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MINISTRY OF FINANCE AND PUBLIC CREDIT

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Economic Policy Guidelines for 2002

Highlights

- The economic program for 2002 was designed in a context of high uncertainty regarding the future evolution of the global economy.
- The main premises for 2002 are the following: a real GDP growth rate of 1.7 percent; an inflation rate of 4.5 percent; and a current account deficit to GDP ratio of 3.4 percent.
- The economic program for next year is consistent with an overall public sector deficit to GDP ratio of 0.65 percent that does not include the impact from the fiscal reform currently under discussion in Congress.
- In order to help mitigate the weak level of economic activity, investment spending will be strengthened in next year's expenditure program.
- The government intends to finance the entire public sector deficit in

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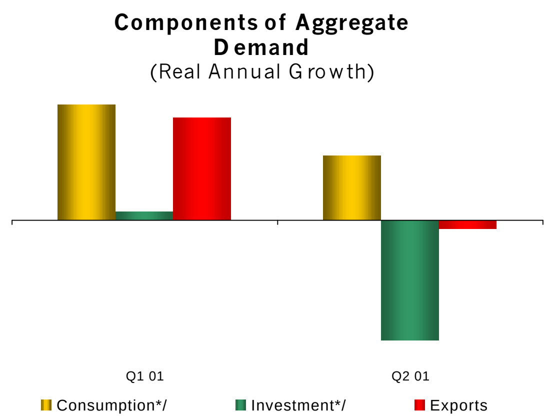
1. Evolution of the Mexican Economy during 2001

- Driven by the slowdown in global demand, economic activity in Mexico during 2001 was weaker than originally anticipated. In particular, third quarter real GDP is expected to show a year on year decline. The lower dynamism of the industrial sector since the start of the year has now extended to the services sector.
- All components of aggregate demand have experienced a slowdown. Private investment spending has registered the strongest contraction, with private consumption being the only component of aggregate demand that has grown throughout 2001.



- In contrast to previous episodes, the current slowdown has happened in a context of stability in financial markets and strong capital inflows. The Mexican economy, for the first time in a generation, is experiencing a traditional economic cycle.
- Lower economic activity, the strength of the peso and the reduction of the oil export platform adversely affected oil-related public sector revenues during the first nine months of the year. In accordance with the automatic stabilizers included in Article 32 of the 2001 Budget Degree, three downward adjustments to the budget have been implemented to guarantee that the fiscal deficit target for the year will be met.
- Non-oil tax revenues during the first nine months of the year performed better than expected, highlighting the improvements made in tax administration.
- It is important to emphasize that during 2001 a series of legal and institutional modifications aimed at consolidating and developing the Mexican financial sector were approved by Congress. These initiatives will strengthen the corporate structure of banks and other financial institutions, and are

expected to promote savings and to increase the efficiency of resource

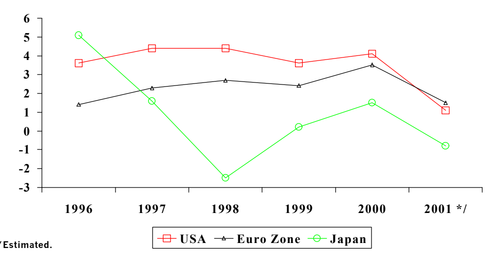
Macroeconomic Variables for 2001 for 2001		
	Original Program	**Estimate**
Gross Domestic Product (% Annual Growth)	4.5	0.0
Inflation (Dec/Dec)	6.5	5.6
Current Account (% of GDP)	-3.8	-3.1
Public Balance (% of GDP)	-0.65	-0.69

allocation in the economy.

2. The New Global Economic Environment

- During 2001, the expansion of the global economy has been well below expectations and macroeconomic projections have been consistently adjusted downwards. More importantly, even before the tragic events of September 11th and for the first time in more than two decades, the three largest economies of the world, the United States, The Euro Zone and Japan, were all experiencing significant slowdowns in their levels of economic activity.

GDP Growth in the World's Main Economic Blocks
(Real Annual Growth)



* / Estimated.
Source: World Bank.

- The tragic events of September 11th will adversely affect the evolution of the global economy in general and of emerging markets in particular, through their effects on consumer confidence, transaction costs in international trade, prices of raw materials and resource availability in international financial markets.

- After posting a negative growth rate in the third quarter, the latest consensus estimate for the U.S. economy suggests that a recovery will take place more likely during the second half of 2002. Considering the high level of uncertainty that still prevails, the Economic Policy Guidelines for 2002 were constructed using a conservative assumption of growth in the United States economy for next year of 0.3 percent.
- Next year's economic program was prepared under the assumption of a 17 dollar per barrel price for the Mexican oil mix, two dollars below the average for 2001.

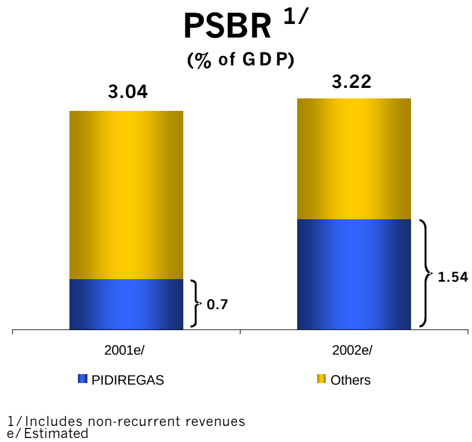
3. Economic Policy Strategy for 2002

- The main objective of economic policy for 2002 is to promote a sustainable economic recovery in the context of an uncertain external environment. The economic program for 2002 has been designed to preserve macroeconomic stability and to establish the foundations for an orderly recovery.
- In particular, the program is based on two elements:
  - a) A solid fiscal stance, which includes the consolidation of public sector revenues and a more efficient and transparent allocation of resources.
  - b) The promotion of structural reforms in order to enhance productivity and create a more competitive business environment.

Fiscal Policy

- The macroeconomic framework for 2002 is consistent with an overall public sector deficit to GDP ratio of 0.65 percent, a target that does not include the impact from the fiscal reform currently under discussion in Congress.
- The public sector's primary surplus, defined as total income minus expenditures other than interest payments, is expected to increase 9 percent in real terms.
- In order to promote investment spending in the economy, the scope of some PIDIREGAS[1] projects currently in place will be enhanced and, at the same time, a series of new projects under this financing scheme will be submitted for Congress approval. As a result of this policy, the measure of Public Sector Borrowing Requirements (PSBR) is expected to increase from 3.0 percent of GDP in 2001 to 3.2 percent in 2002.

[1] Projects with deferred budgetary impact.



Revenue Policy

- Total public sector revenues are estimated at 21.87 percent of GDP, 0.22 percentage points lower than their level projected for 2001. This reduction is driven by lower non-recurrent revenues and by a contraction in revenues from public entities other than Pemex.
- Oil related revenues are projected to decline slightly from their 2001 level despite the fact that average prices for the Mexican oil mix are expected to be two dollars per barrel lower than their average price for 2001. This result is explained by the expected increase in the oil export platform and by the improved refinery capacity of PEMEX that will translate into lower oil related imports[2].
- The prices of public sector goods and services will be adjusted according to next year's expected inflation rate. Additionally, public prices of intermediate goods will be determined based on their international reference, while public prices and tariffs of non-tradable goods will increase according to their production and distribution costs.
- The Federal Government will continue reinforcing both tax compliance and administration of the Mexican tax system. In particular, next year revenue projections incorporate an impact over tax collection equivalent to 0.5 percent of GDP due to improvements in tax administration.

Expenditure Policy

- Expenditure policy will be geared towards the poorest sectors of the population in order to reduce the negative effects that result from the unfavorable economic environment. Additionally, public spending will concentrate on projects that have a positive impact over employment.

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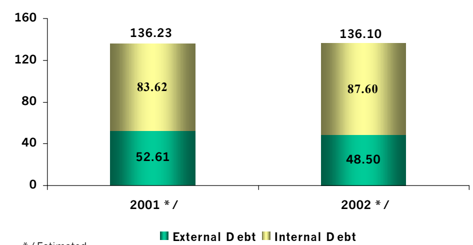
[2] Oil revenues in the budget are defined as total revenues net of oil related imports by PEMEX.

- In an environment characterized by its low level of resources, the following areas were given special priority in the 2002 budget: education, health, social development and security.
- Capital spending, including budgetary and non-budgetary investments, will increase 9 percent in real terms.
- The total cost of the public sector debt with respect to GDP, including transfers to IPAB and debtor support programs, is expected to remain constant relative to this year.
- To guarantee that the fiscal targets will be met, the economic program for 2002 contains automatic stabilizers that are triggered if government revenues evolve differently than anticipated.

Public Debt Policy

- Considering the uncertainty prevailing in external markets, the government intends to finance the entire public sector deficit in the domestic market and, thus, is asking Congress for a zero net external debt ceiling for 2002.
- External debt policy will concentrate on liability management in order to improve our debt profile in terms of both cost and maturity.
- Regarding domestic debt, the Federal Government will continue carrying out actions to extend the average maturity of government liabilities.

Federal Government Debt Financing Costs
(Billions of 2002 pesos)



*/ Estimated.
Source: SHCP.

Monetary Policy

- The economic program for 2002 is consistent with the inflationary target established by Banco de Mexico in its monetary program. In particular, the inflation rate is expected to be of 4.5 percent or less.

Exchange Rate Policy

- The floating exchange rate regime will be maintained. The flexibility in the exchange rate regime allows the parity to adjust in response to a changing external and domestic environment, thus reducing the impact on economic activity, employment and wages.

Structural Reform

- The Federal Government emphasizes its commitment to continue with the structural reform outlined in the National Development Plan. The implementation of structural reforms will raise productivity and will keep Mexico attractive to long term investment even under unfavorable international economic conditions.

4. Economic Outlook for 2002

- In a context of high uncertainty in external markets, the Mexican economy is expected to grow at an annual real rate of 1.7 percent in 2002.
- Investment is expected to be the most dynamic component of aggregate demand, driven by lower interest rates and by the strong promotion of public investment projects.
- Consumption spending is expected to grow at a lower rate than overall economic activity, while exports of goods and services are projected to grow 2.4 percent in real terms.

Aggregate Supply and Demand, 2001-2002 /e

	Real Annual Growth		Composition (%)		Contribution to Growth	
	2001	2002	2001	2002	2001	2002
Supply	-1.1	1.6	135.9	135.6	-1.6	2.1
GDP	0.0	1.7	100.0	100.0	0.0	1.7
Imports	-4.1	1.0	35.9	35.6	-1.6	0.4
Demand	-1.1	1.6	135.9	135.6	-1.6	2.1
Total Consumption	2.3	1.2	81.2	80.7	1.8	1.0
Private	2.9	1.2	71.6	71.2	2.0	0.9
Public	-2.5	0.9	9.6	9.5	-0.2	0.1
Investment /1	-5.4	4.6	19.4	20.0	-1.1	0.9
Private	-5.8	6.8	16.7	17.6	-1.0	1.1
Public	-3.2	-8.9	2.7	2.4	-0.1	-0.2
Exports	-3.9	2.4	33.6	33.8	-1.4	0.8

/e Estimated Figures

/1 Does not include inventory variations; the public component only includes budgetary investment spending. Non-budgetary investment spending is included in the private component.

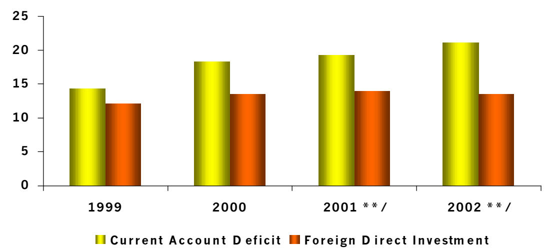
Source: SHCP

External accounts

- In 2002, the current account deficit is expected to be 3.4 percent of GDP. This deficit is consistent with the availability of long-term external savings.

Current Account and Foreign Direct Investment */

(Billions of Dollars)



*/ Excludes the Banamex- Citygroup operation.

**/ Estimated.

Source: Banco de México and SHCP.

Public Sector Borrowing Requirements

- The PSBR indicator provides information about the financial requirements derived from public sector activities. In particular, the PSBR account for the traditional public balance, the resources channeled to finance the private and social sectors through development banks, IPAB's borrowing requirements, debtor support programs, and PIDIREGAS, among others.
- Under the current economic environment, the Federal Government recognizes the need for strengthening investment spending through PIDIREGAS in order to increase the growth potential of the economy in the medium term. For this reason, the PSBR to GDP ratio will increase slightly in 2002.

Public Sector Borrowing Requirements
(% of GDP)

	2001		2002 /e
	Original	Yearend /e	
1. PSBR	3.06	3.04	3.22
Budget Deficit	0.65	0.69	0.65
PIDIREGAS	1.01	0.70	1.54
IPAB	0.70	0.87	0.51
Adjustments to Budgetary Entries	0.32	0.37	0.13
FARAC	0.20	0.18	0.17
Debtor Support Programs	0.00	0.03	0.02
Financial Intermediation	0.18	0.19	0.20
2. Non-recurrent Revenues	0.80	0.79	0.76
3. PSBR without Non-Recurrent Revenues	3.86	3.83	3.98
4. PSBR Historical Balance	42.1	43.6	44.2

/e Estimated Figures

Source: SHCP

5. Final Remarks

- The economic program for 2002 is consistent with a real GDP growth of 1.7 percent; an inflation rate of 4.5 percent; a current account deficit to GDP ratio of 3.4 percent; and, a public sector budget deficit to GDP ratio of 0.65 percent.
- The economic program for 2002 submitted to Congress contains automatic stabilizers that are triggered if government revenues are lower than anticipated.
- It is important to point out that the fiscal policy program does not consider the impact from the fiscal reform currently under discussion in Congress.
- In order to mitigate the weak level of economic activity, investment spending will be strengthened in next year's expenditure program.
- Mexican authorities intend to finance the entire public sector deficit in the domestic market and, thus, are asking Congress for a zero net external debt ceiling.
- The implementation of sound and responsible economic policies in 2002 will promote a domestic economic environment of stability and certainty, and will allow an orderly and sustainable recovery of economic activity in 2002.

For more details on the public finances and public debt statistics, please refer to the Ministry of Finance's web page:
www.shcp.gob.mx/eofp/index.html/

Annex 1
PUBLIC FINANCES 2001-2002

Consolidated Public Finances for 2001-2002

	Million Pesos		% of GDP		Growth
	2001	2002	2001	2002	
Primary Balance	-39,934.6	-40,194.1	-0.69	-0.65	-4.7
Non-budgetary balance	1,035.8	0.0	0.02	0.00	n.a.
Budgetary balance	-40,970.4	-40,194.1	-0.71	-0.65	-7.1
Total Revenues	**1,270,801.9**	**1,352,183.9**	**22.09**	**21.87**	**0.8**
Federal Government	935,007.5	967,086.1	16.25	15.64	-2.1
Tax Revenues	**643,873.6**	**733,290.8**	**11.19**	**11.86**	**7.8**
Non-Tax Revenues	291,133.9	233,795.3	5.06	3.78	-24.0
PEDBC*/	335,794.4	385,097.8	5.84	6.23	8.6
Pemex	107,472.8	150,512.2	1.87	2.43	32.6
Others	228,321.6	234,585.6	3.97	3.79	-2.7
Total Expenditures	**1,311,772.3**	**1,392,378.0**	**22.80**	**22.52**	**0.5**
Programmable expenditures	917,942.2	961,819.3	15.96	15.55	-0.8
Diferred payments	-19,505.0	-18,276.4	-0.34	-0.30	-11.3
Programmable accrued expenditure	**937,447.2**	**980,095.7**	**16.30**	**15.85**	**-1.0**
Non-programmable	393,830.1	430,558.7	6.85	6.96	3.5
Financing costs	188,935.5	211,411.3	3.28	3.42	6.0
Revenue sharing	195,608.6	207,087.6	3.40	3.35	0.3
Adefas and others	9,286.0	12,059.8	0.16	0.20	23.0
Public sector financing costs /e	**189,721.1**	**212,240.9**	**3.30**	**3.43**	**5.9**
Primary surplus	**149,786.5**	**172,046.8**	**2.60**	**2.78**	**8.8**

n.a. Not applicable.
/e Includes the financial costs of budgetary public debt and of entities under indirect budgetary control.
*/ Public Entities Under Direct Budgetary Control
Source: SHCP.

Annex 2
Macroeconomic Projections

Macroeconomic Projections, 2001-2002 /e

	2001	2002
Gross Domestic Product		
Real % growth	0.0	1.7
Nominal (billion pesos)	5,752.7	6,183.7
GDP Deflator	5.9	5.6
Inflation		
Dec./Dec.	5.6	4.5
Nominal exchange rate /*		
Average	9.4	10.1
Interest rate (28 day Cetes)		
Nominal, % term average	11.6	10.7
Real, %	6.3	6.5
Current Account		
Million dollars	-19,231.9	-21,113.8
% of GDP	-3.1	-3.4
Public Balance		
% of GDP	-0.69	-0.65
US GDP		
Real % growth	1.0	0.3
US Inflation		
Dec./Dec.	2.8	2.5
Oil (Mexican basket)		
Average price	19.0	17.0
Average export platform (mb/d)	1,714.0	1,825.0
Foreign interest rate		
LIBOR, %	3.8	3.0

/e Estimated Figures

/* Due to the current floating exchange rate regime, this figure is neither a projection nor an exchange rate target. However, this reference was used for the estimation of other figures.