

Public finance report –Numbers suggest better tax collection in the first two months of 2017

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- The Ministry of Finance (MoF) released its public finances report for the second month of 2017
- Public balance (February): MXN\$31.5 bn deficit (\approx USD\$-1.5 bn) while the deficit excluding high impact investments posted a MXN 30bn surplus (\approx USD\$1.4 bn)
- Budget revenues increased 6.9% yoy. In addition, non-oil revenues increased 5.2% yoy in real terms, while oil revenues expanded 15.1%
- Budget expenses came up by 2.2% yoy, driven by the increase in financing costs, which grew 57.1% yoy in real terms
- Net public debt amounted to MXN\$9.6 trillion (\approx USD\$472 bn)
- In our view, February's public finance report continues to show the efforts made by the Federal Government to consolidate its financial position

According to the Ministry of Finance, public balance during the first month of the year posted a MXN\$31.5 billion deficit (\approx USD\$-1.5 bn). This figure represents a 57.1% yoy real decrease over the figure seen in the same period of last year (MXN\$70.1 bn). However, excluding the investment of high economic and social impact –such as investments made within Pemex and CFE–, the public balance showed a MXN\$30 billion surplus (vs. the MXN\$1.6 billion deficit observed in February 2016). In addition, the primary balance shows a MXN\$39.7 billion surplus vs. the MXN\$17.3 billion deficit observed in the same month last year. Moreover, *Public Sector Borrowing Requirements* (PSBR) –the broadest measure of the public balance– posted a MXN\$56.8 bn deficit, 22.6% lower than that seen in 2016.

Revenues increased 6.9% yoy. According to the MoF, during February, higher expected revenue was exceeded by MXN\$47.3 bn, totaling MXN\$759.1 bn. Taking a look at the breakdown, the 15.1% increase in oil revenues was explained 68.3% annual increase in the price of the Mexican oil basket, as well as the 14.1% annual depreciation of the USD/MXN exchange rate.

Non-oil tax revenues increased 5.2% yoy in real terms. This comes on the back of a 7.8% increase in income tax collection, coupled with a 3.8% increase in VAT revenues, and 8.8% higher collection on import taxes. However, collection on IEPS taxes decreased by 6%, but when excluding IEMPS for fuel, they rose 2.3%.

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Budget spending climbed 2.2% in February. With this increase, spending reached MXN\$798 bn, MXN\$49.4 bn lower than expected. Primary spending, – which does not include the financial cost of debt– decreased by 1.2%, while the financial costs grew 57.1% yoy. Programmable spending decreased 5.2%, amounting to MXN\$562 bn in the second month of the year, mainly due to cuts in the administrative (-13.8% yoy), general (-5.0% yoy) and autonomous (-3.0% yoy) sectors. Moreover, non-programmable spending, excluding the financial cost of debt, rose by 15.9%

Public Finances in February 2017

MXN\$bn

	Jan-Feb		% yoy in real terms
	2017	2016	
Balance	-31.5	-70.1	
<i>ex. Pemex investments</i>	30.0	-1.6	
Revenues	759.1	677.6	6.9
Oil	138.6	114.9	15.1
Non-oil	328.4	307.6	5.2
Tax collection	483.1	440.2	4.7
Other	31.2	27.4	8.5
Government controlled enterprises	55.6	52.0	2.0
State-owned productive companies	50.7	43.1	12.4
Spending	798.0	744.9	2.2
Primary balance	39.7	-17.3	

Source: Ministry of Finance

Net domestic public sector debt amounted to MXN 9.6tn (≈USD\$472 bn). In addition, net domestic debt reached MXN\$6 tn, while net foreign debt climbed to USD\$181.7 billion (equivalent to MXN\$3.6 tn). Moreover, the Historic Balance of the Public Sector Borrowing Requirements (HBPSBR) – which represent the broadest measure of public debt– stood at MXN\$9.7 tn.

Public debt has shown a significant growth in the last two years, as a result of the depreciation of the Mexican currency, which has caused a sharp increase in the nominal domestic value of gross foreign debt.

February's public finance report continues to show the efforts made by the Federal Government to consolidate its financial position. Following January's report, which showed a slight deceleration in revenues related to the collection of consumer taxes, this report reversed those results, and continues to show the commitment of the Federal Government to meet its budgetary targets and public debt targets.

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