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On May 4, the federal government and a group of commercial banks formalized an agreement to restructure loans for state and municipal governments. In announcing the new restructuring program, Finance Secretariat (SHCP) spokesman Alejandro Valenzuela said President Ernesto Zedillo's administration has allocated almost 17.4 billion nuevo pesos (US$2.97 billion) to help city and state governments renegotiate their debts over 20 years at lower interest rates. Valenzuela said the program is essentially an extension of a recently announced plan created to help renegotiate debts for agricultural producers and companies, and at the same time create a new mechanism for banks to cope with the growing problems of overdue debt. Under the program, loan principal and interest rates will be denominated in investment units (unidades de inversion, UDIs), which would remain constant in real terms.

The UDIs were created to provide some certainty for debtors by restructuring debt payments at a more stable interest rate, whereby the index would be tied to a daily inflation index, rather than to volatile markets. Valenzuela said repayment periods under the program will be tailored to the needs of the local and state governments, although most repayment terms will vary from five to eight years. The eligible municipal and state governments will be allowed to restructure as much as 100% of any debt owed to banks as of March 1995. On the other hand, Valenzuela noted the program will be restricted to debts incurred for projects that had been registered with the SHCP as of March 31, 1995. Most of these projects dealt with infrastructure development or other public investments.

Mexican states have traditionally relied on the federal government for 80% of their operating funds. This year, the federal spending on states has been reduced by an average of 14%, due in part to President Zedillo's promise to reduce government spending in exchange for loan guarantees from the US and multilateral lending institutions. "The greatest problem facing states is that most of their obligations represent long-term debt that was incurred for infrastructure projects or other productive activities," said Valenzuela. "This is the debt that almost certainly will require some form of restructuring." According to the New York Times, the total debt of Mexico's 31 states is estimated at about 23 billion nuevo pesos (US$3.9 billion). According to the Zedillo administration, the program is open to all state and municipal governments, but priority will be given to those states that are facing the greatest liquidity problems. High interest rates have created financial difficulties for virtually all of the Mexican states.

Some entities, like the industrial states of Nuevo Leon and Jalisco, are dangerously close to bankruptcy. Indeed, a report released by the opposition National Action Party (PAN) in April contained a list of states facing insurmountable debt problems. In addition to Jalisco and Nuevo Leon, the list included the states of Mexico, Queretaro, Chiapas, Durango, Baja California, and Sonora (see SourceMex, 04/26/95). In response to the report, President Zedillo promised both members of the PAN and of his own party that the debt problems of states and cities would be

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addressed. The program announced in early May is one element of the administration's response. "If we reduce the risk of bankruptcy, then state and local officials can place a higher priority on development and social needs," Zedillo said in a May 4 speech after his assistance program was unveiled.

For his part, Jesus Reyes Heroles, director of the national public works bank (Banco Nacional de Obras y Servicios, Banobras), said the institution has signed separate agreements from the UDI restructuring program with the state governments of Queretaro, Nuevo Leon, Sinaloa, Mexico state, and Baja California. Under that agreement, states will be able to restructure their debt obligations with Banobras in exchange for taking steps to balance their budgets and privatizing non-essential state-owned properties. The UDI program is just as much an effort to help private businesses and state and local governments as it is an effort to keep the banking system afloat. In another step to help the banking sector, in April the administration announced the start of negotiations with foreign banks to obtain up to US$1.5 billion to help shore up the financial situation of Mexican banks and other institutions. This year, the Zedillo administration has already obtained special financial assistance from multilateral institutions and commercial banks to help shore up the banking sector. In fact, the special capitalization program (Programa Temporal de Capacitacion, Procapte) was created principally through a loan of US$3.25 billion provided by the Inter- American Development Bank (IDB) and the World Bank (see SourceMex, 03/15/95 and 04/12/95).

The government in recent weeks has also taken steps to help renegotiate other types of consumer debts. For example, in late April, Javier Gavito, vice president of the Mexican banking and securities commission (Comision Nacional Bancaria y de Valores, CNBV) told reporters that a program to restructure real estate debt was due to begin in mid-May. The program will make available about 32.6 billion nuevo pesos (US$5.57 billion). Many property owners have defaulted on their loans after interest rates surged as high as 140% following the devaluation. According to newspaper reports, the restructuring of real estate loans is also aimed at reactivating the home construction industry, which has been among the hardest-hit sectors during the Mexican economic crisis. Under the program, commercial banks will reduce interest rates and extend the payment period for debtors. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on May 4, reported at 5.85 nuevo pesos per US$1.00] (Sources: United Press International, 04/28/95; Associated Press, La Jornada, Agence France-Presse, 05/04/95; Reforma, 05/04/95, 05/05/95; Excelsior, Notimex, 05/05/95; New York Times, 05/10/95)

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