

Public finance report – \$487.9 billion PSBR-deficit up to August

October 1, 2020

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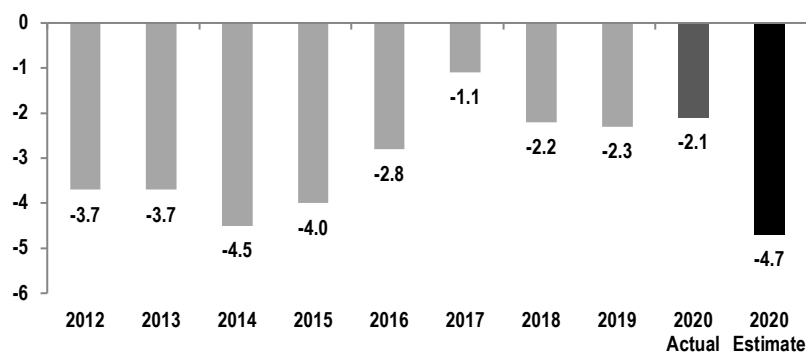
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- The Ministry of Finance (MoF) released its public finance report for August 2020
- Public sector borrowing requirements (Jan-Aug): \$487.9bn deficit (~US\$22.1bn; -2.1% of GDP)
- Public balance (Jan-Aug): \$275.0bn deficit (~US\$12.4bn; -1.2% of GDP)
- Primary balance (Jan-Aug): \$155.3bn surplus (~US\$7.0bn; 0.7% of GDP)
- Year-to-date, budget revenues fell 2.3% y/y in real terms, with a strong contraction in oil (-38.0%) and a slight increase in non-oil (+4.3%)
- Expenses were up 0.9% y/y in real terms, partly on the +11.8% in administrative branches. On the contrary, spending by CFE fell -20.0%
- In the specific dynamics for August, revenues grew 14.6% y/y in real terms, in our view with a significant boost from transfers from Stabilization Funds. Spending fell 10.4%
- The *Historic Balance of Public Sector Borrowing Requirements* stood at \$12.0 trillion (~US\$544.2bn), equivalent to 52.1% of GDP. It should be noted that 60.2% corresponds to domestic debt

PSBRs post a \$487.9 billion deficit in the first eight months of 2020. The Ministry of Finance released its public finance report for August, in which we highlight the \$487.9 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance¹–, equivalent to 2.1% of GDP. Meanwhile, the “traditional” public balance posted a \$275.0 billion deficit, \$100.0 billion above expectations, explained by lower spending, although partially offset by less revenues. Finally, the primary surplus stood at a \$155.3 billion, better relative to the +\$74.1 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*



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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 down 2.3% y/y in real terms. According to the MoF, revenues totaled \$3,508.4 billion in the first eight months of the year, \$169.6 billion lower than projected. Oil-related income came in at \$348.3 billion, representing a 38.0% decrease in real terms relative to the same period of 2019. Moreover, tax revenues amounted to \$2,262.4 billion, undershooting projections by \$121.5 billion. The latter translates into a 0.5% y/y decline in real terms. Inside, income tax collection expanded by 1.1%, which we believe was aided by extraordinary collections from corporates, while VAT declined 1.8%. Excise-tax collection revenues posted a worse performance at -5.2%. Revenues from government-controlled entities (IMSS and ISSSTE) came in at \$293.5 billion, a 2.7% increase, while those of CFE fell 8.7% at \$254.3 billion. Finally, non-oil, non-tax revenues surged 83.5%, amounting to \$349.9 billion. It should be noted that transfers are being accounted within this category, including the Stabilization Fund (FEIP), boosting the total amount.

Budget spending up 0.9% y/y. Total spending reached \$3,805.8 billion, \$247.7 billion below budget. This is explained mainly by lower primary spending. Nevertheless, in the yearly comparison, these advanced 0.9%, while financial costs (also known as debt servicing costs) edged-up 1.0%. Within the former, the programmable component increased 3.3%, amounting to \$2,765.2 billion. Main increases within this category were in administrative branches (+11.8%) and IMSS (+8.1%). In the former, we highlight the 315.1% increase in the Ministry of Economy as well as the 293.9% expansion in the Ministry of Tourism. On the flip side, the biggest decline was in the Urban and Agrarian Development Ministry (-37.2%). On the contrary, we note the spending contraction in CFE (-20.0%) and marginal advance in ISSSTE (1.3%). Non-programmable spending excluding debt financial costs fell 8.8% to \$598.0 billion, stemming from the 9.8% decline in participations –transfers to states under the federal tax collection agreement–, and despite the 54.4% rise in ADEFAS.

Public finance: August 2020

\$ billion

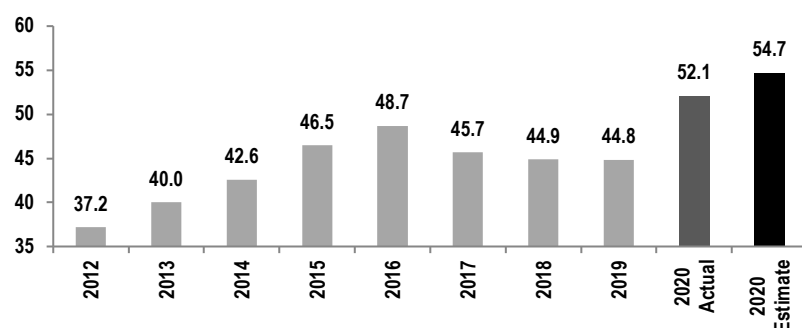
	August			January-August		
	2020	2019	% y/y real terms	2020	2019	% y/y real terms
Public Balance	139.6	35.0	283.7	-275.0	-118.1	--
<i>ex. Pemex and CFE investments</i>	NA	NA	NA	138.5	254.3	-47.2
Balance of entities under indirect budgetary control	-2.7	1.8	--	22.3	55.1	-60.7
Revenues	510.2	427.8	14.6	3,508.4	3,477.6	-2.3
Oil	46.2	61.7	-28.1	348.3	543.8	-38.0
Non-oil	464.1	366.1	21.8	3,160.1	2,933.8	4.3
Tax collection	258.3	244.4	1.6	2,262.4	2,202.6	-0.5
Other	133.7	48.4	165.5	349.9	184.7	83.5
Government controlled entities	39.4	36.0	5.0	293.5	276.7	2.7
CFE	32.7	37.3	-15.8	254.3	269.8	-8.7
Spending	367.9	394.7	-10.4	3,805.8	3,650.7	0.9
Primary spending	347.5	370.5	NA	3,363.3	3,226.6	0.9
Programmable spending	285.7	299.2	-8.2	2,765.2	2,591.6	3.3
Non-programmable spending	61.8	71.3	NA	598.0	635.0	-8.8
Financial costs	20.3	24.2	-19.2	442.5	424.1	1.0
Primary balance	164.4	59.1	167.3	155.3	274.9	-45.3

Source: Ministry of Finance

Revenues rise strongly in August, with a decrease in spending. In the month, total revenues increased 14.6% y/y in real terms. Inside, oil-related income fell 28.1%, impacted by lower volumes. Nevertheless, tax revenues improved significantly, back to positive territory (+1.6%), possibly aided by the restart of economic activity as well as additional tax collection strategies. Specifically, VAT and income tax collection increased by 14.2% and 0.2%, respectively. However, excise tax revenues declined 15.3%. More importantly, non-tax revenues shot up 165.5%, which we believe is associated with transfers from the Stabilization Fund. Nevertheless, we will need to see final figures for the quarter to corroborate this. Meanwhile, spending fell 10.4%, which is probably related to austerity measures implemented by the Federal Government. Programmable spending declined 8.2%, with a 15.4% fall in administrative branches, while autonomous branches stood at +1.6%. Within non-programmable spending, participations decreased 16.0%.

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at \$12.0 trillion (~US\$544.2 billion), equivalent to 52.1% of GDP. Out of these, \$7.2 trillion are domestic debt (60.2% of the total outstanding), with the external component at US\$216.5 billion (\$4.8 trillion; 39.8% of the total). Net public-sector debt amounted to \$12.2 trillion (~US\$550.1 billion). Inside, net domestic debt reached \$7.3 trillion, while net foreign debt climbed to US\$220.4 billion (equivalent to \$4.9 trillion).

Historic Balance of the Public Sector Borrowing Requirements
% of GDP



Source: Ministry of Finance

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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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