

Reassuring message from AMLO's economic policy team

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- **Mr. Carlos Urzúa, probably our next Minister of Finance under Mr. López-Obrador administration, held a conference call with international investors this morning**
- **In our view, he sent a reassuring message in the sense that the new government will also be committed to sound fiscal policies as well as other macroeconomic fundamentals**

Reassuring message for investors. After winning the election by landslide (see our note: “*AMLO's landslide victory in historical Presidential election – What's next?*” <[here](#)>), Mr. Carlos Urzúa, probably the next Finance Minister under Mr. López-Obrador's administration held a conference call with international investors this morning. In our view, he sent a reassuring message in the sense that the new government will also be committed to sound fiscal policies as well as other macroeconomic fundamentals. He was accompanied by two probable senior members of the economic policy team: (1) Gerardo Esquivel-Hernández; and (2) Arturo Herrera-Gutiérrez. Moreover, they highlighted the need of *bright minds* in the cabinet and said they have already reached for some others that will join them in the next few months.

Experienced staff, particularly in terms of the budget process. During the call, they stressed their experience in the public sector, particularly in the budget approval process, as well as having been members of Mr. López-Obrador's cabinet during his tenor as mayor of Mexico City. Mr. Urzúa is a mathematician from *Monterrey Tech (Tecnológico de Monterrey)*, with a master's degree from the *Center for Research and Advanced Studies (Cinvestav)* in the *National Polytechnic Institute*, as well as a Ph.D. in Economics from Wisconsin University. He was Secretary of Finance during Mr. López-Obrador tenor as mayor of Mexico City and has consulting experience in economics. Mr. Esquivel is an economist from the *National Autonomous University of Mexico (UNAM)*, with a master's degree from *El Colegio de México (Colmex)* and a Ph.D. from Harvard. Finally, Mr. Herrera, an economist with Ph.D. studies at NYU, is currently a Practice Manager of the Public Service and Performance Unit for Latin America and the Caribbean, part of the World Bank's *Governance Global Practice*. He has extensive experience in public sector issues, having worked at the Ministry of Finances and as General Director for Financial Management and Secretary of Finance at the government of Mexico City.

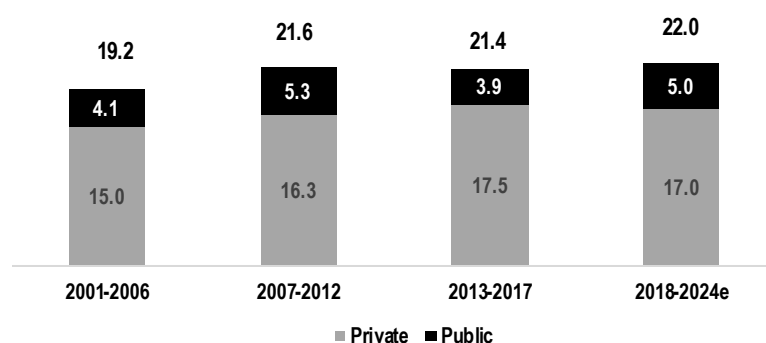
Orderly and efficient transition. The first thing Mr. Urzúa stressed in the call is that, officially, the transition period will start as of September 6th, which is the deadline that the Federal Electoral Tribunal has to declare the validity of the election, after the official vote count finishes (see timeline below). In this context, they expect a two-stage transition process: (1) First, they will focus on the macroeconomic and budget frameworks, as well as on the main fiscal and financial programs; and (2) once Mr. López-Obrador is declared president-elect, they will officially start the transition preparing the economic program for 2019, which includes the *General Economic Policy Criteria*, the revenue law and the spending budget, which they have to send to Congress by December 15th, shortly after the President's inauguration.

Seven main guiding principles for the new administration. Mr. Urzúa described the guidelines they expect to follow in devising their government plans in terms of the economy: (1) Responsible macro, fiscal and debt policy; (2) strict respect to the autonomy of the central bank; (3) floating exchange rate regime; (4) the need to manage tax and financial regulatory agencies in a transparent and clear risk-based policy; (5) strongly separation of powers as a counterbalance, looking forward to have ties with all parties in Congress; (6) the need to enhance fiscal operating framework by strengthening the dialogue with Congress. In this context, he suggested that current *Center for Public Finances Studies* at the Lower House should evolve to be an independent non-partisan organization that estimate the impact of policies, sort of what the CBO does in the U.S.; and (7) they believe that structural reforms require formal consultations among the main stakeholders and the need to create a consensus around them. They expect to do this through the appropriate channels.

Focus on technocratic management of public finances. In the meantime, Mr. Herrera depicted the new administration intentions regarding public finances. He said that they plan to have a very technocratic management of public finances, with the introduction clear and transparent guidelines. He highlighted that Mexico has a very lengthy transition but that this creates an opportunity to prepare correctly and engage early in budget preparation and set the tone of the administration. They said they are very clear of the junction, at which the election has taken place, including the difficult situation in other emerging markets. That is why they have reached not only domestic and foreign investors but also rating agencies and international financial institutions. In particular, he mentioned the IMF, which *flexible credit line* (FCL) with Mexico will be up for review in the fall. They expect current administration to support the renewal of this line.

Solid fundamentals of the Mexican economy in the short-term. The future team at the Ministry of Finance recognized the situation of the macroeconomic framework of the Mexican economy vs. other emerging markets, with manageable current account and fiscal deficits, inflation under control and an acceptable level of interest rates. Nevertheless, they consider that in the medium and long-term, they will change course by increasing the level of investment as a % of GDP, which they believe it is low by international standards. The aim of the new government will be to increase this ratio to 22% of GDP, with public investment levels in the area of 5% of GDP (see chart below). In this context, they said they will create a very friendly investment environment for both foreign and domestic investors.

Average gross fixed investment in the last three presidential terms
% of average GDP



Source: Banorte with data from INEGI

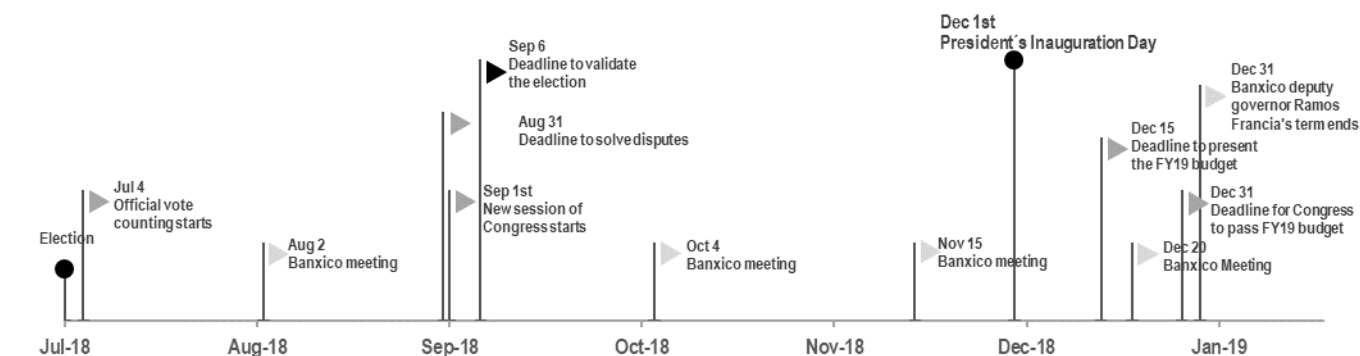
First budget will stick to preliminary macroeconomic guidelines sent by current administration back in April. Mr. Herrera stressed in several occasions that they will be very careful in terms of the budgeting process, sticking to the guidelines already presented to Congress back in April (see table below). However, they plan to do some adjustments within the budget in order to free resources for investments and social programs. In this sense, they intend to double the pensions to senior citizens and implement a program for the unemployed non-students young population (*a.k.a* as “*ninis*”), as they believe that the problem with this bracket of population explains part of the high levels of insecurity and violence in the country. They estimate that infrastructure investment could increase in about 1% of GDP while close to 0.7% would be spent in social programs. Resources will come from savings in the area for 1-2% of GDP they intend to have by: (1) Centralizing all government’s acquisition and procurement processes -just as they did in Mexico City-, reducing both costs and existing corruption levels in such processes; and (2) focusing just in a few important programs, instead of in many small ones (currently they said there are about 1,407 social programs), with main focus on the abovementioned programs. In this context, they highlighted that Mr. López-Obrador is aware of his budget constraints and like to focus only on a series of activities, creating specific milestones to achieve them. Moreover, they said they did not expect a victory with such an overwhelming margin and will still need to find out if they have a majority in Congress to continue making plans.

Ministry of Finance economy overview 2018 – 2019

	2018e	2019e
GDP		
%; GDP–real growth rate (range)	2.0 – 3.0	2.5 – 3.5
GDP Deflator	4.8	3.3
Inflation		
December / December	3.5	3.0
Nominal exchange rate		
End of period	18.40	18.40
Average	18.40	18.40
Interest rate (CETES 28 días)		
% Nominal end of period	7.5	6.8
% Nominal average	7.5	7.1
% Actual cumulative	4.0	4.2
Current account balance		
% of GDP	-1.9	-1.9
Fiscal balance (% of GDP)		
With high-impact investments	-2.0	-2.0
Without high-impact investments	0.0	0.0
Mexican petroleum		
Average price (US\$ BBL)	53	51
Average production platform	1,983	2,035
Average export platform	888	911

Source: MoF
e = estimate data

Timeline of main events after the 2018 election



Fuente: Banorte

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