SHCP

SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO

Mexico City, December 15th, 2018

Proposed 2019 Economic Program

- The Economic Program for fiscal year 2019, composed by the proposal of Income Law (ILIF), the proposed Budget (PPEF) and the General Economic Policy Guidelines (CGPE) was submitted to Congress today.

- The 2019 Economic Program shows a strict commitment with fiscal and financial discipline in order to guarantee macroeconomic stability and sound public finances. Accordingly, the estimated primary surplus is 1.0% of GDP for 2019.

- The Program is guided by the principle of austerity, reorienting the budget towards programs that have a high impact on the well-being of the Mexican families and towards infrastructure projects that foster long-term development.

- The Economic Program was built under the premises of prudence, transparency, responsibility and objectivity.

- The tax framework fundamentals are preserved by not increasing the tax burden nor proposing new taxes. The Program anticipates for 2019 budgetary revenues of Ps. 5,274.4 billion, of which Ps. 1,045 billion (19.8%) correspond to oil revenues, Ps. 3,287.6 billion (62.3%) to tax revues, Ps. 120.3 billion (2.3%) to non-tax revenues, and Ps. 821.5 billion (15.6%) to institutions and enterprises.

- The Program projects an increase in budgetary revenues of 6.3% in real terms for 2019 with respect to the level approved in 2018. This evolution is mainly explained by two factors. In first place, there is more accurate information about 2018 budgetary revenues at the time of elaboration of the Economic Program. In second place, an important effort was made to improve the estimation of revenues, in line with fiscal transparency practices recommended by international financial organisms. In terms of public finances' recent evolution, budgetary revenues in 2019 will decrease 0.5% in real terms with respect to what is expected in 2018.

- The proposed budget for 2019 amounts to Ps. 5,778.3 billion, an increase of 330.8 billion 2019-constant pesos (6.1% in real terms) with respect to the approved in 2018. Nevertheless, when compared to the year-end 2018 estimated, the budget for 2019 is 0.2% lower in real terms.

- The Economic Program considers resources for approximately Ps. 252 billion for priority projects of the Federal Government. Among these projects, the following stand out: Pension for the Well-Being of the Elderly ("Pensión para el Bienestar de las Personas Adultas Mayores") that, with a budget of Ps 100 billion, will double the transfers for the elderly in order to lead a dignified life; the program Young Population Building the Future ("Jóvenes Construyendo el Futuro") with a budget of Ps. 44.3 billion, that will provide employment and education opportunities to 2.6 million young people; and a budget of Ps. 30.4 billion allocated to several railway, highway and airport infrastructure projects that will be implemented with the objective of enhancing the country's internal and external connectivity.

SHCP

SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO

Priority Projects of the Central Sector

(Billion pesos)

No.	Project	2019 Budget
1	Mayan Train	6.0
2	Trans-Isthmus train project	0.9
3	Rural roads	2.5
4	Modernization and rehabilitation of airport and connectivity infrastructure	18.0
5	Internet for All	0.6
6	Marginalized Neighborhoods	8.0
7	Reconstruction Plan	8.0
8	Tree Planting Program "Sembrando Vida"	15.0
9	Pension for People with Disability	7.0
10	Pension for the Well-Being of the Elderly	100.0
11	"Benito Juarez" Scholarship for Upper Secondary Education Students	17.3
12	Rural Universities "Benito Juárez García"	1.0
13	Young Population Building the Future	44.3
14	Credit for cattle ranchers	4.0
15	Fertilizers	1.0
16	Price guarantees scheme for agriculture	6.0
17	Credit for farmers	9.0
18	Small and medium-sized enterprises program	3.0
Total		251.6

Source: Ministry of Finance.

- In 2019, federal transfers to states (non-earmarked transfers, contributions and other concepts) will be around Ps 1.9 trillion. In particular, federal non-earmarked transfers to states will increase 8.4% in real terms with respect to those approved in 2018.

- Given the fiscal efforts featured in the 2019 Economic Program, the Public Sector Borrowing Requirements (PSBRs) will represent 2.5% of GDP, maintaining the broadest debt measure in the country, the Historical Balance of the PSBRs (HBPSBR), in a constant trajectory.

*****

Today the Ministry of Finance and Public Credit submitted to Congress the Proposed Income Law (ILIF), the Proposed Budget (PPEF) and the General Economic Policy Guidelines (CGPE) for the fiscal year 2019. These documents are part of the 2019 Economic Program, in which the following stand out:

I. Evolution of the economy

The performance of global economic activity during 2018 has been positive despite of a global environment of pronounced uncertainty and a high level of financial volatility. Some signs of moderation in the pace of growth have become evident, and the global growth outlook has been revised downwards for 2018 and 2019. The International Monetary Fund (IMF) projects an annual global growth rate of 3.7% in real terms for 2018 and 2019, which implies a downward revision of 0.2 percentage points with respect to the perspective of growth for both years in mid-2018.

With the exception of the United States, where growth rates have remained high, the economic activity for 2018 in the main advanced economies shows signs of deceleration. For most emerging economies, the levels of economic activity during 2018 were positive.

The normalization process of the US monetary policy has generated more astringent conditions in financial markets worldwide. This process has strengthened the US dollar, pressuring emerging economies' currencies and causing a reduction in capital flows to them. As a result, reference rates and country risk indicators have increased in several emerging countries, mainly in those with weaker macroeconomic fundamentals.

This adverse environment has been exacerbated by an escalation of commercial and geopolitical tensions worldwide, which could distort global value chains and reduce investment capacity and incentives. Some of these risks have begun to materialize and there could be some feedback between them, having a detrimental effect on economic performance in the short and medium terms. In consequence, the risk balance for global economic growth has worsened.

In this complex environment, Mexico's economic activity was resilient, growing at an annual rate of 2.1% between January and September 2018. Exports showed great dynamism derived from the United States sustained economic growth, whereas private consumption continued to expand driven by the growth of employment and sources of income. However, the investment expenditure has continued to show a weak performance.

On the production side, the activity was driven by the growth of services and manufactures. In contrast, it was negatively affected by the reduction in the oil production platform. On the other hand, the labor market continued exhibiting a strong performance, which was reflected in an unemployment rate at historically low levels and in formal employment levels at historic highs.

Between January and November 2018, annual headline inflation decreased compared to the levels observed at the end of 2017, which reflects reductions in both the core and non-core inflation Thus, annual headline inflation fell from 6.77% in December 2017 to 4.72% in November 2018. The exchange rate of the peso against the dollar registered a depreciation of 4.0% between the end of 2017 and November 30th, 2018, showing episodes of volatility throughout the year. Given the risk of a rebound in inflation, the Bank of Mexico adjusted the reference rate upward in 25 basis points in February, June and November, so the target rate increased from 7.25% at the end of 2017 to 8.00% in November 2018.

During 2018, several events generated volatility in the country's financial markets, including the following: an increase in trade tensions and the tariffs imposed by the United States of America on various economies, the negotiation process of the new trilateral trade agreement between Mexico, the United States of America and Canada, and the uncertainty associated with the Mexican electoral process. With the objective of providing greater certainty, the present administration is committed to providing timely and transparent information about public policy decisions and their fiscal and financial implications.

Considering the external environment and the recent evolution of national economic activity, Mexico's GDP is expected to grow 2.3% in real terms in

2018. This economic growth estimate is based on the expectation that Mexican non-oil exports will continue to grow in the last two months of the year, driven by the dynamic economy of the United States. Likewise, private consumption is expected to continue growing during the fourth quarter of 2018 given the strengthening shown by its main determinants.

On November 30th, the leaders of Mexico, the United States of America and Canada signed a new trade agreement (USMCA), as a side event of the G20 Summit in Buenos Aires, Argentina. The ratification of this agreement by each country's legislature is still pending. Once the agreement takes effect, it is expected to provide certainty to trade in the region. In particular, having reached an agreement in a context of scaling trade tensions among the world's leading economies is very favorable for Mexico, as it strengthens confidence and encourages a gradual recovery of investment in the country.

An annual inflation of 4.7% is anticipated for 2018 year-end, which corresponds to Bank of Mexico's inflation forecast for the fourth quarter of the year, published in its Quarterly Report for the period of July-September. The average price of the Mexican oil mix is estimated at 62.0 dollars per barrel (dpb), and the average exchange rate is expected to be 19.2 pesos per dollar.

The economic program for 2019 rests on cautious assumptions about the evolution of the macroeconomic framework, with the intention that the budget reflects the current balance of risks facing the economy. Regarding the external environment, it is expected that in 2019 the US economy will continue to grow, albeit at a slower pace than in 2018, mainly due to the gradual dissipation of the effects of the fiscal reform implemented this year, which would be reflected in moderate growth rates of consumption and investment. In particular, the Blue Chip Economic Indicators Survey estimates that in 2019 the United States of America's real GDP growth will be 2.6%, lower than the expected expansion of 2.9% for 2018.

For the Mexican economy, annual real GDP growth is expected to be between 1.5 and 2.5% in 2019. The punctual estimate used for public finance estimations is a 2.0% real annual GDP growth. Exports and consumption are expected to be lower than in 2018, and the trade agreement reached is expected to provide stronger incentives for investment.

For 2019 year-end, an inflation of 3.4% is considered, which corresponds to the level projected by the Bank of Mexico for the fourth quarter of the year in its Quarterly Report for the period of July-September 2018. The average nominal exchange rate considered is 20.0 pesos per dollar, and the contemplated average 28-day CETES nominal interest rate is 8.3%. Given the volatility shown by the Mexican crude oil export price, an oil price of 55.0 dpb and a production platform of 1,847 thousand barrels of oil per day are considered. Although the levels contemplated are in line with the market analysts' expectations, the macroeconomic framework could be affected by the exacerbation of some risks that have been materializing, among which are: the more stringent financial conditions due to the normalization of the monetary policy of United States of America, an increase in global trade and geopolitical tensions, and greater volatility in global financial markets due to the risk of contagion.

II. Public Finances

For 2018, budgetary revenues are estimated to increase 1.4% of GDP with respect to what was approved in that year's Income Law. With respect to its composition, oil revenues are expected to increase by 0.5% of GDP due to a higher oil price, whereas non-oil tax revenues will increase 0.4% of GDP, reflecting a favorable evolution of tax collection.

On the other side, budgetary expenditure will be 1.4% of GDP higher than the expected in the program, in line with the higher income expected. With respect to its composition, the higher programmable expenditure by 1.1% of GPD stands out, and this is mainly driven by the Federal Electricity Commission's higher operating cost due to an increase in the price of fuels for power generation. Likewise, non-programmable expenditure is expected to increase 0.3% because of higher payment of commitments acquired by the Federal Government in previous fiscal years ("ADEFAS"), due to the acquisition of financial assets stemming from contribution payments to Stabilization Funds in February 2018 derived from the excess revenues in 2017, and higher payment of non-earmarked transfers to subnational governments due to the favorable tax collection evolution.

Considering the above, the 2018 fiscal targets approved by Congress will be met. At the end of the year, the PSBRs, the broadest measure of public balance, will reach a deficit of 2.5% of GDP. With this level of PSBRs, the HBPSBRs will maintain its downward trajectory as a proportion of GDP and reach a level of 45.3% of GDP by the end of 2018. Likewise, a budgetary balance is expected in the public balance excluding up to 2.0% of GDP of the Federal Government and productive enterprises' investment. Given these results and the financial cost estimate, the primary surplus will reach 0.7% of GDP, lower than the 0.8% of GDP that was anticipated in the 2019 General Economic Policy Preliminary Guidelines ("Pre-Criterios").

With the objective of preserving sound public finances and macroeconomic stability, a deficit in the PSBRs of 2.5% of GDP is proposed for 2019. This level of PSBRs will maintain a constant trajectory of the HBPSBR. Given the PSBRs' target and considering extra-budgetary financial needs of 0.5% of GDP, the public balance will reach a deficit of 2.0% of GDP. Therefore, a budgetary balance is expected in the public balance excluding up to 2.0% of Federal Government's and productive enterprises' investment. These levels of balance and the estimated financial cost for 2019 will allow a primary surplus of 1.0% of GDP.

With respect to revenue policy, in 2019 the tax framework fundamentals are preserved by not increasing the tax burden nor proposing new taxes. On the budget side, the PPEF is guided by a policy of austerity and savings which will allow to channel public resources towards society's priority needs and towards boosting expenditure on productive investment.

A stimulus package for the municipalities in the northern border is proposed for 2019, with the objective of reactivating the economy in a region that has been affected by violence and organized crime, and that has served as a buffer of migratory flows during the last decade.

Total budgetary revenues estimated for 2019 in the ILIF amount to Ps. 5,274.4 billion, 6.3% higher in real terms with respect to the level approved in 2018, and it represents a 0.5% reduction in real terms when compared with the level estimated for 2018. It is important to point out that the 2019 estimates consider the registered evolution of public finances. The information up to November 2018 indicates that income revenues will be higher in Ps. 327.7 billion compared to the program. Taking into account the latter, it is estimated that in 2019 oil revenues will increase by 14.3% in real terms with respect to the level approved by Congress, but only 1.0% higher when compared to the estimate for 2018. The increase in oil revenues is the result of higher oil prices and average exchange rate. Moreover, tax revenues are expected to increase 7.0% in real terms with respect to the figure approved in 2018 and 3.8% in comparison to the estimate for 2018, as a result of the favorable dynamic registered in 2018 which is expected to continue in 2019. Taxes excluding fuel excise tax (IEPS) are expected to grow 1.4% in real terms with respect to the estimate for 2018. This growth rate considers the net effect of the revenue gains from administrative measures aimed at strengthening tax collection and the cost of the fiscal stimulus in the northern border. Finally, it is estimated that Federal Government's non-tax revenues will decrease 32.1% in real terms with respect to the figure approved in 2018 and 53.3% with respect to the level estimated for 2018, as a result of higher non-recurrent revenues in 2018.

Given the public balance deficit of 2.0% of GDP and the estimated budgetary revenues, the 2019 Program considers net paid expenditures of Ps. 5,778.3 billion, which implies an increase of 6.1% in real terms with respect to the 2018 budget. In its composition, programmable expenditure is projected to Ps. 4,086.7 billion (Ps. 4,122.7 billion accrued), 4.4% higher in real terms to the 2018 budget, but it is expected to decrease 2.4% in real terms with respect to the 2018 estimate.

Public debt policy will be aimed at covering the Government's financial needs in a timely manner and with favorable conditions, and also at improving, in line with market conditions, the terms of its service. The issuance of instruments in local currency, at fixed rate and long-term maturities will be favored. The latter will contribute to mitigate the impact of external shocks in public finances and to narrow the effect that episodes of volatility in the financial markets have on the debt's financial cost.

The Federal Government will continue taking measures to preserve sound public finances in the face of shocks, among which the following stand out: (i) The Federal Government's oil-hedging program; (ii) the accumulation of resources for stabilization funds, which are at historical levels, by September they represented 1.5% of GDP (Ps. 341.7 billion); (iii) the IMF Flexible Credit Line of around Ps. 74 billion dollars, and (iv) a continuous effort to improve the debt's profile.

The medium term public finances projections for the years 2020-2024 that are presented in the 2019 Economic Program consider a conservative macroeconomic framework in line with market expectations. The current Administration will revise the medium term estimates once the effects of the new economic policies are incorporated. The new estimates will be presented in the 2019-2024 National Development Plan.

The 2020-2024 estimates incorporate the following assumptions: inflation will be at Bank of Mexico's target and the exchange rate will move together with the inflation differential between the US and Mexico, which will maintain a constant exchange rate in real terms. The price of oil is determined with WTI crude futures while the production platform is determined by the average of Pemex and the Ministry of Energy estimates. For medium -term estimates, the fiscal target is compatible with a slight decrease of the debt as a proportion of GDP starting in 2021 (annual decrease of 0.1% of GDP). GDP's annual growth forecast is between 2.6 and 2.8%, slightly above the registered by the Mexican economy in the last years, but below the FMI's estimates. Tax revenues are compatible with the growth in tax revenues registered in recent years. However, this conservative exercise shows that in order to have high levels of public investment it is necessary to strengthen government revenues.

The 2019 Economic Program reflects the Mexican Government's commitment with using the budget as a tool for economic development, and for the reduction of poverty and inequality gaps. The proposed fiscal discipline will be achieved without increasing the tax burden and by fostering an austere and efficient expenditure, based on the balanced budget rules established in the Federal Budget and Fiscal Responsibility Law. The latter, guided by the principles of austerity, honesty and fight against corruption, will lead the country's public policies.

Macroeconomic Framework, 2018-2019

	2018	2019
Gross Domestic Product		
Real growth %		1.5 - 2.5
Punctual	2.3	2.0
Nominal (billion pesos, punctual)*	23,552.5	24,942.1
GDP deflactor	5.1	3.9
Inflation (%)		
Dec. / Dec.	4.7	3.4
Nominal Exchange Rate (pesos per dollar)		
End of period	20.0	20.0
Average	19.2	20.0
Interest Rate (CETES 28 days, %)		
Nominal end of period	8.3	8.3
Nominal average	7.7	8.3
Cumulative real	3.1	5.0
Current Account		
Million dollars	-21,698	-27,326
% of GDP	-1.8	-2.2
Oil (Mexican Basket)		
Average price (dollars/barrel)	62	55
Oil production platform (kbd)	1,849	1,847
Gas		
Average price (dollars/MMBtu)	3.0	2.8

*** Corresponds to the punctual growth scenario for public finances estimates.**
N/A: Does not apply.

SHCP

SECRETARÍA DE HACIENDA
Y CRÉDITO PÚBLICO

Public Finances Estimates, 2018-2019

	Million Current Pesos		% of GDP		Real Growth %
	2018 Approved*/	2019	2018 Approved*/	2019	
Public Balance	-466,684.4	-503,841.3	-2.0	-2.0	3.9
Public Balance Excluding Investment[1/]	0.0	0.0	0.0	0.0	n.a.
Non-Budgetary Balance	0.0	0.0	0.0	0.0	n.a.
Budgetary Balance	-466,684.4	-503,841.3	-2.0	-2.0	3.9
Budgetary Revenues	4,778,291.5	5,274,420.3	20.3	21.1	6.3
Oil	880,135.3	1,044,956.8	3.7	4.2	14.3
Non-oil	3,898,156.2	4,229,463.5	16.6	17.0	4.5
Federal Government	3,128,124.9	3,407,924.2	13.3	13.7	4.9
Tax	2,957,469.9	3,287,605.4	12.6	13.2	7.0
Non-Tax	170,655.0	120,318.8	0.7	0.5	-32.1
Institutions and Enterprises[2/]	770,031.3	821,539.3	3.3	3.3	2.7
Neta Paid Expenditures	5,244,975.9	5,778,261.6	22.3	23.2	6.1
Paid Programmable	3,768,473.4	4,086,660.4	16.0	16.4	4.4
Payment Deferral	-34,691.1	-36,030.1	-0.1	-0.1	0.0
Accrued Programmable	3,803,164.5	4,122,690.5	16.1	16.5	4.4
Non programmable	1,476,502.5	1,691,601.2	6.3	6.8	10.3
Financial Cost	647,479.8	749,074.4	2.7	3.0	11.4
Non-Earmarked Transfers	811,931.6	914,496.7	3.4	3.7	8.4
Adefas	17,091.1	28,030.1	0.1	0.1	57.9
Public Sector Financial Cost[3/]	647,979.8	749,574.4	2.8	3.0	11.4
Primary Surplus	181,295.4	245,733.1	0.8	1.0	30.5

Note: Figures may not add up due to rounding.
*/ Figures were updated considering the nominal GDP revision.
1/ Excludes up to 2.0% of GDP of Federal Government and productive enterprises' investment based on the article 1st of the LIF 2018 and
2/ Includes IMSS, ISSSTE and CFE.
3/ Includes financial cost of entities under indirect budget control.
Source: Ministry of Finance

SHCP
SECRETARÍA DE HACIENDA
Y CRÉDITO PÚBLICO

Public Finances Estimates, 2018-2019

	Million Current Pesos		% of GDP		Real Growth %
	2018 Estimate*/	2019	2018 Estimate */	2019	
Public Balance	**-466,684.4**	**-503,841.3**	**-2.0**	**-2.0**	**3.9**
Public Balance Excluding Investment[1/]	**0.0**	**0.0**	**0.0**	**0.0**	**n.a.**
Non-Budgetary Balance	0.0	0.0	0.0	0.0	n.a.
Budgetary Balance	-466,684.4	-503,841.3	-2.0	-2.0	3.9
Budgetary Revenues	5,106,008.9	5,274,420.3	21.7	21.1	-0.5
Oil	996,000.0	1,044,956.8	4.2	4.2	1.0
Non-oil	4,110,008.9	4,229,463.5	17.5	17.0	-0.9
Federal Government	3,296,608.9	3,407,924.2	14.0	13.7	-0.5
Tax	3,048,430.8	3,287,605.4	12.9	13.2	3.8
Non-Tax	248,178.1	120,318.8	1.1	0.5	-53.3
Institutions and Enterprises[2/]	813,400.0	821,539.3	3.5	3.3	-2.8
Neta Paid Expenditures	5,572,693.3	5,778,261.6	23.7	23.2	-0.2
Paid Programmable	4,030,541.3	4,086,660.4	17.1	16.4	-2.4
Payment Deferral	-34,691.1	-36,030.1	-0.1	-0.1	0.0
Accrued Programmable	4,065,232.4	4,122,690.5	17.3	16.5	-2.4
Non programmable	1,542,152.0	1,691,601.2	6.5	6.8	5.6
Financial Cost	630,291.7	749,074.4	2.7	3.0	14.4
Non-Earmarked Transfers	848,777.4	914,496.7	3.6	3.7	3.7
Adefas	63,082.9	28,030.1	0.3	0.1	-57.2
Public Sector Financial Cost[3/]	**630,791.7**	**749,574.4**	**2.7**	**3.0**	**14.4**
Primary Surplus	**164,107.3**	**245,733.1**	**0.7**	**1.0**	**44.2**

Note: Figures may not add up due to rounding.
*/ Figures were updated considering the nominal GDP revision.
1/ Excludes up to 2.0% of GDP of Federal Government and productive enterprises' investment based on the article 1st of the LIF 2018 and
2/ Includes IMSS, ISSSTE and CFE.
3/ Includes financial cost of entities under indirect budget control.
Source: Ministry of Finance