



## Summary of the Proposed Economic Program for 2007

- Today, the Federation's Expenditures Law Proposal for 2007, the Federation's Revenues Law Initiative for 2007, and the General Economic Policy Guidelines were sent to Congress.
- A real GDP growth rate of 3.6%, an inflation rate of 3.0% and an interest rate (28-day CETES) of 6.8% are expected for 2007.
- A balanced budget is proposed for 2007 in accordance with the Federal Budget and Fiscal Responsibility Law.
- A reference price of 42.5 dollars per barrel (dpb) is considered for the Mexican oil mix in 2007.
- Total revenues are projected to increase 9.5% in real terms with respect to the amount approved for 2006. Oil and non-oil related revenues post increases of 4.2% and 12.9% in real terms with respect to the amounts approved for 2006.
- The proposed total net paid expenditures amount to Ps. 2,214.4 billion, with the same increase in real terms as the total revenues with respect to the amount approved for 2006.
- Accrued programmable expenditures increase 12.1% in real terms with respect to the amount approved in 2006. Within, expenditures allocated to order, security and justice, to social development and to economic development increase by 12.4%, 6.9% and 11.5%, respectively, in real terms. Additionally, expenditures on public sector workers' pensions and capital expenditures increased 12.2% and 30.1%, respectively. Federalized expenditures would increase 4.4% in real terms.
- The Federation's Expenditures Law Initiative for 2007 (PPEF2007) includes a considerable austerity effort and attempts to make spending in several programs more focalized. These efforts are a result of the Decree on the Austerity and Discipline in the Federal Public Administration's Expenditure published in the Official Gazette on December 4<sup>th</sup> 2006. The application of this decree on the PPEF2007 has resulted in savings of Ps. 25.5 billion. Additionally, the PPEF2007 includes several proposals that promote transparency and accountability.
- The Federation's Expenditures Law Proposal and the Federation's Revenues Law Initiative for 2007 are key elements, though not the only ones, of the current Administration's economic strategy. Other elements include fostering job creating sectors, intermediation by development banks, more efficient regulation and a better design and implementation of public policies.

## GENERAL ECONOMIC POLICY GUIDELINES AND THE FEDERATION'S EXPENDITURES LAW PROPOSAL FOR 2007

Today, December 5<sup>th</sup> 2006, the Federal Executive sent to Congress the Federation's Expenditures Law Proposal for 2007 (PPEF2007). This document was developed using the economic projections and strategies established in the General Economic Policy Guidelines for next year.

### The Mexican Economy in 2006

Given the recent evolution of several macroeconomic indicators, the annual GDP growth for 2006 in Mexico is expected to be 4.7 percent. If this forecast is accurate, the economy will have grown at its fastest rate during the last six years. A favorable economic environment led to a dynamic and balanced performance of productive activities in Mexico.

With respect to employment, up to October 2006 the number of employees affiliated to IMSS grew by 885,344 in annual terms, a 6.73 percent increase.

It is projected that, by the end of 2006, the public surplus will stand at Ps. 28.4 billion (0.3 percent of GDP) due to higher revenues, both oil and non-oil related, a part of which, in compliance with the Federation's Expenditures Law for 2006 (PEF2006), was destined to improve the fiscal balance.

Budgetary revenues for the year are estimated at Ps. 278.6 billion above those projected in the Federation's Revenues Law for 2006 (LIF2006). This is due to:

- Oil-related revenues exceeded what had been planned due to higher oil prices.
- Non-oil related revenues were higher than what was expected mainly on account of higher tax revenues, particularly from the income tax and VAT receipts.

<b>Budgetary Revenues, 2006 (Billion pesos)</b>			
	Approved	Estimated	Difference
<b>Total</b>	<b>1,953.5</b>	<b>2,232.1</b>	<b>278.6</b>
Oil-related	752.4	862.4	110.0
Federal Government	492.0	559.7	67.7
PEMEX	260.4	302.6	42.3
Non-oil related	1,201.1	1,369.7	168.6
Federal Government	847.8	996.9	149.1
Tax	813.5	933.8	120.3
Non-tax	34.3	63.1	28.8
PEDBC's*/	353.3	372.9	19.5

\*/ Public entities under direct budgetary control (not including PEMEX).

Excess revenues are expected to be distributed, mostly, to the Federal Entities (20.1%) and PEMEX (35.5%).

<b>Excess Revenues, 2006 (Billion pesos)</b>	
<b>Total</b>	<b>278.6</b>
1. Federal Entities	56.1
ARE	6.5
DEEP	13.0
Shared Revenue	36.6
2. Public Entities Under Direct Budgetary Control	121.7
PEMEX	99.0
Others	22.7
3. Enterprises	32.1
4. Contributions to the FEIP	28.4
5. Public balance improvements	28.4
6. Others */	11.9

\*/ Incluye extra expenditure for natural disasters, the cost of fuels, ADEFAS and fiscal obligations from previous years.

Public sector programmable expenditure is estimated to have exceeded what was approved by Ps. 216.9 billion pesos due to the excess revenues anticipated during 2006. Expenditure in pensions and capital stand out with increases of 8.0 and 9.1 percent, respectively, in real terms.

Within programmable expenditure, that on social development, poverty reduction and infrastructure have been favored. Expenditure oriented to social and economic development is expected to increase by 5.7 and 9.3 percent in real terms during 2006, respectively.

Federal resources transferred to States and Municipalities, including revenue sharing, contributions and *Ramo 39* (PAFEF, FIES and FEIEF)<sup>1</sup> are expected to increase Ps. 65.4 billion against the PEF2006 and 6.3 percent in real terms against what was spent during 2005.

Non-programmable expenditure is forecasted to exceed the amount approved for 2006 by Ps. 33.3 billion due to higher participations (Ps. 36.6 billion) and to the payment of accrued expenditures from the previous year (ADEFAS, Ps. 6.0 billion) which are partially compensated by lower financing costs (Ps. 9.3 billion).

Regarding the Public Sector Borrowing Requirements (PSBR), they are estimated at 0.8 percent of GDP by year's end.

<sup>1</sup> PAFEF is the Support Program for the Strengthening of Federal Entities (*Programa de Fortalecimiento a las Entidades Federativas*); FIES is the Trust Fund for State Infrastructure (*Fideicomiso para la Infraestructura en los Estados*); FEIEF is the Federal Entities Stabilization Fund (*Fondo de Estabilización de las Entidades Federativas*).

<b>Public Sector Borrowing Requirements, 2005-2006</b>				
<b>(% of GDP)</b>				
	2005*/	2006		
		Approved	Estimated	Difference
<b>I. Public Deficit excluding CRL</b>	<b>0.1</b>	<b>0.0</b>	<b>-0.3</b>	<b>-0.3</b>
A. Budgetary Revenues	23.3	22.2	24.4	2.2
Oil related	8.7	8.5	9.4	0.9
Non-oil related	14.6	13.6	15.0	1.3
Tax	9.5	9.2	10.2	1.0
Non-Tax	0.9	0.4	0.7	0.3
PEDBC	4.2	4.0	4.1	0.1
B. Net Budgetary Expenditures	23.4	22.2	24.1	1.9
Programmable	17.4	15.8	17.5	1.8
Non Programmable	6.0	6.4	6.6	0.1
Financing Costs	2.5	3.0	2.8	-0.2
Revenue Sharing	3.3	3.3	3.6	0.3
ADEFAS and Others	0.0	0.2	0.2	0.1
C. Non-Budgetary Deficit	0.0	0.0	0.0	0.0
<b>II. Public Deficit including CRL</b>	<b>0.1</b>	<b>0.0</b>	<b>-0.3</b>	<b>-0.3</b>
<b>III. Adjustments</b>	<b>1.3</b>	<b>1.7</b>	<b>1.1</b>	<b>-0.6</b>
PIDIREGAS	0.9	0.9	1.0	0.1
IPAB	0.3	0.2	0.1	-0.1
Registry Corrections	0.1	0.1	0.1	0.0
Debtor Support Programs	0.0	0.1	0.0	0.0
FARAC	0.0	0.0	0.0	0.0
Financial Intermediation	-0.1	0.4	-0.2	-0.6
<b>IV. PSBR (II+III)</b>	<b>1.4</b>	<b>1.7</b>	<b>0.8</b>	<b>-0.9</b>
<b>Excluding Non-recurrent Revenues</b>	<b>1.7</b>	<b>1.7</b>	<b>1.0</b>	<b>-0.7</b>

\*/ CRL is the Conclusion of the Labor Relationship program

## **Economic Policy Guidelines for 2007 and the Medium Term Economic Agenda**

The priorities of the economic program of the present Administration are the reduction of poverty and the attainment of a higher degree of economic development. The strategy designed to reach these two objectives has two components:

- Generating higher growth rates and larger levels of job creation. This is the only way of permanently reducing marginalization.
- The expansion of social programs to attack poverty and foster the acquisition of capabilities by individuals.

This will break the vicious cycle of poverty, marginalization and lack of opportunities that our country suffers. In turn, this will allow Mexicans a more fulfilling participation in the political, economic, social and cultural spheres.

All the instruments at the disposal of the Mexican State will be put to use through a comprehensive strategy oriented towards improving the economy's competitiveness and reducing the great inequalities that exist in our society.

Although the Federation's Revenues Law Initiative for 2007 (ILIF2007) and the PPEF2007 are fundamental, they are definitely not the only components of this strategy.

Amongst the other elements of the current Administration's development strategy, the following stand out: fostering job creating sectors like home construction, tourism and agriculture; supporting productive activities through the financial intermediation of development banks, especially that oriented to small and medium sized businesses, infrastructure and the agricultural sector; more efficient regulation, or deregulation according to the specific case, of both public and private activities in order to promote more efficient production and more competition, and a better design and implementation of public policies through a more effective coordination amongst public entities and ministries.

In terms of social and regional development, the priorities are: expanding the programs focused on poverty relief; increasing the coverage of health services; allowing greater access to education of a higher quality; deepening the policies that promote access to housing; creating conditions for an equal access to the job market for groups facing discrimination, and fostering the specific economic activities in which less developed states are competitive for which it is necessary to improve public infrastructure.

### **Economic Perspectives and Public Finances for 2007**

Mexico's GDP is expected to grow at a real rate of 3.6 percent in 2007, a lower growth than the 4.7 percent expected for 2006. The lower expansion results from the deceleration of industrial production in the US to an expected growth rate of 3.0 percent in 2007 from 4.3 percent in 2006 and the considerably lower contribution to growth from the auto industry when compared to the one observed in 2006.

On the other hand, Mexico's domestic demand will continue growing at relatively high rates due to the support received from the expansion of credit, high job growth and an increase in real wages. However, all the demand components are expected to grow at lower rates than the ones seen in 2006.

The economic package for 2007 will be the first to be processed under the new Federal Budget and Fiscal Responsibility Law (LFPRH). Some of the elements of the LFPRH worth pointing out are: the explicit requirement that net expenditures must contribute towards a fiscal balance, unless exceptional circumstances occur; measures that strengthen the coordination and collaboration amongst the Executive and Legislative Branches in the process of developing, discussing and approving the Federation's Expenditures Decree, and the establishment of procedures that make the administration of public resources more transparent and strengthen accountability.

In strict compliance with the mandate set by the LFPRH and given that neither the macroeconomic environment nor the expected evolution of public revenues

and expenditures can be considered exceptional, a balanced budget is proposed for 2007.

### *Public Expenditure Strategy for 2007*

The PPEF2007 presents an important recomposition of public expenditures that emphasizes spending in infrastructure, public safety, social spending and economic development. Therefore, some new programs have been included whilst other existing ones have been enlarged based on the following objectives:

- Improvements in public safety: Unifying the Federal Police under a single head; the creation of a single Criminal Information Database; more support to the police force so its quality improves, and the effective backing of the Armed Forces and the Navy.
- Promoting employment and economic growth: The First Job Program; more support for small and medium-sized businesses; the inclusion of investment projects in the energy sector; expenditure for transport infrastructure and waterworks, and promoting the agricultural, homebuilding and tourism sectors.
- Equal opportunities and poverty relief: Health Insurance for children; a greater supply of medicines; strengthening the *Seguro Popular* program; increasing scholarships; strengthening support programs for home acquisitions, particularly for low income families; starting the Support Program for the Consumption of Electrical Energy and Gas, and increasing the resources destined to expanding the coverage and quality of drinking water and sewerage in rural areas.
- Ecological sustainability: increasing the treatment capacity for residual water; reinforcing the defense of Protected Natural Areas, and starting the PROARBOL strategy which intends to increase the conservation and sustainable use of forest resources.

The most relevant indicators of public spending for 2007 that result from this strategy are:

- Total net expenditure, programmable and non-programmable expenditure and their components are proposed as follows:

<b>Total Net Paid Expenditures, 2006-2007</b>				
<b>(Billion pesos of 2007)</b>				
	2006	2007	Differences from 2007 vs. 2006	
			Absolute	Relative
<b>Total</b>	<b>2,021.9</b>	<b>2,214.4</b>	<b>192.5</b>	<b>9.5</b>
Programmable expenditure	1,435.5	1,611.8	176.4	12.3
Accrued expenditure	1,456.2	1,631.8	175.8	12.1
Deferred expenditure	20.7	20.0	-0.7	-3.4
Non-programmable expenditure	586.4	602.5	16.1	2.8
Financing cost	270.9	267.1	-3.8	-1.4
Participations	301.1	319.4	18.3	6.1
Adefas*/	14.4	16.0	1.6	11.4

\*/ Obligations from previous fiscal years

The PPEF2007 includes a 6.9 percent increase in real terms in expenditures on social development. Within, 36.6 percent will be destined to education, 26.9 percent to health, 22.0 percent to social security, 10.7 percent to urbanization, homebuilding and regional development, and 3.8 percent to drinking water, sewerage and social assistance.

<b>Public Sector's Programmable Expenditure 2006-2007</b>				
<b>Functional Classification</b>				
<b>(Billion pesos of 2007)</b>				
	2006	2007	Differences from 2007 vs. 2006	
			Absolute	Relative
<b>Total */</b>	<b>1,456.2</b>	<b>1,576.9</b>	<b>120.7</b>	<b>8.3</b>
Autonomous Branches and Entities	44.4	46.9	2.5	5.6
Federal Public Administration	1,411.7	1,530.0	118.2	8.4
Government	95.0	104.1	9.1	9.6
Social Development	910.5	972.9	62.4	6.9
Economic Development	406.2	452.9	46.7	11.5

\*/ Contributions to the Oil Stabilization Fund are not included.

- The resources destined to the Ministries of Health and Tourism would post increases of 24.2 and 37.1 percent, respectively, against the amounts approved in 2006.
- The resources assigned to the *Seguro Popular* program would increase 56.4 percent with respect to the amount approved for this year. This will allow for the expansion of the number of families benefited from 5.1 to 6.8 million, privileging the affiliation and medical services for children.
- The amount assigned to Order, Security and Justice entails a 12.4 percent increase in real terms with respect to the resources assigned for 2006.
- Expenditures by the National Defense and Navy Ministries would increase 19.9 and 17.1 percent, respectively, in real terms.

- Federalized expenditures, that is, resources destined to States and Municipalities, are expected to grow 4.4 percent in 2007 with respect to what was approved in 2006.

<b>Federal Transfers to Federal Entities, 2006-2007</b>				
<b>(Billion pesos of 2007)</b>				
	2006	2007	Differences from 2007 vs. 2006	
			Absolute	Relative
<b>Total</b>	<b>661.0</b>	<b>690.0</b>	<b>29.0</b>	<b>4.4</b>
Revenue Sharing	301.1	319.4	18.3	6.1
Contributions	336.6	348.3	11.7	3.5
PAFEF <sup>1/</sup>	23.3	17.4	-5.9	-25.3
FIES <sup>*/ 2/</sup>	0.0	4.9	4.9	n.s.

1/ Support Program for the Strengthening of Federal Entities

2/ Trust Fund for Investments in States

\*/ In 2007 resources from the Extraordinary Right on Crude Oil Exports (DEEP) and the Duty on Oil Revenues (ARE) corresponding to the fourth quarter of 2006 are included.

- Programmable expenditure for PEMEX, CFE, LFC, IMSS and ISSSTE for next year is 14.6 percent higher than what was approved for 2006.
- The PPEF2007 includes: austerity guidelines, dispositions to limit expenditures on personnel services, rules to increase the degree of transparency when executing federalized expenditures, information requirements to strengthen accountability and specific dispositions for programs subject to rules of operation.
- Amongst the savings measures, two stand out: a decrease of at least 2 percentage points in the amount assigned for personnel services and a 5 percent decrease in the operation expenditures of entities and ministries.
- The salary of high level government officials, from Unit Head to the President, will decrease 10 percent with respect to their net income as of December 2006.
- Investment fostered by the public sector is expected to reach 4.1 percent of GDP in 2007. This represents a 15.9 percent increase in real terms with respect to the amount approved for 2006.

The effort to increase the austerity and focalization of some programs is key since the adequate exercise of government spending represents a fundamental precept in a democratic State that must account to society how its resources are being used. In line with this, on December 4<sup>th</sup> of this year the “Decree that establishes the austerity and discipline measures of the Federal Public Administration’s expenditures” was published in the Official Gazette.<sup>2</sup>

<sup>2</sup> “Decreto que establece las medidas de austeridad y disciplina del gasto de la Administración Pública Federal”



## Public Revenues for 2007

The most important elements of the Federation's Revenues Law Initiative for 2007 are the following:

- A reference price of 42.5 dpb will be used for the Mexican oil mix.
- The expected evolution of budgetary revenues is the following:

<b>Budgetary Revenues, 2006-2007 (Billion pesos of 2007)</b>				
	2006	2007	Differences from 2007 vs. 2006	
			Absolute	Relative
<b>Total</b>	<b>2,021.9</b>	<b>2,214.4</b>	<b>192.5</b>	<b>9.5</b>
Oil related	778.7	811.3	32.6	4.2
Non-oil related	1,243.1	1,403.0	159.9	12.9
Tax	841.9	968.3	126.4	15.0
Non-tax	35.5	46.4	10.9	30.8
PEDBC's */	365.7	388.3	22.6	6.2

\*/ Public entities under direct budgetary control (excludes PEMEX)

- The estimation of tax revenues for 2007 considers additional resources of Ps. 13.0 billion due to efficiency gains.

## Tax Dispositions and the Fiscal Code for 2007

The projection of budgetary revenues for 2007 includes the effect of some fiscal changes in terms of tax revenues which have the following objectives: reduce some authorized deductions to the income tax and the tax on assets; diminish special treatments in the income tax; align excise taxes with international laws and treaties that Mexico has signed; reduce special treatments on fees, and create a new contribution that intends to reduce the incentives for the consumption of tobacco.

Additionally, proposals are included for the modification of current fiscal dispositions which attempt to reduce costs and encourage the voluntary compliance with fiscal obligations, as well as increase the ease of fiscalization. In the medium term these measures will result in increases in the efficiency of collection. Amongst these measures the following stand out:

- Encouragement of voluntary compliance:
  - Create a stimulus for the correct compliance with monthly payments;
  - Develop a program for the focalized reorganization of the fiscal credit portfolio;

- Decrease the penalties if corrections occur before the tax audit finishes, and
- Make consultations public and informative.
- The simplification of fiscal dispositions:
  - Increase the income limit above which personal income tax declarations are mandatory;
  - Allow all taxpayers to store their accounting electronically;
  - Incorporate the electronic signature (FIEL) to the registration process, and
  - Decrease the requirements in subsequent tax receipts in the case of operations paid in parts.
- Fight against noncompliance:
  - Avoid the inadequate use of fiscal losses and allow their full revision;
  - Define those individuals obliged to retain income taxes from foreign residents when they carry out payments through trust funds;
  - Include the marketing and unlawful storing of fake invoices as serious crimes, and
  - Consider assets as transferred at the market value for those businesses that stop residing in Mexico.

### *Public Debt Policy for 2007*

The PPEF2007 establishes a fiscal balance for the budgetary Public Sector, that results from a Ps. 209 billion deficit by the Federal Government and a surplus of PEDBC's for the same amount. According to these figures, the ILIF2007 that has been sent to Congress requests a net domestic indebtedness ceiling for the Federal Government of Ps. 240 billion, as well as a reduction in net external indebtedness of the public sector of at least US\$ 500 million.

The following aspects regarding public debt policy are worth highlighting:

- The financing needs resulting from the Federal Government net indebtedness for 2007 are estimated at 2.4 percent of GDP.

- The Federal Government's financing needs associated to maturing external debt will represent only 2.4 percent of the total requirements for 2007.
- The domestic debt management strategy will focus on reducing the vulnerability to adverse movements in interest rates and the encouragement of a favorable evolution of financial domestic markets, strengthening the long-term *Bonos* yield-curve.
- It is expected that the net external debt of the Public Sector will be equal to 5.8 percent of GDP at the end of 2007, which is a minimum in the recent past of our country.
- The duration of the Federal Government's market debt is expected to reach 4.0 years at the end of 2007, 0.4 years higher than the figure estimated for the end of 2006.

#### *Public Sector Borrowing Requirements for 2007*

The PSBR's for 2007 are forecast at 1.6 percent of GDP. Therefore, the reduction of the Historical Balance of the PSBR's (HBPSBR) will continue. Its level is expected at 36.9 percent of GDP by the end of 2007, 0.5 percentage points below the figure projected for 2006.

<b>Public Sector Borrowing Requirements, 2006-2007</b>			
<b>(% of GDP)</b>			
	2006	2007	Dif.
<b>I. Public Deficit</b>	<b>-0.3</b>	<b>0.0</b>	<b>0.3</b>
A. Budgetary Revenues	24.4	22.6	-1.8
Oil related	9.4	8.3	-1.2
Non-oil related	15.0	14.3	-0.7
Tax	10.2	9.9	-0.3
Non-Tax	0.7	0.5	-0.2
PEDBC	4.1	4.0	-0.1
B. Net Budgetary Expenditures	24.1	22.6	-1.5
Programmable	17.5	16.4	-1.1
Non Programmable	6.6	6.1	-0.4
Financing Costs	2.8	2.7	0.0
Revenue Sharing	3.6	3.3	-0.3
ADEFAS and Others	0.2	0.2	-0.1
C. Non-Budgetary Deficit	0.0	0.0	0.0
<b>II. Adjustments</b>	<b>1.1</b>	<b>1.6</b>	<b>0.5</b>
PIDIREGAS	1.0	1.1	0.1
IPAB	0.1	0.2	0.1
Registry Corrections	0.1	0.1	0.0
Debtor Support Programs	0.0	0.0	0.0
FARAC	0.0	-0.2	-0.2
Financial Intermediation	-0.2	0.4	0.6
<b>III. PSBR (I+II)</b>	<b>0.8</b>	<b>1.6</b>	<b>0.9</b>
<b>Excluding Non-recurrent Revenues</b>	<b>0.9</b>	<b>1.7</b>	<b>0.8</b>

## **Medium-Term Perspectives**

The macroeconomic projection for the medium term (2007-2012) was made assuming an inertial setting with no legislative reforms that substantially change the productive structure and the competitiveness of the Mexican economy.

An average annual GDP growth rate of 3.6 percent is expected for the Mexican economy during 2007-2012. This projection is influenced by lower growth rates in the US, as is expected by both the IMF and the CBO.

The inertial scenario entails a 2.9 percent increase in the deficit from 2007 to 2012. The following elements contribute to the higher deficit:

- Lower oil revenues due to the lower oil prices and the anticipated decrease in PEMEX's export platform,
- Higher expenditures in public workers' pensions,
- Capital expenditures would increase according to PIDIREGAS amortizations, both for existing and expected projects.
- Higher operation costs due to an expected increase in the price of fuel and in PIDIREGAS's fixed charges,
- An increase in non-programmable expenditures resulting from higher participations to States and Municipalities and higher financing costs associated to the future deficits in the inertial scenario.

Although higher non-oil revenues are expected, due partly to efficiency gains in VAT and income tax collection, these additional revenues would not be enough to compensate for the deterioration of the public balance due to the factors mentioned above.

## **Concluding Remarks**

The public finances will face important challenges during the next six years. Oil revenues are set to decrease due to lower oil prices and a reduction in crude oil production. On the other hand, expenditures on public sector workers' pensions, amortizations of PIDIREGAS projects and the necessary increases in social expenditure and infrastructure are important spending pressures that will have to be faced.

The economic package submitted to Congress constitutes an initial contribution to face this situation: it proposes an important simplification of the tax code, as well as a significant redistribution of public expenditure towards social spending, in economic development, in public safety and in infrastructure. At the same time, the package includes an agenda of austerity, and puts particular emphasis on accountability and transparency in public expenditures.

A continuous and fruitful dialog must be established between the Executive and Legislative Branches in the near future to create the consensus that will lead to the solution of the future challenges to public finances. Of particular importance is finding the mechanisms needed to establish solid revenue sources, a tax code that facilitates compliance and promotes competitiveness, and a public expenditure that fosters equality and development.

<b>MACROECONOMIC SETTING, 2006-2007 e/</b>		
	<b>2006</b>	<b>2007</b>
<b>Gross Domestic Product</b>		
Real Growth (%)	4.7	3.6
Current Prices (billion Pesos)	9,144.0	9,807.7
GDP Deflator (average growth, %)	4.3	3.5
<b>Inflation</b>		
Dec./Dec. (%)	3.9	3.0
<b>Exchange Rate*</b>		
Average (Pesos per US Dollar)	10.9	11.2
<b>Interest Rates (Cetes, 28 days)</b>		
Nominal Average (%)	7.2	6.8
Real Average (%)	3.4	3.9
<b>Current Account</b>		
Million US Dollars	-2,504.0	-19,926.3
% of GDP	-0.3	-2.3
<b>Fiscal Balance</b>		
Traditional Balance (% of GDP)	0.3	0.0
PSBR (% of GDP)	0.8	1.6
Other variables:		
<b>US GDP</b>		
Real Growth (%)	3.3	2.5
<b>US Industrial Production</b>		
Real Growth (%)	4.3	3.0
<b>US Inflation</b>		
Dec./Dec. (%)	3.4	2.3
<b>Oil (Mexican Mix)</b>		
Average price (dpp)	53.2	42.5
Average Export Platform (mbpd)	1,810	1,628
<b>Foreign Exchange Rates</b>		
LIBOR (average, %)	5.2	5.1
Federal Funds Rate (average, %)**	5.0	5.0

e/ Estimated.

\*/ Since the exchange rate floats freely, this does not constitute a forecast. However, these levels were used to estimate some budgetary figures.

\*\*/ Based on the corresponding futures.