UPDATE: Mexico 2008 Budget Plan Sees 3.5% GDP Growth In 2008

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(Updates with details throughout)

MEXICO CITY (Dow Jones)-Mexico's Finance Ministry submitted the government's 2008 budget proposal to Congress Saturday, saying it expects gross domestic product to grow 3.5% next year.

The 2.39 trillion peso ($215 billion) spending proposal is up 3.3% in real terms from the budget approved for 2007, the ministry said.

The ministry said economic growth could be 3.7% next year if the Congress passes a proposed tax reform, which it estimated would add about MXN115 billion to next year's revenue, with the proceeds being used for investment and social spending.

In the proposal, the ministry also lowered its economic growth estimate for 2007 to 3% from 3.3%, attributing the lower forecast to an expected slowdown in the U.S. as a result of the recent financial market turmoil and the lack of recovery in the U.S. real estate sector. Mexico's economy grew 4.8% in 2006.

The ministry estimated that the average price of Mexico's export crude, a significant contributor to government revenue, would be $46.60 a barrel in 2008, with state oil monopoly Petroleos Mexicanos, or Pemex, expected to export on average 1.68 million barrels a day of crude oil.

The ministry estimated that Pemex's export crude will average $54.60 a barrel in 2007, with Pemex exporting 1.73 million barrels a day out of total production of 3.14 million barrels a day. Pemex current crude production is about 3.16 million barrels a day.

The Congress is close to reaching agreement on a tax reform, although a vote on the bill was delayed last week by disagreements over a plan to raise gasoline and diesel prices, and by lack of agreement among parties on an electoral reform that the three main parties had agreed to pass at the same time as the fiscal reform.

Finance Minister Agustin Carstens handed in the budget plan in person, urging legislators to pass a tax reform to make for a more effective budget, given the country's spending needs.

"This is particularly important faced with a fiscal year in which significant challenges are expected," he said.

In its budget outline, the ministry warned that although the plan projects a balanced budget, the public sector will probably end next year with a deficit as a result of the recent reform of the state workers pension and social security system. The amount will depend on how many workers choose to switch to individual accounts from the existing defined benefits system, and won't be known until next September, the ministry said.

The short-term transition costs of the pension reform will outweigh immediate savings, although savings in the medium term will change that situation, the ministry said, adding that the executive branch can adjust spending or issue debt to meet the commitments.

Speaking at a press conference in Australia, President Felipe Calderon said that if a tax reform is approved in the coming days or weeks, the additional revenue could be added to next year's spending plan. He said areas that could benefit from the extra money include road, port, and water infrastructure, higher education, health services, Pemex and state electric utility Comision Federal de Electricidad, according to a transcript from the presidential press office.

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