Mexico

Type of state	Federal
State / regional government level (number)	States (32) [1]
Local general government levels (number)	Municipalities (2,446)
Total subnational liabilities, 2020 (state/regional + local)	MXN 637.3 billion, (USD 29.7 billion eq.)
Local government outstanding liabilities, *% of total subnational, 2020*	6.82%
Total subnational *liabilities growth*, CPI adjusted, 2016 to 2020	12.08%
Local government liabilities growth, CPI adjusted, period 2016 to 2020[2]	-23.78%

Legal & regulatory environment	• Established framework for managing sub national debt • Municipalities can issue bonds • Federal capacity to verify compliance is limited[3]
Borrowing readiness	• Municipalities have good financial position & low debt[4] • High dependency on fiscal transfers[5] • Limited capacity to raise own revenue[6]
Macro credit conditions	• Relatively low level of financial development for an upper middle-income country[7] • Local government debt is decreasing

Highlights

Despite Mexico's long history as a consolidated federal republic, sub-sovereign debt issuance has only existed for the past 20 years.[8] In the early 2000s, a series of market-oriented reforms facilitated the rapid growth of the market for subnational borrowing.[9] The establishment of Master Trust Funds (MTFs) enabled local governments to borrow against future income from federal transfers. Furthermore, the introduction of subnational credit ratings, along with the obligation to register subnational loans in the public-debt records system of the Ministry of Finance (SHCP), improved transparency, reduced risks, and lowered borrowing costs.[10]

- Municipal governments can borrow from private financial institutions and the national development bank through loans guaranteed by own-source revenues or based on future intergovernmental transfers. Municipalities can also place bonds on the Mexican securities market.
- While Mexico has a total public debt-to-GDP ratio that is slightly above 50%, municipal debt is only 0.2% of GDP and 0.3% of total public debt (2020).
- Since 2018, municipalities' indebtedness is measured by a "Warning System", and the results are registered in the *Registro Público Único* (Single Public Registry).

Borrowing legal & regulatory environment

Overview: The federal system is defined in the Constitution of the United Mexican States, approved in 1917 and revised several times. Mexico has a two-tier system of sub national governments: thirty-two states (including Mexico City) and 2,446 municipalities whose autonomy was recognized by constitutional reforms in 1983 (*Article 115*) and 1999.[11] The major sources of revenue for the municipalities are property taxes and intergovernmental transfers. The Fiscal Coordination Law (*Ley de Coordinación Fiscal*, LCF) established in 1978 a regulatory framework for the distribution of federal resources. The system of intergovernmental transfers In Mexico combines revenue sharing (non-earmarked) transfers (*participaciones*), earmarked transfers (*aportaciones*), and matching transfers (*convenios*).

Participaciones and *aportaciones* account for about 75% of municipal revenue in 2020.[12]

Borrowing framework & process: Municipal government borrowing is partly regulated by the national Constitution. The Federal Constitution and the constitutions and legislation of each state recognize municipal autonomy. The Federal Constitution states that subnational governments can borrow only in Mexican pesos and only from Mexican sources, and they can borrow only for productive investments. *Article 115* of the constitution granted municipalities the ability to contract debt and *Article 117* prohibits subnational entities from contracting debt with foreign institutions.

In addition to the constitution, Mexico's municipal debt framework was substantially reformed in the year 2000,[13] when municipal access to the domestic credit market was expanded. The previous framework relied on the *mandato*, where the federal government acted as a trustee in repaying subnational debts with transfers used as collateral.[14] The *mandato* was perceived as a federal guarantee on subnational debt.[15] In the year 2000, the federal government eliminated the *mandato* and created the Master Trust Funds (MTFs) that established and regulated payment procedures for loans guaranteed by federal transfers (*Participaciones* or *Ramo 28*) to access financing.[16] Therefore, instead of a federal government guarantee, an administrative trust could receive tax-sharing grants and make debt service payments to creditors before municipalities received their transfers. This mechanism could allow municipal bond issues to receive higher ratings than the municipality's general obligation debt. The establishment of the MTFs was critical to reduce risks and borrowing costs.[17] In addition, changes in bank capitalization requirements encouraged banks to scrutinize the credit standing of local government borrowers. Furthermore, in 2004 the National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*, CNBV) revised the regulations for development banks and commercial lending to municipalities. Loans to local governments that surpassed a certain threshold had to be provisioned according to the credit rating assigned to the municipal government by at least one external rating agency.[18]

The *Ley de Disciplina de las Entidades Federativas y los Municipios* (Financial Discipline Law for States and Municipalities: LDEFM, 2016) regulates municipal borrowing in Mexico. The local assembly of each state and municipality is required to perform a debt capacity analysis (LDEFM *Article 23*) and determine potential levels of debt. The LDEFM also establishes a 2.5% debt service limit on total municipal revenues on long term debt (LDEFM *Article 20)* and a 6% total debt stock limit for short term debt (LDEFM *Article 30*).[19] Within this constraint, states can implement different restrictions on municipal debt with their respective *revenue laws* and *public debt laws*. The LDEFM also requires that all credit operations be registered through the SHCP in the *Registro Público Único* (Article 49). Furthermore, borrowing in foreign currency is not permitted (LDEFM *Article 22*).

The Mexican federal *Ley de Concursos Mercantiles* (Bankruptcy law) does not have any special provisions for municipalities or public entities. However, the insolvency laws of each state often contain special provisions on municipal insolvency, especially regarding maintenance of essential public services and creditor rights under general bankruptcy proceedings.

Borrowing restrictions:

<u>General restrictions:</u>

Long-Term Debt Restrictions (Articles. 20 and 22 of the LDEFM*)* on debt contracted for more than one year and intended for productive public investment, as well as for refinancing and restructuring:

- Municipalities may not contract any type of credit with private or government institutions from other countries.[20]
- Financial obligations or debt may only be contracted when the resources are allocated towards productive public investments[21] or refinancing and restructuring of obligations previous financial statements (golden rule).
- Debt can only be contracted in Mexican pesos and therefore, foreign currency debt is prohibited. The LDEFM also rules that all external financing should be contracted through a competitive bidding process.

Short-term debt restrictions (Articles. 2, 22, and 30 of the LDEFM*)* on debt contracted for maximum one year.

- To be repaid no later than three months before the end of the administration's term:
- No new short-term debt may be taken out during the last three months of an administration.
- Short-term debt cannot be guaranteed by federal transfers.
- Debt can only be contracted in Mexican pesos and therefore, foreign currency debt is prohibited.
- Private or government institutions from other countries are not authorized creditors.

Debt Limits:

Long-Term Debt Restrictions

- Debt service limit: 2.5% of total municipal revenue.

Short-term debt restrictions

- Total debt limit: 6% of total municipal revenue.

Borrowing incentives / credit enhancements: Municipalities can commit up to 100% of unconditional federal transfers to loan repayment and must register loans in the Single Public Registry of the SHCP. Debt repayments can be backed by federal transfers (*Participaciones* and in some cases *Aportaciones*).

Penalties related to public debt management: The LDEFM not only establishes provisions on transparency and accountability, but it also regulates sanctions for non-compliance:

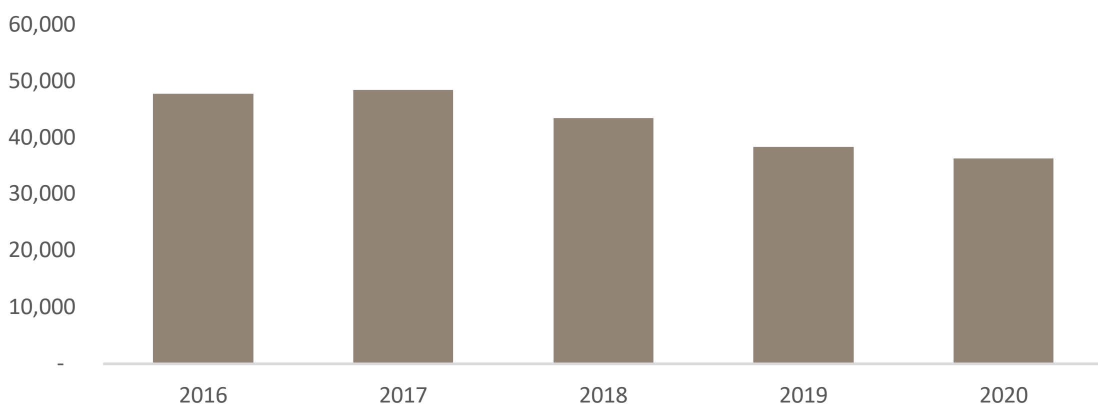
Fiscal penalties (Article 63): The sanctions for non-compliance with the LDEFM will be set in monetary amounts.

Criminal penalties (Article 64): Subnational government officials that break the provisions of the LDEFM are subject to criminal sanctions.

Debt management

Aggregate debt levels: Levels of subnational debt in Mexico are minimal compared to other federal countries (0.2% of GDP in 2020). For example, in Brazil municipal debt was 2.5% of GDP in 2020. However, debt service as a percentage of revenue is 2.4% very close to the limits imposed by law (2.5%). As of December 31st, 2020, the Ministry of Finance reported a total of 620 municipalities with registered financial obligations in the Single Public Registry. Of these, most had debt to revenue ratios below 20% and only 18 had a debt to revenue ratios above 30%. As indicated by Figure 1, municipal debt has decreased in real terms by 24% in the last 5 years.

Figure 1: Mexico: total municipal liabilities (millions of pesos)



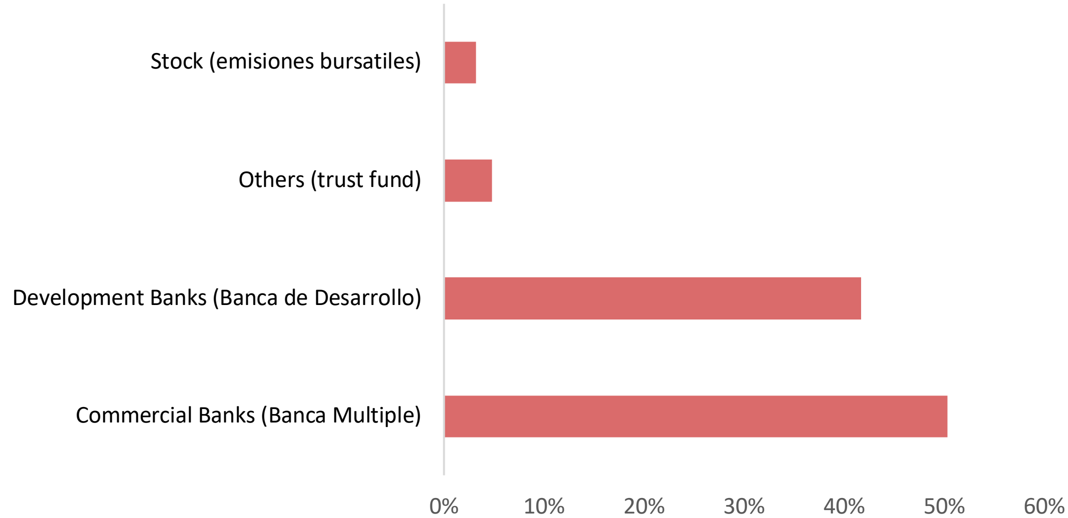
Source: CEFP, 2020. CPI adjusted

Lenders and types of instruments: Mexican municipalities have access to four methods of long-term financing: commercial banks, the national development bank, trust funds and other special purpose vehicles (SPVs), and bonds issued on the Mexican securities market. The two biggest lenders are: i) the largest state-owned bank, National Bank of Public Works and Services (*Banobras*) and ii) commercial banks. In 2020, about 92% of local public debt was owed to one of these two sources.

Commercial banks have a substantial proportion of municipal debt, with 50% of recorded credit to municipalities. Bonds remain a limited option, with about 3% of overall debt. Other types of debt, including trust funds, stand at 5% of the portfolio.

Mexico City is the only local entity to have issued bonds and it did so four times from 2016 to 2020 (mostly green bonds). The Federal Government can issue four different instruments in the local debt market. These include *cetes,*[22] *bonos,*[23] *bondes*,[24] and *udibonos.*[25,26]

Figure 2: Mexico: municipal lenders as percentage of total debt (2020)



Source: CEFP, 2020

Use of Special Purpose Entities and Public-Private Partnerships: The General Transparency and Access to Public Information Law and the Federal Law of Transparency and Access to Public Government Information establish principles, rules, and procedures to guarantee transparency of State-Owned Enterprises (SOEs: a category that includes municipalities) finances. In Mexico, SOEs' budgetary information is gathered by the Ministry of Finance. SOE reporting is included in aggregate form in the Federal Public Treasury Report and in the Financial Liabilities of the Mexican Federal Entities (*Obligaciones Financieras de las Entidades Federativas de México*) prepared by the Ministry of Public Credit and Finance (SHCP) and the Center for the Study of Public Finance (*Centro de Estudios de las Finanzas Públicas*) respectively. Municipal SOEs accounted for 6.5% of total municipal debt in the third trimester of 2020.[27]

The development of PPPs in Mexico, both at the national and subnational level, began in 2004 under the scheme known as Projects for the Provision of *Services* (PPS). The Law on Public-Private Partnerships (2012) amended in 2015; and *Regulation of the* Law on Public-Private Partnerships (2012), amended in 2014 increased participation in PPPs in every level of government in the health, transportation, telecommunications, energy, and environmental sectors. Several States also have sub-state level regulations regarding PPPs.

All budgets for projects must be approved by Congress before being awarded and there is no central PPP unit in the country; each sector and level of government is responsible for project planning, implementation and supervision. Other important agents are the Secretariat of Finance and Public Credit along with the Investment Unit (the latter sets guidelines and policies for each project as well as appraisal and approval), and the Ministry of Public Service (which ensures compliance with the law, monitors transparency, and assists in the event of disputes).[28]

Transparency & open data*:* While data on the debt position and financial performance indicators of the states is often published quarterly on official state websites, this is not a legal requirement for municipalities.[29] The SHCP has increased municipal debt data coverage in recent years. Congress, through the *Centro de Estudios de las Finanzas Publica* (CEFP), publishes an extensive quarterly dataset on local government liabilities.

Following the approval of the Financial Discipline Law (in 2016), the SHCP has put in place a Warning System (Sistema de Alertas), which monitors states' debt and financial obligations.[30] Since 2018, SHCP has made available indicators of financial performance and debt at the municipal level. The Warning System[31] measures the level of indebtedness of the municipalities that have contracted debt, and these are registered in the *Registro Público Único* (Single Public Registry). The LDEFM establishes three short and long-term indicators to measure the Warning System: (1) Public Debt and Obligations on discretionary revenue,[32] (2) Debt Service on Free Disposal Revenue and (3) Short-Term Obligations on Total Revenue.[33]

According to the Warning System in 2018, the municipality of Ensenada,[34] Baja California, was considered by the Ministry of Finance and Public Credit as the only municipality with a high level of debt (red). 63 municipalities were classified with a debt level that was under observation (yellow).[35]

Official, publicly available statistics on liabilities and borrowing				
Item	***Total liabilities***	***Total liabilities breakdown by level of government***	***Sources of borrowing breakdown***	***Borrowing instruments breakdown***
Official source(s)	*Camara de Diputados (CEFP)*	*Camara de Diputados (CEFP)*	*Camara de Diputados (CEFP)*	*Camara de Diputados (CEFP)*
Latest update; (periodicity)	2020, (Quarterly)	2020, (Quarterly)	2020, (Quarterly)	2020, (Quarterly)

Financial & debt management*:* Despite the country's federal organization and the strong decentralized structure, Mexico remains a centralized country. Most spending is delegated and controlled by the federal government. Decentralization at the local level is very limited; local government expenditure and own-source revenue levels are among the lowest of the OECD countries. In 2020, municipal spending accounted for 17% of all subnational government spending and 6.8% of total public spending. Municipal taxes accounted for a very small share of total sub national government revenue.[36] In terms of debt, in 2020, municipalities held only 7% of total subnational debt and 0.3% of total public debt.

Subnational government finances: key ratios (2020)				
Level of government	***Total liabilities, % of total revenue***	***Borrowing (loans & bonds), % of total reported liabilities***	***Debt service, % of total expenditures***	***Operating surplus, % of total revenue***
Local (municipalities)	9%	98%	2.4%	0%
All sub-national governments (municipalities + states)	24%	95%	4%	0%

Source: WB CCI-LGBD

Recent initiatives related to local government access to borrowing

Credit Ratings*:* Since 2010, a growing number of municipalities have been assigned credit ratings by at least one recognized rating agency. As a result, municipal finances are subject to growing surveillance and scrutiny by private markets and rating agencies.[37] As of 2020, Moody's has rated over 30 Mexican municipalities and several municipal public companies.[38] There are more than 2,400 municipalities in Mexico, out of which less than 100 have been assigned credit ratings from international rating agencies.

Main legal provisions	
Approved lenders:	Private Financial Institutions, National Development Bank.
Instruments:	Loans, bonds, loans guaranteed by own-source revenues or based on future transfers.
Central govt guarantee:	Not required or used; municipal debt is not considered a central government liability.[39]
Revenue intercept:	The federal government allows municipalities to implement trust funds backed by federal transfers (*Participaciones* and in some cases *Aportaciones*) to access financing.
Depository account required:	No regulations found.
Insolvency framework:	There is no municipal-focused regime at the federal level, but insolvency laws of each state often contain special provisions on municipal insolvency, especially regarding maintenance of essential public services and creditor rights under general bankruptcy proceedings.
Accounting basis:[40]	The Federal Budget and Fiscal Responsibility Law of 2006 and the General Law of Government Accounting of 2008 provided a framework for accounting harmonization and a transition to accrual accounting. Significant progress has been made in the harmonization of budget classifications and accounting standards across Federal, State and Municipal levels of government but these are only partially aligned with international standards. The transition to accrual accounting has been slower than planned and the path is still uncertain. The National Accounting Harmonization Council (CONAC) comprised of federal, state and municipal authorities is in charge of coordinating the accounting harmonization system proposed in the Government Accounting Act.[41.]
Credit ratings req:	Not required. However, Banobras requires municipalities to have two ratings by different nationally-recognized rating agencies to in order to qualify for the best rates on loans.
Debt stock limit:	6% of total municipal revenue for short term debt (LDEFM Article 30)
New Credit limit:	The municipal debt ceiling is determined by the debt classification of the Alert System (*Sistema de Alertas)* Municipalities rated as having 'stable debt': Financing may be taken up to the equivalent of 15% of municipal freely available income (the sum of own income, *Participaciones*, *Fondo de Estabilización de los Ingresos de las Entidades Federativas* (FEIEF), and resources that are not previously tagged). Municipalities rated as having 'debt in observation': Financing may be taken up to the equivalent of 5% of municipal freely available income. Municipalities rated as having 'elevated debt': cannot contract new debt.
Debt service limit:	Debt service cannot exceed 2.5% of municipal total revenue for long-term debt (LDEFM Article 20).
Debt repayment regulations:	Varies according to States legislations.[42]
Reporting of contingent liabilities	According to the Mexican Financial Reporting Standards ("MFRS"), contingent liabilities are recognized only when it is probable that an outflow of resources will be required to settle the obligation. In other words, contingent liabilities must be estimated and recorded whenever future payment is considered more probable than not.[43] .
Reporting of Joint Ventures & Public Private Partnerships	There is currently no reporting on PPPs in municipal financial statements and fiscal reports. Federal and local governments are working to enhance the accounting framework for PPPs to make it broadly aligned with IPSAS 32.

Significant legal and regulatory instruments	
Laws	
Ley Federal de Deuda Pública (1976)	Outlines the Federal Government's responsibilities for various financing transactions and the subnational level.
Ley de Coordinación Fiscal, LCF (1978)	Establishes a regulatory framework for the distribution of federal resources, as well as formal cooperation between subnational governments and the federal government. The law describes how federal resources need to be distributed among subordinate entities. The main objective of the law is to promote sustainable local public finances and a responsible use of public debt.
Credit Institutions Law (CIL) (1990)	Regulates the banking and credit service; the organization and operation of credit institutions; the activities and transactions that these institutions may carry out; their sound and balanced development; the protection of the public interest, and; the terms in which the central government shall administer the Mexican banking system.
Ley de Concursos Mercantiles (2000)	The Bankruptcy law does not have any special provisions for municipalities or public entities. However, the insolvency laws of each state often contain special provisions on municipal insolvency, especially regarding maintenance of essential public services and creditor rights under general bankruptcy proceedings.
Ley Federal de Presupuesto y Responsabilidad Hacendaria (2006)	The Budget and Fiscal Responsibility Law institutes fiscal targets and limits for indebtedness and deficits; it includes provisions regarding public investment management and mandates the states and municipalities to submit to SHCP information on performance of the federal *Aportaciones* on a quarterly basis.
Ley General de Contabilidad Gubermental (2008)	The General Accountancy Law establishes criteria which governs government accounting and the issuance of financial information the public authorities.
Ley de Disciplina de las Entidades Federativas y los Municipios (LDEFM) (2016)	The LDEFM is the principal federal law that regulates state and municipal borrowing.
Ley Federal de Transparencia y Acceso a la Información Pública (2016)	The Federal Law of Transparency and Access to Information guarantees the right of access to the public information on, *inter alia*, municipal finances.

Organizational roles and responsibilities: debt	
National govt. regulatory & process	
Banco de México	The central bank of Mexico. *Banco de Mexico* is authorized to issue regulations to ensure the sound development of the financial system. As prescribed in the "*Ley del Banco de México*" (LBM), the central bank acts as a financing agent for the Federal Government for issuing, placing, acquiring and selling securities representing the government's domestic debt and for servicing such debt.
Ministry of Finance (Secretaría de Hacienda y Crédito Público (SHCP))	The SHCP regulates the organization and operation of banks (deposit takers) and development banks, and it issues rules for the activities of offices of foreign financial entities and for the establishment of credit institutions and commercial bank

	affiliates. In addition, all municipalities need to register all credit operations through the SHCP in the *Registro Público Único* (*Article 49*).
Main Lenders (2020)	
Commercial banks (*banca múltiple*)[44]	21,875 million pesos (50%) Regulated by the Credit Institutions Law (CLI) Articles 9, 10 and 46
National development banks (*banca de desarrollo*)[45]	18,124 million pesos (41.7%) Regulated by the Credit Institutions Law (CLI) Article 30 of the CLI
Bonds (*emisiones bursatiles*)	1,377.5 million pesos (3.2%) Significant investors: *Casas de Bolsa*: • Authorized by the CNBV and to be dedicated to the intermediation of securities • Articles 114 and 171 of the Securities Market Law (LMV) *Sociedades Operadoras de Fondos de Inversión* (SOFI) • Authorized by the CNBV and to carry out functions of investment funds portfolio management • Articles 33, 34, 39 and 39 Bis of the Investment Funds law (LFI). *Sociedades Distribuidoras de Acciones de Fondos de Inversión* • Authorized by the CNBV to place the securities issued by the Investment Funds among the investing public • Articles 33, 34, 40 and 40 Bis of the Investment Funds law (LFI).
Others[46]/Trust Funds	2,177.9 million pesos (5% of total municipal debt)

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Notes

[1] CCI-LGBD examines borrowing at the local government level. In most countries, this can be broken up into regional governments and local governments. In Mexico's case, "local governments" includes all municipalities.
[2] CPI adjusted numbers with 2016 as base year: www.worldbank.org/en/research/brief/inflation-database
[3] World Bank, 2019
[4] Smith, 2015 and CCI-LGBD, 2020
[5] Giugale, Hernández Trillo, & Oliveira, 2000; Smith, et al, 2019; Cabrero & Carrera, 2002; and CCI-LGBD, 2020
[6] Cabrero & Carrera, 2002; Smith, et al, 2019; World Bank, 2016
[7] IMF, 2018
[8] After the City of Aguascalientes issued the first municipal bond in December 2001, the municipal bond market boomed, with more than 10 new issues in the following two years. The structure of all these new debt issues was relatively similar — all were backed by federal transfers through a master trust mechanism (f*ideicomiso*) established by the Mexican government. The master trust constituted a reliable instrument to ensure that investors in the securities market received their payments on time and according to the stipulated schedule. More importantly, it also allowed ratings agencies to assign the structured issues higher ratings than their municipal issuers.
[9] World Bank, 2019; Quiroga and Smith, 2019
[10] World Bank, 2019
[11] OECD, 2018
[12] INEGI
[13] For a detailed account of these reforms, see Guigale, Hernández, and Oliveira (2000)
[14] Lenders, viewing such loans as backed by the federal government's creditworthiness, paid little attention to the purpose of the borrowing or the credit standing of the municipality.
[15] Revilla, 2013

16 It is worth mentioning that between 65% and 87% of the subnational debt is backed up by federal resources through the Participaciones system.

[17] Quiroga and Smith, 2019; World Bank, 2016

[18] World Bank, 2016

[19] *Article 30*.- The States and Municipalities may undertake short-term financings without the authorization of the State Legislature, as long as the following conditions are fulfilled: I. At all times, the total outstanding balance of the principal amount of these short-term Financings should not exceed 6 percent of the Total Revenue (*Ingresos Totales*) authorized in their Revenue Law (*Ley de Ingresos*).

[20] If a state borrows from an international financial institution, the credit must be channeled through federal government development banks first (so that the forex risk is borne by the federal government and the state does not have any direct obligation to a foreign entity) (Revilla, 2013).

21 Marcelo Giugale et al., Subnational Borrowing and Debt Management, in *ACHIEVEMENTS AND CHALLENGES OF FISCAL DECENTRALIZATION: LESSONS FROM MEXICO* 237, 254 (Marcelo M. Giugale & Steven B. Webb eds., 2000)

[22] Federal Treasury Certificates

[23] Fixed-interest Federal Government Development Bonds

[24] Federal Government Development Bonds

[25] Federal Government Development Bonds denominated in Investment Units

[26] Banco de Mexico, 2014

[27] CEFP, 2020

[28] CAF, 2018

[29] IMF, 2018

[30] IMF, 2018

[31] Regulations for the Early Warning System:
http://disciplinafinanciera.hacienda.gob.mx/work/models/DISCIPLINA_FINANCIERA/Documentos/Normatividad/Reglamento%20del%20Sistema%20de%20Alertas.pdf; For Information data on the Warning System; http://172.22.75.89/es/DISCIPLINA_FINANCIERA/2017SA

[32] Sum of local own revenues, federal shares, as well as the resources of the Stabilization Fund of the Income of the Federal Entities

33 A general explanation of the Alert System measurement methodology is attached in the following document:
https://www.disciplinafinanciera.hacienda.gob.mx/work/models/DISCIPLINA_FINANCIERA/Documentos/SistemaAlertas/2020/Municipio/1S/Metodologia_medicion_SdA.pdf

34 According to the Ministry of Finance and Public Credit, the municipality of Ensenada, Baja California only has a long-term financing. A loan hired with Banco Bansi, S.A. de C.V., I.B.M. on February 4, 2015 in the amount of $665,156,105.00 pesos payable over twenty years and with the purpose of refinancing the public debt of said municipality, as well as for productive public investment and guaranteed with 60% (sixty percent) of the federal contributions to which the municipality is entitled

35 The information presented was obtained from Luis Aroche (2020) whom looked at the records kept by the Ministry of Finance and Public Credit, which make up the alert system that measures the level of indebtedness of public entities, specifically municipalities, as well as the debt registry of this same agency. The financial information is obtained directly from the municipalities themselves.
https://www.disciplinafinanciera.hacienda.gob.mx/es/DISCIPLINA_FINANCIERA// Municipios_2018

[36] OECD, 2019

[37] Blanco, 2016

[38] Moody's, 2020

[39] *Bonos de Protección al Ahorro* (Savings Protection Bonds, BPAs) which, although being issued by this Institute, are covered by a credit guarantee from the Federal Government.

[40] *Ley Federal de Presupuesto y Responsabilidad* Hacendaria (LFRH) Article 110

41 CONAC's Government Accounting Conceptual Framework establishes that the national regulations take precedence over international standards, though national standards are incomplete. Information systems continue to apply modified cash principles. This is of material consequence. The IMF's 2018 Fiscal Transparency Evaluation1 argues that cash-to accrual and coverage adjustments would increase the Mexican public sector deficit by 3.5 percent of GDP in 2016 largely because of significant under registration or delayed registration of payment obligations

[42] Baja California Public Debt law establishes a commitment for the payment of capital and interest derived from operations of financing that constitute Public Debt, resources greater than 10% of the Expenditure Budgets approved in each fiscal year

[43] MFRS C-9 "Provisions, Contingencies and Commitments"

[44] Banca Multiple are Commercial banks approved by Banco de México and authorized by the Federal Government through the National Banking and Securities Commission (CNBV). If a foreign financial institution wishes to operate a subsidiary in national territory, it also must be authorized to do so by the CNBV, having previously consulted Banco de México. These subsidiaries may perform the same operations as commercial banks.

[45] There are currently 9 institutions that make up the Mexican development banking system: *Financiera Nacional de Desarrollo Agropecuario, Rural, Forestal y Pesquero* (FND; *Banco del Bienestar SNC; Banco Nacional de Comercio Exterior, S.N.C. (BANCOMEXT); Banco Nacional de Obras y Servicios Públicos, S.N.C (BANOBRAS); Banco Nacional del Ejército, Fuerza Aérea y Armada, S.N.C. (BANJERCITO); Nacional Financiera, S.N.C (NAFIN); Sociedad Hipotecaria Federal, S.N.C. Fondo de Operaciones y Financiamiento Bancario a la Vivienda (SHF); Fondo de Capitalización e Inversión del Sector Rural (FOCIR); Fideicomisos Instituidos en Relación con la Agricultura (FIRA)*

[46] Others include: Multiple Purpose Financial Companies *SOFOMES E.R*. and *SOFOMES E.N.R*, National Development Financial Entity Agricultural, Rural, Forest and Fisheries, General Warehouse Company, and Money Remitters