

## METHODOLOGICAL SYNTHESIS ON ACCOUNTING DIRECT FOREIGN INVESTMENT FLOW INTO MEXICO

The methodology to measure and publicize direct foreign investments (FDI) flow into Mexico was developed jointly by the Secretariat of Economy (SE) and the Central Bank of Mexico (Banco de México), following the recommendations of two international organizations and their respective documents:

- **International Monetary Fund (IMF).** Balance of Payments Manual, Fifth Edition (BPM5) Chapter XVIII, published in 1993.
- **Organization for Economic Co-operation and Development (OECD).** Benchmark Definition of Foreign Direct Investment. Fourth edition (BD4), published in 2008.

### 1. Information sources

According to the Foreign Investment Law (LIE, by its initials in Spanish) and the Regulations of the Law on Foreign Investment and the National Foreign Investment Registry, there are entities that must register with the National Foreign Investment Registry (RNIE, by its initials in Spanish):

- Mexican firms with foreign equity capital<sup>1</sup>.
- Foreign Individuals or legal entities that regularly perform trade acts in Mexico.
- Trusts through which arise rights in favor of foreign investors.

These mentioned entities are required to give periodic reports to the RNIE. With respect to the required periodic reports, RNIE compiles information and generates statistics on FDI based on applicable methodological criteria. It is important to note that only movements formally notified to the RNIE are considered as FDI.

### 2. Transactions that are considered FDI

According to the BD4 and BPM5, FDI is a category of cross-border investment made by a resident abroad (direct investor) in a Mexican firm or assets located in national territory (direct investment enterprise) with the aim of establishing a lasting interest. Through this investment, the direct investor seeks to exercise a significant degree of influence on the direct investment enterprise. By its nature, FDI can generate permanent funding relationships and technology transfer in order to maximize production and profits of the direct investment enterprise.

FDI is broken into three sections corresponding to the funding sources: Equity investment, reinvested earnings and intercompany debt transactions.

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<sup>1</sup> According to the article 2, fraction II of the LIE, foreign investment is a) Participation by foreign investors, in any percentage, in the capital stock of Mexican companies; b) Investments by Mexican companies in which foreign capital has majority interest; and c) Participation by foreign investors in activities and acts contemplated herein.

## **2.1 Equity investment**

Corresponds to FDI inflows associated with:

- Initial investment made by foreign individuals or foreign firms as they settle in Mexico; these investments include fixed assets and working capital to the usual performance of trade acts in Mexico.
- Contribution to equity capital of Mexican firms by direct investors (initial or increases).
- Transfer of shares by Mexican investors to FDI.
- Initial amount of the compensation in the trusts that conferred rights on FDI.

## **2.2 Reinvested earnings**

Portions of the earnings are not distributed as dividends and considered FDI because it represents an increase in capital resources owned by the foreign investor.

## **2.3 inter-company debt transactions**

Transactions originated by debts among Mexican companies with FDI in their equity capital and other related companies resident abroad. According to the BD4, related companies are those that belong to the same corporate group.

## **3. Other disarrangements**

In addition, FDI flows are broken down by source country, industry and federal entity of FDI destination.

### **3.1 Source country**

FDI is classified by source country depending on the origin of the resources, and not necessarily by the nationality of the direct investor. To this end, the country in which the direct investor resides is identified.

### **3.2 Industry**

The main activity of the direct investment enterprise determines the industry of FDI. In the case of trusts, assignment of industry is fulfilled according to its purpose. To this end, the 2007 version of the North American Industry Classification System (NAICS, 2007) applies.

### **3.3 Federal Entity of Destination**

Until the third quarter of 2012, the geographic information of FDI concerned the federal entity where the address of the plant or main office of each company was located and not necessarily to the federal entity where resources were applied. From the fourth quarter of 2012, companies can estimate and report the percentage distribution of FDI flows in the federal entities. If companies do not report this geographical distribution of investments, FDI is assigned where the plant or main office is located, as was done previously.

#### **4. Unit of measure**

Information sources report their movements to RNIE in current pesos. International convention determines that the conversion must be made to current US dollars at the exchange rate of the receptor country of FDI in order to make comparisons among countries. In Mexico, the RNIE uses the exchange rate to settle liabilities denominated in US dollars. Exchange rates published by Banco de México in the Official Federal Gazette on the banking day immediately following its determination<sup>2</sup> apply according to the date of each FDI materialized movement.

#### **5. Periodicity**

Information is published quarterly and disclosed no later than 55 calendar days after the close of each quarter. The closing date for publication is the 25th of the months including February, May, August and November; information of the immediately preceding quarter and correspondent updates for all previous quarters since 1999 are published.

#### **6. Availability**

The data constructed with this methodology are comparable and available on the website of SE.<sup>3</sup>

Information is available from the first quarter of 1999 to the last quarter reported.

Also historical data is available from the first quarter of 1980 to the fourth quarter of 1998. This information was generated under a different methodology and is not updated, so it is not comparable with the data generated from the first quarter of 1999.

#### **7. Confidentiality**

The LIE sets that the RNIE is not a public Register. The information received by RNIE is classified, when applicable, as reserved or confidential according to the Federal Law of Transparency and Access to Public Government Information. Therefore, information of the individual companies cannot be delivered unless in aggregate form.

#### **8. Updates**

The figures are preliminary because some reports to RNIE were delivered with delays accounting for the dates of the investments. Quarterly figures of FDI are updated in every report and these updates can affect the entire period since 1999. Thus, the figure reported as FDI in a given period is not definitive, due to succeeding updates to the extent that the RNIE receives notifications of the remaining investments in that period. The BD4 contemplates and recommends performing the aforementioned updates for all countries that follow its methodology.

It should be noted that the more substantial updates occur in the recent quarters and tend to decrease significantly in the older quarters. For practical purposes figures can be considered definitive following 12 quarters after they have been publicized.

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<sup>2</sup> Also known as FIX exchange rate

<sup>3</sup> <http://www.economia.gob.mx/trade-and-investment/foreign-direct-investment/official-statistics-on-dfi-flows-into-mexico>