



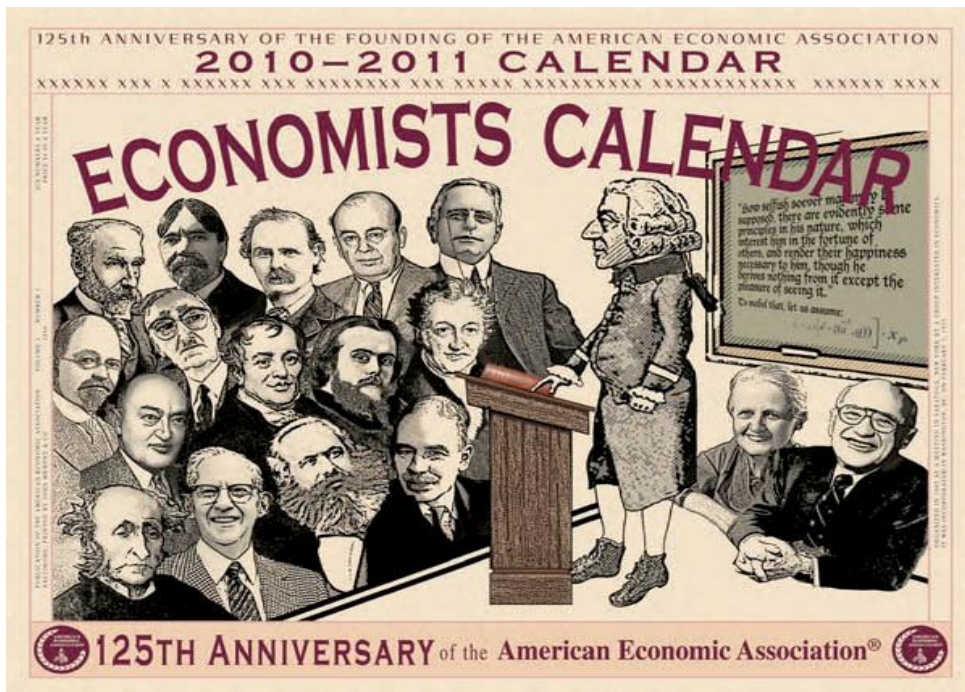
I Mexico's Economy

II Reforms:

**Telecommunications
& Energy**

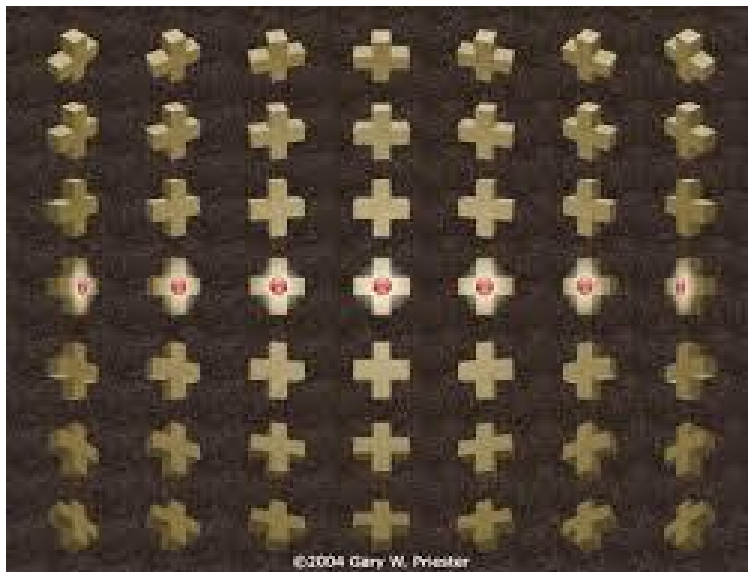
Danhos Day, January 15th 2015

The AEA was created 129 years ago & the ONLY concepts we are still unable to predict are:



GDP Growth
Exchange Rates
Interest Rates
Inflation
Employment
Indexes of any sort
Crises

With such a professional track record I will limit comments to Mexico's plusses and structural reforms



Telecomm and Energy

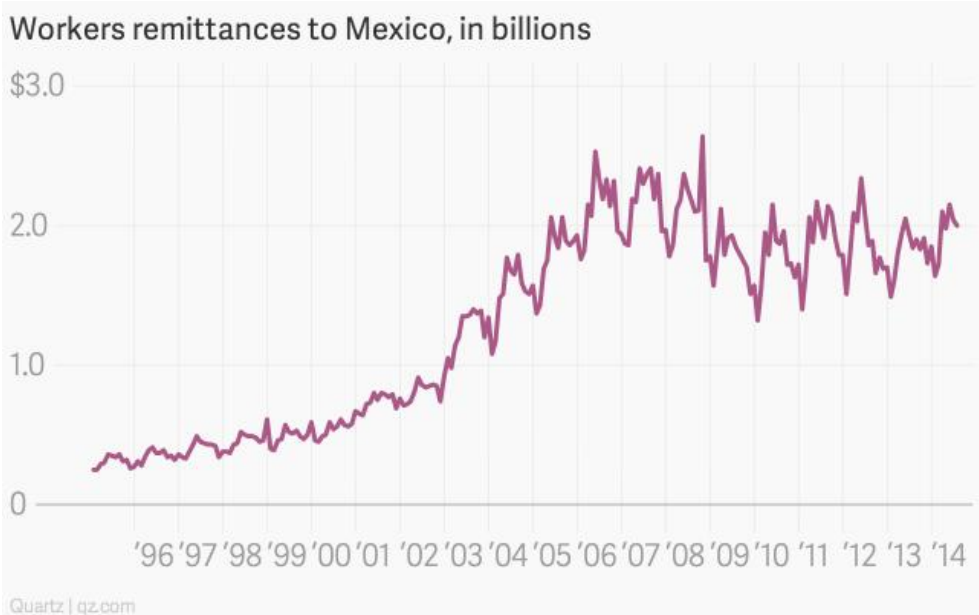
Mexican Economy Plusses (Many)

Overflowing dams: Electricity & Agriculture



Plusses of the Mexican Economy (Many)

Remittances holding up



Plusses of the Mexican Economy (Many)

Formal employment: 714,000 jobs & 4.3% growth



Plusses of the Mexican Economy (Many)

Tourism: 20% growth, highest for LA.
Record 26 million visitors



Murals in Kalakmul



Industrial & Intellectual Hubs

- Aguascalientes
- Durango (New)
- Guadalajara
- Juárez
- Mazatlán (New)
- México City
- Monterrey
- Puebla
- Querétaro
- Saltillo
- San Luis Potosí
- Tijuana
- Toluca



Strong competitiveness even before weaker peso 40% of all LA exports, 5% growth



Stability: 4% low inflation within CB targets
No pass through from ER

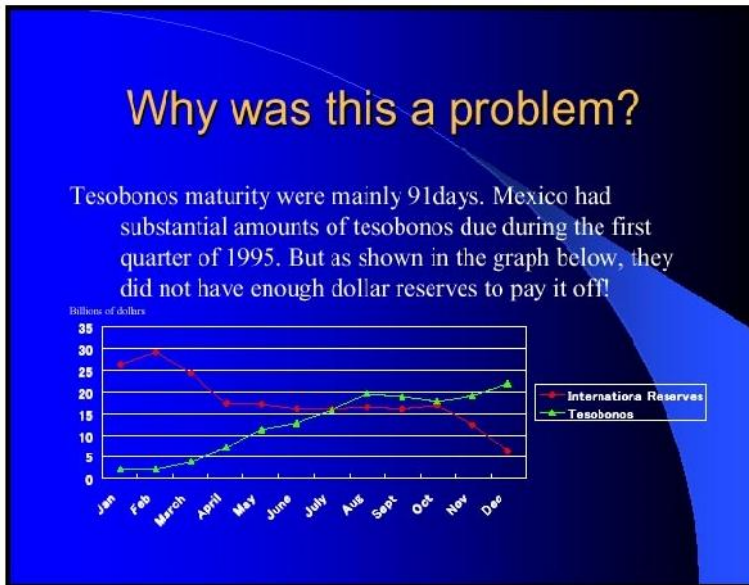


Is our monetary arrangement stable?

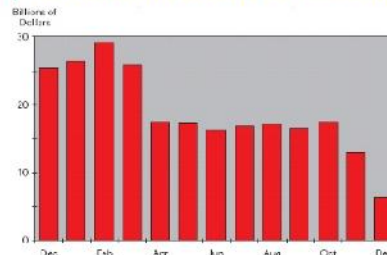
2 EXTREME SITUATIONS

I Before: A fragile and explosive combination

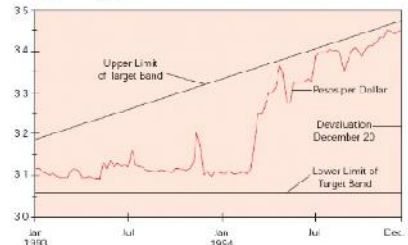
As the 1994 crisis neared: Dollar linked Tesobonos and overnight paper



The International Reserves and Exchange Rate (Problem Summary)



1. From 1990 to 1993 Mexico received 1/3 of all global portfolio inflows (second to China). About \$75B.
2. Exchange rate dep. 10% within a band in the 1st 1/2 of 1994.
3. Bank used inflows for consumer lending (55% non-performing!). More than 1/2 of the nation's loans written off.
4. **Additional Problem:** External Shock in the form of an increase in US interest rates (i.e. reversal of inflows)



1. Capital inflow dried up and Mexico's wealthy moved their money out.
2. Then, government borrowed dollars via short-term dollar denominated debt (i.e. Tesobonos = US Treasury Notes)
3. Devalue the peso by another 15% by Dec. 20, 1994. Peso devaluated 50% by Jan. 1995.

Source: Banco de Mexico; Federal Reserve Bank (Atlanta); IMF (Latham Reviews - 2003)

Is our monetary arrangement stable?

II Today: an elastic and self corrective combination

Int. Rves.1US\$92 BMM



Exchange Rate

Fixed



Floating



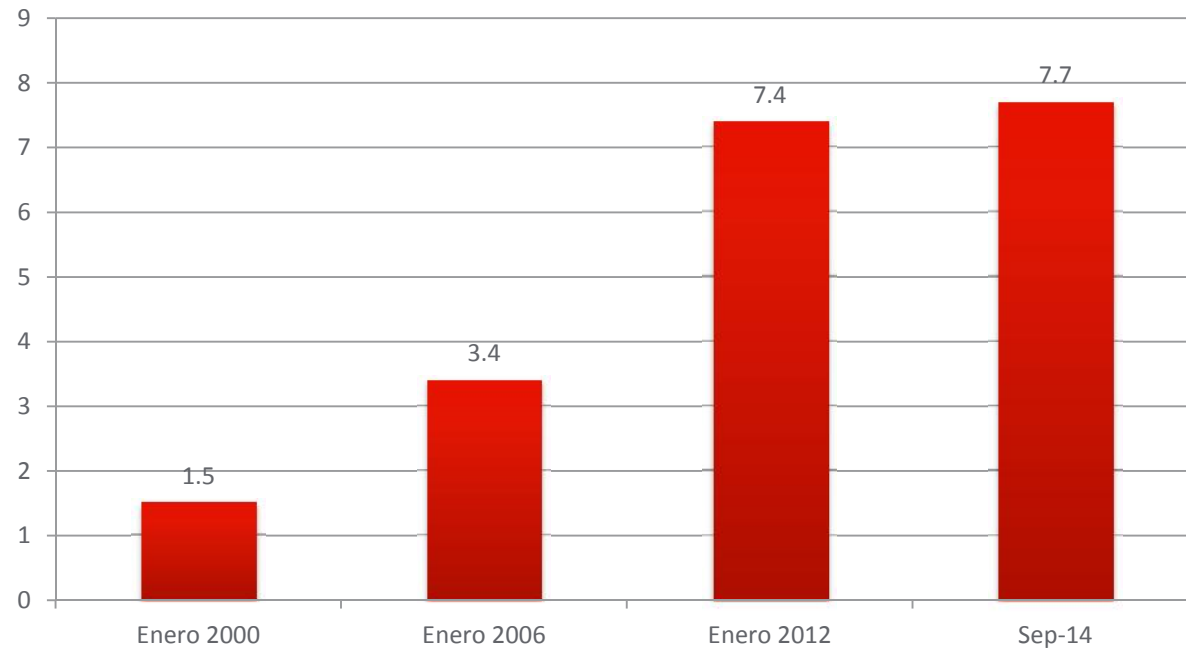
Is our monetary arrangement stable?

There are 2 bellows today



Is our monetary arrangement stable?

Average maturity of public debt



Is our monetary arrangement stable?

The large share of foreign residents holding Mexican paper is said to represent a risk

“Al depender cada vez más del ahorro de los extranjeros para adquirir valores de deuda gubernamental, los dólares que ahora fluyen como río caudaloso a nuestro país para aprovechar el diferencial de tasas, entre otras cosas, algún día querrán llevárselos de nuevo cuenta a sus lugares de origen, con la consiguiente presión alcista sobre el tipo de cambio del peso con el dólar y la caída en la disponibilidad de recursos para el financiamiento”. En “EL FINANCIERO”



International Reserves

193 BILLION



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Is our monetary arrangement stable?

The volatility or stability of the Mexican Financial Market



Has it been a devaluation of the peso or a dollar appreciation?



Argentina 20%



Euro 13.5%



UK 7%



Brazil 13%

Japan 17.6%



Mexico 12%





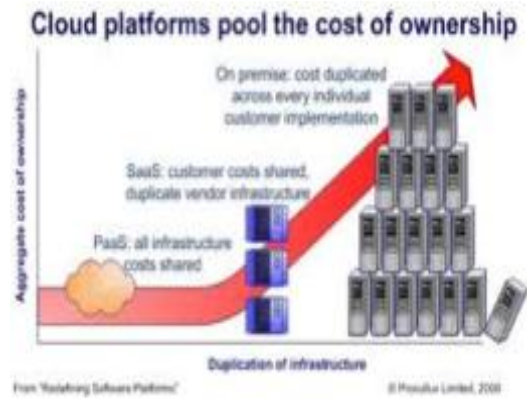
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TELECOMMUNICATIONS REFORM

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The New Act

Better infrastructure sharing



Asymmetric Interconnection

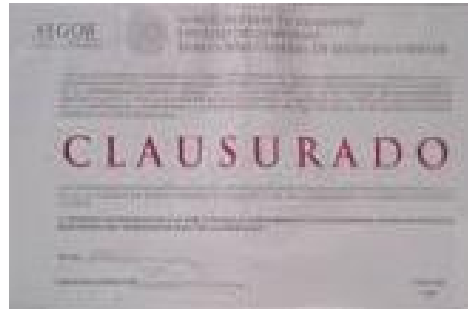


Dominant must rent and connect



Access to public buildings & infrastructure

Paperwork



- Municipal construction permits



- Backbones are now “Public Interest Assets”
- Municipal controversies: to special courts
- IFT will celebrate agreements with municipalities



Paperwork



**Elimination of the
Double
Window**



- IFT gathers the attributions of COFETEL, COFECO and SCT
- Commissioners have to abstain when conflict of interest
 - IFT has to abide by new rules of transparency



Optimal Use of Spectrum



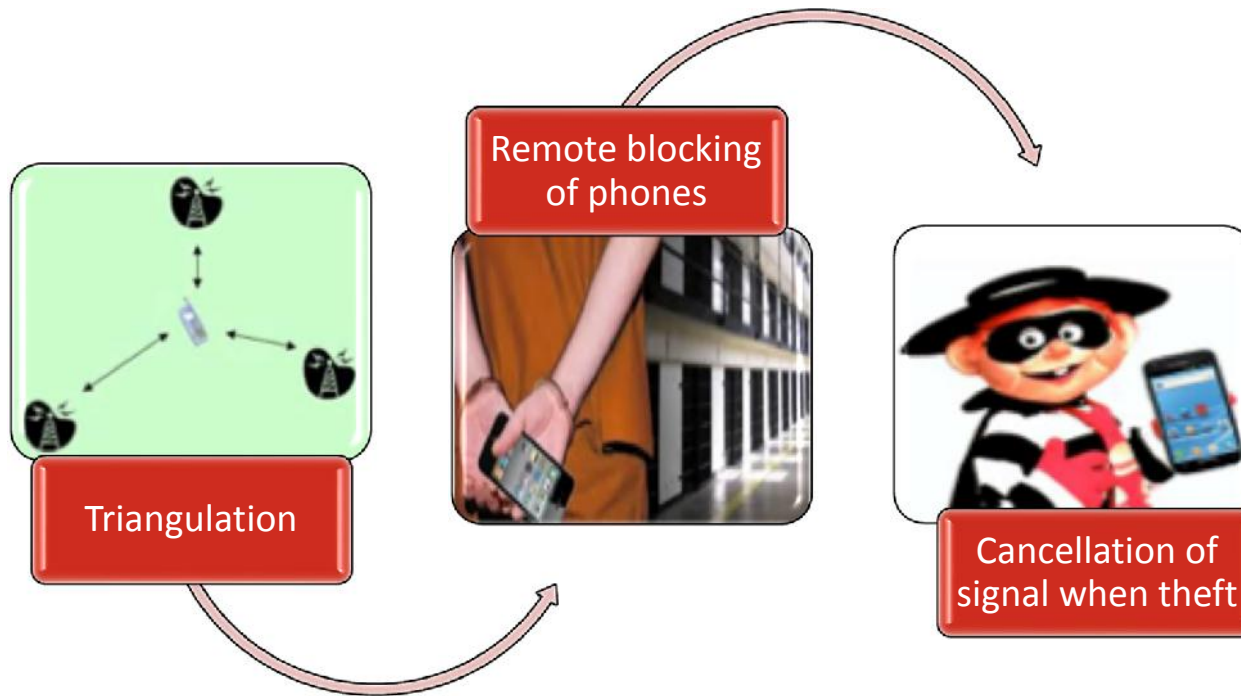
Re Farming



Implicit approval of Concessions (180 days)



Security



Telecommunications



No more national long distance charges



Unbundling and other measures

Bucle completamente desagregado

- Telefónica cede el uso del par de cobre al Operador Autorizado, tanto para las bajas como para las altas frecuencias.
- Telefónica es todavía propietaria del cobre
- El operador autorizado tiene acceso físico al usuario final

Con el fallo del IFT...

TELEVISA

- » **Tiene prohibido** adquirir en exclusiva derechos de transmisión como la final del mundial de futbol y liguitas de futbol mexicano.
- » **Debe compartir** torres, fuentes de energía, mástiles, etc.

TELMEX-TELCEL

- » **Tiene prohibido** realizar cargos por el servicio de roaming nacional.
- » **Debe permitir** a otros operadores usar sus redes telefónicas para brindar servicios de voz y datos.



Unbundling of the local loop

Accounting Separation



	Retail Price	Access Costs	%
Local service	\$88.99	\$80.47	90
Domestic long distance	\$0.10	\$0.02	20
International calls	\$0.21	\$0.01	5
Fixed-mobile	\$0.35	\$0.01	3
ADSL	\$149.48	\$49.96	33

1.- ¿Why regulate?
¿What for cost accounting?



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ENERGY

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New Rules for Third Parties

5 Contracts

