

2024 Preliminary Budget Criteria – Modest revisions, with optimism on economic activity

- Last Friday, the Ministry of Finance (MoF) published their preliminary macroeconomic forecasts for 2024 and updates for the 2023 framework
- The GDP estimate for the current year was unchanged at 3.0% y/y, with the MoF quoting a good performance of the domestic economy. For 2024 they anticipate an expansion of the same magnitude
- We did see changes in remaining estimates, noting higher levels of inflation and interest rates, with a stronger MXN. In the oil sector, prices would be more modest, with production relatively stable
- In the fiscal front, forecasts for both revenues and expenditures were adjusted lower for 2023. For the next year, income would grow, albeit with outlays lower at the margin
- With this, the estimate of the PSBR deficit for the end of the year would increase to 4.2% of GDP (previous: 4.1%), although with the Historical Balance of the PSBR (HBPSBR) higher at 49.9% of GDP (previous: 49.4%). For 2024, these same variables would stand at 3.2% and 49.9% of GDP, in the same order
- We believe the document reaffirms the commitment to maintain healthy public finances, with adjustments in order to ensure that fiscal targets are met

Updates to macroeconomic and fiscal estimates. The Ministry of Finance (MoF) published the *2024 Preliminary Economic Policy Criteria* (PCGPE in Spanish), and an update of its macroeconomic framework for 2023. This complies with Article 42 of the *Federal Budget and Fiscal Responsibility Law*. We highlight stability in GDP forecasts, albeit with revisions in other relevant estimates, including inflation, exchange rate, interest rates and in the oil front (see table below). As such, the MoF expects more modest revenues and expenditures this year, albeit with some stability in the deficit for this year. For 2024, forecasts seem to be more optimistic, noting higher income and lower outlays, with more modest PSBRs and stable debt.

Macroeconomic framework and fiscal variables¹

Selection

	2023		2024	
	Current	Previous	Current	Previous
GDP (% y/y)	3.0	3.0	3.0	2.4
CPI (% y/y, end of period)	5.0	3.2	4.0	3.0
Exchange rate (USD/MXN, average of period)	18.9	20.6	19.2	20.7
Interest rate (28-day Cetes 28 %, end of period)	11.3	8.5	8.5	7.5
Oil price (US\$/bbl, average of period)	66.6	68.7	56.3	62.8
Oil output (kbpd, average of period)	1,877	1,872	1,914	1,909
PSBR (% of GDP)	-4.2	-4.1	-3.2	-2.7
HBPSBR (% of GDP)	49.9	49.4	49.9	49.4
Primary balance (% of GDP)	-0.1	-0.2	0.7	1.0

Note: Estimates refer to the ones included in the 2023 Economic Policy Criteria
Source: MoF

April 3, 2023

www.banorte.com
@analisis_fundam

Alejandro Padilla Santana
Chief Economist and Head of Research
alejandropadilla@banorte.com

Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research
and Financial Markets Strategy
juan.alderete.macal@banorte.com

Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com

Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com

Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com

Document for distribution among the
general public

Updated macro assumptions, recognizing changes in the outlook. Regarding GDP, mid-point forecasts stood at 3.0% both for this year and next. The former is in line with their previous forecast, with the MoF recognizing a good performance of activity, on top of anticipating a boost from public and private investment, a moderation in inflation –despite an upward revision– and the strength of the labor market. Nevertheless, they acknowledge risks stemming from expectations of a deceleration in the US. We must note that said estimates are above consensus, with estimates within Banxico’s survey at 1.2% and 1.9% for both years. Inflation stands at 5.0% for this year and 4.0% for the next one, with the first one relatively in line with the [latest estimations](#) from the central bank, but with the latter being higher than these. Meanwhile, the exchange rate on average was stronger, standing at USD/MXN 18.9 in 2023 (previous: 20.6) and 19.2 in 2024 (previous: 20.7). We must recall that a stronger peso has a slight negative effect on the fiscal deficit, as losses in terms of higher oil income expressed in local currency more than compensate for a lower financial cost in foreign debt. In rates, they expect tight policy to continue, with higher levels by the end of both years. Specifically, the expectation for 28-day Cetes in 2023 stands at 11.3% (previous: 8.5%), with the one for 2024 at 8.5% (previous: 7.5%). Regarding oil, the average price for this year is lower by 2.1 US\$/bbl vs. the previous forecast at 66.6 US\$/bbl. For 2024 the estimate was even lower at 56.3 US\$/bbl (previous: 62.8 US\$/bbl). Output for 2023 would be barely higher at 1,877kbpd from 1,872kbpd. For 2024 the adjustment would also be to the upside to 1,914kbpd from 1,909kbpd.

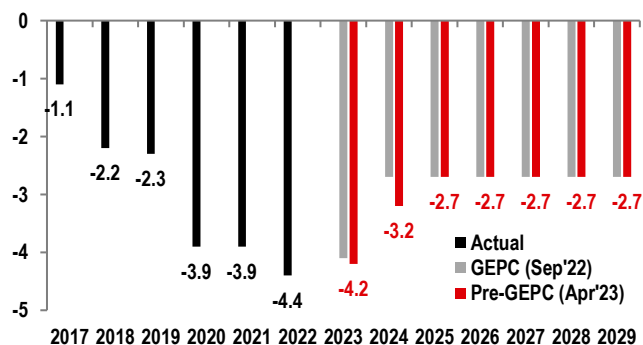
Lower revenues and outlays in 2023. Considering adjustments to the previous variables along other changes, the MoF now expect revenues of \$7.0 trillion this year, lower by \$131.5 billion vs. the approved figure. This is equivalent to 22.8% of GDP. The decline is mainly explained by the oil sector –subtracting \$162.8 billion–, impacted by lower prices. Nevertheless, lower dynamism is also expected in taxes (-\$66.9 billion), recognizing a moderation at the end of 2022. On the contrary, there would be a larger boost in non-tax (+\$37.5 billion) and in organisms and companies (+\$60.7 billion). Meanwhile, they mention that spending would adjust lower, “...with the aim to keep guaranteeing the sustainability of fiscal accounts...”. Total outlays would come in at \$8.1 trillion (26.4% of GDP), with a reduction of the same magnitude than in revenues. The decline would concentrate in the programmable component (-\$117.2 billion), prioritizing social spending and investment. Participations will also be lower (-\$23.5 billion), consistent with lower collections. In addition, and boosted by higher inflation and rates, financial costs would increase by \$21.3 billion.

Increase in revenues for 2024... The document considers income of \$7.5 trillion next year, which represents a 2.8% y/y increase in real terms relative to the updated 2023 figures. Oil revenues would decline 2.2% given the expectation of lower prices, with the larger production not being enough to offset for these. Tax income would be higher by 5.5%, expecting additional progress in the fight against tax evasion. On the contrary, there would be reductions in non-tax income (-11.0%) along organisms and companies (-0.2%).

...albeit with lower spending. In turn, spending would reach \$8.4 trillion, lower by 1.1% y/y in real terms. A large part of the reduction would be in the programmable sector (-2.1%), reflecting lower spending on priority projects given the end of several of them. Nevertheless, attention would remain on social programs. Meanwhile, participations would climb 4.0%, with a decline in financial costs (-2.8%) given expectations of lower rates.

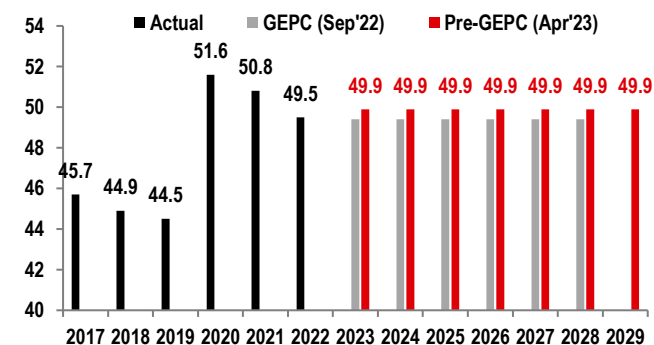
Larger deficits and debt in the next few years. Considering dynamics outlined above, in 2023 the total amount of *Public Sector Financial Requirements* (PSBR) –the broadest measure of the public balance– incorporates the same deficit of \$1.3 trillion, equivalent to 4.2% of GDP. Meanwhile, the total amount for 2024 would reach \$1.1 trillion or 3.2% of GDP (previous:2.7%). Also relevant, for the primary balance they expect levels of -0.1% of GDP in 2023 (previous: -0.2%) and 0.7% in 2024 (previous: 1.0%). Regarding debt, the *Historical Balance of Public Sector Borrowing Requirements* (HBPSBR) would stand at 49.9% of GDP at the end of the current year. This represents a deterioration over the previous estimate of 49.4%, partly explained by a higher starting point in 2022. For 2024 and the rest of the forecast horizon, debt levels would remain stable (graph below, right), in line with the provisions of the *Fiscal Responsibility Law*.

Public Sector Borrowing Requirements
% GDP



Source: PGEPC 2024, MoF

Historical Balance of the Public Sector Borrowing Requirements
% of GDP



Source: PGEPC 2024, MoF

Relevant comments within the conference call and dates to watch ahead. The call was carried out by MoF Chief Economist, Rodrigo Mariscal Paredes. In general, they highlighted resilience in their expectations for activity in the US, being relevant for domestic forecasts. Locally, they mentioned that the labor market is in ‘full employment’, while they don’t see relevant pressures stemming from the minimum wage hike. In addition, they expect an additional boost from tourism, both domestic and foreign. In the detail, their path for GDP in 2023 is as follows: 1Q23: +3.1% y/y; 2Q23: +2.7%; 3Q23: +2.2%; and 4Q23: +2.3%. On revisions to revenues, they mentioned that the document did not account for OPEC+ recent announcement about an output cut, but they will continue to monitor the situation and update estimates in upcoming quarterly releases. They detailed that they have not defined where spending cuts stated in the document will be made. However, they mentioned that they do not intend to use resources from stabilization funds, preferring to adjust outlays, particularly in administrative lines. Finally, they believe that Pemex will not need additional support this year, with the deferral of royalties being already important help.

Going forward, and as required by law, the 2022 Budget Proposal should be delivered to the Lower House no later than September 8th, which includes: (1) The *General Economic Policy Criteria* –which states the macroeconomic projections used to estimate the budget–; (2) the *Revenue Law*; and (3) the *Spending Budget*. In the first two cases, they must be approved by both the Lower House (October 20th) and the Senate (October 31st), while the spending budget should be approved only by the Lower House no later than November 15th (see table below).

Main deadlines for FY2024 Fiscal Budget

Deadline	Document
April 1	Preliminary Fiscal Year 2024 Economic Assumptions
September 8	2024 Budget Proposal
October 20	Lower House approval of the Revenue Law
October 31	Senate approval of the Revenue Law
November 15	Lower House approval of the <i>Spending Budget</i>

Source: Ministry of Finance

The government keeps prioritizing fiscal prudence. We believe the document continues to reinforce the Federal Government’s commitment with healthy public finances, as they have done in the last few years. While some estimates seem optimistic relative to market expectations, it is our take that even if these are not met, the government will carry out any necessary changes in order to achieve these goals, as evidenced here. Another relevant point is that measures continue prioritizing social programs and key infrastructure projects. All in all, we believe this budget supports our view that Mexico will maintain its ‘investment grade’ credit rating from the three main agencies, sustained by sound macroeconomic fundamentals and adequate policy actions.

Analyst Certification

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Daniel Sebastián Sosa Aguilar and Andrea Muñoz Sánchez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V., since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Alejandro Padilla Santana	Chief Economist and Head of Research	alejandro.padilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
María Fernanda Vargas Santoyo	Analyst	maria.vargas.santoyo@banorte.com	(55) 1103 - 4000

Economic Research

Juan Carlos Alderete Macal, CFA	Executive Director of Economic Research and Financial Markets Strategy	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Director of Economic Research, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Director of Economic Research, Global	katia.goya@banorte.com	(55) 1670 - 1821
Yazmín Selene Pérez Enríquez	Senior Economist, Mexico	yazmin.perez.enriquez@banorte.com	(55) 5268 - 1694
Cintia Gisela Nava Roa	Senior Economist, Mexico	cintia.nava.roa@banorte.com	(55) 1103 - 4000
Luis Leopoldo López Salinas	Manager Global Economist	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707

Market Strategy

Manuel Jiménez Zaldivar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
-------------------------	-----------------------------	----------------------------	------------------

Fixed income and FX Strategy

Leslie Thalía Orozco Vélez	Senior Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Isaias Rodríguez Sobrino	Strategist, Fixed Income, FX and Commodities	isaias.rodriguez.sobrino@banorte.com	(55) 1670 - 2144

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
Carlos Hernández García	Senior Strategist, Equity	carlos.hernandez.garcia@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Paola Soto Leal	Strategist, Equity	paola.soto.leal@banorte.com	(55) 1103 - 4000 x 1746

Corporate Debt

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

Quantitative Analysis

Alejandro Cervantes Llamas	Executive Director of Quantitative Analysis	alejandro.cervantes@banorte.com	(55) 1670 - 2972
José Luis García Casales	Director of Quantitative Analysis	jose.garcia.casales@banorte.com	(55) 8510 - 4608
Miguel Alejandro Calvo Domínguez	Senior Analyst, Quantitative Analysis	miguel.calvo@banorte.com	(55) 1670 - 2220
José De Jesús Ramírez Martínez	Senior Analyst, Quantitative Analysis	jose.ramirez.martinez@banorte.com	(55) 1103 - 4000
Daniel Sebastián Sosa Aguilar	Analyst, Quantitative Analysis	daniel.sosa@banorte.com	(55) 1103 - 4000
Andrea Muñoz Sánchez	Analyst, Quantitative Analysis	andrea.munoz.sanchez@banorte.com	(55) 1103 - 4000

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5004 - 1282
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 - 5140
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) 8173 - 9127
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) 5249 - 6423
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) 5004 - 1051
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) 1670 - 1899