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75 años adelante.

Situación

Economic Research Department

First Quarter 2007

Economic downturn: external demand is the cause

High inflation in 1H07; ensuing convergence toward goal

The monetary “pause” to extend into the 1st half of 2007

The peso to remain strong, weakening at the end of year

A reduced slope in bond yields in 2007

Mexico: Editorial

The year 2007 has begun and the preparation of economic, financial and political scenarios, as well as comparisons with 2006 are not far behind. The first year of President Felipe Calderón's administration will show strong differences compared to Vicente Fox's final year. Starting with the strength of the economy, this year will receive a lower boost from developments in the U.S. and oil prices, factors that in 2006 contributed to GDP increasing at the highest rate in the past six years, and to a balanced contribution to such growth from the various economic sectors. In the current year, growth will be moderate and differentiated, above all supported by the domestic market.

One of the issues to keep an eye on in the course of 2007 is the growth in prices. Inflation could remain high during the first half of the year, surpassing the variability level set by the Banco de México. In addition to statistical and seasonal effects, this development will be due to direct and indirect effects of supply shocks and prices of raw materials and agricultural products. These elements taken as a whole have been sufficient to modify the outlook upwardly on headline and core inflation in 2007. The pressure began in the summer of 2006 and will run its course, according to our projections, until mid-2007, with which, presumably, the digression will have lasted for one year.

In this context, the challenge for Banco de México is complicated. The strategy that the central bank will opt for will be possibly to explain this inflationary phenomenon well to prevent what is a basically temporary rise in prices from contaminating medium-term inflation expectations, price formation, and wages. The warning that it has made here is clear; if inflation shows signs of extending to the rest of the prices in the economy, it will act by restricting the monetary policy and boosting interest rates. This scenario cannot be ruled out to achieve the inflation target and consolidate credibility in the central bank.

As to the financial, some volatility can be expected, due to the above-mentioned inflation trends, performance of U.S. activity, and oil prices. The peso/dollar quotation will reflect the balance between short-term variations and confidence that the country will take more definitive steps to raise the potential growth of the economy.

A favorable factor in which is centered a good part of the optimism is the expectation of proceeding, finally, to resolving the agenda of reforms required by Mexico to increase productivity and aspire to higher and sustained growth levels. The paralysis of previous years, oil price volatility, the agreement among the political forces on the urgency of reversing the lag in competitiveness, as well as a better negotiating capacity on the part of the incoming administration, could be the key to begin to eliminate obstacles to carrying out the agreements.

In this regard, the list is long and time is short. The window of opportunity is for the first two or three years, before the electoral agenda once again dominates in Congress, and expectations should be realistic. What can be expected? Partial advances, probably as to fiscal, energy, and pension policies, in the context of State reform, and mainly backed by agreements adopted of simple majority, with no need for constitutional modifications. A more prudent attitude on the part of the new presidential administration but, perhaps this time around, with a firmer commitment.

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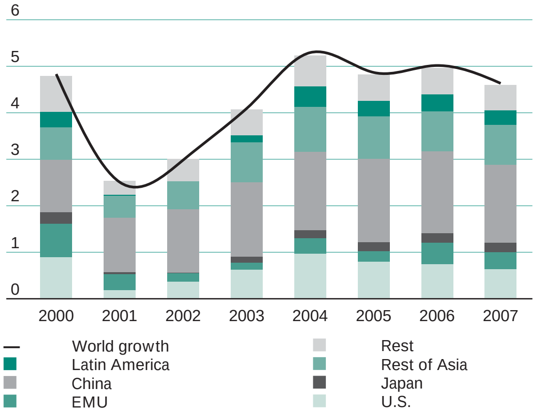
Growth and Contribution by Areas
Percentages

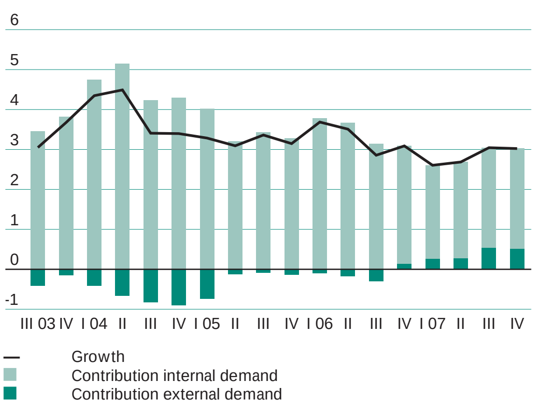


GDP Growth
Percentages

	2005	2006p	2007p
United States	3.2	3.3	2.8
EMU	1.5	2.7	2.2
Japan	1.9	2.2	2.0
China	9.9	10.4	9.5
Latin America	4.4	4.9	4.1
World	**4.9**	**5.0**	**4.7**

p projection
Source: BBVA

U.S.: Growth and Contributions
Annual %



Note: Projections as of the 4th quarter 2006
Source: BBVA

More globalized expansion in 2007

The year 2007 will be another good year for high economic growth. Although worldwide economic activity is expected to taper off slightly, it will grow at rates above 4.5%. This will be the fifth consecutive year in which world economic growth increased at rates above 4%, the most intense expansive cycle since the oil crisis of the 1970s.

By areas, growth will continue to tend to favor the emerging economies, with Asia in the lead. For the developed economies, the euro zone is the area that has provided the most positive surprises throughout 2006. Thus, the growth outlook projected by analysts for 2007 in the European Monetary Union has significantly been revised upwardly, approaching our central projection of 2.2%.

In the U.S. economy there seem to be more doubts given the strong downturn in the real estate sector. However, there are factors that indicate that the economy, and particularly household spending, will only experience a slight adjustment in 2007. Contributing to this will be the positive performance of employment and disposable income, some very favorable financing conditions for families, and the increase in their earnings despite the fall in the average price of housing. In addition, despite the negative contribution of residential investment, non-residential investment will continue to support economic growth, as will the external sector also, for the first time since the mid-1990s.

The positive performance of investment is not only limited to the U.S. economy. Indeed, one of the main characteristics of the current expansive cycle is that the business sector is in a very favorable position on a global level. Company earnings will continue to grow at very significant rates. In the United States, for example, estimates indicate that such growth could top 10% in 2007, although this rise is more moderate regarding the 20% increase posted in 2006, a figure not seen since the technological boom of 2000. This situation will, in turn, keep contributing to a continuation of mergers and acquisitions in the next few months, which will support the performance of the stock markets.

The emerging economies have not been exempt from this boom in investment, although the results have been unequal. The ratio of investment to gross domestic product is at its highest point of the past 20 years in the Asian economies, where it has returned to levels prior to the crisis of the 1990s. This is not the case in other emerging economies, such as Latin America or the Middle East, where the ratios are very much below the maximum levels reached in previous expansive cycles.

Nevertheless, the high savings rate in the emerging economies, surpassing the investment rate, will continue generating a pattern of global growth with significant imbalances. Thus, the gap in the current account balance between the group of net creditor countries (emerging economies) and net debtors (developed nations) will continue to be very high, representing around 2.5 points of global GDP.

However, this trend could have begun to stabilize in 2006. In fact, the U.S. deficit, currently above 6.5% of that country's GDP, could have reached its maximum level and could begin to reverse direction slightly, by around one percentage point in the next two years.

Central banks: attentive to the financial conditions

Monetary policy will continue to normalize in areas such as Japan or Europe. In the Japan's case, in addition to economic activity, the outlook for a moderate growth in inflation will determine the rate of gradual increases in the official interest rates, until they reach levels of around 1%. At the same time, the European Central Bank (ECB) can be expected to confirm our central scenario of interest rates at 4% in the first half of the year, a factor that the market did not incorporate until a few months ago.

It is in the United States where there is still some discrepancy between our outlook and that of the market. Although in the past month, with data showing solid growth in the economy, the markets have upwardly revised their expectations of a decline that had prevailed during the last half of 2006, they are still somewhat removed from our more plausible scenario of stability in the Fed's interest rates in 2007. Such expectations are derived from our outlook for soft moderate economic growth and still high core inflation, above the Fed's tolerance range (2% for the core deflator for consumer inflation), and the perception that, given the very lax conditions of monetary policy in the past, the central banks will be especially cautious in proposing a decrease in rates.

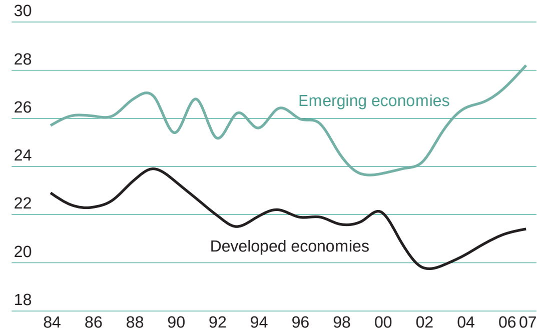
In fact, the current financial conditions, incorporating the prices of foreign currency and fixed and variable income assets, in addition to the short-term rates, are more relaxed than when the official interest rates were at 1% in 2003-2004. Something similar is occurring in Europe, where the financial conditions are at similar levels of relaxation as in 2004, when the ECB set the rates at 2%.

In any event, it is foreseeable that high international liquidity and financial relaxation will continue in 2007, mainly in the United States. In the first place, the stock markets could continue their revaluation at double digit rates. Secondly, long-term interest rates have important limits defining how much they can rise, in view of the renewed demand for debt from foreign investors, particularly Asians. We can definitively expect that the slopes of the yield curves, currently flat or inverted, will become positive, even in countries with still immature monetary policy cycles. Third and finally, although an additional depreciation of the dollar in relation to the euro is not contemplated in the central rate scenario, the U.S. currency will remain at somewhat depreciated levels with regard to its long-term value.

More localized uncertainties

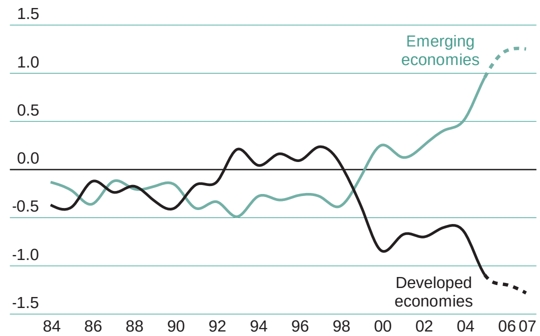
The central scenario of high global growth, renewed investment cycles, controlled inflation, and neutral monetary policies are not, however, exempt, from uncertainties. Such risks are derived mainly from two factors. The first, a new oil supply shock that would again send oil prices soaring, could generate greater inflationary pressure in

Investment
% of GDP



Note: Projections as of 2006
Source: BBVA

Current Account
% of world GDP



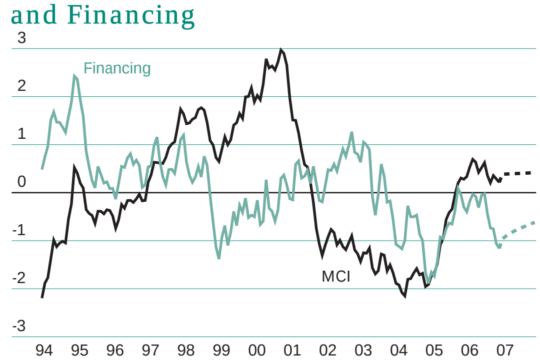
Note: Projections as of 2006
Source: BBVA with IMF data

Financial Projections
End of year

	2005	2006	2007p
Official rates			
U.S.	4.25	5.25	5.25
EMU	2.25	3.50	4.00
10-year rates			
U.S.	4.5	4.7	4.9
EMU	3.4	3.9	4.1
Dollar/euro	**1.19**	**1.32**	**1.30**

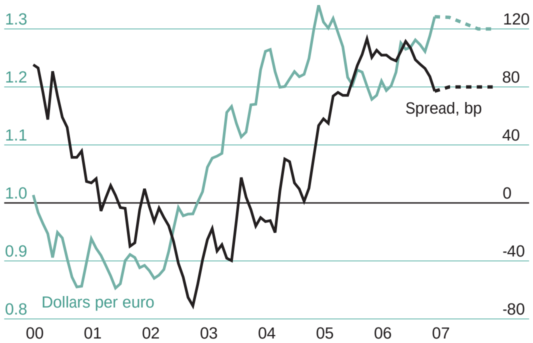
p projection
Source: BBVA

U.S.: Monetary Conditions Index* (MCI) and Financing



* Using core inflation
Note: Projections for 2007
Source: BBVA

Exchange Rate and Spread in 10-Year Interest Rates U.S./EMU



Note: Projections for 2007
Source: BBVA

the short term and recessive effects in the medium term. However, although the geopolitical risk remains, the recent development of oil prices appears to confirm BBVA's central scenario of moderation to levels between 50 and 55 dollars per barrel throughout 2007. In addition, anchoring medium-term inflation expectations and earnings in terms of energy efficiency of the economies appears permanent.

The main risk factor at present comes from the U.S. economy, specifically from the scope and duration of the adjustment in the real estate sector. And, above all, how much it will impact employment, household spending, and other economies. For the moment, as was mentioned previously, there are support factors that continue to sustain the soft adjustment scenario as the most probable.

At the present time, the balance of risks in the global scenario in the medium term is the decline of interest rates and a depreciation of the dollar.

Factors Behind Chinese Growth in 2007

Last year, the Chinese economy maintained high real growth (10.7%), which was the highest in 11 years and surpassed analyst expectations. This dynamism was boosted by investment—representing 50% of GDP—and the foreign sector where positive net flows are now close to 10%. Currently, the objective of the government is to achieve a gradual and orderly slowdown, seeking that investment and foreign surplus will tend to grow close to 8% and boosting domestic consumption. The soft slowdown forecast—and not a halt in activity—is a constant between the government and international analysts since 2004, but it could be closer to being achieved this year. The following is an analysis of the economic outlook for China in terms of four key factors: real activity, the foreign sector, monetary policy and growth risks.

Keys to real activity

In the short term, investment will continue to play a decisive role in economic growth in China, while consumption will gain share in GDP gradually. Nevertheless, for both to be at the same level, it will be necessary to wait until the end of the current five-year plan. The main concern does not lie in a soft slowdown in the short term, but rather in the sustainability of long-term growth.

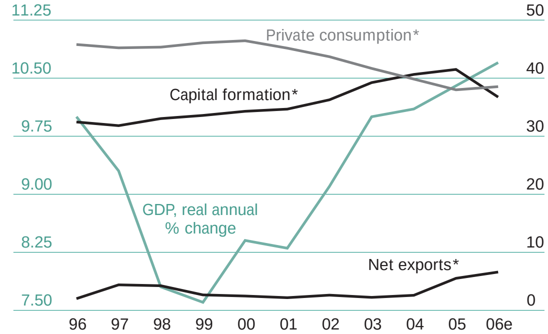
In 2007, the slowdown seen in recent months should continue, based on maintaining the restrictive policy of the central government, as well as the reforms regarding the distribution of dividends by state-owned firms—which will reduce their available funds for investment—and the evaluation of the management by the local governments, based on qualitative and not just quantitative criteria. However, in the medium term, it will be the acceleration of investment in infrastructure—relatively stagnant since 2003—that will be additionally boosted by the inauguration of new government equipment at all levels of the administration. The 2006-2010 five-year plan includes investments in infrastructure of 3.8 billion renminbis (approximately US$495 billion) in highways, ports and railways and 140 billion renminbis (close to US$18 billion) in airports. In total, we estimate that investment in China will be at least 50% higher than the investment made in the previous five years.

Key to Chinese foreign sector

For 2007, there will persist a high trade surplus and the accumulation of foreign currency reserves where the contraction in domestic demand (particularly investment) will intensify the dependence of growth on the foreign sector. However, the appreciation of the Chinese currency, the easing of certain controls on capital outflows, the rise in foreign direct investment and the increase in production costs will delimit the increase in the surplus. The main keys for 2007 will be:

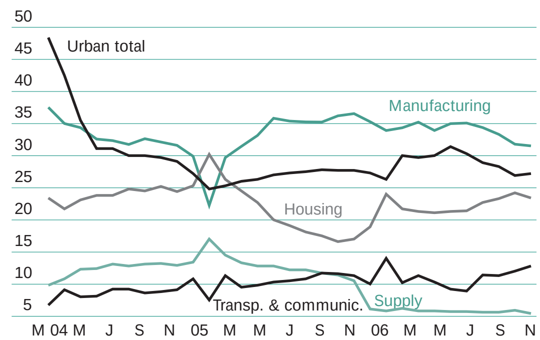
1. The growing protectionist sentiment among the Chinese entrepreneurial class (more evident as of foreign participation in Chinese banks) that is pressuring Beijing toward protectionist policies.

GDP: Main Components



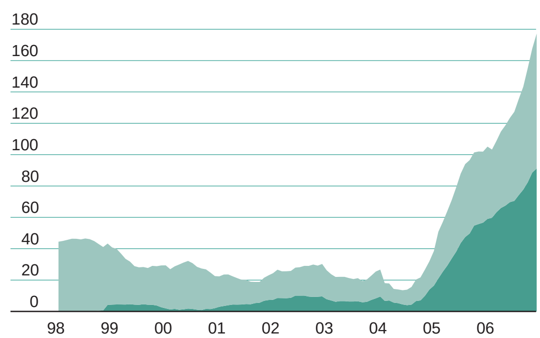
* GDP %
e estimated
Source: BBVA with Datastream data

Fixed Urban Investment
% share in growth by sectors



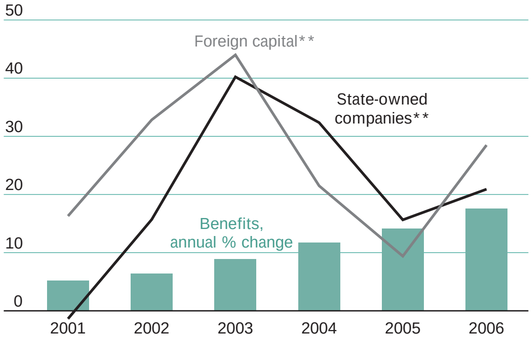
Source: BBVA

Trade Balance by Type of Company
Cumulative nominal, last 12 months, billions of dollars



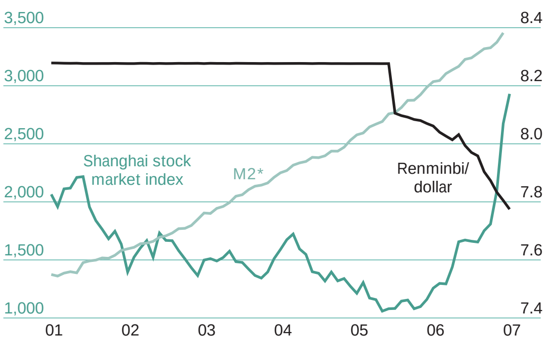
Domestic
Foreign capital
Source: BBVA

Performance of Company Benefits*
End of period, at 2000 prices



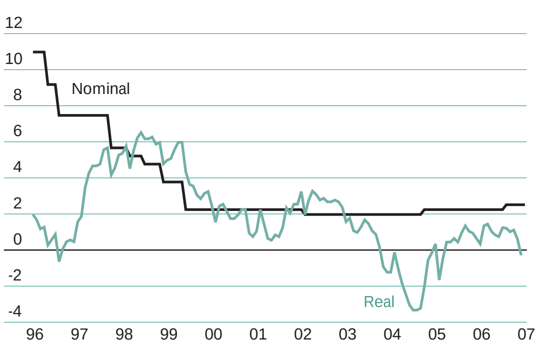
* Industrial companies with annual sales greater than 5 billion renminbis
** Billions of renminbis
Source: BBVA

China: Conditions of Monetary Liquidity and Appreciation of the Renminbi



* Billions of renminbis
Source: BBVA with Datastream data

Official 12-Month Deposit Rate
Annual %



Source: BBVA with Datastream data

The national consensus is that China does not need to continue to attract foreign investment with preferential treatment plans, and therefore, they should compete under the same conditions as the national companies. On the one hand, the foreign investment firms that use China as an export platform contribute over 50% of the foreign imbalance, and BBVA estimates indicate that, in the aggregate, Chinese exports account for more than two thirds of the imports component.

On the other hand, their benefits in 2006 grew more than the state-owned companies, following the slowdown of the two previous years. In March, the review of tax concessions to exports is expected (reimbursement of the VAT) in force since 1996 and the homogenization of the tax treatment, which presupposes an estimated increase in the current tax rate of 15% for foreign investment companies to more than 25%.

2. The intensification of intra-regional competition due to exports, in particular in case of a slowdown in foreign demand that could pressure toward intervention of other central banks in the region in order to maintain the competitiveness of their exchange rate.

3. The creation of a special agency for investing part of the reserves with more aggressive profitability criteria than those of the central bank. Although, the central institution will maintain the administration of most of the reserves, the creation of said agency will accelerate the diversification process and, in time, will contribute toward reducing the pressure of appreciation on the renminbi.

Monetary policy keys in China

The monetary policy will be more restrictive in 2007, continuing last year's trend. The central bank is showing concern regarding the rapid increase of liquidity in the system and—as a result—due to inflation in assets, in particular as a result of the formation of a speculative bubble in the securities and real estate markets.

The options of the central bank to withdraw liquidity could be, among others: (a) to increase the compensation on the deposits of the financial institutions with the central bank and new rises in the cash coefficient; (b) to eliminate the current 20% tax on the earnings of bank deposits and new increases in the official interest rates; (c) to establish a tax on capital earnings in the stock exchange, in an analogous way, to the tax on the benefits of real estate promoters;[1] and (d) a more aggressive appreciation of the renminbi against the U.S. dollar.

In 2007, conditions are in place for new increases in interest rates in China; of note among these are: (a) the backing of Beijing on the objective of reducing liquidity; (b) higher inflation on the basis of the continuous increase in disposable income and in production costs; (c) the real interest rates in minimums; and (d) the lower probability of reductions in the U.S. federal funds rate (Fed).

1 In force as of February 1, 2007. See original communiqué at: http://www.chinatax.gov.cn/n480462/n480498/n575817/4933245.html

Risks for the Chinese economy

Domestic factors:

1. A more restrictive monetary policy than expected: a re-acceleration of investment could cause greater rises in interest rates, although subject to the exchange rate policy. Excessively high interest rates could cause an abrupt drop in investment and the massive entry of capital flows of a speculative nature in view of the reduction of spreads and appreciation expectations of the renminbi.

2. Surprises in inflation in case: (a) the government allows significant rises in agricultural prices and—the same as in the past—the improvement in rural income reduces migration and labor supply in Chinese cities; and (b) if the tax on fuels and the reform of its prices in line with the fluctuation on the international markets[2] is approved, as well as the upward review of other government-regulated prices, mainly in energy supplies and natural resources.

3. A more aggressive than expected appreciation of the renminbi: the appreciation rate of the renminbi could accelerate prior to the second bilateral U.S.-China summit meeting in May. However, the consensus of appreciation in China is maintained at around an annual 5%, and a surprise upward move could cause serious losses due to uncovered financial positions.

4. Financial crisis: there still exist doubts regarding the solidity of the banking sector in face of an abrupt slowdown of activity and a rapid increase in unpaid loans. In the capital market, expectations of a gradual appreciation of the renminbi and an expected increase in stock investments by the insurance companies—among other institutional investors—explain the optimism on share valuations, but also the risk of a more restrictive monetary policy and the potential formation of a bubble similar to that of Japan in the eighties.

5. Political environment: in 2006: the Chinese government started an anti-corruption campaign[3] that could cause new public projects to be postponed for fear of being involved in an investigation. The uncertainty surrounding the renewal of command of the Chinese Communist Party (CCP) in October and the formation of a government team committed to the economic reform process will be key in the coming five-year period. About two thirds of the high officials faithful to the binomial Hu-Wen would have renewed their posts up to the moment, reinforcing their position in face of the most conservative of the CCP. At the same time, the region is living a year of controversial elections (Thailand, Taiwan) that could be the cause of greater volatility and instability on the markets.

External factors:

1. Propagation of the avian flu. The development of the avian flu is the greatest risk at this time. The epidemic is out of control in Indonesia, Thailand and Vietnam; and, recently, it has caused

2 http://english.gov.cn/2007-01/30/content_512996.htm

3 In Shanghai, 11 high official posts and 9 other persons have been accused of the crime of corruption for US$475 million, and, in the banking sector, 164 employees for US$3.3 million.

China: Forecast Consensus

Renminbi per dollar

Organization	Renminbi/ dollar	Annual appreciation	Affiliation
Trade Ministry	na	3%	Cabinet
NDRC	na	2-3%	Cabinet
Prof. Fan Gang	na	5%	Central Bank
CAITEC	7.10-7.50	3.1%-4.1%	Trade Ministry
CICC	7.44	5%	Central Huijin Inv.
China Jianyin Investment Securities	7.50	4.10%	Private
China Galaxy Securities	7.46	4.70%	Private

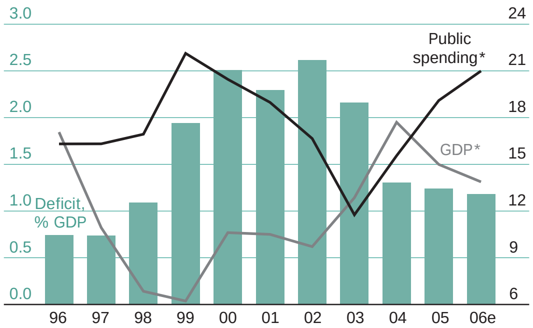
Source: BBVA, China Press

Political Calendar in Asia for 2007

Date	Country	Leader	Event
May	Philippines	Gloria M. Arroyo	Legislat. elections; in 2010, Presidential
July	Hong Kong	Donald Tsang	Elections for Governor
July	India	Manmohan Singh	Presidential Elections
July	South Korea	Roh Moo-Hyun	Presidential Elections; in 2008, Parliament
October	**China**	**Hu Jintao**	17 Congress Chinese Communist Party
October	Thailand	Surayud Chulanot	Presidential elections
December	Taiwan	Chen Shui-bian	Legislative elections; In 2008, Presidential

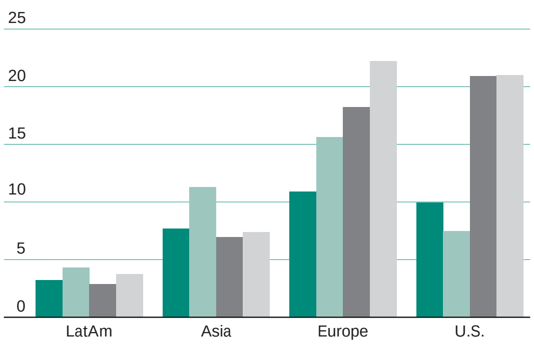
Source: BBVA, Merrill Lynch, press

Public Spending and Fiscal Deficit
At current prices, 2006 estimated



* Annual % change
e estimated
Source: BBVA with Datastream data

Foreign Trade by Region
% share, at current prices



Source: BBVA with Chinese Trade Ministry data

alarm in Japan. Even if the authorities were to react immediately, the risk lies in a possible mutation of the virus that would make possible the transmission between persons, causing a human epidemic. In the worst scenario, the economic loss is estimated at 2% of GDP of the region, that is, over US$90 billion and an unpredictable number of human losses.[4]

2. Abrupt slowdown in the U.S. or oil price increases. In both scenarios, the Chinese economy is in a better situation than in the past to counteract its potential negative impact. A conservative fiscal policy has placed it in a solid position to establish more expansive policies should it be necessary. At the same time, its foreign sector is increasingly more interrelated with other geographical areas, mainly Europe and other emerging countries in Asia and Latin America, thereby reducing its dependence on the U.S.

3. Trade protectionism. If China does not significantly appreciate the renminbi against the dollar, the protectionist threats of the U.S. could finally see the green light, seriously damaging bilateral relations. However, the focus of attention could turn, in its place, toward Japan and the weakness of the yen

In short, we expect that the risks will remain moderate and growth solid in 2007, prolonging the longest stage of stable growth in China.

4 Milan Brahmbhatt of the World Bank (November 2005).

2006: The Peak of the Cycle; what will be the Scope of the Downturn in 2007?

Record global growth in 2006

After a very positive 2006 in terms of economic activity on a world level, 2007 is projected as a year in which some of the factors that were key in the past for Mexico will have exhausted their drive. In this context, the challenge will consist of maintaining the strength of consumption and services to cushion the downturn in growth associated with the external sector. In the medium term, the approval of structural reforms will be crucial in order to strengthen the role of domestic demand and the country's potential growth.

The year 2006 posted record growth levels for the five-year period in practically all the regions of the world. Growth in 2006 has been the highest in 30 years with a synchronized cycle on a worldwide level. However, 2007 is expected to be a year marked by moderate growth, with rates closer to the potential growth rate of the economies. On the world level, growth since 2000 has averaged 4.2% in annual terms, and it is estimated that for 2006, the economies as a whole posted a 5.1% increase in GDP; for 2007 the projected expansion is 4.5%.[1]

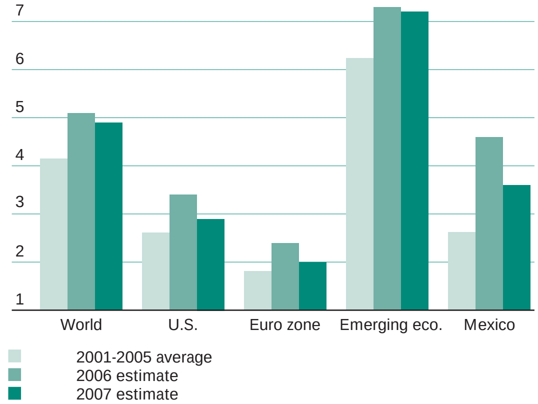
For 2007, it is estimated that U.S. economic growth will slow down from an annual rate of 3.4% in 2006 to 2.8%, (-0.6) percentage points (pp) lower. In this regard, the rate of the downturn in the U.S. economy intensified slightly in the third quarter of the year (quarterly annualized variation of 2.0% vs. 5.6% and 2.6% in the first two quarters). In the industrial sector, which was the most affected by the contraction in the real estate market, growth will decline from 4.1% in 2006 to an estimated 3.4% in 2007, 0.7 pp less, a particularly important point for Mexico.

What can we expect in 2007?

In Mexico, the balance was very favorable in macroeconomic terms in 2006, and the year was characterized by strong and balanced growth in all the economic sectors. The positive dynamics of external demand in the first part of the year was reflected in export growth, with which, headed by the auto industry, manufacturing grew at solid rates in 2006. Through September, the share of Mexican manufactured goods in the U.S. market grew 0.44 pp compared to the same period in 2005.[2] In fact, Mexico was the only economy (aside from China) among the seven largest exporters of manufactured goods to the United States to increase its market share. At the same time, high prices favored the results of oil exports. In the components of domestic demand, consumption and private sector investment expanded at accelerated rates, reaching their highest growth rates of the past six years, with record rates registered in the second quarter of 2006. On the supply side, the industrial and services sectors also posted very balanced growth last year, in both cases close to 5%. With these results, the economy is estimated to have grown 4.8% in 2006.

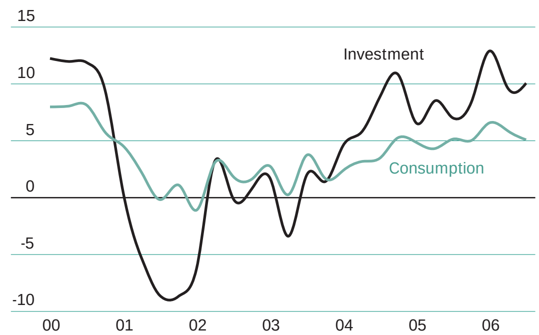
1 BBVA.
2 In 2005, 10.41% of U.S. imports of manufactured goods came from Mexico; by September 2006, the corresponding figure was 10.85%.

Expected Growth
Real annual % change



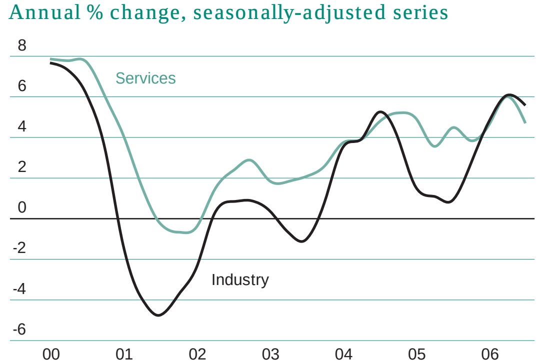
Source: BBVA Bancomer with IMF WEO data, Sept. 2006

Domestic Demand: Consumption and Investment
Annual % change, seasonally-adjusted series



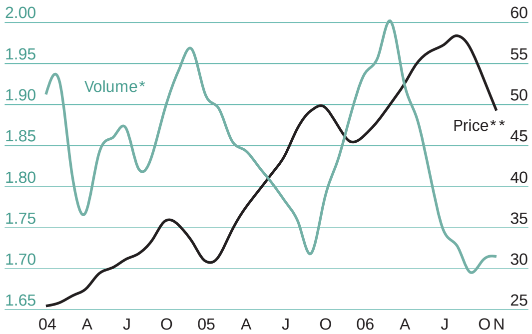
Source: BBVA Bancomer with INEGI data

Industry and Services
Annual % change, seasonally-adjusted series



Source: BBVA Bancomer with INEGI data

Oil Exports
Three-month moving average

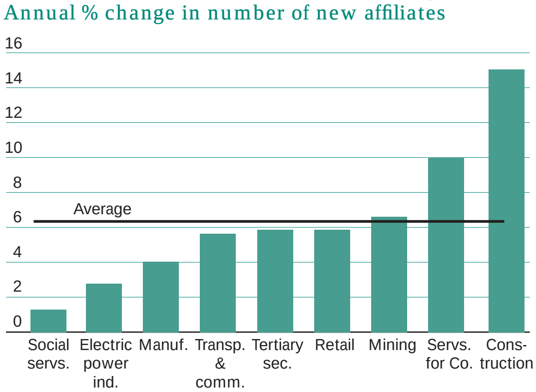


* Millions of barrels daily
** Dollars per barrel
Source: BBVA Bancomer with INEGI data

Industrial Production
Annual % change

* Production of cars and trucks, contribution to growth
Source: BBVA Bancomer with INEGI data

Workers Affiliated to the IMSS, by Sector
Annual % change in number of new affiliates



Source: BBVA Bancomer with IMSS data

For 2007, we expect growth of around 3.6% with the most important downturn in the first part of the year. The moderate economic growth in the United States will mainly affect two components, non-oil exports (in particular overseas sales of manufactured goods) and private investment. In contrast, consumption and services will be the key elements enabling Mexico to maintain growth around its potential or slightly higher. Based on the dynamics of the relation between U.S. growth and the components of Mexican demand, it is felt that most of the transmission to Mexican exports will occur in the same quarter and with a three-month delay. At the same time, in investment, the transmission will largely occur with a quarterly delay (see article "Macroeconomic Synchronization…" in the fourth quarter 2006 issue). Therefore, it is estimated that the projections for these components will be for lower growth in the first part of the year.

In 2007, Mexican manufactured goods will be directly affected by lower U.S. economic growth. The auto industry, in which the export segment was key in 2006 in the dynamics of Mexican industrial production (with 87% of its foreign sales earmarked for the North American market), has begun to moderate its growth and it is projected that for 2007, auto production will remain at a level close to that of 2006, which will imply a very modest annual increase.

A second factor to consider will be the effect of lower oil prices. Public finances and the oil industry's results will be particularly harmed by prices and the considerably reduced level of oil exports in relation to 2006. Last year, developments such as the conflict in the Middle East, the unilateral reduction of Nigerian production, and the closing of the Prudhoe Bay oil field in Alaska helped keep international oil prices high, particularly in the first part of 2006. For 2007 the second cut in production announced by the OPEC of half a million barrels daily as of February is expected to stop the drop in oil prices. However, except in the event of a worsening of the current conflict in the Middle East, oil prices will fluctuate at levels below those of the previous year. For the Mexican crude oil mix, the budget approved for 2007 contemplates a price of 42.8 dollars per barrel (dpb), almost 10 dollars less than the average in 2006. Our estimate for the price of the Mexican mix in 2007 is for an annual average of 44.2 dpb.

In addition, it is necessary to consider the lower export platform anticipated for 2007. While exports in 2006 were 1.810 million barrels daily (mbd), for 2007, they are expected to decline 9%, to 1.648 mbd. During 2007, refining activity is expected to increase, and domestic demand will be higher, with the resulting benefit being reduced imports of refined products. As a result, the drop in oil exports is estimated to be around US$11.4 billion, close to 30% less than their 2006 level.

This year's challenges

In the context of reduced export growth in 2007, maintaining the factors that bolster internal demand, and in particular spending, will be crucial. These factors are the strength of employment, the level of real wages (which together represent total wages), credit to the private sector, revenue inflows from family remittances, as well as stable and low interest rates.

In 2007, bank and non-bank credit to the private sector will continue to be an element that boosts private consumption, in a context of financial stability with low interest rates. At the same time, the inflow of remittances to the country, which in 2006 exceeded US$23 billion, will continue at high levels although, as a result of the U.S. economic downturn, there could be a more moderate growth rate. For 2007, family remittances could reach around US$26 billion, and even though annual growth has been double digit, it has declined in the past few years.

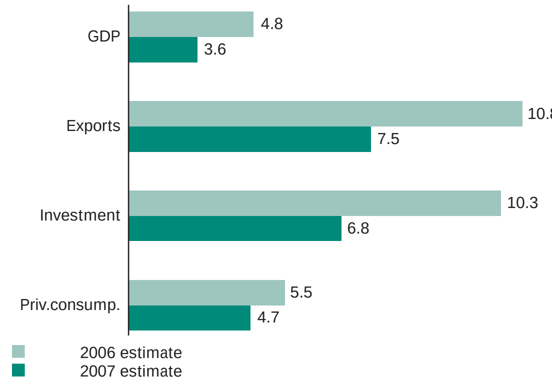
In terms of employment, it should be noted that in 2006 the number of workers in the formal sector increased by close to one million, a 6.4% increase in the number of jobs over last year and the highest figure since 1998. Although it is true that in all the branches of production, formal job creation grew in relation to 2005, of particular importance in 2006 in this regard were the construction and services industries, with annual increases in the number of workers registered in the social security system of 15% and 10% respectively, while employment in other divisions such as the electric power industry and manufacturing posted more modest growth (2.8% and 4%, respectively). In 2007, a similar number of new jobs can be expected.

Based on a continuation of these factors, consumption and the services sector will keep the domestic market strong, especially in the first part of the year. In services, we can expect that the telecommunications sector will continue to grow in 2007, as is also the case with financial services, while increases, albeit with some disparities, will be seen in commercial services, restaurants, and hotels.

Promoting investment in sectors other than manufacturing will be key during the year, particularly in tourism, infrastructure projects, and, in general, in construction. In the case of tourism, private investment increased by close to 14% annually in the past six years and it is projected that this rate will continue in 2007. At the same time, the favorable outlook in the construction industry will continue, with growth in both private projects as well as housing programs promoted by the public sector.

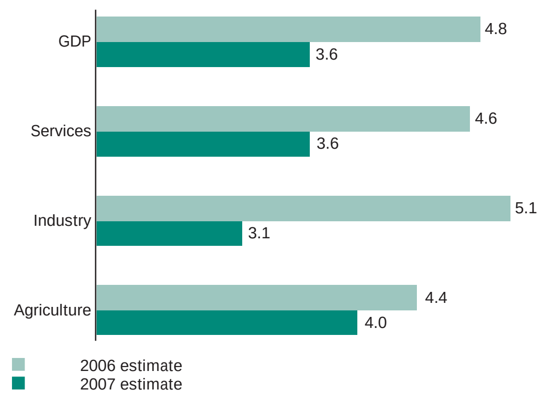
To summarize, the central scenario continues to point to reduced economic growth in Mexico, in which the rhythm of expansion, as is the case in the United States, will be close to the potential (estimated between 3% and 3.6%). The risk scenario is related to the possibility of a more pronounced or longer lasting downturn in the U.S. economy, which would lead to stronger reductions in the growth in consumption and investment in that country, in addition to lower industrial activity. In the case of a pronounced decline in the United States, “second-round effects” can be expected, related to reduced flows toward emerging economies, which would imply generalized pressures in the different components of economic activity. The other latent risk is related to greater than estimated reductions in international oil prices. In both cases, these will be factors to keep an eye on this year.

GDP: Demand Components
Annual % change



Source: BBVA Bancomer

GDP: Supply Components
Annual % change



Source: BBVA Bancomer

Macroeconomic Chart of Mexico
Annual % change, seasonally-adjusted series

	2004	2005	2006e	2007e
GDP	**4.2**	**3.0**	**4.8**	**3.6**
Total demand	6.2	4.6	7.2	5.3
Domestic	4.3	5.4	6.5	4.8
Consumption	3.6	4.8	5.6	4.3
Private	4.1	5.4	5.5	4.7
Public	-0.4	0.3	6.2	0.1
Investment	7.5	7.6	10.3	6.8
Foreign	11.7	6.8	10.8	7.5
Goods & servs. imports	11.6	8.6	13.2	9.1

e estimated
Source: BBVA Bancomer with INEGI data

Synthetic Activity Index (BBVA Bancomer SAI) for Mexico: What is it? How does it Work? What does it Indicate?

What is the BBVA Bancomer SAI?

The SAI is an index that synthesizes the combined movement of a large quantity of information. Since it is a high-frequency index, one of its qualities is that it is useful as a tool for determining the trend in activity in advance. It should be recalled that official measurements of economic activity are released quarterly through GDP, which, in turn, is the reference point to calculate the duration and scope of the economic cycles. The BBVA Bancomer SAI is calculated 45 days after the end of each month, once the data on industrial activity is released and 10 days before the General Index on Economic Activity (GIAE) is issued. The variables included in the SAI can be classified according to the sector of activity to which they correspond and thus the contribution of each group to the total can be monitored.[1]

Why create a BBVA Bancomer SAI?

To paraphrase the analogy attributed to Andrew Harvey, making forecasts on the economy is like wanting to drive a car with totally darkened windows, depending only on the rear-view mirrors. If, in the rear-view mirror, a straight highway can be seen, we would tend to think that it will continue; but if a curve appears, the car can go off the road and in the worst of cases, fall off a cliff. One of the fundamental objectives of the BBVA Bancomer SAI consists in anticipating these "curves", and, specifically, monitoring "in real time" the turning points that comprise the economic cycle. In addition, in a second stage, in selecting variables "in advance" of the cycle, the SAI will be useful as a support instrument to predict future stages of expansion and recession.

How is the BBVA Bancomer SAI designed?

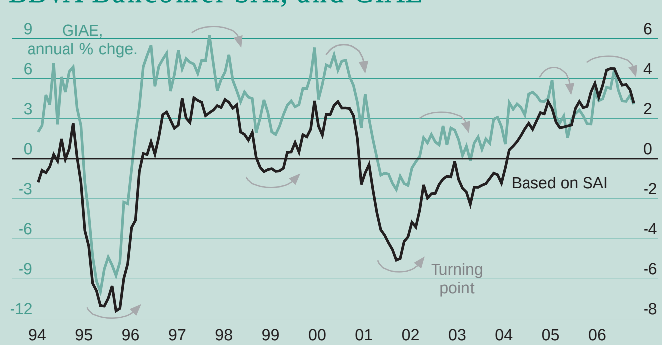
The Synthetic Activity Index is developed based on information on 36 variables. At the moment in which the index is compiled, data on 75% of these variables is available, while the remaining 25 % involve projections.

The methodology for compiling the SAI is based on the technique of "main components". This method allows synthesizing a large quantity of information in compiling the combined variability of all of the variables being analyzed. The technique attributes a weight to each series in accordance with the information that they provide within the index as a whole. All the series are considered standardized (zero average and variance one), which is important for their interpretation.[2]

How has the BBVA Bancomer SAI behaved?

The Bancomer SAI has incorporated the "turning points" registered in economic activity since 1994. Specifically, it reflected the dynamics of activity the present cycle, which reached its highest point in June 2006 and since then the trend in the SAI has pointed toward a slowdown. Based on the SAI, an index of annual variations is prepared that equally reproduces the annual changes in GDP (approximated monthly by the National Statistics Institute (INEGI) through the GIEA). Based on its content, an SAI with a zero value would indicate that the economy is growing at its "historical rate". Negative values are associated with growth rates below the trend, while positive values are related to growth above the trend. It should be noted that the monthly movements in the SAI are usually volatile, and therefore the index is made more flexible with a three-month arithmetical moving average (3AMA), which projects a more stable image of economic activity.

BBVA Bancomer SAI, and GIAE



Source: BBVA Bancomer with INEGI data

1 The SAI includes variables that can be classified in seven groups, representing production (industry, manufactured goods, wholesale sales, imports of capital goods, etc.), expenditures (retail sales, imports of consumer goods, consumer credit), construction (investment in construction, housing loans, construction industry), employment (number of workers affiliated to the social security institutes, wages in the manufacturing industry), external demand (U.S. industrial production, exports of manufactured goods, total U.S. imports, etc.), investment (not including construction) (total investment, investment in machinery and equipment, business credit, etc.), and finances (prices, interest rates, and exchange rate).

2 In addition, each series is considered in seasonally-adjusted and not stationary terms, and therefore in most cases the first regular difference in the natural logarithm of the data is used. In the case of stationary series, only the logarithm is used. In addition, observations that are atypical in relation to the criteria of three standard deviations outside the average are eliminated in each variable over time.

The Bancomer SAI during the 4th quarter of 2006

Based on the SAI calculated for November, and in particular the SAI—3AMA—, a probable evolution is advanced for GDP for the fourth quarter of last year. In this regard, it should be emphasized that this evolution is for soft moderate economic growth. The index shows a consistent trend toward moderation as of June when the maximum level (of the indicator) was reached. The index (in moving average) was at slightly negative levels for the first time since mid 2005.

With information compiled as of October and November, we see that four of the seven components had negative contributions to GDP growth. Of particular importance is the negative contribution of the variables contained in "external demand", in which the last two SAI (3AMA) indexes have been below zero. This negative contribution is coupled with that of the investment indicators other than construction, in line with the soft downturn noted in growth rates in the last part of the year.

In contrast, the "industrial production" variables stand out due to the rebound in the past two months in the SAI. It should be mentioned that this is despite the consistently downward performance since the middle of the year when industrial activity reached its maximum level in the synthetic index.

Finally, the variables contained in the expenditure category had a negative contribution to the SAI (3AMA), and, therefore, it can be expected that the private consumer spending variable of aggregate demand has grown at a lower rate in the fourth quarter that in two previous three-month periods.

BBVA Bancomer SAI

	Contributions					Weight,
	2005	1Q06	2Q06	3Q06	Oct-Nov	%
Invest. (excl. constr.)	0.13	0.10	0.24	0.12	0.03	44.3
Production	-0.01	0.07	0.09	0.00	-0.10	25.4
Expenditures	0.01	0.01	0.02	0.02	-0.03	5.6
Construction	0.04	0.04	0.05	0.03	0.01	4.7
Employment	0.03	0.04	0.04	0.04	0.03	9.6
Finances	0.01	0.01	0.04	-0.04	0.00	-11.7
External demand	0.06	-0.07	0.02	-0.02	-0.06	22.1
SAI BBVA Bancomer	**0.27**	**0.19**	**0.49**	**0.16**	**-0.13**	**100.0**

Source: BBVA Bancomer with INEGI data

In November 21 of the 36 individual variables made a positive contribution. The BBVA Bancomer SAI is consistent with a growth rate of close to 4.4% in 4Q06 and around 4.8% for the entire year.

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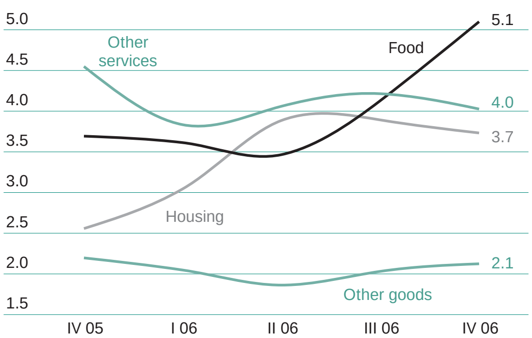
Inflation 2007:
A Cloudy Sky that will be Clearing Up

Inflation 2005 - 2006

	Annual % chge. Dec'05	Annual % chge. Sep'06	Differ.*	Contrib.*
NCPI	**3.33**	**4.05**	**0.72**	**0.72**
Core	3.12	3.61	0.49	0.34
Goods	2.82	3.38	0.56	0.21
Foodstuffs	3.69	5.10	1.41	0.21
Other	2.19	2.12	-0.07	-0.02
Services	3.46	3.87	0.41	0.13
Housing	2.55	3.73	1.18	0.21
Other	4.55	4.02	-0.52	-0.08
Non-core	3.76	4.96	1.20	0.37
Agric. & livestock	-0.18	8.30	8.48	0.68
Gov't Man. & Reg.	4.76	3.14	-1.62	-0.28
Education	6.63	5.71	-0.92	-0.05

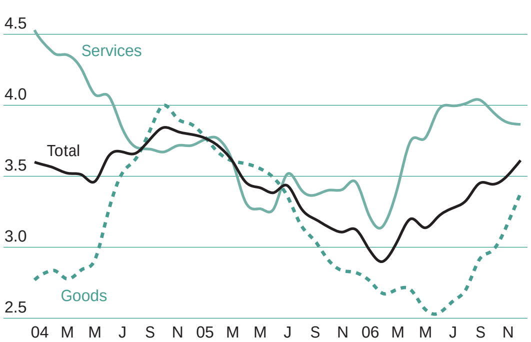
* Percentage Points
Source: BBVA Bancomer with Banco de México data

Core Inflation: Main Subindexes
Annual % change



Source: BBVA Bancomer with Banco de México data

Core Inflation
Annual % change



Source: BBVA Bancomer with Banco de México data

The year 2006 had mixed results in terms of inflation, closing slightly above the Banco de México target, at 4.1% (average 3.6%), although not as a result of generalized pressure, but from supply shocks that had a significant impact on the prices of a reduced number of goods toward the end of the year. In the midst of all of this and despite the fact that most of the upward pressure was in foodstuffs, core inflation continued to fluctuate within a limited range and its level at the close, 3.6% (average 3.3%), barely reflected the demand pressure associated with economic growth, the highest in six years.[1]

Compared with 2005, inflation at the close of 2006 rallied 0.7 percentage points, 0.5 of which can be associated with four products: tortillas, sugar, tomatoes and onions. Their price increase was significant as of September. That is, if the effect of the agricultural shock is excluded, the inflation figure would have been practically the same as that of a year before. This is a very favorable result, since, beyond the present situation, there was progress in general in the stability of core inflation, as well as in maintaining government prices aligned with the long-term central bank target.

2007 Panorama: pressure at the beginning that will gradually dilute

In the scenario for 2007, upward pressure is expected to continue during the greater part of the first half of the year. Dominating the scenario will be the agricultural shock, as well as seasonal and statistical effects. Toward the second half, important factors will be the slowdown, lower prices of raw materials, contained inflation in the U.S. and stability in the peso/dollar exchange rate in real terms.

First, the slowdown in the U.S. will generate a double effect: on the one hand, a slowdown in Mexico with effects on domestic demand, reflected in lower pressure on the services component; on the other, lower inflationary pressure in the U.S., leading to price stability in imported products.

Secondly, the downward trend in prices of raw materials (energy and metals) will contribute toward containing inflationary pressure. During 2006, most of the rise in core inflation due to services, reflected, in the end, the rise in prices of construction materials; also, the high crude oil prices led to significant rises in producer prices. At the same time, the descent of raw materials will imply less difficulty for the government to maintain its prices aligned with the inflation target of the central bank.

Thirdly, peso stability will also be a restraining factor for inflation. Supported by renewed optimism regarding the capacity for realizing some long-term reforms by the incoming administration, as well as international liquidity, the expectation for foreign exchange is that the peso will remain stable in real terms during the year. Stability in the exchange rate has shown that it is a key factor for the convergence

1 Among the components for core inflation, separated between goods and services, the former have a close relationship with the performance of the exchange rate, international prices and even supply shocks (foodstuffs); whereas services, in particular those excluding housing, reflect the pressure of domestic demand. In 2006, those services closed at an annual rate even lower than that of 2005: 4% vs. 4.6%.

of core inflation (review inset "The role of foreign-exchange stability in inflation").

Lastly, there is agriculture, which, although by definition is a source of uncertainty, has shown alternating high and low prices practically every year since the early nineties. According to this pattern, 2007 should show downward prices or with modest increases.

... although there are some matters pending

Among the topics of concern is that of foodstuffs. The rising trend in this sub-index began in the second half of 2006, boosted to a great extent by the higher prices of some raw materials (corn and other grains), with an impact on the total chain (fodder, meat, milk, corn-derived products). The futures market points to the fact that this new agricultural shock will keep prices pressured until mid-year.

Central scenario: gradual convergence

The combination of statistical effects, seasonal factors and contingency pressure (foodstuffs) could imply inflation levels close to 4.5% in the first half of the year (headline inflation could reach maximum levels of 4.7%, with core inflation of 4% in the second quarter), with a gradual convergence in the second half. Within this context and due to the importance of price adjustments and wage changes at the beginning of the year, the alignment of expectations is a key element for inflation. Inflation surprises at the end of 2006 have reflected certain short-term nervousness (a rally in the 12-month expectations and for 2007), but, for the medium term, the anchoring of expectations is maintained.

... without ruling out the risks

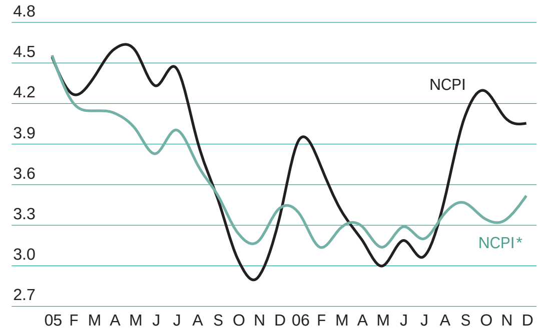
The possibility of an upward trend in medium-term expectations is one of the key risk elements for inflation results; exceeding the 4% target during some months could generate certain nervousness and doubts in the market regarding the subsequent capacity for convergence. Since inflationary pressure is greater in the first half of the year (in core inflation nearly 60% of price increases in the year are concentrated in the first four months) and more than half of wage negotiations also occur in that period, inflation levels consistently higher than 4% could generate second-round effects resulting from wage revisions if expectations are not anchored. A second element to watch is the performance of prices of raw materials, in face of the possibility that the upward period might end up being more intense or prolonged than foreseen.

In a contrasting scenario, and one with a lower probability, the risk of having lower inflation levels in 2007 will be determined by the dynamism of economic activity: a scenario of a pronounced slowdown could take core inflation to levels below 3%.

Conclusions

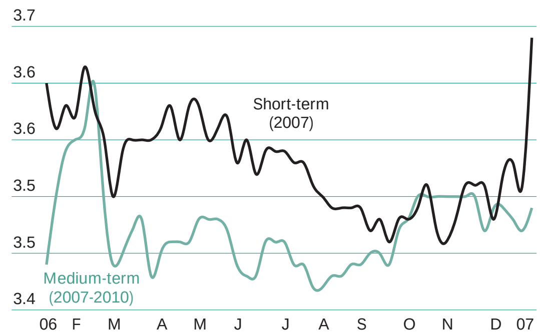
The outlook for the main determining factors for inflation indicate that this will be a year with little pressure in the first half of 2007 and that, putting aside the contingency, a convergence could be anticipated as of the second half: we expect headline inflation to close the year at levels close to 3.7%, with core inflation at about 3.5%.

Inflation 2005 - 2006
Annual %



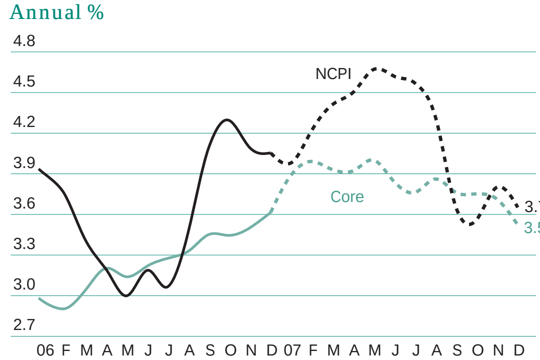
* Excludes tortillas, sugar, tomatoes and onions
Source: BBVA Bancomer with Banco de México data

Inflation Expectations*
Annual %



* Infosel Survey
Source: BBVA Bancomer with Banco de México data

Inflation 2006 - 2007
Annual %



Note: Forecasts for 2007
Source: BBVA Bancomer with Banco de México data

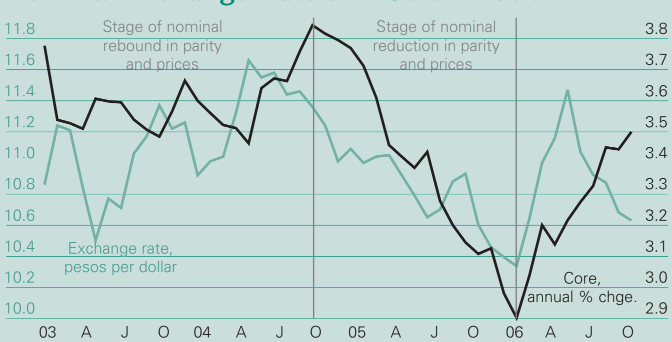
The Role of Exchange Rate Stability on the Evolution of Inflation

The transmission of fluctuations in the exchange rate on inflation has diminished (documented in PesoWatch of November 2005), but inflationary convergence has also supported the strength of the peso. This simultaneous relation between prices and exchange rate is an indication that, among other factors, exchange rate stability has indeed played an important role in the performance of inflation, especially core inflation.

Long-term relation

The exchange rate, according to the purchasing power parity, should reflect the spread in prices of tradable goods between the respective countries. In open economies such as the Mexican economy, fluctuations in the exchange rate also have an important impact on the expansion of prices. This would imply that, in theory, independently of short-term changes and shocks, there should be a stable long-term link between the two variables. From the following graph we can conclude that the strength of the peso is indeed a necessary condition for the stability of core inflation. Substantial and persistent changes in the exchange rate interrupt the trend in inflation. Causality tests corroborate this effect.

Nominal Exchange Rate and Core Inflation



Source: BBVA Bancomer with Banco de México data

However, the process of inflationary convergence has submitted the peso to a period of both stability and strength in real terms. The existence of a long-term relation, and the effect that divergences from this relation have on inflation, would sustain the role that exchange rate stability has played on the evolution of prices. To corroborate this thesis, we estimated a long-term equation between the exchange rate and the core inflation subindex. We added the behavior of real wages and external prices.[1] Once the existence of this relation was confirmed and that there is only one cointegration vector, we estimated a Vector Error Correction Model (VECM) of two variables (inflation and exchange rate) that includes the typical divergences from the long-term relationship.[2] The inflation equation is defined as:

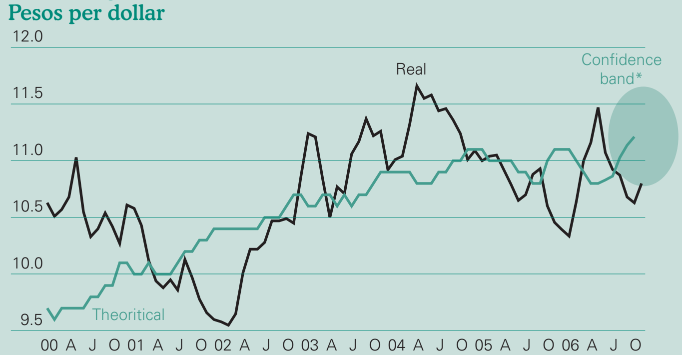
$$\Delta p_{st} = C + \gamma_1 \Delta p_{st-1} + \gamma_2 \Delta p_{st-2}\, \Theta(\Delta s_t + \Delta s_{t-1} + \Delta s_{t-2}) / 3 + \alpha_1 \Delta w_t + \alpha_2 \Delta w_{t-1} - \rho(p_{st-1} - \sigma_1 s_{t-1} - \sigma_2 w_{t-1} - \sigma_3 p^*_{t-1} + t)$$

monthly sample (1997-2006)

In which p_s, w, p^*, s, are the natural logarithm of core prices, real wages, external prices, and exchange rate respectively; ρ represents the degree of adjustment of inflation to divergences in its (long-term) equilibrium condition and its value is -0.78, slightly higher than previous estimates (-0.1 to -0.5). This means that independently of the movements in prices in the short term, these should adjust and align themselves with the trend in inflation. In an environment in which the stability of the exchange rate and of external prices has marked the evolution of the present economic cycle, it can be affirmed that inflation in Mexico has been limited in the long term by these factors. The average of the fluctuations of the peso also show an important transmission in inflation projections (Θ is equal to 0.5).

Exchange Rate: Theoretical (PPP) and Real

Pesos per dollar



* The Confidence band is the result of different models to estimate the theoretical level

Source: BBVA Bancomer with Banco de México data

The strength of the real exchange rate continues

The real exchange rate has remained stable since mid-2003. The range of the theoretical exchange rate is between 11 and 11.6 pesos per dollar, which means that the peso would have a margin of depreciation as a result of unfavorable changes in oil prices—or transitory increases in inflation—that would not result in an important transfer in terms of additional increases in domestic prices.

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1 See Banco de México Working Document #2003-3.

2 The unitary roots test was carried out including a trend variable for the changes in prices. All the variables are stationary in order (1). A more direct methodology was preferred in determining the co-integration vectors. This means that there are no restrictions or impositions on the parameters.

Electoral Calendar 2007

In 2007, the political parties will once again be engaged in competing for votes. A total of 1,709 elective posts are to be renewed in 14 states of the Republic on seven different dates. In addition to the governorships of Yucatan, Baja California and Michoacan, 1,219 mayoralties, 297 majority vote congressional seats and 190 of proportional representation are at stake. Of the three governorships, two (Yucatan, Baja California) are in the hands of the PAN and one (Michoacan) is headed by the PRD. The PRI presides over 17 of the 31 state administrations, which is why the recovery of any of the aforementioned governorships would enhance its regional influence. For the PAN and the PRD, the loss of any of the governorships they hold would complicate their efforts to consolidate their position at the local level.

The first election for governor in 2007 will take place in Yucatan, where the contest is between the ruling PAN —whose internal frictions led to the recent resignation of Ana Rosa Payan, who will run as a citizen candidate— and the PRI. In Baja California, the PAN, which has presided over the government since 1989, also has its strongest competitor in the PRI. On the other hand, in Michoacan, the competition is between the PRD, which won the governorship in 2001, and the PRI. As to the other elections, in Veracruz the three main political parties are equally competitive. In the remaining states the contest is between the PAN and the PRI (Durango, Chihuahua, Aguascalientes, Sinaloa, Tamaulipas, Puebla) or between the PRD and the PRI (Zacatecas, Oaxaca, Chiapas), although it is worth noting that in Tlaxcala the race could be between the PAN and the PRD.

Evaluation

In spite of the low voter turn-out that usually characterizes local elections and the scant interest that they raise at the national political level, the above-mentioned processes will enable one to evaluate the competitive condition of the PAN, the PRD and the PRI in various states in the year following the July 2 presidential contest. For the PAN's current national leadership, the retention of the governorships of Yucatan and Baja California would indicate that the voters are satisfied with the way in which that party has governed those states. Likewise, if the PRD keeps control of the government of Michoacan, it will have shown that it knows how to preserve the loyalty of the majority of voters who —like those of Baja California— are concerned about the violence stemming from the activities of organized crime. For the new leaders of the PRI, winning al least one additional governorship —be it Yucatan, Baja California or Michoacan— would help restore the confidence of that party after the setbacks it suffered in the federal elections of 2006.

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Electoral Calendar 2007

Date	State	Local elections: Governor	Mayoralties	Legislators Maj.	Legislators Prop. Rep.	Total
20 May	Yucatan	1	106	15	10	132
1 July	Durango		39	17	13	69
	Chihuahua		67	22	11	100
	Zacatecas		58	18	12	88
5 August	Baja California	1	5	16	9	31
	Aguascalientes		11	18	9	38
	Oaxaca			25	17	42
2 September	Veracruz		212	30	20	262
7 October	Chiapas		118	24	16	158
	Oaxaca*		152			152
14 October	Sinaloa		18	24	16	58
11 November	Michoacan	1	113	24	16	154
	Tamaulipas		43	19	13	75
	Tlaxcala		60	19	13	92
	Puebla		217	26	15	258
Total		**3**	**1,219**	**297**	**190**	**1,709**

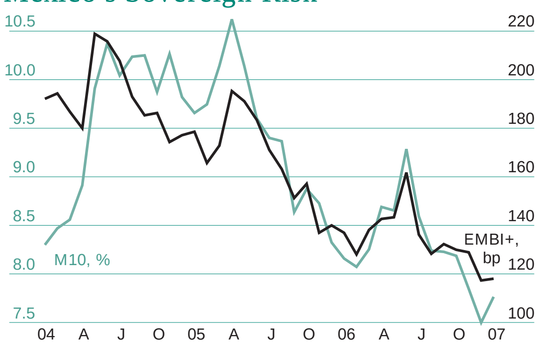
* Elections are held in only 152 mayoralties; 418 are governed according to local custom
Source: State Electoral Institutes

Financial Markets: The Pause Will Continue in the 2nd Half of 2007

Annualized Peso Volatility and Monetary Policy Expectation in the U.S.

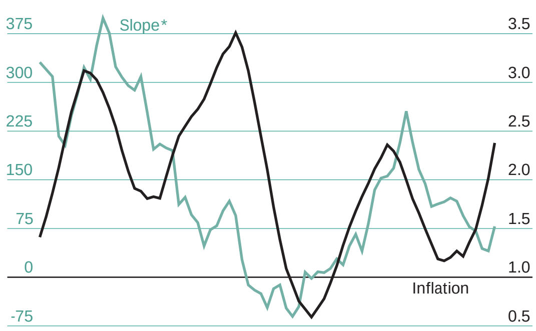
* 3-month expectation, basis points
Source: BBVA Bancomer with Banco de México and Bloomberg data

10-Year Bond and Mexico's Sovereign Risk



Source: BBVA Bancomer with Banco de México and Bloomberg data

Annual Volatility of Headline Inflation and Curve Slope



* M10 - 28-day Cetes, %
Source: BBVA Bancomer with Banco de México data

During 2006, the performance of the financial markets in Mexico was influenced—to a large extent—by uncertainty linked to the monetary course in the U.S., the persistence of international flows and the political transition in Mexico. Once the doubts regarding these factors were gradually diluted and the monetary pause of the Banco de México (bank funding at 7% since April 2006) was confirmed, the markets were assigned lower risk premiums: 10-year bond rates (M10) were reduced, closing the year at 7.4% (vs. 8.2% and 9.3% on average for January and June 2006); and the exchange rate closed at 10.9 pesos per dollar (ppd) (vs. the averages of 10.6 and 11.5 ppd, respectively).

Although international factors will continue to be relevant in 2007, the markets at the beginning of the year have focused their attention on the accumulation of inflationary pressure, the extent of the slowdown of the economy, the drop in oil prices, and the monetary action that the central bank might take going forward. The uncertainty associated with these factors arose when there was greater financial volatility and a slight increase in the slope of the yield curve. Thus, it is convenient to analyze in greater detail the previous factors so as to identify the profile that interest and exchange rates could assume, as well as their potential trends throughout the year.

A greater challenge for the central bank in 2007: an increase in inflation risks and doubts regarding the magnitude of the slowdown

Since the second half of 2006, successive supply shocks have affected specific markets, which—although temporary—have translated into a continuous rise in inflation. At this time, the inflation rise has not appeared in a generalized way; but it has increased the risk of transmission to other goods and services, of contaminating inflationary expectations and of making the inflationary target vulnerable in face of future supply shocks.

For the first half of 2007, it is foreseeable that core inflation will exceed 4% due to the potential rigidity downward of some prices (i.e. foodstuffs and services) and to the seasonal rises that tend to appear at the beginning of the year. For the second half of the year, we estimate that the economy will register a slowdown toward 3.6% (close to the potential) thereby removing pressure from inflation. Nevertheless, the uncertainty regarding the extent of the slowdown could lead to doubts regarding the course of inflation and the monetary response in the year.

On the international scene, liquidity conditions continue benign in view of the outlook of a prolonged monetary pause in the U.S. (we estimate that the federal funds rate will remain at 5.25% throughout the year). There is a lower possibility that the peso will register abrupt depreciations, which facilitates the decline of core inflation toward its long-term trend in the second half of 2007.

In view of increased uncertainty and the deterioration in the risk balance, the markets have given greater probability not only to the prolonging of the monetary pause but also to the possibility of greater restriction (the implicit rate in futures discounted a 25 bp increase in funding for April). In this sense, the central bank, in its first communication of the year (Jan 26) reflected this situation and hardened its communiqué to the market as was expected. In particular, it warned about the volatility of international processed food prices, the high levels of the prices of services, and high inflationary expectations. In a parallel manner, Banco de México made it very clear that it will not hesitate in adjusting domestic monetary conditions should the recent supply shocks contaminate other prices and services, medium-term expectations and wages in the country.

We believe that the central bank's position—to maintain the monetary pause and harden its communiqués—reflects prudence in face of the initiation of a slowdown phase in the economy. Before committing itself to promoting a restrictive monetary policy, it will evaluate the extent of the economic slowdown in order to avoid providing adverse feedback to the lower economic growth. Even though Banco de México has revised its core and headline inflation estimates upward (between 3.5% and 4%), we believe that if it had had sufficient evidence of inflation persistently above 4% in the second half of 2007, we would have seen a greater monetary restriction.

In short, we think that the current risk balance is at the "limit" and is vulnerable to new supply shocks and/or greater strength in domestic demand. This situation justifies prolonging the monetary pause until a downward inflationary course is consolidated (once we are in the second half of 2007). In contrast, there is not sufficient evidence at this time to sustain a radical change in the monetary cycle. The hardening of tone of the central bank communiqués could be an effective tool as long as second-round effects are not significant.

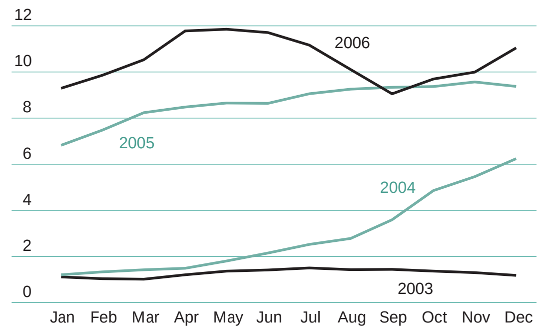
At this time, we think that the next cycle of the monetary policy will be downward, which could begin in the last part of this year and extend into 2008, concurrent with the economic slowdown cycle.

Bonds and the Exchange Rate: with periods of temporary and limited volatility

In view of the uncertain panorama, we are not ruling out periods of greater volatility on the financial markets (following monetary policy decisions) that would translate into rises in the yield curve. Nevertheless, the rallies in volatility will tend to be moderate and temporary, based on the outlook for interest rate levels in the U.S. close to the current ones (federal funds at 5.25% and 10-year bonds at 4.9%, on average, in the first half of the year). In addition, as the markets acquire greater information regarding the temporary nature of inflation, volatility will tend to be limited and fluctuate at levels close to those in the international markets.

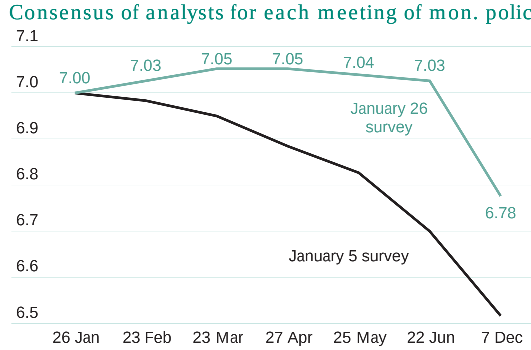
Another element to consider regarding the course the market will take this year will be the possibility of advancing in priority structural reforms for the economy (in particular fiscal, energy and public sector pensions). We think that, as of the second ordinary period of sessions of the current Legislature (Feb 1 to Apr 30), there will be sufficient information to value the viability and depth of said reforms. In this

Foreign Holdings of Mexican Bonds
Balances in billions of dollars



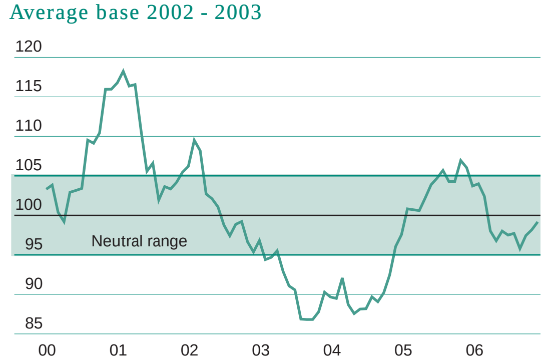
Source: BBVA Bancomer with Banco de México data

Outlook for the Bank Funding Rate
Consensus of analysts for each meeting of mon. policy



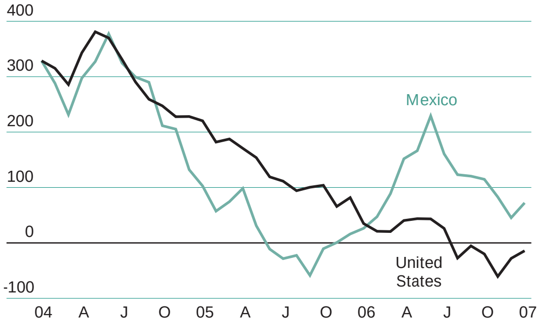
Source: BBVA Bancomer with Infosel data

Monetary Conditions Index
Average base 2002 - 2003



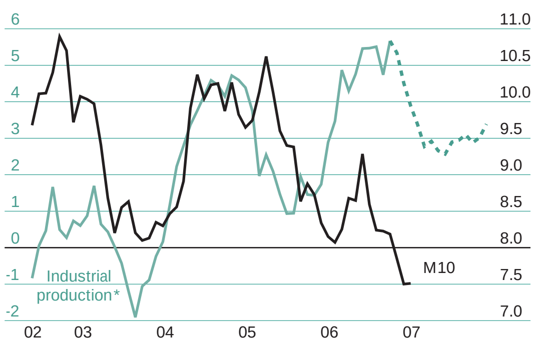
Note: Rise in the index indicates the relative hardening of internal monetary conditions
Source: BBVA Bancomer

Yield Curve Slope
10 years - 1 month, basis points



Source: BBVA Bancomer with Banco de México and Federal Reserve data

Economic Activity and 10-Year Bond
Annual %



* 6-month moving average
Source: BBVA Bancomer with Banco de México and INEGI data

Mexico / U.S. Spread and Exchange Rate

* Basis Points, annual change
** Annual % change, nominal
Source: BBVA Bancomer with Banco de México and Federal Reserve data

respect, we are optimistic about the partial approval of legal modifications that will contribute not only to curb volatility on the markets but also to whet the appetite for Mexican assets.

In this way, and in a still uncertain environment (inflation, growth and reforms), the average interest rates for 10-year bonds will be between 7.2% and 7.9% in the first half of the year, with a downward trend in the second part of the year, should the cycle of monetary easing be confirmed

In terms of the exchange rate, we continue to believe that there are conditions of relative strength in the first two quarters of the year, with a weakening trend toward the final months of the year. In the first place, the recent rise in inflation—in addition to being limited to certain goods and services—has not been of sufficient magnitude and extension to cause an accentuated depreciation of the peso beyond its long-term trend (see graph). In the second place, the outlook of stability of the monetary policies, both in the U.S. and in Mexico, contribute to consolidating the exchange rate within narrow fluctuation ranges.

In the third place, the influence of oil on the trend of the exchange rate is still limited, and where the outlook for depreciation, in face of the drops in crude oil prices, are delimited in an environment of solid public finances, of diversification in exports and of low international aversion to risk. In the fourth and last place, the possibility of reforms would contribute to increasing the outlook for potential growth of the economy and limiting our country risk, a situation that could even take it further to an improvement in the credit rating. Thus, the average for the exchange rate could fluctuate between 11.1 and 10.8 ppd in the year.

Detonators of alternative scenarios

The main factor, of foreign origin, which could mark a different course for the markets, is a more pronounced growth slowdown in the U.S. and, therefore, in Mexico this year. This “adverse” scenario—to which we assigned a low probability—would imply a rally for investors in the risk premiums that would be manifested in the interest rate spreads with the U.S., an increase in the yield curve slope and in a higher depreciation of the peso.

The slowdown in both economies would tend to limit price increases in Mexico and would heighten the probability of an expansive cycle of a more accelerated monetary policy. Within this context, bank funding would close the year at 6%, the M10 at 7.3% and the exchange rate would approach 12 ppd.

As for domestic factors, detonators of alternative scenarios could be of a different nature. At this time, we maintain a positive trend on the financial markets, derived from the reforming potential of this new Legislation, which could lead to a “moderate euphoria” for Mexican assets. Despite the fact that domestic complications regarding inflation and growth could persist, this scenario would imply reductions in the risk premiums, greater flows to the economy, and, therefore, a lower slope in the yield curve and appreciation of the peso. As regards our alternate scenarios, this is the one that we select as that with greater probability (see table with alternate forecasts).

With little probability at this time, another possible scenario that has begun to be discussed in the market, is that linked to the permanence of inflation, be it from a more generalized price rise on the markets (in particular, in services and foodstuffs), the contamination of expectations or the occurrence of new supply disturbances. This scenario would lead to a new upward cycle in the bank funding rate that would tend to move to higher yields of long-term bonds, with the possibility of a relatively strengthened peso should international liquidity prevail (see table of alternative forecasts).

Calendar of Monetary Announcements 2007

Month	Mexico				U.S.	
	An-nounc.[1]	Inflation Report[2]	Infla. Brief[3] 1st. 2 weeks	Infla. Brief[3] Prior month	FOMC[4]	Re-port[5]
Jan	26	31	24	9	30/31	
Feb	23		22	8		X
Mar	23		22	8	20/21	
Apr	27	30	24	9		
May	25		24	9	9	
Jun	22		22	7	27/28	
Jul	27	30	24	9		X
Aug	24		23	9	7	
Sep	21		24	7	18	
Oct	26	31	24	9	30/31	
Nov	23		22	8		
Dec	7		21	7	11	

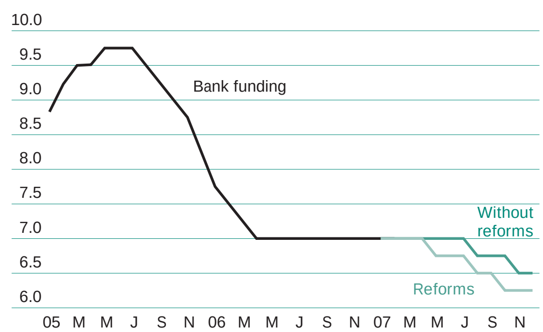
1 Monetary Policy Announcements & Communiqués. Release to the market at 9:00 hrs Mexico City
2 Quarterly report on inflation
3 Broadcast to market at 14:30 hrs Mexico City
4 FOMC Meeting
5 Report to Congress
Note: On January 31, the 2007 Monetary Program is released
Source: BBVA Bancomer with Banco de México data

2007 Financial Markets
End of period

	1st. qtr.	2nd. qtr.	3rd. qtr.	4th. qtr.	Average
Bank Funding, %					
Reforms	7.00	6.75	6.50	6.25	6.63
Without reforms	7.00	7.00	6.75	6.50	6.81
Weighted*	7.00	6.90	6.66	6.40	6.74
M10 Bond, %					
Reforms	7.5	7.1	7.0	7.0	7.2
Without reforms	7.8	7.7	7.7	7.5	7.7
Weighted*	7.7	7.4	7.4	7.3	7.5
Exchange rate, pesos per dollar					
Reforms	10.6	10.6	10.7	10.5	10.6
Without reforms	10.8	10.9	11.1	11.3	11.0
Weighted*	10.7	10.7	10.9	11.0	10.8

* 60% without reforms scenario and 40% reforms
Source: BBVA Bancomer

Bank Funding
%



Source: BBVA Bancomer with Banco de México data

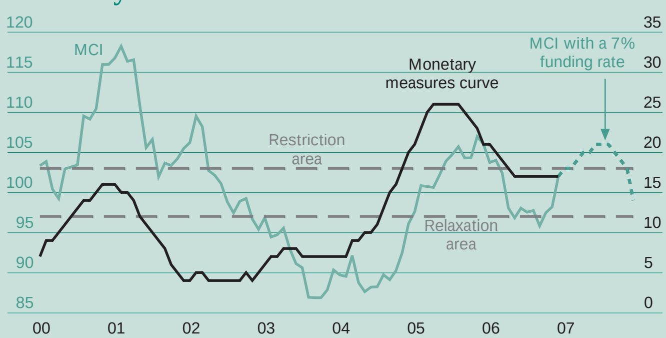
Monetary Policy Stance in Mexico

All modern central banks use a short-term benchmark interest rate as their main instrument in monetary policy. The simplest rule tells us that to the extent that the real short-term rate compensates inflationary pressures or real growth, the monetary policy position will be restrictive and vice versa. However, the mechanism of monetary transmission in an open and small country economy such as Mexico's is not only centered on the real effect of the interest rate. Therefore, since our Situation Mexico 2Q05 report, we have been issuing an index (the Monetary Conditions Index or MCI) that better reflects this transmission, and which therefore includes the real exchange rate, real interest rates, financial markets, and economic cycles.

MCI and monetary policy instruments

One condition that the MCI should fulfill is that it must maintain an important correlation with the monetary policy signals issued by the central bank. To corroborate that our index is reflecting this process, we will compare it with the movements in the Banco de México monetary instruments (the "short" and the bank funding rate). We introduced a curve that includes changes in the "short" and/or the bank funding rate. This can be interpreted as the direction taken by the measures implemented by Banxico. As can be seen, the MCI does indeed reflect the messages that the monetary authorities send through their direct measures, either by using the "short" or the benchmark rate.

Monetary Conditions Index and Monetary Measures Curve*



* Changes in the short and the bank funding rate form a single curve
Source: BBVA Bancomer with Banco de México data

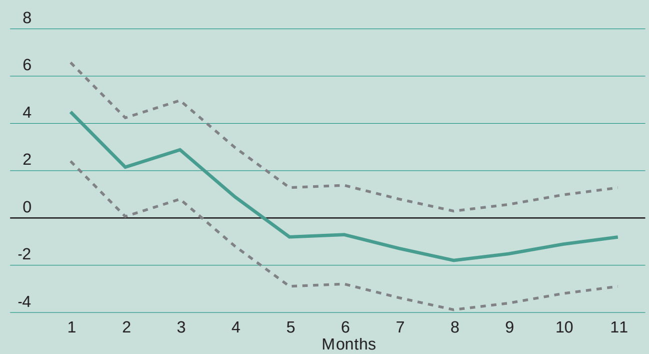
Nevertheless, the MCI does not only have to respond to the direct measures taken by the Banco de México; it is also sensitive to the hardening or relaxation of official communiqués, declarations by the authorities, changes in the country risk perception, or even international factors. As can be seen, since the central bank interrupted the cycle of monetary relaxation in April of last year, the MCI has fluctuated within a narrow range, with an initial trend toward relaxation. A slight depreciation of the peso, international uncertainty, and lower real interest rates, led to this trend. However, since supply shocks began, which have affected inflation since mid-2006, the MCI has moved toward a more restrictive approach. Without having taken direct action, the central bank has compensated the pressures through a hardening of its official declarations and the response of the markets.

The dilemma: to restrict or to accommodate

If the international conditions are favorable, it is likely that the MCI will continue moving on the side of restriction. Only in an extreme situation, in which the inflationary risks (expectations, shocks, greater than expected activity, or pronounced depreciations) do not recede, would the Banco de México feel required to use the funding rate and begin a restrictive cycle through the adoption of measures.

The MCI Response to a Transitory 1 pp Inflationary Shock (+/- 2 standard deviations)

MCI units



Source: BBVA Bancomer

The hardening in tone of the central bank's official communiqués and the credibility that it generates in the markets, could be sufficient to accommodate the shocks and only allow the MCI to compensate the inflationary pressure. In fact, as can be seen above, there is indeed evidence that monetary conditions respond to inflationary surprises.

If the funding rate were to remain at 7.0%, and the projected real interest rate fluctuates between 3.1% and 3.6%, this would be sufficient to accommodate the transitory effects of inflation and to maintain a neutral position in rates, given the economic growth expected by the central bank in 2007 (3.25% to 3.75%). In this context, in response to greater inflationary pressure and given our scenarios for interest rates, the exchange rate, and growth, our MCI could increase in the next few months to accommodate the pressure of market conditions at the beginning of the year.

Ociel Hernández o.hernandez@bbva.bancomer.com

United States Indicators and Forecasts

	I'06	II'06	III'06	IV'06	I'07	II'07	III'07	IV'07	2005	2006	2007
Economic Activity											
GDP (real annual % change)	3.7	3.5	3.0	3.4	**2.7**	**2.8**	**3.0**	**2.8**	3.2	3.4	**2.8**
Personal consumption expenditures	3.4	3.0	2.7	3.7	**3.1**	**3.0**	**2.7**	**2.1**	3.5	3.2	**2.7**
Gross fixed investment	6.9	3.9	2.0	-0.6	**-1.0**	**0.4**	**1.7**	**4.6**	7.5	3.0	**1.4**
Non-residential	7.4	7.2	8.3	6.8	**5.2**	**5.7**	**4.6**	**6.0**	6.8	7.4	**5.4**
Structures	2.6	8.0	14.1	11.7	**9.0**	**5.4**	**2.9**	**3.0**	1.1	9.1	**5.0**
Equipment and software	9.2	6.8	6.0	4.8	**2.7**	**4.7**	**4.3**	**6.1**	8.9	6.7	**4.5**
Residential	6.1	-1.5	-8.1	-12.6	**-12.9**	**-10.5**	**-5.7**	**-0.3**	8.6	-4.2	**-7.6**
Total exports	9.0	8.2	9.1	9.2	**7.6**	**7.7**	**7.7**	**6.7**	6.8	8.9	**7.4**
Total imports	6.4	6.4	7.2	3.1	**1.9**	**2.3**	**1.6**	**3.0**	6.1	5.8	**2.2**
Government consumption	2.0	2.0	1.6	2.8	**2.1**	**2.1**	**2.1**	**2.1**	0.9	2.1	**2.1**
Contribution to Growth (pp)											
Personal consumption expenditures	2.4	2.1	1.9	2.6	**2.2**	**2.1**	**1.9**	**1.5**	2.5	2.3	**1.9**
Private investment	1.0	1.2	1.0	-0.2	**-0.3**	**-0.2**	**0.0**	**0.6**	0.9	0.8	**0.0**
Net exports	-0.1	-0.2	-0.2	0.5	**0.5**	**0.5**	**0.6**	**0.3**	-0.3	0.0	**0.5**
Government consumption	0.4	0.4	0.3	0.5	**0.4**	**0.4**	**0.4**	**0.4**	0.2	0.4	**0.4**
Prices and Costs (annual % change, average)											
CPI	3.6	4.0	3.3	1.9	**2.0**	**1.5**	**1.4**	**2.5**	3.4	3.2	**1.8**
Core	2.1	2.5	2.8	2.6	**2.6**	**2.3**	**2.2**	**2.3**	2.2	2.5	**2.3**
PCE	3.0	3.3	2.8	1.9	**1.7**	**1.2**	**1.2**	**1.8**	2.9	2.8	**1.5**
Core	2.0	2.2	2.4	2.3	**2.2**	**2.1**	**2.0**	**2.1**	2.1	2.2	**2.1**
GDP deflactor	3.1	3.3	2.9	2.5	**2.3**	**2.0**	**2.0**	**2.4**	3.0	2.9	**2.2**
Productivity	2.8	2.5	1.4	2.0	**2.0**	**2.0**	**2.0**	**2.0**	2.3	2.1	**2.0**
Real compensation per hour	2.6	1.6	1.0	1.3	**1.4**	**1.4**	**1.4**	**1.4**	1.0	1.6	**1.4**
Unit labor cost	3.6	3.1	2.9	2.1	**1.4**	**1.4**	**1.4**	**1.4**	2.0	2.9	**1.4**
Other Indicators											
Industrial production (real annual % change)	3.3	4.2	5.1	3.7	**4.4**	**3.7**	**3.4**	**3.1**	3.2	4.1	**3.6**
Capacity utilization (%)	81.2	82.0	82.3	81.7	**81.6**	**81.3**	**81.0**	**80.7**	80.2	81.8	**81.2**
Light weight vehicle sales (millions, annualized)	16.9	16.4	16.6	16.4	**16.6**	**16.6**	**16.5**	**16.6**	16.9	16.6	**16.5**
Housing starts (thousands, annualized)	2,123	1,873	1,714	1,564	**1,723**	**1,681**	**1,662**	**1,657**	2,073	1,819	**1,681**
Nonfarm payrolls (thousands of new jobs, average)	176	115	185	136	**106**	**100**	**95**	**99**	165	153	**100**
Unemployment rate (average, %)	4.7	4.6	4.7	4.5	**4.6**	**4.6**	**4.7**	**4.7**	5.1	4.6	**4.7**
Personal savings rate	-1.4	-1.3	-1.4	**-1.3**	**-0.6**	**-0.4**	**-0.1**	**0.2**	-0.5	**-1.3**	**-0.2**
Trade balance (US$ billions)	-213	-217	-226	**-186**	**-201**	**-202**	**-191**	**-174**	-724	**-759**	**-713**
Current account balance (US$ billions)	-853	-869	-902	**-743**	**-805**	**-809**	**-764**	**-695**	-805	**-842**	**-768**
% of GDP	-6.6	-6.6	-6.8	**-5.5**	**-5.9**	**-5.8**	**-5.5**	**-4.9**	-6.4	**-6.4**	**-5.5**
Fiscal balance (US$ billions, fiscal year)	—	—	—	**-260**	—	—	—	**-286**	-318	**-275**	**-301**
% of GDP	—	—	—	**-2.1**	—	—	—	**-2.2**	-2.6	**-2.1**	**-2.2**
Brent (dollars per barrel, average)	66.4	74.6	72.0	63.4	**58.1**	**57.2**	**56.3**	**55.1**	58.3	69.1	**56.7**
Financial Markets (eop)											
Fed Funds (%)	4.75	5.25	5.25	5.25	**5.25**	**5.25**	**5.25**	**5.25**	4.25	5.25	**5.25**
3-month Libor (%)	5.00	5.48	5.37	5.36	**5.32**	**5.32**	**5.32**	**5.32**	4.54	5.36	**5.32**
10-year Treasury Note (%)	4.85	5.14	4.63	4.70	**4.90**	**4.90**	**4.90**	**4.90**	4.39	4.70	**4.90**
Dollar/euro	1.21	1.28	1.27	1.32	**1.30**	**1.30**	**1.30**	**1.30**	1.18	1.32	**1.30**

eop end of period
CPI Consumer price index
PCE Personal consumption expenditures index

Mexico Indicators and Forecasts

	2003	2004	2005	2006	2007	I'06	II'06	III'06	IV'06	I'07	II'07	III'07	IV'07
Economic Activity													
GDP (seasonally-adjusted series)													
Real annual % change	1.4	4.2	3.0	**4.8**	**3.6**	4.2	6.0	4.6	**4.4**	**2.9**	**2.9**	**3.5**	**4.9**
Per inhabitant (US dollars)*	6,356	6,729	7,497	**8,173**	**8,785**	8,057	8,206	7,841	**8,587**	**8,335**	**9,054**	**8,460**	**9,292**
US$ billions	639	683	769	**847**	**919**	832	849	813	**893**	**868**	**946**	**886**	**975**
Inflation (eop, %)													
Headline	4.0	5.2	3.3	4.1	**3.7**	4.4	3.2	4.1	4.1	**4.4**	**4.6**	**3.7**	**3.7**
Core	3.7	3.8	3.1	3.6	**3.5**	3.6	3.2	3.4	3.6	**3.9**	**3.8**	**3.8**	**3.5**
Financial Markets	**(Weighted average: 60% without reforms scenario and 40% reforms)[1]**												
Interest rates (eop, %)													
Bank funding	6.1	8.6	8.3	7.0	**6.4**	7.3	7.0	7.0	7.0	**7.0**	**6.9**	**6.7**	**6.4**
28-day Cetes	6.0	8.6	8.0	7.0	**6.5**	7.3	7.0	7.1	7.0	**7.0**	**7.0**	**6.6**	**6.5**
28-day TIIE	6.3	9.0	8.6	7.4	**6.7**	7.6	7.3	7.3	7.4	**7.3**	**7.3**	**6.9**	**6.7**
10-year Bond	8.3	9.7	8.5	7.6	**7.3**	8.7	9.7	8.2	7.6	**7.7**	**7.4**	**7.4**	**7.3**
Exchange rate													
Pesos per dollar, eop	11.2	11.3	10.7	10.9	**11.0**	11.0	11.4	11.0	10.9	**10.7**	**10.7**	**10.9**	**11.0**
Public Finances													
Fiscal balance (% of GDP)	-0.6	-0.2	-0.1	0.2	**0.0**	nd	nd	nd	0.2	**nd**	**nd**	**nd**	**0.0**
FRPS (% GDP)	-3.3	-2.5	-1.7	1.7	**1.6**	nd	nd	nd	1.7	**nd**	**nd**	**nd**	**1.6**
External Sector**													
Trade balance (US$ billions)	-5.8	-8.8	-7.6	-5.8	**-19.9**	0.7	-0.2	-2.5	-3.9	**-3.0**	**-4.6**	**-5.7**	**-6.6**
Current account (US$ billions)	-8.8	-6.7	-5.0	**-1.9**	**-15.9**	0.7	1.1	-1.1	**-2.5**	**-3.1**	**-3.3**	**-4.4**	**-5.0**
Current account (% of GDP)	-1.4	-1.0	-0.7	**-0.2**	**-1.6**	-0.2	-0.1	-0.2	**-0.2**	**-0.7**	**-1.2**	**-1.5**	**-1.6**
Oil (Mexican mix, dpb, eop)	25.7	28.6	44.9	49.7	**43.3**	51.4	55.5	58.5	49.7	**44.7**	**45.9**	**44.6**	**43.3**
Monetary Agreggates & Banking Activity (ann. % chge.)													
Core bank deposits	6.9	3.1	3.2	1.0	**4.9**	6.7	6.2	3.3	1.0	**6.1**	**7.1**	**5.7**	**4.9**
Commer. banks performing loans***	5.5	27.7	26.6	25.0	**17.5**	27.8	28.5	26.8	25.0	**20.0**	**16.1**	**15.7**	**17.5**
Agreggate Demand (ann. % chge., seasonally-adjusted)													
Total	1.2	6.2	4.6	**7.2**	**5.3**	7.0	8.6	7.1	**6.2**	**4.8**	**4.6**	**5.3**	**6.6**
Domestic demand	1.8	4.3	5.4	**6.5**	**4.8**	7.8	6.6	6.1	**5.7**	**4.7**	**4.5**	**4.8**	**5.0**
Consumption	2.1	3.6	4.8	**5.6**	**4.3**	6.6	5.9	5.1	**4.8**	**4.1**	**4.2**	**4.2**	**4.5**
Private	2.2	4.1	5.4	**5.5**	**4.7**	6.5	5.5	5.1	**5.0**	**4.4**	**4.8**	**4.8**	**5.0**
Public	1.0	-0.4	0.3	**6.2**	**0.1**	7.3	8.7	5.2	**3.6**	**2.0**	**-0.8**	**-0.8**	**0.2**
Investment	0.4	7.5	7.6	**10.3**	**6.8**	12.9	9.6	10.1	**8.9**	**7.0**	**6.0**	**7.1**	**7.1**
Private	-1.6	8.8	9.6	**11.6**	**6.3**	11.1	11.9	13.4	**9.8**	**7.5**	**6.2**	**5.0**	**6.6**
Public	8.5	2.5	-0.4	**8.5**	**5.3**	22.1	-1.6	9.6	**6.0**	**4.6**	**4.8**	**2.0**	**8.7**
External demand	2.7	11.7	6.8	**10.8**	**7.5**	11.1	13.1	11.2	**8.0**	**6.7**	**5.6**	**7.5**	**10.0**
Imports	0.7	11.6	8.6	**13.2**	**9.1**	16.4	12.8	13.2	**10.9**	**8.6**	**8.4**	**9.0**	**10.2**
GDP by sectors (annual % change)													
Agriculture	3.1	3.5	-1.5	**4.4**	**4.0**	2.3	7.4	-0.8	**8.8**	**-2.0**	**0.9**	**6.8**	**10.4**
Industrial	-0.2	4.2	1.6	**5.1**	**3.1**	4.8	6.1	5.6	**3.9**	**3.0**	**2.6**	**2.8**	**3.8**
Mining	3.7	3.4	1.2	**2.4**	**2.6**	3.8	1.5	2.6	**1.8**	**0.9**	**3.2**	**2.9**	**3.3**
Manufactures	-1.3	4.0	1.2	**4.9**	**2.8**	4.6	6.2	5.1	**3.5**	**2.5**	**1.9**	**2.7**	**4.2**
Construction	3.3	6.1	3.3	**6.8**	**4.7**	6.4	7.4	7.3	**6.3**	**5.1**	**5.8**	**4.2**	**3.9**
Electricity, gas and water	1.5	2.8	1.4	**5.0**	**2.8**	2.6	5.5	6.5	**5.3**	**3.7**	**2.1**	**0.3**	**5.2**
Services	2.1	4.4	4.2	**4.6**	**3.6**	4.6	6.0	4.7	**3.0**	**2.5**	**3.7**	**3.8**	**4.3**
Retail, restaurants and hotels	1.5	5.5	3.1	**3.9**	**2.9**	3.7	4.8	4.2	**2.7**	**1.9**	**3.4**	**3.0**	**3.1**
Transportation and communications	5.0	9.2	7.1	**8.6**	**6.0**	8.5	9.1	9.5	**7.1**	**5.5**	**6.4**	**5.2**	**7.0**
Financial, insurance and real-estate	3.9	3.9	5.8	**4.8**	**4.1**	5.8	5.5	4.5	**3.4**	**3.8**	**4.0**	**4.1**	**4.5**
Community and personal	-0.6	0.6	2.1	**2.7**	**1.7**	3.0	3.4	2.6	**1.6**	**1.0**	**1.4**	**2.0**	**2.6**

1 See page 21
eop end of period
dpb dollars per barrel
* Seasonally-adjusted series for quarterly data
** Accummulated, last 12 months
*** To the private sector
FRPS Financial Requirements of the Public Sector, % of GDP
na not available
Note: **Bold** figures are forecast

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Title	Institution - Client	Place and date
Bogotá www.bbva.com.co		
Coyuntura Macroeconómica y Perspectivas	Corporate Banking Clients	Bogota, October 2006
Coyuntura Macroeconómica y Perspectivas	Treasury Clients	Bogota, November 2006
Buenos Aires www.bancofrances.com.ar		
Panorama Macro Financiero de Argentina 2006/2007	Corporate Banking Clients	Buenos Aires, October 2006
Perspectivas Económicas 2007 Enfocadas al Sector Turismo	Hotels Association of Argentina	Buenos Aires, December 2006
Caracas www.provincial.com		
Perspectivas Económico-Financieras 2007	Dresdner Bank	Caracas, October 2006
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Crecimiento Económico y Dependencia Energética	16th Ann. Journal of Finance and Treasury	Barcelona, November 2006
The World Ahead: Challenges, Surprises and Unknowns	Ibero American Business Forum	Madrid, November 2006
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Santiago de Chile www.bhif.cl		
Inserción Internacional de Chile: ¿Qué nos falta para dar el salto?	Second Regional Seminar BBVA	Puerto Varas, November 2006
Presentación Situación Chile	Press	Santiago, November 2006

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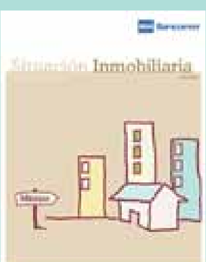



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