

Generational Accounting in Mexico: An update

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Agenda

- Motivation
- Inputs and Assumptions
- Preliminary results
- Conclusions

Motivation

Motivation...

- Historical low taxation levels in Mexico
- **Expected reduction in oil revenues in the near future**
- Proliferation of social programs, high unemployment in formal sectors, informality and low productivity
- **MIGRATION!**

Motivation

- Migration Hypothesis:

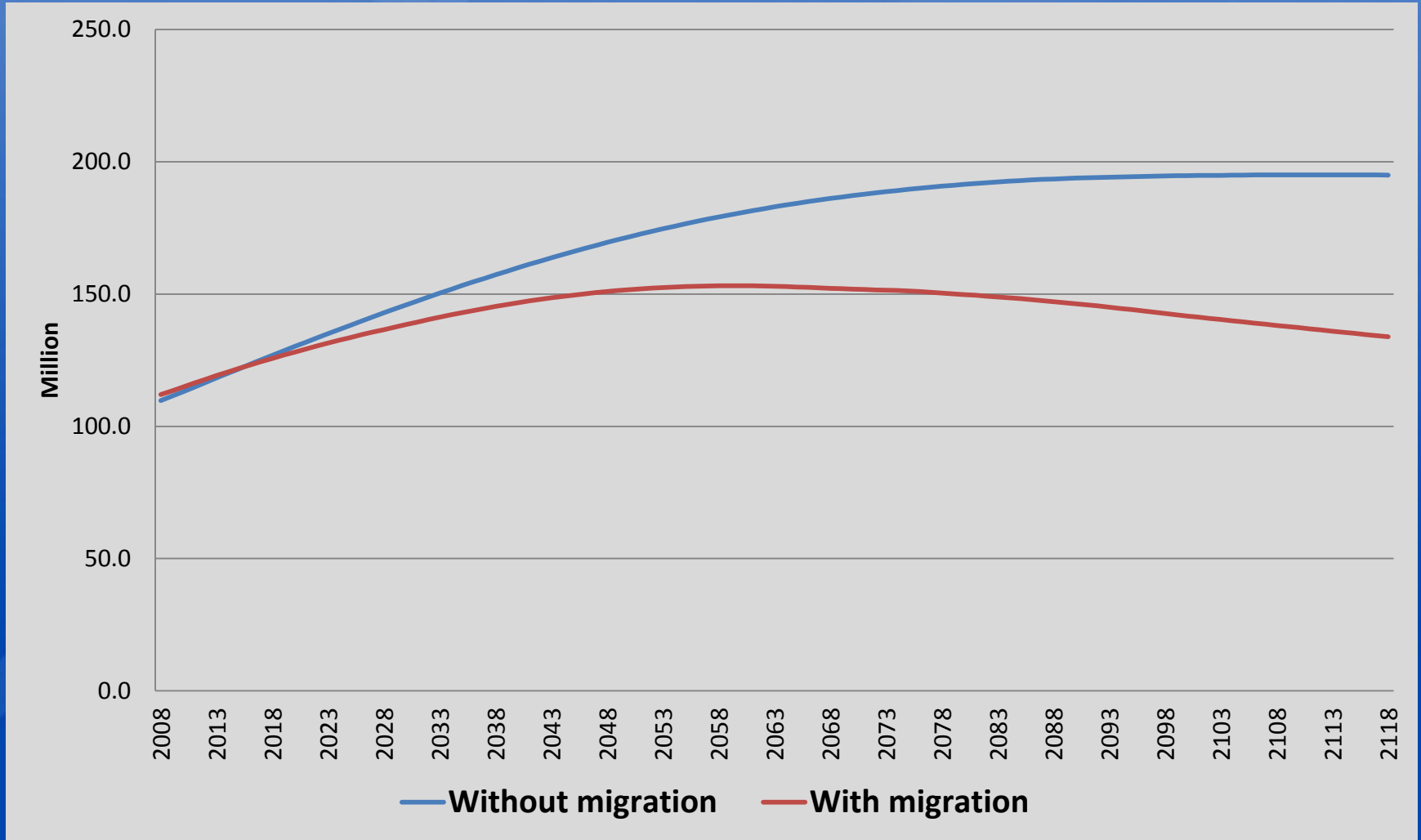
Post-base-year migrants belonging to age cohorts alive in the base year would contribute negatively to the Mexican public financial sector

Inputs and Assumptions

Inputs of the Generational Accounting model

- Population projections by age (and sex)
- Public transfers by age (NTA)
- Taxes by age (NTA)
- Net Wealth
- Public expenditure (not age specific)
- Rate of technological progress: $g=1.5\%$
- Discount rate: $r=5.0\%$
- Benchmark year: 2008

Population Projections



Source: UN-World Population Prospects 2010 and VIRGILIO!



Government Receipts Mexico 2008

Concept	Amount (million)	% GDP
Total Income	2,860,927	23.5
Federal Government	2,049,936	16.8
Tributary	994,552	8.2
Income taxes	626,509	5.1
VAT	457,248	3.8
Other	-89,205	-0.7
Non-tributary	1,055,384	8.7
Public enterprises	810,990	6.7

Government Expenditures

Mexico 2008

Concept	Total (million)	% GDP
Total	2,872,608	23.6
Programmable	2,210,197	18.2
Total current	1,678,214	13.8
Subsidies and transfers	329,998	2.7
Other	1,348,216	11.1
Capital	531,983	4.4
Public investment	373,961	3.1
Financial investment	158,022	1.3
Non-Programmable	662,411	5.4
Financial liabilities	227,113	1.9
Participation to states and municipalities	423,455	3.5
Adefas	11,844	0.1
Public balance	-11,682	-0.1
Primary balance	215,431	1.8
Net public debt	-4,331,690	-35.6

Source: SHCP



Preliminary results

Generational Imbalance in Mexico (very preliminar)

Population projections	Imbalance (%)
With Migration	337
NO migration	-5

Conclusions

Conclusions

- Migration has a BIG impact in the generational balance in Mexico
- The potential contributions of Post-base-year migrants, belonging to age cohorts alive in the base year, would surpass the benefits they might receive in the future
- We need to incorporate a more credible trajectory of oil revenues given the expectation in the reduction of future income

Thank you!

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Aknowledgement:

Prof. Young Jun Chun

Eighth Meeting of the Working Group on Macroeconomic Aspects of
Intergenerational Transfers, Brazil,
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