HACIENDA

SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO

# 2023 Annual Borrowing Plan

# Content

ABP 2023


I. Executive Summary

II. 2022 Public Debt Management Results

III. Federal Government's Debt

IV. Public Sector Entities' Debt

# I. Executive Summary

The Annual Borrowing Plan (ABP) informs the lines of action, objectives, and strategies of the public debt policy of the Public Sector.

For 2023, the Federal Government will continue with the responsible and transparent management of public liabilities.

The internal market will be used as the primary source of financing and, in a complementary way, external credit when favorable financing conditions can be reached.

The Federal Government will continue carrying out liability management operations in order to strengthen public finances and public debt.

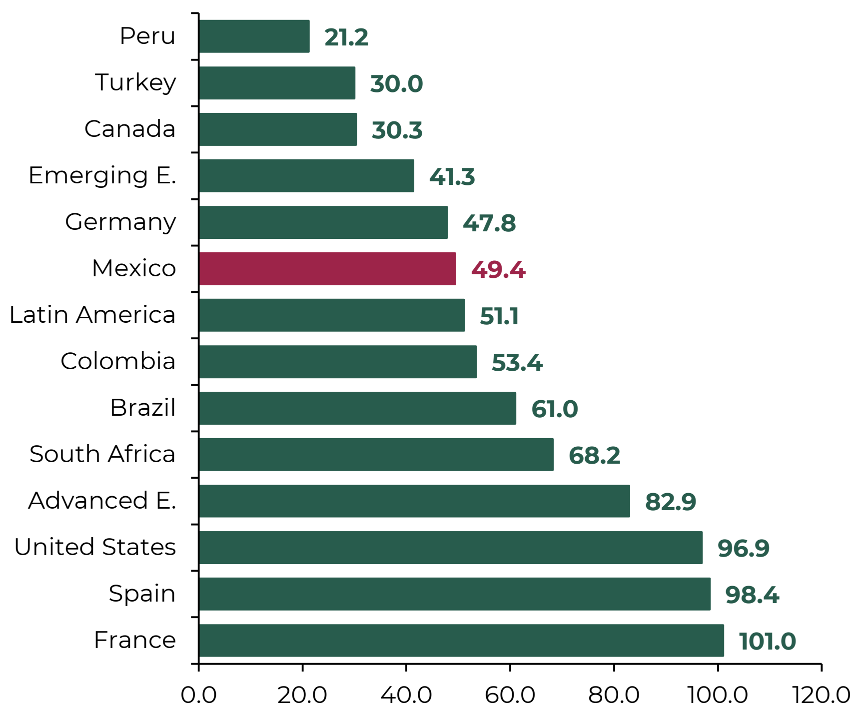
The Ministry of Finance will promote in the Public Sector the issuance of financial instruments consistent with the Environmental, Social, and Governance (ASG) criteria.

# I. Executive Summary

## International Comparison

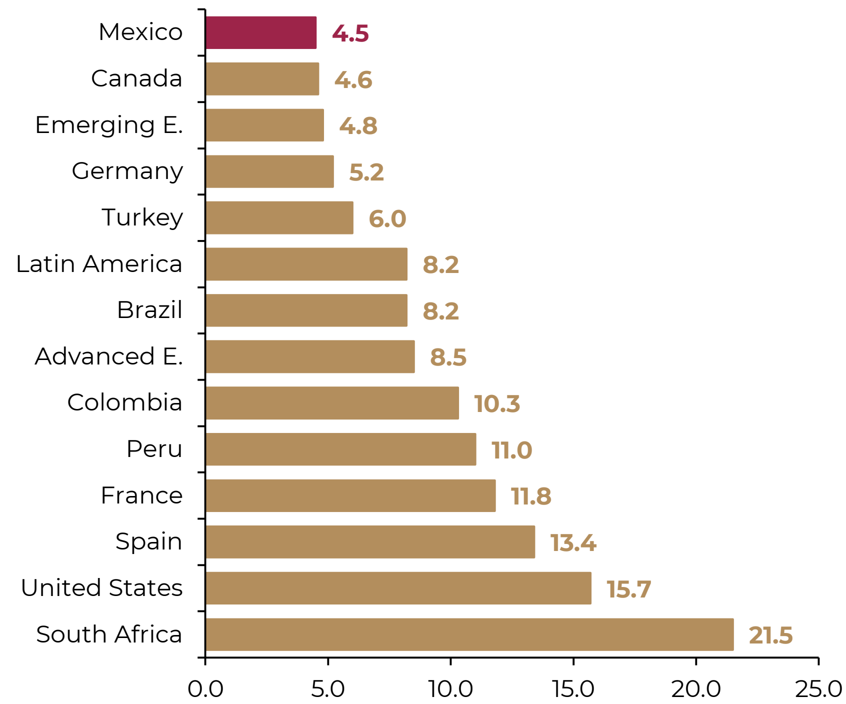
Mexico compares favorably with advanced and emerging countries with respect to public debt management, due to a lower balance and a lower increase in the period from 2018 to 2023.

**Public Debt 2023**
(% GDP)




Note: For Mexico the HBPSBR is used.
Latam are emerging and middle-income countries.
Source : MoF & IMF, Fiscal Monitor, October 2022.

**Public Debt Increase 2018 - 2023**
(% GDP)




Source: MoF & IMF, Fiscal Monitor, October 2022
Note: Estimated amounts.

# I. Executive Summary

## Public Sector Financing Needs

For 2023, it is estimated that the financing needs of Public Sector entities will be **13.6% of GDP.**

This amount is **1.6 percentage points of GDP** less than the estimated needs for 2022.

| Public Sector Financing Needs (Billion Pesos) | 2022e/ | | 2023e/ | | Change[6] |
|---|---|---|---|---|---|
| | Bn | %GDP | Bn | % GDP | % |
| **Total** | **4,359.7** | **15.3** | **4,281.8** | **13.6** | **-1.6** |
| **Federal Government** | **3,149.9** | **11.0** | **3,179.5** | **10.1** | **-0.9** |
| Deficit | 900.0 | 3.2 | 1,168.3 | 3.7 | **0.6** |
| Amortization | 2,249.9 | 7.9 | 2,011.2 | 6.4 | **-1.5** |
| **SOEs[1]** | **317.6** | **1.1** | **213.8** | **0.7** | **-0.4** |
| Déficit | 98.3 | 0.3 | 0.0 | 0.0 | -0.3 |
| Amortization | 219.3 | 0.8 | 213.8 | 0.7 | -0.1 |
| **NDB[2]** | **644.4** | **2.3** | **542.3** | **1.7** | **-0.5** |
| TNF[3] | 250.8 | 0.9 | 61.6 | 0.2 | -0.7 |
| Amortization | 387.6 | 1.4 | 474.7 | 1.5 | 0.2 |
| **Others[4,5]** | **247.8** | **0.9** | **346.2** | **1.1** | **0.2** |
| Deficit | 19.1 | 0.1 | 96.2 | 0.3 | 0.2 |
| Amortization | 228.7 | 0.8 | 250.0 | 0.8 | 0.0 |

Source: Ministry of Finance, State Owned Enterprises, National Development Bank, and other issuers. 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/ IPAB´s total needs consider deficit, amortizations, and (dis) accumulation of liquid resources.

6/ Variation in percentage points of GDP.

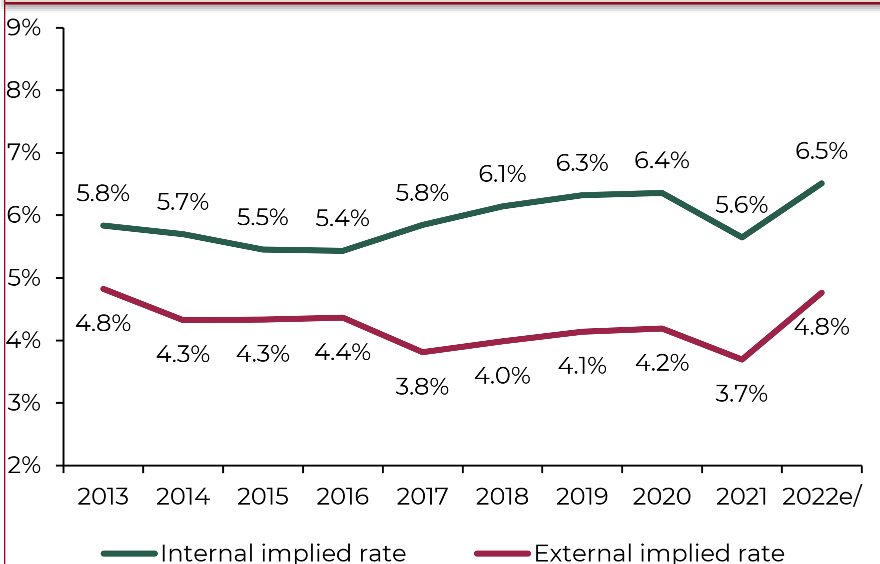
e/ estimated for year-end 2022 and 2023

# II. 2022 Public Debt Management Results

## II.1 Federal Government Financing Needs

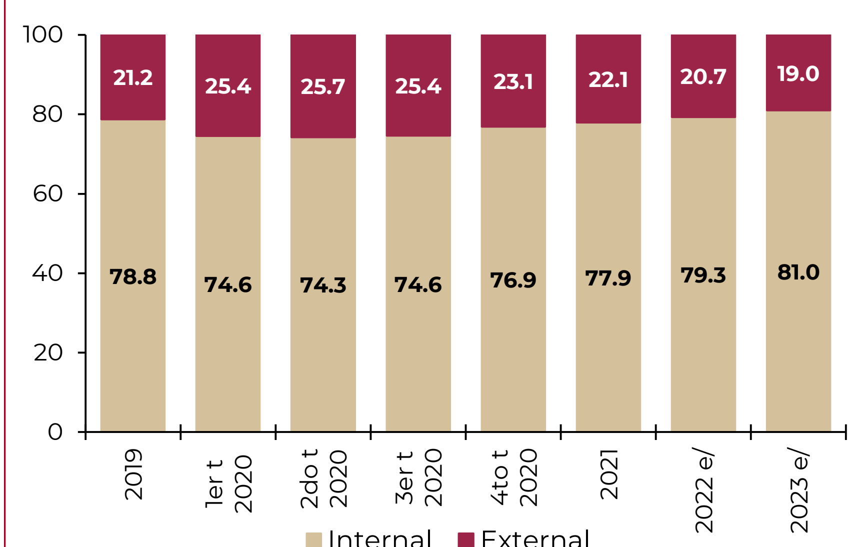
During 2022, the debt portfolio kept an adequate risk balance, despite an increase in its cost level, due to the general increase in interest rates worldwide. The composition of the external and internal debt portfolio has contributed to observing greater resilience in the face of a rate hike cycle. Current costs do not compromise debt sustainability.

**Implied debt rates**
(Percentage)




e/ estimated.
Source: Ministry of Finance

**Composition of Federal Government's Debt**
(Percentage)



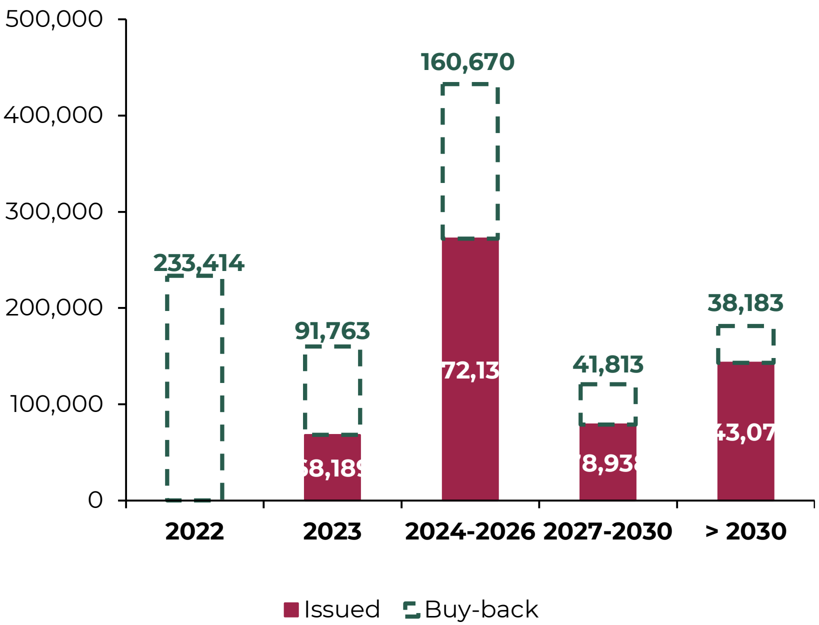

e/ estimated.
Source: Ministry of Finance.

# II. 2022 Public Debt Management Results

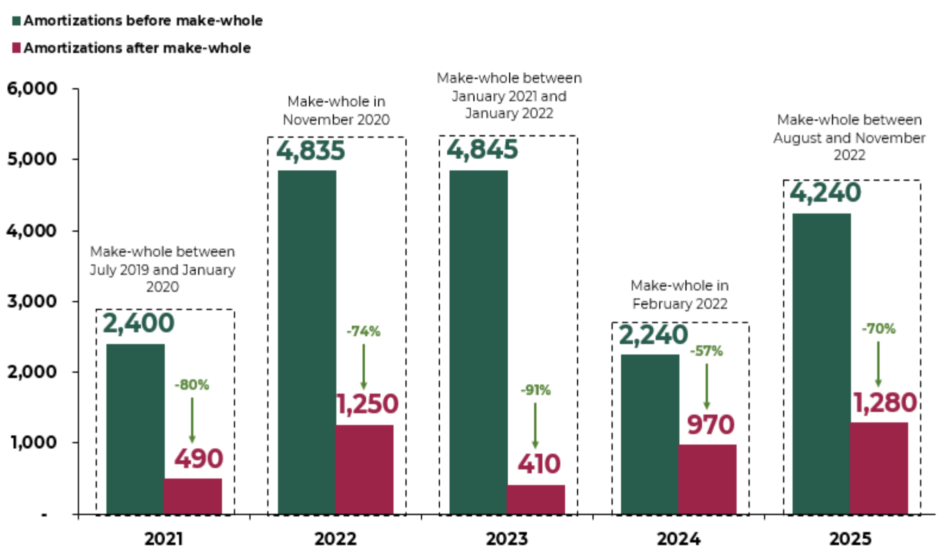
## II.2 Debt maturity profile

During 2022, nine liability management operations were concluded in the internal market and four refinancing operations in the external market. The Federal Government has reduced amortizations to the minimum possible for the following two years and has provided liquidity to its curves, maintaining a constant presence in the financial markets without incurring additional debt.

**Change in the amortization profile or the internal debt** *(million pesos)*




**Benefits of the make-whole of external bonds of the Federal Government***(million dollar)*




Source: Ministry of Finance

# II. 2022 Public Debt Management Results

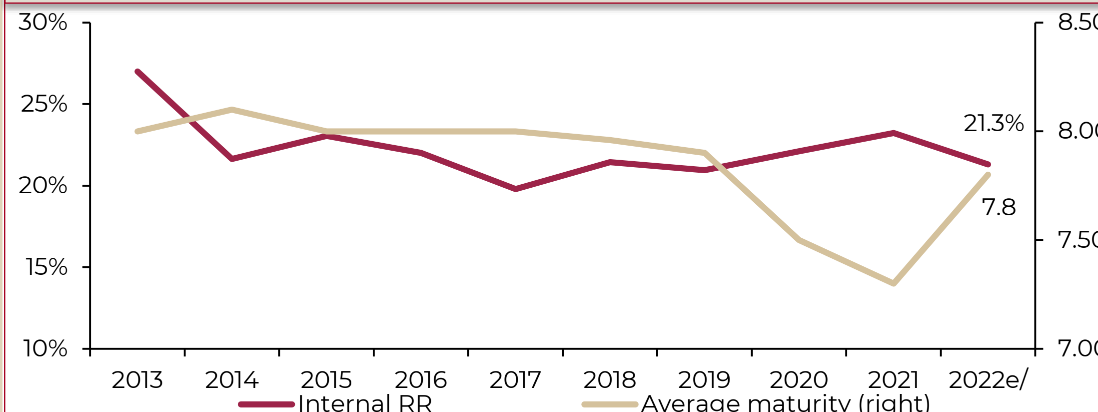
## II.3 Integrated risk management

In 2022, the Federal Government kept its efficient liability management strategy to improve the maturity profile of the debt portfolio and reduce refinancing risk, which has contributed to mitigating risk and reducing liquidity pressures.

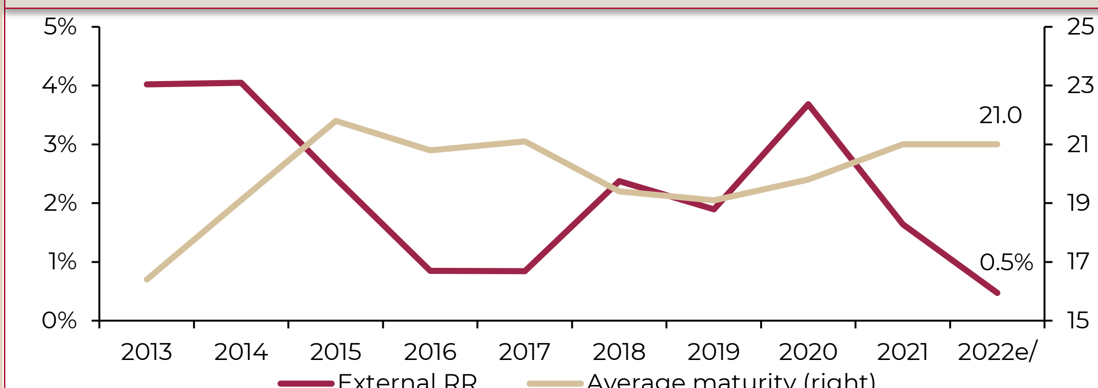
In recent years, the short-term debt ratio has remained below 25% for internal debt and below 5% for external debt.

One of the main objectives of the portfolio diversification and risk management strategy is to mitigate the volatility of the financial balance through financial cost control.

**Average maturity and refinancing risk of internal debt**




**Average maturity and refinancing risk of external debt**




Note: RR stands for refinancing risk. It is estimated as the percentage of the debt whose maturity is the following year with respect to the total debt. The RR refers to the possibility that an entity will not be able to replace a debt obligation with new debt at a given time.
e/ estimated.

Source: Ministry of Finance

# II. 2022 Public Debt Management Results

## II.4 Instruments aligned with ESG criteria

During 2022, Federal Government has continued with the sustainable debt policy by issuing Sustainable Bonds. In addition, the Ministry encourages Public Sector entities to contribute to the development of the thematic instruments market.

**Domestic**

In May, the sustainable local market was inaugurated through the issuance of new instruments called Bondes G for an amount of 20 billion pesos, which have a rate referenced to the TIIE overnight funding.

**External**

The Federal Government carried out a refinancing operation in the dollar market by issuing a sustainable bond for 2.2 billion dollars at a term of 10 years.

**External**

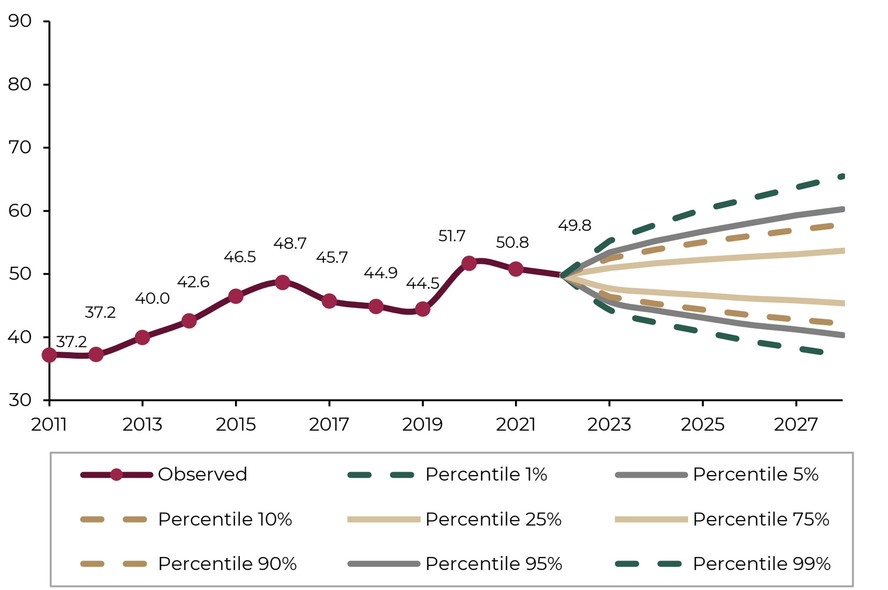
Sustainable Bonds were issued in the yen market, for an amount of 75.6 billion yen (0.57 billion dollars), which positioned Mexico as the first country in Latin America to inaugurate a sustainable curve in the Samurai market.

# II. 2022 Public Debt Management Results

## II.5 Sustainabilituy of public debt

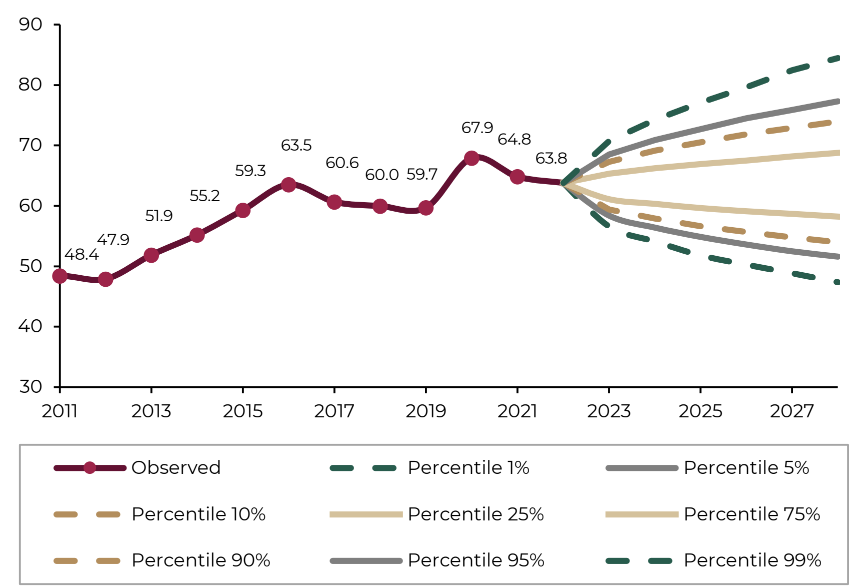
By the end of 2022, **the HBPSBR is estimated to be close to 14.2 trillion pesos, equivalent to 49.8% of GDP**, and a stable trajectory is expected for the coming years. The debt is sustainable as a consequence of the joint actions between the debt policy and the fiscal discipline strategy, even under stress scenarios.

**HBPSBR's path**
(Percentage of GDP)




Source: Ministry of Finance.

**Gross debt path**
(Percentage of GDP)




Source: Ministry of Finance.

The data presented are indicative and may be adjusted throughout the year, depending on the evolution of market conditions and the strategy of each entity.

# III. Federal Government's Debt

## III.1 2023 Financing Needs

By 2023, the Federal Government's financing needs amount to 10.1% of GDP. This results from the following elements:

1. Federal Government's deficit of **3.7%** of GDP.
2. **6.4%** of GDP for debt amortization.

- **6.2%** of GDP for internal debt amortizations.
- **0.2%** of GDP from external debt amortizations.

| Financing Needs of the Federal Government | | | | | |
|---|---|---|---|---|---|
| (Billion pesos and % of GDP) | | | | | |
| | 2022e/ | | 2023e/ | | Change3/ |
| | Bn | % GDP | Bn | % GDP | % |
| **TOTAL (A + B) 1/** | **3,149.9** | **11.0** | **3,179.5** | **10.1** | **-0.9** |
| **A. Deficit** | **900.0** | **3.2** | **1,168.3** | **3.7** | **0.6** |
| **B. Amortizations** | **2,249.9** | **7.9** | **2,011.2** | **6.4** | **-1.5** |
| **Internal** | **2,089.7** | **7.3** | **1,950.2** | **6.2** | **-1.1** |
| Securities | 2,094.6 | 7.3 | 1,949.3 | 6.2 | -1.1 |
| Cetes | 1,072.3 | 3.8 | 788.8 | 2.5 | -1.2 |
| Bondes | 377.5 | 1.3 | 584.9 | 1.9 | 0.5 |
| Bonds | 292.3 | 1.0 | 353.2 | 1.1 | 0.1 |
| Udibonos | 352.4 | 1.2 | 222.3 | 0.7 | -0.5 |
| Others 2/ | -4.8 | 0.0 | 0.9 | 0.0 | 0.0 |
| **External** | **160.2** | **0.6** | **61.0** | **0.2** | **-0.4** |
| Bonds | 137.8 | 0.5 | 10.2 | 0.0 | -0.5 |
| IFIs | 17.5 | 0.1 | 45.9 | 0.1 | 0.1 |
| Others | 5.0 | 0.0 | 4.9 | 0.0 | 0.0 |

Source: Ministry of Finance
1/ Total figures may not add up due to round up.
2/ This item accounts for the net financing needs of the pension system (SAR).
3/ Variation in percentage points.
e/ Estimates for year-end 2022 and 2023.

The data presented are indicative and may be adjusted throughout the year, depending on the evolution of market conditions and the strategy of each entity.

# III. Federal Government's Debt

## III.2 Public debt policy general guidelines and Integral management of assets and liabilities

**Objectives**

- Cover the financing needs at adequate risk and cost levels
- Improve the maturity profile and its cost and risk characteristics
- Optimize the financial and risk management
- Make an integral risk management
- Promote the market participation on SDG instruments

**Actions**

- Internal debt at long term and fixed rates
- Liability management operations
- Develop the references and the yield curves
- Strategic and complementary use of external credit
- Complementary financing from IFI and Bilateral Organisms
- An integral management of assets and liabilities
- Hedging strategies
- Effective communication

# III. Federal Government's Debt

## III.3 2023 Financial Strategy

### III.3.1 Internal debt

The internal indebtedness strategy will continue with the strengthening of market makers. In addition, the Federal Government will maintain close communication with the financial sector to monitor the healthy functioning of the government securities market.

The government securities auction program will maintain flexibility to adapt to financial markets. References will be updated, and placement deadlines extended. If useful, reopenings of current issues will be carried out.

**Fixed-Rate Bonds**: Access to government titles through the *cetesdirecto* platform will continue to be actively promoted.

**Inflation-linked Bonds**: The Udibonos will be issued every 4 weeks, alternating issues with terms of 3, 10, 20, and 30 years.

**Cetes**: Two-year auctions will continue and the mechanics of quarterly announcing minimum and maximum amounts to be issued weekly for Cetes with maturities of 28, 91, 182, 365, and 728 days will continue.

**Bondes G**: The appropriate terms will continue to be set for the maintenance and development of the sustainable curve at a floating rate. In addition, the opening of new nodes will be sought, giving depth to the curve.

**Bondes F**: Bondes F will be auctioned for terms of 1, 2, 3, 5 and 10 years. The terms and amounts of these instruments will be announced quarterly in the Government Securities Auction Calendar.

# III. Federal Government's Debt
## III.3 2023 Financial Strategy

### III.3.2 External Debt

The Federal Government will keep external credit as a complementary source of financing, a much more defensive approach than in previous years, and will seek to access international financial markets, when the characteristics may be favorable.

### III.3.3 Development–Oriented Financing

| | |
|---|---|
| **Sustainable Bonds** | The Federal Government is committed to continuing to issue bonds linked to the SDGs and to seek the consolidation of a sustainable yield curve in the dollar market. |
| **ECAs** | The Federal Government will continue to identify and monitor the programs that Export Credit Agencies and other Bilateral Institutions offer in the countries of Europe, Asia, and North America. |
| **IFIs** | Financing will continue to be accessed as long as financial conditions are favorable. It´s objective is to promote economic productivity, private investment, and sustainable economic development with high standards of transparency. |

# III. Federal Government's Debt

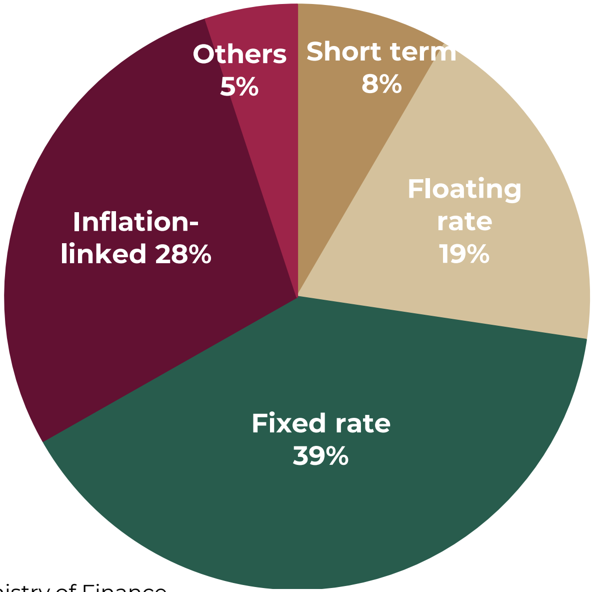
## III.4 Portfolio the of the Federal Government´s Debt

The portfolio structure:

It is estimated that by the end of 2022, the gross domestic debt represents 32.9% of GDP, equivalent to 79.3% of the total balance, while the external debt is estimated at 8.6% of GDP, equivalent to 20.7% of the total.

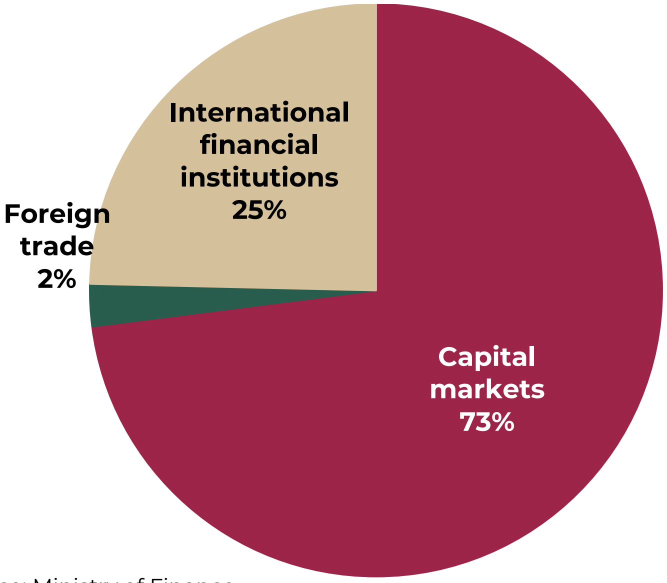
Of the government securities issued in the local market, most correspond to fixed-rate and long-term M Bonds, while most of the external debt corresponds to market and fixed-rate debt.

**Federal Government's internal debt structure**
(Percentage)




Source: Ministry of Finance.

**Federal Government's external debt structure**
(Percentage)




Source: Ministry of Finance.

# III. Federal Government's Debt
## III.4 Federal Government Debt Portfolio

### Portfolio's diversification

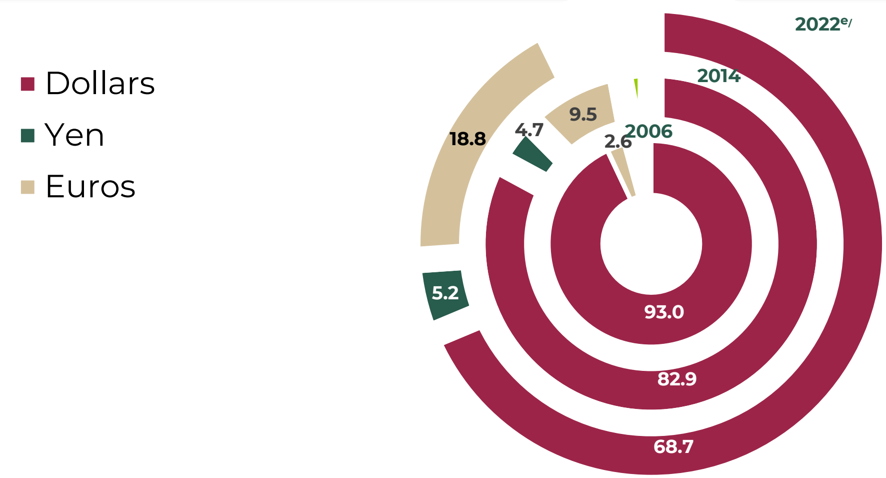
Through the Federal Government's risk management strategy, **actions were taken to mitigate the exposure to exchange rate risk** of the debt portfolio by diversifying its structure.

**Structure of the Federal Government´s External Market Debt**
(Percentage of total external market debt)

| Currency | Dollar | Euro | Yen | Pound Sterling | Swiss Franc | Other | TOTAL |
|---|---|---|---|---|---|---|---|
| **2018** | 73.90% | 18.00% | 6.10% | 2.00% | 0.00% | 0.00% | **100%** |
| **2019** | 65.40% | 23.10% | 7.60% | 2.00% | 2.00% | 0.00% | **100%** |
| **2020** | 68.40% | 22.10% | 5.80% | 1.80% | 1.90% | 0.00% | **100%** |
| **2021** | 68.56% | 21.62% | 5.91% | 1.74% | 1.80% | 0.37% | **100%** |
| **2022e/** | 68.70% | 18.82% | 5.21% | 1.49% | 1.65% | 4.13% | **100%** |

Note: Total figures may not add up due to rounding.
e/ estimation.

**Federal Government's External Debt structure, by currency**
(Percentage of total external debt)



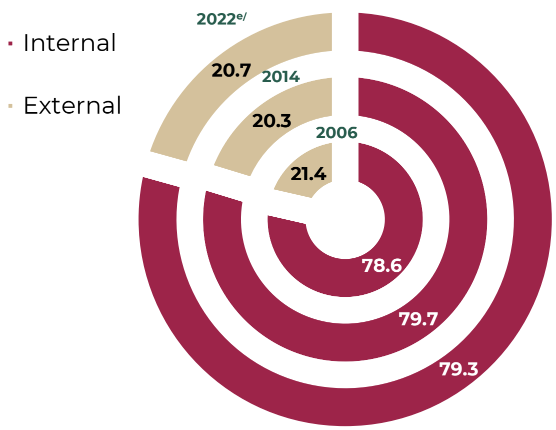

e/ estimated
Source: Ministry of Finance

# III. Federal Government's Debt
## III.4 Federal Government Debt Portfolio

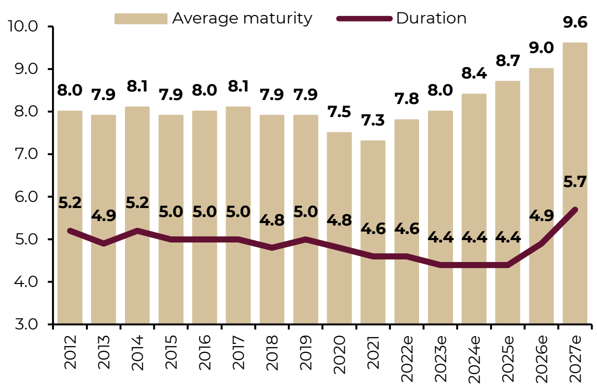
### Medium-Term Horizon

The objectives remain to maintain a resilient debt portfolio to carry out refinancing and manage interest rate and exchange rate risks.

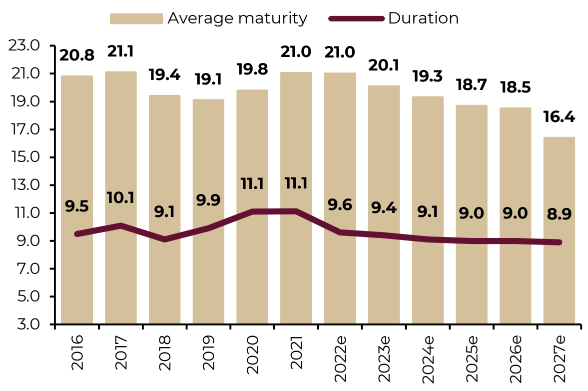
**Debt portfolio composition**
(Percentage of total)




**Average maturity and duration of Federal Government´s securities**
(years)




**Average maturity and duration of external market debt**
(years)

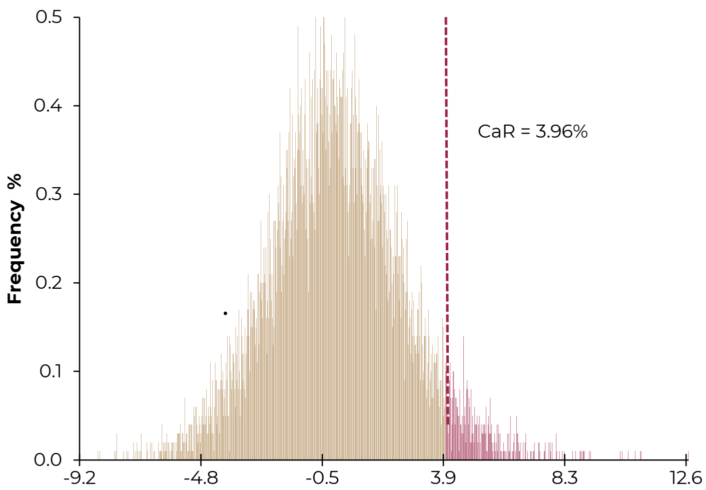



Source: Ministry of Finance.
The estimations are indicative and may be adjusted throughout the year, depending on the evolution of market conditions and the strategy of each entity.

# III.5 Financial cost sensitivity

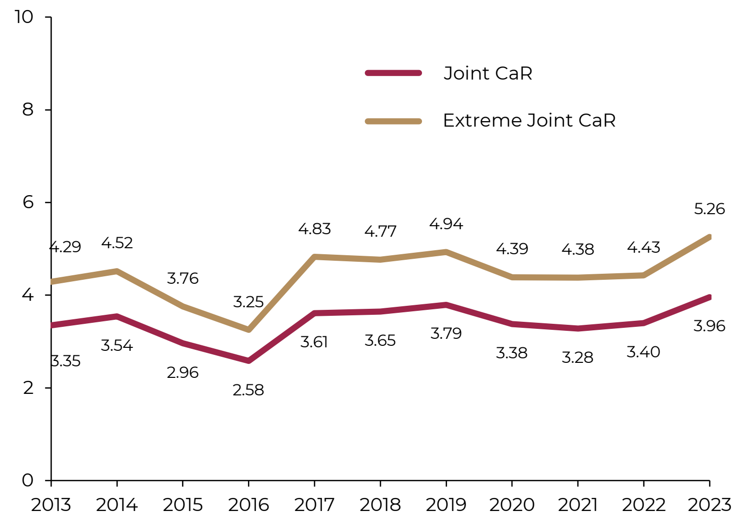
The financing strategy in the local market has made it possible to keep the sensitivity of the interest rate financial cost limited, by remaining at low levels, even under recent episodes of volatility.

**Deviation from expected 2023 cost of Federal Government debt**
(Percentage)




e/ estimated.
Source: Ministry of Finance

**Federal Government Debt: historical behavior of the Joint CaR and Extreme Joint CaR**



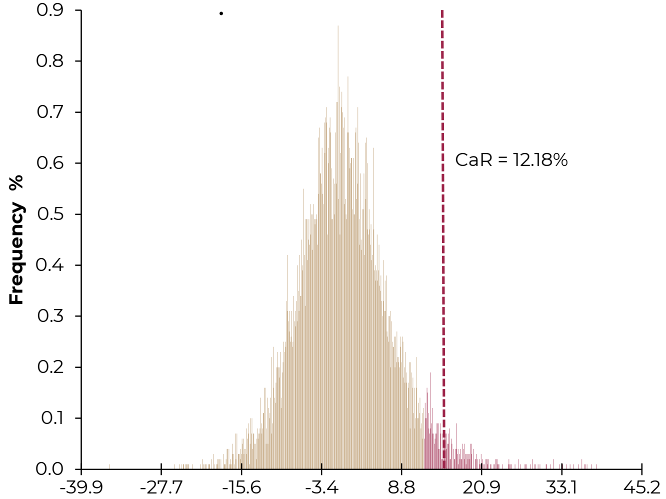

e/ estimated.
Source: Ministry of Finance

With respect to exchange rate sensitivity, the Federal Government has diversified the currencies that make up the foreign debt in recent years. It is estimated that by 2023, with a probability of 0.95, the financial cost will not increase by more than 3.96% in relation to its expected value, which corresponds to a variation of less than 0.1% of the estimated GDP for 2023.

# III.5 Financial cost sensitivity

With respect to exchange rate sensitivity, the Federal Government maintains most of the debt in local currency.

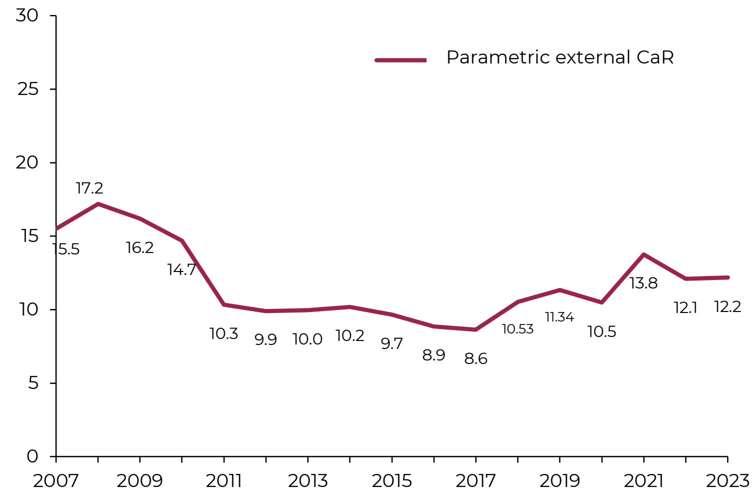
**Deviation from the expected 2023 cost of Federal Government internal debt.**
(Percentage)




e/ estimated.
Source: Ministry of Finance

■ **5% of the right of the distribution**

**Federal Government external debt: historical behavior of the exchange rate parametric CaR.**




e/ estimated.
Source: Ministry of Finance

Regarding the values of the relative parametric CaR for the internal debt, it is expected that, with a 0.95 probability, the internal financial cost in 2023 will not increase by more than 12.18% in relation to its expected value.

# IV. Public Sector Entities Debt

In order to promote the transparency of the entities, the ABP shows the main elements of the strategies of the entities that access the public sector debt markets. This financing needs result from adding their deficit and scheduled domestic and external debt amortizations.

| | |
|---|---|
| **State-Owned Enterprises** | • The financing needs are estimated to be **0.7% of GDP for 2023.**<br>• The financing policies of the State-Owned Enterprises are aimed at maintaining a net indebtedness of zero in real terms and obtaining the necessary resources under the best terms and conditions regarding amount, cost, term, and structure. |
| **Development Banks** | • The financing needs are estimated to be **1.7% of GDP for 2023.**<br>• The financing policy of the Development Banks for 2022 continues with a dynamic and flexible strategy to strengthen the main financial and capital indicators of the banks. |
| **Other Issuers** | • The financing needs are estimated to be **1.1% of GDP for 2023.**<br>• The Funds and Trusts will be maintained to meet their institutional goals, while the IPAB will seek to avoid debt growth in real terms. |

The estimations are indicative and may be adjusted throughout the year, depending on the evolution of market conditions and the strategy of each entity.

# ABP 2023

HACIENDA

SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO

2022 Año de Ricardo Flores Magón

PRECURSOR DE LA REVOLUCIÓN MEXICANA