Public finance report – Fiscal targets are achieved in 2019

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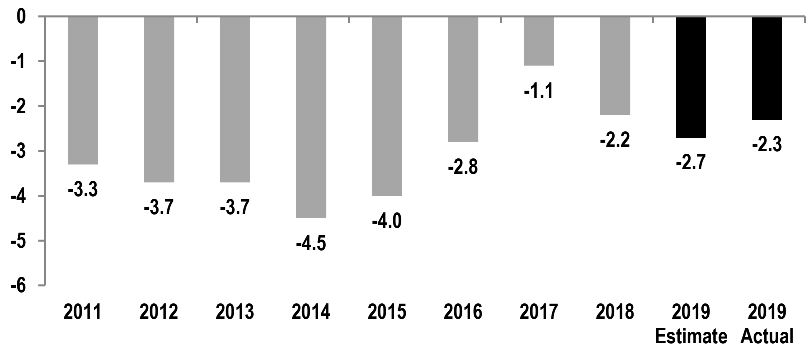
- **The Ministry of Finance (MoF) released its public finances report for the last month of 2019**
- **Public sector borrowing requirements (2019): -$564.7bn deficit (~US$30.0bn); -2.3% of GDP**
- **Public balance (2019): $398.4bn deficit (~US$21.1bn); -1.6% of GDP**
- **Primary balance (2019): $275.7bn surplus (~US$14.6bn); 1.1% of GDP**
- **In full-year 2019, budget revenues increased 1.6% y/y in real terms, driven by the 34.0% increase in non-oil, non-tax revenues. The latter benefited by transfers obtained from the *Stabilization Fund for Budget Revenues* (FEIP)**
- **In particular, the FEIP declined 43.3% y/y, equivalent to $121.2bn (0.5% of GDP). As a result, the year-end balance reached $158.5bn (0.7% of GDP)**
- **Expenses edged-down 0.1% y/y in real terms, driven by the 13.6% decline in spending by autonomous branches**
- **Moreover, total expenses were $51.6bn below estimates, mainly explained by underspending in debt-servicing costs. As a result, and also taking into account the use of the FEIP, the primary surplus reached $275.8bn (1.1% of GDP), higher than the 1.0% target**
- **The *Historic Balance of Public Sector Borrowing Requirements* stood at $10.9 trillion (~US$576.9bn), equivalent to 44.7% of GDP, below the estimated 45.3% total**

PSBRs post a deficit of 2.3% of GDP in 2019. The Ministry of Finance released its public finance report for December, in which we highlight the $564.7 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance[1]–. This is equivalent to 2.3% of GDP (see chart below), which means the deficit was lower than the 2.5% original target –set at the start of 2019– and the latest update of 2.7% (set in September).

In addition, the "traditional" public balance posted a $398.4bn deficit, equivalent to 1.1% of GDP. In monetary terms, it came in below the budgeted figure by $105.5 billion, explained by both the use of the *Stabilization Fund* (FEIP) that increased revenues, and lower-than-expected debt servicing costs. When excluding investments in projects of high economic and social impact –such as those made by Pemex and CFE of up to 2% of GDP– the balance showed a $88.1bn surplus. In addition, the primary surplus stood at $275.8 billion, amounting to 1.1% of GDP, better than the 1.0% set by the MoF at the beginning of the year.

[1] The PSBRs include the sum of the Public Balance, the financial requirements of the Mexican Bank Savings Protection Institute, financial requirements of deferred investment projects, adjustments to budget records, financial requirements of the National Infrastructure Funds, program of debtors and the expected gain or loss of development banks and development funds.

Public Sector Borrowing Requirements
% of GDP



Source: Ministry of Finance

Total revenues went up 1.6% y/y in real terms. According to the MoF, revenues totaled $5.4 trillion, which was $86.1 billion higher than projected. Oil revenues came in at $955.1 billion, representing a 5.8% decline in real terms relative to 2018. In this context, these represented 17.7% of total government revenues. Moreover, non-oil tax collections amounted to $3.2 trillion, undershooting projections by $108.7 billion. This translates into a 0.9% y/y increase in real terms. Inside, income tax collection fell 2.2%, while VAT revenues edged-down 2.3%. On the contrary, excise tax collection came up 27.9%, largely explained by lower fuel subsidies relative to the previous year. Revenues from government-controlled entities (IMSS and ISSSTE) increased 3.4%, while those of CFE posted a 1.1% expansion. Finally, non-oil, non-tax revenues expanded 34.0%, amounting to $278.7 billion. It should be noted that the resources transferred from the FEIP are accounted for in this category, which explains a great part of the significant increase.

Lower balance in Stabilization Funds. The outstanding sum of the different stabilization funds at the end of 2019 stood at $239.8 billion (~US$12.7bn), a $149.0 billion decrease vs December 2018. In particular, the most pronounced decrease was the in the FEIP, as already mentioned. This fund's resources stood at $158.6 billion at the end of December (0.7% of GDP), which translates into a 43.3% decline relative to the balance at the end of 2018.

Stabilization funds
$ billion

	Dec-19	Dec-18	Difference
Total	**239.8**	**388.8**	**-149.0**
Stabilization Fund for Budget Revenues	158.6	279.8	-121.2
Stabilization Fund for State Revenues	60.5	88.7	-28.3
Mexican Petroleum Fund for Stabilization and Development	20.8	20.3	0.5

Source: Ministry of Finance

Additional information about the FEIP. In the conference call, Deputy Finance Minister Gabriel Yorio, stated that they had initially estimated they would use around $150 billion (US$8.0 billion) of resources from the FEIP to stabilize fiscal accounts. Nevertheless, efforts were made to try minimize its usage, resulting in a use of resources of only $120 billion (US$6.4 billion). In particular, savings of about $30 billion relative to their estimation were achieved with a second round of contention of expenses.

Budget spending edged-down 0.1% y/y. Total spending amounted to $5.8 trillion, $51.6 billion below budget. This is mainly explained by lower spending in financial costs (also known as debt servicing costs), undershooting the program by $82.6 billion, while primary spending surpassed the estimate by $31.0 billion. In the yearly comparison, primary spending fell 0.7%, while financial costs were up 4.6%. Within the former, the programmable component increased 0.3%, amounting to $4.2 trillion. Main increases within this were in ISSSTE (+11.8%) and in administrative branches (+6.9%). In the latter, we highlight the 466.2% increase in the Ministry of Labor as well as the 80.8% decline in the Office of the Presidency. Meanwhile, autonomous branches spending declined 13.6%, with the main changes in the National Institute for the Evaluation of Education (-53.0%) and the National Electoral Institute (-37.8%) as 2019 was not a federal election year. Meanwhile, non-programmable spending excluding debt financial costs decreased 5.2%, stemming from the 78.6% reduction in ADEFAS, while participations –transfers to states under the federal tax collection agreement– increased 0.5%.

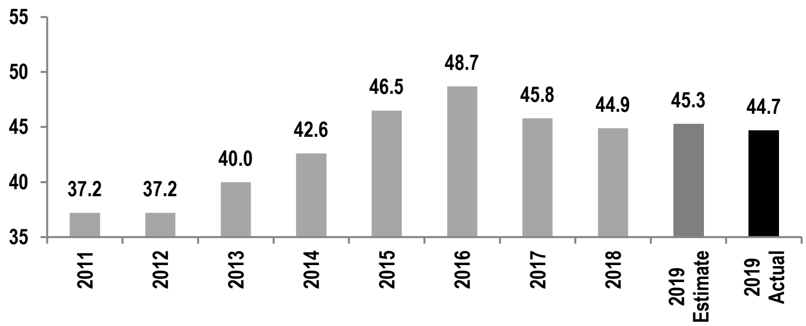
Public finances 2019
$ billion

	2019	2018	% y/y in real terms
Public Balance	**-398.4**	**-495.0**	**--**
ex. Pemex and CFE investments	*88.1*	*-25.2*	--
Balance of entities under indirect budgetary control	**3.8**	**-20.7**	**--**
Revenues	**5,384.3**	**5,115.1**	**1.6**
Oil	955.1	978.4	-5.8
Non-oil	4,429.2	4,136.7	3.3
Tax collection	3,202.6	3,062.3	0.9
Other	371.5	267.5	34.0
Government controlled entities	426.6	398.0	3.4
CFE	428.5	408.8	1.1
Spending	**5,786.4**	**5,589.4**	**-0.1**
Primary spending	5,120.0	4,974.3	-0.7
Programmable spending	4,226.5	4,064.7	0.3
Non-programmable spending	893.5	909.6	-5.2
Financial costs	666.5	615.0	4.6
Primary balance	**275.7**	**141.4**	**88.2**

Source: Ministry of Finance

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at $10.8 trillion (~US$576.9 billion), equivalent to 44.7% of GDP. This came in below the MoF's estimate at 45.3%, helped by a lower-than-expected deficit, as well as diverse refinancing operations carried out throughout the year. In addition, net public-sector debt amounted to $11.0 billion (~US$585.2 billion). Net domestic debt reached $7.2 trillion, while net foreign debt climbed to US$203.7 billion (equivalent to $3.8 trillion).

Historic Balance of the Public Sector Borrowing Requirements
% of GDP



Source: Ministry of Finance; *Note: MoF latest estimates

Relevant comments on estimates for 2020 from the Deputy Finance Minister. Within the quarterly conference call, there were important comments from the Deputy Finance Minister, Gabriel Yorio, highlighting that their GDP growth estimate for 2020 remains at 2.0%. This represents downside risks for revenues in the year when compared to market expectations, as this forecast is higher than both consensus (1.0% according to the latest *Citibanamex* survey) and our estimate (0.8%).

In this context, the MoF estimates that a change of 0.5% in GDP growth results in an impact of 0.07% of GDP in tax revenues. Based on the latter and consensus GDP of 1.0%, revenues could come in lower than expected by around 0.14% of GDP. In this respect, it would imply a projected increase of the PSBRs deficit from the current estimate of 2.6% to 2.74% of GDP. Nevertheless, the Deputy Minister assured analysts that in case of a revenue shortfall, they would prioritize additional spending cuts to achieve their goals in terms of fiscal targets. In particular, he said the MoF is already looking into possible spending items that could be reduced directly with the President if this were the case. Moreover, he affirmed that in the worst-case scenario, the government would once again use resources from the FEIP with a maximum limit of $80 billion, which is around half of its current balance.

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