

Public finances 2016 – Government hits its deficit target

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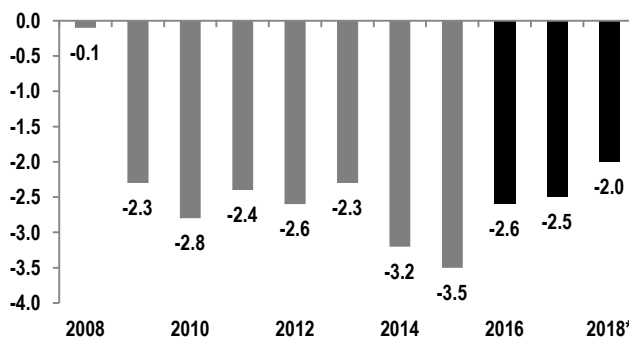
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- The Ministry of Finance (MoF) released its public finances report for the fourth quarter of the year
- Public balance (2016): MXN\$503.7 billion deficit (ex. high impact investments: MXN 18.7bn deficit); USD26.9bn
- Budget revenues increased 10.3% yoy, non-oil revenues increased 15.1% yoy in real terms, while oil revenues decreased 9% yoy
- Discretionary expenditures, excluding capital investments in Pemex and CFE, decreased by 1.6% yoy in real terms
- Net debt amounted 47.9% of Mexico’s GDP
- In our view, the MoF’s report reflects the significant fiscal cuts that the government has implemented, showing a better performance regarding its fiscal deficit and public debt goal

According to the Ministry of Finance, public balance during 2016 posted a MXN503.7 billion deficit. This figure represents 2.6% of GDP, and is MXN73.5bn below budget and MXN134bn below 2015’s deficit. Moreover, excluding the investment of high economic and social impact –such as investments made within Pemex and CFE–, the public balance showed a MXN18.7bn surplus (vs. the MXN181.6bn deficit observed in 2015). In addition, the primary balance shows a MXN24bn deficit vs. the MXN218.5bn deficit observed in the same period last year. With this data, the Public Sector Financial Requirements –which represent the broadest form of public sector deficit– stood at MXN556.6bn, which represents 2.9% of GDP, below the 3.5% forecasted in the Revenue Law.

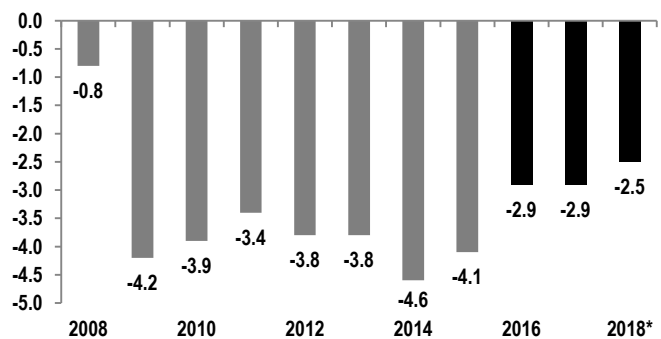
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Public deficit
% of GDP



Source: Ministry of Finance; *Note: For 2017 and 2018 MoF estimates are used.

Financial Requirements of the Financial Sector
% of GDP



Source: Ministry of Finance; *Note: For 2017 and 2018 MoF estimates are used.

Public finances during 2016

MXN billion

	2016	2015	% real yoy
Balance	-503.7	-637.7	-
ex. Pemex investments	-18.7	-181.6	-
Revenues	4,840.9	4,267.0	10.3
Oil	789.6	843.4	-9.0
Non-oil	4,051.3	3,423.6	15.1
Tax collection	2,716.0	2,361.2	11.9
Other	542.1	404.4	30.4
Government owned companies	793.2	657.9	17.3
Spending	5,343.8	4,892.9	6.2
Discretionary	4,160.4	3,826.6	5.7
Non-discretionary	1,183.4	1,066.3	7.9
Primary balance	-24.0	-218.5	-

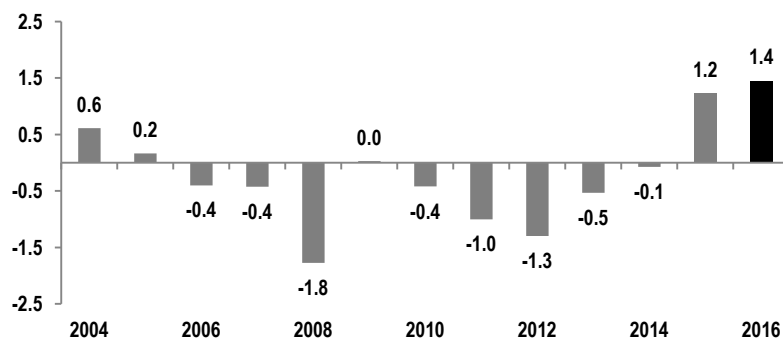
Source: Ministry of Finance

Oil revenues decreased 9% yoy in 2016. According to the MoF, lower oil revenues were explained by the fall of the Mexican crude oil price in international markets (from 44.21dpb in 2015 to 35.87dpb in 2016) and the decline in Mexico's oil production. However, this was offset by the extraordinary income received from the Federal Government for the capitalization of PEMEX along with the depreciation of the Mexican currency. We highlight that these revenues do not include the profits from the oil hedge strategy, which fall under the non-oil, non-tax revenue.

Non-oil tax revenues increased 11.9% yoy in real terms. This comes on the back of a 13.5% yoy increase in income tax collection, a 8.9% increase in VAT revenues, higher excise tax (12.9%), which includes gasoline taxes and import taxes (11.5%). In addition, non-tax, non-oil revenues recorded a significant 30.4% increase, as this category includes Banxico's operating remnant (amounting to MXN239bn) and the oil hedge revenue (MXN53bn).

Revenue by gasoline IEPS

% of GDP



Source: Ministry of Finance

According to the report, 70% of the central bank's remnant was used for debt amortization and to reduce the amount of debt issued (MXN 167bn), while the remaining 30% was used for other purposes such as: (1) MXN 70bn for the *Stabilization Fund for Budget Revenue*; and (2) MXN 1.7bn to pay obligations to international organizations. As a result of this, the outstanding sum of the Stabilization Funds at the end of 2016 was MXN 140bn.

Stabilization funds

Amount outstanding on Dec, 31 2016, MXN billion

Total	140.4
Stabilization Fund for Budget Revenue	110.1
Stabilization Fund for State Revenue	30.3

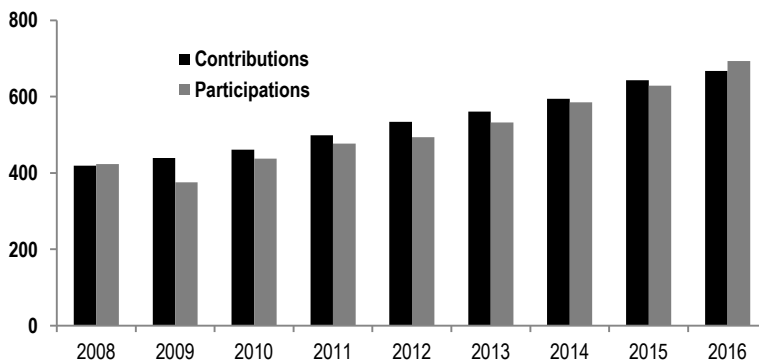
Source: Ministry of Finance

Revenues collected in 2016 were higher than expected in the revenue Law (*LIF 2016*) by MXN 686.3bn, as a result of MXN 317.1bn higher non-oil, non-tax revenue and MXN 176.7bn coming from higher income tax collection.

Budget spending came up 6.2% yoy in real terms due to increased financial investment in both Pemex and CFE, without the investment it only expanded 0.6%. Discretionary spending amounted to MXN 4,160.4bn during the year, which implies a 5.7% real yoy expansion. However, we highlight that this includes non-recurring expenses that are not trendsetters, such as the contributions to PEMEX, CFE and the FEIP (Mexico's oil revenues stabilization fund), which when subtracted, represent a 1.6% yoy decrease in spending. Additionally, total net spending excluding financial investment, pensions, equity and financial cost declined by 3.7% real, while current structural expenditure decreased by 2.5%. Transfers to states and pension payments increased by 7.2%, respectively, while the financial cost increased by 12.7% in real terms.

Federal revenue transfers to state governments

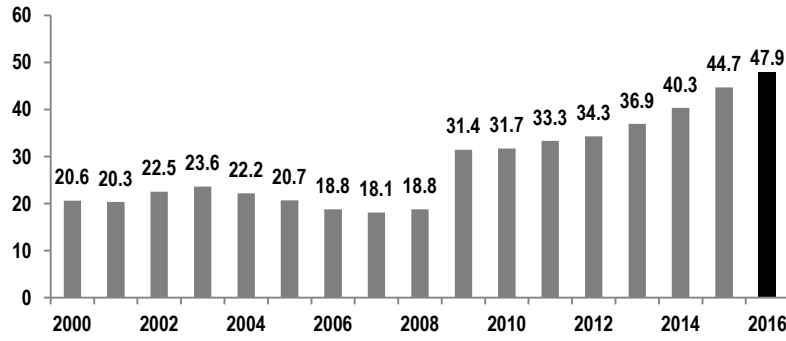
MXN billion



Source: Ministry of Finance

Net domestic public sector debt amounted 47.9% of Mexico's GDP. In addition, gross public debt reached 49.1% of GDP. While public debt has shown a strong increase over the levels observed in the last two years, this is mainly explained by the depreciation of the Mexican currency, which has caused a sharp increase in the nominal domestic value of gross foreign debt. Moreover, despite the increase in Mexico's public debt, the current levels are consistent with the debt ceiling authorized by the Lower and Upper House for 2016, and is also in line with the Federal Government's fiscal consolidation program.

Net federal public debt
% of GDP



Source: Ministry of Finance

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