

## MEXICO

### Priorities supported by indicators

#### **Raise achievement in primary and secondary education (2007, 2009, 2011)**

**Recommendations:** Reallocate education funding to non-wage spending and improve the preparation and incentives for teachers to enhance students' learning outcomes.

**Actions taken:** The government has launched a programme in 2008 to progressively renovate and equip schools with computers. Since 2008 new teachers have been selected through a centralised exit exam and the government has started to implement a new incentive scheme focusing on teacher performance in 2010. Within education funding, non-wage expenditure increased by 24% in real terms between 2007 and 2010, whereas wage expenditure increased by 4%.

#### **Reduce barriers to entry in network industries (2007, 2009, 2011)**

**Recommendations:** Increase competition, in particular in the main network industries.

**Actions taken:** The 2011 competition policy reform increases fines and the scope for criminal prosecution for individuals engaged in collusion. The government auctioned part of the radio spectrum and a fibre-optic network in 2010.

#### **Reduce barriers to foreign ownership (2007, 2009, 2011)**

**Recommendations:** Ease restrictions on foreign direct investment in services and infrastructure, especially in the electricity sector and fixed line telephony.

**Actions taken:** The lower chamber of congress approved a law in 2008 reducing ownership restrictions in telecommunications. Approval in the upper chamber is pending.

### Other key priorities

#### **Improve the "rule of law" (2007, 2009, 2011)**

**Recommendations:** Improve the rule of law by clarifying property rights and ensuring more predictable and effective law enforcement.

**Actions taken:** In 2011 the Supreme Court decided that telecommunication companies can no longer ignore rulings of the regulator on interconnection charges while challenging these in court.

#### **Reform the state-owned oil company (2009, 2011)**

**Recommendations:** Improve the governance and operating efficiency of PEMEX, the national oil company, by lifting investment constraints and strengthening accountability. Ease risk and profit sharing partnerships with other companies so as to facilitate access to technologies.

**Actions taken:** Since the Supreme Court approved in 2010 a reform launched by the government in 2008, PEMEX can now pay cash incentives to subcontractors, facilitating investment in the oil sector. The auction of the first incentive contracts between PEMEX and the private sector was concluded successfully in August 2011. However, PEMEX cannot share profits or property rights for hydrocarbons.

#### **Reform the tax system (2007)**

**Recommendations:** Simplify the system and broaden the tax base by limiting exemptions and preferential regimes to efficiently finance growth-enhancing investments.

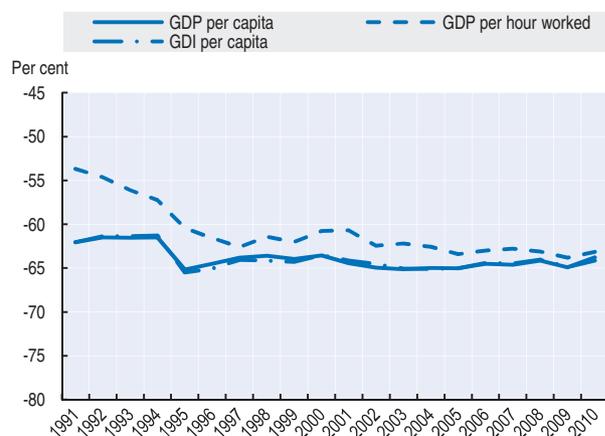
**Actions taken:** The government introduced a minimum tax on businesses (Impuesto Empresarial a Tasa Unica, IETU) in 2007, which closes tax loopholes to some extent. The government increased the VAT rate along with other taxes in 2010, although without broadening the tax base.

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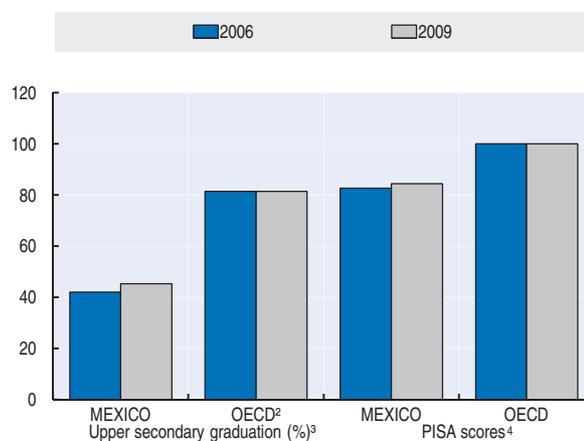
- The wide income gap with the leading OECD economies is mainly due to low productivity, which has grown too slowly for catch-up in recent years.
- Among key priority areas, Mexico has made significant progress in aligning its competition policy framework with international best practice, but little action has been taken to ensure the efficiency of judicial procedures. Reforms have also been carried out to improve the quality of education and the tax structure. Progress in reducing barriers to foreign investment has been limited.
- Outside priority areas, Congress is debating a labour reform proposal that would reduce the cost of court procedures after dismissal and introduce probationary and training periods. The government also introduced a tax break for employers hiring workers who enter the formal economy for the first time. The well-targeted cash transfer programme, Oportunidades, is being expanded to further reduce high poverty and inequality.

## Performance and policy indicators

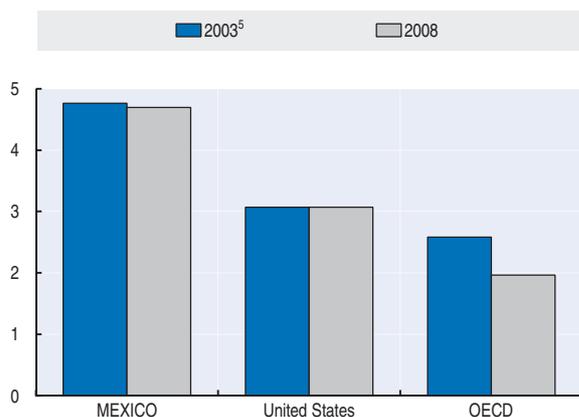
**A. Gaps in GDP per capita and productivity are wide and persistent**  
Gap to the upper half of OECD countries<sup>1</sup>



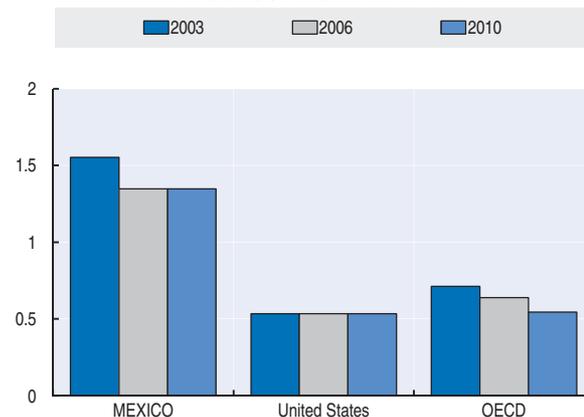
**B. Upper secondary school graduation and achievement have improved only little**



**C. Barriers to entry in network sectors remain high**  
Index scale of 0-6 from least to most restrictive



**D. Barriers to foreign ownership have been reduced but could be lowered further<sup>6</sup>**  
Index scale of 0-6 from least to most restrictive



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).
  2. Average of OECD countries excluding Australia, Austria, Belgium, Estonia, France and the Netherlands.
  3. First-time graduation rates for single year of age at upper secondary level.
  4. Average score of student performance in mathematics, science and reading. Index OECD = 100.
  5. The OECD average excludes Chile, Estonia, Israel and Slovenia.
  6. The OECD FDI regulatory restrictiveness index looks only at statutory restrictions and does not assess the manner in which they are implemented.
- Source: Chart A: OECD, *National Accounts and Economic Outlook No. 90 Databases*; Chart B: OECD (2011), *Education at a Glance* and OECD, *PISA 2009 Database*; Chart C: OECD, *Product Market Regulation Database*; Chart D: <http://www.oecd.org/investment/index>.

StatLink  <http://dx.doi.org/10.1787/888932565566>