SHCP
SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO

Mexico City, October 30th, 2017

Reports on Economic Activity, Public Finances and Public Debt Third quarter of 2017

- **Budgetary Revenues increased 1.8 percent in real terms, compared to the same period of 2016, and were higher than programmed by Ps. 516.9 billion when including Banco de Mexico's Operating Surplus (BMOS) of Ps. 321.7 billion. Without considering BMOS in both years and the equity contributions of the Federal Government to PEMEX, revenues increased 5.1 percent in real terms, and were higher than programmed by Ps. 195.2 billion.**

- **Total net budgetary expenditures were 6.4 percent lower in real terms relative to the same period of 2016, and were higher than programmed by Ps. 85.1 billion. When excluding the acquisition of financial assets with BMOS resources of both years and the equity contributions of the Federal Government to PEMEX in 2016, net paid expenditures were 2.8 percent lower in real terms, and Ps. 11.3 billion lower than programmed.**

- **Public Sector Borrowing Requirements (PSBRs), the broadest measure of fiscal balance, registered a surplus of Ps. 73.3 billion, as opposed to the Ps. 207.7 billion deficit of the same period of 2016.**

- **The primary balance registered a Ps. 416.0 billion surplus, which is 7.0 times higher than the Ps. 59.1 billion surplus of the same period of 2016, and that compares favorably with the Ps. 13.8 billion expected deficit for this quarter. This result is consistent with the goal of achieving the first primary surplus since 2008.**

- **The evolution of the Historical Balance of the Public Sector Borrowing Requirements (HBPSBR) is consistent with a decrease from 50.1 percent of GDP at the end of 2016 to an estimate of 48.0 percent of GDP for the end of 2017, this takes into account the effect of BMOS of approximately 1.5 percent of GDP.**

Today, the Ministry of Finance delivered to the Congress the Reports on the Economic Situation, Public Finances, and Public Debt as of the third quarter of 2017, in compliance with the provisions of Article 107 of the Federal Budget and Fiscal Responsibility Law (LFPRH). The reports have also been made available to the public through the website of the Ministry. The main aspects of these reports are presented below.

I. Economic Outlook

During September 2017, natural disasters in the center and south of the country unfortunately claimed human lives and caused significant material losses. Nonetheless, the net impact of these phenomena on economic growth is estimated to be limited. Even when some activities in the affected areas are still recovering, the reconstruction efforts will be a significant boost to the dynamism of the economy of these regions during the coming months.

During the third quarter of 2017, there was an improvement in global growth prospects, but uncertainty remained regarding US policies. In this context, the Mexican economy recorded a moderately positive performance. This is mainly due to the sustained growth of consumption and employment, as well as the expansion of non-oil exports. With a 1.8 percent seasonally adjusted annual growth of the Global Economic Activity Indicator (IGAE) during the July-August 2017 period, the available data continue to reflect a Mexican economy that is resilient to the external context.

While risks to global growth appear to be balanced in the short term, they remain tilted to the downside in the medium term. In particular, the normalization of monetary policy in some advanced economies, could trigger a tightening of international financial conditions earlier than expected. Likewise, uncertainty prevails due to key developments such as economic policies that the United States could implement, the negotiations of the United Kingdom withdrawal from the European Union, and various geopolitical risks, which poses downside risks for the Mexican economy.

The economic performance of Mexico for 2017 has been positive and above the expectations of the private sector. In fact, data indicates that the uncertainty effect in the real economy has been, in any case, low. The main drivers of the economy have been private consumption and the expansion of the external sector. This reflects a greater balance in sources of economic growth. The evolution of the main economic and financial variables, of both the internal and external sectors with the information available as of October 30, is described below.

Output

The global economy continued to show signs of recovery in recent months. For the US, according to the Blue Chip Economic Indicators survey of October 2017, GDP is projected to grow 2.2 percent in 2017, 0.7 percentage points higher than the observed in 2016. Also, estimate growth of US industrial production is 1.9, which implies an acceleration against the 1.2 percent reduction observed in 2016. The International Monetary Fund (IMF) forecasts the emerging economies to grow 4.6 percent in 2017 (without change from to the estimate of July 2017), Latin America and the Caribbean to grow 1.2 percent (0.2 percentage points higher than projected in July 2017) and the global economy to grow 3.6 percent (0.1 percentage points higher than projected in July 2017).

The acceleration of manufacturing production in the United States translated into a greater dynamism of non-oil exports of Mexico, compared to the one of 2016. During the third quarter of 2017, non-oil exports in nominal dollars had an annual expansion of 7.2 percent. When excluding the seasonal factor, exports grew at a quarterly rate of 1.3 percent, accumulating a positive growth for six consecutive quarters for the first time since the second quarter of 2012.

Furthermore, the strength of the domestic market is shown in the 1.4 percent annual growth of ANTAD-affiliated store sales, and a 3.3 percent growth of private consumption during the January-July period. One of the factors that have supported this growth is the 812 thousand formal jobs creation in the January-September period, the largest creation of formal jobs for a comparable period since this indicator started. With this result, 3 million 133 thousand 980 new formal jobs have been created in the current administration, this figure is 2.3 times higher than that of the same period in the previous administration, and even higher than that of the full 6 years of any previous administration. Additionally, in the July-September 2017 period, the seasonally adjusted unemployment rate stood at 3.3 percent of the Economically Active Population (EAP), the lowest figure since the fourth quarter of 2005. In addition, the current credit from commercial banking to the private sector recorded a real annual increase of 6.2 percent in August in real terms. These results have resulted in additional positive revisions of the GDP growth forecast. In particular, the IMF increased its projection for this year from 1.9 percent in July to 2.1 percent in October.

Employment

As of September 30, the number of workers affiliated to the Mexican Social Security Institute (IMSS) amounted to 19.43 million people, which implied an annual increase of 802 thousand jobs (4.3 percent). The job creation accumulated in 2017 of 812 thousand jobs is the largest creation of formal jobs for a comparable period since this indicator started to be measured. By type of contract, in the January-September period, permanent affiliation of workers to IMSS increased by 634 thousand (78.1 percent of the total), while temporary affiliation increased by 178 thousand workers (21.9 percent of the total).

Prices

During the third quarter of 2017, annual headline inflation remained almost constant with respect to the observed levels at the end of the second quarter. In September inflation showed its first monthly deceleration of the year, recording an annual growth of 6.3 percent. Within the core inflation component, a lower growth rate was observed as a result of the change in the trend of merchandise prices, that were affected by shocks at the beginning of the year. On the other hand, non-core inflation remained high, however it decreased slightly in September favored by the partial reversal of the increases of some agricultural products that more than offset the high oil prices due to the effects of Hurricane Harvey in Texas.

In the third quarter of the year, the Mexican Stock Exchange's Index (IPyC) continued to show a positive evolution. This is consistent with the evolution of the main world economies' stock markets. However, uncertainty related to the NAFTA renegotiation moderated the market's progress. Thus, the IPyC closed this quarter at 50,346.1 units, 1.0 percent higher than the close of the previous quarter. In addition, on July 25, the index recorded a historical maximum by reaching 51,713.4 points.

Between July and September, the Mexican Peso to US Dollar exchange rate remained stable, given Mexico's monetary position relative to other countries, an external environment that favors the search for yield and the commitment of Mexican authorities to fiscal consolidation. However, there was a depreciation towards the end of the quarter due to a generalized appreciation of the dollar against other currencies and a change in perception regarding uncertainty around NAFTA negotiation process. Hence, as of September 29 of 2017, the exchange rate stood at 18.18 pesos per dollar, implying a depreciation of the peso of 0.2 with respect to the close of June 30 2017 (18.14 pesos per dollar).

Credit

In August of 2017, the performing portfolio of total credit granted by commercial and development banks increased 3.4 percent in real annual terms. In particular, the current credit to the private sector increased 5.1 percent in real annual terms. Within the latter, performing portfolios of credit to firms and individuals with business activity and housing increased 6.9 and 3.7 percent, respectively, both at real annual rates.

II. Public Finances

During the third quarter of 2017, the primary balance recorded a Ps. 415.9 billion a surplus, which implied an increase of 564.7 percent in real terms compared to same period of last year. This figure also compares positively with the expected deficit of Ps. 13.7 billion and is consistent with the goal of achieving the first primary surplus since 2008.

Meanwhile, the Public Sector Borrowing Requirements (PSBRs), the broadest measure of fiscal balance, registered a Ps. 73.3 billion surplus, an improvement compared to the Ps. 207.6 billion deficit in the same period in 2016. On the other hand, as of September 2017, the cumulative balance of the public sector registered a Ps. 63.2 billion surplus, which compares favorably with the Ps. 251.2 billion deficit of the same period in the last year and that represents and improvement of Ps. 452.6 billion with respect to the expected deficit for the period. These results reflect the fiscal consolidation efforts considered in the economic program for the current year, the favorable evolution of tax revenues, and Banco de Mexico's Operating Surplus (BMOS) of Ps. 321.6 billion, in compliance with Article 55 of the Law of Banco de Mexico.

Public Balance that excludes investment of high economic and social impact recorded a Ps. 319.9 billion surplus in the third quarter of 2017, which compares positively to the Ps. 129.9 billion surplus registered in the same period of 2016 and with the originally expected Ps. 108.2 billion deficit.

Considering BMOS and public finances results as of September, it is estimated that, if there are no unexpected movements in the revised macroeconomic framework, the primary surplus by the end of 2017 will pass from the originally expected 0.4 percent of GDP to 1.4 percent of GDP[1], while PSBRs are expected to decrease from 2.9 percent of GDP to 1.4 percent of GDP, this represents a 1.5 decrease compared to the estimate considered in the 2017 Economic Program. The reduction in the primary surplus, is mainly due to a recomposition in expenditures due to the reduction in financial cost, which reflects an increase in the resources deposited in the stabilization funds.

Revenues

During the January-September period of 2017, Public Sector's budgetary revenues stood at Ps. 3.8 trillion, figure that is Ps. 516.9 billion higher than the expected[2], 1.8 percent higher in real terms compared to the same period of 2016 and 5.1 percent higher if BMOS and the Federal Government's equity contributions to Pemex in 2016 are excluded. This result is due to the good performance of tax collection, and the receiving of non-recurring and earmarked resources, such as the BMOS. The evolution of the main components of revenue was as follows:

- Oil revenues stood at Ps. 584.9 billion, Ps. 4.2 billion higher than approved, and 11.0 percent lower in real terms than those observed in the third quarter of 2016. The latter is mainly explained by the Ps. 160.7 billion equity contribution of the Federal Government of 2016. Excluding this operation, oil revenues were 20.0 percent higher in real terms due to a 34.6 percent increase in the average export price of the Mexican oil mix, a 47.8 percent higher price of natural gas and a 0.5 exchange rate depreciation of, , compared to the same period in 2016. These effects were partially offset by an 8.8 percent decrease in oil production.
- Tax revenues amounted to Ps. 2.2 trillion, Ps. 101.7 billion higher than programmed and 0.1 percent higher in real terms than those observed in 2016. If excluding the fuel excise tax (IEPS), tax collection increased 4.4 in real terms compared to 2016. Within tax revenues, there is a 5.3 percent increase in

[1] The estimate of the primary surplus as a share of GDP for 2017 was updated from 1.6 percent (published in April 2017) to 1.5 percent due to a decrease in the financial cost estimate. Since closing estimates are built considering the PSBRs target, the reduction in financial cost implies a higher primary expenditure estimate and a lower primary surplus.

[2] Corresponds to the Agreement that displays the monthly calendar for the revenues forecast contained in Article 1 of the 2017 Federal Revenue Law for the fiscal year 2017 and is based on the methodology used to make this forecast, published on December 7 of 2016 in the Federal Official Gazette (DOF).

real terms of the income tax system, a 2.8 increase of the value added tax (VAT), a 4.4 percent increase in the fuel excise tax (IEPS), and a 27.7 percent decrease in real terms of fuel IEPS revenues.

- Non-tax revenues of the Federal Government stood at Ps. 473.9 billion and were Ps. 374.4 billion higher than approved. These revenues were also 9.2 percent higher than the ones in the previous year. Excluding the BMOS, non-tax revenues grew 5.5 percent compared to the same period of 2016.
- Revenues from CFE amounted to 264.9 billion and were 14.9 percent higher in real terms than last year's. This is mainly explained by the evolution of the economic activity and the adjustment in electric tariffs associated to changes in the cost of production.
- IMSS and ISSSTE revenues stood at Ps. 266.6 billion. This amount is 2.6 percent higher in real terms compared to the same period of 2016 due to larger social security contributions.

Finally, the balance of stabilization funds at the end September 2017 is of Ps. 226.2 billion.

BALANCE OF THE STABILIZATION FUNDS
AS OF SEPTEMBER 30 OF 2017
(Million pesos)

Total	**226,218**
Budgetary Revenues Stabilization Fund (FEIP)	181,156
Federal Entities Revenues Stabilization Fund (FEIEF)	45,062

Source: Ministry of Finance.

Expenditures

In the January-September period of 2017, net budgetary expenditures stood at Ps. 3.7 trillion, they were 85.1 billion higher than expected in the program[3] and 6.4 percent lower in real terms with respect to 2016. As of September 2017, the Federal Government registered as an expenditure the acquisition of financial assets by 96.4 billion, which comes from the 30 percent share of the BMOS, in compliance with Article 19 of the Federal Budget and Fiscal Responsibility Law. If this non-recurrent operation is excluded, net budgetary expenditures are Ps. 11.3 billion lower compared to those expected for the period.

Excluding these transfers, programmable expenditures decreased in Ps. 26.3 billion with respect to the program, of which Ps. 32.9 billion correspond to the Centralized Public Administration, Ps. 20.6 billion to Pemex and Ps. 15.2 to IMSS and ISSSTE, this is partially offset by CFE's higher operating expenditure of 42.5 billion. On the other hand, non-programmable expenditure increased in Ps. 15.7 billion with respect to the program due to higher payment of non-earmarked contributions of Ps. 32.8 billion, which is explained by the good dynamics of federal tax collection.

When comparing the January- September period of 2017 with the same period of 2016:

- Total net expenditure excluding financial investment, pensions, non-earmarked transfers and financial costs decreased 8.5 percent in real terms, and current structural expenditures declined 6.3 percent in real terms. Both indicators show the efforts on expenditure containment during the year.
- Expenditures on subsidies, transfers and current contributions decreased 14.8 percent in real terms.
- Personal services payment decreased 2.7 percent in real terms.
- Pensions and retirement payments increased 4.5 percent in real terms.
- Total operating expenditure grew 1.7 percent in real terms, mostly due to higher operation costs in CFE because of higher fuel prices for energy generation.
- Non-earmarked transfers increased 7.9 percent in real terms, while total federal expenditure increased 1.2 percent in real terms due to a favorable evolution of tax collection and the third quarterly adjustment for 2016.

[3] Corresponds to the Authorized Budget Calendar for 2017 Fiscal Year, published on December 14, 2016 in the Federal Official Gazette (DOF).

- Financial cost increased 11.5 percent in real terms, mainly because of the Exchange rate and interest rate evolution.

Banco de Mexico's 2016 Operating Surplus

On March 28, 2017, Banco de Mexico deposited Ps. 321.7 billion to the Federal Treasury as Banco de Mexico's Operating Surplus for fiscal year 2016. In compliance with the LFPRH, the strategy for the allocation of Banco de México's Surplus in 2017 is anchored in three guiding principles: increasing the efficiency of the government's debt portfolio, improving the debt maturity profile, and strengthening of the Federal Government's financial position. In this sense, 70 percent of the total (Ps. 225.2 billion) will be used to repay public debt contracted by the Federal Government in previous fiscal years or to reduce the amount of financing needed to cover the budgetary deficit.

The remaining 30 percent (Ps. 96.5 billion) will be used to increase assets that strengthen the Federal Government's financial position, as follows:

- Ps. 79.98 billion to the Budgetary Revenues Stabilization Fund (FEIP);
- Ps. 13.63 billion to the Protection against Catastrophic Expenditures Fund (FPGC) of the of the Social Security Protection System Fund, to guarantee financial protection of health services for those without affiliation to social security institutions in the next decade. This Trust, which has reflected a net annual accumulation of resources since its creation in 2005, is capitalized through long-term savings, since we expect resources to keep accruing in the next decade, in accordance with the mandate of the Federal Fiscal Responsibility Law of improving the long-term financial position of the Federal Government's; and
- Ps. 2.9 billion for contributions to international organizations of which Mexico is a member.

Since, as last year, the deposits are made mainly to the FEIP which can only be drawn in case of a revenue shortfall, or as in this year, to both the FEIP and FPGC whose mandates of savings are for even longer term, the Federal Government financial position is furthermore strengthen.

The receipt and use of the BMOS will improve public finances estimates. We consider that if there are no unexpected movements in the revised macroeconomic framework, the Public Sector's Borrowing Requirements (PSBR) will stand at 1.4 percent of GDP by the year's end. Likewise, the non-investment balance–which excludes high-impact investment spending– and the primary balance –which does not consider the financial cost of public debt– are estimated at 1.1 and 1.5 percent of GDP, respectively, representing a lower improvement to that of the PSBRs because 30 percent of the BMOS will be registered as financial investment expenditures.

III. Public Debt

At the end of the third quarter of 2017, the Historical Balance of the Public Sector Borrowing Requirements (HBPSBR), the broadest measure of public sector's debt, amounted Ps. 9.5 trillion, down from the observed balance at the end of 2016 (Ps. 9.80 trillion). This figure is in line with fiscal consolidation process that aims to reduce the HBPSBR from 50.1 percent of GDP at the end of 2016 to 49.5 percent of GDP in 2017 if excluding the effect of the 321.7 billion BMOS is excluded, and to 48.0 percent of GDP once this transfer is considered.

In line with the debt management strategy of the Federal Government which aims at improving the efficiency of the debt portfolio, smooth the maturity profile and adjust the portfolio characteristics to financial markets conditions, some liability management operations have been performed in the domestic and external markets during the period covered in this report.

Domestic Market

- With the objective of improving the debt maturity profile of the Federal Government, on September 14, 2017, the Ministry of Finance conducted a liability management operation in the domestic market. This operation was aimed to fulfill two objectives: i) smoothing the maturity profile of the Federal Government without incurring in further indebtedness, and ii) improving the local market liquidity by offering investors a broader set of alternatives for portfolio rebalancing.

The operation comprised the two following transactions:

a) ***Government securities buy-back auction***
A total Ps. 32.01 billion[4] of debt were written off through the buy-back of M-Bonds in Fixed Rate and inflation-linked bonds (Udibonos) at market rate with maturities between 2017 and 2019. Both domestic and international investors participated in the transaction.

b) ***Additional government securities auction***
An additional auction totaling Ps. 32.01 billion of government securities at market rates with maturities between 2020 and 2047[5] was conducted. The total demand for this placement amounted Ps. 45.62 billion, with the participation of both domestic and international investors.

It is important to note that resources from BMOS were not used in this operation, given that the purchase of bonds with earlier maturities was financed with resources collected through the issuance of longer term government securities.

Additionally, as part of the debt reduction program, on October 26, the Ministry of Finance bought back Ps. 65.85 billion of government securities, using part of the 70 percent of the BMOS destined to reduce Federal Government indebtedness in 2017. This operation involved the buyback of M-Bonds maturing between 2018 and 2021 and inflation-linked bonds (Udibonos) maturing in 2019, which contributes to the improvement of the maturity profile of the Federal Government. The participation of various investors allowed the Federal Government to buyback only the positions that adequately reflected the conditions of financial markets.

- **Adjustment to the mechanics of government securities auctions**. During the first auction on the fourth quarter of 2017, the Ministry of Finance adjusted the mechanics of zero-coupon Cetes auctions, with the purpose of facilitating investors' participation and homologating the procedure to the Monetary Regulation auctions conducted by Banco de México.

External Market

Regarding the external debt operations, as part of the strategy for reducing the HBPSBR ratio as a percentage of GDP, the Federal Government conducted a liability refinancing operation on international markets by issuing USD 1.9 billion through a new 30 years benchmark, on October 2. These are aimed for the early amortization of the bond maturing in January 2020 for the same amount. With this operation, 51 percent of the external debt amortizations of the Federal Government scheduled for 2020 are covered in advance without incurring in further indebtedness. This transaction not only improves the external debt maturity profile but also reduces the financial cost by substituting debt for lower interest rate obligations, since the bond which was early amortized was expected to pay a coupon rate of 5.125 percent, while the new benchmark will pay a 4.6 percent coupon rate[6].

Federal Government net debt balance

At the end of the third quarter of 2017, the net balance of the Federal Government stood at Ps. 7.04 trillion. The structure of the Federal Government current debt portfolio keeps most of its liabilities denominated

[4] More details in: http://www.banxico.org.mx/stdview.html?url=/portal-mercado-valores/informacion-oportuna/subasta-y-colocacion-de-valores/resultados/otros-resultados/compra-de-valores-gubernamentales/ResultadoCompraExt-1.html (only available in Spanish)

[5] More details in: http://www.banxico.org.mx/stdview.html?url=/portal-mercado-valores/informacion-oportuna/subasta-y-colocacion-devalores/resultados/otros-resultados/venta-de-valores-gubernamentales/ResuSubaPrimaNew-1.html (only available in Spanish)

[6] While this operation was conducted out of the period referred in this document, detailing it is considered relevant for maintaining constant communication regarding the management of public debt.

in domestic currency, representing 76.7 percent of the Federal Government's net debt balance as of September 30, 2017.

The Federal Government's net domestic debt balance amounted Ps. 5.4 trillion at the end of the third quarter of 2017, compared to the Ps. 5.40 trillion registered at the end of 2016. On the other hand, the Federal Government's net external debt balance amounted USD 90.33 billion, while the observed on December 2016 recorded USD 86.67 billion.

Federal Public Sector net debt balance

Regarding the net debt of the Federal Public Sector, which includes the Federal Governments, State productive enterprises and development banks, stood at Ps. 9.4 trillion at the end of the third quarter of 2017.

The Federal Public Sector's net internal debt stood at Ps. 5.9 trillion, down from the Ps. 6.01 trillion registered in December 2016. Meanwhile, the Federal Public Sector's net external debt stood at USD 191.8 billion, while in December of 2016 was USD 177.69 billion.

Historical Balance of the Public Sector Borrowing Requirements

At the end of the third quarter of 2017, the HBPSBR, which includes public sector obligations in its broadest version, amounted to Ps. 9.46 trillion. The internal component stood at Ps. 6.06 trillion, below the 6.22 trillion recorded on December 2016. On the other hand, the external component amounted to Ps. 3.4 trillion, down from the Ps. 3.58 trillion balance at the end of 2016.

Progress in the use of Banco de Mexico's Operating Surplus

In compliance with the Federal Budget and Fiscal Responsibility Law (LFPRH), in the current year, the Federal Government performed actions related to the use of the BMOS, which amounted Ps. 321.7 billion and was received by the Federal Government on March 28, 2017.

Regarding the 70 percent of BMOS aimed for the reduction of the Federal Government indebtedness (Ps. 225.2 billion) the following actions have been performed. On May 25, the Ministry of Finance bought back Ps. 40 billion government securities in the domestic market to smooth the amortization profile of the Federal Government and to reduce gross public debt. The operation considered the buy-back of Fixed Rate Bonds with maturities between 2018 and 2019, which also decreased financial requirements for those years.[7]

In June, the Federal Government announced a Ps. 5.6 billion decrease, with respect to the indebtedness original estimate, in the placement calendar of government securities for the third quarter of 2017. In addition, the Government announced that part of the BMOS resources would be used to cover the USD 4 billion (equivalent to Ps 74.5 billion[8]) which the Federal Government planned to place in international debt markets only if conditions were appropriate. Although the borrowing conditions in international markets turned out to be favorable for Mexico, the Ministry of Finance considered convenient not to perform deliveries on international financial markets in 2017 that would imply a higher net indebtedness for the Federal Government.

On September 29, the government securities placement calendar was released for the fourth quarter of 2017. The amounts to be offered on each auction remained unchanged from the third quarter adjusted

[7] Although a total of Ps. 40 billion in debt were written off, for the use of BMOS it is consider the buy-back price for securities priced below par and the nominal value (Ps. 100) for the buy-back securities above par. Thus, the total amount from BMOS resources used in this operation amounted Ps. 39.071 billion.

[8] The exchange rate used is the approved in the Income Law for fiscal year 2017, equivalent to 18.62 USD/MXN

calendar, which translates into a Ps. 5.9 billion decrease from the fourth quarter placement program that would have prevailed without BMOS. This translates into a cumulative reduction of approximately Ps. 11.5 billion in the 2017 issuance program (Ps. 5.6 billion in the 3Q17 and Ps. 5.9 billion in the 4Q17.)

As mentioned above, on October 26, the Ministry of Finance bought back Ps. 65.5 billion in government securities, using part of the 70 percent share of the ROBM aimed to reduce the indebtedness of the Federal Government's in 2017. This operation involved the buyback of M-Bonds maturing between 2018 and 2021 and inflation-linked bonds (Udibonos) maturing in 2019 which contributes to the improvement of the debt maturity profile of the Federal Government.[9]

Considering these operations, Ps. 190.5 billion from the BMOS have been used to date, and Ps. 34.6 billion are still available for reducing the Federal Government's indebtedness in 2017.

Regarding the remaining 30 percent of the BMOS, which totaled Ps. 96.5 billion, was used as follows: i) a Ps. 79.98 billion transfer to the Budgetary Revenues Stabilization Fund (FEIP), ii) a Ps. 13.6 billion transfer to the National Health Protection System Trust (FPGC), to guarantee financial protection of health services for those without affiliation to social security institutions in the next decade, and iii) a Ps. 2.9 billion contribution to international organizations of which Mexico is a member.

[9] While this operation was conducted out of the period referred in this document, detailing it is considered relevant for maintaining constant communication regarding the management of public debt.

ANNEX 1

SUMMARY OF INDICATORS ON THE DEVELOPMENTS IN PUBLIC FINANCES
(Billion pesos)

Concept	January-September		Growth % real	Annual			Progress % with respect to:		
					2017			2017	
	2016p_/	2017p_/		2016	Program1_/	Estimated2_/	2016	Program1_/	Estimated2_/
1. Budgetary revenues3_/	3,501.2	3,773.0	1.8	4,845.5	4,360.9	4,876.5	72.3	86.5	77.4
2. Tax revenues	2,041.5	2,182.7	1.0	2,716.0	2,739.4	2,794.1	75.2	79.7	78.1
3. Tax revenues without fuels excise tax (IEPS)	1,823.6	2,015.8	4.4	2,438.7	2,454.9	2,579.6	74.8	82.1	78.1
4. Total net expenditure without outlays on financial investments, pension payments, transfers and financial cost	2,201.9	2,131.8	-8.5	3,078.6	2,803.2	2,931.4	71.5	76.1	72.7
5. Total net expenditure without outlays on financial investments, pension payments and transfers	2,507.0	2,491.1	-6.1	3,551.6	3,375.7	3,492.6	70.6	73.8	71.3
6. Total net expenditure without outlays on financial investments	3,509.9	3,619.6	-2.6	4,893.9	4,838.4	4,995.3	71.7	74.8	72.5
7. Total net expenditure3_/	3,764.1	3,731.0	-6.4	5,347.8	4,855.8	5,146.2	70.4	76.8	72.5
8. Current structural expenditure	1,561.5	1,546.5	-6.4	2,227.4	2,061.3	2,373.2	70.1	75.0	65.2
9. Primary balance	59.1	416.0	- o -	-25.0	78.2	292.0	-236.6	532.0	142.5
10. PSBR	-207.7	73.3	n.s.	-556.6	-596.7	-297.6	37.3	-12.3	-24.6
11. HBPSBR	9,209.2	9,460.7	-2.9	9,797.4	10,197.7	10,203.4	94.0	92.7	92.8
12. Public debt	9,116.3	9,400.6	-2.6	9,693.2	9,828.9	10,178.2	94.0	92.4	92.1

Note: Figures may not add up due to rounding.

p_/ Preliminary figures.

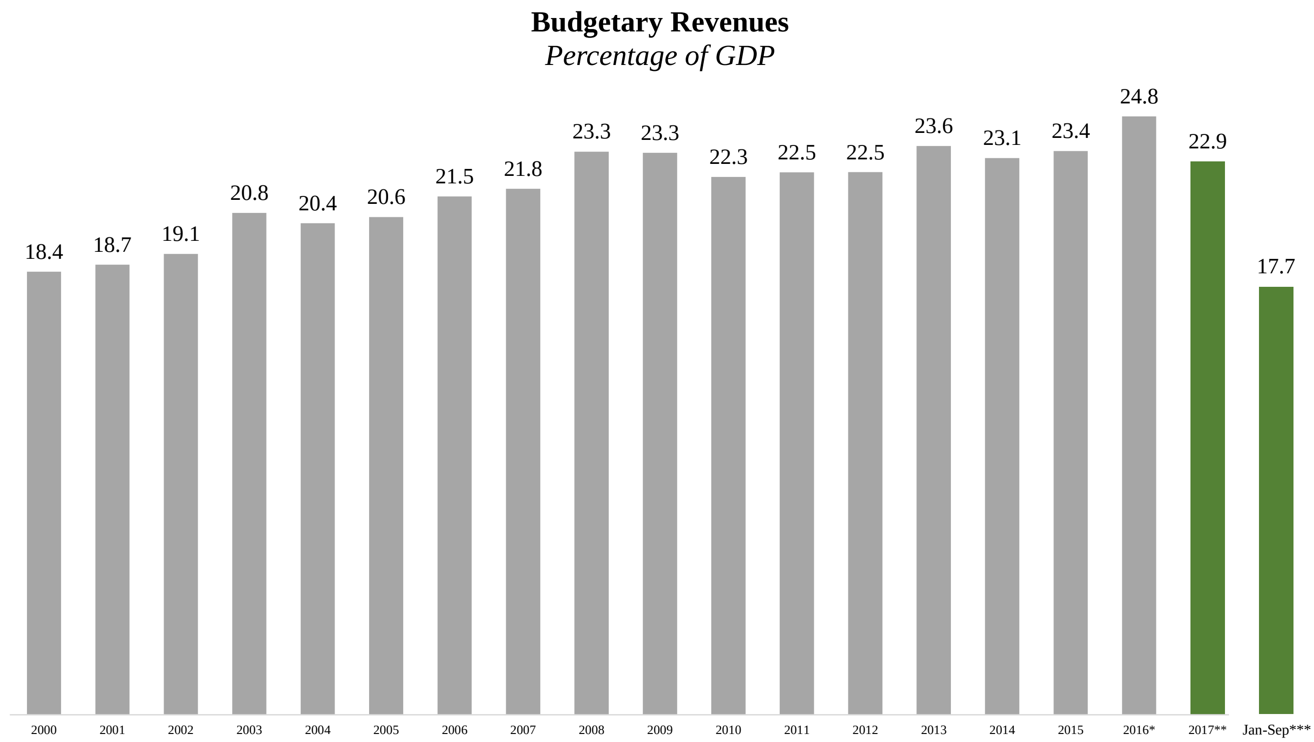
n.s.: Not significant: -o-: Greater than 500 percent.

1_/ Corresponds to the Federal Law on Income and Budget of Expenditures for the fiscal year 2017 approved by Congress.

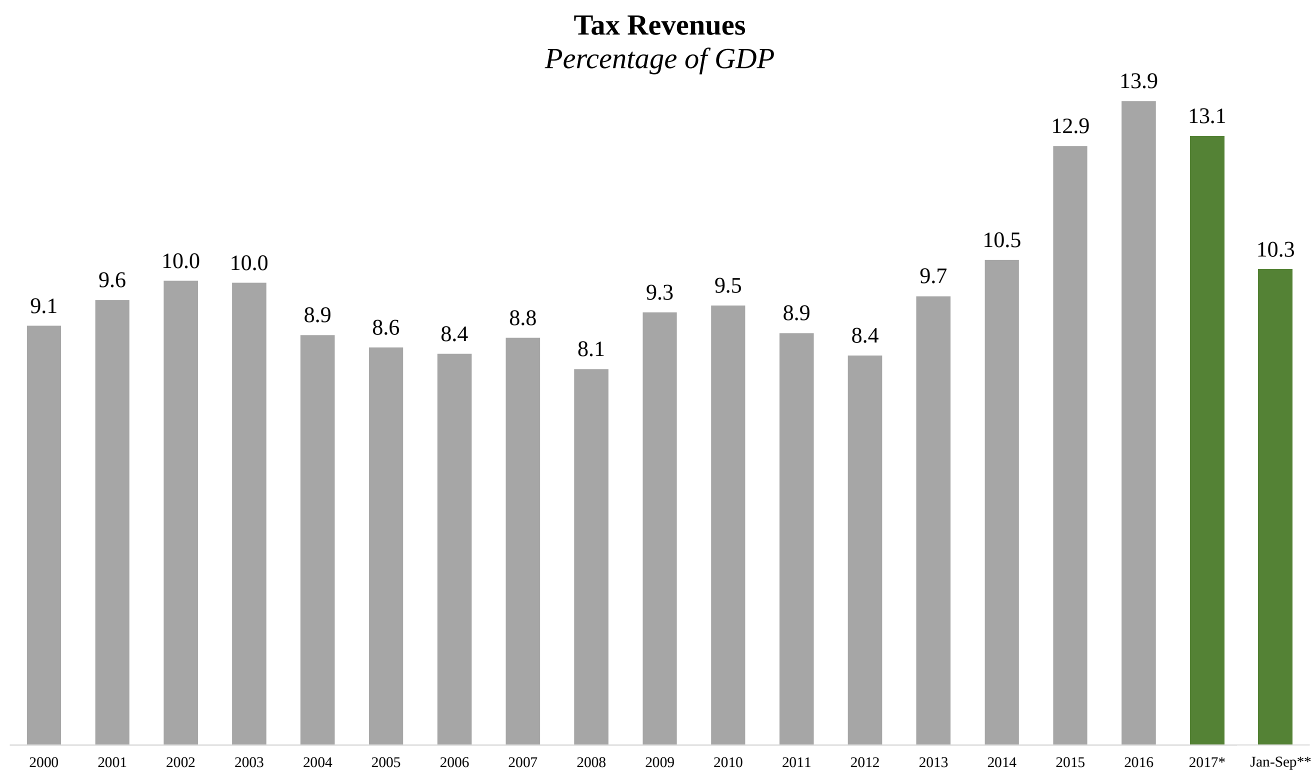
2_/ Corresponds to the review presented in Report on Economic Situation, Public Finances and Public Debt in the Second Quarter of 2017.

3_/ The 2016 annual data includes resources for the support of the Federal Government for pension payments of Pemex and CFE via non-earmarked transfers' contribution of 134,230.2 and 161,080.2 million pesos, respectively.

Source: Ministry of Finance

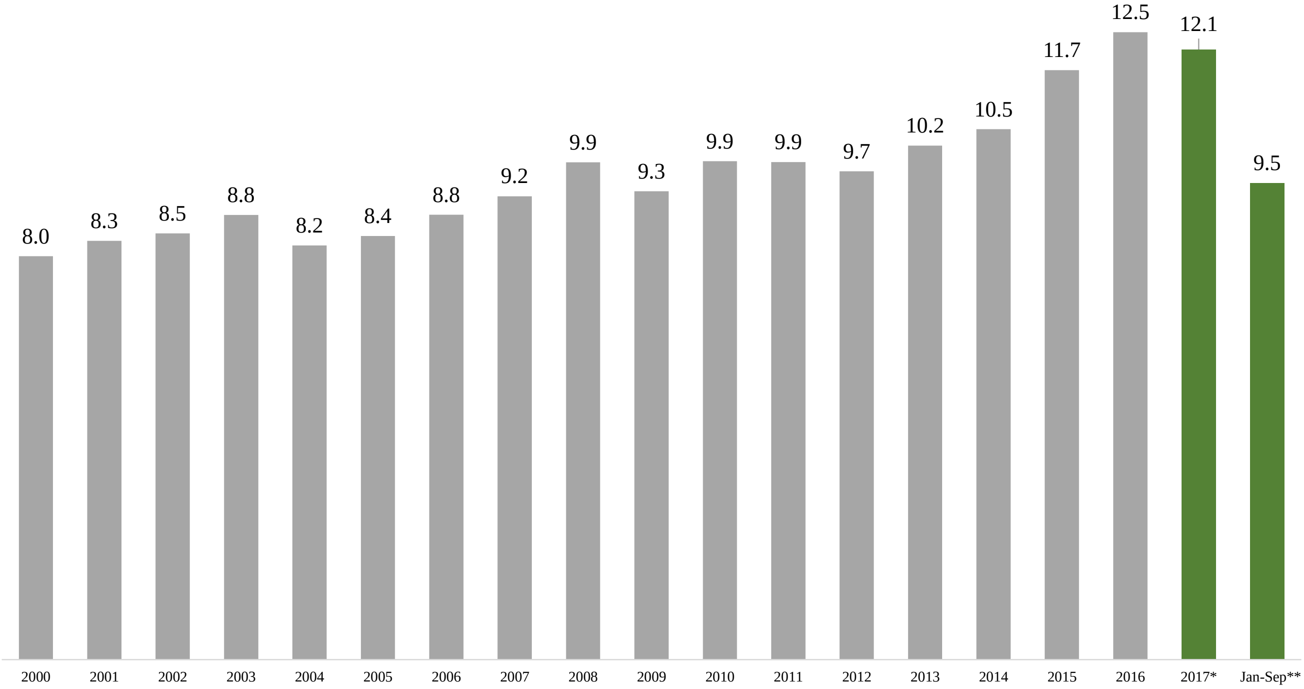


*/ Including the resources from the Federal Government's equity contributions to Pemex and CFE equivalent to 1.5% of GDP.
**/ Estimated.
***/ Proportional to annual GDP.
Source: Ministry of Finance



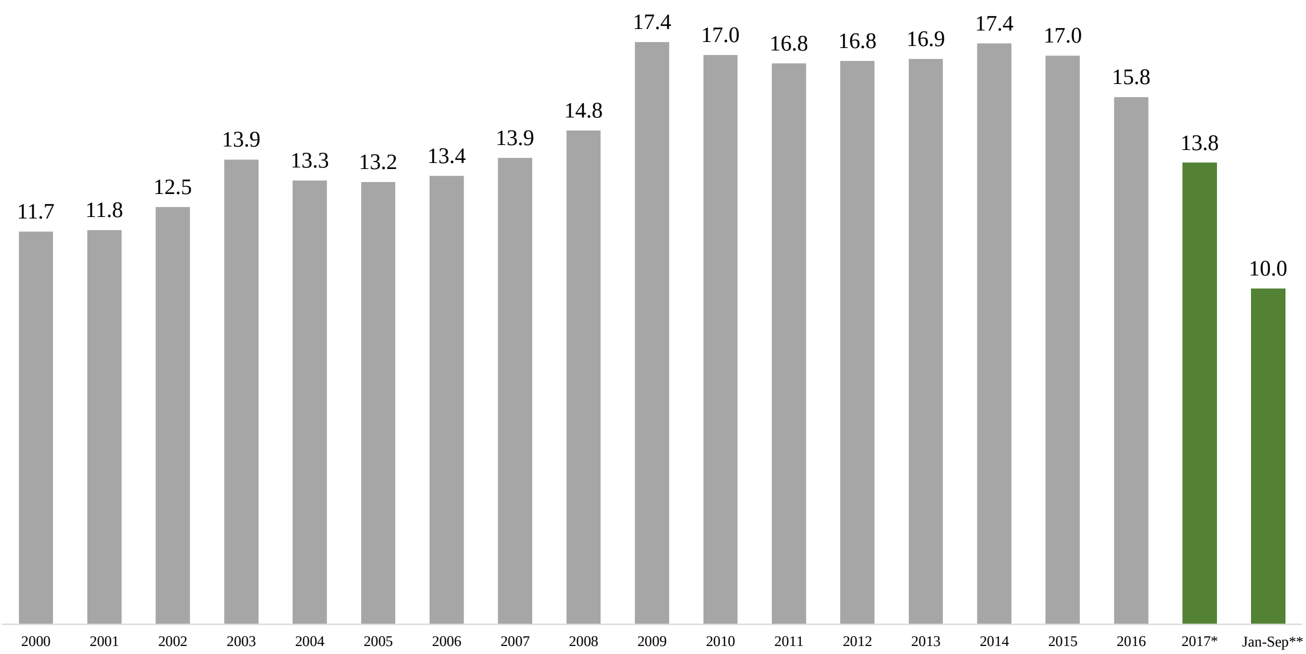
*/ Estimated.
**/ Proportion to annual GDP.
Source: Ministry of Finance

Tax revenues excluding fuels excise tax (IEPS)
Percentage of GDP



*/ Estimated.
**/ Proportional to annual GDP.
Source: Ministry of Finance

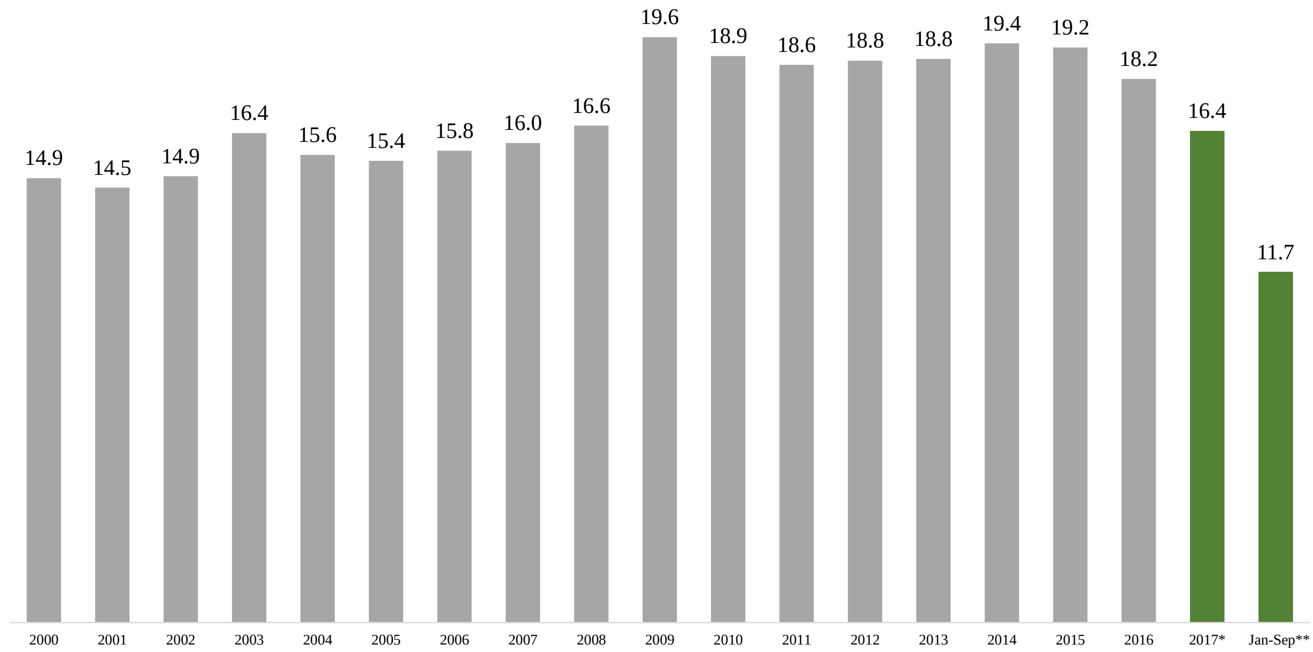
Total net expenditure without outlays on financial investments, pension payments and non-earmarked transfers and financial cost
Percentage of GDP



*/ Estimated.
**/ Proportional to annual GDP.
Source: Ministry of Finance

Total net expenditure without outlays on financial investments, pension payments and non-earmarked transfers

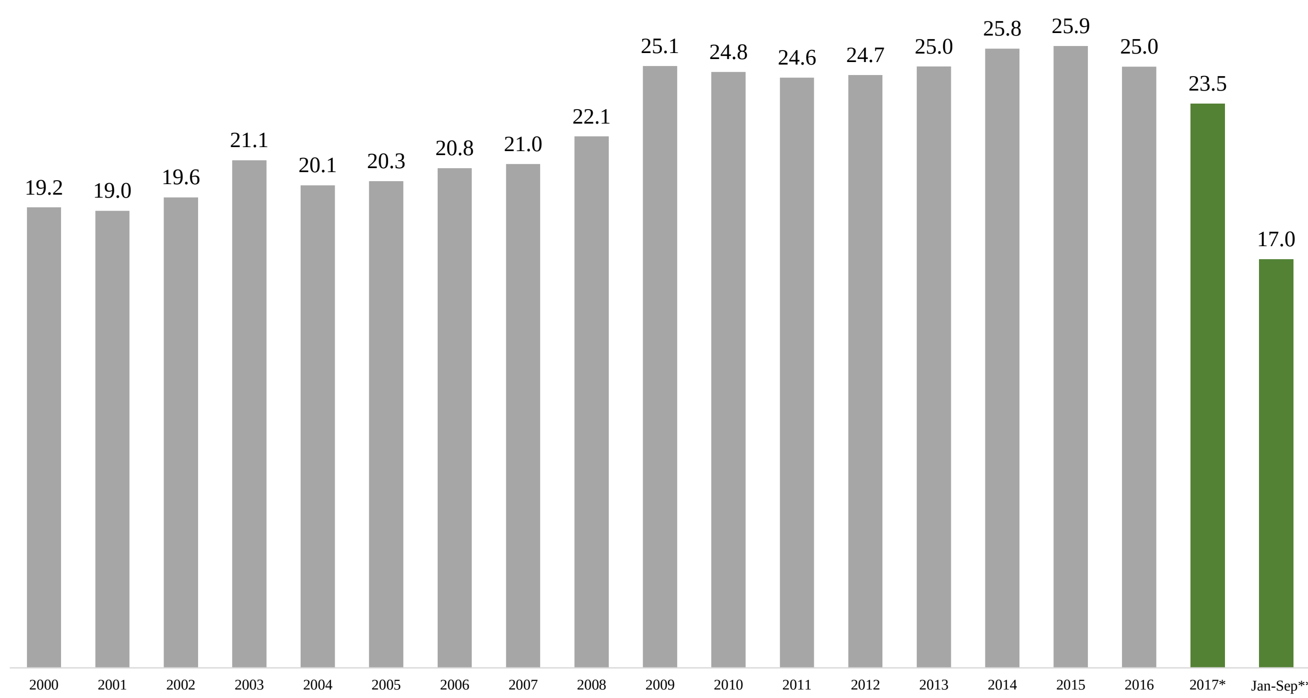
Percentage of GDP



*/ Estimated.
**/ Proportional to annual GDP.
Source: Ministry of Finance

Total net expenditure without outlays on financial investments

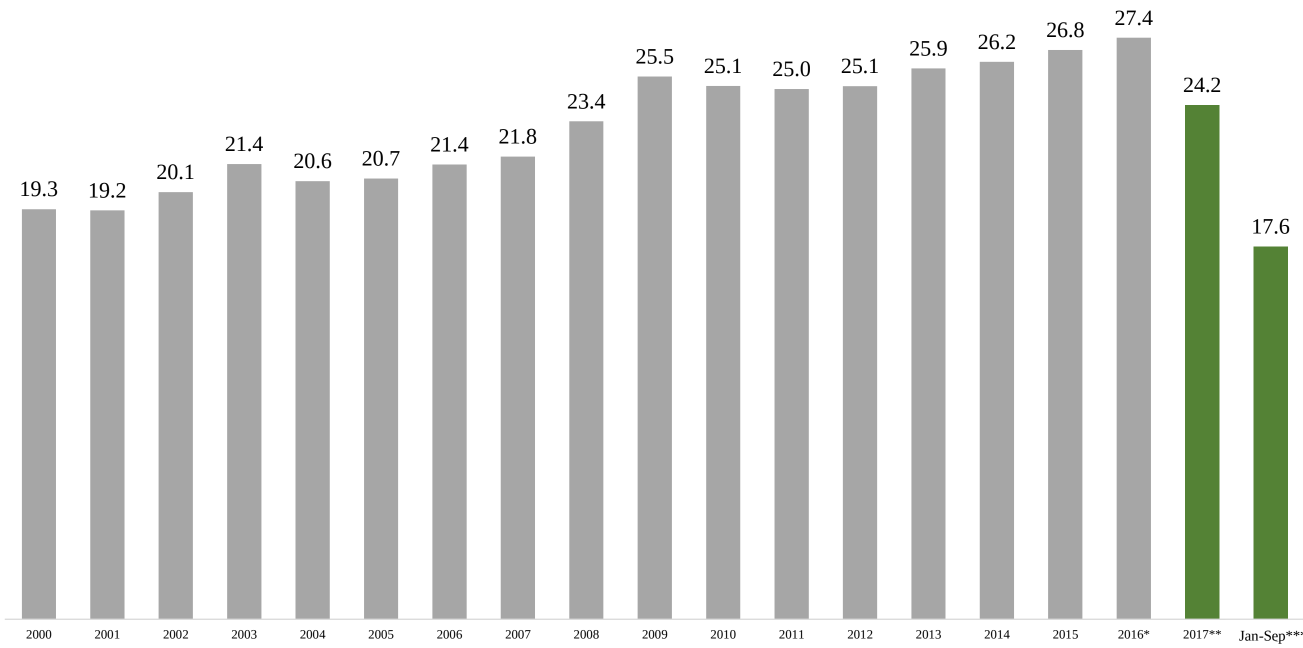
Percentage of GDP



*/ Estimated.
**/ Proportional to annual GDP.
Source: Ministry of Finance

Total net expenditure

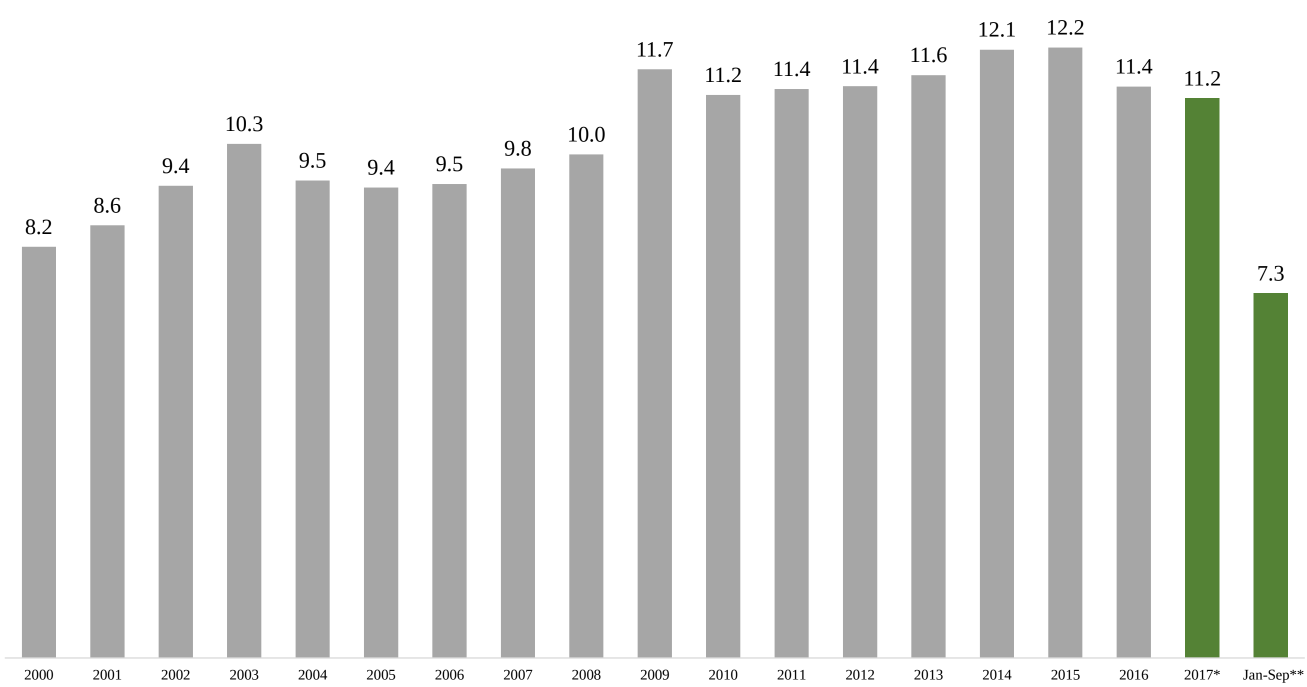
Percentage of GDP



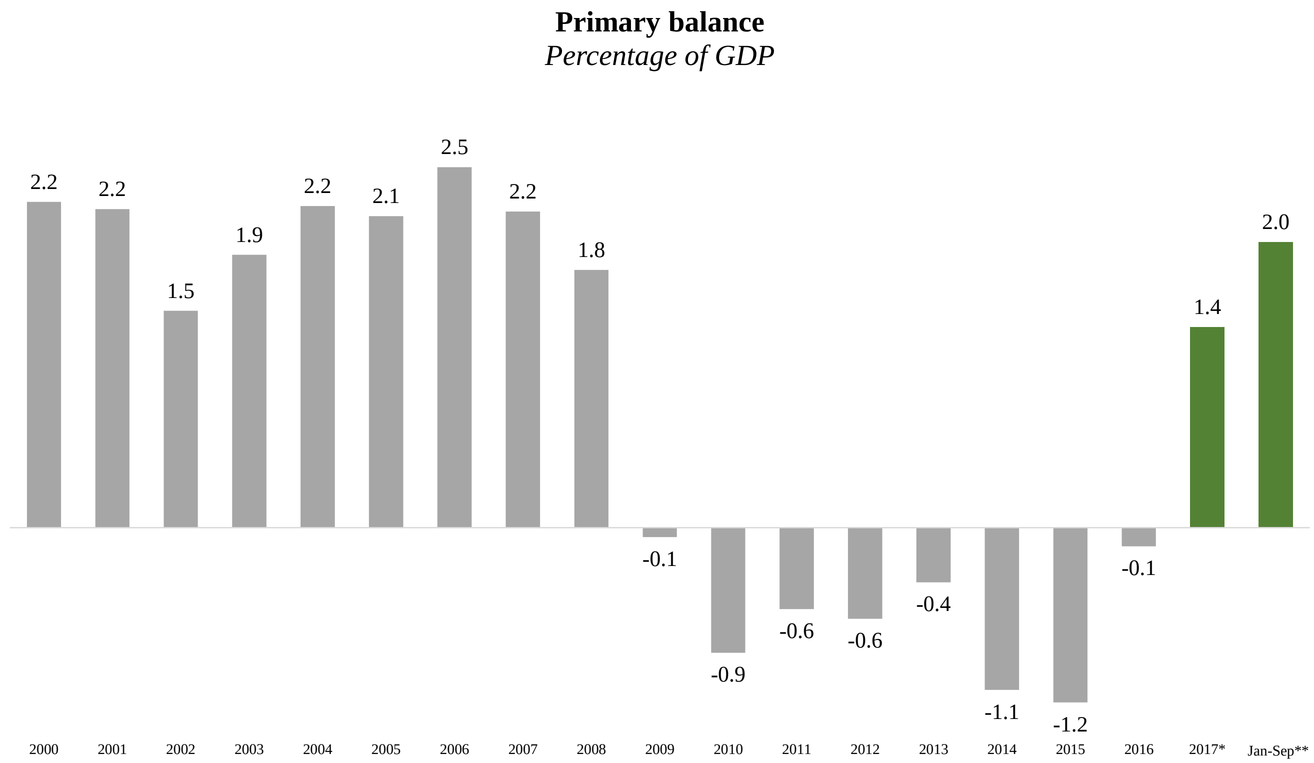
*/ Including the resources from the Federal Government's equity contributions to Pemex and CFE equivalent to 1.5% of GDP.
**/ Includes the use of BMOS, registered in terms of accounting as an expenditure,but represents a saving and an improvement on the Federal Government's finacial position.
***/ Proportional to annual GDP.
Source: Ministry of Finance.

Current Structural expenditure

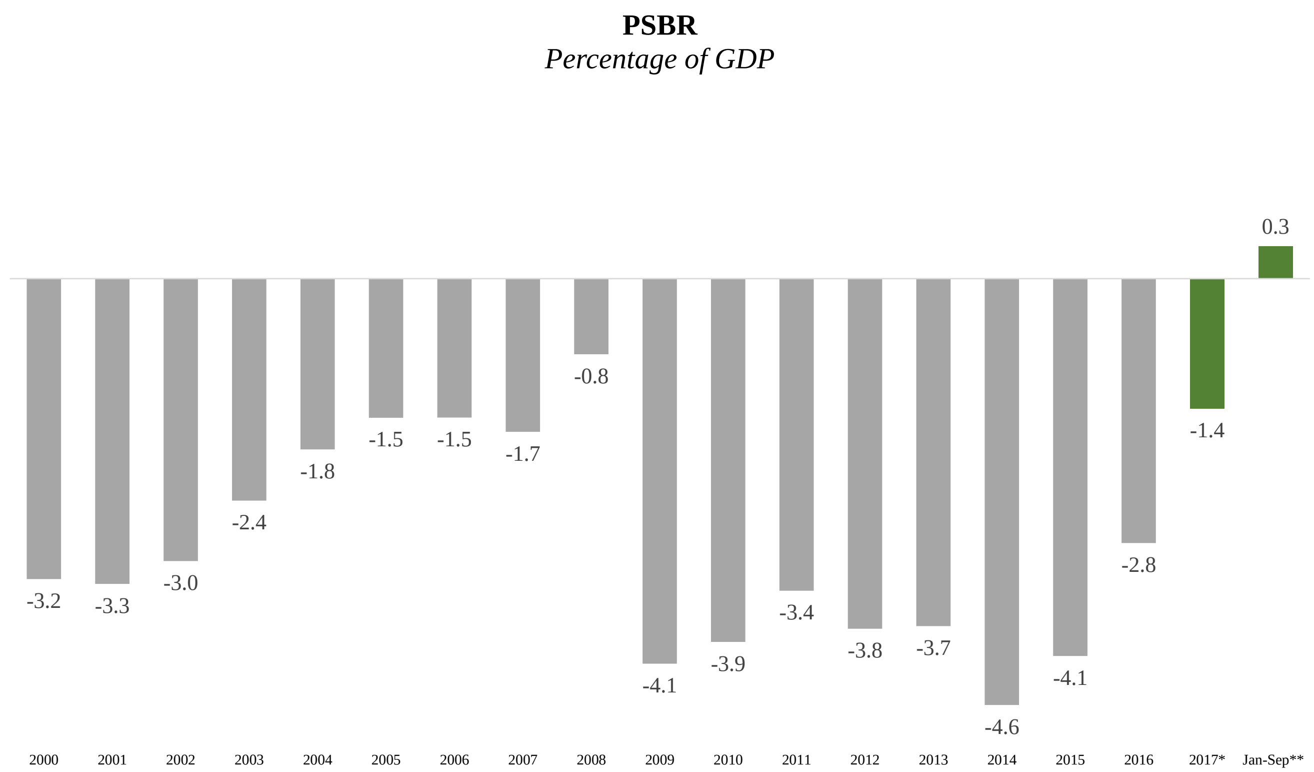
Percentage of GDP



*/ Estimated.
**/ Proportional to annual GDP.
Source: Ministry of Finance



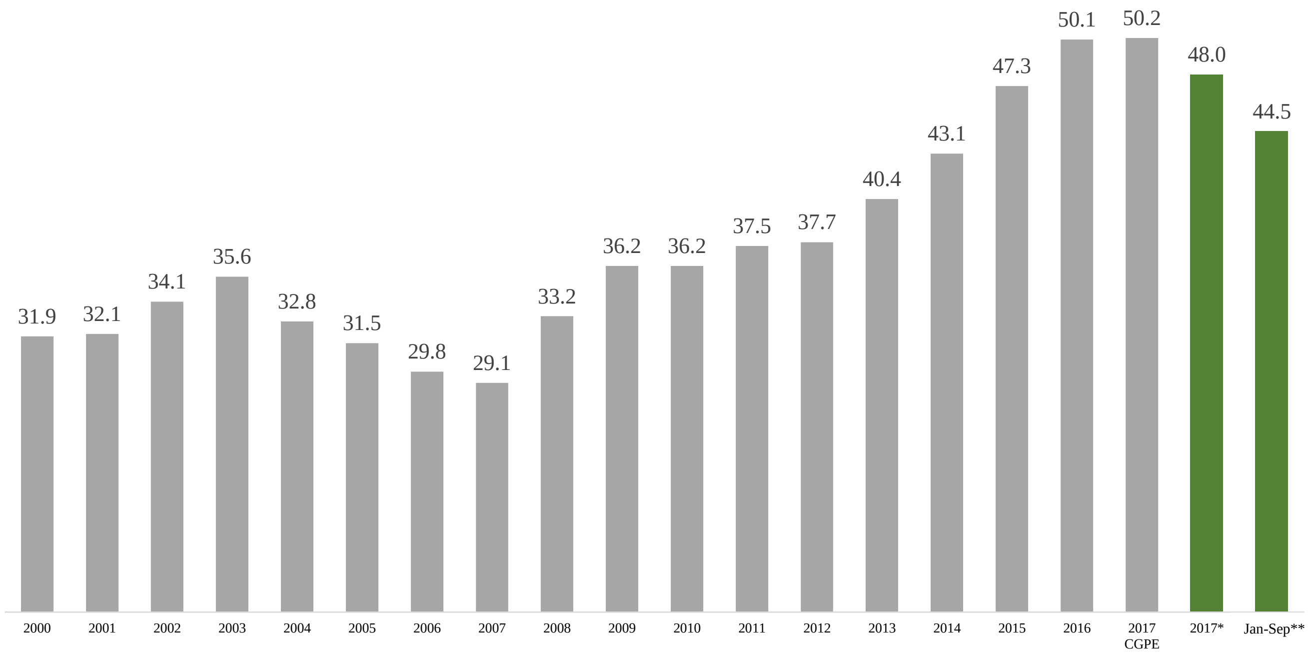
*/ Estimated.
**/ Proportional to annual GDP.
Source: Ministry of Finance



*/ Estimated.
**/ Proportional to annual GDP.
Source: Ministry of Finance

HBPSBR

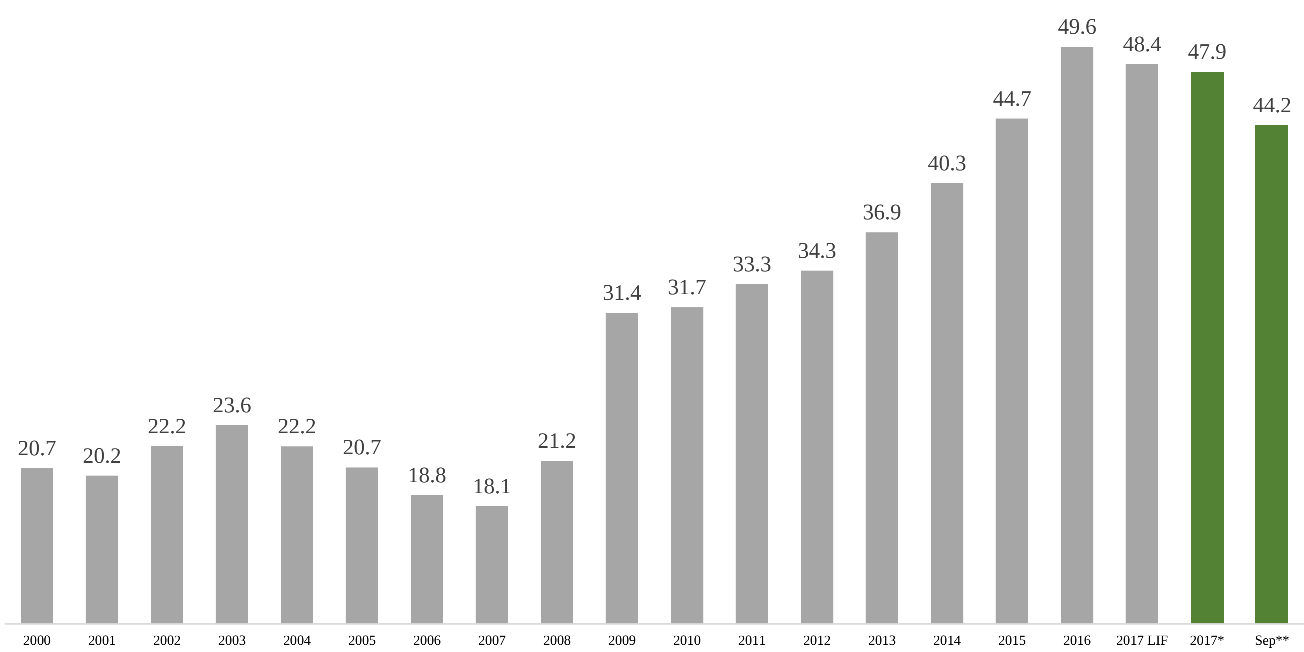
Percentage of GDP



*/ Estimated.
**/ Proportional to annual GDP.
Source: Ministry of Finance

Public debt

Percentage of GDP



*/ Estimated.
**/ Proportional to annual GDP.
Source: Ministry of Finance

PUBLIC SECTOR BALANCE

(Million pesos)

Concept	January-September			Nominal Difference	Growth % real
		2017			
	2016p_/	Program1_/	Observedp_/		
	(1)	(2)	(3)	(3-2)	(3/1)
PUBLIC BALANCE	**-251,270.4**	**-389,455.4**	**63,215.4**	**452,670.8**	**n.s.**
PUBLIC BALANCE EXCLUDING PRODUCTIVE INVESTMENT 2_/	**129,869.8**	**-108,210.7**	**319,920.6**	**428,131.3**	**132.7**
I. Budgetary Balance	-262,926.7	-389,755.4	42,008.7	431,764.1	n.s.
a) Budgetary Revenue	3,501,213.1	3,256,084.6	3,772,986.4	516,901.8	1.8
Oil3_/	621,053.7	580,604.0	584,851.8	4,247.7	-11.0
PEMEX	382,577.6	287,258.1	255,103.7	-32,154.4	-37.0
Federal Government	238,476.1	293,345.9	329,748.0	36,402.1	30.6
Non-oil	2,880,159.5	2,675,480.6	3,188,134.6	512,654.1	4.6
Federal Government	2,416,921.7	2,180,454.5	2,656,572.1	476,117.5	3.8
Tax	2,041,480.3	2,080,982.1	2,182,670.7	101,688.6	1.0
Non-tax	375,441.4	99,472.4	473,901.4	374,429.0	19.2
PEDBC	463,237.8	495,026.1	531,562.6	36,536.5	8.4
b) Net Budgetary Expenditures	3,764,139.8	3,645,840.0	3,730,977.7	85,137.7	-6.4
Programmable	2,903,033.0	2,674,477.2	2,744,538.1	70,060.8	-10.7
Non-programmable	861,106.9	971,362.8	986,439.6	15,076.8	8.2
II. PEIBC	11,656.3	300.0	21,206.6	20,906.6	71.9
PRIMARY BALANCE	**59,119.0**	**-13,790.8**	**415,966.3**	**429,757.1**	**-o-**

Note: Figures may not add up due to the rounding.

p_/ Preliminary figures.

n. s.: Not significant; -o-: Greater than 500 percent.

1_/ Corresponds to the calendars of the Law on Income and Expenditure Budget for fiscal year 2017 approved by the Congress and published in the Federal Official Gazette on December 7 and December 14 of 2016 respectively.

2_/ Excludes the physical investment of Pemex, CFE and high impact investments of the Federal Government.

3_/ Includes revenues from PEMEX, transfers from the Mexican Oil Fund for Stabilization and Development, the income tax on contractors and assignees for the extraction of hydrocarbons.

Source: Ministry of Finance

PUBLIC SECTOR BUDGETARY REVENUES

(Million pesos)

Concept	January-September 2016p_/ (1)	2017 Program1_/ (2)	2017 Observedp_/ (3)	Nominal Difference (3-2)	Growth % real (3/1)
BUDGETARY REVENUES (I+II)	**3,501,213.1**	**3,256,084.6**	**3,772,986.4**	**516,901.8**	**1.8**
I. Oil(a+b) 2_/	621,053.7	580,604.0	584,851.8	4,247.7	-11.0
a) PEMEX	382,577.6	287,258.1	255,103.7	-32,154.4	-37.0
b) Federal Government	238,476.1	293,345.9	329,748.0	36,402.1	30.6
Mexican Oil Fund	238,256.8	293,345.9	335,275.8	41,929.9	32.9
Income tax from contractors and assignees	219.3	0.0	-5,527.8	-5,527.8	n.s.
Existing rights until 2014	0.0	0.0	0.0	0.0	n.s.
II. Non-oil (c+d+e)	2,880,159.5	2,675,480.6	3,188,134.6	512,654.1	4.6
c) Federal Government	2,416,921.7	2,180,454.5	2,656,572.1	476,117.5	3.8
Tax	2,041,480.3	2,080,982.1	2,182,670.7	101,688.6	1.0
Income Tax	1,066,001.5	1,093,032.2	1,188,633.7	95,601.6	5.3
Value Added Tax	585,980.6	600,018.4	637,609.8	37,591.4	2.8
Excise Tax	322,514.8	324,474.4	282,426.8	-42,047.6	-17.3
Import Tax	37,186.4	33,985.8	38,525.7	4,539.9	-2.1
IAEEH 3_/	2,869.0	3,086.0	3,202.7	116.7	5.5
Other 4_/	26,927.9	26,385.4	32,271.9	5,886.6	13.2
Non-tax	375,441.4	99,472.4	473,901.4	374,429.0	19.2
Duties	46,065.9	35,529.4	51,857.9	16,328.6	6.3
Fees	322,772.1	59,212.6	416,449.0	357,236.3	21.9
Others	6,603.4	4,730.4	5,594.5	864.1	-20.0
d) PEDBC 5_/	245,424.5	254,294.5	266,662.8	12,368.3	2.6
IMSS	211,194.2	218,737.2	230,561.5	11,824.3	3.1
ISSSTE	34,230.3	35,557.3	36,101.3	544.0	-0.4
e) State Productive Enterprise (CFE)	217,813.3	240,731.5	264,899.8	24,168.2	14.9
Memorandum items					
Total tax-related	2,041,699.5	2,080,982.1	2,177,142.9	96,160.8	0.7
Total non-tax related	1,459,513.6	1,175,102.5	1,595,843.5	420,741.0	3.3

Note: Partial sums and variations may not add up due to rounding.

p_/ Preliminary figures.

n.s.: Not significant; Greater than 500 percent.

1_/ Corresponds to the calendar of the Law on Revenue for fiscal year 2017 approved by the Congress and published in the Federal Official Gazette on December 7, 2016.

2_/ Includes revenues from PEMEX, transfers from the Mexican Oil Fund for Stabilization and Development, the income tax on contractors and assignees for the extraction of hydrocarbons.

3_/ Tax on hydrocarbon exploration and extraction activities (Impuesto por la actividad de exploración y extracción de hidrocarburos in Spanish).

4_/ Includes taxes on new vehicles, exports, petroleum spread, not included in the aforementioned sections and accessories.

5_/ PEDBC: Public Entities under Direct Budgetary Control. Excludes Federal Government's transfers to ISSSTE.

Source: Ministry of Finance

PUBLIC SECTOR BUDGETARY NET EXPENDITURES
(Million pesos)

Concept	January-September 2016[p_/] (1)	2017 Program[1_/] (2)	2017 Observed [p_/] (3)	Nominal Difference (3-2)	Growth % real (3/1)
TOTAL (I+II)	**3,764,139.8**	**3,645,840.0**	**3,730,977.7**	**85,137.7**	**-6.4**
I. Primary expenditures	3,458,991.2	3,270,249.8	3,371,693.4	101,443.6	-7.9
Programmable	2,903,033.0	2,674,477.2	2,744,538.1	70,060.8	-10.7
Autonomous Branches	63,686.4	84,132.1	66,789.3	-17,342.7	-0.9
Administrative Branches	1,018,471.9	763,086.1	777,474.4	14,388.3	-27.9
General Branches	1,096,393.3	1,128,763.9	1,178,809.6	50,045.8	1.6
PEDBC[2_/]	557,125.8	632,697.8	617,450.0	-15,247.7	4.7
IMSS	374,363.4	424,773.1	412,975.8	-11,797.2	4.2
ISSSTE	182,762.4	207,924.7	204,474.2	-3,450.5	5.7
State Productive Enterprises	591,841.5	553,940.1	575,770.5	21,830.4	-8.1
PEMEX	367,605.4	309,663.5	288,995.1	-20,668.4	-25.7
CFE	224,236.1	244,276.6	286,775.4	42,498.8	20.8
(-) Compensated operations[3_/]	424,485.9	488,142.6	471,755.8	-16,386.8	5.0
Non-programmable	555,958.2	595,772.5	627,155.3	31,382.8	6.6
Non-earmarked transfers	531,944.6	572,396.9	607,341.8	34,944.9	7.9
Adefas and other	24,013.6	23,375.7	19,813.5	-3,562.1	-22.1
II. Financial Cost [4_/]	305,148.7	375,590.2	359,284.3	-16,305.9	11.2

Note: Partial sums and variations may not add up due to rounding.

p_/ Preliminary figures.

1_/ Corresponds to the calendars of the Law on Revenue for fiscal year 2017 approved by the Congress and published in the Federal Official Gazette on December 14, 2016.

2_/ PEDBC: Public Entities under direct budgetary control.

3_/ Refers to transactions that represent a revenue for social security institutions and an expenditure for the Federal Government, which are eliminated to avoid double accounting of revenues and expenditure.

4_/ Includes interests, commissions and other public debt expenditures, as well as expenditures for financial restructuring and to support bank savers and debtors.

Source: Ministry of Finance

FEDERAL PUBLIC SECTOR DEBT BALANCES, SEPTEMBER *_/

Concept	Balance as of			% of GDP 2_/			% of GDP Quarterly Annualized 3_/			Structure (%)		
	dec-15	dec-16	sep-17 p_/	dec-15	dec-16	sep-17	dec-15	dec-16	sep-17	dec-15	dec-16	sep-17
Domestic Debt:												
Net (Million pesos)	5,379,857.1	6,009,403.1	5,922,770.1	29.5	30.8	27.9	28.2	29.0	28.0	65.9	62.0	63.0
Gross (Million pesos)	5,639,503.9	6,182,250.7	6,547,922.6	30.9	31.6	30.8	29.5	29.8	30.9	66.9	62.2	65.1
External Debt:												
Net (Million USD)	161,609.5	177,692.5	191,825.3	15.2	18.8	16.3	14.5	17.7	16.4	34.1	38.0	37.0
Gross (Million USD)	162,209.5	180,986.0	193,724.4	15.3	19.2	16.5	14.6	18.1	16.6	33.1	37.8	34.9
Total Debt: 1_/												
Net (Million pesos)	8,160,589.9	9,693,217.5	9,400,563.4	44.7	49.6	44.2	42.7	46.7	44.4	100.0	100.0	100.0
(Million USD)	474,273.7	467,562.1	518,508.7									
Gross (Million pesos)	8,430,561.7	9,934,343.9	10,060,146.0	46.2	50.8	47.3	44.1	47.9	47.5	100.0	100.0	100.0
(Million USD)	489,963.8	479,193.1	554,889.5									

Note: Figures may not add up due to rounding.
Net Debt results from subtracting the Federal Government's financial assets, assets from State Productive Enterprises and Development Banks from the Gross Debt.
*_/ Figures subject to revisions due to changes and methodological modifications.
p_/ Preliminary figures.
1_/ Includes liabilities from the Federal Government, State Productive Enterprises and Development Banks.
2_/ The average annual GDP was used for fiscal years 2015 and 2016; while for 2017, the estimated annual GDP was used, published in the General Economic Policy Guidelines (CGPE) for fiscal year 2018.
3_/Quarterly annualized GDP according to the previous quarterly reports.
Source: Ministry of Finance

PUBLIC SECTOR DOMESTIC DEBT, JANUARY-SEPTEMBER*_/
(Million pesos)

	Balance as of December 2016 p_/	Indebtedness January-September 2017			Adjustments	Outstanding as of September 2017 p_/
		Originations	Amort.	Net		
1. Net Debt (3-2)	**6,009,403.1**					**5,922,770.1**
2. Assets 1_/	172,847.6					625,152.5
3. Gross Debt	**6,182,250.7**	**2,650,962.5**	**2,366,405.6**	**284,556.9**	**81,115.0**	**6,547,922.6**
By Term	6,182,250.7	2,650,962.5	2,366,405.6	284,556.9	81,115.0	6,547,922.6
Long-term	5,552,529.1	1,079,129.9	714,879.9	364,250.0	81,252.4	5,998,031.5
Short-term	629,721.6	1,571,832.6	1,651,525.7	-79,693.1	-137.4	549,891.1
By User	6,182,250.7	2,650,962.5	2,366,405.6	284,556.9	81,115.0	6,547,922.6
Federal Government	5,620,345.4	2,312,447.9	2,008,369.7	304,078.2	74,418.4	5,998,842.0
Long-term	5,026,440.4	1,011,216.8	641,759.2	369,457.6	74,418.4	5,470,316.4
Short-term	593,905.0	1,301,231.1	1,366,610.5	-65,379.4	0.0	528,525.6
State Productive Enterprises 2_/	431,176.8	51,165.7	86,172.9	-35,007.2	6,984.5	403,154.1
Long-term	416,176.8	33,500.0	63,376.1	-29,876.1	6,984.5	393,285.2
Short-term	15,000.0	17,665.7	22,796.8	-5,131.1	0.0	9,868.9
Development Banks	130,728.5	287,348.9	271,863.0	15,485.9	-287.9	145,926.5
Long-term	109,911.9	34,413.1	9,744.6	24,668.5	-150.5	134,429.9
Short-term	20,816.6	252,935.8	262,118.4	-9,182.6	-137.4	11,496.6
By Financial Source	6,182,250.7	2,650,962.5	2,366,405.6	284,556.9	81,115.0	6,547,922.6
Bonds Placed in Domestic Markets	5,312,876.2	2,167,173.1	1,710,401.4	456,771.7	63,576.9	5,833,224.8
Saving Fund S.A.R.	115,163.3	185,365.3	183,263.4	2,101.9	5,512.1	122,777.3
Commercial Banks	142,087.0	44,609.8	86,139.3	-41,529.5	-352.3	100,205.2
ISSSTE's Law Obligations 3_/	147,532.8	61.9	11,401.1	-11,339.2	6,516.6	142,710.2
PEMEX's Pension Bonds 4_/	137,639.7	0.0	1,512.3	-1,512.3	0.0	136,127.4
CFE Pension Bonds 5_/	161,080.2	0.0	0.0	0.0	0.0	161,080.2
Others	165,871.5	253,752.4	373,688.1	-119,935.7	5,861.7	51,797.5

Note: Figures may not add up due to rounding.
*_/ Figures subject to revisions and methodological changes.
p_/ Preliminary figures.
1_/ Includes the net balance denominated in Mexican pesos, of the Federal Treasury's General Account and assets from State Productive Enterprises and Development Banks.
2_/ Includes CFE and ISSSTE only.
3_/ Obligations associated with the new ISSSTE law.
4_/ Obligations associated with the financial support by the Federal Government to PEMEX given the savings in their pension obligations, pursuant to the provisions of the "Agreement on the general provisions concerning the Federal Government's assumption of PEMEX and its Subsidiary Productive Enterprises' pension and retirement obligations", published in the Federal Official Gazette on December 24, 2015.
_5/ Obligations associated with the financial support by the Federal Government to CFE given the savings in their pension obligations, pursuant to the provisions of the "Agreement on the general provisions concerning the Federal Government's assumption of the Federal Electricity Commission' pension and retirement obligations", published in the Federal Official Gazette on November 14, 2016.
Source: Ministry of Finance

PUBLIC SECTOR EXTERNAL DEBT, JANUARY-SEPTEMBER*_/
(Million dollars)

	Balance as of December 2016 p_/	Indebtedness January-September 2017			Adjustments	Outstanding as of September 2017 p_/
		Originations	Amort.	Net		
1. Net Debt (3-2)	**177,692.5**					**191,825.3**
2. Financial Assets in Foreign Currency 1_/	3,293.5					1,899.1
3. Gross Debt	**180,986.0**	**34,064.2**	**25,366.3**	**8,697.9**	**4,040.5**	**193,724.4**
By Term	180,986.0	34,064.2	25,366.3	8,697.9	4,040.5	193,724.4
Long-term	177,892.8	22,282.2	12,941.5	9,340.7	4,027.5	191,261.0
Short-term	3,093.2	11,782.0	12,424.8	-642.8	13.0	2,463.4
By User	180,986.0	34,064.2	25,366.3	8,697.9	4,040.5	193,724.4
Federal Government	88,157.0	4,720.0	4,410.2	309.8	2,168.2	90,635.0
Long-term	88,157.0	4,720.0	4,410.2	309.8	2,168.2	90,635.0
Short-term	0.0	0.0	0.0	0.0	0.0	0.0
State Productive Enterprises 2_/	82,687.8	17,230.5	8,494.6	8,735.9	1,519.8	92,943.5
Long-term	82,687.8	17,036.0	8,349.0	8,687.0	1,519.8	92,894.6
Short-term	0.0	194.5	145.6	48.9	0.0	48.9
Development Banks	10,141.2	12,113.7	12,461.5	-347.8	352.5	10,145.9
Long-term	7,048.0	526.2	182.3	343.9	339.5	7,731.4
Short-term	3,093.2	11,587.5	12,279.2	-691.7	13.0	2,414.5
By Financing Source	180,986.0	34,064.2	25,366.3	8,697.9	4,040.5	193,724.4
Public Bonds	136,902.4	12,755.3	6,989.9	5,765.4	3,473.9	146,141.7
International Financial Institutions (IFI´S)	28,601.6	1,768.5	643.2	1,125.3	327.8	30,054.7
Bilateral	7,279.4	342.3	935.8	-593.5	137.2	6,823.1
Commercial Banks	8,023.0	19,003.6	16,651.8	2,351.8	76.5	10,451.3
Pidiregas	179.6	194.5	145.6	48.9	25.1	253.6

Note: Figures may not add up due to rounding.
*_/ Figures subject to revisions and methodological changes.
p_/ Preliminary figures.
1_/ Considers the net US Dollar denominated balance of the Federal Treasury's General Account and assets held by State Productive Enterprises and Development Banks.
2_/ Includes PEMES and CFE only.
Source: Ministry of Finance

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