

Government Finances

Revenue, Expenditure and Financing of the Public Sector Conventional Methodology

I. Analytical Framework, Concepts, Definitions and Classifications

▣ **Analytical framework.** The "Update on Government Finance Statistics" (Estadísticas Oportunas de Finanzas Públicas) reflect uniform criteria for compiling, classifying, and grouping the operations of the Central Nonfinancial Public Sector with other sectors of the economy. The main objective is to measure the sector's use of financial resources by the overall balance; and to ascertain the structure of the determinants of the overall balance (revenue and expenditure), as well as its financing sources. Within a set of established economic, functional, and institutional criteria, and in line with the budgetary practices in Mexico.

▣ **Classification system.**

Revenue is classified according to the Federal Tax Code (Código Fiscal de la Federación), as taxes, contributions to social security, and nontax revenue. By institution, revenue is compiled for Federal Government (tax and non-tax) and nonfinancial public entities or state entities (Pemex and other entities). On the other hand, expenditure is classified according to Expenditure Purpose Classification Code in force, which let to identify the expenditure by economic type, that is current and capital as well as its classification by subcategories (wages and salaries, materials and supplies, general services, transfers and physical investment). Financing is divided into domestic and external; the former is subdivided into Central Bank, private sector, and banks and other financial institutions.

Institutional classification follows the Expenditure Policy Guidelines (Lineamientos de Política de Gasto) for a particular year. For budgetary purposes, it classifies Federal Government expenditure into administrative and general sectors; the former corresponds to the activities of a particular agency, while the latter corresponds to global outlays, such as the public debt that cannot be associated with the activities of any one agency. On the other hand, the expenditure of bodies and enterprises under direct budgetary control may be identified by entity.

Government expenditure, in turn, is divided into programmable and non-programmable. The first is directly associated to a public program to fulfill government administration or to perform social and productive activities, the latter are outlays that cannot be associated as part of some specific program and that refer to interest payments, transfers to states and local governments, debts from previous fiscal years, and third party expenditure.

Relationship with international methodologies: The current classification of revenue and expenditure used to compile the central nonfinancial public sector data generally is according to the international guidelines. However, some particular features are separated out from these, because the information is also used to examine the federal public budget.

Estadísticas de Finanzas Pública: Metodología

II. Scope of the Data

Institutional coverage of the central nonfinancial public sector: Information includes the financing operations of the Federal Government and its nonfinancial public entities producing goods and services for the market and/or nonprofit enterprises (parastate). The Federal Government comprises the Legislative, Judicial, and Executive branches and autonomous organs. The Executive branch comprises the Presidency of the Republic, the Federal Attorney General, State Secretariats, and decentralized bodies. The public

enterprises comprises entities under direct budgetary control, which includes social security institutes, and entities under indirect budgetary control, highlighting Pronósticos para la Asistencia Pública, Hospital General de México, Servicio Postal Mexicano and Telecomunicaciones de México.

The Federal Government and entities whose budgets are included in the Expenditure Budget of the Federation are subject to direct budgetary control, and therefore subject to Legislative approval, monitoring, control, and evaluation. Those entities whose budgets are not included in the Expenditure Budget of the Federation, but receive Federal support, are under indirect budgetary control by the Executive through sectional coordinating agencies.

III. Accounting Conventions

Basis for recording: The deficit/surplus, the revenue, the expenditure and the financing are shown on a modified cash basis, that is, for budget monitoring purposes, they include transactions in cash, compensated transactions between receipt-outlay and between outlay-financing, and operations in kind, last ones are market valued.

Period for recording: The recording period refers to the calendar year only.

Valuation of foreign currency transactions: In reconciling central government data with public debt and monetary statistics, the flow of external and domestic indebtedness denominated in foreign currency is revalued to eliminate exchange rate fluctuations effect. Thus, the final net indebtedness is obtained using the monthly average exchange rate for conversion of foreign currency flows published by the Banco de Mexico.

IV. IV. Nature of Basic Data.

▣ **Sources of data:** The basic information for the Federal Government is obtained from the Treasury of the Federation via Certified Accounts Payable, transactions with various Banking Institutions, and agreements and official letters regarding Disbursement of Funds. This information is supplemented with financial reports based on the accounting records of local tax collecting administrations, customs, state treasuries, tax collection agencies of the Treasury and the Office of the General Management for Coordination with Federal Entities. Likewise, the Resources and Liabilities Data of the banking system are supplied by Banco de Mexico, as well as get from Public Debt Statistics. Information of bodies and enterprise under direct and indirect budgetary control is obtained from the Integral Information System, this is the mechanism through which the agencies and entities of the Federal Government Administration report to the bureaus whose function it is to gather financial and real sector data on the public sector.

V. Compilation practices

Adjustments for grossing transaction:

▣ Public balance (net financing) is the difference between the placement of securities and principal amortization, plus the change in liquid assets, these assets measured out by the financial system data.

▣ Federation establish the revenues by law; even though, there are fiscal coordination agreements under which other levels of government may be responsible for some tax collection and may have complete autonomy with respect to the use of the funds.

▣ Non-tax revenue is established by Law; even though, may be derived from administrative fees and charges not proportional to the service rendered.

▣ Actual fiscal revenue is shown net of fiscal subsidies (as the credit to salary), and implicit by prices and rates.

▣ Expenditure includes non-operating transactions, as operations behalf of third parties

and transactions pending classification which can not be classified timely.

Financial cost item includes interests payments, commissions and outlays of public debt, as well as the fiscal cost derived from the support programs to debtors of the bank and financial healthiness. Thus, the primary balance obtained from the statistics let measure the actual fiscal effort, by elimination of the expenditures associated to fiscal acts of previous years.

Loans granted are registered as expenditure, while repayments are recorded under nontax revenue, in the capital repayment item.

Adjustments for netting transactions:

Consolidation of the units of the central nonfinancial public sector is based on the principle that revenue reflects the original source of funds and expenditure their final use. Thus, expenditure in the form of payments of duties and remittances by state entities to the Federal Government; and outlays by the Federal Government in the form of transfers and contributions to public enterprises are eliminated in consolidation.

Revenue and expenditure are recorded net of tax refunds and purchases of merchandise for resale. Data do not include the financial costs, which represent receipts and payments for the government on behalf of third parties (for instance, when the government acts as an agent).

From 2001, nonfinancial public entities expenditure includes the net amount (positive or negative) of the operations made on behalf of third parties and the recoverable outlays. Beforehand only recorded positive amounts both on revenue and expenditure.

Others:

Coverage in the Update Government Finance and Public Debt Statistics refers to the "Nonfinancial Public Sector," with the "Federal Government" and the "State Entities" separately identified. Furthermore, enough information is provided to estimate the total revenue and expenditure of the public sector under direct and indirect budgetary control.

VI. Other aspects

Other relevant information:

Coverage of the government finance statistics is part from the Public Sector Financing Requirements, which are presented quarterly on Update on Government Finance and Public Debt Statistics, including all the institutions and activities of the Federal Public Sector.