# PUBLIC SECTOR BORROWING REQUIREMENTS AND THEIR HISTORICAL BALANCE

## Methodology

The measurement of Public Sector Borrowing Requirements (PSBR) and their historical balance (BRHBPS) intends to provide the public with information about the financial results of activities carried out by the Public Sector in order to comply with its functions, in a summarized and timely fashion.

These indicators are the result of an effort to collect and regroup information, most of which is already known by the public, but that in the past was published separately or in aggregated manner.

PSBR and BRHBPS represent only indicative fiscal figures. Therefore, the traditional public balance will continue to be the relevant indicator used to analyze the budgetary commitments established for 2014. Moreover, both the internal and external net indebtedness ceilings authorized by Congress for the current fiscal year are consistent with the traditional measure of the public balance.

In the following months, measures to further improve the understanding of fiscal accounts will be taken. In this sense, it is particularly relevant that the Federal and State Governments carry out joint actions aimed at building an integrated system of fiscal accounts at a national level.

It is important to point out that the information on PSBR and BRHBPS included in this note is preliminary and therefore, is subject to future changes.

### I. Public Sector Borrowing Requirements

PSBR measure the financing needs of public entities and of private and social entities that act on behalf of the Government.

PSBR include, among others, the traditional public balance; IPAB's borrowing requirements net of Federal Government's transfers; financing needs of public investment projects financed by the private sector (PIDIREGAS), and the borrowing requirements of the National Infrastructure Fund (FONADIN)[*] and

[*] In February 2008 was created the National Infrastructure Fund (FONADIN) that absorbs the functions of the FARAC and the FINFRA.

the expected profit or loss ofthe credit granted by the development banks and development funds.

The following table explains the calculation of the PSBR indicator for 2013 in order to improve its understanding:

| Public Sector Borrowing Requirements in 2013 (% of GDP) | |
|---|---|
| **1. Traditional Balance** | **2.3** |
| 2. PIDIREGAS' Borrowing Requirements | 0.0 |
| 3. IPAB's Borrowing Requirements | 0.1 |
| 4. Adjustments to Budgetary Entries | 0.6 |
| 5. FONADIN Borrowing Requirements | 0.0 |
| 6. Debtor Support Programs | 0.0 |
| 7. Development Banks and Public Funds' Borrowing Requirements | -0.1 |
| **PSBR (1+2+3+4+5+6+7)** | **3.0** |
| 9. Non-recurrent revenues | -1.0 |
| **10. PSBR not including non-recurrent revenues (8-9)** | **4.0** |

1. **The Traditional Balance** is used to follow the fiscal program approved by Congress and is integrated by the following concepts:

    - Income from tax collection; contributions to social security; rights and other income not including financing, such as receipts derived from the sale of goods and services, financial returns, and the recovery of fixed assets, among others.

    - Expenditures needed for the operation of the Public Sector, such as wages and salaries; materials; general services; public investment, the financing cost of public debt, and subsidies and transfers to the private and social sectors.

An approximation of PSBR can be obtained from the traditional balance by carrying out the following adjustments:

2. **PIDIREGAS' Borrowing Requirements.** PIDIREGAS are investment projects that can be financed by themselves and that have economic impact once they are realized. Their budgetary entry is deferred across

time according to Article 18 of the General Law of Public Debt and the budgetary laws in force. In contrast to the traditional balance, PSBR register the project's financing requirements when it is carried out and not when it is concluded and the Entities begins to amortize it, as it is stated in budgetary rules.

3. **IPAB's Borrowing Requirements.** The entire financing needs of IPAB are not included in the traditional balance, as mentioned on Articles 47 and Transitory 8 Fraction II of the Law for the Protection of Bank Savings. In particular, the traditional balance only includes fiscal transfers to cover for the real component of IPAB's financing costs. Therefore, IPAB's borrowing requirements correspond primarily to the inflationary component of its debt.

4. **Adjustments to budgetary entries.** These refer to the adjustments derived from virtual or compensated transactions:

    - **The inflationary component of indexed debt.** Real interest payments and inflation adjustments of the indexed principal are included as financing costs.

    - **Debt buybacks.** The difference between the purchasing price and the face value of securities bought in the secondary market is excluded.

    - **Revenues from above/below par debt issuance.** Positive differences between market value and face value are excluded from revenues, while negative differences are excluded from expenditures. This means that PSBR measure public indebtedness in terms of its placement price and not in terms of its face value; the difference is considered an adjustment in order to reach BRHBPS.

    - **IMSS and ISSSTE actuarial reserves.** For the calculation of PSBR, the resources channeled to the technical reserves of IMSS and ISSSTE are considered as financial expenditures and their recovery is considered as revenue. This stems from the fact that these resources can only finance future obligations contemplated in the IMSS Law that might arise from job-related risks and affiliates' pensions and in the case of ISSSTE, devolutions of contributions when affiliates retire and other operations related to housing credits.

5. **FONADIN Borrowing Requirements.** The PSBR measurement includes all the financial requirements of the FONADIN to the rescue of concession

roads, and new resources to the development of infrastructure that have not been funded by budgetary expenditure.

6. **Debtor Support Programs.** PSBR include the liabilities related to the Debtor Support Programs, including both the discounted payments and the UDI restructuring programs. The final disbursement related to these programs will depend on the results of audits regarding the correct implementation of programs conducted by the CNBV with banking institutions and on the future behavior of real interest rates.

7. **Development Banks and Public Funds' Borrowing Requirements.** From 2010, as the 17$^{th}$ paragraph of the Article 2, established on the Federation's Revenue Law 2010, in order to calculate the public sector's financial requirements, it has to be considered the expected profit or loss of the granted credit instead of the financial intermediation deficit of the development banks and public funds that are regulated and supervised by the National Banking and Securities Commission (NBSC). The Constitution reserves and operation deficits are the factors that determine expected profit or loss and determines the evolution of the heritage, that is the fiscal cost and potential obligations of such institutions is determined by its change more accurately.

8. **PSBR.** PSBR are obtained after the aforementioned adjustments have been conducted. However, this measure still includes certain components that jeopardize the establishment of a sustainable fiscal stance.

9. **Non-Recurrent Revenues.** This concept refers to revenues received once and thus that reflect a high volatility when they are identified. These revenues include privatizations; asset recovery from trusts and funds; redemption of Brady Bonds' collateral, and excess profits received from public entities.

10. **PSBR excluding non-recurrent revenues.** PSBR are presented excluding non-recurrent revenues to show the fiscal stance as a function of the Public Sector's capacity to collect revenues on a permanent basis, and not of occasional events that translate into reductions of its resources.

## II. HISTORICAL BALANCE OF BORROWING REQUIREMENTS

The Public Sector Borrowing Requirements Historical Balance (BRHBPS) represents the net obligations to achieve the objectives of public policy, both public institutions and private entities acting on behalf of the Federal Government, i.e. liabilities less financial assets, loans and funds for repayment of debt, as a reflection of the annual trajectory observed in the PSBR. Currently, the BRHBPS include the public sector budget net debt and net obligations of IPAB, FONADIN, associated with PIDIREGAS and the debtors, support programs as well as the expected loss of development banks and development funds.

The variation of BRHBPS in any given period must be consistent with the level of the PSBR and accounting entries that do not result from Public Sector operations but that change the domestic monetary value of liabilities. These include the revaluation of foreign-exchange liabilities due to variations in exchange rates; the difference between the placement value and the nominal value of financial liabilities and the difference between the face value and the purchase price of cancelled liabilities.