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Public debt and revenue at the local level

Title of the paper

Control Instruments in Public Debt: Viability of The New Law Financial Discipline of The Federal Entities and Municipalities: The Case of Mexico

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ABSTRACT

In recent years, the problem of public debt at the subnational level is a concern among specialist, private sector, politicians and congressional representatives, since in some cases the states and municipalities have borrowed beyond their financial capacity and may have a risk payment compliance with its obligations; as well as the provision of public goods and services.

This essay is a brief review of the control instruments on public debt, and the main tools of fiscal responsibility are discussed today in the implementation of public policies around the world, especially in the countries with high levels of public debts. In these cases, could be in the subnational level too, for examples in federal regions and with high descentralization. This, caused by weak regulation and poor administrative controls; as well as regional autonomy in local governments.

The first part is a description at the conceptual level, then examination the experience and tools to generate fiscal sustainability and debt control in the states in Mexico. Second, check the behavior of public debt, the implications and proposals in the national legislative level to control this problem. Third, the recent law passed by Congress that defines the regulation that apply to subnational governments and their implications.

Finally, consider what are the challenges that will face these governments to implement real controls that inhibit excessive public debt to finance public policies in their territories.

INTRODUCTION

The public debt is one of the main outstanding instruments of economic policy, which can be a powerful mechanism to efficiently reach the goals of the local governments (finance infrastructure investments), or to finance extraordinary events as are the financial crises or natural disaster. However, can also cause serious damage if it does not have adequate control and has problem to finance public goods. They note that poor implementation and management of public credit can have serious implications for the over-indebtedness in the short and long term.

At the subnational level, Zhao (2012) defines fiscal sustainability as the long-term capacity of state and local governments to provide public services demand and willing to have a balance in revenues and expenditures of the public sector over the weather. For its Coronado part (2009) in a paper for the *Programme for Capacity Analysis and Debt Strategy for Heavily Indebted Poor Countries* defines sustainability of public finances in subnational governments the ability to generate or raise sufficient resources to permanently meet its expenses, and honor the debt service without incurring arrears, renegotiate debt or make a significant fiscal adjustment. Coronado (2009) notes that the sustainability of public finances includes two components: fiscal sustainability (ability to generate sufficient resources) and debt sustainability (a level that does not generate debt payment problems).

Therefore, look for mechanisms in sustainable public finances to inhibit the risk of falling into financial insolvency and default on sub-national governments. In this case, as the recent law can contribute to fiscal sustainability in the long term to finance public policies.

KEYWORDS

México, subnational government, fiscal sustainability, public debt, public policies

I. CONTEXT

The government's agenda is the platform through which political parties offer goods and services to citizens-voters, and these in turn elect the political market the best selection that are related to their preferences. Once elected arise, leaders must translate those campaign promises into action, into concrete policies (World Bank 2010). Therefore, it is highly significant to identify financial mechanisms that will translate into public policy platform of government and how those platforms retain the objectives or lost in the programs contained in the national budget; besides, it is important to analyze budgets are reduced to levels of ineffectiveness in times of crisis.

Then, becomes relevant funding programs and the administration of public finances and public resources for different levels or spheres of government in which a nation is divide. For Valley and Galindo (2010), the literature indicates that the financial difficulties posed by certain sub-national entities, originate in the problems of common resources (common pool resources) as well as budget constraints and weak moral hazard among levels of government.

The country of Mexico is a democratic, federal, representative republic, structured by a (central) federal government, 31 states (sub-national), a Federal District (Mexico City) and 2,457 municipalities (localities) in the territory. These levels of government must implement policies and programs in a government agenda, financed mainly through public funds, in some cases, public-private and social partnership; although not all levels of government have sufficient fiscal resources to generate optimal public spending on public goods and services.

Some subnational governments continues with inertial level of public revenues. This means that public spending in Mexico is growing faster than the growth rate of the economy, that a higher level of activities in the economy higher tax collection possibilities however not the case for some. Meanwhile, the fiscal agreement in Mexico was constructing on a revenue sharing system shares that transfers to sub-national governments a portion of the revenues collected by the central government, contemplating part of oil revenues, in exchange for having renounced the collection of local taxes on income and sales.

In this context, fiscal autonomy has its advantages and disadvantages that allows levels of government whether or not to tax collection capacity, according to the transfer system ever designed. Horizontal or vertical, as well as the design of tax powers of each government level and the corresponding obligations to deliver (spending-financing) public goods and services to citizens on their territory (Musgrave 1989, Rose, Stiglitz 2000).

For the Mexican case, fiscal decentralization has caused, or may cause certain problems, such as fiscal discipline at the subnational governments (Hernandez 2003), the probability that a higher level of government to rescue them if they come into conflict financial, causing the paradox of tragedy of the commons, Hardin (1968). In this context, the finance of the subnational should be rethinking to reduce this weakness. Therefore, it is important to know the implications and risks of excessive public spending without increasing incomes, could cause fiscal imbalances.

Figure 1. Main problems that fiscal sustainability for adjustment

II. ECONOMY POLITY AND PUBLIC DEBT

For North (1993), the institutions are the foundations and pillars that have a direct impact on the development of nations, which allows progress in better public policies. Alessina et al. (1999) consider that fiscal institutions and their design matter in the face of their budgetary performance, for example rigid budgetary processes with hierarchy are an option against institutions that choose collegiate negotiations with larger actors involved, having as effect different results in the pressure the public expenditure, the fiscal revenues and the allocation of transfers.

In this sense, the delimitation of the actions of the institutions in matters of public finance, results are relevant to grant legality to the actions of public entities. Hardin (1968), with "the tragedy of the commons", as well as may also be the only ones that may be eligible for norm consolidation in normativity, or deregulation as exemplified. Lead to principal-agent problems and governance failures that affect the management of public policies and finances.

This also requires the modernization and homologation of the constant legal framework that focuses on the instruments for better performance, oversight, accountability and transparency of public resources. Therefore, in this section, we describe the situation of the legal framework in the federative entities in matters of public debt in order to regulate public debt and its process.

The breakdown of the general equilibrium paradigm that preached the classical school of economics under the assumption of a full employment economy, the issuance of public debt to finance the deficit implies that equilibrium can only be restore through a reduction in the level of demand added, via increase in the level of prices and / or the interest rate. Therefore, it would have to be in a situation of general equilibrium. However, following the financial crisis of the Great Depression in the United States of America in 1929, Keynes (1936) established that government through fiscal policy should act with countercyclical policies to deal with economic cycles, mainly recessions and crises, implementing public expenditure policies.

These reflections of Keynes are pillars in the evolution of fiscal policy to consider more advanced of mechanisms and intervention by the public sector in the economy.

The contribution of Keynes, as reflected by Cuadrado (363: 2003), refers to the temporary imbalance between income and expenditure (deficit / surplus) should be temporally framed in the lower phase of the economy (recession) or upward (expansion) the business cycle. The first works of Keynesian fiscal policy, therefore, mentioned that the "classic notion" of the balanced budget should be replace by an automatic stabilization budget. At the subnational level, Zhao (2012) defines fiscal sustainability as the long-term ability of state and local governments to provide public services demand and willing to have a balance in revenues and expenditures of the public sector over time. Meanwhile, Coronado (2009) defines sustainability of public finances in subnational governments, the ability to generate or raise sufficient resources to meet its expenses permanently, and honor the debt service, without incurring arrears, renegotiate debt or make a significant fiscal adjustment. Such sustainability of public finances must contain two components: the ability to generate sufficient resources (fiscal sustainability) and a level of debt that does not generate payment problems (debt sustainability).

Finally the funds or resources can be easily expropriated by politicians if no suitable control schemes (strict regulatory framework), causing not have incentives to respect and promote pro-cyclical policies (Borensztein, Levy, Panizza, 2007), therefore, they relate that these are political failures (political economy and institutional failures) rather than market failures own. In the same way, the state legislation is order by typology in order to identify the main content of debt laws before to the homogeneous by local legislatures all the concepts of public debt, productive public investment, rigidity of loan contracting, transparency, control mechanisms, debt committees, etc.

IV. LAW IN MEXICO: FRAMEWORK TOWARD FINANCIAL DISCIPLINE OF THE FEDERAL ENTITIES AND MUNICIPALITIES

The Mexican Constitution in article 73 regulates the applicable legislation in matters of federal public debt. For the case of states and municipalities are articles 117 of the same order, in its Fraction VIII, establishes the powers in local legislatures to regulate debt for state and municipal. There is the General Law of Public Debt that regulates only the sphere of the federal government and of the entities of the federal public sector, this law is not applicable for the federative entities and municipalities

In the Mexican federal system, there are three levels of government: federal (central) state (subnational) and municipal (local). Regarding revenue collection, most are charged by the central government, which collects a tax-for the intergovernmental agreement the two main taxes: Value Added Tax (VAT) and income tax (individuals and companies) value addition the central government receives the oil extraction rights of the nation.

The sub-national government has its tax powers supported the lodging tax and payroll tax as well as the possession and purchase of vehicles. As for the (local) municipal governments, they support their own income in property taxes and rights for public entertainment licenses. In addition to the own income levels state and municipal governments receive transfers from the federation: shares and fund contributions and other funds that support regularizables not on average 90% of public spending. A third source of government funding is coming from the debt, which can only be destined to expenses of public investment, which are in the legislation.

The action proposed by the Federal Government has its antecedents in a plan of reforms to implement in this administration. In the political arena as the "Pact for Mexico" pact, which consists of building structural reforms to make the country more competitive. There was an intense exchange of experiences from the academy, the private sector and the government in which they proposed proposals. The lobbying in the Legislative resulted in a year of revision; several proposals were working with greater regulation until those that only had slight changes.

Previously subnational governments were governing by local laws on public debt, there was a disparity in the criteria to consider to acquire debt.

The conclusions caused the Constitutional Reform published on May 27, 2015 in the Official Gazette with the new "Financial Discipline of Federal Entities and Municipalities Law". This last one and the reforms to the Law of Fiscal Coordination, a General Law of Public Debt and General Law of Governmental Accounting, approved by the Congress of the Union of 17 of March of 2016.

The main objective of the law is to create a regulation in terms of financial and financial responsibility, which allows subnational governments to be guide by criteria that encourage responsible management that fosters economic growth and stability in local finances. The new legislation also seeks to promote sustainable local public finances, responsible use of public debt, as well as strengthening accountability and transparency through five main components:

1. **Finance and financial discipline rules:** These rules encourage healthy public finances in subnational governments through principles of financial responsibility.
2. **Alerts System:** This system alerts any risk to the indebtedness of the federative entities and municipalities and obliges to comply with agreements of fiscal responsibility.
3. **Debt and obligations contracting**: It is guaranteed that debt is contracted at the lowest financial cost and in a transparent manner for purposes that have benefits.
4. **Guaranteed State Debt:** The Government of the Republic will give its credit guarantee with the purpose that the states and municipalities have access to cheaper financing.
5. **Public Registry Only:** The registration serves to inscribe and transparent the financing and obligations.

IV. TIPOLOGY

SYSTEM OF ALERTS: Debt control policies in the framework of the new financial discipline law for states and municipalities.

In article, 43 and 44 of the new law establishes the creation of the System of Alerts of the debts registered in a Single Public Registry, according to their level of indebtedness. They will be review the parameters for establish three indicators:

- Indicator of obligations of freely disposable income: The higher the level of leverage, the lower the debt sustainability.
- Debt service indicator on disposable income, to measure the ability to pay, will also include depreciation, interest, and costs
- Indicator of short-term obligations and suppliers on total revenues.

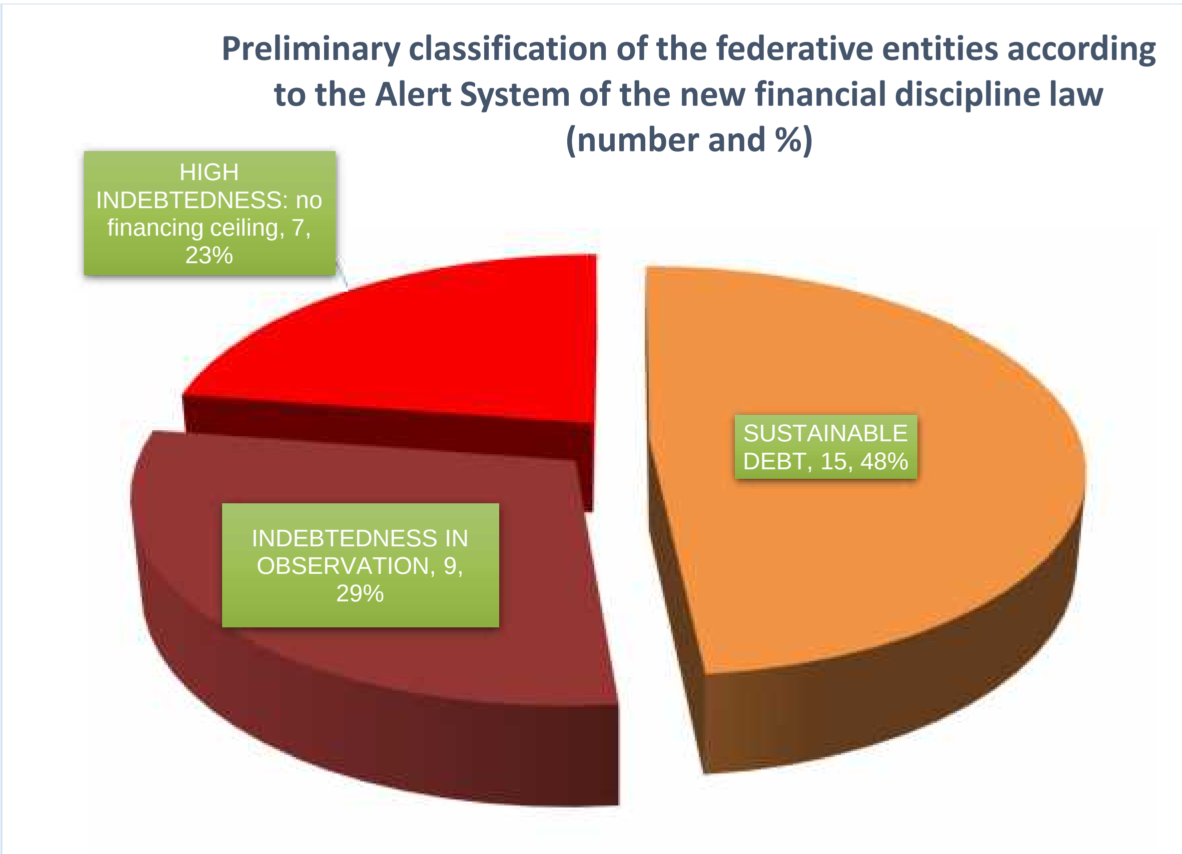
The specific definition of each indicator and its characteristics will be establishing in the regulation issued by the Ministry of Finance. The public entities will be classifying according to the different net annual financing ceiling that defines the status of the classification of the indicator:

Table 1: Preliminary classification of the federative entities according to the Alert System of the new financial discipline law

SUSTAINABLE DEBT: Maximum borrowing ceiling of **15% of Free Disposition Income**	**INDEBTEDNESS IN OBSERVATION:** ceiling of financing maximum of **5% of Free Disposition Income**	**HIGH INDEBTEDNESS:** no financing ceiling
1. Aguascalientes 2. Campeche 3. Colima 4. Durango 5. Guanajuato Guerrero 6. Jalisco 7. Estado de México 8. Puebla 9. Querétaro 10. San Luis Potosí 11. Sinaloa 12. Tabasco 13. Tamaulipas	1. Baja California 2. Baja California Sur 3. Chiapas 4. Ciudad de México 5. Hidalgo 6. Michoacán 7. Morelos 8. Oaxaca 9. Veracruz	1. Coahuila 2. Chihuahua 3. Nayarit 4. Nuevo León 5. Quintana Roo 6. Sonora 7. Zacatecas

14. Tlaxcala 15. Yucatán		
48% ARE SUSTAINABLE DEBT FROM 32	**29% ARE SUSTAINABLE DEBT FROM 32**	**23% ARE SUSTAINABLE DEBT FROM 32**

Source: Prepared with data from CEFP 2016



IV. THE REFORMS THAT CAN IMPROVE THE REFORM

1. The recent reform (2015) of the Financial Discipline Law is devoid of a decrease in the cost of credit.

   In 2015 the rates were in low historical levels (3.32 % interest rate), an excellent moment for renegotiation all the public debt of the subnational governments.

   Have postponed the decision had a cost of 1,471.18 million dollars, because today the interest rate has been growing. Today (7.35%)

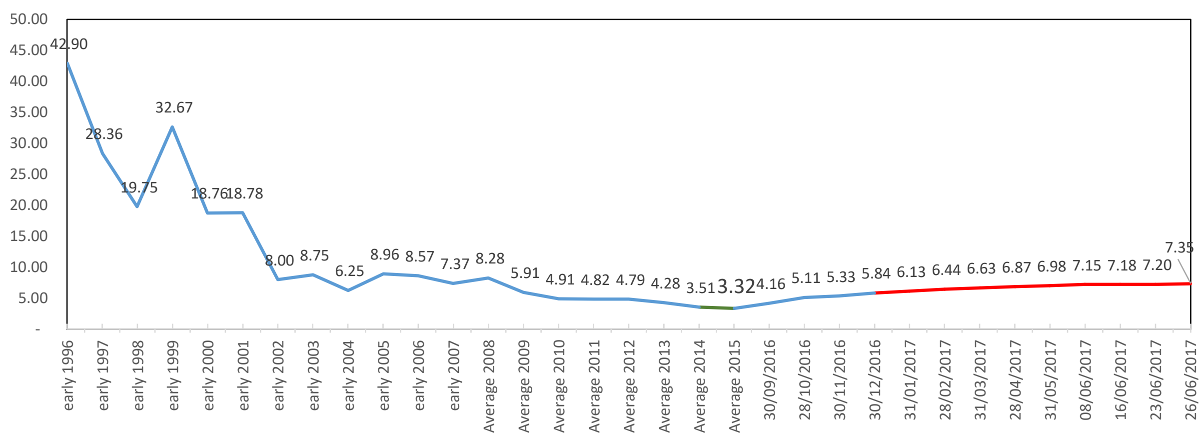
a. Simulation of income release (numerical exercise)

Concept	Rate differential	Million USD Dollar
Cost for waiting Renegotiation of debt	0.04040	1,471.18
Surcharge cost	0.00136	495.25

Evolution of the cost of money (TIIE in Mexico instability) for borrow and finance.

Mexico has experimented high rates in his history

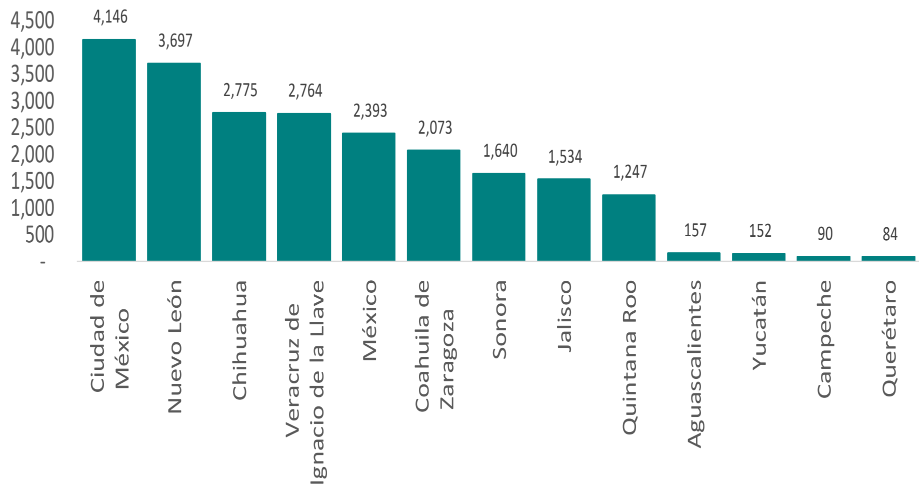
Graphic.- Interest rate in México (1996-2017)



With this facts, Is it time for a fixed interest rate in the public sector?

2. Writing in a law is not necessary a public policy (cost of money)

Graphic. Subnational government Debt (in million dollars)



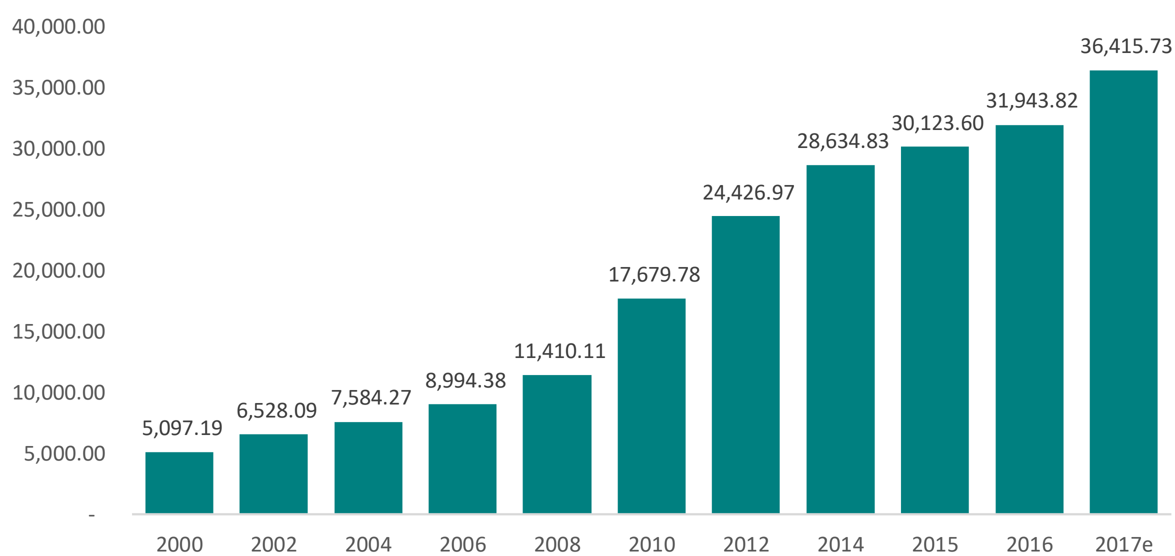
3. Possibilities proposed to improve the fiscal balance, to make state finances more sustainable over time, to have lower debt and to ensure the correct application; one strategic application of the money that will pay in the future. There are many examples of the bad used of the debt in the federative entities: Veracruz, Coahuila, Colima, Quintana Roo, Chihuahua and Michoacan, for example.

4. The other problem is who decides the amounts, the uses, the destinations. Who decides the priorities; is there a consensus that it should be used in infrastructure or equipment. The Local congresses are Democratic structures that Its necessary of high technical human advisors of the local congress either of technical team of the executing areas of the public finances (ministries of finance).

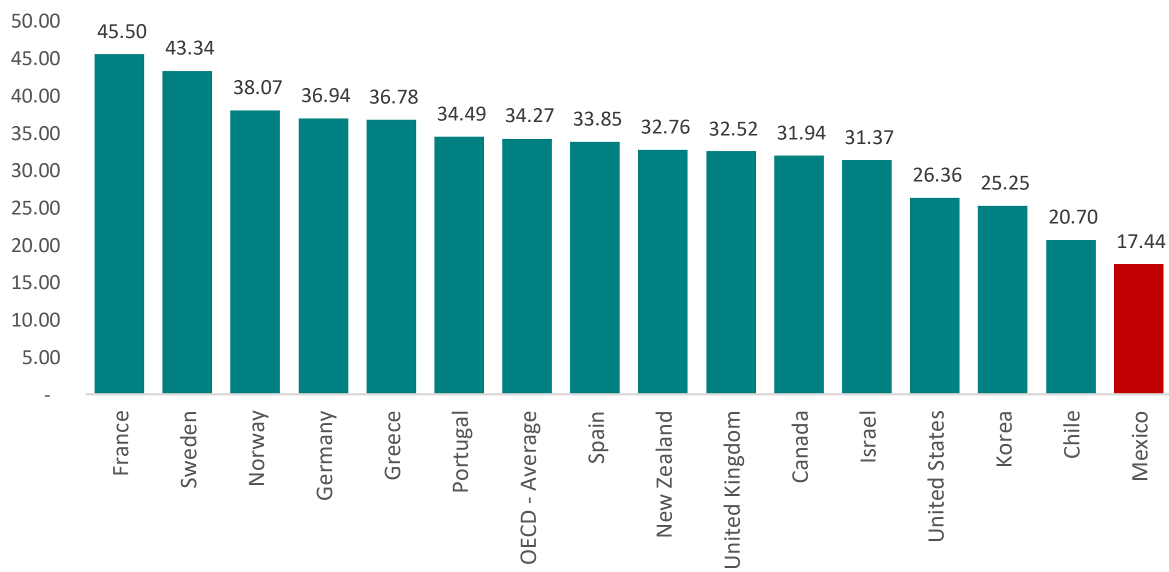
5. The incentives for thinking about the priorities will be to generate. The public debt was increased but the question is always the same, where are the investments. Was the priorities items?

Year	Subnational government debt, Total (million dollars)
2000	5,097.19
2002	6,528.09
2004	7,584.27
2006	8,994.38
2008	11,410.11
2010	17,679.78
2012	24,426.97
2014	28,634.83
2015	30,123.60
2016	31,943.82
2017e	36,415.73

Graphic.- Subnational government debt (2000-2017e), Total (million dollars)



6. The revenue of subnational governments and the fiscal size of the local governments make´s it takes more debt.
    a. Revenue as % GDP in selected countries



The problem is deeper when tha tax collected stay almost only in a federal level of government

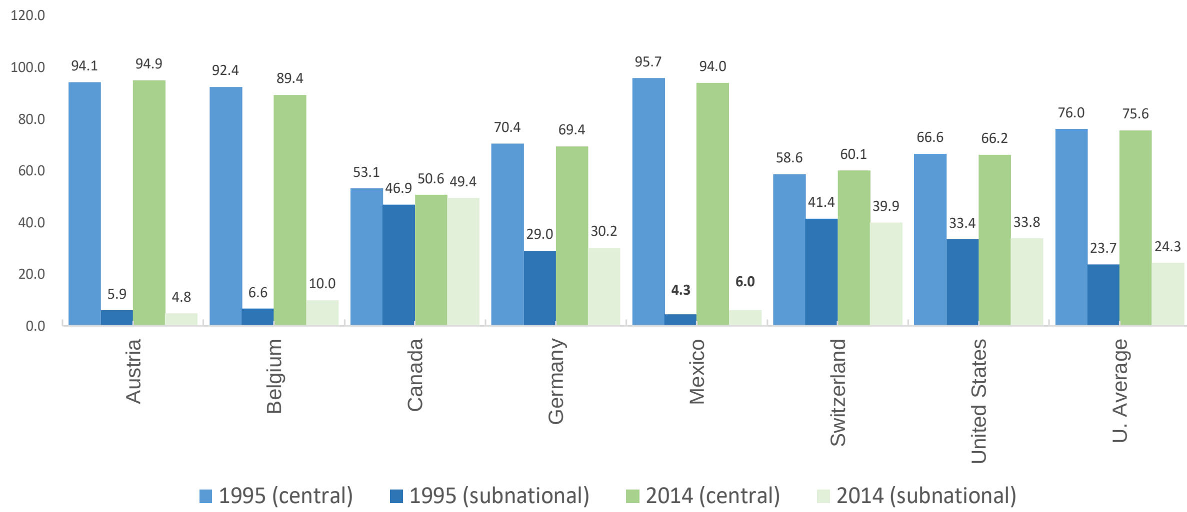
Table.- Tax revenue by level as % of total tax revenue

Country	**National**		**Subnational**	
	1995	**2014**	**1995**	**2014**
Austria	94.07	94.94	5.918	4.776
Belgium	92.37	89.35	6.592	9.958
Canada	53.11	50.60	46.890	49.400
Germany	70.40	69.38	29.009	30.197
Mexico	**95.70**	**93.96**	**4.304**	**6.036**
Switzerland	58.58	60.07	41.416	39.926
United States	66.61	66.19	33.388	33.815
Unweighted average	76.05	75.56	23.749	24.265

The low capacity of subnational government shows the necessary discussion about the federalism fiscal model. The most important income for the subnational governments is a revenue sharing (80% average). And this revenue it's the source of pay in the debt.

In Mexico, the subnational governments only collected 6% as total of tax collected

Graphic.- Tax revenue by government level in federalism countries (1995 and 2014)



Source: Select federalism countries, OECD

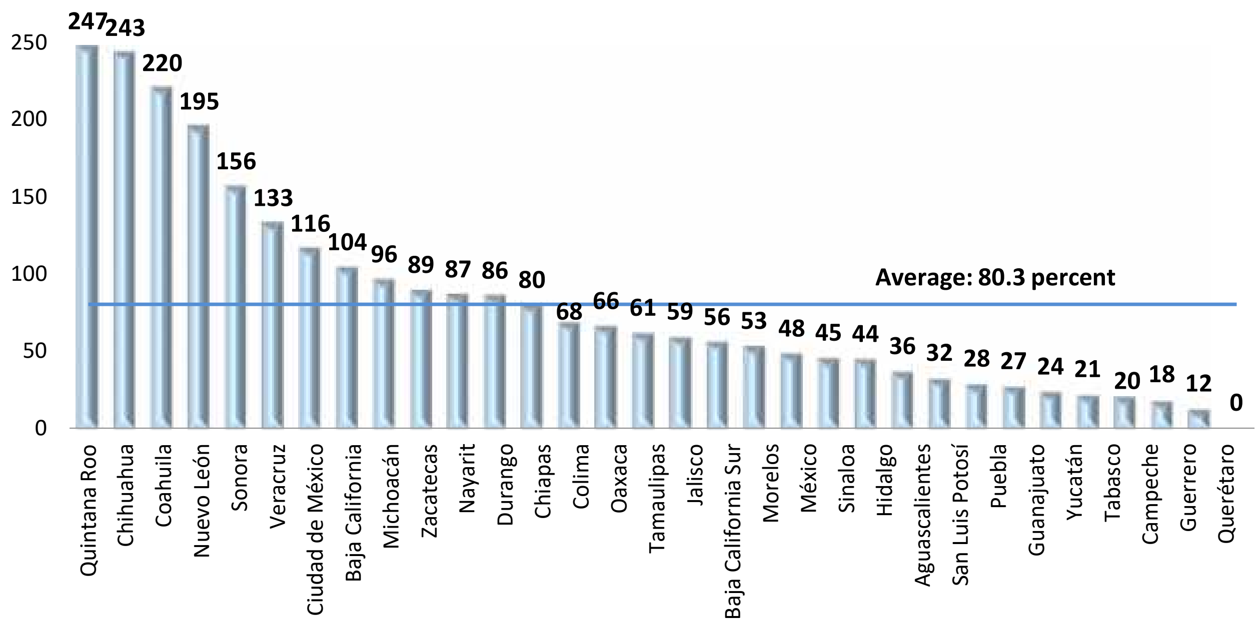
Revenue sharing for subnational governments

Mexican estados and municipalities are entitled to 20 percent of central government tax revenue. This sharing mechanism is called the "Fondo General de Participaciones". The Fund was established in the 1980s when it replaced a set of autonomous state level taxes. The state's share is distributed on the basis of foregone SCG own tax revenues and a number of needs criteria. States and municipalities can use their share freely. The Mexican system would hence be classified as "tax sharing" since the individual proportionality criterion does not hold.[3]

[3] INDING THE DIVIDING LINE BETWEEN TAX SHARING AND GRANTS: A STATISTI CAL INVESTIGATION. Hansjörg Blöchliger and Oliver Petzold. OECD 2009.

The evolution of guarantees of debt in Subnational governments

In our opinion only for a few of cases, the qualification of risk given by agencies to subnational governments it's not indispensable. The guarantee of revenue sharing (participaciones) is a warranty of pay. With exception of eight subnational governments (exceeded of 100% of his revenue sharing (participaciones). The risk will be measured in one *big general subnational* qualification of low risk (A1) .



source: CEFP, Mexican Congress

Blanco said that *Supporting a market approach Mexico's subnational debt framework was substantially reformed in 2000. This reform have fostered the expansion of a domestic credit market for state and municipalities. The previous framework was based on the concept of the mandato (mandates) which consisted in the federal government acting as a trustee in servicing subnational debts that had been collateralized with the unconditional revenue-sharing transfers known as participaciones. In practice, the mandato was perceived by the markets as a guarantee by the federal government of subnational debt. This perception of a very likely federal bailout created two problems: (a) banks had the incentive to provide lending to subnational governments without assessing the borrower's repayment capacity since they perceived them to be risk free; and (b) subnational governments also had the expectation of a bailout since it was not credible that the federal government would in fact reduce transfers in case of a debt crisis.*

The reforms regarding the new regulatory framework for subnational debt were based on two main concepts: an explicit no-bail-out commitment by the federal government and a new system aimed at enabling lenders to correctly assess idiosyncratic subnational risks. These objectives were pursued through (a) the elimination of the mandatos and the creation of subnational governments' Master Trust Funds; (b) establishment of a link between the capital risk weighting of bank loans to subnational governments and their credit rating; (c) and a requirement to register subnational loans with the Ministry of Finance, conditional on being current on financial transparency requirements. The establishment of the Master Trust Fund (MTF) was a key factor to reduce risks and borrowing costs. In March 2000, the federal government approved a Master Trust contract that regulated and established payment procedures for debt issuances guaranteed by tax participations. Each subnational government would establish its own master trust, adjusted to its specific legal environment. With the enactment of this regulation and the creation of the master trust instrument, the central government unveiled the first stage of development for subnational structured financing. The States transfer the flow of Participaciones to the master trust through an irrevocable instruction to the federal treasury, while the municipalities transfer their tax participation flow through an *irrevocable instruction to their state treasury. There is an irrevocable transfer of present and future tax participations, which facilitates the legal analysis of the securitized debt, as it allows the isolation of the payment source from the issuer. Some subnational governments also introduced reforms in their debt laws and fiscal codes to meet the legal requirements harmonizing budgeting, financial management, fiscal codes and debt regulations for the three levels Supply side regulations were also strengthened. In August 2004, the National Banking and Securities Commission (CNBV) introduced changes to the regulations for commercial and development banks on loans to subnational entities. Loans granted to SNGs with outstanding amounts equivalent to or above certain threshold had to be provisioned according to the risk level determined by the credit rating assigned to the SNG by at least one external rating agency. If the SNG was rated by two rating agencies, the lowest rating is the one considered. The new provisioning rule also took into consideration loans that benefit from a credit enhancement mechanism provided by credit or financial assets, such as by the pledging of tax participation revenues. The CNBV risk level was also adjusted depending on the credit, financial, and legal strength of the structure or the guarantee mechanisms for the loan, and penalized the loan or the underlying structured transaction by assigning a high risk level if the indebtedness was rated by only one agency. In October 2011, the provisioning regulations were changed. Loans to SNGs no longer have to be provisioned according to credit ratings but on the basis of expected losses, which depend on the payment history of each entity and its present financial situation. Still, debt of public sector entities represents a high share of private banks' assets. Eight out of the ten larger debtors in the domestic credit market are public sector institutions (6 states and 2 parastatals). Moreover, there are some banking institutions with loans that are extremely concentrated in the states and 3 banks with loans to only one entity that are the equivalent of their base capital. It must be noted, however, that the concentration of loans is by amount and does not consider the credit quality or the guarantees of the financial structures. Credit ratings also reinforced the subnational indebtedness framework based on market discipline. By 2010, all states and a growing number of municipalities had been assigned credit ratings by at least one recognized rating agency. As a result, SN public finances are subject to growing surveillance and scrutiny by* *private markets and rating agencies. Despite this link being modified in 2011, credit ratings are still a factor in determining the cost of borrowing for SNGs. The reforms described above have consolidated a market based approach for subnational lending.*

This approach assumes that financial markets exert fiscal discipline deterring excessive indebtedness through higher interest rates and exclusion from credit markets. For market-based fiscal discipline to work, adequate information on the borrower's outstanding debt and repayment capacity should be available to potential lenders and there should be no perceived chance of a bailout by the central government. The draft bill for SNGs fiscal discipline law mentioned above establishes requirements on establishing a sole Public Registry on debt which will strengthen the quality and uniformity of available information on the indebtedness of these governments. Moreover, compliance with this requirement will be a pre-condition to access federal guarantee on state debt which is introduced by the draft bill.[4]

In addition, the possibility of a great rethinking in the manage of debt is possible. But is depend by the multiple actors in the process. Comprehend the low risk between the subnational governments will be primordial in the next discussions about this topic.

Poor debt decisions have a strong impact on public budgets when the law is general and therefore we do not consider the particularities of subnational governments, there are some structural backwardness. Unequal cases State of Mexico, Tlaxcala (different realities but same source of payment) or also the cases of Jalisco and Colima or Nayarit.

Review the rating agencies in the subnational government's qualification levels for the reason impact the cost of money, even having ensure guarantee schemes for debts of subnational governments.

[4] Subnational Debt Management in Brazil and Mexico, Fernando Blanco, in Subnational Debt Management and Restructuring LESSONS FROM INTERNATIONAL EXPERIENCE. Satu Kahkonen, an Sudarshan Gooptu, World Bank Group 2015.

V. CONCLUSIONS

1. The model of fiscal federalism in México should move towards a model with better prospects for local governments, the central government ceding some opportunities to implement tax powers with opportunities for economic return, such as a percentage of personal income taxes or sales retail. For the other hand, the rating agencies are a heavy burden for subnational governments in determining their risk when they attempt to acquire a debt. Although they are assuring of their debt allocation with their federal transfer income, they are subject to review. Therefore, the risks rating model has to be changed to consider those responsible subnational governments that ensure their payment with the transfers, but are subject to further revisions.

2. The recent reform of the DF law is devoid of a decrease in the cost of credit. In 2015 the rates were in low historical levels (3.32 % interest rate), an excellent moment for renegotiation all the public debt of the subnational governments. Have postponed the decision had a cost of 1,471.18 million dollars, because today the interest rate has been growing. Today (7.35%)

Concept	Rate differential	Million USD Dollar
Cost for waiting Renegotiation of debt	0.04040	1,471.18
Surcharge cost	0.00136	495.25

3. Evolution of the cost of money (TIIE in Mexico instability) for borrow and finance. Mexico has experimented high rates un his history and 2015 was a relevant moment for change the rules of the market debt in subnational governments

    a. Is it time for a fixed interest rate in the public sector?
    b. Writing in a law is not necessary a public policy (cost of money)

4. Possibilities proposed to improve the fiscal balance, to make state finances more sustainable over time, to have lower debt
    a. The problem is not debt itself, it is what a subnational government borrows. Examples of the bad used of the debt in the federative entities: Veracruz, Coahuila, Colima, Quintana Roo, and Chihuahua, Michoacan.

5. The other problem is who decides the amounts, the uses, the destinations.
    a. Who decides the priorities; is there a consensus that it should be used in infrastructure or equipment.
    b. Local congresses, Democratic structures? Professional decisions?
    c. It's necessary of high technical human advisors of the local congress
    d. Quality of technical team of the executing areas of the public finances (ministries of finance).

6. Subnational governments to have some minimum incentives for thinking about the priorities.
    a. What are the mechanisms and incentives for financial planning in subnational governments?
    b. Towards which the new planning should be approached.

7. Origin of the new macro-fiscal rules of the debt.
    a. What the law tried, but did not get the start?
    b. What and which elements are contained in the Financial Discipline Act: origins, beginning, goals, new macro-fiscal rules, new rules, new ways of money costs
8. Review the rating agencies in the subnational government's qualification levels for the reason impact the cost of money, even having ensure guarantee schemes for debts of subnational governments.
    a. The revenue tax by level as % of total tax revenue has changed for give more faculties to the subnational government to make fiscal policy with a major fiscal space
    b. Revenue must increase

The low capacity of subnational government show the necessary discussion about the federalism fiscal model. The most important income for the subnational governments is a revenue sharing (80% average). And this revenue it's the source of pay in the debt.

The evolution of guarantees of debt in Subnational governments

In our opinion only for a few of cases the qualification given by agencies to subnational governments it's not indispensable.

The guarantee of revenue sharing (participaciones) is a warranty of pay exception of eight subnational governments (exceeded of 100% of his revenue sharing (participaciones). The risk will be measured in one *big general subnational* qualification of low risk (A1) .

The possibility of a great rethinking in the manage of debt is possible. But is depend by the multiple actors in the process. Comprehend the low risk between the subnational governments will be primordial in the next discussions about this topic.

9. Poor debt decisions have a strong impact on public budgets when the law is general and therefore we do not consider the particularities of subnational governments, there are some structural backwardness.
    a. How to reach subnational governments in a new reality?
    b. Unequal cases State of Mexico - Tlaxcala (different realities but also source of payment) or also the cases of Jalisco and Colima or Nayarit.

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