

## Public finances show a MXN61.6bn deficit in 1Q16

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- The Ministry of Finance (MoF) presented its *Report on Economic Activity, Public Finances and Public Debt* for January-March 2016
- According to the MoF, the Mexican economy posted a higher growth in 1Q16
- Public balance shows a MXN61.6bn (US\$3.4bn) deficit in 1Q16, excluding Pemex, it shows a MXN43.8bn (US\$2.4bn) surplus
- Revenues decreased 5.3% in real terms compared to the period of January-March 2015
- Moreover, spending edged-down 7.3% yoy during the same period
- Public Sector net domestic debt represented 45.6% of GDP during the period in question
- In our view, this report continues to reflect the sensitivity of Mexico's public finances to oil prices

According to the Ministry of Finance (MoF), the Mexican economy posted a higher growth in 1Q16. According to the monthly *Report on Economic Activity, Public Finances and Public Debt in 1Q16*, the MoF highlighted that the Mexican economy grew 2.9% yoy in 1Q16 in seasonal figures, according to the “*Preliminary Estimation of GDP*” report. Moreover, employment and credit numbers along with other indicators of domestic demand, such as retail sales, have improved over the period in question.

**Public balance shows a MXN61.6bn (US\$3.4bn) deficit in 1Q16.** This figure compares with the MXN96.5bn (US\$5.3bn) deficit observed in the same period of 2015, and it is explained by a decline in non-oil, non-tax revenues (-24.6% yoy). However, excluding investment in Pemex, the public balance shows a surplus of MXN43.8bn (US\$2.4bn), vs. MXN40.9bn (US\$2.3bn) in January-March 2015. Finally, the primary balance shows a surplus of MXN3.9bn (US\$215.8mn), compared to the deficit of MXN37.5bn (-US\$2bn) in the same period last year.

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**Total revenues decreased 5.3% in real terms compared to the first quarter of 2015.** This figure is explained mainly by lower oil revenues, down 24.6%, derived from a lower price of the Mexican crude oil (-45.5% yoy), a 2.7% drop in oil production, and a decrease in the price of natural gas (-33.9% yoy). Meanwhile, non-oil revenues edged-down 1.6% yoy in real terms during the period.

**Non-oil tax revenues grew 6.1% yoy.** This result was higher than the one estimated for this period (MXN1,056.6bn vs. MXN999.7bn estimated). Moreover, income tax collection grew 8.8% yoy, which implies a higher than expected revenues from the estimation includes in the fiscal budgeted for 2016 (+22.2%). VAT revenues were 1.7% higher than expected. However, the non-oil, non-tax revenues were equivalent to MXN50.6bn, 49.5% below than the observed in the same period last year.

**Public Finances in January-March**  
MXNbn

|                              | Jan-March      |                | % yoy<br>in real terms |
|------------------------------|----------------|----------------|------------------------|
|                              | 2016           | 2015           |                        |
| <b>Balance</b>               | <b>-61.6</b>   | <b>-96.6</b>   |                        |
| <i>ex. Pemex investments</i> | 43.8           | 40.9           |                        |
| <b>Revenues</b>              | <b>1,056.6</b> | <b>1,086.6</b> | <b>-5.3</b>            |
| Oil                          | 135.5          | 175            | -24.6                  |
| Non oil                      | 921.2          | 911.7          | -1.6                   |
| Tax collection               | 723.1          | 663.9          | 6.1                    |
| Other                        | 50.6           | 97.6           | -49.5                  |
| Government owned companies   | 147.4          | 150.1          | -4.4                   |
| <b>Spending</b>              | <b>1,126</b>   | <b>1,182.9</b> | <b>-7.3</b>            |
| Primary balance              | 3.9            | -37.5          |                        |

Source: Ministry of Finance

**Government spending edged-down 7.3% yoy in real terms during the first quarter.** The reduction in government spending was explained by the fall in programmable spending (-8.4% yoy), given the lower public investments (-20% yoy), lower resources paid to subsidies (-1.5%), and a 4.3% increase in resources for pensions. This spending reduction is in line with the measures taken by the government to conduct a preventive adjustment of spending in 2016. We highlight that the adjustment was for MXN132.3bn, equivalent to 0.7% of GDP. On the other hand, the financial cost increased 13% yoy.

Moreover the transfers to federal states decreased in real terms 2.4% yoy during 1Q16. According to the Ministry of Finance, if the transfers continue to post a lower than anticipated, the “*Stabilization Fund Income Federal Entities*” (FEIEF) will be used to cover shortfalls. In this context, the MoF highlighted that during April, MXN10.4bn were transferred to the states and municipalities. Finally, non-programmable expenditure decreased by 8% in 1Q16.

**The net debt of the Federal Public Sector amounted 45.6% of GDP in 1Q16.** Net debt of the public sector, including government, agencies and companies as well as development banks, amounted to MXN8,416.9bn. Of this amount, MXN5,390.5bn correspond to net domestic debt (29.2% of GDP) while US\$173.9bn (16.4% of GDP) are net foreign debt .

**Stabilization funds stand at MXN127.8bn.** While oil revenues are resenting the effect of lower oil prices, resources in stabilization funds were in the area of MXN127.8bn, as shown in the following table.

**Stabilization funds (March 31, 2016)**

MXNmn

|  |                |
|--|----------------|
| <b>Total</b>   | <b>127,802</b> |
| Budget revenue stabilization fund (FEIP)                                   | 55,995         |
| Federal entities stabilization fund (FEIEF)                                | 39,630         |
| Investment Programs and Infrastructure Projects of Federal Government fund | 32,177         |

Source: MoF

**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.

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