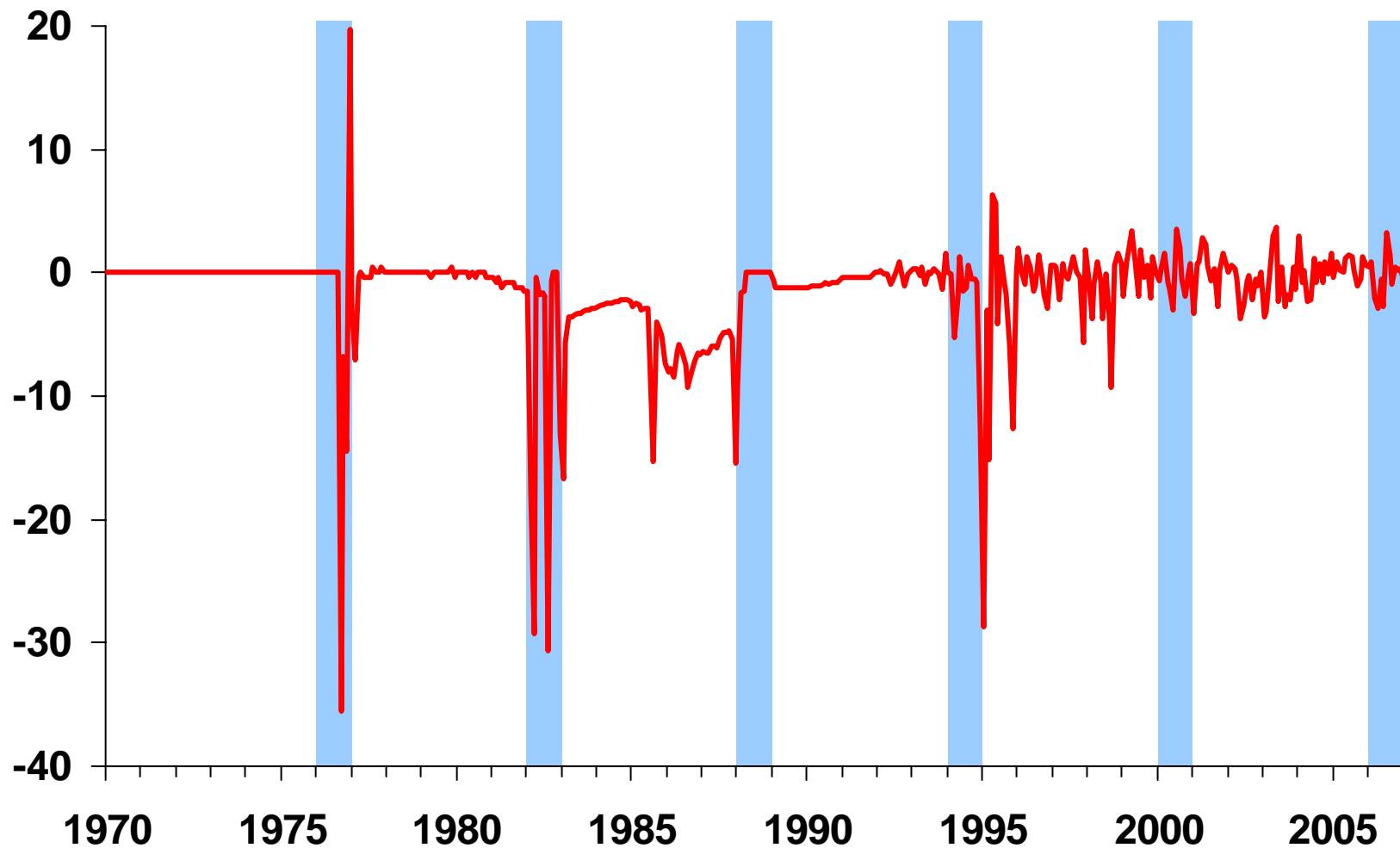


Financial Vulnerability in Mexico: Then and Now



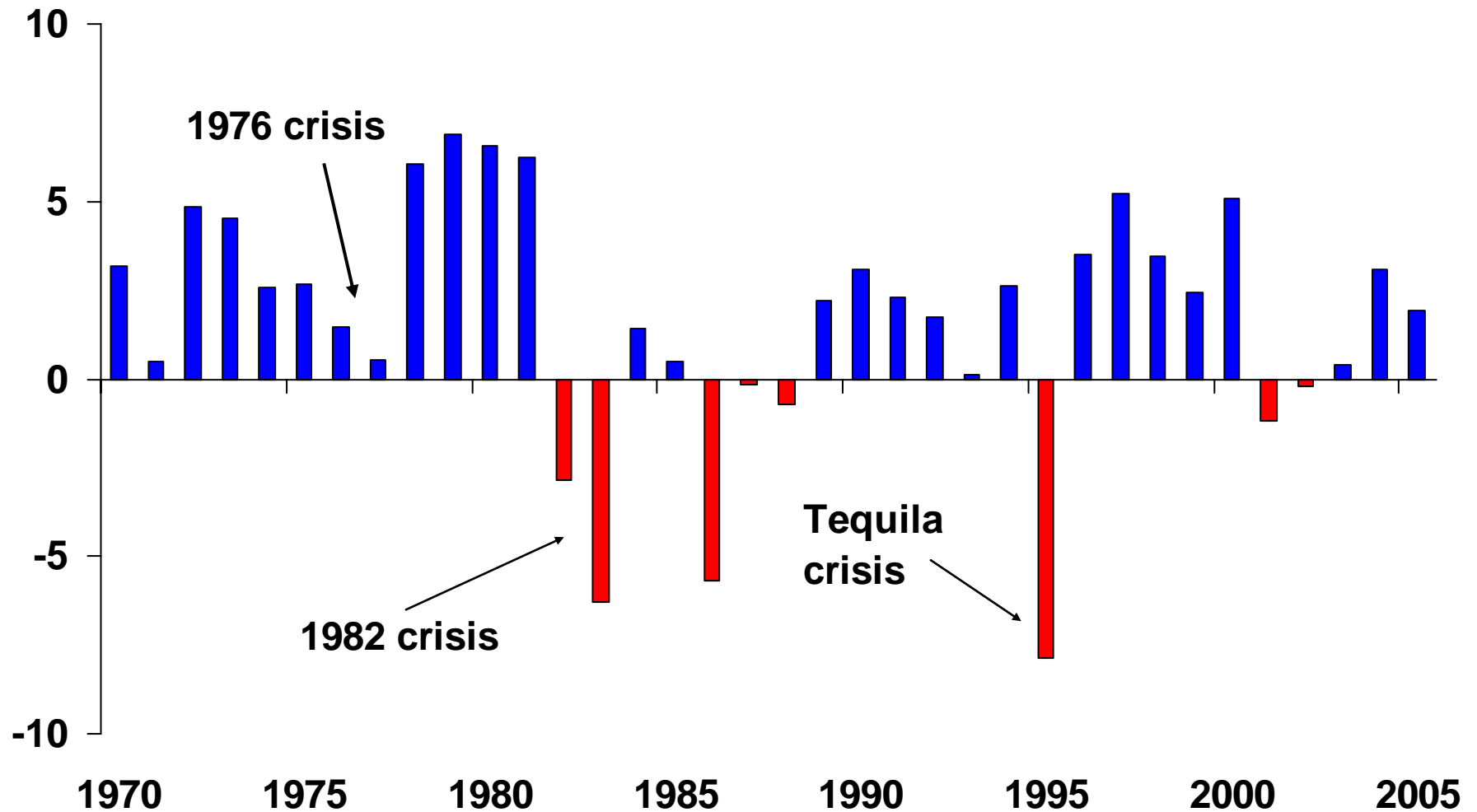
A history of crises

(US\$/peso exchange rate, % change in monthly average)



Crises hurt

(Real GDP per capita growth, percent)

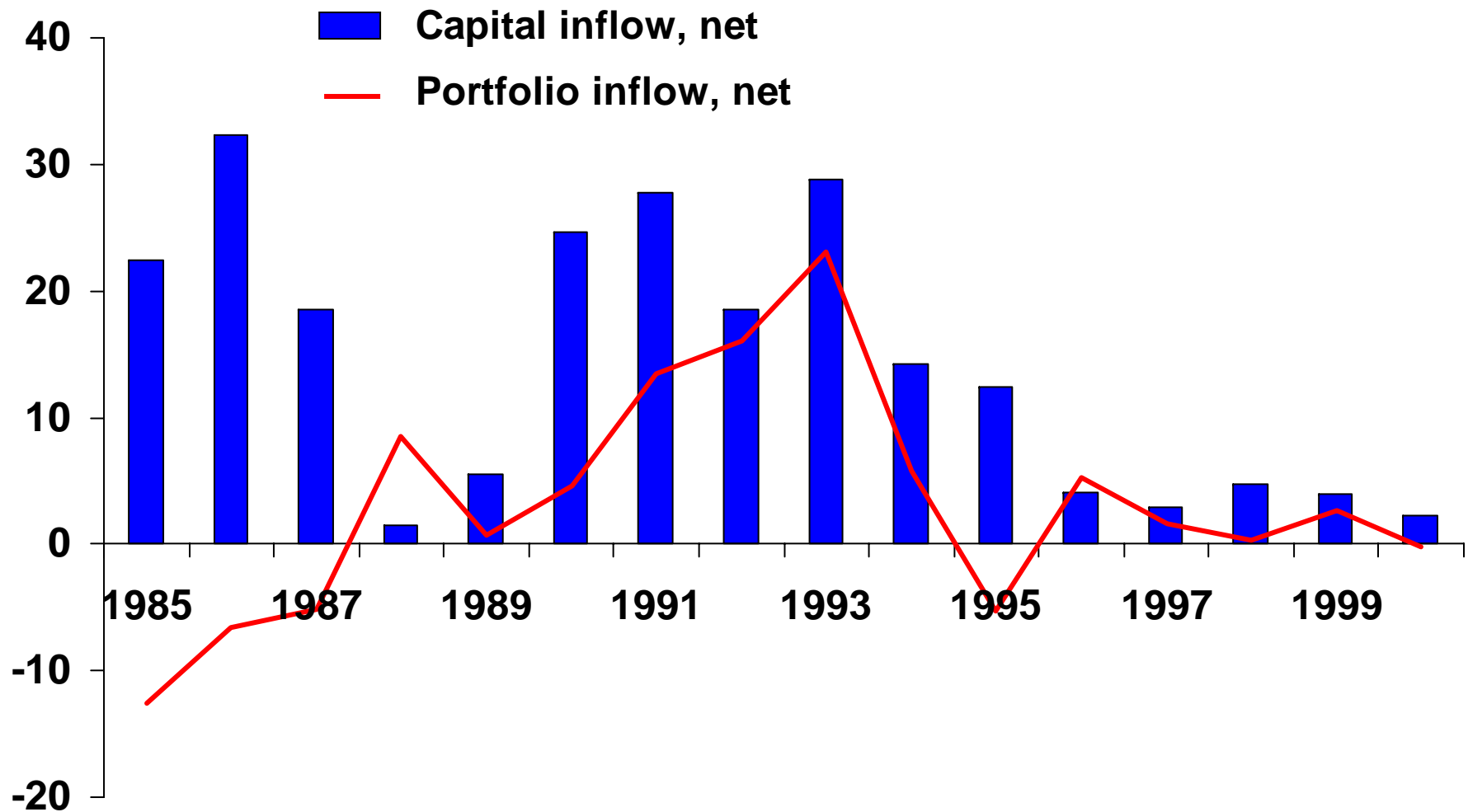


What leads to crises?

- Large capital inflows
- Lots of short-term debt
- Credit boom
- Deterioration of banks' balance sheets
- A fixed-exchange rate

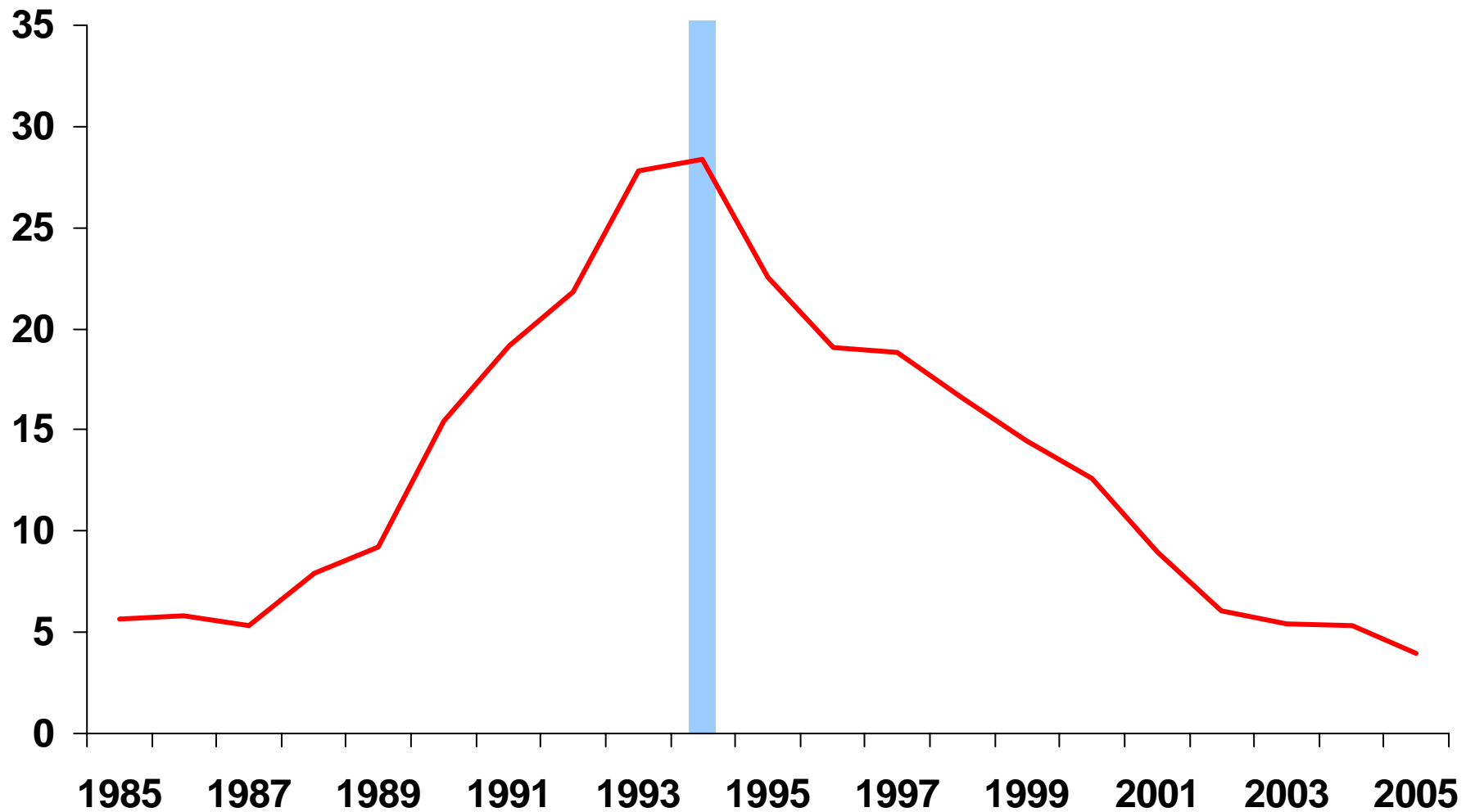
Large capital inflows

(Percent of GDP)

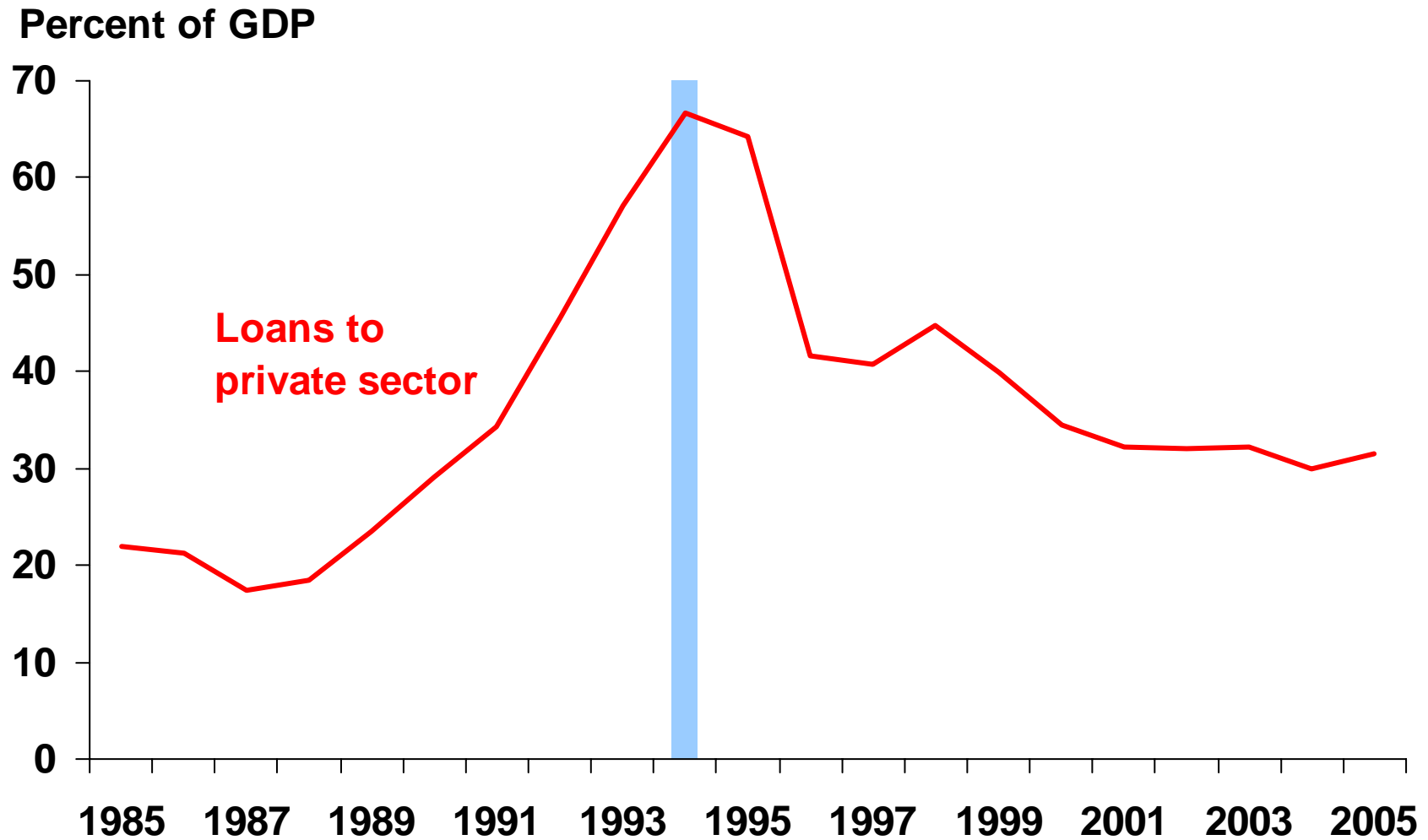


Lots of short term debt

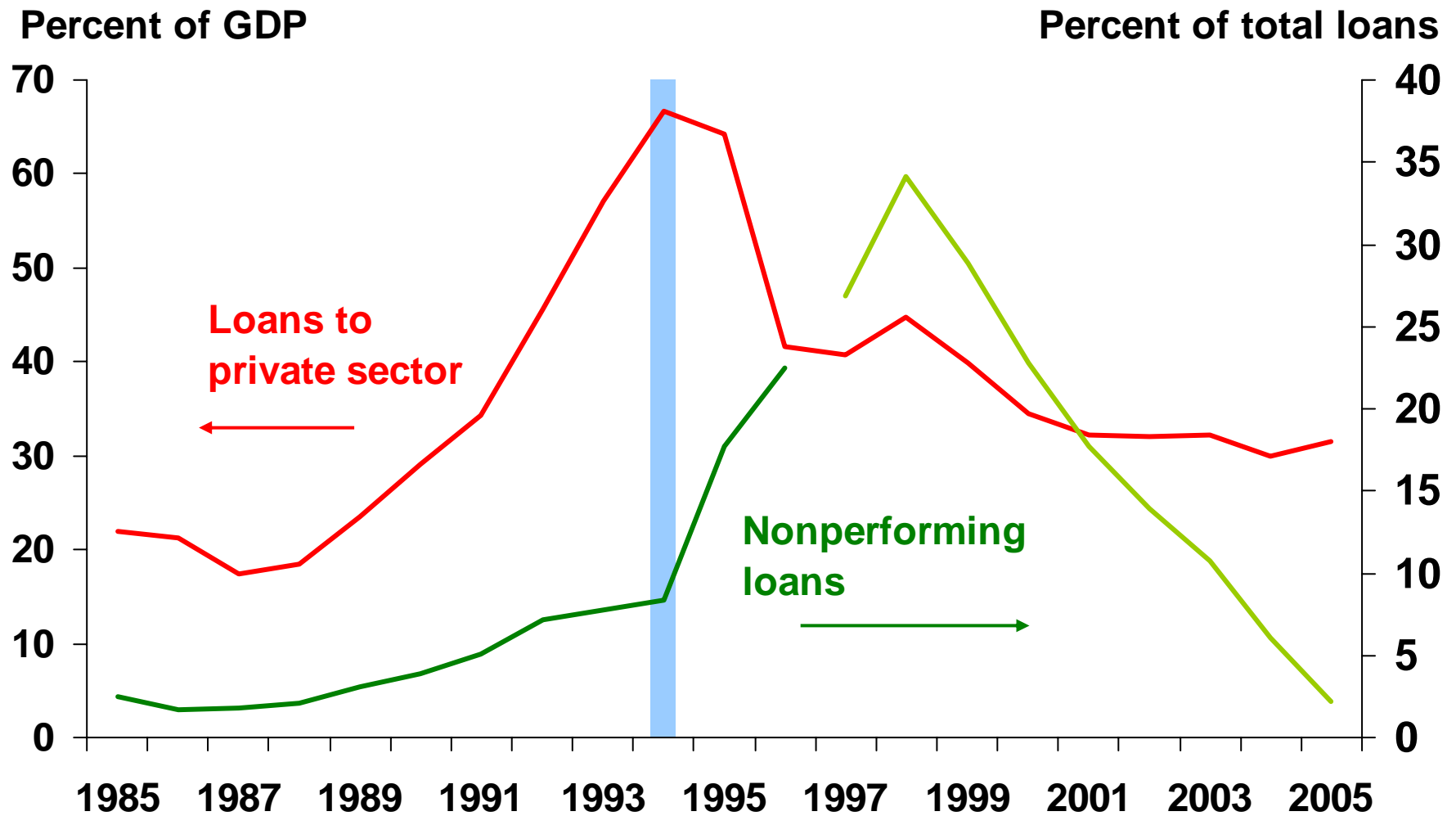
(Percent of total external debt)



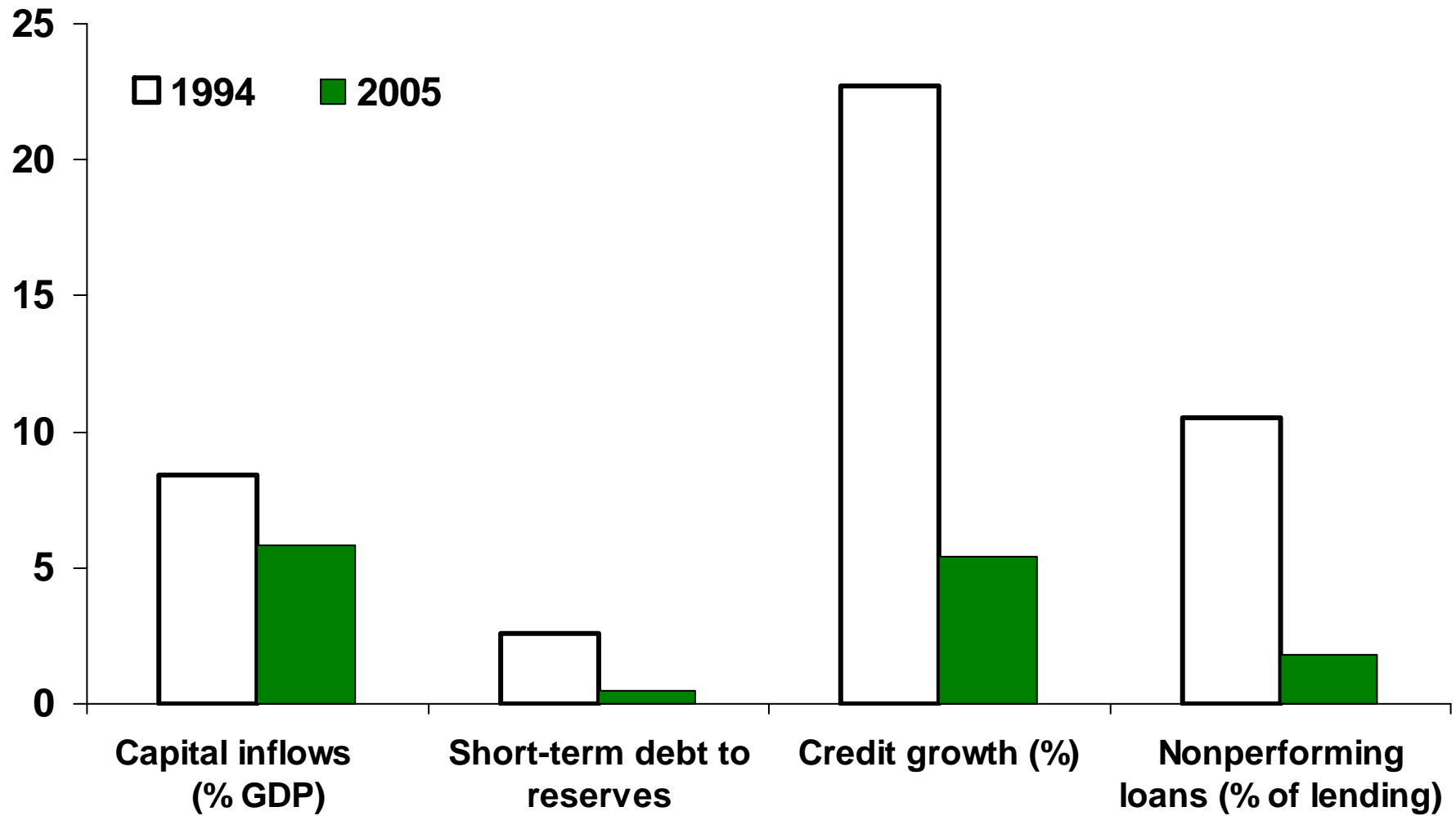
Credit boom



Bad loans pile up

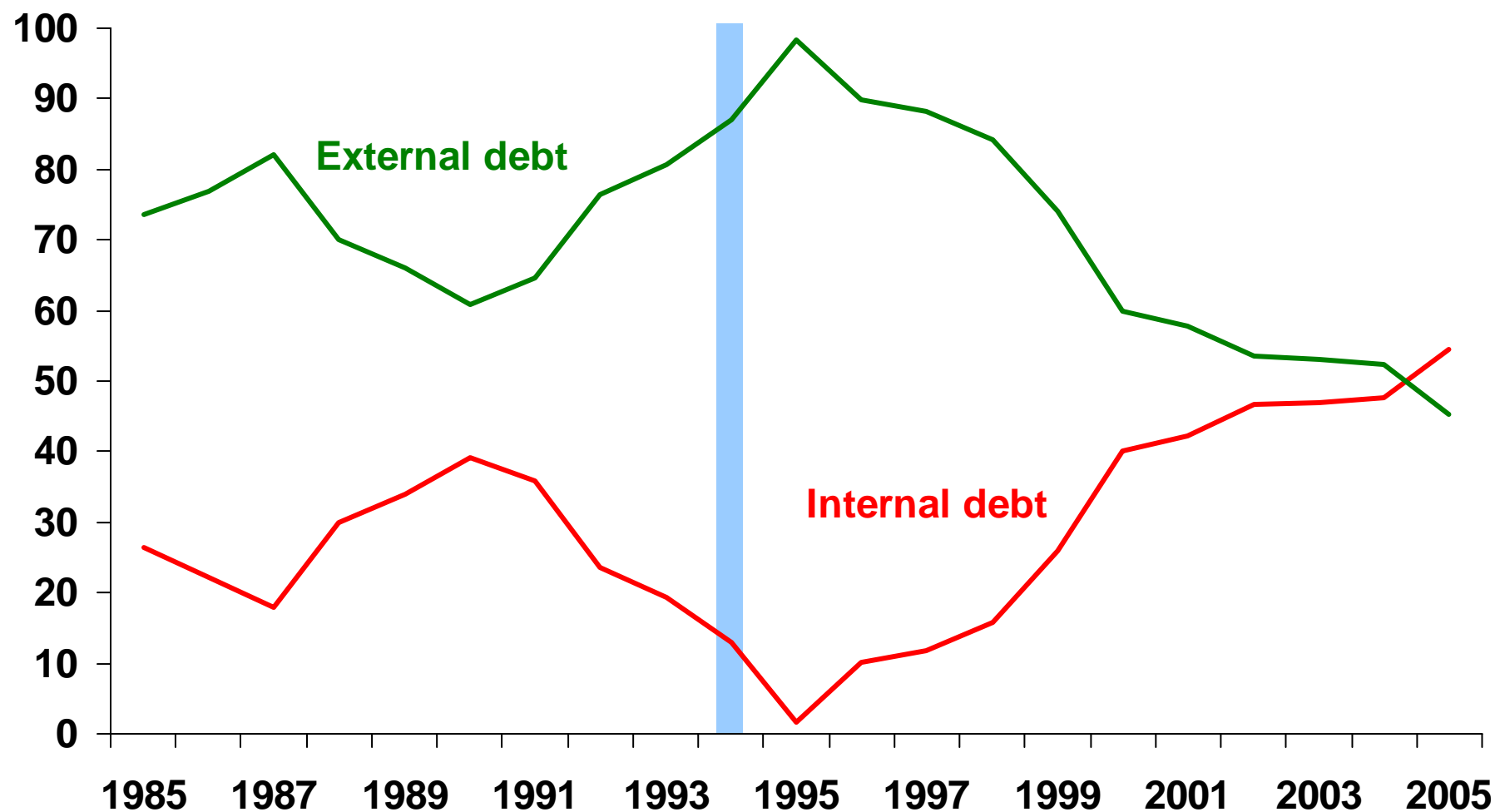


Mexico today

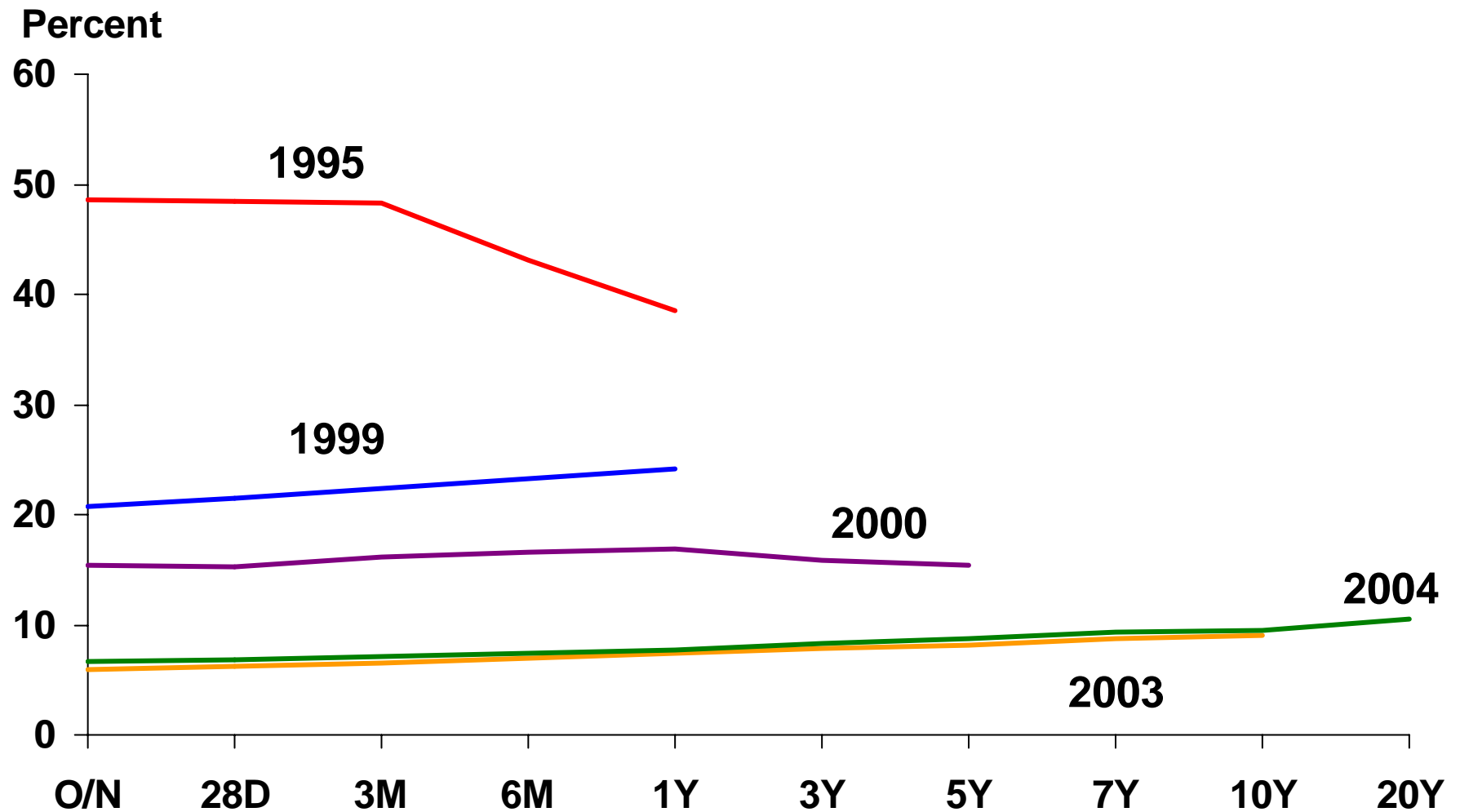


Share of foreign debt

(Percent of total public debt)

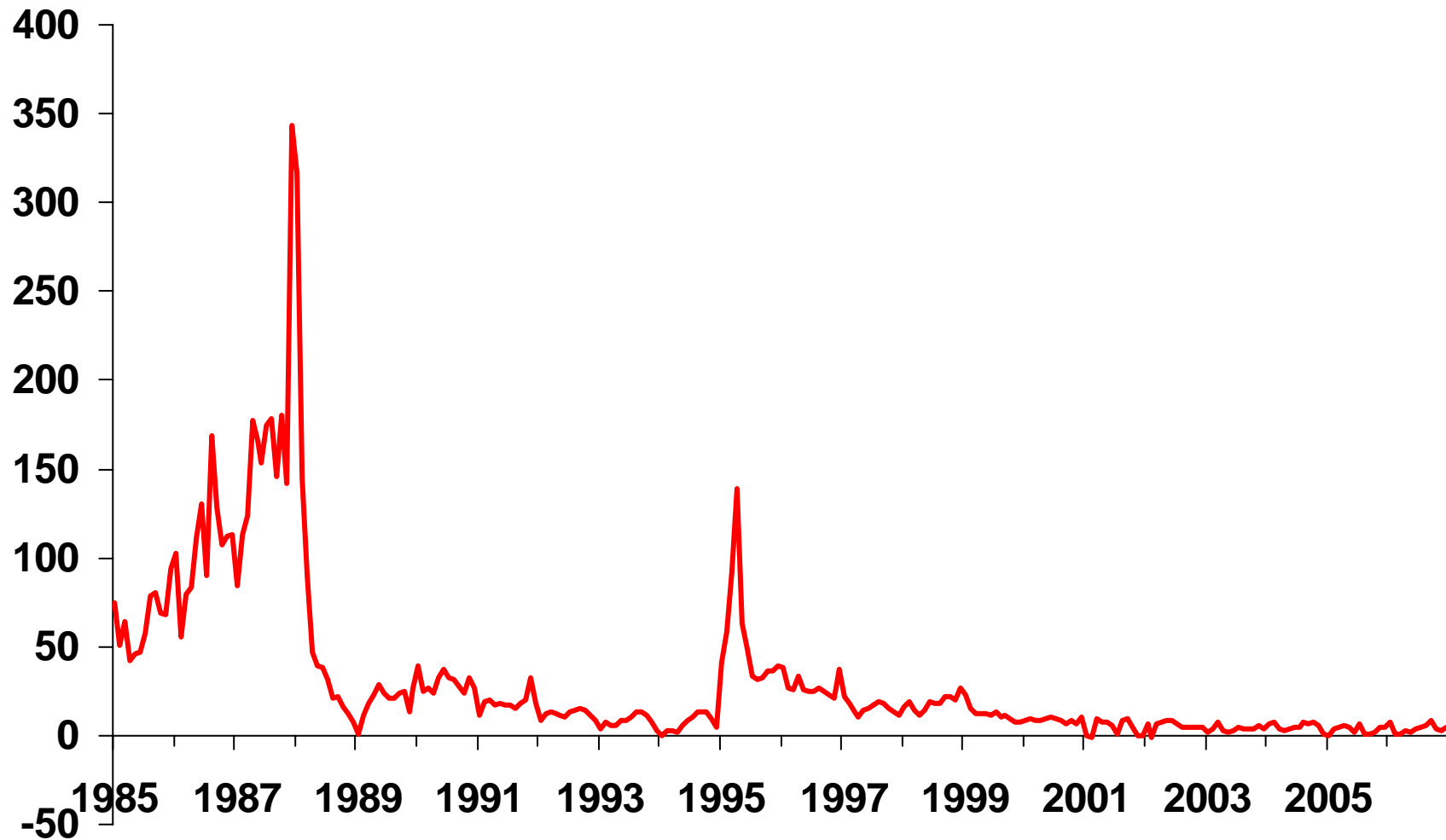


Mexico grows a yield curve



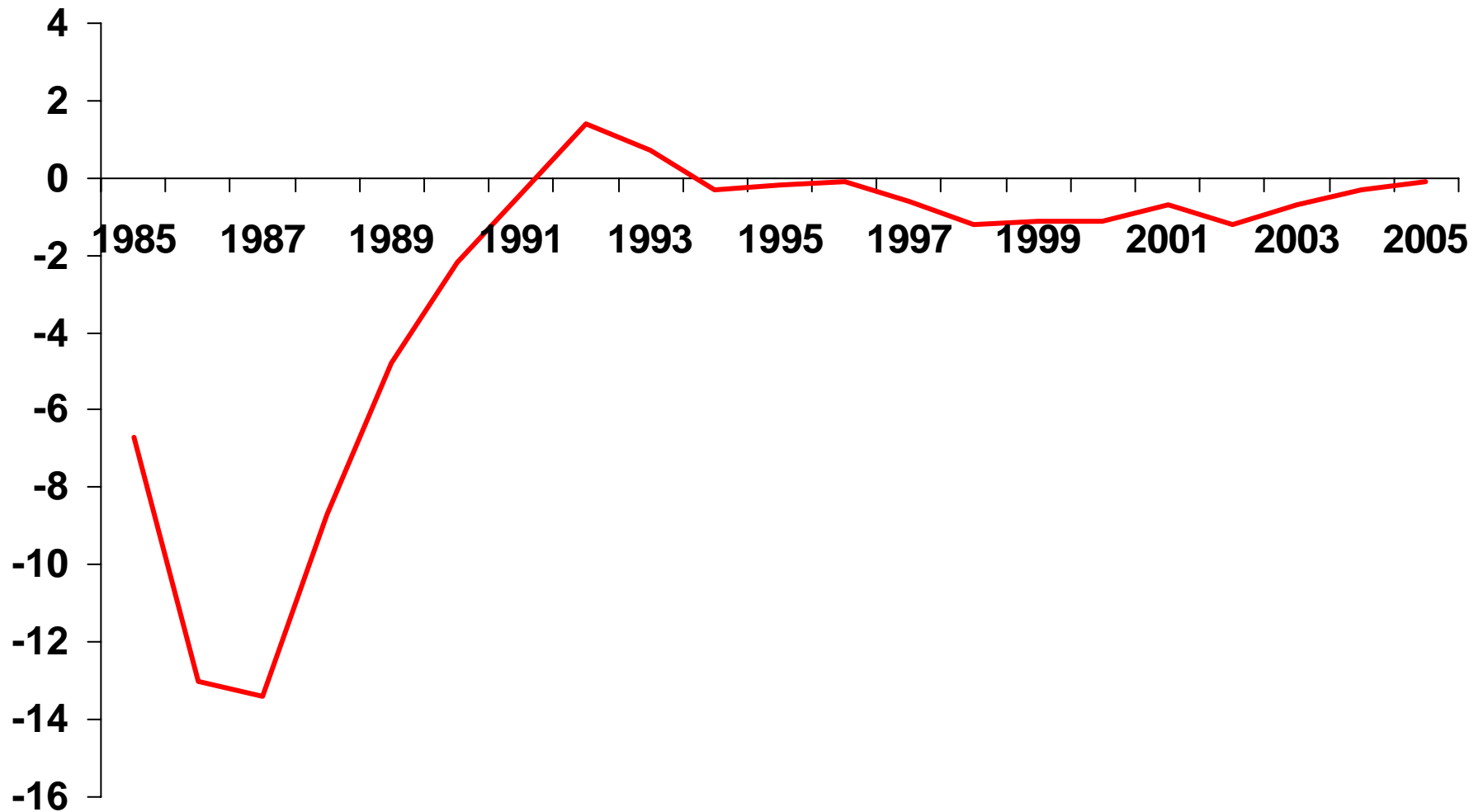
Inflation is tamed

(Annualized CPI inflation rate, percent)



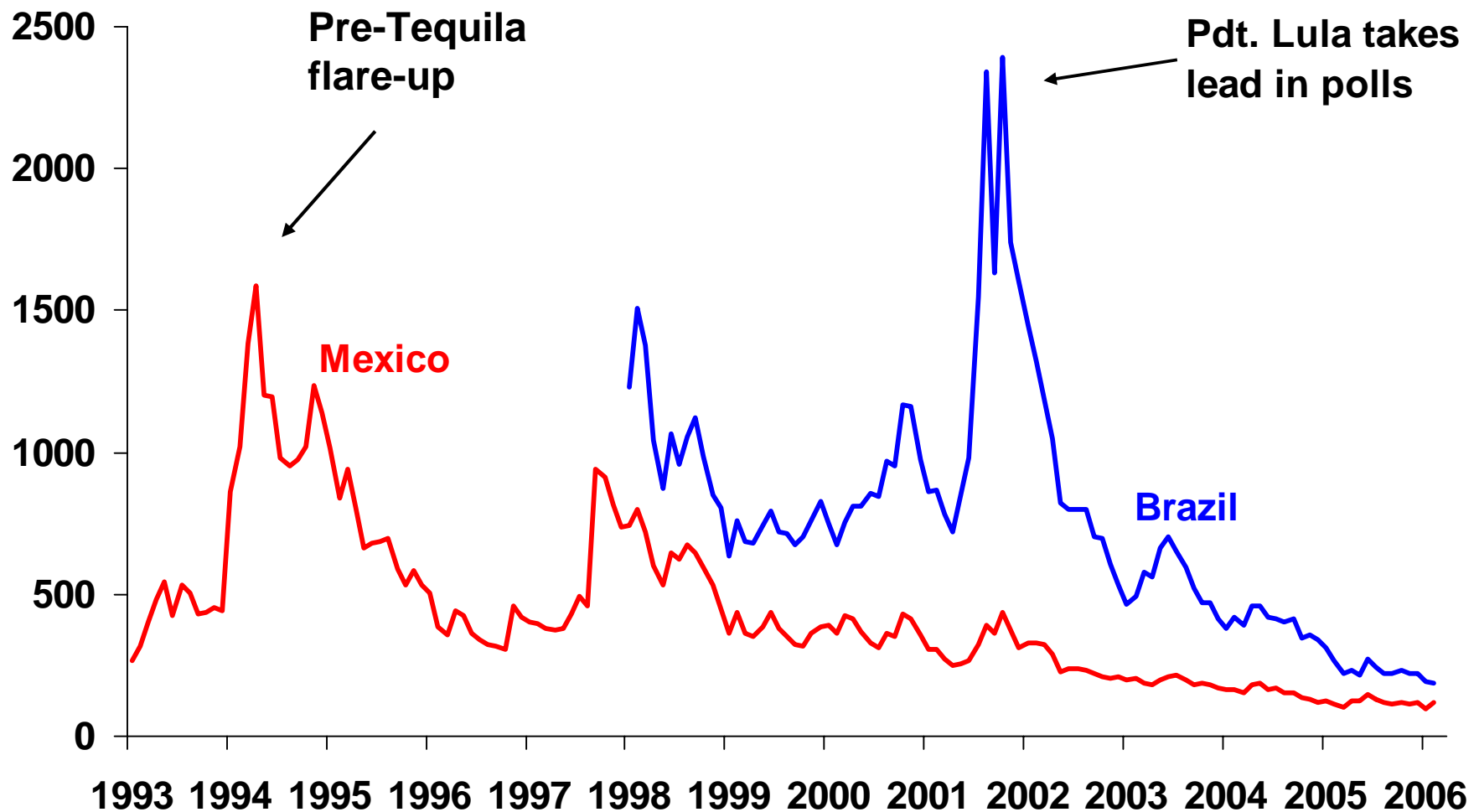
Fiscal house is in order

(Budgetary deficit, percent of GDP)



Where's the sexenio?

(Country premium, basis points)

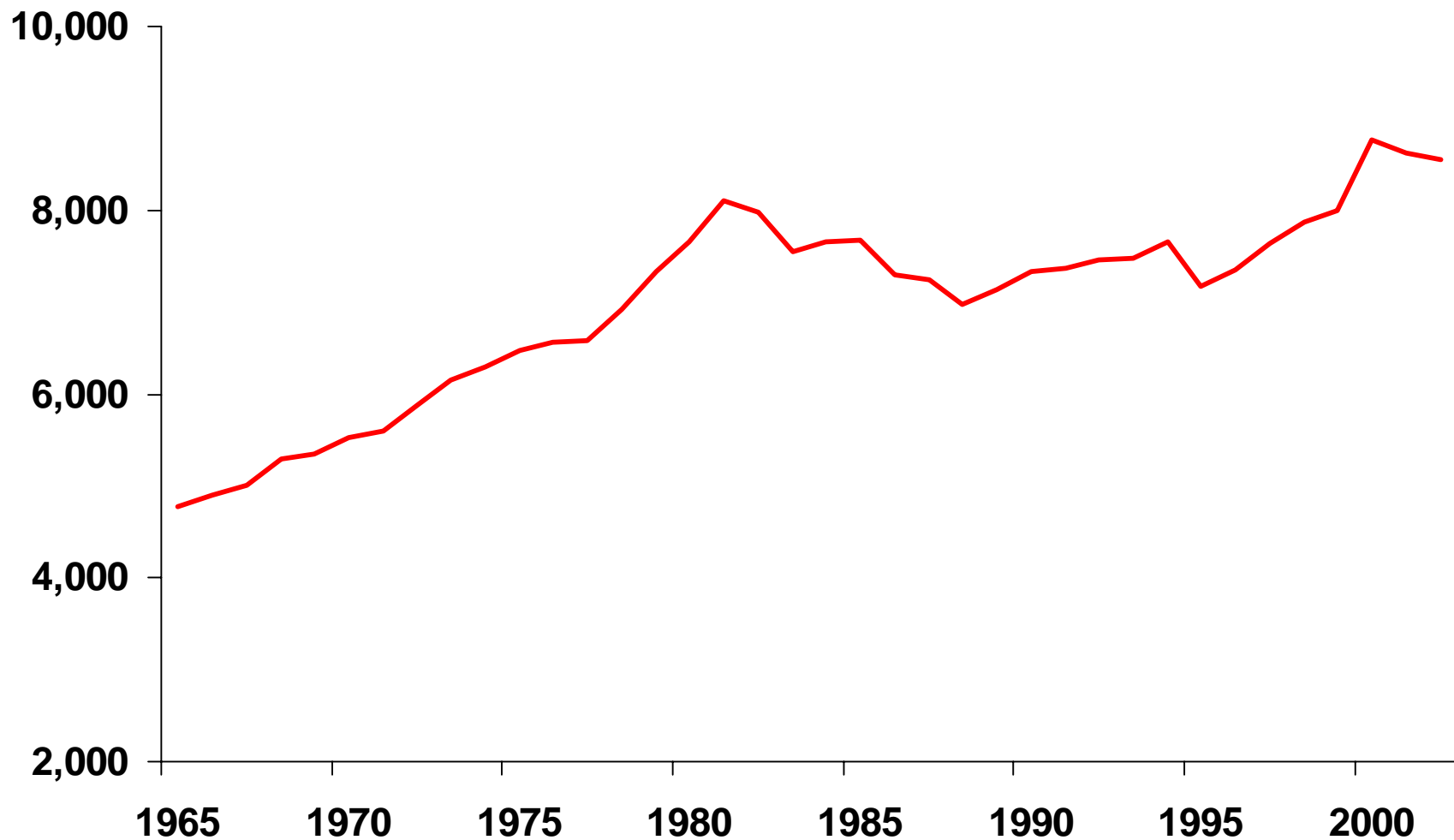


Then and now

- Crises have hurt Mexico's ability to grow
- But the country is in a much stronger situation today than it was a decade ago
- Key challenge now: structural reforms

Where is the growth you all?

(Real GDP per capita, 1996 US\$)

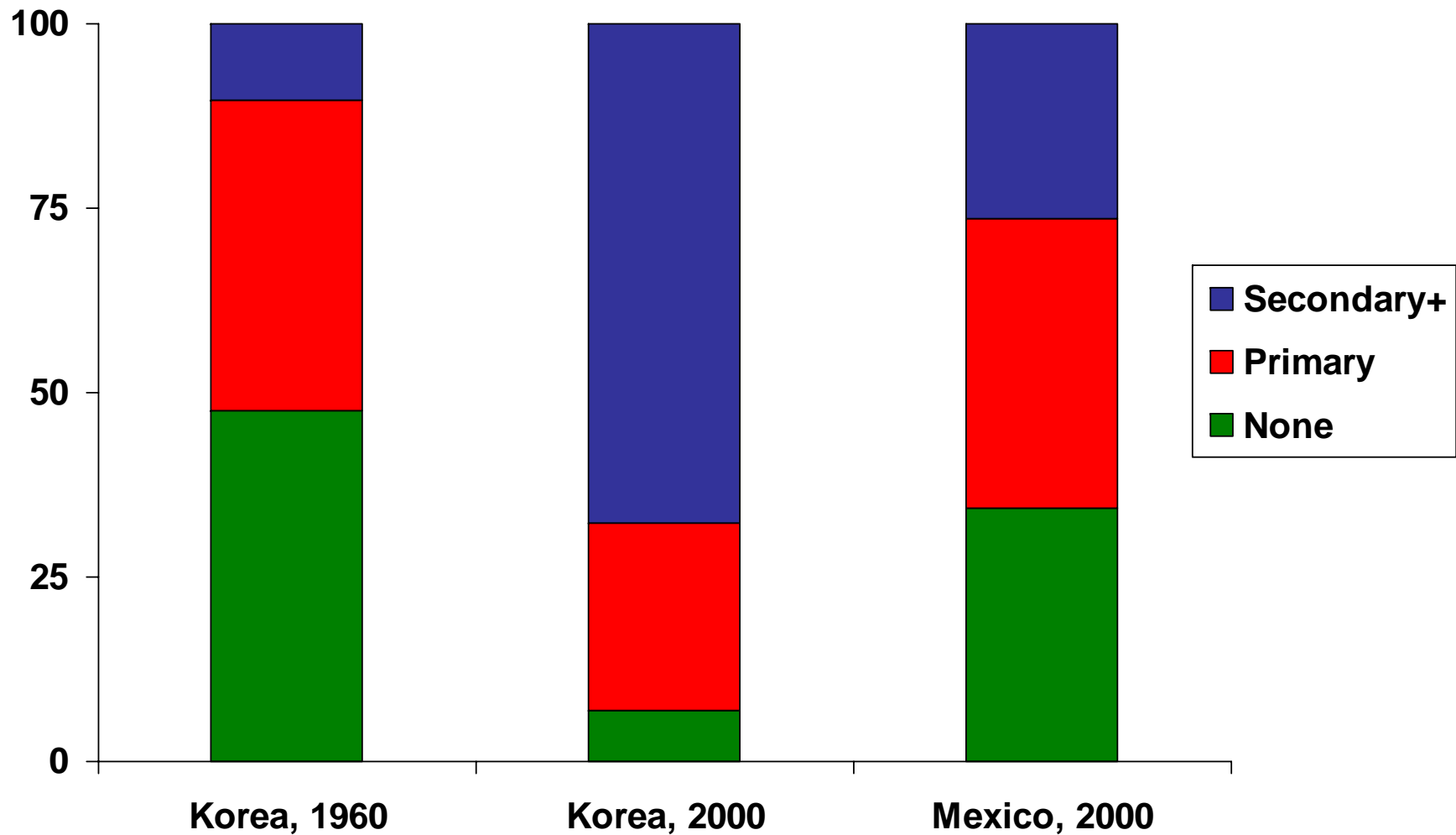


Bigger concerns

- Human capital deficit
- Inefficient institutions
- Needed: Tax reform
- Needed: Energy reform
- Needed: Labor market reform
- ...

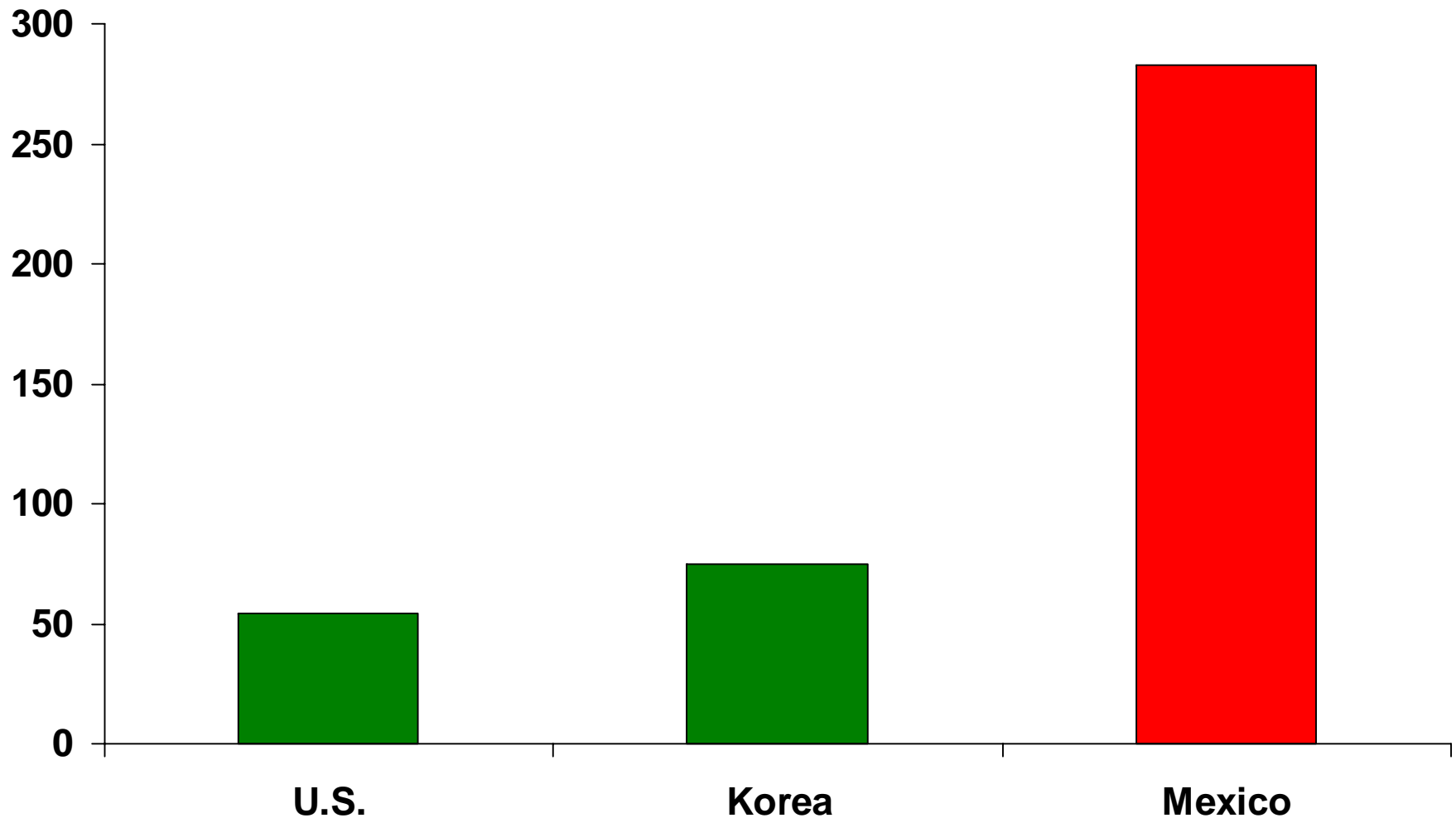
Mexico's human capital deficit

(Educational attainment of working population, percent)



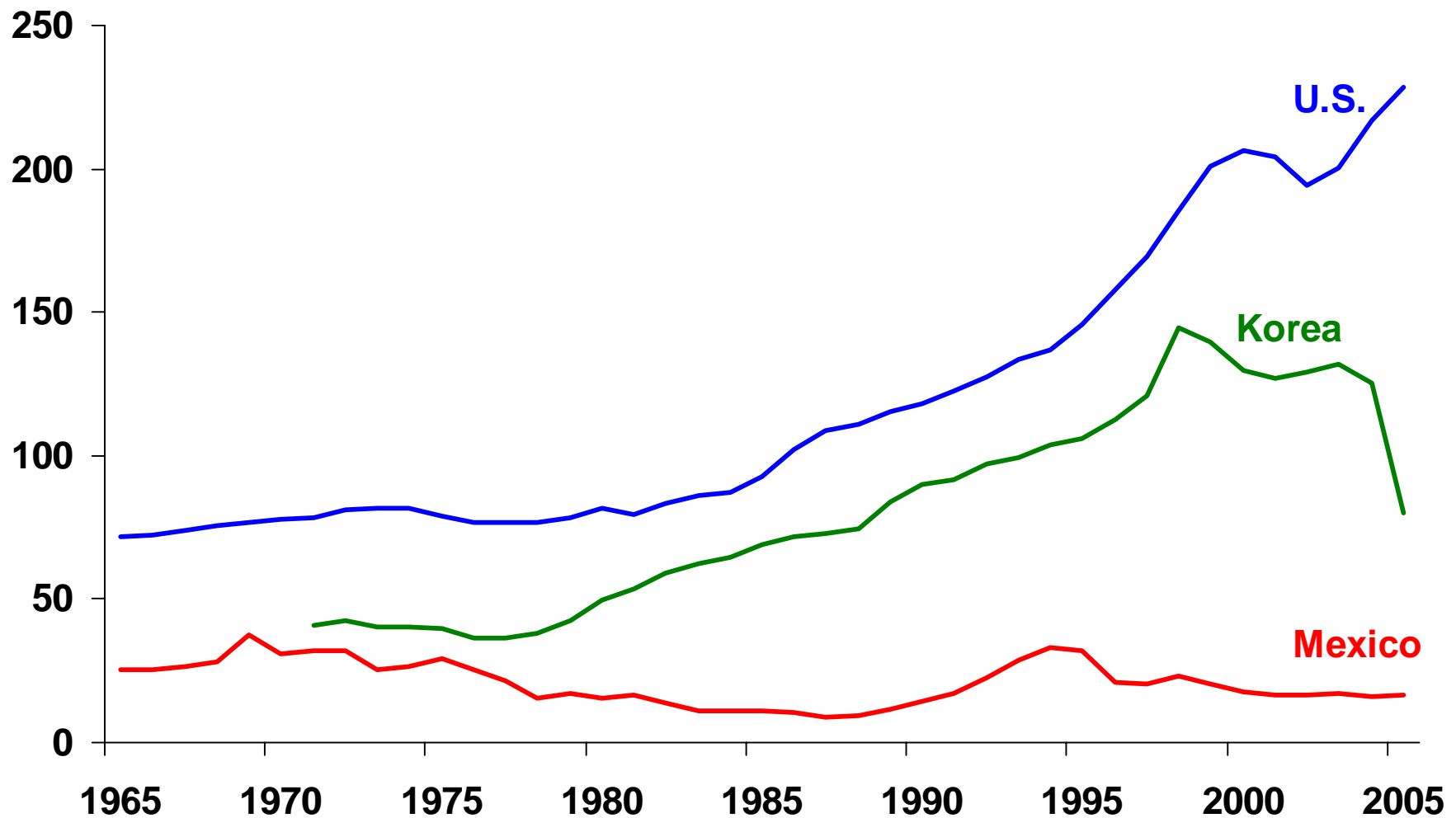
Mexico's legal system is inefficient

(Days required to collect on a bad check)



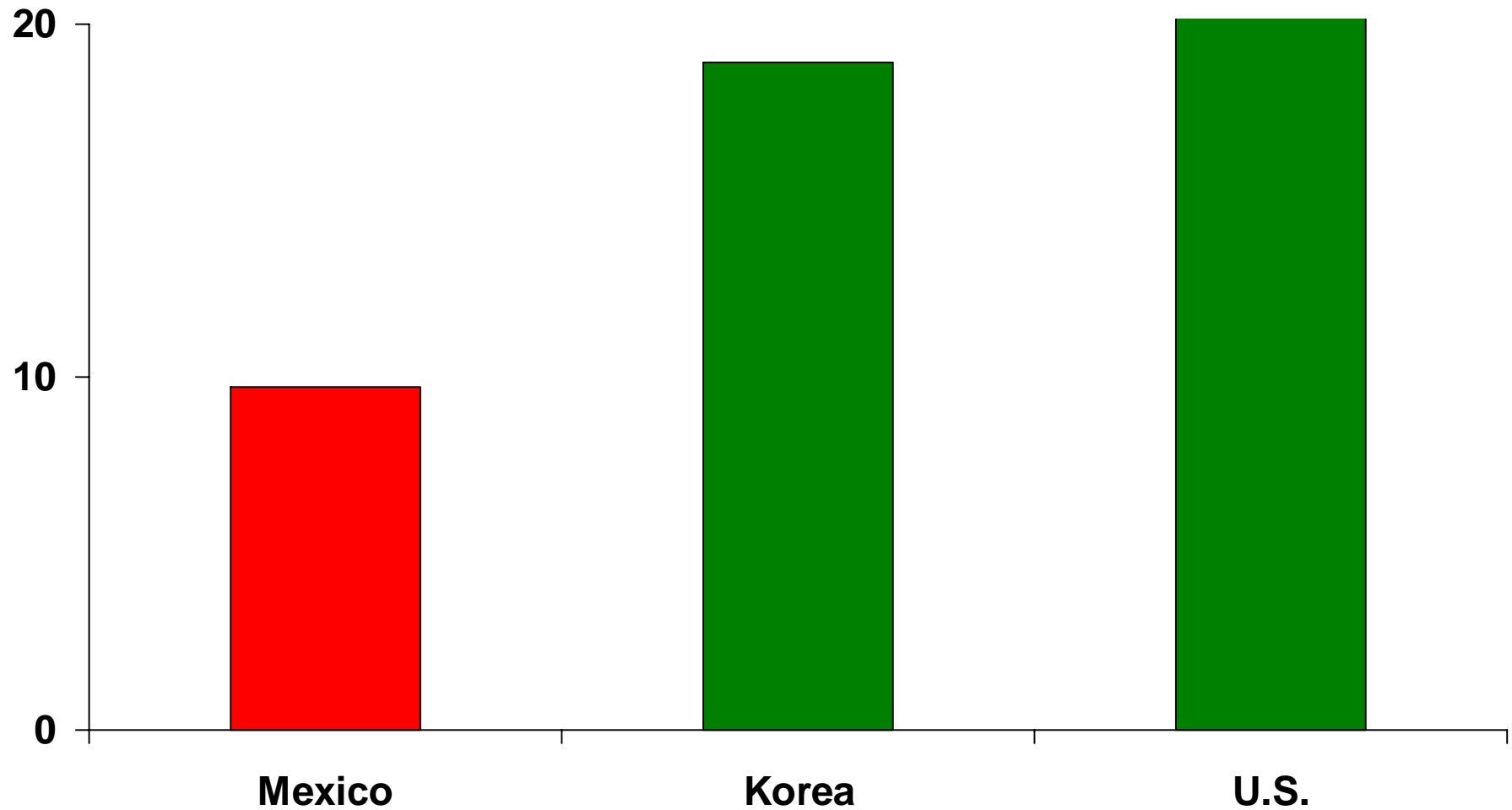
Mexico's financial sector is small

(Loans to private sector, percent of GDP)



Tax evasion is high

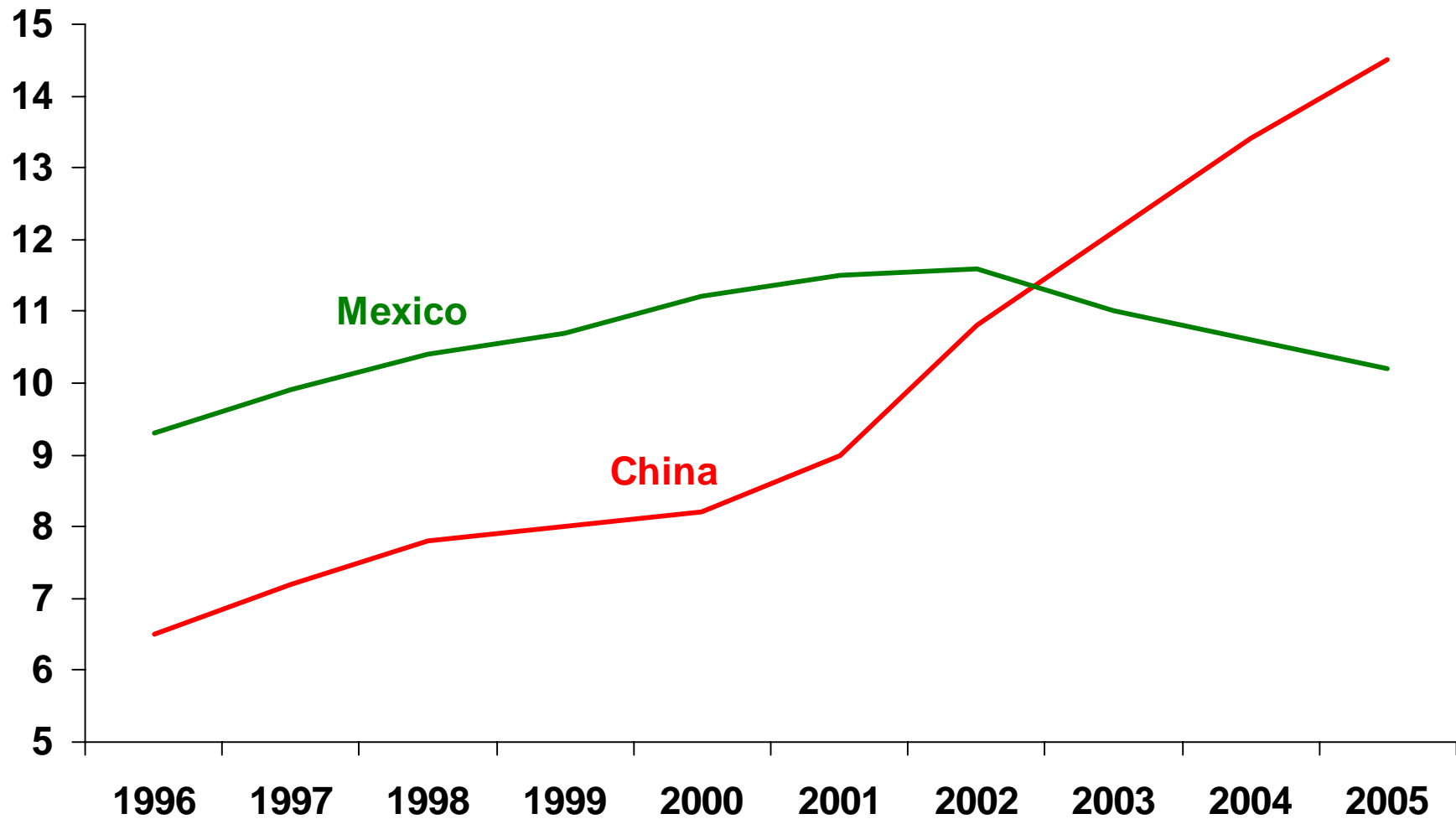
(Central government tax revenues in 2005, percent of GDP)



Is China Eating Mexico's Lunch?



Market Share of U.S. Imports



At-risk sectors

- Unskilled labor intensive
- Low transportation costs (high value to weight ratio)
- Standardized products

Summary

- Lots of progress
- Mexico doesn't have much to show for it yet
- Reforms are direly needed

Short-term economic outlook

	2002	2003	2004	2005	2006	2007
Private consumption	1.6	2.2	4.1	5.4	4.9	3.9
Government consumption	-0.3	0.8	-0.4	0.5	6.6	0.2
Gross fixed capital formation	-0.6	0.4	7.5	7.6	9.5	5.9
Exports	1.4	2.7	11.6	6.9	11.1	5.0
Imports	1.5	0.7	11.6	8.7	12.2	6.3
Real GDP	0.8	1.4	4.2	3.0	4.7	3.6