

Mexico City, July 29th, 2016.

REPORTS ON ECONOMIC ACTIVITY, PUBLIC FINANCES AND PUBLIC DEBT As of the second quarter of 2016

- The Mexican economy continued to register a positive performance, with a 2.4% growth in annual terms during the second quarter of 2016, despite the persistence of an adverse external environment characterized by the weakening of global growth prospects, the divergent monetary policy in advanced economies, the geopolitical tensions and the decision of the United Kingdom to leave the European Union.
- During the first semester of 2016, the public deficit was Ps. 116.6 billion, a reduction of 67.7% in real terms with respect to the first semester of 2015. Excluding high economic and social impact investment, the balance presents a surplus of Ps. 135.5 billion, contrasting with the deficit of Ps. 93.3 billion registered in the same period of 2015. These results are consistent with the annual deficit approved by Congress. In addition, the Public Sector Borrowing Requirements (PSBR) stood at Ps. 55.1 billion in the same period, which contrast with the Ps. 334.9 billion during the same period the previous year.
- During the first semester of 2016, public sector revenues increased 11.4% in real terms with respect to the same period of 2015, boosted by the good performance of non-oil revenues, which grew 18.5% in real terms during the same period. Within, tax revenues increased 10.7% in real terms and non-tax revenues of the Federal Government increased 131.2%, which include Banco de Mexico's operating surplus. These results compensate for the reduction of 19.6% of oil revenues, caused mainly by the fall in international oil prices. With respect to the amount foreseen in the program, public sector budgetary revenues were higher by Ps. 366.9 billion during the first semester of 2016.
- Net paid expenditure decreased 4.1% in real terms during the first semester of 2016, excluding the Ps. 26.5 billion equity contribution to Pemex, as well as the Ps. 70 billion transfer to the Budgetary Revenues Stabilization Fund (FEIP). These two categories are non-recurrent expenditures that do not set a trend. On one hand, the resources transferred to Pemex represent a one-off capitalization and are destined to pay down accounts payable. On the other hand, the source of income for the contribution to the FEIP was the Banco de Mexico's operating surplus, which constitute a financial investment for the Federal Government. Considering both operations, the net budgetary expenditure of the public sector was lower by 0.2% in real terms with respect to the one paid in the first semester of 2015. It is worth noting the reduction of 2.8% in real terms in programmable expenditure. Within, the expenditure destined to pensions and retirement benefits increased 6.2% in real

terms, subsidies and transfers grew 0.2% in real terms, while operating expenditure including personal services decreased 3.0% in annual real terms. Net budgetary expenditure was higher by Ps. 55.6 billion with respect to the foreseen in the program, as a result of the higher programmable expenditure from the contributions to Pemex and the FEIP with a total sum of Ps. 96.5 billion.

- At the end of the second quarter of 2016, the net debt of the Federal Government stood at 34.5% of GDP; Public Sector net debt stood at 46.2% of GDP and the Historical Balance of the Public Sector Borrowing Requirements (HBPSBR) amounted to 46.9% of GDP. Such levels are consistent with the debt ceilings authorized by Congress for 2016.
- Reaffirming the commitment to preserve macroeconomic stability and in line with the fiscal consolidation process announced in 2013, the Federal Government took action to strengthen public finances during the second quarter. It is worth noting the implementation of a second preemptive fiscal adjustment of Ps. 31.7 billion, the responsible use of Ps. 167 billion from Banco de Mexico's operating surplus to reduce debt from previous fiscal years and the issuance of debt this year, as well as the support given to Pemex to strengthen its financial position, which has been allocated to the reduction of the company's accounts payable and is reflected in a higher expenditure. As noted above, Pemex's support decreases the positive effect on budgetary balances implied by the second preemptive adjustment and the responsible use of Banco de Mexico's operating surplus.

Today, the Ministry of Finance and Public Credit submitted to Congress the Reports on the Economic Activity, Public Finances, and Public Debt as of the Second Quarter of 2016, in compliance with Article 107 of the Federal Budget and Fiscal Responsibility Law (LFPRH), which is also available in the Ministry's website. The following are the main results of these reports.

I. Economic Outlook

The Mexican economy continued to register a positive performance, despite the persistence of an adverse external environment characterized by the weakening of global growth prospects, the divergent monetary policy in advanced economies, the geopolitical tensions and the decision of the United Kingdom to leave the European Union. In this context, the Mexican economy maintained a favorable performance, highlighting the growth of the preliminary estimate for the GDP of 2.4% in annual terms during the second quarter of 2016, published today by Mexico's National Statistics Institute (INEGI).

Regarding international economic activity, the observed results show growth rates lower-than-expected for advanced economies, while emerging economies remain at relatively low levels. The result of the referendum on June 23rd in the United Kingdom, which favored the exit of that country from the European Union, has further deteriorated the economic outlook. In the case of the US, industrial production continues to lose momentum. However, in Mexico the inflation remains at low levels with 2.54% in annual terms in June 2016, while interest rates and the price of financial assets remain stable.

On June 24th, in order to strengthen the macroeconomic position of the country in response to the possible consequences of the United Kingdom leaving the European Union, the Ministry of Finance announced a second fiscal preemptive adjustment to programmable expenditure, exclusively within the Federal Government, of Ps. 31.7 billion. Of which 91.7% corresponds to current expenditure and affected neither social program beneficiaries nor the national security budget. The Mexican peso registered a trend of appreciation against the US dollar in the weeks after the announcement, in the context of a decline in volatility in the international financial markets, even though there is still great uncertainty about the course the Brexit process will take and its consequences.

In the following section, the evolution of different sectors and variables during the second quarter of 2016 is described.

Output

The world economy continued to show mixed results and global growth prospects were revised down. In the case of the US, industrial production continued to lose dynamism, which is why the growth forecast for 2016 for this indicator was revised down again significantly. According to the survey *Blue Chip Economic Indicators* of July 2016, the

projected growth of US GDP is at 1.9% (2.0% in April 2016), while industrial production is estimated to grow 0.8% (0.3% in April 2016).

At the same time, the economic prospects of some emerging economies remain weak – especially, Russia and Brazil, which remain in recession. In its July's report, the International Monetary Fund (IMF) forecasts that GDP in emerging economies as a whole will grow 4.1% in 2016 (the same than the estimated in April 2016); the global economy growth forecast is 3.1% (3.2% in April 2016). In contrast, the IMF revised up its forecast for the Mexican economy to 2.5% in 2016 (2.4% in April 2016).

The slowdown in manufacturing production in the US has been reflected in the performance of non-oil exports in Mexico. During the period April-June 2016, non-oil exports in nominal dollars had an annual decline of 2.7%; however, excluding seasonal factors, total exports grew at a quarterly rate of 1.0%, the highest since the second quarter of 2014. On the other hand, Mexico's oil production decreased 2.2% with respect to the second quarter of 2015.

The results from the second quarter of 2016 indicate that the Mexican economy maintains a positive performance, driven by strong domestic demand. During the two-month period from April to May 2016, the GDP proxy IGAE had an annual growth of 2.6%. According to preliminary estimate of the GDP by INEGI, in the second quarter of 2016 the GDP registered an annual growth of 2.4%.

Moreover, available results indicate that domestic demand, especially private consumption, continued to strengthen. This is due to factors such as the growth of formal employment of 3.7% annualized in June; the expansion of 12.7% in current credit granted by commercial banks to the private sector during June; a reduction to 3.9% in the unemployment rate in the April-June period, the lowest since the second quarter of 2008; an increase of 1.6% in real wages during the first semester; as well as a low inflation of 2.54% in annual terms in June. The strength of the domestic market was observed in the real value of sales of establishments affiliated to the National Association of Supermarkets and Department Stores (ANTAD), which increased at an annual rate of 6.4% during the second quarter of 2016.

Employment

As of June 30th, 2016, the number of workers affiliated at IMSS reached 18.3 million workers, which represents an annual increase of 652 thousand jobs (3.7%). By type of contract, permanent affiliation increased by 614.5 thousands workers (94.3% of the total), while temporary jobs increased 37.3 thousand workers (5.7% of total). Including the June figure, more than 2 million formal jobs have been created during the present administration, placed at 2 million 31 thousand 135 jobs.

Prices

During the second quarter of 2016, headline annual inflation observed a decrease relative to the observed levels in the first quarter of 2016. In June, it stood at 2.5% in annual terms due to lower growth in the prices of fruits and vegetables and a decrease of government's authorized rates, despite the observed increase in the prices of goods and services.

The IPC index (Indice de Precios y Cotizaciones) of the Mexican Stock Exchange (BMV) had a stable performance during the first part of the second quarter of 2016; however, it registered episodes of volatility in June due to the uncertainty generated by the United Kingdom decision to leave the European Union and the US electoral process. Thus, the IPC index closed the first quarter of 2016 at 45,966.5 units, which represents an increase of 0.2% from the previous quarter and a level 0.6% lower than the maximum registered this year. On the other hand, the minimum level in the quarter was observed on June 27th, 2016, registering 44,282.0 units.

Between April and June, the exchange rate of the peso against the dollar continued to depreciate due to the slowdown in the world economic activity, uncertainty regarding the course of the monetary policy decisions in advanced economies, especially the US and the United Kingdom decision to leave the European Union. As a result, at the end of June 30th 2016, the exchange rate stood at 18.26 pesos per dollar, implying a depreciation of 5.6% respect to that reported at the end of March 31st, 2016 (17.29 pesos per dollar).

Credit

In June 2016, total credit from commercial and development banks increased 13.2% in annual real terms. Within, credit to the private sector registered a 13.1% increase in real annual terms. Within this indicator, current credit for firms and individuals, for housing and for consumption increased 15.3%, 9.8% and 11.5%, respectively, in annual real terms.

II. Public Finances

During the first semester of 2016, the public deficit amounted to Ps. 116.6 billion, lower by 67.7% in real terms to the one registered during the same period of 2015 of Ps. 351.4 billion. Excluding high economic and social impact investment, the balance in June presents a surplus of Ps. 135.5 billion, which contrasts with the Ps. 93.3 billion deficit in the same period of 2015. The primary balance showed a surplus of Ps.125.7 billion. On the other hand, the Public Sector Borrowing Requirements stood at Ps. 55.1 billion.

Revenues

During the first semester of 2016, budgetary revenues of the public sector stood at Ps. 2,338.9 billion, an amount 11.4% higher in annual real terms with respect to the same period of 2015. The evolution of the main revenue components was as follows:

- Tax revenues increased to Ps. 1,393.1 billion, which represented an increase of 10.7% in real terms with respect to 2015. It is worth highlighting the increase of the income tax system of 12.6%, the value added tax of 5.3%, the excise tax (IEPS) of 14.9% and the import tax of 16.2%.
- Federal Government non-tax revenues raised to Ps. 333.0 billion, increasing 131.2% with respect to 2015. These include the benefits from Banco de Mexico's operating surplus of Ps. 239.1 billion, which the previous year were of Ps. 31.4 billion.
- Oil revenues amounted to Ps. 314.1 billion, amount lower by 19.6% in real annual terms than the ones observed in in the first semester of 2015. This result reflects the fall in price of the Mexican oil mix of 39.9% with respect to the same period of 2015, a decrease in crude oil production platform of 2.7% and a lower natural gas price by 26.8%. These effects were partially offset by the depreciation of the exchange rate. It should be noted that these revenues do not include the benefits from oil hedges to be received in December this year.
- Revenues from organizations and companies other than Pemex stood at Ps. 297.9 billion, which represents a reduction by 2.7% in real terms with respect to 2015, which is mainly explained by the decrease in electricity rates.

With respect to the amount established in the Federation's Revenues Law for fiscal year 2016, budgetary revenues were higher by Ps. 366.9 billion. This result is due to the good performance in tax collection, as well as the receipt of non-recurrent and earmarked resources, such as Banco de Mexico's operating surplus. The destination of these resources will be in accordance with the provisions of the LFPRH and its regulation. Thus, these additional resources for the first semester do not set a trend for the rest of 2016.

Finally, the balance of stabilization and investment funds as of the first semester of 2016 was Ps. 179.1 billion.

BALANCE OF STABILIZATION FUNDS AS OF JUNE 30TH, 2016

(Million pesos)

Total	179,060
FEIP (Federal Government)	117,006
FEIEF (States)	29,567
FIPPIGF (Infrastructure Projects of the Federal Government)	32,487
Source: Ministry of Finance	

Expenditure

In order to secure the attainment of the fiscal consolidation goal and to preserve the stability of the Mexican economy in an adverse environment, on February 17th a preemptive fiscal adjustment of Ps. 132.4 billion was announced for 2016. In light of the increased financial volatility caused by the vote that decided the United Kingdom is to leave the European Union, on June 24th a second preemptive adjustment was announced, exclusively within the Federal Government, by Ps. 31.7 billion, of which 91.7% correspond to current expenditure, and affected neither beneficiaries of social programs nor the national security budget.

PREEMPTIVE FISCAL ADJUSTMENT 2016 (Million pesos)			
Branch /Agency / Enterprise	February	June	TOTAL
TOTAL	132,363.0	31,714.7	164,077.7
Administrative Branches	29,301.3	31,714.7	61,016.0
Interior		1,088.1	1,088.1
Foreign Affairs		632.4	632.4
Finance	150.0		150.0
Agriculture, Livestock, Rural Development, Fisheries and Food	3,000.0	4,205.0	7,205.0
Communications and Transport	12,253.9	2,174.4	14,428.3
Economy	360.0	600.0	960.0
Public Education	3,660.2	6,500.0	10,160.2
Health	2,062.6	6,500.0	8,562.6
Labor and Social Welfare	100.0	20.0	120.0
Agrarian, Territorial and Urban Development	1,500.0	1,000	2,500.0
Environment and Natural Resources	4,113.0	1,664.1	5,777.1
Energy	201.6	90.0	291.6
Social Development		1,550.0	1,550.0
Tourism		705.6	705.6
National Council on Science and Technology (CONACYT)	900.0	1,800.0	2,700.0
Energy Regulatory Commission(CRE)		50.0	50.0
National Hydrocarbons Commission (CNH)		35.0	35.0
Non-Sectored Entities	1,000.0	3,100.0	4,100.0
ISSSTE	500.0		500.0
Pemex	100,061.7		100,061.7
CFE	2,500.0		2,500.0

Source: Ministry of Finance.

During the first semester of 2016, public sector net budgetary expenditure amounted to Ps. 2,465.9 billion, amount lower by 0.2% in real terms to the one paid in the period January-June from last year. The Federal Government took support measures to strengthen the financial position of Pemex, among which are the Ps. 26.5 billion equity contribution, as well as the Ps. 70 billion transfer to the Budgetary Revenues Stabilization Fund (FEIP). Excluding both operations, net paid expenditure between January and June decreased 4.1% in real terms with respect to 2015. The two elements excluded are non-

recurrent expenditures. The resources transferred to Pemex represent a one-off capitalization and are destined to pay down the accounts payable. On the other hand, the source of income for the contribution to the FEIP was the Banco de Mexico's operating surplus and constitutes a financial investment for the Federal Government

Programmable expenditure stood at Ps. 1,844.9 billion, a lower level by 2.8% in real terms with respect to 2015. Within, the following should be noted:

- Resources allocated towards pensions and retirement payments registered a growth of 6.2% in real terms.
- The expenditure destined to the payment of subsidies and transfers, which include the social programs to support the most vulnerable population, showed an increase of 0.2%.
- Operating expenses, including personal services, recorded a real annual decline of 3.0% over the first half of 2015. This behavior is in line with the measures taken by the Federal Government to carry out a preemptive fiscal adjustment in 2016. In particular, expenditure by the administrative branches showed a decrease of 4.4% in real terms as of the first half of the year.

In the period January-June, resources allocated towards states and municipalities through non-earmarked transfers, contributions and other transfers increased 1.8% in real terms. In particular, non-earmarked transfers showed a growth of 8.1% in real terms with respect to the first semester of 2015.

On the one hand, in the first half of 2016, net budgetary expenditure was lower in Ps. 55.6 billion with respect to the provisions from the Authorized Budget Calendars for 2016 fiscal year, published on December 11th, 2015 in the Official Gazette. This result was due to: (i) a higher programmable expenditure by Ps. 17.7 billion, such expenditure would be lower to the program by Ps. 78.8 billion if Pemex and FEIP's contributions were excluded; (ii) higher contributions to the states and municipalities by Ps. 21.4 billion, (iii) higher Adefas and other expenses by Ps. 12.3 billion and (iv) higher financial costs than the expected amount by Ps. 4.3 billion.

Actions during the second quarter to preserve stability

Reaffirming the commitment to preserve macroeconomic stability and in line with the fiscal consolidation process announced in 2013, the Federal Government took action during the second quarter of 2016 to strengthen public finances. It is worth noting that:

- On April 11th, Ps. 239.1 billion were submitted to the Treasury corresponding to Banco de Mexico's operating surplus for the fiscal year 2015. The resources were used in accordance with the Federal Budget and Fiscal Responsibility Law: Ps. 167 billion were destined to decrease public debt (equivalent to 70%), Ps. 70 billion to strengthen the FEIP, and 1.7 billion to pay outstanding contributions to international organizations.
- On April 13th, the Federal Government announced a set of measures to strengthen Pemex financial position, including the Ps. 26.5 billion equity contribution and the Ps. 47 billion liquidity provision for pensions and retirement payments through the exchange of Federal Government securities, providing the company with liquidity for Ps. 73.5 billion. In addition, Pemex fiscal regime was modified to reduce the payment of duties which will be reflected in an improvement of the financial balance.
- On June 24th, in response to the possible consequences of the United Kingdom leaving the European Union, the Ministry of Finance announced a second fiscal preemptive adjustment to programmable expenditure, exclusively within the Federal Government by Ps. 31.7 billion, of which 91.7% corresponds to current expenditure and affected neither social program beneficiaries nor the national security budget.

Taking into account the combined effect of these measures, it is estimated that the Public Sector Borrowing Requirements and the Historical Balance of the Public Sector Borrowing Requirements will have a net improvement over the originally approved for fiscal year 2016.

III. Public Debt

The public debt policy is oriented towards the responsible and prudent management of public liabilities, meeting the financing needs of the Federal Government with an adequate level of cost and risk according to the characteristics of public finances. Thus, actions on public debt management during the second quarter of 2016 were aimed to: i) meet the financing needs of the Federal Government with long-term and low-cost financing and considering possible

extreme scenarios; ii) to preserve the diversity of access to credit in different markets; and iii) promote the development of deep and liquid markets with yield curves that facilitate financing from a wide range of public and private economic agents.

Among the most important actions regarding public debt management during the second quarter of 2016, it is worth noting actions aimed at reducing debt, associated with the use of Banco de Mexico's operating surplus, as well as financing operations in the international financial market.

Domestic debt

Regarding Banco de Mexico's operating surplus, in April, the Central Bank deposited an amount of Ps. 239.1 billion to the Treasury as its operating surplus for the fiscal year 2015. With these resources and in accordance with the Federal Budget and Fiscal Responsibility Law, 70% of the operating surplus was allocated to buy back debt and reduce the amount of issuance, and 30% to capitalize the Budgetary Revenues Stabilization Fund and increase assets.

Considering the above, the actions on domestic debt management were oriented to promote the liquidity and the well-functioning of the market. During the second quarter, as a result of the deposit of Banco de Mexico's operating surplus, from the first auction in May, there was an adjustment in the placement calendar of government securities, reducing the amounts of Fixed Rate Bonds, Udibonos and Bondes to be auctioned, so that at year's end the issuance in the domestic market would decrease by at least Ps. 64 billion. In addition to the adjustment in the placement calendars, the flexible mechanic to auction Cetes to 28 and 91 days continued to be used. On the other hand, auctions of segregated 30 years Udibonos were conducted with a frequency of 12 weeks. The amount auctioned was announced in the corresponding call, which took place the week before the placement.

External debt

During the second quarter, the Federal Government concluded its foreign financing program for 2016 through the issuance of Samurai bonds. 135 billion Japanese yen were placed (approximately 1.25 billion USD at the time of the placement) in 4 bonds with maturities of 3, 5, 10 and 20 years. The interest rates for the bonds represented historical minimums for the Federal Government's issuance in similar maturities, being the lowest interest rates obtained by the Federal Government for an issuance in any currency. On this, the Federal Government introduced for the first time their contracts of foreign debt in yens, new collective action clauses (CACs) and *pari passu* adapted to the Japanese market.

Federal Government net debt

At the end of the second quarter of 2016, the balance of the Federal Government's net debt stood at Ps. 6,520.0 billion. As a percentage of GDP, it represented 34.5%. The structure of the current debt portfolio of the Federal Government maintains most of its liabilities denominated in domestic currency, representing 74.5% of the total net debt balance of the Federal Government as of June 30th, 2016.

The balance of net domestic debt of the Federal Government at the end of the first quarter of 2016 stood at Ps. 4,857.6 billion, while the one observed in December 2015 registered a balance of Ps. 4,814.1 billion, which corresponds to a 0.9% change. Compared to the same period last year, between December 2014 and June 2015 the growth rate of the balance of net domestic debt was 5.3%. As a percentage of GDP, this balance represents 25.7%.

The balance of net external debt of the Federal Government increased to USD 87.9 billion, while it registered a balance of USD 82.3 billion as of December 2015. As a percentage of GDP, this amount represents 8.8%. Regarding this aspect, it is worth noting that during the first half of 2016, the Federal Government concluded its foreign financing program for 2016.

Federal Public Sector net debt

With regards to the net debt of the Federal Public Sector, which includes the net debt of the Federal Government, State Productive Enterprises and the development banks, it stood at Ps. 8,728.7 billion at the end of the second quarter of 2016. As a percentage of GDP, it accounted for 46.2%.

Net domestic debt of the Federal Public Sector stood at Ps. 5,411.9 billion, while in December 2015 a balance of Ps. 5,379.9 billion was recorded, this corresponds to a percentage change of 0.6%. Compared to the same period of the last year, between December 2014 and June 2015 the growth rate of the net domestic debt balance was 4.8%. As a percentage of GDP, it accounted for 28.6%.

Meanwhile, the amount of net external debt of the Federal Public Sector stood at USD 175.4 billion, while in December 2015 a balance of USD 161.6 billion was recorded. As a percentage of GDP, it accounted for 17.6%.

Historical Balance of the Public Sector Borrowing Requirements

At the end of the second quarter of 2016, the Historical Balance of the Public Sector Borrowing Requirements (HBPSBR), which includes the Public Sector's liabilities in their broadest version, amounted to Ps. 8,850.9 billion, while as of December 2015 registered a balance Ps. 8,633.5 billion. Which is equivalent to 46.9% of GDP. The internal component of HBPSBR was placed at Ps. 5,625.2 billion, while the balance was Ps. 5,962.3 billion as of December 2015, this corresponds to a percentage change of -5.7%.

Compared to the same period of the last year, between December 2014 and June 2015 the growth rate of the net domestic debt balance was 4.3%. As a percentage of GDP, it represented 29.8%. Accordingly, the external component amounted to Ps. 3,224.8 billion, while in December 2015 the balance was Ps. 2,671.2 billion and represented 17.1% of GDP.

Banco de Mexico's Operating Surplus

In the context of the 2016 Economic Program, an initiative for the amendment of the Federal Budget and Fiscal Responsibility Law (LFPRH) was proposed with the objective of promoting lower debt levels and the use of non-recurrent resources to achieve more permanent savings in public spending. The proposal was to establish a mechanism to strengthen the financial position of the Federal Government, as a result of the extraordinary revenues associated with the Banco de Mexico's operating surplus.

Therefore, the Article 19bis was added to the LFPRH for the cases in which Banco de Mexico submits its operating surplus to the Federal Government, these resources will be used for the amortization of the Federal Government public debt contracted in previous fiscal years or the reduction of the financing amount needed to cover the budget deficit, as well as to strengthen the FEIP or increase assets that strengthen the financial position of the Federal Government.

The LFPRH states that the Ministry of Finance must disclose the specific application of the operating surplus' resources of the in the latest quarterly reports for the current fiscal year. However, in order to increase the level of transparency in the use of these resources, the actions taken in these matter will be described in the next paragraphs.

On April 11th, Banco de Mexico announced the amount of the operating surplus that would be submitted to the Federal Government, resulting in Ps. 239.1 billion. While, on April 12th the Ministry of Finance announced that, in accordance with the provisions of LFPRH, the operating surplus would be used as follows:

- Ps. 167 billion, equivalent to 70%, would be used to repurchase existing Federal Government debt and reduce the amount of issuance of Federal Government debt during 2016, of which up to Ps. 103 billion would be used to repurchase government securities and at least Ps. 64 billion for issuance reduction.
- Of the remaining 30%, Ps. 70 billion would be used to contribute to the Budgetary Revenues Stabilization Fund, and approximately Ps. 1.7 billion (USD 97 million) would be used to pay outstanding contributions to international organizations, which constitutes a capital investment of the Federal Government.

Thereafter, the Ministry has taken various measures to comply with the provisions of the LFPRH. In order to reduce debt placement by at least Ps. 64 billion, on April 29th, the Ministry of Finance announced changes to its quarterly securities auction program for the second quarter of 2016. These changes came into effect from the first auction in May; and the modifications were the following: i) decrease by Ps.1.5 billion to each

auction of Fixed Rate Bonds to 3 years; ii) decrease by Ps.1 billion for each one of the auctions of Fixed Rate Bonds to 5 and 10 years; iii) decrease by Ps. 500 million for each one of the auctions of Fixed Rate Bonds to 20 and 30 years; iv) decrease by 50 million UDI for each of the auctions of Udibonos to 3, 10 and 30 years; and, v) decrease by Ps. 1.5 billion for each one of the auctions of Bondes D to 5 years. With these modifications, the Ministry of Finance reduced its debt placement in the domestic market by reducing its issuance by approximately Ps. 17.4 billion in the second quarter.

Later, on June 29th the placement calendar of the third quarter was announced, which preserved the reductions in placement that were performed in the second quarter with respect to the applicable calendar before knowing the amount of Banco de Mexico's operating surplus. The most relevant aspects of the placement calendar were: i) the amounts to be auctioned at all maturities for Cetes, Fixed Rate Bonds, Udibonos and Bondes D, and released on April 29, 2016 within the modifications of the auction of government securities program for the second quarter, were maintained; ii) the issuance mechanism for Cetes to 28 and 91 days remained unchanged, for which a weekly minimum and maximum amount is set, allowing the amount of securities auctioned in any given week to be between those amounts ; and iii) for the third quarter of 2016, the ranks auctioned for 28-day Cetes will have a minimum of Ps. 4 billion and a maximum of Ps. 11 billion and the quarter will begin with an auction for Ps. 5.5 billion. Meanwhile, 91-day Cetes will have a minimum of Ps. 7 billion and a maximum of Ps. 14 billion. Thus, the program described above represents at least a Ps. 25 billion reduction from the program originally considered for this period. Thus, at the end of the third quarter, the reductions made to the auction programs during the second and third quarter will reach at least Ps. 42.4 billion.

Moreover, with regard to the use of resources for amortization of prior fiscal years, on May 4th, the Ministry of Finance conducted a repurchase transaction with resources from the central bank's operating surplus by Ps. 97.9 billion, equivalent to about 0.5% of GDP. This operation was part of the buyback program of government securities of up to Ps. 103 billion announced in April for the destination of the operating surplus. The transaction considered the emissions of Fixed Rate Bonds and Udibonos with maturities between 2016 and 2018. In addition, there was wide demand from investors, which allowed the Federal Government to buy back those positions that were at the best market conditions. With this operation, the buyback program was successfully concluded.

Annex

PUBLIC SECTOR OVERALL BALANCE

January-June

Concept	Million pesos		Real % growth	Composition %	
	2015 ^{p_/_}	2016 ^{p_/_}		2015 ^p	2016 ^p
PUBLIC BALANCE	-351,364.9	-116,593.5	n.s.		
PUBLIC BALANCE EXCLUDING PRODUCTIVE INVESTMENT^{1_/_}	-93,322.2	135,476.6	n.s.		
I. Budgetary balance (a-b)	-361,891.9	-127,011.0	n.s.		
a) Budgetary revenues	2,046,269.7	2,338,873.6	11.4	100.0	100.0
Oil related ^{2_/_}	381,879.8	314,963.8	-19.6	18.7	13.5
PEMEX	165,359.9	172,823.1	1.8	8.1	7.4
Federal Government	216,519.9	142,140.7	-36.0	10.6	6.1
Non-oil related	1,664,389.9	2,023,909.8	18.5	81.3	86.5
Federal Government	1,366,028.0	1,726,050.0	23.1	66.8	73.8
Tax	1,225,672.9	1,393,074.1	10.7	59.9	59.6
Non-tax	140,355.2	332,975.9	131.2	6.9	14.2
PEDBC	298,361.9	297,859.8	-2.7	14.6	12.7
b) Non-Budgetary Expenditures	2,408,161.6	2,465,884.6	-0.2	100.0	100.0
Programmable	1,849,840.0	1,844,945.0	-2.8	76.8	74.8
Non-programmable	558,321.6	620,939.6	8.4	23.2	25.2
II. PEIBC	10,527.0	10,417.5	-3.6		
PRIMARY BALANCE	-142,304.5	125,678.1	n.s.		

Note: Figures may not add up due to rounding.

p_/_ Preliminary figures.

n. s.: not significant.

1_/_ PEMEX's and CFE's physical investment and high impact investments of the Federal Government are excluded.

2_/_ Includes revenues from PEMEX, transfers from the Mexican Oil Fund for Stabilization and Development, the income tax on contractors and assignees for the extraction of hydrocarbons and current hydrocarbons duties valid until 2014, paid in 2015.

PEDBC_/Public entities under direct budgetary control.

PEIBC_/Public Entities under indirect budgetary control.

Source: Ministry of Finance and Public Credit.

PUBLIC SECTOR BUDGETARY REVENUES
(Million pesos)

Concept	January-June		Real % growth	% Composition	
	2015 ^{p_}	2016 ^{p_}		2015 ^{p_}	2016 ^{p_}
BUDGETARY REVENUES (I+II)	2,046,269.7	2,338,873.6	11.4	100.0	100.0
I. Oil related (a+b) ^{1_}	381,879.8	314,963.8	-19.6	18.7	13.5
a) PEMEX	165,359.9	172,823.1	1.8	8.1	7.4
b) Federal Government	216,519.9	142,140.7	-36.0	10.6	6.1
Mexican Oil Fund	203,080.7	142,108.9	-31.8	9.9	6.1
Income tax from contractors and assignees	3,270.0	32.5	-99.0	0.2	0.0
Existing rights as of 2014	10,169.2	-0.7	n.s.	0.5	0.0
II. Non-oil related (c+d)	1,664,389.9	2,023,909.8	18.5	81.3	86.5
c) Federal Government	1,366,028.0	1,726,050.0	23.1	66.8	73.8
Tax	1,225,672.9	1,393,074.1	10.7	59.9	59.6
Income Tax	659,212.5	762,042.8	12.6	32.2	32.6
Value Added Tax	346,308.9	374,262.8	5.3	16.9	16.0
Excise Tax	180,528.6	212,965.4	14.9	8.8	9.1
Import Tax	19,665.5	23,460.0	16.2	1.0	1.0
IAEEH ^{2_}	1,701.2	1,967.0	12.7	0.1	0.1
Other ^{3_}	18,256.1	18,376.1	-1.9	0.9	0.8
Non-tax	140,355.2	332,975.9	131.2	6.9	14.2
Rights	30,298.5	34,145.2	9.8	1.5	1.5
Fees	107,266.4	294,202.4	167.3	5.2	12.6
Other	2,790.3	4,628.2	61.6	0.1	0.2
d) PEDBC ^{4_}	149,879.6	160,212.6	4.2	7.3	6.8
IMSS	127,533.9	138,084.7	5.5	6.2	5.9
ISSSTE	22,345.8	22,128.0	-3.5	1.1	0.9
e) State Productive Enterprise (CFE)	148,482.3	137,647.2	-9.7	7.3	5.9
Memorandum items:					
Total tax related	1,228,942.9	1,393,106.6	10.5	60.1	59.6
Total non-tax related	817,326.8	945,767.0	12.8	39.9	40.4

Note: Figures may not add up due to rounding.

p_ / Preliminary figures.

n. s.: not significant.

1_ / Includes revenues from PEMEX, transfers from the Mexican Oil Fund for Stabilization and Development, the income tax on contractors and assignees for the extraction of hydrocarbons and current hydrocarbons duties valid until 2014, paid in 2015.

2_ / Tax on exploration and hydrocarbon extraction activities.

3_ / Includes taxes on new vehicles, exports, oil returns and those not included in the aforementioned and accessories.

4_ / Excludes Federal Government's transfers to ISSSTE.

Source: Ministry of Finance and Public Credit.

BUDGETARY REVENUES, JANUARY–JUNE OF 2016

(Million pesos)

Concept	Programmed	Observed ^{p_/_}	Difference
BUDGETARY REVENUES (I+II)	1,971,999.1	2,338,873.6	366,874.5
I. Oil related (a+b) ^{1_/_}	375,936.7	314,963.8	-60,972.9
a) PEMEX	177,192.2	172,823.1	-4,369.1
b) Federal Government	198,744.5	142,140.7	-56,603.8
Mexican Oil Fund	201,464.0	142,108.9	-59,355.1
Income tax from contractors and assignees	-2,719.5	32.5	2,752.0
Existing rights as of 2015	0.0	-0.7	-0.7
II. Non-oil related (c+d)	1,596,062.4	2,023,909.8	427,847.4
c) Federal Government	1,292,401.7	1,726,050.0	433,648.3
Tax	1,215,141.5	1,393,074.1	177,932.6
Income Tax	647,135.6	762,042.8	114,907.2
Value Added Tax	363,539.4	374,262.8	10,723.4
Excise Tax	168,999.7	212,965.4	43,965.7
Import Tax	17,101.6	23,460.0	6,358.4
IAEEH ^{2_/_}	2,033.4	1,967.0	-66.4
Other ^{3_/_}	16,331.8	18,376.1	2,044.3
Non-tax	77,260.2	332,975.9	255,715.7
Rights	22,244.2	34,145.2	11,901.0
Fees	51,829.0	294,202.4	242,373.4
Others	3,187.0	4,628.2	1,441.2
d) PEDBC ^{4_/_}	155,152.6	160,212.6	5,060.0
IMSS	131,858.0	138,084.7	6,226.7
ISSSTE	23,294.6	22,128.0	-1,166.6
e) State Productive Enterprise(CFE)	148,508.1	137,647.2	-10,860.9
Memorandum items:			
Total tax related	1,212,422.0	1,393,106.6	180,684.6
Total non-tax related	759,577.1	945,767.0	186,189.9

Note: Figures may not add up due to rounding.

p_/_ Preliminary figures.

n. s.: not significant.

1_/_ In 2014 includes revenues from PEMEX and rights on hydrocarbons paid in 2015. In 2015 includes revenues from PEMEX, transfers from the Mexican Oil Fund for Stabilization and Development and income tax on contractors and assignees for the extraction of hydrocarbons.

2_/_ Tax on exploration and hydrocarbon extraction activities.

3_/_ Includes taxes on new vehicles, exports, oil returns and those not included in the aforementioned and accessories.

4_/_ Excludes Federal Government's transfers to ISSSTE.

Source: Ministry of Finance and Public Credit.

PUBLIC SECTOR BUDGETARY NET EXPENDITURES

January-June

Concept	Million pesos		Real % growth	Composition %	
	2015 ^{p_/}	2016 ^{p_/}		2015 ^{p_/}	2016 ^{p_/}
TOTAL (I+II)	2,408,161.6	2,465,884.6	-0.2	100.0	100.0
I. Primary expenditures	2,197,846.0	2,228,300.9	-1.2	91.3	90.4
Programmable	1,849,840.0	1,844,945.0	-2.8	76.8	74.8
Autonomous branches	44,028.3	40,854.9	-9.6	1.8	1.7
Administrative branches	594,030.4	583,106.3	-4.4	24.7	23.6
General branches	696,340.7	767,831.7	7.4	28.9	31.1
PEDBC	345,364.0	358,553.6	1.2	14.3	14.5
IMSS	223,242.5	231,833.4	1.2	9.3	9.4
ISSSTE	122,121.5	126,720.2	1.1	5.1	5.1
State productive enterprises	428,390.6	387,332.5	-11.9	17.8	15.7
PEMEX	291,050.7	247,031.8	-17.3	12.1	10.0
CFE	137,340.0	140,300.7	-0.5	5.7	5.7
(-) Compensated operations ^{1_/}	258,314.0	292,733.9	10.4	10.7	11.9
Non-programmable	348,006.0	383,355.9	7.3	14.5	15.5
Non-earmarked transfers	320,047.6	355,056.9	8.1	13.3	14.4
Adefas and other	27,958.4	28,299.0	-1.4	1.2	1.1
II. Financing cost ^{2_/}	210,315.6	237,583.7	10.1	8.7	9.6

Note: Figures might not add up due to rounding.

p_/ Preliminary figures.

1_/ Refers to those transactions that represent an income for the social security institutions and an expenditure for the Federal Government that are eliminated in order to avoid double counting of the income and the expenditure.

2_/ Includes interests, commissions, public debt expenditures, and expenditures associated to financial restructuring and support programs for bank savers and bank debtors.

Source: Ministry of Finance and Public Credit.

FEDERAL PUBLIC SECTOR DEBT BALANCES, JUNE * _/

Concept	Outstanding as of			% of GDP			Structure (%)		
	Dec-14	Dec-15	Jun-16 ^{p_/_}	Dec-14	Dec-15	Jun-16 ^{p_/_}	Dec-14	Dec-15	Jun-16 ^{p_/_}
Domestic Debt:									
Net (Million pesos)	4,804,250.2	5,379,857.1	5,411,901.9	26.7	28.5	28.6	69.2	65.9	62.0
Gross (Million pesos)	5,049,533.3	5,639,503.9	5,629,508.5	28.0	29.9	29.8	69.9	66.9	62.3
External Debt:									
Net (Million USD)	145,617.4	161,609.5	175,386.7	11.9	14.7	17.6	30.8	34.1	38.0
Gross (Million USD)	147,665.8	162,209.5	179,904.8	12.1	14.8	18.0	30.1	33.1	37.7
Total Debt: ^{1_/_}									
Net (Million pesos)	6,947,446.4	8,160,589.9	8,728,692.8	38.6	43.2	46.2	100.0	100.0	100.0
(Million USD)	472,037.4	474,273.7	461,559.6						
Gross (Million pesos)	7,222,878.5	8,430,561.7	9,031,742.1	40.1	44.7	47.8	100.0	100.0	100.0
(Million USD)	490,751.4	489,963.8	477,584.4						

Note: Figures may not add-up due to rounding.

Net Debt results from subtracting the Federal Government's financial assets, assets from State Productive Enterprises and Development Banks from the Gross Debt.

* _/ Figures subject to revisions due to changes and methodological modifications.

p_/_ Preliminary figures.

1_/_ Includes liabilities from the Federal Government, State Productive Enterprises and Development Banks.

Source: Ministry of Finance and Public Credit.

FEDERAL PUBLIC SECTOR DOMESTIC DEBT, JANUARY-JUNE *_/

(Million pesos)

	Outstanding 31-Dec-15	Movements January to June 2016			Adjustments	Outstanding 30-Jun-16 p_/
		Disp.	Amort.	Net		
1. Net Debt (3-2)	5,379,857.1					5,411,901.9
2. Assets ^{1_/}	259,646.8					217,606.6
3. Gross Debt	5,639,503.9	1,572,482.6	1,602,054.7	-29,572.1	19,576.7	5,629,508.5
Structure by Term	5,639,503.9	1,572,482.6	1,602,054.7	-29,572.1	19,576.7	5,629,508.5
Long-term	5,123,594.6	559,822.4	616,548.7	-56,726.3	15,076.7	5,081,945.0
Short-term	515,909.3	1,012,660.2	985,506.0	27,154.2	4,500.0	547,563.5
Structure by User	5,639,503.9	1,572,482.6	1,602,054.7	-29,572.1	19,576.7	5,629,508.5
Federal Government	5,074,023.1	1,318,615.7	1,347,187.8	-28,572.1	13,500.5	5,058,951.5
Long-term	4,583,421.6	525,311.9	570,323.3	-45,011.4	13,500.5	4,551,910.7
Short-term	490,601.5	793,303.8	776,864.5	16,439.3	0.0	507,040.8
State Productive Enterprises ^{2_/}	447,270.9	60,784.0	53,783.0	7,001.0	-684.5	453,587.4
Long-term	440,270.9	28,541.6	41,173.3	-12,631.7	-684.5	426,954.7
Short-term	7,000.0	32,242.4	12,609.7	19,632.7	0.0	26,632.7
Development Banks	118,209.9	193,082.9	201,083.9	-8,001.0	6,760.7	116,969.6
Long-term	99,902.1	5,968.9	5,052.1	916.8	2,260.7	103,079.6
Short-term	18,307.8	187,114.0	196,031.8	-8,917.8	4,500.0	13,890.0
Structure by Source	5,639,503.9	1,572,482.6	1,602,054.7	-29,572.1	19,576.7	5,629,508.5
Bonds placed in the local market	5,103,226.4	1,226,085.9	1,248,376.3	-22,290.4	12,560.6	5,093,496.6
S.A.R.	107,650.7	101,641.7	109,436.1	-7,794.4	2,066.0	101,922.3
Commercial Banks	141,919.1	52,903.0	37,400.6	15,502.4	138.3	157,559.8
ISSSTE's Law obligations ^{3_/}	153,760.2	45.5	10,234.2	-10,188.7	962.0	144,533.5
PEMEX Pension Bonds ^{4_/}	50,000.0	0.0	0.0	0.0	0.0	50,000.0
Others	82,947.5	191,806.5	196,607.5	-4,801.0	3,849.8	81,996.3

Note:

*_/ Figures subject to revisions due to changes and methodological modifications.

p_/ Preliminary figures.

1_/ Includes the balance denominated in pesos of the General Account of the Federal Treasury, as well as assets from State Productive Enterprises and Development Banks.

2_/ Includes PEMEX and CFE.

3_/ New ISSSTE's Law obligations of the Federal Government.

4_/ Obligations associated with the federal government taking a share of the payment obligations of the pension and retirement by Pemex and its subsidiaries.

Source: Ministry of Finance and Public Credit.

FEDERAL PUBLIC SECTOR EXTERNAL DEBT, JANUARY-JUNE *_/

(Million USD)

	Outstanding 31-Dec-15	Movements January to June 2016			Adjustments	Outstanding 30-Jun-16 ^{p_} /
		Disp.	Amort.	Net		
1. Net Debt (3-2)	161,609.5					175,386.7
2. Assets in foreign currency ^{1_} /	600.0					4,518.1
3. Gross Debt	162,209.5	26,946.3	9,891.8	17,054.5	640.8	179,904.8
Structure by Term	162,209.5	26,946.3	9,891.8	17,054.5	640.8	179,904.8
Long-term	159,057.2	20,573.3	3,560.0	17,013.3	637.5	176,708.0
Short-term	3,152.3	6,373.0	6,331.8	41.2	3.3	3,196.8
Structure by User	162,209.5	26,946.3	9,891.8	17,054.5	640.8	179,904.8
Federal Government	82,588.3	7,410.3	433.2	6,977.1	722.3	90,287.7
Long-term	82,588.3	7,410.3	433.2	6,977.1	722.3	90,287.7
Short-term	0.0	0.0	0.0	0.0	0.0	0.0
State Productive Enterprises ^{2_} /	69,621.3	13,355.3	2,823.9	10,531.4	100.9	80,253.6
Long-term	69,621.3	13,052.6	2,600.8	10,451.8	100.9	80,174.0
Short-term	0.0	302.7	223.1	79.6	0.0	79.6
Development banks	9,999.9	6,180.7	6,634.7	-454.0	-182.4	9,363.5
Long-term	6,847.6	110.4	526.0	-415.6	-185.7	6,246.3
Short-term	3,152.3	6,070.3	6,108.7	-38.4	3.3	3,117.2
Structure by Source	162,209.5	26,946.3	9,891.8	17,054.5	640.8	179,904.8
Publicly Placed Bonds	115,202.6	14,230.7	215.7	14,015.0	999.6	130,217.2
International Financial Institutions (IFI's)	28,646.5	928.5	843.8	84.7	-238.5	28,492.7
Bilateral	8,313.1	672.7	822.6	-149.9	34.5	8,197.7
Commercial Banks	9,744.6	10,811.7	7,786.6	3,025.1	-13.5	12,756.2
Pidiregas	302.7	302.7	223.1	79.6	-141.3	241.0

Note:

*_/ Figures subject to revisions due to changes and methodological modifications.

p_/ Preliminary figures.

1_/ Considers the balance denominated in US dollars of the General Account of the Federal Treasury, as well as those held by State Productive Enterprises and Development Banks.

2_/ Includes PEMEX and CFE only.

Source: Ministry of Finance and Public Credit.

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