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Congress Moves Up Budget Deadline to September

by LADB Staff

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The Mexican Congress overwhelmingly voted in favor of changes to Article 74 of the Mexican Constitution that will advance approval of the federal budget to Nov. 15. Under the plan, the Secretaria de Hacienda y Credito Publico (SHCP) will have to present the administration's budget proposal by Sept. 8, which is more than a month in advance of the previous deadline of Nov. 15. The measure was approved 391-0 with five abstentions, in what was one of the few instances of cross-party cooperation during this year's acrimonious legislative session.

The fallout from political scandals in Mexico City, Quintana Roo, and Morelos has encouraged partisan attacks in the Congress, creating tensions among the various parties (see SourceMex, 03/10/04 and 04/21/04). On top of that, both the center-left Partido de la Revolucion Democratica (PRD) and the former governing Partido Revolucionario Institucional (PRI) have announced they will not cooperate with President Vicente Fox's administration because of political disputes.

The PRD contends that the Fox government is treating Mexico City Mayor Andres Manuel Lopez Obrador unfairly because of the political scandal. The PRI, for its part, said it has broken dialogue with the administration as a protest for "maliciously" publishing a list of congressional candidates that surpassed campaign spending limits in the mid-term election in July, 2003. The list includes members of all parties, but a large number of the violators are affiliated with the PRI.

The change in the timetable will significantly reduce the chances that Congress will have to work overtime to comply with the Constitution. In four of the last five years, the Congress had to burn the midnight oil to approve the budget before Dec. 31, which was the previous deadline mandated by the Constitution (see SourceMex, 2000-01-12, 2001-01-10, 2002-01-09 and 2004-01-07). In contrast to those years, the 2003 budget was approved with time to spare (see SourceMex, 2002-12-18). "The decision implies a conceptual change in the agenda for discussion the revenue and expenditure portions of the budget," said PRI Deputy Luis Antonio Ramirez Pineda.

Legislators also timed the change to link the budget deliberation process with the president's state-of-the-union address, which is scheduled to be presented at the beginning of September. In a separate but parallel move to the approval of the changes in the budget timetable, the Congress made some modifications to the format of the budget address, requiring the president to listen to the positions of each of the political parties represented in the Congress.

In the past, the president has been allowed to depart from Congress after delivering his annual speech. PRI Deputy Francisco Rojas Gutierrez, said the early approval of the budget will benefit municipal and state governments and the private sector, which will be able to make end-of-the-year decisions. "The changes offer greater legal assurance to the decisions on public expenditures, which will be discussed in a climate of greater transparency and certainty," said Rojas Gutierrez, who chairs the budget and public accounting committee (Comision de Presupuesto y Cuenta Publica).
**Tax reforms will also influence budget**

The new deadline for approval of the budget is only one factor that could influence the level of expenditures that will be approved for 2005. Perhaps an even more important factor is whether Congress is able to agree on meaningful tax reform. The major political parties agree on the need to increase the amount of revenues available to the government but have major differences on what changes to implement. President Vicente Fox's pro-business Partido Accion Nacional (PAN) and a small faction of the PRI are pushing to extend the value-added tax (impuesto al valor agregado, IVA) to food and medicines.

On the other side of the debate are the PRD and a majority of PRI legislators, who contend that the government could boost revenues by taking other steps such as cracking down on tax evasion and increasing the income tax (impuesto sobre la renta, ISR) on some of the wealthier members of society (see SourceMex, 2002-01-09, 2002-04-10, and 2003-08-06).

The reality is that Mexico has one of the lowest rates of tax collection in the world. In a study published in mid-April, the World Bank said Mexico's tax collection rate stood at 13.2% of GDP in 2001, which is very low considering the size of its economy. The collection rate is on par with countries like El Salvador, Sierra Leone, Albania, and Guinea, the report said.

Still, the bank acknowledged that Mexico made modest progress in 2001, bringing the tax-collection rate up from 12.3% of GDP in 2000. The polling organization Mori, which recently surveyed taxpayers in Mexico and 16 other Latin American countries, said many respondents said they do not pay taxes because they have no confidence that they will be put to good use. On average, 15% of respondents in the 17 countries said they trusted the government to spend tax collections wisely. In Mexico, this rate was only 9%.

The Fox administration, the various political parties, and the governors' association (Confederacion Nacional de Gobernadores, CONAGO) have attempted to address the tax-reform question through a special convention (Convencion Nacional Hacendaria, CNH). The first phase of the CNH, held in early February, established working groups and set the goal of presenting a formal proposal to the Congress in July (see SourceMex, 2004-02-11).

Some analysts and governors have become concerned that the growing animosity among the political parties could set back any progress that has been made thus far in the CNH working groups. Speaking at a meeting of economists in Hidalgo state, Govs. Patricio Martinez of Chihuahua and Ricardo Monreal of Zacatecas said they were growing increasingly pessimistic about the CNH's chances of success.

The Fox administration also expressed some concern that political tensions would contaminate the process. "There is always the risk that political factors will create difficulties and even present an obstacle to success of the CNH," said Fernando Elizondo, who was appointed by Fox to the administration's liaison with the tax convention. Beginning on May 1, CNH participants will begin to analyze 150 documents that were developed through the consultation process. Elizondo was cautiously optimistic that a consensus on tax reform would begin to develop in June and July. "It is
important that expectations not be too high, so we can properly evaluate what has been proposed," he said. (Sources: Notimex, 04/14/04; Unomasuno, 04/15/04, 04/16/04; El Independiente, La Jornada, 04/16/04; Agencia de noticias Proceso, 04/22/04; El Financiero, 03/01/04, 04/16/04, 04/27/04; Spanish news service EFE, 04/27/04; El Sol de Mexico, 04/15/04, 04/16/04, 04/28/04; El Universal, 04/16/04, 04/23/04, 04/28/04)

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