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SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO

PRESS RELEASE — Mexico City; November 13th, 2007.

APPROVAL OF THE ECONOMIC PROGRAM FOR 2008

- **On October 30th, 2007, Congress approved the Federation's Revenues Law for 2008 and on November 12th, 2007, the Federation's Expenditures Decree for 2008 was approved by the Chamber of Deputies.**

- **Both ordinances were approved by consensus of all political parties, a signal of the agreement on increasing resources allocated to social and economic development, infrastructure, public security and the environment, maintaining principles of fiscal responsibility by approving a balanced budget.**

- **With the additional resources derived from the approved Public Finance Reform and updating the macroeconomic framework, total public sector revenues approved in the Federation's Revenues Law for 2008 are 9.9 percent higher in real terms than those approved in 2007. The approved revenues that are Ps. 152.5 billion higher than those in the Executive's proposal.**

- **Non oil tax revenues are expected to be 11.5 percent of GDP, the highest level since records exist.**

- **Total Public Spending in the Expenditures Decree for 2008 is Ps. 229.9 billion higher (9.8 percent in real terms) than that authorized by Congress in the previous year. Worth mentioning are the increases of 19.2 percent in Federal Entities shared revenues and 10.5 percent in programmable expenditures. With this, programmable expenditures will be 18.1 percent of GDP, the highest level since 1988.**

- **Those resources obtained from the approved Public Finance Reform as well as the higher projected revenues in the Federation's Revenues Law will allow spending in social development, economic development, public security and the environment to increase by 8.8, 13.6, 39.4 and 30.1 percent, respectively, in comparison with the levels approved for 2007. It is worth noting that budgetary investment will be 45.0 percent higher than the one approved for 2007, reaching 3.6 percent of GDP. Approved public sector's fostered investment will be 5.0 percent of GDP, which implies a**

real annual increase of 24.6 percent. In both cases, they will reach their highest levels in the last 20 years.

- **Resources distributed to the Federal Entities increased by Ps. 53.5 billion with respect to those in the Executive's proposal. Therefore, Federalized Expenditures will be higher than the ones approved for 2007 by Ps. 91.4 billion, which implies a 12.7 percent increase in real terms.**

- **The higher resources in the approved Federation's Revenues Law together with reductions by Ps. 37.8 with respect to the Executive's proposal, will result in spending increases and reallocations by Ps. 190.3 billion. Within, Ps. 53.5 billion will be allocated to the Federal Entities through shared revenues and transfers, Ps. 29.2 billion to investment in PEMEX, Ps. 26.1 billion to Transport and Communications (SCT), Ps. 16.5 billion for public education (SEP), Ps. 13.5 billion to Social Development (SEDESOL), Ps. 10.0 billion to the Environment (Semarnat), Ps. 7.0 billion to Agriculture (SAGARPA), Ps. 5.9 billion to IMSS, Ps. 5.7 billion to Health and Ps. 3.6 billion to Public Security.**

- **The public expenditures policy for 2008 considers a result-oriented spending, which incorporates performance indicators; measures to ensure efficient and prompt expenditure results; it gives continuity to austerity efforts; proposes a gradual incorporation of a gender perspective, and it advances in the reorganization of programs and institutions by giving the priority to those that demonstrate the generation of higher benefits.**

- **The approved economic package is completely in line with the principles of fiscal responsibility that are embedded in the Federal Budget and Fiscal Responsibility Law.**

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Economic Outlook for 2008

The economic program approved for 2008 considers, as projected in the proposal incorporating the Public Finance Reform, that GDP will grow at 3.7 percent in real annual terms. Considering the change in the trend of oil prices observed in recent weeks and consistent with the formula defined in the Federal Budget and Fiscal Responsibility Law, Congress modified the Mexican crude oil mix reference price from 46.6 to 49.0 dollars per barrel. In addition, the platforms of oil production and exports were increased by 5 thousand barrels per day by incorporating the effect that the modification to the Fiscal Regime of PEMEX will have on oil fields that were in the process of abandonment.

Macroeconomic Parameters, 2007-2008

	2007 GEPG	2008	
		GEPG Without PFR*	Approved With PFR
GDP			
Nominal (billion pesos)	9,813.2	10,504.5	10,524.3
Real annual growth %	3.0	3.5	3.7
GDP Deflactor	4.0	3.5	3.5
Inflation			
Dec/dec (%)	3.5	3.0	3.0
Average nominal exhange rate			
Pesos per dollar	11.0	11.3	11.2
Current Account			
Million dollars	-7,398.3	-8,779.2	-8,959.8
% of GDP	-0.8	-1.0	-1.0
Interest Rates			
CETES 28 days (%)	7.2	7.2	7.0
Fiscal Balance	0.0	0.0	0.0
Oil			
Average price (dpb)	54.6	46.6	49.0
Production platform (mbd)	3,162.0	3,129.0	3,134.0
Exports platform (mbd)	1,731.0	1,678.0	1,683.0
U.S. GDP			
Real annual growth %	2.0	2.8	2.8
U.S. Industrial Production			
Real annual growth %	2.0	3.1	3.1

* Public Finance Reform

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The Federation's Revenues Law for 2008

For the 2008 fiscal year, Congress approved total public sector revenues of Ps. 2 trillion 569.5 billion. This amount is Ps. 152.5 billion higher than the one proposed by the Executive and 9.9 percent higher than the one approved for 2007.

The changes that Congress made with respect to the Executive's Initiative are mainly due to an updating of the macroeconomic framework and to the expected Ps. 127.7 billion additional resources derived from the Public Finance Reform approved on September 2007 (see Ministry of Finance Press Release 81/2007). Worth mentioning is that a part of the higher revenues from the Unique Rate Corporate Tax (IETU) will be reflected in a higher Incomer Tax. This is similar to what is observed with the IMPAC and is mainly due to the fact that it facilitates the deduction of tax payments by multinational firms.

Revenues from the Public Finance Reform, 2008

	Ps Bill.	% of GDP
Total (1+2+3+4+5-6-7)	**127.7**	**1.2**
1. IETU	110.6	1.1
1.1 Income Tax	40.9	0.4
1.2 IETU	69.7	0.7
2. Tax on Deposits	2.9	0.0
3. Tax Collection efficiency	21.0	0.2
3.1 Income Tax	14.0	0.1
3.2 VAT	7.0	0.1
4. Federal Excise Tax Law	8.3	0.1
5. Lotteries and Gambling	1.6	0.0
6. IMPAC	15.7	0.1
7. Lower profits from national lotteries (Lotenal and Pronosticos)	1.2	0.0

Total revenues include those from the Unique Rate Corporate Tax (IETU), the tax on cash deposits, the modifications to the federal excise tax and from the new efficiency measures for tax collection derived from the Public Finance Reform. On the other hand, the projected revenue of Federal Electricity Commission (CFE) was reduced, as a result of the reduction in electricity tariffs that will be implemented, as well as a reduction in fees mainly due to the decrease of the non-immigrant fee as well as that paid for issuing a studies completion certificate.

Revenues from the Public Finance Reform, 2008 (Million pesos)	
I. Law Initiative	**2,416,917.6**
II. Approved Modifications	**152,532.6**
1. Public Finance Reform	127,651.1
2. Macroeconomic Frmaework revision	33,492.3
A. Oil Revenues	17,952.4
i. Higher oil price (from 46.6 to 49.0 dpb)	17,103.5
ii. Higher production platform (5 mbd)	848.9
B. Tax Revenues	14,253.3
C. Non tax related revenues	908.2
D. Non oil related entities' revenues	378.4
3. Modifications to the LFD	-810.8
4. CFE Revenues adjustment */	-7,800.0
III. Approved Law (I+II)	**2,569,450.2**

*/ Considers the electricity tariffs reduction.

Within the increase in revenues with respect to the Executive's Initiative of Ps. 152.5 billion, Ps. 26.3 billion are oil related revenues and Ps. 134.7 billion are non oil related revenues, which are partially offset by the Federal Government's non tax related revenues reduction of Ps. 1.9 billion and the decrease in revenues of public entities under direct budgetary control other than PEMEX by Ps. 7.4 billion.

Budgetary Revenues, 2007-2008 (Million pesos of 2008)

	2007	2008		Differences			Growth	
	LIF (1)	Project (2)	LIF (3)	(2-1)	(3-1)	(3-2)	(2/1)	(3/1)
Total	**2,316,756.9**	**2,392,917.6**	**2,545,450.2**	**76,160.7**	**228,693.3**	**152,532.6**	**3.3**	**9.9**
Oil related	845,434.4	839,325.5	865,666.8	-6,108.9	20,232.4	26,341.3	-0.7	2.4
Federal Government	495,315.0	529,961.1	521,023.9	34,646.1	25,708.9	-8,937.2	7.0	5.2
PEMEX	350,119.4	309,364.4	344,642.9	-40,755.0	-5,476.5	35,278.5	-11.6	-1.6
Non Oil related	1,471,322.6	1,553,592.1	1,679,783.4	82,269.5	208,460.8	126,191.3	5.6	14.2
Federal Government	1,069,414.3	1,131,150.3	1,264,763.2	61,736.0	195,348.9	133,612.9	5.8	18.3
Tax related	1,019,085.5	1,073,730.5	1,208,428.6	54,645.0	189,343.1	134,698.1	5.4	18.6
Non tax realted	50,328.7	57,419.8	56,334.6	7,091.1	6,005.9	-1,085.2	14.1	11.9
PEDBC	401,908.3	422,441.8	415,020.2	20,533.5	13,111.9	-7,421.6	5.1	3.3

The modification of the fiscal regime of PEMEX–which has the objective of providing more resources to PEMEX so it strengthens its investment and technology development capabilities - is reflected in a reduction by Ps. 29.2 billion in the Federal Government's revenues and an increase in PEMEX's own revenues for the equivalent amount. The fiscal regime modification implies an oil related revenues increase of Ps. 0.85 billion derived from the new treatment of fields in process of abandonment.

Derived from the expected tax revenues for 2008, the shareable federal collection will reach Ps.1 trillion 531.9 billion, an amount which is Ps. 136.9 billion higher than the one considered in the Executive's initiative and 16 percent higher than the amount approved in 2007.

On the side of public sector net borrowing, the approved Federation's Revenues Law authorizes the Federal Executive net domestic borrowing up to Ps. 220 billion, as well as the necessary amount to finance the Federal Government liabilities associated with the new pension system law (ISSSTE) for public sector workers. The adopted measures will strengthen the management and administration of liabilities in order to continue improving the composition and terms of external public debt, by taking advantage of the financing terms and conditions of international financial organizations, including multilaterals, in order to achieve an external debt reduction goal of at least 500 million dollars.

The Federation's Expenditures Budget for 2008

The Federation's Expenditure Budget approved by Congress for the 2008 fiscal year amounts to Ps. 2 trillion 569.5 billion, an amount Ps. 152.5 billion higher than the Executive's proposal and 9.8 percent higher in real terms than that approved for 2007. This figure is in line with a balanced budget as established by the Federal Budget and Fiscal Responsibility Law.

The approved programmable expenditure for 2008 reaches Ps. 1 trillion 900 billion, amount equivalent to 18.1 percent of GDP. This figure is the highest approved level since 1988 as percentage of GDP, it is 10.5 percent higher in real annual terms than the approved level in 2007 and is Ps. 122.7 billion higher than the Executive's proposal.

The resources destined to the Federal entities will be Ps. 53.5 billion higher with respect to the Executive's Project, of which Ps. 42.5 billion will be in shared revenues and Ps. 11.0 billion from contributions. In this way, the Federalized Expenditure will be Ps. 91.4 billion higher to the approved program of 2007 (12.7 percent higher in real annual terms).

The Chamber of Deputies made spending increases and reallocations by Ps.190.3 billion as a result of higher revenues by Ps. 152.5 billion and reductions in expenditures in some spending areas with respect to the Executive's budget by Ps. 37.8 billion.

Within the expenditure reductions, Ps. 21.7 billion correspond to General expenditures, Ps. 11.5 billion to Administrative branches, Ps. 0.33 billion to Public Entities Under Direct Budgetary Control and Ps. 3.2 billion to Autonomous branches.

Within the spending increases, derived from the expenditure reductions and higher revenues in the Revenues' Law, approved by the Chamber of Deputies the following stand out: Ps. 53.5 billion to Federal Entities through federal contributions and shared revenues, Ps. 29.2 billion to investment in PEMEX, Ps. 26.1 billion to the Communications and Transport Ministry (SCT), Ps. 16.5 billion for the Public Education Ministry (SEP), Ps. 13.5 billion to the Social Development Ministry (SEDESOL), Ps. 10.0 billion to the Environment (Semarnat), Ps. 7.0 billion to Agriculture (SAGARPA), Ps. 5.9 billion to IMSS, Ps. 5.7 billion to Health and Ps. 3.6 billion to Public Security.

Approved Net budgetary expenditures, 2007-2008
(Million pesos of 2008)

	2007 Approved	2008 Project	2008 Modifications: Reductions	2008 Modifications: Expansions	2008 Aproved	Diference between PEF 2008 vs. Project 2008	Real growth PEF 2008 vs. PEF 2007
Total (1+2+3+4-5)	**2,339,527.0**	**2,416,917.6**	**36,749.0**	**189,281.6**	**2,569,450.2**	**152,532.6**	**9.8**
1. Autonomous Branches	***42,355.9***	***50,736.5***	***3,193.6***	***232.0***	***47,774.9***	***-2,961.6***	***12.8***
2. Administrative Branches	***563,610.1***	***575,587.2***	***11,472.3***	***92,399.3***	***656,514.2***	***80,927.0***	***16.5***
Presidency	1,664.8	1,774.8	84.9	0.0	1,689.9	-84.9	1.5
Interior	5,261.2	6,651.7	349.8	435.0	6,736.9	85.2	28.0
Foreign Affairs	5,005.2	5,492.2	144.0	0.0	5,348.2	-144.0	6.9
Finance and Public Credit	35,561.0	35,322.4	1,722.6	2,539.2	36,139.0	816.6	1.6
Defense	33,327.9	34,712.7	51.7	200.0	34,861.0	148.3	4.6
Agriculture	60,428.2	58,369.9	894.1	6,971.5	64,447.3	6,077.4	6.7
Transport and Communications	40,539.0	32,645.9	524.9	26,158.3	58,279.3	25,633.4	43.8
Economy	8,521.3	8,105.3	268.1	2,969.7	10,806.9	2,701.6	26.8
Public Education	157,282.1	159,387.9	2,400.4	16,510.3	173,497.8	14,109.9	10.3
Health	57,528.7	64,686.3	980.1	5,719.9	69,426.1	4,739.8	20.7
Navy	11,334.6	13,420.2	37.5	0.0	13,382.7	-37.5	18.1
Labor	3,347.9	3,529.5	160.0	50.0	3,419.5	-110.0	2.1
Agrarian Reform	4,939.3	4,755.4	145.5	662.9	5,272.8	517.4	6.8
Environment	30,021.6	29,802.3	737.7	10,000.0	39,064.6	9,262.3	30.1
General Attorney	9,539.1	10,100.2	862.4	70.0	9,307.8	-792.4	-2.4
Energy	33,941.1	34,392.7	91.3	1,680.0	35,981.4	1,588.7	6.0
Social Development	36,337.3	37,582.9	542.3	13,048.1	50,088.7	12,505.8	37.8
Tourism	1,886.5	2,927.6	45.2	500.0	3,382.4	454.8	79.3
Public Functions	1,364.3	1,573.2	132.3	80.0	1,520.9	-52.3	11.5
Agrarian Courts	821.8	790.2	65.3	200.0	924.9	134.7	12.5
Fiscal and Administrative federal court	1,067.9	1,355.1	104.3	0.0	1,250.8	-104.3	17.1
Public Security	14,143.0	17,048.7	941.5	3,604.4	19,711.6	2,662.9	39.4
Judicial Council	89.1	106.0	8.5	0.0	97.5	-8.5	9.5
CONACYT	9,657.2	11,053.9	177.9	1,000.0	11,876.0	822.1	23.0
3. General Expenditures	***1,205,224.8***	***1,248,278.1***	***21,754.2***	***61,543.3***	***1,288,067.2***	***39,789.1***	***6.9***
4 Public Entities Under Direct Budgetary Control	***744,756.9***	***759,664.5***	***328.9***	***36,607.0***	***795,942.6***	***36,278.1***	***6.9***
ISSSTE	83,752.1	79,218.8	0.0	0.0	79,218.8	0.0	-5.4
IMSS	246,125.0	266,201.9	0.0	5,886.8	272,088.7	5,886.8	10.5
CFE	197,929.6	205,027.7	0.0	0.0	205,027.7	0.0	3.6
LFC	28,271.3	29,199.1	328.9	1,500.0	30,370.2	1,171.1	7.4
PEMEX	188,678.9	180,017.0	0.0	29,220.2	209,237.2	29,220.2	10.9
5. Subsidies, transfers and contributions to IMSS	***216,420.7***	***217,348.7***	***0.0***	***1,500.0***	***218,848.7***	***1,500.0***	***1.1***

Spending reallocations approved in the Federation's Expenditure Budget for 2008 by the Chamber of Deputies will allow spending in social development, economic development, public security and the environment to increase by 8.8, 13.6, 39.4 and 30.1 percent, respectively, in comparison with those levels approved for 2007. It is worth noting that budgetary investment will be 45.0 percent higher than the one approved for 2007, reaching 3.6 percent of GDP. Approved public sector's fostered investment will be 5.0 percent of GDP, which implies a real annual increase of 24.6 percent. In both cases, they will reach their highest levels in the last 20 years.

The public expenditures policy for 2008 considers a result-oriented spending exercise, which incorporates performance indicators; measures to ensure efficient and prompt expenditure results; it gives continuity to austerity efforts; proposes a gradual incorporation of a gender perspective, and it advances in the reorganization of programs and institutions by giving the priority to those that demonstrate the generation of higher benefits.

Federalized Resources

The federal resources destined to the Federal Entities approved for 2008, composed by contributions and shared revenues, are Ps. 812.3 billion, which implies an increase of 12.7 percent in real terms with respect to the amount approved in 2007. Within, the increase of 19.2 percent in real terms of shared revenues stands out.

Federalized Expenditure, 2007-2008
(Billion pesos of 2008)

	2007	2008		Differences			Growth	
	Approved (1)	Project (2)	Approved (3)	(2-1)	(3-1)	(3-2)	(2/1)	(3/1)
Total	**720,879.2**	**758,831.4**	**812,303.9**	**37,952.2**	**91,424.7**	**53,472.5**	**5.3**	**12.7**
Shared Revenues	335,630.9	357,651.4	400,160.5	22,020.5	64,529.6	42,509.1	6.6	19.2
Contributions	385,248.3	401,180.0	412,143.4	15,931.7	26,895.1	10,963.4	4.1	7.0

Adjustments mechanisms in case revenues are different from the expected value

The adjustment mechanisms in case revenues in 2008 are different from those anticipated in the Revenues Law (LIF) are established in the Federal Budget and Fiscal Responsibility Law, the Federal Duties Law, and the LIF. In particular, excess revenues will be allocated according to the following:

- Excess revenues that have a destination specified by fiscal laws will be allocated to increases in the budgets of the entities that generated them.
- The entities' own excess revenues will be allocated to their budgets.

- The rest of excess revenue will be used, in the first place, to cover higher spending due to natural disasters (when the Natural Disaster Fund is insufficient), higher non-programmable expenditures and higher spending on fuel for electricity generation. The remaining resources will be allocated according to the following rule: 40% to the Oil Revenue Stabilization Fund, 25% to the Federal States Revenues Stabilization Fund, 25% to the Stabilization Fund for Infrastructure Investment spending in PEMEX and 10% to Federal States investment spending.
- The Federal Budget and Fiscal Responsibility Law states that excess revenue will be allocated to the stabilization Funds until they reach the adequate reserve. Then, additional excess revenues will be allocated according to the following: 25% to investment programs and projects of the Federation, 25% to investment programs and projects of the Federal States, 25% to investment projects in PEMEX and 25% to the Pension Restructuring Support Fund.

Conclusions

The Federation's Revenues Law and the Federation's Expenditures Decree for 2008 were approved with the consensus of all political parties, a signal of the agreement on attaining sustainable increases in spending allocated to social and economic development, infrastructure, public security spending and the environment, within a framework of responsible management of public finances.

The economic package approved for 2008 shows that, through a fruitful dialogue and responsible negotiation, the executive and legislative branches can reach the required consensus in order to guarantee a more promising future for all Mexicans.

The approved economic program would result in higher economic growth and job creation, due to an important increase in public infrastructure investment, greater resources channeled to the development of capabilities and security, and the stimulus to private investment derived from an improvement in the expectations on the future economic performance of the Mexican economy. In addition, the structural consolidation of the public finances would be translated into both lower interest rates and sovereign country risk.

Worth noting is that we would observe in 2008 the highest historical level of non-oil tax revenues as percentage of GDP since records exist. This will strengthen the permanent sources of revenues and lead to the highest level of spending in recent years, which will be fundamentally channeled to public investment and social development.