

Public finance report – Deficit of 1.1% of GDP in PSBR during 2017

January 31, 2018

www.banorte.com
@ analisis_fundam

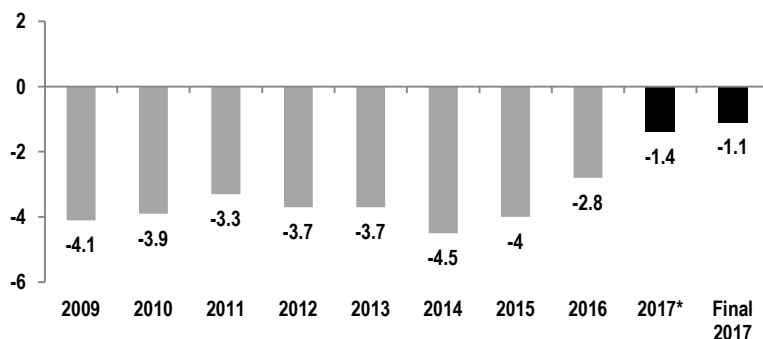
Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

- The Ministry of Finance (MoF) released its public finances report for the twelfth month of 2017
- Public sector borrowing requirements (2017): MXN\$-233.7bn surplus (~US\$11.8bn); 1.1% of GDP
- Public balance (2017): MXN\$-238.5bn surplus (~US\$12.1bn)
- Budget revenues decreased 3.7% yoy in real terms. In addition, non-oil revenues fell 4.2% yoy, while oil revenues declined 1.1%
- Budget expenses declined by 8.7% yoy, driven by the cutbacks in administrative sector costs, which decreased 32.2% yoy in real terms
- The Historic Balance of the Public Sector Borrowing Requirements stood at MXN\$10.03 trillion (~US\$509.9bn), which represents around 46.2% of GDP

Deficit in line with the budget for 2017. The Ministry of Finance released its public finance report for the twelfth month of year, in which we highlight the deficit of MXN\$233.7bn of the *Public Sector Borrowing Requirements* (PSBR) –which is the broadest measure of the public balance¹– during 2017. This represented 1.1% of GDP, staying below the 2.8% seen in 2016, as well as the 2.9% budgeted for 2017. Moreover, excluding Banxico’s Operational Surplus the deficit stood at 2.6% of GDP.

In addition, the “traditional” public balance posted a MXN\$238.5bn surplus, MXN\$265.3.4bn below the deficit seen in 2016. Furthermore, the balance was MXN\$256.4bn above the budgeted figure. Excluding the investment of high economic and social impact –such as investments made within Pemex and CFE– the balance showed a MXN\$99.9bn surplus (vs. the MXN\$4.7bn deficit observed in 2016). In addition, the primary balance shows a MXN\$310.2 billion surplus (1.4% of GDP), achieving the first surplus since 2008.

Public Sector Borrowing Requirements
% of GDP



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

Document for distribution among public

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 3.7% yoy. According to the MoF, revenues amounted to MXN\$4.9bn, MXN\$586.2bn above estimations. Taking a look at the breakdown, the 1.1% annual real decrease in oil revenues was explained by the MXN\$160.7bn transfer from the Federal Government to Pemex in 2016, which in turn raises the base of comparison. Excluding this effect, revenues were up 24.1%, as a result of the 32.7% annual increase in the price of the Mexican oil basket, despite the 9.7% decrease in oil production.

Non-oil tax revenues increased 0.9% yoy in real terms, amounting to MXN\$2.9tn, MXN\$115.4bn above budget. This comes on the back of a 4.3% real annual increase in income tax collection, coupled with a 2.8% contraction in VAT revenues. Moreover, excise tax collection (IEPS) decreased by 15.7%. Excluding fuel IEPS, collection of this tax increased 2%. In addition, import taxes fell 2.4% while Hydrocarbon E&P tax revenues grew 2.2%.

Non-oil, non-tax revenues stood at MXN\$545.4bn, which implies a 6% annual real contraction. However, it is worth mentioning that out of the MXN\$545.4bn, 321.7bn directly relate to Banxico's operating surplus. Moreover, the outstanding sum of the different stabilization funds at the end of December 2017 stood at MXN\$308.1bn, which represents a MXN\$167.7bn increase vs December 2016.

Stabilization funds

Amount outstanding on December 31, 2017, MXN billion

Total	308.1	238.8	157.9	140.4
Stabilization Fund for Budget Revenue	221.0	196.1	120.5	110.1
Stabilization Fund for State Revenue	59.9	42.7	37.4	30.3
Mexican Petroleum Fund for Stabilization and Development	27.2			

Source: Ministry of Finance

Budget spending decreased 8.7%, reaching MXN\$5.2tn, MXN\$321.8bn above what was budgeted. Primary spending –which does not include the financial cost of debt–, edged down 10.2% while the financial costs were up 6.3% yoy. Programmable spending decreased 12.7%, amounting to MXN\$3.9tn, mainly due to cuts in the administrative sector (-32.2% yoy), and state-owned companies (-13.4% yoy). Moreover, non-programmable spending, excluding the financial cost of debt, rose by 4.4%.

Public Finances in 2017

MXN bn

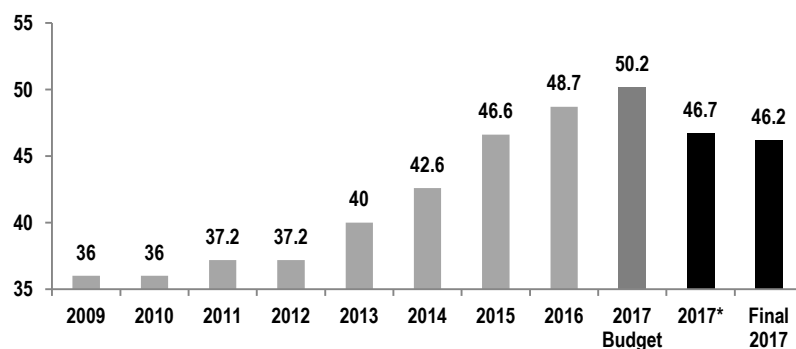
	2017	2016	% yoy in real terms
Balance	-238.5	-503.8	--
<i>ex. Pemex investments</i>	99.9	-4.7	--
Revenues	4,947.2	4,845.5	-3.7
Oil	827.3	789.1	-1.1
Non-oil	4,119.9	4,056.4	-4.2
Tax collection	2,854.8	2,716.0	-0.9
Other	545.4	547.1	-6.0
Government controlled enterprises	719.7	793.2	-14.4
Spending	5,177.6	5,347.8	-8.7
Primary spending	4,644.2	4,874.7	-10.2
Programmable spending	3,852.3	4,159.3	-12.7
Non-programmable spending	791.9	715.4	4.4
Financial costs	533.4	473.0	6.3
Primary balance	310.2	-25.0	--

Source: Ministry of Finance

The Historic Balance of the Public Sector Borrowing Requirements (HBPSBR) stood at MXN\$10.03tn (46.2% of GDP). Moreover, net domestic public sector debt amounted to MXN\$10.9tn (US\$509.9bn). In addition, net domestic debt reached MXN\$6.3tn, while net foreign debt climbed to US\$192.3 billion (equivalent to MXN\$3.8tn). 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: Ministry of Finance; *Note: MoF latest estimates

Disclaimer

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Juan Carlos Alderete Macal, CFA	FX Senior Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Strategist Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454