Public finances – $492.3 billion deficit in the PSBRs up to September

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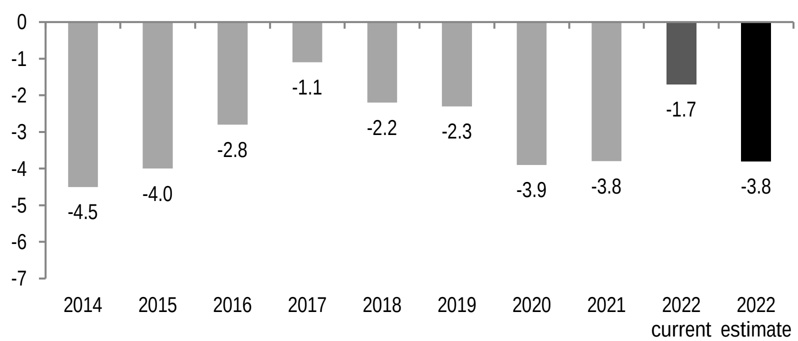
- **The Ministry of Finance (MoF) released its public finance report for September**
- **Public sector borrowing requirements (Jan-Sep): $492.3bn deficit (~US$24.4bn; ~1.7% of GDP)**
- **Public balance (Jan-Sep): $396.3bn deficit (~US$19.5bn; ~1.4% of GDP)**
- **Primary balance (Jan-Sep): $211.1bn surplus (~US$10.4bn; ~0.7% of GDP)**
- **Budget revenues increased 4.8% y/y in real terms, higher in oil (+35.8%) but lower in non-oil (-1.0%). On the latter, we highlight the 14.5% increase in income tax, while excise tax collections fell 82.3%**
- **Expenditures rose 3.5% y/y in real terms, with increases in CFE (6.2%) and IMSS (2.8%), but declines in autonomous branches (-8.7%)**
- **The *Stabilization Fund for Budget Revenues* (FEIP in Spanish) increased 157.2% vs. year-end 2021, standing at $25.5 billion (~US$1.3bn)**
- **The *Historic Balance of Public Sector Borrowing Requirements* stood at $13.5 trillion (~US$664.8bn), equivalent to 46.5% of GDP**

PSBRs post a $492.3 billion deficit up to September. The Ministry of Finance released its public finance report for September, in which we highlight the $492.3 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance[1]–, equivalent to close to 1.7% of GDP. This compares with the $561.3 billion deficit seen in the same period of 2021. The 'traditional' public balance posted a $396.3 billion deficit, lower than anticipated due to higher revenues than budgeted, even despite being partially offset by higher spending. Finally, the primary surplus stood at $211.1 billion.

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 up 4.8% y/y in real terms. Revenues reached $4.9 trillion in the period, $258.2 billion better than expected. Oil-related income came in at $1.0 billion, +35.8% in real terms, mainly driven by higher oil prices. Meanwhile, tax revenues were $2.9 trillion, lower than projections by $81.2 billion. Performance was mostly positive, highlighting +14.5% in income tax revenues and +1.8% in VAT. Meanwhile, the fall was centered in excise taxes (-82.3%), still impacted by stimulus to fuels. Income from government-controlled entities (IMSS and ISSSTE) came in at $392.1 billion (+6.2%), while those of CFE reached $310.8 billion (+1.6%). Finally, non-tax revenues fell 16.1%, amounting to $277.9 billion.

Budget spending up 3.5% y/y. Total spending reached $5.3 trillion, $80.7 billion higher than budgeted. In this context, primary spending rose to $4.7 trillion, which implies +2.8% y/y, with financial costs at $561.5 billion (+10.1%). Within the former, the programmable component grew 1.7%, amounting to $3.9 trillion. Outlays from government-controlled entities (IMSS and ISSSTE) advanced 1.4%, driven by IMSS (+2.8%) as ISSSTE was lower (-1.8%). Spending by Pemex fell 0.7%, with CFE up 6.2%. Administrative branches rose 2.9%, with significant increases in Tourism (238.5%) and Welfare (43.0%), albeit with strong corrections in the Ministry of Economy (-39.9%) and Energy (-39.9%). Moreover, autonomous branches spending fell 8.7%. Inside, the decline is mostly explained by INE (-41.2%) and the Legislative Power (-6.2%), although higher in INEGI (+19.2%) and the Human Rights Commission (+10.9%). Lastly, non-programmable spending rose 8.3% to $830.5 billion, with participations up 7.8%.

Public finances: September 2022
$ billion

	September			January-September		
	2022	2021	% y/y real terms	2022	2021	% y/y real terms
Public Balance	-111.3	-99.6	2.8	-396.3	-362.0	1.5
Balance of entities under indirect budgetary control	*-10.8*	*-6.0*	*64.9*	*-24.7*	*23.7*	--
Revenues	505.6	429.7	8.2	4,886.4	4,322.3	4.8
Oil	114.3	77.4	35.9	1,006.5	686.9	35.8
Non-oil	391.3	352.3	2.2	3,880.0	3,635.3	-1.0
Tax collection	277.5	258.8	-1.4	2,899.2	2,702.2	-0.5
Other	29.8	19.8	38.3	277.9	307.2	-16.1
Government controlled entities	45.1	39.8	4.3	392.1	342.4	6.2
CFE	38.9	33.9	5.5	310.8	283.6	1.6
Spending	606.0	523.3	6.5	5,258.0	4,708.0	3.5
Primary spending	536.4	473.0	ND	4,696.5	4,235.4	2.8
Programmable spending	456.5	402.5	4.3	3,866.0	3,524.4	1.7
Non-programmable spending	79.9	70.5	ND	830.5	711.0	8.3
Financial costs	69.6	50.2	27.5	561.5	472.7	10.1
Primary balance	-32.8	-42.8	-29.5	211.1	104.4	87.5

Source: Ministry of Finance

Increases in both revenues and spending in September. In the month, total revenues picked up 8.2% y/y in real terms. Inside, oil-related came in at +35.9%, still favored by higher prices. Tax revenues fell 1.4%, mainly on excise taxes on fuels, although with income tax collection up 12.0%. Expenditures grew 6.5%. Programmable spending was higher by 4.3%, despite declines in autonomous (-3.8%). Specifically, expenditures by CFE rose 13.9%, meanwhile Pemex fell by -17.2%. Within non-programmable spending, participations increased 5.2%.

Increase in two out of three stabilization funds. The Stabilization Fund for Budget Revenues (FEIP in Spanish) grew to $25.5 billion, $15.6 billion higher than at the end of the 2021 (+157.2%). This represents 0.09% of GDP. Meanwhile, the Stabilization Fund for State Revenues (FEIEF in Spanish) showed a $9 million decline to $21.4 billion. Lastly, the Mexican Petroleum Fund for Stabilization and Development (FMP in Spanish) fell to $22.4 billion, as seen in the table below.

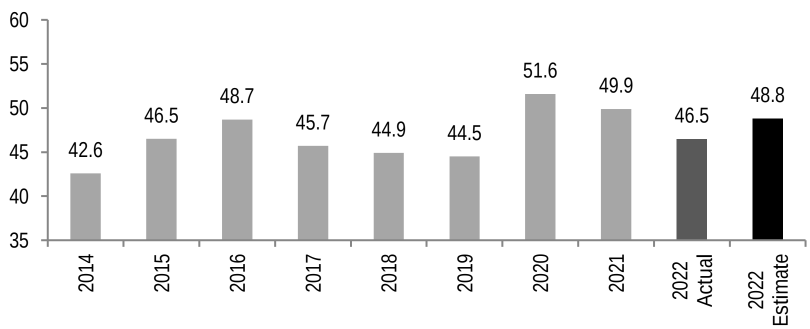
Stabilization funds
$ billion

	Sep-22	Dec-21	Difference
Total	69.2	54.6	14.6
Stabilization Fund for Budget Revenues	25.5	9.9	15.6
Stabilization Fund for State Revenues	21.4	21.4	0.0
Mexican Petroleum Fund for Stabilization and Development	22.4	23.4	-1.0

Source: MoF

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at $13.5 trillion, equivalent to 46.5% of GDP. Out of these, $9.2 trillion are domestic debt (68.3% of the total outstanding), with the external component at US$210.9 billion ($4.2 trillion; 31.7% of the total). Net public-sector debt amounted to $13.5 trillion. Inside, net domestic debt reached $9.2 trillion, while net foreign debt totaled US$212.9 billion (equivalent to $4.3 trillion).

Historic Balance of the Public Sector Borrowing Requirements
% of GDP



Source: Ministry of Finance

Relevant insights in the call with analysts. The call was led by Rodrigo Mariscal Paredes, Chief Economist of the MoF; and María del Carmen Bonilla, Deputy Undersecretary for Public Credit. Regarding GDP in 2022, they stated that today's result implies upward risks for their 2.4% estimate. Meanwhile, they noted that support for 2023 would come from several factors, including: (1) Replenishment of inventories in the auto sector; (2) the expectation of a relatively soft landing in the US, expecting a modest impact on employment conditions of Mexican migrants; and (3) resiliency in exports to the US, despite a deceleration in flows to Europe and Asia. Regarding the Plan Against Inflation, they estimate that the basket, made up of 24 goods tracked by PROFECO, has increased only around 3.5% since its introduction in early May, outperforming other categories within CPI. On fuel subsidies, they expect to remain concentrated on diesel given prevailing global price dynamics, although the program will continue to be used to smooth out sharp variations in international prices. They also explained that larger-than-expected spending is explained by earlier CAPEX expenditures.

They noted that they are on track to meet their updated targets on the balance sheet and debt levels. Finally, they have pushed the Lower House to make amendments to stabilization funds, aiming to build them up faster than current legislation allows. As such, if these changes are approved by Congress, they estimate that the FEIP would close the year between $70 and 80 billion.

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Analyst Certification

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