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Mexican Congress, President Enrique Peña Nieto Reach Easy Agreement on 2013 Budget

by Carlos Navarro

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The Mexican Congress and President Enrique Peña Nieto had a surprisingly easy time reaching agreement on the expenditures and revenues budgets for 2013. The Chamber of Deputies generally approved the budget blueprints sent over by Peña Nieto, adding about 25 billion pesos (US$1.9 billion) in expenditures to the 3.931 trillion (US$309 billion) that the president proposed. There was little dissent among the parties, with the revenues budget passing easily in the lower house by a vote of 417-33 with seven abstentions in mid-December. The revenues budget was approved by a margin of 460-5 with nine abstentions. The two budgets were approved by similarly wide margins in the Senate.

Broad agreement with opposition parties

Legislators said the budget debate took into account input from all parties, allowing the opposition Partido de la Revolución Democrática (PRD) to recommend shifting some funds to programs that it considered a priority. "The revenues budget should focus on infrastructure, schools, and agriculture, with the aim of promoting the demands of the population for education, jobs for young people, and food security," PRD Deputy Fernando Cuellar said during the debate.

But Finance Secretary Luis Videgaray Caso said the PRD’s goals were in line with proposals that Peña Nieto made before the election, which were to boost social spending in his first budget.

"We are looking to add resources to promote investment, economic growth, employment, and new social programs that, in addition to protecting members of the most vulnerable populations, allow them access to the types of training that will help them overcome their condition," Deputy Nuvia Mayorga, a member of the governing Partido Revolucionario Institucional (PRI), said during debate on the expenditures budget. Mayorga chairs the budget committee (Comisión de Presupuesto) in the lower house.

The PRI and the Partido Acción Nacional (PAN) also supported the budget because there were strong provisions governing transparency and an increase in funding for states and municipalities.

And even though some revenues were added and some funding was shifted around, the final budget was acceptable to the administration. On Dec. 22, the day after the revenues budget was passed in the Chamber of Deputies, Videgaray described the final budget as "responsible" and "prudent" and a document that would serve as a basis for stability and growth in 2013.

The Congress reallocated about 38.2 billion pesos (US$3 billion) in expenditures, but this was much smaller than the 100 billion pesos (US$7.8 billion) reallocated in the 2012 budget submitted by former President Felipe Calderón.

The administration and the Congress were on the same page regarding the need to avoid a deficit in 2013, with some mechanisms approved to improve tax collection and incorporate a debt-relief program for citizens who owe back taxes.
Some observers were impressed by the ease by which the budget was approved, but this was partly a function of the president’s move in the first week of his administration to enter into political agreement with all parties in Congress (SourceMex, Dec. 5, 2012).

"The first economic package presented by Peña Nieto broke a record in the time it took to be approved, both the revenues budget, approved on Dec. 7, as well as the expenditures budget, passed on Dec. 20," columnist José Yuste wrote in the Mexico City daily newspaper Excélsior. "The process took less than 15 days."

But Yuste said the task that lies ahead for the Congress and the administration is to approve meaningful fiscal and energy reforms. "This means that we will have strong debate, intense negotiations, and perhaps some dirty play," said the columnist.

**Mexico relieved by US budget deal**

And while the various political parties in Congress avoided a contentious process, an important decision beyond the control of the Chamber of Deputies loomed in the background. Legislators were keeping a close eye on the US Congress and US President Barack Obama’s administration, which during December seemed very far from reaching an agreement on a deficit-reduction package that would avoid the automatic enactment of the Budget Control Act of 2011. A lack of agreement would have triggered automatic budget cuts and tax increases in the US, sending the US economy over the so-called fiscal cliff. While a failure of the US Congress to agree would have had negative consequences for the entire global economy, the situation would have had an especially devastating impact for Mexico, whose economy is very closely tied to the US.

The revenues budget that the Mexican Congress approved in mid-December assumed a GDP growth of 3.5% in 2013 and an average export price of crude oil of US$86 per barrel. The projected oil price was slightly higher than the US$84.90 per barrel proposed by the Peña Nieto government and was intended to bring an additional 4.5 billion pesos (US$351 million).

"The 2013 budget envisioned a real growth of 3.5% in Mexico’s GDP, thanks to the recent dynamism of our internal market and the growth of our exports," said Deputy Víctor Manuel Jorrin, a member of the center-left Movimiento Ciudadano (MC) party.

And while Mexican legislators were debating their own budget, they prompted the Peña Nieto administration to devise a contingency plan to implement in case the US was unable to reach agreement on an emergency budget deal."

"We do not want to begin 2013 with a crisis originating outside our borders," Sen. Miguel Barbosa, PRD coordinator in the upper house, told the administration. "The volatility of financial markets obligates us to follow developments [in the US] so that we can take the appropriate measures to guarantee a good performance for the Mexican economy."

On Dec. 31, the US House of Representatives ratified an agreement that the Obama administration had negotiated with the US Senate, thus preventing the US economy from going over the fiscal cliff. The vote brought a sigh of relief to Mexico.

"Mexico and the world could have faced significant repercussions if this problem had not been solved," economist Iker Cabiedes of JP Morgan told the Mexico City daily newspaper Reforma.
"We can now say that the risk level for 2013 is smaller than what it was in 2012, and that the future is much clearer."

Jorge Dávila, president of the Confederación de Cámaras Nacionales de Comercio, Servicios y Turismo (CONCANACO-SERVYTUR), said the US agreement, along with the country’s strong foreign reserves and the recent stability of Mexico’s economy, bode well for the future.

"We anticipate that the accumulation of reserves will continue during 2013, which would give Mexico sufficient coverage to preserve macroeconomic stability," said Dávila.

Dávila said the US budget crisis was not the only external factor overshadowing the Mexican economy in the past year. He said Mexico was able to withstand the effects of economic emergencies in Europe, including the financial collapse in Greece and the surge in unemployment in Spain.

Some observers see strong growth for Mexico in 2013, especially if additional reforms, such as the energy sector and the fiscal structure, can be enacted. Eduardo Holguin, a columnist for the Mexico City daily newspaper Milenio, said Mexico already had a head start going into the new year because the Congress approved a couple of important reforms, including education and labor (SourceMex, Nov. 14, 2012, and Dec. 12, 2012).

"In 2013, Mexico will shine as the star among emerging countries," said Holguin. "The labor and educational initiatives approved recently and the agenda of structural reforms proposed by the new government have attracted the attention of foreign investors about the potential for the Mexican economy."

"If, in his first 100 days in office, Enrique Peña Nieto is able to keep global expectations for Mexico’s economy high, then we will probably see an increase in the credit rating for our country," added Holguin. [Peso-dollar conversions in this article are based on the Interbank rate in effect on Jan. 8, 2013, reported at 12.80 pesos per US$1.00.]

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