SHCP
SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO

Mexico City, March 28th, 2018

The Federal Government, through the Ministry of Finance and Public Credit, submits the General Economic Policy Preliminary Guidelines for 2019 to Congress

- **For 2018, Public Sector Borrowing Requirements (PSBRs) of 2.5 percent of GDP and a primary balance of 0.8 percent of GDP imply that the Historical Balance of the PSBRs (HBPSBRs) will decrease to 45.5 percent of GDP.**
- **If PSBRs are maintained at 2.5 percent of GDP during 2019, implying a primary balance of 0.9 percent of GDP, the downward trajectory of the HBPSBRs would prevail, reaching 45.2 percent of GDP at the end of that year.**

In compliance with the provisions contained in Article 42, section I, of the Federal Budget and Fiscal Responsibility Law and in line with the commitment of the President, Enrique Peña Nieto, to preserve the macroeconomic stability, guarantee sound public finances and make responsible use of public debt, the Federal Government submits, through the Ministry of Finance, the document commonly known as "General Economic Policy Preliminary Guidelines (GEPPG)" for 2019.

This document starts the dialogue with Congress on the outlook for the economy and for public finances for fiscal year 2019, in order to promote an environment of better understanding for the development of the Economic Program for 2019. The GEPPG contains: the description of the macroeconomic environment; the expected economic and budgetary conditions for 2018 and 2019; as well as the spending priority programs and their respective amounts.

The global economic outlook has improved compared to the complex and volatile environment observed in the last five years, although some downside risks still prevail. An improvement in global economic growth prospects for 2018 and 2019 is expected, which also have been revised upwards. In January 2018, the International Monetary Fund (IMF) increased the global GDP growth estimates for 2018 and 2019 from 3.7 to 3.9 percent, for both years. This revision reflects an improvement in the US economy, partly due to the expected effects associated with the US tax reform, and the recovery of the domestic and external demand in the European Union.

The Mexican economy has shown resilience due to the strength of its macroeconomic fundamentals that have been supported by the fiscal consolidation strategy, alongside with a credible and autonomous monetary policy. In addition, the progress made in the implementation of the Structural Reforms has fostered economic growth. During 2017, Mexico's GDP recorded an annual growth of 2.0 percent (2.3 percent with seasonally adjusted figures), driven by the external demand and private consumption.

For 2018 and 2019, economic growth is estimated to improve compared to 2017, driven by the external demand and the dynamism of the domestic market. As for the external sector, it is expected that exports will continue showing a positive performance, consistent with an improvement of the industrial production in the US. On the other hand, the domestic market is expected to be driven by private consumption. Moreover, it is estimated that the oil production platform will no longer have a negative impact on economic growth. Finally, inflation is expected to decrease in 2018 and 2019, after the temporary increase observed in 2017.

Considering the aforementioned external environment and the recent evolution of economic activity, economic growth for 2018 is estimated to stand between 2.0 and 3.0 percent. For 2019, it is estimated in a range between 2.5 and 3.5 percent. Public finances figures are estimated using a 2.5 percent growth of GDP for 2018 and 3.0 percent for 2019.

Inflation estimates are consistent with the projections published by Banco de Mexico, as well as with its inflation target. The average price of crude oil is estimated at 53 dollars per barrel (dpb) in 2018 and 51 dpb in 2019. On the other hand, an average exchange rate of 18.4 pesos per dollar is expected for both years.

The fiscal consolidation trajectory approved by Congress for 2018 implies that PSBRs will reach a level of 2.5 percent of GDP, while the primary balance will stand at 0.8 percent of the GDP. As a result, the HBPSBRs is expected to decrease to 45.5 percent of GDP.

Budgetary revenues in 2018 are expected to be higher by 0.3 percent of GDP than the amount presented in the 2018 Federal Income Law. Within, oil revenues are estimated to be higher by 0.2 percent of GDP due to the favorable evolution of the oil price, while non-oil tax revenues are estimated to be higher by 0.1 percent of GDP as a result of favorable dynamics shown of tax collection. On the other hand, net budgetary expenditure is expected to increase in 2018 relative to the estimated figure in the 2018 Federal Budget, consistent with higher expected revenues by 0.3 percent of GDP. A higher programmable expenditure by 0.1 percent of GDP stands out, supported by excess revenues, while non-programmable expenditure is expected to increase by 0.3 percent of GDP, mainly due to a higher payment of ADEFAS, which includes transfers made to the Stabilization Funds stemming from excess revenues recorded in 2017.

Consistent with the fiscal consolidation strategy that has been implemented in the last years, the PSBRs are maintained at 2.5 percent of GDP for 2019, implying a primary balance of 0.9 percent of GDP. As a result, the public debt balance (HBPSBRs) declining trend is expected to prevail, reaching 45.2 percent of GDP at the end of the year.

Budgetary revenues in 2019 are expected to be higher by Ps. 65.1 billion compared to the estimated in the 2018 Federal Income Law. On the other hand, total net expenditure is projected to increase by Ps. 80.6 billion compared to that expected in the 2018 Federal Budget, which is consistent with the budgetary balance target of 2.0 percent of GDP and higher revenues. Although a reduction of Ps. 12.2 billion in programmable expenditure with respect to the established in the 2018 Federal Budget is required in order to meet the fiscal targets, this adjustment is the smallest of those estimated in the GEPPG of the last three years. Moreover, non-programmable expenditure increases as a result of higher observed international interest rates, and a higher payment of non-earmarked transfers and ADEFAS, than what was originally programmed in 2018.

The Federal Government has implemented policy actions aimed at maintaining sound public finances even in adverse circumstances. Even though the economic outlook has improved recently, downside risks still prevail, among which stand out: the NAFTA renegotiation; a lower than expected dynamism of the global economy due to implementation of protectionist measures; a faster pace of monetary policy normalization by the Federal Reserve; and the effects of the U.S tax reform. The actions aimed at addressing these risks include: i) the oil price hedging strategy implemented by both Pemex and the Federal Government; ii) the accumulation of resources in the Stabilization Fund (FEIP) in order to compensate for possible decreases in revenues in case of an economic slowdown ; and iii) an improvement of the debt profile.

Mexico's sound macroeconomic fundamentals are the result of responsible fiscal and monetary policies implemented over the last decades. Potential external risks indicate that Mexico must continue strengthening its macroeconomic fundamentals in order to address potential risks and exhibit a sustained growth.

ANNEX I

MACROECONOMIC FRAMEWORK, 2018-2019 f/		
	2018	**2019**
Gross Domestic Product (GDP)		
Real Growth %	2.0 - 3.0	2.5 - 3.5
Nominal (billions pesos)*	23,391.1	24,879.9
GDP deflator	4.8	3.3
Inflation		
Dec. / Dec.	3.5	3.0
Nominal Exchange Rate (pesos per dollar)		
End of Period	18.4	18.4
Average	18.4	18.4
Interest Rate (28 days CETES, %)		
Nominal end of period	7.5	6.8
Nominal average	7.5	7.1
Cumulative real	4.0	4.2
Current Account		
Million dollars	-24,288	-25,826
% of GDP	-1.9	-1.9
Support Variables:		
Fiscal Balance (% of GDP)		
Traditional balance including high impact investment	-2.0	-2.0
Traditional balance	0.0	0.0
United States GDP (annual rate)		
Real Growth %	2.8	2.4
Unites States Industrial Production		
Real Growth %	3.3	2.4
United States Inflation		
Average	2.3	2.2
International Interest Rate		
3-month LIBOR (average)	2.1	2.7
FED Funds Rate (average)	1.7	2.3
Oil (Mexican bundle)		
Average price (dollars/barrel)	53	51
Oil production platform (kbd)	1,983	2,035
Average export platform (kbd)	888	911
Gas		
Average price (dollars/MMBtu)	2.8	2.8

* Correspond to the punctual growth scenario for public finances estimates.
f/ Forecast

ANNEX II

Public Finances Estimates for 2018						
	Million current pesos			% of GDP		
	Approved 2018 (I)	Estimated 2018 (II)	Diff. (II-I)	Approved*/ 2018 (III)	Est. 2019 (IV)	Diff. (IV-III)
Public Sector Borrowing Requirements	**-584,828.3**	**-584,828.3**	**0.0**	**-2.5**	**-2.5**	**0.0**
Economic Balance	**-466,684.4**	**-466,684.4**	**0.0**	**-2.0**	**-2.0**	**0.0**
Excluding high impact investment	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Non-budgetary balance	0.0	0.0	0.0	0.0	0.0	0.0
Budgetary balance	-466,684.4	-466,684.4	0.0	-2.0	-2.0	0.0
Budgetary Revenues	4,778,291.5	4,854,410.0	76,118.5	20.4	20.8	0.3
Oil	880,135.3	926,495.1	46,359.8	3.8	4.0	0.2
Non-oil	3,898,156.2	3,927,914.8	29,758.6	16.7	16.8	0.1
Federal Government	3,128,124.9	3,151,495.5	23,370.6	13.4	13.5	0.1
Tax	2,957,469.9	2,980,840.5	23,370.6	12.6	12.7	0.1
Non-tax	170,655.0	170,655.0	0.0	0.7	0.7	0.0
Institutions and enterprises	770,031.3	776,419.3	6,388.0	3.3	3.3	0.0
Net paid expenditure	5,244,975.9	5,321,094.4	76,118.5	22.4	22.7	0.3
Paid programmable	3,768,473.4	3,783,892.0	15,418.7	16.1	16.2	0.1
Non-programmable	1,476,502.5	1,537,202.4	60,699.8	6.3	6.6	0.3
Financial cost	647,479.8	654,284.2	6,804.4	2.8	2.8	0.0
Non-earmarked transfers	811,931.6	823,486.0	11,554.3	3.5	3.5	0.0
ADEFAS	17,091.1	59,432.2	42,341.1	0.1	0.3	0.2
Primary Economic Surplus	**181,295.4**	**188,099.8**	**6,804.4**	**0.8**	**0.8**	**0.0**

*/The differences with respect to the figures presented in GEPG-2018 are generated by the update of the nominal GDP estimate for 2018.

ANNEX III

Public Finances Estimates for 2018-2019							
	Million current pesos			% of GDP			Real Growth %
	2018 Approved (I)	2019 Estimated (II)	Difference (II-I)	2018 Appd.*/(III)	2019 Est. (IV)	Diff. (IV-III)	
Public Sector Borrowing Requirements	**-584,828.3**	**-631,948.2**	**-47,120.0**	**-2.5**	**-2.5**	**0.0**	**4.6**
Economic Balance	**-466,684.4**	**-497,597.0**	**-30,912.6**	**-2.0**	**-2.0**	**0.0**	**3.2**
Excluding high-impact investment	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**n.s.****
Non-budgetary balance	0.0	0.0	0.0	0.0	0.0	0.0	n.s.
Budgetary balance	-466,684.4	-497,597.0	-30,912.6	-2.0	-2.0	0.0	3.2
Budgetary Revenues	4,778,291.5	5,001,017.1	222,725.6	20.4	20.1	-0.3	1.3
Oil	880,135.3	845,565.9	-34,569.4	3.8	3.4	-0.4	-7.0
Non-oil	3,898,156.2	4,155,451.2	257,295.0	16.7	16.7	0.0	3.2
Federal Government	3,128,124.9	3,343,093.1	214,968.2	13.4	13.4	0.0	3.5
Tax	2,957,469.9	3,161,479.9	204,010.0	12.6	12.7	0.1	3.5
Non-tax	170,655.0	181,613.2	10,958.2	0.7	0.7	0.0	3.0
Institutions and enterprises	770,031.3	812,358.1	42,326.8	3.3	3.3	0.0	2.1
Net paid expenditure	5,244,975.9	5,498,614.1	253,638.2	22.4	22.1	-0.3	1.5
Paid programmable	3,768,473.4	3,880,591.5	112,118.1	16.1	15.6	-0.5	-0.3
Payment deferral	-34,691.1	-35,835.5	-1,144.4	-0.1	-0.1	0.0	0.0
Accrued programmable	3,803,164.5	3,916,427.0	113,262.6	16.3	15.7	-0.6	-0.3
Non-programmable	1,476,502.5	1,618,022.6	141,520.1	6.3	6.5	0.2	6.1
Financial cost	647,479.8	713,842.9	66,363.1	2.8	2.9	0.1	6.7
Non-earmarked transfers	811,931.6	868,344.2	56,412.6	3.5	3.5	0.0	3.5
ADEFAS	17,091.1	35,835.5	18,744.4	0.1	0.1	0.0	103.0
Primary Economic Surplus	**181,295.4**	**216,745.9**	**35,450.4**	**0.8**	**0.9**	**0.1**	**15.7**

*/ The differences with respect to the figures presented in GEPG-2018 are generated by the update of the nominal GDP estimate for 2018.

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