

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
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The International Bank for Reconstruction and Development today granted two loans totalling \$34,100,000 for electric power development in Mexico.

The joint borrowers in the case of each loan are the Comision Federal de Electricidad (Federal Electricity Commission), a Mexican Government agency charged with the development of electric power facilities, and Nacional Financiera, an official financing institution whose functions include the negotiation of foreign loans on behalf of the Mexican Government. Both loans are guaranteed by the Mexican Government.

The first loan, in the amount of \$24,100,000, is to be used by the Federal Electricity Commission to finance imports of equipment and materials necessary for the completion of a number of projects included in the Commission's 1947-52 program of construction of new steam and hydroelectric generating stations, transmission lines and distribution systems in various parts of Mexico. The loan is for a term of 25 years, and carries an interest rate of $4\frac{1}{2}\%$ which includes a commission charge of 1% annually to be set aside in the Bank's special reserve fund in accordance with its Articles of Agreement. Amortization payments, calculated so as to retire the loan by maturity, will begin in the fifth year.

The second loan, in the amount of \$10 million, will be re-lent by the borrowers to the Mexican Light and Power Company, Limited. This Company, with its subsidiaries, produces most of the electric power and provides all of the distribution of electricity in Mexico City and the surrounding area. The loan is to finance part of the cost of imports of equipment and materials to be made by the Company in order to carry out a program for the expansion of its electrical generating and distributive facilities in the Mexico City area.

The Mexican Light and Power Company proposes to undertake in 1949 a re-organization of its capital structure. The present loan is designed to permit the expansion program to be carried forward pending the formulation and consummation of a reorganization plan. In view of the anticipated reorganization proceedings, the loan is made through the intermediary of the Mexican Government agencies mentioned above, covers only expenditures to be made up to December 31, 1949, and is for a term of one year only, repayment being due on December 31, 1949. The loan carries an interest rate of $4\frac{1}{2}\%$, including the usual 1% commission charge. If the reorganization is satisfactorily completed in 1949 and other conditions warrant, the Bank will be prepared to consider the negotiation of a long-term loan,

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to be guaranteed by the Mexican Government, for the purpose of financing the remainder of the foreign exchange costs of the Company's program and refunding the short-term credit.

This is the second time the International Bank has granted loans for development purposes in the American Republics. Last March the Bank approved credits totalling \$16 million to the Production and Development Corporation of Chile and one of its subsidiaries, for the development of hydroelectric power and agricultural production.

Mexico, faced with a rapid growth of population, urgently needs a greater supply of electric power in order to make possible the growth of industry, and the increase of agricultural production through modern methods of irrigation. Industrial expansion has already been restricted by shortage of power in the more developed areas, while in other areas, where the use of electricity is in the earliest stages, the installation of reliable central sources of supply would immediately create a substantial demand for power for productive uses.

The Federal Electricity Commission has adopted the role of supplementing, where necessary, the expansion of facilities provided by other electric power enterprises in Mexico, the largest of which is the Mexican Light and Power Company. The projects of the Commission which the Bank is to finance have been coordinated with those of the Mexican Light and Power Company and other enterprises in order to avoid overlapping and to secure a balanced development of the Mexican electric power industry as a whole.

In accordance with Bank policy, the loan agreements provide that the Bank shall be furnished with full information showing that the funds to be disbursed will be used only for the purposes specified in the agreements, and that representatives of the Bank shall have full opportunity to check the end use to which all purchases are put.

After being approved by the Bank's Board of Executive Directors, the two loan contracts were signed today by John J. McCloy, President, on behalf of the International Bank for Reconstruction and Development and by Alexandro Paez Urquidi, the Executive Director, on behalf of the Comision Federal de Electricidad and Antonio Carrillo Flores, the Director-General, on behalf of the Nacional Financiera. The guarantee agreements were signed today by Luis Fernandez MacGregor, the Mexican Charge d'Affaires Ad Interim, and Antonio Carrillo Flores, on behalf of the United Mexican States, and by John J. McCloy on behalf of the International Bank for Reconstruction and Development.

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SUPPLEMENTAL STATEMENT
ON THE MEXICAN LOANS

Mexico's Economic Position

During the war and postwar periods, financial developments in Mexico followed, in general, the same pattern as in other Latin American countries. Export surpluses led to the accumulation of foreign exchange reserves, and a consequent growth of the money supply. Measures taken by the Government to limit credit expansion were only partially successful. After the war the release of the pent-up demand for imports resulted in the loss of most of the accumulated reserves.

There are, however, distinctive features in the Mexican situation. Mexico has advanced beyond the stage of early development. This advance has been accompanied by progress towards a more mature and stable social structure. At the same time economic activity has become diversified, as reflected in the declining importance of mining relative to industry, while the pattern of trade has become relatively inflexible. In the long run further economic progress must, except insofar as new oilfields are developed, come from the intensified use of existing resources.

Mexico is faced with problems arising out of the rapid growth of population. Therefore, not only must food production continue to expand, but industrialization must proceed in order to prevent a decline in the standard of living. To solve Mexico's problems, a high rate of capital formation is necessary. Here, however, as in other countries, the growth of savings is retarded by the low level of incomes and the inadequacy of the capital market. Mexican Governments have attempted to fill the gap by financing extensive agricultural, industrial and public utility projects through inflationary public finance, a principal cause of the maladjustment of the balance of payments which led in July 1948 to the suspension of a fixed parity for the peso.

In order to restore financial equilibrium without interrupting economic development, Mexico's present deficiency of capital formation must be supplemented by foreign investment. For a long period Mexico's relations with foreign investors were unhappy as a result of the friction created by debt defaults, the expropriation of foreign investments, and the protracted subsequent negotiations. In the course of the past few years, however, Mexico has made efforts to re-establish her credit. A settlement with foreign holders of the national debt was reached in 1942 and payments have been maintained since that time. An agreement reached in 1946 on the debt of the expropriated railroads is likely to be accepted by the requisite majority of bondholders in 1949. Compensation for expropriated investments in oil and land has been made in full or is in process of payment.

These steps, and the inducement of tax exemptions and unrestricted transfer of capital and profits have recently had encouraging results in the form of foreign investments in Mexican industry, but the flow of foreign capital is not yet sufficient to take care of the country's urgent development needs. The present stage is, therefore, one in which the assistance of the International Bank could do much to promote the continued and orderly development of Mexico's resources and to encourage a further influx of private capital.

These objectives cannot be attained, however, unless the Mexican Government takes all measures reasonably within its power to re-establish financial equilibrium. The Bank has in this connection taken note of the statement made by the Mexican Minister of Finance, Mr. Ramon Beteta, on October 29, 1948, in which he announced the intention of his Government to balance the budget, to limit public works, to maintain credit restrictions, and to fix a new official parity for the peso in consultation with the International Monetary Fund at the earliest possible time. In his message submitting the 1949 budget to Congress, President Aleman stressed that it would be "balanced and rigid". Encouraging signs of the determination of the Mexican Government to realize these intentions have been the stability of the peso exchange rate since August 1948, and the fact that the 1949 budget as actually approved by Congress involves no net addition to the public debt.

The Electric Power Projects

One of the factors essential to the further development of Mexico, and one which requires considerable foreign exchange expenditure, is the provision of electric power. The output of power has not kept pace with the growth of population and the tendency towards industrialization. In the more developed areas, particularly around Mexico City, shortage of power has already imposed a brake on the expansion of both domestic and foreign-owned enterprises, while in other areas the provision of reliable sources of power is the essential condition of the modernization of agriculture and the development of associated processing industries. In Mexico, electric power has always been primarily applied to productive uses; even in the Mexico City area, with a large well-to-do residential population, 56 per cent of the power generated is presently used by industry and mining. It is estimated that from 60 to 70 per cent of the additional power to be generated as a result of the projects to be financed by the Bank will be used by industry and agriculture. This high proportion amply illustrates the productive character of the projects.

The Federal Electricity Commission of Mexico, an agency of the Ministry of National Economy, was created in 1937 for the purpose of organizing and directing, on a non-profit basis, a national system for the generation, transmission and distribution of electrical energy. It has adopted the role of supplementing, where necessary, the activities of private enterprise in the provision of electric power, partly by constructing generating and transmission facilities which it operates itself, and partly by making loans to assist private companies to install new plant. The managerial and technical personnel of the Commission are of high quality.

The Federal Electricity Commission has prepared a program of electric power expansion to be carried out during the period 1947-1952. The execution of the whole of this program, which involves heavy internal expenditures, would be difficult to justify at the present time in view of Mexico's financial position. As a result of discussion between the Bank, the Commission and the main private power companies operating in Mexico, a selection has therefore been made of these projects which are most urgently needed and which are complementary to the development programs of the private companies. The selected projects involve the construction of hydro and thermal electric plants, transmission and distribution systems; a scheme of rural electrification, and the provision of equipment and materials for expansion of the operations of small private companies.

Since 1902, the Mexican Light and Power Company and its subsidiaries have

been the largest single enterprise engaged in the production and distribution of electricity in Mexico and, until recently, they produced and distributed all the electric power used in the important Mexico City area. For some years this region, with its rapidly growing population and industry, has suffered from a shortage of power. To remedy this deficiency, the Federal Electricity Commission began the construction of the "Miguel Aleman" hydroelectric system in the Mexico City area, of which one plant is already in operation, its output being sold to the Company, and to which further units will be added under the program approved by the Bank. The Company has proposed a three-year program of expansion of generating and distribution facilities, which has been approved by the Commission. The execution of this program has so far been delayed by the difficulty of securing the necessary capital. The Company's program is on sound engineering lines and, in conjunction with the Commission's own program, represents the minimum expansion necessary to make reasonable provision for the needs of the near future. Any postponement of the Company's project would make necessary a corresponding additional expansion of the Commission's generating capacity and would also lead to a failure of distributive capacity in the Mexico City area to keep pace with generating capacity.

The Federal Electricity Commission project will increase the generating capacity of Mexico, at present about 1 million kilowatts, by 33 per cent and, when the Mexican Light and Power Company project is completed, a further 14 per cent will have been added. Although these projects will have no direct effect on the foreign exchange earnings of Mexico, the increased industrial and agricultural production which they will make possible will in the long run tend to improve the balance of payments.