Public finances – $266.5 billion deficit in the PSBR during the first half of the year

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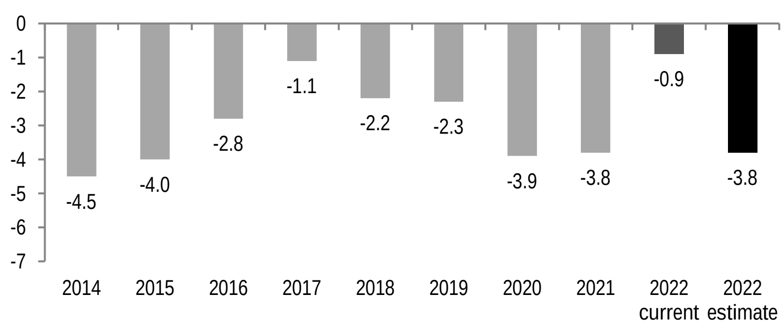
- **The Ministry of Finance (MoF) released its public finance report for June**
- **Public sector borrowing requirements (Jan-Jun): $266.5bn deficit (~US$13.3bn; ~0.9% of GDP)**
- **Public balance (Jan-Jun): $204.8bn deficit (~US$10.3bn; ~0.7% of GDP)**
- **Primary balance (Jan-Jun): $200.5bn surplus (~US$10.0bn; ~0.7% of GDP)**
- **Budget revenues increased 4.9% y/y in real terms, higher for both oil (+29.4%) and non-oil (+0.7%). We highlight the 16.1% increase in income tax, while excise tax collections fell by 68.5%**
- **Expenditures rose 2.1% y/y in real terms, with increases in IMSS (5.2%) and Pemex (5.2%), but declines in autonomous (-10.2%) and administrative branches (-2.3%)**
- **The *Stabilization Fund for Budget Revenues* (FEIP in Spanish) increased 152.2% vs. year-end 2021, standing at $25.0 billion (~US$1.3bn)**
- **The *Historic Balance of Public Sector Borrowing Requirements* stood at $13.2 trillion (~US$663.0bn), equivalent to 45.7% of GDP**
- **The MoF updated its macroeconomic and fiscal estimates, highlighting that they now expect GDP to grow 2.4% this year (previous: 3.4%)**

PSBRs post a $266.5 billion deficit in the first half of the year. The Ministry of Finance released its public finance report for June, in which we highlight the $266.5 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance[1]–, equivalent to close to 0.9% of GDP. This compares with the $402.9 billion deficit seen in the same period of 2021. The 'traditional' public balance posted a $204.8 billion deficit, lower than anticipated due to both higher revenues and lower expenditures. Finally, the primary surplus stood at $200.5 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 4.9% y/y in real terms. Revenues reached $3,305.1 billion in the period, $159.4 billion better than expected. Oil-related income came in at $594.2 billion, +29.4% in real terms, mainly driven by higher oil prices. Meanwhile, tax revenues were $2,049.7 billion, higher than projections by $6.4 billion. Performance was mostly positive, highlighting the 16.1% increase in income tax revenues and +3.4% in VAT. Meanwhile, the fall was centered in excise taxes (-68.5%), which are still impacted by the application of stimulus to fuels. Income from government-controlled entities (IMSS and ISSSTE) came in at $258.9 billion (+7.2%), while those of CFE reached $196.8 billion (+2.1%). Finally, non-tax revenues fell 21.6%, amounting to $205.5 billion.

Budget spending up 2.1% y/y. Total spending reached $3,508.8 billion, $27.8 billion lower than budgeted. In this context, primary spending rose to $3,121.5 billion, which implies a 2.2% y/y expansion, with financial costs at $387.3 billion (+1.9%). Within the former, the programmable component grew 0.5%, amounting to $2,534.6 billion. Outlays from government-controlled entities (IMSS and ISSSTE) advanced 3.0%, driven by IMSS (+5.2%) as ISSSTE was lower (-2.4%). Spending by Pemex rose 5.2%, with that from CFE up 1.0%. Administrative branches declined 2.3%, with strong corrections in the Ministry of Economy (-55.1%) and Finance (-33.6%), albeit with significant increases in Tourism (260.1%) and non-sectorized entities (39.5%). Moreover, autonomous branches spending fell 10.2%. Inside, the decline is mostly explained by INE (-40.8%) and the Federal Telecommunications Institute (-7.9%), although higher in General Attorney's Office (+11.1%) and the Human Rights Commission (+10.2%). Lastly, non-programmable spending rose 10.2% to $586.9 billion, with participations up 9.7%.

Public finances: June 2022
$ billion

	June			January-June		
	2022	2021	% y/y real terms	2021	2020	% y/y real terms
Public Balance	-146.4	-118.5	14.4	-204.8	-231.2	-17.6
Balance of entities under indirect budgetary control	*0.0*	*14.9*	*-99.9*	*-1.2*	*32.2*	--
Revenues	559.7	474.7	9.2	3,305.1	2,931.3	4.9
Oil	98.3	63.5	43.5	594.2	427.1	29.4
Non-oil	461.4	411.2	3.9	2,710.9	2,504.1	0.7
Tax collection	301.7	280.6	-0.4	2,049.7	1,856.3	2.7
Other	72.5	56.4	19.0	205.5	243.9	-21.6
Government controlled entities	48.0	41.1	8.2	258.9	224.6	7.2
CFE	39.2	33.1	9.7	196.8	179.3	2.1
Spending	706.1	608.0	7.5	3,508.8	3,194.7	2.1
Primary spending	541.0	449.5	ND	3,121.5	2,841.2	2.2
Programmable spending	462.3	372.1	15.0	2,534.6	2,345.9	0.5
Non-programmable spending	78.8	77.4	ND	586.9	495.3	10.2
Financial costs	165.1	158.5	-3.5	387.3	353.4	1.9
Primary balance	22.2	29.3	-29.9	200.5	102.8	81.4

Source: Ministry of Finance

Increase in one of the three stabilization funds. The Stabilization Fund for Budget Revenues (FEIP in Spanish) grew to $25.0 billion, with an expansion of $15.1 billion relative to the figure seen at the end of the 2021 (+152.2%). This represents 0.09% of GDP. Meanwhile, the Stabilization Fund for State Revenues (FEIEF in Spanish) showed a $432 million decline to $20.9 billion.

Lastly, the Mexican Petroleum Fund for Stabilization and Development (FMP in Spanish) fell to $22.9 billion, as seen in the table below.

Stabilization funds
$ billion

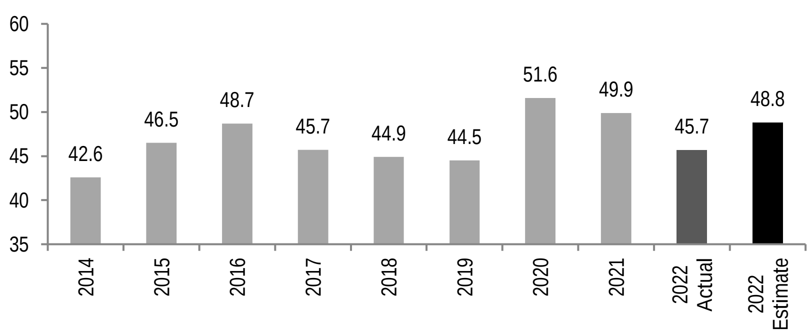
	Jun-22	Dec-21	Difference
Total	68.8	54.6	14.2
Stabilization Fund for Budget Revenues	25.0	9.9	15.1
Stabilization Fund for State Revenues	20.9	21.4	-0.4
Mexican Petroleum Fund for Stabilization and Development	22.9	23.4	-0.5

Source: MoF

Increases in both revenues and spending during June. In the month, total revenues increased 9.2% y/y in real terms. Inside, oil-related came in at +43.5%, still favored by higher prices. Tax revenues declined 0.4%, mainly due to the excise taxes on fuels, although with income tax collection up 19.7%. Expenditures grew 2.1%. Programmable spending was higher by 15.0%, despite declines in autonomous (-18.6%) and administrative branches (-7.1%). Specifically, expenditures by Pemex rose 130.2%, with CFE higher by 27.9%. Within non-programmable spending, participations decreased 10.8%.

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at $13.2 trillion, equivalent to 45.7% of GDP. Out of these, $9.0 trillion are domestic debt (68.0% of the total outstanding), with the external component at US$212.2 billion ($4.2 trillion; 32.0% of the total). Net public-sector debt amounted to $13.3 trillion. Inside, net domestic debt reached $8.9 trillion, while net foreign debt totaled US$215.8 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 estimates for some of the main lines of the public balance. Specifically, we highlight the downward adjustment in GDP for 2022, to 2.4% from 3.4% in the *2023 Preliminary Policy Criteria*. In addition, they now expect the USD/MXN exchange rate at 20.10 (previous: 20.70). In the oil sector, the Mexican oil mix would be higher at 98.4 US$/bbl, albeit with more modest production at 1,805 kbpd. With these assumptions, the deficit in the PSBRs would reach 3.8% of GDP, higher at the margin vs. the 3.7% outlined previously. Despite of this, HBPSBRs would be more favorable, reaching 48.8% of GDP (previous: 49.6%).

Macroeconomic framework and fiscal variables
Selection

	Actual	Previous
GDP (% y/y)	2.4	3.4
Exchange Rate (USD/MXN, average of period)	20.10	20.60
Oil price (US$/bbl, average of period)	98.4	92.9
PSBR (% of GDP)	3.8	3.7
HBPSBR (% of GDP)	48.8	49.6
Primary Balance (% of GDP)	0.0	0.0

Source: MoF

Relevant insight in the analysts' call. The call was led by Rodrigo Mariscal Paredes, Chief Economist of the MoF; and María del Carmen Bonilla, Deputy Undersecretary for Public Credit. They noted the performance of GDP in 2Q22, coming in line with their view and even surpassing market forecasts. Overall, the economy remains resilient, although there are some signs of moderation in sparse sectors. In the fiscal front, they highlighted revenues of oil-related goods and tax revenues, which have been better-than-expected. As such, they expect to reach income targets by the end-of-the-year. On the fuel subsidy, the cost so far has been $8.8 billion. Around 1/3 of this corresponds to the additional subsidy that is being returned to distributors as part of a rebate on VAT, with the remaining 2/3 being the amount lost on excise tax collections. Regarding the *Plan Against Inflation* and based on PROFECO's tracking of the 24 items included, they have seen a marginal moderation in prices. In particular, they argue that there has been a 0.6% decline up to mid-July. In addition, they carried out a counter factual exercise in which these measures are not introduced. In this case, they estimate the basket would have increased 3.7% in the same period.

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