

SECRETARÍA DE HACIENDA



2019 Annual Borrowing Plan

January 2019

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I. Executive Summary

i.

The Annual Borrowing Plan (ABP) presents the main elements of the **public debt policy** of the **Federal Government** and for the main debt issuers of the **Public Sector**.

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.

The **debt management policy** will be guided by the principles of **transparency** and **fiscal sustainability**.

II. Public Debt Policy of the Federal Government

Objectives

1. **Cover the Federal Government's financing needs** at reduced costs, at a long-term horizon and at a low level of risk.
2. **Preserve the diversity of access** to a **wide range** of debt markets, favoring the domestic market.
3. **Promote liquid and deep markets** with yield curves **that facilitate access to financing** for a wide spectrum of public and private market participants.

Actions

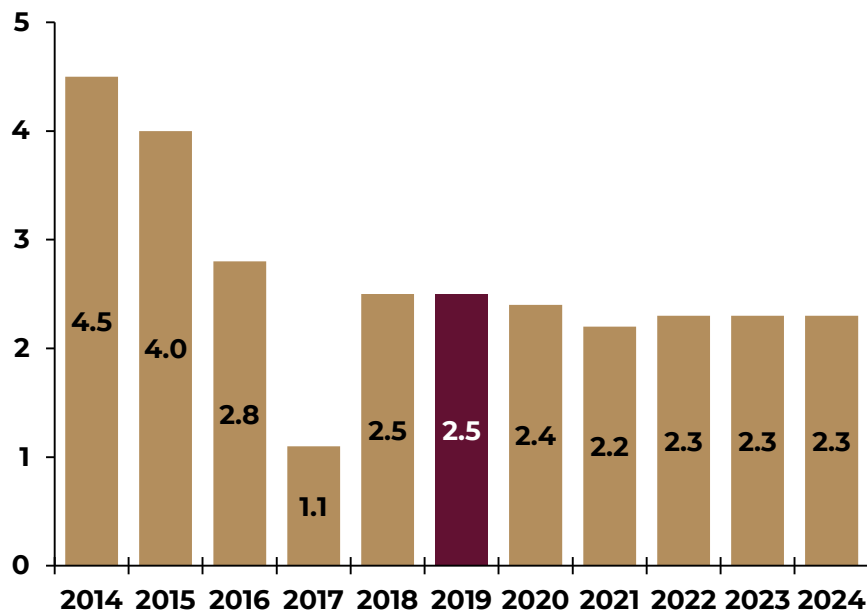
- i. **Finance the Federal Government's needs** primarily through **domestic debt markets**, to maintain a debt structure in which long term and fixed rate liabilities predominate.
- ii. **Complementary** use of **external credit if conditions** in international markets **are favorable**.
- iii. **Seize** strategically and as a complementary source the International Financial Institutions to support priority investment projects.
- iv. **Conduct liability management operations** in order to increase **efficiency in the debt portfolio**.
- v. **Develop benchmarks and yield curves**, both in domestic and external markets.
- vi. **Enhance a comprehensive management** of the public debt portfolio risks that will allow to face external shocks.
- vii. **Promote a transparent communication** strategy of **public debt policy** that will allow investors and the general public to understand the objectives and guidelines of the Federal Government as a debt issuer.

II. Public Debt Policy of the Federal Government

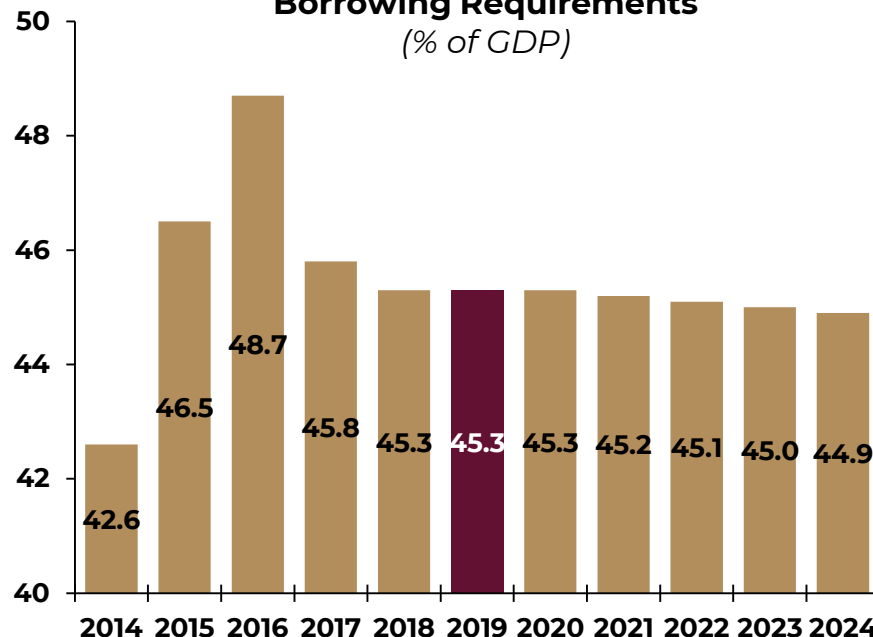
Stable and sustainable trajectory of public debt

- In line with the estimates of the General Economic Policy Guidelines for 2019, the **PSBR are expected to be 2.5% of GDP**.
- Moreover, **the HBPSBR is expected to be 45.3% of GDP in 2019**, preserving a stable trajectory. For the following years, the debt-to-GDP measure is expected to keep a decreasing trajectory.

Public Sector Borrowing Requirements*
(% of GDP)



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



*Estimates for 2018 and onwards.

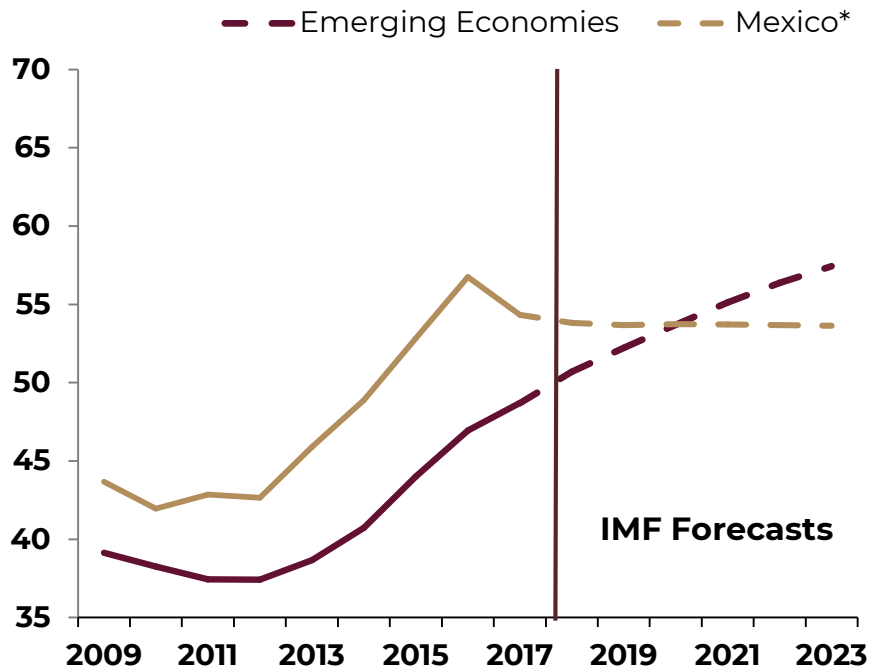
Source: General Economic Policy Guidelines for 2019.

II. Public Debt Policy of the Federal Government

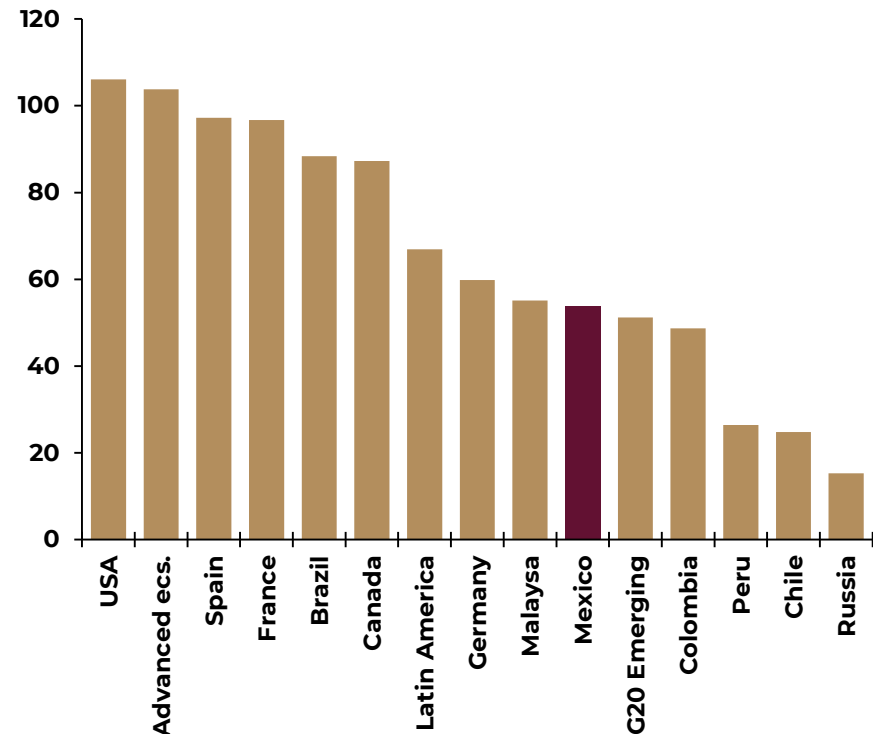
International Comparison of Public Debt

- Public debt in Mexico compares favorably to other economies, both advanced economies and emerging markets.

IMF Estimates of Gross Public Debt
(% GDP)



International Comparison of Public Debt
(% GDP)



*This measure of gross debt is consistent with its net value (HBPSBR) reported by the Ministry of Finance.
Source: IMF. Fiscal Monitor, October 2018.

III. Federal Government's Financing Needs

Federal Government's Financing Needs

(Billion pesos and % of GDP)

	2018 ^e		2019 ^e		Change
	Bn pesos	% GDP	Bn pesos	% GDP	% GDP
TOTAL (A + B)^{1/}	1,706.7	7.2	1,800.5	7.2	-0.0
A. Deficit	489.5	2.1	485.3	1.9	-0.1
B. Amortizations	1,217.2	5.2	1,315.1	5.3	0.1
External	42.6	0.2	91.0	0.4	0.2
Bonds	14.1	0.1	73.7	0.3	0.2
IFIs	25.1	0.1	13.4	0.1	-0.1
Other	3.5	0.0	3.9	0.0	0.0
Domestic	1,174.5	5.0	1,224.1	4.9	-0.1
Securities	1,165.7	4.9	1,218.6	4.9	-0.1
Cetes	701.6	3.0	734.5	2.9	-0.0
Bondes D	50.4	0.2	91.2	0.4	0.2
Bonds	377.3	1.6	207.1	0.8	-0.8
Udibonos	36.5	0.2	185.8	0.7	0.6
Other liabilities ^{2/}	8.8	0.0	5.5	0.0	-0.0

^{1/} Total figures may not add up due to rounding.

^{2/} This item accounts for the net financing needs of the pension system (SAR).

^{e/} Estimates for 2018 and 2019.

Source: Ministry of Finance.

Financing Needs

The **Federal Government's Financing Needs for 2019** amount to **7.2% of GDP**. This figure is a result of the following elements:

- 1. Federal Government's deficit of 1.9% of GDP**
- 2. Debt amortizations of 5.3% of GDP**
 - 4.9% of GDP** for domestic debt amortizations
 - 0.4% of GDP** for external debt amortizations

III.2 Financial Strategy for 2019.

Domestic Debt

Government Securities Auction

- The government securities auction program will maintain the **flexibility** to adapt to the prevailing conditions in financial markets.

New References

- During 2019, the convenience of performing new syndicated auctions will be analyzed to introduce new references for **3 and 5-year fixed-rate bonds** and **3 and 30-year Udibonos**.

Liability Management Operations

- As part of the 2019 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 Makers Program** with the objective of increasing liquidity in the local debt market.

Cetesdirecto

- Financial inclusion will continue to be fostered through the sale of securities directly to individuals, which is in line with the announced actions that seek to strengthen the financial sector.

III.2 Financial Strategy for 2019.

Domestic Debt

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 2019, the Ministry will continue to announce quarterly the minimum and maximum amounts to be placed **every week for 28, 91, 182, and 365-day Cetes**.

Bondes D

- For 2019, 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 2019.

External Debt

External Financing

- **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 Ministry 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 following years.

IFIs and ECAs

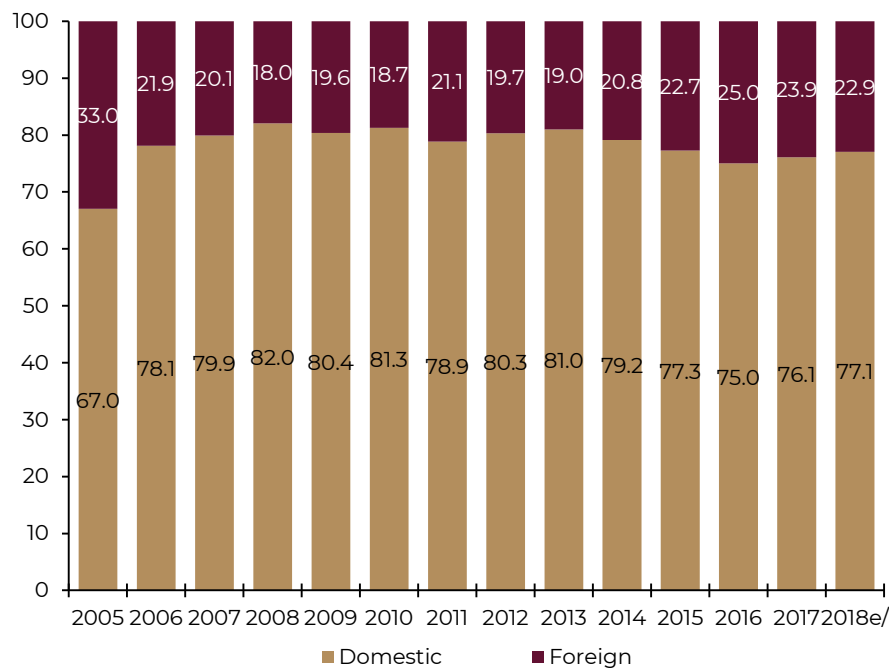
- The Ministry will continue to access financing through **International Financial Institutions** and multilateral creditors (Exporting Credit Agencies) as a complementary source of resources for the Federal Government.

IV. Portfolio Risk Analysis

Exchange rate risk

The greater part of the Federal Government debt is denominated in pesos. At the end of 2018, 77.1% of the Federal Government debt will be denominated in local currency.

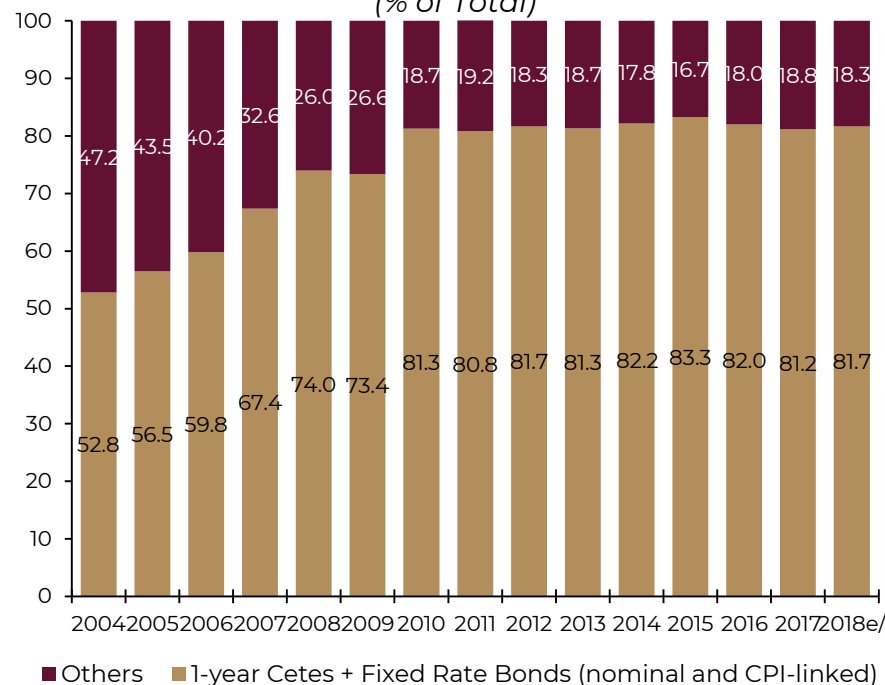
Federal Government's Net Debt
(% of Total)



Interest rate risk

The greater part of the government securities issued in the local market is held at fixed rate and long-term (81.7%). Additionally, 100% of the external market debt has a fixed rate.

Long-term Fixed-rate Government Securities, Nominal and Inflation-linked
(% of Total)



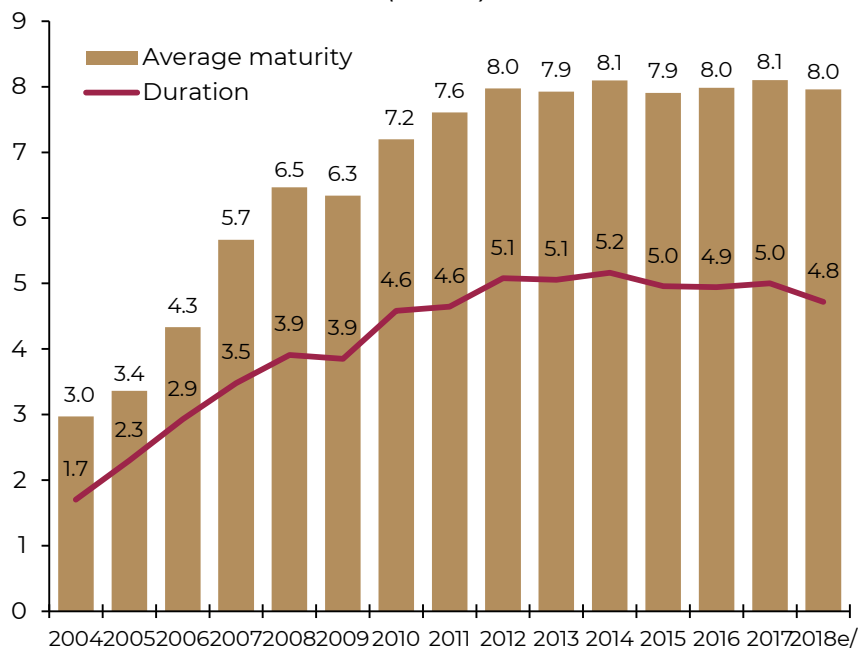
Source: Ministry of Finance.

IV. Portfolio Risk Analysis

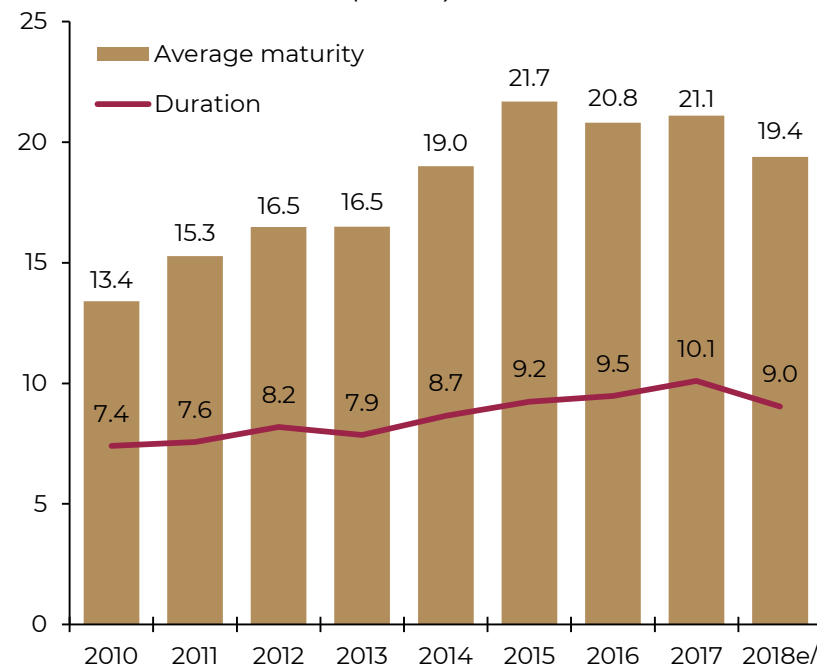
Refinancing Risk

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

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.

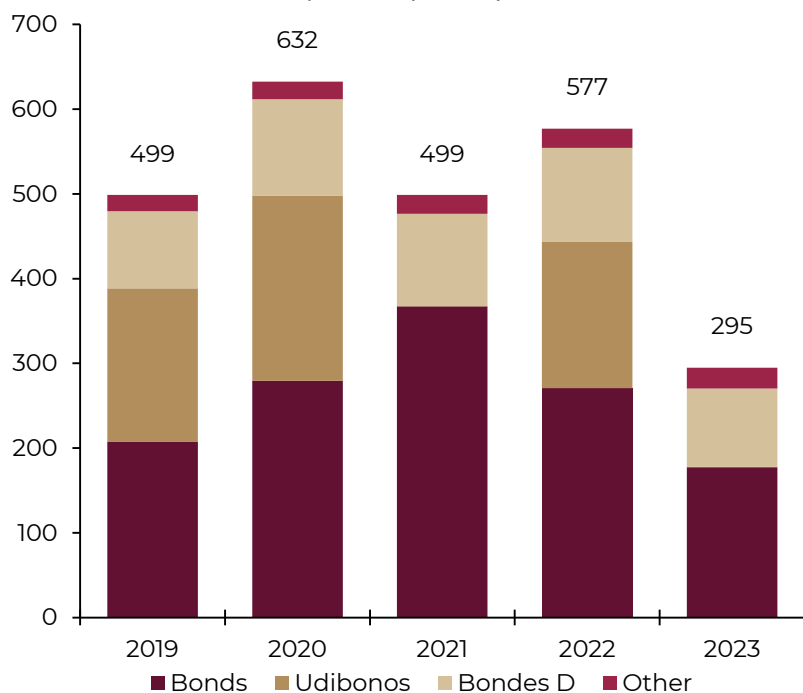
IV. Portfolio Risk Analysis

Refinancing risk

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

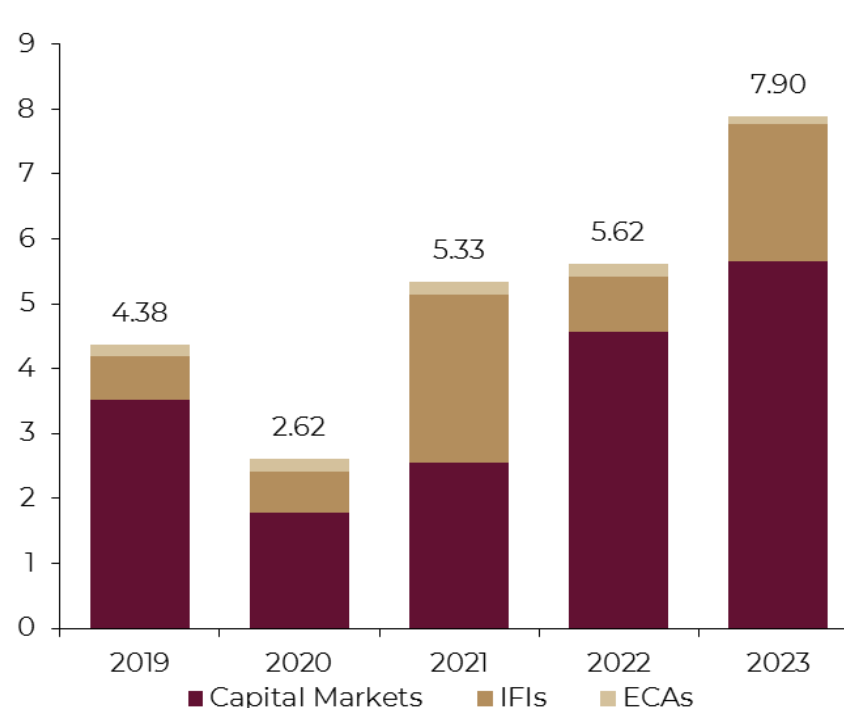
Amortization Profile of the Federal Government's Domestic Debt*

(billion pesos)



Amortization Profile of the Federal Government's External Debt*

(billion dollars)



*The amortization profiles consider the outstanding debt as of September 2018.

Domestic debt amortization profile does not include Cetes.

Source: Ministry of Finance.

IV. Portfolio Risk Analysis

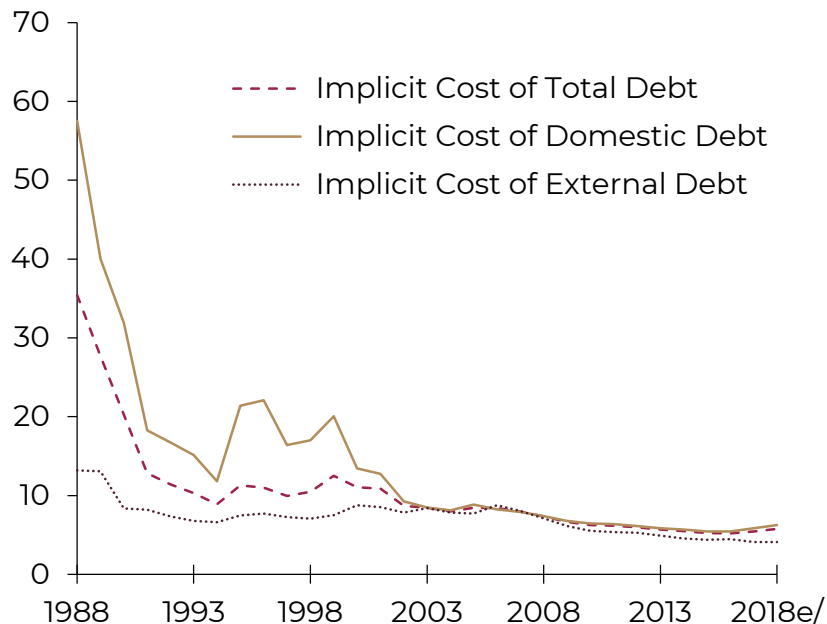
Implicit Cost

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

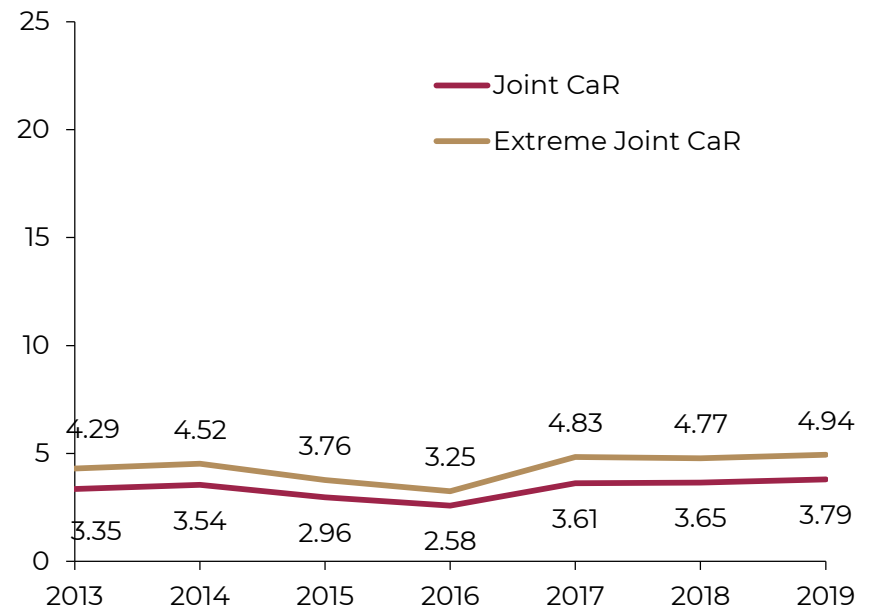
Cost at Risk

The **Cost at Risk (CaR)** remains at low levels and suggests that with a 95% confidence interval, the financial cost will not increase more than **3.79%**.

Federal Government's Implicit Debt Cost (%)



Federal Government Debt: Historical Joint CaR* (%)



e/ Expected

Source: Ministry of Finance.

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

V. Debt Policy of the Public Sector

Debt Policy of Public Sector Entities

- The 2019 Annual Borrowing Plan presents 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 facilitate investors' access 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 to communicate changes in their strategy.

V. Debt Policy of the Public Sector

Public Sector Financing Needs (Billion pesos and % GDP)

	2018 ^e		2019 ^e		Change % GDP
	Bn pesos	% GDP	Bn pesos	% GDP	
Total	2,902.4	12.3	2,986.0	12.0	-0.4
FG	1,706.7	7.2	1,800.5	7.2	0.0
Deficit	489.5	2.1	485.3	1.9	-0.1
Amort.	1,217.2	5.2	1,315.1	5.3	0.1
SOEs¹	278.4	1.2	198.9	0.8	-0.4
Deficit	61.4	0.3	59.4	0.2	0.0
Amort.	217.0	0.9	139.5	0.6	-0.4
DB²	635.7	2.7	704.2	2.8	0.1
TNF ³	80.0	0.3	78.5	0.3	0.0
Amort.	555.7	2.4	625.7	2.5	0.1
Other^{4,5}	281.6	1.2	282.4	1.1	-0.1
Deficit	42.1	0.2	42.9	0.2	0.0
Amort.	15.6	0.1	236.1	0.9	0.9

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

¹ State Owned Enterprises (Pemex y CFE).

² National Development Banks (Nafin, Banobras, Bancomext and SHF).

³ Total Net Financing.

⁴ Other issuers (FIRA, FONACOT e 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 2018 and 2019.

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 20.00 pesos per dollar according to the rate approved by the 2019 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.

Public Sector

- For 2019, the financing needs of the Public Sector entities are estimated to amount **12% of GDP**.
- This amount is **lower than the 2018 needs by 0.4%**, as a result of:
 - ✓ A **decrease of 0.4% of GDP** by the SOEs.
 - ✓ An **increase of 0.1% of GDP** by the Development Banks, given their expected portfolio growth.
 - ✓ A **decrease of 0.1% of GDP** by other issuers of the Public Sector.

V. Debt Policy of the Public Sector

State Owned Enterprises

- For 2019, the SOE's financing strategy will be oriented toward strengthening their liability portfolio in the context of the fiscal discipline efforts of the Public Sector.

Development Banks

- The 2019 financing strategy of Development Banks will be focused on preserving an adequate liability portfolio given its characteristics, in order to minimize risk.

Other issuers and IPAB

- For 2019, 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.

V. Debt Policy of the Public Sector

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 continue its strategy to carry out **issuances in the domestic market** that can be **settled 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.

¹Euroclear or Clearstream.

VI. Final Remarks

i.

The Federal Government is committed to the implementation of a fiscal policy oriented to an inclusive **economic development** in conjunction with the **fiscal stability** that will allow a **stable evolution of public debt as a percentage of GDP** in the following years.

ii.

The Federal Government will implement a debt management strategy based on **a strict and responsible use** of public debt, guided by the principle of **transparency**.

iii.

The public debt policy for 2019 will be focused on **strengthening the public debt portfolio** as an indispensable element for sound public finances.

Annex

Annex 1. Financing Needs of SOEs

Financing Needs of SOEs (billion pesos and % of GDP)

	2018 ^e		2019 ^e		Change % GDP
	Bn pesos	% GDP	Bn pesos	% GDP	
Total	278.4	1.2	198.9	0.8	-0.4
Pemex	272.9	1.2	197.0	0.8	-0.4
Deficit	79.4	0.3	65.4	0.3	-0.1
Amort.	193.5	0.8	131.6	0.5	-0.3
CFE	5.5	0.0	1.9	0.0	0.0
Deficit	-18.0	-0.1	-6.0	0.0	0.1
Amort.	23.5	0.1	7.9	0.0	-0.1

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

e/ End-of-year estimates for 2018 and 2019.

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 2019, the financing needs of the SOEs are estimated in 0.8% of GDP.
- This amount is lower than the 2018 estimate by 0.4% of GDP, as a result of the improvement of the financial situation of SOEs in the context of the Public Sector fiscal consolidation.
- The 2019 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 20.00 pesos per dollar according to the rate approved by the 2019 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 and % of GDP)

	2018 ^e		2019 ^e		Change % GDP
	Bn pesos	% GDP	Bn pesos	% GDP	
Total	635.7	2.7	704.2	2.8	0.1
NAFIN	78.8	0.3	133.0	0.5	0.2
TNF ¹	16.1	0.1	16.0	0.1	0.0
Amort.	62.7	0.3	117.0	0.5	0.2
Banobras	351.0	1.5	383.0	1.5	0.0
TNF	29.7	0.1	42.6	0.2	0.0
Amort.	321.3	1.4	340.4	1.4	0.0
Bancomext	164.8	0.7	157.7	0.6	-0.1
TNF	30.4	0.1	17.7	0.1	-0.1
Amort.	134.4	0.6	140.0	0.6	0.0
SHF	41.1	0.2	30.5	0.1	-0.1
TNF	3.8	0.0	2.2	0.0	0.0
Amort.	37.3	0.2	28.3	0.1	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 2019, the financing needs of the Development Banks are estimated at 2.8% of GDP.
- This amount increases by 0.1% of GDP with respect to 2018, as a result of an average portfolio expansion of 8% by Development Banks.
- The 2019 financing strategy of Development Banks will be directed to keeping an adequate liability portfolio given its characteristics, in order to minimize risk.

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 20.00 pesos per dollar according to the rate approved by the 2019 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 and % of GDP)

	2018 ^e		2019 ^e		Change % GDP
	Bn pesos	% GDP	Bn pesos	% GDP	
Total	281.6	1.2	282.4	1.1	-0.1
FIRA	40.9	0.2	42.5	0.2	0.0
Déficit	14.6	0.1	14.7	0.1	0.0
Amort.	26.3	0.1	27.8	0.1	0.0
FONACOT	3.0	0.0	2.0	0.0	0.0
Déficit	1.5	0.0	0.2	0.0	0.0
Amort.	2.8	0.0	1.6	0.0	0.0
IPAB¹	237.7	1.0	237.9	1.0	-0.1
Déficit	26.0	0.1	28.0	0.1	0.0
Amort.	225.2	1.0	206.7	0.8	0.1
(Des) Acumulación	-13.5	-0.1	3.2	0.0	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 2018 and 2019.

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 2019, the financing needs for other Public Sector issuers represent 1.1% of GDP, which is lower by 0.1% of GDP than the figure of 2018.
- For 2019, 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.

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 20.00 pesos per dollar according to the rate approved by the 2019 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.