SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO | SHCP

MEXICO

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MINISTRY OF FINANCE

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Approval of the Economic Program for 2004

- **Congress ratified fiscal discipline as the economic program's principal guideline.**
- **The Federal Government assigns more expenditure to education, the agricultural sector, health, infrastructure, and poverty alleviation.**
- **The absence of a fiscal reform was an opportunity lost for greater economic growth and competitiveness.**

- The Federal Budget and Income Law for 2004 were approved by an ample majority vote in Congress the past 27 and 30th of December.
- The Ministry of Finance acknowledges the responsible attitude of Congress which ratified fiscal discipline as the main guideline of the Economic Program for 2004.
- The fiscal deficit target of 24.1 billion pesos, equivalent to 0.3 per cent of GDP, was not modified. Furthermore, Congress authorized a reduction of the external indebtedness of 500 million dollars. This external indebtedness reduction implies that the fiscal deficit will be entirely financed in domestic financial markets for the 4th year in a row.
- The fundamental macroeconomic assumptions described in the General Policy Guidelines for 2004 were not modified.
- The new estimations made by Congress increase gross public sector revenues in 13.4 billion pesos with respect to the original program sent by the Executive.
- The new revenue estimations imply additional revenue-sharing with States for 3.1 billion pesos (which are subtracted from the 13.4 billion pesos of gross additional revenues mentioned above).

- The Budget includes reassignments of the Federal Government's expenditure for almost 38.2 billion pesos. These reassignments mostly favored education, the agricultural sector, health, poverty alleviation, and water infrastructure investment.
- The Budget includes automatic expenditure stabilization mechanisms which guarantee that the fiscal deficit target approved by Congress will be met, even if external shocks have an affect on fiscal revenues. The expenditure would be adjusted without having an effect on critical programs. Furthermore, the Executive will continue increasing the transparency on the expenditure side.
- Society's basic needs will be attended, regardless of the fiscal restraints, without generating fiscal imbalances which would endanger macroeconomic stability.
- Nevertheless, the lack of approval of the fiscal reform is an opportunity lost. With the reform the country would have, starting 2004, a larger tax collection and a simpler tax system. The changes that were proposed did not pressure captive taxpayers nor affected the lowest income families. Increased tax collection was to result from enhanced tax-collection efficiency and a wider tax base.
- Such a reform would have fostered greater economic growth, generated more and better employment, and increased the welfare of the Mexican society.
- The Federal Government restates its commitment to strengthen fiscal discipline which will consolidate the environment of certainty by assisting the inflationary abatement, avoiding a raise in the cost of money, and increasing the availability of financial resources to finance the private sector. In this manner, public finances will favor the economic reactivation that is expected to take place during 2004.

Macroeconomic Framework for 2004

The policy guidelines of the Economic Program for 2004 were not modified with respect to the original proposal by the Executive.

- Economic growth of 3.1 per cent, which will allow for an increase in payrolls defined as the number of total urban workers registered at the national social security institute.
- The Economic Program for 2004 will continue with the fiscal consolidation effort. The fiscal deficit target is equivalent to 0.3 per cent of GDP. The Public Sector Borrowing Requirements are estimated to be equivalent to 2.7 per cent of GDP.
- The budget approved by Congress will contribute to pursue inflation abatement and to protect real wages. In particular, the fiscal discipline will be a factor in achieving Banco de México's 3 per cent annual inflation target.
- The economic program is consistent with maintaining the current account deficit in a moderate range which is to be financed with long-term resources. The current account deficit is expected to be equivalent to 2.6 per cent of GDP.

Macroeconomic Framework for 2004

		Approved
GDP Real Growth oya (%)		3.1
Inflation Dec/Dec (%)		3.0
Exchange Rate* Average (pesos/dollar)		11.2
Interest Rate (Cetes 28 days) Nominal average (%)		6.5
	Real (%)	3.6
Current Account Million dollars		- 16,420
	% of GDP	- 2.6
Fiscal Deficit % of GDP		- 0.3
US GDP Real Growth oya (%)		3.8
US Inflation Dec/Dec (%)		1.8
Oil (Mexican Mix) Average Price (Dollars/barrel)		20
	Export Platform (mb/d)	1,959
External Interest Rate LIBOR Annual Average (%)		2.5

*/ In a floating exchange rate regime, this assumption is not intended as a forecast of the nominal exchange rate. However, it is a necessary assumption in order to estimate certain budget items.

Income Law for 2004

Congress modified some of the revenue estimations which were part of the Income Law Initiative for 2004.

The revenue modifications are compatible with information that was released after the initiative was sent to Congress, and therefore do not imply a risk for public finances for 2004.

These adjustments increase public sector revenues in 13.4 billion pesos with respect to the original proposal of the Executive. The main changes are:

- The estimation of non-oil tax collection was increased by almost 11 billion pesos. The latter is due, partially, to an upward revision of income and value-added taxes collection for 2004. This responded to the fact that during September, October and November of 2003, collection from these taxes was greater than it was anticipated at the time of the elaboration of the Initiative.
- Revenues were added by 2.5 billion pesos from unproductive assets' sales.

The Public Sector borrowing Requirements for 2004 will be equivalent to 2.7 per cent of GDP, and the fiscal deficit will be equivalent to 0.3 per cent of GDP.

As political agreements for a fiscal reform were absent, the tax system for 2004 does not include significant changes with respect to the 2003 tax code.

Modifications to the Budget for 2004

Expenditure Modifications for 2004

Congress decided to reallocate resources and increase the budgeted resources for a total of 38.2 billion pesos. These expenditure modifications will be primarily directed at:

1. Rural development
2. Education
3. Highway construction and maintenance
4. Employment
5. Poverty Alleviation
6. Health and social security

The reallocations favored the expenditure of States and Municipalities.

The following are the amounts that were reallocated with respect to the budget proposal sent by the Executive:

- 10.9 billion pesos for rural development.
- 8.0 billion pesos for education
- 7.3 billion pesos for road and highway construction
- 2.2 billion pesos for social development
- 1.5 billion pesos for health
- 1.0 billion pesos for the National Water Commission (CNA)
- 0.3 billion pesos to the Science and Technology National Council (CONACYT)
- 7.0 billion pesos for the States' Support and Strengthening Program (PAFEF)

Source of the Resources

The source of the resources for the expenditure reallocations, without modifying the 0.3 per cent of GDP budget deficit target were modifications to the revenue estimations and expenditure cuts with respect to the original proposal submitted by the Executive.

1. Higher non-oil tax revenue for 10.9 billion pesos (from which 3.1 billion pesos have to be deducted for revenue-sharing with States).
2. Additional non-tax revenues for 2.5 billion pesos from sales of unproductive assets.
3. Reductions in expenditures for 27.9 billion pesos with respect to the original budget proposal of the Executive. The reductions affect the programmable expenditure, as well as primary non-programmable expenditure, and the financing costs of the public sector.

Public Finance Estimates, 2004
(Million pesos)

	Project	Approved	Differences
Overall Public Balance	-24,093.0	-24,093.0	0.0
Non-Budgetary Balance	0.0	0.0	0.0
Budgetary Balance	-24,093.0	-24,093.0	0.0
Total Revenues	1,594,562.4	1,608,012.1	13,449.7
Oil-related	502,988.7	502,988.7	0.0
Federal Government	350,001.5	350,001.5	0.0
PEMEX	152,987.2	152,987.2	0.0
Non-Oil Related	1,091,573.7	1,105,023.4	13,449.7
Federal Government	804,050.5	817,500.2	13,449.7
Tax	703,543.0	714,492.7	10,949.7
Non-Tax	100,507.5	103,007.5	2,500.0
PEDBC 1_/	287,523.2	287,523.2	0.0
Total Expenditure	1,618,655.4	1,632,105.1	13,449.7
Programmable	1,147,405.0	1,165,204.1	17,799.1
Deferred Payments	-18,400.0	-18,400.0	0.0
Programmable Paid	1,165,805.0	1,183,604.1	17,799.1
Non-Programmable	471,250.4	466,901.0	-4,349.4
Financing Costs	216,908.2	213,908.2	-3,000.0
Revenue Sharing 2_/	239,830.4	242,281.0	2,450.6
Other	14,511.8	10,711.8	-3,800.0

1_/ Public Entities under Direct Budgetary Control.
2_/ Excludes Programmable Revenue Sharing.

States and Municipalities' Expenditures with Federal Resources
(Million pesos)

Issue	2002	2003 [e]	2004 Project	2004 PEF	Difference	Real Growth (%)	
	a	b	c	d	d-c	c/b	d/b
Total	**504,253.9**	**520,687.0**	**557,408.4**	**572,800.5**	**15,392.1**	**2.7**	**5.6**
PAFEF	14,700.0	17,000.0	10,000.0	17,000.0	7,000.0	-43.5	-4.0
Federal Participations	214,909.8	215,336.2	239,830.4	242,281.0	2,450.6	6.9	8.0
Revenue sharing	241,824.1	258,033.1	277,613.3	280,963.9	3,350.6	3.3	4.5
To States and Municipalities [1_/]							
FAEB [2_/]	156,853.5	168,859.8	183,234.6	185,946.4	2,711.8	4.1	5.7
FASSA	27,588.1	31,091.3	34,064.2	34,064.2	0.0	5.1	5.1
FAIS	21,783.9	22,332.7	23,239.9	23,511.6	271.7	-0.1	1.0
FASP	3,210.0	2,500.0	2,500.0	2,500.0	0.0	-4.0	-4.0
FAM	7,115.1	7,258.8	7,566.9	7,655.4	88.5	0.0	1.2
FORTAMUN	22,326.7	22,889.2	23,819.0	24,097.5	278.6	-0.1	1.0
FAETA	2,946.8	3,101.3	3,188.7	3,188.7	0.0	-1.3	-1.3
Decentralization agreements	32,820.0	30,317.7	29,964.6	32,555.6	2,591.0	-5.1	3.1
SEP	25,896.3	23,125.5	23,801.5	26,392.5	2,591.0	-1.2	9.5
Others [3_/]	6,923.7	7,192.2	6,163.1	6,163.1	0.0	-17.8	-17.8

[e] = estimated
1_/ Includes ISSSTE-FOVISSSTE
2_/ Includes sharing for Basic Education, Normal, Technical and Adults (Ramo General 25)
3_/ Includes Comisión Nacional del Agua y Sagarpa (Alianza para el Campo).

Automatic Stabilizers

The Budget for 2004 includes automatic expenditure stabilizers in articles 23 and 25 which define the adjustment mechanisms in case that public revenue exceed or fall behind the budgeted amount which will be published in the *Diario Oficial de la Federación* before the 31st of January of 2004.

The stabilizer mechanisms are similar to those used in the last two years.

Final Remarks

- The Economic Program for 2004 is austere. Discipline is maintained in public finances. In spite of the limitations, the program includes more expenditure for education, health, rural development, and poverty alleviation than that which was spent in 2003.
- Revenues will be lower than desired in order to attend society's needs. This results from the lack of agreement in Congress to advance in the construction of a more efficient tax system.
- The Federal Government will continue seeking the mechanisms to strengthen public finances in the long-term which will allow attending the needs of the population.
- The government will apply the adjustments needed, as established in the Budget, to sustain fiscal discipline if the economic conditions change.
- The Federal Government maintains of a fiscal balance or surplus as its medium-term objective.
- Mexico will be able to grow more in 2004 than in 2003, given the current international economy's outlook. However, a responsible fiscal policy must be maintained in order to promote growth. Fiscal responsibility will allow the economy to be resilient to sudden changes in the global economy.