

Banxico's operating surplus will reduce Mexico's fiscal deficit

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- Yesterday, Banco de Mexico announced its operating surplus, which in 2015 amounted to MXN239.1bn (~US\$13.9bn)
- This amount will be transferred to the Federal Government
- According to Article 19a of the *Federal Budget and Fiscal Responsibility Law*, the government will allocate 70% to reduce public debt
- This implies that 2016's fiscal deficit could amount to 2.15% of Mexico's GDP
- The rest of the operating surplus will be allocated to the stabilization funds
- In our opinion, this allocation will be in line with the commitment shown by the Federal Government with sound public finances

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@ analisis_fundam

Gabriel Casillas

Chief Economist and Head of Research
gabriel.casillas@banorte.com

Delia Paredes

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

Alejandro Cervantes

Senior Economist, Mexico
alejandro.cervantes@banorte.com

Banxico determined its operating surplus for the fiscal year 2015.

Yesterday, Banxico announced the net income for 2015, which amounted to MXN378.2bn (~US\$22bn). From this amount, the board of governors decided to allocate MXN109.1bn (~US\$6.3bn) to increase the capital reserve to achieve an objective of capital plus reserves of MXN118.5bn (~US\$6.9bn). In addition, Banxico decided to increase the asset revaluation reserve in MXN30bn (+US\$1.7bn) to a total amount of MXN60.9bn (~US\$3.5bn). Taking these factors into account, the operating surplus amounted to MXN239.1bn (~US\$13.9bn), which will be transferred to the Federal Government in accordance with Article 55 of the Law of Banco de México.

70% of this operational revenue will be allocated to reduce public debt.

According to Article 19a of the *Federal Budget and Fiscal Responsibility Law*, at least 70% (~ 167.4mmp) should be allocated to the amortization of the public debt of the Federal Government or reducing the amount of funding needed to cover the approved deficit. In this context, the Ministry of Finance had a conference call today, in which the Undersecretary of Finance, Fernando Aportela, mentioned that by the end of the month the *MoF* will release the adjustment in its debt placement program for 2Q16. Moreover, the Undersecretary of Finance also mentioned that the debt placement programs for the third and fourth quarter will be consistent with this operational surplus.

The fiscal deficit will amount to 2.15% of GDP. In this regard, and making the assumption that the Federal Government will reach its goal of fiscal revenues within the Revenue Law and Fiscal Budget, the fiscal deficit for this year would be reduced by 0.85 percentage points of GDP thanks to the operational surplus, and thus Mexico's fiscal deficit for 2016 will be equivalent to 2.15% of GDP. Excluding investment made to PEMEX, the Federal Government could reach a 0.15% surplus.

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The rest of the operating surplus will be allocated to the stabilization funds.

The remaining amount (around 70 billion pesos) will be deposit in the Federal Stabilization Funds. In this regard, we highlight that the Federal Stabilization Funds can only be used to cover a shortfall of incomes and/or to purchase the *MoF's* oil and gasoline hedging program.

The MoF will announce the details of a PEMEX support plan in the next

days. At the telephone conference held today the Undersecretary of Finance did not release any details on the Federal Government's plan to support PEMEX. However, Fernando aportela did mentioned that the details of this plan will be released in the next days. 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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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
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
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
Victor 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	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454