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Recommended Citation

LADB Staff. "Mexico News Briefs: Debt Repayment, Tax Aid, Privatizations, Fuel Subsidies." (1997). https://digitalrepository.unm.edu/sourcemex/3776

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LADB Article Id: 55119
ISSN: 1054-8890

Mexico News Briefs: Debt Repayment, Tax Aid, Privatizations, Fuel Subsidies

by LADB Staff
Category/Department: Mexico
Published: 1997-08-06

Mexico announces advance debt payment of US$6 billion

'In early August, the Mexican government announced plans to pay off US$6 billion in short-term obligations to foreign investors before those bonds are scheduled to mature. According to the Secretaria de Hacienda y Credito Publico (SHCP), the early repayment is compatible with President Ernesto Zedillo's economic development plan (Programa Nacional de Financiamiento para el Desarrollo, PRONAFIDE), whose goal is to lengthen debt maturities to ease repayment obligations, while reducing interest rates.

With the early repayment, the average debt maturity for government bonds still held by investors has been extended to about seven years, compared with the previous average maturity of two to three years. In addition, the government will now be paying interest rates of about 8%, compared with a previous 8.4%, which will result in savings of nearly US$25 million for the Mexican Treasury.

According to Finance Secretary Guillermo Ortiz, the repayment will not increase the government's public debt. The funds for repayment were raised primarily through the issue of bonds on European and Asian financial markets at favorable interest rates. Furthermore, Ortiz said, the early repayment allows the government to recover full control over its oil-export revenues, since these were the last remaining bonds for which oil revenues were being used as collateral.

The government had previously used crude-oil revenue as collateral for an emergency loan provided by the US Treasury to help ease the impact of the peso devaluation in 1994 and the ensuing economic crisis. In January of this year, the Mexican government paid the US government in full for that loan (see SourceMex, 01/22/97).

Meanwhile, the daily newspaper La Jornada suggested that, rather than paying off the loan early, the government could have used the funds for other purposes. For example, La Jornada noted that the funds used to pay the bond were US$2.6 billion higher than the budget for the Secretaria de Educacion Publica (SEP). La Jornada said the repayment funds also represented about US$342 million more than the total amount of money budgeted this year for four key secretariats and state poverty-alleviation programs. The four secretariats are the SHCP; the Secretaria de Defensa Nacional (SEDENA); the Secretaria del Medio Ambiente, Recursos Naturales y Pesca (SEMARNAP); and the Secretaria de Trabajo y Prevision Social (STPS).

Finance Secretariat extends sign-up period for tax program

In late July, the SHCP announced a five-month extension in the deadline for enrollment in the Programa de Apoyo a Deudores del Fisco (PROAFI), which was developed to help businesses payoff overdue federal taxes. The deadline was originally due to expire at the end of July, but was

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extended until the end of December because of requests from four major business organizations: the Consejo Coordinador Empresarial (CCE), the Camara Nacional de la Industria de Transformacion (CANCINTRA), the Confederacion de Camaras Nacionales de Comercio (CONCANACO), and the Confederacion de Camaras Industriales (CONCAMIN). Among other things, PROAFI allows businesses to extend their tax payments over a six-year period at reduced interest rates. In some cases, the government will reduce the tax liability for a business by as much as 35%. "We extended the deadline to allow many businesses, which are still facing liquidity problems, to stabilize their financial situation," said Finance Secretary Ortiz.

For his part, CCE director Eduardo Bours said the extension will encourage many businesses to enroll in the program to renegotiate their overdue taxes. According to the SHCP, about 40,000 businesses with overdue taxes totaling about 1 billion pesos (US$128 million) had not enrolled in PROAFI as of the end of July.

Government moving ahead with port, satellite privatizations

During late July and early August, the Secretaria de Comunicaciones y Transporte announced regulations for privatization of several state-run properties under its jurisdiction, including Satelites Mexicanos (SatMex), and management of the tourism-related ports of Cancun and Puerto Vallarta.

In the case of SatMex which includes the Solidaridad I, Solidaridad II, and Morelos II satellites the government said concessions for a 60% share in the company will be awarded to consortia composed of Mexican and foreign companies. Under the regulations announced by the SCT, foreign participation in each consortium will be limited to 49%. In addition, the SCT will require that at least two Mexican companies participate in the joint ventures.

The SCT is scheduled to announce the concession in early November after reviewing economic and technical bids from all participants. Each interested consortium is required to submit a refundable deposit of 120 million pesos (US$15.45 million) by Aug. 29 to be eligible to participate. According to Jorge Silberstein, the SCT's director of privatizations, the foreign companies that have announced intentions to bid for the concessions include several prominent US-based firms, such as Hughes, Lockheed Martin, Loral, and General Electric.

Separately, the SCT said three companies have submitted bids for the concession to manage the port of Puerto Vallarta in Jalisco state. The bidders include Transportes Maritimos Mexicanos (TMM); the Mexico-based ICAVE, which is a subsidiary of the construction and engineering company Grupo ICA; and US- based Carnival Cruise Lines. According to the SCT, the Puerto Vallarta port management concession will be announced in mid- December. Puerto Vallarta, which is a popular destination for domestic and foreign tourists, is the third most popular destination among cruise ships docking at Mexican ports. Puerto Vallarta is surpassed only by Ensenada in Baja California and Cabo San Lucas in Baja California Sur.

During August, the SCT also announced plans to auction off the rights for construction of a major port complex at Cancun in Quintana Roo state. According to Emilio Gamboa Patron, director of the Fondo Nacional de Fomento al Turismo (FONATUR), the complex would be designed to handle

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some of the world's largest cruise ships. Construction of the Cancun port complex could take as long as five years.

PEMEX eliminates subsidies for liquified petroleum

According to the state-run news agency Notimex, the federal government plans to completely phase out price subsidies for liquid petroleum gas (LP) by the end of August. Under the production process, the state-run oil company PEMEX has traditionally acquired the raw materials and inputs to produce LP gas at high prices set by the international market and then sold the processed product at low costs.

PEMEX officials said a recent drop in the price of inputs has allowed the company to gradually phase out those subsidies during the first half of 1997. According to the PEMEX plan, the subsidies will be cut out completely even if the price of inputs increases in the second half of the year. "We must take advantage of this opportunity to relink the domestic price with its true economic value," said a PEMEX press release. According to Energy Secretary Jesus Reyes Heroles, the government has begun a series of meetings with industrial users to reduce the impact of higher LP gas prices. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Aug 6, reported at 7.77 pesos per US$1.00] (Sources: Novedades, 07/31/97; El Economista, 06/26/97, 07/11/97, 07/31/97, 08/01/97; Notimex, 08/02/97, 08/03/97; La Jornada, 08/01/97, 08/04/97; Reuter, 08/03/97, 08/04/97; The News, 08/04/97; El Universal, 07/22/97, 07/31/97, 08/01/97, 08/05/97; Excelsior, 08/01/97, 08/06/97)

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