

Public finance report – \$556.1 billion PSBR-deficit up to October

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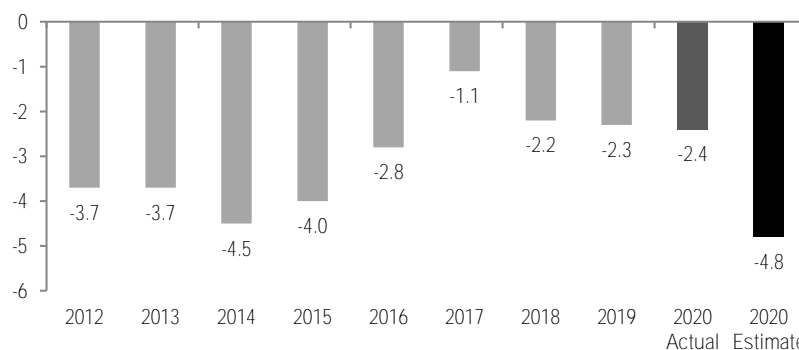
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- The Ministry of Finance (MoF) released its public finance report for October 2020
- Public sector borrowing requirements (Jan-Oct): \$556.1bn deficit (~US\$26.3bn; 2.4% of GDP)
- Public balance (Jan-Oct): \$327.4bn deficit (~US\$15.5bn; 1.4% of GDP)
- Primary balance (Jan-Oct): \$175.9bn surplus (~US\$8.3bn; 0.8% of GDP)
- Year-to-date, budget revenues fell 5.4% y/y in real terms, with a strong contraction in oil (-42.9%) and a slight increase in non-oil (+3.1%)
- Expenditures were down 2.0% y/y in real terms, partly on the -3.3% in administrative branches, while spending by CFE fell -18.8%
- In October, revenues declined 0.3% y/y in real terms, despite a recovery in tax income. Meanwhile, spending edged-up 0.1%
- The *Historic Balance of Public Sector Borrowing Requirements* stood at \$12.0 trillion (~US\$564.9bn), equivalent to 51.8% of GDP. It should be noted that 61.6% corresponds to domestic debt

PSBRs post a \$556.1 billion deficit in the first ten months of 2020. The Ministry of Finance released its public finance report for October, in which we highlight the \$556.1 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance¹–, equivalent to 2.4% of GDP, as seen in the following chart. Meanwhile, the “traditional” public balance posted a \$327.4 billion deficit, \$103.5 billion above expectations, explained by lower spending but partially offset by less revenues. Finally, the primary surplus stood at a \$175.9 billion, better relative to the +\$100.6 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 4.9% y/y in real terms. According to the MoF, revenues totaled \$4,295.3 billion in the first ten months of the year, \$281.9 billion lower than projected. Oil-related income came in at \$448.8 billion, representing a 42.9% decrease in real terms relative to the same period of 2019. Moreover, tax revenues amounted to \$2,761.6 billion, undershooting projections by \$159.2 billion. The latter translates into a 0.6% y/y decline in real terms. Inside, income tax collection expanded by 0.4%, which we believe was aided by extraordinary collections from corporates, while VAT declined 1.1%. Excise-tax collection revenues posted a worse performance at -4.1%. Revenues from government-controlled entities (IMSS and ISSSTE) came in at \$365.5 billion, a 1.8% increase, while those of CFE fell 8.5% at \$329.1 billion. Finally, non-oil, non-tax revenues surged 65.7%, amounting to \$390.3 billion. It should be noted that transfers are accounted in this category, including those from the Stabilization Fund (FEIP), boosting the total amount.

Budget spending declines 2.0% y/y. Total spending reached \$4,644.2 billion, \$364.1 billion below budget. This is explained mainly by lower primary spending. In this context, these fell 2.5% in the yearly comparison, while financial costs (also known as debt servicing costs) edged-up 1.9%. Within the former, the programmable component declined 1.5%, amounting to \$3,407.9 billion. Main declines within this category were in administrative branches (-3.3%) and CFE (-18.8%). In the former, we highlight the 61.5% contraction in the Ministry of Energy as well as the 38.1% decline in the Energy Regulatory Commission. On the flip side, the biggest increase was in the Ministry of Economy (281.3%). On the contrary, we note the spending expansion in IMSS (5.2%) and Pemex (8.0%). Non-programmable spending excluding debt financial costs fell 6.5% to \$727.5 billion, stemming from the 7.0% decline in participations –transfers to states under the federal tax collection agreement–, and despite the 26.3% rise in ADEFAS.

Public finance: October 2020
\$ billion

	October			January-October		
	2020	2019	% y/y real terms	2020	2019	% y/y real terms
Public Balance	-18.9	6.2	--	-327.4	-154.1	--
<i>ex. Pemex and CFE investments</i>	NA	NA	NA	134.5	317.7	-59.1
Balance of entities under indirect budgetary control	-14.5	8.8	--	21.4	59.9	-65.4
Revenues	406.0	391.3	-0.3	4,295.3	4,367.5	-4.9
Oil	51.8	52.1	-4.5	448.8	759.5	-42.9
Non-oil	354.2	339.2	0.3	3,846.6	3,608.1	3.1
Tax collection	256.6	239.8	2.8	2,761.6	2,685.3	-0.6
Other	18.6	24.2	-26.2	390.3	227.7	65.7
Government controlled entities	36.4	35.1	-0.4	365.5	347.2	1.8
CFE	42.7	40.1	2.4	329.1	347.9	-8.5
Spending	410.5	393.9	0.1	4,644.2	4,581.5	-2.0
Primary spending	389.0	376.1	NA	4,135.4	4,098.8	-2.5
Programmable spending	323.1	327.4	-5.2	3,407.9	3,346.3	-1.5
Non-programmable spending	65.9	48.7	NA	727.5	752.5	-6.5
Financial costs	21.5	17.8	16.0	508.7	482.7	1.9
Primary balance	17.3	15.7	6.3	175.9	293.4	-42.0

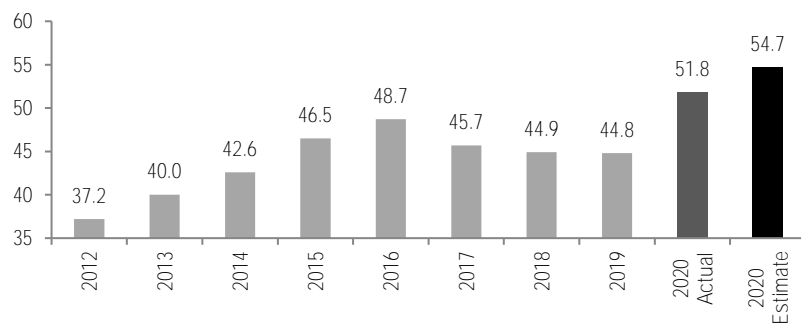
Source: Ministry of Finance

Slight decline in revenues with a marginal expansion in spending in October.

In the month, total revenues decreased 0.3% y/y in real terms. Inside, oil-related income fell 4.5%. On the contrary, tax revenues went back to positive territory (2.8%), in line with signals of dynamism regarding economic activity. Specifically, VAT and income tax collection rose by 7.6% and 3.6%, respectively. However, excise tax revenues fell 7.2%. Meanwhile, non-tax revenues declined 26.2%, reflecting the halt in additional transfers from the Stabilization Fund, in line with comments from MoF representatives in last month’s call. Spending barely increased 0.1%. Programmable spending declined 5.2%, with a 10.1% expansion in administrative branches, compensated by a 26.1% contraction in Pemex. Within non-programmable spending (+26.3%), participations advanced 29.7%.

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at \$12.0 trillion (~US\$564.9 billion), equivalent to 51.8% of GDP. Out of these, \$7.4 trillion are domestic debt (61.6% of the total outstanding), with the external component at US\$216.8 billion (\$4.6 trillion; 38.4% of the total). Net public-sector debt amounted to \$12.1 trillion (~US\$569.7 billion). Inside, net domestic debt reached \$7.4 trillion, while net foreign debt climbed to US\$221.1 billion (equivalent to \$4.7 trillion).

Historic Balance of the Public Sector Borrowing Requirements
% of GDP



Source: Ministry of Finance

Analyst Certification

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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