

## Public finance report – Deficit of 0.1% of GDP in the PSBRs at the end of 1Q19

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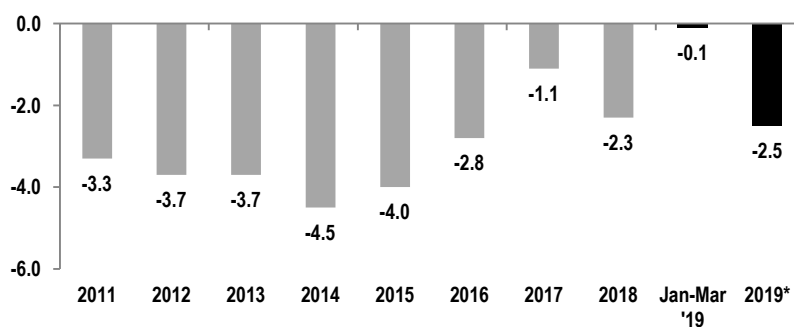
- The Ministry of Finance (MoF) released its public finances report for the third month of 2019
- Public sector borrowing requirements (Jan-Mar): MXN\$17.8bn deficit (~US\$-921.3)
- Public balance (Jan-Mar): MXN\$24.5bn deficit (~US\$-1.3bn)
- Primary balance (Jan-Mar): MXN\$98.0bn surplus (~US\$5.1bn)
- Budget revenues fell 1.2% yoy in real terms due to a strong contraction in oil related income (-24.7% yoy)
- Budget expenses edged-down 6.1% yoy in real terms, coming in MXN\$86.6bn below estimates
- The Historic Balance of the Public Sector Borrowing Requirements stood at MXN\$10.5 trillion (~US\$544.7bn), equivalent to 42.3% of GDP

**MXN\$17.8bn deficit in the PSBRs in the first quarter of the year.** The Ministry of Finance released its public finance report for March, in which we highlight the deficit of MXN\$17.8bn of the *Public Sector Borrowing Requirements* (PSBR) –which is the broadest measure of the public balance<sup>1</sup>–, and equivalent to 0.1% of GDP. This was considerably less than the MXN\$60.0bn deficit during the same period of 2018.

In addition, the “traditional” public balance posted a MXN\$24.5bn deficit, MXN\$67.7bn less than budgeted. Despite lower income, cuts in spending more than compensated for the latter, resulting in a better than estimated balance during the period. Excluding investments in projects of high economic and social impact—such as those made in Pemex and CFE of up to 2% of GDP—the balance showed a MXN\$116.3bn surplus. In addition, the primary balance reached a MXN\$98.0 billion surplus, above the MXN\$81.6bn 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 down 1.2% yoy due to lower oil related income.**

According to the MoF, revenues amounted to MXN\$1,295.4bn, which was MXN\$68.7bn lower than projected. This was mainly due to the sharp contraction in oil revenues, down 24.7% yoy, amounting only to MXN\$179 bn.

**Public finances: March 2019**

MXN\$bn

	January-March		% yoy in real terms
	2019	2018	
<b>Public Balance</b>	<b>-24.5</b>	<b>-91.9</b>	<b>-74.4</b>
<i>ex. Pemex investments</i>	116.3	62.8	77.8
<b>Balance of entities under indirect budgetary control</b>	<b>25.5</b>	<b>25.4</b>	<b>-3.7</b>
<b>Revenues</b>	<b>1,295.4</b>	<b>1,259.4</b>	<b>-1.2</b>
Oil	179.0	228.3	-24.7
Non-oil	1,116.4	1,031.1	4.0
Tax collection	858.0	784.4	5.1
Other	65.5	66.9	-5.9
Government controlled entities	99.0	93.4	1.8
CFE	93.9	86.4	4.4
<b>Spending</b>	<b>1,345.4</b>	<b>1,376.8</b>	<b>-6.1</b>
Primary spending	1,206.6	1,251.1	-7.4
Programmable spending	962.4	972.8	-5.0
Non-programmable spending	244.2	278.2	-15.7
Financial costs	138.8	125.7	6.1
<b>Primary balance</b>	<b>98.0</b>	<b>38.2</b>	<b>146.4</b>

Source: Ministry of Finance

**Non-oil revenues increased 4.0% yoy in real terms, amounting to MXN\$1,116.4bn, MXN\$16.9bn above budget.**

This comes on the back of a 1.9% real annual increase in income tax collection, coupled with a 33.5% expansion in excise taxes (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 restarted in early March, resulting in a lower annual rate of expansion in the last month. Moreover, VAT revenues fell 0.3%, which we believe is explained in part by the reduction of this tax at the northern border. In addition, import taxes increased 19.0% while Hydrocarbon E&P tax revenues grew 27.8% yoy. Non-oil, non-tax revenues stood at MXN\$65.5bn, which implies a 5.9% yoy contraction in real terms. Additionally, government-controlled entities (IMSS and ISSSTE) were up 1.8%, while CFE rose 4.4%. Moreover, the outstanding sum of the different stabilization funds at the end of March 2019 stood at MXN\$402.1bn (~US\$20.8bn), which represents a MXN\$14.7bn (~US\$760.9 mn increase) vs December 2018.

**Stabilization funds**

Amount outstanding on March 31, 2019, MXN billion

	402.1	387.4	238.8	157.9	140.4
<b>Total</b>					
Stabilization Fund for Budget Revenue	290.8	279.8	196.1	120.5	110.1
Stabilization Fund for State Revenue	91.6	88.7	42.7	37.4	30.3
Mexican Petroleum Fund for Stabilization and Development	19.8	18.9			

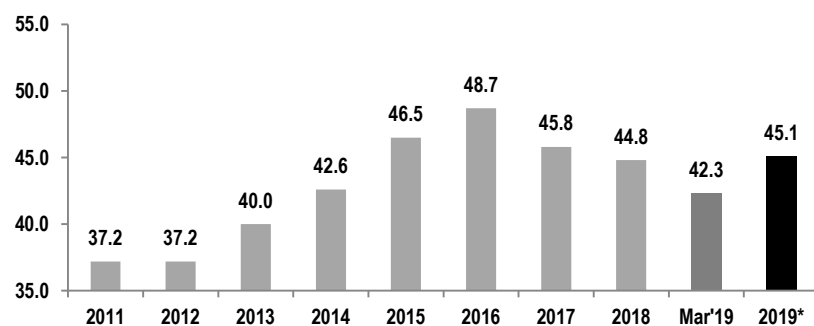
Source: Ministry of Finance

**Budget spending edged-down 6.1%, reaching MXN\$1,345.4bn.** This was MXN\$86.6bn below budget. Primary spending –which does not include the debt financing costs–, fell 7.4% yoy while financing costs were up 6.1%. Programmable spending was down 5.0%, amounting to MXN\$962.4bn. The main increases in this branch were seen in ISSSTE (+5.0%) and Pemex (+4.2%). Nevertheless, spending by administrative branches fell 16.6%, which we believe was driven by austerity measures implemented by the Federal Government. Moreover, non-programmable spending excluding the financial cost of debt decreased 15.7%, stemming from the 83.2% reduction in ADEFAS.

**The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at MXN\$10.5tn (~US\$544.7bn), equivalent to 42.3% of GDP.** Moreover, net domestic public-sector debt amounted to MXN\$10.8tn (~US\$561.4bn), which is close to 43.6% of GDP. Net domestic debt reached MXN\$6.9tn, while net foreign debt climbed to US\$202.2 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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