PUBLIC DEBT

Traditional Methodology

I. Analytical framework, concepts, definitions and classifications

Analytical Framework. The Public Debt Statistics result of compiling, classifying, organizing and summarizing the Federal Public Sector liabilities, to present the contractual obligations arising from the domestic and external financing. The objective of the Debt Statistics is to maintain an efficient information system to implement measures useful for the public debt management, as well as contributing to the analysis of their impact on Public Finances and in the decision making concerning savings and consumption of economic agents.

The statistics are used to prepare reports about the public sector debt for the Legislature Branch and public in general. Therefore, its classification obeys to the economic and institutional criteria within the national budgetary practices framework.

Classification System. There are several ways of classifying the public debt. The following are among the most commonly used:

a) By its origin. The debt is classified as domestic or external, taking into account the residence of the debt holder, which is based on the physical location rather than on the nationality of the creditor. The domestic and external debt classification criterion is consistent with the residence definition of the IMF Balance of Payments Manual (5th edition).

   On one hand, the gross domestic debt are the borrowings obtained by the public sector, either directly or through its financial agents, in the domestic market, by allocating government securities and direct loans with other institutions, whose main characteristics are being paid within the country in Mexican Pesos. On the other hand, the gross external debt are the credits contracted by the public sector, either directly or through its financial agents, with foreign financial institutions, which are payable abroad in a foreign denominated currency.

b) By contract term. The debt data are classified according to its original term of acquisition in short and long terms: the former refers to loans with less than one year term, while the latter refers to loans that are contracted with a term of one year or more.

c) By source. This criterion takes into account the nature of financial creditors such as, for the external debt: publicly placed bonds in the Capital Markets, International Financial Organizations, Commercial Banks, International Trade, restructured debt, as well as liabilities from Pidiregas. For domestic debt the following stands out: government bonds placed in the local market, Commercial Banks, SAR, and SIEFORES.

d) By Currency. Corresponds to the denominated currency of the contracted credit.

e) By origin country. It refers to the creditor financial institution origin country.

f) By instrument. This classification obeys to the legal characteristics of the instruments that describe the relationship between creditor and debtor. The existing instruments are the promissory notes, bonds, government securities and contracts or credit lines.

II. Data range

Federal Public Sector: The integration of the balances of external and domestic debt of the federal public sector includes the liabilities of the Federal Government, those of the Public Entities under Direct Budgetary Control and the Development Banks.

Debt coverage by financial source: The domestic debt of the Public Sector includes the following:

a) Government Securities. These are debt securities issued by the Federal Government through Banco de México (Banxico) in its financial agent role. The existing instruments are: Federation's Treasury Certificates (Cetes), Federal Government Development Bonds (Bondes), Federal Government Development Bonds with daily revising interest rate (Bondes D), fixed-rate Federal Government Development Bonds (Bonos), and Federal Government Development Bonds denominated in Investment units (Udibonos).

b) Retirement Savings System (SAR). These funds come from the contributions for the workers' retirement, which are deposited at the central bank as Federal Government assets, and *considered within its* liabilities.

c) Siefores. It refers to the Specialized Investment Funds for Retirement, which receive resources from the SAR and invest them in government securities.

d) Financial Improvement. It is the financial support granted by the Federal Government through the Expenditures for Programs to Support Savers and Debtors of the Banking System, legally registered as Ramo 34.

e) Commercial Banks. These are credit lines or agreements with the Mexican comercial banks.

f) Others. It refers to the liabilities of the Public Sector denominated in domestic currency different from those specified above.

The external debt of the public sector is composed by:

a) Capital Markets. It refers to the public allocations made in the international capital markets through public bond issues, the medium-term promissory notes programs, and commercial paper.

b) International Financial Institutions. Loans contracted with the Inter-American Development Bank (IDB), the International Bank for Reconstruction and Development (IBRD), and the International Fund for Agricultural Development (IFAD).

c) Commercial Banks. Resources obtained directly through commercial banks.

d) International Trade. These are loans granted between Governments negotiated through their central banks, or contracted through commercial banks but guaranteed by an official organism.

e) Restructured. It corresponds to the loans that have been renegotiated in different programs with the aim of reducing the debt balance, as well as its service[1].

f) PIDIREGAS. It refers to the debt which is directly linked to the Long Term Productive Infrastructure Projects (PIDIREGAS)[2].

III. Accounting Conventions

Registry Base: The accounting registration is done considering performed operations and not the earned ones. In this regard, all transactions are registered at their placement time and the dates on which payments of both, the capital and the financial cost, occur.

Registration Period: The registration period refers to the calendar year.

Valuation of transactions in foreign currencies: Considering that each creditor notifies their public sector foreign liabilities movements and status in their original currency, it is necessary to convert them into a common currency for the preparation of reports. This currency is the US dollar, and for the conversion of different foreign currencies the corresponding observed exchange rate provided by Banxico for the last day of the reference month is used .

Valuation of domestic debt instruments: According to the accounting registration, the valuation of Government securities liabilities is done at the placement value of the primary market. Their accounting records vary according to the instrument.

[1] It is worth noting that in this concept only a Spanish Bank Bond is left.
[2] In accordance with Article 18 of the Public Debt General Law, direct liabilities correspond to the amortization of the first two years of the project PIDIREGAS.

In the case of the Federation's Treasury Certificates (Cetes), since they are allocated at a discount, the amounts are accounted using the allocation price, which is obtained by discounting the nominal value with the corresponding rate using the following formula:

$$C = S \times (1 - D \times T / 360)$$

Where:
C = Allocation price
S = Nominal value
D = Discount rate
T = Instrument's days to maturity

The Bondes are recorded at nominal value and the difference between it and the actual one, is accounted as an expense at the allocation time . These securities grant interests on its nominal value payable every 6 months. Nowadays, there are no longer allocations of these instruments and those who are already on the market, with a 5 years origin term, have maturities between 2008 and 2010.

Bondes D are registered at nominal value, pay interests every 28 days with an interest rate based on the daily weighted banking fund rate. Currently, origin terms of 2, 3, 4, and 5 years can be observed on the market, though, only those with 5 years term are allocated.

Bonds. They are issued and allocated in terms longer than one year, and pay fixed interests every six months. The rate of return is determined at the weekly auction of government securities. At the time these securities have been issued at terms of 3, 5, 7, 10, 20, and 30 years. They are commonly named M3, M5, M7, M10, M20, and M30 BONDS.

In the case of the inflation-indexed debt instruments, such as the Udibonos, they are accounted at nominal value and its inflationary component is registered as a balance adjustment, reassessment which is done monthly.

IV. Nature of Baseline Data

Data sources: The basic information proceeds from accounting records and financial statements provided by the Public Credit Unit, area which is responsible for the Federal Government public debt management. Also, some records come from the reports sent by organisms and entities as well as the development banks.

In the first case, data are obtained from a monthly report of each credit line and instruments; it includes in detail the transactions, balances, accounting adjustments, and the credit financial cost which are responsibility of the Federal Government. In the second case, data are collected from the authorization documents for the hiring of such borrowings, and a report similar to that mentioned above, which is done by public entities based on the information they receive from their external creditors and agent banks.

V. Compilation Practices

Adjustments for the add-up of transactions: The adjustments that are periodically made to the external and domestic debt balances of the Public Sector, are mainly due to exchange rates, inflation and transactions that were not reported in the corresponding period.

Exchange Rate adjustments: The external debt is grouped in United States of America dollars (US dollars) to obtain the total balance and its transactional movements. However, the primary source of information is reported in its original currency, therefore after converting it to US dollars it is generated a gap in the external debt balance accounting. Consequently, the debt is adjusted by the variation observed in the exchange rate of the different currencies against the dollar during the period on which the Public Debt Statistics reports are made. In the case of the domestic debt, it is usually accounted in national currency, but if there were credits in a currency other than the domestic one, the positive or negative difference against the original currency would be registered as an adjustment to the balance of the period.

Inflationary effect adjustments: They are carried out on the Udibonos, SAR, and any other credit contracted in Investment Units (Udi's); whose performance is in line with the corresponding inflation.

Other accounting adjustments: The movements (allocations oramortizations) made in other periods and that were not timely reported, as well as adjustments from debt exchange and/or advanced payments of debt are also considered as adjustments to balance.

Transactional net result: The domestic and external debt in gross terms corresponds to all operations and transactions of the credit lines that are registered at their nominal value, except for discount titles. To obtain the debt's net balance, the net balance of the Account of the Federation's Treasury and other assets of the Federal Government, as well as the assets of Public Entities and Development Banks are substracted from the gross debt balance (liquid assets that constitute reserves for the payment of the IMSS and ISSSTE's pensions and retirements are excluded).

VI. Other aspects

Other relevant information:

The Federal Government, in accordance to the Public Debt General Law 4th article, has provided guarantees to different financings. The statistical monitoring of Federal Government guaranteed debt is disclosed in the quarterly reports sent to the Congress, however, the balance of these guarantees has not been incorporated into the traditional debt balances of the public sector.

The accountability of the traditional public debt does not reflect the true position of the broadest definition of the public sector liabilities due to the different legal systems derived from the registry of some transactions that has been made under an accounting approach rather than an economic one and because current coverage does not consider all Public Sector activities.

Therefore, it is necessary to include in the debt's accountability all the public entities as well as the private sector activities done in behalf of the public sector. By adding to the traditional debt accountability the financial assets and debt of the rest of the financial and non-financial public entities under direct budgetary control, as well as the net liabilities of the IPAB, the FARAC, those associated with PIDIREGAS and Programs to Support Savers and Debtors, the Historical Balance of the Public Sector's Borrowing Requirements (SHRFSP) is obtained. The SHRFSP represents the net stock of contracted obligations to achieve the public policy objectives of both, entities affiliated to the public sector as well as private entities acting on behalf of the Federal Government.