

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

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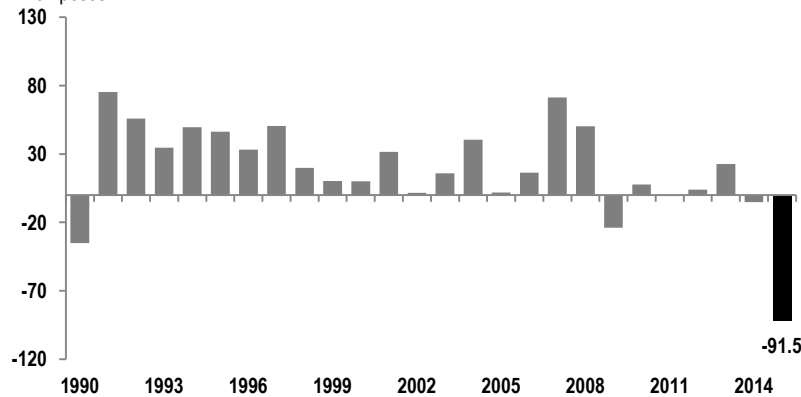
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- **Public Sector Balance (Jan): MXN91.5bn (US\$6.2bn) deficit; excluding Pemex: MXN32.4bn deficit (US\$2.2bn)**
- **We highlight that this is the highest public deficit observed for January since the Ministry of Finance started publishing these figures**
- **Revenues edged down 3.4% yoy given the 43.5% reduction in oil revenues**
- **However, tax revenues were higher than the initial MoF estimates**
- **Moreover, spending increased 18.1% yoy in January**
- **Public Sector net domestic debt amounted to MXN4,375.3bn (US\$297.8bn), while external debt amounted to US\$5.3bn**
- **In our view, January’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 January posted a **MXN91.5bn (US\$6.2bn) deficit**. We highlight that this is the largest deficit observed for January since the Ministry of Finance started publishing these figures (refer to the chart below). January’s deficit was driven mainly by a 3.4% reduction in fiscal revenues and a 18.1% increase in net expenditure. Excluding Pemex’s investments, public deficit amounted to MXN32.4bn (US\$2.2bn). Moreover, the primary balance posted a MXN66.6bn deficit (US\$4.5bn), which was significantly lower than the MXN12.2bn surplus (US\$0.8bn) observed in January 2014.

Public deficit in January

Billion pesos



Source: SHCP

Oil revenues decreased 43.5% yoy. Oil revenues decreased as a result of a lower Mexican crude oil price (52.4dpb vs. 91.8dpb in same period of 2014) along with lower levels of crude oil and natural gas production (6.5% and 3.6% respectively).

However, tax revenues were higher than the initial MoF estimates. Non-oil revenues were up 11.1% yoy derived from a 12.7% yoy increase in tax collection and the 23.9% yoy expansion in other non-tax revenues, as shown in the table below. Within the first, VAT revenues increased 6.4%, which suggests a significant recovery of private consumption. However, we highlight that VAT revenues fell short from the MoF's initial estimates. Moreover, income tax revenues fell 2.3% yoy, but these revenues were 9.4% higher than the MoF's estimates. Finally, non-oil non-tax revenues were up 23.9% yoy.

Public Finances in January

MXNbn

	Jan		% yoy in real terms
	2015	2014	
Balance	-91.5	-4.9	
<i>ex. Pemex investments</i>	-32.4	41.8	
Revenues	365	366.8	-3.4
Oil	57	98	-43.5
Non oil	308.1	268.9	11.1
Tax collection	241.6	207.9	12.7
Other	15.5	12.1	23.9
Government owned companies	51	48.9	1.2
Spending	460.8	378.6	18.1
Primary balance	-66.6	12.2	

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 186.1% 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. In fact, within January's report, the 186.1% higher revenues are mainly explained by this differential between domestic and international gasoline prices, given that IEPS revenues excluding gasoline fell 4.6% yoy in real terms.

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\$63.5bn vs. MXN\$66.9bn). This difference was mainly explained by lower revenues from Pemex (-64.7%) and ISSSTE (-15.1%), which offsets the higher incomes generated by the *Federal Electricity Commission (CFE)* and in the *Mexican Institute of Social Security (IMSS)*.

We highlight that the MoF's report now includes new categories in the line of revenues given the new structure of the energy sector. In this renewed structure, the federal government will receive revenues from the allocation of contracts and other concessions to the private sector through the *Mexican Petroleum Fund*. Additionally, Pemex and all the private firms involved in the exploration and extraction of hydrocarbons will have to pay the corresponding tax to the Federal Government.

Public sector spending increased 18.1% yoy in January. Programmable spending amounted to MXN359bn (US\$24.4bn), 23.3% higher than the one observed in Jan'14. We highlight the higher expenses from federal transfers (58.1%), Health (338.8%), the Ministry of Tourism (135.6%) and the Ministry of Finance (85.6%). Moreover, financial costs were up 37.6% yoy.

Public Sector domestic net debt amounted to MXN4,375.3bn (US\$297.8bn) in January, MXN51.2bn (US\$3.5bn) higher than the level observed at the end of 2014. Moreover, external debt amounted to MXN\$77.8bn, US\$0.03bn higher than the one reached at the end of 2014.

In our view, January'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 January 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.

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