

LATAM Market Update

- **Mexico: 2020 Pre-Budget suggests that the Government will adhere to fiscal targets by cutting expenditures, amid lower-than-expected revenues**

On Monday, the Ministry of Finance released the 2020 Pre-Budget, aimed at starting the dialogue with Congress on the outlook for economic activity and public finances for fiscal year 2020. Overall, the report suggests that the government will commit to the fiscal targets approved for 2019, as it still expects an overall deficit (PSBR) of 2.5% of GDP, which will maintain stable public debt at 45.1% of GDP. To achieve the latter, the government will undertake a vigorous effort to cut programmable expenditure amid lower-than-expected revenues. In 2019, budgetary revenues are expected to be 0.5% of GDP lower than programmed, mainly explained by a decrease in oil revenues. Therefore, programmable expenditure is poised to decrease in the same amount in order to keep fiscal balances unchanged.

For 2020, the fiscal projections may seem somewhat optimistic: the Ministry expects a primary surplus of around 1.3% of GDP, which will suggest a downward trend in public debt. This objective might seem complicated to achieve, as tax revenues are likely to grow at a slower pace due to the economic activity deceleration. Regarding the update on the macroeconomic framework, the Ministry revised downwards its growth estimates from 2.0% to 1.6% y/y in 2019, and from 2.6% to 1.9% y/y in 2020. The revision for this year was mostly driven by a slower pace of global growth, particularly in the US. Moreover, annual inflation at year-end 2019 and 2020 remained stable at 3.4% and 3.0%, respectively. Finally, the oil production platform is likely to be lower in 2019 than originally estimated (+1,783 kbd vs 1.847 kbd), showing signs of a slight recovery next year (+1,916 kbd in 2020).

CONTACTS

Eduardo Suárez, VP, Latin America Economics
52.55.9179.5174 (Mexico)
Scotiabank Economics
eduardo.suarez@scotiabank.com

Guillermo Arbe
511.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Mario Correa
52.55.5123.2683 (Mexico)
Scotiabank Mexico
mcorrea@scotiabank.com.mx

Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
sergio.olarte@co.scotiabank.com

Benjamin Sierra
56.2.2619.4974 (Chile)
Scotiabank Chile
benjamin.sierra@scotiabank.cl

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