

## MINISTRY OF FINANCE

May 2, 2003

# Quarterly Report on Public Finances and Public Debt First Quarter of 2003

- In spite of the uncertainty that prevailed in the international scenario during the first quarter of the year, the Mexican economy preserved its stability and expanded in real annual terms.
- Both the overall public sector balance and the primary balance registered a surplus at the end of the first three months of the year.
- During the first quarter of the year the Federal Government implemented important liability management operations in the international capital markets aimed at improving the financial conditions of the public sector debt.

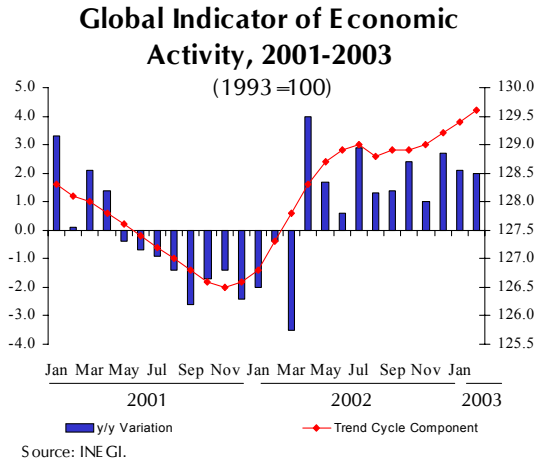
### 1. Macroeconomic Update

#### 1.1. *Economic Activity*

- During the first quarter of 2003 the global economy was clouded by increased uncertainty due to geopolitical risks.
- The US economy showed new signs of weakness, growth in the Euro Zone continued to be below potential, the recovery of the Japanese economy remained fragile, and international oil prices reached levels not observed since October 1990.
- Despite this complex international scenario, the Mexican economy continued to grow in real terms during the first quarter of the year. If current

macroeconomic trends continue, the Mexican economy is expected to grow at a real annual rate of 2.7 percent during the first quarter of 2003.

- During the first two months of the year the Global Indicator of Economic Activity (IGAE) posted a real annual expansion of 2.0 percent. In particular, production in the services sector increased 3.0 percent in real annual terms, while the construction sector, and the electricity, gas and water sector expanded at real annual rates of 4.3 and 2.5 percent, respectively.



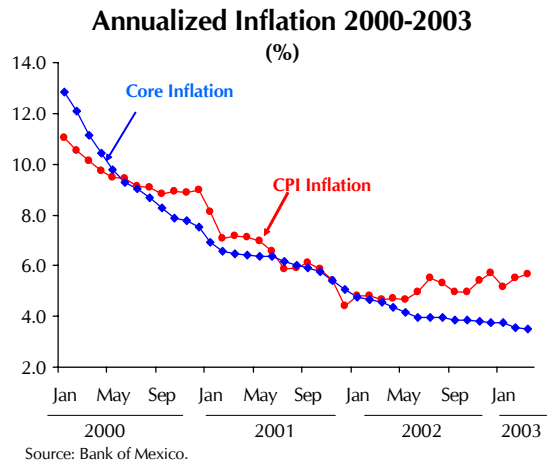
- By contrast, the rate of growth of the economic sectors closely linked to the external markets, especially in the *maquiladora* and automotive industries, remained weak. In particular, industrial production grew at a moderate real annual rate of 0.8 percent during the first two months of the year.
- The labor markets reflected the sluggishness of the industrial sector and investment demand. Nonetheless, it is worth noting that the seasonal job declines registered during the first quarter were more moderate than in previous years.
- In this context, at the end of March 2003 the number of employees registered with the Mexican Social Security Institute (IMSS), a measure of formal employment, was 77,931 workers higher than at the end of March 2002.

### 1.2. Inflation and interest rates

- The inflation rate, as measured by the change in the CPI, showed a moderate downward trend during the first three months of the year. The accumulated change in the CPI in the quarter stood at 1.32 percent, 0.05 percentage points lower than that registered in the first

quarter of 2002. As a result, the annual inflation rate stood at 5.64 percent at the end of March 2003.

- Core inflation, which measures inflationary pressures over the medium term more accurately, posted a more pronounced declining trend. In particular, core prices recorded a cumulative increase of 1.43 percent at the end of March 2003, 0.24 percentage points lower than in the first three months of 2002. Similarly, annual core inflation stood at 3.53 percent at the end of the quarter.

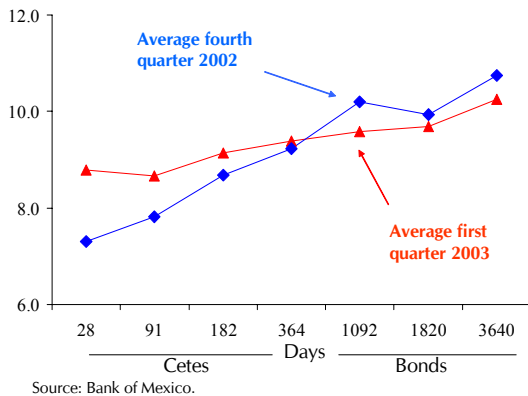


- Wage revisions continued to moderate in accordance with expected inflation and productivity increases. In particular, contractual salaries under federal jurisdiction increased on average by 5.1 percent in nominal terms during the first quarter of the year, 0.7 percentage points lower than at the end of 2002.
- Employee compensation in manufacturing and in the *maquiladora* sectors increased 0.8 and 1.1 percent in real annual terms, respectively, during the period January-February 2003. In the retail and wholesale sectors, real compensation grew at annual rates of 5.9 and 5.8 percent,

respectively during the first two months of 2003.

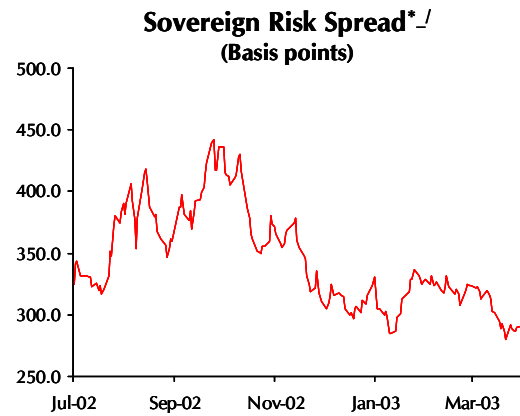
- During the first quarter of the year, domestic financial markets reflected the increased uncertainty in international markets and the lackluster evolution of the global economy.
- In this context, the 28-day CETES primary interest rate averaged 8.78 percent during the first three months of the year, 147 basis points higher than in the fourth quarter of 2002. Nevertheless, the yield curve flattened as the average medium and long-term interest rates declined with respect to the previous quarter.

**Primary Interest Rate Average**



- The Mexican Stock Index (IPyC) decreased 3.48 percent during the period January-March 2003.
- The peso-dollar exchange rate registered a depreciation of 3.51 percent in the first quarter of 2003, reflecting the weakness of the US dollar vis-a-vis the euro.
- It is worth emphasizing that in spite of this complex international environment, the perception of Mexico's country-risk compared favorably with previous months, as reflected by the decrease of sovereign spreads from 331 basis points in

December 2002 to 291 basis points in March 2003.



\* / Measured by the EMBI+ subindex elaborated by JP Morgan.  
Source: JP Morgan.

### 1.3. External Sector

- The trade deficit for the period January-March 2003 amounted to US 377.1 million, 76.8 percent lower than the deficit recorded in the same period of 2001 and the lowest since the third quarter of 1997. For the first time since June 1997, the monthly trade balance registered a surplus in February 2003.
- During the first quarter of the year, total exports registered an annual growth rate of 7.5 percent. Within exports, oil-related exports increased 79.3 percent, while manufacturing exports increased at an annual rate of 1.0 percent.
- Total imports increased at an annual rate of 3.9 percent during the first quarter of the year. Imports of intermediate goods grew at an annual rate of 3.9 percent, while imports of consumption goods increased 14.7 percent with respect to the same period of 2002. By contrast, imports of capital goods declined 5.5 percent with respect to the first three months of 2002.

**Trade Balance, 2002-2003** Millions of dollars

	January- March		Difference (a-b)	Annual % (a/b)
	2002 (b)	2003 (a)		
Total Exports	36,496	39,225	2,729	7.5
Oil	2,747	4,925	2,178	79.3
Non-oil	33,749	34,299	551	1.6
Agricultural	1,241	1,460	219	17.6
Mining	92	106	14	15.1
Manufacturing	32,415	32,734	319	1.0
Maquiladora	17,901	17,896	-5	0.0
Others	14,514	14,838	324	2.2
Total Imports	38,122	39,602	1,480	3.9
Consumption Goods	4,366	5,006	640	14.7
Intermediate Goods	28,834	29,945	1,111	3.9
Maquiladora	13,356	13,331	-25	-0.2
Others	15,477	16,613	1,136	7.3
Capital Goods	4,922	4,651	-271	-5.5
Trade Balance	-1,626	-377	1,249	-76.8
Maquiladora	4,545	4,565	20	0.4
Others	-6,171	-4,942	1,229	-19.9
Non-oil	-4,373	-5,302	-929	21.2

Source: Bank of Mexico.

**Budgetary Revenues, January-March** Millions of pesos

	Programmed	Observed <sup>p,1</sup>	Difference
Total (I+II)	381,806.6	401,165.3	19,358.7
I. Oil related	115,461.4	120,445.6	4,984.2
a) PEMEX	25,352.3	30,416.7	5,064.4
b) Federal Government	90,109.1	90,028.9	-80.1
Royalties and fees	63,374.6	65,472.6	2,098.0
Uses	26,734.5	24,556.3	-2,178.2
II. Non oil related	266,345.3	280,719.7	14,374.4
c) Federal Government	204,233.5	216,950.8	12,717.2
Tax	185,727.1	186,864.0	1,136.9
Income tax	104,298.2	98,479.1	-5,819.1
VAT	58,687.2	63,655.5	4,968.3
Excise taxes	6,299.0	7,495.8	1,196.8
Import taxes	5,718.1	6,295.0	576.9
Others <sup>1,2</sup>	10,724.6	10,938.6	214.0
Non-tax	18,506.4	30,086.7	11,580.3
Royalties	2,928.9	4,901.4	1,972.5
Uses	14,451.2	23,570.3	9,119.1
Others	1,126.3	1,615.0	488.7
d) PEDBC <sup>2,1</sup>	62,111.8	63,768.9	1,657.2
Memorandum items:			
Total tax	212,461.6	211,420.4	-1,041.2
Total non.-tax	169,345.1	189,744.9	20,399.8

Note: Figures may not add up due to rounding.

p / Preliminary figures.

1 / Includes new vehicle, vehicle ownership, luxury goods and services and accessory taxes.

2 / Public entities under direct budgetary control. Excludes Federal Government transfers to the ISSSTE.

Source: Ministry of Finance and Public Credit.

## 2. Public Finances

- During the first quarter of 2003 the public sector overall balance registered a surplus of 27.2 billion pesos, contrasting with the deficit recorded in the same period of 2002 (see Annex A).
- The public sector primary balance, defined as total public sector revenues less expenditures other than interest payments on public debt, registered a surplus of 84.3 billion pesos during the first three months of the year, 103.1 percent higher in real terms than in the same period of 2002.

### 2.1. Public sector revenues

- During the first quarter of 2003, budgetary revenues amounted to 401.2 billion pesos, 21.1 percent higher in real terms as compared to the first three months of 2002. As a result, public sector revenues for the period January –March were 19.4 billion pesos higher than projected in the calendar published in the Official Gazette on January 31, 2003 (see Annex A).

- Oil-related revenues increased 38.6 percent in real annual terms, reflecting favorable developments in the price of the Mexican oil mix in the international markets and the depreciation of the peso vis-à-vis the US dollar. Similarly, non-oil tax revenues increased at a real annual rate of 14.3 percent due mainly to real increases in VAT and income tax collection of 18.7 and 10.8 percent, respectively.

### 2.2. Public sector expenditures

- During the first three months of 2003, public sector expenditure policy was geared towards developing social policies and was consistent with the availability of financial resources, contributing to attaining sustainable economic growth and reducing the public sector deficit.
- Total budgetary expenditures during the period January-March 2003 amounted to 370.4 billion pesos, 10.0

percent higher than in the same period of 2002 (see Annex A).

- Primary expenditures, defined as net budgetary expenditures less interest payments on public sector debt, totaled 319.3 billion pesos during the first quarter of 2003, 9.8 percent higher as compared to the first three months of last year.
- Within primary expenditures, resources directed to states and municipalities through revenue sharing, transfers (Items 25 and 33), decentralized expenditure agreements and Item 39, and the Program to Support the Strengthening of Federal Entities (PAFEF) were 4.9 percent higher in real terms than in the first quarter of 2002.
- Similarly, resources allocated to social programs increased 1.7 percent in real annual terms.
- During the first quarter of the year, public sector financing costs increased 11.2 percent in real annual terms, reflecting both the depreciation of the peso and the increase in domestic interest rates.

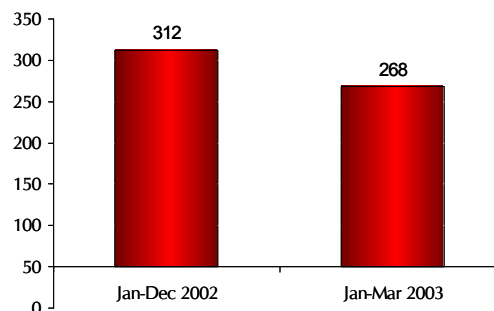
### 3. ***Public Debt***

- At the end of March 2003, Mexico's total net public sector debt amounted to 26.6 percent of GDP, 2.2 percentage points higher than at the end of 2002 (see Annex B).
- This increase reflects a rise of 1.6 percentage points in the external debt-GDP ratio due primarily to the depreciation of the peso with respect to the US dollar and the global bond issues that took place during the first quarter of the year. However, it is worth emphasizing that these transactions are part of the overall financing policy for the year and are consistent with the zero net external

indebtedness ceiling approved by Congress for 2003.

- During the first quarter of the year, net domestic debt increased 0.6 percentage points of GDP because, as in previous years, the Government will meet its financing needs through domestic bond offerings in accordance with the Revenue Law approved by Congress for the Fiscal year 2003.
- The following significant external debt transactions took place during the first quarter of the year:
  - On January, the Federal Government issued US 2.0 billion of 10-year global bonds.
  - On March, the Federal Government issued US 1.0 billion of 12-year global bonds that included Collective Action Clauses (CAC). The inclusion of CAC increases the degree of certainty in the relationship between the sovereign debt issuer and investors in the unlikely event of a sovereign debt restructuring process.
- The weighted cost of these issues was 44 basis points lower than the weighted cost of the issues registered in 2002.

**Weighted Cost of Newly Issued External Debt\*<sup>1</sup>**  
(Basis points)



\* / Spread over US Treasuries.  
Source: Ministry of Finance and Public Credit.

- Regarding domestic debt policy, the structure of public debt auctions adopted by the Federal Government continued to be in favor of peso-denominated bonds that bear interest at fixed nominal interest rates. With the placement of these bonds, the Federal Government seeks to increase the average maturity of its internal debt, improve its maturity profile, reduce the vulnerability of public sector finances to temporary interest rate movements and develop a benchmark for private sector long-term debt issues.
- At the end of March 2003, net external public sector debt totaled US 78.90 billion, US 2.97 billion higher than the outstanding balance recorded on December 31, 2002. This result was attributable to an increase in net external indebtedness of US 2.15 billion, upward accounting adjustments of US 0.85 billion and an increase in assets of US 0.04 billion.
- Net domestic indebtedness of the Federal Government amounted to 822.6 billion pesos at the end of the first quarter of the year, 1.3 billion pesos higher than at the end of 2002 (821.3 billion pesos).
- At the end of March 2003, the Federal Government recorded a net decrease of 37.3 billion pesos in net domestic borrowings. It is worth noting that the net domestic indebtedness ceiling approved by Congress for 2003 amounts to 99 billion pesos.
- At March 31, 2003 the average maturity of the Federal Government's outstanding bonds was 913 days, 97

days longer than the average maturity recorded at the end of 2002.

### **Concluding Remarks**

- In spite of the uncertainty that prevailed in the international scenario during the first quarter of the year, the Mexican economy preserved its stability and expanded in real annual terms.
- Moreover, domestic financial markets absorbed in an orderly manner the increased volatility in international capital markets and the perception of Mexico's country-risk improved with respect to the previous quarter.
- Public finance results for the first quarter of the year are consistent with the overall deficit equivalent to 0.50 percent of GDP approved by Congress for 2003.
- The Federal Government reaffirms its commitment towards fiscal discipline and reiterates its pledge to promote a domestic environment of economic and financial stability.

For more details on public finance and public debt statistics, please refer to the Ministry of Finance's web page:

<http://hacienda.gob.mx/english/index.html>

## Annex A. Public Finances

### Public Sector Overall Balance

Millions of pesos

	January-March		Real % growth	Composition %	
	2002	2003 <sup>p_/</sup>		2002	2003 <sup>p_/</sup>
<b>Overall Public Balance (I+II)</b>	<b>-6,394.7</b>	<b>27,247.2</b>	<b>n.a.</b>		
<b>I. Budgetary Balance (a-b)</b>	<b>-5,025.0</b>	<b>30,783.6</b>	<b>n.a.</b>		
a) Revenues	314,251.5	401,165.3	21.1	100.0	100.0
Oil related	82,392.4	120,445.6	38.6	26.2	30.0
Federal Government	49,167.3	90,028.9	73.7	15.6	22.4
Pemex	33,225.1	30,416.7	-13.2	10.6	7.6
Non-oil related	231,859.1	280,719.7	14.8	73.8	70.0
Federal Government	175,912.8	216,950.8	17.0	56.0	54.1
Tax	155,066.5	186,864.0	14.3	49.3	46.6
Non-tax	20,846.3	30,086.7	36.9	6.6	7.5
PEDBC <sup>1_/</sup>	55,946.3	63,768.9	8.1	17.8	15.9
b) Expenditures	319,276.4	370,381.7	10.0	100.0	100.0
Programmable	210,060.6	241,124.6	8.9	65.8	65.1
Non programmable	109,215.8	129,257.1	12.2	34.2	34.9
<b>II. PEIBC<sup>2_/</sup></b>	<b>-1,369.7</b>	<b>-3,536.4</b>	<b>144.9</b>		
<b>Primary Balance</b>	<b>39,356.4</b>	<b>84,279.5</b>	<b>103.1</b>		

Note: Figures may not add up due to rounding.

1\_/ Public entities under direct budgetary control.

2\_/ Public entities under indirect budgetary control.

p\_/ Preliminary figures.

n.a.: Not applicable.

Source: Ministry of Finance and Public Credit.

## Annex A. Public Finances (cont.)

### Public Sector Revenues

Millions of pesos

	January-March		Real % growth	Composition %	
	2002	2003 <sup>p_/</sup>		2002	2003 <sup>p_/</sup>
Total (I+II)	314,251.5	401,165.3	21.1	100.0	100.0
I. Oil related (a+b)	82,392.4	120,445.6	38.6	26.2	30.0
a) PEMEX	33,225.1	30,416.7	-13.2	10.6	7.6
b) Federal Government	49,167.3	90,028.9	73.7	15.6	22.4
Royalties and fees	17,874.8	65,472.6	247.4	5.7	16.3
Uses	31,292.5	24,556.3	-25.6	10.0	6.1
II. Non-oil related (c+d)	231,859.1	280,719.7	14.8	73.8	70.0
c) Federal Government	175,912.8	216,950.8	17.0	56.0	54.1
Tax	155,066.5	186,864.0	14.3	49.3	46.6
Income tax	84,292.9	98,479.1	10.8	26.8	24.5
VAT	50,844.7	63,655.5	18.7	16.2	15.9
Excise taxes	5,711.9	7,495.8	24.5	1.8	1.9
Import taxes	5,500.4	6,295.0	8.5	1.8	1.6
Others <sup>1_/</sup>	8,716.5	10,938.6	19.0	2.8	2.7
Non-tax	20,846.3	30,086.7	36.9	6.6	7.5
Royalties	4,295.2	4,901.4	8.2	1.4	1.2
Uses	15,590.0	23,570.3	43.4	5.0	5.9
Others	961.1	1,615.0	59.4	0.3	0.4
d) PEDBC <sup>2_/</sup>	55,946.3	63,768.9	8.1	17.8	15.9
Memorandum items:					
Total tax	186,358.9	211,420.4	7.6	71.6	76.5
Total non-tax	127,892.5	189,744.9	40.7	28.4	23.5

Note: Figures may not add up due to rounding.

p\_/ Preliminary figures.

1\_/ Includes new vehicle, vehicle ownership, luxury goods and services and accessory taxes.

2\_/ Public entities under direct budgetary control. Excludes Federal Government transfers to the ISSSTE.

Source: Ministry of Finance and Public Credit.



## Annex A. Public Finances (cont.)

Public Sector Expenditures Millions of pesos

	January-March		Real % growth	Composition %	
	2002	2003 <sup>p_</sup>		2002	2003 <sup>p_</sup>
<b>TOTAL (I+II)</b>	<b>319,276.4</b>	<b>370,381.7</b>	<b>10.0</b>	<b>100.0</b>	<b>100.0</b>
<b>I. Primary Expenditures (a+b)</b>	<b>275,672.5</b>	<b>319,253.0</b>	<b>9.8</b>	<b>86.3</b>	<b>86.2</b>
a) Programmable	210,060.6	241,124.6	8.9	65.8	65.1
b) Non-programmable	65,611.8	78,128.3	12.9	20.6	21.1
<b>II. Financing Costs <sup>1_</sup></b>	<b>43,603.9</b>	<b>51,128.8</b>	<b>11.2</b>	<b>13.7</b>	<b>13.8</b>

Note: Figures may not add up due to rounding.

p\_ / Preliminary figures.

1\_ / Includes interest, commissions, and other public debt expenditures associated with debtor support programs.

Source: Ministry of Finance and Public Credit.

## Annex B. Public Sector Debt

Public Sector External Debt, January-March <sup>\*/</sup>

Millions of dollars

	Outstanding Balance December 2002 <sup>p_</sup>	Originations	Indebtedness Amort.	Net	Fx Adjustments	Outstanding Balance March 2003 <sup>p_</sup>
Net external debt balance	75,934.8					78,900.7
Financial assets abroad <sup>1_</sup>	-2,883.3					-2,923.8
Gross external debt stock	78,818.1	6,896.0	4,743.5	2,152.5	853.9	81,824.5
Term structure	78,818.1	6,896.0	4,743.5	2,152.5	853.9	81,824.5
Long term	76,028.6	4,010.4	3,159.2	851.2	849.1	77,728.9
Short term	2,789.5	2,885.6	1,584.3	1,301.3	4.8	4,095.6
Structure by user	78,818.1	6,896.0	4,743.5	2,152.5	853.9	81,824.5
Federal Government <sup>2_</sup>	57,879.1	3,381.4	1,382.0	1,999.4	538.7	60,417.2
PEDBC <sup>3_</sup>	12,338.3	2,379.0	1,949.8	429.2	348.3	13,115.8
Development banks	8,600.7	1,135.6	1,411.7	-276.1	-33.1	8,291.5
By financing source	78,818.1	6,896.0	4,743.5	2,152.5	853.9	81,824.5
Restructured 1989 – 1990	6,107.8	0.0	36.9	-36.9	17.5	6,088.4
Par bonds (Brady)	5,573.2	0.0	0.0	0.0	17.4	5,590.6
Spanish bank bonds	76.5	0.0	0.0	0.0	0.0	76.5
New money 1990 – 1992	458.1	0.0	36.9	-36.9	0.1	421.3
Non-restructured	4,811.6	1,116.7	2,149.7	-1,033.0	6.5	3,785.1
Bilateral credit	6,259.6	767.5	1,036.5	-269.0	11.2	6,001.8
Publicly placed bonds	42,668.3	3,000.0	856.6	2,143.4	428.3	45,240.0
IFI's	17,542.9	562.1	423.6	138.5	47.0	17,728.4
Supplier credits to public sector entities	9.8	0.0	2.7	-2.7	0.0	7.1
Others <sup>4_</sup>	1,418.1	1,449.7	237.5	1,212.2	343.4	2,973.7

Note: Figures may not add up due to rounding.

\*\_/ Figures subject to revisions.

p\_/ Preliminary figures.

1\_/ Collateral is valued at market prices; includes 18 months worth of interest payments for Brady Bonds and FAFEXT availabilities.

2\_/ Includes debt from item XXIV and FAFEXT.

3\_/ Public entities under direct budgetary control.

4\_/ Refers to PIDIREGAS debt.

Source: Ministry of Finance and Public Credit.

**Annex B. Public Sector Debt (cont.)**Federal Government Domestic Debt, January-March <sup>\*/</sup>

Millions of pesos

	Outstanding Balance December 2002 <sup>p_</sup>	Indebtedness			Adjustments <sup>1_</sup>	Outstanding Balance March 2003 <sup>p_</sup>
		Originations	Amort.	Net		
Net domestic debt balance	821,272.2					822,597.5
Creditor accounts <sup>2_</sup>	-86,135.5					-49,245.0
Gross domestic debt stock	907,407.7	233,961.6	271,233.4	-37,271.8	1,706.6	871,842.5
Government Securities	793,760.7	216,200.5	205,038.9	11,161.6	944.9	805,867.2
Cetes	192,144.5	164,301.0	157,232.2	7,068.8	0.0	199,213.3
Bondes	305,295.6	19,800.0	12,176.8	7,623.2	0.0	312,918.8
Fixed rate bonds	203,669.0	29,180.0	15,194.9	13,985.1	0.0	217,654.1
Udibonos	92,651.6	2,919.5	20,435.0	-17,515.5	944.9	76,081.0
Udibonos udi's	28,722.3	900.0	6,305.3	-5,405.3	0.0	23,317.0
S.A.R.	35,496.2	17,760.7	16,427.1	1,333.6	597.3	37,427.1
Siefores m/n	72.3	0.4	72.8	-72.4	0.7	0.6
Siefores udi's	22.4	0.1	22.3	-22.2	0.0	0.2
Others	78,078.5	0.0	49,694.6	-49,694.6	163.7	28,547.6

Note: Figures may not add up due to rounding.

\*\_/ Figures subject to revisions.

p\_/ Preliminary figures.

1\_/ Refers to adjustments for inflation.

2\_/ Represents the balance, denominated in pesos, of the General Account of the Federal Treasury and deposits in the national banking system since December 2002.

Source: Ministry of Finance and Public Credit.

## Annex C. Public Sector Borrowing Requirements.

Public Sector Borrowing Requirements <sup>p\_/</sup>,  
January-March 2003

Millions of pesos

<b>Total Public Sector</b>	<b>-26,943.4</b>
Non-recurrent revenues	17,336.3
<b>Total Public Sector (I+II)</b>	<b>-9,607.1</b>
<b>I. Non-Financial Public Sector</b>	<b>7,886.2</b>
Federal Government	3,215.5
Budgetary	6,112.5
Budgetary Entries Revisions	-2,897.0
Public Entities	5,659.9
Budgetary	21,134.7
PIDIREGAS	-15,474.8
FARAC	-989.2
<b>II. Financial Public Sector</b>	<b>-17,493.3</b>
Development Banks and Public Funds	-6,123.6
IPAB	-10,047.3
Debtor Support Program	-1,322.4

Notes:

Negative signs(-) indicate a deficit, positive signs (+) indicate a surplus.

p\_/ Preliminary figures.

Source: Ministry of Finance and Public Credit.

## Annex D. Public Finance Indicators Calendar.

Coverage Period	Release Date
April, 2003	May 30, 2003
May, 2003	July 1, 2003
June, 2003	August 4, 2003
July, 2003	September 3, 2003
August, 2003	September 30, 2003
September, 2003	November 4, 2003
October, 2003	December 2, 2003
November, 2003	December 30, 2004
December, 2003	February 4, 2004
January, 2004	March 4, 2004
February, 2004	April 1, 2004
March, 2004	May 4, 2004

Source: Ministry of Finance and Public Credit.