Public finance report – $542.1 billion PSBR-deficit up to September

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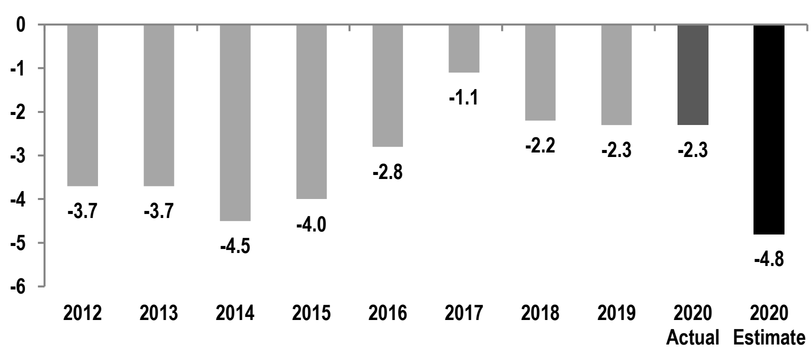
- **The Ministry of Finance (MoF) released its public finance report for September 2020**
- **Public sector borrowing requirements (Jan-Sep): $542.1bn deficit (~US$24.1bn; 2.3% of GDP)**
- **Public balance (Jan-Sep): $308.5bn deficit (~US$13.7bn; 1.3% of GDP)**
- **Primary balance (Jan-Sep): $156.7bn surplus (~US$7.0bn; 0.7% of GDP)**
- **Year-to-date, budget revenues fell 5.4% y/y in real terms, with a strong contraction in oil (-45.7%) and a slight increase in non-oil (+3.4%)**
- **Expenditures were down 2.2% y/y in real terms, partly on the -4.6% in administrative branches, while spending by CFE fell -19.0%**
- **At the end of 3Q20, the amount outstanding within the Stabilization Fund stood at $59.0 billion (~US$2.6bn; 0.3% of GDP), which implies a reduction of 62.8% relative to the levels at the end of 2019**
- **The *Historic Balance of Public Sector Borrowing Requirements* stood at $12.2 trillion (~US$541.6bn), equivalent to 52.7% of GDP. It should be noted that 60.1% corresponds to domestic debt**

PSBRs post a $542.1 billion deficit in the first nine months of 2020. The Ministry of Finance released its public finance report for September, in which we highlight the $542.1 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance[1]–, equivalent to 2.3% of GDP, as seen in the following chart. Meanwhile, the "traditional" public balance posted a $308.4 billion deficit, $109.5 billion above expectations, explained by lower spending, although partially offset by less revenues. Finally, the primary surplus stood at a $156.7 billion, better relative to the +$87.9 billion forecasted balance.

Public Sector Borrowing Requirements
% of GDP



Source: Ministry of Finance

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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 5.4% y/y in real terms. According to the MoF, revenues totaled $3,889.3 billion in the first nine months of the year, $235.8 billion lower than projected. Oil-related income came in at $397.0 billion, representing a 45.7% decrease in real terms relative to the same period of 2019. Moreover, tax revenues amounted to $2,505.1 billion, undershooting projections by $152.4 billion. The latter translates into a 0.9% y/y decline in real terms. Inside, income tax collection expanded by 0.1%, which we believe was aided by extraordinary collections from corporates, while VAT declined 2.0%. Excise-tax collection revenues posted a worse performance at -3.7%. Revenues from government-controlled entities (IMSS and ISSSTE) came in at $329.2 billion, a 2.1% increase, while those of CFE fell 10.0% at $286.4 billion. Finally, non-oil, non-tax revenues surged 76.7%, amounting to $371.7 billion. It should be noted that transfers are being accounted within this category, including the Stabilization Fund (FEIP), boosting the total amount.

Resources in Stabilization Funds decrease. The outstanding sum of the different stabilization funds at the end of 3Q20 stood at $114.7 billion (~US$5.1bn), a $125.1 billion decrease vs December 2019. Specifically, the steepest decline was in the *Stabilization Fund for Budget Revenues*, known as FEIP. This fund's resources stood at $59.0 billion at the end of September (0.3% of GDP), which translates into a 62.8% decrease relative to the balance at the end of 2019.

Stabilization funds
$ billion

	Sep-20	Dec-19	Difference
Total	**114.7**	**239.8**	**-125.1**
Stabilization Fund for Budget Revenues	59.0	158.6	-99.5
Stabilization Fund for State Revenues	30.5	60.5	-29.9
Mexican Petroleum Fund for Stabilization and Development	25.1	20.8	4.3

Source: Ministry of Finance

Budget spending declines 2.2% y/y. Total spending reached $4,233.6 billion, $309.7 billion below budget. This is explained mainly by lower primary spending. In this context, these fell 2.6% in the yearly comparison, while financial costs (also known as debt servicing costs) edged-up 1.4%. Within the former, the programmable component declined 1.1%, amounting to $3,084.8 billion. Main declines within this category were in administrative branches (-4.6%) and CFE (-19.0%). In the former, we highlight the 61.5% contraction in the Ministry of Energy as well as the 19.7% decline in the Urban ad Agrarian Development Ministry. On the flip side, the biggest increase was in the Ministry of Economy (-295.7%). On the contrary, we note the spending expansion in IMSS (5.9%) and Pemex (11.9%). Non-programmable spending excluding debt financial costs fell 9.1% to $661.6 billion, stemming from the 9.6% decline in participations –transfers to states under the federal tax collection agreement–, and despite the 25.1% rise in ADEFAS.

Public finance: September 2020
$ billion

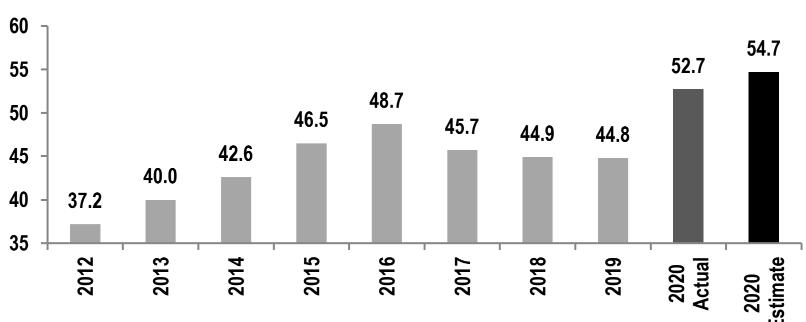
	September			January-September		
	2020	2019	% y/y real terms	2020	2019	% y/y real terms
Public Balance	**-33.4**	**-42.1**	**-23.7**	**-308.5**	**-160.2**	**86.3**
ex. Pemex and CFE investments	NA	NA	NA	*153.9*	*260.7*	*-42.9*
Balance of entities under indirect budgetary control	**13.5**	**-3.9**	**--**	**35.9**	**51.1**	**-32.1**
Revenues	**380.9**	**498.7**	**-26.6**	**3,889.3**	**3,976.3**	**-5.4**
Oil	48.6	163.5	-71.4	397.0	707.4	-45.7
Non-oil	332.2	335.1	-4.7	3,492.3	3,268.9	3.4
Tax collection	242.6	242.9	-4.0	2,505.1	2,445.5	-0.9
Other	21.8	18.9	11.0	371.7	203.6	76.7
Government controlled entities	35.6	35.3	-3.1	329.1	312.0	2.1
CFE	32.1	38.1	-18.8	286.4	307.8	-10.0
Spending	427.8	536.9	-23.4	4,233.6	4,187.6	-2.2
Primary spending	383.1	496.1	NA	3,746.4	3,722.7	-2.6
Programmable spending	319.6	427.3	-28.1	3,084.8	3,018.9	-1.1
Non-programmable spending	63.5	68.9	NA	661.6	703.8	-9.1
Financial costs	44.7	40.8	5.5	487.3	464.9	1.4
Primary balance	**1.4**	**2.9**	**-52.7**	**156.7**	**277.8**	**-45.4**

Source: Ministry of Finance

Both revenues and spending contracted significantly in September. In the month, total revenues decrease 26.6% y/y in real terms. Inside, oil-related income fell 71.4%, impacted by both lower volumes and prices. Moreover, tax revenues went back to negative (-4.0%), despite signals of additional dynamism regarding economic activity. Specifically, VAT and income tax collection fell by 3.7% and 9.0%, respectively. However, excise tax revenues shot up 10.2%. In addition, non-tax revenues increased 11.0%, with previous months reflecting more clearly inflows from the Stabilization Fund. Meanwhile, spending contracted by 23.4%, which is probably related to austerity measures implemented by the Federal Government. Programmable spending declined 28.1%, with a 63.0% fall in administrative branches, while autonomous branches stood at +4.3%. Within non-programmable spending, participations decreased 8.2%.

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at $12.2 trillion (~US$541.6 billion), equivalent to 52.7% of GDP. Out of these, $7.3 trillion are domestic debt (60.1% of the total outstanding), with the external component at US$216.3 billion ($4.9 trillion; 39.9% of the total). Net public-sector debt amounted to $12.3 trillion (~US$546.9 billion). Inside, net domestic debt reached $7.3 trillion, while net foreign debt climbed to US$219.8 billion (equivalent to $4.9 trillion).

Historic Balance of the Public Sector Borrowing Requirements
% of GDP



Source: Ministry of Finance

Slight adjustments to fiscal estimates for 2020. As part of the quarterly report, the MoF updated its estimates for the remainder of the year. In particular, main macroeconomic estimates such as GDP (-8.0% y/y), the USD/MXN exchange rate (22.0 per dollar) and the price of the Mexican oil mix (34.6 US$/bbl) were unchanged relative to the updates outlined in the *2021 Budget Proposal*. Nevertheless, the Ministry did update the forecast for both the PSBR and the primary balance. For the first, it now expects a deficit of 4.8% of GDP (previous: 4.7%), with the latter exhibiting a surplus of only 0.1% of GDP (previous: 0.2%). Finally, the HBPSBR was unchanged at 54.7% of GDP.

The conference call provided additional details about the Stabilization Fund. The call was leaded by Iván Cajeme Villarreal Camero (Chief Economist of the MoF) and José de Luna Martínez (Head of the Public Credit Unit). In particular, it was mentioned that they intend to use the remaining resources within the Stabilization Fund to cover for the additional shortfall in revenues, possibly taking it to zero or close to it by the end of the year. Within the call, they once again highlighted that tax revenues have been resilient, with relevant changes to the way they tackle tax administration being a key driver. Regarding actions by the Banking Commission and the MoF back in September, they added that results so far have been favorable. Moreover, they also stated that resources obtained from the elimination of several trust funds will not be used this year, only until 2021, with those resources already incorporated in the 2021 Budget.

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