9-14-2016

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Recommended Citation
Mexico’s New Finance Secretary Tasked with Justifying Reduced Budget to Congress

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Category/Department: Mexico
Published: 2016-09-14

Finance Secretary Luis Videgaray tendered his resignation on the day before he was scheduled to present President Enrique Peña Nieto’s budget to the Mexican Congress. Under normal circumstances, the timing of the resignation would have been considered odd, given the importance of the budget to the Mexican economy. However, Videgaray was forced to leave his post because of circumstances beyond the budget process. He was the one Cabinet member who not only endorsed but also pushed for the visit of the highly unpopular US Republican presidential nominee Donald Trump to Mexico (SourceMex, Sept. 7, 2016).

Videgaray had been one of Peña Nieto’s top advisers (SourceMex, Dec. 5, 2012), and the president’s decision to accept the resignation would have been odd under normal circumstances. The president reportedly rejected the resignation of Foreign Relations Secretary Claudia Ruiz Massieu—who had opposed the invitation—in the wake of Trump’s visit.

Peña Nieto immediately appointed veteran Cabinet official José Antonio Meade Kuribreña to replace Videgaray as head of the finance ministry (Secretaría de Hacienda y Crédito Público, SHCP). Meade Kuribreña, who is not affiliated with any political party, had the post of foreign relations secretary when the president first took office, and then assumed the role of social development secretary during a Cabinet shuffle in August 2015 (SourceMex, Sept. 2, 2015).

With the departure of Videgaray, who was the principal architect of the 2017 budget, Meade Kuribreña was left with the task of justifying reductions in expenditures to Congress, which must approve a budget by Oct. 31. However, the new finance secretary is no novice when it comes to the SHCP, since he held the same position during the last year of ex-President Felipe Calderón’s administration (SourceMex, Oct. 12, 2011).

Peña Nieto’s 2017 budget proposes a cut in expenditures totaling 239.7 billion pesos (US$12.5 billion), a larger amount than the reduction of 221 billion pesos (US$11.5 billion) the administration proposed in its 2016 budget (SourceMex, Sept. 16, 2015).

Low global oil prices and weak revenues forced the Peña Nieto government to cut expenditures further during the year (SourceMex, Feb. 10, 2016).

Along with the budget proposal, the administration presented several macroeconomic projections, including a growth in GDP of between 2% and 3% in 2017. The growth projections are below the range of 2.6% to 3.6% contained in the 2016 budget proposal. In its latest economic forecast, the SHCP issued a revised forecast, placing GDP growth in 2016 at 2% to 2.6%, due in large measure to the continuing slump in global oil prices, weak industrial production, and sluggish economic growth in the US, Mexico’s top trading partner.

The 2017 budget proposal assumes a projection that Mexico’s production of crude oil will reach only 1.9 million barrels per day, the lowest level in 40 years. This year’s average output has been 2.16 billion bpd.
**PEMEX budget slashed**

Saddled with the combination of low export prices and low production, along with a government commitment to promote the injection of private capital into PEMEX, the state-run oil company, PEMEX is the hardest-hit line item in the 2017 budget. The administration’s budget plan contains a reduction of 100 billion pesos (US$5.2 billion) for PEMEX.

“It is natural that the adjustment is maintained, given the fall in international oil prices,” Meade said when asked if the government could repeat a similar reduction. “It is in line with what other oil companies in the world are doing given the complicated environment.”

Even with a reduction of almost 21% in real terms, PEMEX will continue “taking actions intended to support its modernization and transformation to convert it into a world-class company that competes at the global level in terms of price and quality, risk prevention, environmental protection, and development of technical, administrative, and technological capacity,” Meade Kuribreña said.

With the projection for low revenues from PEMEX, the government has taken steps again this year to assure a price of US$42 per barrel by acquiring a hedge on the financial markets (SourceMex, Aug. 31, 2016). The forecast for oil-export prices in the budget reflects the hedge operation, analysts said.

The mix of expenditures and cuts is also intended to create confidence in the Mexican economy among foreign investors. The administration calculates an overall deficit of 2.9% of GDP in the 2017 budget, or 0.6 percentage points below the target set for 2016.

“The package sends signals of responsibility” and “recognizes the difficult moment that we are facing in the global economy,” Meade said. “It is the package that we need in this difficult moment.”

Still, there are some specific proposals in the budget that raised concerns. For example, expenditures for Mexico City (CDMX) have been reduced by a drastic 8.6 billion pesos (US$445 million). The reductions include elimination of federal funding for the expansion of several lines of the Mexico City subway.

“The administration did not allocate a single peso for the Metro. Not for Line 12, or for Line 9, or for Line A,” said Mexico City Mayor Miguel Mancera. “The [federal government] is reneging on a commitment that was made a long time ago.”

**Opposition parties to protect health care, education**

In addition to his complaint about the reduction in spending for the Mexican capital, Mancera said the administration’s proposal lowers funding in some important areas. “We do support an adjustment in spending, but we want it to be even,” said Mancera, a member of the center-left Partido de la Revolución Democrática (PRD). “With cuts proposed in education, agriculture, and infrastructure, how are we going to promote productivity in our country?”

Other PRD members offered similar objections to the president’s budget proposal, particularly the reduction in spending for the Mexico City. Calling the proposal a “drastic move,” Deputy Francisco Martínez Neri, the floor leader for the PRD delegation in the Chamber of Deputies, warned that the Mexico City government might not have a budget that is adequate to “meet the great needs of the city.”
Alejandra Barrales Magdaleno, the PRD president, raised the same concerns as Mancera regarding cuts in funding for programs that the party considers important for national development, including health care, education, and other social concerns. Barrales suggested that the budget presented to Congress represents Videgaray’s vision for Mexico’s economy, and not necessarily the position of Meade Kuribreña.

The president’s budget plan proposed a 14% reduction in funds allocated for the public education ministry (Secretaría de Educación Pública, SEP), the largest cuts in terms of percentages of any ministry. The Peña Nieto government also proposed a cut of almost 8% in money disbursed to the health ministry (Secretaría de Salud, SSA).

In the Chamber of Deputies, the PRD and the conservative Partido Acción Nacional (PAN) agree that the cuts in funding for the education and health ministries are unwarranted. “The legislative branch is going to ensure that any cuts in public spending do not target health and education,” said PAN Deputy Javier Bolaños Aguilar, who serves as president of the lower house.

Barrales said the PRD plans to create a special commission composed of elected officials from the party to put forth an alternative budget plan. The group would include federal and state legislators, mayors, and governors, including Mancera, Gov. Graco Ramírez of Morelos, Gov. Silvano Aureoles of Michoacán, and Gov. Arturo Núñez of Tabasco.

“We are going to seek a different direction for the budget, a different path that puts a priority on Mexican families,” Barrales told participants at a gathering of PRD municipal leaders.

PAN members in the Senate offered a different set of objections to the president’s budget proposal. The pro-business party took issue with the administration’s financing plans, which rely heavily on the issuing of debt. This strategy threatens to “mortgage the future for our children,” said Sen. Fernando Herrera Ávila, PAN’s floor leader in the Senate.

Critics noted, however, that the Congress has been complicit in the increases in the debt during the first four years of the Peña Nieto government. “The Congress failed to live up to its role as a counterweight to the executive branch,” columnist Leo Zuckermann wrote in the daily newspaper Excélsior. “Legislators became complicit in the process when they gave the president a blank check to use in domestic and international financial markets.”

Herrera charged that PRI governments—both at the federal and state level—have mismanaged the economy. “We have watched with great concern [the performance] of PRI governments, which have not only managed current problems poorly but also failed to develop solutions with an eye to the future,” said Herrera. “This pattern is reflected in the budget proposed by the Peña Nieto government for 2017.” He said the priorities that the PAN will put forward during the budget debate include a true reduction in public spending, along with sensible allocations of funds to key areas like health care. The conservative party, he said, would also seek to protect the purchasing power of citizens by ensuring that the administration does not impose new taxes or increase existing ones.

Some infrastructure expenditures cut

The ministry with the second-largest cuts is the communications and transportation department (Secretaría de Comunicaciones y Transportes, SCT), whose budget has been slashed by 26%, or by about 27 billion pesos (US$1.4 billion) from 2016. The reductions will particularly affect expenditures
on construction and repair of highways, which will be about 36% lower than what was actually spent in 2016.

Only 100 million pesos (US$5.2 million) was allocated for tourism infrastructure in the 2017 budget, compared with 1.7 billion pesos (US$88 million) in 2016. The budget for promotion of tourism, one of Mexico’s top sources of revenue, was also cut by close to 20%.

The SCT budget, however, contains about 5.5 billion pesos (US$285 million) for the new Mexico City airport, which is targeted for completion in 2020 (SourceMex, Sept. 10, 2014). The administration also left money intact for the construction of high-speed railways from Mexico City to Guadalajara and to Toluca.

The administration plan has proposed cuts in expenditures in some areas of the executive government, including the Office of the Presidency. However, the business publication Expansión noted that the Peña Nieto government increased expenditures significantly in one line item under the Office of the Presidency, the Coordinación de Opinión Pública (Coordination of Public Opinion). This unit is in charge of propping the image of the president, which the administration finds necessary because of recent polls showing that Peña Nieto is now the most unpopular Mexican president in modern history (SourceMex, Sep. 7, 2016), said Expansión.