Public finances – PSBR deficit of $185.2 billion up to March

May 2, 2023

www.banorte.com
@analisis_fundam

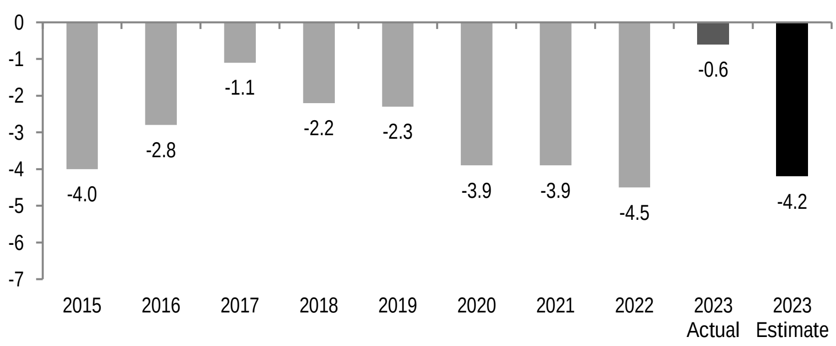
Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com

Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com

- **On Friday, the Ministry of Finance (MoF) released its public finance report for March**
- **Public sector borrowing requirements (Jan-Mar): $185.2bn deficit (~US$10.3bn; ~0.6% of GDP)**
- **Public balance (Jan-Mar): $98.2bn deficit (~US$5.4bn; ~0.3% of GDP)**
- **Primary balance (Jan-Mar): $147.2bn surplus (~US$8.1bn; ~0.5% of GDP)**
- **Budget revenues decreased 5.5% y/y in real terms, impacted by both oil (-18.3%) and non-oil (-2.9%). On the latter, we highlight the -6.4% in VAT collections and -4.3% in income taxes**
- **Expenditures declined 3.7% y/y in real terms, with reductions in administrative branches (-18.9%), Pemex (-16.3%) and CFE (-26.6%), among others**
- **The *Stabilization Fund for Budget Revenues* (FEIP in Spanish) increased 43.9% vs. year-end 2022, standing at $37.4 billion (~US$2.1bn)**
- **The *Historic Balance of Public Sector Borrowing Requirements* stood at $14.0 trillion (~US$772.9bn), equivalent to 45.6% of GDP**

PSBRs post a $185.2 billion deficit in the first quarter of 2023. The Ministry of Finance released its public finance report for March, in which we highlight the $185.2 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance[1], which is equivalent to 0.6% of GDP. This compares with the $119.1 billion deficit seen in the same period of 2022. The public balance posted a $98.2 billion deficit, lower than anticipated due to more modest expenditures than budgeted, even despite being partially offset by less revenues. Finally, the primary surplus stood at $147.2 billion (0.5% of GDP).

Public Sector Borrowing Requirements*
% of GDP



*Estimate based of the percentage of GDP presented for PSBRs and public debt. Source: Ministry of Finance

Document for distribution among the general 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 down 5.5% y/y in real terms. Revenues reached $1.7 trillion in the period, $117.5 billion lower than expected. Oil-related income came in at $255.2 billion, -18.3% in real terms, impacted by lower energy prices and a stronger MXN. Meanwhile, tax revenues reached $1.5 trillion, lower than projections by $6.3 billion. Nevertheless, performance was mostly negative, highlighting VAT at -6.4% and income tax revenues at -4.3%. Meanwhile, excise taxes rose 12.7%, with a favorable base of comparison given the application of additional fuel taxes in 2022. Income from government-controlled entities (IMSS and ISSSTE) came in at $141.0 billion (+4.7%), while those of CFE reached $102.4 billion (+5.6%). Finally, non-tax revenues fell 6.6%, amounting to $91.5 billion.

Budget spending fell 3.7% y/y. Total spending reached $1.9 trillion, $190.5 billion lower than budgeted. In this context, primary spending rose to $1.6 trillion, which implies -8.7% y/y, with financial costs at $258.3 billion (+46.3%). Within the former, the programmable component fell by 10.9%, amounting to $1.3 trillion. Outlays from government-controlled entities (IMSS and ISSSTE) declined 5.1%, dragged by IMSS (-7.3%) and with ISSSTE more moderate (-1.0%). Spending by Pemex declined 16.3%, with CFE at -26.6%. Administrative branches fell 18.9%, with significant declines in Energy (-74.8%) and Labor (-43.1%), albeit with strong growth in Agrarian, Territorial and Urban Development (+45.7%) and Environment and Natural Resources (+42.8%). Moreover, autonomous branches spending fell 0.3%. Inside, the decline is mostly explained by the National Electoral Institute (-8.0%) and the Federal Telecommunications Institute (-6.8%), although higher in the Tribunal for Administrative Justice (+12.1%) and the COFECE (+6.5%). Lastly, non-programmable spending rose 1.3% to $325.5 billion, with participations at -5.6%.

Public finances: March 2023
$ billion

	March			January - March		
	2023	2022	% y/y in real terms	2023	2022	% y/y in real terms
Public Balance	7.0	104.2	-93.7	-98.2	-58.5	56.3
Balance of entities under indirect budgetary control	*32.8*	*10.7*	*186.7*	*27.0*	*29.1*	*-13.7*
Budget Balance	*-25.8*	*93.5*	*--*	*-125.2*	*-87.6*	*33.1*
Revenues	633.2	730.5	-18.9	1,742.9	1,717.2	-5.5
Oil	95.5	145.9	-38.7	255.2	290.6	-18.3
Non-oil	537.6	584.6	-13.9	1,487.7	1,426.5	-2.9
Tax collection	411.3	459.5	-16.2	1,152.7	1,119.6	-4.2
Other	44.4	51.4	-19.1	91.5	91.2	-6.6
Government controlled entities	46.6	42.4	3.0	141.0	125.4	4.7
CFE	35.3	31.3	5.5	102.4	90.2	5.6
Spending	658.9	637.0	-3.2	1,868.2	1,804.7	-3.7
Primary spending	550.7	567.2	ND	1,609.9	1,640.4	-8.7
Programmable spending	464.3	487.7	-10.9	1,284.3	1,341.4	-10.9
Non-programmable spending	86.5	79.5	ND	325.5	299.0	1.3
Financial costs	108.2	69.8	45.1	258.3	164.3	46.3
Primary balance	84.6	168.4	-53.0	147.2	87.2	57.2

Source: Ministry of Finance

Declines in revenues and spending in March. In the month, total revenues fell 18.9% y/y in real terms. Inside, oil-related came in at -38.7%, with the effect from prices being the main drag. Tax revenues declined 16.2%, impacted by VAT collections (-19.4%) and income taxes (-18.5%), albeit with excise taxes up 79.5%. Expenditures declined 3.2%. Programmable spending was lower by 10.9%, noting contractions in administrative branches (-21.8%) and CFE (-41.8%). Within non-programmable spending, participations fell 2.8%.

Increase in two out of three stabilization funds. The Stabilization Fund for Budget Revenues (FEIP in Spanish) grew to $37.4 billion, $11.4 billion higher than at the end of the 2022 (+43.9%). This represents 0.12% of GDP. Meanwhile, the Stabilization Fund for State Revenues (FEIEF in Spanish) showed a $619 million increase to $22.5 billion. Lastly, the Mexican Petroleum Fund for Stabilization and Development (FMP in Spanish) fell to $20.0 billion, as seen in the table below.

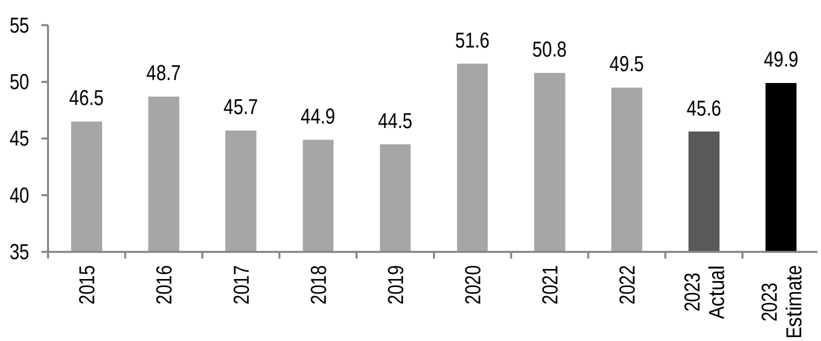
Stabilization funds
$ billion

	Mar-23	Dec-22	Difference
Total	79.8	70.0	9.9
Stabilization Fund for Budget Revenues	37.4	26.0	11.4
Stabilization Fund for State Revenues	22.5	21.8	0.6
Mexican Petroleum Fund for Stabilization and Development	20.0	22.1	-2.1

Source: MoF

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at $14.0 trillion, equivalent to 45.6% of GDP. Out of these, $10.1 trillion are domestic debt (72.2% of the total outstanding), with the external component at US$215.1 billion ($3.9 trillion; 27.8% of the total). Net public-sector debt amounted to $14.1 trillion (45.7% of GDP). Inside, net domestic debt reached $10.1 trillion, while net foreign debt totaled US$218.3 billion (equivalent to $4.0 trillion).

Historic Balance of the Public Sector Borrowing Requirements
% of GDP



Source: Ministry of Finance

Relevant insights in the call with analysts. The call was led by Rodrigo Mariscal Paredes, Chief Economist of the MoF; and María del Carmen Bonilla, Deputy Undersecretary for Public Credit. Regarding activity, despite the inversion of the yield curve since last year, they do not expect a recession either this year or in 2024. Overall, they agree that fundamentals remain quite strong, being a relevant support for GDP. In addition, they noted that they have kept on pushing with investment projects, also expecting this to have a positive incidence on activity.

On revenues, they noted an adverse seasonality in flows, expecting them to adjust positively in coming months. Once again, they reiterated that in the case of shortfalls, they would start by cutting non-essential spending, particularly publicity and other lines that do not affect outlays in social and infrastructure sectors.

Analyst Certification

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Daniel Sebastián Sosa Aguilar and Andrea Muñoz Sánchez, 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.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., *through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.*

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Alejandro Padilla Santana	Chief Economist and Head of Research	alejandro.padilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
María Fernanda Vargas Santoyo	Analyst	maria.vargas.santoyo@banorte.com	(55) 1103 - 4000

Economic Research			
Juan Carlos Alderete Macal, CFA	Executive Director of Economic Research and Financial Markets Strategy	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Director of Economic Research, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Director of Economic Research, Global	katia.goya@banorte.com	(55) 1670 - 1821
Yazmín Selene Pérez Enríquez	Senior Economist, Mexico	yazmin.perez.enriquez@banorte.com	(55) 5268 - 1694
Cintia Gisela Nava Roa	Senior Economist, Mexico	cintia.nava.roa@banorte.com	(55) 1103 - 4000
Luis Leopoldo López Salinas	Manager Global Economist	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707

Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671

Fixed income and FX Strategy			
Leslie Thalía Orozco Vélez	Senior Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Isaías Rodríguez Sobrino	Strategist, Fixed Income, FX and Commodities	isaias.rodriguez.sobrino@banorte.com	(55) 1670 - 2144

Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Carlos Hernández García	Senior Strategist, Equity	carlos.hernandez.garcia@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Paola Soto Leal	Strategist, Equity	paola.soto.leal@banorte.com	(55) 1103 - 4000 x 1746

Corporate Debt			
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Quantitative Analysis			
Alejandro Cervantes Llamas	Executive Director of Quantitative Analysis	alejandro.cervantes@banorte.com	(55) 1670 - 2972
José Luis García Casales	Director of Quantitative Analysis	jose.garcia.casales@banorte.com	(55) 8510 - 4608
Miguel Alejandro Calvo Domínguez	Senior Analyst, Quantitative Analysis	miguel.calvo@banorte.com	(55) 1670 - 2220
José De Jesús Ramírez Martínez	Senior Analyst, Quantitative Analysis	jose.ramirez.martinez@banorte.com	(55) 1103 - 4000
Daniel Sebastián Sosa Aguilar	Analyst, Quantitative Analysis	daniel.sosa@banorte.com	(55) 1103 - 4000
Andrea Muñoz Sánchez	Analyst, Quantitative Analysis	andrea.munoz.sanchez@banorte.com	(55) 1103 - 4000

Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5004 - 1282
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 5140
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8173 - 9127
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) 5249 - 6423
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5004 - 1051
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 1670 - 1899