

October's public finance report continues to reflect Mexico's fiscal stability

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- **The Ministry of Finance (MoF) released its public finances report for the third quarter of the year**
- **Public balance (Jan-Oct): MXN 224.2 billion deficit (ex. high impact investments: MXN 206.2bn surplus)**
- **Budget revenues increased 13% yoy. In addition, non-oil revenues increased 10.8% yoy in real terms, while oil revenues expanded 3.3%**
- **Budget revenues came up by 3.6% yoy**
- **Net debt amounted to MXN 6.7 trillion**
- **In our view, October's public finance report continues to reflect the significant fiscal cuts that the government has implemented throughout the year...**
- **Moreover, year-to-date the Federal Government has succeeded in maintaining its fiscal deficit and public debt goal, which supports our view of fiscal stability throughout the year**

According to the Ministry of Finance, public balance during the first three quarters of the year posted a MXN 224.4 billion deficit. However, excluding the investment of high economic and social impact –such as investments made within Pemex and CFE–, the public balance showed a MXN 206.2 billion surplus (vs. the MXN 110.0 billion deficit observed in January-October 2015). In addition, the primary balance shows a MXN 108.1 billion surplus vs. the MXN 188.6 billion deficit observed in the same period last year.

Oil revenues increased 3.3% yoy. According to the MoF, during January-October higher oil revenues were explained by the extraordinary income received from the Federal Government for the capitalization of PEMEX and the depreciation of the Mexican currency, which offset the decline in Mexico's platform of oil production. We highlight that these revenues do not include the profits from the oil hedge strategy to be received in December.

Non-oil tax revenues increased 10.8% yoy in real terms. This comes on the back of a 12.2% increase in income tax collection, a 4.6% increase in VAT revenues, 19.2% higher IEPS collection and 10.7% in import taxes. In addition, non-tax, non-oil revenues recorded a significant 94.4% increase, as this category includes Banxico's operating remnant, as shown in the following table.

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Public Finances in January-October

MXNbn

	January-October		% yoy
	2016	2015	in real terms
Balance	-222.4	-490.5	
<i>ex. Pemex investments</i>	206.2	-110.0	
Revenues	3,869.3	3,333.8	13.0
Oil	694.8	655.0	3.3
Non-oil	3,174.5	2,678.8	15.4
Tax collection	2,237.6	1,966.0	10.8
Other	419.9	210.3	94.4
Government owned companies	516.9	502.5	0.2
Spending	3,185.1	3,852.9	3.6
Primary balance	108.1	-229.5	

Source: Ministry of Finance

Budget spending climbed 3.3% in January-October. Programmable spending grew 2.4%, which amounted to MXN 3,763 billion in the first ten months of the year. However, we highlight that this includes non-recurring expenses that are not trendsetters, such as the MXN 160.7 billion contributions to PEMEX and the MXN 70 billion contribution to the FEIP (Mexico's oil revenues stabilization fund) derived from Banxico's operating surplus. Excluding these items, net financial expenses decreased 1.0% yoy.

Net domestic public sector debt amounted to MXN 6.7 trillion. In addition, net domestic debt reached MXN 5.1 trillion, while net foreign debt climbed to USD 87.5 billion (equivalent to MXN 1.6 trillion). 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.

October's public finance report continues to reflect Mexico's fiscal stability. In our view, October's public finance report continues to reflect the significant fiscal cuts that the government has implemented throughout the year. Moreover, year-to-date the Federal Government has succeeded in maintaining its fiscal deficit and public debt goal, which supports our view of fiscal stability throughout the year

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