PRESS RELEASE

Mexico City, November 16th, 2011

APPROVAL OF THE ECONOMIC PROGRAM FOR 2012

- ***The approved Economic Program for 2012 is based on objective and responsible forecasts including growth of 3.3% and an average export price of crude oil of USD 84.9 per barrel for the Mexican mix.***

- ***Four objectives are addressed: i) accelerate the development of domestic markets; ii) boost the competitiveness of the economy; iii) promote the welfare and opportunities of Mexican households, and iv) maintain economic stability and fiscal responsibility.***

- ***The fiscal package approved by Congress maintains a fiscal stimulus while preserving the sustainability of public finances. The aforementioned through a fiscal deficit, excluding PEMEX's investment, equivalent to 0.4% of GDP.***

- ***For the third time in the present Administration, the program does not include substantial changes to the laws, regulations and procedures governing the current fiscal framework and the execution of expenditures.***

- ***The proposals for simplification and reduction of regulatory burdens with regards to fees and royalties, as well as changes in the scheme of fiscal receipts, were approved.***

- ***Total revenues approved for 2012 are higher by 4.7% than those approved for 2011. Total outlays increased by 4.1% in real terms with respect to the amount approved for 2011. Within, programmable expenditures excluding PEMEX's investment increase 6.2% in real terms.***

- ***Worth highlighting are the increases in real terms by 6.4, 9.4 and 18.6% in programmable expenditures for Social Development, National and Public Security and Science, Technology and Innovation, respectively, compared to the amount approved for 2011.***

- ***Fostered investment in the period 2007-2012 will be higher by 47.7% in real terms to the one observed during 2001-2006.***

- ***Federalized expenditures will amount to Ps. 1,067.3 billion. Within, shared revenues will amount to Ps. 504.9 billion. Excluding the vehicles ownership tax, shared revenues increased by 11.9 billion (2.4% in real terms) with respect to the amount approved for 2011.***

- ***The approved Budget for 2012 continues with the efforts regarding austerity and efficiency of public expenditures made by the present Administration. In this way, the Ps. 40.1 billion goal in savings established for the period between 2010 and 2012 will be achieved.***

On October 27th, Congress approved the Federation's Revenue Law for 2012 (LIF2012), as well as changes to the Federal Royalties Law and the Federal Tax Code, amongst other legal norms. Afterwards, on November 15th, the Lower Chamber approved the Federation's Expenditures Budget for 2012 (PEF2012). In this set of dispositions, which constitutes the Economic Package for 2012, the following elements are worth highlighting:

- The changes made during the parliamentary process to the macroeconomic assumptions for 2012 that underlie the Economic Package were the following: expected economic growth was decreased from 3.5% to 3.3%; the forecast for the annual average exchange rate for 2012 increased from 12.2 to 12.8 MXN/USD, and the expected oil production platform was increased from 2,550 to 2,560 thousand barrels per day.

- A fiscal deficit of 0.4% of GDP, excluding PEMEX's investment, was approved, which is consistent with maintaining a downward trend in the deficit leading to a gradual attainment of a balanced budget. PEMEX's investment stands at 2.0% of GDP.

- For the third time in the present Administration, no new tax bills were submitted to Congress. This leads to greater legal certainty concerning the tax guidelines of our fiscal framework.

- Congress approved, with some amendments, the simplification of the Federal Royalties Law and the modifications to the Federal Tax Code proposed by the Executive.

- Budgetary revenues of Ps. 3,310.5 billion and financing for Ps. 396.9 billion were approved for 2012, leading to total resources available for the public sector of Ps. 3,706.9 billion, amount higher by 2012Ps. 147.7 billion with respect to the amount approved for 2011 (4.1% in real terms). With respect to the proposal by the Executive, total approved resources are higher by Ps. 59.2 billion. This increase is composed of Ps. 30.9 billion associated with a higher deficit, higher oil revenues by Ps. 24.4 billion and higher non-oil tax revenues by Ps. 3.6 billion.

- With respect to the amount approved for 2011, revenues will increase by 4.7% in real terms and will reach 21.9% of GDP, which is 0.3% higher than that approved for 2011. Within, worth highlighting are the increases in oil revenues and entities other than PEMEX of 12.7% and 12.0% in real terms, respectively. Excluding the vehicle ownership tax from the base of comparison, tax revenues will increase 3.8% with respect to the amount expected for 2011.

- Public sector accrued expenditures approved in the PEF2012 are Ps. 3,706.9 billion, amount higher by Ps. 147.7 billion (4.1% in real terms) with respect to the amount approved for 2011. Excluding investment by PEMEX, total public accrued expenditures stand at Ps. 3,405.7 billion, amount higher by Ps. 142.8 billion (4.4%) with respect to the amount approved for 2011. Both aggregates are higher by Ps. 59.2 billion with respect to the Executive's proposal.

- Approved programmable expenditures for 2012 increase by Ps. 154.8 billion with respect to those approved for 2011 (5.7% in real terms). Excluding investment by PEMEX, programmable expenditures are higher by Ps. 149.9 billion in 2012 (6.2% in real terms) and are equivalent to 17.0% of GDP in 2012, amount higher by 0.5% than that approved for 2011.

- Within PEF2012 allocations of Ps. 1,655.2 billion for social development functions, Ps. 924.3 billion for economic development and Ps. 193.9 billion for government functions were approved. These amounts are higher by 6.4, 1.7 and 12.4% in real terms with respect to the amounts approved for 2011.

- Investment fostered by the public sector, defined as budgetary physical investment and the amounts made through out-of-budget outlays net of Pidiregas amortizations, will stand at 2012Ps. 675.1 billion which implies that investment fostered during the period 2007-2012 will be higher by 47.7% in real terms than the one observed during the period 2001-2006.

- Shared revenues amount to Ps. 504.9 billion, which implies an increase of 2.4% in real terms with respect to those approved for 2011, excluding the Vehicle Ownership Tax.

- The approved package will maintain a moderate and stable level of public debt as a proportion of GDP, being consistent with the fiscal responsibility principles established in the Federal Budget and Fiscal Responsibility Law (LFPRH).

Macroeconomic Framework for 2012

In the approved economic program for 2012, the macroeconomic framework proposed by the Executive in the General Economic Policy Guidelines for 2012 (CGPE2012) was modified by incorporating the additional information that was observed since the submission date. The external environment has deteriorated and volatility in international financial markets has increased due, mainly, to the problems observed in several industrial countries. This led to a revision in the growth forecast for Mexico during 2012 from 3.5 to 3.3%.

The volatility in international financial markets in the past few weeks led to an adjustment in the exchange rate, so Congress decided to modify the MXN/USD exchange rate forecast from an expected annual average of 12.2 to 12.8 pesos per dollar. The estimated production platform of crude oil was also raised from 2,550 to 2,560 thousand barrels per day, leading to a level of production that is closer to the average production observed in 2011.

Finally, the public deficit, excluding PEMEX's investment, was also revised upwards by Ps. 30.9 billion, from 0.2 to 0.4% of GDP. The slight increase in deficit is motivated by the downward revision to expected growth and consequently a larger output gap. This way, the moderate increase in the deficit addresses two objectives: it maintains a slightly higher level of countercyclical stimulus while preserving a downward trend in the public deficit that will allow a return to a balanced budget and preserve the sustainability of public finances.

Macroeconomic Framework, 2012		
	CGPE12	Approved
GDP		
Nominal (billion pesos)	15,164.9	15,130.1
Real anual growth %	3.5	3.3
GDP deflator	3.5	3.5
Inflation		
Dec./Dec. (%)	3.0	3.0
Average nominal exchange rate		
Pesos per dólar	12.2	12.8
Average interest rate		
CETES 28 days (%)	4.6	4.6
Fiscal balance		
Total (%GDP)	-2.2	-2.4
Excluding PEMEX's investment	-0.2	-0.4
Oil		
Average price (dpb)	84.9	84.9
Export platform (mbd)	1,167.0	1,177.0
Production platform (mbd)	2,550.0	2,560.0

Federation's Revenue Law for 2012

For the 2012 fiscal exercise, Congress approved total public sector revenues —without considering the resources obtained through financing operations— of Ps. 3,310.5 billion. Total revenues reached 21.9% of GDP, amount 0.3 percentage points higher than the amount approved for 2011, Ps. 28.7 billion above the Federal Executive's proposal and 4.7% higher than those approved for 2011. To better evaluate the evolution of revenues, the vehicle ownership tax can be excluded from the base of comparison in 2011 given that it will be eliminated in 2012 as expected. This adjustment implies growth of 5.2% with respect to the approved amount for 2011.

Incorporating the resources obtained through financing operations, total approved resources are Ps. 3,706.9 billion, amount higher by 59.2 billion with respect to those in the Federal Executive's proposal, and 4.1% in real terms with respect to those approved for 2011. With respect to the Federal Executive's proposal, the increase in total resources for 2012 is explained by the following:

Federation's Revenue Law for 2012 (Million pesos)	
I. LIF Initiative (revenues and deficit)	**3,647,907.1**
II. Modifications (1+2+3+4)	**59,015.1**
1. Revision of 2011, improvements in tax administration and lower economic activity in 2012 (from 3.5% to 3.3%)	3,635.0
2. Higher public deficit (from 0.2 to 0.4% of GDP)	30,942.0
3. Higher average nominal exchange rate (from 12.2 to 12.8 pesos per dollar)	21,024.6
4. Higher oil production (from 2,550 to 2,560 mbd)	3,413.5
III. Approved LIF 2012 (I+II)	**3,706,922.2**

Oil revenues are estimated to reach Ps. 1,172.3 billion, which represents a real increase of 12.7% with respect to those approved for 2011. The upward revision of the exchange rate and of oil production implies that these revenues increased by Ps. 24.4 billion with respect to the Executive's proposal for 2012.

Approved non-oil tax revenues are Ps. 2,137.8 billion, which implies a real increase of 0.7% with respect to those approved for 2011 and an upward revision by Ps. 3.6 billion with respect to the proposal. Within, tax revenues show a decrease of 2.1% in real terms with respect to the amount approved for 2011 and a 2.8% increase in real terms with respect to the expected revenues for this year. The growth in revenues with respect to the estimated amount at the end of the year is lower than the growth of GDP due to the elimination of the vehicle ownership tax. By adjusting the base of comparison excluding this tax, the decrease with respect to the amount approved for 2011 is 1.0% and the increase with respect to the estimated amount is 3.8%. The reduction that is still observed in relation with the approved amount is a result of the important increase in VAT rebates observed in 2011, and a lower consumption of tobacco.

Non-tax revenues decrease 22.2% in real terms with respect to the end of 2011 due to lower non-recurrent revenues. It is important to remember that the public finances multiannual strategy established in the CGPE2010 considered a downward trend in non-recurring revenues during the period 2010-2012.

Budgetary revenues, 2011-2012
(Million pesos of 2012)

	2011		2012		Differences			Real growth	
	LIF	Estimated	Project	Approved	2012 vs 2011		2012		
	(1)	(2)	(3)	(4)	(4-1)	(4-2)	(4-3)	(4/1)	(4/2)
Total	**3,162,249.3**	**3,183,285.7**	**3,281,976.2**	**3,310,049.3**	**147,800.0**	**126,763.6**	**28,073.1**	**4.7**	**4.0**
Total excluding veh. owner. tax	***3,144,465.1***	***3,167,688.5***	***3,280,905.9***	***3,308,979.0***	***164,513.9***	***141,290.5***	***28,073.1***	***5.2***	***4.5***
Oil revenues	1,040,328.3	1,085,213.6	1,147,831.3	1,172,269.4	131,941.1	87,055.8	24,438.1	12.7	8.0
Non-oil revenues	2,121,921.0	2,098,072.1	2,134,144.9	2,137,779.9	15,858.9	39,707.8	3,635.0	0.7	1.9
Tax	1,524,012.0	1,451,460.7	1,488,328.7	1,491,963.7	-32,048.3	40,503.0	3,635.0	-2.1	2.8
Tax excluding veh. own. tax	*1,506,227.8*	*1,435,863.6*	*1,487,258.4*	*1,490,893.4*	-15,334.4	55,029.8	3,635.0	-1.0	3.8
Non-tax	91,227.9	100,651.8	78,258.4	78,258.4	-12,969.5	-22,393.4	0.0	-14.2	-22.2
Entities under direct control	506,681.1	545,959.6	567,557.8	567,557.8	60,876.7	21,598.2	0.0	12.0	4.0

The LIF2012 authorizes a net debt issuance by the Federal Government of up to Ps. 435 billion, amount higher by Ps. 40.0 billion with respect to the level requested in the proposal due to the upward revision of public deficit as well as the changes in the Federal Government's balance derived from the adjustments in revenues and expenditures. An external net debt issuance of USD 7.0 billion was approved, including financing from international financial institutions. A level of net indebtedness of Ps. 5.0 billion was authorized for Mexico City.

The following elements stemming both from the original proposal as well as from the changes made by Congress are worth highlighting:

- The reform to the Federal Royalties Law continues with the fiscal simplification policy implemented since last year, which consists in reducing tax and administrative burdens associated with the payment of fees and royalties by taxpayers as well as the Federal Public Administration. This reform will eliminate 140 federal fees, in addition to the 138 fees eliminated since 2011.

- The proposed changes to the Federal Tax Code were approved with minor changes, implying the following: simplification of tax receipts with their regulation being now concentrated in 5 articles of the Federal Tax Code and reducing requirements from 158 to 26; facilitating the deduction of expenses by allowing bank statements to be used as tax receipts; payment of royalties through electronic means is allowed; the validity of the electronic signature certificate (FIEL) is extended from 2 to 4 years, and the period when the prescription of tax crimes begins is clarified.

- The transitory article that establishes a fully shareable amount of the IEPS was extended.
- The provision that eliminates the maximum reserve level of the stabilization funds will be maintained, with the purpose of allowing for a higher accumulation of resources in order to face future shocks.

The Federation's Expenditures Budget for 2012

Accrued public expenditures approved in the PEF2012 are Ps. 3,706.9 billion; amount higher by Ps. 147.7 billion (4.1% in real terms) with respect to that approved for 2011. Excluding investment by PEMEX, public accrued expenditures stand at Ps. 3,405.7 billion, amount higher by Ps. 142.8 billion (4.4%) with respect to that approved for 2011. Both aggregates are higher by Ps. 59.2 billion with respect to the Executive's proposal.

The approved programmable expenditures for 2012 increase by 5.7% in real terms with respect to those approved for 2011. Without considering investment by PEMEX, programmable expenditures will represent 17.0% of GDP in 2012, which represents 0.5 percentage points more than the amount approved in 2011 and a level greater by 2012Ps. 150.4 billion (6.2% in real terms).

With respect to the Executive's Project, the Budget approved for 2012 implied gross reallocations and expansions of expenditures by Ps. 94.7 billion which will be financed with higher resources by Ps. 59.2 billion and cuts in expenditures by Ps. 35.7 billion. These reductions include Ps. 11.6 billion in non-programmable expenditures and Ps. 24.8 billion in programmable expenditures.

Within the expansions authorized by the Lower Chamber, the following are observed: Ps. 25.4 billion for Budget Line 23 Economic and Wage Provisions; Ps. 17.1 billion for Highways and Communications (SCT); Ps. 14.2 billion to Education (SEP); Ps. 12.0 billion to Agriculture (SAGARPA) and Ps. 9.5 billion to Natural Resources and the Environment (SEMARNAT). Within the resources for Budget Line 23, Ps. 3.0 billion were allocated to pavement, sport premises, public lighting and the rehabilitation of the education infrastructure fund for municipalities, Ps. 4.5 billion to the regional fund, 4.0 billion for an infrastructure enhancement bond, 2.8 billion for regional development programs and Ps. 7.3 billion to the metropolitan funds, among others. Shared revenues and federal contributions associated to the federal shareable tax collection increased by Ps. 1.7 billion.

For 2012, approved expenditures for Autonomous Branches increase by 13.1% in real terms with respect to the amount approved for 2011. Within, it is worth highlighting the increase in resources for the Federal Electoral Institute (IFE), which are higher by 37.6% with respect to the amount approved for 2011 due to the federal elections of 2012.

Approved expenditures for Administrative Branches increase by 4.7% in real terms with respect to the budget for 2011. Within, the budget for the Ministries of the Interior, PGR, Public Security and National Defense increase by 39.7, 20.0, 10.3 and 7.4%, respectively; and the allocations to the National Council of Science and Technology (CONACyT), the Ministry of Finance and Public Credit - to support housing - , the Ministries of Economy, Public Education and Health increase by 19.9, 14.3, 9.0, 5.4 and 4.1%, respectively.

For the General Branches, the approved Budget shows an increase of 6.3% in real terms with respect to the amount approved for 2011, while the increase for entities under direct budgetary control is 7.5%, mainly associated with the increase in pension payments by IMSS and ISSSTE.

Programmable expenditures, 2011-2012 (Billion pesos of 2012)								
	2011		2012		Differences			
	Project	Approved	Project	Approved	Absolute		%	
	(1)	(2)	(3)	(4)	(3-1)	(4-2)	(3/1)	(4/2)
Total	**2,640.6**	**2,714.3**	**2,800.2**	**2,869.6**	**159.6**	**155.3**	**6.0**	**5.7**
Autonomous Branches	**65.6**	**61.9**	**74.1**	**70.1**	**8.5**	**8.1**	**12.9**	**13.1**
Legislative	10.6	10.6	11.0	11.0	0.4	0.4	3.7	4.0
Judicial	43.0	39.4	45.8	42.8	2.9	3.5	6.6	8.8
Federal Electoral Institute	10.9	10.9	16.0	15.0	5.1	4.1	46.8	37.6
CNDH	1.1	1.1	1.3	1.3	0.1	0.1	12.3	12.3
INEGI	**5.0**	**4.7**	**4.9**	**4.9**	**-0.1**	**0.2**	**-1.3**	**4.7**
TFJFA	**1.9**	**1.9**	**1.9**	**1.9**	**0.0**	**0.0**	**0.1**	**0.1**
Administrative branches	**817.9**	**890.3**	**883.4**	**932.0**	**65.5**	**41.7**	**8.0**	**4.7**
Presidency	1.9	1.8	2.0	2.0	0.1	0.1	5.7	7.4
Interior	16.0	16.9	23.5	23.6	7.6	6.7	47.2	39.7
Foreign Affairs	6.1	6.0	6.1	6.1	0.0	0.1	0.0	1.5
Finance and Public Credit	36.5	40.4	44.6	46.1	8.1	5.8	22.1	14.3
National Defense	51.8	51.8	55.6	55.6	3.8	3.8	7.4	7.4
Agriculture	61.6	76.4	61.6	71.4	0.0	-5.0	0.0	-6.6
Transport and Communications	69.4	89.4	70.4	85.5	1.0	-3.9	1.4	-4.4
Economy	16.5	17.1	18.0	18.6	1.5	1.5	9.0	9.0
Public Education	226.5	238.8	243.3	251.8	16.8	13.0	7.4	5.4
Health	100.2	109.0	109.0	113.5	8.8	4.5	8.8	4.1
Navy	18.9	18.9	19.7	19.7	0.8	0.8	4.1	4.1
Employment and Social Provision	3.9	3.8	4.4	4.4	0.5	0.6	14.0	15.2
Agrarian Reform	5.0	5.8	5.0	5.7	0.0	-0.1	0.0	-1.6
Environment and Natural Resources	44.2	53.0	45.2	54.7	1.0	1.7	2.3	3.2
PGR	12.5	12.4	15.4	14.9	2.9	2.5	23.2	20.0
Energy	3.1	3.2	3.2	3.2	0.1	0.0	3.3	0.0
Social Development	82.3	83.1	87.1	84.9	4.8	1.8	5.8	2.1
Tourism	4.3	5.0	5.0	5.0	0.7	0.1	15.7	1.0
Public Function	1.3	1.4	1.5	1.6	0.1	0.2	10.8	17.0
Agrarian Court	0.9	0.9	0.9	1.1	0.0	0.2	5.4	21.1
Public Security	37.0	36.8	40.5	40.5	3.6	3.8	9.6	10.3
Legal Council	0.1	0.1	0.1	0.1	0.0	0.0	3.3	3.3
CONACYT	17.9	18.2	21.2	21.9	3.4	3.6	18.7	19.9
General Branches	**888.2**	**900.4**	**932.4**	957.1	**44.2**	**56.7**	**5.0**	**6.3**
Entities under direct control	**1,155.5**	**1,146.4**	**1,233.7**	**1,232.3**	**78.2**	**85.8**	**6.8**	**7.5**
Pemex	435.0	433.0	442.5	442.5	7.4	9.5	1.7	2.2
CFE	251.8	246.9	253.8	253.8	2.0	6.9	0.8	2.8
IMSS	350.1	350.1	394.5	394.5	44.4	44.4	12.7	12.7
ISSSTE	118.6	116.5	142.9	141.5	24.3	25.0	20.5	21.4
Transfers, subsidies and contributions	**293.5**	**291.4**	**330.1**	**328.7**	**36.6**	**37.3**	**12.5**	**12.8**

Within the PEF2012 worth highlighting are the increases, in real terms, in the following functions: Science, Technology and Innovation 18.6%; Social Protection 15.2%; Public Order and Interior Security Affairs 14.8%; National Security 6.0% and Health 5.7%, all of them with respect to those approved for 2011. In the economic classification of expenditures, worth highlighting are the real increases in the resources allocated to the payment of pensions and current subsidies of 17.3 and 8.8%.

Federalized expenditures for 2012 will be higher by Ps. 20.9 billion with respect to those approved for 2011 (2.0%); excluding the vehicle ownership tax, these resources increase by Ps. 38.8 billion, which represents a 3.8% expansion in real terms. It is worth mentioning that shared revenues for 2012, excluding the vehicle ownership tax, will increase by 2.4% in real terms.

Federalized Expenditures, 2011-2012 (Million Pesos of 2012)							
	2011	2012		Differences			Real
	Approved	Project	Approved	2012 vs 2011		2012	growth
	(1)	(2)	(3)	(2-1)	(3-1)	(3-2)	(3/1)
Total	**1,046,443.0**	**1,041,778.1**	**1,067,314.1**	**-4,664.9**	**20,871.1**	**25,536.0**	**2.0**
Total excluding the vehicle ownership tax	***1,027,438.0***	***1,040,707.8***	***1,066,243.8***	***13,269.8***	***38,805.8***	***25,536.0***	***3.8***
Shared Revenues	510,937.9	503,606.0	504,867.7	-7,332.0	-6,070.2	1,261.7	-1.2
Shared Revenues excluding ownership tax	*491,932.9*	*502,535.7*	*503,797.4*	10,602.7	11,864.5	1,261.7	2.4
Contributions	512,943.0	524,049.7	524,904.5	11,106.6	11,961.4	854.8	2.3
Others	22,562.1	14,122.5	37,542.0	-8,439.6	14,979.9	23,419.5	66.4

Congress approved the Executive´s proposals to continue with the austerity efforts carried out during the present Administration. In accordance with the National Program of Public Expenditures Reduction (PNRGP), actions that encourage savings and budgetary discipline will be kept in place. It is expected that in 2012, the savings objective of Ps. 40.1 billion established for the period 2010-2012 will be achieved.

Final Remarks

The Economic Package for 2012 approved by Congress contributes to generate an environment of certainty which supports the national economy, in contrast with the fiscal situation in several developed countries where fiscal weakness has generated deep confidence problems. Within the elements that are worth highlighting is the fact that the Economic Package is based on objective and reasonable economic projections, budgetary responsibility is maintained, a fiscal stimulus is maintained through a moderate deficit and significant increases in resources to different core programs are observed, in particular for social development and security.

With the adopted measures, we continue with the actions to maintain economic stability, while accelerating the development of the domestic market, increasing the competitiveness of the Mexican economy and promoting the welfare and opportunities for Mexican households.