Public finances – $100 billion deficit in the PSBR until February

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- **The Ministry of Finance (MoF) released its public finance report for February**
- **Public sector borrowing requirements (Jan-Feb): $100.0bn deficit (~US$4.9bn)**
- **Public balance (Jan-Feb): $99.0bn deficit (~US$4.8bn)**
- **Primary balance (Jan-Feb): $13.6bn deficit (~US$662.8mn)**
- **Budget revenues fell 4.3% y/y in real terms, with a strong expansion in oil (26.8%), albeit with non-oil lower (-7.9%), with a strong decline in non-tax revenues within the latter**
- **Expenditures were up 6.1% y/y in real terms, with a relevant expansion in administrative branches (38.5%) and in Pemex (22.1%), partly offset by a decline in autonomous branches (-11.5%)**
- **In the month, both revenues and expenses increased, higher in oil in the former and in administrative branches in the latter**
- **The *Historic Balance of Public Sector Borrowing Requirements* stood at $12.3 trillion (~US$602.5bn)**

PSBRs post a $100.0 billion deficit in the first two months of the year. The Ministry of Finance released its public finance report for February, in which we highlight the $100.0 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance[1]–. This compares to the $16.8 billion surplus seen in the previous year. The "traditional" public balance posted a $99.0 billion deficit, $48.1 billion better than expected, explained by lower spending, despite some shortcomings on revenues. Finally, the primary deficit stood at $13.6 billion, better relative to the -$53.9 billion forecasted balance.

Total revenues down 4.3% y/y in real terms. According to the MoF, revenues totaled $927.7 billion, $11.7 billion lower than projected. Oil-related income came in at $127.3 billion, representing a 26.8% increase in real terms relative to 2020. This is mainly explained by a more favorable base effect in prices, remembering that these declined last year due to the COVID-19 pandemic. Considering this, they came in $24.3 below estimates. Meanwhile, tax revenues amounted to $620.5 billion, undershooting projections by $14.8 billion. Inside, all categories were lower in annual terms, with income tax collection at -2.8% and VAT revenues at -0.8%. Excise-tax collection fell -18.0%. In our opinion, this is skewed by the prevailing weakness in economic activity, expecting it to improve in coming months as the base of comparison becomes less challenging.

[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.

Revenues from government-controlled entities (IMSS and ISSSTE) came in at $71.8 billion, a 1.2% decrease, while those of CFE fell 15.4% at $56.7 billion. Finally, non-oil, non-tax revenues ('other' in the table below) posted the largest contraction at -34.0%, amounting to $51.4 billion.

Budget spending falls 6.1% y/y. Total spending reached $1,031.9 billion, $54.6 billion below budget. In this context, primary spending rose to $947.5 billion, which implies an 8.4% y/y expansion, with financial costs at $84.5 billion (-14.7%). Within the former, the programmable component grew 13.8%, amounting to $771.7 billion. We highlight the 38.5% increase in administrative branches, with strong expansions in the Ministry of Energy (235.5%) and Tourism (131.1%), albeit with declines in the Ministry for Public Security (-31.7%) and the Office of the Presidency (-47.1%). In addition, spending by Pemex increased 221%, with CFE also higher at 5.7%. Meanwhile, outlays from government-controlled entities (IMSS and ISSSTE) advanced 5.9%, driven by IMSS at +10.7%. On the contrary, autonomous branches fell 11.5%. Inside, we note declines in INEGI (-73.6%) and the General Attorney's Office (-28.7%). Lastly, non-programmable spending excluding debt financial costs fell 10.1% to $175.8 billion, stemming from the 2.7% decline in participations –transfers to states under the federal tax collection agreement–, and -82.5% in ADEFAS.

Public finances: February 2021
$ billion

	February			January-February		
	2021	2020	% y/y real terms	2021	2020	% y/y real terms
Public Balance	**-91.0**	**-30.2**	**--**	**-99.0**	**10.7**	**--**
Balance of entities under indirect budgetary control	*8.6*	*8.8*	*--*	*5.3*	*14.0*	*-63.8*
Revenues	**435.2**	**394.8**	**6.2**	**927.7**	**935.1**	**-4.3**
Oil	79.2	41.6	83.6	127.3	96.9	26.8
Non-oil	356.0	353.3	-2.9	800.4	838.2	-7.9
Tax collection	265.0	263.8	-3.2	620.5	628.4	-4.7
Other	24.4	18.2	28.8	51.4	75.1	-34.0
Government controlled entities	37.1	36.1	-0.9	71.8	70.2	-1.2
CFE	29.5	35.1	-19.0	56.7	64.6	-15.4
Spending	**534.8**	**433.8**	**18.8**	**1,031.9**	**938.5**	**6.1**
Primary spending	501.5	401.5	ND	947.5	842.9	8.4
Programmable spending	398.2	293.8	30.6	771.7	654.3	13.8
Non-programmable spending	103.3	107.6	ND	175.8	188.6	-10.1
Financial costs	33.3	32.4	-0.9	84.5	95.6	-14.7
Primary balance	**-64.3**	**-4.0**	**--**	**-13.6**	**96.3**	**--**

Source: Ministry of Finance

Higher revenues and spending in annual terms in February. In the month, total revenues picked up 6.2% y/y in real terms. Inside, oil-related income shot-up 83.5%, with the base effect mentioned previously clearer in the month. On the contrary, tax revenues fell 3.2%. Specifically, VAT and income tax collection declined by 0.1% and 3.0%, respectively. Non-tax revenues surged 28.8%. Spending rose 18.8%. Programmable spending expanded 30.6%, with a 75.8% expansion in administrative branches and autonomous at -10.3%. Within non-programmable spending, participations fell 1.2%.

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at $12.3 trillion (~US$602.5 billion). Out of these, $7.8 trillion are domestic debt (63.7% of the total outstanding), with the external component at US$218.9 billion ($4.5 trillion; 36.3% of the total). Net public-sector debt amounted to $12.3 trillion (~US$601.2 billion). Inside, net domestic debt reached $7.7 trillion, while net foreign debt climbed to US$223.7 billion (equivalent to $4.6 trillion).

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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, 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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