



## PROPOSED ECONOMIC PROGRAM FOR 2011

- **THE FEDERATION'S REVENUES LAW INITIATIVE, THE EXPENDITURES BUDGET PROJECT AND THE GENERAL ECONOMIC POLICY GUIDELINES FOR 2011 WERE SENT TODAY TO CONGRESS.**
- THE PROPOSED ECONOMIC PROGRAM IS OBJECTIVE, RESPONSIBLE, HAS A MEDIUM TERM VISION AND IS COMMITTED WITH THE WELFARE OF MEXICAN HOUSEHOLDS. A COUNTERCYCLICAL STIMULUS IS MAINTAINED TO SUPPORT THE ECONOMIC RECOVERY AT THE SAME TIME THAT THE SUSTAINABILITY OF THE PUBLIC FINANCES IS PRESERVED.
- IT IS ESTIMATED THAT THE MEXICAN ECONOMY WILL GROW BY 4.5% IN 2010. FOR 2011 PROJECTIONS ARE OF REAL GDP GROWTH OF 3.8%, 3.0% INFLATION, AN AVERAGE INTEREST RATE (28-DAY CETES) OF 5.0%, AN AVERAGE REFERENCE PRICE OF 63.0 DOLLARS PER BARREL FOR THE MEXICAN OIL MIX AND OIL PRODUCTION AND EXPORT PLATFORMS OF 2,550 AND 1,149 THOUSAND BARRELS PER DAY, RESPECTIVELY.
- THE ECONOMIC PROGRAM FOR 2011 PROPOSES A DEFICIT OF PS. 42.2 BILLION, EQUIVALENT TO 0.3% **OF GDP, EXCLUDING PEMEX'S INVESTMENT.** THIS IMPLIES THAT A COUNTERCYCLICAL STIMULUS IS MAINTAINED THOUGH WITH A DECLINING TRAJECTORY CONSISTENT WITH THE OBSERVED RECOVERY IN THE ECONOMY AND WITH THE GRADUAL RETURN TO A BALANCED BUDGET.
- THE ECONOMIC PACKAGE FOR 2011 DOES NOT INCLUDE ANY SUBSTANTIVE CHANGES TO THE LAWS, REGULATIONS AND PROCEDURES GOVERNING THE CURRENT FISCAL FRAMEWORK AND THE EXECUTION OF EXPENDITURES, NOR IN THE RELATIONSHIP BETWEEN THE FEDERAL GOVERNMENT AND THE FEDERAL ENTITIES. THE CREATION OF NEW TAXES OR AN INCREASE IN THE RATE OF CURRENT TAXES ARE NOT CONSIDERED.
- FOR THE SECOND TIME IN THE PRESENT ADMINISTRATION, NO TAX BILL (MISCELANEA FISCAL) WAS PRESENTED. THIS HAD NOT BEEN OBSERVED SINCE THE 1964-1970 ADMINISTRATION.
- FOR THE FISCAL EXERCISE 2011, THE PROJECT OF THE FEDERAL ROYALTIES AND FEES LAW (LEY FEDERAL DE DERECHOS) INCLUDES A PROPOSAL OF SIMPLIFICATION AND REDUCTION OF FEES. IN ADDITION, IT INCLUDES A PROPOSAL TO INCLUDE A LIST OF MARGINAL FIELDS APPROVED BY THE SHCP



IN THE SPECIAL FISCAL REGIME OF PEMEX (DEEP WATERS AND CHICONTEPEC) WHEN THEY COMPLY WITH A NUMBER OF OBJECTIVE CRITERIA SUCH AS THEIR ECONOMIC RETURN BEFORE TAXES AND LOW PROFITABILITY UNDER THE REGULAR FISCAL REGIME.

- PUBLIC SECTOR REVENUES ARE EXPECTED TO INCREASE BY 3.9% IN REAL TERMS WITH RESPECT TO THOSE APPROVED FOR 2010. WITHIN, OIL RELATED REVENUES WILL BE 4.5% HIGHER THAN THOSE APPROVED FOR 2010 AND IT IS ESTIMATED THAT NON-OIL TAX REVENUES WILL BE 10.3% OF GDP, THEIR HIGHEST LEVEL IN AT LEAST THE LAST 30 YEARS.
- **FOR 2011, EXCLUDING PEMEX'S INVESTMENT, NET PAID EXPENDITURES WILL BE HIGHER BY 62.5 BILLION PESOS OF 2011 (2011PS.) OR 2.1% IN REAL TERMS WITH RESPECT TO THOSE APPROVED FOR 2010. THIS IS THE RESULT OF HIGHER REVENUES BY 2011PS. 113.9 BILLION AND A REDUCTION IN THE DEFICIT BY 2011PS. 51.5 BILLION, FROM 2011PS. 93.6 BILLION IN 2010 TO 2011PS. 42.2 BILLION IN 2011. PHYSICAL INVESTMENT BY PEMEX IN 2011 WILL REMAIN AT THE SAME LEVEL AS A PERCENTAGE OF GDP (2.0% OF GDP) AS THE ONE APPROVED IN 2010.**
- THE EXPENDITURES PROJECT REFLECTS THE RESULTS FROM THE SAVINGS AND AUSTERITY POLICY THAT HAS BEEN IMPLEMENTED SINCE THE BEGINNING OF THIS ADMINISTRATION; AIMS AT INCREASING THE QUALITY OF PUBLIC EXPENDITURES BY FOCALIZING EXPENDITURES TOWARDS PROGRAMS WITH POSITIVE PERFORMANCE ASSESSMENTS AS WELL AS TOWARDS THOSE BETTER ALIGNED WITH THE PRIORITIES OF THE NATIONAL DEVELOPMENT PLAN; PROMOTES HIGHER TRANSPARENCY AND ACCOUNTABILITY, AND IMPROVES BUDGETARY CONTROL WITH MECHANISMS LIKE THE USE OF A SINGLE ACCOUNT AT THE TREASURY TO PAY THE BENEFICIARIES OF EXPENDITURE PROGRAMS AND WITH A HIGHER DEGREE OF TRANSFERS ASSOCIATED WITH SOCIAL PROGRAMS TAKING PLACE THROUGH ELECTRONIC MEANS.
- THE FEDERAL EXECUTIVE PROPOSES A PUBLIC EXPENDITURES POLICY FOR 2011 THAT STRENGTHENS PUBLIC SECURITY, PROMOTES SOCIAL DEVELOPMENT AND CONSOLIDATES ECONOMIC GROWTH.
- REGARDING PUBLIC SECURITY, WORTH HIGHLIGHTING ARE THE REAL INCREASES PROPOSED FOR THE MINISTRIES OF THE INTERIOR, DEFENSE, MARINE AND PUBLIC SECURITY OF 9.6, 13.1, 10.6 AND 28.0% WITH RESPECT TO THE PROJECT FOR 2010, RESPECTIVELY. IN ORDER TO CONSOLIDATE



ECONOMIC GROWTH AND TO PROMOTE CAPACITY BUILDING BY INDIVIDUALS, THE ALLOCATIONS TO THE MINISTRIES OF TOURISM, ECONOMY, PUBLIC EDUCATION, HEALTH AND TRANSPORTS AND COMMUNICATIONS AS WELL AS THE NATIONAL COUNCIL FOR SCIENCE AND TECHNOLOGY (CONACYT) WILL INCREASE BY 33.5, 15.7, 7.1, 4.2, 4.7, AND 7.2%, RESPECTIVELY, WITH RESPECT TO THE PROJECT FOR 2010.

- SOCIAL DEVELOPMENT PROGRAMS ARE ALLOCATED 2011PS. 1,454.6 BILLION, AN AMOUNT SIMILAR IN REAL TERMS TO THAT APPROVED FOR 2010. WORTH HIGHLIGHTING ARE THE REAL INCREASES IN SOCIAL SECURITY AND HEALTH BY 3.4 AND 2.7%, RESPECTIVELY.
- INVESTMENT FOSTERED BY THE PUBLIC SECTOR WILL BE 2011PS. 622.5 BILLION, WHICH IMPLIES THAT FOSTERED INVESTMENT DURING THE 2007-2011 PERIOD WILL BE 44.4% HIGHER IN REAL TERMS THAN THE OBSERVED AVERAGE DURING THE 2000-2006 PERIOD AND BY 72.2% WITH RESPECT TO THAT OBSERVED IN 2000.
- FEDERALIZED EXPENDITURES WILL INCREASE BY 2.0%. WITHIN, SHARED REVENUES AND RESOURCES TRANSFERRED TO STATES AND MUNICIPALITIES WILL INCREASE BY 6.8 AND 2.7%, RESPECTIVELY, WITH RESPECT TO THOSE APPROVED FOR 2010. IT IS WORTH NOTING THAT, IN REAL TERMS, THE ESTIMATED AMOUNT OF SHARED REVENUES FOR 2011 IS A HISTORICAL MAXIMUM.



Today, September 8<sup>th</sup> 2010, the Federal Executive sent to Congress the **Federation's** Revenues Law Initiative and the Expenditure Budget Project for 2011. These documents were prepared in line with the economic projections and strategies contained in the Economic Policy Guidelines for the next fiscal year.

### The Mexican Economy during 2010

During the first semester of 2010 the external economic environment was more favorable than that observed in 2009. Worth noting is the economic recovery in the United States, which translated into a significant acceleration of Mexican non-oil exports. Internal demand has also registered a rebound explained, mainly, by the continued recovery in employment, higher revenues of firms, the stabilization of bank credit and investment in infrastructure. It is worth mentioning that as of August 31<sup>st</sup> 2010, the number of urban workers affiliated at IMSS was 14 million 515 thousand, which implied the creation of 634 thousand jobs (4.6%) with respect to December 2009.

The recovery of the Mexican economy is expected to continue during the second semester of 2010, though at lower annual growth rates than those observed during the first semester. The decline is due to a higher comparison base and the expected deceleration of the United States' economy, which will be partially compensated by higher dynamism of internal demand. It is estimated that during 2010, **Mexico's GDP will grow at an annual** rate of 4.5%, a projection similar to the expectations of the private sector analysts surveyed in August by Banco de México (4.6%). It is estimated that at the end of this year inflation will be approximately 5.0%, similar to the central **value of the Banco de México's projection range.**

For 2010, the public deficit is expected to be the same as that approved by Congress in the **Federation's Revenues Law** (LIF2010) and the Decree of the Expenditures Budget for 2010 (PEF2010). **Excluding Pemex's investment, the Public Sector's balance** is anticipated to be Ps. 90.0 billion, as a result of revenues by Ps. 2,822.6 billion and expenditures by Ps. 2,912.6 billion.

By the end of 2010, revenues are expected to be slightly higher than those estimated in LIF2010 by Ps. 25.6 billion (0.9%) as a result of higher oil revenues by Ps. 23.0 billion and revenues of public entities under direct budgetary control other than Pemex by Ps. 13.4 billion, partially offset by lower tax revenues of the Federal Government by Ps. 10.8 billion.

Total Public Sector expenditures for 2010 are expected to amount to 24.3% of GDP, 3.0% lower in real terms than those in 2009. Within, non-programmable expenditures are expected to increase by 6.9% in real terms with respect to those observed in 2009, which mainly reflects the real growth of shared revenues transferred to Federal Entities of 9.4% in real terms. It is worth mentioning that the estimated level of shared revenues for 2010 is the second highest since the Fiscal Coordination System was established in 1978, only exceeded by that observed in 2008. In contrast, programmable expenditures would be lower by 5.7% than those registered in 2009, consistent with the lower expenditures that were approved for the year.



The Public Sector Borrowing Requirements (PSBR), that is the total financing requirements of the Public Sector in order to achieve its policy goals, are estimated at 3.2% of GDP by the end of 2010, 0.6 percentage points of GDP higher than the ones at the end of 2009 and equal to those originally estimated for the year. The increase with respect to the end of 2009 is the result of the public deficit excluding **Pemex's investment** that was approved for the year.

### Economic Perspectives for 2011

The economic recovery in the United States is expected to continue, albeit at a slower pace than this year. Private sector analysts forecast GDP growth of 2.8% in 2011, compared with 2.9% in the previous year. The forecast for growth of industrial production in 2011 stands at 4.4%, lower than the 5.4% expected for 2010. Consistent with this, it is expected that in 2011, foreign demand will register a significant increase, although more moderate than that of 2010, leading to a continued expansion of the manufacturing production and of services related with foreign trade. It is worth mentioning that in recent months the uncertainty about the strength of the recovery in the United States and other industrialized countries has increased, which has led to downward adjustments to growth projections for 2011, but they still remain positive. On the other hand, it is anticipated that internal demand strengthens as expansions in employment and credit and the infrastructure investment program lead to higher growth of consumption and investment, which would result in higher growth in the construction sector and in services not related to the external sector.

**It is estimated that during 2011 Mexico's real GDP will register an annual growth rate of 3.8%**, similar to the forecast of private sector analysts (3.6% according to the August Survey carried out by Banco de México). Inflation is forecasted at 3.0%. The average reference price for the Mexican oil mix is estimated at 63.0 dollars per barrel (dpb), and it is anticipated that the oil production platform will decrease by 1.0% between 2010 and 2011; from 2,577 thousand barrels per day (tbd) to 2,550 tbd.

The Economic Program does not include any proposals for substantive changes to laws, regulations or procedures governing the current fiscal framework and the execution of expenditures, nor in the relationship between the Federal Government and the Federal Entities; in particular, neither the creation of new taxes nor the increase of existing tax rates is considered. Planned changes are related to tax simplification and reduction of the regulatory burden on different royalties and fees without causing any erosion in the tax collection capacity.

The project of the Federal Royalties and Fees Law for 2011 (Ley Federal de Derechos, LFD) includes a simplification proposal in order to eliminate several fees associated with obtaining services provided by the State. The simplification proposal eliminates a total of 41 fees that represent 12.5% of those contemplated in the LFD. Among the fees whose elimination is proposed are the following:

- Those relative to 11 Public Registries under the Federal Public Administration, such as the National Registry of Foreign Investment and the Mercantile and Brokerage Registry.



- Those relative to the notification of concentrations according to the Federal Competition Law.
- Those charged for visiting islands in the national territory and for photographic snapshots in protected natural areas.
- Those associated with the imports of medical devices for temporary use (prosthesis, orthotics, medical equipments and functional support).

In addition, it incorporates a proposal to include a list of marginal fields approved by the SHCP in the special tax regime of Pemex (deep waters and Chicontepec), when they meet a set of objective criteria, such as economic profitability before taxes and low profitability under the ordinary tax regime. For each marginal field, a distinction will be established between a base production profile, which would be taxed according to the general regime, and an incremental production profile, which would be taxed with the special regime.

The estimates underlying the Economic Package for 2011 incorporate the full annual effect of the tax reform approved for 2010, as well as the simplification measures to facilitate compliance that were announced in 2010 and with continued efforts to combat tax evasion and avoidance.

The estimations of the Economic Program are based on a scenario in which revenue growth is consistent with the tax reform that was approved in 2009. In this way: i) the revenues' estimation is consistent with the forecasts presented for variables such as economic activity, price and oil production platform; ii) changes to the current tax legislation refer only to the elimination of procedures or fees to obtain services provided by the State; iii) non-programmable expenditures reflect the evolution of the Federal shareable revenues, the amount of payments deferrals approved in the LIF2010 and the estimated behavior of interest rates, and iv) programmable accrued expenditures are consistent with the proposed deficit for the year, and with the estimates of budgetary revenues and non-programmable expenditures.

## Public Balance

The Economic Program proposed by the Federal Executive for 2011 follows up on actions carried out since 2009 to address the effects of the international financial crisis of 2008-2009 on economic activity and public revenues in Mexico. In this context, as outlined in the General Economic Policy Guidelines for the fiscal year 2010 (CGPE2010), a budget deficit in the initiative of the Revenues Law and the Expenditure Project of **Ps. 42.2 billion excluding Pemex's investment** is proposed for 2011. This is in line with Article 17 of the LFPRH and Article 1, paragraph 14, of the LIF2010. This level is equivalent to 0.3% of GDP and it is the same as the one proposed in CGPE2010 for 2011, simply updated by inflation. In this way, there remains a countercyclical stimulus which is also consistent with the reestablishment of a balanced budget as of 2012, when the level of activity of the Mexican economy is expected to return to its medium-term potential. This reestablishes a public balance consistent with an orderly evolution of the public debt and the sustainability of public finances. Pemex's investment increases such that it remains constant as a proportion of GDP at the level approved for 2010 of 2.0%.



## Public Revenues

Budgetary revenues for 2011 are estimated at Ps. 3,022.8 billion, 3.9% higher than those approved in the LIF2010 and by 3.0% with respect to those estimated for 2010. Within total revenues, the following is observed:

- Oil related revenues estimated for 2011 grow 4.5% in real terms with respect to those approved in the LIF2010 and by 2.0% with respect to those estimated for 2010.
- Non-oil revenues are expected to increase by 3.6% in real terms in 2011 compared with those approved in the LIF2010, and by 3.5% with respect to those estimated for 2010. Within, tax revenues show an increase of 7.3% in real terms with respect to those estimated at the end of 2010, which allows us to compensate the reduction of 37.2% in non-recurrent revenues with respect to those estimated for 2010.
- Revenues from public entities under budgetary control other than Pemex are expected to increase by 3.2% in 2011 with respect to those estimated for 2010.

Budgetary Revenues, 2010-2011 (Billion pesos of 2011)							
	2010		2011	Differences 2011 vs. 2010			
	LIF	Estimated		Absolute		Relative	
				LIF	Est.	LIF	Est.
<b>Total</b>	<b>2,908.8</b>	<b>2,935.5</b>	<b>3,022.8</b>	<b>113.9</b>	<b>87.3</b>	<b>3.9</b>	<b>3.0</b>
Oil related	950.1	974.0	993.3	43.1	19.2	4.5	2.0
Non-oil related	1,958.7	1,961.4	2,029.5	70.8	68.1	3.6	3.5
Tax revenue	1,373.3	1,362.1	1,461.4	88.1	99.3	6.4	7.3
Non-tax revenue	125.1	125.1	78.5	-46.6	-46.6	-37.2	-37.2
PEDBC	460.3	474.2	489.6	29.3	15.4	6.4	3.2

## Public Expenditures Strategy

In the Federation's Expenditures Budget Project for the fiscal year 2011 (PPEF2011), the Federal Executive proposes a public expenditure policy primarily oriented to strengthen three key aspects that are essential for the Nation and for Mexican society in its entirety: economic growth and the creation of more and better jobs, which have shown a significant recovery during 2010; the support for social development, with particular emphasis on education, health and reducing poverty in order to improve living conditions and equality of opportunities for all Mexicans; and public security and law enforcement, in order to advance in the effort against organized crime.

The execution of public expenditures will continue to take place in a framework of responsibility, austerity, efficiency and transparency in the conduction of the public finances, in order to do more with less and doing better each time.



The challenge in 2011 is to maintain the dynamism of economic activity, consolidate the recovery observed in 2010 and to enhance job creation, through a policy of efficient and targeted expenditures on high-impact activities.

Since the beginning of this Administration, the Federal Government has set as one of its highest priorities the strengthening of the Rule of Law and of public security, in order to regain control of the spaces gained by crime and to restore the social tissue in order to make every corner of our country a safe place for all Mexicans. The public expenditures' policy is not unrelated to the security issue that affects our country, which is why the Government will continue to work in full to ensure the security and peace that all citizens deserve. However, the security policy has to be a State policy. This means that it cannot only be a policy of the present Government, it has to be a permanent effort and an effort from all of us.

The expenditure policy for 2011, besides promoting the priorities mentioned before, will be austere and transparent. Transparency facilitates accountability and the evaluation of the results will produce a more efficient use of public resources.

Worth noting in the PEF2011 project are the following aspects:

- For 2011, excluding Pemex's investment, **net expenditures** are higher by 2011Ps. 62.5 billion (2.1% in real terms) with respect to those approved for 2010, as a result of higher budgetary revenues by 2011Ps. 113.9 billion and a reduction in the deficit of 2011Ps. 51.5 billion, from 2011Ps. 93.6 billion in 2010 to **2011Ps. 42.2 billion in 2011. Pemex's** physical investment in 2011 will remain at the same level as a proportion of the GDP as that approved for 2010 (2.0% of GDP), which implies an increase of 2011Ps. 12.4 billion. Therefore, total net expenditures **including Pemex's investment will be** of 2011Ps. 3,351.3 billion, higher by 2011Ps. 75.0 billion compared to the amount approved in the PEF2010 (2.3% in real terms).



Public Sector Net Expenditures, 2010-2011 (Billion pesos of 2011)				
	2010 PEF	2011	Differences	
			Absolute	Relative
<b>Total including Pemex's investment</b>	<b>3,276.3</b>	<b>3,351.3</b>	<b>75.0</b>	<b>2.3</b>
<b>Total excluding Pemex's investment</b>	<b>3,002.4</b>	<b>3,065.0</b>	<b>62.5</b>	<b>2.1</b>
Programmable paid	2,495.5	2,524.3	28.7	1.2
Programmable paid excluding Pemex's investment	2,221.6	2,237.9	16.3	0.7
Deferred payments	-27.0	-27.0	0.0	0.0
Accrued	2,522.6	2,551.3	28.7	1.1
<b>Accrued excluding Pemex's investment</b>	<b>2,248.7</b>	<b>2,265.0</b>	<b>16.3</b>	<b>0.7</b>
Non programmable	780.8	827.0	46.2	5.9
Financial Cost	307.7	315.0	7.3	2.4
Shared Revenues	459.2	490.4	31.1	6.8
Adefas	13.9	21.6	7.8	56.1

- Programmable accrued expenditures for 2011 are 2011Ps. 2,265.0 billion, excluding Pemex's investment, higher by 2011Ps. 16.3 billion (0.7% in real terms) with respect to those approved for 2010. This amount is consistent with the containment of current expenditures and with the savings that have been carried out in the present Administration. **Including Pemex's investment, programmable accrued expenditures will be of 2011Ps. 2,551.3 billion, higher by 2011Ps. 28.7 billion (1.1% in real terms) with respect to those approved for 2010.**

Variation in 2011 Programmable Expenditures (Billion pesos of 2011)	
Increase of total programmable expenditures (1-2-3+4)	28.7
Increase of programmable expenditures excluding Pemex's investment (1-2-3)	16.7
1. Increase in Revenues vs. LIF2010	113.9
Oil related	43.1
Non-oil related	70.8
2. Increase in non-programmable expenditures vs. PEF2010	46.2
3. Decrease in public deficit excluding Pemex's investment	51.5
4. Increase in Pemex's investment	12.4

- In terms of the economic classification of programmable expenditures, these are grouped according to their economic nature and object, that is, current spending and capital spending. For the fiscal year 2011, current expenditures will account for 76.6% of programmable expenditures, while the remaining 23.4% will be capital expenditures. In relation to what was approved in 2010, in 2011 current expenditures show a marginal increase of 2.1%, while capital expenditures will decrease by 1.8%, both in real terms.

- Fostered investment will be of 2011Ps. 622.5 billion, which implies that during the period 2007-2011 fostered investment will be 44.4% higher in real terms than the observed average during the 2000-2006 period, and higher by 72.2% with respect to that observed in 2000.

Programmable Expenditures of the Public Sector, 2010-2011 (Billion pesos of 2011)				
	2010 PEF	2011	Differences	
			Absolute	Relative
<b>Total</b>	<b>2,522.6</b>	<b>2,551.3</b>	<b>28.7</b>	<b>1.1</b>
Current Expenditures	1,914.6	1,954.3	39.7	2.1
Personnel Services	838.2	847.9	9.8	1.2
Pensions	318.1	331.6	13.5	4.2
Subsidies	325.1	318.0	-7.1	-2.2
Operational	433.2	456.8	23.6	5.5
Capital Expenditures	608.0	597.0	-11.0	-1.8

- In terms of their administrative classification, expenditure provisions are grouped according to expenditure executors, in terms of government branches and public entities. The proposed expenditure for the Autonomous Branches is 2011Ps. 63.4 billion for 2011, 0.7% higher than the project for 2010. The budget for the Administrative Branches will be 2011Ps. 792.1 billion, which will represent a 0.8% real decrease compared with the project for 2010. Worth highlighting are the real increases proposed for the Ministries of the Interior, Defense, Marine and Public Security of 9.6, 13.1, 10.6 and 28.0% with respect to the project of 2010, respectively. In order to consolidate economic growth and to promote capacity-building by individuals, the allocations to the ministries of Tourism, Economy, Public Education, Health and Transports and Communications as well as the National Council for Science and Technology (Conacyt) will increase by 33.5, 15.7, 7.1, 4.2, 4.7, and 7.2%, with respect to the project for 2010, respectively.<sup>1</sup>

<sup>1</sup> The comparison of expenditures by administrative classification is done with respect to the Budget Project of the previous year in order to clarify the **Federal Executive's** expenditure priorities.



Programmable Expenditures of the Public Sector, 2010-2011 Administrative Classification (Billion pesos of 2011)				
	2010 Project	2011 Project	Differences	
			Absolute	Relative
<b>Total</b>	<b>2,493.8</b>	<b>2,551.3</b>	<b>57.5</b>	<b>2.3</b>
<b>Autonomous Branches</b>	<b>63.0</b>	<b>63.4</b>	<b>0.4</b>	<b>0.7</b>
<b>Administrative Branches</b>	<b>798.4</b>	<b>792.1</b>	<b>-6.3</b>	<b>-0.8</b>
Presidency	1.8	1.8	0.0	1.1
Government	14.1	15.5	1.4	9.6
External Affairs	6.3	5.9	-0.4	-6.9
Finance and Public Credit	35.5	35.3	-0.1	-0.4
National Defense	44.2	50.0	5.8	13.1
Sagarpa	63.2	59.5	-3.7	-5.8
Transport and Communications	64.1	67.1	3.0	4.7
Economy	13.8	15.9	2.2	15.7
Public Education	204.3	218.8	14.6	7.1
Health	92.9	96.8	3.9	4.2
Marine	16.5	18.3	1.7	10.6
Employment and Social Provision	3.9	3.7	-0.2	-4.5
Agrarian Reform	4.6	4.8	0.3	5.7
Semarnat	42.1	42.7	0.6	1.5
PGR	12.6	12.1	-0.5	-4.0
Energy	39.8	3.0	-36.8	-92.5
Social Development	87.6	79.5	-8.1	-9.3
Tourism	3.1	4.2	1.0	33.5
Public Function	1.4	1.3	-0.1	-5.3
Agrarian Court	0.8	0.8	0.0	2.6
Federal Court	1.7	1.8	0.2	10.6
Public Security	27.9	35.7	7.8	28.0
Legal Council	0.1	0.1	0.0	-4.1
CONACYT	16.1	17.3	1.2	7.2
<b>INEGI</b>	<b>9.1</b>	<b>4.8</b>	<b>-4.3</b>	<b>-47.1</b>
<b>General Branches</b>	<b>829.0</b>	<b>858.1</b>	<b>29.1</b>	<b>3.5</b>
<b>Entities under direct control</b>	<b>1,110.3</b>	<b>1,116.4</b>	<b>6.1</b>	<b>0.5</b>
Pemex	399.8	420.3	20.5	5.1
CFE	229.1	243.3	14.2	6.2
LyFC	31.3	0.0	-31.3	-100.0
IMSS	333.2	338.2	5.0	1.5
ISSSTE	117.0	114.5	-2.4	-2.1
<b>Transfers, subsidies and contributions</b>	<b>316.1</b>	<b>283.6</b>	<b>-32.5</b>	<b>-10.3</b>

- The functional classification of expenditures allows an analysis of its distribution in terms of the activities performed by ministries and entities of the Federal Public Administration based on the attributions and competences established in the legal framework. The Federation Expenditures Budget Project for the fiscal year 2011 will assign 2011Ps. 1,454.6 billion for social development functions, similar to the level approved for 2010, with real increases in social security and health by 3.4 and 2.7%, respectively. The allocation for economic development functions in 2011 will be of 2011Ps. 861.3 billion,

which implies an increase of 2.3% with respect to that approved for 2010. Within, worth highlighting are the increases for energy functions, business development, and science and technology of 9.1, 6.0 and 4.8%, respectively. An allocation of 2011Ps. 166.3 billion is considered for governance functions, which represents a 4.4% real increase with respect to that approved for 2010, highlighting the increase in allocations for order, security and justice, and national security by 12.9 and 8.5%, respectively.

Programmable Expenditures of the Public Sector, 2010-2011 Functional Classification (Billion pesos of 2011)				
	2010 PEF	2011	Differences	
			Absolute	Relative
<b>Total</b>	<b>2,522.6</b>	<b>2,551.3</b>	<b>28.7</b>	<b>1.1</b>
Branches and autonomous entities	54.0	62.1	8.1	15.0
INEGI	8.6	4.6	-4.0	-46.5
Federal Public Administration	2,456.8	2,482.2	25.4	1.0
Government	159.3	166.3	7.0	4.4
Social Development	1,455.9	1,454.6	-1.3	-0.1
Economic Development	841.6	861.3	19.7	2.3
Stabilization Funds	3.2	2.4	-0.8	-26.1

Federalized expenditures in 2011 are projected to be Ps. 996.4 billion, 2011Ps. 20.0 billion (2.0%) higher than those approved for 2010. Federal shared revenues and transferred resources will be Ps. 490.4 billion and Ps. 494.5 billion, respectively, which represent real increases of 6.8 and 2.7% with respect to those approved for 2010, in that order.

Federal Transfers to Federal Entities, 2010-2011 (Billion pesos of 2011)				
	2010 PEF	2011	Differences	
			Absolute	Relative
<b>Total</b>	<b>976.4</b>	<b>996.4</b>	<b>20.0</b>	<b>2.0</b>
Shared Revenues	459.2	490.4	31.1	6.8
Transferred Resources	481.7	494.5	12.8	2.7
Other	35.5	11.6	-23.9	-67.4

### Policy of Public Credit for 2011

The Public Debt policy for 2011 will be oriented to continue strengthening the structure of public liabilities and to encourage further development and efficiency in local financial markets, seeking to finance most of the Federal Government deficit in the local debt market and resorting to external borrowing only as a complement.



Regarding domestic debt the following guidelines will be followed:

- Strengthening the liquidity of Federal Government long-term instruments, taking advantage of the recent inclusion of sovereign bonds issued in local markets in the major global indexes of government debt.
- Improving the maturity and the average duration of the debt portfolio.
- Consolidating the direct placement program of government securities to improve the conditions of access and provision of financial services to small and medium sized savers.
- Encouraging further development of the market for inflation-indexed instruments (Udibonos) through measures designed to strengthen the liquidity and depth of these instruments in the secondary market.

The main objectives of the external debt policy in 2011 will be:

- To maintain the presence in international financial markets, seeking to strengthen the Federal Government reference bonds.
- To expand the sources of funding and the investor base through access to non-traditional funding sources on favorable terms.
- To reduce funding from IFIs gradually, since conditions in capital markets are more favorable and with the objective of restoring the leeway in this area in case episodes of financial instability arise in the future.

In order to achieve the above mentioned objectives, Congress is being requested for a debt ceiling of Ps. 340 billion for the Federal Government, Ps. 40 billion lower than that requested in 2010, consistent with a lower deficit for 2011. A ceiling for external debt of USD 5.0 billion is considered for the financing operations of the entire Public Sector, USD 3.0 billion lower than the one approved in 2010.

### **Financial Requirements of the Public Sector for 2011**

The Financial Requirements of the Public Sector in 2011 will be equivalent to 2.7% of GDP, 0.5 percentage points lower than those anticipated for 2010, due to a reduction in the public deficit of 0.4 percentage points of GDP consistent with a gradual decrease in the countercyclical stimulus implemented in 2010 in order to ensure the sustainability of public finances.

Public Sector Borrowing Requirements (% of GDP)			
Concept	2010	2011	Differences
<b>I. Traditional balance</b>	<b>2.7</b>	<b>2.3</b>	<b>-0.4</b>
<b>II Adjustments</b>	<b>0.5</b>	<b>0.4</b>	<b>-0.1</b>
Borrowing requirements by Pidiregas	0.1	0.1	0.0
Borrowing requirements by IPAB	0.2	0.2	0.0
Adjustments to budgetary registries	0.3	0.2	-0.1
Borrowers program	0.0	0.0	0.0
Development Banks <sup>1_</sup>	-0.1	-0.1	0.0
<b>III. RFSP (I+II)</b>	<b>3.2</b>	<b>2.7</b>	<b>-0.5</b>

<sup>1\_</sup>/ Includes the National Infrastructure Fund.

It is estimated that by the end of 2011 the historical balance of the Financial Requirements of the Public Sector will be 36.6% of GDP, 0.2 percentage points lower than those expected for 2010 (36.8% of GDP).

### Final considerations

Last year, we faced the worst international financial crisis of the last eighty years, which profoundly affected both economic activity and public finances in Mexico. A determined policy response, together with a gradual improvement of the international environment, set the pace for a strong recovery starting in the second half of 2009, and which is expected to continue during the second half of 2010 and in 2011.

However, the international outlook is not exempt from risks. Despite the fiscal adjustments made in several countries of Europe in response to the doubts about their fiscal sustainability, there is still uncertainty about whether the adjustments will be sufficient and if they will be properly implemented. Even though a slowdown in the economy of the United States was anticipated since the beginning of the year, this was more pronounced than expected in the second quarter of 2010. Finally, since the second quarter of this year, these problems resulted in an increase in volatility in international financial markets.

In a context of economic recovery, but with significant uncertainty, we have adopted a strategy to continue strengthening the national economy. First, the tax reform approved in 2009 has allowed public finances to return to a path of sustainability. Second, international reserves have been increased in order to guarantee that there will be no funding problems in the external accounts. Third, favorable conditions in the international financial markets were taken advantage of in order to meet the existing needs of external public financing. Finally, in the last year there has been significant progress in the structural agenda to increase the competitiveness of the national economy.



In this context, the economic package for 2011 is a proposal that promotes further development at the same time that it is responsible. First, it maintains the countercyclical impulse through a moderate deficit in order to promote the recovery of the Mexican economy. Second, it preserves the tax changes that were approved in 2009 and whose purpose was to address the drastic fall in the oil production platform. With this, we ensure the medium-term sustainability of public finances, so that we do not fall again into a financial crisis of internal origin such as those suffered in the past.

It is a fact that the Mexican economy has recovered. However, given the risks that still prevail in the international environment, this is not the time to drop our guard. On the contrary, we must continue with resolute actions to increase the competitiveness of the Mexican economy in a sustainable way through actions in all the areas of public policies. Only in this way shall we generate the appropriate conditions that result in faster economic growth, higher job creation and lower levels of poverty.

ANNEX

MACROECONOMIC FRAMEWORK, 2010-2011		
	2010	2011
<b>Gross Domestic Product</b>		
Real Growth %	4.5	3.8
Nominal (Billion pesos)	13,094.3	14,140.6
GDP Deflator	6.0	4.0
Inflation		
Dec. / Dec.	5.0	3.0
Nominal Exchange rate		
Average	12.6	12.9
Interest rate (Cetes 28 days)		
Nominal end of period, %	4.5	5.5
Average nominal, %	4.5	5.0
Real accumulated, %	-0.7	1.8
Current Account		
Million dollars	-10,298.1	-13,216.5
% of GDP	-1.0	-1.2
Variables of support:		
Fiscal balance		
Including Pemex's investment (% of GDP)	-2.7	-2.3
Excluding Pemex's investment (% of GDP)	-0.7	-0.3
U.S. GDP (Annual variation)		
Real growth %	2.9	2.8
U.S. Industrial Production		
Real growth %	5.4	4.4
U.S. Inflation		
Average	1.5	1.6
International Interest Rate		
Libor 3 months (average)	0.7	1.2
Oil (Mexican mix)		
Average price (dls. / barrel)	65.0	63.0
Average oil export platform (mbd)	1,289.0	1,149.0
Average oil production platform (mbd)	2,576.9	2,550.0