

CONFORMED COPY

LOAN NUMBER 3085 ME

Guarantee Agreement
(Financial Sector Adjustment Loan)

between

UNITED MEXICAN STATES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 16, 1989

LOAN NUMBER 3085 ME

GUARANTEE AGREEMENT

AGREEMENT, dated June 16, 1989, between UNITED MEXICAN STATES (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received two letters both dated May 12, 1989 from the Guarantor, such letters together describing a program of actions, objectives and policies designed to achieve structural adjustment of the Guarantor's financial sector so as to increase the efficiency of resource use and enhance competitiveness (hereinafter called the "Program"), declaring the Guarantor's commitment to the execution of the Program and requesting assistance from the Bank in the financing of imports, goods and services required during such execution;

(B) it is contemplated that the Guarantor may require assistance from the Bank in the implementation of a Debt Reduction Plan;

(C) the Guarantor and the Borrower, having been satisfied, as to the feasibility and priority of the Project described in Schedule 2 to the Loan Agreement, have requested the Bank to assist in the financing of the Project;

(D) by an agreement of even date herewith (the Loan Agreement) between the Bank and Banco Nacional de Comercio Exterior, S.N.C., (the Borrower), the Bank has agreed to extend to the Borrower a loan in various currencies equivalent to five hundred million dollars (\$500,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as provided in this Agreement and to undertake the obligations set forth in this agreement;

(E) on the basis, inter alia, of the foregoing, the Bank has decided, in support of the Program, to provide such assistance to the Guarantor by making the Loan in two tranches to the Borrower on the terms and conditions set forth in the Loan Agreement; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985 (the General Conditions), with the modifications set forth in Section 1.01 of the Loan Agreement constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to and Section 1.02 of the Loan Agreement have the respective meanings therein set forth.

ARTICLE II

Guarantee; Provision and Transfer of Funds

Section 2.01. (a) The Guarantor declares its commitment to the objectives and the carrying out of the Project set forth in Schedule 2 to the Loan Agreement and to this end, without limitation or restriction upon any of its other obligations under the Guarantee Agreement, the Guarantor hereby unconditionally guarantees, as primary obligor and not merely as surety, the due and punctual payment of the principal of, and interest and other charges on, the Loan, and the premium, if any, on the prepayment of the Loan, and the punctual performance of all the other obligations of the Borrower, all as set forth in the Loan Agreement.

(b) The Guarantor shall enter into the contractual arrangements referred to in Section 3.01 of the Loan Agreement and, except as the Bank may otherwise agree,

shall not change or fail to enforce any provision of such contractual arrangements.

ARTICLE III

Other Covenants

Section 3.01. The Guarantor shall carry out Part B and, if so determined under Section 3.05 of the Loan Agreement, Part C of the Project with due diligence and efficiency and in conformity with appropriate commercial, administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. (a) The Guarantor and the Bank, and the Borrower pursuant to Section 3.02 (a) of the Loan Agreement, shall, on a quarterly basis and at the request of any party, exchange views on 'inter alia: (i) the progress in carrying out the Program; (ii) the progress in carrying out the actions specified in the Schedule to this Agreement; (iii) the macroeconomic framework of the Guarantor in order to determine its consistency with the Program; and (iv) on the progress achieved in the flexibilization of price adjustments.

(b) At least ten days prior to each such exchange of views, the Guarantor, and the Borrower pursuant to Section 3.02 (b) of the Loan Agreement, shall furnish to the Bank, for its review and comment, a report in such detail as the Bank shall reasonably request, on the matters specified in paragraph (a) of this Section.

Section 3.03. The Bank and the Guarantor agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) shall 'be carried out by the Guarantor in respect of Part B of the Project.

Section 3.04, Except as the Bank may otherwise agree, procurement of the goods and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Section 3.05. The Guarantor shall:

(a) by September 1, 1989, present to the Bank terms of reference, satisfactory to the Bank, for purposes of carrying out the study under Part B.4 of the Project;

(b) by October 15, 1989, begin the carrying out of such study pursuant to such terms of reference;

(c) by March 15, 1990, complete such study pursuant to such terms of reference; and

(d) by April 15, 1990 provide to, and discuss with, the Bank a plan or plans of action, acceptable to the Bank, to adopt measures to improve public investment evaluation and programming procedures.

Section 3.06. The Guarantor shall: (a) monitor the implementation of its budgeting and payments procedures for externally funded public investment projects; and (b) by August 31, 1989 exchange views with the Bank on the

implementation of such procedures, and on measures to improve such procedures.

Section 3.07. (a) The Guarantor: (i) shall, except for loans to low income agricultural producers, eliminate all interest rate subsidies in loans made by development banks and trust funds after the date of this Agreement such that the average subsidy levels will decline as existing loans mature; and (ii) undertakes that the total aggregate amount of such subsidies to low income agricultural producers during 1989 shall not exceed, as a percentage of the Guarantor's gross domestic product, the level of such subsidies in Fiscal Year 1988.

(b) For purposes of this Section, interest rate subsidies shall be calculated using as a base the average cost of funds (CPP).

Section 3.08. The Guarantor shall provide, or cause to be provided, to the Borrower all documents and records in respect of the expenditures financed out of the proceeds of the Loan required to enable the Borrower to comply with the provisions of Section 4.01 of the Loan Agreement.

Section 3.09. Without limitation or restriction upon the provisions of Section 2.01 (a) of this Agreement, the Guarantor shall take all actions as shall be required for implementing the provisions under Section 3.05 of the Loan Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Guarantor shall maintain, or cause to be maintained, separate records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the resources and expenditures in respect of Parts B and C of the Project.

(b) The Guarantor shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent and qualified auditors;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE V

Representative of the Guarantor; Addresses

Section 5.01. The Director General de Captacion de Credito Externo of Secretaria de Hacienda y Credito

Publico of the Guarantor is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

Direccion General de
Captacion de Credito Externo
Secretaria de Hacienda y Credito
Publico
Palacio Nacional, Primer Patio,
Mariano, 4o Piso
06066 Mexico, D.F.,
Mexico

Telex:

1777313-SHOCME

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

440098 (ITT)
248423 (RCA)

or

64145 (WUI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

UNITED MEXICAN STATES

By /s/ Lic. Gustavo Petricioli
Authorized

Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ S. Shahid Husain
Regional Vice President
Latin America and the

Caribbean

SCHEDULE

Actions Referred to in Paragraph 4 (e)
of Schedule 1 to the Loan Agreement

1. That the Guarantor has adopted and begun the implementation of the following programs, acceptable to the Bank, including taking all actions that may be necessary or appropriate to implement such programs:

(a) to redefine the role of, fideicomisos (trust funds) and development banks including, NAFIN, the Borrower, BANOBRAS, BANRURAL and ANAGSA, in order to improve the efficiency of their operations and to restructure BANRURAL and ANAGSA;

(b) to ensure that the total aggregate amount of fiscal transfers during Fiscal Year 1989 to BANRURAL and ANAGSA, including budgeted transfers during Fiscal Year 1989 and assumption of portfolio losses will not increase as a percentage of the Guarantor's gross domestic product, beyond the level budgeted for Fiscal Year 1989, and to substantially reduce such fiscal transfers for Fiscal Year 1990 and beyond, including eliminating all transfers arising from the capitalization of disbursements under loans from the Bank and the Inter-American Development Bank through FICART; provided, however, that such fiscal transfers may increase by an amount equivalent to debt assumptions by the Guarantor under debt restructuring agreements acceptable to the Bank;

(c) to increase self-generated revenues received by the Distrito Federal by at least 10% in real terms during Fiscal Year 1990 of the amount of such revenues received during 1988;

(d) to strengthen supervision of financial institutions and brokerage houses and undertake a study that will review existing procedures and evaluate the need for, inter alia, classifying loan portfolios according to risk, improving provisions for loan losses and interest accruals, disclosing publicly the financial statements of banks and brokerage houses and improving the regulation of brokers; and

(e) to gradually reduce grants for investments and regional development by the Guarantor to the States which are not matched by such States.

2. That the Guarantor has submitted to the Bank evidence satisfactory to the Bank of the Guarantor's compliance with Section 3.07 of this Agreement, including providing the Bank with data, satisfactory to the Bank, in support of such evidence.

