

## Public finance report – Compliance with fiscal responsibility with a growth outlook in line with our forecast

March 4, 2019

www.banorte.com  
@analisis\_fundam

### Gabriel Casillas

Chief Economist and Head of Research  
gabriel.casillas@banorte.com

### Delia Paredes

Executive Director of Economic Analysis  
delia.paredes@banorte.com

### Juan Carlos Alderete, CFA

Senior Economist, Mexico  
juan.alderete.macal@banorte.com

### Francisco Flores

Economist, Mexico  
francisco.flores.serrano@banorte.com

- **The Ministry of Finance (MoF) released its public finances report for the first month of 2019**
- **Public sector borrowing requirements (Jan): MXN\$18.5 deficit (~US\$-837.1mn)**
- **Public balance (Jan): MXN\$42.7bn deficit (~US\$-2.2bn)**
- **Primary balance (Jan): MXN\$15.9bn surplus (~US\$974.0mn)**
- **Budget revenues fell 7.5% yoy in real terms due to a strong contraction in oil related income (-52.3% yoy)**
- **Budget expenses edged-down 1.0% yoy in real terms, coming in MXN\$36bn below estimates**
- **The Historic Balance of the Public Sector Borrowing Requirements stood at MXN\$10.5 trillion (~US\$550.7bn)**

**MXN\$18.5bn deficit in the PSBRs at the start of the year.** The Ministry of Finance released its public finance report for January, in which we highlight the deficit of MXN\$18.5bn of the *Public Sector Borrowing Requirements* (PSBR) – which is the broadest measure of the public balance<sup>1</sup>–. This stood above the MXN\$2.7bn deficit during the same period of 2018.

In addition, the “traditional” public balance posted a MXN\$42.7bn deficit, MXN\$27.6bn less than budgeted. Despite lower income, cuts in spending more than compensated in terms of the estimated balance in January, resulting in a favorable figure. Excluding investments of high economic and social impact projects –such as investments made in Pemex and CFE of up to 2% of GDP– the balance showed a MXN\$16.4bn surplus. In addition, the primary balance reached a MXN\$15.9 billion surplus, above the MXN\$614.3mn budgeted deficit.

**Total revenues were down 7.5% yoy due to lower oil related income.** According to the MoF, revenues amounted to MXN\$448.0bn, MXN\$24.4bn lower than projected. This was mainly due to the sharp contraction in oil revenues, down 52.3% yoy. In particular, the price of the Mexican crude oil mix fell 7.0% while total production was lower in the annual comparison by 10.2%.

<sup>1</sup> 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.

**Public finances: January 2019**

MXN\$bn

	January		% yoy in real terms
	2019	2018	
<b>Public Balance</b>	<b>-42.7</b>	<b>-20.4</b>	<b>--</b>
<i>ex. Pemex investments</i>	16.4	28.9	-45.8
<b>Balance of entities under indirect budgetary control</b>	<b>5.9</b>	<b>16.0</b>	<b>161.9</b>
<b>Revenues</b>	<b>448.0</b>	<b>464.2</b>	<b>-7.5</b>
Oil	44.5	89.2	-52.3
Non-oil	403.5	374.9	3.1
Tax collection	318.5	298.2	2.3
Other	20.7	19.6	1.2
Government controlled entities	33.2	30.3	4.8
CFE	31.2	26.8	11.3
<b>Spending</b>	<b>506.7</b>	<b>490.5</b>	<b>-1.0</b>
Primary spending	436.8	431.7	-3.1
Programmable spending	365.0	339.5	3.0
Non-programmable spending	71.8	92.2	-25.4
Financial costs	69.9	58.8	14.0
<b>Primary balance</b>	<b>15.9</b>	<b>36.6</b>	<b>-58.4</b>

Source: Ministry of Finance

**Non-oil tax revenues increased 2.3% yoy in real terms, amounting to MXN\$318.2bn, MXN\$7.1bn below budget.** This comes on the back of a 1.4% real annual increase in income tax collection, coupled with a 54.5% expansion in excise tax collection (IEPS). It should be noted that this is explained by the lack of fiscal stimulus to gasoline prices in January 2019, considering that in 2018 this policy was in effect. Moreover, VAT revenues decreased 12.3%, which it is our take may be in part explained by the reduction of this tax in the northern border. In addition, import taxes increased 20.8% while Hydrocarbon E&P tax revenues grew 29.2% yoy.

Non-oil, non-tax revenues stood at MXN\$20.7bn, which implies a 1.2% yoy expansion in real terms. Additionally, government-controlled entities (IMSS and ISSSTE) were up 4.8%, while CFE increased 11.3%.

**Budget spending edged-down 1.0%, reaching MXN\$506.7bn.** This was MXN\$36.2bn below budget. Primary spending –which does not include the debt financing costs–, fell 3.1% yoy while financing costs were up 14.0%. Programmable spending grew 3.0%, amounting to MXN\$365bn. The main increases in this branch were seen in Pemex (18.7%) and CFE (11.7%). Nevertheless, spending by autonomous branches fell 55.0%, which we think were driven by austerity measures implemented by the Federal Government. Moreover, non-programmable spending, excluding the financial cost of debt, decreased 25.4%, stemming from a 98.8% decrease in ADEFAS.

**The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at MXN\$10.5tn (~US\$550.7bn).** Moreover, net domestic public-sector debt amounted to MXN\$10.8tn (~US\$568.6bn). In addition, net domestic debt reached MXN\$6.9tn, while net foreign debt climbed to US\$202.7 billion (equivalent to MXN\$3.9tn).

**Less deceleration than observed at the start of the previous administration.**

We highlight that net spending during the same month of the previous administration fell 4.9% yoy, significantly weaker than the 1% contraction of the current month (see table below). Moreover, programmable spending at that time decreased 2.8% while currently it advanced 3.0%. Considering the latter, we believe the pace of spending in the current administration will be relatively lower to the one observed in the previous year, as it will exclude additional spending made during the electoral season.

**Net government spending**

% yoy in real terms

	Jan-19	Jan-13
<b>Spending</b>	<b>-1.0</b>	<b>-4.9</b>
Programmable	3.0	-2.8
Current	-1.2	-7.3
Capital	21.5	28.1
<b>Non-programmable</b>	<b>-10.1</b>	<b>-11.1</b>
Financial costs	14.0	-10.8
Federal tax collection corresponding to state and municipal governments	-1.2	-10.3
Adefas and others	-98.8	-13.8

Source: MoF

**Disclaimer**

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

## Certification of Analysts.

We, Gabriel Casillas Olivera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Francisco Duarte Alcocer, Jorge Antonio Izquierdo Lobato and Leslie Thalía Orozco Vélez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

## Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

## Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte Ixe and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

## Last-twelve-month activities of the business areas.

*Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.*

*Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.*

## Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

## Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

## Guide for investment recommendations.

	<b>Reference</b>
<b>BUY</b>	<i>When the share expected performance is greater than the MEXBOL estimated performance.</i>
<b>HOLD</b>	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
<b>SELL</b>	<i>When the share expected performance is lower than the MEXBOL estimated performance.</i>

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

## Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

*The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.*

**GRUPO FINANCIERO BANORTE S.A.B. de C.V.**
**Research and Strategy**

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

**Economic Analysis**

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

**Fixed income and FX Strategy**

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalia Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

**Equity Strategy**

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Francisco Duarte Alcocer	Analyst	francisco.duarte.alcocer@banorte.com	(55) 1103 – 4000 x 2707
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

**Corporate Debt**

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

**Wholesale Banking**

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454