

**How much will  
the global  
storm affect  
Mexico?**



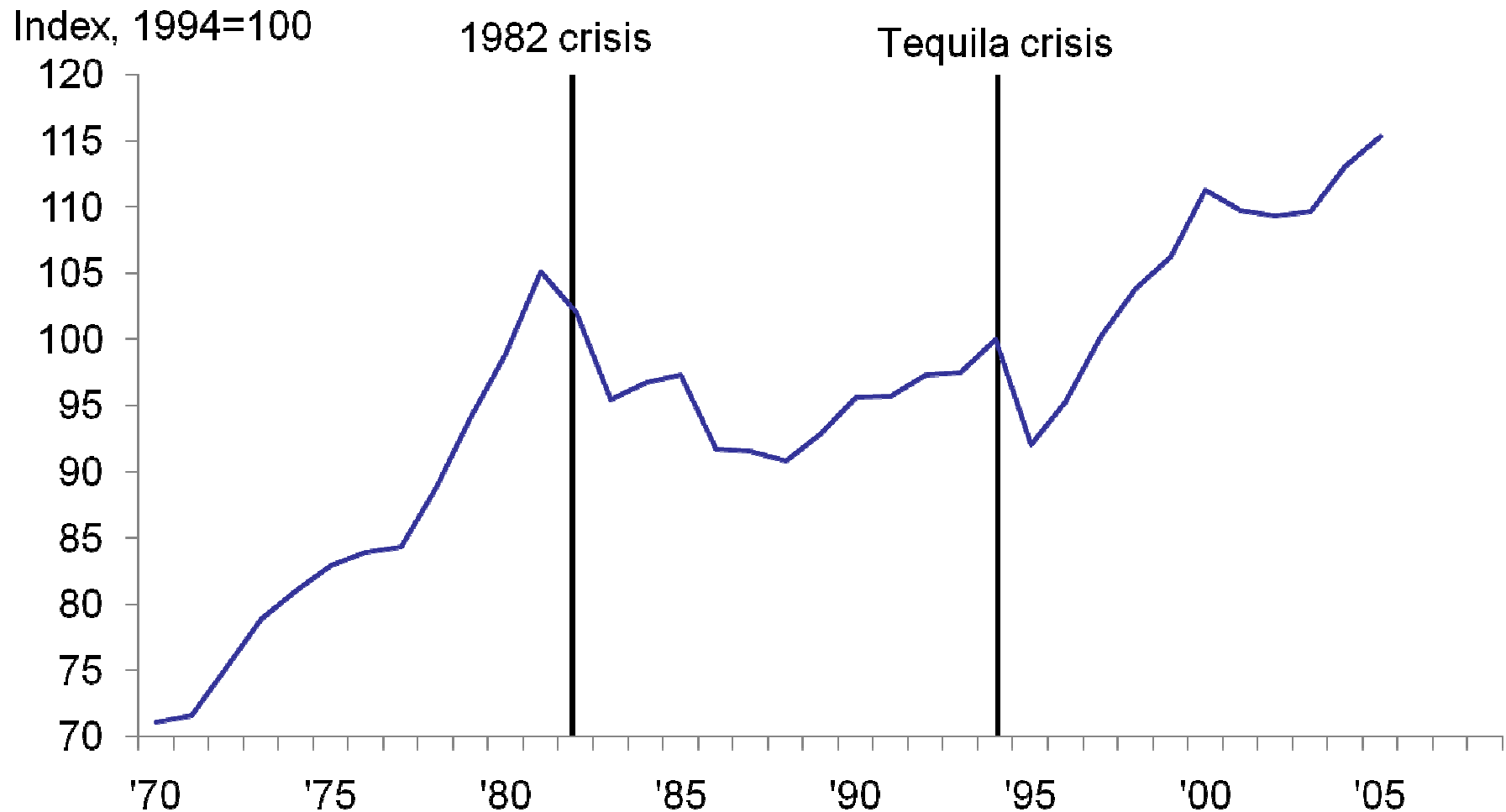
**‘At least, this time, it was not us.’**

## Then, and now

- Mexico was crisis-prone until the mid-90s...
- ...with deep consequences on real growth.
- But Mexico has been crisis-free since 1995.
- Will the financial storm of 2008 bring this streak to an end?

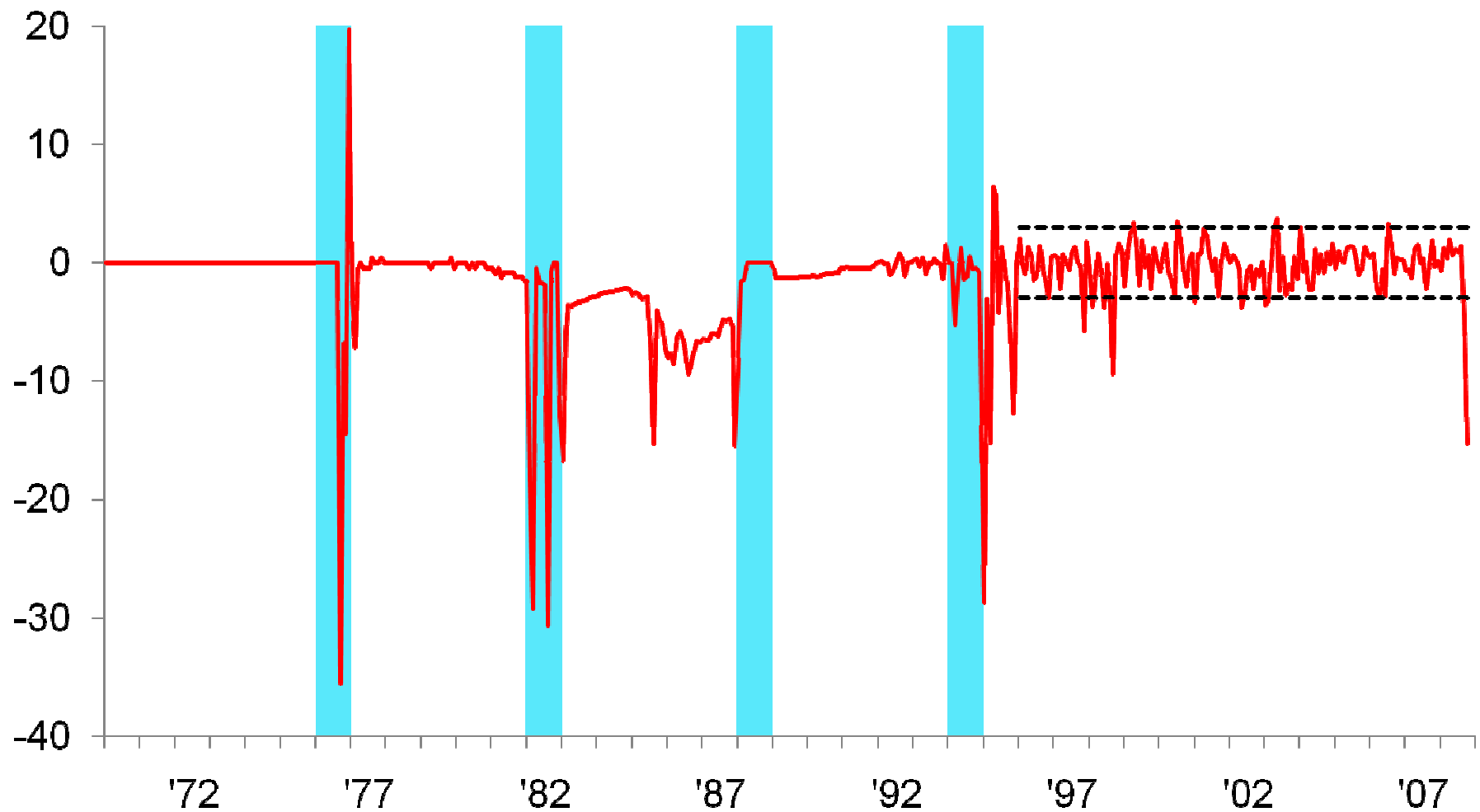
# Financial crises take toll on Mexico's economy

(Mexico's real GDP per capita)



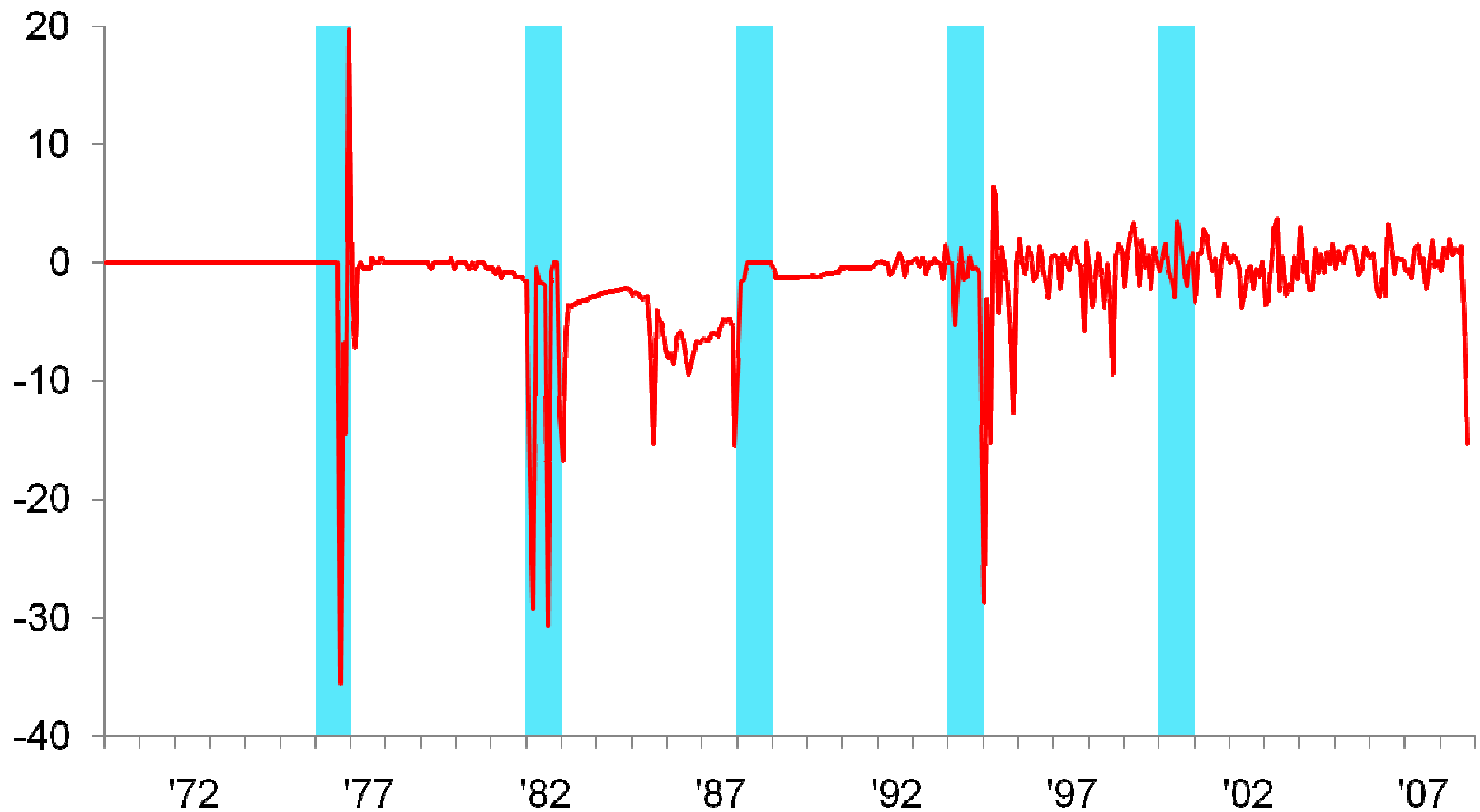
# A history of crises

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



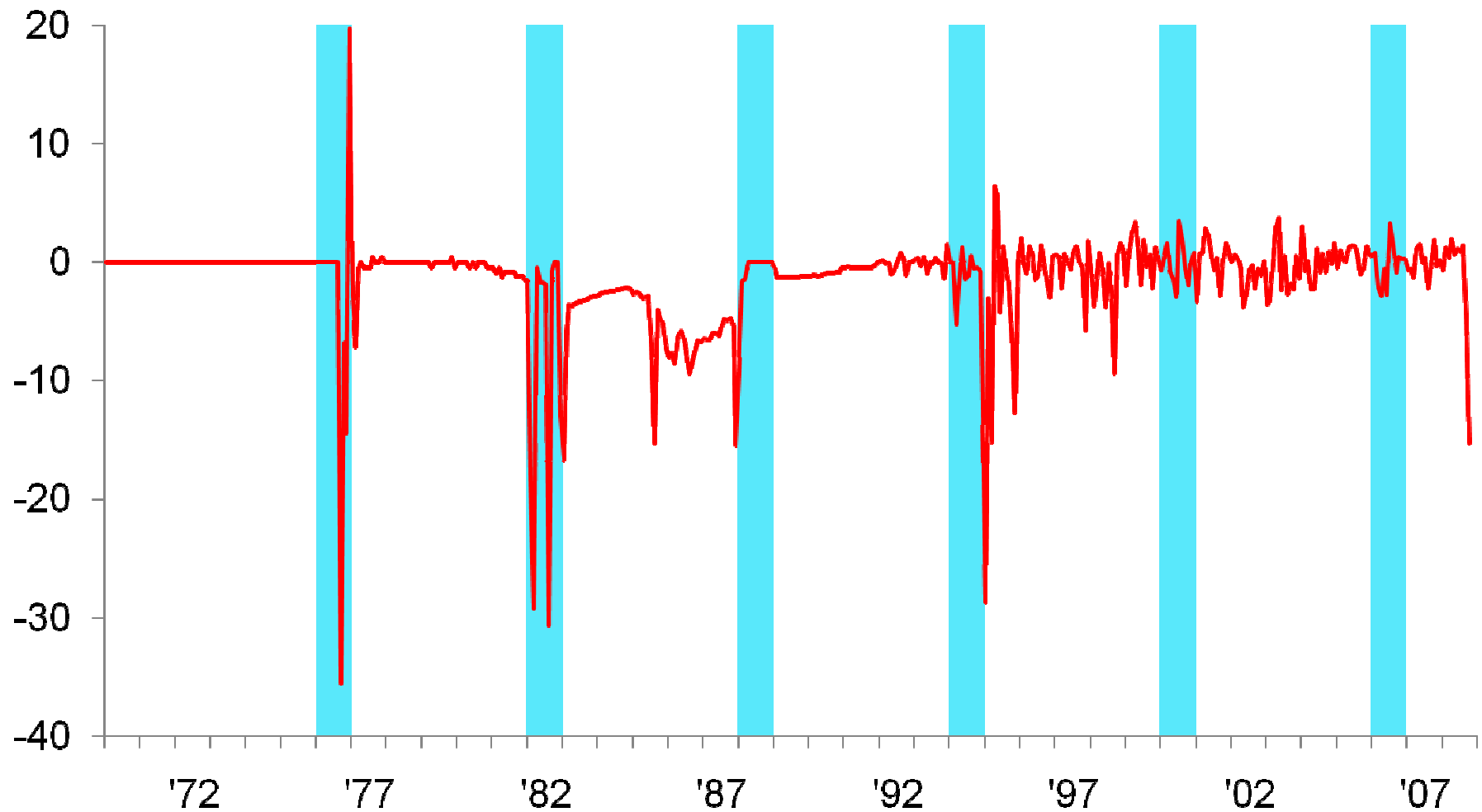
# A history of crises

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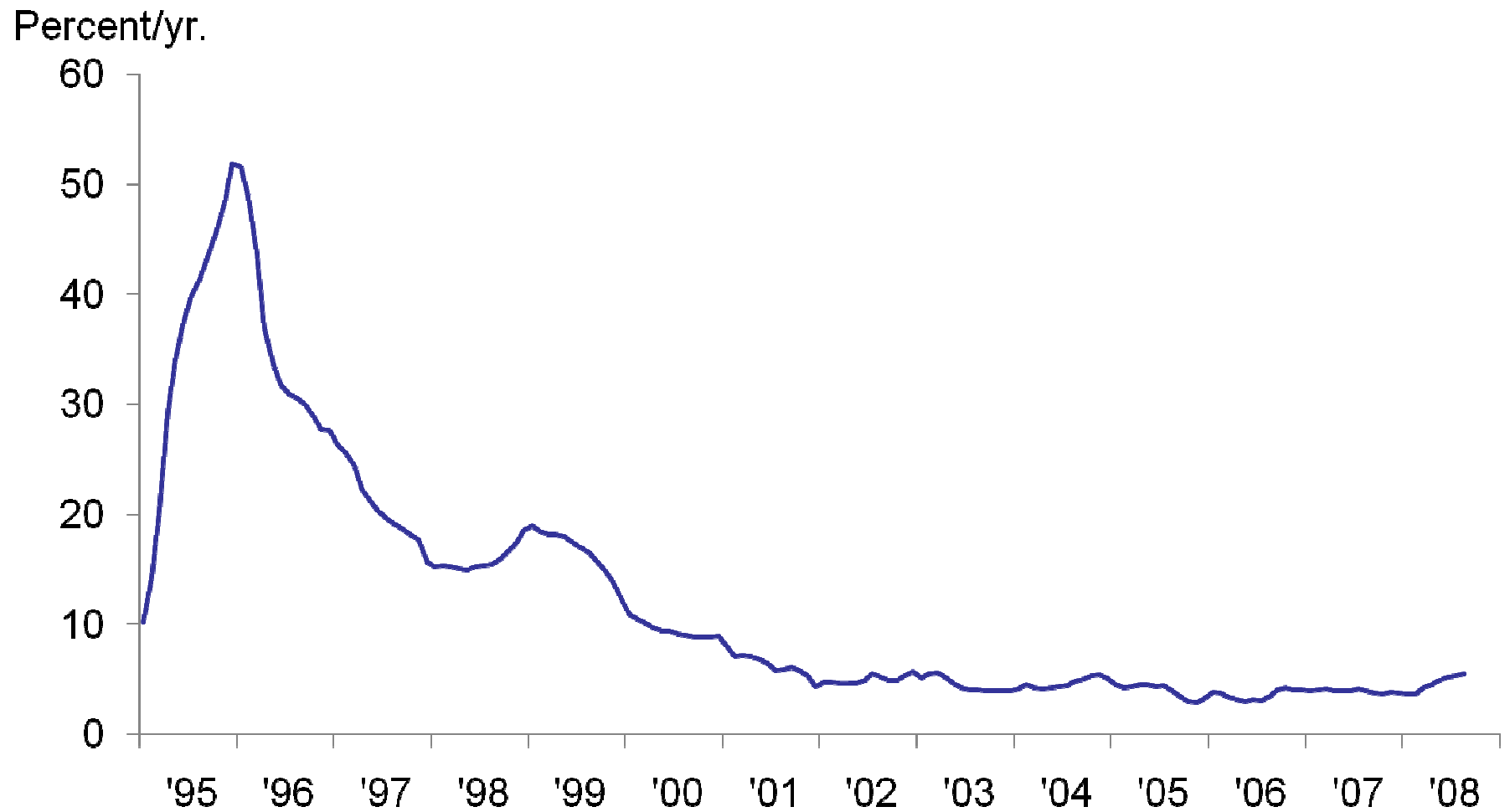
## **Building financial stability**

- Mexico has committed to fiscal and monetary discipline...
- ...allowing for better debt management.
- The banking sector is much healthier than it was a decade ago...
- ...and has limited direct exposure to problematic US assets.



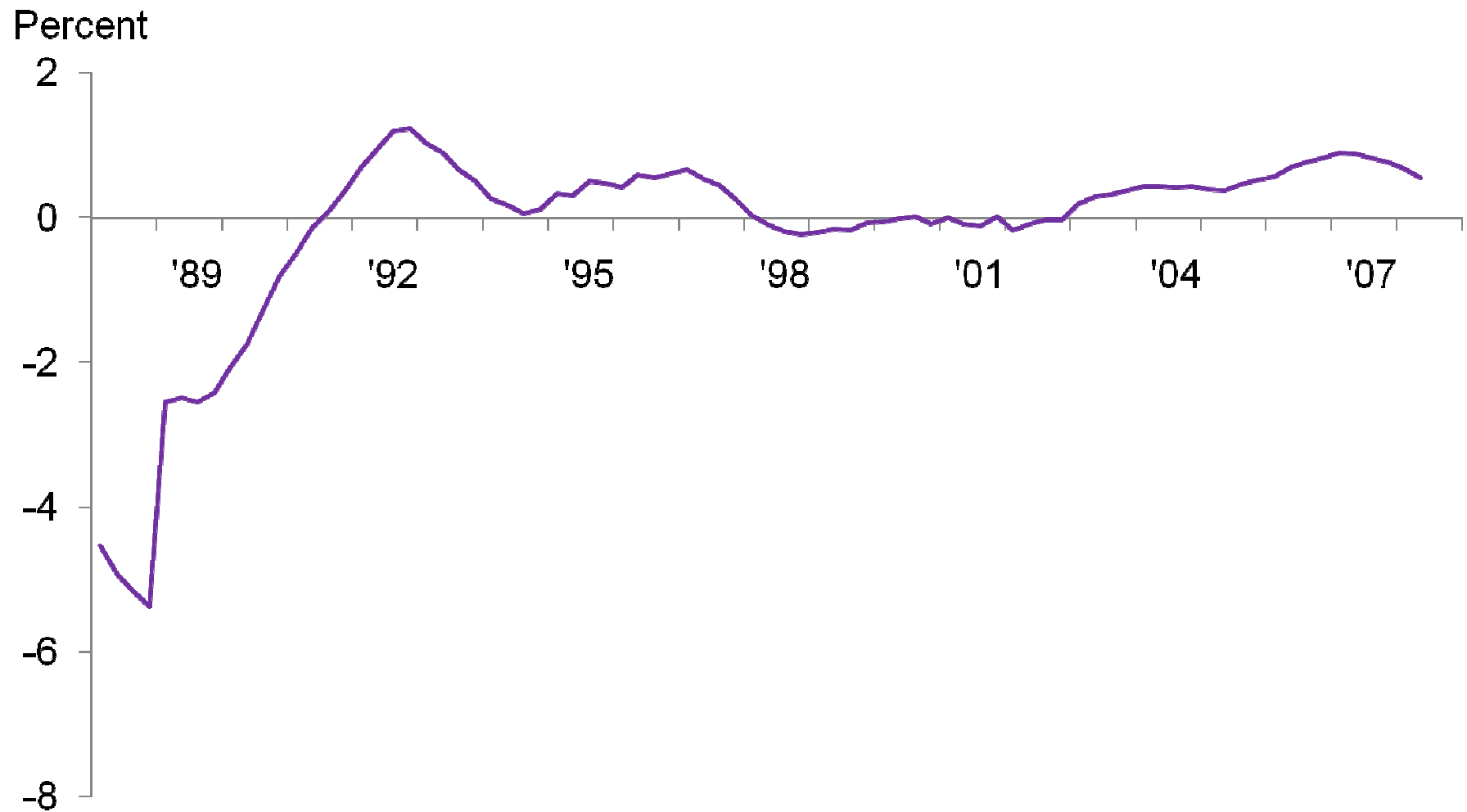
# Mexico conquers inflation

(CPI inflation)

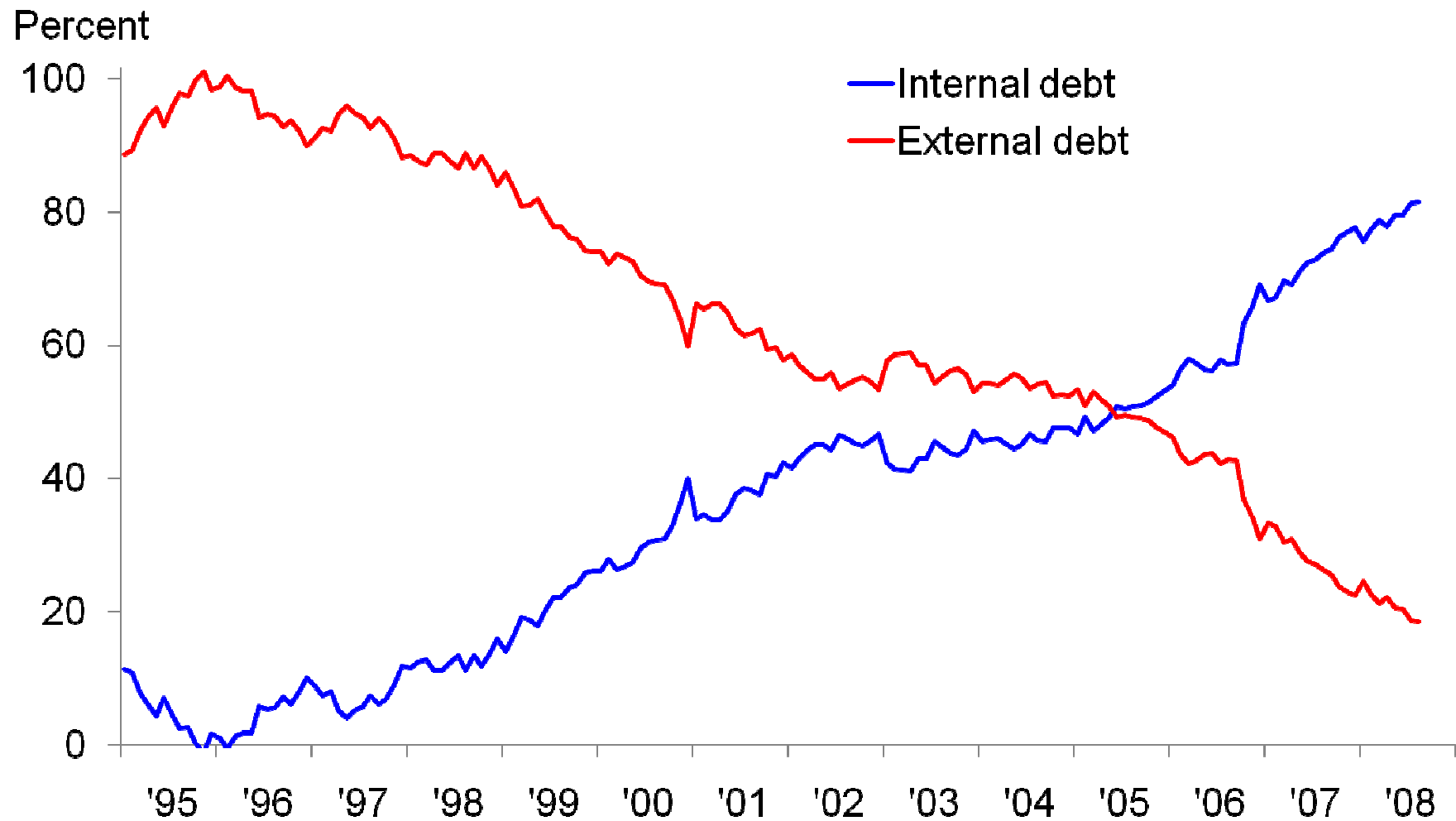


# Fiscal house is in order

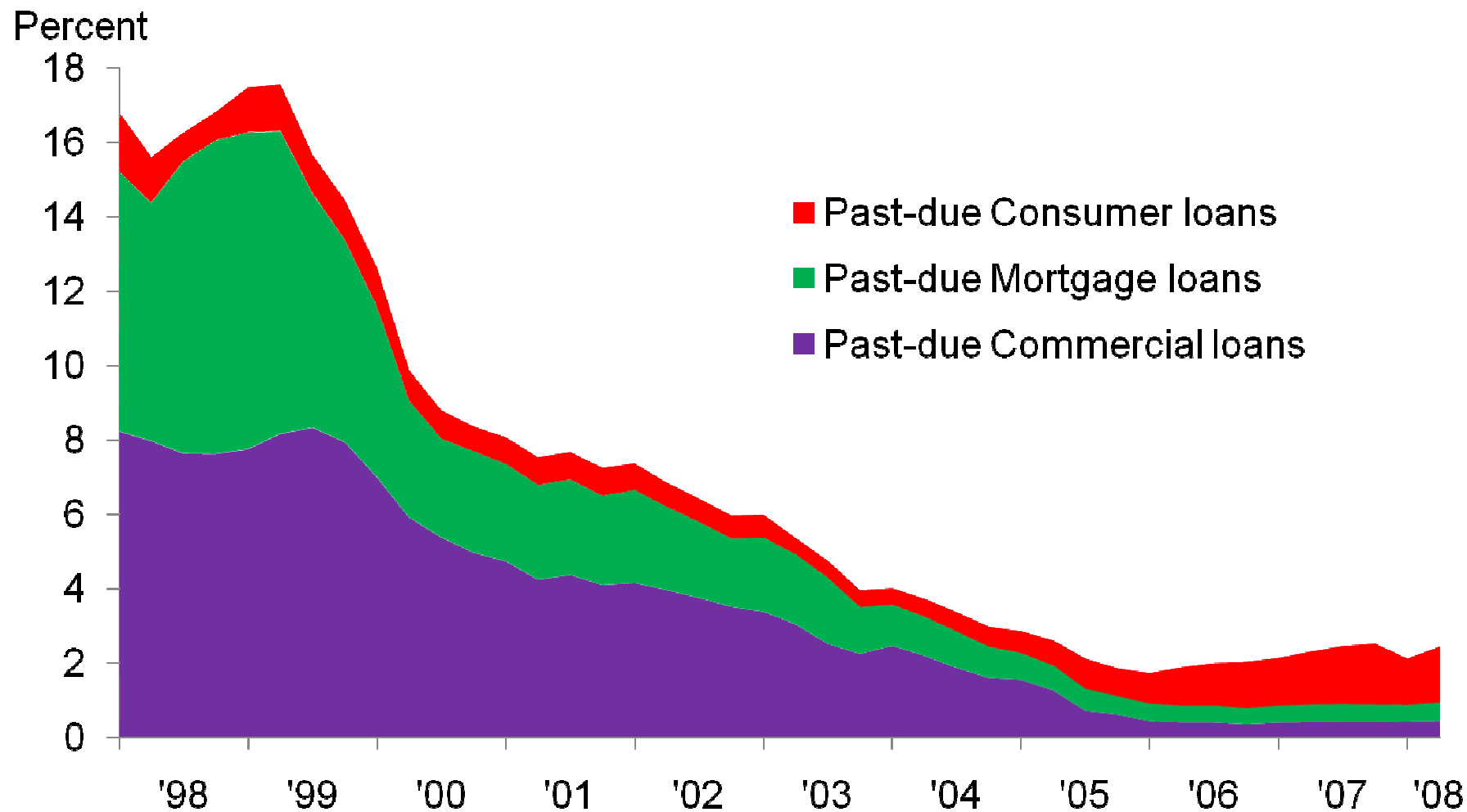
(Budget deficit as a fraction of GDP)



## Mexico shifts away from external, dollar-denominated debt



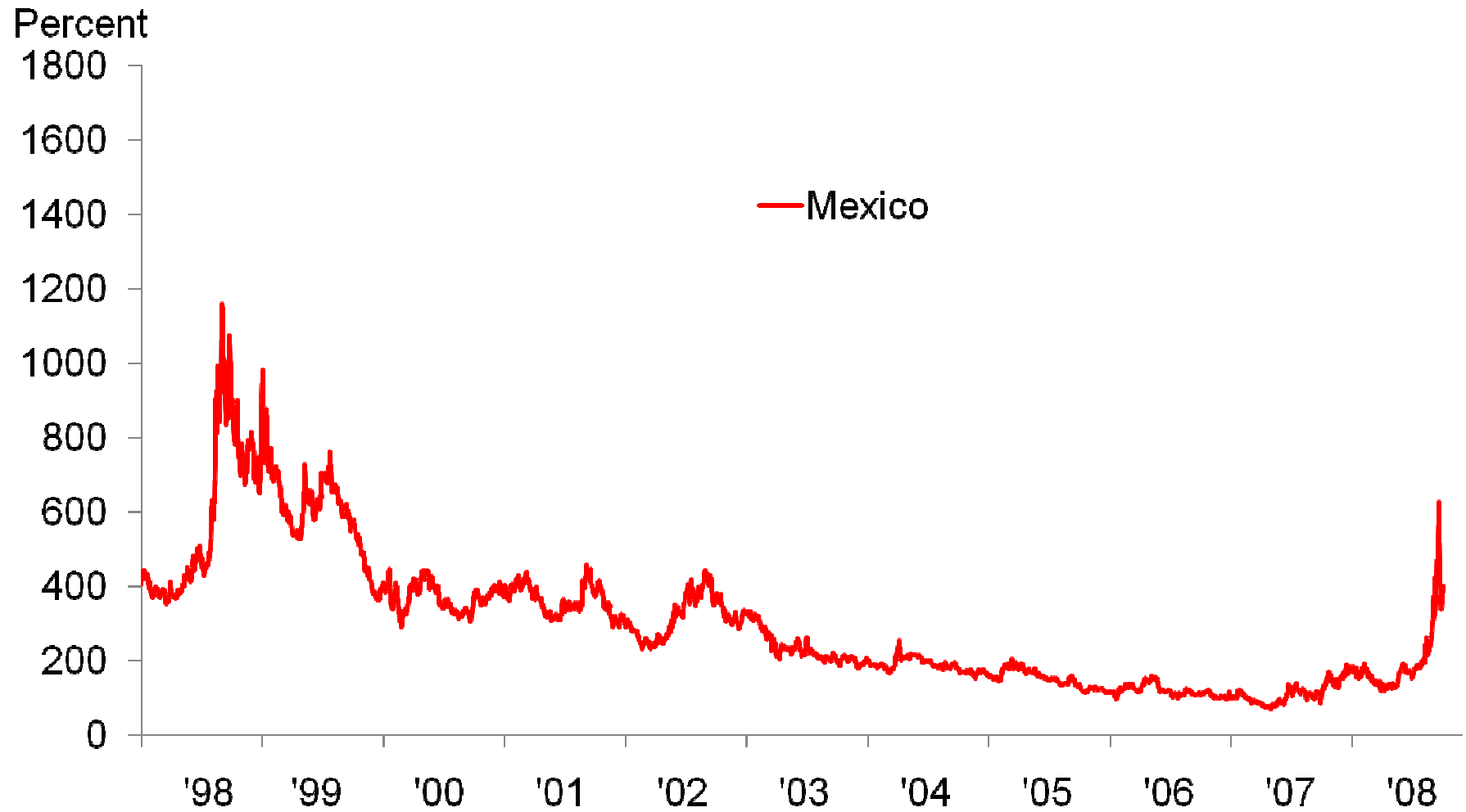
## Past-due loans shrink



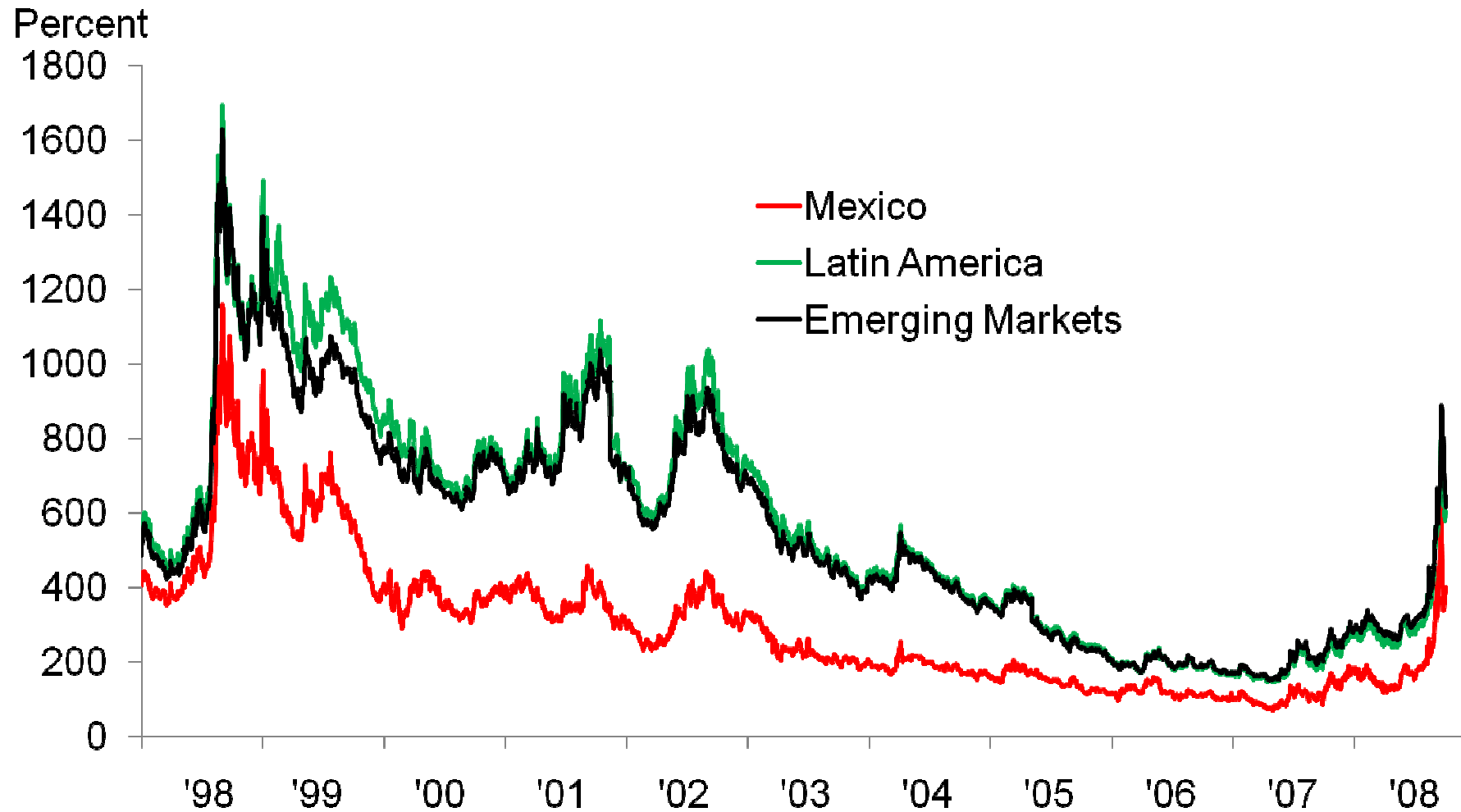
## **No longer crisis-prone, but not crisis-proof**

- Global financial turmoil causes investors to shun emerging markets.
- Interest spreads are rising, the peso is sinking.
- Private credit disruptions are materializing.
- Consumer confidence has been shaken.
- Global slowdown is hurting external demand.

# Country premium rises (EMBI yield spreads)

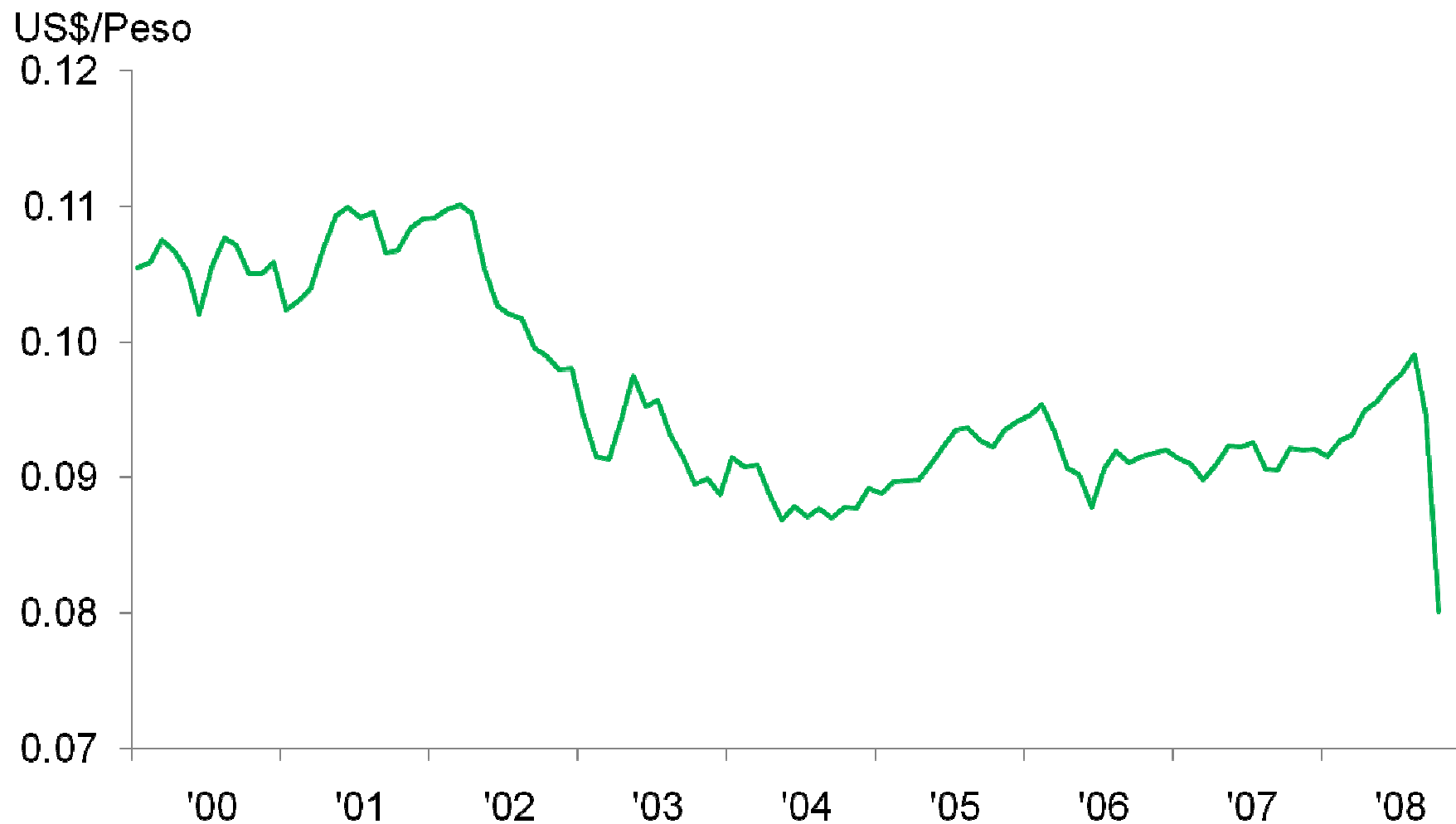


# Country premium rises (EMBI yield spreads)



# Peso collapses

(US\$/Peso, monthly average)



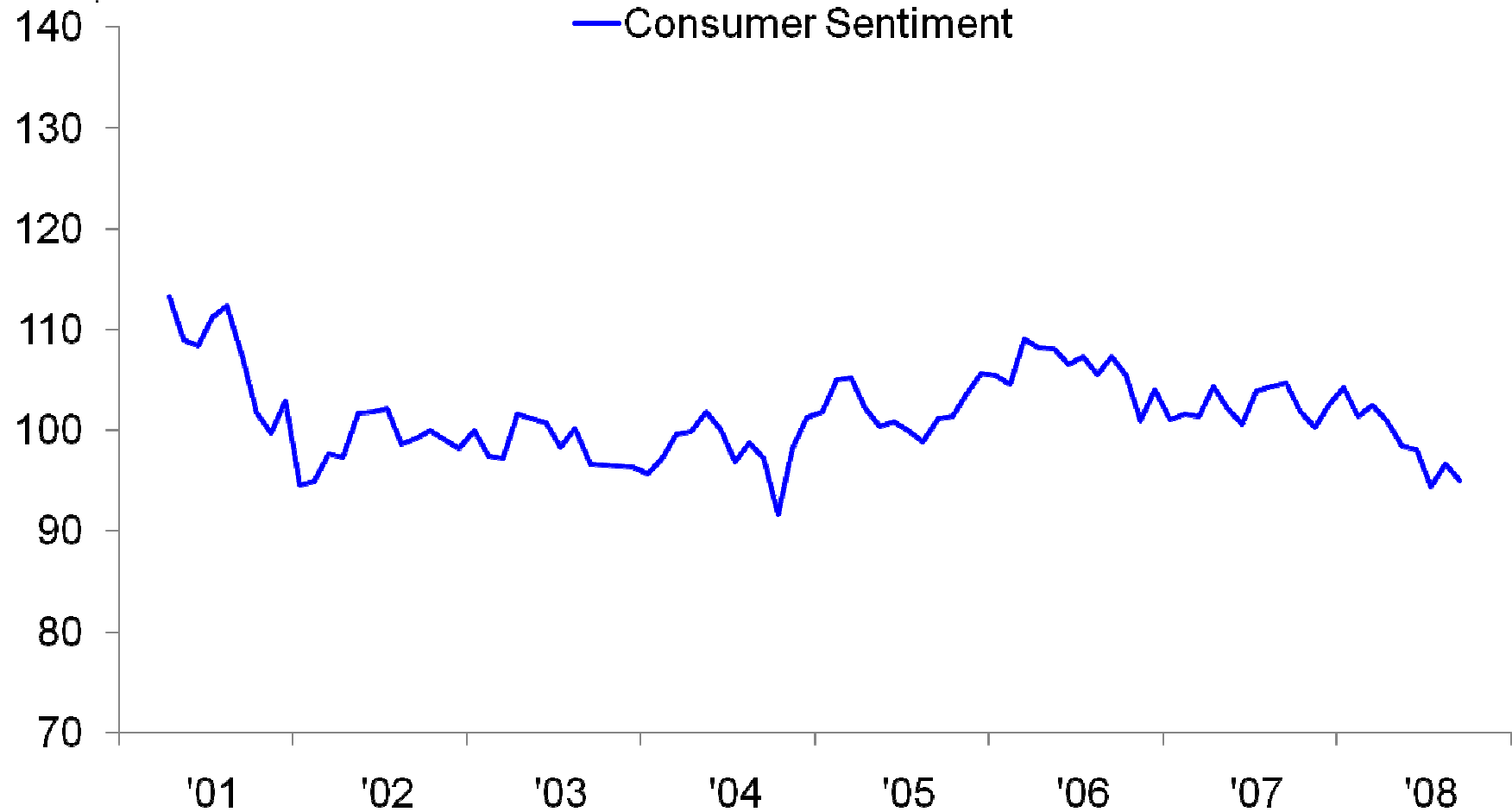


## **Is credit drying up?**

- Some firms are reporting difficulties issuing/rolling over commercial paper.
- Consumer loans growth has slowed.

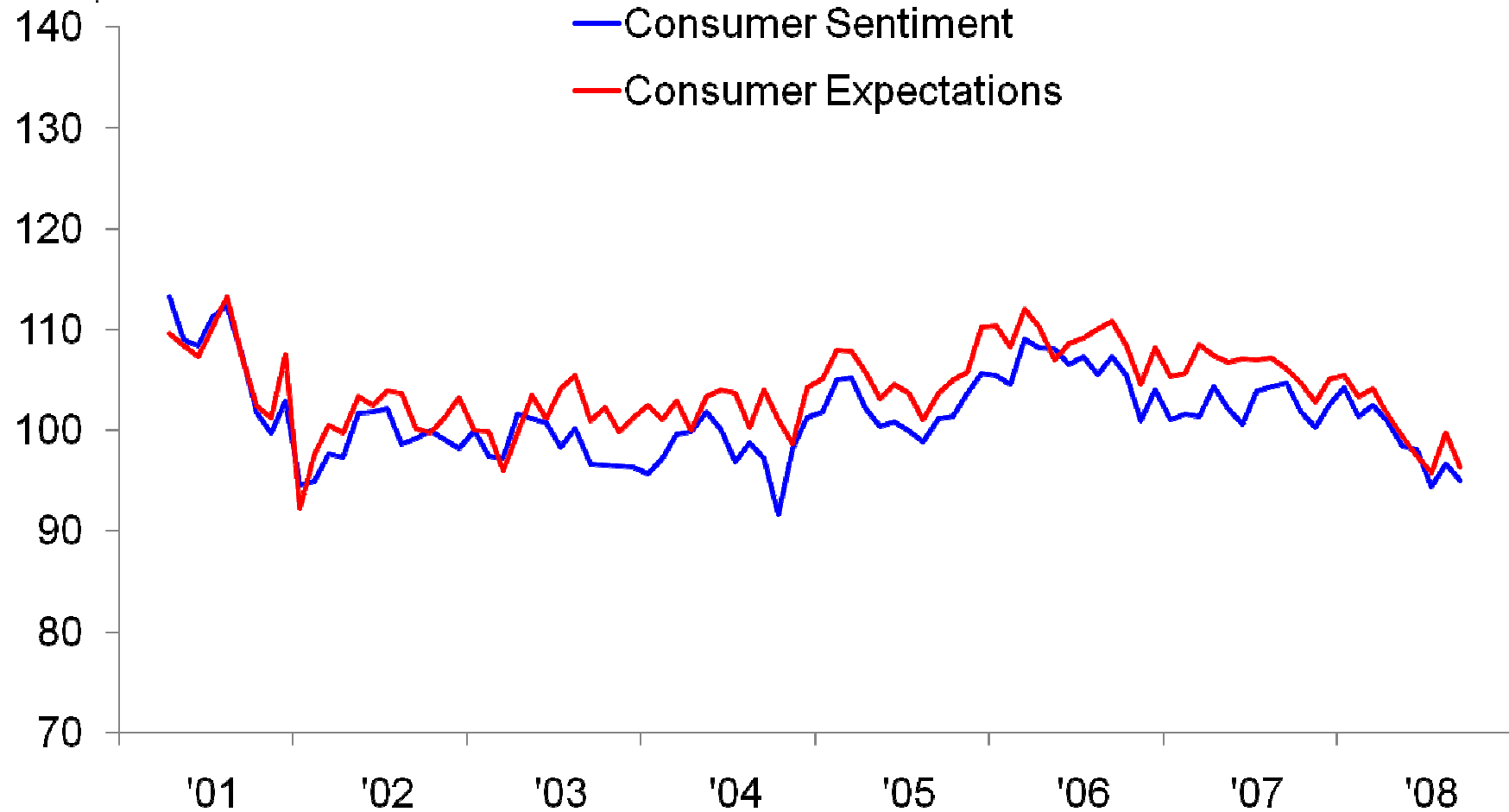
# Consumers lose confidence

NSA, Index 01/03=100



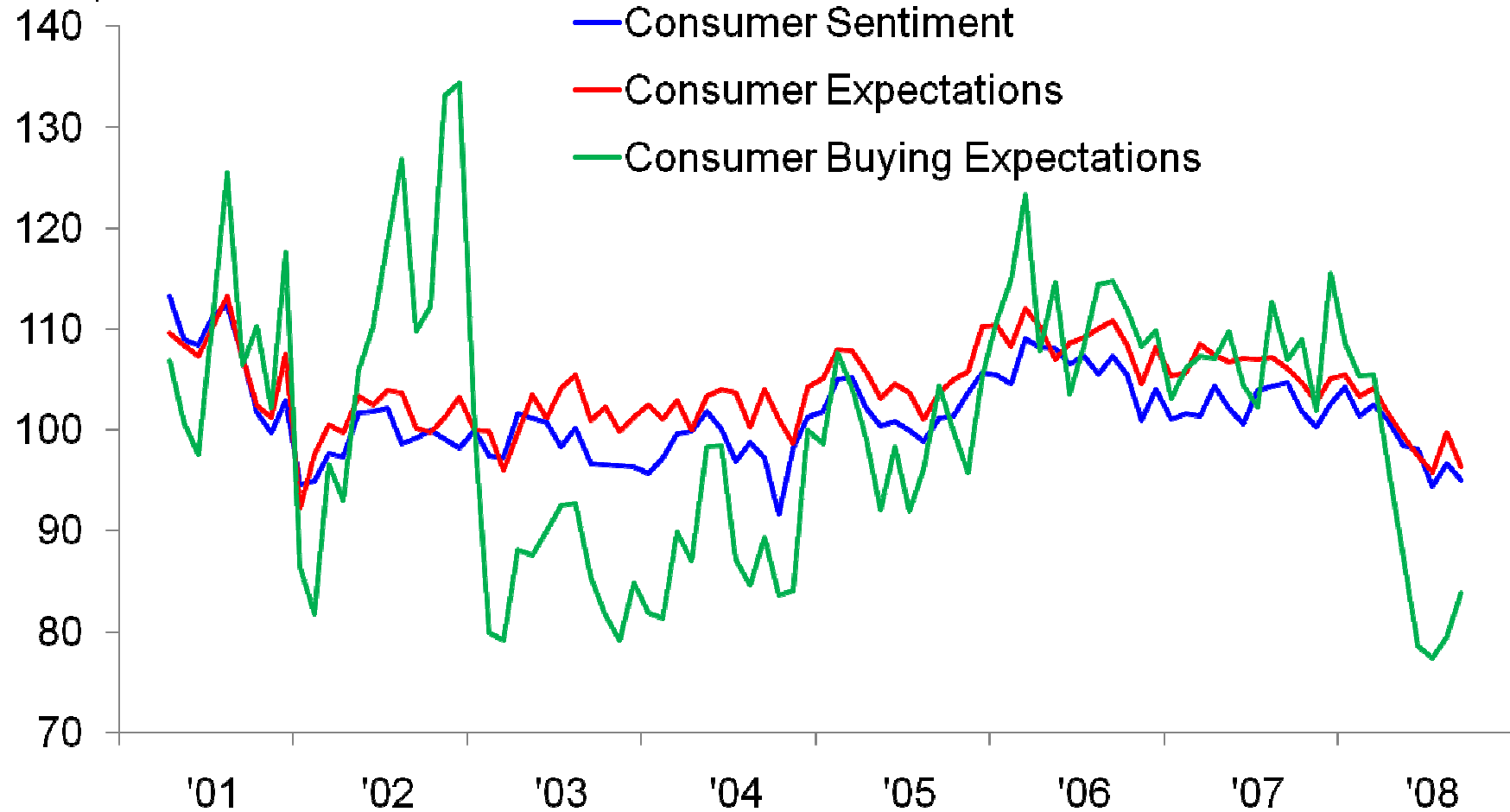
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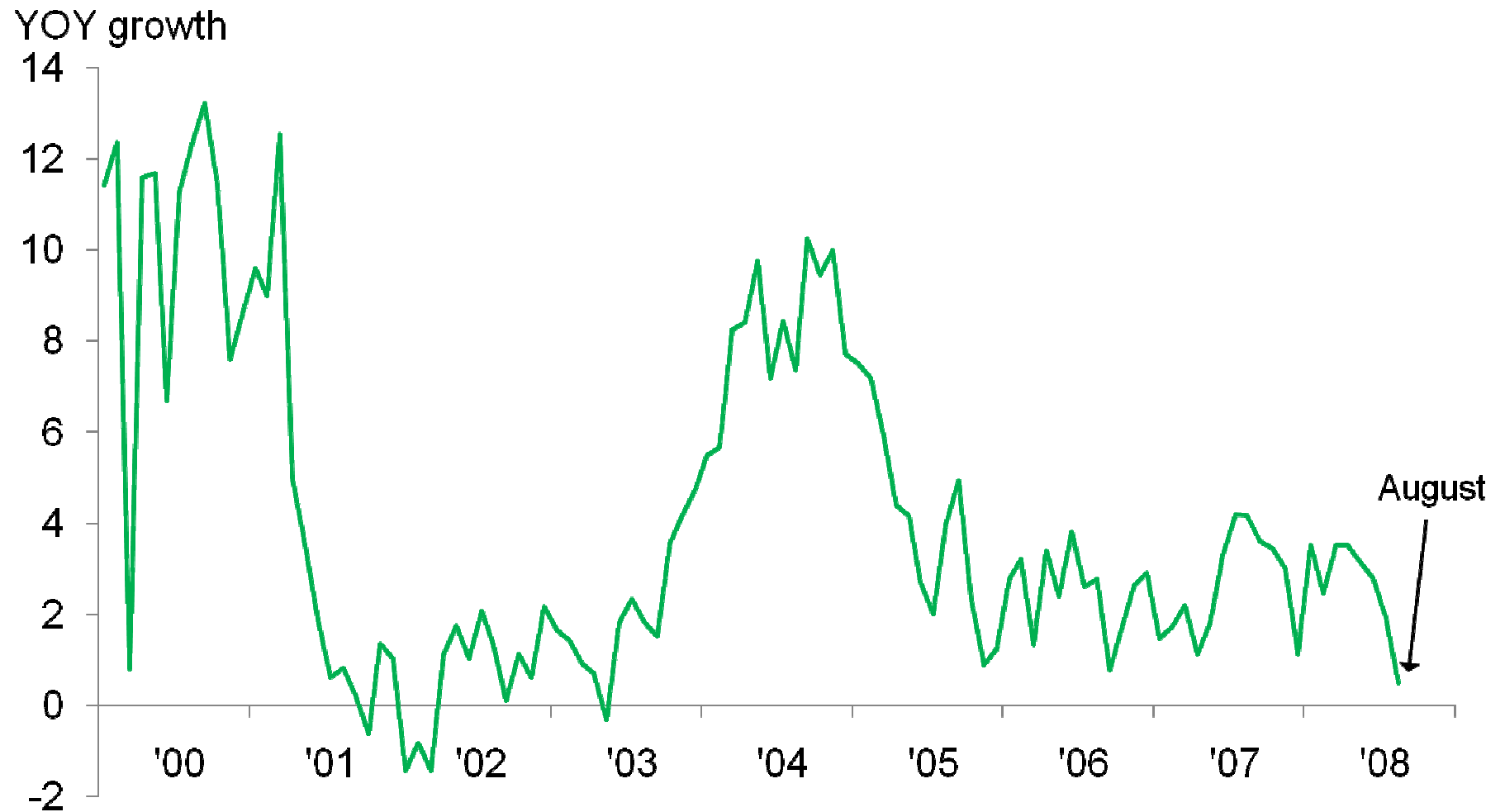


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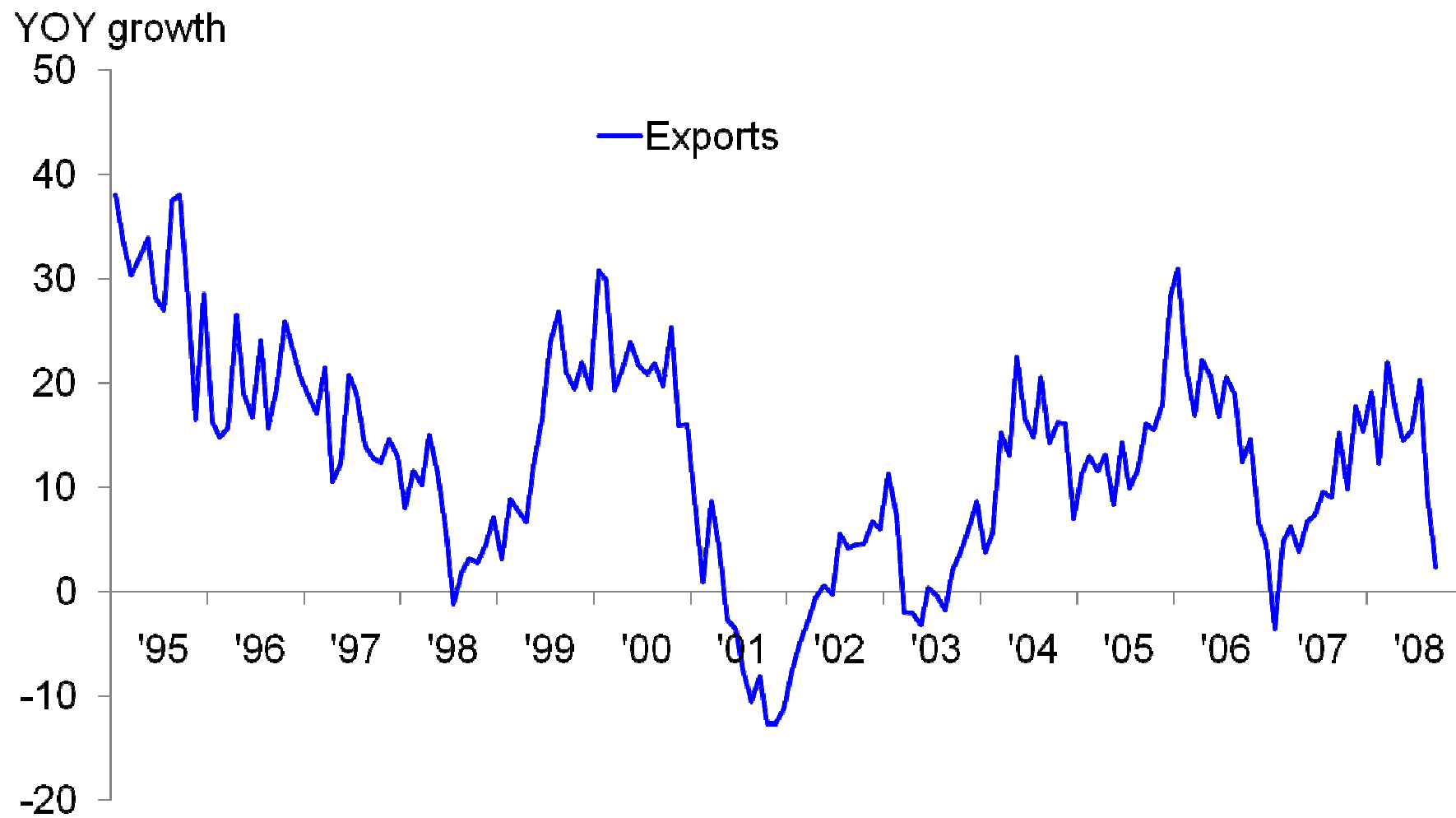
NSA, Index 01/03=100



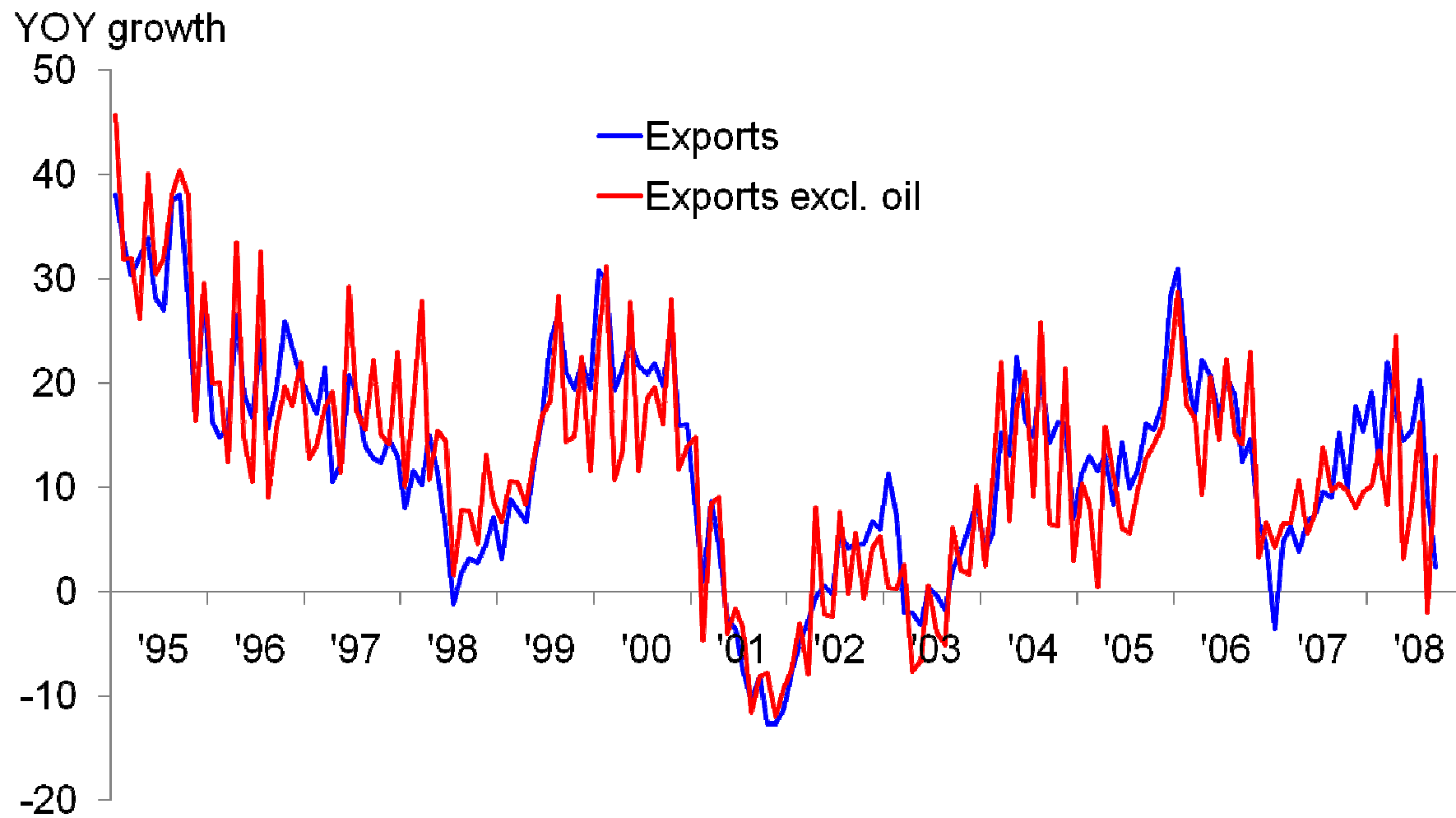
# Retail sales slow to a crawl



## External demand is weakening



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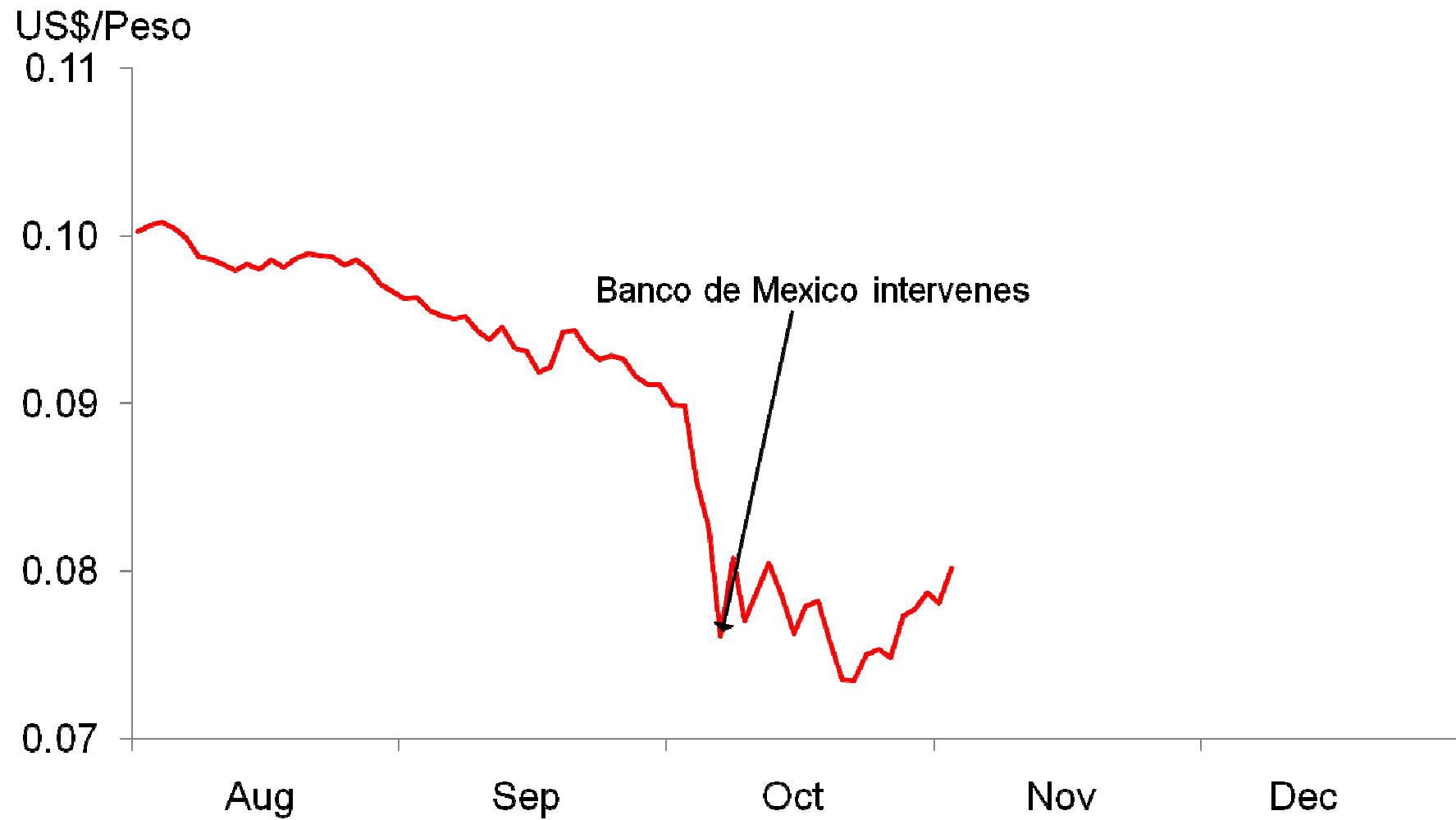
## **Forceful policy response**

- Foreign exchange interventions;
- Short-term debt guarantees;
- Liquidity swaps with the Fed;
- Monetary policy and fiscal policy stimulus could be on the way.



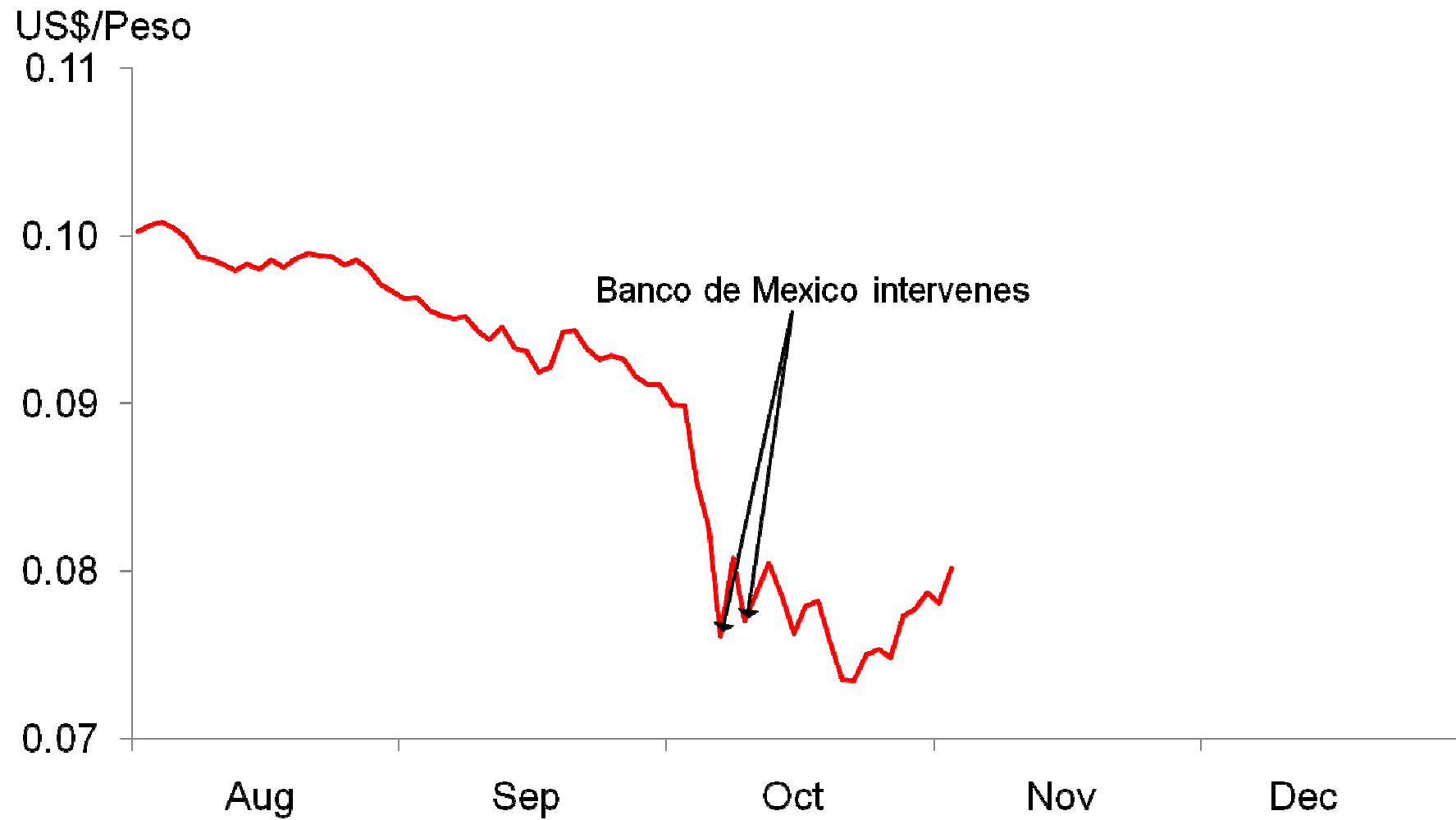
# Peso collapses

(US\$/Peso, daily close)



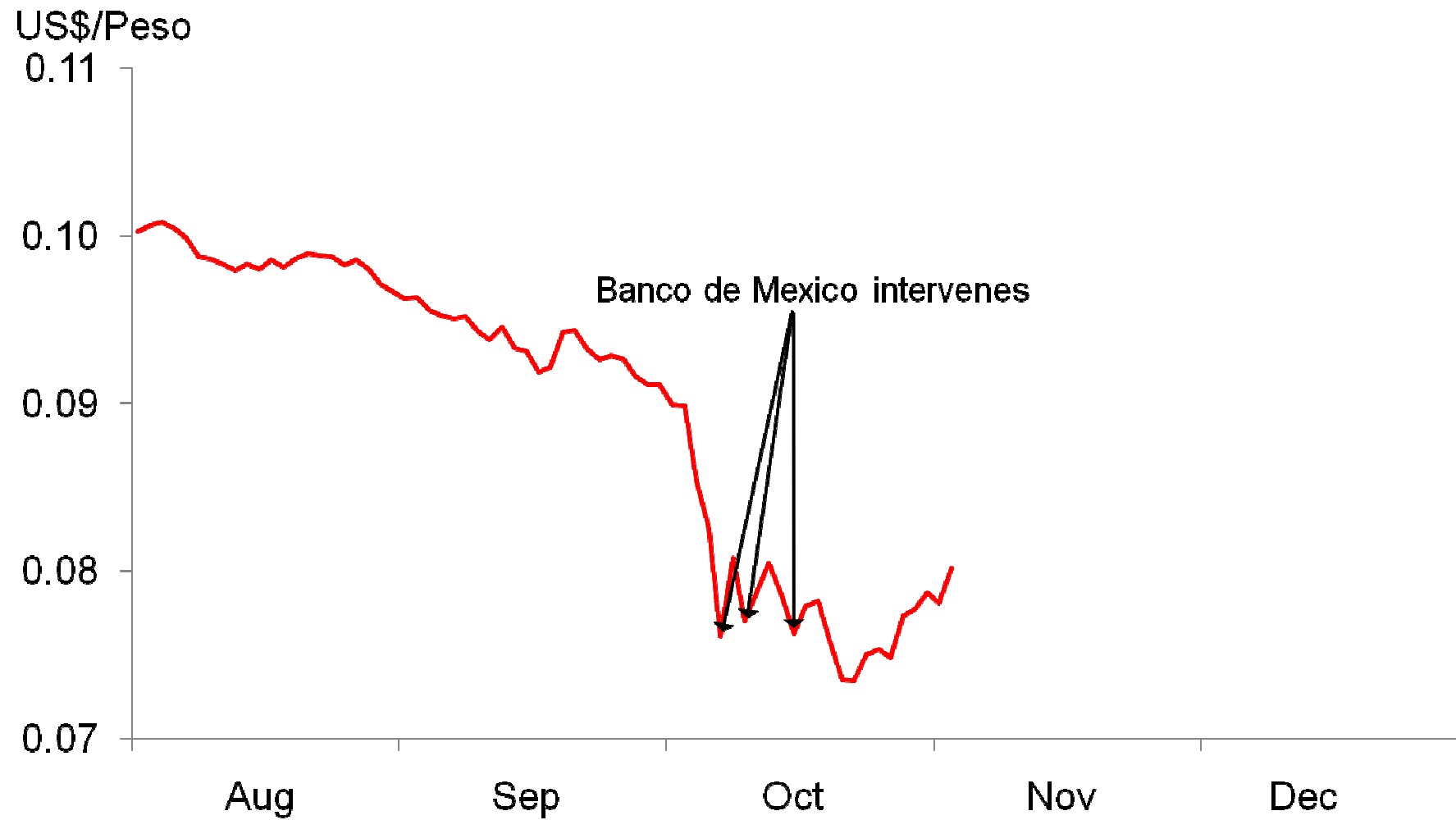
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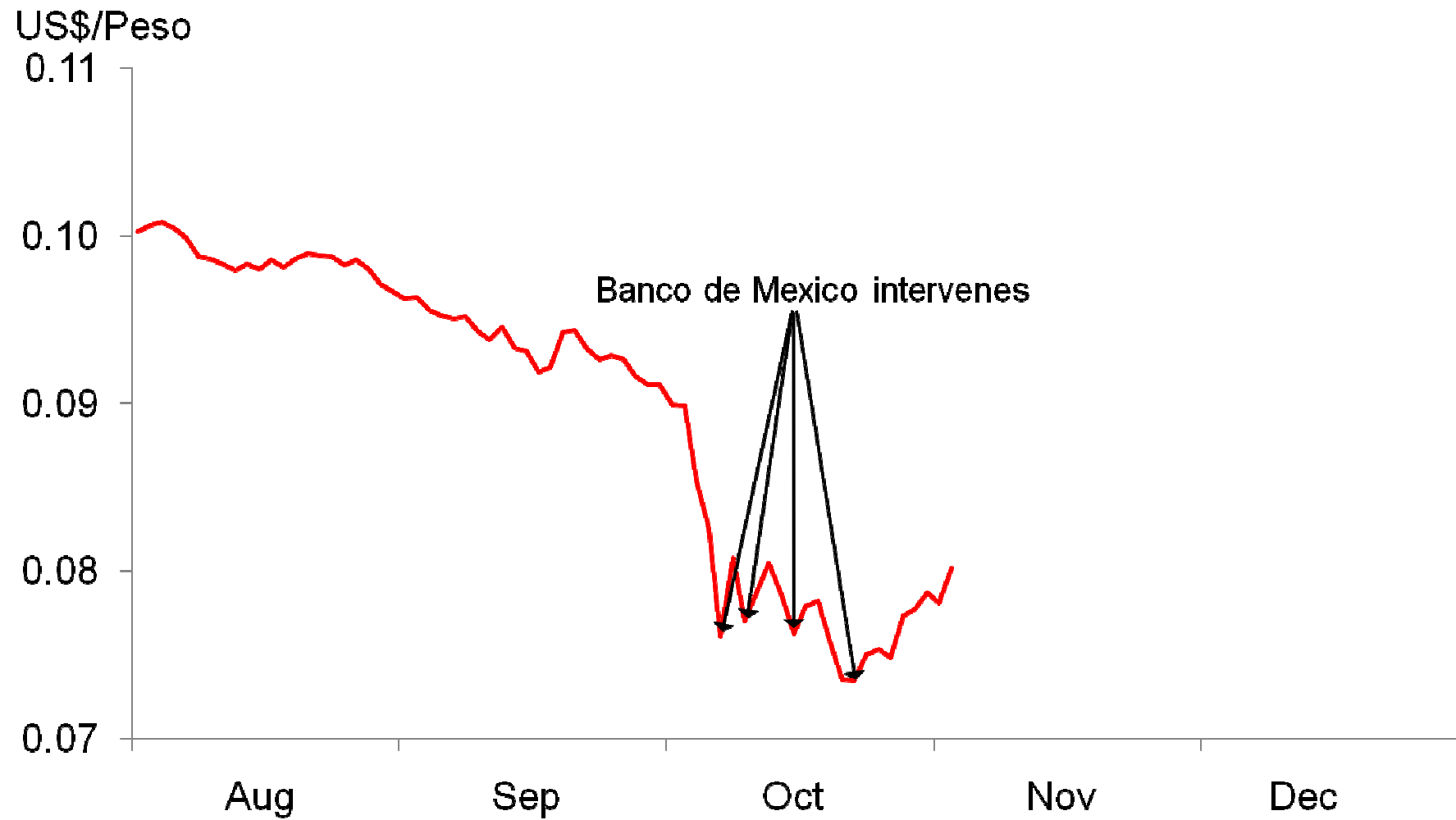
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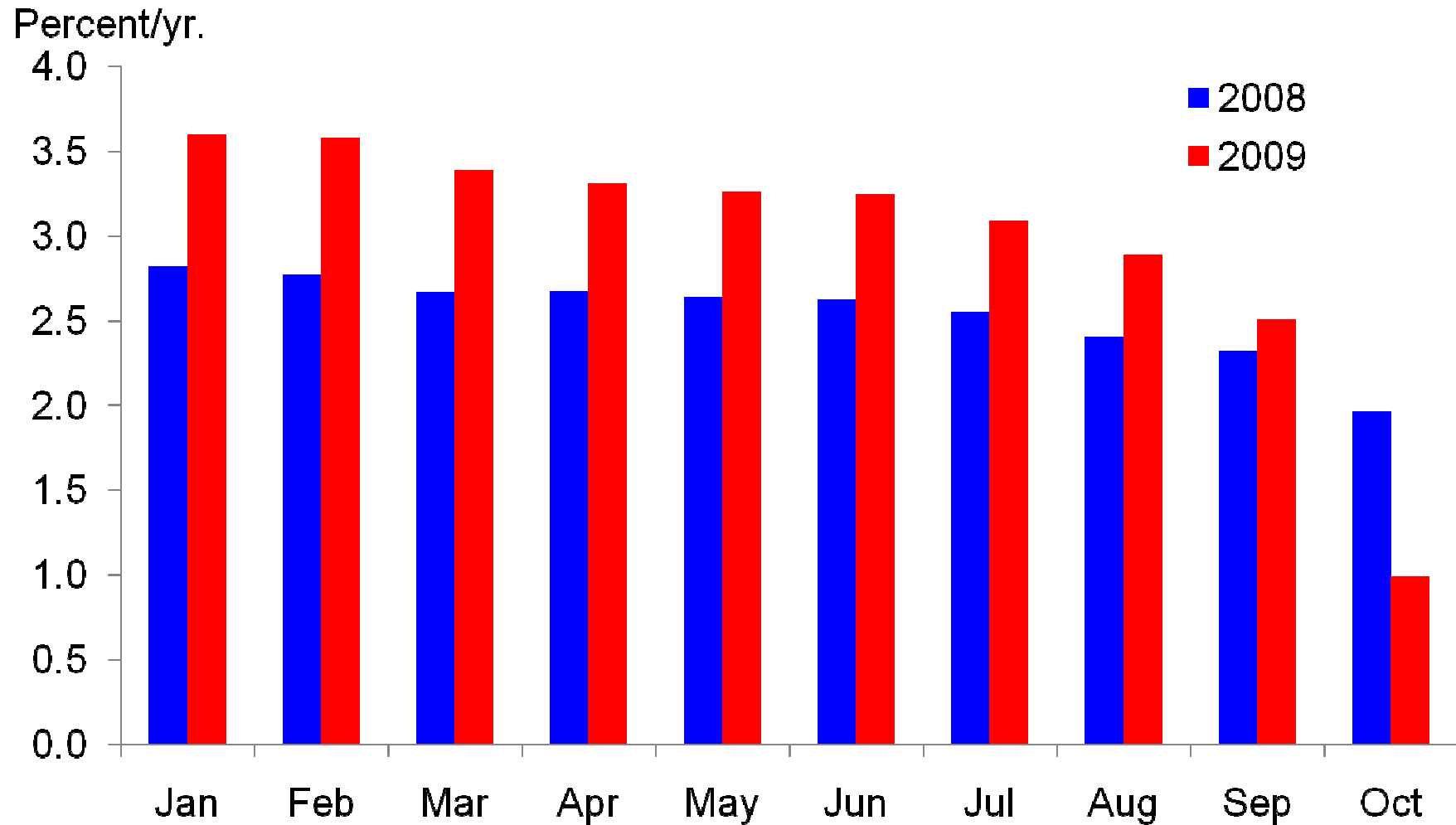


## **How large will the impact be?**

- Real growth will slow, by quite a bit.
- The brunt of the impact has yet to be felt.

# Growth expectations have plummeted

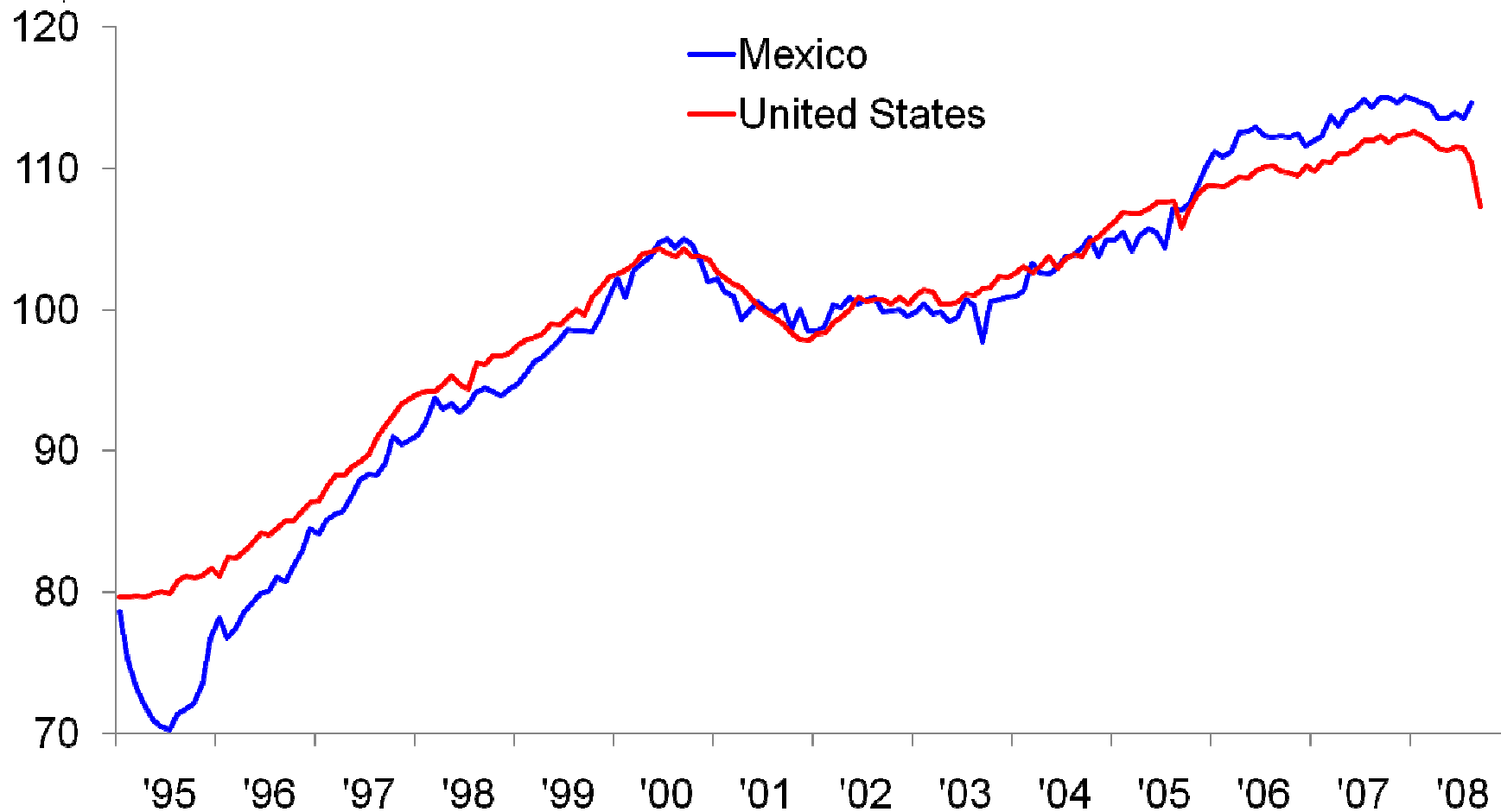
(Private growth forecasts by vintage)



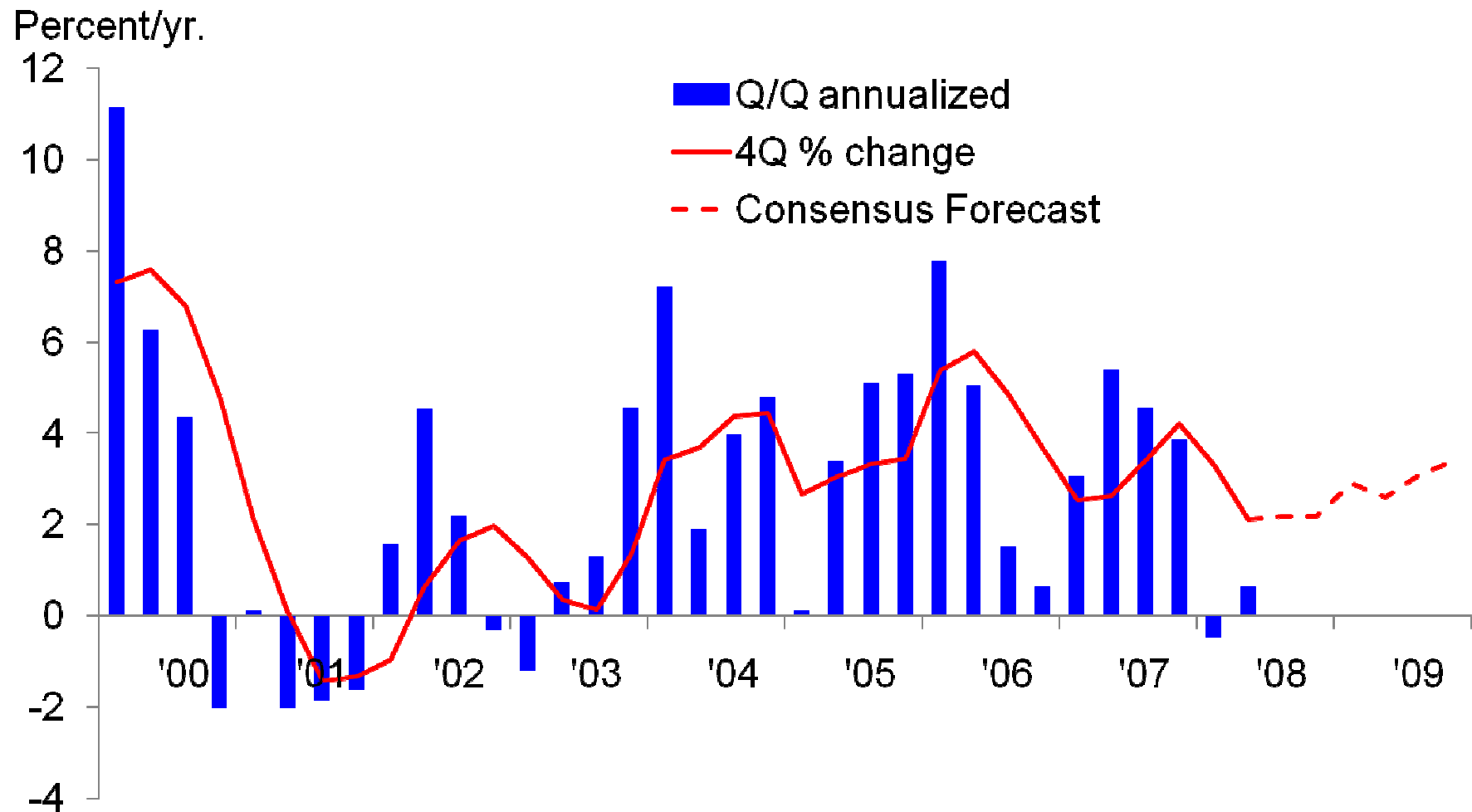
# Together, for better or for worse

(Industrial production index)

SA, Index 2002=100



# Real growth will moderate





# Summary

- Mexico is in as strong a position as it's ever been to weather the storm.
- But the storm will hurt.
- Structural reforms remain as urgent as ever.