Budget Proposal 2021 – Austere and optimistic

September 9, 2020

www.banorte.com
@analisis_fundam

Gabriel Casillas
Chief Economist and Head of Research
gabriel.casillas@banorte.com

Alejandro Padilla
Executive Director of Economic Research and Financial Markets Strategy
alejandro.padilla@banorte.com

Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

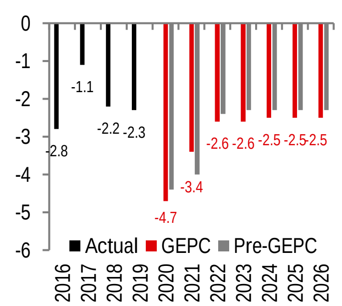
Winners of the award for best economic forecasters for Mexico in 2019, given by *Refinitiv*

STARMINE AWARDS FOR REUTERS POLLS FROM REFINITIV

Document for distribution among the general public

- **The Minister of Finance, Arturo Herrera, delivered yesterday the budget proposal for fiscal year 2021 to the Lower House**
- **The proposal includes three documents: (1) *The General Economic Policy Criteria*;(2) the *Revenue Law*; and (3) the *Spending Budget***
- **In the first one, the government adjusted their GDP forecast for 2020 lower, with the mid-point at -8.0% y/y (previous: -7.4%). For 2021, they expect a 4.6% expansion (Banorte: 1.8%; consensus: 3.0%)**
- **There were also adjustments in the rest of the forecasts, highlighting a modification lower in oil production and a weaker MXN in 2021, apart from higher inflation this year**
- **For 2020, they now see a primary balance surplus of 0.2% of GDP (previous: -0.6%), with the PSBR at -4.7% of GDP (previous: -5.4%). In 2021, they expect these at 0.0% and -3.4%, respectively**
- **On revenues, there were additional downward adjustments for 2020, driven mainly by lower economic activity and oil output. For 2021, they expect a 0.5% decline in real terms, with higher oil-related revenues but a hefty decline in the non-tax component**
- **Spending would barely increase 0.1% in real terms next year, focused on social programs and ministries such as Tourism and Defense. On the contrary, they propose important cuts in the Ministries of Labor and Finance, among others**
- **Resources to federal entities are estimated to decline 5.5% relative to the approved amount for 2020**
- **They expect to use $236.4 billion (US10.8 billion) in resources from the Stabilization Fund (FEIP), while the balance estimated to end the year close to $31.1 billion (US$1.4 billion)**
- **With this, the Historical Balance of the PSBR would reach 54.7% of GDP by year-end (previous: 55.4%). In 2021, it is estimated at 53.7%, to continue trending down afterwards**
- **We believe the government remains committed to healthy public finances within the limits of the current fiscal framework, with risks of additional weakness. Nevertheless, we estimate our country will maintain its investment grade status the rest of this year and in 2021**

Public deficit*
% of GDP



Source: MoF
*Measured by the Public Sector Borrowing Requirements (PSBR)

Macroeconomic framework and fiscal variables[1]
Selection

2020	GDP -8.0% (Previous: -7.4%)	USD/MXN: 22.00 (Previous: 20.10)	Crude oil price: US$/bbl 35 (Previous: 34)	Public deficit*: 4.7% (Previous: 5.4%)	Public debt**: 54.7% (Previous: 55.4%)	Primary balance +0.2% (Previous: -0.6%)
2021	GDP 4.6% (Previous: 2.5%)	USD/MXN: 22.10 (Previous: 21.30)	Crude oil price: US$/bbl 42 (Previous: 30)	Public deficit*: 3.4% (Previous: 4.0%)	Public debt**: 53.7% (Previous: 52.1%)	Primary balance 0.0% (Previous: -0.6%)

Source: MoF. Previous figures 2020 correspond to the revisions in the latest quarterly report, while for 2021 they correspond to the PGEPC.
1. GDP: Real annual growth rate; Nominal exchange rate; Public deficit, public debt y and primary balance as a percentage of GDP. *Public Sector Borrowing Requirements (PSBR). **Historical Balance of Public Sector Borrowing Requirements (HBPSBR)

The MoF submits to Congress its budget proposal for fiscal year 2021. The Minister of Finance, Arturo Herrera, delivered yesterday the documents to the Lower House which included: (1) The *General Economic Policy Criteria* (GEPC) –which states the macroeconomic projections used to estimate the budget–; (2) the *Revenue Law*; and (3) the *Spending Budget*. In the first two cases, they must be approved by both the Lower House (October 20th) and the Senate (October 31st), while the spending budget should be approved only by the Lower House no later than November 15th.

Main deadlines for FY2021 Fiscal Budget

Deadline	Document
September 8	2021 Budget Proposal
October 20	Lower House approval of the Revenue Law
October 31	Senate approves the Revenue Law
November 15	Lower House of the *Spending Budget*

Source: Ministry of Finance

Updated assumptions closer to the market, but still optimistic. Regarding GDP, mid-point forecasts stand at -8.0% and +4.6 % for this year and next, respectively. The first is below the latest estimate of -7.4%, while the latter was upgraded from 2.5% (see table below). Both are higher than our forecasts, at -9.8% and +1.8%, in the same order, and also more optimistic than consensus according to the latest Banxico survey, at -9.9% and 3.0%. The adjustment in the average level of the USD/MXN was more modest, to 22.00 per dollar this year (previous: 22.10) and 22.10 in 2021 (previous: 21.40). We should mention that a weaker peso has a modest positive effect on the fiscal deficit, as gains in oil income more than compensate for a higher financial cost of foreign debt. On the other hand, inflation stands at 3.5% and 3.0% for the same periods, consistent with the latest central bank forecasts. Regarding oil, the average price for this year was an inch higher relative to the quarterly report, to 34.6 US$/bbl, as international prices have recovered recently. For 2021 it stands at 42.1 US$/bbl (previous: 30 US$/bbl). On the other hand, the oil production estimate for 2020 stayed unchanged at 1,744kbpd. Nevertheless, for 2021 the adjustment lower was sizable, at 1,857 from 2,027kbpd in the preliminary version of the GEPC, released in April. Just as a reference, YTD production until July has averaged 1,684kbpd according to the *National Hydrocarbons Commission* (CNH, in Spanish).

More modest deficits projected for this year and 2021. Contrary to our view, *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the fiscal deficit– were revised to the upside. For 2020, these are now expected at -4.7% of GDP from -5.4%. In a similar fashion, PSBR for 2021 are projected at -3.4% (previous: -4.0 %). According to the MoF, this year's estimates are better because of: (1) The expectation that the economy will continue recovering in 2H20; and (2) higher revenues than forecasted before, given actual figures for tax collection up to August. These factors would more than compensate for lower-than-expected GDP. We should also mention that 2021 GDP assumes that the recovery that started in 2H20 extends, other sectors continue adapting –resulting in higher capacity utilization– and the USMCA boost the manufacturing sector, among others. The MoF also stated these forecasts could be revised (higher) if a vaccine allows for a wider and earlier reopening of the economy.

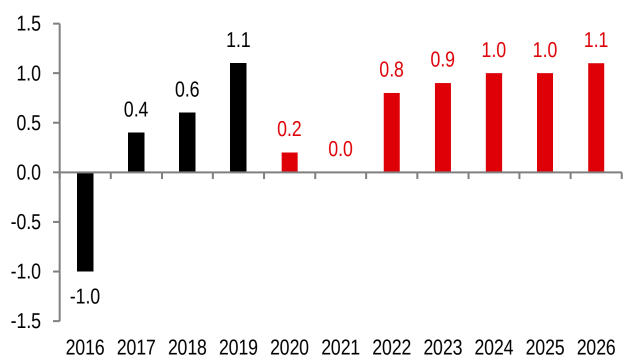
Consequently, the public balance[1] was also adjusted higher, to -2.9% of GDP in both 2020 and 2021. Lastly, the primary balance –equal to the public balance less debt financial costs–, which internationally is considered as a fundamental measure of public finance health, is expected at a +0.2% of GDP this year and 0.0%, in the same order, as shown in the chart below to the left.

General Economic Policy Criteria (GEPC) – 2020-2021

	2020					2021		
	GEPC (Sep'20)	Quarterly Report (Jul-20)	Pre-GEPC (Apr'20)	Approved (Nov'19)	Consensus*	GEPC (Sep'20)	Pre-GEPC (Apr'20)	Consensus*
GDP (%, yoy)								
Range	-10.0 to -7.0	--	-3.9 to 0.1	1.5 to 2.5	--	3.6 to 5.6	1.5 to 3.5	--
Mid-point	-8.0	-7.4	-1.9	2.0	-9.9	4.6	2.5	3.0
Inflation (%)								
December / December	3.5	--	3.5	3.0	3.8	3.0	3.2	3.6
Nominal exchange rate								
End of period	22.3	--	22.9	20.0	22.6	21.9	21.4	22.5
Average	22.0	22.1	22.0	19.9	--	22.1	21.3	--
Interest rate (28-day CETES)								
% nominal, end of period	4.0	--	5.8	7.1	4.2	4.0	5.8	4.3
% nominal, average	5.3	--	6.2	7.4	--	4.0	5.8	--
Current Account Balance								
% of GDP	-0.6	--	-0.8	-1.8	--	-2.0	-1.4	--
Fiscal Accounts (% of GDP)								
PSBR**	-4.7	-5.4	-4.4	-2.6	-5.4	-3.4	-4.0	-4.3
Public Balance	-2.9	-3.7	-3.3	-2.1	-4.5	-2.9	-3.5	-3.6
Primary balance	0.2	-0.6	-0.4	0.7	--	0.0	-0.6	--
HBPSBR***	54.7	55.4	52.1	45.6	--	53.7	52.1	--
Mexican oil mix								
Price (average, US$/bbl)	34.6	34.4	24	49	--	42.1	30	--
Production (average, kbpd)	1,744	1,744	1,850	1,951	--	1,857	2,027	--
Exports (average, kbpd)	973	--	1,075	1,134	--	870	776	--

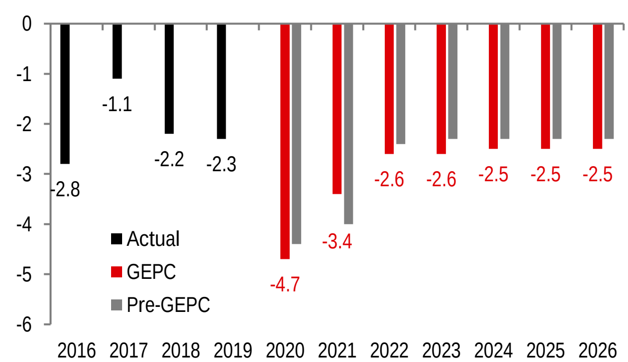
* According to the latest Banxico survey. For GDP, the mid-point corresponds to the survey median
** Public Sector Borrowing Requirements
*** Historical balance of the PSBR, which is the broadest measure of the country's public debt
Source: MoF, Banxico

Primary balance
% GDP



Source: GEPC 2021, MoF

Public balance*
% GDP



Source: GEPC 2021, MoF.
*Measured by the Public Sector Borrowing Requirements

[1] The Public Balance is obtained as the PSBR less the financial requirements of the Mexican Bank Savings Protection Institute, financial requirements of deferred investment projects, adjustments to budget records, financial requirements of the National Infrastructure Funds, program of debtors and the expected gain or loss of development banks and development funds.

Lower revenues this year... Total revenues in 2020 are estimated at $5.4 trillion (US$246 billion), $141.7 billion lower when compared to the amount originally approved in the Revenue Law. This is mainly explained by the decline in tax revenues and, to a lesser extent, lower oil-related income. Nevertheless, the use of Stabilization Fund resources (*Fondo de Estabilización de los Ingresos Presupuestarios*, known as FEIP in Spanish) will help compensate for some of this (see below). On the other hand, they expect an increase of 0.6%-pts of GDP in tax revenues this year relative to the latest update, helping explain the rationale behind a lower expected deficit in the PSBR. This is supported by the forecast of a stronger economy in the second half of the year and updated assumptions in terms of tax collection, explained above.

…and in 2021. For next year, revenues are estimated at $5.5 trillion (US$253 billion), -0.5% y/y in real terms relative to this year's estimate (see table below). In the detail, oil-related income is expected to climb 13.0% y/y on the back of both production and prices. Despite of this, we warn about potentially higher market risk for this component. In this sense, recent news affirm that oil hedges' costs contracted by the government have increased given higher asset volatility and lower crude oil prices. Therefore, the government is looking to either hedge a lower amount, buy cheaper options or use a less costly strategy. On the contrary, non-tax revenues would drop 60.6% y/y, remembering that the base effect is very unfavorable given the use of the Stabilization Fund and other resources this year. Nevertheless, and considering the depreciation of the Mexican peso so far, there is the possibility these do not fall as strongly –or even increase at the margin– due to potential resources from Banxico's Operational Surplus. It is worth noting that, by law, the central bank subtracts certain operational losses, as well as capital-replenishment and reserves-build up provisions, resulting in a narrower Foreign Exchange and Asset P&L-derived surplus. Going to other components, income from government-controlled entities (IMSS and ISSSTE) would decline 1.3% on non-recurring revenue. On the other hand, tax revenues are estimated to increase 5.7%. Broadly speaking, this would be mostly driven by higher economic dynamism, with a positive incidence in virtually all categories –including income (+4.6%), value-added (+4.6%) and excise taxes (+12.5%).

Maintaining the policy of not increasing or creating new taxes. We also highlight that these forecasts do not consider any new taxes or higher rates to existing ones (apart from the common update in some of them due to inflation or higher costs to provide these services, such as the excise tax on gasolines). This was justified by the assessment that higher or new taxes would hit growth given their procyclical nature. Specifically, the MoF said that they will focus on "*…fostering greater responsibility and fairness in the compliance of fiscal obligations by taxpayers, along recovering resources that are a legitimate property of the State…*". In this respect, the proposal includes stronger controls in terms of mergers, spin-offs, fiscal losses, tax devolutions, CFDI (digital fiscal footprint), donations and fiscal dictums. It also hardens some provisions related to international trade.

2021 Budget Proposal
$ billion; % of GDP; % y/y in real terms

	$ billion		% of GDP		% y/y in real terms
	2021	2020*	2021	2020*	
Public balance	-718.2	-663.3	-2.9	-2.9	4.7
Ex. high-impact investments	-175.1	-138.2	-0.7	-0.6	22.5
Budget Balance	-718.2	-663.3	-2.9	-2.9	4.7
Revenues	*5,538.9*	*5,381.6*	*22.2*	*23.3*	*-0.5*
Oil revenues	936.8	801.3	3.7	3.5	13.0
Non-oil revenues	4,602.2	4,580.3	18.4	19.8	-2.9
Federal Government	3,737.1	3,733.0	15.0	16.2	-3.2
Tax collection	3,533.0	3,232.1	14.1	14.0	5.7
Non-tax revenues	204.1	500.8	0.8	2.2	-60.6
Government-controlled entities (IMSS, ISSSTE and CFE)	865.1	847.3	3.5	3.7	-1.3
Spending	*6,257.1*	*6,044.9*	*25.0*	*26.2*	*0.1*
Programmable	4,579.7	4,473.7	18.3	19.4	-1.0
Non-programmable	1,677.4	1,571.2	6.7	6.8	3.2
Financial costs	723.9	718.0	2.9	3.1	-2.5
Transfers to states of federal tax revenues	921.4	836.7	3.7	3.6	6.5
Accrued spending of previous fiscal years	32.1	16.5	0.1	0.1	88.1
Primary balance	6.2	55.2	0.0	0.2	-89.1

Source: GEPC 2021, MoF.
*Note: Estimated values for year-end 2020

Relevant adjustments to spending in 2020. Total expenditures this year are projected at $6.0 trillion, representing a $25.1 billion reduction. The decline transfers to states resulting from taxes collected at the federal level and several austerity measures have compensated for higher expenditures destined to the health sector and to mitigate the economic effects of the pandemic.

Budget focused on social programs. For 2021, the MoF proposes spending of $6.3 trillion (US$286 billion), 0.1% higher in real terms relative to this year's estimates. The document highlights further support to the health sector and social programs, favoring also investment spending to reactive the economy. In this respect, total spending in the Federal Government's social programs and priority projects is projected at $484.7 billion (US$22.1 billion), as shown in the table below.

Priority programs and projects for the federal government
$ billion; % of GDP

Program	$	% of GDP	Program	$	% of GDP
Priority programs	336.6	1.42	Priority projects	148.0	0.63
Pensions for the elderly	135.1	0.57	Dos Bocas refinery	45.0	0.19
People with disabilities	15.5	0.07	Priority projects (ex. refinery)	103.0	0.44
Girls and boys	2.7	0.01	Santa Lucía Airport	21.3	0.09
Apprenticeship program	20.6	0.09	Highways under construction	5.8	0.02
Guaranteed prices	11.0	0.05	Mayan train	36.3	0.15
Sowing life (reforestation)	28.9	0.12	Development of the Tehuantepec Isthmus	3.5	0.01
College scholarships	10.2	0.04	Highway maintenance	8.2	0.03
Middle school scholarships	33.2	0.14	Rural roads	6.8	0.03
Elementary school scholarships	31.9	0.14	Mexico-Toluca train	7.0	0.03
Fishing	1.5	0.01	Dams and canals	4.2	0.02
Fertilizers	1.9	0.01	Texcoco ecological park	1.4	0.01
Support to micro businesses	1.6	0.01	Los Pinos - Chapultepec cultural space	3.5	0.01
Alternative savings programs	1.5	0.01	Welfare bank	5.0	0.02
The school is ours	12.3	0.05			
Production for welfare	13.5	0.06			
Rebuilding	1.8	0.01			
Urban improvement	4.1	0.02			
Social housing	8.4	0.04			
Welfare colleges	1.0	0.00			

Source: GEPC 2021
*Note: The refinery is not classified within the Budget as a priority project, but as a capital transfer for its construction.

Important adjustments to programmable spending… This component would fall 1.0% y/y in real terms relative to year-end 2020. Nevertheless, when compared to the approved Spending Budget for the current year, it is 1.3% higher. Based on the latter, spending by autonomous branches picked up 11.3%. We highlight the strong advance by the National Electoral Institute (INE) of 60.7%, ahead of the mid-term elections next year. On the contrary, we note less resources for the National Human Rights Commission (CNDH), at -13.3% and the National Statistics Agency (INEGI) of -54.8%, remembering that the Census was conducted in 2020. Administrative branches are estimated to expand 4.8%. The most benefitted ministries include Tourism (641.5%), SEDATU (46.9%) and Defense (15.7%), as shown in the table below. On the contrary, the highest reductions were in the Ministry of Labor (-20.3%), MoF (-17.3%) and the President's Office (-15.3%). Spending in Pemex is proposed to increase 0.6%, while CFE would diminish by 11.6%. Spending in both IMSS and ISSSTE are proposed to climb, in line with the priority in the health sector, up 5.7% and 3.3%, respectively. Lastly, expenditures in general branches would increase 2.7%, with transfers and subsidies at +6.9%.

Main adjustments in programable spending for administrative branches
$ billion, % y/y in real terms

	2021	2020 Budget	% y/y in real terms
Upward			
Tourism	38.6	5.2	641.5
SEDATU	16.6	11.3	46.9
Defense	112.6	97.3	15.7
Downward			
Labor	23.8	29.9	-20.3
Finance	20.2	24.5	-17.3
President's Office	0.8	1.0	-15.3

Source: GEPC 2021, MoF

…and also, non-programmable. The government calculates 3.2% growth when compared to estimated data for full-year 2020. Nevertheless, and similar to the component above, these would fall 4.6% relative to the approved budget. Under the latter comparison, financial costs are expected at -3.8%, mainly driven by the estimation of lower interest rates. On the other hand, transfers to states resulting from taxes collected at a federal level are estimated to fall 6.4%, as detailed in the following section.

Lower resources to federal entities. Total resources for states in 2021 would amount to $1.9 trillion (US$85 billion), 5.5% below last year's approved amount. This is driven by lower tax collection for this year, impacting the availability of some of these resources. Despite of the latter, the government aimed to maintain some of them relatively unchanged, with contributions declining only by 1.1% with the goal of lessening the negative impact from lower transfers, which fell by a higher amount (see table below).

Federal allocations to states
$ billion, % y/y in real terms

	2021	2020 Budget	% y/y
Total	1,867.3	1,975.9	-5.5
Transfers resulting from taxes collected at a federal level	921.4	984.1	-6.4
Contributions	836.1	845.2	-1.1
Other concepts	109.8	146.6	-25.1

Source: CGPE 2021, Ministry of Finance

All states will receive less transfers from the federal government. With a 6.4% decline nationwide, all federal entities will see lower resources from this component. The states with more modest declines include Tlaxcala (-3.6%), Tabasco, Chiapas and Michoacán (-4.7%). On the contrary, the most impacted include Nayarit (-10.5%), Quintana Roo (-9.2%) and Mexico City (-9.1%), as shown in the table below.

Transfers resulting from taxes collected at a federal level to states
$ billion, % y/y in real terms

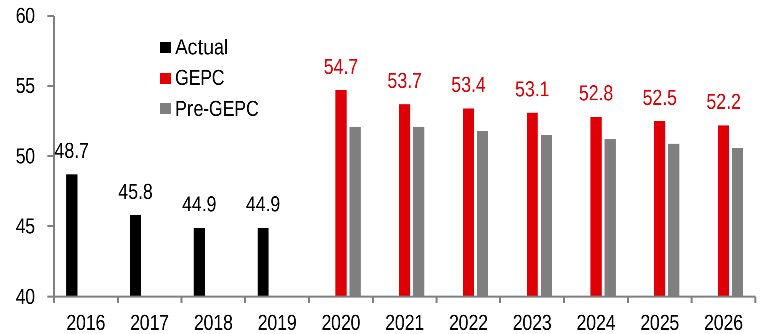
State	2021	2020 Budget	% y/y in real terms
Aguascalientes	9.9	10.2	-6.7
Baja California	27.7	28.5	-6.2
Baja California Sur	6.5	6.8	-8.2
Campeche	9.2	9.6	-7.5
Coahuila	21.7	22.5	-6.8
Colima	6.0	6.2	-7.8
Chiapas	34.1	34.6	-4.7
Chihuahua	27.5	28.3	-6.3
Mexico City	94.3	100.4	-9.1
Durango	12.2	12.7	-7.2
Guanajuato	39.7	41.4	-7.4
Guerrero	21.3	21.8	-5.3
Hidalgo	18.3	18.7	-5.8
Jalisco	60.7	62.7	-6.4
State of Mexico	125.2	127.3	-4.9
Michoacán	28.9	29.3	-4.7
Morelos	12.1	12.8	-8.4
Nayarit	8.6	9.3	-10.5
Nuevo León	42.1	43.7	-6.8
Oaxaca	23.8	24.8	-7.4
Puebla	39.3	41.1	-7.5
Querétaro	16.0	16.8	-7.8
Quintana Roo	12.7	13.6	-9.2
San Luis Potosí	19.4	19.9	-6.0
Sinaloa	22.3	23.5	-8.6
Sonora	24.8	26.0	-7.7
Tabasco	25.5	25.9	-4.7
Tamaulipas	28.7	29.5	-5.7
Tlaxcala	9.4	9.4	-3.6
Veracruz	51.9	53.2	-5.8
Yucatán	15.6	16.0	-6.1
Zacatecas	11.9	12.5	-7.8
Non-deliverable*	14.2	12.2	12.6

Source: CEFP with data from the MoF
*Note: Incorporates 'others'

Stabilization Fund to be used again in 2020, along other resources. The document mentions that they are expecting to use $236.4 billion (US$10.8 billion) from the Stabilization Fund (FEIP, in Spanish) in 2020, which are accounted for in non-tax revenues. It is worth noting that these resources can be used if resources for spending are lower than projected, no matter the reason. As a result, the remaining balance by the end of the year would be around $31.1 billion (US$1.4 billion). Moreover, the document details that states can use resources for the Stabilization Fund for State Revenues (FEIEF, in Spanish), although without mentioning the amount that is expected to be used or how much has been allocated so far.

Public debt revised slightly lower for both 2020 and 2021. The *Historical Balance of Public Sector Borrowing Requirements* (HBPSBR) is now expected at 54.7% of GDP from 55.4% in the latest quarterly report. We should mention that the reduction is driven to a great extent by the corresponding decline in PSBR, as detailed above. The forecast for 2021 stands at 53.7%. The expected path is consistent with the Fiscal Responsibility Law, which contemplates a reduction of the debt to GDP ratio in the forecast horizon. Lastly, public debt is estimated at 53.6% and 52.4% of GDP, in the same order.

Total public sector debt
% GDP



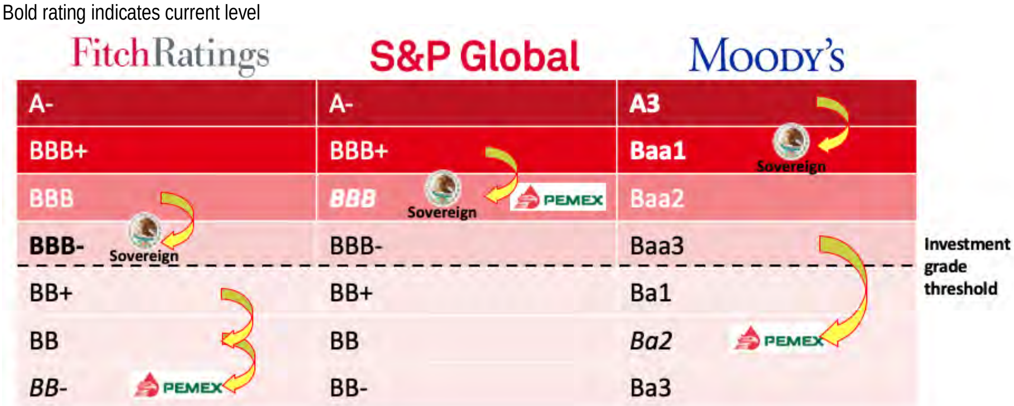
Source: GEPC 2021, MoF.
*Measured by the Historical Balance of the Public Sector Borrowing Requirements

In our view, the outlook is subject to relevant downside risks. This is mainly because of broadly optimistic assumptions. Thus, we cannot rule out an additional deterioration in the health of public finances, even in a relatively positive scenario in terms of the global evolution of the pandemic and US growth. Specifically, GDP forecasts for this year and 2021 are above market expectations. In addition, oil production estimates are at risk given current levels. If these are lower than expectations, expected revenues would also be impacted –both oil and non-oil–, likely leading to more drastic spending cuts. In turn, relief measures would be more limited given that stabilization funds have already been spent this year, potentially resulting in further adverse effects to economic growth and employment, among others. On the contrary, we believe some changes that believe could help this scenario to materialize include providing more certainty for to private sector participants, especially regarding certain legislative proposals, which despite not advancing, have increased uncertainty.

Mexico to maintain its investment-grade status, this year and in 2021... In our view, the proposed budget reiterates the government's focus on healthy public finances while also recognizing the strong impact of the pandemic, with null growth (in real terms) in revenues and virtually flat spending. In this respect, the government is acknowledging the limited room to maneuver for fiscal accounts under the current tax framework. Specifically, they will keep prioritizing a more proactive enforcement and monitoring of current tax laws, with spending redistributed towards social programs and priority projects in a context of higher austerity measures. More surprisingly, in our view, is that fiscal deficit and total debt estimates as a share of GDP for both this year and 2021 were stronger at the margin. Regarding this, we highlight that, given current conditions, the MoF estimates that one percent more in debt as a share of GDP in 2020 would result in about $11.06 billion (US$506 million) less money for spending in 2021.

…while additional revisions to the downside could have a more modest impact. Overall, given these factors and despite limited stimulus spending that could hit GDP growth again, it is our take that Mexico will maintain its investment-grade (IG) status by the three major rating agencies (see table below). Although the most immediate risk comes from *Fitch Ratings*, which places Mexico only one-notch above this threshold, the outlook is Stable. On the other hand, *S&P Global Ratings* and *Moody's Investors Service* place our country two- and three-notches above IG, in the same order, albeit both with a Negative outlook. We should also mention that, even though the deficit and debt to GDP ratio are projected to be significantly above those expected before the pandemic, these have affected virtually all countries in the world. In this context, additional ratings' downgrades may have a more modest impact due to at least two factors: (1) Risk premia already embedded in Mexican assets; and (2) investors that judge ratings not only in absolute terms, but also relative to other countries. The latter is especially important as public finance metrics are likely to deteriorate relatively less than in other countries in which fiscal stimulus measures have been more aggressive.

Mexico's sovereign credit rating
Bold rating indicates current level



Source: Banorte with data from S&P Global, Fitch Ratings and Moody's Investors Service

Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., *through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.*

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy

Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Economic Research and Financial Market Strategy

Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Economic Research

Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707

Market Strategy

Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671

Fixed income and FX Strategy

Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Juan Barbier Arizmendi	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746

Corporate Debt

Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Economic Studies

Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454