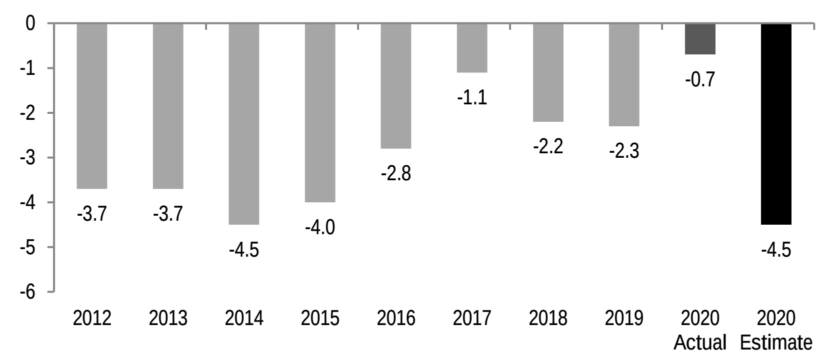
Public finance report – $180.7 billion deficit in the PSBRs until May

- **The Ministry of Finance (MoF) released its public finance report for May 2020**
- **Public sector borrowing requirements (Jan-May): $180.7bn deficit (~US$8.1bn; -0.7% of GDP)**
- **Public balance (Jan-May): $148.2bn deficit (~US$6.6bn; -0.6% of GDP)**
- **Primary balance (Jan-May): $43.7bn surplus (~US$2.0bn; 0.2% of GDP)**
- **In the period, budget revenues fell 3.1% y/y in real terms, with a strong contraction in oil (-47.3%) and a slight increase in non-oil (+5.1%)**
- **Expenses edged-up 4.6% y/y in real terms, partly explained by the 20.7% advance in administrative branches. On the contrary, spending by CFE (-20.7%) and ISSSTE (-1.7%) fell the most**
- **In the specific dynamics for May we saw a 23.1% y/y contraction in revenues in real terms, while spending also fell 5.2%**
- **The *Historic Balance of Public Sector Borrowing Requirements* stood at $11.8 trillion (~US$526.3bn), equivalent to 48.3% of GDP. It should be noted that 60.7% corresponds to domestic debt**

PSBRs post a $180.7 billion deficit in the first five months of 2020. The Ministry of Finance released its public finance report for May, in which we highlight the $180.7 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance[1]–, equivalent to 0.7% of GDP. This figure was weaker than the $79.5 billion surplus observed in the same period of 2019. On the contrary, the "traditional" public balance posted a $148.2 billion deficit, $5.3 billion below expectations, explained by lower revenues. In addition, the primary surplus stood at $43.7 billion, equivalent to 0.2% of GDP and worse relative to the +$75.5 billion forecasted balance.

Public Sector Borrowing Requirements
% of GDP



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

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

Total revenues down 3.1% y/y in real terms. According to the MoF, revenues totaled $2,196.1 billion, $120.5 billion lower than projected. Oil-related income came in at $186.0 billion, representing a 47.3% decrease in real terms relative to the same period of 2019. Moreover, tax revenues amounted to $1,499.4 billion, undershooting projections by $25.9 billion. Nevertheless, the latter translates into a 2.1% y/y increase in real terms. Inside, income tax collection expanded by 1.2%, while VAT revenues posted a better performance at +4.6%. Excise-tax collection fell 1.9%, despite upward revisions on tariffs of some goods. Revenues from government-controlled entities (IMSS and ISSSTE) increased 1.8%, while those of CFE posted a 2.1% contraction. Finally, non-oil, non-tax revenues surged 63.3%, amounting to $173.2 billion. It should be noted that, within this category, transfers from funds and trusts are being accounted for, boosting the total amount.

Budget spending up 4.6% y/y. Total spending amounted to $2,371.3 billion, $88.4 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 4.8%, while financial costs edged-up 2.7%. Within the former, the programmable component increased 5.8%, amounting to $1,737.7 billion. Main increases within this category were in administrative (+20.7%) and autonomous branches (+10.1%). In the former, we highlight the 1,028.5% increase in the Ministry of Economy as well as the 313.4% expansion in the Ministry of Tourism. On the flip side, the biggest decline was in the Energy Regulatory Commission (-29.5%). Meanwhile, in the latter we highlight the advance in INEGI, up 118.7% –remembering that the Census was carried out this year– and the 19.8% decrease in the General Attorney's Office. On the contrary, we highlight the spending contraction in CFE (-20.7%) and ISSSTE (-1.7%). Meanwhile, non-programmable spending excluding debt financial costs grew 1.0%, stemming from the 71.6% rise in ADEFAS, while participations –transfers to states under the federal tax collection agreement– fell 0.7%.

Public finance: May 2020
$ billion

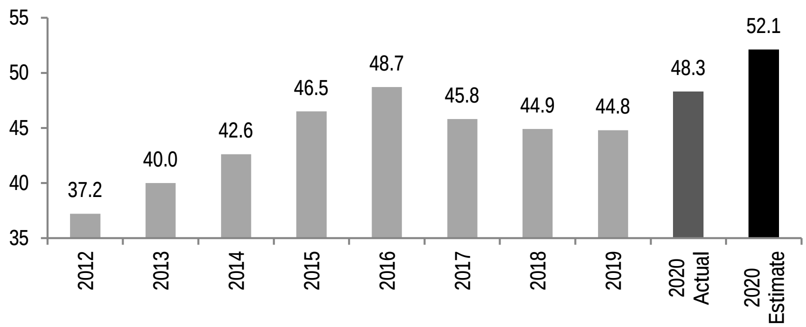
	May			January-May		
	2020	2019	% y/y real terms	2020	2019	% y/y real terms
Public Balance	-74.3	-5.7	--	-148.2	32.4	--
ex. Pemex and CFE investments	NA	NA	NA	*120.5*	*257.6*	*-54.6*
Balance of entities under indirect budgetary control	12.7	5.6	121.3	27.0	32.6	-19.6
Revenues	326.9	413.1	-23.1	2,196.1	2,199.4	-3.1
Oil	28.3	79.3	-65.3	186.0	342.7	-47.3
Non-oil	298.5	333.8	-13.0	2,010.1	1,856.8	5.1
Tax collection	221.6	252.3	-14.6	1,499.4	1,425.8	2.1
Other	15.6	14.4	5.2	173.2	102.9	63.3
Government controlled entities	33.2	33.9	-4.8	176.3	168.1	1.8
CFE	28.1	33.2	-17.6	161.3	159.9	-2.1
Spending	413.8	424.4	-5.2	2,371.3	2,199.7	4.6
Primary spending	400.0	405.1	NA	2,157.6	1,997.7	4.8
Programmable spending	335.4	324.5	0.5	1,737.7	1,594.1	5.8
Non-programmable spending	64.6	80.6	NA	419.9	403.6	1.0
Financial costs	13.9	19.2	-29.8	213.7	201.9	2.7
Primary balance	-74.0	13.1	--	43.7	217.3	-80.5

Source: Ministry of Finance

Impact from COVID-19 on public finances in May. The main effects were more clearly seen in revenues, plunging 23.1% y/y in real terms in the month. Inside, oil related income fell 65.3%, improving relative to the previous month on higher prices, albeit with lower volumes. Nevertheless, tax revenues also decreased sharply (-14.6%), affected by the slowdown in economic activity. In particular, VAT and excise tax collection decreased by 36.5% and 26.7%, respectively. Nevertheless, income tax revenues managed to stay positive at +2.2%. Meanwhile, spending declined 5.2%, which we believe is a result of additional austerity measures implemented by the administration. In this sense, we saw a decrease of 0.1% in administrative branches. Inside, we highlight the 4,252.7% increase in spending of the Ministry of Economy, which is probably related to the unsecured loan programs under its watch. On the contrary, the Ministry of Welfare showed a decline of 87.0%, remembering that pensions for the elderly, which are a responsibility of this branch, were front-loaded in the previous month.

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at $11.8 trillion (~US$526.3 billion), equivalent to 48.3% of GDP. Out of these, $7.1 trillion amount to domestic debt (60.7% of the amount outstanding), with the external component at US$206.8 billion ($4.6 trillion; 39.3% of the total). Net public-sector debt amounted to $12.0 trillion (~US$538.7 billion). Inside, net domestic debt reached $7.3 trillion, while net foreign debt climbed to US$210.8 billion (equivalent to $4.7 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, 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, Eridani Ruibal Ortega and Juan Barbier Arizmendi, 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.

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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
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Juan Barbier Arizmendi	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746
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.ceballos@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
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454