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Contributors

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Sergio Olarte, Head Economist, Colombia
+57.1.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

Latam Daily: Optimistic Assumptions in Mexico's Economic Package

- **Mexico: Economic Package for 2023 contains some optimistic assumptions, but markets did not react adversely**

MEXICO: ECONOMIC PACKAGE FOR 2023 CONTAINS SOME OPTIMISTIC ASSUMPTIONS, BUT MARKETS DID NOT REACT ADVERSELY

The government presented the Economic Package for 2023, after which Mexican assets moved in sync with other assets in the region, suggesting that the budget was received without major concern by financial markets. Previously, Secretary Ramirez de la O, hinted that given the higher interest rate environment, financing priority programs (both social and infrastructure projects) would be a challenge, but that these would be covered without the introduction of new taxes, through "Franciscan austerity on the part of the government". Even if that is the case, however, some assumptions in the General Economic Policy Criteria appear somewhat optimistic, increasing the risk that fiscal balance targets will be missed, or that the government will otherwise be forced to make cuts to planned spending.

Some of the assumptions include:

- As was the case in the 2022 budget, the Ministry of Finance projects growth that is over twice that expected by economists, which we once again consider to be overly optimistic. The budget assumes 3.0% GDP growth in 2023 (Banxico survey median at 1.3%). In addition, we see the balance of risks to growth skewed to the downside, as the expectation for US growth in 2023 is 1.0%. This assumption could lead to revenues being overestimated by 0.3–0.4 ppts of GDP.
- As for inflation, the economic plan assumes a very rapid drop in inflation, to close 2023 at 3.2%. This contrasts with a Banxico survey median of 4.4%. However, the budget incorporates a nominal interest rate of 8.5% (28-day cetes) by the end of 2023, which compares to a rate of around 9.0% discounted on the TIIE curve. Although we consider this assumption to be somewhat optimistic, in our view, it does not lead to an underestimation of the financial cost of more than 0.1ppts of GDP.

Following the presentation of the package, Fitch Ratings also commented that the 3% growth assumption incorporated in the package may be too optimistic. In addition, the agency mentioned that the cost of social transfers continues to grow, while financial costs are rising and oil revenues decline. However, the ratings agency did not discuss a change in the outlook for Mexico's credit rating.

—Eduardo Suárez