

Public finance – Surplus in balance derived from the Banxico’s remnant in April

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- **Public Sector Balance (January-April): MXN177.1bn (US\$10.1bn) surplus; excluding Pemex: MXN313.3bn (US\$17.9bn) surplus**
- **In this context, the surplus observed in Jan-Apr was mainly explained by resources obtained of the Banxico’s operation remnant amounting to MXN239.1bn (US\$13.7bn)**
- **Revenues edged-up 16.2% yoy**
- **Moreover, non-oil revenues observed a 20.7% expansion**
- **However, oil revenues decreased 6.6% yoy**
- **Spending decreased 3.3% yoy in January-April**
- **Public Sector net domestic debt amounted to MXN5,159.6bn (US\$295bn), while external debt amounted to US\$173.8bn**
- **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-April posted a MXN177.1bn (US\$10.1bn) surplus. Today’s surplus was driven mainly by resources obtained of the Banxico’s operation remnant amounting to MXN239.1bn (US\$13.7bn). We highlight that the purpose of these resources was: (1) MXN167bn (US\$9.5bn, 70% of the remnant) to repurchase existing debt during 2016; (2) MXN70bn (US\$4bn) to strengthen the Stabilization Fund budget revenues; and (3) approximately MXN1.7bn for payment of outstanding contributions to international organizations. Additionally, the report showed a 16.2% increase in fiscal revenues and a 3.3% contraction in net expenditure. Excluding Pemex’s investments, public surplus amounted to MXN313.3bn (US\$17.9bn). Moreover, the primary balance posted a MXN264.6bn surplus (US\$15.1bn).

Oil revenues decreased 6.6% yoy. According to the Ministry of Finance (MoF), oil revenues decreased as a result of the 43.5% fall in the price of the Mexican crude oil (26.6dpb vs. 47.2dpb observed in April 2015), and the 3.1% reduction in Mexico’s production (2,241mbpd vs. 2,314mbpd).

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Non-oil revenues posted a 20.7% expansion. Tax collection edged-up 7.5% yoy, as shown in the table below. Within the first, VAT revenues posted a 4% increase. Similarly, VAT revenues expanded more than the MoF's initial estimates (+1.1%). Moreover, income tax revenues edged-up 9.7% yoy, and these revenues were 21% higher than the MoF's estimates. Finally, non-oil non-tax revenues posted a significant increase of 164.2%, given the significant increase in utilizations (+212.9%), category in which the Banxico's operation remnant is counted.

Public Finances in January-April
MXNbn

	Jan-Apr		% yoy in real terms
	2016	2015	
Balance	177.1	-116.3	
<i>ex. Pemex investments</i>	313.3	60.1	
Revenues	1,689.8	1,416.7	16.2
Oil	224.9	234.5	-6.6
Non oil	1,464.8	1,182.1	20.7
Tax collection	960.6	870.4	7.5
Other	307.1	113.2	164.2
Government owned companies	197.1	198.5	-3.3
Spending	1,527.1	1,539.1	-3.3
Primary balance	264.6	-42.2	

Source: Ministry of Finance

IEPS tax collection expanded 6.6%. Tax revenues from the *Special Tax on Production and Services (IEPS)* edged-up 6.6% yoy in real terms. One of the products that are included within this tax is the gasoline. Moreover, revenues from public firms decreased 3.3%, and were 15.7% lower than the MoF initial forecast (MXN197.1bn vs. MXN233.9bn). However, *IMSS* and *ISSSTE* revenues were higher (+5.4%), which offsets the lower incomes generated by the *Federal Electricity Commission* (-11.8% yoy), given the reduction in electricity tariffs.

Public sector spending decreased 3.3% yoy in January-April. Programmable spending amounted to MXN1,183.9bn (US\$67.7bn), 5% lower than the one observed in the same period last year. We highlight the reduction in expenses of operation (-4.6%), and 5.3% expansion in pensions and retirement funds. Moreover, financial costs were up by 16.3% yoy.

Public sector domestic net debt amounted to MXN5,159.6bn (US\$295bn) in January-April, MXN220.3bn (US\$12.6bn) lower than the level observed at the end of 2015. Moreover, external debt amounted to US\$173.8bn, US\$12.2bn 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, in our opinion, the allocation of resources coming from Banxico to the Federal Government will continue to show the commitment of Mexico's policy makers to sound macro-prudential policies and public finances.

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