

Public finance report – \$104.6 billion deficit in the PSBRs up to April

June 1, 2020

www.banorte.com
@ analisis_fundam

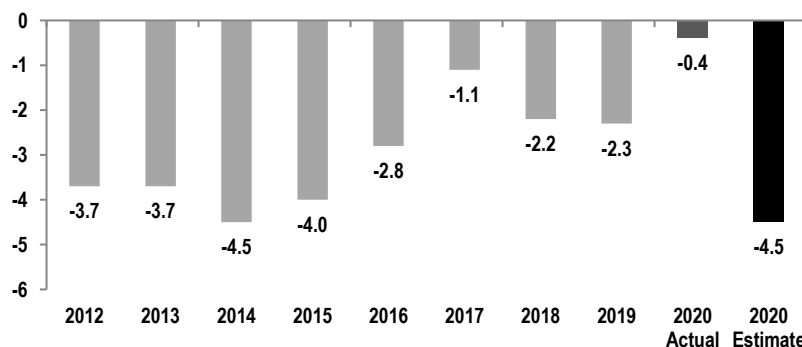
Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

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

- The Ministry of Finance (MoF) released its public finance report for April 2020
- Public sector borrowing requirements (Jan-Apr): \$104.6bn deficit (~US\$4.3bn; -0.4% of GDP)
- Public balance (Jan-Apr): \$73.9bn deficit (~US\$3.0bn)
- Primary balance (Jan-Apr): \$137.7bn surplus (~US\$4.8bn; 0.5% of GDP)
- In the period, budget revenues increased 1.5% y/y in real terms, even despite the 41.9% decline in oil-related income
- Expenses edged-up 7.0% y/y in real terms, partly explained by the 27.2% advance in administrative branches. On the contrary, spending by CFE (-20.0%) and ISSSTE (-2.7%) fell the most
- Nevertheless, in the particular dynamic for April we saw a 19.0% contraction in revenues, while spending increased 9.3%
- The *Historic Balance of Public Sector Borrowing Requirements* stood at \$12.1 trillion (~US\$495.6bn), equivalent to 49.6% of GDP. It should be noted that 58.7% corresponds to domestic debt

PSBRs post a \$104.6 billion deficit in the first four months of 2020. The Ministry of Finance released its public finance report for April, in which we highlight the \$104.6 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance¹–, equivalent to 0.4% of GDP. This figure was weaker than the \$80.3 billion surplus observed in the same period of 2019. On the contrary, the “traditional” public balance posted a \$73.9 billion deficit, \$41.2 billion above expectations, explained by lower expenditures. In addition, the primary surplus stood at \$117.7 billion, equivalent to 0.5% of GDP and better relative to the +\$87.9 billion forecasted balance.

Public Sector Borrowing Requirements
% of GDP



Source: Ministry of Finance

Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



Document for distribution among the general public

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.

Total revenues up 1.5% y/y in real terms. According to the MoF, revenues totaled \$1,869.3 billion, \$19.7 billion lower than projected. Oil-related income came in at \$157.7 billion, representing a 41.9% decrease in real terms relative to the same period of 2019. Moreover, tax revenues amounted to \$1,277.8 billion, overshooting projections by \$22.1 billion. The latter translates into a 5.6% y/y increase in real terms. Inside, income tax collection expanded by 1.1%, while VAT revenues posted a better performance at +16.2%. Excise-tax collection increased 3.6%, partly explained by upward revisions on tariffs of some goods. Revenues from government-controlled entities (IMSS and ISSSTE) increased 3.4%, while those of CFE posted a 1.9% expansion. Finally, non-oil, non-tax revenues surged 72.7%, amounting to \$157.5 billion.

Budget spending up 7.0% y/y. Total spending amounted to \$1,957.4 billion, \$46.8 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 7.1%, while financial costs edged-up 6.1%. Within the former, the programmable component increased 7.2%, amounting to \$1,402.3 billion. Main increases within this category were in administrative (+27.2%) and autonomous branches (+15.5%). In the former, we highlight the 401.4% increase in the Ministry of Labor as well as the 94.3% expansion in the Ministry of Welfare. On the flip side, the biggest decline was in the Energy Regulatory Commission (-29.1%). Meanwhile, in the latter we highlight the advance in INEGI, up 155.0% –remembering that the Census was carried out this year– and the 20.8% decrease in the National Human Rights Commission. On the contrary, we highlight the spending contraction in CFE (-20.0%) and ISSSTE (-2.7%). Meanwhile, non-programmable spending excluding debt financial costs grew 6.7%, stemming from the 48.7% rise in ADEFAS, while participations –transfers to states under the federal tax collection agreement– expanded 5.2%.

Public finance: April 2020

\$ billion

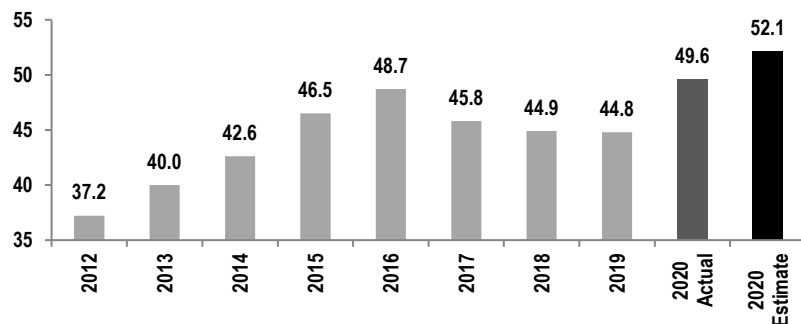
	April			January-April		
	2020	2019	% y/y real terms	2020	2019	% y/y real terms
Public Balance	-100.9	62.5	--	-73.9	38.0	--
<i>ex. Pemex and CFE investments</i>	NA	NA	NA	129.6	220.4	-42.9
Balance of entities under indirect budgetary control	-2.1	1.4	--	6.1	10.4	-43.5
Revenues	406.3	491.0	-19.0	1,869.3	1,786.3	1.5
Oil	22.6	84.4	-73.8	157.7	263.4	-41.9
Non-oil	383.7	406.6	-7.6	1,711.6	1,522.9	9.0
Tax collection	273.1	315.5	-15.3	1,277.8	1,173.5	5.6
Other	38.6	22.9	64.6	157.5	88.5	72.7
Government controlled entities	35.0	35.3	-3.0	143.1	134.2	3.4
CFE	37.1	32.9	10.4	133.1	126.7	1.9
Spending	475.9	426.2	9.3	1,957.4	1,775.3	7.0
Primary spending	423.8	381.8	NA	1,757.6	1,592.6	7.1
Programmable spending	327.3	304.9	5.1	1,402.3	1,269.6	7.2
Non-programmable spending	96.5	76.9	NA	355.3	323.0	6.7
Financial costs	52.1	44.4	15.1	199.8	182.7	6.1
Primary balance	-19.5	110.5	--	117.7	204.2	-44.1

Source: Ministry of Finance

Impact from COVID-19 on public finances in April. The main effects were more clearly seen in revenues, plunging 19.0% y/y in real terms in the month. Inside, oil related income fell 73.8%, resenting the strong decline in export prices, which actually traded in negative territory on April 20th. Nevertheless, tax revenues also sharply fell (-15.3%), affected by the slowdown in economic activity. Meanwhile, spending increased 9.3%, with an important increase in the administrative branches (+16.0%). In particular, we highlight triple digit increases in the Ministry of Economy (197.6%) and the Ministry of Labor (196.1%), which is probably related to measures to fight the effects of COVID-19. In this context, we expect to see similar results, at least in terms of revenues, in May, possibly extending to June, impacted by social distancing measures and still weak oil prices.

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at \$12.1 trillion (~US\$495.6 billion), equivalent to 49.6% of GDP. Out of these, \$7.1 trillion amount to domestic debt (58.7% of the amount outstanding), with the external component at US\$204.8 billion (\$5.0 trillion; 41.3% of the total). Net public-sector debt amounted to \$12.4 trillion (~US\$506.8 billion). Inside, net domestic debt reached \$7.3 trillion, while net foreign debt climbed to US\$209.0 billion (equivalent to \$5.1 trillion).

Historic Balance of the Public Sector Borrowing Requirements
% of GDP



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

Analyst Certification

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Luis Leopoldo López Salinas, Jorge Antonio Izquierdo Lobato, Eridani Ruibal Ortega and Leslie Thalia Orozco Vélez, 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
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	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.
Research and Strategy

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

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
Victor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
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 Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
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
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
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
Victor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454