



PROPOSED ECONOMIC PROGRAM FOR 2008

- **TODAY, THE FEDERATION'S REVENUES LAW INITIATIVE, THE EXPENDITURES BUDGET PROJECT FOR 2008 AND THE GENERAL ECONOMIC POLICY GUIDELINES WERE SENT TO CONGRESS.**
- **THE FEDERATION'S REVENUES LAW INITIATIVE AND THE FEDERATION'S EXPENDITURES BUDGET PROJECT DO NOT INCORPORATE THE RESOURCES DERIVED FROM THE PUBLIC FINANCE REFORM. NEVERTHELESS, IN THE MOTIVES EXPOSITION FOR BOTH DOCUMENTS, APPROXIMATE ESTIMATIONS OF THE RESOURCES THAT COULD BE PERCEIVED IN CASE OF THE APPROVAL OF THE PUBLIC FINANCE REFORM AND THEIR POSSIBLE ALLOCATION ARE INCLUDED.**
- **IT IS ANTICIPATED THAT, IN CASE OF THE PUBLIC FINANCE REFORM NOT BEING APPROVED, DURING 2008 A REAL GDP GROWTH RATE OF 3.5%, A 3.0% INFLATION AND AN AVERAGE INTEREST REFERENCE RATE (28-DAY CETES) OF 7.2% WOULD BE OBSERVED. AN AVERAGE REFERENCE PRICE OF 46.6 DOLLARS PER BARREL FOR THE MEXICAN OIL MIX AS WELL AS OIL PRODUCTION AND EXPORTS PLATFORMS OF 3,140 AND 1,678 THOUSAND BARRELS PER DAY, RESPECTIVELY, ARE CONSIDERED.**
- **THE PUBLIC SECTOR OVERALL BALANCE PRESENTED IN THE FEDERATION'S REVENUES LAW INITIATIVE AND THE FEDERATION'S EXPENDITURE BUDGET PROJECT MAINTAINS A BALANCED BUDGET. NEVERTHELESS, IT IS LIKELY THAT THE CLOSING FISCAL YEAR RESULT WOULD BE A PUBLIC SECTOR DEFICIT SINCE TOTAL NET EXPENDITURES WILL BE MODIFIED DURING THE YEAR IN ORDER TO COMPLY WITH THE ESTABLISHED OBLIGATIONS DERIVED FROM ISSSTE'S NEW LAW. SINCE THE NEW LAW WILL CONTRIBUTE TO AN IMPROVEMENT OF THE PUBLIC FINANCES IN FUTURE FISCAL EXERCISES HIGHER THAN THE OUTLAYS THAT IT CREATES, IT QUALIFIES TO BE ONE OF THE ANTICIPATED EXCEPTIONAL SITUATIONS STATED IN ARTICLE 17 OF THE FEDERAL BUDGET AND FISCAL RESPONSIBILITY LAW (LFPRH IN SPANISH) THAT ALLOWS THE PUBLIC BALANCE TO REGISTER A DEFICIT. ALSO, THIS SITUATION IS FORESEEN BY THE NEW ISSSTE LAW.**
- **A REAL 3.3% INCREASE OF TOTAL PUBLIC SECTOR REVENUES IS EXPECTED WITH RESPECT TO THOSE IN THE 2007 REVENUES LAW. ALTHOUGH OIL RELATED REVENUES ARE 0.7% LOWER IN REAL TERMS THAN THOSE APPROVED IN 2007, THIS BEHAVIOUR IS EXPLAINED BY A METHODOLOGICAL CHANGE IN THE CALCULATION OF PEMEX'S NET FINANCIAL COST. WITHOUT THIS MODIFICATION, REVENUES WOULD BE GREATER BY 0.8%. NON-OIL RELATED REVENUES ARE 5.6% HIGHER THAN THE AMOUNT APPROVED IN 2007.**
- **THE PROPOSED NET PAID EXPENDITURES ARE PS. 2,392.9 BILLION, WITH AN INCREASE EQUAL TO THAT EXPECTED FOR TOTAL REVENUES.**



- **PROGRAMMABLE ACCRUED EXPENDITURES EXPANDED 3.4% IN REAL TERMS WITH RESPECT TO THOSE APPROVED FOR 2007. WITHIN THEM, THOSE CHanneled TO ORDER, SECURITY AND JUSTICE, SOCIAL DEVELOPMENT, AND ECONOMIC DEVELOPMENT STAND OUT WITH INCREASES OF 8.1%, 2.7% AND 2.6% IN REAL TERMS WITH RESPECT TO THOSE APPROVED FOR 2007, RESPECTIVELY.**
- **ALSO, IN THE FEDERATION'S EXPENDITURE BUDGET FOR 2008 FISCAL YEAR, AN IMPORTANT AUSTERITY EFFORT IS CONSIDERED: A PS. 10,164.3 MILLION DECREASE IN ADMINISTRATIVE AND OPERATIONAL GOVERNMENT EXPENDITURES IS INCORPORATED. THESE RESOURCES ARE BEING REALLOCATED TO HEALTH, SCIENCE, TECHNOLOGY AND INVESTMENT.**
- **FEDERALIZED SPENDING, REVENUES SHARING, AND RESOURCES TRANSFERRED TO STATES AND MUNICIPALITIES INCREASED 5.7%, 6.6% AND 4.2% IN COMPARISON WITH THOSE APPROVED FOR 2007, RESPECTIVELY**
- **APPROXIMATE ESTIMATIONS OF THE HIGHER REVENUES DERIVED FROM THE PUBLIC FINANCE REFORM SUGGEST THAT THESE WOULD BE OF ABOUT PS. 115.0 BILLION. THE PROPOSAL FOR ALLOCATING THE RESOURCES WOULD RESULT IN A SIGNIFICANT INCREASE IN PUBLIC INVESTMENT EXPENDITURES AND TO THOSE CHanneled TO SOCIAL DEVELOPMENT SUCH AS EDUCATION, HEALTH AND TO THE SUPPORT OF THE POPULATION WITH THE HIGHEST LEVELS OF POVERTY.**
- **THE APPROVAL OF THE PROPOSED PUBLIC FINANCE REFORM WOULD RESULT IN HIGHER ECONOMIC GROWTH AND JOB CREATION. THIS IS DUE TO AN IMPORTANT INCREASE IN PUBLIC INFRASTRUCTURE INVESTMENT, GREATER RESOURCES CHanneled TO THE DEVELOPMENT OF CAPACITIES AND SECURITY, AND THE STIMULUS TO PRIVATE INVESTMENT DERIVED FROM THE IMPROVEMENT IN THE EXPECTATIONS OF THE FUTURE ECONOMIC PERFORMANCE OF THE MEXICAN ECONOMY. ALSO, THE STRUCTURAL CONSOLIDATION OF THE PUBLIC FINANCES WOULD BE TRANSLATED IN LOWER INTEREST RATES AND SOVEREIGN COUNTRY RISK.**



Today, September 8, 2007, the Federal Executive sent to Congress the Federation's Expenditure Budget Project for 2008. This project was elaborated according to the economic projections and strategies contained in the Economic Policy Guidelines for the next fiscal year.

The Mexican Economy in 2007

The maintained dynamism of domestic demand during 2007 sustained the growth rate of output in spite of a lower growth of U.S. industrial production and the deceleration in the national automotive sector during the first quarter of the year. Since the second quarter of this year, these sectors had a more dynamic performance, allowing a substantial recovery of the rate of growth of the Mexican economy with respect to the one observed in the first three months of the year. In this way, during the first half of 2007 the real value of GDP grew 2.7 percent. In seasonally-adjusted terms, during the second quarter of 2007 GDP expanded at a quarterly rate of 1.3 percent, greater than the 0.3 percent registered in the first quarter of this year.

The Mexican economy is expected to grow at an annual rate of 3.0 percent in 2007. This figure is lower than the 3.3 percent growth rate published in the last Quarterly Report on the Public Finances and the Public Debt due to downward revisions in the dynamism of the United States' economy as a result of the recent financial volatility and the absence of a recovery in the real estate sector in that country. The present estimation implies a recovery in Mexico's economic activity throughout 2007, anticipating a GDP annual growth rate of 3.4 percent during the second half of 2007.

Up to August 31 of 2007, the annual increase of employees registered in IMSS was 790,116 people, equivalent to a 5.7 percent increase. With respect to December of 2006, the increase in the number of formal jobs was of 618,473 people (4.4 percent).

During the January-June period of 2007 foreign direct investment was US\$13.2 billion, the highest historical level for a first semester of a year.

At the end of 2007, the traditional public balance is expected to be in balance as a result of total revenues and expenditures of Ps. 2,336.7 billion, complying with the goal approved by Congress.



Total budgetary revenues are expected to be Ps. 98.3 billion higher than the estimation in the 2007 Federation’s Revenue Law (LIF2007). This is the result of higher than approved revenues in all categories. Worthwhile mentioning is that the Income Tax (ISR) is expected to exceed in Ps. 49.4 billion the amount in the approved program.

Budgetary revenues, 2007			
(Billion pesos)			
	Approved	Estimated	Difference
Total	2,238.4	2,336.7	98.3
Oil related	816.8	863.1	46.2
Federal Government	478.6	515.3	36.7
Pemex	338.3	347.8	9.5
Non-oil related	1,421.6	1,473.6	52.1
Federal Government	1,033.3	1,083.4	50.1
Tax revenue	984.6	1,009.2	24.6
Non-tax revenue	48.6	74.1	25.5
PEDBC	388.3	390.3	1.9

Programmable public sector expenditures are expected to exceed the amount approved in the 2007 Federation’s Expenditure Budget (PEF2007) by Ps. 102.6 billion due to the application, according to regulations, of extraordinary revenues estimated by year’s end and a lower non-programmable expenditure. The most important differences with respect to the approved figures are increases of 4.9 and 5.8 percent in pension and capital expenditures, respectively, as well as the 11.3 percent decrease in current operating expenditure.

Non-programmable expenditure is expected to be Ps. 4.3 billion lower than approved for 2007, due to an expected decrease in financial cost of Ps. 10.0 billion, an increase in Deferred Payments (Adefas) of Ps. 4.0 billion and an increase in shareable revenues of Ps. 1.6 billion. In the absence of the third four-monthly adjustment corresponding to the 2006 fiscal year, shareable revenues would be Ps 8.8 billion greater than those in the program.

The public sector borrowing requirements (PSBR) are estimated at 1.7 percent of GDP, an amount consistent with a descending trajectory for the historical balance of the public sector borrowing requirements as a proportion of the economy’s output.

Public sector borrowing requirements, 2006-2007 (% of GDP)				
	2006	2007		Difference
		Approved	Estimated	
I. Traditional public deficit	-0.2	0.0	0.0	0.0
A. Budgetary revenues	24.7	22.8	23.8	1.0
Oil related	9.4	8.3	8.8	0.5
Non-oil related	15.3	14.5	15.0	0.5
Tax revenues	10.2	10.0	10.3	0.3
Non-tax revenues	0.9	0.5	0.8	0.3
PEDBC	4.2	4.0	4.0	0.0
B. Net budgetary expenditure	24.5	22.8	23.8	1.0
Programmable paid	17.9	16.7	17.7	1.0
Non programmable	6.6	6.1	6.1	0.0
Financial cost	2.7	2.7	2.6	-0.1
Contributions	3.6	3.3	3.3	0.0
Adefas and others	0.2	0.1	0.2	0.0
C. Off budget deficit	0.0	0.0	0.0	0.0
II. Public deficit with LCP	-0.1	0.0	0.0	0.0
III. Adjustments	1.0	1.6	1.7	0.0
PIDIREGAS	1.2	1.1	1.2	0.1
IPAB	0.1	0.2	0.2	0.0
Registry adjustment	0.2	0.1	0.1	0.0
Debtor program	0.0	0.0	0.0	0.0
FARAC	0.0	-0.2	-0.1	0.1
Financial intermediation	-0.5	0.4	0.3	-0.1
IV. PSRB (II+III)	0.9	1.6	1.7	0.0
Minus non-recurrent income	1.2	1.7	1.9	0.2

Economic Outlook for 2008

Although growth forecasts for the United States' economy have been revised downwards due to recent events in the financial markets, it is expected that the effect of these disturbances will be concentrated in a decrease in the activity and investment in the residential sector. In contrast, an acceleration of that country's industrial production is still anticipated, considering that the inventory adjustment process that led to lower growth at the beginning of 2007 is ending. The latter, along with strong domestic demand dynamics, will lead to higher output growth in 2008 compared to 2007.



In the event of the Public Finance Reform not being approved, the Mexican economy is expected to expand at an annual rate of 3.5 percent in real terms. This figure is in line with private sector expectations.

Supply and demand conditions for hydrocarbons during 2008 are expected to maintain the average price of WTI at high levels, although with a high degree of volatility. The elements that could push the price downwards are: i) a lower than expected growth rate of the world economy, specially in the United States, and ii) a scenario of high inventory levels which would reduce demand for crude oil and refined products. In this context, the reference price for the Mexican oil mix is 46.6 dollars per barrel as calculated by the formula defined in the Federal Budget and Fiscal Responsibility Law. The estimated oil exporting platform is 1,678.0 thousand barrels a day.

Although a balanced budget is presented in the Federation's Revenue Law proposal and the Federation's Expenditures Budget project, the Public Sector's balance will most likely present a deficit at the end of the year. The latter is due to the fact that net total expenditure will be modified during the year in order to comply with the obligations established in favor of public sector workers in the ISSSTE's new Law. The total expenditure and debt requirements for this concept will only be known until September 30, 2008, because from January to June, 2008, active workers will be free to choose between establishing an individual account for their retirement or staying in the current defined benefit pension program.

The new ISSSTE's Law guarantees the financial sustainability of the pension system for the workers of the State, since the present pay-as-you-go system is transformed into one of defined contributions in which the benefits obtained upon retirement are determined by the accumulated resources in the individual worker's account. This transformation entails significant savings for the public sector in terms of net present value when eliminating the deficit implicit in the previous regime. Nevertheless, the distribution of savings will be uneven over time. In the short term, transition costs will be greater than generated savings, a situation that will be reverted in the medium term. This is because the migration of present workers who choose a system of individual accounts requires the recognition of their acquired rights, allocating these to their accounts through the deposit of a Pension Bond in each account. Also, the new contributions of those with individual accounts will be assigned to the accounts, not being allocated to cover current pension outlays.



As a result of the recognition of the acquired rights of workers and the reassignment of contributions, public finances will probably register a deficit in the next year. Since the new Law will contribute to an improvement of public finances in future exercises in an amount higher than the expected outlays, it qualifies as one of the anticipated exceptional situations stated in Article 17 of the Federal Law of Budget and Fiscal Responsibility (LFPRH) that allows the public balance to register a deficit. In addition, this situation is foreseen by the new Law of ISSSTE, which authorizes the Federal Executive to make the corresponding adjustments in the Federation's Expenditures Budget as well as to issue debt to face the obligations derived from the Law.

Public revenues for 2008

The estimation of budgetary revenues, without considering the effect arising from the approval of the Public Finance Reform, anticipates that 2008 budgetary revenues will be Ps. 2,392.9 billion, a figure higher by Ps. 76.2 billion (in 2008 pesos) than the amount presented in the Federation's Revenues Law for 2007.

Budgetary Revenue, 2007-2008							
(Billions of 2008 pesos)							
	2007		2008	Difference 2008 vs. 2007			
	PEF	Estimated		Absolute		Relative	
				PEF	Est.	PEF	Est.
Total	2,316.7	2,418.5	2,392.8	76.1	-25.7	3.3	-1.1
Oil related	845.4	893.3	839.3	-6.1	-54.0	-0.7	-6.0
Non-oil related	1,471.3	1,525.2	1,553.5	82.2	28.3	5.6	1.9
Tax revenues	1,019.1	1,044.6	1,073.7	54.6	29.1	5.4	2.8
Non-tax revenues	50.3	76.7	57.4	7.1	-19.3	14.1	-25.2
Non-oil PEDBC	401.9	403.9	422.4	20.5	18.5	5.1	4.6

Oil related revenues present a 0.7 percent reduction in real terms with respect to those approved for 2007. This is due to the fact that the financial income of PEMEX will not be included in these revenues as of 2008 and will be discounted from its financial cost. Once discounting for the methodological change, oil related revenues are expected to increase 0.8 percent in real terms, mainly due to an increase in oil prices. The treatment of these revenues is now consistent with that used for the Federal Government.



Non-oil related revenues are expected to increase 5.6 percent in real terms in comparison to those estimated in the Federal Revenue Law for 2007, which includes an estimated increase of Ps. 54.6 billion in non-oil related tax revenues in comparison to those approved for 2007.

Public Expenditure Strategy for 2008

In accordance with the objectives and strategy defined in the National Development Plan 2007-2012, public expenditure will comply with the following guidelines:

- Increase the impact of social expenditure as well as that aimed at promoting productivity and employment.
- To channel budgetary resources sufficient for improving public security, taking care of one of the main demands of the population that directly affect its quality of life.
- To foster infrastructure development.
- To increase resources destined to restore the environment and to the preservation and promotion of natural resources.
- To continue with austerity efforts in order to be a Government able to do more with less in benefit of the society, and that permanently allocates a greater fraction of public resources to the attention of the high-priority needs of the society. It is worth noting the Expenditures Decree Proposal for 2008 includes a reduction of Ps. 10,164.3 million in operational and administrative expenses of the federal public sector.

The following features from the Expenditures Decree Proposal for 2008 are worth noting:

- For 2008 the level of total net expenditure, programmable and nonprogrammable, contained in the Federation's Expenditure Budget Project is Ps. 2,392.9 billion, higher by Ps. 76.2 billion compared with the approved amount in 2007.

Paid Total Net Expenditure, 2007-2008				
(Billion pesos of 2008)				
	2007 PEF	2008	Difference 2008 vs. 2007	
			Absolute	Relative
Total	2,316.8	2,392.9	76.2	3.3
Programmable paid	1,696.4	1,753.2	56.8	3.3
Realized	1,719.2	1,777.2	58.0	3.4
Deferred payments	-22.8	-24.0	-1.2	5.3
Non programmable	620.4	639.7	19.3	3.1
Financial Cost	272.3	271.1	-1.2	-0.4
Revenue sharing	335.6	357.7	22.1	6.6
Adefas	12.4	11.0	-1.4	-11.3

- The same proposal includes a real increase of 2.7 percent in the expenditures destined to social development.

Programmable Expenditure of the Public Sector, 2007-2008				
Funcional Classification				
(Billion pesos of 2008)				
	2007 PEF	2008	Difference 2008 vs. 2007	
			Absolute	Relative
Total	1,719.2	1,777.1	57.9	3.4
Legislative, judicial and autonomous entities	42.4	50.7	8.3	19.6
Federal Public Administration	1,676.8	1,726.4	49.6	3.0
Government	109.7	117.7	8.0	7.3
Social Development	1,041.2	1,069.4	28.2	2.7
Economic Development	525.9	539.3	13.4	2.5

- The resources for the Secretariat of Public Security would increase 20.5 percent with respect to that estimated for the current year. Therefore, the expenditure in public security and law enforcement exerted by the central public administration would increase by 14.6 percent in real terms with respect to the amount approved in 2007.
- The expenditure increase for the National Council of Science and Technology is 14.5 percent.



- The increases in the expenditures of PEMEX, CFE and LyFC with respect to the approved amounts for 2007 are 5.3 percent, 4.3 percent and 3.3 percent, respectively.
- In the case of resources that are transferred to the Federal Entities and Municipalities, the Federation's Expenditure Budget Project proposes an increase of 5.7 percent in real terms with respect to the approved amount in 2007.

Federal Transfers to Federal Entities, 2007-2008				
(Billion pesos of 2008)				
	2007 PEF	2008	Difference 2008 vs. 2007	
			Absolute	Relative
Total	720.8	761.7	40.9	5.7
Revenue sharing	335.6	357.7	22.1	6.6
Transferred resources	385.2	401.2	16.0	4.2
Excess resources*/	0.0	2.8	2.8	n.s.

*/ In 2008 it includes the DEEP corresponding to the fourth quarter of 2007.

n.s.: non significant.

- Investment fostered by the public sector will be equivalent to 4.0 percent of GDP.

Policy of Public Credit for 2008

The policy of public debt of the present Administration is oriented to manage the public liabilities in a prudent and efficient manner. With this, public credit policies will seek to satisfy the finance requirements of the Federal Government at the lowest possible cost, maintaining a suitable level of risk and contributing to the development of national financial markets. The strategy of debt of the Federal Government in 2008 will follow two guidelines:

- To continue the use of internal debt to finance not only the deficit of the Federal Government but also the due payments of external debt and,
- To improve the cost and maturity structure of the external debt, diminishing its relative weight in the total debt of the Federal Government.



A net internal indebtedness of the Federal Government by Ps. 220 billion is requested derived from the deficit of the Federal Government anticipated for 2008, as well as a net external debt reduction of the public sector of at least 500 million dollars and the approval of loans with international financial multilateral organizations equivalent to a net indebtedness of up to 1,500 million dollars. The limit of net indebtedness will be able to be increased by the amount associated to the budgetary exercise derived from complying with the new Law of ISSSTE.

Financial Requirements of the Public Sector for 2008

It is considered that the public sector borrowing requirements in 2008 will be equivalent to 2.0 percent of GDP, which means an increase of 0.3 percent of GDP respect to the closing amount in 2007. At this level, the reduction of the historical balance of the Public Sector Borrowing Requirements (PSBR) as proportion of GDP will continue.

Public Sector Borrowing Requirements				
(% of GDP)				
Concept	2007	2008	Difference	
I. Traditional balance	0.0	0.0	0.0	
II Adjustments	1.7	2.0	0.3	
Borrowing requirements by PIDIREGAS	1.2	1.3	0.2	
Borrowing requirements of IPAB	0.2	0.2	0.0	
Adjustments to the budgetary registries	0.1	0.1	0.0	
Borrowers program	0.0	0.0	0.0	
Borrowing requirements of FARAC	-0.1	0.0	0.0	
Development banks and promotion funds	0.3	0.3	0.1	
III. RFSP (I+II)	1.7	2.0	0.3	
Minus non-recurring income	1.9	2.1	0.2	

Source: SHCP

Economic Perspectives with the Public Finance Reform

In case of approval of the Public Finance Reform, the benefits derived from this would be reflected in higher productive activity and job creation starting in 2008. This is due to: i) an important increase in the resources that would be channeled to infrastructure investment, ii) the stimulus to private investments by the improvement in expectations about the future of the economy, iii) lower interest



rates and country sovereign risk, and iv) the greater confidence that Mexicans are able to reach substantial agreements to improve the competitiveness of our economy. In particular, if the Public Finance Reform is approved, a growth of GDP in 2008 of close to 3.7 percent is projected, with further increases in subsequent years.

Since the Public Finance Reform is in process of analysis and discussion in Congress, and can be subject to modifications, it is difficult to estimate the revenue increase that would occur in case of its approval. Nevertheless, as an example, approximate estimations of the resources that could be perceived in case of its approval and their possible allocation are presented. It is estimated that the Public Finance Reform could generate during 2008 additional budgetary revenues of around Ps. 115 billion, an amount equivalent to 1.1 percent of GDP. Resources obtained from the Public Finance Reform would be assigned by close to 70 percent to the Federation (Ps. 80 billion) and 30 percent to the States (Ps. 35 billion).

If levels of revenue like the previous ones materialized, we would observe in 2008 the highest historical level of non-oil tributary revenues as percentage of GDP in the last 30 years. Moreover these revenues would increase their participation in total revenues.

The allocation of resources that correspond to the Federation would to respect a balanced budget at the same time that the funding is provided for the priorities and strategies established in the National Development Plan relative to the fostering of investment, the widening of people's capabilities and the promotion of productivity growth. For that purpose, the resources could be assigned in the following manner:

Proposed allocation of resources derived from the Public Finance Reform		
	Amount (Million Ps)	Allocation (percent)
Total	80,000.0	100.0
I. Competitiveness and jobs creation	61,324.5	76.7
1. Infrastructure	53,881.5	67.4
Communications and Transport	16,483.3	20.6
Water	8,178.0	10.2
Energy	29,220.2	36.5
2. Electricity tariffs reduction	7,443.0	9.3
II. Human development generation	18,675.5	23.3
3. Hospital Infrastructure	3,589.4	4.5
4. Strengthening of IMSS	4,089.4	5.1
5. Support to municipalities with high levels of marginalization	3,000.0	3.8
6. Municipal Public Security	3,589.0	4.5
7. Coverage of secondary and higher education	4,407.3	5.5

Greater revenues originated by the reform and additional austerity measures would allow that both the net debt of the Federal Public Sector as well as the Historical Balance of the Public Sector Borrowing Requirements, would continue to fall as proportion of GDP. This would imply that, by reinforcing the sustainability of public finances, the fiscal burden to future generations would be reduced. As a whole, these elements would lead to an improvement in the economy's prospects through higher rates of economic growth in the years to come, which would result in a better standard of life for all Mexicans.

Final considerations

The priority of the present Administration, as stated in the National Development Plan, is Sustainable Human Development. Consistent with that objective, the Economic Program promotes higher sustainable growth, supported in a competitive domestic economy, which would translate into more dynamic job creation. These are the only means that will lead to the permanent reduction of poverty.

The Economic Program presented for 2008 does not include the additional resources that would be obtained as a result of the approval of the Public Finance



Reform. Because of that, even though it proposes important increases in resources channeled to social development and security, it will not be able to revert the increasing gap in the resources needed to foster public investment and social and economic development. The Public Finance Reform will allow the allocation of additional resources to all these items, and will contribute significantly to dealing with the challenges faced by the public finances in the years to come.

The consensus reached to date between the Executive and Legislative branches demonstrate a shared commitment to attain specific law initiatives that will lead to higher standards of living for all Mexicans. Therein lays the importance of the continuing the fruitful dialogue established up to date to take advantage of the opportunities that appear to us at the present time.

MACROECONOMIC PARAMETERS WITHOUT PUBLIC FINANCE REFORM		
2007-2008 e/		
	2007	2008
Gross Domestic Product		
Real growth %	3.0	3.5
Nominal (billion pesos)	9,813.2	10,504.5
GDP deflator	4.0	3.5
Inflation		
Dec. / dec.	3.5	3.0
Nominal exchange rate ^{*/}		
Average	11.0	11.3
Interest rate (CETES 28 days)		
Nominal end of period, %	7.2	7.1
Average nominal, %	7.2	7.2
Real accumulated, %	3.8	4.3
Current Account		
Million dollars	-7,398.3	-8,779.2
% of GDP	-0.8	-1.0
Variables of support:		
Fiscal balance		
% of GDP	0.0	0.0
U.S. GDP (Annual variation)		
Real growth %	2.0	2.8
U.S. Industrial Production		
Real growth %	2.0	3.1
U.S. Inflation		
Average	2.7	2.5
International interest rate		
Libor 3 months (average)	5.2	4.6
FED Funds Rate (average)	5.1	4.5
Oil (Mexican basket)		
Average price (dls. / barrel)	54.6	46.6
Average exports platform (mbd)	1,731	1,678

MACROECONOMIC PARAMETERS WITH PUBLIC FINANCE REFORM 2007-2008 e/		
	2007	2008
Gross Domestic Product		
Real growth %	3.0	3.7
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GDP deflator	4.0	3.5
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Interest rate (CETES 28 days)		
Nominal end of period, %	7.2	7.0
Average nominal, %	7.2	7.0
Real accumulated, %	3.8	4.1
Current Account		
Million dollars	-7,398.3	-8,959.8
% of GDP	-0.8	-1.0
Variables of support:		
Fiscal balance		
% of GDP	0.0	0.0
U.S. GDP (Annual variation)		
Real growth %	2.0	2.8
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