Mexico City, September 8th, 2019

Proposed 2020 Economic Program

- The Economic Program for the 2020 fiscal year, comprised by the Federation's Revenues Law Initiative (ILIF by its Spanish acronym), the initiative to amend different tax provisions, the Expenditures Budget Project (PPEF by its Spanish acronym) and the General Economic Policy Guidelines (CGPE by its Spanish acronym) was submitted to Congress today. These documents were elaborated under the principles of republican austerity and fiscal discipline, as well as under the criteria of transparency, efficiency, and effectiveness.
- Given the complex international context and Mexico's economic slowdown, the 2020 Economic Program constitutes a solid platform to achieve the administration's goals in terms of well-being, by prioritizing social and security expenditure and the strengthening the energy sector.
- The commitment to fiscal discipline is reflected in the 2020 primary balance target of 0.7% of GDP, which ensures a sustainable trajectory of the Historical Balance of the Public Sector Borrowing Requirements, the broadest measure of public debt.
- The 2020 revenues policy aims at strengthening budgetary revenues by proposing actions to simplify the tax framework and by closing loopholes to reduce tax avoidance and evasion. This in order to have a tax framework with greater equity and that all taxpayers contribute with their corresponding tax burden.
- The Public Sector revenues for 2020 amount to Ps. 6,096.3 billion, of which Ps. 5,511.9 billion correspond to budgetary revenues and Ps. 584.4 billion to revenues from financing.
- Meanwhile, the 2020 PPEF prioritizes social programs expenditure in order to reduce economic, social and regional inequalities, as well as investment projects that have a greater impact on the potential growth determinants of the economy.

- The total net accrued expenditure amounts to Ps. 6,096.3 billion, a nominal increase of 4.4% (0.8% in real terms) compared to the approved in 2019. Within, non-programmable expenditure is projected to be Ps. 1,701.1 billion in 2020, a 2.8% real decrease compared to the 2019 program; while the programmable accrued expenditure is estimated at Ps. 4,395.2 billion, 2.3% higher with respect to that approved the previous year.

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Today the Ministry of Finance and Public Credit submitted to Congress the Federation's Revenues Law Initiative (ILIF by its Spanish acronym), the initiative to amend different tax provisions, the Expenditures Budget Project (PPEF by its Spanish acronym) and the General Economic Policy Guidelines (CGPE by its Spanish acronym) was submitted to Congress today for the fiscal year 2020. These documents are part of the 2020 Economic Program, in which the following stand out:

I. Economic Outlook

Since the second semester of 2018, global economic growth began to show signs of a slowdown. The deceleration of the world economic cycle was exacerbated by trade disputes, mainly between the United States of America (USA) and China, and the possible exit of the United Kingdom from the European Union (EU). In 2019, trade disputes increased, generating higher uncertainty, episodes of high volatility and higher risk aversion within financial markets, which mainly affected emerging markets. These tensions have had a negative impact on international trade, investment flows and, mostly, in industrial production, particularly in manufacturing. Tensions between the USA and China have increased to levels higher than anticipated and could end in the reconfiguration of global value chains, which could have important implications on global economic productivity.

In line with the global economic slowdown, during 2019 the prices for hydrocarbons decreased with respect to 2018 due to supply and demand effects. In regards to the supply factors, the increase in oil and shale gas production from the USA stands out, as well as the expansion of the global market in natural gas. On the demand side, the industrial production deceleration stands out, particularly in manufacturing, as well as negative perspectives caused by the escalation in trade disputes.

Given the context of the global economic slowdown, of lower energy prices and lower inflationary pressures, particularly in advanced economies, at the beginning of 2019, the main central banks redesigned their monetary policy normalization path and waited for more information to make policy decisions. During the second half of the year, facing a higher deterioration of the economic activity indicators, central banks took a more accommodative monetary policy stance.

The International Monetary Fund (IMF), in its 2019 July update of the World Economic Outlook (WEO) report, projected that in 2019 the world economy would grow at an annual rate of 3.2%, which implies a downward revision of 0.1 percentage points from their April projections, and is 0.4 percentage points lower than the one published in January. Moreover, the IMF projected that the world economy would grow 3.5% in 2020, 0.1 percentage points lower than the previous projections. In this respect, the IMF highlighted that the downward revisions are consistent with the development of trade disputes, a prolonged increase in the global risk aversion and lower inflationary pressures.

Given the complex international context, the Mexican economy showed mixed results. In one hand, industrial activity and investment have shown greater weakness while, in the other hand, non-oil exports have continued with a positive trend, along with stable performance of the labor market with real wage increases.

The observed slowdown in the aggregate economic activity, both domestic and international, is related to economic factors associated to the economic cycle and is not related to factors which have permanent effects on the economy and that determine long-term economic activity growth.

In 2019, despite an international environment with high volatility, the Mexican peso has remained between the expected parameters. In the first semester of 2019, the exchange rate showed an appreciation, while the yield curve fell, in line with the international markets.

The headline inflation showed a downward trend during 2019 mainly due to lower non-core inflation prints, particularly, lower energy prices. Annual headline inflation decreased from 4.83% in December 2018 to 3.29% in the first half of August 2019. In this context, in its last meeting on August 15th, Banco de Mexico decided to reduce its target interest rate 25 basis points to a level of 8.0%. The Government Board emphasized that this action considers the decrease in the headline inflation as planned and that the increase in the slack of the economy has been wider than expected, increasing the product gap into negative territory.

For 2019, GDP growth rate is estimated to stand between a range of 0.6 and 1.2%. Growth during the second half of the year will be driven by a higher current spending and public investment, according to the budget approved for 2019; by the actions to boost the economy announced in July, as well as by greater investment opportunities due to the expectation of ratification of the United States, Mexico and Canada Agreement (USMCA) by the congresses of the United States and Canada. Furthermore, recovery of consumption and non-oil exports is expected to have a positive contribution to growth, the latter driven by the international trade with the USA. Additionally, the international monetary easing, as well as the reduction of the reference rate of Banco de Mexico, could generate favorable conditions of durable goods consumption and flows investment. Moreover, the Federal Government is taking actions to build confidence among investors, as the controversies regarding the operation of gas pipelines were solved.

In 2019, it is expected an average price of 55.0 dollars per barrel (dpb) for the Mexican oil mix, which is in line with the price approved for the 2019 budget, while the exchange rate is expected to reach an average of 19.4 pesos per dollar. For 2019 year-end, it is estimated an annual headline inflation of 3.2%, which is consistent with Banco de Mexico's forecast for the fourth quarter of 2019, published in its April-June Quarterly Report.

The 2020 Economic Program is based on a prudent macroeconomic framework, in accordance with market expectations, due to the prevailing uncertainty in the international economic environment. Nevertheless, it is estimated that the strengthening of the labor domestic market, job creation, credit recovery, and the public and private investment would generate a greater dynamism during the year. These factors would also be driven by external ones such as better trade conditions due to the probable USMCA ratification, and internal factors like the dissipation of uncertainty regarding new government policies and lower inflationary pressures. Hence, a real annual GDP growth rate between 1.5 and 2.5% is expected for 2020. Particularly, for the public finance projections a punctual 2.0% real annual GDP growth is considered.

For 2020 year-end, a 3.0% annual headline inflation is considered, which is consistent with the level projected by Banco de Mexico for the fourth quarter of 2020, published in its April-June Quarterly Report, as well as a nominal average exchange rate of 20.0 pesos per dollar, and a 28-day CETES nominal interest rate of 7.4%.

For 2020, an average price of 49.0 dpb for the Mexican oil mix is expected, mainly due to a lower demand, result of the escalating trade disputes, the deceleration of the global industrial production, and the implementation in 2020 of the regulation by the International Maritime Organization (IMO) about the maximum sulfur content in oil fuel. Furthermore, a production platform of 1,951 thousand barrels per day is proposed, in accordance with Pemex Business Plan for 2019-2023 and with the projections of private production from the Ministry of Energy.

Although these variables are in line with analysts' expectations, the macroeconomic framework could be affected by the exacerbation of some risks, the following stand out: a further delay of the USMCA ratification; an escalation of geopolitical and commercial global disputes; a further deceleration of the global economy, particularly, in the USA industrial production; a deterioration of Pemex credit rating and its possible contagion effect on the sovereign rating; and a greater weakness of private investment.

II. Public Finances

In 2019, the primary surplus will reach the target of 1.0% of GDP surplus established in the 2019 Economic Program. The Public Sector Borrowing Requirements (PSBRs), the broadest measure of public balance, will reach a deficit of 2.7% of GDP, higher than the 2.5% of GDP deficit presented in the 2019 CGPE. The increase in the PSBRs is mainly explained by the reduction of financial assets of the Federal Government as a result of the use of the Budgetary Revenues Stabilization Fund (FEIP for its Spanish acronym) in order to compensate the decrease in Federal Government's income without a specific destination. This level of PSBRs is compatible with a level of 45.3% of GDP for the Historical Balance of the Public Sector Borrowing Requirements (HBPSBR), as presented in the 2019 Economic Program.

In 2020, a reduction in the Mexican oil mix price with respect to the price approved in the 2019 LIF is estimated, going from 55 dpb in 2019 to 49 dpb by 2020. Given the decrease in oil price and according to what is established in the Federal Budget and Fiscal Responsibility Law (LFPRH for its Spanish acronym) and in its bylaw about compensations for a decrease in the oil price, it is requested a level of public deficit that allows to compensate the expected decrease in oil revenues and give stability to budgetary expenditure without compromising fiscal sustainability. Hence, in 2020 a 2.6% of GDP goal for PSBRs is proposed.

The 2.1% of GDP deficit presented in 2020 for budgetary balance is consistent with a 0.7% of GDP primary surplus. The goal for the budgetary balance excluding up to 2.0% of GDP of the Federal Government and productive enterprises' investment, is a deficit of 0.1% of GDP.

With respect to revenue policy, the commitment to not increase the tax burden in real terms nor propose new taxes during the fiscal year 2020 is maintain. Tax measures included in the 2020 ILIF seek to preserve the strength of public revenues through actions aimed at simplifying the tax framework and ensuring compliance with the payment of existing taxes by closing spaces for tax evasion and avoidance.

For the 2020 fiscal year, total budgetary revenues are estimated to amount to Ps. 5,511.9 billion, 0.4% higher in real terms than what was approved in 2019. Within, an 8.8% reduction in real terms is estimated in oil revenues compared to the approved in 2019. On the other hand, a 2.0% increase in real terms is expected in tax revenues with respect to the approved in 2019, to which the economic activity recovery and the gains in revenue efficiency from the measures implemented in 2019 that will reach their potential in 2020 will contribute, as well as the fight against fraud, tax evasion, and tax avoidance.

Given the 2.1% of GDP target of public deficit and the estimated budgetary revenues, a total net paid expenditures of Ps. 6.059.0 billion is proposed in the 2020 Program, 0.8% higher in real terms than the approved for 2019; when the payment deferrals of Ps. 37.3 billion are included, the total net accrued expenditure for 2020 amounts to Ps. 6,096.3 billion. Within, the paid programmable expenditure is projected to Ps. 4,357.9 billion, which implies an increase of 2.3% in real terms compared to the approved in 2019. On the other hand, accrued programmable expenditure, which includes payment deferrals, is estimated at Ps. 4,395.2 billion.

Regarding non-programmable expenditure, a 2.8% reduction in real terms with respect to the 2019 PEF is estimated. This is mainly due to a 5.5% reduction in real terms of the financial cost of the public debt with respect to the amount approved in 2019.

The 2020 PPEF prioritizes the use of public expenditure towards social programs aimed at reducing economic, social and regional inequalities, as well as investment projects that have a greater impact on the determinants of the economic growth. In this sense, expenditure on security, social welfare and Pemex infrastructure is privileged.

For 2020, the public debt policy will be aimed at covering the Federal Government's financial needs at reduced costs, considering a long-term horizon and a low level of risk, seeking to maintain its stable trajectory as a proportion of GDP. The issuance of instruments in the local currency, at a fixed rate and with long-term maturities will continue to be favored. Similarly, it will seek to carry out liability management operations on a regular basis to improve the debt maturity profile and adjust the portfolio to the prevailing financial conditions.

Hence, a Ps. 532 billion internal net indebtedness ceiling for the Federal Government and a USD 5.3 billion external net indebtedness ceiling for the Public Sector are proposed. For Pemex and its subsidiary productive enterprises, a Ps. 10 billion internal net indebtedness ceiling and a USD 1.25 billion external net indebtedness ceiling are proposed. For CFE and its subsidiary productive enterprises, a Ps. 9.8 billion internal net indebtedness ceiling and a USD 508 million external net indebtedness ceiling are requested.

With the objective of maintaining sound public finances against possible adverse events, the Government of Mexico will continue to implement actions, among which are: (i) The Federal Government's oil-hedging program; (ii) the accumulation of resources for stabilization funds, which at the end of June recorded a historically high balance equivalent to Ps. 409.7 billion as a whole, equivalent to 1.6% of GDP; (iii) the IMF Flexible Credit Line, and (iv) an improvement in the debt profile.

The Government of Mexico is committed to foster inclusive economic development that generates well-being for everyone and reduces existing inequality gaps. To achieve the medium-term economic growth goals, the Ministry of Finance and Public Credit will delineate its strategy through the programs derived from the National Development Plan 2019-2024: i) the Special Program for Productivity and Competitiveness for 2019-2024 will establish the economic growth strategy; ii) the National Development Financing Program for 2019-2024 will outline the strategies for financing this strategy, and iii) the National Infrastructure Program for Welfare for 2019-2024 will establish infrastructure investment strategies in strategic sectors.

Annex

Macroeconomic Framework

	2019 Estimated	2020 Estimated
Gross Domestic Product		
Real growth (range), %	0.6 - 1.2	1.5 - 2.5
Nominal (billion pesos, punctual)*	24,851.8	26,254.1
GDP deflator	4.5	3.6
Inflation (%)		
Dec. / Dec.	3.2	3.0
Nominal exchange rate (pesos per dollar)		
End of period	19.8	20.0
Average	19.4	19.9
Interest rate (Cetes 28 days, %)		
Nominal end of period	7.8	7.1
Nominal average	8.0	7.4
Cumulative real	4.9	4.5
Current account		
Million dollars	-22,876	-23,272
% of GDP	-1.8	-1.8
Support variables:		
United States of America (USA) GDP		
Real growth, %	2.4	1.8
USA Industrial Production		
Real growth,	1.2	1.1
USA inflation (%)		
Average	1.8	2.1
International interest rate		
Libor 3 months (average)	2.3	1.6
Oil (Mexican basket)		
Average price (dollars/barrel)	55	49
Average oil production platform (Kbd)	1,727	1,951
Average oil export platform (Kbd)	1,115	1,134
Gas		
Average price (dollars/ MMBtu)	2.3	2.4

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

Public finances estimates, 2019-2020

	Million current pesos		% of GDP		Real growth %
	2019 App. */	2020	2019 App. */	2020	
Public balance	-503,841.3	-547,140.8	-2.0	-2.1	4.9
Public balance excluding investment 1/	0.0	-22,059.7	0.0	-0.1	n.a.
Non-budgetary balance	0.0	0.0	0.0	0.0	n.a.
Budgetary balance	-503,841.3	-547,140.8	-2.0	-2.1	4.9
Budgetary revenues	5,298,188.3	5,511,879.0	21.3	21.0	0.4
Oil	1,044,956.8	987,332.7	4.2	3.8	-8.8
Non-oil	4,253,231.5	4,524,546.3	17.1	17.2	2.7
Federal Government	3,431,692.2	3,659,912.1	13.8	13.9	3.0
Tax	3,311,373.4	3,499,425.8	13.3	13.3	2.0
Non-tax	120,318.8	160,486.3	0.5	0.6	28.8
Institutions and enterprises 2/	821,539.3	864,634.2	3.3	3.3	1.6
Net paid expenditures	5,802,029.6	6,059,019.8	23.3	23.1	0.8
Paid programmable	4,111,392.7	4,357,875.4	16.5	16.6	2.3
Payment deferral	-36,030.1	-37,316.0	-0.1	-0.1	0.0
Accrued programmable	4,147,422.8	4,395,191.4	16.7	16.7	2.3
Non-programmable	1,690,636.9	1,701,144.4	6.8	6.5	-2.8
Financial cost	749,074.4	732,873.8	3.0	2.8	-5.5
Non-earmarked transfers	919,817.4	944,270.6	3.7	3.6	-0.9
Adefas	21,745.1	24,000.0	0.1	0.1	6.6
Public Sector financial cost 3/	749,574.4	733,373.8	3.0	2.8	-5.5
Primary surplus	245,733.1	186,233.0	1.0	0.7	-26.8

Note: Figures may not add up due to rounding.
n.a.: Not apply.
*/ Figures were updated considering the nominal GDP revision.
1/ Excludes up to 2.0% of GDP of Federal Government and productive enterprises' investment base on articles 1st of the LIF 2019 and 1st of the LIF 2020.
2/ Includes IMSS, ISSSTE y CFE.
3/ Includes financial cost of entities under indirect budget control.
Source: Ministry of Finance.

Public finances estimates, 2019-2020

	Million current pesos		% of GDP PIB		Real growth %
	2019 Est. */	2020	2019 Est. */	2020	
Public balance	-477,096.3	-547,140.8	-1.9	-2.1	10.7
Public balance excluding investment 1/	26,745.0	-22,059.7	0.1	-0.1	n.a.
Non-budgetary balance	0.0	0.0	0.0	0.0	n.a.
Budgetary balance	-477,096.3	-547,140.8	-1.9	-2.1	10.7
Budgetary revenues	5,323,749.1	5,511,879.0	21.4	21.0	0.0
Oil	912,595.6	987,332.7	3.7	3.8	4.5
Non-oil	4,411,153.5	4,524,546.3	17.7	17.2	-1.0
Federal Government	3,578,773.2	3,659,912.1	14.4	13.9	-1.3
Tax	3,257,183.3	3,499,425.8	13.1	13.3	3.7
Non-tax	321,590.0	160,486.3	1.3	0.6	-51.8
Institutions and enterprises 2/	832,380.3	864,634.2	3.3	3.3	0.3
Net paid expenditures	5,800,845.4	6,059,019.8	23.3	23.1	0.9
Paid programmable	4,176,066.7	4,357,875.4	16.8	16.6	0.8
Payment deferral	-36,030.1	-37,316.0	-0.1	-0.1	0.0
Accrued programmable	4,212,096.8	4,395,191.4	16.9	16.7	0.8
Non-programmable	1,624,778.7	1,701,144.4	6.5	6.5	1.1
Financial cost	716,215.5	732,873.8	2.9	2.8	-1.2
Non-earmarked transfers	895,738.5	944,270.6	3.6	3.6	1.8
Adefas	12,824.7	24,000.0	0.1	0.1	80.7
Public Sector financial cost 3/	716,715.5	733,373.8	2.9	2.8	-1.2
Primary surplus	239,619.2	186,233.0	1.0	0.7	-25.0

Note: Figures may not add up due to rounding.
n.a.: Not apply.
*/ Figures were updated considering the nominal GDP revision.
1/ Excludes up to 2.0% of GDP of Federal Government and productive enterprises' investment base on articles 1st of the LIF 2019 and 1st of the LIF 2020.
2/ Includes IMSS, ISSSTE y CFE.
3/ Includes financial cost of entities under indirect budget control.