

THE LOWER HOUSE OF CONGRESS APPROVED THE REFORM OF THE FEDERAL BUDGET AND FISCAL RESPONSIBILITY LAW

Today, the Lower House of Congress approved with ample consensus the reform of the Federal Budget and Fiscal Responsibility Law sent by this Administration as part of the Fiscal and Social Security Reform. The reform of the Federal Budget and Fiscal Responsibility Law strengthens macroeconomic stability, grants credibility and transparency to the evolution of expenditure and public finances in our country, and establishes fiscal discipline as a State Policy.

The proposal, improved by the responsible efforts of the Lower House of Congress, strengthens the current budget balance rule, by adding a current expenditure cap. This cap ensures a return to balanced budget in the medium term and assures an improvement in spending quality. Second, the Public Sector Borrowing Requirements (PSBR) is established as a fiscal anchor that guarantees a sound management of public finances in the medium term. Third, the mechanism of distribution and savings of excess revenues are simplified. The reform also creates a Sovereign Wealth Fund in order to manage medium term contingencies on public finances. These modifications do not affect the current distribution of excess revenues between the Federal Government and Subnational governments.

The Lower House of Congress improved the initial proposal by establishing a numeric current expenditure cap for 2015 and 2016 of 2.5% annual growth in real terms. From 2017 onwards, this growth rate is limited to the growth rate of potential GDP.

Furthermore, the Lower House of Congress established that the excess revenues of the Federal Government would be directed, as a first instance, towards reducing the projected deficit for fiscal years 2014-2016. This reaffirms the commitment of Mexico with sound public finances.

The modifications made to the reform proposal improve the institutional framework of our country's fiscal policy and strengthens the management of macroeconomic risks.

In sum, the Ministry of Finance and Public Credit reinforces its commitment with macroeconomic stability and the responsible management of public finances as a necessary and fundamental element for sustainable economic growth and the wellbeing of Mexican families.
