

Macroeconomy and Debt Management

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Agenda

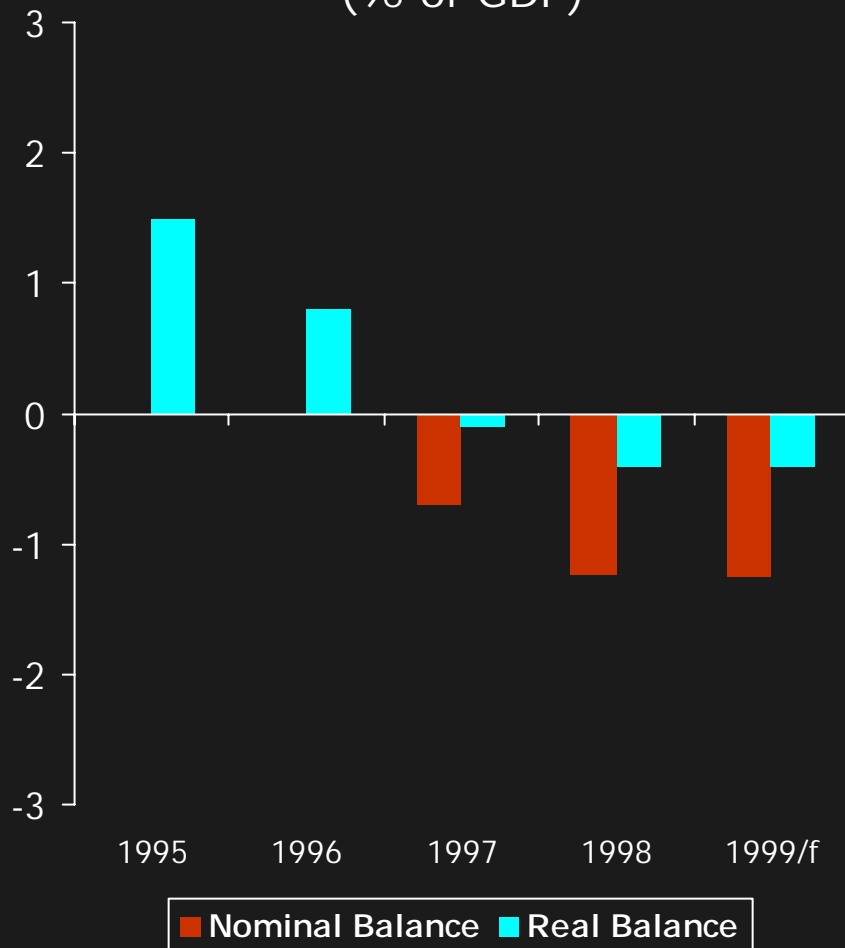
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- Sound Macroeconomic Policy

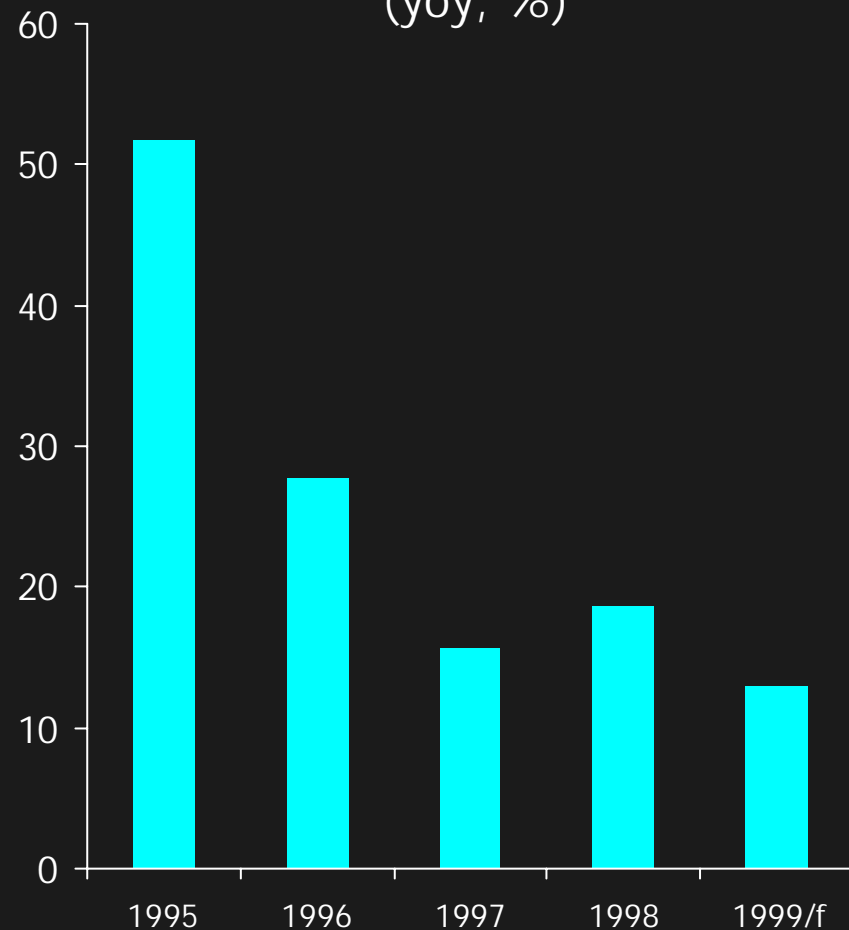
- Macro, not Enough!
- Refinancing Maturing Debt
- Debt Management Strategy
- Conclusions

During several years, Mexico has demonstrated its ability to run sound macroeconomic policies, fiscal and monetary . . .

Fiscal Balance (% of GDP)

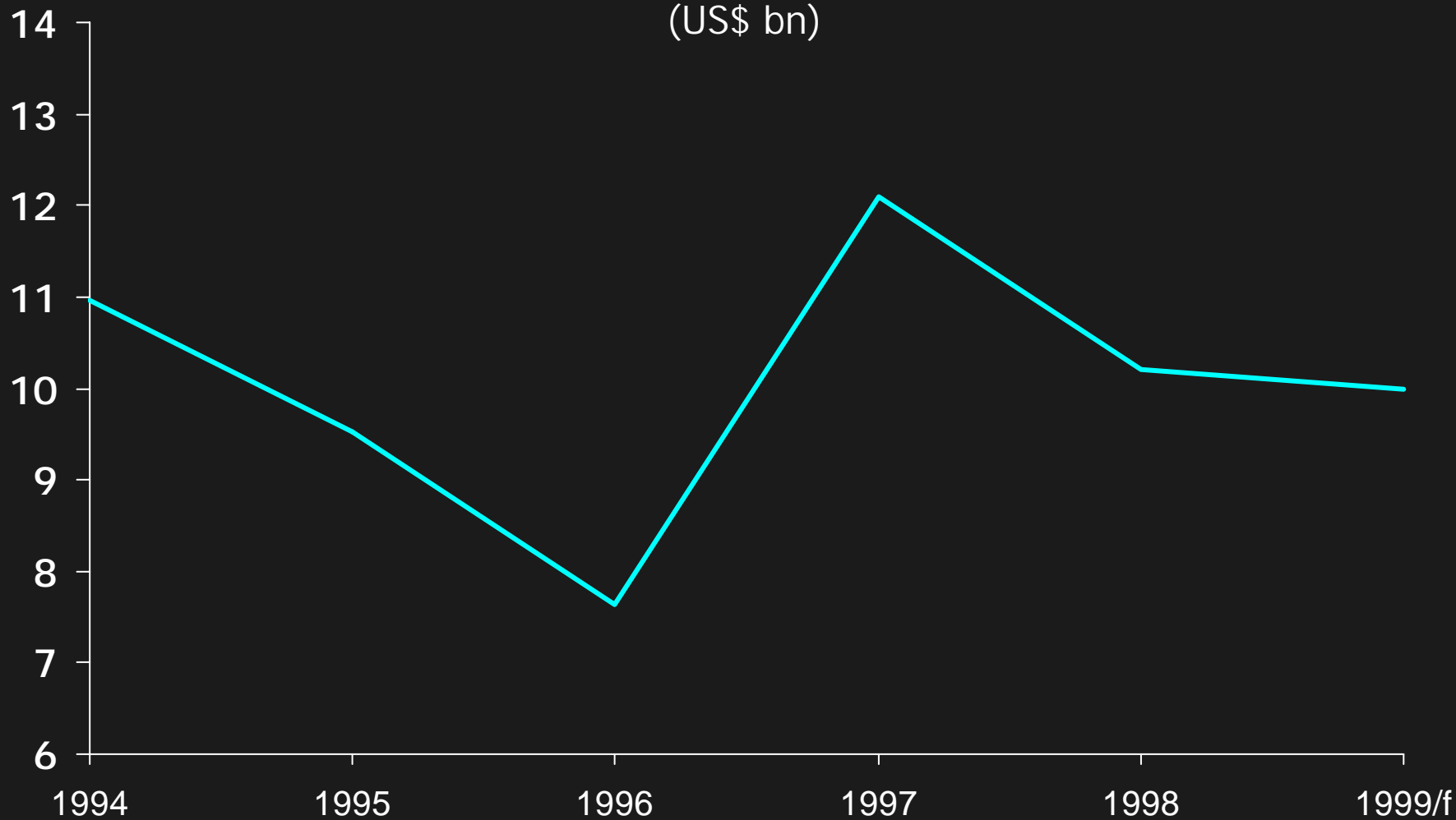


Inflation Rate (yoy, %)



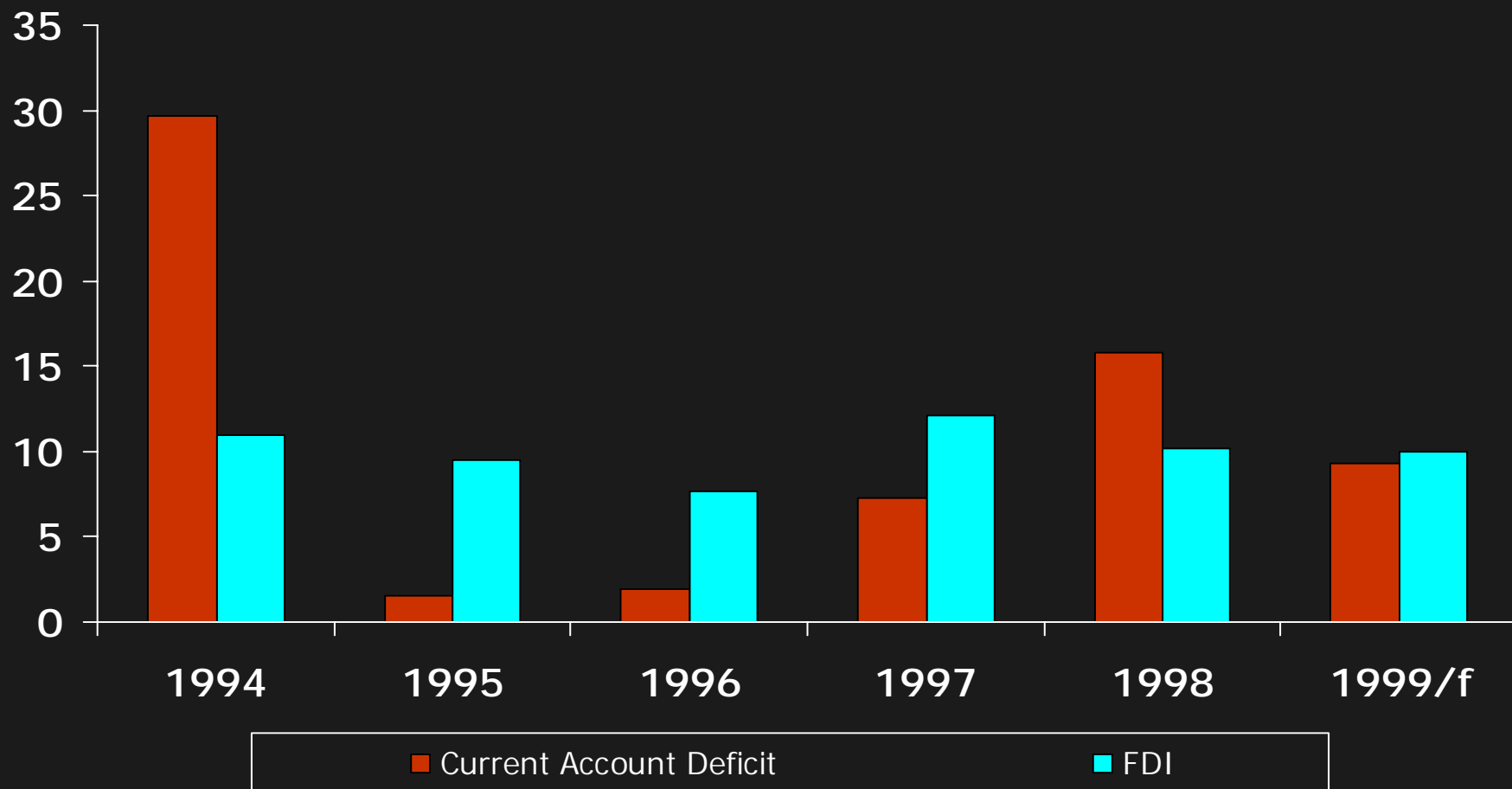
. . . crucial in attracting long-term investment into the country . . .

Foreign Direct Investment (US\$ bn)



... which reduces the vulnerability of the economy to volatile flows.

Foreign Direct Investment and the Current Account Deficit (US\$ bn)



Strong policies strengthen the credit quality of an economy.

Recent Actions by Credit Rating Agencies

Moody's



Upgrade to Ba1

Standard & Poor's



BB (Positive Outlook)

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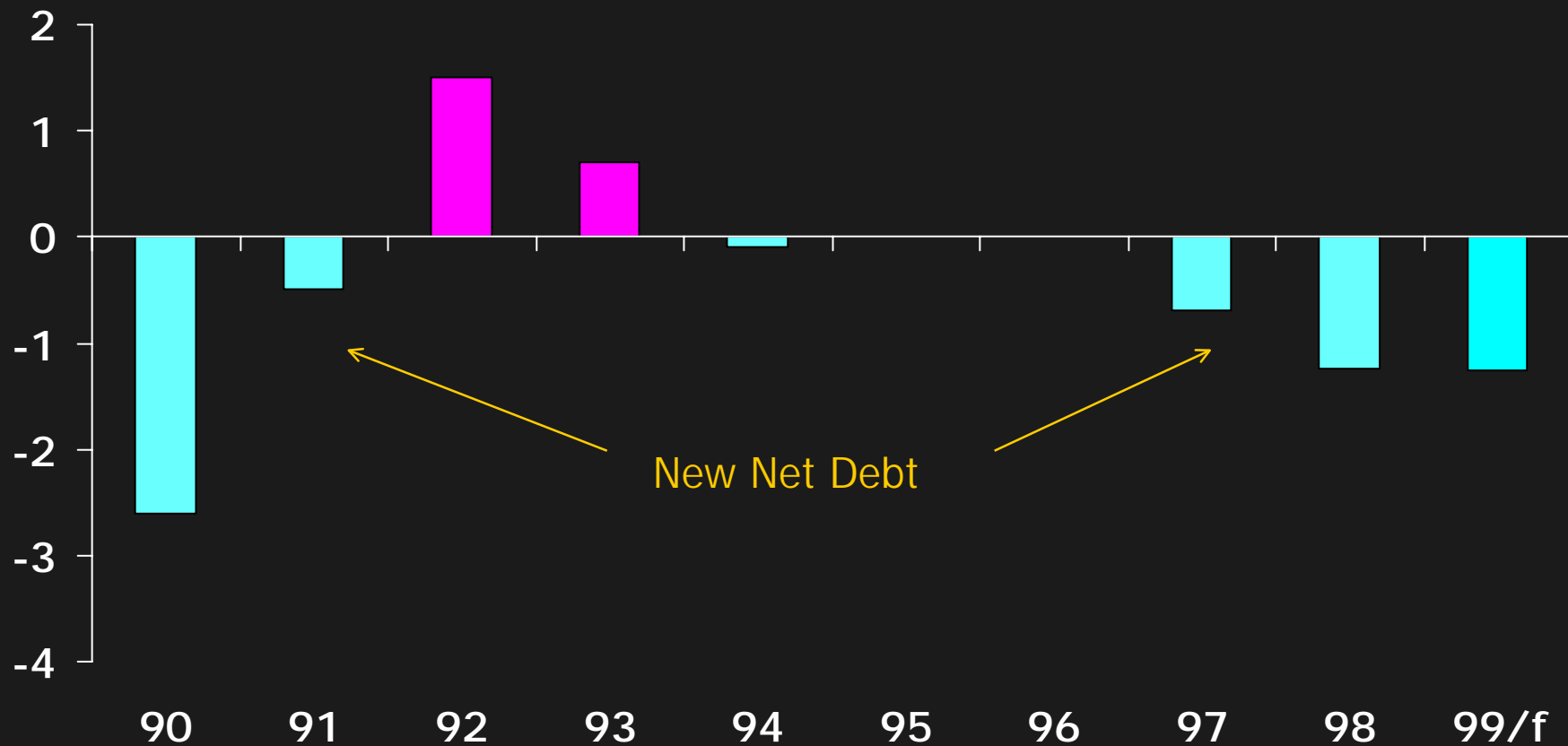
If sound fiscal policies enhance the credit quality of an economy, why pay attention to debt management?

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- Domestic / Foreign Debt
- Maturities
- Fixed or Floating Rates
- Inflation Indexed vs. Nominal

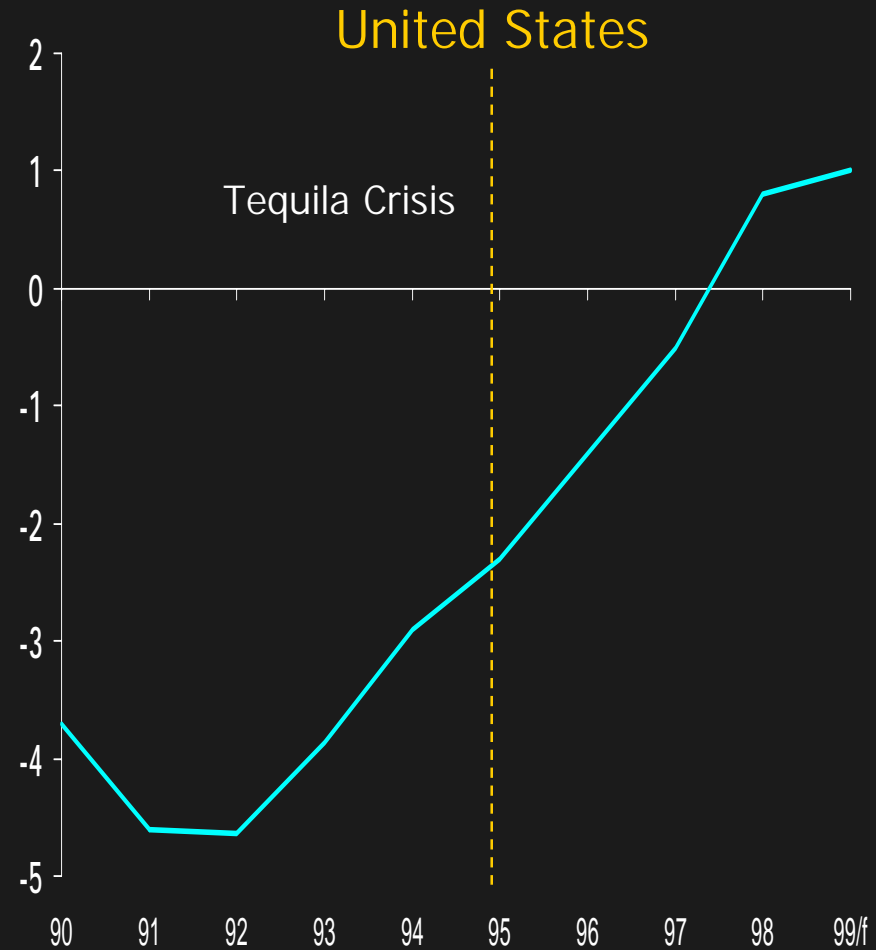
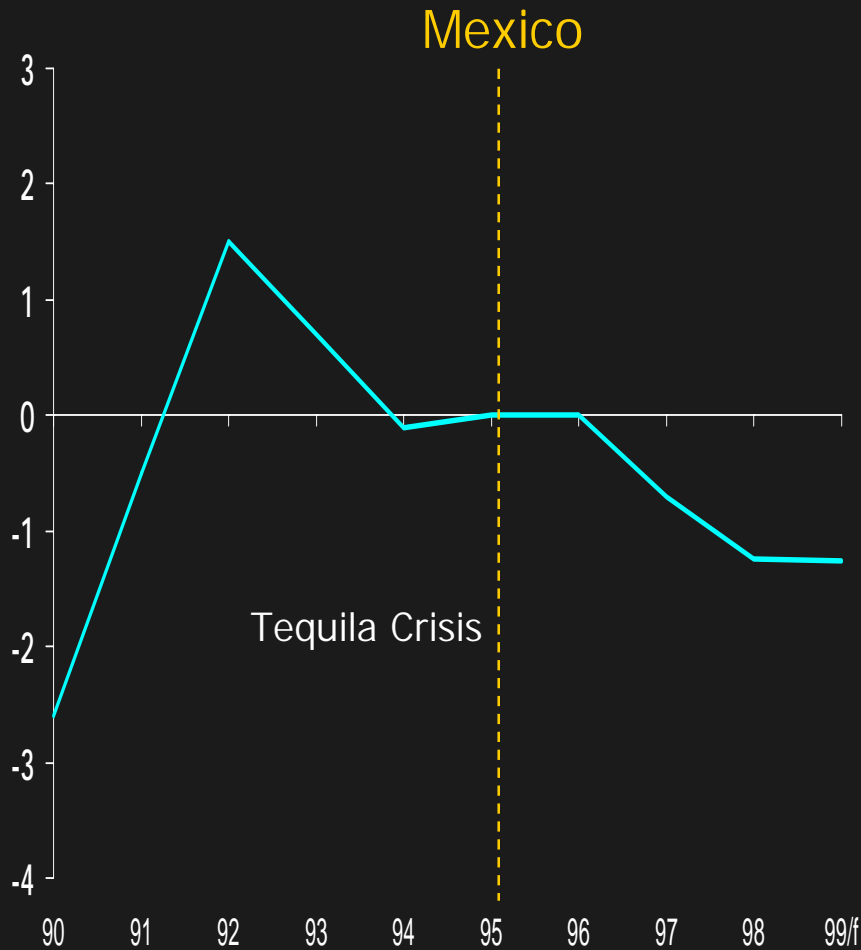
Intuitively, one could argue that under strong macro policies debt management is just a “fill-in-the-blanks” problem.

Fiscal Balance (% of GDP)



However, experience has shown us different.

Fiscal Balance (% of GDP)

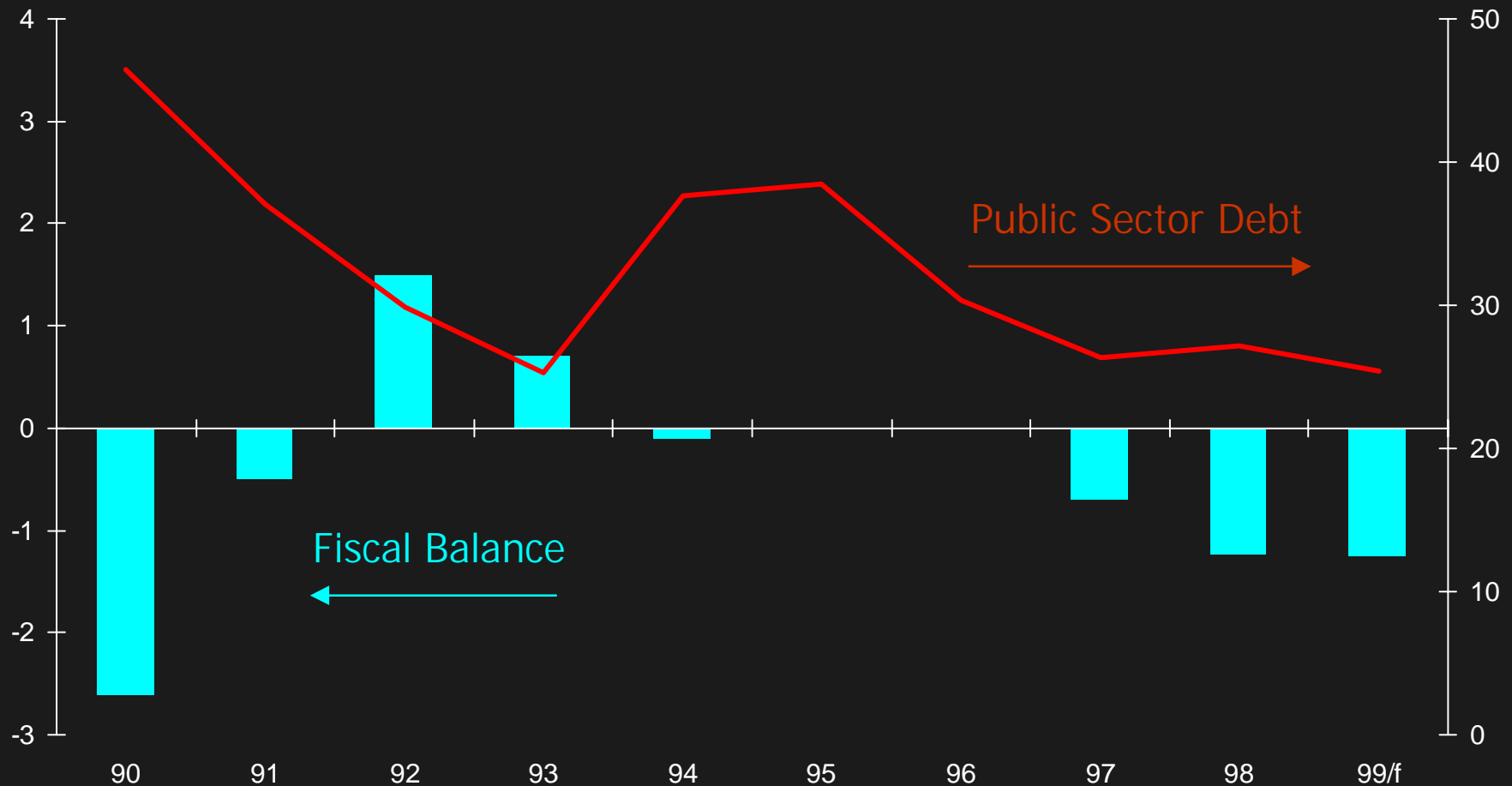


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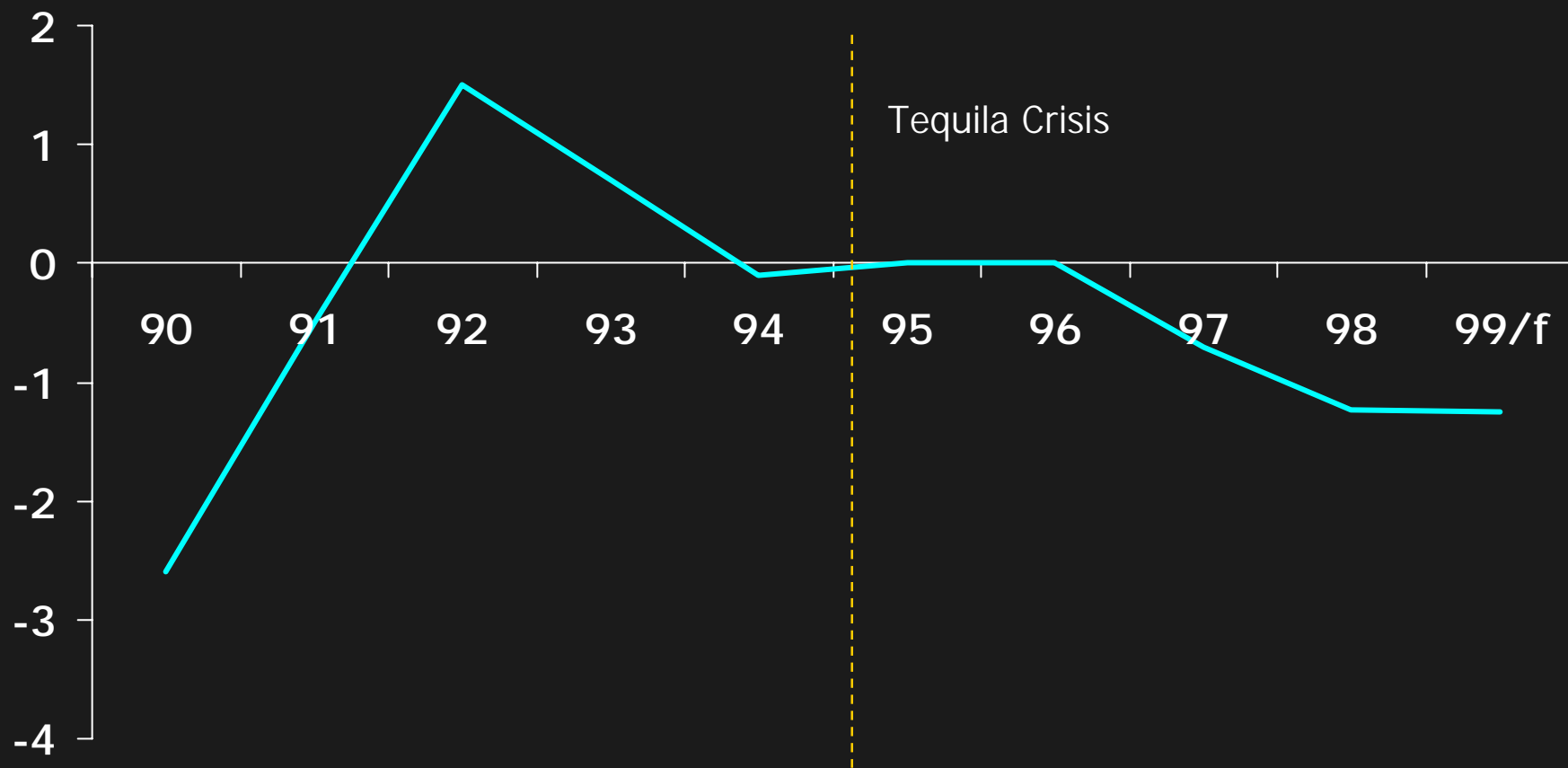
Although one of the foundations for a sustainable debt trajectory is strong fiscal performance . . .

Fiscal Balance and Total Net Public Sector Debt (% of GDP)



. . . it is not enough, as our case illustrates.

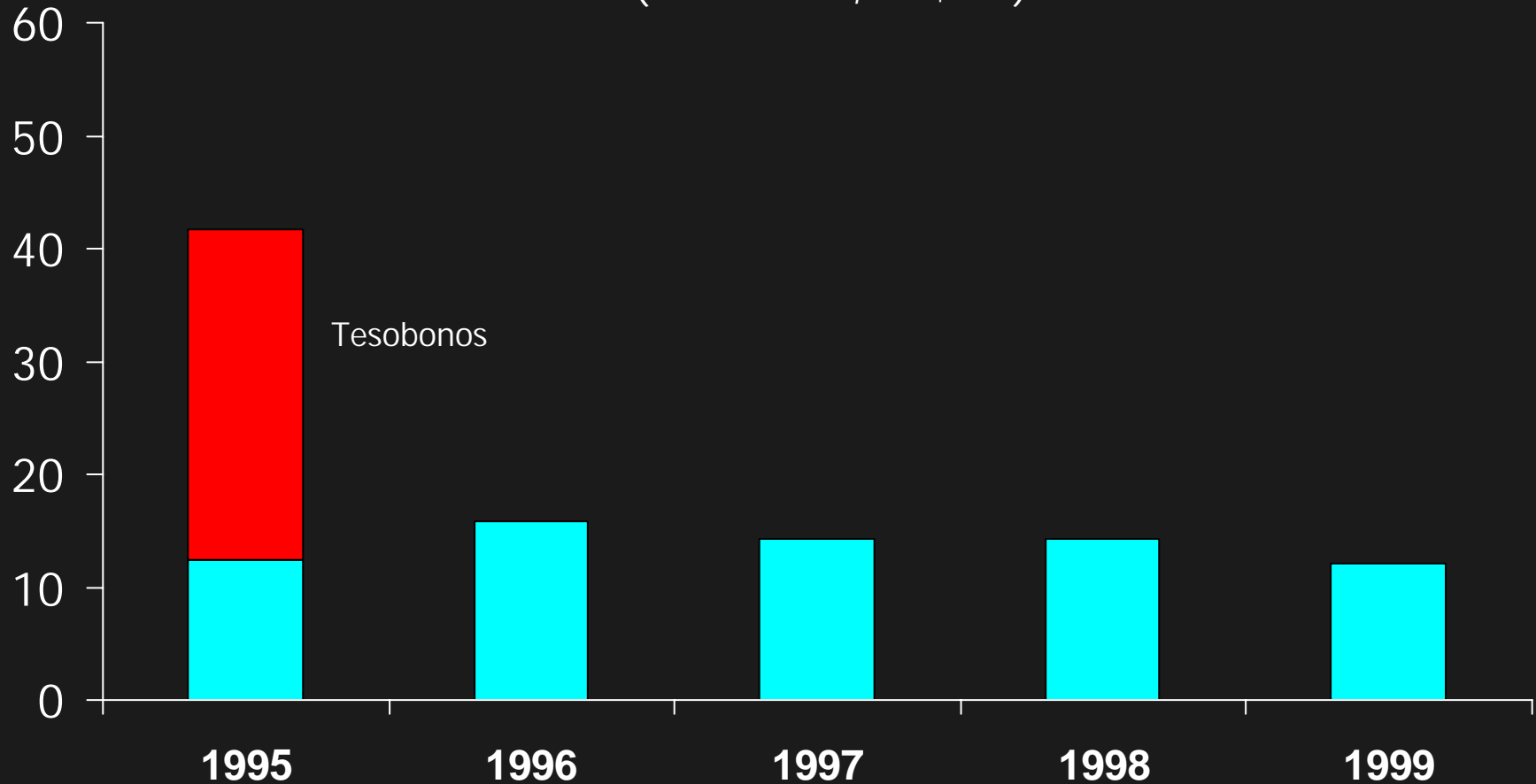
Mexico's Fiscal Balance (% of GDP)



A significant portion of our liabilities are foreign currency denominated or indexed . . .

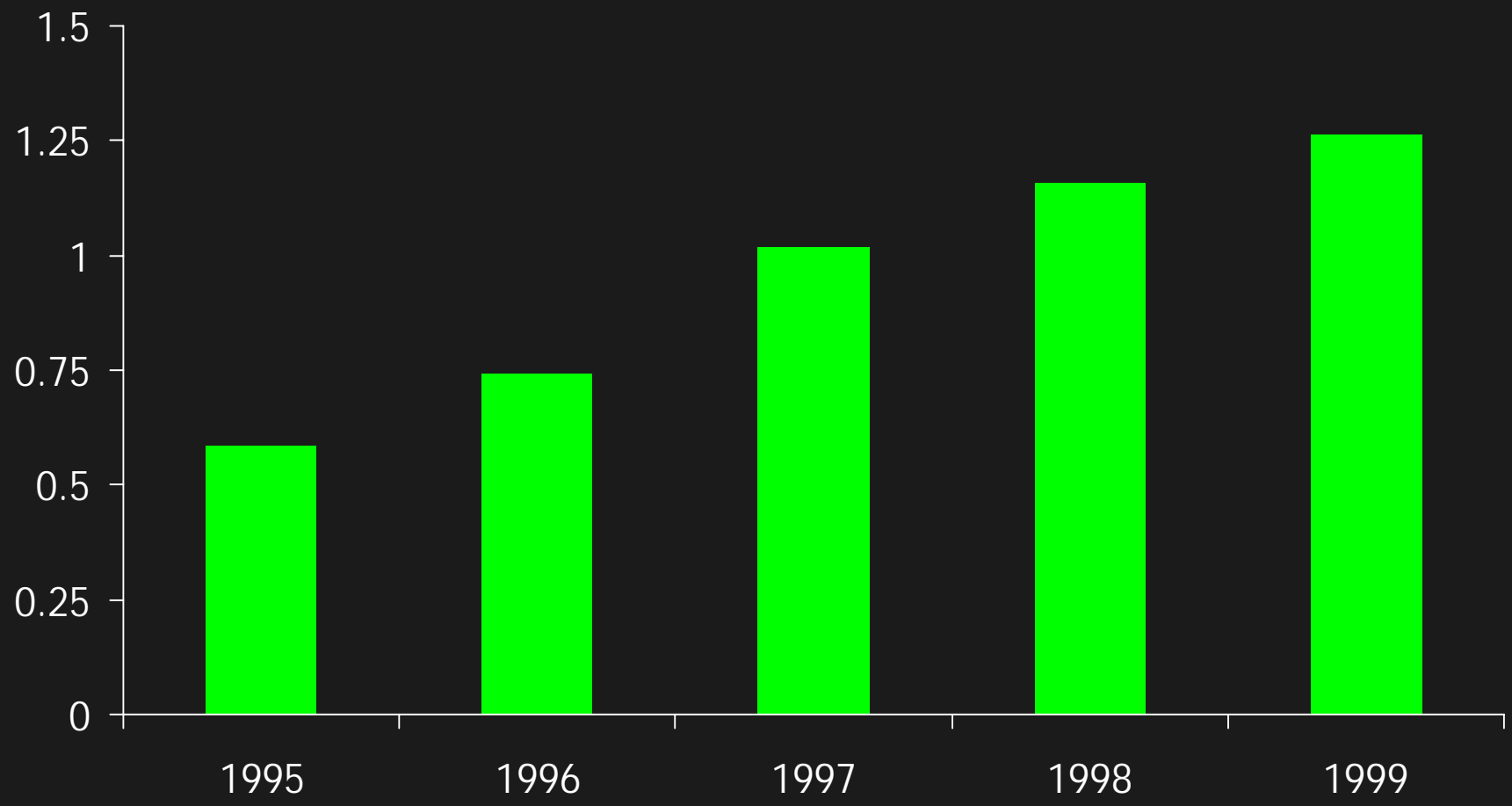
Public Sector Amortization Schedule

(1995-1999, US\$ bn)



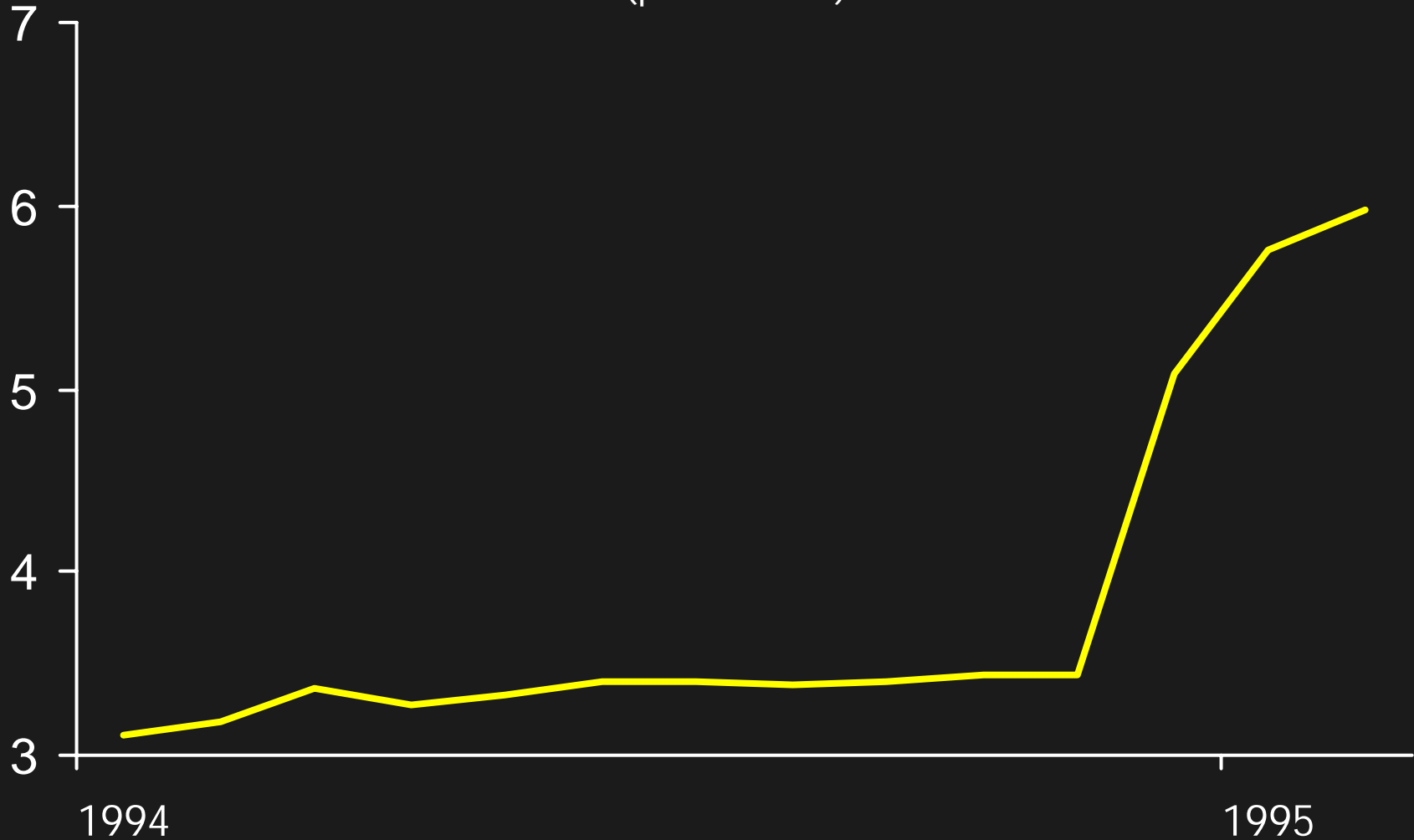
. . . and our domestic debt profile is of a very short term nature . . .

Domestic Debt Average Life (years)



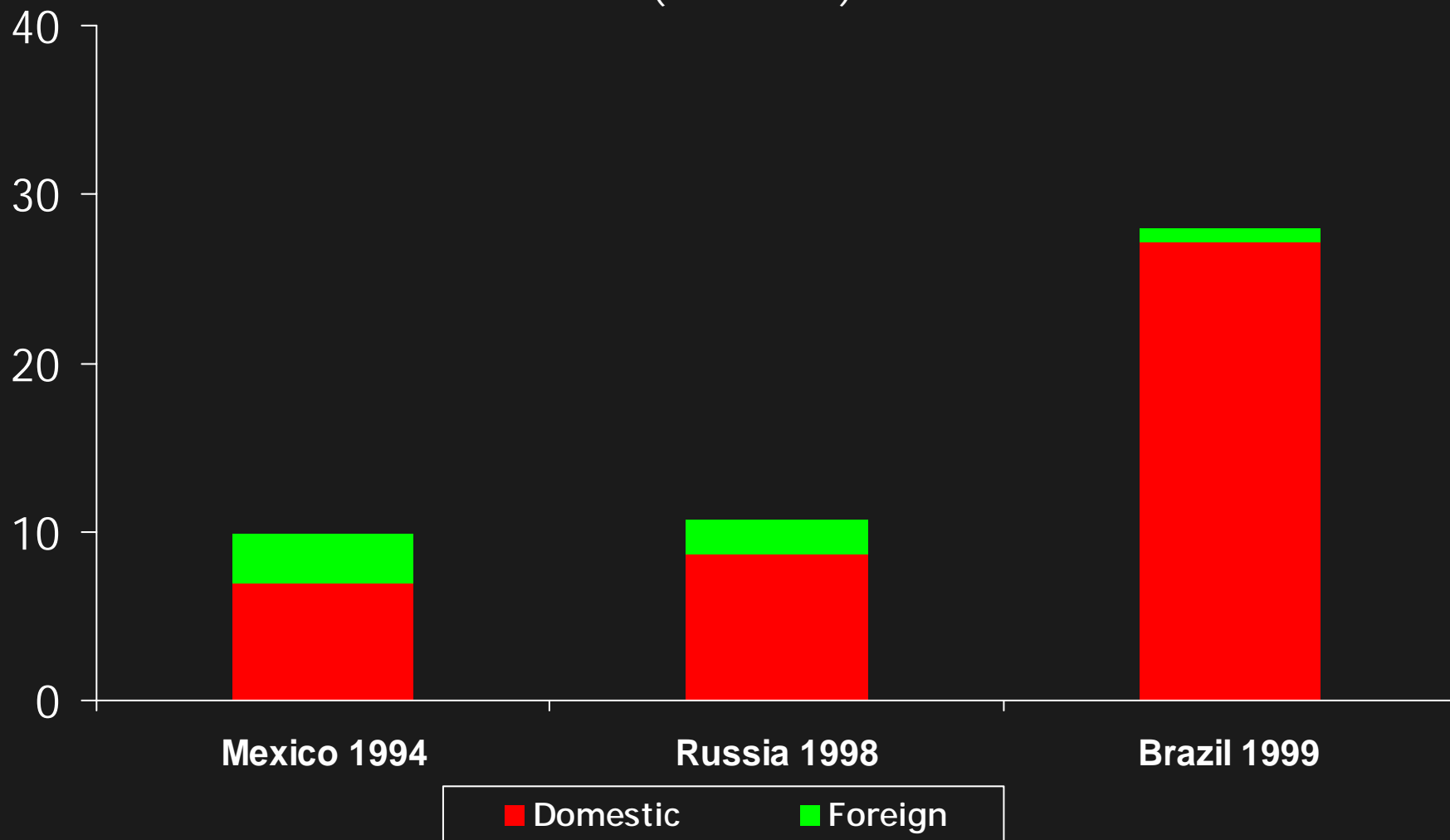
. . . exposing the country to shocks despite its strong fiscal performance.

Foreign Exchange Rate (peso/dollar)



This is why refinancing risk is probably the single most relevant obstacle given unexpected shocks.

Public Sector Amortizations (% of GDP)



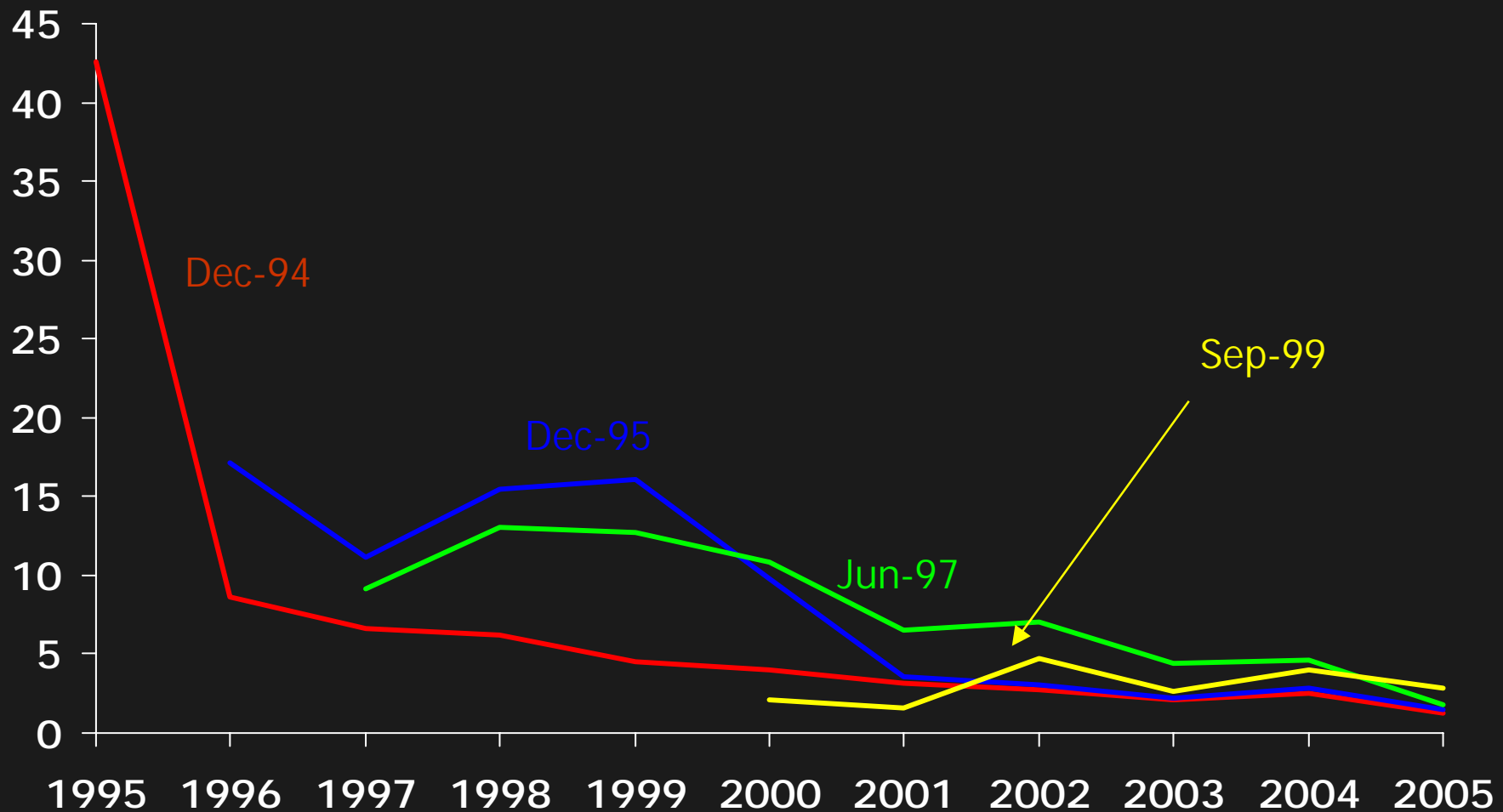
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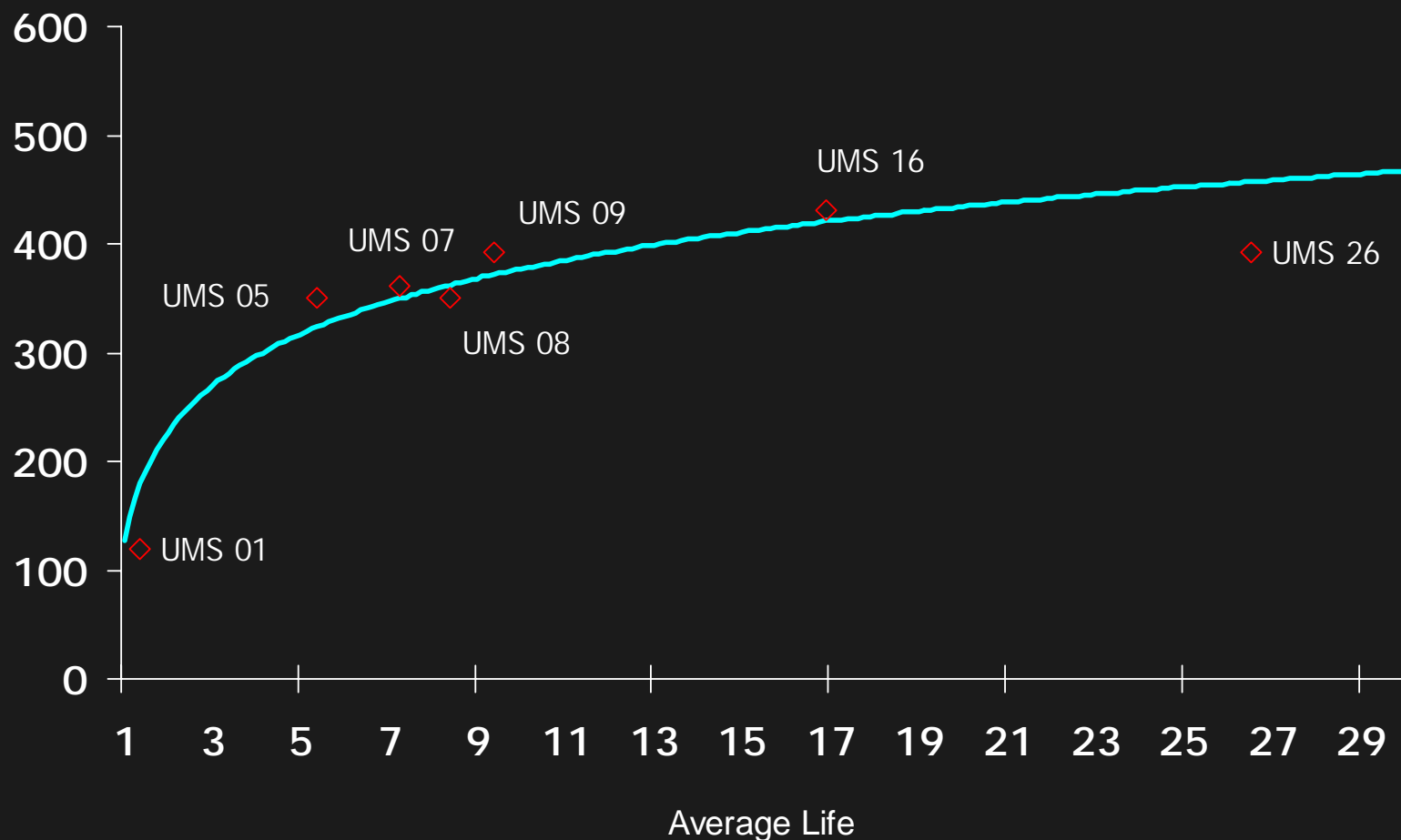
The first step was to fully reshape the external debt amortization profile.

Public Sector Market External Debt Amortizations (US\$ bn)



Developing liquid benchmarks and a foreign currency yield curve followed . . .

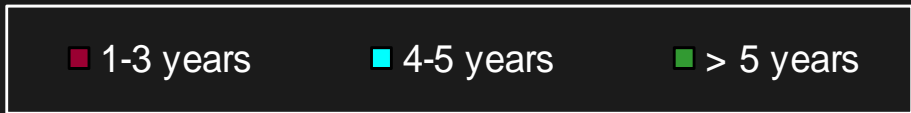
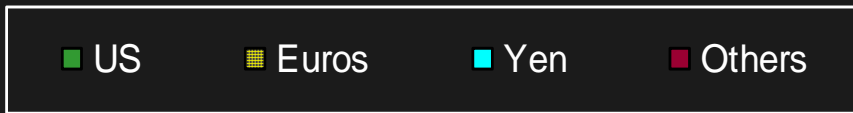
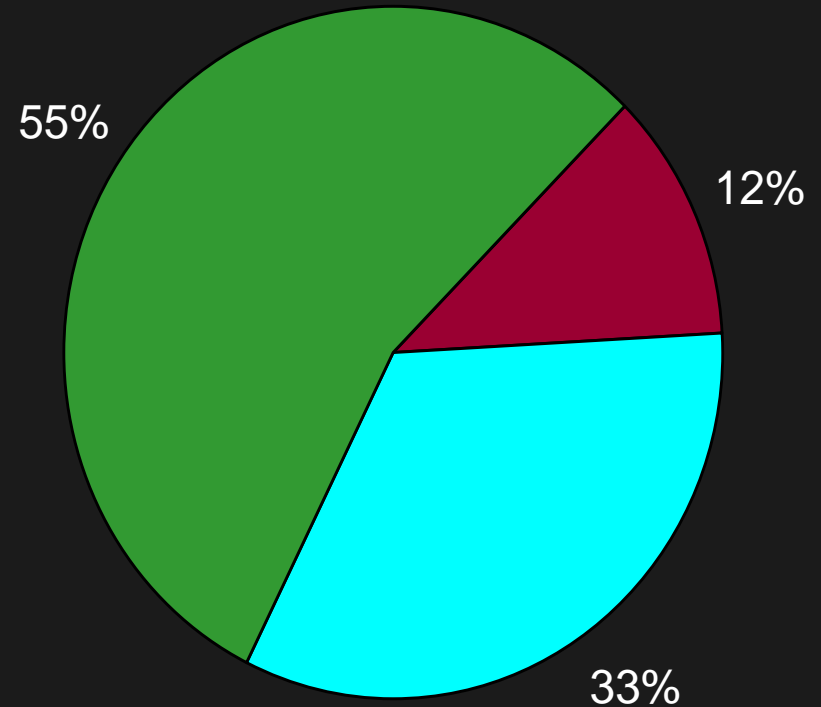
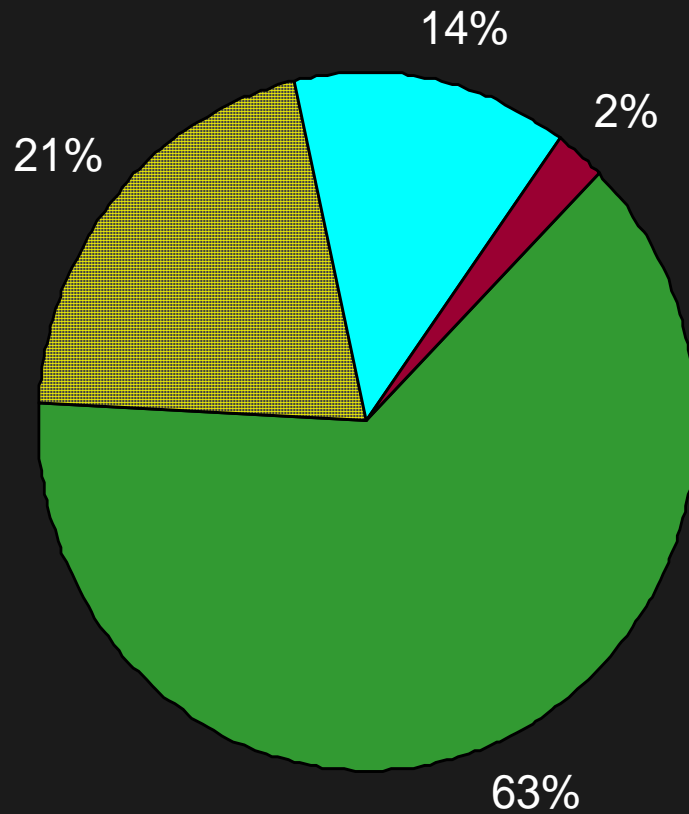
Sovereign Yield Curve in Dollars (spread over US Treasuries in basis points)



. . . while simultaneously ensuring that this dynamic process was accompanied by lower spreads.

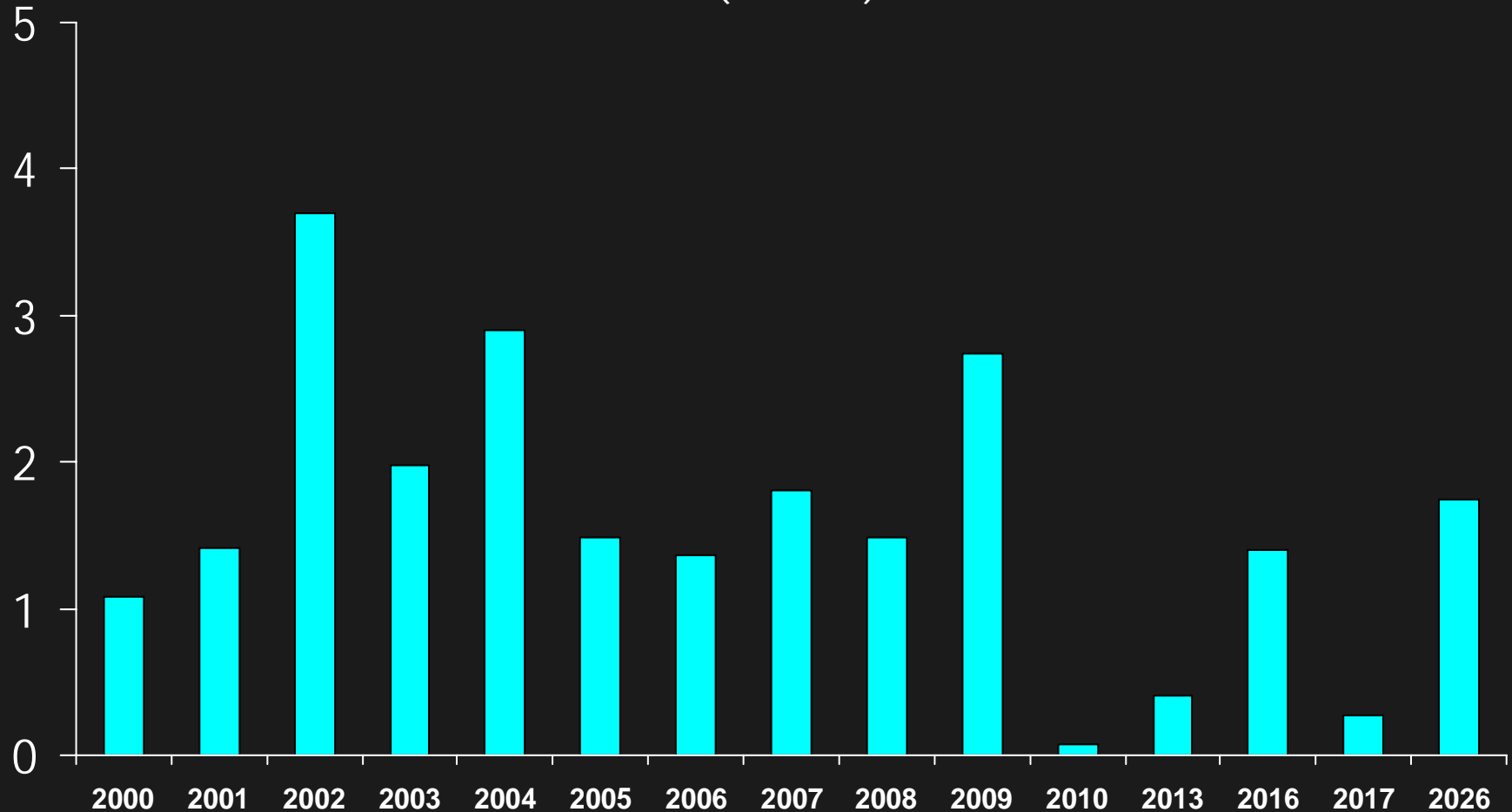
1995-1999

Total issuance (US\$34.3 bn)



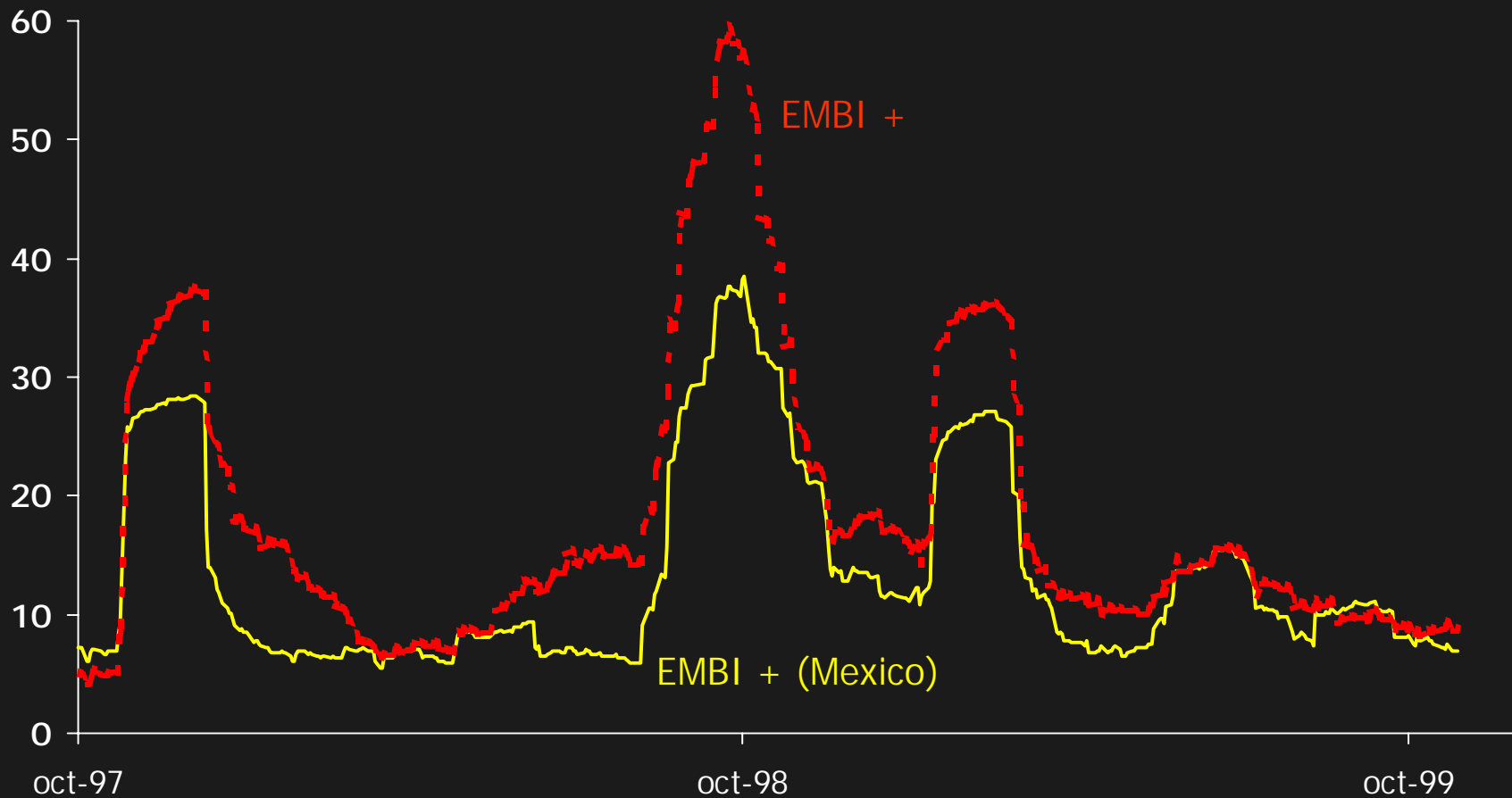
Today, Mexico's foreign debt market amortization schedule looks light and well distributed over time.

UMS Market External Debt Amortizations (US\$ bn)



All these actions have led to less volatility in mexican securities when compared to that of the EMBI.

Volatility (%, annual)



Regarding domestic debt, efforts have been concentrated in several fronts concurrently.

- Maturity Extension
- Yield Curve Development
- Duration Extension

⇒ Topics that will be addressed in the next session.

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Conclusions

- Sound macroeconomic policies are a necessary but not sufficient condition to protect the country against adverse shocks.
- Debt management should be used as a tool to diminish volatile flows.
- The debt management strategy has to be implemented in an integral fashion, both for domestic and foreign debt.
- Furthermore, it should focus in reducing refinancing risk.
- Immediate efforts should be directed to the source of highest refinancing risk, according to each particular case.