SHCP

SECRETARÍA DE HACIENDA
Y CRÉDITO PÚBLICO

2018 Annual Borrowing Plan

JANUARY 2018

Content.

I. Executive Summary.

i. The Annual Borrowing Plan (ABP) presents on an annual basis the main elements of the Federal Government's **public debt policy**.

ii. The public debt policy is oriented to cover the Federal Government's financing needs at the **lowest possible cost**, preserving an **adequate level of risk**, given the characteristics of Mexico's public finance.

iii. During 2018, the **new Fixed Income and Money Market Code of Conduct** will be implemented along with a strategy focused on issuing in the local market through **euroclearable**.

iv. Additionally, for the first time, the ABP 2018 summarizes the main elements of the **debt policy** of the **Public Sector institutions** that frequently access the debt markets.

II. Public Debt Policy.

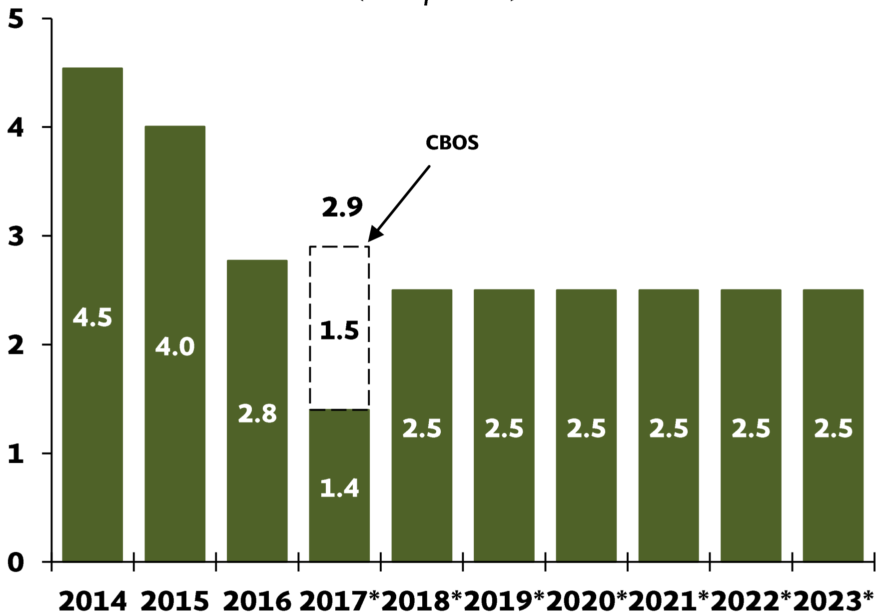
Objectives	Actions
1. **Cover** the **Federal Government's financing needs** at reduced costs, at a long-term horizon and at a low level of risk.	i. **Finance the Federal Government's needs** primarily through **domestic debt markets.**
	ii. **Complementary** use of **external credit if conditions in international markets are favorable.**
2. **Preserve the diversity of access** to a **wide range** of debt markets.	iii. **Conduct liability management operations** in order to increase **efficiency in the debt portfolio**.
	iv. **Develop benchmarks and yield curves,** both in domestic and external markets.
3. **Promote liquid and deep markets** with yield curves **that facilitate access to financing** for other market participants (public and private).	v. **Enhance a comprehensive management** of the public debt portfolio risks that will allow quantifying and facing external shocks.
	vi. **Promote a transparent communication** strategy of **public debt policy.**

II. Public Debt Policy.

Fiscal Consolidation

- In line with the estimates in the General Economic Policy Guidelines for 2018, the Public Sector Borrowing Requirements are expected to be 2.9% of GDP in 2017 without considering the Central Bank Operating Surplus (CBOS) and 1.4% considering it.
- Moreover, the Historical Balance of the Public Sector Borrowing Requirements is expected to decrease from 48.7% of GDP in 2016 to 46.7% in 2017, and later to 46.1% in 2018.

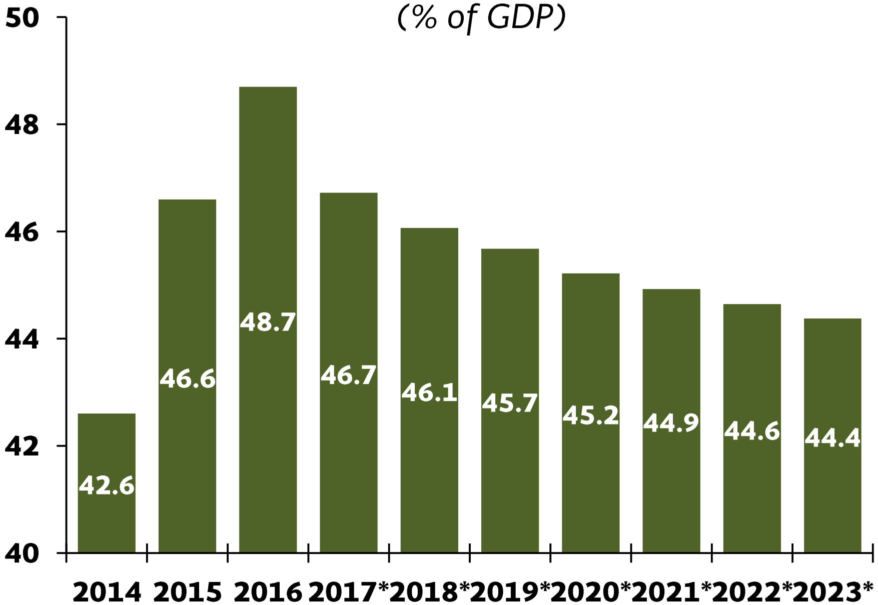
Public Sector Borrowing Requirements
(% of GDP)



*Estimates for 2017 and onwards.

Source: General Economic Policy Guidelines for 2018, figures adjusted to 2013 base-year GDP.

Historical Balance of the Public Sector Borrowing Requirements
(% of GDP)

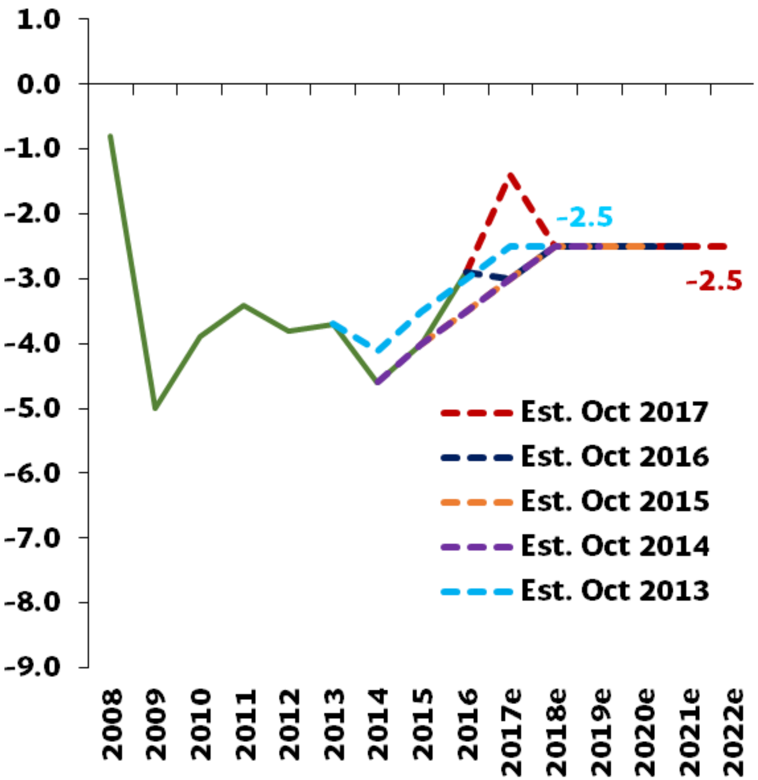


*Estimates for 2017 and onwards.

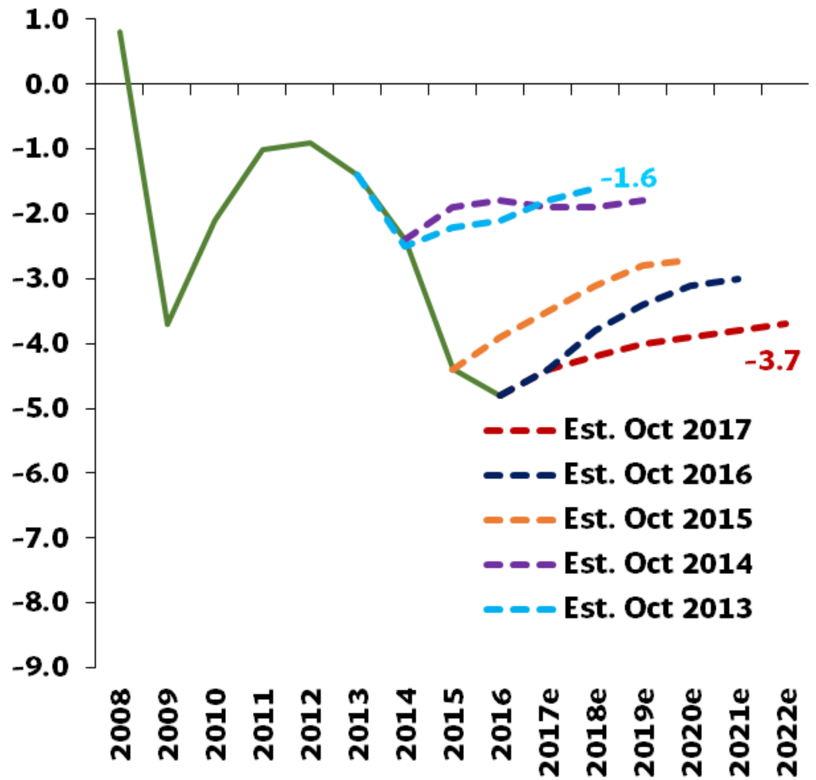
Source: General Economic Policy Guidelines for 2018, figures adjusted to 2013 base-year GDP.

II. Public Debt Policy. The fiscal consolidation program is proceeding as planned and Mexico is heading the recovery of fiscal space among EM.

Estimates of Fiscal Deficit for Mexico*
(% of GDP)

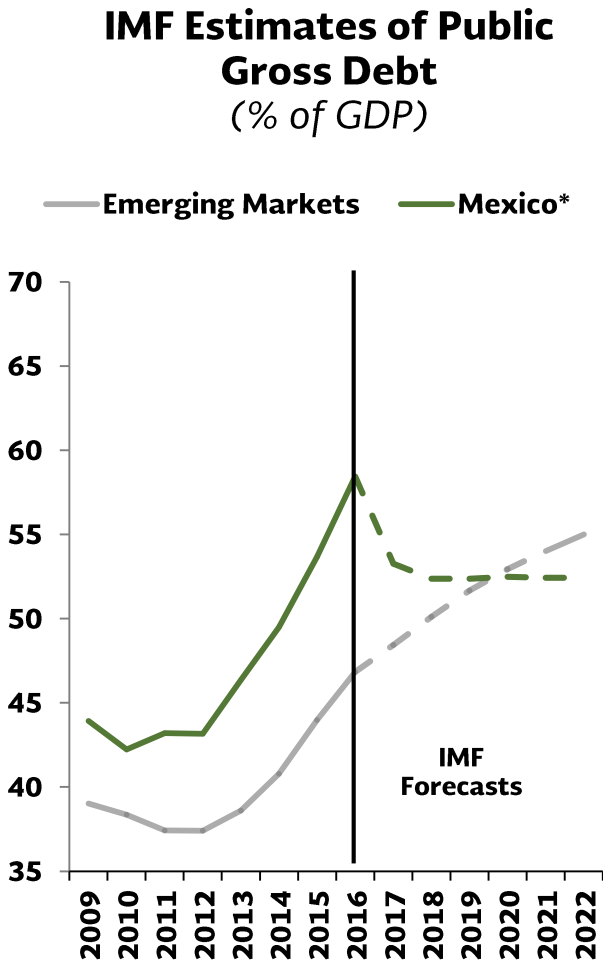


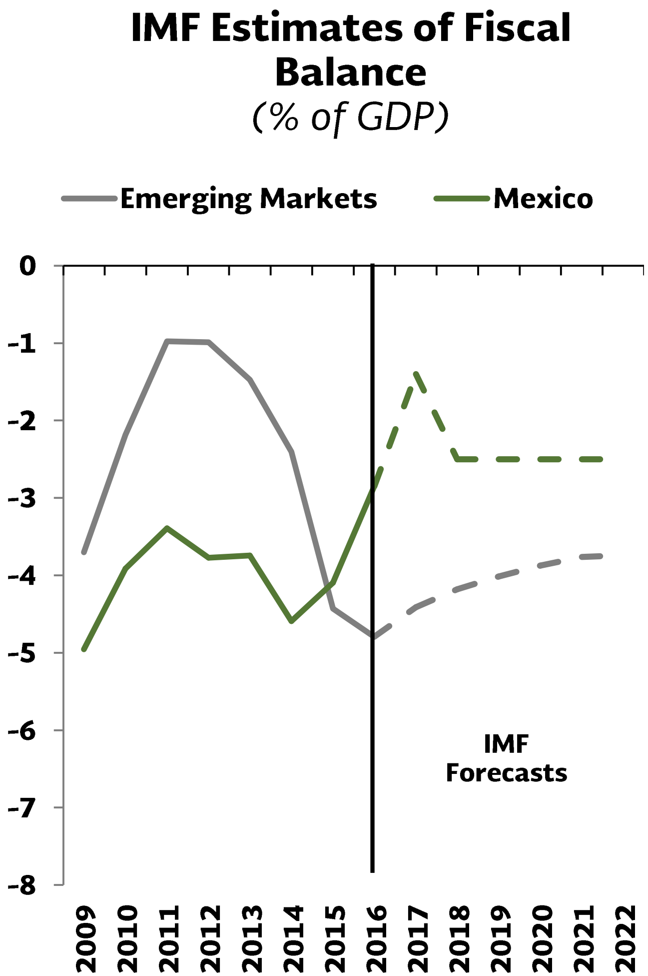
Estimates of Fiscal Deficit for Emerging Markets**
(% of GDP)

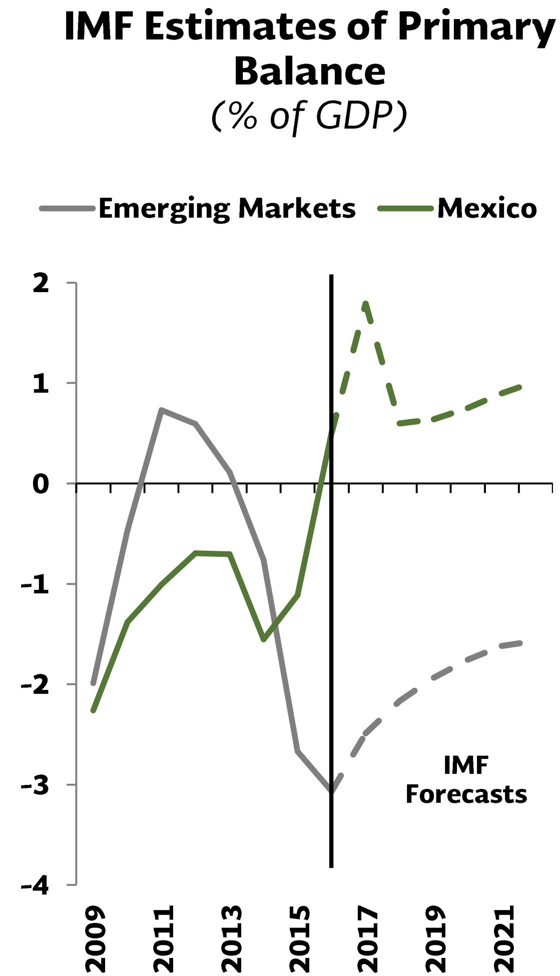


* Note: Each trajectory is a different set of estimates made by the IMF on the referred date.
** Note: The emerging markets analyzed by the IMF are the following: Algeria, Angola, Argentina, Azerbaijan, Belarus, Brazil, Chile, China, Colombia, Croatia, Dominican Republic, Ecuador, Egypt, Hungary, India, Indonesia, Kazakhstan, Kuwait, Libya, Malaysia, Mexico, Morocco, Oman, Pakistan , Peru, Philippines, Poland, Qatar, Romania, Russia, Saudi Arabia, South Africa, Sri Lanka, Thailand, Turkey, Ukraine, United Arab Emirates, Uruguay, Venezuela.
Source: IMF Fiscal Monitor.

II. Public Debt Policy. Mexico shows a downward trajectory of public debt, a lower public deficit, and a greater primary balance.







*This measure of gross debt is consistent with its net value (HBPSBR). For 2016, these figures were 58.4% of GDP for the first measure and 48.7% for the latter.
Note: The emerging markets analyzed by the IMF are the following: Algeria, Angola, Argentina, Azerbaijan, Belarus, Brazil, Chile, China, Colombia, Croatia, Dominican Republic, Ecuador, Egypt, Hungary, India, Indonesia, Kazakhstan, Kuwait, Libya, Malaysia, Mexico, Morocco, Oman, Pakistan , Peru, Philippines, Poland, Qatar, Romania, Russia, Saudi Arabia, South Africa, Sri Lanka, Thailand, Turkey, Ukraine, United Arab Emirates, Uruguay, Venezuela.
Source: IMF Fiscal Monitor.

III.1 Financing Needs. The Federal Government needs for 2018 are 6.6% of GDP, 2.4% of GDP less than in 2017.

Federal Government's Financing Needs
(Billion pesos and % of GDP*)

	2017[e]		2018[e]		Change 2018 vs. 2017
	bn pesos	% GDP	bn pesos	% GDP	% GDP
TOTAL (A + B) [1]	**1,966.3**	**9.0**	**1,539.9**	**6.6**	**-2.4**
A. Approved Deficit	**492.6**	**2.3**	**470.5**	**2.0**	**-0.2**
B. Amortizations	**1,473.7**	**6.7**	**1,069.4**	**4.6**	**-2.2**
Domestic Debt	**1,348.6**	**6.2**	**1,039.2**	**4.4**	**-1.7**
Securities	1,228.8	5.6	1,036.4	4.4	-1.2
Cetes	634.7	2.9	711.1	3.0	0.1
Bondes D	37.5	0.2	50.4	0.2	0.0
Bonds	450.0	2.1	274.8	1.2	-0.9
Udibonos	106.6	0.5	0.1	0.0	-0.5
Other Liabilities [2]	119.8	0.5	2.8	0.0	-0.5
External Debt	**125.1**	**0.6**	**30.1**	**0.1**	**-0.4**
Bonds	108.1	0.5	2.5	0.0	-0.5
IFIs	13.9	0.1	24.4	0.1	0.0
Others	3.1	0.0	3.2	0.0	0.0
Memo:					
Debt Ceilings:					
Domestic (bn pesos)	495.0	2.3	470.0	2.0	-0.3
External (bn dollars)[3]	5.8	0.5	5.5	0.4	-0.1

*Calculations were made with GDP 2013 base-year.
1 Total figures may not add up due to rounding.
2 This item accounts for the net financing needs of the pension system (SAR).
3 External debt ceiling includes the National Development Banks.
e/ Estimates for 2017 and 2018.
Source: Ministry of Finance.

Financing Needs

Financing needs have decreased due to **two fundamental elements**:

1. **Reduction in the Federal deficit,** as a result of the fiscal consolidation program.

2. **Decrease in the debt amortizations,** as a result of liability management operations carried out in previous years, which smoothened the maturity profile.

III.2 Financial Strategy for 2018. Domestic Indebtedness.

Government Securities Auction	• The government securities auction program will maintain the **flexibility** to adapt to the prevailing conditions in financial markets.
New References	• During 2018, the convenience of performing new syndicated auctions will be analyzed to introduce new references for **3 and 5-year fixed-rate bonds**.
Liability Management Operations	• As part of the 2018 strategy, carrying out **liability management operations** will be considered. Among these operations, the following stand out: exchange transactions, repurchases, and joint repurchases with additional issuances. The Ministry will seek to carry out at least one operation per quarter.
Market Makers	• The financial strategy considers continuing to strengthen the **Market Formers Program** with the objective of increasing liquidity in the local debt market.

III.2 Financial Strategy for 2018. Code of Conduct.

Code of Conduct of the Securities Market

- The Ministry of Finance, along with the Central Bank and the Banks and Securities Supervisor (CNBV), created a Code of Conduct for the fixed income and money market in Mexico, which was released on November 10, 2017[1] and was elaborated with reference to the FX Global Code, prepared by the BIS in May 2017.

- The Code is a set of provisions that are focused on promoting a robust market, of equal treatment, without any discrimination, liquid, open and transparent that can preserve its integrity, protect the interests of investors, minimize risks derived from operations handling debt securities and enhances a healthy competition through abiding to its principles.

[1]The Code can be found in the following link: https://www.gob.mx/shcp/documentos/codigo-de-conducta-mercado-de-dinero-y-renta-fija

III.2 Financial Strategy for 2018. Code of Conduct.

First Stage	• The seven **Market Makers of Government Securities** on November 10, 2017 committed to comply to the Code. • The implementation is expected to take place on April 1, 2018.
Second Stage	• In line with the modifications to the Market Makers Program, the code contemplates the compliance of **aspiring candidates.** • The commitment of compliance of the aspiring candidates will be required.
Third Stage	• Compliance of **Developments Banks**. • The implementation is expected to take place on April 1, 2018.
Fourth Stage	• Compliance of the rest of **credit institutions and brokerage firms**. • Meetings with each institution to receive comments before February 28, 2018.

III.2 Financial Strategy for 2018. Diversification of Investor Base.

Strategy for Diversifying the Investor Base in the Local Debt Market

- With the goal of diversifying the investor base in the local debt market, the Federal Government in cooperation with Public Sector institutions will boost a strategy to carry **out issuances in the domestic market that can be liquidated through Euroclearable.**[1]

Benefits

- This format will facilitate access for international investors, allowing:
  - ✓ The increase of liquidity in the domestic market.
  - ✓ Improvement of financing conditions for public and private sector issuers in the domestic market.
  - ✓ Enhancement of price discovery dynamics.

[1]/Euroclear or Clearstream.

III.2 Financial Strategy for 2018. Domestic Indebtedness.

Fixed-rate Bonds	• The Federal Government will continue to place **fixed-rate bonds for 3, 5, 10, 20 and 30-year terms with the same frequency** it has done over the last years and with a retap policy.
Inflation-linked Bonds	• The **inflation-linked bonds** will continue to be placed every **4 weeks for 3, 10 and 30-year terms**. The market will continue to hold regularly a price reference for those instruments.
Cetes	• During 2018, the Ministry will continue to announce quarterly the minimum and maximum amounts to be placed **every week** for 28 and 91-day Cetes. **182-day Cetes** will continue to be auctioned weekly, while **1-year Cetes** will be placed every **4 weeks**.
Bondes D	• For 2018, the Ministry will continue to auction **Bondes D for 5-year terms**. The placements will continue to be carried out **every 15 days**, and the new references will be opened with the same frequency as it has been done in previous years.

III.2 Financial Strategy for 2018. External Indebtedness.

Complementary Use	➢ **External financing will only be used as a complementary source**.
External Markets	➢ The Federal Government will consider to seek financing in the international financial markets only when **favorable conditions** prevail.
Liability Management Operations	➢ The external financing strategy will consider carrying out **liability management operations** focused on reducing the financial cost, strengthening the debt portfolio structure and reducing the refinancing risk in the next years.
IFIs and ECAs	➢ The Ministry will continue to access financing through International Financial Institutions (**IFIs**) and Multilateral Creditors (Exporting Credit Agencies, **ECAs**) as a complementary source of resources for the Federal Government.

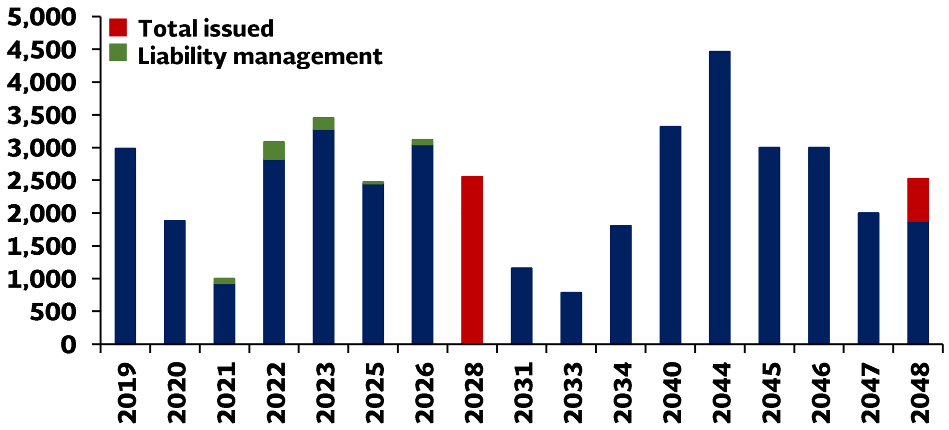
III.2 Financial Strategy for 2018. International Issuances in 2018 - USD

January 3, 2018 issuance *(USD million)*	
New USD 2028 Coupon: 3.750%	2,000
Retap USD 2048 Coupon: 4.600%	600
Total amount issued	**2,600**

Liability Management *(USD million)*	
Switch tender of the bonds with maturities between 2021-2026 into the 2028 bond	555
Switch tender of the bonds with maturities between 2022- 2026 into the 2048 bond	45
Total switch tender amount	**600**

- **The highest demand for any Mexican sovereign trade, representing a 4.7x oversubscription rate.**

Federal Government USD Market Debt
(USD million)



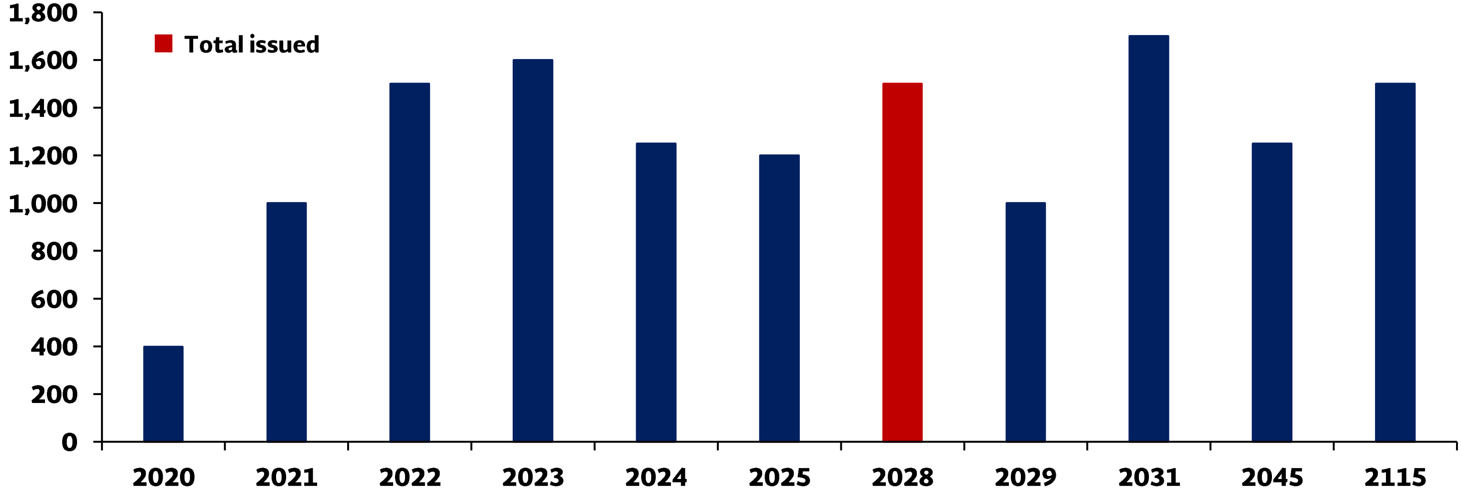
III.2 Financial Strategy for 2018. International Issuances in 2018 - Euros

January 9, 2018 issuance
(EUR million)

New EUR 2028 Coupon: 1.750%	1,500

- **Lowest yield for any 10-year bond issued in the euro market.**
- **More than 200 accounts participated.**

Federal Government EUR Market Debt
(EUR million)



IV. Portfolio Risk Analysis.

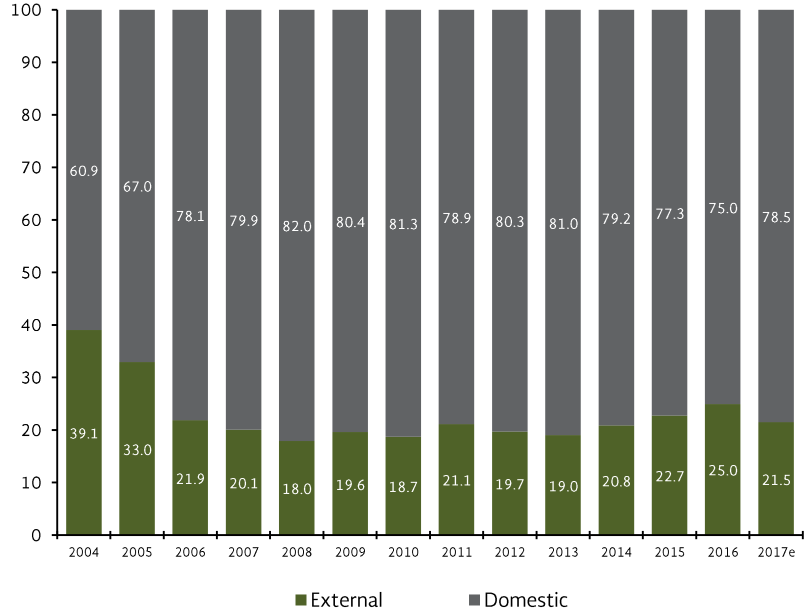
Exchange rate risk

The greater part of the Federal Government's debt is denominated in pesos. At the end of 2017, 78.5% of debt will be denominated in local currency.

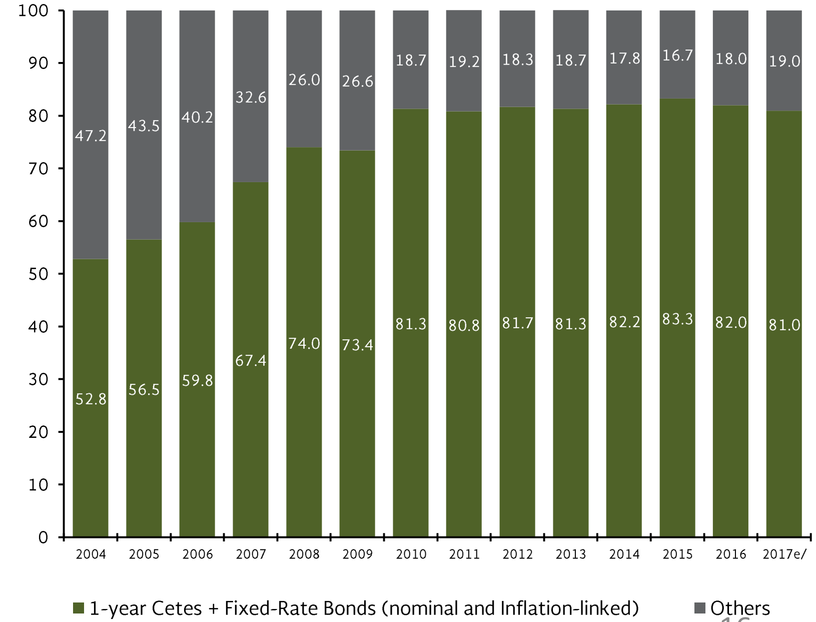
Interest rate risk

The greater part of the government securities issued in the local market is held at fixed rate (81%). Additionally, 100% of the external market debt has a fixed rate.

Federal Government's Net Debt
(% of Total)



Long-Term Fixed-Rate Government Securities, Nominal and Inflation-Linked
(% del Total)



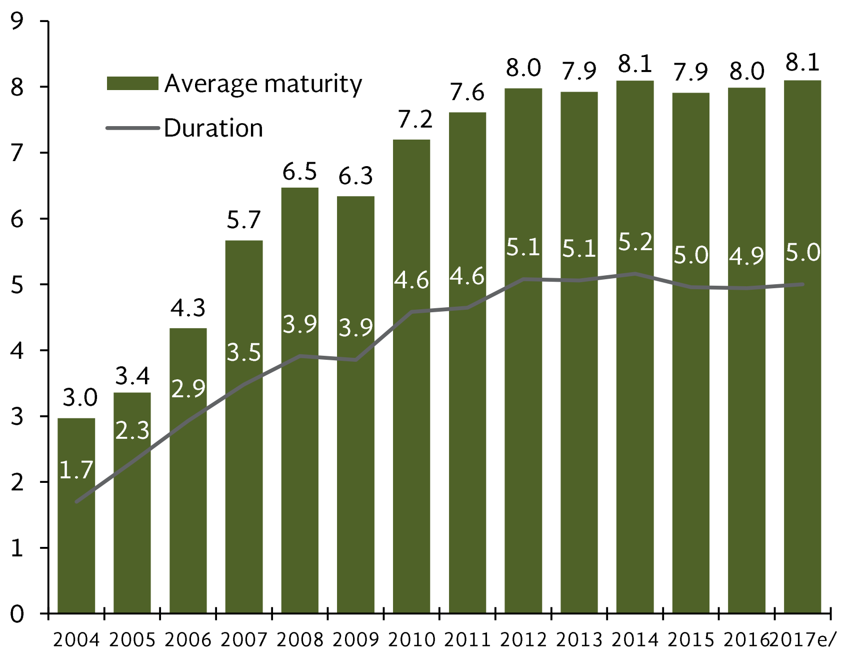
Source: Ministry of Finance.

IV. Portfolio Risk Analysis.

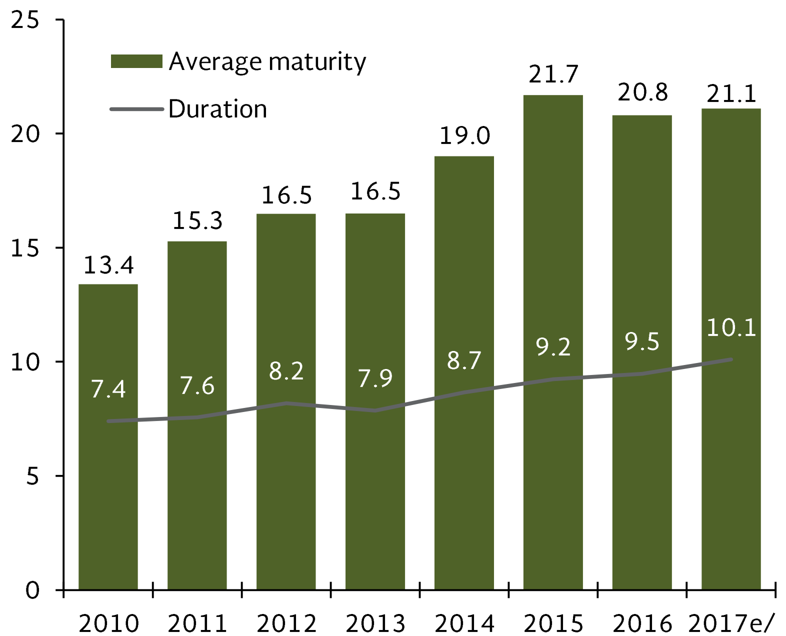
Refinancing Risk

The Federal Government has reduced its refinancing risk by maintaining a portfolio where long-term instruments predominate.

Average Maturity and Duration of Federal Government's Domestic Securities
(Years)



Average Maturity and Duration of Federal Government's External Market Debt
(Years)



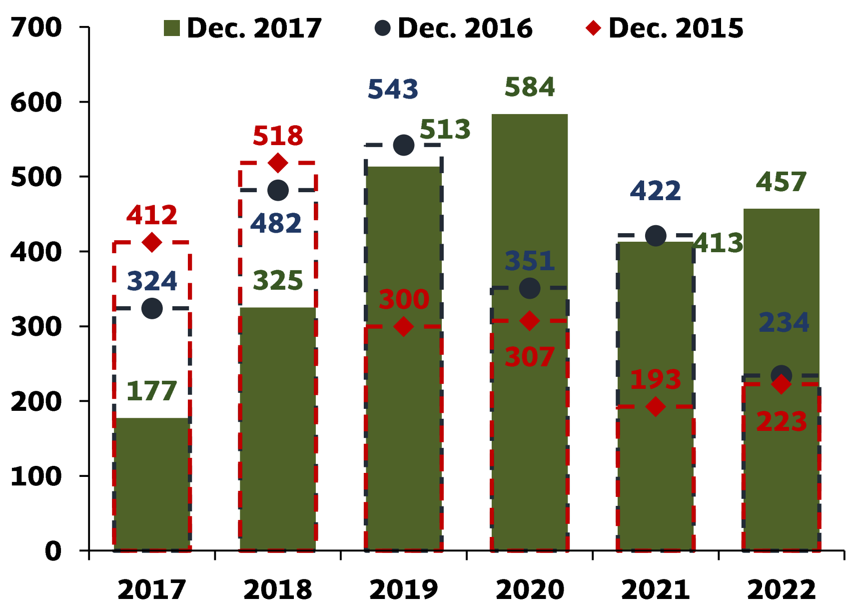
Source: Ministry of Finance.

IV. Portfolio Risk Analysis.

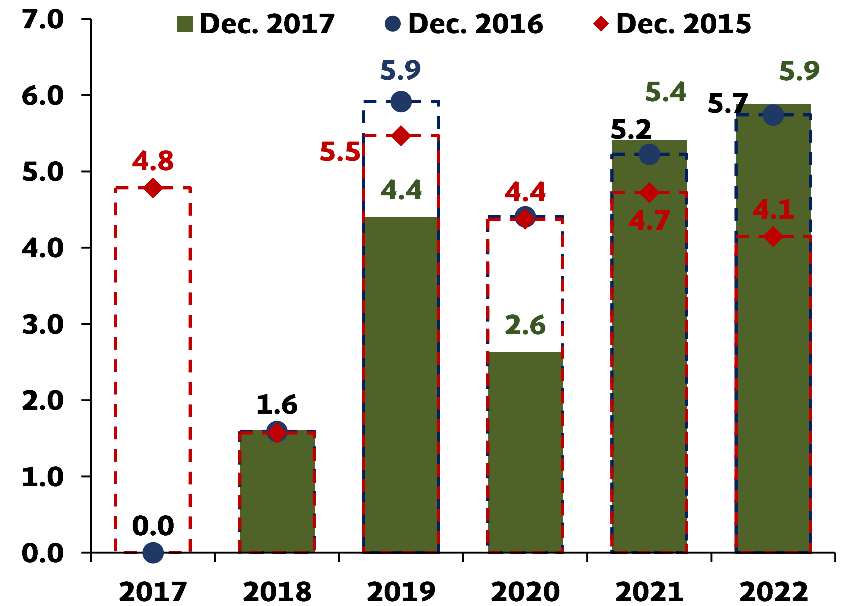
Refinancing Risk

The **internal and external debt** maturity profile has improved over the last years, as a result of carrying out liability management operations, **without incurring in additional indebtedness**.

Amortization Profile of the Federal Government's Domestic Debt*
(billion pesos)



Amortization Profile of the Federal Government's External Debt*
(billion dollars)



*The maturity profile refers to the balance in circulation at the referred date. For December 2017, the estimated balances are used. The amortization profile of the domestic debt does not include *Cetes.*
Source: Ministry of Finance.

IV. Portfolio Risk Analysis.

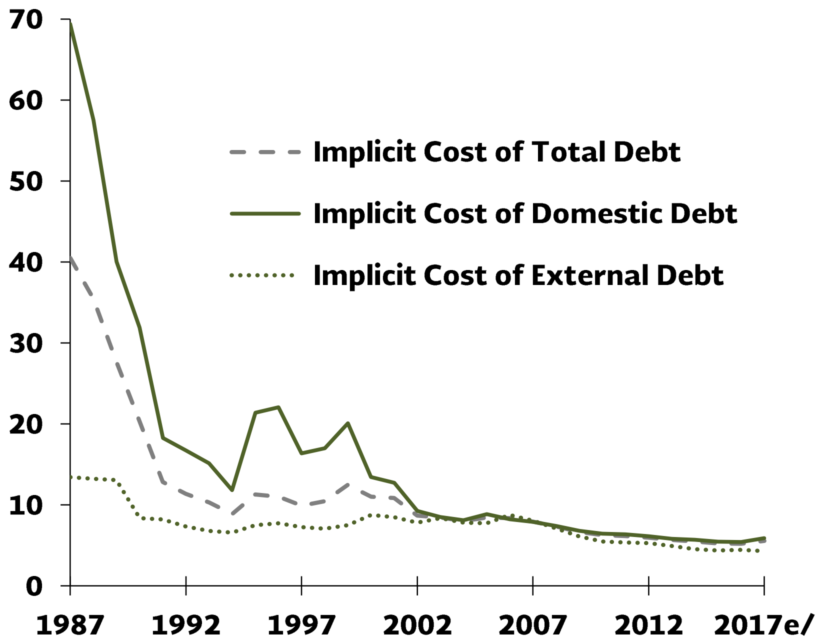
Implicit Cost

The Federal Government's implicit cost of debt maintains a stable trajectory at low levels.

Cost at Risk

As in previous years, the Cost at Risk (CaR) remains at low levels, and suggests that with a 95% confidence level, the financial cost will not increase more than 3.65%.

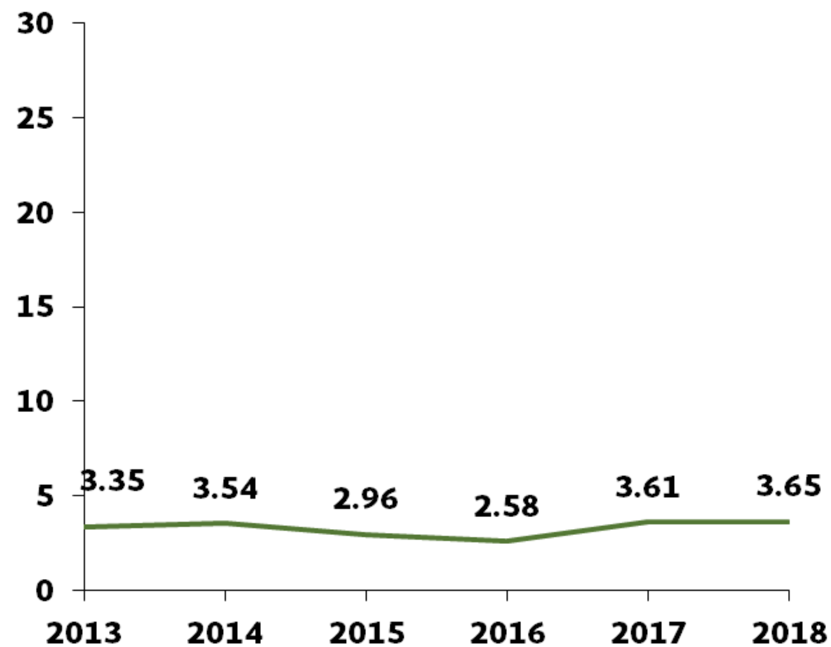
Federal Government's Implicit Debt Cost
(%)



e/ Expected value for 2017.

Source: Ministry of Finance.

Federal Government Debt: Historical Joint CaR*
(%)



*This estimation was presented for the first time in 2013.

V. Financing Needs of the Public Sector.

Debt Policy of Public Sector Entities

- The 2018 Annual Borrowing Plan presents, for the first time, the main elements of **the financing strategy of Public Sector institutions** that recurrently access debt markets.

- This effort seeks to foster **more transparency in the debt policy** of the Public Administration's institutions and to facilitate access to investors to the information concerning Public Sector debt.

- It is important to mention that the numbers in this section are **informative** and could be adjusted in the course of the year, according to the evolution of market conditions and to each entity's strategy.

- The different Public Sector entities will maintain **active communication** with market participants, by performing at least one call with investors every semester. Starting this week, each institution will disclose their **Annual Borrowing Plan** through a conference call.

V. Financing Needs of the Public Sector.

Financing Needs of the Public Sector
(billion pesos)

	2017 e		2018 e		Change 2018 vs 2017
	bn pesos	% GDP	bn pesos	% GDP	% GDP
Total	**3,007.5**	**13.8**	**2,574.2**	**11.0**	**-2.8**
FG	**1,966.3**	**9.0**	**1,539.9**	**6.6**	**-2.4**
Deficit	492.6	2.3	470.5	2.0	-0.2
Amort.	1,473.7	6.7	1,069.4	4.6	-2.2
SOEs[1]	**254.2**	**1.2**	**165.1**	**0.7**	**-0.5**
Deficit	62.5	0.3	61.4	0.3	0.0
Amort.	191.7	0.9	103.7	0.4	-0.4
DB[2]	**527.4**	**2.4**	**580.3**	**2.5**	**0.1**
TNF[3]	76.3	0.3	87.4	0.4	0.0
Amort.	451.1	2.1	492.9	2.1	0.0
Other[4,5]	**259.6**	**1.2**	**288.9**	**1.2**	**0.0**
Deficit	41.8	0.2	40.4	0.2	0.0
Amort.	210.8	1.0	262.0	1.1	0.2

Note: Total figures may not add up due to rounding.
1 State Owned Enterprises (Pemex and CFE).
2 National Development Banks (Nafin, Banobras, Bancomext and SHF).
3 Total Net Financing.
4 Other issuers (FIRA, FONACOT and IPAB).
5 The total needs of the IPAB in this table consider a net liquid resource decumulation deficit amortizations.
e/ End-of-year estimates for 2017 and 2018.

Public Sector

- For 2018, the financing needs of the Public Sector entities are estimated to amount to **11% of GDP.**
- This amount if **lower than the 2017 needs by 2.8%,** as a result of:
  - ✓ A **decrease of 2.9% of GDP** by the Federal Government and SOEs.
  - ✓ An **increase of 0.1% of GDP** by the Development Banks, given their expected portfolio growth.

Note: The numbers in this section are informative and could be adjusted in the course of the year, according to the evolution of market conditions and to each entity's strategy. The data uses the following assumptions: i) an exchange rate of 18.40 pesos per dollar according to the rate approved by the 2018 Law of Federal Income (LIF); and ii) the financing needs considered result from the measure of deficit and amortizations, excluding in the latter the ones that are revolving during the same year.

V. Financing Needs of the Public Sector.

Strategy of State Owned Enterprises

- For 2018, the SOE's financing strategy will be oriented toward strengthening their liability portfolio and decreasing its risk, in line with its business plans.

Strategy of Development Banks

- The 2018 financing strategy of Development Banks will be focused on preserving an adequate liability portfolio given its characteristics, in order to minimize risk.

Strategy of Other Issuers and IPAB

- For 2018, Funds and Trust Funds plan to execute their business plans, while the IPAB will continue with its strategy of paying the real component of its interests, in order for its debt, as a percentage of GDP, to maintain a downward trajectory.

VI. Final Remarks.

i. As a result of the fiscal consolidation program, the **debt-to-GDP ratio** began a **downward trajectory** in 2017, and in 2018 will consolidate this trajectory.

ii. In line with the fiscal consolidation strategy, the 2018 **gross financing needs** of the Public Sector will be lower than the 2017 needs by 2.8% of GDP.

iii. The Federal Government's 2018 **debt policy** will continue to be oriented toward **reinforcing the debt portfolio and improving the maturity profile**, in order to strengthen public finance.

iv. Strengthening Mexico's **macroeconomic fundamentals** is particularly important, especially in the international context, not exempt from **uncertainty** that could affect the commercial, financial and investment flow dynamics at a global level.

Annex

Annex 1. Financing Needs for State Owned Enterprises.

Financing Needs of SOEs
(billion pesos)

	2017 e		2018 e		Change 2018 vs. 2017
	bn pesos	% GDP	bn pesos	% GDP	% GDP
Total	**254.2**	**1.2**	**165.1**	**0.7**	**-0.5**
Pemex	**257.5**	**1.2**	**159.6**	**0.7**	**-0.5**
Deficit	94.0	0.4	79.4	0.3	-0.1
Amort.	163.5	0.7	80.2	0.3	-0.4
CFE	**-3.3**	**0.0**	**5.5**	**0.0**	**0.0**
Deficit	-31.5	-0.1	-18.0	-0.1	0.1
Amort.	28.2	0.1	23.5	0.1	0.0

Note: Total figures may not add up due to rounding.
e/ End-of-year estimates for 2017 and 2018.
Source: Pemex and CFE.

State Owned Enterprises

- The financing needs for SOEs result from the sum of their financial balance and their internal and external debt amortizations.
- For 2018, the financing needs of the SOEs are estimated in 0.7% of GDP.
- This amount is lower than the 2017 estimate by 0.5% of GDP, as a result of the improvement of the financial situation of SOEs in the context of the Public Sector fiscal consolidation.
- The 2018 financing strategy of the SOEs will continue to be oriented toward strengthening their liability portfolio and decreasing its risk, in line with their Business Plans.

Note: The numbers in this section are informative and could be adjusted in the course of the year, according to the evolution of market conditions and to each entity's strategy. The data uses the following assumptions: i) an exchange rate of 18.40 pesos per dollar according to the rate approved by the 2018 Law of Federal Income (LIF); and ii) the financing needs considered result from the measure of deficit and amortizations, excluding in the latter the ones that are revolving during the same year.

Annex 2. Financing Needs of Development Banks.

Financing Needs of Development Banks
(billion pesos)

	2017 e		2018 e		Change 2018 vs 2017
	bn pesos	% GDP	bn pesos	% GDP	% GDP
Total	**527.4**	**2.4**	**580.3**	**2.5**	**0.1**
NAFIN	**78.6**	**0.4**	**78.8**	**0.3**	**0.0**
TNF[1]	14.7	0.1	16.1	0.1	0.0
Amort.	63.9	0.3	62.7	0.3	0.0
Banobras	**255.0**	**1.2**	**289.0**	**1.2**	**0.1**
TNF	31.8	0.1	37.1	0.2	0.0
Amort.	223.2	1.0	251.9	1.1	0.1
Bancomext	**143.6**	**0.7**	**164.8**	**0.7**	**0.0**
TNF	29.8	0.1	30.4	0.1	0.0
Amort.	113.8	0.5	134.4	0.6	0.1
SHF	**50.2**	**0.2**	**47.7**	**0.2**	**0.0**
TNF	0.0	0.0	3.8	0.0	0.0
Amort.	50.2	0.2	43.9	0.2	0.0

Note: Total figures may not add up due to rounding.
1 Total Net Financing.
e/ End-of-year estimates for 2017 and 2018.
Source: Nafin, Banobras, Bancomext and SHF.

Development Banks

- For development banks, the financing needs equal the sum of their total net financing (portfolio expansion), and their amortizations.
- For 2018, the financing needs of the Development Banks are estimated at 2.5% of GDP.[1]
- This amount increases by 0.1% of GDP with respect to 2017, as a result of an average portfolio expansion of 10% by Development Banks.
- The 2018 financing strategy of Development Banks will be directed to keeping an adequate liability portfolio given its characteristics, in order to minimize risk.

[1] The Development Banks included in the 2018 ABP those that participate in the market as recurring issuers.

Note: The numbers in this section are informative and could be adjusted in the course of the year, according to the evolution of market conditions and to each entity's strategy. The data uses the following assumptions: i) an exchange rate of 18.40 pesos per dollar according to the rate approved by the 2018 Law of Federal Income (LIF); and ii) the financing needs considered result from the measure of deficit and amortizations, excluding in the latter the ones that are revolving during the same year.

Annex 3. Financing Needs of Other Issuers.

Financing Needs of Other Issuers
(billion pesos)

	2017 e		2018 e		Change 2018 vs. 2017
	bn pesos	% GDP	bn pesos	% GDP	% GDP
Total	**259.6**	**1.2**	**288.9**	**1.2**	**0.0**
FIRA	**49.2**	**0.2**	**48.2**	**0.2**	**0.0**
Deficit	18.5	0.1	14.2	0.1	0.0
Amort.	30.7	0.1	34.0	0.1	0.0
FONACOT	**4.5**	**0.0**	**3.0**	**0.0**	**0.0**
Deficit	1.5	0.0	0.2	0.0	0.0
Amort.	3.0	0.0	2.8	0.0	0.0
IPAB[1]	**205.9**	**0.9**	**237.7**	**1.0**	**0.1**
Deficit	21.8	0.1	26.0	0.1	0.0
Amort.	177.1	0.8	225.2	1.0	0.1
(Decum.) Accumulation	7.1	0.0	-13.5	-0.1	-0.1

Note: Total figures may not add up due to rounding.
1 The total needs of the IPAB in this table consider a net liquid resource deficit and amortizations.
e/ End-of-year estimates for 2017 and 2018.
Source: FIRA, Fonacot and IPAB.

Other Issuers

- The financing needs of the Funds and Trust Funds equal the Total Net Financing plus the amortizations.
- For the IPAB, the financing needs equal the sum of its financial requirements (deficit), its debt amortizations, and its decumulation of funds.
- For 2018, the financing needs for other Public Sector issuers represent 1.2% of GDP, equal to the 2017 estimate.[1]
- For 2018, the Funds and Trust Funds plan to execute their Business Plans, while the IPAB will continue with its strategy of paying the real component of its interest, in order for its debt, as a percentage of GDP, to maintain a downward trajectory.

[1] Other Public Sector included in the 2018 APB includes are those that participate in the market as recurring issuers.

Note: The numbers in this section are informative and could be adjusted in the course of the year, according to the evolution of market conditions and to each entity's strategy. The data uses the following assumptions: i) an exchange rate of 18.40 pesos per dollar according to the rate approved by the 2018 Law of Federal Income (LIF); and ii) the financing needs considered result from the measure of deficit and amortizations, excluding in the latter the ones that are revolving during the same year.