

MEXICO

FEDERAL COUNTRY

LATIN AMERICA

BASIC SOCIO-ECONOMIC INDICATORS

Income group - UPPER MIDDLE INCOME Local currency - Mexican Peso (MXN)

POPULATION AND GEOGRAPHY

AREA: **1 959 248** km²

POPULATION: **119.713** million inhabitants (2014), an increase of 1.2% per year (2010-14)

DENSITY: **61** inhabitants/km²

URBAN POPULATION: **79%** of national population

CAPITAL CITY: **Mexico City** (16.8% of national population)

Sources: OECD, World Bank, UNDP, ILO

ECONOMIC DATA

GDP: **2 171** billion (current PPP international dollars) i.e. 18 135 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.2%** (2014 vs 2013)

UNEMPLOYMENT RATE: **4.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **24 154** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **22%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.756** (high), rank 74

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
2 457	-	32	2 489
MUNICIPALITIES (MUNICIPIOS)* AVERAGE MUNICIPAL SIZE: 45 740 INHABITANTS		31 STATES (ESTADOS) AND 1 FEDERAL DISTRICT (DISTRITO FEDERAL)	

* Mexico City 16 boroughs which are today only administrative entities, are not included in the count of municipalities.

MAIN FEATURES OF TERRITORIAL ORGANISATION. The federal system is defined in the Constitution of the United Mexican States, approved in 1917 and revised several times. Mexico has a two-tier system of SNG. Federated entities include 31 states and one Federal District (Mexico City). The local level is composed of municipalities whose autonomy was recognised by constitutional reforms in 1983 (article 115) and 1999. Municipalities are governed by state constitution and legislation. There has been a trend towards greater decentralisation since the late 1980s. A nationwide political reform in 2014 introduced, among other things, the re-election of municipal mayors (until then, a second term was prohibited). In January 2016, the Federal District of Mexico became an autonomous entity taking on some state responsibilities and powers with its own constitution and congress. The 16 boroughs (*delegaciones*) will become municipalities, headed by a mayor.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. According to the Constitution, the powers that are not expressly given to the Federation are understood as reserved to the states. In reality, it is more complex. The Constitution defines powers given to the federation, those given in an explicit or tacit way to the states, those prohibited to the federation or to the states, coinciding powers, coexisting powers, aid powers, etc. Overall, federal powers are extensive and also overlapping. States' joint responsibilities with the federal government include primary education (since 1992), healthcare (since 1996), poverty alleviation, social protection and water (since 1983). Other responsibilities include spatial planning, regional transport, municipal affairs, etc. Municipal tasks include urban planning and development, utilities (water distribution, waste), local roads and public transport, street lighting, markets, parks, public safety. Municipalities are co-responsible for school buildings and implementation of social programmes. Municipalities can delegate some responsibilities to the state by agreement (water, urbanism, road, tax collection).

SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP		% GENERAL GOVERNMENT (same expenditure category)		% SUBNATIONAL GOVERNMENT	
TOTAL EXPENDITURE (2013)	12.4%	1.8%	50.6%	7.3%	100%	100%
CURRENT EXPENDITURE	10.3%	1.3%	-	-	83.5%	71.8%
STAFF EXPENDITURE	5.9%	0.7%	64.5%	7.7%	47.9%	39.5%
INVESTMENT	1.6%	0.5%	73.6%	23.4%	12.8%	28.2%

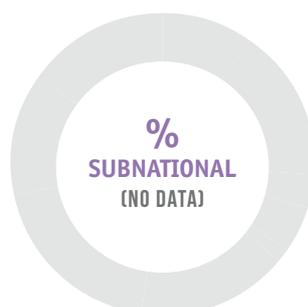
■ SUBNATIONAL DATA □ LOCAL DATA ONLY

While SNGs accounted for 10% of public spending in 1990, they now account for 50%, a level in line with the OECD average of the nine federal countries. SNG expenditure share in GDP is however below the OECD federal country average (19.2%). SNGs are key public employers as well as key public investors as their share in public investment is significantly above the OECD average. However, despite its federal structure and the strong decentralisation process, Mexico remains a centralised country. Large spending areas are delegated and controlled by the federal government. In addition, decentralisation at the local level is very limited. Local government expenditure and investment shares in GDP and public spending are among the lowest of the OECD countries.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE

- LEGISLATIVE AND ADMINISTRATION
- SPECIAL CHARGES
- TRANSPORT
- URBANISM
- SANITATION
- HEALTH
- EDUCATION
- SOCIAL SECURITY AND ASSISTANCE
- OTHER



The states carry out the majority of subnational spending (86% in 2013) and have responsibility over major areas of spending such as health and education. In these areas, SNGs are in charge of school and health facilities and employees including teachers. Municipal spending (14% of SNG spending) is concentrated on the provision of local services and education.

REVENUE BY TYPE

% GDP

% GENERAL GOVERNMENT (same revenue category)

% SUBNATIONAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

	% GDP					
TOTAL REVENUE (2013)	12.6%	1.9%	51.3%	7.5%	100%	100%
TAX REVENUE	0.9%	0.2%	7.3%	1.9%	7.2%	13.0%
GRANTS AND SUBSIDIES	11.5%	1.6%	-	-	91.5%	86.2%
OTHER REVENUES	0.2%	0.0%	-	-	1.3%	0.7%

The fiscal framework, set out in the Constitution and the Fiscal Co-ordination Law (LCF), determines the distribution of the General Participation Fund among the states, Mexico City and the municipalities. Several reforms of the LCF took place in 1980 (creation of National Fiscal Co-ordination System), 1997, 2007 and 2013. Under the fiscal system, states accept to yield part of their tax powers to the federation in exchange for obtaining a share in federal revenue i.e. participation in the federal funds. SNGs are mainly funded through grants, the share of taxes in SNG revenue being the lowest of all OECD federal and unitary countries (except Estonia), while the share of grants is by far the highest, leading to strong vertical imbalance. SNGs have very limited financial autonomy, despite having extensive spending assignments.

TAX REVENUE. SNG taxes only account for a very small share of SNG revenue, of GDP and of public tax, among the lowest ratios in the OECD. Reforms in 2007 and 2013 introduced new taxes to the states, transferred the power of the vehicle tax and increased incentives for SNGs to raise tax. However, states and municipalities are reluctant to use their taxing power. State taxes include the payroll tax (80% of state tax revenue), vehicle tax, gasoline tax, etc. Municipalities derive the bulk of their tax revenues (73%) from property tax (*impuesto predial*), over which they have little control as rates are approved by state congress. Property tax represented only 0.2% of GDP, one of the lowest levels of the OECD.

GRANTS AND SUBSIDIES. The system of intergovernmental transfers combines revenue sharing (non-earmarked) transfers (*participaciones*), a myriad of earmarked transfers (*aportaciones*), and some matching transfers (*convenios*). The Public Finance reform of 2007 introduced changes in the allocation formulas of transfers. The revenue-sharing grant scheme imposes that 20% of federal tax revenues are allocated to the states as unconditional transfers based on different demographic, fiscal and compensatory criteria. This system (the General Participation Fund, *Fondo General de Participaciones*, or Ramo 28) only benefits the states but they must transfer 20% the Fund to the municipalities. The second largest transfers are *aportaciones* (or Ramo 33). The largest are the two funds earmarked for financing education and healthcare. Others have mostly an equalisation purpose (e.g. Social Infrastructure Fund). Finally, states also receive matching transfers from federal ministries and agencies. Since 2007, municipalities receive, via the states, in addition to their share of 20% of FGP, an additional share of federal revenue (*Fondo de Fomento Municipal*). This is allocated on the basis of municipal residential property tax and water fees collection. They also receive earmarked and non-earmarked grants from their state.

OTHER REVENUES. Other sources of revenue are negligible. One example is water services fees which generate relatively little revenue for municipalities.

OUTSTANDING DEBT

% GDP

% GENERAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

	% GDP	% GDP	% GDP	% GDP
OUTSTANDING DEBT (2013)	-	-	-	-

Mexico passed the 2013 reform to the Fiscal Responsibility Law (FRL) which establishes a structural fiscal rule in Mexico. An equivalent law for states and local governments is currently being prepared to address subnational deficit, debt limits and expenditure control. The reform would make constitutional changes to impose stricter controls on SNG debt, based on revenue and debt levels. The reform would create a system of alerts as well as single debt registry to monitor SNG debt. The federal government would offer guarantees for states engaging in good debt management. Today, SNG governments can borrow to finance productive investments (golden rule) and have access both to loans and bond markets. According to national sources, SNG debt accounted for 3.1% of GDP in 2014, well below the OECD average of 23.9% but it expanded rapidly since 2008, and especially in 2013.

A joint- study of:



Sources: OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • OECD (2015) OECD Urban Policy Reviews: Mexico 2015: Transforming Urban Policy and Housing Finance • Sánchez A. (2013) Improving Fiscal Federal Relations For A Stronger Mexico", OECD Economics Department Working Papers No. 1078 • Sour L. (2013) The Flypaper Effect In Mexican Local Governments", *Estudios Economicos*, vol. 28 • Smith H. (2013) Explaining Borrowing Patterns of Mexican Cities: The Case of the State of Guanajuato" *Economic Alternatives*, Issue 2.