Public finance report – MXN$114.0bn deficit in the PSBRs at the end of July

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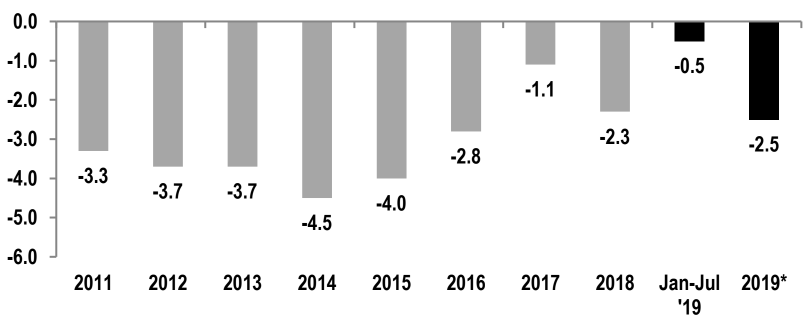
- **The Ministry of Finance (MoF) released its public finances report for the seventh month of 2019**
- **Public sector borrowing requirements (Jan-Jul): MXN$114.0bn deficit (~US$6.0bn)**
- **Public balance (Jan-Jul): MXN$153.1bn deficit (~US$8.0bn)**
- **Primary balance (Jan-Jul): MXN$217.3bn surplus (~US$11.4bn)**
- **Budget revenues decreased 2.7% yoy in real terms, impacted by a strong contraction in oil-related income (-18.2% yoy)**
- **Budget expenses edged-down 3.0% yoy in real terms, coming in MXN$197.8bn 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$10.5 trillion (~US$552.2bn), equivalent to 42.4% of GDP**

MXN$114.0bn deficit in the PSBRs in the first seven months of 2019. The Ministry of Finance released its public finance report for July, in which we highlight the MXN$114.0bn deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance[1]–, equivalent to 0.5% of GDP. This was considerably higher than the MXN$227.5bn deficit during the same period of 2018. In addition, the "traditional" public balance posted a MXN$153.1bn deficit, lower than the MXN$313.1bn budgeted deficit. In this regard, 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$168.4bn surplus. In addition, the primary surplus stood at MXN$217.3bn, above the MXN$121.2bn budgeted surplus.

Public Sector Borrowing Requirements
% of GDP



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

[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.

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Total revenues were down 2.7% yoy, impacted by lower oil-related income. According to the MoF, revenues were MXN$3,050.9bn, which was MXN$89.4bn lower than projected. This was mainly due to the sharp contraction in oil revenues, down 18.2% yoy, amounting only to MXN$483.3 bn. This fall is explained by the 10.1% contraction in oil production coupled with the 2.7% decline in the Mexican oil mix price.

Public finances: July 2019
MXN$bn

	January-July		% yoy in real terms
	2019	2018	
Public Balance	**-153.1**	**-199.4**	**--**
ex. Pemex investments	*168.4*	*165.5*	*-2.3*
Balance of entities under indirect budgetary control	**52.0**	**11.5**	**334.3**
Revenues	**3,050.9**	**3,013.0**	**-2.7**
Oil	483.3	567.7	-18.2
Non-oil	2,567.5	2,445.2	0.9
Tax collection	1,958.2	1,833.2	2.6
Other	136.2	180.9	-27.6
Government controlled entities	240.6	226.5	2.0
CFE	232.5	204.7	9.1
Spending	**3,255.9**	**3,223.8**	**-3.0**
Primary spending	2,856.0	2,859.5	-4.1
Programmable spending	2,290.8	2,279.7	-3.5
Non-programmable spending	565.1	579.8	-6.4
Financial costs	399.9	364.3	5.4
Primary balance	**217.3**	**168.7**	**23.7**

Source: Ministry of Finance

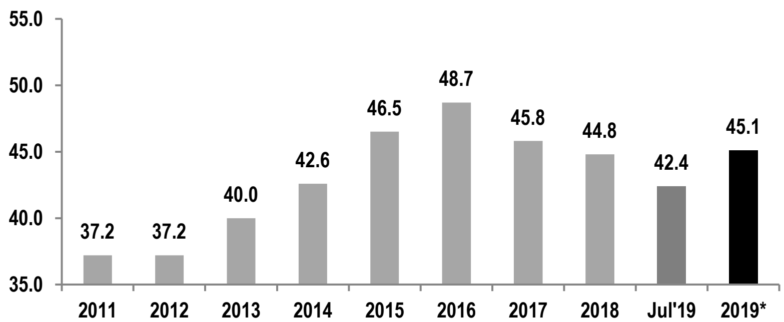
Non-oil tax collections increased 2.6% yoy in real terms, amounting to MXN$1,958.2bn, MXN$31.2bn below budget. We highlight the null expansion on income tax collection as well as the 1.7% fall in VAT revenues. On the other hand, excise taxes (IEPS) grew 28.4% while import taxes increased 7.3%. Finally, Hydrocarbon E&P tax revenues grew 21.3% yoy. Non-oil, non-tax revenues stood at MXN$136.2bn, which implies a 27.6% expansion in real terms. Additionally, government-controlled entities (IMSS and ISSSTE) were up 2.0%, while CFE rose 9.1%.

Budget spending edged-down 3.0%, reaching MXN$3,255.9bn. This was MXN$197.8bn below budget. Primary spending –which does not include debt financing costs–, fell 4.1% yoy while financing costs were up 5.4%. Programmable spending was down 3.5%, amounting to MXN$2,290.8bn. The main increases in this branch were in ISSSTE (+6.3%) and IMSS (+4.8%). Nevertheless, spending by administrative branches fell a hefty 7.2%, which we believe was driven by austerity measures implemented by the Federal Government. Spending in autonomous branches decreased 18.1%, with all bodies reporting decreases except INEGI, which grew 51.7%. Among those with falls we highlight the 49.2% reduction in the *National Electoral Institute* (INE) –remembering that federal elections were not held during this year, resulting in a negative base effect–.

Moreover, non-programmable spending excluding the financial cost of debt decreased 6.4%, stemming from the 83.6% reduction in ADEFAS, while Participations –transfers to states under the federal tax collection agreement– increased 4.3%.

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at MXN$10.5tn (~US$552.2bn), equivalent to 42.4% of GDP. Moreover, net public-sector debt amounted to MXN$11.0n (~US$573.7bn). Net domestic debt reached MXN$7.1tn, while net foreign debt climbed to US$203.2 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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