

APPROVAL OF THE ECONOMIC PROGRAM FOR 2013

- *On December 20th, the lower House of Congress approved the Federal Government's Expenditures Budget for 2013. This concluded the approval of the Economic Program for 2013 by Congress.*
- *The approval of the Economic Program for 2013 reflects the spirit of collaboration between Congress and the Executive in order to support the five fundamental guidelines proposed by the President at the beginning of his term as well as to comply with the budgetary commitments agreed upon during the signature of the "Pacto por México".*
- *The Economic Program approved for 2013 considers a budgetary balance, a GDP growth of 3.5% and an average price for the Mexican oil mix of 86.0 dollars per barrel.*
- *The current tax structure remains unchanged for the fiscal year of 2013.*
- *Total resources approved for 2013, both from revenues and financing, amount to Ps. 3,956.4 billion and are greater by 3.1% than those approved for 2012. Total expenditures increase by the same amount as total resources and, within, programmable expenditures excluding PEMEX's investment increase by 2.9% in real terms.*
- *Regarding programmable expenditures, the amounts approved for 2013 in Social Development and Economic Development are higher by 3.6 and 3.0%, respectively to the ones approved for 2012.*
- *The Federal Government's Expenditures Budget takes into account the priorities of the 31 states and the Federal District as a result of the constant dialogue among all levels of government.*

- *Federal transfers to subnational governments will amount to Ps. 1,310.0 billion. Within them, non-earmarked transfers (participaciones) will amount to Ps. 535.1 billion*
- *The approved Budget for 2013 considers measures for an efficient and transparent use of budgetary resources established in the President's Decree.*

On December 13th 2012, Congress approved the Federal Government's Revenues Law for 2013 (LIF2013) and, on December 20th 2012, the lower house of Congress approved the Federal Government's Expenditures Budget for 2013 (PEF2013). Considering these elements, that constitute the Economic Program for 2013, the following aspects are worth highlighting:

- During the parliamentary process, Congress expressed full agreement with the macroeconomic assumptions for 2013 that constitute the baseline for the Economic Program: economic growth of 3.5% for 2013; budgetary balance, excluding PEMEX's investment; an annual average exchange rate for the Mexican currency of 12.9 pesos per dollar and a production platform for Mexican crude oil of 2.55 million barrels per day.
- Regarding the oil price, Congress considered convenient to modify the average Mexican oil export price from 84.9 to 86.0 dollars per barrel.
- Excluding PEMEX's investment, the approved Economic Program for 2013 considers a balanced budget which reestablishes fiscal equilibrium in compliance with the Federal Budget and Fiscal Responsibility Law (LFPRH), and fulfills the commitment of this administration towards macroeconomic stability as announced by the President on December 1st, 2012. With this determination, Congress shares the vision of the Executive of having public finances that will give strength, competitiveness and will foster job creation in the Mexican economy.
- PEMEX's investment will amount to Ps. 326.3 billion, which represents 2.0% of GDP and implies an annual real increase of 4.7% with respect to the amount approved for 2012.
- Congress agreed with the Executive's proposal to maintain for 2013 the tax structure observed in 2012.
- For 2013, budgetary revenues of Ps. 3,601.1 billion and financing of Ps. 355.3 billion were approved, therefore, total resources of the public sector amount to Ps. 3,956.4 billion, higher by 2013Ps. 119.4 billion to the amount approved for 2012 (3.1% in real terms).
- Regarding the Executive's proposal, total approved resources are greater by Ps. 25.1 billion; this difference consists of Ps. 4.9 billion from higher oil revenues, Ps. 7.0 billion from higher non-oil tax revenues and Ps. 13.1 billion from higher non-tax revenues.
- With respect to the amount approved for 2012, budgetary revenues will increase by 5.1% in real terms. Within, real increases of 5.4% and 6.2% in non-oil tax revenues and revenues from entities under direct control other than PEMEX, respectively, are worth highlighting.

- Public expenditures approved in the PEF2013 amount to Ps. 3,956.4 billion, higher by 2013Ps. 119.4 billion (3.1% in real terms) than the one authorized by the lower house of Congress in 2012. Excluding PEMEX's investment, public expenditures amount to Ps. 3,601.1 billion, higher by Ps. 104.9 billion than the amount approved for 2012 (3.0% in real terms). Both aggregates are greater than the Executive's Program by Ps. 25.1 billion.
- Approved programmable accrued expenditures for 2013 are greater by 3.0% in real terms with respect to the amount approved for 2012. Excluding PEMEX's investment, programmable expenditures are greater by 2013Ps. 76.0 billion (2.9% in real terms).
- In the PEF2013, allocations of Ps. 1,781.9 billion for social development and Ps. 985.2 billion for economic development were approved, levels higher by 3.6% and 3.0% in real terms with respect to the amounts approved for 2012. For government functions, Ps. 202.5 billion were allocated, a 0.4% lower amount than the approved for 2012.
- Fostered investment of the public sector, defined as the sum of physical budgetary investment and the one made through out-of-budget outlays, excluding amortizations by Pidiregas, will stand at Ps. 747.0 billion. Regarding infrastructure, the Federal Government's Expenditures Budget considers the priorities of the Executive and of the 31 states and the Federal District.
- Federal transfers to subnational governments will amount to Ps. 1,310.0 billion. Within them, non-earmarked transfers (*participaciones*) will amount to Ps. 535.1 billion and will increase by 2.4% in real terms with respect to the amount approved for 2012.
- The approved program will allow public debt, as a share of GDP, to be kept at a moderate and stable level, in compliance with the principles to ensure fiscal sustainability stated in the Federal Budget and Fiscal Responsibility Law. The aforementioned is a result of a continuous opportunity optimization exercise that improves the risk and public debt cost profile in the domestic and foreign markets.

Macroeconomic Framework for 2013

During the parliamentary process, Congress expressed full agreement with the macroeconomic assumptions for 2013 that constitute the baseline for the Economic Program, with the exception of the oil price: economic growth of 3.5% for 2013; budgetary balance, excluding PEMEX's investment; an annual average for the exchange rate for the

Mexican currency of 12.9 pesos per dollar and a production platform for Mexican crude oil of 2.55 million barrels per day.

Macroeconomic Framework, 2013

	CGPE	Approved
Gross Domestic Product		
Nominal (Billion pesos)	16,706.5	16,706.5
Real Growth %	3.5	3.5
GDP Deflator	3.5	3.5
Inflation		
Dec./Dec. (%)	3.0	3.0
Average exchange rate		
Pesos per dollar	12.9	12.9
Average interest rate		
CETES 28 days (%)	4.6	4.6
Public balance		
Excluding PEMEX's investment (% of GDP)	0.0	0.0
Including PEMEX's investment (% of GDP)	-2.0	-2.0
Oil		
Average price (dls. / barrel)	84.9	86.0
Oil export platform (mbd)	1,183.5	1,183.5
Oil production platform (mbd)	2,550.0	2,550.0

Regarding the oil price, a modification from 84.9 to 86.0 dollars per barrel was made since Congress considered that it was convenient to make an upward adjustment to the one estimated by the Executive. This was a result of an update in the variables that determine the reference price using the formula established in the Federal Budget and Fiscal Responsibility Law, in order to include the effects of the most recent trends of the international hydrocarbon prices.

Federal Government's Revenues Law for 2013

For fiscal year 2013, Congress approved total public sector revenues—excluding resources from financing— of Ps. 3,601.1 billion. This amount accounts for 21.5% of GDP and is 5.1% higher in real terms to the one approved for 2012.

Including resources from financing, total approved resources amount to Ps. 3,956.4 billion, higher by 3.1% in real terms than the amount approved for 2012. Furthermore, it is greater by Ps. 25.1 billion than the Executive's Proposal due to the following modifications:

Federation's Revenue Law for 2013

	Million pesos
I. LIF Initiative (revenues and financing resources)	3,575,999.9
II. Modifications (1+2+3)	25,072.1
1. Greater oil price	4,933.3
2. Greater tax collection efficiency	7,024.8
3. Greater non-recurring revenues	13,114.0
III. Approved LIF 2013 (I+II)	3,601,072.0

Oil revenues are expected to amount to Ps. 1,243.0 billion, which represents a real increase of 2.4% with respect to the amount approved for 2012. Approved non-oil revenues are Ps. 2,358.1 billion, which implies a greater amount by 6.6% than the one approved for 2012. Within, tax revenues show a real increase of 5.4% in real terms with respect to the amount approved for 2012.

Budgetary revenues, 2012-2013

(Billion pesos of 2013)

	2012	2013		LIF2013 vs. LIF2012	
	LIF	Initiative	LIF	Absolute	Relative
Total	3,426.2	3,576.0	3,601.1	174.9	5.1
Oil revenues	1,213.4	1,238.1	1,243.0	29.6	2.4
Non-oil revenues	2,212.8	2,337.9	2,358.1	145.3	6.6
Tax	1,544.3	1,621.2	1,628.2	83.9	5.4
Non-tax	81.0	92.8	105.9	24.9	30.7
Entities under direct control other than PEMEX	587.5	624.0	624.0	36.5	6.2

The LIF2013 authorizes internal net indebtedness for the Federal Government of up to Ps. 415 billion, which accounts for 2.5% of GDP and is lower than the approved amount for 2012 by 2.8%. At the same time, the original proposal for external indebtedness of USD 7 billion was approved, which includes financing from international financial organizations. For the Federal District a net indebtedness of Ps. 5 billion was authorized.

Federal Government's Expenditures Budget Program for 2013

Approved public accrued expenditures in the PEF2013 are Ps. 3,956.4 billion, higher by Ps. 119.4 billion (3.1% in real terms) than the amount authorized by the lower house of Congress in 2012. Excluding PEMEX's investment, public accrued expenditures amount to Ps. 3,630.0 billion, higher by Ps. 104.9 billion (3.0%) than the approved amount for 2012. Both aggregates are greater by Ps. 25.1 billion than the Executive's Program.

Approved programmable expenditures for 2013 increase by 3.0% in real terms with respect to the amount approved for 2012. Excluding PEMEX's investment, programmable expenditures are greater by 2013Ps. 76.0 billion (2.9% in real terms).

With respect to the Executive's Program, the approved Budget for 2013 implies a growth in expenditures of Ps. 38.2 billion that will be financed through greater Law revenues by Ps. 25.1 billion and reductions in expenditures by Ps. 13.1 billion.

Total net expenditures of the public sector, 2012-2013

(Billion pesos of 2013)

	2012	2013		2013 Approved vs.	
	PEF	PPEF	PEF	PPEF	PEF 2012
				(mmp)	(real growth %)
Total accrued including PEMEX's investment	3,837.0	3,931.3	3,956.4	25.1	3.1
Total accrued excluding PEMEX's investment	3,525.1	3,605.0	3,630.0	25.1	3.0
Total including PEMEX's investment	3,808.0	3,902.3	3,927.4	25.1	3.1
Total excluding PEMEX's investment	3,496.2	3,576.0	3,601.1	25.1	3.0
Paid programmable	2,941.3	2,995.1	3,031.8	36.7	3.1
Paid programmable excluding PEMEX's investment	2,629.5	2,668.8	2,705.5	36.7	2.9
Payment deferral	-29.0	-29.0	-29.0	0.0	0.0
Accrued	2,970.2	3,024.1	3,060.8	36.7	3.0
Accrued excluding PEMEX's investment	2,658.4	2,697.8	2,734.5	36.7	2.9
Non programmable	866.7	907.2	895.6	-11.6	3.3
Financial cost	329.2	350.4	345.4	-5.0	4.9
Shared revenues	522.6	533.6	535.1	1.5	2.4
Adefas	14.9	23.2	15.1	-8.1	1.3

*/ Obtained from the approval by the lower house of Congress for the Federation's Revenues Law for 2013.

Within, the expenditure increases that were authorized by Congress are the following: for Ramo 23, corresponding to Wage and Economic Provisions, an increase of Ps. 13.3 billion, for Transport and Communications, of Ps. 12.9 billion and for Public Education of Ps. 9.4 billion. From the increases of Ramo 23, Ps. 12.7 billion will be allocated to projects with regional influence and Ps. 500 million to conservation, operation and equipment of public facilities. Shared revenues and federal contributions will increase by Ps. 1.9 billion.

For 2013, expenditures approved for Autonomous Branches will be reduced by 2.0% in real terms with respect to the amount approved for 2012 because additional resources were required that year for the Federal Electoral Institute . However, within, real increases for Judicial and Legislative Powers of 5.5% and 5.1%, respectively, are worth highlighting.

In relation to the Budget for 2012, expenditures for Administrative Branches increase by 1.2% in real terms. Within, real increases for CONACYT of 11.5%, as well as for the Ministries of Foreign Affairs, 9.7%; Social Development, 8.4; Marine, 7.3%; Economy, 5.7% and National Defense, 5.6%, were approved.

Programmable expenditures, 2011-2012

Administrative classification

(Billion pesos of 2013)

	2012	2013		2013 Approved vs.	
	PEF	PPEF	Approved	PPEF	PEF 2012
				(billion pesos)	(real growth %)
Total	2,970.2	3,024.1	3,060.6	36.5	3.0
Autonomous Branches	72.3	71.0	70.8	-0.1	-2.0
Legislative	11.4	11.9	11.9	0.0	5.1
Judicial	44.1	46.5	46.5	0.0	5.5
Federal Electoral Institute	15.5	11.2	11.0	-0.1	-28.8
CNDH	1.3	1.4	1.4	0.0	3.8
INEGI	5.1	5.4	5.4	0.0	6.4
TFJFA	2.1	2.1	2.1	0.0	0.0
Administrative branches	964.8	953.8	976.7	22.9	1.2
Presidency	2.1	2.1	2.1	0.0	2.5
Interior	24.5	21.0	21.0	0.0	-14.1
Foreign Affairs	6.3	6.9	7.0	0.0	9.9
Finance and Public Credit	48.1	45.4	45.4	0.1	-5.6
National Defense	57.6	60.8	60.8	0.0	5.7
Sagarpa	73.9	75.4	75.4	0.0	2.1
Transport and Communications	88.5	73.3	86.2	12.9	-2.6
Economy	19.3	20.4	20.4	0.0	5.8
Public Education	260.4	250.9	260.3	9.4	0.0
Health	117.5	121.4	121.9	0.5	3.7
Marine	20.4	21.9	21.9	0.0	7.4
Employment and Social Provision	4.6	4.5	4.5	0.0	-2.2
Agrarian Reform	5.9	5.9	5.9	0.0	-0.7
Semarnat	56.6	56.4	56.5	0.0	-0.3
PGR	15.4	15.8	15.8	0.0	2.2
Energy	3.3	2.3	2.3	0.0	-30.5
Social Development	87.8	95.3	95.3	0.0	8.5
Tourism	5.2	5.2	5.2	0.0	0.0
Public Function	1.7	1.4	1.4	0.0	-18.5
Agrarian Court	1.1	1.0	1.0	0.0	-13.4
Public Security	42.0	41.2	41.2	0.0	-1.8
Legal Council	0.1	0.1	0.1	0.0	19.3
CONACYT	22.6	25.2	25.3	0.0	11.6
General Branches	990.7	1,029.2	1,043.0	13.8	5.3
Entities under direct control	1,275.5	1,328.8	1,328.8	0.0	4.2
Pemex	458.0	476.7	476.7	0.0	4.1
CFE	262.7	269.3	269.3	0.0	2.5
IMSS	408.3	421.6	421.6	0.0	3.2
ISSSTE	146.4	161.4	161.4	0.0	10.2
Transfers, subsidies and contributor	340.2	366.3	366.3	0.0	7.7

For general branches, the approved Budget for 2013 shows a real growth of 5.3% with respect to the amount approved for 2012, while for entities under direct budgetary control,

altogether, is of 4.2%, highlighting the 10.2% increase for ISSSTE, which is primarily allocated to the pensions payment.

Within the PEF2013, real increases in expenditures allocated to to the following functions were approved: Justice 14.3%, Foreign Affairs 10.0%, Housing and Community Service 10.0%, Social Protection 7.8%, Science, Technology and Innovation 7.5% and National Security 6.2%, all with respect to the amount approved in the Budget for 2012. In the economic classification of expenditures, the following real increases were approved, with respect to the amount approved in the Budget for 2012, of 7.6 and 3.0%, in resources allocated to the payment of pensions and investment, respectively.

The approved budget includes, for the first time, a Life Insurance Program for Female Heads of Households and the Transversal Program for Crime Prevention; it authorizes resources to expand the Pension Program for Senior Citizens through a reduction in the minimum age from 70 to 65 years; it begins the first allocation of budgetary resources to the National Crusade against Hunger; it directs more resources to gender perspective programs like the Daycare Program to support working mothers; it significantly increases resources for science and technology, which represents an important step towards achieving the 1% of GDP expenditure objective established in the Science and Technology Law; it increases resources for education, specially to strengthen the Full-Time Schools Program and starts the Portable Computers Program for students in the fifth and sixth grades in public schools.

Federal transfers to subnational governments amount to Ps. 1,310.0 billion and greater by Ps. 36.6 billion than the amount approved for 2012 (2.9%). Within them, non-earmarked transfers (*participaciones*) will amount to Ps. 535.1 billion which represents a 2.4% growth in real terms with respect to the amount approved for 2012.

The approved Budget for 2013 considers the effect of measures for an efficient and transparent use of budgetary resources established in the President's Decree, published in the Official Gazette of December 10th, 2012.

Final considerations

The Economic Program for 2013 approved by Congress consolidates the strength of the economy within a context of significant risks in the international environment. The Mexican economy is not immune to risks that have materialized in other regions, like in the European Union, where a solution for excessive indebtedness of some countries has not been found. At the same time, in the United States, country with which Mexico has its

largest economic integration, the fiscal situation is currently being discussed in Congress and represents a risk if it is not properly resolved. The possible impact of these risks can be reduced by maintaining macroeconomic stability as a factor that promotes growth and the welfare of Mexican households.

The approval of this Economic Program reflects the spirit of collaboration displayed through the consensus of the different political parties represented in Congress and manifests the will and capacity to achieve important agreements that will promote structural changes in the Mexican economy.