SHCP
SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO

Mexico City, March 31 2017

The Federal Government, through the Ministry of Finance, submits the General Economic Policy Preliminary Guidelines for 2017 to the Congress

- **The Ministry of Finance complies timely with the delivery to the Congress of the *Document relative to compliance with the provisions contained in Article 42, section I, of the Federal Budget and Fiscal Responsibility Law*, commonly known as *General Economic Policy Preliminary Guidelines for 2017*. The document analyzes the recent economic developments and updates the perspectives about the national economy and the estimates of public finances for the close of the year 2017. Also, this document starts the process of public analysis and the dialogue with the Congress for the 2018 fiscal year.**
- **The projections contained in the document are consistent with the three pillars that sustain the economic stability of Mexico: a prudent fiscal policy, an independent and credible monetary policy, and a broad and deep agenda of 11 Structural Reforms. These pillars contributed to explain in 2016 a growth of 2.3 percent in an adverse external environment, while the rest of Latin America decreased on average 1.5 percent.**
- **The base scenario for 2017 considers a conservative growth range of 1.3 to 2.3 percent, consistent with market expectations and with international organizations. This range of growth rates incorporates both the positive results observed in Mexico during the first months of the year in terms of production, employment and investment, and possible impacts on consumption and investment that might result from the uncertainty associated with the policies of the United States Administration, noting that this uncertainty has substantially decreased over the last two months.**
- **In line with the multi-year fiscal consolidation trajectory committed in 2013, the fiscal targets for 2017 are expected to be timely met, with a level of 2.9 of GDP for the Public Sector Borrowing Requirements (PSBRs) and a surplus excluding high-impact investment equivalent to 0.1 percent of GDP. These public finance projections for the close of 2017 do not consider the entire amount of the Banco de Mexico's Operating Surplus (BMOS) and therefore the compliance with the fiscal targets is not based on the receiving of those resources.**
- **It is worth noting that, for the first time since 2008, we expect a primary surplus of 0.5 percent of GDP, slightly better than the estimated surplus of the 2017 General Economic Policy Guidelines (2017 GPEG). Therefore, without considering the BMOS, the Historical Balance of the PSBR (HBPSBR), the broadest measure of public debt, is expected to start a decreasing trajectory in 2017, standing at 49.5 percent of GDP.**
- **For 2018, we expect to have less economic uncertainty leading to greater economic growth, this is incorporated by having an estimated range of GDP growth for 2018 between 2.0 and 3.0 percent. In terms of public finances, to achieve a budgetary balance in accordance with the multi-year fiscal consolidation plan, we anticipate a moderate adjustment of spending with respect to the 2017 Budget of 0.2 percent of GDP. The amount of spending considered compares favorably with the 1.3 and 1.5 percent GDP adjustments presented in the 2015 and in the 2016 General Economic Policy Preliminary Guidelines, respectively.**
- **The adjustment will allow to reduce the PSBRs to 2.5 percent of GDP, to achieve a primary surplus of 1.0 percent of GDP, and to decrease the HBPSBR to 49.2 percent of GDP, concluding with the multi-year strategy for public finance proposed by the Administration of President**

Enrique Peña Nieto in 2013. The objective of this multi-year strategy is to boost growth, to support the implementation of the Structural Reforms and to preserve the macroeconomic stability of the country.

- **On Tuesday March 28, Banco de México deposited the BMOS of the 2016 fiscal year, for an amount equivalent to 1.5 percent of GDP. The use of these resources, in strict adherence to the Federal Budget and Fiscal Responsibility Law, implies a revision of the estimates for the close of 2017. As of this revision, it is estimated that, if there are no further movements in the macroeconomic framework, in 2017 the PSBRs will stand at 1.4 percent of GDP and the HBPSBR at 48.0 percent of GDP.**

The Ministry of Finance complies timely with the delivery to the Congress of the "Document relative to compliance with the provisions contained in Article 42, section I, of the Federal Budget and Fiscal Responsibility Law", commonly known as "General Economic Policy Preliminary Guidelines".

The General Economic Policy Preliminary Guidelines for 2017 are presented in an adverse external environment. Particularly, the global economy has experienced a pronounced period of moderate growth, high volatility the in financial markets and geopolitical uncertainty. Nevertheless, the last months have seen worldwide synchronized growth, which along with the positive performance of the public finances and of the domestic market in 2016, supports the punctual achievement of the fiscal targets for 2017 and 2018.

The stability and sustained growth of the Mexican economy is based on three major pillars: a prudent fiscal policy, an independent and credible monetary policy, and a broad and deep agenda of 11 Structural Reforms that contribute to explain the positive economic performance.

To strengthen the commitment of the public sector with the stability during 2016, the public sector effectively faced the two main fiscal challenges from the additional fall in oil prices at the beginning of the year: complying with the multi-year fiscal consolidation trajectory established in 2013 and implementing the Energy Reform in Petróleos Mexicanos (Pemex). For these purpose, Mexico reduced the Public Sector Borrowing Requirements (PSBRs), the most complete and robust measure of public deficit, by 1.2 pp of GDP with respect to 2015 and by 0.6 pp with respect to the original target, to reach a level of 2.9 percent GDP.

Similarly, to provide certainty and strengthen the fiscal consolidation process, the Federal Government has implemented several measures aimed at preserving the integrity of the public finances since the beginning of 2016. Among these measures, we presented in February an adjustment to programmable expenditure of Ps. 132.3 billion, and another one in June for Ps. 31.7 billion.

Because of these actions, public expenditures without financial investments, i.e. excluding operations associated with public sector savings that have a counterpart as revenues, fell by 0.9 percentage points of GDP compared to 2015. If, in addition, the payments of non-earmarked transfers, pensions and financial cost are excluded, which are variables not under the direct control of the Federal Government, the net public sector expenditure decreased by 1.3 percentage points of GDP. Finally, the structural current expenditure fell by 0.8 percentage points of GDP.

In addition, during 2016 several actions were implemented to strengthen the financial position of Pemex and, ultimately of the public sector. From the expenditure adjustment announced in February, Ps. 100 billion corresponded to enterprises. Additionally, in April we made a capital contribution to Pemex for Ps. 26.5 billion, and we also granted a liquidity facility for Ps. 47 billion for the payment of pensions during 2016. This provided liquid resources to Pemex for Ps. 73.5 billion and it could only be used conditional on reducing its current liabilities. In addition, the company's tax regime was modified to reduce its payment of duties by around Ps. 40 billion, given the lower international oil prices.

Regarding the international context, although weakness in global growth begins to dissipate, the uncertainty about the direction of the policies of the new US Administration poses downside risks for the Mexican economy. In this context, Mexico shows resiliency and positive results in terms of production, consumption, employment and investment. As of the private sector expectations of economic performance that have prevailed in recent months, they are more related to the effects of uncertainty than realizations of risks observable in the data.

In this context, the projection of public finances for the close of the year updates various parameters of the macroeconomic framework presented in the 2017 GEPG. This update is aimed at building a realistic and prudent scenario to allow the Federal Government to evaluate its fiscal position and to act effectively given the complexity of the current economic situation.

In particular, we consider a range of economic growth between 1.3 and 2.3 percent for this year. This range considers the effect of the uncertainty generated by possible changes in policies of the US Administration. In order to make prudent projections of public finances, for specific estimates we use the 1.5 percent growth estimate with the lower part of the growth range. Also, in the estimates we use a an exchange rate of the peso against the US dollar for the end of 2017 of 19.0, which is a conservative level from the fiscal perspective, and it is also consistent with recent trends. In addition, we estimate an annual inflation of 4.9 percent. Finally, the projections contemplate an average annual oil price for the Mexican Mix of 42 dpb –in line with the observed prices of 2017 and with the implicit prices derived from futures contracts traded in the international markets– and an oil production platform of 1,947 thousand barrels per day (kbpd) –consistent with the 2017 Budget and the Pemex's New Business Plan that seeks to optimize profitability and exploit the opportunities offered by the Energy Reform–.

For 2017, we expect to meet the following fiscal targets: PSBRs of 2.9 percent of GDP, a surplus of 0.1 percent of GDP excluding high-impact investments, and the first primary surplus since 2008, equal to 0.5 percent of GDP, which is slightly better than the one estimated in the 2017 General Economic Policy Guidelines (2017 GEPG). In the central scenario, and in the absence of movements of the exchange rate, the HBPSBRs are expected to begin a decreasing trajectory, reaching 49.5 percent of GDP. These projections do not consider the receiving of BMOS and therefore the compliance with the targets does not depend on those resources.

The budgetary revenues projection for 2018 has prudent and realistic assumptions: a growth range of 2.0 to 3.0 percent and a punctual estimate of 2.5 percent that reflects a stabilization in the effects of US policies, a year-end exchange rate of 19.1 pesos per dollar, a moderate increase in oil prices to 46 dbp, taking into account the expectations of analysts and futures markets, an increase in the oil production platform to 2,006 kbpd, resulting from the implementation of the Pemex's New Business Plan, and an inertial growth of tax revenues, consistent with the Tax Certainty Agreement.

In this way, we estimate that in 2018 budgetary revenues will be Ps. 141.3 billion higher than the amount presented in the 2017 Federal Income Law (LIF2017). Notice that 60.0 percent of this increase is explained by higher tax revenues, due to the recovery in economic activity. When considering high economic and social impact investment, the net budgetary paid expenditure increases Ps. 71.3 billion or 1.4 percent in real terms, with respect to the amount approved in 2017.

The end of the countercyclical stimulus and the commitment with the multi-year fiscal consolidation trajectory proposed in the 2014 GEPG require the paid programmable expenditures, including high economic and social impact investment, to be adjusted in Ps. 43.8 billion with respect to the 2017 Budget, equivalent to 0.2% of GDP. This adjustment compares favorably with the necessary adjustment expected in the "Preliminary Guidelines" for 2016, of Ps. 297.3 billion or 1.5 percent of GDP, as well as the one anticipated in the 2015 document of Ps 249.4 billion or 1.3 percent of GDP. The estimated adjustment will allow to continue with the consolidation trajectory. In this sense, the PSBRs of 2018 will stand at 2.5 percent of GDP, 0.4 pp lower than the ones expected for 2017, and thus the HBPSBR will stand at 49.2 percent of GDP, lower by 0.3 pp than the estimate for the close of 2017.

The Administration of President Enrique Peña Nieto presented, in the 2014 GEPG, a multi-year plan aimed at boosting the economy for a well-defined period in an environment of global economic weakness and volatility in the financial markets, and at supporting the implementation of the Structural Reforms.

Since then, the Federal Government had met on time the targets set each year to preserve the macroeconomic stability, guarantee sound public finances and, at the same time boost productivity and economic growth for the benefit of Mexican families. The public finance estimates presented in this document for the close of 2017 and 2018, renew the commitment of the Federal Government to responsible economic and fiscal policies.

Finally, as announced on March 29, the Banco de Mexico deposited in the Treasury of the Federation Ps. 321.7 billion corresponding to the Banco de México's Operation Surplus for 2016. As per the Federal Budget and Fiscal Responsibility Law, at least 70 percent of it, i.e. approximately Ps. 225 billion, will be used to amortize the public debt of the Federal Government contracted in previous fiscal years or to reduce the amount of financing needed to cover the budgetary deficit, and the remaining amount, i.e. approximately Ps. 96 billion, will be used to strengthen the Budgetary Revenues Stabilization Fund (FEIP) or to increase the assets that strengthen the financial position of the Federal Government. Given the amount received, it is estimated that if there are no further movements in the macroeconomic framework, in 2017 the PSBRs will stand at 1.4 percent of GDP and the HBPSBR at 48.0 percent of GDP.

ANNEX I

MACROECONOMIC FRAMEWORK, 2017-2018*		
	2017	**2018**
Gross Domestic Product		
Growth % real	1.3 -2.3	2.0 -3.0
Nominal (billions of pesos)**	20,845.8	22,221.9
GDP deflator	5.2	4.0
Inflation		
Dec./Dec.	4.9	3.0
Nominal Exchange Rate (pesos per dollar)		
End of period	19.0	19.1
Average	19.5	19.1
Interest Rate (28 days CETES, %)		
Nominal end of period	7.0	7.3
Nominal average	6.5	7.1
Cumulative real	1.6	3.9
Current Account		
Million dollars	-26,505.0	-29,346.0
% of GDP	-2.5	-2.5
Support variables:		
Fiscal Balance (% of GDP)		
Tradicional balance including high impact investment	-2.4	-2.0
Tradicional balance	0.1	0.0
United States GDP		
Growth % real	2.3	2.4
United States Industrial Production		
Growth % real	1.6	2.4
United States Inflation		
Average	2.5	2.3
International Interest Rate		
LIBOR 3 months (average)	1.3	1.8
FED funds rate (average)	0.9	1.4
Oil (Mexican bundle)		
Average Price (dollars/barrel)	42	46
Oil production platform (kbd)	1,947	2,006
Average export platform (kbd)	904	850
Gas		
Average Price (dollars/MMBtu)	3.1	3.0

* Estimated

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

ANNEX II

Public Finances Estimates for 2017-2018					
	Million current pesos		% of GDP		Real Growth %
	Approved 2017 (LIF/Budget 2017)	Estimated 2018	Approved 2017	Estimated 2018	
Public Sector Borrowing requirements	**-596,687.2**	**-555,548.5**	**-2.9**	**-2.5**	**-10.4**
Economic balance	**-494,872.5**	**-444,438.8**	**-2.4**	**-2**	**-13.6**
Excluding high - impact investment	**12,634.8**	**0**	**0.1**	**0**	**-100**
Non - budgetary balance	0	0	0	0	n. s.
Budgetary balance	-494,872.5	-444,438.8	-2.4	-2	-13.6
Budgetary Revenues	4,360,913.8	4,675,148.6	20.9	21	3.1
Oil	787,317.3	821,429.0	3.8	3.7	0.4
Non-Oil	3,573,596.5	3,853,719.6	17.1	17.3	3.7
Federal Government	2,876,854.4	3,086,440.8	13.8	13.9	3.2
Tax	2,739,366.8	2,932,842.7	13.1	13.2	3
Non-Tax	137,487.6	153,598.1	0.7	0.7	7.5
Institutions and enterprises	696,742.1	767,278.8	3.3	3.5	5.9
Net paid expenditures	4,855,786.3	5,119,587.4	23.3	23	1.4
Paid programmable	3,517,281.3	3,612,970.3	16.9	16.3	-1.2
Payment deferral	-33,106.2	-34,418.8	-0.2	-0.2	0
Accrued programmable	3,550,387.5	3,647,389.1	17	16.4	-1.2
Non - programmable	1,338,505.0	1,506,617.1	6.4	6.8	8.3
Financial cost	572,563.0	660,848.6	2.7	3	11
Non-earmarked transfers	742,566.2	811,349.7	3.6	3.7	5.1
Adefas	23,375.7	34,418.8	0.1	0.2	41.6
Primary Economic Surplus	**78,190.60**	**216,909.80**	**0.4**	**1**	**166.8**

Main fiscal indicators [1] (% of GDP)					
	2014	**2015**	**2016**	**2017e**	**2018e**
Public Sector Borrowing Requirements (PSBRs)	**-4.6**	**-4.1**	**-2.9**	**-2.9**	**-2.5**
Economic balance	**-3.2**	**-3.5**	**-2.6**	**-2.4**	**-2.0**
Economic balance excluding high - impact investment	**-1.1**	**-0.9**	**-0.1**	**+0.1**	**0.0**
Primary balance	**-1.1**	**-1.2**	**-0.1**	**+0.5**	**+1.0**
HBPSBR	**+43.2**	**+47.6**	**+50.2**	**+49.5**	**+49.2**

1/ Excluding the whole Banco de Mexico's Operating Surplus.

e/ Estimates

Public Finances Estimates for 2017: BMOS impact (% of GDP)			
	Approved	Estimated	
		Without BMOS	With BMOS
1. PSBRs	**-2.9**	**-2.9**	**-1.4**
2. Economic balance	-2.4	-2.4	-1.3
3. Excluding high - impact investment	0.1	0.1	1.1
4. Primary balance	0.4	0.5	1.6
5. HBPSBR	50.2	49.5	48.0