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FEATURED Q&A

What Does Mexico's Budget Say About AMLO's Priorities?



Mexican President Andrés Manuel López Obrador's government last week presented its budget, which the country's finance minister described as "responsible and realistic." // File Photo: Mexican Government.

Q The government of Mexican President Andrés Manuel López Obrador on Sept. 8 presented its 2022 budget, which Finance Minister Rogelio Ramírez de la O previously described as "balanced between income and spending" as well as "responsible and realistic." What does the new budget say about López Obrador's priorities? What are the biggest changes in the new budget as compared to last year's spending plan? How much support exists in Congress for approving the administration's proposed budget, and what modifications could legislators make to it?

A **Rodrigo Abud, partner at Baboon Consulting:** "In terms of policy orientation, the proposed budget reflects the government's commitment toward strengthening the role of Pemex and CFE within the energy sector, as well as to bolster some landmark programs, particularly those centered around social assistance. Overall, while the budget moves slightly away from the austerity that has characterized the current administration, it preserves its tendency to centralize public spending. The proposal sees total net public sector spending of 7.05 trillion pesos (\$353.6 billion), an increase of 8.9 percent as compared to 2020 (an increase of 0.1 percent in real terms). GDP growth for 2022 is estimated at 4.1 percent (with consensus at 3 percent), which has triggered questions about an overly optimistic stance in terms of growth estimates. So far, President López Obrador has kept his promise of not introducing tax rate increases (or new taxes), but rather he outlined the necessity of expanding the tax base. Despite

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TODAY'S NEWS

POLITICAL

Haitian Prime Minister Fires Justice Minister

Haitian Prime Minister Ariel Henry fired Justice Minister Rockefeller Vincent, a move that came a day after he fired Port-au-Prince's top prosecutor, who sought charges against Henry in the assassination of President Jovenel Moïse.

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BUSINESS

Canadian Pacific Clinches Deal for KC Southern

Canadian Pacific reached a deal to take over Kansas City Southern, after rival Canadian National dropped its competing bid.

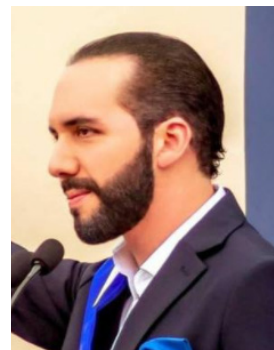
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POLITICAL

Thousands March in San Salvador to Protest Bukele

Thousands of demonstrators took to the streets of El Salvador's capital in protest of President Nayib Bukele over his embrace of Bitcoin and also over what critics say are the president's moves to grab power.

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Bukele // File Photo: Salvadoran Government.

POLITICAL NEWS

Haitian Prime Minister Fires Justice Minister

The crisis in Haiti's government deepened Wednesday as Prime Minister Ariel Henry fired his justice minister, Rockefeller Vincent, replacing him with Interior Minister Liszt Quitel, who will head both departments, Reuters reported, citing a statement in the government's official gazette. Henry's action came a day after he fired Port-au-Prince's top prosecutor, Bed-Ford Claude, who had sought charges against Henry in connection with the July 7 assassination of President Jovenel Moïse. Henry's firing of the justice minister on Wednesday also happened hours after another official, Renald Lubérice, who had been secretary general of Haiti's Council of Ministers for more than four years, resigned, saying he could not serve under a prime minister who is suspected in connection with Moïse's assassination, the Associated Press reported. In stepping down, Lubérice said Henry, whom Moïse had selected just days before he was killed in his private residence, "does not intend to cooperate with justice, seeking on the contrary, by all means, to obstruct it," the AP reported. Henry has denied

any involvement in Moïse's murder, but he has not publicly addressed phone calls that Claude alleged Henry had just hours after the assassination with Joseph Badio, a key suspect in the case.

Thousands March in San Salvador to Protest Bukele

Thousands of demonstrators took to the streets in El Salvador's capital on Wednesday in protest of President Nayib Bukele, whom critics say has moved to grab power and weaken the independence of the country's judiciary, the Associated Press reported. Some of the demonstrators who marched in San Salvador also were protesting Bukele's initiative to make Bitcoin a legal tender in the country. Some protesters wore T-shirts reading "NO to Bitcoin," and some vandalized special automated-teller machines installed in the capital to handle transactions with the cryptocurrency, the AP reported. Salvadoran officials introduced the "Chivo" digital wallet for Salvadorans to hold Bitcoin, but the system has been plagued with problems and has frequently been offline for maintenance. "It's unlikely that Bitcoin, which is complex and volatile, will be a financial inclusion pathway for average Salvadorans who

NEWS BRIEFS

Brazil's Supreme Court Suspends Bolsonaro's Social Media Order

Brazil's Supreme Court suspended a temporary decree by President Jair Bolsonaro in which he banned social media companies from deleting some content, The New York Times reported Wednesday. The high court's action came after Brazil's Senate President said he would shelve the measure, preventing it from becoming law. Bolsonaro's decree would have prevented social media companies from deleting misinformation, such as false claims Bolsonaro has posted about Covid-19 and Brazil's election system.

At Least Five Members of Argentine President's Cabinet Offer Resignations

At least five members of Argentine President Alberto Fernández's cabinet offered to resign on Wednesday just days after the ruling coalition suffered a major defeat in the country's midterm primaries on Sunday, Bloomberg News reported. Among those who resigned were Interior Minister Eduardo de Pedro, as well as the ministers of justice, housing, and sciences, according to La Nación. All of them are close allies of former President and current Vice President Cristina Fernández de Kirchner.

Brazil Justices Postpone Ruling on Indigenous Rights Case

Brazil's Supreme Court on Wednesday again postponed a ruling on a controversial case that could soften protections on Indigenous lands, a move that could in effect leave the decision to Congress, the Associated Press reported. The lower house is set to vote on similar legislation that would require Indigenous people seeking protection of their land to have been occupying the disputed territories since 1988, when Brazil's current constitution went into effect.

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some risks linked to Mexico's revenue potential (lower economic activity and oil output), the country is expected to maintain its investment grade status through 2021. Positively enough, autonomous bodies such as the electoral and economic competition authorities will likely preserve their budgetary capacity. Additionally, transfers to states and municipalities increased 6 percent, which might provide more financial leg room at the local level. Congress must analyze and approve the budget before Nov. 20. With the president's Morena party and its allies preserving a relative majority in Congress, there is no reason to expect major changes

to the budget, only minor tweaks."



Alfredo Coutiño, director for Latin America at Moody's Analytics: "Based on the numbers presented, Mexico's federal

budget proposal for 2022 seems to be in line with the goal of preserving fiscal accounts in balance. However, it is not difficult to attain a balance when revenue is the adjustment variable. Once the expenditure is predetermined based on the government's priorities, revenues are adjusted based on the estimates of GDP growth, oil prices and the exchange rate. If there is a revenue shortage,

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find existing options with banking, community credit unions or mobile money too complicated or costly," Julia Yansura, program manager for Latin America and the Caribbean at Global Financial Integrity, told the Advisor in a [Q&A](#) published June 15. "Moreover, for migrants sending remittances, Bitcoin is too complicated to be attractive." Bukele, who was elected in 2019, has maintained a high popularity rating as he has vowed to fight corruption, the AP reported. However, his critics say he is showing dictatorial tendencies. Last May, El Salvador's Legislative Assembly, which Bukele's New Ideas party controls, fired the country's attorney general and removed five magistrates of the constitutional chamber of the country's Supreme Court in a move that drew international condemnation as actions by Bukele to control other branches of government. "The U.S. Congress needs to recognize what is happening in El Salvador for what it is: shocking and dangerous," U.S. Rep. Jim McGovern (D-Mass.) told the Advisor in a [Q&A](#) published May 14. "It was expected that President Bukele and his new majority in the National Assembly would move to consolidate power. What was appalling was the sheer speed, disdain for due process, contempt for rule of law and brute exercise of the new majority's power." On Tuesday, U.S. Secretary of State Antony Blinken issued a statement congratulating Central American nations on the 200th anniversary of their independence. In the statement, he said, "anti-democratic developments pose a growing threat to Central America's future ... the United States stands with all those speaking truth to power."

BUSINESS NEWS

Canadian Pacific Clinches Deal to Buy Kansas City Southern

Canadian Pacific Railway reached a deal to take over Kansas City Southern after rival company Canadian National Railway dropped its competing bid for the railroad, The Wall Street Journal reported Wednesday. If completed, the

\$27 billion deal would be the first major merger in the railway industry in the United States in about two decades. It would create the first freight rail network connecting Canada, the United States and Mexico. Canadian Pacific and Kansas City Southern announced a \$25 billion agreement in March before competitor Canadian National Railway submitted a higher bid of about \$30 billion, prompting Kansas City Southern to opt for Canadian National as its partner. However, a regulatory panel rejected Canadian National's plans to use a temporary voting trust, which was a crucial element of its proposal. Kansas City Southern and Canadian Pacific said Wednesday that the agreement would create a railroad with about \$8.7 billion in annual revenue, based on 2020 figures, and around 20,000 employees. If the

merger is approved, Canadian Pacific's chief executive officer, Keith Creel, would become CEO of the combined company, to be named Canadian Pacific Kansas City, The Wall Street Journal reported. The new company would create "a network that will never be replicated," Creel told the newspaper in an interview. The deal is expected to lead shippers to shift from using congested ports in the United States to less-busy ones in Mexico, Creel added. Regulatory reviews could be complete by the end of next year, said Creel. "Should it come to fruition after pending regulatory reviews, the North American rail network could be a game changer for regional competitiveness," Antonio Ortiz-Mena, senior vice president at Albright Stonebridge Group, told the Advisor in a [Q&A](#) published April 1.

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then any of those variables can be adjusted to get the level of income necessary to put the account in balance. Hence, reaching a 'balanced budget' only implies adjustments to any of the revenue's determinants. In this regard, if Congress increases the budget, it will be easy for lawmakers to keep the balance by modifying expected growth, oil prices or the exchange rate as has usually happened, so no major difficulties should be expected for the budget's approval. The main problem of Mexico's fiscal accounts is that they heavily rely on the government's assumptions. If those assumptions do not materialize, then the fiscal target is at risk. Mexico's fiscal policy is by nature procyclical as it targets the balance as a ratio of GDP. This implies that, when the economy expands, revenues increase and the government automatically increases spending, thus losing the opportunity to create countercyclical power. When the economy underperforms, a fiscal imbalance or cutting expenditures are the options. Despite the government's good wishes, Mexico's public finance has not been able to break its dependence on the business cycle. To isolate the federal budget from the ups and downs of economic cycles, the government should seriously adopt genuine structural fiscal discipline. This year's federal budget continues to have the same chronic dependencies as those of previous governments."

A **Alma Caballero, director at McLarty Associates:** "Mexico's 2022 proposed financial plan includes the general guidelines for economic policy, the revenue bill and the expenditure bill. The budget seeks to support social welfare and regional projects, and also favor the stability and strength of public accounts. The new budget intends to reduce inequality and boost economic growth (after

the country's economy plunged 8.2 percent in 2020) while focusing on an aggressive taxation strategy. The budget assumes 4.1 percent economic growth, a projection above Banxico's mid-scenario of 3 percent. The lower house has until Oct. 20 to introduce changes and approve the revenue bill, which will then move to the Senate for its discussion until Nov. 1. The revenue bill does not

“**AMLO's flagship projects of the Mayan Train and the Dos Bocas refinery continue to absorb a considerable amount of spending.**”

— Alma Caballero

include new taxes, but it does seek to widen the tax base, lower informality and toughen controls that permit preventive detention and asset forfeiture for tax crimes, fundamentally reshaping the relationship between the tax authority and taxpayers. The expenditure bill will be discussed in the lower chamber, and deputies have until Nov. 15 to approve it. The expenditure bill includes a 9.6 percent increase relative to the 2021 budget, with a 12.8 percent increase in social transfers and 17.7 percent in infrastructure expenditures. The 2022 budget increases pensions for the elderly, people with disabilities and university scholarships, as compared to 2021. However, AMLO's flagship projects of the Mayan Train and the Dos Bocas refinery continue to absorb a considerable amount of spending."

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

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