

Public finance report – MXN125.5bn surplus in the PSBRs during the first eight months of the year

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- **The Ministry of Finance (MoF) released its public finances report for the eighth month of 2017**
- **Public sector borrowing requirements (Jan-Aug): MXN125.5bn surplus (~US\$6.6bn)**
- **Public balance (Jan-Aug): MXN105.4bn surplus (~US\$5.6bn)**
- **Budget revenues increased 2.5% yoy in real terms. In addition, non-oil revenues increased 5.2% yoy, while oil revenues declined 9.6%**
- **Budget expenses declined by 6.2% yoy, driven by the cutbacks in administrative sector costs, which decreased 10.7% yoy in real terms**
- **The Historic Balance of the Public Sector Borrowing Requirements stood at MXN9.4 trillion (~US\$494.9 bn) while the net public debt also amounted to MXN9.3 trillion (~US\$494 bn)**

Public sector balance shows a surplus in August. The Ministry of Finance just released its public finance report for the eighth month of year, in which we highlight the surplus of MXN125.5bn of the *Public Sector Borrowing Requirements* (PSBR) –which is the broadest measure of the public balance¹–, standing MXN280.9bn above 2016’s balance. In addition, the public balance posted a MXN105.4bn surplus, above the MXN202.9bn deficit seen in 2016. Furthermore, the balance was MXN488.7bn above the budgeted figure. Looking 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 MXN331.4bn surplus (vs. the MXN138.2bn surplus observed in August 2016). In addition, the primary balance shows a MXN431.1 billion surplus, which implies a 352.2% yoy real growth.

Total revenues were up 2.5% yoy. According to the MoF, revenues added to MXN3.4bn, MXN532bn above estimations. Taking a look at the breakdown, the 9.6% annual real decrease in oil revenues was explained by the MXN160.7bn transfer from the Federal Government to Pemex in 2016, which in turn raises the base of comparison. Excluding this effect, revenues were up 25.2%, as a result of the 36.9% annual increase in the price of the Mexican oil basket, as well as the 2% annual depreciation of the US\$/MXN exchange rate. This growth was achieved despite the 8.9% decrease in oil production.

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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.

Non-oil tax revenues increased 1.4% yoy in real terms, amounting to MXN2tn, MXN 95bn above budget. This comes on the back of a 4.5% increase in income tax collection, coupled with a 3.7% increase in VAT revenues. However, excise tax collection (IEPS) decreased by 14.3%. Excluding fuel IEPS, collection of this tax increased 4.5%. Non-oil, non-tax revenues stood at MXN458.7 bn, which implies a 20% annual real growth, however it is worth mentioning that Banxico's operating surplus is accounted for in these figures. Excluding this surplus, the real annual growth was 5.9%.

Budget spending decreased 6.2%, reaching MXN3.6tn, MXN63.2 bn above what was budgeted. Primary spending –which does not include the financial cost of debt–, edged down 7.7% while the financial costs were up 10% yoy. Programmable spending decreased 10.7%, amounting to MXN2.5tn, mainly due to cuts in the administrative sector (-28.2% yoy), and state-owned companies (-7.7% yoy). Moreover, non-programmable spending, excluding the financial cost of debt, rose by 7.9%, given the 7.9% increase in participation to states and a 7.8% expansion in Adefas (previous government's debt).

Public Finances in August 2017

MXNbn

	Jan-Aug		% yoy in real terms
	2017	2016	
Balance	105.4	-202.9	
<i>ex. Pemex investments</i>	331.4	138.2	126.7
Revenues	3,440.5	3,172.3	2.5
Oil	553.1	578.4	-9.6
Non-oil	2,887.3	2,593.8	5.2
Tax collection	1,959.3	1,826.7	1.4
Other	458.7	361.4	20.0
Government controlled enterprises	469.3	405.7	9.3
Spending	3,355.2	3,382.9	-6.2
Primary spending	3,025.3	3,099.4	-7.7
Programmable spending	2,457.2	2,601.6	-10.7
Non-programmable spending	568.1	497.8	7.9
Financial costs	329.9	283.5	10.0
Primary balance	431.1	90.1	352.1

Source: Ministry of Finance

Finally, the Historic Balance of the Public Sector Borrowing Requirements (HBPSBR) stood at MXN9.4 tn. Moreover, net domestic public sector debt amounted to MXN 9.3tn (US\$494 bn). In addition, net domestic debt reached MXN5.9 tn, while net foreign debt climbed to US\$189.8 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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