



## **PROPOSED ECONOMIC PROGRAM FOR 2009**

- **THE FEDERATION'S REVENUE LAW INITIATIVE, THE EXPENDITURES BUDGET PROJECT FOR 2009 AND THE GENERAL ECONOMIC POLICY GUIDELINES WERE SENT TODAY TO CONGRESS.**
- **REAL GDP GROWTH OF 3.0 PERCENT, INFLATION CLOSE TO 3.8 PERCENT, AND AN AVERAGE INTEREST RATE (28-DAY CETES) OF 8.0 PERCENT ARE EXPECTED FOR 2009. AN AVERAGE REFERENCE PRICE OF 80.3 DOLLARS PER BARREL FOR THE MEXICAN OIL MIX AS WELL AS OIL PRODUCTION AND EXPORT PLATFORMS OF 2,750 AND 1,336 THOUSAND BARRELS PER DAY, RESPECTIVELY, ARE CONSIDERED.**
- **THE ECONOMIC PACKAGE DOES NOT INCLUDE ANY PROPOSALS FOR SUBSTANTIVE CHANGES TO LAWS, REGULATIONS OR PROCEDURES GOVERNING THE CURRENT FISCAL FRAMEWORK. FOR THE FIRST TIME IN FIFTEEN YEARS, NO TAX BILL (MISCELANEA FISCAL) WAS PRESENTED.**
- **THE REVENUES LAW INITIATIVE AND THE FEDERATION'S EXPENDITURE BUDGET PROJECT ARE CONSISTENT WITH MAINTAINING A BALANCED BUDGET.**
- **PUBLIC SECTOR REVENUES ARE EXPECTED TO INCREASE 5.7 PERCENT IN REAL TERMS WITH RESPECT TO THOSE APPROVED IN 2008. WITHIN, OIL RELATED REVENUES WILL BE 12.4 PERCENT HIGHER IN REAL TERMS THAN THOSE APPROVED IN 2008 DUE TO HIGHER OIL PRICES.**
- **PROPOSED NET PAID EXPENDITURES ARE PS. 2,820.7 BILLION, WITH AN INCREASE EQUAL TO THAT EXPECTED FOR TOTAL REVENUES.**
- **PROGRAMMABLE ACCRUED EXPENDITURES ARE PS. 2,177.6 BILLION, 6.3 PERCENT HIGHER IN REAL TERMS THAN THOSE APPROVED FOR 2008. THIS IS THE HIGHEST HISTORICAL LEVEL WITH RESPECT TO THE APPROVED ONES, AND AS PERCENTAGE OF GDP SINCE 1988.**
- **THE BUDGETARY PROJECT GIVES PRIORITY TO AN ALLOCATION OF RESOURCES THAT WILL ALLOW US TO ADVANCE DECISIVELY IN THE FULLFILMENT OF THE GOALS ESTABLISHED IN THE NATIONAL ACCORD FOR SECURITY, JUSTICE AND LEGALITY. RESOURCES CHANNELED TO ORDER, SECURITY AND JUSTICE WILL INCREASE BY 32.9 PERCENT IN REAL TERMS WITH RESPECT TO THE APPROVED AMOUNT OF 2008, AND THE BUDGET OF**



**THE MINISTRIES OF PUBLIC SECURITY, INTERIOR, DEFENSE AND MARINE, AS WELL AS THE GENERAL ATTORNEY OF THE REPUBLIC, WILL INCREASE BY 49.8, 25.1, 16.1, 12.3 AND 29.2 PERCENT IN REAL TERMS, RESPECTIVELY.**

- **THE RESOURCES ALLOCATED TO THE MINISTRY OF SOCIAL DEVELOPMENT AND THE NATIONAL COUNCIL OF SCIENCE AND TECHNOLOGY BUDGETS WILL INCREASE BY 25.9 AND 24.7 PERCENT IN REAL TERMS, RESPECTIVELY. EXPENDITURES CHANNLED TO SOCIAL DEVELOPMENT WILL INCREASE BY 6.2 PERCENT.**
- **THE 2009 BUDGET PROPOSAL CONSIDERS A RESULTS-BASED BUDGETING PROCESS AS WELL AS PERFORMANCE EVALUATIONS. FOR THOSE PROGRAMS THAT HAVE SOME KIND OF EVALUATION, THE RESULTS AND RECOMMENDATIONS WERE TAKEN INTO ACCOUNT. IN ADDITION, PROGRESS WAS MADE IN THE INCORPORATION OF STRATEGIC AND EXECUTION INDICATORS, AS WELL AS IN MONITORING THE COMPLIANCE OF GOALS AND TARGETS.**
- **FOR THE FIRST TIME, THE FEDERAL EXECUTIVE PROPOSES MULTI-ANNUAL INVESTMENT BUDGETS FOR INFRASTRUCTURE PROJECTS TO BE APPROVED BY THE CHAMBER OF DEPUTIES.**
- **INVESTMENT FOSTERED BY THE PUBLIC SECTOR WILL BE PS. 531.0 BILLION, SIMILAR IN REAL TERMS TO THE APPROVED ONE FOR 2008. THIS IS EQUIVALENT TO 4.1 PERCENT OF GDP. THIS IMPLIES THAT FOSTERED INVESTMENT DURING THE 2007-2009 PERIOD WILL BE 42.5 PERCENT HIGHER IN REAL TERMS THAN THE AVERAGE OBSERVED DURING 2000-2006.**
- **FEDERALIZED EXPENDITURES WILL INCREASE 3.7 PERCENT. WITHIN, SHARED REVENUES AND RESOURCES TRANSFERRED TO STATES AND MUNICIPALITIES WILL INCREASE 4.1 AND 3.8 PERCENT, RESPECTIVELY, IN COMPARISON WITH THOSE APPROVED FOR 2008. SHAREABLE REVENUES WILL REACH 3.3 PERCENT OF GDP, THE HIGHEST HISTORICALLY APPROVED LEVEL SINCE THE FISCAL COORDINATION SYSTEM WAS ESTABLISHED IN 1978.**



Today, September 8<sup>th</sup> 2008, the Federal Executive sent to Congress the Revenue Law Initiative and the Federation's Expenditure Budget Project for 2009. The initiative and the project were prepared according to the economic projections and strategies contained in the Economic Policy Guidelines for the next fiscal year.

### **The Mexican Economy in 2008**

During 2008, production and employment in the Mexican economy have had a good performance despite less favorable international conditions. In this context, the Federal Government acted timely by adopting a counter-cyclical policy based on three pillars: the public expenditure increase in the Federal Expenditures Budget for 2008, the creation of the National Infrastructure Fund, and the implementation of the Program to Support the Economy. In addition, the Program to Support Food Consumption was implemented. Worth noting is that the Mexican economy is structurally stronger than on previous occasions to face a less favorable international environment.

Development banks have constituted another supporting element of the economic activity during this year. Up to June, the balance of credit fostered by the development banks grew by 23.2 percent in real terms compared to the same month last year<sup>1</sup>, and a 22.4 percent increase is expected for the whole year. The allocation of resources has been primarily channeled to credit to small and medium firms, agricultural producers, investment in infrastructure and housing for low income families.

During the first half of 2008, the real value of GDP grew 2.7 percent and the flow of foreign direct investment to the country was US\$10.54 billion. Up to July 31 of 2008, the annual increase of employees registered at IMSS was 317,187 people (2.3 percent) while the increase in the number of formal jobs was of 301,789 people with respect to the end of 2007.

The Mexican economy is expected to grow at an annual rate of 2.4 percent in 2008 while annual headline inflation is expected to be close to 5.5 percent by the end of the year. In addition, the traditional public balance is expected to be in balance, while the primary surplus would be equal to 2.0 percent of GDP.

In 2008 the budget is expected to be balanced as result of Ps. 2,681.0 billion total revenues and expenditures, 1.8 percent higher in real terms than those observed in 2007. Worthwhile mentioning is that revenues exceeding the expected amount in the 2008 Federation's Revenue Law (LIF2008) are channeled to cover additional expenditures to those approved in the Federal Expenditures Budget for 2008 (PEF2008) in accordance with the existing dispositions.

The public sector's budgetary revenues are expected to be Ps. 135.6 billion higher than those in LIF2008. Within Ps. 152.3 billion are oil-related revenues, Ps. 18.1 billion from public entities

---

<sup>1</sup> This excluding the SHF (Federal Mortgage Society), which has been promoting its replacement by private participants in those segments where competition is stronger.



under budgetary control other than PEMEX, Ps. 5.1 billion from the Federal Government's non-tax non-oil revenues, and a short-fall of Ps. 39.9 billion from non-oil tax revenues.

<b>Budgetary Revenues, 2008</b>			
<b>(Billion pesos)</b>			
	Approved	Estimated	Difference
<b>Total</b>	<b>2,545.5</b>	<b>2,681.0</b>	<b>135.6</b>
Oil related	865.7	1,017.9	152.3
Non-oil related	1,679.8	1,663.1	-16.7
Federal Government	1,264.8	1,230.0	-34.8
Tax revenue	1,208.4	1,168.5	-39.9
Non-tax revenue	56.3	61.4	5.1
PEDBC	415.0	433.1	18.1

The total net budgetary expenditure of the public sector is expected to be 22.1 percent of GDP. Programmable expenditures are expected to exceed the amount approved in the 2008 Federation's Expenditure Budget (PEF2008) by Ps. 122.9 billion due to the public expenditure increases derived from the excess revenues estimated for the end of the year.

Non-programmable expenditures are expected to be Ps. 12.6 billion higher than those approved for 2008 due to an increase in Deferred Payments (Adefas) of Ps. 13.3 billion and an increase in shareable revenues transferred to States and Municipalities of Ps. 19.2 billion or a 19.0 percent increase in real terms with respect to 2007. Financial costs are anticipated to be Ps. 19.9 billion lower mainly due to the exchange rate appreciation.

The public sector borrowing requirements (PSBR), which are the public sector's funding needs to achieve its policy goals, including requirements arising from the activities of public sector entities and those carried out by the private sector on behalf of the Federal Government, are estimated at 1.8 percent of GDP by the end of 2008, which is 0.6 GDP percentage points higher than the ones at the end of 2007. With respect to the originally estimated amount for 2008, the PSBR are expected to be consistent with those approved, considering the upward revision to GDP as result of the base year change in its calculation.

Public sector borrowing requirements, 2007-2008 (% of GDP)				
	2007	2008		Difference
		Approved	Estimated	
<b>I. Traditional public deficit</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
A. Budgetary revenues	22.2	21.0	22.1	1.1
Oil related	7.9	7.1	8.4	1.3
Non-oil related	14.4	13.9	13.7	-0.1
Tax revenues	9.4	10.0	9.6	-0.3
Non-tax revenues	1.4	0.5	0.5	0.0
PEDBC	3.6	3.4	3.6	0.1
B. Net budgetary expenditure	22.2	21.0	22.1	1.1
Programmable paid	16.9	15.5	16.5	1.0
Non programmable	5.3	5.5	5.6	0.1
Financial cost	2.1	2.2	2.0	-0.2
Shared revenues	3.0	3.3	3.5	0.2
Adefas and others	0.2	0.0	0.1	0.1
C. Off budget deficit	0.0	0.0	0.0	0.0
<b>II. Adjustments</b>	<b>1.2</b>	<b>1.8</b>	<b>1.8</b>	<b>0.0</b>
PIDIREGAS	0.9	1.1	1.1	0.0
IPAB	0.1	0.2	0.2	0.0
Adjustments to budget registries	0.4	0.2	0.2	0.0
Debtor program	0.0	0.0	0.0	0.0
Development Banks and Funds	-0.2	0.3	0.3	0.0
<b>IV. PSBR (II+III)</b>	<b>1.1</b>	<b>1.8</b>	<b>1.8</b>	<b>0.0</b>
<b>Minus non-recurrent income</b>	<b>1.8</b>	<b>1.8</b>	<b>1.9</b>	<b>0.0</b>

### Economic Outlook for 2009

Although private sector analysts expect GDP growth in the United States to be similar in 2009 to the one estimated in 2008 (1.5 vs. 1.6 percent), they anticipate an acceleration in its industrial activity. Specifically, industrial production in the U.S. is estimated to grow 1.0 percent in real annual terms in 2009, compared with the expected increase of 0.2 percent for 2008. The anticipated recovery is based on the following factors: 1) the stabilization of the housing market by the end of 2008, 2) the stabilization of financial markets and lower inflationary pressures, 3) an improvement in the balance sheets of the financial system and families; 4) the completion of the adjustment cycle in inventories of industrial goods, and 5) a moderate recovery in sales of the automotive sector.

Along with the recovery of industrial activity in the United States, it is anticipated that domestic demand and the boost provided by public finances will lead to a better performance of the national



economy. It is estimated that during 2009, Mexican GDP will register 3.0 percent real annual growth.

The credit market will be one of the main elements that will contribute to promote higher growth, with development banks playing an important role. Credit fostered by the development banks is anticipated to increase 15.2 percent in real terms compared to 2008, with resources being channeled –like this year– to strategic sectors for the country's development.

The economic scenario for 2009 anticipates that inflation will be close to 3.8 percent. Also, the public sector's economic balance is estimated to remain in balance and the primary surplus will be equivalent to 2.2 percentage points of GDP. This figure is consistent with a current account deficit in the balance of payments equivalent to 1.1 percent of GDP.

A decrease in oil production and export platforms is anticipated for 2009, although this will be smaller than the one expected for 2008. Oil production and export platforms are forecast at 2,750 and 1,336 thousand barrels a day for next year, implying annual reductions of 3.8 and 8.6 percent, respectively. In 2009, the production in the Cantarell field is expected to continue falling, which will be partially compensated for production increases in the Ku-Maloob-Zaap field as well as in the assets located in Poza Rica-Altamira, Samaria-Luna, and the Coast of Tabasco.

Supply and demand conditions for hydrocarbons during 2009 are expected to lead to high average prices for WTI together with a high degree of volatility. Elements that could push the price of oil downwards are: i) a lower than expected growth rate of the world economy, specially in the United States, and ii) an increase in the global supply of oil –particularly in the United States, Brazil and Azerbaijan–, leading to an increase in gasoline and crude oil inventories. In this context, the reference price for the Mexican oil mix in 2009 is 80.3 dollars per barrel as calculated by the formula defined in the Federal Budget and Fiscal Responsibility Law.

The proposed 2009 Economic Program presents a balanced budget, in accordance to Article 17 of the Federal Budget and Fiscal Responsibility Law (LFPRH).

The presented economic package does not include any proposal 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 Federal Entities, since the approved proposals derived from the Public Finance Reform are under implementation process and require an adjustment period both for the Federal Public Administration and taxpayers. Moreover, the Tax Administration Authority (SAT) will continue to pursue simplification efforts to make it easier for taxpayers to fulfill their obligations, as well as implementing measures to combat tax evasion and elusion.



*Public revenues for 2009*

Budgetary revenues are estimated at Ps. 2,820.7 billion pesos of 2009, a figure higher by 09Ps. 152.9 billion than the amount presented in the Federation’s Revenues Law for 2008 and by 09Ps. 10.8 billion with respect to the end of 2008. Oil related revenues will be 12.4 percent higher in real terms with respect to those approved for 2008, though they register a 4.4 percent decrease in real terms with respect to the estimated to the end of 2008. This is mainly explained by: the lower oil price, from 96.5 dollars per barrel estimated in 2008 to 80.3 dollars per barrel projected for 2009, the latter calculated in accordance with the Federal Budget and Fiscal Responsibility Law (LFPRH) formula, and the decrease in the oil export platform, which is estimated at 1,336 thousand barrels per day in 2009, compared with 1,461 thousand barrels per day of 2008.

Budgetary Revenues, 2008-2009 (Billions of pesos of 2009)							
	2008		2008	Differences 2009 vs. 2008			
	LIF	Estimated		Absolute		Relative	
				LIF	Est.	LIF	Est.
<b>Total</b>	<b>2,667.8</b>	<b>2,809.9</b>	<b>2,820.7</b>	<b>152.9</b>	<b>10.8</b>	<b>5.7</b>	<b>0.4</b>
Oil related	907.3	1,066.9	1,019.9	112.6	-47.0	12.4	-4.4
Non-oil related	1,760.5	1,743.0	1,800.8	40.3	57.8	2.3	3.3
Tax revenues	1,266.5	1,224.7	1,279.4	12.9	54.8	1.0	4.5
Non-tax revenues	59.0	64.4	55.5	-3.5	-8.9	-5.9	-13.8
PEDBC	435.0	453.9	465.8	30.9	11.9	7.1	2.6

Non-oil related revenues are expected to increase 2.3 and 3.3 percent in real terms compared to those estimated in the Federal Revenue Law for 2008 and to the end of 2008, respectively. Tax revenues are expected to increase by 4.5 percent in real terms compared to the estimated amount for end 2008, figure which is higher than the anticipated growth rate of economic activity as a whole due to higher efficiency in tax collection and the increase in the tax rate of the Unique Rate Corporate Tax (IETU) from 16.5 to 17.0 percent derived from the Public Finance Reform approved in 2007. Within its components, worth noting are the real expansions of the Income Tax (5.9 percent), IETU (8.9 percent), VAT (4.1 percent) and Tax on Cash Deposits (147.4 percent). Revenues from public entities under budgetary control other than PEMEX show a real increase of 2.6 percent with respect to the end of 2008 mainly due to increased economic activity and, on the other hand, non-tax revenues are lower by 13.8 percent in real terms compared to the end of 2008, explained by lower non-recurrent revenues.

*Public Expenditure Strategy for 2009*

The expenditure policy proposed for 2009 strengthens public programs and government actions in order to address the national priorities and achieve the objectives and goals set forth in the National Development Plan 2007-2012. In particular, it favors spending on public security and justice



administration; increases social expenditures; reinforces actions and programs that foster a more dynamic economic development, higher growth and the generation of more and better jobs, and encourages environment protection and a sustainable use of natural resources. The following lines of action will be implemented:

- Strengthen and improve the efficiency in the public security systems and justice administration, increasing substantially their resources, in order to progress in the fight against organized crime, particularly against those who are involved in drug trafficking and kidnapping.
- Continue the development of basic capabilities by ensuring access to food as well as providing a greater coverage and quality of education services, health, housing and basic social infrastructure.
- Consolidate the Social Safety Net (Red de Protección Social), strengthening programs that provide assistance to vulnerable individuals or groups, assisting families to meet catastrophic expenses arising from illness or accidents, and support families facing a temporary loss of employment or income as a result of the market fluctuations or natural disasters.
- Encourage economic activity and access to formal employment, strengthening expenditure programs oriented to raise productivity and competitiveness of priority sectors, continuing with the development of infrastructure as well as programs that promote the integration and permanence of the population in the labor market.
- Restore and preserve the environment and ensure the responsible use of natural resources, as well as promote sustainable production projects and a greater efficiency in the use and administration of water resources.
- Promote innovation and scientific and technological development by assigning a growing budget to programs with this purpose.
- Consolidate the incorporation of a gender perspective in budgetary allocations of ministries and entities of the Federal Public Administration.
- Continue with the effort of the Federal Government in terms of austerity, rationalization and spending discipline. In the PPEF 2009 a reduction of Ps. 8,679 billion in spending for administrative, operational and support activities in ministries of the Federal Public Administration has been incorporated, with the exception of the areas of public and national safety.



Worth noting is that, consistent with the existing legal framework, the 2009 Budget Project considered results-based budgeting and the Performance Evaluation System. In those programs that have some kind of evaluation, the obtained results and recommendations were taken into account. In addition, progress was made in the improvement and incorporation of strategic and execution indicators, as well as in monitoring the compliance of goals and targets. In this way, new incentives to achieve the strategic objectives are established. The spending orientation to obtain results is a gradual and permanent process that creates incentives to improve the quality, impact and efficiency of budgetary programs.

Also, the Federal Government has been working to improve conditions for a more dynamic and timely execution of expenditures in 2009. The budget planning and programming of the different projects and programs, done for next year, will allow the Ministries of the Federal Public Administration to begin in a timely fashion with the projects' licitations and acquisitions, make the needed adjustments and publish the operating rules of the programs that require them, as well as quickly finalize execution agreements with the 32 Federal Entities for the use of Federal resources. With this strategy, the approved budget by the Chamber of Deputies will be ready for execution since the beginning of the year, particularly those resources channeled to investment projects in infrastructure and productive programs.

Moreover, within the strategy to make public spending more efficient, the Federal Executive proposes for the first time multi-annual investment budgets for infrastructure projects to be approved by the Chamber of Deputies, in line with the established constitutional reform in terms of public expenditures that is in place since May 2008. In case resources for investment projects in infrastructure are authorized for several fiscal years, funds for the lifetime of these projects will be ensured, which will result in a significant reduction of costs and time of execution of the projects.

The following features from the Expenditures Decree Proposal for 2009 are worth noting:

- Consistent with the estimated amount of budgetary revenues and in order to maintain a balanced budget, the proposed net paid expenditures for 2009 are O9Ps. 2,820.7 billion, higher by Ps. 152.9 billion to the approved amount in 2008. Estimated higher shareable revenues result in an increase in non-programmable expenditures of O9Ps. 27.4 billion with respect to the approved amount in 2008.

<b>Paid Total Net Expenditure, 2008-2009</b>				
<b>(Billion pesos of 2009)</b>				
	2008 PEF	2009	Differences	
			Absolute	Relative
<b>Total</b>	<b>2,667.8</b>	<b>2,820.7</b>	<b>152.9</b>	<b>5.7</b>
Programmable paid	1,966.1	2,091.6	125.5	6.4
Deferred payments	-25.2	-26.0	-0.8	3.4
Accrued	1,991.2	2,117.6	126.4	6.3
Non programmable	701.7	729.1	27.4	3.9
Financial Cost	277.8	282.4	4.6	1.7
Shared Revenues	419.4	436.7	17.3	4.1
Adefas	4.5	10.0	5.5	123.0

- In consequence, programmable accrued expenditures are 09Ps. 2,117.6 billion, 6.3 percent higher in real terms than those approved for 2008. This is the highest historical level.
- In terms of economic classification of programmable expenditures, expenditure provisions are grouped according to their economic nature and purpose in current or capital expenditures. For the 2009 fiscal year, current expenditures will represent 80.7 percent of programmable expenditures, while the remaining 19.3 per cent will be capital expenditures. Compared to what was approved for 2008, current expenditures show an increase of 8.0 percent in 2009, while investment expenditures maintain close to the same real level. Considering the proposed allocations in this Budget Project, the average of investment expenditures so far in this Administration will be 39.1 percent higher in real terms than the average achieved during the six years of the previous Administration.

<b>Programmable Expenditure of the Public Sector, 2008-2009</b>				
<b>(Billion pesos of 2009)</b>				
	2008 PEF	2009	Differences	
			Absolute	Relative
<b>Total</b>	<b>1,991.2</b>	<b>2,117.6</b>	<b>126.4</b>	<b>6.3</b>
Current Expenditure	1,581.5	1,708.8	127.3	8.0
Personnel Services	739.6	790.8	51.3	6.9
Pensions	237.5	253.9	16.5	6.9
Subsidies	229.0	242.8	13.8	6.0
Operational	375.5	421.2	45.7	12.2
Investment Expenditure	409.7	408.8	-0.9	-0.2

- Within the Government function, the sub-function of Order, Security and Justice has a resource allocation of O9Ps. 54.0 billion, which represents an increase of 32.9 percent in real terms compared to the approved Budget of the previous year.
- Expenditures channeled to the Social Development functions in 2009 is proposed to be O9Ps. 1,252.0 billion, which implies a 6.2 percent increase compared to the approved for 2008.

<b>Programmable Expenditure of the Public Sector, 2008-2009</b>				
<b>Functional Classification</b>				
<b>(Billion pesos of 2009)</b>				
	2008 PEF	2009	Differences	
			Absolute	Relative
<b>Total</b>	<b>1,991.2</b>	<b>2,117.6</b>	<b>126.4</b>	<b>6.3</b>
Legislative, judicial and autonomous entities and INEG	53.7	68.2	14.5	27.1
Federal Public Administration	1,937.6	2,049.4	111.8	5.8
Government	123.2	147.7	24.5	19.9
Social Development	1,179.3	1,252.0	72.7	6.2
Economic Development	635.1	649.7	14.6	2.3

- The Expenditures Budget Project considers O9Ps. 718.1 billion for Administrative Branches in 2009, which will represent a 5.0 percent real increase compared to the approved amount for 2008. Within the allocation of programmable expenditures to strengthen the national security systems stand out, as the resources for the Ministries of Public Security, Interior, Defense and Marine, as well as the General Attorney of the Republic will be higher than those approved for 2008 by 49.8, 25.1, 16.1, 12.3 and 29.2 percent in real terms, respectively. Resources for the Ministry of Social Development and the National Council of Science and Technology register increases of 25.9 and 24.7 percent in real terms, respectively.

Programmable Expenditure of the Public Sector, 2008-2009 Administrative Classification (Billion pesos of 2009)				
	2008 PEF	2009	Differences	
			Absolute	Relative
<b>Total</b>	<b>1,991.2</b>	<b>2,117.6</b>	<b>126.4</b>	<b>6.3</b>
<b>Autonomous Branches</b>	<b>50.1</b>	<b>62.0</b>	<b>12.0</b>	<b>23.9</b>
<b>Administrative Branches</b>	<b>684.3</b>	<b>718.1</b>	<b>33.9</b>	<b>5.0</b>
Presidency	1.8	1.8	0.1	4.0
Government	7.1	8.8	1.8	25.1
External Affairs	5.6	5.5	-0.1	-2.5
Finance and Public Credit	34.1	34.6	0.5	1.6
National Defense	36.5	42.4	5.9	16.1
Sagarpa	67.5	61.2	-6.3	-9.4
Transport and Communications	61.1	48.9	-12.2	-19.9
Economy	11.3	11.6	0.3	2.7
Public Education	181.8	185.5	3.6	2.0
Health	72.8	76.7	3.9	5.4
Marine	14.0	15.8	1.7	12.3
Employment and Social Provision	3.6	3.8	0.3	7.3
Agrarian Reform	5.5	5.3	-0.2	-3.4
Semarnat	40.9	39.9	-1.0	-2.5
PGR	9.8	12.6	2.9	29.2
Energy	37.7	43.1	5.4	14.3
Social Development	52.5	66.1	13.6	25.9
Tourism	3.5	3.4	-0.1	-4.0
Public Function	1.6	1.6	0.0	0.1
Agrarian Court	1.0	0.9	0.0	-4.5
Federal Court	1.3	1.5	0.2	14.9
Public Security	20.7	31.0	10.3	49.8
Legal Council	0.1	0.5	0.4	389.3
CONACYT	12.4	15.5	3.1	24.7
<b>INEG</b>	<b>3.8</b>	<b>7.6</b>	<b>3.8</b>	<b>99.9</b>
<b>General Branches</b>	<b>685.1</b>	<b>765.7</b>	<b>80.6</b>	<b>11.8</b>
<b>PEDBC</b>	<b>797.4</b>	<b>822.2</b>	<b>24.8</b>	<b>3.1</b>
Pemex	191.4	201.7	10.3	5.4
CFE	206.0	200.0	-6.0	-2.9
LyFC	31.8	33.0	1.2	3.7
IMSS	285.2	299.0	13.8	4.9
ISSSTE	83.0	88.5	5.5	6.6
<b>Transfers, subsidies and contributions</b>	<b>229.4</b>	<b>258.1</b>	<b>28.7</b>	<b>12.5</b>

- During 2009 it is estimated that Federalized expenditures will be 09Ps 901.8 billion, an increase of 3.7 percent in real terms with respect to the approved amount in 2008. Within, shared revenues and transferred resources to States and Municipalities will increase by 4.1 and 3.8 percent, respectively. It is worth noting that shared revenues will reach 3.3 percent



of GDP, the highest historical level approved since the fiscal coordination system was established in 1978.

Federal Transfers to Federal Entities, 2008-2009 (Billion pesos of 2009)				
	2008 PEF	2009	Difference	
			Absolute	Relative
<b>Total</b>	<b>869.2</b>	<b>901.8</b>	<b>32.5</b>	<b>3.7</b>
Shared revenues	419.4	436.7	17.3	4.1
Transferred resources	431.5	447.8	16.2	3.8
Wage and economic provisions	18.3	17.4	-1.0	-5.2

#### *Policy of Public Credit for 2009*

The Public Debt policy of the present Administration is oriented to manage public liabilities in a prudent and efficient manner. With this, public credit policies will seek to satisfy the financing requirements of the Federal Government at the lowest possible cost, maintaining a suitable level of risk and contributing to the development of national financial markets. The strategy of debt of the Federal Government in 2009 will follow two guidelines:

- To continue the use of internal debt to finance not only the deficit of the Federal Government but also the service of external debt and,
- To improve the cost and maturity structure of the external debt, diminishing its relative weight in the total debt of the Federal Government.

A net internal indebtedness by the Federal Government of Ps. 295 billion is requested derived from the anticipated deficit of the Federal Government for 2009, as well as a net external debt reduction of the public sector of at least USD 0.5 billion and the approval of loans with international financial multilateral organizations equivalent to a net indebtedness of up to USD 2.0 billion.

#### **Financial Requirements of the Public Sector for 2009**

The public sector borrowing requirements in 2008 will be equivalent to 2.0 percent of GDP, same percentage as that authorized by Congress for 2008. This level is consistent with a reduction of the historical balance of the Public Sector Borrowing Requirements (PSBR) as proportion of GDP and with maintaining the level of investment fostered by the public sector. The 0.2 percentage points of GDP increase of the PSBR in 2009 compared to the expected amount in 2008 will be channeled to fostered investment, and to the promotion of investment in strategic sectors serviced by development banks.

<b>Public Sector Borrowing Requirements</b> (% of GDP)			
Concept	2008	2009	Difference
<b>I. Traditional balance</b>	0.0	0.0	0.0
<b>II Adjustments</b>	1.8	2.0	0.2
Borrowing requirements by PIDIREGAS	1.1	1.3	0.2
Borrowing requirements of IPAB	0.2	0.2	0.0
Adjustments to the budgetary registries	0.2	0.2	0.0
Borrowers program	0.0	0.0	0.0
Development banks and promotion funds	0.3	0.3	0.0
<b>III. RFSP (I+II)</b>	1.8	2.0	0.2
Minus non-recurring income	1.8	2.0	0.2

In this way, by the end of 2009 the Historical Balance of the Public Sector's Borrowing Requirements will be equivalent to 30.5 percent of GDP, 0.2 percentage points lower than the expected closing amount for 2008, maintaining the downward trend of the PSBR as proportion of GDP.

### Final considerations

The priority of the present Administration, as stated in the National Development Plan, is Sustainable Human Development. Consistent with that objective, the Economic Program promotes higher sustainable growth, which will translate into more dynamic and permanent job creation. Along with the measures oriented to widen the capabilities of the population, economic growth and job creation are the only means that will reduce poverty in an accelerated way, result in a better standard of life for all Mexicans and enable us to face an external environment of increasing competition and lower global economy growth.

The Economic Program presented for 2009 includes a significant increase in the level of public sector resources, which is possible given the benefits of the Public Finance Reform approved in 2007. In this way, substantial increases in resources channeled to social development, security and economic development are proposed.

The proposed economic package will be complemented with the strategies included in the National Development Plan. Among others, continuing the emphasis on greater financial intermediation by the development banks and the democratization process of the financial system as a whole.



PRESS RELEASE

Mexico City, September 8<sup>th</sup>, 2008

Throughout the period of the Administration of President Felipe Calderon substantial progress has been observed. During 2007, worth highlighting are the approval of the new ISSSTE Law, the publication of the National Development Plan and the National Infrastructure Program, and the approved Public Finance Reform. This year, the Justice System Reform was approved, the Alliance to Support Education and the National Accord for Security, Justice and Legality were established and the Energy Reform initiative was presented to Congress. While progress is significant, it is necessary to continue going forward by performing the needed actions so that our country may increase its pace of development.

<b>MACROECONOMIC FRAMEWORK, 2008-2009 e/</b>		
	<b>2008</b>	<b>2009</b>
<b>Gross Domestic Product</b>		
Real growth %	2.4	3.0
Nominal (billion pesos)	12,125.2	13,093.9
GDP deflator	5.9	4.8
<b>Inflation</b>		
dec. / dec.	5.5	3.8
<b>Nominal exchange rate <sup>*/</sup></b>		
Average	10.4	10.6
<b>Interest rate (CETES 28 days)</b>		
Nominal end of period, %	8.2	8.0
Average nominal, %	7.8	8.0
Real accumulated, %	2.3	4.4
<b>Current Account</b>		
Million dollars	-6,954.1	-13,689.8
% of GDP	-0.6	-1.1
Variables of support:		
<b>Fiscal balance</b>		
% of GDP	0.0	0.0
<b>U.S. GDP (Annual variation)</b>		
Real growth %	1.6	1.5
<b>U.S. Industrial Production</b>		
Real growth %	0.2	1.0
<b>U.S. Inflation</b>		
Average	4.4	2.9
<b>International interest rate</b>		
Libor 3 months (average)	2.9	3.7
FED Funds Rate (average)	2.3	2.7
<b>Oil (Mexican basket)</b>		
Average price (dolls. / barrel)	96.5	80.3
Average exports platform (mbd)	1,461	1,336