

IMPACT OF THE RECENT RAINFALLS ON THE ECONOMY

- **Hurricanes ‘Ingrid’ and ‘Manuel’ will not affect in any way the public deficit goals set for this year or the next one.**
- **The estimated effects on economic activity and inflation are moderate. Economic growth is expected to decrease by 0.1 percentage points in 2013, while a maximum increase of 0.15 percentage points in inflation is estimated for year’s end.**

The Ministry of Finance and Public Credit reiterates its solidarity with the Mexican families that were affected by the strong rainfalls recently observed in our country.

In order to provide greater certainty on the evolution of the economy and the public finances, and continuing with the commitment to establish an open communication strategy, the Ministry of Finance and Public Credit announces its preliminary estimations of the impact that the recent hydrometeorological phenomena will have on the economy's performance.

Impact on public finances and the public balance

The evaluation of damages and the quantification of costs associated with the process of reconstruction are still in progress. However, these costs will be covered in a timely manner with readily available resources and the reallocation of some expenditure concepts, without altering the public balance that was proposed for this year, as well as the one proposed for next year in the Economic Program for 2014.

The Natural Disaster Fund (FONDEN, due to its acronym in Spanish) has an immediate availability of resources worth Ps. 12,507.9 million to deal with the contingency, an amount that includes the exercise of the catastrophic risk insurance of the FONDEN. Moreover, Federal Entities have been exhorted to use the Ps. 5 billion from the Paving Fund, which is part of the Growth Acceleration Program, primarily for reconstruction. Likewise, once a more thorough evaluation of the damages is available, the Government will work together with the Lower Chamber of Congress to make the necessary adjustments to the Federal Government's Expenditures Budget for 2014, in order to determine the reallocation of resources associated to reconstruction.

Impact on economic activity

Considering the effect of rainfalls and floods on the national production capacity, the net effect on the annual growth rate of GDP is estimated as a decrease of 0.1 percentage points. This would mean that within the estimations that correspond to the main scenario of the Ministry, the annual growth rate of GDP would decrease from 1.8 percent to 1.7 percent. This estimation considers a negative effect on growth in the third quarter, which will be partially offset in the fourth quarter by the positive effects of the economic activity that will be associated to the reconstruction efforts.

Impact on the general price level

The effect on the general price level is expected to be limited and temporary, with an increase of no more than 15 basis points in annual inflation. Therefore, inflation at the end of 2013 would be 3.60 percent instead of 3.45 percent. The estimated effect is a result of foreseeable temporary increases on the prices of some agricultural products whose crops were damaged by the severe rainfalls.

The Ministry of Finance and Public Credit reiterates its commitment to continue working to support the recovery of living conditions in affected areas.
