

## Public finance report – \$37.6 billion deficit in the PSBRs up to February

March 31, 2020

www.banorte.com  
@analisis\_fundam

**Juan Carlos Alderete, CFA**  
Director of Economic Research  
juan.alderete.macal@banorte.com

**Francisco Flores**  
Senior Economist, Mexico  
francisco.flores.serrano@banorte.com

- The Ministry of Finance (MoF) released its public finance report for February 2020
- Public sector borrowing requirements (Jan-Feb): \$37.6bn deficit (~US\$2.0bn)
- Public balance (Jan-Feb): \$10.7bn surplus (~US\$556.9mn)
- Primary balance (Jan-Feb): \$96.3bn surplus (~US\$5.0bn)
- In the period, budget revenues increased 6.0% y/y in real terms, even despite the 10.8% decline in oil-related income
- Expenses edged-up 0.8% y/y in real terms, partly explained by the 36.0% advance in administrative branches. On the contrary, spending by CFE (-41.0%) and Pemex (-4.2%) fell significantly
- The *Historic Balance of Public Sector Borrowing Requirements* stood at \$11 trillion (~US\$572.8bn), with 64.8% corresponding to domestic debt

**PSBRs post a \$37.6 billion deficit in the first two months of 2020.** The Ministry of Finance released its public finance report for February, in which we highlight the \$37.6 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance<sup>1</sup>–. This figure was weaker than the \$4.0 billion deficit observed in the same period of 2019. On the contrary, the “traditional” public balance posted a \$10.7 billion surplus, \$86.8 billion above expectations, explained mainly by lower expenditures. 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 \$103.6 billion surplus. In addition, the primary surplus stood at \$96.3 billion, better relative to the +\$19.2 billion forecasted balance.

**Total revenues up 6.0% y/y in real terms.** According to the MoF, revenues totaled \$935.2 billion, \$7.5 billion higher than projected. Oil-related income came in at \$97.0 billion, representing a 10.8% decrease in real terms relative to the same period of 2019. Moreover, tax revenues amounted to \$628.4 billion, overshooting projections by \$5.3 billion. The latter translates into a 5.1% y/y increase in real terms. Inside, income tax collection edged-down 0.8%, while VAT revenues posted a better performance at +15.4%. Excise-tax collection increased 8.1%, partly explained by upward revisions on tariffs of some goods. Revenues from government-controlled entities (IMSS and ISSSTE) increased 4.3%, while those of CFE posted a 0.5% contraction. Finally, non-oil, non-tax revenues surged 73.7%, amounting to \$75.1 billion.

<sup>1</sup> 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.

**Budget spending up 0.8% y/y.** Total spending amounted to \$938.4 billion, \$65.8 billion below budget. This is mainly explained by lower primary spending, while spending in financial costs (also known as debt servicing costs) surpassed the estimate by only \$137.3 million. In the yearly comparison, primary spending edged-up 1.2%, while financial costs fell 1.8%. Within the former, the programmable component increased 0.7%, amounting to \$654.3 billion. Main increases within this category were in administrative branches (+36.0%) and autonomous branches (+12.1%). In the former, we highlight the 1,206.2% increase in the Ministry of Labor as well as the 321.3% expansion in the Ministry of Energy. Meanwhile, in the latter we highlight the advance in INEGI (123.0%) –remembering that the Census is carried out this year– and in the National Electoral Institute (11.5%). On the contrary, we highlight the spending contraction in CFE (-41.0%) and Pemex (-4.2%). Meanwhile, non-programmable spending excluding debt financial costs grew 2.6%, stemming from the 9.5% rise in ADEFAS, while participations –transfers to states under the federal tax collection agreement– advanced 2.0%.

**Public finance: February 2020**

\$ billion

	January-February		% y/y in real terms
	2020	2019	
<b>Public Balance</b>	<b>10.7</b>	<b>-27.6</b>	<b>--</b>
<i>ex. Pemex and CFE investments</i>	<b>103.6</b>	69.3	44.5
<b>Balance of entities under indirect budgetary control</b>	<b>13.8</b>	<b>19.3</b>	<b>-30.8</b>
<b>Revenues</b>	<b>935.2</b>	<b>852.5</b>	<b>6.0</b>
Oil	97.0	105.2	-10.8
Non-oil	838.2	747.3	8.4
Tax collection	628.4	577.8	5.1
Other	75.1	41.8	73.7
Government controlled entities	70.1	65.0	4.3
CFE	64.6	62.8	-0.5
<b>Spending</b>	<b>938.4</b>	<b>899.4</b>	<b>0.8</b>
Primary spending	842.8	805.3	1.2
Programmable spending	654.3	627.7	0.7
Non-programmable spending	188.6	177.6	2.6
Financial costs	95.6	94.1	-1.8
<b>Primary balance</b>	<b>96.3</b>	<b>53.8</b>	<b>72.9</b>

Source: Ministry of Finance

**The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at \$11.0 trillion (~US\$572.8 billion).** Out of these, \$7.1 trillion amount to domestic debt (64.8% of the amount outstanding), with the external component at US\$201.8 billion (\$3.9 trillion; 35.2% of the total). Net public-sector debt amounted to \$11.2 trillion (~US\$586.3 billion). Inside, net domestic debt reached \$7.3 trillion, while net foreign debt climbed to US\$206.7 billion (equivalent to \$4.0 trillion).

## Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Jorge Antonio Izquierdo Lobato and Eridani Ruibal Ortega, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

### Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

### Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

### Last-twelve-month activities of the business areas.

**Grupo Financiero Banorte S.A.B. de C.V.**, through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

### Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

### Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

### Guide for investment recommendations.

	Reference
<b>BUY</b>	When the share expected performance is greater than the MEXBOL estimated performance.
<b>HOLD</b>	When the share expected performance is similar to the MEXBOL estimated performance.
<b>SELL</b>	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

### Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

**GRUPO FINANCIERO BANORTE S.A.B. de C.V.**

<b>Research and Strategy</b>			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
<b>Economic Research and Financial Market Strategy</b>			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandra.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
<b>Economic Research</b>			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
<b>Market Strategy</b>			
Manuel Jiménez Zaldivar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
<b>Fixed income and FX Strategy</b>			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalia Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
<b>Equity Strategy</b>			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
<b>Corporate Debt</b>			
Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
<b>Economic Studies</b>			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
<b>Wholesale Banking</b>			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandra.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandra.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454