Mexico | Fiscal Budget 2018: Responsible and based on realistic assumptions

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On September 8th, the Ministry of Finance and Public Credit (SHCP) submitted the fiscal budget for the coming year to Congress. I think there are three points worth highlighting: i) it is positive that it continues along the path towards fiscal consolidation; (ii) the budget is designed around realistic economic assumptions; and (iii) if approved, it will mean that debt as a percentage of Gross Domestic Product (GDP) will continue its downward trajectory in 2018.

The fiscal package submitted to Congress suggests a reduction of the broad deficit, that is, of the public sector financial requirements, from 2.9% as a percentage of GDP approved for 2017 to 2.5% by 2018 - the deficit in 2017 will end up being lower than that approved (it will be around 1.4%), due to the fact that this year the government received a significant amount of funds from the Bank of Mexico (Banxico) for the operational retained earnings (the profits that the central bank obtained for the revaluation of reserves due to the exchange depreciation of last year). That is, the process of fiscal consolidation that began this year will continue next year. In 2017 a primary fiscal surplus will be achieved for the first time in nine years.

The primary balance is the one that does not consider the financial obligations of the government, so it is a good indicator for evaluating the fiscal policy in a given year since it does not reflect fiscal decisions of previous years. This year's fiscal surplus as a percentage of GDP will be around 0.4%, while for 2018 the surplus is expected to be 0.9% of GDP: the fiscal consolidation effort will be greater by the amount of 0.5% of GDP.

The economic assumptions with which the budget was designed are realistic. A growth rate of 2% to 3% is considered for 2018, which implies a median figure of 2.5%, slightly higher than the average of 2.2% sustained by private sector analysts. It is assumed that the price of a barrel of export oil of US$46 will be attainable through the coverage programme and the resources that reside in the Petroleum Revenue Stabilization Fund (FEIP). An inflation stabilisation trajectory with convergence at 3% is established at the end of 2018 (I estimate that this figure will be 3.7%). There is also an increase in budget revenue of 3.6% in real terms, which I think is conservative.

This year public debt as a percentage of GDP will stop growing for the first time in nine years. While that ratio was 50% at the end of 2016, in 2017 it will be around 48%. That is why two of the main rating agencies improved the outlook for Mexico's sovereign debt from negative to stable. The package presented to Congress involves an additional reduction in 2018 to 47.3%. If a budget with a primary fiscal surplus is not approved, there is a risk that the country's rating will deteriorate, with consequent increases in financing costs for companies, families and the government. We hope that Congress will also act responsibly.

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