

# Public finance report – MXN\$60.9bn deficit in 1H19

July 31, 2019

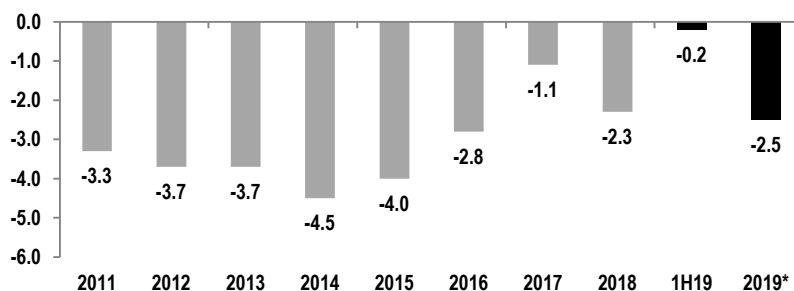
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- The Ministry of Finance (MoF) released its public finances report for the sixth month of 2019
- Public sector borrowing requirements (Jan-Jun): MXN\$60.9bn deficit (~US\$3.2bn)
- Public balance (Jan-Jun): MXN\$119.9bn deficit (~US\$6.3bn)
- Primary balance (Jan-Jun): MXN\$228.1bn surplus (~US\$11.9bn)
- Budget revenues increased only 0.6% yoy in real terms, limited by a strong contraction in oil-related income (-16.7% yoy)
- Budget expenses edged-down 4.5% yoy in real terms, coming in MXN\$174.5bn below estimates
- In this respect, the primary surplus was higher than expected mainly because of lower spending
- The Historic Balance of the Public Sector Borrowing Requirements stood at MXN\$10.6 trillion (~US\$551.6bn), equivalent to 42.5% of GDP

**MXN\$60.9bn deficit in the PSBRs in the first six months of 2019.** The Ministry of Finance released its public finance report for June, in which we highlight the MXN\$60.9bn surplus in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance<sup>1</sup>–, equivalent to 0.2% of GDP. This was considerably higher than the MXN\$236.3bn deficit during the same period of 2018. In addition, the “traditional” public balance posted a MXN\$119.9bn deficit, lower than the MXN\$258.9bn 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\$152.1bn surplus. In addition, the primary surplus stood at MXN\$228.1bn, above the MXN\$135.4bn 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 0.6% yoy, limited by lower oil-related income.**

According to the MoF, revenues were MXN\$2,622.6bn, which was MXN\$68.4bn lower than projected. This was mainly due to the sharp contraction in oil revenues, down 16.7% yoy, amounting only to MXN\$412.6 bn.

**Public finances: June 2019**

MXN\$bn

|   | January-June   |                | % yoy in real terms |
|---|----------------|----------------|---------------------|
|   | 2019           | 2018           |                     |
| <b>Public Balance</b>                                       | <b>-119.9</b>  | <b>-206.7</b>  | <b>--</b>           |
| <i>ex. Pemex investments</i>                                | 152.1          | 107.1          | 36.3                |
| <b>Balance of entities under indirect budgetary control</b> | <b>33.2</b>    | <b>80.4</b>    | <b>-60.4</b>        |
| <b>Revenues</b>   | <b>2,622.6</b> | <b>2,502.0</b> | <b>0.6</b>          |
| Oil   | 412.6          | 475.7          | -16.7               |
| Non-oil   | 2,210.0        | 2,026.3        | 4.7                 |
| Tax collection  | 1,694.1        | 1,558.1        | 4.4                 |
| Other   | 114.3          | 103.6          | 5.9                 |
| Government controlled entities                              | 206.5          | 193.3          | 2.5                 |
| CFE   | 195.2          | 171.3          | 9.4                 |
| <b>Spending</b>   | <b>2,775.7</b> | <b>2,789.2</b> | <b>-4.5</b>         |
| Primary spending  | 2,413.8        | 2,457.4        | -5.7                |
| Programmable spending                                       | 1,924.0        | 1,956.7        | -5.6                |
| Non-programmable spending                                   | 489.7          | 500.7          | -6.1                |
| Financial costs   | 361.9          | 331.8          | 4.7                 |
| <b>Primary balance</b>                                      | <b>228.1</b>   | <b>126.9</b>   | <b>72.6</b>         |

Source: Ministry of Finance

**Non-oil tax collections increased 4.4% yoy in real terms, amounting to MXN\$1,694.1bn, MXN\$11.1bn below budget.**

This comes on the back of a 1.5% real yoy increase in income taxes coupled with a 32.6% expansion in excise taxes (IEPS). Moreover, VAT revenues fell 0.4%, back to contraction after two months in positive territory. Import taxes increased 11.1% while Hydrocarbon E&P tax revenues grew 24.7% yoy. Non-oil, non-tax revenues stood at MXN\$114.3bn, which implies a 5.9% expansion in real terms. Additionally, government-controlled entities (IMSS and ISSSTE) were up 2.5%, while CFE rose 9.4%.

Moreover, the outstanding sum of the different stabilization funds at the end of June 2019 stood at MXN\$409.7bn (~US\$20.8bn), which represents a MXN\$22.3bn (~US\$760.9 mn increase) vs December 2018.

**Stabilization funds**

Amount outstanding on March 31, 2019, MXN billion

|  |              |
|--|--------------|
| <b>Total</b>   | <b>409.7</b> |
| Stabilization Fund for Budget Revenue                    | 296.3        |
| Stabilization Fund for State Revenue                     | 93.5         |
| Mexican Petroleum Fund for Stabilization and Development | 19.6         |

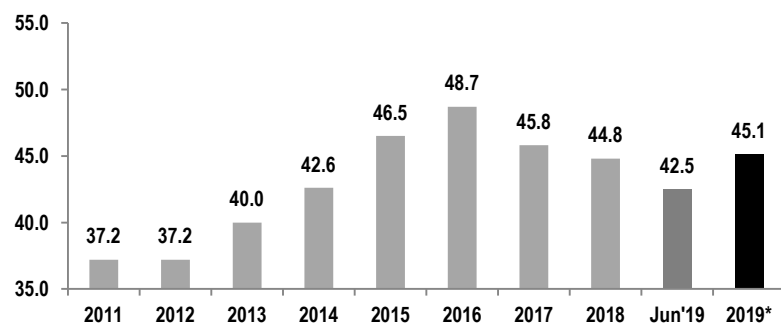
Source: Ministry of Finance

**Budget spending edged-down 4.5%, reaching MXN\$2,775.7bn.** This was MXN\$174.5bn below budget. Primary spending –which does not include debt financing costs–, fell 5.7% yoy while financing costs were up 4.7%. Programmable spending was down 5.6%, amounting to MXN\$1,924.0bn. The main increases in this branch were in ISSSTE (+7.2%) and IMSS (+5.1%). Nevertheless, spending by administrative branches fell a hefty 10.7%, which we believe was driven by austerity measures implemented by the Federal Government. Spending in autonomous branches decreased 17.1%, explained mainly by a 47.1% 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 57.3%.

Moreover, non-programmable spending excluding the financial cost of debt decreased 6.1%, stemming from the 80.6% reduction in ADEFAS, while Participations –transfers to states under the federal tax collection agreement– increased 4.9%.

**The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at MXN\$10.6tn (~US\$551.6bn), equivalent to 42.5% of GDP.** Moreover, net public-sector debt amounted to MXN\$11.0n (~US\$572.8bn). Net domestic debt reached MXN\$7.1tn, while net foreign debt climbed to US\$202.9 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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|             |   |
|-------------|---|
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