

Mexico is going to need fiscal legislation that is actually complied with

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The country has made great advances in the last twenty or so years in designing an institutional framework that contributes towards having well-ordered public finances. In 2006 the Federal Budget and Fiscal Responsibility Act was passed. It constituted a valiant effort to construct legal mechanisms to force governments in office to avoid committing fiscal excesses. However, this Act has deficiencies which it is necessary to remedy. In the first place, it is not sufficiently restrictive, since it leaves the door open for governments to overrun approved budgets. If they do so they merely have to justify it to Congress. In other words in practice governments can overshoot budgets with relative impunity. In fact this has already happened.

In 2015 the government overshot the limit imposed by law on structural current expenditure by 2.6% in real terms. All it had to do was notify Congress. There is nothing to prevent these limits being exceeded again in the future, even to much greater extents. For this reason I believe the law must be amended. It is quite right to leave some flexibility so that approved budgets can be exceeded. This may be desirable in certain exceptional situations such as natural disasters or significant contractions in economic activity. But what does not seem to me appropriate is for the federal government to be free to take such decisions. This should be done together with Congress. This is the checks and balances function that it must fulfil.

Another limitation of the legal framework as regards fiscal matters is that it grants a broad degree of discretion to the government in executing expenditure. This comes about because the budget is approved each year on the basis of an estimate of fiscal revenues. The point is that if these revenues exceed the estimate, the government is free to spend the surplus at its entire discretion. This is not a theory. It has happened many times. In the past ten years, without exception, expenditure executed has exceeded the expenditure approved by Congress. The excess has been 8% on average. In some years it was as much as 12%. In other words, a significant portion of expenditure is executed with discretion and outside the process of debate and approval by Congress.

This must be changed. It is far removed from best fiscal practices and from the spirit of the convention that the legislature should approve the way in which fiscal resources are to be executed. It seems to me that the law needs to be amended so that in normal circumstances, when actual revenues exceed those estimated, the difference is used to reduce public debt. And in exceptional circumstances such as those already referred to, where fiscal expansion might make sense, the spending must be approved by Congress and should be available only for investment, not current spending.

Another shortcoming of the fiscal structure is that budgets are designed with the economic growth estimates prepared by the federal government. Given that the budgets are constructed with objectives expressed in terms of deficit as a percentage of GDP, there may be an incentive to overestimate growth so as to be able to spend more. We have often seen that actual growth is substantially less than that estimated. Of course, estimating economic growth rates is complex, and it is a field in which we economic analysts are often mistaken. Nevertheless, I think it would be better to use growth estimates by people with no incentive to

over- or under-estimate and also to take averages of several economists. In general averages usually smooth out any biases among individual forecasters.

In this regard I think it would be desirable to create an independent fiscal council which among other things would provide the economic growth estimates for use in the preparation of the budget. We have a legal framework in which the institutional checks and balances as regards fiscal matters are not as restrictive as we imagine. It is necessary to correct it.

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