

Real Estate

The 2014-18 National Infrastructure Programme is the most ambitious yet: if executed, it will impact positively on the economy

Carlos Serrano / Samuel Vázquez / Fernando Balbuena / Arnoldo López / Javier Morales

- **The amount available over five years is MXN 7.7bn, more than double the figure proposed by the previous government**
- **The largest investment will go to the energy sector, thanks to the legislative changes**
- **Infrastructure in tourism, healthcare, urban planning and housing is included for the first time**
- **Together with structural reforms, investment will increase the potential GDP growth rate by 2pp**
- **The challenge will be to materialise all the projects**

A record investment in infrastructure

Last year the current government's National Infrastructure Programme (NIP) was published, with investments totalling MXN4bn. However, apart from communications and transport, the investment projects for the remaining areas were not set out in detail. This month the federal government presented a new version of the NIP to cover 2014 to 2018; this outlines all the projects and sectors involved and increases the total investment to MXN 7.7bn. Not only is this a more ambitious figure, but it also represents over 40% of GDP in 2013. To a large extent it is the structural reforms that will make this investment figure possible.

The energy sector will benefit the most, receiving a total of MXN3.9bn over the rest of the current parliament. Thus, the execution of this ambitious plan will depend to a large degree on the effectiveness of the energy reform in attracting private investment, of which a little over MXN1bn is needed. An important difference from former governments is the inclusion in infrastructure investment of sectors such as tourism, healthcare and urban planning and housing. These three sectors will absorb MXN2.1bn, of which MXN1.8bn will go towards urban infrastructure and housing.

Table 1
Comparison between 2014-18 and 2007-12 NIPs*
MXN bn at 2014 prices

Sector	NIP 2007-2012	NIP 2014-2018	Growth (%)
Total	3,328	7,751	132.9
1. Communication & Transport	985	1,320	34.0
2. Energy	2,078	3,898	87.6
3. Water	266	418	57.1
Subtotal	3,328	5,636	69.4
4. Health	-	73	-
5. Urban Planning & Housing	-	1,861	-
6. Turism	-	181	-
Subtotal	-	2,115	-

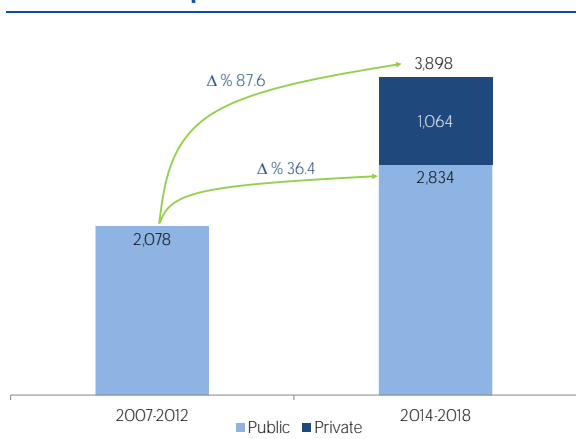
*Based on the VI Report by President Felipe Calderón Hinojosa, 2007-12 NIP; certain sectors such as telecoms and oil industry beat the NIP target, but others such as transport did not get higher than 80%.
 Source: 2014-18 National Infrastructure Programme with data from SHCP

Furthermore, the 2014-18 NIP seeks to reduce the development gaps between regions, so more will be invested in the South-Southeast region.¹ In this geographical area, energy infrastructure will receive the most funding.

Opening up the energy sector will make investment in its infrastructure soar

The total sum to be invested in energy sector infrastructure will be MXN3.898bn, which is an 87% increase on the previous government's NIP. This increase is due in part to private enterprise being able to invest a little over MXN1bn, mainly in hydrocarbon exploration and extraction, as a result of December's constitutional reform of the energy sector. Second, the opportunity for private investment will lie in oil products. There is less scope in electricity, since there are projects for the private sector only in electricity generation; but not in distribution.

Figure 1
Energy infrastructure investment
MXN bn at 2014 prices



Source: PNI 2014-2018 with data from SHCP

Table 2
Major energy projects
MXN bn at 2014 prices

Hydrocarbons Location & Extraction	Refining & Petrochemicals	Electric Generation
Ku - Maloob - Zaap (247.9)	Refining Capacity (45.6)	Wind Energy Southeast (26)
Cantarell (0.233)	Residuals Conversion Tula (44.8)	Ciclo Combinado Noreste (18.6)
Tsimin-Xux (102.7)	Residuals Conversion Salamanca (43.6)	Hydraulic Systems Oaxaca (15.4)

Source: PNI 2014-2018 with data from SHCP

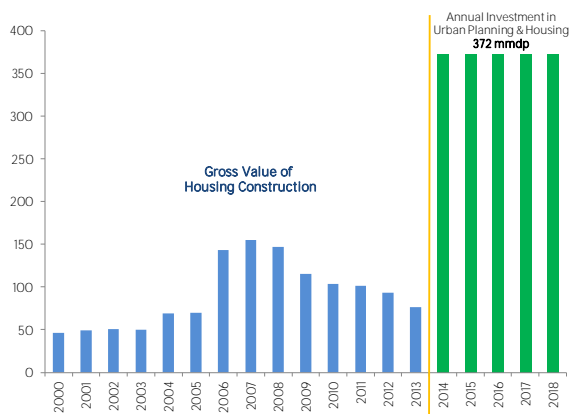
¹ This region includes the states of Campeche, Chiapas, Guerrero, Oaxaca, Puebla, Quintana Roo, Tabasco, Veracruz and Yucatán.

Alternative sources have become more important within energy infrastructure projects. For example, the wind farms to the south of the country could attract investments worth more than MXN26bn.

Infrastructure investment could reactivate the real estate sector

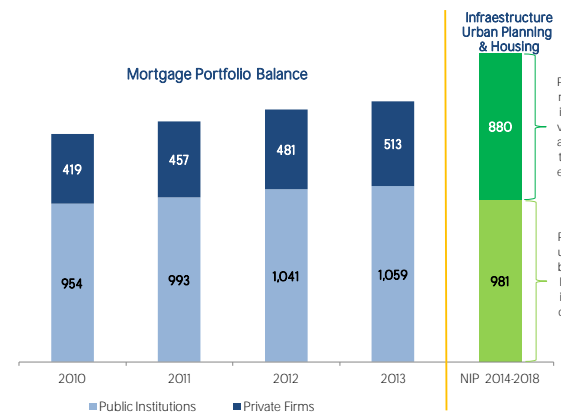
After energy, the next biggest investment will go to urban planning and housing, at slightly over MXN1.8bn. If these resources do in fact materialise, the sector may see the real estate sector recover, since the housing component has been depressed for some time. Nevertheless, the task does not seem an easy one, since the value of housing production between 2000 and 2013 struggled to reach MXN1.2bn.² This level of investment would mean that, in just five years, 46% more will be invested than in the previous fourteen; expressed differently, each year it would need to be triple that of the previous average annual housing production. This is in a context where there is increasing demand for existing housing stock and refurbishment, and less demand for new houses.

Figure 2
Housing construction and urban investment
MXN bn at 2014 prices



Source: BBVA Research with data from INEGI and 2014-18 NIP

Figure 3
Outstanding mortgage balance and urban investment
MXN bn at 2014 prices



Source: BBVA Research with data from Banxico and 2014-18 NIP

Investment in urban planning and housing would be far higher than the amount disbursed by construction firms in the formal economy; if the NIP is executed, GDP in building would come out of its negative trend, especially when investment in hospital infrastructure of around MXN70bn is included. If we take building as the principal component of construction, its return to the upwards path would also push construction GDP up.

Investment in telecoms will be leading the sector

The amount allocated for telecoms and transport infrastructure is just 3% higher than the amount initially allocated by the previous government, but we should remember that the Calderon government did not manage to meet its programme targets. In fact, some of the most important projects, such as Punta Colonet, the Hidalgo refinery and the Riviera Maya airport, did not take place. Thus, if we compare this current governmental budget with what has actually been spent in the telecoms and transport sector, the percentage variation is greater than

² In-house calculations based on the INEGI National Survey of Construction Companies.

30%. However, the greatest increase will be in the telecoms component, where the reforms affecting the sector are expected to boost investment of over half a billion pesos, most of it from the private sector. That fact is important, since the secondary legislation and its proper application by those whom it regulates will be the incentive for consolidating these investments by private agents.

Table 3
Major telecoms projects
MXN bn at 2014 prices

Project	Amount
Private investment due to Constitutional Reform	507,168
Shared Network of Broadband Fiber	130,000
Project "México Conectado"	18,600
Trunk System Broadband Fiber Extension	9,750
Satellite System Mexsat	8,217
Total	673,735

Source: BBVA Research with data from the 2014-18 NIP

Table 4
Air transport projects
MXN bn at 2014 prices

Project	Region	Investment
Airport Lazaro Cardenas	Middle	1,000
Airport Palenque	South	246
Airport Monterrey Extension	North	197
Airport Tijuana Extension	North	75
Airport Puerto Vallarta Extension	Middle	68
Airport Bajío - Guanajuato Renewal	Middle	56
Airport Chihuahua Extension	North	50
Airport Hermosillo Extension	North	19
Airport Culiacán Extension	North	14
Airport Mazatlán Renewal	North	4
Airport Toluca Extension	Middle	4
Airport San Jose del Cabo Renewal	North	3
Airport San Luis Potosi Renewal	Middle	3
Airport Merida Renewal	South	1
Total		1,740

Source: BBVA Research with data from the 2014-18 NIP

The most important transport project missing from the list is the one that will solve the congestion at Mexico City airport.

The authorities estimate an impact of up to 2pp in GDP

As already mentioned, this NIP is the most ambitious in history, doubling the amount allocated by the previous government, so if it materialises, its impact on the economy will be really significant. The federal government estimates an effect on GDP growth, taken with the structural reforms, of up to 2pp. The contribution must be shared, as the federal government sets out, since many of the investments in the projects are possible thanks to the openness and certainty which the constitutional changes are generating.

Table 5
Impact of the 2014-18 NIP on GDP growth
% annual change

Type	2014	2015	2016	2017	2018	Average
Inertial	3.5	3.8	3.7	3.6	3.5	3.6
Reforms & NIP	4.0	4.8	5.1	5.4	5.5	5.0

Source: 2014-18 National Infrastructure Programme

The figures above are an indication of the size of the challenge that the NIP is creating in directing resources towards gross fixed investment, in terms of the annual average proportion of GDP which the programme represents. That is, the NIP implies that extensive resources are going to be directed towards investment which, in turn, may depend to a large extent on the actual rate of GDP growth achieved from 2014 to 2018. In this way,

if the GDP grows at high rates such as those referenced in the NIP itself, of 5.0% under the reform scenario, it is possible that this programme can be largely achieved. However, if in the years under analysis GDP grows as considered in the inertial scenario at 3.6% or less, then it is unlikely that all the NIP targets will be met. Likewise, we also have to consider that insofar as some of the resources for the NIP are expected to come from the private sector, we also need to bear in mind that the market conditions which may influence these projects need to be positive in order for these projects to go ahead and for the financial resources to be available.

Conclusions

If it is executed, the National Infrastructure Programme will have a major effect on the economy. The investment will swiftly reinvigorate some activities in the construction, energy and telecoms sectors; but its long-term impact may be greater if this infrastructure increases potential GDP. Nevertheless, the task looks gargantuan, both because of the amount that is to be invested in a period of just five years, and because of its reliance on the effectiveness of secondary legislation from the constitutional reforms.

From the perspective of public finances, the challenge presented by the NIP is greater. This is due to the fact that a significant part of the projects will be financed by the public sector itself. This means that, for the investment in these projects to go ahead, the public sector has to have enough of its own financial resources. This in turn will depend on the rate of economic growth over the five-year period.

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