



Mexico City, April 1<sup>st</sup>, 2020

The Federal Government, through the Ministry of Finance and Public Credit, delivered the “General Economic Policy Preliminary Guidelines for 2021” to Congress

In compliance with the provisions of Article 42, section I, of the Federal Budget and Fiscal Responsibility Law, the Federal Government presents, through the Ministry of Finance and Public Credit, the “General Economic Policy Preliminary Guidelines (GEPPG)” for 2021. This document is the first step to establish a dialogue with Congress about the economic and public finances outlook that will conclude with the Economic Program for 2021.

The GEPPG for 2021 incorporate the effects of severe shocks on the Mexican economy and the rest of the world, derived from the pandemic associated with COVID-19 and the virus that produces it (SARS-CoV-2), as well as the sanitary measures for its containment. This document highlights the Federal Government's commitment to fiscal discipline and recognizes the need to maintain a public finance stance that contributes to mitigate the economic effects of the pandemic and to firmly support the efforts for its containment.

The current situation is more complex than that foreseen in September of 2019, when the 2020 Economic Program was presented. In a very short period of time, the global economic outlook has quickly deteriorated. The speed with which the COVID-19 has spread around the world has resulted in a sad loss of human lives and the materialization of disease conditions for a high number of people. Additionally, the sanitary measures to contain the pandemic are generating important negative effects on the economic activity, besides the disruption of global supply chains, greater uncertainty, and volatility in financial markets around the world. Among the impacts of the foregoing, a sharp drop in oil demand and other raw materials stands out, which is leading to a reduction in its international prices. The latter has been exacerbated by Saudi Arabia and Russia oil price war, which has resulted in a further decline in energy prices.





The high global uncertainty has originated a reconfiguration of portfolios towards greater liquidity and safer assets, generating high volatility in the financial markets and the deterioration of most of the national and international financial variables, particularly in emerging economies. In this context, a general depreciation of emerging countries' currencies, including the Mexican peso, has been observed, as well as an increase in risk premiums of bonds of those economies.

Considering the above, global economic activity projections have been subject to constant downward revisions in a very short period of time. For instance, the Institute of International Finance (IIF) revised its global growth projection from 1.0% to a contraction of 1.5% between March 5<sup>th</sup> and March 23<sup>rd</sup> of this year.

It is anticipated that this global scenario, coupled with internal social distancing measures needed to contain the spread of the COVID-19, will have an impact on the economic activity and public finances of our country during 2020.

To face this context, the Government of Mexico has various financial and fiscal buffers. Moreover, different public policy measures are being implemented, and an additional set of actions are being prepared. Overall, these measures will help mitigate the effects of external and internal shocks on the economy, international liquidity, and public finances. Additionally, the implementation of these measures will contribute to face the challenges in health, employment, and liquidity of firms and households in the short term, protecting the income and well-being of the most vulnerable groups, while strengthening aggregate demand to reactivate the economy in the medium term.

Among the available buffers the following stand out: i) funds and reserves to face health contingencies, including epidemiological ones; ii) resources in the Budgetary Revenues Stabilization Fund (FEIP, for its Spanish acronym), which at the end of 2019 amounted Ps. 158.4 billion and whose use will be guided in strict adherence to the provisions of the Federal Budget and Fiscal Responsibility Law; iii) international reserves for USD 185.5 billion, a Flexible Credit Line with the International Monetary Fund for USD 61.4 billion, and foreign exchange swap lines with the Federal Reserve for USD 60.0 billion and with the United States Treasury for USD 9.0 billion. Together, these elements will help mitigate potential problems of international liquidity and balance of payments issues; and iv) oil hedges for both the Federal Government and Pemex to compensate for a decrease in





revenues due to reductions in oil prices. Additionally, the country has a robust public debt profile, the net external debt of the Federal Government represents only 22% of the total debt, while practically 100% is at a fixed rate.

Moreover, Banco de Mexico and the National Banking and Securities Commission (CNBV, for its Spanish acronym) have implemented regulatory changes and other actions to increase liquidity and granting of credits, such as the decrease in the monetary regulation deposits by Ps. 50 billion, the issuance of credit auctions in dollars, and a relaxation of accounting measures for banks, which will allow them to defer capital and interest payments totally or partially for up to 6 months on commercial, mortgage, personal, payroll and automobile loans.

Likewise, a series of measures were announced to protect the liquidity of vulnerable people and firms as of March 18th, highlighting 1 million loans for micro-enterprises that have limited access to the financial system. Additionally, the measures include Ps. 19 billion in housing loans for workers whose employment or income has been affected and Ps. 21 billion to the payment in advance of pensions for the elderly people so they can face the extraordinary expenses derived from this situation. In the coming days, additional actions will be presented to deal with the emergency.

The Mexican Government's strategy for 2020 is to maintain a balance between the need to stimulate the economy and maintain sound public finances. The government recognizes the importance of having fiscal space such as that considered in the Decree of the Federal Budget, as well as ensuring the deployment of expenditure and investment needed at the current situation, so public finances do not contribute to aggravate the macroeconomic situation.

To this end, the efficiency of tax collection and budget savings will be improved, especially within current expenditure, in order to finance the Federal Government's priority programs, as well as to attend any health and economic contingencies that may arise as a result of the epidemiological outbreak. Additionally, it is planned to privilege the use of public sector financial assets as a source of financing in order to minimize the use of higher indebtedness.





The macroeconomic outlook under the current context has a high level of uncertainty given the complexity of the pandemic, which makes it difficult to establish a specific forecast growth for the national economy. Therefore, for 2020 a range of GDP growth between -3.9 and 0.1% is projected, consistent with international organizations and private sector analysts' projections. The 2020 public finances estimates are made under a prudent scenario that considers a balance of risks in accordance with the high uncertainty that exists over the economic activity.

With these considerations, Public Sector Borrowing Requirements (PSBRs) are estimated to amount to 4.4% of GDP, while the public balance will registered a deficit of 3.3% of GDP and the primary balance will stand at -0.4% of GDP.

The Government of Mexico reiterates the importance of Pemex as a strategic asset to our country and is evaluating support measures in addition to those already implemented this year. Notwithstanding, Pemex will seek to make economies, as well as alternative sources of income to face the effects of the reduction in the price of oil on its finances.

The speed of recovery for both the global and Mexican economies is still uncertain. Nevertheless, a recovery from the effects of the COVID-19 pandemic is expected by 2021. For that year, GDP is expected to grow between 1.5 and 3.5%, an increase with respect to 2020. This projection is based on the economic activity improvement expected during the third and fourth quarters of this year, once the sanitary contingency ends.

Regarding public finances, the PSBRs are expected to decrease to 4.0% of GDP in 2021, while the public and primary deficits are expected to amount 3.5% and 0.6% of GDP, respectively.

The responsibility in the management of public finances by the Government of Mexico, as well as the implementation of countercyclical measures aimed at supporting the Mexican economy, will allow us to overcome the complex international and national environment.





## Annex I

### Macroeconomic Framework, 2020-2021 <sup>e/</sup>

	2020	2021
<b>Gross Domestic Product</b>		
Real growth %	[-3.9 , 0.1]	[1.5 , 3.5]
Nominal (billion pesos, puntual)*	24,360.0	25,768.0
GDP deflator	3.5	3.2
<b>Inflation (%)</b>		
Dec. / Dec.	3.5	3.2
<b>Nominal exchange rate (pesos per dollar)</b>		
End of period	22.9	21.4
Average	22.0	21.3
<b>Interest rate (Cetes 28 days, %)</b>		
Nominal end of period	5.8	5.8
Nominal average	6.2	5.8
Cumulative real	2.8	2.7
<b>Current account</b>		
Million dollars	-8,928	-16,339
% of GDP	-0.8	-1.4
<b>Other variables:</b>		
<b>Fiscal balance (% of GDP)</b>		
With investment	-3.3	-3.5
Excluding investment	-1.2	-1.5
<b>USA GDP</b>		
Real growth %	-2.0	2.4
<b>USA industrial production (%)</b>		
Real growth %	-2.2	2.1
<b>USA inflation (%)</b>		
Average	1.4	1.8
<b>International interest rate</b>		
Libor 3 months (average)	0.8	0.6
FED Funds Rate (average)	0.2	0.3
<b>Oil (Mexican basket)</b>		
Average price (dollars/barrel)	24	30
Oil production platform (Kbd)	1,850	2,027
Oil exportation platform (Kbd)	1,075	776
<b>Gas</b>		
Average price (dollars/ MMBtu)	2.0	2.4

e/ Estimated

\* Corresponds to the puntual growth scenario for public finances estimates.





## Annex II

### Public finances estimates, 2020

	Billion current pesos			% of GDP		
	Appr.	Est.	Diff.	Appr.*/ (3)	Est. (4)	Diff. (4-3)
	(1)	(2)	(2-1)			(4-3)
<b>PSBR's</b>	<b>-678,411.1</b>	<b>-1,077,629.2</b>	<b>-399,218.1</b>	<b>-2.6</b>	<b>-4.4</b>	<b>-1.8</b>
<b>Public Balance</b>	<b>-22,059.7</b>	<b>-281,277.8</b>	<b>-259,218.1</b>	<b>-0.1</b>	<b>-1.2</b>	<b>-1.1</b>
<b>Excluding investment<sup>1/</sup></b>	<b>-547,140.8</b>	<b>-806,358.8</b>	<b>-259,218.1</b>	<b>-2.1</b>	<b>-3.3</b>	<b>-1.2</b>
Budgetary revenues	5,523,275.6	5,226,314.3	-296,961.3	21.0	21.5	0.4
Oil	987,332.7	572,591.9	-414,740.8	3.8	2.4	-1.4
Federal Government	412,797.7	217,123.1	-195,674.6	1.6	0.9	-0.7
Pemex	574,535.0	355,468.8	-219,066.2	2.2	1.5	-0.7
Non-oil	4,535,942.9	4,653,722.4	117,779.5	17.3	19.1	1.8
Federal Government	3,671,308.7	3,805,376.7	134,068.0	14.0	15.6	1.6
Tax	3,505,822.4	3,350,840.5	-154,981.9	13.4	13.8	0.4
Non-tax	165,486.3	454,536.2	289,049.9	0.6	1.9	1.2
Institutions and enterprises	864,634.2	848,345.7	-16,288.5	3.3	3.5	0.2
Net paid expenditure	6,070,416.4	6,032,673.1	-37,743.2	23.1	24.8	1.6
Paid programmable	4,370,087.6	4,415,433.1	45,345.5	16.6	18.1	1.5
Non-programmable	1,700,328.8	1,617,240.0	-83,088.7	6.5	6.6	0.2
Financial cost	727,373.8	720,315.8	-7,058.0	2.8	3.0	0.2
Non-earmarked transfers	951,454.8	875,424.1	-76,030.7	3.6	3.6	0.0
Adefas	21,500.2	21,500.2	0.0	0.1	0.1	0.0
Budgetary balance	0.0	0.0	0.0	0.0	0.0	0.0
<b>Primary balance</b>	<b>180,733.0</b>	<b>-85,543.0</b>	<b>-266,276.1</b>	<b>0.7</b>	<b>-0.4</b>	<b>-1.0</b>

Note: Figures may not add up due to rounding.

\* / Consider the nominal GDP estimated in the CGPE 2020.

<sup>1/</sup> For 2020, it excludes up to 2.0% of the GDP of the physical investment of Pemex, CFE and of the Federal Government, according to article 1 of the LIF 2020, and for 2021 it excludes up to 2.0% of the physical investment of Pemex, CFE and Federal Government.





Annex III

Public finances estimates, 2020-2021

	Billion current pesos			% of GDP			Real growth	
	2020		2021	2020		2021	2021 vs 2020	
	Appr, (1)	Est. (2)	Est. (3)	Appr. */ (4)	Est. (5)	Est. (6)	(3/1) (3/2)	(3/2)
<b>PSBR's</b>	<b>-678,411.1</b>	<b>-1,077,629.2</b>	<b>-1,034,002.7</b>	<b>-2.6</b>	<b>-4.4</b>	<b>-4.0</b>	<b>47.7</b>	<b>-7.0</b>
<b>Public Balance</b>	<b>-547,140.8</b>	<b>-806,358.8</b>	<b>-905,162.9</b>	<b>-2.1</b>	<b>-3.3</b>	<b>-3.5</b>	<b>60.3</b>	<b>8.7</b>
<b>Excluding investment<sup>1/</sup></b>	<b>-22,059.7</b>	<b>-281,277.8</b>	<b>-389,803.5</b>	<b>-0.1</b>	<b>-1.2</b>	<b>-1.5</b>	<b>n. a.</b>	<b>34.3</b>
Non-budgetary balance	0.0	0.0	0.0	0.0	0.0	0.0	n. a.	n. a.
Budgetary balance	-547,140.8	-806,358.8	-905,162.9	-2.1	-3.3	-3.5	60.3	8.7
Budgetary revenues	5,523,275.6	5,226,314.3	5,295,711.4	21.0	21.5	20.6	-7.1	-1.8
Oil	987,332.7	572,591.9	678,766.2	3.8	2.4	2.6	-33.4	14.8
Non-oil	4,535,942.9	4,653,722.4	4,616,945.2	17.3	19.1	17.9	-1.4	-3.9
Federal Government	3,671,308.7	3,805,376.7	3,726,541.7	14.0	15.6	14.5	-1.7	-5.1
Tax	3,505,822.4	3,350,840.5	3,554,095.2	13.4	13.8	13.8	-1.8	2.8
Non-tax	165,486.3	454,536.2	172,446.4	0.6	1.9	0.7	0.9	-63.2
Institutions and enterprises	864,634.2	848,345.7	890,403.5	3.3	3.5	3.5	-0.2	1.7
Net paid expenditure	6,070,416.4	6,032,673.1	6,200,874.3	23.1	24.8	24.1	-1.0	-0.4
Paid programmable	4,370,087.6	4,415,433.1	4,482,050.5	16.6	18.1	17.4	-0.6	-1.7
Payment deferral	-36,030.1	-36,030.1	-37,192.7	-0.1	-0.1	-0.1	0.0	0.0
Accrued programmable	4,406,117.7	4,451,463.2	4,519,243.2	16.8	18.3	17.5	-0.6	-1.7
Non-programmable	1,700,328.8	1,617,240.0	1,718,823.8	6.5	6.6	6.7	-2.1	3.0
Financial cost	727,373.8	720,315.8	750,831.6	2.8	3.0	2.9	0.0	1.0
Non-earmarked transfers	951,454.8	875,424.1	930,799.5	3.6	3.6	3.6	-5.2	3.0
Adefas	21,500.2	21,500.2	37,192.7	0.1	0.1	0.1	67.6	67.6
<b>Primary surplus</b>	<b>180,733.0</b>	<b>-85,543.0</b>	<b>-153,831.3</b>	<b>0.7</b>	<b>-0.4</b>	<b>-0.6</b>	<b>-182.5</b>	<b>74.2</b>

Note: Figures may not add up due to rounding.

n.a.: Does not apply.

\*/ Consider the nominal GDP estimated in the CGPE 2020.

1/ For 2020, it excludes up to 2.0% of the GDP of the physical investment of Pemex, CFE and of the Federal Government, according to article 1 of the LIF 2020, and for 2021 it excludes up to 2.0% of the physical investment of Pemex, CFE and Federal Government.

