

Public finances 2020 – PSBR deficit at 3.9% of GDP, slightly better than expected

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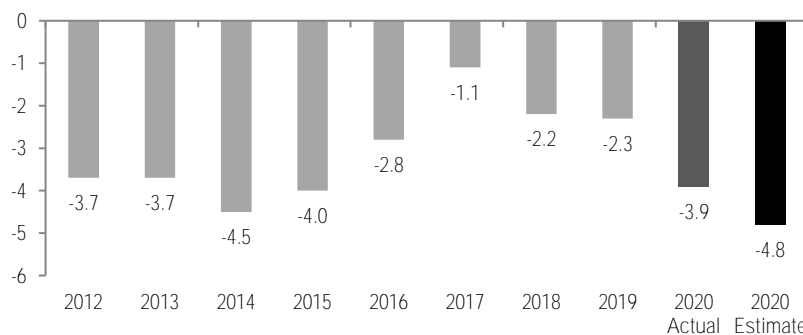
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- The Ministry of Finance (MoF) released its public finance report for December 2020
- Public sector borrowing requirements (2020): \$897.1bn deficit (~US\$45.0bn; 3.9% of GDP)
- Public balance (2020): \$647.2bn deficit (~US\$33.8bn; 2.9% of GDP)
- Primary balance (2020): \$31.7bn surplus (~US\$1.5bn; 0.1% of GDP)
- In the year, budget revenues fell 4.1% y/y in real terms, with a strong contraction in oil (-38.7%) and a slight increase in non-oil (+3.4%), supported by collection efforts and transfers from the Stabilization Fund
- Specifically, the *Stabilization Fund for Budget Revenues* (FEIP in Spanish) declined 94% relative to 2019’s outstanding amount, equivalent to \$149.0 billion (0.6% of GDP). With this, the balance at the end of the year stood at \$9.5 billion (0.04% of GDP)
- Expenditures were up 0.2% y/y in real terms, with relevant adjustments inside, reflecting both austerity measures on one side, and increased spending associated to the pandemic on the other
- The *Historic Balance of Public Sector Borrowing Requirements* stood at \$12.0 trillion (~US\$605.9bn), equivalent to 52.2% of GDP

PSBRs post a deficit of 3.9% of GDP in 2020. The Ministry of Finance released its public finance report for December, in which we highlight the \$897.1 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance¹–, equivalent to 3.9% of GDP, as seen in the following chart. This compares to the expectation of a 4.8% deficit by the MoF in its latest quarterly update. The “traditional” public balance posted a \$674.2 billion deficit, \$127.0 billion below expectations, explained by lower revenues, albeit partially offset by lower spending. Finally, the primary surplus stood at a \$31.7 billion, worse relative to the +\$180.7 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.

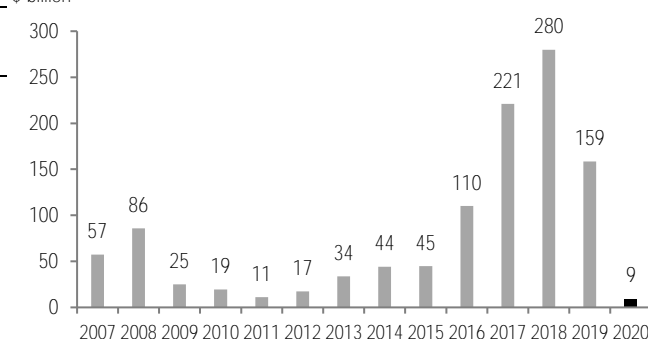
Total revenues down 4.1% y/y in real terms. According to the MoF, revenues totaled \$5,339.9 billion, \$183.3 billion lower than projected. Oil-related income came in at \$605.8 billion, representing a 38.7% decrease in real terms relative to 2019. Meanwhile, tax revenues amounted to \$3,890.2 billion, overshooting projections by \$218.9 billion. The latter translates into a 0.8% y/y expansion in real terms. Inside, income tax collection expanded by 0.9%, aided by relevant efforts to improve revenues by the *Tax Administration System* (SAT in Spanish), highlighting some targeting large taxpayers. VAT revenues rose 2.3%. Excise-tax collection revenues posted a worse performance at -3.2%. Revenues from government-controlled entities (IMSS and ISSSTE) came in at \$446.4 billion, a 1.2% increase, while those of CFE fell 10.3% at \$397.5 billion. Finally, non-oil, non-tax revenues surged 43.5%, amounting to \$551.3 billion. It should be noted that transfers are accounted in this category, including those from the *Stabilization Fund for Budget Revenues* (FEIP), as well as the windfall from the oil-hedge. According to today's report, the Federal Government received US\$2.4 billion (equivalent to \$47.5 billion) from the hedge this year.

Relevant decreases in stabilization funds to counteract some of the pandemic impact. Out of the three funds highlighted by the MoF, we saw notable declines both in the FEIP as well as on the *Stabilization Fund for State Revenues* (FEIEF in Spanish). Specifically, within the former we saw a 94% decrease relative to the balance at year-end 2019, equivalent to \$149.0 billion (0.6% of GDP; see table below). With this, the balance at the end of 2020 stood at \$9.5 billion (0.04% of GDP).

Stabilization funds \$ billion	Dec-20	Dec-19	Nominal change	% y/y
Total	63.4	239.8	-176.4	-73.6
Stabilization Fund for Budget Revenues	9.5	158.5	-149.0	-94.0
Stabilization Fund for State Revenues	30.7	60.5	-29.8	-49.3
Mexican Petroleum Fund for Stabilization and Development	23.2	20.8	2.5	+11.9

Source: MoF

Stabilization fund for Budget Revenues*
\$ billion



*Note: Until 2015 the amount laid out corresponds to the Stabilization Fun of Oil Revenues, which in 2016 became the Stabilization Fund of Budget Revenues

Source: MoF

Budget spending increases 0.2% y/y. Total spending reached \$6,000.0 billion, \$70.4 billion below budget. In this context, primary spending rose to \$5,313.9 billion, which implies a 0.3% y/y increase, with financial costs at \$686.1 billion (-0.4%). Within the former, the programmable component increased 1.8%, amounting to \$4,455.2 billion. The only decrease was in CFE, down 9.2% with all the remaining relevant components higher. Specifically, autonomous branches rose 3.9%, highlighting increases in Administrative Justice Tribunals (99.7%) and INEGI (41.2%).

Meanwhile, spending in administrative branches rose 0.9%, noting expansions in the Tourism (406.5%) and Economy (276.7%) ministries, with strong reductions in the Energy Regulatory Commission (-30.2%) and the Office of the Presidency (-28.7%). Meanwhile, outlays from government-controlled entities (IMSS and ISSSTE) advanced 5.2% –related to higher healthcare spending–. Pemex expenditures rose 7.1%. Non-programmable spending excluding debt financial costs fell 7.0% to \$858.8 billion, stemming from the 7.2% decline in participations –transfers to states under the federal tax collection agreement–, and -0.6% in ADEFAS.

Public finances: 2020
\$ billion

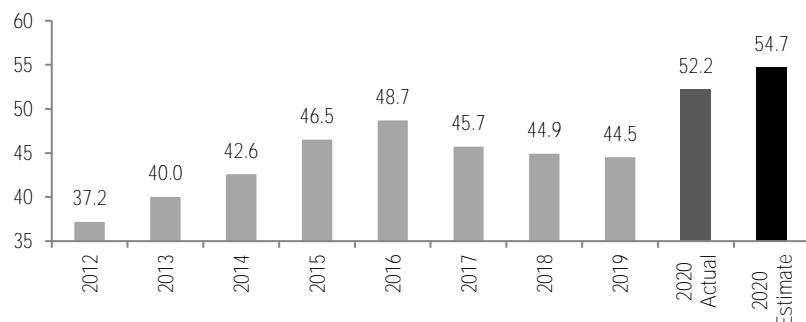
	December			Whole year		
	2020	2019	% y/y real terms	2020	2019	% y/y real terms
Public Balance	-274.8	-226.4	--	-674.2	-393.6	--
<i>Balance of entities under indirect budgetary control</i>	-3.6	-35.9	--	-14.1	14.0	--
Revenues	605.6	543.6	8.0	5,339.9	5,385.0	-4.1
Oil	109.3	121.4	-12.7	605.8	955.7	-38.7
Non-oil	496.3	422.1	14.0	4,734.1	4,429.3	3.4
Tax collection	314.7	281.1	8.5	3,338.9	3,202.6	0.8
Other	97.8	55.8	70.1	551.3	371.5	43.5
Government controlled entities	45.1	45.0	-2.7	446.4	426.6	1.2
CFE	38.7	40.2	-6.9	397.5	428.5	-10.3
Spending	876.9	734.1	15.8	6,000.0	5,792.6	0.2
Primary spending	716.7	566.4	ND	5,313.9	5,126.1	0.3
Programmable spending	652.0	495.1	27.7	4,455.2	4,232.6	1.8
Non-programmable spending	64.7	71.4	ND	858.8	893.5	-7.0
Financial costs	160.2	167.6	-7.4	686.1	666.5	-0.4
Primary balance	-117.4	-33.8	236.6	31.7	268.0	-88.6

Source: Ministry of Finance

Strong improvement in revenues, along the seasonal increase year-end spending. In December, total revenues picked up 8.0% y/y in real terms. Inside, oil-related income fell 12.7%. On the contrary, tax revenues were very positive, at +8.5%. Specifically, VAT and income tax collection rose by 25.6% and 2.5%, respectively. Non-tax revenues surged 70.1%, reflecting inflows from the oil hedge. Spending rose by a whopping 15.8%, with a seasonally high amount, remembering that different ministries and dependencies account their outlays in this period. Programmable spending expanded 27.7%, with a 33.9% expansion in administrative and +17.8% in autonomous branches. Within non-programmable spending (-8.8%), participations fell 4.5%.

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at \$12.0 trillion (~US\$605.9 billion), equivalent to 52.2% of GDP. With this, the total was lower than the 54.7% of GDP expected by the MoF, aided by a better result in the PSBR as well as from the appreciation of the exchange rate in the latter part of the year. Out of these, \$7.8 trillion are domestic debt (64.2% of the total outstanding), with the external component at US\$216.6 billion (\$4.3 trillion; 35.8% of the total). Net public-sector debt amounted to \$12.1 trillion (~US\$608.1 billion). Inside, net domestic debt reached \$7.7 trillion, while net foreign debt climbed to US\$221.5 billion (equivalent to \$4.4 trillion).

Historic Balance of the Public Sector Borrowing Requirements
% of GDP



Source: Ministry of Finance

The conference call provided further details about last year’s dynamics and forward-looking projections. The call was led by Iván Cajeme Villarreal Camero (Chief Economist of the MoF) and José de Luna Martínez (Head of the Public Credit Unit). In it, they once again highlighted the resiliency of tax revenues, comparing them to broad decreases in previous crisis. They also mentioned that macroeconomic or fiscal forecasts were not updated, arguing that they will wait until the *Preliminary Economic Policy Criteria* in April. They added that efforts have continued to develop more public-private infrastructure projects, expecting the release of a third package relatively soon. In addition, they also stated that they do not expect Banxico’s Operational Surplus (BOS) to be large, considering the MXN appreciation at the end of last year. Nevertheless, they recognized this also had a positive impact in total debt levels. They will be looking into the performance of the economy in order to evaluate if further stimulus is necessary. Finally, it was mentioned that other resources that can be tapped in case of a shortfall (*e.g.* leftovers from extinguished trust funds last year, the oil fund, etc.), amount to close to \$100 billion, even after the sharp decrease in Stabilization Funds.

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