

May's public finance continues showing Mexico's high sensitivity to low oil prices

June 30, 2015

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

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

- **Public Sector Balance (Jan-May): MXN188.7bn (US\$12.4bn) deficit; excluding Pemex: MXN35.1bn surplus (US\$2.3bn)**
- **Revenues edged up 3.9% yoy, despite the 40.6% reduction in oil revenues**
- **Tax revenues were higher than expected**
- **Moreover, spending increased 8.5% yoy in May**
- **Public Sector net domestic debt amounted to MXN4,764bn (US\$312.1bn), while external debt amounted to US\$10.4bn**
- **In our view, May's report continues to show the sensitivity of Mexico's public finances to low oil prices; however, it suggests a significant recovery in economic activity**

According to the Ministry of Finance, public balance during the first five months of 2015 posted a MXN188.7bn (US\$12.4bn) deficit. According to the Ministry of Finance, the deficit was explained mainly by two temporary events: (1) The contributions to the stabilization funds during January; and (2) the lower level of oil revenues given that the *hedge* made by the federal government -which was based on the purchase of *put options* at a strike price of 76.4 dollars per barrel (dpb)- can be exercised until December. May's deficit was driven mainly by a 3.9% increase in fiscal revenues and an 8.5% increase in net expenditure. Excluding Pemex's investments, public surplus amounted to MXN35.1bn (US\$2.3bn). Moreover, the primary balance posted a MXN96.3bn deficit (US\$6.3bn), which was significantly lower than the MXN22.8bn deficit (US\$1.5bn) observed in May 2014.

Oil revenues decreased 40.6% yoy. Oil revenues decreased as a result of a lower Mexican crude oil price (47.8dpb vs. 92.9dpb in same period of 2014) along with lower levels of crude oil production (-8.1%). Moreover, tax revenues from the *Special Tax on Production and Services (IEPS)* edged up 341.4% yoy in real terms. One of the products that is included within this tax is the gasoline. 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.

Tax revenues were higher than the initial MoF estimates. Non-oil revenues were up 24% yoy derived from a 28.2% yoy increase in tax collection, as shown in the table below. Within the first, income tax revenues increased 24% yoy, and these revenues were 23.1% higher than the MoF's estimates. Moreover, non-oil non-tax revenues were up 62.4% yoy. Finally, VAT revenues decreased 0.9%. Also, we highlight that VAT revenues edged down from the MoF's initial estimates (-1.2%).

Document for distribution among public

Public Finances in May

MXNbn

	Jan-May		% yoy
	2015	2014	in real terms
Balance	-180.7	-79.2	
<i>ex. Pemex investments</i>	35.1	71.3	
Revenues	1,720.4	1,606.8	3.9
Oil	305.8	499.4	-40.6
Non oil	1,414.6	1,107.5	24.0
Tax collection	1,040.8	788.2	28.2
Other	123.8	74	62.4
Government owned companies	250	245.3	-1.1
Spending	1,908.9	1,707.4	8.5
Primary balance	-96.3	-22.8	

Source: Ministry of Finance

Sharp decline in Pemex revenues. While tax revenues were higher than the MoF's estimates, revenues from public firms were significantly lower than expected 26.8% (MXN\$341.4bn vs. MXN\$250bn).

Public sector spending increased 8.5% yoy in May. Programmable spending amounted to MXN1,516.8bn (US\$99.4bn), 7.4% higher than the one observed in May 2014. Moreover, financial costs were up 35.1% yoy.

Public Sector domestic net debt amounted to MXN4,764bn (US\$312.1bn) in May, MXN40.3bn (US\$2.6bn) lower than the level observed at the end of 2014. Moreover, external debt amounted to MXN\$168.6bn, US\$0.9bn higher than the one reached at the end of 2014.

In our view, May's public finance report continues showing Mexico's high sensitivity to low oil prices; however, it suggests a significant recovery in economic activity. The higher federal spending is in line with our expectations, particularly in the first half of the year given the federal elections that took place in June 7. Additionally, the higher tax collection in May suggests a significant recovery in domestic demand. Regarding Mexico's dependence to oil revenues, the *hedge* made by the federal government which was based on the purchase of *put options* at a strike price of 76.4 dollars per barrel (dpb) shields Mexico's oil revenues throughout the year. However, we highlight that these options can be exercised until December, which could generate certain volatility in the Federal Government's revenues. Nevertheless, the positive differential between domestic and international price of gasoline -which will result in a higher collection from *IEPS*- and the significant depreciation of the Mexican currency will be mechanisms that the Government will use to soften the fall in revenues given the lower oil prices.

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	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	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	voldan@ixe.com.mx	(55) 5004 - 1454