Public finances – $112.9 billion deficit in the PSBR in 1Q22

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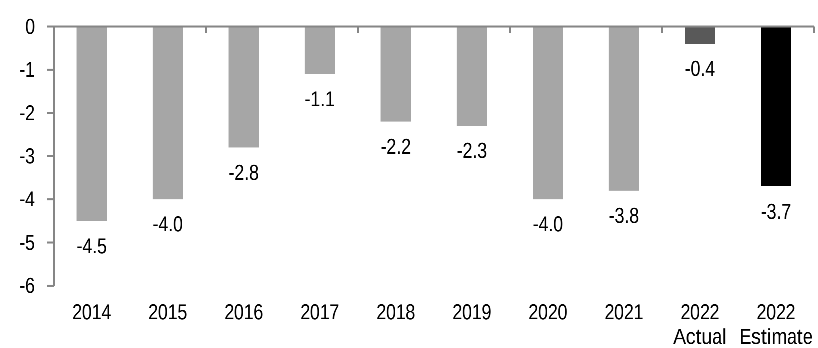
- **The Ministry of Finance (MoF) released its public finance report for March**
- **Public sector borrowing requirements (Jan-Mar): $112.9bn deficit (~0.4% of GDP; ~US$5.6bn)**
- **Public balance (Jan-Mar): $66.5bn deficit (~0.2% of GDP; ~US$3.3bn)**
- **Primary balance (Jan-Mar): $92.0bn surplus (~0.3% of GDP; ~US$4.6 bn)**
- **Budget revenues increased 2.2% y/y in real terms, with oil higher (+31.7%), but with non-oil revenues lower (-2.2%). In the latter, income tax rose sharply, albeit with VAT and excise taxes to the downside**
- **Expenditures were up 0.8% y/y in real terms, with a large increase in IMSS (14.5%), but declines in autonomous and administrative branches, as well as Pemex and CFE**
- **The *Stabilization Fund for Budget Revenues* (FEIP in Spanish) increased 148.3% vs. year-end 2021, standing at $24.6 billion**
- **The *Historic Balance of Public Sector Borrowing Requirements* stood at $13.1 trillion, equivalent to 45.4% of GDP**
- **There were no adjustments in the macroeconomic or fiscal forecasts, given that they were were adjusted early in the month in the *2023 Preliminary Budget Criteria***

Deficit of $112.9 billion in the PSBRs in 1Q22. The MoF released its public finance report for March, in which we highlight the $112.9 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance[1]–, equivalent to 0.4% of GDP. This compares to the $175.5 billion deficit seen in the same period of 2021. The 'traditional' public balance posted a $66.5 billion deficit, lower than anticipated due to higher revenues, and lower expenditures than expected. The primary balance had a $92.0 billion surplus.

Public Sector Borrowing Requirements*
% of GDP



*Estimate based of the percentage of GDP presented for PSBRs and public debt. Source: Ministry of Finance

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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 increase 2.2% y/y in real terms. Revenues reached $1,715.8 billion in the month, $20.7 billion better than expected. Oil-related income came in at $289.3 billion, +31.7% in real terms, mainly driven by higher oil prices. Meanwhile, tax revenues were $1,119.6 billion, lower than projections by $2.7 billion. Performance was mostly negative, highlighting to the downside VAT (-9.3%) and excise taxes (-38.4%), with the latter impacted by the application of stimulus to fuels. Meanwhile, income tax revenues rose 13.5%. Income from government-controlled entities (IMSS and ISSSTE) came in at $125.4 billion (6.5%), while those of CFE reached $90.2 billion (-1.3%). Finally, non-tax revenues declined 39.4%, amounting to $91.2 billion.

Budget spending climbs 0.8% y/y. Total spending reached $1,799.3 billion, $3.1 billion lower than budgeted. Primary spending rose to $1,635.1 billion, which implies +0.4% y/y, with financial costs at $164.3 billion (+5.5%). Within the former, the programmable component decreased by 2.2%, amounting to $1,336.0 billion. Outlays from government-controlled entities (IMSS and ISSSTE) advanced 9.3%, driven by IMSS at +14.5%. Spending from Pemex fell 10.2%, with CFE at -22.1%. Administrative branches declined 0.4%, with strong declines in the Ministry of Economics (-69.2%) and Agrarian and Urban Development (-67.8%), albeit with significant increases in Tourism (91.1%) and Welfare (46.9%) –likely explained by payments from social programs being brought forward due to the electoral ban–. Moreover, autonomous branches spending fell 10.4%. Inside, the decline is mostly explained by INE (-39.0%) and the Federal Telecommunications Agency (-4.7%), although higher in INEGI (4.5%) and Federal Tribunal for Administrative Justice (2.9%). Lastly, non-programmable spending rose 14.0% to $294.1 billion, with participations up 13.9%.

Public finances: March 2022
$ billion

	March			January-March		
	2022	2021	% y/y real terms	2022	2021	% y/y real terms
Public Balance	103.9	15.9	--	-66.5	-83.0	-25.4
Balance of entities under indirect budgetary control	*12.1*	*9.5*	*18.5*	*17.1*	*16.1*	*-0.7*
Revenues	728.9	636.6	6.5	1,715.7	1,564.3	2.2
Oil	144.4	77.5	73.4	289.3	204.7	31.7
Non-oil	584.5	559.2	-2.7	1,426.5	1,359.6	-2.2
Tax collection	459.5	403.6	6.0	1,119.6	1,024.1	1.9
Other	51.4	89.1	-46.4	91.2	140.5	-39.4
Government controlled entities	42.3	37.9	3.9	125.4	109.8	6.5
CFE	31.3	28.5	2.1	90.2	85.2	-1.3
Spending	637.0	630.2	-5.9	1,799.3	1,663.4	0.8
Primary spending	567.3	569.6	ND	1,635.1	1,518.3	0.4
Programmable spending	487.6	501.0	-9.4	1,336.0	1,273.8	-2.2
Non-programmable spending	79.6	68.6	ND	299.1	244.5	14.0
Financial costs	69.8	60.6	7.2	164.3	145.2	5.5
Primary balance	164.9	68.1	125.2	92.0	53.2	61.2

Source: Ministry of Finance

Increase in the total stabilization funds, driven by the FEIP. Specifically, the *Stabilization Fund for Budget Revenues* (FEIP in Spanish) stood at $24.6 billion, with an improvement of $14.7 billion relative to the figure seen at the end of the 2021 (+148.3%). This represents 0.09% of GDP. Meanwhile, the *Stabilization Fund for State Revenues* (FEIEF in Spanish) showed a $790 million decline to $20.6 billion.

Lastly, the *Mexican Petroleum Fund for Stabilization and Development* (FMP in Spanish) also lower at $22.8 billion, as seen in the table below.

Stabilization funds
$ billion

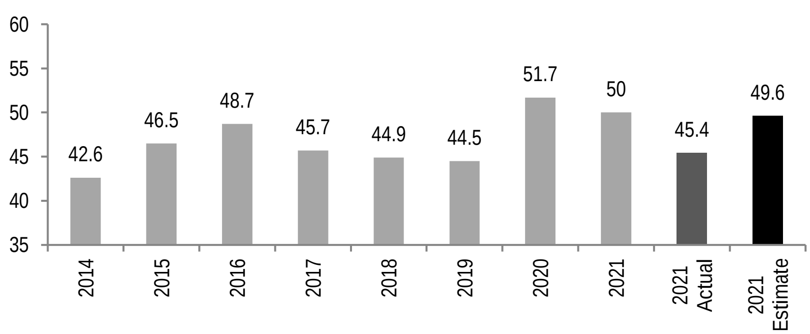
	Mar-22	Dec-21	Difference
Total	68.0	54.6	13.4
Stabilization Fund for Budget Revenues	24.6	9.9	14.7
Stabilization Fund for State Revenues	20.6	21.4	-0.8
Mexican Petroleum Fund for Stabilization and Development	22.8	23.4	-0.5

Source: MoF

Increase in revenues, but with lower spending in March. In the month, total revenues increased 6.5% y/y in real terms. Inside, oil-related came in at +73.4%, boosted by high prices. Tax revenues rose 6.0%. Specifically, income tax collection climbed 17.2%, albeit with VAT and excise taxes lower at -7.8% and -58.1%, respectively. Expenditures declined 5.9%. Programmable spending was lower by 9.4%, with autonomous branches at -14.2% and administrative at +0.6%. In addition, expenditures by CFE fell 45.9%, with the ones from Pemex at -26.4%. Within non-programmable spending, participations rose 8.4%.

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at $13.1 trillion, equivalent to 45.4% of GDP. Out of these, $8.8 trillion are domestic debt (67.3% of the total outstanding), with the external component at US$214.4 billion ($4.3 trillion; 32.7% of the total). Net public-sector debt amounted to $13.1 trillion. Inside, net domestic debt reached $8.7 trillion, while net foreign debt totaled US$218.2 billion (equivalent to $4.4 trillion).

Historic Balance of the Public Sector Borrowing Requirements
% of GDP



Source: Ministry of Finance

Relevant insight in the call with analysts. The call was led by Rodrigo Mariscal Paredes, Chief Economist of the MoF. He mentioned that the expansion in GDP in 1Q22 was better than expected. They forecast that, if sectors that remain lagged recover their pre-pandemic level, with the rest at the same level than in 1Q22, activity could grow around 2.6% in the year. In addition, on inflation, the MoF has been analyzing a program to dampen increases in prices of some essential goods, expecting it to be unveiled by President López Obrador next week. However, he emphasized that this will not be carried out through a 'price control' scheme, but through administrative actions and public spending, on top of agreements with private sector participants. Regarding fiscal themes, they mentioned that the cost of the additional stimulus to fuel excise taxes –which will be accounted for as lower VAT revenues by the way it is transferred to companies– could be of around $257 billion through the year.

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