

July's public finance still resent the lower oil prices

August 28, 2015

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

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

- **Public Sector Balance (Jan-Jul): MXN375.4bn (US\$23.5bn) deficit; excluding Pemex: MXN82.4bn deficit (US\$5.2bn)**
- **Revenues edged up 4.3% yoy, despite the 35.9% reduction in oil revenues**
- **Tax revenues were higher than expected**
- **Moreover, spending increased 5.3% yoy in July**
- **Public Sector net domestic debt amounted to MXN5,066bn (US\$317.8bn), while external debt amounted to US\$9.9bn**
- **Looking ahead, public finances will continue to resent the low levels of oil prices**

According to the Ministry of Finance, public balance during the first seven months of 2015 posted a MXN375.4bn (US\$23.5bn) deficit. According to the Ministry of Finance, the deficit was explained mainly by two temporary events: (1) The contributions to the stabilization funds in January; and (2) the lower level of oil revenues given that the *hedge* made by the federal government is not going to be exercised until December according to the report. July's deficit was driven mainly by a 4.3% increase in fiscal revenues and a 5.3% increase in net expenditure. Excluding Pemex's investments, public deficit amounted to MXN82.4bn (US\$5.2bn). Moreover, the primary balance posted a MXN138bn deficit (US\$8.7bn), which was slightly lower than the MXN140.3bn deficit (US\$8.8bn) observed in July 2014.

Oil revenues decreased 35.9% yoy. Oil revenues decreased as a result of a lower Mexican crude oil price (49.9dpb vs. 94.3dpb in same period of 2014) along with lower levels of crude oil production (-8.4%). Moreover, tax revenues coming from the gasoline excise tax collection (*IEPS*) edged up 290.6% yoy in real terms.

Tax revenues were higher than the initial MoF estimates. Non-oil revenues were up 23% yoy derived from a 28.7% yoy increase in tax collection, as shown in the table below. Within the first, income tax revenues increased 23.7% yoy, and these revenues were 17.4% higher than the MoF's estimates. Moreover, non-oil non-tax revenues were up 51.4% yoy. Finally, VAT revenues increased 3.3%, better than expected (+1.5%).

Public Finances in July
MXNbn

	Jan-July		% yoy
	2015	2014	in real terms
Balance	-375.4	-326.4	
<i>ex. Pemex investments</i>	-82.4	-116.7	
Revenues	2,402.8	2,237.4	4.3
Oil	470	711.7	-35.9
Non oil	1,932.8	1,525.7	23.0
Tax collection	1,415	1,067.5	28.7
Other	166.2	106.6	51.4
Government owned companies	351.6	351.6	-2.9
Spending	2,797.5	2,580.1	5.3
Primary balance	-138.1	-140.3	

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 27.7% (MXN\$486.5bn vs. MXN\$351.6bn).

Public sector spending increased 5.3% yoy in July. Programmable spending amounted to MXN2,166.4bn (US\$135.9bn), 4.2% higher than the one observed in July 2014. Moreover, financial costs were up 22.1% yoy.

Public Sector domestic net debt amounted to MXN5,066.3bn (US\$317.8bn) in July, MXN262.1bn (US\$16.4bn) higher than the level observed at the end of 2014. Moreover, external debt amounted to MXN\$158.3bn, US\$0.8bn higher than the one reached at the end of 2014.

Looking ahead, public finances will continue to resent the low levels of oil prices. 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. Looking ahead, we believe that budget process for 2016 will continue to try to face the difficulties of the "perfect storm" in the Mexican oil sector: lower prices and falling output.

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
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	ricardo.velazquez@banorte.com	(55) 5268 - 9879
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454