



MEXICO

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MINISTRY OF FINANCE

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Press Statement by Finance Minister Francisco Gil Díaz

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The Chamber of Deputies recently rejected by a narrow margin the fiscal reform proposal, which has been prepared by the Fiscal Commission of that Chamber. This will have an important effect on the aspirations that the Mexican society had of higher economic growth, more employment creation and a simplified tax structure.

However, the Economic Program that the President submitted to Congress did not contemplate the additional resources that would have been available with a fiscal reform. Therefore, economic and financial stability will be maintained with a fiscal deficit target of 0.3 per cent of GDP. Macroeconomic stability will continue to be the central objective of the economic strategy of this Administration, given that it is considered a necessary condition for growth and for overcoming social needs.

Why do we say that a precious opportunity for the country has been lost with the rejection of the tax reform proposal by the Chamber of Deputies?

Because the reform was aimed at increasing revenues by widening the tax base and reducing rates for the majority of Mexican workers, and not by rising marginal tax rates or by seeking additional resources from those taxpayers who always contribute. The proposal would have exempted 80% of the workers from the income tax and would have created a control mechanism to increase the efficiency of VAT collection, currently diminished by zero tax rates and exemptions on some goods.

Clearly, a better and larger tax revenue collection would have come from the efficiency and simplification gains of the proposed tax system, and not from increased taxation of those taxpayers who already are contributing or from the income of the poorest.

Additionally, the reform proposal included important gains in revenue for State Governments, as the VAT rate reduction would have allowed them to levy a 2 percent local sales tax. This tax would have been used by local state authorities for social expenditures, infrastructure projects and priority needs. Yesterday, we failed to take advantage of such an opportunity.

In this context, greater efforts will be undertaken to consolidate macroeconomic stability, to sustain the real income of families, and to maintain the conditions necessary for economic growth.

Fiscal discipline and a monetary policy consistent with reducing inflation will continue. We will maintain the effort to preserve macroeconomic stability, to promote growth, to stimulate employment, and to increase the population's well-being. These objectives will be accomplished by a prudent expenditure program together with the automatic fiscal expenditure stabilizers, which adjust expenditures every year if revenues fall short of the expectations in the budget.

The Administration will work with Congress to find additional sources of revenue without jeopardizing macroeconomic stability or creating economic distortions. By doing so, we will protect the assets of Mexican families, strengthen Mexico's competitiveness, reduce poverty efficiently, improve public services, and increase infrastructure, according to our population's demands.