Public finances – $396.8 billion deficit in the PSBR in the first half of the year

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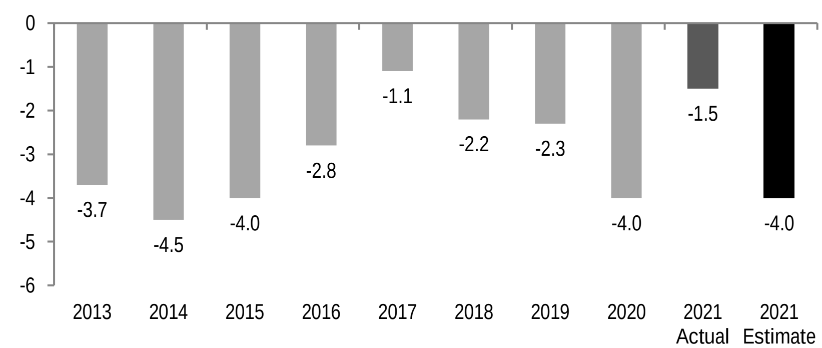
- **The Ministry of Finance (MoF) released its public finance report for June**
- **Public sector borrowing requirements (Jan-Jun): $396.8bn deficit (~US$20.0bn; ~ -1.5% of GDP)**
- **Public balance (Jan-Jun): $231.2bn deficit (~US$11.7bn; ~ -0.9% of GDP)**
- **Primary balance (Jan-Jun): $104.2bn surplus (~US$5.3bn; ~ 0.4% of GDP)**
- **Budget revenues increased 7.3% y/y in real terms, higher both in oil (+62.9%) as well as non-oil (+1.4%), as well as a relevant expansion in VAT collection within the latter (+8.8%)**
- **Expenditures were up 4.1% y/y in real terms, with important growth in administrative branches (14.5%), along Pemex (16.8%) and CFE (12.8%)**
- **The *Stabilization Fund for Budget Revenues* (FEIP in Spanish) increased 63.5% vs. year-end 2020, standing at $15.5 billion (~US$784.3mn)**
- **The *Historic Balance of Public Sector Borrowing Requirements* stood at $12.4 trillion (~US$626.3bn), equivalent to 47.9% of GDP**
- **In addition, the MoF updated its macroeconomic and fiscal estimates, highlighting that they now expect GDP to grow 6.0% this year**

PSBRs post a $396.8 billion deficit in the first half of the year. The Ministry of Finance released its public finance report for June, in which we highlight the $396.8 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance[1]–, equivalent to close to 1.5% of GDP. This compares to the $315.3 billion deficit seen in the previous year. The 'traditional' public balance posted an $231.2 billion deficit, better than expected due to higher revenues. Finally, the primary surplus stood at $104.2 billion.

Public Sector Borrowing Requirements*
% of GDP



*Estimate based of the percentage of GDP presented for PSBRs and public debt. 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 7.3% y/y in real terms. According to the MoF, revenues totaled $2,931.2 billion, $98.3 billion higher than projected. Oil-related income came in at $427.1 billion, representing a 62.9% increase in real terms relative to 2020. This is mainly explained by a more favorable base effect. Despite of this, they came in $38.3 billion below estimates. Meanwhile, tax revenues amounted to $2,504.1 billion, overshooting projections by $136.6 billion. Inside, almost all categories were stronger in annual terms except for income tax collection (-0.9%) and excise taxes (-6.8%), with the latter dragged by higher fiscal stimulus to gasolines. To the upside we highlight VAT at +8.8% and import taxes at +13.0%, with the first ones benefited by the economic recovery. Revenues from government-controlled entities (IMSS and ISSSTE) came in at $224.5 billion, a 2.5% decrease, while those of CFE stood at $179.3 billion (-10.3%). Finally, non-oil, non-tax revenues ('other' in the table below) posted a 19.4% expansion, amounting to $243.9 billion.

Budget spending rises 4.1% y/y. Total spending reached $3,193.0 billion, $17.0 billion higher than budgeted. In this context, primary spending rose to $2,839.6 billion, which implies a 6.2% y/y expansion, with financial costs at $353.4 billion (-10.1%). Within the former, the programmable component grew 7.7%, amounting to $1,757.5 billion. We highlight the 14.5% increase in administrative branches, with strong expansions in the Ministry of Agrarian and Urban Development (212.0%) and Tourism (181.3%), albeit with declines in the Ministry of Economy (-91.2%) and for Public Security (-38.7%). In addition, spending by Pemex increased 16.8%, with CFE also higher at 12.8%. Meanwhile, outlays from government-controlled entities (IMSS and ISSSTE) advanced 5.6%, driven by IMSS at +9.3%. Autonomous branches spending rose 0.9%. Inside, the advance is explained by INE (+116.2%), with declines in INEGI (-70.2%) and the Federal Tribunal for Administrative Justice (-15.0%). Lastly, non-programmable spending excluding debt financial costs fell 0.5% to $494.6 billion, stemming from the 85.5% decline in ADEFAS, with participations –transfers to states under the federal tax collection agreement– up 3.0%.

Public finances: June 2021
$ billion

	June			January-June		
	2021	2020	% y/y real terms	2021	2020	% y/y real terms
Public Balance	-118.5	-145.0	-22.9	-231.2	-293.3	-24.9
Balance of entities under indirect budgetary control	*14.6*	*-2.0*	--	*30.6*	*25.4*	*14.5*
Revenues	474.7	406.9	10.2	2,931.2	2,603.1	7.3
Oil	63.5	63.8	-6.1	427.1	249.8	62.9
Non-oil	411.2	343.1	13.2	2,504.1	2,353.3	1.4
Tax collection	280.6	249.4	6.3	1,856.3	1,748.8	1.1
Other	56.4	21.4	149.1	243.9	194.6	19.4
Government controlled entities	41.1	43.1	-10.1	224.5	219.5	-2.5
CFE	33.1	29.1	7.4	179.3	190.4	-10.3
Spending	607.7	550.0	4.4	3,193.0	2,921.7	4.1
Primary spending	449.2	389.0	ND	2,839.6	2,547.0	6.2
Programmable spending	371.8	335.1	4.8	2,345.0	2,073.6	7.7
Non-programmable spending	77.4	53.9	ND	494.6	473.4	-0.5
Financial costs	158.5	161.0	-7.0	353.4	374.7	-10.1
Primary balance	30.1	18.1	56.5	104.2	58.1	70.9

Source: Ministry of Finance

Low levels prevail in 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 $15.5 billion, an improvement of $6.0 billion (+63.5%). The former 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 $2.2 billion, as seen in the table below.

Stabilization funds
$ billion

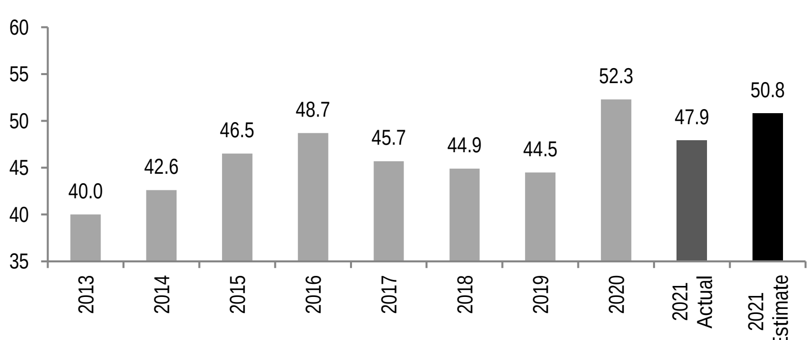
	Jun-21	Dec-20	Difference
Total	67.7	63.4	3.8
Stabilization Fund for Budget Revenues	15.5	9.5	6.0
Stabilization Fund for State Revenues	29.2	30.7	-1.4
Mexican Petroleum Fund for Stabilization and Development	22.4	23.2	-0.8

Source: MoF

Stronger revenues and spending in annual terms in June, albeit moderating given a more challenging base. In the month, total revenues picked up 10.2% y/y in real terms. Inside, oil-related turned negative at -6.1%, impacted by lower production despite higher prices. Tax revenues rose 6.3%. Specifically, income tax collection fell by 6.8% with VAT higher by 35.3%. Non-tax revenues surged 149.1%. Expenditures rose 4.4%. Programmable spending expanded 4.8%, with a +17.2% increase in administrative branches and autonomous at +27.6% (with the latter related to the June 6th elections). Within non-programmable spending, participations shot up 37.2%.

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at $12.4 trillion (~US$626.3 billion), equivalent to 47.9% of GDP. Out of these, $8.1 trillion are domestic debt (65.3% of the total outstanding), with the external component at US$217.1 billion ($4.3 trillion; 34.7% of the total). Net public-sector debt amounted to $12.4 trillion (~US$624.4 billion), equivalent to 47.8% of GDP. Inside, net domestic debt reached $8.0 trillion, while net foreign debt climbed to US$221.4 billion (equivalent to $4.4 trillion).

Historic Balance of the Public Sector Borrowing Requirements
% of GDP



Source: Ministry of Finance

Adjustments on macroeconomic and fiscal estimates. As part of the quarterly document, the MoF updated variables within the macroeconomic framework, as well as their estimates for some of the main lines within the public balance. Specifically, we highlight the upward adjustment in GDP for 2021, now at 6.0% and higher than the 5.3% outlined in the *2022 Preliminary Policy Criteria*. In addition, they now expect the USD/MXN exchange rate at 20.10, stronger at the margin. In the oil sector, the Mexican oil mix would be higher at 58.80 US$/bbl, albeit with more modest production at 1,794 kbpd. With these assumptions, the deficit in the PSBRs would reach 4.0% of GDP, higher than the previous 3.3%. Despite of this, the profile for the HBPSBR would be more favorable, reaching 50.8% of GDP (previous: 51.4% of GDP).

Macroeconomic framework and fiscal variables[1]
Selection

2021	GDP 6.0% (Previous: 5.3%)	USD/MXN: 20.10 (Previous: 20.20)	Crude oil price: US$/bbl 58.8 (Previous: 55.0)	Public deficit*: 4.0% (Previous: 3.3%)	Public debt**: 50.8% (Previous: 51.4%)	Primary balance 0.0% (Previous: 0.0%)

Source: MoF
1. GDP: Real annual growth rate; Nominal exchange rate at the end of the year; Public deficit, public debt y and primary balance as a percentage of GDP. *Public Sector Borrowing Requirements (PSBR). **Historical Balance of Public Sector Borrowing Requirements (HBPSBR)

The conference call provided further details about year-to-date dynamics. 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). They highlighted that they see a more modest impact on activity from the recent uptick in COVID-19 cases, considering a lower number of hospitalizations and deaths. In this sense, changes to the methodology of the 'traffic light' indicator should also allow for more activities to be carried out. Moreover, they elaborated on today's GDP print, which reinforces their view of a faster-than-expected recovery relative to the first estimates. They also detailed the use of resources from the elimination of several funds, with these registered as 'non-oil non-tax revenues'. On Pemex support, the comment was that they always consider the health of public finances in their design, thus making future aid dependent on this.

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