

The approval process for the FY19 Budget is now complete

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- **The Lower House in Congress approved today the spending budget for 2019 (PEF 2019)**
- **Congress made upward adjustments to revenues amounting to MXN23.8bn (~US\$1.2bn) on the back of higher estimates for VAT and income tax collection**
- **These resources were added PEF 2019, highlighting increases in spending in farming and education**
- **In addition, cuts were made in other areas, particularly in the autonomous branches**
- **Although the original budget proposal already contemplated an adjustment to tax revenues, which are usually underestimated, the adjustments made by Congress were larger than expected**
- **Nevertheless, we continue to believe that the federal government will remain committed to meeting the goals presented in the proposal**

Budget for 2019 approved by Congress. With the approval of both the revenue side –LIF 2019-, by the Senate last December 21st, and the spending part –PEF 2019-, of the budget today at dawn by the Lower House, the process of approval of the government’s budget for 2019 is now complete. Such process began on December 15th, when the Mr. López-Obrador’s administration submitted the proposal to Congress through the Minister of Finance, Carlos Urzúa (for more details see: *“New administration presents a fiscally responsible budget for 2019”*, published on December 17 <[pdf](#)>).

Upward adjustment in tax revenues in the LIF2019. The Lower House made several adjustments to the proposal sent by the MoF, among which we highlight an MXN23.8bn (~US\$1.2bn) increase in revenues on the back of higher expected tax collection levels. Particularly, MXN17.5bn (~US\$875mn) will come from higher collection of income taxes, while the remaining MXN6.2bn (~US\$310bn) come as a result of higher VAT collection. Such adjustments were made under the argument that efficiencies on the fiscal code and collection framework will be made, as it is the case of the so-called *shell companies*. It is worth noting that in the original proposal, such efficiencies were already contemplated so these revisions are larger than expected. As a result, transfers to states -resulting from taxes collected at a federal level-, will be increased, with states now receiving an extra MXN5.3bn. This must be added to other contributions and transfers that will also be larger than the ones proposed by the administration.

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Changes in terms of fiscal compensations were approved. Despite the lobbying of the private sector, changes proposed to the way companies compensated differences in tax payments were approved. This includes, for example, the possibility of offsetting favorable VAT balances with negative balances in other types of tax payments. Now VAT could only be paid or refunded against other VAT payments, which could have implications for corporates' cash positions, particularly SMEs.

Changes in the gas price regulation policy. Another change in LIF 2019 includes the authorization for the *Energy Regulatory Commission* (CRE) to regulate the price of LP gas in circumstances in which the *Federal Economic Competition Commission* (COFECE) rules that there are no conditions of effective competition. In the original proposal this was only contemplated for gasoline and diesel.

No changes to the *General Criteria of Economic Policy* (CGPE) 2019. Macroeconomic variables used for the estimation of the budget did not change, highlighting an estimated price for the Mexican mix of oil of 55dpb for the year, which compares with the current level of 45.9dpb. Nevertheless, recall that oil revenues were hedged a couple of months ago with options with a strike price of 55dpb. Meanwhile, growth is estimated at around 2% in 2019 with inflation at 3.4% and an average exchange rate of 20 pesos per dollar, as shown in the following table. In addition, domestic net indebtedness for the Federal Government was set at MXN490bn (~US\$24.5bn) while net external indebtedness at US\$5.4bn.

Changes in spending allocations for 2019. With the MXN23.8bn increase in revenues, along with a reduction of MXN16.8bn (~US\$840mn) to spending programs of several branches of government, the Lower House was able to allocate an additional MXN40.5bn (~US\$2bn) to other sectors of government. We highlight the MXN8bn increase to farming and the MXN7.8bn allocated to education, from which half of it will be destined to public universities (UNAM, IPN and others). In addition, MXN4.5bn will be added to the spending budget in terms of the environment while MXN500 million will be destined to spending in cultural activities. By contrast, reduction in spending levels come from a MXN6.3bn reduction in debts from previous fiscal years, *also known as ADEFAS* (-23% yoy). Moreover, a MXN3.4bn cut was applied to different autonomous bodies of government from which MXN1.7bn will be cut from the judiciary system budget.

Despite an increase in revenues, we believe that the federal government will maintain a responsible position. Even though, in our view, the upward adjustment to tax collection levels could eventually be overestimated, we expect the federal government to maintain a prudent fiscal stance throughout the year, meeting fiscal target of a 2.5% of GDP deficit in 2019.

Fiscal budget in 2019

	2019	2018e/	2018*
Fiscal balance			
MXNbn	-503.8	-466.7	-466.7
% of GDP	-2.0	-2.0	-2.0
Budget revenues			
MXNbn	5,298.2	5,106.0	4,778.3
% of GDP	21.2	21.7	20.3
Net spending			
MXNbn	5,802.0	5,572.7	5,245.0
% of GDP	23.8	23.7	22.3

Source: Ministry of Finance

*Approved by Congress for fiscal year 2018

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