Public finances – Fiscal goals achieved in 2021

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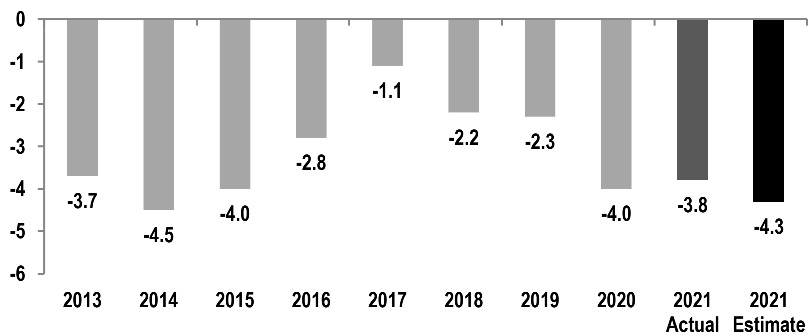
- **Last week, the Ministry of Finance (MoF) released its public finance report for December**
- **Public sector borrowing requirements (Jan-Dec): $996.7bn deficit (~US$48.4bn; ~3.8% of GDP)**
- **Public balance (Jan-Dec): $757.8bn deficit (~US$36.8bn; ~2.9% of GDP)**
- **Primary balance (Jan-Dec): $71.9bn deficit (~US$3.5bn; ~0.3% of GDP)**
- **Budget revenues increased 5.6% y/y in real terms, higher in oil (+80.6%) but with non-oil revenues contracting (-4.0%). In the latter, we highlight the +1.9% in income tax, with VAT stronger at 7.7%**
- **Expenditures were up 6.4% y/y in real terms, with important growth in administrative branches (20.4%), along with Pemex (31.2%) and CFE (5.6%)**
- **The *Stabilization Fund for Budget Revenues* (FEIP in Spanish) increased 4.3% vs. year-end 2020, standing at $9.9 billion (~US$481.3mn)**
- **The *Historic Balance of Public Sector Borrowing Requirements* (SHRFSP in Spanish) stood at $13.1 trillion (~US$637.2bn), equivalent to 50.1% of GDP**
- **With these results, the MoF achieved the goals updated within its last quarterly report in terms of the public balance and debt targets**

PSBRs deficit equivalent to 3.8% of GDP in 2021. The MoF released its public finance report for December, in which we highlight the $996.7 billion in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance[1]–, close to 3.8% of GDP and better than anticipated (4.3% of GDP). This compares to the $922.8 billion deficit of 2020. The 'traditional' public balance posted a $757.8 billion deficit, slightly below expectations due to higher expenditures. Finally, the primary balance had a deficit of $71.9 billion (0.3% of GDP).

Public Sector Borrowing Requirements*
% of GDP



Source: Ministry of Finance

Winners of the award for best economic forecasters for Mexico in 2021, granted by *Refinitiv*

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[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. Revenues amount to $5,960.9 billion in 2021, $422.0 billion higher than projected. Oil-related income came in at $1,156.5 billion, +80.6% in real terms, mainly driven by higher oil prices. Meanwhile, tax revenues amounted to $3,566.7 billion, better than projected by $33.8 billion. Inside, almost all categories were stronger in annual terms except for excise taxes (-18.0%), dragged by the fiscal stimulus to gasolines. To the upside we highlight VAT at +7.7%, import taxes at +23.4% and income tax collection at +1.9%, with the first two benefited by the economic recovery. Revenues from government-controlled entities (IMSS and ISSSTE) came in at $467.4 billion, (-0.9%), while those of CFE reached $384.8 billion (-8.4%). Finally, non-tax revenues declined 33.8%, amounting to $385.5 billion.

Budget spending rises 6.4% y/y. Total spending reached $6,738.9 billion, $481.7 billion higher than budgeted. In this context, primary spending rose to $6,051.9 billion, implying +7.9% y/y, with financial costs at $687.0 billion (-5.3%). Within the former, the programmable component grew 9.0%, amounting to $5,128.6 billion. We highlight the +20.4% in administrative branches, with strong expansions in the Ministry of Energy (485.9%) and Tourism (153.0%), albeit with declines in the Ministry of Economy (-88.2%) and Labor (-18.5%). In addition, spending by Pemex increased 31.2%, with CFE also higher at 5.6%. Outlays from government-controlled entities (IMSS and ISSSTE) advanced 2.4%, driven by IMSS at +5.4%. In addition, autonomous branches spending rose to 3.5%. Inside, the advance is explained by INE (+74.1%), with declines in INEGI (-54.0%) and the Federal Telecommunications Institute (-4.6%). Lastly, non-programmable spending rose 1.8% to $923.3 billion, with a 55.9% decline in ADEFAS and with participations –transfers to states under the federal tax collection agreement– up 2.8%.

Public finances: December 2021
$ billion

	December			January-December		
	2021	2020	% y/y real terms	2021	2020	% y/y real terms
Public Balance	**-308.1**	**-277.1**	**3.6**	**-757.8**	**-676.4**	**6.0**
Balance of entities under indirect budgetary control	*-3.2*	*-40.8*	*-92.7*	*20.2*	*-21.4*	*--*
Revenues	**709.6**	**605.7**	**9.1**	**5,960.9**	**5,340.0**	**5.6**
Oil	257.9	109.4	119.6	1,156.5	605.9	80.6
Non-oil	451.8	496.3	-15.2	4,804.4	4,734.1	-4.0
Tax collection	355.5	314.7	5.2	3,566.7	3,338.9	1.1
Other	17.5	97.8	-83.4	385.5	551.3	-33.8
Government controlled entities	44.3	45.1	-8.5	467.4	446.4	-0.9
CFE	34.5	38.7	-16.9	384.8	397.5	-8.4
Spending	**1,014.5**	**841.9**	**12.2**	**6,738.9**	**5,995.0**	**6.4**
Primary spending	852.7	713.0	ND	6,051.9	5,308.9	7.9
Programmable spending	773.7	648.2	11.2	5,128.6	4,450.4	9.0
Non-programmable spending	78.9	64.8	ND	923.3	858.5	1.8
Financial costs	161.8	129.0	16.9	687.0	686.1	-5.3
Primary balance	**-146.4**	**-116.0**	**17.5**	**-71.9**	**29.7**	**--**

Source: Ministry of Finance

Low levels prevail in stabilization funds. Specifically, the *Stabilization Fund for Budget Revenues* (FEIP in Spanish) stood at $9.9 billion, improving $409 million relative to YE20 (+4.3%). The former represents 0.04% of GDP. Meanwhile, the *Stabilization Fund for State Revenues* (FEIEF in Spanish) declined $9.3 billion to $21.4 billion, with the *Mexican Petroleum Fund for Stabilization and Development* (FMP in Spanish) practically unchanged at $23.4 billion, as seen in the table below.

Stabilization funds
$ billion

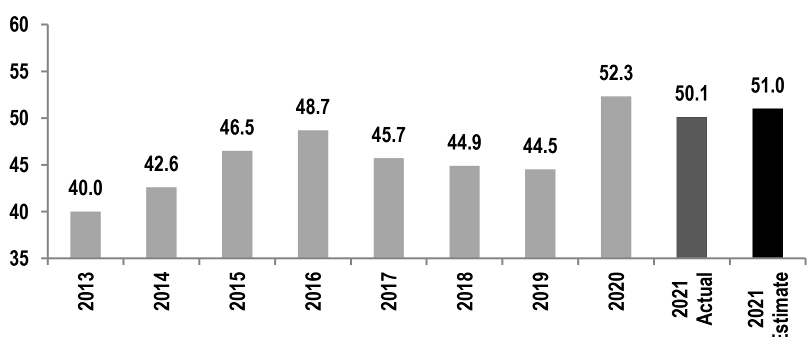
	Dec-21	Dec-20	Difference
Total	**54.6**	**63.4**	**-8.7**
Stabilization Fund for Budget Revenues	9.9	9.5	0.4
Stabilization Fund for State Revenues	21.4	30.7	-9.3
Mexican Petroleum Fund for Stabilization and Development	23.4	23.2	0.1

Source: MoF

Advances in revenues and spending in annual terms in December. In the month, total revenues picked up 9.1% y/y in real terms. Inside, oil-related showed an increase of 119.6%, boosted by the effect on prices. Tax revenues rose to 5.2%. Specifically, income tax collection increased by 21.9%, although VAT fell by 8.6%. Non-tax revenues decline 83.4%. Expenditures rose 12.2%. Going further into details, programmable spending expanded 11.2%, with a +38.2% increase in administrative branches and autonomous at +0.2%. Within non-programmable spending, participations decreased 2.1%.

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at $13.1 trillion (~US$637.2 billion), equivalent to 50.1% of GDP. Out of these, $8.7 trillion are domestic debt (66.4% of the total outstanding), with the external component at US$214.2 billion ($4.4 trillion; 33.6% of the total). Net public-sector debt amounted to $13.1 trillion, equivalent to 49.9% of GDP. Inside, net domestic debt amount to $8.6 trillion, while net foreign debt climbed to US$218.4 billion (equivalent to $4.5 trillion).

Historic Balance of the Public Sector Borrowing Requirements
% of GDP



Source: Ministry of Finance

Important details in the conference call. The call was led by Cajeme Villarreal Camero (Chief Economist of the MoF) and María del Carmen Bonilla (Head of the Public Credit Unit). Regarding activity, they highlight the recovery in non-essential sectors, supporting the recovery, while distortions in other figures are likely temporary. Regarding public finances, they mentioned that revenues were better than forecast, partially because of the efforts from the Tax Administration Service (SAT in Spanish) to increase collections. On expenditures, they noted an important increase in physical investment, although mentioning that it is not fully reflected in this report due to accounting issues. Regarding the public and primary balances, it was commented that the aim was to keep sound public finances, and this was achieved, at times exceeding the established goals. About Pemex, they specified that the Deer Park purchase funds were delivered on December, so these are reflected in the present report.

2021 fiscal goals were met. Like in previous years, the government reached the established objectives about the most relevant fiscal metrics, specifically the balance (PSBRs and primary) and public debt. Regarding PSBRs, the last updated foresaw a deficit by 4.3% of GDP, while the result was better than expected by almost 0.5%-pts of GDP at 3.8%. The primary balance result was more in line with the forecast, with a deficit of 0.3% of GDP (forecast: -0.4%). Finally, debt was perhaps the best, rising to 50.1% vs 51.0% of GDP. We believe this confirms the MoF's commitment to maintain sound public finances, which in turn should support the macroeconomic position of our country as well as its credit rating in the medium term.

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