

Solid public finances at the end of 2018

- The Ministry of Finance (MoF) released its public finances report for year-end 2018
- Public sector borrowing requirements (PSBR) in 2018 amounted to MXN\$547.7bn (~US\$28.5bn); 2.3% of GDP
- Primary balance (2018): MXN\$143.7bn surplus (~US\$7.5bn)
- Budget revenues decreased 1.5% yoy in real terms, on the back of lower non-oil revenues
- Spending increased 2.9% yoy, with primary spending up 0.5% while financial costs increased 10% yoy in real terms
- The *Historic Balance of the Public Sector Borrowing Requirements (HBPSBR)* stood at MXN\$10.5 trillion (~US\$548.3bn), which represents around 44.8% of GDP

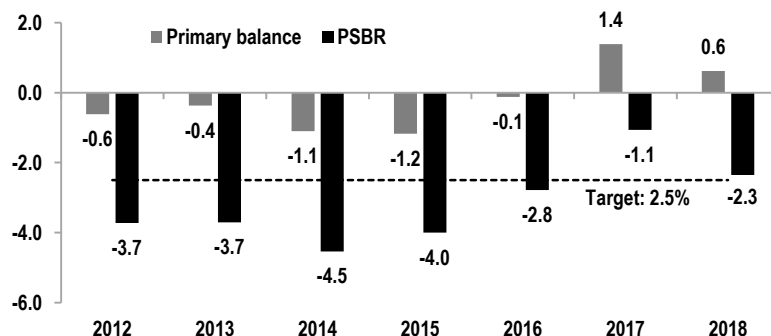
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Slightly better than expected deficit in 2018. The Ministry of Finance released its public finance report for the twelfth month of year, in which we highlight that *Public Sector Borrowing Requirements (PSBR)* –which is the broadest measure of the public balance¹– amounted a MXN\$547.7bn (~US\$28.5bn) deficit, equivalent to 2.3% of GDP in 2018, slightly better than the 2.5% approved by Congress. In addition, the “traditional” public balance posted a MXN\$495.1bn deficit, MXN\$256.6bn above the deficit observed in previous year. With this numbers, primary balance shows, for second consecutive year, a MXN\$143.7 billion surplus (0.6% of GDP), as shown in the chart below.

Public Sector Borrowing Requirements (PSBR) and primary balance
% of GDP



Source: Ministry of Finance

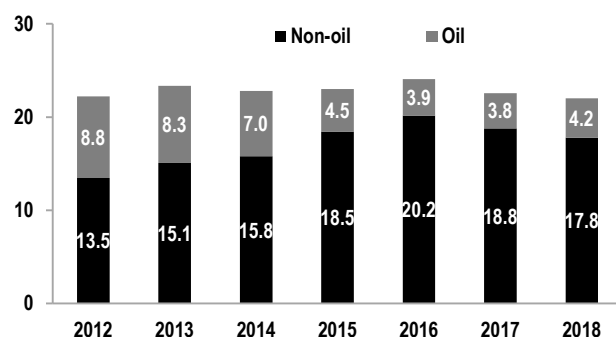
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¹ The PSBRs include the sum of the Public Balance, the financial requirements of the Mexican Bank Savings Protection Institute, financial requirements of deferred investment projects, adjustments to budget records, financial requirements of the National Infrastructure Funds, program of debtors and the expected gain or loss of development banks and development funds.

Total revenues were down 1.5% yoy. According to the MoF, revenues amounted to MXN\$5.1tn, MXN\$165.5bn slightly better than expected. Looking at the breakdown, oil revenues were up 12.8% **yoy** in real terms, while non-oil revenues decreased 4.3% **yoy** on the back of lower non-oil, non-tax revenues. It is worth noting that during the past administration, government’s dependency on oil revenues decreased passing from representing about 8.8% of GDP in 2012 to 4.2% last year (see chart below on the left), while non-oil revenues represent now 17.8% of GDP up from 13.5% over the same period.

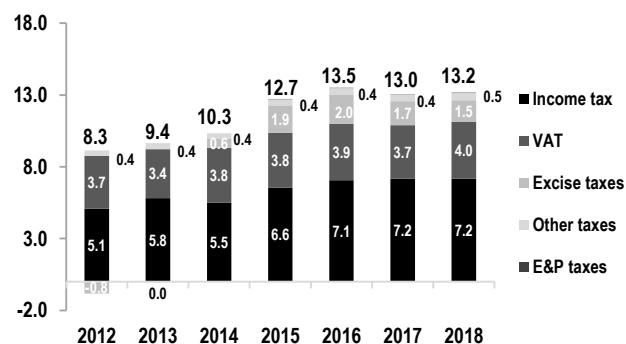
Non-oil tax revenues increased 2.3% yoy in real terms, amounting to MXN\$3.1tn, MXN\$104.8bn above budget. This comes on the back of a 1% yoy increase in real terms in income tax collection, coupled with a 7.7% expansion in VAT revenues. Moreover, excise tax collection (IEPS) decreased by 10%. Excluding gasoline IEPS, collection increased 0.6%. In addition, import taxes were up 19.4%, while tax revenues from E&P projects increased 20.4% **yoy** in real terms. Tax collection levels have also improved over the past six years, representing 13.2% of GDP in 2018, almost 5%-pts of GDP above 2012 levels. This comes as a result of a more efficient collection of income taxes, shown in the chart below on the right.

Government revenues
% of GDP



Source: Banorte with data from MoF

Tax collection
% of GDP



Source: Banorte with data from MoF

Meanwhile, non-oil, non-tax revenues amounted to MXN\$267.6nn, down 53.3% yoy in real terms. This decline is explained by the fact that last year, the MoF received MXN\$321.7bn from Banxico’s operating surplus. Excluding this amount, non-oil, non-tax revenues increased 13.9% yoy in real terms. Moreover, the outstanding sum of the different stabilization funds at the end of December 2018 stood at MXN\$387.4bn (~US\$20.1bn), which represents a MXN\$79.3bn (~US\$3.9bn) increase vs December 2017.

Stabilization funds

Amount outstanding on December 31, 2018, MXN billion

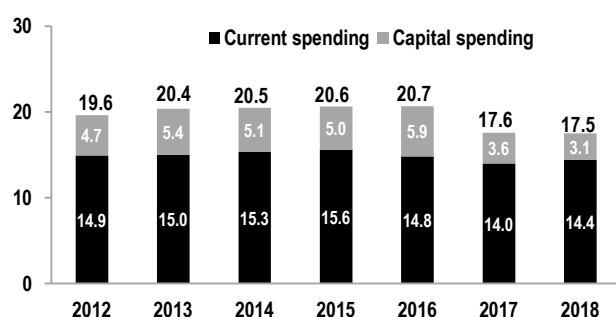
	2017	2018	2019	2020
Total	387.4	238.8	157.9	140.4
Stabilization Fund for Budget Revenue	279.8	196.1	120.5	110.1
Stabilization Fund for State Revenue	88.7	42.7	37.4	30.3
Mexican Petroleum Fund for Stabilization and Development	18.9			

Source: Ministry of Finance

Budget spending increased 2.9%, reaching MXN\$5.6tn (~MXN\$290.6bn).

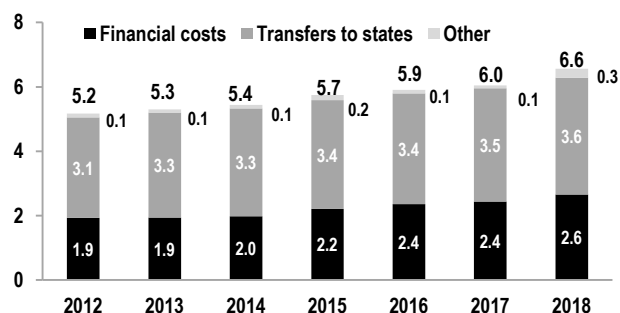
This figure is MXN312.5bn above budget. Primary spending –which does not include the financial cost of debt–, edged up 0.5% yoy in real terms, while financial costs were up 10% yoy, reflecting higher interest rates. Capital spending also came down 12.9% yoy for second consecutive year. Last administration’s efforts to reduce spending are reflected in the fact that primary spending came down from 19.6% of GDP in 2012 to 17.5% at the end of last year. Nevertheless, most of this effort came from cutting capital investment, which now represents only 3.1% of GDP, 1.6%-pts less than in 2012, as shown in the chart below. Meanwhile, non-programmable spending increased from representing 5.2% of GDP in 2012 to 6.6%, on the back of higher financial costs and transfers to federal states (see chart below on the right).

Primary spending
% of GDP



Source: Banorte with data from MoF and INEGI

Non-programmable spending
% of GDP

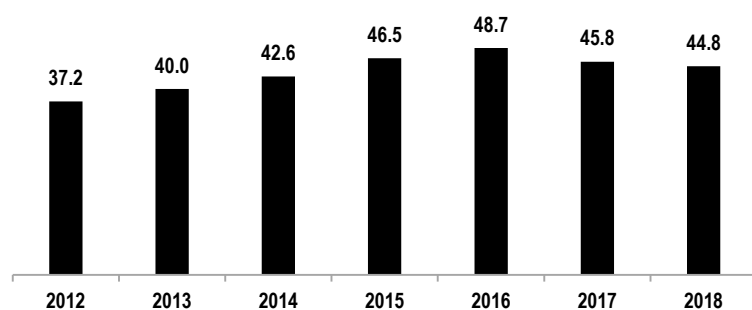


Source: Banorte with data from MoF and INEGI

The Historic Balance of the Public Sector Borrowing Requirements (HBPSBR) stood at MXN\$10.6tn (44.8% of GDP).

Moreover, net domestic public sector debt amounted to MXN\$10.8tn (US\$550.2bn), from previous MXN\$10.1tn (US\$509.9bn) in 2017. Net domestic debt reached MXN\$6.9tn, equivalent to 29.2% of GDP, while net foreign debt climbed to US\$201.3 billion (16.8%). It should be noted that with these results, the upward trajectory of the HBPSBR was reversed, reflecting the fiscal consolidation efforts of the federal government.

Historic Balance of the Public Sector Borrowing Requirements
% of GDP



Source: Banorte with data from MoF and INEGI

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