

Public finance – Spending decreased 9.8% during Jan-Feb

March 30, 2016

www.banorte.com
www.ixe.com.mx
@ analisis_fundam

Saúl Torres
Analyst, Mexico
saul.torres@banorte.com

- **Public Sector Balance (January-February): MXN70.1bn (US\$3.8bn) deficit; excluding Pemex: MXN8.1bn (US\$0.4bn) deficit**
- **Revenues edged-up 1.6% yoy**
- **Moreover, non-oil revenues observed a null expansion**
- **Moreover, spending decreased 9.8% yoy in January-February**
- **Public Sector net domestic debt amounted to MXN5,441.7bn (US\$294.6bn), while external debt amounted to US\$168.5bn**
- **In our view, this report continues to reflect the sensitivity of Mexico's public finances to oil prices**

According to the Ministry of Finance, public balance in January-February posted a MXN70.1bn (US\$3.8bn) deficit. Today's deficit was driven mainly by a 1.6% increase in fiscal revenues and a 9.8% contraction in net expenditure. Excluding *Pemex's* investments, public deficit amounted to MXN8.1bn (US\$0.4bn). Moreover, the primary balance posted a MXN15.6bn deficit (US\$0.8bn). However, it was significantly lower than the MXN111.6bn deficit (US\$6bn) observed in Jan-Feb 2015.

Oil revenues expanded 10.1% yoy. According to the Ministry of Finance (MoF), oil revenues increased as a result of temporary effects of collection and exchange rate that offset the 44.5% fall in the price of the Mexican crude oil (26.1dpc vs. 47dpc observed in February 2015), and the 1.5% reduction in Mexico's production (2,267mbpd vs. 2,302mbpd).

Non-oil revenues posted a null expansion. Non-oil revenues presented a null annual variation; however, tax collection edged-up 3.3% yoy, as shown in the table below. Within the first, VAT revenues posted a 0.5% contraction. We highlight that VAT revenues expanded more than the MoF's initial estimates (+2.9%). Moreover, income tax revenues edged-up 9.7% yoy, and these revenues were 1.3% higher than the MoF's estimates. Finally, non-oil non-tax revenues were down 20.3% yoy.

Document for distribution among public

Public Finances in January-February

MXNbn

	Jan-Feb		% yoy
	2015	2014	in real terms
Balance	-70.1	-148.7	
<i>ex. Pemex investments</i>	-8.1	-53.9	
Revenues	684.5	655.5	1.6
Oil	121.9	107.8	10.1
Non oil	562.5	547.7	0.0
Tax collection	439.9	414.6	3.3
Other	27.4	33.5	-20.3
Government owned companies	95.2	99.6	-7.0
Spending	750.7	810.5	-9.8
Primary balance	-15.6	-111.6	

Source: Ministry of Finance

IEPS tax collection falls 11.3%. Tax revenues from the *Special Tax on Production and Services (IEPS)* edged down 11.3% yoy in real terms. One of the products that are included within this tax is the gasoline. Similarly, revenues from public firms decreased 7%, and were 6.6% lower than the MoF initial forecast (MXN\$95.2bn vs. MXN\$101.9bn). However, *IMSS* and *ISSSTE* revenues were higher (+5.3%), which offsets the lower incomes generated by the *Federal Electricity Commission* -18.4% yoy, given the reduction in electricity tariffs.

Public sector spending decreased 9.8% yoy in January-February. Programmable spending amounted to MXN572.9bn (US\$31bn), 11.8% lower than the one observed in the same period last year. We highlight that this reduction was explained by deductions in expenses of personal services (-3.1%), current spending (-5.6%) and an expansion of 0.5% in pensions and retirement funds. Moreover, financial costs were up by 9.4% yoy.

Public sector domestic net debt amounted to MXN5,441.7bn (US\$294.6bn) in January-February, MXN61.9bn (US\$3.4bn) higher than the level observed at the end of 2015. Moreover, external debt amounted to US\$168.5bn, US\$6.9bn higher than the one reached at the end of 2015.

In our view, this report continues to reflect the sensitivity of Mexico's public finances to oil prices. The base of comparison for oil prices will become more favorable in the next months, although revenues will still post negative growth rates. Looking ahead, we believe that public finances will reflect the sound macro-prudential policies that the current administration is implementing to protect the Mexican economy.

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
Rey Saúl Torres Olivares	Analyst	saul.torres@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 Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst 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	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates/Financials/ Mining/ Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
Marisol Huerta Mondragón	Equity Research Analyst – Food/Beverages	marisol.huerta.mondragon@banorte.com	(55) 1670 - 1746
José Itzamna Espitia Hernández	Equity Research Analyst – Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto parts	valentin.mendoza@banorte.com	(55) 1670 - 2250
María de la Paz Orozco García	Analyst	maripaz.rozco@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	Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@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