

Public finances show a MXN345bn deficit in 1H15

July 31, 2015

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

Delia Paredes

Executive Director of Economic Analysis
delia.paredes@banorte.com

Saúl Torres

Analyst, Mexico
saul.torres@banorte.com

- The Ministry of Finance (MoF) presented its *Report on Economic Activity, Public Finances and Public Debt in January-June 2015*
- According to the MoF, the Mexican economy had a moderate recovery in 2Q15 amid a difficult external backdrop
- Public balance shows a deficit amounting to MXN345bn (-US\$22.8bn) in 1H15, excluding Pemex, it shows a deficit of MXN87bn (-US\$5.7bn)
- Revenues increased 4% in real terms while spending expanded 7.4% yoy during the same period
- Stabilization funds are at MXN124.5bn (US\$8.2bn), MXN28.1bn higher than at the end of 1Q15
- Public Sector net domestic debt represented 42.2% of GDP during the period in question

The Ministry of Finance (MoF) presented its *Report on Economic Activity, Public Finances and Public Debt in January-June 2015*. According to the MoF, the Mexican economy had a moderate recovery in 2Q15 amid a difficult external backdrop. In particular, they highlight that economic activity expanded 1.8% yoy in January-June. Moreover, employment and credit numbers along with other indicators of domestic demand, such as retail sales and consumer confidence, have improved over the period in question. Against this backdrop, volatility in global financial markets remained high, although the adjustment of the Mexican economy has taken place in an orderly fashion.

Public balance shows a deficit amounting to MXN345bn (-US\$22.8bn), in the first half of the year. This figure compares with the deficit of MXN233.2bn (-US\$15.4bn), observed in the same period of 2014 and it is explained by a decline in non-oil, non-tax revenues (-38.3% yoy). Moreover, excluding investment in Pemex, the public balance shows a deficit of MXN87bn (-US\$5.7bn), vs. -MXN53.2bn (-US\$3.5bn) in January-June 2014. Finally, the primary balance shows a deficit of MXN130.3bn (-US\$8.6bn), compared to the deficit of MXN65bn (-US\$4.3bn) in the same period last year.

Document for distribution among public

Total revenues increased 4% in real terms compared to the period of January-June 2014. This figure is explained mainly by lower oil revenues, down 38.3%, derived from a lower price of the Mexican crude oil (-47.5% yoy), a 8.5% drop in oil production, and a decrease in the price of natural gas (-33.8% yoy). Meanwhile, non-oil revenues increased 23.4% yoy in real terms during the period in question. We highlight that a significant part of total revenues come from extraordinary operations such as: (1) Banxico's operation remnant amounting MXN31,400mn, which will be used for infrastructure projects and will be accounted in the Spending Budget 2016; (2) TV network concession; and (3) the effects of tax provisions approved back in 2013.

Higher gasoline excise tax collection partly offset the fall in oil revenues. Tax revenues from this source (known as *IEPS*) amounted to MXN114.5bn (US\$7.6bn) in Jan-Jun 2015 vs. the outflow of MXN17.6bn (US\$1.2bn) in same period last year. Given that Mexico imports more than 40% of its energy consumption, and the government controls domestic prices, when the international prices are above the local price, the federal government increases its tax revenues.

Non-oil tax revenues grew 23.4% yoy. This result was higher than the one estimated for this period (MXN1.2bn vs. MXN1bn estimated). Moreover, income tax collection grew 24.1% yoy, and it was above the amount expected (+19.7%). VAT revenues were 0.4% lower than expected. Finally, the non-oil, non-tax revenues increased significantly to MXN140.4mn, 54% above that observed in the same period last year.

Public Finances in January-June
MXNbn

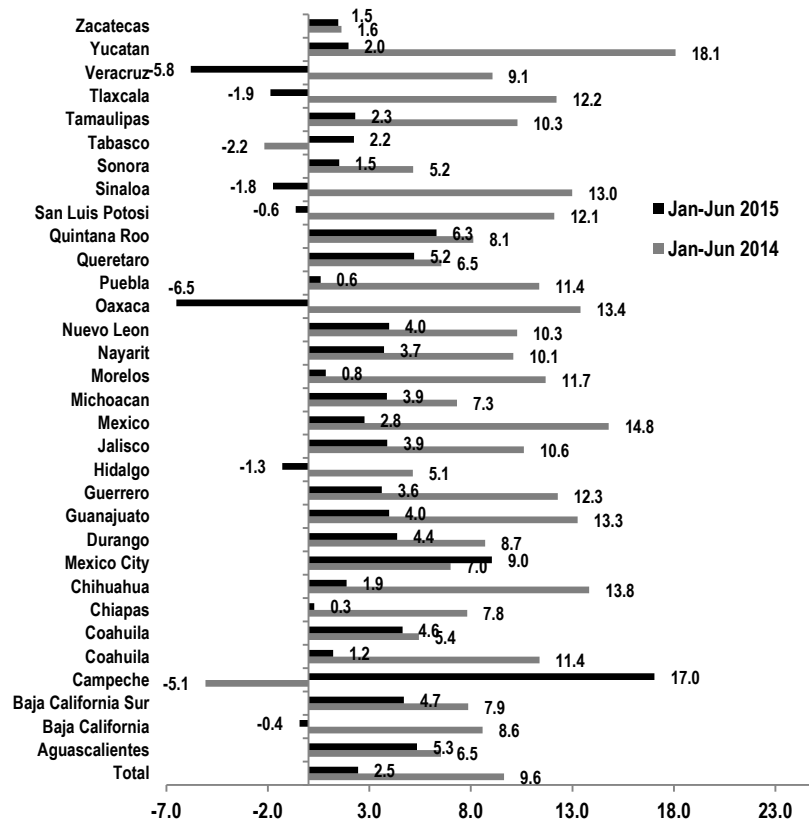
	Jan-June		% yoy in real terms
	2015	2014	
Balance	-345	-233.2	
<i>ex. Pemex investments</i>	-87	-53.2	
Revenues	2,048.6	1,912	4.0
Oil	381.9	600.9	-38.3
Non oil	1,666.7	1,311.1	23.4
Tax collection	1,225.9	923.9	28.8
Other	140.4	88.5	54.0
Government owned companies	300.4	298.7	-2.3
Spending	2,398.7	2,167.8	7.4
Primary balance	-130.3	-65	

Source: Ministry of Finance

Government spending increased 7.4% yoy in real terms during the period of January-June 2015. The increase in government spending was explained by the surge in programmable spending (+7.4% yoy), more resources paid to subsidies and pensions (+12.9% and 6.9% yoy, respectively), social spending (4.9% yoy). The spending made by autonomous dependencies posted a real increase of 27.7% over the previous semester, derived in part to the recent electoral process, highlighting increases in the National Electoral Institute (+118.5%); Legislature (+7.9%) and Judiciary (+8%).

Moreover the transfers to federal states increased in real terms 2.5% yoy during 1H15, as shown in the following chart. Non-programmable expenditure increased 2.2% from January to June 2015, while financial costs were up 17.9% yoy.

Transfers to federal states
% yoy in real terms



Source: Banorte-ixe with data from the MoF

Oil stabilization funds down MXN3.3bn (US\$0.2bn). Additionally, while oil revenues are resenting the effect of lower oil prices, resources in stabilization funds have come down since 1Q15. Nevertheless, as we mentioned above, the government will allocate the resources coming from Banxico’s operation remnant to infrastructure projects next year, so it has put aside this money into a special fund. Taking into account the infrastructure fund, total resources in stabilization funds amount to MXN124.5bn, as shown in the following table.

Stabilization funds (June 30, 2015)

MXNm	
Total	124,535
Oil stabilization fund (FEIP)	57,466
Federal entities stabilization fund (FEIEF)	35,620
Investment for Infrastructure Projects Programs fund	31,449

Source: MoF

The net debt of the Federal Public Sector amounted 42.2% of GDP in 1H15. Net debt of the public sector, including government, agencies and companies as well as development banks, amounted to MXN7,503.1bn. Of this amount, MXN5,034.4bn correspond to net domestic debt (28.3% of GDP) while MXN158.6bn (13.9% of GDP) are net foreign debt .

Looking ahead, public deficit will remain under control in 2H15. The base of comparison for oil prices will become more favorable in 2H15, although revenues will still post negative rates of growth. Nevertheless, we expect government spending to moderate as we have left behind the electoral process. In the medium-term, public finances will continue to resent low levels of oil prices and a falling platform of production.

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
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
Víctor 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.orozco@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	hugoa.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	Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Jorge de la Vega Grajales	Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Private Banking	lpietrini@ixe.com.mx	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Asset Management	pimentelr@ixe.com.mx	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	International Banking	rvelazquez@ixe.com.mx	(55) 5268 - 9879
Víctor Antonio Roldan Ferrer	Transactional Banking	vrolan@ixe.com.mx	(55) 5004 - 1454