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In Near-Unanimous Vote, Congress Approves Largest Budget in Mexican History

by LADB Staff
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In a near-unanimous vote, the Chamber of Deputies approved the expenditures portion of the 2008 budget, authorizing the executive to spend about 2.57 trillion pesos (US$235 billion) during the year, about 152.5 billion pesos (US$13.9 billion) above the amount requested by President Felipe Calderon. In contrast, the 2007 budget was estimated at 2.32 trillion pesos (US$212 billion). The proposal which contains a large increase in expenditures for social programs, public safety, and tourism takes into account the recently approved tax reform and projections that global oil prices will remain high.

The budget is the largest in Mexican history, administration officials said. Calderon, whose original budget proposal did not include the tax reforms (see SourceMex, 2007-09-26), has said he supports the version approved by the Congress. The changes in the tax code include tax increases for business and gasoline (see SourceMex, 2007-09-19). The expenditures budget (Presupuesto de Egresos de la Federacion), approved by a 449-to-6 margin, with three abstentions, received strong support from all the political parties represented in Congress.

The initiative was approved on Nov. 12, just three days before the Nov. 15 deadline set by the Mexican Constitution. "This budget considers the proposals of all the different political parties," said Chamber of Deputies president Ruth Zavaleta, a member of the center-left Partido de la Revolucion Democratica (PRD).

Six dissenting legislators from the governing Partido Accion Nacional (PAN) cast a "protest" vote, accusing their floor coordinator Hector Larios of giving PRI legislative leader Emilio Gamboa Patron too much say in how the budget was shaped.

Tax reform, high oil revenues help boost spending

In October, the Chamber of Deputies approved the revenues portion of the budget (Ley de Ingresos de la Federacion), which, along with the tax increases, counts on the continuation of high global oil prices. The revenues budget, also set at 2.57 trillion pesos (US$235 billion), assumes an average oil-export price of US$49 per barrel, only slightly higher than the US$46.60 used in the Calderon budget plan.

The Calderon administration said the expenditures approved for 2008 are the largest in Mexico's history. "[This budget] is going to contribute to an increase in economic activity and job creation while reducing Mexico's economic risk," said Finance Secretary Agustin Carstens. He noted that the increase in government spending could help counter the negative effects of an expected economic slowdown in the US in 2008.
In addition to applying the anticipated increase in revenues, legislators funded large increases for social programs, health care, infrastructure, and education by chopping about 3.2 billion pesos (US $293 million) from the budgets of semi-autonomous agencies, including the judiciary (Poder Federal Judicial), the human rights commission (Comision Nacional de Derechos Humanos, CNDH), and the elections watchdog (Instituto Federal Electoral, IFE). Legislators said the cuts were relatively small when compared to the total budget allocated for the agencies, which totals about 47.8 billion pesos (US$4.4 billion).

This compares with the 50.7 billion pesos (US$4.65 billion) contained in Calderon's proposal. A share of the increased expenditures will go toward construction, improvement, and maintenance of highways and to upgrade and expand Mexico's water-distribution system. Funding was increased to 58.3 billion pesos (US$5.3 billion) for the Secretaria de Comunicaciones y Transportes (SCT), which will oversee the highway projects.

**Budget includes programs for poorest states, Tabasco reconstruction**

The Congress approved a special fund of 5 billion pesos (US$486 million) to help reduce poverty in the 10 most marginalized states in Mexico, with the lion's share going to Guerrero, Oaxaca, and Chiapas. Under the program, funds will be allocated for programs to address nutrition and promote agriculture and fisheries, said the official news agency Notimex.

This funding will be in addition to the money that the states already receive under government social programs and from direct allocations to the state governments. Legislators also voted to create a special fund of 1.6 billion pesos (US$146 million) for the areas in Tabasco and Chiapas that were affected by heavy flooding in early November (see SourceMex, 2007-11-07). The funds will be used to assist victims directly and to support reconstruction projects and infrastructure improvements.

The budget provides increased funding for all states, allocated directly from increased tax and oil-export revenues, but imposes strict transparency measures and requires accountability on how the money is spent. Governors will now have to work more closely with the federal government on many programs, said Carstens. The budget places a high priority on improvements in Mexico's educational system. "We want to ensure that everyone has access to secondary education," said Deputy Pablo Trejo Perez, a member of the budget committee (Comision de Presupuesto) in the lower house.

Legislators boosted funding for agriculture and forestry programs, but critics said allocations were not sufficient, given the challenges that Mexican producers would be facing with the scheduled elimination of tariffs on imports of corn, beans, powdered milk, and sugar on Jan. 1, 2008 (see SourceMex, 2006-09-06). Alfonso Ramirez Cuellar, director of the Alianza Nacional de Productores Agropecuarios y Pesqueros-El Barzon, criticized the Congress for failing to propose practical solutions for Mexico's agriculture producers. "The current system of allocating funds through the budget is obsolete," said Ramirez Cuellar. "There is no mechanism to help develop the agricultural sector."

Ramirez said the budget should have contained funding for programs that would help boost the fortunes of producers, including creating a strategic food reserve, improving access to financing,
and combating rural poverty, hunger, and malnutrition. Greenpeace Mexico also criticized the way funds were allocated for forestry because a large share of the money is devoted to reforestation and support for commercial plantations. "Only 20% is allocated for the sustainable maintenance of forests," said the environmental organization. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Nov. 14, reported at 10.89 pesos per US$1.00]

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