

## Public finances – \$214.5 billion deficit in the PSBR up to May

July 1, 2021

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- **The Ministry of Finance (MoF) released its public finance report for May**
- **Public sector borrowing requirements (Jan-May): \$214.5bn deficit (~US\$10.8bn)**
- **Public balance (Jan-May): \$112.7bn deficit (~US\$5.7bn)**
- **Primary balance (Jan-May): \$74.3bn surplus (~US\$3.7bn)**
- **Budget revenues increased 6.7% y/y in real terms, with a strong expansion in oil (86.6%), given a more favorable base, and with non-oil lower (-0.6%) despite tax-related income remaining positive (0.3%)**
- **Expenditures were up 4.0% y/y in real terms, with a relevant expansion in administrative branches (14.1%) as well as in Pemex (18.2%) and CFE (12.7%), partly offset by a decline in autonomous branches (-3.6%)**
- **In April, revenues shot up 31.9%, with a positive base effect. Meanwhile, spending rose 3.3%, with an increase in autonomous branches**
- **The Historic Balance of Public Sector Borrowing Requirements stood at \$12.4 trillion (~US\$619.2bn), equivalent to 47.7% of GDP**

**PSBRs post a \$214.5 billion deficit in the first five months of the year.** The Ministry of Finance released its public finance report for May. We highlight the \$214.5 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance<sup>1</sup>–. This compares to the \$164.1 billion deficit seen in the previous year. The ‘traditional’ public balance posted a \$112.7 billion deficit, better than expected by \$101.7 billion, mainly due to higher revenues but also lower expenditures. Finally, the primary surplus stood at \$74.3 billion (estimate; \$1.4 billion).

**Total revenues up 6.7% y/y in real terms.** Revenues totaled \$2,456.5 billion, \$82.0 billion higher than projected. Oil-related income came in at \$363.6 billion, representing an 86.6% increase in real terms relative to 2020. This is mainly explained by a more favorable base effect in prices, albeit also in export volumes, remembering that these plunged last year due to the COVID-19 pandemic. Despite this, they came in \$31.8 billion below estimates. Meanwhile, tax revenues amounted to \$1,575.8 billion, overshooting projections by \$15.8 billion and up 0.3% relative to the previous year. Inside, almost all categories were higher in annual terms except for excise taxes (-8.8%), in our view impacted by subsidies to maintain some stability in gasoline prices. To the upside, we highlight income tax collection (0.2%), VAT (5.0%) and import taxes (9.9%), with all benefited by higher levels of activity relative to 2020, with these months as the worst in terms of the lockdowns.

<sup>1</sup> 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 \$183.5 billion, a 0.7% decrease, while those of CFE fell 13.5% at \$146.2 billion. Finally, non-oil, non-tax revenues ('other' in the table below) posted a 3.3% expansion, amounting to \$187.5 billion.

**Budget spending rises 4.0% y/y.** Total spending reached \$2,585.0 billion, \$4.2 billion lower than budgeted. In this context, primary spending climbed to \$2,390.2 billion, which implies a 5.7% y/y expansion, with financial costs at \$194.8 billion (-13.0%). Within the former, the programmable component grew 8.3%, amounting to \$1,973.1 billion. We highlight the 14.1% increase in administrative branches, with strong expansions in the Ministry of Agrarian and Urban Development (231.1%) and Tourism (205.2%), albeit with declines in the Ministries of Economy (-89.8%) and Public Security (-40.5%). In addition, spending by Pemex increased 18.2%, with CFE also higher at 12.7%. Meanwhile, outlays from government-controlled entities (IMSS and ISSSTE) advanced 7.9%, driven by IMSS at +12.2%. On the contrary, autonomous branches fell 3.6%. Inside, we note declines in INEGI (-73.9%) and the Federal Tribunal for Administrative Justice (-15.7%), albeit with a strong expansion for the National Electoral Institute (100.7%) ahead of the mid-term election. Lastly, non-programmable spending excluding debt financial costs fell 5.1% to \$417.1 billion, stemming from the 1.4% decline in participations –transfers to states under the federal tax collection agreement–, and -93.6% in ADEFAS.

Public finances: May 2021  
\$ billion

	May			January-May		
	2021	2020	% y/y real terms	2021	2020	% y/y real terms
Public Balance	-3.1	-74.3	--	-112.7	-148.2	-27.4
<i>Balance of entities under indirect budgetary control</i>	-6.5	13.0	--	15.7	27.4	-45.1
Revenues	456.4	326.9	31.9	2,456.5	2,196.2	6.7
Oil	92.0	28.3	207.0	363.6	186.0	86.6
Non-oil	364.4	298.6	15.2	2,092.9	2,010.2	-0.6
Tax collection	278.2	221.6	18.5	1,575.8	1,499.4	0.3
Other	18.9	15.6	14.1	187.5	173.2	3.3
Government controlled entities	36.1	33.2	2.4	183.5	176.3	-0.7
CFE	31.3	28.1	5.1	146.2	161.3	-13.5
Spending	452.9	414.1	3.3	2,585.0	2,371.7	4.0
Primary spending	434.4	400.2	NA	2,390.2	2,158.0	5.7
Programmable spending	364.2	335.6	2.5	1,973.1	1,738.5	8.3
Non-programmable spending	70.2	64.6	NA	417.1	419.6	-5.1
Financial costs	18.6	13.9	26.1	194.8	213.7	-13.0
Primary balance	21.2	-74.8	--	74.3	39.9	77.4

Source: Ministry of Finance

### **Strong increase in revenues on a favorable base, with spending more stable.**

In May, total revenues picked up 31.9% y/y in real terms, with the pandemic in 2020 key to drive the annual rate. Inside, oil-related income shot-up 207.0%. Moreover, tax revenues rose 18.5%. Specifically, income tax collection was up 12.0% with VAT higher at +38.9%. Non-tax revenues came in at +14.1%. Expenditures were higher by 3.3%. Programmable spending expanded 2.5%, with an 11.0% fall in administrative branches and autonomous at +22.0%. Within non-programmable spending, participations were better by 3.2%.

**The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at \$12.4 trillion (~US\$619.2 billion), equivalent to 47.7% of GDP.** Out of these, \$8.0 trillion are domestic debt (64.6% of the total outstanding), with the external component at US\$219.5 billion (\$4.4 trillion; 35.4% of the total). Net public-sector debt amounted to \$12.3 trillion (~US\$617.1 billion). Inside, net domestic debt reached \$7.8 trillion, while net foreign debt climbed to US\$224.2 billion (equivalent to \$4.5 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, 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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