

Public balance – Mexico reached a new record-high public deficit for Jan-Feb

March 30, 2015

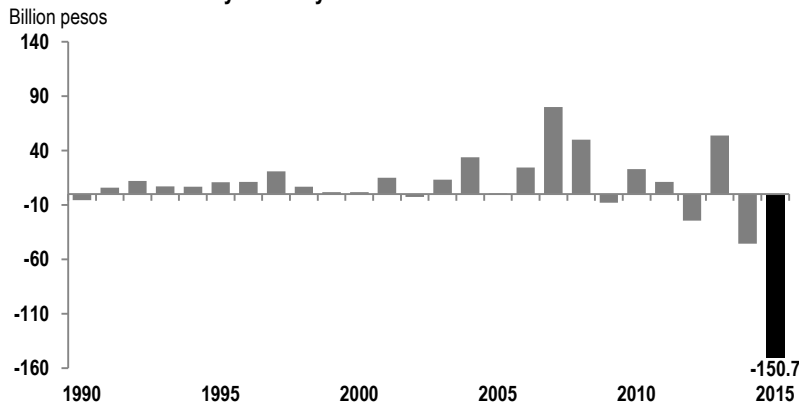
www.banorte.com
www.ixe.com.mx
@ analisis_fundam

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

- **Public Sector Balance (Feb): MXN150.7bn (US\$10.1bn) deficit; excluding Pemex: MXN56.3bn deficit (US\$3.7bn)**
- **We highlight that this is the highest public deficit observed for a January-February period since the Ministry of Finance started publishing these figures**
- **Revenues edged down 1.9% yoy given the 46.3% reduction in oil revenues**
- **However, tax revenues were higher than the initial MoF estimates**
- **Moreover, spending increased 11.7% yoy in February**
- **Public Sector net domestic debt amounted to MXN4,867.9bn (US\$326.2bn), while external debt amounted to US\$10.2bn**
- **In our view, February’s report shows the sensitivity of Mexico’s public finances to oil prices; however, it suggests a significant recovery in economic activity**

According to the Ministry of Finance, public balance in February posted a **MXN150.7bn (US\$10.1bn) deficit**. We highlight that this is the largest deficit observed for a January-February period since the Ministry of Finance started publishing these figures (refer to the chart below). February’s deficit was driven mainly by a 1.9% reduction in fiscal revenues and a 11.7% increase in net expenditure. Excluding Pemex’s investments, public deficit amounted to MXN56.3bn (US\$3.7bn). Moreover, the primary balance posted a MXN113.3bn deficit (US\$7.6bn), which was significantly lower than the MXN22.3bn deficit (US\$1.5bn) observed in February 2014.

Public deficit in January-February



Source: SHCP

Document for distribution among public

Oil revenues decreased 46.3% yoy. Oil revenues decreased as a result of a lower Mexican crude oil price (46.5dpb vs. 91.2dpb in same period of 2014) along with lower levels of crude oil production (-8.3%).

However, tax revenues were higher than the initial MoF estimates. Non-oil revenues were up 16.8% yoy derived from a 20.1% yoy increase in tax collection, as shown in the table below. Within the first, VAT revenues increased 5.5%, which suggests a significant recovery of private consumption. However, we highlight that VAT revenues edged up from the MoF's initial estimates (+1.3%). Moreover, income tax revenues increased 5.9% yoy, and these revenues were 6.1% higher than the MoF's estimates. Finally, non-oil non-tax revenues were up 35.3% yoy.

Public Finances in February

MXNbn

	Jan-Feb		% yoy in real terms
	2015	2014	
Balance	-150.7	-45.7	
<i>ex. Pemex investments</i>	-56.3	18.2	
Revenues	654.5	647.8	-1.9
Oil	106.6	192.6	-46.3
Non oil	548	455.2	16.8
Tax collection	414.6	335.2	20.1
Other	33.4	24	35.3
Government owned companies	99.9	96.1	0.9
Spending	811	704.5	11.7
Primary balance	-113.3	-22.3	

Source: Ministry of Finance

Higher gasoline IEPS collection partly offset the fall in oil revenues. Tax revenues from the *Special Tax on Production and Services (IEPS)* edged up 272.7% 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.

Sharp decline in Pemex revenues. While tax revenues were higher than the MoF's estimates, revenues from public firms were significantly lower than expected (MXN\$99.9bn vs. MXN\$132.9bn).

Public sector spending increased 11.7% yoy in February. Programmable spending amounted to MXN630.7bn (US\$42.3bn), 15% higher than the one observed in Feb'14. We highlight the higher expenses from federal transfers (16.7%). Moreover, financial costs were up 36.6% yoy.

Public Sector domestic net debt amounted to MXN4,867.9bn (US\$326.2bn) in February, MXN107.8bn (US\$7.2bn) higher than the level observed at the end of 2014. Moreover, external debt amounted to MXN\$78bn, US\$0.04bn higher than the one reached at the end of 2014.

In our view, February's report shows the sensitivity of Mexico's public finances to 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 will take place in June. Additionally, the higher tax collection in February 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 November, 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
Livia Honsel	Economist, Europe	livia.honsel@banorte.com	(55) 1670 - 1883
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) 5004 - 1275
Víctor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 5004 - 1231
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates/Financials/ Mining/ Chemistry	marissa.garza@banorte.com	(55) 5004 - 1179
Marisol Huerta Mondragón	Equity Research Analyst – Food/Beverages	marisol.huerta.mondragon@banorte.com	(55) 5004 - 1227
José Itzamna Espitia Hernández	Equity Research Analyst – Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 5004 - 1266
Valentín III Mendoza Balderas	Equity Research Analyst	valentin.mendoza@banorte.com	(55) 5268 - 9000 x 1267
María de la Paz Orozco García	Analyst	maripaz.orozco@banorte.com	(55) 5004 - 5262

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5004 - 1405
Hugo Armando Gómez Solís	Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 5004 - 1340
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@banorte.com	(55) 5004 - 1437

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Managing Director – Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Jorge de la Vega Grajales	Managing Director – Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Managing Director – Private Banking	lpietrini@ixe.com.mx	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Managing Director – Asset Management	pimentelr@ixe.com.mx	(55) 5268 - 9004
Ricardo Velazquez Rodríguez	Managing Director – International Banking	rvelazquez@ixe.com.mx	(55) 5268 - 9879
Víctor Antonio Roldan Ferrer	Managing Director – Transactional Banking	vroidan@ixe.com.mx	(55) 5004 - 1454