

Public finance report – Surplus in the PSBR considering the use of Banxico’s surplus

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- The Ministry of Finance (MoF) released its public finances report for the sixth month of 2017
- Public sector borrowing requirements (Jan-Jun): MXN158.2bn surplus (~US\$8.1 bn); excluding Banxico’s operating surplus: MXN163.4 bn deficit (~US\$8.4 bn)
- Public balance (Jan-Jun): 141.9 bn surplus (~US\$7.3 bn) while the balance excluding Banxico’s operating surplus posted a MXN179.8 bn deficit (~US\$9.3 bn)
- Budget revenues increased 7.6% yoy. In addition, non-oil revenues increased 5% yoy in real terms, while oil revenues expanded 24.5%
- Budget expenses declined by 2.7% yoy, driven by the cutbacks in administrative sector costs, which decreased 17.2% yoy in real terms
- The Historic Balance of the Public Sector Borrowing Requirements stood at MXN9.3 trillion (~US\$479 bn) while the net public debt also amounted to MXN9.3 tn (~US\$478 bn),

Public sector shows a surplus in June. The Ministry of Finance just released its public finance report for the sixth month of year, in which we highlight the surplus of MXN158.2bn of the *Public Sector Borrowing Requirements* (PSBR) –which is the broadest measure of the public balance¹–. Moreover, analyzing the figures without considering Banxico’s Operational Surplus (BOS), the deficit amounted to MXN163.4bn, MXN123bn less than 2016’s negative balance. In addition, the public balance posted a MXN141.7bn surplus, above the MXN116.6bn deficit seen in 2016. Furthermore, the balance was MXN461bn above the budgeted figure. Subtracting the BOS, the deficit amounted to MXN179.8bn.

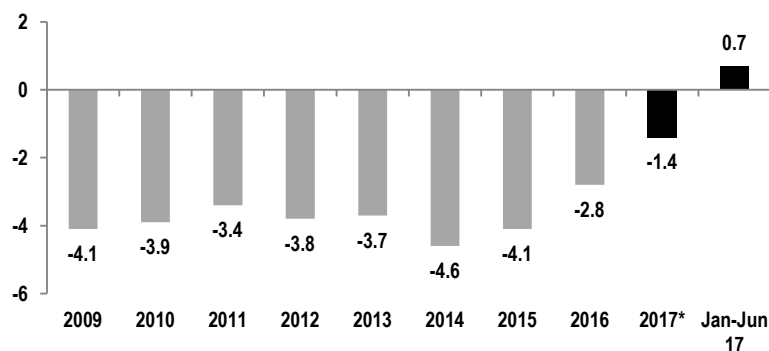
Looking inside the public balance and excluding the investment of high economic and social impact –such as investments made within Pemex and CFE– the balance showed a MXN318.4bn surplus (vs. the MXN133.7bn surplus observed in June 2016). In addition, the primary balance shows a MXN416.7 billion surplus, which implies a 213.3% yoy real growth.

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¹ The PSBRs include the sum of the Public Balance, the financial requirements of the Mexican Bank Savings Protection Institute, financial requirements of deferred investment projects, adjustments to budget records, financial requirements of the National Infrastructure Funds, program of debtors and the expected gain or loss of development banks and development funds.

Public Sector Borrowing Requirements

% of GDP



Source: Ministry of Finance; *Note: For 2017 MoF estimates are used including Banxico's Operational Surplus

Total revenues were up 7.6% yoy. According to the MoF, revenues added to MXN2.7bn, MXN477.2bn above estimations. Taking a look at the breakdown, the 24.5% annual real increase in oil revenues was explained 49.9% annual increase in the price of the Mexican oil basket, as well as the 5.8% annual depreciation of the US\$/MXN exchange rate. This growth was achieved despite de 9% decrease in oil production.

Non-oil tax revenues increased 0.1% yoy in real terms, amounting to MXN1.5tn, MXN 61.3bn above budget. This comes on the back of a 3.6% increase in income tax collection, coupled with a 1.3% increase in VAT revenues, and 0.5% higher collection on import taxes. However, excise tax collection (IEPS) decreased by 15.5%. Excluding fuel IEPS, collection of this tax increased 9.1%. Non-oil, non-tax revenues stood at MXN411.1 bn, which implies a 21.6% annual real growth, however it is worth mentioning that the BOS is accounted for in these figures. Excluding this surplus, the real annual growth was 3.8%. Moreover, the *Stabilization Fund for Budget Revenue* outstanding sum at the end of June 2017 was MXN 238.8bn.

Stabilization funds

Amount outstanding on June 30, 2017, MXN billion

	238.8	157.9	140.4
Total			
Stabilization Fund for Budget Revenue	196.1	120.5	110.1
Stabilization Fund for State Revenue	42.7	37.4	30.3

Source: Ministry of Finance

Budget spending decreased 2.7% in June reaching MXN2.5 tn, MXN33.2 bn above than budgeted. Primary spending –which does not include the financial cost of debt–, edged down 4.2% while the financial costs were up 11.5% yoy. Programmable spending decreased 6.7%, amounting to MXN1,816.4 bn in the sixth month of the year, mainly due to cuts in the administrative sector (-17.2% yoy), and state owned companies (-9.3% yoy). Moreover, non-programmable spending, excluding the financial cost of debt, rose by 7.6%, given the 9.7% increase in participation to states despite a 18.9% contraction in Adefas (previous government's debt).

Public Finances in June 2017

MXNbn

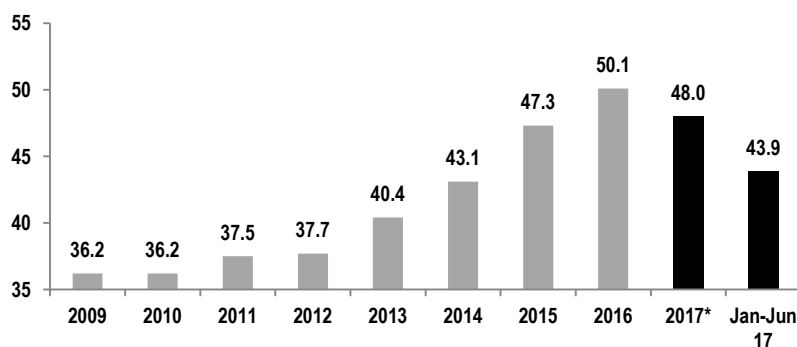
	Jan-June		% yoy in real terms
	2017	2016	
Balance	141.9	-116.6	
<i>ex. Pemex investments</i>	318.4	133.7	125.6
Revenues	2,655.6	2,339.9	7.6
Oil	413.8	315.0	24.5
Non-oil	2,241.9	2,024.0	5.0
Tax collection	1,472.3	1,393.1	0.1
Other	424.3	333.0	20.7
Government controlled enterprises	345.3	297.9	9.8
Spending	2,531.2	2,465.0	-2.7
Primary spending	2,251.6	2,227.5	-4.2
Programmable spending	1,816.4	1,844.1	-6.7
Non-programmable spending	435.2	383.4	7.6
Financial costs	279.6	237.6	11.5
Primary balance	416.7	126.0	213.3

Source: Ministry of Finance

Finally, the Historic Balance of the Public Sector Borrowing Requirements (HBPSBR) stood at MXN9.3 tn. Moreover, net domestic public sector debt amounted to MXN 9.3tn (US\$478 bn). In addition, net domestic debt reached MXN5.9 tn, while net foreign debt climbed to US\$187.3 billion (equivalent to MXN3.4 tn). Public debt has shown a significant growth in the last two years, as a result of the depreciation of the Mexican currency, which has caused a sharp increase in the nominal domestic value of gross foreign debt.

Historic Balance of the Public Sector Borrowing Requirements

% of GDP



Source: Ministry of Finance

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