# Public finance – January's figures show a significant reduction in revenues and spending

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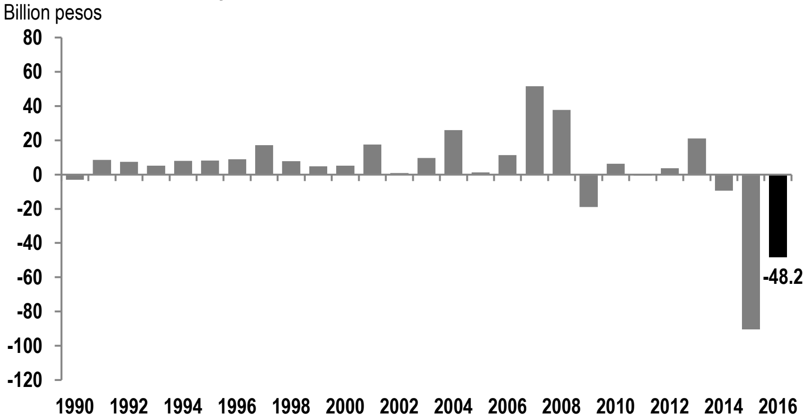
- **Public Sector Balance (Jan): MXN48.2bn (US$2.7bn) deficit; excluding *Pemex*: MXN21.7bn (US$1.2bn) deficit**
- **Revenues edged down 1.1% yoy**
- **Similarly, tax revenues were lower than the initial MoF estimates**
- **Moreover, spending decreased 11.6% yoy in January**
- **Public Sector net domestic debt amounted to MXN5,496.9bn (US$304.1bn), while external debt amounted to US$162.4bn**
- **In our view, January's report continues to reflect the sensitivity of Mexico's public finances to oil prices**

**According to the Ministry of Finance, public balance in January posted a MXN48.2bn (US$2.7bn) deficit.** We highlight that this is one of the largest deficit observed for January since the Ministry of Finance started publishing these figures (refer to the chart below).

January's deficit was driven mainly by a 1.1% reduction in fiscal revenues and a 11.6% contraction in net expenditure. Excluding *Pemex's* investments, public deficit amounted to MXN21.7bn (US$1.2bn). Moreover, the primary balance posted a MXN10.9bn deficit (US$0.6bn). However, it was significantly lower than the MXN64.9bn deficit (US$3.6bn) observed in January 2015.

**Public deficit in January**
Billion pesos




Source: SHCP

**Oil revenues expanded 6.1% yoy.** According to the Ministry of Finance (MoF), oil revenues increased as a result of temporary effects of collection and exchange rate that offset the 45.2% fall in the price of the Mexican crude oil (28.7dpb vs. 52.4dpb observed in January 2015), and the 3.3% reduction in Mexico's production (2.28mbd vs. 2.35mbd).

**Tax revenues were lower than the initial MoF estimates.** Non-oil revenues were down 2.4% yoy derived from a 1.1% yoy decrease in tax collection, as shown in the table below. Within the first, VAT revenues posted a null expansion. However, we highlight that VAT revenues fell short from the MoF's initial estimates (-6.1%). Moreover, income tax revenues edged-up 2.8% yoy, but these revenues were 4% lower than the MoF's estimates. Finally, non-oil non-tax revenues were down 5.5% yoy.

**Public Finances in January**
MXNbn

| | Jan | | % yoy |
|---|---|---|---|
| | 2015 | 2014 | in real terms |
| **Balance** | **-48.2** | **-90.4** | |
| *ex. Pemex investments* | -21.7 | -31.2 | |
| **Revenues** | **370.6** | **365.1** | **-1.1** |
| Oil | 62.5 | 57.4 | 6.1 |
| Non oil | 308.1 | 307.7 | -2.4 |
| Tax collection | 244.9 | 241.4 | -1.1 |
| Other | 15 | 15.5 | -5.5 |
| Government owned companies | 48.2 | 50.8 | -7.5 |
| **Spending** | **417.9** | **460.7** | **-11.6** |
| Primary balance | -10.9 | -64.9 | |

Source: Ministry of Finance

***IEPS* tax collection falls 18.2%.** Tax revenues from the *Special Tax on Production and Services* (*IEPS*) edged down 18.2% yoy in real terms. One of the products that are included within this tax is the gasoline. Similarly, revenues from public firms decreased 7.5%, but were 10.8% higher than expected by the MoF (MXN$48.2bn vs. MXN$43.5bn). This difference was mainly explained by higher revenues from *IMSS* and *ISSSTE* (+5.4%), which offsets the lower incomes generated by the *Federal Electricity Commission* (*CFE*) of 19.3%.

**Public sector spending decreased 11.6% yoy in January.** Programmable spending amounted to MXN307.3bn (US$17bn), 16.8% lower than the one observed in Jan'15. We highlight that this reduction was explained by deductions in expenses of personal services (-6.1%), operating expenses (-23%) and pensions and retirement (-0.4%). Moreover, financial costs were up 17.6% yoy.

**Public sector domestic net debt amounted to MXN5,496.9bn (US$304.1bn) in January, MXN117.1bn (US$6.5bn) higher than the level observed at the end of 2015.** Moreover, external debt amounted to US$162.4bn, US$0.8bn higher than the one reached at the end of 2015.

**In our view, January's report continues to reflect the sensitivity of Mexico's public finances to oil prices**. The base of comparison for oil prices will become more favorable in the next months, although revenues will still post negative growth rates. Looking ahead, we believe that public finances will reflect the sound macro-prudential policies that the current administration is implementing to protect the Mexican economy.

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