# ADJUSTED GROWTH STRATEGY: MEXICO

# MEXICO'S ADJUSTED GROWTH STRATEGY, 2015

*The purpose of this document is to highlight changes and new additions to members' growth strategies since Brisbane:*

**Changes to section A** (Economic Objective)

The approval of 11 structural reforms during the past three years has strengthened Mexico's position to further promote strong and sustainable economic growth. Only a subset of these reforms is presented as key commitments because they were initiated in the period that is relevant for this template. Going forward, Mexico will continue with the implementation of the full reform agenda. Mexico will also adjust its macroeconomic policies as appropriate in order to mitigate any possible negative spillovers that could arise from the current complex global environment. For instance, a low oil price environment, market volatility associated with the expected monetary policy normalization in the United States and divergence in monetary policy in advanced economies, a potential global economic slowdown and other recent international developments which could also increase financial turbulence such as the Greek debt crisis and China's financial market adjustment. To this end, Mexico maintains its commitment to macroeconomic stability and fiscal discipline, and will continue with a timely implementation of the structural reforms.

*Please list the top 5 commitments from your growth strategy. These can be from either Brisbane or the current adjusted growth strategy.*

1. <u>Continue implementing the Energy Reform.</u> The reform is being implemented in a timely manner. The auctions for Exploration and Production (E&P) were held on schedule and fields were awarded. The tenders have been carried out with an outstanding level of credibility, certainty and transparency, which is reflected in a high participation rate. Regarding the electricity sector, the legal framework for competition in electricity generation has been issued and is expected to begin operating by the end of the year. Also, the following downstream activities have now a legal framework that allows for greater competition: transportation, distribution and storage of refined and processed products, refining and production, and petrochemical activities.
2. <u>Continue implementing the Competition (Anti-trust) Reform.</u> In July 2014, the new Economic Competition Law came into force, granting powers to the recently created autonomous regulator, the Federal Antitrust Commission. With its new powers, the Commission enforces the antitrust legislation, such as forcing divestment in sectors that are highly concentrated, promoting a culture of competition, and targeting and preventing monopolistic practices.
3. <u>Execute the National Infrastructure Program 2014-2018</u> in order to boost both public and private investment, thereby promoting domestic demand and job creation and leading to an increase in productivity.
4. <u>Strengthen the role of National Development Banks on infrastructure and (Small and Medium Enterprises) SME financing</u>. In the next four years, the government will commit almost 45 billion dollars to expanding direct and induced credit to SMEs, which will also contribute to create a credit history record for these enterprises and allow them greater access to credit markets.
5. <u>Fostering investment in infrastructure through the Financial Reform and the National Infrastructure Fund</u>. Capital market regulations were improved and simplified to help

channel more effective institutional investors and commercial banks to infrastructure projects. The private sector participation in infrastructure will also be encouraged through the National Infrastructure Fund (FONADIN) to promote PPP project development.

6. Responsible public finances to strengthen macroeconomic stability. Mexico's economy has maintained strong macroeconomic fundamentals, in particular, a responsible management of public finances. However, in an environment of adverse external conditions, Mexico will continue to strengthen its public finances and adjust its policy framework as needed. Macroeconomic stability will support an adequate environment for economic growth and investment.

**Changes to section B** (Economic Outlook and Challenges to Growth)

Information available for 2015 indicates a moderate improvement in economic activity due to a recovery in domestic demand and an expansion of automotive exports. However, GDP growth in the first half of 2015 (2.4% in annual rate) was lower than expected due to a temporary deceleration in US economic activity and a decrease in oil production.

On the domestic side, private consumption has picked up its pace due to the strengthening of some of its key determinants. The fast growth in employment and credit, a low and stable inflation environment and a recovery in consumer confidence, will continue supporting consumption in the second half of 2015 and 2016. Likewise, construction activity has continued growing compared to 2014, reflecting higher investment levels. On the external front, the anticipated acceleration of the US economy in the second half of 2015 and through 2016 is expected to support Mexico's exports and, in turn, manufacturing activity.

In the medium term, the aforementioned reforms along with other structural changes, also recently implemented, will affect positively investment levels. Particularly, the enacted reform agenda will improve investment climate through better regulation that provides, among other benefits, legal certainty to private investment in the energy, telecommunications and financial sectors. Growth composition should change gradually and systematically as reforms are implemented. Structural reforms will have a short-term effect on growth, mostly through their impact on investment and competition. Furthermore, the full impact of the reform agenda will most likely play out in the medium-term through increases in productivity, more aggressive competition, and the opening up of new strategic sectors.

## Assessment of Obstacles and Challenges to Growth

Mexico's economic growth and macroeconomic stability are exposed to a complex external environment: (i) a potential global economic slowdown; (ii) persistent low oil price environment; (iii) the divergence in monetary policy stances in advanced economies, could increase volatility in financial markets; in particular, US monetary policy normalization could drag economic growth indirectly through financial market stress; and (iv) other recent international developments which could also increase financial turbulence such as the Greek debt crisis and China's financial markets adjustment.

Regarding domestic factors, a handful of elements have been restraining productivity growth in the past years, thereby limiting Mexico's growth potential. On one hand, low levels of competition characterize several strategic input markets, while informality is still pervasive in some sectors of the economy. Furthermore, despite the recovery observed since the second half of 2014, more progress needs to be obtained in order to boost private consumption, especially through credit, which has gradually improved in recent years, albeit from a low base. These and other obstacles to growth are addressed by the reform agenda initiated in 2013 and by the recently proposed economic policy measures. The Government is working in order to rapidly implement the structural changes embedded in the reforms, for their benefits to be tangible in the near term.

**Key Indicators**

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Real GDP (% yoy)[a] | 2.1 | 2.2 | 3.1 | 4.0 | 4.0 | 4.0 |
| Nominal GDP (% yoy)[a] | 6.5 | 5.3 | 6.3 | 7.4 | 7.4 | 7.3 |
| Output Gap (% of GDP)* | -0.5 | -0.7 | -1.0 | -0.4 | 0.0 | 0.3 |
| Inflation (%, yoy) | 4.1 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Fiscal Balance (% of GDP)** | -1.1 | -1.0 | -0.5 | 0.0 | 0.0 | 0.0 |
| Unemployment (%) | 4.8 | 4.4 | 4.2 | 3.9 | 3.8 | 3.7 |
| Savings (% of GDP) | 21.8 | 22.3 | 22.5 | 22.8 | 23.2 | 23.7 |
| Investment (% of GDP) | 20.9 | 21.4 | 21.7 | 22.0 | 22.5 | 23.0 |
| Current Account Balance (% of GDP) | -1.9 | -2.5 | -2.6 | -2.5 | -2.5 | -2.5 |

**- The new forecasts have been published in September with the 2016 Budget submitted to Congress.**

**[a] It refers to the growth scenario used for public finances estimates.**

***A positive (negative) gap indicates an economy above (below) its potential.**

****A positive (negative) balance indicates a fiscal surplus (deficit).**

**Changes to section C** (Policy Responses to Lift Growth)

For 2015 and onwards, Mexico's economy and public finances face a complex and volatile external environment. Namely, a modest and uneven global economic recovery, a persistent low oil price environment, and an increase in financial market volatility associated with the normalization of the US Federal Reserve's monetary policy and other international developments such as the Greek debt crisis and China's financial markets adjustment.

**Macroeconomic Fundamentals and Risk Management Strategy**. Mexico is well prepared to face a complicated global environment due to its strong macro- fundamentals. Mexico's solid fundamentals and risk management strategy has led to an orderly adjustment of its financial markets in periods of high volatility.

a) **The Flexible Exchange Rate Regime** which serves as a buffer to attenuate the impact of adverse external shocks. In Mexico, the Foreign Exchange Commission (composed by the Ministry of Finance and the Central Bank of Mexico) is responsible for conducting the foreign exchange policy. Various elements have strengthened the role of the exchange rate as a buffer against the referred shocks. First, there has been a reduction in recent years in the pass-through of exchange rate fluctuations to domestic prices. Second, the existence of a well-developed derivatives market in Mexico, which allows economic agents to cover their exchange rate risks. Hence, due to its stabilizing properties, the flexible exchange rate regime will remain an important element of the policy framework in Mexico.

With the objective to secure an orderly functioning and provide liquidity to the foreign exchange market, the Foreign Exchange Commission has taken some measures to reduce the pace of international reserves accumulation through rules- based U.S. dollar auctions, at least until November 2015 when the appropriateness of extending them will be assessed.

b) **An Autonomous Central Bank with a Credible Monetary Policy** and well anchored inflation expectations. The Central Bank of Mexico's constitutional mandate is to pursue stability of the purchasing power of the national currency. To meet this objective, Banco de México adopted an inflation-targeting scheme as a framework for the monetary policy conduct. Specifically and consistent with its mandate, the Central Bank has defined as a permanent target reaching an annual inflation rate of 3 percent (with a variability interval of plus/minus 1 percentage point) in an efficient way, that is, at the lowest possible cost to society in terms of economic activity. The conduction of monetary policy in Mexico under an inflation- targeting scheme has contributed to anchor inflation expectations, reducing the level, volatility and persistence of inflation. Throughout 2015, inflation has been reduced to a level below the permanent inflation target of 3 percent.

c) **High Level of International Reserves** (179 billion dollars) and the renewal of the **Flexible Credit Line** (around 67 billion dollars) with the IMF.

d) **A solid and well-capitalized banking system** in full compliance with Basel III requirements.

e) **Oil price hedge** that serves as protection against decreases in international oil prices.

f) **A public debt policy that diversifies risks** at a low and stable level.

g) **A Timely and Responsible Fiscal Strategy.** In the current complex and volatile external environment, the objective is to preserve macroeconomic stability by acting with responsibility and maintaining long-term fiscal health. As a result, the Federal Government is currently implementing a multi-year public spending adjustment measure. This program aims to generate additional fiscal buffers to cope with potential negative shocks during 2015 and beyond, related to financial volatility, and oil price and domestic oil production. With this strategy, we are establishing conditions for a timely reduction in public spending to ensure an orderly decline in financing requirements for upcoming years.

For 2015, the Federal Government, along with Pemex and the Mexican Federal Electricity Commission (CFE), both newly independent energy companies, announced a preemptive expenditure adjustment in the amount of 0.7% of GDP. This amount considers adjustments of 4.1 billion dollars in Pemex and 674 million dollars in CFE. The fundamental premise of this adjustment is that it must come mainly from current expenditure. For Federal Government agencies, the adjustment amounts to 3.5 billion dollars, of which 65% will apply to current expenditure and the remaining 35% to investment spending.

The 2016 Economic Program (1) doesn't contain any new taxes, increases to existing ones or changes to fiscal regimes, nor tax exemptions; (2) ratifies the commitment to bring the budget back to balance by 2017 and reduce the deficit by 0.5% of GDP for 2016; and (3) it will adjust paid programmable spending.

For 2016, without considering the preemptive fiscal adjustment being implemented since 2015, paid programmable expenditure cuts are worth 1.2% of GDP and represent a decrease of 5.9% with respect to the approved budget in 2015. Thus, the preemptive fiscal adjustment, worth 0.7% of GDP, is key to smooth the expenditure path. The adjustment includes: a decrease of 5.4% in other operational expenditure with respect to the approved amount in 2015; an expenditure cut in personnel services of 7.5 billion pesos; and a decrease of 21% in capital expenditure with respect to the amount approved in 2015, which is partly explained by necessary investment adjustments in PEMEX given the oil price environment that will be mitigated by the use of new financial vehicles (see Section "Other New Measures").

As part of the multiannual strategy, the 2016 expenditure budget was reengineered under a Zero-Based and Results-Based Budget scheme in order to break the inertia of expenditure generated from previous years with high oil-revenues.

Such reengineering was done based on four axes, with specific scopes, and with an additional transversal axis. First: a profound revision of the Programmatic Structure to identify duplicities that were addressed through mergers and re- sectorizations. Second: enhance economies of scale through centralization of transversal areas into coordinating sector units. Third: an austerity program in operational expenses. Fourth: budget was assigned to programs and investment projects with higher social profitability, feasibility, regional impact and contribution to the goals set out in the National Development Plan 2013-2018. Finally, budgetary transparency and accountability permeates through all programs.

We expect that the impact of these measures in 2015 on economic growth to be marginal given that most of the adjustment will be made in current expenditure and that the adjustment itself is a measure that strengthens macroeconomic stability and confidence on the Mexican economy. Macroeconomic stability will continue to support an adequate environment for economic growth and investment.

## Other New Measures

**Ensure that extraordinary revenues of the Central Bank are allocated to strengthen the long-term fiscal position of the Federal Government.** An initiative to change the Federal Budget and Fiscal Responsibility Law was approved by Congress to transform these non-recurrent revenues into a permanent boost to the fiscal position. At least 70% of these resources should be used to amortize debt in advance or reduce debt issuance requirements during the fiscal year. The remainder should be used to support the financial position of the Federal Government (it reduces Public Sector Borrowing Requirements), namely through the Budget Stabilization Fund. This measure reinforces the Central Bank's autonomy, and avoids funding permanent spending with non-recurrent resources. The Central Bank will sterilize any monetary impact that may arise from this operation.

Consistent with this reform and as part of the fiscal consolidation strategy, the Federal Government proposed that the 2014 operational surplus of 31.4 billion pesos be set aside for infrastructure investment in 2016.

**Gasoline price policy.** From 2016, the excise tax on gasoline will be fixed and the price will be allowed to float within a band as a transition scheme towards liberalization in 2018.

Currently, the price of gasoline is fixed and the excise tax is variable, fluctuating with the international reference price of gasoline. The price of gasoline will be market- determined by 2018 when imports are allowed, according to the schedule set in the Energy Reform. The current scheme is prone to misalignments between the international price and the local price which could generate a negative excise tax and therefore an inefficient fossil fuel subsidy. During the last 10 years, this has amounted to around 7% of GDP.

The new scheme will fix the excise tax near observed levels at the end of the year and match the expected revenue from the variable excise tax in the budget. The Ministry of Finance will set a band during this transition period (2016-2017) and allow the regulated price to fluctuate, based on the international reference price.

**Measures to promote savings, investment and formalization.**

a) **Measures to promote savings**: (1) substitution of the present fixed withholding rate for paid interest with a formula that updates annually; (2) contributions to long-term saving instruments are excluded from the personal deductions global limit and (3) a program for capital repatriation, paying a regular income tax rate and not providing amnesty from Anti-Money Laundering (AML) legislation of any sort.

b) **Measures to promote investment:** (1) immediate deductibility of investment for 2016 and 2017 to Small and Medium-sized Enterprises (SMEs), in the transport infrastructure sector and in the energy sector; and (2) stimulus to medium-term reinvested earnings of the firms, through a lower dividend tax schedule.

c) **Measures to promote formalization:** (1) a fiscal lottery every four months for those who make purchases with electronic banking payments; (2) use of fiscal information for credit pre-qualification of SMEs and (3) more flexible requirements for the Fiscal Incorporation Regime: broadening coverage, eliminating restrictions to family members and updating the income tax rate.

d) **Other sector measures:** (1) stimulus for investment in renewable energy; (2) investment in electricity generation; (3) stimulus to diesel in all industrial-sector activities; (4) speeding the process of deconsolidation; (4) food tax-return (IEPS) for exports.

**New Financial Vehicles** will be introduced to complement public investment and channel large-scale capital, with the best international standards in terms of corporate governance, transparency and participation of national and foreign investment.

a) **FIBRA E** (similar to a Master Limited Partnership): market financial instrument that allows to invest in mature projects in the sectors of energy and infrastructure. The instrument's main characteristics are: (1) it releases resources for investment in new projects, (2) it will be offered directly to the general public and (3) it will maintain high standards in transparency for fiscal purposes.

b) **Investment Project Certificates:** market financial instrument with corporate governance and similar design to Private Equity Funds worldwide. The instruments' main characteristics are: (1) it is designed for foreign and local institutional investors and in this sense, individuals may enjoy the returns on private capital through AFOREs and (2) it gives operational flexibility to invest in a wide range of industries with different risk exposures (capital-debt, mature or development projects).

c) **Educational Infrastructure Certificates:** these are trust certificates which its source of payment is the Multiple Contributions Fund of the Federal States (FAM). The FAM provides a stable flow of resources, making it easy to project. The portfolio of educational improvement projects has been defined at 50 billion pesos.

### Reforms on Corruption and Rule of Law

a) **Transparency.** The Reform entails the creation of a National Anticorruption System that will function as a coordination instance between authorities in all government levels in charge of the prevention, detection and sanction of corruption, as well as the control and audit of public resources.
The reform also envisages the expansion of powers of two autonomous agencies (the Federal Government Audit Authority and the Federal Court of Administrative Justice) that audit the use of public funds. Under the new law, they will now have greater auditing powers and the faculty to investigate and act upon citizens' complaints and to take directly to an administrative court their findings. Also, penal sanctions for acts of corruption are increased and termination of ownership of illegally obtained assets from corrupt public officials are contemplated.

b) **National Criminal Procedure Code** reform unifies the criminal justice model which allows our system of justice to transition towards a model shared by the Federation and the states, in order to (1) facilitate coordination between authorities; (2) increase investigation effectiveness at the federal and local levels; (3) provide greater legal certainty regarding the decisions of judges and courts; and (4) prevent the diversity of rules from creating scope for impunity. This code includes a new system of oral adversarial criminal justice, which implementation, according to the Constitution, should be completed no later than June 18, 2016.

c) **The Political-Electoral reform** changes the relationship among the branches of government, and between the latter and citizens in two main ways: (1) it modernizes institutions belonging to the political system to promote a better balance between the branches of government, facilitate dialogue and enhance agreements and (2) it transforms institutions and electoral competition rules to strengthen citizen participation and provide greater certainty for the polls, both nationally and locally. Political-Electoral Reform modernizes rules and electoral institutions to standardize the quality of democracy throughout the country. It also boosts state capacity to reach agreements on the most important decisions, consolidating a results-based democracy for Mexicans.

d) **The New Appeal Law.** The Reform will expand the protection provided to citizens' rights, in order to make the administration of justice more expeditious and effective; simplify and modernize the legal process, and strengthen the Judicial Branch of the Federation. The Injunction Law Reform has three main axes: (1) it expands the sphere of the protection of rights (i.e. human rights provided for in international treaties will receive direct protection); (2) the effectiveness of Mexican justice increases (i.e. filing for an injunction may now be done online using the Electronic Signature); and (3) it strengthens the Judicial Power of the Federation, particularly the Supreme Court of

Justice (i.e. the Court is empowered to remove from office and report to the District Judge, both the authority responsible and his immediate superior if he fails to comply with an injunction sentence).

## Measures to foster balanced and inclusive economic growth

**Special Program to Democratize Productivity.** On 2013, the Federal Government announced a special program to optimize factors involved in goods production and services provision with the help of an advisory body, the National Productivity Committee.

The Committee will have the following powers: (1) undertake a national diagnosis of the requirements for raising productivity and competitiveness in every sector and branch of production; (2) suggest alternative technologies and forms of work organization; (3) make recommendations for training plans and programs; (4) study mechanisms and new forms of remuneration to link workers' income to productivity; and (5) issue opinions on the destination and implementation of budgetary resources aimed at increasing productivity.

The Special Program to Democratize Productivity is based on four areas: (1) promote the efficient use of production factors, through actions to encourage formal employment, expand credit and make more efficient use of the national territory; (2) promote the country's business environment through increased economic competiveness, legal certainty and investments in strategic sectors as well as a simpler, more straightforward tax system; (3) raise productivity within companies, through investments in human capital, as well as innovation and technological development processes; and (4) boost productivity in every region and sector in the country through programs and infrastructure projects that meet their specific needs. Raising and democratizing productivity is the best way to grow the economy and, more importantly, to increase family incomes.

**Special Economic Zones Act.** In September 2015, the President sent to Congress an Initiative for the creation of Special Economic Zones that (1) aims to increase productivity, (2) boost employment and (3) create wealth in regions with less economic development. The Initiative includes: (1) provision of fiscal, commercial, financial, regulatory and infrastructure; (2) the government will provide certain flexibility on each zone to establish specific incentives and customs regime, tariff policy and merchandise control, depending on the initial condition and productive orientation of the region; (3) to ensure procedure efficiency and cut red tape, there will be coordination and cooperation between the three levels of governments to facilitate the establishment and operation of new enterprises and (4), the Special Economic Zone will have previsions that will guarantee high standards in transparency and accountability.

## ANNEX 1: NEW AND ADJUSTED POLICY COMMITMENTS FOR 2015

### New and Adjusted Commitments since Brisbane

<table>
<tr><th>1. The new or adjusted policy action:</th><th>Responsible public finances to strengthen macroeconomic stability.</th></tr>
<tr><td>Implementation path and expected date of implementation</td><td>
In the current complex and volatile external environment, the objective is to preserve macroeconomic stability by acting with responsibility and with long-term fiscal health. As a result, the Federal Government is currently implementing a multi-year public spending adjustment measure. This adjustment aims to generate additional fiscal buffers to cope with potential negative shocks during 2015 and beyond related to financial volatility and oil price and domestic oil production. With this strategy, we are establishing conditions for a timely reduction in public spending to ensure an orderly decline in financing requirements for upcoming years.
<ol>
<li>For 2015, the Federal Government, along with Pemex and the Mexican Federal Electricity Commission (CFE), both newly independent energy companies, have announced a joint reduction in expenditures in the amount of 8.4 billion dollars, equivalently to 0.7% of GDP.
<ul>
<li>The Federal Government will adjust a total of 3.5 billion dollars, of which 65% will apply to current expenditure, and the remaining 35% to investment spending.</li>
<li>Pemex will adjust its expenditures for a total of 4.1 billion dollars.</li>
<li>CFE will adjust its expenditures for a total of 674 million dollars.</li>
</ul></li>
<li>For 2016:
<ul>
<li>(1) There will be no new taxes, increases to existing ones or changes to fiscal regimes nor tax exemptions; (2) the Federal Government ratifies the commitment to bring budget back to balance by 2017 and reduce the deficit by 0.5% of GDP for 2016; (3) it will also adjust paid programmable spending.</li>
<li>Not considering the preemptive fiscal adjustment being implemented in 2015, paid programmable expenditure cuts are worth 1.2% of GDP, and a decrease of 5.9% with respect to the approved budget in 2015. Thus, the preemptive fiscal adjustment, worth 0.7% of GDP is key to smooth the expenditure path.</li>
<li>The fiscal adjustment includes: a decrease of 5.4% in other operational expenditure with respect to the approved amount in 2015; an expenditure cut in personnel services of 7.5 billion pesos (a reduction of 15,825 jobs); and a decrease of 21% in capital expenditure with respect to the amount approved in 2015, which is partly explained by necessary investment adjustments in PEMEX given the oil price environment that will be mitigated by the use of new financial vehicles.</li>
<li>As part of the multiannual strategy, the 2016 expenditure budget was reengineered under a Zero-Based and Results-Based Budget scheme in order to break the inertia of expenditure generated in previous years with high oil-revenues.</li>
</ul></li>
</ol>
</td></tr>
<tr><td>What indicator(s) will be used to measure progress?</td><td>Comply with the fiscal balance trajectory published in the Economic Policy Guidelines for 2014</td></tr>
</table>

| | |
|---|---|
| **Explanation of additionality or adjustment (where relevant)** | *http://www.shcp.gob.mx/SALAPRENSA/doc_comunicados_prensa/2015/enero/comunicado_007_2015.pdf* *http://www.shcp.gob.mx/SALAPRENSA/doc_comunicados_prensa/2015/marzo/comunicado_029_2015.pdf* http://www.shcp.gob.mx/POLITICAFINANCIERA/FINANZASPUBLICAS/finanzas_publicas_criterios/cgpe_2016.pdf http://www.hacienda.gob.mx/ApartadosHaciendaParaTodos/ppef2016/index.html?utm_source=shcp&utm_medium=banner&utm_campaign=pef2016 |

## ANNEX 2: PAST COMMITMENTS – ST. PETERSBURG FISCAL TEMPLATE – UPDATE

Medium-term projections, and change since last submission *(required for all members)*:

| | **Estimate** | **Projections** | | | | | |
|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** |
| Gross Debt | | | | | | | |
| *ppt change* | | | | | | | |
| Net Debt | 43.4 | 46.9 | 47.8 | 47.8 | 47.4 | 47.0 | 46.6 |
| *ppt change* | -0.3 | 2.8 | 3.3 | 3.3 | 3.6 | 3.8 | 4.1 |
| Deficit[1] | 3.2 | 3.5 | 3.0 | 2.5 | 2.0 | 2.0 | 2.0 |
| *ppt change* | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Primary Balance | -1.1 | -1.3 | -0.5 | 0.1 | 0.9 | 1.1 | 1.2 |
| *ppt change* | 0.0 | 0.0 | 0.2 | 0.3 | 0.7 | 0.9 | 1.0 |
| CAPB | | | | | | | |
| *ppt change* | | | | | | | |

*** Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year. 1/ Includes Pemex Investment.**

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

| | Estimate Projections [a] | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Real GDP growth [b] | 1.4 | 2.1 | 2.2 | 3.1 | 4.0 | 4.0 | 4.0 |
| *ppt change* | 0.0 | 0.0 | -0.5 | -0.7 | -1.2 | -1.2 | -1.2 |
| Nominal GDP growth [b] | 3.1 | 6.5 | 5.3 | 6.3 | 7.4 | 7.4 | 7.3 |
| *ppt change* | 0.0 | 0.0 | -0.6 | -1.1 | -1.4 | -1.4 | -1.5 |
| ST interest rate | 3.8 | 3.0 | 3.1 | 4.0 | 5.0 | 5.8 | 6.1 |
| *ppt change* | 0.0 | 0.0 | -0.1 | -0.1 | 0.5 | 0.8 | 0.6 |
| LT interest rate | 5.6 | 6.0 | 5.9 | 6.1 | 6.2 | 6.3 | 6.4 |
| *ppt change* | 0.0 | 0.0 | 0.3 | 0.2 | 0.0 | 0.0 | 0.0 |

**a The new forecasts have been published in September with the 2016 Budget submitted to congress.**

**b It refers to the growth scenario used for public finances estimates.**

## ANNEX 3: PAST COMMITMENTS – BRISBANE COMMITMENTS

*The purpose of these tables is to monitor the implementation of commitments from members' Brisbane growth strategies.*

**Key Commitments for Monitoring Purposes**

<table>
<tr><th>The policy action:</th><th colspan="2">Energy Reform</th></tr>
<tr><td>Detailed implementation path and status</td><td>Interim steps for implementation</td><td>
<ul>
<li>On December 2013, the Mexican Government approved an Energy Reform that opens up investment in the nation’s energy sector to private sector participation. With this reform, the government will be able to perform exploration and extraction activities of oil and other hydrocarbons through contracts with Pemex and/or the private sector. Additionally, the electricity sector has been liberalized by ending the monopoly of CFE and by promoting competition from new entrants.</li>
<li>On August 2014, the secondary legislation of the Energy Reform was approved, including the following main themes:</li>
</ul>
i. Exploration and Extraction Contracts.
a. The auction process for exploration and extraction contracts will be managed by the National Hydrocarbons Commission, and any firm can participate. However, the Ministry of Energy (SENER) will determine which fields are up for auction and the form of contracting (profit sharing, service contracts, production sharing or licenses). Lastly, the Ministry of Finance (SHCP) will determine the economic terms of the contract.
ii. Energy Policy and Regulatory Bodies
a. The National Gas Pipeline Center (CENAGAS) is in charge of operating and overseeing the national network of hydrocarbon transportation pipelines and storage facilities system.
b. The Electric Energy National Control Center (CENACE) is in charge of managing the National Electric System and operating the electric wholesale market.
iii. Regulation for Production Companies
a. The figure of State Production Companies (SPCs) is created with technical, management and budgetary autonomy as well as regulated independent bodies. This way, SPCs will have the main goal to maximize economic rent for the state, with a more similar structure to a private company.
b. As an anticorruption measure, SPCs must have complete information systems about their suppliers and contractors, which must be updated regularly.
c. Pemex and CFE, as SPCs, will be subject to an annual evaluation, which will be made by a commissioner who has to be an independent expert.
iv. Opening of the Domestic Electricity Market
a. CFE will remain as an electric service provider for residential consumers and for small and medium commercial and industrial clients. These users will not see changes in the current way they pay or consume electricity.
</td></tr>
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| | | b. Electric plants, except those intended for self-supply or smaller than 0.5 Mw capacities, will require permission from the Energy Regulatory Commission to generate electricity.<br><br>***• Implementation of Secondary Legislation:***<br><br>**1. Upstream.**<br><br>1.1.1. "Round Zero" concluded. In this bidding process, Pemex put forward its request for the exploration areas and production fields. It established which oil fields are available for subsequent rounds of bidding.<br><br>1.2. An independent board for CFE and Pemex was selected and ratified by Congress.<br><br>1.3. The public invitation to bid ("Round 1.1") for Exploration and Production (E&P) contracts was issued.<br><br>1.4. The public invitation to bid ("Round 1.2") for Extraction in shallow waters was issued.<br><br>1.5. The public invitation to bid ("Round 1.3") for Extraction in terrestrial fields was issued.<br><br>1.6. The first E&P contracts in shallow waters were awarded ("Round 1.1").<br><br>1.7. The contracts for the E&P shallow waters contracts were officially signed.<br><br>1.8. "Round 1.2": Shallow waters.<br><br>1.9. "Round 1.3": Terrestrial fields.<br><br>***2. Electricity.***<br><br>2.1. Independent system operator (CENACE) was created, removed from CFE and transformed into a public entity in charge of the national electricity system operation.<br><br>2.2. Legal framework for electricity generation competition was issued.<br><br>2.3. Guidelines and regulation issued for interconnection (CFE is allowed to engage in contracts with private parties for the operation of the distribution and transmission network).<br><br>2.4. Electricity market rules and clean energy certificates regulation were issued.<br><br>2.5. Regulatory basis for the functioning and operation of the electric market was issued.<br><br>2.6. Electricity market will be in operation and functional separation of CFE in transmission, distribution and retailing.<br><br>***3. Downstream.***<br><br>3.1. The creation of an independent operator for the gas pipeline system (CENAGAS).<br><br>3.2. Legal framework that allows competition in the following activities: transport, distribution and storage of refined and processed products, refining and production of petrochemical.<br><br>3.3. Retail sale of gasoline and diesel open to competition.<br><br>3.4. The excise tax on gasoline will be fixed and the price will be allowed to float within a band as a transition scheme towards liberalization in 2018. |

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| | | 3.5. Gasoline and diesel imports open to third parties. |
| | Deadline | The deadline for the implementation of the steps mentioned above:<br>***Upstream***<br>1.1. August 2014.<br>1.2. September 2014.<br>1.3. December 2014.<br>1.4. February 2015<br>1.5. May 2015.<br>1.6. July 2015.<br>1.7. September 2015.<br>1.8. September 2015.<br>1.9. December 2015.<br>***Electricity.***<br>2.1. August 2014.<br>2.2. October 2014.<br>2.3. January 2015.<br>2.4. July 2015<br>2.5. September 2015.<br>2.6. December 2015.<br>***Downstream.***<br>3.1. August 2014.<br>3.2. October 2014.<br>3.3. January 2016.<br>3.4. January 2016.<br>3.5. January 2017. |
| | Status | • The Energy Reform is being implemented in a timely manner and all deadlines have been met. |
| **Impact of Measure** | • This reform will have a sizeable positive impact on economic growth, investment and competition.<br>• The cost of energy has started to gradually decrease as a result of the opening of the market for electricity generation, transport, distribution and storage of processed and refined products, as well as petrochemical activities. This will be reflected in a more productive economy. | |

| The policy action: | Competition (Anti-trust) Reform | |
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| | Interim steps for implementation | • In July 2014, the new Economic Competition Law became official and aims to address the lack of competition in strategic markets. The main elements of the approved law are:<br>– New faculties of the Federal Antitrust Commission (COFECE), such as declaring and regulating essential inputs, determining and establishing measures to remove barriers to entry.<br>– New categories of absolute monopolistic practices and new regulatory measures to prevent and investigate market concentration.<br>– New special procedures and a modification of the Federal Criminal Code to include penalties for monopolistic practices. |
| **Detailed implementation path and status** | Deadline | • The Federal Antitrust Commission (COFECE) has been in operation for two years now since 2013 and the new regulatory framework was established in 2014. Since then, the Commission has already made progress in investigating and sanctioning competition issues in various sectors, such as the financial, the aviation and poultry sector. |
| | Status | • The Federal Antitrust Commission has released its work plan for 2015, as well as its Strategic Plan for 2014-2017, which can be consulted in the following:<br>http://www.cofece.mx/phocadownload/Normateca/Informe/Programa_Anual_de_Trabajo_2015.pdf<br>http://www.cofece.mx/attachments/article/37/PE_2014-2017_act_2015.pdf<br>• Mexico recorded an increase of 10 places in the indicator that assesses the effectiveness of antitrust policies, known as the Global Competitiveness Index 2014-2015, compared to the year before, compiled by the World Economic Forum, rising from 114$^{th}$ to 104$^{th}$ place. In addition, the specialized magazine *Global Competition Review*, increased the performance rating of the Federal Antitrust Commission in 2015, from two and a half stars (acceptable performance) to three stars (good performance). It is the first time that the competition authority in Mexico gets this rating, which is shared with other jurisdictions such as Austria, Canada, Sweden and Switzerland. |
| **Impact of Measure** | • The Competition Reform, along with other approved reforms, will increase competiveness in markets that have a high degree of concentration. Also, it will reduce monopolistic practices. | |

<table>
<tr><th>The policy action:</th><th colspan="2">Execute the National Infrastructure Program (NIP) 2014-2018</th></tr>
<tr><td rowspan="3">Detailed implementation path and status</td><td>Interim steps for implementation</td><td>1. Timely execution of the NIP during the present Federal Administration. The NIP is a broad and profound agenda for infrastructure development; it comprises 24 strategies, 83 action lines and 20 indicators with specific targets that will allow evaluating the performance of the program.<br><br>The program includes 743 infrastructure projects to be developed between 2014 and 2018, which account for more than 550 billion dollars.<br><br>2. The construction of the New Airport of Mexico City (NAICM).</td></tr>
<tr><td>Deadline</td><td>1. The NIP will be implemented during 2014-2018.<br>2. The NAICM is expected to become operational by 2020.</td></tr>
<tr><td>Status</td><td>• The Federal Government is taking the necessary actions to continue with the timely implementation of the National Infrastructure Program. The 2016 Federal Budget was prepared using a zero-based budget approach, in order to give priority to investment projects. In addition, the Federal Government is currently analyzing ways to leverage private investment in infrastructure.<br>• The construction of the NAICM started in 2015.</td></tr>
<tr><td>Impact of Measure</td><td colspan="2">• The execution of the NIP will detonate economic activity and generate employment to support infrastructure development and productivity growth.<br>• This program, together with the structural reform agenda will lead to an increase in the economic growth.</td></tr>
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<table>
<tr><th>• The policy action</th><th colspan="2">Strengthen the role of National Development Banks (NDBs) on Infrastructure and SME financing.</th></tr>
<tr><td>Detailed implementation path and status</td><td>Interim steps for implementation</td><td>
1. NDBs play an important role in complementing efforts of commercial banks to increase the supply of credit, which could serve as a catalyst for job creation and growth. Major NDBs (BANOBRAS, NAFIN and BANCOMEXT) will expand and induce credit for almost 45 billion dollars through their mid- term plans, that include:<br>
– Fostering the participation of commercial banks in infrastructure financing.<br>
– Contributing to channel institutional investor’s resources to infrastructure (guarantees).<br>
– Fostering infrastructure development by local governments.<br>
– Strengthening credit and guarantee programs for SMEs, which will contribute to create a credit history record for these enterprises.<br>
2. A set of measures to support SMEs are being implemented, which include:<br>
i. The implementation of the Youth Credit Program. This program provides credit to entrepreneurs between 18 and 30 years old who want to start or expand a business. The program considers 4 financial products (more information is available at http://tuprimercredito.inadem.gob.mx):<br>
– Bank loan to start a business, from 3,300 to 10,000 dollars.<br>
– Bank loan to start a business, from 10,000 to 33,000 dollars.<br>
– Bank loan to expand existing businesses, up to 20,000 dollars.<br>
– Bank loan of up to 166,000 dollars to expand businesses with at least one year of operation.<br>
ii. The implementation of the National Entrepreneur Fund, to foster productivity and innovation in micro, small and medium enterprises.<br>
– The fund provides grants to financing micro, small and medium enterprises, including training programs, consulting services quality certifications, product design, technology transfer, equipment acquisition, among others.<br>
– The amount of the grant could range from 10% to 100% of the total cost of the project.<br>
iii. The implementation of the “Crezcamos Juntos” programme aims to incentivize SME’s to join formality by increasing its benefits:<br>
– To be registered in the programme, enterprises must fulfil their tax-related obligations.<br>
– Different tax exceptions for the first ten years.<br>
– A 50% discount in health and social security fees.<br>
– Housing loans and consumer credits for employees.<br>
– Access to bank financing in order to increase the productive capacity of SMEs.
</td></tr>
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| | Deadline | 1. It is expected that major NDB's will expand and induce credit for almost 45 billion dollars by 2018.<br>2. Regarding measures to support SMEs:<br>i. The Youth Credit Program is available since February 2015.<br>ii. The National Entrepreneur Fund operates since 2014.<br>iii. The "Crezcamos Juntos" Program started in September 2014. |
| | Status | • All measures are currently being implemented. |
| **Impact of Measure** | • This commitment provides greater flexibility to the operations of Development Banks, in order to allow them to complement commercial banks and increase credit growth, primarily in areas that influence national development.<br>• The measures to support SMEs will expand bank lending at better terms and conditions, strengthen their productive and technological capabilities, decrease informality and contribute to generate credit information. | |

| The policy action: | Fostering Investment in Infrastructure through the implementation of the Financial Reform and the National Infrastructure Fund. | |
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| **Detailed implementation path and status** | Interim steps for implementation | 1. Implementation of the Financial Reform:<br>i. Maintain a solid financial system:<br>– New liquidity rules for banks and stress tests for banks and brokerage houses.<br>– The Financial System Stability Council was created to coordinate and reinforce the soundness of the financial system.<br>– The Bank for International Settlements (BIS) assessed the Basel III implementation commitments in Mexico and recognized that Mexico is one of the leading countries in their implementation.<br>– The National Financial Inclusion Council was established to formulate, implement and monitor the national policy of financial inclusion.<br>ii. Increase competition in the financial sector and improve the quality of financial services through regulations to inhibit anticompetitive practices and stronger attributions to the Federal Commission for Protection and Defense of Financial Services Users (CONDUSEF):<br>– Elimination of abusive clauses in contracts from financial institutions such as tied sales.<br>– The Bureau of Financial Entities was consolidated with information of entities and user claims.<br>– The Registry of Debt Collection and Debt Recovering Offices (REDECO) was created.<br>iii. Establish conditions to encourage private banks to extend credit, through:<br>– Easing of the corporate regime of investment funds.<br>– Modernization of the stock exchange market.<br>– The establishment of a mechanism to evaluate banking institutions.<br>– The improvement of regulations for commercial bankruptcy.<br>– The establishment of a system of correspondents for the popular savings institutions in order to increase financial inclusion, even in places without banks.<br>iv. Promote credit through Development Banks, mainly by stronger corporative government, mandates and organizational structures for these NDBs.<br>2. The Mexican Federal Government is encouraging a reform of capital market regulation, regarding the participation of institutional investors such as pension funds and insurance companies in infrastructure, in order to:<br>i. Improve incentives for investment portfolio management, leading to better investments and more efficient asset managers.<br>ii. Simplify the regulatory framework for infrastructure products, making Development Capital Certificates (CKDs) a more flexible instrument.<br>iii. Extend the range of institutional investors that can invest in CKDs, including insurance companies. |

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| | | iv. In September 2015, three new instruments were launched in order to foster institutional investors' participation in infrastructure financing: i) FIBRA E, which is a is a new asset class designed to monetize cash flows from stabilized energy and infrastructure project; ii) Investment Projects Certificates (CERPIs), that allows domestic and foreign institutional investors, including pension funds and insurance companies, allocate resources in a wide range of industries with different risk exposures (capital, debt, mature or development projects); and iii) Educational Infrastructure Certificates, which will be traded through the Mexican Stock Exchange. The National Banking and Securities Commission and the National Commission for the Pension System circulated, for public consulting, the legal framework for FIBRA E and CERPIs.<br>3. Strengthening the National Infrastructure Fund (FONADIN), which is the main vehicle of the Federal Government to foster private participation in infrastructure. FONADIN's action plan aims to:<br>i. Support PPP project development.<br>ii. Implement a mechanism to prioritize infrastructure project development.<br>iii. Strengthen project preparation and structuring in order to consolidate a credible pipeline of bankable projects for private sector investment, fostering solid evaluations and risk management techniques.<br>iv. Strengthen its financial capacity. |
| | Deadline | 1. The different involved agencies, including NDBs, the National Banking and Securities Commission (CNBV), the Federal Commission for Protection and Defenseof Financial Services Users (CONDUSEF), among other federal agencies will continue working during 2015 in the implementation of this reform.<br>2. This set of regulatory reforms will be reviewed by the Boards of the National Commission for the Pension System (CONSAR) and CNBV during 2015.<br>3. Changes to the FONADIN will be executed during 2015 and 2016. The Federal Government is analyzing ways to optimize FONADIN's assets (51 toll highways) in order to leverage private investment in infrastructure. |
| | Stat us | • All measures are currently being implemented. |
| **Impact of Measure** | • The Financial Reform will reduce costs and promote efficiencies in credit origination mainly for SMEs, as well as to provide a new mandate for Development Banks, in order to foster financial market development and financial inclusion.<br>• The capital market regulations will help channel more effective institutional investors and commercial banks to infrastructure projects, fostering capital mobilization for this sector.<br>• The FONADIN will foster private participation in infrastructure projects through PPPs. | |

## Other Brisbane Commitments

*This table is for the monitoring of other Brisbane commitments (non-key commitments). Please complete a table for each commitment.*

| • The policy action: | Telecom Reform |
|---|---|
| Implementation path and expected date of implementation | • The Telecom Reform was approved in 2013. By May 2014, following the passage of its secondary legislation, it began its implementation phase. The proposed legal and regulatory framework is now in effect and is already showing signs of significant impact. |
| Status of Implementation and Impact | • A new regulatory and competition agency, the Federal Communications Institute (IFT, for its acronym in Spanish), which will focus on telecommunications and broadcasting, is now fully operational. The IFT has exclusive authority for regulation and competition enforcement in the telecommunications and media industries, and has a range of new regulatory capabilities to promote competition, such as imposing obligations on dominant operators.<br><br>• On investment, the Telecom Reform now allows for 100% foreign direct investment (FDI) in telecommunications and up to 49% in broadcasting. Previously, the Federal Government prohibited FDI in broadcasting and limited to 49% FDI in the Telecom sector. Tangible results are already visible, as global companies have expressed their interest in entering the Mexican telecommunications sector.<br><br>• Through 2014 and early 2015, the Reform has already yielded positive results for users through lower prices and higher quality in communication services. Among these positive results are:<br><br>– Extra charges in long distance phone calls have been eliminated, while other telephone and mobile services have registered lower prices than previous years.<br><br>– Lower services prices and greater competition are already increasing broadband penetration. According to the Federal Telecommunications Institute, from December 2012 to December 2014, the level of penetration of wireless broadband doubled from 23.6 to 43 subscribers per 100 inhabitants.<br><br>• During 2015, the Federal Government will continue working in the implementation of the Telecom Reform.<br><br>- By the end of 2015, the transition from analog to digital TV is expected to be completed. |

| • The policy action: | Unemployment Insurance |
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| **Implementation path and expected date of implementation** | • The policy is currently under discussion by Congress. |
| **Status of Implementation and Impact** | • Once the reform is approved, its progress could be verified by the number of applicants that are granted unemployment insurance in a given year. |

## ANNEX 4: PRE-BRISBANE COMMITMENTS

*Please include a maximum of 5 important structural reform commitments from Action Plans prior to Brisbane. Please also include all relevant monetary and exchange rate commitments. Fiscal commitments will be accounted for in the St. Petersburg Fiscal Template in Annex 2.*

| Education Reform | |
|---|---|
| **Structural Reform** | **Action Plan**<br>*St. Petersburg* |
| **Rationale for carrying forward** | • One of the most powerful tools to promote inclusive growth is to ensure that all Mexican families have access to a quality education and have the opportunity to improve their educational outcomes. |
| **Update on Progress** | • Since its implementation in 2013, the Education Reform has had the following results:<br>– The National Evaluation System, the Professional Teaching Service and the Education Information and Management System were created and have become fully operational.<br>– A comprehensive census of schools, teachers and students from primary and special education schools in Mexico was completed in 2014. Through this, the gaps, challenges and problems of almost 240 thousand schools, 24 million students and 1.8 million education workers were identified.<br>– The program “Escuelas Dignas” was implemented, which aims to bolster school infrastructure, and has benefited 11 thousand schools, with a budget of 8 billion pesos in two years.<br>– To strengthen self-management and take into account local needs, the Education Reform assigns more resources to school boards so that parents, administrators and teachers have a greater say in the management of their schools. In the first phase, 7 billion pesos were granted to 20 thousand schools.<br>– Full-time schools have increased from 6 thousand to 23 thousand in the last two years; over half of them provide free school lunches, benefiting low-income students. |

| Labor Reform | |
|---|---|
| **Structural Reform** | **Action Plan**<br>*St. Petersburg* |
| **Rationale for carrying forward** | It responds to the demands of workers and employers, as well as a society concerned with creating more jobs and more humane working conditions; particularly to enable young people, women and older adults to join the work force.<br>It guarantees more rights for vulnerable groups.<br>It grants greater powers to the labor authorities to provide greater protection and security for workers and the workplaces themselves, and even imposes exemplary sanctions for non-compliance with work regulations.<br>It contributes to achieving a prompt, expeditious administration of justice, to provide the boards of conciliation and arbitration with more and better tools.<br>It brings labor standards into line with the decisions of the Supreme Court of Justice.<br>It implements the commitments embodied in various international instruments, Mexico has signed regarding the workplace. |
| **Update on Progress** | The following changes were introduced and are fully implemented:<br>New forms of contracts are established: probationary and training, which facilitate access to the labor market by making it more flexible.<br>Subcontracting or outsourcing will also be regulated to prevent abuse of this measure.<br>The calculation of overdue wages for unfair dismissal has been modified. 100 percent will only be paid for the first year, after which 2% compounded capitalizable interest will be incurred.<br>The figure of the "blind promotion ladder," according to which the most senior rather than the most skilled worker and/or productive worker filled vacant posts, has been eliminated.<br>The exclusion clause due to separation from collective labor contracts has been eliminated to prevent a worker who resigns from a union from losing his job as a result has been eliminated.<br>Free, secret voting in elections of trade union leaders has been established together with the right of unionized workers to demand information and accountability.<br>Information related to trade union and collective bargaining agreements is regarded as public.<br>Labor authorities are entitled to restrict access to a workplace in the event of imminent danger.<br>Penalties for non-compliance with labor standards have been increased.<br>The protection of substantive equality between men and women workers has been established.<br>Better protection has been provided for workers in various aspects and situations such as the following: bullying and harassment, pregnancy, breastfeeding, parenting, disability and activities such as child labor, domestic, farm and coal mine workers.<br>Child labor outside the family circle has been classified as a crime.<br>Professional career service on the boards of conciliation and arbitration has been established, procedures has been streamlined and a new, most expeditious procedure for social security trials has been created.<br>As a result of the reform, formal employment is growing very much faster than GDP. During 2014 and the first half of 2015, formal employment grew by 4.3 and 4.5%, while GDP growth was 2.2% and 2.4%, respectively. |