Public finance report – Lower deficit in the second month of the year

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- **The Ministry of Finance (MoF) released its public finances report for the second month of 2019**
- **Public sector borrowing requirements (Jan-Feb): MXN$9.9bn deficit (~US$-516.6)**
- **Public balance (Jan-Feb): MXN$27.6bn deficit (~US$-1.4bn)**
- **Primary balance (Jan-Feb): MXN$57.7bn surplus (~US$3.0bn)**
- **Budget revenues fell 3.9% yoy in real terms due to a strong contraction in oil related income (-32.7% yoy)**
- **Budget expenses edged-down 7.7% yoy in real terms, coming in MXN$77.2bn below estimates**
- **The Historic Balance of the Public Sector Borrowing Requirements stood at MXN$10.5 trillion (~US$547.9bn)**

MXN$9.9bn deficit in the PSBRs in the first two months of the year. The Ministry of Finance released its public finance report for February, in which we highlight the deficit of MXN$9.9bn of the *Public Sector Borrowing Requirements* (PSBR) –which is the broadest measure of the public balance[1]–. This was considerably less than the MXN$44.6bn deficit during the same period of 2018.

In addition, the "traditional" public balance posted a MXN$27.6bn deficit, MXN$61.5bn less than budgeted. Despite lower income, cuts in spending more than compensated in terms of the estimated balance in February, 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$69.3bn surplus. In addition, the primary balance reached a MXN$57.7 billion surplus, above the MXN$12.4bn budgeted surplus.

Total revenues were down 3.9% yoy due to lower oil related income. According to the MoF, revenues amounted to MXN$853.9bn, MXN$31.1bn lower than projected. This was mainly due to the sharp contraction in oil revenues, down 32.7% yoy. In particular, the price of the Mexican crude oil mix fell 8.6% while total production was lower in the annual comparison by 11.9%.

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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.

Public finances: February 2019
MXN$bn

	January-February		% yoy in real terms
	2019	2018	
Public Balance	**-27.6**	**-67.8**	**-60.9**
ex. Pemex investments	*69.3*	*30.6*	*117.6*
Balance of entities under indirect budgetary control	**15.6**	**12.7**	**17.5**
Revenues	**853.9**	**853.2**	**-3.9**
Oil	105.5	150.5	-32.7
Non-oil	748.4	702.6	2.3
Tax collection	577.8	536.6	3.0
Other	41.8	41.1	-2.5
Government controlled entities	65.8	60.2	4.9
CFE	63.2	64.7	-6.2
Spending	**897.2**	**933.7**	**-7.7**
Primary spending	802.6	851.9	-9.6
Programmable spending	629.7	639.6	-5.5
Non-programmable spending	172.8	212.3	-21.8
Financial costs	94.6	81.8	11.1
Primary balance	**57.7**	**7.3**	**--**

Source: Ministry of Finance

Non-oil tax revenues increased 3.4% yoy in real terms, amounting to MXN$577.8bn, MXN$13.1bn below budget. This comes on the back of a 3.1% real annual increase in income tax collection, coupled with a 35.5% 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 and February 2019, considering that in 2018 this policy was in effect. Nevertheless, this program was restarted in early March, making next month's report particularly relevant. Moreover, VAT revenues decreased 8.2%, which we believe still may be explained in part by the reduction of this tax in the northern border. In addition, import taxes increased 20.3% while Hydrocarbon E&P tax revenues grew 28.8% yoy. Non-oil, non-tax revenues stood at MXN$41.8bn, which implies a 2.5% yoy contraction in real terms. Additionally, government-controlled entities (IMSS and ISSSTE) were up 4.9%, while CFE fell 6.2%.

Budget spending edged-down 7.7%, reaching MXN$897.2bn. This was MXN$77.2bn below budget. Primary spending –which does not include the debt financing costs–, fell 9.6% yoy while financing costs were up 11.1%. Programmable spending was down by 5.5%, amounting to MXN$629.7bn. The main increases in this branch were seen in Pemex (10.2%) and IMSS (11.7%). Nevertheless, spending by administrative branches fell 28.4%, which we think were driven by austerity measures implemented by the Federal Government. Moreover, non-programmable spending, excluding the financial cost of debt, decreased 21.8%, stemming from the 84.6% decrease in ADEFAS.

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at MXN$10.5tn (~US$547.9bn). Moreover, net domestic public-sector debt amounted to MXN$10.8tn (~US$564.4bn). In addition, net domestic debt reached MXN$6.9tn, while net foreign debt climbed to US$202.3 billion (equivalent to MXN$3.9tn).

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