

Public finance report – Surplus in the PSBRs

August 31, 2017

- **The Ministry of Finance (MoF) released its public finances report for the seventh month of 2017**
- **Public sector borrowing requirements (Jan-Jul): MXN146.9bn surplus (~US\$7.6 bn)**
- **Public balance (Jan-Jul): 119.3 bn surplus (~US\$6.2 bn)**
- **Budget revenues increased 7.2% yoy. In addition, non-oil revenues increased 5% yoy in real terms, while oil revenues expanded 20.4%**
- **Budget expenses declined by 1.9% yoy, driven by the cutbacks in administrative sector costs, which decreased 15.5% yoy in real terms**
- **The Historic Balance of the Public Sector Borrowing Requirements stood at MXN9.3 trillion (~US\$482.4 bn) while the net public debt also amounted to MXN9.3 trillion (~US\$484 bn)**

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Public sector balance shows a surplus in July. The Ministry of Finance just released its public finance report for the seventh month of year, in which we highlight the surplus of MXN146.9bn of the *Public Sector Borrowing Requirements* (PSBR) –which is the broadest measure of the public balance¹–, standing MXN246.7bn above 2016’s balance. In addition, the public balance posted a MXN119.3bn surplus, above the MXN157.2bn deficit seen in 2016. Furthermore, the balance was MXN461bn above the budgeted figure. 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 MXN321.9bn surplus (vs. the MXN142bn surplus observed in July 2016). In addition, the primary balance shows a MXN431.3 billion surplus, which implies a 216.1% yoy real growth.

Total revenues were up 7.2% yoy. According to the MoF, revenues amounted to MXN3.1bn, MXN491.5bn above estimations. Taking a look at the breakdown, the 20.4% annual real increase in oil revenues was explained by the 41.2% annual increase in the price of the Mexican oil basket, as well as the 3.7% annual depreciation of the USD/MXN exchange rate. This growth was achieved despite de 8.8% decrease in oil production.

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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.

Non-oil tax revenues increased 0.5% yoy in real terms, amounting to MXN1.7tn, MXN 81.1bn above budget. This comes on the back of a 4.6% increase in income tax collection, coupled with a 1.3% increase in VAT revenues, and 2.9% higher collection on hydrocarbon taxes. However, excise tax collection (IEPS) decreased by 16.6%. Excluding fuel IEPS, collection of this tax increased 5.6%. Non-oil, non-tax revenues stood at MXN445.7 bn, which implies a 21.1% annual real growth, however it is worth mentioning that Banxico's Operating Surplus is accounted for in these figures. Excluding this surplus, the real annual growth was 7.5%.

Budget spending decreased 1.9% in July reaching MXN2.9 tn, MXN37.2 bn above than budgeted. Primary spending –which does not include the financial cost of debt–, edged down 3.5% while the financial costs were up 13.4% yoy. Programmable spending decreased 5.9%, amounting to MXN2.2 tn in the seventh month of the year, mainly due to cuts in the administrative sector (-15.5% yoy), and state owned companies (-8.6% yoy). Moreover, non-programmable spending, excluding the financial cost of debt, rose by 7.6%.

Public Finances in July 2017

MXNbn

	Jan-June		% yoy in real terms
	2017	2016	
Balance	119.3	-157.2	
<i>ex. Pemex investments</i>	321.9	142.0	114.6
Revenues	3,071.3	2,711.5	7.2
Oil	491.5	386.5	20.4
Non-oil	2,579.8	2,325.0	5.5
Tax collection	1,726.4	1,625.8	0.5
Other	445.7	348.3	21.2
Government controlled enterprises	407.6	350.9	9.9
Spending	2,971.9	2,866.6	-1.9
Primary spending	2,653.0	2,600.5	-3.5
Programmable spending	2,153.3	2,165.6	-5.9
Non-programmable spending	499.6	434.9	8.7
Financial costs	318.9	266.1	13.4
Primary balance	431.3	129.1	216.2

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\$484 bn). In addition, net domestic debt reached MXN6 tn, while net foreign debt climbed to US\$188.3 billion (equivalent to MXN3.3 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.

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