

## Public finance report – \$338.7 billion deficit in the PSBRs in the first half of the year

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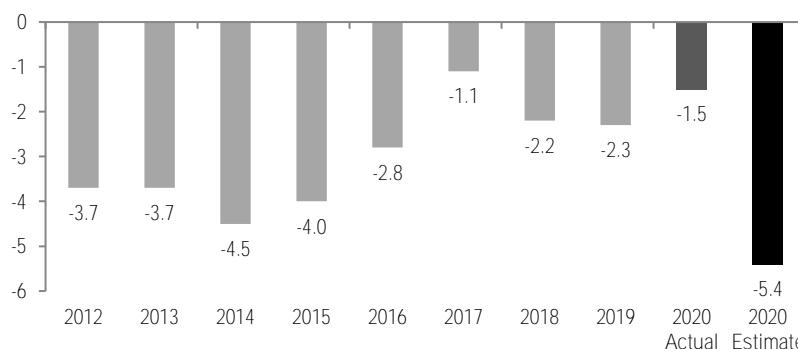
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- The Ministry of Finance (MoF) released its public finance report for June 2020
- Public sector borrowing requirements (Jan-Jun): \$338.7bn deficit (~US\$14.7bn; -1.5% of GDP)
- Public balance (Jan-Jun): \$293.3bn deficit (~US\$12.8bn; -1.3% of GDP)
- Primary balance (Jan-Jun): \$61.2bn surplus (~US\$2.7bn; 0.3% of GDP)
- In the period, budget revenues fell 3.7% y/y in real terms, with a strong contraction in oil (-41.3%) and a slight increase in non-oil (+3.3%)
- Expenses edged-up 2.1% y/y in real terms, partly explained by the 12.7% advance in administrative branches. On the contrary, spending by CFE fell by -17.2%
- In the specific dynamics for June we saw a 6.9% y/y contraction in revenues in real terms, while spending also fell 7.7%
- The *Historic Balance of Public Sector Borrowing Requirements* stood at \$12.0 trillion (~US\$525.6bn), equivalent to 52.1% of GDP. It should be noted that 60.2% corresponds to domestic debt

**PSBRs post a \$338.7 billion deficit in the first six months of 2020.** The Ministry of Finance released its public finance report for June, in which we highlight the \$338.7 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance<sup>1</sup>–, equivalent to 1.5% of GDP. This figure was weaker than the \$68.9 billion surplus observed in the same period of 2019. It should be noted that, within the document, the MoF updated its year-end fiscal deficit estimate, going from -4.5% of GDP (revised in April’s report) to -5.4%, as shown in the chart below. Meanwhile, the “traditional” public balance posted a \$293.3 billion deficit, \$17.8 billion below expectations, explained by lower revenues.

Public Sector Borrowing Requirements  
% of GDP



Source: Ministry of Finance

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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.

Finally, the primary surplus stood at \$61.2 billion, equivalent to 0.3% of GDP but worse relative to the +\$81.8 billion forecasted balance. It should be mentioned that within the estimations, the forecast for the primary balance was also adjusted, standing at -0.6% of GDP from -0.4% previously.

**Total revenues down 3.7% y/y in real terms.** According to the MoF, revenues totaled \$2,603.0 billion, \$169.0 billion lower than projected. Oil-related income came in at \$249.8 billion, representing a 41.3% decrease in real terms relative to the same period of 2019. Moreover, tax revenues amounted to \$1,748.8 billion, undershooting projections by \$67.4 billion. Nevertheless, the latter translates into a 0.1% y/y increase in real terms. Inside, income tax collection expanded by 1.3%, which we believe to be aided by extraordinary collections from different corporates, while VAT revenues posted a worse performance at -0.6%. Excise-tax collection fell 4.0%. Revenues from government-controlled entities (IMSS and ISSSTE) came in at \$219.4 billion, a 3.2% increase, while those of CFE fell 5.4% at \$190.4 billion. Finally, non-oil, non-tax revenues surged 65.2%, amounting to \$194.6 billion. It should be noted that, within this category, transfers from funds and trusts are being accounted for, boosting the total amount.

**Despite of the situation, resources in Stabilization Funds increase.** The outstanding sum of the different Stabilization Funds at the end of 2Q20 stood at \$267.5 billion (~US\$11.6bn), a \$27.8 billion increase vs December 2019. The highest expansion was in the *Stabilization Fund for Budget Revenues*, known as FEIP. This fund's resources stood at \$177.0 billion at the end of June (0.8% of GDP), which translates into a 11.6% increase relative to the balance at the end of 2019.

Stabilization Funds  
\$ billion

	Jun-20	Dec-19	Difference
Total	267.5	239.8	+27.8
Stabilization Fund for Budget Revenues	177.0	158.6	+18.4
Stabilization Fund for State Revenues	63.6	60.5	+3.2
Mexican Petroleum Fund for Stabilization and Development	26.9	20.8	+6.2

Source: Ministry of Finance

**Budget spending up 2.1% y/y.** Total spending amounted to \$2,922.1 billion, \$161.2 billion below budget. This is explained by both lower primary spending and financial costs (also known as debt servicing costs). In the yearly comparison, primary spending advanced 2.4%, while financial costs edged-up 0.4%. Within the former, the programmable component increased 4.4%, amounting to \$2,037.6 billion. Main increases within this category were in administrative (+12.7%) and autonomous branches (+5.8%). In the former, we highlight the 376.9% increase in the Ministry of Economy as well as the 300.1% expansion in the Ministry of Tourism. On the flip side, the biggest decline was in the Agricultural, Territorial and Urban Development Ministry (-56.5%). Meanwhile, in the latter we highlight the advance in INEGI, up 99.2% –remembering that the Census was carried out this year– and the 22.7% decrease in the National Human Rights Commission. On the contrary, we note the spending contraction in CFE (-17.2%) and the null advance in ISSSTE (0.0%).

Non-programmable spending excluding debt financial costs fell 5.8%, stemming from the 7.4% decline in participations –transfers to states under the federal tax collection agreement–, and despite the 59.4% rise in ADEFAS.

Public finance: June 2020  
\$ billion

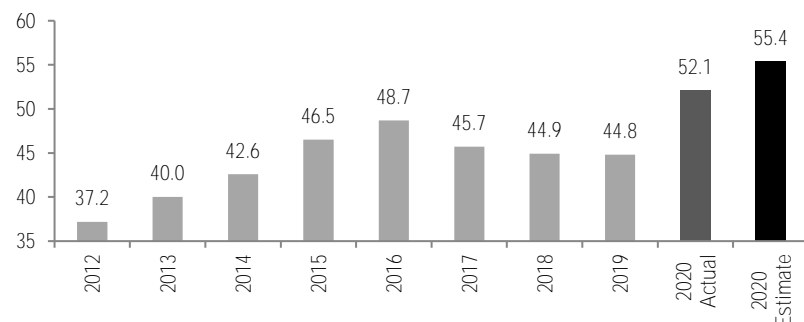
	June			January-June		
	2020	2019	% y/y real terms	2020	2019	% y/y real terms
Public Balance	-145.0	-152.3	--	-293.3	-119.9	--
<i>ex. Pemex and CFE investments</i>	NA	NA	NA	28.8	152.1	-81.7
Balance of entities under indirect budgetary control	-2.2	1.0	--	25.8	33.5	-25.3
Revenues	406.9	423.1	-6.9	2,603.0	2,622.5	-3.7
Oil	63.8	70.0	-11.7	249.8	412.6	-41.3
Non-oil	343.1	353.1	-6.0	2,353.2	2,209.9	3.3
Tax collection	249.4	268.3	-10.0	1,748.8	1,694.1	0.1
Other	21.4	11.3	82.7	194.6	114.3	65.2
Government controlled entities	43.1	38.2	9.2	219.4	206.4	3.2
CFE	29.1	35.2	-20.0	190.4	195.2	-5.4
Spending	549.8	576.3	-7.7	2,922.1	2,776.0	2.1
Primary spending	388.8	416.3	NA	2,547.4	2,414.0	2.4
Programmable spending	334.9	331.8	-2.3	2,073.6	1,925.9	4.4
Non-programmable spending	53.9	84.5	NA	473.8	488.1	-5.8
Financial costs	161.0	160.0	-2.6	374.7	361.9	0.4
Primary balance	18.4	9.9	79.5	61.2	227.2	-73.9

Source: Ministry of Finance

**Revenues start to recover in June, although spending keeps declining.** In the month, total revenues fell 6.9% y/y in real terms, improving relative to May's figures. Inside, oil-related income fell 11.7%, aided by the additional increase in crude prices. Nevertheless, tax revenues were still relatively weak (-10.0%), affected by the slowdown in economic activity. In particular, VAT and excise tax collection decreased by 26.3% and 14.8%, respectively. Nevertheless, income tax revenues managed to stay positive at +1.6%. Meanwhile, spending declined 7.7%, which we believe is a result of additional austerity measures implemented by the administration. In this sense, we saw a decrease of 17.1% in administrative branches, while autonomous were also lower by -14.7%. Within non-programmable spending, participations decreased 39.0%.

**The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at \$12.0 trillion (~US\$525.6 billion), equivalent to 52.1% of GDP.** Out of these, \$7.3 trillion amount to domestic debt (60.2% of the amount outstanding), with the external component at US\$209.4 billion (\$4.8 trillion; 39.8% of the total). Similar to the PSBRs and the primary balance, the MoF updated its estimate for this component, now forecasting it at 55.4% of GDP by year-end (previous: 52.1%), as seen in the chart below. Net public-sector debt amounted to \$12.3 trillion (~US\$537.0 billion). Inside, net domestic debt reached \$7.4 trillion, while net foreign debt climbed to US\$213.0 billion (equivalent to \$4.9 trillion).

Historic Balance of the Public Sector Borrowing Requirements  
% of GDP



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

**Relevant adjustments to macroeconomic forecasts, especially GDP.** In the expanded document, which is presented to Congress, the MoF updated several of its macroeconomic forecasts. In particular, GDP was revised lower to -7.4% y/y from a range of -3.9% to +0.1% previously. Moreover, the exchange rate was adjusted to USD/MXN 22.10 from 22.00, while the estimated price of the Mexican crude basket climbed to 34.4 US/bbl from 24.0 in the Preliminary Policy Criteria. Finally, oil output was marginally adjusted higher by 4kbpd to 1,744 kbpd.

**Relevant comments in the conference call.** The call was led by Iván Cajeme Villarreal Camero (Chief Economist of the MoF) and José de Luna Martínez (Head of the Public Credit Unit). In it, different topics were discussed, [including the pension reform that was presented last week](#). In particular, they expect the new proposal to be neutral in terms of public finances, with changes only in terms of the contribution across different levels of income. On tax collection, they highlight that so far they have been relatively resilient considering the nature of the shock. Nevertheless, they remain cautious on expectations going forward, awaiting more information as activity gathers additional pace. On the Stabilization Fund, they intend to use \$119.1 billion pesos in the next following days, which should be reflected both in higher income as well as expenses in the public finance report for August.

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We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, 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.

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