

Public finance report – Deficit in the PSBR without the use of Banxico’s surplus

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- **The Ministry of Finance (MoF) released its public finances report for the fifth month of 2017**
- **Public sector borrowing requirements (Jan-May): MXN317.2bn surplus (~US\$15.8 bn); excluding Banxico’s operating surplus: -MXN4.4 bn (~-US\$219 mn)**
- **Public balance (Jan-May): MXN381.7 bn surplus (~US\$19 bn) while the deficit excluding Banxico’s operating surplus posted a MXN60.1bn surplus (~US\$3 bn)**
- **Budget revenues increased 7.9% yoy. In addition, non-oil revenues increased 5.5% yoy in real terms, while oil revenues expanded 22.9%**
- **Budget expenses declined by 6.4% yoy, driven by the cutbacks in administrative sector costs, which decreased -21.7% yoy in real terms**
- **The Historic Balance of the Public Sector Borrowing Requirements stood at MXN9.2 trillion (~US\$458 bn) while the net public debt amounted to MXN9.1 tn (~US\$453 bn),**

Public sector shows a surplus in May. The Ministry of Finance just released its public finance report for the fifth month of year, in which we highlight the surplus of MXN317.2 bn of the *Public Sector Borrowing Requirements* (PSBR) –which is the broadest measure of the public balance¹–. Moreover, analyzing the figures without considering Banxico’s Operational Surplus (BOS), the deficit amounted to MXN4.4bn, MXN99.8bn less than 2016’s negative balance. In addition, the public balance posted a MXN381.7bn surplus, MXN309bn above the figure seen in 2016. Furthermore, the balance was MXN529.4bn above the budgeted figure. Subtracting the BOS, the surplus amounted to MXN60.1bn. Taking a look inside the public balance and excluding the investment of high economic and social impact –such as investments made within Pemex and CFE– the balance showed a MXN524.4bn surplus (vs. the MXN266bn surplus observed in May 2016). In addition, the primary balance shows a MXN518.5 billion surplus vs. the MXN177.3 billion surplus observed in the same month last year.

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¹ The PSBRs include the sum of the Public Balance, the financial requirements of the Mexican Bank Savings Protection Institute, financial requirements of deferred investment projects, adjustments to budget records, financial requirements of the National Infrastructure Funds, program of debtors and the expected gain or loss of development banks and development funds.

Total revenues were up 7.9% yoy. According to the MoF, revenues added to MXN2.3bn, MXN463bn above estimations. Taking a look at the breakdown, the 22.9% annual real increase in oil revenues was explained 58.6% annual increase in the price of the Mexican oil basket, as well as the 7.5% annual depreciation of the US\$/MXN exchange rate. This growth was achieved despite de 9.3% decrease in oil production.

Non-oil tax revenues increased 0.2% yoy in real terms, amounting to MXN1.2tn, MXN 48.8bn above budget. This comes on the back of a 3.8% increase in income tax collection, coupled with a 1.3% increase in VAT revenues, and 2.4% higher collection on import taxes. However, excise tax collection (IEPS) 16.1%. Excluding fuel IEPS collection increased only 10.2%. Non-oil, non-tax revenues stood at MXN411.1 bn, which implies a 21.6% annual real growth, however it is worth mentioning that the BOS is accounted for in these figures. Excluding this surplus, the real annual growth was 3.8%.

Budget spending decreased 6.4% in May reaching MXN1.9 tn, MXN48.5 bn lower than budgeted. Primary spending –which does not include the financial cost of debt–, edged down 8.6% while the financial costs were up 34.5% yoy. Programmable spending decreased 12.2%, amounting to MXN1,421.2 bn in the fifth month of the year, mainly due to cuts in the administrative (-21.7% yoy), and general (-11.2% yoy) sectors. Moreover, non-programmable spending, excluding the financial cost of debt, rose by 8.9%

Public Finances in May 2017

MXNbn

	Jan-May		% yoy in real terms
	2017	2016	
Balance	381.7	72.8	397.9
<i>ex. Pemex investments</i>	266.0	524.4	87.0
Revenues	2,288.6	2,013.5	7.9
Oil	359.8	277.9	22.9
Non-oil	1,928.9	1,735.6	5.5
Tax collection	1,235.6	1,169.6	0.2
Other	411.1	320.8	21.6
Government controlled enterprises	264.6	245.2	9.2
Spending	1,925.0	1,951.0	-6.4
Primary spending	1,781.8	1,850.0	-8.6
Programmable spending	1,421.2	1,535.7	-12.2
Non-programmable spending	360.7	314.4	8.9
Financial costs	143.2	100.9	34.5
Primary balance	518.5	177.3	177.5

Source: Ministry of Finance

Finally Historic Balance of the Public Sector Borrowing Requirements (HBPSBR) stood at MXN9.2 tn. Moreover, net domestic public sector debt amounted to MXN 9.1tn (US\$453 bn). In addition, net domestic debt reached MXN5.7 tn, while net foreign debt climbed to US\$185.5 billion (equivalent to MXN3.4 tn). 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.

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