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APPROVAL OF THE ECONOMIC PROGRAM FOR 2009 AND OF THE REFORM TO THE FEDERAL BUDGET AND FISCAL RESPONSABILITY LAW

- ***The Economic Package for 2009 was approved by consensus of the main political parties.***
- ***As part of the Program for Growth and Employment, a reform to the Federal Budget and Fiscal Responsibility Law (LFPRH) was also approved. The PIDIREGAS scheme was eliminated and PEMEX's investment was excluded from the balanced budget requirement.***
- ***This generates fiscal space to invest in infrastructure and to compensate for the effect of revising the macroeconomic assumptions in the budget.***
- ***For the first time in fifteen years, no tax bill (miscelánea fiscal) was presented.***
- ***The Economic Package for 2009 approved by Congress considers total public sector revenues of Ps. 2,792 billion and public expenditures of Ps. 3,045 billion.***
- ***The Federal Government's oil revenues for 2009 were hedged so declines in oil prices will not affect the execution of the budget***
- ***Worth highlighting are real increases of 32.0% (15.5% without PEMEX's investment), 7.7% and 37.0% in programmable expenditures allocated to economic development, social development and public security, respectively, in comparison to those approved for 2008.***
- ***Budgetary investment and investment fostered by the public sector will increase 45.6%(18.1% without PEMEX'x investment) and 13.3%.***

On October 21st, 2008, Congress approved the Federation's Revenues Law for 2009 and on November 12th, the Federation's Expenditures Budget for 2009 was approved by the Chamber of Deputies. The following elements are worth highlighting:

- Both ordinances were approved with the consensus of the main political parties, a signal of the agreement on the need to assertively face the challenges currently encountered by Mexico. Therefore, significant increases are observed in the resources allocated to economic development and investment to confront an adverse international environment, in social development expenditures to continue the fight against poverty, and in resources channeled to fight organized crime and drug trafficking.

- This is the first time in modern history that the economic package is approved with the consensus of the main political parties during the full three-year term of a Legislature.

- The Federal Government launched the Program for Growth and Employment to face the adverse international environment, giving continuity to the countercyclical strategy adopted in 2008 for the first time in Mexico's modern history.

- The day the Revenues' Law was approved, and as part of the Program for Growth and Employment, a reform to the Federal Budget and Fiscal Responsibility Law (LFPRH) was approved. Worth highlighting are the elimination of the differed long-term investment scheme of PEMEX's (known as PIDIREGAS) and the modification to the fiscal rule to exclude PEMEX's investment from the balanced budget requirement. Aside PEMEX's investment, the balanced budget requirement established in the LFPRH is maintained.

- By excluding PEMEX's investment from the balanced budget requirement, the company will have more flexibility and higher resources, in addition to giving greater certainty to these resources. This takes place in the context of the Energy Reform approved on October 28th, 2008, which is aimed at strengthening the company, ensuring a modern and responsible corporate governance, and improving transparency and accountability.

- The exclusion of PEMEX's investment from the balanced budget requirement generates a fiscal space of Ps. 78.3 billion that allowed an allocation of Ps. 53.1 billion to additional infrastructure investment, in addition of compensating for the effects from the revision of expected GDP growth for 2009 from 3.0% to 1.8%, the price of the Mexican oil mix from 80.3 to 70.0 dollars per barrel, and the average exchange rate from 10.6 to 11.7 pesos per dollar.

- The approved economic package does not include any substantive changes to the legislation, regulations or procedures governing the current fiscal framework. For the first time in fifteen years, no tax bill (miscelánea fiscal) was presented.

- Considering the modifications to the macroeconomic framework and to the LFPRH, total public sector revenues approved by Congress for 2009 are Ps. 2,792 billion, an amount 4.7 percent higher in real terms than the one approved for 2008. This increase does not consider revenues from financing. With respect to the Executive's initiative, total revenues approved – excluding revenues from financing – are Ps. 28.7 billion lower as a result of the revision of the macroeconomic framework; of these, Ps. 4.0 billion correspond to oil revenues and Ps. 24.7 billion to non-oil revenues.

- The revenues from financing amount to Ps. 227.5 billion, amount that corresponds to PEMEX's investment and is equivalent to a public deficit of 1.8% of GDP. A high share of these resources was already included in the public sector borrowing requirements through investment made under the PIDIREGAS scheme (Ps. 149.2 billion).

- Over the past months, the Ministry of Finance and Public Credit (SHCP) has hedged oil prices in order to isolate the budget from reductions in the price of oil with respect to the level that was used for the Federation's Revenues Law for 2009. Therefore, the approved public expenditures level will not be affected if a lower Mexican oil mix price than the one used in the budget is observed.

- Total public spending in the Expenditures Budget for 2009 is Ps. 3,045.5 billion, an amount 13.1% higher in real terms than that authorized by Congress in the previous year and Ps. 198.8 billion higher respect to the Executive's initiative. The difference between expenditures and budgetary revenues is explained by PEMEX's total investment.

- Without considering PEMEX's investment, public expenditures and approved programmable expenditures for 2009 increase by 8.9% and 10.8% in real terms, respectively, with respect to the levels approved for 2008. Thus, programmable expenditures, without considering PEMEX's investment, will reach 16.2% of GDP, the highest level approved since 1990, which implies a real increase of 30.4% compared to that approved for 2006.

- Worth highlighting within programmable expenditures are the real increases by 32.0% (15.5% without PEMEX's investment), 7.7% and 37.0% in economic development, social development and public security, respectively, in comparison to those approved for 2008.

- Budgetary investment and investment fostered by the public sector will increase by 45.6% (18.1% without PEMEX's investment) and 13.3%, respectively, compared to those approved for 2008, reaching 4.2% and 4.7% of GDP, respectively, their highest levels for at least two decades. Thus, public fostered investment during the 2007-2009 period will be 44.4% greater in real terms than the one observed during 2000-2006.

- 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 and contributes to achieve the objectives outlined in the Program for Growth and Employment.

- A respectful dialogue and a joint commitment for Mexico have led to the approval by a wide majority of all the economic packages proposed by the current Administration, as well as to the approval of structural reforms that will allow Mexico to be a safer, more prosperous and more equitable country.

Macroeconomic Framework for 2009

The approved economic package for 2009 considers changes to the macroeconomic framework proposed by the Executive in the Program for Growth and Employment, as well as those considered by the Legislative. The modified estimates are the following: real annual growth of GDP forecasted for 2009 is 1.8%, the price of the Mexican oil mix is 70.0 dollars per barrel, and the average exchange rate for 2009 is 11.7 pesos per dollar. No changes to the estimates of inflation, interest rates, and oil production and export platforms were made with respect to the ones included in the General Economic Policy Guidelines for 2009 (CGPE09).

Macroeconomic Framework, 2009		
	CGPE09	Approved
GDP		
Nominal (billion pesos)	13,093.9	12,883.7
Real annual growth, %	3.0	1.8
GDP Deflator	4.8	4.8
Inflation		
Dec. /dec. (%)	3.8	3.8
Average nominal exhange rate		
Pesos per dollar	10.6	11.7
Average interest rate		
CETES 28 days (%)	8.0	8.0
Fiscal Balance	0	-1.8
Oil		
Average price (dpb)	80.3	70.0
Production platform (mbd)	2,750.0	2,750.0
Exports platform (mbd)	1,336.0	1,336.0

Federal Budget and Fiscal Responsibility Law (LFPRH)

The Federal Government proposed a reform initiative to the LFPRH as part of the Program for Growth and Employment (see press release 079/2008). The main changes to the LFPRH that were approved are the following:

- The PIDIREGAS scheme is eliminated for PEMEX, and all of PEMEX's investment projects from now on will be budgetary.
- PEMEX's investment is excluded from the balanced budget requirement, giving more flexibility to its operation. This change takes place in the context of the Energy Reform that was approved by Congress on October 28th, 2008, which is aimed at attaining higher efficiency in PEMEX, strengthening its corporate governance, and establishes stronger mechanisms of transparency and

accountability. Aside from PEMEX's investment, the balanced budget requirement established in the LFPRH is maintained.

- The maximum reserve limits of the Oil Stabilization Funds are increased by 73% from 2009 onwards. This is meant to increase the capacity to save in order to allow for an optimum management of the country's resources through time.
- A wider set of circumstances for the use of resources from the Oil Revenues Stabilization Fund is approved, allowing the use of the Fund if total Federal Government revenues are lower than the estimates in the Revenues Law due to lower non-oil tax related revenues, lower oil prices or lower oil production platform lower than the one established in the General Economic Policy Guidelines.
- Strategy and Investment, and Transparency committees, as well as their functions, are established.
- Transparency requirements are established for infrastructure projects financed with public debt, as well as the obligation of PEMEX to recognize (for accounting and budgetary purposes) as direct public debt all funding commitments made by third parties and through financial vehicles guaranteed by PEMEX to finance PIDIREGAS.
- Public resources allocated to investment will be increased, allowing PEMEX to use – during 2009 – the resources it has in the Stabilization Fund for PEMEX's Infrastructure Investment (FEIIPEMEX) at the end of 2008. The resources will be allocated to start with the process for the construction of a refinery and other infrastructure projects. In future years, the entity will be able to use up to 50% of the balance of the Fund at the end of the previous fiscal year in order to complete the construction of the refinery.
- During the next three fiscal years, 30% of the excess revenues from the so-called "bolsa general" will be allocated in the following way: 35% to federal entities' infrastructure investment and equipment programs and projects, and 65% to increase the scope of infrastructure investment programs and projects established in the Federation's Expenditures Budget of the corresponding fiscal year.
- Several legal norms are established seeking to foster investment through speedier tender procedures related to infrastructure projects promoted by the Federal Public Administration's ministries and entities.

Federation's Revenues Law for 2009

For the 2009 fiscal year, Congress approved total public sector revenues of Ps. 3, 045.5 billion. This amount is Ps. 198.8 billion higher than the one proposed by the Executive and 13.1 percent higher than the one approved for 2008, in real terms. Without incorporating revenues from financing, total approved revenues are Ps. 2,792 billion, Ps. 28.7 billion lower than the Executive's initiative as a result of the revisions of the macroeconomic framework, and are 4.7 percent higher in real terms than the amount approved for2008. Regarding the Executive's initiative, the increase in total revenues for 2009 is explained by the following:

Federation's Revenues Law for 2009 (million pesos)	
I. LIF initiative	**2,846,697.0**
II. Modifications (1-2)	**198,781.6**
1. Public deficit	227,497.9
2. Lower revenues due to the revision to the macroeconomic framework	28,716.3
A. Oil revenues	4,030.7
B. Tax revenues	18,090.0
C. Non-oil revenues	679.1
D. Non oil related entities' revenues	5,916.5
III. Approved LIF 2009 (I+II)	**3,045,478.6**

Oil revenues will be Ps. 1,016 billion, an increase of 12.0% with respect to the amount approved for 2008, even after the modifications to the macroeconomic framework that reduce revenues by Ps. 4 billion. Non-oil tax revenues are Ps. 1,261 billion, which implies a downward revision by Ps. 18.1 billion and a real increase of 3.0% with respect to the amount estimated for 2008. This growth rate is higher than the one for the economy as a result of efficiency gains and the increase in the IETU tax rate established in the Fiscal Reform approved in 2007.

In accordance to the expected fiscal revenues for 2009, shareable federal revenues will reach Ps. 1,595.2 billion, amount similar to the one approved in 2008 in real terms.

Budgetary Revenues, 2008-2009
(Million pesos of 2009)

	2008	2009		Differences			Growth	
	Approved (1)	Project (2)	Approved (3)	(2-1)	(3-1)	(3-2)	(2/1)	(3/1)
Total	**2,667,771.8**	**2,820,697.0**	**2,791,980.7**	**152,925.2**	**124,208.9**	**-28,716.3**	**5.7**	**4.7**
Oil related	907,266.4	1,019,897.6	1,015,866.9	112,631.2	108,600.5	-4,030.7	12.4	12.0
Non-oil related	1,760,505.4	1,800,799.4	1,776,113.8	40,294.0	15,608.4	-24,685.6	2.3	0.9
Federal Government	1,325,541.4	1,334,981.0	1,316,211.9	9,439.6	-9,329.5	-18,769.1	0.7	-0.7
Tax related	1,266,499.6	1,279,437.2	1,261,347.2	12,937.6	-5,152.4	-18,090.0	1.0	-0.4
Non tax realted	59,041.8	55,543.8	54,864.7	-3,498.0	-4,177.1	-679.1	-5.9	-7.1
PEDBC	434,964.0	465,818.4	459,901.9	30,854.4	24,937.9	-5,916.5	7.1	5.7

As regards public sector net borrowing, the approved Federation's Revenues Law authorizes the Federal Executive net domestic borrowing of up to Ps. 380 billion, as well as for the amount that is necessary to finance the Federal Government liabilities associated with the new pension system law for public sector workers and the amount of PIDIREGAS liabilities to be recognized as PEMEX's direct public debt. In addition, net external borrowing of up to US. 5 billion was approved, which includes the net external debt amount to be executed with international financial organizations, as well as the amount resulting from recognizing as public debt the financial vehicles guaranteed by PEMEX associated to PIDIREGAS projects.

Among other modifications to the Revenues Law for 2009, the following stand out:

- The ceiling for financial intermediation by development banks and funds was increased to Ps. 59.2 billion in order to have the resources that will be used in the Program for Growth and Employment.
- During 2009, the amount of resources that will be allocated to finance investment programs and projects approved in the Expenditures Budget from the hydrocarbon's royalty for the stabilization fund is Ps. 40.7 billion.
- The exemption from ISAN for electric and hybrid automobiles is extended to individuals or firms that sell to the general public or import, under the terms of the Customs Law, electric automobiles with a hydrogen powered engine.
- It incorporates a provision specifying that during the 2009 fiscal year, research and technological development projects will be supported via the Federation's Expenditures Budget.
- The IEPS fiscal stimulus for the acquisition of diesel for the mining and merchant marine sectors is eliminated.
- It includes the obligation for IETU tax payers to submit the information on the concepts that determine the amount to be paid.
- It includes a provision that promotes fiscal self-correction, allowing a reduction of formal fines depending on the time when the self-correction was made.

Additionally, the Congress approved changes to PEMEX's fiscal regime, within which the modifications to the cost cap stand out:

- projects in the Paleocanal de Chicontepec will have a cost cap for oil of 11.0 dollars per barrel and it remains at 2.7 dollars per thousand cubic feet for non-associated gas, and
- deep water projects will have a cost cap of 16.5 dollars per barrel for oil and 4.0 dollars per thousand cubic feet for non-associated gas.

The cost cap for the rest of the fields remains at 6.5 dollars per barrel for oil and 2.7 dollars per thousand cubic feet for non associated-gas.

Oil Price Hedging Strategy for 2009

Over the past months, the SHCP has hedged oil prices in international financial markets in order to secure the level of Federal Government's Oil Revenues established in the Federation's Revenues Law for 2009 recently approved by the Congress, against a decline in oil prices.

These hedges have been made through the Oil Revenues Stabilization Fund (FEIP), which is a public trust fund created by the SHCP in 2001.

The LFPRH establishes that the purpose of the FEIP is to minimize the effect of lower oil revenues with respect to those in the Income Law over public finances and the economy. This, in order to ensure that the spending established in the Federation's Expenditures Budget is maintained.

The hedges that were recently made consisted of the acquisition of put options on the average price of the Mexican oil mix for the 2009 fiscal year. These options give the Federal Government the right (but not the obligation) to sell the Mexican oil mix at an average price of 70.0 dollars per barrel during 2009. The amount hedged totaled 330 million barrels, equivalent to the volume of net oil exports contemplated in the economic package for 2009. The total cost of the hedge was Ps. 1.5 billion dollars, and currently it has an approximate value of Ps. 9.6 billion. This implies that if an average oil price similar to the current one is observed during all of 2009, the Federal Government would be compensated by that amount.

These put options work as an insurance in which a premium is paid at the moment of the acquisition but if the average price of the Mexican oil mix observed during 2009 falls below 70 dpb, the Federal Government receives a payment that should compensate for the decrease in budgetary revenues.

The Federation's Expenditures Budget for 2009

For the 2009 fiscal year, the Congress approved a total spending of Ps. 3,045.5 billion, an amount Ps. 198.8 billion higher than the Executive's proposal and 13.1% higher in real terms than that approved for 2008.

Total net expenditures, 2009 (Million pesos)	
I.Net expenditures project	2,846,697.0
II. Net expansions	198,781.6
1. PEMEX's investment	149,237.3
2. Non-programmable expenditures	-3,979.7
3. Rest programmable expenditures	53,524.0
III. Net approved expenditures (I+II)	3,045,478.6

The approved programmable expenditures for 2009 are Ps. 2,320.4 billion, amount equivalent to 18.0% of GDP, with a real expansion of 16.5% with respect to the level approved for 2008 and which is Ps. 202.8 billion higher than the Executive's proposal. Excluding PEMEX's investment which under the original project would have been carried under PIDIREGAS schemes or the associated amortizations, programmable expenditures reach a level of Ps. 2,092.9 billion, 11.0% higher in real terms than the one approved for 2008 and Ps. 53.5 billion higher with respect to the project.

The approval of the programmable expenditures for 2009, without considering PEMEX's investment, implied expansions and reallocations of expenditures by Ps. 98.1 billion. This was the result of a budgetary space of Ps. 53.1 billion created by excluding PEMEX's investment from the balanced budget requirement, Ps. 15 billion from the reallocation of the hydrocarbon's royalty for the oil stabilization fund, a Ps. 5.0 billion reduction of Adefas, and expenditures reduction in some programs with respect to the Executive's Budget Project by Ps. 25.2 billion. Of these reductions, Ps. 7.4 billion correspond to Autonomous Branches, Ps.7.4 billion to Administrative Branches, Ps. 6.8 billion to General Expenditures, and Ps. 3.4 billion to public entities under direct budgetary control.

Regarding the expansions authorized by the Chamber of Deputies, the following are worth highlighting: Ps. 19.2 billion for Highways, Ps. 13.9 for the Education Sector, Ps. 12.5 for the Special Concurrent Program for Sustainable Rural Development (PEC), Ps. 9.3 billion for Health, Ps. 5.0 billion for Hydraulic Infrastructure, Ps. 3.0 billion for Urban Transport, Ps. 2.5 billion for Security and Justice, Ps. 2.3 for Social Development, Ps. 2.0 billion to support Small and Medium seized Firms (SMF's), Ps. 1.3 to Women, and Ps. 1.3 billion to Housing.

The reallocations of expenditures approved by the Chamber of Deputies in the Federation's Expenditures Budget for 2009 will allow almost all ministries to increase their spending: Public Security by 59.3%, Social Development by 29.8%, Economy by 25.0%, Transport and Communications by 18.7%, Health by 16.9%, and Education by 10.5%, in real terms, all compared to that approved in the 2008 Budget. Regarding the economic classification, worth highlighting are the increases of expenditures allocated to economic development and social development by 32.0% (15.5 without PEMEX's investment), and 7.7%, respectively.

Additionally, authorized disbursements for the Women and Gender Equity programs increased 22.0% in real terms with respect to those approved for 2008, while Human Development and Oportunidades increased by 19.9% and expenditures oriented to the development of the indigenous population increased by 17.2%.The PEC for 2009 increased by Ps. 22.1 billion of 2009, from a total amount of Ps. 213.8 billion in 2008 to Ps. 253.9 billion in 2009 (10.3% annual real increase).

Approved Programmable Expenditures, 2008-2009
(Billion pesos of 2009)

	2008	2009				Difference	Real growth
	Approved	Project	Modifications			PEF 2009 vs.	PEF 2009 vs.
			Reductions	Expansions	Approved	Project 2009	PEF 2008
Total (1+2+3+4+5-6)	1,991.2	2,117.6	44.6	247.4	2,320.4	202.8	16.5
1. Autonomous Branches	*50.1*	*62.0*	*7.4*	*0.0*	*54.6*	*-7.4*	*9.1*
2. Administrative Branches	*684.3*	*718.1*	*7.4*	*81.7*	*792.5*	*74.4*	*15.8*
Presidency	1.8	1.8	0.0	0.0	1.8	0.0	1.5
Interior	7.1	8.8	0.2	1.0	9.6	0.8	35.9
Foreign Affaire	5.6	5.5	0.1	0.0	5.3	-0.1	-4.6
Finance and Public Credit	34.1	34.6	0.6	2.7	36.7	2.1	7.7
Defense	36.5	42.4	0.0	1.2	43.6	1.2	19.4
Agriculture	67.5	61.2	0.3	9.8	70.7	9.5	4.7
Transport and Communications	61.1	48.9	0.3	23.9	72.5	23.6	18.7
Economy	11.3	11.6	0.1	2.6	14.2	2.5	25.0
Public Education	181.8	185.5	2.5	18.0	200.9	15.5	10.5
Health	72.8	76.7	0.9	9.3	85.0	8.4	16.9
Navy	14.0	15.8	0.0	0.3	16.1	0.3	14.5
Labor	3.6	3.8	0.1	0.3	4.1	0.2	14.1
Agrarian Reform	5.5	5.3	0.1	0.6	5.8	0.5	5.0
Environment	40.9	39.9	0.4	5.5	45.1	5.1	10.1
General Attorney	9.8	12.6	0.3	0.0	12.3	-0.3	26.2
Energy	37.7	43.1	0.3	1.0	43.8	0.7	16.2
Social Development	52.5	66.1	0.3	2.3	68.1	2.0	29.8
Tourism	3.5	3.4	0.1	0.7	4.0	0.6	12.9
Public Function	1.6	1.6	0.0	0.0	1.6	0.0	-1.6
Agrarian Courts	1.0	0.9	0.0	0.0	0.9	0.0	-4.5
Fiscal and Administrative federal court	1.3	1.5	0.0	0.0	1.5	0.0	14.9
Public Security	20.7	31.0	0.6	2.5	32.9	2.0	59.3
Judicial Council	0.1	0.5	0.0	0.0	0.5	0.0	389.3
CONACYT	12.4	15.5	0.2	0.2	15.5	-0.1	24.3
3. INEG	*3.8*	*7.6*	*0.0*	*0.0*	*7.6*	*0.0*	*100.7*
4. General Expenditures	*685.1*	*765.7*	*27.3*	*16.3*	*754.7*	*-11.0*	*10.2*
5. Public Entities Under Direct Budgetary Control	*797.4*	*822.2*	*3.4*	*150.7*	*969.5*	*147.3*	*21.6*
PEMEX	191.4	201.7	1.5	149.2	349.4	147.7	82.5
CFE	206.0	200.0	1.0	0.0	199.0	-1.0	-3.4
LFC	31.8	33.0	0.3	1.0	33.7	0.7	5.9
IMSS	285.2	299.0	0.0	0.0	299.0	0.0	4.9
ISSSTE	83.0	88.5	0.6	0.5	88.4	-0.1	6.4
6. Subsidies, transfers and contributions to IMSS	*229.4*	*258.1*	*0.9*	*1.5*	*258.6*	*0.6*	*12.8*

The approved Federation's Expenditures Budget for 2009 considers a results-oriented spending exercise, which incorporates performance budgeting. In programs that have already been evaluated, results and recommendations were taken into account. Additionally, there was significant progress in the streamlining and inclusion of strategic and management indicators, and the follow-up on the fulfillment of goals and objectives continued.

Federalized expenditures will be higher by Ps. 26.9 billion of 2009 than the ones included in the Federation's Expenditures Budget of 2008 and by 3.1% in real terms. The increase is the result of higher shared revenues (Ps. 10.8 billion), an increase of federal contributions (Ps. 13.8 billion), and a reduction in other disbursements by Ps. 2.4 billion.

Federalized Expenditures, 2008-2009
(Billion pesos of 2009)

	2008	2009		Differences			Growth	
	Approved (1)	Project (2)	Approved (3)	(2-1)	(3-1)	(3-2)	(2/1)	(3/1)
Total	**869,135.7**	**902,534.9**	**896,042.8**	**33,399.2**	**26,907.1**	**-6,492.1**	**3.8**	**3.1**
Shared Revenues	419,390.3	436,670.9	430,182.1	17,280.6	10,791.8	-6,488.8	4.1	2.6
Contributions	431,539.4	447,760.4	445,298.7	16,221.0	13,759.3	-2,461.7	3.8	3.2
Others	18,206.0	18,103.6	20,562.0	-102.4	2,356.0	2,458.4	-0.6	12.9

Adjustment mechanisms in case revenues are different from the expected value

The LFPRH establishes in its 19th article that, in case excess revenues are observed, these will be allocated according to the following:

- Excess revenues that have a destination specified by laws will be allocated to increases in the budgets of the ministries or entities that generated them.
- The entities' own excess revenues will be allocated to their budgets.
- The rest of the excess revenues of the Federal Government will be used, in the first place, to cover higher spending due to natural disasters (when the Natural Disaster Fund – FONDEN – is insufficient), higher non-programmable expenditures and higher spending on fuel for electricity generation. The remaining excess revenues will be allocated according to the following:
    - ✓ 30% of net excess revenues will be allocates to the following: i) 35% to federal entities' infrastructure investment and equipment programs and projects, and ii) 65% to increase the scope of infrastructure investment programs and projects established in the Federation's Expenditures Budget.

- ✓ 70% will be allocated as follows: i) 40% to the Oil Stabilization Fund (FEIP), ii) 25% to the Federal Entities Revenues Stabilization Fund (FEIEF), iii) 25% the Stabilization Fund for PEMEX's Infrastructure Investment (FEIIPEMEX), and iv) 10% to Federal Entities' investment programs and projects. PEMEX will be authorized to employ the resources accumulated in FEIIPEMEX at the end of 2008 to start with the process for the construction of a refinery in national territory and other infrastructure projects.

- Excess revenues 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.

If, on the contrary, lower revenues than those approved in the LIF are observed, article 21st of the LFPRH establishes that the procedure will be:

- A decrease in the Federal Government's total revenues, associated with lower non-oil tax related revenues, a decrease in the oil price, a lower production platform or with exchange rate movements can be compensated using resources from the FEIP, according to its operation rules.

- Federal Entities can compensate a decrease in shareable revenue collection with resources from the FEIEF, according to its operation rules.

- A decrease in PEMEX's revenues associated with lower oil and hydrocarbons prices or to exchange rate movements, can be compensated with resources from the FEIIPEMEX, according to its operation rules.

Conclusions

The approval of the Federation's Revenues Income Law and Federation's Expenditures Budget for 2009 was approved by consensus of the main political parties which coincided on the need to face Mexico's main challenges in a decisive way.

The budget contains significant increases in resources allocated to economic development and infrastructure to face the adverse international environment, in social development expenditures to continue the fight against poverty, and in resources channeled to fight organized crime and drug trafficking.

In addition, the timely approval of the Federation's Expenditures Budget for the 2009 fiscal year, will allow a solid execution from the beginning of the year, particularly in the case of resources allocated to infrastructure investment projects and productive programs aimed at strengthening the Mexican economy within the context of an unfavorable international environment.

Moreover, the hedging strategy followed by the Federal Government will allow us to counteract a lower oil price that could affect the execution of the programs contemplated in the Federation's Expenditures Budget for 2009. Thus, the Federal Government has preserved its capacity to implement the already announced countercyclical policies, in a context of fiscal responsibility, which is essential to mitigate the external recessionary impacts that the Mexican economy is facing. Therefore, President Calderon's Administration meets its commitment to protect economic growth, employment and strengthen the effort of reducing poverty in a sustainable way in our country.

A respectful dialogue and the joint commitment for Mexico have allowed for the close to unanimous approval of all economic packages proposed by the current Administration, as well as the approval of structural reforms like the Reform of the Pension System of Public Sector Workers, the Fiscal Reform, the Security and Justice reform, and the Energy Reform, which will allow Mexico to be a safer, more prosperous and more equitable country.