Fiscal Stability Monitor

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@analisis_fundam

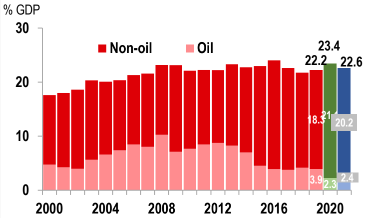
Delia Paredes
Executive Director of Economic Studies
delia.paredesl@banorte.com

- **Fiscal sustainability is one of the main fundamentals for macroeconomic stability of a country. This has been the case of the Mexican economy for at least the last 20 years**
- **The Mexican government is required by law to maintain a balanced budget. In this context, the definition of public sector balance excludes investment of the government in Pemex and CFE, mainly, which is, in turn, accounted for in the *Public Sector Borrowing Requirements***
- **In addition, stabilization funds were created in order to apply countercyclical fiscal policy when needed**
- **In its latest report to Congress (June 2020[1]), the Ministry of Finance (MoF) made some adjustments to its macroeconomic estimates on the back of the expected impact of the contingency measures taken as a result of the COVID-19:**
- **Real GDP is expected to decline 7.4%y/y;**
- **FX is expected to average USD/MXN22.1 in 2020; and**
- **The price of the Mexican mix of oil is expected at US$34.4pb, while output at 1,744mbd**

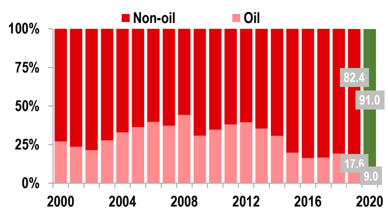
Document destined for the general public

Historical series | Year to date | Target in CGPE*

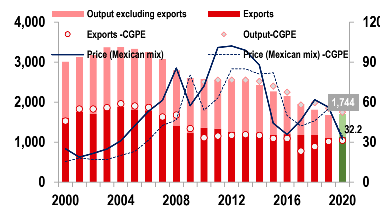
Budget Revenues
% GDP



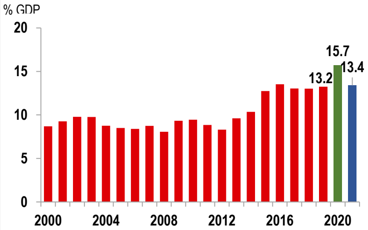
Composition of budget revenues
% total



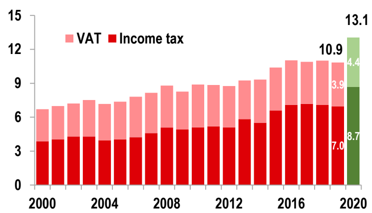
Output, exports & oil prices
mbd (lhs), dpb (rhs)



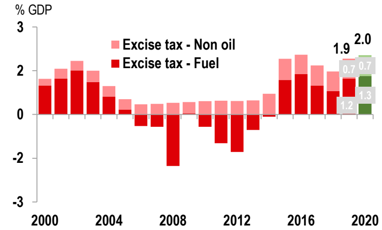
Non-oil tax revenues
% GDP



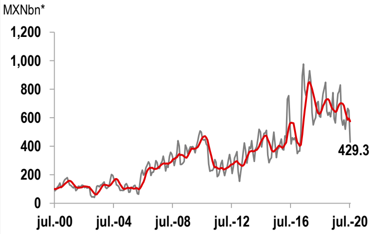
Tax revenues - Income tax & VAT
% GDP



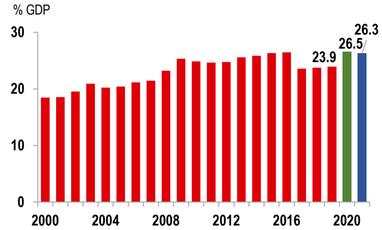
Tax revenues - Excise taxes
% GDP



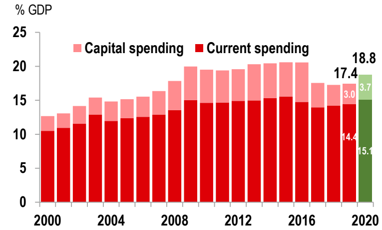
Federal government current account at Banxico
MXNbn*



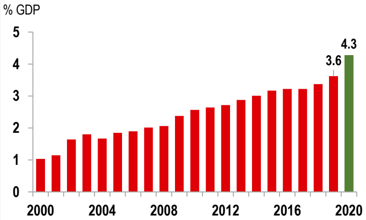
Net budget spending
% GDP



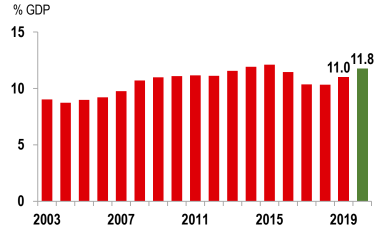
Programmable spending
% GDP



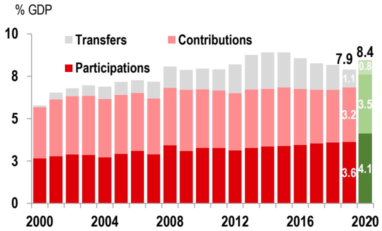
Pensions
% GDP



Social spending
% GDP



Federal spending
% GDP



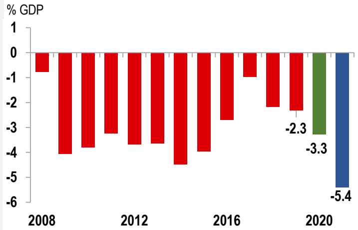
Source: Banorte with data from MoF and INEGI. Data according to availability. *Estimates for 2020 and 2021: General Economic Policy Guidelines 2020 and 2021 preliminary document
1/ https://www.finanzaspublicas.hacienda.gob.mx/work/models/Finanzas_Publicas/docs/congreso/infotrim/2020/iit/01inf/itindc_202002.PDF

Public sector debt

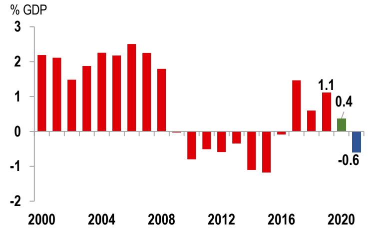
- **In line with the abovementioned changes in macroeconomic variables, the MoF considers that the *Public Sector Borrowing Requirements* (PSBR) will reach 5.4% of GDP vs. the 2.6% originally estimated**
- **With these numbers, the *Historical Balance of Public Sector Borrowing Requirements* (PSBR) would represent 55.4% of GDP in 2020 vs. the 45.6% of GDP estimated previously, on the back of a wider deficit, FX depreciation and lower dynamism of economic activity**
- **In addition, primary balance is expected to show a deficit of 0.6% of GDP -vs. the 0.7% surplus initially estimated-, as a result of the measures taken to face the economic and health consequences of the COVID-19 pandemics, according to the MoF document**
- **Meanwhile, the *Oil Stabilization Fund* (FEIP) along with the recovery of other assests will allow higher than expected non-tax revenues**
- **Nevertheless, the *Stabilization Fund for Revenues of the Federal Entities* (FEIEF) will offset for the shortfall in the payments of transfers to states and municipalities**

Historical series | Year to date | Target in CGPE*

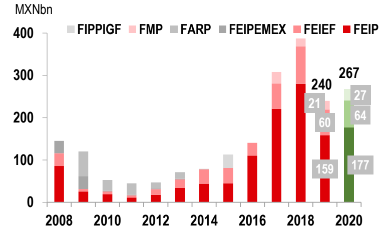
Public deficit (PSBR)
% GDP



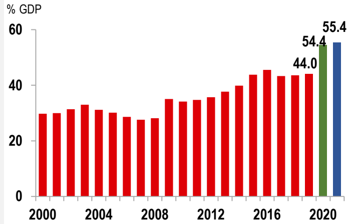
Primary balance
% GDP



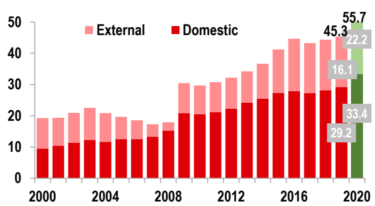
Stabilization funds
MXNbn



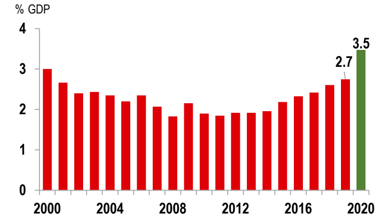
Total Public Sector Debt (HBPSBR)
% GDP



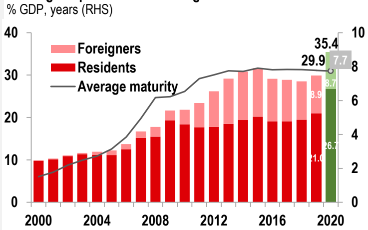
Net Public Sector Debt
% GDP



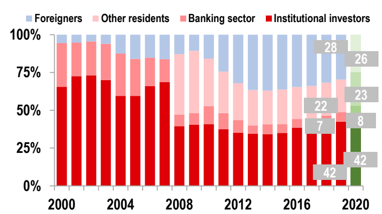
Financial costs
% GDP



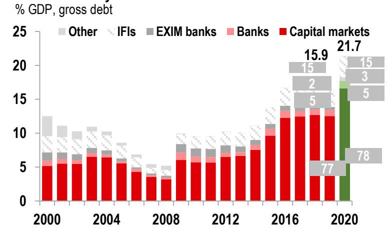
Holdings of peso-denominated government instruments
% GDP, years (RHS)



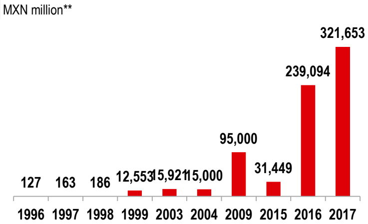
Composition of holdings of government instruments
% total



External debt by source
% GDP, gross debt



Banxico operation surplus
MXN million**



General Economic Policy Guidelines

	2020	2021
Gross Domestic Product		
Growth range (% real)	-7.4**	[1.5 , 3.5]
Nominal (MXNbn)	24,360	25,768
GDP deflator (% y/y)	**3.5**	**3.2**
Inflation (% y/y, end-period)	**3.5**	**3.2**
FX (USD/MXN)		
End-period	22.9	21.4
Average	22.1**	21.3
Interest rate (28-day Cetes, %)		
End-period	5.8	5.8
Average	6.2	5.8
Current account		
US$million	-8,928	-16,339
%GDP	-0.8	-1.4
Fiscal balance (%GDP)		
w/capital investments	-4.3**	-3.5
ex capital investments	-1.7**	-1.5
US variables		
GDP growth (% y/y)	-2.0	2.4
Industrial output (% y/y)	-2.2	2.1
Inflation (% y/y, average)	1.4	1.8
International interest rates		
Libor (3-month)	0.8	0.6
Fed Funds (average)	0.2	0.3
Crude oil (Mexican basket)		
Price (dpb, average)	34.4**	30.0
Crude output (mbd)	1,744**	2,027
Exports (mbd)	1,075	776
Natural output (average, US$/MTBU)	2.0	2.4

Budget sensitivity 2021	% GDP
(1) Sensitivity of revenues to 50mbd change in crude oil output	0.04
(2) Sensitivity of revenues to a US$1 change in oil prices	0.05
(3) Sensitivity in tax collection to a 1%-pts change in economic growth	0.06
(4) Sentitivity of financial costs to a 100bps change in interest rates	0.09
(5) Sensitivity from a 20 cent appreciation of the FX	-0.02
Oil revenues	-0.02
Financial costs	0.00
(6) Sensitivity of financial costs to a 100bps change in inflation	0.00

Budget process - Relevant dates

Event	Date
Preliminary budget guidelines	1-Apr
Programatic structure of the budget	30-Jun
Economic guidelines and budget (LIF, PEF & CGPE)	8-Sep
Lower House deadline to approve the Revenue Law	20-Oct
Senate deadline to approve the Revenue Law	31-Oct
Lower House deadline to approve the Spending Budget	15-Nov

Source: Banorte with data from MoF and INEGI. Data according to availability. *Estimates for 2020 and 2021: General Economic Policy Guidelines 2020 and 2021 preliminary document
**Data as per last Public Finance Report to Congress

Making sense of fiscal numbers…

Budget Revenues

- **Public sector revenues (22.2% of GDP in 2019), could be classified in oil revenues (3.9%) and non-oil (18.3%).**
- **In turn, each of these items can be subdivided into revenues from the federal government (16.5% of GDP) and those of other public companies (5.7%), in the case of oil revenues, from Pemex (2.2%).**
- **Federal Government non-oil revenues (14.7% of GDP), include tax collection (13.2%) which comprises, among others, income taxes (ISR: 7%); as well as value added taxes (VAT: 3.9%); along with, excise taxes (IEPS: 1.9%).**
- **Excise taxes are divided in those charged for the sales and imports of alcoholic beverages, beer, sodas, and other beverages as well as of tobacco (non-oil IEPS: 0.7% of GDP), and those charged for the sales and imports of fuel (1.2%).**
- **Fuel excise tax is a fix tax applied to sales and imports of gasoline and fuels. The Federal Government can apply stimulus (i.e. the government decides the percentage of the fix tax that is collected), which could vary weekly, aiming to maintain consumers' purchase parity amid energy prices volatility.**

Net budgetary Expenditures

- **On the spending side, net budgetary expenditures 23.9% of GDP) -gross spending minus amortization, debt from previous fiscal exercises (ADEFAS) and other amounts of approved spending not exercised-, could be classified as programmable (17.5%) -spending directed to government operations-, and non-programmable (6.4%), used for the fulfillment of obligations and other spending determined by Law, such as public debt, transfers to states and municipalities, among others, which implies that it is not aimed to finance Federal Government current operations.**
- **A particular item within programmable spending is the amount destined to pensions (3.6% of GDP in 2019), which has been trending upward for some years now.**
- **Public spending could also be classified according to the purpose it serves. Within this dimension, social spending (11%), is destined to finance the government's social development goals (health, education, etc.).**
- **Federalized spending (7.9% of GDP) are the resources transfered by the Federal Government to states and municipalities through: participations (3.6%), contributions (3.2%), and other transfers (1.1%).**

Public sector balance

- **The difference between budgetary revenues (22.2% of GDP) and net budgetary spending (23.9% of GDP) is knowns as the traditional public balance (-1.7% of GDP).**
- **Primary balance represents 1.1% of GDP and it is defined as budget revenues (22.2%) minus net budget spending (23.9%), excluding financial costs (2.7%).**
- **When financial requirements from Pidiregas (contingent liabilities from certain infrastructure projects), IPAB (*Instituto para la Protección del Ahorro Bancario*), other debt programs, development banks, etc, are added, we obtain a wider definition of the balance of the public sector known as *Public Sector Borrowing Requirements* (PSBR: -2.3%).**

Net public sector debt

- **Net public sector debt are the public sector commitments (45.3% of GDP in 2019), net of financial assets, such as stabilization funds.**
- **According to the currency in which the instruments are denominated, debt is classified as domestic (29.2% of GDP), when the debt is denominated in local currency and paid to residents; or external (16.1% of GDP) in the case of debt denominated in a currency different to the Mexican peso to non-residents.**
- **The most comprehensive measure of public sector debt is the *Historical Balance of Public Sector Government Requirements* (HBPSBR): 44% of GDP in 2019, which includes public sector net debt, along with net financial requirements from IPAB, Pidiregas, other government debt programs, etc.**

Stabilization Funds

FEIP - Budgetary revenues stabilization fund (*Fondo de Estabilización de Ingresos Presupuestales*)

FEIEF - Federal States Governments' revenues stabilization fund (*Fondo de Estabilización de Ingresos de Entidades Federativas*)

FMP - Mexican Crude Oil Fund (*Fondo Mexicano del Petróleo*)

FEIPEMEX - Pemex revenues stabilization funds (*Fondo de Estabilización de Ingresos de Pemex*)

FARP - Pension restructuring support fund (*Fondo de Apoyo para la Reestructura de Pensiones*)

FIPPIGF - Federal Government progams and infrastructure projects stabilization fund (*Fondo de Inversiones para Programas y Proyectos de Infraestrutura del Gobierno Federal*)

Certification of Analysts.

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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	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.*

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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