Public finances – Twelve indicators for more transparent accounts

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- **The Ministry of Finance (MoF) released its preliminary public finances in July**
- **Last week, the MoF revised down their public sector borrowing requirement (PSBR) to 3% from 3.5%**
- **In addition, they presented a compilation of twelve indicators of revenues, spending and debt to facilitate monitoring the government accounts**
- **Public balance (Jan-Jul): -MXN157,177.4mn (ex. high impact investments: +MXN143,262mn)**
- **Budget revenues increased 9.8%y/y vs. same period last year**
- **In addition, non-oil revenues increased 17.4% in real terms, while oil revenues declined 21.2%**
- **Budget revenues came down 0.3%y/y**
- **Net domestic debt amounted to MXN4,418.5mn in July, while external debt was at US$177.3mn**
- **In our view, July's public finance report continues to show the sensitiveness of government accounts to oil prices as well as the spending cuts announced for this year**
- **In addition, we welcome positively the government's efforts to make public finances more transparent**

Public finances in July and changes in the PSBR. The Ministry of Finance published today its public finances in July. We highlight that last week, the MoF revised down its estimate of 2016 PSBR to 3% from 3.5%, which implies a reduction of 1.1% of GDP vs. year-end 2015 and 0.5% less vs. the figure approved by Congress for this year. Additionally, they presented a compilation of twelve indicators of income, expenditure and financing to facilitate the monitoring of public finance, it will detail the end of this document.

According to the Ministry of Finance, public balance in January-July posted a MXN157,177.4bn deficit. Moreover, excluding the investment of high economic and social impact –Pemex, CFE and other high impact investments-, the public balance showed a surplus of MXN143,262mn (vs. the MXN404,675.3mn deficit observed in January -July 2015). Meanwhile, the primary balance shows a surplus of MXN121,382.2mn vs. the negative balance of MXN148,911.2mn observed in the same period last year.

Oil revenues continue to fall (-21.2%). According to the MoF, during January-July lower oil revenues are explained by the fall in the price of the Mexican mix of oil as well as of the production platform. In this context, in the period in question the price of the Mexican crude oil came down 37.8% (30.9dpb from 49.6dpb in July 2015), while the production platform was reduced 2.7% (2,213mbd vs. 2,276mbd in 2015). In the meantime, a 26.2% decrease was observed in the prices of natural gas. It is worth noting that the revenue coming from the oil hedge strategy will partially offset this shortfall.

Non-oil tax revenues increased 12%y/y in real terms. This comes on the back of a 13% increase in income tax collection, a 7.2% increase in VAT revenues, 19.2% higher IEPS collection and 13% import taxes. In addition, non-tax, non-oil revenues recorded a significant increase of 104.3% a year, as this category includes Banxico's operating remnant, as shown in the following table.

Public Finances in January-July
MXNbn

	Jan-July		% yoy
	2016	2015	in real terms
Balance	**-157.2**	**-380.0**	
ex. Pemex investments	143.3	-81.2	
Revenues	**2,705.2**	**2,400.2**	**9.8**
Oil	379.9	469.7	-21.2
Non-oil	2,325.4	1,930.5	17.4
Tax collection	1,625.9	1,415.1	12.0
Other	348.5	166.2	104.3
Government owned companies	350.9	349.1	-2.1
Spending	**2,868.7**	**2,804.9**	**-0.3**
Primary balance	121.4	-148.9	

Source: Ministry of Finance

Budget spending came down 0.3% in January-July. Programmable spending amounted to MXN2,868.7mn in the first seven months of the year. We highlights the decrease in operating expenses (-2.3%) along with the increase of 2.4% in the federalized spending, particularly transfers to federal states. In addition, spending in pensions and retirement increased by 6.1% y/y in real terms. Meanwhile, the financial cost of the public sector amounted to MXN266.1mn, 10.5% above that observed in the same period last year.

Net domestic public sector debt stood at MXN5,418.5mn. This figure is below MXN38.7mn observed at the end of 2015, and it is explained by a net debt reduction by MXN32.9mn; accounting upward adjustments for MXN 20.9mn among others. Meanwhile, external debt amounted to US$177.3bn US$15.7bn above the one at the end of last year and explained by an increase in indebtedness amounting to US$18bn, upward accounting adjustments for US$0.8bn, among others.

In our view, July's public finance report continues to show the sensitiveness of government accounts to oil prices as well as the spending cuts announced for this year. The basis of comparison for oil prices will be more favorable in the coming months, although revenues will continue to post negative growth rates. Moreover, we welcome the government's effort to increase transparency in the monitoring of public finances. Looking ahead, we believe that the budget for 2017 is likely to include steps to generate a primary surplus, as has been mentioned, including among others, spending cuts.

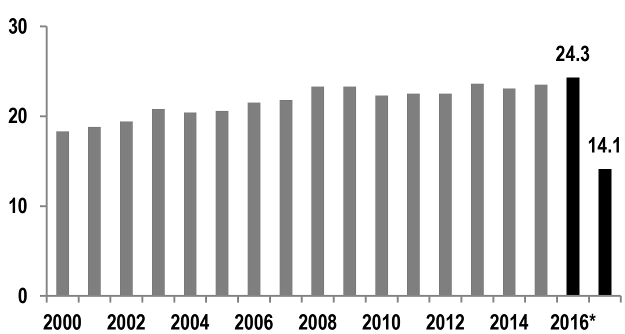
Twelve indicators for more transparent public finances. As part of the efforts to improve accountability, the Ministry of Finance presented a compilation of 12 indicators of income, expenditure and public debt to facilitate monitoring not only the observed trajectory, but also the one expected. In this context, we consider as positive the inclusion of estimates for year-end –which will be updated on a quarterly basis-, as they allow a more transparent monitoring of the financial performance of the public sector.

Indicators of public finance evolution
MXNmn

Item	January-July		% Progress vs.	
	2015	2016	Original	Estimated
1. Budget revenues	2,400.2	2,705.2	65.1	58.0
2. Tax collection	1,415.1	1,625.9	67.5	62.8
3. Tax collection ex. gasoline IEPS.	1,287.6	1,454.8	66.2	62.7
4. Total net spending *	1,796.1	1,705.2	57.6	58.5
5. Total net spending w/ financial cost**	2,030,7	1,971.3	57.6	57.8
6. Total spending ex. financial investments	2,743.1	2,756.4	58.5	57.9
7. Total net spending	2,804.9	2,868.7	60.0	55.0
8. Structural current spending	1,234.9	1,226.3	57.6	53.4
9. Primary balance	-148.9	121.4	-106.2	-149.6
10. PSBR	-400.0	-107.9	16.2	18.8
11. PSBRHB	8,111.4	8,885.2	96.6	91.8
12. Public balance	7,632.3	7,898.0	99.1	94.1

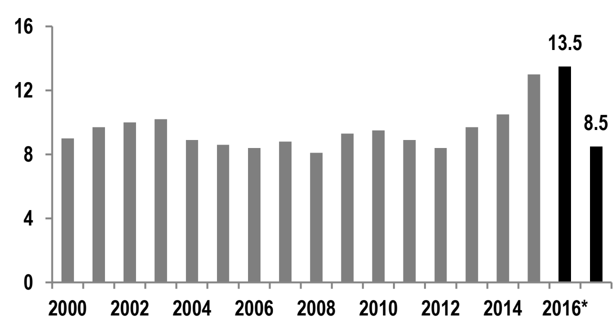
Source: MoF
* Ex. financial investments, pensions, transfers and financial costs
** Ex. financial investments, pensions and transfers

Budget revenues
% of GDP



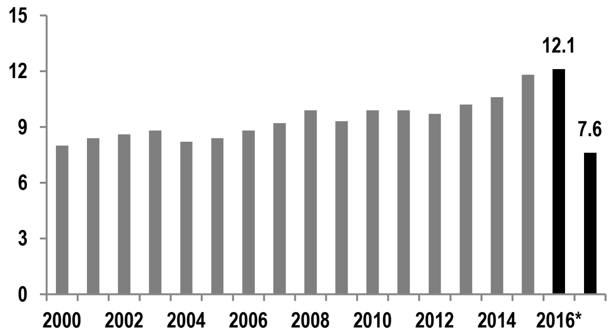
Source: MoF
*Estimated
**Year-to-date as a % of GDP

Tax collection
% of GDP



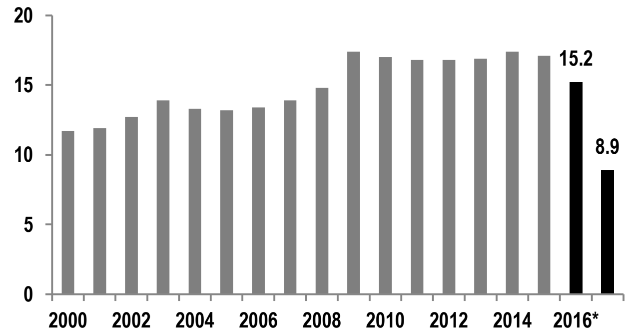
Source: MoF
*Estimated
**Year-to-date as a % of GDP

Tax collection ex. Gasoline IEPS
% of GDP



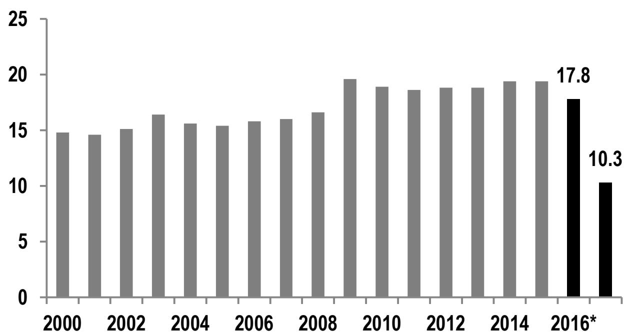
Source: MoF
*Estimated
**Year-to-date as a % of GDP

Net spending total ex. financial investments, pensions, participations and financial costs
% of GDP



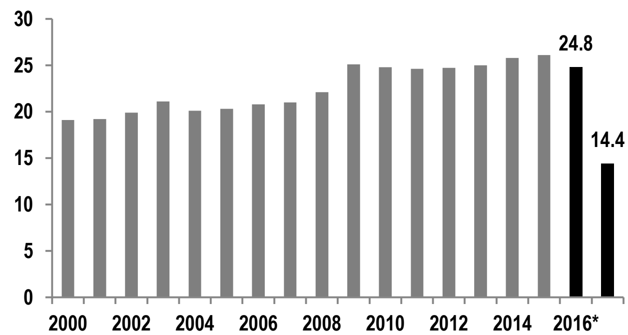
Source: MoF
*Estimated
**Year-to-date as a % of GDP

Net spending total ex. financial inv., pensions & participations
% of GDP



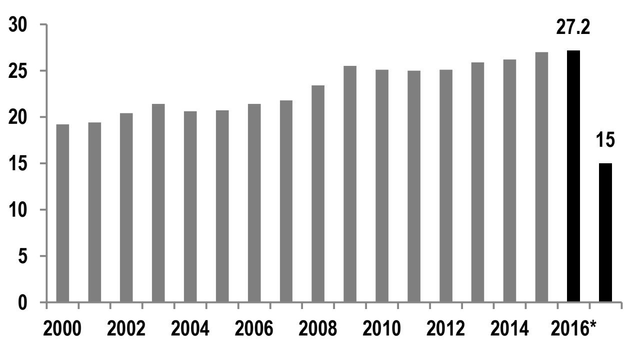
Source: MoF
*Estimated
**Year-to-date as a % of GDP

Net spending total ex. financial investments
% of GDP



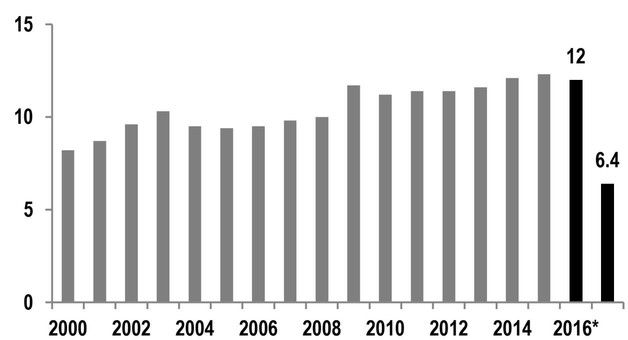
Source: MoF
*Estimated
**Year-to-date as a % of GDP

Net spending total
% of GDP



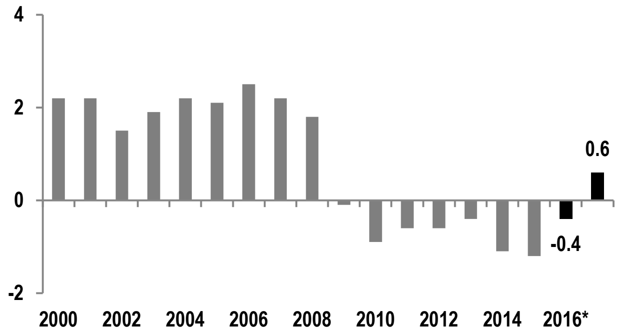
Source: MoF
*Estimated
**Year-to-date as a % of GDP

Structural current spending
% GDP



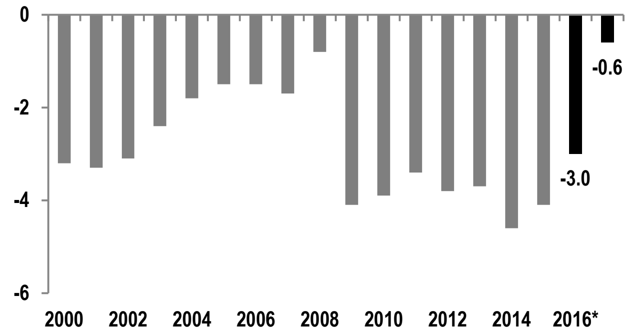
Source: MoF
*Estimated
**Year-to-date as a % of GDP

Primary balance
% of GDP



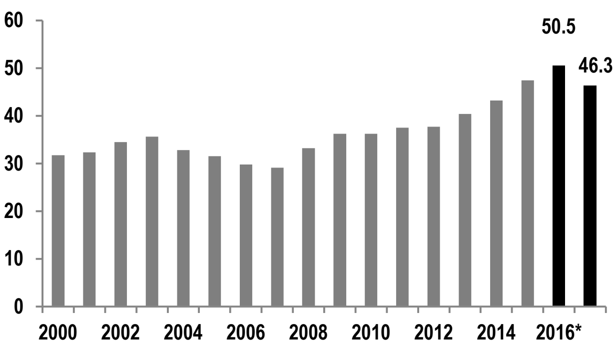
Source: MoF
*Estimated
**Year-to-date as a % of GDP

Public sector borrowing requirements (PSBR)
% of GDP



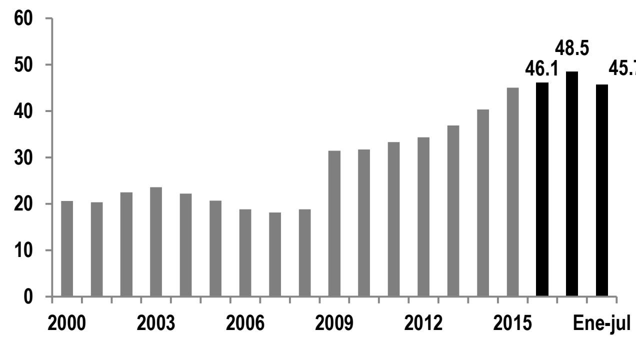
Source: MoF
*Estimated
**Year-to-date as a % of GDP

Historical PSBR
% of GDP



Source: MoF
*Estimated
**Year-to-date as a % of GDP

Public debt
% of GDP



Source: MoF
*Estimated
**Year-to-date as a % of GDP

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