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Congress Approves 2011 Budget That Is 60 Billion Pesos above President Felipe Calderón's Request

by *Carlos Navarro*

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Barely meeting the legal deadline of Nov. 15, the Mexican Congress approved an expenditures budget (Presupuesto de Egresos de la Federación) of 3.44 trillion pesos (US\$278 billion). Legislators approved revenues to match the expenditures with the approval of the income budget (Ley de Ingresos de la Federación) in early September. The income-revenues budget is about 60 billion pesos (US\$4.8 billion) above the 3.35 trillion pesos (US\$270 billion) that President Felipe Calderón proposed in September. In contrast, the Congress approved a budget of US\$3.18 trillion pesos (US \$256 billion) for 2010 ([SourceMex, Nov. 18, 2009](#)).

PRI abandoned proposal to lower IVA

A number of controversies arose during the budget deliberations. The biggest concern during discussions on the income portion of the budget was the possibility of a shortfall in government income if the Partido Revolucionario Institucional (PRI) succeeded in rolling back an increase in the value-added tax (impuesto al valor agregado, IVA) approved with the 2010 budget ([SourceMex, Nov. 4, 2009](#)).

In the end, the PRI did not push for the IVA reduction because of strong concerns by some governors of PRI-controlled states. The state executives were worried that a tight budget might threaten federal allocations to the states, especially hampering their ability to respond to natural disasters.

Deputy Francisco Rojas Gutiérrez, PRI floor coordinator in the lower house, said 180 PRI legislators approved the decision to leave the IVA at current levels. The PRI had promised voters to seek the reduction ([SourceMex, Sept. 22, 2010](#)), and Rojas said the decision to abandon this effort would have political costs. But, he added, "We are willing to take them on."

Opposition parties, however, had a different take on the situation, accusing the PRI of attempting to use the budget process, including the push for increased disaster allocations for state governments, to gain sympathy for its candidates in key gubernatorial elections in the states of México and Coahuila in 2011 and enhance its position for the 2012 presidential race. "The plan proposed by the PRI...was intended to guarantee that the party retain the states that it currently governs and also to clear the way for [México state Gov. Enrique Peña Nieto] to run for president in 2012," said Hortensia Aragón, secretary-general of the center-left Partido de la Revolución Democrática (PRD).

Gubernatorial elections are also scheduled next year in the states of Guerrero, Baja California Sur, and Michoacán, all of which are governed by the PRD. The PRI is hoping to run competitive races in all those states. The PRD is planning alliances with the center-right Partido Acción Nacional (PAN) in some of the elections, particularly México state ([SourceMex, Sept. 29, 2010](#)). A coalition of the PAN, PRD, and other parties defeated the PRI in elections in Sinaloa, Puebla, and Oaxaca states in July 2010 ([SourceMex, July 7, 2010](#)).

Rather than reducing the IVA, budget negotiators moved to boost revenues by increasing taxes on cigarettes and other tobacco products and imposing a 25% levy on energy drinks, such as those sold by Red Bull GmbH.

The Congress also modified some economic projections contained in the original blueprint sent by Calderón. The projected average oil-export price was increased to US\$65.40 per barrel, compared with US\$63 proposed by the president, which would increase oil-export revenue by about 11.9 billion pesos (US\$960 million).

The congressional revenues budget also projected economic growth at 3.9% in 2011, compared with the 3.8% put forth by the Secretaría de Hacienda y Crédito Público (SHCP).

Legislators also provided for a deficit of 0.5% of GDP, compared with the president's proposed 0.3% of GDP.

PAN Deputy Roberto Gil Zuarth, a member of the finance committee (Comisión de Hacienda), said the changes gave the Congress the flexibility to add about 60 billion pesos (US\$4.8 billion) to security measures and social programs.

Among the security initiatives that will receive funding in 2011 is a plan proposed by Calderón and several governors to create a single police force (policía única) for each state. This plan would presumably add efficiency to the government effort to combat drug-trafficking organizations and organized crime ([SourceMex, July 28, 2010](#)).

Agriculture allocation controversial for PRI

There was also some controversy during the discussion on the expenditures portion of the budget. The accusations of electoral motives resurfaced after the budget committee voted to shift funds to road construction and repair, especially since one of the states that would benefit is the PRI-governed México state. Other states governed by the PRI that would obtain increased highway funds are Nuevo León, Veracruz, and Tamaulipas.

PRI legislators, led by committee chair Luis Videgaray, pointed out that considerable funds were also allocated for Oaxaca, Chiapas, and Jalisco, three states not governed by the PRI.

But critics suggested that the destination of the funds was not the issue but rather the lack of accountability. "Despite the fact that a large share of the funding [in the 2011 budget] will be monitored, the PRI and the PAN negotiated some additional allocations, which cannot be audited, to states under their control," said the Mexico City daily newspaper .

Still, legislators and the Calderón government agreed that the increased expenditures for highway construction, which will be disbursed via the Programa del Primer Empleo y el Fondo Nacional de Reconstrucción, are intended to boost employment.

Finance Secretary Ernesto Cordero endorsed the expenditures budget, suggesting that the plan will support the goal of economic growth, job creation, and support for small and medium-sized businesses. "This is a responsible budget," said Cordero.

The greater concern for the PRI was a split within its ranks. Some legislators affiliated with the agricultural union Confederación Nacional Campesina (CNC) were angered that PRI leaders ignored the request for increased allocations to the agricultural sector. PRI Deputy Cruz Aguilar, a

CNC leader, was so angered that he threatened to resign from the party and the Congress. Others, such as CNC president-elect Gerardo Sánchez, called for the removal of Rojas Gutiérrez as floor leader. "We are very angry with him because one cannot betray the agriculture sector and act as if nothing happened," said Sánchez, representing 85 PRI legislators in the lower house.

Sánchez later acknowledged that the CNC was not unhappy with the overall allocation of 293 billion pesos (US\$23.7 billion) for agriculture in the 2011 budget but was disappointed with the decision of party leaders not to reassign another 4.4 billion pesos (US\$355 million) that were at play during the budget-deliberation process.

The new budget received a mixed review on international markets. The London-based suggested that Calderón was forced by the Congress to accept a higher fiscal deficit, which might harm Mexico on global credit markets. "That was less than welcome news for Mr. Calderón, whose administration is trying to regain its former rating after two of the world's three leading credit-rating agencies downgraded Mexico last year," said a blog published by the Financial Times.

Other analysts were not as alarmed. "The deficit is manageable," economist Luis Flores of Ixe Grupo Financiero in Mexico City told news service. "Mexico is still sending the signal that it's reducing the deficit."

Flores said Mexico's projected deficit is one of the smallest among the world's major economies. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Nov. 17, 2010, reported at 12.38 pesos per US\$1.00]

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