Public finance report – $495.8 billion PSBR-deficit up to July

- **The Ministry of Finance (MoF) released its public finance report for July 2020**
- **Public sector borrowing requirements (Jan-Jul): $495.8bn deficit (~US$22.5bn; -2.1% of GDP)**
- **Public balance (Jan-Jul): $414.6bn deficit (~US$18.9bn; -1.8% of GDP)**
- **Primary balance (Jan-Jun): $9.8bn deficit (~US$447.6mn; -0.0% of GDP)**
- **Year-to-date, budget revenues fell 4.7% y/y in real terms, with a strong contraction in oil (-39.2%) and a slight increase in non-oil (+1.8%)**
- **Expenses edged-up 2.4% y/y in real terms, partly explained by the 14.8% advance in administrative branches. On the contrary, spending by CFE fell by -16.9%**
- **In the specific dynamics for July, we saw a 10.7% y/y contraction in revenues in real terms, while spending grew 3.8%**
- **The *Historic Balance of Public Sector Borrowing Requirements* stood at $12.0 trillion (~US$546.8bn), equivalent to 51.9% of GDP. It should be noted that 60.6% corresponds to domestic debt**

August 31, 2020

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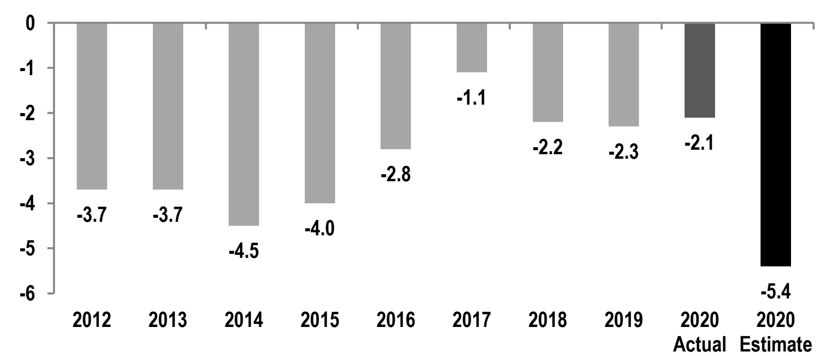
PSBRs post a $495.8 billion deficit in the first seven months of 2020. The Ministry of Finance released its public finance report for July, in which we highlight the $495.8 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance[1]–, equivalent to 2.1% of GDP. Meanwhile, the "traditional" public balance posted a $414.6 billion deficit, $27.3 billion below expectations, explained by lower revenues, although partially offset by less spending. Finally, the primary surplus stood at a $9.8 billion deficit, worse relative to the +$39.7 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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Total revenues down 4.7% y/y in real terms. According to the MoF, revenues totaled $2,998.2 billion in the first seven months of the year, $236.6 billion lower than projected. Oil-related income came in at $302.2 billion, representing a 39.2% decrease in real terms relative to the same period of 2019. Moreover, tax revenues amounted to $2,004.2 billion, undershooting projections by $104.9 billion. The latter translates into a 0.8% y/y decline in real terms. Inside, income tax collection expanded by 1.2%, which we believe was aided by extraordinary collections from corporates, while VAT revenues posted a worse performance at -3.7%. Excise-tax collection fell 3.5%. Revenues from government-controlled entities (IMSS and ISSSTE) came in at $254.1 billion, a 2.3% increase, while those of CFE fell 7.6% at $221.6 billion. Finally, non-oil, non-tax revenues surged 53.8%, amounting to $216.2 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 2.4% y/y. Total spending amounted to $3,438.6 billion, $183.8 billion below budget. This is explained mainly by lower primary spending Nevertheless, in the yearly comparison, these advanced 2.4%, while financial costs (also known as debt servicing costs) edged-up 2.3%. Within the former, the programmable component increased 4.8%, amounting to $2,478.9 billion. Main increases within this category were in administrative branches (+14.8%) and IMSS (+8.6%). In the former, we highlight the 337.5% increase in the Ministry of Economy as well as the 289.7% expansion in the Ministry of Tourism. On the flip side, the biggest decline was in the National Hydrocarbon Commission (-34.9%). On the contrary, we note the spending contraction in CFE (-16.9%) and marginal advance in ISSSTE (0.6%). Non-programmable spending excluding debt financial costs fell 7.6% to $537.5 billion, stemming from the 9.0% decline in participations –transfers to states under the federal tax collection agreement–, and despite the 66.4% rise in ADEFAS.

Public finance: July 2020
$ billion

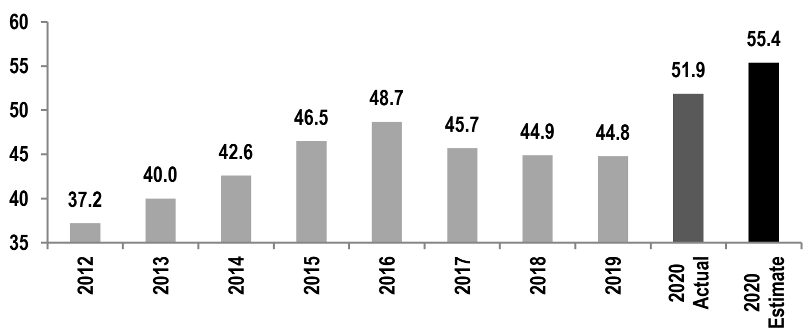
	July			January-July		
	2020	2019	% y/y real terms	2020	2019	% y/y real terms
Public Balance	**-121.4**	**-33.2**	**--**	**-414.6**	**-153.1**	**--**
ex. Pemex and CFE investments	NA	NA	NA	*-43.9*	*168.4*	--
Balance of entities under indirect budgetary control	**-0.1**	**19.7**	**--**	**25.8**	**53.2**	**-53.1**
Revenues	**395.2**	**427.2**	**-10.7**	**2,998.2**	**3,049.7**	**-4.7**
Oil	52.4	69.5	-27.3	302.2	482.1	-39.2
Non-oil	342.8	357.8	-7.5	2,696.0	2,567.6	1.8
Tax collection	255.4	264.2	-6.7	2,004.2	1,958.2	-0.8
Other	21.6	22.0	-5.2	216.2	136.2	53.8
Government controlled entities	34.7	34.3	-2.6	254.1	240.7	2.3
CFE	31.2	37.3	-19.4	221.6	232.5	-7.6
Spending	**516.5**	**480.1**	**3.8**	**3,438.6**	**3,256.0**	**2.4**
Primary spending	469.0	442.1	NA	3,016.4	2,856.1	2.4
Programmable spending	405.3	366.5	6.7	2,478.9	2,292.4	4.8
Non-programmable spending	63.7	75.6	NA	537.5	563.7	-7.6
Financial costs	47.5	38.0	20.6	422.2	399.9	2.3
Primary balance	**-71.2**	**-11.5**	**498.9**	**-9.8**	**215.8**	**--**

Source: Ministry of Finance

Revenues fall once again in July, with a slight increase in spending. In the month, total revenues fell 10.7% y/y in real terms, worsening relative to June's figures. Inside, oil-related income fell 27.3%, impacted by lower volumes. Nevertheless, tax revenues improved (-6.7%), possibly aided by the restart of economic activity. Specifically, VAT and excise tax collection decreased by 19.5% and 0.7%, respectively. However, income tax revenues managed to stay positive at 0.8%. Meanwhile, spending grew 3.8%, which could be related to the beginning of the use of different stabilization funds, on top of additional spending related to the pandemic. Programmable spending rose 6.7%, with a 25.0% increase in administrative branches, while autonomous branches were at -6.2%. Within non-programmable spending, participations decreased 18.7%.

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at $12.0 trillion (~US$546.8 billion), equivalent to 51.9% of GDP. Out of these, $7.3 trillion are domestic debt (60.6% of the total outstanding), with the external component at US$215.5 billion ($4.7 trillion; 39.4% of the total). Net public-sector debt amounted to $12.2 trillion (~US$556.6 billion). Inside, net domestic debt reached $7.4 trillion, while net foreign debt climbed to US$219.3 billion (equivalent to $4.8 trillion).

Historic Balance of the Public Sector Borrowing Requirements
% of GDP



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

Austerity measures continue to be deployed, impacting several ministries. As part of additional efforts to trim public spending announced in April, the President announced that 10 departments among different ministries would disappear. In recent days we had additional information on seven, as outlined in the table below. According to several reports, since mid-August, representatives from the MoF have met with the respective Ministers to address details of the changes.

Departments eliminated as a result of austerity measures

Ministry	Departments
Tourism	Tourism Policy
Labor	Employment and Labor Productivity
Communications and Transportations	Development of Technology and Communications
Environment and Natural Resources	Management for Environmental Protection
Foreign Relations	North America
Finance	Revenues*
Gobernación	Government

*Note: This position has not been filled since the start of the administration
Source: La Jornada, Milenio, Ministry of Finance

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