

## North American Regional Meeting

# The current Mexican Political and Economic Landscape – What to Expect from the New President Enrique Peña Nieto

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# The Current Mexican Political and Economic Landscape – What to Expect From the New President Enrique Peña Nieto

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# Introduction

- Mexico continues to enjoy a solid economy and Mexico is expected to be one of the main investment destinations for Latin America for 2013
- With new President Enrique Peña of the PRI, Mexico expects to embark on some important structural reforms
- Recent legislation includes in the labor and educational areas



# Introduction (cont'd)



- Total surface: 1,964,375 sq. km
- Composed of 31 states and a Federal District
- 14th economy in world
- Second largest population in Latin America with 112.3 million people
- Mexico has 14 free trade agreements covering 44 countries (including USA, Canada, and EU)
- Has ratified several treaties for the avoidance of double taxation (including USA)

# Introduction (cont'd)

- Mexico has become a very attractive country for investing due to its geographical location, climate, and proximity to the USA
  - closing the manufacturing cost gap with China
- Open capital account, good macroeconomic fundamentals, and liquid foreign exchange markets
  - Respected and technocratic Central Bank headed by Agustin Carstens
- Treasury Minister Luis Videgaray Caso
- Main industries
- Growing importance of automotive sector



# Mexico's Role in International Trade

- Mexico is the 10th largest exporter in world
- Direct foreign investment: US\$20 billion for 2012
- Mexico attracts FDI due to proximity to USA, strong network of FTAs, large population, and favorable demographics (among other considerations)
- United States is Mexico's largest trading partner

# Foreign Investment

- Foreign investment received by Mexico:
  - US\$11 billion in 2009
  - US\$17 billion in 2010
  - US\$19 billion in 2011
  - US\$20 billion in 2012
  
- Higher FDI for 2013



# Mexico's Key Direct External Linkages

- Substantial trade with United States
- Large remittance flows from United States
- Highly open and liquid financial markets





# Top Mexico Export Destinations (2011-2012)

<b><u>PERCENT SHARE OF TOTAL EXPORTS</u></b>	
<b><u>COUNTRY</u></b>	<b><u>SHARE (%)</u></b>
United States	77.3
Canada	2.6
China	2.2
Brazil	1.9
Colombia	1.4
Spain	1.2
India	1.1
Germany	1.0

# Sectors with the biggest gain in US import

## Market Share 2005-2012

<b><u>CATEGORY</u></b>	<b><u>SHARE OF TOTAL MEXICAN EXPORTS (2005)</u></b>	<b><u>SHARE OF TOTAL MEXICAN EXPORTS (2012)</u></b>
Non-ferrous metals	1.3	3.0
Road vehicles (automotive)	21.6	25.6
Office machines and automatic data-processing machines	5.7	8.6
Furniture, and parts thereof; bedding, mattresses, mattress supports, cushion and similar stuffed furnishings	3.5	3.2
General Industrial machinery and equipment	5.4	6.9
Prefabricated buildings; sanitary, plumbing, heating, and lightning fixtures and fittings	1.0	0.8
Professional, scientific and controlling instruments and apparatus	4.3	4.6
Leather, leather manufactures, and dressed furskins	0.1	0.1
Telecommunications and sound-recording and reproducing apparatus and equipment	15.2	13.4
Other transport equipment	0.2	0.5
Machinery specialized for particular industries	1.0	1.4
Power-generating machinery and equipment	5.4	5.7

# Mexican Economic Overview

MEXICAN ECONOMY FOR 2013						
	2008	2009	2010	2011	2012	2013
<b>GDP%</b>	1.4	-6.6	5.6	4.4	<b>4.5</b>	
<b>INFLATION 12 MONTH %</b>	6.53	3.57	4.52	3.95	<b>4.20</b>	
<b>INDEX OF PRICES AND QUOTATIONS FOR MEXICAN STOCK EXCHANGE</b>	22,84 7.5	31,35 1.5	36,69 3.6	44,05 4.6	<b>50,189. 2</b>	
<b>CAPITAL BALANCE MMDD</b>	12.6	13.0	24.7	20.1	<b>21.6</b>	
<b>UNEMPLOYMENT RATE%</b>	4.6	5.7	5.3	4.6	<b>4.0</b>	
<b>PESO PER DOLLAR</b>	12.80	12.85	12.60	12.85	<b>13.00</b>	
<b>REMITTANCES MMDD</b>	22.3	20.8	21.6	23.4	<b>24.5</b>	

US ECONOMY FOR 2013						
	2008	2009	2010	2011	2012	2013
<b>GDP%</b>	-0.8	-2.4	2.7	3.2	<b>3.6</b>	
<b>INFLATION 12 MONTH %</b>	1.0	3.1	1.6	2.2	<b>2.6</b>	
<b>UNEMPLOYMENT RATE %</b>	6.7	10.0	9.6	9.1	<b>7.6</b>	

# Current Political Situation

- In July 2012, Mexicans elected Enrique Peña Nieto of the Institutional Revolutionary Party (PRI) as the new President of Mexico
- The PRI lacks an absolute majority in both chambers and will have to work with other parties to pass legislation



# Peña Nieto: 13 Major Government Actions

The new president announced 13 major government actions as priorities for his administration:

- Educational reform, by means of the establishment of a General Education Law
- Strengthen the financial system and promote social inclusion
- Improve the international financial structure
- Creation of a national crime prevention program
- Criminal code and criminal procedure code of national application
- Life insurance for female householders
- Pension for people over 65 years
- Promote infrastructure sector
- Tender call for two new broadcast open television networks
- Zero budget deficit
- Structural Reforms
- Preservation of the General Victim Law
- Implementation of a national crusade against hunger

# Pact For Mexico

The government has signed an agreement with the main political parties called "Pact for Mexico," to establish joint legislative agenda and create comprehensive legislative reforms necessary for development of Mexico



# Structural Reforms in Mexico

- Tax
- Labor
- Energy
- Telecommunications

# Tax



- Income tax
- Single Rate Business Tax (“IETU”)
- Value Added Tax



# Taxation of a Branch or Permanent Establishment

- Tax treatment applicable to permanent establishment is basically the same as for Mexican corporation
- Permanent establishments must comply with various tax requirements arising from operations in country, such as:
  - Filing income tax returns
  - Issuing invoices meeting tax requirements, among others

# Tax Reform

The main points of such reform are:

1. To improve the collection process and increase level of the same
2. To reduce and rationalize tax exemptions and tax privileges
3. To reduce tax evasion and avoidance
4. To improve transparency and efficiency of expenditure
5. To redefine obligations of three branches of government, by the extension of control and collection attributions of states and municipalities
6. Tax amnesty for 2013
7. Deferring application of new 29% income tax rate to 2014 and 28% in 2015
8. It is expected a major tax reform in second semester of 2013:
  - Increase in VAT
  - Elimination of IETU

# Labor Reform



- Employment relationship
- In November 2012, a comprehensive reform of Mexico's Federal Labor Law (FLL), was published, instituting more than 300 changes, effective December 1, 2012
- Several changes are improvements which favor employers (elimination of outdated practices)

# Main Amendments to Labor Law

- Clarification of forms for payment of wages (different modes)
- System for paying on hourly rate basis
- Temporary employments for seasonal work and for initial training agreements
- Prohibition of discrimination
- “Abusive Outsourcing” provisions
- Termination and limitation of back wages to one year (accrued salaries)
- Addition of bullying and sexual harassment to the list of causes of termination of the labor relationship without any liability for employer
- Creation of a National Productivity Committee to oversee other agencies and to establish state-based committees

# Telecommunications in Mexico

- Foreign Investment Law restricts foreign investment in telecommunications to 49% of the capital of Mexican companies operating in the telecommunications sector
- Activities subject to this restriction:
  - Use of radio / electromagnetic spectrum in Mexico
  - Installation and operation of public telecommunications networks
  - Occupation of positions in space by satellites
  - Emission and reception of signals from foreign satellites.

# Telecommunications Reform

- Digital agenda
- Creation of a carrier of carriers
- Creation of a second megacarrier built based on the 700 Megahertz band
- Implementation of international operation criteria
- Tender for two new national open television networks



# Telecommunications Reform (cont'd)



- Telephone and data service competition
- Creation of specialized telecommunication courts
- Broadband
- Federal Telecommunications Commission (“COFETEL”)
- Reorganization of telecommunication laws and regulations

# Infrastructure



- National Infrastructure Trust Fund
- Modernization and expansion of Mexico's infrastructure, including following areas:
  - Highways, roads, and bridges
  - Railways, ports, airports, urban and interurban transport
  - Environment and biodiversity
- Objective: Turn Mexico into a leader in infrastructure development in Latin America



# Infrastructure (cont'd)

## Ports

- Companies having foreign shareholders holding up to 49% of capital stock may act as port administrators



## Aviation

- Foreign investment is permitted for up to 25% of total capital



## Airports

- Foreign investment is permitted up to maximum of 49% of total capital

# Infrastructure Projects

- New passenger trains to connect cities, starting with construction in 2013 of the Mexico-Queretaro train
- In addition, the following projects are being developed:
  - Mexico-Toluca train
  - Transpeninsular Yucatan- Quintana Roo train
  - Line 3 of Monterrey subway
  - Massive transportation from Chalco to La Paz in the state of Mexico
  - Expansion of the electric train in metropolitan zone of Guadalajara



# Energy



State has direct ownership of the subsoil

## Mining

- Under exclusive federal jurisdiction and the state has direct ownership over mineral resources

## Electricity

- Federal government exclusively carries out generation, transmission, distribution, and marketing of electricity that is supplied for public consumption
  - Exceptions for “self use” and PPAs to CFE

# Energy (cont'd)



## Oil and Gas

- According to Mexican Law, Pemex is the only entity authorized to carry out all activities that comprise the Mexican Oil & Gas Industry
- The State has direct ownership of the subsoil, as well as the exclusive right to exploit and develop petroleum, including natural gas
- For the construction of pipelines for transportation of petroleum and petroleum by-products as well as oil and gas drilling, approval from the Foreign Investment Commission is required in order for a company having foreign investment exceeding 49% of its capital



# Energy (cont'd)



## Natural Gas

- Private investment, including foreign, is allowed in the transportation, storage, distribution and marketing of natural gas in Mexico, subject to obtaining a permit from the Energy Regulatory Commission

## Liquefied Petroleum Gas

- Private investment is allowed in storage, transportation, and distribution of liquefied petroleum gas, subject to obtaining permit

# Mexico's Energy Reform

## Authorities

- National Hydrocarbons Commission was created
- New authority was granted to CRE in order to expand its regulatory authority over the following sectors:  
*Basic Petrochemicals;*  
*Bioenergy;*  
*Certain type of oil products.*

## New Procurement Regime applicable to Pemex

- Flexible procurement & contracting
- E&P contracts with performance incentives
- Schemes to develop and support suppliers and contractors in order to increase participation of Mexican Providers

## Renewable Energies

- Promotion of Renewable Energies through tax incentives and financial mechanisms
- Accelerate energy transition from a fossil fuels to a renewable energy system
- Implementation of new contracts & regulatory instruments applicable to renewable energy sources

# Energy Reform Energy (cont'd)

New energy reform for the purpose of maximizing oil revenues in Mexico that shall include:

- Provide Pemex with corporate governance and transparency rules
- Increase the exploration and exploitation of hydrocarbons in Mexico
- Promote competition in refining; petrochemical and hydrocarbons transportation, without privatizing Pemex facilities
- Increase the faculties of the National Hydrocarbons Commission
- Increase Pemex's role in the production of fertilizers; and in development of renewable energies

# Economic Expectations for Mexico in 2013

Mexico's economic prospects for 2013 are as follows:

- The expected inflation rate is 3.65% for 2013 and 3.60% for 2014
- The exchange rate MXN/ USD is 13.09 for the end of 2012 and 12.92 for 2013
- The expectation of the Cetes interest rate is 4.61% for 2013
- TIIE (Interbank Interest Balance Rate is 4.72%



# Mexico's Increased Competitiveness

- Mexico has clearly increased its competitiveness
- In addition to the BRIC countries, Mexico has been identified by World Bank as one of best countries to invest



# Factors for Mexico's increased competitiveness

- Relative labor costs in dollar terms
- Productivity gains in Mexico
- Oil prices and transportation costs
- Protection of proprietary technologies
- Openness, access and commitment to free trade
- Political and economic stability
- Confidence among investors

Thank you

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