

FINANCE

**Agreement Between the
UNITED STATES OF AMERICA
and MEXICO**

Signed at Washington and Mexico
September 14, 1989

with

Memorandum of Understanding



NOTE BY THE DEPARTMENT OF STATE

Pursuant to Public Law 89—497, approved July 8, 1966
(80 Stat. 271; 1 U.S.C. 113)—

“ . . . the Treaties and Other International Acts Series issued under the authority of the Secretary of State shall be competent evidence . . . of the treaties, international agreements other than treaties, and proclamations by the President of such treaties and international agreements other than treaties, as the case may be, therein contained, in all the courts of law and equity and of maritime jurisdiction, and in all the tribunals and public offices of the United States, and of the several States, without any further proof or authentication thereof.”

MEXICO

Finance

*Agreement signed at Washington and Mexico
September 14, 1989;
Entered into force September 14, 1989.
With memorandum of understanding.*

**SWAP AGREEMENT AMONG THE UNITED STATES
TREASURY, THE BANCO DE MEXICO, AND
THE GOVERNMENT OF THE UNITED MEXICAN STATES**


I. To provide the United Mexican States with near-term support for its international reserves,

A. the United States Treasury Department (The "Treasury") and the Federal Reserve System (collectively the "United States Monetary Authorities"), the Bank for International Settlements (the "BIS") acting for certain participating central banks, and the Banco de España (collectively the "Cooperating Monetary Institutions") are prepared to provide a short-term credit facility to the Banco de México (the "Bank") in the total amount up to one billion United States dollars (\$1,000,000,000) (the "Multilateral Arrangement"), the share of the Treasury being an amount up to one hundred and twenty-five million United States dollars (\$125,000,000); and

B. the United States Monetary Authorities are prepared to provide an additional short-term credit facility to the Bank in the total amount of one billion United States dollars (\$1,000,000,000) (the "Bilateral Arrangement"), the share of the Treasury being an amount up to three hundred million United States dollars (\$300,000,000).

for a combined drawing facility of two billion United States dollars (\$2,000,000,000).

II. To carry out the Multilateral and Bilateral Arrangements, the United States Treasury Exchange Stabilization Fund (the "Fund"), with the Federal Reserve Bank of New York (the "FRBNY") acting as fiscal agent, hereby agrees to extend to the Bank, with the Government of the United Mexican States as guarantor of the Bank, a drawing facility of an amount up to four hundred and twenty-five million United States dollars (\$425,000,000) on a covered basis in the form of a Mexican pesos/United States dollars swap. This facility will be available for a single drawing on two business days' notice (New York). The amount drawn under this agreement, together with interest accrued thereon, shall be liquidated not later than February 15, 1990. This agreement is subject to, and incorporates by reference, the terms and conditions set forth in the Memorandum of Understanding between the Banco de México and the Cooperating Monetary Institutions of August 31, 1989 (the "Memorandum of Understanding").



III. The drawing under this agreement may be used to facilitate the execution of transactions to forestall or counter disorderly financial market conditions. The rate of exchange applied to the drawing under this agreement shall be applied to its liquidation. This rate shall be based upon the spot rate as agreed between the parties at the time the drawing is made.

IV. A. The proceeds of the drawing under this agreement will be employed as follows:

(i) An amount up to two hundred and seventy-five million United States dollars (\$275,000,000), which may be reduced by the pro rata Treasury share(s) of any reduction(s) in the Multilateral Arrangement, and in the Bilateral Arrangement if necessary, shall be credited to the General Account at the FRBNY in the name of "Banco de México" (the "General Account") by authenticated telecommunication.

(ii) The balance of an amount up to one hundred and fifty million United States dollars (\$150,000,000), which may be reduced by the pro rata Treasury share of any reduction in the Bilateral Arrangement, shall be immediately invested by the FRBNY in a non-transferable United States Treasury Certificate of Indebtedness ("Certificate A"), which the Secretary of the Treasury is prepared to issue to the Bank, at par, to mature February 15, 1990. Certificate A shall be issued and redeemed by the FRBNY. Redemption shall occur on two business days' notice (New York), pursuant to paragraphs 7 and 9 of the Memorandum of Understanding. Certificate A will be held in the Bank's general securities custody account (the "Custody Account"), and will bear interest at a rate based upon the average equivalent coupon-issue yield at the auction of the latest issue of three-month United States Treasury bills preceding the date of issuance of Certificate A. The average rate of yield will be stated in two decimal places, and, if such decimal is not a multiple of .05, it will be adjusted to the next higher multiple of .05 (the "Adjusted Yield"). Interest will be calculated on the actual number of days in the year, i.e., 365 days. Certificate A will be one of the Certificates of Indebtedness as referred to and as defined in paragraph (7) (i) of the Memorandum of Understanding.


(iii) To the extent that funds credited to the General Account under subparagraph (i) above are not required immediately for payment, the Bank may authorize the FRBNY to debit the General Account by the amount not so required and invest this amount in a non-transferable

United States Treasury Certificate of Indebtedness (the "Discretionary Certificate") which the Secretary of the Treasury is prepared to issue to the Bank, at par, to mature February 15, 1990, provided that the Bank's authorization is received on or before 10 a.m. (New York) of the day on which the funds are received. The Discretionary Certificate will be issued by the FRBNY, and redeemed, in whole or in part, on two business days' notice (New York) to the FRBNY. The Discretionary Certificate will be held in the Custody Account. The Discretionary Certificate will bear the same rate of interest as that earned by Certificate A. The Discretionary Certificate will not be one of the Certificates of Indebtedness as referred to and as defined in paragraph (7) (i) of the Memorandum of Understanding.

B. The Mexican pesos counterpart of the drawing by the Bank is to be credited to a special account in the name of "Federal Reserve Bank of New York as Fiscal Agent of the United States, Special Account No. 2" on the books of the Bank in accordance with instructions given to the Bank by authenticated telecommunication. The Mexican pesos in such account will earn a return which is equal to the Adjusted Yield, as calculated in paragraph IV.A (ii) above. Such return shall be converted to United States dollars at the time of repayment on the amount being repaid at the rate of exchange described in paragraph III above. Such balances may be withdrawn by the United States Treasury on two business days' notice.

V. The Banco de México and the Government of the United Mexican States agree not to activate the Exchange Stabilization Agreement of December 21, 1967, as amended and in accordance with certain understandings, among the Secretary of the Treasury, the Banco de México, and the Government of the United Mexican States (the "Stabilization Agreement"), while the Bilateral Arrangement is in effect. Nevertheless, the Banco de Mexico and the Government of the United Mexican States reiterate their willingness to furnish Treasury with information on Mexico's economic and financial conditions and related policies, as provided for under the Stabilization Agreement.

VI. The Government of the United Mexican States hereby unconditionally guarantees the full performance by the Bank of all obligations, duties and liabilities of the Bank under this agreement.



VII. This agreement is executed in two counterparts, each of which when so executed shall be deemed to be an original, and all of which taken together shall constitute one and the same agreement.

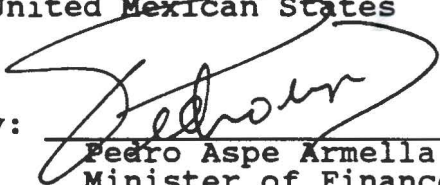
United States Treasury
Exchange Stabilization
Fund

By:


Charles H. Dallara
Assistant Secretary
(International Affairs)


Government of the
United Mexican States

By:


Pedro Aspe Armella
Minister of Finance
and Public Credit

Banco de Mexico

By:


Miguel Mancera Aguayo
Director General

September 14 , 1989



August 31, 1989

MEMORANDUM OF UNDERSTANDING

(1) The Facility

(i) This Memorandum of Understanding sets forth the mutual understandings of (a) the Banco de Mexico, and (b) the United States Monetary Authorities; the Bank for International Settlements ("BIS"), acting for certain participating member central banks; and the Banco de Espana as to the provision of near-term support for the international reserves of the United Mexican States ("UMS") (the "Facility"). The monetary institutions listed under (b) shall hereinafter individually be referred to as a "Cooperating Monetary Institution" and collectively as the "Cooperating Monetary Institutions."

(ii) The Cooperating Monetary Institutions are providing the Facility in light of: (a) the agreement in principle between the UMS and its commercial bank creditors on a multi-year financial package in support of the program of economic reform and economic growth of the UMS; (b) the approval by the Executive Board of the International Monetary Fund (the "Fund") on May 26, 1989, of a three-year Extended Fund Facility ("EFF") in the amount of SDR 2,797 million for

the UMS of which SDR 326.4 million is expected to be available from the Fund in purchases by the UMS before the end of 1989, which amount excludes the funds set aside by the Fund for debt reduction ("Fund Set Asides"); (c) the approval by the Executive Board of the International Bank for Reconstruction and Development (the "World Bank") on June 13, 1989, of three policy-based loans for the UMS, the financial sector adjustment loan, public enterprises reform project, and industrial sector policy loan, in an aggregate amount of U.S. \$1.5 billion, of which U.S. \$125 million of the first tranches of such loans is expected to be available in the near-term and U.S. \$356 million subsequently under the second tranches of these loans, which amounts exclude the balance of U.S. \$325 million of the first tranches of these loans and funds set aside by the World Bank in support of debt reduction ("World Bank Set Asides"); the previous approval by the Executive Board of the World Bank of three other policy-based loans for the UMS, the steel sector restructuring project, agriculture sector loan, and fertilizer sector loan, under which additional tranches are expected to be available in early 1990 in an aggregate amount of U.S. \$115 million, which amount excludes World Bank Set Asides; and also the previous approval by the Executive Board of the World Bank of various project loans under which disbursements are expected to be made in the near-term (the amounts of disbursements, and the dates by which such disbursements are expected, under these World Bank loans are specified in Schedule B); and (d) the agreement by the Banco de Mexico and the appropriate Mexican authorities to apply the proceeds of

purchases from the Fund, except for purchases for interest support in connection with debt and debt service reduction operations ("Interest Support") and Fund Set Asides, and of disbursements from the World Bank, except for World Bank Set Asides, in reimbursement of expenditures incurred in or during the execution of the projects or programs financed under the World Bank loans in amounts specified in Schedule B, in repayment of this Facility, and in any event to repay the Facility in full not later than February 15, 1990, (the "Maturity Date").

(2) Multilateral and Bilateral Arrangements

The Cooperating Monetary Institutions have agreed that the Facility shall be provided to the Banco de Mexico in the form of (i) a multilateral arrangement, in which the BIS, the Banco de Espana, and the United States Monetary Authorities shall participate in providing a short-term credit facility for the UMS (the "Multilateral Arrangement") and (ii) a bilateral arrangement, in which the United States Monetary Authorities shall also provide a short-term credit facility for the UMS (the "Bilateral Arrangement") (collectively the "Arrangements").

(3) The Separate Agreements

To implement this Memorandum of Understanding the Cooperating Monetary Institutions shall enter into separate agreements with the Banco de Mexico (the "Separate Agreements"). The terms and conditions of each Separate Agreement shall be consistent with the provisions of this

Memorandum of Understanding, and shall govern the respective rights and obligations of the parties thereto.

(4) Commitments of the Cooperating Monetary Institutions

The amounts of the commitments made by each of the Cooperating Monetary Institutions under their respective Separate Agreements to the Facility with respect to the Arrangements are set out in Schedule A to this Memorandum of Understanding.

(5) Funding of a Drawing on the Facility

(i) The aggregate amount of the Facility shall be U.S.\$2,000 million, which shall be made available by the Cooperating Monetary Institutions to the Banco de Mexico in a single drawing at the Federal Reserve Bank of New York (the "FRBNY") subject to the terms and conditions of this Memorandum of Understanding.

(ii) For the drawing under the Facility by the Banco de Mexico pursuant to paragraph (6) below, each of the Cooperating Monetary Institutions shall, one New York working day prior to the drawing's requested value date, in an authenticated telecommunication received by and in a form acceptable to the FRBNY, irrevocably authorize and instruct the FRBNY to debit its account on the books of the FRBNY in amounts equal to commitments under the Facility as set out in Schedule A, except as provided in paragraph (6) below, and, if funds in its account are not sufficient, to liquidate investments the FRBNY holds for it, and to transfer such amount to Banco de Mexico's

account on the FRBNY's books. The FRBNY shall effect such transfer only if it has received similar irrevocable authorizations and instructions from each of the Cooperating Monetary Institutions with funds in each of their accounts, or investments held at the FRBNY that may be liquidated, sufficient to cover the respective amounts to be transferred.

(6) Amount Available to be Drawn under the Facility

Subject to the conditions precedent set out in paragraph (7) below, the Banco de Mexico may request the drawing on the Facility on two New York working days' notice by authenticated telecommunication to the FRBNY and to each of the Cooperating Monetary Institutions in a form acceptable to each of them; provided, however, that the amount of the drawing that may be requested under the Facility shall be reduced by the aggregate amount of any disbursements from the World Bank, other than the World Bank Set Asides, in excess of U.S. \$325 million under any of the policy-based loans listed in Schedule B, and the proceeds of any purchases from the Fund, other than Fund Set Asides and Interest Support, which the UMS shall have received after August 1, 1989; and provided further that if the amount of the drawing that may be requested by the Banco de Mexico is reduced pursuant to this paragraph, then the amount of such reduction shall be applied first to decrease on a pari passu basis the amount of the commitments of the Cooperating Monetary Institutions under the Multilateral Arrangement and thereafter to decrease on a pari passu basis

the amount of the commitments of the United States Monetary Authorities under the Bilateral Arrangement, as set out in Schedule A, for purposes of funding the Facility in accordance with paragraph (5) above and repayment of the Facility in accordance with paragraph (9) below.

(7) Crediting of Drawings and Conditions Precedent

(i) For the drawing made under the Facility pursuant to paragraph (6), and subject to compliance with the conditions precedent specified in subparagraph (ii) of this paragraph, the FRBNY shall debit the accounts of the Cooperating Monetary Institutions pursuant to paragraph (5)(ii), and credit the amount of the drawing to the Banco de Mexico's general account on the FRBNY's books; provided, however, that U.S.\$500 million of the total amount of the drawing under the Bilateral Arrangement shall be immediately invested for the account of the Banco de Mexico in non-transferable United States Treasury Certificates of Indebtedness (the "Certificates"), maturing on the Maturity Date, and bearing interest as determined in accordance with the Separate Agreements of the United States Monetary Authorities. The Certificates will be issued to the Banco de Mexico and held in its custody account at the FRBNY. The proceeds of the redemption by the Banco de Mexico of the Certificates shall be applied to repay the Bilateral Arrangement, together with interest accrued on the amount being repaid, on or before the Maturity Date in accordance with paragraph (9) below.

(ii) The following conditions precedent shall apply to the drawing on the Facility:

(a) The FRBNY has received from each of the Cooperating Monetary Institutions the instructions referred to in paragraph (5)(ii), and each of the Cooperating Monetary Institutions has sufficient funds in its account on the books of the FRBNY, or investments held at the FRBNY that may be liquidated, to cover the amount to be transferred;

(b) The FRBNY has received from the World Bank a letter in the form set forth in Schedule C stating that, as of the date of the request for the drawing, none of the World Bank loans listed in Schedule B has been suspended by reason of default by the UMS or any other borrower or guarantor with respect to any obligation to the World Bank under any such loan;

(c) The letter referred to in subparagraph (ii)(b) above in the form of Schedule C shall also state that all of the policy-based World Bank loans listed in Schedule B, except for the fertilizer sector loan, have become effective;

(d) The FRBNY shall have received a copy of a letter addressed to the Cooperating Monetary Institutions from the Managing Director of the Fund

in the form of Schedule D concerning the compliance of the UMS with performance criteria applicable to its economic program with the Fund;

(e) The FRBNY shall have received a copy of the instructions and other communications to the Fund and the World Bank specified in paragraph 10, which shall have been provided by the appropriate Mexican authorities;

(f) The arrangements concerning the receipt by the BIS of proceeds of payments due under contracts for sale of Mexican crude oil contemplated in the Separate Agreement with the BIS and specified in paragraph (11)(i) shall have been completed; and

(g) The Banco de Mexico shall have obtained, and shall have provided to the FRBNY copies of any legal opinions or other documents as are required by any of the Cooperating Monetary Institutions, and in particular the legal opinions in the form set out in Schedules E, F, G-1, G-2, and H.

(8) Repayment Schedule

(i) The Banco de Mexico shall repay the drawing made under paragraph (6), plus accrued and unpaid interest on the amount repaid, as set out below:

(a) On each date on which the proceeds are made available to the appropriate Mexican authorities of

(x) any purchases under the EFF or other purchases from the Fund, except for Interest Support and Fund Set Asides, or (y) any disbursements from the World Bank, other than World Bank Set Asides, in reimbursement of expenditures incurred in or during the execution of the projects or programs financed under World Bank loans in amounts specified in Schedule B, such proceeds shall be applied in repayment of the Facility in accordance with the procedures set forth in paragraphs (9) and (10) below; and

(b) On the Maturity Date, any remaining outstanding balance.

(ii) The Banco de Mexico shall have the right, at any time, on giving two New York working days' notice by authenticated telecommunication to each of the Cooperating Monetary Institutions and to the FRBNY, to reimburse in advance all or part of the drawing made under the Facility, in accordance with the procedures set forth in paragraphs (7), (9) and (10) hereof and subject to compliance with any requirement under the Separate Agreements for a related interest rate adjustment.

(iii) Prior to any repayment under this paragraph (8), the Banco de Mexico shall provide the FRBNY, in a form acceptable to the FRBNY, with a schedule of interest payments due on the date of each such repayment to each of the

Cooperating Monetary Institutions pursuant to the Separate Agreements.

(9) Repayment Procedures

(i) Banco de Mexico shall make all repayments of the drawing, plus interest, on the Facility through the FRBNY, which shall distribute repayments of principal in the following manner:

(a) pari passu to the Cooperating Monetary Institutions in proportion to the amounts committed under the Multilateral Arrangement as set out in Schedule A, and

(b) only after the Multilateral Arrangement is repaid in full, including interest, pari passu to the United States Monetary Authorities in proportion to the amounts committed under the Bilateral Arrangement as set out in Schedule A;

provided, however, that on or before the Maturity Date, as provided in paragraph (7), Banco de Mexico hereby irrevocably authorizes and instructs the FRBNY to redeem the Certificates to effect pari passu repayment only of the Bilateral Arrangement, including interest, in accordance with the terms of the respective Separate Agreements of the United States Monetary Authorities. The Banco de Mexico shall pay interest to the Cooperating Monetary Institutions on all principal amounts repaid at the time of repayment and at the rates set out in the respective Separate Agreements. (The procedures set

out in this subparagraph (i) are hereinafter referred to as "Repayment Procedures.")

(ii) The Banco de Mexico irrevocably authorizes and instructs the FRBNY to debit the Special Funds Account, as defined in paragraph (10) below, in the amounts of each repayment of the Facility other than repayment from the proceeds of redemption of the Certificates, plus interest accrued on such amounts, on the repayment dates specified in paragraph (8); provided, however, that, except on or after the Maturity Date, aggregate amounts in the Special Funds Account shall be equal to or greater than \$50 million before the Special Funds Account shall be debited in repayment of the Facility. Funds deposited into the Special Funds Account that are not immediately applied to repayment of the Facility may be invested, at the request of the Banco de Mexico, in the repurchase agreement pool of the FRBNY, and such investments plus interest earned thereon shall be deemed for purposes of this Memorandum of Understanding to be part of the Special Funds Account. If, on the Maturity Date, and after redemption of the Certificates as provided in paragraph (7) and subparagraph (i) of this paragraph, the funds in the Special Funds Account are not sufficient to effect full repayment of the Facility including interest, the Banco de Mexico irrevocably authorizes and instructs the FRBNY to debit any other account of the Banco de Mexico with the FRBNY and, if necessary, to liquidate investments the FRBNY holds for the

Banco de Mexico, and apply such amounts first to the payment of accrued and unpaid interest and then to the payment of outstanding principal by transferring such amounts to the accounts on the books of the FRBNY of the Cooperating Monetary Institutions in accordance with the Repayment Procedures.

(iii) If any Cooperating Monetary Institution receives a repayment or satisfaction of a claim arising under its respective Separate Agreement, other than repayment of all or part of the Bilateral Arrangement through redemption of the Certificates, the amount so received shall be shared among the Cooperating Monetary Institutions in accordance with the Repayment Procedures. For this purpose that part of the amount so received which exceeds the proportionate share of such Cooperating Monetary Institution as set out in Schedule A and pursuant to the Repayment Procedures shall be transferred by it to the FRBNY for distribution among the other Cooperating Monetary Institutions against assignment of the corresponding claim of the latter on the Banco de Mexico.

(iv) Repayment in accordance with subparagraphs (i), (ii), and (iii) of this paragraph shall apply under all Separate Agreements, including under the substitution provisions of any agreement between the BIS and participating member central banks acting through the BIS.

(10) Instructions on Purchases from the Fund and World Bank Disbursements

(i) As a condition to the drawing under this Facility, the appropriate Mexican authorities shall give the instructions set forth under subparagraphs (ii) and (iii) below, which instructions shall not be revoked until the FRBNY certifies on behalf of the Cooperating Monetary Institutions in an authenticated telecommunication to the Banco de Mexico that the Facility has been repaid in full, including interest.

(ii) With respect to the proceeds made available to the UMS from purchases under the EFF or any other purchases from the Fund, other than Fund Set Asides and Interest Support, prior to repayment of the Facility in full, including interest, the appropriate Mexican authorities, immediately after this Memorandum of Understanding becomes effective, shall irrevocably instruct the Fund, in the form set forth in Schedule I, to transfer such proceeds directly to the FRBNY for deposit into a special account of the Banco de Mexico at the FRBNY established for this purpose (the "Special Funds Account"), and the Banco de Mexico hereby irrevocably authorizes and instructs the FRBNY to debit such account and to disburse any funds received into such account in repayment of the Facility in accordance with paragraph (9) above. A copy of the letter of instructions in the form of Schedule I shall be provided to the FRBNY in accordance with paragraph (7)(ii)(e) above as a condition precedent to the drawing under the Facility.

(iii) With respect to the disbursements, from the World Bank, other than World Bank Set Asides, in reimbursement of expenditures incurred in or during the execution of the projects or programs financed under World Bank loans in amounts specified in Schedule B, the appropriate Mexican authorities shall, immediately after this Memorandum of Understanding becomes effective, irrevocably instruct the World Bank, in the form of Schedule J, to deposit such disbursements into the Special Funds Account. In addition, the Banco de Mexico shall provide to the FRBNY an authenticated copy of a letter addressed to the UMS and the Banco de Mexico by the World Bank, in the form of Schedule K, in which the World Bank (a) takes note that the proceeds of the disbursements by the World Bank, other than Set Asides, under the loans listed in, and in amounts specified in, Schedule B, will be applied in repayment of the drawing made by the Banco de Mexico under the Facility, (b) confirms that the World Bank will carry out instructions by the Mexican authorities to pay the proceeds of such disbursements to the Special Funds Account, and (c) notes that such instructions may not be revoked until the drawings under the Facility have been repaid in full, including interest, as certified by the FRBNY on behalf of the Cooperating Monetary Institutions. Copies of the letters in the form of Schedules J and K shall be provided to the FRBNY in accordance with paragraph (7)(ii)(e) above as a condition precedent to the drawing under the Facility.

(iv) The Banco de Mexico hereby agrees to the use of the funds deposited into the Special Funds Account for repayments provided for in paragraphs (8)(i) and (ii) above and in accordance with the Repayment Procedures. If the Facility, including accrued interest, has not been repaid in full on the Maturity Date, the FRBNY shall debit the Special Funds Account and disburse the funds so debited in repayment of the Facility in accordance with paragraph (9) above as and when additional funds are received in the Special Funds Account from the Fund and the World Bank. If, after such debit, the Facility has not been repaid in full, including accrued interest, on the Maturity Date, then the Banco de Mexico will deposit into the Special Funds Account additional funds to repay the Facility in full including interest. After repayment in full of the Facility, including interest, the Facility shall terminate, and only then shall the Banco de Mexico be entitled to draw on funds in the Special Funds Account.

(11) Proceeds of Oil Shipments

(i) The Banco de Mexico hereby covenants, as a condition to the drawing under this Facility, that it will complete all the necessary arrangements (a) to provide, as from February 16, 1990, for the transfer by Petroleos Mexicanos ("PEMEX"), and any of its subsidiaries, including P.M.I. Comercio Internacional, S.A. de C.V., to the Banco de Mexico of proceeds of crude oil shipments in amounts aggregating up to U.S. \$1.6 billion, the amounts so transferred becoming part of

the monetary reserves held by the Banco de Mexico, and (b) for the amounts so received by the Banco de Mexico to be credited by it to an account of the Banco de Mexico on the books of the BIS in an aggregate amount up to U.S. \$1.6 billion, which is intended to be sufficient to repay total indebtedness of the Banco de Mexico including accrued and unpaid interest under the Separate Agreements that may be outstanding as from February 16, 1990. To effect such arrangements Banco de Mexico has agreed to provide the FRBNY with the documentation set forth in the forms set out in Schedules L - P as required by paragraph (7)(ii)(f) above as a condition precedent to a drawing under the Facility.

(ii) The Banco de Mexico agrees that, by means of assignment, the BIS may at any time after the Maturity Date be wholly or partly substituted for any other Cooperating Monetary Institution with respect to all or any of its claims or rights which may then subsist under or in connection with the Separate Agreement of that Cooperating Monetary Institution. Similarly, the Banco de Mexico agrees that the BIS may reassign any such claims and rights to the other Cooperating Monetary Institutions.

(iii) To the extent that after the Maturity Date any amounts remain due and unpaid by the Banco de Mexico under any of the Separate Agreements, the BIS may set off, against any amounts standing to the credit of the Banco de Mexico's account established in accordance with paragraph (11)(i) above, any

such claim under the Separate Agreements, irrespective of whether the BIS is entitled to such claim under the Separate Agreement between the BIS and the Banco de Mexico, or under any other Separate Agreement after substitution pursuant to paragraph (11)(ii) above.

(12) Oil Proceeds Implementation Arrangements

(i) The BIS will use its best endeavors to facilitate the implementation of the arrangements under paragraph (11) above for the benefit of the other Cooperating Monetary Institutions and any party which may be substituted for the BIS with respect to its Separate Agreement with the Banco de Mexico. The BIS shall, to the extent feasible, set off any amounts in the account of the Banco de Mexico in the BIS established pursuant to paragraph (11)(i) above to the extent there are any amounts due and unpaid to any of the Cooperating Monetary Institutions. However, the BIS shall not assume any liability whatsoever to the Cooperating Monetary Institutions for, nor bear any risk in connection with, the establishment of such arrangements or for their proper implementation.

(ii) The duties of the BIS with respect to any amounts obtained as a result of actions taken pursuant to paragraphs (11)(iii) or (12)(i) above shall be limited to paying to the other Cooperating Monetary Institutions, or to any party substituted for the BIS, the amounts effectively received by the BIS under such arrangements on a pari passu basis in proportion to the respective proportionate share of each

Cooperating Monetary Institution in the Facility as set forth in Schedule A; provided, however, that for these purposes the proportionate shares of the United States Monetary Authorities shall be calculated by reducing their respective commitments by the amounts invested by the Banco de Mexico in each of the respective Certificates.

(iii) In order to carry out its duties under subparagraph (ii) of this paragraph, the BIS may request at any time after the Maturity Date the assignment to the BIS of any of the then outstanding claims of the other Cooperating Monetary Institutions under their Separate Agreements with the Banco de Mexico. If at any time after the Maturity Date any sums are due and unpaid to any of the Cooperating Monetary Institutions (other than the BIS) under the Separate Agreements, such Cooperating Monetary Institutions shall have the right to assign their claims arising under such Separate Agreements to the BIS. Any claims so assigned to the BIS shall be free from any pledge, encumbrance or other similar right in favor of third parties, and the BIS shall have the right to decline to accept the assignment of any particular claim if, in its reasonable judgment, it believes such rights do or may exist.

(13) Additional Implementing Arrangements

(i) In carrying out its duties in connection with the arrangements referred to in paragraphs (11) and (12) above, the BIS may, at its sole discretion, take such steps as it considers reasonable and appropriate in the circumstances to

protect the interests of each of the Cooperating Monetary Institutions and of any party which may be substituted for the BIS.

(ii) No compensation shall be due to the BIS from the Banco de Mexico or from the other Cooperating Monetary Institutions for the duties undertaken by the BIS in connection with the arrangements referred to in paragraphs (11) and (12) above. Nevertheless, the other Cooperating Monetary Institutions in common with any central bank or monetary authority that may be substituted for the BIS agree to indemnify the BIS for all and any loss or damage, costs, or expenses it may incur as a result of the application of such arrangements in the same proportion as their respective proportionate shares in the Facility as set forth in Schedule A; provided, however, that for these purposes the proportionate shares of United States Monetary Authorities shall be calculated by reducing their respective commitments by the amounts invested by the Banco de Mexico in each of the respective Certificates.

(iii) At any time, any other Cooperating Monetary Institution or any party substituted for the BIS with respect to its Separate Agreement with the Banco de Mexico may renounce its benefits under the arrangements referred to in paragraphs (11) and (12) above. In that event the BIS shall be fully discharged from any further duties towards that Cooperating Monetary Institution or substituted party as regards those

arrangements, and where necessary the BIS will reassign any subsisting claim or claims previously assigned to it by that Cooperating Monetary Institution or substituted party pursuant to paragraph (12)(iii) above. Following such renunciation of benefits, no account shall be taken by the BIS of the proportionate share of such renouncing Cooperating Monetary Institution or substituted party for the purposes of paragraph (12)(ii) above. Any Cooperating Monetary Institution or substituted party which fails to effect an assignment requested by the BIS pursuant to paragraph (12)(iii) above shall be deemed to have renounced any benefit under the arrangements referred to in paragraph (11) above.

(iv) After the Maturity Date, the BIS may at any time terminate its duties in connection with the arrangements referred to in paragraph (11) by giving the other Cooperating Monetary Institutions or substituted parties three months' written notice. At the expiry of such notice, the BIS shall ipso facto be discharged from any further duties in that connection and shall, where necessary, reassign the then subsisting claim or claims previously assigned to it by the Cooperating Monetary Institutions or substituted parties concerned.

(14) Continuing Effect of the Memorandum of Understanding and the Separate Agreements

(i) The BIS agrees that the substitution agreement between the BIS and its participating member central banks

concerning implementation of the Separate Agreement between the BIS and the Banco de Mexico shall provide that, in the event of the substitution of such central banks for the BIS, such central banks shall be bound by the same terms and conditions as are applicable to the BIS under this Memorandum of Understanding, except for those duties of the BIS referred to in paragraphs (11), (12), and (13) above.

(ii) Banco de Mexico agrees that the rights of each of the Cooperating Monetary Institutions or any central bank or monetary authority that may be substituted for them under the Separate Agreements shall continue in effect until such time as the Banco de Mexico has fulfilled all its obligations under such Separate Agreements.

(15) Authority of Banco de Mexico

(i) The Banco de Mexico warrants that it has full power and authority to enter into and perform its obligations under this Memorandum of Understanding and the Separate Agreements and has taken all necessary corporate and other actions to authorize the performance of the terms and conditions thereof.

(ii) The Banco de Mexico warrants that the Government of the UMS has agreed in writing, in the form set out in Schedule Q, to take whatever actions, and provide any other support, necessary to facilitate the Banco de Mexico's performance under this Memorandum of Understanding and under the Separate Agreements. The document in the form of Schedule Q shall be provided to the FRBNY in accordance with

paragraph (7)(ii)(g) above as a condition precedent to the drawing under the Facility.

(16) Rules Applicable to the FRBNY

In carrying out its functions, the FRBNY shall have the authority to interpret and act under the terms of this Memorandum of Understanding and under the irrevocable authorizations and instructions received by it hereunder and any notifications or other communications that the parties hereto shall send or transmit to the FRBNY, in such manner as the FRBNY, in its sole judgment, deems reasonable. In making any calculations of the drawing and repayments provided for under this Memorandum of Understanding and the Separate Agreements, the FRBNY shall have the authority to make rounding adjustments to any amounts determined on the basis of the proportionate share of the commitment of each Cooperating Monetary Institution to the total of such commitments in Schedule A as to the Multilateral Arrangement, the Bilateral Arrangement, or to the Facility so that total drawings and repayments under the Facility equal the commitments of each of the Cooperating Monetary Institutions provided for in Schedule A and in accordance with the terms of this Memorandum of Understanding. No compensation shall be due from the Banco de Mexico for services rendered by the FRBNY under the authorizations and instructions in this Memorandum of Understanding. In carrying out its functions under this

Memorandum of Understanding the FRBNY shall be liable only for its failure to exercise reasonable care.

(17) Amendment

This Memorandum of Understanding may be amended by the consent in writing, including consent by authenticated telecommunication, of all the parties to such Memorandum.

(18) Entry into Effect

(i) By transmitting an authenticated telecommunication to the FRBNY containing the word "Condor" and its name, each Cooperating Monetary Institution (a) indicates its consent to the terms of this Memorandum of Understanding and (b) confirms that its Separate Agreement with the Banco de Mexico has been executed.

(ii) By transmitting an authenticated telecommunication to the FRBNY containing the word "Tern" and its name, the Banco de Mexico (a) indicates its consent to the terms of this Memorandum of Understanding, (b) confirms that all of its Separate Agreements with the Cooperating Monetary Institutions have been executed and (c) irrevocably authorizes and instructs the FRBNY to establish the Special Funds Account.

(iii) All notices referred to in (i) and (ii) of this paragraph (18) shall hereinafter be referred to as the "Notices". The Notices should be sent so that they will be received by the FRBNY by 5:00 p.m., New York Time, September 14, 1989.

(iv) This Memorandum of Understanding and all of the Separate Agreements shall take effect when the FRBNY advises all of the Cooperating Monetary Institutions and the Banco de Mexico by authenticated telecommunication that it has received all of the Notices required by this paragraph (18). No message shall be effective to alter the terms of such Notices.

SCHEDULE A

AMOUNTS OF COMMITMENTS OF COOPERATING MONETARY INSTITUTIONS TO THE FACILITY AND TO THE MULTILATERAL AND BILATERAL ARRANGEMENTS

(millions of U.S. dollars)

| | |
|--|-----------------|
| <u>Multilateral Arrangement</u> | <u>1000</u> |
| <u>Bank for International Settlements</u> acting on behalf of participating G-10 central banks | <u>700</u> |
| <u>Banco de Espana</u> | <u>50</u> |
| <u>United States Monetary Authorities</u> | <u>250</u> |
| -- U.S. Department of the Treasury (125) | |
| -- Federal Reserve System (125)* | |
| <u>Bilateral Arrangement</u> | |
| of the United States Monetary Authorities** | <u>1000</u> |
| -- U.S. Department of the Treasury (300) | |
| -- Federal Reserve System (700)* | |
| TOTAL FOR FACILITY | <u>2000</u> |

* / The Federal Reserve Bank of New York will act on behalf of the Federal Reserve System.

** / Of the U.S. \$1000 million to be provided by the United States Monetary Authorities under the Bilateral Arrangement, the Banco de Mexico shall invest U.S. \$500 million in nontransferable United States Treasury Certificates of Indebtedness, of which U.S. \$150 million and U.S. \$350 million are to be provided under the Bilateral Arrangement, respectively, by the United States Department of the Treasury and the Federal Reserve System.

SCHEDULE B
WORLD BANK LOANS

| <u>Loan Name</u> | <u>Loan No.</u> | <u>Expected Amounts of Proceeds by Date</u> <u>*/</u> | | |
|---------------------------------------|-----------------|---|------------------|----------------|
| | | (in millions of dollars) | | |
| | | <u>9/30/89</u> | <u>12/31/89</u> | <u>3/30/90</u> |
| <u>Policy-Based Loans</u> | | | | |
| Financial Sector Adjustment Loan | 3085 ME | 125.0 <u>**/</u> | | 110.0 |
| Public Enterprises Reform Project | 3086 ME | <u>**/</u> | | 124.0 |
| Industrial Sector Policy Loan | 3087 ME | <u>**/</u> | | 122.0 |
| Steel Sector Restructuring Project | 2916 ME | 20.0 | 57.0 <u>***/</u> | 20.0 |
| Agricultural Sector Loan | 2918 ME | | <u>***/</u> | |
| Fertilizer Sector Loan | 2919 ME | | <u>***/</u> | 30.0 |
| <u>Project Loans</u> | | | | |
| <u>Agriculture</u> | | | | |
| Rio Fuerte | 1706 ME | 1.0 | 0.5 | 0.5 |
| Apatzingan | 1858 ME | 0.2 | 0.2 | 0.2 |

^{*/} The amounts expected under the policy-based loans do not include amounts set aside, or allocated, by the World Bank in support of debt reduction and an aggregate amount of U.S. \$325 million expected under the Financial Sector Adjustment Loan, Public Enterprises Reform Project, and Industrial Sector Policy Loan. The amounts expected under the policy-based and project loans include only those disbursements in reimbursement of expenditures incurred in or during the execution of the projects or programs financed under the loans from the World Bank.

^{**/} Aggregate proceeds of U.S. \$125 million are expected to be available, out of total proceeds of U.S. \$450 million, from the first tranches of the Financial Sector Adjustment Loan, Public Enterprises Reform Project, and Industrial Sector Policy Loan.

^{***/} The aggregate amount expected to be disbursed, by December 31, 1989 under the Steel Sector Restructuring Project, the Agricultural Sector Loan and Fertilizer Sector Loan, is U.S. \$57 million.

| <u>Loan Name</u> | <u>Loan No.</u> | <u>Expected Amounts of Proceeds and Date*/</u> | | |
|-----------------------|-----------------|--|-----------------|----------------|
| | | (in millions of dollars) | | |
| | | <u>9/30/89</u> | <u>12/31/89</u> | <u>3/30/90</u> |
| <u>Agriculture</u> | | | | |
| Agri. Marketing | 2262 ME | 1.1 | | |
| Chiapas Agriculture | 2526 ME | 0.5 | 0.5 | 1.5 |
| Proderith | 2658 ME | 0.6 | 0.5 | 1.0 |
| Agric. Credit (FIRA) | 2837 ME | 10.0 | 12.0 | 6.6 |
| Agric. Extension | 2859 ME | 0.5 | 0.2 | 0.5 |
| <u>Industry</u> | | | | |
| Capital Goods | 2142 ME | | 0.6 | 0.1 |
| Sm./Med. Ind. III | 2325 ME | 0.2 | | |
| Export Dev. | 2331 ME | 1.5 | 1.0 | 2.0 |
| Sm./Med. Mining | 2546 ME | 5.0 | 10.0 | 10.0 |
| Housing Finance | 2612 ME | | 20.0 | |
| TPL I | 2745 ME | 2.0 | 2.0 | 2.0 |
| Industrial Recovery | 2746 ME | 8.5 | 10.0 | 10.0 |
| Technology Dev. | 2747 ME | 1.5 | 2.0 | 2.0 |
| Export Dev. | 2777 ME | 5.0 | 7.0 | 5.0 |
| Sm./Med. Ind. IV | 2858 ME | | 5.0 | 15.0 |
| Industrial Restr. | 3047 ME | | 2.0 | 15.0 |
| <u>Infrastructure</u> | | | | |
| Urban II | 1990 ME | | 2.5 | |
| Sinaloa Water | 2281 ME | 7.0 | 5.5 | 5.0 |

| <u>Loan Name</u> | <u>Loan No.</u> | <u>Expected Amounts of Proceeds and Date*/</u> | | |
|---|-----------------|--|-----------------|----------------|
| | | (in millions of dollars) | | |
| | | <u>9/30/89</u> | <u>12/31/89</u> | <u>3/30/90</u> |
| <u>Infrastructure</u> | | | | |
| Highways Sector II | 2428 ME | 5.0 | 5.0 | 5.0 |
| Lazaro Cardenas Ports | 2450 ME | 1.0 | 0.5 | 1.0 |
| Railways V | 2575 ME | 15.0 | 15.0 | 10.0 |
| Low Income Housing | 2612 ME | 3.0 | 5.0 | 5.0 |
| Earthquake Rehab. | 2665 ME | 8.0 | 7.0 | 10.0 |
| Municipal Strength | 2666 ME | 0.5 | 2.0 | 2.0 |
| Solid Waste | 2669 ME | 1.5 | 2.0 | 2.0 |
| Urban Transport | 2824 ME | 5.0 | 5.0 | 5.0 |
| Highway Maint. | 2875 ME | 5.0 | 5.0 | 5.0 |
| Ports Rehab. | 2946 ME | | 5.0 | 5.0 |
| Hydroelect. Dev. | 3083 ME | | | 10.0 |
| Water/Women | 3101 ME | | | 5.0 |
| <u>Education</u> | | | | |
| Vocational Education | 2559 ME | 3.0 | 5.0 | 4.0 |
| Manpower Education | 2876 ME | 5.5 | 5.0 | 5.5 |
| Quarterly Totals | | 242.1 | 200.0 | 556.9 |
| Cumulative Subtotal of All Proceeds of Policy-Based Loans | | | | 608.0 |
| Cumulative Subtotal of All Proceeds of Project Loans | | | | 391.0 |
| Grand Total of All Loans | | | | 999.0 |

SCHEDULE C

WORLD BANK LETTER CONFIRMING NO DEFAULTS

[Date]

Federal Reserve Bank of New York
New York, New York 10045

Dear Sirs:

This is to confirm that as of this date none of the World Bank loans listed in Attachment 1 hereto has been suspended by reason of default by the respective borrower or guarantor, with respect to any obligation to the World Bank thereunder; and all of the policy-based World Bank loans, except for the fertilizer sector loan, have become effective.

Very truly yours,

Director, Country Department II
Latin America and the Caribbean Regional Office

Attachment 1
World Bank Loans

1. Loans to Nacional Financiera, S.N.C.

Loan No. 2916 ME (Steel Sector Restructuring Project)*/
Loan No. 2918 ME (Agricultural Sector Loan)*/
Loan No. 2919 ME (Fertilizer Sector Loan)*/
Loan No. 3086 ME (Public Enterprises Reform Project)*/
Loan No. 3087 ME (Industry Sector Policy Loan)*/
Loan No. 1706 ME (Rio Fuerte)
Loan No. 1858 ME (Apatzingan)
Loan No. 2262 ME (Agri. Marketing)
Loan No. 2526 ME (Chiapas Agriculture)
Loan No. 2658 ME (Proderith)
Loan No. 2837 ME (Agric. Credit (FIRA))
Loan No. 2859 ME (Agric. Extension)
Loan No. 2142 ME (Capital Goods)
Loan No. 2325 ME (Sm./Med. Ind. III)
Loan No. 2546 ME (Sm./Med. Mining)
Loan No. 2746 ME (Industrial Recovery)
Loan No. 2747 ME (Technology Dev.)
Loan No. 2858 ME (Sm./Med. Ind. IV)
Loan No. 3047 ME (Industrial Restr.)
Loan No. 3083 ME (Hydroelect. Dev.)
Loan No. 2559 ME (Vocational/Education)
Loan No. 2876 ME (Manpower Education)

2. Loans to Banco Nacional de Comercio Exterior, S.N.C.

Loan No. 3085 ME (Financial Sector Adjustment Loan)*/
Loan No. 2331 ME (Export Dev.)
Loan No. 2745 ME (TPL I)
Loan No. 2777 ME (Export Dev.)

3. Loans to Banco Nacional de Obras y Servicios Publicos, S.N.C.

Loan No. 2612 ME (Housing Finance)
Loan No. 1990 ME (Urban II)
Loan No. 2281 ME (Sinaloa Water)
Loan No. 2428 ME (Highways Sector II)
Loan No. 2575 ME (Railways V)
Loan No. 2612 ME (Low Income Housing)
Loan No. 2665 ME (Earthquake Rehab.)
Loan No. 2666 ME (Municipal Strength)
Loan No. 2669 ME (Solid Waste)
Loan No. 2824 ME (Urban Transport)
Loan No. 2875 ME (Highway Maint.)
Loan No. 2946 ME (Ports Rehab.)
Loan No. 3101 ME (Water/Women)

4. Loans to Banco Nacional Pesquero y Portuario, S.N.C.

Loan No. 2450 ME (Lazaro Cardenas Ports)

*/ Policy-based loans.

SCHEDULE D
LETTER FROM THE MANAGING DIRECTOR OF THE FUND

[Date]

Banco de Espana
Bank for International Settlements
Board of Governors of the Federal
Reserve System
U.S. Department of the Treasury

Dear Sirs:

I wish to inform you that, on the basis of the latest information available to the Fund staff, the Mexican economic program is proceeding satisfactorily. Data available to date indicate that Mexico has met the performance criteria for June 30, 1989, under the extended arrangement with the Fund, taking into account adjustments contemplated under the program for changes in the timing of gross external financing. Compliance with these performance criteria and completion of a scheduled review by the Fund's Executive Board would enable Mexico to make its next purchase.

Very truly yours,

Michel Camdessus

[LETTERHEAD OF THE BANCO DE MEXICO]

SCHEDULE E
Legal Opinion of the Deputy Director General of the
Banco de Mexico

[Date]

Banco de Espana
Bank for International Settlements
Board of Governors of the Federal
Reserve System
United States Department of the Treasury

Dear Sirs:

I am the Deputy Director General of the Banco de Mexico (the "Bank") and have acted as Counsel to the Bank in connection with the preparation, execution, and delivery by the Bank of the Memorandum of Understanding (the "Memorandum of Understanding"), dated August 31, 1989, among the Bank and each of you and of the several Separate Agreements (as defined in the Memorandum of Understanding) between the Bank and each of you, respectively. Capitalized terms used herein without definition have the respective meanings specified in the Memorandum of Understanding.

I have examined, inter alia, the following:

- (1) The Organic Law of the Bank,
- (2) Evidence that there have been granted all appropriate authorizations, approvals, licenses, and consents which may be necessary to authorize the Bank to perform its obligations under the terms of the Memorandum of Understanding and each Separate Agreement, and that the same are in full force and effect, and

(3) All such other laws, regulations, and documents
as I have considered necessary or desirable.

I have made such other investigations as I have considered
appropriate for the purpose of giving the opinion set out below.

Based upon such examination, I am of the following
opinion:

(A) The Bank is an institution of Mexico duly
established, validly existing, and in good standing in all
respects under the laws of Mexico and has full power and
authority to own and maintain its properties and assets and to
carry on its functions as they are now being conducted.

(B) The Bank has full power and authority to incur
the obligations referred to in the Memorandum of Understanding
and each Separate Agreement, to execute and deliver the
Memorandum of Understanding and each Separate Agreement, to
comply with the provisions thereof, and to perform the
obligations expressed to be binding upon it in the Memorandum
of Understanding and the Separate Agreements, including but not
limited to the issuance of the irrevocable instructions
described in paragraph 10 of the Memorandum of Understanding,
and the crediting of the amount of the proceeds of certain oil
sales by Petroleos Mexicanos ("Pemex"), and any of its
subsidiaries, including P.M.I. Comercio Internacional, S.A. de
C.V., to an account of the Bank in the books of the BIS, as
contemplated by paragraph 11 of the Memorandum of Understanding

and clauses 8 and 9 of the Separate Agreement between the Bank and the BIS (the "BIS Separate Agreement").

(C) The Memorandum of Understanding and each Separate Agreement constitute legal, valid, and binding obligations of the Bank, enforceable in accordance with their respective terms, and the financial obligations of the Bank thereunder are and will constitute the direct, unconditional, and general indebtedness of the Bank, and rank and will rank at least pari passu in all respects with all other indebtedness issued, created, or assumed by the Bank payable in a currency other than Mexican pesos.

(D) All acts, conditions, and things required to be done, performed and to have happened prior to, and all consents, approvals, exemptions, and other requirements of governmental, public, and other bodies and authorities required for or in connection with, the execution, delivery, and performance of the Memorandum of Understanding and each Separate Agreement in order to render all of the obligations of the Bank thereunder valid, binding, and enforceable in accordance with their respective terms have been done, performed, and happened in due and strict compliance with the Organic Law of the Bank, any applicable agreement, regulation, or regulatory requirement, and all applicable laws of Mexico.

(E) The execution and delivery of the Memorandum of Understanding and each Separate Agreement, the performance by

the Bank of its obligations thereunder, and compliance by the Bank with the terms thereof, have been duly authorized by all necessary actions of the Bank and do not and will not:

(1) violate any provisions of any law, rule, regulation, order, judgment, injunction, decree, resolution, determination, or award of any court or any judicial, administrative, or governmental authority or organization having applicability to the Bank or of the Organic Law of the Bank,

(2) conflict or be inconsistent with, or result in a breach of, any of the terms, covenants, conditions, or provisions of, or constitute a default under, any agreement or other instrument, arrangement, or obligation to which the Bank is a party or by which it or any of its property, assets, or revenues may be bound or affected, or

(3) except as provided for in the Memorandum of Understanding and the Separate Agreements, constitute any arrangement that will create or result in any lien, pledge, mortgage, charge, or other encumbrance or security interest whatever over the whole or any part of the undertaking, property or assets, present or future, of the Bank, as security in respect of any present or future obligation of the Bank, in respect of any indebtedness payable in a currency other than Mexican pesos.

(F) The officers of the Bank executing the Memorandum of Understanding and each Separate Agreement and all notices and other documents required thereunder or otherwise related thereto are and will be fully authorized to execute the same for and on behalf of the Bank.

(G) All consents, approvals, and requirements of governmental, public, and other bodies and authorities (including without limitation, the authorization of the Secretaria de Hacienda y Credito Publico) required for or in connection with the execution, delivery, and performance of the Memorandum of Understanding and each Separate Agreement and the instruments and other documents therein referred to, the making of all payments under the Memorandum of Understanding and each Separate Agreement, and the taking of any other action thereby contemplated, have been obtained and are in full force and effect.

(H) No event of default or other event which, with the giving of notice and/or lapse of time, would constitute an event of default has occurred and is continuing unremedied, nor will any event of default or other event as aforesaid result from any action taken under the Memorandum of Understanding or any Separate Agreement under any other agreement that the Bank has.

(I) No litigation or administrative or arbitration proceedings before or of any court, tribunal, arbitrator, or governmental or municipal authority are presently in process, pending or, to the best of my knowledge, threatened against the

Bank or any of its property, assets, or revenues which would materially affect the Bank, and there is not in existence or likely to occur any dispute with any authority or any labor or other dispute of any kind which might have a material adverse effect on the property, assets, revenues, or condition of the Bank or on the Bank's ability duly to perform and observe its obligations under the Memorandum of Understanding and each Separate Agreement.

(J) The Bank is not in default under any such law, rule, regulation, order, judgment, injunction, decree, resolution, determination, or award as is referred to in paragraph (E) of this opinion, nor is the Bank in default under any agreement, instrument, arrangement, or obligation as is referred to in paragraph (E) of this opinion, in any such case being a default which might have an adverse effect on the property, assets, revenues, or condition of the Bank or on the Bank's ability duly to perform and observe its obligations under the Memorandum of Understanding or any Separate Agreement.

(K) It is not necessary or advisable in order to ensure the legality, validity, enforceability, or admissibility in evidence of the Memorandum of Understanding or any Separate Agreement in Mexico that the Memorandum of Understanding or any Separate Agreement or any other document be filed, recorded,

- 7 -

registered, or enrolled with any court or authority in Mexico or that any stamp, registration, or similar tax be paid on or in relation to the same.

Sincerely,

Lic. Francisco Borjas Martinez
Deputy Director General
Banco de Mexico

[LETTERHEAD OF SECRETARIA DE HACIENDA Y CREDITO PUBLICO]

SCHEDULE F
Legal Opinion of the Fiscal Attorney of the UMS

[Date]

Banco de Espana
Bank for International Settlements
Board of Governors of the Federal
Reserve System
United States Department of the Treasury

Gentlemen:

I, as Fiscal Attorney of the Federation of the United Mexican States, and as counsel to the Ministry of Finance and Public Credit of Mexico, and at your request, render this opinion in connection with the implementation of the provisions of paragraphs 10 and 11 of the Memorandum of Understanding (the "Memorandum of Understanding"), dated August 31, 1989, among the Banco de Mexico and the Cooperating Monetary Institutions specified in the Memorandum of Understanding and each Separate Agreement. Capitalized terms used herein without definition have the respective meanings specified in the Memorandum of Understanding.

I have examined, inter alia, the following:

(1) The General Public Debt Law, the Monetary Law, the Code of Commerce, and the Organic Law of the Public

Administration of Mexico, and the Organic Law of the Banco de Mexico;

(2) Evidence that there have been granted all appropriate authorizations, approvals, licenses, and consents which may be necessary to authorize the Federal Government of Mexico (the "Federal Government") to perform all actions necessary on its part to implement the provisions of paragraphs 10 and 11 of the Memorandum of Understanding, and that the same are in full force and effect;

(3) All such other laws, regulations, and documents as I have considered necessary or desirable for the purpose of giving this opinion.

In addition, I have made such other investigations as I have considered appropriate for the purpose of giving this opinion.

Based upon such examination, I am of the following opinion:

(a) The Ministry of Finance and Public Credit of Mexico (i) is empowered to give the irrevocable instructions with respect to purchases by the United Mexican States under the Extended Fund Facility and any other purchases from the International Monetary Fund and the disbursements of the proceeds of certain loans from the World Bank contemplated by paragraph 10 of the Memorandum of Understanding and by each Separate Agreement, and (ii) has duly given such instructions.

(b)(i) All acts and conditions required to be done, performed and to have occurred prior to, and all consents, approvals, exemptions and other requirements of governmental, public and other bodies and authorities required for or in connection with, the execution and performance of the transactions described in paragraph (a) have been done, performed, and occurred in due and strict compliance with the laws of the United Mexican States and any applicable Mexican regulation or regulatory requirement, and are in full force and effect.

(ii) No consents, licenses, approvals, or authorizations of or declarations to governmental authorities or agencies are required other than those already obtained to implement and make effective the arrangements contemplated by paragraph 11 of the Memorandum of Understanding.

(c) The performance by the Federal Government of the transactions described in paragraph (a) has been duly authorized and does not and will not violate any provisions of any law, rule, regulation, order, judgment, injunction, decree, resolution, determination, or award of any court or any judicial, administrative, or governmental authority or organization having applicability to the Federal Government.

(d) The officials of the Federal Government executing and performing the transactions described in paragraph (a), and all notices and other documents required for their performance or related thereto, are and will be fully authorized to execute the same for and on behalf of the Federal Government.

(e) No litigation or administrative or arbitration proceedings before or of any court, tribunal, arbitrator, or governmental or public authority is presently in process, pending, or, to the best of my knowledge, threatened against the Federal Government or any of its property, assets, or revenues, which would materially affect the Federal Government, and there is not in existence or likely to occur any litigation or administrative or arbitration proceedings of any kind which might have a material adverse effect on the property, assets, revenues, or condition of the Federal Government or the Federal Government's ability to perform the transactions described in paragraph (a).

Yours faithfully,

Lic. Roberto Hoyo D'Adona
Procurador Fiscal de la Federacion

[LETTERHEAD OF PETROLEOS MEXICANOS]

SCHEDULE G-1

Legal Opinion of the Chief Counsel of Pemex

[Date]

Banco de Espana
Bank for International Settlements
Board of Governors of the Federal Reserve System
United States Department of the Treasury

Gentlemen:

I am the Chief Counsel of Petroleos Mexicanos ("Pemex"), and have acted in such capacity in connection with the execution and delivery by Pemex of its undertaking (the "Undertaking") to the Bank for International Settlements, dated September 13, 1989, a copy of which is attached to this opinion.

I have examined the assignment agreements (the "Agreements") between Pemex and P.M.I. Comercio Internacional, S.A. de C.V. ("PMI") by which PMI has acquired all rights and obligations under the supply contracts for the purchase of crude oil (the "Contracts") between Pemex and the purchasers listed in Annex I to the Undertaking; such Contracts; the documents evidencing the legal existence, organization and incorporation of PMI, as well as the documents related to the Undertaking, including the documents evidencing the instructions by PMI required under paragraphs (1) and (4) of

the Undertaking (the "Instructions"), that may be required from Pemex from time to time pursuant to the Undertaking, as I have considered necessary or desirable for the purposes of rendering this opinion.

Having considered the above documents and having regard to the relevant laws of the United Mexican States (the "Republic"), I am pleased to advise you that in my opinion:

I. (A) Pemex is a decentralized public agency of the Federal Government of the Republic, duly organized and validly existing under the laws of the Republic, and is fully qualified and empowered to own its assets and carry on business in each jurisdiction in which it owns assets or carries on business. Pemex has full power to organize and act as shareholder of corporations such as PMI.

(B) PMI is a duly organized and validly existing subsidiary of Pemex, which Pemex as majority stockholder controls.

(C) Pemex has validly assigned to PMI all rights and obligations under the Contracts.

(D) Pemex has power to enter into, undertake and perform its obligations set forth in the Undertaking, including entering into any contracts for the sale or purchase of oil and

giving the instructions required by such Undertaking, and has taken all necessary corporate action to authorize the execution and performance of such obligations upon the terms and conditions of the Undertaking.

(E) No consents, licenses, approvals or authorizations of or declarations to governmental authorities or agencies are required for Pemex to acquire any right under the Contracts previously assigned.

(F) The officers of Pemex who executed the Agreements were at the time of the execution thereof, and the officers of Pemex executing the Undertaking and the Instructions and all documents related thereto are, have been and will be fully authorized to execute the same for and on behalf of Pemex.

(G) The obligations of Pemex under the Undertaking constitute valid, direct, and binding obligations of Pemex enforceable in accordance with the terms thereof.

(H) The execution and performance of the Agreements and the Undertaking and the issuance and delivery from time to time, of the Instructions and of any other documents to be executed and delivered by Pemex in connection with the foregoing therewith (I) do not and will not violate or exceed the powers granted to Pemex by, or contravene any provisions of, any applicable law, regulation, or decree of any

governmental agency to which Pemex is subject; (II) will not violate or exceed the powers granted to Pemex by or contravene any provisions of the "Ley Organica" or any regulation made thereunder relating to Pemex; (III) will be fully consistent with all covenants in all agreements to which Pemex is a party, including all "negative pledge" covenants; and (IV) will not violate or exceed the powers granted to Pemex by or contravene any provision of any security, guarantee, or agreement to which Pemex is a party or which is binding upon it or any of its assets, or cause any security to arise over to all or any part of Pemex assets, or oblige Pemex to create any such security.

II. (A) It is not necessary to ensure the legality, validity, enforceability, or admissibility in evidence of the Agreements, the Undertaking, the Instructions, or any documents relating thereto that any of them filed, recorded, or enrolled with any governmental authority or agency of or in the Republic or that any of them be stamped with any stamp, registration, or similar transaction tax in the Republic.

(B) No consents, licenses, approvals, or authorizations of or declarations to governmental authorities or agencies are required other than those already obtained to make the Agreements, the Undertaking, or documents evidencing the Instructions legal, valid, and enforceable or admissible in evidence.

(C) There is no litigation or administrative or arbitration proceedings of or before any court or governmental authority or agency or tribunal pending (or to my knowledge threatened) to enjoin or restrain the execution or performance by Pemex of the Agreements, the Undertaking, or the Instructions or in any manner to question the laws and proceedings under which the Agreements, the Undertaking, or the Instructions have been or are to be executed, performed, or enforced, and none of the said laws and proceedings have been repealed, revoked, or rescinded in whole or in part.

(D) No litigation or administrative or arbitration proceeding before or of any court or governmental authority or agency or tribunal is presently pending (or to my knowledge threatened) against Pemex or any of the assets of Pemex, which would or might have a material adverse effect on its business, assets, or financial conditions.

Sincerely,

SCHEDULE G-2

Legal Opinion of the Chief Counsel of P.M.I. Comercio
Internacional, S.A. de C.V.

[Date]

Banco de Espana
Bank for International Settlements
Board of Governors of the Federal Reserve System
United States Department of the Treasury

Gentlemen:

I am the Chief Counsel of P.M.I. Comercio Internacional, S.A. de c. V. ("PMI") and have acted in such capacity in connection with the execution and delivery by PMI of its undertaking (the "Undertaking") to the Bank for International Settlements, dated September 13, 1989, a copy of which is attached to this opinion.

I have examined the supply contracts for the purchase of crude oil (the "Contracts") between Petroleos Mexicanos ("Pemex") and the purchasers listed in Annex 1 to the Undertaking, the assignment agreements by which PMI has acquired from Pemex all rights and obligations under the Contracts (the "Agreements"), as well as the documents evidencing the instructions by PMI required under paragraphs

(1) and (4) of the Undertaking (the "Instructions") and such other documents as I have considered necessary or desirable for the purposes of rendering this opinion.

Having considered the above documents and having regard to the relevant laws of the United Mexican States (the "Republic"), I am pleased to advise you that in my opinion:

I. (A) PMI is a corporation duly organized and validly existing under the laws of the Republic, and is fully qualified and empowered to own its assets and carry on business in each jurisdiction in which it owns assets or carries on business. PMI is a majority-owned subsidiary of Pemex.

(B) PMI has validly acquired and succeeded to all the rights and obligations of Pemex under the Contracts pursuant to the Agreements.

(C) PMI has power to enter into, and undertake and perform, its obligations under the Contracts, the Agreements and the Undertaking and to give the Instructions, and has taken all necessary corporate action to authorize the Undertaking and performance of such obligations upon the terms and conditions of the Contracts, the Agreements and the Undertaking and to authorize the delivery of the Instructions.

(D) The officers of PMI who executed the Agreements were at the time of the execution thereof, and the officers of PMI executing the Undertaking and the Instructions and all documents related thereto are, have been and will be fully authorized to execute the same for and on behalf of PMI.

(E) The obligations of PMI under the respective Contracts constitute legal, valid, direct, and binding obligations of PMI enforceable in accordance with the terms thereof.

(F) The obligations of PMI in respect to the Undertaking constitute valid, direct, and binding obligations of PMI enforceable in accordance with the terms thereof.

(G) The execution and performance of the Contracts and the Undertaking and the issuance and delivery of the Instructions and of any other documents to be executed and delivered by PMI in connection with the foregoing therewith (I) do not and will not violate or exceed the powers granted to PMI or contravene any provisions of, any applicable law, regulation, or decree of any governmental agency to which PMI is subject; (II) will be fully consistent with the bylaws of PMI and all covenants in all agreements to which PMI is a party, including all "negative pledge" covenants, and (III)

will not violate or exceed the powers granted to PMI by or contravene any provisions of any security, guarantee, or agreement to which PMI is a party or which is binding upon it or any of its assets, or cause any security to arise over or attach to all or any part of PMI's assets, or oblige PMI to create any such security.

II. (A) It is not necessary to ensure the legality, validity, enforceability, or admissibility in evidence of any of the Contracts, the Agreements, the Undertaking, the Instructions, or any documents relating thereto that any of them be filed, recorded, or enrolled with any governmental authority or agency of or in the Republic or that any of them be stamped with any stamp, registration or similar transaction tax in the Republic.

(B) No consents, licenses, approvals, or authorizations of or declarations to governmental authorities or agencies are required other than those already obtained to make any of the Contracts, the Agreements, the Undertaking, or documents evidencing the Instructions legal, valid, and enforceable or admissible in evidence.

(C) There is no litigation or administrative or arbitration proceedings of or before any court or governmental authority or agency or tribunal pending (or to my knowledge

threatened) to enjoin or restrain the execution or performance by PMI of any of the Contracts, the Agreements, the Undertaking, or the Instructions or in any manner to question the laws and proceedings under which any of the Contracts, the Agreements, the Undertaking, or the Instructions has been or are to be executed, performed, or enforced, and none of the said laws and proceedings have been repealed, revoked, or rescinded in whole or in part.

(D) No litigation or administrative or arbitration proceeding before or of any court of governmental authority or agency or tribunal is presently pending (or to my knowledge threatened) against PMI or any of PMI's assets, which would or might have a material adverse effect on its business, assets, or financial conditions.

Sincerely,

[Chief Counsel of P.M.I., Comercio Internacional S.A. de C.V.]

[LETTERHEAD OF CLEARY, GOTTlieb, STEEN & HAMILTON]

SCHEDULE H
Legal Opinion of Special New York Counsel
to UMS, Banco de Mexico, Pemex and PMI

[Date]

Banco de Espana
Bank for International Settlements
Board of Governors of the Federal
Reserve System
United States Department of the Treasury

Dear Sirs:

We have acted as special New York counsel for the United Mexican States, Banco de Mexico, Petroleos Mexicanos ("Pemex"), and P.M.I. Comercio Internacional, S.A. de C.V. ("PMI"), in connection with the Memorandum of Understanding (the "Memorandum of Understanding") dated August 31, 1989, between Banco de Mexico and the Bank for International Settlements (the "BIS") acting for certain participating member central banks, the United States Monetary Authorities, and Banco de Espana (the "Cooperating Monetary Institutions"), and the four Separate Agreements (the "Separate Agreements") entered into by Banco de Mexico with the BIS, the United States Monetary Authorities, and the Banco de Espana.

In arriving at the opinion expressed below, we have examined and relied on copies of (i) the Memorandum of

Understanding and each of the Separate Agreements, (ii) the letter dated September 13, 1989, from [borrowers under World Bank loans] (the "World Bank Borrowers") to the International Bank for Reconstruction and Development as contemplated by paragraph 10(iii) of the Memorandum of Understanding (the "World Bank Instructions"), (iii) the letter dated September 13, 1989, from the United Mexican States and the Central Bank of Mexico to the International Monetary Fund contemplated by paragraph 10(ii) of the Memorandum of Understanding ("the Fund Instructions"), (iv) the Credit Agreements dated as of March 3, 1983, and April 27, 1984, as amended, with the United Mexican States, as borrower, under which the United Mexican States borrowed U.S. \$5 billion and U.S. \$3.8 billion, respectively, and the Multi-Facility Agreement dated as of March 20, 1987, under which the United Mexican States borrowed U.S. \$5 billion and certain other kinds of financing (the "New Money Agreements"), (v) the 52 Restructure Agreements for the United Mexican States and other Mexican public sector obligors, as amended by the Amendment to Restructure Agreements dated as of March 29, 1985, and the 1987 Amendment to 52 Restructure Agreements and 35 Restructure Agreements dated as of March 20, 1987, (the "1987 Amendment to Restructure Agreements") (the "Restructure Agreements"), (vi) the 35 New Restructure Agreements dated as of August 29, 1985, for the United Mexican States and other Mexican public sector obligors, as amended by the 1987 Amendment to Restructure Agreements (the "New Restructure

Agreements"), and (vii) the FICORCA Facility Agreement dated as of August 14, 1987. Banco de Mexico has advised us that it is not a party to any agreement with persons outside of the United Mexican States from which it has contracted to borrow funds denominated in a currency other than Mexican pesos, other than the Memorandum of Understanding, the Separate Agreements, certain agreements with Latin American central banks entered into in the ordinary course, and short-term trade lines to finance imports by Banco de Mexico for its own account in the ordinary course. We have not, therefore, examined any agreements to which Banco de Mexico is a party other than those described in clauses (i) and (iv) through (vii) above.

Pemex and PMI have advised us that the transfer of foreign exchange from Pemex and/or PMI to Banco de Mexico contemplated by clauses 8 and 9 of the Separate Agreement with the BIS is in accordance with existing Mexican law and practice.

We have also examined and relied on originals or copies, certified or otherwise identified to our satisfaction, of such other documents, certificates, governmental records, and other instruments, and we have made such investigations of law, as we have deemed appropriate as a basis for this opinion.

Based on the foregoing, we are of the opinion that the execution and delivery by Banco de Mexico of the Memorandum of Understanding and the Separate Agreements and the performance of its obligations thereunder, the delivery of the World Bank Instructions and the Fund Instructions, the performance by the

United Mexican States of the obligations contemplated to be performed by it under the Memorandum of Understanding and the Separate Agreements, and the performance by Pemex and PMI of the obligations contemplated to be performed by them under the Memorandum of Understanding and clauses 8 and 9 of the Separate Agreement with the BIS will not violate any provision of the New Money Agreements, the Restructure Agreements, or the New Restructure Agreements.

We express no opinion other than as to the laws of the State of New York.

This opinion is given solely for your benefit and is not to be used, circulated, quoted, or otherwise referred to for any other purpose, except that you may furnish a copy of this opinion to any participating member central bank that may be substituted for the BIS as contemplated by clause 10 of the Separate Agreement with the BIS, each of which may rely upon this opinion.

Yours very truly,

CLEARY, GOTTlieb, STEEN & HAMILTON

By Mark A. Walker, a Partner

SCHEDULE I

IRREVOCABLE INSTRUCTIONS TO THE INTERNATIONAL MONETARY FUND

[Date]

The Treasurer's Department
International Monetary Fund
Washington, D.C. 20431

Re: Extended Fund Facility and Other Sources of IMF
Financing for Mexico

Dear Sirs:

The United Mexican States ("Mexico") hereby irrevocably authorizes and instructs the International Monetary Fund (the "IMF") to arrange on Mexico's behalf that the proceeds of all purchases made by Mexico under an Extended Fund Facility (the "EFF") or any other purchases from the IMF by Mexico, be either provided in, or converted into, U.S. dollars, and deposited into the Special Funds Account (the "Special Funds Account") of the Banco de Mexico (the "Central Bank") with the Federal Reserve Bank of New York (the "FRBNY"). Such irrevocable authorization and instruction shall not, however, apply to purchases for interest support or amounts set aside in connection with debt reduction.

The Central Bank acknowledges that your action on this request and authorization will be taken in conformity with the relevant provisions of the EFF or any other IMF facility or arrangement made available to Mexico, and confirms that such action shall not be construed in any way as a waiver of any right which the IMF may have under the EFF or under any other IMF facility or arrangement made available to Mexico.

For your information, the Central Bank has separately instructed the FRBNY that all or part of the funds deposited in the Special Funds Account will be used to repay drawings made by the Central Bank under a short-term credit facility (the "Facility") that the Bank for International Settlements acting for certain member central banks, the United States Monetary Authorities, and the Banco de Espana (the "Cooperating Monetary Institutions") have agreed to establish for the purpose of providing near-term support for the international reserves of Mexico. The aggregate amount of drawings by the Central Bank

under the Facility may amount to as much as U.S. dollars two billion. Moreover, the Central Bank has agreed with the Cooperating Monetary Institutions that the foregoing instructions shall not be revoked or modified by the Central Bank, Mexico, or any other Mexican institution until the IMF receives from the Central Bank a copy of the notification made by the FRBNY to the Central Bank that the Facility has been repaid in full, including accrued and unpaid interest.

The Central Bank is providing a copy of the executed original of this letter to the FRBNY.

Sincerely yours,

For the United Mexican States

By _____

For the Central Bank of Mexico

By _____

SCHEDULE J

IRREVOCABLE INSTRUCTIONS TO THE WORLD BANK
[Date]

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

Attention: Director, Country Department II
Latin America and the Caribbean Regional Office

Re: Loan Disbursements

Dear Sirs:

We the undersigned, Nacional Financiera, S.N.C., Banco Nacional de Comercio Exterior, S.N.C., Banco Nacional de Obras y Servicios Publicos, S.N.C., and Banco Nacional Pesquero y Portuario, S.N.C., refer to the loans listed in Attachment 1 hereto (the "World Bank Loans") and hereby instruct the World Bank to deposit in the Special Funds Account (the "Special Funds Account") of the Banco de Mexico (the "Central Bank") at the Federal Reserve Bank of New York (the "FRBNY"), all of the proceeds of withdrawals under each of the World Bank Loans that in each case are made or may be made by the World Bank to us for the reimbursement of expenditures incurred in or during the execution of the projects or programs financed under the World Bank Loans, if and when we become entitled to any such withdrawals under the terms and conditions of the World Bank Loans subject to the following:

(a) This instruction is applicable to proceeds of withdrawal applications under the World Bank Loans approved by the World Bank after the date of this letter until receipt by the World Bank of the notification referred to in paragraph (c) below; provided, however, that this instruction does not apply to the proceeds of such World Bank Loans allocated for support of debt reduction operations or to the proceeds of withdrawal applications under the first tranches of the Financial Sector Adjustment Loan, the Public Enterprises Reform Project, and the Industrial Sector Policy Loan in excess of the first U.S. \$125 million disbursed after the date of this letter.

(b) Deposits in the Special Funds Account shall be made in United States dollars. For this purpose, the World Bank is hereby instructed to use the proceeds of any such withdrawals under the World Bank Loans to purchase dollars under such terms and conditions as the World Bank shall determine.

(c) The Central Bank and the United Mexican States have agreed with the Bank for International Settlements acting for certain member central banks, the United States Monetary Authorities and Banco de Espana ("Cooperating Monetary Institutions"), that this instruction, which has as its objective putting in place administrative arrangements to provide for the fulfillment of the obligations of the Central Bank and the United Mexican States under an agreement with the Cooperating Monetary Institutions, shall be irrevocable until the World Bank receives from the Central Bank a copy of the notification from the FRBNY to the Central Bank to the effect that the instruction to make deposits to the Special Funds Account may be terminated.

We are not aware of any third party claims upon the proceeds of the World Bank Loans to be deposited in the Special Funds Account.

We acknowledge that your action on this instruction will be taken in conformity with the relevant provisions of the respective loan, guarantee and project agreements for the World Bank Loans, and such action shall not be construed in any way as a waiver of any right which the World Bank may have under such agreements or under the World Bank's General Conditions Applicable to Loan and Guarantee Agreements.

We are providing copies of our letter to you and your reply to the FRBNY.

Sincerely yours,

Nacional Financiera, S.N.C.

By _____

Banco Nacional de Comercio Exterior, S.N.C.

By _____

Confirmation by
the United Mexican States
as Guarantor under the
World Bank Loans:

Banco Nacional de Obras y
Servicios Publicos, S.N.C.

By _____

By _____

Confirmed by:

Banco Nacional Pesquero y
Portuario, S.N.C.

BANCO DE MEXICO

By _____

By _____

ATTACHMENT 1
WORLD BANK LOANS

| <u>Loan Name</u> | <u>Loan No.</u> | <u>Expected Amounts of Proceeds by Date</u> */ | | |
|------------------------------------|-----------------|--|-----------------|----------------|
| | | (in millions of dollars) | | |
| | | <u>9/30/89</u> | <u>12/31/89</u> | <u>3/30/90</u> |
| <u>Policy-Based Loans</u> | | | | |
| Financial Sector Adjustment Loan | 3085 ME | 125.0**/ | | 110.0 |
| Public Enterprises Reform Project | 3086 ME | **/ | | 124.0 |
| Industrial Sector Policy Loan | 3087 ME | **/ | | 122.0 |
| Steel Sector Restructuring Project | 2916 ME | 20.0 | 57.0***/ | 20.0 |
| Agricultural Sector Loan | 2918 ME | | ***/ | |
| Fertilizer Sector Loan | 2919 ME | | ***/ | 30.0 |
| <u>Project Loans</u> | | | | |
| <u>Agriculture</u> | | | | |
| Rio Fuerte | 1706 ME | 1.0 | 0.5 | 0.5 |
| Apatzingan | 1858 ME | 0.2 | 0.2 | 0.2 |

*/ The amounts expected under the policy-based loans do not include amounts set aside, or allocated, by the World Bank in support of debt reduction and an aggregate amount of U.S. \$325 million expected under the Financial Sector Adjustment Loan, Public Enterprises Reform Project, and Industrial Sector Policy Loan. The amounts expected under the policy-based and project loans include only those disbursements in reimbursement of expenditures incurred in or during the execution of the projects or programs financed under the loans from the World Bank.

**/ Aggregate proceeds of U.S. \$125 million are expected to be available, out of total proceeds of U.S. \$450 million, from the first tranches of the Financial Sector Adjustment Loan, Public Enterprises Reform Project, and Industrial Sector Policy Loan.

***/ The aggregate amount expected to be disbursed, by December 31, 1989 under the Steel Sector Restructuring Project, the Agricultural Sector Loan and Fertilizer Sector Loan, is U.S. \$57 million.

| <u>Loan Name</u> | <u>Loan No.</u> | <u>Expected Amounts of Proceeds and Date*/</u> | | |
|-----------------------|-----------------|--|-----------------|----------------|
| | | (in millions of dollars) | | |
| | | <u>9/30/89</u> | <u>12/31/89</u> | <u>3/30/90</u> |
| <u>Agriculture</u> | | | | |
| Agri. Marketing | 2262 ME | 1.1 | | |
| Chiapas Agriculture | 2526 ME | 0.5 | 0.5 | 1.5 |
| Proderith | 2658 ME | 0.6 | 0.5 | 1.0 |
| Agric. Credit (FIRA) | 2837 ME | 10.0 | 12.0 | 6.6 |
| Agric. Extension | 2859 ME | 0.5 | 0.2 | 0.5 |
| <u>Industry</u> | | | | |
| Capital Goods | 2142 ME | | 0.6 | 0.1 |
| Sn./Med. Ind. III | 2325 ME | 0.2 | | |
| Export Dev. | 2331 ME | 1.5 | 1.0 | 2.0 |
| Sn./Med. Mining | 2546 ME | 5.0 | 10.0 | 10.0 |
| Housing Finance | 2612 ME | | 20.0 | |
| TPL I | 2745 ME | 2.0 | 2.0 | 2.0 |
| Industrial Recovery | 2746 ME | 8.5 | 10.0 | 10.0 |
| Technology Dev. | 2747 ME | 1.5 | 2.0 | 2.0 |
| Export Dev. | 2777 ME | 5.0 | 7.0 | 5.0 |
| Sn./Med. Ind. IV | 2858 ME | | 5.0 | 15.0 |
| Industrial Restr. | 3047 ME | | 2.0 | 15.0 |
| <u>Infrastructure</u> | | | | |
| Urban II | 1990 ME | | 2.5 | |
| Sinaloa Water | 2281 ME | 7.0 | 5.5 | 5.0 |

| <u>Loan Name</u> | <u>Loan No.</u> | <u>Expected Amounts of Proceeds and Date*/</u> | | |
|---|-----------------|--|-----------------|----------------|
| | | (in millions of dollars) | | |
| | | <u>9/30/89</u> | <u>12/31/89</u> | <u>3/30/90</u> |
| <u>Infrastructure</u> | | | | |
| Highways Sector II | 2428 ME | 5.0 | 5.0 | 5.0 |
| Lazaro Cardenas Ports | 2450 ME | 1.0 | 0.5 | 1.0 |
| Railways V | 2575 ME | 15.0 | 15.0 | 10.0 |
| Low Income Housing | 2612 ME | 3.0 | 5.0 | 5.0 |
| Earthquake Rehab. | 2665 ME | 8.0 | 7.0 | 10.0 |
| Municipal Strength | 2666 ME | 0.5 | 2.0 | 2.0 |
| Solid Waste | 2669 ME | 1.5 | 2.0 | 2.0 |
| Urban Transport | 2824 ME | 5.0 | 5.0 | 5.0 |
| Highway Maint. | 2875 ME | 5.0 | 5.0 | 5.0 |
| Ports Rehab. | 2946 ME | | 5.0 | 5.0 |
| Hydroelect. Dev. | 3083 ME | | | 10.0 |
| Water/Women | 3101 ME | | | 5.0 |
| <u>Education</u> | | | | |
| Vocational Education | 2559 ME | 3.0 | 5.0 | 4.0 |
| Manpower Education | 2876 ME | 5.5 | 5.0 | 5.5 |
| Quarterly Totals | | 242.1 | 200.0 | 556.9 |
| Cumulative Subtotal of All Proceeds of Policy-Based Loans | | | | 608.0 |
| Cumulative Subtotal of All Proceeds of Project Loans | | | | 391.0 |
| Grand Total of All Loans | | | | 999.0 |

SCHEDULE K

WORLD BANK CONFIRMATION OF IRREVOCABLE INSTRUCTIONS

[Date]

Mr. Pedro Aspe Armella
Minister of Finance and Public Credit
Palacio Nacional
Mexico, D.F. 06066
Mexico

Mr. Miguel Mancera Aguayo
Director General
Banco de Mexico
5 de Mayo No 2
06059 Mexico, D.F.
Mexico

Dear Sirs:

(1) This letter acknowledges receipt of the instruction, which is in the form attached as Appendix I, from Nacional Financiera, S.N.C., Banco Nacional de Comercio Exterior, S.N.C., Banco Nacional de Obras y Servicios Publicos, S.N.C., and Banco Nacional Pesquero y Portuario, S.N.C. (the "Borrowers") to pay the proceeds of withdrawal applications approved after the date of this letter that are made or may be made to the Borrowers from the International Bank for Reconstruction and Development (the "World Bank") under the loans listed in Attachment 1 hereto (the "World Bank Loans") for the reimbursement of expenditures incurred in or during the execution of the projects or programs financed under the World Bank Loans, except for withdrawals under such World Bank Loans allocated for support of debt reduction operations and the proceeds of withdrawal applications under the first tranches of the Financial Sector Adjustment Loan, the Public Enterprises Reform Project, and the Industrial Sector Policy Loan in excess of the first U.S. \$125 million disbursed after the date of this letter, to the Special Funds Account (the "Special Funds Account") of the Banco de Mexico (the "Central Bank") established for this purpose at the Federal Reserve Bank of New York (the "FRBNY").

(2) We hereby confirm that, subject to prior receipt of all necessary documentation and evidence under the World Bank Loans that withdrawal requirements have been fully complied with, the World Bank will carry out the disbursement instruction referred to in paragraph (1). In this connection, we have been informed that the Central Bank and the United

Mexican States have agreed with the Bank for International Settlements acting for certain member central banks, the United States Monetary Authorities, and Banco de Espana that the foregoing instruction shall be irrevocable until the World Bank receives from the Central Bank a copy of a notification from the FRBNY to the Central Bank to the effect that the instruction to make deposits to the Special Funds Account may be terminated.

(3) Our action on this instruction will be taken in conformity with the relevant provisions of the respective loan, guarantee and project agreements for the World Bank Loans and shall not be construed in any way as a waiver of any right which the World Bank may have under such agreements or under the World Bank's General Conditions Applicable to Loan and Guarantee Agreements.

(4) The World Bank is not aware of any third party claims by suppliers and contractors upon the proceeds of the World Bank Loans that are to be deposited in the Special Funds Account.

Sincerely yours,

Director, Country Department II
Latin America and the Caribbean Regional Office

cc: Nacional Financiera, S.N.C.
Banco Nacional de Comercio Exterior, S.N.C.
Banco Nacional de Obras y Servicios Publicos, S.N.C.
Banco Nacional Pesquero y Portuario, S.N.C.

Attachment 1
World Bank Loans

1. Loans to Nacional Financiera, S.N.C.

Loan No. 2916 ME (Steel Sector Restructuring Project)
Loan No. 2918 ME (Agricultural Sector Loan)
Loan No. 2919 ME (Fertilizer Sector Loan)
Loan No. 3086 ME (Public Enterprises Reform Project)
Loan No. 3087 ME (Industry Sector Policy Loan)
Loan No. 1706 ME (Rio Fuerte)
Loan No. 1858 ME (Apatzingan)
Loan No. 2262 ME (Agri. Marketing)
Loan No. 2526 ME (Chiapas Agriculture)
Loan No. 2658 ME (Proderith)
Loan No. 2837 ME (Agric. Credit (FIRA))
Loan No. 2859 ME (Agric. Extension)
Loan No. 2142 ME (Capital Goods)
Loan No. 2325 ME (Sm./Med. Ind. III)
Loan No. 2546 ME (Sm./Med. Mining)
Loan No. 2746 ME (Industrial Recovery)
Loan No. 2747 ME (Technology Dev.)
Loan No. 2858 ME (Sm./Med. Ind. IV)
Loan No. 3047 ME (Industrial Restr.)
Loan No. 3083 ME (Hydroelect. Dev.)
Loan No. 2559 ME (Vocational/Education)
Loan No. 2876 ME (Manpower Education)

2. Loans to Banco Nacional de Comercio Exterior, S.N.C.

Loan No. 3085 ME (Financial Sector Adjustment Loan)
Loan No. 2331 ME (Export Dev.)
Loan No. 2745 ME (TPL I)
Loan No. 2777 ME (Export Dev.)

3. Loans to Banco Nacional de Obras y Servicios Publicos, S.N.C.

Loan No. 2612 ME (Housing Finance)
Loan No. 1990 ME (Urban II)
Loan No. 2281 ME (Sinaloa Water)
Loan No. 2428 ME (Highways Sector II)
Loan No. 2575 ME (Railways V)
Loan No. 2612 ME (Low Income Housing)
Loan No. 2665 ME (Earthquake Rehab.)
Loan No. 2666 ME (Municipal Strength)
Loan No. 2669 ME (Solid Waste)
Loan No. 2824 ME (Urban Transport)
Loan No. 2875 ME (Highway Maint.)
Loan No. 2946 ME (Ports Rehab.)
Loan No. 3101 ME (Water/Women)

4. Loans to Banco Nacional Pesquero y Portuario, S.N.C.

Loan No. 2450 ME (Lazaro Cardenas Ports)

SCHEDULE L

FORM OF PEMEX AND PMI UNDERTAKINGS

[Date]

Bank for International Settlements
Basle, Switzerland

Dear Sirs:

At the request of the Banco de Mexico and Petroleos Mexicanos ("PEMEX") in consideration of obligations undertaken in our favor by those institutions and recognizing that PEMEX has assigned to us all the rights and obligations under the supply contracts for the purchase of crude oil (the "Contracts") between PEMEX and the purchasers listed in Annex 1 hereto, and that the Bank for International Settlements acting for certain member central banks, the United States Monetary Authorities, and Banco de Espana (the "Cooperating Monetary Institutions") have established a short-term credit facility in favor of the Banco de Mexico (the "Facility") in reliance in part on our undertakings contained herein, we hereby unconditionally and irrevocably agree as follows:

(1) We have instructed our customers listed in Annex I hereto to make all payments for the purchase from us of crude oil to Swiss Bank Corporation ("SBC"), New York Branch, for our account. All such payments due on and after February 16, 1990, up to an aggregate amount of U.S. \$1.6 billion, are hereafter called the "Payments." All our invoices rendered with respect to the Payments shall be accompanied by a letter reiterating such instructions and such instructions shall be unconditional and irrevocable.

(2) We shall not sell or otherwise dispose of or create or permit or suffer to be created or to exist any lien, pledge, mortgage, charge or other encumbrance or security interest whatsoever on our rights to receive the Payments, or enter into any other arrangement with respect to such rights which gives any other person an interest therein, and we certify that no such encumbrance or security interest now exists with respect to our right to receive the Payments.

(3) We shall transfer the amounts received under the Payments to the Banco de Mexico and shall have no further right or title to, or interest in the specific funds so transferred.

(4) To this effect, prior to the drawing by the Banco de Mexico on the Facility, we shall execute and deliver to SBC a letter of instructions, in the form of Annex II hereto, whereby we unconditionally and irrevocably authorize and direct SBC to credit to the account of the Banco de Mexico at SBC immediately upon the receipt thereof all the Payments remitted to SBC for our account.

(5) We shall not revoke or modify the instructions and undertakings referred to under paragraphs (1), (2), (3) and (4) above until such time as we have received, through the Banco de Mexico, the written confirmation of the BIS that Banco de Mexico has fulfilled all of its obligations towards the Cooperating Monetary Institutions under the said Facility.

(6) The undertakings contained herein are made with the prior knowledge and agreement of the Government of the United Mexican States, and we hereby warrant that we have full power and authority to enter into and perform our obligations under this letter and have taken and will take all further necessary corporate and other actions to perform the commitments and agreements made in this letter.

Very truly yours,

P.M.I. COMERCIO INTERNACIONAL, S.A. DE C.V.

By _____

In the event that PEMEX, or any entity under the control of PEMEX, acquires any right in connection to the Contracts previously assigned to P.M.I. Comercio Internacional, S.A. de C.V. ("PMI"), PEMEX hereby unconditionally and irrevocably agrees to perform the above undertaking and to issue and deliver the instructions referred to in paragraphs (1) and (4) of the above undertakings of PMI and any other documents as may be required.

Agreed By:

PETROLEOS MEXICANOS

By: _____

Annex I (-Schedule M)

Annex II (-Schedule N)

SCHEDULE M (Annex I to Pemex and PMI Undertakings)

List of specified buyers of crude oil

| | <u>Current Contractual Volume</u> <u>(in thousands of barrels per day)</u> |
|---------------------|---|
| <u>U.S.A.</u> | |
| Amoco | 55 |
| Chevron | 137.5 |
| Conoco | 50 |
| Marathon | 60 |
| Pecten (Shell Oil) | 68 |
| <u>SPAIN</u> | |
| Interoco (CEPSA) | 30 |
| Repsol Petroleo | 100 |
| Petronor | 50 |
| <u>FRANCE</u> | |
| Total International | 60 |
| | <hr/> |
| TOTAL | 610.5 |

At the request of the BIS addressed to the Banco de Mexico, at any time, P.M.I. Comercio Internacional, S.A. de C.V. ("PMI") shall substitute for any of the buyers listed above, buyers of crude oil from PMI in the countries comprising the Group of Ten and Spain. The choice of the buyers to be substituted shall be made by PMI subject to the approval of the BIS as notified to the Banco de Mexico.

SCHEDULE N (Annex II to Pemex and PMI Undertakings)

FORM OF INSTRUCTIONS BY PMI TO SBC

[Date]

Swiss Bank Corporation
New York Branch
Four World Trade Center
New York, New York

Attention _____:

We hereby unconditionally and irrevocably authorize and direct you to credit to the account of Banco de Mexico with your institution, all amounts remitted to you for our account from any of the companies listed on Annex I hereto on and after February 16, 1990, up to an aggregate amount of U.S. \$1.6 billion. We shall have no further right, title or interest in the specific amounts so transferred.

We request that you advise us of all remittances received by you for our account and credited to the account of Banco de Mexico in accordance with these instructions.

We hereby confirm that these instructions may not be revoked or altered until such time as you have received a written confirmation from the Bank for International Settlements, Basle, Switzerland ("BIS") releasing you from such instructions.

Please acknowledge receipt of the foregoing instructions and confirm your consent to the procedures set forth above by signing the form of consent attached hereto as Annex II in four copies of which one should be sent to the BIS, to the Banco de Mexico, to Petroleos Mexicanos, and the fourth to ourselves.

Very truly yours,

P.M.I. Comercio Internacional, S.A. de C.V.

By _____

Confirmed by:
Petroleos Mexicanos

By _____

Annex I: List of Buyers (= Schedule M)
Annex II: Form of Consent (= Schedule P)

SCHEDULE O

FORM OF INSTRUCTIONS FROM BANCO DE MEXICO TO SBC

[Date]

Swiss Bank Corporation
New York Branch
Four World Trade Center
New York, New York

Attention:

In accordance with instructions received by you from P.M.I. Comercio Internacional, S.A. de C.V. ("PMI"), certain specified amounts remitted to you for the account of PMI on and after February 16, 1990 up to an aggregate amount of U.S. \$1.6 billion are to be credited to our account with you. Upon receipt in such account these funds become and shall remain part of the monetary reserves held by the Banco de Mexico.

We hereby unconditionally and irrevocably authorize and direct you to transfer immediately all the above-mentioned amounts to our U.S. dollar sight account with the Bank for International Settlements, Basle, Switzerland ("BIS"). These transfers should be made to the "F" account of the BIS with the Federal Reserve Bank of New York, New York.

We hereby confirm that these instructions may not be revoked or altered until such time as you have received from the BIS a written confirmation releasing you from such instructions.

Please acknowledge receipt of the foregoing instructions and consent to the procedures set forth above by signing the form of consent attached hereto in four copies, one of which should be sent to the BIS, to PMI, to Petroleos Mexicanos, and the fourth to ourselves.

Very truly yours,

BANCO DE MEXICO

By _____

Confirmed by:
P.M.I. Comercio
Internacional, S.A. de C.V.

By _____

Confirmed by:
Petroleos Mexicanos

By _____

Annex: Form of Consent (Schedule P)

SCHEDULE P

FORM OF CONSENT OF SBC
[Date]

Bank for International Settlements
Basle, Switzerland

Banco de Mexico
Mexico, D.F., Mexico

P.M.I. Comercio Internacional, S.A. de C.V.
Mexico, D.F., Mexico

Petroleos Mexicanos
Mexico, D.F., Mexico

Dear Sirs:

We hereby acknowledge receipt of the unconditional and irrevocable authorization and direction from each of P.M.I. Comercio Internacional, S.A. de C.V. ("PMI") and the Banco de Mexico, instructing us (a) to credit to the account of the Banco de Mexico with us the amounts specified in Annex I to the instructions of PMI remitted to us for the account of PMI on and after February 16, 1990, up to an aggregate amount of U.S. \$1.6 billion and (b) to transfer all such amounts to the "F" account of the Bank for International Settlements ("BIS") with the Federal Reserve Bank of New York, N.Y., for credit to the U.S. dollar sight account of Banco de Mexico on the books of the BIS.

We have taken note that these instructions may not be revoked or altered until such time as we have received a written confirmation from the BIS releasing us from such instructions.

Recognizing that the BIS acting for certain member central banks, the United States Monetary Authorities, and Banco de Espana have established a short-term credit facility in favor of Banco de Mexico in reliance in part on our undertaking contained herein, we hereby unconditionally and irrevocably agree to comply with the above-described arrangement. As long as this arrangement remains in force, we hereby undertake not to exercise any right of set off which we may have with respect to the amounts mentioned above.

We shall advise PMI of all remittances received by us for its account and credited to the account of Banco de Mexico.

Very truly yours,

SWISS BANK CORPORATION

By _____

[LETTERHEAD OF THE MINISTRY OF FINANCE AND PUBLIC CREDIT
OF THE UNITED MEXICAN STATES]

SCHEDULE Q
LETTER FROM THE UMS TO BANCO DE MEXICO

[Date]

Banco de Mexico

Dear Sirs:

We refer to the Memorandum of Understanding dated August 31, 1989 (the "Memorandum of Understanding"), among the Banco de Mexico; the United States Monetary Authorities; the Bank for International Settlements, acting for certain participating member central banks (the "BIS"); and the Banco de Espana (the "Cooperating Monetary Institutions"), and the Separate Agreements (the "Separate Agreements") under which the Cooperating Monetary Institutions have agreed to provide near-term support for the international reserves of the United Mexican States ("UMS") in the aggregate amount of U.S. \$2,000 million. Pursuant to paragraph (15)(ii) of the Memorandum of Understanding, we hereby warrant that the UMS has agreed to take all actions, and to provide any other support, necessary to facilitate the Banco de Mexico's performance under the Memorandum of Understanding and each of the Separate Agreements.

Sincerely,

THE UNITED MEXICAN STATES

BY:

Minister of Finance and
Public Credit