

CONSENSUS ECONOMIC FORECAST

MÉXICO

W. P. CAREY
SCHOOL of BUSINESS

Consenso de Pronósticos Económicos

Bank One Economic Outlook Center • L. William Seidman Research Institute

ASU ARIZONA STATE
UNIVERSITY

Budget addresses stability without structural change

CONTRIBUTORS

American Chamber Mexico

Dr. Deborah L. Riner

BanamexEduardo Gonzalez
Arturo Vieyra Fernández**Bancomer**Fernando Gonzáles Cantú
Octavio R. Gutiérrez**Center for Economic
Forecasting of Mexico**

Dr. J. Alfredo Coutiño

**Scotiabank Inverlat
Grupo Financiero**Francisco Gutiérrez Guzmán
Mario Correa**Latin Source Mexico**Dr. Jesús Reyes Heróles
Ernesto Cervera Gómez

As expected, Mexico's budget and fiscal package for 2006 was approved by Congress without complications, supported by the Partido Acción Nacional (PAN, the President's party) and the Partido Revolucionario Institucional (PRI), and opposed by the left-leaning Partido de la Revolución Democrática (PRD). Changes from the original proposal include the following:

- The oil price in the approved budget for 2006 was \$36.50 per barrel, \$5 more than in the original proposal.
- Congress reversed some important income tax changes approved in 2004 and scheduled to become effective in 2006, including taxation of fringe benefits; the establishment of three brackets (exempt, 25 percent and 30 percent) instead of more than 12 that exist today; and substantial limitations in tax deductions.
- A special tax for nonalcoholic beverages not using sugar cane introduced three years ago was retained, despite opposition by the U.S. and the World Trade Organization.
- Distribution of oil revenues between the Federal Government and PEMEX was adjusted to the firm's new fiscal regime.
- Congress reallocated approximately 89 billion pesos (\$8.2 billion, 4.6 percent of total public expenditures) from additional income as well as reassignments from several programs of other branches (Judiciary, the Electoral Institute and the Senate).

The approved fiscal and budget package maintains equilibrium in public finances, since it considers a fiscal balance equal to zero — even though the Executive proposed a surplus of 0.2 percent of Gross Domestic Product — and the public sector borrowing requirements (or “expanded deficit”) will be reduced from 2.3 percent of GDP in 2005 to 1.8 percent in 2006. From another point of view, an opportunity was lost for simplifying the income tax system. In that sense, fiscal policies maintained the same biases and complexities that have characterized the system in recent years.

In 2006 total budgeted income will be 1,953.5 billion pesos, 4 percent more than originally proposed. On the expenditure side, more resources were allocated to communications (highways), agriculture, education, environment (mainly water provision), and health. In general, all priority programs of this Administration were protected, such as popular health insurance and assistance to the poor (Oportunidades).

For 2006 the budget will be consistent with the macroeconomic goals: stability, and only stability, without structural changes. Budgetary and fiscal changes for 2006 are marginal against the challenges that will face public finances in the next years: pressures for growing expenses (by social security, pensions and investment project in energy financed by the private sector); increasing resources for PEMEX; finances deeply dependent on oil revenues (36 percent of total public incomes) and with recurrent tax weaknesses; as well as a lack of infrastructure spending. Mexico will have to wait until 2007 in order to see a better public finances structure in the budget.

— **Mariano Ruiz-Funes Macedo**
GEA Grupo de Economistas y Asociados

2005 MEXICO CONSENSUS ECONOMIC FORECAST

	Annual Percent Change 2005 from 2004						Annual Average		
	GDP 1993 Peso	Private Con- sumption	Government Con- sumption	Total Invest- ment	Exports	Imports	Consumer Price Index	Exchange Rate	CETES 28 Day
AMERICAN CHAMBER	3.0	2.9	0.1	3.7	12.5	12.0	3.4	10.890	9.2
BANAMEX	2.9	4.3	0.0	7.0	12.3	11.6	3.4	10.900	9.3
BANCOMER	3.8	4.1	5.2	5.6	4.5	7.1	3.7	11.800	7.1
CENTER FOR ECONOMIC FORECASTING OF MEXICO	3.2	4.8	0.8	7.3	10.9	10.3	3.2	10.950	9.3
GRUPO FINANCIERO INVERLAT	4.1	4.6	1.8	4.3	6.4	7.5	4.0	11.630	9.3
LATIN SOURCE MEXICO	2.9	4.0	0.0	6.2	12.2	10.9	3.2	10.960	9.3
CONSENSUS — THIS QUARTER	3.3	4.1	1.3	5.7	9.8	9.9	3.5	11.188	8.9
— LAST QUARTER	3.9	4.1	3.5	5.3	5.7	7.3	4.2	11.800	8.3

2006 MEXICO CONSENSUS ECONOMIC FORECAST

	Annual Percent Change 2006 from 2005						Annual Average		
	GDP 1993 Peso	Private Con- sumption	Government Con- sumption	Total Invest- ment	Exports	Imports	Consumer Price Index	Exchange Rate	CETES 28 Day
AMERICAN CHAMBER	3.2	2.8	2.1	4.1	5.6	7.9	3.9	11.140	8.8
BANAMEX	3.5	3.5	0.5	5.9	7.3	8.5	3.5	11.500	8.4
BANCOMER									
CENTER FOR ECONOMIC FORECASTING FOR MEXICO	4.5	5.3	3.5	7.0	8.0	8.8	3.5	11.350	8.6
GRUPO FINANCIERO INVERLAT	3.7	4.3	3.1	7.7	4.7	9.7	4.1	12.170	9.7
LATIN SOURCE MEXICO	3.1	4.4	0.5	4.8	7.5	8.0	3.6	11.020	8.7
CONSENSUS — THIS QUARTER	3.6	4.1	1.9	5.9	6.6	8.6	3.7	11.436	8.8
— LAST QUARTER	3.7	4.2	2.9	4.5	6.0	8.4	3.9	12.104	9.0

HISTORICAL DATA

Source: INEGI	GDP – 1993 Pesos (billions)	Private Consumption 1993 Pesos (billions)	Government Consumption 1993 Pesos (billions)	Total Investment 1993 Pesos (billions)	Exports (Trade Bal.) US Dollars (millions)	Imports (Trade Bal.) US Dollars (millions)	Consumer Price Index June 02=100 Dec./Dec.	Exchange Rate Pesos/Dollars (annual av.)	CETES 28 Day (annual av.)
2004	1,709.8	1,268.6	153.2	352.2	188.0	196.8	112.6	11.361	8.5
Percent Change	4.4%	5.6%	-1.2%	1.5%	14.1%	15.4%	4.20%	4.20%	36.50%
2003	1,638.3	1,200.8	155.1	346.9	164.8	170.5	107.0	10.906	6.2
Percent Change	1.4%	2.3%	0.8%	-4.2%	2.4%	1.1%	4.00%	11.30%	-12.10%
2002	1,615.6	1,173.4	153.9	362	161.0	168.7	102.9	9.803	7.1
Percent Change	0.8%	1.4%	-0.3%	-1.1%	1.4%	0.2%	5.70%	4.60%	-37.30%
2001	1,602.3	1,157.0	154.4	366.2	158.8	168.4	97.4	9.371	11.3
Percent Change	-0.2%	2.1%	-2.0%	-3.9%	-4.4%	-3.5%	4.40%	-1.70%	-25.80%
2000	1,604.8	1,133.3	157.5	381.2	166.1	174.5	93.2	9.535	15.2
Percent Change	6.6%	7.6%	2.4%	11.5%	21.8%	22.9%	9.00%	-1.00%	-28.80%
1999	1,505.4	1,053.5	153.8	341.9	136.4	142.0	85.6	9.630	21.4
Percent Change	3.9%	3.9%	4.7%	4.6%	16.1%	13.3%	12.30%	3.60%	-13.50%

W. P. CAREY
SCHOOL of BUSINESS



México Consenso de Pronósticos Económicos, a quarterly publication of the Bank One Economic Outlook Center in the L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University is published on the World Wide Web and is accessed at: <http://www.wpcarey.asu.edu/mexico>. A printed version is available is \$20.00 per year (4 issues) or \$5.00 per issue. Contact the Bank One Economic Outlook Center, P.O. Box 874011, Arizona State University, Tempe, AZ 85287-4011, USA. (480) 965-5543 or (800) 448-0432.

©2005, Arizona Board of Regents for Arizona State University. Reprinting permission contained in this publication requires the prior written permission of the Bank One Economic Outlook Center. Authors are solely responsible for the accuracy and content of their articles.

Publisher: Robert Mittelstaedt • Executive Editor: Robert J. Eggert, Sr. • Editor: Lee R. McPheters
Managing Editor: Dawn McLaren • Editorial Coordinator: Nancy A. Maneely