PRESS RELEASE

Mexico City, September 8th, 2011

PROPOSED ECONOMIC PROGRAM FOR 2012

- **THE FEDERATION'S REVENUES LAW INITIATIVE, THE EXPENDITURES BUDGET** PROJECT AND THE GENERAL ECONOMIC POLICY GUIDELINES FOR 2012 WERE SENT TODAY TO CONGRESS.
- GIVEN A FRAGILE INTERNATIONAL ENVIRONMENT DUE TO THE FISCAL AND FINANCIAL PROBLEMS IN INDUSTRIAL COUNTRIES, THE PROPOSED ECONOMIC PROGRAM MAINTAINS A COUNTERCYCLICAL STIMULUS AND PRESERVES THE SUSTAINABILITY OF PUBLIC FINANCES. THE FIRST ELEMENT IS IMPORTANT IN AN ENVIRONMENT OF MODERATE INTERNATIONAL GROWTH, THE SECOND IS ESSENTIAL IN ORDER TO AVOID CONTAGION FROM THE CONFIDENCE CRISIS THAT AILS THESE COUNTRIES. IT CONSTITUTES AN OBJECTIVE AND RESPONSIBLE PROPOSAL WITH A LONG TERM VISION THAT IS COMMITTED WITH THE WELL-BEING OF MEXICAN HOUSEHOLDS.
- THEREFORE, THE FEDERAL GOVERNMENT ATTAINS FOUR MAIN OBJECTIVES THROUGH THE PROPOSED ECONOMIC PROGRAM FOR 2012: I) PRESERVE ECONOMIC STABILITY AND FISCAL RESPONSIBILITY, II) ACCELERATE THE DEVELOPMENT OF DOMESTIC DEMAND, III) INCREASE THE COMPETITIVENESS OF THE ECONOMY, AND IV) PROMOTE THE WELL-BEING AND THE OPPORTUNITIES FOR MEXICAN HOUSEHOLDS.
- THE MEXICAN ECONOMY IS ESTIMATED TO GROW BY 4.0% IN 2011. FOR 2012, THE PROJECTIONS ARE OF 3.5% FOR GDP GROWTH, 3.0% INFLATION, AN AVERAGE INTEREST RATE (28-DAY CETES) OF 4.6%, AN AVERAGE PRICE OF 84.9 DOLLARS PER BARREL FOR THE MEXICAN OIL MIX, AND OIL PRODUCTION AND EXPORT PLATFORMS OF 2.5 AND 1.2 MILLION BARRELS PER DAY, RESPECTIVELY.
- THE ECONOMIC PROGRAM FOR 2012 PROPOSES A BUDGET DEFICIT, EXCLUDING INVESTMENT BY PEMEX, OF PS. 36.7 BILLION, EQUIVALENT TO 0.2% OF GDP. THIS LEVEL MAINTAINS A COUNTER CYCLICAL STIMULUS WHILE PRESERVING THE SUSTAINABILITY OF PUBLIC FINANCES.
- FOR THE THIRD TIME IN THIS ADMINISTRATION, THERE ARE NO SUBSTANTIAL CHANGES TO THE LAWS, REGULATIONS AND PROCEDURES GOVERNING THE CURRENT FISCAL FRAMEWORK. THE PROGRAM PROPOSES A SIMPLIFICATION OF THE REGULATIONS FOR FISCAL RECEIPTS, THE ELIMINATION OF ADDITIONAL FEES AND A STRENGTHENING OF FISCAL FEDERALISM.
- TOTAL REVENUES ARE EXPECTED TO INCREASE BY 3.8% AND 3.1% IN REAL TERMS WITH RESPECT TO THE AMOUNTS APPROVED AND ESTIMATED FOR 2011, RESPECTIVELY. EXCLUDING THE TAX ON VEHICLE OWNERSHIP FROM THE BASE

OF COMPARISON OF 2011 AS IT WILL BE ELIMINATED IN 2012 AS EXPECTED, THE INCREASE IN REVENUES IS OF 4.4% AND 3.6% IN REAL TERMS WITH RESPECT TO THE AMOUNTS APPROVED AND EXPECTED FOR THIS YEAR.

- FOR 2012, PROGRAMMABLE EXPENDITURES EXCLUDING INVESTMENT BY PEMEX WILL BE HIGHER BY 6.7% AND 3.4% IN REAL TERMS WITH RESPECT TO THE PROPOSED AND APPROVED AMOUNTS FOR 2011. NET PAID EXPENDITURES WILL BE HIGHER BY 4.6% AND 2.6% IN REAL TERMS WITH RESPECT TO THE PROPOSED AND APPROVED AMOUNTS FOR 2011. PHYSICAL INVESTMENT BY PEMEX WILL REMAIN AT 2.0% OF GDP, THE SAME PERCENTAGE AS IN 2010 AND 2011.
- THE THREE PRIORITIES GUIDING PUBLIC EXPENDITURES POLICY FOR 2012 ARE PUBLIC SECURITY, ECONOMIC GROWTH AND SOCIAL DEVELOPMENT.
- REGARDING PUBLIC SECURITY, RESOURCES WILL BE ALLOCATED TO THE FIGHT AGAINST ORGANIZED CRIME, CRIME PREVENTION, INTER-GOVERNMENTAL COORDINATION IN MATTERS OF PUBLIC SECURITY, THE UNIFIED POLICE COMMAND AND LAW ENFORCEMENT.
- WITH RESPECT TO ECONOMIC GROWTH, THE SECOND PRIORITY, ONE OF THE MAIN OBJECTIVES OF THIS ADMINISTRATION IS TO INCREASE COMPETITIVENESS AND HIGH-QUALITY JOB CREATION. DIFFERENT ACTIONS HAVE BEEN IMPLEMENTED TO ACHIEVE THIS OBJECTIVE, INCLUDING INVESTMENT IN INFRASTRUCTURE, STIMULUS FOR HOUSING, IMPLEMENTATION OF A DEREGULATION AGENDA, SUPPORT FOR ENTREPRENEURIAL ACTIVITIES, PROMOTION OF TOURISM AND THE STRENGTHENING OF DEVELOPMENT BANKS.
- THE THIRD PRIORITY OF THE EXPENDITURES POLICY FOR 2012 IS SOCIAL DEVELOPMENT, WHICH IN TURN CONTRIBUTES TO THE SECURITY STRATEGY, WITH ACTIONS BEING DIRECTED TOWARDS FIGHTING POVERTY, SOCIAL PROTECTION, ACCESS TO HEALTHCARE AND FOSTERING EDUCATION.
- AN ALLOCATION OF 2012PS. 1,623.3 BILLION IS PROPOSED FOR SOCIAL DEVELOPMENT FUNCTIONS, 2012PS. 907.2 BILLION FOR ECONOMIC DEVELOPMENT AND 2012PS. 192.4 BILLION FOR GOVERNANCE FUNCTIONS, IMPLYING INCREASES BY 6.7, 3.3 AND 12.1% IN REAL TERMS COMPARED TO THE AMOUNTS APPROVED IN 2011.
- FOSTERED INVESTMENT BY THE PUBLIC SECTOR, EXCLUDING PIDIREGAS AMORTIZATIONS, WILL BE 2012PS. 653.5 BILLION, WHICH IMPLIES THAT FOSTERED INVESTMENT DURING THE 2007-2012 PERIOD WILL BE HIGHER BY 46.9% IN REAL TERMS THAN THE AVERAGE OBSERVED IN 2001-2006.

Today, September 8th 2011, the Federal Executive delivered the Federation's Revenues Law Initiative and the Expenditure Budget Project for 2012 to Congress. The initiative and the project 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 2011

During the first semester of 2011, the external environment was less favorable than expected due to the combination of several factors: the effect on supply chains of the natural disaster and nuclear problems in Japan, the impact of higher prices of energy and other commodities on real household income in the United States, and the uncertainty associated with the fiscal situation in the United States and in some European countries. In spite of this, the expansion of the Mexican economy continued. Exports maintained high growth rates reflecting Mexico´s competitiveness and domestic demand registered a favorable pace sustained by continuous job creation, growth in credit and investment in infrastructure, among other factors. Worth highlighting is that as of August 2011, the number of urban workers affiliated at IMSS was 15 million 104 thousand 131, which implied the creation of 588 thousand 773 jobs (4.1%) with respect to the same month of last year.

During the second semester of 2011, the Mexican economy is expected to maintain a similar pace of growth as that observed during the first semester. Domestic demand is expected to continue expanding and, even though moderate growth is expected in the United States, the negative effects associated to the problems in Japan will dissipate. Mexico's GDP is expected to grow at an annual rate of 4.0% in 2011, a projection similar to the expectations of private sector analysts according to the latest survey published by Banco de México (3.8%). Nevertheless, the balance of risks has deteriorated due to low growth in the United States and the deterioration in confidence as a result of the fiscal and financial problems in that country and in several economies in the euro zone.

The observed deficit in 2011 is estimated to be the same as the one approved by Congress of Ps. 70.2 billion or 0.5% of GDP excluding investment by PEMEX. This is the result of revenues of Ps. 3,075.7 billion and expenditures, excluding investment by PEMEX, of Ps. 3,145.8 billion.

The projected revenues are slightly higher, by Ps. 20.3 billion, with respect to those approved in LIF2011. Within, the following differences are expected: higher revenues from oil by Ps. 43.4 billion, from entities under direct budgetary control other than PEMEX by Ps. 38.0 billion and from non-tax sources by Ps. 9.1 billion, offsetting the lower tax revenues than those approved by Ps. 70.1 billion. Total expenditures will reflect the increase in revenues with respect to the approved amount, reaching 24.3% of GDP.

Shared revenues transferred to Federal Entities will increase by 4.2% in real terms maintaining a similar level, as a proportion of GDP, as the ones registered in 2010. This represents the second highest level since the Fiscal Coordination System was established in 1978, only exceeded by that observed in 2008.

As a result of the financing polices implemented by the Public Sector, the Historical Balance of the Public Sector Borrowing Requirements (HBPSBR) is expected to decline by 0.2 percentage points of GDP, from 36.8% of GDP in 2010 to 36.6% of GDP in 2011.

Economic Perspectives for 2012

The economy of the United States is expected to register a positive but moderate growth rate in 2012. The most recent forecasts by the main private sector analysts are of growth of 2.1% in 2012, compared with growth of 1.6% forecasted for 2011. The forecasted growth for industrial production in 2012 is 2.7%, while a rate of 3.3% is expected for 2011. The expected evolution of the economy of the United States and the higher competiveness of Mexico are consistent with an increase in external demand for our country, although more moderate than that in 2011. It is also expected that job creation, the increase in credit, the stimulus for housing and investment in infrastructure will support domestic demand, leading to an expansion of consumption and investment. However, the weakening of the economy of the United States and the uncertainty generated by a lack of definitive solutions to the fiscal problems in the United States and Europe imply that the balance of risks has also deteriorated for 2012.

The previous elements lead to a forecast of 3.5% annual real GDP growth during 2012, similar to the forecast of private sector analysts (3.6% according to the latest survey published by Banco de México). Inflation is estimated to be 3.0%, the average reference price for the Mexican oil mix is forecasted at 84.9 dollars per barrel (dpb) and the oil production platform is anticipated to remain at the same level proposed for 2011 of 2,550 thousands of barrels per day.

In this context, the Economic Program for 2012 constitutes an objective and responsible proposal, with a medium-term vision, and that is committed with the welfare of Mexican households. It maintains a counter cyclical stimulus while guaranteeing the medium-term sustainability of public finances, with the goal of avoiding indebtedness problems such as the ones that currently ail several European countries or the ones experienced by Mexico in the past.

The Economic Program for 2012 does not include substantial changes to the laws, regulations and procedures governing the current fiscal framework and the execution of expenditures. In particular, no new taxes are created nor are there increases in current tax rates. The changes that are proposed refer to tax simplification with respect to fiscal receipts, the reduction of the regulatory burden with regards to fees without eroding tax collection, the elimination of the vehicle ownership tax which was legislated since 2007 and the new deductibility of tuition fees from the individual income tax.

The estimations of the Economic Program are based on a scenario in which: i) the estimation of revenues is consistent with the forecasts presented for variables such as economic activity, oil price and oil production platform; ii) non-programmable expenditures reflect the evolution of Federal shareable revenues, the amount of payment deferrals approved in the LIF2011 and the estimated behavior of interest rates, and iii) the level of programmable expenditures is derived from the budget deficit and the estimations of revenues and non-programmable expenditures.

Public Balance

For 2012, a budgetary deficit of 0.2% of GDP, without investment by PEMEX, is proposed in accordance with Article 17 of the Federal Budget and Financial Responsibility Law (LFPRH)[1]. This level maintains a countercyclical stimulus and is consistent with the multiannual strategy established in the General Economic Policy Guidelines for the fiscal years of 2010 and 2011 (CGPE2010 and CGPE2011). Both documents established that the public deficit without investment by PEMEX would decline by 0.3 percentage points of GDP with respect to the 2011 deficit, which was 0.5% of GDP as approved by Congress. On the other hand, investment by PEMEX remains constant as a proportion of GDP at the level approved for 2011 of 2.0%.

Public Revenues

For 2012, for the second year in a row and the third of this Administration, the Federal Executive is not proposing changes to the current tax framework. Instead, it will focus on strengthening tax collection, improving the efficiency of the tax administration, continuing with greater simplification in the procedures that taxpayers must follow to fulfill their tax obligations, increasing the number of taxpayers and improving the surveillance processes for an adequate fulfillment of those obligations.

The Economic Program includes a reform proposal to the Federal Royalties and Fees Law that continues the fiscal simplification policy implemented last year. With this reform, 140 federal fees will be eliminated, adding up to the 138 fees eliminated in 2011. The cost associated with these measures is marginal in comparison with the benefit implied by simplification. It is worth mentioning that since 1990 there had been no fee's simplification program like the one approved in 2011 or the one proposed for 2012.

In addition, the regulation for tax receipts is proposed to be condensed in only 5 articles of the Federal Tax Code, reducing requirements from 158 to 26. The proposal would allow account statements to be used as digital vouchers, avoiding the need of an invoice that contains a tax breakdown, as long as these statements include the taxpayer identification number of the person or service provider and they refer solely to outlays taxed within the rates and maximum amounts established by the Tax Administration Authority (SAT). A reform to the tax code is also proposed, allowing for the payment of fees and royalties through electronic transfers, credit and debit cards.

To move forward with regards to fiscal federalism and improve the tax revenues of Federal Entities, the program includes an initiative modifying the legal framework to allow the Entities to establish a sales and services tax to the general public, with a maximum rate of 5%, without being considered as a violation of the agreements celebrated with the SHCP or of Article 41 of the Value Added Tax Law.

[1] Article 17 of LFPRH says that "circumstantially, and due to the economic and social conditions in the country, the Initiatives of the Revenues Law and the Expenditure Budget may contain a budget deficit."

Budgetary revenues are estimated at 2012Ps. 3,282.0 billion for 2012, amount higher by 2012Ps. 119.7 billion with respect of the approved in LIF2011 and by 2012Ps. 98.7 billion to the amount estimated for 2011. This implies growth of 3.8% in real terms compared to the amount approved in LIF2011 and of 3.1% compared to the estimate for 2011. For a more precise assessment of the evolution of revenues, the vehicle ownership tax can be excluded from the tax base in 2011 since this tax will be eliminated in 2012 as was expected. The adjusted growth rates are 4.4% with respect to the approved and 3.6% with respect to the estimate for 2011. Within budgetary revenues, the following is worth highlighting:

- Oil revenues for 2012 are expected to grow by 10.3% in real terms with respect to those approved in LIF2011 due, mainly, to higher oil prices. With respect to the estimate for the end of 2011, they are expected to grow by 5.8% in real terms.
- Tax revenues decrease by 2.3% in real terms against those approved for 2011 and increase by 2.5% in real terms against the updated estimate for the year. The growth rate with respect to the updated estimate is lower than expected GDP growth due to the elimination of the vehicle ownership tax. By adjusting the comparison base, excluding this tax, the decrease with respect to the amount approved for 2011 is 1.2% and the increase in relation to the estimated amount is 3.7%. The remaining reduction with respect to the approved amount is mainly due to the significant increase in VAT refunds observed in 2011 and a lower consumption of tobacco.
- For 2012, revenues from entities and companies other than PEMEX will increase by 4.0% in real terms with respect to those estimated for 2011 due, mainly, to higher economic activity. Non-tax revenues will decrease by 22.2% in real terms with respect to the estimate for 2011 due to lower non-recurrent revenues. It is worth remembering that the multiannual strategy for public finances established in the CGPE2010 considered a declining trend in the use of non-recurrent revenues during the period 2010-2012.

Budgetary Revenues, 2011-2012
(Billion pesos of 2012)

	2011		2012	Differences 2012 vs. 2011			
				Absolute		Relative	
	LIF	Estimated		LIF	Est.	LIF	Est.
Total	**3,162.2**	**3,183.3**	**3,282.0**	**119.7**	**98.7**	**3.8**	**3.1**
Total w/o vehicle ownership tax	*3,144.5*	*3,167.7*	*3,282.0*	*137.5*	*114.3*	*4.4*	*3.6*
Oil related	1,040.3	1,085.2	1,147.8	107.5	62.6	10.3	5.8
Non-oil related	2,121.9	2,098.1	2,134.1	12.2	36.1	0.6	1.7
Tax revenue	1,524.0	1,451.5	1,488.3	-35.7	36.9	-2.3	2.5
Tax revenues w/o vehicle ownership tax	*1,506.2*	*1,435.9*	*1,488.3*	*-17.9*	*52.5*	*-1.2*	*3.7*
Non-tax revenue	91.2	100.7	78.3	-13.0	-22.4	-14.2	-22.2
PEDBC	506.7	546.0	567.6	60.9	21.6	12.0	4.0

Public Expenditures Strategy

Consistent with the expected evolution of revenues and the budget deficit, the ceiling for programmable expenditures without investment by PEMEX will increase by 3.4% in real terms (PS. 81.0 billion) with respect to the amount approved for 2011. This will allow covering expenditure pressures such as those in pensions and those associated with the Federal elections of 2012, while at the same time continuing to foster economic growth and social development, and increase resources allocated to public and national security. The total level of expenditures without investment by PEMEX will increase by 2.6% in real terms (Ps. 83.8 billion) with respect to those approved for 2011. On the other hand, investment by PEMEX is proposed at 2% of GDP, the same level as that approved for 2010 and 2011.

This Administration will continue with the austerity and efficiency measures on public expenditures that have characterized it during the past five years. In accordance with the National Program for the Reduction of Public Expenditures, budgetary discipline will continue to be encouraged. By 2012, the savings goal of Ps. 40.1 billion that was established for the period 2010-2012 is expected to be achieved.

Additionally, the focus on a results-based budget will continue through the Performance Evaluation System and the instruments that derive from it. This approach constitutes a key element to carry out a more rational allocation of resources and guarantees greater accountability and transparency regarding the allocation of public expenditures.

The Expenditure Budget Project for 2012 is focused on three main priorities: public security, in order to protect citizens and their possessions; economic growth, in order to foster job creation and regional development; and social development, in order to improve the wellbeing of families and their communities.

Regarding public security, resources will be allocated to the fight against organized crime, crime prevention, inter-governmental coordination in matters of public security, the Unified Police Command and law enforcement. In order to advance in these actions which strengthen the rule of law, the provisions contained for national security; public order and interior security, and justice will be increased by 10.7% in real terms with respect to the amount approved for 2011, for a total amount of Ps. 147.3 billion. A significant amount of these resources will be allocated to rebuilding the social fabric in those areas where this has been affected and to avoid its deterioration in additional areas.

With regards to the second priority, economic growth, one of the main objectives of the current Administration is to foster competitiveness and high-quality job creation. Different actions have been implemented In order to achieve this objective including investment in infrastructure, stimulus for housing, implementation of a deregulation agenda, support for entrepreneurial activity, the promotion of tourism and the strengthening of development banks.

Within the resources oriented to foster economic growth in the Budget Project for 2012, those allocated to the development of infrastructure stand out. To this end, investment in highways has an allocation of more than Ps. 38 billion and federal expenditures in science, technology and innovation will be Ps. 56.5 billion.

The third priority of the expenditures policy for 2012 is social development. Social policy actions, as part of a comprehensive strategy that will also improve security, are being directed towards combating poverty, social protection, access to healthcare, fostering education and support for housing. The Budget Project for 2012 proposes a total of Ps. 1,574.9 billion (56.2% of the total programmable expenditures) for education, social protection, health, housing and community services.

Worth highlighting is the progress towards universal healthcare coverage for all Mexicans through the Seguro Popular, allowing for a total affiliation of 52.3 million people to the Social Health Protection System by 2012. In order to do this, the Budget Project allocates Ps. 68.8 billion, equivalent to an increase of 11.5% in real terms with respect to the amount authorized for 2011.

Worth highlighting in the PEF2012 project are the following:

- For 2012, excluding investment by PEMEX, net expenditures are higher by 2012Ps. 83.8 billon (2.6% in real terms) with respect to those approved for 2011, as a result of higher budgetary revenues by 2012Ps. 119.7 billion and a reduction in the deficit by 2012Ps. 35.9 billion (from 2012Ps. 72.6 billion in 2011 to 2012Ps. 36.7 billion in 2012). PEMEX's physical investment in 2012 will remain at the same level as a proportion of GDP as that approved for 2011 (2.0% of GDP). Therefore, total net expenditures including investment by PEMEX will be 2012Ps. 3,619.9 billion, higher by 2012Ps. 88.7 billion with respect to the amount approved in the PEF2011 (2.5% in real terms).

Variation in 2012 Programmable Expenditures (Billion pesos of 2012)	
Increase of total programmable expenditures (1-2+3)	**88.7**
Increase of programmable expenditures excluding PEMEX's investment (1-2)	***83.8***
1. Increase in Revenues vs. LIF2011	**119.7**
Oil related	107.5
Non-oil related	12.2
2. Decrease in public deficit excluding PEMEX's investment	**35.9**
3. Increase in PEMEX's investment	**4.9**

- Programmable accrued expenditures for 2012 are 2012Ps. 2,499.0 billion, excluding investment by PEMEX, higher by 2012Ps. 81.0 billion (3.4% in real terms) with respect to those approved for 2011. This amount is consistent with the containment of current expenditures and budgetary savings. Including investment by PEMEX, programmable accrued expenditures will be 2012Ps. 2,800.2 billion, higher by 2012Ps. 85.9 billion (3.2% in real terms) to those approved for 2011.

Public Sector Net Expenditures, 2011-2012
(Billion pesos of 2012)

	2011 PEF	2012	Differences Absolute	Differences Relative
Total including PEMEX's investment	**3,531.2**	**3,619.9**	**88.7**	**2.5**
Total excluding PEMEX's investment	***3,234.9***	***3,318.7***	***83.8***	***2.6***
Programmable paid	2,686.3	2,772.2	85.9	3.2
Programmable paid excluding PEMEX's investment	*2,389.9*	*2,471.0*	*81.0*	*3.4*
Deferred payments	-28.0	-28.0	0.0	0.0
Accrued	2,714.3	2,800.2	85.9	3.2
Accrued excluding PEMEX's investment	*2,417.9*	*2,499.0*	*81.0*	*3.4*
Non programmable	844.9	847.7	2.8	0.3

- In terms of the economic classification of programmable expenditures, these are grouped according to their economic nature and objective, that is, in current and capital expenditures. In 2012, current expenditures will account for 77.7% of programmable expenditures, while the remaining 22.3% will be capital expenditures. With regards to what was approved in 2011, current expenditures in 2012 will increase by 6.3% while capital expenditures will decrease by 6.5%, both in real terms. This is explained by the need to reallocate resources to cover expenditure pressures like pensions and the 2012 Federal elections. With respect to the Expenditures Budget Project of 2011, current and capital expenditures increase by 7.5% and 1.2% in real terms, respectively. The increase in pension payments is due in part to the different pension options chosen by workers and to the transition process associated with the reform of the ISSSTE Law. Within current expenditures, it is worth highlighting that the increase by 4.1% in personnel services is due to the 10.5% increase proposed for Autonomous Branches and Agencies, the 9.6% increase for public and national Security, the 5.8% increase for health and education and the 4.8% for PEDBCs. The increase for the rest of the Public Sector is merely 1.3%.

- Investment fostered by the public sector, excluding amortizations by Pidiregas, will be of 2012Ps. 653.5 billion, which implies that the fostered investment in the period 2007-2012 will be higher by 46.9% in real terms to the average observed in 2001-2006.

Programmable Expenditures of the Public Sector, 2011-2012 (Billions of pesos of 2012)							
	2011		2012	Differences			
	PPEF	PEF	PPEF	Absolute		Relative (%)	
				PPEF	PEF	PPEF	PEF
Total	**2,640.6**	**2,714.3**	**2,800.2**	**159.6**	**85.9**	**6.0**	**3.2**
Current Expenditures	2,022.7	2,045.5	2,174.8	152.1	129.3	7.5	6.3
Personnel Services	877.6	876.2	911.7	34.1	35.5	3.9	4.1
Pensions	343.2	337.5	397.4	54.2	59.9	15.8	17.7
Subsidies	329.1	362.1	351.0	21.9	-11.2	6.6	-3.1
Other operational	472.8	469.6	514.7	41.9	45.1	8.9	9.6
Capital Expenditures	617.9	668.8	625.4	7.6	-43.4	1.2	-6.5

- For 2012, the expenditures proposed for the Autonomous Branches increase by 19.6% in real terms with respect to the amount approved for 2011. Within these expenditures, worth highlighting is the increase by 48.6% in the resources for the Federal Electoral Institute (IFE) with respect to the amount approved for 2011, due to the electoral process of 2012. The need to accommodate the increase in resources for the Autonomous Branches and for the payment of pensions by IMSS and ISSSTE leads to expenditures of 2012Ps. 883.4 billion in the Administrative Branches, which implies a decrease of 0.8% in real terms with respect to the amount approved for 2011.

- In spite of this, the Budget Project proposes real expenditure increases for the Ministries of the Interior, Public Security, National Defense and Marine of 39.1, 10.3, 7.4 and 4.1%, respectively. The allocation of resources to the Ministries of Finance and Public Credit (directed at support for housing), Economy and Social Development will increase by 10.5, 5.2 and 4.8%, respectively. With respect to the Project presented for 2011, total resources for Administrative Branches increase by 8.0% in real terms, with positive increases in most cases. Worth highlighting within these, in addition to the ministries already mentioned, are the allocations for the National Council for Science and Technology (Conacyt), Tourism, Employment and Social Provision, Public Function, Health and Public Education (18.7, 15.7, 14.0, 10.8, 8.8 and 7.4%, respectively).

Programmable Expenditures of the Public Sector, 2011-2012 Administrative Classification (Billion pesos of 2012)							
	2011		2012	Differences			
				Absolute		Relative (%)	
	PPEF	PEF	PPEF	PPEF	PEF	PPEF	PEF
Total	**2,640.6**	**2,714.3**	**2,800.2**	**159.6**	**85.9**	**6.0**	**3.2**
Autonomous Branches	**65.6**	**61.9**	**74.1**	**8.5**	**12.1**	**12.9**	**19.6**
Legislative	10.6	10.6	11.0	0.4	0.4	3.7	4.0
Judicial	43.0	39.4	45.8	2.9	6.5	6.6	16.4
Federal Electoral Institute	10.9	10.9	16.0	5.1	5.1	46.8	46.8
CNDH	1.1	1.1	1.3	0.1	0.1	12.3	12.3
INEGI	**5.0**	**4.7**	**4.9**	**-0.1**	**0.2**	**-1.3**	**4.6**
TFJFA	**1.9**	**1.9**	**1.9**	**0.0**	**0.0**	**0.1**	**0.1**
Administrative Branches	**817.9**	**890.3**	**883.4**	**65.5**	**-6.9**	**8.0**	**-0.8**
Presidency	1.9	1.8	2.0	0.1	0.1	5.7	7.4
Interior	16.0	16.9	23.5	7.6	6.6	47.2	39.1
External Affairs	6.1	6.0	6.1	0.0	0.1	0.0	1.3
Finance and Public Credit	36.5	40.4	44.6	8.1	4.3	22.1	10.5
National Defense	51.8	51.8	55.6	3.8	3.8	7.4	7.4
Sagarpa	61.6	76.4	61.6	0.0	-14.8	0.0	-19.4
Transport and Communications	69.4	89.4	70.4	1.0	-19.0	1.4	-21.2
Economy	16.5	17.1	18.0	1.5	0.9	9.0	5.2
Public Education	226.5	238.8	243.3	16.8	4.5	7.4	1.9
Health	100.2	109.0	109.0	8.8	0.0	8.8	0.0
Marine	18.9	18.9	19.7	0.8	0.8	4.1	4.1
Employment and Social Provision	3.9	3.8	4.4	0.5	0.6	14.0	15.2
Agrarian Reform	5.0	5.8	5.0	0.0	-0.8	0.0	-14.0
Semarnat	44.2	53.0	45.2	1.0	-7.8	2.3	-14.7
PGR	12.5	12.4	15.4	2.9	3.0	23.2	23.9
Energy	3.1	3.2	3.2	0.1	0.0	3.3	0.0
Social Development	82.3	83.1	87.1	4.8	4.0	5.8	4.8
Tourism	4.3	5.0	5.0	0.7	0.0	15.7	0.0
Public Function	1.3	1.4	1.5	0.1	0.1	10.8	6.3
Agrarian Court	0.9	0.9	0.9	0.0	0.0	5.4	0.0
Public Security	37.0	36.8	40.5	3.6	3.8	9.6	10.3
Legal Council	0.1	0.1	0.1	0.0	0.0	3.3	3.3
CONACYT	17.9	18.2	21.2	3.4	3.0	18.7	16.5
General Branches	**888.2**	**900.4**	**932.4**	**44.2**	**31.9**	**5.0**	**3.5**
Entities under direct budgetary control	**1,155.5**	**1,146.4**	**1,233.7**	**78.2**	**87.2**	**6.8**	**7.6**
Pemex	435.0	433.0	442.5	7.4	9.5	1.7	2.2
CFE	251.8	246.9	253.8	2.0	6.9	0.8	2.8
IMSS	350.1	350.1	394.5	44.4	44.4	12.7	12.7
ISSSTE	118.6	116.5	142.9	24.3	26.4	20.5	22.6
Transfers, subsidies and contributions	**293.5**	**291.4**	**330.1**	**36.6**	**38.7**	**12.5**	**13.3**

The Budget Project for 2012 considers an allocation of 2012Ps. 1,623.3 billion for the functions of social development, which is higher by 3.7% in real terms to the amount approved for 2011, with real increases of 16.1 and 3.7% in Social Protection and Health. With respect to the project for 2011, the allocated amount increases by 6.7% in real terms.

The budget proposed for economic development in 2012 is 2012Ps. 907.2 billion. In the proposal, these expenditures would decrease by 0.5% with respect to those approved for 2011; however, the resources allocated to science, technology and innovation, and fuels and energy will increase by 16.8 and 2.5%, respectively. With respect to the project for 2011, resources allocated for economic development increase by 3.3% in real terms.

The Budget Project for 2012 considers an allocation of 2012Ps 192.4 billion for governance functions, which represents a real increase by 11.5% with respect to those approved for 2011, with increases by 15.7 and 14.8% in the allocations for Justice and for Affairs of Public Order and Interior Security. With respect to the project for 2011, the increase is 12.1% in real terms.

Programmable Expenditures of the Public Sector, 2011-2012
Functional Classification
(Billion pesos of 2012)

	2011		2012	Differences			
				Absolute		Relative (%)	
	PPEF	PEF	PPEF	PPEF	PEF	PPEF	PEF
Total	**2,640.5**	**2,714.3**	**2,800.2**	**159.7**	**85.9**	**6.0**	**3.2**
Branches, autonomous entities and INEGI	69.1	65.1	77.3	8.3	12.2	12.0	18.7
Federal Public Administration	2,571.5	2,649.2	2,722.9	151.4	73.7	5.9	2.8
Government	171.7	172.5	192.4	20.7	19.9	12.1	11.5
Social Development	1,522.0	1,565.2	1,623.3	101.3	58.1	6.7	3.7
Economic Development	877.8	911.5	907.2	29.4	-4.3	3.3	-0.5

Federalized expenditures in 2012 are projected to be Ps. 1,041.8 billion, 2012Ps. 4.7 billion (0.4%) lower than those approved for 2011. However, this decrease is due to the elimination of the vehicle ownership tax. Excluding this tax from the base of comparison in 2011, federalized expenditures increase by 1.3% in real terms with respect to the approved amount for 2011 and 2.5% with respect to original proposal. In particular, shared revenues adjusted by the effect of the elimination of the vehicle ownership tax show a 2010Ps. 10.6 billion increase (2.2% in real terms) with respect to those approved for 2011.

Federal Transfers to Federal Entities, 2011-2012 (Billion pesos of 2012)							
	2011		2012	Differences			
	PPEF	PEF	PPEF	Absolute		Relative (%)	
				PPEF	PEF	PPEF	PEF
Total	**1,033.8**	**1,046.4**	**1,041.8**	**8.0**	**-4.7**	**0.8**	**-0.4**
Total w/o vehicle ownership tax	*1,014.9*	*1,027.4*	*1,040.7*	*25.9*	*13.3*	*2.5*	*1.3*
Shared revenues	507.5	510.9	503.6	-3.9	-7.3	-0.8	-1.4
Shared revenues w/o vehicle ownership tax	488.6	491.9	502.5	*13.9*	*10.6*	*2.9*	*2.2*
Transferred resources	511.8	512.9	524.0	12.3	11.1	2.4	2.2
Other	14.5	22.6	14.1	-0.4	-8.4	-2.4	-37.4

Public Debt Policy for 2012

The Public Debt Policy for 2012 will be oriented at covering the financial requirements of the Federal Government proposing a balance between internal and external debt that minimizes borrowing costs, preserving access to a wide variety of credit sources and continuing to strengthen the local debt market. This implies a continuous enhancement of the structure of government liabilities with sustainable cost and risk characteristics given the international environment and Mexican public finance requirements.

The policy for managing the internal debt during 2012 will be oriented to continue promoting liquidity and an adequate performance of the local debt market:

- Implement a strategy for securities placement compatible with the Federal Government's funding needs and the demand of government securities by investors.
- Undertake several actions aimed at improving the liquidity of debt instruments and to improve the price discovery process such as syndicated auctions.
- Implement diverse actions to further encourage the development of the program of direct sales of government securities to individuals (*cetesdirecto*).

The main policy objectives for external debt in 2012 will be the following:

- Obtain financing consistent with strengthening the Federal Government reference bonds and to improve the terms and conditions of foreign market debt, in accordance with conditions in the international financial markets.
- Expand the financing sources and investor base for the Federal Government on favorable terms, strengthening the presence of the Federal Government in non-traditional markets.
- Continue using financing products from International Financial Institutions and Export Credit Agencies.

In order to achieve the above, the Federal Government is requesting Congress a net domestic debt ceiling of up to Ps. 395 billion, as well as a net foreign debt ceiling of up to USD 7 billion. The net domestic debt ceiling requested by the Federal Government is lower as a percentage of GDP than the one authorized for 2011.

Public Sector Borrowing Requirements for 2012

The PSBR for 2012 will be equivalent to 2.6% of GDP, 0.3 percentage points lower than those anticipated for 2011, mainly due to the reduction in the public deficit. It is estimated that by the end of 2012, the historical balance of the PSBR will be 36.4% of GDP, 0.2 percentage points lower than the one expected for 2011.

Public Sector Borrowing Requirements, 2011-2012
(% of GDP)

Concept	2011	2012	Differences
I. Traditional balance	**2.5**	**2.2**	**-0.3**
II Adjustments	**0.4**	**0.4**	**0.0**
Borrowing requirements by Pidiregas	0.1	0.1	0.0
Borrowing requirements by IPAB	0.2	0.2	0.0
Adjustments to budgetary registries	0.2	0.2	0.0
Debtors program	0.0	0.0	0.0
Development Banks 1_/	-0.1	-0.1	0.0
III. RFSP (I+II)	**2.9**	**2.6**	**-0.3**

1_/ Includes the National Infrastructure Fund. From 2010 onwards, according to the penultimate paragraph of Article 2 of the LIF2010, in order to integrate the PSBR, the expected gain or loss in the credit granted by the development banks and funds regulated and supervised by the CNBV is taken into consideration, instead of the deficit by financial intermediation. The measure of the expected gain or loss is determined as the difference in equity between the end of the current and the previous exercise.

Final considerations

In a context of economic expansion, but with significant elements of uncertainty in the international environment, we have adopted a strategy to continue strengthening Mexico's economy. First, the tax reforms approved in 2007 and 2009 alongside a moderate deficit have allowed the implementation of a countercyclical policy in a context of sustainability of the public finances. Second, international reserves have increased to record levels in order to guarantee that there will be no funding problems in the external accounts. Third, the duration of the domestic debt has increased and the amortizations of external debt have been pre-financed for the rest of 2011 and 2012. Fourth, a timely surveillance of the country's financial stability has been implemented through, among other instances, the Financial System Stability Council. Finally, the development and implementation of the structural reform agenda has continued, within which the recent approval of the Reform to the Federal Competition Law is worth highlighting.

In this context, the economic package for 2012 is a proposal that promotes further development whilst being responsible at the same time. First, it maintains the countercyclical impulse through a moderate deficit. Second, it preserves the tax changes that were approved in 2009 and whose purpose was to address the decline in the oil production platform. Third, adequate resources are allocated to different expenditure programs.

In this way, the Federal Government attains four main objectives through the proposed Economic Program for 2012: i) preserve economic stability and fiscal responsibility, ii) accelerate the development of domestic demand, iii) increase the competitiveness of the economy, and iv) promote the well-being and the opportunities for Mexican households.

The Mexican economy has continued to grow in spite of a weak international environment. However, the risks in the external environment have increased, which implies that actions should be taken in two main fronts: continue strengthening the public finances and the financial system in order to avoid the problems that currently ail the main industrialized countries, and continue with actions that result in a more competitive Mexican economy. This is the only way to guarantee higher sustainable growth that leads to stronger job creation as well as lower poverty levels.

ANNEX

MACROECONOMIC FRAMEWORK, 2010-2011		
	2011	2012
Gross Domestic Product		
Real Growth %	4.0	3.5
Nominal (Billion pesos)	14,151.6	15,164.9
GDP Deflator	4.0	3.5
Inflation		
Dec. / Dec.	3.0	3.0
Nominal Exchange rate		
Average	11.9	12.2
Interest rate (Cetes 28 days)		
Nominal end of period, %	4.5	4.8
Average nominal, %	4.3	4.6
Real accumulated, %	1.4	1.6
Current Account		
Million dollars	-11,156.8	-17519.5
% of GDP	-0.9	-1.4
Variables of support:		
Fiscal balance		
Including PEMEX's investment (% of GDP)	-2.5	-2.2
Excluding PEMEX's investment (% of GDP)	-0.5	-0.2
U.S. GDP (Annual variation)		
Real growth %	1.6	2.1
U.S. Industrial Production		
Real growth %	3.3	2.7
U.S. Inflation		
Average	3.0	2.2
International Interest Rate		
Libor 3 months (average)	0.8	0.9
Oil (Mexican mix)		
Average price (dls. / barrel)	89.7	84.9
Average oil export platform (mbd)	1,274	1,167
Average oil production platform (mbd)	2,593	2,550