



ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

Budgeting in Mexico

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Structure of Presentation

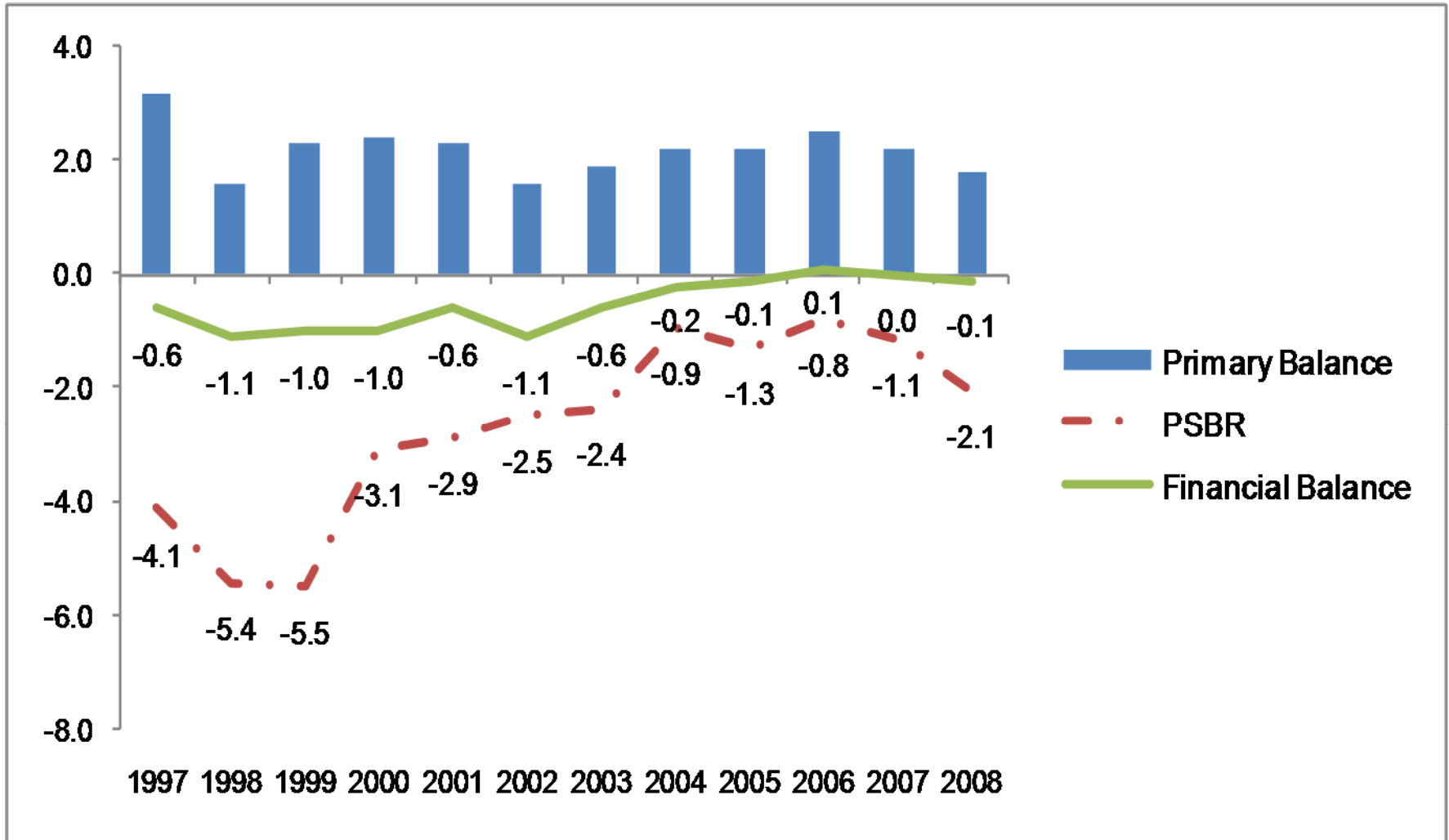
1. General Overview
2. Budget Formulation
3. Congressional approval
4. Budget Execution and Financial Management
5. Performance Budgeting

Part 1: General Overview

General Overview

- Major economic crises - 1982 debt crisis and 1995 Tequila crisis
- Rapid recovery after 1995
- New era of fiscal responsibility
 - Political and economic reforms
 - Prudent macroeconomic policies
- Significantly improved fiscal performance
 - Reduced public debt and balanced budget
 - Lower Inflation and higher reserves
- Since 2006 major improvements to fiscal and budget framework
- Need to continue with reform programme⁴

Figure 1.1. Public Sector Budget Aggregates (as % of GDP)



Source: Dirección General Adjunta de Estadística de la Hacienda Pública. (SHCP)

Structural Challenges

- Improving economic growth
- Reducing dependency on oil revenues
- Improving efficiency and effectiveness of public spending
- Improving accountability and control of spending at a sub-national level.

Four Major Recent Reforms

- 2006 Budget and Fiscal Responsibility Law (BFRL)
- 2007 Integral Fiscal Reform (IFR)
- The 2007 New ISSSTE Law
- 2008 Governmental Accounting Law

Global Crisis: Challenges Ahead

- **-3.7% GDP forecasted for 2009**
- **Strong ties to the US economy (trade and remittances)**
- **Uncertainty about Oil prices but lower than highs of 2008**

The Government's Responses

- **Stimulus package**
 - Several programmes to boost growth and employment
 - Infrastructure investment
- **Multilateral and bilateral lines of credit extended**
- **2009 budget helped by oil price hedge and removal of PEMEX' s long term investment schemes from the balanced budget rule**

Part 2: Budget Formulation

Key Features

- **Strong Ministry of Finance - centralized Budget formulation**
- **Limited use of Medium Term framework**
- **2 debt rules**
- **Recent reforms - Balanced budget rule**
- **Efforts to introduce performance information into 2009 budget formulation process**

Recommendations

- A more comprehensive medium term framework
- Budget ceilings should only specify limited constraints providing discretion within them
- Developing and using longer term estimates
- A better management of the workloads
- A reorganisation of the budget office
- Improvements in the budget presentation.

Part 3: Congressional approval

Key Features

- The Revenue Law has to be approved by both houses; the expenditure bill only by the Chamber of Deputies.
- Although there are set limitations, the Chamber of Deputies has power to amend the Budget.
- 2006 BFRL – Improved budget approval process and increased information presented to Congress
- Past three years enhanced cooperation and the budget passed by consensus of the three larger parties.

Recommendations

- Congress should be encouraged to make more use of performance information
- Federal Supreme Audit Office could provide more streamlined and accessible information to Congress in a timely manner
- It would be helpful to establish an informal or ad hoc committee to act as an advisory committee on budget reform.

Part 4: Budget Execution and Financial Management

Key Features

- Focus on ex ante budget controls
- Very large number of rules and regulations in personnel and procurement
- Measures to address unexpected shortfalls in revenues → The Oil stabilization Fund
- Reforms
 - The Single Treasury Account (STA)
 - Government Accounting Law (2008): Harmonize accounting systems for all levels of government and accrual accounting by 2012.

Recommendations

- Enhance discretion and flexibility of programme managers and budget officials
- Streamline and eliminate excessive internal rules and regulations
- The 2003 Professional Public Service Law (PPSL) should be evaluated and reviewed.
- Strengthen performance management in personnel, procurement, and regulation functions of government
- For accrual accounting reforms, it is important to generate realistic expectations about the timelines and challenges ahead.

Part 5: Performance Budgeting

Key Features

- The Performance budgeting and management reforms → The Performance Evaluation System (Sistema de Evaluación del Desempeño or SED)
- Scope - Federal and State levels
- Two main components:
 1. the evaluation of budgetary programmes and policies
 2. the evaluation of management processes and public services
- Rapid progress in developing of Performance information ...but a cultural change is required

Recommendations (1/2)

- To improve coordination between key players, establish a working group and clearly define roles and responsibilities
- To engage line ministries, create a position of performance coordinator in each ministry
- Have clear guidelines on the development and use of indicators
- The incentive structure needs to change to reflect this new performance approach

Recommendations (2/2)

- Integrate performance information more into the decision-making processes
- A staged and sequenced approach would be helpful to:
 1. improve the quality of performance information and IT support systems and further integrate performance information into the budget process
 2. strengthen and modernise financial management in line ministries
 3. change the government-wide accountability systems and incentive structures

Conclusion

- Good fiscal record reflects era of fiscal responsibility
- Mexico in better position to withstand the current global crisis than previous ones
- Reforms have improved overall fiscal budget framework
- Important to push ahead with implementation of reforms even with crisis.
- If implemented reforms will make a significant contribution to longer term fiscal stability.