

August's public finance facing the low oil prices

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- **Public Sector Balance (Jan-Aug): MXN407.4bn (US\$24.6bn) deficit; excluding Pemex: MXN80.6bn deficit (US\$4.9bn)**
- **Revenues edged up 3.8% yoy, despite the 36.5% reduction in oil revenues**
- **Tax revenues were higher than expected**
- **Moreover, spending increased 5.1% yoy in August**
- **Public Sector net domestic debt amounted to MXN5,076bn (US\$307bn), while external debt amounted to US\$158.8bn**
- **Looking ahead, public finances will continue to resent the low levels of oil prices**

According to the Ministry of Finance, public balance during the first eight months of 2015 posted a MXN407.4bn (US\$24.6bn) deficit. According to the Ministry of Finance, the deficit was explained mainly by the lower level of oil revenues given that the *hedge* made by the federal government is not going to be exercised until December, according to the report. August's deficit was driven mainly by a 3.8% increase in fiscal revenues and a 5.1% increase in net expenditure. Excluding *Pemex's* investments, public deficit amounted to MXN80.6bn (US\$4.9bn). Moreover, the primary balance posted a MXN162.2bn deficit (US\$9.8bn), which was slightly higher than the MXN151.9bn deficit (US\$9.2bn) observed in August 2014.

Oil revenues decreased 36.5% yoy. Oil revenues decreased as a result of a lower Mexican crude oil price (49.5dpc vs. 94.4dpc in same period of 2014) along with lower levels of crude oil production (-8%). Moreover, tax revenues coming from the gasoline excise tax collection (*IEPS*) edged up 280% yoy in real terms.

Tax revenues were higher than the initial MoF estimates. Non-oil revenues were up 22.6% yoy derived from a 28.9% yoy increase in tax collection, as shown in the table below. Within the first, income tax revenues increased 23.6% yoy, and these revenues were 16% higher than the MoF's estimates. Moreover, non-oil non-tax revenues were up 44.9% yoy. Finally, VAT revenues increased 4.1%, better than expected (+2.3%).

Public Finances in August

MXNbn

	January-August		% yoy
	2015	2014	in real terms
Balance	-407.4	-344.6	
<i>ex. Pemex investments</i>	-80.6	-111.1	
Revenues	2,718.5	2,544.1	3.8
Oil	528	808.1	-36.5
Non oil	2,190.5	1,735.9	22.6
Tax collection	1,605.9	1,210.6	28.9
Other	181.7	121.9	44.9
Government owned companies	402.8	403.5	-3.0
Spending	3,143.6	2,905.8	5.1
Primary balance	-162.2	-151.9	

Source: Ministry of Finance

Sharp decline in Pemex revenues. While tax revenues were higher than the MoF's estimates, revenues from public firms were significantly lower than expected 27.6% (MXN\$556.7bn vs. MXN\$402.8bn).

Public sector spending increased 5.1% yoy in August. Programmable spending amounted to MXN2,449.6bn (US\$148.1bn), 3.8% higher than the one observed in August 2014. Moreover, financial costs were up 20.6% yoy.

Public Sector domestic net debt amounted to MXN5,076.1bn (US\$307bn) in August, MXN271.9bn (US\$16.4bn) higher than the level observed at the end of 2014. Moreover, external debt amounted to US\$158.8bn, US\$13.2bn higher than the one reached at the end of 2014.

Looking ahead, public finances will continue to resent the low levels of oil prices. The base of comparison for oil prices will become more favorable in 2H15, although revenues will still post negative rates of growth. Nevertheless, we expect government spending to moderate. Looking ahead, we believe that budget process for 2016 will continue to try to face the difficulties of the Mexican oil sector: lower prices and falling output.

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