Public finance report – $49.7 billion deficit in the PSBRs in 1Q20

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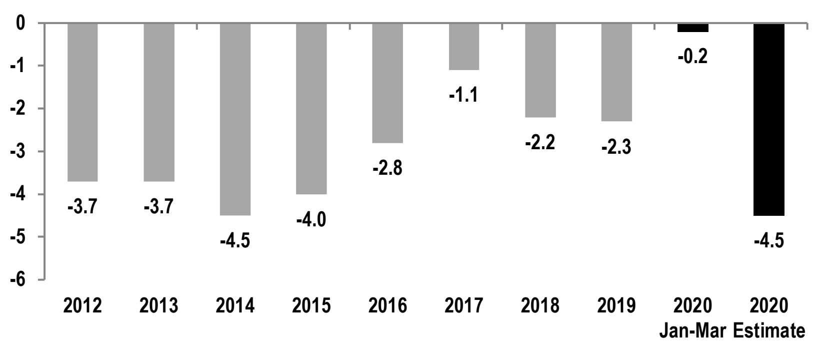
Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

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

- **The Ministry of Finance (MoF) released its public finance report for March 2020**
- **Public sector borrowing requirements (Jan-Mar): $49.7bn deficit (~US$2.1bn; 0.2% of GDP)**
- **Public balance (Jan-Mar): $26.9bn surplus (~US$1.1bn)**
- **Primary balance (Jan-Mar): $137.7bn surplus (~US$5.9bn)**
- **In the period, budget revenues increased 9.2% y/y in real terms, even despite the 27.0% decline in oil-related income**
- **Expenses edged-up 6.2% y/y in real terms, partly explained by the 31.3% advance in administrative branches. On the contrary, spending by CFE (-22.5%) and ISSSTE (-5.4%) fell the most**
- **The *Historic Balance of Public Sector Borrowing Requirements* stood at $11.9 trillion (~US$504.4bn), equivalent to 48.7% of GDP. It should be noted that 59.8% corresponds to domestic debt**

PSBRs post a $49.7 billion deficit in the first quarter 2020. The Ministry of Finance released its public finance report for March, in which we highlight the $49.7 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance[1]–, equivalent to 0.2% of GDP. This figure was weaker than the $9.6 billion deficit observed in the same period of 2019. On the contrary, the "traditional" public balance posted a $26.9 billion surplus, $100.3 billion above expectations, explained by both higher revenues and 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 $180.1 billion surplus. In addition, the primary surplus stood at $137.7 billion, equivalent to 0.6% of GDP and better relative to the +$79.6 billion forecasted balance.

Public Sector Borrowing Requirements
% of GDP



Note: The figures for 2012 to 2019 are year-end levels, while the data for 2020 is YTD and the estimate corresponds to the updated forecasts from the MoF.
Source: Ministry of Finance

[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.

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Total revenues up 9.2% y/y in real terms. According to the MoF, revenues totaled $1,462.9 billion, $25.3 billion higher than projected. Oil-related income came in at $135.0 billion, representing a 27.0% decrease in real terms relative to the same period of 2019. Moreover, tax revenues amounted to $1,004.7 billion, overshooting projections by $48.2 billion. The latter translates into a 13.3% y/y increase in real terms. Inside, income tax collection expanded by 13.0%, while VAT revenues posted a better performance at +18.3%. Excise-tax collection increased 4.6%, partly explained by upward revisions on tariffs of some goods. Revenues from government-controlled entities (IMSS and ISSSTE) increased 5.7%, while those of CFE posted a 1.0% contraction. Finally, non-oil, non-tax revenues surged 75.6%, amounting to $119.0 billion.

More resources in Stabilization Funds. The outstanding sum of the different stabilization funds at the end of 1Q20 stood at $264.1 billion (~US$11.2bn), a $24.3 billion increase vs December 2019. In particular, the highest expansion decrease was in the *Stabilization Fund for Budget Revenues*, known as FEIP. This fund's resources stood at $175.0 billion at the end of December (0.8% of GDP), which translates into a 10.4% decline relative to the balance at the end of 2019.

Stabilization funds
$ billion

	Mar-20	Dec-19	Difference
Total	**264.1**	**239.8**	**+24.3**
Stabilization Fund for Budget Revenues	175.0	158.6	+16.4
Stabilization Fund for State Revenues	63.3	60.5	+2.9
Mexican Petroleum Fund for Stabilization and Development	25.8	20.8	+5.1

Source: Ministry of Finance

Budget spending up 6.2% y/y. Total spending amounted to $1,481.0 billion, $30.1 billion below budget. This is explained by both lower primary spending and financial costs (also known as debt servicing costs). In the yearly comparison, primary spending advanced 6.5%, while financial costs edged-up 3.2%. Within the former, the programmable component increased 7.7%, amounting to $1,074.6 billion. Main increases within this category were in administrative (+31.3%) and autonomous branches (+21.1%). In the former, we highlight the 99.8% increase in the Ministry of Welfare as well as the 85.8% expansion in the Ministry of Communications and Transportation. On the flip side, the biggest decline was in the Ministry of Economy (-25.9%). Meanwhile, in the latter we highlight the advance in INEGI, up by 208.0% –remembering that the Census is carried out this year– and the 23.5% decrease in the Attorney General's Office. On the contrary, we highlight the spending contraction in CFE (-22.5%) and ISSSTE (-5.4%). Meanwhile, non-programmable spending excluding debt financial costs grew 1.7%, stemming from the 35.8% rise in ADEFAS, while participations –transfers to states under the federal tax collection agreement– declined 0.4%.

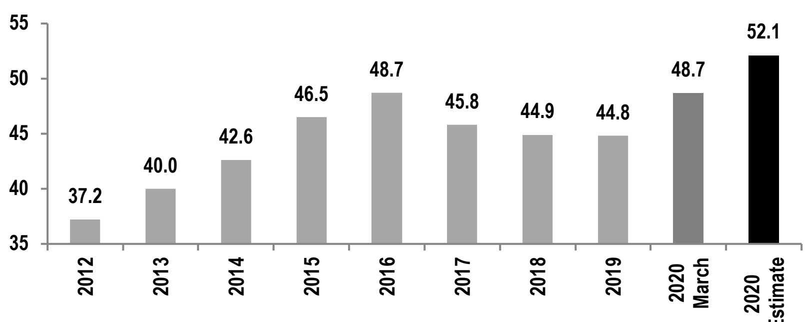
Public finance: March 2020
$ billion

	January-March 2020	January-March 2019	% y/y in real terms
Public Balance	**26.9**	**-24.5**	**--**
ex. Pemex and CFE investments	**180.2**	*116.3*	*49.9*
Balance of entities under indirect budgetary control	**45.0**	**29.2**	**48.9**
Revenues	**1,462.9**	**1,295.4**	**9.2**
Oil	135.1	179.1	-27.0
Non-oil	1,327.8	1,116.3	15.0
Tax collection	1,004.7	858.0	13.3
Other	119.0	65.5	75.6
Government controlled entities	108.1	98.9	5.7
CFE	96.1	93.9	-1.0
Spending	**1,481.0**	**1,349.1**	**6.2**
Primary spending	1,333.3	1,210.8	6.5
Programmable spending	1,074.6	964.6	7.7
Non-programmable spending	258.7	246.1	1.7
Financial costs	147.6	138.3	3.2
Primary balance	**137.7**	**93.6**	**42.2**

Source: Ministry of Finance

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at $11.9 trillion (~US$504.4 billion), equivalent to 48.7% of GDP. Out of these, $7.1 trillion amount to domestic debt (59.8% of the amount outstanding), with the external component at US$202.8 billion ($4.8 trillion; 40.2% of the total). Net public-sector debt amounted to $12.1 trillion (~US$515.7 billion). Inside, net domestic debt reached $7.3 trillion, while net foreign debt climbed to US$207.2 billion (equivalent to $4.8 trillion).

Historic Balance of the Public Sector Borrowing Requirements
% of GDP



Note: The figures for 2012 to 2019 are year-end levels, while the data for 2020 corresponds to the level seen in the latest month and the estimate corresponds to the updated forecasts from the MoF.
Source: Ministry of Finance

Relevant comments in the conference call. The call was leaded by Alejandro Gaytán González (Chief Economist of the MoF) and José de Luna Martínez (Head of the Public Credit Unit). They mentioned that the PSBRs estimate for 2020 was revised to -4.5% of GDP from the -4.4% outlined in Preliminary Policy Criteria, acknowledging more adverse conditions in the oil market. In particular, they mentioned this contemplates the output cut of 100kbpd as part of the OPEC+ deal.

In addition, they mentioned that they are evaluating the possibility of additional measures to boost economic activity, although the amount will depend on prevailing conditions in coming weeks. In particular, there is also the possibility of an expansion of programs from development banks, although they mentioned that the resources for loans announced so far have come from the Ministry of Welfare. On Pemex, they are still contemplating if there will be additional support to strengthen the company's financial position.

Relatively small impact on public finances despite COVID-19 impact in March. As explained in our note for 1Q20 GDP, economic activity was more resilient than expected in March, thus resulting in relatively more favorable numbers in revenues in public finances. In addition, while spending did start to ramp-up, we expect to see a more forceful expansion in coming months, as several programs implemented by the Federal Government start to come online. In this sense, we must remember most of them were announced in early to mid-April. All in all, although risks are tilted to the downside regarding economic activity, and thus for the outlook of public finances, we continue to believe that the government will maintain a careful approach on spending, prioritizing the health and welfare of the Mexican people while fulfilling its commitment to keeping healthy public finances.

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

Research and Strategy			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research and Financial Market Strategy			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Economic Research			
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
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
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
Corporate Debt			
Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Economic Studies			
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
Wholesale Banking			
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	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@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.roldan.ferrer@banorte.com	(55) 5004 - 1454