

Mexico's public finance still resents the low oil prices

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- **Public Sector Balance (Jan-Oct): MXN490.5bn (US\$29.6bn) deficit; excluding Pemex: MXN110bn deficit (US\$6.6bn)**
- **Revenues edged up 2% yoy, despite the 38% reduction in oil revenues**
- **Tax revenues were higher than expected**
- **Moreover, spending increased 2.8% yoy in January-October**
- **Public sector net domestic debt amounted to MXN5,196bn (US\$314bn), while external debt amounted to US\$160.8bn**
- **Looking ahead, public finances will continue to resent the low levels of oil prices**

According to the Ministry of Finance, public balance during January-October 2015 posted a MXN490.5bn (US\$29.6bn) deficit. According to the Ministry of Finance, the deficit was explained mainly by the lower level of oil revenues given that the *hedge* made by the federal government is not going to be exercised until December, according to the report. We highlight that according to the Minister of Finance, Luis Videgaray, these oil hedges are estimated in US\$6.4bn.

October's deficit was driven mainly by a 2% increase in fiscal revenues and a 2.8% increase in net expenditure. Excluding *Pemex's* investments, public deficit amounted to MXN110bn (US\$6.6bn). Moreover, the primary balance posted a MXN213.5bn deficit (US\$12.9bn), which was slightly below than the MXN217bn deficit (US\$13.1bn) observed in October 2014.

Oil revenues decreased 38% yoy. Oil revenues decreased as a result of a lower Mexican crude oil price (47.2dpb vs. 93.1dpb in same period of 2014), along with lower levels of crude oil production (-7.6%). Moreover, tax revenues coming from the gasoline excise tax collection (*IEPS*) edged up 241% yoy in real terms.

Tax revenues were higher than the initial MoF estimates. Non-oil revenues were up 21% yoy derived from a 28.1% yoy increase in tax collection, as shown in the table below. Within the first, income tax revenues increased 23.8% yoy, and these revenues were 14.3% higher than the MoF's estimates. Moreover, non-oil non-tax revenues were up 33% yoy. Finally, VAT revenues increased 3.7%, better than expected (+1.6%).

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Public Finances in January-October

MXNbn

	January-August		% yoy
	2015	2014	in real terms
Balance	-490.5	-433	
<i>ex. Pemex investments</i>	-110	-128.9	
Revenues	3,337.9	3,182.1	2.0
Oil	654	1,025.3	-38.0
Non oil	2,683.8	2,156.7	21.0
Tax collection	1,966.2	1,492.6	28.1
Other	210.3	153.8	33.0
Government owned companies	507.3	510.4	-3.3
Spending	3,842.2	3,635.9	2.8
Primary balance	-213.5	-217	

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 28.5% (MXN\$507.3bn vs. MXN\$709.2bn).

Public sector spending increased 2.8% yoy in January-October 2015. Programmable spending amounted to MXN3,016bn (US\$182.1bn), 1% higher than the one observed in October 2014. Moreover, financial costs were up 20.4% yoy.

Public Sector domestic net debt amounted to MXN5,196.3bn (US\$314bn) in October, MXN392.1bn (US\$23.7bn) higher than the level observed at the end of 2014. Moreover, external debt amounted to US\$160.8bn, US\$15.2bn higher than the one reached at the end of 2014.

Looking ahead, public finances will continue to resent the low levels of oil prices. The base of comparison for oil prices will become more favorable in 4Q15, although revenues will still post negative rates of growth. Nevertheless, we expect government spending to moderate. On the other hand, we will monitor the revenues from oil hedges made last year and that will be received in the next days for approximately of US\$6.4 billion. Looking ahead, we believe that budget for 2016 will face the difficulties of the Mexican oil sector: lower prices and falling output. However, the government has already bought an oil revenue coverage for next year, priced at \$49dpb; today the Mexican crude oil price is at \$34.86dpb.

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