Public finances – $180.8 billion deficit in the PSBR up to March

April 30, 2021

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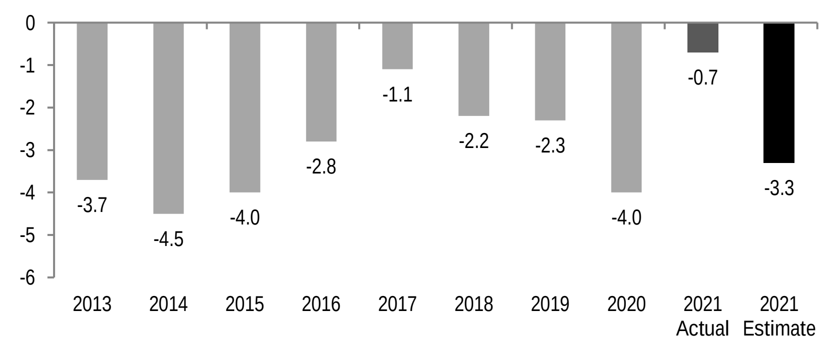
- **The Ministry of Finance (MoF) released its public finance report for March**
- **Public sector borrowing requirements (Jan-Mar): $180.8bn deficit (~US$8.7bn; ~ -0.7% of GDP)**
- **Public balance (Jan-Mar): $83.0bn deficit (~US$4.0bn; ~ -0.3% of GDP)**
- **Primary balance (Jan-Mar): $54.1bn surplus (~US$2.6bn; ~0.2% of GDP)**
- **Budget revenues increased 2.8% y/y in real terms, with a strong expansion in oil (45.6%), skewed up by a more favorable base effect, albeit with non-oil lower (-1.5%), with mostly generalized declines**
- **The *Stabilization Fund for Budget Revenues* (FEIP in Spanish) increased 66.5% relative to the outstanding amount by year-end 2020, standing at $15.8 billion (~US$767.5mn)**
- **Expenditures were up 7.9% y/y in real terms, with a relevant expansion in administrative branches (32.2%) as well as in CFE (31.4%) and Pemex (26.5%), partly offset by a decline in autonomous branches (-14.0%)**
- **The *Historic Balance of Public Sector Borrowing Requirements* stood at $12.4 trillion (~US$602.9bn), equivalent to 49.2% of GDP**

PSBRs post a $180.8 billion deficit in the first three months of the year. The Ministry of Finance released its public finance report for March, in which we highlight the $180.8 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance[1]–, equivalent to close to 0.7% of GDP. This compares to the $25.8 billion surplus seen in the previous year. The 'traditional' public balance posted an $83.0 billion deficit, better than expected due to higher revenues. Finally, the primary surplus stood at $54.1 billion.

Public Sector Borrowing Requirements
% of GDP



Source: Ministry of Finance

[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.

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Total revenues up 2.8% y/y in real terms. According to the MoF, revenues totaled $1,564.1 billion, $82.8 billion higher than projected. Oil-related income came in at $204.6 billion, representing a 45.6% 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. Despite this, they came in $29.5 below estimates. Meanwhile, tax revenues amounted to $1,164.6 billion, overshooting projections by $117.3 billion. Inside, almost all categories were lower in annual terms except for income tax collection (2.4%) and import taxes (6.6%). To the downside we highlight VAT at -3.2% and excise-tax collection at -16.9%, with the latter dragged by those related to gasoline, starting to reflect the effects of fiscal stimulus to moderate price increases. Revenues from government-controlled entities (IMSS and ISSSTE) came in at $109.7 billion, a 2.4% decrease, while those of CFE fell 14.7% at $85.2 billion. Finally, non-oil, non-tax revenues ('other' in the table below) posted a 13.6% expansion, amounting to $140.5 billion.

Increase in the FEIP, with declines in the remaining stabilization funds. Out of the three funds highlighted by the MoF, relative to year-end 2020, only the *Stabilization Fund for Budget Revenues* (FEIP in Spanish) increased, standing at $15.8 billion, an improvement of $6.3 billion (+66.5%). This represents 0.06% of GDP. Meanwhile, total resources in the other two funds –the *Stabilization Fund for State Revenues* (FEIEF in Spanish) and the *Mexican Petroleum Fund for Stabilization and Development* (FMP in Spanish)– posted an accumulated decrease of nearly $2 billion, as seen in the table below.

Stabilization funds
$ billion

	Mar-21	Dec-20	Difference
Total	67.7	63.4	4.3
Stabilization Fund for Budget Revenues	15.8	9.5	6.3
Stabilization Fund for State Revenues	28.9	30.7	-1.7
Mexican Petroleum Fund for Stabilization and Development	23.0	23.2	-0.3

Source: MoF

Budget spending rises 7.9% y/y. Total spending reached $1,662.2 billion, $5.6 billion lower than budgeted. In this context, primary spending rose to $1,517.2 billion, which implies a 9.4% y/y expansion, with financial costs at $145.1 billion (-5.5%). Within the former, the programmable component grew 13.9%, amounting to $1,272.8 billion. We highlight the 32.2% increase in administrative branches, with strong expansions in the Ministry of Agrarian and Urban Development (417.9%) and Energy (213.1%), albeit with declines in the Ministry for Public Security (-46.0%) and Health (-26.4%). In addition, spending by Pemex increased 22.0%, with CFE also higher at 31.4%. Meanwhile, outlays from government-controlled entities (IMSS and ISSSTE) advanced 3.1%, driven by IMSS at +7.2%. On the contrary, autonomous branches fell 14.0%. Inside, we note declines in INEGI (-81.5%) and the General Attorney's Office (-21.9%). Lastly, non-programmable spending excluding debt financial costs fell 9.1% to $244.4 billion, stemming from the 3.3% decline in participations –transfers to states under the federal tax collection agreement–, and -81.1% in ADEFAS.

Public finances: March 2021
$ billion

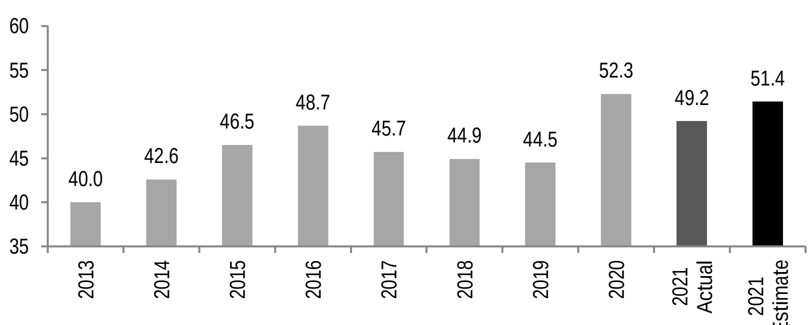
	March			January-March		
	2021	2020	% y/y real terms	2021	2020	% y/y real terms
Public Balance	15.9	16.3	--	-83.0	26.9	--
Balance of entities under indirect budgetary control	*9.6*	*31.5*	--	*15.1*	*44.9*	*-67.6*
Revenues	636.4	527.8	15.2	1,564.1	1,462.9	2.8
Oil	77.3	38.2	93.4	204.6	135.1	45.6
Non-oil	559.1	489.6	9.1	1,359.5	1,327.9	-1.5
Tax collection	403.6	376.4	2.4	1,024.1	1,004.7	-2.0
Other	89.1	43.9	94.0	140.5	119.0	13.6
Government controlled entities	37.9	38.0	-4.7	109.7	108.1	-2.4
CFE	28.5	31.4	-13.2	85.2	96.1	-14.7
Spending	630.1	543.0	10.9	1,662.2	1,480.9	7.9
Primary spending	569.5	490.9	ND	1,517.2	1,333.3	9.4
Programmable spending	501.1	420.7	13.8	1,272.8	1,074.8	13.9
Non-programmable spending	68.5	70.2	ND	244.4	258.5	-9.1
Financial costs	60.6	52.1	11.1	145.1	147.6	-5.5
Primary balance	68.4	40.0	63.2	54.1	136.0	-61.7

Source: Ministry of Finance

Stronger revenues and spending in annual terms in March. In the month, total revenues picked up 15.2% y/y in real terms. Inside, oil-related income shot-up 93.4%, with the base effect mentioned previously clearer in the month. Moreover, tax revenues rose 3.4%. Specifically, income tax collection expanded by 9.2% with VAT lower by 7.8%. Non-tax revenues surged 94.0%. Expenditures rose 10.9%. Programmable spending expanded 13.8%, with a +24.8% increase in administrative branches and autonomous at -17.4%. Within non-programmable spending, participations fell 5.1%.

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at $12.4 trillion (~US$602.9 billion), equivalent to 49.2% of GDP. Out of these, $7.9 trillion are domestic debt (63.7% of the total outstanding), with the external component at US$218.6 billion ($4.5 trillion; 36.3% of the total). Net public-sector debt amounted to $12.3 trillion (~US$600.8 billion), equivalent to 49.0% of GDP. Inside, net domestic debt reached $7.8 trillion, while net foreign debt climbed to US$223.4 billion (equivalent to $4.6 trillion).

Historic Balance of the Public Sector Borrowing Requirements
% of GDP



Source: Ministry of Finance

The conference call provided further details about dynamics so far in the year. 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). They highlighted that today's GDP print surprised to the upside, possibly resulting in adjustments to the Ministry's estimates in upcoming months. They also mentioned that advances on revenues are very positive, as they make-up a relevant part of the upward adjustment in this category for full-year estimates in the Preliminary Policy Criteria. This comes as a result of favorable developments in tax collections, with a more modest impact in annual payments from firms and other efforts to curb tax evasion. On the oil front, they commented that part of the shortfall is explained by the appreciation of the MXN, while also quoting some impacts on production earlier in the year. They added that they expect the latter to fade out, resulting in higher production in the remainder of the year. They also mentioned that some of the outperformance in non-tax revenues correspond to transfers from some of the funds that were extinguished last year. On capitalization efforts for Pemex, they mentioned that accounting-wise, transferences will be accounted as a revenue for the state-owned company but an expense for the Ministry of Energy.

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