Spending side of the budget FY21 – Higher expenditures in healthcare and social programs

- **Today, the Lower House of Congress approved the spending side of the budget for fiscal-year 2021**
- **It should be noted that, on previous weeks, both the Lower House and the Senate approved the Revenue Law, which sets the amount over which spending should be allocated**
- **Although there were several changes on revenues, expected income remained at $6.3 trillion (US$284.9 billion), in line with the original proposal made by the Federal Government**
- **The amount is also the same in the spending side of the budget, albeit with several modifications relative to the outline of the Ministry of Finance (MoF), highlighting:**
  - **(1) Lower spending in autonomous branches, mainly in the Judicial power and the National Electoral Institute;**
  - **(2) A higher amount in administrative branches, mostly on the Ministry of Welfare with the goal of boosting resources for social programs; and**
  - **(3) A slight upward modification on general branches, focused on education**
- **On the contrary, resources for states and municipalities were unchanged. Specifically, categories in which their resources are concentrated were left as in the original proposal**
- **The *2021 Budget* reflects again the priority of the Federal Government regarding social programs, on top of increased healthcare spending given the complex environment due to COVID-19**

Congress approves the spending side of the budget for 2021. With the approval of both the Revenue Law by the Lower House and the Senate in previous days, and the authorization of the spending side of the budget for fiscal-year 2021 earlier today by the Lower House, the legislative process of the government's *2021 Budget* is now complete. This began on September 8^{th}, when it was submitted to Congress by the Minister of Finance, Arturo Herrera. In this sense, the proposal was approved in the time limit required by the Federal Law for Budget and Fiscal Responsibility.

The composition of revenues was adjusted. As mentioned previously, Congress maintained the estimated amount in the Revenue Law unchanged relative to the proposal of the Executive, anticipating a total of $6,295.7 billion (US$284.9 billion). Nevertheless, the sources were adjusted, after changes in tax laws –including the elimination of an additional tariff on fuel excise taxes and of retention rates for digital services– and on charges for rights –such as one about the use of the radio spectrum and another on tourism issues–, among others. Moreover, the amount of around $33 billion included from the *Health for Welfare trust fund* –known as the Catastrophic Spending Fund from the National Health and Welfare Institute– was discussed. Finally, Senators did incorporate this amount as revenue, contrary to the proposal from the Lower House.

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www.banorte.com
@analisis_fundam

Gabriel Casillas
IRO and Chief Economist
gabriel.casillas@banorte.com

Alejandro Padilla
Executive Director of Economic Research and Financial Markets Strategy
alejandro.padilla@banorte.com

Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

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Main fiscal variables
% of GDP

Variable	% of GDP
Public balance[1]	-3.4
Budget revenues	22.2
Total revenues[2]	25.2
Total expenditures	25.2
Public debt[3]	53.7

Notes: 1. Measured with the Public Sector Borrowing Requirements (PSBR); 2. Takes into account revenue from additional debt; 3. Measured with the Historical Balance of the PSBR
Source: Lower House, MoF

Deadlines for the 2021 Budget

Date	Concept	
Sep-8	2021 Budget Proposal	✓
Oct-20	Lower House approval of the Revenue Law	✓
Oct-31	Senate approves the Revenue Law	✓
Nov-15	Lower House approval of the *Spending Budget*	✓

Source: CGPE 2021, MoF

2021 – Revenues and debt
MX$bn, % of GDP

	MoF		Approved		Difference
	MX$bn	% of GDP	MX$bn	% of GDP	MX$bn
Total	6,295.7	25.2	6,295.7	25.2	0.0
Taxes	*3,533.0*	*14.1*	*3,533.0*	*14.1*	*0.0*
Income tax	1,908.8	7.6	1,908.8	7.6	0.0
VAT	978.9	3.9	978.9	3.9	0.0
Excise taxes	510.7	2.0	510.7	2.0	0.0
Others	134.6	0.5	134.6	0.5	0.0
Social security payments	*381.8*	*1.5*	*381.8*	*1.5*	*0.0*
Contributions from improvements	*0.1*	*0.0*	*0.1*	*0.0*	*0.0*
Rights	*42.3*	*0.2*	*42.3*	*0.2*	*0.0*
Products	*9.4*	*0.0*	*9.4*	*0.0*	*0.0*
Others	*152.5*	*0.6*	*152.5*	*0.6*	*0.0*
Asset sales, services and other income	*1,076.9*	*4.3*	*1,076.9*	*4.3*	*0.0*
Transfers, subsidies and pensions	*343.0*	*1.4*	*343.0*	*1.4*	*0.0*
Debt	*756.8*	*3.0*	*756.8*	*3.0*	*0.0*

Source: MoF, Senate

Strong adjustment lower in autonomous entities' spending, with these resources benefiting social programs. Although total spending was unchanged relative to the original proposal, there were modifications in the specific amounts allocated to different branches. In particular, spending by autonomous branches was cut by $2.2 billion, with most of it concentrated in the Judicial power (-$1.1 billion) and the National Electoral Institute (-$870 million). We should remember the latter will carry out Federal elections to renew the Lower House, as well as local elections in all 32 states. Meanwhile, spending by administrative branches (which include Federal ministries) increased $2 billion, practically in the same proportion but in the other direction. Specifically, $1.8 billion will be added to the Ministry of Welfare with the goal of strengthening social programs, including pensions for the elderly and the disabled, as well as the 'Sowing Life' program, among others. Meanwhile, the Ministry for the Environment and Natural Resources received an additional $400 million, although with a cut of around $200 million in the Ministry of Education. Finally, we saw an upward adjustment of $200 million within the general branches, in categories related to education (Branch or 'Ramo' as it is known in Spanish, 25), while in entities under direct budgetary control and state-owned companies –including IMSS, ISSSTE, Pemex and CFE– there were no modifications.

No changes in state resources. Unlike last year, the Lower House did not increase the amounts in the three main branches that make up resources for states and municipalities, which are: (1) Federal tax collection corresponding to state and municipal governments –Ramo 28–; (2) federal transfers to state and municipal governments –Ramo 33–,; and (3) social transfers to state and municipal governments –Ramo 23–.Total resources approved under these three concepts stand at $1,826.7 billion. Details about the amounts proposed by the MoF, and what was finally approved, are outlined in the following table.

2021 – Spending side of the budget
MX$bn, % of GDP

	MoF		Approved		Difference
	MX$bn	% of GDP	MX$bn	% of GDP	MX$bn
Total	6,295.7	25.2	6,295.7	25.2	0.0
*Autonomous branches**	*147.7*	*0.6*	*145.5*	*0.6*	*-2.2*
Legislative branch	14.9	0.1	14.8	0.1	-0.1
Judicial branch	72.4	0.3	71.3	0.3	-1.1
National Electoral Institue	27.7	0.1	26.8	0.1	-0.9
Attorney General's Office	17.3	0.1	17.3	0.1	-0.1
Federal Tribunal of Administrative Justice	2.9	0.0	2.9	0.0	0.0
Others	12.5	0.0	12.4	0.0	0.0
Administrative branches	*1,244.2*	*5.0*	*1,246.2*	*5.0*	*2.0*
MoF	20.2	0.1	20.2	0.1	0.0
Education	338.0	1.4	337.9	1.4	-0.2
Health	145.4	0.6	145.4	0.6	0.0
Welfare	190.0	0.8	191.7	0.8	1.8
Defense	112.6	0.5	112.6	0.5	0.0
Public Security	63.4	0.3	63.4	0.3	0.0
Labor	23.8	0.1	23.8	0.1	0.0
Agriculture	16.6	0.1	16.6	0.1	0.0
Others	334.2	1.3	334.6	1.3	0.5
General branches	*3,430.4*	*13.7*	*3,430.6*	*13.7*	*0.2*
Social transfers to state and municipal governments (Ramo 23)	127.5	0.5	127.5	0.5	0.0
Federal transfers to state and municipal governments (Ramo 33)	777.8	3.1	777.8	3.1	0.0
Federal tax collection corresponding to state and municipal governments (Ramo 28)	921.4	3.7	921.4	3.7	0.0
Others	1,603.7	6.4	1,603.9	6.4	0.2
Entities under direct budgetary control	*1,275.2*	*5.1*	*1,275.2*	*5.1*	*0.0*
State-owned companies	*1,133.3*	*4.5*	*1,133.3*	*4.5*	*0.0*
*Others***	*-935.2*	*-3.7*	*-935.2*	*-3.7*	*0.0*

*Includes the budget for INEGI and the FTAJ
** Subtraction of ISSSTE's transfers, and subsidies and transfers to entities under direct control and state-owned companies
Source: MoF, Lower House

Social focus prevails on top of increased healthcare spending given the complex situation due to COVID-19. As we have said on repeated occasions, the administration's priorities are still clearly reflected in the spending side of the budget, with expenditures in social programs as the main focus. This is clearly reflected in resources for the National Health and Welfare Institute, contrasting with the decrease in autonomous branches. Meanwhile, we believe the elimination of the *Health for Welfare trust fund* –as well as other funds on government efforts to have additional resources– could compromise some sectors. Said fund could have been used exclusively to purchase COVID-19 vaccines. Nevertheless, proposals from opposition parties to earmark them for that purpose were not fruitful, with MORENA legislators and other authorities insisting that purchases are already guaranteed. In this context, the MoF's Deputy Minister of Expenditures, Victoria Rodríguez Ceja, declared before the Lower House that the total cost for the vaccines would be around US$1.6 billion ($35,360 million using the average exchange rate within the budget of USD/MXN 22.10). Moreover, she affirmed that resources from the elimination of other trust funds would be used for the vaccine, while the *Health for Welfare trust fund* will be allocated to several categories within the health sector –such as hospitals, the creation of new jobs or the improvement in hiring conditions, among others–.

On the other hand, we should remember that spending for IMSS and ISSSTE was adjusted higher since the original proposal, which could help offset some of the concerns about the available resources to respond, given the recent evolution of the pandemic. Regarding investment, the strategy suggests spending will remain focused on priority projects –such as the Dos Bocas refinery, the Santa Lucía Airport and the Mayan Train–, looking for the rest of public works to have a higher private sector participation, as in the latest infrastructure plan.

On revenues, there are still some doubts over optimism in macroeconomic estimates such as GDP growth and oil output. Nevertheless, in the last few months we have seen some upward revisions, reducing some of these concerns, at least marginally. Finally, we reiterate our view that the government will maintain a strong commitment with healthy public finances and the goal of stabilizing the path of the Debt/GDP ratio. In this sense, we still believe the government will act quickly if there is any shortfall in resources, probably with additional austerity measures in the short term, taking into account that resources from stabilization funds will be used this year due to the need to counter the shock that the pandemic had on activity and fiscal revenues.

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research and Financial Market Strategy			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Economic Research			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Juan Barbier Arizmendi, CFA	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746
Corporate Debt			
Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Economic Studies			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454