October 2014, the annual change of the referred indicator was 2.82 percent.

Chart 96
Producer Price Index
Annual change in percent



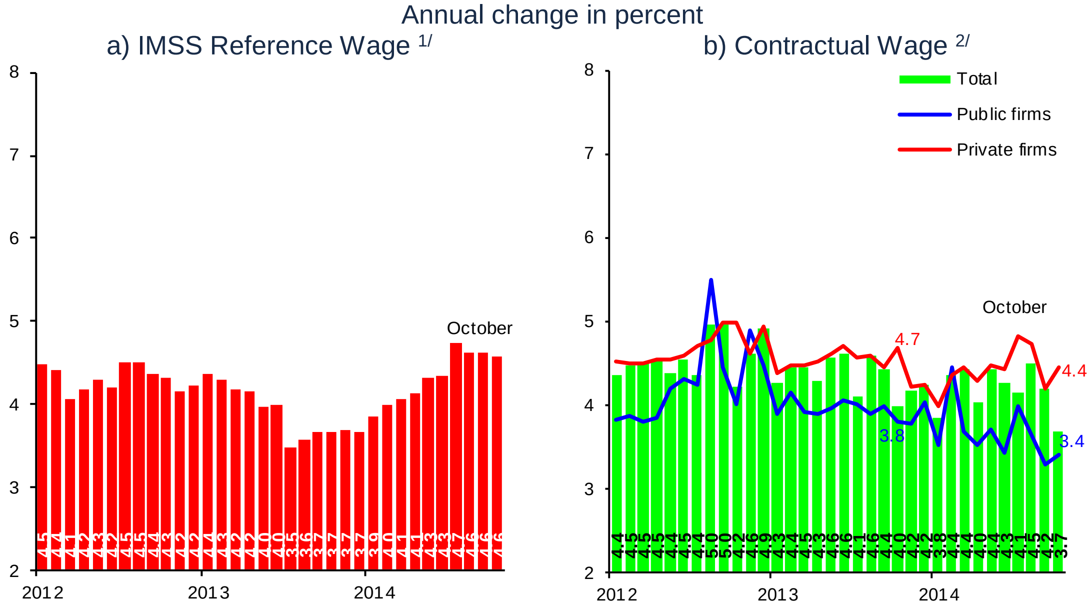
Source: Banco de México and INEGI.

2.2. Wages

During the third quarter of 2014, the main wage indicators increased in line with the recent evolution of inflation. The reference wage of IMSS-insured workers went up 4.7 percent in July 2014 as compared to the same period of last year. Subsequently, this indicator went down to 4.6 percent in August and September. Still, in the analyzed quarter the average annual change of the reference wage was 4.7 percent (4.3 percent in the last quarter). In October, the annual change of the reference wage remained at 4.6 percent (Chart 97a).

The average increment in the contractual wage negotiated by firms under federal jurisdiction was 4.2 percent over the third quarter of 2014, which was slightly lower than the figure registered in the same quarter of the previous year (4.3 percent). This difference derived from lower changes in contractual wages of public firms. In particular, public firms negotiated an increase of 3.9 percent (4.0 percent in the same quarter of 2013). Private firms negotiated an average increase of 4.5 percent from July to September 2014, a figure equivalent to that of the third quarter of 2013. Subsequently, in line with the persisting slack conditions of the economy, in October 2014 the change rate of the average contractual wage decreased with respect to the same month of the previous year, locating at 3.7 percent (4.0 percent in the same month of last year). Thus, in October increments in contractual wages were smaller for public and private firms, observing rates of 3.4 and 4.4 percent, respectively (3.8 and 4.7 percent in October 2013, Chart 97b).

Chart 97
Wage Indicators
Annual change in percent



1/ During the third quarter of 2014 an average of 17.1 million contributors were registered in IMSS.
2/ The contractual wage increase is an average weighted by the number of involved workers. The number of workers in firms under federal jurisdiction that annually report their wage increases to the Secretary of Labor and Social Welfare (*Secretaría del Trabajo y Previsión Social*, STPS) equals approximately 2 million.
Source: Calculated by Banco de México with data from IMSS and STPS.

3. Economic and Financial Environment

3.1. International Environment

World economy showed additional signs of weakening and lower inflation levels were registered in the third quarter. The differences among advanced economies, as well as those between these and the emerging ones intensified. In particular, while the economies of the U.S. and the U.K. kept expanding, albeit with certain uncertainty regarding the sustainability of their recovery, the economies of the Euro zone and Japan remained weak. In China, the rate of economic activity stabilized, although at a lower rate than that of last year, while other large emerging economies, such as Brazil and Russia slowed down considerably. This led to greater uncertainty regarding the direction of the world economic activity, inflation and the economic policy, in particular the monetary policy in the main advanced economies. This, as well as intensified geopolitical risks and alert triggered by the epidemic of Ebola virus disease was reflected in a strongly increased volatility of international financial markets. In this regard, it should be noted that there is a risk that structural problems, such as the low productivity growth and demographic factors, would limit the capacity for growth in the main advanced economies and some emerging ones from a long-term perspective.

3.1.1. World Economic Activity

In the U.S., the economic activity recovery continued consolidating, following a strong expansion in the second quarter. In accordance with the initial estimate, GDP grew at an annualized quarterly rate of 3.5 percent in the third quarter, after the 4.6 percent registered in the last quarter. Nonetheless, the recent weakness of global economic activity and the USD appreciation could be factors that limit growth in this country.

Over the referred period, both expenditure on investment in equipment and private consumption grew moderately (Chart 98a). Residential investment continued recovering slightly, although it maintained the lag with respect to the components of private domestic demand. Net exports contributed substantially to the GDP growth, more than offsetting the strong fall in the rate of inventory accumulation.

Labor market conditions kept strengthening gradually over the third quarter, even though different indicators suggest that slack conditions still prevail in this market. In October, non-farm payroll expanded by 214 thousand jobs, leading to the monthly employment growth of over 200 thousand jobs in the last nine months. Likewise, the unemployment rate dropped from 6.1 percent of labor force in June to 5.8 percent in October, its lowest level since mid-2008 (Chart 98b).[23] However, other indicators, such as the number of people working part-time for economic reasons, as well as the rate of recruitments and the rate of resignations, suggest certain slackness in this market.

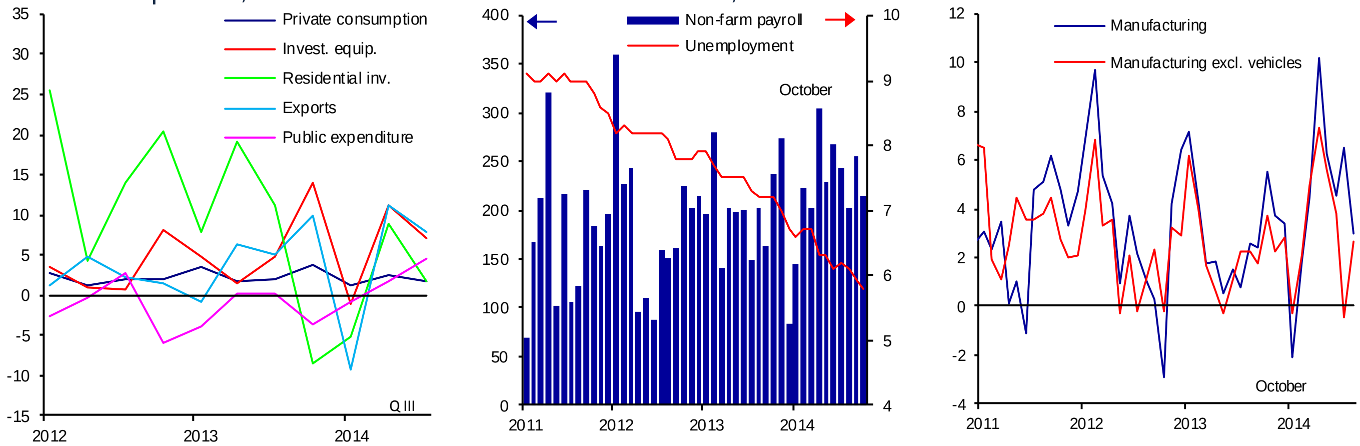
[23] In September, the Federal Reserve estimated the central trend of the long-term unemployment rate between 5.2 and 5.5 percent.

Chart 98
U.S. Economic Activity

a) Selected Components of Real GDP
Annualized quarterly change in percent, s. a.

b) Monthly Change of Non-farm Payroll and Unemployment Rate
In thousands of jobs and percent of labor force, s. a.

c) Manufacturing Production
Annualized quarterly change in percent, s. a.



s. a. / Seasonally adjusted figures.
Source: BEA.

s. a. / Seasonally adjusted figures.
Source: BLS..

s. a. / Seasonally adjusted figures.
Source: Federal Reserve..

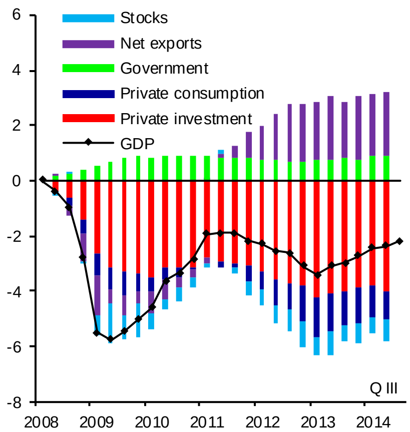
Manufacturing production maintained a positive trend in the reference quarter. In particular, although the annualized growth of the sector moderated from 7.0 percent in the second quarter to 3.9 percent, mainly due to the automobile component (Chart 98c), in this economic cycle the sector's installed capacity utilization reached its maximum during the quarter. The leading indicators, such as the manufacturing sector's Purchasing Managers' Index, point to a continuous expansion of the sector in the next months.

In the Euro zone, economic activity remained weak in the third quarter of the year (Chart 99a), growing only 0.7 percent at an annualized quarterly rate, thus contributing to the ample slackness in the labor market and to the persisting contraction of credit. Likewise, geopolitical tensions derived from the crisis between Russia and Ukraine adversely affected the economic activity. During this period, private consumption kept growing modestly, limited by decreased consumer's confidence, households' over-indebtedness and high unemployment rates (Chart 99b After a strong contraction in the previous quarter, private investment remained depressed in the third quarter, mainly due to decreased financing to firms (Chart 99c). Furthermore, insufficient structural reforms also contributed to the weak dynamics of investment, employment and slow growth of productivity.

As part of its strategy to support the recovery of bank credit in the region, in late October the European Central Bank (ECB) announced the results of the comprehensive evaluation among 130 European banks, showing significant progress in their capitalization process and a relative strength in light of an adverse scenario. The goal of this evaluation, that included stress tests and a revision of asset quality, was to strengthen banks' balances, to enhance transparency and confidence in the sector, and to lay the foundations for the beginning of the Single Supervisory Mechanism (SSM) in November 2014.[24]

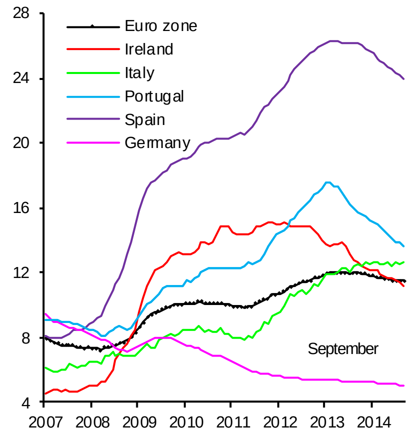
Chart 99
Euro Zone Economic Activity

a) Real GDP and Contributions of its Components with respect to the Recent Crest (2008-1Q=0)
In percent and percentage points, s. a.



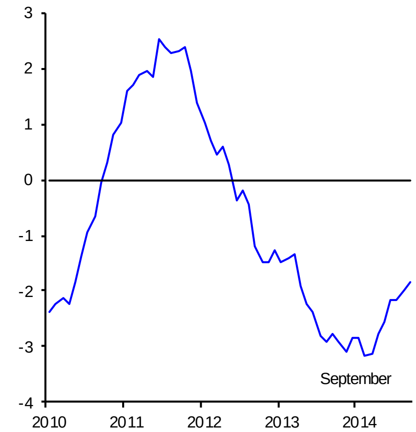
s. a. / Seasonally adjusted figures.
Source: Eurostat and Haver Analytics.

b) Unemployment Rate
In percent of labor force, s. a.



s. a. / Seasonally adjusted figures.
Source: Eurostat.

c) Credit to Non-financial Corporations
Annual change in percent, s. a.



s. a. / Seasonally adjusted figures.
Source: European Central Bank.

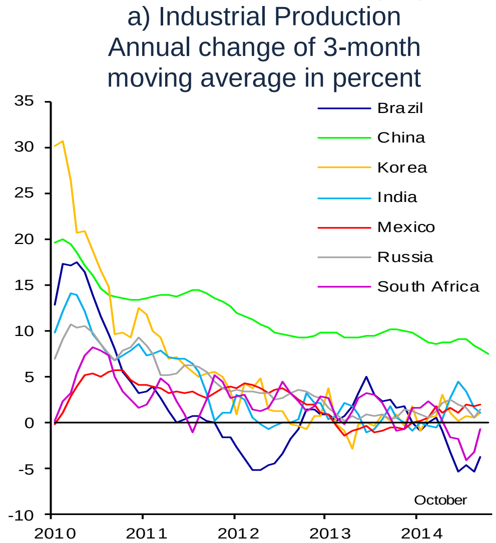
The U.K. economy continued with a sustained growth, although it went down from 3.9 percent at an annualized quarterly rate in the second quarter to 2.7 percent in the reference quarter, particularly as a result of a lower dynamism of the services' sector. Demand in the housing market weakened incipiently given a low level of mortgage approvals and smaller than expected increments in the housing prices.

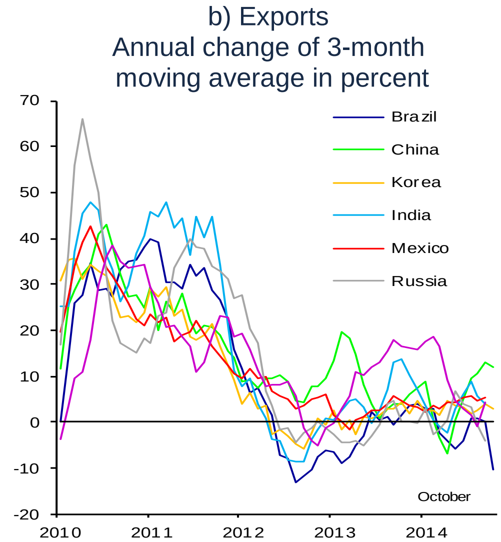
Economic activity in Japan kept contracting in the third quarter of the year. GDP decreased at an annualized quarterly rate of 1.6 percent, following a plunge of 7.3 percent in the previous quarter. The negative effect on domestic demand caused by the VAT increment in April has been more prolonged than anticipated, with a moderate growth of consumption, despite the improvement in the labor market and the persistent weakness of private investment. Even though in the third quarter the economy was supported by exports, lower economic growth in Asia and in the Euro zone represents a downward risk for Japan.

The growth outlook in emerging economies in general has deteriorated, although it has varied across countries and regions, given the persistent weakness of their domestic demand and exports (Chart 100). The latter has derived not only from lower world expansion, but also from a reduction related to commodity prices. Furthermore, in some of these economies, downward risks have intensified in light of an increased indebtedness of the private sector, and in some cases of the public sector. The above occurred in a context of a limited degree of freedom to conduct the fiscal and monetary policies in some of these economies.

[24] The results indicated that 25 banks registered a capital deficit of EUR 25 billion, out of which 12 banks covered the gap with the anticipated capitalization measures. The remaining 13 banks, which lack EUR 9.5 billion of net capital, will have 9 months to eliminate this deficit.

Chart 100
Emerging Economies' Economic Activity



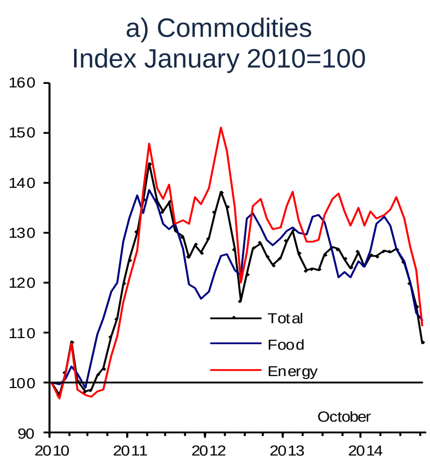


Source: Haver Analytics.

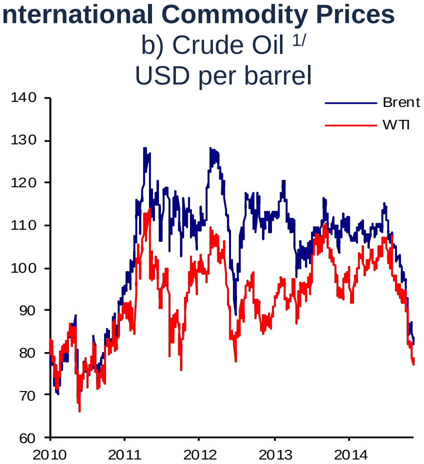
3.1.2. Commodity Prices

International commodity prices declined during the period covered by this Report (Chart 101a). This drop was a reflection of weak global demand, the supply-related factors and the USD appreciation. Despite geopolitical risks in the Middle East and Ukraine, the crude oil price went down due to a reduced demand, increased production in some countries and minor distribution problems in the U.S. (Chart 101b). Grain prices decreased given a favorable outlook for their supply, even though certain recovery was registered in the last days (Chart 101c).

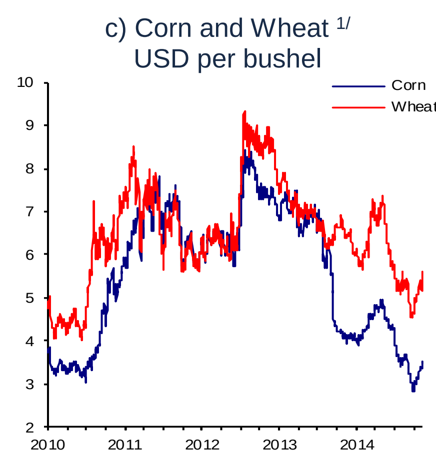
Chart 101
International Commodity Prices



Source: International Monetary Fund.



1/ Spot.
Fuente: Bloomberg.



1/ Mercado Spot.
Fuente: Bloomberg.

3.1.3. Inflation Trends Abroad

In the third quarter, global inflation decreased (Chart 102), due to lower international prices of energy and food, and due to the prevailing slack conditions, particularly in advanced economies. In this context, fear has emerged regarding a possibility of very low and/or negative inflations in some economies.

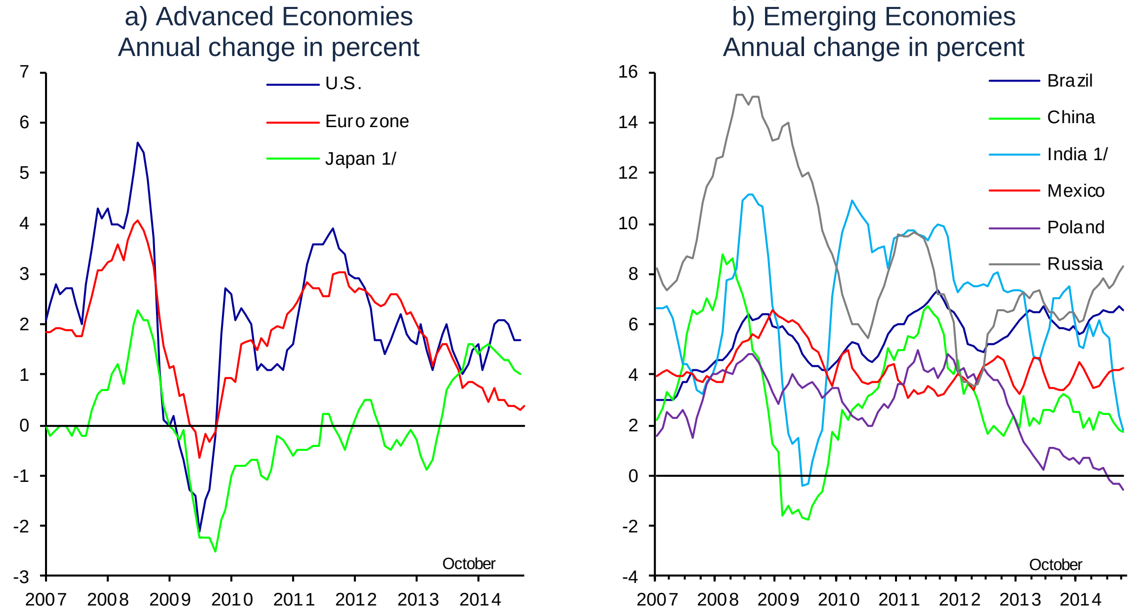
In the U.S., inflation and its expectations decreased slightly during the third quarter, especially due to the strength of the USD and lower gasoline prices, even though it is anticipated that once these effects fade, and the economic recovery consolidates, inflation will gradually increase to the 2 percent target. Thus, annual headline and core inflations lied at 1.7 percent in September. On the other hand, the annual change of the personal consumption expenditure (PCE) deflator was 1.4 percent in September and the core PCE was 1.5 percent.

In the Euro zone, deflation risks intensified, due to a continuous weakness of aggregate demand and the drop in commodity prices, which resulted in an additional reduction of medium- and long-term inflation. Thus, annual headline inflation lied at 0.4 percent in October, while core inflation was 0.7 percent in the same month, well below the ECB target of a figure below but close to 2 percent. In accordance with the ECB, it came as a surprise that inflation dynamics were downward and they are expected to remain at reduced levels over the next months, before starting to increase gradually in 2015 and 2016.

In the U.K., in September annual headline inflation dropped to its lowest level in five years, reaching 1.2 percent, while core inflation lied at 1.5 percent. This downward trend in inflation is accounted for, partly, by the low wage increase, as well as a lower inflation of imported goods, as a result of lower prices of commodities and a lower global inflation. On the other hand, inflation in Japan went down over the quarter. Headline inflation, excluding the effect derived from the increment in the consumption tax, located at 1.0 percent in September, while the component that excludes food and energy has stabilized at 0.6 percent since June.

Most emerging economies did not register considerable inflationary pressures, in an environment of moderate growth and lower prices of food and energy. Among the main ones, price increases in China and India decelerated significantly during the period, while in Brazil and Russia inflation went up slightly as compared to June, locating above the respective inflation targets of these countries.

Chart 102
Headline Inflation in Advanced and Emerging Economies



a) 1/ Excluding the effect of the increment in the consumption tax.
Source: BLS, Eurostat and Japan Statistics Bureau, JP Morgan.

b) 1/ It refers to inflation of wholesale prices.
Source: National Statistics Bureaus.

3.1.4. International Financial Markets

Considering the environment of weak growth and low global inflation, the monetary stance in most economies is expected to remain accommodative over the following quarters. However, derived from the cyclical phase the economies are going through, increasing differences are anticipated, particularly among the main advanced economies.

In the U.S., in September the Federal Reserve announced its new plans of the normalization process in its balance, stressing that these would not imply a modification in its monetary policy stance. Just as prior to the crisis, the monetary policy adjustment would be carried out by means of the measures affecting the federal fund rate and not through an active management of the Central Bank's balance. Subsequently, in its October meeting the Federal Reserve decided to conclude its asset purchase program, upon considering that the labor market outlook has improved substantially since its introduction and that the economy is strong enough to achieve its goal of full employment in a context of stable prices. Besides, it confirmed that it will probably maintain the current range of the federal fund rate for a considerable time period once the asset purchase program is concluded, especially if the forecast inflation persists below the long-term target of 2 percent and inflation expectations remain well-anchored. The Federal Reserve stressed that if data point to a more rapid than expected progress in achieving its goals, it will increase the target range of the federal funds rate ahead of time. In contrast, if the referred progress is lower than anticipated, increments in the target range will likely be postponed. On the other hand, the change in the Federal Reserve's message regarding the labor market conditions from a scenario in which significant slack conditions would prevail to a scenario in which the underuse of labor resources has reduced gradually prompted the analysts not to postpone, but rather to anticipate the expected date of the first increment in the monetary policy rate, although it would not be inferred from the data in financial instruments.

In its September meeting, the European Central Bank announced additional monetary stimulus measures in order to boost credit and to face weak inflation and economic activity outlook. Hence, the ECB reduced its monetary policy interest rates by 10 basis points, while it indicated the beginning of the purchase of asset-backed securities of the non-financial private sector, as well as a third purchase program of covered bonds issued by financial institutions. Besides, it stressed that it could use additional unconventional instruments to face the risk of an extended period of low inflation. These programs will complement the measures announced in June and will strengthen new long-term financing terms channeled to certain sectors (TLTROs), with a considerable impact on the ECB balance. Finally, in its October and November meetings, the ECB maintained unchanged its monetary policy rates and arranged the operational details of the programs announced in September to purchase assets, such as the date of the beginning, duration and eligibility conditions.

In its monetary policy meetings during the period covered by this Report the Bank of England maintained its reference rate at 0.5 percent, it did not modify the stock of its asset purchase program and kept unchanged the forward guidance for its reference rate. In the minutes of October, most members of the Monetary Policy Committee noted that there is not enough evidence of inflationary pressures to justify an increment in interest rates, emphasizing that when the referred increment takes place, it will be gradual.

In its October meeting the Bank of Japan expanded its program of quantitative and qualitative monetary easing to achieve its price stability target of 2 percent. This Central Institute decided to accelerate the annual growth rate of the monetary base from about JPY 60-70 trillion to JPY 80 trillion. Furthermore, it raised its government bond-buying target from JPY 50 to 80 trillion, and announced its intention to extend the average duration of bonds it holds by 3 years, to a range of 7-10 years. Likewise, the Central Bank tripled the annual purchases of exchange-traded funds and Japanese real-estate investment trusts to JPY 3 trillion and JPY 90 billion, respectively.

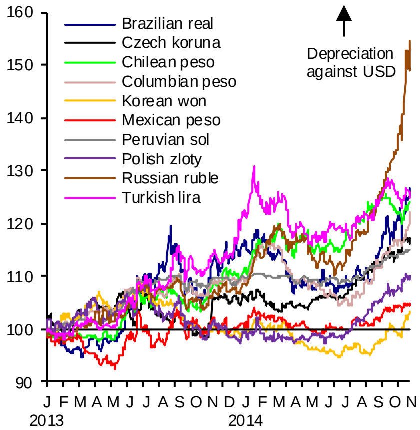
Differences in the monetary policy conduction continued in emerging economies. In some economies, such as Brazil, Russia and South Africa, the increment in inflationary and exchange rate pressures led to central banks increasing their reference interest rate. In contrast, the central banks of Chile, Korea, Hungary, Peru, Poland and Romania reduced their interest rates given an environment of low inflation and lower than expected growth.

International financial markets registered a spike in volatility in the analyzed period, which translated in significant exchange rate adjustments in stock markets worldwide and in a lower demand for higher-risk financial assets. High volatility is attributed to the deterioration of the world economic outlook, given a lower than expected growth in various economies, particularly in the Euro zone, geopolitical risks and fear of the Ebola epidemic, as well as the observed and expected differences in the monetary policy evolution in main advanced economies.

Thus, the U.S. dollar appreciated significantly against the main currencies, while the Euro and the Yen depreciated. The exchange rate of emerging economies' currencies generally depreciated against the U.S. dollar. Additionally, sovereign risk margins of this group of economies increased given a greater risk aversion in the markets, especially in September and October. On the other hand, long-term interest rates in these economies also observed a differentiated evolution, in some cases affected by lower inflation expectations, but also by different growth prospects and unequal macroeconomic fundamentals (Chart 103). Finally, capital flows to emerging economies grew until early September, with subsequent continuous outflows.

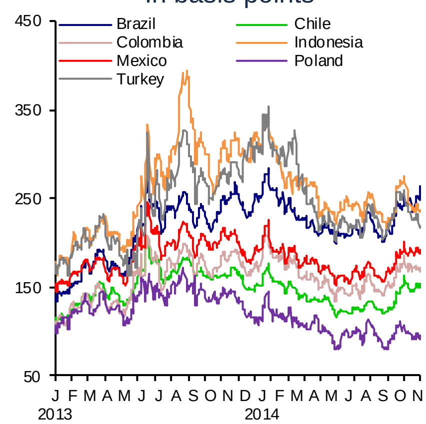
Chart 103
Financial Indicators of Emerging Economies

a) Exchange Rate
Index 01/01/2013=100



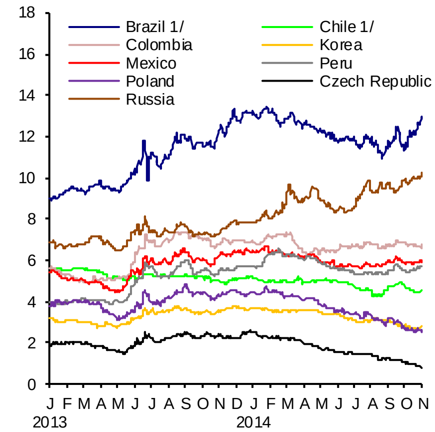
Source: Bloomberg.

b) Sovereign Spreads
In basis points



Source: Bloomberg.

c) 10-year Bond Yield
Percent



1/ It refers to 9-year bonds.
Source: Bloomberg.

Considering the abovesaid, it should be noted that a possibility of the lower than expected growth of the world economy, as well as uncertainty regarding the speed at which the Federal Reserve will normalize its monetary policy would intensify volatility in international financial markets, in particular in those of emerging economies, with less solid macroeconomic fundamentals.

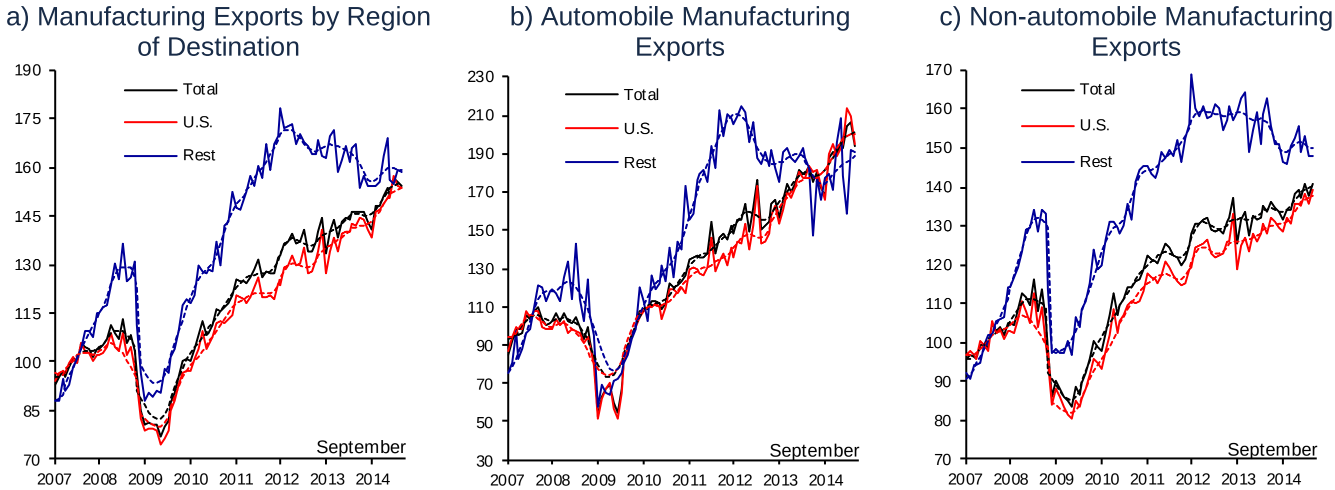
3.2. Development of the Mexican Economy

3.2.1. Economic Activity

According to the latest information, the reactivation of productive activity of the country which was observed in the second quarter of 2014 persisted in the third one, albeit at a more moderate rate. This performance mainly derived from the dynamism of external demand and a weak improvement in domestic demand.

In the third quarter of 2014, manufacturing exports continued to show the increase in dynamism that had begun in the first quarter. This performance was principally the reflection of the impulse of exports to the U.S., while the exports to the rest of the world stagnated (Chart 104a). Meanwhile, the rebound in manufacturing exports to the U.S. reflected increments of both the automobile sector exports and the rest of manufacturing (Chart 104b and Chart 104c).

Chart 104
Indicators of Manufacturing Exports
Index 2007=100, s. a.



s. a. / Seasonally adjusted and trend data. The former is represented by a solid line, the latter by a dotted line.
Source: Banco de México.

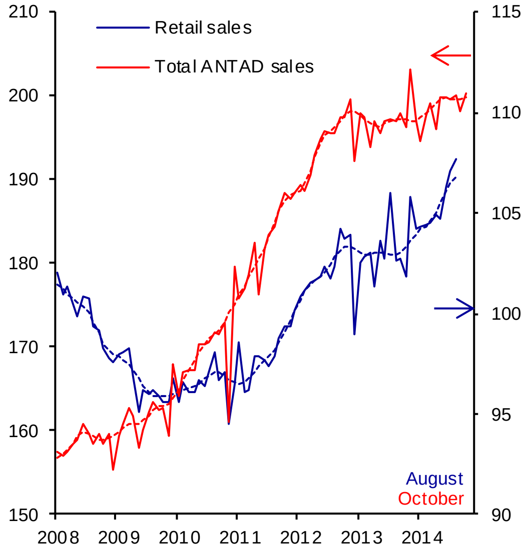
Some indicators of private consumption and gross fixed investment suggest that in the third quarter of 2014 these components of domestic spending continued reactivating, although at a relatively weaker pace as compared to the previous quarter.

i. As for private consumption, despite two consecutive quarterly seasonally adjusted increments in ANTAD sales, in the third quarter of 2014 this expansion was more moderate. On the other hand, in the period of July-August the revenues of commercial retail establishments obtained from marketing activities and services' provision showed a certain reactivation (Chart 105a).[25] Likewise, by the end of the second quarter and the beginning of the third one, monthly private domestic consumption registered a recovery trend (Chart 105b).

[25] Based on data from August 2014, INEGI released the results of the Monthly Survey of Commercial Firms, substituting those from the Monthly Survey of Commercial Establishments. Based on this new survey, INEGI reports the indices of revenues from the supply of goods and services of commercial retail and wholesale firms, instead of the indices of revenues from sales of goods in commercial retail and wholesale establishments that were obtained in the previous survey.

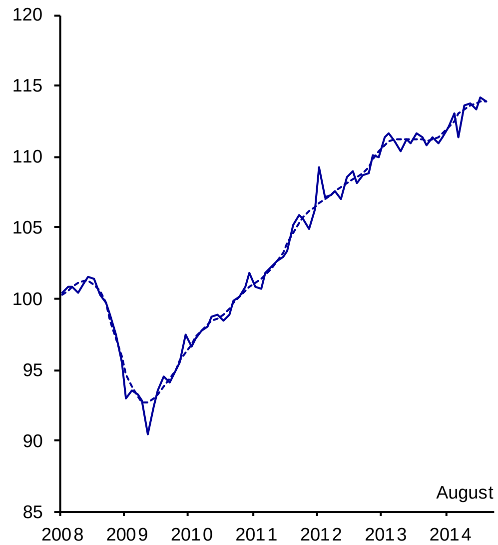
Chart 105
Consumption Indicators

a) Revenues of Commercial Retail Establishments and Total ANTAD Sales to Stores 1/
Indices 2003 and 2008=100, s. a.



s. a. / Seasonally adjusted and trend data. The former is represented by a solid line, the latter by a dotted line.
1/ Revenues from the retail supply of goods and services has 2008=100 Base and Total ANTAD Sales have 2003=100 Base.
Source: Prepared by Banco de México with ANTAD data and the Monthly Survey of Commercial Establishments, INEGI.

b) Monthly Indicator of Private Consumption in the Internal Market
Index 2008=100, s. a.



s. a. / Seasonally adjusted and trend data. The former is represented by a solid line, the latter by a dotted line.
Source: INEGI.

ii. Despite the abovesaid, some determinants of consumption remain somewhat weak. In particular, although in the third quarter workers' remittances improved as compared to the second one (Chart 106a), the wage bill of all workers is still affected by the low levels of the real average income of the employed population. Likewise, the consumer confidence index is still below the levels reached in early 2013 (Chart 106b). As indicated further below in this Report, consumer credit continued decelerating (see Section 3.2.2).

iii. In the first two months of the third quarter of 2014, gross fixed investment kept increasing (Chart 107a). This has resulted from the dynamism of investment in the national machinery and equipment, as well as a higher level of imports of capital goods (Chart 107b). Likewise, the recovery of private investment in housing has persisted, while the rest of private construction maintains an upward trend (Chart 107c) (see Box 4).

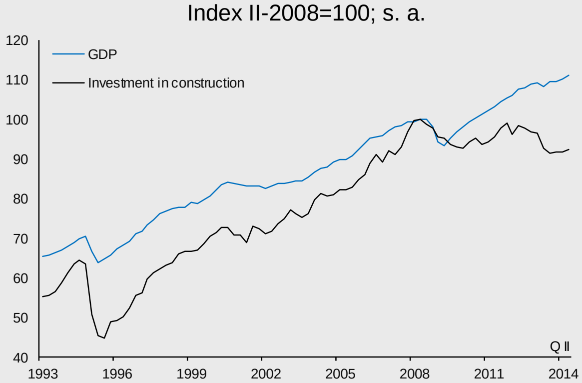
Box 4
Investment in the Construction Sector and Economic Activity in Mexico

1. Introduction

The construction sector in Mexico has registered a weak performance in recent years. Even in the environment of the general economic slowdown observed since mid-2012, the construction sector has presented a relatively unfavorable evolution for idiosyncratic reasons (Chart 1). However, certain reactivation has been observed in 2014 so far, reflecting the fact that some of the shocks that had affected the sector began to revert.

This Box briefly describes the major setbacks experienced by private construction, especially housing construction, and the recent signs of reactivation. Moreover, it states that public construction has also slowed down since 2012. Additionally, although public investment, as reported by the Ministry of Finance (SHCP), reactivated, public expenditure may not have affected the productive activity yet. Finally, more timely indicators point to a certain recovery of investment in construction and a strengthening is anticipated in the following quarters as a result of the National Infrastructure Plan and the recent approval of structural reforms.

Chart 1
Investment in Construction and GDP
Index II-2008=100; s. a.

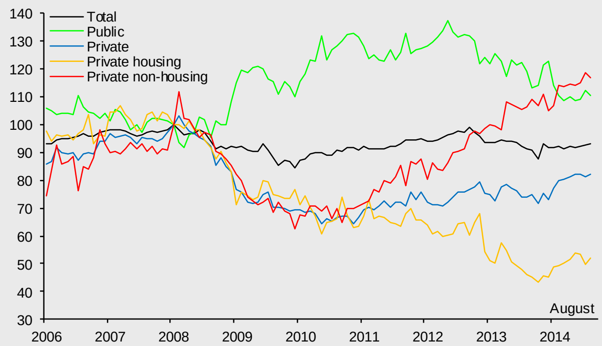


s. a. / Seasonally adjusted data.
Source: INEGI. For the case of investment in construction, the seasonal adjustment was prepared by Banco de México.

2. Investment in Private Sector Construction

The private construction sector has had a differentiated behavior as compared to the two subsectors it is composed of: the residential and the non-residential construction (Chart 2). Investment in residential construction did not recover after the international financial crisis, even though the rest of the economy had already been showing signs of recovery. In fact, it did not recover until early 2014 and it has been far from the high levels achieved in 2008. In that regard, it should be pointed out that the sector of private housing has faced significant setbacks, even since the world economic crisis. Although these setbacks are complex, in sum it should be noted that real estate development companies seem to have built more housings than required to meet demand. It is possible that prior to the crisis the sector operated under lax financial standards, in an environment of ample availability of resources and high demand, which could have induced excessive and unsustainable growth. The crisis hampered the resources' inflow to this sector and made the structural problems evident. Thus, once the Mexican economy entered the recovery phase after the crisis, the housing production did not recover and even the main real estate development companies went bankrupt.

Chart 2
Real Value of Production in Construction by the Hiring Institutional Sector
Index January 2008=100, s. a.



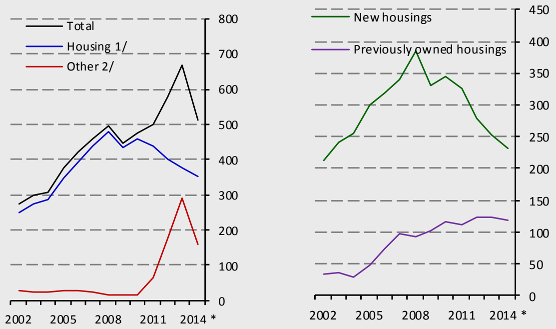
s. a. / Seasonally adjusted data. For the case of public and private construction, the seasonal adjustment was prepared by Banco de México with data from INEGI.
Source: INEGI, National Survey of Construction Companies (ENEC).

This was exacerbated by some events that affected the performance of the housing market, such as the shift in demand from new housings in favor of used housings.

The reactivation of Infonavit housing credits in 2012, which is an indicator of total demand for housing, was due to the increment of those granted for used housings (Chart 3). This could have hindered the recovery of the residential construction sector, despite the fact that total demand for housing slightly recovered in congruence with the economic cycle. This may have reflected that previously owned housings have better characteristics in terms of location and size. Besides, access to credit destined for used housings' purchase may have been facilitated. On the other hand, a series of supply shocks related to increments in construction commodity prices, particularly in 2011 and 2012 (Chart 4), seem to have interfered with a greater downward adjustment in the prices of new housings and have made them more attractive.

Chart 3
Credits Granted by the National Housing Fund (Infonavit)

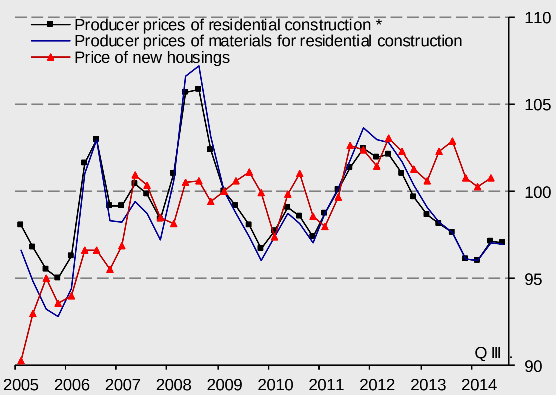
Total Credits — Thousands of credits | **Credits for Housing** — Thousands of credits



1/ Includes new and previously owned housings.
2/ From 2011, credits granted by the program "Renew your Home" are included. This program grants credit to improve the housing one resides in (painting, waterproofing, changing the kitchen or bathroom furniture, etc.).
*/ Annual figures as of September 2014.
Source: Housing Policy and Information Directorate, Mexico's National Housing Commission, CONAVI.

More recently, the new administration announced it would publish the rules regarding the required characteristics of housings for the possible buyers to be eligible to receive subsidies. Nonetheless, the release of these rules was not immediate, which may have forced construction firms to cease their activities. It is possible that the release of the National Housing Plan in February 2013 and of the rules to grant subsidies in July of the same year contributed to the recently observed reactivation by resolving uncertainty regarding the rules governing the sector.

Chart 4
Housing Prices and Production Costs
Index I-2009=100

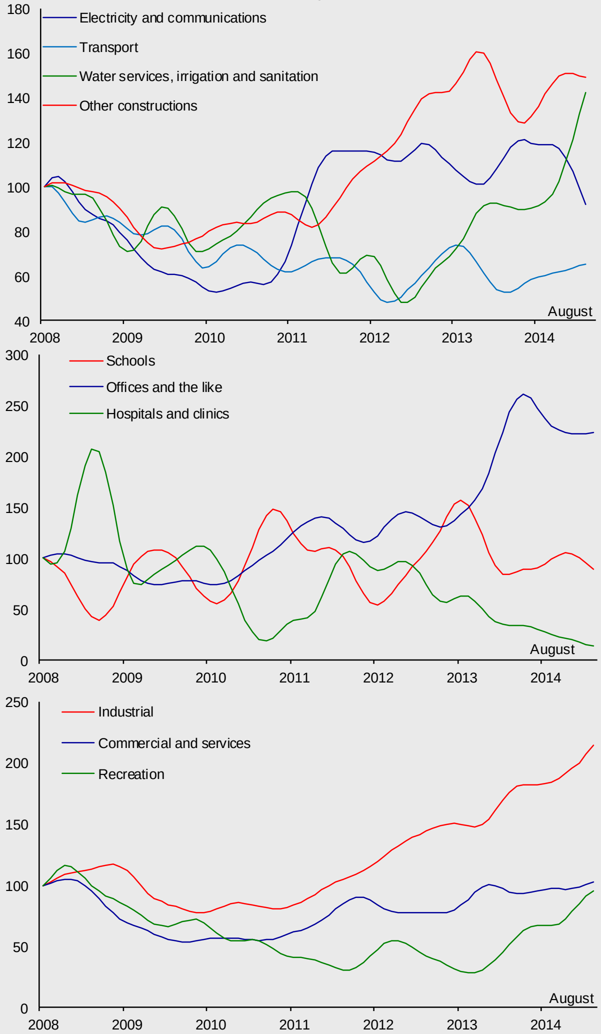


Source: SHF and INEGI.
*/ The Index of Producer Price for Residential Production, besides the subindex of building materials' prices, also includes the corresponding subindices of the machinery and equipment rental prices, as well as the prices of labor, whose levels have not increased significantly. The indices are reported in relative terms with respect to consumer prices.

In contrast with the abovesaid, non-residential private construction performed more in congruence with the economic cycle. Despite a strong deterioration between the early 2008 and mid-2010, the recovery registered by the end of that year led to higher than pre-crisis levels by mid-2013 and in 2014 so far.

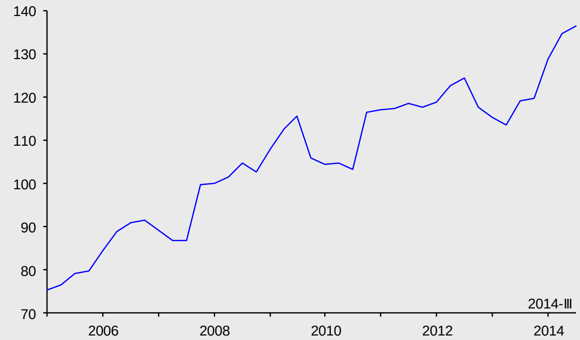
The reactivation of non-residential private construction over the last four years has been relatively widespread inside its different segments. This seems to be consequent on the greater dynamism of aggregate demand observed over these years (Chart 5). Indeed, based on the data from the National Survey of Construction Companies by INEGI, there has been a considerable reactivation of private construction works in industrial plants, commercial and services buildings, office buildings and works in the electricity and communications sectors, and irrigation and sanitation sectors. Moreover, construction of buildings destined for recreation and entertainment has also slightly recovered. The only exceptions to this renewed dynamism seem to be transport works and construction of schools and hospitals, where there is still no notorious reactivation. It should be stressed, however, that these items represent a more reduced share of private construction as compared to most previously mentioned types of work.

Chart 5
Non-residential Private Construction
Indices January 2008 =100*



* Trend series.
Source: Prepared by Banco de México with data from INEGI, ENEC.

Chart 6
Investment Encouraged by Public Sector SHCP
Index I-2008 = 100 in constant Mexican pesos*



Source: Prepared by Banco de México with data from SHCP and INEGI.
*/ Quarterly flows of encouraged investment as reported by the Ministry of Finance (SHCP) in constant Mexican pesos were deflated with the CPI of INEGI. Figures are reported considering the moving averages of the four quarters.

3. Investment in Public Sector Construction

Using the data from the National Survey of Construction Companies, Chart 2 shows that public construction was at high levels in 2010 and has stagnated since then. Additionally, according to these findings, the trend has been negative since 2012 but seems to have stopped declining in recent months.

It should be noted that public investment has recovered in recent months, according to the data reported by the Ministry of Finance (SHCP, Chart 6). However, this recovery has not been reflected in the National Accounts yet. Indeed, given the calculation methodology employed by the Ministry of Finance, National Accounts do not necessarily reflect the real activity generated by the public sector.

In this regard, the main differences between the calculation of encouraged investment as reported by the SHCP and that of investment in construction from the National Accounts published by INEGI should be detailed.

a) As established by the Federal Income Law 2010 to 2015, expenditure on projects of Pemex infrastructure is considered as investment in construction. This information is not to be incorporated by INEGI as such, but rather as an intermediate consumption of production.[1,2]

b) The Ministry of Finance' source includes expenditures on the analysis of preinvestment in construction, while according to the Mexico's System of National Accounts it excludes activities dedicated exclusively to rendering of professional services, such as technical assistance and drafting projects related to the studies of preinvestment.

c) Although both sources of information include the federal public sector (the federal government, Pemex, the Federal Electricity Commission (CFE), the Mexican Social Security Institute (IMSS) and the Institute for Social Security and

[1] The Federal Income Law, approved on October 30, establishes that: "maintenance and operating costs of comprehensive infrastructure projects of *Petroleos Mexicanos* (Pemex) […] will be registered as investment".

[2] As regards aggregate demand, Mexico's System of National Accounts would indirectly classify it as private or government consumption, or exports depending on the final consumer of the good produced by Pemex (crude oil, gasoline, etc.).

Workers (ISSSTE)), apart from that INEGI includes investment of state and municipal governments.[3]

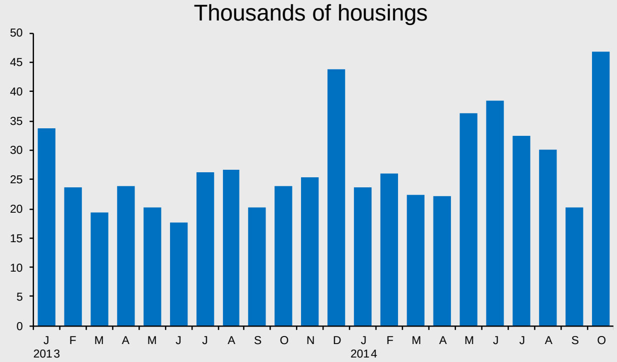
d) Public finance statistics of the Ministry of Finance (SHCP) are reported in cash flows, while public construction of INEGI is registered in accrued terms.

e) The Ministry of Finance uses public sector expenditure records as a source of information, while the National Accounts use surveys, in which the surveyed firms report their production value and the sector (private or public) they were hired by to carry out the project.

4. Recent Reactivation of the Construction Sector

As mentioned above and can be observed in Chart 2, the construction sector has registered certain reactivation in recent months. Indeed, the positive trend of the non-residential private construction was complemented by the rebound in the residential one, despite a negative trend still presented by public construction. Additionally, more timely data indicate that this recovery could continue over the next months. Indeed, since May 2014 the indicators of new housing registers and starts have increased as compared to those observed last year (Chart 7 and Chart 8). Likewise, besides the reactivated provision of subsidies, the ones related to new housings have increased proportionally greater than those of previously owned housings. This fact also points to a greater activity in the construction sector.

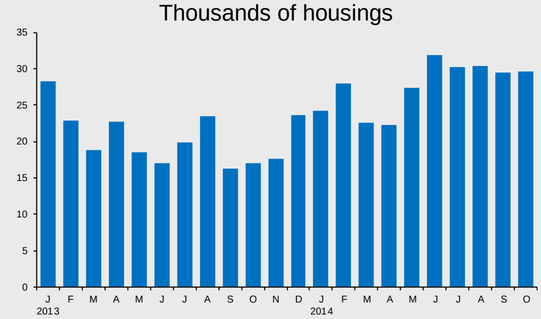
Chart 7
Register of Housings
Thousands of housings



Source: Mexico's National Housing Registry.

[3] The statistics of public finances of the federal public sector released by the Ministry of Finance (SHCP) consider the investment realized by states and municipalities principally funded by means of contributions and agreements of decentralization. Likewise, it excludes investment realized by these government levels funded with own resources (interests, local taxes and indebtedness), which would indeed be reflected in the National Accounts.

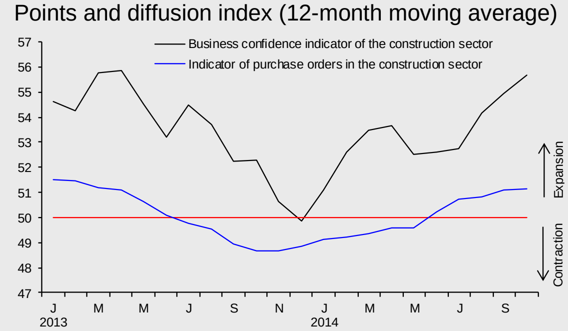
Chart 8
Housing Starts
Thousands of housings



Source: Mexico's National Housing Registry.

It should also be stressed that the construction business confidence indicator has lied above the expansion threshold since January 2014. In the same line, purchase orders in the construction sector, following a contraction for various months, have recently presented a sign of recovery (Chart 9). Furthermore, a survey among business directors of the construction sector carried out by Banco de México indicates that most of them (59 percent) anticipate a greater dynamism of the sector's activity in the second half of 2014.

Chart 9
Indicators of Business Opinion in the Construction Sector: Indicator of Business Confidence and of Purchase Orders
Points and diffusion index (12-month moving average)



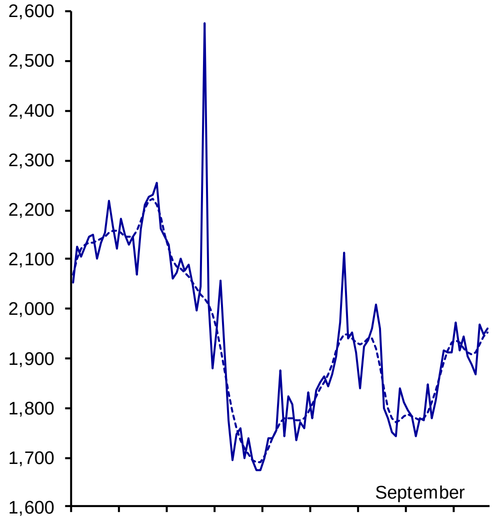
Source: Prepared by Banco de México with data from the Monthly Survey of Business Opinion (EMOE) realized by INEGI, as well as the Regional Monthly Survey of Economic Activity in Non-manufacturing Sectors carried out by Banco de México.

5. Outlook and Conclusions

The fact that the National Infrastructure Plan 2014-2018 considers various works of great magnitude also implies an encouraging picture for the sector of investment in construction. In particular, the expected construction of a new Mexico City airport stands out. Moreover, the energy reform approval also points to greater private sector investment in the oil sector, the natural gas sector and the electricity sector. Nonetheless, it should be noted that in order to achieve the expected investment in new projects, it is necessary to maintain a macroeconomic environment that favors economic growth and to strengthen the institutional framework.

Chart 106
Consumption Determinants

a) Workers' Remittances
USD million, s. a.



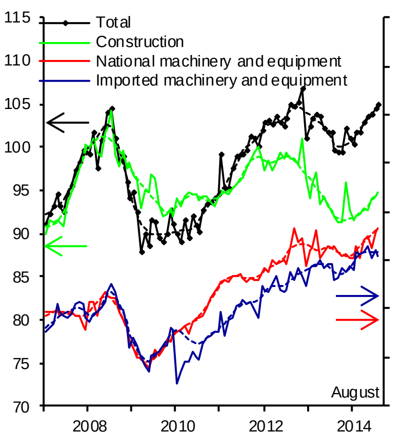
s. a. / Seasonally adjusted and trend data. The former is represented by a solid line, the latter by a dotted line.
Source: Banco de México.

b) Consumer Confidence Index
Index Jan 2003=100, s. a.

s. a. / Seasonally adjusted and trend data. The former is represented by a solid line, the latter by a dotted line.
Source: National Consumer Confidence Survey (ENCO), INEGI and Banco de México.

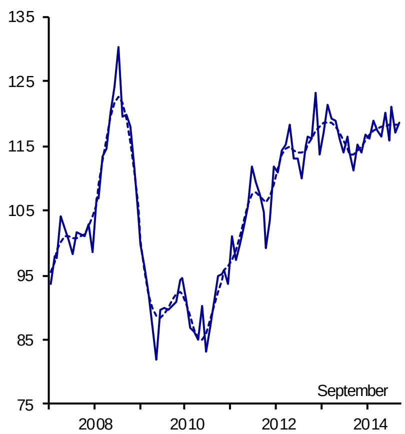
Chart 107
Investment Indicators

a) Investment and its Components
Index 2008=100, s. a.



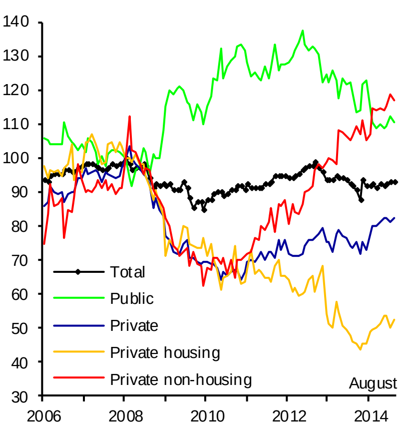
s. a. / Seasonally adjusted and trend data. The former is represented by a solid line, the latter by a dotted line.
Source: Mexico's System of National Accounts, INEGI.

b) Imports of Capital Goods
Index 2007=100, s. a.



s. a. / Seasonally adjusted and trend data. The former is represented by a solid line, the latter by a dotted line.
Source: Banco de México.

c) V Real Value of Production in the Construction Sector by Contracting Institutional Sector
Index Jan 2008=100, s. a.



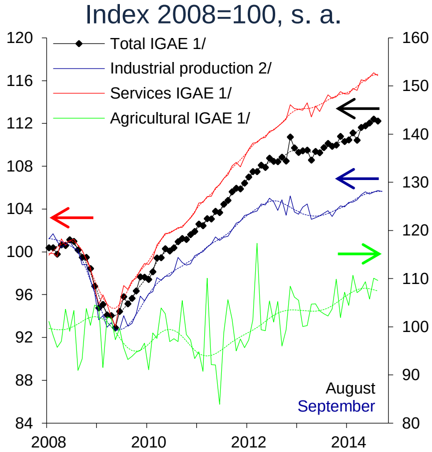
s. a. / Seasonally adjusted figures. For public and private construction (housing and total private non-housing), the seasonal adjustment was prepared by Banco de México with data from INEGI.
Source: INEGI.

As a result of the impulse of external demand, as well as the recovery of domestic demand, in the third quarter of 2014 productive activity continued expanding, although at a more moderate rate (Chart 20a). In particular:

- In the third quarter of 2014, industrial production maintained a positive trend that had started in early 2014, although at a slower pace as compared to the second quarter. This trend mainly reflected the performance of the manufacturing industry, the rebound in the construction sector and an improvement in the electricity sector. On the other hand, the mining industry kept observing a negative trend (Chart 108b).
- Despite a decrease in the services sector in August 2014, a positive trend is expected to prevail in the third quarter. This trend derived from an increment in the external demand-related trade services and a weak rebound in the services related to domestic demand, such as government activities, domestic trade, and recreation and other services (Chart 108c).
- In the first two months of the third quarter of 2014, primary sector activities registered a positive performance, which was largely a reflection of a favorable climate for sowing and harvesting of the autumn-winter cycle, particularly of sorghum. Likewise, the volumes of production of perennial crops generally increased.

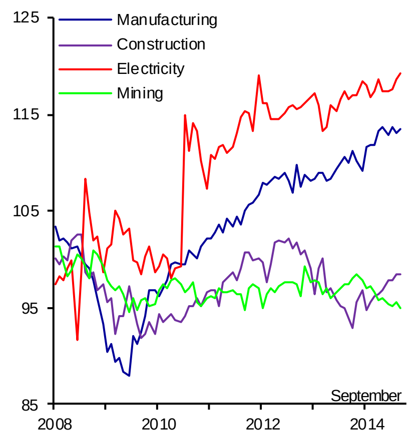
Chart 108
Indicators of Production

a) Economic Activity Indicators
Index 2008=100, s. a.



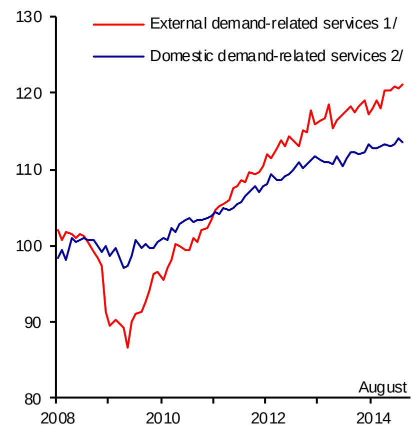
s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line, the latter with a dotted line.
1/ Data as of August of 2014.
2/ Data as of September of 2014 with information of the Indicator of Industrial Activity.
Source: Mexico's System of National Accounts, INEGI.

b) Industrial Activity
Index 2008=100, s. a.



s. a. / Seasonally adjusted data.
Source: Indicators of Industrial Activity, Mexico's System of National Accounts, INEGI.

c) IGAE of the Services Sector
Index 2008=100, s. a.



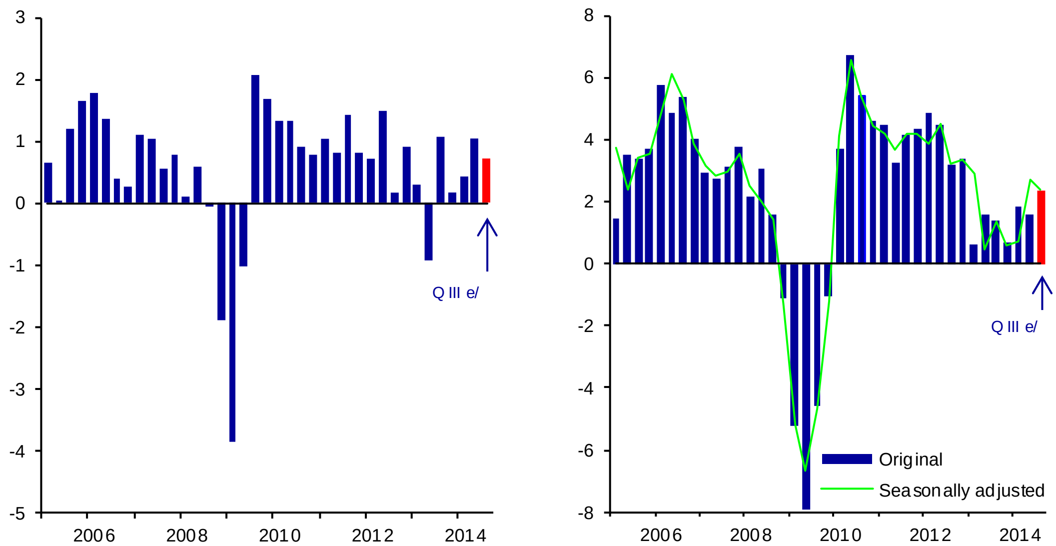
s. a. / Seasonally adjusted data.
1/ It includes commerce, transport, mail and warehousing, and mass media services.
2/ It includes the remaining sectors of tertiary activities.
Source: Prepared by Banco de México with data from Mexico's System of National Accounts, INEGI.

As a result of the abovesaid, for the third quarter of 2014 Mexico's GDP is expected to increase at a quarterly seasonally adjusted rate of around 0.6 percent, as compared to increments of 0.17, 0.44 and 1.04 percent in the previous three quarters, in chronological order (Chart 109a). In annual seasonally adjusted terms, GDP growth is estimated to be around 2.2 percent for the third quarter of this year, compared to 0.6, 0.7 and 2.7 percent in the previous three quarters. Based on data without seasonal adjustment, the annual change of GDP is estimated at 2.2 percent in the third quarter, figure that is compared to 0.7, 1.9 and 1.6 percent in the previous three quarters (Chart 109b).

Chart 109
Gross Domestic Product

a) Quarterly Change
Percent, s. a.

b) Annual Change
Percent



s. a. / Seasonally adjusted data.
e/ Estimated by Banco de México.
Source: Mexico's System of National Accounts, INEGI. Seasonal adjustment of the third quarter of 2014 realized by Banco de México.

Despite the gradual recovery of economic activity, the most recent data suggest that in the third quarter of 2014 slack conditions persisted in the labor market, even though these seem to be decreasing. In particular:

i. The number of IMSS-insured workers presented a growing trend, even more dynamic as compared to that of total employment of the economy (Chart 110a).

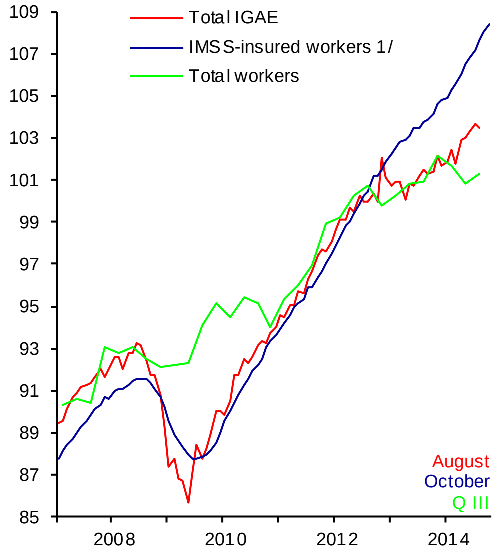
ii. As a consequence, a recomposition of employment in favor of the formal sector has been observed, which has resulted in a negative trend in informality rates since mid-2012 (Chart 110b).

iii. In turn, national and urban unemployment rates still report high levels and even levels higher than those registered in late 2013, despite a decrease in August and September 2014. It should be mentioned that, in part, the persistence of high unemployment rates in Mexico could be affected by the fact that, given the conditions prevailing in the U.S. and in its labor market, the migration of Mexicans to the referred country has reduced, which, in turn, raised labor supply in the Mexican labor market (Chart 110c).

iv. As a reflection of the above, a negative trend in average real wages of employed population is still observed. As a result, the wage bill showed a downward trend, and it suggests that so far no labor cost-related pressures on inflation have been observed (Chart 110d).

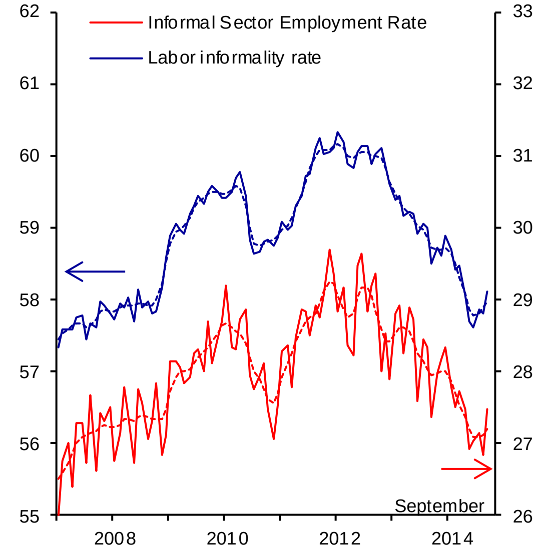
Chart 110
Labor Market Indicators

a) Total IGAE, IMSS-insured Workers and Employed Workers
Index 2012=100, s. a.



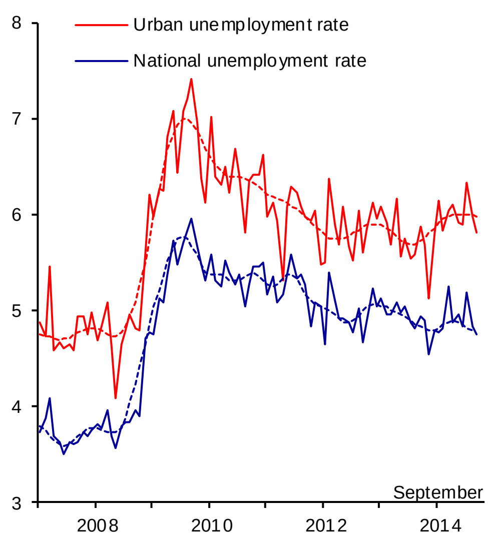
s. a. / Seasonally adjusted data.
1/ Permanent and temporary workers in urban areas. Seasonal adjustment by Banco de México.
Source: Prepared by Banco de México with data from IMSS and INEGI (SCNM and ENOE).

b) Labor Informality Rate
Percent, s. a.



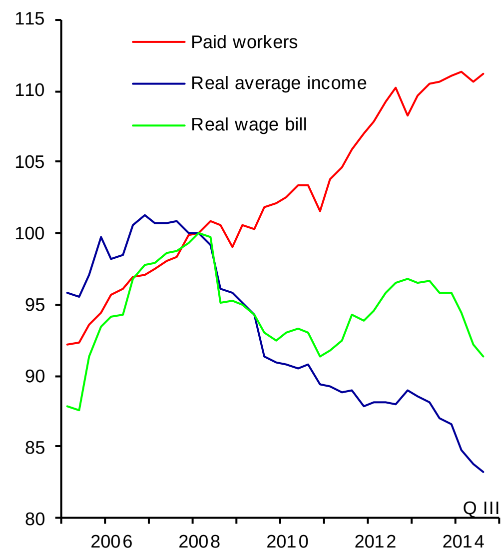
s. a. / Seasonally adjusted and trend data. The former is represented by a solid line; the latter by a dotted line.
Source: Prepared and seasonally adjusted by Banco de México with information from the National Employment Survey (ENOE), INEGI.

c) National and Urban Unemployment Rates
Percent, s. a.



s. a. / Seasonally adjusted and trend data. The former is represented by a solid line; the latter by a dotted line.
Source: The National Employment Survey (ENOE), INEGI.

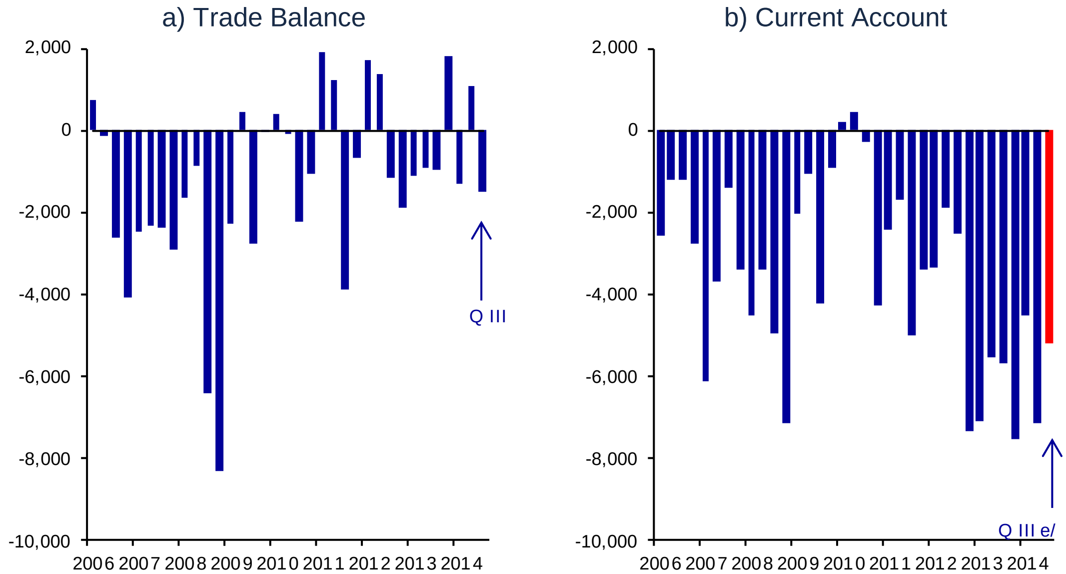
d) Real Total Wage Bill
Index I-2008=100, s. a.



s. a. / Seasonally adjusted data.
Source: Prepared by Banco de México with information from the National Employment Survey (ENOE), INEGI.

Finally, in the third quarter of 2014, the trade balance registered a deficit of USD 1,513 million (Chart 111a). In turn, available data suggest that in the same period the current account observed a moderate deficit and that the country continued receiving capital inflows via the financial account sufficient to allow an easy financing of this deficit (Chart 111b).

Chart 111
Trade Balance and Current Account
USD million



Source: Banco de México.

e/ Estimated by Banco de México.
Source: Banco de México.

3.2.2. Financial Saving and Financing in Mexico

In the third quarter of 2014, the sources of financial resources of the economy moderated their growth rate with respect to the previous quarter. On the one hand, it derived from a lower dynamism of domestic sources –following the recovery in the first half of the year-, and, on the other hand, from a lower growth of external sources, given higher volatility in international financial markets.

With respect to domestic sources, the stock of domestic financial saving –defined as the monetary aggregate M4 held by residents minus the stock of currency held by the public- registered a lower growth rate as compared the previous quarter, which was a result of lower growth rates of both the voluntary and the compulsory savings component (Chart 112). This partly resulted from a lower valuation of medium- and long-term instruments comprising this retirement funds' portfolio, as a consequence of the increment of these instruments' interest rates during the quarter prior to the environment of volatility in international financial markets. In turn, in the reference quarter the monetary base kept expanding with a similar dynamism to that in the previous quarter, in an environment of recovering economic activity and low interest rates.[26]

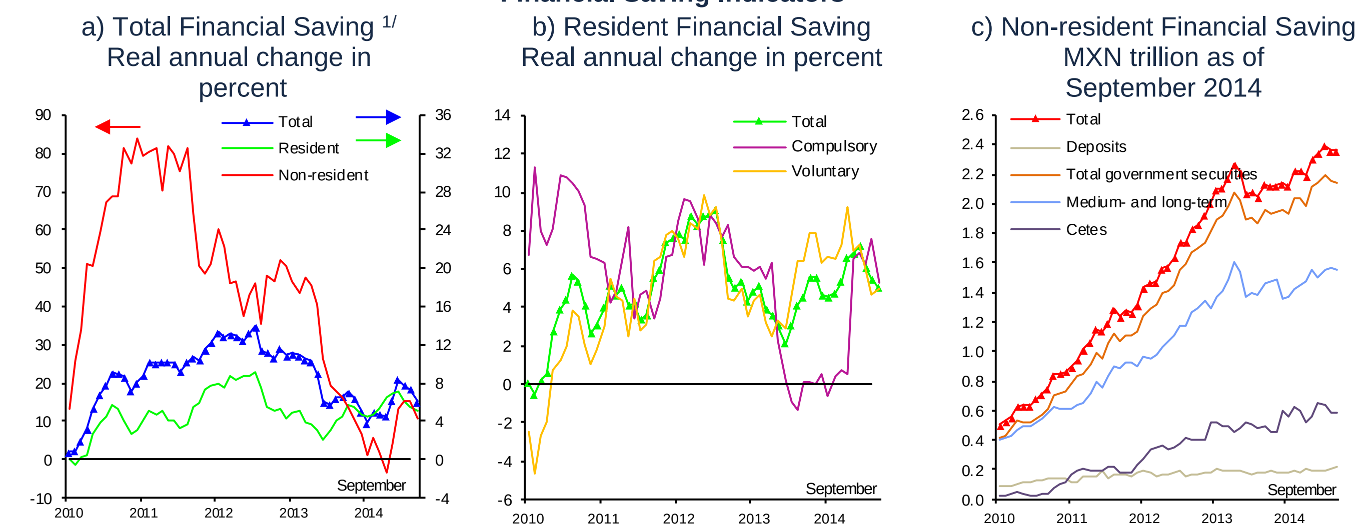
As regards external sources of financial resources, their growth rate also moderated as compared to the last quarter. On the one hand, the stock of non-resident financial saving remained practically unchanged with respect to late June (Chart 112). It should be noted that assets held by this sector were rearranged, when short-term government securities' holdings (Cetes) reduced, while medium- and long-term

[26] The monetary base is defined as the sum of currency in circulation plus bank deposits in Banco de México.

ones increased. The increment in longer-term instruments' holdings took place even though the referred instruments were affected by the valuation as a result of the said increase in interest rates. On the other hand, the moderation in the growth rate of external sources was also contributed to by a lower inflow of foreign sources of financing channeled to non-financial private firms.

As regards the use of financial resources in the economy, financing to the non-financial private sector moderated its growth rate as compared to the previous quarter. In the third quarter of 2014, financing to non-financial private firms observed a lower growth rate with respect to the period of April-June 2014. This moderation was largely due to a decrease in the growth rate of foreign financing principally associated to the base effect, due to an unusually high amount of placements of external debt in the third quarter of 2013. Domestic financing to the business sector presented lower dynamism in the reference quarter, particularly derived from lower commercial banks' credit flows (Chart 113).

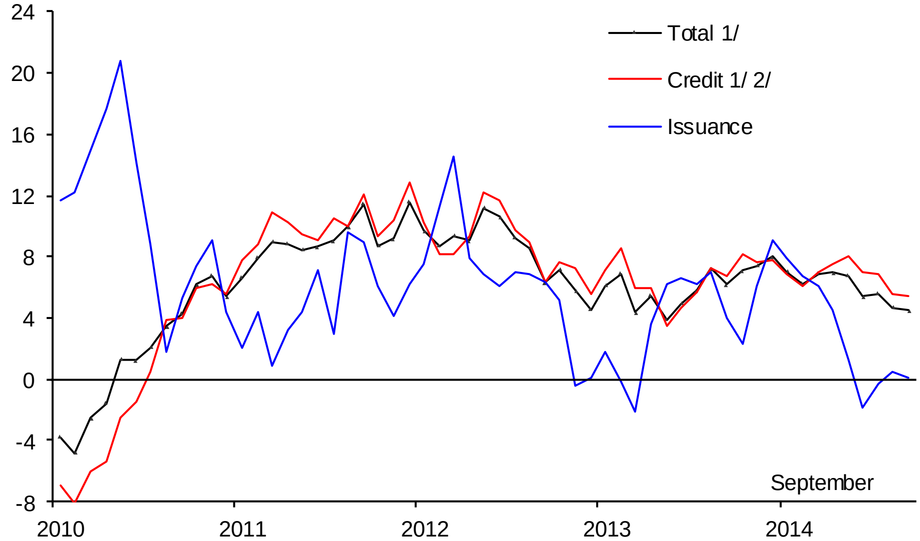
Chart 112
Financial Saving Indicators



1/ Defined as the monetary aggregate M4 minus the stock of currency held by the public.
Source: Banco de México.

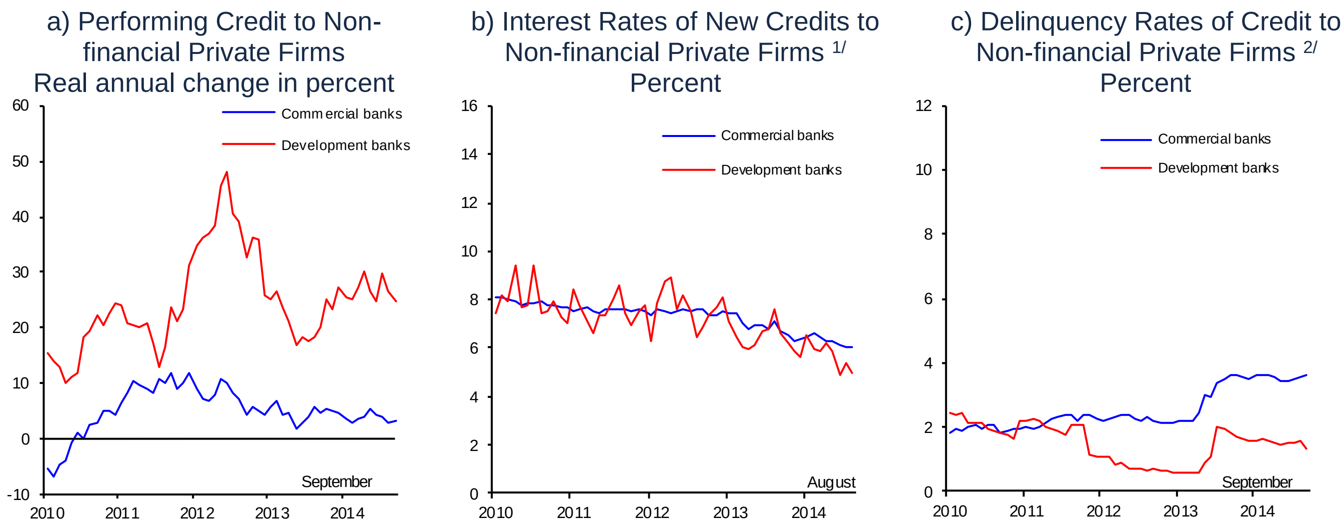
Taking a closer look at the above, commercial banks' credit to firms had a real annual growth rate of 3.3 percent in the third quarter of 2014, figure lower than 4.4 percent of the second quarter of 2014. This derived from a lower dynamism of the growth rate of credit to large firms, while the credit portfolio to small and medium firms kept growing at relatively high rates. Direct credit of development banks kept expanding at rates similar to those observed in the period of April-June 2014 (Chart 114a). In this environment, interest rates and delinquency rates of banks' credit to firms still did not modify significantly in the reported period (Chart 114b and Chart 114c).

Chart 113
Domestic Financing to Non-financial Private Firms
Real anual change in percent



1/ These figures are affected by the disappearance of some non-banking financial intermediaries and their conversion to non-regulated Sofom.
2/ It refers to the performing and non-performing portfolio, and includes credit from commercial and development banks, as well as nonbank financial intermediaries.
Source: Banco de México.

Chart 114
Bank Credit to Non-financial Private Firms



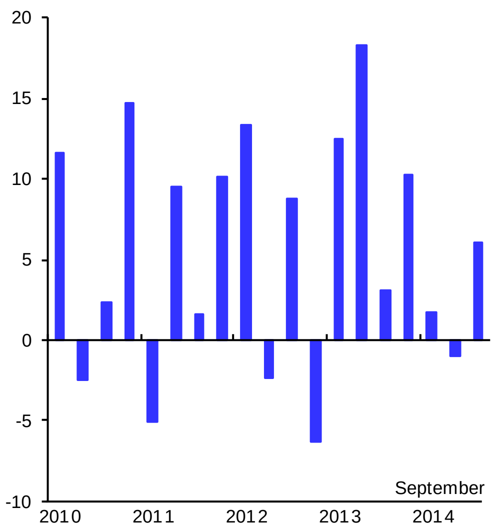
1/ It refers to the interest rates of new bank credits to non-financial private firms, weighted by the associated stock of the performing credit and for all credit terms requested.
2/ The delinquency rate is defined as the stock of non-performing loans divided by the stock of total loans.
Source: Banco de México.

In the domestic debt market, the net placement of medium- and long-term securities by non-financial private firms in the third quarter of 2014 was greater as compared to the previous one (Chart 115a). In particular, the total amount issued in the domestic market, excluding amortizations was MXN 6.0 billion in July-September 2014 (which resulted from gross placements of MXN 18.9 billion and gross amortizations of MXN 12.9 billion), which was higher as compared to the net placement of MXN -1.0 billion in the previous quarter. In this context, a trend of lower interest rates of private domestic debt persisted, both for medium- and short-term placements (Chart 115b).

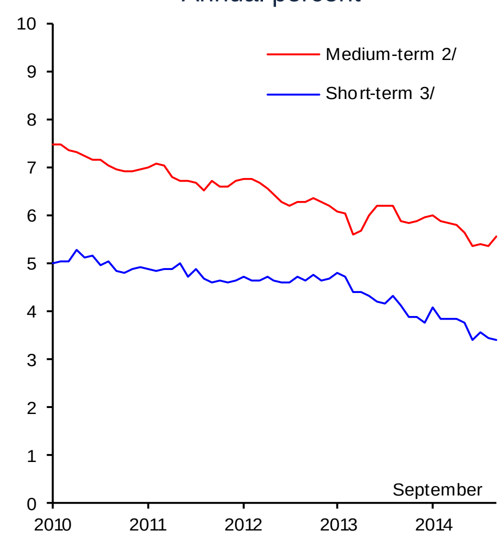
Segments comprising credit to households registered a mixed performance in the third quarter of 2014. On the one hand, the mortgage loan portfolio of commercial banks and sofomes expanded at an average real annual rate of 5.6 percent, maintaining a similar dynamism to that observed over the previous quarters (Chart 116a). This occurred in an environment, in which interest rates and delinquency rates did not present any substantial changes (Chart 116b). Still, the performing portfolio of the National Housing Fund kept expanding at relatively low rates (Chart 116a). As regards the quality of the National Housing Fund's portfolio, following a deterioration in the previous quarters, the delinquency rate remained relatively stable in the third quarter of the year (Chart 116b).

Chart 115
Securities of Non-financial Private Firms in the Domestic Market

a) Net Placement of Medium-term Securities Issued by Non-financial Private Firms 1/
MXN billion

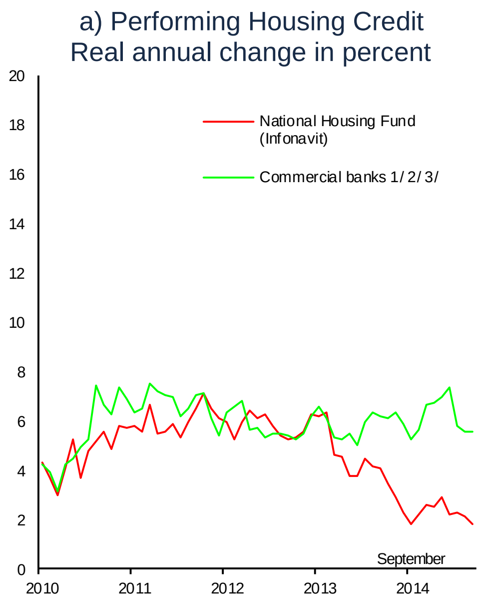


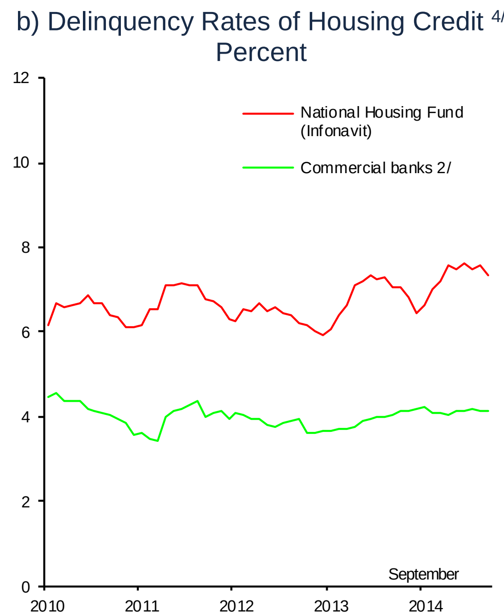
b) Interest Rates of Securities Issued by Non-financial Private Firms
Annual percent



1/ Placements excluding amortizations in each month (securities and prepayments).
2/ Placements of more than one year.
3/ Placements of up to one year.
Source: Banco de México, with data from Valmer and Indeval.

Chart 116
Housing Credit





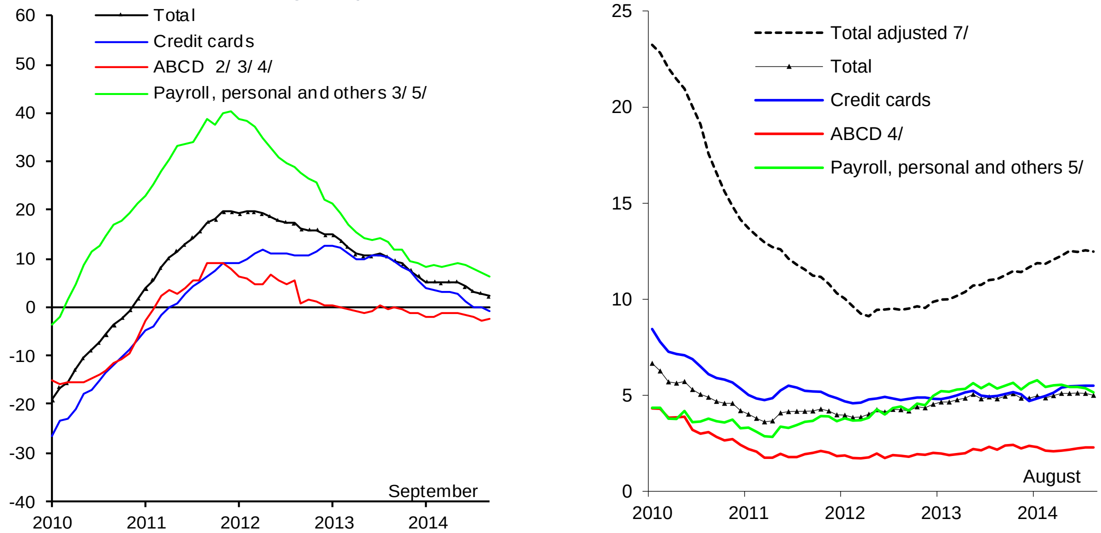
1/ Figures are adjusted in order to avoid distortions by the pass-through effect of UDIS trust portfolio to the balance sheet of commercial banks and by the reclassification of credit in direct portfolio to ADES.
2/ It includes sofomes of commercial banks.
3/ Figures are adjusted to avoid distortions due to the inclusion of some regulated sofomes to the bank credit statistics.
4/ The delinquency rate is defined as the stock of non-performing loans divided by the stock of total loans.
Source: Banco de México.

Consumer credit of commercial banks kept decelerating its growth rate during the third quarter of 2014 especially that granted through credit cards (Chart 117a). In particular, the performing consumer credit portfolio of commercial banks expanded in the period of July-September at an annual real rate of 2.8 percent, figure below 4.9 percent observed in the period of April-June 2014. In this context, the corresponding interest rates and delinquency rates did not present significant adjustments. As regards the latter, it stands out that the adjusted delinquency rate –which takes into account bad debt write-offs accumulated in the last twelve months– remained at levels similar to those observed in the second quarter of 2014, thus interrupting the upward trend registered in the previous quarters (Chart 117b). Although this dynamics of the delinquency rate is congruent with the reactivation of economic activity that started in the last quarter, it is important to remain alert so that the credit portfolio does not deteriorate further over the following quarters.

Chart 117
Commercial Bank Consumer Credit

a) Commercial Bank Performing Consumer Credit [1/]
Real annual change in percent

b) Delinquency Rate of Commercial Bank Consumer Credit [1/ 6/]
Percent



1/ It includes loans by credit card-regulated sofomes: Tarjetas Banamex, Santander Consumo, Banorte-Ixe Tarjetas and Sociedad Financiera Inbursa.
2/ Between June 2010 and May 2011, figures are adjusted in order to avoid distortions due to the purchase of one banking institution's automobile loan portfolio.
3/ From July 2011 onwards, figures are adjusted in order to avoid distortions due to the reclassification from durable goods (ABCD) to other consumer credits by one banking institution.
4/ It includes credit for property acquisition and automobile credit.
5/ "Other" refers to credit for payable leasing operations and other consumer credits.
6/ The delinquency rate is defined as the stock of non-performing loans divided by the stock of total loans.
7/ It is defined as a non-performing portfolio plus punishments accumulated over the last 12 months divided by total portfolio plus punishments accumulated over the last 12 months.
Source: Banco de México.

In sum, financing to the non-financial private sector presented an evolution congruent with the performance of economic activity. In the future, insofar as the expectation of greater growth of productive activity is realized, a gradual increment in demand for financial resources by the non-financial private sector is expected. Therefore, considering that the public sector financial requirements will remain high next year, a less favorable external environment could imply reduced availability of resources for the private sector. In particular:

i. Taking into account the observed evolution of sources of financial resources until the third quarter of 2014, for the end of 2014 they are expected to lie at 9.0 percent of GDP, figure slightly above 8.6 percent registered in 2013 (Table 6). This resulted from an increment in domestic sources of resources from 4.8 to 5.4 percentage points of GDP. External sources are estimated to decrease with respect to last year from 3.8 to 3.6 percent of GDP, as a result of lower capital flows to emerging economies. Regarding the use of financial resources, the flow of financing to the private sector is expected to locate at 2.9 percentage points of GDP, lower than 3.9 percent of GDP observed in 2013. In contrast, resources destined to the public sector –that include the Public Sector Financial Requirements (PSFR) and financing to states and municipalities– are estimated to go up from 3.4 to 4.5 percent of GDP.

ii. For 2015, lower funding sources are anticipated. This principally results from the contraction of expected availability of foreign funding resources –which would shift from 3.6 percent of GDP in 2014 to 2.3 percent in 2015- as a result of the expected monetary stimulus withdrawal in the U.S. (Table 6). Financing to the public sector, in line with the General Criteria of Economic Policy 2015, will reduce from 4.5 to 4.3 percentage points of GDP.[27] Thus, a decrease in the financial resources directed to the private sector from 2.9 to 2.5 percent of GDP would be expected.

iii. For 2016, a similar outlook to that of 2015 is anticipated, in terms of flows of domestic and external sources of financial resources (Table 6). As regards the use of resources, public sector financial requirements will decrease to 3.8 percent of GDP, in line with above referred General Criteria of Economic Policy 2015, thus generating greater availability of resources to finance private sector, which will increase to 3.1 percent of GDP.

The above exercise stresses the importance of continuing with the fiscal consolidation in the following years, given that it will allow channeling greater resources to the private sector, besides guaranteeing the sustainability of public debt.

Table 6
Total Funding of the Mexican Economy (Sources and Uses)
Percentage of GDP

	Annual flows							
	2009	2010	2011	2012	2013	2014 e/	2015 e/	2016 e/
Total sources	**4.0**	**9.3**	**10.0**	**10.0**	**8.6**	**9.0**	**7.9**	**7.9**
Domestic sources	3.4	4.1	5.7	4.4	4.8	5.4	5.6	5.6
Voluntary M4	1.7	2.6	4.2	3.0	4.1	4.0	4.2	4.2
Compulsory M4 1/	1.7	1.5	1.5	1.4	0.7	1.4	1.4	1.4
Foreign sources	0.6	5.2	4.3	5.6	3.8	3.6	2.3	2.3
Non-resident M4	0.5	2.9	3.0	4.5	1.3	1.4	0.5	0.6
Securities and foreign credit 2/	0.2	2.3	1.3	1.1	2.5	2.2	1.8	1.7
Total uses	**4.0**	**9.3**	**10.0**	**10.0**	**8.6**	**9.0**	**7.9**	**7.9**
International reserves 3/	0.5	2.2	2.4	1.8	1.0	1.4	1.1	1.1
Public sector financing	3.4	3.8	2.9	3.7	3.4	4.5	4.3	3.8
Public Sector Borrowing Requirements 4/	2.6	3.4	2.7	3.2	3.0	4.2	4.0	3.5
States and municipalities	0.8	0.4	0.3	0.5	0.4	0.3	0.3	0.3
Private sector financing	0.0	2.5	3.5	3.1	3.9	2.9	2.5	3.1
Foreign	-0.4	0.5	0.7	0.8	1.6	0.9	0.7	0.7
Domestic 5/	0.4	2.0	2.8	2.4	2.4	2.0	1.8	2.4
Other 6/	0.2	0.8	1.1	1.4	0.2	0.2	-0.1	-0.1

Note: Figures may not add up due to rounding. Figures expressed in percent of nominal annual average GDP. The information on (revalued) flows is stripped from the effect of exchange rate fluctuations.
e/ Estimated data. Expressed in percent of nominal annual average GDP estimated by Banco de México.
1/ Annual revalued flows exclude the effect of the reform to the ISSSTE Law from M4.
2/ It includes foreign financing for the federal government, public institutions and entities, and foreign financed investment projects (PIDIREGAS), commercial banks' foreign liabilities and financing to the non-financial private sector.
3/ As defined by Banco de México's Law.
4/ From 2008 to 2013, Public Sector Borrowing Requirements (*Requerimientos Financieros del Sector Público*, RFSP or PSBR, for its acronym in English) correspond to data reported by the Ministry of Finance (SHCP). From 2014 to 2016, the PSBR as a percentage of the GDP are obtained from the General Criteria of Economic Policy 2015. Figures of revalued flows exclude the impact of the reform to the ISSSTE Law on PSBR.
5/ Total portfolio of financial intermediaries, of the National Housing Fund (*Instituto del Fondo Nacional de la Vivienda para los Trabajadores*, Infonavit), and of the ISSSTE Housing Fund (*Fondo de la Vivienda del ISSSTE*, Fovissste), as well as the domestic debt issuance.
6/ It includes capital accounts and results and other assets and liabilities of commercial and development banks, Banco de México, non-bank financial intermediaries and INFONAVIT, as well as non-monetary liabilities from IPAB, among others.
Source: Banco de México.

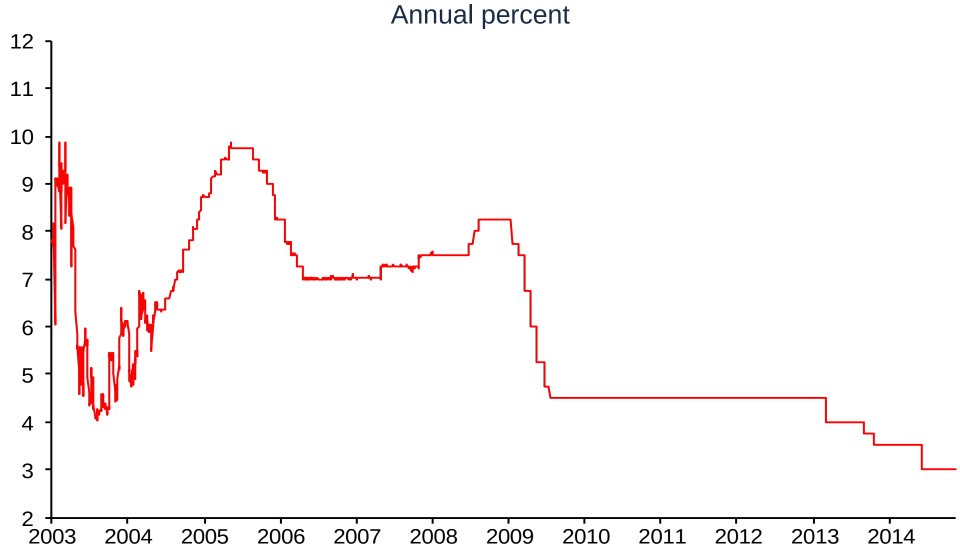
[27] In congruence with the public balance in the Federal Income Law for 2015, passed on October 30.

4. Monetary Policy and Inflation Determinants

The conduction of the monetary policy has been oriented to achieve the permanent inflation target. Structural progress in curbing inflation, among which the reduction of its level, volatility and persistence, the decrease in the pass-through of relative price adjustments and changes in the exchange rate onto consumer prices, the anchoring of inflation expectations and a lower inflation risk premia are noteworthy, has given the Central Institute a greater leeway to achieve the inflation target at a lower cost to society in terms of economic activity. With that in mind, in March 2013 Banco de México's Board of Governors reduced the reference interest rate by 50 basis points. Subsequently, given a favorable evolution of inflation and its expectations and slack conditions in the economy, the greater leeway mentioned above allowed this Central Institute to lower the reference interest rate on three additional occasions, thus accumulating another 100 basis points and, therefore, supporting the economic recovery without compromising the process of convergence to the 3 percent inflation target.

During the period covered by this Report, inflation expectations remained well-anchored, despite the fact that, as mentioned before, the increase in the price of some livestock products increased inflation above 4 percent. In this regard, considering the transitory nature of this shock on inflation, the expectation of economic agents of a considerable decrease of inflation in late 2014 and early 2015 and a high probability of inflation converging to 3 percent in mid-2015, at its last monetary policy meeting the Board of Governors of this Central Institute decided to maintain the target for the Overnight Interbank Interest Rate at 3 percent (Chart 118).

Chart 118
Overnight Interbank Interest Rate [1/]
Annual percent



1/ The target for the Overnight Interbank Interest Rate is shown since January 21, 2008.
Source: Banco de México.

Among the elements considered for the conduction of the monetary policy during this period, the following stand out:

a) That the fading of the effects of recent shocks in relative prices, the absence of fiscal measures that could impact the general level of prices in 2015, the elimination of long-distance national phone charges and the reduction in the annual change rate of gasoline prices in 2015, allow anticipating annual headline inflation to finish 2014 around 4 percent, to reduce considerably in early 2015 and to reach levels close to 3 percent from mid-2015 onwards. Likewise, derived from the abovementioned, core inflation is estimated to lie below 3 percent in 2015.

b) Inflation expectations implicit in medium- and long-term market instruments persisted around 3 percent, while survey-derived medium- and long-term inflation expectations remained stable at 3.5 percent. Additionally, even though those corresponding to the end of 2014 increased, lying close to 4 percent, the ones referring to the end of 2015 remained stable.

c) Although the output gap is expected to continue closing, no aggregate demand-related pressures on inflation are anticipated during the following quarters.

d) The expectation that Mexico's financial markets will continue operating in an orderly manner and the pass-through of exchange rate adjustments onto prices will be low, even if high volatility episodes persist in international financial markets, with their consequent effect on the Mexican peso exchange rate. It should be noted that Banco de México will remain alert to the uncertain international environment, in order to timely react to any event that, by means of its effects on domestic markets, could interfere with the convergence of inflation to its permanent 3 percent target.

Regarding the evolution of the degree of slack in the economy, these slack conditions are expected to continue reducing gradually over the next quarters, given the foreseen recovery of the dynamism of productive activity. Still, despite the degree of uncertainty related to the estimation of potential output, no increases of unit labor costs are expected in the referred period. In particular:

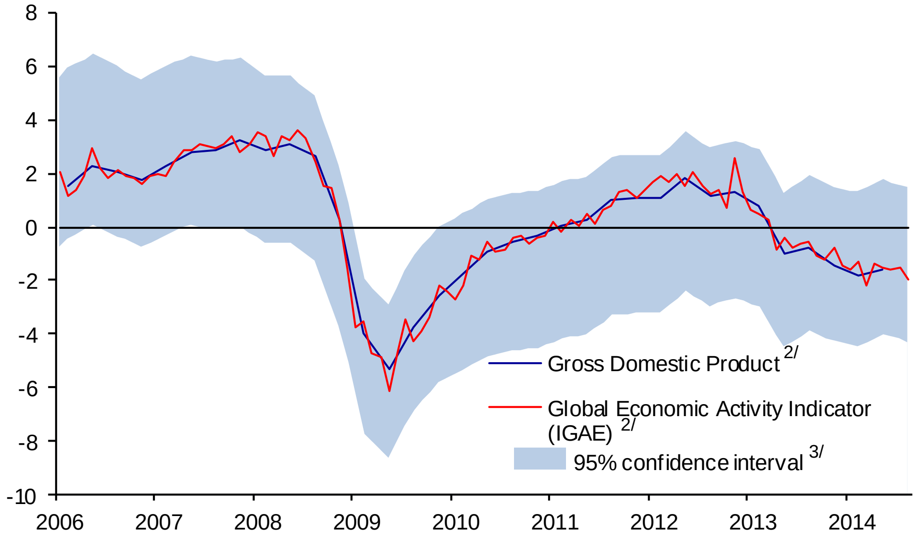
a) The output gap is estimated to remain negative, although it is expected to be closing over the next quarters (Chart 119).[28]

b) As mentioned above, slack conditions persist in the labor market (see Section 3.2.1).

c) Despite the recent increments in the annual growth rate of the IMSS reference wage, the drop in the real average income of Mexico's employed population, together with the increasing trend of labor productivity, led to a decrease in unit labor costs for the economy as a whole (Chart 120).

[28] Considering that this indicator's estimation is subject to a certain degree of uncertainty, it should be carefully interpreted, given that, from a statistical point of view, it does not register levels significantly different from zero.

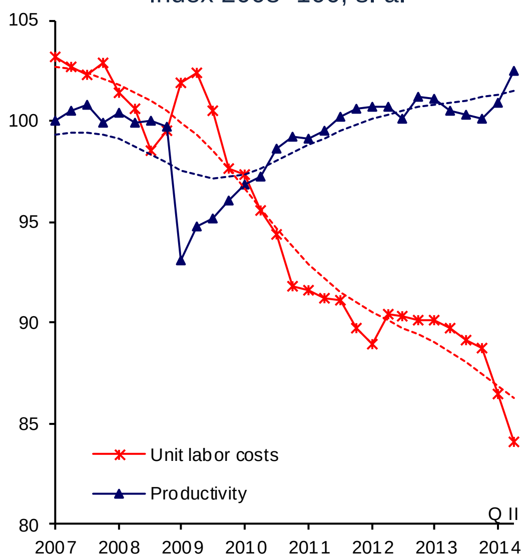
Chart 119
Output Gap Estimation [1/]
Percentage of potential output, s. a.



s. a. / Prepared with seasonally adjusted data.
1/ Estimated using the Hodrick-Prescott (HP) filter with tail correction: see Banco de México (2009) Inflation Report April-June 2009, p. 69.
2/ GDP figures as of the second quarter of 2014, IGAE figures as of August 2014.
3/ Confidence interval of the output gap calculated with an unobserved components' method.
Source: Prepared by Banco de México with data from INEGI.

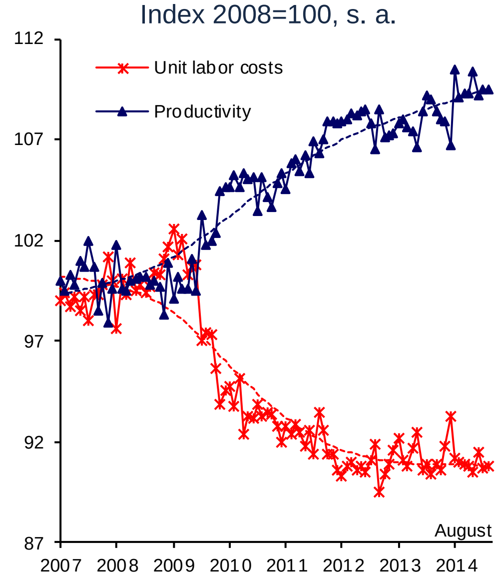
Chart 120
Productivity [1/] **and Unit Labor Cost**

a) In the Economy
Index 2008=100, s. a.



s. a. / Seasonally adjusted and trend data. The former is represented by a solid line; the latter by a dotted line. Trends estimated by Banco de México.
1/ Productivity based on the number of hours worked.
Source: Unit cost prepared by Banco de México based on data from INEGI. The Global Index of Labor Productivity in the Economy (IGPLE), as released by INEGI.

b) In the Manufacturing Sector
Index 2008=100, s. a.

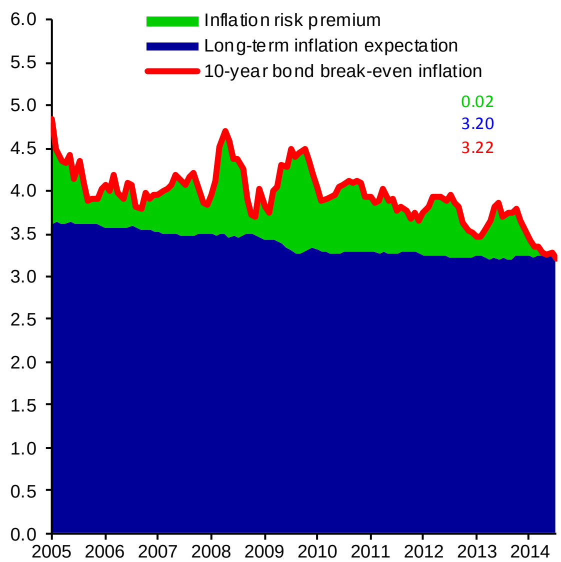


s. a. / Seasonally adjusted and trend data. The former is represented by a solid line; the latter by a dotted line.
1/ Productivity based on the number of hours worked.
Source: Prepared by Banco de México with seasonally adjusted data from the Monthly Manufacturing Business Survey and the monthly indicator of the Mexico's System of National Accounts, INEGI.

Notably, inflation expectations implicit in long-term market instruments persist at levels close to 3 percent.[29] Thus, this indicator of inflation expectations, estimated from 10-year market instruments, remained stable around 3.2 percent between June and October 2014, while the associated inflation risk premium reduced from approximately 12 to 2 basis points in the same period (Chart 121aThus, break-even inflation (the difference between long-term nominal and real interest rates) shifted from an average level of 3.4 percent to 3.3 percent between the second and the third quarters of the year, reaching historic lows (Chart 121b). In sum, the continued reduction of this indicator reflects that the holders of nominal rate-indexed instruments have been requesting less coverage for future inflation.

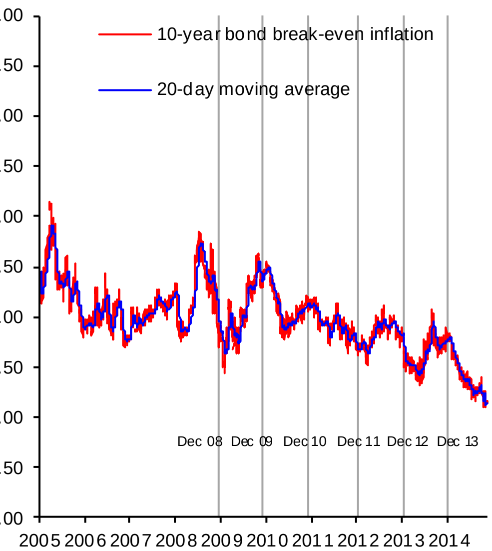
Chart 121
Inflation Expectations

a) Decomposition of Break-even Inflation and Inflation Risk [1/]
Percent



1/ Last data available: October 2014.
Source: Estimated by Banco de México.

b) 10-year Bond Break-even Inflation
Percent



Source: Estimated by Banco de México with data from Valmer and Bloomberg.

Regarding inflation expectations obtained through Banco de México's surveys among private sector specialists, the median for the end of 2014 located at levels close to 4 percent, shifting from 3.8 percent in June 2014 to 3.99 percent in October, given the spike in inflation observed over the recent months.[30] The expectation for core inflation for the end of 2014 persisted around 3.4 percent in the same period, while non-core inflation expectation, implicit in the previous median estimates increased from 5.16 to 5.93 percent (Chart 122a).). It should be noted that despite the indicated performance, inflation expectations for each one of the subsequent months remained stable (Chart 122b).

For 2015, the median of headline inflation expectations for the end of the year prevailed around 3.5 percent between June and October. In this respect, the

[29] For a description of the estimation of long-term inflation expectations, see Box "Decomposition of the Break-even Inflation" in the Quarterly Report, October-December 2013.

[30] According to Banamex Survey of Financial Market Analysts' Expectations, the median of headline inflation expectation for the end of 2014 registered a similar behavior, locating at 3.88 percent in the survey of June 20, 2014 and increasing to 3.97 percent in the survey of November 5, 2014.

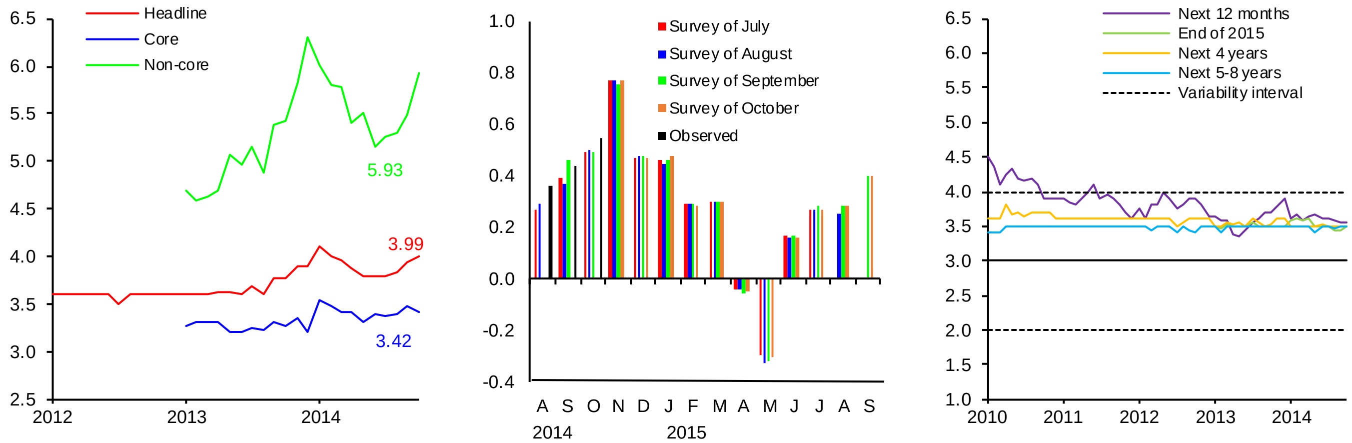
median of core inflation expectations decreased slightly from 3.21 to 3.17 percent, while the implicit non-core inflation expectation went from 4.49 to 4.58 percent in the referred period. Finally, longer-term expectations remained stable at a level of around 3.5 percent (Chart 122c).[31]

Chart 122
Inflation Expectations

a) Medians of Headline, Core and Non-core Inflation Expectations as of End of 2014 [1/]
Percent

b) Monthly Inflation Expectations
Percent

c) Medians of Headline Inflation Expectations of Different Terms [2/]
Percent



1/ Last data available: October 2014.
Source: Banco de México's survey.

Source: Banco de México's survey.

2/ Last data available: October 2014.
Source: Banco de México's survey.

Following low volatility levels in financial markets in July 2014, volatility increased considerably in subsequent months, which resulted in an unfavorable performance of some financial asset prices. Among the factors that encouraged the said higher volatility are the following:

i. A worse outlook for the world economic growth, despite the economic recovery in the U.S.

ii. Uncertainty over when the Federal Reserve will begin increasing its reference interest rate.

iii. Divergence in expectations regarding the main advanced economies' monetary policy stances.

iv. The appreciation of the U.S. dollar.

v. Geopolitical risks.

vi. Fear of the epidemic of Ebola virus disease.

In this environment, there were adjustments in Mexican financial markets, although they were orderly and under adequate liquidity conditions. Thus, the index of prices and quotations of the Mexican Stock Exchange, which observed an upward trend since the second quarter of 2014, presented high volatility, dropping 5 percent between the beginning of September and mid-October. However, it has recently

31 The median of long-term inflation expectations (period 2016-2010) based on the Banamex survey also persisted around 3.5 percent between the surveys of June 20 and November 5.

recovered, reason for which in the quarter as a whole this index' growth rate was 4 percent (Chart 123a).

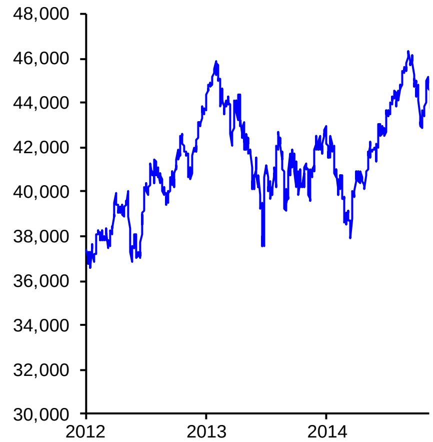
The Mexican peso exchange rate against the U.S. dollar went up from approximately MXN/USD 13 to 13.6 between late June and early November, depreciating around 4.5 percent, while during the year as a whole it was 4 percent, in a context of high volatility (Chart 123b and Chart 123c). It should be pointed out that the Mexican exchange market has preserved ample liquidity conditions, emerging economies' currencies having the highest trading volume (Chart 124a and Chart 124b). Moreover, a wide derivatives market allows economic agents to efficiently hedge against the exchange risks. In this context, the Mexican peso has been one of the currencies least affected by the recent volatility episode, once a group of emerging economies' currencies has depreciated against the U.S. dollar by approximately 10 percent in the same period of time.[32]

In this sense, even though it cannot be ruled out that new episodes of high volatility will persist in international financial markets, that would affect the Mexican peso exchange rate, it should be pointed out that the flexible exchange rate regime has allowed this variable to absorb external shocks. Furthermore, mainly due to the reduced pass-through of exchange rate fluctuations onto prices in recent years, the increment in the exchange rate volatility does not necessarily represent an important risk to inflation. The above has been possible because Banco de México has not monetized these shocks, given that this Central Institute has remained alert and did not allow exchange rate adjustments to be reflected in the dynamics of the price formation process.

[32] The depreciation of other emerging economies' currencies considers the average performance of the exchange rate of the currencies of Brazil, Chile, Colombia, Czech Republic, India, Peru, Russia, Thailand and Turkey against the U.S. dollar and is calculated with data from Bloomberg.

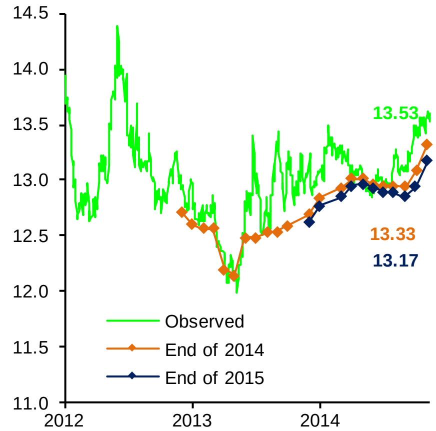
Chart 123
Index of Prices and Quotations of the Mexican Stock Exchange, Exchange Rate and Currency Option Implied Volatility

a) Index of Prices and Quotations of the Mexican Stock Exchange
Index



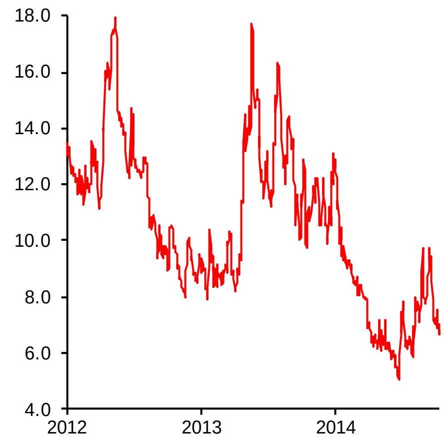
Source: Bloomberg.

b) Nominal Exchange Rate and Exchange Rate Expectations for the End of 2014 and 2015 1/
MXN/USD



1/ The observed exchange rate is the daily quote of the FIX exchange rate. The latest quote of the observed exchange rate corresponds to November 14, 2014. For its expectations, the latest quote corresponds to the survey of October 2014.
Source: Banco de México and Banco de México's survey.

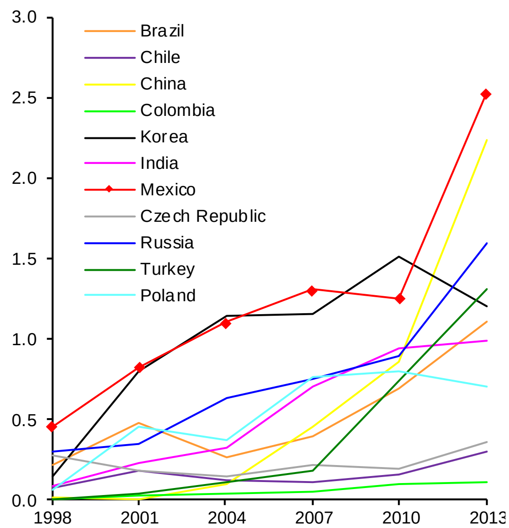
c) Currency Option Implied Volatility 2/
Percent



2/ Currency option implied volatility refers to one-month options.
Source: Bloomberg.

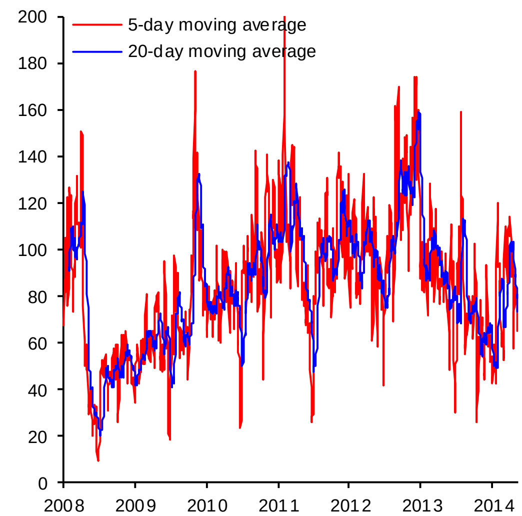
Chart 124
Trading Volume in the Exchange Market

a) Volume Traded in the Global Exchange Market 1/
Distribution % of traded volume 2/



1/ Given that two currencies are involved in each transaction, the total of percentages amounts to 200% rather than 100%.
2/ Data of April of each year.
Source: BIS triennial survey.

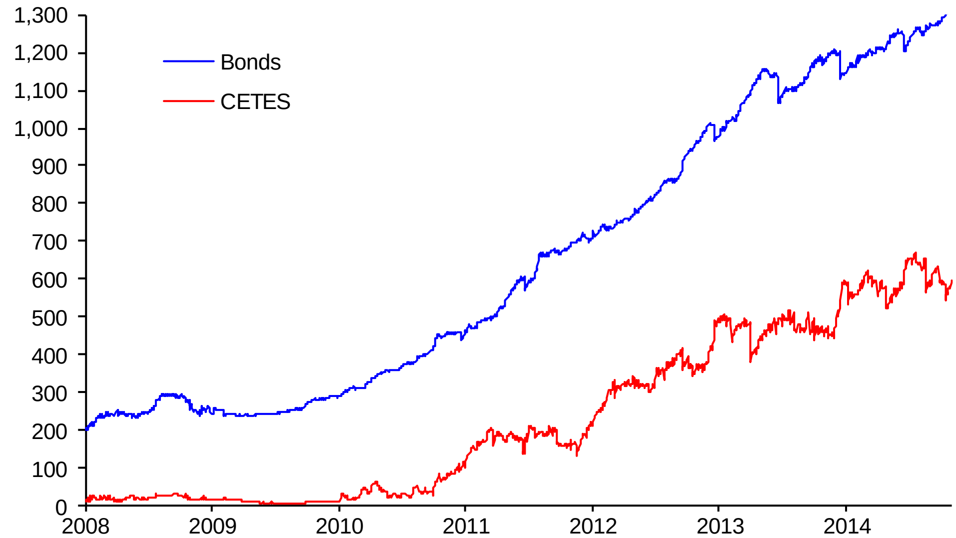
b) Volume Traded in the Exchange Market
Index 02-Jul-2008=100



Source: Banco de México and Reuters.

Despite greater volatility in financial markets, Mexico continued to attract foreign resources aimed at the acquisition of financial instruments in national currency. Thus, although investors' holdings of short-term government instruments decreased in the third quarter of 2014, those of medium- and long-term government instruments continued with their upward trend and remained at high levels (Chart 125).

Chart 125
Government Securities' Holdings by Foreign Investors
MXN billion

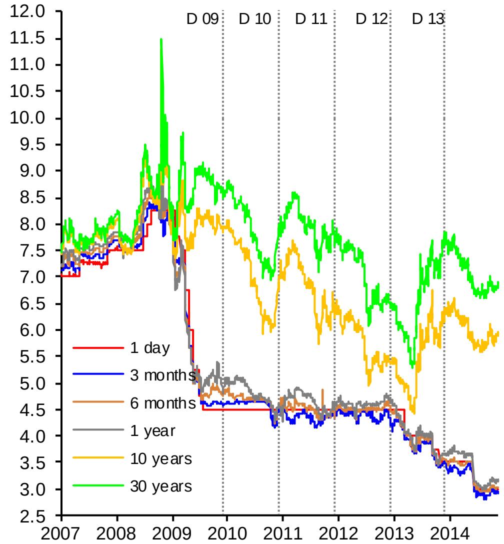


Source: Banco de México.

With regard to interest rates in national currency, they marginally increased for all maturities. In particular, the interest rate of 3-month government securities remained around 2.9 percent from late June 2014 to early November. Long-term interest rates presented high volatility. From late June to early October the 10-year bonds shifted from 5.7 to 6.0 percent, to decrease at the beginning of November to levels around 5.9 percent (Chart 126a). In this context, the slope of the yield curve (the difference between 10-year and 3-month rate) increased slightly from 280 to 300 basis points in the period from late June 2014 to early November (Chart 126b).

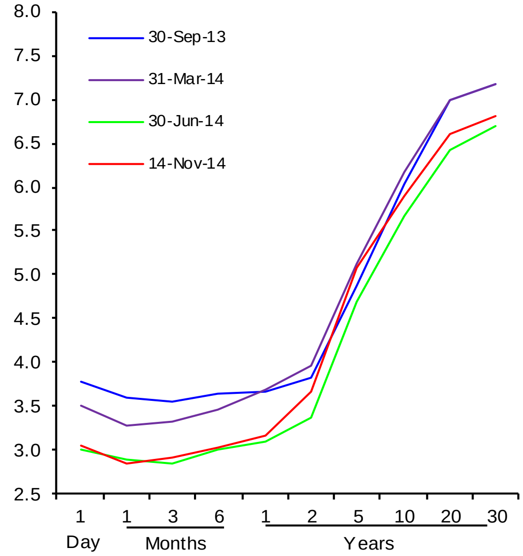
Chart 126
Interest Rates in Mexico

a) Government Securities Interest Rates 1/
Percent



1/ Since January 21, 2008, the one-day (overnight) interest rate corresponds to the target for the Overnight Interbank Interest Rate.
Source: Proveedor Integral de Precios (PiP).

b) Yield Curve
Percent



Source: Proveedor Integral de Precios (PiP).

To further examine the evolution of longer-term interest rates in Mexico, the performance of their components should be analyzed: a) short-term interest rate (reference rate); b) the implicit short-term interest rates that consider the medium- and long-term inflation expectation; and, c) the risk premia. In this regard, the following stands out:

1. The target for the Overnight Interbank Interest Rate remained at 3 percent in the analyzed period.
2. Expected short-term interest rates remained unchanged. In particular, according to Banco de México's survey among private sector specialists, the median of expectations for the interbank interest rate at the end of 2014 persisted at 3 percent in the surveys from June to October. A similar evolution is inferred from the expectations implicit in market instruments' interest rates.
3. Finally, the evolution of different risk premia in Mexico was differentiated. Thus:
   i. Market indicators that measure sovereign credit risk for Mexico, after having reached historic lows in the second quarter of the year, increased slightly in the third one, although to a lesser degree as compared to other emerging economies, resuming levels shown in late 2013 (see Section 3.1.4).[33]
   ii. Inflation risk premium kept registering a decreasing trend in the analyzed period. In particular, during the third quarter of 2014, it dropped by approximately 10 basis points with respect to the previous quarter (Chart 121).

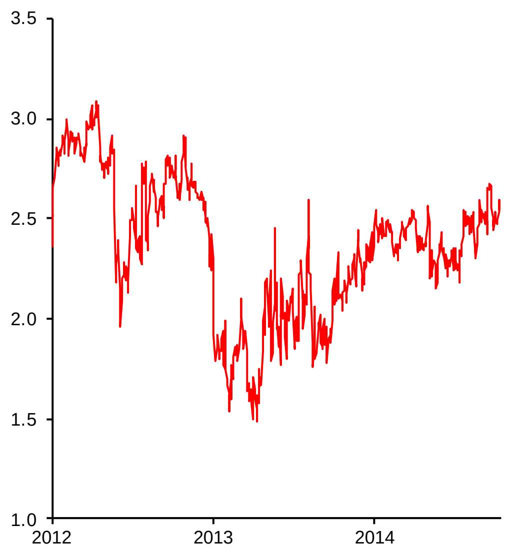
[33] It refers to 5-year Credit Default Swap.

iii. As to the performance of the exchange risk premium, which is estimated by means of the spread between the interest rate of the 10-year government bond issued in MXN and the same term issued in the USD, it increased given the higher volatility registered in the exchange market (Chart 127a).

iv. Finally, the term premium (estimated as the difference between the 10-year and 2-year interest rates) slightly decreased from approximately 230 to 224 basis points from late June to the beginning of November (Chart 127b).

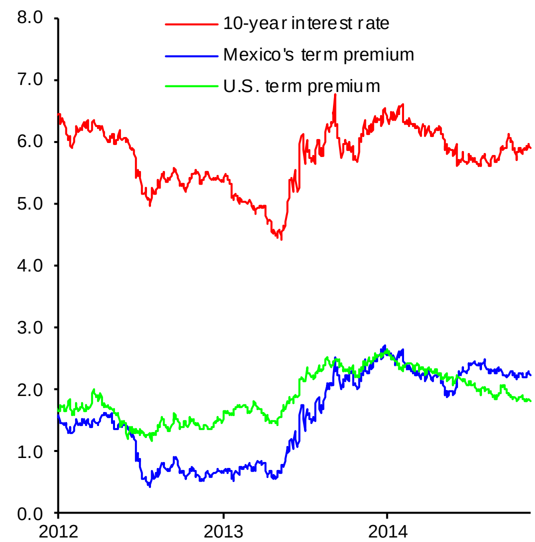
Chart 127
Risk Premia

a) Spread between MXN- and USD-indexed 10-year Bond Rate
Percentage points



Source: Bloomberg, Proveedor Integral de Precios (PiP) and Valmer.

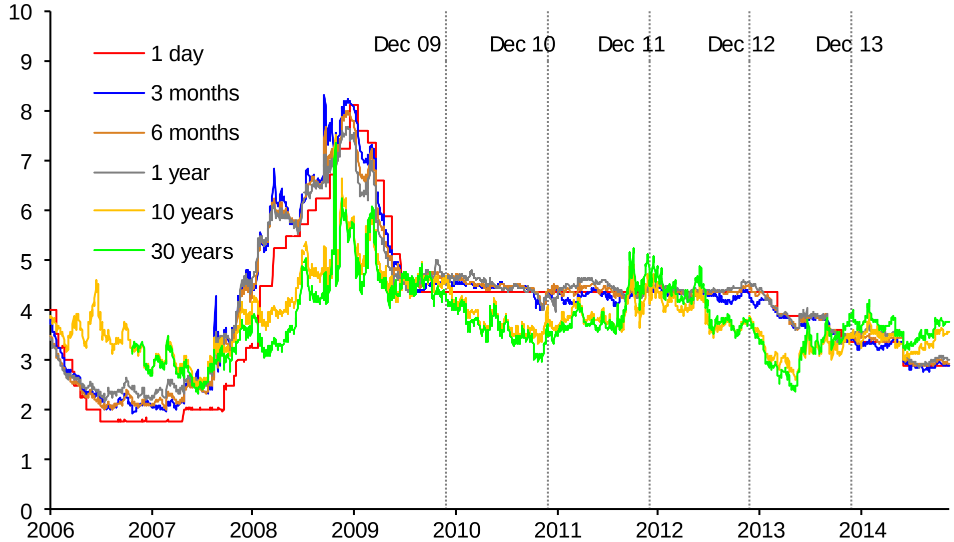
b) Mexico's 10-year Government Bond Interest Rate and the Term Premium [1/]
Percentage points, percent



1/ The term premium refers to the difference between the 10-year and the 2-year interest rate.
Source: Banco de México, *Proveedor Integral de Precios* (PiP) and Bloomberg.

In accordance with the evolution of government bonds' interest rates in Mexico and the widespread decrease in interest rates in the U.S., the spreads of interest rates between both economies went up in the period. In particular, the 10-year interest rate spread increased from around 310 basis points in late June to 355 basis points in early November (Chart 128).

Chart 128
Interest Rate Spreads between Mexico and the U.S. 1/
Percentage points



1/ For the U.S. target rate, the average interval by the Federal Reserve is considered.
Source: *Proveedor Integral de Precios* (PiP) and U.S. Department of the Treasury.

Despite the described environment, as mentioned above, the external sources of financing continued growing, although at a more moderate rate. Thus, foreign holdings of government debt instruments in the Mexican peso continued reflecting investors' confidence in the macroeconomic framework of the country and in the strategy of growth sustained on structural reforms. In this regard, the importance of maintaining the strength of the referred framework to facilitate an orderly adjustment of the Mexican economy to a less favorable external environment should be stressed. The above is crucial, given that volatility in international financial markets will probably persist over the following months, while it does not seem probable that the factors behind the referred volatility will dissipate in the near future.

5. Inflation Forecast and Balance of Risks

The expectations regarding the U.S. economic activity that are used for the construction of Mexico's macroeconomic framework are the following:[34]

a) The expected GDP growth in the U.S. in 2014 is adjusted, with respect to the previous Quarterly Report, from 2.1 to 2.2 percent, while that corresponding to 2015 remains at 3.0 percent. For 2016, the expectation for this indicator's growth is located at 2.9 percent.

b) The forecast for industrial production growth in the U.S. in 2014 remains unchanged at 4.0 percent, as compared to the previous Report. For 2015, this indicator is anticipated to expand 3.6 percent, a figure that is compared to the expectation of 3.7 percent in the last Quarterly Report. For 2016, an increment of 3.3 percent is expected.

GDP Growth Rate: The reactivation of the Mexican economy that had been observed in the second quarter persisted in the third one, although moderately. This dynamism is expected to prevail in the future, mainly supported by the impulse of the external demand, as well as by the gradual recovery of domestic expenditure. Thus, in 2014 the GDP growth rate is anticipated to lie between 2.0 and 2.5 percent, which compares to the interval of 2.0 to 2.8 percent published in the last Quarterly Report (Chart 129a). The expected lower dynamism in 2014 together with the estimation that the boost of the external demand and the reactivation of the domestic demand will persist suggests that in 2015 the GDP growth rate could be between 3.0 and 4.0 percent. However, it is expected that, if the structural reforms are adequately implemented, they will generate a gradual positive impact on the economic growth of Mexico, which could lead to a higher growth rates' interval for 2016. In this sense, for 2016 the forecast interval lies between 3.2 and 4.2 percent.

Employment: Considering the fact that the dynamism of the number of IMSS-insured workers continued to exceed that of the economic activity, the growth forecast for formal employment in 2014 is adjusted from an interval of 570 to 670 thousand workers to an interval of 640 to 710 thousand workers. For 2015, an increment of 620 to 720 thousand workers is still anticipated. For 2016, partly as a reflection of the implementation of the structural reforms, the number of IMSS-insured workers is estimated to perform more favorably, reason for which an interval of 640 to 740 thousand workers is expected.

Current Account: For 2014, trade balance and current account deficits of USD 4.0 and 26.0 billion are anticipated, respectively (0.3 and 2.0 percent of GDP, respectively). For 2015, these deficits are estimated to amount to USD 11.5 and 34.4 billion, respectively (0.8 and 2.5 percent of GDP, in the same order). For 2016, deficits in the trade balance and the current account of USD 15.5 and 38.8 billion, respectively, are expected (1.0 and 2.6 percent of GDP, in the same order). The anticipated deterioration in external accounts is mainly due to a greater absorption

[34] Expectations for the U.S. economy for 2014 and 2015 are based on the consensus of analysts surveyed by Blue Chip in November 2014, while those for 2016 are based on the data release of Blue Chip in October 2014, as these are the most recent available forecasts for the given year.

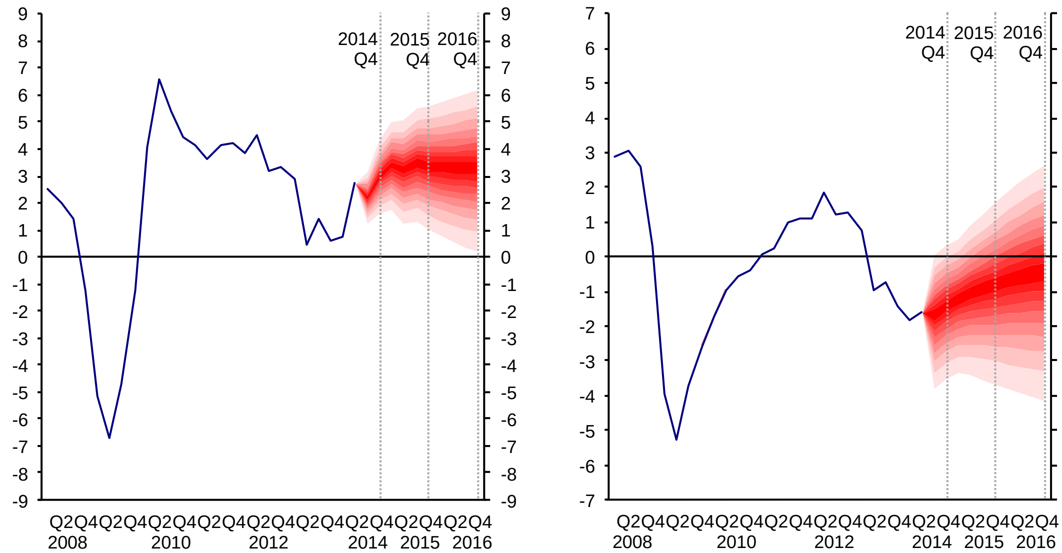
in the economy and by the expectation of lower oil prices and exports' platform as compared to the previous forecast.

Even though it is anticipated that, due to a sharp deceleration of productive activity in late 2013 and early 2014, slack conditions will persist in the economy, it is also estimated that these will continue decreasing over the forecast horizon, given the anticipated dynamism for the economic activity (Chart 129b). Despite the above said, no aggregate demand-related pressures on inflation are expected, although due to uncertainty that naturally arises around the estimation of the potential growth of the economy, the evolution of slack conditions will have to be carefully watched.

Chart 129
Fan Charts: GDP Growth and Output Gap

a) GDP Growth Rate, s. a.
Annual percent

b) GDP Growth Rate, s. a.
Annual percent



s. a. / Seasonally adjusted figures.
Source: INEGI and Banco de México.

s. a. / Based on seasonally adjusted figures.
Source: Banco de México.

Among downward risks to the GDP growth outlook, the following stand out:

i. Lower than estimated world economic growth, particularly in the U.S.

ii. An additional reduction in the international oil price or in the production platform that could affect the external accounts and public finances of Mexico, requiring an adjustment in public expenditure in 2015.

iii. Increased uncertainty in international financial markets.

iv. Uncertainty generated by recent social events that could influence economic activity.

The growth outlook is also subject to upward risks, among which the following are notable:

i. A more vigorous than anticipated recovery of the U.S. economy.

ii. The rapid implementation of the first stages of structural reforms, in particular the energy reform, may contribute to a higher than expected investment.

Inflation: Given that the effect of recent supply shocks on inflation is expected to be transitory and that no second round effects have taken place so far, annual headline inflation is anticipated to decrease in December and to conclude the year around 4 percent. In early 2015, annual headline inflation is expected to decline considerably, once the arithmetic effect related to changes in relative prices derived from fiscal adjustments in early 2014 fades, and once long-distance national phone charges are eliminated, which together with a smaller increment in the gasoline price, locates the annual headline inflation forecast around 3 percent from the middle of the year onwards (Chart 130). For 2014, annual core inflation is estimated to persist close to 3 percent and below this level in 2015 (Chart 131). For 2016, both headline and core inflations are expected to lie at levels close to 3 percent.

It should be noted that the decrease in the growth rate of gasoline prices is a key element in the price determination process of the economy and it is fundamental for the inflation convergence to its permanent target and the anchoring of medium- and long-term inflation expectations. This derived from the fact that over the last four years the annual change of gasoline prices was above 10 percent, which, as a consequence, generated an upward pressure on headline inflation, by means of the non-core component.[35] Thus, although in the last 24 months annual core inflation of the CPI has been on average close to 2.9 percent, headline inflation lied on average at 3.9 percent, partly due to the impact of gasoline prices. This, in turn, has been reflected in longer-term headline inflation expectations (an average of the next 5-8 years) of economic analysts, which persisted around 3.5 percent, while core inflation expectations lie at 3.1 percent.

Hence, in the absence of gasoline price increases significantly greater than the inflation target, it is possible that besides the direct arithmetic effect on headline inflation, it will generate a more moderate increment in some prices of the economy and bring out a reduction in longer-term inflation expectations, thus consolidating the inflation anchoring around the permanent 3 percent target.

The above described forecast for the inflation outlook is subject to different risks, among which the following stand out:

Downward:

i. The possibility that the recovery of economic activity in Mexico will turn out lower than anticipated.

ii. Greater decreases in the prices of telecommunication services.

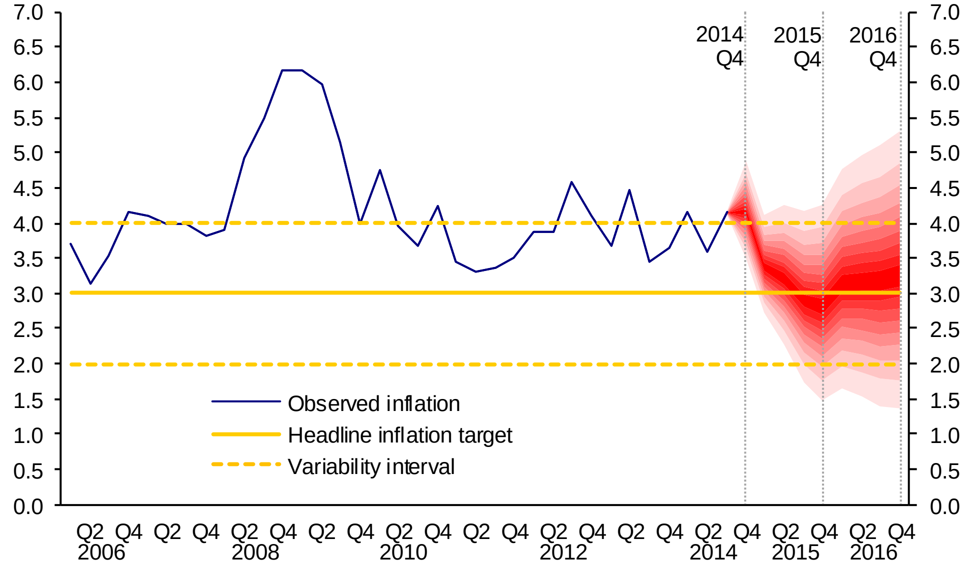
Upward:

i. Episodes of greater volatility in international financial markets that would imply exchange rate fluctuations with their consequent effect on inflation. Still, in the event that it happens, a moderate and transitory impact on inflation would be expected, given the low pass-through of exchange rate variations onto inflation.

ii. Possible considerable increases in the minimum wages higher than the expected inflation and the increment in productivity.

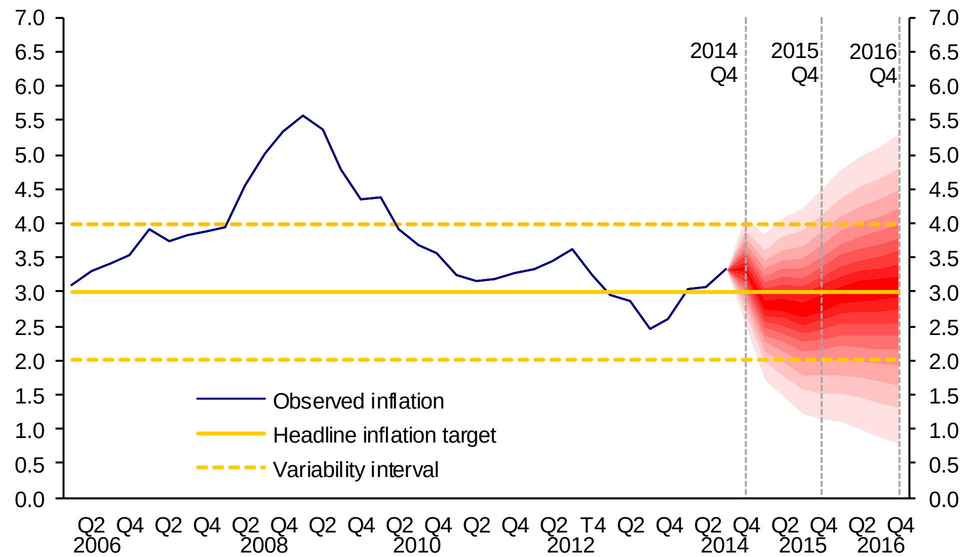
[35] A detailed analysis of this effect was presented in the Box “The Policy of Gasoline Price Adjustments and Inflation Expectations” in the Inflation Report July - September 2013.

Chart 130
Fan Chart: Annual Headline Inflation [1/]
Percent



1/ Quarterly average of annual headline inflation.
Source: Banco de México and INEGI.

Chart 131
Fan Chart: Annual Core Inflation [1/]
Percent



1/ Quarterly average of annual core inflation.
Source: Banco de México and INEGI.

In view of the above, over the period covered by this Report, the Board of Governors maintained the target for the Overnight Interbank Interest Rate at 3.0 percent, by virtue of the fact that it estimated the monetary stance to be congruent with the efficient inflation convergence to its 3 percent target. In the future, the Board will monitor the performance of all determinants of inflation and its expectations for the medium- and long-term horizons. In particular, it will monitor the evolution of the degree of slack in the economy in light of the expected recovery, including the possible effects of the implementation of structural reforms on aggregate supply and demand of the national economy. Likewise, the Board will monitor the monetary policy stance of Mexico relative to that of the U.S. All of the above to reach the referred inflation target.

As pointed out in the previous Report, it is encouraging that the legislative stage of the recent process of structural reforms aimed at boosting productivity of the country has concluded, since these reforms are expected to positively influence the potential growth of Mexico. Their impacts are anticipated to emerge gradually and become more evident in the medium term, although it should be recalled that for the reforms to reach their full potential, a proper implementation should be guaranteed. It should also be reiterated that the process of improvement of the institutional framework should continue, as well as the strengthening of macroeconomic fundamentals, so that the country can achieve higher growth rates, better jobs and greater welfare for the society. The latter becomes especially important given that the international environment is expected to remain quite uncertain. In that regard, it should be recalled that the benefits of the efforts made in recent years were evident during the recent episodes of volatility in international financial markets, which were absorbed by the Mexican economy without any major repercussions.

Finally, the significance of improving the institutional framework of Mexico should be reiterated, because it is highly relevant to enhance the efficiency of the economy and to strengthen the beneficial effects of the structural reforms on potential growth, employment and the welfare of the population. Indeed, an institutional transformation that improves the rule of law, legal certainty and, generally, the strength of the institutions that govern the society as a whole and economic agents, in particular, will result not only in a better economic performance and greater social harmony, but will also translate in a more appropriate use of the benefits derived from structural reforms and a better distribution of the above said benefits in the Mexican society.

Annex Calendar of Monetary Policy Decision Announcements, Minutes of the Board of Governors' Meetings regarding Monetary Policy Decisions and Quarterly Reports in 2015

Table 1 of this annex presents the calendar for the year 2015 of the monetary policy announcements, as well as the publication of the Minutes of the Board of Governors' meetings regarding the monetary policy decisions and the Quarterly Reports. It should be noted that from 2015 onwards the monetary policy decisions will be announced on Thursdays at 13:00, while so far these announcements were released on Fridays at 9:00.

Table 1
Calendar for 2015

Month	Announcements of Monetary Policy Decisions	Minutes of the Board of Governors' Meetings regarding Monetary Policy Decisions	Quarterly Reports [1/]
January	29		
February		12	18
March	26		
April	30	9	
May		14	19
June	4	18	
July	23		
August		6	12
September	3	17	
October	15	29	
November			4
December	3	17	

1/ The Quarterly Report that will be published on February 18, 2015 corresponds to the fourth quarter of 2014, the one to be released on May 19, 2015, to the first quarter of 2015, the one of August 12, 2015, to the second quarter of 2015, and finally the one to be presented on November 4, 2015, to the third quarter of 2015.

The calendar considers 8 dates for the announcement of monetary policy decisions in 2015. Two weeks after each announcement, on Thursdays, the corresponding Minutes will be published. Nonetheless, as in previous years, Banco de México reserves the right to announce changes in the monetary policy stance at dates different from those previously scheduled, in the case of extraordinary events that may require the Central Bank's intervention.

Section IV: Quarterly Report October - December 2014 179

CONTENTS

BOXES

Section IV: Quarterly Report October - December 2014

1. Introduction

During the fourth quarter of 2014, the international environment deteriorated dramatically as a result of two shocks. On the one hand, the international oil price dropped considerably and it is anticipated to remain at low levels for an extended period of time, primarily due to supply factors. On the other hand, a generalized appreciation of the USD has been observed, caused by a portfolio adjustment driven by differences in growth rates and the expected monetary policy stances of the main advanced economies. The above, as well as the slowdown of the world economy caused by the persisting weakness of most advanced and emerging economies, with the notable exception of the U.S., gave rise to higher volatility in international financial markets, which further increased financial vulnerabilities in some emerging economies.

In 2014, the evolution of inflation in Mexico was in line with the forecast of this Central Institute. Although, as a result of the fiscal changes in early 2014 and a series of transitory shocks onto the non-core inflation, annual headline inflation lied above the upper bound of the variability interval over most of the year, from November onwards it started to register a clear downward trend, and closed the year at 4.08 percent. Subsequently, in January 2015, it presented a further significant reduction to 3.07 percent, caused by the fading effect of the aforementioned shocks, downward adjustments in the telecommunication services' prices and some energy prices, as well as by smaller increments with respect to last year in the merchandise and services' prices, in general.

In the fourth quarter of 2014, economic activity in Mexico continued to recover moderately. This performance reflected the favorable evolution of external demand, as well as a gradual improvement in private investment. Nevertheless, private consumption still did not present a solid reactivation. Therefore, slack conditions persisted in the economy, and, consequently, no generalized pressures on either prices in the main inputs' markets or on external accounts were perceived.

Given the increment in international financial volatility, markets in Mexico were also affected. In the quarter analyzed in this Report, the Mexican peso depreciated and the index of the Mexican Stock Exchange reversed the profits registered in the previous quarter. In this respect, it should be noted, that, although as of the release date of this Report the referred movements were orderly, additional adjustments in the domestic financial markets cannot be ruled out.

The deterioration of the external environment, as well as the evolution of financial markets in Mexico made it clear that an eventual adjustment in the macroeconomic stance was required in the country. This was due to the fact that the said change would ease the transition of the Mexican economy to a new external circumstance and would help avoid the possible financial astringency derived from uncertainty regarding the sustainability of public debt and/or of external accounts. For this reason, as a preemptive measure, the Federal Government decided to adjust the fiscal policy by considerably diminishing public expenditure in 2015. This adjustment, together with other announced fiscal responsibility measures, will contribute to preventing a deterioration in the confidence of households, firms and investors, and will strengthen the conditions to face the referred external environment. Thus, the fiscal adjustment along with the monetary stance congruent with the convergence of inflation towards its target, strengthen the fundamentals of the Mexican economy and will contribute to generating an environment conducive to higher growth with low inflation.

Considering the abovesaid, greater expansion is still anticipated for 2015 and 2016, as compared to that expected to have taken place in 2014. Nonetheless, in light of a less favorable international environment, of the downward trend in the oil production platform and of the persisting weakness in some domestic demand components, the forecast of GDP growth in Mexico is revised downwards with respect to that presented in the previous Quarterly Report. In particular, the GDP growth rate for 2014 is estimated to have been approximately 2.1 percent. For 2015, the forecast interval for GDP growth is adjusted from 3.0 to 4.0 percent in the previous Report to 2.5 to 3.5 percent. For 2016, the forecast interval is revised from 3.2 to 4.2 percent to an interval of 2.9 to 3.9 percent. In this context, slack conditions are anticipated to prevail in the economy, although they will be closing and currently no widespread and sustained aggregate demand-related pressures on prices are estimated.

Inflation is anticipated to converge to 3 percent over the following months, considering that its evolution in 2014 was in line with the forecast and that the price determination process in the economy was neither contaminated by a transitory increment during the year nor by the recent depreciation of the national currency. In particular, following a considerable drop in annual headline inflation in January, it is estimated to remain close to 3 percent and to conclude the year slightly below that level. Core inflation is anticipated to lie below 3 percent throughout 2015. For 2016, both headline and core inflation are forecast to locate at levels close to 3 percent.

Considering all of the above, the Board of Governors decided to maintain the target for the Overnight Interbank Interest Rate at 3 percent during the period covered by this Report. In the future it will remain alert to the performance of all inflation determinants and its expectations for the medium and long-term horizons. In particular, it will monitor the monetary stance of Mexico relative to the U.S., the performance of the exchange rate and its possible impact onto inflation, as well as the evolution of the degree of slack in the economy given the foreseen recovery. All this in order to be able to take the necessary measures to ensure the convergence of inflation to the 3 percent target in 2015 and to consolidate it.

2. Recent Development of Inflation

2.1. Inflation

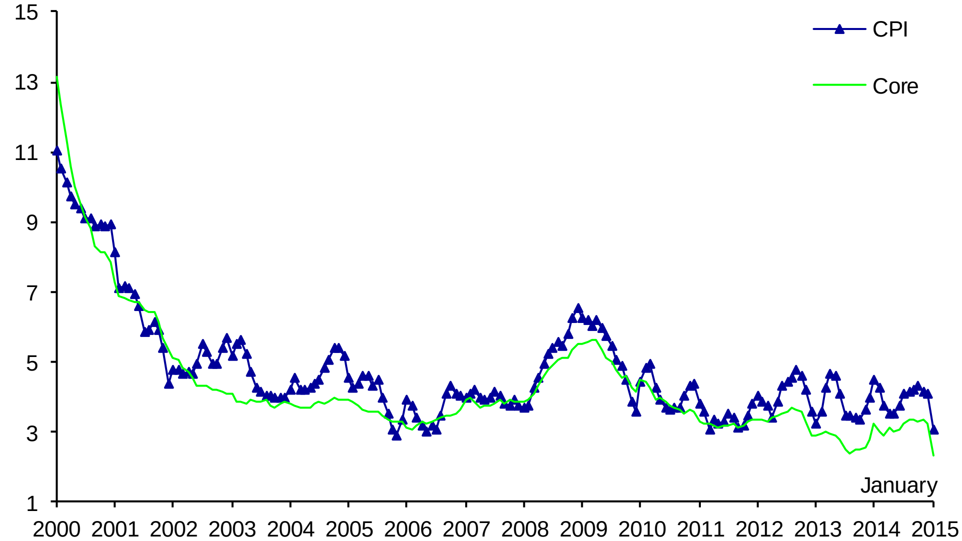
In an environment of economic policies seeking to strengthen the macroeconomic framework, the conduction of the monetary policy has contributed since the beginning of last decade to the convergence of inflation to the 3 percent target (Chart 132). Although the downward inflation trajectory has been exposed to different supply shocks, which affected some products' relative prices, no second round effects were generated. Thus, these shocks only produced a transitory effect on inflation, without affecting economic agents' inflation expectations.[36]

This has been evident from the dynamics of annual core inflation, which is an indicator of the medium-term trend of headline inflation. Once different items, whose prices have been affected by supply shocks or that are not determined by market conditions more directly, are excluded, this component better responds to the monetary stance and is more closely associated to the economic cycle. Thus, this indicator has been generally characterized by a downward trend since various years ago, fluctuating around 3 percent for the last 5 years. In particular, during almost all 2013, annual core inflation remained below this level, even registering historical minimum levels. Even considering the fiscal adjustments in force since 2014, it persisted at levels close to 3 percent, and, once the effects of the fiscal changes vanished, it resumed levels below 3 percent.

During the period covered by this Report, annual headline inflation shifted from 4.30 percent in October 2014 to 4.08 percent in December (Table 7 and Chart 132). Subsequently, in January 2015, the fading of the effect of the fiscal adjustments that came into force a year before, lower telecommunication services' prices, lower prices of some energy products and, in general, increments in the merchandise and services' prices lower than the year before, contributed to a considerable decrease in annual headline inflation, registering 3.07 percent in the referred month. In all, once the different shocks on inflation in 2014 were absorbed, it resumed its downward trend, reaching levels even lower than those registered in the second half of 2013 (Table 7 and Chart 133).

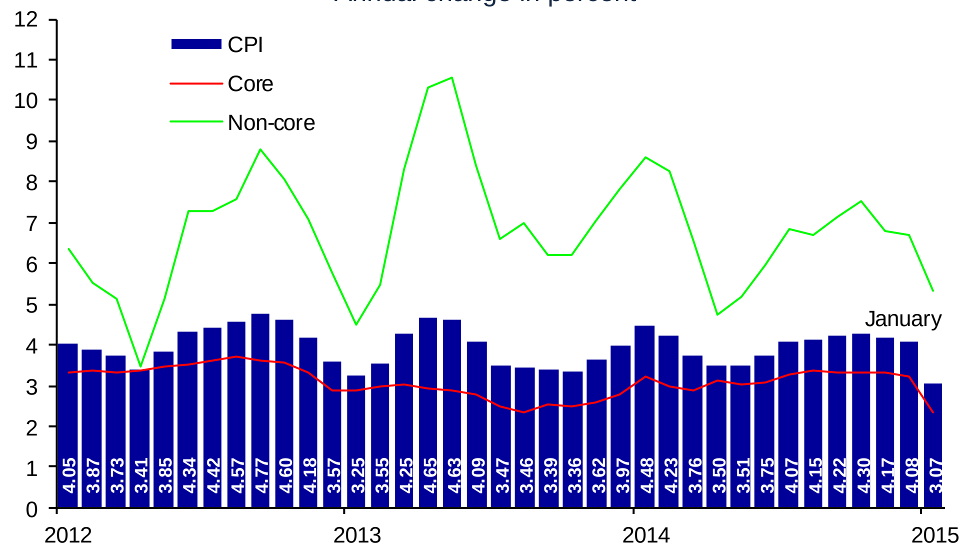
[36] See Box 3 "Anchoring of Medium- and Long-term Inflation Expectations in light of Adverse Supply Shocks", Inflation Report, January – March 2013. Also, see Box 1 "Relative Price Changes and Inflation Convergence towards the 3 Percent Target", Inflation Report April – June 2013.

Chart 132
Consumer Price Index
Annual change in percent



Source: Banco de México and INEGI.

Chart 133
Consumer Price Index
Annual change in percent



Source: INEGI.

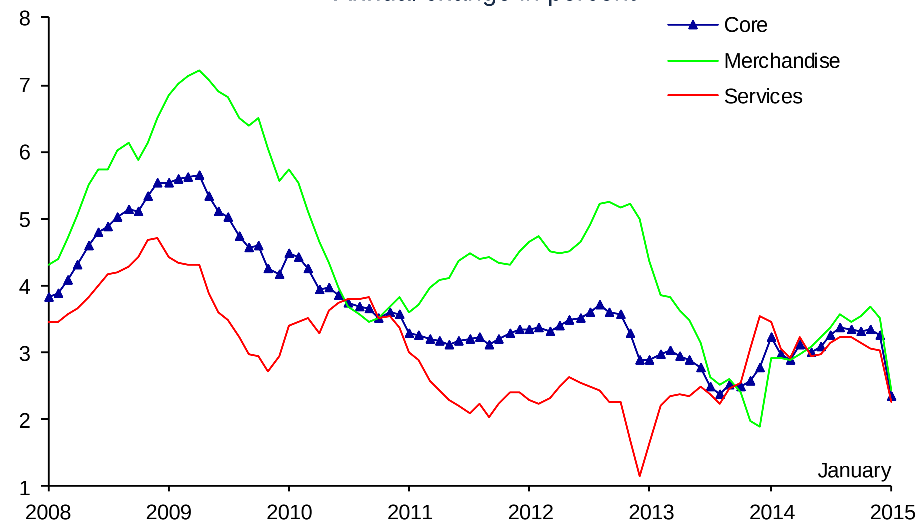
Cuadro 1
Consumer Price Index and Components
Annual change in percent

	Annual change							Average	
	July 2014	August 2014	September 2014	October 2014	November 2014	December 2014	January 2015	Q III 2014	Q IV 2014
CPI	**4.07**	**4.15**	**4.22**	**4.30**	**4.17**	**4.08**	**3.07**	**4.15**	**4.18**
Core	**3.25**	**3.37**	**3.34**	**3.32**	**3.34**	**3.24**	**2.34**	**3.32**	**3.30**
Merchandise	**3.37**	**3.56**	**3.46**	**3.53**	**3.68**	**3.50**	**2.43**	**3.46**	**3.57**
Food, beverages and tobacco	5.20	5.41	5.36	5.33	5.40	5.31	3.37	5.32	5.35
Sweet bread	11.24	11.39	11.34	11.25	10.10	8.96	2.74	11.32	10.10
Canned soft drinks	16.15	15.76	15.70	15.50	15.16	15.35	3.53	15.87	15.34
Corn tortilla	-0.37	-0.07	-0.11	-0.12	-0.10	-0.08	-0.03	-0.18	-0.10
White bread	2.31	2.07	2.05	2.07	2.46	2.43	1.81	2.14	2.32
Non-food merchandise	1.88	2.06	1.94	2.07	2.29	2.04	1.66	1.96	2.13
Services	**3.15**	**3.22**	**3.24**	**3.14**	**3.06**	**3.03**	**2.26**	**3.21**	**3.08**
Housing	2.11	2.07	2.13	2.14	2.13	2.14	2.13	2.11	2.14
Education (tuitions)	4.38	4.19	4.30	4.31	4.30	4.30	4.31	4.29	4.30
Other services	3.90	4.17	4.12	3.86	3.69	3.60	1.79	4.06	3.72
Mobile phone service	-3.15	-1.60	-4.11	-8.99	-11.53	-14.48	-16.45	-2.95	-11.66
Local fixed telephone service	-0.17	-0.10	-0.06	-0.06	-0.07	-0.03	-16.45	-0.11	-0.05
National long distance service	0.61	0.61	0.61	0.61	0.61	0.61	-100.00	0.61	0.61
International long distance service	0.61	0.61	0.61	0.61	0.61	0.61	-40.69	0.61	0.61
Non-core	**6.83**	**6.72**	**7.11**	**7.51**	**6.78**	**6.70**	**5.34**	**6.89**	**6.99**
Agriculture	**5.78**	**6.22**	**7.57**	**8.46**	**7.04**	**8.61**	**8.50**	**6.53**	**8.04**
Fruit and vegetables	3.22	0.13	1.20	1.31	-3.48	0.10	-1.01	1.48	-0.73
Onion	26.82	10.92	10.52	15.62	-15.90	-19.70	-31.19	15.24	-7.71
Tomato	3.77	-10.39	-5.54	-2.22	-4.49	6.07	0.80	-4.52	0.46
Livestock	7.14	9.64	11.22	12.62	13.63	14.03	14.20	9.33	13.43
Beef	12.38	14.71	17.85	19.73	21.45	22.84	23.67	14.99	21.35
Egg	-1.73	-4.13	-3.43	-1.15	0.02	3.97	6.38	-3.10	0.96
Energy and government approved fares	**7.47**	**7.03**	**6.82**	**6.93**	**6.62**	**5.55**	**3.49**	**7.11**	**6.35**
Energy	8.38	7.83	7.56	7.74	7.23	6.43	4.20	7.92	7.12
Gasoline	10.74	10.22	9.53	9.59	8.23	6.73	5.14	10.16	8.18
Electricity	0.66	1.07	1.49	2.81	4.67	4.52	0.64	1.07	4.08
Domestic gas	9.80	8.17	8.25	8.49	8.18	8.30	6.63	8.74	8.32
Government approved fares	5.92	5.65	5.55	5.48	5.46	3.88	2.16	5.71	4.93
Subway and electric transportation	49.63	49.63	49.63	49.63	49.63	15.15	-0.26	49.63	36.05

Source: Banco de México and INEGI.

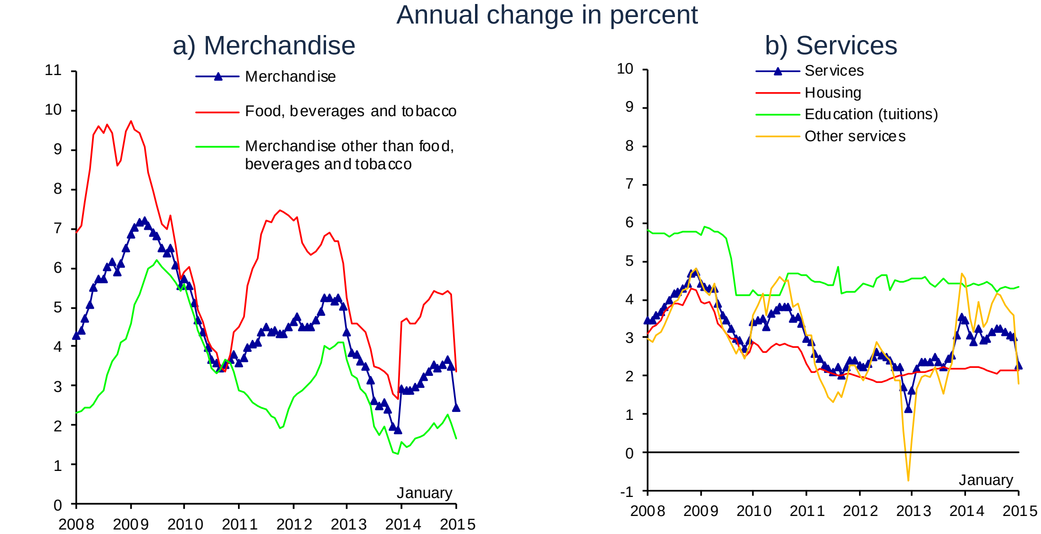
Over the period analyzed by this Report, annual core inflation persisted at levels close to 3 percent, shifting from 3.32 to 3.24 percent between October and December. Afterwards, in January 2015, this indicator dropped significantly to register 2.34 percent (Table 7 and Chart 3). In this respect, the annual change of the merchandise price subindex changed from 3.53 to 3.50 percent between October and December 2014, to later decrease to 2.43 percent in January 2015. This derived from the performance of both food and non-food merchandise, and was partly affected by the fading of the effects of the above said fiscal changes. Hence, the annual changes of food merchandise were 5.33 and 5.31 percent in October and December, decreasing to 3.37 percent in January. As to non-food merchandise, its annual changes in the referred months were 2.07 and 2.04 percent, registering 1.66 percent in January (Table 7, Chart 134 and Chart 135a). It should be noted that the growth rate of merchandise prices in January is the lowest for this month since 2003, which is in line with the forecast that once the shocks on inflation in 2014 are overcome, it will resume low levels.

Chart 134
Core Price Index
Annual change in percent



Source: Banco de México and INEGI.

Chart 135
Core Price Index: Merchandise and Services
Annual change in percent



Source: Banco de México and INEGI.

Likewise, the annual change rate of the services' price subindex went down from 3.14 to 3.03 percent between October and December 2014, to later register 2.26 percent in January 2015. This performance was largely determined by the evolution of services other than education and housing, the annual growth rate of which reduced from 3.86 to 3.60 percent between October and December 2014 and to 1.79 percent in January 2015. In this regard, drops in telecommunication services' prices were noteworthy, as was the case of the local fixed telephone services and the elimination of long-distance national phone charges, the fading of the effects of the fiscal changes that affected food services' prices at the beginning of last year and, in general, increments in services' prices lower than those of last year (Table 7, Chart 134 and Chart 135b).

Box 5
Recent Evolution of Telecommunication Services' Prices

1. Introduction

The goal of the constitutional reform and secondary regulation of the telecommunications' sector of 2013 and 2014 is to develop the sector by improving the regulatory framework, which would boost investment and competition. The purpose of this is to improve the quality of services, and services to be offered at competitive prices.

With this background, throughout 2014 various provisions were implemented, derived from the referred reform, which affected the recent price dynamics in the sector. This Box briefly describes some regulatory changes in force since recently, along with the evolution of the price indices of telecommunication services and their contribution to headline inflation.

2. Telecommunication Reform

As part of the referred reform, in 2013 the Federal Telecommunications Institute (IFT, for its acronym in Spanish) was established, as an independent agency with capacity as regulator of the sector, of granting licenses for the provision of telecommunications and broadcasting services and of declaring existence or absence of conditions for effective competition in the sector. Among some of the IFT's powers is the one to determine, if applicable, the presence or absence of predominant economic agents in the sector, as well as the measures to prevent this from affecting competition.

In this context, in March 2014, IFT declared businesses with greater share in the telecommunication and broadcasting markets as predominant economic agents, and imposed specific regulatory measures onto these firms. Additionally, in August 2014 the Federal Telecommunications and Broadcasting Law (LFTR, for its acronym in Spanish) entered into force, establishing further determinations, some of which apply to predominant economic agents and other to all service providers. There are some measures among those imposed onto the predominant agent in the telecommunications market that were reflected in lower retail prices in the sector: [1]

- The elimination of roaming fees as of April 6, 2014.

From the date of entry into force of the LFTR, on August 13, 2014:

- The asymmetric interconnection regime, in which the preponderant agent cannot charge the remainder of providers for the interconnection of calls and messages that terminate on its network, while others can charge it to the preponderant agent.
- The obligation to charge mobile phone users the same tariff for the services provided within and outside its network; that is the price per minute of call and messages should be the same to contact the phone numbers of the company in question or other companies.
- The obligation to allow the resale of mobile services to other concessionaires, including virtual operators.
- The unbundling of the local network, which would allow other providers to offers services by means of the "last mile" access.

As regards the LFTR provisions that apply to all services' providers, which increment consumers' welfare, indirectly affecting the prices paid by users and boosting competition, the following can be named:

- For the prepaid scheme, the contractual term for unused balances was extended to a minimum of one year.
- Mobile phone equipment should be unblocked, that is, it should be available to be used with any provider, once acquired by a user.
- Telephone number portability should be free of charge for users, and should be resolved within 24 hours upon request, which could be done via electronic means.
- From January 2015 onwards, the elimination of national long distance fees both in fixed and mobile telephone services.

3. Recent Evolution in the Telecommunications' Market in Mexico

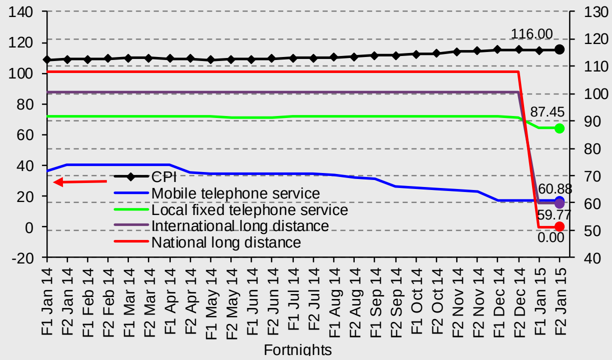
In the above described environment, during 2014 and in 2015 so far significant changes in the telecommunications services' supply and prices were observed, which made a downward contribution to headline inflation.

Chart 1 presents the evolution of telephone services' price indices, quoted in the CPI. As can be seen, mobile phone prices are the first ones to have started to decrease due to the entry into force of the referred reform.

[1] The LFTR establishes that any economic agent that, directly or indirectly, has the national share over 50 percent is considered a predominant economic agent in the telecommunications and broadcasting sectors.

As regards local and long-distance telephone services, both national and international, after remaining stable in recent years, the indices dropped significantly in January 2015.

Chart 1
CPI and Telephone Price Indices
Base 2nd Fortn. December 2010 = 100



Source: INEGI.

The observed dynamics is mainly accounted for by the following changes presented in its offered services:

Mobile Telephone Service

As mentioned above, the elimination of the national roaming fee charged by the predominant agent, as of April 6, 2014.

Lower fees of the predominant economic agent in calls outside the network (the effective fees charged by the predominant agent for the services outside the network, identical to those charged within the network, since the entry into force of the LFTR). This includes balance special offers in the prepayment scheme, additional minutes in the postpayment scheme, and frequent or free telephone numbers that are no longer exclusive to the services within own network since the above said date. So, they can also be used to contact other providers' telephone numbers.

The emergence of new mobile plans both prepayment and postpayment with the flat-rate scheme for the service with lower fees, as well as prepayment planes with packaged services, i.e., that for a specified amount a package of voice minutes, SMS messages and megabytes for browsing is acquired.

Fixed Telephone Service

An adjustment in the services' offer, granted by means of different packages of combined services of fixed telephone service, internet and cable TV. These increased significantly the amount of minutes for calls to cell phones and national and international long-distance calls that are offered, without a change in prices.

International Long Distance

The modification and emergence of different packages of combined telephone services, internet and cable TV, which recently started to include considerable number of minutes for long distance international calls, without a change in price.

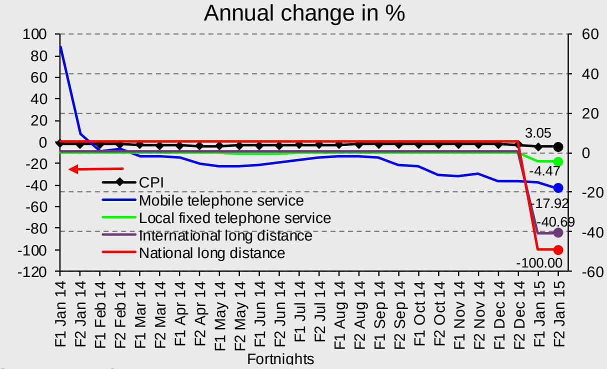
National Long Distance

The elimination of the fee for this services, both in fixed and mobile telephone services, in accordance with the LFTR, from 2015 onwards.

4. Effect of Telephone Services' Prices on Headline Inflation

As a consequence of the above described, in January 2015 the referred telecommunications services' prices that are part of the CPI, reflected negative annual changes (Chart 2).

Chart 2
CPI and Telephone Price Indices
Annual change in %



Source: INEGI.

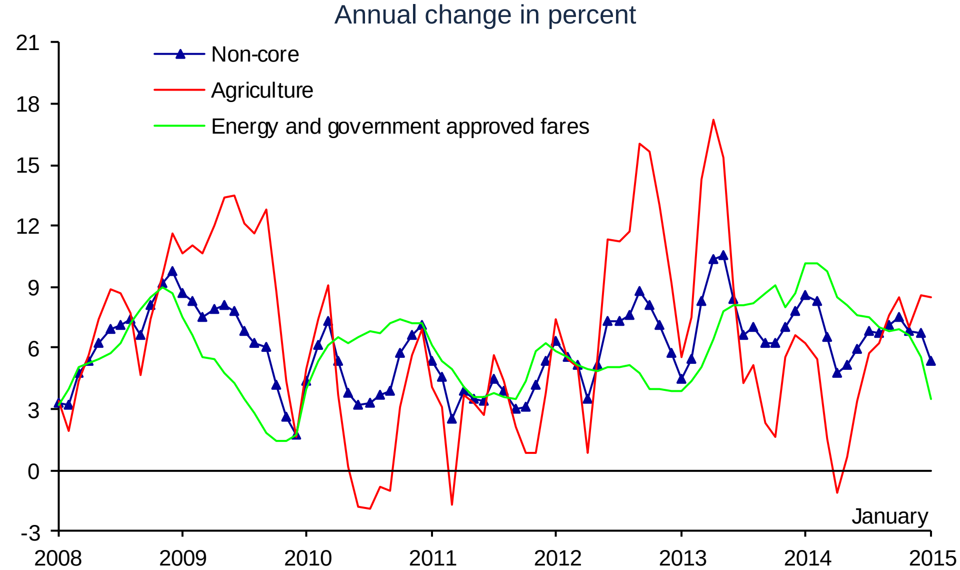
In this way, and given its share in the CPI, the group of telecommunication prices has a considerable contribution to the decrease in annual headline inflation in January 2015. In particular, the group of telephone services has an incidence of -38 basis points onto annual headline inflation of the referred month

5. Final Remarks

The constitutional reform to the telecommunications' sector establishes an improvement to the regulatory framework, aimed at boosting competition and development in the sector. During the first months following its entry into force, various provisions were established, generating greater competition in the sector. This was reflected in the entry of new providers and innovative schemes with more attractive prices, which made a downward contribution to headline inflation, as long as a contribution to greater welfare of consumers.

In the last quarter of 2014, non-core inflation registered upward pressures as a result of the performance of agricultural products' group, mainly the increments in the prices of beef and tomato. However, the above was offset by the lower growth rate in the subindex of energy prices and government approved fares. Thus, the annual change of the non-core price index decreased from 7.51 to 6.70 percent between October and December 2014. The same factors continue contributing to the fact that this index has reduced its annual change to 5.34 percent in January (Table 7, Chart 136 and Chart 137).

Chart 136
Non-core Price Index
Annual change in percent



Source: Banco de México and INEGI.

The subindex of agricultural prices increased its annual change rate from 8.46 to 8.61 percent between October and December 2014. Nonetheless, in January 2015, the annual change of the referred subindex reduced to 8.50 percent, when lower prices of some fruit and vegetables, such as tomato and onion, were observed, which offset the still high growth rates of livestock prices. In particular, the annual change of the fruit and vegetables group shifted from 1.31 percent in October to 0.10 percent in December, and later to -1.01 percent in January. In turn, the annual change of the group of livestock products increased from 12.62 to 14.03 percent over the referred months, presenting 14.20 percent in January (Table 7, Chart 137a and Chart 138).

In contrast, the annual change rates of the energy prices and government approved fares have been decreasing since October 2014 (Chart 137b). Specifically, the annual change of this subindex dropped from 6.93 to 5.55 percent between October and December 2014, to later decrease to 3.49 percent in January 2015. Lower increments in gasoline prices and domestic gas prices, as compared to last year, and lower prices of other energy products, such as electricity, have been particularly relevant for the abovesaid. Derived from this, the group of energy prices lowered its annual change rate from 7.74 percent in October to 6.43 percent in December, and to 4.20 percent in January.

In particular, the most relevant price changes of energy products were the following:

- From January 1, 2015 onwards, the gasoline price in the cities not located at the border region increased by 1.9 percent, which, in line with the Ministry of Finance, will be the only increment during the year. It contributed to the fact that in the first fortnight of January the change of the gasoline price in these cities was 1.9 percent, while in the cities in the Northern border region a decrease of 6.94 percent was registered. Hence, the average gasoline price increment was 0.87 percent in the referred fortnight. In the month as a whole, the monthly gasoline price change for non-border region cities was 2.07 percent, while in the Northern border region there was a decrease of 12.36 percent, resulting in a national increment of 0.28 percent during the month. That is in contrast with the average annual change of this fuel above 10 percent in 2014. It should be noted that in the cities in the Northern border region the adjustment of prices over the following months will depend on the evolution of prices in the U.S. cities they adjoin, which in turn follow the dynamics of the international oil price (Chart 140).

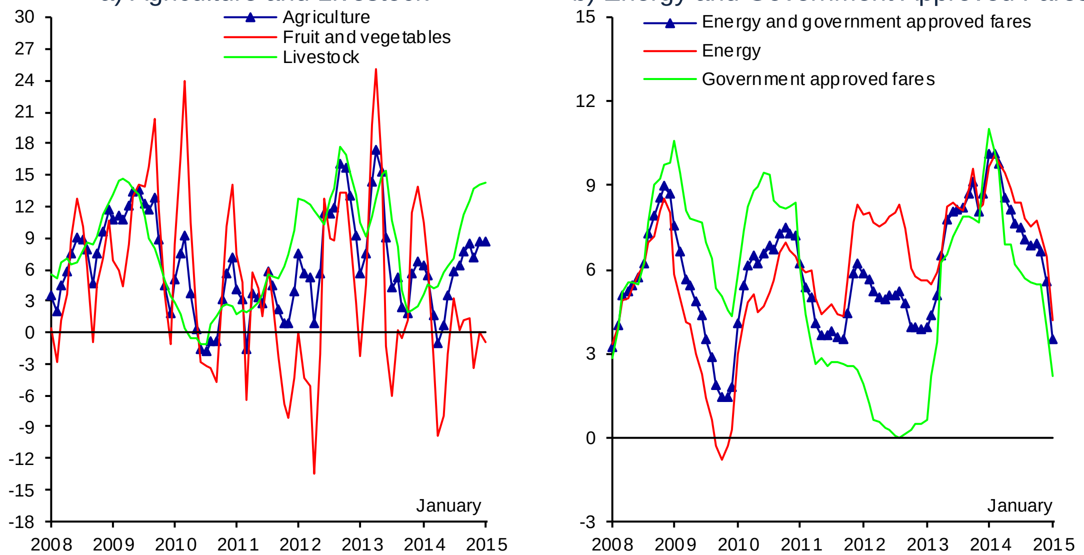
- The price of domestic gas, which in 2014 had an average annual increment of 9.68 percent, increased by 1.92 percent in January 2015 and is not expected to grow further in the remainder of the year.

- Electricity tariffs dropped by 2.04 percent in January 2015 and are anticipated to remain unchanged in the rest of the year, while in 2014 they went up by 3.30 percent, on average.

The group of government approved fares lowered their annual change from 5.48 to 3.88 percent between October and December 2014, and finally to 2.16 percent in January 2015, when some of the adjustments in public transport fares that had taken place last year did not occur again, as was the case of the Mexico City subway (Table 7, Chart 139).

Chart 137
Non-core Price Index
Annual change in percent

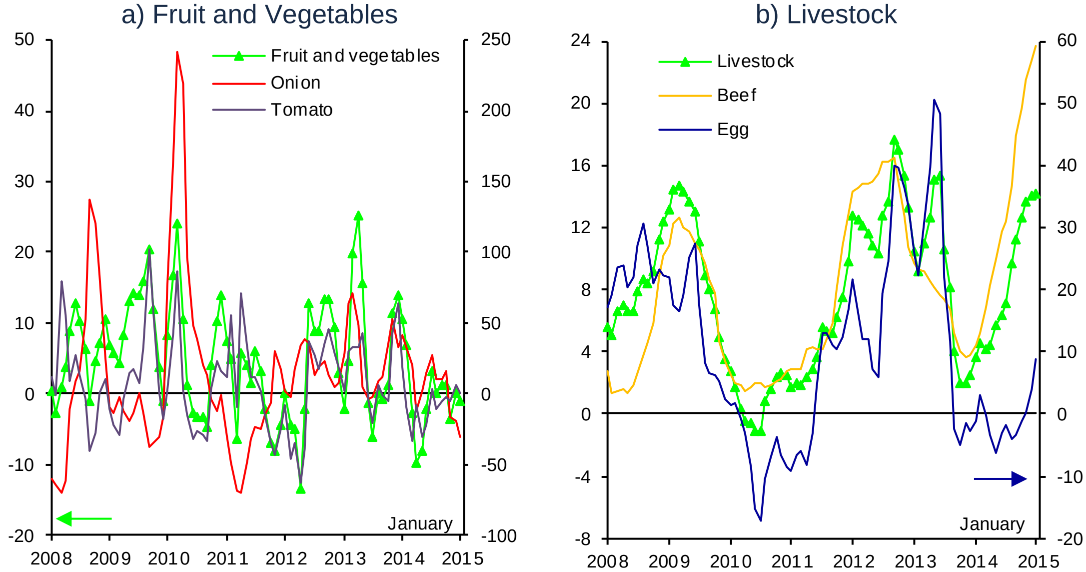
a) Agriculture and Livestock b) Energy and Government Approved Fares



Source: Banco de México and INEGI.

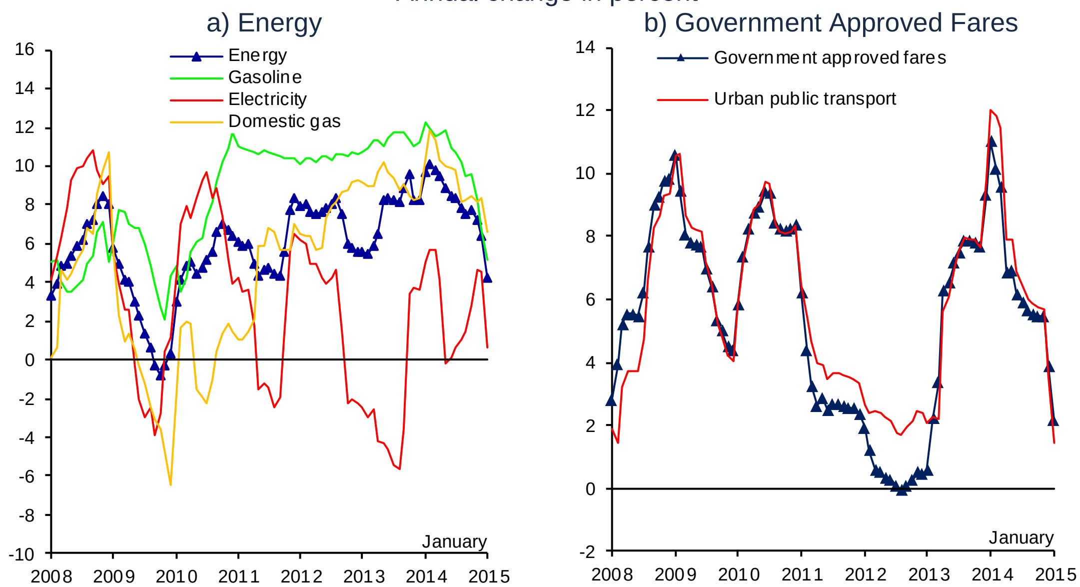
Chart 138
Agricultural Price Index
Annual change in percent

a) Fruit and Vegetables b) Livestock



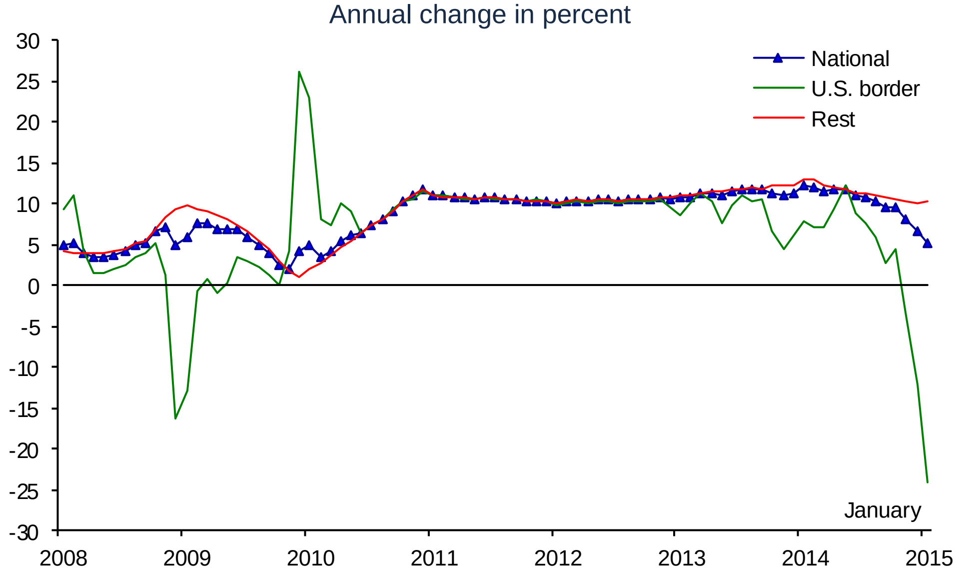
Source: Banco de México and INEGI.

Chart 139
Non-core Price Index
Annual change in percent



Source: Banco de México and INEGI.

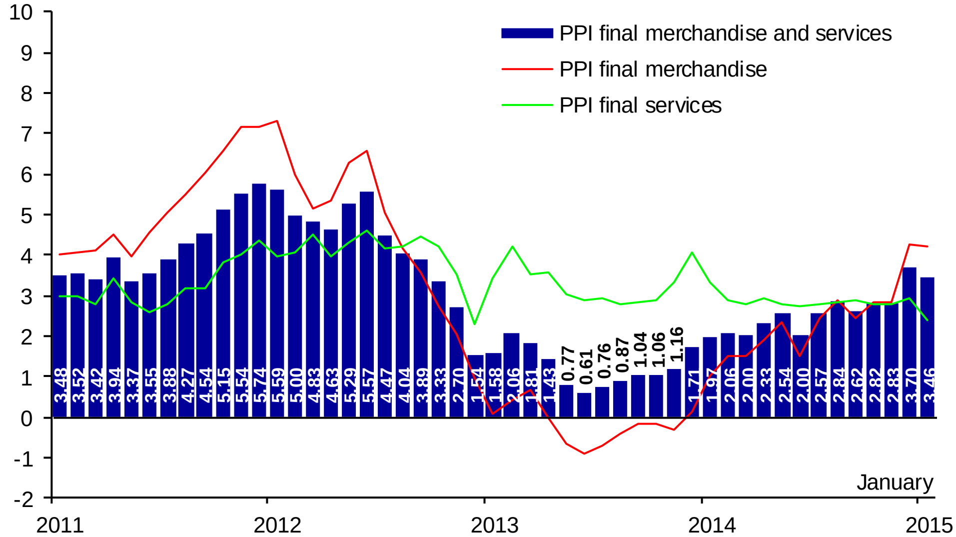
Chart 140
Gasoline Price Index
Annual change in percent



Source: Banco de México and INEGI.

In the last month of 2014, the Producer Price Index (PPI) of finished merchandise and services, excluding crude oil, registered an annual growth of 3.70 percent, while in October it was 2.82 percent (Chart 141). This performance was mainly due to a greater upward contribution in the prices of some manufacturing exports. Subsequently, in January 2015, the annual change of the referred indicator lied at 3.46 percent.

Chart 141
Producer Price Index
Annual change in percent



Source: Banco de México and INEGI.

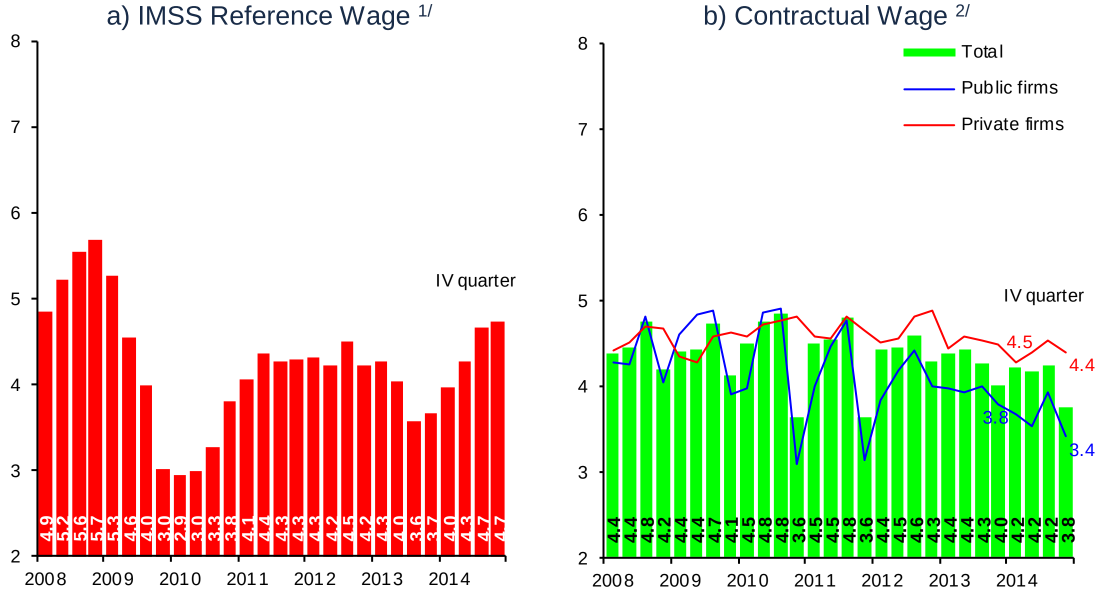
2.2. Wages

During the fourth quarter of 2014, the main wage indicators increased in line with the labor productivity growth, reason for which labor costs remained low and still did not generate inflation pressures (see Section 3.2.1 further below). In particular, the reference wage of IMSS-insured workers increased 4.7 percent in the last quarter of 2014, a figure similar to that observed in the previous quarter (Chart 142a). Afterwards, in January 2015 the annual change rate of the reference wage lied at 4.3 percent.

The increment in the contractual wage negotiated by firms under federal jurisdiction was 3.8 percent in the fourth quarter of 2014, which was lower than the figure registered in the same quarter of the previous year (4.0 percent). This difference mainly derived from lower changes in contractual wages of public firms. In particular, these firms negotiated an average increase of 3.4 percent (3.8 percent in the same quarter of 2013), while private firms' wages increased on average by 4.4 percent (4.5 percent in the same period of 2013, Chart 142b). Later, in January 2015 the average change rate of the contractual wage was 4.2 percent (in the same month of the previous year it was 3.8 percent). In particular, the average increment in contractual wages for public and private firms lied at 3.4 and 4.6 percent, respectively (3.5 and 4.0 percent in January 2014).

Furthermore, during the period analyzed in this Report, the Council of Representatives of the National Minimum Wage Commission agreed to raise the average general minimum wage by 4.2 percent, in force from January 1, 2015 (in 2014 it was 3.9 percent), with the possibility that over the following months the gap in minimum wages in the areas A and B could be reduced in half, which may represent a further increase to the average minimum wage of 1.3 percent.

Chart 142
Wage Indicators
Annual change in percent



1/ During the fourth quarter of 2014, an average of 17.4 million contributors were registered in IMSS.
2/ The contractual wage increase is an average weighted by the number of involved workers. The number of workers in firms under federal jurisdiction that annually report their wage increases to the Secretary of Labor and Social Welfare (*Secretaría del Trabajo y Previsión Social*, STPS) equals approximately 2 million.
Source: Calculated by Banco de México with data from IMSS and STPS.

3. Economic and Financial Environment

3.1. International Environment

The world economy kept showing weakness during the last quarter of 2014, which translated into a downward adjustment of the growth outlook for the following years. In fact, the global economic activity faced two shocks: a drastic drop in crude oil prices, which are expected to persist at low levels for a considerable period of time and a USD appreciation against most currencies, which derived from a portfolio adjustment driven by the divergence in the growth rates and expectations for the main advanced economies' monetary policy stances. Lower hydrocarbon prices contributed to the reduction in inflation worldwide, in some cases, aggravating deflation risks. In this environment of a world economic slowdown, the drop in the crude oil price and the expectations of higher interest rates in the short term in the U.S. were reflected in the considerably higher volatility in international financial markets.

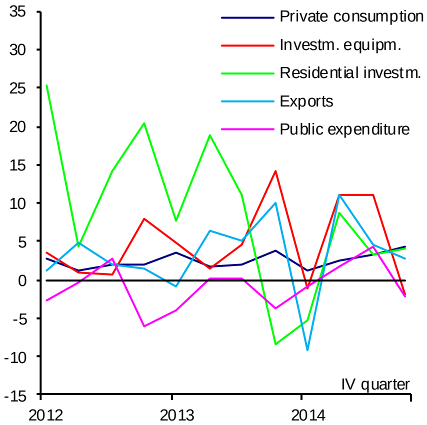
3.1.1. World Economic Activity

In the U.S., the economic recovery kept consolidating. GDP grew at an annualized quarterly rate of 2.6 percent in the fourth quarter of 2014, after the 5.0 and 4.6 percent registered in the second and the third quarters, respectively. In particular, it stands out that private consumption kept growing at a high rate, supported by an increment in personal income, driven by lower gasoline prices and by improved household confidence. In contrast, progress in private investment remained moderate, mainly as a reflection of weak expenditure on equipment and low growth in housing construction. Finally, net exports lost momentum, after being affected by lower external growth and the above referred USD appreciation (Chart 143a).

The dynamism of the U.S. economy translated into a considerable improvement in labor market conditions in the fourth quarter of 2014, reason for which slack conditions in the said market continued decreasing. In particular, employment kept increasing, registering an average monthly growth of non-farm payroll of 324 thousand jobs, as compared to 237 thousand jobs in the third quarter. The favorable performance of employment persisted in January 2015. In turn, the unemployment rate dropped faster than expected, despite greater stability in the labor participation rate, reaching a level of 5.7 percent in January 2015, after having lied at 5.9 percent in late third quarter (Chart 143b). Moreover, other labor market indicators improved. In particular, the employment-to-population ratio increased slightly in the quarter and the number of people working part time for economic reasons went down.

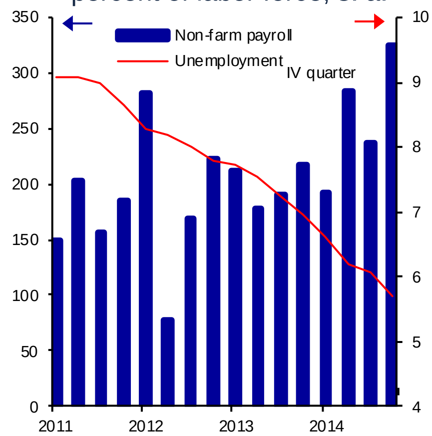
Chart 143
U.S. Economic Activity

a) Selected Components of Real GDP
Annualized quarterly change in percent, s. a.



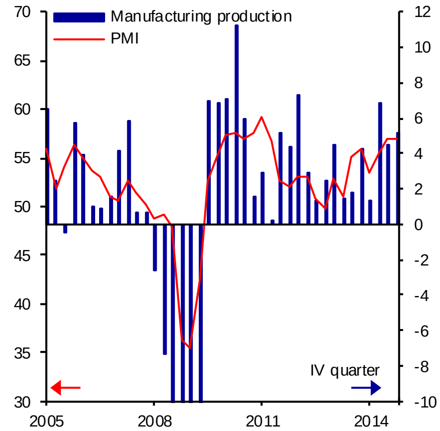
s. a. / Seasonally adjusted figures.
Source: BEA.

b) Average Monthly Change of Non-farm Payroll and Unemployment Rate
In thousands of jobs and percent of labor force, s. a.



s. a. / Seasonally adjusted figures.
Source: BLS.

c) Manufacturing Production and Manufacturing Sector's Purchasing Managers' Index (PMI)
Annualized quarterly change and diffusion index, s. a.



s. a. / Seasonally adjusted figures.
Source: Federal Reserve, PMI.

A positive trend in the U.S. industrial production prevailed during the fourth quarter of 2014, expanding at an annualized quarterly rate of 5.6 percent, figure above 4.1 percent observed in the third quarter. The greater rate of expansion of industrial activity was mainly due to manufacturing production, which increased at an annualized quarterly rate of 5.2 percent (Chart 143c), all of the above supported by lower energy prices.

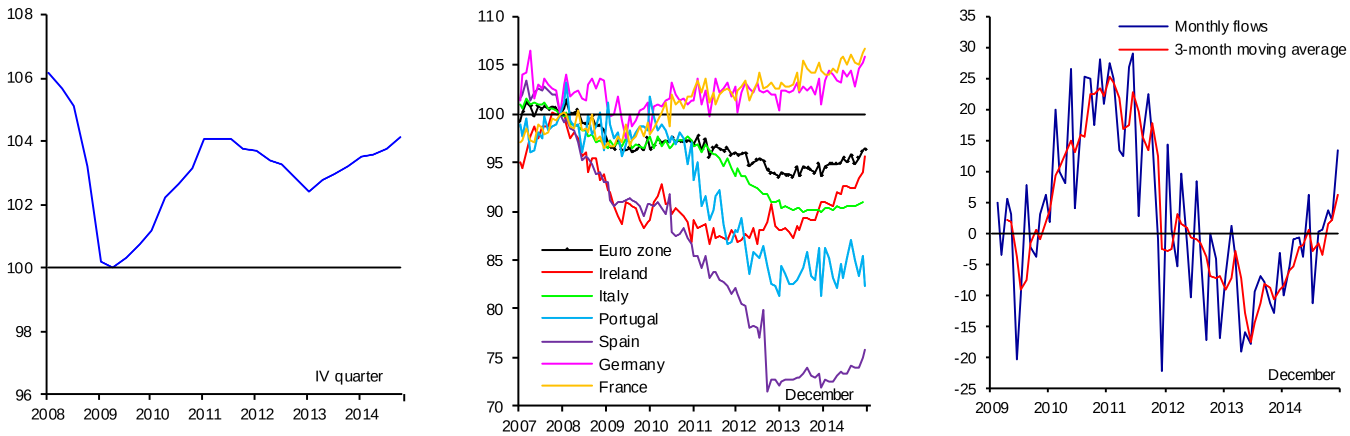
In the Euro zone, economic growth remained weak in the analyzed quarter (Chart 144). GDP expanded at an annualized quarterly rate of 1.4 percent, as compared to 0.6 percent in the third quarter. Despite a certain improvement in private consumption and in exports, the recovery was still affected by the poor performance of private investment and by adjustments in the balances of the public and private sectors. Credit to households and non-financial corporations was also depressed, even though it progressed incipiently in late 2014, while new credits' interest rates kept going down. In this context, it is expected that additional monetary easing announced in January 2015 by the European Central Bank (ECB), the Euro depreciation, lower crude oil prices, and a fiscal monetary stance remaining unchanged will support the sustained expansion of economic activity over the next quarters. Still, there are considerable risks derived from the possibility of a deflationary process in the region, of the possible implications of the political and economic situation of Greece onto the financial markets, and of the lack of structural reforms necessary to enhance competitiveness of the region.

Chart 144
Euro Zone Economic Activity

a) Real Gross Domestic Product
Index 2S 2009=100, s. a.

b) Retail Sales 1/
Index December 2007=100, s. a.

c) Credit to Non-financial Private Sector
Monthly flows in EUR billions



s. a. / Seasonally adjusted figures.
Source: Eurostat, Haver Analytics.

s. a. / Seasonally adjusted figures.
1/ Car sales excluded.
Source: Eurostat.

Source: European Central Bank.

The economy of the U.K. expanded in the last quarter of 2014, at an annualized quarterly rate of 2.0 percent, as compared to 3.0 percent in the previous one. According to available indicators, this expansion was supported by strong consumption and improved net exports. In contrast, private investment moderated, in particular in the residential sector, as a result of a lower growth in housing prices and lower demand for housing credit.

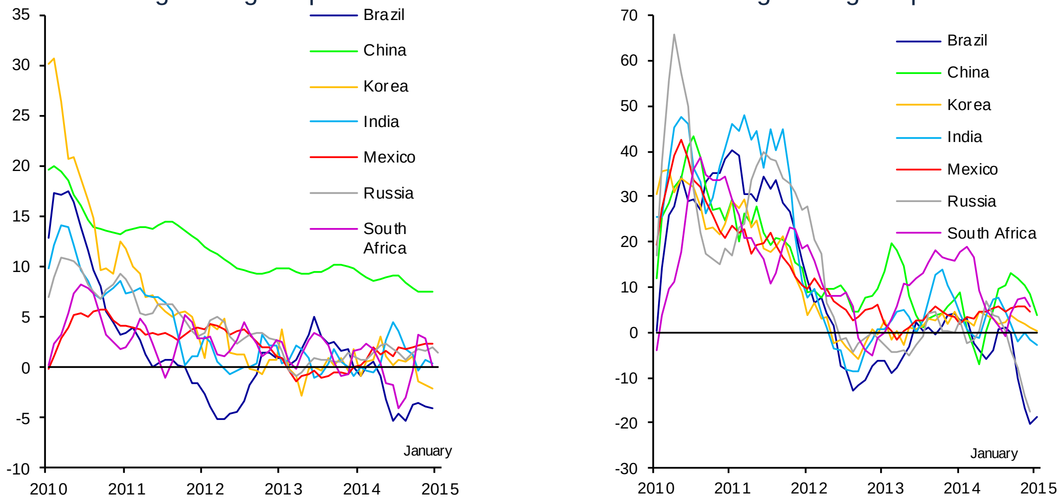
The GDP of Japan expanded at an annualized quarterly rate of 2.2 percent in the last quarter of the year, following a contraction of 6.7 and 2.3 percent in the second and the third quarters, respectively. This expansion was contributed to by a greater growth of private consumption given a gradual increase in labor income and lower crude oil prices. Furthermore, the increment in exports as a result of the yen depreciation has been a positive factor for the recovery. Finally, business' fixed investment recovered slightly in light of the improvement in corporate profits.

The growth outlook in most emerging economies has been adjusted downwards, given some cases of macroeconomic imbalances, weakness of domestic demand and lower commodity prices. In particular, the forecast indicates a lower dynamism in China, a still weaker outlook for Russia and downward adjustments in the expansion of commodity exporting countries. The timely indicators, such as the industrial production and exports, continued pointing to a slowdown, and in some cases even decreases, which indicates a lower dynamism of both domestic and external demand (Chart 145). Lower commodity prices, in particular crude oil prices, contributed to a deterioration in the current account and public finances in most countries exporting these goods, by means of a decrease in their terms of exchange and lower tax revenues. In some economies, the adoption of corrective measures was required to offset the non-sustainable expansionist policies applied in the past. For example, such countries as Brazil, Indonesia and Russia, introduced different fiscal measures, such as tax increases, lower subsidies on fuel prices and lower expenditure in order to improve their public finances.

Chart 145
Emerging Economies' Economic Activity

a) Industrial Production
Annual change of 3-month moving average in percent

b) Exports
Annual change of 3-month moving average in percent



Source: Haver Analytics.

3.1.2. Commodity Prices

During the quarter analyzed in this Report, lower commodity prices were registered, particularly those of crude oil (Chart 146a). This drop in crude oil prices is largely attributed to supply factors, although smaller demand has also contributed. Regarding the supply factors, as a result of high crude oil prices persisting over the last years, and progress in oil extraction technologies, new unconventional sources of crude oil were incorporated, such as shale oil, especially in the U.S. Gradually, these new technologies more than offset the stagnated production of the OPEC (Organization of the Petroleum Exporting Countries) and decreased production in other oil producing countries. In this environment, the OPEC member states, in particular Saudi Arabia, functioned as regulatory bodies in the world oil market, preventing, by means of incrementing and lowering their production quota, considerable imbalanced between crude oil supply and demand at the global level. Still, lower participation in the market, which implied the sustained increase in the production of some OPEC non-member states, with greater marginal extraction costs, motivated an apparent adjustment in the OPEC strategy. Thus, the decrease in prices at the end of the year intensified, starting from the OPEC decision not to cut down on production, in light of a lower demand growth.

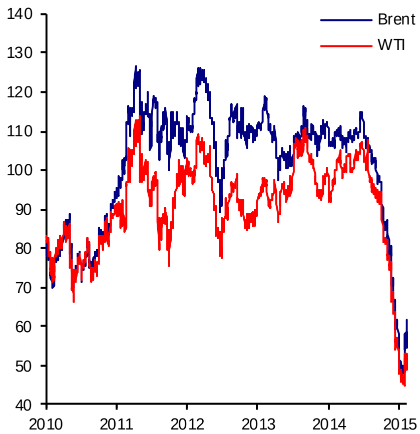
In fact, the lower growth of the world economy led to a downward adjustment in the estimations of crude oil demand, which also contributed to lower prices (Chart 146b). The observed slowdown in emerging economies' growth, in particular that of China, accounts for a great part of the downward revision in the estimations of demand for crude oil and its forecast for 2015.

Under a scenario in which the OPEC is assumed to sustain its production rate in 2015, the International Energy Agency (IEA) estimates that the world oil supply will be higher than its demand in the first half of the year, and, therefore, that inventory accumulation will be registered, which will have to go down insofar as the world economic activity rebounds in the second half of the year (Chart 146c). Thus, oil prices are likely to remain low for an extended time period, while investment and eventually supply with greater extraction costs do not decrease considerably.

Industrial metal prices also presented a downward trend, although to a lesser degree. In the particular case of iron ore, the fall was due to an expansion of production in Australia and Brazil, in a market with excess supply (Chart 147a). In turn, grain prices, such as corn and wheat remained low as favorable supply conditions persisted (Chart 147b).

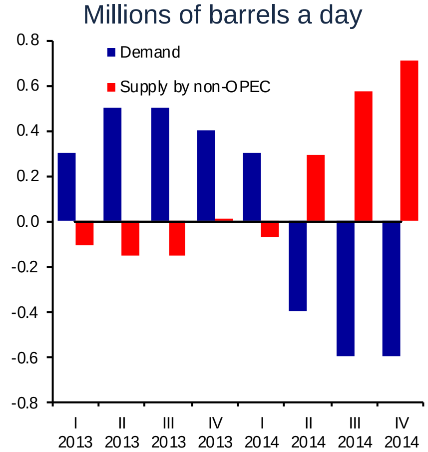
Chart 146
Supply and Demand in the Global Oil Market

a) Crude Oil [1/]
USD per barrel



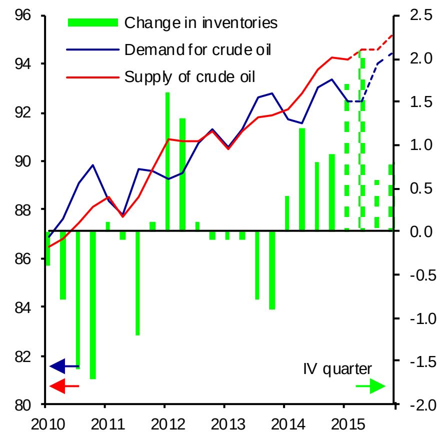
1/ Mercado Spot.
Source: Bloomberg.

b) Revisions of Estimations of World Oil Supply and Demand
Millions of barrels a day



Note: Revisions of the estimates from June 2014 to February 2015.
Source: International Energy Agency.

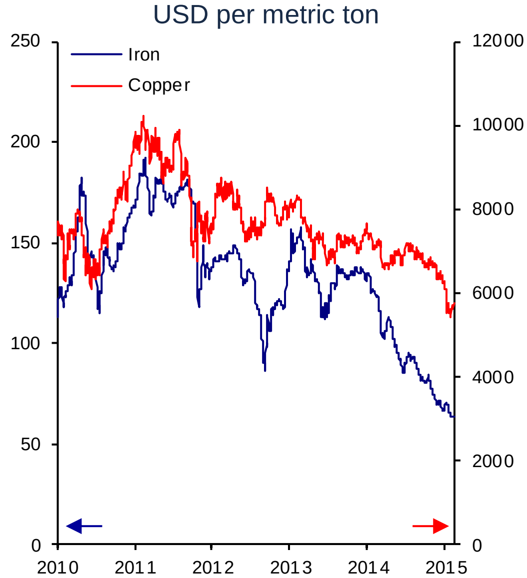
c) Supply and Demand of World Oil
Millions of barrels a day



Note: For 2015, it is a forecast and it is assumed to sustain the OPEC production rate.
Source: International Energy Agency.

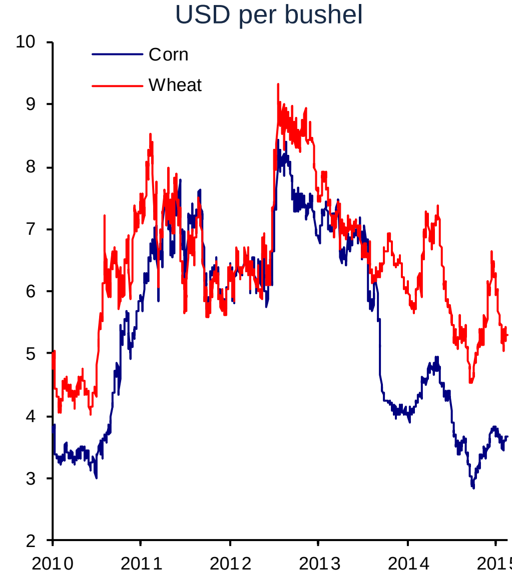
Chart 147
International Commodity Prices

a) Iron and Copper [1/]
USD per metric ton



1/ Mercado Spot.
Source: Bloomberg.

b) Corn and Wheat [1/]
USD per bushel



3.1.3. Inflation Trends Abroad

Global inflation continued decreasing in the fourth quarter of 2014, once the still persisting ample slack conditions in some advanced economies and weak domestic demand in the emerging ones were complemented by a considerable drop in commodity and energy prices (Chart 148). Hence, fear of the fact that very low and/or negative inflations might affect the anchoring of long-term inflation expectations in these economies, in particular in most advanced economies, maintained.

In the U.S. inflation and market inflation expectations decreased in the period analyzed by this Report, due to lower energy prices, to the effect generated by the USD depreciation on imports' prices and the absence of labor cost-related pressures. In December, headline inflation was 0.8 percent, its lowest reading in over five years, while the core inflation remained at 1.6 percent. On the other hand, the annual change of the personal consumption expenditure (PCE) deflator was 0.7 percent and the core PCE was 1.3 percent. Thus, inflation lies below the 2.0 percent target of the Federal Reserve.

In the Euro zone, inflation turned negative (-0.6 percent at an annual rate in January), while its expectations kept lowering, thus increasing the deflation risks. This performance was mainly contributed to by the plunge in energy prices and low growth in food prices. In turn, the ample slack in the economy led to lower core inflation, which located at 0.6 percent. The historical low levels of inflation and its expectations generated concern in the ECB regarding the possibility of second round effects on wages and price setting.

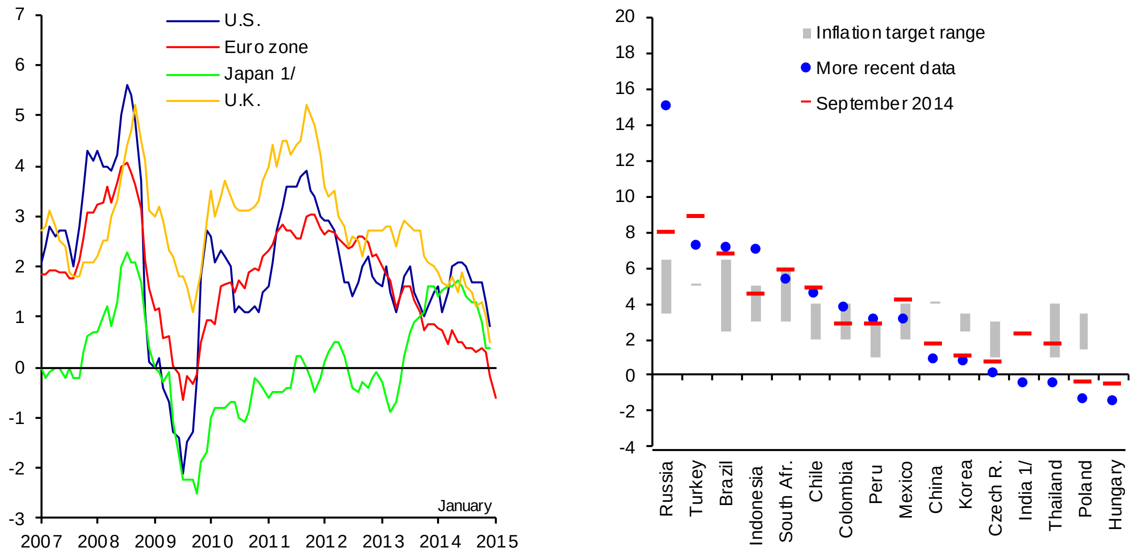
In the U.K., in December annual headline inflation went down to 0.5 percent. This decrease was mainly attributed to lower fuel prices. Core inflation dropped to 1.2 percent in the same month, partly due to lower imports' prices, given the GBP appreciation. In Japan, headline inflation, excluding the upward effect in the consumption tax, also showed a downward trend with respect to the previous quarter, shifting from 1.3 to 0.4 percent between September and December. The above was a reflection of a significant drop in crude oil prices.

In emerging economies, the evolution of inflation was mixed. In most countries, among which China, Korea, Hungary, India, Poland and Thailand stand out, the downward inflation trend was due to the weakness of domestic demand, although by the end of the year the drop in the crude oil price contributed as well. Still, in other countries, such as Brazil, Indonesia and Russia, inflation rebounded or remained high, as a reflection of macroeconomic imbalances.

Chart 148
Annual Headline Inflation in Advanced and Emerging Economies

a) Advanced Economies
Percent

b) Emerging Economies
Percent



1/ It excludes the direct effect of the increment in the consumption tax.
Source: BLS, Eurostat and Statistics Bureaus of Japan and the U.K.

1/ It refers to inflation of wholesale prices.
Source: National Statistics Bureaus and Central Banks.

3.1.4. Monetary Policy and International Financial Market

During the period covered by this Report, in general, the monetary policy stance in the main economies remained accommodative and in some cases additional monetary easing measures were taken. Accommodative monetary conditions are expected to prevail in the future, with the notable exception of the U.S. The strength of the economic activity in this country has generated an expectation of a first increment in the reference interest rate. However, there is great uncertainty regarding the moment it will take place and the speed at which this rate will adjust over the following months.

In its January meeting, the Federal Reserve evaluated the economic recovery and employment more positively as compared to December. Furthermore, it kept characterizing inflation, caused by lower fuel prices, as transitory, but informed that inflation will continue decreasing in the short term and will gradually resume its target in the medium term. As regards inflation expectations, it acknowledged a considerable reduction in those derived from financial instruments, but stressed that long-term ones, derived from surveys, remain stable. In this context, the Federal Reserve maintained its forward guidance of the interest rate announced last December, indicating that it could be patient about normalizing its monetary policy stance and emphasized that its actions will depend on the performance of the economy, and will consider the international events as well.

In contrast, given the weakness of the economy and greater deflation risks, in January 2015 the European Central Bank announced additional monetary easing, consisting in an expanded amplification of the program of the purchase of securities. Under this program, the Eurosystem will buy Euro-denominated investment-grade securities issued by Euro area governments, European agencies and institutions in the secondary market, which will amount to a monthly value of EUR 60 billion. These purchases, that will also include asset-backed securities and covered bonds, will start in March 2015 and will tentatively conclude in September 2016. However, the ECB notified that these operations could extend until a sustained increment of inflation towards its target is perceived. Additionally, it was decided to eliminate the 10 basis points' margin on the main refinancing rate, applicable to facilitate long-term financing (TLTROs), which are to take place between March 2015 and June 2016. According to the ECB, the main goal of these new measures is to effectively address the risks of a very extended period of low inflation, even preventing deflation.

The Bank of England maintained its reference rate at 0.5 percent and kept unchanged the forward guidance for its interest rate during the period analyzed in this Report. Additionally, it did not modify the stock of its asset purchase program, leaving it at GBP 375 billion and announced that it will reinvest GBP 4.35 billion, from the maturity of government bonds in January 2015. Still, in the Minutes of its January meeting, greater concern over the possible effects of an extended period of low inflation was present.

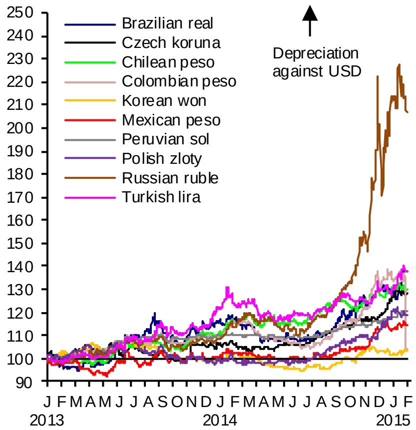
In its January meeting, the Bank of Japan ratified its quantitative and qualitative monetary easing program to achieve its 2 percent inflation target announced last October. Thus, it maintained its goal to increase the monetary base at an annual rate of JPY 80 trillion, as well as its decision to keep buying government bonds and exchange-traded funds at an annual rate of JPY 80 and 3 trillion, respectively. Likewise, it did not modify its decision to purchase real estate investment trusts of JPY 90 billion. Although the Bank of Japan made a downward revision of its inflation outlook, thus delaying the possibility to achieve its target this year, this revision was attributed to the temporary decrease in energy prices. Furthermore, it maintained unchanged its outlook for core inflation and slightly adjusted upwards its inflation forecast for 2016.

Differences in the conduction of the monetary policy persisted among emerging economies. On the one hand, a drop in inflation, accentuated in some cases by the fall of the energy price, and the accommodative stance in main advanced economies allowed the central banks of such countries as China, Korea, Hungary, India, Poland and Thailand to reduce their reference interest rates. Nonetheless, other countries such as Brazil, Indonesia and Russia, despite weakness of their economies, increased their interest rates, in order to reduce their high inflation levels, as well as to offset the effects of the strong depreciation of their exchange rates.

During the fourth quarter of 2014 and the first weeks of the current year, a considerable increment in volatility in international financial markets was observed. Among the main elements generating this volatility the following stand out: divergence in current and expected monetary policy stances of the main advanced economies, the drop in crude oil prices and the forecast that they will persist at low levels for an extended period, as well as economic implications and risks of contagion derived from the political situation in Greece. This was combined with uncertainty generated by geopolitical risks due to the conflict in Ukraine and by the sanctions imposed on Russia by the international community. Thus, greater risk to aversion was reflected in a marked upward trend of sovereign risk margins and a smaller capital inflow to emerging economies (Chart 149). In this environment, new episodes of volatility cannot be ruled out, which can translate into tighter conditions of access to financial markets for emerging countries. This, along with the recent depreciation of their currencies, could exacerbate financial vulnerabilities of economies with high levels of liabilities denominated in foreign currency and, in general, with weak economic fundamentals.

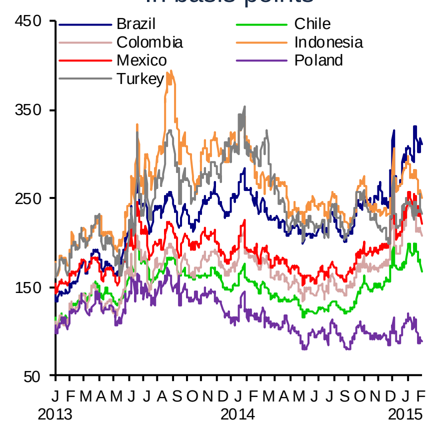
Chart 149
Financial Indicators of Emerging Economies

a) Exchange Rate
Index 01/01/2013=100



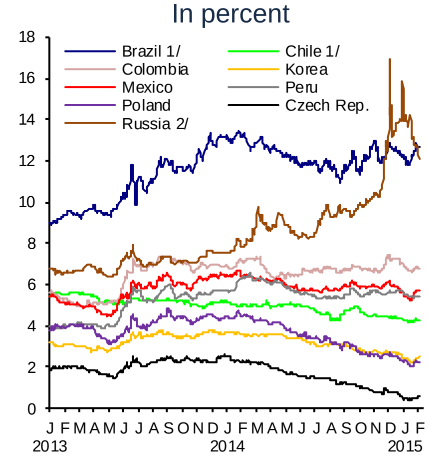
Source: Bloomberg.

b) Sovereign Spreads
In basis points



Source: Bloomberg.

c) 10-year Bond Yield
In percent



1/ It refers to 9-year bonds.
2/ It refers to 8-year bonds.
Source: Bloomberg.

3.2. Evolution of the Mexican Economy

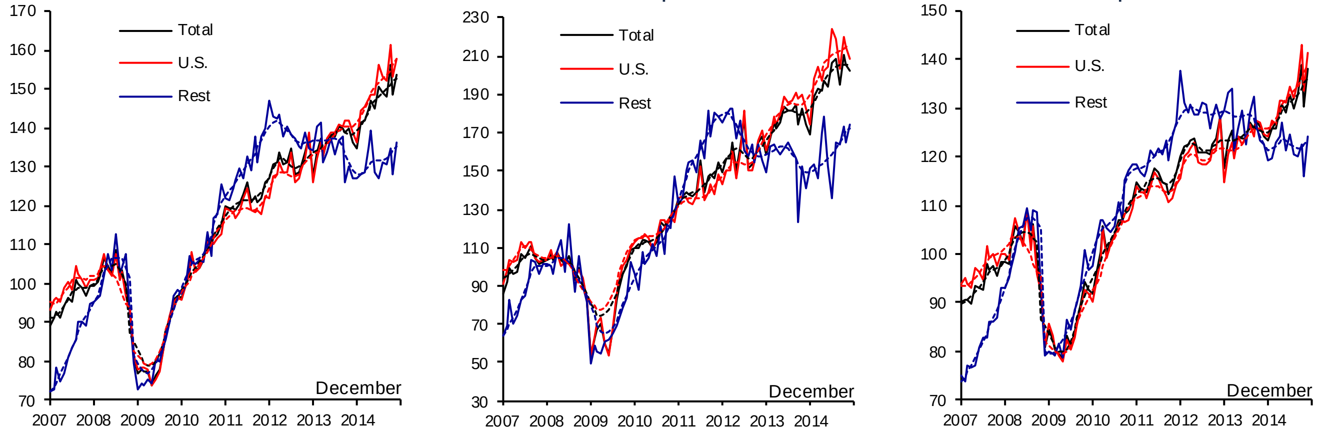
3.2.1. Economic Activity

In the fourth quarter of 2014, the Mexican economy continued with the moderate recovery, that had been registered since the second quarter of that year. This evolution principally derived from the dynamism of external demand, while domestic demand presented certain improvement.

In the analyzed quarter, manufacturing exports maintained the growing trend they had been showing since the end of the first quarter of 2014. Growth of manufacturing exports largely originated from the impulse of those to the U.S. (Chart 150a), in line with the growth of productive activity observed in that country. In turn, the dynamism of these exports reflected the increments of both the automobile sector exports and those in the rest of the manufacturing sector (Chart 150b and Chart 150c). For their part, exports to the rest of the world remained relatively stagnated.

Chart 150
Indicators of Manufacturing Exports
Index 2008=100, s. a.

a) Manufacturing Exports by Region of Destination b) Automobile Manufacturing Exports c) Non-automobile Manufacturing Exports

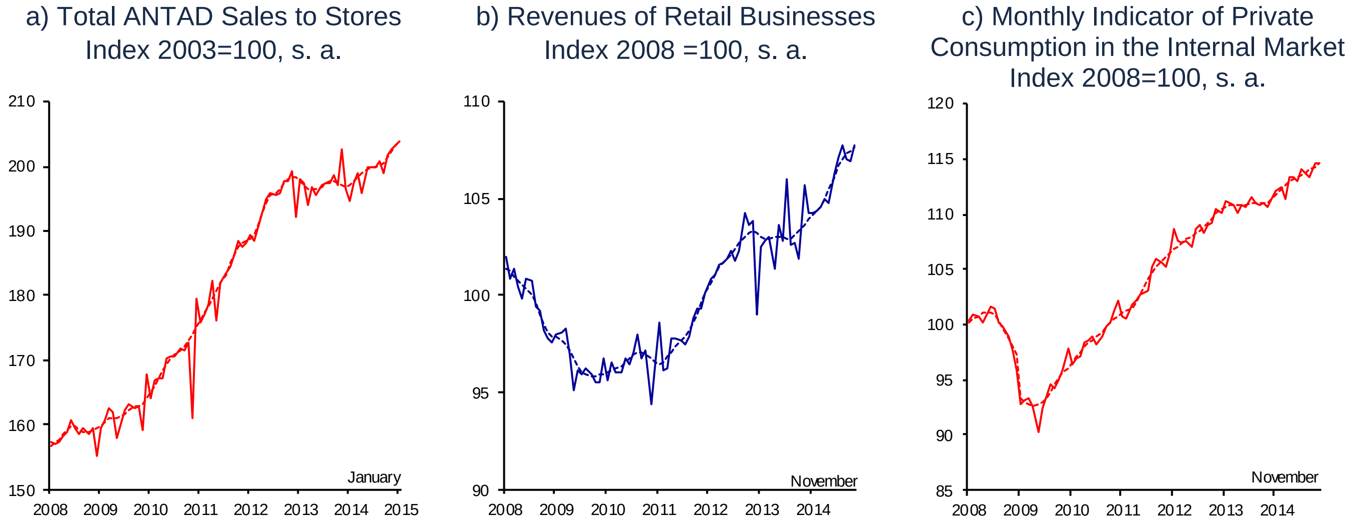


s. a. / Seasonally adjusted and trend data. The former is represented by a solid line, the latter by a dotted line.
Source: Banco de México.

As regards domestic demand, while private consumption still did not present clear signs of a solid reactivation, some investment indicators suggested that it kept improving gradually, following weak performance in 2013 and early 2014.

i. As for private consumption, ANTAD sales presented progress in the fourth quarter (Chart 151a), while in the period of October-November 2014, revenues of commercial retail establishments obtained from goods and services' provision reported a seasonally adjusted level similar to that observed, on average, in the third quarter (Chart 151b). On the other hand, in the period of October-November, the monthly private domestic consumption indicator recovered incipiently (Chart 151c).

Chart 151
Consumption Indicators



s. a. / Seasonally adjusted and trend data. The former is represented by a solid line, the latter by a dotted line.
Source: Prepared by Banco de México with ANTAD data.

s. a. / Seasonally adjusted and trend data. The former is represented by a solid line, the latter by a dotted line.
Source: Monthly Survey of Commercial Establishments, INEGI.

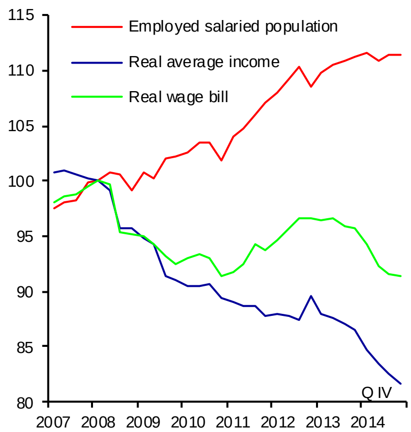
s. a. / Seasonally adjusted and trend data. The former is represented by a solid line, the latter by a dotted line.
Source: Mexico's System of National Accounts, INEGI.

ii. The above derived from the fact that some consumption determinants kept registering certain weakness. In particular, workers' real wage bill remained affected by the drop in the real average income of employed population, and, consequently, kept showing decreases (Chart 152a). Although the consumer confidence index started to present an upward trend, in recent months it began going down again and still located below the levels observed in the first half of 2013 (Chart 152b). Meanwhile, as indicated further below in this Report, consumer credit kept decelerating (see Section 3.2.2). In contrast, in the fourth quarter of 2014, workers' remittances showed a greater growth rate as compared to the previous quarter (Chart 152b). Although part of this improvement could be due to the exchange rate depreciation, its impulse, to a certain degree, was also a reflection of greater employment dynamism in the U.S. construction sector.

iii. Gross fixed investment maintained a positive trend in the last quarter of 2014. This performance mainly derived from the recovery of investment in construction (Chart 153a). The said improvement originated from the reactivation of private investment in construction, given that the component of the public sector kept presenting a weak performance (Chart 153b). As regards the item of machinery and equipment, although in the fourth quarter of 2014 imports of capital goods stagnated (Chart 153c), expenditure on domestic machinery and equipment kept registering increments in its dynamism.

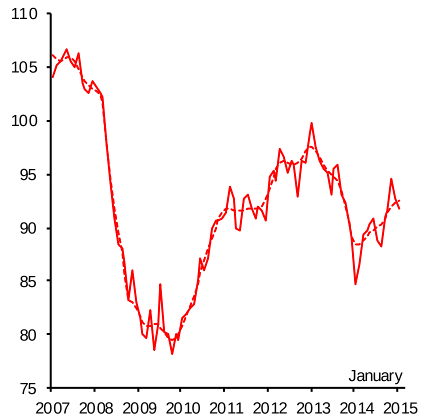
Chart 152
Consumption Determinants

a) Real Total Wage Bill
Index I-2008=100, s. a.



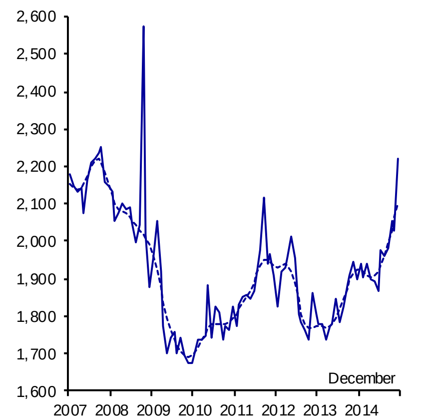
s. a. / Seasonally adjusted data.
Source: Prepared by Banco de México with information from the National Employment Survey (ENOE), INEGI.

b) Consumer Confidence Index
Index Jan 2003=100, s. a.



s. a. / Seasonally adjusted and trend data. The former is represented by a solid line, the latter by a dotted line.
Source: National Consumer Confidence Survey (ENCO), INEGI and Banco de México.

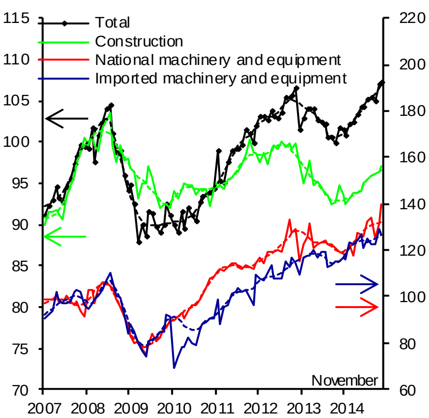
c) Workers' Remittances
USD million, s. a.



s. a. / Seasonally adjusted and trend data. The former is represented by a solid line, the latter by a dotted line.
Source: Banco de México.

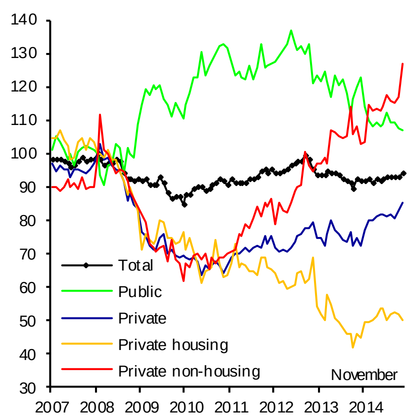
Chart 153
Investment Indicators

a) Investment and its Components
Index 2008=100, s. a.



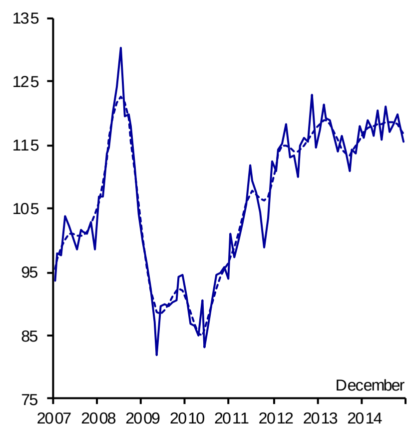
s. a. / Seasonally adjusted and trend data. The former is represented by a solid line, the latter by a dotted line.
Source: Mexico's System of National Accounts, INEGI.

b) Real Value of Production in the Construction Sector by Contracting Institutional Sector
Index Jan 2008=100, s. a.



s. a. / Seasonally adjusted data. For public and private construction (housing and total private non-housing), the seasonal adjustment was prepared by Banco de México with data from INEGI.
Source: INEGI.

c) Imports of Capital Goods
Index 2007=100, s. a.



s. a. / Seasonally adjusted and trend data. The former is represented by a solid line, the latter by a dotted line.
Source: Banco de México.

iv. In reference to public expenditure, available information of national accounts indicates that in the third quarter of last year the dynamism of public consumption had a greater contribution to aggregate demand than in previous quarters. However, public investment still did not register a clear recovery.

The performance of external and domestic demand reflected in a moderate recovery of economic activity in the period of October-December 2014, which derived from a positive evolution of both industrial production and the services' sector (Chart 154a). In particular:

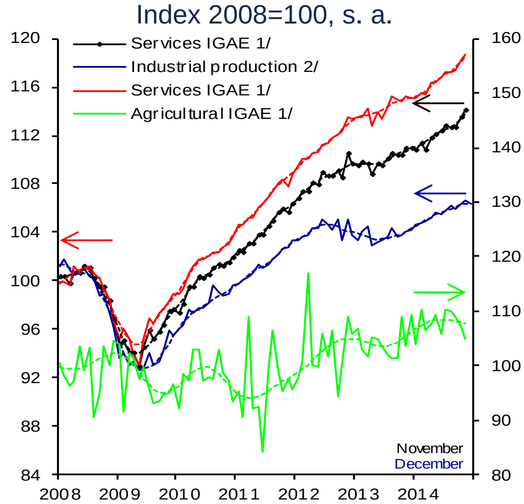
i. Within the industrial activity, the dynamism of manufacturing production and the reactivation of construction industry stand out, after the weak performance of the latter in the period between mid-2012 and early 2014 (Chart 154b). In contrast, the mining sector continued to observe a negative trend, which is due to the contraction in crude oil mining, which, in turn, is the reflection of the reduction in the crude oil production platform, as well as in the services related to oil extraction (Chart 154c).

ii. The expansion of the services' sector mainly responded to the dynamism of the external sector, that is the impulse of the services more related to external demand, such as commerce and transport linked to the external sector. On the other hand, even though the services more related to domestic demand, such as temporary accommodation and food preparation, mass media information, domestic trade and business support services improved as well, this improvement was lower than that observed in the services closer related to external demand (Chart 154d).

iii. In the first two months of the fourth quarter of 2014, primary sector activities decreased with respect to the average achieved in the previous quarter. This drop derived both from a smaller harvested area of the spring-summer cycle, and from a contraction in the production of some perennial crops.

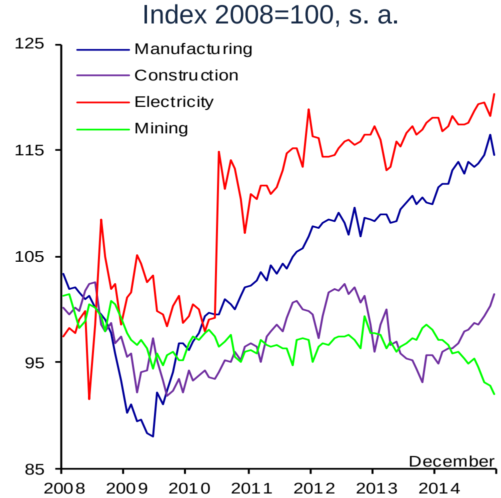
Chart 154
Indicators of Production

a) Economic Activity Indicators
Index 2008=100, s. a.



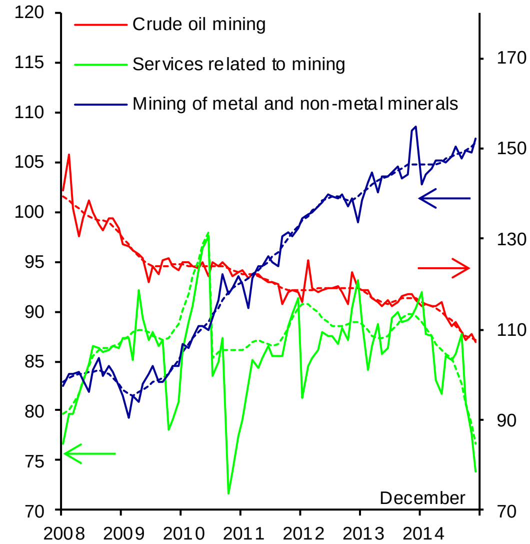
s. a. / Seasonally adjusted and trend data. The former is represented by a solid line, the latter by a dotted line.
1/ Data as of November 2014.
2/ Data as of December 2014 with information of the Monthly Indicator of Industrial Activity.
Source: Mexico's System of National Accounts, INEGI.

b) Industrial Activity
Index 2008=100, s. a.



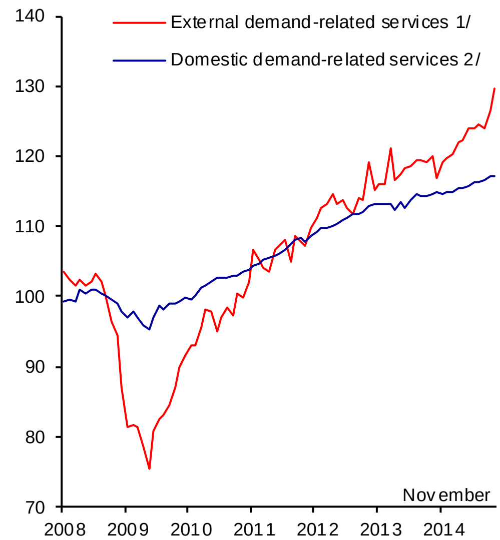
s. a. / Seasonally adjusted data.
Source: Monthly Indicator of Industrial Activity, Mexico's System of National Accounts, INEGI.

c) The Mining Sector
Index 2008=100, s. a.



s. a. / Seasonally adjusted and trend data. The former is represented by a solid line, the latter by a dotted line.
Source: Monthly Indicator of Industrial Activity, Mexico's System of National Accounts, INEGI.

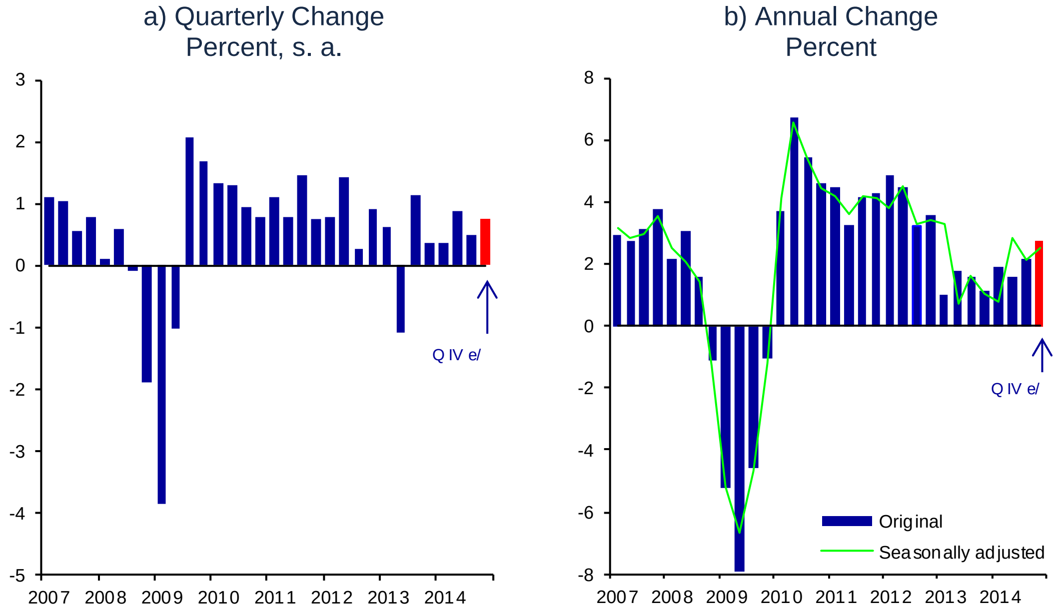
d) IGAE of the Services Sector
Index 2008=100, s. a.



s. a. / Seasonally adjusted data.
1/ It includes commerce and transport sectors related to external demand.
2/ It includes the remaining sectors of tertiary activities.
Source: Prepared by Banco de México with data from Mexico's System of National Accounts, INEGI.

As a result of the abovesaid, for the fourth quarter of 2014, GDP is expected to increase at a quarterly seasonally adjusted rate of around 0.7 percent, which compares to the increments of 0.36, 0.90 and 0.50 percent in the previous three quarters, respectively (Chart 155a). In annual seasonally adjusted terms, GDP growth is estimated to be around 2.6 percent for the last quarter of 2014, which compares to 0.8, 2.8 and 2.1 percent in the last three quarters. Based on data without seasonal adjustment, the annual change of GDP is estimated at 2.7 percent in the period October-December 2014, as compared to 1.9, 1.6 and 2.2 percent in the three previous quarters. Therefore, GDP growth rate in 2014 is expected to have been approximately 2.1 percent (Chart 155b).

Chart 155
Gross Domestic Product



s. a. / Seasonally adjusted data.
e/ Estimated by Banco de México.
Source: Mexico's System of National Accounts, INEGI. Seasonal adjustment of the fourth quarter of 2014 was prepared by Banco de México.

The most timely information indicates that in the last quarter of 2014, labor market gradually improved. Thus, although slack conditions persisted, they are decreasing. In particular:

i. Even though the number of IMSS-insured workers kept showing a growing trend, partly as a reflection of greater supervision effort for businesses to formalize their workers, total employment in the economy still has not reactivated (Chart 156a).

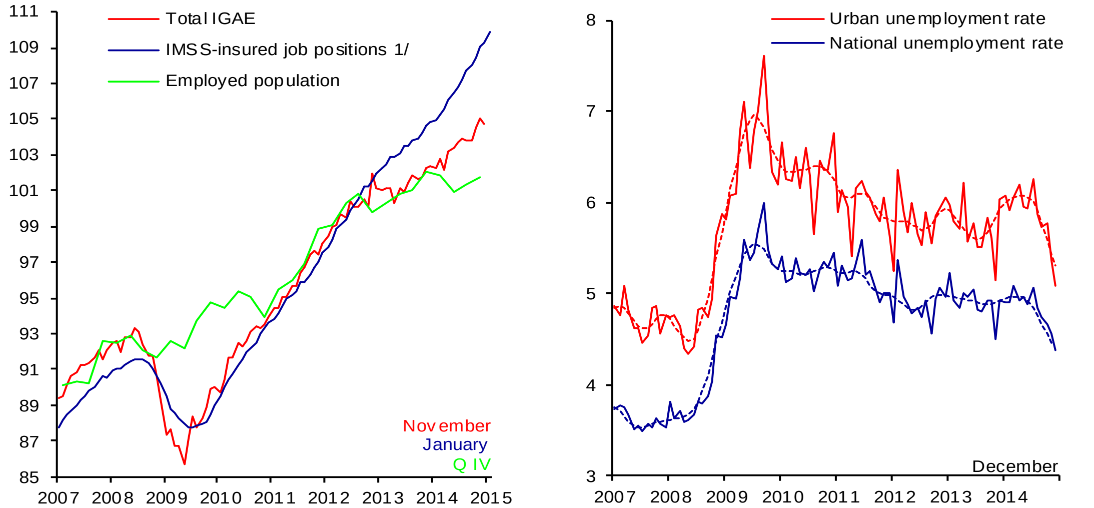
ii. National and urban unemployment rates have considerably reduced in recent months (Chart 156b).

iii. In this context, no labor cost-related pressures on inflation have been perceived. Indeed, recent wage increments occurred simultaneously with increases in labor productivity, reason for which labor unit costs remained at low levels (see Section 4 further below).

Chart 156
Labor Market Indicators

a) Total IGAE, IMSS-insured Workers and Employed Population
Index 2012=100, a. e.

b) National and Urban Unemployment Rates
Percent, s. a.



s. a. / Seasonally adjusted data.
1/ Permanent and temporary workers in urban areas. Seasonal adjustment by Banco de México.
Source: Prepared by Banco de México with data from IMSS and INEGI (SCNM and ENOE).

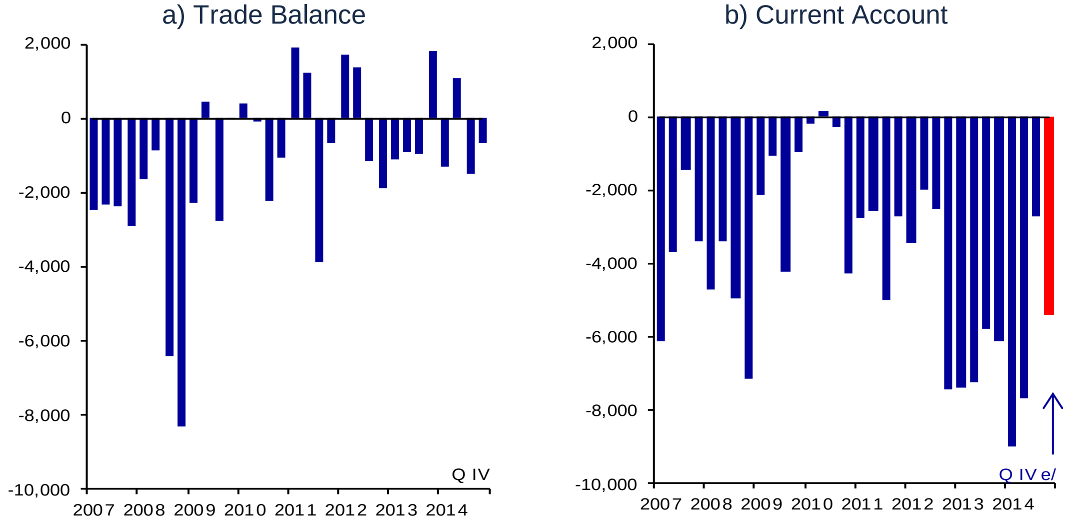
s. a. / Seasonally adjusted and trend data. The former is represented by a solid line, the latter by a dotted line.
Source: The National Employment Survey (ENOE), INEGI.

In the last quarter of 2014, the trade balance registered a deficit of USD 680 million (Chart 157a). In turn, available data suggest that in the same period the current account observed a moderate deficit and the country continued receiving capital inflows via the financial account sufficient to allow an easy financing of this deficit (Chart 157b).

Chart 157
Trade Balance and Current Account
USD million

a) Trade Balance

b) Current Account



Source: Banco de México.

e/ Estimated by Banco de México.
Source: Banco de México.

3.2.2. Ahorro Financiero y Financiamiento en el País

In the fourth quarter of 2014, the sources of financial resources of the economy expanded with a similar dynamism to that registered in the third quarter of the year. This performance was accounted for by the growth rate stability of both domestic and external sources, highlighting, in particular, the evolution of this last component despite higher volatility in international financial markets.

With respect to domestic sources, the stock of domestic financial saving –defined as the monetary aggregate M4 minus the stock of currency held by the public– registered a similar growth rate to that observed in the previous period. This performance was observed both in the voluntary and compulsory savings' component (Chart 158a and Chart 158b). In turn, the monetary base expanded more than in the third quarter, in a context of a moderate recovery of economic activity and low interest rates.[37]

External sources presented a similar growth to that in the previous quarter, despite a differentiated performance of its components. On the one hand, the stock of non-resident financial saving increased its growth rate, which reflected an increment in its holdings of government debt instruments in the reference quarter, in particular of medium- and long-term securities (Chart 158c). In this regard, it is important to highlight that even though in December there were pre-scheduled redemptions of fixed-rate government securities –in which non-residents had an important participation-, foreign investors' holdings of these debt instruments continued to increase, even in the context of high volatility in international financial markets. In contrast, foreign financing to non-financial private firms kept moderating its growth rate.

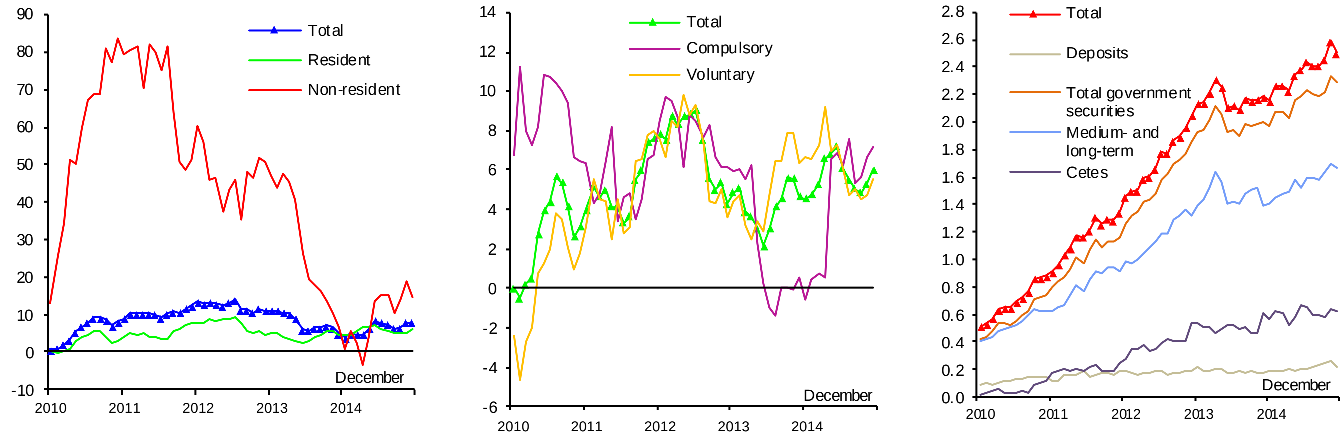
[37] The monetary base is defined as the sum of currency in circulation plus current account bank deposits in Banco de México.

Chart 158
Financial Saving Indicators

a) Total Financial Saving 1/
Real annual change in percent

b) Resident Financial Saving
Real annual change in percent

c) Non-resident Financial Saving
MXN trillion as of December 2014

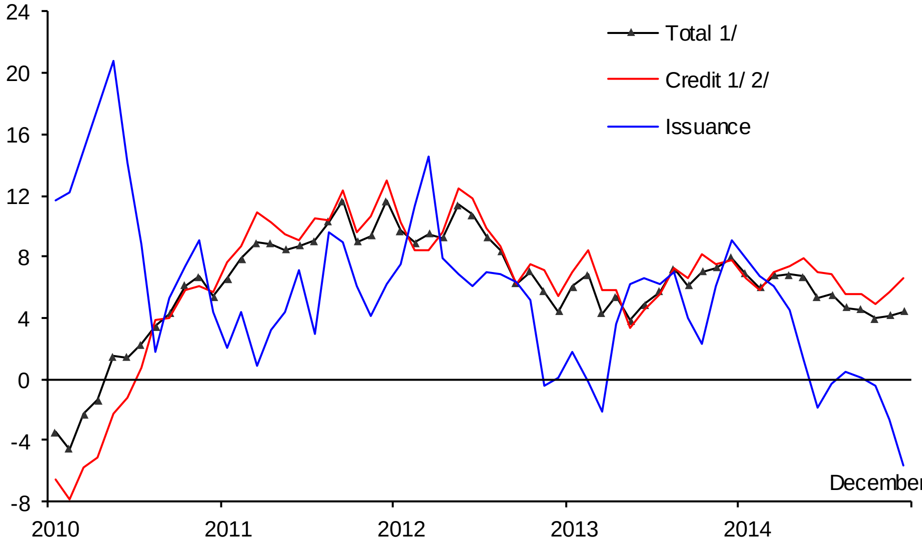


1/ Defined as the monetary aggregate M4 minus the stock of currency held by the public.
Source: Banco de México.

As regards the use of financial resources in the economy in the fourth quarter of 2014, even though Public Sector Borrowing Requirements (PSBR) were lower than in the third quarter –even showing a moderation with respect to what was previously anticipated by the 2015 General Criteria of Economic Policy (2015 CGPE)–, both financing to states and municipalities and the accumulation of international reserves were higher than in the previous quarter. In what concerns financing to the non-financial private sector, it grew at a lower rate during the analyzed quarter.

In particular, the growth rate of total financing to non-financial private firms decelerated, largely due to the above referred moderation of the growth rate of external financing. This was partly a consequence of a base effect due to an unusually high level of debt issuance in international markets in the fourth quarter of 2013. Domestic financing also showed a lower dynamism in the analyzed quarter, particularly as a result of a reduction in the net placement of private securities (Chart 159).

Chart 159
Domestic Financing to Non-financial Private Firms
Real annual change in percent



1/ The annual changes prior to January 2014 can be slightly affected downwards due to the conversion of some nonbank financial intermediaries to non-regulated multiple purpose financial corporations (Sofom ENR).
2/ It refers to the performing and non-performing portfolio, and includes credit from commercial and development banks, as well as other nonbank financial intermediaries.
Source: Banco de México.

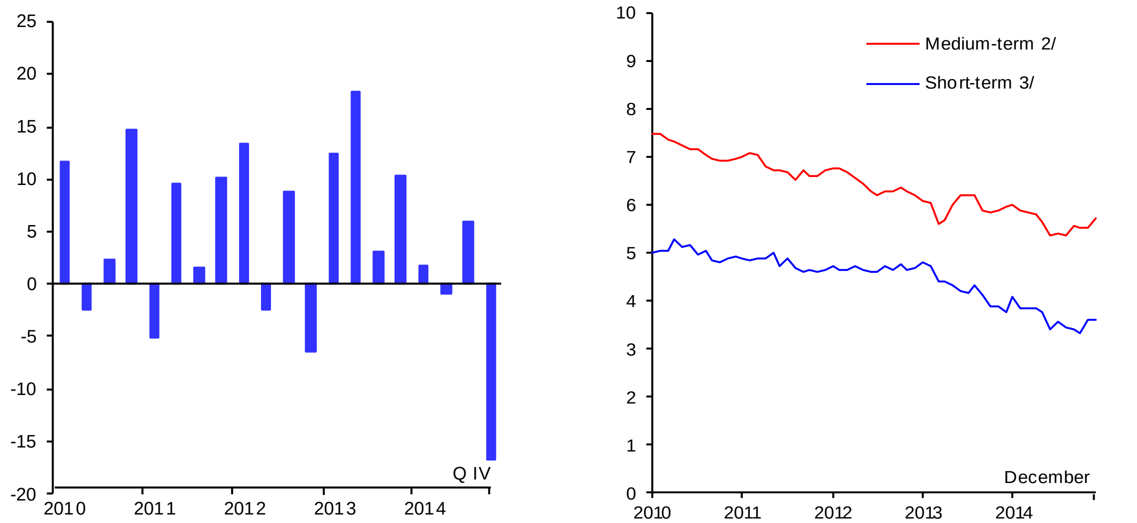
With respect to this last point, even though firms continued to finance themselves through the issuance of medium-term domestic debt, net financing decreased due to the unusually high amortizations of debt that was not renewed. In the period of October-December 2014, gross placements of medium-term domestic debt amounted to MXN 13.2 billion, while gross amortizations –scheduled redemptions and prepayments– were MXN 29.9 billion, so that the net placement of non-financial private firms was MXN -16.7 billion (Chart 160a). The above, in an environment in which the interest rates of private debt securities, in general, remained relatively stable (Chart 160b).

On the other hand, the growth rates of commercial banks' performing credit to firms remained relatively stable during the fourth quarter of 2014, while the growth rate of direct performing credit granted by development banks decreased, although it continues to grow at relatively high rates (Chart 161a). In this context, interest rates and delinquency rates of bank credit to firms showed no significant changes in the reported period (Chart 161b and Chart 161c).

Chart 160
Securities of Non-financial Private Firms in the Domestic Market

a) Net Placement of Medium-term Securities by Non-financial Private Firms [1/]
MXN billion

b) Interest Rates of Securities Issued by Non-financial Private Firms
Annual percent



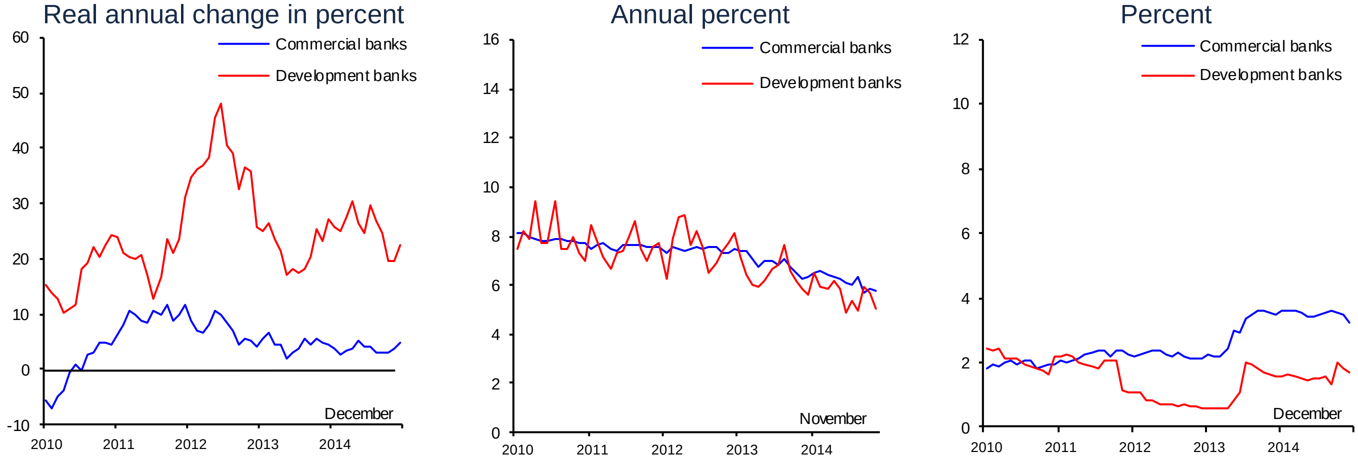
1/ Placements excluding amortizations in the quarter (maturities and prepayments).
2/ Placements of more than one year.
3/ Placements of up to one year.
Source: Banco de México, with data from Valmer and Indeval.

Chart 161
Bank Credit to Non-financial Private Firms

a) Performing Credit to Non-financial Private Firms
Real annual change in percent

b) Interest Rates of New Credits to Non-financial Private Firms [1/]
Annual percent

c) Delinquency Rates of Credit to Non-financial Private Firms [2/]
Percent



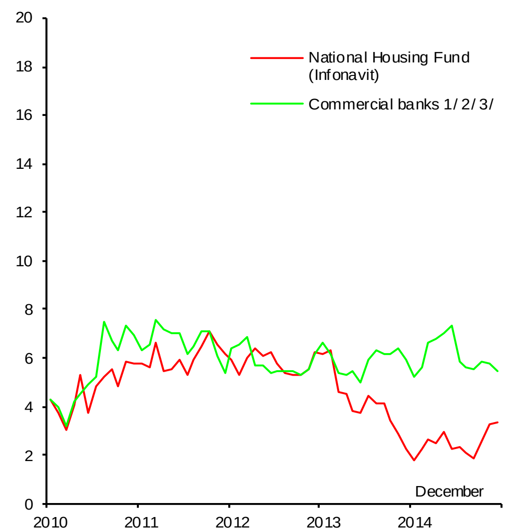
1/It refers to the interest rate of new bank credits to non-financial private firms, weighted by the associated stock of the performing credit and for all credit terms requested.
2/ The delinquency rate is defined as the stock of non-performing loans divided by the stock of total loans.
Source: Banco de México.

Credit portfolio to households kept showing a mixed performance. On the one hand, the mortgage loan portfolio of commercial banks and their multiple purpose financial corporations (sofomes) kept expanding with dynamism, registering an average annual real growth rate of 5.7 percent, similar to the 5.6 percent rate observed in

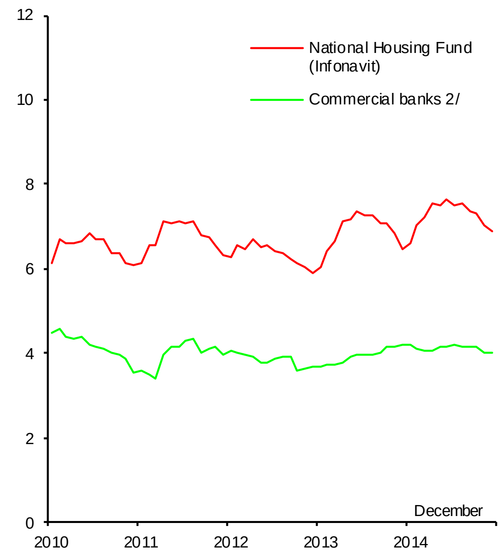
July-September 2014 (Chart 162a). This expansion occurred in an environment, in which interest and delinquency rate did not present any substantial changes (Chart 162b). On the other hand, the performing portfolio of the National Housing Fund registered an increase in its average growth rate during the fourth quarter of 2014, locating at 3.0 percent in real annual terms, although it still lies below the levels observed in previous years (Chart 162a). As regards the quality of the credit portfolio granted by the National Housing Fund, the delinquency rate of this institute's credit portfolio decreased as compared to the level observed in the third quarter (Chart 162b).

Chart 162
Housing Credit

a) Performing Housing Credit
Real annual change in percent



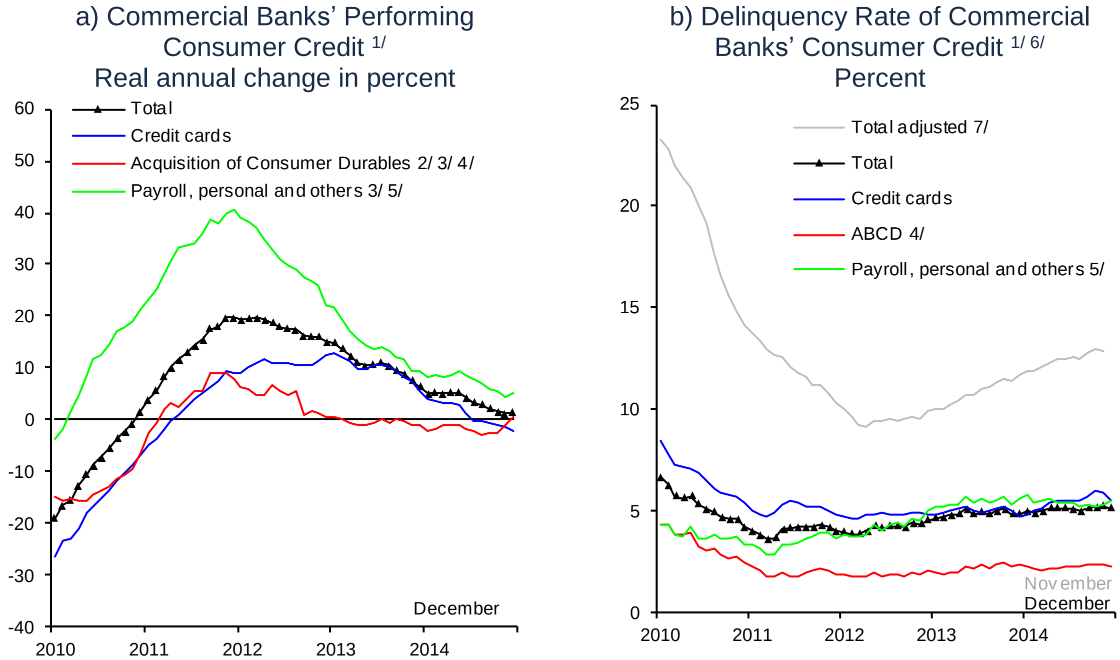
b) Delinquency Rates of Housing Credit 4/
Percent



1/ Figures are adjusted in order to avoid distortions by the transfer from the UDIS trust portfolio to the commercial banks' balance sheet and by the reclassification of direct credit portfolio to ADES program.
2/ It includes sofomes owned by commercial banks.
3/Figures are adjusted to avoid distortions due to the inclusion of some regulated sofomes to the bank credit statistics.
4/The delinquency rate is defined as the stock of non-performing loans divided by the stock of total loans.
Source: Banco de México.

Consumer credit moderated its growth rate, mainly reflecting the low dynamism that the credit card segment exhibited throughout the year (Chart 163a). In particular, during the period of October-December, the commercial banks' performing consumer credit portfolio expanded at an annual real rate of 1.4 percent, below the 2.8 percent rate observed in the period of July-September 2014. In this context, the corresponding interest rates and delinquency rates did not present significant changes (Chart 163b). However, the adjusted delinquency rate –which considers bad debt write-offs accumulated in the last twelve months– remains at high levels, which highlights the importance to remain alert to the evolution of this indicator in the following quarters.

Chart 163
Commercial Banks' Consumer Credit



1/ It includes loans by credit card-regulated sofomes: Tarjetas Banamex, Santander Consumo, Banorte-Ixe Tarjetas and Sociedad Financiera Inbursa.
2/ Between June 2010 and May 2011, figures are adjusted in order to avoid distortions due to the purchase of one banking institution's automobile loan portfolio.
3/ From July 2011 onwards, figures are adjusted in order to avoid distortions due to the reclassification from acquisition of durable goods (ABCD) to other consumer credits by one banking institution.
4/ It includes credit for movable property acquisition and auto loans.
5/"Other" refers to credit for payable leasing operations and other consumer credits.
6/ The delinquency rate is defined as the stock of non-performing loans divided by the stock of total loans.
7/ It is defined as a non-performing portfolio plus debt write-offs accumulated over the last 12 months divided by total portfolio plus debt write-offs accumulated over the last 12 months.
Source: Banco de México.

Taking into account the recent changes in the macroeconomic environment –including tighter external financial conditions, low crude oil prices and adjustments to the fiscal policy announced by the Federal Government in January 2015– the results of a prospective exercise regarding the sources and uses of financial resources of the economy for the current year are presented below. This exercise shows the importance of maintaining the effort regarding the fiscal consolidation process, particularly given that it shows that the referred changes will be reflected in a more ample availability of resources to the private sector. In particular:

i. For the end of 2014, the annual flow of sources of financial resources is expected to increase to 9.8 percent of GDP, as compared to 8.6 percent observed in 2013 (Table 8). This was mainly a result of greater domestic sources, since it is estimated that the external sources will be similar to those registered last year.

Regarding the use of these resources, despite the increase in the sources, the flow of financing to the private sector is estimated to represent 2.5 percent of GDP, lower than the flow of 3.9 percent of GDP registered in 2013. The above, in the context of an increase of resources channeled to the public sector –including the PSBR and financing to states and municipalities- from 3.4 percent of GDP in 2013 to 4.2 percent in 2014, as well as greater resources channeled to finance the international reserve accumulation from 1.0 to 1.3 percent of GDP.

Table 8
Total Funding of the Mexican Economy (Sources and Uses)
Percentage of GDP

	Annual flows						
	2009	2010	2011	2012	2013	2014 p/	2015 e/
Total sources	**4.0**	**9.3**	**10.0**	**10.0**	**8.6**	**9.8**	**8.1**
Domestic sources	3.4	4.1	5.7	4.4	4.8	5.9	6.0
Voluntary M4	1.7	2.6	4.2	3.0	4.1	4.2	4.6
Compulsory M4 1/	1.7	1.5	1.5	1.4	0.7	1.7	1.4
Foreign sources	0.6	5.2	4.3	5.6	3.8	4.0	2.1
Non-resident M4	0.5	2.9	3.0	4.5	1.3	2.2	0.5
Securities and foreign credit 2/	0.2	2.3	1.3	1.1	2.5	1.8	1.7
Total uses	**4.0**	**9.3**	**10.0**	**10.0**	**8.6**	**9.8**	**8.1**
International reserves 3/	0.5	2.2	2.4	1.8	1.0	1.3	1.0
Public sector financing	3.4	3.8	2.9	3.7	3.4	4.2	3.6
Public Sector Borrowing Requirements (PSBR) 4/	2.6	3.4	2.7	3.2	3.0	4.0	3.3
States and municipalities	0.8	0.4	0.3	0.5	0.4	0.2	0.3
Private sector financing	0.0	2.5	3.5	3.1	3.9	2.5	2.8
Foreign	-0.4	0.5	0.7	0.8	1.6	0.7	0.4
Domestic 5/	0.4	2.0	2.8	2.4	2.4	1.8	2.4
Other 6/	0.2	0.8	1.1	1.4	0.2	1.8	0.5

Note: Figures may not add up due to rounding. Figures expressed in percent of nominal annual average GDP. The information on (revalued) flows is stripped from the effect of exchange rate fluctuations.
p/ Preliminary data, expressed in percent of nominal annual average GDP estimated by Banco de México.
e/ Estimated data, expressed in percent of nominal annual average GDP estimated by Banco de México.
1/ Annual revalued flows exclude the effect of the reform to the ISSSTE Law.
2/ It includes foreign financing for the federal government, public institutions and entities, and foreign financed investment projects (PIDIREGAS), commercial banks' foreign liabilities and financing to the non-financial private sector.
3/ As defined by Banco de México's Law.
4/ From 2009 to 2014, Public Sector Borrowing Requirements (*Requerimientos Financieros del Sector Público*, RFSP or PSBR, for its acronym in English) correspond to data reported by the Ministry of Finance (SHCP).
5/ Total portfolio of financial intermediaries, of the National Housing Fund (*Instituto del Fondo Nacional de la Vivienda para los Trabajadores*, Infonavit), and of the ISSSTE Housing Fund (*Fondo de la Vivienda del ISSSTE*, Fovissste), as well as the domestic debt issuance.
6/ It includes capital accounts and results and other assets and liabilities of commercial and development banks, Banco de México, non-bank financial intermediaries and INFONAVIT, non-monetary liabilities from IPAB, the effect of the change in the valuation of public debt instruments, as well as non-recurring revenues of the public sector derived from the net acquisition of financial assets and liabilities, among other concepts.
Source: Banco de México.

ii. For 2015, a possible reduction in the annual flow of sources of financial resources is expected; these flows are anticipated to represent 8.1 percent of GDP. This decrease would mainly reflect a lower availability of foreign resources –which would go down from 4.0 to 2.1 percent of GDP- in light of the expectation of increments in U.S. interest rates. In contrast, an expansion of domestic sources of financial resources from 5.9 to 6.0 percent of GDP is anticipated, in a context of higher economic growth, although this increase would not be sufficient to offset the fall in external sources (Table 8).

Given the expected reduction in external sources of financial resources, 2015 appears to be a year in which the private sector access to financing might be affected. However, the measures announced on January 30, 2015 by the Federal Government, aimed at lowering public expenditure, contribute to free up resources to the private sector in a less favorable external environment (see Box 6). Indeed, considering this adjustment to public expenditure and assuming that public revenues will remain unchanged in accordance with the 2015 Federal Income Law, this exercise considers that PSBR will reduce from 4.0 percent of GDP in this year, in line with the data in the 2015 CGPE, to 3.3 percent of GDP. Hence, the public sector's use of resources –including the PSBR and financing to states and municipalities- would shift from 4.2 percent of GDP to 3.6 percent in 2015. This would increase the availability of financial resources to the private sector, from 2.5 percent of GDP in 2014 to 2.8 percent in 2015, even given the expected decrease in total sources as mentioned above.

In sum, the above illustrates the relevance of the recently announced fiscal adjustment to facilitate the economy's transition to an external environment with less favorable financial market conditions. Likewise, it stresses the importance of continuing with the fiscal consolidation process in the next years, given that, besides guaranteeing the sustainability of public debt, it would allow the channeling of more resources to the private sector and would mitigate possible pressures in credit markets, in particular on interest rates. This is particularly relevant in light of the foreseen recovery of economic activity in the following years, given that it is anticipated that it would be associated with a gradual rise in the demand for financing by the private sector.

Box 6
Fiscal Responsibility Measures

1. Introduction

On January 30, 2015, the Federal Government announced a set of fiscal responsibility measures in order to strengthen the stance of public finances from an intertemporal perspective, in light of a less favorable external environment (including the crude oil market) for the following years. The referred measures include the next: i) a preemptive adjustment to the public sector programmable expenditure in 2015, which implies a reduction by MXN 124.3 billion, with respect to the level approved by the Congress, equivalent to 0.7 percent of GDP; and, ii) a comprehensive revision in the elaboration of the Federal Government's Expenditures Budget (PEF, for its acronym in Spanish) from 2016 onwards in order to eliminate duplication in functions and structures, and to prioritize investment projects with greater social and economic impact, thus generating greater efficiency in public expenditure.

This Box explains the background in which the recently announced fiscal responsibility measures take place. In particular, a reference is made to the macroeconomic stance in recent years and to the dependence of public revenues on crude oil revenues, to explain why, in light of the crude oil price drop, it was necessary to accelerate the fiscal consolidation process. Subsequently, a description of the announced fiscal measures is presented.

2. Economic Environment and Macroeconomic Policy Stance

In recent years, the macroeconomic stance in Mexico has been expansionary in an environment of high oil prices, which until recently were expected to remain at high levels for an extended time period, and an environment of low inflation, converging towards the set target.

In this context of high oil prices, the fiscal policy was expansionary, so that in recent years increments in public deficit were observed. Moreover, primary deficit balances were reached. Thus, the Public Sector Borrowing Requirements (PSBR) went up to 4.0 percent of GDP in 2014. As a consequence of the accumulation of fiscal deficits, the Historical Balance of PSBR (HBPSBR), which is the broadest indicator of public debt in Mexico, reached 41.0 percent of GDP in 2014.

However, as mentioned in this Report, the macroeconomic environment was modified drastically, following the recent fall in oil prices, which in the medium term are not expected to keep the levels observed in recent years. This makes necessary to modify the macroeconomic stance to make it consistent with the new environment.

Due to the fact that budget revenues are highly dependent on oil revenues, and considering the recent raise in public deficit and public debt, the fall in the Export Price of the Mexican Oil Mix (PMME, for its acronym in Spanish) highlighted the need to change the course and to adjust the fiscal stance to strengthen the macroeconomic framework.

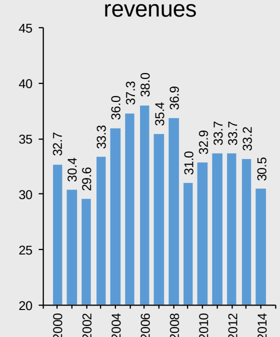
The adjustment in public finances introduced in the expenditure item is congruent with the fact that, given the persistent nature of the crude oil price fall, the adjustment also had to be persistent. That is, lower crude oil revenues could not have been funded with greater deficit without risking the long-term fiscal sustainability. Hence, the referred fiscal adjustment is an important step that maintains the expectation that fiscal deficit will follow a trend over the next years, in line with the projections of the 2015 General Criteria of Economic Policy (CGPE, for its acronym in Spanish), and strengthens the confidence in the fiscal policy conduction in the medium term.

3. Public Finances' Dependence on Oil Revenues

Over the last 15 years, oil revenues represented around one third of budgetary revenues of the public sector (Chart 1a). This share reached a maximum level of 38.0 percent in 2006, and since then it has diminished to 30.5 percent in 2014. This reduction since 2006 was due to two factors: i) the crude oil production decreased by 25.4 percent between 2006 and 2014, which was partially offset by the increment in PMME, which shifted from an annual average of USD 53.0 per barrel in 2006 to USD 86.0 per barrel in 2014, (Charts 1b and 2a); and, ii) that in the period of 2006-2014, various fiscal measures were implemented so as to increase fiscal revenues.

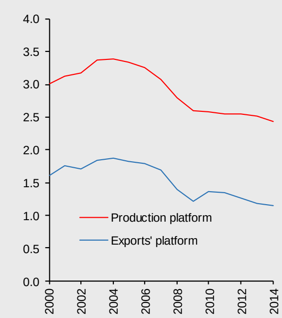
Chart 1

a) Public Sector Oil Revenues
Percent of budgetary revenues



Source: SHCP.

b) Oil Production and Exports
Millions of barrels a day



Source: SENER.

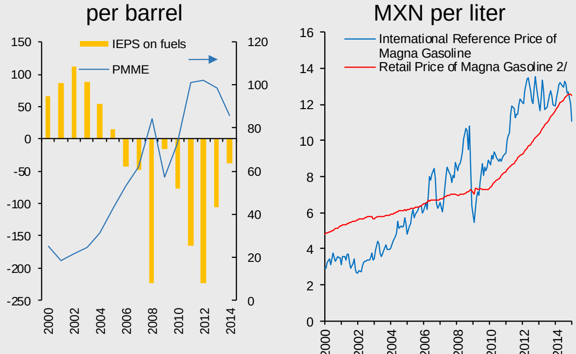
In light of a lower crude oil price, there are two mechanisms operating as automatic stabilizers that allow mitigating its effect on public finances:

- The first one refers to imports of oil derivatives, which, just like oil exports, vary due to the fluctuations of international oil prices. Thus, a lower oil price decreases the value of oil derivatives' imports, mitigating the negative impact on the value of crude oil exports.
- The second mechanism consists in the way in which the Excise Tax (IEPS) on gasoline and diesel is calculated. Given that the domestic prices of Magna and Premium gasoline and of diesel are administered by the Federal Government, the IEPS on fuels was designed as a shock-absorber in light of the changes in international oil prices. The IEPS on fuel section I equals the difference between the retail price minus the integrated price composed of the Pemex revenue price (the international reference price adjusted for fuel-quality parameters) plus shipping costs, concessionaires' profit margin and taxes. This difference can be positive, in which case it behaves as a tax, or negative, which generates a subsidy to consumers. Thus, when the crude oil price decreases, the international fuel prices and the integrated price follow, and the IEPS tends to behave as a Federal Government tax, that can be passed on to the final consumer, as it is currently happening with low crude oil prices. On the contrary, when the crude oil price increases, the IEPS could become a subsidy to consumers, as it happened between 2006 and 2014 (Chart 2a and Chart 2b).

Chart 2

a) IEPS on Fuel and PMME[1/]
MXN and USD billions per barrel

b) International Price and Retail Price of Magna Gasoline
MXN per liter

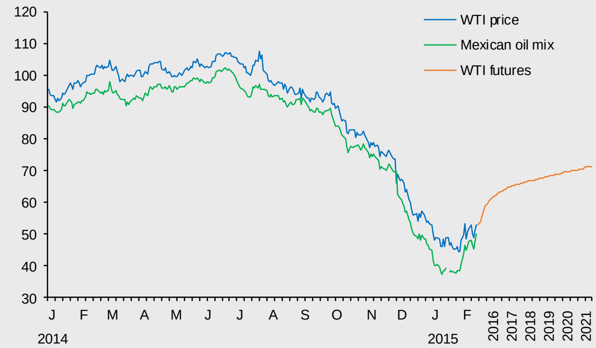


1/ PMME= Export Price of the Mexican Oil Mix
Source: SHCP and SENER.

2/ Price excluding state funding.
Source: SENER.

Although these two mechanisms diminish the effect of lower oil prices on public finances, it should be recalled that Pemex is a net hydrocarbon exporter, reason for which oil revenues are expected to be lower, given the decrease in oil prices. In this sense, the plunge in oil prices and the expectation that it will not recover over an extended time period (Chart 3), along with the decline in the oil production platform in recent years, and high deficit levels, required a fiscal adjustment with a structural approach.

Chart 3
Prices and Oil Price Futures
USD per barrel



Source: Bloomberg.

4. Recently Announced Fiscal Responsibility Measures

On January 30, 2015, the Federal Government announced two fiscal adjustment measures: i) a preemptive adjustment of pubilc sector programmable expenditure of this year and ii) a comprehensive revision in the elaboration of the PEF for 2016.

Adjustment to Public Expenditure of 2015

The adjustment to the approved 2015 programmable expenditure, which will be implemented preemptively, given the risks faced by public finances, is of MXN 124.3 billion, which equals to 0.7 percent of GDP. This adjustment represents reductions of 2.6 percent of the originally approved total expenditure for 2015 and of 3.4 percent with respect to the programmable expenditure. This measure is additional to the already implemented strategy of oil hedges contracted by the Federal Government.

Specifically, the announced adjustment will consist in a reduction of MXN 52.3 billion in the expenditure channeled to the Federal Government ministries and entities; of MXN 62.0 billion in the Pemex expenditure, equivalent to 11.5 percent of its original programmable budget; and, of MXN 10.0 billion in the expenditure of the Federal Electricity Commission (CFE, for its acronym in Spanish) corresponding to 3.2 percent of

Its original programmable budget.[1] Among the reductions affecting the Federal Government offices stand out those applied to the Secretary of Communications and Transport (SCT) of MXN 11.8 billion, to the Secretary of Public Education (SEP) of MXN 7.8 billion, to the Secretary of Agriculture, Livestock and Rural Development, Fisheries and Food of Mexico (SAGARPA) of MXN 7.2 billion, and to the National Water Commission (CONAGUA) of MXN 6.4 billion, and to the Secretary of Social Development (SEDESOL) of MXN 3.8 billion and to the Secretary of Health of MXN 3.3 billion (equivalent to 9.4, 2.6, 7.8, 12.7, 3.3. and 2.5 percent of their original budget, respectively) (Table 1).

The reduction of expenditure of the federal public administration, excluding Pemex and CFE, will imply a decrease of MXN 34.1 billion in current spending (65 percent of total) and of MXN 18.1 billion (35 percent of total) in capital spending. The adjustment to the current expenditure considers a decrease of MXN 15.0 billion in subsidies, of MXN 12.3 billion in other operating expenses and of MXN 6.8 billion in the spending on personal services.

Table 1
Breakdown of Public Spending Adjustment in 2015

	Fiscal adjustment MXN billion	% with respect to approved budget
Total spending	**124.3**	**2.6**
Programmable spending	**124.3**	**3.4**
Pemex	62.0	11.5
CFE	10.0	3.2
SCT	11.8	9.4
SEP	7.8	2.6
SAGARPA	7.2	7.8
CONAGUA	6.4	12.7
SEDESOL	3.8	3.3
Healthcare	3.3	2.5
Other offices	12.0	2.1

Source: Ministry of Finance

Expenditure cuts to the public sector will prevent a crowding out of the private sector spending, which could take place if the Federal Government decided to offset lower oil revenues, either by increasing deficit, thus generating the expectation of higher taxes in the future, or through an increase in taxes, through modifications to the fiscal framework. Similarly, if the deficit is reduced by means of a permanent adjustment to expenditure, the probability that an increment in sovereign risk premia takes place diminishes, in light of the signal of fiscal prudence given by the Federal Government.

Reengineering Expenditure for 2016

For the elaboration process of the 2016 PEF, a comprehensive revision of the public expenditure structure is expected, so that its planning will no longer be carried out intertially and in 2016 it will be designed from a “zero base” perspective. The “zero based” budgeting would consist in evaluating each of expenditure items, always starting from zero. That is, it would be drawn as if it were the first budget prepared by the government, and the amounts and needs of each items would have to be evaluated and justified.

Thus, the budget will be fundamentally based on the real spending needs for the following year, without using previous years’ references. This would imply a reengineering of public expenditure, given the inertial character of the PEF in recent years. Thus, this is an opportunity to correct this inertia, which has led to little flexibility in drafting a budget, given the high level of expenditure channeled to regularized expenditure, i.e. expenditure’s item that is implied as permanent and frequently with a growing trend in subsequent fiscal years. For example, personal services and operating expenses of public firms and entities. Thus, it will represent an effort to eliminate duplication of functions and structures, and to give priority to investment projects with the greatest social and economic impact to make the most efficient use of expenditures.

5. Final Remarks

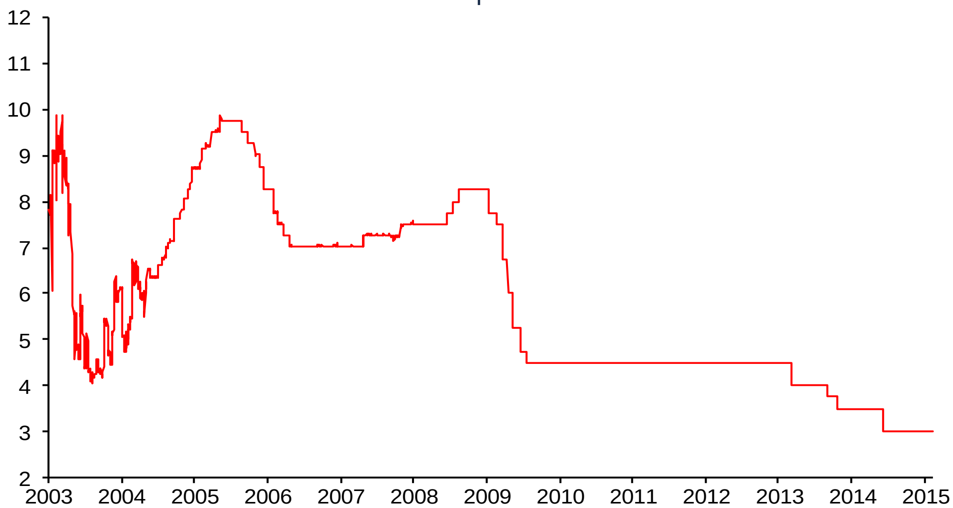
The expectation that low oil prices and oil production will persist implied the necessity to carry out an adjustment in public expenditure. This adjustment strengthens the fiscal position of the government and limits the crowding out effect on private sector financing in the economy. The above means a more solid macroeconomic framework and it is expected to strengthen confidence regarding the Mexican economy. Additionally, the conduction and the effectiveness of the monetary policy will also be favored by an intertemporal stance of sustainable public finances, given that sound public finances constitute a necessary condition for a low and stable inflation.

[1] Pemex Board of Directors approved the plan of the budgetary adjustment of MXN 62.0 billion, on February 13, 2015. The CFE budget adjustment is still to be approved by the Board of Directors.

4. Monetary Policy and Inflation Determinants

The monetary policy implemented by Banco de México seeks to procure the stability of the national currency's purchasing power. This has been reflected in the evolution of headline inflation which, despite the different shocks it has been subject to, since various years ago has presented a gradual trend towards its 3 percent target and a favorable performance of its core component. As proof of this, despite the increment of inflation since early 2014, inflation expectations remained well-anchored during all year, suggesting that the price determination process was not contaminated by the said supply shocks. Indeed, as the effects of the shocks that affected inflation in 2014 started to reverse, it presented a considerable decrease from November onwards to achieve levels close to 3 percent in January 2015. In this context, after having reduced the Overnight Interbank Interest Rate by 50 basis points in June 2014, during the third quarter and the period covered by this Report, Banco de México's Board of Governors decided to maintain the target for this rate at 3 percent (**¡Error! No se encuentra el origen de la referencia.**).

Chart 164
Overnight Interbank Interest Rate [1/]
Annual percent



1/ The Overnight Interbank Interest Rate is shown until January 20, 2008.
Source: Banco de México.

Among the elements considered to justify the above referred monetary policy decisions, the following stand out:

a) The fact that, given the moderate performance of the economic activity in the second half of 2014, slack conditions still prevailed in the economy and no generalized and sustained aggregate demand-related pressures on prices were anticipated.

b) The evolution of inflation expectations implicit in market instruments' interest rates and survey-derived inflation expectations, which remained well-anchored.

c) The expectation that, despite the presence of volatility in international financial markets, markets in Mexico would continue operating in an orderly manner and the pass-through of exchange rate adjustments onto prices would be low.

d) Considering the above, it was anticipated that, although annual headline inflation would lie around 4 percent in late 2014, it would decrease considerably in early 2015 to converge to 3 percent from the middle of the year onwards.

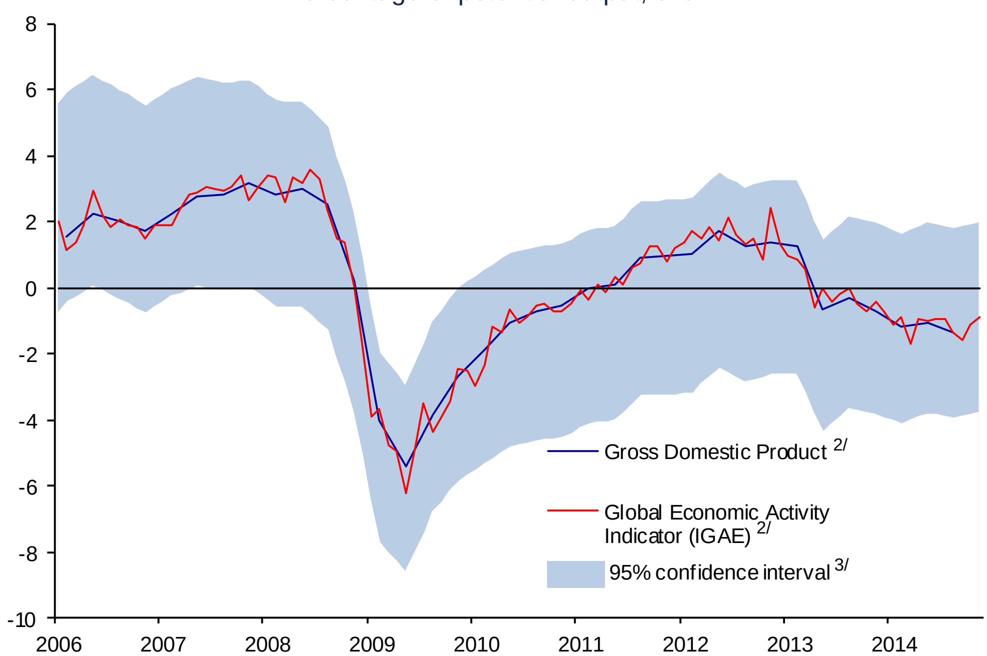
Analyzing more in depth the abovesaid, as a result of the deceleration of the economic activity in the second half of 2012 and early 2014, slack conditions persisted in the economy, despite the moderate recovery that economic activity had shown in the last quarters. Therefore, no aggregate demand-related pressures on prices of either the main input markets or external accounts were observed. In particular:

a) The output gap remained negative, although it is expected to continue closing gradually (Chart 165).[38]

b) As mentioned above, slack conditions persist in the labor market, although they seem to be decreasing.

c) Lower real average income of the employed population, along with the growing trend presented by labor productivity, contributed to the fact that unit labor costs for the economy as a whole continue at very low levels (Chart 166).

Chart 165
Output Gap Estimation 1/
Percentage of potential output, s. a.

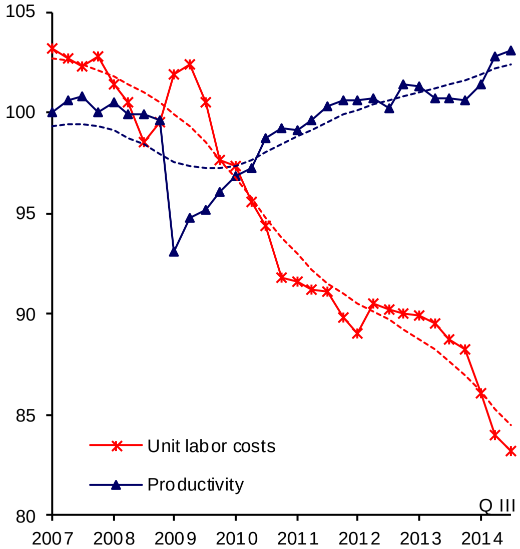


s. a. / Prepared with seasonally adjusted data.
1/ Estimated using the Hodrick-Prescott (HP) filter with tail correction: see Banco de México Inflation Report, April-June 2009, p. 69.
2/ GDP figures as of the third quarter of 2014, IGAE figures as of November 2014.
3/ Confidence interval of the output gap calculated with an unobserved components' method.
Source: Prepared by Banco de México with data from INEGI.

[38] Considering that this indicator's estimation is subject to a certain degree of uncertainty, it should be carefully interpreted, given that, from a statistical point of view, it does not register levels significantly different from zero.

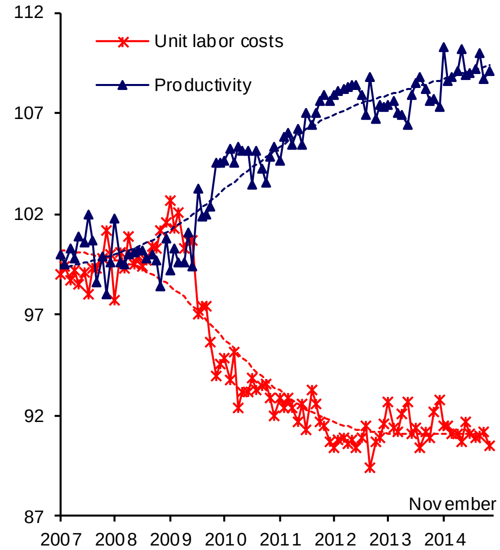
Chart 166
Productivity 1/ and Unit Labor Cost

a) In the Economy
Index 2008=100, s. a.



s. a. / Seasonally adjusted and trend data. The former is represented by a solid line; the latter by a dotted line. Trends estimated by Banco de México.
1/ Productivity based on the number of hours worked.
Source: Unit cost prepared by Banco de México based on data from INEGI. The Global Index of Labor Productivity in the Economy (IGPLE), as released by INEGI.

b) In the Manufacturing Sector
Index 2008=100, s. a.



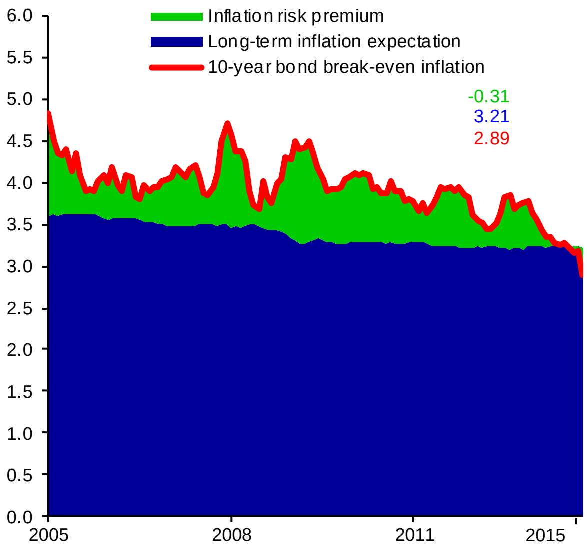
s. a. / Seasonally adjusted and trend data. The former is represented by a solid line; the latter by a dotted line.
1/ Productivity based on the number of hours worked.
Source: Prepared by Banco de México wish seasonally adjusted data from the Monthly Manufacturing Business Survey and the monthly indicator of the Mexico's System of National Accounts, INEGI.

Inflation expectations implicit in long-term market instruments continue being at levels close to 3 percent. Thus, this indicator of inflation expectations, estimated from 10-year market instruments, remained stable around 3.2 percent between September 2014 and January 2015, while the associated inflation risk premium decreased during the same period (Chart 167a). Hence, break-even inflation (the difference between long-term nominal and real interest rates) has been registering historic lows. Moreover, in the analyzed period, it shifted from an average level of 3.3 percent to 2.9 percent (Chart 167b). This drop seems to be related to a reduced appetite for holdings of inflation-indexed instruments, which, in turn, could be increasing the liquidity premium demanded by investors to maintain the said instruments. This implies that the inflation risk premium, which reduced from 5 basis points to minus 30 basis points during the reference period, could also be affected by the said liquidity premium.[39] Additionally, in an environment in which financial markets register low risk-adjusted returns in their assets, risk premia demanded by investors may reduce or even become negative, due to the diversification benefits offered to their portfolios. In sum, the reduction still registered by this indicator suggests that holders of nominal rate-indexed instruments have been demanding less coverage for future inflation during last year.

[39] For a description of the estimation of long-term inflation expectations, see Box "Decomposition of the Break-even Inflation" in the Quarterly Report, October-December 2013.

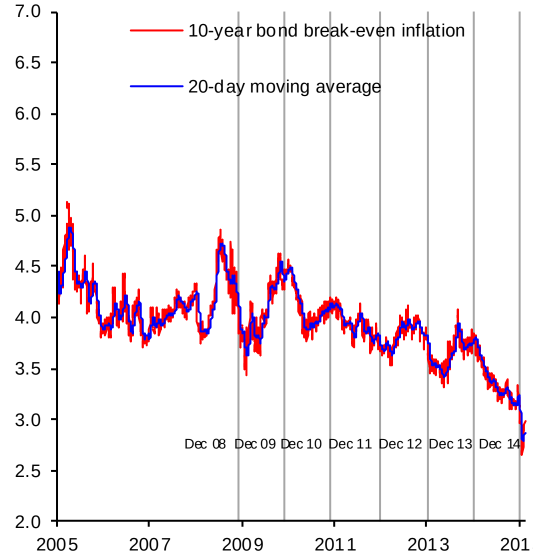
Chart 167
Inflation Expectations

a) Decomposition of Break-even Inflation and Inflation Risk 1/
Percent



1/ Last data available: January 2015.
Source: Estimated by Banco de México.

b) 10-year Bond Break-even Inflation
Percent



Source: Estimated by Banco de México with data from Valmer and Bloomberg.

Regarding inflation expectations obtained through Banco de México's surveys among private sector specialists, the median for the end of 2014 located at levels slightly above 4 percent, shifting from 3.9 to 4.1 percent between the surveys of September and December. This occurred due to the increment in inflation in the third quarter and in October 2014.[40] On the other hand, the median of expectations for core inflation for the end of the same year decreased slightly from 3.5 to 3.4 percent between the referred surveys, while the non-core inflation expectation, implicit in the referred median estimates increased from 5.5 to 6.5 percent.

The median of headline inflation expectations for the end of 2015 reduced from 3.5 to 3.2 percent between the surveys of September and January, mainly following the reduction in inflation in January.[41] In particular, the median of core inflation expectations changed from 3.2 to 2.9 percent, while the implicit non-core inflation expectation reduced from 4.4 to 4.0 percent in the referred period. Finally, longer-term inflation expectations remained stable around 3.5 percent (Chart 168a and Chart 168b).[42]

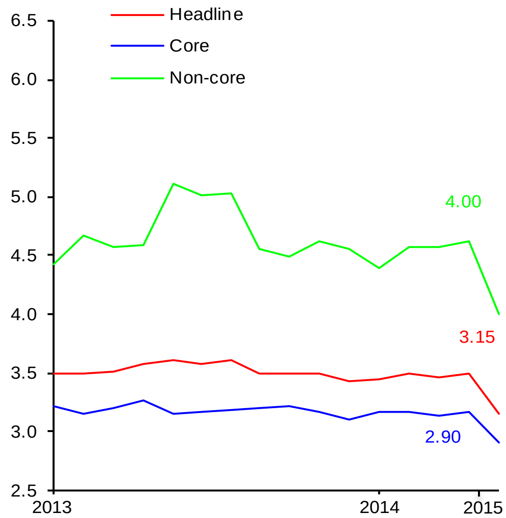
[40] According to Banamex Survey of Financial Market Analysts' Expectations, the median of headline inflation expectation for the end of 2014 registered a similar behavior, locating at 3.9 percent in the survey of September 22, 2014 and increasing to 4.1 percent in the survey of January 7, 2015.

[41] Similarly, the median of headline inflation expectation for the end of 2015, based on the Banamex survey, reduced from 3.4 percent in the survey of September 22, 2014 to 3.1 percent in the survey of February 5, 2015

[42] The median of long-term inflation expectations in the Banamex survey (corresponding to the period 2016-2020 in the surveys of 2014 and to the period 2017-2021 in those of 2015) also persisted, on average, around 3.5 percent between the surveys of September 22, 2014 and February 5, 2015.

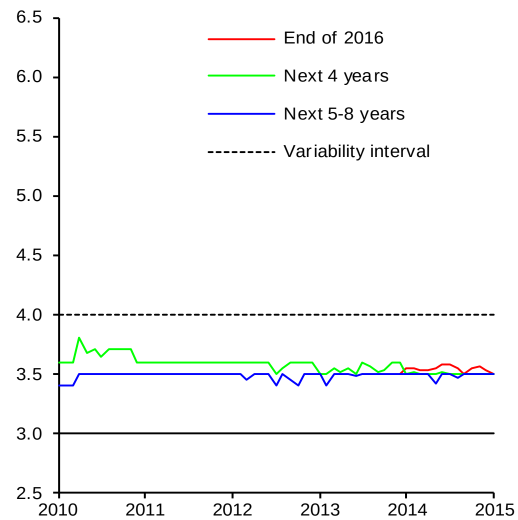
Chart 168
Inflation Expectations

a) Medians of Headline, Core and Non-core Inflation Expectations as of End of 2015 1/
Percent



1/ Last data available: January 2015.
Source: Banco de México's survey.

b) Medians of Headline Inflation Expectations of Different Terms 2/
Percent



2/ Last data available: January 2015.
Source: Banco de México's survey.

As mentioned above, during the period covered by this Report, two shocks in the international environment, which affected international financial markets and thus the performance of Mexico's financial markets, took place. In this regard, it should be noted that, in general terms, so far adjustments in the national markets took place in a relatively orderly manner.

In this context, the index of the Mexican Stock Exchange reversed the profits observed during the third quarter of 2014, registering a drop of around 5 percent from late September to early February. Likewise, just like other advanced and emerging economies' currencies, the Mexican peso observed an increase in its volatility and an important depreciation against the USD, shifting from an average level of MXN/USD 13.4 to 14.9 during the same period (Chart 169a and Chart 169b). Thus, in response to this environment of greater volatility and in order to procure an orderly functioning of the national exchange market, on December 8, 2014 the Foreign Exchange Commission decided to reactivate the daily auction of dollars' mechanism, by which USD 200 million a day are offered at a minimum price that is 1.5% above the previous day's exchange rate (FIX), set by the Central Bank. It is noteworthy that, since its reactivation and to date, the referred mechanism has generated sales on a single occasion. Specifically, on December 11, 2014, when USD 200 million were assigned.

As for the exchange rate evolution, it should be noted that the value of the national currency has been particularly sensitive to drops in crude oil prices and the possibility that they remain at low levels for an extended period of time, partly reflecting concerns regarding their fiscal and current account implications. This suggests that a part of the observed Mexican peso adjustment is due to real factors, which implies a more depreciated real exchange rate. However, it is noteworthy that the exchange market has preserved conditions of adequate liquidity, the Mexican peso being the emerging economies' currency with the highest trading volume

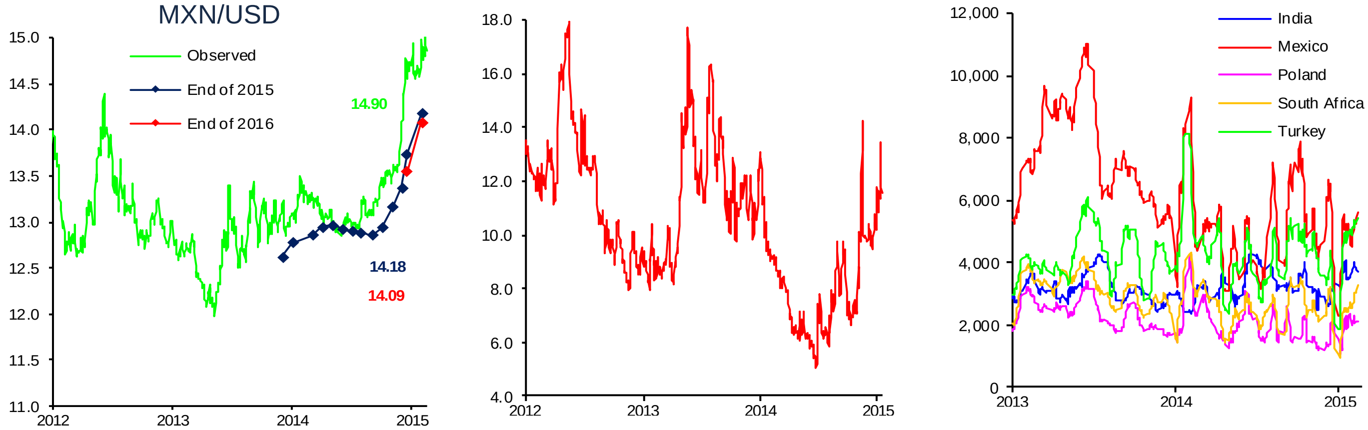
(Chart 169c), and that the existence of a wide derivatives market allows economic agents to efficiently hedge against exchange risks. Thus, a 13 percent depreciation of the Mexican peso against the U.S. dollar during 2014 contrasts with an average depreciation of approximately 18 percent, registered by a group of emerging economies' currencies during the same period.[43] It is also worth pointing out that the above mentioned fiscal adjustment will facilitate the required adjustment of the real exchange rate, while offsetting upward pressures onto interest rates.

Chart 169
Exchange Rate, Currency Option Implied Volatility and Trading Volume in the Exchange Market

a) Nominal Exchange Rate and Exchange Rate Expectations for End of 2015 and 2016 1/
MXN/USD

b) Currency Option Implied Volatility 2/
Percent

c) Daily Volume Traded of Emerging Economies' Currencies
USD million



1/ The observed exchange rate is the daily quote of the FIX exchange rate. The latest quote of the observed exchange rate corresponds to February 12, 2015. For its expectations, the latest quote corresponds to the survey of January 2015.
Source: Banco de México and Banco de México's Survey.

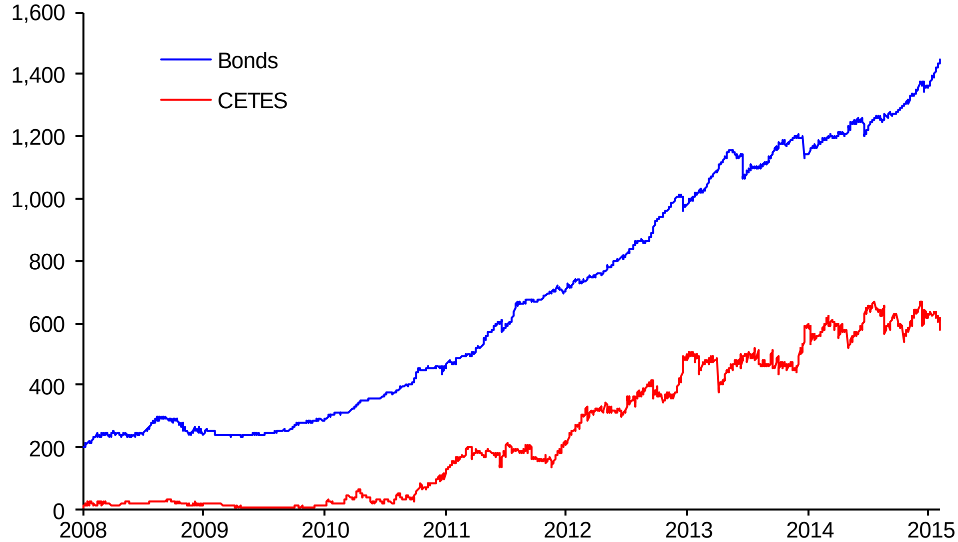
2/ Currency option implied volatility refers to one-month options.
Source: Bloomberg.

Source: Reuters.

Despite greater volatility in the financial markets, Mexico kept attracting foreign resources channeled to the acquisition of financial instruments in national currency. Thus, investors' holdings of short-term government instruments increased slightly in the fourth quarter of 2014, while those of medium- and long-term government instruments continued with their upward trend and remained at high levels (Chart 170).

43 The depreciation of other emerging economies' currencies considers the average performance of the exchange rate of the currencies of Brazil, Chile, Colombia, Czech Republic, India, Peru, Russia, Thailand and Turkey against the U.S. dollar and is calculated with data from Bloomberg.

Chart 170
Government Securities' Holdings by Foreign Investors
MXN billion

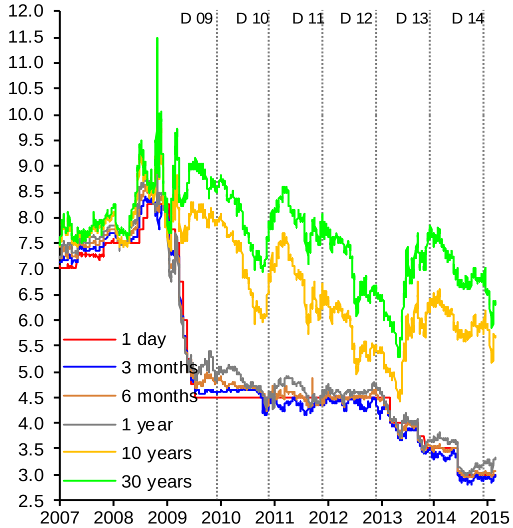


Source: Banco de México.

Regarding the evolution of longer-term interest rates in Mexico, it should be noted that, in line with the performance of long-term interest rates in the U.S. and given the recent increase observed in the correlation between these two variables, they have decreased. In particular, the 10-year government bonds interest rate reduced by approximately 40 basis points, shifting from 6.1 percent in late September to 5.7 percent in early February, although with a rebound in the first weeks of that month. In turn, shorter-term interest rates registered marginal upward adjustments during the same period. Thus, the 2-year interest rate increased from 3.8 to 3.9 percent, while the 3-month interest rate went up from 2.9 to 3.0 percent (Chart 171a). Accordingly, the slope of the yield curve (the difference between 10-year and 3-month rate) reduced from approximately 320 to 270 basis points from late September 2014 to early February 2015 (Chart 171b).

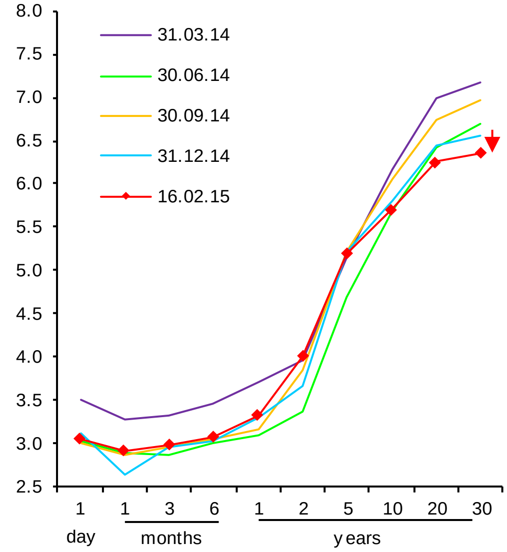
Chart 171
Interest Rates in Mexico

a) Government Securities' Interest Rates 1/
Percent



1/ Since January 21, 2008, the one-day (overnight) interest rate corresponds to the target for the Overnight Interbank Interest Rate.
Source: *Proveedor Integral de Precios* (PiP

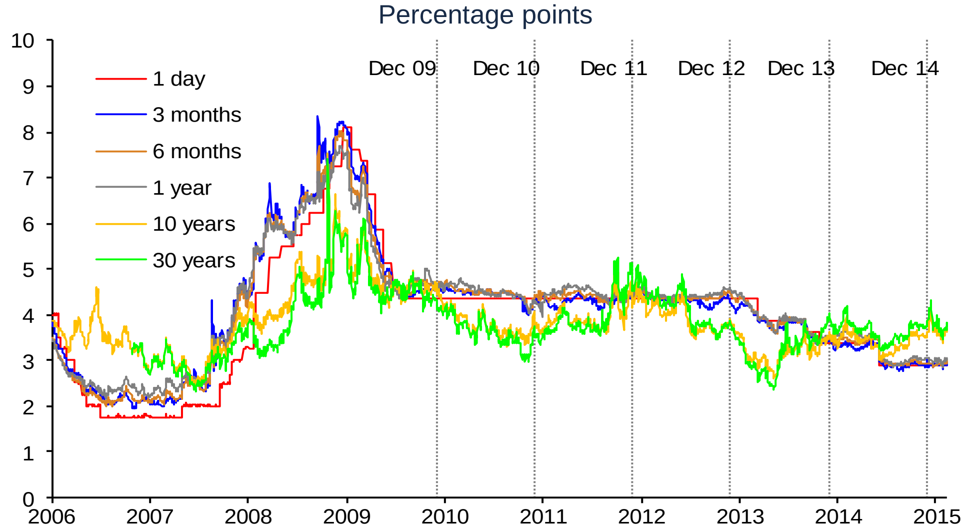
b) Yield Curve
Percent



Source: *Proveedor Integral de Precios* (PiP).

In line with the interest rate evolution of government securities in Mexico and due to the fact that those of the U.S. registered a greater decrease, the interest rate spreads between these two economies increased during the analyzed period. In particular, the 10-year interest rate spread went up from around 350 to 370 basis points (Chart 172).

Chart 172
Interest Rate Spreads between Mexico and the U.S. 1/
Percentage points



1/ For the U.S. target rate, an average interval by the Federal Reserve is considered.
Source: *Proveedor Integral de Precios* (PiP) and U.S. Department of the Treasury.

To further examine the evolution of longer-term interest rates in Mexico, as on other occasions, the performance of their components should be analyzed: the short-term interest rate (reference rate); the implicit short-term interest rates that consider the medium- and long-term inflation expectation; and, the risk premia. In this regard, the following stands out:

a) The target for the Overnight Interbank Interest Rate remained at 3.0 percent in the analyzed period.

b) Expected short-term interest rates continued without change during the same period. In particular, according to Banco de México's survey among private sector specialists, the median of expectations for the interbank interest rate at the end of 2014 remained at 3.0 percent in the surveys from September to December. A similar evolution is inferred from the expectations implicit in market instruments' interest rates.

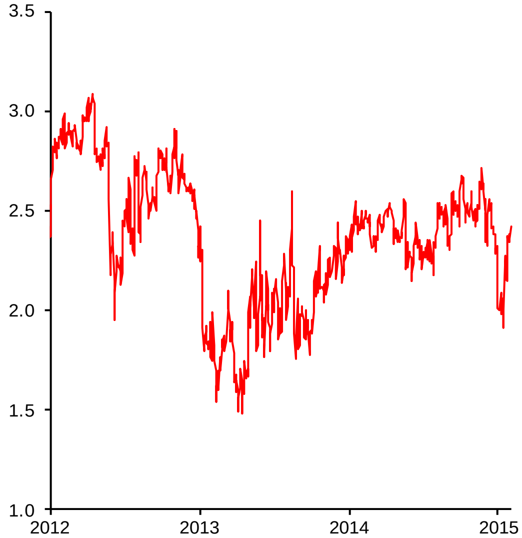
c) Finally, the evolution of different risk premia in Mexico was differentiated. Thus:

   i. Market indicators that measure sovereign credit risk increased by around 30 basis points from late September to early February.[44]
   ii. Inflation risk premium continued its downward trend in the analyzed period. In particular, it reduced by 25 basis points from September to date (Chart 167a).
   iii. As for the performance of the exchange risk premium, which is estimated by means of the spread between the interest rate of the 10-year government bond issued in MXN and that of the same term issued in the USD, it reduced between September and February (Chart 173a).
   iv. Finally, an indicator of the term premium (estimated as the difference between the 10-year and 2-year interest rates) decreased, shifting from levels of around 230 to 180 basis points from the end of September to the beginning of February (Chart 173b).

[44] It refers to 5-year Credit Default Swap.

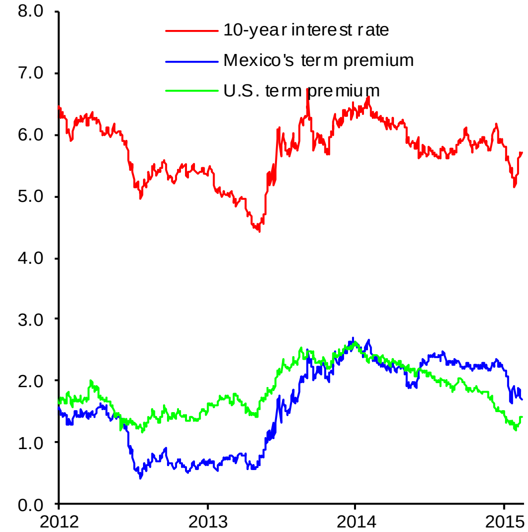
Chart 173
Risk Premia

a) Spread between MXN- and USD-indexed 10-year Bond Rate
Percentage points



Source: Bloomberg, *Proveedor Integral de Precios* (PiP) and Valmer.

b) Mexico's 10-year Government Bond Interest Rate and the Term Premium 1/
Percentage points, percent



1/ The term premium refers to the difference between the 10-year and the 2-year interest rate.
Source: Banco de México, *Proveedor Integral de Precios* (PiP) and Bloomberg.

Considering the above described external environment, it should be noted that, in the future, the Mexican peso exchange rate against the U.S. dollar could be affected by the normalization process of the U.S. monetary policy, even though it is possible that part of the impact of this process has already been incorporated by market participants. Although it is expected that the Federal Reserve will carry out a gradual and orderly withdrawal of this stimulus, there is uncertainty regarding the time frame and the results of this process. Therefore, new episodes of high volatility in international financial markets cannot be ruled out, which may affect the national currency's exchange rate and, eventually, inflation. In this sense, despite the evidence of various years that the pass-through of the exchange rate movements onto prices is low and that its effect on inflation tends to be transitory, the national currency already depreciated considerably and could remain at current levels for an extended time period or even register further depreciations with a possible effect on inflation. Hence, the above should be considered among upward risks to inflation. For this reason, the Central Institute will remain alert to guarantee that indeed the pass-through of the exchange rate adjustment onto domestic prices will persist at low levels.

Following on the last idea, given a less favorable external environment faced by the Mexican economy, it was necessary to strengthen the macroeconomic policy framework, adopting a stance in line with the new international reality. In particular, it was necessary to adjust the aggregate demand to a context characterized by lower crude oil prices with a consequent effect on public revenues, and, as mentioned above, on the real exchange rate. In this sense, the fiscal responsibility measures announced by the Federal Government are anticipated to contribute to this adaptation. It should be noted that adjustments in the federal public expenditure contribute, on the one hand, to facilitating an orderly depreciation of the real exchange rate, and, on the other hand, to mitigating the impact of the adjustment in the macroeconomic policy stance on private expenditure. In this context, the announced measures constitute an appropriate policy response to the described external environment. Likewise, they help consolidate an environment of low inflation, while boosting investors' confidence in the sustainability of public debt and strengthening the anchoring of inflation expectations. This clearly increases the degrees of freedom of the monetary policy, which will adjust to strengthen the macroeconomic policy framework when appropriate.

5. Inflation Forecast and Balance of Risks

As mentioned in this Report, the external environment faced by Mexico has become less favorable. Indeed, it is expected that in 2015 and in 2016 crude oil prices will remain below those registered until mid-2014. Moreover, even though the forecast for the U.S. economic growth continues suggesting that the recovery will persist, uncertainty prevails over the date when the Federal Reserve will carry out its first increment in the federal funds rate and over the rate of subsequent adjustments. The situation in Greece and its possible impact on the rest of the Euro zone is also a reason for concern. Therefore, new episodes of volatility in international financial markets cannot be ruled out.

To facilitate the transition of the Mexican economy in this new environment, the macroeconomic policy adjustment to a less stimulative stance was required. In this context, as mentioned above, an important first step was the recent announcement of the Federal Government regarding the preemptive adjustment of public expenditure in 2015, and, particularly, regarding the comprehensive review of all items of public expenditure so as to achieve greater efficiency in allocating public resources from 2016 onwards. The strengthened public finances are expected to positively affect investors' confidence in the future. For that, it is estimated that this adjustment will help encourage a favorable environment for economic growth, while strengthening the macroeconomic fundamentals of the country. It should be also pointed out that the observed reduction of inflation of over one percentage point in January and the expectation that it will remain at around 3 percent for the rest of the year imply higher real interest rates, which also partly mitigates the expansive monetary policy.

In addition to the abovesaid, the macroeconomic scenario estimated for Mexico considers the following forecasts for the U.S. economic activity:[45]

a) U.S. GDP expanded 2.4 percent in 2014, which is compared to the 2.2 percent forecast in the previous Report. For 2015, this indicator is estimated to grow 3.2 percent, with respect to the 3.0 percent anticipated in the last Report. For 2016, the forecast remains unchanged at 2.9 percent.

b) Industrial production in the U.S. in 2014 registered a growth rate of 4.2 percent, which compares to the expectation of 4.0 percent in the previous Report. For 2015, the anticipated growth for this indicator is 3.9 percent (the expectation of 3.6 percent in the last Report). For 2016, just as in the previous Report, an increment of 3.3 percent is expected.

GDP Growth Rate: In 2014, GDP is estimated to have registered a growth rate of around 2.1 percent, as a reflection of the impulse from external demand and a certain improvement in domestic demand with respect to last year.

For 2015 and 2016, a higher growth rate is still anticipated as compared to 2014. Indeed, the recently implemented structural reforms are expected to generate a

[45] Expectations for the U.S. economy are based on the consensus of analysts surveyed by Blue Chip in February 2015.

gradual positive effect on economic activity, particularly in 2016. Likewise, the dynamism of the U.S. economy, especially of its industrial sector, is estimated to remain a source of growth for the Mexican export sector and the impulse from external demand is anticipated to pass through onto the domestic demand. Furthermore, the activities that started to recover in 2014, as is the case of the construction sector in Mexico, are estimated to continue supporting productive activity.

Despite the abovesaid, the expected macroeconomic environment is less favorable than that considered in the previous Quarterly Report. In particular, the oil price is anticipated to register levels below those observed before mid-2014. Likewise, the downward trend of the oil production platform, which has recently accentuated, is expected to possibly limit the dynamism of productive activity, as long as it does not stabilize and starts to recover. Additionally, private consumption has not yet presented clear signs indicating that it could resume a strong dynamism in the short term despite a gradual improvement in recent months. Considering that, the forecast intervals for GDP growth in 2015 and 2016 are revised downwards. Taking into account the marginal impact of fiscal consolidation on the economic growth, the forecast interval of the GDP growth rate in Mexico in 2015 is adjusted from 3.0 to 4.0 percent in the previous Quarterly Report to a range of 2.5 to 3.5 percent (Chart 174a). For 2016, it is expected that some difficulties for the macroeconomic environment could persist to a certain degree, so that the GDP growth rate is anticipated to lie between 2.9 and 3.9 percent, interval that is compared to that of 3.2 to 4.2 percent in the previous Report.

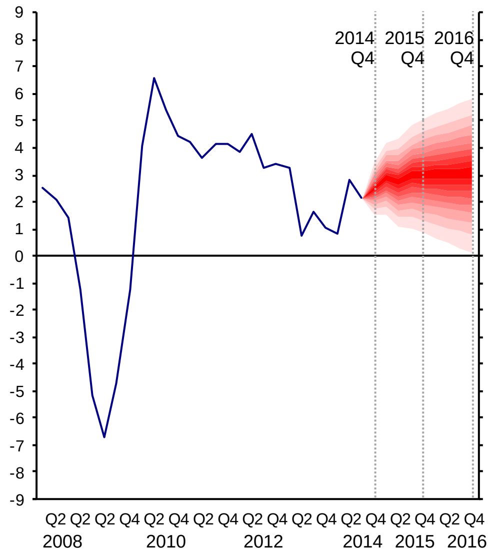
Employment: In line with the adjustment in the economic growth outlook, the forecast for the growth of the number of IMSS-insured workers is revised downwards. In particular, for 2015 an increase of 600 to 700 thousand IMSS-insured workers is expected (permanent and temporary workers in urban areas), as compared to the expectation of an increment of 620 to 720 thousand workers in the previous Report. For 2016, the growth interval is adjusted from 640 to 740 thousand workers in the last Report to an interval of 620 to 720 thousand workers.

Current Account: In 2014, the trade balance registered a deficit of 2.4 billion USD (estimated 0.2 percent of GDP), reason for which the current account deficit is expected to have amounted to 26.5 billion USD (2.1 percent of GDP). For 2015, trade balance and current account deficits of 6.0 and 28.7 billion USD are anticipated, respectively (0.5 and 2.3 percent of GDP, in the same order). For 2016, deficits in the trade balance and the current account of 8.8 and 31.6 billion USD are estimated, respectively (0.6 and 2.3 percent of GDP, correspondingly).

Given the described forecasts, no aggregate demand-related pressures are expected on either inflation or the external accounts. In particular, the output gap is estimated to remain negative in the near future, although it will be gradually closing (Chart 174b).

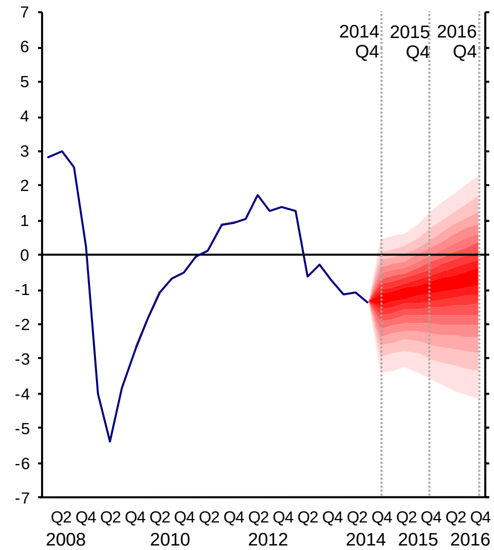
Chart 174
Fan Charts: GDP Growth and Output Gap

a) GDP Growth Rate, s. a.
Annual percent



s. a. / Seasonally adjusted figures.
Source: INEGI and Banco de México.

b) Output Gap Estimate, s. a.
Percentage of potential output



s. a. / Based on seasonally adjusted figures.
Source: Banco de México.

Among downward risks to the GDP growth outlook, the following stand out:

i. A lower than expected world economic expansion, in particular in the U.S.

ii. Intensified volatility and uncertainty in international financial markets.

iii. A further decrease in the oil price and/or in the production platform, that would affect the external accounts and public finances, requiring an adjustment in public expenditure greater than that recently announced.

iv. That social unrest in recent months considerably affects expenditure decisions of the economic agents in the country.

The growth outlook is also subject to upward risks, among which the following are notable:

i. A greater dynamism of the U.S. economy, in light of lower energy costs.

ii. A faster than expected improvement in investors' prospects, which could derive from progress in the implementation of structural reforms.

Inflation: In previous communications, Banco de México emphasized the outlook that shocks affecting inflation in 2014 will temporarily raise it and that in late 2014 and early 2015 inflation will considerably drop to later converge to the 3 percent target. Considering the recent evolution of inflation and its outlook, this Report confirms the forecast that inflation will reach 3 percent in 2015, and will remain around that level.

Indeed, the forecast for annual headline inflation is very similar to that presented in the last Quarterly Report. Nonetheless, its performance is slightly revised over the time horizon, with a lower trajectory in early 2015 and a somewhat higher one in the second semester of the year. This resulted from two groups of factors acting in opposite directions. On the one hand, a moderate upward impact of the Mexican peso depreciation, and, on the other hand, an unanticipated reduction in regular electricity rates, as well as higher than estimated decreases in telecommunication services' prices. Thus, after a considerable drop of headline inflation in January, it is expected to persist at levels close to 3 percent and to conclude the year slightly below this level (Chart 175). Core inflation is estimated to lie below 3 percent throughout 2015 (Chart 176). For 2016, both headline and core inflation are estimated to remain around 3 percent.

The indicated outlook for the inflation trajectory is not risk-free.

Among upward risks the following stand out:

i. The possibility that the exchange rate will prevail at current levels for an extended time period or that the Mexican peso will further depreciate.

ii. Other supply shocks that could affect the evolution of inflation.

iii. That given the foreseen recovery of the economic activity, the space to absorb the effect of new changes in relative prices may reduce and that it could contaminate inflation dynamics.

Among downward risks the next are noteworthy:

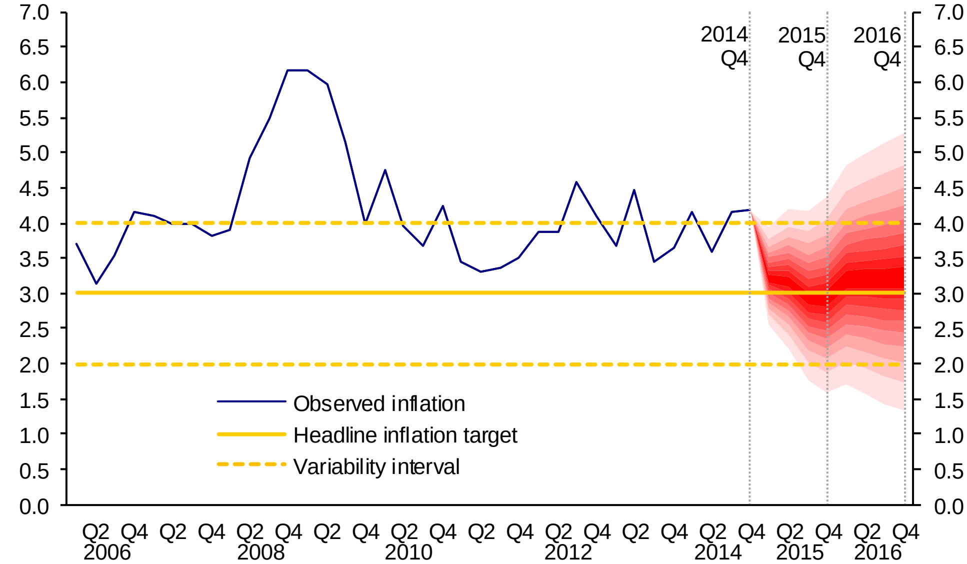
i. The possibility that the dynamism of the economic activity in the country may be lower than expected.

ii. Additional decreases in energy prices, above all in gasoline prices in the border region.

iii. Further reductions in the telecommunication services' prices, generated by an intensified competition in the sector.

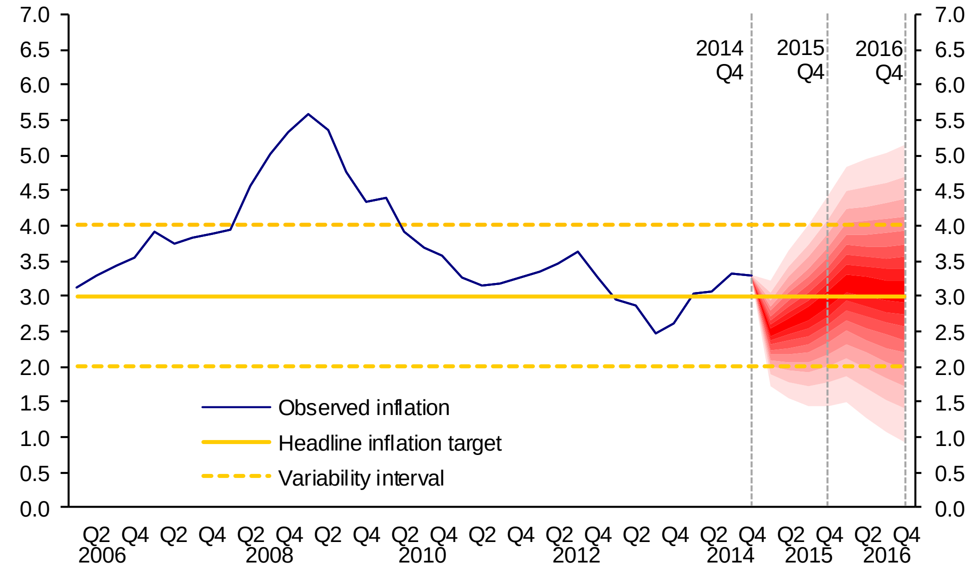
iv. An exchange rate appreciation, if the Federal Reserve delays or dilutes the measures aimed at normalizing its monetary policy stance and/or due to a better than expected performance in the crude oil price or in the effects of structural reforms on the potential growth of the country.

Chart 175
Fan Chart: Annual Headline Inflation [1/]
Percent



1/ Quarterly average of annual headline inflation.
Source: Banco de México and INEGI.

Chart 176
Fan Chart: Annual Core Inflation [1/]
Percent



1/ Quarterly average of annual core inflation.
Source: Banco de México and INEGI.

The monetary policy implemented by Banco de México seeks to ensure the stability of the national currency's purchasing power. This has contributed to the progress in converging to the permanent inflation target, as well as the anchoring of medium- and long-term inflation expectations in Mexico. Additionally, given the challenging international environment and considering its impact on the evolution of domestic financial markets, the importance of the continuous strengthening of Mexico's macroeconomic framework should be stressed. In this regard, it should be kept in mind that the current strength has resulted from the effort of the society as a whole over the course of many years and that the benefits of a stable macroeconomic environment have been evident, particularly, in recent years, in light of the difficulties experienced in other economies. Therefore, to face a complex external environment, macroeconomic stability should be preserved. This largely depends on ensuring the sustainability of public finances, consolidating the environment of low inflation and the financial system stability. The recently stressed commitment of the federal authorities to maintaining sound public finances is of paramount importance.

Considering all of the above, the Board of Governors will remain alert to the performance of inflation determinants and its expectations for the medium- and long-term horizons. In particular, it will monitor the monetary stance of Mexico relative to the U.S., the performance of the exchange rate and its possible impact onto inflation, as well as the evolution of the degree of slack in the economy given the foreseen recovery. All this in order to be able to take the necessary measures to ensure the convergence of inflation to the 3 percent target in 2015 and to consolidate it.

Finally, as it has been previously mentioned, to improve the welfare of the society as a whole, besides strengthening the macroeconomic framework, the adequate implementation of structural reforms is also indispensable, in order to boost productivity and competitiveness of the country, and, thus, to motivate the internal sources of growth. It is of the utmost importance to work on the transformation of the country’s institutional structure, in order to achieve a stronger rule of law and to grant greater legal certainty to society. In this way, Mexico could achieve the higher objective of growing at faster rates and with price stability, for the benefit of all society.

Appendix

Mexico’s Relationship with the International Monetary Fund, the Bank for International Settlements and other Forums

International Monetary Fund

Mexico is a founding member of the International Monetary Fund (IMF) since its creation in 1944. Mexico’s quota amounts to Special Drawing Rights (SDRs) 3,625.7 million, representing 1.52 percent of the IMF’s total quota.

During 2014, two topics stood out regarding Mexico’s relationship with the IMF: 1) the consultation under the Article IV of the IMF’s Articles of Agreement; and 2) the renewal of the Flexible Credit Line (FCL). Furthermore, the appointment in early 2015 of Dr. Agustín Carstens, Governor of Banco de México, as Chairman of the International Monetary and Financial Committee (IMFC) of the IMF is noteworthy.

The consultation under the Article IV of the IMF’s Articles of Agreement is a practice of surveillance and assessment carried out by the Fund with each member country. In November 2014, the IMF announced the results of its most recent consultation to Mexico. In its assessment of the Mexican economy, the IMF Executive Board highlighted the adoption of the comprehensive agenda of structural reforms in Mexico, which should boost the potential growth of the economy in the medium-term and promote the development in strategic areas such as the energy sector, education, telecommunications, the financial sector and the labor market. Likewise, the Board recognized the credibility and strength of the macroeconomic policy framework in Mexico, emphasizing that the monetary policy stance is appropriate and inflation expectations remain anchored. The IMF recognized the authorities’ commitment to maintaining a responsible fiscal policy that contributes to the economic recovery of the country, and that is consistent with a sustainable path of public debt. The international organization also emphasized Mexico’s external position, in particular, the current account and the real exchange rate, which are consistent with the fundamentals of the economy. Finally, the Executive Board underscored that the Mexican financial system, including banks and other financial entities, is characterized by a solid position with high liquidity and capitalization levels.

In November 2014, the IMF Executive Board approved the renewal of the Flexible Credit Line for Mexico, as a sign of confidence in the soundness of the Mexican economy. The FCL is granted only to countries that maintain a solid policy framework that generates and transmits certainty to international financial markets. In the context of this arrangement, the Executive Board concluded that Mexico continues to comply with the requirements for the renewal of the FCL and meets the criteria of access to resources. In particular, the Executive Board ratified that Mexico has a framework of prudent macroeconomic policies that, along with the financial strength of the public and private sectors, has supported the resilience of the country during the global crisis. Likewise, it confirmed that the Government has taken fundamental steps to enhance the structural reforms that strengthen the potential growth of Mexico in the long-term. By improving economic competition, reducing labor market frictions and promoting investment, the Executive Board expects reforms to boost productivity and production in the medium-term.

On February 20, 2015, the members of the IMFC selected Governor Carstens as Chairman of the Committee for a term of three years, effective March 23, 2015. The IMFC is the primary policy advisory body for the IMF Board of Governors, and deliberates on the main policy issues facing the IMF. In practice, the IMFC has been a key instrument for providing strategic direction to the IMF.

Bank for International Settlements

The main mission of the BIS is to support the central banks' efforts in their pursuit of monetary and financial stability, to foster international cooperation in those areas and to act as a bank for central banks. Since becoming a member of the BIS in 1996, Banco de México has actively participated in the bank's meetings, forums and committees that have been organized in order to encourage international monetary and financial cooperation.

The BIS fosters debate and facilitates collaboration among monetary authorities by means of their bimonthly meetings and other regular consultations, in which the Governors and central banks' officials analyze the most recent economic events and prospects for the world economy and international financial markets, and use the opportunity to share opinions and experiences on matters of their particular interest. Moreover, the BIS regularly organizes other meetings that are attended, depending on the case, by financial entities, as well as representatives of public, private and academic sectors.

During 2014, Banco de México actively participated in different meetings and discussion forums of the BIS.

In particular, the participation of the Governor of Banco de México is noteworthy in the Economic Consultative Committee (ECC) and of the Global Economy Meeting (GEM), in his capacity of Chairman of these groups, thus complying with the mandate granted by the BIS Board of Directors on July 1, 2013. As Chairman in these meetings, the Governor coordinated the selection of topics for discussion and the work program of these fora, where the developments and risks in the global economy and the international financial system are monitored and assessed. Furthermore, this forum guides the work and receives reports of three Basel-based central bank committees that work to design and implement regulation and supervision norms to achieve financial stability. Throughout 2014, the following topics, among others, were discussed in these meetings: those related to the challenges in the design and implementation of the monetary policy given an unprecedented international economic environment, the challenges derived from the monetary policy normalization, its interaction with fiscal policy to underpin economic growth and the role of macro-prudential policies to face the risks in achieving financial stability.

Likewise, the Governor of Banco de México contributed to the work and initiatives of the BIS Executive Board of which he has been a member since 2011. This body is in charge of, among other issues, establishing the strategic and policy direction of this international institution, appointing its officials, and of supervising their performance. In particular, Governor Carstens participated in the activities of one of the consultative committees of this Board, i.e. the Banking and Risk Management Committee, that is in charge of analyzing and evaluating the financial objectives of the Bank, the business model of its banking operations and its risk management framework.

The Governor also took an active role in discussions seeking to promote a solid international financial system and to finalize the agenda of financial regulation and supervision reforms to enhance global financial stability. In this regard, it is noteworthy the participation in the Governors and Heads of Supervision (GHOS) meeting with the supervision heads and CEOs of the main financial institutions, in which the working agenda is revised and the strategic priorities of the Basel Committee on Banking Supervision are established.

Banco de México also had an outstanding involvement in the activities of other forums organized by the BIS, in which more specific topics were analyzed and with a particular impact on a specific type of economy or region. Among these meetings, the following should be underscored: 1) the Central Bank Governance Group, where information and research about the design and functioning of central banks as public institutions are exchanged; 2) the Major Emerging Market Economies meeting, that analyses the international economic conjuncture and its implications, as well as the prospects for emerging markets; and 3) the Consultative Council for the Americas (CCA) that seeks to strengthen the BIS working agenda with Latin America.

Moreover, during 2014, Banco de México and the BIS Representative Office for the Americas based in Mexico City, continued their close collaboration in projects of common interest. It is of importance the joint organization between these two institutions of the seminar “Working Party on Monetary Policy in Latin America”, which took place on September 22 and 23, 2014 in Mexico City. Various central bank officials participated in this event focusing the discussion, among other topics, on the macroeconomic prospects, risks and financial vulnerabilities of the region, as well as the design and implementation of monetary policy, and a more appropriate framework for financial stability.

Financial Stability Board

The goal of the Financial Stability Board (FSB) is to coordinate the activities of national financial authorities and entities in charge of elaborating norms at the global level, as well as to develop and to promote the implementation of efficient financial regulation and supervision policies in order to reach global financial stability.

During 2014, Banco de México actively participated in the plenary meetings and in the FSB Consultative Council, where, among other topics, the following were discussed: vulnerabilities that affect the global financial system and the policy actions, including the potential macro-prudential policies, necessary to address them; the strengthening of the supervision and regulation of the shadow banking system; proposals to regulate relevant financial agents; the consistency of the structural reforms of the global banking systems; and the strengthening of the FSB representation’s structure.

Banco de México also participated in the meetings of the Regional Consultative Group for the Americas, a forum in which the FSB members of the Americas and non-member jurisdictions meet to analyze the vulnerabilities that affect the financial systems in the region, as well as the financial stability initiatives of the FSB and its member´s jurisdictions.

The work of the Governor of Banco de México as Chairman of the Standing Committee on Assessment of Vulnerabilities (SCAV) of the FSB, a position he held between March 31, 2013 and March 30, 2015, should also be noted. The SCAV seeks to make an early identification and analysis of potential vulnerabilities of the international financial system and to coordinate the elaboration of the so-called Early Warning Exercises (EWE), the results of which are presented in the IMFC meetings of the IMF.

Group of Twenty (G20)

In 2014, Mexico actively participated in the G20 meetings. This Group represents approximately 85 percent of the world’s GDP and two thirds of total population. The most relevant economic and financial topics are discussed in this forum in order to foster strong, sustained and balanced growth. Likewise, this forum seeks to promote an open and constructive dialogue among advanced and emerging markets regarding the most relevant topics related to the international monetary and financial system, and concurrently, help strengthen the international financial architecture.

In particular in 2014, and in the context of Australia’s G20 Presidency, Mexico’s Ministry of Finance (the Secretariat of Finance and Public Credit, SHCP for its acronym in Spanish) and Banco de México actively participated in the G20 working groups such as: the Framework for Strong, Sustainable and Balanced Growth Working Group, the Investment and Infrastructure Working Group, and all the meetings of Finance Ministers and Central Bank Governors, as well as the Deputies meetings. The commitment of the countries to carry out public policies, including a program of structural reforms, which would entail an additional boost to growth of 2 percent in their economies over the following 5 years, is among the main objectives proposed during the Australian G20 Presidency.

Center for Latin American Monetary Studies (CEMLA)

Banco de México was one of the main driving forces behind the creation of CEMLA (formally established in September 1952), as it was one of the seven founding central banks. Currently, the Center has 53 members, 30 of which are Associates (with the right of voice and vote) and 23 Collaborating Members (with the right of voice only).

Among the main goals of CEMLA are to promote a better comprehension of monetary and banking aspects and fiscal and exchange rate policies' issues in Latin America and the Caribbean; to help in training central banks' personnel by means of seminars and special courses and the publication of research studies; and to provide information to its members regarding topics related to monetary and financial policies.

As an Associate of this Center, the Governor of Banco de México participates in different Governors meetings organized by CEMLA and its Assembly. Furthermore, Banco de México is a permanent member of the Board of Governors, the Alternates Committee and the Auditing Committee of CEMLA; government bodies in which the working program and strategic plan, among other things, are approved.

In order to support the training efforts of CEMLA and to strengthen its human capital, in 2014, personnel of Banco de México joined different seminars, workshops, courses and technical meetings offered by this Center, some of which were even organized by the Central Bank.

Statistical Appendix

Contents

Basic Information

Table A 1
Summary of Selected Indicators

	2010	2011	2012	2013	2014 p/
Social and demographic indicators					
Population (millions) 1/	114.3	115.7	117.1	118.4	119.7
Total population growth rate 1/	1.3	1.2	1.2	1.1	1.1
Life expectancy at birth 1/	74.0	74.1	74.3	74.5	74.7
Production and prices					
Gross Domestic Product (GDP) in MXN billion p/	13,282	14,550	15,628	16,121	17,051
			Annual change in percent		
GDP at 2008 constant prices p/	5.1	4.0	4.0	1.4	2.1
Consumer Price Index (Dec - Dec)	4.40	3.82	3.57	3.97	4.08
Money and finances					
Monetary aggregates 2/			Real annual change in percent		
Monetary base	5.3	5.9	9.4	2.4	9.1
M1	5.4	10.9	9.4	4.4	9.9
M4	5.7	10.0	12.1	7.5	6.6
Domestic financial saving 3/	5.7	10.3	12.2	7.8	6.3
Interest rates 4/					
28-day Cetes	4.40	4.24	4.24	3.75	3.00
28-day TIIE (Interbank Equilibrium Interest Rate)	4.91	4.82	4.79	4.28	3.52
			MXN/USD		
Exchange rate (end of period) 5/	12.3571	13.9904	13.0101	13.0765	14.718
Public finances			Percent of GDP		
Economic balance (cash flow) 6/	-2.8	-2.4	-2.6	-2.3	-3.2
Primary balance 6/	-0.9	-0.6	-0.6	-0.4	-1.1
Net public debt 7/	28.6	29.7	31.5	32.2	36.7
External sector			Percent of GDP		
Trade balance	-0.3	-0.1	0.0	-0.1	-0.2
Current account balance	-0.5	-1.1	-1.3	-2.4	-2.1
Financial account balance	4.6	4.5	4.3	5.2	4.4
Total external debt	22.1	21.2	22.1	24.1	26.1
Interest paid	1.3	1.5	1.7	1.8	2.0
			USD billion		
Gross international reserves (end of period) 8/	120.6	149.2	167.1	180.2	195.7

1/ 1990-2010 basic demographic indicators and 2010-2050 Mexico's population projections of the National Council of Population (*Consejo Nacional de Población*, CONAPO).
2/ Estimates based on the average of monthly outstanding stocks.
3/ Defined as monetary aggregate M4 less currency outside banks.
4/ Average during the period.
5/ Used to settle liabilities in foreign currency.
6/ Based on the revenue-expenditure methodology. In 2008 it excludes the cost of the ISSSTE Law Reform.
7/ Refers to the broad economic debt, which includes net liabilities of the federal government, public entities and enterprises and of official financial intermediaries (development banks and trust funds). Outstanding stocks at end of period. Calculated by Banco de México.
8/ As defined in Article 19 of Banco de México's Law.
p/ Preliminary figures.
Source: CONAPO, Mexico's System of National Accounts (*Sistema de Cuentas Nacionales de México*), National Statistics Bureau (INEGI), Banco de México, Mexican Stock Exchange and Ministry of Finance (*Secretaría de Hacienda y Crédito Público*, SHCP).

Table A 2
Socio-Demographic Indicators

	2007	2008	2009	2010	2011	2012	2013	2014
Population (millions) 1/	109.8	111.3	112.9	114.3	115.7	117.1	118.4	119.7
Urban population 2/	n.a.	n.a.	n.a.	76.2	76.1	76.1	76.0	76.1
Rural population 2/	n.a.	n.a.	n.a.	23.8	23.9	23.9	24.0	23.9
Population by sq.km	55.9	56.7	57.4	58.2	58.9	59.6	60.3	60.9
Total population growth rate 3/	1.3	1.3	1.3	1.3	1.2	1.2	1.1	1.1
National unemployment rate 4/	3.6	3.9	5.3	5.3	5.2	4.9	4.9	4.8
Unemployment rate (in urban areas) 5/	4.7	4.8	6.6	6.4	5.9	5.8	5.7	5.9
Life expectancy at birth (years)	74.1	74.0	74.0	74.0	74.1	74.3	74.5	74.7
Fertility rate 6/	2.4	2.3	2.3	2.3	2.3	2.2	2.2	2.2
Mortality rate (per thousand)	4.7	4.8	5.0	5.2	5.1	5.1	5.1	5.1
Infant mortality rate (per thousand live births)	15.7	15.1	14.6	14.1	13.7	13.3	13.0	12.7
Number of hospital beds (per 100 000 inhabitants) 7/	73.2	71.2	70.5	74.1	74.0	73.2	73.9	74.3
Illiteracy rate (population 15 years or older) 8/	7.7	7.3	7.0	6.7	6.5	6.2	6.0	5.5
Number of students per teacher (grade school) 8/	25.9	26.0	26.1	26.1	26.0	25.7	25.4	25.1
Population with access to drinking water 2/	89.9	90.3	90.7	91.2	91.6	92.0	92.3	92.7

1/ 1990-2010 basic demographic indicators and 2010-2050 Mexico's population projections of the National Council of Population (CONAPO).
2/ Percentage of total population. The estimate of the population by area of residence is based on the population projections by size of locality 2010 - 2030. For years prior to 2010, there are no available data.
3/ An average annual growth rate including the net migration balance.
4/ Ratio of unemployed population to economic active population. The Unemployed Population is comprised of individuals that were not engaged in working activities during the reference week, but were searching for work during the last month.
Data are adjusted to the demographic projections of the National Council of Population (CONAPO). Figures correspond to the population of 15 years and older.
5/ Unemployment rate in 32 cities. Figures correspond to the population of 15 years and older.
6/ At the end of women's reproductive life.
7/ Only data from public sector institutions. Data estimated in 2014.
8/ Data estimated in 2014.
n.a. Not available.
Source: Annual Government Report 2014, Mexico's Presidency; CONAPO and INEGI Occupation and Employment Survey.

Table A 3
Infrastructure

	2007	2008	2009	2010	2011	2012	2013	2014
National road network 1/ 2/								
Roads (km)	360,075	364,612	366,807	371,936	374,262	377,660	378,923	378,923
Federal toll roads (km)	7,844	8,064	8,335	8,397	8,459	8,900	9,174	9,174
Federal non-toll roads (km)	40,631	40,563	40,509	40,575	40,643	40,752	40,812	40,812
Paved roads (km) 3/	127,173	131,245	136,157	138,404	141,361	146,221	148,329	148,329
Railroad transportation 2/								
Total railroad network (km)	26,677	26,704	26,709	26,715	26,727	26,727	26,727	26,727
Passengers (million passengers/km) 4/	84	178	449	844	891	970	1,036	1,077
Commercial cargo (million tons/km) 5/	77,169	74,582	69,185	78,770	79,728	79,353	77,717	79,194
Air transportation 2/								
Number of international airports	59	60	61	64	64	64	64	63
Passengers (thousands)	52,217	53,300	46,971	48,698	50,764	55,153	60,007	63,279
Cargo (thousand tons)	572	525	466	571	560	559	582	602
Sea transportation 2/								
Number of ports (sea and river)	114	114	116	116	117	117	117	117
Sea fright (international and domestic cargo, thousand tons)	272,934	265,237	241,923	272,811	282,902	283,462	287,912	293,583
Communications 2/								
Phones (thousands of lines in service)	19,998	20,491	19,506	19,919	19,731	20,588	20,590	20,373
Cellular phones (thousand subscribers)	66,560	75,323	83,219	91,384	94,583	100,727	105,006	105,173
Telegraph services (number of offices)	1,575	1,591	1,582	1,588	1,592	1,615	1,620	1,622
Postal services (locations served)	17,638	17,724	16,536	16,966	17,080	16,903	16,953	17,003
Radio stations 6/	1,506	1,469	1,501	1,472	1,485	n.a.	n.a.	n.a.
TV stations 6/	730	702	691	688	693	n.a.	n.a.	n.a.
Lodging (number of rooms) 7/	583,731	603,781	623,555	638,494	651,160	660,546	672 296	682,380
Energy								
Electric power generation (gigawatts/hour) 8/	261,760	267,696	266,564	274,701	290,755	294,835	296,342	172,221
Oil reserves (millions of barrels) 9/	44,483	43,563	43,075	43,074	43,837	44,530	42,158	n.a.

1/ It refers to the National Road Inventory of December each year.
2/ Preliminary figures in 2013 and estimates in 2014.
3/ For 2013, excludes road sections constructed and/or modernized, that are in the process of completion and delivery/reception.
4/ From June 2008 onwards, figures include intercity and suburban service.
5/ Excluding baggage and express service.
6/ Includes broadcasting, concessions and licenses.
7/ Figures as of December of each year, except for 2014, when preliminary figures are up to June.
8/ Includes Federal Electricity Commission (*Comisión Federal de Electricidad*, CFE) and Central Light and Power Company (*Luz y Fuerza del Centro*, LFC) and external energy producers. Data as of July 2014.
9/ As of December 31 of each year.
n.a. Not available.
Source: Annual Government Report 2014, Mexico’s Presidency and PEMEX.

Table A 4
Mexican Financial System

REGULATORY AUTHORITIES

- MINISTRY OF FINANCE (*Secretaría de Hacienda y Crédito Público*, SHCP)
- BANCO DE MÉXICO
- NATIONAL BANKING AND SECURITIES COMMISSION (*Comisión Nacional Bancaria y de Valores*, CNBV)
- NATIONAL INSURANCE AND BONDING COMMISSION (*Comisión Nacional de Seguros y Fianzas*, CNSF)
- NATIONAL COMMISSION FOR PROTECTION AND DEFENSE OF FINANCIAL SERVICE USERS (*Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros*)
- NATIONAL COMMISSION FOR THE RETIREMENT SAVINGS SYSTEM (*Comisión Nacional del Sistema de Ahorro para el Retiro*)

FINANCIAL INSTITUTIONS

FINANCIAL GROUPS
- 22 Financial holding companies

CREDIT INSTITUTIONS
- 45 Commercial banks [1/]
- 6 Development banks
- 3 Development trust funds

SECURITIES MARKET
- 1 Mexican stock exchange
- 35 Brokerage houses
- 579 Investment companies [2/]
- 63 Investment companies specialized in retirement savings
- 1 Derivatives exchange

OTHER FINANCIAL INTERMEDIARIES AND CREDIT INFORMATION COMPANIES
- 103 Insurance companies[3/]
- 16 Deposit warehouses
- 28 Commercial banks' regulated entities
- 100 Credit unions
- 15 Bonding companies
- 9 Foreign exchange firms
- 185 Popular savings and credit financial entities
- 2 Credit bureaus

1/ The number of financial entities refers to those authorized as of December 2014.
2/ Includes stock investment funds, fixed-income investment funds for individuals and enterprises, equity investment funds, and investment fund holdings.
3/ Includes insurance companies, insurance companies specialized in pensions, health insurance companies, housing credit companies, and financial guarantee companies.
Data as of December 2014.
Source: Banco de México.

Production and Employment

Table A 5
Main Production Indicators
2008 prices
Annual change in percent

	2010	2011	2012	2013	2014 p/
Gross Domestic Product	5.1	4.0	4.0	1.4	2.1
Private consumption	5.7	4.8	4.9	2.2	2.0
Public consumption	1.7	2.4	3.5	1.4	2.5
Private investment	1.9	12.1	9.0	-1.5	4.8
Public investment	-0.5	-4.1	-9.0	-1.7	-7.4
Exports (goods and services)	20.5	8.2	5.8	2.2	7.3
Imports (goods and services)	20.5	8.0	5.5	2.5	5.7

p/ Preliminary figures.
Source: Mexico's System of National Accounts, INEGI.

Table A 6
Gross Domestic Product

	MXN million at current prices	Exchange rate 1/	USD million
2009	12,093,889.9	13.5135	894,950.4
2010	13,282,061.0	12.6360	1,051,127.9
2011	14,550,013.9	12.4233	1,171,185.2
2012	15,627,712.5	13.1695	1,186,663.3
2013	16,121,442.0	12.7720	1,262,249.6
2014 p/	17,050,554.6	13.2925	1,282,724.8

1/ Exchange rate used to settle liabilities denominated in foreign currency, average of the period.
p/ Preliminary figures.
Source: Mexico's System of National Accounts, INEGI; Banco de México.

Table A 7
Aggregate Supply and Demand
2008 prices

	Annual change in percent					Percent of GDP	
	2010	2011	2012	2013	2014 p/	2008	2014 p/
Aggregate supply	8.3	5.0	4.4	1.7	3.0	130.2	132.9
GDP	5.1	4.0	4.0	1.4	2.1	100.0	100.0
Imports	20.5	8.0	5.5	2.5	5.7	30.2	32.9
Aggregate demand	8.3	5.0	4.4	1.7	3.0	130.2	132.9
Total consumption	5.1	4.5	4.7	2.1	2.1	77.8	78.6
Private	5.7	4.8	4.9	2.2	2.0	66.9	67.5
Public	1.7	2.4	3.5	1.4	2.5	10.9	11.1
Total investment	1.3	7.8	4.8	-1.6	2.3	23.1	21.5
Private	1.9	12.1	9.0	-1.5	4.8	17.5	17.5
Public	-0.5	-4.1	-9.0	-1.7	-7.4	5.6	4.0
Exports	20.5	8.2	5.8	2.2	7.3	27.9	33.2

p/ Preliminary figures.
Source: Mexico's System of National Accounts, INEGI.

Table A 8
Aggregate Supply and Demand
Annual change in percent with respect to the same period of last year

	2011	2012	2013	2014 p/ I	II	III	IV	Annual
Aggregate supply	5.0	4.4	1.7	2.7	2.0	3.2	4.0	3.0
GDP	4.0	4.0	1.4	2.0	1.6	2.2	2.6	2.1
Imports	8.0	5.5	2.5	5.0	3.3	6.0	8.1	5.7
Aggregate demand	5.0	4.4	1.7	2.7	2.0	3.2	4.0	3.0
Total consumption	4.5	4.7	2.1	1.8	1.4	2.4	2.6	2.1
Private	4.8	4.9	2.2	1.6	1.3	2.2	2.7	2.0
Public	2.4	3.5	1.4	2.9	1.9	3.2	1.9	2.5
Total investment	7.8	4.8	-1.6	-0.5	-0.7	4.3	5.8	2.3
Private	12.1	9.0	-1.5	0.6	1.5	7.0	9.9	4.8
Public	-4.1	-9.0	-1.7	-5.0	-9.4	-5.8	-8.8	-7.4
Exports	8.2	5.8	2.2	6.4	5.0	7.1	10.3	7.3

p/ Preliminary figures.
Source: Mexico's System of National Accounts, (INEGI).

Table A 9
Domestic Saving and Investment
Percent of GDP at current prices

Item	2009	2010	2011	2012	2013	2014 p/
Financing of gross capital formation 1/	22.9	22.0	22.2	23.0	21.6	21.9
Financed with external savings 2/	0.9	0.4	1.1	1.3	2.3	2.1
Financed with domestic savings	22.0	21.6	21.1	21.7	19.3	19.8

p/ Preliminary figures.
1/ Includes gross capital formation plus change in inventories.
2/ Current account stocks of the balance of payments, measured in MXN and as a proportion of GDP.
Source: Banco de México with data from Mexico's System of National Accounts, INEGI and Banco de México.

Table A 10
Gross Domestic Product by Sector
2008 prices

	Annual change in percent					Percent of GDP	
	2010	2011	2012	2013	2014 p/	2008	2014 p/
Total	5.1	4.0	4.0	1.4	2.1	100.0	100.0
Primary sector	0.8	-2.3	7.4	0.9	2.8	3.2	3.1
Secondary sector	4.6	3.4	2.8	-0.5	1.9	35.6	33.5
Mining	0.9	-0.4	0.9	-0.1	-2.3	8.6	7.3
Electricity, water supply and pipeline gas supply	4.5	6.9	2.1	0.5	1.8	2.1	2.2
Construction	0.8	4.1	2.5	-4.8	1.9	8.4	7.3
Manufacturing industry	8.5	4.6	4.0	1.1	3.7	16.5	16.7
Tertiary sector	5.7	4.7	4.5	2.5	2.2	58.6	60.8
Commerce	11.9	9.7	4.8	2.3	3.3	14.6	15.5
Transport, mail and warehousing services	7.7	4.0	4.1	2.6	2.0	5.7	5.8
Mass media services	1.0	4.4	16.3	5.0	2.2	2.6	3.4
Financial and insurance services	21.0	7.1	7.7	9.8	2.0	3.2	4.6
Real estate and leasing services	2.8	2.9	2.5	1.0	2.1	11.8	11.9
Professional, scientific and technical services	-0.1	5.1	1.1	1.2	1.5	2.4	2.2
Corporate and firm management services	5.3	3.5	8.6	-1.8	6.4	0.6	0.6
Business support services, waste management and remediation services	0.7	6.0	4.4	4.3	0.0	3.3	3.1
Educational services	0.2	1.6	2.2	0.8	1.5	3.9	3.7
Health and social assistance services	-0.1	2.1	2.1	2.5	0.6	2.0	2.0
Cultural and sport services, and other recreational services	4.1	-0.7	2.9	3.4	-0.9	0.5	0.4
Temporary lodging services, and food and beverage-related services	1.9	1.5	5.4	1.8	2.9	2.3	2.1
Other services, except for government-related services	1.0	1.9	3.3	1.8	1.4	2.1	2.0
Government activity services	2.4	-1.4	3.7	-0.1	2.5	3.7	3.6

p/ Preliminary figures.
Source: Mexico's System of National Accounts, INEGI.

Table A 11
Manufacturing
2008 prices

	Annual change in percent				Percent of GDP	
	2011	2012	2013	2014 p/	2008	2014 p/
Total	4.6	4.0	1.1	3.7	16.5	16.7
Food industry	2.2	2.6	0.2	0.9	3.7	3.5
Beverage and tobacco industries	4.6	2.6	0.6	4.8	0.8	0.9
Textile input manufacturing	-4.4	3.1	-3.2	-3.3	0.1	0.1
Textile manufacturing (excpet for apparel)	-2.9	-0.1	3.7	5.8	0.1	0.1
Apparel industry	0.2	-0.5	3.3	-3.5	0.5	0.4
Leather product industry (except for leather clothing)	-0.7	3.5	1.0	-1.4	0.1	0.1
Timber industry	5.1	13.0	-2.8	1.2	0.2	0.2
Paper industry	-0.8	4.8	2.2	3.2	0.3	0.3
Printing and printing-related industries	4.2	-4.1	-7.0	-2.4	0.1	0.1
Oil and coal by-product industries	-3.6	1.1	3.2	-4.5	0.7	0.6
Chemical industry	-0.1	-0.3	2.4	-0.4	2.2	1.9
Plastic and rubber industry	6.7	9.0	-1.2	5.3	0.4	0.5
Non-metal mineral products industry	3.7	2.3	-2.9	2.2	0.9	0.8
Basic metal industries	4.3	2.2	-0.2	9.5	1.2	1.2
Metal products industry	7.0	3.9	-5.4	8.4	0.6	0.5
Machinery and equipment	13.3	5.3	1.6	-3.0	0.5	0.7
Measurement and other equipment, electronic components and accessories	6.7	0.5	4.2	5.8	0.7	0.7
Manufacturing of electricity supply equipment and electric devices and accessories	-1.1	1.8	-3.7	6.3	0.5	0.5
Transport equipment	16.6	14.1	5.4	11.5	2.1	3.1
Manufacturing of furniture and furniture-related products	1.2	2.8	-6.0	-1.8	0.2	0.2
Other manufacturing industries	5.1	0.4	1.3	7.0	0.4	0.4

p/ Preliminary figures.
Source: Mexico's System of National Accounts, INEGI.

Table A 12
Crude Oil, Gas Production and Crude Oil Reserves

Year	Crude oil (Million barrels)		Natural gas (Million cubic feet per day)	Total oil reserves [1/] (Billion barrels)
	Total	Daily average	Total	Total
2000	1,102.4	3.012	4,679	56.2
2001	1,141.4	3.127	4,511	53.0
2002	1,159.6	3.177	4,423	50.0
2003	1,230.4	3.371	4,498	48.0
2004	1,238.1	3.383	4,573	46.9
2005	1,216.7	3.333	4,818	46.4
2006	1,188.3	3.256	5,356	45.4
2007	1,122.6	3.076	6,058	44.5
2008	1,021.7	2.792	6,919	43.6
2009	949.5	2.601	7,031	43.1
2010	940.6	2.577	7,020	43.1
2011	931.7	2.553	6,594	43.8
2012	932.5	2.548	6,385	44.5
2013	920.6	2.522	6,370	42.2
2014 [p/]	886.5	2.429	6,532	n.a.

1/ Figures up to December 31.
p/ Preliminary figures.
n.a. Not available.
Source: Institutional Database and Oil Statistics (*Indicadores Petroleros*), PEMEX.

Table A 13
Employment: IMSS-insured Workers [1/]
Thousands

Year		Permanent	Temporary in urban areas	Total
2009		12,314	1,567	13,881
2010		12,826	1,786	14,612
2011		13,267	1,936	15,202
2012		13,848	2,054	15,902
2013		14,250	2,105	16,356
2014		14,783	2,269	17,052
2013	Jan	13,859	2,078	15,938
	Feb	13,934	2,109	16,043
	Mar	13,976	2,114	16,091
	Apr	14,041	2,135	16,175
	May	14,077	2,132	16,209
	Jun	14,109	2,133	16,243
	Jul	14,122	2,143	16,264
	Aug	14,162	2,154	16,316
	Sep	14,225	2,172	16,397
	Oct	14,325	2,205	16,530
	Nov	14,396	2,232	16,628
	Dec	14,250	2,105	16,356
2014	Jan	14,228	2,132	16,360
	Feb	14,303	2,174	16,477
	Mar	14,374	2,203	16,577
	Apr	14,437	2,215	16,653
	May	14,504	2,224	16,728
	Jun	14,559	2,246	16,804
	Jul	14,586	2,267	16,853
	Aug	14,620	2,287	16,907
	Sep	14,708	2,338	17,045
	Oct	14,831	2,376	17,208
	Nov	14,911	2,402	17,312
	Dec	14,783	2,269	17,052

1/ Permanent and temporary workers in urban areas.
Source: Mexican Social Security Institute (*Instituto Mexicano del Seguro Social*, IMSS).

Table A 14
Employment and Unemployment Indicators [1/]
Percent

		In relation to economic active population			In relation to employed population		
		National unemployment rate [2/]	Unemployment rate in urban areas [3/]	Partial employment and unemployment rate [4/]	Underemployment rate [5/]	Informal labor rate [6/]	Employment rate in the informal sector [7/]
2011 [8/]		5.2	5.9	11.3	8.6	59.4	28.6
2012		4.9	5.8	11.4	8.5	59.6	28.7
2013		4.9	5.7	11.2	8.4	58.8	28.3
2014		4.8	5.9	11.0	8.1	57.8	27.4
2013	I	4.9	5.8	10.7	8.2	58.7	28.6
	II	5.0	5.9	11.5	8.6	58.9	28.6
	III	5.2	5.9	11.5	8.5	58.9	28.1
	IV	4.6	5.3	11.2	8.2	58.6	27.9
2014	I	4.8	6.0	11.0	8.3	58.0	27.8
	II	4.9	6.1	11.3	8.2	57.6	27.3
	III	5.2	6.3	11.3	8.1	57.9	27.1
	IV	4.4	5.1	10.4	8.0	57.9	27.5

1/ Figures refer to individuals 15 years old and older.
2/ Ratio of unemployed population to economic active population. The unemployed population is composed of individuals that were not engaged in working activities during the reference week, but were searching for work during the last month.
3/ Unemployment rate in 32 cities is generated based on data from the monthly National Employment Survey (ENOE).
4/ Percent of economic active population that is not working, plus the individuals that worked less than 15 hours during the reference week.
5/ Employed individuals needing and willing to work more hours than those spent in their current jobs.
6/ It refers to the sum, without duplicating, of the vulnerable individuals in terms of work, due to the nature of the economic unit they work for, with those whose work ties and employee status are not recognized as their source of employment. This rate includes –besides those working in non-registered small businesses or in the informal sector– other analogous modalities, such as self-employed in subsistence agriculture, as well as workers without the social security and whose services are used by registered economic units.
7/ Percent of employed population working in economic non-agricultural units operating with no accounting records and financed with households' funds, or by an individual in charge of the activity, without identifying it as an independent enterprise. Thus, this production unit is not an identifiable entity, independent from the household or an individual in charge of it. Therefore, this production unit ends up operating on a small scale.
8/ Figures adjusted to the projections of the National Council of Population (*Consejo Nacional de Población*, CONAPO).
Source: National Employment Survey (*Encuesta Nacional de Ocupación y Empleo*, ENOE).

Table A 15
Real Exchange Rate Index [1/]

Year		Indices 1990 = 100			Annual change in percent		
		Bilateral with respect to the U.S.	Multilateral GDP-weighted [2/]	Multilateral trade-weighted [3/]	Bilateral with respect to the U.S.	Multilateral GDP-weighted [2/]	Multilateral trade-weighted [3/]
1996		107.6	103.0	108.9	-9.5	-12.1	-10.1
1997		95.0	85.8	94.2	-11.7	-16.7	-13.5
1998		95.8	84.5	92.7	0.9	-1.6	-1.6
1999		88.0	77.6	84.4	-8.1	-8.1	-8.9
2000		82.2	68.7	77.4	-6.7	-11.5	-8.3
2001		78.5	62.6	72.4	-4.5	-8.8	-6.5
2002		78.4	60.9	71.9	-0.1	-2.7	-0.7
2003		85.7	71.6	80.4	9.3	17.5	11.8
2004		88.0	77.0	84.0	2.6	7.5	4.4
2005		84.4	73.6	81.3	-4.0	-4.4	-3.2
2006		84.1	72.7	81.3	-0.3	-1.2	0.0
2007		83.4	74.8	82.2	-0.8	2.9	1.1
2008		83.8	78.1	83.9	0.4	4.5	2.2
2009		96.5	88.6	95.8	15.1	13.4	14.2
2010		88.0	81.6	88.6	-8.7	-7.9	-7.5
2011		86.3	82.9	88.3	-2.0	1.6	-0.4
2012		89.7	83.9	91.1	4.0	1.3	3.2
2013		85.0	77.5	86.0	-5.2	-7.6	-5.6
2014		86.4	77.0	87.0	1.7	-0.6	1.1
2013	I	84.6	78.4	86.0	-4.6	-6.2	-4.9
	II	83.3	76.1	84.1	-10.5	-12.3	-10.8
	III	86.5	77.7	87.3	-3.8	-6.9	-4.2
	IV	85.6	77.8	86.7	-1.7	-5.0	-2.1
2014	I	86.0	77.7	86.9	1.7	-0.9	1.1
	II	85.6	77.5	86.6	2.7	1.9	2.9
	III	85.8	76.7	86.6	-0.8	-1.3	-0.8
	IV	88.3	76.2	87.9	3.1	-2.1	1.4

1/ An increase in the index implies a depreciation of the Mexican peso.
2/ The real effective exchange rate is estimated based on consumer prices and with respect to a basket of 111 countries, weighted with the GDP of each one of them.
3/ The real effective exchange rate is estimated based on consumer prices and with respect to a basket of 49 countries, weighted by the participation of each country in trade with Mexico. The trade with these countries represents approximately 98% of total trade of Mexico.
Source: Prepared by Banco de México with data from the IMF, INEGI, OCDE and central banks.

Prices, Wages and Productivity

Table A 16
Main Price Indicators
Annual change in percent

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Prices												
Consumer prices												
End-period	3.98	5.19	3.33	4.05	3.76	6.53	3.57	4.40	3.82	3.57	3.97	4.08
Annual average	4.55	4.69	3.99	3.63	3.97	5.12	5.30	4.16	3.41	4.11	3.81	4.02
Producer prices. Finished merchandise excluding oil												
End-period	6.24	7.97	2.46	7.12	3.69	10.48	1.99	4.39	7.19	0.94	0.13	4.24
Annual average	6.31	8.58	3.56	6.12	4.25	7.38	5.91	3.25	5.23	4.56	-0.17	2.29
Producer prices. Finished merchand. and serv. excl. oil												
End-period	4.52	6.52	3.59	5.39	3.57	7.75	3.29	3.70	5.74	1.54	1.71	3.70
Annual average	4.90	6.43	4.22	5.12	3.83	5.79	5.36	3.57	4.21	4.22	1.24	2.53
Producer prices. Finished merchand. and servic. excl. oil												
End-period	4.83	6.57	4.01	5.50	4.40	6.50	4.34	3.89	6.58	1.01	1.47	1.79
Annual average	5.51	6.81	4.52	5.39	4.05	6.33	4.88	3.82	4.92	4.32	0.99	1.95
Construction cost index (residential) 1/												
End-period	6.92	12.15	-0.39	8.50	3.04	9.57	-0.33	4.54	9.28	0.78	-0.06	3.75
Annual average	6.48	12.25	1.19	7.58	3.36	9.70	-0.06	3.84	6.07	4.65	0.15	2.74

1/ Starting from January 2004, this indicator replaced the Social Housing Construction Index (*Índice Nacional del Costo de Edificación de Vivienda de Interés Social*, INCEVIS).
Source: Banco de México and INEGI.

Table A 17
Consumer Price Index (CPI)
2nd fortnight Dec 2010 base

	Month	CPI 2nd fortnight Dec 2010	Change in percent Annual	Annual 12-month moving average	Monthly
1999	Dec	59.016	12.32	16.59	
2000	Dec	64.303	8.96	9.49	
2001	Dec	67.135	4.40	6.37	
2002	Dec	70.962	5.70	5.03	
2003	Dec	73.784	3.98	4.55	
2004	Dec	77.614	5.19	4.69	
2005	Dec	80.200	3.33	3.99	
2006	Dec	83.451	4.05	3.63	
2007	Dec	86.588	3.76	3.97	
2008	Dec	92.241	6.53	5.12	
2009	Dec	95.537	3.57	5.30	
2010	Dec	99.742	4.40	4.16	
2011	Dec	103.551	3.82	3.41	
2012	Dec	107.246	3.57	4.11	
2013	Jan	107.678	3.25	4.04	0.40
	Feb	108.208	3.55	4.02	0.49
	Mar	109.002	4.25	4.06	0.73
	Apr	109.074	4.65	4.16	0.07
	May	108.711	4.63	4.23	-0.33
	Jun	108.645	4.09	4.21	-0.06
	Jul	108.609	3.47	4.13	-0.03
	Aug	108.918	3.46	4.04	0.28
	Sep	109.328	3.39	3.92	0.38
	Oct	109.848	3.36	3.82	0.48
	Nov	110.872	3.62	3.77	0.93
	Dec	111.508	3.97	3.81	0.57
2014	Jan	112.505	4.48	3.91	0.89
	Feb	112.790	4.23	3.97	0.25
	Mar	113.099	3.76	3.93	0.27
	Apr	112.888	3.50	3.83	-0.19
	May	112.527	3.51	3.74	-0.32
	Jun	112.722	3.75	3.71	0.17
	Jul	113.032	4.07	3.76	0.28
	Aug	113.438	4.15	3.82	0.36
	Sep	113.939	4.22	3.89	0.44
	Oct	114.569	4.30	3.96	0.55
	Nov	115.493	4.17	4.01	0.81
	Dec	116.059	4.08	4.02	0.49

Source: Banco de México and INEGI.

Table A 18
Consumer Price Index (CPI) by Type of Good
Annual change in percent
2nd fortnight Dec 2010 base

	Month	CPI	Food, beverages and tobacco	Apparel, footwear and accessories	Housing	Furniture and household goods	Medical and personal care	Transport	Education and entertainment	Other goods and services
2001	Dec	4.40	3.75	4.04	2.68	0.49	5.97	3.83	10.47	9.79
2002	Dec	5.70	5.45	2.19	9.54	-2.08	3.72	3.95	7.25	6.47
2003	Dec	3.98	4.31	0.32	4.20	0.16	4.35	2.47	6.35	5.88
2004	Dec	5.19	8.17	1.14	5.04	1.28	2.89	5.38	4.77	4.72
2005	Dec	3.33	2.24	1.26	3.60	1.87	3.87	3.50	5.09	4.46
2006	Dec	4.05	6.27	1.24	3.27	1.75	3.41	3.54	4.41	4.17
2007	Dec	3.76	6.00	1.31	2.32	1.85	4.04	3.16	4.19	4.49
2008	Dec	6.53	10.24	2.30	5.44	6.11	4.83	5.47	5.51	6.51
2009	Dec	3.57	4.24	3.47	0.94	5.51	4.94	5.35	4.04	4.36
2010	Dec	4.40	5.29	3.34	2.92	2.66	4.27	6.88	3.89	4.82
2011	Dec	3.82	6.02	3.43	2.10	2.83	1.94	4.99	3.15	4.47
2012	Dec	3.57	7.20	2.51	-0.68	4.56	5.01	4.54	3.15	5.10
2013	Jan	3.25	5.33	2.56	-0.09	3.78	4.68	4.44	3.25	5.26
	Feb	3.55	5.61	2.43	0.75	2.81	4.58	4.81	3.47	5.00
	Mar	4.25	7.96	2.35	1.09	2.16	4.80	5.28	3.64	4.70
	Apr	4.65	8.88	2.07	1.48	1.78	4.57	6.19	3.72	4.46
	May	4.63	8.15	2.03	2.10	1.63	4.44	6.10	3.81	4.46
	Jun	4.09	5.70	1.72	2.26	1.58	4.10	6.51	3.81	4.32
	Jul	3.47	3.75	1.46	2.01	0.77	3.90	6.52	3.66	4.34
	Aug	3.46	4.06	1.39	1.87	0.56	3.41	6.60	3.75	4.02
	Sep	3.39	2.97	1.59	2.51	0.67	3.86	6.65	3.54	3.86
	Oct	3.36	2.68	1.52	3.06	0.81	3.09	6.52	3.46	3.53
	Nov	3.62	3.79	1.45	3.36	0.75	2.17	6.37	3.41	3.66
	Dec	3.97	4.11	1.52	3.84	0.67	2.27	7.33	3.64	3.52
2014	Jan	4.48	5.19	1.51	3.75	1.21	2.78	8.27	3.80	4.45
	Feb	4.23	4.97	1.81	3.10	1.44	1.95	8.06	3.79	4.95
	Mar	3.76	3.43	1.60	2.95	1.87	1.99	7.76	3.33	5.19
	Apr	3.50	2.46	1.82	2.60	2.07	2.29	7.07	4.18	5.67
	May	3.51	3.25	1.84	2.06	2.10	2.33	7.10	3.64	5.62
	Jun	3.75	4.45	2.22	2.10	1.55	2.52	6.57	3.55	5.72
	Jul	4.07	5.41	2.27	2.28	2.03	2.31	6.60	3.68	5.87
	Aug	4.15	5.70	2.50	2.26	2.47	2.57	6.22	3.56	6.11
	Sep	4.22	6.16	2.42	2.23	2.05	2.51	6.00	3.73	6.21
	Oct	4.30	6.47	2.40	2.10	2.00	2.78	6.01	3.82	6.48
	Nov	4.17	6.00	2.33	2.14	1.70	3.40	5.55	3.88	6.59
	Dec	4.08	6.54	2.27	2.02	1.58	2.87	4.45	3.85	6.80

Source: Banco de México and INEGI.

Table A 19
Inflation: CPI, Core and Complementary CPI Subindices
Annual change in percent
2nd fortnight Dec 2010 base

	Month	CPI	Core 1/	Merchandise	Services	Non-core	Agricultural	Energy and government approved fares
2005	Dec	3.33	3.27	2.84	3.64	3.53	-0.18	5.84
2006	Dec	4.05	3.65	3.42	3.84	5.42	8.30	3.72
2007	Dec	3.76	3.87	4.52	3.33	3.39	3.42	3.36
2008	Dec	6.53	5.54	6.50	4.72	9.80	11.63	8.68
2009	Dec	3.57	4.16	5.57	2.94	1.72	1.66	1.76
2010	Dec	4.40	3.58	3.82	3.36	7.09	6.96	7.16
2011	Dec	3.82	3.35	4.52	2.40	5.34	3.73	6.19
2012	Dec	3.57	2.90	5.00	1.15	5.74	9.18	3.84
2013	Jan	3.25	2.88	4.37	1.62	4.47	5.51	3.89
	Feb	3.55	2.96	3.86	2.21	5.47	7.48	4.36
	Mar	4.25	3.02	3.81	2.35	8.29	14.29	5.02
	Apr	4.65	2.95	3.63	2.37	10.32	17.25	6.47
	May	4.63	2.88	3.49	2.36	10.56	15.30	7.75
	Jun	4.09	2.79	3.14	2.49	8.39	8.99	8.06
	Jul	3.47	2.50	2.64	2.38	6.60	4.22	8.12
	Aug	3.46	2.37	2.51	2.24	7.01	5.19	8.16
	Sep	3.39	2.52	2.59	2.45	6.20	2.33	8.66
	Oct	3.36	2.48	2.41	2.54	6.18	1.67	9.07
	Nov	3.62	2.56	1.99	3.06	7.02	5.53	8.01
	Dec	3.97	2.78	1.89	3.54	7.84	6.67	8.65
2014	Jan	4.48	3.21	2.93	3.47	8.58	6.21	10.13
	Feb	4.23	2.98	2.91	3.05	8.28	5.43	10.12
	Mar	3.76	2.89	2.88	2.90	6.54	1.49	9.73
	Apr	3.50	3.11	2.97	3.23	4.75	-1.13	8.52
	May	3.51	3.00	3.08	2.94	5.19	0.67	8.14
	Jun	3.75	3.09	3.24	2.96	5.96	3.37	7.59
	Jul	4.07	3.25	3.37	3.15	6.83	5.78	7.47
	Aug	4.15	3.37	3.56	3.22	6.72	6.22	7.03
	Sep	4.22	3.34	3.46	3.24	7.11	7.57	6.82
	Oct	4.30	3.32	3.53	3.14	7.51	8.46	6.93
	Nov	4.17	3.34	3.68	3.06	6.78	7.04	6.62
	Dec	4.08	3.24	3.50	3.03	6.70	8.61	5.55

1/ Core inflation is obtained by eliminating from the CPI calculation the goods and services with more volatile prices, otherwise its determination process does not correspond to market conditions. Thus, the groups excluded from the core component are the following: agricultural and energy and fares approved by government.
Source: Banco de México and INEGI.

Table A 20
Producer Price Index (PPI) Excluding Oil
June 2012 base = 100

Period		Finished merchandise			Services			Finished merchandise and services		
		Index	Percentage change		Index	Percentage change		Index	Percentage change	
			Annual	Monthly		Annual	Monthly		Annual	Monthly
1999	Dec	51.177	8.66	0.78	55.772	14.87	1.07	53.517	11.94	0.93
2000	Dec	54.953	7.38	0.57	61.126	9.60	1.03	58.108	8.58	0.82
2001	Dec	56.386	2.61	-0.32	64.656	5.77	0.37	60.626	4.33	0.06
2002	Dec	59.934	6.29	0.31	68.010	5.19	0.31	64.061	5.67	0.31
2003	Dec	63.673	6.24	0.85	70.142	3.13	0.27	66.960	4.52	0.53
2004	Dec	68.747	7.97	-0.29	73.828	5.25	0.41	71.328	6.52	0.08
2005	Dec	70.438	2.46	0.45	77.225	4.60	0.34	73.886	3.59	0.39
2006	Dec	75.454	7.12	0.30	80.202	3.85	0.14	77.865	5.39	0.21
2007	Dec	78.235	3.69	0.00	82.976	3.46	0.31	80.643	3.57	0.16
2008	Dec	86.436	10.48	0.33	87.342	5.26	0.42	86.896	7.75	0.38
2009	Dec	88.156	1.99	-0.05	91.306	4.54	0.80	89.756	3.29	0.39
2010	Dec	92.026	4.39	0.72	94.102	3.06	0.65	93.080	3.70	0.68
2011	Dec	98.640	7.19	0.73	98.215	4.37	1.01	98.424	5.74	0.87
2012	Jan	99.337	7.31	0.71	97.671	3.96	-0.55	98.491	5.59	0.07
	Feb	99.064	5.98	-0.27	97.891	4.05	0.22	98.468	5.00	-0.02
	Mar	98.884	5.14	-0.18	98.892	4.53	1.02	98.888	4.83	0.43
	Apr	98.944	5.32	0.06	98.938	3.97	0.05	98.941	4.63	0.05
	May	99.242	6.30	0.30	99.549	4.33	0.62	99.397	5.29	0.46
	Jun	100.000	6.59	0.76	100.000	4.59	0.45	100.000	5.57	0.61
	Jul	99.269	5.05	-0.73	100.336	4.16	0.34	99.696	4.47	-0.30
	Aug	99.101	4.14	-0.17	100.430	4.23	0.09	99.632	4.04	-0.06
	Sep	99.455	3.57	0.36	100.686	4.47	0.26	99.947	3.89	0.32
	Oct	99.421	2.73	-0.03	100.876	4.24	0.19	100.003	3.33	0.06
	Nov	99.926	2.05	0.51	100.642	3.50	-0.23	100.212	2.70	0.21
	Dec	99.570	0.94	-0.36	100.488	2.31	-0.15	99.937	1.54	-0.27
2013	Jan	99.392	0.06	-0.18	101.025	3.43	0.53	100.045	1.58	0.11
	Feb	99.478	0.42	0.09	102.030	4.23	0.99	100.499	2.06	0.45
	Mar	99.546	0.67	0.07	102.375	3.52	0.34	100.678	1.81	0.18
	Apr	98.934	-0.01	-0.61	102.485	3.59	0.11	100.355	1.43	-0.32
	May	98.569	-0.68	-0.37	102.548	3.01	0.06	100.161	0.77	-0.19
	Jun	99.101	-0.90	0.54	102.864	2.86	0.31	100.606	0.61	0.44
	Jul	98.565	-0.71	-0.54	103.281	2.94	0.41	100.452	0.76	-0.15
	Aug	98.692	-0.41	0.13	103.211	2.77	-0.07	100.500	0.87	0.05
	Sep	99.286	-0.17	0.60	103.537	2.83	0.32	100.987	1.04	0.48
	Oct	99.247	-0.18	-0.04	103.781	2.88	0.24	101.061	1.06	0.07
	Nov	99.626	-0.30	0.38	104.006	3.34	0.22	101.378	1.16	0.31
	Dec	99.704	0.13	0.08	104.548	4.04	0.52	101.642	1.71	0.26
2014	Jan	100.420	1.03	0.72	104.408	3.35	-0.13	102.016	1.97	0.37
	Feb	100.962	1.49	0.54	104.989	2.90	0.56	102.573	2.06	0.55
	Mar	101.018	1.48	0.06	105.210	2.77	0.21	102.695	2.00	0.12
	Apr	100.820	1.91	-0.20	105.498	2.94	0.27	102.691	2.33	0.00
	May	100.896	2.36	0.08	105.420	2.80	-0.07	102.706	2.54	0.01
	Jun	100.584	1.50	-0.31	105.677	2.73	0.24	102.621	2.00	-0.08
	Jul	100.953	2.42	0.37	106.160	2.79	0.46	103.036	2.57	0.40
	Aug	101.513	2.86	0.55	106.118	2.82	-0.04	103.355	2.84	0.31
	Sep	101.705	2.44	0.19	106.516	2.88	0.37	103.630	2.62	0.27
	Oct	102.075	2.85	0.36	106.669	2.78	0.14	103.913	2.82	0.27
	Nov	102.470	2.85	0.39	106.913	2.80	0.23	104.248	2.83	0.32
	Dec	103.934	4.24	1.43	107.614	2.93	0.66	105.406	3.70	1.11

Source: Banco de México and INEGI.

Table A 21
Producer Price Index (PPI) Excluding Oil
Classified by finished goods' end-use
Annual change in percent in December of each year

Item	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
PPI finished merchandise and services	**6.52**	**3.59**	**5.39**	**3.57**	**7.75**	**3.29**	**3.70**	**5.74**	**1.54**	**1.71**	**3.70**
Domestic demand	6.67	3.99	5.25	3.67	7.24	3.32	3.44	5.45	2.49	2.51	3.32
Consumption	5.56	4.56	4.03	3.70	6.24	4.07	3.33	4.75	2.88	3.35	2.95
Investment	12.85	0.82	10.77	2.81	12.55	-0.53	3.58	8.78	0.65	-0.16	4.52
Exports	5.48	0.63	6.41	2.81	11.61	3.11	5.61	7.77	-2.12	-0.94	5.02
PPI finished merchandise	**7.97**	**2.46**	**7.12**	**3.69**	**10.48**	**1.99**	**4.39**	**7.19**	**0.94**	**0.13**	**4.24**
Domestic demand	8.61	3.21	7.16	3.90	10.07	1.92	4.05	6.90	2.83	0.95	3.75
Consumption	6.00	4.84	4.94	4.60	8.42	3.64	4.40	5.68	4.66	1.86	3.46
Investment	13.03	0.56	10.91	2.75	12.77	-0.76	3.48	8.87	0.42	-0.25	4.14
Exports	5.44	-0.58	6.94	2.79	12.25	2.30	5.79	8.36	-3.33	-1.35	5.16
PPI services	**5.25**	**4.60**	**3.85**	**3.46**	**5.26**	**4.54**	**3.06**	**4.37**	**2.31**	**4.04**	**2.93**
Domestic demand	5.23	4.59	3.81	3.49	5.04	4.46	2.96	4.29	2.16	4.10	2.89
Consumption	5.32	4.41	3.53	3.20	5.02	4.32	2.72	4.21	1.83	4.26	2.65
Investment	7.13	9.34	6.70	4.59	5.89	6.84	6.67	6.20	6.09	0.69	8.20
Exports	5.65	4.93	4.63	2.88	9.40	5.99	4.97	5.76	5.06	3.04	3.72

Source: Banco de México and INEGI.

Table A 22
Producer Price Index (PPI) Excluding Oil
Classified by origin of finished goods
Annual change in percent in December of each year

Item	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
PPI finished merchandise and services	**6.52**	**3.59**	**5.39**	**3.57**	**7.75**	**3.29**	**3.70**	**5.74**	**1.54**	**1.71**	**3.70**
Agriculture, livestock, forest use, fishing and hunting	8.08	8.32	8.42	4.45	14.16	-0.51	13.20	3.46	5.76	-0.10	4.65
Mining	13.12	5.22	31.48	10.39	-3.82	31.26	17.60	9.17	-2.60	-0.35	9.20
Electricity, w ater supply and pipeline gas supply	11.32	4.41	4.60	4.07	11.70	-0.33	4.90	5.30	3.68	4.25	3.58
Construction	14.49	0.61	11.76	2.90	13.08	-0.95	3.89	9.29	0.41	-0.69	4.46
Manufacturing industry	5.10	2.46	4.81	3.82	9.03	3.38	3.23	6.81	1.30	0.28	4.17
Transport, mail and w arehousing services	8.23	5.94	2.87	2.73	6.07	6.86	2.73	5.74	2.99	4.20	2.57
Mass media services	--	--	--	--	--	--	--	2.67	-13.84	13.08	-3.81
Real estate and leasing services	3.63	2.85	3.30	2.72	3.62	2.16	2.24	1.96	2.04	2.11	2.03
Professional, scientific and technical services	--	--	--	--	--	--	--	5.69	2.85	2.47	4.23
Business support services, w aste management and remediation services	--	--	--	--	--	--	--	2.14	5.09	4.38	4.45
Education services	--	--	--	--	--	--	--	4.37	6.91	4.53	4.37
Health and social assistance services	--	--	--	--	--	--	--	3.75	3.03	3.91	3.45
Cultural and sport services, and other recreational services	--	--	--	--	--	--	--	2.91	4.19	2.18	2.93
Temporary lodging services and food and beverage-related services	5.22	3.94	3.83	3.96	6.02	3.55	3.69	4.74	4.03	3.06	5.11
Other services excluding government activity services	--	--	--	--	--	--	--	3.28	3.25	2.91	2.97

Source: Banco de México and INEGI.

Table A 23
Construction Cost Index
Annual change in percent in December of each year

Item	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General index	**14.49**	**0.61**	**11.76**	**2.90**	**13.08**	**-0.95**	**4.80**	**9.29**	**0.41**	**-0.69**	**4.46**
Construction materials index	17.74	-0.24	14.11	2.55	15.47	-1.84	5.16	10.56	-0.16	-1.39	4.54
Non-metal minerals	5.36	3.65	2.82	4.88	7.78	2.58	3.16	4.81	4.98	4.30	5.10
Cement and concrete	2.77	0.18	4.76	4.71	8.72	0.14	5.37	9.04	1.24	-1.97	5.58
Cementing materials	4.09	3.83	5.19	3.38	10.40	3.26	5.01	5.91	4.98	0.63	4.75
Clay materials	2.92	4.53	6.59	3.67	6.30	0.21	2.85	1.68	1.48	2.84	2.15
Concrete products	1.26	1.68	8.20	3.18	5.06	0.98	1.82	3.16	2.44	1.64	3.18
Concrete structures	8.60	2.04	7.93	4.35	11.35	-0.25	3.24	6.75	1.72	1.15	2.85
Other concrete products	3.48	2.86	7.96	1.47	8.19	0.70	2.51	3.95	1.96	-0.26	5.13
Other non-metal mineral products	12.42	7.27	7.83	0.53	7.77	-3.32	3.05	6.32	7.47	-2.03	3.53
Timber products	12.55	4.46	4.12	3.38	7.27	1.80	3.03	2.86	5.04	1.48	1.83
Paint and other similar materials	11.82	6.76	3.05	0.85	19.19	-0.27	5.01	14.83	1.27	2.91	0.17
Plastic materials	12.17	18.90	5.10	-1.68	8.36	-4.76	5.37	3.26	2.39	-0.56	3.47
Other chemical products	5.13	9.03	29.07	0.98	49.02	-10.00	7.40	15.62	-5.34	-6.52	13.68
Metal products	50.85	-1.33	30.58	0.90	26.13	-7.13	5.54	11.50	-1.55	-4.30	4.53
Wire products	77.43	-23.82	23.86	-3.55	24.34	-8.83	5.22	36.15	-10.69	-8.24	-1.20
Electric equipment	11.38	0.10	12.82	6.04	15.68	2.24	1.71	6.22	5.28	-0.15	1.39
Electric accessories	38.67	18.88	52.24	0.54	-4.09	6.34	15.71	5.63	1.22	-5.74	-0.33
Furniture and accessories	6.62	3.84	10.02	4.56	11.52	3.14	2.39	4.24	5.14	3.80	1.71
Other materials and accessories	17.69	4.15	8.74	2.84	16.92	-0.36	7.70	7.51	2.55	1.57	6.45
Rented machinery and equipment subindex	4.14	2.78	2.79	2.89	6.89	1.82	3.24	5.26	-0.24	1.43	5.14
Worker earnings' subindex	4.47	3.83	3.79	4.35	3.55	3.07	3.32	3.80	3.21	2.87	3.91

Source: Banco de México and INEGI.

Table A 24
Contractual Wages

Period		Contractual wages: Total: Annual increase (percent)	Total: Number of workers (thousands)	Total: Number of firms	Manufactures: Annual increase (percent)	Manufactures: Number of workers (thousands)	Manufactures: Number of firms
2003	Average	4.7	1,763	5,337	5.2	526.4	2,294
2004	Average	4.1	1,776	5,920	4.6	534.7	2,431
2005	Average	4.4	1,783	5,957	4.7	541.2	2,476
2006	Average	4.1	1,684	5,819	4.4	482.7	2,433
2007	Average	4.2	1,858	6,251	4.4	566.8	2,546
2008	Average	4.4	1,910	6,308	4.7	557.5	2,768
2009	Average	4.4	1,824	6,645	4.4	511.5	2,930
2010	Average	4.3	1,882	6,825	4.8	560.0	3,268
2011	Average	4.3	1,971	7,192	4.7	612.8	3,445
2012	Average	4.4	2,073	7,442	4.8	638.1	3,405
2013	Average	4.3	2,072	7,802	4.6 [1/]	669.0 [1/]	3,403 [1/]
2014	Average	4.1	2,198	8,247	4.5	708.4	3,582
2015	Average	4.3	396	1,285	4.4	164.2	650
2011	Jan	4.4	159.8	605	4.8	55.8	289
	Feb	4.7	223.9	765	4.7	93.9	430
	Mar	4.4	132.2	977	4.5	74.1	508
	Apr	4.5	224.1	660	4.6	60.2	313
	May	4.6	101.0	735	4.5	47.1	365
	Jun	4.7	79.5	687	4.8	38.4	298
	Jul	4.7	221.5	395	4.6	21.0	159
	Aug	5.1	92.1	548	5.3	46.4	251
	Sep	4.6	61.8	499	5.0	25.0	173
	Oct	3.5	576.5	538	4.7	102.2	300
	Nov	4.5	62.2	464	4.5	29.9	210
	Dec	4.7	36.1	319	4.8	18.9	149
2012	Jan	4.4	171.4	603	4.9	53.9	293
	Feb	4.5	232.6	902	4.7	106.0	441
	Mar	4.5	168.3	888	4.6	90.0	464
	Apr	4.5	122.7	756	4.8	44.3	314
	May	4.4	211.0	782	4.5	52.2	374
	Jun	4.5	100.8	715	4.6	41.8	290
	Jul	4.4	239.7	391	4.6	21.3	158
	Aug	5.0	114.0	736	4.9	61.2	313
	Sep	5.0	56.8	498	4.6	31.2	227
	Oct	4.2	570.0	501	5.1	100.1	236
	Nov	4.6	49.5	399	4.9	20.3	178
	Dec	4.9	35.9	271	5.3	15.9	117
2013	Jan	4.3	185.0	535	4.8 [1/]	47.2 [1/]	245 [1/]
	Feb	4.4	213.8	864	4.7	103.5	392
	Mar	4.5	147.0	898	4.6	78.0	419
	Apr	4.3	250.0	793	4.6	80.1	422
	May	4.6	126.1	726	4.8	69.4	371
	Jun	4.6	90.4	557	4.3	41.6	276
	Jul	4.1	237.3	582	4.6	25.5	230
	Aug	4.6	79.7	941	4.7	46.9	285
	Sep	4.4	80.3	544	4.7	43.5	234
	Oct	4.0	560.5	522	4.7	87.1	241
	Nov	4.2	49.8	438	4.4	21.1	182
	Dec	4.2	51.5	402	4.3	25.0	106
2014 [p/]	Jan	3.8	186.8	707	4.5	51.3	308
	Feb	4.4	205.6	822	4.5	97.3	408
	Mar	4.4	181.4	1014	4.5	110.3	499
	Apr	4.0	275.7	762	4.6	74.7	367
	May	4.4	100.2	638	4.2	58.9	334
	Jun	4.4	82.1	650	4.4	42.7	339
	Jul	4.1	240.7	436	4.3	26.1	190
	Aug	4.5	113.7	734	4.8	56.3	297
	Sep	4.2	87.8	588	4.2	44.2	258
	Oct	3.7	611.1	625	4.5	105.4	256
	Nov	4.3	48.1	378	4.5	15.7	164
	Dec	3.9	64.6	896	4.7	25.7	164

1 Data of Manufacturing as of 2013 correspond to the classification of the Industrial Classification System of North America (2007).

p/ Preliminary figures.

Note: Annual wage increase figures correspond to weighted averages of monthly figures. Annual figures of number of workers and number of firms correspond to total monthly figures.

Source: Prepared by Banco de México with data from the Ministry of Labor.

Table A 25
Nominal Earnings and Output per Worker (ENOE)
Annual change in percent

Period		Average monthly earnings	Output per worker	
			Total	Manufactures
2010	Average	1.2	3.6	4.7
2011	Average	1.5	1.8	2.8
2012	Average	3.7	0.7	0.8
2013	Average	2.8	0.3	-2.4
2014	Average	-0.9	1.7	1.4
2010	I	0.4	1.7	5.2
	II	-0.2	3.1	7.6
	III	2.6	3.8	2.6
	IV	2.1	5.6	3.7
2011	I	1.9	3.4	6.1
	II	1.1	2.6	0.3
	III	0.9	2.2	4.5
	IV	1.9	-0.9	0.4
2012	I	2.3	1.1	1.7
	II	2.8	0.0	3.4
	III	3.3	-0.8	-1.1
	IV	6.5	2.5	-0.7
2013	I	5.0	-0.3	-3.4
	II	2.9	1.2	-1.9
	III	2.6	1.5	-1.4
	IV	0.8	-1.1	-3.0
2014 [1/]	I	-1.3	0.5	-0.5
	II	-0.3	1.6	0.1
	III	-0.8	1.9	1.7
	IV	-1.1	2.9	4.3

1/ From the fourth quarter of 2014, the population of the ENOE includes individuals of 15 years old and older, rather than of 14 years old and older.
Source: Prepared by Banco de México with data from INEGI.

Table A 26
Minimum Wage
MXN per day

Term starting date	National average [1/]	Geographic area [2/] A	B	C
1994 January 1	13.97	15.27	14.19	12.89
1995 January 1	14.95	16.34	15.18	13.79
1995 Aprill 1	16.74	18.30	17.00	15.44
1995 December 4	18.43	20.15	18.70	17.00
1996 January 1	18.43	20.15	18.70	17.00
1996 April 1	20.66	22.60	20.95	19.05
1996 December 3	24.30	26.45	24.50	22.50
1997 January 1	24.30	26.45	24.50	22.50
1998 January 1	27.99	30.20	28.00	26.05
1998 December 3	31.91	34.45	31.90	29.70
1999 January 1	31.91	34.45	31.90	29.70
2000 January 1	35.12	37.90	35.10	32.70
2001 January 1	37.57	40.35	37.95	35.85
2002 January 1	39.74	42.15	40.10	38.30
2003 January 1	41.53	43.65	41.85	40.30
2004 January 1	43.30	45.24	43.73	42.11
2005 January 1	45.24	46.80	45.35	44.05
2006 January 1	47.05	48.67	47.16	45.81
2007 January 1	48.88	50.57	49.00	47.60
2008 January 1	50.84	52.59	50.96	49.50
2009 January 1	53.19	54.80	53.26	51.95
2010 January 1	55.77	57.46	55.84	54.47
2011 January 1	58.06	59.82	58.13	56.70
2012 January 1	60.50	62.33	60.57	59.08
	National average [1/]	Geographic area [2/ 3/] A	B	
2012 November 27	60.75	62.33	59.08	
2013 January 1	63.12	64.76	61.38	
2014 January 1	65.58	67.29	63.77	

1/ Country's average weighted by the number of minimum wage earners in each region.
2/ States and municipalities are classified by regions to show country's different costs of living.
3/ From November 27, 2012, the council of representatives of the Minimum Wage Commission (CONASAMI) decided to unify the previous geographic areas 'A' and 'B' within the same minimum wage (MXN 62.33). In turn, the previously known as geographic area 'C' was denominated 'B'.
Source: Minimum Wage Commission.

Monetary and Financial Indicators

Table A 27
Main Monetary and Financial Indicators

	2011	2012	2013	2014
Monetary aggregates [1/]	Real annual change in percent			
Monetary base	5.89	9.38	2.40	9.09
M1	10.90	9.39	4.43	9.93
M4	10.04	12.07	7.46	6.56
Domestic financial saving [2/]	10.33	12.24	7.85	6.34
	Percent of GDP [3/]			
Monetary base	4.50	4.77	4.91	5.27
M1	12.44	13.19	13.86	14.99
M4	59.02	64.11	69.31	72.65
Domestic financial saving [2/]	55.05	59.89	64.99	67.97
Nominal interest rates [4/]	Annual rates in percent			
28-day TIIE	4.82	4.79	4.28	3.52
28-day Cetes	4.24	4.24	3.75	3.00
CPP	3.34	3.25	2.97	2.41
CCP	4.18	4.20	3.86	3.23
Exchange rate [5/]	MXN/USD			
To settle liabilities denominated in foreign currency	13.9904	13.0101	13.0765	14.7180
Mexican stock exchange [5/]	Index base October 1978=100			
Stock exchange benchmark index (IPC)	37,078	43,706	42,727	43,146

1/ Average of outstanding stocks at end of month.
2/ Defined as monetary aggregate M4 less currency outside banks.
3/ GDP (base 2008) annual average.
4/ Average of daily or weekly observations.
5/ At end of period.
Source: Banco de México and Mexican Stock Exchange (*Bolsa Mexicana de Valores*, BMV).

Table A 28
Monetary Aggregates
Stocks in MXN billion

End of period		Monetary base	M1	M2	M3	M4	Domestic financial saving
		Nominal stocks					
2001		225.6	680.7	2,768.9	2,797.4	2,846.2	2,647.3
2002		263.9	766.5	3,056.6	3,081.8	3,125.6	2,893.4
2003		303.6	857.7	3,458.4	3,492.2	3,524.9	3,261.3
2004		340.2	946.6	3,800.7	3,889.8	3,928.8	3,627.6
2005		380.0	1,068.5	4,366.1	4,503.8	4,545.9	4,209.7
2006		449.8	1,218.5	4,972.3	5,149.7	5,201.4	4,811.9
2007		494.7	1,350.1	5,384.9	5,647.7	5,720.0	5,289.9
2008		577.5	1,482.9	6,269.9	6,596.6	6,680.6	6,186.2
2009		632.0	1,614.6	6,672.3	7,053.0	7,126.8	6,589.7
2010		693.4	1,833.3	7,207.8	7,952.0	8,037.2	7,437.9
2011		763.5	2,083.2	8,065.7	9,227.1	9,330.6	8,664.7
2012		846.0	2,280.0	8,740.2	10,573.9	10,684.9	9,950.9
2013		917.9	2,513.8	9,507.2	11,566.1	11,658.6	10,865.7
2014	Jan	869.1	2,456.0	9,621.7	11,642.8	11,738.5	10,968.3
	Feb	864.4	2,440.3	9,686.7	11,814.9	11,905.5	11,133.1
	Mar	858.0	2,448.0	9,752.3	11,883.1	11,975.2	11,207.5
	Apr	873.2	2,464.1	9,841.2	11,931.9	12,033.7	11,264.4
	May	875.6	2,492.2	9,934.9	12,130.8	12,232.0	11,454.0
	Jun	875.8	2,507.7	10,009.7	12,256.4	12,359.2	11,575.6
	Jul	887.2	2,533.8	10,081.0	12,372.6	12,478.5	11,694.7
	Aug	886.3	2,547.5	10,147.5	12,419.7	12,524.7	11,736.2
	Sep	883.1	2,558.9	10,182.6	12,442.2	12,547.6	11,758.3
	Oct	908.6	2,620.8	10,296.6	12,623.2	12,729.7	11,917.3
	Nov	944.9	2,714.0	10,459.3	12,905.0	13,017.5	12,187.3
	Dec	1,062.9	2,879.2	10,539.6	12,989.3	13,107.5	12,178.7
		Average stocks as percentage of GDP 1/					
2008		3.84	10.38	46.03	48.73	49.33	45.96
2009		4.51	11.88	53.30	56.01	56.64	52.70
2010		4.50	11.88	52.07	56.21	56.81	52.86
2011		4.50	12.44	51.76	58.32	59.02	55.05
2012		4.77	13.19	53.95	63.43	64.11	59.89
2013		4.91	13.86	56.51	68.72	69.31	64.99
2014		5.27	14.99	58.92	72.05	72.65	67.97

The Monetary Base includes banknotes and coins in circulation plus the net creditor balance of commercial and development banks' current accounts at Banco de México.
M1 includes currency outside banks plus domestic private sector deposits in checking accounts and in current accounts.
M2 includes M1 plus domestic private sector bank deposits and savings in loan entities (other than deposits in checking and current accounts) plus public sector and private sector securities held by the resident private sector, and housing and retirement savings funds.
M3 includes M2 plus non-residents' demand and term deposits in banks, plus federal government securities held by non-residents.
M4 includes M3 plus deposits in Mexican banks' agencies abroad, from the private sector's residents and non-residents.
Domestic Financial Saving is equal to M4 less currency outside banks.
1/ GDP (2008 base) annual average.
Source: Banco de México.

Table A 29
Monetary Base
Stocks in MXN billion

End of period	Monetary base	Liabilities: Banknotes and coins in circulation 1/	Liabilities: Bank deposits	Assets: Net domestic credit	Assets: Net international assets 2/
2000	208.943	208.880	0.063	-133.443	342.386
2001	225.580	225.223	0.358	-185.735	411.315
2002	263.937	263.937	0.000	-265.566	529.503
2003	303.614	303.614	0.000	-360.043	663.657
2004	340.178	340.178	0.000	-375.992	716.170
2005	380.034	380.034	0.000	-408.133	788.167
2006	449.821	449.821	0.000	-375.146	824.967
2007	494.743	494.743	0.000	-457.484	952.227
2008	577.543	577.542	0.000	-739.750	1,317.293
2009	632.032	631.938	0.095	-672.860	1,304.892
2010	693.423	693.423	0.000	-796.192	1,489.615
2011	763.492	763.491	0.001	-1,318.080	2,081.572
2012	846.019	845.396	0.624	-1,320.331	2,166.351
2013					
Jan	787.098	787.098	0.000	-1,389.839	2,176.937
Feb	778.365	778.364	0.001	-1,416.845	2,195.210
Mar	803.484	803.483	0.000	-1,314.371	2,117.854
Apr	764.629	764.628	0.001	-1,333.315	2,097.944
May	772.199	772.199	0.001	-1,406.063	2,178.262
Jun	773.245	773.244	0.001	-1,427.613	2,200.858
Jul	769.510	769.509	0.000	-1,450.931	2,220.441
Aug	769.245	769.245	0.001	-1,546.227	2,315.473
Sep	769.836	769.835	0.001	-1,536.198	2,306.034
Oct	779.989	779.988	0.001	-1,524.727	2,304.716
Nov	821.532	821.136	0.396	-1,528.111	2,349.643
Dec	917.876	917.875	0.001	-1,440.338	2,358.214
2014					
Jan	869.144	869.143	0.001	-1,579.319	2,448.462
Feb	864.385	864.385	0.001	-1,568.702	2,433.088
Mar	858.038	858.038	0.000	-1,563.636	2,421.674
Apr	873.153	873.152	0.000	-1,599.216	2,472.369
May	875.566	875.565	0.000	-1,576.083	2,451.649
Jun	875.845	875.845	0.000	-1,622.041	2,497.886
Jul	887.168	887.167	0.002	-1,664.632	2,551.801
Aug	886.288	886.285	0.002	-1,642.759	2,529.046
Sep	883.141	883.141	0.000	-1,714.317	2,597.459
Oct	908.611	908.611	0.000	-1,747.213	2,655.824
Nov	944.940	944.939	0.000	-1,789.241	2,734.180
Dec	1,062.893	1,062.892	0.001	-1,822.202	2,885.095

1/ Currency outside banks and in banks' vaults.
2/ Net international assets are defined as gross reserves plus credit agreements with central banks with maturity of more than six months, minus total liabilities with the IMF and with foreign central banks with maturity of less than six months.
Source: Banco de México.

Table A 30
Monetary Aggregates M1, M2, M3 and M4
Stocks in MXN billion

	December					
	2009	2010	2011	2012	2013	2014
1.Currency outside banks	537.1	599.4	665.9	734.0	792.9	928.8
2. Domestic currency checking	654.9	794.1	934.7	979.4	1,082.7	1,215.3
3. Foreign currency checking	139.5	128.1	132.9	163.6	189.0	232.5
4. Current account deposits	276.7	304.4	341.1	393.2	438.0	490.1
5. Demand deposits in savings and loan entities	6.5	7.3	8.6	9.8	11.1	12.6
6. M1=(1+2+3+4+5)	**1,614.6**	**1,833.3**	**2,083.2**	**2,280.0**	**2,513.8**	**2,879.2**
7. Residents' bank deposits	1,214.4	1,213.3	1,289.4	1,387.4	1,459.3	1,582.9
8. Deposits in savings and loan entities	40.9	46.8	49.9	54.2	69.0	76.3
9. Public securities held by residents 1/	2,654.7	2,873.8	3,274.0	3,583.9	3,913.8	4,393.0
Federal government securities	1,784.1	1,866.7	2,126.5	2,328.9	2,529.1	2,889.7
Banco de México securities (BREMS)	1.0	1.0	0.0	0.0	0.0	0.0
IPAB securities	485.5	537.8	599.7	660.8	693.7	733.5
Other public securities	384.1	468.3	547.8	594.2	691.0	769.7
10. Private securities 1/	307.1	332.0	383.2	391.9	435.3	429.2
11. Housing and other funds 2/	840.5	908.6	986.1	1,042.8	1,116.1	1,179.1
12. M2=(6+7+8+9+10+11)	**6,672.3**	**7,207.8**	**8,065.7**	**8,740.2**	**9,507.2**	**10,539.6**
13. Non-resident bank deposits	54.4	108.1	126.3	119.8	136.2	165.2
14. Public securities held by non-residents	326.3	636.1	1,035.0	1,714.0	1,922.7	2,284.5
15. M3=(12+13+14)	**7,053.0**	**7,952.0**	**9,227.1**	**10,573.9**	**11,566.1**	**12,989.3**
16. Resident deposits in Mexican bank agencies abroad	45.0	43.1	32.0	22.6	19.3	22.6
17. Non-resident deposits in Mexican bank agencies abroad	28.9	42.1	71.5	88.4	73.2	95.5
18. M4=(15+16+17)	**7,126.8**	**8,037.2**	**9,330.6**	**10,684.9**	**11,658.6**	**13,107.5**

Note: Stocks may not coincide with components' totals due to rounding.
1/ Includes holdings of Investment Companies Specialized in Retirement Savings (*Sociedades de Inversión Especializadas en Fondos para el Retiro*, SIEFORES).
2/ Includes public housing funds (National Employees' Housing Fund – *Instituto del Fondo Nacional de la Vivienda para los Trabajadores*, Infonavit and the Housing Fund – *Fondo de la Vivienda del ISSSTE*, Fovissste) and retirement funds other than Siefores, particularly those managed by Banco de México and the retirement savings' funds from the Public Employees' Social Security Institute (*Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado*, ISSSTE).
Source: Banco de México.

Table A 31
Credit Market Conditions Survey [1/]

Item	Total					4th quarter of 2014				
	2013	2014				By size of firm		By economic activity [2/]		
	4th	1st	2nd	3rd	4th	From 11 up to 100 workers	More than 100 workers	Manufactures	Services and commerce	Other
TOTAL FINANCING										
Percentage of firms										
Firms receiving financing: [3/]	**89.3**	**88.4**	**89.2**	**85.8**	**86.6**	**83.5**	**88.3**	**90.4**	**89.7**	**49.3**
Source: [4/]										
Suppliers	84.9	84.5	82.7	80.8	79.4	78.4	80.1	84.2	83.8	30.7
Commercial banks	36.1	34.8	39.7	33.9	34.4	28.4	38.0	34.3	35.4	27.9
Foreign banks	5.5	4.3	5.4	7.5	8.0	6.1	9.2	4.9	10.6	1.7
Firms from the corporate group/headquarters	28.4	24.6	24.4	22.7	24.2	20.2	26.6	23.2	26.9	8.4
Development banks	6.3	5.9	6.4	6.3	5.9	4.2	6.9	6.0	6.1	4.0
Via bond issuance	1.6	1.7	1.8	3.8	2.3	0.0	3.7	0.9	3.2	1.0
Firms granting financing: [3/]	**81.1**	**80.6**	**81.9**	**79.2**	**77.4**	**76.2**	**78.1**	**89.8**	**74.3**	**52.8**
Destined for: [4/]										
Clients	78.4	77.6	78.8	75.7	75.2	74.6	75.6	88.1	72.2	48.4
Suppliers	13.2	16.6	16.2	15.2	12.1	9.9	13.5	18.5	8.9	11.0
Other firms from the same corporate group	17.7	14.8	15.1	14.8	13.1	12.0	13.8	14.7	13.3	6.1
Other	0.0	0.2	0.6	0.3	0.3	0.8	0.0	0.9	0.0	0.0
Average maturity of financing (in days) granted to:										
Clients	56	58	59	64	62	59	65	54	69	51
Suppliers	48	45	53	46	51	50	51	53	53	32
Other firms from the same corporate group	68	81	73	82	94	146	69	65	112	70
Firms expecting to request credit in the following three months: [3/]	**37.0**	**42.8**	**38.3**	**38.4**	**38.8**	**36.2**	**40.3**	**33.9**	**44.8**	**14.5**

1/ Nationwide sample of at least 450 firms. Responses are voluntary and confidential.
2/ Manufacturing sector and services and commerce sector are the only representative at the national level.
3/ Since the press release of the first quarter of 2010, the results are presented as a percentage of the total of firms. In the previous press releases this information was presented as a percentage of responses.
4/ Total percentage may be above 100 since firms may choose more than one option.
Source: Banco de México.

Table A 32
Credit Market Conditions Survey 1/

Item	Total					4th quarter of 2014				
	2013	2014				By size of firm		By economic activity 2/		
	4th	1st	2nd	3rd	4th	From 11 up to 100 workers	More than 100 workers	Manufacturas	Services and commerce	Other
BANK CREDIT MARKET 3/										
Percentage of firms										
Firms with bank liabilities at the beginning of the quarter:	**47.5**	**44.8**	**48.3**	**45.9**	**43.9**	**36.1**	**48.6**	**46.5**	**42.7**	**42.7**
Firms that received new bank credits: 4/	**23.0**	**21.5**	**24.9**	**24.6**	**20.0**	**11.0**	**25.4**	**26.1**	**16.4**	**23.0**
Destined for: 5/										
Working capital	80.2	70.6	80.3	73.3	74.7	85.1	72.0	85.6	64.0	84.1
Liability restructuring	5.8	7.9	17.5	11.4	7.3	14.0	5.4	10.8	5.8	1.1
Foreign trade transactions	6.5	3.3	0.7	4.1	1.5	0.5	1.8	0.0	2.6	2.4
Investment	18.7	26.5	17.8	17.4	21.9	28.4	20.0	14.8	29.7	13.0
Other purposes	3.2	3.7	4.3	2.0	1.8	0.0	2.3	0.0	2.6	4.8
General conditions of access to bank credit:										
Diffusion index 6/										
Amounts offered	60.2	57.8	59.3	53.1	52.1	63.5	49.3	58.2	47.6	47.6
Terms offered	57.6	55.3	59.9	49.8	59.0	61.4	58.4	59.7	59.4	50.0
Collateral requirements	50.8	47.0	43.4	41.8	42.5	49.9	40.6	43.8	41.2	45.8
Credit resolution time	49.7	46.8	49.7	46.6	45.4	49.9	44.4	46.2	44.4	50.6
Conditions to refinance credits	48.2	52.8	49.8	49.2	49.2	49.7	49.1	48.3	49.6	52.2
Other requirements of the bank	45.3	48.2	53.0	44.2	44.5	50.0	43.3	42.7	45.3	49.5
General conditions of the bank credit cost:										
Diffusion index 7/										
Bank interest rates	56.6	52.7	59.8	51.6	53.1	49.4	54.0	55.6	51.4	51.4
Commissions and other spendings	49.0	49.2	46.2	48.2	47.9	47.1	48.1	47.7	48.6	41.9
Firms that did not receive new bank credits: 4/	**77.0**	**78.5**	**75.1**	**75.4**	**80.0**	**89.0**	**74.6**	**73.9**	**83.6**	**77.0**
Applied for and are going through the authorization process	2.6	4.8	3.4	4.9	2.6	3.5	2.1	1.7	2.6	5.8
Applied for and were rejected	1.6	1.3	0.2	2.1	1.5	3.0	0.6	0.9	1.7	2.5
Applied for but were rejected because it was too expensive	1.1	0.1	1.3	0.4	0.5	1.3	0.0	0.0	0.7	0.3
Did not apply	71.7	72.3	70.2	67.9	75.5	81.3	72.0	71.4	78.6	68.4
Limiting factors to apply for or receive new credits: 8/										
General economic situation	51.0	48.6	49.2	54.0	45.7	48.0	44.1	43.0	46.3	50.9
Access to public support	33.0	36.7	44.1	41.4	36.4	37.1	35.9	31.7	37.3	46.7
Sales and profitability of the firm	40.2	38.1	46.6	40.8	34.1	41.9	28.6	36.5	31.3	47.0
Firm's capitalization	30.3	34.2	37.9	34.8	30.0	33.4	27.6	27.8	29.4	42.8
Firm's credit history	26.3	27.6	31.0	26.8	26.6	32.3	22.6	24.7	26.6	33.8
Banks' disposition to grant credits	35.9	39.7	40.2	37.6	35.0	38.7	32.3	33.3	34.2	47.1
Difficulties to pay for the services of performing bank debt	27.1	26.2	35.5	31.9	29.4	36.2	24.6	22.9	31.3	38.8
Interest rates of the bank credit market	40.6	45.2	45.7	46.9	42.1	48.9	37.2	42.0	40.9	51.0
Access conditions to bank credit	38.0	43.4	45.5	42.0	39.8	43.4	37.3	39.0	39.0	49.4
Amounts required as collateral to access the bank credit	37.0	39.9	46.7	41.1	39.8	45.0	36.1	37.0	40.0	48.1
Total firms:										
Conditions of access and the market cost of the bank credit are limiting the firm's operation:										
Major constraint	16.3	15.7	13.3	13.6	13.9	14.6	13.5	16.3	12.3	16.3
Minor constraint	34.4	36.5	33.5	33.4	33.2	39.8	29.3	27.8	36.0	33.8
No constraint	49.4	47.8	53.3	53.0	52.9	45.6	57.3	55.9	51.7	49.9

1/ Sample with the nationwide coverage of at least 450 firms. Responses are voluntary and confidential.
2/ Manufacturing sector and services and commerce sector are the only representative at national level.
3/ The bank credit market includes commercial banks, development banks and foreign banks.
4/ Since the press release of the first quarter of 2010 the results are presented as a percentage of the total of firms. In the previous press releases, this information was presented as a percentage of responses. Figures may not add up due to rounding.
5/ The total percentage may be above 100 since firms may choose more than one option.
6/ Diffusion index is defined as the sum of the percentage of firms that mentioned that there were more accessible conditions, plus the half of the total percentage of firms that indicated that there were no changes in the access conditions. Under this metrics, when the value of the diffusion index is superior (inferior) to 50, it means that more firms pointed out that they perceived conditions as more accessible (less accessible) in the relevant variable, as compared to the situation observed in the previous quarter.
7/ Diffusion index is defined as the sum of the total percentage of firms that mentioned that there were less expensive conditions, plus the half of the total percentage of firms that indicated that there was no change. Under this metrics, when the value of the diffusion index is superior (inferior) to 50, it means that more firms pointed out that they perceived less expensive (more expensive) conditions in the relevant variable, as compared to the situation observed in the previous quarter..
8/ From a set of possible constraints, each firm marks each factor's share (very limiting, relatively limiting or not limiting), reason for which total percentage of factors can be above 100. Furthermore, the percentage of each factor includes the total of very limiting and relatively limiting grades.
Source: Banco de México.

Table A 33
Total Financing to Non-financial Private Sector
Quarterly data
Stocks in MXN billion

		External financing		Domestic financing					
	Total financing	External credit 1/	External debt issuance 2/	Commercial banks 3/	Development banks 3/	Non-bank financial intermediaries 3/	Domestic debt issuance 4/	Infonavit 5/	Fovissste 6/
2011									
Mar	4,111,763	452,771	390,111	1,703,111	106,050	292,080	261,651	753,368	152,621
Jun	4,184,133	431,714	405,086	1,737,871	107,622	318,490	276,518	755,724	151,107
Sep	4,518,991	507,589	530,068	1,829,523	124,195	327,154	282,297	777,946	140,218
Dec	4,683,862	513,770	565,796	1,912,495	139,021	338,113	292,565	783,104	138,999
2012									
Mar	4,670,732	438,813	548,693	1,930,665	143,837	325,026	310,820	827,312	145,566
Jun	4,828,237	486,406	563,357	1,989,286	157,066	347,733	306,018	832,435	145,935
Sep	4,942,368	439,139	628,274	2,036,630	165,163	361,077	314,601	852,795	144,690
Dec	5,062,443	446,542	663,228	2,100,728	176,468	371,056	303,330	858,099	142,992
2013									
Mar	5,076,758	408,780	646,430	2,118,775	180,434	350,313	317,217	903,957	150,853
Jun	5,273,642	437,943	720,050	2,174,878	190,118	359,996	339,525	906,493	144,639
Sep	5,500,365	448,735	826,194	2,239,188	202,514	370,064	338,236	926,104	149,331
Dec	5,714,315	489,655	888,487	2,321,105	228,491	385,521	343,887	917,791	139,379
2014									
Mar	5,790,756	497,015	893,027	2,321,503	234,642	385,380	349,196	968,476	141,517
Jun	5,939,612	527,349	939,256	2,377,230	242,539	401,339	345,708	964,300	141,890
Sep	6,116,559	543,765	993,660	2,413,903	258,559	416,515	352,656	985,945	151,555
Dec	6,375,303	639,851	1,061,143	2,495,684	289,950	418,401	337,642	991,881	140,752

Note: Figures are subject to revision. The total stocks may not coincide with the sum of their components due to the rounding of the figures.

1/ Previously, denominated as External Direct Financing. Includes credit from foreign suppliers to Mexican firms, from foreign commercial banks and other creditors. Excludes Pidiregas-PEMEX. Figures of External Credit were revised due to the reclassification by the issuing firm of a part of the stock of liabilities with external suppliers to other current liabilities with national counterparts. This modification is made retroactive as of March 2007 and affects the External Credit series, as well as the series it is part of. Source: data on foreign supplier credit is obtained from the balance sheets of the issuing firms listed on the Mexican Stock Exchange, while credit from foreign commercial banks is obtained from Banco de México's Survey: "Outstanding Consolidated Claims on Mexico".

2/ Commercial paper, bonds and securities issued by Mexican companies abroad. Excludes Pidiregas-PEMEX. The external debt issuance data were revised retroactively as of December 2007. This modification affects the series of External Debt Issuance, as well as the series it is part of. Source: Banco de México.

3/ Includes total loan portfolio (performing and non-performing). In the case of commercial and development banks, the portfolio associated with debt-restructuring programs (UDIs and ADES) is included. Source: Banco de México.

4/ Calculated by Banco de México based on data from S.D. INDEVAL S.A. de C.V.

5/ Non-performing and performing mortgage portfolio from the National Employees' Housing Fund (*Instituto del Fondo Nacional de la Vivienda para los Trabajadores*, Infonavit). Source: Minimum Catalogue of the National Banking and Securities Commission (CNBV, for its acronym in Spanish).

6/ Non-performing and performing mortgage portfolio from the Public Employees' Housing Fund (*Fondo de Vivienda del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado*, Fovissste). Source: Minimum Catalogue of the National Banking and Securities Commission (CNBV, for its acronym in Spanish).

Table A 34
Financial System Flow of Funds Matrix, January - December 2014 [1/]
Flows as a percentage of GDP [2/]

	Resident private sector [3/]			States and municipalities [4/]			Public sector [5/]			Banking sector [6/]			External sector		
	Use of funds (assets)	Source of funds (liabil.)	*Net financing received*	Use of funds (assets)	Source of funds (liabilit.)	*Net financing received*	Use of funds (assets)	Source of funds (liabil.)	*Net financing received*	Use of funds (assets)	Source of funds (liabil.)	*Net financing received*	Use of funds (assets)	Source of funds (liabil.)	*Net financing received*
	a	b	c = b - a	d	e	f = e - d	g	h	i = h - g	j	k	l = k - j	m	n	o = n - m
1. Change in domestic financial instruments (2 + 7 + 8 + 9)	5.2	2.3	**-2.9**	0.1	0.2	**0.1**	1.7	5.3	**3.7**	1.4	3.0	**1.7**	2.5		**-2.5**
2. Financial instruments	5.2	0.4	**-4.9**	0.1	0.1	**0.0**	0.0	4.1	**4.0**	-0.1	2.9	**3.0**	2.1		**-2.1**
3. Currency (banknotes and coins)	0.8		**-0.8**								0.8	**0.8**			
4. Checkable, time and savings deposits	1.9		**-1.9**	0.1		**-0.1**	0.0		**0.0**		2.1	**2.1**	0.0		**0.0**
4.1 Non-financial enterpr. and other institutions [7/]	1.2		**-1.2**	0.1		**-0.1**	0.0		**0.0**		1.4	**1.4**	0.0		**0.0**
4.2 Individuals	0.7		**-0.7**								0.7	**0.7**			
5. EmSecurities issued [8/]	2.1	0.0	**-2.2**		0.1	**0.1**		4.1	**4.1**	-0.1	0.0	**0.1**	2.1		**-2.1**
6. Retirement and housing funds [9/]	0.4	0.4	**0.0**					0.0	**0.0**						
7. Financing		1.0	**1.0**		0.1	**0.1**	0.2	1.1	**1.0**	2.2	0.2	**-2.1**			
7.1 Non-financial enterp. and other instit. [10/]		0.5	**0.5**		0.1	**0.1**	0.2	1.1	**1.0**	1.8	0.2	**-1.6**			
7.2 Household		0.4	**0.4**							0.4		**-0.4**			
8. Shares and other equity		0.4	**0.4**							0.1		**-0.1**	0.4		**-0.4**
9. Other financial system items [11/]		0.6	**0.6**				1.5	0.1	**-1.4**	-0.8		**0.8**			
10. Change in external financial instruments (11 + 12 + 13 + 14 + 15)	1.5	1.7	**0.2**				0.0	1.2	**1.1**	1.9	0.2	**-1.7**	3.0	3.4	**0.4**
11. Foreign direct investment		1.8	**1.8**										1.8		**-1.8**
12. External financing		0.9	**0.9**					1.2	**1.2**		0.2	**0.2**	2.3		**-2.3**
13. Financial assets held abroad	1.5		**-1.5**				0.0		**0.0**	0.6		**-0.6**		2.1	**2.1**
14. Banco de México international reserves										1.3		**-1.3**		1.3	**1.3**
15. Errors and omissions (balance of payments)		-1.0	**-1.0**										-1.0		**1.0**
16. Statistical discrepancy [12/]		-0.1	**-0.1**										-0.1		**0.1**
17. Total change in financial instruments (1+ 10 +16)	6.8	3.9	**-2.8**	0.1	0.2	**0.1**	1.7	6.5	**4.8**	3.2	3.2	**0.0**	5.5	3.4	**-2.1** [13/]

1/ Preliminary figures. Figures may not add up due to rounding.
2/ Excludes the effect of exchange rate fluctuations (MXN/USD).
3/ Private sector includes firms, individuals, non-bank financial intermediaries.
4/ States and municipalities show their position in relation to the banking sector and the debt market.
5/ Public sector measured as the change in the financial position of the public sector at market value.
6/ Banking sector includes Banco de México, development banks and commercial banks (including agencies abroad). By construction, this sector has a total net position of zero (line item 17), which has to do with financial intermediaries. Statistics on assets and liabilities from commercial banks, development banks and Banco de México were used to consolidate banking sector's financial flows.
7/ In addition to firms, private sector includes non-bank financial intermediaries.
8/ Includes government securities, IPAB securities, BREMS, private securities and state and municipal securities, and securities held by Siefores.
9/ Includes retirement saving funds from both the Public Employees' Social Service Institute (*Instituto de Seguridad y Servicios Sociales para los Trabajadores del Estado*, ISSSTE) and the Social Security Institute (*Instituto Mexicano del Seguro Social*, IMSS) held by Banco de México, and housing funds.
10/ In addition to firms, private sector includes individuals with business activities, and non-bank financial intermediaries and securities associated to restructuring programs.
11/ Includes non-classified assets, real estate assets and others, as well as banking sector's capital accounts and balance sheets.
12/ Difference between financial data and data drawn from the balance of payments.
13/ Corresponds to the balance of payments' current account. A negative figure implies external financing to the domestic economy (external sector surplus), which is equivalent to Mexico's current account deficit.
Source: Banco de México.

Table A 35
Banco de México's Bonds (BONDES D)
One year
Weekly auction results

		Amount in MXN million			Price			
	Maturity (days)	Offered	Allotted	Tendered	Weighted placement	Maximum	Minimum allotted	Minimum
02/01/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
09/01/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
16/01/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
23/01/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
30/01/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
06/02/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
13/02/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
20/02/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
27/02/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
06/03/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
13/03/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
20/03/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
27/03/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
03/04/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
10/04/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
16/04/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
24/04/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
30/04/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
08/05/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
15/05/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
22/05/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
29/05/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
05/06/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
12/06/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
19/06/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
26/06/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
03/07/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
10/07/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
17/07/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
24/07/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
31/07/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
07/08/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
14/08/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
21/08/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
28/08/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
04/09/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
11/09/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
18/09/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
25/09/2014	N/E	N/E	N/E	N/E	N/E	N/E	N/E	N/E
02/10/2014	364	1,000	1,000	2,190	99.93823	99.93831	99.93030	99.92000
09/10/2014	357	1,000	1,000	2,600	99.92962	99.93351	99.91201	90.00000
16/10/2014	350	1,000	1,000	4,100	99.88250	99.90000	99.88000	95.00000
23/10/2014	343	1,000	1,000	2,180	99.89155	99.89428	99.89146	99.70000
30/10/2014	336	1,000	1,000	6,715	99.88942	99.89005	99.88610	99.86226
06/11/2014	329	1,000	1,000	4,150	99.89236	99.89300	99.89220	99.86572
13/11/2014	322	1,000	1,000	10,630	99.89687	99.89845	99.89520	99.83229
20/11/2014	315	1,000	1,000	1,500	99.90043	99.90110	99.89940	99.87940
27/11/2014	308	1,000	1,000	82,250	99.89518	99.90281	99.86700	90.00000
04/12/2014	301	1,000	1,000	9,416	99.89243	99.89827	99.88720	99.86865
11/12/2014	294	1,000	1,000	5,750	99.87992	99.87992	99.87992	99.87086
18/12/2014	287	1,000	1,000	5,613	99.88819	99.88967	99.88215	99.86200
24/12/2014	281	1,000	1,000	5,550	99.88064	99.88250	99.87819	99.84707
31/12/2014	274	1,000	1,000	5,640	99.88227	99.88340	99.88172	99.87664

Continues

Continuation

Banco de México's Bonds (BONDES D)
Three years
Weekly auction results

	Maturity (days)	Amount in MXN million			Price			
		Offered	Allotted	Tendered	Weighted placement	Maximum	Minimum allotted	Minimum
02/01/2014	1,092	1,500	1,500	15,700	99.36238	99.36300	99.36228	99.25520
09/01/2014	1,085	1,500	1,500	8,500	99.37933	99.38000	99.37900	99.34000
16/01/2014	1,078	1,500	1,500	11,700	99.39555	99.40370	99.39000	99.35000
23/01/2014	1,071	1,500	1,500	19,300	99.43739	99.44070	99.43570	99.29520
30/01/2014	1,064	1,500	1,500	8,750	99.42170	99.43919	99.41120	99.30000
06/02/2014	1,057	1,500	1,500	19,800	99.40367	99.40943	99.40110	99.30000
13/02/2014	1,050	1,500	1,500	26,350	99.41176	99.41305	99.41167	99.34698
20/02/2014	1,043	1,500	1,500	7,629	99.40998	99.41676	99.40950	99.32700
27/02/2014	1,092	1,500	1,500	25,334	99.37101	99.37960	99.36929	98.00000
06/03/2014	1,085	1,500	1,500	6,851	99.36932	99.37258	99.36542	99.34569
13/03/2014	1,078	1,500	1,500	15,300	99.39940	99.40399	99.39710	99.34740
20/03/2014	1,071	1,500	1,500	14,524	99.40928	99.40957	99.40758	99.36539
27/03/2014	1,064	1,500	1,500	9,166	99.45669	99.46157	99.45000	99.41263
03/04/2014	1,057	1,500	1,500	3,170	99.47673	99.48443	99.45804	99.44498
10/04/2014	1,050	1,500	1,500	6,100	99.49422	99.49750	99.48506	99.30000
16/04/2014	1,044	1,500	1,500	57,789	99.50437	99.51538	99.49749	99.00000
24/04/2014	1,036	1,500	1,500	5,510	99.53147	99.53370	99.52962	99.40000
30/04/2014	1,030	1,500	1,500	8,950	99.49980	99.51050	99.49693	90.00000
08/05/2014	1,022	1,500	1,500	11,450	99.48611	99.48800	99.48322	99.46356
15/05/2014	1,015	1,500	1,500	10,059	99.45960	99.47561	99.45639	99.41700
22/05/2014	1,008	1,500	1,500	17,838	99.48102	99.48595	99.47800	99.44000
29/05/2014	1,064	1,500	1,500	11,290	99.46032	99.46032	99.46032	99.42538
05/06/2014	1,057	1,500	1,500	9,150	99.46401	99.46500	99.46376	99.44390
12/06/2014	1,050	1,500	1,500	14,124	99.43896	99.44900	99.43704	99.38700
19/06/2014	1,043	1,500	1,500	4,300	99.46954	99.47123	99.46158	99.41934
26/06/2014	1,036	1,500	1,500	27,204	99.45253	99.46320	99.45086	99.39480
03/07/2014	1,029	1,500	1,500	19,626	99.48960	99.49200	99.48745	99.45990
10/07/2014	1,022	1,500	1,500	28,791	99.52884	99.53112	99.52770	99.00000
17/07/2014	1,015	1,500	1,500	14,065	99.55147	99.55440	99.55000	99.30000
24/07/2014	1,008	1,500	1,500	17,840	99.57509	99.58417	99.57330	99.55740
31/07/2014	1,001	1,500	1,500	2,848	99.56860	99.57000	99.56830	99.52205
07/08/2014	994	1,500	1,500	13,043	99.57920	99.58319	99.57720	99.50000
14/08/2014	987	1,500	1,500	16,966	99.58279	99.59382	99.58070	90.00000
21/08/2014	1,036	1,500	1,500	14,050	99.56460	99.56700	99.56400	99.45000
28/08/2014	1,029	1,500	1,500	24,281	99.55989	99.56087	99.55950	90.00000
04/09/2014	1,022	1,500	1,500	22,721	99.55926	99.55971	99.55836	99.30000
11/09/2014	1,015	1,500	1,500	12,301	99.56067	99.56084	99.55984	99.51621
18/09/2014	1,008	1,500	1,500	22,249	99.55827	99.55840	99.55740	99.52662
25/09/2014	1,001	1,500	1,500	8,633	99.55447	99.55451	99.55352	99.54021
02/10/2014	994	2,000	2,000	28,462	99.52985	99.53021	99.52900	99.45000
09/10/2014	987	2,000	2,000	31,020	99.49613	99.49642	99.49542	99.20000
16/10/2014	980	2,000	2,000	24,453	99.43990	99.44005	99.43910	99.30000
23/10/2014	1,092	2,000	2,000	17,929	99.36704	99.44999	99.35077	99.10000
30/10/2014	1,085	2,000	2,000	23,992	99.35692	99.36033	99.35619	99.28270
06/11/2014	1,078	2,000	2,000	22,330	99.36725	99.36725	99.36725	99.28640
13/11/2014	1,071	2,000	2,000	19,457	99.40400	99.40400	99.40400	99.36273
20/11/2014	1,064	2,000	2,000	10,815	99.42310	99.43290	99.42303	99.40193
27/11/2014	1,057	2,000	2,000	30,819	99.39834	99.40403	99.39710	90.00000
04/12/2014	1,050	2,000	2,000	20,096	99.35538	99.38000	99.34300	99.30000
11/12/2014	1,043	2,000	2,000	15,081	99.33787	99.34260	99.33704	99.30818
18/12/2014	1,036	2,000	2,000	17,907	99.35426	99.35426	99.35426	99.15000
24/12/2014	1,093	2,000	2,000	9,400	99.35468	99.35650	99.34920	99.22000
31/12/2014	1,086	2,000	2,000	17,836	99.35658	99.36750	99.34499	90.00000

Continues

Continuation

Banco de México's Bonds (BONDES D)
Five years
Weekly auction results

		Amount in MXN million			Price			
	Maturity (days)	Offered	Allotted	Tendered	Weighted placement	Maximum	Minimum allotted	Minimum
02/01/2014	1,806	1,500	1,500	8,300	98.81820	98.83419	98.81377	98.70000
09/01/2014	1,799	1,500	1,500	12,800	98.88299	98.88900	98.88093	98.81738
16/01/2014	1,792	1,500	1,500	5,400	98.89095	98.89850	98.87628	98.86000
23/01/2014	1,785	1,500	1,500	11,500	98.95700	98.95700	98.95700	98.80000
30/01/2014	1,778	1,500	1,500	9,000	98.93156	98.93605	98.92931	98.83996
06/02/2014	1,771	1,500	1,500	2,600	98.90870	98.90877	98.90870	98.84616
13/02/2014	1,820	1,500	1,500	10,450	98.86398	98.89254	98.82750	98.70000
20/02/2014	1,813	1,500	1,500	4,900	98.82074	98.83010	98.81048	98.79360
27/02/2014	1,806	1,500	1,500	19,619	98.83390	98.83390	98.83390	98.76000
06/03/2014	1,799	1,500	1,500	10,998	98.83180	98.83180	98.83180	98.78284
13/03/2014	1,792	1,500	1,500	7,750	98.85033	98.85200	98.84950	98.70000
20/03/2014	1,785	1,500	1,500	13,650	98.86119	98.86236	98.86060	98.82182
27/03/2014	1,778	1,500	1,500	27,228	98.96360	98.96400	98.96100	98.90000
03/04/2014	1,771	1,500	1,500	65,766	99.01007	99.01010	99.00995	98.90000
10/04/2014	1,764	1,500	1,500	8,000	99.02841	99.02850	99.02800	98.99000
16/04/2014	1,821	1,500	1,500	39,502	99.01253	99.01260	99.01210	98.93000
24/04/2014	1,813	1,500	1,500	32,380	99.03380	99.03380	99.03380	98.98857
30/04/2014	1,807	1,500	1,500	8,850	99.01391	99.01391	99.01391	98.80000
08/05/2014	1,799	1,500	1,500	7,860	99.00530	99.00600	99.00500	98.95797
15/05/2014	1,792	1,500	1,500	3,900	99.01710	99.01710	99.01710	98.95380
22/05/2014	1,785	1,500	1,500	21,850	99.02535	99.02560	99.02510	98.91244
29/05/2014	1,778	1,500	1,500	292,150	99.03310	99.03310	99.03310	99.00000
05/06/2014	1,771	1,500	1,500	14,020	99.03680	99.03680	99.03680	98.20000
12/06/2014	1,820	1,500	1,500	7,852	98.95554	98.95580	98.95480	98.80000
19/06/2014	1,813	1,500	1,500	14,771	98.95482	98.97734	98.95420	98.80000
26/06/2014	1,806	1,500	1,500	27,065	98.94720	98.94720	98.94720	98.84120
03/07/2014	1,799	1,500	1,500	20,559	98.96385	98.96690	98.96290	98.84589
10/07/2014	1,792	1,500	1,500	29,961	99.03288	99.03300	99.03262	98.91850
17/07/2014	1,785	1,500	1,500	13,650	99.10500	99.10500	99.10500	98.94480
24/07/2014	1,778	1,500	1,500	7,814	99.17632	99.17639	99.17630	99.01000
31/07/2014	1,771	1,500	1,500	8,555	99.09081	99.10354	99.08865	98.99000
07/08/2014	1,764	1,500	1,500	15,716	99.13241	99.13761	99.12901	99.09780
14/08/2014	1,820	1,500	1,500	9,250	99.11746	99.13540	99.11600	99.10098
21/08/2014	1,813	1,500	1,500	379,247	99.15281	99.16185	99.15250	99.05000
28/08/2014	1,806	1,500	1,500	14,113	99.15759	99.16443	99.15750	99.09608
04/09/2014	1,799	1,500	1,500	19,499	99.12289	99.12300	99.12200	99.02000
11/09/2014	1,792	1,500	1,500	14,052	99.10239	99.10268	99.10160	99.03787
18/09/2014	1,785	1,500	1,500	23,094	99.09340	99.09340	99.09340	99.00000
25/09/2014	1,778	1,500	1,500	14,665	99.10129	99.10518	99.09934	99.07329
02/10/2014	1,771	2,000	2,000	30,540	98.97837	99.00910	98.97500	98.70000
09/10/2014	1,820	2,000	2,000	25,856	98.90839	98.90839	98.90839	98.50000
16/10/2014	1,813	2,000	2,000	69,059	98.82954	98.83809	98.82576	98.50000
23/10/2014	1,806	2,000	2,000	39,025	98.80870	98.81870	98.80332	90.00000
30/10/2014	1,799	2,000	2,000	42,177	99.30698	99.80460	98.80935	90.00000
06/11/2014	1,792	2,000	2,000	42,485	98.82461	98.82461	98.82461	90.00000
13/11/2014	1,785	2,000	2,000	28,521	98.90297	98.90484	98.90250	90.00000
20/11/2014	1,778	2,000	2,000	30,054	98.97201	98.97210	98.97200	98.85912
27/11/2014	1,771	2,000	2,000	25,215	98.90993	98.93033	98.90760	98.77204
04/12/2014	1,764	2,000	2,000	7,882	98.89949	98.90066	98.89810	98.50000
11/12/2014	1,820	2,000	2,000	20,604	98.79088	98.79090	98.79050	98.74110
18/12/2014	1,813	2,000	2,000	6,438	98.85020	98.85020	98.85020	98.60820
24/12/2014	1,807	2,000	2,000	28,300	98.81264	98.85430	98.79550	98.61310
31/12/2014	1,800	2,000	2,000	40,658	98.84475	98.85860	98.80320	90.00000

Source: Banco de México.

Table A 36
Representative Interest Rates
Yields on public securities
Annual rates in percent 1/

	CETES 2/				Fixed rate bond					
	28 days	91 days	182 days	364 days	3 years (1092 days)	5 years (1820 days)	7 years (2520 days)	10 years (3640 days)	20 years (7280 days)	30 years (10800 days)
2003	6.23	6.51	6.93	7.37	7.83	8.18	8.80	8.98	8.39	
2004	6.82	7.10	7.38	7.74	8.25	8.75	9.30	9.54	10.45	
2005	9.20	9.33	9.30	9.28	9.11	9.14	9.34	9.42	9.81	
2006	7.19	7.30	7.41	7.51	7.71	7.86	8.19	8.39	8.55	8.08
2007	7.19	7.35	7.48	7.60	7.60	7.70		7.77	7.83	7.83
2008	7.68	7.89	8.02	8.09	8.00	8.24		8.36	8.55	8.44
2009	5.43	5.52	5.60	5.83	6.51	7.41		7.96	8.48	8.79
2010	4.40	4.57	4.68	4.86	5.59	6.35		6.95	7.60	7.85
2011	4.24	4.35	4.51	4.66	5.38	5.93		6.65	7.85	8.00
2012	4.24	4.38	4.51	4.63	4.89	5.09		5.60	6.79	6.80
2013	3.75	3.81	3.90	3.98	4.42	4.70		5.63	6.42	6.67
2014	3.00	3.12	3.23	3.35	4.72	4.88		6.01	6.74	7.02
2012										
Jan	4.27	4.46	4.55	4.71	5.01	5.46			7.41	7.47
Feb	4.32	4.39	4.48	4.60	4.92	5.00			7.24	
Mar	4.24	4.43	4.51	4.64	4.99	5.29				7.67
Apr	4.29	4.35	4.40	4.57	4.89	5.04			7.16	
May	4.39	4.39	4.48	4.61	4.96	5.07		6.22	7.25	
Jun	4.34	4.46	4.53	4.61	4.72	4.79		5.94	6.61	
Jul	4.15	4.41	4.51	4.58	4.71			5.12		6.22
Aug	4.13	4.32	4.51	4.59	4.79				6.22	6.78
Sep	4.17	4.27	4.51	4.59	4.85			5.44	6.57	
Oct	4.21	4.35	4.53	4.64	4.95	4.93		5.35		6.49
Nov	4.29	4.46	4.64	4.76	4.99	5.20		5.52	6.34	6.52
Dec	4.05	4.21	4.47	4.62	4.94	5.05			6.28	6.42
2013										
Jan	4.15	4.30	4.44	4.59	4.87	4.90		5.47	5.83	
Feb	4.19	4.19	4.25	4.32	4.51	4.68		5.03		6.10
Mar	3.98	4.00	4.09	4.22	4.44	4.63			5.69	5.88
Apr	3.82	3.89	3.97	4.11	4.27	4.15		5.00	5.37	
May	3.72	3.73	3.80	3.98	4.00	4.14		4.64	5.88	5.32
Jun	3.78	3.83	3.91	4.08	4.35	4.70		6.20		6.71
Jul	3.85	3.89	3.98	4.01	4.69				6.62	6.75
Aug	3.84	3.89	3.95	4.00	4.79			5.93	7.00	
Sep	3.64	3.68	3.75	3.71	4.34			6.13		7.67
Oct	3.39	3.47	3.55	3.53	4.04	4.79		5.97	6.94	7.30
Nov	3.39	3.48	3.56	3.60	4.35	5.22			7.24	7.65
Dec	3.29	3.41	3.51	3.64	4.38	5.12		6.33	7.18	
2014										
Jan	3.14	3.41	3.55	3.66	5.06	5.27		6.46		7.59
Feb	3.16	3.39	3.52	3.78	4.86	5.09			7.44	7.43
Mar	3.17	3.29	3.46	3.68	4.80	5.06		6.32	6.89	
Apr	3.23	3.37	3.49	3.66	4.72	5.07		6.15	7.12	7.20
May	3.28	3.42	3.51	3.61	4.70	4.80		5.87		6.94
Jun	3.02	3.08	3.17	3.10	4.57	4.57			6.53	6.65
Jul	2.83	2.90	2.99	3.03	4.42	4.53		5.69	6.40	
Aug	2.77	2.89	2.97	3.01	4.57	4.57		5.65		6.86
Sep	2.83	2.86	2.97	3.09	4.81	4.74			6.50	6.88
Oct	2.90	2.95	3.04	3.17	4.64	4.88		6.08	6.50	6.74
Nov	2.85	2.92	3.01	3.17	4.54			5.98	6.53	
Dec	2.81	2.92	3.02	3.22	4.92	5.12		5.90		6.92

1/ Simple average.
2/ Primary auction placement rate for 28, 91, 182 and 364 days, respectively.
Source: Banco de México.

Continues

Continuation

Representative Interest Rates
Yields on public securities
Annual rates in percent [1/]

	UDIBONOS [2/]				Surtax BPAs [3/ 4/]	Surtax BPATs [3/ 5/]	Surtax BPA 182 [3/ 6/]
	3 years (1092 days)	10 years (3640 days)	20 years (7280 days)	30 years (10800 days)	3 years (1092 days)	5 years (1820 days)	7 years (2548 days)
2003		4.59			0.60	0.69	
2004		4.79			0.38	0.40	0.38
2005		4.92			0.23	0.21	0.20
2006		4.17	4.34	4.41	0.20	0.20	0.20
2007	3.40	3.63	3.58	3.61	0.14	0.11	0.13
2008	3.48	4.04	3.75	4.21	0.22	0.18	0.19
2009	2.53	3.84		4.40	0.44	0.37	0.35
2010	1.47	2.79		3.66	0.26	0.22	0.22
2011	1.47	2.59		3.91	0.31	0.28	0.24
2012	0.99	1.97		3.12	0.38	0.36	0.25
2013	0.88	1.86		3.10			0.20
2014	0.92	2.56		3.55			0.00
2012							
Jan	1.69	2.58		3.79	0.38	0.38	0.24
Feb	1.31	2.19		3.73	0.36	0.33	0.29
Mar	1.60	2.52		3.78	0.39	0.37	0.34
Apr	1.69	2.26		3.68			0.33
May	1.30	2.20		3.58			0.35
Jun	0.54	1.62		3.02			0.29
Jul	0.50			2.29			0.19
Aug	0.47			2.94			0.16
Sep	0.41			2.81			0.18
Oct	0.54	1.25		2.45			0.16
Nov	0.83	1.60		2.67			0.23
Dec	1.02	1.49		2.67			0.27
2013							
Jan	1.40	1.56		2.63			0.34
Feb	1.04	1.56		2.38			0.33
Mar	1.15	1.41		2.40			0.23
Apr	0.95	1.10		2.32			0.17
May	0.73	1.36		2.33			0.16
Jun	0.90	1.80		3.54			0.19
Jul	1.16	2.00		3.25			0.22
Aug	0.79	2.15		3.52			0.20
Sep	0.56	2.34		3.56			0.16
Oct	0.40	2.11		3.61			0.14
Nov	0.70	2.35		3.82			0.13
Dec	0.75	2.54		3.81			0.11
2014							
Jan	0.58	2.62		3.88			0.08
Feb	0.99	2.60		4.03			0.01
Mar	1.15	2.61		3.77			0.03
Apr	1.29	2.75		3.69			0.05
May	1.03	2.48		3.35			0.11
Jun	0.55	2.38		3.34			0.04
Jul	0.68	2.43		3.31			-0.03
Aug	0.75	2.36		3.25			-0.02
Sep	0.77	2.51		3.47			-0.03
Oct	0.88	2.64		3.37			-0.08
Nov	0.94	2.68		3.54			-0.08
Dec	1.45	2.65		3.64			-0.05

1/ Simple average.
2/ Federal government development bonds denominated in UDIs paying a fixed real interest rate.
3/ Savings protection bonds issued by the Institute for the Protection of Bank Savings (*Instituto de Protección al Ahorro Bancario*, IPAB).
4/ Spread in percentage points over the coupon paying the 28-day Cetes primary auction interest rate.
5/ Spread in percentage points over the coupon paying the 91-day Cetes primary auction interest rate.
6/ Spread in percentage points over the coupon paying the 182-day Cetes primary auction interest rate.
Source: Banco de México.

Table A 37
Representative Interest Rates
Costs of bank deposits (CCP and CPP), interbank interest rate, overnight interest rate and short-term private securities
Annual rates in percent 1/

	Target rate 2/	Weighted funding rate		Interbank rates			Cost of bank deposits					Short-term private securities 3/
		Bank	Government	28-day TIIE	91-day TIIE	91-day Mexibor 4/	CCP	CCP-USD	CCP-Udis	CPP	CCP development banks	
2003		6.15	5.96	6.83	7.16	6.81	5.15	2.95	5.75	4.45	6.61	7.02
2004		6.75	6.57	7.15	7.44	7.26	5.41	2.91	4.88	4.62	6.95	7.44
2005		9.30	9.00	9.61	9.63	9.50	7.64	3.61	5.50	6.47	9.46	9.70
2006		7.23	7.07	7.51	7.69	7.38	6.06	4.05	5.45	5.14	7.55	7.51
2007		7.23	7.12	7.66	7.78	7.24	5.99	4.44	4.93	5.00	7.47	7.56
2008	7.84	7.82	7.67	8.28	8.35		6.73	3.27	4.74	5.69	7.94	8.71
2009	5.59	5.62	5.55	5.93	5.93		5.07	2.62	4.67	4.25	6.06	7.07
2010		4.59	4.55	4.91	5.00		4.17	2.18	4.20	3.41	4.87	5.29
2011	4.50	4.48	4.46	4.82	4.86		4.18	2.15	3.89	3.34	4.67	4.92
2012	4.50	4.49	4.50	4.79	4.81		4.20	2.79	4.37	3.25	4.79	4.73
2013	3.97	3.98	4.00	4.28	4.29		3.86	3.57	4.30	2.97	4.52	4.25
2014	3.22	3.22	3.25	3.52	3.53		3.23	3.78	4.29	2.41	3.99	3.55
2012												
Jan	4.50	4.47	4.48	4.79	4.80		4.19	2.34	3.67	3.23	4.71	4.78
Feb	4.50	4.49	4.50	4.78	4.80		4.18	2.38	4.25	3.26	4.73	4.71
Mar	4.50	4.49	4.50	4.77	4.79		4.19	2.22	4.45	3.26	4.74	4.74
Apr	4.50	4.48	4.48	4.74	4.76		4.19	2.32	4.45	3.28	4.76	4.80
May	4.50	4.50	4.51	4.76	4.78		4.17	2.66	4.45	3.25	4.76	4.69
Jun	4.50	4.49	4.49	4.76	4.78		4.19	2.75	4.45	3.24	4.75	4.70
Jul	4.50	4.47	4.48	4.78	4.79		4.17	2.76	4.45	3.22	4.77	4.70
Aug	4.50	4.48	4.49	4.79	4.80		4.16	2.87	4.45	3.22	4.80	4.76
Sep	4.50	4.49	4.50	4.80	4.82		4.17	3.19	4.45	3.26	4.80	4.70
Oct	4.50	4.50	4.50	4.82	4.84		4.22	3.24	4.46	3.28	4.84	4.77
Nov	4.50	4.50	4.51	4.84	4.86		4.24	3.48	4.45	3.30	4.88	4.69
Dec	4.50	4.51	4.51	4.84	4.86		4.27	3.23	4.45	3.25	4.92	4.73
2013												
Jan	4.50	4.50	4.49	4.84	4.86		4.25	3.23	4.31	3.24	4.92	4.80
Feb	4.50	4.50	4.50	4.82	4.82		4.25	3.58	4.31	3.29	4.95	4.76
Mar	4.11	4.15	4.16	4.48	4.49		4.09	3.60	4.31	3.18	4.70	4.38
Apr	4.00	4.02	4.02	4.33	4.34		3.93	3.38	4.32	3.03	4.53	4.35
May	4.00	4.02	4.02	4.32	4.32		3.86	3.54	4.32	2.99	4.54	4.35
Jun	4.00	4.01	4.02	4.30	4.31		3.84	3.58	4.32	2.97	4.52	4.24
Jul	4.00	4.01	4.01	4.32	4.32		3.84	3.66	4.32	2.94	4.52	4.32
Aug	4.00	4.00	4.01	4.31	4.31		3.85	3.58	4.31	2.98	4.52	4.28
Sep	3.79	3.81	3.82	4.10	4.11		3.67	3.63	4.31	2.83	4.43	4.11
Oct	3.69	3.70	3.72	3.98	3.97		3.67	3.65	4.25	2.85	4.30	3.89
Nov	3.50	3.53	3.57	3.79	3.79		3.53	3.78	4.25	2.74	4.17	3.77
Dec	3.50	3.56	3.62	3.79	3.79		3.51	3.63	4.25	2.64	4.17	3.77
2014												
Jan	3.50	3.49	3.51	3.78	3.80		3.47	3.54	4.25	2.57	4.11	3.83
Feb	3.50	3.49	3.52	3.79	3.80		3.46	3.96	4.25	2.61	4.12	3.80
Mar	3.50	3.49	3.52	3.80	3.81		3.44	3.73	4.26	2.54	4.12	3.93
Apr	3.50	3.50	3.53	3.81	3.81		3.41	3.83	4.29	2.55	4.15	3.88
May	3.50	3.50	3.53	3.80	3.82		3.42	3.86	4.31	2.60	4.18	3.80
Jun	3.08	3.11	3.14	3.43	3.44		3.30	3.85	4.17	2.50	4.02	3.43
Jul	3.00	3.00	3.02	3.30	3.31		3.12	3.85	4.31	2.35	3.87	3.36
Aug	3.00	3.01	3.05	3.30	3.31		3.05	3.73	4.31	2.30	3.89	3.32
Sep	3.00	3.00	3.02	3.29	3.30		3.02	3.86	4.32	2.28	3.83	3.36
Oct	3.00	3.01	3.04	3.29	3.30		3.03	3.71	4.32	2.26	3.84	3.34
Nov	3.00	3.02	3.05	3.29	3.30		3.04	3.79	4.32	2.25	3.82	3.19
Dec	3.00	3.05	3.08	3.30	3.31		3.03	3.61	4.32	2.15	3.87	3.38

1/ Simple average.
2/ Banco de México's target for the interest rate on overnight operations in the interbank funding market (operational target).
3/ 28-day interest rate calculated based on Indeval data.
4/ The Mexibor rate stopped being calculated on March 13, 2007 as stated in Nacional Financiera, S.N.C. press release in Mexico's Official Gazette (*Diario Oficial de la Federación*) of that day.
Source: Banco de México, based on Indeval data.

Table A 38
Representative Exchange Rates
MXN/USD

		Exchange rate to settle liabilities payable in foreign currency in Mexico [1/]		48-hour interbank exchange rate Closing references [2/]			
				Buy		Sell	
		End of period	Period average	End of period	Period average	End of period	Period average
2009		13.0587	13.5135	13.0730	13.5063	13.0820	13.5124
2010		12.3571	12.6360	12.3550	12.6316	12.3650	12.6347
2011		13.9904	12.4233	13.9655	12.4375	13.9725	12.4404
2012		13.0101	13.1695	12.8684	13.1570	12.8704	13.1599
2013		13.0765	12.7720	13.0850	12.7699	13.0900	12.7728
2014		14.7180	13.2925	14.7445	13.3048	14.7475	13.3075
2011							
	Jan	12.0239	12.1477	12.1561	12.1246	12.1591	12.1272
	Feb	12.1730	12.0726	12.1030	12.0677	12.1050	12.0696
	Mar	11.9678	12.0173	11.8888	11.9953	11.8903	11.9973
	Apr	11.5868	11.7584	11.5028	11.7054	11.5038	11.7071
	May	11.6256	11.6479	11.5662	11.6491	11.5682	11.6511
	Jun	11.8389	11.7920	11.7085	11.8051	11.7100	11.8068
	Jul	11.6527	11.6760	11.7244	11.6679	11.7269	11.6699
	Aug	12.4148	12.1707	12.3390	12.2372	12.3440	12.2402
	Sep	13.4217	12.9291	13.8815	13.0642	13.8835	13.0681
	Oct	13.1973	13.4808	13.2948	13.4385	13.2988	13.4427
	Nov	14.0344	13.6358	13.6640	13.7151	13.6670	13.7205
	Dec	13.9904	13.7516	13.9655	13.7799	13.9725	13.7843
2012							
	Jan	12.9504	13.5047	13.0238	13.4006	13.0278	13.4042
	Feb	12.8779	12.8014	12.7829	12.7903	12.7849	12.7932
	Mar	12.8039	12.7561	12.8005	12.7428	12.8035	12.7459
	Apr	13.2093	13.0512	13.0277	13.0649	13.0311	13.0677
	May	13.9169	13.5556	14.2901	13.6687	14.2941	13.6719
	Jun	13.6652	13.9820	13.3374	13.9078	13.3396	13.9112
	Jul	13.2837	13.3894	13.3075	13.3597	13.3115	13.3629
	Aug	13.2746	13.1790	13.1980	13.1815	13.2000	13.1841
	Sep	12.9170	12.9871	12.8563	12.9303	12.8593	12.9327
	Oct	13.0900	12.8728	13.0694	12.8982	13.0714	12.9006
	Nov	13.0372	13.0872	12.9370	13.0683	12.9390	13.0713
	Dec	13.0101	12.8670	12.8684	12.8705	12.8704	12.8729
2013							
	Jan	12.7134	12.7219	12.7150	12.6937	12.7170	12.6960
	Feb	12.8680	12.7144	12.7459	12.7164	12.7489	12.7186
	Mar	12.3579	12.5745	12.3319	12.5186	12.3339	12.5204
	Apr	12.1550	12.2249	12.1391	12.2057	12.1411	12.2078
	May	12.6328	12.2522	12.8011	12.3151	12.8041	12.3174
	Jun	13.1884	12.9361	12.9765	12.9547	12.9795	12.9579
	Jul	12.7321	12.7851	12.7820	12.7600	12.7850	12.7637
	Aug	13.2539	12.8704	13.3860	12.9268	13.3900	12.9304
	Sep	13.0119	13.0925	13.1504	13.0686	13.1524	13.0718
	Oct	12.8903	13.0187	13.0380	12.9951	13.0400	12.9982
	Nov	13.0925	13.0634	13.1125	13.0794	13.1175	13.0832
	Dec	13.0765	13.0098	13.0850	13.0044	13.0900	13.0083
2014							
	Jan	13.3671	13.1981	13.3120	13.2172	13.3160	13.2207
	Feb	13.2992	13.2888	13.2420	13.2750	13.2460	13.2784
	Mar	13.0837	13.2154	13.0620	13.2004	13.0640	13.2036
	Apr	13.1356	13.0681	13.0830	13.0623	13.0850	13.0650
	May	12.8660	12.9479	12.8525	12.9215	12.8560	12.9242
	Jun	13.0323	12.9832	12.9850	12.9921	12.9865	12.9945
	Jul	13.0578	12.9734	13.2030	12.9873	13.2050	12.9894
	Aug	13.0811	13.1490	13.0680	13.1430	13.0700	13.1452
	Sep	13.4541	13.2002	13.4215	13.2378	13.4235	13.2398
	Oct	13.4239	13.4768	13.4690	13.4785	13.4715	13.4807
	Nov	13.7219	13.5819	13.9055	13.6261	13.9080	13.6284
	Dec	14.7180	14.4266	14.7445	14.5160	14.7475	14.5198

1/ The FIX exchange rate is determined by Banco de México as an average of wholesale foreign exchange references for transactions payable in 48 hours. It is published in Mexico's Official Gazette (*Diario Oficial de la Federación*) one banking business day after its setting date. It is used to settle liabilities denominated in foreign currency payable in Mexico the day after its publishing.

2/ Representative exchange rate for wholesale transactions (among banks, securities firms, foreign exchange firms and other major financial and non-financial companies). Payable two banking business days after it has been settled.

Source: Banco de México.

Table A 39
Mexican Stock Exchange (*Bolsa Mexicana de Valores*, BMV) Market Capitalization
MXN million, according to last listed prices

Previous methodology: indices by sector according to the previous classification of the Mexican Stock Exchange

	Overall total	Mining	Manufacturing	Construction	Retail and commerce	Communications and transport	Services	Other [1/]
2004	1,916,618	72,479	282,035	241,646	294,503	740,438	143,762	141,755
2005	2,543,771	89,036	362,336	368,992	399,823	953,698	168,316	201,570
2006	3,771,498	142,574	572,818	497,754	650,601	1,395,233	271,454	241,064
2007	4,340,886	273,841	586,815	453,355	644,805	1,772,050	390,211	219,810
2008	3,220,900	141,652	516,354	217,308	632,165	1,239,884	313,449	160,088
2007								
Jan	3,913,893	159,576	584,392	523,214	686,725	1,445,725	272,927	241,333
Feb	3,832,303	170,370	573,036	518,959	645,178	1,418,774	278,568	227,417
Mar	4,114,981	184,568	584,043	518,859	702,902	1,570,875	304,561	249,173
Apr	4,211,416	206,279	590,771	512,628	677,685	1,639,947	336,276	247,831
May	4,553,781	216,700	621,506	579,198	675,223	1,842,954	360,116	258,083
Jun	4,557,468	223,457	616,893	580,709	674,899	1,831,792	375,705	254,013
Jul	4,500,724	259,809	609,272	550,394	682,319	1,753,651	400,414	244,866
Aug	4,447,516	239,114	584,517	531,416	676,377	1,797,302	381,663	237,127
Sep	4,442,831	278,613	584,392	506,299	679,080	1,802,060	363,185	229,201
Oct	4,566,888	356,109	571,289	501,224	705,923	1,790,600	397,432	244,312
Nov	4,370,523	305,970	539,076	468,501	668,734	1,778,275	390,350	219,617
Dec	4,340,886	273,841	586,815	453,355	644,805	1,772,050	390,211	219,810
2008								
Jan	4,215,720	268,704	555,655	461,093	638,710	1,701,257	375,152	215,150
Feb	4,258,349	301,698	597,974	460,261	636,353	1,658,264	376,175	227,623
Mar	4,483,960	315,522	605,295	441,826	705,025	1,778,918	402,917	234,456
Apr	4,382,527	332,787	632,963	455,806	699,076	1,614,075	391,486	256,334
May	4,619,520	344,048	670,331	490,154	760,944	1,696,804	412,462	244,777
Jun	4,271,885	311,578	648,423	427,249	703,959	1,528,599	401,141	250,935
Jul	4,009,636	260,837	629,652	375,043	703,719	1,425,274	386,785	228,326
Aug	3,861,576	217,972	622,733	349,383	656,516	1,445,782	362,045	207,144
Sep	3,653,418	154,185	580,825	311,390	640,870	1,411,917	356,567	197,664
Oct	3,005,325	139,177	489,392	192,992	548,903	1,152,003	323,224	159,635
Nov	2,981,598	116,986	478,424	181,339	605,936	1,142,233	313,258	143,423
Dec	3,220,900	141,652	516,354	217,308	632,165	1,239,884	313,449	160,088
2009								
Jan	2,879,821	118,556	496,867	191,876	495,116	1,168,246	276,741	132,419
Feb	2,652,792	125,187	463,339	159,527	459,557	1,058,985	262,011	124,186

New methodology: Mexican Stock Exchange classified by sector [2/3/]

		Energy [4/]	Materials	Industrial	Services and non-basic consumer goods	Frequently consumed goods	Health care	Financial services	Tele-communication services	FIBRAs
2011	5,703,430		909,660	460,721	539,049	1,758,093	57,958	438,519	1,529,373	10,057
2012	6,818,386		1,267,993	659,865	390,524	2,214,939	62,058	783,784	1,385,379	53,843
2013	7,043,213	60,205	1,039,869	860,115	418,190	2,232,512	75,314	825,960	1,377,166	153,881
2014	7,336,864	85,167	984,285	924,660	457,026	2,246,540	67,821	821,792	1,491,430	258,143
2013										
Jan	7,003,546		1,282,200	704,952	414,931	2,232,944	63,459	749,137	1,474,359	81,564
Feb	6,898,090		1,264,767	779,903	402,876	2,259,788	65,828	771,787	1,267,446	85,695
Mar	6,990,836	45,399	1,286,558	790,228	410,753	2,280,895	61,553	787,842	1,226,960	100,646
Apr	6,876,199	47,777	1,172,855	775,985	436,192	2,277,938	59,006	775,838	1,215,794	114,814
May	6,750,084	54,724	1,143,214	776,853	407,655	2,268,815	59,991	713,704	1,206,899	118,230
Jun	6,629,967	53,858	1,024,515	771,832	403,966	2,249,160	57,898	680,746	1,275,845	112,147
Jul	6,643,701	58,359	1,035,946	789,172	395,372	2,207,082	66,033	747,110	1,222,065	122,563
Aug	6,491,044	57,367	1,040,452	797,736	408,993	2,093,170	65,136	739,179	1,172,825	116,187
Sep	6,612,463	58,313	1,036,782	829,038	408,451	2,161,782	62,175	745,801	1,201,310	108,812
Oct	6,816,899	59,409	1,029,617	823,567	408,861	2,199,848	71,923	775,285	1,300,274	148,116
Nov	6,971,682	62,652	999,658	867,022	414,852	2,215,285	75,408	801,557	1,384,235	151,014
Dec	7,043,213	60,205	1,039,869	860,115	418,190	2,232,512	75,314	825,960	1,377,166	153,881
2014										
Jan	6,745,930	66,449	1,010,350	856,099	407,281	2,106,766	71,163	762,936	1,308,901	155,984
Feb	6,431,865	66,772	991,813	819,837	387,493	1,992,329	69,408	747,600	1,202,138	154,476
Mar	6,647,774	77,966	1,005,022	836,382	395,267	2,088,690	68,781	782,663	1,235,441	157,562
Apr	6,683,452	78,612	994,592	842,110	385,942	2,131,358	72,089	773,308	1,243,023	162,418
May	6,774,676	81,705	1,039,175	865,548	368,110	2,172,098	73,005	816,567	1,195,876	162,592
Jun	7,094,308	83,067	1,074,320	900,109	379,468	2,236,613	76,061	847,135	1,275,526	222,009
Jul	7,332,979	86,090	1,099,026	921,602	386,292	2,229,861	77,658	850,950	1,437,428	244,072
Aug	7,597,031	90,533	1,123,270	982,008	415,821	2,308,542	77,287	879,460	1,470,777	249,332
Sep	7,561,524	94,584	1,093,032	1,007,846	417,146	2,242,174	74,236	865,209	1,515,218	252,079
Oct	7,514,646	95,115	1,080,866	991,567	429,961	2,209,706	75,113	881,296	1,493,430	257,591
Nov	7,422,661	94,111	1,063,316	960,588	454,375	2,196,287	70,161	821,496	1,498,836	263,491
Dec	7,336,864	85,167	984,285	924,660	457,026	2,246,540	67,821	821,792	1,491,430	258,143

1/ Mainly holding companies.
2/ The new BMV methodology of classifying by sector is in force since March 2009.
3/ From January 2013, the Mexican Stock Exchange places FIBRAs in a separate sector.
4/ During 2013, the Mexican Stock Exchange incorporated this sector, due to the placement of securities by a firm of the referred sector-
Source: Mexican Stock Exchange (*Bolsa Mexicana de Valores*, BMV).

Table A 40
Mexican Stock Exchange Main Benchmark Index (*Índice de Precios y Cotizaciones*, IPC, *de la Bolsa Mexicana de Valores*, BMV)
End of period
October 1978 = 100

Previous methodology: indices by sector according to the previous classification of the Mexican Stock Exchange

	Overall total	Mining	Manufacturing	Construction	Retail and commerce	Communications and transport	Services	Other [1/]
2004	12,918	16,686	4,159	21,353	20,040	56,329	1,858	4,399
2005	17,803	20,214	4,611	30,743	27,731	80,359	2,144	5,406
2006	26,448	32,778	7,167	40,316	44,267	121,352	3,331	6,833
2007	29,537	62,127	7,604	34,786	44,610	155,119	4,128	7,094
2008	22,380	30,885	5,894	16,985	36,242	117,947	3,340	4,395
2007								
Jan	27,561	36,646	7,275	42,167	46,976	126,368	3,407	6,841
Feb	26,639	39,118	6,960	41,843	43,775	123,644	3,347	6,540
Mar	28,748	42,375	7,194	41,722	47,212	138,488	3,695	7,170
Apr	28,997	47,396	7,302	41,184	45,180	143,208	3,732	7,477
May	31,399	49,803	7,727	46,071	44,084	162,220	3,937	7,786
Jun	31,151	51,287	7,701	45,607	44,223	159,443	3,995	7,646
Jul	30,660	59,451	7,577	43,154	44,751	151,036	4,316	7,836
Aug	30,348	54,821	7,371	41,735	44,402	155,461	4,012	7,607
Sep	30,296	63,878	7,393	39,097	44,870	153,871	3,719	7,410
Oct	31,459	81,346	7,266	38,665	47,676	154,812	4,223	7,731
Nov	29,771	69,714	6,941	35,851	45,041	155,216	4,099	6,887
Dec	29,537	62,127	7,604	34,786	44,610	155,119	4,128	7,094
2008								
Jan	28,794	60,949	7,288	35,368	43,952	149,535	3,949	6,921
Feb	28,919	68,471	7,487	35,197	43,925	145,208	4,001	7,355
Mar	30,913	71,844	7,660	33,942	49,260	157,831	4,302	7,569
Apr	30,281	74,254	8,030	34,764	48,565	145,373	4,364	7,811
May	31,975	74,207	8,558	36,334	52,977	153,781	4,717	7,479
Jun	29,395	67,260	8,261	32,673	48,121	141,239	4,332	7,431
Jul	27,501	56,368	7,907	29,732	46,827	131,709	4,202	6,838
Aug	26,291	47,173	7,734	26,886	42,691	131,480	3,935	6,195
Sep	24,889	33,432	6,982	23,440	40,847	130,871	3,763	5,823
Oct	20,445	30,269	5,443	17,032	29,465	111,675	3,014	4,647
Nov	20,535	25,498	5,348	15,211	33,231	106,754	3,005	3,917
Dec	22,380	30,885	5,894	16,985	36,242	117,947	3,340	4,395
2009								
Jan	19,565	25,850	5,624	14,830	28,482	109,444	2,943	3,651
Feb	17,752	27,295	5,210	13,330	26,265	95,479	2,767	3,475

New methodology: Mexican Stock Exchange classification by sector [2/]

		Materials	Industrial	Services and non-basic consumer goods	Frequently consumed goods	Health care	Financial services	Tele-communication services	
2010	38,551	635	135	329	423	477	70	720	
2011	37,078	597	120	351	462	467	52	657	
2012	43,706	797	169	407	623	496	75	664	
2013	42,727	662	198	532	642	603	90	734	0
2014	43,146	625	221	521	674	552	98	806	
2013									
Jan	45,278	810	185	443	628	507	77	689	
Feb	44,121	769	185	456	643	526	78	664	
Mar	44,077	783	184	507	653	523	80	683	
Apr	42,263	720	176	514	663	502	79	681	
May	41,588	710	179	502	659	510	84	689	
Jun	40,623	654	180	470	656	493	79	654	
Jul	40,838	670	183	498	654	528	84	658	
Aug	39,492	660	182	502	616	521	83	668	
Sep	40,185	683	183	514	627	525	83	696	
Oct	41,039	653	183	525	628	576	85	708	
Nov	42,499	647	198	522	633	604	89	718	
Dec	42,727	662	198	532	642	603	90	734	
2014									
Jan	40,880	645	199	511	599	570	86	775	
Feb	38,783	629	192	503	575	555	85	743	
Mar	40,462	632	200	540	606	581	85	776	
Apr	40,712	634	202	525	618	577	85	760	
May	41,363	655	207	522	639	584	86	767	
Jun	42,737	679	214	537	663	609	88	799	
Jul	43,818	692	217	531	664	622	90	819	
Aug	45,628	701	230	532	683	619	93	833	
Sep	44,986	697	239	521	665	594	95	836	
Oct	45,028	685	238	530	663	611	96	830	
Nov	44,190	663	227	538	664	571	95	819	
Dec	43,146	625	221	521	674	552	98	806	

1/ Mainly holding companies.
2/ The new BMV methodology of classifying by sector is in force since March 2009.
Source: Mexican Stock Exchange (*Bolsa Mexicana de Valores*, BMV).

Public Finances

Table A 41
Public Finance Indicators: 2009-2014
Percent of GDP

Item	2009	2010	2011	2012	2013	2014 p/
Budgetary revenues	23.3	22.3	22.5	22.5	23.6	23.4
Net budgetary expenditures	25.5	25.1	25.0	25.1	25.9	26.6
Budgetary balance	-2.2	-2.8	-2.5	-2.6	-2.3	-3.2
Non-budgetary balance 1/	0.0	0.0	0.0	0.0	0.0	0.0
Economic balance on a cash basis 2/	-2.3	-2.8	-2.4	-2.6	-2.3	-3.2
Primary balance on a cash basis 3/	-0.1	-0.9	-0.6	-0.6	-0.4	-1.1
Accrued operational balance 4/	-2.3	-1.6	-2.1	-2.7	-0.3	-3.3
Net broad economic debt 5/	26.7	27.9	29.0	31.5	32.2	36.7
Budgetary sector financial cost 6/	2.2	1.9	1.9	2.0	2.0	2.0
Memo:						
Economic balance (excl. investment by Pemex)	-0.2	-0.8	-0.6	-0.6	-0.3	-1.1
Primary balance (excl. investment by Pemex) 7/	2.0	1.2	1.3	1.4	1.7	1.0

1/ Includes the balance of indirect budgetary control entities and the difference with sources of financing.
2/ Includes total budgetary and non-budgetary balance.
3/ Defined as public sector balance less the financial cost of budgetary and non-budgetary sectors.
4/ Defined as public sector accrued economic balance less the inflationary component of the financial cost. Measured by Banco de México.
5/ Includes net liabilities of the federal government, public entities and official financial intermediaries (development banks and public funds and trusts). Stocks at end of period. Measured by Banco de México.
6/ Excludes financial cost of public entities under indirect budgetary control.
7/ It is obtained by deducting the financial cost of the budgetary and non-budgetary sectors from the economic balance excluding the Pemex investment.
p/ Preliminary figures.
Note: Figures may not add up due to rounding.
Source: Ministry of Finance (SHCP) and Banco de México.

Table A 42
Public Sector Revenues, Expenditures and Balances in 2013 and 2014

Item	2013 Observed MXN billion	2013 Observed Percentage of GDP	2014 Programmed MXN billion	2014 Programmed Percentage of GDP [1/]	2014 Observed [p/] MXN billion	2014 Observed [p/] Percentage of GDP	Real growth % 2014-2013
Budgetary revenues	**3,800.4**	**23.6**	**3,816.7**	**21.7**	**3,983.4**	**23.4**	**0.8**
Federal government	**2,703.6**	**16.8**	**2,710.0**	**15.4**	**2,888.1**	**16.9**	**2.7**
Tax revenues	1,561.8	9.7	1,770.2	10.1	1,807.8	10.6	11.3
ISR-IETU-IDE	946.7	5.9	970.8	5.5	959.9	5.6	-2.5
Income tax (ISR) [2/]	905.5	5.6	1,006.4	5.7	985.9	5.8	4.7
Flat rate business tax (IETU)	47.2	0.3	-35.6	-0.2	-13.7	-0.1	d.n.a.
Tax on cash deposits (IDE)	-6.0	0.0	0.0	0.0	-12.3	-0.1	d.n.a.
Value added tax (VAT)	556.8	3.5	609.4	3.5	667.1	3.9	15.2
Excise tax (IEPS)	-7.4	0.0	134.4	0.8	111.6	0.7	d.n.a.
Import duties	29.3	0.2	26.8	0.2	33.9	0.2	11.5
Tax on crude oil returns	3.2	0.0	1.5	0.0	4.7	0.0	39.8
Other	33.2	0.2	27.3	0.2	30.6	0.2	-11.3
Non-tax revenues	1,141.8	7.1	939.8	5.3	1,080.2	6.3	-9.0
Public entities and enterprises [3/]	**1,096.8**	**6.8**	**1,106.8**	**6.3**	**1,095.4**	**6.4**	**-4.0**
Pemex	482.9	3.0	462.4	2.6	440.6	2.6	-12.3
Other	613.9	3.8	644.4	3.7	654.7	3.8	2.5
Net paid budgetary expenditures	**4,178.3**	**25.9**	**4,437.2**	**25.2**	**4,530.6**	**26.6**	**4.2**
Programmable	**3,316.6**	**20.6**	**3,463.6**	**19.7**	**3,575.0**	**21.0**	**3.6**
Deferred payments	n.a.	d.n.a.	-30.1	-0.2	n.a.	d.n.a.	d.n.a.
Programmable accrued expenditures	n.a.	d.n.a.	3,493.7	19.9	n.a.	d.n.a.	d.n.a.
Current expenditures	2,440.8	15.1	2,648.0	15.1	2,678.6	15.7	5.5
Wages and services	963.1	6.0	1,028.7	5.8	1,020.1	6.0	1.8
Other current expenditures	1,477.7	9.2	1,619.3	9.2	1,658.5	9.7	7.9
Capital expenditures	875.8	5.4	845.6	4.8	896.4	5.3	-1.6
Fixed investment	735.5	4.6	820.9	4.7	820.1	4.8	7.2
Other capital expenditures [4/]	140.3	0.9	24.7	0.1	76.3	0.4	-47.7
Non-programmable	**861.7**	**5.3**	**973.6**	**5.5**	**955.6**	**5.6**	**6.6**
Financial cost	314.6	2.0	380.4	2.2	346.0	2.0	5.8
Federal government	256.6	1.6	307.6	1.7	280.1	1.6	5.0
Public entities and enterprises	44.3	0.3	61.0	0.3	54.2	0.3	17.7
Debtor and saving support program	13.7	0.1	11.7	0.1	11.7	0.1	-17.7
Revenue sharing	532.5	3.3	577.6	3.3	584.7	3.4	5.6
Adefas and other	14.7	0.1	15.6	0.1	24.9	0.1	62.6
Budgetary balance	**-377.9**	**-2.3**	**-620.4**	**-3.5**	**-547.2**	**-3.2**	**d.n.a.**
Non-budgetary balance	**3.7**	**0.0**	**0.0**	**0.0**	**2.2**	**0.0**	**d.n.a.**
Direct balance	2.8	0.0	n.a.	d.n.a.	7.6	0.0	d.n.a.
Difference with sources of financial methodology [5/]	0.8	0.0	n.a.	d.n.a.	-5.4	0.0	d.n.a.
Economic balance	**-374.2**	**-2.3**	**-620.4**	**-3.5**	**-545.0**	**-3.2**	**d.n.a.**
Primary balance [6/]	**-60.2**	**-0.4**	**-239.6**	**-1.4**	**-193.3**	**-1.1**	**d.n.a.**
Memo:							
Economic balance (excl. investment by Pemex)	-45.7	-0.3	-262.9	-1.5	-188.3	-1.1	d.n.a.
Primary balance (excl. investment by Pemex) [7/]	268.4	1.7	118.0	0.7	163.4	1.0	d.n.a.

1/ Programmed GDP of 2014 was used.
2/ Includes the asset tax (*Impuesto al Activo*, IMPAC).
3/ Includes recoverable expenditures and transfers for non-budgetary entities' debt amortization and financial investment.
4/ Includes external net expenditure of the Federal Government.
5/ Difference between the public balance calculated with the revenue-expenditure methodology and that calculated according to the sources of financing methodology.
6/ Defined as public sector balance less interest paid by the budgetary and non-budgetary sectors.
7/ Defined as public sector balance less interest paid by the budgetary and non-budgetary sectors, plus investment by Pemex.
n.a. Not available
d.n.a. Does not apply
p/ Preliminary figures.
Note: Figures may not add up due to rounding.
Source: Ministry of Finance (SHCP).

Table A 43
Public Sector Revenues, Expenditure and Balances: 2009-2014
Percent of GDP

Item	2009	2010	2011	2012	2013	2014 p/
Budgetary revenues	23.3	22.3	22.5	22.5	23.6	23.4
Federal government	16.5	15.7	15.9	15.7	16.8	16.9
Tax revenues	9.3	9.5	8.9	8.4	9.7	10.6
Non-tax revenues	7.2	6.2	7.1	7.3	7.1	6.3
Public entities and enterprises	6.8	6.6	6.5	6.8	6.8	6.4
Pemex	3.2	2.9	2.7	3.0	3.0	2.6
Other	3.6	3.7	3.8	3.8	3.8	3.8
Net paid budgetary expenditures	25.5	25.1	25.0	25.1	25.9	26.6
Programmable	20.1	19.7	19.7	19.9	20.6	21.0
Current expenditures	15.1	14.7	14.8	15.1	15.1	15.7
Capital expenditures	5.0	5.0	4.8	4.7	5.4	5.3
Non-programmable expenditures	5.4	5.4	5.3	5.2	5.3	5.6
Financial cost	2.2	1.9	1.9	2.0	2.0	2.0
Revenue sharing	3.1	3.3	3.3	3.2	3.3	3.4
Adefas and other 1/	0.1	0.2	0.1	0.1	0.1	0.1
Budgetary balance	-2.2	-2.8	-2.5	-2.6	-2.3	-3.2
Non-budgetary balance 2/	0.0	0.0	0.0	0.0	0.0	0.0
Economic balance	-2.3	-2.8	-2.4	-2.6	-2.3	-3.2
Primary balance 3/	-0.1	-0.9	-0.6	-0.6	-0.4	-1.1
Memo:						
Economic balance (excluding investment by Pemex)	-0.2	-0.8	-0.6	-0.6	-0.3	-1.1
Primary balance (excluding investment by Pemex) 4/	2.0	1.2	1.3	1.4	1.7	1.0

1/ Includes net external expenditure of the Federal Government.
2/ Includes the balance of the indirect budgetary control entities and the difference with sources of financing.
3/ Defined as public sector balance less the financial cost of budgetary and non-budgetary sectors.
4/ Defined as public sector balance less the financial cost of budgetary and non-budgetary sectors, plus investment by Pemex.
p/ Preliminary figures.
Note: Figures may not add up due to rounding.
Source: Ministry of Finance (SHCP).

Table A 44
Public Sector Budgetary Revenues: 2009-2014
Percent of GDP

Item	2009	2010	2011	2012	2013	2014 p/
Budgetary revenues	**23.3**	**22.3**	**22.5**	**22.5**	**23.6**	**23.4**
Classification I						
Federal government	16.5	15.7	15.9	15.7	16.8	16.9
Tax revenues	9.3	9.5	8.9	8.4	9.7	10.6
ISR-IETU-IDE	4.9	5.1	5.2	5.1	5.9	5.6
Income tax (ISR) 1/	4.4	4.7	5.0	4.9	5.6	5.8
Flat rate business tax (IETU)	0.4	0.3	0.3	0.3	0.3	-0.1
Tax on cash deposits (IDE)	0.1	0.1	-0.1	0.0	0.0	-0.1
Value added tax (VAT)	3.4	3.8	3.7	3.7	3.5	3.9
Excise tax (IEPS)	0.4	0.0	-0.5	-0.8	0.0	0.7
Tax on crude oil returns	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.6	0.5	0.5	0.4	0.4	0.4
Non-tax revenues	7.2	6.2	7.1	7.3	7.1	6.3
Rights	4.3	5.1	6.1	6.2	5.6	4.8
Fees	0.1	0.0	0.0	0.0	0.1	0.0
Others	2.9	1.1	0.9	1.1	1.4	1.5
Public entities and enterprises	6.8	6.6	6.5	6.8	6.8	6.4
Pemex	3.2	2.9	2.7	3.0	3.0	2.6
Other	3.6	3.7	3.8	3.8	3.8	3.8
Classification II						
Oil revenues	7.2	7.7	8.6	8.9	8.3	7.2
Pemex	3.2	2.9	2.7	3.0	3.0	2.6
Exports	1.7	1.8	2.1	1.9	1.5	1.1
Domestic sales	5.0	5.1	5.3	5.5	5.7	5.6
Other	0.5	0.8	1.3	1.5	1.1	0.5
(-) Taxes 2/	4.1	4.9	5.9	6.0	5.4	4.6
Federal government 3/	4.0	4.8	5.8	5.9	5.3	4.6
Non-oil revenues	16.1	14.6	13.9	13.6	15.2	16.2
Federal government	12.5	10.8	10.1	9.8	11.4	12.4
Tax revenues	9.3	9.5	8.9	8.4	9.7	10.6
ISR 1/	4.4	4.7	5.0	4.9	5.6	5.8
IETU	0.4	0.3	0.3	0.3	0.3	-0.1
IDE	0.1	0.1	-0.1	0.0	0.0	-0.1
VAT	3.4	3.8	3.7	3.7	3.5	3.9
IEPS	0.4	0.0	-0.5	-0.8	0.0	0.7
Other	0.6	0.5	0.5	0.4	0.4	0.4
Non-tax revenues	3.2	1.3	1.2	1.4	1.7	1.8
Rights	0.2	0.2	0.2	0.3	0.3	0.3
Fees	0.1	0.0	0.0	0.0	0.1	0.0
Others	2.9	1.1	0.9	1.1	1.4	1.5
Public entities and enterprises	3.6	3.7	3.8	3.8	3.8	3.8

1/ Includes the asset tax (*Impuesto al Activo*, IMPAC).
2/ Excludes taxes paid on behalf of third parties (VAT and IEPS).
3/ Includes rights and benefits from oil extraction.
p/ Preliminary figures.
Note: Figures may not add up due to rounding.
Source: Ministry of Finance (SHCP).

Table A 45
Public Sector Budgetary Expenditures: 2009-2014
Percent of GDP

Item	2009	2010	2011	2012	2013	2014 p/
Net paid budgetary expenditures	**25.5**	**25.1**	**25.0**	**25.1**	**25.9**	**26.6**
Programmable	20.1	19.7	19.7	19.9	20.6	21.0
Current expenditures	15.1	14.7	14.8	15.1	15.1	15.7
Wages and salaries	6.3	6.0	5.9	5.9	6.0	6.0
Direct	3.6	3.4	3.4	3.4	3.4	3.4
Indirect 1/	2.7	2.6	2.6	2.5	2.6	2.6
Acquisitions	1.6	1.6	1.7	1.7	1.7	1.4
Other 2/	4.2	4.1	4.0	4.2	4.0	4.5
Subsidies and transfers 3/	3.1	3.0	3.2	3.3	3.5	3.8
Capital expenditures	5.0	5.0	4.8	4.7	5.4	5.3
Fixed investment	4.5	4.7	4.5	4.4	4.6	4.8
Direct	3.0	3.2	3.1	2.9	2.8	3.0
Indirect 4/	1.6	1.5	1.4	1.4	1.7	1.8
Financial investment and other 5/	0.5	0.3	0.4	0.4	0.9	0.4
Non-programmable	5.4	5.4	5.3	5.2	5.3	5.6
Financial cost	2.2	1.9	1.9	2.0	2.0	2.0
Federal government	1.7	1.5	1.5	1.6	1.6	1.6
Public entities and enterprises	0.3	0.3	0.2	0.3	0.3	0.3
Debtor and saving support program	0.3	0.1	0.1	0.1	0.1	0.1
Revenue sharing	3.1	3.3	3.3	3.2	3.3	3.4
Adefas and other 6/	0.1	0.2	0.1	0.1	0.1	0.1

1/ Includes contributions to state governments for basic education, and transfers for wages and salaries paid by non-budgetary entities.
2/ General services of the public sector and net external operations of firms and entities of direct budgetary control.
3/ Includes subsidies and transfers other than those paid for wages and salaries, and for capital expenditure.
4/ Includes transfers to non-budgetary entities' fixed investment.
5/ Includes recoverable expenditures and transfers for non-budgetary entities' debt amortization and financial investment.
6/ Includes other net flows from the federal government.
p/ Preliminary figures.
Note: Figures may not add up due to rounding.
Source: Ministry of Finance (SHCP).

Table A 46
Public Sector Net Debt
Average stocks

Years		Net broad economic debt 1/					Debt consolidated with Banco de México 2/				
		Domestic	External		Total		Domestic	External		Total	
		MXN billion	USD million	MXN billion	MXN billion	Percentage of GDP	MXN billion	USD million	MXN billion	MXN billion	Percentage of GDP
2009		2,048.0	88,878.3	1,161.3	3,209.3	26.5	3,189.7	-525.4	-6.9	3,182.8	26.3
2010		2,347.1	101,058.1	1,248.0	3,595.1	27.1	3,823.7	-6,291.3	-77.7	3,746.0	28.2
2011		2,714.6	99,291.5	1,384.9	4,099.5	28.2	4,512.7	-19,909.1	-277.7	4,235.0	29.1
2012		3,200.7	121,801.8	1,579.3	4,780.0	30.6	5,340.8	-38,743.1	-502.3	4,838.5	31.0
2013	January	3,538.0	125,951.8	1,600.8	5,138.8		5,829.0	-41,621.4	-529.0	5,300.0	
	February	3,530.6	125,084.5	1,598.5	5,129.1		5,831.3	-42,307.6	-540.7	5,290.6	
	March	3,574.1	127,563.6	1,576.8	5,150.9	32.7	5,875.7	-43,719.5	-540.4	5,335.3	33.9
	April	3,623.9	128,845.5	1,564.9	5,188.8		5,932.1	-44,169.2	-536.5	5,395.6	
	May	3,625.0	122,528.0	1,568.8	5,193.8		5,936.2	-42,073.3	-538.7	5,397.5	
	June	3,607.4	120,782.7	1,573.5	5,180.9	32.7	5,920.7	-41,571.1	-541.6	5,379.1	33.9
	July	3,595.2	122,970.2	1,579.7	5,174.9		5,915.6	-42,324.4	-543.7	5,371.9	
	August	3,581.9	119,442.8	1,593.5	5,175.4		5,910.2	-41,058.1	-547.8	5,362.4	
	September	3,587.0	121,632.5	1,602.5	5,189.5	32.5	5,922.6	-41,875.5	-551.7	5,370.9	33.6
	October	3,589.6	123,835.6	1,610.7	5,200.3		5,934.4	-42,568.1	-553.7	5,380.7	
	November	3,596.1	123,654.3	1,621.1	5,217.2		5,951.4	-42,384.9	-555.7	5,395.7	
	December	3,601.7	124,603.5	1,630.3	5,232.0	32.5	5,967.8	-42,608.6	-557.5	5,410.3	33.6
2014 p/	January	3,666.2	123,146.2	1,850.9	5,517.1		6,192.0	-41,622.1	-548.0	5,644.0	
	February	3,720.2	125,363.2	1,834.7	5,554.9		6,250.9	-42,103.5	-556.5	5,694.4	
	March	3,765.7	127,975.0	1,832.1	5,597.8	34.3	6,306.4	-42,635.7	-553.0	5,753.4	35.3
	April	3,764.0	128,694.8	1,847.5	5,611.5		6,324.7	-42,392.9	-547.2	5,777.5	
	May	3,784.8	131,802.0	1,850.5	5,635.3		6,362.1	-43,085.7	-546.0	5,816.1	
	June	3,826.0	131,469.6	1,855.3	5,681.3	34.3	6,409.3	-42,788.9	-550.1	5,859.2	35.4
	July	3,860.2	129,800.0	1,865.1	5,725.3		6,449.7	-42,055.7	-554.1	5,895.6	
	August	3,890.8	131,984.4	1,869.1	5,759.9		6,486.2	-42,646.6	-557.9	5,928.3	
	September	3,910.6	129,181.3	1,875.2	5,785.8	34.5	6,511.6	-41,756.3	-565.5	5,946.1	35.4
	October	3,932.9	129,584.3	1,885.8	5,818.7		6,544.0	-41,843.4	-571.7	5,972.3	
	November	3,960.7	126,615.0	1,900.4	5,861.1		6,580.3	-40,815.1	-577.7	6,002.6	
	December	3,994.9	120,489.2	1,922.0	5,916.9	34.7	6,621.1	-38,778.9	-585.8	6,035.3	35.4

1/ The net broad economic debt includes net liabilities of the federal government and non-financial public entities and enterprises, as well as of official intermediaries (development banks and public funds and trusts). It is calculated in accrued terms with data of the banking system; public values are reported at market value.
2/ The net economic debt consolidated with Banco de México includes central bank’s assets and liabilities and all sectors of the broad economic debt.
(-)Means financial assets’ stocks are larger than gross debt stocks.
p/ Preliminary figures.
Source: Banco de México.

Table A 47
Public Sector Net Debt
Stocks at end of period

Years		Net broad economic debt 1/					Debt consolidated with Banco de México 2/				
		Domestic	External		Total		Domestic	External		Total	
		MXN billion	USD million	MXN billion	MXN billion	Percentage of GDP	MXN billion	USD million	MXN billion	MXN billion	Percentage of GDP
2009		2,189.8	92,964.3	1,214.7	3,404.5	26.7	3,473.6	-3,176.6	-41.5	3,432.1	26.9
2010		2,549.6	109,638.4	1,354.0	3,903.6	27.9	4,160.9	-7,309.1	-90.3	4,070.6	29.1
2011		2,908.4	115,765.3	1,614.6	4,523.0	29.0	4,876.4	-29,785.3	-415.4	4,461.0	28.6
2012		3,511.6	122,465.4	1,587.9	5,099.5	31.5	5,738.4	-40,916.7	-530.5	5,207.9	32.1
2013	January	3,538.0	125,951.8	1,600.8	5,138.8		5,829.0	-41,621.4	-529.0	5,300.0	
	February	3,523.2	124,908.2	1,596.3	5,119.5		5,833.6	-43,222.1	-552.4	5,281.2	
	March	3,661.1	124,055.9	1,533.5	5,194.6	33.1	5,964.4	-43,680.1	-539.9	5,424.5	34.6
	April	3,773.3	125,897.9	1,529.1	5,302.4		6,101.4	-43,190.1	-524.6	5,576.8	
	May	3,629.5	123,740.5	1,584.3	5,213.8		5,952.7	-42,768.1	-547.6	5,405.1	
	June	3,519.4	122,609.0	1,597.3	5,116.7	32.2	5,842.9	-42,683.6	-556.1	5,286.8	33.2
	July	3,521.7	125,856.2	1,616.8	5,138.5		5,885.2	-43,320.4	-556.5	5,328.7	
	August	3,488.8	126,694.6	1,690.3	5,179.1		5,872.5	-43,188.4	-576.2	5,296.3	
	September	3,627.9	127,052.8	1,673.9	5,301.8	32.9	6,021.8	-44,256.4	-583.1	5,438.7	33.8
	October	3,612.5	129,524.1	1,684.7	5,297.2		6,040.8	-43,932.8	-571.4	5,469.4	
	November	3,662.0	131,608.3	1,725.4	5,387.4		6,121.2	-43,910.5	-575.7	5,545.5	
	December	3,662.8	132,362.4	1,731.9	5,394.7	32.2	6,148.4	-44,150.3	-577.7	5,570.7	33.2
2014 p/	January	3,666.2	138,364.6	1,850.9	5,517.1		6,192.0	-40,967.6	-548.0	5,644.0	
	February	3,774.1	137,374.4	1,818.5	5,592.6		6,309.8	-42,679.9	-565.0	5,744.8	
	March	3,856.9	139,938.0	1,826.9	5,683.8	34.4	6,417.4	-41,824.8	-546.0	5,871.4	35.6
	April	3,758.9	144,653.8	1,893.5	5,652.4		6,379.4	-40,470.8	-529.8	5,849.6	
	May	3,868.1	144,821.0	1,862.5	5,730.6		6,512.0	-42,081.3	-541.2	5,970.8	
	June	4,031.9	144,872.4	1,879.2	5,911.1	35.1	6,645.0	-43,972.7	-570.4	6,074.6	36.1
	July	4,065.0	145,493.6	1,924.4	5,989.4		6,691.9	-43,746.4	-578.6	6,113.3	
	August	4,105.4	145,085.6	1,897.2	6,002.6		6,742.1	-44,670.9	-584.1	6,158.0	
	September	4,068.5	143,212.6	1,923.8	5,992.3	35.2	6,714.7	-46,600.6	-626.0	6,088.7	35.7
	October	4,134.0	146,964.2	1,980.7	6,114.7		6,835.7	-46,553.8	-627.4	6,208.3	
	November	4,238.3	147,288.9	2,046.8	6,285.1		6,943.2	-45,960.7	-638.7	6,304.5	
	December	4,371.1	146,505.2	2,159.7	6,530.8	36.7	7,070.3	-45,751.4	-674.4	6,395.9	35.9

p/ Preliminary figures.
1/ The net broad economic debt includes net liabilities from the federal government and non-financial public entities and enterprises, as well as of official intermediaries (development banks and public funds and trusts). It is calculated in accrued terms with data of the banking system; public values are reported at market value.
2/ The net economic debt consolidated with Banco de México includes central bank's assets and liabilities and all sectors of the broad economic debt.
(-) Means financial assets' stocks are larger than gross debt stocks.
Source: Banco de México.

Table A 48
Non-financial Public Sector Net Debt [1/]
Stocks at end of period

Stock at end of:		Public sector non-financial net economic debt				
		Domestic	External		Total net debt	
		MXN billion	USD million	MXN billion	MXN billion	Percentage of GDP
2009		2,298.9	88,107.6	1,151.2	3,450.1	27.2
2010		2,743.2	101,656.1	1,255.4	3,998.6	29.0
2011		3,095.0	108,173.2	1,508.8	4,603.7	29.5
2012	January	3,175.1	110,624.1	1,439.0	4,614.1	
	February	3,144.7	110,519.5	1,413.4	4,558.1	
	March	3,142.7	111,845.9	1,432.7	4,575.3	30.0
	April	3,171.8	113,388.2	1,473.4	4,645.2	
	May	3,194.3	111,075.3	1,588.9	4,783.2	
	June	3,360.1	113,695.9	1,524.5	4,884.6	31.8
	July	3,461.9	115,502.8	1,534.3	4,996.2	
	August	3,437.6	115,197.2	1,527.2	4,964.8	
	September	3,525.9	115,044.1	1,480.6	5,006.5	32.2
	October	3,462.0	115,332.1	1,509.8	4,971.9	
	November	3,554.3	116,510.7	1,506.1	5,060.4	
	December	3,701.2	115,918.6	1,503.0	5,204.2	32.2
2013	January	3,716.6	119,853.5	1,523.3	5,239.8	
	February	3,719.4	118,828.1	1,518.6	5,238.0	
	March	3,863.6	117,494.6	1,452.4	5,316.0	33.9
	April	3,969.5	119,663.9	1,453.4	5,422.9	
	May	3,834.1	117,394.6	1,503.1	5,337.1	
	June	3,734.3	116,021.0	1,511.5	5,245.9	33.0
	July	3,753.5	119,228.3	1,531.7	5,285.2	
	August	3,734.5	119,786.4	1,598.1	5,332.6	
	September	3,858.0	120,391.6	1,586.1	5,444.1	33.8
	October	3,862.2	122,654.0	1,595.3	5,457.6	
	November	3,900.5	124,715.1	1,635.0	5,535.6	
	December	3,943.8	125,414.2	1,641.0	5,584.7	33.3
2014 [p/]	January	3,942.5	131,210.8	1,755.2	5,697.7	
	February	4,055.7	130,238.6	1,724.1	5,779.8	
	March	4,144.7	133,240.3	1,739.4	5,884.1	35.6
	April	4,078.7	137,318.3	1,797.5	5,876.2	
	May	4,199.6	137,237.8	1,765.0	5,964.6	
	June	4,339.3	137,858.4	1,788.2	6,127.5	36.4
	July	4,353.3	138,111.9	1,826.8	6,180.1	
	August	4,398.6	137,830.8	1,802.3	6,200.9	
	September	4,377.7	136,457.5	1,833.0	6,210.7	36.4
	October	4,448.0	139,109.1	1,874.8	6,322.8	
	November	4,575.2	138,880.4	1,930.0	6,505.2	
	December	4,727.3	137,981.6	2,034.0	6,761.3	38.0

1/ Non-financial public sector (federal government and public entities) net debt is computed on an accrued basis with data available from the banking sector. Federal government domestic securities are reported at market value and external debt is classified by debtor and not by end user.
p/ Preliminary figures.
Source: Banco de México.

Table A 49
Public Sector Total Debt

	MXN billion		Percentage of GDP [1/]			Real annual change	Percentage structure	
	2013 p/	2014 p/	2013 p/	2014 p/	Difference	2014 - 2013	2013 p/	2014 p/
Public sector total debt (a+b) [2/]	**6,525.9**	**7,689.3**	**38.9**	**43.2**	**4.3**	**13.2**	**100.0**	**100.0**
a. Net broad economic debt	**5,394.7**	**6,530.8**	**32.2**	**36.7**	**4.5**	**16.3**	**82.7**	**84.9**
1. Foreign	1,731.9	2,159.7	10.3	12.1	1.8	19.8	26.5	28.1
2. Domestic	3,662.8	4,371.1	21.8	24.5	2.7	14.7	56.1	56.8
b. Additional liabilities	**1,131.2**	**1,158.5**	**6.8**	**6.5**	**-0.2**	**-1.6**	**17.3**	**15.1**
1. IPAB [3/]	824.5	838.5	4.9	4.7	-0.2	-2.3	12.6	10.9
2. FARAC [4/]	151.9	165.6	0.9	0.9	0.0	4.7	2.3	2.2
3. UDIs restructuring programs [5/]	46.3	47.7	0.3	0.3	0.0	-1.0	0.7	0.6
4. Direct Pidiregas [6/]	105.3	105.1	0.6	0.6	0.0	-4.1	1.6	1.4
5. Debtor support programs [7/]	3.2	1.6	0.0	0.0	0.0	-52.0	0.0	0.0

p/ Preliminary figures.
1/Amounts expressed in GDP ratio use the GDP of the last quarter of the year.
2/ Non-financial public sector (federal government and public entities) net debt is computed on an accrued basis with data available from the banking sector. Federal government domestic securities are reported at market value and external debt is classified by debtor and not by end user.
3/ Corresponds to the difference between gross liabilities and total assets of IBAP, in accordance with the data of Annex II of Public Debt of the Public Finances Report as of the Fourth Quarter of 2014.
4/ Bonds covered by the federal government of the trust fund for the toll highway rescue.
5/ Difference between the liabilities of the federal government special Cetes with a bank and UDIs' restructured debt.
6/ Outstanding debt associated with direct Pidiregas is based on flows of investment carried out.
7/ Corresponds to credit granted by commercial banks to the federal government via the referred programs.
Source: Ministry of Finance (SHCP) and Banco de México.

Table A 50
Public Sector Total Debt Consolidated with Banco de México

	MXN billion		Percent of GDP [1/]			Real annual change	Percentage structure	
	2013 p/	2014 p/	2013 p/	2014 p/	Difference	2014 - 2013	2013 p/	2014 p/
Public sector total debt consolidated with Banco de México (a+b) [2/]	**6,701.9**	**7,554.3**	**40.0**	**42.4**	**2.5**	**8.3**	**100.0**	**100.0**
a. Net debt consolidated with Banco de México	**5,570.7**	**6,395.8**	**33.2**	**35.9**	**2.7**	**10.3**	**83.1**	**84.7**
1. Foreign	-577.7	-674.4	-3.4	-3.8	-0.4	12.2	-8.6	-8.9
2. Domestic	6,148.4	7,070.3	36.7	39.7	3.1	10.5	91.7	93.6
b. Additional liabilities	**1,131.2**	**1,158.5**	**6.8**	**6.5**	**-0.2**	**-1.6**	**16.9**	**15.3**
1. IPAB [3/]	824.5	838.5	4.9	4.7	-0.2	-2.3	12.3	11.1
2. FARAC [4/]	151.9	165.6	0.9	0.9	0.0	4.7	2.3	2.2
3. UDIs restructuring programs [5/]	46.3	47.7	0.3	0.3	0.0	-1.0	0.7	0.6
4. Direct Pidiregas [6/]	105.3	105.1	0.6	0.6	0.0	-4.1	1.6	1.4
5. Programas de Apoyo a Deudores [7/]	3.2	1.6	0.0	0.0	0.0	-52.0	0.0	0.0

p/ Preliminary figures.
1/ Amounts expressed in GDP ratio use the GDP of the last quarter of the year.
2/ The net debt consolidated with Banco de México comprises the sectors of broad economic debt with the central bank's financial liabilities and assets.
3/ Corresponds to the difference between gross liabilities and total assets of IBAP, in accordance with the data of Annex II of Public Debt of the Public Finances Report as of the Fourth Quarter of 2014.
4/ Bonds covered by the federal government of the trust fund for the toll highway rescue.
5/ Difference between the liabilities of the federal government special Cetes with a bank and UDIs' restructured debt.
6/ Outstanding debt associated with direct Pidiregas is based on flows of investment carried out.
7/ Corresponds to credit granted by commercial banks to the federal government via the referred programs.
Source: Ministry of Finance (SHCP) and Banco de México.

Table A 51
Federal Government Domestic Debt Securities
Total circulation per instrument [1/]
Current stocks in MXN billion at market value

Stocks at end of:		Total securities in circulation	Cetes	Bondes	Udibonos	Fixed rate bonds	Bondes D
2009		2,767.9	512.6	20.9	466.4	1,299.7	468.4
2010		3,152.9	557.1	0.0	583.1	1,612.5	400.2
2011		3,875.9	696.0	0.0	703.1	1,779.2	697.6
2012	January	4,024.1	709.1	0.0	740.8	1,856.9	717.2
	February	4,066.3	713.4	0.0	745.4	1,876.5	731.0
	March	4,089.4	717.4	0.0	733.0	1,878.5	760.5
	April	4,207.0	730.6	0.0	769.6	1,939.0	767.8
	May	4,313.4	736.0	0.0	793.3	1,987.0	797.0
	June	4,362.6	830.6	0.0	793.0	1,933.4	805.6
	July	4,536.7	843.5	0.0	847.3	2,016.8	829.1
	August	4,565.7	844.7	0.0	848.3	2,032.2	840.4
	September	4,690.9	835.7	0.0	897.3	2,094.5	863.3
	October	4,698.5	818.3	0.0	901.6	2,108.0	870.5
	November	4,791.1	825.1	0.0	910.5	2,172.6	882.9
	December	4,663.1	811.9	0.0	887.1	2,057.5	906.5
2013	January	4,803.4	833.6	0.0	906.5	2,144.8	918.6
	February	4,893.4	815.0	0.0	928.3	2,212.0	938.2
	March	5,029.7	832.9	0.0	968.7	2,283.2	945.0
	April	5,216.4	833.3	0.0	1,017.4	2,401.0	964.8
	May	5,115.9	830.2	0.0	966.1	2,342.3	977.3
	June	4,923.0	848.8	0.0	920.3	2,157.7	996.3
	July	4,927.4	836.2	0.0	926.9	2,162.2	1,002.1
	August	4,992.2	826.3	0.0	944.9	2,195.9	1,025.0
	September	5,107.0	825.1	0.0	987.5	2,273.8	1,020.5
	October	5,169.8	801.7	0.0	999.1	2,321.8	1,047.1
	November	5,214.3	812.8	0.0	1,009.7	2,350.5	1,041.3
	December	5,150.5	952.1	0.0	940.1	2,195.7	1,062.6
2014 [p/]	January	5,193.3	932.9	0.0	955.4	2,248.8	1,056.1
	February	5,344.0	956.9	0.0	993.7	2,319.7	1,073.7
	March	5,471.4	946.2	0.0	1,022.5	2,441.3	1,061.5
	April	5,535.9	919.5	0.0	1,045.7	2,485.0	1,085.6
	May	5,694.4	934.9	0.0	1,099.2	2,582.8	1,077.6
	June	5,677.4	950.3	0.0	1,114.6	2,517.0	1,095.5
	July	5,767.2	969.7	0.0	1,140.4	2,568.1	1,089.0
	August	5,797.6	906.6	0.0	1,164.4	2,619.2	1,107.4
	September	5,782.1	924.7	0.0	1,152.8	2,606.4	1,098.2
	October	5,936.2	954.7	0.0	1,191.3	2,659.3	1,130.9
	November	6,097.9	1,014.4	0.0	1,216.8	2,738.8	1,127.9
	December	5,935.7	1,010.6	0.0	1,128.0	2,638.7	1,158.3

p/ Preliminary figures.
1/ Total circulation includes federal government securities and placements of monetary regulation bonds.
Source: Banco de México.

Table A 52
Federal Government Domestic Debt Securities
Total circulation per holding sector 1/
Current stocks in MXN billion at market value

Stocks at end of:		Total securities in circulation	Private firms and individuals	Non-bank public sector	Development banks	Commercial banks	Repors
2009		2,767.9	2,162.7	122.7	21.0	338.0	123.5
2010		3,152.9	2,530.9	120.2	27.8	449.4	24.6
2011		3,875.9	3,199.4	152.3	37.7	428.6	57.9
2012	January	4,024.1	3,353.0	154.1	53.5	455.2	8.4
	February	4,066.3	3,393.4	168.0	56.9	429.6	18.4
	March	4,089.4	3,381.1	152.6	74.4	446.8	34.5
	April	4,207.0	3,517.7	165.4	56.1	376.6	91.2
	May	4,313.4	3,576.3	196.2	59.2	375.3	106.5
	June	4,362.6	3,694.4	150.0	68.6	423.5	26.1
	July	4,536.7	3,922.4	155.1	38.9	331.9	88.4
	August	4,565.7	3,933.0	177.0	40.7	347.5	67.5
	September	4,690.9	4,008.2	161.5	33.6	380.0	107.6
	October	4,698.5	4,005.0	195.9	45.0	311.1	141.5
	November	4,791.1	4,107.2	203.6	44.4	304.8	131.1
	December	4,663.1	4,081.0	148.8	39.5	337.5	56.2
2013	January	4,803.4	4,233.7	131.2	55.8	327.6	55.1
	February	4,893.4	4,302.1	150.2	38.8	319.8	82.5
	March	5,029.7	4,428.9	136.8	39.2	303.1	121.7
	April	5,216.4	4,527.7	151.2	56.0	336.9	144.7
	May	5,115.9	4,475.2	141.5	43.8	277.6	177.8
	June	4,923.0	4,272.7	133.9	52.5	358.0	105.8
	July	4,927.4	4,353.1	104.3	40.8	326.8	102.5
	August	4,992.2	4,347.9	123.6	57.3	323.6	139.8
	September	5,107.0	4,496.5	128.9	43.7	324.7	113.2
	October	5,169.8	4,551.9	140.4	63.7	302.0	111.8
	November	5,214.3	4,571.7	148.8	62.7	291.4	139.7
	December	5,150.5	4,498.2	136.6	34.3	357.4	124.0
2014 p/	January	5,193.3	4,529.0	140.5	82.9	332.8	108.1
	February	5,344.0	4,717.6	145.8	63.8	286.5	130.3
	March	5,471.4	4,698.7	142.4	86.6	430.6	113.2
	April	5,535.9	4,675.9	169.5	110.5	409.5	170.5
	May	5,694.4	4,868.6	166.4	91.3	364.3	203.7
	June	5,677.4	4,991.9	121.0	84.5	409.4	70.6
	July	5,767.2	5,066.7	140.0	75.7	381.3	103.4
	August	5,797.6	5,096.8	165.4	70.5	373.1	91.9
	September	5,782.1	5,087.2	146.6	62.0	388.0	98.2
	October	5,936.2	5,176.8	155.4	56.7	400.8	146.5
	November	6,097.9	5,395.4	184.6	50.3	251.9	215.7
	December	5,935.7	5,217.7	133.7	56.9	388.8	138.6

p/ Preliminary figures.
1/ Total circulation includes federal government securities and placement of monetary regulation bonds.
Source: Banco de México.

External Sector

Table A 53
External Sector Indicators

	2007	2008	2009	2010	2011	2012	2013	2014 p/
Balance of payments	USD billion							
Current account	-14.7	-20.2	-8.3	-4.9	-13.3	-15.9	-29.7	-26.5
Trade balance	-10.1	-17.3	-4.7	-3.0	-1.4	0.0	-1.2	-2.4
Financial account	22.1	33.5	16.5	48.5	52.3	51.4	65.2	56.0
Foreign direct investment in Mexico	32.2	28.6	17.6	26.0	23.6	19.0	44.2	22.6
Change in gross international reserves	10.9	8.1	4.6	20.7	28.6	17.8	13.2	15.5
Stock of gross international reserves	87.2	95.3	99.9	120.6	149.2	167.1	180.2	195.7
	Percent of GDP							
Current account	-1.4	-1.8	-0.9	-0.5	-1.1	-1.3	-2.4	-2.1
Financial account	2.1	3.0	1.8	4.6	4.5	4.3	5.2	4.4
Foreign trade	Annual change in percent							
Exports	8.8	7.2	-21.2	29.9	17.1	6.1	2.5	4.6
Oil	10.2	17.7	-39.1	35.2	35.4	-6.2	-6.5	-13.2
Non-oil	8.5	5.2	-17.4	29.1	14.1	8.5	4.0	7.3
Manufactures	8.4	5.1	-17.8	29.5	13.4	8.4	4.2	7.2
Other	12.2	7.4	-6.6	20.3	30.3	10.1	0.9	8.2
Imports	10.1	9.5	-24.0	28.6	16.4	5.7	2.8	4.9
Consumer goods	16.7	11.3	-31.5	26.2	25.0	4.8	5.6	1.7
Intermediate goods	8.8	7.9	-22.9	34.5	14.9	5.3	2.5	6.0
Capital goods	10.1	16.4	-21.6	-1.3	15.8	10.1	1.3	1.5
Gross external debt and interest paid 1/	Percent of income in current account							
Total external debt	64.3	64.8	69.5	67.0	62.2	61.8	70.1	74.2
Public sector 2/	17.1	16.6	37.9	33.0	30.2	30.6	31.9	33.6
Private sector	47.2	48.2	31.6	34.0	32.0	31.2	38.2	40.6
Interest 3/	5.2	4.9	4.7	4.1	4.5	4.8	5.4	5.6
	Percent of GDP							
Total external debt	19.9	20.0	21.2	22.1	21.2	22.1	24.1	26.1
Public sector 2/	5.3	5.1	11.5	10.9	10.3	10.9	11.0	11.8
Private sector	14.6	14.9	9.6	11.2	10.9	11.1	13.2	14.3
Interest 3/	1.6	1.5	1.4	1.3	1.5	1.7	1.8	2.0

p/ Preliminary figures.
1/ As of 2009, debt associated with Pidiregas is reclassified from the private sector to the public sector.
2/ Includes Banco de México.
3/ Includes private and public sector.
Note: Figures may not add up due to rounding.
Source: Banco de México, Ministry of Finance (SHCP) and Foreign Trade Statistics Working Group (*Grupo de Trabajo de Estadísticas de Comercio Exterior*), composed of Banco de México, the National Bureau of Statistics (*Instituto Nacional de Estadística y Geografía*, INEGI), the Ministry of Finance's Tax Collection System (*Servicio de Administración Tributaria*, SAT) and the Ministry of Economics.

Table A 54
Balance of Payments
USD millions

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 p/
Current account	**-8,956**	**-7,803**	**-14,663**	**-20,174**	**-8,321**	**-4,934**	**-13,326**	**-15,853**	**-29,682**	**-26,545**
Revenues	**257,381**	**297,842**	**323,714**	**343,686**	**273,250**	**346,529**	**399,306**	**423,510**	**434,414**	**451,106**
Goods and services	**230,369**	**266,227**	**289,537**	**309,559**	**244,799**	**314,094**	**365,586**	**387,587**	**400,856**	**419,310**
Goods	**214,633**	**250,319**	**272,293**	**291,886**	**229,975**	**298,860**	**350,004**	**371,442**	**380,741**	**398,273**
General merchandise	214,233	249,925	271,875	291,343	229,704	298,473	349,433	370,770	380,027	397,535
Goods procured in ports by carriers	400	394	418	544	271	387	571	672	714	738
Services	**15,736**	**15,908**	**17,244**	**17,673**	**14,824**	**15,235**	**15,582**	**16,146**	**20,116**	**21,037**
Tourist	9,146	9,559	10,367	10,861	9,431	9,991	10,006	10,766	11,854	14,315
Hikers	2,657	2,617	2,552	2,509	2,082	2,001	1,862	1,973	2,095	1,943
Various transport	1,353	1,518	1,512	1,767	1,338	1,040	1,037	961	801	866
Other	2,579	2,213	2,813	2,536	1,974	2,203	2,676	2,445	5,365	3,913
Rent	**4,818**	**5,578**	**7,664**	**8,530**	**6,797**	**10,812**	**10,569**	**13,154**	**11,320**	**7,810**
Interests	2,719	4,431	6,218	6,128	4,253	3,388	3,475	2,671	2,391	2,305
Other	2,099	1,147	1,446	2,402	2,544	7,424	7,094	10,483	8,929	5,505
Transfers	**22,194**	**26,037**	**26,513**	**25,597**	**21,653**	**21,623**	**23,152**	**22,768**	**22,238**	**23,985**
Workers' remittances	21,688	25,567	26,059	25,145	21,306	21,304	22,803	22,438	21,892	23,607
Other	506	470	454	452	347	319	349	330	346	379
Expenditures	**266,337**	**305,645**	**338,377**	**363,859**	**281,571**	**351,463**	**412,633**	**439,362**	**464,097**	**477,651**
Goods and services	**245,100**	**280,272**	**307,509**	**335,150**	**259,943**	**327,595**	**381,584**	**401,859**	**413,766**	**435,350**
Goods	**222,295**	**256,631**	**282,604**	**309,501**	**234,901**	**301,803**	**351,209**	**371,151**	**381,638**	**400,440**
General merchandise	221,820	256,058	281,949	308,603	234,385	301,482	350,843	370,752	381,210	399,977
Goods procured in ports by carriers	476	573	655	898	516	321	366	399	428	462
Services	**22,804**	**23,641**	**24,904**	**25,649**	**25,043**	**25,792**	**30,375**	**30,708**	**32,128**	**34,910**
Insurance and freight	6,494	7,418	8,297	10,000	7,510	8,723	10,225	9,726	9,755	11,604
Tourists	3,653	4,193	4,794	4,946	4,397	4,540	5,014	5,549	6,025	6,675
Hikers	3,947	3,915	3,668	3,622	2,811	2,715	2,818	2,900	3,097	2,982
Various transport	2,240	2,111	2,333	2,585	2,376	2,428	2,524	3,053	3,664	3,825
Commissions	636	616	270	116	419	548	452	272	228	326
Other	5,834	5,389	5,542	4,380	7,530	6,838	9,342	9,208	9,358	9,498
Rent	**21,181**	**25,285**	**30,760**	**28,581**	**21,567**	**23,783**	**30,871**	**37,294**	**50,202**	**42,192**
Remitted earnings	4,216	2,449	5,381	2,906	3,846	4,673	3,615	8,337	11,460	4,012
Reinvested earnings	4,270	8,106	8,460	8,970	4,895	4,921	9,433	8,559	15,443	12,769
Interests	12,695	14,731	16,919	16,704	12,826	14,189	17,822	20,398	23,299	25,412
Public sector	7,390	8,144	8,476	8,410	6,700	7,507	9,557	11,728	13,264	13,775
Private sector	5,305	6,586	8,443	8,294	6,126	6,682	8,266	8,670	10,035	11,636
Transfers	**57**	**88**	**108**	**128**	**60**	**86**	**178**	**209**	**128**	**109**
Financial account	**15,073**	**10,416**	**22,103**	**33,491**	**16,544**	**48,450**	**52,295**	**51,425**	**65,231**	**55,962**
Foreign direct investment	**18,220**	**15,142**	**23,957**	**27,417**	**8,040**	**10,912**	**10,924**	**-3,472**	**31,060**	**14,958**
In Mexico	24,694	20,901	32,213	28,574	17,644	25,962	23,560	18,998	44,199	22,568
Abroad	-6,474	-5,758	-8,256	-1,157	-9,604	-15,050	-12,636	-22,470	-13,138	-7,610
Portfolio investment	**-12,835**	**-1,592**	**-1,257**	**17,236**	**-14,995**	**32,596**	**47,172**	**71,485**	**48,181**	**46,490**
Liabilities	**7,713**	**137**	**13,482**	**4,575**	**15,275**	**38,499**	**41,849**	**79,979**	**50,267**	**47,243**
Public sector	**-4,204**	**-8,011**	**2,057**	**1,257**	**9,314**	**28,096**	**36,975**	**56,869**	**33,156**	**36,869**
Securities issued abroad	-6,978	-10,523	-5,753	-4,696	5,836	4,970	5,326	10,226	11,184	12,956
Money market	2,774	2,512	7,810	5,953	3,479	23,126	31,650	46,643	21,973	23,913
Private sector	**7,095**	**3,186**	**3,124**	**-6,492**	**5,960**	**10,402**	**4,874**	**23,110**	**17,111**	**10,374**
Securities issued abroad	3,823	379	3,605	-2,969	1,805	10,028	11,438	13,236	18,054	5,541
Money and equity market	3,272	2,806	-481	-3,523	4,155	374	-6,564	9,873	-942	4,833
Pidiregas	**4,822**	**4,963**	**8,301**	**9,810**	**0**	**0**	**0**	**0**	**0**	**0**
Assets	**-20,548**	**-1,729**	**-14,739**	**12,661**	**-30,269**	**-5,903**	**5,324**	**-8,494**	**-2,086**	**-752**
Other investment	**9,688**	**-3,134**	**-597**	**-11,161**	**23,499**	**4,942**	**-5,801**	**-16,588**	**-14,010**	**-5,486**
Liabilities	**3,863**	**976**	**18,212**	**7,544**	**2,522**	**31,948**	**-2,128**	**-10,314**	**13,269**	**14,613**
Public sector	**-3,115**	**-11,504**	**-1,195**	**768**	**11,826**	**5,478**	**302**	**-1,432**	**-2,553**	**3,133**
Development banks	-3,122	-7,947	-1,040	-496	1,194	648	-283	398	426	870
Banco de México	0	0	0	0	7,229	-3,221	0	0	0	0
Non-bank sector	7	-3,557	-155	1,265	3,402	8,051	585	-1,830	-2,980	2,263
Private sector	**3,051**	**10,417**	**14,483**	**3,732**	**-9,304**	**26,470**	**-2,430**	**-8,882**	**15,822**	**11,480**
Commercial banks	2,708	3,385	11,214	234	-4,085	28,903	-2,931	-5,856	13,811	6,232
Non-bank sector	343	7,031	3,268	3,498	-5,219	-2,433	502	-3,026	2,011	5,248
Pidiregas	**3,927**	**2,063**	**4,924**	**3,044**	**0**	**0**	**0**	**0**	**0**	**0**
Assets	**5,825**	**-4,110**	**-18,809**	**-18,705**	**20,977**	**-27,005**	**-3,674**	**-6,274**	**-27,279**	**-20,099**
Errors and omissions	**3,787**	**-407**	**3,416**	**-5,239**	**-3,695**	**-22,900**	**-10,788**	**-18,048**	**-17,760**	**-13,088**
Change in gross international reserves	**9,913**	**2,220**	**10,881**	**8,091**	**4,591**	**20,695**	**28,621**	**17,841**	**13,150**	**15,482**
Valuation adjustments	**-8**	**-14**	**-25**	**-12**	**-63**	**-79**	**-441**	**-317**	**4,639**	**847**

p/ Preliminary figures.
Note: Figures may not add up due to rounding.
Source: Banco de México.

Table A 55
Balance of Payments
USD million

	2013	2014 p/				
	Annual	QI	QII	QIII	QIV	Annual
Current account	**-29,682**	**-10,587**	**-7,869**	**-2,780**	**-5,310**	**-26,545**
Financial account	**65,231**	**14,013**	**24,501**	**-220**	**17,669**	**55,962**
Direct investment	**31,060**	**9,527**	**3,578**	**-1,454**	**3,307**	**14,958**
In Mexico	44,199	11,391	2,757	2,776	5,645	22,568
Abroad	-13,138	-1,864	821	-4,230	-2,337	-7,610
Portfolio investment	**48,181**	**10,228**	**22,501**	**5,335**	**8,427**	**46,490**
Liabilities	50,267	9,871	23,266	3,994	10,112	47,243
Public sector	33,156	10,057	11,266	2,892	12,654	36,869
Money market	21,973	4,503	7,190	2,364	9,856	23,913
Other	11,184	5,554	4,076	528	2,799	12,956
Private sector	17,111	-186	12,000	1,102	-2,543	10,374
Money and equity market	-942	281	6,264	-658	-1,054	4,833
Other	18,054	-468	5,736	1,761	-1,488	5,541
Assets	-2,086	357	-766	1,341	-1,685	-752
Other investment	**-14,010**	**-5,742**	**-1,578**	**-4,101**	**5,935**	**-5,486**
Liabilities	13,269	-2,271	10,430	674	5,781	14,613
Public sector	-2,553	2,231	671	314	-84	3,133
Banco de México	0	0	0	0	0	0
Private sector	15,822	-4,503	9,759	359	5,864	11,480
Assets	-27,279	-3,471	-12,007	-4,775	154	-20,099
Errors and omissions	**-17,760**	**1,623**	**-10,227**	**5,035**	**-9,520**	**-13,088**
Change in gross international reserves	**13,150**	**5,267**	**7,072**	**793**	**2,350**	**15,482**
Valuation adjustments	**4,639**	**-218**	**-667**	**1,243**	**489**	**847**

p/ Preliminary figures.
Note: Figures may not add up due to rounding.
Source: Banco de México.

Table A 56
Current Account
USD million

	2013	2014 p/				
	Annual	QI	QII	QIII	QIV	Annual
Current account	**-29,682**	**-10,587**	**-7,869**	**-2,780**	**-5,310**	**-26,545**
Balance of goods and services	-12,910	-4,042	-2,552	-5,373	-4,072	-16,040
Goods	-898	-1,209	1,141	-1,452	-646	-2,166
General merchandise	-1,184	-1,314	1,065	-1,513	-680	-2,442
Exports	380,027	90,750	101,929	101,327	103,530	397,535
Imports	381,210	92,064	100,864	102,840	104,209	399,977
Goods procured in ports by carriers	286	105	76	60	34	275
Services	-12,012	-2,833	-3,694	-3,921	-3,426	-13,874
Rent	-38,882	-12,089	-11,521	-3,433	-7,339	-34,382
Transfers	22,110	5,545	6,205	6,026	6,100	23,877
Oil trade balance	**8,625**	**1,212**	**1,095**	**574**	**-1,391**	**1,489**
Non-oil trade balance	**-9,809**	**-2,527**	**-29**	**-2,086**	**712**	**-3,931**

p/ Preliminary figures.
Note: Figures may not add up due to rounding.
Source: Banco de México.

Table A 57
Foreign Trade
USD million

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 p/
Exports	**214,233**	**249,925**	**271,875**	**291,343**	**229,704**	**298,473**	**349,433**	**370,770**	**380,027**	**397,535**
Oil	**31,889**	**39,017**	**43,014**	**50,635**	**30,831**	**41,693**	**56,443**	**52,956**	**49,493**	**42,979**
Crude oil 1/	28,330	34,707	37,937	43,342	25,614	35,919	49,381	46,852	42,723	36,248
Other	3,559	4,310	5,077	7,294	5,217	5,775	7,063	6,103	6,770	6,731
Non-oil	**182,344**	**210,908**	**228,862**	**240,707**	**198,872**	**256,780**	**292,990**	**317,814**	**330,534**	**354,556**
Agriculture	5,981	6,836	7,415	7,895	7,726	8,610	10,310	10,914	11,246	12,204
Mining	1,168	1,321	1,737	1,931	1,448	2,424	4,064	4,907	4,714	5,064
Manufactures	175,196	202,752	219,709	230,882	189,698	245,745	278,617	301,993	314,573	337,289
Imports	**221,820**	**256,058**	**281,949**	**308,603**	**234,385**	**301,482**	**350,843**	**370,752**	**381,210**	**399,977**
Oil	16,394	19,637	25,469	35,657	20,463	30,211	42,704	41,139	40,868	41,490
Non-oil	205,426	236,421	256,480	272,946	213,923	271,271	308,139	329,613	340,342	358,488
Consumer goods	**31,513**	**36,901**	**43,055**	**47,941**	**32,828**	**41,423**	**51,790**	**54,272**	**57,329**	**58,299**
Oil	5,571	7,303	10,932	15,805	8,930	12,820	18,965	18,669	16,932	15,757
Non-oil	25,942	29,598	32,123	32,136	23,898	28,602	32,826	35,604	40,398	42,542
Intermediate goods	**164,091**	**188,633**	**205,296**	**221,565**	**170,912**	**229,812**	**264,020**	**277,911**	**284,823**	**302,031**
Oil	10,823	12,334	14,537	19,852	11,533	17,391	23,740	22,470	23,936	25,733
Non-oil	153,268	176,299	190,758	201,714	159,379	212,422	240,281	255,441	260,888	276,298
Capital goods	**26,216**	**30,525**	**33,599**	**39,097**	**30,645**	**30,247**	**35,032**	**38,568**	**39,057**	**39,647**
Trade balance	**-7,587**	**-6,133**	**-10,074**	**-17,261**	**-4,681**	**-3,009**	**-1,410**	**18**	**-1,184**	**-2,442**
Oil trade balance	**15,495**	**19,380**	**17,545**	**14,978**	**10,369**	**11,482**	**13,739**	**11,817**	**8,625**	**1,489**
Non-oil trade balance	**-23,081**	**-25,513**	**-27,618**	**-32,239**	**-15,050**	**-14,491**	**-15,149**	**-11,799**	**-9,809**	**-3,931**

p/ Preliminary figures.
Note: Figures may not add up due to rounding.
1/ Data provided by PMI Internacional, S.A. de C.V. (operation figures).
Source: Foreign Trade Statistics Working Group composed of Banco de México, the National Bureau of Statistics (*Instituto Nacional de Estadística y Geografía*, INEGI), the Ministry of Finance's Tax Collection System (*Servicio de Administración Tributaria*, SAT), and the Ministry of the Economy.

Table A 58
Exports by Economic Sector
USD million

Item	2008	2009	2010	2011	2012	2013	2014 p/
T o t a l	**291,343**	**229,704**	**298,473**	**349,433**	**370,770**	**380,027**	**397,535**
I. Agriculture and forestry	6,851	6,576	7,326	8,653	9,226	9,765	10,346
II. Livestock and fishing	1,043	1,150	1,285	1,657	1,689	1,481	1,858
III. Mining industries	52,566	32,279	44,117	60,507	57,862	54,207	48,043
Crude oil 1/	43,342	25,614	35,919	49,381	46,852	42,723	36,248
Other	9,225	6,665	8,199	11,126	11,010	11,484	11,795
IV. Manufacturing industries	230,882	189,698	245,745	278,617	301,993	314,573	337,289
A. Food, beverages and tobacco	8,467	8,346	9,552	11,529	11,697	12,902	13,203
B. Textile, apparel and leather products	7,685	6,400	7,151	7,856	8,037	8,305	8,469
C. Timber industry	582	479	493	531	584	728	721
D. Paper, printing and publishing	1,945	1,666	1,960	2,119	1,963	1,884	1,971
E. Chemical industry	8,382	7,582	8,522	9,910	10,946	11,103	10,910
F. Plastic and rubber products	6,410	5,391	6,870	8,095	9,265	9,770	10,433
G. Non-metal mineral products	3,051	2,431	2,952	3,095	3,408	3,658	3,790
H. Iron and steel	8,728	4,943	6,543	7,913	7,744	8,446	8,549
I. Mining and metallurgy	8,687	8,561	12,334	17,398	17,020	12,982	11,276
J. Metal products, machinery and equipment	169,410	137,566	182,697	202,353	222,031	234,644	256,325
1. For agriculture and stockbreeding	463	410	559	691	808	911	868
2. For other transport and communications	58,168	43,691	66,489	81,656	91,567	101,673	114,788
Automobile industry	55,681	42,373	64,948	79,177	88,377	97,781	109,395
3. Special machinery and equipment for different industries	27,894	24,074	33,561	38,514	43,732	43,079	48,677
4. Metal products (domestic use)	3,345	3,820	4,716	5,153	5,253	5,640	5,775
5. Professional and scientific equipment	9,007	8,227	9,808	10,602	11,460	12,528	14,102
6. Electric and electronic equipment	70,091	56,933	67,089	65,326	68,818	70,415	71,710
7. Photographic and optical equipment, and watchmaking	442	412	475	411	393	398	405
K. Other industries	7,534	6,333	6,673	7,819	9,300	10,150	11,642

p/ Preliminary figures.
Note: Figures may not add up due to rounding.
1/ Data provided by PMI Internacional, S.A. de C.V. (operation figures).
Source: Foreign Trade Statistics Working Group composed of Banco de México, the National Bureau of Statistics (*Instituto Nacional de Estadística y Geografía*, INEGI), the Ministry of Finance's Tax Collection System (*Servicio de Administración Tributaria*, SAT), and the Ministry of the Economy.

Table A 59
Imports by Economic Sector
USD million

Item	2008	2009	2010	2011	2012	2013	2014 p/
Total	**308,603**	**234,385**	**301,482**	**350,843**	**370,752**	**381,210**	**399,977**
I. Agriculture and forestry	11,291	8,304	9,417	12,632	12,696	11,704	11,579
II. Livestock and fishing	546	306	428	509	536	648	797
III. Mining industries	37,531	21,275	31,415	44,355	42,752	42,239	42,770
IV. Manufacturing	259,235	204,500	260,222	293,347	314,769	326,619	344,831
A. Food, beverages and tobacco	11,525	9,885	11,231	13,334	13,912	14,358	15,075
B. Textile, apparel and leather products	9,948	7,746	9,337	10,979	11,643	12,246	13,168
C. Timber industry	1,671	1,120	1,308	1,424	1,541	1,622	1,726
D. Paper, printing and publishing	6,701	5,474	6,612	6,899	6,885	7,049	7,274
E. Chemical industry	19,804	16,685	19,508	22,004	23,508	24,477	25,854
F. Plastic and rubber products	16,607	13,270	18,375	19,892	22,073	22,719	24,298
G. Non-metal mineral products	2,233	1,659	2,174	2,548	2,687	2,676	3,034
H. Iron and steel	15,118	10,113	13,356	15,253	18,037	16,811	18,072
I. Mining and metallurgy	8,520	5,551	8,198	10,191	9,513	8,896	9,540
J. Metal products, machinery and equipment	155,547	123,195	158,232	176,808	191,131	200,774	209,213
1. For agriculture and stockbreeding	877	683	786	928	989	963	957
2. For other transport and communications	36,119	24,753	34,600	41,222	46,903	48,260	52,187
Automobile industry	33,993	23,704	33,284	38,891	44,144	45,884	49,136
3. Special machinery and equipment for different industries	40,851	33,493	41,281	46,948	53,268	55,325	57,753
4. Metal products (domestic use)	1,008	738	1,008	1,223	1,222	1,315	1,368
5. Professional and scientific equipment	11,959	8,192	9,795	10,789	11,328	12,035	12,772
6. Electric and electronic equipment	63,984	54,765	70,071	74,932	76,625	82,125	83,409
7. Photographic and optical equipment, and watchmaking	749	572	692	766	796	752	766
K. Other industries	11,561	9,802	11,890	14,015	13,837	14,991	17,578

p/ Preliminary figures.
Note: Figures may not add up due to rounding.
Source: Foreign Trade Statistics Working Group composed of Banco de México, the National Bureau of Statistics (*Instituto Nacional de Estadística y Geografía*, INEGI), the Ministry of Finance's Tax Collection System (*Servicio de Administración Tributaria*, SAT), and the Ministry of the Economy.

Table A 60
Foreign Trade by Country
USD million

	Exports				Imports			
	2011	2012	2013	2014 p/	2011	2012	2013	2014 p/
Total	**349,433**	**370,770**	**380,027**	**397,535**	**350,843**	**370,752**	**381,210**	**399,977**
America	311,801	327,481	337,728	355,231	198,988	209,713	212,417	220,846
North America	285,121	298,780	309,892	329,560	184,002	195,000	197,109	205,323
U.S.	274,427	287,842	299,440	318,890	174,356	185,110	187,262	195,278
Canada	10,695	10,938	10,453	10,670	9,645	9,890	9,847	10,045
Central America	5,481	5,992	5,873	5,860	3,923	4,573	4,902	4,320
Costa Rica	998	993	977	997	2,650	3,259	3,174	2,542
El Salvador	666	609	639	605	110	106	126	127
Guatemala	1,787	1,827	1,735	1,785	543	612	529	490
Panama	1,024	1,136	1,047	989	121	83	17	20
Other countries of Central America	1,006	1,426	1,476	1,484	499	513	1,056	1,141
South America	18,871	20,563	19,682	17,827	10,084	9,075	9,380	9,778
Argentina	1,958	1,932	1,966	1,302	1,061	1,004	1,167	1,050
Brazil	4,891	5,658	5,386	4,740	4,562	4,495	4,421	4,473
Colombia	5,633	5,592	4,735	4,734	825	877	912	935
Chile	2,072	2,252	2,085	2,148	2,101	1,503	1,438	1,398
Peru	1,286	1,528	1,771	1,730	582	440	585	1,106
Venezuela	1,661	2,118	2,155	1,552	373	189	97	72
Other countries of South America	1,369	1,483	1,585	1,622	579	568	760	745
Antilles	2,328	2,148	2,281	1,984	979	1,065	1,026	1,425
Europe	21,134	23,841	21,836	22,522	41,477	44,685	47,108	49,210
European Union	19,173	22,043	19,800	20,429	37,788	40,986	43,169	44,595
Germany	4,343	4,495	3,797	3,502	12,863	13,508	13,461	13,762
Belgium	1,212	1,143	1,107	1,700	878	984	991	942
Denmark	116	190	142	146	443	466	421	543
Spain	4,905	7,075	7,138	5,946	3,843	4,081	4,311	4,753
France	720	1,282	1,288	1,632	3,360	3,467	3,686	3,786
Netherlands	2,083	1,915	1,589	2,272	3,061	3,562	4,202	3,688
Italy	1,559	1,302	1,251	1,702	4,983	5,462	5,621	5,217
Portugal	332	173	62	45	520	437	420	554
United Kingdom	2,159	2,604	1,438	1,806	2,142	2,392	2,508	2,513
Other countries of European Union	1,745	1,865	1,988	1,678	5,696	6,627	7,548	8,836
Other European countries	1,961	1,798	2,036	2,094	3,689	3,699	3,939	4,615
Asia	14,575	17,325	18,499	17,687	107,110	113,713	119,436	127,626
China	5,964	5,721	6,470	5,980	52,248	56,936	61,321	66,256
Korea	1,523	1,728	1,527	2,028	13,690	13,350	13,507	13,782
Philippines	47	67	105	128	1,636	1,389	1,593	1,936
Hong Kong	450	825	957	1,029	343	339	289	290
India	1,819	3,322	3,795	2,668	2,385	2,951	2,868	3,727
Indonesia	126	146	213	116	1,231	1,191	1,149	1,348
Israel	116	116	112	136	542	736	616	641
Japan	2,252	2,611	2,244	2,609	16,494	17,655	17,076	17,545
Malaysia	124	203	176	195	5,610	4,736	5,379	6,561
Singapore	592	724	577	529	1,185	1,371	1,456	1,200
Thailand	320	407	425	361	3,089	3,806	4,322	4,354
Taiwan	468	371	487	392	5,770	6,183	6,689	6,368
Other Asian countries	772	1,086	1,412	1,516	2,888	3,071	3,170	3,620
Africa	738	682	784	890	1,809	1,334	1,334	1,363
Oceania	993	1,196	1,105	1,116	1,433	1,295	901	913
Australia	894	1,086	988	1,009	984	935	518	554
New Zealand	92	102	112	99	435	335	371	349
Other countries of Oceania	7	8	5	7	14	25	12	11
Not identified	193	244	75	89	26	12	13	20

p/ Preliminary fiigures.
Note: Figures may not add up due to rounding.
Source: Foreign Trade Statistics Working Group composed of Banco de México, the National Bureau of Statistics (*Instituto Nacional de Estadística y Geografía*, INEGI), the Ministry of Finance's Tax Collection System (*Servicio de Administración Tributaria*, SAT), and the Ministry of the Economy.

Table A 61
Main Trade Goods

	Exports 2012	Exports 2013	Exports 2014 p/		Imports 2012	Imports 2013	Imports 2014 p/
Total (USD million)	**370,770**	**380,027**	**397,535**	**Total (USD million)**	**370,752**	**381,210**	**399,977**
	Percent of total				Percent of total		
Crude oil 1/	12.6	11.2	9.1	Automobile spare parts	5.6	5.4	5.7
Automobiles	7.9	8.5	8.1	Gasoline	4.9	4.3	3.8
Automobile spare parts	5.1	5.4	5.7	Electronic microcircuits	3.1	3.5	3.5
Trucks and cargo vehicles	4.0	4.6	5.4	Telephone electric parts	3.6	4.0	3.4
Computers	5.0	4.6	5.2	Spare parts for recorders and TV sets	2.7	2.5	2.4
TV sets	4.8	4.4	4.2	Computers	2.2	2.3	2.2
Telephone electric devices	4.6	4.7	4.0	Automobiles	2.1	2.2	2.1
Insulating cables for electric installations	2.4	2.7	2.8	Devices to cut or connect electric circuits	1.4	1.5	1.5
Tractors	1.6	1.5	2.0	Diesel oil	1.7	1.5	1.5
Seats and their parts	1.3	1.4	1.6	Computer spare parts and accessories	1.5	1.5	1.4
Medical and veterinarian devices	1.3	1.3	1.5	Insulating cables for electric installations	1.3	1.4	1.4
Oils other than crude oil	1.3	1.5	1.4	Diesel engines	1.1	1.0	1.1
Gold (crude, w orked and ground)	2.2	1.5	1.2	Plastic parts for furniture, automobiles, apparel, etc.	1.0	1.0	1.0
Refrigerators	1.1	1.2	1.1	Engine parts	0.9	0.9	0.9
Engine parts	1.0	0.9	1.0	Air and vacuum pumps	0.9	0.8	0.9
Gasoline engines	0.7	0.9	0.9	New rubber tiers	0.8	0.8	0.8
Devices to cut or connect electric circuits	0.9	0.8	0.8	Parts of sound reproduction and recording devices	0.8	0.8	0.8
Electric engines and generators	0.7	0.7	0.7	Electric transformers	0.8	0.8	0.8
Air-conditioning machines and devices	0.5	0.6	0.7	TV sets	0.8	0.8	0.8
Electrical transformers	0.7	0.7	0.7	Liquid crystal displays	0.9	0.8	0.8
Freight transport	0.4	0.5	0.7	Semiconductor devices	0.7	0.7	0.8
Malt beer	0.6	0.6	0.6	Plumbing articles	0.8	0.7	0.8
Plumbing articles	0.5	0.5	0.6	Natural gas	0.5	0.7	0.8
Silver (crude, w orked and ground)	1.2	0.8	0.6	Medicine (retail)	0.9	0.8	0.7
Automatic regulating instruments	0.5	0.5	0.6	Propeller shafts, bearings and gear assemblies	0.6	0.7	0.7
Centrifuges, filters and purifiers	0.5	0.5	0.6	Iron and steel bars and hooks	0.7	0.7	0.7
Fixed electrical capacitors	0.1	0.1	0.5	Screw s, iron and steel bolts	0.6	0.6	0.6
Microphones and their support bases	0.4	0.5	0.5	Medical or veterinarian devices	0.5	0.6	0.6
Electric machines and devices	0.4	0.4	0.5	Polyethylenes	0.5	0.6	0.6
Lamps and illuminated signs	0.4	0.4	0.5	Plastic containers	0.6	0.6	0.6
Diesel engines	0.5	0.5	0.5	Corn	0.8	0.5	0.6
Lighting fittings	0.3	0.4	0.5	Cyclical hydrocarbons	0.7	0.6	0.6
Plastic containers	0.4	0.5	0.5	Cleaning machines and devices	0.6	0.6	0.6
Liquid pumps	0.4	0.4	0.5	Printed circuit board assembly	0.5	0.6	0.5
Fresh or refrigerated tomato	0.5	0.5	0.4	Liquid pumps	0.6	0.6	0.5
Fresh or refrigerated vegetables	0.4	0.5	0.4	Centrifuges, filters and purifiers	0.5	0.5	0.5
Electronic microcircuits	0.4	0.4	0.4	Gasoline engines	0.6	0.6	0.5
Radios	0.3	0.4	0.4	Soy beans	0.5	0.5	0.5
Suits and pants (men and boys)	0.5	0.4	0.4	Seats and their parts	0.4	0.5	0.5
Plastic parts for furniture, automobiles, apparel, etc.	0.4	0.4	0.4	Gas turbines	0.5	0.4	0.5
Other	31.2	31.5	31.8	Other	50.1	50.1	50.6

p/ Preliminary figures.
1/ Data provided by PMI Internacional, S.A. de C.V. (operation figures). Subject to revisions.
Source: Foreign Trade Statistics Working Group composed of Banco de México, the National Bureau of Statistics (*Instituto Nacional de Estadística y Geografía*, INEGI), the Ministry of Finance's Tax Collection System (*Servicio de Administración Tributaria*, SAT), and the Ministry of the Economy.

Table A 62
International Travelers

Item	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 p/
Balance (USD million)	**2,699**	**2,798**	**3,108**	**3,837**	**4,203**	**4,068**	**4,457**	**4,802**	**4,305**	**4,737**	**4,037**	**4,291**	**4,827**	**6,601**
Incoming														
Revenues (USD million)	**8,401**	**8,858**	**9,362**	**10,796**	**11,803**	**12,177**	**12,919**	**13,370**	**11,513**	**11,992**	**11,869**	**12,739**	**13,949**	**16,258**
Tourists	5,941	6,084	6,680	7,783	8,502	8,955	9,737	10,152	8,827	9,443	9,448	10,199	11,312	13,564
In border areas	2,244	2,492	2,393	2,591	2,848	2,764	2,684	2,734	2,232	2,020	1,942	2,100	2,279	2,275
With overnight stay	597	641	572	599	644	605	630	708	604	548	558	568	542	751
Without overnight stay	1,647	1,851	1,821	1,993	2,204	2,159	2,054	2,026	1,628	1,472	1,384	1,533	1,737	1,524
On cruises	215	282	289	421	453	458	498	483	454	529	479	440	358	418
Number of travelers (thousands)	**100,719**	**100,153**	**92,330**	**99,250**	**103,146**	**97,701**	**93,582**	**92,948**	**88,044**	**81,953**	**75,732**	**76,749**	**78,100**	**80,898**
Tourists	10,151	9,883	10,353	11,553	12,534	12,608	13,041	13,425	12,501	13,327	13,237	13,665	14,562	15,959
In border areas	86,762	85,135	77,002	81,204	83,905	78,577	73,599	73,031	69,842	62,578	57,205	57,885	58,983	59,155
With overnight stay	9,659	9,784	8,312	9,065	9,381	8,745	8,565	9,505	9,845	9,962	10,166	9,738	9,589	13,132
Without overnight stay	77,103	75,352	68,690	72,139	74,524	69,832	65,034	63,526	59,997	52,615	47,039	48,148	49,394	46,024
On cruises	3,805	5,136	4,974	6,493	6,707	6,516	6,943	6,491	5,701	6,048	5,289	5,199	4,555	5,784
Average spending (USD)	**83.4**	**88.4**	**101.4**	**108.8**	**114.4**	**124.6**	**138.1**	**143.8**	**130.8**	**146.3**	**156.7**	**166.0**	**178.6**	**201.0**
Tourists	585.3	615.6	645.2	673.7	678.4	710.3	746.7	756.2	706.1	708.5	713.8	746.3	776.8	850.0
In border areas	25.9	29.3	31.1	31.9	33.9	35.2	36.5	37.4	32.0	32.3	33.9	36.3	38.6	38.5
With overnight stay	61.8	65.5	68.8	66.1	68.6	69.2	73.5	74.5	61.3	55.0	54.9	58.3	56.5	57.2
Without overnight stay	21.4	24.6	26.5	27.6	29.6	30.9	31.6	31.9	27.1	28.0	29.4	31.8	35.2	33.1
On cruises	56.6	55.0	58.0	64.8	67.5	70.3	71.8	74.4	79.6	87.4	90.5	84.7	78.6	72.4
Outgoing														
Expenditures (USD million)	**5,702**	**6,060**	**6,253**	**6,959**	**7,600**	**8,108**	**8,462**	**8,568**	**7,207**	**7,255**	**7,832**	**8,449**	**9,122**	**9,657**
Tourists	2,399	2,429	2,565	2,911	3,314	3,805	4,373	4,566	4,058	4,187	4,693	5,223	5,777	6,195
In border areas	3,302	3,631	3,688	4,048	4,287	4,303	4,089	4,001	3,149	3,067	3,139	3,226	3,346	3,462
With overnight stay	368	349	270	316	340	388	421	380	339	353	321	326	248	480
Without overnight stay	2,934	3,282	3,418	3,732	3,947	3,915	3,668	3,622	2,811	2,715	2,818	2,900	3,097	2,982
Number of travelers (thousands)	**123,737**	**124,633**	**123,015**	**128,903**	**128,392**	**122,022**	**109,540**	**107,519**	**98,228**	**91,658**	**88,113**	**87,332**	**90,777**	**90,653**
Tourists	6,423	6,492	6,603	7,398	8,000	8,486	9,387	9,397	9,037	9,331	10,200	11,209	11,694	11,298
In border areas	117,309	118,141	116,412	121,505	120,392	113,536	100,153	98,122	89,191	82,326	77,913	76,124	79,083	79,356
With overnight stay	5,652	5,456	4,441	5,096	5,305	5,516	5,870	5,129	5,067	5,003	4,599	4,372	4,217	7,355
Without overnight stay	111,657	112,685	111,971	116,409	115,087	108,020	94,283	92,992	84,124	77,323	73,314	71,752	74,866	72,001
Average spending (USD)	**46.1**	**48.6**	**50.8**	**54.0**	**59.2**	**66.4**	**77.2**	**79.7**	**73.4**	**79.2**	**88.9**	**96.7**	**100.5**	**106.5**
Tourists	373.6	374.1	388.5	393.5	414.2	448.4	465.8	485.9	449.0	448.8	460.1	466.0	494.0	548.3
In border areas	28.2	30.7	31.7	33.3	35.6	37.9	40.8	40.8	35.3	37.3	40.3	42.4	42.3	43.6
With overnight stay	65.1	63.9	60.7	62.1	64.0	70.3	71.8	74.0	66.9	70.5	69.9	74.5	58.9	65.3
Without overnight stay	26.3	29.1	30.5	32.1	34.3	36.2	38.9	38.9	33.4	35.1	38.4	40.4	41.4	41.4

p/ Preliminary figures.
Note: Figures may not add up due to rounding.
Source: Banco de México.

Table A 63
Revenues from Workers' Remittances

	2009	2010	2011	2012	2013	2014 p/
Total remittances (USD million)	**21,306**	**21,304**	**22,803**	**22,438**	**21,892**	**23,645**
Money orders	386	390	207	195	218	267
Electronic transfers	20,547	20,583	22,229	21,858	21,339	22,914
Cash and kind	373	331	367	386	335	463
Number of remittances (thousands)	**67,110**	**67,536**	**69,861**	**71,611**	**74,992**	**80,522**
Money orders	866	816	427	393	422	525
Electronic transfers	65,381	65,930	68,553	70,351	73,737	78,870
Cash and kinds	862	789	881	867	833	1,126
Average remittances (USD)	**317**	**315**	**326**	**313**	**292**	**294**
Money orders	446	478	484	495	517	509
Electronic transfers	314	312	324	311	289	291
Cash and kind	432	419	417	445	402	411

p/ Preliminary figures.
Note: Figures may not add up due to rounding.
Source: Banco de México.

Table A 64
Revenues from Workers' Remittances
By state and international comparison

Distribution by state and international comparison

State	By state										International comparison: selected countries in 2013		
	Ranking					Percentage structure					Country	USD million	As a percentage of GDP
	1995	2001	2010	2013	2014 p/	1995	2001	2010	2013	2014 p/			
											India	36,162	1.9
Michoacán	1	1	1	1	1	16.25	11.69	10.07	9.33	9.49	Mexico		
Guanajuato	3	2	2	2	2	10.25	8.31	9.30	9.09	8.87	2010	21,304	2.0
Jalisco	2	3	3	3	3	12.70	7.89	8.24	7.92	8.29	2011	22,803	1.9
Distrito Federal	5	7	9	5	4	5.34	5.67	4.69	6.36	6.40	2012	22,438	1.9
Estado de México	7	4	4	4	5	4.39	7.16	7.69	6.44	6.18	2013	21,892	1.7
Puebla	6	9	5	6	6	4.84	3.97	6.44	6.11	5.66	2014	23,645	1.8
Oaxaca	8	8	6	8	7	4.34	4.03	6.09	5.31	5.14			
Guerrero	4	5	8	7	8	6.11	6.27	5.64	5.50	5.09	China	21,029	0.2
Veracruz	15	6	7	9	9	2.07	5.99	5.81	4.65	4.43	Philippines	19,272	7.1
Tamaulipas	21	13	16	11	10	1.27	2.69	1.89	2.96	3.52	Pakistan	14,595	6.3
San Luis Potosí	10	12	11	10	11	3.26	2.82	2.95	3.21	3.26	Bangladesh	13,744	8.5
Hidalgo	16	10	10	13	12	1.95	3.89	3.36	2.89	3.05	Indonesia	7,415	0.9
Zacatecas	11	17	12	12	13	3.12	2.10	2.73	2.89	2.96	Spain	7,405	0.5
Baja California	23	23	20	14	14	0.85	1.64	1.63	2.65	2.62	Lebanon	6,943	15.4
Nuevo León	22	24	24	19	15	1.05	1.56	1.33	2.10	2.60	Morocco	6,882	6.6
Chihuahua	19	18	17	16	16	1.75	2.05	1.87	2.29	2.34	Sri Lanka	6,407	9.6
Morelos	9	11	14	15	17	3.56	2.82	2.60	2.32	2.23	Nepal	5,367	27.9
Sinaloa	13	14	15	18	18	2.99	2.62	2.21	2.20	2.19	Guatemala	5,265	9.8
Chiapas	27	15	13	17	19	0.54	2.51	2.70	2.27	2.12	Dominican Republic	4,262	7.0
Durango	14	16	18	20	20	2.08	2.11	1.78	2.08	2.08	Colombia	4,134	1.1
Querétaro	17	20	19	21	21	1.93	1.79	1.66	1.87	1.68	Portugal	4,009	1.8
Coahuila	18	21	26	24	22	1.84	1.69	1.10	1.44	1.66	El Salvador	3,954	16.3
Nayarit	20	19	21	23	23	1.57	1.91	1.58	1.44	1.53	Thailand	3,824	1.0
Sonora	24	22	23	22	24	0.76	1.67	1.37	1.48	1.43	Poland	3,609	0.7
Aguascalientes	12	25	22	25	25	3.11	1.24	1.38	1.39	1.37	Jordan	3,278	9.7
Tlaxcala	26	27	25	26	26	0.60	0.75	1.21	1.00	0.93	Honduras	3,121	16.9
Colima	25	26	27	27	27	0.75	1.15	0.81	0.82	0.92	Serbia	2,940	6.9
Tabasco	32	28	29	29	28	0.09	0.70	0.52	0.52	0.55	Romania	2,784	1.5
Yucatán	28	29	28	28	29	0.31	0.42	0.53	0.56	0.55	Peru	2,707	1.3
Quintana Roo	29	30	30	30	30	0.13	0.37	0.41	0.45	0.44	Ecuador	2,450	2.6
Campeche	31	31	31	31	31	0.10	0.28	0.26	0.25	0.24	Kyrgyzstan	2,278	31.5
Baja California Sur	30	32	32	32	32	0.12	0.21	0.16	0.20	0.20	Japan	2,240	0.0
											Brazil	1,944	0.1
Total						100.00	100.00	100.00	100.00	100.00			

p/ Preliminary figures.
Source: Prepared with data from IMF Balance of Payments Division. In case of Mexico the source is Banco de México.

Table A 65
Foreign Investment in Government Securities
End of period outstanding stocks at face value
USD billion

		CETES		BONDES		UDIBONOS		IPAB bonds 1/		Bonds		Total	
		Stock	%	Stock	%	Stock	%	Stock	%	Stock	%	Stock	%
2001		0.7	37.0	*	0.9	*	2.5	0.1	7.2	0.9	52.4	1.8	100.0
2002		0.3	17.4	0.1	3.3	*	0.2	0.1	8.2	1.1	70.9	1.6	100.0
2003		0.4	18.0	0.5	21.9	*	0.4	*	2.1	1.2	57.5	2.1	100.0
2004		0.6	9.1	*	0.3	*	0.7	0.2	2.7	6.1	87.2	7.0	100.0
2005		0.3	3.2	0.2	2.3	0.3	2.6	0.5	4.7	8.8	87.2	10.1	100.0
2006		0.6	4.7	*	0.0	0.4	3.3	0.6	5.1	10.8	86.9	12.4	100.0
2007		0.9	4.3	*	0.0	0.5	2.4	0.1	0.5	18.8	92.8	20.2	100.0
2008		1.3	6.4	0.0	0.0	0.7	3.3	0.1	0.5	17.9	89.8	20.0	100.0
2009		0.9	3.7	0.0	0.0	0.9	3.9	*	0.2	22.1	92.2	24.0	100.0
2010		8.1	16.8	0.0	0.0	2.0	4.1	0.8	1.7	37.5	77.4	48.4	100.0
2011		15.6	22.3	0.0	0.0	3.0	4.3	0.6	0.9	50.7	72.6	69.8	100.0
2012		38.4	31.7	0.0	0.0	6.9	5.7	0.4	0.3	75.4	62.3	121.2	100.0
2013		45.8	32.6	0.0	0.0	6.7	4.8	0.4	0.3	87.3	62.3	140.3	100.0
2014		42.5	29.5	0.0	0.0	8.4	5.8	0.2	0.1	92.8	64.5	143.9	100.0
2011	Jan	12.2	22.7	0.0	0.0	2.2	4.0	0.3	0.6	38.9	72.7	53.5	100.0
	Feb	14.1	24.4	0.0	0.0	2.6	4.5	0.3	0.5	40.8	70.6	57.7	100.0
	Mar	15.4	25.4	0.0	0.0	2.8	4.6	0.3	0.5	42.3	69.5	60.8	100.0
	Apr	14.8	22.5	0.0	0.0	3.0	4.6	0.3	0.5	47.7	72.5	65.8	100.0
	May	15.2	21.9	0.0	0.0	2.9	4.1	0.3	0.5	51.2	73.5	69.5	100.0
	Jun	14.6	21.6	0.0	0.0	3.0	4.5	0.4	0.5	49.7	73.4	67.7	100.0
	Jul	16.4	22.0	0.0	0.0	2.7	3.7	1.3	1.8	54.1	72.6	74.5	100.0
	Aug	16.2	22.0	0.0	0.0	2.8	3.8	0.4	0.5	54.1	73.7	73.5	100.0
	Sep	11.8	18.7	0.0	0.0	2.6	4.1	0.4	0.6	48.5	76.7	63.2	100.0
	Oct	12.3	18.2	0.0	0.0	2.8	4.2	0.5	0.8	52.2	76.9	67.9	100.0
	Nov	12.4	18.4	0.0	0.0	2.8	4.2	0.3	0.4	51.7	76.9	67.2	100.0
	Dec	15.6	22.3	0.0	0.0	3.0	4.3	0.6	0.9	50.7	72.6	69.8	100.0
2012	Jan	19.4	24.1	0.0	0.0	4.0	4.9	0.4	0.5	56.7	70.5	80.4	100.0
	Feb	24.4	28.2	0.0	0.0	4.4	5.0	0.4	0.4	57.3	66.3	86.3	100.0
	Mar	25.3	28.2	0.0	0.0	5.1	5.7	0.3	0.3	59.0	65.8	89.7	100.0
	Apr	26.4	28.7	0.0	0.0	6.2	6.7	0.4	0.4	59.1	64.2	92.1	100.0
	May	21.7	26.0	0.0	0.0	5.6	6.7	0.3	0.4	55.7	66.9	83.3	100.0
	Jun	23.9	26.3	0.0	0.0	5.8	6.4	0.3	0.3	61.1	67.0	91.1	100.0
	Jul	26.9	27.6	0.0	0.0	5.5	5.7	0.3	0.3	64.7	66.4	97.4	100.0
	Aug	29.7	29.5	0.0	0.0	5.6	5.6	0.3	0.3	65.1	64.6	100.8	100.0
	Sep	29.6	27.4	0.0	0.0	6.2	5.7	0.3	0.2	72.1	66.7	108.1	100.0
	Oct	28.7	26.4	0.0	0.0	6.5	5.9	0.3	0.3	73.4	67.4	109.0	100.0
	Nov	29.2	25.7	0.0	0.0	6.6	5.8	0.3	0.3	77.8	68.3	114.0	100.0
	Dec	38.4	31.7	0.0	0.0	6.9	5.7	0.4	0.3	75.4	62.3	121.2	100.0
2013	Jan	39.2	30.9	0.0	0.0	7.5	5.9	0.4	0.3	80.0	62.9	127.1	100.0
	Feb	37.6	29.5	0.0	0.0	8.3	6.5	0.3	0.3	81.5	63.8	127.7	100.0
	Mar	38.8	28.4	0.0	0.0	9.6	7.1	0.5	0.4	87.5	64.2	136.4	100.0
	Apr	36.7	26.0	0.0	0.0	10.4	7.4	0.7	0.5	93.1	66.1	141.0	100.0
	May	36.3	26.8	0.0	0.0	9.6	7.1	0.7	0.5	88.6	65.6	135.2	100.0
	Jun	38.2	29.3	0.0	0.0	8.6	6.6	0.5	0.4	82.9	63.7	130.2	100.0
	Jul	38.3	28.9	0.0	0.0	7.8	5.9	0.6	0.5	85.8	64.7	132.6	100.0
	Aug	35.0	27.8	0.0	0.0	6.6	5.3	0.5	0.4	83.8	66.6	125.9	100.0
	Sep	36.8	28.0	0.0	0.0	6.5	4.9	0.5	0.4	88.0	66.7	131.8	100.0
	Oct	34.3	26.0	0.0	0.0	6.9	5.2	0.5	0.4	90.2	68.4	131.9	100.0
	Nov	34.6	25.8	0.0	0.0	7.4	5.5	0.6	0.5	91.3	68.2	134.0	100.0
	Dec	45.8	32.6	0.0	0.0	6.7	4.8	0.4	0.3	87.3	62.3	140.3	100.0
2014	Jan	41.8	30.6	0.0	0.0	6.0	4.4	0.5	0.3	88.1	64.6	136.4	100.0
	Feb	46.8	32.6	0.0	0.0	6.4	4.4	0.5	0.3	90.1	62.7	143.8	100.0
	Mar	45.7	31.5	0.0	0.0	6.8	4.7	0.5	0.3	91.8	63.4	144.8	100.0
	Apr	39.8	28.4	0.0	0.0	7.1	5.1	0.4	0.3	92.8	66.2	140.2	100.0
	May	43.9	29.6	0.0	0.0	6.6	4.5	0.5	0.3	97.3	65.6	148.2	100.0
	Jun	50.0	33.0	0.0	0.0	7.2	4.7	0.4	0.3	94.0	62.0	151.7	100.0
	Jul	48.4	31.7	0.0	0.0	8.1	5.3	0.4	0.3	95.5	62.7	152.4	100.0
	Aug	45.1	29.9	0.0	0.0	8.6	5.7	0.4	0.3	96.6	64.1	150.7	100.0
	Sep	43.9	29.6	0.0	0.0	8.7	5.9	0.4	0.3	95.3	64.3	148.3	100.0
	Oct	42.6	28.7	0.0	0.0	8.6	5.8	0.3	0.2	97.1	65.3	148.6	100.0
	Nov	46.3	30.3	0.0	0.0	8.8	5.7	0.2	0.2	97.5	63.8	152.8	100.0
	Dec	42.5	29.5	0.0	0.0	8.4	5.8	0.2	0.1	92.8	64.5	143.9	100.0

1/ Includes Bondes D.
*/ Less than USD 50 million.

Table A 66
Gross External Debt Position
By residence criteria 1/
End of period outstanding stocks

Item	USD million			Percent of GDP		
	2013	2014 p/	Difference	2013	2014 p/	Difference
TOTAL (I + II + III + IV)	254,747.2	279,860.6	25,113.4	19.87	23.16	3.29
TOTAL ADJUSTED (I + II +III + IV + V)	391,540.0	420,499.6	28,959.6	30.54	34.80	4.27
PUBLIC SECTOR (I + 3.3 + 4.2.1)	134,435.9	147,665.8	13,229.9	10.49	12.22	1.74
I. Federal Government 2/	72,180.4	78,573.4	6,393.0	5.63	6.50	0.87
II. Monetary authority	0.0	0.0	0.0	0.00	0.00	0.00
III. Banking sector	26,528.1	29,027.1	2,499.0	2.07	2.40	0.33
3.1 Commercial banks 3/	16,544.1	17,845.7	1,301.6	1.29	1.48	0.19
3.2 Other depositary corporations 4/	1,086.6	1,652.1	565.5	0.08	0.14	0.05
3.3 Development banks 2/	8,897.4	9,529.3	631.9	0.69	0.79	0.09
IV. Other sectors	156,038.7	172,260.1	16,221.4	12.17	14.26	2.09
4.1 Non-bank financial corporations 5/	0.0	0.0	0.0	0.00	0.00	0.00
4.2 Non-financial enterprises	156,038.7	172,260.1	16,221.4	12.17	14.26	2.09
4.2.1 Public enterprises and entities 2/	53,358.1	59,563.1	6,205.0	4.16	4.93	0.77
4.2.2 Private sector 6/	102,680.6	112,697.0	10,016.4	8.01	9.33	1.32
4.2.3 IPAB 7/	0.0	0.0	0.0	0.00	0.00	0.00
V. Ajustments (5.1-5.2+5.3+5.4+5.5)	136,792.8	140,639.0	3,846.2	10.67	11.64	0.97
5.1 Non-residents' holdings of MXN-denominated debt 8/	140,282.2	143,857.7	3,575.5	10.94	11.91	0.97
5.2 Residents' holdins of foreign currency-denominated debt 9/	4,609.5	4,182.8	-426.7	0.36	0.35	-0.01
5.3 Agencies' claims on Mexican residents 10/	1,031.4	887.9	-143.5	0.08	0.07	-0.01
5.4 Pidiregas-Pemex 11/	0.0	0.0	0.0	0.00	0.00	0.00
5.5 Other debt liabilities with non-residents 12/	88.7	76.2	-12.5	0.01	0.01	0.00

p/ Preliminary figures. Calculations based on GDP of the last quarter of the year and end of period FIX exchange rate.
1/ Gross external debt statistics are compiled by Banco de México and the Ministry of Finance (SHCP). In order to comply with IMF's "External Debt Statistics: Guide for Compilers and Users" (2003) and, at the same time, facilitate its comparison with official figures published by the Ministry of Finance (available at www.shcp.gob.mx), both official statistics on Mexico's public external debt and its corresponding adjustments are presented following IMF's Special Data Dissemination Standard (SDDS) for residence criteria.
2/ Public sector data (federal government, development banks and public enterprises and institutions) are classified according to "user" criteria.
3/ Unlike official statistics, the present figures do not include debt with other non-resident entities of Mexican commercial bank agencies' located abroad. The reason for such exclusion is that IMF's "External Debt Statistics: Guide for Compilers and Users (2003)" considers agencies as non-residents. Figures include accrued interests.
4/ Includes financial leasing companies, financial factoring companies, limited purpose financial companies (*Sociedades Financieras de Objeto Limitado*, Sofoles), savings and loan companies, credit unions, and investment funds.
5/ Includes insurance companies, deposit warehouses, brokerage houses and bonding companies. Since official statistics do not include this item, it is reported as zero. However, liabilities of these financial auxiliaries with non-residents are considered in the adjustments section.
6/ Data on short and long-term loans are drawn from Banco de México's Survey "Outstanding Consolidated Claims on Mexico" on foreign creditor banks. Since official statistics for private sector's debt are based on debtor data, figures may not coincide with those published by the Ministry of Finance.
7/ Institute for the Protection of Banks' Savings (*Instituto para la Protección al Ahorro Bancario*, IPAB). Since official statistics do not include this item, it is reported as zero. However, IPAB's liabilities with non-residents are considered in the adjustments section.
8/ Defined as non-residents' holdings of Treasury bills (Cetes), federal government development bonds (Bondes); fixed-rate federal government development bonds (Bonos), federal government bonds denominated in investment units (Udibonos), monetary regulation bonds (BREMs) and savings protection bonds (BPAs and BPATs).
9/ Federal government bonds denominated in foreign currency held by Mexican residents.
10/ Corresponds to Mexican residents' liabilities with Mexican commercial banks' agencies abroad. Includes both agencies' direct loans to Mexican residents and agencies' holdings of bonds issued by Mexican residents.
11/ Pidiregas (*Proyectos de Infraestructura Productiva a Largo Plazo*) is a mechanism used since 1995 to finance strategic long-term investment projects for the oil, gas and energy industries. This item does not include debt related with Pidiregas-CFE because such debt is assumed as part of the private sector. If such assumption were incorrect, the Gross External Debt associated with Pidiregas would be underestimated. In 2009 the Pidiregas model of Pemex was cancelled, after which this firm's investment is funded by own sources or debt, and, therefore, it is registered as budget investment.
12/ Includes deposits of Banco de México, international financial entities and foreign central banks.
Source: Banco de México and Ministry of Finance (SHCP).

Balance Sheet

BANCO DE MÉXICO

BALANCE SHEET AS OF DECEMBER 31, 2014
MXN MILLION

A S S E T S

INTERNATIONAL RESERVES	**$ 2,848,611**
INTERNATIONAL ASSETS	2,884,623
LIABILITIES TO BE DEDUCTED	-36,012
CREDIT GRANTED TO THE FEDERAL GOVERNMENT	**0**
SECURITIES	**17,307**
GOVERNMENT SECURITIES	0
IPAB SECURITIES	17,307
CREDIT GRANTED TO FINANCIAL INTERMEDIARIES AND DEBTORS FROM REPO OPERATIONS	**222,705**
PARTICIPATION IN INTERNATIONAL FINANCIAL INSTITUTIONS	**10,834**
FIXED ASSETS, FURNISHINGS AND EQUIPMENT	**3,473**
OTHER ASSETS	**12,486**
TOTAL ASSETS	**$ 3,115,416**

LIABILITIES AND EQUITY

MONETARY BASE	**$ 1,062,893**
BANKNOTES AND COINS IN CIRCULATION	1,062,892
BANK DEPOSITS IN CURRENT ACCOUNT	1
FEDERAL GOVERNMENT CURRENT ACCOUNT DEPOSITS	**268,814**
OTHER FEDERAL GOVERNMENT DEPOSITS	**48,365**
MONETARY REGULATION LIABILITIES	**1,534,126**
MONETARY REGULATION DEPOSITS	1,479,121
GOVERNMENT SECURITIES	1,214,128
BANKS	264,993
MONETARY REGULATION BONDS	55,005
OTHER DEPOSITS FROM BANKS AND CREDITORS FROM REPO OPERATIONS	0
INTERNATIONAL MONETARY FUND	**0**
SPECIAL DRAWING RIGHTS	**60,894**
OTHER LIABILITIES	**68,626**
TOTAL LIABILITIES	**3,043,718**
CAPITAL	**8,603**
CAPITAL RESERVES	**31,646**
LOSSES FROM PREVIOUS FISCAL YEARS	**0**
FISCAL YEAR'S OPERATIONAL SURPLUS	**31,449**
TOTAL EQUITY	**71,698**
TOTAL LIABILITIES AND EQUITY	**$ 3,115,416**

MEMORANDUM ACCOUNTS $23,359,434

The present Balance Sheet was prepared according to the rules and requirements set in the Law governing Banco de México and Banco de México's Internal Bylaw, following the Financial Reporting Standards of Banco de México, that have the favorable opinion of the Mexican Financial Reporting Standards Board, regarding its complete convergence with the national Financial Reporting Standards, except for the cases in which Banco de México's Internal law dictates a different course of action. In compliance with Article 38 of the referred Bylaw, international reserves are defined as stated in Article 19 of the Law governing Banco de Mexico; government securities are presented as net holdings after deducting monetary regulation deposits, excluding any securities purchased or transmitted via repo operations, and if there is a creditor position, it is listed under line item Monetary Regulation Deposits; IPAB securities correspond to instruments from the Bank Savings' Protection Institute (*Instituto para la Protección al Ahorro Bancario*, IPAB) acquired by Banco de México; credit granted to financial intermediaries and debtors via repo operations includes commercial banks, development banks and repo operations. The Accounts balance in foreign currency were valued at the daily exchange rate.

DRA. LORENZA MARTÍNEZ TRIGUEROS
PAYMENT SYSTEMS AND CORPORATE SERVICES DIRECTOR GENERAL

DR. AGUSTÍN GUILLERMO CARSTENS CARSTENS
GOVERNOR

C.P.C. JUAN MANUEL SÁNCHEZ RAMÍREZ
ACCOUNTING AND BUDGET DIRECTOR

BANCO DE MÉXICO

April 2015

www.banxico.org.mx