

Public finance report for September reflects Mexico's fiscal stability

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- **The Ministry of Finance (MoF) released its public finances report for the third quarter of the year**
- **Public balance (Jan-Sep): MXN \$251.3 billion deficit (ex. high impact investments: MXN134.5bn surplus)**
- **Budget revenues increased 12.3% yoy. In addition, non-oil revenues increased 15.1% yoy in real terms, while oil revenues expanded 0.9%**
- **Budget revenues came up by 4.6% yoy**
- **Net debt amounted 47.6% of Mexico's GDP**
- **In our view, third quarter's public finance report reflects the significant fiscal cuts that the government has implemented...**
- **...however, year-to-date the Federal Government has succeeded in maintaining its fiscal deficit and public debt goal, which supports our view of fiscal stability throughout the year**

According to the Ministry of Finance, public balance during the first three quarters of the year posted a MXN 251.3 billion deficit. Moreover, excluding the investment of high economic and social impact –such as investments made within Pemex and CFE–, the public balance showed a MXN 134.5 billion surplus (vs. the MXN 83.4 billion deficit observed in January-September 2015). In addition, the primary balance shows a MXN 57.8 billion surplus vs. the MXN 188.6 billion deficit observed in the same period last year.

Oil revenues increased 0.9% yoy. According to the MoF, during January-September higher oil revenues were explained by the extraordinary income received from the Federal Government for the capitalization of PEMEX and the depreciation of the Mexican currency, which offset the fall the Mexican crude oil price on international markets and the decline in Mexico's platform of oil production. We highlight that these revenues do not include the profits from the oil hedge strategy to be received in December.

Non-oil tax revenues increased 15.1% yoy in real terms. This comes on the back of a 11.5% increase in income tax collection, a 5.9% increase in VAT revenues, 22.2% higher IEPS collection and 12.2% import taxes. In addition, non-tax, non-oil revenues recorded a significant 85.2% increase, as this category includes Banxico's operating remnant, as shown in the following table.

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Public Finances in January-September

MXNbn

	January-September		% yoy
	2016	2015	in real terms
Balance	-251.2	-438.8	
<i>ex. Pemex investments</i>	134.5	-83.4	
Revenues	3,497.6	3,033.5	12.3
Oil	617.4	595.9	0.9
Non-oil	2,880.2	2,437.5	15.1
Tax collection	2,041.5	1,788.1	11.2
Other	375.4	197.4	85.2
Government owned companies	463.2	452.0	-0.2
Spending	3,763.3	3,503.2	4.6
Primary balance	57.8	-188.6	

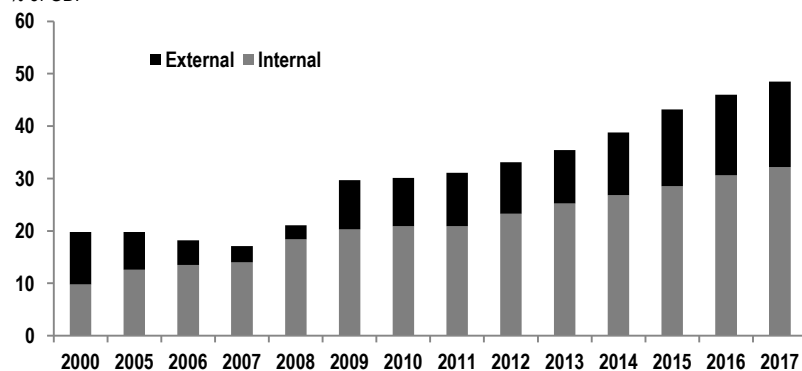
Source: Ministry of Finance

Budget spending came up 4.6% in January-September. Programmable spending amounted to MXN 3,763 billion in the first nine months of the year, which implies a 4.6% yoy expansion. However, we highlight that this includes non-recurring expenses that are not trendsetters, such as the MXN 160.7 billion contributions to PEMEX and the MXN 70 billion contribution to the FEIP (Mexico's oil revenues stabilization fund) derived from Banxico's operating surplus. Excluding these items, net financial expenses decreased 0.5% yoy.

Net domestic public sector debt amounted 47.6% of Mexico's GDP. In addition, gross public debt reached 49.1% of GDP. While public debt has shown a strong increase over the levels observed in the last two years, this is mainly explained by the depreciation of the Mexican currency, which has caused a sharp increase in the nominal domestic value of gross foreign debt. Moreover, despite the increase in Mexico's public debt, the current levels are consistent with the debt ceiling authorized by the Lower and Upper House for 2016, and is also in line with the Federal Government's fiscal consolidation program.

Net public debt

% of GDP



Source: Ministry of Finance

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