

FY2020 Budget – New government confirms fiscal responsibility with conservative assumptions

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- The Ministry of Finance (MoF) submitted to Congress its updated assumptions for fiscal year 2019 and the preliminary ones for the 2020 budget
- For 2019, the MoF lowered the economic growth forecast to 1.1-2.1% (previous: 1.5-2.5%)
- Moreover, the government expects the price of the Mexican oil mix in the area of US\$57 per barrel and a production platform of around 1,783mbpd for 2019, down from previous 1,847mbpd
- They still expect *Public Sector Borrowing Requirements* (PSBR) at 2.5% of GDP, along with a primary surplus of 1% of GDP by year-end 2019
- For 2020, they expect a primary surplus and a deficit in the PSBRs equivalent to 1.3% and 2.1% of GDP, respectively
- This would imply a reduction of 1.7% vs. 2019 budget in real terms in revenues coupled, with a 3% decline in programmable spending
- In terms of economic growth, the MoF is forecasting an economic expansion in the range of 1.4% - 2.4% and a USD/MXN20 average exchange rate in 2020

Government updates assumptions for 2019 and presents 2020 guidelines for budget. In compliance of Article 42 of the *Federal Budget and Fiscal Responsibility Law*, the Ministry of Finance (MoF) submitted to Congress the *Preliminary Fiscal Year 2020 Economic Assumptions*. The document updates economic estimates for this year and incorporates fiscal and macroeconomic assumptions for 2020.

Commitment with sound fiscal policy. In this context, the MoF now expects economic growth this year between 1.1% and 2.1%, down from a previous of 1.5-2.5%. The mid-point stands at 1.6%, marginally above our forecast of 1.5%. The government expects the Mexican oil mix around US\$57 per barrel and a production platform of 1,783kbpd, below what was approved in the 2019 budget (1,847kbpd). In addition, they still expect PSBR at 2.5% of GDP and a primary surplus of 1% of GDP. Moreover, the MoF also updated their inflation estimates, which they continue seeing at 3.4% yoy (Banorte: 3.5%) and the exchange rate at USD/MXN19.9 (Banorte: 21.30) from USD/MXN20, with nominal interest rates around 8% vs. 8.3% in previous document.

Ministry of Finance public debt forecasts: 2019

Concept	Approved	Updated estimates
1. Public Sector Borrowing Requirements	-2.5	-2.5
2. Fiscal deficit	-2.0	-2.0
3. Without high-impact investments	0.0	0.0
4. Primary balance	1.0	1.0
5. Historical Balance of Public Sector Borrowing Requirements	45.3	45.1

Source: Ministry of Finance

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Preliminary assumptions for next year. Economic growth is expected to be between 1.4-2.4% (mid-point: 1.9%, Banorte: 2.1%), and an exchange rate of 20.1 per dollar. With these numbers, they expect a primary surplus and fiscal balance equivalent to 1.3% and 1.6% of GDP, respectively. PSBR will be equivalent to 2.5%, while HBPSBR are estimated at 45.1% of GDP in 2020. The Mexican oil mix price would be around US\$55/BBL and an output platform of 1,916 thousand barrels per day. To achieve these targets, the government will cut programmable spending by MXN70.7bn with respect to the budget approved for 2019. Nevertheless, non-programmable spending –which includes transfers to states and financial costs–, would increase MXN\$76.9bn.

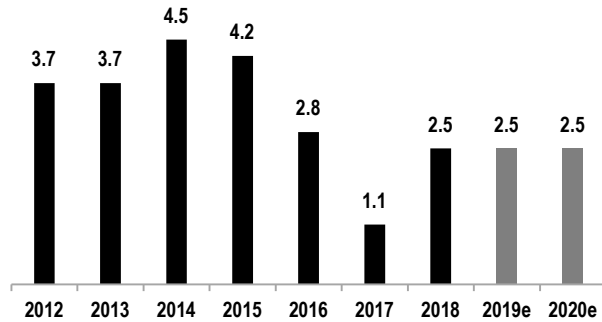
Ministry of Finance economy overview 2019 – 2020

	2019e	2020e
GDP		
%; GDP–real growth rate (range)	1.1 – 2.1	1.4 – 2.4
GDP Deflator	3.9	3.2
Inflation		
December / December	3.4	3.0
Nominal exchange rate		
End of period	19.90	20.10
Average	19.50	20.00
Interest rate (CETES 28 días)		
% Nominal end of period	8.0	7.6
% Nominal average	8.0	7.8
% Real accumulated	4.8	4.9
Current account balance		
% of GDP	-1.8	-2.0
Fiscal balance (% of GDP)		
With high-impact investments	-2.0	-1.6
Without high-impact investments	0.0	0.0
Mexican petroleum		
Average price (US\$ BBL)	57	55
Average production platform	1,783	1,916
Average export platform	1,008	1,085

Source: MoF
e = estimate data

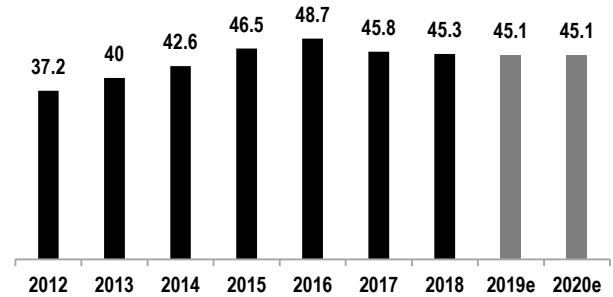
With these, the MoF estimates that the HBPSBR will maintain a downward trend in coming years. We believe the guidelines presented are consistent with the fiscal consolidation efforts that the government has undertaken. We highlight that the MoF, the Federal government has the necessary tools to adjust without damaging economic growth, increase debt or taxes. Moreover, we note that the HBPSBR increased in recent years as a result of the significant depreciation of the Mexican currency, which impacted external debt balances.

PBSR
% of GDP



Source: MoF

HBPSBR
% GDP



Source: MoF

In our view, the macroeconomic framework confirms the government’s commitment with fiscal responsibility. We see as positive that the government recognizes that GDP is likely to be below what they originally envisioned in a context of a deceleration in global economic growth, including the US. Additionally, according to Pemex, as of February the year-to-date average crude-oil production stood at 1,662kbpd, significantly below the 1,847kbpd originally estimated. In this respect considering updated figures, it is worth noting that the government still expects to increase production throughout 2019-2020. All in all, we believe forecasts reaffirm the government’s commitment with fiscal consolidation and sound public finances, updating the framework in a realistic and achievable manner.

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