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LADB Staff

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States may receive authority to collect taxes

The Secretaria de Hacienda y Credito Publico (SHCP) is considering a proposal to allow state and municipal governments to collect their own taxes to enhance their sources of revenue. Finance Secretary Jose Angel Gurria Trevino raised the possibility in a meeting with representatives from state governments in Boca del Rio, Veracruz state, in late August. Gurria said the federal government is studying this proposal because of the need for states to balance their budget. The finance secretary noted that the federal government has channeled 115 billion pesos (US$11.2 billion) in 1998 for social and educational programs managed by states and the Federal District.

An organization of state treasurers (Comision Permanente de Funcionarios Fiscales, CFPP) is pushing for states to be allowed to implement their own tax structures without affecting the federal value-added tax (impuesto al valor agregado, IVA), which is levied at the retail level. CFPP president Marcos Gonzalez Tejeda said the proposal would be developed in such a way that states would not have to compete for tax revenues. But David Colmenares, a financial expert at Universidad Nacional Autonoma de Mexico (UNAM), said states would be reluctant to initiate their own IVA, since this could cause a backlash among voters.

Colmenares recommended two solutions for governors: more efficient administration of existing resources, and a federal transfer of gasoline taxes to state treasuries. During the same week, President Ernesto Zedillo met with a group of governors in the presidential palace to discuss budget issues. Govs. Vicente Fox of Guanajuato and Francisco Barrio of Chihuahua said Zedillo urged the governors to "exercise fiscal discipline" because the federal government is unable to increase funding to states and municipal governments this year. Fox and Barrio, members of the center-right opposition Partido Accion Nacional (PAN), said Zedillo was "neither optimistic nor pessimistic," but simply offered an assessment of Mexico's fiscal situation.

Construction begins on private power plant in Jalisco

In late September, a Mexican-US consortium began construction of a huge power plant in El Salto industrial zone in Jalisco state. The plant, which is being constructed by Grupo Protexa and US-based IEP Global Development, will supply electricity to 124 private companies in El Salto, just outside Guadalajara. IEP Global Development is a joint venture of Consolidated Edison and International Energy Partners. Until now, most private electricity projects involved constructing a power plant to supply electricity to one or two companies, while El Salto will supply electricity to many companies. "This is the first project of its type in Mexico," said Octavio Navarro, director of Protexa's new-projects division.

The new facility, which will generate 400 megawatts of electricity a year, is scheduled to begin operations by 2000. Construction is expected to cost about US$400 million. Mexico has an installed

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annual electricity-generation capacity of close to 34,000 MW. Energy Secretary Luis Tellez says Mexico will need capital investments of US$25 billion to expand its electricity system to keep up with the expected increased demand through 2005. This level of investment, said Tellez, would increase Mexico's capacity to produce electricity by one-third.

World Bank approves US$1.3 billion in loans for Mexico

In mid-September, the World Bank approved US$1.3 billion in loans to support education, health, and savings programs in Mexico. The Mexican government said the multilateral institution provided four separate loans, two of which will be used to improve health services provided by the Instituto Mexicano del Seguro Social (IMSS). The loans were formalized in Washington by Jose Luis Flores Hernandez, director of the Banco Nacional de Obras Publicas (BANOBRAS), Mexican Ambassador Jesus Reyes Heroles, and Shaid Javed Burki, the World Bank's vice president for Latin America and the Caribbean.

Flores Hernandez said the largest loan of US$725 million will expand and improve health benefits provided by the IMSS. The second-largest loan of US$400 million will expand the Sistema de Ahorro para el Retiro (SAR), which financed the development of the retirement-savings program (Administradoras de Fondos para El Retiro, AFORE). Finally, a third loan of US$180 million will finance two educational initiatives. One will offer financial assistance to low-income individuals to obtain a college education. The second will expand educational programs in isolated rural areas. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Sept. 30, reported at 10.18 pesos per US$1.00] (Sources: Excelsior, 08/25/98; El Universal, 08/24/98, 08/26/98, 08/31/98; Novedades, 09/11/98; La Jornada, 09/15/98; Bloomberg news, 09/16/98, The News, 09/17/98; El Financiero International, 09/21/98; Reuters, 09/14/98, 09/23/98

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