

# Public finance report – MXN\$73.2bn surplus by May

July 1, 2019

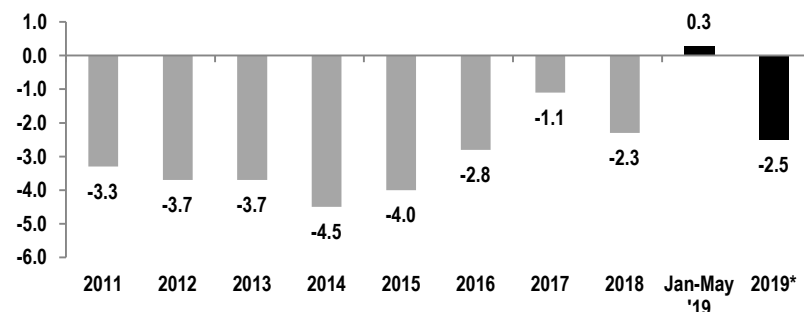
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- The Ministry of Finance (MoF) released its public finances report for the fifth month of 2019
- Public sector borrowing requirements (Jan-May): MXN\$73.2bn surplus (~US\$3.8bn)
- Public balance (Jan-May): MXN\$32.4bn surplus (~US\$1.7bn)
- Primary balance (Jan-May): MXN\$217.9bn surplus (~US\$11.3bn)
- Budget revenues increased only 0.7% yoy in real terms, limited by a strong contraction in oil-related income (-17.4% yoy)
- Budget expenses edged-down 5.1% yoy in real terms, coming in MXN\$140.7bn below estimates
- In this respect, both the public and primary balance surpluses were higher than expected mainly because of lower spending
- The Historic Balance of the Public Sector Borrowing Requirements stood at MXN\$10.4 trillion (~US\$542.1bn)

**MXN\$73.2bn surplus in the PSBRs in the first five months of 2019.** The Ministry of Finance released its public finance report for May, in which we highlight the MXN\$73.2bn surplus in *Public Sector Borrowing Requirements* (PSBR) –which is the broadest measure of the public balance<sup>1</sup>–, equivalent to 0.3% of GDP. This was considerably higher than the MXN\$54.4bn deficit during the same period of 2018. In addition, the “traditional” public balance posted a MXN\$32.4bn surplus, above the MXN\$79.1bn budgeted deficit. Spending cuts have more than compensated for a relative slowdown in income, driving the better-than-estimated result for the period. Excluding investments in projects of high economic and social impact—such as those in Pemex and CFE of up to 2% of GDP—the balance showed a MXN\$257.6bn surplus. In addition, the primary balance surplus stood at MXN\$217.9bn, above the MXN\$142.1bn budgeted surplus.

**Public Sector Borrowing Requirements**  
% of GDP



Source: Ministry of Finance; \*Note: MoF latest estimates

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<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.

**Total revenues were up only 0.7% yoy, limited by lower oil-related income.**

According to the MoF, revenues were MXN\$2,199.5bn, which was MXN\$59.0bn lower than projected. This was mainly due to the sharp contraction in oil revenues, down 17.4% yoy, amounting only to MXN\$342.6 bn. In particular, oil output fell 10.4% while the price of the Mexican oil mix contracted 1.1%.

**Public finances: May 2019**

MXN\$bn

	January-May		% yoy in real terms
	2019	2018	
<b>Public Balance</b>	<b>32.4</b>	<b>-36.9</b>	<b>--</b>
<i>ex. Pemex investments</i>	257.6	220.0	12.4
<b>Balance of entities under indirect budgetary control</b>	<b>30.0</b>	<b>90.7</b>	<b>-68.3</b>
<b>Revenues</b>	<b>2,199.5</b>	<b>2,095.4</b>	<b>0.7</b>
Oil	342.6	398.1	-17.4
Non-oil	1,856.9	1,697.3	5.0
Tax collection	1,425.8	1,306.4	4.7
Other	102.9	92.4	6.9
Government controlled entities	168.3	159.2	1.4
CFE	159.9	139.3	10.2
<b>Spending</b>	<b>2,197.1</b>	<b>2,223.0</b>	<b>-5.1</b>
Primary spending	1,995.2	2,041.3	-6.2
Programmable spending	1,592.2	1,622.6	-5.8
Non-programmable spending	403.1	418.6	-7.6
Financial costs	201.9	181.7	6.6
<b>Primary balance</b>	<b>217.9</b>	<b>135.4</b>	<b>54.4</b>

Source: Ministry of Finance

**Non-oil tax collections increased 4.7% yoy in real terms, amounting to MXN\$1,425.8bn, MXN\$7.8bn below budget.**

This comes on the back of a 1.6% real yoy increase in income taxes coupled with a 31.8% expansion in excise taxes (IEPS). Moreover, VAT revenues increased only 0.7%, standing in positive territory for the second time so far in the year. Import taxes increased 19.4% while Hydrocarbon E&P tax revenues grew 27.3% yoy. Non-oil, non-tax revenues stood at MXN\$102.9bn, which implies a 6.9% expansion in real terms. Additionally, government-controlled entities (IMSS and ISSSTE) were up 1.4%, while CFE rose 10.2%.

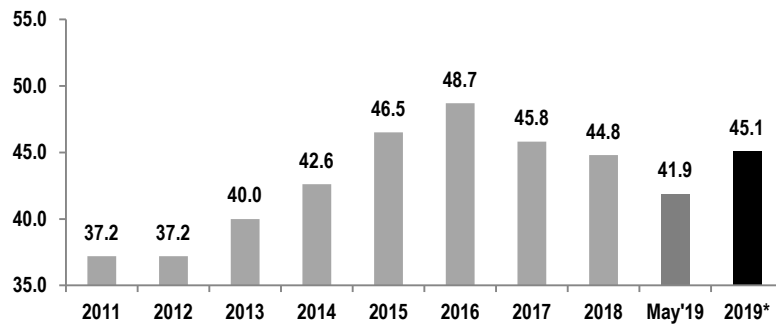
**Budget spending edged-down 5.1%, reaching MXN\$2,197.2bn.**

This was MXN\$140.7bn below budget. Primary spending –which does not include the debt financing costs–, fell 6.2% yoy while financing costs were up 6.6%. Programmable spending was down 5.8%, amounting to MXN\$1,592.2bn. The main increases in this branch were in ISSSTE (+6.4%) and IMSS (+5.0%). Nevertheless, spending by administrative branches fell a hefty 13.2%, which we believe was driven by austerity measures implemented by the Federal Government. Spending in autonomous branches decreased 16.3%, explained mainly by a 48.1% reduction in the *National Electoral Institute* (INE) –remembering that federal elections were not held during this year, resulting in a negative base effect–. On the contrary, INEGI’s spending increased 62.4%, probably explained by additional resources to conduct the 2019 Economic Census as well as on preparation for the 2020 Population Census.

Moreover, non-programmable spending excluding the financial cost of debt decreased 7.6%, stemming from the 85.5% reduction in ADEFAS, while Participations –transfers to states under the federal tax collection agreement– increased 5.5%. Last but not least, we highlight the 18.3% contraction in capital spending, with physical investment down 16.4%. It should be noted that the latter has also been observed in both industrial production and gross-fixed investment data released so far.

**The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at MXN\$10.4tn (~US\$542.1bn), equivalent to 41.9% of GDP.** Moreover, net public-sector debt amounted to MXN\$10.8tn (~US\$565.3bn). Net domestic debt reached MXN\$7.0tn, while net foreign debt climbed to US\$201.8 billion (equivalent to MXN\$3.9tn).

**Historic Balance of the Public Sector Borrowing Requirements**  
% of GDP



Source: Ministry of Finance; \*Note: MoF latest estimates

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