

Lower house approved the spending side of the budget for fiscal year 2016

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- Today, the Lower-House approved the spending side of the budget for fiscal year 2016
- The spending budget for 2016 amounts to MXN4.7tn (US\$ 285.1bn), 1.5% lower than the one approved for this year (in real terms)
- We believe that the Revenue Law for 2016 reflects the Federal Government's efforts to maintain Mexico's fiscal stability.

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Today, the Lower House approved the 2016 Spending Budget. The budget was approved with 441 votes in favor, 38 against, and seven abstentions. With the *Spending Budget* approval, the process of the *2016 Economic Package* -which has three parts: (1) The *Revenue Law*; (2) the *Spending Budget*; and (3) *General Economic Policy Criteria*-, is now over.

Spending budget for 2016 amounts to MXN4.7bn, 1.5% lower than the one approved for this year (in real terms). However, the *Spending Budget* is MXN16.9bn pesos higher than the original proposal of the Executive. In particular, higher spending was approved for several governmental institutions: The Ministry of Education, the Ministry of Agriculture, and the Ministry of Telecommunications. The *Spending Budget* also considered a reduction in funds destined to the Ministry of Tourism, the Ministry of Agrarian Development, and the Federal Judicial Council (refer to the chart on the next page).

We also highlight that the *Spending Budget* incorporates the creation of the *Competitiveness within the Border Fund*, which will benefit the states and municipalities in the north part of the country. This fund may be exercised directly and according to the economic situation of each region. Of the total resources allocated to this fund, MXN700mn pesos will be destined to promote small and medium enterprises, while MXN900mn will be set aside for social programs, such as temporary employment or food cards. Moreover, for the productive state enterprises the *Spending Budget* contemplates MXN1,760mn, in which 1,595 will be assigned to *PEMEX*, and MXN165mn will be assigned to *CFE*.

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Spending Budget 2016

MXN bn

	MXN bn
Approved budget	4,764
Increase approved vs. proposed by the Executive	16.9
Spending cuts	-55.1
Ministry of Tourism	-4.5
Ministry of Agrarian Development	-2.0
Federal Judicial Council	-0.7
Expansion of resources	72.0
Productive state enterprises	188bn
PEMEX	18.5bn
CFE	957mn

Source: Lower House

The macroeconomic framework for 2016 remained unchanged. The economic growth forecast for 2016 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 2016 Budget reflects the Federal Government's efforts to maintain Mexico's fiscal stability. The reduction in the *Spending Budget* -in real terms- is explained by the fall in government oil revenues, which reflects the Federal Government's responsible stance given that the 2016's *Spending Budget* contemplates a public deficit of 0.5% of GDP. On the revenue side, 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. All in all, we believe that both the *Spending Budget* and the *Revenue Law* confirms the political efforts of the current administration to safeguard the stability of Mexico's public finances.

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