

Economic package 2018 –Government delivers a lower fiscal deficit

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- The Minister of Finance delivered to the Lower House the Federal Government’s *2018 Economic Package*
- This package includes the proposal for the *2018 General Economic Policy Criteria*, the *Revenue Law*, and the *Government Spending Proposal*
- We highlight the following features from the document sent to Congress:
 - (1) The government expects economic growth rates between 2% and 3% for 2018, an average exchange rate of USD/MXN18.1, an average oil price of US\$46 per barrel, and a crude oil export platform of 888 thousand barrels per day;
 - (2) The Ministry of Finance (MoF) estimates a 0.9% increase in revenues, amid higher tax collection (2.1%) that will be partially offset by the 4.6% expected fall in oil revenues;
 - (3) A 0.2% yoy reduction in public spending (real terms), on the back of a 2.4% reduction in programmable spending; and
 - (4) A fiscal deficit –incl. Pemex and CFE’s capital spending-, equivalent to 2% of GDP in 2018
- In our view, the government’s proposals shows its commitment to gradually balancing the budget, sending yet another message of fiscal responsibility
- The budget process will run until mid-November, over this period, Congress –taking into account the widespread claim of society-, will likely endorse the fiscal discipline proposed by the federal government

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Sensible economic package for 2018. The Minister of Finance, Jose Antonio Meade, delivered to the Lower House the government’s budget proposal for fiscal year 2018. Such package includes the proposals for 2018’s: (1) *General Economic Policy Criteria*; (2) the *Revenue Law*; and (3) the *Spending Budget*. We highlight the following features from the document sent to Congress: (1) The government expects economic growth rates between 2% and 3% for 2018, an average exchange rate of USD/MXN18.1, an average oil price of US\$46 per barrel, and a crude oil export platform of 888 thousand barrels per day; (2) the Ministry of Finance (MoF) estimates a 0.9% increase in revenues, amid higher tax collection (+2.1%) that will be partially offset by the 4.6% expected fall in oil revenues; (3) a 0.2% yoy reduction in public spending (real terms), on the back of a 2.4% reduction in programmable spending; and (4) a fiscal deficit –incl. Pemex and CFE’s capital spending-, equivalent to 2% of GDP in 2018.

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General Economic Policy Criteria (CGPE) 2018

	CGPE	Preliminary Criteria	Consensus*
GDP (% yoy)	2.0 - 3.0	2.0 - 3.0	2.2
Inflation	3.0	3.0	3.8
USD/MXN (average)	18.10	19.1	18.00
28-day Cetes (%)	7.00	7.30	--
Public balance (% GDP)	-2.0	-2.5	--
Ex. Pemex investments (% GDP)	0.0	0.0	--
Primary balance (% GDP)	+0.9	+1.0	--
Mexican mix of oil (dpb)	46	46	--
Oil platform (mbd)			
Total output	1,983	2,006	--
Exports	888	850	--

*Banamex's survey.

Source: SHCP, Banxico and Banorte-Ixe

2018 budget proposal

MXNbn

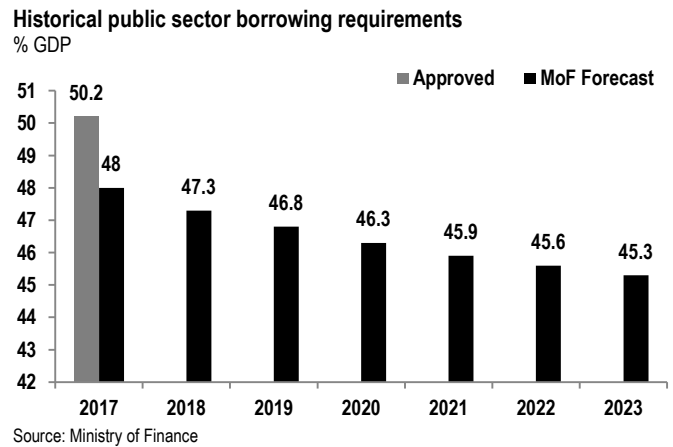
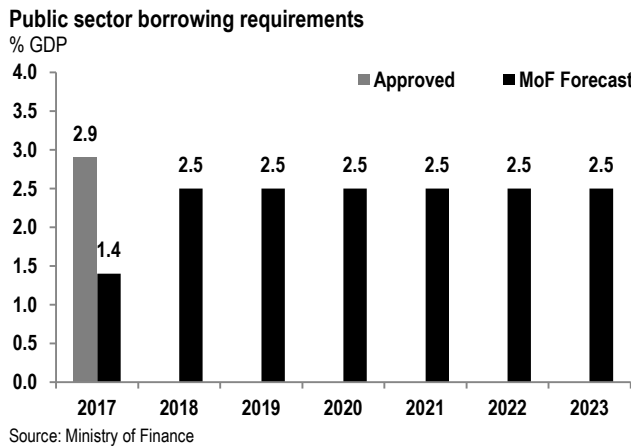
	MXN billions (nominal)		% GDP		% yoy (real)
	2018	2017*	2018	2017*	
Economic balance	-466.7	-494.9	-2.0	-2.3	-10.0
Ex. High impact investments	0	12.6	0.0	0.1	n.a.
Budget balance	-466.7	-494.9	-2.0	-2.3	-10.0
Revenues	4,735.0	4,079.8	20.7	21.1	0.9
Oil revenues	835.6	835.6	3.7	3.9	-4.6
Non-oil revenues	3,899.41	3,644.2	17.1	17.1	2.1
Federal Government	3,129.4	2,919.6	13.7	13.7	2.3
Tax collection	2,961.7	2,769.4	13.0	13.0	2.1
Spending	5,201.7.1	4,974.7	22.8	23.4	-0.2
Programmable	3,697.0	3,614.0	16.2	17.0	-2.4
Non-programmable	1,504.7	1,360.6	6.6	6.4	5.5
Primary balance	197.3	82.7	0.9	0.4	n.a.
Public sector borrowing requirements	-664	-577.6	-2.9	-2.7	n.a.

Source: Ministry of Finance

Higher tax revenues. Estimated budget revenues for 2018 amount to MXN\$4,735bn. This implies a 0.9% yoy expansion vs. 2017 forecast (in real terms) and is explained by the assumption that oil revenues will be marginally lower than in 2017. In addition, the government expects an increase of 2.1% in non-oil revenues, particularly on the back of 2.1% increase in tax collection.

Marginal spending cut. Government is putting on the table a 0.2% reduction in outlays vs. 2017 forecast. Programmable spending will be cut by 2.4% yoy in real terms while non-programmable spending will expand 5.5%. Thus, fiscal consolidation in 2018 will be smaller than the one in 2017, allowing the government to achieve better fiscal goals, but without the negative impact on economic activity.

MoF meets deficit reduction commitment. With this numbers, the primary budget balance will show a 0.9% of GDP surplus in 2018, higher than the 0.4% surplus forecasted for 2017. When factoring in Pemex and CFE’s capital investments as well as other high social impact projects, the deficit proposed is equivalent to 2% of GDP in 2018, with Public Sector Borrowing Requirements (PSBR) in the area of 2.5% of GDP. Looking ahead, the MoF estimates that PSBR will remain at 2.5% of GDP in the medium term, so that historical PSBR will show maintain downward trend, as shown in the charts below.



Sound public finances with sensible assumptions. We believe that 2018 economic package continues to send a clear message of government’s commitment to fiscal responsibility and comes on top of the efforts already made to strengthen macroeconomic fundamentals, particularly amid a difficult external backdrop, including persistently low oil prices and US Fed’s normalization process. In this context, we expect Congress to endorse the government’s proposal, taking into account the widespread claim of society for sound fiscal accounts.

What’s next? The Lower House has until October 20 to approve the *Revenue Law* and the *General Economic Policy Criteria*, which will be subsequently turned over to the Senate, who has until October 31 to approve the proposal. We highlight that if any of the two chambers reject the proposal, and the deadline expires, the Executive may request an extension provided that it does not exceed the end of the year, according to the Article 42 of the *Federal Budget and Fiscal Responsibility Law*, and the Article 74 of the *Mexican Constitution*. Once the *Revenue Law* is in place, the Lower House has to approve the spending part of

the budget by mid-November, or as already mentioned above, in the case of an extension, the Lower House new deadline will be December 31.

Deadlines for the Budget proposal for 2018

Deadline

September 8	2018 Budget proposal
October 20	Lower House approval of the <i>Revenue Law</i>
October 31	Senate approval of the <i>Revenue Law</i>
November 15	Senate approval of <i>Government Spending Proposal</i>

Source: Ministry of Finance

Disclaimer

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