

The MoF published its FY 2016 spending budget structure

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- Yesterday the Ministry of Finance (MoF) sent to the Lower House the new 2016 spending budget structure
- It includes a reengineering of public spending with a focus on “base budgeting”, reducing the number of budget programs by 22.4%
- The new structure will help to manage public resources more efficiently
- Moreover, the federal government reinforces its commitment to have healthy public finances
- In our opinion, this new scheme will optimize public spending in order to mitigate the impact of lower oil-related revenues

The MoF published its FY 2016 spending budget structure. According to the *Federal Budget and Fiscal Responsibility Law*, the Ministry of Finance sent yesterday to the Lower House its FY 2016 spending budget structure. This document aims to achieve a more efficient spending pattern to offset lower revenues that will be obtained due to lower oil prices.

Includes a reengineering of public spending with a focus on “base budgeting”. The new program structure elaborated by the Ministry of Finance (MoF) was elaborated with a focus on “base budgeting”. The main objectives are: (1) Allocating resources efficiently while being consistent with the *National Development Plan*; (2) strengthening the operating efficiency of federal public service; (3) reduce costs and implement austerity measures in the federal government; (4) give priority to social and productive programs; and (5) continue promoting infrastructure investments. We highlight that for the next year, the MoF plans to reduce the number of budget programs by 22.4%, that currently exist with a total of 851 instead of 1,097 this year, while modifying various branches of the budget, as shown in the following table.

Programs of the budget structure in 2016

Branch	2016	2015	% yoy
Total	851	1,097	-22.4
Administrative branches and institutions of direct control	605	818	-26.0
Administrative branches	565	752	-24.9
Direct control institutions	40	66	-39.4
General branches	96	121	-20.7
Independent branches	70	71	-1.4
Productive Firms of the Mexican State	46	52	-11.5
General branches (non-programmable expenditure)	24	24	0
INEG*	7	7	0
Federal Court of Fiscal and Administrative Justice	3	4	-25.0

Source: MoF

*Previously INEGI

The new structure will serve to manage public resources more efficiently.

Within the administrative branches and institutions of direct control by the federal government such as *IMSS* and *ISSSTE*, among others, 213 programs that were similar or duplicates would be made, reducing the total amount by 26%. Moreover, the new structure intends to merge 261 programs into only 99 (e.g. the merger of the *Nutritional Support Program* with *PROSPERA*), focusing on 7 programs (including the *Institute of Social Economy* that goes to the *Ministry of Social Development*), removing 56 programs (refer to the table below) and creating 4 new ones (e.g. *National English Program* and the *School Coexistence Program*).

Main removed programs

	MXN bn
Total	391.2
<i>FONE</i> (federal contributions)	377.1
Guerrero Fund	7.0
Government infrastructure projects	3.2
Culture programs in the states (education)	2.1
Quality schools programs	1.5
Safe school program	0.3

Source: MoF

In our opinion, this new scheme will optimize public spending in order to reduce the impact of lower oil-related revenues. The public sector does not observe a significant oil price sensitivity this year as a result of the sharp drop in oil prices, given the purchase of oil hedges at an average price of 76.4d/b. Nevertheless, this scenario is different for 2016, despite spending cuts made by the MoF this year. Mexico will face lower revenues from lower oil prices, but the new structure with a focus on “base budget” would help to optimize public spending, keeping the commitment of the federal government to have healthy public finances and carry out most projects included in the *National Infrastructure Plan*.

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