

Congress approved the revenue side of the budget for fiscal year 2016

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- The Lower House approved the revenue side of the budget for FY2016, including the Senator's modifications
- Among the main changes, we highlight the following:
 - (1) The exchange rate price was revised to 16.4 USD/MXN from 15.9 USD/MXN; as a result, the Federal Government revenues were revised up to MXN4.8tn from MXN4.7tn (MXN16.9bn more than the initial proposal sent by the Executive);
 - (2) The Congress established a floating band for gasoline prices according to inflation expectation of 3%
 - (3) Moreover, the proposal to reduce the tax on sodas and sweetened drinks by MXN50 cents was rejected
- The price of the Mexican crude oil mix for export stood at 50 dollars per barrel (dpb), while the oil production platform was projected at 2,247 million barrels per day
- Moreover, the Lower House also incorporated different tax incentives for the taxpayers and tax simplification measures
- Finally, the growth estimates for 2016 remained unchanged from the Executive's proposal
- We believe that the *Revenue Law* for 2016 reflects the Federal Government's efforts to maintain Mexico's fiscal stability

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The Lower House approved the revenue side of the budget for FY2016, including the Senator's modifications. Today, the Lower House approved with 414 votes in favor and 41 against the *Revenue Law* for the fiscal year of 2016. This *Revenue Law* incorporates all of the changes made by the Senate earlier today.

Federal Government revenues will amount to MXN4.8tn, MXN\$16.9bn higher vs. the initial proposal sent by the Executive. This increase was principally explained by the revision of the exchange rate to 16.4 USD/MXN from 15.9 USD/MXN. We highlight that the main sources of revenues are the following: (1) Federal government revenues (MXN\$3.1tn); (2) MXN\$1.5tn coming from public companies; and (3) financing needs of around MXN\$609.2bn.

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Floating band for gasoline prices according to inflation expectation. The *Law on Special Tax on Production and Services (IEPS)* established that the maximum and minimum gasoline and diesel prices are subject to inflationary estimates, therefore their prices will fluctuate between a range of +/-3% (expected level inflation for 2016 within the *General Economic Policy Criteria*) from the current Mexican gasoline price. This means that the price of low-octane gasoline will fluctuate in a range of MXN13.17 and MXN13.98 per liter; for high octane gasoline the price will fluctuate between MXN13.96 and MXN14.81 per liter.

Soft drink's tax was maintained. The Lower House approved the modifications of Senate by rejecting the initial proposal to reduce by MXN50 cents the *IEPS* tax on soft and sweetened drinks. This tax, which was approved in 2014, has the objective to control the levels of obesity in Mexico.

The price of the Mexican crude oil mix for export stood at 50 dollars per barrel (dpb). The Lower House also projected Mexico's oil production platform at 2,247 million barrels per day. Given these assumptions, the effect of the recent behavior of international oil price is partially incorporated.

Debt ceiling. Additionally, the *Revenue Law* includes an internal public sector net debt ceiling of MXN\$110,500mn, and an external debt ceiling of US\$8,500mn (including Pemex, CFE, and its subsidiaries).

The Lower House also incorporated different tax incentives for the taxpayers and tax simplification measures. Among these incentives the Lower House approved measures to support taxpayers in the *Incorporation Tax Regime* to comply with their tax obligations. Within the modifications made to this regime we highlight the following: (1) The amount for which a commercial establishment will have the option to not print an invoice was increased to 250 pesos from 100 (as long as the purchaser does not request such proof); (2) The amount for which an establishment will be able to deduce payments for expenses, purchases and investments made by electronic funds transfer also increased to \$5,000 pesos from \$2,000 pesos; and (3) the deduction up to 15% of payments for medical services, dental fees, and other hospital expenses.

The macroeconomic framework for 2016 remained unchanged. The economic growth forecast for 2015 stood at a range between 2.6 % and 3.6%, while inflation estimate was in line with the proposal made by the government (3%). Finally, the budget deficit remained at 0.5% of GDP.

Revenue Law for FY2016

	Revenue Law	General Economic Policy Criteria	Banorte-Ixe	Consensus*
GDP (% yoy)	2.6–3.6	2.6–3.6	2.7	2.83
Inflation	3.0	3.0	3.5	3.46
USD/MXN (average)	16.4	15.9	17.60	16.32
CETES 28d (% average)	4.0	4.0	4.3	4.1
Public balance (% GDP)	-3.0	-3.0	-3.0	-3.02
Ex. Pemex and CFE investments (% GDP)	-0.5	-0.5	-0.5	--
Mexican mix of oil (dpb)	50.0	50.0	--	--
Oil platform (mbpd)				
Production	2,247	2,247	--	--
Export	1,091	1,091	--	--
Debt ceiling				
Internal (millions pesos)	110,500	110,500	--	--
External (millions dollars)	8,500	8,500	--	--

*Banxico's survey.

Source: MoF, Banxico and Banorte-Ixe

We believe that the *Revenue Law* for 2016 reflects the Federal Government's efforts to maintain Mexico's fiscal stability. However, we believe that some of the economic assumptions included in the Revenue Law could be perceived as "aggressive" given the adverse economic international environment and the downward trend in oil prices. In particular, both risks could imply a lower tax collection. On the upside, the current modifications made to the *IEPS* on gasoline and sugar-added drinks will partially compensate the lower expected levels of tax collection.

What's next? The *Revenue Law* will be turned over to the Executive for immediate enactment. According to the Article 42 of the *Federal Budget and Fiscal Responsibility Law*, and the Article 74 of the *Mexican Constitution*, the Lower House has to approve the spending part of the budget by mid-November, or in the case of an extension, the Lower House new deadline will be December 31.

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