PROSPECTUS SUPPLEMENT
(To Prospectus dated April 17, 1996)

$1,000,000,000

United Mexican States

11⅜% Global Bonds due September 15, 2016

Interest on the 11⅜% Global Bonds due September 15, 2016 (the "Bonds") is payable semi-annually on March 15 and September 15 of each year, commencing on March 15, 1997 (with respect to the period from and including September 24, 1996 to but excluding March 15, 1997). The Bonds will constitute direct, general and unconditional external indebtedness of the United Mexican States ("Mexico"). The Bonds will not be redeemable prior to maturity and will not be entitled to the benefit of any sinking fund. The Bonds will be issued in book-entry form and will be represented by one or more global securities ("Global Securities") in fully registered form, without coupons, which will be registered in the name of a nominee of The Depository Trust Company ("DTC"), as Depositary for the accounts of its participants (including Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System and Cedel Bank, *société anonyme*). Beneficial interests in the Global Securities will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct or indirect participants. Initial settlement for the Bonds will be made in immediately available funds and secondary market trading activity in beneficial interests therein will therefore settle in such funds. Except in limited circumstances, definitive Bonds will not be issued in exchange for beneficial interests in the Global Securities. See "Description of Bonds" in this Prospectus Supplement and "Description of Securities—Debt Securities" in the Prospectus attached hereto (the "Prospectus").

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT OR THE PROSPECTUS TO WHICH IT RELATES. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public(1)	Underwriting Discounts(2)	Proceeds to Mexico(1)(3)
Per Bond	98.945%	1%	97.945%
Total	$989,450,000	$10,000,000	$979,450,000

(1) Plus accrued interest, if any, from September 24, 1996.
(2) Mexico has agreed to indemnify the Underwriters (as defined herein under "Underwriting") against certain liabilities, including liabilities under the Securities Act of 1933, as amended.
(3) Before deduction of expenses payable by Mexico estimated at $100,000, a portion of which will be reimbursed by the Underwriters.

The Bonds are offered by the several Underwriters, subject to prior sale, when, as and if issued by Mexico and accepted by the Underwriters. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that delivery of the Bonds will be made through the facilities of DTC on or about September 24, 1996.

Goldman, Sachs & Co. **Merrill Lynch & Co.**

Chase Securities Inc. **Salomon Brothers Inc** **UBS Securities**

The activities of the Underwriters in connection with this transaction are led jointly by Goldman, Sachs & Co. and Merrill Lynch & Co.

The date of this Prospectus Supplement is September 17, 1996

THIS PROSPECTUS SUPPLEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SECURITIES OTHER THAN THE SECURITIES DESCRIBED HEREIN AND IN THE PROSPECTUS.

No dealer, sales person or other person has been authorized to give any information or to make any representations other than those contained or incorporated by reference in this Prospectus Supplement or the Prospectus, and any information or representation not contained or incorporated by reference herein or therein must not be relied on as having been authorized by or on behalf of Mexico or by any of the Underwriters. The delivery of this Prospectus Supplement and the Prospectus at any time does not imply that the information contained or incorporated by reference herein or therein is correct at any time subsequent to the date of this document or, if later, the date of the documents incorporated by reference herein or therein.

The distribution of this Prospectus Supplement and the Prospectus or any part hereof or thereof and the offer, sale and delivery of any of the Bonds may be restricted by law in certain jurisdictions. Persons into whose possession this Prospectus Supplement and the Prospectus comes are required by Mexico and the Underwriters to inform themselves about and to observe any such restrictions. See "Underwriting".

To the best knowledge and belief of Mexico (which has taken all reasonable care to confirm that such is the case), the information contained herein is in accordance with the facts and does not omit anything likely to affect the import of such information. This Prospectus Supplement and the Prospectus are being furnished solely for use by prospective investors in connection with their consideration of a purchase of the Bonds.

Registration Statements with respect to Mexico and the Bonds have been filed with the U.S. Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended. Additional information concerning Mexico and the Bonds is to be found in said Registration Statements and any post-effective amendment thereto, including the various exhibits thereto and the documents incorporated therein by reference, which may be inspected at the office of the Commission. Certain terms used but not defined in this Prospectus Supplement are defined in the Prospectus.

References herein to "U.S. dollars" or "$" are to the lawful currency of the United States. References herein to "pesos" or "Ps." are to the lawful currency of Mexico which, effective January 1, 1993, replaced its former currency (also called the "peso") at the rate of one new peso to one thousand old pesos. During the transition period from January 1, 1993 through December 31, 1995, the new currency was referred to as the "nuevo peso" and from January 1, 1996 is referred to as the peso. All amounts set forth herein in Mexican currency are stated in pesos, even if such amounts relate to a period before January 1, 1996.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS (OR IN THE CASE OF ANY TRANSACTIONS IN THE UNITED KINGDOM, MERRILL LYNCH INTERNATIONAL) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE LUXEMBOURG STOCK EXCHANGE, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

SUMMARY OF THE OFFERING

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Prospectus Supplement and the Prospectus.

Bonds	$1,000,000,000 principal amount of 11 $^{3}/_{8}$% Bonds.
Issue Price	98.945%.
Maturity	September 15, 2016.
Interest	Semi-annually on March 15 and September 15 of each year, commencing March 15, 1997.
Redemption	The Bonds are not redeemable prior to maturity.
Markets	The Bonds are offered for sale in those jurisdictions in the United States, Europe and Asia where it is legal to make such offers. See "Underwriting".
Listing	Application has been made to list the Bonds on the Luxembourg Stock Exchange.
Form, Denominations and Registration	The Bonds will be issued in the form of one or more fully registered, global securities (each, a "Global Security") registered in the name of Cede & Co. ("Cede"), as the nominee of The Depository Trust Company ("DTC"). Except as described in this Prospectus Supplement, beneficial interests in the Global Securities will be represented through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Such beneficial interests will be in denominations of $1,000 and integral multiples thereof. Investors may elect to hold interests in the Global Securities through DTC in the United States or through Morgan Guaranty Trust Company of New York, Brussels Office, as operator of the Euroclear System ("Euroclear") or Cedel Bank, *société anonyme* ("Cedel Bank") in Europe, if they are participants in such systems, or indirectly through organizations which are participants in such systems. Euroclear and Cedel Bank will hold interests on behalf of their participants through their respective depositaries, The Chase Manhattan Bank ("Chase") and Citibank, N.A. ("Citibank"), which in turn will hold such interests in accounts as participants in DTC. Except as described in this Prospectus Supplement, owners of beneficial interests in a Global Security will not be entitled to have Bonds registered in their names, will not receive or be entitled to receive physical delivery of Bonds in definitive form and will not be considered holders thereof under the Bonds or the Fiscal Agency Agreement. The Bonds will be issued only in registered form without interest coupons. See "Description of Bonds—Form, Registration and Title; Book-Entry System" in this Prospectus Supplement.

Global Clearance and Settlement .... Initial settlement for the Bonds will be made in same-day funds. Any secondary market trading of beneficial interests in the Global Securities will occur through participants in DTC, Euroclear and Cedel Bank and will settle in same-day funds. See "Global Clearance and Settlement" in this Prospectus Supplement.

Status of Bonds .... The Bonds will constitute direct, general and unconditional external indebtedness of Mexico, and will rank *pari passu* and without any preference among themselves with all other unsecured and unsubordinated obligations of Mexico, present and future, relating to public external indebtedness. See "Description of Securities—Debt Securities—General" in the Prospectus.

Tax Status .... All payments in respect of the Bonds will be made without deduction for or on account of any withholding taxes imposed by or within Mexico, subject to certain exceptions. See "Description of Bonds—Payment of Additional Amounts" in this Prospectus Supplement.

Governing Law .... New York.

USE OF PROCEEDS

The net proceeds of the sale of the Bonds will be approximately $979,360,000 and will be used for the general purposes of the Government of Mexico including, but not limited to, the refinancing, repurchase or retirement of external indebtedness.

DESCRIPTION OF BONDS

The following description of the particular terms of the Bonds offered hereby supplements, and to the extent inconsistent therewith replaces, the description of the general terms and provisions of the Debt Securities (as such term is used in the Prospectus) set forth in the Prospectus, to which description reference is hereby made.

The Bonds are to be issued pursuant to a Fiscal Agency Agreement, dated as of September 1, 1992, as amended by Amendment No. 1 thereto, dated November 28, 1995 (the "Fiscal Agency Agreement"), between Mexico and Citibank, N.A., as Fiscal Agent (the "Fiscal Agent"). The following statements and the statements under "Description of Securities—Debt Securities" in the Prospectus briefly summarize some of the terms of the Bonds and the Fiscal Agency Agreement relating thereto. Such statements do not purport to be complete and are qualified in their entirety by reference to the Fiscal Agency Agreement and to the form of Global Security, described below, filed or to be filed by Mexico with the Commission.

General

The Bonds will be issued in an aggregate principal amount of $1,000,000,000, will bear interest from September 24, 1996 at 11 $^{3}/_{8}$% per annum and will mature at par on September 15, 2016. Interest on the Bonds will be payable semi-annually in arrears on March 15 and September 15 of each year (each, a "Payment Date"), commencing on March 15, 1997 (with respect to the period from and including September 24, 1996 to but excluding March 15, 1997), to the persons in whose names the Bonds are registered at the close of business on the February 28 or August 31, as the case may be, preceding each Payment Date. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months.

Mexico may from time to time without the consent of the holders of the Bonds create and issue additional bonds having terms and conditions the same as those of the Bonds, or the same except for the amount of the first payment of interest, which additional bonds may be consolidated and form a single Series (as that term is defined in the Fiscal Agency Agreement) with the outstanding Bonds.

The Bonds will not be redeemable prior to maturity and will not be entitled to the benefit of any sinking fund.

Payments and Paying Agents

The principal of and interest on each Bond will be payable by Mexico in U.S. dollars. Such payments of principal and interest will be made to DTC or its nominee as the registered owner of such Bonds. Beneficial owners of Bonds are expected to be paid in accordance with the procedures of DTC and its participants in effect from time to time as described below and under "Description of Securities—Debt Securities—Global Securities" in the Prospectus. Neither Mexico nor the Paying Agent shall have any responsibility or liability for such payments by the Depositary.

Principal and interest payable at maturity shall be payable in immediately available funds against surrender of the Bonds at the corporate trust office of the Fiscal Agent hereinafter referred to, and at the offices of such other Paying Agents as Mexico shall have appointed pursuant to the Fiscal Agency Agreement. Payments of interest on Bonds due other than at maturity shall be made, subject to applicable laws and regulations, by check mailed on or before the due date for such payment to the persons entitled thereto at such persons' addresses appearing on the register maintained by the Fiscal Agent; *provided, however*, that any payments shall be made, in the case of a holder of at least $1,000,000 aggregate principal amount of Bonds, by transfer of immediately available funds to an account maintained by the payee with a bank if such holder so elects by giving notice to the Fiscal Agent not less than 15 days prior to the date of the payments to be obtained of such election and of the account to which payments are to be made.

In any case where the due date for the payment of the principal of or interest on any Bond shall be at any place of payment a day on which banking institutions are authorized or obligated by law to close, then payment of principal or interest thereon need not be made on such date at such place but may be made on the next succeeding day at such place which is not a day on which banking institutions are authorized or obligated by law to close, with the same force and effect as if made on the date for such payment, and no interest shall accrue for the period after such date.

Any monies paid by Mexico to the Fiscal Agent for the payment of the principal of or interest on any Bonds and remaining unclaimed at the end of two years after such principal or interest shall have become due and payable (whether at maturity or otherwise) shall then be repaid to Mexico upon its written request, and upon such repayment all liability of the Fiscal Agent with respect thereto shall cease, without, however, limiting in any way any obligation Mexico may have to pay the principal of and interest on the Bonds as the same shall become due. The Bonds will become void unless presented for payment within five years after the maturity date thereof (or such shorter period as may be prescribed by applicable law).

Until the Bonds are paid or payment thereof is duly provided for, Mexico will, at all times, maintain a paying agent in The City of New York (the "Paying Agent"). Mexico has initially appointed Citibank, N.A. to serve as Paying Agent. An office of the Paying Agent in The City of New York for all purposes relating to the Bonds is located at the date hereof at 111 Wall Street, 5th Floor, New York, New York 10043. In addition, for so long as any Bonds are listed on the Luxembourg Stock Exchange and the rules of such exchange shall so require, Mexico shall maintain a paying agent in Luxembourg (the "Luxembourg Paying Agent", and together with the Paying Agent, the "Paying Agents") and a transfer agent in Luxembourg (the "Luxembourg Transfer Agent"). Mexico has initially appointed Kredietbank S.A. Luxembourgeoise, 43, Boulevard Royal-L, 2955, Luxembourg, to serve as Luxembourg Paying Agent and Luxembourg Transfer Agent.

Additional Amounts

The payment of principal and interest by Mexico in respect of the Bonds will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by Mexico, any political subdivision thereof or any taxing authority in Mexico. If Mexico is required by law to make any such withholding or deduction, it will pay such additional amounts ("Additional Amounts") as may be necessary in order to ensure that the net amounts receivable by the holders of Bonds after such withholding or deduction shall equal the respective amounts of principal and interest that would have been receivable in respect of the Bonds in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable with respect to any Bond to or on behalf of a holder who is liable for taxes or duties in respect of such Bond (a) by reason of such holder having some connection with Mexico other than the mere holding of such Bond or the receipt of the principal and interest in respect thereof; (b) by reason of the failure to comply with any reasonable certification, identification or other reporting requirement concerning the nationality, residence, identity or connection with Mexico, or any political subdivision or taxing authority thereof or therein, of the holder of a Bond or any interest therein or rights in respect thereof, if compliance is required by Mexico, or any political subdivision or taxing authority thereof or therein, pursuant to applicable law or to any international treaty in effect, as a precondition to exemption from such deduction or withholding; or (c) by reason of the failure of such holder to present such holder's Bond for payment within 30 days after principal and interest is first made available for payment to the holder.

Form, Registration and Title; Book-Entry System

The Bonds will be issued in fully registered form only, without coupons. Each Bond will be issued in book-entry form represented by one or more Global Securities registered in the name of Cede, as the nominee of DTC, for the accounts of its participants (including Euroclear and Cedel Bank). A Global Security may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any such nominee to a successor of DTC or a nominee of such successor. So long as Cede is the registered owner of a Global Security representing the Bonds, Cede will be considered the sole owner or holder of the Bonds represented by such Global Security for all purposes under the Fiscal Agency Agreement.

Except as described in this paragraph, definitive Bonds will not be issued in exchange for beneficial interests in the Global Securities. If DTC is at any time unwilling or unable to continue as Depositary or is ineligible to act as Depositary, and a successor Depositary is not appointed by Mexico within 90 days after Mexico is notified by DTC or becomes aware of such condition, Mexico will issue Bonds in definitive form in exchange for the Global Security representing such Bonds. In addition, Mexico may at any time and in its sole discretion determine not to have any of the Bonds represented by one or more Global Securities and, in such event, will issue Bonds in definitive form in exchange for all of the Global Securities representing such Bonds. In such event, such definitive Bonds will be issued only in fully registered form without coupons in denominations of $1,000 and multiples thereof.

Euroclear and Cedel Bank will initially hold Bonds on behalf of their participants through their respective depositaries, which are participants in DTC. Transfers within DTC, Euroclear and Cedel Bank will be in accordance with the usual rules and operating procedures of the relevant system. Cross-market transfers between investors who hold or who will hold Bonds through DTC and investors who hold or who will hold Bonds through Euroclear and Cedel Bank will be effected in DTC through the respective depositaries of Euroclear and Cedel Bank, subject to certain restrictions. Citibank will initially act as depositary for Cedel Bank and Chase will initially act as depositary for Euroclear. See "Global Clearance and Settlement".

Upon the issuance by Mexico of the Bonds, DTC will credit, on its book-entry system, the respective principal amounts of the Bonds represented by such Global Security to the accounts of DTC's participants (the "Participants"). The accounts to be credited shall be designated by the Underwriters. Purchases of Bonds under the DTC system must be made by or through Direct Participants (as defined below). Owners of beneficial interests in a Global Security may hold Bonds directly through DTC in the United States or through Euroclear or Cedel Bank in Europe, if they are participants in such systems, or indirectly through organizations which are participants in such systems. Owners of beneficial interests in a Global Security will not receive written confirmation from DTC of their purchase, but each beneficial owner is expected to receive written confirmation providing details of the transaction, as well as periodic statements of its holdings, from DTC (if such beneficial owner is a Direct Participant or an Indirect Participant (as defined below)) or the Direct or Indirect Participant through which such beneficial owner entered into the transaction (if such beneficial owner is not a Direct or Indirect Participant). Transfers of ownership interests in Bonds are expected to be effected by entries made on the books of Participants acting on behalf of beneficial owners. The deposit of Bonds with DTC and the registration of such Bonds in the name of Cede or another nominee of DTC will not effect any change in beneficial ownership. The laws of some states require that certain purchasers of securities take physical delivery of such securities in definitive form. Such laws may impair the ability to transfer beneficial interests in the Bonds.

"Direct Participants" include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Commission.

Mexico expects that conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. In addition, neither DTC nor Cede will consent or vote with respect to Bonds. Mexico has been advised that DTC's usual procedure is to mail an omnibus proxy to Mexico as soon as possible after the record date with respect to such consent or vote. The omnibus proxy would assign Cede's consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on such record date (identified in a listing attached to the omnibus proxy).

Euroclear or Cedel Bank, as the case may be, will take any action permitted to be taken by a holder under the Fiscal Agency Agreement or the Bonds on behalf of a Euroclear participant or Cedel Bank participant only in accordance with its relevant rules and procedures and subject to its depositary's ability to effect such actions on its behalf through DTC.

Mexico has been advised that DTC will credit the accounts of Direct Participants with payment in amounts proportionate to their respective holdings in principal amount of interests in the Global Securities as shown on the records of DTC. Mexico has been advised that DTC's practice is to credit Direct Participants' accounts on the applicable payment date unless DTC has reason to believe that it will not receive payments on such date. Mexico expects that payments by Direct Participants and Indirect Participants to beneficial owners of the Bonds will be governed by standing customer instructions and customary practices, as is now the case with securities held for the accounts of customers. Such payments will be the responsibility of such Direct Participants and Indirect Participants.

Transfer, Exchange and Replacement

In the event that definitive certificated Bonds are issued under the limited circumstances described above under "—Form, Registration and Title; Book-Entry System", the Bonds may be presented for transfer or exchange at the corporate trust office of the Fiscal Agent in The City of New York, or at the office of the Luxembourg Transfer Agent, subject to the limitations set forth in the Fiscal Agency Agreement. Upon surrender for transfer or exchange of any Bond, the Fiscal Agent shall authenticate and deliver, in exchange for such Bond, a Bond or Bonds of the appropriate form and denomination and of an equal principal amount. No service charge will be imposed upon the holder of a Bond in connection with exchanges for Bonds of a different denomination or for registration of transfers thereof, but Mexico may charge the party requesting any transfer, exchange or registration of Bonds a sum sufficient to reimburse it for any stamp or other tax or other governmental charge required to be paid in connection with such transfer, exchange or registration. Mexico, the Fiscal Agent and any other agent of Mexico may treat the person in whose name any Bond is registered as the owner of such Bond for all purposes.

If any Bond becomes mutilated, destroyed, stolen or lost, and the Bond or evidence of the loss, theft or destruction hereof (together with such indemnity to save Mexico, the Fiscal Agent and any other agent harmless, and such other documents or proof as may be required by Mexico or the Fiscal Agent) is delivered to the Fiscal Agent, then, in the absence of notice to Mexico or the Fiscal Agent that such Bond has been acquired by a bona fide purchaser, Mexico shall execute and, upon its request the Fiscal Agent shall authenticate and deliver, a new Bond of like tenor and principal amount in exchange for, or in lieu of, the mutilated, destroyed, stolen or lost Bond. All expenses and reasonable charges associated with procuring such indemnity and with the preparation, authentication and delivery of a new Bond shall be borne by the holder thereof.

Notices

Notices to holders will be given by mail to the addresses of such holders appearing in the Bond register maintained by the Fiscal Agent and shall be deemed to have been given when mailed. In addition, if and so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of such Exchange shall so require, notices to holders of the Bonds will be published in a leading newspaper with general circulation in Luxembourg. It is expected that such publication will be made in the *Luxemburger Wort*. If publication as aforesaid is not practicable, notices will be given in another manner consistent with the rules of the Luxembourg Stock Exchange.

GLOBAL CLEARANCE AND SETTLEMENT

Although DTC, Euroclear and Cedel Bank presently perform the procedures provided below in order to facilitate transfers of Bonds among participants of DTC, Euroclear and Cedel Bank, they are under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time. Neither Mexico nor the Fiscal Agent will have any responsibility for the performance by DTC, Euroclear or Cedel Bank or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

DTC, Euroclear and Cedel Bank have advised Mexico as follows:

The Clearing Systems

DTC. DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the U.S. Securities Exchange Act of 1934. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates.

Because DTC can act only on behalf of Direct Participants, who in turn act on behalf of Indirect Participants and certain banks, the ability of an owner of a beneficial interest in the Global Security to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for such interest.

Euroclear and Cedel Bank. Euroclear and Cedel Bank hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Cedel Bank provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Cedel Bank interface with domestic securities markets. Euroclear and Cedel Bank participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations and include certain of the Underwriters. Indirect access to Euroclear or Cedel Bank is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Cedel Bank participant, either directly or indirectly.

Initial Settlement

Upon the issuance by Mexico of the Bonds, DTC or its custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by the Global Securities to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the Underwriters.

Investors that hold their interests in the Bonds through DTC will follow the settlement practices applicable to global bond issues. Investors' securities custody accounts will be credited with their holdings against payment in same-day funds on the settlement date.

Investors that hold their interests in the Bonds through Euroclear or Cedel Bank accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. The interests will be credited to the securities custody accounts on the settlement date against payment in same-day funds.

Secondary Market Trading

Since the purchaser determines the place of delivery, it is important to establish at the time of the trade where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Trading between DTC purchasers and sellers. Secondary market trading between Participants will be settled using the procedures applicable to global bond issues in same-day funds.

Trading between Euroclear and/or Cedel Bank participants. Secondary market trading between Euroclear participants and/or Cedel Bank participants will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

Trading between DTC seller and Euroclear or Cedel Bank purchaser. When Bonds are to be transferred from the account of a Participant to the account of a participant in Euroclear or Cedel Bank, the purchaser must send instructions to Euroclear or Cedel Bank through a participant thereof at least one business day prior to settlement. Euroclear or Cedel Bank, as the case may be, will instruct its respective depositary to receive such Bonds against payment. Payment will then be made by the depositary to the Participant's account against delivery of the Bonds. After settlement has been completed, the Bonds will be credited to the respective clearing system, and by the clearing system, in accordance with its usual procedures, to the Euroclear or Cedel Bank participant's account. The securities credit will appear the next day (European time) and the cash debit will be back-valued to the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (*i.e.*, the trade fails), the Euroclear or Cedel Bank cash debit will be valued instead as of the actual settlement date.

Euroclear and Cedel Bank participants will need to make available to the respective clearing system the funds necessary to process same-day funds settlement. The most direct means of doing so is to preposition funds for settlement, either from cash on hand or existing lines of credit. Under this approach, participants may, however, take on credit exposure to Euroclear and Cedel Bank until the Bonds are credited to their accounts one day later.

As an alternative, if Euroclear or Cedel Bank has extended a line of credit to it, a participant may elect not to preposition funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, the Euroclear or Cedel Bank participant purchasing Bonds would incur overdraft charges for one day, assuming it cleared the overdraft when the Bonds were credited to its account. However, interest on the Bonds would accrue from the value date. Therefore, in many cases the investment income on Bonds earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's particular cost of funds.

Since the settlement will occur during New York business hours, a Participant can employ its usual procedures for transferring global bonds to the respective depositaries of Euroclear or Cedel Bank for the benefit of Euroclear or Cedel Bank participants. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC seller, a cross-market sale transaction will settle no differently than a trade between two Participants.

Trading between Euroclear or Cedel Bank seller and DTC purchaser. Due to time zone differences in their favor, Euroclear and Cedel Bank participants may employ their customary procedures for transactions in which Bonds are to be transferred by the respective clearing system, through its respective depositary, to a Participant. The seller must send instructions to Euroclear or Cedel Bank through a participant at least one business day prior to settlement. In these cases, Euroclear or Cedel Bank will instruct its respective depositary to credit the Bonds to the Participant's account against payment. The payment will then be reflected in the account of the Euroclear or Cedel Bank participant on the following day, and receipt of the cash proceeds in the Euroclear or Cedel Bank participant's account will be back-valued to the value date (which would be the preceding day, when settlement occurs in New York).

Should the Euroclear or Cedel Bank participant have a line of credit with its respective clearing system and elect to be in debit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date (*i.e.*, the trade fails), receipt of the cash proceeds in the Euroclear or Cedel Bank participant's account would instead be valued as of the actual settlement date.

Finally, day traders that use Euroclear or Cedel Bank to purchase Bonds from Participants for delivery to Euroclear or Cedel Bank participants should note that these trades automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem: (i) borrowing through Euroclear or Cedel Bank for one day (until the purchase side of the day trade is reflected in their Euroclear or Cedel Bank accounts) in accordance with the clearing system's customary procedures; (ii) borrowing the Bonds in the United States from a Participant no later than one day prior to settlement, which would give the Bonds sufficient time to be reflected in their Euroclear or Cedel Bank account in order to settle the sale side of the trade; or (iii) staggering the value date for the buy and sell sides of the trade so that the value date for the purchase from the Participant is at least one day prior to the value date for the sale to the Euroclear or Cedel Bank participant.

UNDERWRITING

Subject to the terms and conditions set forth in an underwriting agreement dated September 17, 1996 (the "Underwriting Agreement"), Mexico has agreed to sell to each of the underwriters named below (the "Underwriters"); and each of the Underwriters has agreed severally to purchase, the principal amount of Bonds set forth opposite its name.

Name	Principal Amount of Bonds
Goldman, Sachs & Co.	$ 462,500,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	462,500,000
Chase Securities Inc.	25,000,000
Salomon Brothers Inc	25,000,000
UBS Securities LLC	25,000,000
Total	$1,000,000,000

The respective addresses of the Underwriters are as follows: Goldman, Sachs & Co.: 85 Broad Street, New York, NY 10004; Merrill Lynch, Pierce, Fenner & Smith Incorporated: World Financial Center, North Tower, New York, NY 10281; Chase Securities Inc.: One Chase Manhattan Plaza, New York, NY 10081; Salomon Brothers Inc: Seven World Trade Center, New York, NY 10048; and UBS Securities LLC: 299 Park Avenue, New York, NY 10171.

Under the terms and conditions of the Underwriting Agreement, the Underwriters are obligated to take and pay for all of the Bonds if any are taken.

The Underwriters have advised Mexico that they propose initially to offer the Bonds to the public at the public offering price set forth on the cover page of this Prospectus Supplement, and to certain dealers at such price less a concession not in excess of .6% of the principal amount of the Bonds. The Underwriters may allow, and such dealers may reallow, a discount not in excess of .25% of the principal amount of the Bonds to certain other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

Mexico has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the U.S. Securities Act of 1933, as amended.

The Underwriters and certain of their affiliates have engaged in and may from time to time engage in transactions with and perform services for Mexico in the ordinary course of business.

The Bonds are a new issue of securities with no established trading market. No assurance can be given as to the liquidity of the trading market for the Bonds. The price at which the Bonds will trade in the secondary market is uncertain.

The Bonds are offered for sale in those jurisdictions in the United States, Europe and Asia where it is legal to make such offers. Each Underwriter has undertaken that it will not, directly or indirectly, offer or sell Bonds or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in relation thereto in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with all applicable laws and regulations in such country or jurisdiction. Persons into whose hands this Prospectus Supplement and the Prospectus comes are required by Mexico and the Underwriters to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Bonds or have in their possession, distribute or publish any offering material relating to the Bonds, in all cases at their own expense.

Each Underwriter has represented and agreed severally that it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Each Underwriter has represented and agreed severally that it will not offer or sell any Bonds directly or indirectly in Japan or to, or for the benefit of any Japanese person or to others, for re-offering or re-sale directly or indirectly in Japan or to any Japanese person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant governmental and regulatory authorities in effect at the relevant time. For purposes of this paragraph, "Japanese person" shall mean any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

Each Underwriter has agreed that it has not distributed and will not distribute this Prospectus Supplement or the accompanying Prospectus in Hong Kong other than to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or as agent, unless such Underwriter is a person permitted to do so under the securities laws of Hong Kong.

Mexico will file a notice with the Special Section of the National Registry of Securities and Intermediaries (the "Registry") maintained by the Mexican National Banking and Securities Commission in order to register the Bonds therewith. Registration of the Bonds with the Registry does not imply any certification of the investment quality of the Bonds, the economic condition of Mexico or the accuracy or completeness of the information contained herein or in the Prospectus. The Bonds may not be publicly offered or sold in Mexico.

TAXATION

Mexican Taxation

The following is a summary of certain Mexican federal tax considerations that may be relevant to non-Mexican holders of Bonds. The summary is based on Mexican laws, rules and regulations now in effect, all of which are subject to change.

This summary is not intended to constitute a complete analysis of the tax consequences under Mexican federal law of the purchase, ownership or sale of the Bonds by non-residents of Mexico nor to include any of the tax consequences that may be applicable to residents of Mexico.

Under Mexico's Income Tax Law, payments of principal and interest on the Bonds by Mexico are not subject to any Mexican income tax, whether in the form of a withholding or otherwise, provided the Bond is held by an individual who is not a resident of Mexico for tax purposes or by a non-Mexican entity directly and not through a permanent establishment or a fixed base thereof in Mexico.

Capital gains derived from trades of Bonds effected between or in respect of accounts maintained by or on behalf of non-residents of Mexico will not be subject to Mexican taxes where such non-residents have no connection with Mexico other than as holders of an interest in the Bonds.

Mexico has negotiated treaties to avoid double taxation with several countries. Certain of these treaties are currently in effect and others have been signed but have yet to enter into force. Such treaties are not expected to have an effect on the tax treatment of payments by Mexico under the Bonds to non-residents of Mexico.

Prospective purchasers of the Bonds should consult their own tax advisors in determining the Mexican tax consequences to them of the purchase, ownership and disposition of the Bonds.

United States Federal Taxation

Interest on the Bonds will not be exempt from United States taxation generally. Under United States federal income tax law as currently in effect, holders of Bonds that are not United States persons will not be subject to United States federal income taxes, including withholding taxes, on payments of interest on the Bonds, so long as the certification requirements described in the second succeeding paragraph are satisfied, unless:

(i) the holder is an insurance company carrying on a United States insurance business, within the meaning of the United States Internal Revenue Code of 1986, to which the interest is attributable, or

(ii) the holder has an office or other fixed place of business in the United States to which the interest is attributable and the interest either (a) is derived in the active conduct of a banking, financing or similar business within the United States or (b) is received by a corporation the principal business of which is trading in stock or securities for its own account, and certain other conditions exist.

The gain realized on any sale or exchange of the Bonds by a holder that is not a United States person will not be subject to United States federal income tax, including withholding tax, unless (i) such gain is effectively connected with the conduct by the holder of a trade or business in the United States or (ii) in the case of gain realized by an individual holder, the holder is present in the United States for 183 days or more in the taxable year of the sale and either (A) such gain or income is attributable to an office or other fixed place of business maintained in the United States by such holder or (B) such holder has a tax home in the United States.

The Fiscal Agent will be required to file information returns with the United States Internal Revenue Service with respect to payments made to certain United States persons on the Bonds. United States persons generally will not be subject to a 31% United States backup withholding tax in respect of such payments if they provide their taxpayer identification numbers to the Fiscal Agent or otherwise are exempt from backup withholding. United States persons also may be subject to information reporting and backup withholding requirements with respect to proceeds from a sale of the Bonds. Persons holding the Bonds who are not United States persons may be required to comply with applicable certification procedures to establish that they are not United States persons in order to avoid the application of such information reporting requirements and backup withholding tax.

A Bond held by an individual holder who at the time of death is a nonresident alien will not be subject to United States federal estate tax.

As used herein, the term "United States person" means a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States, or any estate or trust the income of which is subject to United States federal income taxation regardless of its source, and the term "United States" means the United States of America (including the States and the District of Columbia), its possessions, territories and other areas subject to its jurisdiction.

Prospective purchasers of the Bonds should consult their own tax advisors in determining the United States and any other tax consequences to them of the purchase, ownership and disposition of Bonds.

VALIDITY OF BONDS

The validity of the Bonds will be passed upon for Mexico by the Fiscal Attorney of the Federation of the United Mexican States (the "Fiscal Attorney") and by Cleary, Gottlieb, Steen & Hamilton, One Liberty Plaza, New York, New York 10006, United States counsel to Mexico, and for the Underwriters by Sullivan & Cromwell, 125 Broad Street, New York, New York 10004, United States counsel to the Underwriters, and Ritch, Heather y Mueller, S.C., Amberes No. 5 06600 Mexico, D.F., Mexican counsel to the Underwriters. As to all matters of Mexican law, Cleary, Gottlieb, Steen & Hamilton may rely on the opinion of the Fiscal Attorney and Sullivan & Cromwell may rely upon the opinions of the Fiscal Attorney and Ritch, Heather y Mueller, S.C. As to all matters of United States law, the Fiscal Attorney may rely on the opinion of Cleary, Gottlieb, Steen & Hamilton, and Ritch, Heather y Mueller, S.C. may rely on the opinion of Sullivan & Cromwell. All statements with respect to matters of Mexican law in this Prospectus Supplement and the Prospectus have been passed upon by the Fiscal Attorney and Ritch, Heather y Mueller, S.C., and are made upon their authority.

GENERAL INFORMATION

Due Authorization

The creation and issue of the Bonds have been authorized pursuant to a decree of the President of Mexico dated September 13, 1996. All other necessary consents and authorizations under Mexican law for the issue of the Bonds and the performance of the obligations of Mexico under the Fiscal Agency Agreement and the Bonds have been obtained or will be obtained prior to the issue date.

Listing

Application has been made to list the Bonds on the Luxembourg Stock Exchange.

Litigation

Neither Mexico nor any governmental agency of Mexico is involved in any litigation or arbitration or administrative proceedings relating to claims or amounts which are material in the context of the issue of the Bonds and which would materially and adversely affect Mexico's ability to meet its obligations under the Bonds and the Fiscal Agency Agreement and, so far as Mexico is aware, no such litigation or arbitration or administrative proceedings are pending or threatened.

Documents Relating to the Bonds

Copies of the Fiscal Agency Agreement and the form of Global Security may be inspected during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the specified offices of the Fiscal Agent and the Paying Agents.

Clearing

The Bonds have been accepted for clearance through Euroclear and Cedel Bank (Common Code: 6982026; ISIN: US593048BA88; CUSIP No.: 593048BA8).

Available Information; Incorporation by Reference

Attached to this Prospectus Supplement and the Prospectus is a copy of Mexico's annual report for 1995 on Form 18-K (as amended on September 17, 1996, the "Form 18-K") except for certain exhibits thereto, filed with the Commission. Requests for any exhibits filed by Mexico in connection therewith should be directed to the Director General of Public Credit, Ministry of Finance and Public Credit, Insurgentes Sur 826, 9° Piso, Col. del Valle 03100, Mexico, D.F., Mexico (telephone: 52-5-682-2209; facsimile: 52-5-228-1690).

Each amendment, if any, to Form 18-K (including all exhibits thereto), or any subsequent annual report on Form 18-K, filed with the Commission by Mexico subsequent to the date of this Prospectus Supplement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference herein. All documents incorporated by reference may be obtained, free of charge, at the office of the listing agent in Luxembourg.

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PROSPECTUS

United Mexican States

Debt Securities and/or Warrants to Purchase Debt Securities

The United Mexican States ("Mexico") may from time to time offer debt securities consisting of bonds, debentures and/or notes ("Debt Securities") and/or warrants to purchase Debt Securities (such Debt Securities and/or warrants being hereinafter collectively called "Securities") with an aggregate principal amount of up to $7,500,000,000 or the equivalent thereof in one or more other currencies or currency units. Of such $7,500,000,000, Notes with an aggregate principal amount (or aggregate initial offering price, as the case may be) not to exceed $4,200,000,000 (or the equivalent thereof in one or more other currencies or currency units) may be issued and sold in the United States. The Securities will be offered in one or more series in amounts and at prices and on terms to be determined at the time of sale and to be set forth in supplements to this Prospectus (each a "Prospectus Supplement"). The Debt Securities will constitute direct, general and unconditional external indebtedness of Mexico. The Debt Securities will rank *pari passu*, without any preference among themselves, with all other unsecured and unsubordinated external indebtedness of Mexico, present and future. See "Description of Securities—Debt Securities—General".

The terms of the Securities, including, where applicable, the specific designation, aggregate principal amount, denominations, maturity, premium, interest rate (which may be fixed, floating or zero) and time of payment of any interest, currency or currencies (including any currency unit) in which the Securities are denominated or in which payments in respect of the Securities may be made, terms for redemption or exchange at the option of Mexico or the holder, terms for sinking fund payments, terms relating to warrants (if issued), the initial public offering price and the other terms in connection with the offering and sale of each series of the Securities in respect of which this Prospectus is being delivered, will be set forth in one or more Prospectus Supplements relating to such series of Securities. The net proceeds to Mexico from each such sale will also be set forth in such Prospectus Supplements.

The Securities may be sold through agents designated from time to time, through underwriters or dealers, or directly by Mexico. If any agents of Mexico or any underwriters are involved in the sale of Securities, the names of such agents or underwriters and any commissions or discounts will be set forth in the applicable Prospectus Supplement.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE SECURITIES DESCRIBED HEREIN AND IN A PROSPECTUS SUPPLEMENT RELATING THERETO. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS QUALIFIED IN ITS ENTIRETY BY THE SUPPLEMENTARY INFORMATION CONTAINED IN SUCH PROSPECTUS SUPPLEMENT.

A notice will be filed by Mexico with the Special Section of the National Registry of Securities and Intermediaries of Mexico (the "Registry") maintained by the National Banking and Securities Commission in order to register the Securities therewith. Registration of the Securities with the Registry does not imply any certification as to the investment quality of the Securities, the economic condition of Mexico or the accuracy or completeness of the information contained in this Prospectus. The Securities may not be publicly offered or sold in Mexico.

This Prospectus is dated April 17, 1996 and replaces the Prospectus dated November 28, 1995.

References herein to "U.S. dollars" or "$" are to the lawful currency of the United States.

Unless otherwise specified in the applicable Pricing Supplement, Securities offered and sold outside the United States have not been and will not be registered under the United States Securities Act of 1933, as amended. Accordingly, subject to certain exceptions, such Securities may not be offered, sold or delivered within the United States or to U.S. persons.

Mexico is a foreign sovereign government. Consequently, it may be difficult for investors to obtain or realize upon judgments of courts in the United States against Mexico. Mexico will irrevocably submit to the jurisdiction of the federal and state courts in the Borough of Manhattan, The City of New York, and will irrevocably waive any immunity from the jurisdiction of such courts, in connection with any action based upon the Securities brought by any holder of Securities. Mexico reserves the right to plead sovereign immunity under the United States Foreign Sovereign Immunities Act of 1976 (the "Immunities Act") with respect to actions brought against it under United States federal securities laws or any state securities laws. In the absence of a waiver of immunity by Mexico with respect to such actions, it would not be possible to obtain a judgment in an action brought in a U.S. court against Mexico unless such court were to determine that Mexico is not entitled under the Immunities Act to sovereign immunity with respect to such action. See "Description of Securities—Debt Securities—Jurisdiction, Consent to Service and Enforceability".

Under Article 4 of the Federal Code of Civil Procedure of Mexico, attachment prior to judgment or attachment in aid of execution may not be ordered by Mexican courts against the property of Mexico.

Under the Mexican Monetary Law, payments which should be made in Mexico in foreign currency, whether by agreement or upon a judgment of a Mexican court, may be discharged in new pesos at a rate of exchange for new pesos prevailing at the time of payment.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

Mexico's Annual Report on Form 18-K (including all exhibits thereto) for the year ended December 31, 1994 (the "1994 Annual Report") filed with the United States Securities and Exchange Commission (the "Commission") and the amendments thereto filed with the Commission on July 14, 1995 and November 28, 1995 on Form 18-K/A (including all exhibits thereto) shall be incorporated by reference herein and into any accompanying Prospectus Supplement. In addition, any additional amendment on Form 18-K/A (including all exhibits thereto) to the 1994 Annual Report, each subsequent Annual Report on Form 18-K (including all exhibits thereto) and any amendments to such Form 18-K on Form 18-K/A (including all exhibits thereto) (collectively, a "Form 18-K"), filed with the Commission by Mexico subsequent to the date of this Prospectus and prior to the termination of the offering of the Securities, shall be deemed to be incorporated by reference herein and into any accompanying Prospectus Supplement and to be a part hereof and thereof from the date of the filing of such documents and shall supersede and replace any prior Form 18-K. As used herein, the term "Annual Report" shall refer to any Form 18-K incorporated herein not superseded or replaced by operation of the preceding sentence. Any statement herein or contained in a document that is incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus or any accompanying Prospectus Supplement to the extent that a statement contained in any accompanying Prospectus Supplement or in any other subsequently filed document that is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus or of any accompanying Prospectus Supplement.

Any person receiving a copy of this Prospectus may obtain, without charge, upon request, a copy of any of the documents incorporated by reference herein, except for the exhibits to such documents (other than exhibits expressly incorporated by reference therein). Requests for such documents should be directed to the Director General of Public Credit, Ministry of Finance and Public Credit, Insurgentes Sur 826, 9° Piso, Col. del Valle 03100, Mexico, D.F., Mexico (telephone: 52-5-682-2799 and 682-2209; facsimile: 52-5-228-1690).

Mexico shall undertake in connection with the listing of any Securities on the Luxembourg Stock Exchange that, so long as any Securities remain outstanding and listed thereon, in the event that there is a material change to the terms and conditions of such Securities or any material adverse change occurs in the economic affairs of Mexico which is not reflected in the Prospectus Supplement, together with the accompanying Prospectus, as then amended or supplemented, including any document incorporated by reference therein, Mexico will either prepare an amendment or supplement to the Prospectus Supplement and the accompanying Prospectus or prepare a new Prospectus Supplement to the accompanying Prospectus, for use in connection with any subsequent offering of Securities listed by Mexico on the Luxembourg Stock Exchange.

So long as any Securities remain outstanding and listed on the Luxembourg Stock Exchange, copies of Mexico's Annual Report on Form 18-K, this Prospectus and any Prospectus Supplement or Pricing Supplement relating to such Securities will be available, without charge, at the office of the paying agent for such Securities in Luxembourg (intitially, Citibank (Luxembourg) S.A.).

APPLICATION OF PROCEEDS

Unless otherwise specified in the applicable Prospectus Supplement, the net proceeds from the sale of Securities will be used for the general purposes of the Government, including the refinancing of domestic and external indebtedness of the Government.

DESCRIPTION OF SECURITIES

Debt Securities

The Debt Securities will be issued pursuant to a fiscal agency agreement dated September 1, 1992, as amended (the "Fiscal Agency Agreement") between Mexico and a bank or trust company, as fiscal agent (the "Fiscal Agent"). The Fiscal Agency Agreement has been, and the forms of Debt Securities with respect to the offering of a series of Debt Securities will be, filed as an exhibit to the Registration Statement of which this Prospectus forms a part. The following summary of certain provisions of the Fiscal Agency Agreement and the Debt Securities does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Fiscal Agency Agreement and the forms of Debt Securities, including the definitions therein of certain terms.

General

The Debt Securities will constitute direct, general and unconditional external indebtedness of Mexico. The Debt Securities will rank *pari passu,* without any preference among themselves, with all other unsecured and unsubordinated obligations of Mexico, present and future, relating to external indebtedness. For purposes of this paragraph, "external indebtedness" means any indebtedness for money borrowed which is payable by its terms or at the option of its holder in any currency other than the currency of Mexico (other than any such indebtedness that is originally issued or incurred within Mexico) and "indebtedness" means all unsecured and unsubordinated obligations of Mexico in respect of moneys borrowed by Mexico and guaranties of Mexico in respect of moneys borrowed by others. Mexico has pledged its full faith and credit for the due and punctual payment of principal of, interest on, and premium, if any, on the Debt Securities.

Reference is made to the Prospectus Supplement relating to the particular series of the Debt Securities offered thereby for the following terms of such Debt Securities: (a) the specific designation of such Debt Securities; (b) any limit on the aggregate principal amount of such Debt Securities; (c) the price or prices (expressed as a percentage of the aggregate principal amount thereof) at which such Debt Securities will be issued; (d) the date or dates on which such Debt Securities will mature; (e) the rate or rates (which may be fixed or floating) per annum at which interest, if any, on such Debt Securities will accrue, the dates on which such interest, if any, will be payable, the date or dates from which such interest, if any, will accrue and the record dates for the interest payable on any interest payment date; (f) the dates, if any, on which, and the price or prices at which, such Debt Securities will, pursuant to any mandatory sinking fund provisions, or may, pursuant to any optional sinking fund provisions or to any purchase fund provisions, be redeemed by Mexico, and the other detailed terms and provisions of such sinking and/or purchase funds; (g) the date, if any, after which, and the price or prices at which, such Debt Securities may, pursuant to any optional redemption or repayment provisions, be redeemed at the option of Mexico or repaid at the option of the holder thereof and the other detailed terms and provisions of such optional redemption or repayment; (h) the currency or currencies in which such Debt Securities are denominated, which may be U.S. dollars, another foreign currency or units of two or more currencies; (i) the currency or currencies for which such Debt Securities may be purchased and in which principal, premium, if any, and interest may be payable; (j) the manner in which the amount of payments of principal (and premium, if any) or interest on such Debt Securities is to be determined if such determination is to be made with reference to any index; and (k) any other terms of such Debt Securities not inconsistent with the provisions of the Fiscal Agency Agreement.

One or more series of Debt Securities may be sold at a substantial discount below their stated principal amount, bearing no interest or interest at a rate which at the time of issuance is below market rates. One or more series of Debt Securities may be floating rate debt securities, exchangeable for fixed rate debt securities. United States Federal income tax consequences and special considerations applicable to any such series will be described in the Prospectus Supplement relating thereto.

Unless otherwise specified in the applicable Prospectus Supplement, principal of and interest on the Debt Securities will be payable in lawful money of the United States of America at the New York office of the Fiscal Agent to the registered holders of the Debt Securities as of the due date for payment; *provided, however,* that unless otherwise specified in the Prospectus Supplement, interest will be paid by check mailed to the registered holders of the Debt Securities at their registered addresses.

Unless otherwise specified in the applicable Prospectus Supplement, the Debt Securities denominated in U.S. dollars will be issued in fully registered form only without coupons in denominations of $1,000 and integral multiples thereof. The authorized denominations of Debt Securities denominated in a currency or currency unit other than U.S. dollars will be set forth in the applicable Prospectus Supplement.

The register of holders of Debt Securities will be kept at the New York office of the Fiscal Agent. Transfers and exchanges of Debt Securities will be made without charge to the holders, but Mexico may require payment of a sum sufficient to cover any stamp or other tax or other governmental charge required to be paid in connection therewith, other than an exchange in connection with a partial redemption of Debt Securities not involving any registration of a transfer.

Any moneys held by the Fiscal Agent in respect of Debt Securities and remaining unclaimed for two years after such amount shall have become due and payable shall be returned to Mexico, and the holder of a Debt Security shall thereafter look only to Mexico for any payment to which such holder may be entitled.

Redemption and Repurchase

Unless otherwise set forth in the applicable Prospectus Supplement, the Debt Securities will not be redeemable prior to maturity at the option of Mexico or the registered holders thereof. Mexico may at any time purchase Debt Securities at any price in the open market or otherwise. Debt Securities so purchased by Mexico may, at Mexico's discretion, be held, resold or surrendered to the Fiscal Agent for cancellation.

Global Securities

The Debt Securities of a series may be issued in whole or in part in the form of one or more global securities ("Global Securities") that will be deposited with, or on behalf of, a depositary (the "Depositary") identified in the Prospectus Supplement relating to such series. Global Securities may be issued only in fully registered form, unless otherwise set forth in the applicable Prospectus Supplement, and in either temporary or definitive form. Unless and until it is exchanged in whole or in part for Debt Securities in definitive form, a Global Security may not be transferred except as a whole by the Depositary for such Global Security to a nominee of such Depositary or by a nominee of such Depositary to such Depositary or another nominee of such Depositary or by such Depositary or any nominee of such Depositary to a successor Depositary or any nominee of such successor.

The specific terms of the depositary arrangement with respect to a series of Debt Securities will be described in the Prospectus Supplement relating to such series. Unless otherwise specified in the Prospectus Supplement, Mexico anticipates that the following provisions will apply to depositary arrangements.

Upon the issuance of a Global Security, the Depositary for such Global Security will credit on its book-entry registration and transfer system the respective principal amounts of the Debt Securities represented by such Global Security to the accounts of persons that have accounts with such Depositary ("Participants"). Such accounts shall be designated by the agents or underwriters with respect to such Debt Securities or by Mexico if such Debt Securities are offered and sold directly by Mexico. Ownership of beneficial interests in a Global Security will be limited to Participants or persons that may hold interests through Participants. Ownership of beneficial interests in such Global Security will be shown on, and the transfer of that ownership will be effected only through, records maintained by the applicable Depositary (with respect to interests of Participants) and records of Participants (with respect to interests of persons who hold through Participants). Owners of beneficial interests in a Global Security (other than Participants) will not receive written confirmation from the applicable Depositary of their purchase. Each beneficial owner is expected to receive written confirmation providing details of the transaction, as well as periodic statements of its holdings, from the Depositary (if such beneficial owner is a Participant) or from the Participant through which such beneficial owner entered into the transaction (if such beneficial owner is not a Participant). The laws of some states require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to own, pledge or transfer beneficial interests in a Global Security.

So long as the Depositary for a Global Security, or its nominee, is the registered owner of such Global Security, such Depositary or such nominee, as the case may be, will be considered the sole owner or holder of the Debt Securities represented by such Global Security for all purposes under the Fiscal Agency Agreement. Except as specified below or in the applicable Prospectus Supplement, owners of beneficial interests in a Global Security will not be entitled to have any of the individual Debt Securities of the series represented by such Global Security registered in their names, will not receive or be entitled to receive physical delivery of any such Debt Securities in definitive form and will not be considered the owners or holders thereof under the Debt Securities or the Fiscal Agency Agreement. Accordingly, each person owning a beneficial interest in a Global Security must rely on the procedures of the Depositary for such Global Security and, if such person is not a Participant, on the procedures of the Participant through which such person owns its interest, to exercise any rights of a holder under the Debt Securities or the Fiscal Agency Agreement. Mexico understands that under existing industry practices, if Mexico requests any action of holders, or an owner of a beneficial interest in such Global Security desires to take any action which a holder is entitled to take under the Fiscal Agency Agreement, the Depositary for such Global Security would authorize the Participants holding the relevant beneficial interests to take such action, and such Participants would authorize beneficial owners owning through such Participants to take such action or would otherwise act upon the instructions of beneficial owners holding through them.

Payments of principal of and any premium and any interest on Debt Securities registered in the name of a Depositary or its nominee will be made to the Depositary or its nominee, as the case may be, as the registered owner of the Global Security representing such Debt Securities. None of Mexico, any Paying Agent or the Fiscal Agent, in its capacity as registrar for such Debt Securities, will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Mexico expects that the Depositary for a series of Debt Securities or its nominee, upon receipt of any payment of principal, premium or interest will credit Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Security as shown on the records of such Depositary. Mexico also expects that payments by Participants to owners of beneficial interests in such Global Security held through such Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in "street name". Such payments will be the responsibility of such Participants.

If a Depositary for a series of Debt Securities is at any time unwilling or unable to continue as Depositary and a successor Depositary is not appointed by Mexico within ninety days, Mexico will issue Debt Securities for such series in definitive form in exchange for the Global Security or Securities representing such series of Debt Securities. In addition, Mexico may at any time and in its sole discretion determine not to have the Debt Securities of a series represented by a Global Security or Securities and, in such event, will issue Debt Securities of such series in definitive form in exchange for the Global Security or Securities representing such series of Debt Securities. In either instance, an owner of a beneficial interest in a Global Security will be entitled to have Debt Securities of the series represented by such Global Security equal in principal amount to such beneficial interest registered in its name and will be entitled to physical delivery of such Debt Securities in definitive form. Debt Securities of such series so issued in definitive form will be issued in denominations of $1,000 and integral multiples thereof and will be issued in registered form only, without coupons.

Negative Pledge

Mexico undertakes that so long as any of the Debt Securities remain outstanding, it will not create or permit to subsist any Security Interest in the whole or any part of its present or future revenues or assets to secure Public External Indebtedness of Mexico, unless the Debt Securities are secured equally and ratably with such Public External Indebtedness; *provided, however,* that Mexico may create or permit to subsist:

(a) Security Interests created prior to December 3, 1993;

(b) Security Interests in bonds owned by Mexico which have been issued under the Discount and Par Bond Exchange Agreement, dated as of February 4, 1990, between Mexico and its creditors;

(c) Security Interests securing Public External Indebtedness incurred in connection with a Project Financing, provided that the Security Interest is solely in assets or revenues of the project for which the Project Financing was incurred;

(d) Security Interests securing Public External Indebtedness which (i) is issued by Mexico in exchange for debt of Mexican public sector bodies (other than Mexico), and (ii) is in an aggregate principal amount outstanding (with debt denominated in currencies other than U.S. dollars expressed in U.S. dollars based on rates of exchange prevailing at the date such debt was incurred) that does not exceed $29 billion; and

(e) Security Interests securing Public External Indebtedness incurred or assumed by Mexico to finance or refinance the acquisition of the assets in which such Security Interest has been created or permitted to subsist.

For the purposes of this covenant,

(i) "Public External Indebtedness" means any Public Indebtedness which is payable by its terms or at the option of its holder in any currency other than the currency of Mexico (other than any such Public Indebtedness that is originally issued or incurred within Mexico). For this purpose, settlement of original issuance by delivery of Public Indebtedness (or the instruments evidencing such Public Indebtedness) within Mexico shall be deemed to be original issuance within Mexico;

(ii) "Public Indebtedness" means any payment obligation, including any contingent liability, of any person arising from bonds, debentures, notes or other securities which (A) are, or were intended at the time of issuance to be, quoted, listed or traded on any securities exchange or other securities market (including, without limiting the generality of the foregoing, securities eligible for resale pursuant to Rule 144A under the U.S. Securities Act of 1933 (or any successor law or regulation of similar effect)) and (B) have an original maturity of more than one year or are combined with a commitment so that the original maturity of one year or less may be extended at the option of Mexico to a period in excess of one year;

(iii) "Project Financing" means any financing of all or part of the costs of the acquisition, construction or development of any project if the person or persons providing such financing (A) expressly agree to limit their recourse to the project financed and the revenues derived from such project as the principal source of repayment for the moneys advanced and (B) have been provided with a feasibility study prepared by competent independent experts on the basis of which it was reasonable to conclude that such project would generate sufficient foreign currency income to service substantially all Public External Indebtedness incurred in connection with such project; and

(iv) "Security Interest" means any lien, pledge, mortgage, security interest or other encumbrance.

Default; Acceleration of Maturity

In case of (a) default in any payment of principal of, premium, if any, or interest on any Debt Securities of any series and the continuance of such default for a period of 30 days; or (b) default in the performance of any other obligation under the Debt Securities of such series and the continuance of such default for a period of 30 days after written notice requiring the same to be remedied shall have been given to the Fiscal Agent by the holder of any Debt Security of such series; or (c) acceleration of in excess of $10,000,000 (or its equivalent in any other currency) in aggregate principal amount of Public External Indebtedness of Mexico by reason of an event of default (however described) resulting from the failure of Mexico to make any payment of principal or interest thereunder when due; or (d) failure to make any payment in respect of Public External Indebtedness of Mexico in an aggregate principal amount in excess of $10,000,000 (or its equivalent in any other currency) when due and the continuance of such failure for a period of 30 days after written notice requiring the same to be remedied shall have been given to the Fiscal Agent by the holder of any Debt Security of such series; or (e) declaration by Mexico of a moratorium with respect to the payment of principal of or interest on Public External Indebtedness of Mexico, then in any such case each holder of Debt Securities may by written demand given to Mexico and the Fiscal Agent declare the principal of, premium, if any, and any accrued interest on the Debt Securities held by it to be, and such principal, premium, if any, and any interest shall thereupon become, immediately due and payable, unless prior to receipt of such demand by Mexico all such defaults shall have been cured; *provided, however,* that in the case of any event described in clauses (b), (c) or (d) above, any notice declaring the Debt Securities of any series due and payable shall, unless at the time such notice is received any event described in clause (a) or (e) entitling holders of Debt Securities of such series to declare their Debt Securities due has occurred and is continuing, become effective only when the Fiscal Agent has received such notices from the holders of at least ten percent in principal amount of all Debt Securities of such series then outstanding. Debt Securities held by Mexico shall not be considered "outstanding" for purposes of the preceding sentence. "Public External Indebtedness" shall have the same meaning set forth under "Negative Pledge" above.

Meetings and Amendments

A meeting of holders of Debt Securities of any series may be called, as set forth below, at any time and from time to time to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Fiscal Agency Agreement or the Debt Securities of such series to be made, given or taken by holders of Debt Securities of such series or to modify, amend or supplement the terms of the Debt Securities of such series or the Fiscal Agency Agreement as hereinafter provided. Mexico may at any time call a meeting of holders of Debt Securities of any series for any such purpose to be held at such time and at such place as Mexico shall determine. Notice of each such meeting, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given as provided in the terms of the Debt Securities of a series, not less than 30 or more than 60 days prior to the date fixed for the meeting. In case at any time the holders of at least ten percent in aggregate principal amount of the Outstanding (as defined in the Fiscal Agency Agreement) Debt Securities of any series shall, after the occurrence and during the continuance of an Event of Default with respect to the Debt Securities of such series, have requested the Fiscal Agent to call a meeting of the holders of Debt Securities of such series for any such purpose, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, the Fiscal Agent shall call such meeting for such purposes by giving notice thereof.

To be entitled to vote at any meeting of holders of Debt Securities of any series, a person shall be a holder of Outstanding Debt Securities of such series or a person duly appointed by an instrument in writing as a proxy for such holder. The persons entitled to vote a majority in principal amount of the Outstanding Debt Securities of any series shall constitute a quorum. At the reconvening of any meeting adjourned for a lack of a quorum, the persons entitled to vote 25% in principal amount of the Outstanding Debt Securities of such series shall constitute a quorum for the taking of any action set forth in the notice of the original meeting. The Fiscal Agent may make such reasonable and customary regulations as it shall deem advisable for any meeting of holders of Debt Securities of any series with respect to the proof of the holding of Debt Securities of such series and the appointment of proxies in respect of such holders, the adjournment and chairmanship of such meeting, the appointment and duties of inspectors of votes, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate.

With the approval of holders of Debt Securities of any series (a) at a meeting duly called and held as specified above, upon the affirmative vote, in person or by proxy thereunto duly authorized in writing, of the holders of not less than 66⅔% in aggregate principal amount of the Debt Securities of such series then Outstanding represented at such meeting, or (b) with the written consent of the owners of 66⅔% in aggregate principal amount of the Debt Securities of such series then Outstanding, Mexico and the Fiscal Agent may modify, amend or supplement the terms of the Debt Securities of such series or, insofar as respects the Debt Securities of such series, the Fiscal Agency Agreement, in any way, and such holders may make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Fiscal Agency Agreement or the Debt Securities of such series to be made, given or taken by holders of Debt Securities of such series; *provided, however*, that no such action may, without the consent of the holder of each Debt Security of a series, (i) change the due date for the payment of the principal of, premium, if any, or any installment of interest on any Debt Security, (ii) reduce the principal amount of any Debt Security, the portion of such principal amount which is payable upon acceleration of the maturity of such Debt Security, the interest rate thereon, or any premium payable upon redemption thereof, (iii) change the coin or currency in which or the required places at which payment with respect to interest, any premium or principal in respect of the Debt Security is payable, (iv) shorten the period during which Mexico is not permitted to redeem Debt Securities of such series, or permit Mexico to redeem Debt Securities of such series if, prior to such action, Mexico is not permitted to do so, (v) reduce the proportion of the principal amount of the Debt Securities of such series the vote or consent of the holders of which is necessary to modify, amend or supplement the Fiscal Agency Agreement or the terms and conditions of the Debt Securities of such series or to make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided hereby or thereby to be made, taken or given, or (vi) change the obligation of Mexico to pay any additional amounts.

Mexico and the Fiscal Agent may, without the vote or consent of any holder of Debt Securities of any series, amend the Fiscal Agency Agreement or the Debt Securities of such series for the purpose of (a) adding to the covenants of Mexico for the benefit of the holders of Debt Securities of such series, (b) surrendering any right or power conferred upon Mexico, (c) securing the Debt Securities pursuant to the requirements of the Debt Securities or otherwise, (d) curing any ambiguity or curing, correcting or supplementing any defective provision contained in the Fiscal Agency Agreement or in the Debt Securities of such series or (e) amending the Fiscal Agency Agreement or the Debt Securities of such series in any manner which Mexico and the Fiscal Agent may determine and which shall not be inconsistent with the Debt Securities of such series and shall not adversely affect the interest of any holder of Debt Securities of such series in any material respect.

Jurisdiction, Consent to Service and Enforceability

Mexico has appointed its Consul General in New York, and his successors from time to time, as its authorized agent upon whom process may be served in any action based on the Securities which may be instituted in any state or federal court in the Borough of Manhattan, The City of New York by the holder of any Securities. Pursuant to the Fiscal Agency Agreement, Mexico and the Fiscal Agent have irrevocably submitted to the jurisdiction of any such court in respect of any such action and Mexico has irrevocably waived any objection which it may have to the venue of any such court in respect of any such action. Mexico's appointment of its authorized agent is irrevocable until all amounts in respect of the principal (and premium, if any) and interest due and to become due on or in respect of all the Securities have been paid to the Fiscal Agent, except that if, for any reason, the Consul General ceases to be able to act as such authorized agent or to have an address in The City of New York, Mexico will appoint another person in the Borough of Manhattan, The City of New York as its authorized agent. Mexico has irrevocably waived and agreed not to plead any immunity from the jurisdiction of any such court to which it might otherwise be entitled (including sovereign immunity and immunity from pre-judgment attachment, post-judgment attachment and execution) in any action based upon the Securities. In addition, Mexico has waived any rights to which it may be entitled on account of place of residence or domicile. Under Article 4 of the Federal Code of Civil Procedure of Mexico, attachment prior to judgment or attachment in aid of execution will not be ordered by Mexican courts against the property of Mexico.

Mexico reserves the right to plead sovereign immunity under the United States Foreign Sovereign Immunities Act of 1976 (the "Immunities Act") with respect to actions brought against it under United States federal securities laws or any state securities laws, and Mexico's appointment of the Consul General as its agent for service of process will not extend to such actions. In the absence of a waiver of immunity by Mexico with respect to such actions, it would not be possible to obtain a judgment in an action brought in a U.S. court against Mexico unless such court were to determine that Mexico is not entitled under the Immunities Act to sovereign immunity with respect to such action. However, even if a United States judgment could be obtained in any such action under the Immunities Act, it may not be possible to obtain in Mexico a judgment based on such a United States judgment. Moreover, execution upon property of Mexico located in the United States to enforce a judgment obtained under the Immunities Act may not be possible except under the limited circumstances specified in the Immunities Act.

Governing Law

The Fiscal Agency Agreement is, and the Securities will be, governed by and interpreted in accordance with the laws of the State of New York, except that all matters governing authorization and execution by Mexico will be governed by the laws of Mexico.

Warrants

Mexico may issue separately, or together with any Debt Securities, warrants to purchase Debt Securities (the "Warrants"). Any such Warrants will be issued under a warrant agreement to be entered into between Mexico and a bank or trust company, as warrant agent, all as set forth in a Prospectus Supplement relating to the particular series of Warrants. The Prospectus Supplement relating to the particular series of Warrants offered thereby will set forth: (a) the terms referred to above under "Debt Securities—General" of the Debt Securities purchasable upon exercise of such Warrants; (b) the principal amount of Debt Securities purchasable upon exercise of one Warrant, the exercise price, and the procedures of, and conditions to, exercise of such Warrants; (c) the dates on which the right to exercise such Warrants shall commence and expire, and whether and under what conditions such Warrants may be terminated or canceled by Mexico; (d) the date, if any, on and after which such Warrants and any Debt Securities with which such Warrants were issued will be separately transferable; (e) whether such Warrants will be issued in uncertificated, registered or bearer form, whether they will be exchangeable as between such forms, and if registered, where they may be transferred and registered; (f) special United States federal income tax considerations, if any, applicable to the issuance of any such Warrants; and (g) any other terms of such Warrants.

The above is a brief description of the Warrants and of the warrant agreement relating thereto, copies of the forms of which will be filed as exhibits to the Registration Statement of which this Prospectus forms a part by amendment to the Annual Report described below under "Further Information", if any Warrants are issued. This summary does not purport to be complete and is qualified in its entirety by reference to such exhibits.

PLAN OF DISTRIBUTION

Mexico may sell the Securities in any of three ways: (a) through underwriters or dealers; (b) directly to one or more purchasers; or (c) through agents. The Prospectus Supplement relating to a particular series of Securities offered thereby will set forth the terms of the offering, including the name or names of any underwriters, the purchase price of such Securities and the proceeds to Mexico from such sale, any underwriting discounts and other items constituting underwriters' compensation, any initial public offering price and any discounts or concessions allowed or reallowed or paid to dealers and any securities exchanges on which such Securities may be listed.

If underwriters are used in the sale of Securities, such Securities will be acquired by the underwriters for their own account and may be resold by them from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices to be determined at the time of sale. The Securities may be offered to the public either through underwriting syndicates represented by managing underwriters or directly by underwriters. Unless otherwise set forth in the applicable Prospectus Supplement, the obligations of the underwriters to purchase the Securities offered thereby will be subject to certain conditions precedent and the underwriters will be obligated to purchase all such Securities if any are purchased. Any initial public offering price and any discounts or concessions allowed or reallowed or paid to dealers may be changed from time to time.

The Securities may be sold directly by Mexico or through agents designated by Mexico from time to time. Any agent involved in the offer or sale of Securities in respect of which this Prospectus is delivered will be named, and any commissions payable by Mexico to such agent will be set forth, in the applicable Prospectus Supplement. Unless otherwise specified in the applicable Prospectus Supplement, any such agent will be acting on a reasonable best efforts basis for the period of its appointment.

If so indicated in the applicable Prospectus Supplement, Mexico will authorize agents, underwriters or dealers to solicit offers by certain specified entities to purchase the Securities offered thereby from Mexico at the public offering price set forth in such Prospectus Supplement pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. Such contracts will be subject only to those conditions set forth in such Prospectus Supplement and such Prospectus Supplement will set forth the commission payable for solicitation of such contracts.

If so indicated in the applicable Prospectus Supplement, Mexico may offer the Securities to present holders of other securities of Mexico as full, partial or alternative consideration for the purchase or exchange by Mexico of such other securities either in connection with a publicly announced tender, exchange or other offer for such securities or in privately negotiated transactions. Such offering may be in addition to or in lieu of sales of Securities directly or through underwriters or agents as set forth in the Prospectus Supplement.

Agents and underwriters may be entitled under agreements entered into with Mexico to indemnification by Mexico against certain liabilities, including liabilities under the United States Securities Act of 1933, as amended (the "Securities Act"), or to contribution with respect to payments which the agents or underwriters may be required to make in respect thereof. Agents and underwriters may engage in transactions with or perform services for Mexico in the ordinary course of business.

Unless otherwise specified in the applicable Pricing Supplement, in the case of Notes to be offered and sold outside the United States ("Non-U.S. Offerings"), each underwriter or dealer in connection with such offering shall acknowledge that the Notes which are the subject of such Non-U.S. Offering have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each underwriter or dealer participating in such offering shall agree that it has not offered or sold, and will not offer or sell, any Notes constituting part of its allotment of such Non-U.S. Offering within the United States except in accordance with Rule 903 of Regulation S under the Securities Act ("Regulation S"). Accordingly, each such underwriter or dealer shall agree that neither such underwriter or dealer nor its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to such Notes. Terms used in this paragraph have the meanings given to them by Regulation S.

OFFICIAL STATEMENTS

Information included herein which is identified as being derived from a publication of Mexico or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of Mexico. All other information herein and in the Registration Statement of which this Prospectus is a part is included as a public official statement made on the authority of Martin Werner, Director General of Public Credit of the Ministry of Finance and Public Credit of Mexico.

VALIDITY OF SECURITIES

The validity of the Securities will be passed upon for Mexico by the Fiscal Attorney of the Federation of Mexico or by the Director of Legal Procedures of Credit of the Ministry of Finance and Public Credit of Mexico, and by Cleary, Gottlieb, Steen & Hamilton, One Liberty Plaza, New York, New York 10006, United States counsel to Mexico, and for the underwriters, if any, by Sullivan & Cromwell, 125 Broad Street, New York, New York 10004 or other United States counsel to the underwriters named in the applicable Prospectus Supplement, and Ritch, Heather y Mueller, S.C., Amberes No. 5, 06600 México, D.F., Mexican counsel to the underwriters. As to all matters of Mexican law, Cleary, Gottlieb, Steen & Hamilton will rely on the opinion of the Fiscal Attorney of the Federation of Mexico or of the Director of Legal Procedures of Credit of the Ministry of Finance and Public Credit of Mexico, and Sullivan & Cromwell or such other United States counsel to the underwriters named in the applicable Prospectus Supplement will rely upon the opinions of the Fiscal Attorney of the Federation of Mexico or of the Director of Legal Procedures of Credit of the Ministry of Finance and Public Credit of Mexico and Ritch, Heather y Mueller, S.C. As to all matters of United States law, Ritch, Heather y Mueller, S.C., will rely upon the opinion of Sullivan & Cromwell or any other United States counsel to the underwriters. All statements with respect to matters of Mexican law in this Prospectus have been passed upon by the Fiscal Attorney of the Federation of Mexico and are made upon such official's authority and by Ritch, Heather y Mueller, S.C.

AUTHORIZED REPRESENTATIVE

The Authorized Representative of the United Mexican States in the United States of America is Sergio Hidalgo Monroy, Financial Representative—New York office of Banco Nacional de Comercial Exterior, S.N.C., whose address is 375 Park Avenue, Suite 1905, New York, New York 10152.

FURTHER INFORMATION

A Registration Statement with respect to Mexico and the Debt Securities has been filed with the Commission, Washington, D.C. under the Securities Act of 1933. Additional information concerning Mexico and the Securities is to be found in said Registration Statement, including the various exhibits thereto, which may be inspected at the office of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the regional offices of the Commission located at Seven World Trade Center, New York, New York 10048 and 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of all or any portion of the Registration Statement may be obtained from the Public Reference Section of the Commission, upon payment of prescribed fees.

Mexico is not subject to the informational requirements of the Securities Exchange Act of 1934. Mexico commenced filing annual reports on Form 18-K ("Annual Reports") with the Commission on a voluntary basis beginning with its fiscal year ended December 31, 1993. These reports include certain financial, statistical and other information concerning Mexico. Mexico may also file amendments on Form 18-K/A to its Annual Reports on Form 18-K for the purpose of filing with the Commission exhibits which have not been included in the registration statement or registration statements to which this Prospectus and any Prospectus Supplement hereto relate, which exhibits would thereby be incorporated by reference into such registration statement or registration statements. Such reports can be inspected and copied at the Public Reference Section of the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, as well as at the regional offices of the Commission located at Seven World Trade Center, New York, NY 10048 and 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of such reports may also be obtained at prescribed rates from the Public Reference Section of the Commission at its Washington, D.C. address.

Exhibit 1 to Form 18-K/A
AMENDMENT NO. 1
to the
ANNUAL REPORT
of the

UNITED MEXICAN STATES

For the Fiscal Year Ended December 31, 1995

As filed with the Securities and Exchange Commission
on September 17, 1996

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INTRODUCTION

References herein to "U.S.$", "$", "U.S. dollars" or "dollars" are to United States dollars. References herein to "pesos" or "Ps." are to the lawful currency of Mexico which, effective January 1, 1993, replaced its former currency (also called "peso") at the rate of one peso to one thousand old pesos. During the transition period from January 1, 1993 through December 31, 1995, the new currency was referred to as the "nuevo peso" and from January 1, 1996 is referred to as the "peso". All amounts set forth herein in Mexican currency are stated in pesos, even if such amounts relate to a period before January 1, 1996, including before January 1, 1993, with respect to which the amounts are restated herein to reflect the value of the new currency relative to the old. References herein to "nominal" data are to data expressed in pesos that have not been adjusted for inflation, and references to "real" data are to data expressed in inflation-adjusted pesos. Unless otherwise indicated, (a) U.S. dollar equivalents of peso amounts as of a specified date prior to December 20, 1994 are based on the market exchange rate for such date published for statistical purposes by Banco de México, and U.S. dollar equivalents of peso amounts for a period ending on or prior to December 31, 1994 are based on the average of such published daily market exchange rates for such period, and (b) U.S. dollar equivalents of peso amounts as of a specified date on or after December 20, 1994 are based on the exchange rate for such date announced by Banco de México for the payment of obligations denominated in currencies other than pesos and payable within the United Mexican States ("Mexico"), and U.S. dollar equivalents of peso amounts for a period ending after December 31, 1994 are based on the average of such announced daily exchange rates for such period. Banco de México calculates such announced rate daily on the basis of an average of rates obtained in a representative sample of financial institutions whose quotations reflect market conditions for wholesale operations. Banco de México uses this rate when calculating Mexico's official economic statistics. The exchange rate announced by Banco de México on September 13, 1996 (to take effect on the second business day thereafter) was $1.00 = Ps. 7.5139. See "The External Sector of the Economy—Exchange Controls and Foreign Exchange Rates".

The peso has depreciated substantially in relation to the U.S. dollar since the end of 1994, when the Federal Government of Mexico (the "Government") allowed the peso to float freely against the U.S. dollar. Although the Government has established a broad economic reform program in response to these and other events, the value of the peso has been unstable and tended to depreciate further against the U.S. dollar. See "Recent Developments". Due to the volatility of the peso/dollar exchange rate, the exchange rate on any date subsequent to the date hereof could be materially different from the rate indicated above. See "The External Sector of the Economy—Exchange Controls and Foreign Exchange Rates".

Under the Mexican Monetary Law, payments which should be made in Mexico in foreign currency, whether by agreement or upon a judgment of a Mexican court, may be discharged in pesos at the rate of exchange for pesos prevailing at the time of payment.

The fiscal year of the Government ends December 31. The fiscal year ended December 31, 1995 is referred to herein as "1995" and other years are referred to in a similar manner.

SUMMARY

The following summary does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere herein.

United Mexican States

	1991	1992	1993	1994	1995	First Half 1996	Budget 1996(1)
				(in millions of dollars or pesos)			
The Economy							
Gross Domestic Product ("GDP")							
Nominal	Ps.865,166	Ps.1,019,156	Ps.1,145,382	Ps.1,272,799 (2)	Ps.1,604,368 (2)	Ps.2,285,266 (2)	Ps.2,204,200
Real(3)	Ps. 5,463	Ps. 5,616	Ps. 5,659	Ps. 5,858 (2)	Ps. 5,452 (2)	Ps. 1,270.4 (2)(4)	Ps. 5,662
Real GDP growth	3.6%	2.8%	0.7%	3.5%(2)	(6.9)%(2)	3.0%(2)(4)	3.0%
Increase in national consumer price index	18.8%	11.9%	8.0%	7.1%	52.0%	15.3%	20.5%
Merchandise export growth(5)	4.9%	8.2%	12.3%	17.3%	30.1%(2)	18.4%(2)	19.4%
Non-oil merchandise export growth(5)	12.8%	9.8%	17.4%	20.2%	33.1%(2)	17.4%(2)	n.a.
Oil export growth	(19.2)%	1.7%	(10.7)%	0.4%	13.1%(2)	26.1%(2)	n.a.
Oil exports as % of merchandise exports(5)	19.1%	18.0%	14.3%	12.2%	10.6%(2)	11.8%(2)	n.a.
Balance of payments							
Current account	$ (14,647)	$ (24,438)	$ (23,399)	$ (29,662)	$ (716)(2)	$ 523 (2)	$ (1,000)
Trade Balance	$ (7,279)	$ (15,934)	$ (13,481)	$ (18,464)	$ 7,089 (2)	$ 4,127 (2)	n.a.
Capital account	$ 24,507	$ 26,419	$ 32,482	$ 14,584	$ 14,112 (2)	$ 1,720 (2)	n.a.
Change in total reserves(6)	$ 7,378	$ 1,008	$ 5,983	$ (18,389)	$ 9,593 (2)	$ (339) (2)	n.a.
Total reserves (end of period)(7)	$ 17,547	$ 18,554	$ 24,538	$ 6,148	$ 15,741	$ 15,402	n.a.
Ps./$ free market exchange rate (end of period)(8)	3.075	3.119	3.192	5.325	7.643	7.611	7.7
28-day *Cetes* (Treasury bill) rate (% per annum)(9)	19.3%	15.6%	15.0%	14.1%	48.5%	35.4%	25.6%

	1991	1992	1993	1994	1995(2)	First Half 1996(2)	Budget 1996(1)
				(in millions of pesos)(3)			
Public Finance(10)							
Budgetary public sector revenues	Ps. 1,407.4	Ps. 1,466.1	Ps. 1,458.9	Ps. 1,487.5	Ps. 1,426.3	Ps. 593.3	Ps. 1,389.1
% of GDP	25.8%	26.1%	25.8%	25.4%	26.2%	22.4%	24.5%
Budgetary public sector expenditures	Ps. 1,429.3	Ps. 1,377.7	Ps. 1,416.0	Ps. 1,508.0	Ps. 1,429.1	Ps. 558.9	Ps. 1,389.7
% of GDP	26.2%	24.5%	25.0%	25.7%	26.2%	21.1%	24.5%
Financial balance (public sector borrowing requirement) as % of GDP(11)	(1.5)%	0.5%	—	—	—	—	—
Public sector balance (economic balance) as % of GDP(11)	(0.6)%	1.6%	0.7%	(0.1)%	0.05%	1.3%	0.0%
Primary balance as % of GDP(11)	5.3%	5.7%	3.7%	2.3%	5.5%	5.0%	4.0%
Operational balance as % of GDP(11)	2.9%	2.5%	0.9%	0.7%	2.2%	n.a.	n.a.

	1991	1992	1993	1994	1995	First Half 1996
			(in billions of dollars)			
Public Debt(12)						
Net internal public debt(13)	$ 50.5	$ 40.5	$ 40.1	$ 31.4	$ 17.3(2)	$ 17.9 (2)
External public debt(14)	$ 80.0	$ 75.8	$ 78.7	$ 85.4	$ 100.9	$ 98.5
Long-term	$ 78.3	$ 72.3	$ 74.5	$ 79.1	$ 93.7	$ 92.3
Short-term	$ 1.7	$ 3.5	$ 4.2	$ 6.4	$ 7.2	$ 6.2
Public debt as % of nominal GDP						
Net internal public debt(13)	17.9%	12.4%	11.1%	13.4%(2)	7.0%(2)	5.3%(2)
External public debt	28.4%	23.2%	21.7%	36.4%(2)	41.0%(2)	29.9%(2)
Total public debt as % of nominal GDP	46.3%	35.6%	32.8%	49.8%(2)	48.0%(2)	35.2%(2)
Interest on external public debt as % of merchandise exports(5)	14.0%	11.6%	9.3%	8.8%	7.9%	7.6%

Note: Totals may differ due to rounding.

(Footnotes on following page)

(Footnotes from table on preceding page)

n.a. = Not available.

(1) Budget 1996 figures represent budgetary estimates, are based on economic assumptions contained in the ARE (as defined under "Recent Developments—The Government's Response") and do not reflect actual results for the year or updated estimates of Mexico's 1996 economic results.

(2) Preliminary.

(3) Constant pesos with purchasing power as of December 31, 1980.

(4) Constant pesos with purchasing power as of December 31, 1993.

(5) Merchandise export figures include in-bond industry and exclude tourism. See "External Sector of the Economy—In-bond Industry".

(6) Because of the impact of errors and omissions and purchases, sales and revaluation of bullion, figures for changes in total reserves do not reflect the sum of the current and capital accounts.

(7) Total international reserves are calculated net of foreign exchange liabilities of Banco de México with a maturity of six months or less. As a result, total reserves at the end of each year do not equal the change in reserves for such year plus reserves at the end of the preceding year.

(8) For each of 1991-1993, "free market rate" represents the end-of-period free exchange rate published for statistical purposes by Banco de México. For 1994 and 1995, "free market rate" represents the end-of-period exchange rate announced by Banco de México for the payment of obligations denominated in currencies other than pesos and payable within Mexico. Budget 1996 exchange rate represents the projected average daily exchange rate for 1996.

(9) Annual average of weekly rates, calculated on a month-by-month basis.

(10) Includes aggregate revenues and expenditures for the Government and budget- and administratively-controlled agencies but not off-budget revenues or expenditures. See "Public Finance—General".

(11) The definitions of "financial balance", "public sector balance", "primary balance" and "operational balance" are discussed under "Public Finance—General—Measures of Fiscal Balance". Each of financial balance, public sector balance, primary balance and operational balance excludes proceeds of privatizations. Beginning in 1993, the Government ceased calculating financial balance and replaced this measure with public sector balance (referred to prior to 1993 as "economic balance").

(12) Includes direct debt of the Government, public sector debt guaranteed by the Government and other public sector debt.

(13) "Net internal debt" represents the internal debt of the Government and the budget-controlled agencies at the end of the indicated period, excluding Banco de México's General Account Balance (which was negative as of December 31, 1995, indicating moneys owed to the Government) and the assets of the *Fondo de Ahorro Para el Retiro* ("Retirement Savings System Fund"). See "Public Finance—General—Treatment of Public Sector Agencies and Enterprises", "Public Debt—Internal Debt" and "Tables and Supplementary Information—Public Debt of the Government—Direct Debt of the Government". In addition, net internal debt includes only securities sold to the public in primary auctions but not debt allocated to Banco de México for its use in regulating liquidity ("*Regulación Monetaria*"). *Regulación Monetaria* does not increase the Government's overall level of internal debt, because Banco de México must reimburse the Government for any allocated debt that Banco de México sells into the secondary market and that is presented to the Government for payment. If Banco de México undertakes extensive sales of allocated debt into the secondary market, however, *Regulación Monetaria* can result in a situation in which the level of outstanding internal debt is higher than the Government's figure for net internal debt. For example, at the end of 1994, the Government's net internal foreign currency-denominated debt was approximately $17.2 billion, although approximately $29.2 billion of dollar-denominated Tesobonos (as defined below under "Recent Developments—Events During 1994") were outstanding. The $12.0 billion difference represented *Regulación Monetaria*.

Beginning in 1994, net internal debt is calculated using the end-of-period exchange rate announced by Banco de México for the payment of obligations denominated in currencies other than pesos and payable within Mexico (rather than the end-of-period peso/dollar market exchange rate published by Banco de México for statistical purposes) and without consolidation with the debt of Banco de México. Figures for 1990-1993 have been restated based on this methodology, which conforms to that used by the Ministry of Finance and Public Credit in other public reports.

(14) External debt is presented herein on a "gross" basis and includes external obligations of the public sector at their full outstanding face or principal amounts at the end of the indicated period. For certain informational and statistical purposes, Mexico sometimes reports its external public sector debt on a "net" or "economic" basis, which is calculated as the gross debt net of certain financial assets held abroad. These financial assets include the value of principal and interest collateral on bonds (see "Public Debt—External Debt Restructuring and Debt and Debt Service Reduction Transactions") and Mexican public sector external debt that is held by public sector entities but that has not been cancelled. External public sector debt does not include (a) repurchase obligations of Banco de México with the International Monetary Fund, of which the equivalent of $13.9 billion was outstanding at August 2, 1996 (using an exchange rate of one Special Drawing Right ("SDR") = $1.4613), (b) external borrowings by the public sector after June 30, 1996 of approximately $6.0 billion in capital market financings and (c) loans from the Commodity Credit Corporation to private sector Mexican banks.

Source: Ministry of Finance and Public Credit.

RECENT DEVELOPMENTS

Events During 1994

During the period from 1982 through 1994, Mexico pursued far-reaching and comprehensive adjustment policies designed to reform its economy and achieve a return to sustained economic growth. These policies included fiscal discipline, tax reform, trade liberalization, opening the economy to foreign investment, reform of certain public sector prices to conform to market conditions, deregulation, privatization of certain non-strategic public sector enterprises and an exchange rate and monetary policy aimed at slowing the rate of inflation in Mexico to levels approximating those of its major trading partners. See "The Economy—General".

While successful in reducing inflation from 159.2% in 1987 to 7.1% in 1994 and achieving real GDP growth averaging 3.0% over the 1990-1994 period, the Mexican economy had certain weaknesses by 1994 that made it unable to withstand the severe internal and external political and economic shocks that occurred in 1994, resulting in the destabilization of the Mexican economy at the end of 1994, a crisis of confidence on the part of foreign portfolio investors and an economic and financial crisis facing the Government since the beginning of 1995. See "—Economic and Political Developments in 1995 and 1996".

Among the weaknesses of the economy apparent in 1994 was a reduced level of domestic savings. While Mexico, during the decade from 1975-1985, registered levels of domestic savings in excess of 20% of GDP, by 1994 the level of domestic savings had fallen to 15% of GDP, reducing the resources available for the investment necessary for continued economic growth. In contrast, the levels of domestic savings in growing economies in southeast Asia and in certain Latin American countries have been closer to 30% of GDP. From 1990 through 1994, the difference between the savings rate and investment in Mexico was reflected in a substantial current account deficit, which reached $24.4 billion in 1992, $23.4 billion in 1993 and $29.4 billion in 1994. By the end of 1994 Mexico's current account deficit had become unsustainable for the reasons noted below.

A second weakness of the Mexican economic model arose from the Government's exchange rate policy. Over the period from December 1987 through December 1994, representatives of the Government, business and labor entered into a series of social accords designed to limit price and wage increases so as to lower the rate of inflation, which had by 1987 reached 159.2%. Among the elements included in the first accord was a commitment by the Government to maintain a fixed peso/dollar exchange rate from February to December 1988. Thereafter, the Government implemented a schedule of gradual devaluation of the peso at rates of 16.7% in 1989, 11.4% in 1990, 4.5% in 1991 and 2.4% in 1992, as compared with annual inflation rates of 19.7% in 1989, 29.9% in 1990, 18.8% in 1991 and 11.9% in 1992. From October 1992 through December 20, 1994, the peso/dollar exchange rate was allowed to fluctuate within a band that widened daily. The ceiling of the band, *i.e.*, the maximum selling rate, depreciated at a daily rate of 0.0004 pesos (equal to approximately 4.5% per year), while the floor of the band, *i.e.*, the minimum buying rate, remained fixed. During this period, Banco de México intervened in the foreign exchange market as the peso/dollar exchange rate reached either the floor or the ceiling of the band. While the Government's exchange rate policy contributed to general economic stability, encouraged foreign portfolio investment and helped reduce inflation, over time it led to a progressive overvaluation of the peso. The appreciation of the peso made imported consumer goods and services relatively more accessible in comparison with domestic products, contributing to the growth in the current account deficit, which rose from 3.0% of GDP in 1990 to 8.0% of GDP in 1994.

In order to finance the growing current account deficit, Mexico relied on substantial inflows of foreign direct investment and portfolio investment. From 1990 through 1993, the capital account surplus exceeded the current account deficit, leading to an accumulation of international reserves to the level of $24.5 billion at the end of 1993. From 1992 through 1994, increasing amounts of capital inflows were made up of foreign portfolio investment, including investments in the Mexican stock market and investments in short-term Government and private sector debt instruments, such as bank certificates of deposit. The portfolio investors were attracted to Mexico because of its relatively high real interest rates and high returns on equity investments, compared to returns on investments in developed countries, and its relatively stable exchange rate. The portfolio investment flows were, however, by their nature less stable than direct foreign investment (because investors could generally liquidate their portfolio investments at any time) and left Mexico vulnerable to losing large amounts of foreign capital during 1994.

During 1994, internal and external events combined to complicate the management of the Mexican economy and, in particular, adversely affected the capital inflows needed to finance the current account deficit. On the one hand, the U.S. monetary authorities took measures to increase interest rates in the United States in order to control inflationary pressures in that country. The progressive increases in interest rates in the United States during 1994, as well as the prospect of further increases in those rates, made Mexican investments and investments in other emerging markets relatively less attractive to foreign portfolio investors and led to a reluctance on the part of investors to commit capital at fixed interest rates or for long periods of time in those markets.

The economic background deteriorated further due to a series of internal disruptions and political events that undermined the confidence of investors in Mexico during 1994. At the beginning of the year, armed insurgents attacked (and in some cases temporarily seized control of) several villages in the southern state of Chiapas. While the Government responded by providing support to the local authorities and publicly offering to negotiate a peaceful resolution that would address the underlying concerns of the local population, the conflict remained a source of debate and uncertainty for the remainder of the year. Negotiations with the insurgents continued through the spring of 1994, but subsequently were broken off. In December, the Congress approved the creation of a Congressional peace commission, to be formed by members of both chambers of Congress, which would be responsible for mediating the negotiations between the Government and the insurgents. By late December 1994, however, the insurgents had not yet agreed to resume negotiations and the region experienced additional incidents of civil unrest.

The Mexican Presidential and Congressional elections held in 1994 furnished additional grounds for investor unease. In March 1994, Luis Donaldo Colosio, the presidential candidate of the *Partido Revolucionario Institucional* (Institutional Revolutionary Party, or "PRI"), the dominant political party in Mexico, was assassinated. That event, together with the general uncertainty regarding the outcome and fairness of the Presidential and Congressional elections scheduled to occur in August 1994, led to pressures on the foreign exchange market. While that uncertainty abated after Ernesto Zedillo Ponce de León of the PRI was elected President in August 1994 in an election that was widely perceived as fair and open, substantial outflows of foreign capital occurred in the weeks preceding the election.

Other destabilizing events during the year included the assassination of José Francisco Ruíz Massieu, the former secretary-general of the PRI, and the kidnapping of several prominent businessmen. Despite the fact that the Chiapas conflict was confined to a relatively small geographic area and that the Government condemned the assassinations and kidnappings as criminal acts, these events caused some investors to believe that the Mexican political system was less stable than had been believed.

At the end of the first quarter of 1994, the Mexican authorities responded to the pressure on the peso/dollar exchange rate that resulted from certain of the above-mentioned events by permitting the exchange rate to depreciate, but always within the limit of the Banco de México intervention band established in the most recent social accord. In addition, in order to retain the capital of investors who perceived a risk of further devaluation of the peso, the Government issued increasing amounts of *Bonos de la Tesorería de la Federación* (Bonds of the Treasury of the Federation, or "Tesobonos"), short-term notes denominated in dollars but payable in pesos indexed to the value of the dollar. The Government also increased interest rates on its peso-denominated internal debt in an attempt to maintain capital inflows. While the Government was aware of the large current account deficit and the unease of investors, it believed throughout much of 1994 that the real exchange rate remained competitive, particularly given the continued robust growth of exports of manufactured goods and the continued diversification of Mexican exports, and that the factors that had provoked uncertainty among investors were transitory. The Government's attempts to stabilize the exchange rate and restore capital inflows were not, however, successful and the Government suffered a substantial loss in gross international reserves in 1994, from $24.5 billion at the end of 1993 to $17.2 billion on October 31, 1994. During the second half of December 1994, capital continued to flee the country as investors grew even more concerned, resulting in a strong demand for dollars. Given the loss in reserves that had occurred throughout the year, it became impossible to maintain the peso within the band established by the most recent social accord, and on December 20, 1994, the Government increased the ceiling of the intervention band by Ps. 0.53. That action proved insufficient to address the concerns of investors, and the demand for foreign currency continued. On December 22, 1994, the Government eliminated the intervention band and allowed the peso to float freely against the dollar. A sharp and rapid devaluation of the peso ensued, with the peso losing 34.9% of its value relative to the dollar between December 21, 1994 and December 31, 1994. By December 31, 1994, the country's international reserves had dropped to $6.1 billion, as a result of substantial outflows of foreign currency and the Government's efforts to support the value of the peso during 1994.

The devaluation at the end of 1994 has had a number of adverse repercussions on the Mexican economy. First, the weaker value of the peso relative to the dollar increased the cost, in peso terms, of imported goods and services, and thereby increased the rate of inflation in Mexico. To the extent that employers adjusted wages upward to compensate for the decline in purchasing power resulting from the devaluation, and then adjusted prices to reflect increased wage costs, additional inflationary pressures have arisen. The inflation rate (measured by the increase in the National Consumer Price Index ("NCPI") from December 1994 to December 1995) was 52.0% in 1995.

Second, the devaluation caused the peso value of Mexico's external public debt and its dollar-denominated Tesobonos to increase significantly, from 25.6% of GDP at November 30, 1994 to 39.9% of GDP at December 31, 1994. Mexico's public sector and private sector debt can be summarized as follows:

	December 31		
	1993	1994	1995
	(in millions of dollars)		
Public Sector			
Net Internal Debt(1)	$40,123	$31,397	$ 17,322(2)
Peso-denominated	38,624	13,919	16,854(2)
Foreign currency-denominated	1,499	17,478	468
Tesobonos(1)	1,180	17,224	257
Other	319	254	211(2)
External Debt(3)	78,747	85,436	100,934
Maturing in Two Years or More	64,005	65,691	74,866
Maturing between One and Two Years	4,963	7,273	10,262
Maturing in Less than One Year(4)	9,779	12,472	15,806
Private Sector			
Commercial Bank External Debt	23,808	25,124	20,911
Long-term(5)	n.a.	15,199	13,236
Short-term(6)	n.a.	9,925	7,675
Other Private Sector External Debt	20,245	22,074	23,457(2)
Maturing in Two Years or More	n.a.	10,791	8,043(2)
Maturing between One and Two Years	n.a.	3,075	3,603(2)
Maturing in Less than One Year(4)	n.a.	8,208	11,811(2)

(Footnotes on following page)

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n.a = Not available.

(1) See "Public Debt—Internal Debt" for an explanation of how "net internal debt" is calculated. This figure does not include Tesobonos sold by Banco de México in open-market operations to regulate liquidity, which amounted to approximately $12 billion outstanding as of December 31, 1994.

(2) Preliminary.

(3) See "Public Debt—External Debt" for an explanation of how "external debt" is calculated. External public sector debt does not include (a) repurchase obligations of Banco de México with the International Monetary Fund, of which the equivalent of $13.9 billion was outstanding at August 2, 1996 (using an exchange rate of one SDR = $1.4613), (b) external borrowings by the public sector after December 31, 1995 of approximately $11.8 billion in capital market financings and (c) loans from the Commodity Credit Corporation to private sector Mexican banks.

(4) Figures for debt maturing in less than one year include both short-term maturities and maturities falling due in respect of long-term debt.

(5) Debt with maturity of one year or more from the date of issue.

(6) Debt with maturity of less than one year from the date of issue, principally time deposits, promissory notes and bankers' acceptances (including rollovers of the foregoing).

Source: Ministry of Finance and Public Credit.

Third, the devaluation led to a lack of confidence on the part of investors in Mexico's ability to repay its short-term obligations and, consequently, a reluctance of investors to reinvest in Mexico's maturing Tesobonos. As a result, Mexico faced a liquidity crisis linked closely to the $29.2 billion of short-term Tesobonos outstanding at the end of 1994 and maturing in 1995. Demand for foreign currency resulting from the above factors and the conversion by certain investors of the peso proceeds of maturing Tesobonos increased the pressure on the exchange rate. The value of the peso continued to deteriorate during early 1995, with the peso/dollar exchange rate announced by Banco de México falling to Ps. 7.588 = $1.00 on March 13, 1995, a 29.8% decline from its value on December 31, 1994. See "External Sector of the Economy—Exchange Controls and Foreign Exchange Rates". The country's international reserves also fell, as many investors did not choose to reinvest in maturing Government debt, including Tesobonos and *Cetes* (Treasury bills). At January 31, 1995, Mexico's gross international reserves totalled $3.483 billion.

Fourth, the devaluation created concerns about the stability of the Mexican banking system. The devaluation of the peso, higher domestic interest rates and anticipated contraction in real GDP in 1995 combined to weaken the quality of the assets of Mexican banks. As at December 31, 1994, past-due loans represented approximately 7.3% of total commercial bank loans, and, on average, Mexican banks had provisions covering only 48.6% of past-due loans. By March 31, 1996, past-due loans had increased to 7.4% of total loans, and the portion of the past-due loans as to which Mexican banks had provisions had increased to 76.4% of such loans.

In addition, as of December 31, 1995, the foreign currency-denominated liabilities of Mexican commercial banks totalled approximately $20.9 billion, of which $13.2 billion had a maturity of 365 days or longer. The peso-denominated equity of Mexican banks is now a proportionately smaller percentage of their total assets, and, as a result, certain banks have had difficulty meeting required capital adequacy levels.

These concerns have led to sharply higher interest rates, both domestically and externally, on Mexican public and private sector debt and sharply reduced opportunities for refinancing or refunding maturing debt issues. During 1995, interest rates on 28-day *Cetes* averaged 48.5%, as compared with an average interest rate of 14.1% during 1994 as a whole. Interest rates increased sharply during the first four months of 1995 in response to the economic and financial events of that period and the Government's 1995 Economic Plan. From May through September, interest rates declined gradually, but increased in October and November 1995, partially in response to increased volatility of the peso/dollar exchange rate. During the first eight months of 1996, interest rates on 28-day *Cetes* averaged 33.8% as compared with an average interest rate of 50.7% during the same period of 1995. On September 11, 1996, the 28-day *Cetes* rate was 23.46% and the 91-day *Cetes* rate was 27.73%. See "The Economy—Interest Rates". Mexican equity securities have also been adversely affected by events since the end of 1994, with the Mexican Stock Market Index (as defined under "Financial System—The Securities Markets") falling 36.3% in nominal peso terms from December 20, 1994 to February 27, 1995. However, the Stock Market Index subsequently recovered, increasing 107.8% in nominal peso terms from February 27, 1995 to July 31, 1996. Overall, the Stock Market Index increased 8.2% in nominal peso terms and decreased 7.5% in real terms during the first seven months of 1996. See "Financial System—The Securities Markets".

The Government's Response

In order to address the adverse economic situation that developed at the end of 1994, the Zedillo Administration announced in January 1995 a new economic program and a new accord among the Government, business and labor, the *Acuerdo de Unidad Para Superar la Emergencia Económica* (Agreement for Unity in Overcoming Mexico's Economic Emergency, or "AUSEE").

It became clear during the first two months of 1995, however, that the AUSEE would have to be reinforced in order to restore stability to Mexico's financial and foreign exchange markets. On March 9, 1995, the Government accordingly announced the *Programa de Acción para Reforzar el AUSEE* (Action Program to Strengthen the AUSEE, or "PARAUSEE"), which strengthened key aspects of the AUSEE. The PARAUSEE, together with the international support package described below, formed the basis of Mexico's 1995 economic plan (the "1995 Economic Plan").

The objectives of the PARAUSEE, together with the international support package, were to stabilize the financial markets, lay the foundation for a return to lower inflation rates over the medium-term, preserve Mexico's international competitiveness, maintain the solvency of the banking system and attempt to reassure long-term investors of the strong underlying fundamentals of the Mexican economy.

The central elements of the PARAUSEE were fiscal reform, aimed at increasing public revenues through price and tax adjustments and reducing public sector expenditures; restrictive monetary policy, characterized by limited credit expansion; stabilization of the exchange rate while maintaining the current floating exchange rate policy; reduction of the current account deficit; introduction of certain financial mechanisms (described below) to enhance the stability of the banking sector; and maintenance and enhancement of certain social programs, to ease the transition for the poorest segments of society.

On October 29, 1995, the Zedillo Administration announced the establishment of a new accord among the Government and the business, labor and agricultural sectors of the economy known as the *Alianza para la Recuperación Económica* (Alliance for Economic Recovery or "ARE"). The chief objectives of the ARE are to stimulate economic recovery and job creation, and to strengthen the basis for gradual and sustainable economic growth. These general objectives are intended to be accomplished through (i) the establishment of tax incentives for business aimed at increasing employment and investment in productive activities, (ii) a gradual increase in the prices of public sector goods and services, (iii) the promotion of consumer spending resulting from increases in employment and private and public investment, (iv) increased exports and (v) the reform of Mexico's pension system, in order to encourage private domestic savings. As a result of these policies, the retail prices of gasoline and diesel fuel increased by 7% in December 1995 and by 6% in April 1996. In addition, those prices are increasing at a monthly rate of 1.2% in 1996 (other than in April 1996). Furthermore, pursuant to the ARE the Government increased the minimum wage by 22% (10% in December 1995 and 12% in April 1996) and is increasing expenditures for job training programs and programs for social development, including within the agrarian sector.

The Government further anticipates under the ARE to have a balanced fiscal budget for 1996 as the fiscal and budgetary effects of the economic stimulus program are balanced with a reduction of 4.7% in public current expenditures. In addition, the Government intends to maintain the existing floating exchange rate system, refrain from increasing generally income and other tax rates, reduce inflation to approximately 20.5% for 1996 and to generate an increase in real GDP of 3% in 1996 as compared with 1995. No assurances can be given, however, that the Government will be successful in achieving its inflation and growth target rates for 1996.

Likewise, the Government will further promote an increase in private investment in electricity generation with the purpose of increasing productivity and to secure financing for the expansion of generating capacity. Moreover, private investment should contribute to the expansion of the facilities for the transportation, storage and distribution of natural gas and the expansion of the secondary petrochemical industry; public investment by *Petróleos Mexicanos*, the state-owned oil company, will be concentrated in areas of exploration and production of crude oil, natural gas and refined products.

As another key element of the Government's strategy to improve the economic and social conditions of less developed sectors of the Mexican society, the Government established on October 31, 1995 a national rural development program known as *Alianza para el Campo* ("Rural Alliance"). The purposes of the Rural Alliance are to increase productivity, fight poverty, raise the income of families living in Mexico's rural zones, produce enough basic foods for the population and promote exports of agricultural products.

The following table summarizes certain key economic indicators for 1994 and 1995, and key economic indicators for 1996, as projected under the ARE.

	1994 Actual	1995 Preliminary	1996 Projections (ARE)
Primary balance (% of GDP)(1)	2.3%	5.5%	4.0%
Average peso/dollar nominal exchange rate	3.2(2)	6.4(3)	7.7
Inflation (December—December)	7.1%	52.0%	20.5%
Current account deficit	$29.4 billion	$0.6 billion	$1.0 billion

(1) See "Public Finance—General—Measures of Fiscal Balance" for the definition of "primary balance".
(2) Average market exchange rate published daily by Banco de México for statistical purposes.
(3) Average exchange rate announced by Banco de México for the payment of obligations denominated in currencies other than pesos and payable within Mexico.
Source: Ministry of Finance and Public Credit.

The specific components of the 1995 Economic Plan and the ARE as follows:

Foreign Exchange Policy. The Government has maintained, and intends to continue to maintain, a floating exchange rate policy, with Banco de México intervening in the foreign exchange market from time to time to minimize volatility and ensure an orderly market. From March 1995 through October 1995, Banco de México did not intervene in the foreign exchange market to support the value of the peso. In November 1995, however, in response to increased volatility and pressure on the peso/dollar exchange rate (which resulted, at times, in the peso/dollar exchange rate exceeding 8.0), Banco de México, employing an aggregate amount of $300 million, intervened twice to support the peso. In December 1995, Banco de México again intervened twice in order to support the peso, employing an aggregate amount of $205 million. The Government has also promoted market-based mechanisms for stabilizing the exchange rate. On March 19, 1995, Banco de México approved the establishment of over-the-counter forward and options contracts in Mexico on the peso between banks and their clients. Trading of peso futures contracts on the Chicago Mercantile Exchange ("CME") began on April 25, 1995. The Mexican Stock Exchange also intends to introduce futures on the peso/dollar exchange rate, and amendments to its internal rules have already been introduced to permit spot peso-dollar trading.

These initiatives are designed to contribute to the Government's efforts to restore confidence in the Mexican economy by providing an important risk-management tool for investors.

In connection with the ARE, the Government currently assumes an average exchange rate for 1996 of Ps. 7.7 = $1.00. The average exchange rate for 1995 was Ps. 6.42 = $1.00. However, the peso/dollar exchange rate fell to a low of Ps. 8.14 = $1.00 on November 13, 1995. The rate announced by Banco de México on September 13, 1996 (to take effect on the second business day thereafter) was Ps. 7.5139 = $1.00. See "External Sector of the Economy—Exchange Controls and Foreign Exchange Rates".

Fiscal Reform. Fiscal measures have been undertaken to increase the Government's primary balance and promote private sector savings. Public sector revenues were expected to increase under the 1995 Economic Plan as a result of an increase (effective as of April 1, 1995) in the general value-added tax ("VAT") rate from 10% to 15% (except in the Mexico-United States border region and in duty-free zones, where the VAT rate will remain at 10%, and except with respect to pharmaceutical products and food, which continue to be subject to a VAT rate of 0%). In addition, the price of gasoline and diesel fuel increased by 58.5% in 1995. Residential natural gas and electricity prices increased by 20% in March 1995, and increased each month thereafter by 0.8%, resulting in an aggregate increase of 40.98% by the end of 1995. Prices of other services, such as railroads, airports and highways, were also gradually increased by an average of 2.5% per month, with aggregate annual increases limited to 30%. The prices of all other goods provided by the public sector for which international market prices were available as a comparison were adjusted to eliminate subsidies. The Government also increased the amount that could be deducted in respect of depreciation in 1995, a measure which was designed to provide an enhanced incentive for investment. See "Public Finance—Revenues, Taxation and Expenditures".

In connection with the ARE, Mexico's Income Tax Law was amended to extend indefinitely, beyond 1995, the application of a 4.9% withholding tax rate on interest payments made by Mexican borrowers to non-residents of Mexico.

On July 3, 1996, the Government announced a support program for the benefit of taxpayers owing past-due taxes to the Government. Under this program, taxpayers who owe Ps. 5,000 or less in past-due taxes imposed before May 31, 1996 will be allowed to reduce by 50% the amount of the past-due taxes they owe, provided they pay the remaining balance (after such reduction) before the end of 1996. (In the event such taxpayers fail to pay such balance, the 50% reduction will be canceled and the full amount of taxes will become due.) Taxpayers owing past-due taxes greater than Ps. 5,000 but less than Ps. 500,000 will be allowed to restructure such past-due taxes over four years, provided that they agree to join the support program not later than October 31, 1996. Restructured amounts will bear interest at a fixed 30% interest rate until July 1997. In addition, with respect to restructured payments made from August to December 1996, taxpayers will be entitled to a discount in connection with each such payment, ranging from 25% in August to 15% in December, provided further that the discounted amount shall not exceed the amount of Ps. 125,000. Taxpayers owing past-due taxes greater than Ps. 500,000 are entitled to the benefits of the program similar to those of taxpayers who owe between Ps. 5,000 and Ps. 500,000, but only with respect to the first Ps. 500,000.

Monetary Policy; Prices and Wages. The objective of monetary policy under the 1995 Economic Plan was to stabilize the exchange rate in order to induce capital inflows. Domestic credit was tightened when the exchange rate depreciated, capital outflows took place or inflation was higher than projected. Banco de México's tightening of its monetary policy resulted in a decline in the monetary base from Ps. 56.9 billion at December 31, 1994 to Ps. 50.39 billion at November 24, 1995. Due to seasonal factors, the monetary base increased to Ps. 66.8 billion at December 31, 1995. Nevertheless, net domestic credit decreased by Ps. 77.7 billion from December 31, 1994 to December 31, 1995, which was well within the target of an increase by Ps. 10 billion set by Banco de México for 1995. In addition, new reserve requirements were introduced by Banco de México to facilitate the regulation of liquidity. Pursuant to these requirements, which took effect on March 11, 1995, a bank that overdraws its account with Banco de México must subsequently deposit funds, and maintain amounts on deposit, at least equal to the amount of the overdraft. Substantial fines may be imposed if a bank fails to make and maintain such deposits. The new reserve requirements were intended to reduce Banco de México's daily net extension of credit.

On December 11, 1995, the Government announced certain changes in monetary policy that have taken effect in 1996. The Government has established quarterly targets for the expansion of net domestic credit in 1996, as compared with the annual target established for 1995. In addition, the definition of " net domestic credit" has been changed to be more consistent with international standards. Previously, "net domestic credit" was defined as the difference between the monetary base (currency in circulation plus bank deposits at the central bank) and net international reserves; the change in "net domestic credit" is now defined as the variation of the monetary base less the variation of Banco de México's "net international assets". "Net international assets" is defined as (a) gross international reserves; plus (b) assets with a maturity longer than six months derived from credit agreements with central banks, less (x) liabilities outstanding to the International Monetary Fund, less (y) liabilities with a maturity shorter than six months derived from credit agreements with central banks. See "The External Sector of the Economy—Balance of International Payments".

An important element of the 1995 Economic Plan was the moderation of the inflationary pressures created by the devaluation of the peso. The Government's restrictive monetary policy was designed to help control inflation. In addition, the Government hoped that businesses would increase prices only in the proportion that products sold in Mexico were comprised of imported components. Nonetheless, the inflation rate (December 1994-December 1995) was 52% during 1995, as compared to 7.1% during 1994.

A 7% nominal increase in the minimum wage took effect on January 1, 1995, and a further 12% nominal increase took effect on April 1, 1995, as compared with the 4% increase agreed in December 1994. Wage increases for workers earning more than the minimum wage have been negotiated between employers and such workers. Under the PARAUSEE, productivity bonuses were maintained and tax benefits for workers were extended to those earning less than four times the minimum wage (as opposed to twice the minimum wage under the AUSEE). Furthermore, pursuant to the ARE, the Government increased the minimum wage by 22% (10% in December 1995 and 12% in April 1996).

Mechanisms to Strengthen the Stability of the Banking Sector. A primary objective of the 1995 Economic Plan was to stabilize and strengthen the banking sector. The Government is committed to ensuring depositor safety, and, to that end, took a number of interrelated steps. First, the Government put in place the *Programa de Capitalización Temporal* (Temporary Capitalization Program, or "PROCAPTE"), administered by the *Fondo Bancario de Protección al Ahorro* (Banking Fund for the Protection of Savings, or "FOBAPROA"). PROCAPTE is a voluntary program designed to assist banks with capitalization levels below 8% of risk-weighted assets, and is intended for use by viable banks that are currently or are expected to be facing short-term capital needs. Under PROCAPTE, FOBAPROA advances funds to participating banks in exchange for five-year mandatorily convertible subordinated bonds. Participating banks must deposit with Banco de México the funds raised from the issuance of the bonds, thereby neutralizing any monetary impact. If a participating bank's capital falls below a specified level while the bonds are outstanding, or if the bonds are not repaid prior to their five-year maturity, the bonds will be converted to equity at a rate based on the book value of the bank at the time of conversion. Because of the possibility of conversion at book value, it is expected that banks will have an incentive to repay the bonds prior to maturity. In the event FOBAPROA exercises its conversion right, FOBAPROA will sell the shares it receives to the public. Banks benefiting from PROCAPTE must maintain capitalization levels at least equal to 9.0% of their risk-weighted assets (which may decline to 8.5% if the decrease is caused by the creation of general reserves). See "Financial System—Banking Supervision and Support". As of May 31, 1996, there were three banks in PROCAPTE and the total participation by these banks in PROCAPTE equalled approximately Ps. 3.2 billion.

Second, FOBAPROA made foreign exchange available through a foreign exchange credit window to help banks meet dollar liquidity needs. Outstanding drawings under this program reached their highest point as of April 1995, $3.8 billion, but were completely repaid as of August 31, 1995. None of such drawings were outstanding as of June 26, 1996.

Amendments to Mexican law have broadened the scope for investment by foreign and Mexican investors in the equity of Mexican financial institutions, by increasing the percentage of the capital stock of most existing Mexican financial institutions that can be owned by non-Mexicans, increasing the percentage of the capital stock of such institutions that can be owned by Mexican corporations (as opposed to Mexican individuals) and increasing, subject to regulatory approval, the percentage of the capital stock of each such institution that can be owned by any single investor. See "Financial System—Banking System". These amendments also grant the *Comisión Nacional Bancaria y de Valores* (National Banking and Securities Commission, or "CNBV") powers of administrative and management intervention in financial holding companies similar to the CNBV's existing powers with respect to banks and securities dealers. Mexican financial groups are organized in a holding company structure, and the new powers of intervention are intended to give the CNBV greater flexibility in choosing the appropriate level (that is, holding company or operating company) at which to intervene and in carrying out such interventions.

To reduce the risk of lower asset quality, required loan-loss reserves have been increased. The updated CNBV guidelines require minimum loan-loss reserves equal to the greater of 60% of past-due loans and 4% of total loans. The increased reserve requirements are estimated to require an additional Ps. 4.4 billion of reserves. Other measures to strengthen the financial sector include a significant enhancement of the CNBV's supervisory activities through closer and more frequent inspections and heightened reporting requirements. In Mexico, only the unpaid portion of a loan is treated as past-due, whereas in the United States the entire loan would be treated as past-due. It is expected that the Mexican treatment of past-due loans will change in connection with broader revisions to Mexican financial accounting which have recently been adopted, and which are aimed at bringing Mexican financial accounting into line with international practice commencing in 1997.

The Government, on March 30, 1995, put in place a debt restructuring support program, designed to help restructure past-due loans of borrowers facing cash flow constraints. The restructuring program covers four types of loans: small- and medium-size business loans; mortgage loans; certain debt of states and municipalities; and four categories of debt owed to development banks. Restructured loans are converted into new financial units known as *Unidades de Inversión* (inflation-indexed units of account or "UDIs"), with maturities ranging from five to 12 years. UDIs are units of account whose value in pesos is indexed to inflation on a daily basis, as measured by the change in the NCPI. UDIs are designed to mitigate the short-term effect of inflation on borrowers and improve asset quality of banks, although banks retain the asset quality risk associated with restructured loans. Under a UDI-based loan, the borrower's nominal peso principal balance is converted to a UDI principal balance and interest on the loan is calculated on the outstanding UDI balance of the loan. Principal and interest payments are made by the borrower in an amount of pesos equivalent to the amount due in UDIs at the stated value of UDIs on the day of payment. The UDI program has the effect of reducing current cash payments to banks, but it is hoped that this will be at least partially offset by the attraction of new deposits.

UDI loans are made by special trusts set up by commercial banks for this purpose and are funded through long-term UDI bonds purchased by the Government through Banco de México. The outflow of money to commercial banks is in turn neutralized by the purchase by such banks of Government bonds. The maximum size of the restructuring program was estimated as of March 31, 1996 to be approximately Ps. 163.4 billion, which represented approximately 24% of the total loan portfolio of commercial banks at September 30, 1995. The UDI restructuring programs covering small- and medium-size business loans, certain debts of states and municipalities, mortgage loans, foreign currency-denominated loans and debt owed to development banks have been finalized.

Furthermore, on August 23, 1995, the Government announced the *Acuerdo de Apoyo Inmediato a los Deudores de la Banca* (Accord for the Immediate Support of Bank Debtors, or "ADE"), a debt restructuring support program designed to help borrowers restructure their payment obligations under certain loans at subsidized interest rates. The ADE covers four types of peso- or UDI- denominated bank loans: credit card loans; personal and consumer loans; business loans (particularly loans to small and medium-sized businesses); and mortgage loans. The subsidized interest rates for existing debt are 38.5% for credit card loans (up to the first Ps. 5,000 of such loans), 34% for personal and consumer loans (up to the first Ps. 30,000 of such loans) and 25% for business loans (up to the first Ps. 200,000 of such loans). Interest rates in respect of the first Ps. 200,000 of mortgage loans which have previously been converted into UDIs are 6.5% in the first year and 8.75% thereafter, and amounts exceeding Ps. 200,000 in respect of mortgage loans are subject to a 10% interest rate. Pursuant to the ADE, most borrowers with existing loans in good standing will benefit from the subsidized interest rates for a period of 13 months beginning in September 1995. To take advantage of the subsidized interest rates, holders of existing mortgage loans are required to convert their loans into UDIs. In addition, holders of past-due loans are required to sign special agreements to restructure their debts. Under the ADE, borrowers in the agriculture sector with existing business loans may benefit from subsidized interest rates for a period of 18 months beginning in September 1995. The Government currently estimates that the cost to it of the ADE program (in present value terms) will be approximately Ps. 15.0 billion.

On May 16, 1996 the Government announced an additional debt restructuring program for the benefit of mortgage loan debtors, having four aspects. First, the size of the ADE program for mortgage loans was increased from UDI 43 billion to UDI 100 billion and covers loans restructured through September 30, 1996. Second, payments by mortgage debtors over a 10-year period will be subject to a discount (starting at 30% and decreasing to 5% by the end of the period) on the amount otherwise payable. During the first three years of the program, debtors will be allowed to prepay their loans free of penalties and subject to a 10% discount on the outstanding balance. These discounts will apply to a maximum UDI 500,000 of UDI-denominated credits per debtor per bank outstanding as of April 30, 1996. Third, borrowers may elect to transfer their mortgaged properties to a trust fund and to pay rent to such trust fund with a repurchase option within a six-year period. The monthly rent will be adjusted according to changes in the value of UDIs and will not exceed 0.9% of the property value. Fourth, loans for the construction or purchase of public housing granted by banks or by the Housing Fund ("FOVI") will be covered during a five-year period, with discounts on the amounts otherwise payable starting at 30% and ending at 6% during that period, provided that borrowers have been in good standing since their loans were granted. In addition, borrowers who have had arrears but pay all past-due amounts on loans for the construction or purchase of public housing will benefit from this program during a four-year period, with discounts on the amounts otherwise payable starting at 24% and ending at 6% during that period. Payments on loans for the construction or purchase of public housing will be modified according to changes in the minimum wage. The net present value of the fiscal cost of this additional debt restructuring program is estimated to be approximately Ps. 27.2 billion (1.2% of projected GDP for 1996).

On July 23, 1996, the Mexican Government announced the *Programa de Apoyo Financiero al Sector Agropecuario y Pesquero* (Financial Support Program for the Agriculture and Fishing Sector, "FINAPE"), a debt restructuring program designed to help borrowers in the agriculture and fishing sector restructure their payment obligations to Mexican banks. The new program, which took effect on September 1, 1996, has three principal features. First, the program covers the total portfolio of loans granted by Mexican banks for agriculture and fishing purposes outstanding as of June 30, 1996, including dollar-denominated credits, and covers loans restructured through December 30, 1996. Second, holders of agricultural and fishing loans may elect to convert their loans into UDIs or restructure their debts under the terms and conditions agreed to with the respective banks and in any case, banks will waive their rights to collect interest for delayed payments. During the first two years of the restructured credits, loans converted into UDIs will be payable in periods of five, eight and ten years with initial interest rates of 7.00%, 7.25% and 7.50%, respectively, which will be increased after the second year of the restructured credits by 0.5% each year. Third, debtors will be allowed to prepay their loans without penalty and, in addition, reduce the outstanding principal amount of their loans by 40% to 16%, depending on the amount outstanding. Buyers who are current on their payments will automatically receive discounts on the outstanding principal amount of their loans, retroactive to July 1, 1996 (or the date of restructuring if such date is after July 1, 1996). The costs of such reductions in outstanding principal balances will be absorbed principally by the banks unless they grant new credits to the agriculture and fishing sector, in which case the Mexican Government will absorb a larger share of such costs. The Mexican Government currently estimates that the fiscal cost of this program will be approximately Ps. 15 billion (0.6% of projected Gross Domestic Product for 1996).

Structural Reform. The ARE program projects 3% growth in real GDP during 1996 (in contrast to the 6.9% contraction in 1995), with the Government expecting that increased productivity and competitiveness of the economy will be achieved through deregulation and increased private sector investment. Changes to the Political Constitution of Mexico (the "Constitution") which permit the Government to privatize railway and satellite communications services have been approved and have become effective. Pursuant to these changes, Congress has enacted legislation which contemplates the auction of 50-year private concessions to operate parts of Mexico's railway system, and has, as part of the telecommunications liberalization described below, enacted legislation to provide for the auction of private concessions to operate satellite telecommunications systems. In addition, the Government has announced plans to privatize power generating plants and secondary petrochemical plants, airports, ports and highways. Congress has also approved amendments to the law regarding the natural gas industry, which will allow Mexican private-sector companies (which may be owned by non-Mexican companies or individuals) to take part in the storage, distribution and transportation of natural gas, and has enacted legislation on civil aviation which provides for the granting of 30-year concessions allowing private companies to operate commercial air transportation services within Mexico. See "The Economy—The Role of the Government in the Economy; Privatization" and "Principal Sectors of the Economy—Petroleum and Petrochemicals—Distribution".

Finally, as noted above, Congress approved a telecommunications liberalization law on June 7, 1995. Pursuant to this law, upon the expiration in August 1996 of the concession granting exclusivity to *Teléfonos de México, S.A. de C.V.* (the national domestic and long-distance telephone company, "Telmex") with respect to domestic and international long-distance telephone services in Mexico, 30-year concessions will be granted for the establishment of public telecommunications networks, without payment of a licensing fee. In addition, 20-year concessions for use of portions of the radio spectrum for telecommunications purposes will be auctioned. The first concession to establish a public telecommunications network was granted on October 6, 1995 to *Avantel, S.A.* ("Avantel"), a joint venture between subsidiaries of *Banco Nacional de Mexico, S.A.* and MCI Communications Corp. Under the terms of the concession, Avantel will be permitted to offer a wide range of telecommunications services to the public, including national and international long-distance service. A second concession to establish a public telecommunications network was announced on October 16, 1995 and involves *Iusatel, S.A.* ("Iusatel"), a joint venture between Grupo Iusacell, S.A. de C.V. and Bell Atlantic Latin American Holdings, Inc. Under the terms of the proposed concession, Iusatel will also be permitted to offer a wide range of telecommunications services to the public. The Government has granted other similar concessions following the first two. See "The Economy—The Role of the Government in the Economy; Privatization".

Through these measures, as well as the proposed sale by the Government of its 14.6% interest in *Grupo Financiero Bancomer, S.A. de C.V.* ("Bancomer"), one of Mexico's largest financial holding companies, and certain other state-owned institutions, the Government hopes to encourage private investment and to generate substantial privatization revenues over a three-year period. The devaluation of the peso at the end of 1994 and in 1995, assuming that inflationary pressures are held in check, should also maintain the competitiveness of Mexican exports and assist the Government in meeting its target for merchandise export growth of 19.4% during 1996.

International Support. In the beginning of 1995, the Government engaged in a series of discussions with the International Monetary Fund (the "IMF"), the International Bank for Reconstruction and Development (the "World Bank"), the Inter-American Development Bank ("IDB") and the U.S. and Canadian Governments in order to obtain the international financial support necessary to relieve Mexico's liquidity crisis and aid in restoring financial stability to Mexico's economy. The proceeds of the loans and other financial support have been and will be used to refinance public sector short-term debt, primarily Tesobonos, to restore the country's international reserves and to support the banking sector.

The largest component of the international support package is up to $20 billion in support from the United States pursuant to four related agreements entered into on February 21, 1995, the U.S.-Mexico Framework Agreement for Mexican Economic Stabilization (the "Framework Agreement"), the Oil Proceeds Facility Agreement (the "Oil Agreement"), the Medium-Term Exchange Stabilization Agreement (the "Medium-Term Agreement") and the Guarantee Agreement (the "Guarantee Agreement") (the Framework Agreement, the Oil Agreement, the Medium-Term Agreement and the Guarantee Agreement, collectively, the "February 21 Agreements"). The February 21 Agreements contemplate that these resources are to be made available to Mexico in the form of (i) medium-term (*i.e.*, up to five-year) peso/dollar swap transactions pursuant to the Medium-Term Agreement entered into between the U.S. Treasury Department, acting through the Exchange Stabilization Fund ("ESF"), and Mexico, (ii) guarantees by the U.S. Treasury Department, acting through the ESF, pursuant to the Guarantee Agreement, of debt securities with a tenor of up to ten years issued by Mexico and (iii) short-term swap transactions entered into by Banco de México with the U.S. Government pursuant to the North American Framework Agreement of April 26, 1994 (the "NAFA"). The resources are being used by Mexico to stabilize its foreign exchange markets, principally by refinancing short-term Government debt, including Tesobonos. Under the February 21 Agreements, provision of these resources depends upon the satisfaction by Mexico of certain economic, monetary and fiscal conditions, including compliance with the targets of the IMF stand-by program described below.

Pursuant to the Oil Agreement, *Petróleos Mexicanos* and its sales affiliates have instructed their foreign buyers of crude oil and oil derivatives (with certain exceptions) to make payments to designated accounts of *Petróleos Mexicanos* and its affiliates with a bank in New York and have instructed that bank to credit the amounts received to an account of Banco de México at the Federal Reserve Bank of New York ("FRBNY"). Banco de México has the right to withdraw the funds deposited in the FRBNY account so long as there is no payment default by Mexico under the February 21 Agreements or the NAFA. In the event of any such payment default, FRBNY has the right to debit and set-off the funds in the account to repay any amounts due and payable by Mexico under the February 21 Agreements and the NAFA.

During 1995, the U.S. Government and the Canadian Government disbursed $13.7 billion of proceeds to Mexico under the February 21 Agreements and the NAFA, the proceeds of which were used by Mexico to refinance maturing short-term debt, including Tesobonos and $1 billion of short-term swaps under the NAFA. In October 1995, Banco de México repaid $700 million to the U.S. Government and $83 million to the Canadian Government in respect of short-term swaps under the NAFA that were scheduled to mature on November 1, 1995. This prepayment was financed, in part, through the sale of Deutsche mark-denominated bonds issued by Mexico in November 1995. On January 29, 1996, Banco de México repaid $1.3 billion to the U.S. Government and $158 million to the Canadian Government in respect of short-term swaps under the NAFA that matured on that date, with such repayment being financed in part through the sale of Mexico's LIBOR/Cetes Notes due 1996 that were issued in December 1995. On August 5, 1996, the Government prepaid $7 billion of the amount disbursed under the Medium-Term Agreement. This prepayment was partly financed through the placement of $6 billion of U.S. dollar denominated Floating Rate Notes due 2001 issued by Mexico on August 5, 1996 and by funds held in collateral in the amount of $780 million that were released as a result of the exchange of Mexico's U.S. dollar Collateralized Floating Rate Bonds due 2019 and U.S.

dollar Collaterilized Fixed Rate Bonds due 2019 for Global Bonds due 2026. The Floating Rate Notes due 2001 benefit from credit support arrangements substantially similar to those provided in the Oil Agreement.

As of September 2, 1996, $3.5 billion of swaps between the Government and the U.S. Government pursuant to the Medium-Term Agreement was outstanding.

Outstanding disbursements by the U.S. Government to Mexico under the February 21 Agreements as of September 2, 1996 can be summarized as follows:

Disbursed by	Disbursed to	Facility	Date Disbursed	Amount Outstanding (as of September 2, 1996) (billions of dollars)	Final Maturity Date	Repayment Installments
U.S. Government	Government	Medium-Term Agreement	March 14, 1995	$3.00	December 31, 1999	7
U.S. Government	Government	Medium-Term Agreement	July 5, 1995	0.50	June 30, 2000	12
			Total:	$3.50		

Source: Ministry of Finance and Public Credit.

On February 1, 1995, the IMF approved a stand-by program for Mexico in an amount of Special Drawing Rights ("SDR") approximately equivalent to $17.64 billion, based upon its review and approval of Mexico's economic program. During 1995, Mexico received the equivalent of $12.8 billion in disbursements under its IMF stand-by program (in the form of purchases of SDR by Banco de México), based upon meeting an agreed-upon set of quarterly economic, monetary and fiscal targets under the program during 1995. During 1995, Mexico repaid SDR 0.75 billion (approximately $1.12 billion) of its repurchase obligations to the IMF leaving an outstanding amount of repurchase obligations to the IMF of SDR 10.65 billion (approximately $15.8 billion) at December 31, 1995. On August 2, 1996, the IMF approved a six-month extension of this program. Under this extension, medium-term resources in an amount of SDR approximately equivalent to $4.8 billion are available to Mexico until February 15, 1997. The extension of this program does not imply any changes in the economic policies and objectives established by the Government for 1996. The improvement in Mexico's access to the international capital markets and the relative strengthening of its international reserves enabled the Government to prepay to the IMF $1 billion on August 1, 1996.

On June 23, 1995, the Government entered into agreements with the World Bank and the IDB providing for up to $2.75 billion in adjustment loans, of which $1.75 billion will be used to support the Mexican financial system and $1.00 billion will be used to support the Government's provision of essential social services. The Government drew half of the available funds under these facilities during 1995 and, subject to the satisfaction of certain conditions, expects to draw the balance during 1996.

The amount of international support made available to Mexico as of September 2, 1996 (or which the Government expects to become available) can be summarized as follows:

Disbursed By	Disbursed To	Facility	Original Maximum Amount Available	Amount Outstanding (as of September 2, 1996)	Amount Available(1)
			(in billion of dollars)		
U.S. Government	Government; Banco de México	NAFA; February 21 Agreements	$20.00	$ 3.50(2)	0.00
Canadian Government	Banco de México	NAFA	0.24	0.00(2)	0.00
IMF	Banco de México	Stand-by program	17.64	11.80(3)	4.80
World Bank	Government	Adjustment loan for the financial sector	1.00	1.00	0.00
World Bank	Government	Adjustment loan for essential social services	0.50	0.30	0.20
IDB	Government	Adjustment loan for the financial sector	0.75	0.75	0.00
IDB	Government	Adjustment loan for essential social services	0.50	0.22	0.28
		Totals:	$40.63	$17.57	$ 5.28

(1) Subject to satisfaction by Mexico of certain conditions under the various facilities.

(2) On October 11, 1995, Banco de México repaid $700 million to the United States Government and $83 million to the Canadian Government. On January 29, 1996, Banco de México repaid $1.3 billion to the U.S. Goverment and $158 million to the Canadian Government. On August 5, 1996, the Government prepaid $7.0 billion to the United States Government.

(3) On August 1, 1996, Banco de México repaid $1.0 billion to the IMF.

Source: Ministry of Finance and Public Credit.

Modified Debt Profile. Using resources made available through the international support package as well as operations by Banco de México, in 1995 Mexico altered its debt profile significantly. The outstanding Tesobono balance was reduced from $29.2 billion at December 31, 1994 to $16.2 billion at the end of the first quarter of 1995, $10.0 billion at the end of the second quarter, $2.5 billion at the end of the third quarter and $246 million at the end of the fourth quarter. By February 16, 1996, Mexico had no Tesobonos outstanding, and has not issued Tesobonos since that date. As of June 30, 1996, 100% of Mexico's net internal debt was denominated and payable in pesos, as compared with only 44.3% of such debt at the end of 1994.

Economic and Political Developments in 1995 and 1996

The effects of the devaluation of the peso, as well as the Government's response to that and related events, were apparent in the performance of the Mexican economy during 1995.

Recent trade figures show a reversal of Mexico's trade deficit during 1995. The value of imports (including in-bond industries) decreased by 8.7% between 1994 and 1995, to $72.5 billion in 1995, 92.6% of which represented purchases of intermediate and capital goods. Of the three categories of merchandise imports—imports of capital goods, intermediate goods and consumer goods—imports of intermediate goods increased in 1995 by 3.4%, while imports of capital goods and consumer goods decreased by 34.7% and 43.9%, respectively, over 1994 levels. Exports grew to $79.5 billion in 1995 as compared with $60.9 billion in 1994. Petroleum exports increased by 13.1% during 1995 and non-petroleum exports increased by 33.1%. Manufactured goods registered a significant growth in exports, increasing by 32.1% over their level in 1994. During 1995, Mexico registered a $7.089 billion trade surplus, its first annual trade surplus since 1989.

According to preliminary information, Mexico registered a surplus in its trade balance of $1,942 million during the first quarter of 1996 as compared with a trade surplus of $597 million in the same period of 1995. Exports increased by 15.9% and imports increased by 9.6% in the first quarter of 1996, as compared with the same period of 1995. During the second quarter of 1996, Mexico registered a trade surplus of $2,185 million as compared with a trade surplus of $2,599 million in the second quarter of 1995. Exports increased 20.2% over their level in the second quarter of 1995, while imports increased 25.7% from their level in the second quarter of 1995. In July 1996, Mexico registered a trade surplus of $461.4 million, as compared with a trade surplus of $659.7 million in July 1995. Exports increased by 32.6% and imports increased by 40.2% in July 1996, as compared with July 1995. Overall, the trade balance reached a surplus of $4,588 million in the first seven months of 1996, as compared with a trade surplus of $3,855 million during the same period of 1995.

During the first half of 1996, Mexico's current account balance registered a positive balance of $523 million, as compared with a deficit in the current account of $751 million in the same period of 1995. The capital account surplus for the first half of 1996 was $1,720 million. Direct foreign investment during the first half of 1996 totaled $3.125 million.

The outstanding principal amount of Tesobonos was reduced sharply during 1995, from $29.2 billion as of December 31, 1994 to $246 million as of December 31, 1995, a cumulative 99.2% decline. This reduction was accomplished primarily through the payment of maturing Tesobonos and the repurchase (through auctions) by Banco de México of outstanding Tesobonos held by Mexican commercial banks in exchange for the cancellation of liabilities of those banks to Banco de México. By the end of 1995, 91.8% of Mexico's external public sector debt and outstanding Tesobonos consisted of long-term (*i.e.*, one year or more) maturities, as compared with 69.0% at the end of 1994. By February 16, 1996, Mexico had reduced the outstanding principal amount of Tesobonos to zero.

Banco de México is currently disclosing reserve figures on a weekly basis. On September 6, 1996, Mexico's international reserves amounted to $15.528 billion, as compared to $6.148 billion at December 31, 1994 and $24.538 billion at December 31, 1993. Banco de México has begun publishing, on a weekly basis, its net international assets in accordance with the definition provided above under "—The Government's Response". On December 29, 1995 and September 6, 1996, net international assets of Banco de México totalled $(35) million and $3,851 million, respectively.

Mexico's Exchange Commission, consisting of representatives of the Ministry of Finance and Public Credit and Banco de México, announced on August 1, 1996 Mexico's plan to boost its hard-currency reserves each month by auctioning rights to sell U.S. dollars to the central bank. This initiative was announced by Banco de México at the same time that it outlined its monetary policy for 1996. Under the plan, Banco de México currently auctions at the end of each month a total of $200 million in selling rights (the plan originally envisioned a total of $130 million per month but this amount was increased on August 30, 1996). The auctions take place among commercial banks and the winners have the right to sell U.S. dollars to Banco de México during the following month at the peso/dollar exchange rate announced by Banco de México the immediately preceding day. That exchange rate, however, may not be higher than its previous 20-day average counted to the moment an auction winner exercises its option. The first auction took place on August 7, 1996.

According to preliminary figures, during 1995 real GDP decreased by 6.9%, as compared with a growth rate of 3.5% during 1994. Electricity, gas and water was the only sector that showed real growth during 1995, increasing by 3.1%, while the remainder of the economic sectors showed a contraction. The sectors that showed the greatest decrease were: construction, which recorded a real decrease of 22.0%; followed by commerce, hotels and restaurants, which recorded a real decrease of 14.4%; manufacturing, which recorded a real decrease of 6.4%; and agriculture, livestock, fishing and forestry, which recorded a real decrease of 3.8%. The sectors of transportation, storage and communications; financial services, insurance, real estate and community, social and personal services; and mining, petroleum and gas, all experienced negative real growth rates of 1.9%, 1.3% and 0.7%, respectively. During the first quarter of 1996, the sectors of mining and manufacturing showed a real growth, increasing by 6.2% and 4.2%, respectively; followed by electricity, gas and water, which recorded a real increase of 2.9%; transportation, storage and communications, which recorded a real increase of 1.1%; and agriculture, livestock, fishing and forestry, which recorded a real increase of 0.8%. The sectors of commerce, hotels and restaurants; construction; financial, insurance and real estate services; and community, social and personal services, all experienced negative real growth rates of 7.0%, 6.8%, 3.1% and 1.8%, respectively.

According to preliminary estimates, during the first quarter of 1996, real GDP decreased by 1.0%, as compared with the same period of 1995.

The nine segments that comprise the manufacturing sector performed inconsistently during 1995, with two showing growth and seven decreasing. Basic metal industries grew by 10.1%, and paper, paper products and printing grew by 2.3%, in each case as compared with 1994. By contrast, non-metallic mineral products other than petroleum and coal declined by 14.6%; wood industry and derivatives contracted by 14.2%; textiles, garments and leather contracted by 11.4%; metallic products, machinery and equipment decreased by 11.0%; chemical products, petroleum derivatives, rubber and plastic products contracted by 3.2%; food, beverages and tobacco decreased by 2.2% and other manufacturing industries contracted by 38.9%, all in comparison with 1994. During the first quarter of 1996, basic metal industries grew by 14.9%; textiles, garments and leather grew by 9.6%; metallic products, machinery and equipment grew by 8.5%; food, beverages and tobacco grew by 3.2%; and chemical products, petroleum derivatives, rubber and plastic products grew by 2.9%, in each case as compared with the same period of 1995. By contrast, paper, paper products and printing declined by 8.0%; non-metallic mineral products other than petroleum and coal contracted by 5.4%; wood industry and derivatives contracted by 2.0% and other manufacturing industries contracted by 2.9%, all in comparison with the same period of 1995.

According to preliminary figures, during the second quarter of 1996, real GDP grew by 7.2% as compared with the same period of 1995. This increase is the first positive change after five consecutive negative quarters. Manufacturing and transportation, storage and communications were the most dynamic sectors of the economy during the second quarter of 1996, recording real growth of 14.3% and 13.9%, respectively, followed by the commerce, hotels and restaurants, construction and mining sectors, recording real growth of 7.9%, 7.8% and 7.2%, respectively, while electricity, gas and water and agriculture, livestock, fishing and forestry showed an increase in real terms of 4.1% and 4.0%, respectively, by comparison to the second quarter of 1995.

During the second quarter of 1996, eight segments within the manufacturing sector showed growth and one segment showed a decrease, as compared with the second quarter of 1995. Metallic products, machinery and equipment grew by 28.9%, textiles, garments and leather grew by 24.7%, basic metals industries grew by 19.7%, wood industry and derivatives grew by 16.8%, other manufacturing industries grew by 15.1%, non-metallic mineral products other than petroleum derivatives and coal grew by 13.7%, chemical products, petroleum derivatives, rubber and plastic products grew by 10.7% and food, beverages and tobacco grew by 1.7%, while paper, paper products and printing decreased by 1.5%.

Lower- and middle-income members of society have been particularly harshly affected by the economic developments since the beginning of 1995, mainly as a consequence of increased unemployment, higher inflation, higher financial payments and unavailability of credit. The Government has estimated that at the end of March 1996, 842,857 Mexican workers were unemployed as a result of the current economic crisis. Increases in crime and poverty have also been reported. The fact that Mexico does not have an unemployment benefits scheme or a fully developed social welfare system has contributed to the economic crisis (although certain features of Mexican society, such as the support provided by extended families, may have helped to mitigate the effects of the economic crisis to some extent).

During 1995, budgetary public sector expenditures exceeded budgetary public sector revenues (excluding off-budget revenues and expenditures of the public sector) by approximately Ps. 799.8 million in nominal terms, or approximately Ps. 2.7 million in constant pesos with purchasing power as of December 31, 1980, a decrease of 86.8% in real terms from the deficit registered in 1994. The public sector primary surplus was approximately Ps. 88.17 billion in nominal terms, or approximately Ps. 299.1 million in constant 1980 pesos, an increase of 121.7% in real terms over the public sector primary surplus registered during 1994. The public sector surplus during 1995 was approximately Ps. 815.0 million in nominal terms, or approximately Ps. 2.8 million in constant 1980 pesos, in contrast with the public sector deficit of Ps. 1,734.8 million in nominal terms, or approximately Ps. 8.0 million in constant 1980 pesos, registered during 1994.

During the first half of 1996, budgetary public sector revenues exceeded budgetary public sector expenditures (excluding off-budget revenues and expenditures of the public sector) by approximately Ps. 14.8 billion in nominal terms, or approximately Ps. 34.4 million in constant pesos with purchasing power as of December 31, 1980, a decrease of 10.6% in real terms over the surplus registered in the same period of 1995. The public sector primary surplus was approximately Ps. 57.0 billion in nominal terms, or approximately Ps. 132.1 million in constant 1980 pesos, a decrease of 19.7% in real terms over the surplus registered in the same period of 1995. The public sector surplus during the first half of 1996 was approximately Ps. 14.5 billion in nominal terms, or approximately Ps. 33.5 million in constant 1980 pesos, a decrease of 44.8% in real terms over the surplus registered in the same period of 1995.

On May 31, 1995, President Zedillo announced the *Plan Nacional de Desarrollo 1995-2000* (1995-2000 National Development Plan, or the "Development Plan"). The Development Plan covers five topics: sovereignty; the rule of law; democratic development; social development; and economic growth. The fundamental strategic objective of the Development Plan is to promote vigorous and sustainable economic growth. Among other things, the Development Plan calls for steps to increase domestic savings, preference to be given to channeling foreign investment into direct productive investment, the elimination of unnecessary regulatory obstacles to foreign participation in productive activities and further deregulation of the economy. The Development Plan also states that the Government must maintain fiscal discipline over the medium-term and that exchange-rate policy should systematically avoid overvaluation of the real exchange rate and should, in concert with other policy instruments, seek to ensure that evolution of the exchange rate is conducive to price stability. In addition, the Development Plan contemplates various steps to strengthen the rule of law in Mexico, including consolidating and coordinating the activities of various security organizations and police forces in Mexico and intensifying efforts to combat organized crime.

On August 9, 1996, the Ministry of Communications and Transportation announced the creation of the Federal Telecommunications Commission as a decentralized administrative entity. This commission will be responsible for the design of and supervision over administrative policies and technical plans, the issuance of technical provisions and the undertaking of specialized analysis relating to telecommunications issues. In addition, this Commission will coordinate processes to use and operate geo-stationary orbital positions and satellite orbits assigned to Mexico, including their frequency bands and rights to broadcast and receive signals. The commission will have four members, including a chairman, appointed by the President of Mexico.

In September 1995, the Government created an Infrastructure Investment Fund aimed at the construction of basic infrastructure, such as toll roads, ports, water treatment plants and sanitation facilities. The Ps. 1.7 billion fund will be capitalized, in part, from the privatization of certain state-owned assets and managed by *Banco Nacional de Obras y Servicios Públicos, S.N.C.* ("Banobras").

The Government believes that these reforms, including the ARE, together with the changes in the Mexican economy since 1982, will help restore order to the foreign exchange markets and enable the Mexican economy to recover from the economic crisis experienced in 1995. In the short-term, however, higher inflation and interest rates than those that were experienced before 1995 are expected. In addition, significant new investment in infrastructure, industrial and agricultural modernization, training and environmental protection will be required for a resumption of growth and development. The Mexican economy is likely to continue to be subject to the effects of adverse domestic and external factors such as declines in foreign direct and portfolio investment, high interest rates and low oil prices, which may lead to volatility in the foreign exchange and financial markets and may affect Mexico's ability to service its foreign debt.

In the domestic political arena, the Government has renewed its efforts to resolve its differences with the insurgents in the Chiapas region, by facilitating their participation in the political process. On March 9, 1995, Congress approved a law granting temporary amnesty to insurgents who participate in peace talks with the Government, and on March 13, 1995, the law establishing the framework for these peace talks took effect. On September 11, 1995, the Government and the insurgents reached an agreement pursuant to which both sides accepted a common political agenda and procedural rules, and agreed to the creation of a working committee regarding the rights of indigenous peoples. This agreement was expected to represent a first step toward a comprehensive peace agreement between the parties. The working committee began negotiations on October 17, 1995 and concluded a second round of meetings on November 19, 1995 having made significant progress in laying out the framework for a plenary session that took place from January 10 through January 19, 1996. The attendees at the plenary session drafted an agreement on a series of measures aimed at enhancing and guaranteeing the rights of the indigenous population. The agreement was signed on February 16, 1996. Talks with the insurgents have continued but are currently on hold.

On August 28, 1996, a newly formed group calling itself the Popular Revolutionary Army ("PRA") attacked military and police targets in small cities of some southern states of Mexico. It is generally believed that this group does not enjoy popular support, and its terrorist attacks have been condemned by both Government and nongovernment representatives. A consensus has emerged to take decisive action and apply the force of law against the PRA, and in this connection the Government has announced the apprehension of several alleged members of the group.

On January 17, 1995, the major political parties of Mexico entered into a new accord to further the opening of the political process in Mexico. See "United Mexican States—Form of Government". On July 25, 1996, the Mexican Government announced certain proposed constitutional amendments aimed at reforming the electoral law. The proposed amendments were ratified on August 22, 1996. The amendments, which had been agreed to by the President and the leaders of the four major political parties represented in Congress (the *Partido Revolucionario Institucional*, the *Partido Acción Nacional*, the *Partido de le Revolución Democrática* and the *Partido del Trabajo*), among other things, exclude the President from the Federal Electoral Institute (*Instituto Federal Electoral*), an autonomous agency charged with organizing elections; eliminate the Electoral Committee of the Chamber of Deputies, which had been responsible for determining the validity of presidential elections; impose limits on expenditures on political campaigns and controls on the source of and uses of funds contributed to a political party; grant voting rights to Mexican citizens residing abroad; reduce from 315 to 300 the maximum number of congressional representatives who may belong to a single party, and establish an electoral procedure intended to result in a more proportional representation in the Senate. The Mexican Supreme Court is empowered to determine the constitutionality of electoral laws and the Mexican Federal Electoral Court, which has been part of the executive branch, will become part of the judicial branch. Furthermore, the amendments provide a procedure for the election (commencing in 1997) of the mayor of Mexico City, until now a Presidential appointee, the election (commencing in 2000) of delegates representing various boroughs of Mexico City and terminate the President's authority to appoint the Attorney General of Mexico City.

On July 26, 1996, three large explosions occurred in the natural gas processing complex "Cactus" in Reforma, Chiapas, near the border of the States of Chiapas and Tabasco, destroying one natural gas processing plant and damaging another such plant, each of which had the capacity to process 500 million cubic feet per day ("cfpd") of natural gas. In addition, the explosions damaged the system of pipelines connecting these plants with the other installations comprising the processing complex. An investigation of the cause of the explosions and the damage to the complex is being conducted by Pemex with the assistance of outside experts.

Pemex is in the process of analyzing the effects of the explosion on its operations. In the first five months of 1996, Pemex produced 4,264 million cfpd of natural gas, 2,081 million cfpd of which was produced in the Southern region of Mexico where one of the complexes is located. In order to assure the continued supply of sufficient quantities of natural gas and liquefied propane gas until the damaged plants can be repaired or replaced — a process which has already begun and is expected to be concluded within 18 months — Pemex plans to: (i) cease its exports of liquefied propane gas, (ii) increase by 160 million cfpd the volume of natural gas processed in its processing centers in Nuevo Pemex and Ciudad Pemex in Tabasco, (iii) increase by 480 million cfpd Pemex's imports of natural gas from the United States, in order to satisfy demand in Northern Mexico, (iv) reduce Pemex's internal consumption of natural gas as well as reduce temporarily the consumption of natural gas by the *Comisión Federal de Electricidad*, the Mexican state-owned electricity company, and other industrial users, by substituting natural gas with fuel oil, (v) commence operations at three natural gas processing plants in the "Cactus" complex (with an aggregate capacity of 450 million cfpd) that were not damaged by the explosion and recommence operations at older plants in Pajaritos, Veracruz with the capacity of processing 200 million cfpd and (vi) within eight months, commence operations at a new plant under construction in Nuevo-Pemex, Tabasco, with the capacity to process 500 million cfpd of natural gas. Because Pemex's temporary reduction in the production of natural gas (of approximately 534 million cfpd) will be directed at those fields that produce "unassociated" natural gas, *i.e.*, do not also produce crude oil. Pemex expects to limit any associated reduction in its crude oil production to less than 20,000 barrels per day (approximately 1.5% of Pemex's total daily exports of crude oil in 1995). The reduction in Pemex's exports of liquefied propane gas and the reduction in Pemex's crude oil production mentioned above are not expected to reduce materially the amount of funds deposited in the Pemex Accounts.

UNITED MEXICAN STATES

Area, Population and Society

Mexico, a nation formed by 31 states and a Federal District (comprising Mexico City), is the fifth largest nation in the American continent and the thirteenth largest in the world, occupying a territory of 759,529 square miles (1,967,183 square kilometers). To the north, Mexico shares a border of 1,931 miles (3,107 km) with the United States of America, and to the south it has borders with Guatemala and Belize. Its coastline extends over 6,303 miles (10,143 km) along both the Gulf of Mexico and the Pacific Ocean.

Mexico is the second most populous nation in Latin America, with a population of 91.1 million as reported by the National Institute of Statistics, Geography and Informatics (*Instituto Nacional de Estadística, Geografía e Informática*, "INEGI") in its 1995 Population and Housing Count. Approximately 73.5% of Mexico's population is located in urban areas. Mexico's three largest cities are Mexico City, Guadalajara and Monterrey, with estimated populations in 1995 of 16.4 million, 3.3 million and 2.9 million, respectively. The annual rate of population growth averaged 3.3% in the 1960s and 1970s. In the 1980s, Government efforts in the areas of family planning and birth control, together with declining birth rates among women under 35 and those living in urban areas, resulted in a reduction of the population growth rate to a projected 1.7% in 1996.

Mexico is generally classified as a middle income developing country and had a per capita GNP in 1993 of $3,610, compared with $24,740 in the United States, $2,840 in Venezuela, $3,170 in Chile and $2,930 in Brazil. Life expectancy in Mexico was 71 years in 1993, compared with 76 years in the United States, 72 years in Venezuela, 74 years in Chile and 67 years in Brazil. Adult illiteracy was estimated at 13% in 1993, compared with less than 5% in the United States, 7% in Venezuela, 7% in Chile and 19% in Brazil. Infant mortality in 1993 was 35.4 per 1,000 live births in Mexico, compared with 8.6 in the United States, 15.6 in Chile, 22.6 in Venezuela and 57.0 in Brazil.

Form of Government

The present form of government was established by the Constitution, which took effect on May 1, 1917. The Constitution establishes Mexico as a Federal Republic and provides for the separation of the executive, judicial and legislative branches of government. The President and the members of Congress are elected by popular vote of Mexican citizens who are 18 years of age and older.

Executive authority is vested in the President, who is elected for a six-year term. The current President of Mexico is Ernesto Zedillo Ponce de León, whose term expires on December 1, 2000. The Constitution provides that the President may serve only one six-year term and may never be re-elected. The executive branch consists of 17 ministries, the office of the Federal Attorney General, the Federal District Department (Mexico City) and the office of the Attorney General of the Federal District, the chief officials of all of which are appointed by the President. The appointment of senior employees *(empleados superiores)* of the Ministry of Finance and Public Credit is subject to ratification by the Senate; in addition, pursuant to the Constitutional amendments which took effect on December 31, 1994 (the "Constitutional Amendments"), the appointment of the Federal Attorney General is now also subject to Senate ratification.

Federal judicial authority is vested in the Supreme Court of Justice, the Circuit and District Courts and the Federal Judicial Board *(Consejo de la Judicatura Federal)*. The Constitutional Amendments changed the Supreme Court in a variety of ways. First, the number of Supreme Court members *(Ministros)* was reduced to 11 from 21, and all 21 then-serving Supreme Court members were removed. Second, life tenure for members was replaced by a 15-year appointment (except in the case of the 11 newly selected members, whose appointments range from eight to 20 years). Third, the President of the Supreme Court was limited to a single term of four years. Fourth, members are no longer appointed by the President and subject to ratification by the Senate, and will instead be selected by the Senate from a pool of candidates nominated by the President. The Constitutional Amendments also established the

Federal Judicial Board, whose principal functions are to administer the Federal judicial system and to designate Circuit Court judges and District Court judges (*Magistrados*). The Federal Judicial Board is composed of seven members, one of whom is the President of the Supreme Court.

Legislative authority is vested in the Congress, which is composed of the Senate and the Chamber of Deputies. Senators serve a six-year term, Deputies serve a three-year term and neither may serve consecutive terms in the same Chamber. As a result of the Constitutional Amendments, the Senate will have 128 members (twice its previous size), four from each state and four from the Federal District. The Chamber of Deputies has 500 members, of whom 300 are elected by direct vote of the electoral districts and 200 are elected by a system of proportional representation based on the proportion of the votes cast for those parties that receive at least 1.5% of the national vote. The Constitution provides that the President may veto bills and that Congress may override such vetoes with a two-thirds majority of each Chamber.

The PRI is the dominant political party in Mexico. Since 1929, the PRI has won all Presidential elections and has held a majority in Congress. Until 1989 it had also won all of the state governorships. Currently, the *Partido Acción Nacional* (the National Action Party, or the "PAN"), the oldest opposition party in the country, holds four state governorships.

In the Congressional election held on August 21, 1994, when three-quarters of the seats in the Senate and all of the seats in the Chamber of Deputies were up for election, the PRI maintained its majority in both chambers, with 93 seats in the Senate and 298 seats in the Chamber of Deputies. The PAN has the second largest representation in the Congress, with 25 seats in the Senate and 118 seats in the Chamber of Deputies, and the *Partido de la Revolución Democrática* ("PRD") has the third largest representation, with 10 seats in the Senate and 70 seats in the Chamber of Deputies. The *Partido del Trabajo* (the Labor Party, or "PT") obtained 10 seats in the Chamber of Deputies. The remaining four seats in this Chamber were decided as follows: the PAN and the PRD each won one seat in extraordinary elections held on April 30, 1995, and the PRI won two seats pursuant to Mexico's system of proportional representation.

In June 1994, the political parties participating in the federal elections and 3,000 representatives of the various segments of Mexican society signed an agreement named *Veinte Acuerdos por la Democracia* (the "Twenty Democracy Accords") in which commitments were made to achieve fair and open elections in Mexico to further the goal of democracy. The 1994 federal elections utilized mechanisms unique in modern Mexican history: for the first time an electoral census, independent from the Government and political parties, was used; a Federal Electoral Council, independent of the Government, was constituted as the highest body for resolving electoral disputes; photographic voter identification cards were used to discourage and detect voter fraud; and national and foreign observers certified the electoral process. These measures, as well as the general interest of the electorate in the race, resulted in the largest voter turnout in twelve years, with 77.3% of registered voters having voted. In the August 1994 Presidential election, Ernesto Zedillo Ponce de León, the candidate of the PRI, won the Presidential election with 48.77% of the votes; the candidate of the PAN received 25.94% of the votes and the candidate of the PRD obtained 16.60% of the votes. President Zedillo appointed a member of the PAN as Federal Attorney General.

On January 17, 1995, the four principal political parties, the PRI, PAN, PRD and PT entered into a second agreement, the *Acuerdo de los Pinos* (the "Los Pinos Accord"), designed to further the electoral and political reforms embodied in the Twenty Democracy Accords. The Los Pinos Accord contains the following commitments: (i) the creation of a forum to negotiate accords between the Government and the national executive committees of all political parties, as well as between the two houses of the Mexican Congress and the congresses of each state; (ii) the promotion of a national dialogue for political reform; (iii) a strengthening of federal electoral reform, and the use of the federal reforms as a framework for electoral reforms in each state of the Mexican federation; (iv) the solution of electoral issues in a democratic fashion, in order to allow the nation to concentrate on solving its more urgent economic and social challenges; and (v) once the reforms are put into place and the conditions of fairness and legality of the process are satisfied, the avoidance of post-electoral disputes.

Foreign Affairs

Mexico has diplomatic ties with approximately 177 countries. It is a charter member of the United Nations and a founding member of the Organization of American States, the IMF, the World Bank, the International Finance Corporation ("IFC") and the IDB. Mexico is also a non-borrowing regional member of the Caribbean Development Bank. In 1986, Mexico became a party to the General Agreement on Trade and Tariffs ("GATT"). In 1991, Mexico became a founding member of the European Bank for Reconstruction and Development ("EBRD") and was admitted into the Pacific Basin Economic Co-operation Conference. On April 14, 1994 Mexico was admitted as a member of the Organization for Economic Cooperation and Development ("OECD"), making it the first new member to be admitted into the OECD since 1973. Mexico became a member of the World Trade Organization ("WTO") on January 1, 1995, the date on which the WTO superseded the GATT.

THE ECONOMY

General

During the period from World War II through the mid-1970s, Mexico enjoyed sustained and stable growth in per capita income and GDP.

In the early 1970s, the major industrial countries began to experience severe inflation. The fixed exchange rates in place since the Bretton Woods accords were replaced by floating exchange rates and the 1973 oil shock brought financial instability to the international economy. At the same time, Mexico embarked on an active and expansionary economic policy oriented towards economic growth and more equitable income distribution. These goals were promoted through Government spending and high tariffs and other barriers to foreign competition and were largely funded by oil export revenues and greatly increased external borrowings. The steep decline in oil prices in 1981 and 1982, together with high international interest rates and the credit markets' unwillingness to refinance maturing external Mexican credits, led in 1982 to record inflation, successive devaluations of the peso by almost 500% in total, a public sector deficit of 16.9% of GDP and, in August 1982, a liquidity crisis that precipitated subsequent restructurings of a large portion of the country's external debt. See "Public Debt—External Debt Restructuring and Debt and Debt Service Reduction Transactions".

In the decade that followed, Mexico consistently pursued far-reaching and comprehensive adjustment reforms, set forth in the National Development Plans of the administrations of Presidents de la Madrid (1983-1988) and Salinas (1989-1994), in the following areas:

Public Finance. The objectives of fiscal reform have been to establish the macroeconomic foundations for stability and certainty and to eliminate the Government's direct participation in non-strategic or non-priority sectors of the economy. The Government was able to transform the financial deficit of the public sector, which was 16.9% of nominal GDP in 1982, into a financial surplus of 0.5% (including financial intermediation) or a public sector surplus of 1.6% (excluding financial intermediation) of nominal GDP for 1992, and a public sector surplus of 0.7% of nominal GDP for 1993 by rationalization of expenditures, including the elimination of many private sector subsidies, and by major tax reforms, which reduced marginal rates but increased the tax base and resulted in a growth in revenues. The Government registered a public sector deficit for 1994 of 0.1% of nominal GDP, and a public sector surplus for 1995 of 0.05% of nominal GDP, both without taking into account the proceeds to the Government from the sale of privatized Government-owned enterprises, which amounted to $0.8 billion in 1994. The Government has projected under the ARE a public sector surplus for 1996. As of June 30, 1996, the public sector surplus was 1.3% of nominal GDP. Despite a restrictive fiscal policy, real GDP growth averaging 3.0% was achieved over the 1990-1994 period, spurred by a strong recovery of the private sector, although real GDP growth slowed to 2.8% in 1992 and 0.7% in 1993 and accelerating to

3.5% in 1994. According to preliminary figures, during 1995 real GDP decreased overall by 6.9%. The ARE projects a 3% increase (in real terms) in GDP for 1996.

Debt and Debt Service Reduction. From 1983 through 1988, Mexico was a net exporter of capital. This transfer of resources drained the economy of savings and investment and created a major impediment to growth and the implementation of structural reform. However, the 1989-92 Financing Package for Mexico and subsequent debt reduction operations, together with the structural reforms described above, reduced the Mexican economy's reliance on borrowed funds and reduced external debt as a percentage of GDP. See "Public Debt—External Debt Restructuring and Debt and Debt Service Reduction Transactions". Total public sector debt (*i.e.*, net internal debt plus gross external debt) as a percentage of nominal GDP fell from a high of 124.4% of GDP at the end of 1987 to 32.8% of GDP at the end of 1993 and then, reflecting the sharp devaluation of the peso at the end of 1994, increased to 49.8% of nominal GDP at December 31, 1994. As of December 31, 1995, total public sector debt was estimated at 48.0% of nominal GDP. As of June 30, 1996, total public sector debt was estimated at 35.2% of nominal GDP. Gross external public sector debt decreased from 33.3% to 21.7% of GDP during the period 1990-1993, but, again reflecting the devaluation of the peso at the end of 1994, increased to 36.3% of nominal GDP at December 31, 1994. As of December 31, 1995, gross external public sector debt was estimated at 41.0% of nominal GDP. As of June 30, 1996, gross external public sector debt was estimated at 29.9% of nominal GDP. After taking into account new borrowings by the public sector, scheduled amortizations of external debt and revaluations of non-dollar denominated debt, total public sector external debt amounted to $78.747 billion at December 31, 1993, $85.436 billion at December 31, 1994, $100.934 billion at December 31, 1995, and $98.485 billion at June 30, 1996. Interest payments on external public debt dropped from 43.6% of total merchandise exports in 1982, to 7.6% at June 30, 1996 (aided in part by lower international interest rates), and total public sector interest expenditure (internal and external) was 5.3% of GDP in 1995 and is currently estimated at 4.0% of GDP for 1996.

Trade Reform and the External Sector. Until 1982, substantial segments of the economy were virtually closed to foreign competition through tariffs and non-tariff barriers. Many of the distortions resulting from these policies have been eliminated through a major trade liberalization in which the number and rates of tariffs, the value of imports subject to permits and other non-tariff barriers have been substantially reduced. By 1995, approximately 98.6% of tariff items and 92.8% of imports by value were exempt from import permits and other non-tariff barriers. Mexico joined the GATT in 1986, entered into the North American Free Trade Agreement ("NAFTA") with the United States and Canada effective January 1, 1994 and became a member of the WTO on January 1, 1995. A free trade agreement between Mexico and Chile went into effect on January 1, 1992. Mexico also signed a framework free trade agreement in 1992 with Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua as a step toward establishing a free-trade area by the end of 1997, and entered into a definitive free trade agreement with Costa Rica in April 1994. A free trade agreement with Colombia and Venezuela was signed in June 1994 and a similar agreement with Bolivia was signed in September 1994; both agreements entered into force on January 1, 1995. Exports have been diversified, with manufactured goods representing 83.7% of total merchandise exports in 1995, up from 24.3% in 1982. At the same time, oil and oil products as a percentage of total merchandise exports have been reduced from 68.5% in 1982 to 10.6% in 1995. Although the trade balance was in deficit in 1993 ($13.5 billion), a surplus in the capital account led to an accumulation of $24.5 billion of reserves at December 31, 1993. During 1994, however, the current account deficit reached $29.4 billion, partially as a result of the $18.5 billion deficit in the trade balance which exceeded the capital account surplus, leading to a decline in international reserves to the level of $6.148 billion at December 31, 1994. See "Recent Developments—Events During 1994".

Restructuring of the Domestic Economy. Since 1982, Mexico has redefined the role of the Government in the economy, reducing the number of firms under Government control, as a result of liquidations, mergers and privatizations, from 1,155 to 195 at July 31, 1996. This reduction has freed the Government from the obligation both to provide faltering enterprises with financial support and to fund from public resources investment needed for modernization and expansion. Significant deregulation of many sectors of the economy has been implemented, not only in the import sector, but also in the finance, transportation and communications sectors and in the rules governing foreign investment generally. Partly in response to these reforms, Mexico received $51.0 billion in foreign investment between 1990 and 1994. In late 1991, the Government introduced an important reform of the agricultural sector, involving a Constitutional change in the system of ownership of agricultural land, which became effective on January 7, 1992 and which could have a significant effect on the efficiency and modernization of the agricultural sector. See "Principal Sectors of the Economy—Agriculture—Agricultural Reform". As part of the reforms announced in 1995, the Government intends during 1996 to continue the process of privatizing or permitting private investment in non-strategic enterprises held in Government hands, such as airports, ports, certain petrochemical plants, power-generating facilities and railroads and satellite communications. See "Recent Developments—The Government's Response—Structural Reform" and "—The Role of the Government in the Economy; Privatization" below.

Prices and Monetary Policy. The possibility of hyperinflation that threatened in 1987 was averted with the help of a series of accords among the Government, labor and business. The most recent accords are the AUSEE, the PARAUSEE and the ARE. See "Recent Developments—The Government's Response" and "Prices and Wages" below. As a result of these accords, the Government was able to slow inflation (as measured by the NCPI) from a high of 159.2% in 1987 to 7.1% in 1994. As a result of the recent devaluation of the peso and certain measures taken by the Government, inflation increased to 52.0% in 1995. The ARE projects an inflation rate of 20.5% for 1996 (December 1995-December 1996). See "Recent Developments—The Government's Response".

Under these accords, the Government pursued a policy of steady devaluation of the peso against the dollar, initially at Ps. 0.001 per day (equivalent to 16.7% per annum), which was lowered for 1992 to a maximum of Ps. 0.0002 per day (2.4% per annum), and then increased for 1993 and 1994 to a maximum of Ps. 0.0004 per day (4.5% per annum). The rate of controlled devaluation of the peso failed to keep pace with domestic inflation. The overvaluation of the peso, together with excessive growth in credit and lower domestic savings, led to a growing and unsustainable current account deficit by the end of 1994. The Government adopted a free exchange rate policy at the end of 1994, resulting in a rapid and sharp devaluation of the peso. See "Recent Developments—Events During 1994" and "The External Sector of the Economy—Exchange Controls and Foreign Exchange Rates".

The Role of the Government in the Economy; Privatization

Since 1983, the Government has sought as a matter of priority to sell to the private sector its interest in all non-strategic commercial enterprises. In 1982, the Government owned or controlled 1,155 public sector enterprises. By July 31, 1996 the number of Government-owned businesses had been reduced to 195. Between 1982 and July 31, 1996, the Government divested itself of 1,043 Government enterprises, through sales to the private sector, mergers or liquidations. In part as a result of these privatizations, the share of Government expenditures in GDP fell from 41.8% in 1982 to 26.2% in 1995. The importance of subsidies also diminished significantly. Enterprises privatized include the two national airlines, copper, iron and coal mines, hotels, Telmex, the state-owned steel industry and all eighteen state-owned commercial banks, including the country's two largest commercial banks, *Banco Nacional de México, S.A.* ("Banamex") and Bancomer.

In January 1995, the Government announced a comprehensive privatization program intended to give new impetus to the Government's privatization efforts, which the Government views as a key element of Mexico's structural economic reforms. This program is to be implemented within a three-year period.

The program anticipates that the secondary petrochemical operations of the state-owned oil company, *Petróleos Mexicanos*, will be privatized and the level of private investment in power-generating facilities will increase significantly. It is expected that these changes will be made within the existing Constitutional and legal framework. Recently, the Government announced that it would exercise its rights under the NAFTA to restrict foreign investors from acquiring a majority stake in certain privatized petrochemical operations. The petroleum industry and the electrical power sector are the two most important strategic sectors that are required by the Constitution to remain under the control of the Government. See "Principal Sectors of the Economy—Petroleum and Petrochemicals—Petrochemicals" and "—Electric Power".

In addition, the program contemplates privatization of railroads and satellite communications. The changes to the Constitution necessary to allow privatization of these sectors and the laws implementing these changes have become effective, although further implementation through the enactment of regulations is still required. The program also contemplates the privatization of ports, airports and highways and the sale of the Government's remaining ownership interest in previously privatized commercial banks, including Bancomer.

Considerable progress has been made in developing a broad range of mechanisms to allow investors a choice of how to finance acquisitions of these assets. In view of the present liquidity crisis, however, adjustments may be required to the financial structure of certain of these transactions.

The Government hopes to achieve more effective coordination among the relevant agencies than in previous privatizations. The legal and regulatory framework applicable to certain sectors (such as telecommunications) will also be modernized in advance of privatization, rather than following privatization.

Congress has enacted a series of laws which increase the scope for private and foreign participation in key sectors of the Mexican economy. First, Congress has approved legislation to liberalize telecommunications in Mexico. Pursuant to this legislation, upon the expiration in August 1996 of the exclusive concession granted to Telmex, the *Secretaría de Comunicaciones y Transportes* (Ministry of Communications and Transportation, or "SCT") will grant 30-year concessions (which may be extended for an additional 30 years) for the establishment and operation of public telecommunications networks. No license fees will be charged in connection with the granting of such concessions. See "Recent Developments—The Government's Response—Structural Reform". In addition, the Government will conduct auctions for 20-year concessions (which may be extended for an additional 20 years) to use portions of the radio spectrum to operate cellular telephone networks and for concessions to operate satellite telecommunications systems. Although the various concessions may only be granted to Mexican individuals and companies, foreigners may own up to 49% of the capital stock of such companies (except in the case of concessions to operate cellular telephone systems, where foreigners may increase their ownership beyond 49% with the approval of the National Foreign Investment Commission ("NFIC")). Concessionaires will be free to establish rates for the services they provide.

Second, Congress has approved amendments to the law regarding the natural gas industry, which took effect on May 12, 1995. The amendments provide that Mexican private sector companies (which may be owned by non-Mexican companies or individuals) may take part in the storage, distribution and transportation of natural gas and to that end may construct, own and operate pipelines, installations and equipment.

Third, a new law on railways was approved by Congress, pursuant to which 50-year concessions may be granted (which may be extended for up to an additional 50 years) to operate parts of Mexico's railway system. Only Mexican companies may hold railway concessions, although foreigners may own up to 49% of the capital stock of such companies and may increase their ownership share beyond this limit with the approval of the NFIC. The SCT announced on November 13, 1995 its plans to, in addition to granting concessions, privatize Mexico's railways by establishing four new companies, each of which will own one of Mexico's principal rail networks. The rules for the privatization of each of the companies to be formed have yet to be published.

Finally, legislation regarding civil aviation has been enacted which provides for 30-year concessions (which may be extended for an additional 30 years) to operate regularly scheduled commercial air transportation services within Mexico. Concessions may only be granted to Mexican companies, but foreigners may own up to 25% of the capital stock of such companies.

Gross Domestic Product

In 1986, partially as a result of Mexico's debt crisis and the dramatic fall in oil prices, real GDP declined sharply by 3.8%. From 1987 through 1994, however, real GDP grew at the moderate rates of 4.4% in 1990, 3.6% in 1991, 2.8% in 1992, 0.7% in 1993 and 3.5% in 1994.

According to preliminary estimates, during 1995 real GDP decreased by 6.9%, as compared with a growth rate of 3.5% during 1994. Electricity, gas and water was the only sector that showed real growth during 1995, increasing by 3.1%, while the remainder of the economic sectors showed a contraction. The sectors that showed a stronger decrease were: construction, which recorded a real decrease of 22.0%; followed by commerce, hotels and restaurants, which recorded a real decrease of 14.4%; manufacturing, which recorded a real decrease of 6.4%; and agriculture, livestock, fishing and forestry, which recorded a real decrease of 3.8%. The sectors of transportation, storage and communications; financial services, insurance, real estate and community, social and personal services; and mining, petroleum and gas, all experienced negative real growth rates of 1.9%, 1.3% and 0.7%, respectively. During the first quarter of 1996, the sectors of mining and manufacturing showed a real growth, increasing by 6.2% and 4.2%, respectively; followed by electricity, gas and water, which recorded a real increase of 2.9%; transportation, storage and communications, which recorded a real increase of 1.1%; and agriculture, livestock, fishing and forestry, which recorded a real increase of 0.8%. The sectors of commerce, hotels and restaurants; construction; financial, insurance and real estate services; and community, social and personal services, all experienced negative real growth rates of 7.0%, 6.8%, 3.1% and 1.8%, respectively.

According to preliminary estimates, during the first quarter of 1996 real GDP decreased by 1.0%, as compared with the same period of 1995.

The nine segments that comprise the manufacturing sector performed inconsistently during 1995, with two showing growth and seven decreasing. Basic metal industries grew by 10.1%, and paper, paper products and printing grew by 2.3%, in each case as compared with 1994. By contrast, non-metallic mineral products other than petroleum and coal declined by 14.6%; wood industry and derivatives contracted by 14.2%; textiles, garments and leather contracted by 11.4%; metallic products, machinery and equipment decreased by 11.0%; chemical products, petroleum derivatives, rubber and plastic products contracted by 3.2%; food, beverages and tobacco decreased by 2.2% and other manufacturing industries contracted by 38.9%, all in comparison with 1994. During the first quarter of 1996, basic metal industries grew by 14.9%; textiles, garments and leather grew by 9.6%; metallic products, machinery and equipment grew by 8.5%; food, beverages and tobacco grew by 3.2%; and chemical products, petroleum derivatives, rubber and plastic products grew by 2.9%, in each case as compared with the same period of 1995. By contrast, paper, paper products and printing declined by 8.0%; non-metallic mineral products other than petroleum and coal contracted by 5.4%; wood industry and derivatives contracted by 2.0% and other manufacturing industries contracted by 2.9%, all in comparison with the same period of 1995.

According to preliminary figures, during the second quarter of 1996, real GDP grew by 7.2% as compared with the same period of 1995. This increase is the first positive change after five consecutive negative quarters and the highest since the fourth quarter of 1990. Manufacturing and transportation, storage and communications were the most dynamic sectors of the economy during the second quarter of 1996, recording real growth of 14.3% and 13.9%, respectively, followed by the commerce, hotels and restaurants, construction and mining sectors, recording real growth of 7.9%, 7.8% and 7.2%, respectively, while electricity, gas and water and agriculture, livestock, fishing and forestry showed an increase in real terms of 4.1% and 4.0%, respectively, by comparison to the second quarter of 1995.

During the second quarter of 1996, eight segments within the manufacturing sector showed growth and one segment showed a decrease, as compared with the second quarter of 1995. Metallic products, machinery and equipment grew by 28.9%, textiles, garments and leather grew by 24.7%, basic metals industries grew by 19.7%, wood industry and derivatives grew by 16.8%, other manufacturing industries grew by 15.1%, non-metallic mineral products other than petroleum derivatives and coal grew by 13.7%, chemical products, petroleum derivatives, rubber and plastic products grew by 10.7% and food, beverages and tobacco grew by 1.7%, while paper, paper products and printing decreased by 1.5%.

The Government currently projects under the ARE a 3% increase (in real terms) in GDP for 1996 as a whole.

The following tables set forth GDP and expenditures, in constant pesos and percentage terms, for the periods indicated.

Real GDP and Expenditures

	1990	1991	1992	1993	1994(1)	1995(1)
			(in millions of pesos)(2)			
Gross domestic product	Ps.5,271.5	Ps.5,462.7	Ps.5,615.9	Ps.5,658.5	Ps.5,857.5	Ps.5,451.5
Add: Imports of goods and services	708.5	827.4	1,000.0	987.5	1,115.3	808.1
Total supply of goods and services	5,980.1	6,290.1	6,615.9	6,646.0	6,972.8	6,259.5
Less: Exports of goods and services	966.8	1,011.1	1,027.0	1,066.6	1,144.9	1,469.7
Total goods and services available for domestic expenditure	Ps.5,013.3	Ps.5,279.0	Ps.5,588.9	Ps.5,579.4	Ps.5,828.0	Ps.4,789.8
Allocation of total goods and services						
Private consumption	Ps.3,449.9	Ps.3,618.6	Ps.3,761.1	Ps.3,767.3	Ps.3,907.1	Ps.3,404.4
Public consumption	568.5	590.8	604.5	616.7	632.0	605.8
Total consumption	4,018.4	4,209.4	4,365.6	4,384.1	4,539.1	4,010.2
Total gross fixed investment	988.3	1,070.4	1,186.5	1,171.8	1,267.0	875.4
Changes in inventory	6.6	(0.8)	36.9	23.6	21.9	(95.8)
Total domestic expenditures	Ps.5,013.3	Ps.5,279.0	Ps.5,588.9	Ps.5,579.4	Ps.5,828.0	Ps.4,789.8

Note: Totals may differ due to rounding.
(1) Preliminary.
(2) Constant pesos with purchasing power at December 31, 1980.
Source: Instituto Nacional de Estadística, Geografía e Informática ("INEGI").

GDP and Expenditures

	1990	1991	1992	1993	1994(1)	1995(1)
			(as a percentage of total GDP)			
Gross domestic product	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Add: Imports of goods and services	13.4	15.1	17.8	17.5	19.0	14.8
Total supply of goods and services	113.4	115.1	117.8	117.5	119.0	114.8
Less: Exports of goods and services	18.3	18.5	18.3	18.8	19.5	27.0
Total goods and services available for domestic expenditures	95.1%	96.6%	99.5%	98.6%	99.5%	87.8%
Allocation of total goods and services						
Private consumption	65.4%	66.2%	67.0%	66.6%	66.7%	62.4%
Public consumption	10.8	10.8	10.8	10.9	10.8	11.1
Total consumption	76.2	77.0	77.8	77.5	77.5	73.5
Total gross fixed investment	18.7	19.6	21.1	20.7	21.6	16.1
Changes in inventory	0.1	0.0	0.7	0.4	0.4	(1.8)
Total domestic expenditures	95.1%	96.6%	99.5%	98.6%	99.5%	87.8%
Annual percentage increase (decrease) in GDP at constant 1980 prices(2)	4.4%	3.6%	2.8%	0.7%	3.5%	(6.9%)

Note: Totals may differ due to rounding.
(1) Preliminary.
(2) Constant pesos with purchasing power at December 31, 1980.
Source: INEGI.

The following table sets forth the composition of Mexico's GDP by economic sector for the periods indicated.

Real GDP by Sector

	1990	1991	1992	1993	1994(1)	1995(1)
			(in millions of pesos)(2)			
Agriculture, livestock, fishing and forestry	Ps. 408.8	Ps. 412.7	Ps. 408.6	Ps. 423.3	(3) Ps. 431.7	(3) Ps. 415.5
Mining, petroleum and gas	188.0	189.5	192.9	194.6	197.7	196.3
Manufacturing	1,203.9	1,252.3	1,280.7	1,271.0	1,317.0	1,232.4
Construction	267.8	274.3	295.7	304.0	323.6	252.5
Electricity, gas and water	78.7	80.8	83.2	86.7	93.4	96.2
Transportation, storage and communication	346.7	366.9	394.9	408.0	439.9	431.6
Commerce, hotels and restaurants	1,355.1	1,413.6	1,464.3	1,444.7	1,485.4	1,271.7
Financial services, insurance, real estate, community, social and personal services	1,496.4	1,552.4	1,580.6	1,620.8	1,672.7	1,651.5
Subtotal	5,345.5	5,542.6	5,700.9	5,753.2	5,961.4	5,547.7
Less adjustment for banking service	(74.0)	(79.9)	(85.0)	(94.5)	(104.1)	(96.2)
Total gross domestic product	Ps.5,271.5	Ps.5,462.7	Ps.5,615.9	Ps.5,658.5	Ps.5,857.5	Ps.5,451.5

Note: Totals may differ due to rounding.

(1) Preliminary.

(2) Constant pesos with purchasing power at December 31, 1980.

(3) The GDP figures relating to agricultural production during 1993, 1994 and 1995 set forth in this table and elsewhere herein are based on figures for the 1993, 1994 and 1995 "agricultural years", with the exact definition of the "agricultural year" varying from crop to crop based on the season during which it is grown. Calendar year figures are used for the other components of GDP.

Source: INEGI.

The following table sets forth the annual change in Mexico's real GDP by sector for the periods indicated.

Real GDP Growth by Sector

	1990	1991	1992	1993	1994(1)	1995(1)
GDP (constant 1980 prices)	4.4%	3.6%	2.8%	0.7%	3.5%	(6.9)%
Agriculture, livestock, fishing and forestry	5.9	1.0	(1.0)	2.6	2.0	(3.8)
Mining, petroleum and gas	2.8	0.8	1.8	0.9	1.6	(0.7)
Manufacturing	6.1	4.0	2.3	(0.8)	3.6	(6.4)
Construction	7.0	2.4	7.8	2.8	6.4	(22.0)
Electricity, gas and water	2.9	2.7	3.0	4.2	7.7	3.1
Transportation, storage and communications	6.7	5.8	7.6	3.3	7.8	(1.9)
Commerce, hotels and restaurants	4.1	4.3	3.6	(1.3)	2.8	(14.4)
Financial services, insurance, real estate and community, social and personal services	2.6	3.7	1.8	2.5	3.2	(1.3)

(1) Preliminary.

Source: INEGI.

In 1995, industrial production (i.e., the manufacturing; mining, petroleum and gas; construction; and electricity, gas and water sectors) in Mexico, in constant 1980 prices, accounted for 32.0% of GDP, with manufacturing output alone representing 22.2% of total domestic output. Although petroleum and natural gas production remain important industrial activities in Mexico, the aggregate contribution of the mining, petroleum and gas sectors was only 3.5% in 1994. In 1995, primary activities, which include agriculture, livestock, fishing and forestry, accounted for 7.5% of GDP, and the service sector (i.e., transportation, storage and communications; commerce, hotels and restaurants; and financial services, insurance, real estate and community, social and personal services) represented 60.5% of GDP.

Between 1990 and 1994, transportation, storage and communications was the most dynamic sector of the economy, growing at a compound annual rate of 6.1%. Growth in this sector primarily reflected increased demand for communications services and, to a lesser extent, expansion in railroad freight transportation. In 1995, this sector contracted by 1.9% in real terms.

Construction was the second most dynamic sector for the period 1990-1994, growing at a compound annual rate of 4.8%. The construction sector is subject to cyclical trends and was among those most affected by the sharp reductions in Government expenditures during the 1980s. However, during 1990, 1991, 1992, 1993 and 1994, the construction sector grew at annual rates of 7.0%, 2.4%, 7.8%, 2.8% and 6.4%, respectively. In 1995, the construction sector contracted by 22.0% in real terms.

The electricity, gas and water sector grew at a compound annual rate of 4.4% between 1990 and 1994 and was the third most dynamic sector of the economy as a result of continued investment by Government agencies. Total installed generating capacity increased from 18,390 megawatts in 1982 to 31,649 megawatts in 1994. However, the demand for electricity has grown at a faster rate than the increase in generating capacity. In 1995, the electricity, gas and water sector recorded real growth of 3.1%.

Financial services, insurance, real estate and community, social and personal services was the fourth most dynamic sector, growing at a compound annual rate of 2.8% between 1990 and 1994. In 1995, this sector contracted by 1.3%.

The manufacturing sector grew at a compound annual rate of 2.3% between 1990 and 1994. This sector underwent important qualitative changes as manufactured goods became subject to increasing international competition. In 1995, the manufacturing sector contracted by 6.4%.

In 1992, the agriculture, livestock, fishing and forestry sector contracted by 1.0%, with agricultural output contracting by 2.4% due to poor weather conditions. In 1993 and 1994, however, this sector grew by 2.6% and 2.0%, respectively, while in 1995, the sector contracted by 3.8%. The mining, petroleum and gas sector grew by 0.9% in 1993 and 1.6% in 1994, followed by a contraction of 0.7% in 1995.

Prices and Wages

In the 1980s, the Government's debt service burden and large devaluations of the peso fueled high rates of inflation. The NCPI rose 105.7% in 1986, and another 159.2% in 1987. In December 1987, the Government reached an accord with labor and business representatives to curb the economy's inflationary pressures by freezing wages and prices. The accord included the implementation of restrictive fiscal and monetary policies, the elimination of certain trade barriers and the reduction of import tariffs. After substantial increases in public sector prices and utility rates, price controls were introduced.

The 1987 accord was succeeded by a series of additional accords, each of which continued to stress the moderation of inflation, fiscal discipline and a gradual devaluation of the peso. There was a gradual reduction in the number of goods and services whose prices were covered by such accords. The two most recent accords also incorporated a reduction in the income tax rate applicable to corporations and certain self-employed individuals from 35% to 34% and a reduction in the withholding tax applicable to interest payments on publicly issued external debt and external debt payable to certain financial institutions from 15% to 4.9%. Under the later of these two accords, tax benefits were proposed for workers receiving salaries not exceeding twice the minimum wage and asset taxes were to be reduced to 1.8%. These policies contributed to lower consumer inflation rates of 51.7% in 1988, 19.7% in 1989, 29.9% in 1990, 18.8% in 1991, 11.9% in 1992, 8.0% in 1993 and 7.1% in 1994.

On January 2, 1995, the AUSEE came into force and was intended to be effective until the end of 1995 but was reinforced on March 9, 1995 by the PARAUSEE. Key points of the PARAUSEE include: (i) maintenance of the floating exchange rate policy announced in December 1994, (ii) an inflation target for 1995 (December 1994 to December 1995) of 42%, a projected 1995 current account deficit of U.S.$ 2.4 billion and a decline in real GDP during 1995 of 2.0%, (iii) a commitment in principle by business to increase prices only in the proportion that products sold in Mexico are comprised of imported components, (iv) a commitment by the Government to take the steps necessary to increase public revenues and decrease public expenditures with a view to achieving a budget surplus of 0.5% of GDP, sharply lowering the current account deficit and mitigating the inflationary impact of the devaluation; these steps include an increase in the VAT from 10% to 15%, increases in prices of goods and services provided by the public sector (such as an aggregate 1995 increase in gasoline and diesel fuel prices of 48.5% and an aggregate 1995 increase in residential natural gas and electricity prices of 32%) and a decrease in expenditures by 9.8% in real terms from the 1994 level, and (v) an increase in the minimum wage of 12%, as compared with the 4% increase set in December 1994, with other salaries to be negotiated between employers and workers.

In October, 1995, the PARAUSEE was replaced by the ARE. Key elements of the ARE include: (i) maintenance of the floating exchange rate policy announced in December 1994; (ii) an inflation target for 1996 (December 1995 to December 1996) of 20.5% and a targeted increase in real GDP during 1996 of 3.0%; (iii) a commitment in principle by business to absorb as much as possible cost increases stemming from the raising of prices and fees charged by the public sector within the ARE; (iv) a commitment by representatives of the agricultural sector to improve productivity, profitability and reduce the food trade deficit; (v) a commitment by the government to balance the tax incentives to be given to productive activities and employment with gradual increases in the prices of public sector goods and services and a reduction in real terms of 4.7% in public current expenditure with a view to achieving a balanced fiscal budget (these price increases include: increasing the price of gasoline and diesel fuel by an aggregate of 31.2%, 7% in December 1995, 6% in April 1996 and 1.2% on a monthly basis during 1996, except April, and increasing the price of electricity by 7% in December 1995) and (vi) an increase in the minimum wage of 22% (10% in December 1995 and the remaining 12% in April 1996), with other salaries to be negotiated between employers and workers. See "Recent Developments—The Government's Response" and "Public Finance—1996 Budget".

Over the medium-term, the Government is committed to reversing the decline in real wages experienced in the last decade through control of inflation, a controlled gradual upward adjustment of wages and a reduction in income taxes for the lower income brackets. Nonetheless, the effect of the devaluation of the peso and the Government's response to that event and related developments caused a significant increase in inflation in 1995, as well as a decline in real wages for much of the population during 1995. Inflation during 1995 (as measured by the increase in the NCPI) was 52.0%, as compared with 7.1% during 1994. Inflation during the first seven months of 1996 was 16.94%, as compared with 35.63% during the same period of 1995.

The following table shows in percentage terms the changes in price indices and the annual increase in the minimum wage for the periods indicated.

Changes in Price Indices

	National Producer Price Index(1)	National Consumer Price Index	Increase in Minimum Wage
1991	11.0%	18.8%	12.0%
1992	10.6	11.9	—
1993	4.6	8.0	8.1
1994	9.1	7.1	7.0
1995	59.5	52.0	30.7
January	7.8	3.8	7.0
February	4.6	4.2	—
March	6.4	5.9	—
April	8.3	8.0	12.0
May	3.4	4.2	—
June	2.6	3.2	—
July	1.2	2.0	—
August	1.7	1.7	—
September	1.9	2.1	—
October	2.1	2.1	—
November	3.8	2.5	—
December	4.1	3.3	10.0
1996			
January	2.9	3.6	—
February	2.3	2.3	—
March	2.7	2.2	—
April	2.9	2.8	12.0
May	0.8	1.8	—
June	1.0	1.6	—
July	1.3	1.4	—

(1) Index includes oil prices.
Source: Banco de México.

Interest Rates

Interest rates eased in 1991 and 1992, with the 28-day *Cetes* rate falling to an average of approximately 15.6% per annum in 1992, although increasing in mid-1992 in response to Government anti-inflation initiatives. During 1993, the interest rate on 28-day *Cetes* averaged 15.0%. During the first quarter of 1994, interest rates continued to fall, with the interest rate on 28-day *Cetes* averaging 9.9%. However, since then interest rates have been more volatile, with interest rates increasing during 1994 and 1995 in response to a number of political and economic factors, including investor reactions to the increase in U.S. interest rates, increased volatility of the peso/dollar foreign exchange rate, uncertainty concerning the Mexican Presidential elections in August 1994 and certain related developments. Interest rates increased sharply during the first four months of 1995 in response to the economic and financial events of that period and the Government's 1995 Economic Plan. From May through September, interest rates declined gradually, but increased in October and November 1995, partially in response to increased volatility of the peso/dollar exchange rate. See "Recent Developments". On September 11, 1996, the 28-day *Cetes* rate was 23.46% and the 91-day *Cetes* rate was 27.73%.

In January 1993, Banco de México began to publish a new interest rate, the *tasa de interés interbancaria promedio* (average interbank interest rate or "TIIP"). The purpose of the TIIP is to provide an additional reference rate that more accurately reflects the current conditions in the domestic financial market. The TIIP is determined by credit operations between banks at any given time. By contrast, the *costo porcentual promedio* (the average weighted cost of term deposits for commercial banks, or "CPP"), an alternative measure of interest rates, lags somewhat behind current market conditions.

In March 1995, Banco de México introduced a new interest rate, the *tasa de interes interbancaria de equilibrio* (the equilibrium interest rate, or "TIIE"). The difference between the TIIE and the TIIP is that the TIIE is calculated as the interest rate at which the supply and demand for funds in the domestic financial market reach equilibrium, while the TIIP is calculated as an average interest rate. Banco de México intends gradually to replace the TIIP with the TIIE with a view to eliminating the TIIP entirely by the year 2001.

The following table sets forth the average interest rates per annum on 28-day and 91-day *Cetes*, the CPP, the TIIP and the TIIE for the periods indicated.

Average *Cetes*, CPP, TIIP and TIIE Rates

	28-Day Cetes	91-Day Cetes	CPP	TIIP	TIIE
1990:					
January-June	41.2%	40.7%	43.2%	—	—
July-December	28.3	29.4	31.0	—	—
1991:					
January-June	21.2	21.7	24.3	—	—
July-December	17.3	18.0	20.8	—	—
1992:					
January-June	13.8	13.8	16.9	—	—
July-December	17.4	18.0	20.7	—	—
1993:					
January-June	16.4	17.3	20.9	20.4(1)	—
July-December	13.5	13.6	16.2	16.1	—
1994:					
January-June	13.0	13.5	14.2	15.3	—
July-December	15.2	15.7	16.8	20.4	—
1995:					
January-June	55.0	54.3	49.6	63.6	71.2(2)
July-December	41.9	42.2	40.7	44.5	44.5
1996:					
January	41.0	41.6	40.2	42.7	42.7
February	38.6	40.7	35.9	40.1	40.1
March	41.4	43.0	39.1	43.6	43.6
April	35.2	37.1	35.2	36.9	36.6
May	28.5	31.1	29.4	30.1	30.3
June	27.8	29.6	27.1	30.1	30.1
July	31.3	31.7	29.2	33.5	33.5
August	26.5	29.2	27.5	29.5	29.4

(1) February-June average.
(2) Average for the last two weeks of March.
Source: Banco de México.

Employment and Labor

Between 1990 and 1994, the growth of the Mexican economy created new jobs in the industrial and commercial sectors at an estimated compound annual rate of 0.7%, but the even more rapid growth of the population entering the labor force and lower employment growth rates in certain other sectors of the economy have precluded a significant reduction in unemployment and underemployment. Over the past five years, the number of workers enrolled in the social security system increased by approximately

0.7 million. (Since workers are required by law to enroll in the social security system upon becoming newly employed, this statistic is a measure of employment growth.)

The Government has estimated that at the end of March 1996, 842,857 Mexican workers were unemployed as a result of the current economic crisis. Mexico's entry into GATT and, more recently, the implementation of the NAFTA have also produced structural changes in the economy which have generated additional unemployment. Mexico does not have an unemployment benefits scheme or a fully developed social welfare system.

Although there are no reliable statistics on unemployment and underemployment, both are widespread in Mexico and increased in 1995. Unemployment is particularly widespread in rural areas, where approximately 26.5% of the population resides. The Government is committed to fostering an economic environment that will generate employment opportunities for the large numbers of persons expected to enter the labor force in the medium-term. However, the Government recognizes that addressing Mexico's significant unemployment and underemployment problem is likely to be an important challenge in the balance of the 1990s.

In some regions of Mexico, especially where industrial growth has been rapid, industry has experienced a shortage of skilled labor and management personnel, as well as high turnover rates. Since 1978, the Government has sought to address these problems through legislation requiring in-house training programs, the costs of which are tax deductible. The Government recognizes that further significant investment in worker training will be required.

A significant portion of the Mexican work force is unionized. Mexican labor legislation requires that collective bargaining agreements be renewed at least every two years (with wages subject to renegotiation annually) and contains certain legal limitations on strikes. Approximately 0.006% of the total working days were lost to strikes during 1995, as compared with 0.014% during 1994.

Mexico's minimum wage is set by a commission (the "National Wage Commission") consisting of representatives of business, labor and Government. The National Wage Commission approved a 7% nominal increase in the minimum wage which took effect on January 1, 1995, and a further 12% nominal increase in the minimum wage which took effect on April 1, 1995. Mexican law requires industry to provide substantial worker benefits, including mandatory profit-sharing through a distribution of 10% of pre-tax profits to workers. Other benefits include mandatory participation in the pension fund and worker housing fund systems administered by the Government. Under the ARE, the minimum wage increased 10% in December 1995 and 12% in April 1996.

The *Ley del Seguro Social* and *Ley del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado* (collectively, the "Social Security Laws"), as amended in May 1992, require an employer (including any government entity) to deposit with a credit institution selected by the employer an amount equal to 2% of each worker's base salary. The amount contributed on behalf of each worker forms a retirement sub-account which, together with the housing sub-account described in the following paragraph, constitute a single account for each worker. Sums contributed to a worker's retirement sub-account may be withdrawn only when the worker retires or becomes permanently disabled. This compulsory retirement savings system complements the existing Mexican social security system and is designed both to improve the economic condition of Mexican workers and to promote long-term savings in the economy. These savings are expected to provide financing for investment projects in both the public and private sectors.

The *Instituto del Fondo Nacional de la Vivienda para los Trabajadores* (the National Workers' Housing Fund Institute, or the "Institute") was created by law in 1972 (the "Housing Law") in order to administer housing programs for workers and address the shortage of housing, estimated as of December 31, 1993 at 4.6 million housing units. The Institute's principal objectives are the financing, construction and allocation of housing for workers. The Housing Law was amended in 1992. Under the amended law, employers are required to contribute an amount equal to 5% of each worker's base salary to a housing sub-account with a banking institution. As with the retirement sub-accounts, the funds contributed are deductible from the employer's current income for tax purposes. These funds are in turn required to be deposited to an account of the Institute at Banco de México. Upon a worker's receipt of a loan from the Institute for the purchase or construction of a home, any amounts in the worker's housing sub-account are available for financing the down payment on the home. Unused amounts may be withdrawn by the worker upon retirement or permanent disability. The amendments also changed the role of the Institute in the housing market. The Institute has ceased its involvement in the construction of housing units and now limits its activities to those of a financial intermediary, extending credit to workers for the construction and purchase of homes.

At May 31, 1996, funds totalling approximately Ps. 66.2 billion had been deposited in the new pension and housing funds, with Ps. 27.7 billion of such amount corresponding to deposits in workers' retirement sub-accounts and Ps. 38.5 billion corresponding to deposits in workers' housing sub-accounts.

On December 21, 1995, a new Social Security Law (*Ley del Seguro Social*) was published. The new law is scheduled to become effective on January 1, 1997. As is the case in respect of older statutes regulating the social security system, the new law continues to specify the terms pursuant to which economic and other services and compensation are to be provided to members of the social security system. But, in addition, this law has as its purpose to strengthen the Social Security Institute (*Instituto Mexicano del Seguro Social*), increase the protection given to members and the number of its members and improve the quality of the services provided.

The new law also provides that each worker may maintain an independent retirement account, which is to be managed by an approved Manager of Retirement Funds *(Administradora de Fondos para el Retiro)*.

PRINCIPAL SECTORS OF THE ECONOMY

Manufacturing

From 1977 to 1981, Mexico experienced a rapid growth in manufacturing, stimulated by favorable Government policies and an economic boom. During the period from 1982 to 1986, manufacturing declined at a compound annual rate of 0.7% in real terms, reflecting the country's economic difficulties. From 1987 through 1992, the manufacturing sector grew each year, but at varying rates. During the period from 1988 to 1992, important changes took place in the manufacturing sector, resulting both from Mexico's trade liberalization and the growth in Mexican exports. The quality of manufactured goods has generally risen, as Mexican manufacturers have become increasingly subject to international competition. Manufacturing output grew by 2.3% in 1992, below the 7.2%, 6.1% and 4.0% increases recorded in 1989, 1990 and 1991, respectively. In 1993, the manufacturing sector contracted by 0.8%.

In 1994, the manufacturing sector grew by 3.6%. Seven of the nine segments of the manufacturing sector registered increases in activity, although in two of these (food, beverages and tobacco and other manufacturing industries) the increases were small (0.4% and 0.1%, respectively). The largest increases took place in metallic products, machinery and equipment (8.6%), basic metals industries (8.5%), chemical products, petroleum derivatives, rubber and plastic products (5.1%) and non-metallic mineral products other than petroleum derivatives and coal (3.8%). The textiles, garments and leather segments contracted, as did paper, paper products and printing. In general, the segments that experienced low growth or a contraction in activity contained a large number of firms that were unable to compete successfully with the increase in imports resulting from the opening of the Mexican economy.

Despite the solid growth of the manufacturing sector in 1994, the devaluation of the peso at the end of 1994 created a particularly difficult environment. Many firms experienced declines in income or losses during 1994, resulting in particular from the sharply increased level in peso terms of their foreign-currency denominated liabilities.

The nine segments that comprise the manufacturing sector performed inconsistently during 1995, with two showing growth and seven contracting. Basic metals industries grew by 10.1%, and paper, paper products and printing grew by 2.3%, each as compared with 1994. By contrast, non-metallic mineral products other than petroleum and coal declined by 14.6%; wood industry and derivatives contracted by 14.2%; textiles, garments and leather contracted by 11.4%; metallic products, machinery and equipment contracted by 11.0%; chemical products, petroleum derivatives, rubber and plastic products contracted by 3.2%; food, beverages and tobacco decreased by 2.2% and other manufacturing industries contracted by 38.9%, all in comparison with 1994. During the first quarter of 1996, basic metal industries grew by 14.9%; textiles, garments and leather grew by 9.6%; metallic products, machinery and equipment grew by 8.5%; food, beverages and tobacco grew by 3.2%; and chemical products, petroleum derivatives, rubber and plastic products grew by 2.9%, in each case as compared with the same period of 1995. By contrast, paper, paper products and printing declined by 8.0%; non-metallic mineral products other than petroleum and coal contracted by 5.4%; wood industry and derivatives contracted by 2.0% and other manufacturing industries contracted by 2.9%, all in comparison with the same period of 1995.

During the second quarter of 1996, eight segments within the manufacturing sector showed growth and one segment showed a decrease, as compared with the second quarter of 1995. Metallic products, machinery and equipment grew by 28.9%, textiles, garments and leather grew by 24.7%, basic metals industries grew by 19.7%, wood industry and derivatives grew by 16.8%, other manufacturing industries grew by 15.1%, non-metallic mineral products other than petroleum derivatives and coal grew by 13.7%, chemical products, petroleum derivatives, rubber and plastic products grew by 10.7% and food, beverages and tobacco grew by 1.7%, while paper, paper products and printing decreased by 1.5%.

The following table shows the value of industrial manufacturing output and the percentage of total output accounted for by each manufacturing sector for the periods indicated at 1980 constant prices.

Industrial Manufacturing Output

	1991	1992	1993	1994(1)	1995(1)	1991	1995(1)
	(in millions of pesos)(2)					(% of total)	
Food, beverage and tobacco	Ps. 323.1	Ps. 334.0	Ps. 336.6	Ps. 338.0	Ps. 330.6	25.8%	26.8%
Metallic products, machinery and equipment	283.3	293.2	291.6	316.6	281.7	22.6	22.9
Chemical products, petroleum derivatives, rubber and plastic products	226.6	231.3	225.9	237.3	229.8	18.1	18.6
Textiles, garments and leather	125.3	120.8	114.9	113.4	100.5	10.0	8.2
Non-metallic mineral products other than petroleum derivatives and coal	84.3	89.0	90.1	93.6	79.9	6.7	6.5
Basic metals industries	71.2	71.2	74.8	81.1	89.3	5.7	7.2
Paper, paper products and printing	68.8	69.6	67.3	66.4	67.9	5.5	5.5
Wood industry and derivatives	39.5	39.3	37.7	38.6	33.1	3.2	2.7
Other manufacturing industries	30.1	32.3	32.0	32.1	19.6	2.4	1.6
Total	Ps.1,252.2	Ps.1,280.7	Ps.1,271.0	Ps.1,317.0	Ps.1,232.4	100.0%	100.0%

Note: Totals may differ due to rounding.
(1) Preliminary.
(2) Constant pesos with purchasing power at December 31, 1980.
Source: INEGI.

To take advantage of lower manufacturing overhead, particularly labor costs, and Mexico's long common border with the United States, the Government has encouraged the development of in-bond industries *(maquiladoras)* since the early 1980s. These industries are granted special customs treatment which permits them to process semi-finished products supplied from the United States, Japan, China and Korea for re-export. The products include auto parts, electronic items, food, household appliances, finished textiles and toys. See "The External Sector of the Economy—In-bond Industry".

Most of the growth in Mexico's manufacturing output since 1987 resulted from increased production by plants located outside of the Valley of Mexico (where Mexico City is located). However, a significant portion of Mexico's manufacturing output still originates from plants located in this area. In an effort to address the high pollution levels in the Valley of Mexico, the authorities have implemented regulations that require certain types of plants to reduce operations or close temporarily when the concentration of pollutants in the air rises to certain levels. During 1995, the authorities ordered industrial plants in the Valley of Mexico to reduce operations on 7 days due to high pollution levels. The Government has also followed a general policy of discouraging industry from constructing new plants in the Valley of Mexico and other major industrial cities, such as Monterrey and Guadalajara.

The concentration of industry in the Valley of Mexico, together with Mexico City's climatic and demographic characteristics, contribute to high levels of suspended particles, sulphur dioxide (a gaseous by-product of the combustion of diesel fuel and fuel oil), airborne lead (released as a gas when leaded gasoline is burned and released in particulate form by industry), carbon monoxide (produced by the incomplete combustion of gasoline) and ozone (resulting from the combination of nitrous oxides, hydrocarbons and solar radiation). While the various means of transportation in and around Mexico City account for the vast majority of the air pollution in Mexico City and, indirectly, for the vast majority of ozone present in the atmosphere (and are thus the main object of anti-pollution programs), industry also produces a significant amount of pollution.

In addition to the existing anti-pollution regulations issued pursuant to the *Ley General de Equilibrio Ecológico y la Protección al Ambiente* (Law on the Ecology and the Protection of the Environment), on March 11, 1992, the Government, through the Metropolitan Pollution Commission of the Valley of Mexico, executed an agreement with representatives of industries located in the Valley of

Mexico to coordinate and intensify measures to control and reduce the pollution generated by these industries.

Moreover, the use of catalytic converters in cars is being phased in, and starting with the 1993 model year, all new cars driven in Mexico City are required to be equipped with emissions control equipment that meets U.S. performance standards. Mexico City instituted a program entitled *Hoy No Circula* (No Driving Today), requiring that one-fifth of the city's private vehicles be kept out of circulation each weekday. The program has been extended periodically (to remove cars from circulation twice per week), and currently remains in effect.

The above-described measures and the Government's other anti-pollution measures (including those undertaken by *Petróleos Mexicanos* and its Subsidiary Entities (as defined below) to produce larger quantities of unleaded gasoline and decrease the sulfur content of its diesel fuel and fuel oil) have involved expenditures of $2.7 billion through December 31, 1994. An additional $1.5 billion of Government expenditures are projected in connection with environmental projects now underway or in the planning stages. See "—Petroleum and Petrochemicals—Capital Expenditures" below. Significant additional investment may be required in the future to address environmental concerns.

Petroleum and Petrochemicals

General. The Mexican petroleum and natural gas industry is generally entrusted by the Constitution and Mexican Federal law solely to *Petróleos Mexicanos*, a decentralized public agency of the Government, and four decentralized public entities (the "Subsidiary Entities" and, together with *Petróleos Mexicanos*, "Pemex"). The *Ley Orgánica de Petróleos Mexicanos y Organismos Subsidiarios* (the Organic Law of *Petróleos Mexicanos* and its Subsidiary Entities, or the "Organic Law"), effective July 17, 1992, as amended effective January 1, 1994, resulted in the reorganization of Pemex into integrated lines of business, with more control and decision-making responsibilities being granted to the management of the operating areas. The Organic Law separates the operating functions of Pemex into four decentralized public entities, as follows: (i) *Pemex-Exploración y Producción* ("Pemex-Exploration and Production"), (ii) *Pemex-Refinación* ("Pemex-Refining"), (iii) *Pemex-Gas y Petroquímica Básica* ("Pemex-Gas and Basic Petrochemicals") and (iv) *Pemex-Petroquímica* ("Pemex-Petrochemicals"). The Subsidiary Entities are managed as subsidiaries of *Petróleos Mexicanos. Petróleos Mexicanos* is granted the exclusive authority necessary to determine the policies and strategic guidelines applicable to Mexico's petroleum industry and to conduct its operations, including the exploration, production, refining, storage, transportation, distribution and initial sale of crude oil and its derivatives and by-products, the exploration, production, processing and initial sale of natural gas, as well as transportation and storage inextricably linked with such exploration, production and processing, and the manufacture, storage, transportation, distribution and initial sale of gas and petroleum derivatives (including petrochemical products) used as basic industrial raw materials. As described below, Congress has recently approved amendments to the law regarding the natural gas industry to allow Mexican private sector companies (which may be owned by non-Mexican companies or individuals) to take part in the storage, distribution and transportation of natural gas. See "—Distribution" below.

Pemex is the largest enterprise in Mexico, with total assets of Ps. 244.4 billion at December 31, 1995. Pemex earned income during 1995 of Ps. 9.8 billion on total revenues (net of the IEPS tax (as defined under "—Taxes and Duties" below)) of Ps. 143.8 billion, and income after costs and expenses but before hydrocarbon extraction duties (described under "—Taxes and Duties" below) and the IEPS tax of Ps. 102.4 billion. The operations of Pemex are subject to close regulation and supervision by the Government. Domestic prices for Pemex's products are set by Pemex in conjunction with the Government, taking into consideration both macroeconomic factors and Pemex's production costs. It is the current policy of the Government and Pemex to keep Pemex's domestic prices generally in line with the international prices of its products.

Through Pemex, Mexico is currently the fifth largest crude oil and condensates producer in the world, accounting for approximately 5% of the world's crude oil and condensates production in 1994. Mexico had proved hydrocarbon reserves at December 31, 1995 equivalent to an estimated 62.1 billion barrels, of which 48.8 billion barrels corresponded to crude oil and condensates. This figure is estimated to amount to approximately 5% of the world's proved oil reserves at December 31, 1994. All oil and other hydrocarbon reserves within Mexico are owned by the Mexican Nation and not by Pemex. Under the Constitution, such reserves may be exploited only by Mexico. Under Pemex's Organic Law, Pemex was established for the purpose of exploiting, and is granted the exclusive right to exploit, Mexico's hydrocarbon reserves.

Mexico is not a member of the Organization of Petroleum Exporting Countries.

Pemex provided approximately 9.3% of Mexico's foreign exchange revenues (including revenues generated by in-bond industries) in 1994 and approximately 8.6% of such revenues during 1995. Pemex's export sales accounted for approximately 21.7% of Mexico's total merchandise export earnings during 1994 and about 17.3% during 1995. If indirect taxes collected by Pemex are taken into account, its contribution to the Government's tax revenues comprised approximately 27.5% of the total in 1994 and 35.3% during 1995. See "—Taxes and Duties" below.

In connection with the February 21 Agreements forming part of the international support package for Mexico, *Petróleos Mexicanos* and certain of its sales affiliates have instructed their foreign buyers of crude oil and oil derivatives (with certain exceptions) to make payments to designated accounts of *Petróleos Mexicanos* and such affiliates with a bank in New York and have instructed that bank to credit the amounts received to an account of Banco de México at FRBNY. Banco de México has the right to withdraw the funds deposited in the FRBNY account so long as there is no payment default by Mexico under the February 21 Agreements or the NAFA. In the event of any such payment default, FRBNY has the right to debit and set-off the funds in the account to repay any amounts due and payable by Mexico under the February 21 Agreements and the NAFA. On August 5, 1996, Mexico issued US$6,000,000,000 of five-year Floating Rate Notes to a group of international commercial banks and financial institutions, the proceeds of which were used to repay a portion of the amounts outstanding to the U.S. Treasury Department under the February 21 Agreements. The Notes benefit from credit support arrangements substantially similar to those provided in the Oil Agreement.

The average price per barrel of Pemex's oil mix (the weighted average of the prices of Olmeca, Isthmus and Maya grades of crude oil exported by Pemex) was $14.58 in 1991, $14.88 in 1992, $13.20 in 1993, $13.88 in 1994 and $15.70 in 1995.

Reserves and Exploration. As mentioned above, Mexico had proved petroleum and natural gas reserves equivalent to approximately 62.1 billion barrels at December 31, 1995. Mexico's proved reserves are determined by Pemex and the *Instituto Mexicano del Petróleo* (Mexican Petroleum Institute), a decentralized public entity that is, like Pemex, controlled by the Government, in accordance with the guidelines of the American Petroleum Institute which are consistent with the rules and regulations of the Securities and Exchange Commission. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, *i.e.*, prices and costs as of the date the estimate is made.

At the end of 1995, approximately 46% of Mexico's proved oil reserves were located in the "Marine" region, which is located in the Gulf of Mexico, 34% in the "Northern" or Chicontepec region and 20% in the "Southern" or Chiapas-Tabasco region.

The following table sets forth Mexico's proved reserves at December 31 for each of the years indicated.

	December 31,				
	1991	1992	1993	1994	1995
		(in billions of barrels)			
Crude oil	44.3	44.4	44.0	43.1	42.1
Condensates(1)	6.6	6.8	6.7	6.6	6.7
Natural gas(2)	14.1	13.9	13.8	13.5	13.3
Total	65.0	65.1	64.6	63.2	62.1
Reserves/production ratio (years)	50	50	49	48	48

Note: Totals may differ due to rounding.
(1) Includes natural gas liquids.
(2) Crude oil equivalents, calculated on a basis of 5,088 cubic feet of natural gas equals one barrel.
Source: Pemex.

The main objective of Pemex's exploration program is to identify new oil reservoirs and thereby maintain adequate levels of reserves. Pemex's exploration program was accelerated in the late 1970s, leading to a substantial growth in proved reserves, which increased from 11.2 billion barrels in 1976 to 72.1 billion barrels in 1982. However, Pemex's exploration program, like that of other oil-producing companies, was scaled back as the price of oil dropped, initially in 1981 and then again in 1986. Nonetheless, from 1991 to 1995, Pemex initiated the drilling of 534 wells, and during this period completed a total of 556 exploration and development wells with success rates of 47% and 91%, respectively. At the end of 1995, the total number of Pemex's producing wells was 4,616 and the number of crude oil and natural gas fields in production was 342.

Production and Refining. The following table sets forth average daily production rates for crude oil, natural gas liquids (including condensates) and natural gas in each of the years 1991 to 1995.

Pemex Average Daily Production

	1991	1992	1993	1994	1995
Crude oil (1,000 bpd(1))	2,676	2,668	2,673	2,685	2,617
Condensates (1,000 bpd(1))	450	450	461	471	449
Natural gas (mcfpd(2))	3,634	3,584	3,576	3,625	3,759

(1) Barrels per day.
(2) Millions of cubic feet per day.
Source: Pemex.

Pemex produces three types of crude oil: Maya, a heavy crude; Isthmus, a light crude; and Olmeca, a very light crude. Most of Pemex's production is Isthmus and Maya crude. In 1995, 47% of Pemex's total production consisted of heavy crudes and 53% consisted of light and very light crudes.

Pemex produces a wide range of different refined products, which totalled 1.68 million barrels per day ("bpd") in 1994 and 1.60 million bpd in 1995. Pemex's refining capacity totalled 2.1 million bpd at the end of both 1994 and 1995, with 1.5 million bpd of such capacity directed to the primary distillation of crude oil and the remainder (0.6 million bpd) used for the fractionation of condensates.

Although the bulk of the gasoline refined by Pemex for sale in the domestic market is leaded, contributing to the pollution problems in Mexico City and elsewhere, progress has been made since 1991 in implementing Pemex's environmental program to help address environmental problems through investments in projects to develop higher quality gasoline, diesel fuel and fuel oil. Pemex increased its production of unleaded gasoline by 151.4 thousand bpd, from 10.0% of total gasoline production in 1991 to 45.7% in 1995. Pemex has also introduced new products such as *Diesel Sin*, a low sulfur diesel, which contains 0.05% sulfur, and has encouraged the substitution of current sources of energy with environmentally safer ones. Accordingly, the share of *Diesel Sin* as a percentage of total diesel produced has increased from 4.6% in 1993 to 59% in 1995. In addition, the electrical sector has begun to use natural gas instead of fuel oil in certain plants and liquefied propane gas ("LPG") has been promoted as a substitute fuel for gasoline in vehicles.

Distribution. Pipelines owned by Pemex connect crude oil and natural gas producing centers with refineries and petrochemical plants, and the refineries and petrochemical plants with major cities all over Mexico. At the end of 1995, Pemex's pipeline network had a total length of over 56,922 kilometers (35,377 miles). At the end of 1995, Pemex owned 29 and leased 9 oil tanker ships and leased 2,855 road tankers. Pemex owns and operates wholesale storage and distribution centers. At the end of 1995, there were 3,671 retail filling stations, 66 of which are directly owned by Pemex, with the remainder (3,605) privately owned and operated either by franchisees of Pemex or private owners who are awaiting franchising. Pemex anticipates that all operating retail stations will be franchised by the end of 1996, and plans to franchise a total of 6,000 retail filling stations by the end of the year 2000.

Congress has approved amendments to the law regarding the natural gas industry, which took effect on May 12, 1995. The amendments provide that Mexican private sector companies (which may be owned by non-Mexican companies or individuals) may participate, upon Governmental authorization, in the storage, distribution and transportation of natural gas and to that end may construct, own and operate pipelines, installations and equipment. Implementing regulations with respect to the amendment took effect on November 9, 1995. Pemex nonetheless retains exclusive authority with respect to the exploration, production, manufacturing and initial sale of natural gas, as well as transportation and storage inextricably linked with such exploration, production and manufacturing.

Petrochemicals. Pemex produces basic inputs into the petrochemical production process (such as ethane, butane, natural gas liquids and pentanes), other inputs (such as oxygen, nitrogen and hydrogen), petrochemicals (such as methane derivatives, ethylene and derivatives, aromatics and derivatives and propylene and derivatives) and by-products obtained in the petrochemical production process (such as hydrochloric acid and sulfur).

The following table shows the average annual production associated with the petrochemical activities of Pemex for the five years ended December 31, 1995.

	1991	1992	1993	1994	1995
		(in thousands of tons per year)			
Petrochemical production	18,593	19,194	17,775	19,180	19,399

Source: Pemex.

Under Mexican law, the right to manufacture "basic" petrochemical products is vested solely in the Mexican Nation, which may produce them only through Pemex or any other decentralized public entity established by law for this purpose. Basic petrochemical products have traditionally been defined as those which result from the first physical or chemical transformation of crude oil and those considered to be strategic, including such products as ethane, butane, natural gas liquids and pentanes. The Ministry of Energy, Mines and State Industry decides which petrochemical products are to be designated "basic" petrochemicals. In doing so, it relies mainly on recommendations from a technical consulting agency, the Mexican Petrochemical Commission.

Mexican law permits private investment in the manufacture of "secondary" petrochemical products. These are defined to include all petrochemical products not otherwise designated "basic" by the Ministry of Energy, Mines and State Industry.

Before 1986, nearly all petrochemical products were deemed to be basic, and Pemex accordingly had a monopoly on the production and initial sale of nearly all petrochemical products. Under this environment, Pemex expanded its petrochemical division at a very fast rate. During the fifteen years ended December 31, 1992, Pemex's installed capacity increased at an average annual rate of 7.2%.

In 1986, the Ministry of Mines, Energy and State Industry reduced the number of petrochemical products defined as basic to 34, and then further reduced such number to 19 in 1989, and eight in 1992, which is the current level. As a result of this reclassification, Pemex no longer has a monopoly on the production and initial sale of most petrochemicals in Mexico.

In October 1992, Pemex and the Government announced plans to privatize the secondary petrochemical plants owned and operated by Pemex-Petrochemicals, with a view to improving Pemex's competitive position in the international market, concentrating Pemex's financial resources in its core lines of business and maximizing industrial efficiency. In June 1993, however, the unfavorable conditions then prevailing in the international petrochemical industry forced a delay in the privatization program.

During the second half of 1994, market conditions began to recover in the international petrochemical industry. Pemex accordingly announced in March 1995 that it would redefine the privatization program for the secondary petrochemicals sector, as part of the Government's overall efforts to privatize nonstrategic assets. Recently, the Government announced that it would exercise its rights under the NAFTA to restrict foreign investors from acquiring a majority stake in certain privatized petrochemical operations. See "United Mexican States—The Role of the Government in the Economy; Privatization".

At the end of 1995, Pemex operated 121 industrial plants and auxiliary units located in 6 petrochemical complexes 8 process centers and 6 petrochemical units. Pemex-Gas and Basic Petrochemicals operated 61 of these plants and Pemex-Petrochemicals operated the remaining 60.

Commercial Activities. Besides crude oil and natural gas, Pemex markets a full range of oil and gas derivatives in Mexico, including gasolines, jet fuels, diesel, fuel oil and petrochemicals. Pemex supplies the majority of Mexico's primary energy requirements.

Approximately half of the crude oil produced by Pemex is refined and sold in the domestic market in the form of refined products and petrochemicals; the remainder of the crude oil is exported (1.31 million bpd in 1994 and 1.30 million bpd in 1995). Total net exports averaged $6.9 billion per annum between 1990 and 1994 and were approximately $7.2 billion in 1995.

During 1994, Pemex's sales in domestic and international markets consisted of 1.31 million bpd of crude oil, 1.66 million bpd of refined products (including LPG), 1.45 billion cfpd of natural gas and 7.6 million tons of petrochemical products. Total sales in 1994 amounted to $20.0 billion, of which 33% was derived from the sale of crude oil, 53% from refined products, 9% from petrochemical products and 5% from natural gas. During 1995, Pemex's sales in domestic and international markets consisted of 1.30 million bpd of crude oil, 1.55 million bpd of refined products (including LPG), 1.57 billion cfpd of natural gas and 7.5 million tons of petrochemical products. Total sales in 1995 amounted to $20 billion, of which 37.4% was derived from the sale of crude oil, 49.1% from the sale of refined products, 9.4% from the sale of petrochemical products and 4.1% from the sale of natural gas.

In 1995, approximately 79.4% of Mexico's exported crude oil was sold to customers in the United States, 7.7% to customers in Spain, 5.9% to customers in Japan, 0.9% to customers in Canada, 0.9% to customers in Belgium and the balance to customers in other countries.

Since 1989, growing domestic demand fueled by a growing economy has forced a deficit in the trade balance of refined products. In 1995, Pemex exported 118.7 thousand bpd and imported 139.5 thousand bpd of refined products, mainly unleaded gasoline. These imports are likely to continue in the short-term since Pemex is focusing on improving the environmental quality of its products and increasing its capacity to process heavy crude oil, as opposed to increasing overall capacity.

Pemex imports natural gas to satisfy shortfalls in domestic production and to meet demand in areas of northern Mexico which, due to the distance from the fields, can be supplied more efficiently through imports from the United States. Pemex imported 172.6 million cfpd of natural gas in 1995, increasing from 125.5 million cfpd in 1994. Approximately 1.2 million tons of petrochemicals were exported in 1995 while approximately 94,400 tons were imported.

Capital Expenditures. Pemex's total capital expenditures in 1995 amounted to Ps. 15.9 billion, of which Ps. 1.4 billion correspond to financial investment and approximately Ps. 14.5 billion to physical investment. Physical investment represents a 46% increase from the Ps. 9.9 billion invested in 1994 and a 68% increase from the Ps. 8.6 billion invested in 1993.

For 1996, the capital expenditures budget of Pemex calls for a total investment of Ps. 24,299 million. Of that amount, Ps. 15,738 million, equivalent to 64.8% of total capital expenditures, will be directed to exploration and production programs. In its downstream projects, Pemex will adapt some of its existing refineries such as Cadereyta to enable them to produce unleaded gasoline and to reduce substantially sulfur levels in fuel oil and diesel fuels. In order to increase its refining capacity, Pemex recently completed two facilities for the thermal cracking of heavy residues from crude oil, two fluid catalytic units and a reformer.

On March 31, 1993, Pemex (through its indirect subsidiary, P.M.I. Norteamérica, S.A. de C.V.) bought from Shell Oil a 50% stake in a refinery located in Deer Park, Texas. The new joint venture completed a substantial upgrading program in 1995.

Pemex also expects to make significant additional expenditures during the medium-term to reduce the impact of its operations on the environment.

Equity and Dividends. As part of the 1989-92 Financing Package for Mexico described under "Public Debt—External Debt Restructuring and Debt and Debt Service Reduction Transactions", $7.58 billion of the external commercial bank debt of Pemex was exchanged for "Discount Bonds" and "Par Bonds" (as defined under "Public Debt-External Debt Restructuring and Debt and Debt Service Reduction Transactions") issued by the Government. Pemex's indebtedness to the Government was increased by the same amount and subsequently capitalized as equity or *certificados de aportación* (certificates of capital participation, or "CAPs"). As a condition to the capitalization, Pemex agreed to pay a minimum guaranteed dividend to the Government equivalent to the debt service on the capitalized debt. The total dividend to the Government in respect of the CAPs is approved annually by the Board of Directors of Pemex after the close of each fiscal year, although an amount equal to the minimum guaranteed dividends is paid to the Government in monthly advance payments during the year.

The total dividends paid by Pemex to the Government in respect of the CAPs during 1991, 1992, 1993, 1994 and 1995 amounted to Ps. 2.995 billion, Ps. 3.313 billion, Ps. 2.982 billion, Ps. 1,161 million and Ps. 4,289 million, respectively, and these sums were equivalent to substantially all of Pemex's income after taxes and duties in each of those years. In 1995, Pemex made advance payments of Ps. 4.289 billion in respect of minimum guaranteed dividends.

Taxes and Duties. Prior to 1993, instead of paying a conventional tax on income, Pemex was subject to a special duty on hydrocarbon extraction imposed by the Government. This duty was intended to incorporate a royalty payment for the extraction of hydrocarbons, an oil income tax and a dividend to the Government, as Pemex's sole owner. The rate at which Pemex's special duty was assessed varied from year to year, and generally was set after taking into consideration Pemex's operating budget, its capital expenditure program and its financing needs.

In order to provide Pemex with a more stable fiscal regime, beginning in 1993 the Ministry of Finance and Public Credit established a new fiscal regime for Pemex. For 1996, according to the new fiscal regime, Pemex, in addition to being subject to the payment of all taxes and contributions set forth by the Ministry of Finance and Public Credit (other than the corporate income tax and the asset tax), must pay the following direct and indirect duties and taxes:

- *Hydrocarbon Extraction Duty*—This duty is calculated by applying a rate of 52.3% to the difference between (a) total sales revenues and (b) total accrued expenditures (including operating expenses, investments in fixed assets and deferred expenses and charges) of Pemex-Exploration and Production (such difference, "Net Cash Flow"), and is paid by this entity only.

- *Extraordinary Hydrocarbon Extraction Duty*—This duty is calculated by applying a rate of 25.5% to Net Cash Flow, and is paid by Pemex-Exploration and Production only.

- *Additional Hydrocarbon Extraction Duty*—This duty is calculated by applying a rate of 1.1% to Net Cash Flow, and is paid by Pemex-Exploration and Production only.

- *Hydrocarbon Income Tax*—This direct tax, which is paid by Pemex, is equivalent to the income tax applied to all Mexican corporations. A tax rate of 34% is applied to the income (determined in accordance with the Income Tax Law) of each of *Petróleos Mexicanos* and the Subsidiary Entities. Pemex may determine this tax on a consolidated basis.

- *Special Tax on Production and Services ("IEPS")*—This indirect tax, which is collected on behalf of the Government by Pemex-Refining and Pemex-Gas and Basic Petrochemicals, applies to sales of gasolines, diesel and jet fuel and sales of natural gas for automotive use. The IEPS tax on the sale of gasoline, diesel and jet fuel, which is adjusted on a monthly basis for each product, is equivalent to the difference between the international reference price of each product (adjusted by freight costs and quality factors) and the retail price of such product (not including VAT). In effect, through the IEPS tax, the Government ensures that Pemex retains only an amount reflecting the international reference prices (adjusted as described above) of these products, while the Government collects (indirectly from the consumer) the difference between the international prices and the prices at which such products are sold in Mexico. The IEPS tax in respect of sales of natural gas for automotive use is based on a fixed percentage of the retail price of such product.

The sum of the Hydrocarbon Extraction Duty, the Extraordinary Hydrocarbon Extraction Duty, the Additional Hydrocarbon Extraction Duty, the Hydrocarbon Income Tax and the IEPS tax (the "Taxes and Duties") must equal 60.8% of Pemex's annual sales revenues to third parties (and an additional 39.2% of revenues in respect of crude oil sales at prices in excess of U.S.$ 13.60 per barrel). The Taxes and Duties are to be credited against the *Derecho Sobre Hidrocarburos* ("Hydrocarbon Duty"), which is calculated by applying a rate of 60.8% to the sales revenue of Pemex to third parties. Pemex makes advance payments to the Government in respect of its liability under the Taxes and Duties up to the amount of the Hydrocarbon Duty. Pemex's advance payments are, in turn, credited against Pemex's liability under the Hydrocarbon Duty. In the event that the sum of Pemex's payments under the Taxes and Duties is not equal to the Hydrocarbon Duty, the rate of Hydrocarbon Extraction Duty and the Extraordinary Hydrocarbon Extraction Duty will be adjusted accordingly to ensure that the sum is equal to the Hydrocarbon Duty.

Starting in 1994, interest payments by Pemex on its external debt are no longer exempt from withholding taxes. During 1994, however, payments made by Pemex to the Government in respect of withholding taxes were credited against Pemex's liability under the Hydrocarbon Duty. In 1995, Pemex was required to make payments in respect of withholding taxes directly to the Government, and is expected to do so again in 1996. Pemex's payments in respect of withholding taxes in 1995 totaled approximately Ps. 229.2 million.

Beginning in 1995, Pemex is also subject to municipal and state taxes such as real property and payroll taxes. The real property tax does not represent a significant portion of Pemex's total tax liability because most of Pemex's properties are located on federal grounds and therefore are not subject to municipal taxation. The new tax regime is not expected to have a material impact on the levels of payment by Pemex to the Government in 1996.

Tourism

During the last two decades, the Government has taken measures to promote the growth of the tourist industry. Through the *Fondo Nacional de Fomento al Turismo* (the National Fund for Tourism Development, or "FONATUR"), the Government has established tourist centers in Cancun, Ixtapa, Puerto Vallarta, Cabo San Lucas, Bahias de Huatulco and elsewhere. Mexico has increased its hotel and other lodging capacity from 132,701 rooms in 1970 to an estimated 393,960 in 1995.

After merchandise exports (including in-bond industries), tourism is Mexico's second largest contributor of foreign exchange. The expansion of tourism which began in late 1986 continued through 1994. During 1995, revenues from international travelers (including both tourists and visitors who enter and leave the country on the same day) totalled $6.1 billion, 3.5% lower than in 1994. Revenues from overnight tourists totalled $4.0 billion in 1995, a 4.8% decrease from 1994. The number of overnight tourists in 1995, 6.8 million, fell by 4.9% from the level for 1994, while the average expenditure per tourist decreased by 12.3%, to $525.5. During 1995, expenditures by Mexican tourists abroad amounted to $1.0 billion, a 47.5% reduction from the level during 1994, while expenditures by Mexicans traveling abroad (both tourists and one-day visitors) amounted to $3.2 billion. The tourism balance recorded a surplus of $2,903.3 million in 1995, an increase of 207% over the $944.2 million surplus recorded in 1994.

During the first three months of 1996, revenues from international travelers (including both tourists and visitors who enter and leave the country on the same day) totaled $1.9 billion, 19.3% higher than in the same period in 1995. Revenues from overnight tourists totaled $1.5 billion in the first three months of 1996, a 25.3% increase from the same period in 1995. The number of overnight tourists in the first three months of 1996, 2.5 million, increased by 18.7% over the same period of 1995, while the average expenditure per tourist increased by 5.6% to $591.8. During the first three months of 1996, expenditures by Mexican tourists abroad amounted to $0.254 billion, a 40.6% increase from the same period in 1995, while expenditures by Mexican residents traveling abroad (both tourists and one-day visitors) amounted to $0.724 billion. The tourism balance recorded a surplus of $1,206.2 million in the first three months of 1996, an increase of 24.6% over the $968.3 million surplus recorded in the same period of 1995.

Agriculture

Mexico's topography and climate provide an estimated 57 million acres, or about 11.7% of the country's total area, for cultivation. In 1994, approximately 46.6 million acres were harvested, of which approximately 28.7% were irrigated. In 1995, agriculture, livestock, fishing and forestry employed approximately one-quarter of the economically active population, and accounted for 7.6% of Mexico's GDP. Based on figures from the 1995 Population and Housing Count, approximately 26.5% of Mexico's population lives in rural areas.

In 1991, poor weather conditions during the second half of the year caused a 3.0% reduction in land area harvested. These poor results were outweighed in part by excellent results during the first half of the year. Nonetheless, the agriculture, livestock, fishing and forestry sector grew at a rate of 1.0% in 1991 as compared to a rate of 5.9% for 1990. Poor weather conditions were also present in 1992 and the production of this sector decreased by 1.0%, with agricultural production and forestry contracting by 2.4% and 0.5%, respectively, while livestock and fishing registered growth rates of 1.2% and 1.6%, respectively. In 1993, production in the agriculture, livestock, forestry and fishing sector grew by 2.6%, due to a 3.1% increase in agriculture, a 0.8% increase in livestock and a 5.3% increase in fishing. Forestry continued on its downward trend, registering an 11.3% decline in production. In 1994, the agriculture, livestock, fishing and forestry sector grew at a rate of 2.0%, due to a 2.8% increase in agriculture, a 1.5% increase in livestock and a 0.3% increase in fishing. Forestry continued on its downward trend, registering a 3.2% decline in production. The drought that affected the northern states during the fall and winter of 1994-1995 caused losses estimated at greater than Ps.1.15 billion in agriculture and livestock. In 1995, based on preliminary figures, the production of the agriculture, livestock, fishing and forestry sector contracted by 3.8% in real terms.

In order to improve agricultural productivity and raise the living standards of the rural population, the Government has made agriculture a national priority. Productivity increases are expected from consolidating production into larger units, expanding the national irrigation system and increasing the availability of credit. To assist the rural areas, agricultural prices are reviewed by the Government to ensure they do not fall below costs. The Government has also begun to encourage private investment in the agricultural sector in the form of partnerships, joint ventures and supply arrangements between farmers and private sector companies.

Agricultural exports accounted for 4.4% of Mexico's merchandise exports in 1994 and 5.0% of merchandise exports in 1995 (including in-bond industry), with the United States representing the principal export market for Mexican agricultural products. Agricultural exports increased by 6.9% in 1994 and 50.0% in 1995. The principal exported agricultural goods are fresh vegetables, coffee, fresh fruits and cotton.

Agricultural Reform. In 1990, roughly half of Mexico's agricultural lands were held through the *ejido* system of land tenure. Ejidos developed as a direct result of the agrarian uprisings that were an important element of the Mexican Revolution of 1910 and are provided for and protected under the Constitution. Under the *ejido* system, peasant farmers work individual parcels of land to which title is held by the *ejido*, or peasant community. As discussed below, *ejido* farmers had the right to use communal lands, but, prior to January 1992, could not rent or otherwise transfer their rights to use such lands except to direct descendants. As of May 31, 1995, there were approximately 2.88 million holders of *ejido* parcels.

In response to the slow growth of production by the *ejido* sector, attributable in part to increasing *ejido* populations, the subdivision of parcels into smaller and smaller units of production and disincentives to investment inherent in the *ejido* system, the Constitution was amended, effective as of January 1992, to permit more efficient use of *ejido* lands and the achievement of economies of scale. The amendments, together with the *Ley Agraria* (Agrarian Law) enacted by Congress and effective February 27, 1992, halt further redistribution of land and permit *ejido* farmers to rent their parcels, to transfer the right to use their parcels to obtain financing and, in certain cases, to sell their land. In addition, corporations are now permitted to own agricultural lands, subject to certain limitations. It is expected that modernizing the system of land tenure will foster greater investment in agriculture by permitting land owners to access new sources of capital, to transfer land to more efficient producers and to make more efficient use of inputs. Although the Government anticipates that a large number of *ejido* farmers will choose to transfer possession of economically nonviable parcels of land, the increased productivity of the sector expected to result from the agricultural reform, as well as the growth of agribusiness, should generate employment opportunities for many of these workers outside of major urban areas. Nonetheless, the Government has increased its expenditures for investment in rural infrastructure and modernization of the agricultural sector to aid the process of agricultural reform and expects that further significant investments will be needed in the future to modernize the agricultural sector.

Historically, the Government has intervened in the agricultural economy in order to assure adequate supplies of staples of the Mexican diet and maintain farm incomes through price supports. *Compañía Nacional de Subsistencias Populares* ("CONASUPO") purchases farmers' crops at a guaranteed minimum price and markets these agricultural products to consumers. CONASUPO also imports staples in years when domestic production is inadequate to meet demand. In 1995, CONASUPO purchased 3.9 million metric tons of corn and 250,030 metric tons of dry beans from Mexican producers, decreases of 51.3% and 25.6%, respectively, from its 1994 purchases.

The following table shows CONASUPO's total purchases of corn and dry beans for the years indicated.

Corn and Dry Beans Purchases by CONASUPO

	1991	1992	1993	1994	1995
		(In thousands of metric tons)			
Domestic purchases:					
Corn	3,318.9	4,428.3	7,806.6	8,129.9	3,958.5
Dry beans	367.2	300.7	395.2	337.9	250.0
Imports:					
Corn	47.1	0.0	0.0	0.0	0.0
Dry beans	11.9	0.0	0.0	0.0	0.0

Source: CONASUPO.

In recent years, the Government's policy has changed from one of active participation in the chain of distribution to one of encouraging the market-oriented development of the agricultural sector. CONASUPO has begun to phase out the implicit subsidies that it provides to producers through price support, withdrawing from the markets for most agricultural commodities and limiting its price support activities to the markets for corn, beans and milk. As a result, the total volume of foodstuffs purchased by CONASUPO has declined gradually, from 14.7 million metric tons in 1983 to 4.2 million metric tons in 1995. CONASUPO's retail stores have followed a similar pattern, reducing the number of products sold from 6,000 in 1989 to 0 in 1995.

As CONASUPO has withdrawn from direct participation in the agricultural economy, it has closed its main training centers and industrialized wheat plants and sold CONASUPO Industries, three milk processing plants and its industrialized corn plants to the private sector. CONASUPO remains involved in the promotion of greater production by small farmers. Through its Small Farmer Support Program, CONASUPO assisted 143,215 producers of corn and 27,512 producers of beans in 1995, by providing such producers with subsidized transportation of goods as well as shelling and packaging facilities. The expenditures for this program amounted to Ps. 185.9 million in 1995, an 8.1% increase over 1994.

In April 1991, a new Government agency, *Apoyo y Servicios a la Comercialización Agropecuaria* ("ASERCA"), was established to help modernize the process of agricultural trade by promoting an efficient national and international market information system, fostering training and improved organization in the marketplace and planning and constructing infrastructure for the storage, financing and distribution of agricultural products. Unlike CONASUPO, ASERCA does not purchase agricultural products. Rather, it channels distribution through CONASUPO's infrastructure and storage facilities and promotes trading through an agricultural exchange system that reduces the need for layers of intermediaries and offers producers mechanisms to protect themselves against fluctuations in the market. To date, ASERCA has focused its activities on the marketing of soy, wheat, sorghum, rice, cotton and safflower.

In 1993, the Government established a new program denominated *Programa de Apoyo al Campo* (Agricultural Support Program or "PROCAMPO"). This 15-year program is under the supervision of the *Secretaría de Agricultura, Ganadería y Desarrollo Rural* (Agriculture Ministry). The program replaces price supports with direct economic support to producers of cotton, rice, safflower, barley, beans, corn, sorghum, soy and wheat in order to insure a minimum income level for farmers who produce for their own consumption and a degree of profitability for commercial farmers. The substitution of price supports by direct payments to producers is expected to result in greater responsiveness of

Mexican producers to market conditions and more efficient allocation of Mexico's agricultural resources. The economic support each farmer receives will depend on the area of land under cultivation as well as regional climate and economic conditions.

As another key element of the Government's strategy to improve the economic and social conditions of less developed sectors of the Mexican society, the Government, the state governments and representatives of Mexico's agricultural and rural sectors established the Rural Alliance on October 31, 1995. The purposes of the Rural Alliance are increasing productivity, fighting poverty, raising the income of families living in Mexico's rural zones, producing enough basic foods for the population and promoting exports of agricultural products. In particular, the Rural Alliance will, among other things, help small and medium-sized agricultural sector participants purchase farming equipment by providing subsidies.

Transportation and Communications

The railroad system, which carries an estimated 20% of all freight moved in Mexico, is operated through the state-owned railroad monopoly, *Ferrocarriles Nacionales de México* ("Ferronales"). The road network, in large part built and maintained by the Government, totalled an estimated 306,016 km (approximately 190,072 miles) at December 31, 1995, of which 94,916 km (approximately 58,954 miles) were paved, and included 6,342 km (approximately 3,939 miles) of toll expressways. The principal Mexican cities are served by domestic and international airlines, and many smaller communities also benefit from scheduled service by domestic airlines. The Government operates facilities at the principal seaports, and at December 31, 1995, the capacity of the Mexican merchant marine fleet (vessels larger than 100 tons) totalled an estimated 1.7 million tons.

The Government, acting through the SCT, has commenced a program of maintenance and modernization of the national highway system. Financing for the program has come from both the public and private sectors and, beginning in 1989, private concessionaires have been granted the right to build, maintain and collect tolls on new highways. By December 31, 1994, the SCT had granted concessions for the construction and operation of 5,284 km (approximately 3,283 miles) of toll roads to private contractors, local governments and Banobras, a Government-owned development bank, 4,440 km (approximately 2,759 miles) of which are in operation and 844 km (approximately 524 miles) of which are under construction. In certain cases, the Government is discussing with concessionaires amendments to or renegotiations of concessions (for example, to lengthen the period of the concessions) with a view to providing a measure of financial relief.

Changes to the Constitution necessary to allow privatization of railway and satellite communications services and the laws implementing these changes have become effective, although further implementation through the enactment of regulations is still required. See "Recent Developments—The Government's Response—Structural Reform" and "The Economy—The Role of the Government in the Economy; Privatization".

On July 20, 1993, the *Ley de Puertos* ("Ports Law") became effective. The objective of the Ports Law is to increase the role of the private sector in the development, management and improvement of Mexico's port facilities. The law permits the Government to grant concessions for the construction and operation of port facilities and establishes the *Administración Portuaria Integral* ("Ports Administration") in order to implement the law. As a result of the 62 concessions granted in 1993, the Government expects, over the medium-term, private investment totalling Ps. 1,276 million in passenger and cargo terminals and in tourist marinas. The Government has established a timetable for privatizing certain Mexican ports. On July 11, 1995, the SCT announced the winners in the public bidding for the management and operation of certain privatized container and multi-purpose terminals located in the ports of Veracruz, Manzanillo and Altamira, and on March 26, 1996, the SCT announced the winner in the public bidding for the management and operation of a second multi-purpose container terminal located in the port of Altamira. The winners in the case of the Veracruz and Manzanillo container terminals were joint ventures between Mexican and foreign companies, in the case of the first Altamira multi-purpose container terminal was a Mexican company and in the case of the second Altamira terminal was a joint venture between a Mexican company and a foreign company. In addition, on August 8, 1995, the SCT announced the winners in the public bidding for the management and operation of certain privatized multi-purpose terminals located in the ports of Manzanillo and Lázaro Cárdenas. In exchange for the 15 to 20 year concessions, the concessionaires are expected to develop and modernize the port facilities and surrounding transportation infrastructure.

At December 31, 1995, Mexico had an estimated 9.8 telephone lines in service per 100 inhabitants. Telmex, which holds the exclusive concession with respect to domestic and international long-distance telephone services in Mexico until August 1996, was privatized in December 1990 as part of the Government's economic program. The services offered by Telmex and the rates it may charge for telephone services are subject to comprehensive regulation by the SCT under the Law of General Means of Communication, the Telecommunications Regulations adopted thereunder and a concession granted by the SCT. Congress has recently enacted a telecommunications liberalization law. See "Recent Developments—The Government's Response—Structural Reform" and "The Economy—The Role of the Government in the Economy; Privatization".

From 1992 to 1993, the contribution to GDP by the transportation, storage and communication sector of the economy increased by an estimated 3.3%, while from 1993 to 1994, the contribution to GDP by the same sector increased by an estimated 7.8%. While transportation registered a growth of 6.0% in 1994, the growth in communications was more dynamic (13.6%). In 1995, the transportation, storage and communications sector contracted by 1.9% in real terms.

Construction

Construction is subject to cyclical trends and has been among the sectors most affected by the changes in Government and private sector expenditures. This sector was the second most dynamic in the 1990-1994 period, growing at a compound annual rate of 4.8%. During 1993, the highest increase in construction activity (7.5%) was registered in housing and office buildings, while Government construction activity fell by 5.8%. During 1994, construction grew significantly. Government and private construction activity increased by 9.0% and 5.3%, respectively, reflecting the impact of various infrastructure projects as well as increased demand for housing.

Construction was among the sectors most strongly affected by economic developments since the beginning of 1995. Construction activity during 1995 decreased by 22.0% in real terms in comparison with 1994.

Mining

Mexico has substantial and varied mineral resources. It is one of the world's leading producers of silver, bismuth, antimony, fluorite, graphite, barite, molybdenum, lead and zinc. Mexico's production of minerals satisfies most of its industrial needs and enables it to export silver, copper, sulphur and iron. The production of the mining sector (including petroleum and gas) increased by 1.8% in 1992, 0.9% in 1993 and 1.6% in 1994, but contracted by 0.7% in 1995. In 1992 and 1993, primarily due to lower international prices, extractive mineral exports (excluding crude oil) decreased by 34.9% and 21.9%, respectively, from the previous year's figures, accounting for 0.8% and 0.5% of total merchandise exports (including in-bond industry exports), respectively. In 1994 and 1995, extractive mineral exports (excluding crude oil) increased by 28.4% and 52.7%, respectively, over the previous year's figures and accounted for 0.7% of total merchandise exports (including in-bond industry exports) in 1995.

Under the Constitution and applicable Mexican laws, mining may only be carried out by the Government or pursuant to concessions which may only be granted to Mexican individuals or corporations and not to foreign individuals or corporations. Foreign investment in mining companies is generally limited to a 49% or 34% interest, depending on the minerals being exploited. However, changes to foreign investment and mining regulations permit foreign investors to hold, on a temporary basis, majority interests in companies engaged in mining activities. The new regulations are aimed at promoting development of the mining industry through intensifying and broadening exploration, finding new sources of financing and investment and fostering the development of domestic technology. The Mining Law permits exploration concessions of six years and exploitation concessions of 50 years.

Electric Power

Approximately 98% of Mexico's urban population and 82% of Mexico's rural population (or 95% of the total population) have access to electric power. Further electrification remains a Government priority. Installed generating capacity at December 31, 1995 was 33,038 megawatts ("MW"), up 23.3% from 1991. Electric production for 1995 was 142.3 thousand gigawatt hours ("GWH"), up 20.2% from 1991. Domestic generation in 1995 was supplemented by imports of electric power of 1,080 GWH. Exports of 1,862 GWH of electricity took place during 1995. Electric power production grew by 4.4% in 1995.

As of December 31, 1995, approximately 80.7% of Mexico's electric generation was from oil, coal and other thermal facilities. Diversification of energy resources is an important objective of the Government. In 1990, the first unit of Mexico's first nuclear power plant, with a capacity of 654 MW, commenced operation.

The Constitution and applicable laws provide that the generation, transmission, transformation and distribution of electric power constituting a public service are reserved solely to the Mexican Nation. At December 31, 1995, almost all of electric generating capacity (97.4%) was held by the public sector through the *Comisión Federal de Electricidad* ("CFE"), a decentralized public agency of the Government that plans and coordinates the electric power sector in Mexico. The balance of generating capacity is in privately owned facilities.

On December 24, 1992, amendments to the *Ley del Servicio Público de Energía Eléctrica* (Electric Energy Public Service Law, or "Electric Energy Law") became effective which give private investors the ability to participate more broadly in the electric energy sector by narrowing the definition of "public service" as it relates to the production of electric energy. Under the Electric Energy Law, as amended, electric energy can be produced by self-suppliers, cogenerators, independent producers and *de minimis* producers. However, self-suppliers and cogenerators must sell all excess production to CFE, independent producers must sell their production to CFE or export it (when authorized) and *de minimis* producers must sell their production to CFE, to small rural communities or to isolated areas without electric energy. The amendments also loosen restrictions on the import and export of electric energy and contemplate the possibility of foreign investment in the Mexican electric energy industry. It is expected that 9,031 MW of additional capacity will be privately financed between 1996 and the year 2003. These new plants, to be leased and then transferred at the end of the lease term to CFE, are expected to contribute to the expansion and diversification of electric service in Mexico. In addition, the Government announced during 1995 that it intends to sell a significant portion of its generating capacity to the private sector.

On February 9, 1994, a decentralized public agency, *Luz y Fuerza del Centro* ("LFC"), was created to replace CFE's subsidiary, *Compañía de Luz y Fuerza del Centro*, which was liquidated. The new agency will be responsible for the supply of electricity to Mexico City's metropolitan area and neighboring states. However, because LFC has limited generation capacity, it will purchase from CFE most of the electricity required to supply the metropolitan area.

FINANCIAL SYSTEM

Mexico's financial system is comprised of commercial banks, national development banks, securities-brokerage houses, development trust funds and other non-bank institutions, such as insurance companies, bonding companies, foreign exchange houses, factoring companies, bonded warehouses, financial leasing companies and limited-scope financial institutions. In 1990, Mexico adopted legislation aimed at achieving the benefits of universal banking, the *Ley para Regular las Agrupaciones Financieras* (Law to Regulate Financial Groups), which permits three or more different types of financial services companies to operate under a single financial services holding company (or two or more different types, if each of the two institutions is any of a commercial bank, a securities firm or an insurance company).

The financial authorities are the Ministry of Finance and Public Credit, Banco de México, the CNBV, the *Comisión Nacional del Sistema del Ahorro Para el Retiro* (National Commission for the Retirement Savings System) and the *Comisión Nacional de Seguros y Fianzas* (National Insurance and Bonding Commission).

Under the Organic Law of the Federal Public Administration, the Ministry of Finance and Public Credit is responsible for the coordination and supervision of Mexico's financial system and for the formulation of Mexico's fiscal policy.

Central Bank and Monetary Policy

Banco de México, chartered in 1925, is the central bank of Mexico and, at December 29, 1995, had assets of Ps. 292.9 billion ($38.3 billion).

Banco de México is Mexico's primary authority for the execution of monetary policy and the regulation of currency and credit. It is authorized by law to regulate interest rates payable on time deposits, to establish minimum reserve requirements for credit institutions and to provide discount facilities for certain types of bank loans.

Effective August 23, 1993, a constitutional amendment relating to Banco de México's activities and role within the Mexican economy was passed. The amendment's purpose was to reinforce the independence of Banco de México to enable it to act as a counterbalance to the executive and legislative branches in monetary policy matters. The amendment significantly strengthens Banco de México's authority with respect to monetary policy, foreign exchange and related activities and the regulation of the financial services industry. On April 1, 1994, a new law governing the activities of Banco de México became effective. The new law put into effect the greater degree of autonomy granted to Banco de México under the constitutional amendment described above and established a Foreign Exchange Commission charged with determining the nation's exchange rate policies.

The following table shows Mexico's M1 and M4 money supply aggregates at each of the dates indicated.

Money Supply

	December 31,					July 31,
	1991	1992	1993	1994(1)	1995(1)	1996(1)
	(in millions of nominal pesos)					
M1						
Notes and coins	Ps. 32,416	Ps. 38,012	Ps. 43,228	Ps. 51,870	Ps. 60,921	Ps. 55,971
Checking deposits in domestic currency	74,384	84,478	101,214	94,163	90,886	106,254
in foreign currency	3,095	3,981	4,469	8,486	18,118	22,264
Total M1	Ps.109,895	Ps.126,471	Ps.148,911	Ps.154,519	Ps.169,926	Ps. 184,489
M4	Ps.387,789	Ps.464,472	Ps.587,735	Ps.729,091	Ps.879,265	Ps.1,003,050

Note: Totals may differ due to rounding.
(1) Preliminary.
Source: Banco de México.

During the period from 1982 to 1989, monetary policy was managed with a view to reducing inflation and stabilizing the foreign exchange market. In particular, important credit restrictions were placed on the banking system. As a result, real interest rates on average were relatively high and the real money supply decreased significantly, especially M1, which fell by 31.9% between 1982 and 1989.

During 1989, as inflationary expectations subsided, the demand for money increased in real terms as the public became more willing to hold financial assets. This tendency was illustrated by the behavior of the M4 measure of money supply (which includes M1 plus financial savings in the form of time deposits, treasury bills, bonds, promissory notes and other money and capital market financial instruments), which in 1989 increased in real terms by 26.0%. The increase in financial savings was even larger than that figure indicates, considering that the monetary base (currency in circulation plus bank deposits at the central bank) declined 7.6% in real terms during 1989. During 1990 and 1991, M4 grew by 12.6% and 10.2%, respectively, in real terms, while M1 also grew by 23.4% and 83.8%, respectively, in real terms. This development was caused mainly by demand for newly created interest-bearing checking accounts. The behavior of M1 in 1992 mainly reflected a considerable decline in the growth rate of balances in checking accounts. The nominal rate of increase of such balances fell from 201.1% in December 1991 to 14.2% in December 1992. At the same time, the real growth of bank notes and coins in the hands of the public (4.8%) was down 6.1 percentage points from that recorded a year earlier. In 1992, the real balance of M4 rose 7.1%, 3.1 percentage points below the increase recorded in 1991. This figure must be interpreted cautiously, however, because it was influenced by restrictions imposed by Banco de México on the ability of commercial banks to obtain resources abroad. If deposits in foreign offices of Mexican commercial banks are excluded from the M4 balance, the real growth rate of the broad monetary aggregate in 1992 was 9.0%, one point higher than in 1991.

During 1993, the monetary authorities sought to offset the impact of higher net international reserves on the amount of currency in circulation by reducing net domestic credit. Absent such action, the monetary base would have increased substantially as a result of the increase in international reserves associated with the large inflows of foreign investment experienced in 1993.

The nominal rate of growth of M1 in 1993 was 17.7%, 2.6 percentage points higher than in 1992. Given the moderation of inflation, the real growth rate of M1 rose from 2.8% in 1992 to 9.0% in 1993. This latter figure was the result of a 5.2% increase in the balance of currency in the hands of the non-bank public and a 10.6% increase in the balance of checking accounts.

In 1993, M4 rose by 17.7% in real terms (18% if deposits in foreign offices of Mexican commercial banks are excluded), nearly 11 percentage points above the growth recorded in 1992. The 1992 result was substantially influenced by the liquidation of financial assets included in M4 to pay for public enterprises in the context of the privatization process carried out by the Government. In contrast, total payments for privatized companies were considerably lower during 1993.

Beginning in September 1993 and continuing throughout 1994, the annualized monthly growth rates of currency in circulation accelerated. Among the several factors resulting in the increased demand for currency was the increased economic activity starting in the second quarter of 1994 and a lower rate of inflation. These two factors continued to promote the remonetization process in the economy, which had been underway for several years. A third contributing factor was a move by the public away from checking accounts and toward bills and coins; at the end of 1994, checking account balances in domestic currency were 8.1% lower than their level at the end of 1993. This substitution of currency for checks resulted from increases in fees charged by banks in respect of checking accounts and a reduction in interest rates paid on checking account balances. A fourth contributing factor was a decline in the use of credit cards by the public, which followed from stricter bank regulations on credit card authorizations and balances. In December 1994, outstanding credit card balances were 0.9% lower, in real terms, than their level in December 1993.

Overall, however, M1 registered a negative growth rate in real terms from 1993 to 1994, contracting by 3.1%, and a relatively low nominal growth rate of 3.8% when compared to the 11.1% increase in nominal GDP. The modest growth rate of M1 was primarily due to the decline referred to above in domestic currency checking account balances. The share of domestic currency checking accounts in the stock of M1 declined from 68.0% in 1993 to 60.9% in 1994. On the other hand, the participation of bills and coins in M1 increased from 29.0% in 1993 to 33.6% in 1994.

In 1994, M4 continued its upward trend, growing at an average annual rate of 14.2% in real terms despite the transfer of resources abroad that occurred during the year and accelerated in December. The average stock of M4 as a percentage of GDP reached an historical high of 51.1% in 1994, as compared with 46.5% in 1993.

As a result of the strict control over the money supply, the monetary aggregate M1 registered a real annual contraction of 29.7% at the end of 1995. This decrease followed the real annual decrease of 38% in the checking accounts held in domestic currency, as well as a real annual decrease of 23.0% in the balance of notes and coins in public circulation. The decrease in the money demand by the public resulted from the low level of economic activity, higher levels of inflation and higher domestic interest rates.

In 1995, the M4 monetary aggregate showed a reduction of 20.6% in real terms. As a proportion of GDP, M4 fell from 58.2% in 1994 to 55.7% in 1995. This was mainly caused by a lower investment in government securities by non-residents, which dropped from 1.7% of GDP in 1994 to 1.6% in 1995.

The nominal growth rate of M4, after eliminating the impact of exchange rate variations on dollar-denominated stocks, was 15.1% in 1995. The stock of government securities decreased by 55.7%.

For a discussion of monetary policy in 1995, see "Recent Developments—The Government's Response—Monetary Policy; Prices and Wages".

Banking System

In September 1982, the President decreed the nationalization of the private Mexican commercial banks. Effective November 18, 1982, a constitutional amendment was adopted to implement the nationalization, which granted to the Government a monopoly on the rendering of the public service of banking and credit. The number of banking institutions was reduced from 68 to 29 in the first two years of nationalized banking, and to 18 by 1988. Of the 18 remaining banks, six were nationwide banks, five were regional banks and seven were multi-regional banks.

Effective June 28, 1990, the Constitution was amended to permit Mexican individuals and financial holding companies to own controlling interests in Mexican commercial banks. Subsequently, the *Ley de Instituciones de Crédito* (Law of Credit Institutions, or "Banking Law") was enacted to regulate the ownership and operation of Mexican commercial banks. Pursuant to the Banking Law, Mexico began the process of privatizing the commercial banks. By July 6, 1992, the Government had privatized all 18 state-owned commercial banks, with the proceeds from the sale of the banks exceeding $12 billion.

Upon privatization, the capital stock of banking institutions, other than development banks, was transformed into three classes of common stock, Series "A", "B" and "C", representing at least 51%, up to 49% and up to 30% of its capital, respectively. In February 1995, existing legislation was amended to permit, among other things, greater foreign investment in Mexican-owned banks as part of the package of reforms adopted in connection with Mexico's economic stabilization program put forward in response to the financial crisis of late 1994 and early 1995 (the "1995 Reform"). Under the 1995 Reform, the shareholding structure of banks was changed from three series of common stock to two: Series "A" (representing at least 51% of capital) and "B" (representing up to 49% of capital). The new legislation also relaxed the limitations on eligibility for share ownership. Prior to the 1995 Reform, Series "A" shares could be owned only by Mexican individuals, financial group holding companies, Mexican development banks and the Government, whereas they now generally may also be owned by Mexican *personas morales* (legal persons, such as corporations, partnerships and trusts, that are not individuals) and certain institutional investors established under Mexican law and controlled by Mexicans. (Prior to the 1995 Reform, such entities could not own Series "A" shares and were permitted to own Series "B" shares only if foreigners were prohibited from having ownership interests in them.) As was the case before the 1995 Reform, persons eligible to own Series "A" shares are also eligible to own Series "B" shares. Foreign persons, who prior to the 1995 Reform could own only Series "C" shares, are now eligible to own Series "B" shares. Thus, the limitation on aggregate foreign shareholdings of Mexican-controlled banks has effectively been increased from 30% to 49%. As was also the case before the 1995 Reform, foreign governmental entities exercising functions of authority are not permitted to own shares in Mexican banks.

Generally, no shareholder is authorized to own, directly or indirectly, more than 5% of the shares representing the capital stock of a banking institution. However, under the 1995 Reform this percentage may be increased to 20% if the Ministry of Finance and Public Credit so authorizes. Prior to the 1995 Reform, the Ministry of Finance and Public Credit could waive the per-shareholder limit up to a maximum of 10%. The 1995 Reform also provided that the per-shareholder limits will not apply to any foreign financial institution that, in accordance with a Ministry of Finance and Public Credit-approved program to acquire a Mexican-owned bank, acquires ultimate control (*i.e.*, 51% or more of the shares of common stock of such bank) of that bank. Under the 1995 Reform, the Ministry of Finance and Public Credit may not approve any program whereby foreign investors acquire a bank the net capital of which exceeds 6% of the total amount of net capital of all Mexican banks. In addition, the aggregate net capital of Mexican banks controlled by foreign financial institutions established pursuant to trade treaties, such as the NAFTA (excluding acquisitions of control of existing Mexican banks) will, until January 1, 2000, not be permitted to exceed 25% of the total net capitalization of all Mexican banks.

On May 29, 1995, the Ministry of Finance and Public Credit announced that approval had been granted for the recapitalization of *Grupo Financiero Probursa, S.A. de C.V.* ("GFP"), a Mexican financial group. The transaction involves the investment by *Banco Bilbao Vizcaya, S.A.* ("BBV") of Ps. 1 billion in shares of GFP and the purchase by BBV from GFP's subsidiary, *Multibanco Mercantil Probursa, S.A.* ("MMP"), of $1,062 million of mandatorily convertible subordinated debentures with a term of not longer than five years. Simultaneously, existing GFP shareholders will invest Ps. 1,321 million in shares of GFP. FOBAPROA will also acquire a portion of MMP's existing loan portfolio (at market value and with MMP providing an appropriate level of reserves), in an amount of approximately Ps. 4.8 billion. BBV's total investment is expected to amount to approximately $350 million. On January 12, 1996 the Ministry of Finance and Public Credit announced an increase of Ps. 925 million in the recapitalization of GFP which became effective as of January 2, 1996. The increase involves the acquisition by FOBAPROA of a portion of GFP's existing loan portfolio (at market value) in an amount of approximately Ps. 1,850 million.

On June 13, 1995, the Ministry of Finance and Public Credit announced that approval had been granted for the recapitalization of *Grupo Financiero Serfin, S.A. de C.V.* ("GFS"). The transaction involves Ps. 2.8 billion of new capital for GFS, of which Ps. 1.24 billion is expected to come from the issuance of shares, Ps. 600 million from the issuance of non-convertible subordinated debentures and the remainder from the sale of mandatorily convertible subordinated debentures with a term of not longer than five years. The proceeds of the transactions will principally be used to capitalize GFS's subsidiary, *Banca Serfin, S.A.* ("Serfin"). FOBAPROA will acquire a portion of GFS's existing loan portfolio (at market value and with GFS providing an appropriate level of reserves), in an amount of approximately Ps. 4.9 billion. Serfin withdrew from PROCAPTE on June 30, 1995 and redeemed mandatorily convertible subordinated obligations issued in that connection with a nominal value of Ps. 3.2 billion. On April 30, 1996, the Ministry of Finance and Public Credit announced an increase of approximately Ps. 9,984 million in the recapitalization of GFS which became effective as of January 2, 1996. The increase involves the acquisition by FOBAPROA of a portion of GFS's existing loan portfolio (at market value) in an amount of approximately Ps. 19,968 million.

On September 5, 1995, the Ministry of Finance and Public Credit announced that approval had been granted for the recapitalization of *Grupo Financiero GBM-Atlántico, S.A. de C.V.* ("GFA"), a Mexican financial group. The transaction involves Ps. 2,082 million of new capital for GFA, of which Ps. 1,618 million is expected to come from the issuance of shares and/or mandatorily convertible subordinated debentures and Ps. 464 million is expected to come from non-convertible subordinated debentures. The proceeds of the transaction will principally be used to capitalize GFA's banking subsidiary, *Banco del Atlántico, S.A.* FOBAPROA will acquire a portion of GFA's existing loan portfolio (at market value and with GFA providing an appropriate level of reserves) in an amount of approximately Ps. 3,700 million.

Also on September 5, 1995, the Ministry of Finance and Public Credit announced that approval had been granted for the recapitalization of *Grupo Financiero Promex-Finamex, S.A. de C.V.* ("GFPF"), another Mexican financial group. The transaction involves Ps. 1,715 million of new capital for GFPF, of which Ps. 1,240 million is expected to come from the issuance of mandatorily convertible subordinated debentures, Ps. 400 million is expected to come from non-convertible subordinated debentures and the remainder from the issuance of shares. The proceeds of the transaction will principally be used to capitalize GFPF's banking subsidiary, *Banca Promex, S.A.* FOBAPROA will acquire a portion of GFPF's existing loan portfolio (at market value and with GFPF providing an appropriate level of reserves) in an amount of approximately Ps. 3,030 million.

The Ministry of Finance and Public Credit approved in September 1995 the recapitalization of *Grupo Financiero Bancrecer, S.A. de C.V.* for an amount of approximately Ps. 2,935 million and of *Grupo Financiero Bital, S.A. de C.V.* for an amount of approximately Ps. 2,200 million.

On October 5, 1995, the Ministry of Finance and Public Credit announced that approval had been granted for the recapitalization of *Banco Mercantil del Norte, S.A.* ("BANORTE"). The transaction involves Ps. 1,050 million of new capital for BANORTE, which is expected to come from the issuance of shares. FOBAPROA will acquire a portion of BANORTE's existing loan portfolio (at market value and with BANORTE providing an appropriate level of reserves), in an amount of approximately Ps. 1,600 million.

The Ministry of Finance and Public Credit announced in December 1995 the recapitalization of *Grupo Financiero Banamex Accival, S.A. de C.V.*, which will consist of an infusion of equity by existing shareholders of approximately Ps. 8.5 billion and a purchase by the Government of net loans of approximately Ps. 15.0 billion.

On December 20, 1995, the Ministry of Finance and Public Credit announced that approval had been granted for the recapitalization of *Grupo Financiero Invermexico, S.A. de C.V.* ("INVERMEXICO"), a Mexican financial group. The transaction involves Ps. 3,850 million of new capital for INVERMEXICO, of which Ps. 1,732.5 million is expected to come from the issuance of shares, Ps. 1,347.5 million from the sale of mandatory convertible subordinated debentures and the remainder from the issuance of non-convertible subordinated debentures. FOBAPROA will acquire a portion of INVERMEXICO's existing loan portfolio (at market value and with BANORTE providing an appropriate level of reserves), in an amount of approximately Ps. 6,930 million.

The Ministry of Finance and Public Credit announced on January 16, 1996 a recapitalization program for Bancomer pursuant to which the Government will acquire approximately Ps. 15,600 of net loans of Bancomer's commercial bank subsidiary for approximately Ps. 8,674 million. In addition, Bancomer announced that in March 1996 it entered into a strategic alliance with Bank of Montreal. As a part of the strategic alliance, Bank of Montreal acquired a 16% ownership interest in Bancomer (representing a 20% voting interest), Ps. 125 million of manditorily convertible debentures of Bancomer and approximately $125 million of subordinated debt of Bancomer's commercial bank subsidiary.

On March 20, 1996, the Ministry of Finance and Public Credit announced that approval had been granted for the recapitalization of *Banca Confía, S.A.* ("CONFIA"), with the support from *ABACO Grupo Financiero, S.A. de C.V.* for an amount of approximately Ps. 1,001 million. FOBAPROA will acquire a portion of CONFIA's existing loan portfolio (at market value and with CONFIA providing an appropriate level of reserves), in an amount of approximately Ps. 2,002 million.

The capital stock of Mexican banks is divided into ordinary capital, evidenced by the series of common stock referred to above, and additional capital evidenced by Series "L" shares. Under the 1995 Reform, the limitation on the volume of Series "L" shares that a bank is permitted to issue was increased from 30% to 40% of its total ordinary capital. Series "L" shares may be issued only with the approval of the CNBV, are not considered ordinary capital and confer on their holders only limited voting rights (*e.g.*, the right to vote on extraordinary events such as mergers, spin-offs and delisting). Series "L" shares may include the right to receive preferred dividends and may be held by any person, including foreign investors other than foreign entities exercising governmental functions.

The capital structure rules for financial group holding companies parallel those for commercial banks. Each of the amendments relating to capital structure and acquisition of Mexican-owned commercial banks referred to above has been coupled with identical reforms applicable to financial group holding companies.

Amendments to the Banking Law intended to broaden the range of activities conducted by banks and improve the safety and soundness of the banking system became effective on July 24, 1993. The amendments permit banks (including development banks, discussed below) to engage in financial leasing activities and liberalize the conditions under which banks may engage in repurchase transactions with securities. In addition, each bank is required to create a capital reserve fund, through annual charges of at least 10% of its net income, until the reserve fund reaches a level equal to the bank's paid-in capital. Banks are also now required to have their annual financial statements audited by external auditors. Finally, the Banking Law now regulates investment advisors.

In connection with the implementation of the NAFTA, amendments to several laws relating to financial services (including the Banking Law and the *Ley del Mercado de Valores* ("Securities Market Law")) were approved by the Congress in December 1993 and became effective on January 1, 1994.

These measures permit non-Mexican financial groups and financial intermediaries, through Mexican subsidiaries, to engage in various activities in the Mexican financial system, including banking and securities activities. On April 20, 1994, the Ministry of Finance and Public Credit issued new regulations which implement amendments to several financial services laws approved by the Mexican Congress in December 1993, as well as provisions of the NAFTA dealing with financial services and any future trade agreements incorporating similar provisions. The new regulations set forth rules under which Canadian and U.S. financial institutions (and other foreign financial institutions acting through Canadian or U.S. affiliates) are permitted to establish or acquire Mexican financial institutions and financial holding companies.

In October 1994, the Ministry of Finance and Public Credit began granting approvals for such Canadian and U.S. institutions and their affiliates to establish financial institutions in Mexico. As of December 31, 1995, (a) the Ministry of Finance and Public Credit had authorized applications for the establishment or acquisition by such Canadian and U.S. institutions of nine financial group holding companies, 17 commercial banking institutions, 16 securities firms, 12 insurance companies, 12 limited-scope financial institutions, nine financial leasing companies, four factoring companies and one bonding company; (b) the CNBV had authorized applications for the establishment or acquisition by such Canadian and U.S. institutions of six investment companies and one investment adviser; (c) the Ministry of Finance and Public Credit had granted a "favorable opinion" to one financial group holding companies, one commercial banking institutions, three limited-scope financial institutions, four financial leasing companies, one factoring company and three foreign exchange houses; and (d) the Ministry of Finance and Public Credit had announced the receipt of, but had not yet acted upon, applications for the establishment or acquisition of one bank and one insurance company.

Again in the case of these "NAFTA affiliates", the 1995 Reform introduced important changes to the rules governing their establishment and shareholding structure. Pursuant to the 1995 Reform, the minimum shareholding required for a foreign financial institution to establish a Mexican affiliate bank, financial group holding company, securities firm or limited-purpose "securities specialist" has been reduced from 99% to 51%. The stated purpose of this liberalization is to increase the possibilities for forming joint ventures between foreign financial institutions and Mexican investors. In addition, the 1995 Reform introduced a significant change to the previously existing limits on the capitalization of Mexican affiliates of foreign financial institutions. Prior to the 1995 Reform, such affiliated institutions were subject to individual and aggregate size limitations based on capital during a transition period that expires on January 1, 2000, regardless of whether they were newly established or existing entities acquired by the foreign financial institution. The 1995 Reform lifts this restriction with respect to acquired entities, provided that the acquisition is approved by the Ministry of Finance and Public Credit, and subject to an exception in the case of banks. As noted above, until the expiration of the transition period on January 1, 2000, the net capital of an acquired bank may not exceed 6% of the aggregate net capital of all Mexican banks, and the net capital of all banks affiliated with foreign financial institutions may not exceed 25% of the aggregate net capital of all Mexican banks.

In an effort to increase competition and encourage efficiency, through December 31, 1995, the Ministry of Finance and Public Credit had approved applications for the establishment of 17 new banks, and had issued "favorable opinions" with respect to two additional applications for the establishment of new banks, in addition to the authorizations granted to U.S. and Canadian institutions to establish commercial bank affiliates mentioned above. Furthermore, the Banking Law contemplates the creation of limited-purpose financial institutions that are permitted to obtain financing in the securities markets and lend to certain business sectors only. Through December 31, 1995, twenty-eight such limited-purpose financial institutions had been approved.

In addition to commercial banks, the Mexican banking system includes various development banks, the substantial majority of the capital of which is owned by the Government. The most important development banks are *Nacional Financiera, S.N.C.* ("NAFIN"), Bancomext, Banobras and *Banco*

Nacional de Comercio Interior, S.N.C. ("Banci"). Among NAFIN's principal activities are the granting of credits to small- and medium-sized businesses, promoting the development of the securities market and serving as financial agent of the Government in certain international transactions. Bancomext's principal activities are granting export- and import-related credits and issuing guaranties to private and public sector entities. Banobras' principal activities consist of providing short-, medium- and long-term financing to public enterprises and federal, state and municipal governments and granting credits for low-income housing. The principal activities of Banci include the promotion and financing of national and regional economic development, particularly in the areas of commerce and the distribution and supply of goods.

Under the laws establishing NAFIN, Bancomext, Banobras and Banci, the Government is responsible, at all times, for the transactions entered into by such development banks with foreign private, governmental and inter-governmental institutions, among others.

Banking Supervision and Support

In 1991, the Government promulgated rules setting forth the procedures to be followed in classifying loans as "non-performing" and the reserves required therefor, and the implementation of capital adequacy requirements conforming to those recommended under the Basle Accord. These rules were intended to improve the Mexican banking system and to make standards applicable to Mexican commercial banks consistent with those applicable to banks in other countries. A new series of rules to be followed by Mexican development banks to determine and classify the risk of non-payment of loans made by these banks and requiring development banks to establish loan loss reserves became effective on June 1, 1993. New rules establishing capital adequacy standards for Mexican development banks became effective on October 1, 1994, pursuant to which such banks are required to maintain capitalization levels at least equal to 10% of their risk-weighted assets.

Under the Banking Law, the CNBV (as the successor, effective May 1, 1995, to the National Banking Commission) is the entity responsible for the supervision of commercial and development banks. It is empowered to impose sanctions for failure to comply with existing banking regulations. The CNBV is administered by a Board of Directors comprised of ten members in addition to its President and two of its Vice Presidents. Five of the members are appointed by the Ministry of Finance and Public Credit, three members are appointed by Banco de México, one member is appointed by the National Commission for the Retirement Savings System and one member is appointed by the National Insurance and Bonding Commission.

On September 5, 1994, the Ministry of Finance and Public Credit announced that the National Banking Commission had intervened to seize operating control of the Cremi/Unión financial group and its subsidiaries (collectively, "Cremi/Union"). The intervention stemmed from alleged irregularities in the operation of Cremi/Union by its former management, and consisted of the immediate substitution for that management by administrators appointed by the CNBV. FOBAPROA has injected approximately Ps. 7 billion in Cremi/Union since the intervention. The Government intends to return control of Cremi/Union to the private sector at the appropriate time.

On March 3, 1995, the Ministry of Finance and Public Credit announced that the National Banking Commission had intervened to seize control of *Grupo Financiero Asemex-Banpais, S.A. de C.V.* ("GFAB") and its banking subsidiary, *Banpais, S.A.* ("Banpais"), and that the National Insurance and Bonding Commission had intervened to seize control of GFAB's two insurance subsidiaries, *Aseguradora Mexicana, S.A.* ("Asemex") and *Seguros Banpais, S.A.* ("Seguros"). The intervention stemmed from alleged irregularities in the operation of Banpais, Asemex and Seguros, and consisted of the substitution for the management of Banpais by administrators appointed by the CNBV. An assessment of Banpais is currently underway, and the cost to FOBAPROA of the intervention is not yet known. The Government intends to return control of GFAB, Banpais, Asemex and Seguros to the private sector at the appropriate time. The CNBV has intervened to seize control of *Estrategia Bursátil Casa de Bolsa, S.A.* ("Estrategia"), a Mexican securities broker dealer. The intervention stemmed from Estrategia's failure to meet capital requirements.

On May 17, 1996, the Ministry of Finance and Public Credit announced that the National Banking Commission had intervened to seize operating control of *Banco Capital, S.A.* ("Capital") and *Banco del Sureste, S.A.* ("Sureste"). The intervention in Sureste stemmed from a capital impairment caused by deteriorated transactions undertaken by its affiliated brokerage firm, while the intervention in Capital responded to a lack of required capital caused by problematic transactions undertaken by its affiliated leasing company.

In February 1996, the Bank of Nova Scotia agreed to acquire up to 55% of the capital stock of *Grupo Financiero Inverlat, S.A. de C.V.* ("Inverlat"). Bank of Nova Scotia will pay for 16% of such capital stock in cash; the remaining 39% will be acquired through the conversion into equity of subordinated obligations of Inverlat due March 31, 2000 sold by FOBAPROA to the Bank of Nova Scotia.

In February 1995, Banco de Mexico adopted PROCAPTE, a voluntary program for strengthening the capital of commercial banks that, by virtue of conditions prevailing in the financial markets, were unable to comply with regulatory capitalization requirements. See "Recent Developments—The Government's Response—Mechanisms to Strengthen the Stability of the Banking Sector". PROCAPTE consists principally of an undertaking by the trust that handles Mexico's bank insurance fund, FOBAPROA, to purchase subordinated debt instruments of commercial banks that qualify for PROCAPTE. The instruments will mature on March 31, 2000, and will be mandatorily convertible at the option of FOBAPROA into Series "A" or Series "B" shares of the issuing institution in the circumstances described below. During the term of PROCAPTE, each participating bank is required to maintain a capitalization coefficient of 9%, which may decline to 8.5% if the decrease is caused by the creation of general reserves. FOBAPROA may not exercise the conversion right before March 31, 2000, unless the basic net capital of the institution (apart from amounts corresponding to the subordinated obligations) falls below 2% of risk-weighted assets. After March 31, 2000, FOBAPROA may exercise the conversion right at its discretion. In deciding whether to exercise its conversion right, FOBAPROA is required to take into account the financial situation of the institution, including the rating of its portfolio, the amount of its reserves and provisions, the risks it may have incurred, the amount of its capital apart from amounts corresponding to the subordinated obligations, and its adherence to the program established to recapitalize it. If, during the term of the obligation, the financial situation of the bank is healthy, FOBAPROA undertakes not to exercise its conversion right. If it does exercise the conversion right, FOBAPROA will sell the shares it receives to the public. The issuing institution may at any time during the term of the subordinated debt instruments purchase all or any portion of them back from FOBAPROA, as long as it does so by raising capital to effect the purchase, through the issuance either of new shares or other mandatorily convertible subordinated obligations, such that the institution will maintain a capitalization level not lower than that required under PROCAPTE.

As of May 31, 1996 there were three banks in PROCAPTE and total participation by these banks in PROCAPTE equalled approximately Ps. 3.2 billion. As a result of the adverse economic situation that developed at the end of 1994, commercial banks have experienced an increase in non-performing loans and bank lending has declined. See "Recent Developments—Events During 1994".

On August 23, 1995, the Government announced the ADE, a debt restructuring support program designed to help borrowers restructure their payment obligations under certain loans at subsidized interest rates. The ADE covers four types of peso- or UDI-denominated bank loans: credit card loans; personal and consumer loans; business loans (particularly loans to small and medium-sized businesses); and mortgage loans. The subsidized interest rates for existing debt will be 38.5% for credit card loans (up to the first Ps. 5,000 of such loans), 34% for personal and consumer loans (up to the first Ps. 30,000 of such loans) and 25% for business loans (up to the first Ps. 200,000 of such loans). Interest rates in respect of the first Ps. 200,000 of mortgage loans which have previously been converted into UDIs will be 6.5% in the first year and 8.75% thereafter, and amounts exceeding Ps. 200,000 in respect of mortgage loans will be subject to a 10% interest rate. Pursuant to the ADE, most borrowers with existing loans in good standing will benefit from the subsidized interest rates for a period of 13 months beginning in September 1995. To take advantage of the subsidized interest rates, holders of existing mortgage loans will be required to convert their loans into UDIs. In addition, holders of past-due loans will be required to sign special agreements to restructure their debts. Under the ADE, borrowers in the agriculture sector with existing business loans may benefit from subsidized interest rates for a period of 18 months beginning in September 1995. The Government has estimated that the cost to it of the ADE program (in present value terms) will not exceed approximately Ps. 15.0 billion.

On May 16, 1996 the Government announced an additional debt restructuring program for the benefit of mortgage loan debtors, having four aspects. First, the size of the ADE program for mortgage loans was increased from UDI 43 billion to UDI 100 billion and covers loans restructured through September 30, 1996. Second, payments by mortgage debtors over a 10-year period will be subject to a discount (starting at 30% and decreasing to 5% by the end of the period) on the amount otherwise payable. During the first three years of the program, debtors will be allowed to prepay their loans free of penalties and subject to a 10% discount on the outstanding balance. These discounts will apply to a maximum UDI 500,000 of UDI-denominated credits per debtor per bank outstanding as of April 30, 1996. Third, borrowers may elect to transfer their mortgaged properties to a trust fund and to pay rent to such trust fund with a repurchase option within a six-year period. The monthly rent will be adjusted according to changes in the value of UDIs and will not exceed 0.9% of the property value. Fourth, loans for the construction or purchase of public housing granted by banks or by the Housing Fund ("FOVI") will be covered during a five-year period, with discounts on the amounts otherwise payable starting at 30% and ending at 6% during that period, provided that borrowers have been in good standing since their loans were granted. In addition, borrowers who have had arrears but pay all past-due amounts on loans for the construction or purchase of public housing will benefit from this program during a four-year period, with discounts on the amounts otherwise payable starting at 24% and ending at 6% during that period. Payment on loans for the construction or purchase of public housing will be modified according to changes in the minimum wage. The net present value of the fiscal cost of this additional debt restructuring program is estimated to be approximately Ps. 27.2 billion (1.2% of projected GDP for 1996).

Credit Allocation by Sector

The following table shows the allocation by sector of credit extended by commercial and development banks on the last date for the periods indicated.

Credit Allocation by Sector(1)

	1990		1991		1992		1993		1994(2)		1995(2)	
		(% of total)		(% of total)		(% of total)		(% of total)		(% of total)		(% of total)
	(in billions of pesos)											
Agriculture, mining, forestry and fishing	Ps. 25.2	10%	Ps. 30.0	9%	Ps. 38.2	8%	Ps. 44.1	8%	Ps. 56.5	6%	Ps. 59.9	5%
Energy	4.1	2	3.5	1	4.1	1	3.5	1	5.9	1	7.0	1
Industry	43.7	18	57.8	17	72.5	16	84.3	14	122.1	14	146.3	13
Services and other activities	62.4	25	99.6	30	154.8	33	182.9	31	274.4	32	311.2	28
Commerce	31.9	13	49.4	15	75.6	16	86.7	15	128.9	15	140.2	12
Government	60.5	24	63.2	19	67.4	14	72.5	12	127.8	15	212.0	19
Total, including others	Ps.249.0	100%	Ps.337.4	100%	Ps.467.3	100%	Ps.583.5	100%	Ps.872.3	100%	Ps.1,129.2	100%

(1) Includes commercial and development banks.

(2) Preliminary.

Source: Banco de México.

As the table above indicates, the percentage of total credit allocated to the Government declined significantly from 1990 to 1993, freeing up capital for private investment, but increased from 14.7% of total credit to 18.8% of total credit from 1994 to 1995.

Insurance Companies and Auxiliary Credit Institutions

Effective July 15, 1993, the *Ley General de Instituciones y Sociedades Mutualistas de Seguros* (Insurance Company Law) was amended in order to encourage the expansion of the insurance market in Mexico. The main objectives of the amendment were to strengthen the insurance business in Mexico, consolidate the presence of insurance institutions in the economy and flexibly regulate insurance activity so that insurance institutions will be better able to provide services to consumers through expanded operations. Furthermore, the amendment permitted insurance companies, subject to certain limitations, to engage in foreign currency-denominated funding activities.

To achieve these objectives, the law permitted insurance companies to use the services of intermediaries, domiciled in Mexico or abroad, for their re-insurance transactions and to issue non-voting or limited voting shares, as well as subordinated obligations. Insurance companies may now act as trustees for the administration of properties which involve the payment of insurance premiums. In addition, foreign insurance companies are now permitted, with the prior approval of the Ministry of Finance and Public Credit, to establish representative offices in Mexico.

Pursuant to amendments to the Insurance Company Law, effective November 18, 1995, foreign investors may purchase up to 49% of the capital stock of Mexican insurance companies; in addition, foreign financial institutions domiciled in countries with which Mexico has entered into trade agreements may, with the approval of the Ministry of Finance and Public Credit, acquire the majority of the shares representing capital stock of a Mexican insurance company.

Effective July 16, 1993, the *Ley General de Organizaciones y Actividades Auxiliares del Crédito* (Auxiliary Credit Organizations Law) was amended in order to promote the growth of financial intermediaries and increase customer protection. Pursuant to the amended law, no individual or entity is permitted to hold directly or indirectly more than 10% of the paid-in capital of such financial intermediaries without the prior authorization of the Ministry of Finance and Public Credit; auxiliary credit institutions and foreign exchange brokers are required to allocate 10% of their profits to a capital reserve fund until such fund equals their paid-in capital; financial leasing companies are able to enforce judicially the repossession of goods leased in case of default by the lessee of its obligations; and the CNBV is entitled to prevent auxiliary credit institutions from using misleading documentation.

Pursuant to amendments to the Auxiliary Credit Organizations Law, effective November 18, 1995, foreign investors may purchase up to 49% of the capital stock of auxiliary credit institutions; in addition, foreign financial institutions domiciled in countries with which Mexico has entered into trade agreements may, with the approval of the Ministry of Finance and Public Credit, acquire the majority of the shares representing capital stock of an auxiliary credit institution.

In connection with the implementation of the NAFTA, amendments to several laws relating to financial services became effective on January 1, 1994, and implementing regulations were issued by the Ministry of Finance and Public Credit on April 20, 1994. Under the new measures, non-Mexican financial groups and financial intermediaries are permitted, through Mexican subsidiaries, to engage in various activities, including the provision of insurance, in Mexico. See "—Banking System" above.

The Securities Markets

The *Bolsa Mexicana de Valores, S.A. de C.V.* ("Mexican Stock Exchange") is Mexico's only stock exchange and is located in Mexico City. The Mexican Stock Exchange is organized as a corporation with shares owned by 31 brokerage firms, each of which is authorized to trade on the exchange floor.

Both debt and equity securities are traded on the Mexican Stock Exchange, including stocks and bonds of private sector corporations, equity certificates or shares issued by banks, commercial paper, bankers' acceptances, certificates of deposit, Government debt and special hedging instruments linked to the dollar. Effective in January 1990, important reforms were introduced to the Securities Market Law and the *Ley de Sociedades de Inversión* (Investment Company Law) to modernize Mexican securities regulation and to permit a broader range of securities to be offered and of transactions to be undertaken. Currently, institutional investors are the most active participants in the Mexican Stock Exchange, although retail investors also play a role in the market. The Mexican equity market is one of Latin America's largest in terms of market capitalization, but it remains relatively small and illiquid compared to major world markets.

On July 24, 1993, amendments to the Securities Market Law became effective, which amendments include more flexible rules for the repurchase by Mexican companies of their own shares and a new definition of (and rules relating to) privileged information. In addition, under the new amendments, brokerage houses are authorized to act as trustees in transactions related to their trading activities, and the listing of foreign securities on the Mexican Stock Exchange is permitted upon the authorization of the Ministry of Finance and Public Credit, the CNBV and Banco de Mexico. The amendments also include the creation of an international quotation system. In addition, beginning in July 1994 foreign securities firms were permitted to establish representative offices in Mexico with the prior approval of the Ministry of Finance and Public Credit. As of June 28, 1996, the Ministry of Finance and Public Credit had authorized eight foreign securities firms to establish representative offices and was in the process of considering applications from two such firms.

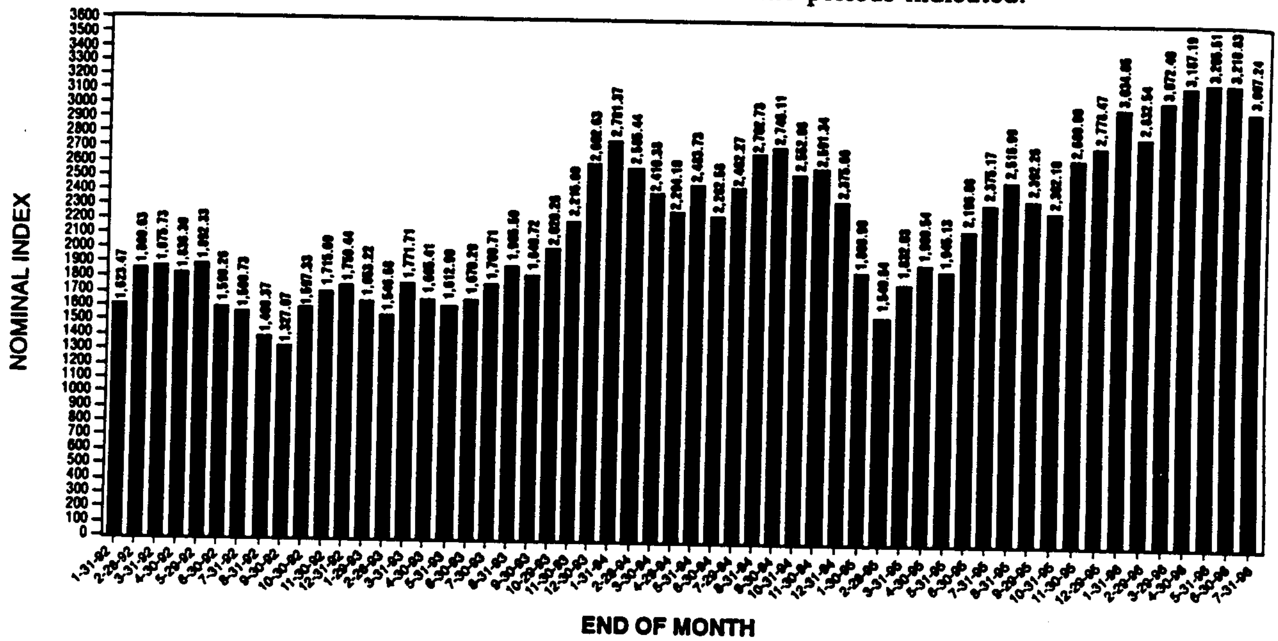
As part of the 1995 Reform (see "—Banking System" above), restrictions on the shareholding structure of securities firms were also relaxed. Prior to the 1995 Reform, the capital of securities firms was required to be represented by at least 70% Series "A" shares (which may be owned only by Mexican persons) and up to 30% Series "B" shares (which may be owned by foreigners other than foreign governmental entities exercising functions of authority). Pursuant to the 1995 Reform, the level of permissible foreign shareholding was increased by permitting securities firms to have 51% of their capital represented by Series "A" shares, with the remainder to be represented by Series "B" shares. In addition, whereas formerly Series "A" shares generally could be owned only by Mexican individuals and financial group holding companies, they now may also be owned by Mexican *personas morales* (legal persons, such as corporations, partnerships and trusts, that are not individuals) and certain institutional investors established under Mexican law and controlled by Mexicans. Per-shareholder ownership limits (with authorization from the Ministry of Finance and Public Credit) were raised by the new legislation from 15% to 20% of capital. As was the case prior to the 1995 Reform, the per-shareholder ownership limit without Ministry of Finance and Public Credit authorization is 10% of capital. These per-shareholder limits will not apply to any foreign financial institution that, in accordance with a program to acquire a Mexican-owned securities firm that has been approved by the Ministry of Finance and Public Credit, acquires shares of that securities firm.

The market capitalization of the Mexican Stock Exchange was $90.9 billion at the end of 1995, representing a decrease of 30.0% from its 1994 level. The value of transactions on the Mexican Stock Exchange reached $43.5 billion in 1995, representing a 58.2% decrease over the 1994 level. Fixed income securities (i.e., commercial paper, notes, bonds and ordinary participation certificates) accounted for 17.8% and variable-income securities (i.e., shares and certificates of patrimonial contribution or CAPs) accounted for the remaining 82.2% of transactions.

The Mexican Stock Exchange publishes a market index (the "Stock Market Index") based on a group of the 37 most actively traded shares. The Stock Market Index posted gains of 9.8% in real terms in 1992 and 37.0% in real terms in 1993.

The Stock Market Index declined sharply in the wake of the devaluation of the peso at the end of 1994. From December 20, 1994 (the date on which the Government moved the ceiling of the intervention band) to February 27, 1995, the Stock Market Index fell 36.3% in nominal peso terms. However, the Stock Market Index subsequently recovered, increasing 107.8% in nominal peso terms from February 27, 1995 to July 31, 1996. From December 30, 1993 through December 30, 1994, the Stock Market Index decreased 14.7% in real terms and from December 30, 1994 through December 29, 1995, the Stock Market Index decreased 22.6% in real terms. Overall, the Stock Market Index increased 8.2% in nominal peso terms and decreased 7.5% in real terms in the first seven months of 1996.

The following graph charts the Stock Market index for the periods indicated.



Source: Mexican Stock Exchange.

EXTERNAL SECTOR OF THE ECONOMY

Foreign Trade

The import substitution economic development model that Mexico adopted in the 1940s to promote industrialization through protection of local industries, and which in its latter stages was financed by the expansion of oil exports and debt accumulation, gave way in the late 1980s to a more outward-looking approach concentrating on export-led growth.

To foster non-oil exports, the Government has promoted a comprehensive set of trade, fiscal, financial and promotional measures designed to create a macroeconomic environment in which exports will be more competitive. The Government's decision to join GATT in 1986 resulted in, among other things, an important reduction in the protection traditionally given to domestic producers. A five-tier tariff structure was established at the end of 1987 with a maximum rate of 20%. Average tariff rates declined from 22.6% in 1986 to 13.1% in 1992. By 1995, approximately 98.6% of tariff items and 92.8% of imports by value were exempt from import permits and other non-tariff barriers.

The following table provides information about the value of Mexico's merchandise imports and exports (excluding tourism) for the periods indicated.

Exports and Imports(1)

	1991	1992	1993	1994	1995(2)	Jan.-July 1996(2)
	(in millions of dollars, except average price of Mexican oil mix)					
Merchandise exports (f.o.b.)						
Oil and oil products	$ 8,166	$ 8,307	$ 7,418	$ 7,445	$ 8,423	$ 6,254
Crude oil	7,265	7,420	6,485	6,624	7,420	5,716
Other	902	887	933	821	1,003	538
Non-oil products	34,521	37,889	44,468	53,438	71,119	47,232
Agricultural	2,373	2,112	2,505	2,678	4,016	2,483
Mining	547	356	278	357	545	258
Manufactured goods	31,602	35,421	41,685	50,402	66,558	44,492
In-bond industry	15,833	18,680	21,853	26,269	31,103	20,130
Other	15,769	16,741	19,832	24,132	35,455	24,362
Total merchandise exports	42,688	46,196	51,886	60,882	79,542	53,486
Merchandise imports (f.o.b.)						
Consumer goods	5,834	7,744	7,842	9,510	5,335	3,385
Intermediate goods	35,545	42,830	46,468	56,514	58,421	39,667
In-bond industry	11,782	13,937	16,443	20,466	26,179	16,657
Other	23,763	28,893	30,025	36,048	32,242	23,009
Capital goods	8,588	11,556	11,056	13,322	8,697	5,846
Total merchandise imports	49,967	62,129	65,367	79,345	72,453	48,897
Trade balance	$(7,279)	$(15,934)	$(13,481)	$(18,464)	$ 7,089	$ 4,588
Average price of Mexican oil mix(3)	$ 14.58(4)	$ 14.88	$ 13.20	$ 13.88	$ 15.70	$ 17.48(5)

Note: Totals may differ due to rounding.

(1) Total external trade figures are calculated according to a methodology developed to conform to international standards under which merchandise exports and imports include in-bond industry.

(2) Preliminary.

(3) Weighted average price (in dollars per barrel) of the Mexican oil mix.

(4) Oil prices in the first quarter of 1991 were significantly higher than prevailing prices during the remainder of each such year due to supply disruptions following Iraq's invasion of Kuwait.

(5) Average price presented is daily average through the first six months of 1996.

Source: Banco de México.

In 1982, non-oil exports represented only 31.5% of Mexico's total merchandise exports (excluding in-bond industries). As a result of the export promotion strategy referred to above, non-oil exports have nearly quintupled since 1982, reaching $71.1 billion (or 89.4% of total merchandise exports including in-bond industries) in 1995. During the period from 1991 through 1995, non-oil exports, including in-bond industries, grew at a compound annual rate of 19.8%.

In recent years, the composition of Mexico's non-oil exports has also changed. In 1995, $66.6 billion (or 93.6%) of Mexico's non-oil exports were represented by manufactured goods, compared with $5.8 billion (or 77.1%) in 1982. Exports of transport vehicles, equipment, machinery and metallic goods increased from approximately 27% of total manufactured exports (excluding in-bond industry) in 1982 to 60.8% in 1994.

From 1988 through 1994, imports increased dramatically from their levels during the period from 1983 to 1987, reflecting increased demand resulting from a resumption of growth in the Mexican economy, the modernization of Mexico's industrial facilities and the decrease in tariffs that accompanied Mexico's entry into GATT.

Mexico reported a deficit in its trade balance (inclusive of in-bond industry) of approximately $0.88 billion in 1990, $7.28 billion in 1991, $15.93 billion in 1992, $13.48 billion in 1993 and $18.46 billion in 1994. The 1994 trade deficit reflected continued growth in imports in large part due to the overvaluation of the peso during such period. See "Recent Developments—Events During 1994".

During 1995, Mexico registered a $7.089 billion trade surplus, the first trade surplus on an annual basis since 1989.

The value of imports (including in-bond industries) decreased by 8.7% between 1994 and 1995, to $72.5 billion in 1995, 92.6% of which represented purchases of intermediate and capital goods. Of the three categories of merchandise imports—imports of capital goods, intermediate goods and consumer goods—imports of intermediate goods increased in 1995 by 3.4%, while imports of capital goods and consumer goods decreased by 34.7% and 43.9%, respectively, over their 1994 levels. Exports grew to $79.5 billion in 1995, as compared with $60.9 billion in 1994. Petroleum exports increased by 13.1% during 1995 and non-petroleum exports increased by 33.1%. Exports of manufactured goods registered significant growth, increasing by 32.1% over their level in 1994.

The trade surplus was $4,588 million during the first seven months of 1996, as compared with a trade surplus of approximately $3,855 million during the same period of 1995. Merchandise imports during the first seven months of 1996 increased at an annual rate of 20.4% as compared with a decrease of 7.7% during the same period of 1995. Of the three categories of merchandise imports, imports of intermediate goods increased by 22.1% and imports of capital goods increased by 14.1%, while imports of consumer goods increased by 12.8%. Merchandise exports totalled $53.5 billion in the first seven months of 1996 as compared with $44.5 billion during the same period of 1995. Petroleum exports increased by 25.9% during the first seven months of 1996, while non-petroleum exports increased by 19.6%. Exports of manufactured goods, which represented 83.2% of total merchandise exports, increased by 22.8% during the first seven months of 1996 over the level in the same period of 1995.

Geographic Distribution of Trade

The United States is Mexico's most important trading partner. In 1995, trade with the United States accounted for approximately 83.4% of total exports and 73.7% of total imports.

The following table shows the percentage distribution of Mexico's external trade for the periods indicated:

Distribution of Trade(1)

	1991	1992	1993	1994	1995(2)	First Quarter of 1996
Exports (f.o.b.):						
U.S.A	79.4%	81.0%	83.0%	85.2%	83.4	83.6%
EEC	7.7	7.1	5.0	4.5	4.3	3.7
Of which:						
Spain	2.7	2.7	1.7	1.4	1.1	0.9
France	1.4	1.2	0.8	0.8	0.6	0.5
U.K	0.5	0.5	0.4	0.4	0.7	0.6
F.R.G.(3)	1.2	1.1	0.8	0.6	0.6	0.7
Japan	2.9	1.7	1.4	1.6	1.2	1.2
Others	10.0	10.2	10.6	8.7	11.2	11.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Imports (f.o.b.):						
U.S.A	73.7%	71.2%	71.1%	71.7%	73.7%	75.7%
EEC	11.4	11.5	11.1	10.7	9.0	8.5
Of which:						
Spain	1.2	1.4	1.8	1.7	1.1	0.7
France	1.9	2.1	1.6	1.9	1.4	1.2
U.K	1.0	1.0	0.9	0.9	0.7	0.7
F.R.G.(3)	4.7	4.0	4.3	3.9	3.7	3.8
Japan	3.6	4.9	5.2	4.8	5.4	4.2
Others	11.3	12.4	12.6	12.8	11.9	11.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Totals may differ due to rounding.
(1) From 1991, includes in-bond industry on a gross basis.
(2) Preliminary.
(3) Since 1992, includes former East Germany (German Democratic Republic).
Source: INEGI.

On December 17, 1992, the NAFTA was signed by the Presidents of Mexico and the United States and by the Prime Minister of Canada. On January 1, 1994, following approval by the legislative branches of all three countries, the NAFTA entered into force.

The United States, Canada and Mexico also negotiated and entered into supplemental accords to the NAFTA (which are not included in the formal text of the NAFTA) on labor and environmental issues, as well as separate understandings on emergency actions in response to import surges and the funding of environmental infrastructure projects in the U.S.-Mexico border region. In addition, different combinations of the three countries have also reached understandings, or have agreed to pursue further discussions, on various specific issues.

The NAFTA removes most customs duties imposed on goods traded among the three countries; removes or relaxes many investment restrictions, including restrictions on foreign investment in banking, insurance and other financial service activities; liberalizes trade in services; provides for protection of intellectual property rights; provides a specialized means for resolution of trade disputes arising under the NAFTA; and promotes trilateral, regional and multilateral cooperation. Mexico has enacted certain laws and promulgated certain regulations to implement the NAFTA and intends to continue this process. Certain provisions of the NAFTA are being phased in over a period of years. The Government expects that the NAFTA will provide improved and more predictable access of Mexican exports to U.S. and Canadian markets. It is anticipated over the long term that the NAFTA will have a favorable effect on employment, wages and economic growth in Mexico. On the other hand, Mexican producers and service providers will be subject to increased foreign competition as tariffs and other restrictions which provided a measure of protection for certain industries from foreign competition are reduced. This increased competition, the effects of which have already been felt in many segments of the Mexican economy after Mexico's entry into GATT in 1986, is likely to result in changes in the composition of Mexican economic activity and in the short term has contributed to increased unemployment in Mexico.

A free trade agreement between Mexico and Chile went into effect on January 1, 1992. A free trade agreement with Colombia and Venezuela was signed in June 1994 and a similar agreement with Bolivia was signed in September 1994; both agreements entered into effect on January 1, 1995. In 1992, Mexico signed a framework free trade agreement with Costa Rica, El Salvador, Honduras, Guatemala and Nicaragua as a step towards establishing a free-trade area by the end of 1997, and in April 1994, Mexico and Costa Rica entered into a definitive free trade agreement. Mexico has also taken important steps to increase its trade relations with Europe and the Pacific rim countries. For example, on February 18, 1992, Mexico and France signed a Framework Agreement for Cooperation that aims to encourage bilateral cooperation through increased trade and investment, and on November 18, 1993, Mexico was admitted as a member of the Asian Pacific Economic Cooperation Association.

The *Ley de Comercio Exterior* (Foreign Trade Law) was approved by the Mexican Congress on July 13, 1993 to replace and consolidate certain earlier statutes addressing the same topics and to clarify the division of responsibilities between the customs authorities and the foreign trade authorities. The Foreign Trade Law grants broad powers to the President to establish import and export duties and other restrictions. It also empowers the Ministry of Commerce and Industrial Development to resolve trade-related disputes and establish procedures for the imposition of countervailing duties. It creates a new agency, the Foreign Trade Commission, within the Ministry of Commerce and Industrial Development to administer such procedures. In addition, the Foreign Trade Law specifically defines and regulates unfair trade practices, bringing Mexico's regulatory framework more into line with current international practices and standards. The Foreign Trade Law was drafted in response to the increasing importance of international trade in the Mexican economy and the increasing number of international trade agreements to which Mexico has become a party. See "—Foreign Trade" above. The *Ley de Inversión Extranjera* (Foreign Investment Law) was enacted in December 1993 to facilitate the acquisition by non-Mexican investors of interests in Mexican companies. See "—Direct Foreign Investment in Mexico" below.

In-bond Industry

Mexico's *maquiladora* or in-bond industry imports components and raw materials without duty, and exports finished products with the manufacturer paying tariffs only on the value added in Mexico. Initially established along the border with the United States, in-bond plants are now being established in other regions of the country where they have access to a larger and more diverse labor pool and are able to take greater advantage of inputs available from Mexican suppliers. While in 1982 only 71 in-bond plants were in regions other than the border, by 1995 that number had increased to 659. More than half the value added by in-bond industry is in the production of auto parts, transportation equipment and electronic products.

In the period 1986 to 1995, the number of in-bond plants has increased to 2,104, which together employ approximately 639,979 workers, or approximately 20.0% of the total labor force employed in manufacturing. Net revenues from *maquiladora* operations decreased by 15.1% from 1994 to 1995, to $4.9 billion.

Balance of International Payments

From 1983 to 1987, the current account of the balance of payments was in a surplus position, with the exception of 1986, due to a sharp fall in oil prices, which more than halved oil exports from $14.8 billion in 1985 to $6.3 billion. In 1988, 1989 and 1990, the current account showed deficits of $2.4 billion, $5.8 billion and $7.5 billion, respectively, due primarily to the increase in private sector imports and the Government's trade liberalization policies. Mexico recorded current account deficits of $14.6 billion in 1991, $24.4 billion in 1992 and $23.4 billion in 1993, again due to a surge in imports resulting from the country's economic recovery and lower tariffs. Notwithstanding the current account deficits from 1989 to 1993, international reserves continued to grow during this period due to a sustained inflow of capital from abroad resulting from direct foreign investment and investment in the Mexican securities market.

During 1994, the current account deficit widened to $29.6 billion, $6.2 billion higher than in 1993. The increase in the current account deficit was due primarily to the overvaluation of the Mexican peso during much of the year, leading to increases in imports at a rate faster than increases in exports. See "Recent Developments—Events During 1994". The current account deficit was $716 million in 1995, 97.6% lower than the current account deficit in 1994. The current account deficit decreased during 1995 due to a sharp adjustment in the peso/dollar exchange rate (which resulted in increased merchandise exports and decreased merchandise imports) and to positive tourism balance on non factors services recorded under the item of international travels. The Government currently projects a current account deficit for 1996 of $1.0 billion.

The capital account registered a surplus of $14.6 billion during 1994, as compared with a surplus of $32.5 billion during 1993. The capital account included $11.0 billion of direct foreign investment in 1994. Domestic events, including the disturbances in the southern part of the country and the uncertainty regarding the Presidential elections in August 1994, as well as external factors, such as the increases in U.S. interest rates, led to large fluctuations in foreign portfolio investment during 1994 and to a net decline in capital inflows from the level registered in 1993. See "Recent Developments—Events During 1994". The capital account surplus during 1995 was $14.1 billion, 3.2% lower than the capital account surplus during 1994. Direct foreign investment during 1995 totalled $7.0 billion.

During the first half of 1996, Mexico's current account registered a positive balance of $523 million, as compared with a deficit of $751 million in the same period of 1995. The capital account surplus for the first half of 1996 was $1,720 million. Direct foreign investment during the first half of 1996 totaled $3,125 million.

The current account deficit in 1994 exceeded the capital account surplus, leading to a decline in international reserves. By December 31, 1994, the level of Mexico's international reserves was $6.148 billion, as compared with $24.538 billion at the end of 1993. On September 6, 1996, Mexico's international reserves totalled $15.528 billion. Banco de México has begun publishing, on a weekly basis, its net international assets in accordance with the definition provided under "Recent Developments—Economic and Political Developments in 1995 and 1996". On December 29, 1995, and September 6, 1996, net international assets of Banco de México totalled $(35) million and $3,851 million, respectively.

The following table sets forth Mexico's balance of payments for the periods indicated:

Balance of Payments

	1991	1992	1993	1994	1995(1)	First Half of 1996(1)
			(in millions of dollars)			
I. Current Account(2)	$(14,647)	$(24,438)	$(23,399)	$(29,662)	$ (716)	523
Credits	58,087	61,669	67,752	78,372	97,523	55,259
Merchandise exports (f.o.b.)	42,688	46,196	51,886	60,882	79,542	45,468
Non-factor services	8,790	9,192	9,419	10,301	10,167	5,636
Tourism	5,959	6,085	6,167	6,364	6,164	3,581
Others	2,831	3,107	3,252	3,938	4,005	2,055
Factor Services	3,600	2,876	2,790	3,367	3,820	1,922
Interest	2,906	2,160	2,048	2,700	3,010	1,521
Others	694	716	742	667	810	401
Transfers	3,010	3,406	3,657	3,822	3,993	2,233
Debits	72,734	86,107	91,152	108,034	98,239	54,736
Merchandise imports (f.o.b.)	49,967	62,129	65,367	79,346	72,453	41,341
Non-factor services	10,541	11,488	11,550	12,270	8,983	4,747
Insurance and freight	1,758	2,084	2,181	2,640	1,975	1,210
Tourism	5,813	6,107	5,562	5,338	3,153	1,492
Others	2,970	3,297	3,807	4,292	3,856	2,045
Factor services	12,207	12,471	14,219	16,378	16,768	8,632
Interest	9,215	9,611	10,934	11,807	13,333	6,927
Others	2,992	2,860	3,285	4,571	3,435	1,705
Transfers	19	19	16	40	35	16
II. Capital Account	24,507	26,419	32,482	14,584	14,112	1,720
Liabilities	25,507	20,867	36,085	20,254	20,069	2,526
Loans and deposits	7,992	(1,567)	2,777	1,100	23,244	(5,272)
Development banks	1,651	1,175	194	1,329	959	(1,871)
Commercial banks	5,752	295	3,328	1,471	(4,982)	(1,047)
Banco de México	(220)	(460)	(1,175)	(1,203)	13,333	(1,979)
Non-financial public sector	(1,571)	(4,705)	(2,402)	(1,690)	10,493	(784)
Non-financial private sector	2,381	2,129	2,832	1,193	3,441	410
Foreign investment	17,515	22,434	33,308	19,155	(3,175)	7,798
Direct	4,761	4,393	4,389	10,973	6,964	3,125
Portfolio	12,753	18,041	28,919	8,182	(10,139)	4,672
Equity Securities	6,332	4,783	10,717	4,084	519	2,253
Debt securities in pesos	3,406	8,147	7,406	(2,225)	(13,860)	(720)
Public sector	3,406	8,147	7,013	(1,942)	(13,791)	(700)
Private sector	0	0	393	(283)	(69)	(20)
Debt securities in foreign currency	3,015	5,111	10,797	6,324	3,201	3,139
Public sector	1,675	1,552	4,872	3,980	2,569	2,676
Private sector	1,340	3,559	5,925	2,344	632	463
Assets	(1,000)	5,552	(3,603)	(5,670)	(5,957)	(806)
III. Errors and omissions	(2,167)	(961)	(3,142)	(3,314)	(3,805)	(2,579)
IV. Change in net international reserves(3)	7,378	1,008	5,983	(18,389)	9,593	(339)

Note: Totals may differ due to rounding.

(1) Preliminary.

(2) Current account figures are calculated according to a methodology developed to conform to new international standards under which merchandise exports and merchandise imports include in-bond industry, while in previous years net in-bond industry was included as a separate line item.

(3) The sum of items I, II and III does not equal item IV since purchases and sales of gold and silver as well as adjustments in their value are not reflected in items I, II and III.

Source: Banco de México.

The following table sets forth the gross international reserves of Banco de México at the end of each period indicated.

Gross International Reserves

Year	End-of-Period Gross International Reserves(1)(2) (in millions of dollars)
1991	$17,547
1992	18,554
1993	24,538
1994	6,148
1995	
January	3,483
February	8,978
March	6,850
April	8,705
May	10,438
June	10,082
July	13,867
August	15,073
September	14,699
October	13,496
November	13,594
December	15,741(3)
1996	
January	15,484(3)
February	15,780(3)
March	15,491(3)
April	15,642(3)
May	15,955(3)
June	15,402(3)
July	16,263(3)
August	15,444(3)
September 6	15,528(3)

(1) Gross international reserves of Banco de México include gold, silver, Special Drawing Rights and foreign exchange holdings.

(2) Beginning in 1991, total international reserves are calculated net of foreign exchange liabilities of Banco de México with a tenor of six months or less. The figure for 1990 has been recalculated to conform to this new methodology. As a result, total reserves at the end of each year do not equal the change in reserves for such year plus total reserves at the end of the preceding year.

(3) Banco de México has begun publishing, on a weekly basis, its net international assets in accordance with the definition provided under "Recent Developments—Economic and Political Developments in 1995 and 1996". On December 29, 1995 and September 6, 1996, net international assets of Banco de México totalled $(35) million and $3,851 million, respectively.

Source: Banco de México.

Direct Foreign Investment in Mexico

On December 28, 1993, the Foreign Investment Law became effective. The Foreign Investment Law establishes a set of rules to provide legal certainty to foreign investors and promote the country's competitiveness. The law liberalizes certain restrictions on foreign investment in Mexico, permitting, if certain conditions are satisfied, the ownership by foreign investors of 100% of the capital stock of a

Mexican company. The law also sets forth which activities of the economy continue to be reserved to the Government or to Mexican investors and lists the different activities in which foreign investment may not exceed 10%, 25%, 30% and 49% of the total investment. The Government recognizes that Mexico is competing for capital with many other countries, including China and the newly independent nations in Eastern and Central Europe, but believes that, because of the increased competitiveness and productivity of its economy, Mexico will be able to maintain access to sources of investment capital.

If certain requirements are met, the Foreign Investment Law allows foreign investors to purchase equity securities traded on the Mexican Stock Exchange that would otherwise be restricted to Mexican investors. Thus, with the authorization of the Ministry of Commerce and Industrial Development, investment trusts may be established by Mexican banks acting as trustees. These trusts issue ordinary participation certificates that may be acquired by foreign investors; the certificates grant only economic rights to their holders and do not confer voting rights in the companies whose stock is held by the trusts (such voting rights being exercisable only by the trustee).

During 1995, direct foreign investment in Mexico notified to the NFIC and National Foreign Investment Register ("NFIR") totalled $5.5 billion (including temporary net imports of machinery and equipment of the in-bond industry). Total accumulated direct foreign investment in Mexico for the period 1990-1995, including new foreign investment projects authorized by the NFIC and NFIR, amounted to approximately $34.9 billion. Of the total direct foreign investment accumulated at the end of 1995, excluding that in securities, 36.1% has been channeled to industry, 53.3% to services, 9.4% to commerce, 0.6% to mining and 0.6% to agriculture and fishing.

Over the period from 1990 through 1994, foreign investment on the Mexican Stock Exchange totalled $21.6 billion. During 1995, net foreign investment in Mexico, as recorded in the balance of payments, represented a net outflow of $3.5 billion, comprised of direct foreign investment of $7.0 billion and an outflow of $10.4 billion in portfolio investments.

The following table shows, by country of origin, direct foreign investment in Mexico notified in 1995 and the cumulative totals from 1971 through December 31, 1995.

Direct Foreign Investment(1)

	Direct Foreign Investment Notified in 1995		Cumulative Total	
	(in millions of dollars)			
United States	$3,446.6	62.7%	$34,072.2	61.0%
United Kingdom	92.6	1.7	3,796.0	6.8
Germany	537.2	9.8	3,148.9	5.6
Japan	136.2	2.5	2,525.7	4.5
Switzerland	46.2	0.8	1,930.9	3.5
France	73.3	1.3	1,728.8	3.1
Netherlands	564.5	10.3	1,634.8	2.9
Spain	31.1	0.6	1,019.1	1.8
Canada	144.4	2.6	961.7	1.7
Sweden	26.4	0.5	411.6	0.7
Italy	(1.2)	0.0	79.6	0.1
Others	399.0	7.2	4,588.0	8.2
Total	$5,496.3	100.0%	$55,897.3	100.0%

Note: Totals may differ due to rounding.

(1) Excluding portfolio investment. The direct foreign investment corresponds to the notified investment by the NFIR and to temporary net imports of machinery and equipment of the in-bond industry.

Source: NFIC.

Subscriptions to International Institutions

At December 31, 1995, Mexico's subscription to the IMF (which corresponds to its quota) amounted to Special Drawing Rights ("SDR") 1.75 billion (approximately $2.60 billion).

Mexico's subscription to the capital of the World Bank was $2.3 billion at March 31, 1996. Of this amount, $139 million had been paid in at March 31, 1996, and the balance is callable only if required by the World Bank to meet its obligations for funds borrowed or loans guaranteed. At March 31, 1996, excluding cancellations, the World Bank had authorized gross loans to Mexico totalling $24.3 billion, of which $20.2 billion had been disbursed.

At March 31, 1996, Mexico's contribution to the capital of the International Development Association ("IDA") was $134.94 million and its subscription to the capital of the IFC was $24.8 million, of which $22.8 million was paid. Both the IDA and the IFC are affiliates of the World Bank. At March 31, 1996, the IFC had authorized credits to and made investments in Mexico totalling $1.8 billion.

Mexico's subscription to the capital of the IDB was $3.4 billion at March 31, 1996, one of the largest subscriptions of the IDB's Latin American members. Of such subscription, $234.9 million had been paid in cash at March 31, 1996, and the balance is callable if required to meet the IDB's obligations. Mexico's contribution to the IDB Fund for Special Operations was $315.9 million at March 31, 1996. The IDB authorized gross loans to Mexico, at March 31, 1996, of $9.4 billion (excluding cancellations), of which $7.0 billion have been disbursed. Mexico's contribution to the capital of the Inter-American Investment Corporation, an affiliate of the IDB, was $14.98 million at March 31, 1996, and the Inter-American Investment Corporation had made investments in Mexico totalling $45.8 million at March 31, 1996.

Mexico has also contributed capital to the Caribbean Development Bank and the EBRD. In addition, Mexico will contribute a total of $225 million of paid-in capital to the North American Development Bank ("NADB"), whose purpose is to improve environmental conditions along the United States-Mexico border. The contribution will be made in four annual payments of roughly equal size, the first two of which were authorized in October 1994 and in March 1996. The remaining contributions are expected to be made in October 1996 and in October 1997.

Exchange Controls and Foreign Exchange Rates

From late 1982 until November 10, 1991, Mexico maintained a dual foreign exchange rate system, with a "controlled" rate and a "free market" rate. The controlled exchange rate applied to certain imports and exports of goods, advances and payments of registered foreign debt, funds used in connection with the in-bond industry and payments of royalties and technical assistance under registered agreements. The free market rate was applicable to all other transactions.

The dual system assisted in controlling the value of the peso, especially in 1983 and 1985. In later years, the difference between the two rates was not significant. The average differential between the rates was 1.7% in 1988, 1.2% in 1989, 1.1% in 1990 and 0.3% at November 10, 1991. Mexico repealed its exchange control rules effective November 11, 1991 and now maintains only a free, or market, exchange rate.

Under the social accords that preceded the AUSEE, the Government implemented a schedule of gradual devaluation of the peso. A fixed exchange rate was maintained from February to December 1988. Thereafter, the intended annual rate of devaluation was gradually lowered from 16.7% in 1989 to 11.4% in 1990, 4.5% in 1991 and 2.4% in 1992. From October 1992 through December 20, 1994, the peso/dollar exchange rate was allowed to fluctuate within a band that widened daily. The ceiling of the band, which was the maximum selling rate, depreciated at a daily rate of 0.0004 pesos (equal to approximately 4.5% per year), while the floor of the band, i.e., the minimum buying rate, remained fixed. Banco de México agreed to intervene in the foreign exchange market to the extent that the peso/dollar exchange rate reached either the floor or the ceiling of the band.

Beginning on January 1, 1994, volatility in the peso/dollar exchange rate began to increase, with the value of the peso relative to the dollar declining at one point to an exchange rate of Ps. 3.375 to $ 1.00, a decline of approximately 8.69% from the high of Ps. 3.1050 reached in early February. This increased volatility was attributed to a number of political and economic factors, including a growing current account deficit, the relative overvaluation of the peso, investor reactions to the increase in U.S. interest rates, lower than expected economic growth in Mexico in 1993, uncertainty concerning the Mexican Presidential elections in August 1994 and certain related developments. See "Recent Developments—Events During 1994".

On December 20, 1994, increased pressure on the peso/dollar exchange rate led Mexico to increase the ceiling of the Banco de Mexico intervention band by Ps. 0.53. That action proved insufficient to address the concerns of foreign investors, and the demand for foreign currency continued. On December 22, the Government adopted a free exchange rate policy, eliminating the intervention band and allowing the peso to float freely against the dollar. The value of the peso continued to weaken relative to the dollar in the following days, at one point to Ps. 5.762 = $1.00, a decline in dollar terms in the value of the peso of approximately 39.88% from the exchange rate of Ps. 3.464 = $1.00 on December 20, 1994 prior to Mexico's decision to widen the intervention band. See "Recent Developments—Events During 1994". There was substantial volatility in the peso/dollar exchange rate during the first quarter of 1995, with the peso/dollar exchange rate falling to a low point of Ps. 7.588 = $1.00 on March 13, 1995. By the end of April and through September 1995, the exchange rate began to stabilize; however, the exchange rate began to show signs of renewed volatility in October and November 1995. The peso/dollar exchange rate fell to a low for the year of Ps. 8.14 = $1.00 on November 13, 1995. The peso/dollar exchange rate announced by Banco de México on September 13, 1996 (to take effect on the second business day thereafter) for the payment of obligations denominated in dollars and payable in pesos was Ps. 7.5139 = $1.00.

The following table sets forth, for the periods indicated, the end-of-period and average free market rates and controlled rates for the purchase of dollars, expressed in pesos per dollar.

Exchange Rates

Year	Free Market Rate End-of-Period	Free Market Rate Average(1)	Controlled Rate End-of-Period	Controlled Rate Average(1)
1991(2)	3.075	3.016	3.065	3.007
1992	3.119	3.094	—	—
1993	3.192	3.155	—	—
1994	5.325	3.222	—	—
1995	7.643	6.419	—	—
January	5.695	5.513	—	—
February	5.838	5.685	—	—
March	6.818	6.702	—	—
April	5.785	6.300	—	—
May	6.178	5.963	—	—
June	6.309	6.223	—	—
July	6.088	6.139	—	—
August	6.311	6.191	—	—
September	6.420	6.302	—	—
October	7.172	6.691	—	—
November	7.652	7.658	—	—
December	7.643	7.660	—	—
1996				
January	7.391	7.504	—	—
February	7.539	7.504	—	—
March	7.548	7.574	—	—
April	7.404	7.471	—	—
May	7.401	7.434	—	—
June	7.611	7.542	—	—
July	7.614	7.623	—	—
August	7.493	7.514	—	—

(1) Average exchange rates represent (a) with respect each of 1991-1994, the annual average of the daily free exchange rates published for statistical purposes by Banco de México and (b) with respect to each of January-December 1995 and January-August 1996, the monthly average of the daily exchange rates announced by Banco de México for the payment of obligations denominated in currencies other than pesos and payable within Mexico.

(2) Controlled rate figures for 1991 are for the period January 1 through November 10, 1991.

Source: Banco de México.

PUBLIC FINANCE

General

Budget Process. The Government's fiscal year is the calendar year. The budget process involves the participation and coordination on both an overall and a sectoral basis of all the federal ministries and agencies. The Ministry of Finance and Public Credit prepares the revenue bill which sets forth the revenues to be received by the Government and budget-controlled agencies (as defined below) during the succeeding fiscal year. The various ministries prepare expenditure estimates for their own operations and all of the budget-controlled agencies under their jurisdiction, within the policy orientation and program guidelines established by the Ministry of Finance and Public Credit. These expenditure requests are then reviewed by the Ministry of Finance and Public Credit which prepares the expenditure bill for the Government and the budget-controlled agencies.

Upon passage by both houses of Congress, the revenue bill becomes the Federal Annual Revenue Law, which provides the necessary authority for collecting taxes and other revenues and for contracting loans. Upon passage by the Chamber of Deputies, which under the Constitution is the only chamber required to approve it, the expenditure bill becomes the Federal Expenditure Budget, which provides the authority for incurring expenses during the relevant fiscal year. In addition, the Chamber of Deputies is obligated to review, on a yearly basis, the Public Account, which sets forth the expenditures actually made by the ministries and the budget-controlled agencies.

Under the Constitution, no payment may be made by any ministry or budget-controlled agency unless it is included in the Federal Expenditure Budget or approved under a law subsequently passed by Congress. However, under the Federal Expenditure Budget for 1996 and the Federal Annual Revenue Law for 1996, approved by the Congress in December 1995 (collectively, the "1996 Budget"), the President is authorized to approve additional expenditures for investment in projects having a social benefit or in programs considered to have priority or to be strategically important to the Government, such as rural development, marketing of agricultural products, education, health, housing, transportation and communications, infrastructure and the environment, if there are excess revenues with respect to certain items specified in the Federal Expenditure Budget. At the time the Public Account is submitted for review, the President must inform the Chamber of Deputies of any expenditures made pursuant to this authority.

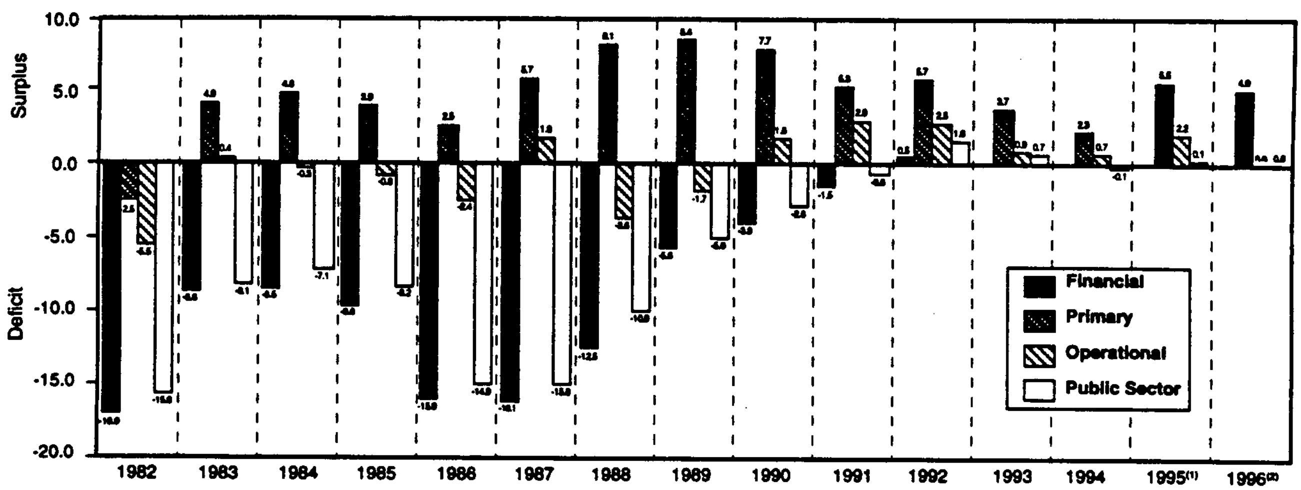
Treatment of Public Sector Agencies and Enterprises. The federal budget includes the revenues and expenditures of the Government and of certain agencies and enterprises, including, for example, Pemex, whose budgets require specific legislative approval ("budget-controlled agencies"). The overall public sector budget and the revenues and expenditures information included herein are prepared on a consolidated basis, including not only the revenues and expenditures of the Government and budget-controlled agencies, but also of other public sector agencies and enterprises whose budgets are not subject to legislative approval ("administratively-controlled agencies"), such as NAFIN, Bancomext and the Mexico City subway system. The budgets of administratively-controlled agencies are subject to Governmental review and, as with the budget-controlled agencies, approval of the Ministry of Finance and Public Credit is required for their borrowings. In some instances, borrowings of budget- and administratively-controlled agencies are guaranteed by Mexico whether by law or pursuant to contractual arrangements.

Measures of Fiscal Balance. Mexico reports its fiscal balance using four principal measures:

- *Financial balance*, which when in deficit is referred to as the Public Sector Borrowing Requirement ("PSBR"), is calculated as consolidated public sector revenues minus expenditures, including public sector interest expense, but excluding proceeds of privatization. Prior to 1993, this was the principal measure of fiscal balance. Beginning with 1993, however, in connection with the exclusion of the effects of financial intermediation from the calculation of Mexico's fiscal balance, the Government no longer calculates financial balance and has replaced this measure with public sector balance.

- *Public sector balance,* which prior to 1993 was referred to as "economic balance", is calculated in the same manner as financial balance, except that it does not take into account the effects of financial intermediation. Public sector balance has, since 1993, superseded financial balance as the principal measure of fiscal balance.
- *Primary balance,* which is the economic balance or, from 1993 onwards, public sector balance, less net borrowing costs of the Government, that is, the balance of revenues and expenditures of the non-financial public sector, excluding interest payments. The primary balance is also reported without giving effect to proceeds of privatizations. This balance is used to measure the effect of discretionary actions taken to control expenditures and increase revenues.
- *Operational balance,* which is similar to the primary balance but excludes only the inflationary component of interest payments on domestic debt of the non-financial public sector. This balance is used to correct the distortions that affect the measurement of public finances in an inflationary environment.

Public Finance Indicators 1982-1995
(percentage of GDP)



(1) Preliminary.
(2) Budget estimates under the ARE.
Source: Ministry of Finance and Public Credit.

Fiscal Policy

The rationalization of public expenditure and the augmentation of revenue have been important components of the Government's economic stabilization strategy. The Government's fiscal policy has had two fundamental objectives: to establish the macroeconomic foundation for sustained growth and to focus the Government's resources on those sectors in which the Government can have the greatest impact in supporting social development and the competitiveness of the Mexican economy.

At present, the Government's principal short-term fiscal policy objectives, in addition to countering inflation, are:

- strengthening economic activity and exports;
- maintaining an adequate surplus in the Government's primary balance and achieving a balanced public sector balance;

- promoting a new fiscal federalism; and
- increasing the efficiency and competitiveness of the economy and the effectiveness of the tax collection system.

See "Recent Developments—The Government's Response".

The Government's principal fiscal policy objectives over the medium-term are:

- a significant reduction of the inflation rate to levels approximating those of Mexico's major trading partners (although the Government has announced that the inflation rate for 1995 was 52.0%);
- a gradual recovery in GDP growth, although, based on preliminary figures, that real GDP declined by 6.9% in 1995;
- promoting private sector savings;
- the continued modernization of the economy; and
- strengthening social policy through increased real spending on social development.

1996 Budget

The principal objectives of the 1996 Budget, as approved by the Mexican Congress in December 1995, are to strengthen the conditions for a gradual and sustainable economic recovery with a particular emphasis on job creation through the establishment of tax incentives for businesses and private investment in productive activities, as well as through public investment. The 1996 Budget stresses careful management of public finance, macroeconomic stability, structural adjustment and modernization of the economy. The 1996 Budget projects a balanced budget for 1996.

Under the 1996 Budget, the Government estimates that it will devote Ps. 90.618 billion (23.8% of total budgetary programmable expenditure) to education and Ps. 82.551 billion (21.7% of total budgetary programmable expenditures) to health and social security, increases of 2.9% and 1.5%, respectively, in real terms from 1995 levels. The Government also estimates, under the 1996 Budget, that it will devote Ps. 18.942 billion to regional and urban development and Ps. 8.542 billion to social spending and nutrition. In addition, the 1996 Budget contemplates that Ps. 71.130 billion will be used for debt service of the Government and Ps. 17.121 billion for debt service of public sector agencies included in the 1996 Budget. Under the 1996 Budget, the Government is authorized to incur approximately $5 billion of net external debt in 1996.

The assumptions and targets underlying the 1996 Budget and targets embodied in the ARE, preliminary results for 1995 and certain interim 1996 results are set forth below:

Significant 1996 Budget Assumptions and Targets; Preliminary 1995 and 1996 Results

	Preliminary 1995 Results	1996 Economic Plan (ARE—Oct. 1995)	First Half 1996 Results
Real GDP growth	(6.9)%	3%	3.0%
Increase in NCPI	52.0%	20.5%	15.3%
Average export price of Mexican oil mix	$15.70/barrel	$13.25/barrel	$17.48/barrel
Current account deficit as % of GDP	0.3%	0.3%	n.a
Average exchange rate	Ps.6.419/$1.00	Ps. 7.7/$1.00	Ps.7.5051/$1.00
Average rate on 28-day Cetes	48.5%	25.6%	35.4%
Public sector balance as % of GDP	0.05%	0.0%	1.3%
Primary balance as % of GDP	5.5%	4.0%	5.0%

n.a. = Not available.
Source: Ministry of Finance and Public Credit.

The figures set forth above represent the Government's assumptions, as of October 1995, as to the evolution of the Mexican economy during 1996. While the Government believes these assumptions and targets were reasonable when made, some are beyond the control or significant influence of the Government and all for their outcome depend on future events. Accordingly, no assurance can be given that economic results will not differ materially from the figures set forth above. See "Recent Developments—Economic and Political Developments in 1995 and 1996"; "The Economy—Prices and Wages"; "The Economy—Interest Rates"; "External Sector of the Economy—Foreign Trade" and "External Sector of the Economy—Balance of International Payments" for a discussion of certain interim economic results for 1996.

Revenues and Expenditures

The following table sets forth for the consolidated public sector revenues and expenditures and total public sector borrowing requirements for the five fiscal years ended December 31, 1995 and budgetary estimates for 1996 based on the ARE.

Selected Public Finance Indicators

		1991	As a % of GDP	1992	As a % of GDP	1993	As a % of GDP	1994	As a % of GDP	1995(1)	As a % of GDP	Budget 1996(3)	As a % of GDP
						(in millions of pesos)(2)							
1.	Budgetary revenues	Ps.1,407.4	25.8%	Ps.1,466.1	26.1%	Ps.1,458.9	25.8%	Ps.1,487.5	25.4%	Ps.1,426.3	26.2%	Ps.1,389.1	24.5%
	Federal Government	735.3	13.5	804.1	14.3	802.7	14.2	989.3	16.9	960.7	17.6	934.2	16.5
	Public enterprises and agencies	672.2	12.3	662.0	11.8	656.3	11.6	498.2	8.5	465.6	8.5	454.9	8.0
2.	Budgetary public sector outlays	1,429.3	26.2	1,377.7	24.5	1,416.0	25.0	1,508.0	25.7	1,429.1	26.2	1,389.7	24.5
	a) Budgetary primary expenditures (excluding interest payments)	1,124.8	20.6	1,152.8	20.5	1,248.8	22.1	1,356.7	23.2	1,141.5	20.9	1,163.0	20.5
	Programmable	935.2	17.1	951.1	16.9	1,041.0	18.4	1,142.6	19.5	962.4	17.7	959.4	16.9
	Non-programmable	189.6	3.5	201.7	3.6	207.8	3.7	214.2	3.7	179.1	3.3	203.5	3.6
	b) Interest payments (budgetary sector)	304.5	5.6	224.9	4.0	167.3	3.0	151.3	2.6	287.6	5.3	226.7	4.0
3.	Budgetary primary surplus (1-2 (a))	282.6	5.2	313.3	5.6	210.2	3.7	130.7	2.2	284.9	5.2	226.1	4.0
4.	Off-budgetary primary surplus	5.1	0.1	6.9	0.1	0.6	0.0	4.7	0.1	14.3	0.3	2.7	0.0
5.	Total primary surplus (3+4)	287.7	5.3	320.2	5.7	210.8	3.7	135.4	2.3	299.1	5.5	228.8	4.0
6.	Total interest payments (budgetary and off-budgetary)	306.9	5.6	226.9	4.0	168.6	3.0	152.5	2.6	288.7	5.3	227.6	4.0
7.	Statistical discrepancy	(10.6)	(0.2)	(3.2)	(0.1)	(0.8)	0.0	9.2	0.2	(7.7)	(0.1)	0.0	0.0
8.	Public sector balance (economic surplus (deficit)) (on a cash basis) (5-6+7)	(29.8)	(0.6)	90.1	1.6	41.4	0.7	(8.0)	(0.1)	2.8	0.1	1.2	0.0
9.	Financial intermediation	(52.1)	(1.0)	(62.9)	(1.1)	—	—	—	—	—	—	—	—
10.	Financial balance (total public sector borrowing requirement) (on a cash basis) (8+9)	(82.0)	(1.5)	27.1	0.5	—	—	—	—	—	—	—	—

Note: Totals may differ due to rounding.
(1) Preliminary.
(2) Constant pesos with purchasing power at December 31, 1980.
(3) Budgetary estimates based on the ARE.
Source: Ministry of Finance and Public Credit.

Mexico registered an increase in its budgetary primary surplus (budgetary revenues less expenditures, excluding interest payments) for 1992, excluding privatization proceeds, of 10.9% in real terms over the surplus achieved during 1991. Government budgetary revenues in 1992 rose by 4.2% in real terms, and Government budgetary expenditures (including interest payments) decreased by 3.6% in real terms, in each case as compared with 1991 results.

For 1993, Mexico registered a budgetary primary surplus of Ps. 210.2 million (in constant pesos with purchasing power as of December 31, 1980), a decrease of 32.9% in real terms from the surplus achieved during 1992. The public sector surplus registered in 1993, Ps. 41.4 million (in constant 1980 pesos), represented a decrease of 54.1% in real terms from the surplus achieved in 1992. Government budgetary revenues declined by 0.5% in real terms, and Government budgetary expenditures (including interest payments) increased 2.8% in real terms, in each case as compared with 1992 results.

For 1994, Mexico registered a total primary surplus of Ps. 135.4 million (in constant 1980 pesos), a decrease of 35.8% in real terms from the surplus achieved during 1993. Mexico registered a public sector deficit of Ps. 8.0 million (in constant 1980 pesos) (excluding revenue from privatizations) in 1994, as compared to a surplus of Ps. 41.4 million (in constant 1980 pesos) (excluding revenue from privatizations) in 1993. In 1994, budgetary revenues increased by 2.0% in real terms, and budgetary expenditures (including interest payments) increased by 4.8% in real terms, in each case as compared to 1993.

In 1994, the public sector deficit represented 0.1% of GDP, as compared with a surplus of 0.7% of GDP in 1993. This reflected the impact of measures for fostering economic growth in 1994, as well as the higher financial cost of the public debt.

In 1995, budgetary public sector expenditures exceeded budgetary public sector revenues (excluding off-budget revenues and expenditures of the public sector) by approximately Ps. 799.8 million in nominal terms, or approximately Ps. 2.7 million in constant 1980 pesos, a decrease of 86.8% in real terms over the deficit registered in 1994. The public sector primary surplus was approximately Ps. 88.17 billion in nominal terms, or approximately Ps. 299.1 million in constant 1980 pesos, an increase of 121.7% over the primary surplus registered in 1994. The public sector surplus for 1995 was approximately Ps. 2.8 million in constant 1980 pesos, in contrast with the public sector deficit of approximately Ps. 8.0 million in constant 1980 pesos, registered in 1994.

During the first half of 1996, budgetary public sector revenues exceeded budgetary public sector expenditures (excluding off-budget revenues and expenditures of the public sector) by approximately Ps. 14.8 billion in nominal terms, or approximately Ps. 34.4 million in constant pesos with purchasing power as of December 31, 1980, a decrease of 10.6% in real terms over the surplus registered in the same period of 1995. The public sector primary surplus was approximately Ps. 57.0 billion in nominal terms, or approximately Ps. 132.1 million in constant 1980 pesos, a decrease of 19.7% in real terms over the surplus registered in the same period of 1995. The public sector surplus during the first half of 1996 was approximately Ps. 14.5 billion in nominal terms, or approximately Ps. 33.5 million in constant 1980 pesos, a decrease of 44.8% in real terms over the surplus registered in the same period of 1995.

Revenues, Taxation and Expenditures

Revenues. Fiscal measures have been taken to increase the Government's primary balance and promote private sector savings. As part of the PARAUSEE and the ARE, the Government has increased the prices of goods provided by the public sector to reflect international price levels. See "Recent Developments—The Government's Response—Fiscal Reform".

The following table shows the composition of budgetary public revenues for each of the five fiscal years ended December 31, 1995 and budgetary estimates for 1996 based on the ARE.

Consolidated Public Sector Revenues

	1991	1992	1993	1994	1995(1)	Budget 1996(2)
	(in millions of pesos)(3)					
Budgetary revenue	Ps. 1,407.4	Ps. 1,466.1	Ps. 1,458.9	Ps. 1,487.5	Ps. 1,426.3	Ps. 1,389.1
Oil sector	426.2	420.7	404.1	418.5	505.2	509.6
Export	142.2	117.7	96.2	91.7	151.7(4)	154.0
Domestic	284.0	302.9	307.9	326.8	353.5(5)	355.6
Non-oil sector	981.3	1,045.5	1,054.8	1,069.0	921.1	879.5
Federal government	663.9	712.9	713.7	719.7	621.4	605.0
Taxes	570.4	606.6	629.4	609.7	488.0	488.4
Income tax	271.4	319.0	347.4	335.0	255.4	237.9
Value added tax	178.0	146.1	144.5	150.6	141.2	167.3
Excise taxes	36.4	30.4	29.7	28.3	24.7	21.8
Import duties	62.6	70.9	63.7	57.9	37.8	35.9
Export duties	0.3	0.2	0.2	0.2	0.2	0.2
Payroll tax	7.3	8.2	6.6	0.0	0.0	0.0
Other	14.5	31.8	37.4	37.6	28.7	25.3
Non-tax revenue	93.5	106.4	84.3	110.1	133.4	116.6
Fees and tolls	26.2	25.1	24.7	20.2	18.6	18.7
Rents, interest and proceeds of assets sales	15.7	20.9	8.8	15.7	31.1	15.4
Fines and surcharges	38.6	60.3	50.8	74.1	83.7	82.6
Other	13.1	0.0	0.0	0.0	0.0	0.0
Public agencies other than Pemex	317.3	332.6	341.1	349.2	299.7	274.5

Note: Totals may differ due to rounding.
(1) Preliminary.
(2) Budgetary estimates based on the ARE.
(3) Constant pesos with purchasing power at December 31, 1980.
(4) Beginning in 1995, this figure represents the Government's aggregate revenues derived from Pemex's oil export activities, including taxes paid by Pemex in connection with those activities (the "Oil Revenues").
(5) Beginning in 1995, this figure represents Pemex's total revenues, less the Oil Revenues.
Source: Ministry of Finance and Public Credit.

Public sector budgetary revenues decreased in 1995 in real terms, but increased as a percentage of GDP, to 26.2% of GDP from 25.4% of GDP in 1994. This decrease in real terms was due to lower non-oil revenues, including reduced revenues from income taxes and import duties.

Taxation. Mexico's federal tax structure includes both direct taxation through income taxes and indirect taxation through VAT. Income taxes consist of the corporate tax and the individual tax. The corporate tax is levied at a flat rate and the individual tax is levied at progressive rates. For 1991, the corporate tax rate was set at 35% and the maximum individual income tax rate was reduced to 35%. These rates remained unchanged for most of 1992 and 1993. In 1993, Congress approved amendments to Mexico's income tax law decreasing the income tax rate for corporations and certain self-employed individuals to 34% and, for the next two years, reducing withholding taxes related to interest payments made by Mexican companies to non-residents of Mexico in certain circumstances to 4.9%. In connection with the ARE, the income tax law was amended to extend indefinitely the application of the 4.9% rate on such payments. See "The Economy—Prices and Wages".

The VAT is imposed at a fixed rate which is passed through the manufacturing and distribution chain until it becomes part of the purchase price to the consumer. Certain goods and services qualify for an exemption from or a reduced rate of VAT, such as exports, which are exempt from VAT. In 1991, the general VAT rate of 15% was reduced to 10%. In 1995, pursuant to the PARAUSEE, the general VAT rate was increased from 10% to 15% (except in the border region with the United States and in duty-free zones, where the VAT rate remained at 10%, and except with respect to pharmaceutical products and food, which continued to be subject to a VAT rate of 0%). See "Recent Developments—The Government's Response—Fiscal Reform".

In 1989, Mexico introduced the *Ley del Impuesto al Activo* (the "Asset Tax Law"), an alternative form of minimum income tax on corporations and individuals engaged in business activities, aimed at reducing tax evasion. The tax (the "Asset Tax") is assessed at a rate of 2% on the aggregate book value of the assets owned by a company in each fiscal year. Income tax payments may be credited against the Asset Tax. The Government believes that the Asset Tax has been helpful in increasing tax collections.

The overall objectives of tax policy in 1996 are to promote a new fiscal federalism, strengthen economic growth and promote exports, improve the legal security of taxpayers and simplify the tax regime and modernize tax administration. In order to promote fiscal federalism, the 1996 tax policy aims to improve the efficiency of the provision of services, contribute to the balancing of public finances, promote the competitiveness and growth of the Mexican economy and improve the distribution of income. Incentives for 1996 to promote employment and investment include the immediate depreciation of investments made by companies with income of up to Ps. 7 million, assets of less than Ps. 14 million and fewer than 210 employees, including such companies located in the three largest metropolitan areas. The Government intends to improve the legal security of taxpayers through the elimination of ambiguities in the tax laws and more transparent fiscal provisions. The tax administration process should become more efficient, and the tax collection process modernized, through the creation of a new tax administration body with technical autonomy.

Certain recent changes to the tax laws to strengthen the income of the states and their participation in the tax system will eliminate the exclusive power of the Federal Government to impose certain special taxes. Starting in 1997, local governments will be able to impose (in addition to the Federal taxes on these items), taxes on lodging services and new vehicles. Moreover, local governments will be able to require retail commercial establishments selling alcoholic beverages to obtain local licences. Finally, a percentage of excise tax collections will be directly allocated to the states.

In 1990, Mexico began to negotiate bilateral treaties for the avoidance of double taxation with several countries. Double taxation treaties with Canada, the United States, Germany, France, Sweden, Spain, the Netherlands, the United Kingdom, Switzerland, Italy, Norway, South Korea and Japan are in effect in Mexico and double taxation treaties with Belgium, Ecuador and Singapore have been executed and ratified by the Mexican Senate. The negotiation of treaties with Romania, Denmark, India, and Finland has already been completed. Tax treaties with Austria, Australia, Brazil, Israel, Ireland, Venezuela, Malaysia and Nicaragua are under negotiation. Finally, it is anticipated that tax treaties with Argentina, Colombia, Costa Rica, China, Hungary will be negotiated.

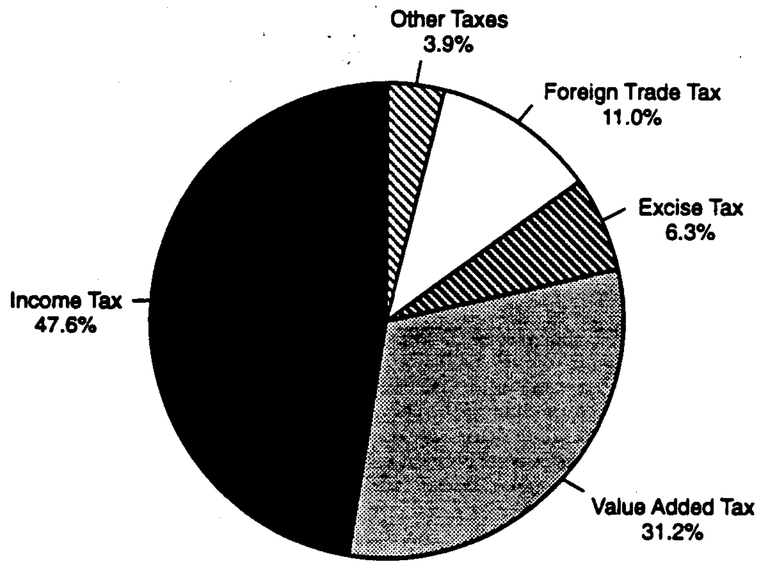
On July 3, 1996, the Government announced a support program for the benefit of taxpayers owing past-due taxes to the Government. Under this program, taxpayers who owe Ps. 5,000 or less in past-due taxes imposed before May 31, 1996 will be allowed to reduce by 50% the amount of the past-due taxes they owe, provided they pay the remaining balance (after such reduction) before the end of 1996. (In the event such taxpayers fail to pay such balance, the 50% reduction will be canceled and the full amount of taxes will become due.) Taxpayers owing past-due taxes greater than Ps. 5,000 but less than Ps. 500,000 will be allowed to restructure such past-due taxes over four years, provided that they agree to join the support program not later than October 31, 1996. Restructured amounts will bear interest at a fixed 30% interest rate until July 1997. In addition, with respect to restructured payments made from August to December 1996, taxpayers will be entitled to a discount in connection with each such payment, ranging from 25% in August to 15% in December, provided further that the discounted amount shall not exceed the amount of Ps. 125,000. Taxpayers owing past-due taxes greater than

Ps. 500,000 are entitled to the benefits of the program similar to those of taxpayers who owe between Ps. 5,000 and Ps. 500,000 but only with respect to the first Ps. 500,000.

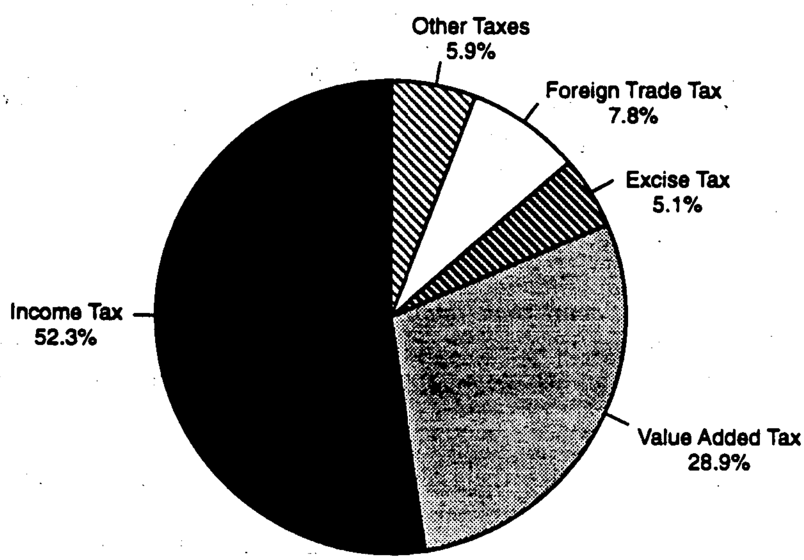
The following chart illustrates the changes in the composition of tax revenues between 1991 and 1995.

Composition of Tax Revenues

1991



1995



Source: Ministry of Finance and Public Credit.

Expenditures. The following table shows the composition of consolidated public sector expenditures for each of the five fiscal years ended December 31, 1995 and budgetary estimates for 1996 based on the ARE.

Consolidated Public Sector Expenditures

	1991	1992	1993	1994	1995(1)	Budget 1996(2)
		(in millions of pesos)(3)				
Budgetary expenditure	Ps. 1,429.3	Ps. 1,377.7	Ps. 1,416.0	Ps. 1,508.0	Ps. 1,429.1	Ps. 1,389.7
Current expenditure	1,218.0	1,155.5	1,229.2	1,268.7	1,232.7	1,211.5
Salaries	284.0	233.1	253.5	261.8	228.0	240.1
Federal Government	144.0	83.7	102.7	108.7	96.3	123.3
Public agencies	140.0	149.4	150.8	153.1	131.7	116.8
Interest	304.5	224.9	167.3	151.3	287.6	226.7
Federal Government	273.7	201.0	144.9	124.5	238.4	182.7
Public agencies	30.8	23.9	22.4	26.8	49.2	44.0
Current transfers, net	106.7	183.3	255.4	301.2	245.3	275.7
Total	130.7	214.5	296.3	343.7	300.2	310.0
To public sector	24.0	31.2	40.9	42.5	54.9	34.3
States' revenue sharing	170.6	181.7	189.2	191.3	166.9	176.9
Acquisitions	119.0	110.4	116.3	111.0	99.3	98.5
Federal Government	9.4	10.6	11.6	12.5	10.9	11.5
Public agencies	109.7	99.8	104.7	98.5	88.4	87.0
Other current expenditures	233.2	222.2	247.4	252.1	205.6	193.5
Federal Government	84.2	66.2	88.0	91.6	57.7	63.4
Public agencies	148.9	156.1	159.4	160.5	147.9	130.2
Capital expenditure	211.3	222.2	186.9	239.3	196.3	211.0
Federal Government	93.1	115.2	89.0	122.8	95.1	105.1
Public agencies	118.2	106.9	97.9	116.5	101.3	105.8

Note: Totals may differ due to rounding.
n.a. = Not available.
(1) Preliminary.
(2) Budgetary estimates based on ARE.
(3) Constant pesos with purchasing power at December 31, 1980.
Source: Ministry of Finance and Public Credit.

The expenditures of the Government and public agencies included in the Federal Budget as a percentage of real GDP increased from 25.8% in 1991 to 26.2% in 1995 and are currently projected at 24.5% of GDP for 1996. Interest service on public debt of the budgetary sector has been reduced from 5.6% of GDP in 1991 to 5.3% of GDP in 1995 and is currently projected at 4.0% of GDP in 1996. Public sector expenditures, excluding interest payments, in 1995 equalled 20.9% of GDP, as compared with 20.6% of GDP in 1991, and are currently projected at 20.5% of GDP in 1996. The Government increased social and rural development expenditures in real terms in 1995 and continued this trend in 1996. See "— 1996 Budget" above.

Solidarity and Other Social Development Expenditures. In 1988, the Government instituted the National Solidarity Program in order to address the most urgent social needs of those living in the poorest rural communities and urban neighborhoods. The program is distinguished from previous social welfare programs by its concept of shared responsibility by the communities involved. Representatives of the communities are involved in identification of priorities and administration of projects, and the communities are required to make their own contributions, in funds or labor, to each of the projects undertaken. To date, the principal initiatives undertaken under Solidarity have been in health care, education, food distribution and nutrition, drinking water and sanitation and electrification. The Government's contribution to Solidarity's expenditures rose from Ps. 2.6 billion in 1990 to Ps. 9.4 billion in 1994.

In addition to the National Solidarity Program, during 1994 expenditures of Ps. 16.2 billion and Ps. 8.1 billion were made, respectively, for rural development and urban development, as compared with expenditures of Ps. 9.9 billion and Ps. 4.7 billion, respectively, for these purpose during 1993.

Effective May 26, 1992, the Ministry of Urban Development and Ecology was replaced by the Ministry of Social Development. The new Ministry assumed the functions of the old Ministry and is also charged with promoting, with the assistance of state and local governments, the development of the most disadvantaged members of Mexican society. The new Ministry administers the National Solidarity Program.

Health and Labor, Education and Other Social Welfare Expenditures. The Government administers almost all of the country's social security and welfare programs. The Government directly funds welfare and social service programs, primarily from current revenues, and also transfers funds to social service agencies with separate sources of income. The principal social welfare expenditures of the Government are for health and labor, on which Ps. 51.0 billion (or 21.3% of budgetary programmable expenditures) was spent in 1994, and for education, on which Ps. 55.4 billion (or 23.1% of budgetary programmable expenditures) was spent in 1994.

The principal social security institutions are the *Instituto Mexicano del Seguro Social* (Mexican Institute of Social Security), the *Instituto de Seguridad y Servicios Sociales para los Trabajadores del Estado* (State Employees Institute of Social Security and Services), and *Lotería Nacional para la Asistencia Pública* (National Lottery). Programs provided by these entities include medical and hospital services, health and maternity insurance and preventive health services. In seeking to provide health services to more of the population, the Government is coordinating the activities of various public agencies and is organizing a national system of health services. The Government also provides pension payments, which represent a small portion of social security outlays and are presently estimated to be adequately funded. Despite these advances, Mexico does not have an unemployment benefits scheme or a fully developed social welfare system.

The Government devotes a significant share of its resources to education and vocational training. The Government's immediate goals include providing elementary and secondary education to all children and providing increased technical training tailored to the changing demands of the Mexican economy. Based on preliminary estimates from the 1990 census, 87.3% of the population over 6 years of age is literate.

The *Ley General de Educación* ("General Education Law"), effective July 14, 1993, introduces "Educational Federalism" to the Mexican educational system. "Educational Federalism" is based on the premise that it is the responsibility of each state to provide for the education of its population. The law also encourages the participation of teachers, parents and social workers to improve the educational system. The General Education Law requires every Mexican to attend school for at least 9 years (primary and secondary school) and provides basic directives concerning educational programs.

To improve living conditions for low-income people and provide loans for property and housing on reasonable terms, the Government established the National Workers' Housing Fund Institute in 1972. The fund managed by the Institute is supported by contributions from all employers equivalent to 5% of all salaries paid. In 1995, the National Workers' Housing Fund Institute loaned Ps. 8.5 million for housing purchases, construction and repair. See "The Economy—Employment and Labor".

Government Agencies and Enterprises

The following chart shows for each of the principal Governmental agencies and enterprises outside of the financial sector, its principal business, the percentage of Government ownership, its size (based on total assets at its latest fiscal year end), its net contribution or expense to the public sector financial balance and the amount of its outstanding borrowing that is guaranteed or otherwise the responsibility of the Government.

Principal Government Agencies and Enterprises
At December 31, 1995

Agency/ Enterprise	Principal Business	% of Government Ownership	Total Assets	Primary Surplus(1)	Outstanding Guaranteed Debt
			(in millions of dollars)		
Pemex	Production, refining and distribution of crude oil and derivatives	100.0%	$31,979.1	$1,836.8	$2,286.1
CFE	Production and sale of electricity	100.0	36,998.1	660.0	1,285.1
Ferronales	Railway services	100.0	7,188.0	121.7	79.5
CONASUPO	Marketing/sales of basic agricultural products	100.0	900.9	(1.3)	0.0
Caminos y Puentes Federales ("Capufe")	Administration of toll highways	100.0	2,850.8	23.8	0.0
Aeropuertos y Servicios Auxiliares	Airport services	100.0	1,122.7	128.7	0.0
Productora e Importadora de Papel, S.A. de C.V.	Marketing/sales of printing paper for periodicals, books and magazines	100.0	129.6	9.5	0.0

(1) Surplus after Government transfers, less interest payments.
Source: Ministry of Finance and Public Credit.

Privatization Program. Mexico is a mixed economy in which the private sector plays a major role. The areas where the private sector is dominant include agriculture, forestry, fishing, manufacturing, construction, commerce, commercial banking and other services. Since the privatization of Mexico's commercial banks beginning in mid-1991, the private sector has again returned to dominance in the field of financial services.

The size of the public sector in Mexico has greatly diminished, with the number of public entities having decreased from 1,155 in December 1982 to 195 at July 31, 1996. Between 1982 and July 31, 1996, the Government divested itself of 1,043 Government enterprises, through sales to the private sector, mergers or liquidations. In addition, the number of areas in which the public sector has a direct participation has been reduced, reflecting the policy of concentrating the resources of the Government in strategic and priority sectors, such as social programs and infrastructure.

As a result of the above and of the efforts to strengthen public finances, the share of expenditures of the Government and public agencies included in the Federal Budget, excluding interest payments, in GDP fell from 30.0% in 1982 to 20.9% in 1995.

The divestiture of Government enterprises has had an important impact on public finances. Significant revenues have been obtained from the sale of privatized companies to private investors, and the Government has been freed of the ongoing obligations to support distressed entities and fund investments needed for modernization and expansion.

Some of the more important public enterprises privatized in recent years are: *Renault de México* (automobiles) in 1983; *Nacional Hotelera* (hotels) in 1985; *Cementos Anáhuac del Golfo* (cement) in 1986; *Finacril* (synthetic fibers) and *Grupo Atenquique* (paper products) in 1987; *Ingenio El Potrero* (sugar) and *Tereftalatos Mexicanos* (petrochemicals) in 1988; *Aeroméxico* and *Mexicana de Aviación* (airlines), *Grupo Dina* (trucks and tractors) and *Minera Lampazos* (mining) in 1989; *Compañía Minera de Cananea* (copper), *Industrias Conasupo* (foodstuffs) and *Telmex* (telecommunications) in 1990; *Altos Hornos de México* (steel) and *Sicartsa* (steel) in 1991; and *Aseguradora Mexicana* (insurance), *Compañía Minera Autlán* (mining), and a group of state-owned media companies, including *Operadora de Teatros* (a theater management company), *Televisión Azteca* (the national television network) and *Estudios América* (a film studio) in 1993. Firms in the fishing and sugar industries were also sold.

By July 6, 1992, the Government had privatized all eighteen state-owned commercial banks. See "Financial System—Banking System".

The proceeds from the sale of Government enterprises were not applied to current expenditures of the Government, but rather from 1991 through 1994 were segregated from the Government's general funds and held in a contingency fund. Through the end of 1994, the Government applied $ 20.8 billion of the accumulated contingency fund to the gross amortization of its internal debt. The proceeds from the sale of Government enterprises since January 1995 have been directed to capitalize the Infrastructure Investment Fund that was established in September 1995. See "Recent Developments—Economic and Political Developments in 1995 and 1996". At July 31, 1996, there were 35 Government enterprises in the process of privatization.

In January 1995, the Government announced a comprehensive privatization program intended to give new impetus to the Government's privatization efforts. This program is to be implemented within a three-year period starting from the announcement date. See "The Economy—The Role of the Government in the Economy; Privatization".

PUBLIC DEBT

General

Mexico's General Law of Public Debt, effective January 1, 1977, is designed to improve control of the public sector's access to domestic and international financial markets. Public borrowing programs contained in the Annual Revenue Law must be submitted annually to Congress for approval. The Executive Branch, through the Ministry of Finance and Public Credit, formulates a financial program on the basis of this authorization. The General Law of Public Debt also requires that the President inform Congress annually of the status of the indebtedness of the Government and budget-controlled agencies when presenting the Public Account and proposing the Annual Revenue Law and report to Congress on a quarterly basis on the status of such indebtedness. See "Public Finance—General—Budget Process".

The General Law of Public Debt specifies that the ministries comprising the Government may only contract financings through the Ministry of Finance and Public Credit. Budget- and administratively-controlled agencies may only incur external indebtedness after obtaining the prior authorization of the Ministry of Finance and Public Credit.

Internal Debt

Internal debt is presented herein on a "net" basis, and includes the internal debt of the Government and budget-controlled agencies, excluding Banco de México's General Account Balance (which was negative as of June 30, 1996, indicating moneys owing to the Government) and the assets of the Retirement Savings System Fund. In addition, net internal debt includes Tesobonos (short-term notes denominated in dollars but payable in pesos indexed to the value of the dollar) and other securities sold to the public in primary auctions, but not such debt allocated to Banco de México for its use in regulating liquidity (*"Regulación Monetaria"*). See footnote 2 to the table "Net Internal Public Debt" below.

Total net internal debt of the Government and budget-controlled agencies at December 31, 1995 was the equivalent of $17.3 billion, a decrease of $14.1 billion from the $31.4 billion outstanding net internal public debt as of December 31, 1994. At June 30, 1996, total net internal debt was the equivalent of $17.9 billion. (Neither figure includes Tesobonos sold by Banco de México in open-market operations pursuant to *Regulación Monetaria*, which amounted to approximately $12 billion as of December 31, 1994).

The outstanding principal amount of Tesobonos was reduced sharply during 1995, from $29.2 billion as of December 31, 1994 to $246 million as of December 31, 1995, a cumulative 99.2% decrease. By February 16, 1996, there were no outstanding Tesobonos, and Mexico has not issued Tesobonos since that date.

The following table summarizes the net internal public debt of the Government and the budget-controlled agencies at each of the dates indicated.

Net Internal Public Debt

	December 31,					June 30,
	1991	1992	1993	1994	1995(1)	1996(1)
	(in billions of dollars)(2)					
Total net internal debt(2)	$50.5	$40.5	$40.1	$31.4	$17.3	$17.9
Government	48.7	39.4	39.4	30.9	17.1	17.6
Peso-denominated	48.4	39.1	38.2	13.7	16.8	17.6
Foreign currency-denominated (Tesobonos)(2)	0.3	0.3	1.2	17.2	0.2	0.0
Budget-controlled agencies	1.8	1.1	0.7	0.5	0.2	0.3
Peso-denominated	0.9	0.3	0.4	0.2	0.1	0.1
Foreign currency-denominated	0.9	0.8	0.3	0.3	0.1	0.2

Note: Totals may differ due to rounding.
n.a. = Not available.

(1) Preliminary.
(2) Does not include Tesobonos sold by Banco de México in open-market operations pursuant to Regulación Monetaría, which amounted to approximately $12 billion as of December 31, 1994. Regulación Monetaría does not increase the Government's overall level of internal debt, because Banco de México must reimburse the Government for any allocated debt that Banco de México sells into the secondary market and that is presented to the Government for payment. If Banco de México undertakes extensive sales of allocated debt in the secondary market, however, Regulación Monetaría can result in a situation in which the level of outstanding internal debt is higher than the Government's figure for net internal debt.

Source: Ministry of Finance and Public Credit.

External Debt

The following table sets forth a summary of the external public debt of Mexico, which includes the external debt of the Government, the budget-controlled agencies and the administratively-controlled agencies and a breakdown of such debt by currency. See footnote 1 to the table "Summary of External Public Debt" below.

Summary of External Public Debt(1)

By Type

	Long-Term Direct Debt of the Federal Government	Long-Term Debt of Budget Controlled Agencies	Other Long-Term Public Debt(2)	Total Long-Term Debt	Total Short-Term Debt	Total Long- and Short-Term Debt
	(in millions of dollars)					
December 31,						
1991	$48,778	$7,011	$22,472	$78,261	$1,727	$ 79,988
1992	41,281	7,485	23,523	72,289	3,466	75,755
1993	40,528	7,112	26,861	74,501	4,246	78,747
1994	40,617	9,138	29,327	79,082	6,354	85,436
1995	54,314	8,318	31,105	93,737	7,197	100,934
June 30, 1996	55,480	8,023	28,787	92,290	6,195	98,485

By Currencies(3)

	December 31,										June 30, 1996	
	1991		1992		1993		1994		1995			
	(in millions of $)	(%)	(in millions of $)	(%)	(in millions of $)	(%)	(in millions of $)	(%)	(in millions of $)	(%)	(in millions of $)	(%)
U.S.-Dollars	64,044	80.1	61,117	80.7	64,818	82.3	70,569	82.6	86,902	86.1	83,843	85.2
Japanese Yen	5,895	7.4	5,904	7.8	6,589	8.4	7,153	8.4	6,288	6.2	7,433	7.5
Deutsche Marks	3,177	4.0	2,971	3.9	2,460	3.1	2,699	3.2	2,593	2.6	2,371	2.4
Pounds Sterling	1,092	1.4	838	1.1	594	0.8	524	0.6	478	0.5	464	0.5
French Francs	2,974	3.7	2,537	3.4	2,338	3.0	2,511	2.9	2,620	2.6	2,409	2.4
Swiss Francs	576	0.7	312	0.4	313	0.4	337	0.4	370	0.4	326	0.3
Others	2,230	2.8	2,077	2.7	1,635	2.1	1,643	1.9	1,683	1.6	1,639	1.7
Total	79,988	100.0	75,755	100.0	78,747	100.0	85,436	100.0	100,934	100.0	98,485	100.0

Note: Totals may differ due to rounding.

(1) External debt denominated in foreign currencies other than dollars has been translated into dollars at exchange rates as of each of the dates indicated. External public debt does not include (a) repurchase obligations of Banco de México with the IMF, of which the equivalent of $13.9 billion was outstanding at August 2, 1996 (using an exchange rate of one SDR = $ 1.4613), (b) external borrowings by the public sector after June 30, 1996 of approximately $6.0 billion in capital market financings and (c) loans from the Commodity Credit Corporation to private sector Mexican banks. External debt is presented herein on a "gross" basis, and includes external obligations of the public sector at their full outstanding face or principal amount. For certain informational and statistical purposes, Mexico sometimes reports its external public sector debt on a "net" or "economic" basis, which is calculated as the gross debt net of certain financial assets held abroad. These financial assets include the value of principal and interest collateral on restructured debt (see "—External Debt Restructuring and Debt and Debt Service Reduction Transactions" below) and Mexican public sector external debt that is held by public sector entities but that has not been cancelled.

(2) Including development banks and other administratively-controlled agencies whose finances are consolidated with the Government.

(3) Adjusted to reflect the effect of currency swaps.

Source: Ministry of Finance and Public Credit.

The total external debt of the public sector consists of the external portion of the long-term indebtedness incurred directly by the Government, the external long-term indebtedness incurred by budget-controlled agencies and the external long-term indebtedness incurred directly or guaranteed by administratively-controlled agencies (including but not limited to national development banks), and the short-term debt of the public sector. Private sector debt guaranteed by the Government is not included unless and until the Government is called upon to make payment under its guaranty. For purposes hereof, long-term debt includes all debt with maturities of one year or more from the date of issue.

During the period from 1988 to 1990, much of Mexico's bank credits were transformed into bonds through two debt exchange transactions. See "—External Debt Restructuring and Debt and Debt Service Reduction Transactions" below. At December 31, 1995, commercial banks held approximately 9.9% of Mexico's total public sector external debt (excluding bonds issued in debt exchange transactions), multilateral and bilateral creditors (excluding the IMF) held 33.9%, bondholders (including commercial banks holding bonds issued in debt exchange transactions) held 56.1% and private placement investors and suppliers held the remainder (0.1%).

Outstanding gross external debt decreased by approximately $2.4 billion in the first six months of 1996, from $100.9 billion at December 31, 1995 to 98.5 billion at June 30, 1996. Of this amount, $92.3 billion represented long-term debt and $6.2 billion short-term debt, as compared with $93.7 billion of long-term debt and $7.2 billion of short-term debt as of December 31, 1995. These figures do not include (a) repurchase obligations of Banco de México with the IMF, of which the equivalent of $13.9 billion was outstanding at August 2, 1996; (b) external borrowings by the public sector after June 30, 1996 of approximately $6.0 billion in capital market financings; and (c) loans from the Commodity Credit Corporation to private sector Mexican banks. New external borrowings by the public sector in 1994 through 1995 originated mainly from multilateral and bilateral sources and new issuances in the international capital markets.

Overall, total public debt (gross external debt plus net internal debt) represented 35.2% of nominal GDP as of June 30, 1996.

Since March 31, 1996, Mexican public sector borrowers have entered into several capital market financings. In March 1996, the Government issued Yen 40 billion of 6% notes due 2002, Pemex issued Itl 300,000,000,000 of 12.25% Italian-Lira denominated notes due 1998 and Bancomext issued DM 300,000,000 of floating rate notes due 1999. In May 1996, the Government issued $1.75 billion of 11.50% Global Bonds due 2026 in exchange for the cancellation of an approximate aggregate principal amount of $2.365 billion of its Collateralized Floating Rate Bonds Due 2019 and Collateralized Fixed Rate Bonds Due 2019. In June 1996, the Government issued Yen 100 billion of 6.75% bonds due 2006 and Bancomext issued $250 million of 11.25% bonds due 2006. In August 1996, the Government issued $6 billion Floating Rate Notes due 2001.

The following table summarizes the amortization schedule of Mexico's public sector external debt outstanding as at December 31, 1995:

Amortization Schedule of Total Public Sector External Debt(1)
(in millions of dollars)

	Outstanding as at December 31, 1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Other Years
TOTAL EXTERNAL DEBT (A & B)	100,933.7	15,806.1	10,261.5	11,521.2	9,385.5	6,563.4	3,529.4	3,049.0	2,205.9	2,789.8	1,425.9	1,369.3	756.1	2,736.1	299.2	29,235.3
A. COMMERCIAL BANK DEBT	10,019.9	4,555.8	535.5	555.7	660.4	1,100.5	628.1	561.3	528.4	540.1	210.7	143.4	0.0	0.0	0.0	0.0
Restructured	3,398.1	183.1	265.9	360.6	359.4	320.9	355.3	403.3	408.9	420.5	177.2	143.0	0.0	0.0	0.0	0.0
Non-restructured(2)	5,129.1	4,370.4	184.2	50.2	20.4	500.4	0.5	0.7	0.7	0.8	0.4	0.4	0.0	0.0	0.0	0.0
Direct and syndicated	3,034.9	2,276.2	184.2	50.2	20.4	500.4	0.5	0.7	0.7	0.8	0.4	0.4	0.0	0.0	0.0	0.0
Short-term	1,109.2	1,109.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bankers acceptances	985.0	985.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New Money	1,492.7	2.3	85.4	144.9	280.6	279.2	272.3	157.3	118.8	118.8	33.1	0.0	0.0	0.0	0.0	0.0
1983-1987	556.1	2.3	11.5	28.1	161.8	160.4	153.5	38.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1990-1991	936.6	0.0	73.9	116.8	118.8	118.8	118.8	118.8	118.8	118.8	33.1	0.0	0.0	0.0	0.0	0.0
B. OTHER CREDITORS(3)	90,913.8	11,250.3	9,726.0	10,965.5	8,725.1	5,462.9	2,901.3	2,487.7	1,677.5	2,249.7	1,215.2	1,225.9	756.1	2,736.1	299.2	29,235.3
Official	44,729.1	7,273.8	5,738.1	7,488.6	8,013.6	4,000.5	2,617.9	2,127.5	1,556.7	1,347.4	1,215.2	1,148.3	756.1	478.2	299.2	668.0
World Bank and IDB	18,793.4	1,939.0	2,068.8	2,049.8	2,009.6	1,851.8	1,693.7	1,537.0	1,069.7	968.6	954.5	921.3	663.2	432.5	260.2	373.7
Bilateral	15,435.7	5,334.8	2,014.3	1,833.8	1,649.0	1,263.7	924.2	590.5	487.0	378.8	260.7	227.0	92.9	45.7	39.0	294.3
Exchange Stabilization Fund	10,500.0	0.0	1,655.0	3,605.0	4,355.0	885.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private Placements	4.7	4.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Suppliers	89.0	17.6	12.1	8.3	10.6	10.2	10.2	10.2	7.5	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	46,091.0	3,954.2	3,975.8	3,468.6	700.9	1,452.2	273.2	350.0	113.3	900.0	0.0	77.6	0.0	2,257.9	0.0	28,567.3
Fixed Rate Bonds Due 2019	20,386.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20,386.5
Floating Rate Bonds Due 2019	7,853.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7,853.8
Other	17,850.7	3,954.2	3,975.8	3,468.6	700.9	1,452.2	273.2	350.0	113.3	900.0	0.0	77.6	0.0	2,257.9	0.0	327.0
C. TOTAL	100,933.7	15,806.1	10,261.5	11,521.2	9,385.5	6,563.4	3,529.4	3,049.0	2,205.9	2,789.8	1,425.9	1,369.3	756.1	2,736.1	299.2	29,235.3

Note: Totals may differ due to rounding.

(1) External debt of Mexico is presented herein on a "gross" basis, and includes external obligations of the public sector at their full outstanding face or principal amounts. For certain informational and statistical purposes, Mexico sometimes reports its external public sector debt on a "net" or "economic" basis, which is calculated as the gross debt net of certain financial assets held abroad. These financial assets include the value of principal and interest collateral on restructured debt (see "—External Debt Restructuring and Debt and Debt Service Reduction Transactions" below) and Mexican public sector external debt that is held by public sector entities but that has not been cancelled. External public debt does not include (a) repurchase obligations of Banco de México with the IMF, of which the equivalent of \$13.9 billion was outstanding at August 2, 1996 (using an exchange rate of SDR 1 = \$1.4613), (b) external borrowings by the public sector after December 31, 1995 of approximately \$11.8 billion in capital market financings and (c) loans from the Commodity Credit Corporation to private sector Mexican banks. Mexico only updates this table semi-annually (in June and December); for this reason data included in the Public Debt section may not be reflected in this table.

(2) Expected to be refinanced.

(3) Public sector outstanding includes book movements resulting from the cost of collateral for bonds issued and debt cancellation operations conducted pursuant to the 1989-92 Financing Package for Mexico.

Source: Ministry of Finance and Public Credit.

In each of 1987, 1988 and 1989, interest payments on total external public sector debt absorbed, on average, approximately 74.1% of the Government's total current account receipts. In 1990, interest payments on external public sector debt accounted for only 50.3% of such receipts as a result of interest savings following implementation of the 1989-92 Financing Package for Mexico and rising foreign exchange receipts. In 1991, interest payments on external public sector debt accounted for 65.1% of the Government's total current account receipts, mainly as a result of lower foreign exchange receipts. In 1993 and 1994, interest payments on external public sector debt accounted for 73.1% and 73.7%, respectively, of such receipts. See "—External Debt and Debt Service Reduction Transactions" below and "The External Sector of the Economy—Balance of International Payments".

External Debt Restructuring and Debt and Debt Service Reduction Transactions

In August 1982, Mexico requested and received from its major commercial bank creditors a 90-day rollover of principal payments on most public sector external debt; bilateral credits were also restructured. No such request was made to bondholders or multilateral financial institutions (primarily the World Bank, the IMF and the IDB) and no restructuring of bond debt or of debt owed to multilateral institutions has taken place since then.

Over the five years following 1982, Mexico and its commercial bank creditors concluded three separate debt restructuring and new money exercises. In 1983, 1985 and 1987, Mexico and the banks agreed to extend the maturities of agreed-upon portions of the outstanding public sector external debt and, in some cases, to alter the interest rates and currencies applicable to the restructured debt. In connection with each restructuring exercise (and with the 1989-92 Financing Package referred to below), Mexico requested and received 90-day rollovers of maturing principal payments pending finalization of documentation for the respective restructurings. During this period, Mexico also entered into agreements with the Paris Club to reschedule payments on loans made or guaranteed by official, bilateral creditors to the Mexican public sector and received support (in the form of structural adjustment and project loans from the World Bank and the IDB and standby facilities, extended fund arrangements and contingency facilities with the IMF) from its multilateral creditors.

The 1989-92 Financing Package for Mexico, implemented in March 1990, was intended to reduce the principal amount of, and the debt service burden associated with, Mexico's commercial bank debt, and to secure sufficient future financing to allow Mexico to resume sustained economic growth. The Financing Package offered commercial banks options for debt reduction, interest reduction and new money. Under the interest reduction option, existing indebtedness was exchanged for 30-year bonds ("Par Bonds") that, in the case of bonds denominated in dollars, bear interest at the fixed rate of 6.25% per annum. Under the principal reduction option, existing indebtedness was exchanged for 30-year bonds ("Discount Bonds") having a principal amount equal to 65% of the principal amount of such existing indebtedness and an interest rate of LIBOR plus 13/16% per annum. Under the new money option, certain banks committed to provide Mexico with new money (through a combination of bonds, traditional bank credits and bank credits prepayable to fund trade credits or public sector loans) over three years in an aggregate amount equal to 25% of their holdings of then existing indebtedness.

The Discount Bonds and Par Bonds are secured, as to repayment of principal at maturity, by zero-coupon bonds sold to Mexico by the U.S. Treasury Department. Cash and short-term investments under the control of the FRBNY, as collateral agent, have been pledged to secure the payment of approximately 18 months of interest on the Discount and Par Bonds. In addition, the Discount Bonds and Par Bonds also provide for certain additional, limited contingent payments based on the performance of Mexico's oil export revenues.

Of the approximately $48 billion of external debt held by Mexico's commercial bank creditors in 1989, approximately $43 billion participated in the principal and interest reduction options; approximately $20.6 billion was exchanged for Discount Bonds and the balance was exchanged for Par Bonds.

Thus, Mexico was able to reduce the principal amount of its external debt by approximately $7 billion. The balance of Mexico's commercial bank creditors agreed to participate in the new money option and to lend Mexico approximately $1.07 billion in new credits over four years.

In addition to Mexico's strong commitment to work closely with its commercial bank and multilateral creditors on the path to economic recovery, debt reduction has been another of its goals. In mid-1986, Mexico began to authorize the conversion of debt into equity investment as a means of reducing its stock of external obligations. The total value of debt-equity swaps grew from $363.2 million in 1986 to $1.48 billion in 1987, when the debt equity conversion program was suspended in order to evaluate the impact on the economy of the program as then structured. In March 1990, Mexico introduced a new debt-equity swap program which was implemented by two auctions of transferable debt conversion rights held in July and October 1990. Proceeds of the conversions could be used only to acquire public sector assets being privatized and to finance infrastructure projects. Pursuant to the program, a total of $3.5 billion of conversion rights were awarded in the auctions at a discount of approximately 52% of the nominal value of the eligible debt to be converted. Only approximately one-third of these rights (which expired in April 1992) were exercised since Mexico's debt generally traded well above 52% after the issuance of the rights. In addition, since 1989 and through December 31, 1995 approximately $1,263.6 million of debt was acquired by the Government in exchange for peso deposits to non-profit private or public organizations in the principal amount thereof to be used to finance approved education, environmental, housing, public works and other social projects undertaken by nonprofit organizations.

Under a debt-for-debt exchange which took place in the first quarter of 1988, Mexico retired a net amount of $1.1 billion of commercial bank debt at an average discount of 30.3% through the issuance of 20-year collateralized bonds offered to its bank creditors on an auction basis. In the third quarter of 1991, Mexico issued $1.151 billion of ten-year floating rate notes, called Floating Rate Privatization Notes, in exchange for the cancellation of $1.171 billion of deposits held by international commercial banks with foreign branches and agencies of Mexican banks. Virtually all of the Floating Rate Privatization Notes were tendered at par in payment for shares of Mexican commercial banks being privatized.

In 1992, the Government cancelled $7.181 billion of its external debt acquired through the exercise of the conversion rights described above, through exchanges of debt to fund social projects as described above and through various debt-for-debt exchanges and cash purchases during the 1990-1992 period.

Debt Record

Following the 1946 rescheduling of debt incurred prior to the Revolution of 1910, Mexico has not defaulted in the payment of principal or interest on any of its external indebtedness. See "—External Debt Restructuring and Debt and Debt Service Reduction Transactions" above.

TABLES AND SUPPLEMENTARY INFORMATION

Public Debt of the Government

(A) Direct Debt of the Government

Table I. Floating Internal Debt at June 30, 1996
(payable in pesos)

Title	Interest Rate (%)	Maturity Date	Outstanding Principal Amount (in millions)	Amortization or Sinking Fund Provision
Treasury Certificates (*"Cetes"*)	Various	Various	Ps. 48,240.6	None
Treasury Bonds (*"Tesobonos"*)	Various	Various	0.0	None
Other(1)	Various	Various	(28,921.4)	None
Total Floating Internal Debt			Ps. 19,319.2	

(1) Includes Banco de México's General Account Balance, which is negative (indicating moneys owing to the Federal Government).

Table II. Funded Internal Debt at June 30, 1996
(payable in pesos)

Title	Interest Rate (%)	Maturity Date	Outstanding Principal Amount (in millions)	Amortization or Sinking Fund Provision
Inflation-adjusted Bonds (*"Adjustabonos"*)	Various	Various	Ps. 34,360.3	None
Debt assumed by the Federal Government	Various	Various	13.1	Various
Development Bonds (*"Bondes"*)	Various	Various	51,022.8	None
UDI-denominated Development Bonds (*"Udi bonds"*)	Various	Various	780.1	None
Retirement Saving System Fund (*"Fondo de Ahorro/SAR"*)	Various	Various	28,656.7	None
Total Funded Internal Debt			Ps.114,833.0	

Table III. Floating External Debt as of June 30, 1996
(payable in foreign currencies)

Title	Interest Rate (%)	Maturity Date	Dollar Equivalent of Outstanding Principal Amount (in millions)	Amortization or Sinking Fund Provision
Commercial Paper issued to the Fideicomiso para in Administración de Financiamientos Externos	Various	Various	$ 0.0	None
LIBOR/Cetes Notes Due 1996	Various	Nov. 1996	1,500.0	None
Others	Various	Various	169.9	None
Total Floating External Debt			$1,669.9	

Table IV. Funded External Debt as of June 30, 1996
Pre-1917 Debt

Title	Currency(1)	Outstanding Amount (in thousands)	Remarks
Bonds originally issued or guaranteed by the Federal Government, subject to debt settlement agreement of November 5, 1942	USD	$ 130	(2)
Railroad Bonds assumed by the Federal Government, subject to debt settlement agreement of February 20, 1946	USD	363	(3)
Total Pre-1917 Debt..................		$ 493	

Post-1917 Debt

Bond Issues

Title	Interest Rate(%)	Date of Issue	Maturity Date	Currency(1)	Original Principal Amount (in thousands)	Principal Amount Outstanding (in thousands)	Remarks
Bonds of the United Mexican States for Economic Development							
8⅛ per cent. External Sinking Fund Bonds Due Dec. 1, 1997	8⅛	Dec. 1972	Dec. 1997	USD	35,000	4,200	(4)
16½% Loan Stock 2008	16½	Sep. 1981	Sep. 2008	STG	50,000	47,206	(4)
Collateralized Floating Rate Bonds Due 2008	Variable	March 1988	March 2008	USD	2,556,093	1,057,593	(5)
Collateralized Floating Rate Bonds Due 2019 ("Discount Bonds")							
USD Discount Series A	Variable	March 1990	Dec. 2019	USD	2,478,293	1,486,124	(6)
USD Discount Series B	Variable	March 1990	Dec. 2019	USD	2,476,107	1,564,924	(6)
USD Discount Series C	Variable	March 1990	Dec. 2019	USD	2,476,117	1,403,184	(6)
USD Discount Series D	Variable	March 1990	Dec. 2019	USD	4,067,627	2,774,865	(6)
CAN Discount Series	Variable	March 1990	Dec. 2019	C$	162,496	162,496	(6)
DGU Discount Series	Variable	March 1990	Dec. 2019	DFL	31,260	31,260	(6)
FFF Discount Series	Variable	March 1990	Dec. 2019	FF	62,715	62,715	(6)
YEN Discount Series	Variable	March 1990	Dec. 2019	¥	1,732,500	1,732,500	(6)
DMK Discount Series	Variable	March 1990	Dec. 2019	DM	166,154	166,154	(6)
Collaterialized Fixed Rate Bonds Due 2019 ("Par Bonds")							
USD Par Series A	6.25	March 1990	Dec. 2019	USD	6,211,456	4,904,205	(6)
USD Par Series B	6.25	March 1990	Dec. 2019	USD	11,633,362	8,563,911	(6)
DGU Par Series	5.31	March 1990	Dec. 2019	DFL	332,470	332,470	(6)
DMK Par Series	5.01	March 1990	Dec. 2019	DM	2,587,766	2,587,766	(6)
FFF Par Series	6.63	March 1990	Dec. 2019	FF	8,237,550	7,573,365	(6)
LRA Par Series	10.75	March 1990	Dec. 2019	USD(2)	954,751	782,639	(6)(7)(8)
YEN Par Series	3.85	March 1990	Dec. 2019	¥	34,854,900	34,854,900	(6)
SSF Par Series	3.75	March 1990	Dec. 2019	SF	351,364	280,139	(6)(8)

Title	Interest Rate(%)	Date of Issue	Maturity Date	Currency(1)	Original Principal Amount (in thousands)	Principal Amount Outstanding (in thousands)	Remarks
Floating Rate Bonds Due 2005 ("New Money Bonds")	Variable	March 1990	March 2005	USD	173,761	109,404	(9)
Guaranteed Floating Rate Bonds Due 2010	Variable	June 1990	June 2010	USD	78,040	76,467	(10)
9½% Notes Due 1991-2000	9½	Dec. 1990	Dec. 2001	USD	40,000	22,583	(11)
14¼% Peseta Bonds Due 1996	14¼	Aug. 1991	Aug. 1996	USD	89,155	89,155	(12)
9½% Notes Due 1992-2001	9½	July 1991	June 2001	USD	150,000	99,169	(11)
Floating Rate Privatization Notes Due 2001	Variable	Aug. 1991	June 2001	USD	1,151,000	1,500	(13)
12¼% Notes Due 1998	12¼	Dec. 1991	Dec. 1998	USD	177,500	177,500	(14)
Floating Rate Notes Due 2000	Variable	Aug. 1992	Aug. 2000	USD	126,753	67,858	
8.50% Notes Due September 15, 2002	8.50	Sep. 1992	Sep. 2002	USD	250,000	250,000	
7¼% Notes Due 1998	7¼	March 1993	March 1998	USD	200,000	200,000	
6.97% Note Due 2000	6.97	April 1993	Aug. 2000	USD	58,895	58,895	
Japanese Yen Bonds-Fourth Series (1993)	4.9	July 1993	July 1996	USD	92,850	92,850	(15)
5.82% Notes Due 2001	5.82	Oct. 1993	Oct. 2001	USD	49,992	49,992	
Floating Rate Notes Due 1997	Variable	July 1995	July 1997	USD	1,000,000	1,000,000	
5.0% Yen Notes Due 1998	5.00	Aug. 1995	Aug. 1998	¥	100,000,000	100,000,000	(16)
9.375% Notes Due 2000	9.375	Nov. 1995	Nov. 2000	DM	1,000,000	1,000,000	(16)
2.85% Yen Notes Due 1997	2.85	Dec. 1995	Mar. 1997	¥	30,000,000	30,000,000	(16)
3.0% Yen Notes Due 1997	3.00	Dec. 1995	Dec. 1997	¥	13,000,000	13,000,000	(16)
Interest-Only Notes Due 2008	Variable	Jan. 1996	Mar. 2008	USD	499,547	480,251	(24)
10.375% DM Notes Due 2003	10.375	Jan. 1996	Jan. 2003	DM	1,500,000	1,500,000	(16)
9.75% Notes Due 2001	9.75	Feb. 1996	Feb. 2001	USD	1,000,000	1,000,000	
6.0% Yen Notes Due 2002	6.0	Mar. 1996	Mar. 2002	¥	40,000,000	40,000,000	
Notes Due 2026	Variable	May 1996	May 2026	USD	1,750,000	1,750,000	
6.75% Yen Notes Due 2006	6.75	June 1996	June 2006	¥	100,000,000	100,000,000	

Loans from Multilateral and Bilateral Organizations As of June 30, 1996

Title	Interest Rate (%)	Date of Issue	Maturity Date	Currency(1)	Principal Amount Outstanding(10) (in thousands of dollars)	Remarks
Loans from the International Bank for Reconstruction and Development ("World Bank") and the Inter-American Development Bank ("IDB")	Various, ranging from 7.25 to 11.6; some variable	Various	Various	ATS, Bfr, C$, DM, DFL, Dirham, Escudo, FF, LRA, KD, LD, Markka, NK, PE, Rand, Riyal, SDR, SF, SK, STG, USD, VB, ¥	$15,370,217	(11)(18)

Loans from Banks and Suppliers

As of June 30, 1996

Title	Interest Rate (%)	Date of Issue	Maturity Date	Currency(1)	Original Principal Amount	Principal Amount Outstanding	Remarks
					(in thousands of dollars)		
Various assumed by the Federal Government.	Various	Various 1976-1983	Various	DM, USD	$ 2,110,900	$ 998,000	(11)
Indebtedness with or guaranteed by, official creditors ("Paris Club")	Various	1987-1995	1992-2005	FF, LRA, PE, SF, STG, USD	15,000,000	13,344,500	(11)(19)
Credit Agreement with various banks	Various	March 1983	March 2005	USD	5,000,000	654	(20)
Credit Agreement with various banks	Various	April 1984	March 2005	USD	3,800,000	569	(20)
Multi-Facility Agreement with various banks	Various	March 1987	March 2005	USD	5,490,000	4,925	(20)
Combined Multi-Year Restructure Agreement with various banks	Various	February 1990	October 2006	Bfr, DM, FF, USD	1,437,361	828,279	(11)(21)
Combined Old New Money Agreement with various banks	Various	February 1990	March 2005	Bfr, DM, USD	1,092,848	1,086,496	(11)(17)
Combined Facilities 2 and 3 Agreement with various banks	Various	February 1990	March 2002	Bfr, DGU, DM, ECU, FF, LRA, STG, USD, ¥	889,564	874,742	(11)(17)
1989-92 Credit Agreement with various banks	Various	February 1990	March 2005	Bfr, DM, FF, SF, USD	348,732	462,383	(11)(17)
Onlending and Trade Credit Agreement	Various	February 1990	March 2005	DGU, DM, FF, USD	420,000	358,138	(11)(22)
Others	Various	Dec. 1995	Dec. 2000	USD	709,911	709,911	
Total Post-1917 Debt						$55,479,704	(23)
Total Funded External Debt						$55,480,197	(23)

(1) The currencies are defined as: ATS, Austrian shillings; Bfr, Belgian franc; C$, Canadian dollar; DM, Deutsche mark; DFL, Dutch guilder; Dirham, United Arab Emirates dirham; Escudo, Portuguese escudo; FF, French franc; LRA, Italian lira; KD, Kuwait dinar; LD, Libyan dinar; Markka, Finnish markka; Ps., Mexican peso; NK, Norwegian Krone; PE, Spanish peseta; STG, pound sterling; Rand, South African rand; Riyal, Saudi Arabian riyal; SDR, Special Drawing Rights; SF, Swiss franc; SK, Swedish Krona; USD, United States dollar; VB, Venezuelan bolivar; and ¥, Japanese yen.

(2) As a result of several years of internal disturbances, all Mexican federal debt outstanding in 1914 went into default in that year. Debt settlement agreements made in the 1920s were not carried out by the Government because of continuing financial difficulties, but in 1942 and 1946 the Government entered into agreements providing for the settlement of substantially all of the direct debt of the Government, certain other debt assumed or guaranteed by it and bonds of the National Railways. The holders of more than 99% of eligible obligations (excluding those bonds which vested in Mexico as described below) assented to those terms. All outstanding bonds the holders of which assented to the settlement agreement of 1942 were called for redemption in 1960 and the funds received for such prepayment were deposited with The Chase Manhattan Bank, N.A. Although no provision has been made for payment of the bonds the holders of which registered but did not assent to the settlement agreement of 1942, the Government includes such bonds in its external debt at the reduced principal amounts established by the settlement agreement of 1942. No provisions are currently made for the payment of principal of or interest on these bonds. Bonds in the aggregate original principal amount of $29,759,656 the holders of which did not register to become eligible for the settlement agreement of 1942 are not considered to be debt of the Government and consequently are not included in the total. Pursuant to the Law Concerning the Disposition of Enemy-held Bonds of December 29, 1951, enacted in view of Mexico's status as one of the Allied Nations in World War II and in accordance with the principles of post-war international reparations, the rights to all "enemy-held" bonds subject to the settlement agreement of 1942 were vested in the nation and all the rights and claims of holders of such bonds were extinguished. "Enemy-held" bonds were defined to include not only those bonds which during the war were located in enemy territory or held by enemy nationals but also those bonds the holders of which had failed to register during the periods provided in the relevant decrees. Prior to 1951 and during a reopened period which finally terminated on November 20, 1953, the Government accorded non-enemy status to certain bonds the holders of which submitted appropriate applications and evidence. No provisions are currently made for the payment of principal of or interest on these bonds.

(3) Substantially all outstanding bonds the holders of which assented to the settlement agreement of 1946 have been redeemed or repurchased. Although no provision has been made for payment of the bonds the holders of which registered but did not assent to the settlement agreement of 1946, the Government includes such bonds in its external debt at the reduced principal amounts established by the settlement agreement for holders electing Plan A (approximately 20% of the original principal amount). No provisions are currently made for the payment of principal of or interest on these bonds. Bonds the holders of which did not register under the settlement agreement of 1946, in the aggregate original principal amount of $ 9,481,000, are not considered to be debt of the Government and are

(Footnotes continued on following page)

(Footnotes continued from preceding page)

not included in the total for the reason set forth in footnote (2) above. No provisions are currently made for the payment of principal of or interest on these bonds.

(4) Payment of the principal amount at stated maturity of each of the bond issues to which this footnote applies (each, a "series") is secured by the pledge (in March 1988) of U.S. Treasury zero-coupon obligations and zero-coupon receipts evidencing interests in U.S. Treasury obligations having a face amount at least equal to the outstanding principal amount of the bonds of such series. Holders of the bonds have no recourse to the principal collateral prior to March 30, 2008. At March 29, 1996, the aggregate market value of the collateral securing the payment of principal of the bonds of all series was approximately $45.51 million. In addition, the 8 1/8 per cent. External Sinking Fund Bonds Due December 1, 1997 provide for annual sinking fund payments calculated to retire 92% of the bonds prior to maturity. Payment of the interest on the bonds of each series is secured by a pledge (in March 1990) of cash and permitted investments having a face amount equal to the lesser of (i) 15% of the aggregate outstanding principal amount of the bonds of such series and (ii) the aggregate amount of interest payable on the bonds of such series from the last interest payment date on which interest was paid in full to the stated maturity date of such bonds. Permitted investments include: (i) senior direct obligations of, and obligations fully guaranteed by, the United States or certain of its agencies and instrumentalities; (ii) senior direct obligations of international development banks having a qualified rating; (iii) obligations rated AAA or AA by Standard & Poor's Corporation or Aaa or Aa by Moody's Investors Service (a "qualified rating") and fully guaranteed by an international development bank; (iv) demand and time deposits in, certificates of deposit of, or banker's acceptances issued by, any Federal Reserve Bank or banking institution with commercial paper rated at least A-2 or P-2; (v) repurchase obligations with respect to any security described in clause (i) or clause (ii) with primary dealers or banks having commercial paper rated at least A-2 or P-2; (vi) securities with a qualified rating; (vii) commercial paper rated A-1 or P-1; (viii) senior direct obligations of corporations with qualified ratings or commercial paper rated A-1 or P-1; (ix) repackaged senior direct obligations of the United States or certain of its agencies and instrumentalities; and (x) other investments that are acceptable to Moody's Investors Service or Standard & Poor's Corporation as permitted investments of funds held as collateral for securities having a qualified rating. In the event that interest on the bonds of any series is not paid within 30 days after the due date thereof, the interest collateral for the bonds of such series will be made available for the payment of such interest at the request of the holders of not less than 25% of the aggregate principal amount of the bonds of such series then outstanding. In the event that any interest collateral is applied to the payment of the interest due on the bonds of any series, Mexico is not obligated to pledge additional collateral to secure interest payments on the bonds of such series. At March 29, 1996, the aggregate market value of the collateral securing interest on the bonds of all series was approximately $14.96 million.

(5) Payment of the principal of the bonds at stated maturity is secured by the pledge of a U.S. Treasury zero-coupon bond having a face amount equal to the principal amount of the bonds and maturing on the stated maturity date of the bonds. Holders of the bonds have no recourse to the principal collateral prior to the stated maturity date of the bonds. At March 29, 1996, the market value of the collateral securing the payment of principal of the bonds was approximately $459 million.

(6) Payment of principal at stated maturity of dollar- and lira-denominated bonds is secured by the pledge of U.S. Treasury zero-coupon bonds having a face amount at maturity equal to the principal amount of the bonds. Payment of principal at maturity of Discount Bonds and Par Bonds denominated in other currencies is secured by a pledge of zero-coupon securities issued by governments or government agencies (or, in the case of the SSF Par Series, Swiss Bank Corporation). Holders of the bonds have no recourse to the principal collateral prior to the stated maturity date of the bonds. At March 29, 1996, the aggregate market value of the collateral securing principal of the bonds of all series was approximately $5.147 billion. Payment of a portion of the interest on the bonds (other than bonds of the SSF Par Series) is secured by a pledge of cash or permitted investments held by the FRBNY, as collateral agent, and, in the case of dollar-denominated bonds, the pledge of a letter of credit in favor of the collateral agent. As of the date of issuance, the interest collateral (together with the amount available under the letter of credit) for the dollar-denominated bonds was sufficient to secure 18 months of interest thereon (calculated, in the case of Discount Bonds, at an assumed constant interest rate of 10% per annum). Permitted investments with respect to interest collateral for the dollar-denominated bonds are described in footnote (4) above; comparable investments are permitted with respect to the interest collateral for bonds denominated in currencies other than dollars. In the event that interest on the bonds of any series is not paid within 30 days after the due date thereof, the interest collateral for such series will be made available for the payment of such interest at the request of the holders of not less than 25% of the aggregate principal amount of such series then outstanding. In the event that any interest collateral is applied to the payment of the interest due on any series of bonds, Mexico is not obligated to pledge additional collateral to secure interest payments on the bonds of such series. At March 29, 1996, the aggregate market value of the collateral securing interest on the bonds was approximately $3,203.91 million.

(7) The principal amount of the bonds is stated in, and the principal amount of the bonds is repayable at maturity in, dollars. Interest on the bonds is payable in Italian lire based on the lira-denominated principal amount stated on the bond (determined by converting into lire the dollar principal amount stated on the bond at a lira/dollar exchange rate of 1255.33).

(8) Recourse of the holder to Mexico with respect to payment of principal of the bonds is limited to the principal collateral securing the bonds.

(9) Principal of the bonds is payable in 16 equal semi-annual installments, commencing in September 1997.

(10) Originally referred to as "Guaranteed Floating Rate Bonds Due 2006". The bonds and the related fiscal agency agreement were amended on June 19, 1995 to, among other things, extend the final maturity of the bonds (from December 2006 to June 2010) and to eliminate the semi-annual principal payments under the bonds. The payment obligations of Mexico under the bonds are guaranteed by the Kingdom of Spain.

(11) Semi-annual, quarterly or monthly amortization calculated to retire loans by maturity.

(12) Adjusted to reflect the effect of a currency swap of PE10 billion into $89,155,000.

(13) In the event that a holder of a note is or becomes entitled to purchase from the Government shares of a Mexican commercial bank in connection with such bank's privatization, such note may be tendered to Mexico as payment or partial payment of the purchase price of such shares, and for such purpose the note will be valued at par plus accrued interest thereon.

(14) Adjusted to reflect the effect of a currency swap of STG100 million into $177,500,000.

(15) Adjusted to reflect the effect of a currency swap of ¥10 billion into $92,850,000.

(16) Adjusted to reflect the effect of currency swaps of ¥100 billion into $1.092 billion, DM 1,000,000,000 into $707,214,000, ¥ 30 billion into $294,198,000, ¥ 13 billion into $130,234,000 and DM 300 million into $190,602,000.

(Footnotes continued on following page)

(Footnotes continued from preceding page)

(17) Includes revaluation because of changes in parity of foreign currencies.

(18) The direct obligors of these loans are Banobras ($3,575.73 million), Bancomext ($2,729.05 million) and NAFIN ($9,065.43 million), acting in their capacities as financing agents for the Government. Because the Government is not the direct borrower under these loans, the outstanding amounts of these loans are not included in the totals of this Table IV, but rather are included in Table VI.

(19) The portion of these loans maturing prior to the date hereof has been repaid in full.

(20) In March 1990 virtually all loans under these agreements were exchanged by the creditors for Discount Bonds, Par Bonds and/or loans under the Combined Old New Money Agreement or Combined Facilities 2 and 3 Agreement.

(21) Includes $418,051,000 of debt under the MYRAs for certain public sector obligors that have been assumed by the Government.

(22) The borrower under this facility is the Fideicomiso para la Administracion de Financiamientos Externos, a trust administered by Banco de México.

(23) This total is expressed in dollars and differs from the addition of all items because they are expressed in other currencies.

(24) The Notes pay only interest, calculated on a notional principal amount of $1,127,000,000. The initial purchase price of the Notes was 44.3254% of the notional principal amount.

(B) External Debt of Budget-Controlled Agencies and Other External Public Debt

Table V. External Debt of Budget-Controlled Agencies at June 30, 1996 (payable in foreign currencies)

Borrower	Dollar equivalent of principal amount outstanding	Dollar equivalent of amount having an original maturity of less than one year
	(in millions)	
CFE	$2,664.7	$ 235.9
Pemex	6,952.0	1,423.3
Ferronales	64.8	0.0
Total External Debt of Budget-Controlled Agencies	$9,681.5	$1,659.2

Table VI. Other Public Sector External Debt at June 30, 1996(1) (payable in foreign currencies)

	Dollar equivalent of principal amount outstanding	Dollar equivalent of amount having an original maturity of less than one year
	(in millions)	
Financial Sector	$31,650.7	$2,866.1
NAFIN	16,721.9	902.4
Banobras	5,025.5	0.0
Bancomext	10,672.5	1,963.7
Banrural	230.8	0.0
Non-Financial Sector	2.5	0.0
S.T.C. Metro	2.5	0.0
Total	$31,653.2	$2,866.1

(1) This table includes debt of national development banks and certain commercial banks that is guaranteed by Mexico and other public sector debt registered with the *Dirección de Deuda Pública*, but does not include debt of entities whose finances are not included in the Government's budget. In addition, private sector debt guaranteed by the Government or other public sector entities is not considered external public sector debt unless and until the guaranty is called. At June 30, 1996, the estimated balance of private sector debt guaranteed by Mexico's national development banks was $382.0 million and $41.1 million was guaranteed by the Government.

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UNITED MEXICAN STATES

Secretaría de Hacienda y Crédito Público
Avenida Insurgentes Sur 826, Piso 9
Colonia del Valle
C.P. 03100 Mexico, D.F.

FISCAL AGENT AND PAYING AGENT

Citibank, N.A.
Corporate Trust Department
120 Wall Street, 13th Floor
New York, New York 10043

PAYING AGENTS AND TRANSFER AGENTS

Citibank, N.A.
111 Wall Street, 5th Floor
New York, New York 10043

Kredietbank S.A. Luxembourgeoise
43, Boulevard Royal-L
2955 Luxembourg

LISTING AGENT

Citibank, N.A.
Kredietbank S.A. Luxembourgeoise
43, Boulevard Royal-L
2955 Luxembourg

LEGAL ADVISORS TO MEXICO

As to United States Law

Cleary, Gottlieb, Steen & Hamilton
One Liberty Plaza
New York, New York 10006

As to Mexican Law

Lic. Ismael Gomez Gordillo
Fiscal Attorney of the Federation
Ministry of Finance and Public Credit
Avenida Hidalgo 77
Modulo 4, 6° Piso
Col. Guerrero, 06300 Mexico, D.F.

LEGAL ADVISORS TO THE MANAGERS

As to United States Law

Sullivan & Cromwell
125 Broad Street
New York, New York 10004

As to Mexican Law

Ritch, Heather y Mueller, S.C.
Amberes No. 5
06600 Mexico, D.F.

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$1,000,000,000

United Mexican States

11⅜% Global Bonds due September 15, 2016

PROSPECTUS SUPPLEMENT

Goldman, Sachs & Co.
Merrill Lynch & Co.

Chase Securities Inc.
Salomon Brothers Inc
UBS Securities

The activities of the Underwriters in connection with this transaction are led jointly by Goldman, Sachs & Co. and Merrill Lynch & Co.

September 17, 1996