Public finances – $544.1 billion deficit in the PSBR up to September

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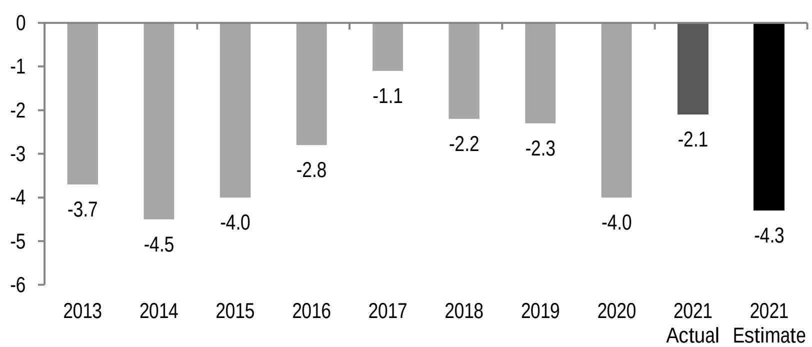
- **The Ministry of Finance (MoF) released its public finance report for September**
- **Public sector borrowing requirements (Jan-Sep): $544.1bn deficit (~US$26.8bn; ~2.1% of GDP)**
- **Public balance (Jan-Sep): $362.0bn deficit (~US$17.8bn; ~1.4% of GDP)**
- **Primary balance (Jan-Sep): $107.6bn surplus (~US$5.3bn; ~0.4% of GDP)**
- **Budget revenues increased 5.6% y/y in real terms, higher in oil (+64.6%) but with non-oil revenues lower (-1.1%). In the latter, we highlight the 0.3% increase in income tax, with VAT stronger at 13.5%**
- **Expenditures were up 5.6% y/y in real terms, with important growth in administrative branches (14.3%), along Pemex (22.3%) and CFE (13.0%)**
- **The *Stabilization Fund for Budget Revenues* (FEIP in Spanish) increased 60.7% vs. year-end 2020, standing at $15.3 billion (~US$751.5mn)**
- **The *Historic Balance of Public Sector Borrowing Requirements* stood at $12.6 trillion (~US$622.5bn), equivalent to 48.5% of GDP**
- **In addition, the MoF updated its fiscal estimates for this year, now expecting a deficit in the PSBRs of 4.3% of GDP**

PSBRs post a $544.1 billion deficit in the first nine months of the year. The MoF released its public finance report for September, in which we highlight the $544.1 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance[1]–, equivalent to close to 2.1% of GDP. This compares to the $514.4 billion deficit seen in the previous year. The 'traditional' public balance posted a $362.0 billion deficit, better than expected due to higher revenues. Finally, the primary surplus stood at $107.6 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.

Total revenues up 5.6% y/y in real terms. According to the MoF, revenues totaled $4,322.3 billion, $146.5 billion higher than projected. Oil-related income came in at $686.9 billion, representing a 64.6% increase in real terms relative to 2020, mainly driven by higher crude prices. Meanwhile, tax revenues amounted to $2,702.2 billion, overshooting projections by $12.7 billion. Inside, almost all categories were stronger in annual terms except for excise taxes (-12.3%), dragged by higher fiscal stimulus to gasolines. To the upside we highlight VAT at +13.5%, import taxes at +16.4% and income tax collection at 0.3%, with the first two benefited by the economic recovery. Revenues from government-controlled entities (IMSS and ISSSTE) came in at $342.3 billion, a 1.2% decrease, while those of CFE stood at $283.6 billion (-5.9%). Finally, non-oil, non-tax revenues ('other' in the table below) posted a 21.5% decline, amounting to $307.2 billion.

Budget spending rises 5.6% y/y. Total spending reached $4,705.9 billion, $24.0 billion higher than budgeted. In this context, primary spending rose to $4,233.2 billion, which implies a 7.4% y/y expansion, with financial costs at $472.7 billion (-7.8%). Within the former, the programmable component grew 8.5%, amounting to $3,523.5 billion. We highlight the 14.3% increase in administrative branches, with strong expansions in the Ministry of Tourism (272.9%) and Energy (218.5%), albeit with declines in the Ministry of Economy (-90.4%) and Labor (-28.7%). In addition, spending by Pemex increased 22.3%, with CFE also higher at 13.0%. Meanwhile, outlays from government-controlled entities (IMSS and ISSSTE) advanced 5.6%, driven by IMSS at +8.9%. Autonomous branches spending rose 3.9%. Inside, the advance is explained by INE (+108.8%), with declines in INEGI (-62.9%) and the Federal Tribunal for Administrative Justice (-14.0%). Lastly, non-programmable spending excluding debt financial costs rose 2.0% to $709.7 billion, stemming from the 96.8% decline in ADEFAS, with participations –transfers to states under the federal tax collection agreement– up 4.3%.

Public finances: September 2021
$ billion

	September			January-September		
	2021	2020	% y/y real terms	2021	2020	% y/y real terms
Public Balance	-99.6	-33.4	--	-362.0	-308.5	11.5
Balance of entities under indirect budgetary control	*-6.8*	*14.2*	--	*21.6*	*35.9*	*-42.8*
Revenues	429.7	380.4	6.5	4,322.3	3,888.9	5.6
Oil	77.3	48.2	51.3	686.9	396.5	64.6
Non-oil	352.3	332.2	0.0	3,635.3	3,492.4	-1.1
Tax collection	258.8	242.6	0.6	2,702.2	2,505.1	2.5
Other	19.8	21.8	-14.3	307.2	371.7	-21.5
Government controlled entities	39.8	35.6	5.3	342.3	329.2	-1.2
CFE	33.9	32.1	-0.4	283.6	286.4	-5.9
Spending	522.5	428.1	15.1	4,705.9	4,233.3	5.6
Primary spending	472.3	383.3	NA	4,233.2	3,746.0	7.4
Programmable spending	402.2	319.8	18.6	3,523.5	3,084.7	8.5
Non-programmable spending	70.1	63.5	NA	709.7	661.3	2.0
Financial costs	50.2	44.7	5.9	472.7	487.3	-7.8
Primary balance	-41.4	2.6	--	107.6	154.3	-33.7

Source: Ministry of Finance

Low levels prevail in stabilization funds. Specifically, the *Stabilization Fund for Budget Revenues* (FEIP in Spanish) stood at $15.3 billion, with an improvement of $5.8 billion relative to the figure seen in YE20 (+60.7%). The former represents 0.06% of GDP. Meanwhile, the *Stabilization Fund for State Revenues* (FEIEF in Spanish) showed a $1.1 billion decline to $29.6 billion, with the *Mexican Petroleum Fund for Stabilization and Development* (FMP in Spanish) practically unchanged at $23.3 billion, as seen in the table below.

Stabilization funds
$ billion

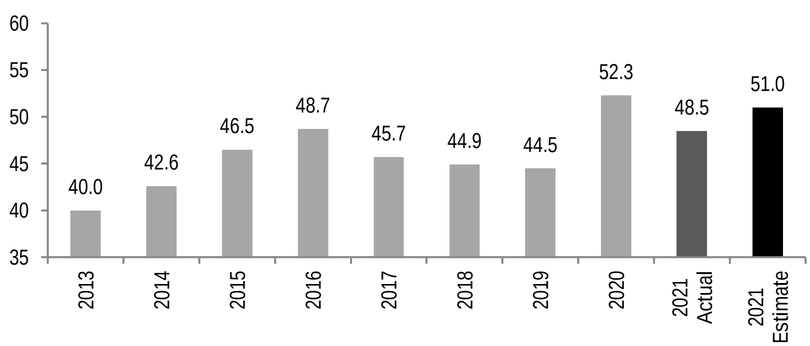
	Sep-21	Dec-20	Difference
Total	68.2	63.4	4.8
Stabilization Fund for Budget Revenues	15.3	9.5	5.8
Stabilization Fund for State Revenues	29.6	30.7	-1.1
Mexican Petroleum Fund for Stabilization and Development	23.3	23.2	0.1

Source: MoF

Advances in revenues and spending in annual terms in September. In the month, total revenues picked up 6.5% y/y in real terms. Inside, oil-related kept strong at 51.3%, boosted by the effect on prices as well as a sequential recovery in output. Tax revenues rose 0.6%. Specifically, income tax collection increased by 5.2%, with VAT higher by 8.3%. Non-tax revenues fell 14.3%. Expenditures rose 15.4%. Programmable spending expanded 18.6%, with a +17.8% increase in administrative branches and autonomous at +9.3% (with the latter related to the June 6th elections). Within non-programmable spending, participations expanded 0.1%.

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at $12.6 trillion (~US$622.5 billion), equivalent to 48.5% of GDP. Out of these, $8.4 trillion are domestic debt (66.4% of the total outstanding), with the external component at US$209.4 billion ($4.3 trillion; 33.6% of the total). Net public-sector debt amounted to $12.6 trillion (~US$619.6 billion), equivalent to 48.3% of GDP. Inside, net domestic debt reached $8.2 trillion, while net foreign debt climbed to US$213.3 billion (equivalent to $4.3 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, GDP for 2021, was unchanged at 6.3%. Nevertheless, they now expect the USD/MXN exchange rate at 20.20, weaker at the margin. In the oil sector, the Mexican oil mix would be higher at 62.6 US$/bbl, with production at 1,753 kbpd. With these assumptions, along other adjustments, the deficit in the PSBRs would reach 4.3% of GDP, higher than the previous 4.2%. Despite of this, the profile for the HBPSBR would remain at 51.0% of GDP.

Macroeconomic framework and fiscal variables[1]
Selection

2021	GDP 6.3% (Previous: 6.3%)	USD/MXN: 20.2 (Previous: 20.1)	Oil price: US$/bbl 62.6 (Previous: 60.6)	Public deficit*: 4.3% (Previous: 4.2%)	Public debt**: 51.0% (Previous: 51.0%)	Primary balance -0.4% (Previous: -0.4%)

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 Cajeme Villarreal Camero (Chief Economist of the MoF) and María del Carmen Bonilla (Head of the Public Credit Unit). They mentioned that the contraction in GDP reported on Friday will likely be temporary, expecting a recovery in the next quarter. In addition, they highlighted efforts taken to improve investment, noting the recent approach with the US. On public finances, they noted that tax collection has remained robust, surpassing expectations, along a rebalancing of taxes, reducing exposure to oil revenues with an increase in tax collections. On the adjustment on PSBRs, they mentioned that this is due in part to accounting adjustments, and that being modest, does not imply an adjustment to HBPSBR. Once again, they mentioned that support to Pemex will rely on the health of public finances, as this is the main goal of the MoF.

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