

Lower house approved the spending budget for 2017

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- Today, the Lower-House approved the spending side of the budget for fiscal year 2017
- The Senate had already approved the revenue side of the budget for 2017 (October 29), which amounts to MXN4.88trn (~US\$262bn), MXN51.3bn more than the original proposal from the Federal Government
- We highlight the following issues:
 - (1) Economic growth in the area of 2%-3% with the Mexican peso at 18.62
 - (2) Oil output equivalent to 1.9 million barrels per day with an oil price of US\$42 per barrel
 - (3) From the revenue side, more than 67 billion were reallocated to various funds and programs affected by cuts in the original budget
 - (4) There were reductions to the budget of the Federal Judicature Council, the Congress, INE, and the Ministry of Public Function

Alejandro Cervantes
Senior Economist, Mexico
delia.paredes@banorte.com

Miguel Calvo
Regional and Sectorial Economist
miguel.calvo@banorte.com

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

The Lower House approved the spending budget for 2017. With 438 votes in favor and 36 votes against without abstentions the budget for the 2017 fiscal year was passed. This approval concludes the process of the 2016 Economic Package, which consists of three parts: (1) the Revenue Law (known as LIF); (2) the Federal spending budget; and (3) the General Economic Policy Criteria (CGPE).

Government expects expenditures for MXN4.888tn. This figure is higher by MXN51.3bn vs. the government proposal but 0.7% lower than the budget approved in 2016, on the back of to the reduction of programmable spending both at a federal level and in Pemex along with 2.3% decrease in real terms of resources used by Congress. In order to strengthen priority areas, such as social development, justice, anti-corruption efforts, infrastructure and federalism, the Lower House reallocated an amount of MXN67.7 bn. We highlight the resources allocated to the Mexican Institute of Social Security, amounting to MXN622.6bn pesos aiming to contribute to the reduction of poverty and access to health.

In this regard, MXN263bn were allocated to the Institute for Social Security and Social Services of State Workers (ISSSTE), another MXN121bn to the Ministry of Health while the Popular Insurance will be allocated 69bn.

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Moreover, the Ministry of Public Education (SEP) will receive an amount of MXN267bn. Another MXN84bn were allocated to strengthen infrastructure, the communications and transportation sectors. In the case of the Judicial Branch, MXN69.4bn were allocated, MXN5.8bn more than the approved for 2016. In terms of social development, next year almost 64% of programmable spending will be allocated, favoring programs which contribute to the reduction of poverty as “*Prospera*”, for which MXN88bn were allocated.

Within the MXN67.7bn reallocated, it was reported that an amount of MXN5.5bn would be used to strengthen the National Anti-Corruption System, as well as MXN6.9bn for communication infrastructure and rural roads. In terms of the countryside, a total of MXN8.4bn will go to programs to support small producers. In education, MXN3.4bn were allocated (MXN1.9bn more than originally budget), which will go to basic education programs, national scholarships, full-time schools and the strengthening of education. Moreover, an additional MXN1.4bn will be designated to the Ministry of Culture, compensating the previously announced cut of 5bn pesos.

In this context, 2.4bn were directed to the Mexico City Capital Fund, also, MXN500m are going to Subway System (Metro), MXN3.2bn million to the Metropolitan Fund and 790 million to the Border Fund.

Regarding oil, a higher production, an extra 19 thousand barrels a day were assigned by the Lower House. The Congressmen increased the oil production estimate by 19 thousand barrels a day to a total of 1.947million barrels per day (from previous 1.928bpd).

Macroeconomic assumptions for 2017. Congress had already approved the revenue side of the budget last month, in which the *General Economic Policy Criteria* for the coming year are outlined. GDP worth is estimated to be between 2% and 3%, while inflation is expected to stay without changes in line with the *General Economic Policy Criteria* proposed by the MoF. Likewise, the budget deficit stays at 2.4% of GDP.

Revenue Law for FY2016

	Revenue Law	General Economic Policy Criteria	Banorte-Ixe	Consensus*
GDP (%real)	2.5	2.0-3.0	1.1	2.3
Inflation	3.0	3.0	4.0-5.0	3.53
Average FX (USD/MXN)	18.62	18.20	23.50	18.63
Interest Rate (28-Day Cetes, %)	4.9	4.9	4.3	4.1
Public Balance (% GDP)	-2.4	-2.4	-3.0	-3.0
Without Pemex & CFE investment (% GDP)	0.1	-0.3	-0.5	--
Mexican oil mix price (dpb)	42.0	42.0	--	--
Oil platform (thousand bpd)				
Production	1,947	1,928	--	--
Exports	775	775	--	--
Debt ceiling				
Internal	495,000mdp	495,000mdp	--	--
External	5,800	8,500mdd	--	--

Source: MoF, Banxico and Banorte-Ixe

* Estimados del Consenso de acuerdo a la Encuesta de Banxico

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Rey Saúl Torres Olivares	Analyst	saul.torres@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Juan Carlos Alderete Macal, CFA	FX Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates/Financials/ Mining/ Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
Marisol Huerta Mondragón	Equity Research Analyst – Food/Beverages	marisol.huerta.mondragon@banorte.com	(55) 1670 - 1746
José Itzamna Espitia Hernández	Equity Research Analyst – Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto parts	valentin.mendoza@banorte.com	(55) 1670 - 2250
María de la Paz Orozco García	Analyst	maripaz.orozco@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	ricardo.velazquez@banorte.com	(55) 5268 - 9879
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454