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LADB Staff

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In response to complaints from governors, mayors, and other local officials, President Ernesto Zedillo's administration has announced a series of steps to assist municipal and state governments address their growing economic problems. In late July, at a meeting of treasury and finance officials from Mexico's 31 states and from several cities, deputy finance secretary Pedro Noyola announced a four-point program to coordinate tax collections and distribution of tax revenues among the municipal, state, and federal governments. The measures include a proposal allowing state and municipal governments to assume some of the tax collection functions previously reserved for the federal government. "Our purpose is not to increase taxes, but to ensure that state and local government's receive a greater share of the taxes," one state official told Agence France-Presse. Under this proposal, state and local governments would also receive greater freedom to determine how this tax money would be used.

Noyola said the Zedillo administration also promised to transfer a greater share of federal tax revenues to local and state governments. This includes transferring a portion of the money obtained by the increase in the value-added tax (impuesto al valor agregado, IVA), which was announced in March and enacted in April of this year (see SourceMex, 03/15/95). Some of the proposals such as transferring some responsibility for tax collections to state and municipal governments to enact new taxes must still be approved by the federal Chamber of Deputies and the Senate. In announcing a "new federalism," members of President Ernesto Zedillo's cabinet acknowledged that growing liquidity problems at the state and local level are in large part the result of high interest rates.

Indeed, a report released in July by the government's public works lender Banco Nacional de Obras y Servicios Publicos (Banobras) attributed the growing liquidity problems for state and local governments to their debt problems. According to the report, the debt owed by state and local governments through the middle of this year reached 26.4 billion nuevo pesos (US$4.3 billion), an increase of more than 1,200% over the past six years. According to the Banobras report, state and city governments are being forced to pay annually at least 15 billion nuevo pesos (US$2.4 billion) to service their debt. This amount represents an average of 28% of the total revenues received by states. To help deal with the problem, Banobras endorsed the request by state and municipal governments that federal tax revenues be distributed in more equitable and efficient manner to city and state governments. Additionally, in late July Banobras announced a resumption of its financing program for state and municipal projects that were suspended or delayed due to the surge in interest rates following the devaluation of the peso. Banobras is also exploring the possibility of assuming financing for public housing projects that were abandoned because contractors were not able to pay commercial banks.

Separately, Jonathan Davis Arzac, an official with the Finance Secretariat (SHCP), estimated that one-fourth of the state governments have overdue debts with commercial banks. "Some of the

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states became overindebted for several social and political reasons, such as poor administration or excessive construction of infrastructure," said Davis. "But for the majority of the cases, high interest is the problem." Davis said even the government's recently enacted program to restructure debt via investment units (unidades de inversion, UDIs) is apparently not helping the liquidity problems of some state governments because interest rates remain excessive. The UDI program for states was announced in early May of this year (see SourceMex, 05/10/95). Another measure announced by the Zedillo administration this summer was an agreement to raise the portion of crossing fees allocated to 14 border cities to 25% from the current 10%, providing at least 28 million nuevo pesos (US$4.6 million) for local budgets. The announcement followed a meeting in Mexico City with representatives from Ciudad Juarez, Reynosa, Matamoros, Camargo, Ciudad Acuna, Rio Bravo, Nuevo Laredo, Ciudad Aleman, Piedras Negras, Ojinaga and Ciudad Hidalgo. All of the cities except Ciudad Hidalgo are located across the Rio Grande from Texas. Ciudad Hidalgo is adjacent to Ciudad Tecum Uman, Guatemala.

Statistics from the federal bridges and roads department (Caminos y Puentes Federales, Capufe), show that crossing fees obtained at the 13 points bordering Texas reached 186.3 million nuevo pesos (US$30.4 million) in 1994. According to the Zedillo administration, if 25% of 1994 collections were allocated to the border cities, then those cities would have collectively received about 46.5 billion nuevo pesos (US$7.4 million), compared with 18.6 million nuevo pesos (US$2.9 million) that they received in 1994. The mayors of the 14 cities welcomed the Zedillo administration's commitment to increase their share of the revenue. However, they said they were disappointed that a greater share was not allocated for their governments. For example, Mayor Horacio Garza of Nuevo Laredo protested the Zedillo administration's plan to provide 25% of the border crossing fees to state governments. According to Garza, the entire allocation should be channeled to the municipal governments at each of the border cities.

Mayor Francisco Villarreal Torres of Ciudad Juarez took the protest even further by staging a hunger strike in early August. Villarreal, a member of the opposition National Action Party (PAN), said the allocation of 25% is "insufficient." Additionally, he said he was protesting the federal government's recent decision to raise by 30% the crossing fees charged to residents of Ciudad Juarez. In early April, Villarreal gained notoriety with his decision to set up three municipal collection booths near the El Paso del Norte bridge, placing the city in direct competition with federal toll booths. The federal government sent federal troops to dismantle the Juarez toll booths (see SourceMex, 04/26/95).

The protests by the border city mayors appear to have found a sympathetic ear among federal legislators. The Senate finance committee (Comision de Hacienda) and the budget committee (Comision de Presupuesto y Cuenta Publica) in the Chamber of Deputies issued a joint statement endorsing the petition by the border mayors to allocate 100% of all crossing fees to border cities. Furthermore, the respective chairpersons of the two committees, Sen. Carlos Sales and Deputy Antonio Sanchez Goicochea both members of the governing PRI promised to bring up the issue when budget matters are discussed in the next legislative session. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Aug. 8, reported at 6.13 pesos per US$1.00] (Sources: Notimex, Reforma, 07/27/95; La Jornada, 07/14/95, 07/26/95, 07/28/95, 08/03/95, 08/04/95; El Nacional, 08/07/95)

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