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THEDIALOGUE

FEATURED Q&A

Is Mexico Setting the Right Priorities in its 2021 Budget?

Mexico's Finance Ministry, led by Arturo Herrera, has proposed a budget that projects economic growth of 4.6 percent next year. // File Photo: Mexican Government.

Q Mexico's Finance Ministry on Sept. 9 presented to Congress its 2021 budget, which features austerity measures and an increase in support for hospitals, pensioners and infrastructure. The proposal forecasts the economy will contract 8 percent this year and grow 4.6 percent next year. What are the most important aspects of Mexico's 2021 budget plan? Are the proposals economically sound? What does the plan signal about the government's priorities in the coming year?

A Ariane Ortiz-Bolin, vice president–senior analyst in the sovereign risk group at Moody's Investors Service: "The government has set a small primary surplus target, in line with its 2019 and 2020 budgets, which implies the continuation of an austere fiscal stance despite the economic shock due to the coronavirus crisis. Given relatively optimistic GDP growth and oil production assumptions, we believe the authorities are overstating next year's government revenue. The government assumes a contraction of 8 percent in 2020 and a recovery of 4.6 percent next year, which contrasts with our assumptions of a 10 percent contraction this year and a 3.7 percent recovery in 2021. The government is assuming that oil production will increase by 6.5 percent next year to 1.86 million barrels per day, which we consider to be optimistic given the historical trend of declining production. Similar to previous years, the 2021 budget underestimates the financial support that Petróleos Mexicanos (Pemex) will likely require, which we estimate could be close to $18 billion next year (1.7 percent of GDP in the 2021 fiscal year). While we expect the government will try to adhere as much

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TODAY'S NEWS

POLITICAL

Bolivia's Áñez Drops Out of Presidential Race

Bolivia's interim president, Jeanine Áñez, said she is withdrawing from the presidential race a month before the vote. Áñez said she is dropping out in order to help unite conservative voters against MAS candidate Luis Arce.

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BUSINESS

Itaú Has Laid Off at Least 270 in September: Union

Brazilian lender Itaú Unibanco has laid off at least 270 employees since the beginning of September, according to the leader of bank employees' union Contraf.

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ECONOMIC

Costa Rica's Alvarado Unveils New Taxes Ahead of Talks With IMF

Costa Rica will enter talks with the International Monetary Fund next month on an economic plan that includes four new taxes, President Carlos Alvarado announced.

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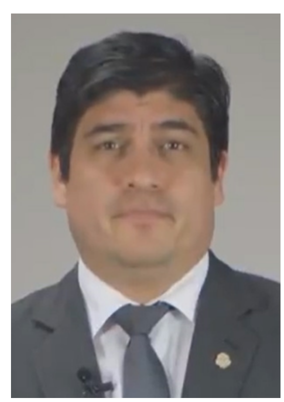

Alvarado // Photo: @CarlosAlvQ via Twitter.

POLITICAL NEWS

Bolivia's Áñez Withdraws From Presidential Race

Jeanine Áñez, Bolivia's interim president, on Thursday announced she was dropping out of the race for the presidency one month before the vote. In a video posted to Twitter, Áñez said she was "leaving her candidacy aside in homage to freedom and democracy," adding that what's at stake in the election is "no small thing." She reiterated, "what's at stake is Bolivia's democracy." The announcement came after a poll published Wednesday showed her trailing behind Luis Arce, who is running with leftist former President Evo Morales' MAS party. In the well-regarded Jubilee Foundation poll, nearly 40 percent of those included said they would vote for Arce in the Oct. 18 election, while just 10.6 percent said the same for Áñez, who came in fourth in the poll. Former President Carlos Mesa came in second after Arce in the poll, with 26.2 percent support. If that scenario plays out on election day, Arce would win the election without the need of a runoff. Áñez said she was abandoning her election campaign to help unite conservative voters against Arce, The New York Times reported. "I'm doing this because of a risk that the vote gets divided between various candidates," she said in the video. "It's not a sacrifice, it's an honor." The election is a re-do of last October's vote, which was marred by accusations of fraud and resulted in the resignation of Morales, who now lives in exile in Argentina.

Áñez // File Photo: Bolivian Government.

CORRECTION

In Thursday's Featured Q&A on Jamaica's recent election, Alan Zamayoa's commentary incorrectly said that Peter Phillips lost re-election and represents Manchester Central. In fact, Phillips was re-elected and represents St. Andrew East Central.

ECONOMIC NEWS

Costa Rica's Alvarado Unveils New Taxes Ahead of IMF Talks

Costa Rica will begin talks next month with the International Monetary Fund on an economic plan that includes four new taxes, President Carlos Alvarado announced Thursday in a video posted to Twitter. "The next few months will be decisive for the country's well-being," Alvarado said. "With the plan to surpass the pandemic's fiscal impact, we will negotiate a deal with the IMF to maintain economic stability in the country," he added. The government is seeking $2.25 billion in financing from the IMF, according to local newspaper La Nación. Under the plan, the government will raise taxes on individuals and businesses at higher income levels and introduce a new tax on financial transactions, according to Bloomberg Tax. It has also proposed the sale of national liquor company Fanal and the state-owned International Bank of Costa Rica. At least one faction of opposition lawmakers has already said it would not support the plan. Legislators from the Social-Christian Unity Party, or PUSC, said it rejected the government's intention of hiking taxes. "Any regressive tax that comes to hurt Costa Ricans' pockets or diminish investment incentives for new employment will not count

> **"The next few months will be decisive for the country's well-being."**
> **— Carlos Alvarado**

NEWS BRIEFS

Peru's Vizcarra Faces Impeachment Vote Today in Congress

Peruvian President Martín Vizcarra is facing an impeachment vote in Congress today as opposition lawmakers push for his ouster, the Associated Press reported. Legislators launched impeachment hearings last week after an audio recording surfaced allegedly showing Vizcarra engaging in influencing peddling. Vizcarra has denied wrongdoing and said the audio was manipulated. Opponents appear to be short of the two-thirds majority needed to remove Vizcarra from office.

Maduro Rejects E.U. Proposal to Delay Venezuela Legislative Vote

Venezuelan President Nicolás Maduro said Thursday that it would be "impossible" to postpone legislative elections planned for Dec. 6, following the European Union's proposal to delay the vote to meet conditions for the bloc to send an observer mission, Reuters reported. "It is impossible because there is a very clear constitutional mandate," Maduro said. Part of the opposition is calling for a boycott of the vote, citing concerns that Maduro's government will rig in its favor. [Editor's note: See related Q&A in Monday's issue of the Advisor.]

Pompeo Begins Four-Nation Tour With Visits to Suriname, Guyana

U.S. Secretary of State Mike Pompeo on Thursday started a visit to South America with stops in Suriname and Guyana to meet with those countries' new presidents, Agence France-Presse reported. In Suriname, Pompeo told President Chan Santokhi that the United States is "eager to partner" with his country and warned of the risks of accepting investments from China. He then flew to Guyana where President Irfaan Ali held a dinner in his honor.

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with the votes of [PUSC's legislative faction]," said Rodolfo Peña, who heads the party in Congress, CR Hoy reported.

BUSINESS NEWS

Itaú Has Laid Off at Least 270 in Recent Weeks: Union

Itaú Unibanco, Brazil's largest private lender, has laid off at least 270 employees since the beginning of September, Reuters reported Thursday, citing a leader of a bank employees' union. "Banks had committed not to fire workers during the pandemic and now are breaking their promise," said Juvandia Moreira, the leader of bank employees' union Contraf. Itaú had vowed not to eliminate any jobs during an

Moreira // File Photo: Brazilian Government.

unspecified period of time during the Covid-19 pandemic, the wire service reported. In a statement to Reuters, the bank said that it had resumed both hirings and layoffs this month. Both had been halted when the pandemic began hitting Brazil in March. Among the laid-off staff members are at least 130 employees of the bank's car loan unit. Itaú is also considering the return of some buildings it has rented and also lowering its number of branches in order to reduce operating expenses this year and next year, the bank's chief financial officer, Milton Maluhy, said last month. Banks around the world are looking at ways to save money as they brace for loan losses and recessions caused by the pandemic. Banco Santander Brasil also has laid off employees, cutting approximately 1,000 positions since June.

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as possible to its fiscal targets, we expect deviations mostly driven by the need to support Pemex to meet its negative free cash flow and upcoming debt obligations, which will likely lead to an increase in debt at the federal government level higher than what the budget foresees. In terms of policy priorities, the government is proposing to cut the budget of several ministries, including the Finance Ministry, but proposes increased support to health and defense and has kept resources to fund flagship projects such as a new refinery and a train in the Yucatán peninsula."

A **Alejandro Landa, partner at Holland & Knight LLP:** "The 2021 economic package is one of the most critical in Mexico's recent history due to the Covid-19 pandemic. The budget prioritizes health spending, physical investment and infrastructure expenditures that will favor economic reactivation and job creation. In addition, it shields the social protection network for the most vulnerable groups of the population and funds other areas such as education, security and culture that will reduce economic, social and regional inequalities, and also maintain social stability. The economic proposal is sound, as the Finance Ministry estimates that Mexico's GDP will grow by 4.6 percent in 2021. However, this number may change depending on the availability of a Covid-19 vaccine, which could allow a wide reopening at the beginning of the year. The proposal also forecasts an average exchange rate of 22.1 pesos per U.S. dollar and, regarding hydrocarbons, it estimates a price for the Mexican oil export mix of $42.10 per barrel. This is in line with its recent evolution and with the futures and estimates of analysts for WTI and Brent. President Andrés Manuel López Obrador continues to pursue his main policy objectives, which include avoiding both debt and increased taxes. President López Obrador specifically mentions in the proposal that the objective of various investment schemes is to 'seek financing alternatives outside the government balance sheet, in such a way as to avoid the contracting of public debt.' And, of course, also on his agenda is the paramount mission of obtaining a Covid-19 vaccine."

A **Pamela Starr, senior advisor to Monarch Global Strategies and professor of international relations and public diplomacy at the University of Southern California:** "The 2021 budget does not contain a lot of surprises. AMLO's continued insistence that there be no tax increases until next year, combined with an economy that is expected to shrink 10 percent this year, have translated into continued austerity in much of the government. This was reinforced by the need to free up funds for AMLO's priority infrastructure projects, social welfare programs and Pemex. Also unsurprising is the absence of any Covid-related stimulus. Overall, the budget relies on optimistic estimates for growth, inflation and oil prices and production. While within the range of expert estimates, they are clearly biased toward a best-case scenario. Nor is there any consideration of the potential for a sovereign debt downgrade during the year. These estimates will allow the government to spend generously during the first half of the year, in advance of the June midterm elections. But this will almost certainly translate into a significant cut in government spending in the second half of 2021. The budget also proposes a 5.5 percent reduction in transfers to state governments. This comes at a

> **"Overall, the budget relies on optimistic estimates for growth, inflation and oil prices and production."**
> — Pamela Starr

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time when a third of Mexican governors have openly rebelled against the AMLO government and specifically the lack of funding from the federal government for Covid-19 challenges. The fact that AMLO, again unsurprisingly, did not adjust his spending priorities to respond to opposition demands will inevitably reinforce the frustrations of the 10 governors in the Federal Alliance."

A **Luis Foncerrada, economic advisor, and Anel Rodríguez, economic researcher, both at The Boston Center for Latin America:** "The economic package, which includes the projected income, budget and debt, is based on assumptions of a very optimistic macroeconomic framework for 2020-2021, and it presents a very austere budget. For 2021, a growth of 4.6 percent is projected, which, according to our estimates,

> **"Tax revenues seem to be overestimated for 2021..."**
> **— Luis Foncerrada & Anel Rodríguez**

could only be achieved if physical public investment increases strongly; we forecast 2.7 percent. The levels of debt, however, paradoxically can reach 55 percent of GDP. Evidence suggests this level of debt for similar countries and a reduction of the rate of growth of 2 percent in the following years. This prevents resources from being channeled into investment, health, education and security. Thus, tax revenues seem to be overestimated for 2021, for two reasons: because they are derived from high growth in the economy and because they assume collection grows at the same rate as the economy, that is, with an elasticity of 1. With respect to oil revenues, assuming a recovery in international economic activity that allowed prices to be at $42.10 per barrel, it seems difficult for the production platform to be achieved. Regarding the budget, social security and health appear in first place, representing 30.6 percent of programmable spending, followed by spending on investment in energy, at 21.9 percent, and by education, at 18.1 percent, clearly marking health as a priority action."

A **Arturo Huerta, postgraduate economics professor at the Universidad Nacional Autónoma de México:** "The budget plan maintains fiscal austerity so as not to increase the amount of debt, as well as a high interest rate differential with respect to the United States and the stability of the exchange rate. This is aimed at sending signals of confidence to the financial sector, confidence that debt payments conditions and the exchange rate stability required by capital flows will be maintained. The measures are not sound, because they are not stopping the closure of companies or unemployment. In addition to the drop in exports and in consumption and private investment, there is public spending, so the growth target of 4.6 percent of GDP will not be achieved. The destruction of productive capacity as well as unemployment and pressures on the external deficit will continue. This will in turn put pressure on the exchange rate, so it will not be possible to maintain it at 22.10 pesos per U.S. dollar. As the economy grows less, tax collection is reduced, so we will not achieve the fiscal balance and the reduction in debt that the plan seeks. The government's priorities are social programs, rescuing the energy sector and supporting hospitals, retirees and infrastructure. But all this is circumscribed within the fiscal balance, which does not act in a countercyclical way, and so will not have a positive impact on economic activity."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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