

Third State of the Nation Address – The Mexican economy will face significant challenges in 2016

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- President Enrique Peña Nieto presented his *Third State of the Nation Address*
- Mexico faces slower international growth, discipline in public finances, and implementation of structural reforms
- The President divided his report into the same five areas he presented in the *National Development Plan* at the beginning of his administration:
 - (1) *A peaceful Mexico, which includes government actions in terms of national security and Mexico's Rule of Law;*
 - (2) *Mexico toward equal opportunities;*
 - (3) *Quality of education;*
 - (4) *A prosperous Mexico, with details on the government's economic strategy; and*
 - (5) *A globally-responsible Mexico, including his foreign policy strategy*
- We highlight that the President announced 10 additional measures to improve the second half of his administration
- Looking ahead, the 2016 budget process will start soon and will extend until mid-November

Slower international growth, discipline in public finances, and implementation of structural reforms. Today, President, Enrique Peña Nieto presented his *Third State of the Nation Address*, which was already sent to Congress. Among the topics covered, Enrique Peña Nieto highlighted the 90 reforms to 51 constitutional articles, and the 13 structural reforms made in the last three years. In addition, and in line with our expectations, the President began his speech highlighting the complex global environment, with lower oil prices and the significant depreciation of the Mexican currency. In this context, he mentioned the need to maintain the discipline in public finances and to continue implementing the structural reforms.

Government's agenda has five key goals. The President divided his report into the same five areas he presented in the *National Development Plan* at the beginning of his administration: (1) *A peaceful Mexico*, which includes actions in terms of security and Mexico's Rule of Law; (2) *Mexico towards equal opportunities*; (3) *Quality of education*; (4) *A prosperous Mexico*, with details on the government's economic strategy; and (5) *A globally-responsible Mexico*, including his foreign policy strategy.

A peaceful Mexico. President Peña Nieto mentioned that both violence and crime rates have declined. In this context, he highlighted that homicides decreased from 22.1% in 2012 to 16.4% in 2014, which was the lowest rate in the last 6 years. Moreover, allegations for robbery, extortion and kidnapping were significantly reduced by 13.6%, 20.7% and 30.1% respectively. In addition, 387 productive projects were implemented for young people who were victims of violence, while community networks were created in areas considered with “high crime rate”. The President also emphasized the creation of the *Criminal Investigation Agency* and the *National Gendarmerie*. Similarly, in terms of civil protection and disaster-prevention, the *MX Plan*, and the *National Warning System* were implemented.

Mexico towards equal opportunities. Within the social policies that the Federal Government created to combat poverty, President Peña Nieto highlighted the “*Pension Program for Elderly Adults*” and the “*Life Insurance Program for Women Householders*”, who benefits more than 5.5 million senior citizens and 5.7 million women. As for the social inclusion program “*PROSPERA*” the President mentioned that it has supported more than 6 million families.

Quality of education. In this regard, the President highlighted that the government is working towards the implementation of the *Educational Reform*. In the last three years, twenty thousand public institutions that were in poor conditions were improved thanks to the social programs funded by the current administration. Moreover, the Federal Government created the “*Youth Credit Program*”, where half of high school students and 25% of college students may qualify for a grant, in addition to provide economic resources for 3,800 entrepreneurial projects. In addition, the Ministry of Education has given more than 700,000 tablets in 6 states for students and teachers.

A globally-responsible Mexico. In terms of foreign policy, the President highlighted the expansion of the *International Gas Pipeline* between Mexico and the U.S., and the creation of the *International Rail Bridge* between Matamoros and Brownsville. Moreover, he also commented on the recent work prepared to strengthen Mexico’s economic ties with Latin America. In addition, Enrique Peña Nieto also mentioned the efforts to continue with the negotiations for the *Trans-Pacific Partnership*. Once approved by the legislatures of each of the signing nations, this commercial and political treaty will allow an immediate deduction of 92% of the international tariff imposed by its members. Regarding Mexico's trade relations with other economic areas, the President also highlighted the efforts to renew certain trade agreements. Similarly, he noted the greater confidence by foreign investors in our economy, which has been reflected in Mexico’s manufacturing sector, including the US\$ 6,500 million invested by Asian companies in the Mexican automotive industry.

A prosperous Mexico. This axis has revolved around two main objectives: Stability and economic growth. In both cases, the slower growth of the international economy, the high volatility in financial markets, and the sharp fall in commodity prices has affected Mexico's economy. In particular, the President explained that our public finances now face a major challenge given the unstable international situation. In this context, Enrique Peña Nieto pledged not to raise taxes or increase Mexico's public debt. The reduction in oil revenues would be faced through a reduction of public expenditure for 2016. The President also highlighted that the tax reform approved in 2014 has increased Mexico's revenues, and informality has fallen by 1.6%. In addition, Enrique Peña Nieto also mentioned that the correct implementation of the structural reforms package approved in the last three years will raise the productivity of Mexican workers. In this regard, the *Labor Reform* has allowed the orderly transition to formal employment. In addition, the *Financial Reform* has also increased the credit supply and has reduced the interest rates for various credit instruments. Similarly, the *Telecommunications Reform* has reduced the cost of such services for consumers, while investments made in this sector amount more than US\$ 15 billion. Finally, the *Energy Reform* has resulted in 6 new pipelines with the participation of private investments. Moreover, two of the 14 blocks (14.3%) tendered in *Round 1* were allocated. The *Energy Reform* has also resulted in the creation of a wholesale electricity market, which will further reduce electricity rates to generate savings for households and firms.

Ten measures to improve the second half of his administration. President Enrique Peña Nieto also announced 10 additional measures that will be conducted during the following months, which are summarized in the following table. In particular, we highlighted that the 2016 *Economic Package* will be focused on the Mexican welfare. Similarly, the President explained that the *Economic Package* will have severe austerity measures that will generate savings, and the investment projects that will be contemplated within this package will be focused to increase productive activities. It will also significantly reduce the public sector current spending.

Ten measures to improve the second half of Peña Nieto's administration

- 1 Promote laws necessary to strengthen the Rule of Law
 - 2 Create a new set of laws to warrant the "daily national justice"
 - 3 Promoting development of the most undeveloped regions, to combat poverty and inequality
 - 4 Support productive activities in rural and marginalized areas
 - 5 Higher renewal in educational infrastructure
 - 6 Strengthening of the young people capacity to compete and succeed in a more integrated world
 - 7 The creation of the Ministry of Culture
 - 8 Maintain macroeconomic stability to protect the welfare of Mexican families
 - 9 Accelerate the development of infrastructure projects, including in the energy sector
 - 10 Austerity budget
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Source: Mexico's Presidency

Mexico's *Economic Package* will be presented on September 8th. According to the Fiscal Responsibility and Budget Law, the government will submit to Congress, the so-called *Economic Package*, which includes the *Revenue Law*, the *Spending Budget* and the *General Economic Policy Guidelines*. The Lower-House has until October 20 to approve the *Revenue Law* while the Senate has until October 31. In terms of the spending budget, it is reviewed only by the Lower-House, which has until November 15 to approve it. In this regard, President Peña Nieto announced that the *2016 Economic Package* will be presented on Tuesday.

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