Fiscal Stability Monitor

September 11, 2020

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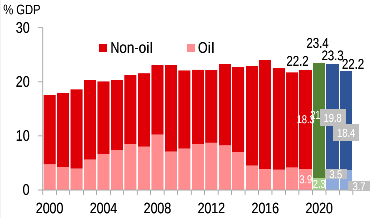
Document destined for the general public

- **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 the recently released budget proposal for 2021, the Ministry of Finance (MoF) presented its *General Economic Policy Guidelines* for the approval of next year's budget (for more information see the note of our Economic Analysis team: *"Budget Proposal 2021 -Austere and optimistic"* <here>):**
  1) **Real GDP is expected to decline 8%y/y in 2020, to increase 4.6% next year;**
  2) **FX is expected to average USD/MXN 22.0 in 2020 and USD/MXN22.1 in 2021; and**
  3) **The Mexican mix of oil is expected at 42dpb next year with output increasing from 1.7Mbd to 1.9Mbd, among others**

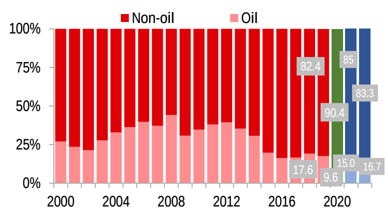
Historical series   Year to date   Target in CGPE*

Budget Revenues
% GDP

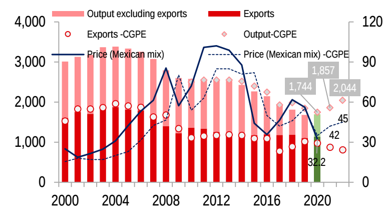


0.9061224

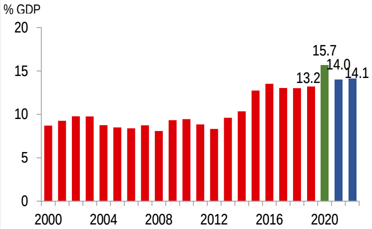
Composition of budget revenues
% total



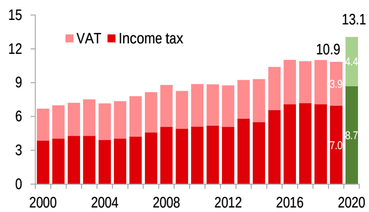
Output, exports & oil prices
mbd (lhs), dpb (rhs)



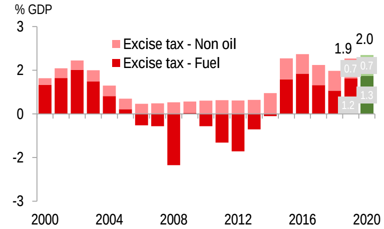
Non-oil tax revenues
% GDP



Tax revenues - Income tax & VAT
% GDP



Tax revenues - Excise taxes
% GDP



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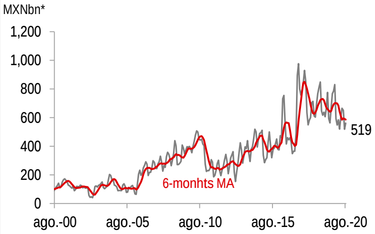
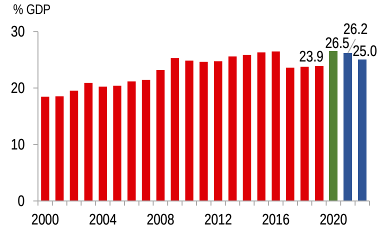
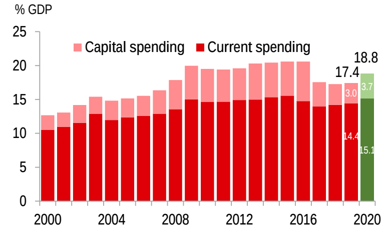
Federal government current account at Banxico
MXNbn*



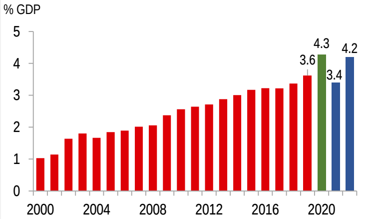
Net budget spending
% GDP



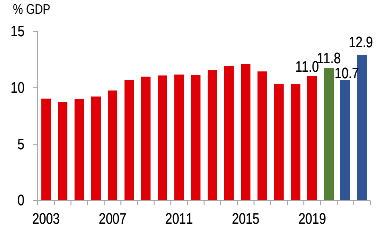
Programmable spending
% GDP



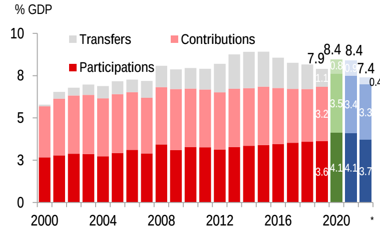
Pensions
% GDP



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 2021

Public sector debt

- **In line with the abovementioned macroeconomic variables, the MoF considers that the *Public Sector Borrowing Requirements* (PSBR) will reach 4.7% of GDP in 2020 while for next year they see them at 3.4% of GDP**

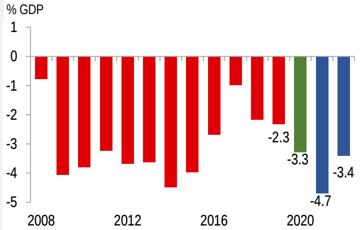
- **With these numbers, the *Historical Balance of Public Sector Borrowing Requirements* (HBPSBR) would represent 54.7% of GDP in 2020, on the back of a wider deficit and lower dynamism of economic activity, among others. Meanwhile, for 2021 the MoF contemplates HBPSBR of 53.7% of GDP**

- **In addition, primary balance is expected to show a 0.2% surplus of GDP down to 0.0% next year, according to the MoF document**

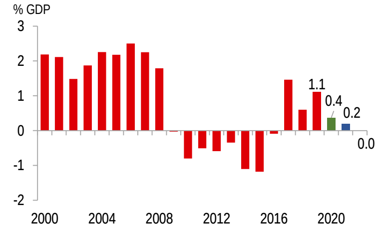
- **Meanwhile, it is very likely that Banxico will generate an operational surplus that will eventually offset any shortfall in revenues**

■ Historical series ■ Year to date ■ Target in CGPE*

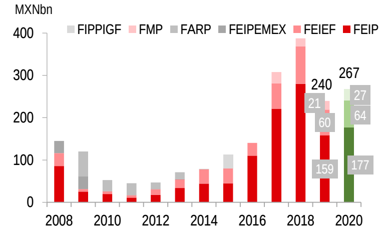
Public deficit (PSBR)
% GDP



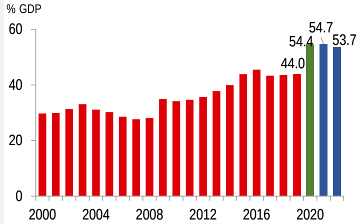
Primary balance
% GDP



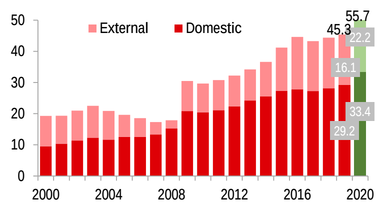
Stabilization funds
MXNbn



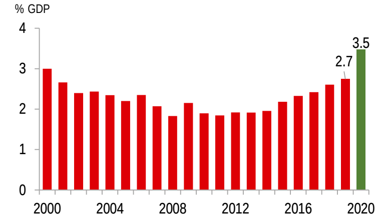
Total Public Sector Debt (HBPSBR)
% GDP



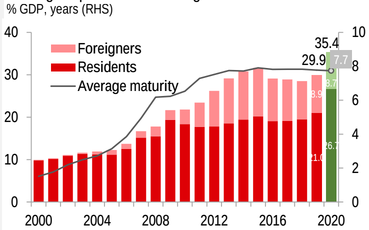
Net Public Sector Debt
% GDP



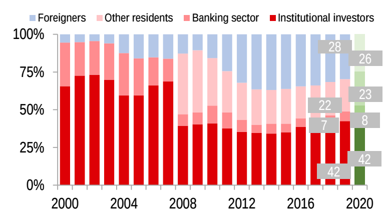
Financial costs
% GDP



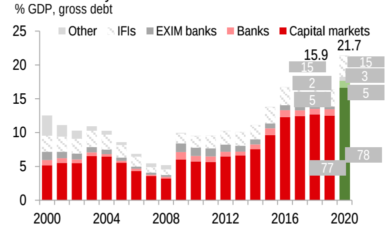
Holdings of peso-denominated government instruments
% GDP, years (RHS)



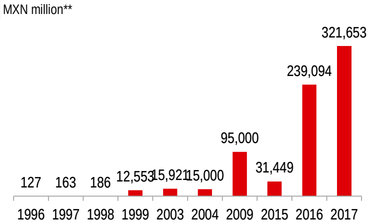
Composition of holdings of government instruments
% total



External debt by source
% GDP, gross debt



Transfers of Banxico's operation surplus
MXN million**



General Economic Policy Guidelines

	2020	2021
Gross Domestic Product		
Growth range (% real)	[-10.0 , -7.0]	[3.6 , 5.6]
Nominal (MXNbn)	23,094	24,984
GDP deflator (% y/y)	3.6	3.4
Inflation (% y/y, end-period)	3.5	3.0
FX (USD/MXN)		
End-period	22.3	21.9
Average	22.0	22.1
Interest rate (28-day Cetes, %)		
End-period	4.0	4.0
Average	5.3	4.0
Current account		
US$million	-6,739.0	-22,842.0
%GDP	-0.6	-2.0
Fiscal balance (%GDP)		
w/capital investments	-4.7	-3.4
ex capital investments	-2.9	-2.9
US variables		
GDP growth (% y/y)	-5.0	3.8
Industrial output (% y/y)	-8.4	3.4
Inflation (% y/y, average)	1.4	2.0
International interest rates		
Libor (3-month)	0.3	0.3
Fed Funds (average)	0.1	0.1
Crude oil (Mexican basket)		
Price (dpb, average)	34.6	42.1
Crude output (mbd)	1,744.0	1,857.0
Exports (mbd)	973.0	870.0
Natural output (average, US$/MTBU)	2.0	2.7

Budget sensitivity 2021

	% GDP
(1) Sensitivity of revenues to 50mbd change in crude oil output	0.06
(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	0.08
(5) Sensitivity from a 20 cent appreciation of the FX	-0.01
Oil revenues	-0.01
Financial costs	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 2021
**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 in 2019) -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 in 2019) and net budgetary spending (23.9% of GDP) is known 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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