

## Public finance show a MXN438.9bn deficit in 3Q15

October 30, 2015

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- The Ministry of Finance (MoF) presented its *Report on Economic Activity, Public Finances and Public Debt* for January-September 2015
- According to the MoF, the Mexican economy had a moderate recovery in 3Q15 amid a difficult external backdrop
- Public balance shows a deficit amounting to MXN438.9bn (-US\$26.9bn) in September, excluding Pemex, the deficit was equivalent to MXN83.5bn (-US\$5.1bn)
- Revenues increased 3.4% in real terms, while spending expanded 3.9% yoy during the same period
- Stabilization funds are at MXN112bn (US\$6.8bn)
- Public Sector net domestic debt represented 43.5% of GDP during the period in question

The Ministry of Finance (MoF) presented its *Report on Economic Activity, Public Finances and Public Debt* for January-September 2015. According to the MoF, the Mexican economy had a moderate recovery in 3Q15 amid a difficult external backdrop. In particular, they highlight that economic activity expanded 2.3% yoy in July-August. Moreover, employment and credit numbers along with other indicators of domestic demand, such as retail sales, have improved over the period in question. Against this backdrop, volatility in global financial markets remained high.

**Public balance shows a deficit amounting to MXN438.9bn (-US\$26.9bn), in September.** This figure compares with the deficit of MXN405.8bn (-US\$24.7bn), observed in the same period of 2014 and was explained by a decline in non-oil, non-tax revenues (-36.7% yoy). Moreover, excluding investment in Pemex, the public balance shows a deficit of MXN83.5bn (-US\$5.1bn), vs. the deficit of MXN134.2bn (-US\$8.2bn) in January-September 2014. Finally, the primary balance shows a deficit of MXN179bn (-US\$10.9bn).

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**Total revenues increased 3.4% in real terms compared to the period of January-September 2014.** This figure is explained mainly by lower oil revenues, down 36.7%, derived from a lower price of the Mexican crude oil (-48.7% yoy), a 7.8% drop in oil production, and a decrease in the price of natural gas (-33.7% yoy). Meanwhile, non-oil revenues increased 22.4% yoy in real terms during the period in question. We highlight that a significant part of total revenues come from extraordinary operations such as: (1) Banxico's operation remnant amounting MXN31,449mn; and (2) the effects of tax provisions approved back in 2013.

**Higher gasoline excise tax collection partly offset the fall in oil revenues.** Tax revenues from this source (known as *IEPS*) amounted to MXN257bn (US\$15.6bn) in Jan-Sep 2015 vs. the outflow of MXN68.9bn (US\$4.2bn) in same period last year. Given that Mexico imports more than 40% of its energy consumption, and the government controls domestic prices, when the international prices are below the local price, the federal government increases its tax revenues.

**Non-oil tax revenues grew 22.4% yoy.** This result was higher than the one Congress estimated for this period (MXN1.8bn vs. MXN1.5bn estimated). Moreover, income tax collection grew 24.2% yoy, and which was also above the amount expected (+15.6%). VAT revenues were 2.6% higher than expected. Finally, non-oil, non-tax revenues increased significantly to MXN197.4bn, 42.4% higher than the observed in the same period last year.

**Public Finances in January-September**  
MXNbn

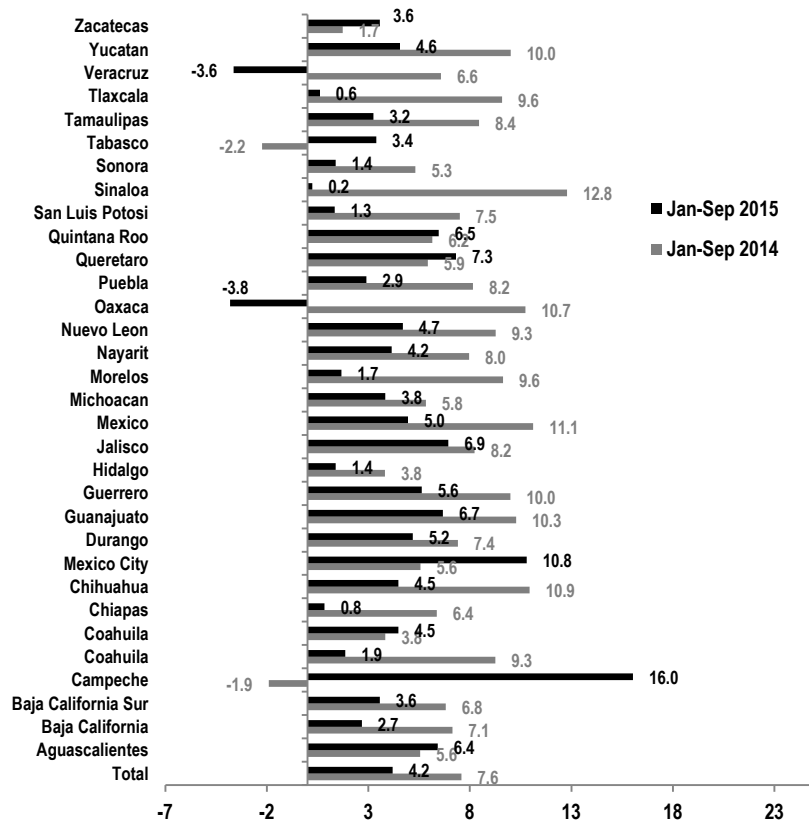
	Jan-Sep		% yoy in real terms
	2015	2014	
<b>Balance</b>	<b>-438.9</b>	<b>-405.8</b>	
<i>ex. Pemex investments</i>	-83.5	-134.2	
<b>Revenues</b>	<b>3,037.6</b>	<b>2,854.5</b>	<b>3.4</b>
Oil	595.9	915.2	-36.7
Non oil	2,441.7	1,939.4	22.4
Tax collection	1,788.4	1,346.6	29.1
Other	197.4	134.8	42.4
Government owned companies	455.8	458	-3.2
<b>Spending</b>	<b>3,498.7</b>	<b>3,273</b>	<b>3.9</b>
Primary balance	-179	-195.8	

Source: Ministry of Finance

**Government spending increased 3.9% yoy in real terms during January-September 2015.** The increase in government spending was explained by the surge in programmable spending (+2.4% yoy), more resources paid to subsidies and pensions (+7.9% and 7.5% yoy, respectively), and social spending (2% yoy). Autonomous dependencies expenditure posted a real increase of 17.4% over the previous year, derived in part to the recent electoral process, highlighting increases in the National Electoral Institute (+87.2%). Moreover the transfers to federal states increased 4.2% yoy in real terms during Jan-Sep'15, as shown in the following chart. Non-programmable expenditure increased 4.1% from January to September 2015, while financial costs were up 22% yoy.

### Transfers to federal states

% yoy in real terms



Source: Banorte-Ixe with data from the MoF

**Oil stabilization funds down MXN12.5bn (US\$0.8bn).** Additionally, while oil revenues are resenting the effect of lower oil prices, resources in stabilization funds have come down since 2Q15. Taking into account the infrastructure fund, total resources in stabilization funds amount to MXN112bn, as shown in the following table.

#### Stabilization funds (September 30, 2015)

MXNmn		
<b>Total</b>	<b>112,034</b>	<b>124,535</b>
Oil stabilization fund (FEIP)	44,472	57,466
Federal entities stabilization fund (FEIEF)	35,897	35,620
Investment for Infrastructure Projects Programs fund	31,665	31,449

Source: MoF

**The net debt of the Federal Public Sector amounted 43.5% of GDP in 3Q15.** Net debt of the public sector, including government, agencies and companies as well as development banks, amounted to MXN7,853.2bn. Of this amount, MXN5,146.1bn correspond to net domestic debt (28.5% of GDP) while US\$159.2bn (15% of GDP) are net foreign debt .

**Looking ahead, public deficit will remain under control in 4Q15.** The base of comparison for oil prices will become more favorable in the rest of 2015, although revenues will still post negative rates of growth. Nevertheless, we expect government spending to moderate as we have left behind the electoral process. In the medium-term, public finances will continue to resent low levels of oil prices and a falling platform of production.

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