Mexico City, September 8th 2017.

Proposed 2018 Economic Program

- **Today the Proposed Income Law (ILIF), the Proposed Budget (PPEF) and the General Economic Policy Guidelines (CGPE) for fiscal year 2018 were handed in to the Congress.**

- **These documents comprise the 2018 Economic Program and they are organized from three premises: stability, certainty, and social sense. On one hand, CGPE and ILIF are built on the pillars of stability and certainty: stability that is based on the fiscal consolidation trajectory committed to in 2013, and certainty that is based on the Agreement on Tax Certainty settled in 2014. On the other hand, the allocation of resources in the PPEF is guided by a social sense premise, favoring programs that are deemed as priority by Coneval and have demonstrated their contribution in reducing poverty.**

- **Economic activity is growing at a higher rate than the expected at the beginning of the year despite a complex external environment, and it is doing it in a sustainable and balanced way, driven by the Structural Reforms that have begun to bear fruit.**

- **The growth rate estimate for 2017 increased from a range of 1.5 to 2.5 percent to a range of 2.0 to 2.6 percent.**

- **The evolution of public finances figures allows to anticipate the compliance of the fiscal targets for this year without using the resources coming from the Banco de México's Operating Surplus (BMOS).**
    - **Public Sector Borrowing Requirements (PSBRs) for the close of 2017 are estimated at 2.9 percent of GDP excluding revenues from the BMOS and 1.4 percent of GDP when considering it.**
    - **The Historical Balance of the PSBR (HBPSBR) will be reduced from 50.1 percent of GDP at the end of 2016 to 48.0 percent of GDP at the end of 2017.**
    - **This year, we estimate to achieve the first primary surplus since 2008, equivalent to 0.4 percent of GDP without the BMOS and 1.5 percent of GDP including it.**

- **The 2018 Economic Program considers a macroeconomic framework with realistic estimates and premises, which will allow the execution of a cautious fiscal policy.**

- **In the program, we estimate an acceleration of economic activity for 2018, with a growth range between 2.0 to 3.0 percent of GDP. This considers the following:**
    - **A balanced expansion across the sectors that comprise the economy.**
    - **A decrease in uncertainty from abroad and the positive impact of the implementation of the Structural Reforms.**

- **The program anticipates an increase of 3.6 percent in real terms in budgetary revenues for 2018 compared to those approved in 2017. This increase is mostly explained by economic growth and a better-than-expected performance of tax revenues during 2017.**

- **The Proposed Budget amounts to Ps. 5,236.4 billion, this is an increase of Ps. 113.4 billion (2.2 percent in real terms) relative to the figure approved for 2017.**

- **Within expenditures the following stand out: an increase in the non-programmable expenditures linked both to the financial cost of debt and non-earmarked transfers, an increase in the programmable expenditures related to pensions and autonomous branches, and a decrease in the programmable expenditure of the administrative branches.**

    - **Non-programmable expenditures increase by Ps. 102.1 billion (7.3 percent in real terms) compared to the approved in 2017, to reach Ps. 1,504.7 billion.**
    - **Pensions and autonomous branches expenditures increase by 5.2 percent and 12.3 percent in real terms, respectively.**
    - **The Federal Government supports an austerity policy in the use of resources, reducing administrative expenses by Ps. 28.3 billion (2.8 percent in real terms) compared to that approved for this year, which includes a containment of personal services of Ps. 2.8 billion (0.9 percent in real terms) and operating expenses by Ps. 1.6 billion (1.1 percent in real terms) compared to that approved in 2017.**

- **We estimate a reduction of the PSBRs for the close of 2018, going from 2.9 to 2.5 percent of GDP, consistent with a decreasing trajectory of the HBPSBR.**

    - **We project to achieve a primary surplus, for the second consecutive year. The surplus is expected to increase from 0.4 percent approved in the Program for 2017 to 0.9 percent of GDP.**
    - **This will contribute to reduce the HBPSBR from 48.0 percent estimated for 2017 to 47.3 percent, and to achieve a crucial objective of the multi-year fiscal consolidation agenda: the start of a decreasing trend of the debt to GDP ratio.**

- **Our timely compliance with fiscal targets has been rewarded with economic stability. This stability has been acknowledged by analysts and investors. The good results achieved up-to-date, call for the continuation of the fiscal discipline which they are built upon.**

Today the Ministry of Finance and Public Credit submitted to the Congress the Proposed Income Law (ILIF), the Proposed Budget (PPEF) and the General Economic Policy Guidelines (CGPE) for the fiscal year 2018. These documents are part of the 2018 Economic Program, in which the following aspects stand out:

I. Evolution of the economy and public finances during 2016

The economic activity is growing at a higher rate than the expected at the beginning of the year despite a complex external environment. The economy is growing in a sustainable and more balanced manner and driven by the Structural Reforms that have shown their positive effect on growth. Economic expectations for the end of the year have improved and are encouraging. This improvement is a result of the favorable performance of the domestic market, the recovery of external demand, and a strengthening of the relationship with our main trading partner. The available information leads to an increase in the economic growth estimate for 2017 from a range of 1.5 to 2.5 percent to a range of 2.0 to 2.6 percent, in consistency with private sector expectations.

The Mexican economy has shown resilience and a sustained and balanced growth facing an external environment that shows signs of a more synchronized global economic recovery but still poses downside risks.

In the first half of 2017, seasonally adjusted GDP grew at a rate of 2.8 percent in real annual terms, reaching its highest rate in 9 semesters. Furthermore, in the first semester of 2017, non-oil GDP registered a real annual growth of 3.7 percent, resulting in an average growth of 3.1 percent for the last three and a half years.

Available economic data indicates a significantly better performance during 2017 than expected at the beginning of the year, when uncertainty about the economic policies of the incoming US Administration had a negative impact on Mexico's growth expectations. It is worth noting that from January to July of 2017, 555,598 formal jobs were created, the highest job creation for a similar period since 2000. In addition, current credit from the commercial banks to the private sector rose to a real annual rate of 5.9 percent in July. Closely related to these results, seasonally adjusted private consumption grew 3.6 percent in annual terms during the period of January-July, the highest growth since 2012 for the same period.

The sound performance of the domestic market is accompanied by an external demand recovery, driven by a better global economy outlook and the acceleration of the US industrial and manufacturing production. In the first seven months of 2017, non-oil exports in nominal dollars registered an annual expansion of 9.2 percent with seasonally adjusted figures, the highest since 2012 for a comparable period. In this context, the automotive industry assembled 2 million 171 thousand cars from January to July, the highest for a similar period in the history of this indicator, which is published since 1988. This is consistent with the 2.2 and 1.2 percent annual growth of the US industrial and manufacturing production registered in July, rates that notably contrast with the -1.2 and 0.0 percent observed in 2016 for the same concepts.

According to the *Blue Chip Economic Indicators* survey of August 2017, the US private sector expects its GDP of the same country to grow 2.1 percent in 2017, 0.6 percentage points above the 2016 observed growth rate, while industrial production is estimated to grow 1.9 percent. Regarding the global economy, in July the International Monetary Fund (IMF) reaffirmed its 2017 growth forecast of 3.5 percent, higher than estimates of January for 2017 and the year-end for 2016 of 3.4 and 3.2 percent, respectively.

In general, exports and business environment have also been encouraged by the beginning of the process of modernization of the North American Free Trade Agreement (NAFTA). This has helped reduce the uncertainty about the policies of the new US Administration, as reflected in the evolution of the Mexican peso/US dollar exchange rate. Since President Donald Trump took office on January 20 and until

September 1, the exchange rate showed an appreciation of the Mexican peso of 17.58 percent, to reach a level of 17.79 pesos per dollar, similar to the levels observed at the beginning of May 2016.

However, uncertainty –particularly regarding the outcome of the NAFTA modernization– continues to pose a downside risk for the Mexican economy, with three caveats. The first one is that the integration axis between Mexico and the US is not NAFTA, but instead the structural fundamentals like the economic synergies between the two countries, dictated by demography and geography that brings us together, as well as the similarities in political and social values like democracy and the rule of law, which have been formalized and catalyzed but not generated by the Agreement. Secondly, 44 percent of our exports to the US, country with which have 63 percent of our trade, don't go through NAFTA. Finally, in the extreme case of the US abandoning NAFTA, the most-favored-nation treatment would prevail under the World Trade Organization (WTO) agreements, and 60 percent of our total trade with the US would be in products which would have an average tariff of 2.2 percent when imported and 1.3 percent when exported.

Other downside risks that stand out are the normalization of the US Federal Reserve System monetary policy, negotiations regarding the exit of the United Kingdom from the European Union, a potential slowdown in the growth rate of China, and various geopolitical tensions.

International agencies and private sector analysts have revised upwards the growth forecasts for Mexico in 2017 motivated by the balance between the overall economic performance so far and prevailing risks. The IMF estimated a 1.9 percent growth rate in July, 0.2 percentage points above its January projection, and the Economic Commission for Latin America and the Caribbean (ECLAC) increased its forecast for Mexico from 1.9 to 2.2 percent in August, twice as much the expected growth for Latin America altogether. Moreover, analysts surveyed by Banco de Mexico, Citibanamex and Blue Chip have raised their growth estimates to an average of 2.2, 2.1, and 2.1 percent, respectively, higher than the January averages of 1.5, 1.4, and 1.6 percent, in that order.

Given the better-than-expected evolution of various key economic and financial variables, the GDP growth estimate range for 2017 is revised up to between 2.0 and 2.6 percent from the previous one of 1.5 to 2.5 percent, and the 1.3 to 2.3 percent range contained in the General Economic Policy Preliminary Guidelines. This estimate considers the prevailing downside risks, it is consistent with market and analysts expectations, and it is similar to Banco de Mexico's estimates which ranges from 2.0 to 2.5 percent.

Our country has been able to adapt and overcome negative external shocks, due to a flexible economy, driven by the implementation of the Structural Reforms and the timely application of responsible fiscal measures. This resilience has been recognized by analysts and investors.

The evolution of public finance figures allows to anticipate the fulfillment of the fiscal targets for this year without making use of the resources from Banco de Mexico's Operating Surplus (BMOS). The Public Sector Borrowing Requirements (PSBRs) estimates are of 2.9 percent of GDP without including BMOS revenues and of 1.4 percent of GDP when including them. The latter number implies an improvement of 1.4 pp when compared to the observed in 2016. These estimates are consistent with a Historic Balance of the PSBR (HBPSBR) for the close of the year of 49.5 and 48.0 percent of GDP, respectively. Both projections are below the 50.1 percent of 2016. For this year, we expect to have the first primary surplus since 2008 of 0.4 percent of GDP without considering the BMOS and of 1.5 percent of GDP when including it.

The uncertainty that emerged in late 2016 and early 2017, regarding a possible more radical shift of the US Government policies, combined with the increase in the global reference prices of gasolines and diesel towards the end of last year, posed significant economic and fiscal challenges for Mexico.

In response, the Federal Government reaffirmed its commitment to preserve sound public finances and macroeconomic stability, by continuing the fiscal consolidation process outlined in the General Economic Policy Guidelines submitted to the Congress in September 2013 through adjustments in programmable expenditures and without increasing the tax burden, in compliance with the Tax Certainty Agreement, in force since 2014.

In this context, the adjustment process of gasoline and diesel prices to align them with their international references continued in January in an orderly way, without increasing taxes and complemented with a mechanism to soften the volatility associated to external factors in local prices. The gradual liberalization has allowed public finances to remain sound and to avoid cuts in public spending and social programs, while mitigating the impact on the wellbeing of Mexican families. Although the adjustment in prices passed through inflation, this effect is expected to be temporal and hence inflation is also expected to converge next year to Banco de Mexico's inflation target.

Also, in the period of January – July of 2017 net expenditure decreased 2.7 percent in real terms with respect to the same period of the previous year, when excluding the use of the BMOS. Moreover, net expenditure excluding financial investment, pensions, contributions and financial cost, which are elements out of the Federal Government's control, decreased 7.6 percent in real terms.

In the same period, budgetary revenues increased 5.2 percent annually in real terms, without taking into account the resources of the BMOS in this year and the previous one. The increase is mainly associated to a 3.7 percent real increase in tax revenues without including the fuel excise tax (IEPS), a result of the long-lasting effects of the Tax Reform, and from an increase in oil revenues of 20.4 percent which is associated to higher oil prices and a higher average exchange rate compared to the January-July 2016 period.

The use of non-recurrent revenues from the BMOS, which is carried out responsibly and in strict compliance with the Fiscal Responsibility Law (LFPRH), will decrease the PSBRs and the HBPSBR in the total amount received of Ps. 321.7 billion, and has allowed to acquire assets by Ps. 96.5 billion, improving the Federal Government's financial position. These resources have been distributed as follows: i) a contribution close to Ps. 80.0 billion to the Budgetary Revenues Stabilization Fund (FEIP); ii) contributions of Ps.13.6 billion to the Protection against Catastrophic Expenditures Fund (FPGC) of the System of Social Protection of Health, which is a long-term saving –given that the Fund has had an net accumulation of resources annually since it was created in 2005 and it is expected to keep doing it until the next decade– to guarantee financial protection of health services for those without an affiliation to social security institutions in the next decade, and iii) Ps. 2.9 billion to international organizations of which Mexico is member.

Public debt has been responsibly and efficiently managed, a policy that has led to a proactive management of the Federal Government's liabilities portfolio and to a decrease in risks associated to a possible volatility in the international financial markets. At the end of June 2017, 81.8 percent of the domestic debt was issued at a fixed and long-term rates and had an average maturity 8.0 years, while 77.1 percent of total net debt was denominated in domestic currency. Therefore public debt has a low exposure to risks associated with movements of both interest and exchange rates.

In recognition of the appropriate management of public finances, and the solid macroeconomic fundamentals of the country, which have resulted from the recent fiscal efforts like the Fiscal Reform implemented by this Administration and due to a historical tradition of fiscal responsibility, built and strengthened over decades, Standard & Poor's Global Ratings, Fitch Ratings and HR Ratings, improved Mexico's sovereign rating outlook during the second half of this year, with implication on our financing conditions.

The Structural Reforms have complemented the responsible conduction of economic policy and help to explain the positive performance experienced by our economy given such a complex external environment, because they detonate investment, promote productivity and competitiveness, and create a more flexible economic structure to face the internal and external challenges.

Regarding the Energy Reform, on March 3rd, Pemex signed its first farm-out agreement with a private firm for the joint exploration and extraction in deep waters of the Trión oilfield, with an expected investment of USD 7.4 billion and estimated oil reserves of 485 million barrels of crude oil equivalent. Four similar agreements are expected to be signed in 2017 on Ayin-Batsil, Cárdenas-Mora, Ogarrio and Nobilis-Maximino oilfields, in line with Pemex 2017-2021 New Business Plan. Additionally, the oilfield bidding rounds for hydrocarbons exploration and extraction have successfully awarded 31 out of 39 contract areas with an expected total investment of USD 10.3 billion.

With respect to the Telecom Reform, from June 2013 to July 2017 mobile phone rates, international long distance and fixed telephone rates decreased 42.6, 40.3 and 4.9 percent on average for each case. During this period, the mobile broadband coverage increased more than 143 percent, and now at least 94 percent of firms have internet access. Thanks to the Telecom Reform we expect investments for approximately USD 8.3 billion, in addition to the USD 7 billion ongoing network project of “Red Compartida”, which will cover 92.2 percent of the population –about 110 million people– with higher speed and capacity mobile phone services.

Foreign Direct Investment amounted to USD 156.2 billion, since the beginning of the current Administration until June 2017 this figure is 51.9 percent higher compared to the same period in the previous Administration. This investment was attracted by the opportunities generated by Structural Reforms and our macroeconomic stability.

Finally, it is worth noting that up to June 2017, 2.9 million formal employments have been created during President Enrique Peña Nieto Administration as a result of the Labor Reform. This is higher than twice the employments created during the same period in the previous Administration. Furthermore, unemployment rate in July decreased to 3.2 percent seasonally adjusted, its lowest level since May 2006.

II. Economic and public finances outlook for 2018

We anticipate an acceleration of economic activity for 2018, with a 2.0 to 3.0 percent growth range, which considers a more balanced expansion between the sectors that comprise the economy, a decrease in the uncertainty coming from abroad and the positive effects of the successful implementation of the Structural Reforms.

The 2018 Economic Program considers a macroeconomic framework based on realistic estimates for the key variables that determine public finances, which allow the Federal Government to implement a cautious fiscal policy as well as to take effective and appropriate measures given the current still uncertain environment.

The growth range proposed for the coming year takes into account the improvement in the Mexican economic outlook. According to Banco de Mexico’s survey in August 2017, private sector analysts forecast a 2.4 percent economic growth in 2018, 0.2 pp higher than the May projection. Public finances estimates are made with the middle part of the range, equal to 2.5 percent, taking into account: the possible persistence of uncertainty effects with respect the economic relationship with our main trading partner, with a central scenario in which NAFTA renegotiation benefits the three parties given the transparent work process established; the strengthening of the domestic market; a rebound in exports, and an low recovery in oil activity due to the Energy Reform and Pemex's New Business Plan positive effects.

The oil production platform estimated for 2018 is of 1,983 thousand barrels per day (kbd). This is consistent with the production estimates approved by the Board of Pemex as well as prudent projections for production of fields auctioned off in the rounds for exploration and extraction of hydrocarbons.

Likewise, the price of the Mexican oil mix is expected to average 46 dollars per barrel (dpb), below the level obtained when using the formula established in the LFPRH, but still prudent given its consistency with observed data, the price implicit in futures contracts traded in international markets, and the hedging strategy put in place. As in 2017, a hedging strategy to guarantee an average price of 46 dbp has been implemented for 2018. This strategy has two elements: i) the purchase of financial instruments in international markets, specifically put option contracts, and ii) resources in the FEIP. In this regard, resources in the FEIP are expected to add up to nearly Ps. 180 billion at the close of 2017, implying a real increase of approximately 55.0 percent when compared to the total observed at the end of 2016.

Public finance figures are estimated using an 18.1 pesos per dollar exchange rate forecast for the close of 2018, which is conservative and consistent with the recent evolution of this variable. Additionally, a 3.0 percent inflation forecast is used, in line with both Banco de Mexico's projections and target.

The 2018 Economic Program is anchored in two pillars: stability and certainty. The former pertains to the conclusion of the fiscal consolidation trajectory committed to in 2013, which has been ratified through the past four years and implies a reduction in the PSBRs from 2.9 to 2.5 percent of GDP in 2018. The latter is based on the Tax Certainty Agreement settled in 2014, where the Federal Government committed not to increase the tax burden.

In the CGPE for 2014, we proposed a temporary stimulus to support the economy and the implementation of the Structural Reforms, accompanied by a multiannual fiscal consolidation trajectory to gradually bring back the PSBRs to 2.5 percent of GDP by 2018 consistent with a balanced budget and a sustained debt reduction.

Since then, fiscal targets committed to in the strategy have been promptly achieved, including a 0.7 percentage-point excess reduction in the PSBRs in 2016, when they reached 2.8 percent of GDP instead of the 3.5 percent approved level. The level for 2017 is also expected to improve, as the responsible use of the BMOS, in compliance with the LFPRH, will allow reducing PSBRs to an estimated 1.4 percent of GDP, from the 2.9 percent approved level.

The main factors that have allow us to generate certainty about the economy of the country are, alongside a responsible and autonomous monetary policy and the implementation of the Structural Reforms, the public finances strengths and the adherence to the fiscal consolidation trajectory despite external shocks.

In this context, and given the Law's mandate to return to a balanced budget within the pledged term, the 2018 Economic Program reasserts the objective of concluding with the trajectory committed to in the CGPE sent to Congress in September of 2013.

Budgetary revenues estimated for next year amount to Ps. 4,735.0 billion, an increase of 165.3 billion 2018-constant pesos (3.6 percent in real terms) with respect to the approved in 2017. This evolution is mainly explained by economic growth prospects, and a better-than-expected performance in 2017, in a context where the Proposed Income Law (ILIF) reaffirms the commitment of the Federal Government to keep the current fiscal framework unchanged to provide certainty.

The program considers net paid expenditures of Ps. 5,201.7 billion (Ps. 5,236.4 billion accrued) for 2018, which implies an increase of Ps. 113.4 billion (2.2 percent in real terms) consistent with the increase in revenues and the completion of the fiscal consolidation process, which requires a balance improvement of Ps. 51.9 billion.

However, this increase is almost completely explained by the Ps. 102.1 billion (7.3 percent in real terms) growth in the non-programmable component, branch of the expenditures that amounts to Ps. 1,504.7 billion for 2018. The increase proceeds mainly from a rise in financial cost –due to a higher nominal debt level and a higher average interest rate during the year– and greater non-earmarked transfers to states, due to the favorable tax collection.

As a result, the proposed paid programmable expenditures are of Ps. 3,697.0 billion (Ps. 3,731.7 billion accrued) and remains practically constant in real terms for 2018, increasing by Ps. 11.3 billion (0.3 percent in real terms). The expenditures reduction effort is reflected in a lower paid programmable expenditures by Ps. 27.8 billion (0.9 percent in real terms) when excluding pension payments, as well as in the reduction of the Administrative Branches expenditures of Ps. 28.3 billion (2.8 percent in real terms).

The containment of the paid programmable expenditures contrasts with the adjustments made in the 2016 and 2017 CGPE, which amounted to Ps. 221.1 billion and Ps. 228.6 billion respectively, or 1.2 and 1.1 percent of GDP, in the same order.

The program projects an increase in revenues of Ps. 40.7 billion (0.9 percent in real terms) or about 0.2 percent of GDP, when contrasting the proposed public finance figures for 2018 with the estimates for the close of 2017, excluding the receipt of revenues from the BMOS and others that have a specific use as per Law.

The increase in revenues almost completely covers the necessary balance improvement, equivalent to 0.2 percentage points of GDP in 2018, to reduce the PSBRs to 2.5 percent of GDP in the same year. Therefore, a moderate adjustment of Ps. 11.2 billion (0.2 percent in real terms) in total net paid expenditure is required compared to the estimated figure for the close of 2017 that does not consider extraordinary operations.

However, given the Ps. 78.9 billion (5.5 percent in real terms) or almost 0.4 percent of GDP increase in the non-programmable component of expenditures, due to the higher financial cost and non-earmarked transfers to states, the conclusion of the fiscal consolidation process implies an adjustment in the paid programmable expenditure, excluding extraordinary operations, of Ps. 90.0 billion (2.4 percent in real terms) or 0.4 percent of GDP.

With the reduction of the PSBRs to 2.5 percent of GDP and the increase in the primary surplus, the HBPSBR is estimated to reach 47.3 percent of GDP, achieving that the debt-to-GDP ratio not only stops growing but even begins to decline.

In this context, the Federal Government's net debt domestic ceiling proposed for 2018 is of Ps. 470 billion, Ps. 25 billion below the requested for 2017, and the proposed net external debt ceiling is of USD 5.5 billion, lower by USD 300 million when compared to the 2017 figure.

Pemex and its subsidiary productive enterprises request a debt ceilings that altogether represent a significant decrease relative to the previous year, with a net domestic debt ceiling of Ps. 30 billion and net external debt ceiling of USD 6.2 billion for 2018; the ceilings requested for 2017 were Ps. 28 billion for the internal debt and USD 7.1 billion for the external. On the other hand, the Federal Electricity Commission (CFE) and its subsidiary productive enterprises request a net domestic debt ceiling of Ps. 3.3 billion and a net external debt ceiling of USD 0.33 billion for 2018, while in 2017 they requested a ceiling of Ps.10 billion for internal debt and no ceiling for external debt.

The positive economic results achieved so far this year and the improved expectations for the remainder of 2017 call for the continuation of the fiscal discipline which they are built upon. The 2018 Economic Program reflects the reputation of responsible fiscal and macroeconomic policy management that Mexico has built up throughout two decades of plurality and political responsibility in Congress, and that the Administration of President Enrique Peña Nieto has reaffirmed and reinforced through the Fiscal Reform; in strict compliance with the fiscal consolidation process committed in 2013; the strengthening and strict adherence to the Federal Budget and Fiscal Responsibility Law; and the timely and effective response to external challenges.

The Program also means a signal of certainty about the management of the public finances for a year where the external environment is expected to continue to generate uncertainty.

Among external risks, the NAFTA renegotiation process stands out. Although this has taken a desirable and institutional course, aimed at the modernization of the agreement, it is not possible to rule out scenarios in which the renegotiation is postponed –because the substantive requirements to carry out an adequate negotiation do not allow its conclusion before the electoral process, as an example– or even in which one of the members pulls out of the treaty.

This contingency would be undesirable and would have an impact in the productivity of the region, requiring additional adjustments in structural policies, mainly in the commercial sphere, as well as fiscal measures if there were negative effects on public finances. The Federal Government has fiscal buffers to deal with contingencies, like the resources of the FEIP which are estimated to be around Ps. 200 billion at the end of this year. In addition, the resources of the IMF Flexible Credit Line for approximately Ps. 86 billion and the international reserves, which reached a balance of Ps. 173 billion on August 25, represent protection against potential financial turmoil. Even in these tail scenarios, we expect the regional integration process to continue because of its structural determinants, mainly demographic and geographical complementarities.

Finally, the 2018 Economic Program contributes to the primary objective of this Administration, to ensure and improve the welfare of Mexican families and to bring Mexico to its full potential, through an economic policy that preserves stability, detonates productivity and generates equal opportunities.

As in previous years, productive investment and strategic infrastructure, strengthening national security and public security, reducing social deficiencies and increasing access to social rights, as well as an accelerated implementation of Structural Reforms are favored. This clarity in the priorities and prudent management of public finances enabled 1.9 million and 2.1 million people to abandon poverty and extreme poverty, respectively, between 2014 and 2016, by creating opportunities in the midst of a volatile and highly complex external environment.

The 2018 Economic Program reaffirms the conviction that only through deep and responsibly implemented transformations, the central objective of making Mexico a developed economy and global leader in the 21st century will be achieved.

Annex

MACROECONOMIC FRAMEWORK, 2017-2018

	2017	2018
Gross Domestic Product		
Real growth %	2.0 - 2.6	2.0 - 3.0
Nominal (billions pesos, punctual)*	21,257.0	22,831.9
GDP deflator	6.5	4.8
Inflation		
Dec. / Dec.	5.8	3.0
Nominal Exchange Rate (pesos per dollar)		
Average	18.7	18.1
Interest rate (CETES 28 days, %)		
Nominal end of period	7.0	7.0
Nominal average	6.7	7.0
Cumulative real	1.0	4.1
Current Account		
Million dollars	-20,457	-23,300
% of GDP	-1.8	-1.8
Support variables:		
Fiscal Balance (% of GDP)		
Traditional Balance	1.1	0.0
Traditional balance including high impact investment	-1.3	-2.0
United States GDP		
Real growth %	2.1	2.4
United States Industrial Production		
Real growth %	1.9	2.4
United States Inflation		
Average	2.0	2.0
International Interest Rate		
3-month Libor (average)	1.5	1.8
Oil (Mexican basket)		
Average price (dollars / barrel)	43	46
Oil production platform (kbd)	1,944	1,983
Average export platform (kbd)	989	888
Gas		
Average price (dollars / MMBtu)	3.0	3.0

*Corresponds to the punctual growth scenario for public finances estimates.

Public Finances Estimates, 2017-2018

	Million current pesos		% of GDP		Real Growth
	Approved 2017*/	2018	Approved 2017	2018	%
Economic Balance	**-494,872.5**	**-466,684.5**	**-2.3**	**-2.0**	**-10.0**
Excluding investment	**12,634.8**	**0.0**	**0.1**	**0.0**	**n.a.**
Non-budgetary balance	0.0	0.0	0.0	0.0	n.a.
Budgetary balance	-494,872.5	-466,684.5	-2.3	-2.0	-10.0
Budgetary Revenues	4,360,913.8	4,735,000.1	20.5	20.7	3.6
Oil	787,317.3	835,575.0	3.7	3.7	1.3
Non-oil	3,573,596.5	3,899,425.1	16.8	17.1	4.1
Federal Government	2,876,854.4	3,129,393.8	13.5	13.7	3.8
Tax	2,739,366.8	2,961,731.7	12.9	13.0	3.2
Non-tax	137,487.6	167,662.1	0.6	0.7	16.4
Institutions and enterprises[1]	696,742.1	770,031.3	3.3	3.4	5.5
Net paid expenditures	4,855,786.3	5,201,684.6	22.8	22.8	2.2
Paid programable	3,517,281.3	3,696,996.9	16.5	16.2	0.3
Payment deferral	-33,106.2	-34,691.1	-0.2	-0.2	0.0
Accrued programable	3,550,387.5	3,731,688.0	16.7	16.3	0.3
Non programable	1,338,505.0	1,504,687.6	6.3	6.6	7.3
Financial cost	572,563.0	663,479.8	2.7	2.9	10.6
Non-earmarked transfers	742,566.2	806,516.7	3.5	3.5	3.7
Adefas	23,375.7	34,691.1	0.1	0.2	41.6
Public Sector Financial Cost[2]	**573,063.0**	**663,979.8**	**2.7**	**2.9**	**10.6**
Primary Economic Surplus	**78,190.6**	**197,295.3**	**0.4**	**0.9**	**140.8**

Note: Figures may not add up due to rounding.
*/ Figures were updated considering the nominal GDP revision.
1/ Includes IMSS, ISSSTE y CFE.
2/ Includes financial cost of entities under indirect budget control.
Source: Ministry of Finance.

--- 0 ---