Public finances – PSBR deficit of 4.4% of GDP in 2022

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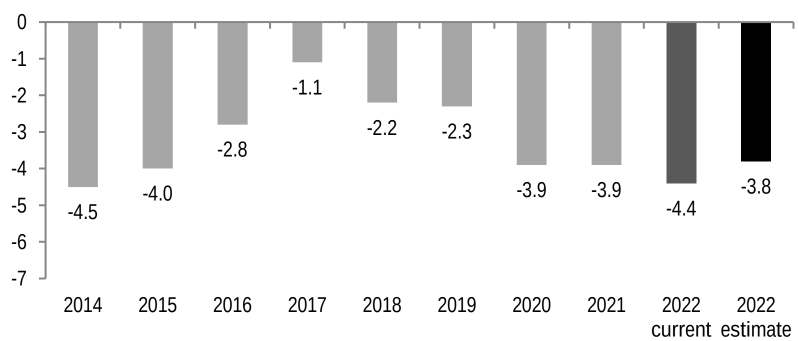
- **Yesterday, the Ministry of Finance (MoF) released its public finance report for December**
- **Public sector borrowing requirements (2022): $1,260.9bn deficit (~US$64.9bn; ~4.4% of GDP)**
- **Public balance (2022): $978.5bn deficit (~US$50.4bn; ~3.4% of GDP)**
- **Primary balance (2022): $151.7bn deficit (~US$7.8bn; ~0.5% of GDP)**
- **Budget revenues increased 2.5% y/y in real terms, with oil higher (+18.7%) but with non-oil declining (-1.4%). On the latter, we highlight the 11.0% increase in income tax, while excise tax collections down 72.7%**
- **Expenditures rose 4.1% y/y in real terms, with increases in IMSS (7.2%) and Pemex (6.3%), but with a decline in autonomous branches (-9.1%)**
- **The *Stabilization Fund for Budget Revenues* (FEIP in Spanish) increased 162.2% vs. year-end 2021, standing at $26.0 billion (~US$1.4bn)**
- **The *Historic Balance of Public Sector Borrowing Requirements* stood at $14.1 trillion (~US$725.8bn), equivalent to 49.4% of GDP**

PSBRs post a deficit of 4.4% of GDP in 2022. The Ministry of Finance released its public finance report for December, in which we highlight the $1,260.9 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance[1]–, equivalent to close to 4.4% of GDP. This compares with the $1,000.0 billion deficit seen in the same period of 2021. The 'traditional' public balance posted a $978.5 billion deficit, larger than anticipated due to higher expenditures than budgeted, even despite being partially offset by higher revenues. Finally, the primary deficit stood at $151.7 billion (0.5% of GDP).

Public Sector Borrowing Requirements*
% of GDP



*Estimate based of the percentage of GDP presented for PSBRs and public debt. 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 2.5% y/y in real terms. Revenues reached $6.6 trillion in the period, $422.5 billion better than expected. Oil-related income came in at $1.5 trillion, +18.7% in real terms, mainly driven by higher oil prices. Meanwhile, tax revenues were $3.8 trillion, lower than projections by $135.8 billion. Performance was mixed, highlighting +11.0% in income tax revenues and +0.8% in VAT. Meanwhile, the fall centered in excise taxes (-72.7%), impacted by stimulus to fuels. Income from government-controlled entities (IMSS and ISSSTE) came in at $537.9 billion (+6.7%), while those of CFE reached $425.1 billion (+2.4%). Finally, non-tax revenues fell 17.8%, amounting to $341.7 billion.

Budget spending up 4.1% y/y. Total spending reached $7.6 trillion, $520.8 billion higher than budgeted. In this context, primary spending rose to $6.8 trillion, which implies +3.5% y/y, with financial costs at $815.2 billion (+10.0%). Within the former, the programmable component grew 2.9%, amounting to $5.7 trillion. Outlays from government-controlled entities (IMSS and ISSSTE) advanced 5.9%, driven by IMSS (+7.2%) as ISSSTE was lower (+2.5%). Spending by Pemex rose by 6.3%, with CFE up 4.5%. Administrative branches rose 1.9%, with significant increases in Tourism (355.4%) and Welfare (36.2%), albeit with strong corrections in the Ministry of Energy (-44.6%) and Economy (-31.8%). Moreover, autonomous branches spending fell 9.1%. Inside, the decline is mostly explained by INE (-34.8%) and the General Attorney's Office (-14.1%), although higher in INEGI (+35.2%) and the Human Rights Commission (+2.5%). Lastly, non-programmable spending rose 6.9% to $1.1 billion, with participations up 7.3%.

Public finances: December 2022
$ billion

	December			Full year		
	2022	2021	% y/y real terms	2022	2021	% y/y real terms
Public Balance	-456.3	-302.8	39.8	-978.5	-752.5	20.5
Balance of entities under indirect budgetary control	*-29.7*	*-2.5*	--	*-4.7*	*22.4*	--
Revenues	650.6	709.6	-15.0	6,595.1	5,960.9	2.5
Oil	198.1	257.8	-28.7	1,481.6	1,156.5	18.7
Non-oil	452.5	451.8	-7.1	5,113.5	4,804.5	-1.4
Tax collection	344.4	355.5	-10.1	3,808.7	3,566.7	-1.0
Other	15.0	17.5	-20.7	341.7	385.5	-17.8
Government controlled entities	54.4	44.4	13.8	538.0	467.4	6.7
CFE	38.7	34.5	4.1	425.1	384.8	2.4
Spending	1,077.3	1,009.9	-1.1	7,569.0	6,735.8	4.1
Primary spending	898.2	848.4	ND	6,753.8	6,049.1	3.5
Programmable spending	814.3	770.1	-1.9	5,688.5	5,125.6	2.9
Non-programmable spending	84.0	78.3	ND	1,065.2	923.5	6.9
Financial costs	179.0	161.5	2.8	815.2	686.7	10.0
Primary balance	-257.3	-144.0	65.7	-151.7	-73.2	92.2

Source: Ministry of Finance

Declines in both revenues and spending in December. In the month, total revenues contracted 15.0% y/y in real terms. Inside, oil-related came in at -28.7%, with an adverse base effect. Tax revenues fell 10.1%, mainly on income tax (-13.2%) and excise tax (-23.5%) . Expenditures declined 1.1%. Programmable spending was lower by 1.9%, with contractions in autonomous (-15.2%) and administrative branches (-8.8%). On the contrary, outlays by Pemex rose 18.0%. Within non-programmable spending, participations increased 8.8%.

Increase in two out of three stabilization funds. The Stabilization Fund for Budget Revenues (FEIP in Spanish) grew to $26.0 billion, $16.1 billion higher than at the end of the 2021 (+162.2%). This represents 0.09% of GDP. Meanwhile, the Stabilization Fund for State Revenues (FEIEF in Spanish) showed a $479 million increase to $21.8 billion. Lastly, the Mexican Petroleum Fund for Stabilization and Development (FMP in Spanish) fell to $22.1 billion, as seen in the table below.

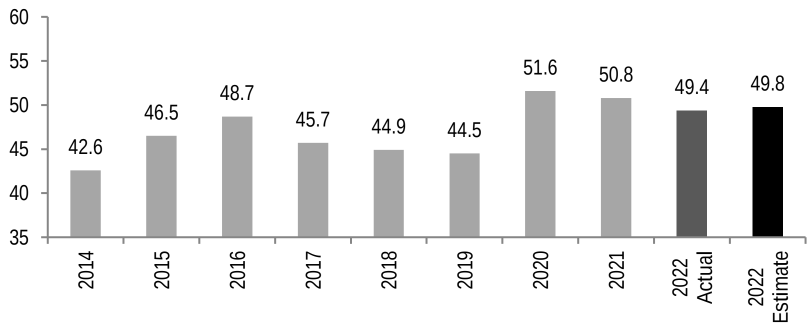
Stabilization funds
$ billion

	Dec-22	Dec-21	Difference
Total	70.0	54.6	15.3
Stabilization Fund for Budget Revenues	26.0	9.9	16.1
Stabilization Fund for State Revenues	21.8	21.4	0.5
Mexican Petroleum Fund for Stabilization and Development	22.1	23.4	-1.2

Source: MoF

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at $14.1 trillion, equivalent to 49.4% of GDP. Out of these, $10.0 trillion are domestic debt (70.7% of the total outstanding), with the external component at US$212.5 billion ($4.1 trillion; 29.3% of the total). Net public-sector debt amounted to $14.1 trillion. Inside, net domestic debt reached $9.9 trillion, while net foreign debt totaled US$216.5 billion (equivalent to $4.2 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. On GDP, they highlighted the 3.0% increase in 2022. According to their calculations, this implies an inertial boost of 1.0% for this year. Specifically, they expect an additional recovery in services and a more important increase in construction, in line with recent performance. Regarding the labor market, they consider that the situation is quite favorable, not expecting important wage pressures taking into account current conditions. On inflation, they remained attentive to the core, particularly at processed foods. In that sense, they will keep implementing measures to offset them, both with subsidies to fuel as well as with measures in the *Plan Against Inflation*. Specifically, they are working with private-sector companies to extend the program through 2023. Regarding public finances, they mentioned that extraordinary oil revenues were mostly used to offset the program of complementary subsidies for fuels. Meanwhile, on spending they kept prioritizing social spending, while they also provided resources to key infrastructure works.

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