Public finances – $496.9 billion deficit in the PSBR in the first half of the year

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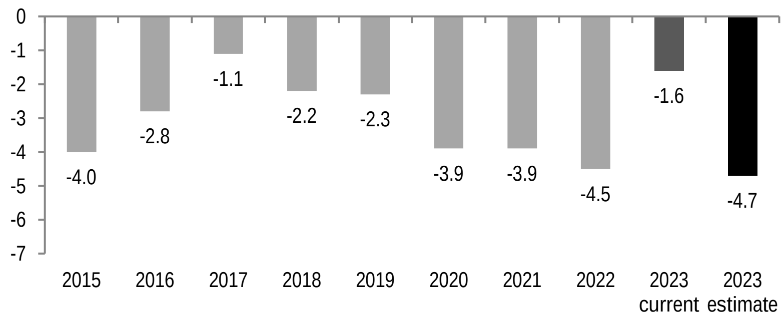
- **The Ministry of Finance (MoF) released its public finance report for June**
- **Public sector borrowing requirements (Jan-Jun): 496.9bn deficit (~US$29.1bn; ~1.6% of GDP)**
- **Public balance (Jan-Jun): $395.3bn deficit (~US$23.2bn; ~1.3% of GDP)**
- **Primary balance (Jan-Jun): $147.3bn surplus (~US$8.6bn; ~0.5% of GDP)**
- **Budget revenues decreased 1.6% y/y in real terms, with declines in oil (-23.9%), but with increases in non-oil (+3.2%). We highlight the 140.2% increase in excise tax collections, as well as +2.9% in income tax**
- **Expenditures rose 3.7% y/y in real terms, with increases in IMSS (3.9%) and administrative branches (7.3%), but declines in CFE (-31.6%), Pemex (-11.2%), and autonomous branches (-1.2%)**
- **The *Stabilization Fund for Budget Revenues* (FEIP in Spanish) increased 47.6% vs. year-end 2022, standing at $38.3 billion (~US$2.2bn)**
- **The *Historic Balance of Public Sector Borrowing Requirements* stood at $14.1 trillion (~US$823.6bn), equivalent to 45.8% of GDP**
- **The MoF updated its macroeconomic and fiscal estimates, although keeping their 2023 GDP forecast at 3.0%**

PSBRs accumulate a $496.9 billion deficit in the first half of the year. The Ministry of Finance released its public finance report for June, in which we highlight the $496.9 billion deficit in *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance[1]–, equivalent to close to 1.6% of GDP. This compares with the $336.8 billion deficit seen in the same period of 2022. The 'traditional' public balance posted a $395.3 billion deficit, higher than anticipated due to lower revenues and higher expenditures. Finally, the primary surplus stood at $147.3 billion.

Public Sector Borrowing Requirements*
% of GDP



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

Winners of the 2023 award for best Mexico economic forecasters, granted by *Focus Economics*

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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 fell 1.6% y/y in real terms. Revenues reached $3,464.7 billion in the period, $189.6 billion lower than expected. Oil-related income came in at $481.9 billion, -23.9% in real terms, mainly driven by lower oil prices. Meanwhile, tax revenues were $2,274.6 billion, lower than projections by $89.7 billion. Performance was mixed, highlighting the 8.0% fall in VAT. Meanwhile, increases were centered in excise taxes (140.2%), which has been favored by the reduction and/or elimination of stimulus to fuels. Income from government-controlled entities (IMSS and ISSSTE) came in at $295.1 billion (+6.9%), while those of CFE reached $220.3 billion (+5.1%). Finally, non-tax revenues fell 12.0%, amounting to $192.7 billion.

Expenditures up 3.7% y/y. Total spending reached $3,884.7 billion, $279.8 billion lower than budgeted. In this context, primary spending rose to $3,331.5 billion, which implies a 0.1% y/y contraction, with financial costs at $553.3 billion (+34.0%). Within the former, the programmable component fell 0.9%, amounting to $2,683.7 billion. Outlays from government-controlled entities (IMSS and ISSSTE) advanced 3.2%, driven both by IMSS (+3.9%) and ISSSTE (+1.6%). Spending by Pemex decreased 11.2%, with that from CFE lower at 31.6%. Administrative branches increased 7.3%, with strong corrections in the Ministry of Finance (392.0%) and Natural Resources (58.5%), albeit with significant drops in Energy (-73.5%) and Labor (-35.7%). Moreover, autonomous branches spending fell 1.2%. Inside, the decline is mostly explained by INE (-14.1%) and the Human Rights Commission (-4.7%), although higher in INAI (+95.8%) and the INEGI (+3.7%). Lastly, non-programmable spending rose 3.6% to $647.7 billion, with participations up 0.6%.

Public finances: June 2023
$ billion

	June			January-June		
	2023	2022	% y/y real terms	2022	2021	% y/y real terms
Public Balance	-258.0	-143.5	71.2	-395.3	-175.9	110.9
Balance of entities under indirect budgetary control	*7.5*	*2.9*	*143.5*	*24.8*	*34.5*	*-32.6*
Revenues	-265.5	-146.4	72.7	-420.0	-210.3	87.4
Oil	540.9	559.7	-8.0	3,464.7	3,305.2	-1.6
Non-oil	80.1	98.3	-22.4	481.9	594.2	-23.9
Tax collection	460.8	461.4	-4.9	2,982.8	2,711.0	3.2
Other	350.6	301.7	10.6	2,274.6	2,049.7	4.1
Government controlled entities	15.4	72.5	-79.8	192.7	205.5	-12.0
CFE	55.8	48.0	10.7	295.1	259.0	6.9
Spending	39.1	39.2	-5.2	220.3	196.8	5.1
Primary spending	806.4	706.1	8.7	3,884.7	3,515.5	3.7
Programmable spending	607.7	541.0	ND	3,331.5	3,128.2	-0.1
Non-programmable spending	495.8	462.6	2.0	2,683.7	2,541.6	-0.9
Financial costs	112.0	78.5	ND	647.8	586.6	3.6
Primary balance	198.7	165.1	14.6	553.3	387.3	34.0

Source: Ministry of Finance

Increase in two of the three stabilization funds. The Stabilization Fund for Budget Revenues (FEIP in Spanish) grew to $38.3 billion, with an expansion of $12.4 billion relative to the figure seen at the end of the 2022 (+47.6%). This represents 0.12% of GDP. Meanwhile, the Stabilization Fund for State Revenues (FEIEF in Spanish) added a $1.1 billion to reach to $22.9 billion. Lastly, the Mexican Petroleum Fund for Stabilization and Development (FMP in Spanish) fell to $18.8 billion, as seen in the table below.

Stabilization funds
$ billion

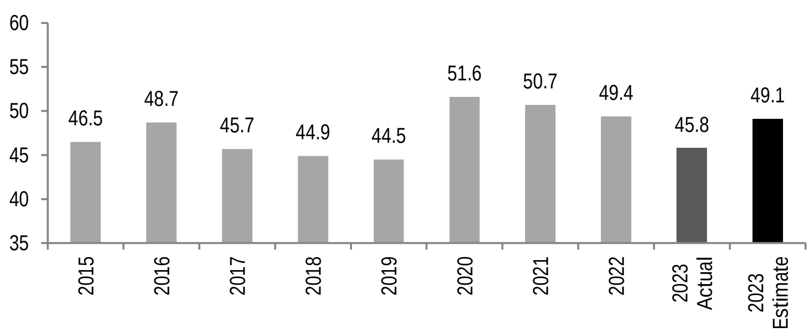
	Jun-23	Dec-22	Difference
Total	80.1	70.0	10.1
Stabilization Fund for Budget Revenues	38.3	26.0	12.4
Stabilization Fund for State Revenues	22.9	21.8	1.1
Mexican Petroleum Fund for Stabilization and Development	18.8	22.1	-3.3

Source: MoF

Lower revenues and higher spending during June. In the month, total revenues fell 8.0% y/y in real terms. Inside, oil-related came in at -22.4%, affected by lower prices. Tax revenues rose 10.6%. Expenditures grew 8.7%. Programmable spending was higher by 2.0%, highlighting increases in administrative (26.7%) and autonomous branches (6.2%). However, expenditures by Pemex fell 37.5%, with CFE lower by 40.4%. Within non-programmable spending, participations climbed 38.5%.

The Historic Balance of Public Sector Borrowing Requirements (HBPSBR) stood at $14.1 trillion, equivalent to 45.8% of GDP. Out of these, $10.5 trillion are domestic debt (74.6% of the total outstanding), with the external component at US$209.0 billion ($3.6 trillion; 25.4% of the total). Net public-sector debt amounted to $14.2 trillion. Inside, net domestic debt reached $10.5 trillion, while net foreign debt totaled US$216.5 billion (equivalent to $3.7 trillion).

Historic Balance of the Public Sector Borrowing Requirements
% of GDP



Source: Ministry of Finance

Adjustments on macroeconomic and fiscal estimates. As part of the quarterly document, the MoF updated variables within the macroeconomic framework, as well as estimates for some of the main lines of the public balance. Specifically, we highlight that the estimate for GDP in 2023 is expected at 3.0%, unchanged vs the *2024 Preliminary Policy Criteria*. On the other hand, they now expect the USD/MXN exchange rate at 17.60 (previous: 18.90). In the oil sector, the Mexican oil mix would be higher at 67.0 US$/bbl, albeit with more modest production at 1,955.4 kbpd. With these assumptions, the deficit in the PSBRs would reach 4.7% of GDP, higher at the margin vs. the 4.2% outlined previously. Despite of this, HBPSBRs would be more favorable, reaching 49.1% of GDP (previous: 49.9%).

Macroeconomic framework and fiscal variables
Selection

	Actual	Previous
GDP (% y/y)	3.0	3.0
Exchange Rate (USD/MXN, average of period)	17.6	18.9
Oil price (US$/bbl, average of period)	67.0	66.6
PSBR (% of GDP)	-4.7	-4.2
HBPSBR (% of GDP)	49.1	49.9
Primary Balance (% of GDP)	-0.6	-0.1

Source: MoF

Relevant insights in the analysts' call. The call was led by Rodrigo Mariscal Paredes, Chief Economist of the MoF; and María del Carmen Bonilla, Deputy Undersecretary for Public Credit. They noted that economic activity has been strong, although not enough to revise their forecast higher. On the fiscal front, they note the adverse effect on oil revenues from both lower prices and the appreciation of the MXN. As such, they expect revenues by the end of the year lower than programmed, mostly due to this factor. On fuel excise taxes base effects have been beneficial, with this factor offsetting some of the shortfalls. On revenues, some efforts have been made to reduce outlays, mainly on publicity. As such, this would entail a larger deficit, but with positive effects on debt from the MXN strength. On Pemex, they mentioned that capitalization efforts will likely continue, albeit contingent on the space left once considering the Federal balance. However, they do intend to guarantee the capitalization in 2024, looking to reduce challenges for the upcoming administration that will take office in October.

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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, Juan Carlos Mercado Garduño, Daniel Sebastián Sosa Aguilar, Jazmin Daniela Cuautencos Mora 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.

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