

Public finances – Deficit ends the year at 3.5% of GDP

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- The Ministry of Finance made available its quarterly public finance report for 4Q15
- Public deficit was equivalent to 3.5% of GDP, including Pemex investments (ex. Pemex: -MXN184.3bn)
- Non-oil tax revenues increased 4.2% yoy, while public spending expanded 5.2% yoy
- Net public sector debt represented 43.2% of GDP in 2015

Public deficit amounted to MXN637.6bn (~US\$40.2bn) in 2015, equivalent to 3.5% of GDP. Excluding Pemex investments, public deficit amounted to MXN184.3bn.

Non-oil tax revenues increased 4.2% yoy. Oil revenues decreased 32.9% yoy on the back of a lower price of the Mexican mix of oil, down 49.3% yoy along with lower levels of production (-6.9%). Nevertheless, this decline was partially offset by the MXN depreciation. Meanwhile, non-oil tax revenues increased 27.2% yoy in real terms. We highlight the increases in excise tax collection (*IEPS*), up 208.9% in real terms, along with VAT revenues (+3.2%). Moreover, income tax collection increased 26.5% yoy, as shown in the following table.

Mexican public sector financial situation

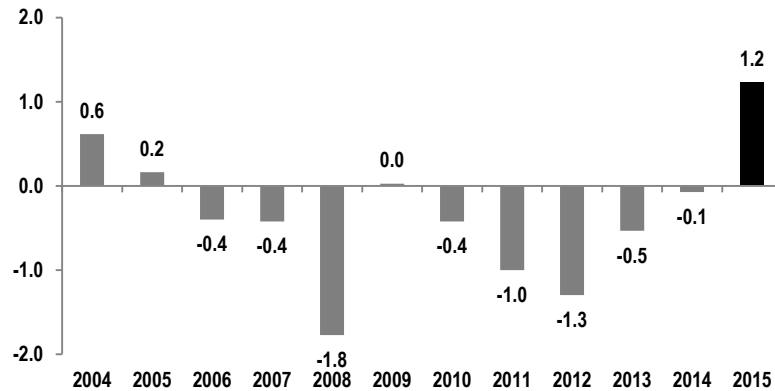
Million pesos

	Jan-Dec		% yoy
	2015	2014	in real terms
Balance	-637.6	-543.1	
<i>ex. Pemex investments</i>	-184.3	-186.3	
Revenues	4,264.6	3,983.1	4.2
Oil	841.5	1,221.2	-32.9
Non oil	3,423	2,761.9	20.7
Tax collection	2,361.2	1,807.8	27.2
Other	404.4	299.8	31.3
Government owned companies	657.5	654.2	-2.2
Spending	4,891.9	4,528	5.2
Primary balance	-217.6	-191.9	

Source: MoF

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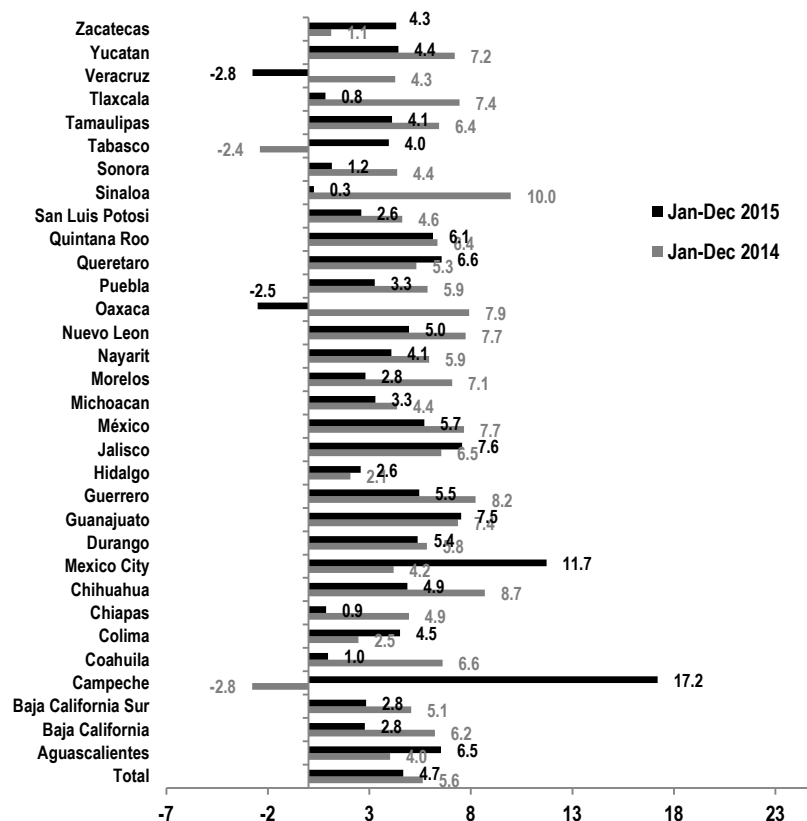
IEPS in gasoline % GDP



Source: MoF

Moderate increase in government spending. Net budget spending expanded 5.2% yoy in 2015. This figure is explained by an increase in programmable spending, up 4.1% yoy along with higher non-programmable outlays (+9.2% yoy). It is worth noting that net resources transferred to federal entities and municipalities (participations, contributions and other transfers) increased in 4.7% yoy, as shown in the table below. Finally, financial costs were up 14.8% when compared to those in 2014.

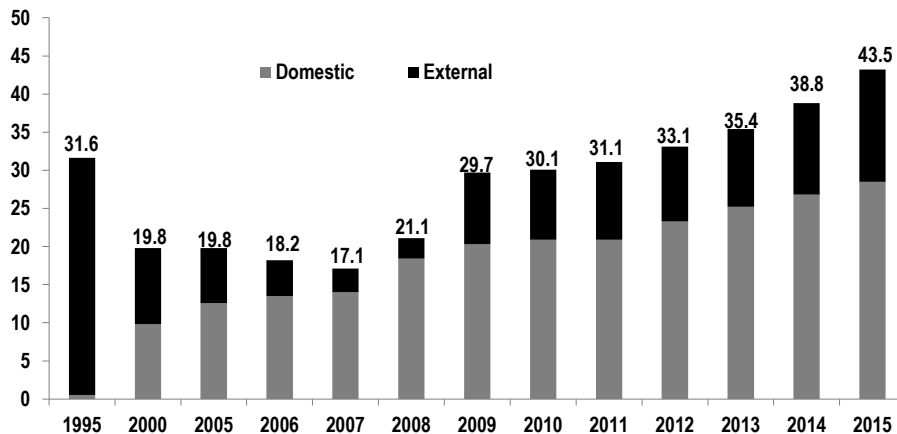
Transfers to federal states % yoy in real terms



Source: Banorte-ixe with data from the MoF

Net public sector debt represented 43.2% of GDP in 2015. Net public sector, which includes the Federal Government as well as government owned companies and development banks, amounted to MXN8,160.6bn. From this number, MXN5,379.9bn or 28.5% of GDP is net domestic debt while USD161,609.5bn represents external debt (14.7% of GDP).

Net public sector debt
% GDP



Source: MoF

In our view, the evolution of public finances in 2015 was slightly positive. While revenues were affected by the decline in both prices and oil production, tax revenues increased 27.2% in real terms, reflecting a more dynamic economic activity, especially towards the end of the year. Finally, stabilization funds finished the year with a balance of MXN112.9bn, as shown in the table below. We highlight that these funds will be used to compensate for the expected fall in oil revenues as a result of lower prices of the Mexican mix of oil in 2016.

Stabilization funds (2015)

MXNmn

Total	112,902	124,535
Oil stabilization fund (FEIP)	44,814	57,466
Federal entities stabilization fund (FEIEF)	36,180	35,620
Investment for Infrastructure Projects Programs fund	31,909	31,449

Source: MoF

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