

## Public finances show a deficit of MXN121.6bn in April

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- **Public Sector Balance (April): MXN121.6bn (US\$7.9bn) deficit; excluding Pemex: MXN54.5bn surplus (US\$3.6bn)**
- **Revenues edged up 4.9% yoy, despite the 43.7% reduction in oil revenues**
- **Tax revenues were higher than expected**
- **Moreover, spending increased 9.9% yoy in April**
- **Public Sector net domestic debt amounted to MXN4,749.8bn (US\$311.9bn), while external debt amounted to US\$10.4bn**
- **In our view, April'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 April posted a MXN121.6bn (US\$7.9bn) deficit.** According to the Ministry of Finance, the deficit is explained mainly by two temporary events that will be offset during the year: (1) The contributions to the stabilization funds during January; and (2) the lower level of oil revenues that do not include the benefits of hedging that will be received in December of this year. April's deficit also was driven mainly by a 4.9% increase in fiscal revenues and a 9.9% increase in net expenditure. Excluding *Pemex's* investments, public surplus amounted to MXN54.5bn (US\$3.6bn). Moreover, the primary balance posted a MXN47.3bn deficit (US\$3.1bn), which was significantly lower than the MXN15.9bn surplus (US\$1bn) observed in April 2014.

**Oil revenues decreased 43.7% yoy.** Oil revenues decreased as a result of a lower Mexican crude oil price (46.9dpb vs. 92.3dpb in same period of 2014) along with lower levels of crude oil production (-7.4%). Moreover, tax revenues from the *Special Tax on Production and Services (IEPS)* edged up 341.5% 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.

**Tax revenues were higher than the initial MoF estimates.** Non-oil revenues were up 26.5% yoy derived from a 28.9% yoy increase in tax collection, as shown in the table below. Within the first, income tax revenues increased 24.7% yoy, and these revenues were 26.1% higher than the MoF's estimates. Moreover, non-oil non-tax revenues were up 87.1% yoy. Finally, VAT revenues decreased 0.5%. Also, we highlight that VAT revenues edged down from the MoF's initial estimates (-1.7%).

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## Public Finances in April

MXNbn

|                              | Jan-Apr        |                | % yoy         |
|------------------------------|----------------|----------------|---------------|
|                              | 2015           | 2014           | in real terms |
| <b>Balance</b>               | <b>-121.6</b>  | <b>-37.2</b>   |               |
| <i>ex. Pemex investments</i> | -54.5          | 85.8           |               |
| <b>Revenues</b>              | <b>1,417.3</b> | <b>1,310.8</b> | <b>4.9</b>    |
| Oil                          | 233.6          | 402.8          | -43.7         |
| Non oil                      | 1,183.7        | 908            | 26.5          |
| Tax collection               | 871            | 655.5          | 28.9          |
| Other                        | 113.2          | 58.7           | 87.1          |
| Government owned companies   | 199.5          | 193.8          | -0.1          |
| <b>Spending</b>              | <b>1,544.9</b> | <b>1,363.9</b> | <b>9.9</b>    |
| Primary balance              | -47.3          | 15.9           |               |

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 (MXN\$199.5bn vs. MXN\$271.2bn).

**Public sector spending increased 9.9% yoy in April.** Programmable spending amounted to MXN1,214.7bn (US\$79.7bn), 9.1% higher than the one observed in April 2014. Moreover, financial costs were up 21.5% yoy.

**Public Sector domestic net debt amounted to MXN4,348.9bn (US\$285.6bn) in April, MXN24.7bn (US\$1.6bn) higher than the level observed at the end of 2014.** Moreover, external debt amounted to MXN\$80.9bn, US\$0.2bn higher than the one reached at the end of 2014.

**In our view, April'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 7. Additionally, the higher tax collection in April 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 December, 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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