The Managing Director

F

Office Memorandum

JUN 27 1984

TO : The Managing Director
The Deputy Managing Director

DATE: June 27, 1984

FROM : E. Wiesner E.W.

SUBJECT : Mexico: Staff Report for the 1984 Article VI Consultation

Mr. Wiesner
OK
July 2-84

Attached for your approval is the Staff Report for the 1984 Article IV consultation with Mexico.

This paper has been cleared with the following departments:

Exchange and Trade Relations:	Mr. Guitián
Fiscal Affairs:	Mr. Tait
Legal:	Mr. Ogoola
Treasurer's:	Mr. Leddy
Western Hemisphere:	Messrs. Beza, Lachman and Pujol

Attachment

cc: Mr. Collins

MLCD (7) 6/27/84

CONTAINS CONFIDENTIAL INFORMATION

INTERNATIONAL MONETARY FUND

MEXICO

Staff Report for the 1984 Article IV Consultation

Prepared by the Staff Representatives for the 1984 Consultation with Mexico

E W MG

Approved by Eduardo Wiesner and Manuel Guitián

June , 1984

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Mr. Wiesner

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Office Memorandum

RECEIVED
JUN 27 1984
Western Hemisphere Department

To: Mr. Loser
June 26, 1984

From: James M. Ogoola JM

Subject: Mexico - 1984 Article IV Consultation

With reference to the draft staff report on the above subject, dated June 21, 1984, I would suggest that the proposed decision be redrafted on the following lines:

"1984 Article IV Consultation

1. The Fund takes this decision relating to Mexico's exchange measures subject to Article VIII, Sections 2 and 3, in light of the 1984 Article IV consultation with Mexico conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Mexico maintains multiple currency practices as described in Section V of SM/84/ . In view of the circumstances of Mexico, the Fund grants approval of these multiple currency practices until February , 1985, the completion of the next review under the extended arrangement, or the completion of the next Article IV consultation, whichever is earlier."

cc: Mr. Wiesner
Mr. Guitian

F

Office Memorandum

TO : Mr. Finch DATE: June 26, 1984

FROM : C. Loser

SUBJECT : Mexico: Bank Debt Restructuring

The attached note prepared at your request describes recent developments with regard to Mexico's bank debt renegotiation efforts. Attached you will also find a copy of a memorandum for files prepared by Mr. Collins on the Philadelphia meeting of June 6, and a copy of selected pages of the draft for the forthcoming staff report on Mexico, referring to the medium-term balance of payments outlook.

Attachments

cc: Mr. Wiesner

MLCD (F) 6/26/84

Mexico Recent Developments on Bank Debt Restructuring

On June 4, 1984, on the occasion of the International Monetary Conference in Philadelphia, senior representatives of the commercial banks favoring the Advisory Group for Mexico agreed, on the basis of a report by the Managing Director, to negotiate with the Mexican authorities a multi-year rescheduling of Mexico's public debt to commercial banks A summary of the meeting's discussions is presented in the memorandum for files of June 7, prepared by Mr Collins and attached to this note (Attachment I) A copy of the notes on Mexico's recent performance prepared for the Managing Director's presentation also is attached

In recent weeks the Mexican authorities have been in close contact with the Bank Advisory Group, the U S. monetary authorities and the Fund staff The discussions of the Mexican representatives with the Fund staff have centered on the balance of payment prospects in the medium term In light of these discussions, the staff has developed a medium term scenario, which is to be included in the forthcoming staff report on Mexico. (Attachment II)

In mid June, members of the Economic Subcommitee of the Advisory Group visited Mexico to discuss recent economic developments and prospects Subsequently, the members of the economic subcommitee visited Fund headquarters to present some of their findings to the staff on the general economic situation There were no surprises in their general view of prospects, but they were not yet ready to discuss balance of payment projections for the medium term, they are planning to return for discussions with us on this subject in the near future

Formal negotiations on debt restructuring will begin in early July A first meeting between the principal mexican negotiator, Mr Jose Angel Gurria, and the Advisory Group is expected to be held on July 9th On the basis of the information available to the Fund, the precise restructuring terms have yet to be established However, certain key aspects of the forthcoming negotiation can be identified, namely, the period subject to restructuring, the types of debt to be included in the exercise and the terms of the restructured debt

1 The maturities to be included will cover at least the period 1985-88, when about two thirds of amortization payments to banks fall due The Mexican authorities may press for the inclusions of maturities falling due in 1989-90, thereby covering more than 90 percent of the total debt to banks

2 The forthcoming restructuring exercise will cover the maturities falling due after 1984 on debt outstanding as of August 1982, and not yet subject to restructuring under earlier agreements The total of this debt amounts to about one half of total debt to banks 1/ Also, the renegotiations almost certainly will cover the US$19 billion of debt negotiated in 1982-84 and falling due over the period 1987-90 In addition, it is possible that the renegotiations will cover the amortizations of new bank loans contracted in 1983 and 1984

1/ The amortization payments not yet restructured and falling due in 1985 include a total of US$4 billion of PEMEX acceptances, which can be expected to be rolled over at maturity

3 The terms of restructured debt undoubtedly will include grace periods of at least four to five years, thus carrying payments beyond the period subject to restructuring The final maturity might extend as far as fifteen years

A possible stumbling block in the negotiations is the size of the spread applicable to the restructed maturities It may be possible to negotiate relatively low spreads on debt not yet subject to restructuring, because the original loans carry the low spreads obtained when Mexican creditworthiness was at is peak. However, the amounts already restructured in 1982-84 carry a spread of 1 7/8 over LIBOR or 1 3/4 over the U.S prime rate, and the banks may be reluctant to renegotiate the spreads on these loans

The mexican authorities have elected not to request new money from commercial banks in 1985 and possibly 1986, unless such funds are obtained directly in the market The banks are pleased with these prospects However, they are concerned about their relations with Mexico after 1985 In particular, to help monitor the policies pursued by Mexico, they would like to have the Fund in the picture in a way that goes beyond the normal Article IV Consultation process

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INTERNATIONAL MONETARY FUND
WASHINGTON D C 20431

OFFICE OF THE
MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

June 7, 1984

MEMORANDUM FOR FILES

Subject Mexico

Taking advantage of the International Monetary Conference, the Managing Director convened a meeting of the banks on the Advisory Committee for Mexico in Philadelphia at 5 15 p m on Monday, June 4 All 13 banks were represented, in most cases at Chairman level Mr Volcker and Mr. Leutwiler were also present The Managing Director was accompanied by Messrs Beza, Loser and Collins

The Managing Director opened the meeting by reading out the attached speaking note (Attachment 1) and during the course of his remarks he circulated the table on scheduled amortizations of Mexico's debt (Attachment 2)

The Managing Director then asked Mr Volcker to say a few words Mr Volcker suggested that it would be useful to broaden the frame of reference somewhat He said that it was incontestable that the atmosphere surrounding the debt problem had deteriorated in recent months. There was a feeling that there was no strategy, even though one existed based on the case-by-case approach The next logical step in that strategy was multi-year rescheduling

Turning to individual countries, Mr Volcker said that it was arguable that Venezuela was now approaching the point where it was willing to undertake an economic program to put it on a medium-term track—with or without the Fund His personal hope was that it would be with the Fund. He commented that even if Venezuela's external position was all right, the domestic economy was in need of adjustment On Brazil, Mr Volcker said that its balance of payments performance had been better than expected, and it had been building up reserves in a modest way. Brazil's internal performance was spottier than Mexico's but had recently been improving. He anticipated no need to address a multi-year rescheduling for Brazil before the fourth quarter of 1984 However, Brazil, unlike Mexico, would need new money next year.

Mr Volcker went on to say that there was obviously a problem filled with uncertainty in the case of Argentina This was hanging heavily over the markets, as were worries about interest rates There was a substantial risk that the Argentine situation would not be resolved without a period of confrontation The difficulties of Continental Illinois were also clouding the atmosphere

Mr Volcker added that his perception was that the internal political opposition in Mexico and Brazil was stronger than previously The wage decision coming up in Mexico would undoubtedly cost the Government some political support There were clear signs that honest alarm in Latin America was giving way to a more uniform, politicised approach

On Mexico, Mr Volcker said that the signs of recovery were pretty scattered thus far Nonetheless, economic projections by the Fed, the Fund and the Mexicans themselves were reassuringly similiar The Fed's projections envisaged 5 to 6 percent growth in the medium-term, compared with 3 percent in the industrialized part of the world This assumed a constant nominal price of oil in the short run and no real change after that, and "nothing fantastic" with regard to declines in interest rates--in other words, the assumptions were reasonably conservative. All this led to the projection of a zero current account balance next year--although the Mexican authorities had an interest in showing a small deficit in order to demonstrate to their population that they could both borrow and grow

In sum, Mr Volcker said, looking at the broader strategy, the time had come to give Mexico a multi-year rescheduling and to display it as an example to other Latin American countries

Asked to comment, Mr Rhodes (Citibank) mentioned that the subscription for $3 8 billion of new money had been exceeded by $210 million and that the amounts for individual banks would be rebated pro-rata There were 494 banks included, which corresponded to the participation rate in the $5 billion loan when allowance was made for mergers of U S banks The Economic Sub-Committee of the Advisory Committee would be going to Mexico next week Mr Rhodes expected to receive its report by the end of the month, at which point he would be getting together with his co-chairmen

Mr Butcher (Chase Manhattan) said that it seemed that the Managing Director was suggesting, first, a longer time horizon for Mexico and, secondly, a reduction in interest rates spreads He agreed that Mexico had earned a longer horizon but wondered whether now was the time to move ahead on either score in view of the situation in Argentina The Managing Director responded that he had heard that argument several times recently. He urged that the two cases should be separated It would, in any case, take a long time to deal with Argentina At some stage, something would have to be done for Mexico--the question was whether it should be before or after the Argentine Letter of Intent He argued strongly for action before the letter If the banks delayed their decision, the Managing Director continued, he was afraid that the position of the Mexicans would be weakened in the discussions expected to take place shortly in Bogota or elsewhere Even Mr Ulloa, a conservative, had reflected this potential problem at the International Monetary Conference that morning Furthermore, a later agreement on a multi-year arrangement for Mexico could also entice the Argentinians to ask for the same treatment at that time Thus, the Managing Director's advice would be to do something different for Mexico--something not immediately extensible to Argentina Moreover, the quicker it could be done, the better In that way, Mr Silva Herzog would be reinforced in his position, not weakened This would be to reward good performance He was sure that, if the banks would give a sign that day, perhaps by an instruction to their collaborators, it would help to prevent a cartelisation of debtors--for Mr Silva Herzog would be able to demonstrate to his fellow Latin American Finance Ministers that good performance pays off

Mr Preston (Morgan Guaranty) asked about the Fund's continuing involvement in Mexico after the end of the current program period The Managing Director replied that there were many ways in which the Fund could continue to be involved There could be follow-on programs (for more modest amounts), shadow programs, precautionary programs, or other surveillance and monitoring/certification devices. He suggested that the banks should raise this question with the Mexicans Mr Volcker added that, given the balance of payments projections, Mexico would need very little new money in the coming years If the situation were to deteriorate and it did need new money, the banks would regain a hold over the Mexico especially if it had to turn again to the Fund There was thus a fail-safe mechanism The Managing Director intervened to say that he would much prefer a pre-organized system, and Mr Volcker agreed

Mr Brittain (Bankers Trust) asked whether there was any risk that the signal being given to the Mexicans could backfire with respect to the Argentinians He saw a high risk that the Argentinians would demand similar treatment The Managing Director replied that he did not see the situation that way The Argentinians had to face up to realities. The rescheduling for Mexico was essentially a rather technical matter The bankers had already provided a two-year rescheduling arrangement for 1983-1984 and it would be most unlikely that, given the present performance, less would be done now, so the question of 2 versus 4 or 5 years was not one of fundamental principle The problem in Argentina was that the Government had to change the main thrust of its economic policies and obtain a sui generis program One object of the Mexican rescheduling should be to make Argentina realize that while it was not performing adequately it was missing out on an advantageous system.

Mr Rhodes intervened to say that there was a risk of the nature described by Mr Brittain and Mr Butcher Mr Grinspun had said publicly that he would look carefully at whatever was done for Mexico There was thus a question of timing As he understood it, a draft Letter of Intent (prepared by the Argentinans) had been transmitted by Mr Grinspun to President Alfonsin that day and would be given to the Fund team on the following day The Advisory Committee for Argentina meanwhile thought that it had got an arrangement to sort out the 90-day arrears problem, on condition that a Letter of Intent was signed This process could take two weeks or more Similarly, it could take until the end of the month before the banks were in a position to begin negotiations with the Mexicans

Mr Volcker remarked that the banks were faced with the strategic question whether it would not be better to face a possible Argentine blow-up with one large country like Mexico on a confirmed medium-term track

Mr Wriston (Citibank) said that he would question whether there was any resistance among the group to a multi-year rescheduling for Mexico He wanted to know what could or should be said publicly on the issue, given the intense interest being shown in it by the press and others.

Mr. Volcker did not answer the question directly but said that he wished to give the Committee an idea of what was in the Mexicans' minds He said that they looked at the numbers and understandably argued that they needed a restructuring of 5-6 years' maturities He guessed that they would not agree to less than 4 They clearly perceived that the restructuring undertaken in prior years had to be reopened (At this, there were audible groans from the bankers) Mr Volcker thought that the interest rates spreads on non-restructured debt were so low that it was inevitable that previously restructured debt would have to be reopened if the Mexicans were to obtain reduced spreads in a rescheduling exercise The Mexicans also felt the need to have pricing options based on cost of funds instead of prime rates Mr. Volcker felt that the Mexicans would expect monitoring by the Fund. They also might raise the interest rate cap question, but this was not necessarily essential

Taking up the question of reopening previously rescheduled contracts, Mr Rhodes said that what Mr Gurria wanted was to "pick up" the remaining maturities as they went along but not "physically" to reopen contracts He mentioned that Advisory Committee members had reacted angrily last December to the possibility of reopening previously restructured contracts Mr Volcker intervened to say that Mr Gurria had suggested to him that the Mexicans wished to do just that

Sir Jeremy Morse (Lloyds) remarked that these details were too technical for the meeting Mr Wriston repeated his question as to what could be said publicly, and Sir Jeremy Morse said that, in his view, it was premature to say anything publicly

The Managing Director then suggested, in answer to Mr Wriston, that, if the members of the Advisory Committee saw merit in his proposal, all that was required was a message to the Mexicans to the effect that the principle of multi-year rescheduling had been accepted No dates or any other technicalities were required in such a message, nor need it be made public The Managing Director asked whether those present would permit a message to go to Mr Silva Herzog in which he would be told that the Chairmen of the banks had instructed their collaborators on the Advisory Committee to pursue the question

Mr Guth (Deutsche) responded that he favored the sending of such a message Indeed, it was necessary At the press conference in which he and the Managing Director had just participated, the issue had been aired, and it would seem odd to the Mexicans if this were not followed up Of course, it would have to be made clear to them that there was no definite agreement on the details

Mr Brittain insisted that, indeed, it was vital that there was no specificity on the details, especially in light of what Mr Volcker had just said

Mr Vienot (Societe Generale) commented that he wished to de-emphasize the notion of reward Whilst he could feel this to be a reasonable view, he did not consider it necessary to express it overtly The Mexicans had done no more than honor their undertakings, which did not merit a reward as such He did, however, appear to approve the principle of a multi-year rescheduling on other grounds

Mr McGillicuddy (Manufacturers Hanover) stated that anything said on this matter should not undermine the status of the Advisory Committee. The Managing Director emphatically concurred any message to the Mexicans should come from the Advisory Committee, not from him. Mr. Rhodes added that he, too, was very sensitive to Mr McGillicuddy's point

By this stage, Mr Guth, Sir Jeremy Morse and Mr Leutwiler had departed The Managing Director suggested that he and Mr Rhodes could perhaps agree on the text of a short message (of which the broad outlines had been aired by Mr Wriston) The meeting participants agreed with that idea, and the meeting was concluded at about 6 30 p m

Following discussion with Mr Rhodes and two of his colleagues, and after overnight discussions with the Mexicans, a statement (Attachment 3) was sent to Mexico and issued to the press by Mr Rhodes on June 5

Stephen P Collins

cc Managing Director
Mr Erb
Mr Beza
Mr Wiesner
Mr Finch
Mr Mohammed
Mr Watson
Mr Handy
Mr Loser

ATTACHMENT 1

Delivered June 4, 1984
Philadelphia, Pa.

MEXICO Performance Under the Extended Arrangement and Medium-Term Financing Prospects

1. Mexico's recent economic performance

a. General considerations

In late 1982 Mexico embarked on a major adjustment program, supported by an extended arrangement with the Fund for the period 1983-85. The economic program aimed at restoring the medium-term viability of the Mexican economy, primarily through a reduction in the public sector deficit and the pursuit of policies to enhance efficiency. Particular emphasis was given to the objectives of slowing inflation while reducing the reliance on foreign financing, in order to create the conditions for sustained economic growth. The program also sought to assure external competitiveness and achievement of a liberalization of the exchange and trade systems.

b. 1983

The authorities proceeded with boldness in their implementation of the adjustment program in the first year, and they were able to achieve a major turnaround in economic conditions. The result was that Mexico moved away from the situation of crisis that characterized 1982.

Under the program, the deficit of the public sector was reduced from the equivalent of more than 18 percent of GDP in 1982 to about 8 1/2 percent in 1983. This strengthening of the fiscal situation made it possible to curb the growth of domestic credit which, supported by exchange rate and wage policies, contributed to the reduction of inflation and the improvement of the balance of payments, even as the dependence on foreign financing was cut back.

Domestic inflation declined sharply in 1983--particularly in the second half of the year--even though the rise in prices during the year was higher than had been sought initially, consumer prices rose by 80 percent in the 12 months ended December 1983, compared with an inflation that was running at an annual rate of more than 200 percent in late 1982-early 1983. The balance of payments position of Mexico recorded a strong recovery in 1983. The country's net international reserves, which had been virtually depleted by the end of 1982, increased by about US$5 1/2 billion in 1983. This gain reflected a sharp turnaround in the current account (which showed a surplus of US$5 1/2 billion) and a virtual cessation of capital flight in 1983, following large outflows in the previous two years. The restructuring of the public and private debt made a significant contribution to the improvement of Mexico's balance of payments situation. Real GDP fell by 4 1/2 percent from 1982 to 1983, with much of this change stemming from the slide in economic activity in the course of 1982 and early 1983.

It should be noted that Mexico's implementation of the adjustment program resulted in the compliance with all the performance criteria included in the extended arrangement, and all purchases scheduled under the arrangement with the Fund were made as had been planned.

c. <u>1984</u>

The economic program for 1984 envisages the continuation of the policies initiated in the first year of the adjustment effort. The main aims of the program for this year are the achievement of a further reduction of inflation, a continued satisfactory performance of the balance of payments, and a resumption of economic growth, albeit at a moderate pace.

To obtain these improvements in Mexico's economic performance, the public sector deficit is to be reduced from some 8 1/2 percent of GDP in 1983 to 5 1/2 percent in 1984, with the dependence on foreign financing declining further. Other aspects of financial policies and incomes policy are to continue to complement fiscal adjustment in achieving the objectives of the economic program. The opening of the economy to greater competition from other countries is to play an important role in increasing the efficiency of resource use and achieving a better structure of investment.

Developments so far in 1984 have been positive, with Mexico complying with all the quantitative performance criteria of the program with the Fund for the first quarter of the year. The public sector deficit for the period January-March 1984 was below the established target, and the authorities have reaffirmed their commitment to the quantitative targets already established for the year. The overall position of the public sector is likely to strengthen in coming months as a result of price adjustments in gasoline and other products announced in April. In the monetary field, credit from the Bank of Mexico has continued to be very restrained and has run well below planned levels. At the same time, credit to the private sector has registered a substantial increase, on the basis of a strong growth in financial savings placed with the banking system. This seems to point to a general restoration of confidence. In recent weeks the authorities have raised certain interest rates in order to ensure that the growth of financial savings is sustained in Mexico, notwithstanding the rise of foreign interest rates.

There are clear signs that the economy is beginning to recover, with manufacturing output rising from the last quarter of 1983, once adjustment is made for seasonal factors Also, the external position has continued to improve During the first four months of 1984 net international reserves increased by almost US$1 billion, which was above the target of US$800 million for the first half of the year The current account registered a surplus of almost US$2 billion in the first three months of 1984, in reflection of a large trade surplus. The official capital account recorded only a moderate net inflow in that period, and that was essentially because the first drawing under the US$3 8 billion loan from foreign commercial banks had not yet been made

Developments in respect of inflation have been somewhat less favorable than in other areas. To be sure, the 12-month rate of inflation has declined over the first four months of the year. Nevertheless, the rise in prices so far has exceeded somewhat the original projection for the period. To some extent the higher than projected rate of inflation reflects larger than anticipated public sector price adjustments which are corrective in nature, but it also suggests the need to proceed more boldly with the liberalization of imports.

Because inflation has run somewhat faster than had been expected under the program, Mexico's exchange rate adjustments have fallen short of what was needed to avoid a loss of competitiveness based on movements of relative consumer price indexes It should be noted, however, that the loss of competitiveness has been much smaller when measured in terms of relative wage movements, which is probably more significant from the standpoint of the trade position. Also, the margin of competitiveness at the beginning of the program was very large, as a result of the major adjustment of the currency in December 1982. The strong growth of exports that is taking place and the restrained rise of imports attests to the competitive power that exists.

Still, it is not possible to continue to have prices rise faster than in competitor countries without adequate compensation in terms of exchange rate adjustment. The expectation is that the rate of price increase will be slower in the months ahead, particularly now that the major corrective price adjustments for 1984 already have been made. On this basis, it is projected that there will be no further deterioration of competitiveness in terms of relative price indexes. More important, the authorities have indicated that they will keep external competitiveness under close scrutiny, and that they stand ready to take the measures needed to avoid a damaging loss of the country's capacity to compete internationally.

In sum, the program for 1984 is fully on track and the Mexican authorities have shown--as appeared clearly in our recent consultations of May--a firm determination to pursue the adjustment effort so as to consolidate the gains made. There is no doubt in my mind that the strong balance of payments and the emerging recovery in economic activity will ease the task of adjustment in 1984-85.

2. <u>Outline of medium-term balance of payments</u>

The current account of the balance of payments registered a surplus in 1983 and may very well show another surplus in 1984, although it is likely to be smaller than that of last year. These surpluses together with a moderate amount of foreign financing have been contributing to a much needed rebuilding of the country's international reserves

Looking beyond this year, the current account of the balance of payments is unlikely to be as strong as in 1984-85, inasmuch as the expected recovery of investment will probably exceed the growth of domestic saving, and this will have the effect of reducing the current account balance. With the continued strengthening of the public finances called for under the extended arrangement with the Fund, however, the current account should remain quite strong when compared with the late 1970s and early 1980s. In fact, any current account deficits that might develop in the period through 1990 probably would be small in relation to GDP, and it is possible that the outcome will be one of approximate balance in the current account.

The success of the adjustment effort so far and the favorable prospects for the period ahead, on the assumption that policies continue on the course that has been started, are creating the conditions for the return to a more normal access by Mexico to international capital markets. Following new money requirements from banks of US$5 billion in 1983 and US$3.8 billion in 1984, it is the expectation of the authorities that they will have to raise little or no new money from the banks next year, and that thereafter they will resume normal market borrowing for what limited amounts may be necessary. This expectation assumes a moderate increase in direct investment in Mexico, the restoration of a certain degree of market borrowing by the private sector, and the continued expansion of bilateral and multilateral borrowings from official and international lending agencies.

The prospect just described obviously depends on arrangements being made to deal with the heavy amortization payments of the public sector due to banks over the period through 1990 Such amortizations average more than US$8 billion a year over that six-year period, and account for some 85 percent of total public sector amortization payments falling due over those years These amortizations together with the interest payments due on them would be equivalent to a large proportion of Mexico's projected goods and services earnings over the period 1985-90

3. Negotiation of debt rescheduling

In the light of the size of the public sector amortization payments due to banks in the period under discussion, it is unrealistic to expect that they could be covered by syndications or other voluntary credits year by year, and it is therefore necessary to give consideration to the development of arrangements whereby Mexico's heavy public debt amortization payments to the banks over the next several years would be rescheduled. It needs to be emphasized in this regard that a multi-year approach would reduce uncertainties about the balance of payments in a way that obviously could not be accomplished by annual restructuring exercises.

Of course, a proposal for a multi-year restructuring can be contemplated only in the case of a country that has brought adjustment to the point where there is a substantial degree of certainty about the outlook for the balance of payments over the medium term The policies pursued by Mexico have produced such a prospect, and it is therefore in everyone's interest that Mexico's efforts be complemented by a change in its external debt profile in a way that would enhance stability.

The debt rescheduling exercise between Mexico and the banks will need to take account of the fact that amortization payments will be large in each year through 1990 Thus, there are good arguments for covering the whole of this period in the rescheduling exercise, but this is a matter that has to be discussed in negotiations between Mexico and the banks. It would seem, however, that at least four years need be covered if the exercise is to produce the effects on confidence and expectations that are being sought.

On other aspects, it is clear that the amortization schedule of the restructured debt should be such as to avoid a new bunching of repayments. A judicious use of maturities and grace periods is needed if debt repayments in the future are to be handled by voluntary means.

Fees and spreads should be reasonable in reflection of the improvement in creditworthiness, it also needs to be borne in mind that a significant part of the existing obligations of Mexico to the banks carry the low spreads that were characteristic of bank lending to Mexico until only a few years ago. In general, there is a need to balance the advantages of high spreads on short-term profitability against the implications of spreads on Mexico's economic health, which is of course the key to long-term profitability. Because of the many different sizes of banks involved in the exercise and the possible need to resort to numerous currencies in the debt rescheduling exercise, it would be useful to clarify the basis of the interest cost to which spreads are applied, perhaps by basing rates on the costs banks face in obtaining funds in the market.

To conclude, our discussion today should seek to lay the bases for a debt rescheduling exercise between Mexico and the banks that would help to bring about greater stability while providing an example of what can be in the offing if adjustment is taken seriously and carried out expeditiously.

MLCD (25)--6/3/84

Attachment 2

Table 1. Mexico Scheduled Amortizations on External Debt

(In billions of U.S. dollars)

	Debt Outstanding Dec. 31, 1984	Amortizations 1985	1986	1987	1988	1989	1990	1991 and After
A. Public sector debt	68.8	9.8	9.1	12.8	10.7	9.0	7.0	10.4
Amortizations resulting from 1983 loan for US$5 billion	5.0	--	1.3	1.7	1.7	0.3	--	--
Amortizations resulting from 1984 loan for US$3.8 billion	3.8	--	--	--	--	0.2	0.8	2.8
Amortization related to debt restructured in 1983	18.8	--	--	4.7	4.7	4.7	4.7	--
Other amortizations due to banks on all debt	26.6	8.0	5.9	4.8	2.9	3.0	0.6	1.4
Subtotal of amortizations due to banks	54.2	8.0	7.2	11.2	9.3	8.2	6.1	4.2
CCC	1.3	0.5	0.6	0.2	--	--	--	--
Other amortizations due to nonbanks	13.3	1.3	1.3	1.4	1.4	0.8	0.9	6.2
B. Nationalized banks	6.6	--	--	--	--	--	--	6.6
C. Private sector debt	16.9	1.2	1.2	1.0	3.1	2.9	2.7	4.8
Of which to banks	14.4	0.8	0.5	0.7	2.8	2.7	2.6	4.3
D. Total amortizations to banks (Public and private)	75.2	8.8	7.7	11.9	12.1	10.9	8.7	15.1
E. Total of amortizations on external debt (except IMF)	92.3	11.0	10.3	13.8	13.8	11.9	9.7	21.8
F. IMF repurchases	2.5	--	0.1	0.3	0.5	0.8	0.8	1.3 1/
G. Total amortizations	94.8	11.0	10.4	14.1	14.3	12.7	10.5	23.1 1/

1/ Includes repurchases with respect to projected purchases made in 1985.

Attachment 3

June 5, 1984

Senior representatives of the commercial banks forming the Advisory Committee for Mexico met yesterday in Philadelphia to receive a report from the Managing Director of the International Monetary Fund, covering Mexico's performance in the second year of its program with the Fund. On the basis of the substantial progress Mexico has made under its adjustment program, the Advisory Committee has agreed to negotiate with the pertinent Mexican authorities specific arrangements for a rescheduling of its public sector debt on a multi-year basis compatible with its medium-term financial outlook. This multi-year approach should facilitate Mexico's plans for an early return to normal market access its public sector debt on the multiyear basis, compatible with Mexico's medium-term financial outlook This approach was based on Mexico's current and prospective progress under its adjustment program

IV Balance of Payments Prospects

1 Prospects for 1984

On the basis of the performance for the first quarter of the year, the balance of payments projections for 1984 have been revised The projected balance of current account has been revised from a deficit of about US$1 billion envisaged earlier, to a surplus of ~~of~~ US$1 1/2 billion This is the case mainly because of an upward revision of the trade surplus by some US$3 billion, to US$13 billion, mainly on account of a lower projection for imports and a very dynamic performance of nonpetroleum exports

Exports are projected to increase from $22 billion a year in 1982-83 to $24 1/2 billion in 1984, mostly reflecting the growth of nonpetroleum exports, in response to the recovery abroad and the prevailing level of competitiveness Total imports are projected to increase by 50 percent to $11 1/2 billion, reflecting the gradual recovery of domestic activity, the replenishment of stocks, and the acceleration of import permit authorizations Net factor payments are projected to increase from $9 billion in 1983 to $11 billion in 1984, largely reflecting the increase in interest payments on public and private external debt due to an increase in the stock of debt as well as to higher interest rates

Net capital inflows are now expected to increase from $0 5 billion in 1983 to $2 billion in 1984, mainly because the net outflow of private capital (including debt amortizations) is projected to be reduced to some

$2 billion, while net public sector borrowing is projected at $4 billion Thus, net international reserves of the Bank of Mexico might increase by as much as $3 billion in 1984 Gross official reserves (excluding gold), which had fallen to less than one month of imports and interest payments in 1982, recovered to three months of payments in 1983 and are projected to increase further to over four months of payments in 1984

2 Medium-term projections

Balance of payments projections for the period after 1984 have been revised in light of recent developments and the prospects for a multiyear restructuring of external debt through the end of the decade The major macroeconomic assumptions made in earlier exercises 1/ have been maintained, viz , the continuation of adjustment policies under the current program, leading to a real GDP growth of about 5 percent in the period 1985-1990, the gradual convergence of domestic inflation to that of Mexico's major trading partners, and the maintenance of a strong balance of payments position

Staff projections for 1985-1990 indicate an average current account position of close to zero (Table 9) The ~~internal~~ virtual elimination in the surplus reflects a recovery of private investment, partly offset by the reduced public sector deficit The value of exports is projected to grow at an annual average of 6 percent, with petroleum products continuing to account for the largest, albeit declining, share Nonpetroleum exports would grow by some 9 1/2 percent per annum, reflecting the maintenance of external competitiveness and continued economic expansion elsewhere

1/ See EBS/84/1, Supp 1 (1/27/84) Mexico, Second Year of the Extended Arrangement, pp 28-30

Table 9. Mexico Medium-Term Balance of Payments Projections

(In billions of U S dollars)

	1984	1985	1986	1987	1988	1989	1990
Current account	1 4	0 8	0 6	0 6	0 6	0 1	-0 6
Trade balance	13 0	10 6	9 7	9 4	8 9	7 7	7 2
Exports	(24 6)	(25.6)	(27.2)	(29 0)	(30 9)	(32 9)	(35 1)
Imports	(-11 6)	(-15 0)	(-17 5)	(-19 6)	(-22 0)	(-25 2)	(-27 9)
Factor income	-11 2	-10 3	-9 7	-9 4	-9 0	-8 5	-8 8
Of which interest payments on public debt	(-8 8)	(-8 5)	(-7 9)	(-7 4)	(-7 0)	(-6 4)	(-6.5)
Other services and transfers	-0 4	0 5	0 6	0 6	0 7	0 9	1 0
Capital account	1 9	1 2	1 1	1 1	1 2	1 5	1.9
Official capital	(4 0)	(1 2)	(1 1)	(1 1)	(1 2)	(1 5)	(1 2)
Private capital	(-2 1)	(--)	(--)	(--)	(--)	(--)	(0 7)
Monetary authorities (increase -)	-3.3	-2 0	-1 7	-1 7	-1 8	-1 6	-1 3
Memorandum items							
Current account as percent of GDP							
At 1979 real exchange rate	0 7	0 3	0 2	0 2	0 2	--	-0 2
At current exchange rate	0 9	0 5	0 3	0 3	0 2	--	-0.2
Gross reserves, end of period 1/							
In billions of U S dollars	7 9	11 2	12 8	14 2	15 5	16 3	16 8
In months of imports and total interest payments	4 0	5 1	5 5	5 8	6 0	5 9	5 6

Source Fund staff projections.

1/ Excludes gold and payments agreements.

Imports are projected to grow at an annual average of 16 percent from their relatively low levels in the base period, with a more pronounced increase in the earlier years Net factor payments would decline as a proportion of GDP from 5 1/2 percent in 1984 to 2 1/2 percent in 1990 while nonfactor services and transfers would record a small annual surplus during the period

The net foreign financing of the public sector would be reduced from about 2 percent of GDP in 1984 to an average of 0 4 percent of GDP in 1985-1990, i e , the bulk of the public sector financing needs would be covered from domestic sources Virtually all of the net foreign financing of the public sector would originate from nonbank sources--largely multilateral and bilateral credits Net private capital is expected to be roughly in balance during the period, as the gradual resumption of private capital inflows in the form of direct investment and loans will be nearly offset by the amortization of private debt rescheduled in 1983 mainly under the FICORCA scheme The projected path of the overall balance of payments would thus lead to an average annual accumulation of net international reserves of around US$1 1/2 billion over the period

In line with the above assumptions on net foreign borrowing by the public sector, and on the basis of the current maturity structure, the debt service ratio would increase from 48 percent in 1984 to 55 percent in 1985, reflecting a bunching of amortizations due on debt outstanding as of the end of 1984 (Table 10 and Appendix IV) After a temporary decline in 1986, the ratio would again increase to 56 percent in 1987, when the amortization of amounts restructured in 1982-84 would begin,

Table 10. Mexico Summary of External Public Debt Operations and Projections

(In billions of U S dollars)

	1980	1981	1982	Prel 1983	Projected 1984	1985	1986	1987	1988	1989	1990
Total flows (net)	4.7	17 8	9 0	3 8	5 3	2 5	1 0	0 8	0 7	0 7	0 4
Direct debt 1/	4 8	17 8	6 8	4 7	4 0	1 2	1 1	1 1	1 2	1 5	1 2
Disbursements	(8 5)	(22 6)	(11 8)	(11.8)	(10.5)	(11.2)	(10 5)	(14 9)	(13 3)	(12 5)	(11 0)
Amortizations due	(3 7)	(4 8)	(5.0)	(7.1)	(6 5)	(10 0)	(9 4)	(13 8)	(12 1)	(11 0)	(9 8)
Debt outstanding end-1982	/3.7/	/4 8/	/5 0/	/7 1/	/6 5/	/9 8/	/9 1/	/8 3/	/6 2/	/4 3/	/1 8/
Other (including 1982-84 restructuring)	/--/	/--/	/--/	/--/	/--/	/0 2/	/0 3/	/5 5/	/5 9/	/6 7/	/8 0/
Bank of Mexico (net) 2/	-0 1	--	2 2	-0 9	1.3	1 3	-0 1	-0 3	-0 5	-0 8	-0 8
Interest payments (total)	4 0	5 5	7 9	7.0	8 8	8 5	7 9	7 4	7.0	6 4	6 5
Debt service payments due 3/	7 8	10.3	12 9	14.1	15 3	18 5	17 4	21 5	19 6	18 2	17 1
Debt service payments paid 3/	7 8	10 3	11.6	9 2	11 5	18 5	17 4	21 5	19 6	18 2	17 1
External debt outstanding	34.5	53.2	62 1	66 1	71 4	73 9	74 9	75 7	76 4	77 1	77 5
Direct debt	34 5	53 2	59 9	64 8	68 8	70 0	71 1	72 2	73 4	74 9	76 1
Bank of Mexico	--	--	2 2	1 3	2 6	3 9	3 8	3 5	3 0	2 2	1 4
Nationalized bank debt outstanding	5 1	7 0	7 8	6 6	6 6	6 6	6 6	6 6	6 6	6 6	6.6
Selected indicators (in percent)											
Effective interest rate	12.4	12 5	13 7	10 9	12 8	11 7	10 6	9 8	9 2	8.3	8 4
Debt service ratio (including IMF) 4/											
On payments due	31.3	33.8	42 4	49 8	47.7	54 7	48 2	55 6	47 2	41 0	35 8
On actual payments	31 3	33.8	38 2	32 5	35 8	54.7	48 2	55 6	47 2	41 0	35.8
Interest payments ratios											
To exports of goods and services	16 1	18 0	26 0	24 7	27 4	25 1	21 9	19 1	16 9	14 4	13.6
To GDP 5/ 6/	2 3	2 7	3 9	3 4	3 8	3 2	2 6	2 2	1 9	1 5	1.4
External debt ratio to GDP (excluding IMF) 6/	21 7	28 6	31 4	32 1	32 1	29 8	27 5	25 3	23.5	21 7	20.1

Sources Mexican authorities, and Fund staff projections

1/ Includes central government, government development banks, and forward petroleum sales contracts of Pemex Includes net changes in short-term debt

2/ Includes purchases from the Fund.

3/ Amortization of medium- and long-term debt and interest on total debt, includes the Fund

4/ Ratio of debt service to exports of goods and services

5/ Net of interest on gross reserves

6/ GDP in dollars measured at the 1979 real exchange rate but subsequently it would decline to 36 percent in 1990, reflecting both the limited resort to external borrowing and projected declines of world interest rates over the medium term The ratio of public debt to GDP would decline from 32 percent in 1984 to 20 percent in 1990, and the corresponding decline for the ratio of total debt to GDP would be from 44 percent to 26 percent The ratio of public sector foreign interest payments to GDP, net of interest on gross reserves, would decline from near 4 percent of GDP in 1984 to 1 1/2 percent of GDP in 1990

In June 1984 the Mexican authorities announced the approval of the National Development Financing Program for 1984-88 This program aims at strengthening domestic savings, seeking a more efficient allocation of these resources, reducing the reliance on foreign borrowing, and strengthening the financial system In order to achieve these objectives, the authorities intend to continue with their general policy stance, including a reduction in the public sector deficit in relation to GDP, realistic exchange rate, and interest rate policies, accompanied by efforts to improve the structure of external public and private debt Moreover, the program emphasizes the need to coordinate commercial and exchange rate policies in improving economic efficiency

Projections for 1985-1988 presented in the Program contrast somewhat with the staff's scenario although the differences are generally small The current account is projected to show an annual average deficit of about 0 5 percent of GDP, compared with the staff's projection of virtual equilibrium This higher deficit is to be financed by somewhat larger official capital inflows and by a somewhat smaller buildup of gross reserves over the period In particular, the authorities' scenario assumes that the exposure of commercial banks to the public and private sector of Mexico would increase by an annual average of US$1 billion in 1985-1990, or somewhat over one percent a year, whereas the staff assumed that the banks' exposure would decline by some US$0.6 billion a year, because of net repayments to the banks by the Mexican private sector Under the authorities' scenario, the ratio of debt to GDP would decline to 29 percent by 1990, compared with a decline to 26 percent under the staff's projections

V Exchange Arrangements Subject to Fund Approval

The exchange system currently in effect in Mexico involves multiple currency practices subject to Fund approval under Article VIII, Sections 2 and 3 of the Articles of Agreement These were most recently described in EBS/84/81, Sup 1 (1/27/84) The changes in the system that have taken place since that time have been discussed in previous sections of this paper, and in the accompanying paper on Recent Economic Developments

Multiple currency practices arise from the operation of

(i) an exchange market comprising a controlled market rate for specified transactions,

(ii) three special rates applied to forward cover contracts for the payment of external obligations outstanding as of December 20, 1982 These exchange rates may give rise to multiple currency practices at the time of foreign exchange delivery, insofar as

1/ See EBS/84/1, Sup 1, (1/27/84) Mexico, Second year of the Extended Arrangement, pp 28-30

Office Memorandum

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TO Mr Mohammed

DATE June 25, 1984

FROM E Wiesner EW

SUBJECT CITE Surveys on Brazil and Mexico

Pursuant to your note of June 18, attached you will find comments made by Messrs Reichmann and Neuhaus on CITE's unwarranted assertions

Office Memorandum

TO Mr Pujol

DATE June 22, 1984

FROM Paulo Neuhaus PN

SUBJECT Mexico--CITE Survey

In addition to some inaccuracies described below, the main flaw of the CITE Survey on Mexico is to blame the Fund for the imposition of restrictive measures, when in fact the extended arrangement has consistently called for the liberalization of import permits and for the replacement of administrative import controls by a market-operated system of import tariffs. The survey correctly notes that some of the measures--indeed most of them in the case of Mexico--predate the program with the Fund. As regards those imposed after the inception of the program (e.g , limitation of import permits to goods not produced locally, formalization of pre-existing bans on certain imports, selective import and investment regulations covering the pharmaceutical industry, etc) the staff has consistently conveyed to the authorities its misgivings about the distortions which are bound to be created by these measures Beyond that, there are a few specific points where the report is inaccurate and/or misleading

(i) while the nominal import duties quoted in the report may sound high, the effective duty rate (i.e., the ratio of duty collections to import value) has been steadily declining from 14 1/2 percent in 1981, to 12 1/2 percent in 1982, 8 1/2 percent in 1983 and 8 percent in the first quarter of 1984, largely because of a shift in the composition of imports toward items with duty exemptions or low duty rates,

(ii) while the survey notes that various export taxes are forgiven, the importance of fiscal (as opposed to credit) export incentives is minimal Export taxes were lowered in 1976 and currently are low and levied mostly on primary commodities,

(iii) the report fails to note that since February 1984 the application of foreign investment guidelines by the National Commission on Foreign Investment has been made more flexible, with a view to encouraging foreing investment

Finally, several features of the Mexican economic framework which are described with a negative connotation in the report--incentives for the establishment of export-oriented free zones, state ownership of key industries, establishment of priority sectors for industrial development, formulation of a national development plan, and other practices reflecting the choice of a mixed-ownership economy--are fairly common not only across the Fund membership in general but even within the major OECD members Moreover, the guidelines on Fund conditionality clearly mandate that the Fund should pay due regard to the members' social, political, and economic priorities and objectives, as well as to their particular circumstances

cc Mr. Loser

Office Memorandum

TO Mr Wiesner

DATE June 20, 1984

FROM T Reichmann

SUBJECT <u>Brazil CITE Survey</u>

The CITE Survey report and cover note for Brazil contain a number of inaccuracies and misinterpretations, as well as several instances of "selective reporting" that may give a misleading impression of current Brazilian trade policies

1 Contrary to the statement in the cover note, <u>all</u> of the cited trade practices predate the arrangement with the Fund This may be verified by reference to the description in the last AREAR of the exchange and trade system that was operative as of December 31, 1982, before the Fund arrangement was approved

2 The statement that the IMF agreement calls for severe controls on imports is patently untrue In fact, one of the principal undertakings of the authorities under the arrangement refers to the introduction of a liberal trade system and the elimination of remaining exchange restrictions during the period of the arrangement In line with the provisions of the agreement, considerable progress has already been achieved in this respect as evidenced by the elimination of a number of exchange restrictions and multiple currency practices in December 1983, and of external payments arrears and the centralized system of foreign exchange allocation in March 1984

3 The characterization of the system of import restrictions and export incentives is both incomplete and inaccurate To illustrate, although it is true that most imports require an import license, such licenses do not in general require prior approval and are usually issued automatically if they fall within a previously authorized global import limit The reference to a "flexible" import duty system is also somewhat confusing, although this comment may be intended to describe the existence of widespread exemptions and reductions from the posted tariff schedule Finally, the statement that indirect taxes are not collected on exports, but can be taken as a credit on domestic taxes, is misleading on two counts First, several exports are subject to export taxes Second, the <u>credito premio</u> (which is presumably the tax credit in question) is a general export incentive involving a credit on state and municipal value-added taxes in respect of exports of manufactured goods It is not intended to bear any relation to the payment of export taxes

Office Memorandum

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June 18, 1984

TO Mr Wiesner

FROM A F Mohammed

SUBJECT Request for comments on CITE Surveys on Brazil and Mexico

Attached are items received from the Coalition for International Trade Equity or CITE. I would like your suggestions on points that might be made to answer the unwarranted assertion in the cover memorandum that IMF agreements call for severe import controls in Brazil and Mexico

Attachments

Enclosed are the *CITE Survey* reports on Brazil and Mexico Both countries have very serious international debt problems The International Monetary Fund (IMF) in conjunction with other international lenders has entered into agreements with each country in an effort to remedy these major debt problems

Part of the IMF agreements call for severe controls on imports as well as major export expansion programs Thus some of the governmental actions noted in the enclosed *CITE Survey* reports have been imposed on Brazil and Mexico However, some governmental measures predate the IMF agreements (e g local content requirements and major government ownership of industrial sectors)

BRAZIL

PROFILE

Population 120 5 million
GDP $210 7 billion (1981)
Per Capita Income $2 200
World Rank by Exports 14

Exports as % of GDP 11%

% of World Exports 1 2%

IMPORT RESTRICTIONS

• Virtually all imports require a license issued by the government All imports are scrutinized closely by the government, special favor is accorded imports for government-approved investment projects while a lengthy list of products particularly luxury items, are prohibited

Approval of major capital equipment imports is contingent on obtaining long-term foreign financing

• A flexible import duty system is used, either to protect local manufacturers, or to encourage imports of certain raw materials or other essentials in short supply

• The local content requirement in the auto industry approximates 100% In steel, electronics, energy and farm equipment manufacturing the local content requirement is 80-90% (virtually closing the market to imports)

EXPORT INCENTIVES

• Indirect taxes are not collected on exports however, they can be taken as a credit on taxes due on domestic sales as if they had been paid

• A variety of income tax concessions and import duty reductions are provided as incentives for companies that maintain a positive trade balance

GOVERNMENT OWNERSHIP/ PROCUREMENT

• The government has a monopoly in oil refining hydroelectric and nuclear energy, communications and other utilities, and a major position in steel and petrochemicals State involvement is extensive, accounting for almost 70% of economic activity

• Government entities and state-controlled enterprises are instructed to buy products from locally-owned companies A certificate from the Industrial Development Council indicating compliance with local content requirements (about 90%) is essential for a company to sell to government entities

SECTOR TARGETING

• Foreign investors are quite limited or totally barred from investing in computers semiconductors, telephone equipment, computerized control devices and optic fibers These are reserved markets' for locally controlled companies

• The aircraft manufacturing and the soda ash industries are reserved exclusively for the state

MEXICO

PROFILE

Population 71 1 million
GDP $239 billion (1981)
Per Capita Income $2 250
World Rank by Exports 20

Exports as % of GDP 8%
% of World Exports 1 0%

IMPORT RESTRICTIONS

• Most imports into Mexico require a license issued by the government

• Import duties on consumer goods are in the 50-100% range and 30 40% for other products competing with local industries

• Automobiles must have a minimum local content of 50% In some instances local content requirements are as high as 90% In other industrial sectors the local content requirement is in the 60% range

EXPORT INCENTIVES/ REQUIREMENTS

• Various export taxes are forgiven Also import duty rebates or waivers are tied to improvement in a company s export performance

Majority-owned foreign enterprises are required to export a high percentage of their production—as much as 90%

• A variety of incentives are offered to manufacturers establishing export oriented businesses in Mexico s free zones ' (e g necessary imported machinery and raw materials can enter duty free)

GOVERNMENT PROCUREMENT/ OWNERSHIP

The state plays a major role in Mexico s industry Sectors reserved for the state are banking petroleum basic petrochemicals, nuclear energy railroads and telecommunications The government participates in over 750 enterprises with majority ownership in almost 500

• The Mexican government and its corporate entities are major purchasers of goods and services Local companies are given preference in such purchases

SECTOR TARGETING

• Priority sectors in Mexico include petrochemicals electronics and computers, machine tools automobiles non-electrical and electric machinery and equipment and biotechnology

• Mexico guides the allocation of its resources based on its National Development Plan by using the central bank, state-owned entities, foreign exchange control export incentives and protection of its home market

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INTERNATIONAL MONETARY FUND
WASHINGTON D C 20431

Mexico

JUN 13 1984

CABLE ADDRESS
INTERFUND

Sir

Reference is made to the Extended Arrangement that the International Monetary Fund (the 'Fund) approved on December 23, 1982 for the United Mexican States.

(1) The Extended Arrangement continues in effect.

(2) Subject to the observance of the performance clauses of the Extended Arrangement, the United Mexican States will have the right during a period of three years from January 1, 1983 to make purchases from the Fund under the Extended Arrangement up to a total amount equivalent to SDR 3,410.625 million. Until January 1, 1985, the United Mexican States will have the right to make purchases under the Extended Arrangement up to a total amount equivalent to SDR 2,206.88 million, provided that purchases shall not, without the consent of the Fund, exceed

(a) the equivalent of SDR 1, 304.06 million until May 20, 1984,

(b) the equivalent of SDR 1,605.00 million until August 20, 1984, and

(c) the equivalent of SDR 1,905.94 million until November 20, 1984.

(3) As of the date of this letter, the United Mexican States had purchased all amounts that were to be available for purchase on or prior to the date of this letter in accordance with the phasing provisions of the Extended Arrangement which specify the amounts and the timing of such purchases.

Very truly yours,

Sterie T. Beza
Acting Director
Western Hemisphere Department

The United Mexican States
Minister of Finance and Public Credit
Ministry of Finance and Public Credit
Mexico City, Mexico

~~Mr.~~ Beza F

INTERNATIONAL MONETARY FUND

June 12, 1984

TO : Mr. James G. Evans, Jr.

FROM: James M. Ogoola

Subject: Mexico - Status Letter

In response to Mr. Buchheit's note of June 8, 1984, I have prepared the attached status letter on Mexico. In the absence of Mr. Wiesner from Washington, the letter would be signed by Mr. Beza. As on earlier occasions, the Western Hemisphere Department will hold the letter after signature until it is dated in the Communications Division at the appropriate time when Mr. Buchheit's office will arrange for the letter to be picked up.

Attachment

cc: Mr. Beza

INTERNATIONAL MONETARY FUND
WASHINGTON D C 20431

JUN 13 1984

CABLE ADDRESS
INTERFUND

Sir

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Very truly yours,

Sterie T. Beza
Acting Director
Western Hemisphere Department

The United Mexican States
Minister of Finance and Public Credit
Ministry of Finance and Public Credit
Mexico City, Mexico

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INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

OFFICE OF THE
MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

June 7, 1984

RECEIVED
JUN 11 1984
Western Hemisphere Department

MEMORANDUM FOR FILES

Subject: Mexico

Taking advantage of the International Monetary Conference, the Managing Director convened a meeting of the banks on the Advisory Committee for Mexico in Philadelphia at 5:15 p.m. on Monday, June 4. All 13 banks were represented, in most cases at Chairman level. Mr. Volcker and Mr. Leutwiler were also present. The Managing Director was accompanied by Messrs. Beza, Loser and Collins.

The Managing Director opened the meeting by reading out the attached speaking note (Attachment 1) and during the course of his remarks he circulated the table on scheduled amortizations of Mexico's debt (Attachment 2).

The Managing Director then asked Mr. Volcker to say a few words. Mr. Volcker suggested that it would be useful to broaden the frame of reference somewhat. He said that it was incontestable that the atmosphere surrounding the debt problem had deteriorated in recent months. There was a feeling that there was no strategy, even though one existed based on the case-by-case approach. The next logical step in that strategy was multi-year rescheduling.

Turning to individual countries, Mr. Volcker said that it was arguable that Venezuela was now approaching the point where it was willing to undertake an economic program to put it on a medium-term track--with or without the Fund. His personal hope was that it would be with the Fund. He commented that even if Venezuela's external position was all right, the domestic economy was in need of adjustment. On Brazil, Mr. Volcker said that its balance of payments performance had been better than expected, and it had been building up reserves in a modest way. Brazil's internal performance was spottier than Mexico's but had recently been improving. He anticipated no need to address a multi-year rescheduling for Brazil before the fourth quarter of 1984. However, Brazil, unlike Mexico, would need new money next year.

Mr Volcker went on to say that there was obviously a problem filled with uncertainty in the case of Argentina This was hanging heavily over the markets, as were worries about interest rates There was a substantial risk that the Argentine situation would not be resolved without a period of confrontation The difficulties of Continental Illinois were also clouding the atmosphere

Mr Volcker added that his perception was that the internal political opposition in Mexico and Brazil was stronger than previously The wage decision coming up in Mexico would undoubtedly cost the Government some political support There were clear signs that honest alarm in Latin America was giving way to a more uniform, politicised approach

On Mexico, Mr Volcker said that the signs of recovery were pretty scattered thus far Nonetheless, economic projections by the Fed, the Fund and the Mexicans themselves were reassuringly similiar The Fed's projections envisaged 5 to 6 percent growth in the medium-term, compared with 3 percent in the industrialized part of the world This assumed a constant nominal price of oil in the short run and no real change after that, and "nothing fantastic" with regard to declines in interest rates--in other words, the assumptions were reasonably conservative All this led to the projection of a zero current account balance next year--although the Mexican authorities had an interest in showing a small deficit in order to demonstrate to their population that they could both borrow and grow

In sum, Mr Volcker said, looking at the broader strategy, the time had come to give Mexico a multi-year rescheduling and to display it as an example to other Latin American countries

Asked to comment, Mr Rhodes (Citibank) mentioned that the subscription for $3 8 billion of new money had been exceeded by $210 million and that the amounts for individual banks would be rebated <u>pro-rata</u> There were 494 banks included, which corresponded to the participation rate in the $5 billion loan when allowance was made for mergers of U S banks The Economic Sub-Committee of the Advisory Committee would be going to Mexico next week Mr Rhodes expected to receive its report by the end of the month, at which point he would be getting together with his co-chairmen

Mr Butcher (Chase Manhattan) said that it seemed that the Managing Director was suggesting, first, a longer time horizon for Mexico and, secondly, a reduction in interest rates spreads. He agreed that Mexico had earned a longer horizon but wondered whether now was the time to move ahead on either score in view of the situation in Argentina The Managing Director responded that he had heard that argument several times recently. He urged that the two cases should be separated It would, in any case, take a long time to deal with Argentina At some stage, something would have to be done for Mexico--the question was whether it should be before or after the Argentine Letter of Intent He argued strongly for action before the letter If the banks delayed their decision, the Managing Director continued, he was afraid that the position of the Mexicans would be weakened in the discussions expected to take place shortly in Bogota or elsewhere Even Mr Ulloa, a conservative, had reflected this potential problem at the International Monetary Conference that morning Furthermore, a later agreement on a multi-year arrangement for Mexico could also entice the Argentinians to ask for the same treatment at that time Thus, the Managing Director's advice would be to do something different for Mexico--something not immediately extensible to Argentina Moreover, the quicker it could be done, the better In that way, Mr Silva Herzog would be reinforced in his position, not weakened This would be to reward good performance He was sure that, if the banks would give a sign that day, perhaps by an instruction to their collaborators, it would help to prevent a cartelisation of debtors--for Mr Silva Herzog would be able to demonstrate to his fellow Latin American Finance Ministers that good performance pays off

Mr Preston (Morgan Guaranty) asked about the Fund's continuing involvement in Mexico after the end of the current program period The Managing Director replied that there were many ways in which the Fund could continue to be involved There could be follow-on programs (for more modest amounts), shadow programs, precautionary programs, or other surveillance and monitoring/certification devices He suggested that the banks should raise this question with the Mexicans Mr Volcker added that, given the balance of payments projections, Mexico would need very little new money in the coming years If the situation were to deteriorate and it did need new money, the banks would regain a hold over the Mexico especially if it had to turn again to the Fund There was thus a fail-safe mechanism. The Managing Director intervened to say that he would much prefer a pre-organized system, and Mr Volcker agreed

Mr Brittain (Bankers Trust) asked whether there was any risk that the signal being given to the Mexicans could backfire with respect to the Argentinians He saw a high risk that the Argentinians would demand similar treatment The Managing Director replied that he did not see the situation that way The Argentinians had to face up to realities The rescheduling for Mexico was essentially a rather technical matter The bankers had already provided a two-year rescheduling arrangement for 1983-1984 and it would be most unlikely that, given the present performance, less would be done now, so the question of 2 versus 4 or 5 years was not one of fundamental principle. The problem in Argentina was that the Government had to change the main thrust of its economic policies and obtain a sui generis program One object of the Mexican rescheduling should be to make Argentina realize that while it was not performing adequately it was missing out on an advantageous system

Mr Rhodes intervened to say that there was a risk of the nature described by Mr Brittain and Mr Butcher Mr. Grinspun had said publicly that he would look carefully at whatever was done for Mexico There was thus a question of timing As he understood it, a draft Letter of Intent (prepared by the Argentinans) had been transmitted by Mr Grinspun to President Alfonsin that day and would be given to the Fund team on the following day The Advisory Committee for Argentina meanwhile thought that it had got an arrangement to sort out the 90-day arrears problem, on condition that a Letter of Intent was signed This process could take two weeks or more Similarly, it could take until the end of the month before the banks were in a position to begin negotiations with the Mexicans

Mr Volcker remarked that the banks were faced with the strategic question whether it would not be better to face a possible Argentine blow-up with one large country like Mexico on a confirmed medium-term track.

Mr. Wriston (Citibank) said that he would question whether there was any resistance among the group to a multi-year rescheduling for Mexico He wanted to know what could or should be said publicly on the issue, given the intense interest being shown in it by the press and others

Mr Volcker did not answer the question directly but said that he wished to give the Committee an idea of what was in the Mexicans' minds He said that they looked at the numbers and understandably argued that they needed a restructuring of 5-6 years' maturities He guessed that they would not agree to less than 4 They clearly perceived that the restructuring undertaken in prior years had to be reopened (At this, there were audible groans from the bankers) Mr Volcker thought that the interest rates spreads on non-restructured debt were so low that it was inevitable that previously restructured debt would have to be reopened if the Mexicans were to obtain reduced spreads in a rescheduling exercise The Mexicans also felt the need to have pricing options based on cost of funds instead of prime rates Mr Volcker felt that the Mexicans would expect monitoring by the Fund They also might raise the interest rate cap question, but this was not necessarily essential

Taking up the question of reopening previously rescheduled contracts, Mr Rhodes said that what Mr Gurria wanted was to "pick up" the remaining maturities as they went along but not "physically" to reopen contracts He mentioned that Advisory Committee members had reacted angrily last December to the possibility of reopening previously restructured contracts Mr Volcker intervened to say that Mr Gurria had suggested to him that the Mexicans wished to do just that

Sir Jeremy Morse (Lloyds) remarked that these details were too technical for the meeting Mr Wriston repeated his question as to what could be said publicly, and Sir Jeremy Morse said that, in his view, it was premature to say anything publicly

The Managing Director then suggested, in answer to Mr Wriston, that, if the members of the Advisory Committee saw merit in his proposal, all that was required was a message to the Mexicans to the effect that the principle of multi-year rescheduling had been accepted No dates or any other technicalities were required in such a message, nor need it be made public The Managing Director asked whether those present would permit a message to go to Mr Silva Herzog in which he would be told that the Chairmen of the banks had instructed their collaborators on the Advisory Committee to pursue the question

Mr Guth (Deutsche) responded that he favored the sending of such a message Indeed, it was necessary At the press conference in which he and the Managing Director had just participated, the issue had been aired, and it would seem odd to the Mexicans if this were not followed up. Of course, it would have to be made clear to them that there was no definite agreement on the details

Mr Brittain insisted that, indeed, it was vital that there was no specificity on the details, especially in light of what Mr Volcker had just said

Mr Vienot (Societe Generale) commented that he wished to de-emphasize the notion of reward Whilst he could feel this to be a reasonable view, he did not consider it necessary to express it overtly The Mexicans had done no more than honor their undertakings, which did not merit a reward as such He did, however, appear to approve the principle of a multi-year rescheduling on other grounds

Mr McGillicuddy (Manufacturers Hanover) stated that anything said on this matter should not undermine the status of the Advisory Committee The Managing Director emphatically concurred any message to the Mexicans should come from the Advisory Committee, not from him Mr Rhodes added that he, too, was very sensitive to Mr McGillicuddy's point

By this stage, Mr. Guth, Sir Jeremy Morse and Mr. Leutwiler had departed. The Managing Director suggested that he and Mr. Rhodes could perhaps agree on the text of a short message (of which the broad outlines had been aired by Mr. Wriston). The meeting participants agreed with that idea, and the meeting was concluded at about 6:30 p.m.

Following discussion with Mr. Rhodes and two of his colleagues, and after overnight discussions with the Mexicans, a statement (Attachment 3) was sent to Mexico and issued to the press by Mr. Rhodes on June 5.

Stephen P. Collins

cc: Managing Director
Mr. Erb
Mr. Beza
Mr. Wiesner
Mr. Finch
Mr. Mohammed
Mr. Watson
Mr. Handy
Mr. Loser

ATTACHMENT 1

Delivered June 4, 1984
Philadelphia, Pa.

MEXICO Performance Under the Extended Arrangement and Medium-Term Financing Prospects

1. Mexico's recent economic performance

a. General considerations

In late 1982 Mexico embarked on a major adjustment program, supported by an extended arrangement with the Fund for the period 1983-85. The economic program aimed at restoring the medium-term viability of the Mexican economy, primarily through a reduction in the public sector deficit and the pursuit of policies to enhance efficiency. Particular emphasis was given to the objectives of slowing inflation while reducing the reliance on foreign financing, in order to create the conditions for sustained economic growth. The program also sought to assure external competitiveness and achievement of a liberalization of the exchange and trade systems.

b. 1983

The authorities proceeded with boldness in their implementation of the adjustment program in the first year, and they were able to achieve a major turnaround in economic conditions. The result was that Mexico moved away from the situation of crisis that characterized 1982.

Under the program, the deficit of the public sector was reduced from the equivalent of more than 18 percent of GDP in 1982 to about 8 1/2 percent in 1983. This strengthening of the fiscal situation made it possible to curb the growth of domestic credit which, supported by exchange rate and wage policies, contributed to the reduction of inflation and the improvement of the balance of payments, even as the dependence on foreign financing was cut back.

Domestic inflation declined sharply in 1983--particularly in the second half of the year--even though the rise in prices during the year was higher than had been sought initially, consumer prices rose by 80 percent in the 12 months ended December 1983, compared with an inflation that was running at an annual rate of more than 200 percent in late 1982-early 1983. The balance of payments position of Mexico recorded a strong recovery in 1983. The country's net international reserves, which had been virtually depleted by the end of 1982, increased by about US$5 1/2 billion in 1983. This gain reflected a sharp turnaround in the current account (which showed a surplus of US$5 1/2 billion) and a virtual cessation of capital flight in 1983, following large outflows in the previous two years. The restructuring of the public and private debt made a significant contribution to the improvement of Mexico's balance of payments situation. Real GDP fell by 4 1/2 percent from 1982 to 1983, with much of this change stemming from the slide in economic activity in the course of 1982 and early 1983.

It should be noted that Mexico's implementation of the adjustment program resulted in the compliance with all the performance criteria included in the extended arrangement, and all purchases scheduled under the arrangement with the Fund were made as had been planned.

c. <u>1984</u>

The economic program for 1984 envisages the continuation of the policies initiated in the first year of the adjustment effort. The main aims of the program for this year are the achievement of a further reduction of inflation, a continued satisfactory performance of the balance of payments, and a resumption of economic growth, albeit at a moderate pace.

To obtain these improvements in Mexico's economic performance, the public sector deficit is to be reduced from some 8 1/2 percent of GDP in 1983 to 5 1/2 percent in 1984, with the dependence on foreign financing declining further. Other aspects of financial policies and incomes policy are to continue to complement fiscal adjustment in achieving the objectives of the economic program. The opening of the economy to greater competition from other countries is to play an important role in increasing the efficiency of resource use and achieving a better structure of investment.

Developments so far in 1984 have been positive, with Mexico complying with all the quantitative performance criteria of the program with the Fund for the first quarter of the year. The public sector deficit for the period January-March 1984 was below the established target, and the authorities have reaffirmed their commitment to the quantitative targets already established for the year. The overall position of the public sector is likely to strengthen in coming months as a result of price adjustments in gasoline and other products announced in April. In the monetary field, credit from the Bank of Mexico has continued to be very restrained and has run well below planned levels. At the same time, credit to the private sector has registered a substantial increase, on the basis of a strong growth in financial savings placed with the banking system. This seems to point to a general restoration of confidence. In recent weeks the authorities have raised certain interest rates in order to ensure that the growth of financial savings is sustained in Mexico, notwithstanding the rise of foreign interest rates.

There are clear signs that the economy is beginning to recover, with manufacturing output rising from the last quarter of 1983, once adjustment is made for seasonal factors Also, the external position has continued to improve. During the first four months of 1984 net international reserves increased by almost US$1 billion, which was above the target of US$800 million for the first half of the year. The current account registered a surplus of almost US$2 billion in the first three months of 1984, in reflection of a large trade surplus The official capital account recorded only a moderate net inflow in that period, and that was essentially because the first drawing under the US$3.8 billion loan from foreign commercial banks had not yet been made.

Developments in respect of inflation have been somewhat less favorable than in other areas To be sure, the 12-month rate of inflation has declined over the first four months of the year. Nevertheless, the rise in prices so far has exceeded somewhat the original projection for the period. To some extent the higher than projected rate of inflation reflects larger than anticipated public sector price adjustments which are corrective in nature, but it also suggests the need to proceed more boldly with the liberalization of imports.

Because inflation has run somewhat faster than had been expected under the program, Mexico's exchange rate adjustments have fallen short of what was needed to avoid a loss of competitiveness based on movements of relative consumer price indexes. It should be noted, however, that the loss of competitiveness has been much smaller when measured in terms of relative wage movements, which is probably more significant from the standpoint of the trade position. Also, the margin of competitiveness at the beginning of the program was very large, as a result of the major adjustment of the currency in December 1982. The strong growth of exports that is taking place and the restrained rise of imports attests to the competitive power that exists.

Still, it is not possible to continue to have prices rise faster than in competitor countries without adequate compensation in terms of exchange rate adjustment. The expectation is that the rate of price increase will be slower in the months ahead, particularly now that the major corrective price adjustments for 1984 already have been made. On this basis, it is projected that there will be no further deterioration of competitiveness in terms of relative price indexes. More important, the authorities have indicated that they will keep external competitiveness under close scrutiny, and that they stand ready to take the measures needed to avoid a damaging loss of the country's capacity to compete internationally.

In sum, the program for 1984 is fully on track and the Mexican authorities have shown--as appeared clearly in our recent consultations of May--a firm determination to pursue the adjustment effort so as to consolidate the gains made. There is no doubt in my mind that the strong balance of payments and the emerging recovery in economic activity will ease the task of adjustment in 1984-85.

2. <u>Outline of medium-term balance of payments</u>

The current account of the balance of payments registered a surplus in 1983 and may very well show another surplus in 1984, although it is likely to be smaller than that of last year These surpluses together with a moderate amount of foreign financing have been contributing to a much needed rebuilding of the country's international reserves.

Looking beyond this year, the current account of the balance of payments is unlikely to be as strong as in 1984-85, inasmuch as the expected recovery of investment will probably exceed the growth of domestic saving, and this will have the effect of reducing the current account balance With the continued strengthening of the public finances called for under the extended arrangement with the Fund, however, the current account should remain quite strong when compared with the late 1970s and early 1980s. In fact, any current account deficits that might develop in the period through 1990 probably would be small in relation to GDP, and it is possible that the outcome will be one of approximate balance in the current account.

The success of the adjustment effort so far and the favorable prospects for the period ahead, on the assumption that policies continue on the course that has been started, are creating the conditions for the return to a more normal access by Mexico to international capital markets. Following new money requirements from banks of US$5 billion in 1983 and US$3.8 billion in 1984, it is the expectation of the authorities that they will have to raise little or no new money from the banks next year, and that thereafter they will resume normal market borrowing for what limited amounts may be necessary This expectation assumes a moderate increase in direct investment in Mexico, the restoration of a certain degree of market borrowing by the private sector, and the continued expansion of bilateral and multilateral borrowings from official and international lending agencies.

The prospect just described obviously depends on arrangements being made to deal with the heavy amortization payments of the public sector due to banks over the period through 1990. Such amortizations average more than US$8 billion a year over that six-year period, and account for some 85 percent of total public sector amortization payments falling due over those years These amortizations together with the interest payments due on them would be equivalent to a large proportion of Mexico's projected goods and services earnings over the period 1985-90

3. Negotiation of debt rescheduling

In the light of the size of the public sector amortization payments due to banks in the period under discussion, it is unrealistic to expect that they could be covered by syndications or other voluntary credits year by year, and it is therefore necessary to give consideration to the development of arrangements whereby Mexico's heavy public debt amortization payments to the banks over the next several years would be rescheduled. It needs to be emphasized in this regard that a multi-year approach would reduce uncertainties about the balance of payments in a way that obviously could not be accomplished by annual restructuring exercises.

Of course, a proposal for a multi-year restructuring can be contemplated only in the case of a country that has brought adjustment to the point where there is a substantial degree of certainty about the outlook for the balance of payments over the medium term. The policies pursued by Mexico have produced such a prospect, and it is therefore in everyone's interest that Mexico's efforts be complemented by a change in its external debt profile in a way that would enhance stability.

The debt rescheduling exercise between Mexico and the banks will need to take account of the fact that amortization payments will be large in each year through 1990 Thus, there are good arguments for covering the whole of this period in the rescheduling exercise, but this is a matter that has to be discussed in negotiations between Mexico and the banks. It would seem, however, that at least four years need be covered if the exercise is to produce the effects on confidence and expectations that are being sought

On other aspects, it is clear that the amortization schedule of the restructured debt should be such as to avoid a new bunching of repayments. A judicious use of maturities and grace periods is needed if debt repayments in the future are to be handled by voluntary means.

Fees and spreads should be reasonable in reflection of the improvement in creditworthiness, it also needs to be borne in mind that a significant part of the existing obligations of Mexico to the banks carry the low spreads that were characteristic of bank lending to Mexico until only a few years ago. In general, there is a need to balance the advantages of high spreads on short-term profitability against the implications of spreads on Mexico's economic health, which is of course the key to long-term profitability. Because of the many different sizes of banks involved in the exercise and the possible need to resort to numerous currencies in the debt rescheduling exercise, it would be useful to clarify the basis of the interest cost to which spreads are applied, perhaps by basing rates on the costs banks face in obtaining funds in the market.

To conclude, our discussion today should seek to lay the bases for a debt rescheduling exercise between Mexico and the banks that would help to bring about greater stability while providing an example of what can be in the offing if adjustment is taken seriously and carried out expeditiously

MLCD (25)--6/3/84

ATTACHMENT 2

Table 1. Mexico Scheduled Amortizations on External Debt

(In billions of U.S. dollars)

	Debt Outstanding Dec. 31, 1984	Amortizations						
		1985	1986	1987	1988	1989	1990	1991 and After
A. Public sector debt	68.8	9.8	9.1	12.8	10.7	9.0	7.0	10.4
Amortizations resulting from 1983 loan for US$5 billion	5.0	--	1.3	1.7	1.7	0.3	--	--
Amortizations resulting from 1984 loan for US$3.8 billion	3.8	--	--	--	--	0.2	0.8	2.8
Amortization related to debt restructured in 1983	18.8	--	--	4.7	4.7	4.7	4.7	--
Other amortizations due to banks on all debt	26.6	8.0	5.9	4.8	2.9	3.0	0.6	1.4
Subtotal of amortizations due to banks	54.2	8.0	7.2	11.2	9.3	8.2	6.1	4.2
CCC	1.3	0.5	0.6	0.2	--	--	--	--
Other amortizations due to nonbanks	13.3	1.3	1.3	1.4	1.4	0.8	0.9	6.2
B. Nationalized banks	6.6	--	--	--	--	--	--	6.6
C. Private sector debt	16.9	1.2	1.2	1.0	3.1	2.9	2.7	4.8
Of which to banks	14.4	0.8	0.5	0.7	2.8	2.7	2.6	4.3
D. Total amortizations to banks (Public and private)	75.2	8.8	7.7	11.9	12.1	10.9	8.7	15.1
E. Total of amortizations on external debt (except IMF)	92.3	11.0	10.3	13.8	13.8	11.9	9.7	21.8
F. IMF repurchases	2.5	--	0.1	0.3	0.5	0.8	0.8	1.3 1/
G. Total amortizations	94.8	11.0	10.4	14.1	14.3	12.7	10.5	23.1 1/

1/ Includes repurchases with respect to projected purchases made in 1985.

ATTACHMENT 3

June 5, 1984

Senior representatives of the commercial banks forming the Advisory Committee for Mexico met yesterday in Philadelphia to receive a report from the Managing Director of the International Monetary Fund, covering Mexico's performance in the second year of its program with the Fund. On the basis of the substantial progress Mexico has made under its adjustment program, the Advisory Committee has agreed to negotiate with the pertinent Mexican authorities specific arrangements for a rescheduling of its public sector debt on a multi-year basis compatible with its medium-term financial outlook. This multi-year approach should facilitate Mexico's plans for an early return to normal market access.

Office Memorandum

Very good report

MAY 31 1984

To	The Managing Director The Deputy Managing Director	Date	May 30, 1984
From	C. M. Loser		
Subject	Mission to Mexico, May 2-23, 1984		

The mission that recently visited Mexico City conducted the Article IV consultation discussions and reviewed with the Mexican authorities performance under the extended arrangement. While the review did not involve a performance criterion, the mission examined the compliance with the quantitative performance criteria for March and discussed several technical aspects related to the program.

The mission met with the Secretary of Finance, Mr Silva Herzog and the Director General of the Bank of Mexico, Mr Miguel Mancera, in the concluding round of discussions. Prior to that meeting, the mission presented the authorities a note with its preliminary views on the economic situation of Mexico (A copy of the translated version of this note is attached.) Other meetings were held with the Under Secretaries of Finance, of the National Banking System, of Budget and Planning, and of External Trade, and also with high-ranking officials in the Federal Government and in the major public sector enterprises

The discussions brought out the authorities' determination to carry out the adjustments envisaged in the economic program, as well as their willingness to revise policies if circumstances indicated a need for corrective actions Although the authorities will continue to pursue the objective to reduce inflation, which they regard as central to the program, they have expressed concern about their ability to limit the rise in prices to 40 percent during 1984, given the deviations that have occurred so far. The authorities believe that inflation may reach closer to 50 percent during the year. They are aware of the impact of the forthcoming minimum wage settlement on inflationary expectations, and they said they would make every effort to limit the size of the award. However, there is concern that the prevailing political conditions would preclude a wage adjustment of less than 15 percent. Indeed, it appears that the authorities would view any increase below 20 percent as encouraging and consistent with the achievement of a significant deceleration of inflation and the maintenance of an adequate degree of competitiveness It might be noted that the labor representatives have requested an interim increase of 40 percent. While the actual increase certainly will be below that level, the request indicates the serious pressures that the Government is confronting.

1. Recent developments and performance under the program

On the basis of the information made available to the mission, Mexico has complied with the performance criteria for the first quarter of the year (Table 1). While most targets were met with substantial margin, the ceiling of Mex$70 billion on financial intermediation by development banks and official trust funds was exceeded by about Mex$21 billion. However, this ceiling can be adjusted upward by the amount of the excess, so long as the ceiling on the overall public sector deficit is correspondingly reduced. There was, in fact, sufficient margin under the limit for the public deficit to accommodate the excess on financial intermediation

In general, developments during the first quarter of 1984 were positive. There are clear signs of economic recovery, with manufacturing output rising above the levels in the last quarter of 1983 when adjusted for seasonal factors. Also, the external position has continued to improve. During the four months ended April 1984, the net international reserves of the Bank of Mexico increased by US$978 million, compared with the target of US$800 million for the first half of the year. The current account registered a surplus of almost US$2 billion in the first quarter of the year, reflecting a very large trade surplus. The official capital account recorded only a moderate net inflow, inasmuch as the first drawing under the US$3.8 billion loan from foreign commercial banks has not yet been effected.

As already noted, developments on inflation have been somewhat less favorable. The monthly and annual rate of inflation has declined over the first four months of the year. However, the cumulative rate has exceeded the original target for the period, by about 5 percentage points. Public sector price adjustments were larger than anticipated in the early months of the year, while imports have not been liberalized as fast as expected, thereby channeling demand increases to domestic prices

As mentioned, the public sector deficit for the first quarter was below the established target However, its composition was different from that projected earlier, with a stronger-than-expected performance of the Federal Government and PEMEX being offset by a weakening of the rest of the public sector, reflecting a faster rise of expenditure than had been envisaged. The overall position is likely to strengthen in coming months as a result of the price adjustments in gasoline and other products announced in April. Monetary developments are generally encouraging. The net domestic assets of the Bank of Mexico have declined sharply, while credit to the private sector has increased broadly in line with original targets, on the basis of a rapid growth in financial savings, that the authorities view as related to a general restoration of confidence.

During our visit the authorities announced increases in interest rates on deposits, in order to counter increases in external interest rates and to reduce the pressure that had emerged in the foreign exchange markets recently, as rumors of a possible exchange rate adjustment led to a depreciation of the peso in the informal foreign exchange market On the basis of the interest rate action, the pressures on the rate appear to have subsided somewhat However, the peso in the informal market has remained more depreciated than in the free market, by about 10 percent.

2. Policy discussions

As was indicated above, the mission sensed a firm determination on the part of the authorities to pursue the adjustment effort in 1984 so as to consolidate the gains made It was understood that major efforts would be required to maintain the momentum of the program The authorities were hopeful that the strong balance of payments and some recovery in economic activity would ease their task of continuing to pursue a cautious demand policy

The authorities are firmly committed to keeping the public sector deficit within 5 1/2 percent of GDP in 1984. They do not foresee any need for a modification of the targets described in the program, notwithstanding the increase in payments on account of higher domestic and external interest rates The mission noted that the achievement of the targets for the public sector deficit required firm action on the part of the authorities, particularly with regard to expenditure in the public enterprises. The authorities expressed their concern about trends in outlays and indicated that they are acting to eliminate low priority programs both in the Federal Government and in the public enterprises Moreover, the authorities indicated that they are in the process of selling some public enterprises

The recent measures on public sector prices are expected to result in a strengthening of the public finances. No major changes in public prices are expected to be necessary for the remainder of the year, although numerous prices would continue to be adjusted gradually The authorities indicated that they would be following the trends of prices and costs very closely and they would take further corrective action if it should be needed

The authorities have yet to make a decision with regard to the mobilization of the contingent expenditure fund, equivalent to 1 percent of GDP. They said that a decision would be taken during the second half of the year, when more information would be available on the performance of the economy Some officials believe that the use of the contingent expenditure would be warranted in view of the more difficult situation with regard to interest rates, the continued low level of economic activity, and apparent availability of 'idle' domestic resources The mission cautioned that use of the contingency reserve could exacerbate inflationary pressures and also could have a negative impact on confidence, without major impact on output, even if the available resources permitted further expansion In this regard the Secretary of Finance indicated that he would prefer not to mobilize the contingency fund, but he was not yet in a position to say what the final decision would be

The authorities have been particularly concerned about the effects on the public sector accounts in 1983-84 of operations that originated in previous years, and are presently recorded as unclassified assets of the banking system. These operations relate, mostly, to exchange losses that accrued prior to the program's inception. In particular, in March 1984 the Government documented the foreign exchange losses of several development institutions, that emerged in relation to a short position in foreign exchange, mostly in 1982 Further problems have emerged with regard to other transactions also effected in earlier years. The authorities are particularly concerned that these transactions, which do not reflect effective financial flows, may distort the measurement of the public sector deficit at the time when the accounts are reclassified as part of the credit to the public sector Therefore, they have requested that these operations be identified and that their correct recording not be counted against the public sector deficit ceiling for 1984. A working party has been established in Mexico to identify the various public sector transactions in question The Mexican authorities expect to discuss with the Fund staff their findings, and a brief technical visit may be required for this purpose. In the view of the mission, the proposed review of monetary accounts is sensible and would help establish which operations appropriately belong among those that should be accounted for in 1984

The authorities are also in the process of formulating a request to modify the definition of financial intermediation (net lending), in order to limit its scope to only the losses that effectively emerge from the activities of the development banks and the official trust funds. The issue at hand is whether the ceilings on financial intermediation should cover the total lending operations by development banks and official trust funds or only the operational deficit of these institutions stemming from such transactions. As it stands, the current operational ceiling on financial intermediation--covering total net lending--implicitly assumes that all lending to the private sector may result in losses The ceiling also serves as a monitoring mechanism, albeit imperfect, of the operations of the development banks, that are exempt from reserve requirements. The definition being considered by the authorities would cover only the operational losses effectively accrued during the year, without directly curtailing the size of the lending program by the public sector financial institutions. In the view of the mission, the proposed change is valid from a fiscal standpoint, but it would be usefully supplemented by a mechanism of monetary control The proposed modification, even if accepted, would not be implemented immediately, because not all the data are ready and because the Mexican technicians have yet to arrive at a precise operational definition of the new concept. The background work may not be ready prior to the end of June and therefore would probably only apply to the second half of the year. Moreover, the modification would require a change in the memorandum of understanding, with regard both to the coverage of financial intermediation and the level of the ceiling on such operations This could only be done after further discussions with the authorities once they have assembled the relevant information

Monetary policy has been carried out with caution in recent months. Financial savings have grown rapidly and have generated increases in credit even as net international reserves have continued to rise, aided by the placement of special deposits by the commercial banks with the Bank of Mexico Interest rates on deposits were increased in mid-May, but remain negative in real terms, on the basis of past inflation. However, for the remainder of the year they are consistent with the currently expected rate of inflation, which is higher than originally projected While the mission acknowledged the cautious monetary policy, it warned the authorities about the need for continuous careful monitoring because of the recently observed strong increase in liquidity On the credit side, the spread between lending and borrowing rates has narrowed, reflecting increased competitiveness in the banking industry, and a rationalization of the structure of charges. The spreads will also narrow in response to the recently announced sale of nonbank assets by the nationalized commercial banks. The subsidies granted through the financial system continue to have adverse effects on the structure of interest rates, although rates on preferential credits are being adjusted to bring them more nearly into line with the average cost of funds.

Exchange rate policy was an important issue in the discussions with the authorities, because of an apparent loss of competitiveness and the difficulties that were arising from the emergence of an informal market across the U S border The mission emphasized the need to review exchange rate developments carefully in order to assess the appropriateness of the current daily rate of depreciation. In their response the authorities stressed that the current indicators of the real exchange rate--both on the basis of relative wages and relative prices--were considerably more depreciated than those recorded in the period 1978-82 They believed that there was still a margin, although they did not envisage a further erosion in competitiveness, as they expected inflation to decelerate further through the remainder of the year. Moreover, net international reseves have continued to increase rapidly as the result of a strong current account surplus. The mission cautioned that this apparent strength of the balance of payments may reflect in part a tight control on imports, and that a continued reduction in competitiveness could result in a reversal in the trends observed in the current and the capital account While the authorities--particularly the Director General of the Bank of Mexico--were reluctant to acccept the view that the rate may be out of line soon, they added that the external situation was being monitored closely and, if needed, the rate of depreciation would be modified.

The existence of an informal market, with a premium for the U S dollar of about 10 percent, is viewed with concern by the authorities However, the authorities are not receptive to the idea that the access to the free market should be made more flexible At present commercial banks limit the access to the free market on the basis of daily allocations to individuals and enterprises. The authorities insist that foreign exchange is available for bona fide transactions and that any liberalization in access could only feed speculation. The mission emphasized that in the absence of a prompt unification, a more flexible management would be appropriate In this regard the authorities indicated that they prefer to wait for a time, because they expect the peso discount in the informal market to disappear soon, as a result of the tightening of monetary policy. However, they would follow closely developments in the markets, and would review possible alternatives if needed.

Commercial policy was a key topic in the discussions While efforts have been made to liberalize imports, the extent of liberalization has been uneven among sectors There exist concurrently a large balance of unutilized import permits and a restriction of permits for items currently produced domestically Moreover, legislation has been approved providing protection to selected industries. The mission stressed the need to liberalize and rationalize the system, but the authorities seem to be divided on these matters While the Secretariat of Finance and the Bank of Mexico view trade policies as central to the control of inflation, officials of the Secretariat of Trade continue to be extremely slow in pursuing import liberalization. It is their intention eventually to rationalize the structure of protection, but they are currently following a policy which seems inconsistent with that goal and with the country's balance of payments situation However, from the final meeting with the Secretary of Finance we sensed an increasing awareness on his part of the need to act in this area. He indicated that increased efforts were being directed to solve this problem, and he noted in particular the renewed emphasis that was being given to shifting from import permits to tariffs

On issues of external debt management the Secretary of Finance said that the Mexican Government continued to support the current approach of negotiating arrangements on a country-by-country basis. Although Mexico had signed a recent statement on debt issues, the authorities were not interested in forming or joining a debtors club Efforts were being directed to ensure that any debtors meeting in the near future would be merely a consultation forum for consultation among the countries involved, thereby preserving the current negotiating strategy

The Secretary of Finance indicated that the Mexican authorities understood clearly their responsibility in pursuing their adjustment program, which he described as a Mexican and not a Fund program. The success or failure of the program would have consequences not only in Mexico but in other countries currently involved in major adjustment efforts. Therefore, he said that it was in the interest of Mexico and the Fund that the program succeed

The Mexican authorities did not mention at any time their intention of requesting augmentation of the amount under the Extended Arrangement The continuing very strong balance of payments performance appears to limit their interest in additional Fund resources at the moment

Attachments

cc Mr Finch
Mr Habermeier
Mr Hood
Mr Mohammed
Mr Nicoletopoulos
Mr Shaalan
Mr Tanzi
Mr Teyssier
Mr Tun Thin
Mr Whittome
Mr Wiesner
Mr Van Houtven
Mr Zulu
Mr Collins
Office in Geneva
Office in Paris

Table 1 Mexico Extended Arrangement, Quantitative Performance Criteria For Second Year Program

	1983		1984				
			Jan-March			TARGETS	
	Sept	Dec	Program	Actual	April-Jun	July-Sept	Oct-Dec
	(In billions of Mexican pesos)						
Net Credit to the Public Sector by the Monetary Authorities 1/	2502 8 2/	2971 2	3023	2932 2	3205	3397	3734
Cumulative Overall Public Sector deficit 3/							
Unadjusted	629	1520	330	281 1	640	980	1524
Adjusted 4/			309 9	281 1			
Cumulative changes in financial intermediation (effective flow)							
Unadjusted	175	244	70	90 1	130	170	200
Adjusted 5/			90 1	90 1			
Cumulative changes in net domestic assets of the monetary authorities (effective flow) 6/	-557	-502	-40	-139 7	-71	-113	-43
	(In millions of U S dollars)						
Cumulative net foreign borrowing by the Public Sector 3/	2555	4686	1100	510 2	2100	3100	4000
Cumulative change in net international reserves of the monetary authorities 3/ 7/	4365	5480	300	746	800	1300	2000
Cumulative reduction in arrears 8/	521	1088		280			280

Sources -Mexican Authorities, and Fund Staff

1/ Effective flows

2/ Stock outstanding at end of Nov 1983 unadjusted for changes in the exchange rate (used as base)

3/ Limit tested at the end of each period

4/ Limit adjusted downwards by the equivalent of the excess of changes in financial intermediation over its limit in the same quarter

5/ The excess of cumulative financial intermediation over its limit for the quarter is deducted from the ceiling for the overall public sector deficit

6/ Net domestic assets of the Bank of Mexico for purposes of the ceiling is defined as the difference between note issue and net international reserve of the monetary authorities

7/ Includes payments arrears on account of interest and amortization due on foreign suppliers' loans to the private sector not included in restructuring of external debt

8/ Limit tested at end of calendar year

Translation of Original Text
5/30/84

Preliminary Comments on the Current Economic Situation of Mexico, Prepared by the Consultation Mission of the IMF, Headed by Claudio Loser

1 In this note, the IMF mission wishes to present to the Mexican authorities its preliminary observations on the current developments in the Mexican economy, as part of the annual consultation process under Articles IV and VIII of the IMF Articles of Agreement. The final conclusions will be presented in the staff report to the Executive Board of the IMF after a more detailed analysis which will take into consideration the points of view of the Mexican authorities With this objective in mind, we would like to formulate some questions on the present and future policies of the Mexican authorities and we thank you in advance for the comments which you might care to make on our observations.

2 The following remarks address themselves to certain questions which arise from the present economic situation and the possible changes that could be made in certain areas of economic policy in the context of the adjustment path for 1984 and 1985 The analysis takes into consideration the courageous and difficult effort carried out by the Mexican people for the last year and a half, which was directed towards creating conditions for the recovery from the acute economic crisis confronted by Mexico in 1981-82 This effort, which took place in the context of the Programa Inmediato de Recuperacion Economica (Immediate Program for Economic Recovery), has allowed for a marked reversal in the economic conditions prevailing at the beginning of the program period, and for substantial improvements in the performance of the economy

3. The central element in the 1983 adjustment process was the marked reduction in the public sector deficit. Fiscal policy, consistently pursued with other policies, such as

wage, exchange rate and monetary policies, has permitted a reversal of the imbalances prevaling at the beginning of the program and has helped to achieve positive results in terms of balance of payments and prices The successful implementation of the adjustment program has resulted in the compliance with all the performance criteria included in the extended arrangement and has permitted the timely disbursement of the resources available under the facility

4 The program formulated by the Mexican authorities in 1984 implies the continuation of the previous adjustment policies The objectives of the program include a substantial deceleration of inflation, a recovery in economic activity and, once again, positive results in the balance of payments The preliminary results for the first quarter of 1984 are generally encouraging Although the economy is still quite depressed, there are signs of improvement in economic activity since the fourth quarter of 1983. The current account of the balance of payments has registered a large surplus, reflecting the results of the trade account, and has permitted a significant increase in net international reserves At the same time, all arrears, which had emerged in 1982, were eliminated

5 The inflation rate, while continuing to decline, remains a source of concern, as it has exceeded the rates expected in the program These price increases reflect, in part, important adjustments in public sector prices, which will result in future reductions in inflationary pressures. However, as we indicate in more detail below, the price increases might also reflect an increase in demand in a situation in which the desired degree of openness for the economy was not achieved, thus resulting in higher inflation rates

6 The adjustment and economic recovery effort in 1984 is based, as in 1983, on a continued reduction in the public sector deficit, to the equivalent of 5 5 percent of GDP Preliminary results indicate that the fiscal objectives for the first quarter of 1984 have been met This outcome was arrived at as a result of two diverging developments—on the one hand, the performance of the Federal Government and PEMEX was better than expected and, on the other, the performance of public enterprises (excluding PEMEX)

was weaker than expected, on account of a faster pace of public sector expenditure The weak performance of public sector enterprises in conjunction with the recent increases in both internal and external rates of interest are likely to result in a higher than programmed level of expenditure In order to maintain effective control of public sector expenditure, prompt corrective measures are needed While it is not realistic to expect new major tax measures, some new sources of revenue can be identified, such as the conversion of the system of import permits to one with tariffs and the rationalization of the existing system of tax exemptions As for public sector expenditure, it is imperative to continue the policy of strict control which has been observed, particularly by the Federal Government Moreover, there has to be a reevaluation of the execution of projects, especially on the part of certain public enterprises, and the continuation of low priority programs Other corrective measures could include the reduction of subsidies generated by price controls and those granted through the financial system In general terms, it is important for us to know the position of the authorities on fiscal policy for the remainder of the year, both with regard to the above mentioned areas and those mentioned below

7 During the last few months important measures of price adjustment have been taken which will strengthen the public sector performance In principle, these adjustments appear adequate for the achievement of realistic price levels during the remainder of the year However, it is important to observe with caution cost developments with the view to implementing further adjustments if public enterprises profitability deteriorates, but without perpetuating inefficiencies Public sector pricing policy has to be coordinated with that of controlled prices The higher than expected inflation would require higher subsidies in order to maintain the prices of the basket of the 17 basic commodities, as well as other goods, at their intended levels In that respect, it is also important to maintain a flexible pricing policy in order to avoid additional budgetary supports

8 A contingency expenditure reserve, equivalent to 1 percent of GDP, was set up in the

1984 budget in order to support economic activity in the second half of the year At the time of its approval it was stipulated that the reserve would be used only if noninflationary finances were available Also, it was indicated that the mobilization of resources would depend, in large part, on the achievement of the inflation and balance of payments objectives While the balance of payments performance is encouraging, economic revival and the higher than expected inflation suggest that the mobilization of the contingency reserve is not warranted. This is of particular importance if excessive demand pressures and adverse signals to the market are to be avoided Given the importance of this particular policy aspect, it is of interest for us to know what is the proposed course of action in this regard

9. Financial intermediation of official credit institutions is a topic which we have analyzed carefully with the authorities There are still certain aspects to be solved relating to the coverage and the statistical base necessary for the measurement of the operations of financial intermediation However, questions have arisen as to whether the concept subject to control is the level of these operations or the operational deficit of the institutions conducting them The existing quantitative limits on the level of lending activity have constituted an effective instrument in controlling the operational deficit, as well as the monetary impact of these transactions, given that these institutions are only partially subject to the control of the monetary authorities By contrast, control of the deficit of the financial intermediaries—which will permit more effective fiscal control—would have to be supplemented by specific monetary measures The adoption of a new approach may require a modification of the definition and quantitative limits on financial intermediation This could only take place if an adequate information base existed, it would also require prior consultation with the IMF staff in Washington

10 The recent behavior of the monetary aggregates, in general, is favorable, though their evolution for the rest of the year should be monitored carefully Financial savings

have grown substantially in the first months of the year, probably signalling the recovery in confidence on the part of Mexican savers, specially if one takes into account that this has occurred at a time when nominal interest rates were declining significantly This increase in financial savings was accompanied by a sustained increase in credit to the private sector which resulted from large reductions in lending rates in response to a contraction in the spread between lending and borrowing rates, and the increase in economic activity The maintenance of the structure of interest rates during the month of April, and the recent increase in rates in May—which responds to the internal and external conditions being confronted by Mexico—are particularly important to preserve the progress already attained The reduction of the interest rate differentials is also favorable, since it apparently reflects an increased competition in the banking system These effects are strengthened by the decisions of the monetary authorities to improve the structure of charges and to reduce the amount of financial subsidies In this context, we consider appropriate the recent agreement with the World Bank regarding the structure of interest rates on the funds obtained from that institution The mission considers that it is extremely important to reduce further the existing financial subsidies, so as to reduce pressures on the budget The reduction in the inflation rate will necessarily be the most important instrument to attain the reduction in financial subsidies. In addition, it would be important to constrain the amount of subsidies not only through higher interest rates charged but also through quantitative limitations on the levels of preferential lending granted through the banking system We would like to know the opinion of the authorities on this point

11 Wage policy undoubtedly constitutes one of the key elements in the policies aimed at reducing inflation and maintain competitivity, as shown in 1983, when an a strong and responsible effort was obtained from labor We understand that the determination of wages (particularly regarding minimum wages) is not strictly subject to the control of the authorities However, if the intention is to continue reducing inflation, to maintain

competitiveness, to preserve the economic recovery, and to attain a sustained increase in employment, this matter must be treated with great caution The salary increase granted in the beginning of the year has reduced the margin of maneuver in the present negotiations, in light of the above mentioned objectives, in particular levels of inflation broadly in line with the targets contained in the 1984 program Substantial increases in minimum wages might have a negative impact on expectations and on the cost structure, which in turn might require the correction of a series of key prices in the economy

12 The real exchange rate has appreciated in recent months, even though it still remains at a more depreciated level than in the period 1978-82 Nevertheless, this margin of depreciation could be rapidly eroded if inflation does not decelerate in the near future, this would jeopardize the competitiveness of exports and import substitutes with low protection Available data suggest a favorable outlook for exports in the short run but this could be rapidly reversed Moreover, a real appreciation could have a negative impact on confidence and thus on the capital account of the balance of payments Under these circumstances, it is important to monitor closely the factors which determine the adequacy of the current pace of daily exchange depreciation, to permit the prompt implementation of corrective measures

13 The existence of a dual exchange system has been characterized as transitory by the authorities, who have announced the objective of an eventual exchange rate unification, subject to the return of normality in the exchange market As market conditions seem to have improved, we would like to know the official intentions as regards this eventual exchange rate unification, which we favor If it is felt that such unification is premature, it would be important to increase the flexibility of the free market, by making it an effective safety valve for the system, without administrative restrictions on the access to this market, along the lines which had been envisaged earlier This would avoid the emergence of a parallel market which could transmit distorting signals to the public

14 One of our major areas of concern is commercial policy The authorities have

reiterated their intention of rationalizing the structure of protection and permitting a greater integration of the Mexican economy to the world economy, with a view to improving resource allocation Import permits have been liberalized in recent months, even though this may partly reflect semi-annual import authorizations for key sectors Private imports in the first quarter of 1984 are higher than the very low level recorded in the same period of last year Moreover, the issuance of import permits for capital goods has been liberalized and the system of automatic licensing has been extended Currently there is a significant amount of unused permits, which could be taken as an indicator of liberal licensing Nevertheless, there are prohibitions and strong limitations on imports by the private and public sectors of goods produced locally Moreover, special protection has been granted to specific industries. These policies seem to have led to a situation where demand cannot be channeled to the external sector, thus reducing aggregate supply in the economy This may be generating higher than expected inflation as well as affecting the structure of incentives to industry The relative slowness in rationalizing the structure of protection and normalizing the level of imports may affect adversely the export competitivenes, as the exchange rate has continued to appreciate in real terms due to higher protection This effect would be difficult to reverse in the future, and thus it would be important that the system of permits be replaced promptly by a tariff system, in order to improve resource allocation and to strengthen public finances We are very interested in knowing the authorities' calendar for these measures

15 The progress achieved in restructuring the external public debt has permitted a significant improvement in its profile Moreover, the reduction in net foreign borrowing by the public sector has been an important element in restoring Mexico's access to the capital markets The elimination of the arrears which had accumulated in 1983, and the progress in restructuring private debt under FICORCA or guaranteed by official foreign agencies, also have contributed to improve Mexico's capacity for external debt management Nevertheless, the extension of exchange guarantees should be assessed carefully,

because of the limitations that it imposes in implementing financial policies.

16 As regards the external debt management from 1985 onward, it is to be expected that the restructuring horizon be extended compared to the previous exercises, in order to improve significantly the debt service profile This effort will require the active participation of the international financial community, and will thus require close contact between the Mexican authorities and the Fund staff in order to coordinate actions

17 In summary, Mexico has achieved dramatic advances in its efforts to recover from the economic crisis which affected the country in 1981-82 During the past year and a half, the authorities have implemented economic policies which have led to a substantial change in the Mexican economic structure Also, a great capacity to correct economic policy has been observed, when circumstances required it Nevertheless, there is still a difficult task ahead in terms of the short-term management and the structural aspects of the program It is in this context that we present these preliminary comments, in order to point out those policy aspects which we consider require adjustment or should be followed closely In this manner, we attempt to contribute to the achievement of the objectives outlined by the authorities to help restore the path of sustained growth with stability which has characterized the Mexican economy in the past.

18 The mission proposes that the next Article IV consultation take place in the usual 12-month cycle This is the normal frequency for those countries which are supported by IMF programs

19 Finally, we wish to express our thanks for the important cooperation we have obtained from all the officials who helped us in our work on this occasion, and in fulfilling the requirements which emerge from the monitoring of the extended arrangement, in general

Comentarios Preliminares Acerca de la Situación Económica Actual de México, Preparados por la Misión de Consulta del Fondo Monetario Internacional, Dirigida por Claudio Loser

1 Por medio de la presente, la misión del FMI desea plantear a las autoridades mexicanas algunas apreciaciones preliminares acerca de las circunstancias actuales de la economía de México, en ocasión de la consulta anual bajo los artículos IV y VIII del convenio constitutivo del FMI Las conclusiones finales serán las que se presenten en el informe de consulta a la junta directiva del FMI luego de un más detallado análisis que tendrá en cuenta el punto de vista de las autoridades mexicanas Con ese fin formulamos algunas preguntas acerca de las políticas actuales y futuras y les agradecemos desde ya los comentarios que nuestras observaciones les merezcan

2 Los comentarios que se presentan a continuación se refieren a ciertos interrogantes que plantea la situación actual y los posibles cambios que podrían requerirse en algunas areas de política económica, en el contexto de la trayectoria del ajuste en 1984 y 1985 El análisis se realiza desde la perspectiva del esfuerzo valeroso y difícil, emprendido por el pueblo mexicano hace ya casi un año y medio, orientado a crear las condiciones para la recuperación de la aguda crisis económica que afectara a México en 1981-82 Este esfuerzo, que se materializó en el Programa Inmediato de Recuperación Económica, ha permitido que se reviertan en forma marcada las condiciones económicas iniciales y que se logren mejoras significativas en el desempeño de la economía

3 El elemento central del proceso de ajuste en 1983 fue la marcada reducción del déficit del sector público La política fiscal accionó en forma conjunta y coherente con otras políticas, tales como la salarial, cambiaria y monetaria, permitiendo que se revirtieran los desequilibrios existentes al comienzo del programa, y se lograran los resultados conocidos de balanza de pagos y de precios La exitosa instrumentación del programa de ajuste satisfizo los criterios de cumplimiento dentro del acuerdo ampliado y ello permitió que se desembolsaran los recursos disponibles en los plazos convenidos

4 El programa que las autoridades mexicanas formularon para 1984 implica una continuación de las políticas establecidas anteriormente Los objetivos del programa incluyen una fuerte desaceleración de la inflación, una recuperación de la actividad económica, y nuevamente, se esperan resultados positivos de la balanza de pagos Los resultados provisionales para el primer trimestre son en general alentadores Se han podido observar signos de mejora en la actividad económica a partir del cuarto trimestre del año pasado, aunque la economía aún se encuentra significativamente deprimida La cuenta corriente de la balanza de pagos ha arrojado un fuerte superávit, reflejando los resultados en la cuenta comercial, y ha permitido un fuerte aumento de reservas internacionales netas Mientras tanto se han eliminado todos los atrasos de pagos que surgieron en 1982

5 La inflación, aunque continúa reduciéndose a nivel anual, constituye un aspecto poco favorable, ya que supera el crecimiento de precios originalmente esperado Los aumentos de precios reflejan en parte correcciones importantes de precios del sector público que llevarán a reducciones futuras en las presiones inflacionarias Sin embargo, tal como se precisa más adelante, el aumento de precios puede reflejar también un aumento de demanda en condiciones en que no se ha logrado la apertura deseada de la economía, llevando así a mayores tasas de inflación

6 El esfuerzo de ajuste y recuperación económica en 1984 se basa, como en 1983, en una continua reducción del déficit del sector público, hasta un nivel equivalente al 5 1/2 por ciento del PIB Los resultados provisionales indicarían que los objetivos fiscales han sido cumplidos en el primer trimestre del año Ello ha resultado de dos tendencias dispares--las finanzas del Gobierno Federal y de PEMEX aparentemente han mostrado una mejoría respecto de lo originalmente esperado, mientras que el comportamiento de otras empresas públicas habría mostrado un debilitamiento, ya que presumiblemente el ritmo de gastos supera lo originalmente programado Estas tendencias y los recientes aumentos en tasas de interés internas y externas pueden llevar a un nivel de gasto mayor que lo programado Ello exige correcciones inmediatas para mantener un control efectivo de las finanzas públicas dentro de los límites del programa Con este fin estimamos de gran importancia reevaluar la política de ingresos y gastos Aun cuando no puede pensarse en aumentos importantes de impuestos, podrían identificarse nuevas fuentes de recursos, como por ejemplo, la conversión del sistema de permisos de importación a un sistema integral de aranceles y la racionalización del sistema de exenciones a impuestos actualmente en vigencia En cuanto a la política de gastos, es imperativo que se continúe la política de estricto control que viene observándose hasta ahora, en particular en el Gobierno Federal Además debe reevaluarse la ejecución de proyectos específicos de ciertas empresas y la continuación de programas prescindibles Otra medida correctiva podría ser la disminución de los subsidios otorgados a través del presupuesto, relacionados con el control de precios y aquellos otorgados a través del sistema financiero En términos generales, es importante para nosotros conocer cual es la posición de las autoridades respecto de las perspectivas de la política fiscal en lo que resta del año, tanto en estas áreas como en las que se mencionan a continuación

7 En los últimos meses se han tomado importantes medidas de precios que pueden permitir fortalecer los resultados de finanzas públicas En principio, los ajustes aparecen como adecuados para lograr mantener niveles realistas en lo que resta del año Sin embargo, es importante observar con cuidado los desarrollos de costos a fin de instrumentar ajustes adicionales que eviten un deterioro en la rentabilidad de las empresas y de las finanzas públicas, pero sin perpetuar ineficiencias La política de precios y tarifas debe coordinarse con la de precios controlados La mayor inflación con respecto a los planes originales puede llevar a que se amplíe el subsidio requerido para mantener los precios de la canasta de 17 productos básicos y otros bienes También en este sentido es importante mantener una política flexible de precios a fin de no imponer un peso adicional sobre el presupuesto

8 La partida contingente de gasto, equivalente a 1 por ciento del producto, fue establecida en el presupuesto del año 1984 con el fin de apoyar la actividad económica en el segundo semestre del año Al momento de su aprobación se estableció que el gasto se ejercería siempre que no hubiere evidencia de recuperación en la actividad económica y que el gasto pudiera financiarse con recursos no inflacionarios Por otra parte se indicó en su momento que la movilización de recursos dependería en gran medida de los objetivos de inflación y de balanza de pagos Aún cuando los resultados de la balanza de pagos son positivos, la reactivación económica y el crecimiento de precios mayor que el esperado sugieren que no sea conveniente la movilización de la reserva contingente Ello es particularmente importante si no se desea una mayor presión de demanda y que la medida sea interpretada negativamente por el mercado Dada la importancia de este aspecto particular de política es de interés para nosotros conocer cual es la estrategia que se piensa seguir en este sentido

9 La intermediación financiera de las entidades oficiales de crédito es un tópico que hemos analizado cuidadosamente con las autoridades Aún quedan por resolver importantes aspectos referidos a la cobertura y a la base estadística necesarias para la medición de las operaciones de intermediación financiera Sin embargo han surgido interrogantes respecto a si el concepto que se quiere controlar es el monto de las operaciones de intermediación o el déficit operativo de las instituciones de crédito que realizan estas operaciones La limitación cuantitativa actual sobre el monto de operaciones constituye un instrumento efectivo para controlar el déficit de operaciones y el efecto monetario de las mismas, dado que éstas están sólo parcialmente sujetas a control directo por parte de las autoridades monetarias Por otra parte, el control del déficit por intermediación, que permitiría un control fiscal más efectivo, debería ser suplementado por medidas de cáracter monetario La adopción de un nuevo enfoque puede requerir la modificación de la definición y de la cuantía del límite de intermediación financiera Ello sólo podría realizarse si existe una base de información adecuada y requeriría consulta previa con el personal del FMI en Washington

10 El comportamiento reciente de las variables monetarias es, en general, favorable, aunque deberá observarse cuidadosamente en lo que resta del año Durante los primeros meses del año ha crecido fuertemente el ahorro financiero, indicando probablemente el reestablecimiento de confianza por parte de los ahorradores mexicanos, más aún si se considera que esto ha ocurrido en circunstancias en que las tasas de interés nominales han bajado significativamente Este aumento de ahorros financieros se vio acompañado por un sostenido aumento de crédito al sector privado, inducido por las disminuciones aún mayores de las tasas activas libres, en respuesta a una reducción en los diferenciales entre tasas activas y pasivas y al aumento de actividad económica El mantenimiento de la estructura de tasas de interés durante el mes de abril y el reciente aumento, que responde a las condiciones internas y externas que enfrenta México, son particularmente importantes para preservar los logros

alcanzados La reducción de diferenciales es también favorable, ya que aparentemente refleja una mayor competencia en el mercado bancario A ello debe agregarse las decisiones de las autoridades orientadas a mejorar la estructura de cargos y reducir los subsidios financieros En este contexto consideramos apropiado el reciente acuerdo logrado con el Banco Mundial en cuanto a la estructura de tasas de interés vinculadas a fondos obtenidos de esa institución La misión considera que es de suma importancia lograr reducir aún más los subsidios financieros prevalecientes, a fin de disminuir las presiones sobre el fisco y sobre la estructura de tasas La reducción de la tasa de inflación ciertamente contribuirá en forma preponderante a lograr la reducción de los subsidios financieros Además, sería importante constreñir el monto de los subsidios no sólo a través de mayores tasas sino a través de limitaciones cuantitativas de los montos de crédito preferencial que sean otorgados a través del sistema bancario Nos interesaría conocer la opinión de las autoridades en este sentido

11 La política salarial constituye sin lugar a dudas una de las piezas clave en el objetivo de reducir la inflación y mantener la competitividad, tal como ocurriera en 1983, en que se obtuvo un fuerte y responsable esfuerzo por parte de los trabajadores Sabemos que la determinación de la política salarial (particularmente en cuanto al salario mínimo) no esta estrictamente sujeta al control de las autoridades Sin embargo, si se desea continuar la reducción de inflación, mantener la competitividad, preservar la recuperación económica y lograr un crecimiento sostenido del empleo, el tema debe ser tratado con gran cautela El aumento salarial otorgado a principios de año reduce el margen de maniobra en la presente negociación, si se desea alcanzar los objetivos mencionados, en particular niveles de inflación aproximados a los contenidos en el programa para el año 1984 Aumentos significativos en el salario mínimo pueden afectar negativamente las expectativas y las estructuras de costos, lo que puede requerir la corrección de una serie de precios clave en la economía

12 En los últimos meses se ha notado una apreciación real en el tipo de cambio, aunque éste continúa a niveles más depreciados que los observados en el período 1978-82 Sin embargo, este margen de depreciación puede perderse rápidamente si la tasa de inflación no se desacelera en el futuro cercano, así poniendo en peligro la competitividad de las exportaciones y de los sustitutos de importación con baja protección Los datos disponibles indicarían una situación cómoda en el corto plazo en cuanto a exportaciones Sin embargo, esto podría revertirse rápidamente Además, la apreciación puede tener un impacto negativo sobre la confianza y por ello sobre la cuenta de capital En estas condiciones es imperativo que se haga un seguimiento sumamente cuidadoso de los factores que determinan si el desliz cambiario es adecuado o no De esta manera podrán adoptarse las medidas necesarias con prontitud.

13 La existencia de dos tipos de cambio ha sido calificada por las autoridades como una medida transitoria y el objetivo anunciado es su eventual unificación, sujeto a la restitución de condiciones normales en el mercado cambiario Dado que las condiciones parecen haber mejorado, es de importancia para nosotros

conocer las intenciones en cuanto a esa eventual unificación, la que propiciamos. Si las condiciones para esa acción aún no están dadas en las presentes circunstancias, sería necesario mayor flexibilidad en el manejo del mercado libre para que éste actue en forma efectiva como una verdadera válvula de escape del sistema, sin restricciones administrativas que dificulten el acceso al mercado, tal como se había propuesto. Ello evitaría la existencia de otro mercado, que podría transmitir señales distorsionadas al mercado.

14. Una de las áreas de mayor preocupación es la de política comercial. Las autoridades han reiterado su intención de racionalizar la estructura de protección y de permitir una mayor vinculación de la economía mexicana con la internacional, a fin de mejorar la asignación de recursos. En los últimos meses, se ha liberalizado el otorgamiento de permisos a la importación, aún cuando ello refleja en parte asignaciones semestrales para ciertos sectores. Las importaciones privadas en el primer trimestre están por encima de los muy bajos niveles observados en el mismo período del año pasado. Además, se ha liberalizado el otorgamiento de licencias para bienes de capital y se ha ampliado la utilización de licencias automáticas. En este momento existe un nivel importante de licencias no utilizadas, lo que podría indicar que no existe una política restrictiva de licencias. Sin embargo, existen prohibiciones y fuertes limitaciones a la importación, tanto por el sector privado como por el público, de bienes producidos localmente. Además se han anunciado decretos con medidas de protección a industrias específicas. Esta política parece haber llevado a una situación en que la demanda no puede canalizarse al sector externo, impidiendo así una mayor disponibilidad total de bienes en la economía. Ello puede estar reflejándose en un aumento de precios internos mayor que el esperado y, además, afecta la estructura de incentivos en la industria. La relativa lentitud en racionalizar la estructura de protección y en normalizar los niveles de las importaciones puede llegar a castigar fuertemente la capacidad competitiva de las exportaciones, ya que en gran medida el tipo de cambio se sigue apreciando en términos reales a causa de la mayor protección. Este efecto difícilmente puede revertirse en el futuro. A fin de contribuir a que esto no ocurra sería de gran importancia que se procediera a substituir en breve el sistema de permisos por un sistema de aranceles, a fin de permitir una mejor asignación de recursos y el fortalecimiento de las finanzas públicas. Tenemos gran interés en conocer el calendario de las autoridades para estas medidas.

15. El progreso logrado en la restructuración de la deuda pública externa ha permitido una mejora significativa en su pérfil. Por otra parte, la reducción en el uso neto de recursos del exterior por parte del sector público ha constituido un factor importante para reconstruir el acceso de México al mercado de capitales. La eliminación de atrasos que habían surgido en 1983 y los avances logrados en cuanto a la restructuración de la deuda privada sujeta al régimen de FICORCA y aquella garantizada por agencias oficiales del exterior también han contribuido a mejorar la capacidad de gestión de la deuda externa por parte de México. Sin embargo, debe evaluarse con cuidado la extensión del sistema de garantía cambiaria a nuevas deudas por parte del sector privado, por las limitaciones que impone al manejo de la política financiera.

16 En cuanto a la gestión de deuda a partir de 1985, es de esperar que el horizonte de restructuración cubra un período mayor que el anterior a fin de poder mejorar el pérfil de servicio de la deuda en forma significativa Este esfuerzo requerirá la participación activa de la comunidad financiera internacional, por lo que habrá necesidad de un contacto estrecho entre las autoridades mexicanas y el personal del FMI a fin de lograr una acción coordinada

17 En resumen, México ha logrado dramáticos avances en sus esfuerzos para recuperarse de la crisis económica que la afectara en 1981-82 Durante el último año y medio se han aplicado políticas económicas que han llevado a un cambio substancial en la estructura económica mexicana Además se ha podido observar una gran capacidad para adecuar la política económica cuando las circunstancias lo requirieron Sin embargo, hay un difícil camino por recorrer, tanto en el aspecto coyuntural como el estructural Es en ese contexto que presentamos estas apreciaciones preliminares, a fin de señalar aquellos aspectos de política que consideramos requieren ajustes o un seguimiento cuidadoso De esta forma creemos contribuir al logro de los objetivos que se han trazado las autoridades mexicanas para restituir la economía mexicana a la trayectoria de crecimiento sostenido con estabilidad que la caracterizó en el pasado

18 La misión propone que la próxima consulta bajo el Artículo IV del convenio constitutivo del FMI sea realizada en el ciclo usual de 12 meses Esta es la periodicidad normal para aquellos países que son apoyados por programas por parte del FMI

19 Por último deseamos expresar nuestro agradecimiento por la importante cooperación que hemos obtenido por parte de todos los funcionarios que nos han asistido en nuestra labor, tanto en esta ocasión como en lo relacionado con los requerimientos que surgen del seguimiento del acuerdo ampliado en general

México, D F
21 de mayo de 1984

F

Office Memorandum

TO The Managing Director DATE May 30, 1984

FROM S T Beza

SUBJECT Mexico--Minutes of Meeting with the President of Mexico

Please find attached the final version of the minutes of the meeting held with the President of Mexico on Monday, May 14, 1984

Attachment

cc Mr Wiesner
Mr Collins

Meeting between the President of Mexico
and the Managing Director
Vista Hotel, Washington, Monday, May 14, 1984

Present

Mexican representatives
Miguel de la Madrid, President of Mexico
Jorge Espinosa de los Reyes, Mexico's Ambassador to the United States
Jesus Silva Herzog, Secretary of Finance

IMF representatives
The Managing Director
S T Beza
Joaquin P Pujol

The President began by indicating the concern that less developed debtor countries have about the recent rises in interest rates in world financial markets He pointed out that these rises in rates were very discouraging to countries that had been trying to adjust The public response in those countries was that, notwithstanding the sacrifices that had been made, their financial situations again were coming under pressure, it was being said that there could be no increases in wages because interest rates had gone up again The President went on to say that the growth in trade that was occurring was helping to bring about a recovery of economic activity However, he felt that there was a need for new formulae or new ideas to ensure that the recovery would be sustained, and the President wanted to hear what the Managing Director had to say in this regard

The Managing Director replied that with the growth of the world economy, and in particular the strong growth of the U S economy, exports of the developing countries were increasing This was a positive sign Other factors were clouding the recovery, however, with the height of interest rates being one of them In seeking to ease the problems faced by the debtor nations, an effort would have to be made to deal with the very heavy amortization payments debtor nations were facing in the years ahead As a start, possible alternative solutions to this problem were to be explored with the banking community, and Mexico was a favored candidate for relief in this regard, given the success achieved so far in the implementation of the adjustment program Fund management and staff would continue to keep in close contact with the Mexican Ministry of Finance on the development of a strategy for the restructuring of the debt

On the question of interest rates, the Managing Director said the banks were expecting that, in view of the good performance under the program, Mexico would be seeking lower spreads and smaller commissions. Such modifications would help Also, several proposals had been advanced in different fora aimed at dealing with the problem of high interest rates This was, of course, a very complex problem One proposal was to cap interest rates However, there was not much substance to that idea, the only way to implement it would be for the banks to absorb some losses, and they were not prepared to do that The banks have said that they must be in a position to meet the cost of raising the funds if they are to provide financing Another mechanism that had been suggested was the capitalization of interest rates, as was sometimes done with mortgage loans Under this proposal, if interest rates were to rise above a certain point, a new loan would be advanced to capitalize the excess Banks had been very cautious in responding to this type of proposal, and at the meeting that had taken place in New York recently, banks had asked about possible guarantees in connection with operations of this kind. The central banks did not want to give guarantees, and institutions such as the Fund were in no position to provide them either Consequently, there was not much chance of a global solution to the problem It was more realistic to approach these kinds of problems on a case-by-case basis The less these matters were bandied about in the press, the better the chances for successful negotiations

Turning to the specific situation of Mexico, the Managing Director congratulated the President on the success achieved so far in the fiscal and balance of payments fields One area in which there doubts about the pace of the progress made related to inflation, and he asked the President how he viewed recent price developments and what he considered to be the main factors behind the continued inflationary pressure

The President noted that inflation was proving more difficult to conquer than originally had been expected Perhaps this was because repressed inflation had been more serious than had been first thought Excess liquidity had been so large that it was taking a long time to absorb it, meanwhile, expectations had yet to be turned around The general public found it difficult to understand that, in order to reduce inflation, it was necessary to adjust public sector prices to realistic levels Inflation in Mexico was running above that programmed but it was not out of control, and the authorities expected a signficant slowdown in the second semester of this year Given the adjustments made in the first semester of 1984, public sector price adjustments would be less steep and less concentrated in the second semester, and therefore the psychological impact of these increases would be less pronounced.

Wages were the main problem ahead There were major pressures for a large wage increase, with both workers and businessmen apparently in agreement on this point Businessmen saw a wage increase as a way of reviving demand for their products, which they regarded as quite depressed However, the President was confident that they would be able to obtain a moderate wage increase, although not so low as the figure of no more than 10 percent suggested by the Managing Director and the staff

The President emphasized that Mexico would continue to adjust policy instruments as needed to keep to the targets that have been established for the year In particular, he was aware that questions had been raised as to whether the exchange rate policy that was being followed was appropriate in the light of the pace of inflation The authorities planned to follow the situation very closely and once they had dealt with the wage negotiation (in a couple of months' time), they would review exchange rate policy to determine if adjustments were needed

IMF OFFICIAL MESSAGE
WASHINGTON D C 20431

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H.E. NICOLA CAPRIA
MINISTERO DEL COMMERCIO EXTERO
ROME, ITALY

RECEIVED MAY 23 1984 Western Hemisphere Department

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DISTRIBUTION
MD
DMD
MR LOVATO
MR. BEZA
MR. FINCH
MR. COLLINS

START TEXT HERE

1. IMI HAS MADE A COMMITMENT TO THE 1984 MEXICAN NEW MONEY ARRANGEMENT. HOWEVER, IMI HAS NOT BEEN ABLE TO SIGN THE DOCUMENTATION FOR THE MEXICAN SYNDICATION BECAUSE BEFORE DOING SO IT MUST RECEIVE APPROVAL OF YOUR MINISTRY.

2. THE MEXICAN LOAN DOCUMENTS HAVE NOW BEEN SIGNED BY ALMOST 500 BANKS IN ALL PARTS OF THE WORLD. IT WOULD REFLECT ADVERSELY ON IMI'S STANDING WITH BANKS IN MANY COUNTRIES IF THE LOAN HAD TO BE COMPLETED WITHOUT IMI.

3. THIS FINANCING FOR MEXICO IS OF HIGH IMPORTANCE IN THE PRESENT SITUATION OF THE FINANCIAL MARKETS AND IN THE INTEREST OF THE INTERNATIONAL MONETARY SYSTEM, GIVEN THE STRENGTH OF THE MEXICAN ADJUSTMENT MEASURES AND THE DETERMINATION WITH WHICH THEY ARE BEING APPLIED.

4. IN THE LIGHT OF THE ABOVE, I ASK YOUR FULLEST COOPERATION IN ISSUING THE NECESSARY AUTHORIZATION TO ENABLE IMI TO HAVE THE DOCUMENTS SIGNED ON ITS BEHALF ON FRIDAY, MAY 25.

WITH APPRECIATION AND KINDEST REGARDS,

IF REQUIRED INITIAL BELOW

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J. DE LAROSIERE

MANAGING DIRECTOR

INTERNATIONAL MONETARY FUND

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MR. SENIOR
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MR. S.COLLINS

RECEIVED
MAY 25 1984
Western Hemisphere Department

MEXICO DF MAYO 24, 1984

TREASURER'S
INTERFUND
WASHINGTON, D.C.

REF. JCG/84T-05

1. AS FISCAL AGENCY FOR THE GOVERNMENT OF MEXICO WE DESIRE TO PURCHASE FROM THE INTERNATIONAL MONETARY FUND SDR 30,470,000 AND THE EQUIVALENTS OF SDR 20,000,000 IN AUSTRALIAN DOLLARS, SDR 25,000,000 IN CHINESE RENMINBI, SDR 10,000,000 IN SAUDI ARABIAN RIYALS, AND SDR 215,470,000 IN U.S. DOLLARS TOTALING THE EQUIVALENT OF SDR 300,940,000 IN ACCORDANCE WITH TERMS - OF ARTICLE V, SECTIONS 3 AND 4 AND WITH EXTENDED ARRANGEMENT - EFFECTIVE JANUARY 1, 1983, AS AMENDED.

2. WE DO HEREBY REPRESENT THAT THIS PURCHASE IS NEEDED IN ACCORDANCE WITH THE PROVISIONS OF FUND AGREEMENT.

3. PLEASE CREDIT MEXICO'S SDR ACCOUNT WITH SDR 30,470,000 ON VALUE DATE OF PURCHASE.

4. PLEASE ARRANGE PAYMENT OF U.S. DOLLARS TO OUR ACCOUNT WITH - FEDERAL RESERVE BANK, NEW YORK ON VALUE DATE OF PURCHASE.

5. PLEASE PLACE OTHER CURRENCIES OF OUR DISPOSAL AT RESERVE BANK OF AUSTRALIA, SIDNEY, PEOPLE'S BANK OF CHINA, BEIJING, AND SAUDI ARABIAN MONETARY AGENCY, RIYADH, RESPECTIVELY, AND REQUEST THESE INSTITUTIONS TO ARRANGE EXCHANGE OF CURRENCIES - INTO U.S. DOLLARS AND PAYMENT OF PROCEEDS TO OUR ACCOUNT WITH FEDERAL RESERVE BANK OF NEW YORK , NEW Y
ORK ON VALUE DATE OF
PURCHASE.

6. THE EQUIVALENT OF DESIRED PURCHASE, NAMELY MEXICAN PESOS - - - 50,312,131,151.93 WILL BE CREDITED TO FUND'S NO. 1 ACCOUNT WITH OURSELVES ON THE VALUE DATE OF PURCHASE.

7. REGARDING SERVICE CHARGE, PLEASE DEBIT MEXICO'S SDR ACCOUNT - WITH SDR 1,504,700 ON VALUE DATE OF PURCHASE.

IMF OFFICIAL CABLE

8 PLEASE ARRANGE TO CREDIT OUR ACCOUNT WITH FEDERAL RESERVE - BANK OF NEW YORK, NEW YORK WITH U S DOLLARS EQUIVALENT TO SDR 29,717,650 ON VALUE DATE OF PURCHASE

9 WE STATE THAT ANY USE OF SDRS AT THIS TIME UNDER ARTICLE XIX, SECTION 2(A) IS IN ACCORDANCE WITH SECTION 3(A) OF THIS - - ARTICLE

10 HOWEVER, WE AUTHORIZE YOU TO ARRANGE ON OUR BEHALF FOR ALL OR PART OF THIS AMOUNT TO BE SOLD TO PARTICIPANTS OR PRESCRIBED HOLDERS THAT AGREE TO ACQUIRE THEM UNDER ARTICLE XIX, SECTION 2(B)

REGARDS

BANXICO.

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INTERNATIONAL MONETARY FUND
WASHINGTON D C 20431

CABLE ADDRESS
INTERFUND

May 22, 1984

Mr Edgar Ortiz
North American Economics and Finance
Association
Apartado 20-504
Villa Obregón
San Angel
01000 Mexico, D F

Dear Mr Ortiz

Thank you very much for your kind invitation to participate in the Second International Meeting of the North American Economics and Finance Association Unfortunately, due to previous commitments, I will not be able to travel to Mexico City at that time Please accept my apologies and my best wishes for a successful meeting

Sincerely,

~~Eduardo Wiesner~~

JP
F

Office Memorandum

MAY 22 1984

TO : The Managing Director	DATE: May 22, 1984
FROM : S. T. Beza	
SUBJECT : Mexico--Minutes of Meeting with the President of Mexico	

Attached are draft minutes of the meeting we had last week with the President of Mexico.

Attachment

cc: Deputy Managing Director
Mr. Wiesner
Mr. Collins

MLCD (A) 5/22/84

Meeting between the President of Mexico
and the Managing Director
Vista Hotel, Washington, Monday, May 14, 1984

Present Mexican representatives
Miguel de la Madrid, President of Mexico
Jorge Espinosa de los Reyes, Mexico's Ambassador
to the United States
Jesus Silva Herzog, Secretary of Finance

IMF representatives
The Managing Director
S T Beza
Joaquin P Pujol

The President began by indicating the concern that less developed debtor countries have about the recent rises in interest rates in world financial markets He pointed out that these rises in rates were very discouraging to countries that had been trying to adjust. The public response in those countries was that, notwithstanding the sacrifices that had been made, their financial situations again were coming under pressure, it was being said that there could be no increases in wages because interest rates had gone up again The President went on to say that the growth in trade that was occurring was helping to bring about a recovery of economic activity However, he felt that there was a need for new formulae or new ideas to ensure that the recovery would be sustained, and the President wanted to hear what the Managing Director had to say in this regard

The Managing Director replied that with the growth of the world economy, and in particular the strong growth of the U S economy, exports of the developing countries were increasing. This was a positive sign. Other factors were clouding the recovery, however, with the height of interest rates being one of them In seeking to ease the problems faced by the debtor nations, an effort would have to be made to deal with the very heavy amortization payments debtor nations were facing in the years ahead As a start, possible alternative solutions to this problem were to be explored with the banking community, and Mexico was a favored candidate for relief in this regard, given the success achieved so far in the implementation of the adjustment program. Fund management and staff would continue to keep in close contact with the Mexican Ministry of Finance on the development of a strategy for the restructuring of the debt

On the question of interest rates, the Managing Director said the banks were expecting that, in view of the good performance under the program, Mexico would be seeking lower spreads and smaller commissions Such modifications would help Also, several proposals had been advanced in different fora aimed at dealing with the problem of high interest rates. This was, of course, a very complex problem One proposal was to cap interest rates However, there was not much substance to that idea, the only way to implement it would be for the banks to absorb some losses, and they were not prepared to do that The banks have said that they must be in a position to meet the cost of raising the funds if they are to provide financing Another mechanism that had been suggested was the capitalization of interest rates, as was sometimes done with mortgage loans Under this proposal, if interest rates were to rise above a certain point, a new loan would be advanced to capitalize the excess Banks had been very cautious in responding to this type of proposal, and at the meeting that had taken place in New York recently, banks had asked about possible guarantees in connection with operations of this kind The central banks did not want to give guarantees, and institutions such as the Fund were in no position to provide them either Consequently, there was not much chance of a global solution to the problem It was more realistic to approach these kinds of problems on a case-by-case basis The less these matters were bandied about in the press, the better the chances for successful negotiations.

Turning to the specific situation of Mexico, the Managing Director congratulated the President on the success achieved so far in the fiscal and balance of payments fields One area in which there doubts about the pace of the progress made related to inflation, and he asked the President how he viewed recent price developments and what he considered to be the main factors behind the continued inflationary pressure.

The President noted that inflation was proving more difficult to conquer than originally had been expected Perhaps this was because repressed inflation had been more serious than had been first thought Excess liquidity had been so large that it was taking a long time to absorb it, meanwhile, expectations had yet to be turned around The general public found it difficult to understand that, in order to reduce inflation, it was necessary to adjust public sector prices to realistic levels Inflation in Mexico was running above that programmed but it was not out of control, and the authorities expected a signficant slowdown in the second semester of this year Given the adjustments made in the first semester of 1984, public sector price adjustments would be less steep and less concentrated in the second semester, and therefore the psychological impact of these increases would be less pronounced

Wages were the main problem ahead There were major pressures for a large wage increase, with both workers and businessmen apparently in agreement on this point Businessmen saw a wage increase as a way of reviving demand for their products, which they regarded as quite depressed However, the President was confident that they would be able to obtain a moderate wage increase, although not so low as the figure of no more than 10 percent suggested by the Managing Director and the staff.

The President emphasized that Mexico would continue to adjust policy instruments as needed to keep to the targets that have been established for the year. In particular, he was aware that questions had been raised as to whether the exchange rate policy that was being followed was appropriate in the light of the pace of inflation The authorities planned to follow the situation very closely and once they had dealt with the wage negotiation (in a couple of months' time), they would review exchange rate policy to determine if adjustments were needed

MAY 1984

Office Memorandum

TO : The Managing Director

DATE: May 11, 1984

FROM : S. T. Beza

SUBJECT : Mexico--Notes for Meeting with the President

Attached are notes for your meeting with the President of Mexico on Monday, May 14.

Attachment

cc: The Deputy Managing Director
Mr. Wiesner (on return)
Mr. Collins

May 11, 1984

Notes for Meeting with President of Mexico

Biographical sketch

Miguel de la Madrid took office as President of Mexico on December 1, 1982. Although a lawyer by training, he received the degree of Master in Public Administration from Harvard in 1965 and has had ample experience in economic and financial matters He has served in the Bank of Mexico, as finance director for the state petroleum company (PEMEX), and in the Ministry of Finance where he reached the rank of Under Secretary. As Under Secretary of Finance, Mr de la Madrid participated in the negotiation of the 1976 EFF program with the Fund. He was named Secretary of Planning midway in the Administration of President Lopez Portillo, and he was nominated for the Presidency in late 1981 and elected in July 1982.

Topics for discussion

1. This meeting presents an opportunity to commend the President for his efforts to stabilize the economic situation of Mexico and to return the country to sound policies conducive to development. The President has been very committed to the implementation of the program and he has given strong support to the Secretary of Finance. You might wish to remark briefly on the courage shown in adopting major policy measures and the progress achieved in carrying out adjustments, particularly in the balance of payments and fiscal areas.

2. With regard to more recent developments, mention might be made that a Fund mission is currently in Mexico conducting the Article IV consultation discussions. Perhaps the most critical issue concerning

the program at this time relates to the problem of inflation, which has been running at a pace above projection. The President is fully aware of the need to reduce inflation in order to provide the basis for a sound growth of the economy, and in various addresses he has pointed out that the elimination of inflation is of the highest priority to his Administration.

3. Reference might be made in this connection to the very important decision on minimum wages to be faced in the near future. It is clear that this decision will have a significant effect on how expectations about inflation develop. There are great pressures for a a large increase in the minimum wage, but moderation in this area is essential for the attainment of the goals of the Mexican economic program. To be consistent with the original projection of inflation of the 1984 program (40 percent in the 12 months ending December 1984), the midyear adjustment should be less than 10 percent. Inflation is running higher than had been projected, however, and this is adding to pressures for wage adjustment very much higher than the figure just mentioned.

4. The Mexican authorities have applied considerable restraint over aggregate demand in the past year and a half but, in view of the rise in prices that has taken place so far this year (an average of 5 percent a month in the period January-April 1984), consideration needs to be given to a further tightening of demand policy through monetary and fiscal measures. A decisive reduction of inflation is essential to avoid the recurrence of serious pressures on the exchange rate (there have been some recent episodes of speculative pressure which have

shown up in the quotations for the peso in the border area). Indeed, the present approach to exchange rate policy (depreciating by some 2 1/2 percent a month) cannot be continued for much longer if inflation is not brought down substantially very soon.

5. With regard to the external debt and the balance of payments, as you have already mentioned to the Secretary of Finance, the staff of the Fund has begun to look into the question of how the large debt repayments falling due in the next several years might be rescheduled, with a view to achieving a more manageable debt profile. We hope to be in a position in the near future to make concrete proposals to the financial community. We would expect to be in close contact with the Ministry of Finance and Bank of Mexico as we make progress in our work in this area.

6. Finally, you might wish to mention that you had been exploring the possibility of a trip to Mexico and certain other Latin American countries in July, and you might ask if he has suggestions about the visit to his country.

~~Mr Beza~~ F
1. Mexico
2. Argentina
3. Commercial banks

INTERNATIONAL MONETARY FUND

May 8, 1984

Mr Wiesner

As requested by Mr Collins, I prepared the attached record of Mr Rhodes' visit, which the Managing Director has seen Please let me know if you would wish any further circulation (or, of course, if there are any nuances on Mexico or Argentina on which my memorandum needs to be corrected)

Attachment

cc The Deputy Managing Director
Mr Finch
Mr Beza ✓
Mr Collins

C Maxwell Watson

Office Memorandum

May 3, 1984

MEMORANDUM FOR FILES

Subject Visit of Mr Rhodes and Mr. Handley, Citibank

Mr Rhodes and Mr. Handley called on the Managing Director on April 30, the Deputy Managing Director, Mr. Wiesner, Mr. Beza, Mr Collins and Mr. Watson were present

Mr Rhodes said that the progress on commitments for the Mexican new money package had been very encouraging indeed. At the time of signing on Friday commitments from 400 banks had been received, and a total of over 500 could be hoped for American participation would probably amount to 153-5 banks out of a total of 160 All in all the package had been the most successful so far, with an estimated total of $4.08 billion due to be received, the excess over the $3.8 billion target would be refunded.

The Managing Director mentioned that he would be seeing Mr. Wriston on May 3, and would take the opportunity to discuss moving into phase II for Mexico. Mr. Rhodes said that the Mexicans were going to make an approach for a multiyear rescheduling of maturities falling due in 1985-89. The Managing Director endorsed the principle of a multiyear restructuring for at least three years, noting that it was Mexico in particular that he had in mind as a candidate Mr Rhodes confirmed that Citibank would be prepared to move ahead on this within two months, but would have preferred to see Argentina agreed first. The Managing Director confirmed that it would be helpful to see some progress by June. Mr. Rhodes said that he knew the Managing Director had played an important role in dissuading U S. regional and European banks from their enthusiasm for interest capitalization, the experience of capping the rate for Nicaragua had emphasized that this technique could remove the adjustment pressure from a borrowing country.

After mentioning the latest inflation and trade data on Brazil, Mr. Rhodes went on to discuss the question of Argentina. He noted firstly the problem on the disbursement of sums to meet banks' interest claims. An amount of $138 million of the $500 million was still on the account. Claims for $108 million further had been received, but the Argentines had only authorized payments of $40 million, and were now in the process of submitting claims for two Argentine banks which had previously been excluded. He was concerned that the Argentines were deliberately prevaricating, and the Federal Reserve shared this anxiety. A meeting was being held on May 2 to discuss the issue. He also expressed anxiety about the way that the Argentines intended to handle funds available under the original bridging loan in relation to the new money package. Moreover, they still had not clarified what they were really seeking in relation to the 1982 and 1983 maturities, except that it now appeared they did intend to reopen transactions which had already been signed. It was important that the Argentines should not be perceived as trying to push the banks around for the sake of it, because quite a number of banks would like to quarantine Argentina. On the political front, it was only at this stage that Alfonsin was really beginning to focus on the rescheduling issue, meanwhile, Grinspun was not prepared to delegate. The Peronists--representatives of whom were currently in Washington--were becoming increasingly vocal on the negotiations. It might well be that, for a package to go through successfully, some degree of consensus would need to be reached between the Radicals and the Peronists, which would tend to add to the delay before agreement could be reached.

Mr. Rhodes then returned to the issue of the new money package for Argentina. He emphasized firstly that it would be essential to offer banks some option to increase their trade financing commitments in order to give a greater incentive for participation He asked the Managing Director whether he intended to insist that a critical mass of financing should be assembled before presenting a program to the Fund's Executive Board. After discussion of the factors involved, including the degree of leverage over creditors, and the problem of potentially awkward delays for the program, the Managing Director confirmed that the critical mass route adopted for Mexico and Brazil would be much preferable for a major country case such as Argentina, as opposed to the route of an agreement in principle (followed for such countries as Sudan in relation to Paris Club rescheduling). With regard to the size of a possible new money package, Mr. Beza suggested that a $3 billion net new money package might perhaps correspond broadly to a current account objective of $2.1-2.3 billion. The Managing Director emphasized the difficulty in securing actions to achieve such a current account objective. The Argentines had been thinking of a current account deficit more on the order of $2.9 billion, with the implication of a considerably larger new money package. Mr. Rhodes warned that a new money package of $3 billion or more would, to his mind, imply more official money, including perhaps the World Bank. He thought that banks might perceive $3 billion of new money as amounting to up to 12 percent of existing exposure, Mr. Beza said that it would correspond certainly to 9 percent, or perhaps more The Managing Director emphasized that the Fund would need to press hard in its negotiations, especially on public sector wages, there was no possibility of accepting an adjustment program with an unfinanceable current account deficit and the implication of growing import restrictions.

C. M Watson
Chief
International Capital Markets Division
Exchange and Trade Relations Department

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1984 MAY -7 PM 12:51

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MR. E. WIESNER
INTERFUND
WASHINGTON, D.C.

ORIG: WHD

MEXICO MISSION CLAUDIO LOSSER ARRIVED MEXICO CITY.

REGARDS,

LOSER
1760765 BMIIME
440385 FUND UI

REPLY VIA ITT

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TIME: 12:36 05/07/84 DST
CONNECT TIME : 94 SECONDS

called: Raquel Loser

WHD

INTERNATIONAL MONETARY FUND
WASHINGTON D C 20431

CABLE ADDRESS
INTERFUND

MAY - 4 1984

Sir

Reference is made to the Extended Arrangement that the International Monetary Fund (the Fund) approved on December 23, 1982 for the United Mexican States.

(1) The Extended Arrangement continues in effect.

(2) Subject to the observance of the performance clauses of the Extended Arrangement, the United Mexican States will have the right during a period of three years from January 1, 1983 to make purchases from the Fund under the Extended Arrangement up to a total amount equivalent to SDR 3,410.625 million. Until January 1, 1985, the United Mexican States will have the right to make purchases under the Extended Arrangement up to a total amount equivalent to SDR 2,206.88 million, provided that purchases shall not, without the consent of the Fund, exceed

(a) the equivalent of SDR 1, 304.06 million until May 20, 1984,

(b) the equivalent of SDR 1,605.00 million until August 20, 1984, and

(c) the equivalent of SDR 1,905 94 million until November 20, 1984.

(3) As of the date of this letter, the United Mexican States had purchased all amounts that were to be available for purchase on or prior to the date of this letter in accordance with the phasing provisions of the Extended Arrangement which specify the amounts and the timing of such purchases.

Very truly yours,

Eduardo Wiesner
Director
Western Hemisphere Department

The United Mexican States
Minister of Finance and Public Credit
Ministry of Finance and Public Credit
Mexico City, Mexico

Office Memorandum

To Mr James G Evans, Jr May 4, 1984

From James M Ogoola JMO

Subject Mexico Status Letter

As requested in your handwritten note of May 1, 1984, I have prepared for Mr Beza the attached status letter (and copies) on Mexico

Except for the initial letter (dated March 2, 1983) signed by the Acting Managing Director, the two other letters on Mexico in 1983 were signed by Mr Wiesner. I would therefore assume that the proposed letter will likewise be signed by Mr Wiesner. I would also assume that as on earlier occasions, the Western Hemisphere Department would hold the letter (after signature) until it is dated in Communications Division at the appropriate time, when Mr Buchheit would then pick the letter up and transmit it to New York

Attachment

cc Mr Beza

IMF OFFICIAL CABLE

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ORIG: WHD
CC: CBD
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440385 FUND UI
MR. E. WIESNER
INTERFUND
WASHINGTON, D.C.

MEXICO MISSION CONSISTING OF GIL, KATZ, LEITE, NEUHAUS, VALDIVIESO AND TOSO ARRIVED MEXICO CITY. DIRECT NUMBER IN CENTRAL BANK IS 5210375.

REGARDS

NEUHAUS

440385 FUND UI

Called: Ms. Machado (for S. Leite)
Mrs. Gil Diaz
Mrs. Valdivieso
Mrs. Katz

REPLY VIA ITT

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TIME: 14:02 05/02/84 DST
CONNECT TIME : 220 SECONDS

WHD
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ETR

Office Memorandum

APR 24 1984

TO: The Managing Director
The Deputy Managing Director

DATE: April 24, 1984

FROM: S. T. Beza

SUBJECT: Mexico--Briefing for the Article IV Consultation Mission

Please find attached for your consideration the briefing for the Article IV consultation mission to Mexico.

This briefing has been reviewed by the following departments:

Exchange and Trade Relations	Mr. Guitián
Fiscal Affairs	Mr. Yandle
Legal	Mr. Ogoola
Treasurer's	Mr. Leddy
Western Hemisphere	Messrs. Caiola, Lachman, van Beek and myself

Mr. Loser's last day in the office will be May 4, 1984.

Attachment

cc: Mr. Collins

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Briefing for Mission to Mexico

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations, Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by S T Beza and Manuel Guitián

April 24, 1984

A staff mission consisting of Messrs Loser (Head-WHD), Gil Diaz (WHD), Katz (FAD), Leite (CBD), Neuhaus (ETR), and Valdivieso (WHD) and Ms Toso (Secretary-WHD) will visit Mexico for about three weeks to conduct the 1984 Article IV consultation discussions and to review with the Mexican authorities performance under the extended arrangement, this review is not a performance criterion An advance party will travel to Mexico on May 1, and Mr Loser will join the mission on May 6

On December 23, 1982 (EBM/82/168) the Executive Board approved Mexico's request for access to Fund resources for the equivalent of SDR 3,611 2 million (450 percent of Mexico's quota in effect at the time), of which SDR 200 6 million were granted under the first credit tranche and the remainder under an extended arrangement covering the three-year period through December 1985 The program for the second year of the arrangement was approved by the Executive Board on March 2, 1984 (EBM/84/35) Mexico has made all scheduled purchases so far, including a purchase effected immediately after Board approval of the program for the second year of the arrangement Total purchases to date amount to SDR 1,504 7 million (Table 1) The last consultation discussions with Mexico were completed by the Executive Board on May 23, 1983 (EBM/83/75)

1 Performance under the current program 1/

a Developments in 1983

The adjustment program adopted by the Mexican authorities in late 1982 produced a sharp turnaround in economic conditions and has helped Mexico recover from the severe economic crisis experienced in 1981-82 The program aims at restoring the medium-term viability of the Mexican economy, primarily through a sharp reduction in the public sector deficit High priority was given to the objectives of

1/ The main features of the program and developments during the first year of the arrangement are described in detail in the recently discussed staff paper in support of the second year of the arrangement (EBS/84/1, Sup 1, 1/30/84)

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LIC JACQUZ DE LAROSIERE
MANAGING DIRECTORAND CHAIRMAN
OF THE BOARD OF EXECUTIVE DIRECTORS
FONDO MONETARIO INTERNACIONAL
WASHINGTON, D.C.

ORIG: WHD
CC: MD
DMD
MR. SENIOR
CABLE ROOM
MR. COLLINS

I AM PLEASED TO INFORM YOU OF THE NEW TELEX NUMBER FOR COMMUNICATIONS ADDRESSED TO THE SUBDIRECCI ON DE ORGANISMOS Y ACUERDO INTERNACIONALES (INTERNATIONAL ORGANIZATIONS AND AGREEEMENTS) OF THE BANK OF MEXICO: 1760765 BMIIME

BEST REGARDS,

ARIEL BUIRA
DEPUTY DIRECTDOR
BANCO DE MEXICO

GRACO
MUCGHAS GRACIAS POR SU ATENCION
COMUNICACION TERMINADA

RECEIVED
APR 27 1984
Western Hemisphere Department

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KUMBANK 22118KT

26TH APRIL 1984

ORIG: DMD
CC: MD
MR. FINAISH
ETR
MED
WHD
MR. COLLINS

TO: INTERFUND . WASHINGTON DC. .
FM: CENTRAL BANK OF KUWAIT.

A' N: H. E. MR. J. DE LAROSIERE
MANAGING DIRECTOR

RYTLX OF 24TH INSTANT CONCERNING MEXICAN FINANCING PACKAGE, I WISH TO ADVISE THAT COMPANIES AND BANKS CONCERNED HAVE BEEN NOTIFIED OF CONTENTS OF ABOVE TELEX. ANY FURTHER DEVELOPMENT TO THIS EFFECT WILL BE COMMUNICATED TO YOU IN DUE COURSE.
BEST REGARDS.

ABDULWAHAB A. AL-TAMMAR
GOVERNOR
CENTRAL BANK OF KUWAIT.

RECEIVED
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Western Hemisphere Department

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ORIG: WHD
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MR. DONOSO
ETR
MR. S. COLLINS

RECEIVED
APR 25 1984
Western Hemisphere Department

LIMA, 24 ABRIL 1984

SE#OR
JACQUES DE LAROSIERE
DIRECTOR GERENTE
FONDO MONETARIO INTERNACIONAL

DESEO AGRADECER SU ATENTO TELEX DEL 23 DE LOS CORRIENTES Y SU ENCOMIABLE ESFUERZO DE COORDINACION, PARA OBTENER RECURSOS EXTERNOS ADICIONALES, EN RESPUESTA A LA SOLICITUD DE NUESTRO PRESIDENTE SE#OR FERNANDO BELAUNDE TERRY, DEL QUE HA RESULTADO UN MARGEN ADICIONAL PARA INVERSIONES DEL ORDEN DEL 0.3 POR CIENTO DEL PBI EN EL PROGRAMA ECONOMICO PARA 1984. POR ENDE, CONCORDAMOS CON LA MODIFICACION SUGERIDA POR USTED EN LOS LIMITES DEL ENDEUDAMIENTO DEL SECTOR PUBLICO NO FINANCIERO, DEMOSTRADOS EN EL CUADRO 1 DEL MEMORANDUM SOBRE POLITICA ECONOMICA QUE SE HA ADJUNTADO A NUESTRA CARTA DEL 3 DE FEBRERO 1984, QUE PASARIAN A SER:

AL 30 DE JUNIO 1984	S/. 24,396 BILLONES&
AL 30 DE SETIEMBRE 1984	24,848 BILLONES& Y
AL 31 DE DICIEMBRE 1984	25,521 BILLONES.

RESPECTO A LAS MEDIDAS RECIENTEMENTE APROBADAS Y MENCIONADAS EN MI TELEX DEL 19 DE LOS CORRIENTES, DESEO PONER EN SU CONOCIMIENTO QUE SOLO FALTARIAN PUBLICAR LAS SIGUIENTES:

1. EL CAMBIO EN LA REGLAMENTACION Y EL SISTEMA QUE SE UTILIZA PARA APLICAR LA EXONERACION DEL IMPUESTO GENERAL A LAS VENTAS EN LAS IMPORTACIONES O ADQUISICIONES DE BIENES QUE EFECTUAN LAS EMPRESAS INDUSTRIALES, DE ACUERDO CON LO ESTABLECIDO POR EL ARTICULO 125 DE LA LEY GENERAL DE INDUSTRIAS, RACIONALIZANDO SU USO Y EVITANDOSE LA EVASION.

2. EL CAMBIO DE LA MODALIDAD DEL ESTABLECIMIENTO DEL PRECIO DE LA LECHE EVAPORADA DEL SISTEMA CONTROLADO AL REGULADO.

3. LA AUTORIZACION PARA QUE NUEVAMENTE PUEDAN INSTALARSE EN EL TERRITORIO NACIONAL MOLINOS DESTINADOS A PILAR ARROZ.

TODAS ESTAS MEDIDAS SE PUBLICARAN EL 25 Y 26 DE ABRIL, 1984, EN EL DIARIO OFICIAL ''EL PERUANO''.

POR ULTIMO, RATIFICANDO LO EXPRESADO EN MI ANTERIOR COMUNICACION, CO N EL FIN DE ELIMINAR EL SUBSIDIO EN LA COMERCIALIZACION DEL ARROZ, SE AUMENTARA EL PRECIO DEL ARROZ CORRIENTE NACIONAL MENSUALMENTE DE ACUERDO A LA INFLACION. ADICIONALMENTE, SE HA AUTORIZADO A ECASA A COMERCIALIZAR Y A ESTABLECER LOS PRECIOS DE LAS CLASES DE ARROZ SUPERIOR NACIONAL E IMPORTADO, EN MONTOS QUE CUBRAN ADEMAS DE SU COSTO EL SUBSIDIO QUE A LA FECHA ESTA PENDIENTE, EN FORMA PROGRESIVA HASTA ABSORVERLO TOTALMENTE DURANTE EL TRANSCURSO DEL A#O.

IMF OFFICIAL CABLE

CONFIO EN QUE CON ESTAS ACLARACIONES ADICIONALES USTED ESTARA EN CONDICION DE OBTENER LA APROBACION EN LA PROXIMA REUNION DEL DIRECTORIO DEL APOYO DEL F.M.I. AL PROGRAMA ECONOMICO DEL PERU PARA 1984.

ATENTAMENTE,

JOSE BENAVIDES MU#OZ
MINISTRO DE ECONOMIA, FINANZAS Y
COMERCIO DEL PERU.

INTERFUND WSH

20187PE MINDEF
VIA WUI??
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WASHINGTON, D. C. 20431

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APR 25 1984
Western Hemisphere Department

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M. M. CAMDESSUS
TRESOR
PARIS

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MD
DMD
MR. DE MAULDE
ETR
EUR
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Mr. COLLINS

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REF: MONTAGE FINANCIER POUR LE MEXIQUE:

J'ESPERE QUE VOUS NE VERREZ PAS D'INCONVENIENT A CE QUE JE VOUS DEMANDE A NOUVEAU VOTRE CONCOURS, A PROPOS CETTE FOIS DE L'APPORT FINANCIER GLOBAL DES BANQUES AU MEXIQUE POUR 1984.

COMME VOUS LE SAVEZ, LE PROGRAMME APPLIQUE PAR LE MEXIQUE A JUSQU'A PRESENT DONNE DE FORT BONS RESULTATS ET JE RESTE TRES FAVORABLEMENT IMPRESSIONNE PAR LA DETERMINATION DES AUTORITES DE LE RENDRE PLEINEMENT EFFICACE. AUSSI, DE L'AVIS TRES GENERAL - ET C'EST UNE OPINION QUE JE PARTAGE - IL EST IMPORTANT QUE LE MONTAGE FINANCIER POUR LE MEXIQUE DEMONTRE CONCRETEMENT QUE, EN RETOUR DES BONS RESULTATS ENREGISTRES EN MATIERE DE POLITIQUE ECONOMIQUE, LES BANQUES FOURNIRONT LES ENGAGEMENTS NECESSAIRES POUR PERMETTRE AU PROGRAMME D'ETRE PLEINEMENT MIS EN OEUVRE.

PAR AILLEURS, L'APPORT FINANCIER GLOBAL DES BANQUES AU MEXIQUE POUR 1984 NE REPRESENTE PLUS QU'UN MONTANT

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TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): W.B. Dale (English) EXT.: 73004 DEPT.: OMD DATE: 4/24/84

AUTHORIZED BY NAME (TYPE): AUTHORIZED BY NAME (TYPE):

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IMF OFFICIAL MESSAGE
WASHINGTON D C 20431

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M. M. CAMDESSUS
TRESOR
PARIS

- 2 -

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DE 3,8 MILLIARDS DE DOLLARS, CONTRE 5,0 MILLIARDS DE DOLLARS EN 1983.

C'EST DANS CET ESPRIT QUE JE TIENS A VOUS INDIQUER QU'UNE REPONSE AFFIRMATIVE N'A PAS ENCORE ETE RECUE DES BANQUES SUIVANTES, EN FRANCE, POUR LES MONTANTS DEMANDES FIGURANT CI-APRES :

1. BANQUE INTERCONTINENTALE ARABE --- U.S.$537.000
2. FRAB BANQUE INTERNATIONALE ---- U.S.$1.650.000

JE VOUS SERAIS FORT RECONNAISSANT DE BIEN VOULOIR APPORTER VOTRE CONCOURS POUR FACILITER L'OBTENTION DES ENGAGEMENTS DEMANDES A CES BANQUES, ENGAGEMENTS QUI SONT IMPORTANTS POUR DEMONTRER QU'IL EXISTE A L'ECHELLE MONDIALE UNE SOLIDARITE ENTRE BANQUES A L'APPUI DE CE PROGRAMME EXEMPLAIRE. LE COMITE CONSULTATIF SERAIT PARTICULIEREMENT RECONNAISSANT AUX BANQUES SI LES TELEX CONFIRMANT LEURS ENGAGEMENTS POUVAIENT ETRE RECUS AU PLUS TARD LE JEUDI 26 AVRIL, DANS LA MATINEE.

CONSIDERATION DISTINGUEE. J. DE LAROSIERE. INTERFUND

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Mr Wiesner

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INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

DEPUTY MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

April 24, 1984

MEMORANDUM

To: Mr. Nimatallah

From: William B. Dale

Subject: Mexico--Financing Package of Commercial Banks

The U.S.$3.8 billion of commercial bank financing for the Mexican program in 1984 (down from U.S.$5.0 billion for 1983) is about to be finalized. You are, of course, fully aware how important this program is, and how important it is for the response of the commercial banks to take fully into account the demonstrated sound policy performance of the Mexican authorities.

In this connection, I bring to your attention that two banks in Saudi Arabia have not responded to the request for commitments in the amounts shown:

National Commercial Bank of Saudi Arabia -- U.S.$4,834,000

Saudi Investment Banking Corporation -- U.S.$480,000

I would be grateful for any assistance you can give in this matter. Commimtments need to be received by Thursday, April 26.

cc: Managing Director
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APR 24 1984
Western Hemisphere Department

INTERNATIONAL MONETARY FUND

APR 25 1984

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April 24, 1984

TO : THE MANAGING DIRECTOR

FROM: WILLIAM B. DALE

SUBJECT: Mexico--Briefing 1984 Art. IV Cons.

This is a very serious and comprehensive brief. I recommend approval.

Apr 28.84

The Deputy Managing Director (1)

Office Memorandum

TO	The Managing Director The Deputy Managing Director	DATE	April 24, 1984
FROM	S T Beza		
SUBJECT	Mexico--Briefing for the Article IV Consultation Mission		

Apr 28 84

Please find attached for your consideration the briefing for the Article IV consultation mission to Mexico

This briefing has been reviewed by the following departments

Exchange and Trade Relations	Mr Guitián
Fiscal Affairs	Mr Yandle
Legal	Mr Ogoola
Treasurer's	Mr Leddy
Western Hemisphere	Messrs Caiola, Lachman, van Beek and myself

Mr Loser's last day in the office will be May 4, 1984

Attachment

cc Mr Collins

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Briefing for Mission to Mexico

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations, Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by S T Beza and Manuel Guitián

April 24, 1984

A staff mission consisting of Messrs Loser (Head-WHD), Gil Diaz (WHD), Katz (FAD), Leite (CBD), Neuhaus (ETR), and Valdivieso (WHD) and Ms Toso (Secretary-WHD) will visit Mexico for about three weeks to conduct the 1984 Article IV consultation discussions and to review with the Mexican authorities performance under the extended arrangement, this review is not a performance criterion An advance party will travel to Mexico on May 1, and Mr Loser will join the mission on May 6

On December 23, 1982 (EBM/82/168) the Executive Board approved Mexico's request for access to Fund resources for the equivalent of SDR 3,611 2 million (450 percent of Mexico's quota in effect at the time), of which SDR 200 6 million were granted under the first credit tranche and the remainder under an extended arrangement covering the three-year period through December 1985 The program for the second year of the arrangement was approved by the Executive Board on March 2, 1984 (EBM/84/35) Mexico has made all scheduled purchases so far, including a purchase effected immediately after Board approval of the program for the second year of the arrangement Total purchases to date amount to SDR 1,504 7 million (Table 1) The last consultation discussions with Mexico were completed by the Executive Board on May 23, 1983 (EBM/83/75)

1 Performance under the current program 1/

a Developments in 1983

The adjustment program adopted by the Mexican authorities in late 1982 produced a sharp turnaround in economic conditions and has helped Mexico recover from the severe economic crisis experienced in 1981-82 The program aims at restoring the medium-term viability of the Mexican economy, primarily through a sharp reduction in the public sector deficit High priority was given to the objectives of

1/ The main features of the program and developments during the first year of the arrangement are described in detail in the recently discussed staff paper in support of the second year of the arrangement (EBS/84/1, Sup 1, 1/30/84) slowing inflation and reducing the reliance on foreign financing, so as to create the conditions for a return to confidence and the resumption of sustained growth The program also has sought to restore external competitiveness and to achieve a freeing of the exchange and trade system These policies have been reinforced by major efforts to restructure the terms of both the public and private external debt.

The authorities moved promptly in implementing the adjustment program, and substantial gains were made in attaining its objectives The fiscal deficit declined from the equivalent of over 18 percent of GDP in 1982 to about 8 1/2 percent in 1983 (Attachment I) This facilitated an appreciable deceleration in the monetary aggregates which, supported by exchange rate and wage policies, contributed to the correction of existing imbalances Domestic inflation declined sharply in 1983-particularly in the second half of the year--although for the year as a whole the program target was exceeded Concurrently, the balance of payments strengthened The Bank of Mexico's net international reserves, which had been virtually depleted by the end of 1982, increased by about US$5 1/2 billion in 1983 This reflected a sharp turnaround in the current account from a deficit of US$3 billion in 1982 to a surplus of about US$5 billion in 1983, and a virtual cessation of capital flight in 1983 following the large outflows in the previous two years The program's aims with respect to economic activity were not achieved in 1983 The contraction of output that occurred in late 1982 and early 1983 produced a fall of over 4 1/2 percent in GDP for 1983 as a whole Nonetheless, available indicators suggest that GDP has stabilized in recent months

All performance criteria for the first year of the arrangement were observed (Table 2) However, according to preliminary information, the overall public sector deficit had exceeded moderately the target for December 1983--a non-testing date with regard to drawings under the extended arrangement The public sector deficit had remained below the program limits through November but increased sharply in December, reflecting in part the delayed recording of certain foreign debt transactions, the settlement of transfers to various public enterprises and financial intermediaries, and the advance payment of interest on debt owed to the Bank of Mexico. According to the definition agreed in the arrangement, the deficit for the year reached Mex$1,621 billion compared with the program's target of Mex$1,500 billion However, the current estimates of the deficit are still provisional, and the authorities contend that on the basis of revised information the deficit was only about Mex$1,520 billion The difference reflects certain deposits of the public sector now identified by the authorities as having been misclassified previously as private sector deposits

b Program for 1984 and developments in the first quarter of the year

The economic program for 1984 envisages the continuation of the policies initiated in late 1982 A central feature of the program is the aim of reducing the rate of inflation on an end-of-year basis from 80 percent in 1983 to 40 percent in 1984 Economic growth is expected to resume, albeit at a moderate pace, while the balance of payments is expected to continue to show substantial strength The public sector deficit is to be reduced from over 8 1/2 percent of GDP in 1983 to 5 1/2 percent in 1984 Monetary, wage, interest rate, and exchange rate policies will continue to supplement the fiscal adjustment in achieving the program targets

Developments during the first quarter of the year appear to be in line with the aims for 1984 On the basis of preliminary information, the performance criteria for net domestic assets, net international reserves, and foreign borrowing of the public sector for the end of March were observed with wide margins (Table 3) No information is yet available on the remaining quantitative performance criteria, namely the overall public sector deficit, the net credit to the public sector by the monetary authorities, and the financial intermediation by development banks and official trust funds The external position has continued to improve, on the strength of a very large current account surplus As of March 31, net international reserves had increased by US$739 million from the end of 1983, compared with the minimum targeted accumulation of US$300 million envisaged in the program for this period Moreover, all remaining external arrears on supplier credits--amounting to US$280 million--were fully paid on March 7, 1984

The increase in reserves had as its main counterpart a current account surplus In the first two months of the year, the trade balance showed a surplus of US$2 7 billion, reflecting rapidly growing nonpetroleum exports and continued low levels of private sector imports However, monthly import authorizations have exceeded US$1 1/2 billion and should result in higher levels of imports in the course of the year The capital account recorded only a small net official inflow, as the US$3 8 billion loan with foreign commercial banks is to be signed only late this month and not drawn against until next month

The operations of the public sector recorded a small cumulative surplus in the first two months of the year The deficits of the Federal Government and public sector enterprises were smaller than projected, while large surpluses were recorded by PEMEX and the public sector outside budgetary control However, the public sector deficit for the quarter is likely to have moved in line with projections, as interest payments were made in March In order to strengthen the public sector finances, on April 13 the Government announced a 33 percent increase in gasoline prices, and adjustments in the prices of other petroleum products and selected consumer goods These price adjustments had been contemplated in the 1984 budget

During the first quarter of 1984 the net domestic assets of the Bank of Mexico declined by Mex$139 billion, significantly in excess of the Mex$40 billion decline that had been programed, reflecting in part the contractionary effect of the public finances However, the banking system has extended a substantial amount of credit to the private sector, on the basis of a strong growth in financial savings The growth of deposits in the banking system continues the trend observed in the second half of 1983, despite declines in interest rates in recent months (through the end of March) Real interest rates have turned negative on the basis of the recently observed monthly rates of inflation but they are still positive on the basis of the projected annual rate of inflation

worrying if they want to turn around capital outflows interest rates must be firmed up

Price developments in the first quarter have been disappointing The monthly rate of increase in the CPI has declined over the quarter, but the cumulative rate of inflation was 17 percent--which is higher than the increase believed consistent with the inflation target for the year Consumer prices increased by about 72 percent during the 12 months ended March 1984, compared with almost 81 percent during the 12 months ended December 1983

Worrying if they want to turn around capital outflows interest rates must be firmed up

2 Issues for discussion

The discussions with the Mexican authorities will focus on the progress being made in implementing the policies of the extended arrangement and in achieving the objectives of the program The discussions will seek to determine whether further actions are needed to assure the success of the adjustment effort The mission will emphasize the importance of the continuation of a cautious demand policy as essential to produce the decline in inflation, and to warrant a strong balance of payments, and thus to provide the basis for sustained growth

The main policy issues to be discussed relate to (1) the public finances, (2) credit and interest rates, (3) wages, (4) the exchange rate, and (5) trade arrangements The mission will discuss certain technical issues related to the monitoring of the financial program, including definitions of the public sector deficit, net international reserves, and financial intermediation (net lending) on the part of the public sector, as described below.

The mission will review the performance of the public finances in 1983 It will determine the final outcome for the year, as well as developments during the last quarter, when a significant proportion of the deficit materialized and resulted in a cumulative deficit in excess of the original target With regard to fiscal prospects for 1984-85, the mission will stress the importance of maintaining the restraint that has been successful so far in helping bring about an improvement in the economic performance of Mexico Such restraint will require a strengthening of government revenue, mostly by improved tax administration In addition, new sources of revenue have to be identified to help achieve adjustment of the public finances Two specific areas where additional resources may be obtained are import duties, on the basis of a trade reform that reduces the importance of quantitative controls, and the rationalizion of exemptions and tax incentives in line with medium-term economic objectives

The Government also will need to continue its efforts to improve pricing policies in the public sector so as to ensure that public enterprises cover their operating costs and thereby minimize the need for transfers from the Federal Government The mission will caution the authorities on the need to adjust prices and tariffs without delay, so as to avoid adverse repercussions on the public finances, and subsequently on inflation Public sector operating expenditures were compressed a great deal in 1983, and further significant additional adjustments are unlikely to be feasible, other than in the area of subsidies Capital expenditure has remained at very low levels but is expected to increase as the Administration completes the framing of its investment program

The 1984 budget contains an authorization for a contingent expenditure equivalent to about 1 percent of GDP It was stipulated that this expenditure would be released in the second half of 1984 only if there was evidence that economic activity has not recovered and noninflationary resources were available to finance it The program allows for only some three quarters of this expenditure to be reflected in the deficit with any other expenditure increase having to be absorbed without effects on the public sector deficit The mission will discuss prevailing economic conditions with the authorities in order to ascertain if the use of the contingent expenditure is warranted On the basis of information currently available to the staff, including in particular recent price developments, the mission would argue that it would be desirable that the authorities refrain from resorting to the contingent expenditure.

Monetary and credit policies are geared to the achievement of a reduction of inflation, a strengthening of financial savings and protection of the balance of payments, and an improvement in the allocation of credit in the economy In this connection, the mission will press for a cutback in the scope of subsidies provided through the financial system, particularly the preferential credits granted through the development banks and official trust funds Although interest rates on savings instruments have remained broadly adequate to foster financial savings, the recent decline in nominal and real rates may need to be reappraised if pressures on prices and the balance of payments are to be avoided The lending policies of commercial banks will be reviewed, with particular focus on existing disparities between lending rates The proposed agreement between the Mexican Government and the IBRD pertaining to the gradual elimination of financial subsidies on credit operations supported by the World Bank is a positive step in that direction In general terms, the mission will emphasize the need for commercial banks to modify the structure of their charges, with a view to improving profitability while reducing spreads between lending and borrowing rates

yes

A key element of the program for 1984 will be the pursuit of a wage policy in line with the anti-inflationary strategy Wage awards in 1983 were moderate and contributed to the reduction of inflation The 30 percent increase in the minimum wage awarded in December 1983 reduces the room for maneuver for the remainder of 1984, given the inflation objective for the year. The mission will emphasize the need for a moderate wage policy and will suggest that adherence to this year's inflation requires that any midyear increase be held to less than 10 percent. If a tight line is not held on wages, those aspects of the program which are predicated on the basis of the targeted inflation rate--particularly the exchange rate policy--may have to be revised.

Exchange rate policy will be subject to a careful review. The current policy of daily depreciation at Mex$0.13 per U.S. dollar in the controlled and the free market rates has brought about a narrowing of the percentage spread between the two markets--currently about 11 1/2 percent. The authorities have expressed their intention to unify the rates but believe that the current dual system should be retained for the time being in view of continuing uncertainties about the capital account. The mission will indicate that, as currently managed, the free market does not serve as a safety valve and that an early unification of the exchange system would be desirable, the mission will seek from the authorities a commitment on the timing of unification. However, if the authorities were to argue that the free market rate will be allowed to absorb any emerging pressures in the foreign exchange market and were to give a firm commitment to this effect, such policy stance could be acceptable as an interim solution. It would have to be understood that such arrangements would be implemented without recourse to administrative restraints and only so long as changes in the free market would be taken as evidence of the adequacy of the rate in the controlled market

The current pace of depreciation of the peso in the two markets is consistent with the targeted inflation differential between Mexico and its trading partners. However, on the basis of the real effective exchange rate index, the peso appreciated by about 4 percent since the beginning of 1984. This is not posing serious difficulties, particularly in view of the earlier ~~very~~ large depreciation of the peso, but problems could ~~arise if~~ the latest tendency were to continue The mission ~~will~~ urge the authorities to take adequate measures to reduce inflation as planned--including actions on wages--in order to ensure that competitiveness is maintained.

I hear that cap'l outflows are resuming This should be checked I am worried that the sentiment is growing that the rate is getting out of line

The authorities may stress that the continuing favorable performance of the external sector and the strong overall balance of payments situation indicate that the Mexican economy remains competitive The mission will argue, however, that a continuing discrepancy between exchange rate adjustments and inflation would not only raise doubts about competitiveness in terms of current account transactions but would have the effect of weakening the capital account. The mission will seek understandings on the conduct of exchange rate policy, aimed at assuring that a weakening of external performance is avoided.

In the area of commercial policy, the restrictiveness of the import licensing system has been eased significantly in recent months, and the value of import permits issued to the public and private sectors during the first quarter of the year is consistent with the US$14 billion

I hear that capital outflows are resuming
This should be checked I am worried that the sentiment is growing that the rate is getting out of line

level of imports projected for the year However, actual imports have continued to run well below that rate, with private sector imports remaining quite low The mission will discuss with the authorities the reasons behind the differences between the amount of import permits issued and actual imports In this connection, the mission will urge the authorities to complete promptly the review of the tariff structure, and to replace the current licensing system with a comprehensive import tariff, a change that would contribute to an improvement in the allocation of resources and a strengthening of the public finances On the side of exports, the mission will review the structure of current incentives to nonpetroleum exports so as to ascertain its adequacy and costs It also will inquire about the progress the authorities have made in their efforts to reduce impediments to Mexico's exports in the country's major foreign markets

The progress made in restructuring the external debt has made possible an improvement in the debt service profile Concurrently, Mexico has reduced its reliance on external borrowing Moreover, the authorities have made significant progress in helping to regularize the external debt situation of the private sector, without assuming the commercial risk on these obligations All eligible financial private debt has been allowed to obtain forward cover and refinancing at specified minimum terms under FICORCA, while the private sector obligations guaranteed by official agencies of creditor countries belonging to the Paris Club are being restructured on the basis of the agreed minutes signed in June 1983 The mission will explore with the authorities the strategy to be pursued after 1984, in order to reduce the debt service burden in the near future and improve the term structure of external debt over the medium term The mission also will convey its concern about the longer-term implications of the foreign exchange guarantees provided for new borrowing by the private sector under FICORCA In this regard, the current structure of forward cover charges will be reviewed to ascertain its appropriateness

3. Program monitoring

The technical definition of the public sector deficit for 1984 may have to be modified for purposes of program monitoring because of current measurement difficulties The mission will review the available information, especially with regard to public sector bank deposits On the basis of preliminary information, a case can be made to include as an offset to credit to the public sector certain deposits of the public sector that had been classified as private deposits On the basis of its findings, the mission will reach understandings with the authorities on any changes that may seem appropriate in defining the public sector deficit, for purposes of program monitoring

The authorities distinguish between two kinds of overall public sector deficit, depending on whether one includes or excludes net lending to the private sector by the development banks and official trust funds For purposes of the 1984 financial program, the net lending financed by domestic private sector deposits has not been included in the public sector deficit because it has been regarded as financial intermediation between domestic private savers and investors 1/ Because of the rapid growth of financial intermediation in 1983, a ceiling of Mex$200 billion has been placed on the credit granted by the development banks and official trust funds during 1984, this ceiling can be exceeded provided that the overall public sector deficit is correspondingly reduced to allow for some of the contingency outlays contemplated in the budget to be channeled to the private sector

While broad understandings were reached during the negotiations for the second year of the arrangement on the operations to be covered under financial intermediation, no agreed methodological and statistical basis existed at the time To deal with this situation, a working group within the Mexican Government has been examining the questions pertaining financial intermediation and that group is expected to present its findings to the mission The mission will reach understandings with the authorities on the coverage of financial intermediation, and will agree on the statistical base for purposes of monitoring

The authorities have indicated their intention to modify the definition of net international reserves to exclude certain medium-term assets and liabilities now included under payment agreements, the most important being the medium-term financing provided by Mexico to certain countries in Central America and the Caribbean under a joint oil facility with Venezuela The assets to be excluded currently amount to about US$300 million, and the figure has varied little in recent months The mission will review the proposed change and will reach understandings on a modified definition of net international reserves, if there is no danger of affecting the measurement of performance in respect of the balance of payments target

4 Other Fund related issues

The mission will review the current exchange arrangements in order to ascertain if continued approval is warranted for the multiple currency practices arising from the dual market and other special rates Approval has been granted until the completion of the Article IV consultation, the next review under the extended arrangement, or March 2, 1985, whichever is earlier All remaining external arrears emerging from suppliers' credits were paid in early March, therefore eliminating the last exchange restriction

In response to the authorities' request for increasing Mexico's access to Fund resources, the mission will review the factors that would provide the basis for a decision, upon return to headquarters, whether augmentation can be justified The main factors considered as relevant in this regard at the latest Board meeting on Mexico, were the seriousness of Mexico's balance of payments need and the strength

1/ The foreign borrowing by development banks and official trust funds is included in the external debt ceiling and is counted as part of the public sector deficit of its adjustment effort Any increase in need would have to be in the context of continuing satisfactory performance in respect of the agreed policies under the arrangement It could be only a reflection of implementation of policies such as an increase in trade liberalization effort, or the emergence of exogenous pressures which are judged to be reversible

The mission will propose that the next Article IV consultation with Mexico be held on the standard 12-month cycle

Attachments

cc Mr Finch
Mr Habermeier
Mr Hood
Mr Kaul
Mr Nicoletopoulos
Mr Shaalan
Mr Tanzi
Mr Tun Thin
Mr Whittome
Mr Wiesner (o/r)
Mr Zulu
Mr Collins

Table 1 Mexico The IMF Position
(December 31, 1982-December 31, 1985)1/

	Transactions in 1982	Transactions in 1983	Transactions in 1984: Jan - Apr 2/	May-July	Aug - Oct	Nov - Dec	Total	Transactions in 1985
			(In millions of SDRs)					
Purchases	200 6	1,003 2	300 9	300 9	300 9	300 9	1,203 8	1,203 8
Ordinary resources	200 6	501 6	150 5	150 5	150 5	150 5	601 9	20 0
First credit tranche	(200 6)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Extended arrangement	(--)	(501 6)	(150 5)	(150 5)	(150 5)	(150 5)	(601 9)	(20 0)
Borrowed resources	(--)	501 6	150 5	150 5	150 5	150 5	601 9	1,183 8
Repurchases	--	--	--	--	--	--	--	--
Total credit outstanding (end of period)	200 6	1,203 8	1,504 7	1,805 7	2,106 6	2,407 6	2,407 6	3,611 3
			(In percent of new quota)					
Purchases	17 2	86 1	25 8	25 8	25 8	25 8	103 3	103 3
Total credit outstanding (end of period)	17.2	103 3	129 1	154 9	180 7	206 5	206 5	309 8

Source International Monetary Fund

1/ Partials may not add up to totals because of rounding
2/ Actual

Table 2 Mexico Quantitative Performance Criteria in 1983

	Program Target for the Year	Actual
	(In billions of Mexican pesos)	
Net credit to the public sector by the monetary authorities 1/	3,097	2,839 2/
Cumulative overall public sector deficit 3/		
Program methodology	1,500	1,621 2/
Corrected for public sector deposits		1,520 2/4/
Cumulative changes in net domestic assets of the monetary authorities (effective flow)5/	104	-502
	(In millions of U S dollars)	
Cumulative net foreign borrowing by the public sector 3/	5,000	4,686 2/
Cumulative change in net international reserves of the monetary authorities 3/6/	2,000	5,480
Cumulative reduction in arrears 7/	600	1,088

Sources Mexican authorities, and Fund staff estimates

1/ Stock outstanding at end of period (adjusted for changes in exchange rate)
2/ Preliminary estimate
3/ Limit tested at the end of each period
4/ Includes increase in public sector deposits with the banking system during 1983, which were misclassified as liabilities to the private sector
5/ Net domestic assets of the Bank of Mexico for purposes of the ceiling are defined as the difference between note issue and net international reserves of the monetary authorities
6/ Includes payments arrears and a balance of payments support loan from the BIS as liabilities
7/ Limit tested at the end of the calendar year

Table 3 Mexico Extended Arrangement—Quantitative Performance Criteria for the Second Program Year

	Dec 1983	Jan -Mar		Targets and Limits 1984		
	Act	Target	Act	Apr - June	July- Sept	Oct - Dec
			(In billions of Mexican pesos)			
Net credit to the public sector by the monetary authorities 1/	2,971	3,023		3,205	3,397	3,734
Cumulative overall public sector deficit 2/	1,520	330		640	980	1,524
Cumulative changes in net domestic assets of the monetary authorities (effective flow) 3/	-502	-40	-139	-71	-113	-43
Cumulative changes in financial intermediation (effective flow) by development banks and official trust funds	248	70		130	170	200
			(In millions of U S dollars)			
Cumulative net foreign borrowing by the public sector 4/	4,686	1,100	141	2,100	3,100	4,000
Cumulative change in net international reserves of the monetary authorities 2/4/	5,480	300	739	800	1,300	2,000
Cumulative reduction in arrears 4/5/	1,088		280			280

Sources Mexican authorities, and Fund staff estimates

1/ Effective flows
2/ Limit tested at the end of each period
3/ Net domestic assets of the Bank of Mexico for purposes of the ceiling is defined as the difference between note issue and net international reserves of the monetary authorities.
4/ Includes payments arrears
5/ Limit tested at the end of the calendar year

ATTACHMENT I

Mexico Selected Economic and Financial Indicators

	1980	1981	1982	Prog 1983	Prel 1983	Prog 1984 1/
(Annual percent changes unless otherwise specified)						
National income and prices						
GDP at constant prices	8 3	8 0	-0 5	--	-4 7	1 0
GDP deflator	28 7	27 2	61 1	80 7	100 9	50 0
Consumer prices (end of period)	29 8	28 7	98 8	55 0	80 9	40 0
Overall public sector						
Receipts	47 1	37 1	74 2	97 9	107 5	59 0
Outlays	49 3	64 7	82 3	58 9	69 7	47 0
External sector (on the basis of U S dollars)						
Exports f o b	70 7	23 7	6 2	13 4	0 7	8 1
Imports f o b	53 7	29 0	-39 6	2 0	-46 5	64 7
Export volume	(23 5)	(23 6)	(20 2)	(5 9)	(5 1)	(6 0)
Import volume	(34 8)	(19 0)	(-43 3)	(-3 1)	(-52 5)	(56 1)
Terms of trade (deterioration -)	(21 4)	(-8 0)	(-17 0)	(-3 3)	(-6 1)	(-3 4)
Nominal effective exchange rate (appreciation -)2/	-0 8	2 5	100 3		137 2	
Real effective exchange rate (appreciation -)2/	-9 6	-12 1	29 9	--	19 2	--
Money and credit						
Domestic credit (net)3/	36 0	47 5	67 6	54 6	70 9	36 3
Public sector 3/	(21 6)	(45 3)	(63 8)	(27 8)	(33 8)	(16 6)
Private sector 3/	(25 7)	(23 0)	(-5 2)	(26 8)	(23 8)	(21 9)
Money and quasi-money (M4)	38 3	49 9	69 0	51 9	58 7	43 3
Velocity (GDP relative to M4)	3 3	3 0	2 8	3 4	3 3	3 8
Interest rate (annual rate one-year term deposits)4/	28 0	35 0	50 0	55 0	47 4	44 0
(In percent of GDP)						
Overall public sector savings	2 1	-1 0	-6 6	0 7	-0 9	2 6
Overall public sector deficit (-)	-7 7	-14 9	-18 3	-8 5	-8 7	-5 5
Domestic financing	5 2	7 5	14 6	5 9	5 5	3 1
Foreign financing	2 5	7 4	3 7	2 6	3 2	2 4
Gross domestic investment	28 1	29 0	20 9	22 7	15 4	19 0
Gross national savings	24 0	23 2	19 3	20 5	19 3	18 3
BOP-current account (deficit -)	-4 1	-5 8	-1 6	-2 2	3 9	-0 6
At 1979 exchange rate	(-4 8)	(-7 5)	(-1 5)	( )	(2 9)	(-0 5)
External public debt 5/						
Inclusive of Fund credit	16 9	20 5	32 0	45 6	43 0	38 9
At 1979 exchange rate	(19 8)	(26 4)	(31 1)	( )	(32 0)	(30 0)
Interest payments on external public debt 6/	2 0	2 2	4 0	4 7	5 4	4 7
At 1979 exchange rate	(2 4)	(2 8)	(3 9)	( )	(4 0)	(3 6)
(In percent of exports of goods and services)						
Debt service						
Before rescheduling	30 9	33 8	42 1	49 4	49 7	42 8
After rescheduling	30 9	33 8	37 8		33 4	32 2
(In billions of U S dollars)						
Overall balance of payments	0 9	1 1	-6 8	2 0	5 5	2 0
Gross official reserves (months of imports)	2 5	2 6	1 4	2 5	8 1	6 7

Sources Bank of Mexico Secretariat of Programing and Budget and Fund staff estimates

1/ Annual changes and ratios to GDP in 1984 are those projected at the time of program inception

2/ Measured in terms of local currency per unit of foreign exchange

3/ Changes in relation to total liabilities to private sector outstanding at the beginning of period adjusted for exchange rate changes

4/ Maximum authorized rate at the end of the period net of withholding tax excludes compounding

5/ Includes short-term debt but net of gross international reserves

6/ Interest paid on external public debt net of interest earned on gross international reserves

Fund Relations with Mexico
(As of March 31, 1984)

I Membership Status

(a) Member since December 31, 1945
(b) Status - Article VIII

A Financial Relations

II General Department (General Resources Account)

(a) Quota SDR 1,165 5 million

(b) Total Fund holdings of Mexican pesos SDR 2,579 5 million or 221 3 percent of quota

(c) Fund credit SDR 1,504 7 million or 129 1 percent of quota
Of which SDR 200 6 million or 17 2 percent of quota under credit tranche
SDR 652 0 million or 55 9 percent of quota under EFF
SDR 652 0 million or 55 9 percent of quota under EAR

(d) Reserve tranche position SDR 90 7 million

(e) Current Operational Budget Not applicable

(f) Lending to the Fund Not applicable

III Current Stand-By or Extended Arrangement and Special Facilities

(a) Current extended arrangement
(i) Duration from January 1, 1983 to December 31, 1985
(ii) Amount SDR 3,410 6 million
(iii) Utilization SDR 1,304 7 million
(iv) Undrawn balance SDR 2,105 9 million

(b) Previous extended arrangement
(i) Duration 1977 to 1979
(ii) Amount SDR 518 million
(iii) Utilization SDR 100 million

(c) Special facilities CFF
(i) Year approved 1976
(ii) Amount SDR 185 million

IV SDR Department

(a) Net cumulative allocation SDR 290 million
(b) Holdings SDR 0 072 million, or the equivalent of 0 02 percent of net cumulative allocations
(c) Current Designation Plan not applicable

V. Administered Accounts (amounts)

(a) Trust Fund Loans Not applicable
(b) SFF Subsidy Account Not applicable

B Nonfinancial Relations

VI Exchange rate arrangement Since December 20, 1982 two foreign exchange markets have been operative in Mexico a controlled market, covering specified transactions, and a free market The exchange rates in both markets are established by the authorities, who currently preannounce the rates for period of four weeks in advance As of March 31, 1984 the rate in the controlled market was Mex$155 71 per US$1 selling and Mex$155 81 per US$1 buying, this rate is being adjusted by Mex$0 13 a day The free market rate, which had remained relatively stable since the beginning of 1983, started depreciating by Mex$0 13 per day since September 23, 1983 As of March 31, 1983 the free market rate was Mex$172 43 per US$1 selling and Mex$173 48 per US$1 buying Three other special rates apply to forward cover contracts for the repayment of specified medium- and long-term obligations with foreign financial institutions

VII Last Article IV consultation and review under EFF The last Article IV consultation discussions were completed by the Executive Board on May 23, 1983 (EBM/83/75) The relevant staff reports were SM/83/70 and SM/83/86 For consultation purposes, Mexico is in the 12-month cycle The last review under the EFF and discussions of the 1984 program were completed by the Executive Board on March 2, 1984 (EBM/84/34 and EBM/84/35) The relevant staff report was EBS/84/1, Cor 1, Sups 1 and 2 With regard to exchange restrictions and multiple practices, the decision approved at the time reads as follows

Approval of Multiple Currency Practices and Exchange Restrictions

> Mexico maintains multiple currency practices and exchange restrictions as described in Section V of EBS/84/1, Supplement 1 In view of the circumstances of Mexico, the Fund grants approval of these multiple currency practices and restrictions until the completion of the next review under the extended arrangement, or the completion of the next Article IV consultation, or March 2, whichever is earlier

Table 1   Comparison of Selected Economic and Financial Indicators in Recent Selected Programs

			Percent of Quota			Current Program Year 1/ (Percent of quota) Overall balance			(Percent of GDP) Current account deficit 4/			Overall budget deficit 4/		
Country	Date of Approval 2/	Type of Arrangement	Amount of Arrangement	Annual Access	Fund Credit Outstanding at Beginning of Arrangement 3/	Previous Year	Original Target	Current Target	Previous Year	Original Target	Current Target	Previous Year	Original Target	Current Target
Mexico	3/84	EFF	293	103	103	441	163	163	-2 9	1 8	0 5	8 7	5 5	5 5
Comparator Countries														
Brazil	Proposed 2/84	EFF	290	102	102	-192	66	263	3 2	2 1	2 5	18 0	5 5	9-11
Hungary	1/84	SB	80	80	90	82	-34	-34	-1 5	-1 9	-1 9	0 4	-1 3	-1 3
Korea	7/83(2nd, 84)	SB	124	62	226	-86	-216	-130	2 3	2 5	1 3	3 0	3 5	2 8
Portugal	10/83	SB	118	83	26	-283		--	9 3		6 0	9 0		6 0
Turkey	4/84	SB	52	52	330	-57		148	3 5		2 3	-8 4	--	-0 3

Sources Board papers, and staff estimates

1/ Current program year refers to the year for which the program is to be negotiated or the program currently in operation Original targets refer to targets established in original multiyear arrangement At the beginning of an arrangement current target refers to original target

2/ Date of approval of current program Date after proposed program refers to date of brief or draft staff report

3/ For arrangements with duration of less than two years, Fund credit outstanding, excluding CFF, cereal, oil, and buffer stock facilities, as a percent of quota prior to beginning of the arrangement For two- or three-year arrangement Fund credit outstanding at the beginning of current program year

4/ Excluding official transfers Values may not coincide with those in staff papers, due to different definition used for intercountry comparison

Table 1 (concluded). Comparison of Selected Economic and Financial Indicators in Recent Selected Programs

			Current Program Year 1/										
			(Percent per year)						(Percent of M2)				
			Real GDP Growth			Inflation			Domestic Credit Expansion 3/				
Country	Date of Approval 2/	Type of Arrangement	Previous Year	Original Target	Current Target	Previous Year	Original Target	Current Target	Previous Year	Original Target	Current Target	Actual Debt Service Ratio 4/	Actual Reserves/ Imports 5/
Mexico	3/84	EFF	-4 7	3 0	1 0	80 9	30 0	40 0	70 9		36 3	33	35
Comparator Countries													
Brazil	Proposed 2/84	EFF	-3 9	2 0	--	211	40	75/100	166		72 0	81 56	1
Hungary	1/84	SB	0.7	--	--	7 2	9 0	9 0	9 6	8 9	8 9	35	17
Korea	7/83 (2nd, 84)	SB	9 2	7 5	7-8	2 0		2-3	15 5		15 0	20	3
Portugal	10/83	SB	-1.1		-1 3	25 0		23 5	38 3		31 6	27	34
Turkey	4/84	SB	3 3	5 3	4 5	30 5		29 0	36 4		22 0	31	6

Sources Board papers, and staff estimates

1/ Current program year refers to the year for which the program is to be negotiated or the program currently in operation Original targets refer to targets established in original multiyear arrangement At the beginning of an arrangement current target refers to original target

2/ Date of approval of current program Data in parentheses after proposed program refers to date of brief or draft staff report

3/ Domestic credit or NDA expansion as percent of broad money outstanding at beginning of period (unless otherwise specified in the program)

4/ Data for most recently available year Debt service (contractual amounts, after rescheduling and including Fund obligations) as a percentage of exports of goods and services

5/ Data for most recently available year Gross official reserves in weeks of imports

Table 2 Comparison of Selected Economic and Financial Indicators in Recent Selected Programs

			Year Preceding Current Program Year 1/													
			(Percent of quota)		(Percent of GDP)						(Percent per year)				(Percent of M2)	
			Overall Balance		Current Account Deficit 3/			Overall Budget Deficit 3/			Real GDP Growth		Inflation		Domestic Credit Expansion 5/	
Country	Date of Approval 2/	Type of Arrangement	Target	Actual	Target	Actual	Deviation 4/	Target	Actual	Deviation 4/	Target	Actual	Target	Actual	Target	Actual
Mexico	12/82 (1st yr,83)	EFF	158	441	2 2	-2.9	-5 0	8 5	8 7	-0 2	--	-4 7	55 0	80 9	54 6	70 9
Comparator Countries																
Brazil	2/83	EFF	--	-192	3 4	3 2	--	18 6	18 0	--	-4 0	-3 9	223	211	166	
Hungary	1/84	SB	-90	82	-2.3	-1.5	0 9	1 1	0 4	-1 5	-0 4	0 7	8 2	7 2	9 7	9 6
Korea	7/83	SB	-367	-86	3 2	2 3	-0.9	4 0	3 0	-1 0	7 5	9 2	4 5	2 0	22 8	15 5
Turkey	4/84	SB	82	-57	1 3	3 5	2 2	0 8	-0 4	1 2	4 8	3 3	20 0	30 5	19 9	36 4

Sources Board papers, and staff estimates

1/ Year preceding current program refers to previous year within the arrangement under operation, or year prior to program under negotiation, when applicable Targets for previous years are only defined when available under an arrangement (including canceled programs) and refer to most recently revised magnitudes

2/ Date of approval of arrangement in operation during current program year

3/ Excluding official transfers Values may not coincide with those in staff papers, due to different definitions used for inter-country comparison

4/ Deviation of actual from original target as a percentage of original GDP target

5/ Domestic credit or NDA expansion as percent of broad money outstanding at beginning of period, unless otherwise specified in the program

Mr. Beza

EW
STB
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FU

April 24.84

Office Memorandum

TO : The Managing Director DATE: April 23, 1984

FROM : C. David Finch and S. T. Beza

SUBJECT : Mexico: Trade Liberalization Initiative

Last week we met with Mr. Hernandez, Mexico's Secretary of Commerce, who was in Washington with the Secretary of Foreign Affairs and the Secretary of Finance for discussions with their U.S. counterparts. The meeting with Mr. Hernandez was arranged through Mr. Silva Herzog. In general, the Mexican response to our initiative can only be described as disappointing.

Mr. Hernandez agreed with the view that it is critically important to translate the general concern about rising protectionism into a set of specific actions that would involve a rollback, or at least a freeze, of existing trade restrictions faced by countries such as Mexico. Mr. Hernandez referred to the recent heavy resort by industrial countries to countervailing duty actions, and the U.S. opposition to Mexican export performance requirements as a precondition for approval of direct foreign investment in Mexico, as the kinds of trade practices that are affecting adversely Mexico's exports. However, Mr. Hernandez was not forthcoming with any outline of the overall Mexican strategy to deal with problems of market access, and he did not suggest specific actions that might be adopted to deal with such problems. Mr. Hernandez avoided elaborating on the status of Mexico's current trade talks with the United States.

Mr. Hernandez welcomed the Fund's interest in improving market access for countries such as Mexico; he thought the Fund could play a role in generating political support for actions by industrial countries in favor of developing countries in the trade field. Mr. Hernandez said the greater willingness of trade and finance officials to get together was a positive development, and he strongly supported the Brock meeting. However, he seemed unclear as to what might come out of it. In this discussion, Mr. Hernandez remarked that measures in the trade field were unlikely to produce any significant expansion of Mexico's exports in the period immediately ahead; he contrasted this with the immediate beneficial effects that could come from actions to lower interest rates or arrange debt relief. The meeting concluded on the note that the Mexican authorities would be in touch with us if they had concrete suggestions on how the trade liberalization effort could be encouraged by the Fund.

To sum up, we believe there are certain common elements in the recent Mexican and Brazilian responses. First, the countries are engaged in bilateral trade discussions, particularly with the United States. They evidently consider the present format of the discussions as the most appropriate, particularly during a period in which U S. imports from these countries are registering very large increases In the first two months of this year, Mexico's nonpetroleum exports were 58 percent higher in U S dollar terms than in the corresponding period of 1983. Second, the trade officials appear to question the value of direct Fund involvement in trade issues with partners. Finally, they appear to have doubts that anything done on trade would help meaningfully with the debt problem in the short run

cc The Deputy Managing Director
Mr Tun Thin
Mr Wiesner (on return)
Mr. Collins

Office Memorandum

Mr Beza F

April 20, 1984

Memorandum for Files

Subject: Meeting with the Mexican Minister of Trade, April 17, 1984

Participants:

IMF	Mexican Delegation
Mr. Finch	Mr. Hernandez Cervantes, Minister of Trade and Industrial Development
Mr. Beza	Mr. Bravo Aguilera, Deputy Minister of Trade and Industrial Development
Mr. Anjaria	Mr. Orsi, Mexican Executive Director, IDB
Mr. Loser	
Mr. Neuhaus	

The meeting was convened to discuss Mexican actions under the trade liberalization initiative proposed by the Managing Director last year, as well as possible areas of collaboration between the Fund and the authorities of Mexico and of the other major trading partners, with a view to the forthcoming meeting sponsored by the U.S. Special Trade Representative, Mr. Brock.

After a brief explanation of the purpose of the meeting, the Minister was asked by Messrs. Beza and Finch to indicate as specifically as possible the areas in which the authorities expected the Fund to collaborate. In his response, the Minister focused on the global links between trade, foreign investment, and the external debt burden, which in his view were of paramount importance to developing countries. The Minister was skeptical about the proliferation of discussions in multilateral fora such as the recent Lausanne meeting and the OAS and he expressed a preference for bilateral discussions with the relevant trading partners, even though Mexico remained open to a more general framework for discussions. He emphasized that technical discussions would only be meaningful if they were preceded by a clear demonstration of political will against protectionism by policymakers in industrial countries. In any case, he was optimistic about the achievement of progress during the Brock meeting.

The Minister explained that several longer-term trade issues needed to be addressed. Among these, he emphasized: (i) the need for phasing out certain labor intensive activities in industrial countries where they had lost their comparative advantage (shoes, textiles, etc.); (ii) the need for better access of developing countries' exports to the markets of industrial countries, and in particular for the lowering of nontariff barriers and the restraint in the use of countervailing duties, (iii) the need for the trading partners to tolerate the setting of export performance requirements for certain Mexican industrial sectors as a means to ensure economies of scale

The Minister was reluctant to provide specific areas for immediate action that could be raised in the context of the trade liberalization initiative For example, the staff had suggested that action to improve access could be based on a list of key sectors which identified specific barriers affecting each sector. The Minister noted that the major sectors which faced access barriers had been well identified by the Mexican authorities and included, inter alia, the steel, electrical equipment, textiles, and machine tools sectors However, he did not provide any further details of actions which the Fund could explore with Mexico and its trading partners, with a view to easing these barriers.

Finally, Mr. Finch remarked that the Fund would remain open to collaboration with the Mexican authorities and that the Brock meeting would be a good occasion to review more concrete proposals which the authorities might wish to present

Paulo Neuhaus

Paulo Neuhaus
Senior Economist
Stand-By Operations
Division
ETR

F

Office Memorandum

TO The Acting Managing Director DATE April 16, 1984

FROM S T Beza

SUBJECT Mexico--Meeting with Mr Silva-Herzog

This note refers to certain developments and lists points for discussion in today's meeting

1. Inflation. The consumer price index rose by 6 4 percent in January 1984, 5 3 percent in February, and 4.3 percent in March. These rates of increase were about one percentage point a month higher than would be compatible with the 40 percent target for the 12 months ending December 1984. The Mexican authorities acknowledge that inflation is a major problem.

As for the factors behind inflation, the 30 percent adjustment of the minimum wage in December 1983 undoubtedly has pushed up the rate of price increase in recent months A more general point is that demand must be rising too fast, even though the Central Bank limit on credit is being adhered to by a wide margin

There are signs economic activity is improving The question is whether a continued improvement will be compatible with the deceleration of inflation, the answer to this question will depend in part on wage developments

2. Public finances In light of the above developments in respect of inflation, it would be advisable to forego contingency plans that would have the effect of raising the deficit. More generally, care has to be taken to avoid another overrun of the fiscal limit as occurred at end of 1983

3 External sector The trade surplus was very large in the first two months of 1984 even though imports have started to show some strength Nonpetroleum exports rose markedly in early 1984, probably reflecting U.S demand expansion The real exchange rate is now appreciating as the daily adjustment factor has been lagging behind inflation This is of concern to us, notwithstanding the favorable trade picture. One concern is that the capital account will come under pressure as market participants compare the rate of depreciation and the rate of inflation.

The exchange rate situation could be improved by unifying at the more depreciated free market rate. In the last analysis, however, what is needed is to ensure that the rate of inflation comes down

4 Wage policy In line with what has just been said about inflation, and the obvious need to support the strengthening of economic activity, it is important that any midyear adjustment of minimum wages

be kept low It would be best to have no increase, but the authorities may not regard that as realistic If the increase were held to 7-8 percent, it would keep the total minimum wage adjustment to 40 percent during 1984, which would be the same as the inflation objective for the year, keeping the minimum wage increase to no more than 40 percent would be a way to give credence to the aim for prices

5. Credit policy How interest rates develop will have a strong bearing on whether aggregate demand decelerates as required to slow inflation and whether the capital account of the balance of payments is protected While interest rates had moved up to being positive in real terms in late 1983, some recent reductions in rates raise a question whether they are again becoming negative in real terms The authorities are aware of this problem, and in the last weeks have not lowered rates further

6 Commercial policy. The authorities have been liberalizing import licensing, but at the same time certain import categories were recently subjected to a ban. We will need to keep pressing the authorities to continue to free the system We also need to discuss with the authorities how they plan to proceed on initiatives with major trading partners to improve Mexico's access to their markets The presence of the Minister of Trade and Commerce in Washington today and tomorrow, for talks with U.S officials, may provide an opportunity to explore this matter

cc The Managing Director (on return)
Mr Wiesner (on return)
Mr. Guitian
Mr Pujol
Mr. Loser
Mr. Collins (on return)

INTERNATIONAL MONETARY FUND

April 6, 1984

To: MD

I see no difficulty with the proposed dating.

Attachment

Called Mrs. Bauer to tell her OK 4/6/84

cc: Mr. Collins

S. T. Beza

Mexico

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IMF OFFICIAL CABLE

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1984 APR -5 PM 8:33

Rcv: @1IM/3.20179 Line: 3

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RCA APR 05 1740
248331 IMF UR

CMGWHNYK668336

APRIL 5, 1984

TELEX TO: INTERNATIONAL MONETARY FUND
WASHINGTON, D.C.
TELEX NO: 248331/IMF UR
ATTN. TO: TED BEZA

RE: SCHEDULE 4 - UMS DLRS 3.8 BILLION

THANK YOU FOR THE DRAFT OF THE MANAGING DIRECTOR'S COMMUNICATION WHICH YOU SO KINDLY RUSHED TO US ON TUESDAY APRIL 3. WITH YOUR PERMISSION WE WOULD LIKE TO DATE IT APRIL 9 AS THAT WILL BE THE DATE OF THE FINAL DRAFT WHICH WILL GO TO ALL PARTICIPATING BANKS.

REGARDS,

ANDREA W. BAUER, VP — CITIBANK

248331 IMF UR

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Time: 17:45 04/05/84 EDT
Connect Time : 141 seconds

RECEIVED
APR - 6 1984
Western Hemisphere Department

IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

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ANDREA BAUER
CITIBANK
NEW YORK, NEW YORK

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CC:
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Mr. Senior
Mr. Collins

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THE FOLLOWING CONSTITUTES THE DRAFT COMMUNICATION FROM THE MANAGING DIRECTOR DESCRIBING THE EXTENDED ARRANGEMENT AND OFFICIAL CREDITS AVAILABLE TO MEXICO.

QUOTE

TO: THE BANKS TO BE PARTY TO THE U.S. DOLLARS 3.8 BILLION CREDIT AGREEMENT FOR THE UNITED MEXICAN STATES

FROM: J. DE LAROSIERE, MANAGING DIRECTOR
INTERNATIONAL MONETARY FUND

DATE: , 1984

ON FEBRUARY 18, 1983, I SENT A TELEX ADDRESSED TO THE BANKS TO BE PARTY TO THE U.S. DOLLARS 5 BILLION CREDIT AGREEMENT FOR THE UNITED MEXICAN STATES (WHICH AGREEMENT WAS EVENTUALLY DATED AS OF MARCH 3, 1983) THAT SUMMARIZED THE EXTENDED ARRANGEMENT FOR MEXICO APPROVED BY THE INTERNATIONAL MONETARY FUND ON DECEMBER 23, 1982. I ALSO DISCUSSED THE NEW MONEY FROM OFFICIAL SOURCES THAT WAS AVAILABLE FOR MEXICO

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Cleared with:
The Managing Director

TELEX NO.: RCA 236 066 CABLE ADDRESS:

DRAFTED BY NAME (TYPE): STBeza/dz EXT.: 8631 DEPT.: WHD DATE: 4/3/84

AUTHORIZED BY NAME (TYPE): S. T. Beza

AUTHORIZED BY NAME (TYPE): ( )

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

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TO UTILIZE IN 1983. IN THE CONTEXT OF MEXICO'S PROPOSED 1984 U.S. DOLLARS 3.8 BILLION LOAN FROM ITS COMMERCIAL BANK CREDITORS, THIS COMMUNICATION SUMMARIZES (I) THE PHASING OF PURCHASES (DISBURSEMENTS) AND THE REPURCHASE (REPAYMENT) SCHEDULES FOR MEXICO UNDER THE EXTENDED ARRANGEMENT AND (II) THE OFFICIAL CREDITS AVAILABLE TO MEXICO IN 1984.

I. USE OF FUND RESOURCES UNDER THE EXTENDED ARRANGEMENT

FOLLOWING A PURCHASE OF SDR 200.625 MILLION UNDER THE FIRST CREDIT TRANCHE ON DECEMBER 29, 1982, THE SCHEDULE OF PURCHASES SET OUT BELOW SHOWS THE PURCHASES MADE IN 1983 AND IN MARCH 1984, AND THE PURCHASES ANTICIPATED TO BE MADE IN THE REMAINDER OF 1984 AND IN 1985. THE DATES SHOWN FOR 1983 AND MARCH 1984 ARE THE ACTUAL VALUE DATES FOR THE RESPECTIVE PURCHASES. THE DATES OF MAY 20, AUGUST 20, AND NOVEMBER 20, 1984 ARE THE DATES ON WHICH REQUESTS FOR PURCHASES MAY BE MADE--

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WITH THE VALUE DATES FOR THESE REQUESTS NORMALLY BEING THE END OF THE RESPECTIVE MONTHS. THE DATES INDICATED FOR 1985 ARE THE DATES CURRENTLY ANTICIPATED FOR THESE PURCHASES IN THE THIRD YEAR OF THE EXTENDED ARRANGEMENT. THE ACTUAL PHASING OF THESE PURCHASES WILL BE DETERMINED IN THE CONTEXT OF THE REVIEW OF MEXICO'S ECONOMIC PROGRAM FOR THE THIRD YEAR OF THE EXTENDED ARRANGEMENT:

1983: SDR 100.31 MILLION ON JANUARY 3
SDR 300.94 MILLION ON MAY 31
SDR 300.94 MILLION ON AUGUST 15
SDR 300.93 MILLION ON NOVEMBER 15

1984: SDR 300.94 MILLION ON MARCH 15
SDR 300.94 MILLION ON MAY 20
SDR 300.94 MILLION ON AUGUST 20
SDR 300.94 MILLION ON NOVEMBER 20

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1985: SDR 300.94 MILLION ON FEBRUARY 20
SDR 300.94 MILLION ON MAY 20
SDR 300.94 MILLION ON AUGUST 20
SDR 300.925 MILLION ON NOVEMBER 20

ON THE BASIS OF TOTAL PURCHASES OF SDR 3,611.25 MILLION, MADE ACCORDING TO THE SCHEDULE JUST DESCRIBED, THE REPURCHASE SCHEDULE THAT WOULD RESULT IS AS FOLLOWS:

1983	--
1984	--
1985	--
1986	SDR 125,390,625
1987	280,038,750
1988	457,261,668
1989	757,367,920
1990	733,964,795
1991	596,035,420
1992	410,452,920
1993	170,537,916

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1994	SDR	78,584,986
1995	SDR	1,615,000
TOTAL	SDR	3,611,250,000

II. OFFICIAL CREDITS

I AM PLEASED TO REPORT THAT THE MINISTRY OF FINANCE HAS INFORMED US THAT THERE CURRENTLY EXIST OFFICIAL LINES OF CREDIT FOR FINANCING IMPORTS BY MEXICAN PUBLIC SECTOR AGENCIES WITH AN UNUTILIZED BALANCE OF APPROXIMATELY U.S. DOLLARS 3.6 BILLION. WE ARE INFORMED THAT THESE AGENCIES EXPECT TO USE A SIGNIFICANT PORTION OF THESE LINES IN 1984, DEPENDING ON BUDGETARY AND TECHNICAL CONSIDERATIONS. DETAILS OF THESE CREDIT LINES AND THEIR ANTICIPATED UTILIZATION ARE SET OUT IN AN ANNEX PROVIDED BY THE MEXICAN AUTHORITIES.

ALSO, ACCORDING TO INFORMATION PROVIDED BY THE MEXICAN AUTHORITIES RESPONSIBLE FOR DEALING WITH MULTILATERAL FINANCIAL INSTITUTIONS, THERE ARE APPROXIMATELY U.S. DOLLARS 800 MILLION OF DISBURSEMENTS WHICH ARE

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EXPECTED TO BE AVAILABLE FROM THE WORLD BANK AND THE INTER-AMERICAN DEVELOPMENT BANK DURING 1984, MOST OF WHICH IS ALREADY COMMITTED AND THE DETAILS OF WHICH ARE AVAILABLE FROM THE MINISTRY OF FINANCC.

IN LIGHT OF THESE COMMITMENTS AND BASED UPON THE MEXICAN GOVERNMENT'S REPRESENTATIONS TO US REGARDING THE ANTICIPATED UTILIZATION OF THE CREDITS, WE ARE SATISFIED THAT AN AMOUNT IN EXCESS OF U.S. DOLLARS 2.5 BILLION OF OFFICIAL CREDITS TO MEXICO CAN BE UTILIZED DURING 1984 AS PART OF THE MEXICAN ECONOMIC PROGRAM.

VERY TRULY YOURS,

J. DE LAROSIERE

UNQUOTE

S. T. BEZA

ASSOCIATE DIRECTOR, WHD

INTERFUND

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Office Memorandum

TO : Mr. Brown

DATE: March 28, 1984

FROM : C. M. Loser

SUBJECT : Mexico: Prospective Schedule of Repurchases

We have been asked to prepare a projection of future repurchases, based on current and prospective purchases for the Extended Arrangement with Mexico. This information is needed mainly for the preparation of the forthcoming Article IV consultation mission.

I would appreciate if you could provide us with a schedule of repurchases based on current outstanding and future purchases. The projected purchases--including the distribution between ordinary and enlarged access resources--are as follows:

	(In millions of SDRs)	
	Ordinary Resources	Enlarged Access
1984		
May 20	150.47	150.47
August	150.47	150.47
November 20	150.47	150.47
1985		
February 20	20.00	280.94
May 20	--	300.94
August 20	--	300.94
November 20	--	300.94

cc: Mr. Valdivieso

Mexico

EW
STB
JP
IO
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CLEARY, GOTTLIEB, STEEN & HAMILTON

ONE STATE STREET PLAZA
NEW YORK, N.Y. 10004

TELEPHONE
(212) 344-0600
CABLE ADDRESS
CLEARGOLAW
TELEX
WU 128244
RCA 235438
FACSIMILE
XEROX (212) 344-0925
RAPIFAX (212) 422-5276

1752 N STREET, N.W.
WASHINGTON, D.C. 20036
41, AVENUE DE FRIEDLAND
75008 PARIS, FRANCE
RUE DE LA LOI 23, BTE 5
1040 BRUSSELS, BELGIUM
WINCHESTER HOUSE
77 LONDON WALL
LONDON EC2N 1DA, ENGLAND
PRINTING HOUSE
18 ICE HOUSE STREET
HONG KONG

March 27, 1984

RECEIVED
MAR 28 1984
Western Hemisphere Department

BY COURIER

Mr. T. Beza
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Re: $3.8 Billion Credit Agreement for the United Mexican States

Dear Mr. Beza:

At the request of Mr. Enrique Castro of the Mexican Ministry of Finance, I am enclosing with this letter two copies of a draft communication from the Managing Director of the International Monetary Fund describing the Extended Fund Arrangement for Mexico and the status of bilateral official credits available to Mexico in 1984. This communication is modeled on a similar communication from the Managing Director dated February 18, 1983, issued in connection with the $5 billion Credit Agreement for the United Mexican States dated as of March 3, 1983.

In connection with Mexico's proposed $3.8 billion Credit Agreement for 1984, the lenders have again requested that they receive a communication from the Managing Director addressing the status of the Extended Fund Arrangement and the official credits available to Mexico in 1984. Please note that the exact dates and amounts of Mexico's purchases under the Extended Fund Arrangement in 1983, and the first purchase in 1984, will need to be filled in on the final form of the communication. It is anticipated that the text of this communication will appear as an exhibit to the $3.8 billion Credit Agreement.

The parties to the proposed Credit Agreement would like to proceed promptly to finalize the documentation. In this regard, I would be grateful to receive your comments on the attached draft communication as soon as convenient. If you have any questions on this matter, please do not hesitate to contact me or Mr. Castro at the Mexican Ministry of Finance.

Thank you for your assistance in this matter.

Yours sincerely,

Lee C. Buchheit

Lee C. Buchheit

Enclosures

cc: Mr. Enrique Castro

Draft
3/26/84

COMMUNICATION FROM THE MANAGING DIRECTOR
OF THE IMF DESCRIBING THE
IMF EXTENDED FUND ARRANGEMENT AND OFFICIAL CREDITS

TO THE BANKS TO BE PARTY TO THE
U S DOLLARS 3 8 BILLION CREDIT AGREEMENT
FOR THE UNITED MEXICAN STATES

FROM J DE LAROSIERE, MANAGING DIRECTOR
INTERNATIONAL MONETARY FUND

DATE __________, 1984

ON FEBRUARY 18, 1983, I SENT A TELEX ADDRESSED TO THE BANKS TO BE PARTY TO THE U S DOLLARS 5 BILLION CREDIT AGREEMENT FOR THE UNITED MEXICAN STATES (WHICH AGREEMENT WAS EVENTUALLY DATED AS OF MARCH 3, 1983) THAT SUMMARIZED THE EXTENDED FUND ARRANGEMENT FOR MEXICO APPROVED BY THE EXECUTIVE BOARD OF THE INTERNATIONAL MONETARY FUND ON DECEMBER 23, 1982 AND DISCUSSED THE NEW MONEY FROM OFFICIAL SOURCES THAT WAS AVAILABLE FOR MEXICO TO UTILIZE IN 1983 IN THE CONTEXT OF MEXICO'S PROPOSED 1984 U S DOLLARS 3 8 BILLION LOAN FROM ITS COMMERCIAL BANK CREDITORS, THIS COMMUNICATION SUMMARIZES (I) THE DISBURSEMENT AND REPAYMENT SCHEDULES FOR MEXICO UNDER THE IMF EXTENDED FUND ARRANGEMENT AND (II) THE OFFICIAL CREDITS AVAILABLE TO MEXICO IN 1984

I USE OF FUND RESOURCES UNDER THE EXTENDED FUND ARRANGEMENT

FOLLOWING A DRAWING OF SDR 200 625 MILLION UNDER THE FIRST CREDIT TRANCHE ON DECEMBER 28, 1982, THE FOLLOWING

SCHEDULE SHOWS DRAWINGS UNDER THE EXTENDED FUND ARRANGEMENT MADE IN 1983, AND THOSE DRAWINGS CURRENTLY ANTICIPATED TO BE MADE IN 1984 AND 1985

1983	SDR 100 31 MILLION ON JANUARY 3, 1983
	SDR 300 94 MILLION ON MAY ___
	SDR 300 94 MILLION ON AUGUST ___
	SDR 300 93 MILLION ON NOVEMBER ___
1984	SDR 300 94 MILLION ON __________
	SDR 300 94 MILLION ON MAY 15
	SDR 300 94 MILLION ON AUGUST 15
	SDR 300 94 MILLION ON NOVEMBER 15
1985	SDR 300 94 MILLION ON FEBRUARY 15
	SDR 300 94 MILLION ON MAY 15
	SDR 300 94 MILLION ON AUGUST 15
	SDR 300 925 MILLION ON NOVEMBER 15

ON THE BASIS OF TOTAL DRAWINGS OF SDR 3,611 25 MILLION, MADE ACCORDING TO THE SCHEDULE JUST DESCRIBED, THE REPURCHASE (REPAYMENT) SCHEDULE THAT WOULD RESULT IS AS FOLLOWS

1983		--
1984		--
1985		--
1986	SDR	106,581,875
1987		148,378,750
1988		271,679,168
1989		534,165,837
1990		752,761,879
1991		727,683,754
1992		596,023,754
1993		393,725,000
1994		78,578,320
1995		1,671,663

TOTAL SDR 3,611,250,000

II UNUTILIZED EXISTING CREDIT LINES

I AM PLEASED TO BE ABLE TO REPORT THAT THE MINISTRY OF FINANCE HAS INFORMED US THAT THERE PRESENTLY EXIST OFFICIAL LINES OF CREDIT FOR FINANCING IMPORTS BY MEXICAN PUBLIC SECTOR AGENCIES WITH AN UNUTILIZED BALANCE OF APPROXIMATELY 3 6 BILLION DOLLARS WE ARE INFORMED THAT THESE AGENCIES EXPECT TO USE A SIGNIFICANT PORTION OF THESE LINES IN 1984, DEPENDING ON BUDGETARY AND TECHNICAL CONSIDERATIONS DETAILS OF THESE CREDIT LINES AND THEIR ANTICIPATED UTILIZATION ARE SET OUT IN ANNEX A

ALSO, ACCORDING TO INFORMATION PROVIDED BY THE MEXICAN AUTHORITIES RESPONSIBLE FOR DEALING WITH MULTILATERAL FINANCIAL INSTITUTIONS, THERE ARE APPROXIMATELY 800 MILLION DOLLARS OF DISBURSEMENTS WHICH ARE EXPECTED TO BE AVAILABLE FROM THE WORLD BANK AND IDB DURING 1984, MOST OF WHICH IS ALREADY COMMITTED AND THE DETAILS OF WHICH ARE AVAILABLE FROM THE MINISTRY OF FINANCE

IN LIGHT OF THESE COMMITMENTS AND BASED UPON THE MEXICAN GOVERNMENT'S REPRESENTATIONS TO US REGARDING THE ANTICIPATED UTILIZATION OF THE CREDITS, WE ARE SATISFIED

THAT AN AMOUNT IN EXCESS OF U S DOLLARS 2 5 BILLION OF OFFICIAL CREDITS TO MEXICO CAN BE UTILIZED DURING 1984 AS PART OF THE MEXICAN RECOVERY PROGRAM

VERY TRULY YOURS,

J DE LAROSIERE

Annex A

EXISTING OFFICIAL BILATERAL LINES OF CREDIT

	ORIGINAL AMOUNT IN U S DLS	UTILIZED AMOUNT	EXPECTED AMOUNT TO BE UTILIZED IN 1984
1. BANCO NACIONAL DE OBRAS Y SERVICIOS PUBLICOS			
Banque Nationale de Paris	274,361,000 00	242,719,000 00	15,422,895 00
French Treasury (Credit National)	68,590,000 00	60,680,000 00	3,855,724.00
Export Import Bank of Japan	108,834,000 00	69,857,250 00	32,300,000 00
TOTAL	451,785,000 00	373,256,250 00	51,578,619 00
2 COMISION FEDERAL DE ELECTRICIDAD			
Credit Commerciale de France and Banque Francaise du Commerce Exterieur	15,516,750 00	15,203,348 34	313,401 66
Export Import Bank of Japan (Prog 7)	212,500,000 00	196,282,646 20	9,171,524 15
Export Import Bank of Japan (Prog 8)	425,000,000.00	34,979,021 30	40,306,484 30
Banco Exterior de Espana	16,175,000 00	- 0 -	4,443,900 99

EXISTING OFFICIAL BILATERAL LINES OF CREDIT

	ORIGINAL AMOUNT IN U S DLS	UTILIZED AMOUNT	EXPECTED AMOUNT TO BE UTILIZED IN 1984
Skandınavıska Enskılda Banken	50,000,000 00	22,662,350 93	7,251,764 16
Export Import Bank, USA (Prog 7256)	31,025,000 00	- 0 -	31,025,000 00
Export Import Bank, USA (Prog 7197)	17,000,000 00	15,524,192 49	1,475,807 51
Export Import Bank, USA (Prog 7141)	6,600,000 00	- 0 -	6,600,000 00
Export Import Bank, USA (Prog 6812)	12,750,000 00	8,999,599 16	3,750,400 84
Kredıtanstalt (F-725)	4,264,369 52	- 0 -	2,407,611 28
Export Development Corporatıon of Canada (Baıley Meter)	4,300,000 00	- 0 -	4,237,645 93
Export Development Corporatıon of Canada	10,000,000 00	- 0 -	1,714,709 99
Saece Ansaldo (Topolobampo)	21,863,504 80	- 0 -	10,618,910 96
Swiss Bank Corp	20,633,065 69	- 0 -	20,633,065 69
Exportfınans	13,400,000 00	- 0 -	- 0 -
Checoeslovaquıa (Skodaexport)	11,420,379.00	6,281,208 44	5,139,170 56

EXISTING OFFICIAL BILATERAL LINES OF CREDIT

	ORIGINAL AMOUNT IN U S DLS	UTILIZED AMOUNT	EXPECTED AMOUNT TO BE UTILIZED IN 1984
Lazard Brothers and Barıng Brothers	40,000,000 00	10,260,129 60	- 0 -
TOTAL	912,448,069 01	310,192,496 46	149,089,398 02
3 ALTOS HORNOS DE MEXICO, S A			
Export Import Bank USA (Prog 6727)	42,500,000 00	31,572,000 00	10,928,000 00
Export Import Bank USA (Prog 6728)	7,500,000 00	5,571,000.00	1,929,000 00
TOTAL	50,000,000 00	37,143,000 00	12,857,000 00
4. FUNDIDORA MONTERREY, S. A.			
Export Development Co of Canada	1,100,000 00	- 0 -	1,100,000 00
TOTAL	1,100,000 00	- 0 -	1,100,000 00
5. SIDERURGICA LAZARO CARDENAS, S A			
Export Import Bank, U S A	26,400,000 00	14,821,000 00	1,000,000 00
Dravo International	3,520,000 00	1,976,000 00	4,000,000 00
Lloyds Bank E C G D	56,449,491 80	15,523,358 20	4,428,524 00

EXISTING OFFICIAL BILATERAL LINES OF CREDIT

	ORIGINAL AMOUNT IN U S DLS	UTILIZED AMOUNT	EXPECTED AMOUNT TO BE UTILIZED IN 1984
Lloyds Bank	292,632,296 30	80,224,245 40	20,145,680 00
O E C F	37,778,250 00	22,216,569 00	5,527,571 30
O E C F.	37,897,250 00	15,648,784 80	5,610,000 00
Export Import Bank of Japan	152,394,570 50	14,974,900 50	13,251,500 00
Export Import Bank of Japan	153,158,729 00	31,645,215 30	10,204,250 00
Parıbas	36,023,000 00	- 0 -	4,428,419 60
French Treasury	9,005,800 00	8,354,948 40	650,851 60
Parıbas BFCE	4,565,818 90	- 0 -	1,523,805 70
Bayerısche Vereınsbank Hermes	75,101,000 00	31,000,000 00	44,101,000 00
TOTAL	884,926,206 50	236,385,021 60	114,871,602 20

5. BANCO NACIONAL DE COMERCIO EXTERIOR

Banco do Brasıl	50,000,000 00	6,049,523 31	20,000,000 00
Banco de Bılbao	9,705,000 00	1,931,554 00	6,470,000 00
Banco de Santander	3,235,000 00	- 0 -	3,235,000 00
Banco Exterıor de Espana	50,000,000 00	- 0 -	30,000,000 00

EXISTING OFFICIAL BILATERAL LINES OF CREDIT

	ORIGINAL AMOUNT IN U S DLS	UTILIZED AMOUNT	EXPECTED AMOUNT TO BE UTILIZED IN 1984
Banco Exterıor de Espana	Open	- 0 -	20,000,000 00
Bank of Montreal	80,910,000 00	2,260,909 18	50,000,000 00
Export Development Corp of Canada	10,000,000 00	- 0 -	10,000,000 00
Export Import Bank, USA	250,000,000 00	- 0 -	175,000,000 00
Magyar Memzetı Bank	15,000,000 00	- 0 -	10,000,000 00
N M Rothschıld and Sons Ltd	56,080,300 00	40,420,215 46	15,660,084 54
Bank Handlowy Warzawıe, S A	10,000,000 00	- 0 -	2,000,000 00
Banca Central de Venezuela	1,000,000 00	- 0 -	1,000,000 00
Union Bank of Swıtzerland	9,296,000 00	139,268 95	9,156,731 04
Export Import Bank, USA	100,000,000 00	41,963,962.47	100,000,000 00
Skandınavıska Enskılda B	10,000,000 00	- 0 -	10,000,000 00
K F W	18,000,000 00	- 0 -	37,340,000 00
Udruzena Beogradska B	30,000,000.00	- 0 -	2,000,000 00
Mıdland Bank	30,000,000 00	- 0 -	15,000,000 00

EXISTING OFFICIAL BILATERAL LINES OF CREDIT

	ORIGINAL AMOUNT IN U S DLS	UTILIZED AMOUNT	EXPECTED AMOUNT TO BE UTILIZED IN 1984
Bank for Foreign Trade of U.S S R	Open	- 0 -	2,000,000 00
TOTAL	733,226,300 00	92,765,433 37	518,861,815 58
6 PETROLEOS MEXICANOS			
Export Import Bank of Japan	100,000,000 00	51,000,000 00	35,000,000 00
Banco do Brasil	100,000,000 00	- 0 -	10,000,000 00
Banque Francaise du Commerce Exterieur	198,371,000 00	152,684,820 00	34,368,000 00
Baring Brothers	32,914,486 00	- 0 -	22,000,000 00
Eksporfinans	990,530 00	- 0 -	990,530 00
Export Development Corp of Canada	10,000,000 00	- 0 -	10,000,000 00
K F W.	34,370,000 00	6,500,000 00	10,000,000 00
Philadelphia Overseas	100,000,000 00	57,000,000 00	- 0 -
TOTAL	576,646,016 00	267,184,820 00	122,358,530 00

EXISTING OFFICIAL BILATERAL LINES OF CREDIT

	ORIGINAL AMOUNT IN U S DLS	UTILIZED AMOUNT	EXPECTED AMOUNT TO BE UTILIZED IN 1984
7. NACIONAL FINANCERA, S A			
Banco do Brasil	40,000,000 00	7,550,000 000	4,700,000 00
Banco Rumano de Comercio Exterior	50,000,000 00	- 0 -	- 0 -
Instituto Mobiliare Italiano	25,000,000 00	- 0 -	- 0 -
Eksporfinans	13,420,000 00	- 0 -	- 0 -
Deutsche Aussenhandelsbank, A G	20,000,000 00	6,000,000 00	300,000 00
Swiss Bank Corp	23,240,000 00	492,688 00	1,394,400 00
Societe Generale de Banque	9,200,000 00	113,528 00	9,086,472 00
Banco Hispanoamericano	6,470,000 00	- 0 -	3,000,000 00
Banco de Bilbao	2,122,160 00	- 0 -	2,000,000 00
Banco de Santander	3,235,000 00	- 0 -	3,235,000 00
Corea	3,000,000 00	- 0 -	3,000,000 00
Export Import Bank of Japan	42,500,000 00	40,007,067 00	23,715,000 00
Societe Generale	50,000,000 00	2,704,380 75	20,000,000 00
Export Development Corp of Canada	80,910,000 00	- 0 -	2,427,300 00

EXISTING OFFICIAL BILATERAL LINES OF CREDIT

	ORIGINAL AMOUNT IN U S DLS	UTILIZED AMOUNT	EXPECTED AMOUNT TO BE UTILIZED IN 1984
Export Development Corp of Canada	20,000,000 00	12,957,781 87	10,000,000 00
Export Import Bank, USA	100,000,000 00	3,300,000 00	96,000,000 00
Export Import Bank, USA	264,647,786 00	151,960,353 43	50,000,000 00
E C G D	5,000,000 00	- 0 -	5,000,000 00
E C G D	22,219,500 00	- 0 -	5,000,000 00
E C G D	20,000,000 00	- 0 -	5,000,000 00
Japon	46,750,000 00	- 0 -	20,000,000 00
Export Import Bank, USA	250,000,000 00	- 0 -	30,000,000 00
Banco Exterıor de Espana	10,000,000 00	- 0 -	5,000,000 00
TOTAL	1,107,714,446 00	225,085,799 05	298,858,172 00

8 TELEFONOS DE MEXICO, S A

Skandinavıska Enskılda B	22,517,000 00	- 0 -	22,517,000 00
Skandinavıska Enskılda B	4,048,000 00	- 0 -	4,048,000 00
Socıete Generale	937,000 00	- 0 -	937,000 00
Banque Bruxelles Lambert	34,040,000 00	- 0 -	34,040,000 00

EXISTING OFFICIAL BILATERAL LINES OF CREDIT

	ORIGINAL AMOUNT IN U S DLS	UTILIZED AMOUNT	EXPECTED AMOUNT TO BE UTILIZED IN 1984
Telefonaktiebolaget L M Ericsson	6,325,000 00	- 0 -	6,325,000 00
TOTAL	67,867,000 00	- 0 -	67,867,000 000
9. COMPANIA NACIONAL DE SUSBSISTENCIAS POPULARES			
C C.C (various banks)	390,000,000 00	- 0 -	390,000,000 00
	390,000,000 00	- 0 -	390,000,000 00
10 BANCO NACIONAL PESQUERO Y PORTUARIO			
Credit Nationale de France	4,564,000 00	- 0 -	2,184,000 00
Banco Nationale de Paris, Societe Generale and BFCE	10,612,799 82	- 0 -	- 0 -
TOTAL	15,176,799 82	- 0 -	2,184,000 00
GRAND TOTAL	5,190,889,837 33	1,542,012,820 48	1,729,626,136 80

NOTE In most cases due to budgetary restrictions in various countries, financing is made available when orders are placed and not committed beforehand

Draft
3/26/84

COMMUNICATION FROM THE MANAGING DIRECTOR
OF THE IMF DESCRIBING THE
IMF EXTENDED FUND ARRANGEMENT AND OFFICIAL CREDITS

TO THE BANKS TO BE PARTY TO THE U S DOLLARS 3 8 BILLION CREDIT AGREEMENT FOR THE UNITED MEXICAN STATES

FROM J DE LAROSIERE, MANAGING DIRECTOR INTERNATIONAL MONETARY FUND

DATE __________, 1984

ON FEBRUARY 18, 1983, I SENT A TELEX ADDRESSED TO THE BANKS TO BE PARTY TO THE U S DOLLARS 5 BILLION CREDIT AGREEMENT FOR THE UNITED MEXICAN STATES (WHICH AGREEMENT WAS EVENTUALLY DATED AS OF MARCH 3, 1983) THAT SUMMARIZED THE EXTENDED FUND ARRANGEMENT FOR MEXICO APPROVED BY THE EXECUTIVE BOARD OF THE INTERNATIONAL MONETARY FUND ON DECEMBER 23, 1982 AND DISCUSSED THE NEW MONEY FROM OFFICIAL SOURCES THAT WAS AVAILABLE FOR MEXICO TO UTILIZE IN 1983 IN THE CONTEXT OF MEXICO'S PROPOSED 1984 U S DOLLARS 3 8 BILLION LOAN FROM ITS COMMERCIAL BANK CREDITORS, THIS COMMUNICATION SUMMARIZES (I) THE DISBURSEMENT AND REPAYMENT SCHEDULES FOR MEXICO UNDER THE IMF EXTENDED FUND ARRANGEMENT AND (II) THE OFFICIAL CREDITS AVAILABLE TO MEXICO IN 1984

I USE OF FUND RESOURCES UNDER THE EXTENDED FUND ARRANGEMENT

FOLLOWING A DRAWING OF SDR 200 625 MILLION UNDER THE FIRST CREDIT TRANCHE ON DECEMBER 28, 1982, THE FOLLOWING

SCHEDULE SHOWS DRAWINGS UNDER THE EXTENDED FUND ARRANGEMENT MADE IN 1983, AND THOSE DRAWINGS CURRENTLY ANTICIPATED TO BE MADE IN 1984 AND 1985

1983	SDR 100 31 MILLION ON JANUARY 3, 1983
	SDR 300 94 MILLION ON MAY __
	SDR 300 94 MILLION ON AUGUST __
	SDR 300 93 MILLION ON NOVEMBER __
1984	SDR 300 94 MILLION ON ____________
	SDR 300 94 MILLION ON MAY 15
	SDR 300 94 MILLION ON AUGUST 15
	SDR 300 94 MILLION ON NOVEMBER 15
1985	SDR 300 94 MILLION ON FEBRUARY 15
	SDR 300 94 MILLION ON MAY 15
	SDR 300 94 MILLION ON AUGUST 15
	SDR 300 925 MILLION ON NOVEMBER 15

ON THE BASIS OF TOTAL DRAWINGS OF SDR 3,611 25 MILLION, MADE ACCORDING TO THE SCHEDULE JUST DESCRIBED, THE REPURCHASE (REPAYMENT) SCHEDULE THAT WOULD RESULT IS AS FOLLOWS

1983		--
1984		--
1985		--
1986	SDR	106,581,875
1987		148,378,750
1988		271,679,168
1989		534,165,837
1990		752,761,879
1991		727,683,754
1992		596,023,754
1993		393,725,000
1994		78,578,320
1995		1,671,663

TOTAL SDR 3,611,250,000

II <u>UNUTILIZED EXISTING CREDIT LINES</u>

I AM PLEASED TO BE ABLE TO REPORT THAT THE MINISTRY OF FINANCE HAS INFORMED US THAT THERE PRESENTLY EXIST OFFICIAL LINES OF CREDIT FOR FINANCING IMPORTS BY MEXICAN PUBLIC SECTOR AGENCIES WITH AN UNUTILIZED BALANCE OF APPROXIMATELY 3 6 BILLION DOLLARS WE ARE INFORMED THAT THESE AGENCIES EXPECT TO USE A SIGNIFICANT PORTION OF THESE LINES IN 1984, DEPENDING ON BUDGETARY AND TECHNICAL CONSIDERATIONS DETAILS OF THESE CREDIT LINES AND THEIR ANTICIPATED UTILIZATION ARE SET OUT IN ANNEX A

ALSO, ACCORDING TO INFORMATION PROVIDED BY THE MEXICAN AUTHORITIES RESPONSIBLE FOR DEALING WITH MULTILATERAL FINANCIAL INSTITUTIONS, THERE ARE APPROXIMATELY 800 MILLION DOLLARS OF DISBURSEMENTS WHICH ARE EXPECTED TO BE AVAILABLE FROM THE WORLD BANK AND IDB DURING 1984, MOST OF WHICH IS ALREADY COMMITTED AND THE DETAILS OF WHICH ARE AVAILABLE FROM THE MINISTRY OF FINANCE

IN LIGHT OF THESE COMMITMENTS AND BASED UPON THE MEXICAN GOVERNMENT'S REPRESENTATIONS TO US REGARDING THE ANTICIPATED UTILIZATION OF THE CREDITS, WE ARE SATISFIED

THAT AN AMOUNT IN EXCESS OF U S DOLLARS 2 5 BILLION OF OFFICIAL CREDITS TO MEXICO CAN BE UTILIZED DURING 1984 AS PART OF THE MEXICAN RECOVERY PROGRAM

VERY TRULY YOURS,

J DE LAROSIERE

EXISTING OFFICIAL BILATERAL LINES OF CREDIT

	ORIGINAL AMOUNT IN U S DLS	UTILIZED AMOUNT	EXPECTED AMOUNT TO BE UTILIZED IN 1984
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Export Import Bank, USA (Prog 7256)	31,025,000 00	- 0 -	31,025,000 00
Export Import Bank, USA (Prog 7197)	17,000,000 00	15,524,192 49	1,475,807 51
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Export Import Bank, USA (Prog 6812)	12,750,000 00	8,999,599 16	3,750,400 84
Kreditanstalt (F-725)	4,264,369 52	- 0 -	2,407,611 28
Export Development Corporation of Canada (Bailey Meter)	4,300,000 00	- 0 -	4,237,645 93
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Swiss Bank Corp	20,633,065 69	- 0 -	20,633,065 69
Exportfinans	13,400,000 00	- 0 -	- 0 -
Checoeslovaquia (Skodaexport)	11,420,379 00	6,281,208 44	5,139,170 56

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TOTAL	50,000,000 00	37,143,000 00	12,857,000 00
4. FUNDIDORA MONTERREY, S A.			
Export Development Co of Canada	1,100,000 00	- 0 -	1,100,000 00
TOTAL	1,100,000 00	- 0 -	1,100,000 00
5 SIDERURGICA LAZARO CARDENAS, S. A			
Export Import Bank, U S A	26,400,000 00	14,821,000 00	1,000,000 00
Dravo Internatıonal	3,520,000 00	1,976,000 00	4,000,000 00
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Export Import Bank of Japan	153,158,729 00	31,645,215 30	10,204,250 00
Paribas	36,023,000 00	- 0 -	4,428,419 60
French Treasury	9,005,800 00	8,354,948 40	650,851 60
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5. BANCO NACIONAL DE COMERCIO EXTERIOR

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Banco de Santander	3,235,000 00	- 0 -	3,235,000 00
Banco Exterior de Espana	50,000,000 00	- 0 -	30,000,000 00

EXISTING OFFICIAL BILATERAL LINES OF CREDIT

	ORIGINAL AMOUNT IN U S DLS	UTILIZED AMOUNT	EXPECTED AMOUNT TO BE UTILIZED IN 1984
Banco Exterıor de Espana	Open	- 0 -	20,000,000 00
Bank of Montreal	80,910,000 00	2,260,909 18	50,000,000 00
Export Development Corp of Canada	10,000,000 00	- 0 -	10,000,000 00
Export Import Bank, USA	250,000,000 00	- 0 -	175,000,000 00
Magyar Memzetı Bank	15,000,000 00	- 0 -	10,000,000 00
N M. Rothschıld and Sons Ltd	56,080,300 00	40,420,215 46	15,660,084 54
Bank Handlowy Warzawıe, S A.	10,000,000 00	- 0 -	2,000,000 00
Banca Central de Venezuela	1,000,000 00	- 0 -	1,000,000 00
Unıon Bank of Swıtzerland	9,296,000 00	139,268 95	9,156,731 04
Export Import Bank, USA	100,000,000 00	41,963,962 47	100,000,000 00
Skandınavıska Enskılda B	10,000,000 00	- 0 -	10,000,000 00
K F W	18,000,000 00	- 0 -	37,340,000.00
Udruzena Beogradska B	30,000,000 00	- 0 -	2,000,000 00
Midland Bank	30,000,000 00	- 0 -	15,000,000 00

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Bank for Foreign Trade of U S S R	Open	- 0 -	2,000,000 00
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Banco do Brasil	100,000,000 00	- 0 -	10,000,000 00
Banque Francaise du Commerce Exterieur	198,371,000 00	152,684,820 00	34,368,000 00
Baring Brothers	32,914,486 00	- 0 -	22,000,000 00
Eksporfinans	990,530 00	- 0 -	990,530 00
Export Development Corp of Canada	10,000,000 00	- 0 -	10,000,000 00
K. F W	34,370,000 00	6,500,000 00	10,000,000 00
Philadelphia Overseas	100,000,000 00	57,000,000 00	- 0 -
TOTAL	576,646,016 00	267,184,820 00	122,358,530 00

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	ORIGINAL AMOUNT IN U S DLS	UTILIZED AMOUNT	EXPECTED AMOUNT TO BE UTILIZED IN 1984
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Banco do Brasil	40,000,000 00	7,550,000 000	4,700,000 00
Banco Rumano de Comercio Exterior	50,000,000 00	- 0 -	- 0 -
Instituto Mobiliare Italiano	25,000,000 00	- 0 -	- 0 -
Eksporfinans	13,420,000 00	- 0 -	- 0 -
Deutsche Aussenhandelsbank, A G	20,000,000 00	6,000,000 00	300,000 00
Swiss Bank Corp	23,240,000 00	492,688 00	1,394,400 00
Societe Generale de Banque	9,200,000 00	113,528 00	9,086,472 00
Banco Hispanoamericano	6,470,000 00	- 0 -	3,000,000 00
Banco de Bilbao	2,122,160 00	- 0 -	2,000,000 00
Banco de Santander	3,235,000 00	- 0 -	3,235,000 00
Corea	3,000,000 00	- 0 -	3,000,000 00
Export Import Bank of Japan	42,500,000 00	40,007,067 00	23,715,000 00
Societe Generale	50,000,000 00	2,704,380 75	20,000,000 00
Export Development Corp of Canada	80,910,000 00	- 0 -	2,427,300 00

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Export Import Bank, USA	100,000,000 00	3,300,000 00	96,000,000 00
Export Import Bank, USA	264,647,786 00	151,960,353 43	50,000,000 00
E C G D	5,000,000 00	- 0 -	5,000,000 00
E C.G D	22,219,500 00	- 0 -	5,000,000 00
E C G D	20,000,000 00	- 0 -	5,000,000 00
Japon	46,750,000 00	- 0 -	20,000,000 00
Export Import Bank, USA	250,000,000 00	- 0 -	30,000,000 00
Banco Exterior de Espana	10,000,000 00	- 0 -	5,000,000 00
TOTAL	1,107,714,446 00	225,085,799 05	298,858,172 00

8. TELEFONOS DE MEXICO, S A

Skandinaviska Enskilda B	22,517,000 00	- 0 -	22,517,000 00
Skandinaviska Enskilda B	4,048,000 00	- 0 -	4,048,000 00
Societe Generale	937,000 00	- 0 -	937,000 00
Banque Bruxelles Lambert	34,040,000 00	- 0 -	34,040,000 00

EXISTING OFFICIAL BILATERAL LINES OF CREDIT

	ORIGINAL AMOUNT IN U S DLS	UTILIZED AMOUNT	EXPECTED AMOUNT TO BE UTILIZED IN 1984
Telefonaktiebolaget L M Ericsson	6,325,000 00	- 0 -	6,325,000 00
TOTAL	67,867,000 00	- 0 -	67,867,000 000
9. COMPANIA NACIONAL DE SUSBSISTENCIAS POPULARES			
C C C (various banks)	390,000,000 00	- 0 -	390,000,000 00
	390,000,000 00	- 0 -	390,000,000 00
10 BANCO NACIONAL PESQUERO Y PORTUARIO			
Credit Nationale de France	4,564,000 00	- 0 -	2,184,000 00
Banco Nationale de Paris, Societe Generale and BFCE	10,612,799 82	- 0 -	- 0 -
TOTAL	15,176,799 82	- 0 -	2,184,000 00
GRAND TOTAL	5,190,889,837 33	1,542,012,820 48	1,729,626,136 80

NOTE In most cases due to budgetary restrictions in various countries, financing is made available when orders are placed and not committed beforehand

Office Memorandum

TO Mr Beza DATE March 23, 1984

FROM C M Loser

SUBJECT Mexico Commercial Bank Loan Package

In a telephone conversation yesterday with Mr Gurria, he informed me of recent progress made on the 1984 commercial bank loan to the Government of Mexico The loan has been oversubscribed, but a considerably smaller than expected number of banks is participating Based on the most recent information, a total of US$3,952 million has been subscribed, somewhat in excess of the US$3,800 million originally targeted However, only 450 banks have responded to date, while 527 banks had participated in last year's exercise Of the 77 banks that have not yet committed additional resources, about half are in the United States

The Advisory Group and the Mexicans are reluctant to close the subscription at present, and are willing to wait until the number of banks increases to about 480-500 This number is important, because a significant shortfall in subscribing banks may induce some of those currently participating to pull out They would announce the completion of the subscription, and could sign the loan agreement, by the middle of April

Mr Gurria indicated that some problems have arisen with regard to the participation of Italian banks All Italian banks have replied, but the three largest are only willing to increase their exposure by about 3 percent, compared to about 6 percent requested by the Advisory Group Although the proposed participation only entails a shortfall of US$33 million, the Mexicans view the lower increase in exposure as unacceptable because of the important role of the Italian banks

The Middle Eastern financial markets appear to be the least receptive--no commitments have been obtained yet The Mexicans have received formal written declines from both the National Bank of Abu Dhabi (US$7 million of exposure) and the National Bank of Saudi Arabia (US$4 8 million of exposure) Moreover, no response has been obtained from other Saudi Arabian, Abu Dhabi and Kuwaiti banks

Mr Gurria stated that the reassignment of French banks had been successfully completed The efforts of the Fund's management in this regard were very much appreciated Finally, he indicated that any effort that could be made on the part of the Fund to solve the problems with the Middle Eastern and Italian banks would be welcome

In a conversation today, Ms Bauer (Citibank) confirmed Mr Gurria's general assessment

cc Mr Pujol
Mr Valdivieso

Mr. Wiesner
EW
STB
JP
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F

Office Memorandum

TO : Mr. Nicoletopoulos

DATE: March 22, 1984

FROM : A. F. Mohammed

SUBJECT : Drafting Reply to Attached Letter from Mr. Horn in Amsterdam

Your department may wish to handle the attached letter from Mr. F. N. Horn of Amsterdam, who asserts a legal claim to payment for certain bonds by the Government of Mexico.

Attachment

cc: Mr. Wiesner
Mr. S. Collins

RECEIVED
MAR 22 1984
Western Hemisphere Department

4 87556 4 87556

F.N.Horn
Stadionkade 125
1076 BR Amsterdam
Netherlands

Amsterdam,March 10,1984.
Tel.794078

ORIG AND ENCL EXR
CC MD
DMD
WHD/LEG
MR S COLLINS

To the Management of the
International Monetary Fonds IMF
Washington D C
USA

RECEIVED
MAR 20 1984
External Relations

RECEIVED
INTERNATIONAL
MONETARY FUND
1984 MAR 20 AM 11
COMMUNICATIONS
DIVISION

Dear Mr President,

I am engaged with the Mexican Ministry of Finance in Mexico City,Sr Lic Angel Gurria concerning valid mexican prewar bonds to bearer

These bonds amounting to about $ 1.400.000.face value were acquired by me and co-investors after the year 1955 They had been released in July of that year from the Reparation by the Allied High Commission for Germany and been returned directly to the previous german owners at a free disposition,also outside of Germany. Documentation thereof and list of numbers is enclosed,and the mexican Notaries' statement,as required by the Government, is attached to the bonds.

The Government of Mexico who was member of the Allied Nations,agreed with the decision and even promoted the sale of the bonds for investment in Mexico and included the released bonds in the Debtagreement of February 20,1946 between Mexico and the International Committee of Bankers.This agreement became due on January 1,1975.

The bonds in question which had been confiscated directly after the war by the Allied Military Government and delivered for the purpose of the Reparation to the Allied High Commission for Germany,had already previously been seized by the Mexican Government by decree of November 5,1942,without effective delivery through war-circumstances.

It is unknown why the mexican Authorities did not claim immediately the delivery of the bonds according to the decree of November 5,1942,in which case the matter of the prewar bonds were liquidated.

The total amount of confiscated bonds incurred $ 28 600.000 and $ 9 481.000. nom capital which by the Debtagreement of February 20,1946 had been reduced to 20,6% new face value.

Although the mexican Goverrment in May 1974 purchased from my holdings about nom capital $ 200.000. bonds,the redemption of January 1,1975 was refuted.

II

F.N.Horn Amsterdam March 10,1984.

II

Mr.President International Monetary Fonds IMF Washington D.C.

As a matter of fact,as loyal owners of bonds to bearer we are entitled to capital and interest and we are rejecting to be implied with the consequences of unpublished actions and claims without legal authority.The decision of the Allied Nations by which the "enemy"state was taken from the released bonds,is suzerain and confirmed by the mexican Government of that period.Jurisdiction to an opposite effect do not exist.

Besides,the pure legal ownership of the bonds to bearer is properly justifying.-

Dear Mr.President,may I submit to you my request of considering this matter in order to get our claim recognized.I beg to thank you for the trouble and the interest which you kindly will spend.

May I await your news.

Yours faithfully

encl.

TRANSLATION.

Landeszentalbank von Bayern
Der Vorstand
Abt.Devisenbewirtschaftung

Munchen 2, den 9.Juli 1955
Ludwigstr.8

Bayerische Staatsbank

M u n c h e n

Re: Delivered securities by the Military Government -Law nr.53 original text-
Your deliverings-number 006/03682 - G 3678.

The Allied High Commission for Germany had decided to release from the confiscation the foreign securities which according to the Law nr.53 of the Military Government -original text-had been delivered to the former Reichsbank and which had not been claimed from the Reparation-Authorities for the reparation We theretor have received the order to restitute these values

n accordance with this order the following values are held at your disposition, under delivery MGAX (2) 006/03682

4% Estados Unidos Mexicanos Bono de la deuda del oro de 1904 S.A. US$ 2.000.-
2/1000 nr.10211,22476 + Cps per 1.6.1928
Cash Warrants Ser.34 nr.A 30783,19521 + Cps.nr.7-10

w/ Forster Paul,München Richard Straussstr.5/I

We request you to return to us the enclosed copy with the receipt duely signed

We request you to take into possession with us within two weeks after receipt of this letter the securities and to furnish

1) the enclosed copy
2) the triplicate (number MGAX 62) which we delivered to you at that time,if still available
3) legitimation papers

If you wish the postal remittance of the securities we request you to inform us nd return us the enclosed copy of the receipt duly signed. We will send you then the values under your risk.-

An obligation for you to deposit the securities with a Bank does not exist.They are at your disposition in the sense of the currencydecreets and as far as they are realisable,the necessary consents for the sale are furnished by this letter!

Purchase or collection of these value cannot be effected by us.

Landeszentralbank von Bayern
Der Vorstand
Abt.Devisenbewirtschaftung.

List of due Mexican Government Bonds to Bearer issued before 1914 and Originated from the Allied High Commission for Germany of which Mexico was a member.

-6- United States of Mexico 4% Gold Bonds of 1904 . $ 307.000.-
+ Cps.per 1 6.1928 etc incl Scrips & Cash-Warrants
Test-numbers 10/$1ooo. Serie A 780,824, 876, 3573,5657,5676,6537,12546,131[illegible]
16036
2/$1000.- 10211,22476

-5- Institution for Encouragement of Irrigation Works and Development of Agriculture 35 year 4½% Sinking Gold Bonds due Nov.1,1943 $ 269 000.-
+ Cps.per 1.5.1928 incl Scrips Receipts & Cah-Warrants
Test-numbers 10/$1 000. Serie M 4143,4599,6389, 6390,8821, 9086
9118,9772,10284,10448

1- Republic of Mexico External 5% Consolidated Gold Loan 1899
£stg.101.020.-.- a $5,- per £1 .. . . $ 505 100.-
+ Talons & Cash-warrants
Testnumbers 10/£100 - - Serie D 41452,42420,42421,44378,44924,
47163,51648,61123,62084,63439

- 14 - Tehuantepec National Railway 5% Gold Bonds per 1953
£stg. 38 760.-.- a $ 4 03 per £1 . . $ 156.202.-
incl. Cps and so on wanted
numbers 10/£100.-.- Serie B 01132,01554,02045,05055,05128
05149,05226,23698,26081,26082

- 15 - Tehuantepec National Railway 4½% Gold Bonds per 1953
£stg. 6.440.-.- à $4.03 per £1. $ 25 953 -
incl.Cps etc.required
Numbers 10/£100. Serie B Lit B Ir 227,383,384,654,[illegible]94
1089,1097,1124,1371,1990.

-3- Republic of Mexico 6% 10year Treasury Notes of 1913
(Series A £ 6 000 000.)
£stg. 3.660 -.- à $5.- per £1 $ 18 300 -
Cash Warrant 7&9, numbers 3402,4080,5960/1,6746,7255,8508,
9105/6,9217 + Cash W 7+9

-7- Republic of Mexico Consolidated 3% Internal
Debt of 1885 Pesos 236 650 -
Cash W.7,9&10 9/Pes.5000. Serie A Letra I
nr 3294,3335,3755,4711,5337,6210,6258,7409,7893

-8- United States of Mexico 5 ~~Bonus dates July 1~~
Internal Redeemable Bonds of 1895 Pesos 476 700 -
+Talons,Cash.W.7,9,10 Sc R.7-10

-11- State of Tamaulipas 5% Bonds dated July 1,1903 P 10.400.-
+ Talon,Cash W.7-10,Sc R 7&8

-12- State of Tamaulipas 5% Bonds dated Jan.1,1907 P. 11.000.-
+ Cps 99 & 100,Cash W 9,10 ScR 7 Pesos 734 750.-

à $1.- per Pesos 5 - 147.500.-

US$ 1 429.055.-

CORRETAJES E INVERSIONES BURSATILES, S A.

APARTADO M-2300

MEXICO 1 D F

NOMBRE / NAME: F N HORN C/O CARL MARKS AND CO INC

FECHA / DATE OF TRANSACTION

RENTA FIJA / FIXED YIELD

☐ SU VENTA / YOU SOLD

DESCRIPCION / DESCRIPTION: FF CC BONOS NACIONALES DE MEXICO 17 1926

OBSERVACIONES / REMARKS: a 12.50 $ 1'831,812.50

CUPON / CUPON	VALOR NOMINAL / PAR VALUE	PRECIO / PRICE	IMPORTE / AMOUNT	COMISION — COMMISSION %	COMISION — COMMISSION IMPORTE / AMOUNT	INTERESES — INTERESTS %	INTERESES — INTERESTS DIAS / DAYS	INTERESES — INTERESTS IMPORTE / AMOUNT	IMPUESTO — TAX %	IMPUESTO — TAX IMPORTE / AMOUNT	NETO / NET AMOUNT
	185,500.00	7900	14654500	.00	00			00		.00	14654500

CANTIDAD / AMOUNT

☐ CARGADA EN SU CUENTA / CHARGED TO YOUR ACCOUNT

☒ ABONADA EN SU CUENTA / CREDITED TO YOUR ACCOUNT

DUPLICATA

73-3548

☐ ADJUNTAMOS CHEQUE A SU ORDEN NUM / ENCLOSED FIND CHECK NUMBER

A CARGO DEL BANCO / DRAWN ON THE BANK OF

☐ REMITIMOS AL / SENT IT TO ______ PARA CREDITO EN / FOR CREDIT TO

SU CUENTA NUM / YOUR ACCOUNT NUM ______ SEGUN COMPROBANTE ADJUNTO / DEPOSIT SLIP ENCLOSED

COMPRA DEBERA SER LIQUIDADA ANTES DE LAS 12 HORAS DEL DIA SIGUIENTE A ESTA FECHA

ATENTAMENTE

March 15, 1984 - 84/41

The Chairman's Concluding Remarks at the Close of the Discussion on the Extended Arrangement for Mexico
Executive Board Meeting 84/35, March 2, 1984

Mexico's outstanding performance reflects the authorities' determination, perseverance, and courage, as well as cooperation and sacrifice on the part of the country's population. Mexico provides a remarkable example of an adjustment effort that has been supported in a responsible way both by the Fund and by the international financial community.

Very significant results have been achieved with respect to the balance of payments, with a turnaround in the external position that could not even have been imagined a year ago; the management of the economy; the adjustment of the exchange rate; the correction of price/cost relationships; and major improvements on the fiscal side. The program has laid the bases for an economic recovery out of the severe recession generated in the second half of 1982 by the financial crisis.

The economic turnaround already has had tangible manifestations in terms of the country's image in the international markets, as indicated by the recent improvement in the lending terms of foreign commercial banks. Directors observed that the change in the direction of capital movements gave clear evidence of the restoration of creditworthiness, which was certainly a positive factor.

Executive Directors indicated, however, that there was still a long way to go. Clearly, the demand management policies are a very important aspect of the further adjustment called for under the program. Fiscal and monetary policies must be kept on track, and should remain restrained. Inflation has to be curtailed if all the benefits of the restoration of confidence, and of the increase in savings and investment are to be obtained. Directors attached great importance to the authorities' intention to adhere closely to the program. In that respect, the authorities would need to be cautious in implementing the contingent expenditure contemplated in the budget.

The 1984 program has been endorsed by the Executive Board. This program will entail strict adherence not only to the fiscal and monetary parameters, but also to a number of other elements. A key element of the program will be to keep the wage developments in line with the anti-inflationary strategy. The 30 percent increase in the minimum wage agreed upon by the authorities does not leave much room for maneuver, a fact of which the authorities are clearly aware. The authorities also should continue pursuing a flexible exchange rate policy and should move toward the unification of the exchange rate system.

- over -

Directors placed strong emphasis on supply side measures. Clearly, the adjustment program has to develop momentum and move positively toward more structural measures. The measures urged by Executive Directors--to eliminate constraints on pricing; to maintain positive real interest rates in support of savings; to reduce the disparities in lending rates in order to avoid distortions in the allocation of savings; and to intensify the pace of the liberalization of trade and capital movements, with more reliance on tariffs rather than burdensome licensing mechanisms--were all an appropriate part of an adjustment program under the extended Fund facility.

Directors paid considerable attention to the medium-term debt situation of Mexico. I am happy to say in this respect that foreign banks have given the Fund positive indications on the progress of the financing package. More than 90 percent of the resources has been committed by banks. Some further efforts are being made to obtain complete agreement on the package in the coming days. But in the medium term, as Directors rightly noted, the debt profile of Mexico remains unsatisfactory, and substantial restructuring efforts will be required over the years to come; the willingness of creditors to restructure will of course depend on the quality of the adjustment underway. It is thus very important to maintain a conservative demand management policy and to implement fully the structural reforms that can be expected to improve the efficiency of the economy.

It is also important to open up foreign markets for Mexican exports. Mexico's medium-term adjustment will depend very heavily on the expansion of its foreign earnings; the extent of the recovery in the industrial countries and the openness of their markets is therefore of great relevance to the success of the program.

EW
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Office Memorandum

March 13, 1984

To Treasurer
Internal Auditor
Director, Exchange and Trade Relations Department
Director, Legal Department
Director, Western Hemisphere Department

From for The Secretary JA Kay

Subject Mexico - Review Under Extended Arrangement, and Exchange System

With reference to my memorandum dated March 6, 1984, it should be noted that the corrections to the decision on the exchange system to refer to restrictions described in Section VI of EBS/84/1, should have mentioned that those restrictions were approved by the Executive Board at EBM/84/35 (3/2/84) until the next consultation or until March 1, 1985, whichever is the earlier

Mexico

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487556 487556

F.N.Horn
Stadionkade 125
1076 BR Amsterdam
Netherlands.

Amsterdam,March 10,1984.
Tel.794078.

RECEIVED
MAR 20 1984
Western Hemisphere Department

ORIG AND ENCL: EXR
CC: MD
DMD
WHD/LEG
MR. S. COLLINS

To the Management of the

International Monetary Fonds IMF.

Washington D.C.

USA.

RECEIVED
INTERNATIONAL
MONETARY FUND
1984 MAR 20 AM 11:13
COMMUNICATIONS
DIVISION

Dear Mr.President,

I am engaged with the Mexican Ministry of Finance in Mexico City,Sr.Lic. Angel Gurria concerning valid mexican prewar bonds to bearer.

These bonds amounting to about $ 1.400.000.face value were acquired by me and co-investors after the year 1955.They had been released in July of that year from the Reparation by the Allied High Commission for Germany and been returned directly to the previous german owners at a free disposition,also outside of Germany. Documentation thereof and list of numbers is enclosed,and the mexican Notaries' statements,as required by the Government, is attached to the bonds.

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Although the mexican Government in May 1974 purchased from my holdings about nom. capital $ 200.000. bonds,the redemption of January 1,1975 was refuted.

II

F M.Horn Amsterdam March 10,1984

II

Mr President International Monetary Fonds IMF Washington D C

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Dear Mr.President,may I submit to you my request of considering this matter in order to get our claim recognized I beg to thank you for the trouble and the interest which you kindly will spend.

May I await your news

Yours faithfully

encl

WHD
Mexico

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INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

DEPUTY MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

March 7, 1984

RECEIVED
MAR - 7 1984
Western Hemisphere Department

MEMORANDUM

TO: Mr. Feito

FROM: William B. Dale WBD

SUBJECT: Spanish Banks--1984 New Money Package for Mexico

Attached is a table I have received from the Advisory Committee banks showing the commercial banks in Spain from which commitments have not yet been received for the 1984 new money package of US$3.8 billion for Mexico. The figures shown are the target commitments, in thousands of U.S. dollars, based on 6 percent of the base exposure for each bank.

The importance of this matter far surpasses the amounts involved. In making their commitments, many banks in all parts of the world made these commitments contingent on all other banks with exposure in Mexico doing the same. It has become widely known among the banks that some Spanish banks have been lagging in making commitments and this in itself tends to become an issue with other banks.

To complete the picture, the universe of Spanish banks as a whole has committed some US$54.5 million, representing slightly over 70 percent of the target commitments. At the same time, the group of Spanish banks show the third largest absolute amount of shortfall from target among country groups at this stage. I can assure you we are working hard on the other two.

Any assistance you can give in this matter would be greatly appreciated.

cc: The Managing Director
WHD

SPAIN

BANCA CATALANA	2,817
BANCA MARCH, S.A.	266
BANCO CENTRAL S.A.	7,308
BANCO DE ANDALUCIA	240
BANCO DE CASTILLA	120
BANCO DE CREDITO BALEAR	60
BANCO DE GALICIA, S.A.	120
BANCO DE PROGRESO, S.A.	262
BANCO DE SABADELL	90
BANCO DE SANTANDER, S.A.	3,429
BANCO HISPANO INDUSTRIAL	120
BANCO INTERNACIONAL DE COMERCIO	381
BANCO INDUSTRIAL DE CATALUNA, S.A.	300
BANCO PASTOR, S.A.	2,295
BANCO POPULAR ESPANOL, S.A.	3,852
BANCO UNION, S.A.	268
Total	21,928

WHD

Mexico

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INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

DEPUTY MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

March 7, 1984

MEMORANDUM

To: Mr. Malhotra

From: William B. Dale

Subject: Indian Banks--1984 New Money Facility

In connection with the new money facility of U.S.$3.8 billion for Mexico in 1984, the following target commitments (calculated as 6 percent of base exposure) have not yet been received from Indian banks:

Bank of India	U.S.$2,247,000
State Bank of India	U.S.$2,143,000

Both of these banks participated in the 1983 new money facility for Mexico.

I would once again be very grateful for your assistance in this matter.

cc: Managing Director
WHD

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SEC-84/1503
Translated by C. Ernst

EW
STB
JP
IO
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ORIG: EXR
CC: MD
DMD
WHD
MR. S. COLLINS

NATIONAL CHAMBER OF COMMERCE

OF MEXICO CITY

Paseo de la Reforma No. 42

Mexico 1, D.F.

March 6, 1984

In reply please quote
our ref.: AJ/034/84

RECEIVED
MAR 23 1984
Western Hemisphere Department

Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
U.S.A.

Sir:

We write to request that we be provided with legal and general information on all of the Fund's actions and activities, but in relation to our country, Mexico, primarily with respect to trade. We would like to have the information in Spanish, if possible, and principally any items referring to inflation, deflation, and stagflation.

We look forward to receiving this information.

Very truly yours,

/s/

JORGE AGUILERA GONZALEZ
Chief, Legal Analysis Department

RECEIVED
INTERNATIONAL
MONETARY FUND
1984 MAR 22 PM 3: 31
COMMUNICATIONS
DIVISION

487592 84/1503

Gral 1

CAMARA NACIONAL DE COMERCIO DE LA CIUDAD DE MEXICO

Paseo de la Reforma No 42 MEXICO 1 D F 6 de Marzo de 1984. AL CONTESTAR CITESE NUESTRO NUMERO

ASUNTO
REF. AJ/034/84

C. DIRECTOR GENERAL DEL
FONDO MONETARIO INTERNACIONAL
700 STREET 19-T.H.N W.
WASHINGTON, B.C.
20431, U.S.A.

Por medio del presente escrito nos estamos dirigiendo a Usted, con la finalidad de que se nos proporcione información jurídica, y en general, sobre todos los actos y actividades que realiza el Fondo, pero que se refiera a nuestro país, México, primordialmente lo que atañe al aspecto comercial, de ser posible, tal información la solicitamos en castellano y en forma toral los aspectos que se refieran a la inflación, deflacion y estagflacción.

En espera de que sea enviada dicha informacion, nos ponemos a su atención.

A T E N T A M E N T E .

LIC. JORGE AGUILERA GONZALEZ
Jefe del Departamento
Análisis Jurídico.

IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

DO NOT SOFT ROLL EXCEPT WHEN ALIGNING INTO LINE 23

Mexico

EW
STB
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START ADDRESS IN THE BOX

Sr. Miguel Mancera
Director General del Banco
de Mexico, S.A.
Apartado 98 Bis
Mexico 1, D.F., Mexico

RECEIVED
MAR - 6 1984
Western Hemisphere Department

MARK XX FOR CODE
(______) CODE

DISTRIBUTION

CC: ~~XXX~~ SEC
MD
DMD
MR. SENIOR
ETR
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TRE
MR. S. COLLINS
WHD

START TEXT HERE

EXECUTIVE BOARD TOOK FOLLOWING DECISION MARCH 2 COLON QUOTE

I. REVIEW UNDER EXTENDED ARRANGEMENT

1. THE FUND AND MEXICO HAVE CONDUCTED THE REVIEW PURSUANT TO PARAGRAPH 4(d) OF THE EXTENDED ARRANGEMENT FOR MEXICO (EBS/82/203, SUP. 4) AND AS CONTEMPLATED IN PARAGRAPH 29 OF THE LETTER DATED NOVEMBER 10, 1982 FROM THE SECRETARY OF FINANCE AND PUBLIC CREDIT AND THE DIRECTOR GENERAL OF THE BANK OF MEXICO ATTACHED THERETO, IN ORDER TO REVIEW THE IMPLEMENTATION OF THE MEASURES DESCRIBED IN THAT LETTER, TO REACH UNDERSTANDINGS ABOUT POLICIES AND MEASURES THAT MEXICO WILL PURSUE OVER THE PROGRAM PERIOD, AND TO ESTABLISH SUITABLE PERFORMANCE CLAUSES FOR THE YEAR 1984.

2. THE LETTER DATED JANUARY 3, 1984 FROM THE SECRETARY OF FINANCE AND PUBLIC CREDIT AND THE DIRECTOR GENERAL OF THE BANK OF MEXIOO, TOGETHER WITH THE TECHNICAL MEMORANDUM OF UNDERSTANDING ATTACHED THERETO (EBS/84/1, 1/3/84), SHALL BE ATTACHED TO THE EXTENDED ARRANGEMENT FOR

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SPECIAL INSTRUCTIONS — TEXT MUST END HERE

TELEX NO.: CABLE ADDRESS:

BJO

DRAFTED BY NAME (TYPE): BJOwen:ag EXT.: 7-3382 DEPT.: SEC DATE: 3/2/84

AUTHORIZED BY NAME (TYPE): AUTHORIZED BY NAME (TYPE): ( )

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

Log 6341

SEC 48 REV 1 11-18-82

SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

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DISTRIBUTION

START TEXT HERE

ATTACHED TECHNICAL MEMORANDUM, HAS NOT BEEN OBSERVED; OR

(iv) THE LIMIT ON THE NET CREDIT TO THE PUBLIC SECTOR BY THE BANK OF MEXICO, AS SPECIFIED IN PARAGRAPH 2 OF THE ATTACHED TECHNICAL MEMORANDUM, IS NOT OBSERVED; OR

(v) THE LIMIT ON THE NET DOMESTIC ASSETS OF THE BANK OF MEXICO, AS SPECIFIED IN PARAGRAPH 4 OF THE ATTACHED TECHNICAL MEMORANDUM, IS NOT OBSERVED; OR

(vi) THE LIMIT ON FINANCIAL INTERMEDIATION CONDUCTED BY THE NATIONAL DEVELOPMENT BANKS AND OFFICIAL TRUST FUNDS, AS SPECIFIED IN PARAGRAPH 5 OF THE ATTACHED TECHNICAL MEMORANDUM, IS NOT OBSERVED.

4. UNTIL JANUARY 1, 1986 PURCHASES UNDER THE EXTENDED ARRANGEMENT FOR MEXICO SHALL NOT, WITHOUT THE CONSENT OF THE FUND, EXCEED THE EQUIVALENT OF SDR 2,206.88 MILLION, PROVIDED THAT PURCHASES SHALL NOT EXCEED THE EQUIVALENT OF SDR 1,304.06 MILLION UNTIL MAY 20, 1984, THE EQUIVALENT OF SDR 1,605.00 MILLION UNTIL AUGUST 20, 1984, AND THE EQUIVALENT OF SDR 1,905.94 MILLION UNTIL NOVEMBER 20, 1984.

TEXT MUST END HERE

IF REQUIRED INITIAL BELOW

SPECIAL INSTRUCTIONS

CABLE ADDRESS

DATE

DEPT

TELEX NO

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II. APPROVAL OF MULTIPLE CURRENCY PRACTICES AND EXCHANGE RESTRICTIONS

MEXICO MAINTAINS MULTIPLE CURRENCY PRACTICES AND EXCHANGE RESTRICTIONS AS DESCRIBED IN SECTION VI OF EBS/84/1, SUPPLEMENT 1. IN VIEW OF THE CIRCUMSTANCES OF MEXICO, THE FUND GRANTS APPROVAL OF THESE MULTIPLE CURRENCY PRACTICES AND RESTRICTIONS UNTIL THE COMPLETION OF THE NEXT REVIEW UNDER THE EXTENDED ARRANGEMENT, OR THE COMPLETION OF THE NEXT ARTICLE IV CONSULTATION, OR MARCH 1, 1985, WHICHEVER IS EARLIER. UNQUOTE.

LEO VAN HOUTVEN, SECRETARY, INTERFUND.

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Mexico

INTERNATIONAL MONETARY FUND

March 6, 1984

The Managing Director:

There is attached a lightly edited version of your concluding remarks at the close of the discussion on Mexico --incorporating comments of Mr. Beza--whi you may wish to transmit to Mr. Senior. It was my understanding that you did not wish these concluding remarks to be circulated as a Buff.

I should like to circulate it also as a buff. Thanks

J

Att:

c: Mr. Beza
Mr. Collins

The Secretary

F

INTERNATIONAL MONETARY FUND

3/9/84

Mr. Beza -

As promised.

O. Bravo for

The Secretary

F

INTERNATIONAL MONETARY FUND

3/9/84

Mr. Beza -

As promised.

Sh

O. Bravo for

The Secretary

EW
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Office Memorandum

March 6, 1984

To Treasurer
Internal Auditor
Director, Exchange and Trade Relations Department
Director, Legal Department
Director, Western Hemisphere Department

From The Secretary (Signed) John Kay

Subject Mexico - Review Under Extended Arrangement, and Exchange System

At EBM/84/35 (3/2/84), the Executive Board approved the decisions set forth in EBS/84/1, Supplement 1 (1/30/84), with corrections to the decision on the exchange system to refer to restrictions described in Section VI, and to their approval until the next consultation or March 1, whichever is the earlier

INTERNATIONAL MONETARY FUND

March 1, 1984

TO : The Managing Director
The Deputy Managing Director

FROM: E. Wiesner E. W.

I would suggest that the substance of the attached note be converted into an opening statement to be delivered by Mr. Pujol at the beginning of the Board Meeting tomorrow. Mr. Pujol could explain the latest information on performance in 1983, including a description of the fiscal estimates; in his buff Mr. Senior refers to a deficit of Mex$1,520 billion in 1983 and Mr. Pujol could explain what this estimate involves as compared with the staff's latest estimate of Mex$1,621 billion.

cc: Mr. Guitián
Mr. Collins

Mexico

MAR 1 1984

Office Memorandum

To: Mr. Wiesner Date: March 1, 1984

From: J. Pujol JP

Subject: Mexico - Performance Under the Extended Arrangement During 1983

In the paper circulated to the Executive Board on January 30, 1984 on Mexico's extended arrangement, which is scheduled for discussion on Friday, March 2, the staff had commented on the progress achieved during 1983 on the basis of the information gathered by the mission that visited Mexico City in early December 1983 (EBS/84/1, Sup. 1, 1/30/84, pp. 7-11). At the time that the paper was finalized we had not yet received the figures for some of the quantitative performance criteria for the last quarter of the year, namely the information about the public sector deficit and the composition of its financing. We have just received provisional information from the Mexican authorities in this respect and would like to bring it to your attention prior to the Board meeting.

Table 1 summarizes the performance under the various quantitative criteria for 1983. As can be seen from this table, except for the limit on the overall public sector deficit, all other performance criteria were observed, and in all cases by very wide margins.

According to the information just received we have calculated that the deficit of the overall public sector was Mex$1,621 billion in 1983 (the equivalent of about 8.8 percent of GDP). Such a deficit would be Mex$121 billion in excess of the program limit of Mex$1,500 billion and in excess of the estimates that had been made at the time of the last mission (Table 2). The Mexican authorities differ from the staff in their estimate of the public sector deficit and claim that the overall deficit was only Mex$1,520 billion.1/ They arrive at such a number by subtracting a sum of Mex$101 billion, which represents the rise during 1983 of certain public sector deposits held with domestic commercial and development banks. They point out that these deposits, which involve mostly working balances of public sector enterprises, had been incorrectly classified as private sector deposits.

At this time the staff has no way to arrive at a judgment whether we should include such deposits in the calculation of the deficit. Thus, we have used the methodology that had been applied in the first three quarters of 1983; this methodology has not been challenged by the Mexicans in the past, and it was the one employed to make the projections of the financial program for 1984. The staff is, therefore,

1/ In addition, while not pressing the point, Mexican officials have noted that PEMEX acquired deposits abroad which arguably might be deducted from the net external financing figures, and such an adjustment could lower the 1983 deficit to some Mex$1,450 billion.

reluctant to accept a change in the methodology for measuring the deficit at this stage It should also be noted that if we were to accept the Mexican's position on the treatment of certain deposits in 1983, the effect would be not only to modify the definition of the net credit granted by the banking system to the public sector, but also to alter the stock of liabilities to the private sector which was used as a base for the monetary projections in the 1984 program. This could have implications on program's assumptions about the availability of credit for the private sector in the year ahead.

It might be noted that the higher than expected deficit for 1983 appears to be at least partly the result of the payment in December of 1983 of certain obligations due to the domestic banking system on account of accrued interest in the amount of Mex$130 billion--which in the past usually had been paid in the first quarter of the following year--and to some sizable transfers to the government development banks (in the amount of Mex$110 billion) to cover foreign exchange losses incurred in late 1982 but effectively paid in 1983 Table 3 gives a breakdown of the financing of the public sector deficit as originally programmed compared with the estimates made in late November when the program for 1984 was being framed, and with the figures obtained now on the basis of the information just received.

It should be noted that the nonobservance of the December ceiling is not specifically linked to the next drawing under the program, you may recall that this question was discussed in the briefing paper for the recent negotiating mission, but it was decided not to insist on a link. Nevertheless, Directors have been asking the staff about the final outcome for 1983, and the staff is likely to be asked about the end-December figures in the forthcoming Board meeting. I have forewarned the Mexicans that the staff would have to tell the Board about the latest estimates of the 1983 deficit and they are concerned that we might use a number which differs from the one they intend to announce to their Congress--that is, the difference between our estimate of Mex$1,621 billion and their estimate of Mex$1,520 billion

Attachments

Table 1. Mexico Extended Arrangement, Quantitative Performance Criteria Through December 1983

	1982	1983 Jan.-March Target	Jan.-March Actual	April-June Target	April-June Actual	July-Sept. Target	July-Sept. Actual	Oct.-Dec. Target	Oct.-Dec. Actual
	(In billions of Mexican pesos)								
Net credit to the public sector by the monetary authorities 1/	2,024	2,525	2,132	2,689	2,148	2,791	2,230	3,097	2,839 2/
Cumulative overall public sector deficit 3/	1,761	360	190	690	350	1,005	629	1,500	1,621 2/
Cumulative changes in net mestic assets of the monetary horities (effective flow) 4/	577	21	-186	44	-261	44	-557	104	-502
	(In millions of U.S. dollars)								
Cumulative net foreign borrowing by the public sector 3/	6,807	1,250	1,034	2,500	789	3,750	2,555	5,000	4,686 2/
Cumulative change in net international reserves of the monetary authorities 3/5/	-7,119	—	1,332	500	1,905	1,000	4,365	2,000	5,480
Cumulative reduction in arrears 6/	.	.	62		134		521	600	1,088

Sources: Mexican authorities, and Fund staff estimates.

Stock outstanding at end of period (adjusted for changes in exchange rate).
Preliminary estimate.
3/ Limit tested at the end of each period.
4/ Net domestic assets of the Bank of Mexico for purposes of the ceiling is defined as the difference between note issue and net international reserves of the monetary authorities.
5/ Includes payments arrears on account of interest due on foreign commercial bank loans to the private sector and a balance of payments support loan from the BIS as liabilities.
6/ Limit tested at the end of the calendar year.

Table 2 Mexico Quantitative Performance Criteria in 1983

	Program Target for the Year	Projection as of November 30, 1983	Actual
(In billions of Mexican pesos)			
Net credit to the public sector by the monetary authorities 1/	3,097	2,637	2,839 2/
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Table 3 Mexico Public Sector Deficit and its Financing in 1983

(In billions of Mexican pesos)

	Program Target for the Year	Projection as of November 30, 1983	Latest Estimate
Total	1,500	1,500	1,621
External (including CCC)	480	534	606
(in millions of US$)	5,000	4,200	4,686
Domestic	1,020	966	1,015
Banking system	820	816	902
Bank of Mexico	(787)	(613)	(815)
Other (excluding CCC)	(33)	(203)	(87)
Securities	200	150	113

Sources Mexican authorities, and Fund staff estimates.

INTERNATIONAL MONETARY FUND

March 1, 1984

TO The Managing Director
The Deputy Managing Director

FROM E Wiesner E W

I would suggest that the substance of the attached note be converted into an opening statement to be delivered by Mr Pujol at the beginning of the Board Meeting tomorrow Mr Pujol could explain the latest information on performance in 1983, including a description of the fiscal estimates, in his buff Mr Senior refers to a deficit of Mex$1,520 billion in 1983 and Mr Pujol could explain what this estimate involves as compared with the staff's latest estimate of Mex$1,621 billion

Mr Finch There is a weakness in our multiyear programs= the last quarterly performance criteria of a year is "unprotected" Thus breaches occur that lead to no correction I would like to change policies henceforth and have a continuous of linked performance criteria Please prepare an action oriented paper on this Urgent

cc Mr Guitián
Mr Collins

Mexico

Office Memorandum

To: Mr Wiesner

Date: March 1, 1984

From: J. Pujol JP

Subject: Mexico - Performance Under the Extended Arrangement During 1983

In the paper circulated to the Executive Board on January 30, 1984 on Mexico's extended arrangement, which is scheduled for discussion on Friday, March 2, the staff had commented on the progress achieved during 1983 on the basis of the information gathered by the mission that visited Mexico City in early December 1983 (EBS/84/1, Sup. 1, 1/30/84, pp. 7-11). At the time that the paper was finalized we had not yet received the figures for some of the quantitative performance criteria for the last quarter of the year, namely the information about the public sector deficit and the composition of its financing. We have just received provisional information from the Mexican authorities in this respect and would like to bring it to your attention prior to the Board meeting.

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At this time the staff has no way to arrive at a judgment whether we should include such deposits in the calculation of the deficit. Thus, we have used the methodology that had been applied in the first three quarters of 1983, this methodology has not been challenged by the Mexicans in the past, and it was the one employed to make the projections of the financial program for 1984. The staff is, therefore,

March 1 84
Mr Finch
There is a weakness in our monitoring of programs = the lack of quarterly performance criteria of a year is "unprogrammed". Thus breaches that occur lead to no correction. I would like to change policy henceforth and have a continuous set of fixed performance criteria. Please prepare a note on a proposal on this urgently.
JdL
March 1 84

1/ In addition, while not pressing the point, Mexican officials have noted that PEMEX acquired deposits abroad which arguably might be deducted from the net external financing figures, and such an adjustment could lower the 1983 deficit to some Mex$1,450 billion.

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Securities	200	150	113

Sources Mexican authorities, and Fund staff estimates

F

March 1, 1984 - 84/37

Statement by Mr. Senior on Mexico
Executive Board Meeting ~~84/34~~
March 2, 1984

On behalf of my Mexican authorities I would like to thank the staff for the clear and comprehensive paper it has prepared. My authorities are in general agreement with the staff appraisal.

The paper describes in detail the performance of the economy during the first year of the extended arrangement as well as the program for 1984. I shall, therefore, confine my remarks to some of the salient features of the economic adjustment hitherto achieved and the policies for 1984 embodied in the program for economic recovery.

I

The new Administration, which took office on December 1, 1982, faced a very serious economic situation. During the preceding months of that year, a growing disequilibrium between nominal demand and output--through the low levels of real interest rates and real appreciation of the exchange rate--was being channeled to the external sector of the economy. By the end of 1982 the economy was suffering from stagnating output, growing inflationary pressures and an acute external imbalance that gave rise to large capital flight and a virtual suspension of most international payments. The new Administration moved quickly to implement a strong adjustment program which was supported by the Fund through the extended arrangement now ending its first year. The implementation of the program has been highly satisfactory, placing the economy in a better position for recovery and sustained growth in the coming years. In this regard, not only has the intended degree of adjustment been accomplished but also its time profile.

The firm implementation of the policy actions has led to macroeconomic results which in some key areas are better than originally expected. The most outstanding outturn has been the major turnaround in the external position of the economy. According to the latest figures provided by my Mexican authorities, which update those provided in the staff document, the trade balance has shown a remarkable improvement from a surplus of US$6.8 billion in 1982 to an estimated surplus of US$13.6 billion in 1983. As a result, the current account of the balance of payments has shifted markedly to a surplus of US$5.6 billion in 1983 from a US$4.9 billion deficit in 1982, and gross reserve holdings have risen to US$4.9 billion. Progress in this field has in effect been more significant than what would be indicated by these figures, if account is taken that by the end of 1982 prices were increasing at more than 200 percent on an annual basis, whereas by the end of 1983 the annual inflation rate, as extrapolated from December data, was of the order of 60 percent. On the other hand, the estimated 4.5-4.7 percent fall in output in the first year of the program has been more severe than expected.

The program, therefore, has been extremely successful in arresting the dangerous trends which characterized the dynamics of the economy by the end of 1982, namely, the cessation of external liquidity inflows, hyperinflation and rapidly falling output flows.

II

I wish to make some comments on the fact that output growth has fallen more than envisaged in the program while both the inflation rate and the improvement in the balance of payments have been greater than expected. It is very difficult to anticipate the response of economic agents to any policy package in an environment as uncertain as the one surrounding the Mexican economy at the end of 1982. Given this uncertainty and the associated depressed state of entrepreneurial expectations, it should come as no surprise that private investment has not reacted quickly to the halving of the public sector deficit. However, if a single factor were to be isolated as responsible for that set of macroeconomic outcomes--biased toward the achievement of external balance--it should be the greater than expected devaluation that has taken place. That macroeconomic picture is the result of a larger than expected initial imbalance and a policy mix that has turned out to be more expenditure-switching than initially thought, but that in conjunction with the strong import substitution process observed during the year, has prevented a more pronounced fall in real GDP. After a sizable depreciation of the peso, necessary to restore credibility to the exchange rate, that took place prior to the program, exchange rate policy has been flexibly implemented so as to maintain competitiveness and strengthen the balance of payments. Therefore, demand and resources have been shifted from foreign to domestic markets and from sheltered sectors to import-competing activities and non-oil exporting sectors. Although there have already been important beneficial effects of this policy on the non-oil tradable goods sectors, the full response of the productive structure to the real depreciation of the currency will still take some time; all the more so, given the depressed state of the world trade and intense protectionist pressures. In addition, by the end of 1982, the Mexican productive structure had become highly dependent on some basic imported inputs which made for devaluation to have a short-run depressive effect on output, particularly in those sectors producing nontraded goods. Moreover, there is also a depressive effect of the devaluation resulting from the increased local currency burden of servicing the private external debt which was of considerable importance.

Even if, as it happened in this case, increases in labor and other incomes do not fully offset the nominal devaluation and ceilings on domestic credit are observed, inflation may be more elastic than output to exchange rate changes in the short run. It is not only that the money multiplier of nominal domestic credit grows as a result of larger than expected external assets gained essentially through cuts in net imports and real income, but also that the nominal income velocity of money tends to increase because of both higher inflationary expectations associated with the devaluation and the lagged impact of the substantial 1982 devaluation.

The different time profiles of the effects of devaluation on prices on the one hand, and on the level and pattern of production on the other, may account to some extent for both the greater than expected fall in output and the higher than anticipated inflation rate for most of the year Of course, it can always be argued that a more restrictive stance of demand policies could have partially offset the inflationary impact of exchange rate changes It goes without saying, however, that tighter financial policies could have dramatically affected the standard of living of a population which, growing at an annual rate of 2 8 percent, has already faced a decline in per capita output of the order of 7 5 percent and a significantly larger fall in per capita income when account is taken of the large current account surplus

I would like to comment briefly on the more pronounced than originally envisaged fiscal adjustment in 1983 According to the revised estimates provided by the Mexican authorities, the nominal value of the public sector deficit at the end of 1983 amounted to Mex$1,520 billion, slightly above the ceiling contemplated in the program, but equivalent to 8 4 percent of GDP which still is less than the 8 5 percent of GDP initially programmed The marginally higher nominal deficit is the result of greater than anticipated exchange losses and interest payments. In a developing economy, with a heavy external debt, the public sector deficit is positively correlated to the pace of inflation and devaluation even if, as in this case, the public sector has sizable foreign exchange receipts Therefore, the need to service the public external debt at a more devalued exchange rate and the internal debt at much higher nominal interest rates called for a more restrictive stance on nonfinancial public expenditures as well as higher increases in taxes and the prices of public goods and services Thus, the attained public sector deficit in 1983 implied greater cuts in real expenditure and real disposable income on the assumption of a lower than actually experienced rate of inflation Indeed, since the inception of the program, it was noted that a greater exchange rate depreciation and inflation than the rates originally foreseen would result in a much more severe fiscal adjustment in real terms Moreover, the fiscal adjustment in 1983 started from a public sector deficit in the previous year higher than that originally estimated when the program was framed The fiscal deficit for 1982 was of the order of 18 5 percent of GDP instead of the 16 5 percent originally estimated Therefore, instead of a reduction equivalent to 8 percentage points of GDP, the fiscal deficit was reduced by 10 percentage points of GDP, that is, a real reduction 20 percent higher than that originally planned The more pronounced fall in economic activity, also had an unfavorable impact on public finances Tax collection, particularly value-added proceeds and other revenues of the public sector, were severely affected Federal tax collection and other nontax revenues were equivalent to only 9 9 percent of GDP in 1983, in contrast to 11 4 percent originally envisaged Public expenditure, excluding interest payments, was reduced from 31 4 percent of GDP in 1982 to 20 5 percent of GDP in 1983 In sum, the greater than originally envisaged fiscal imbalance experienced in 1982, together with the combined effect of a greater than anticipated exchange rate depreciation and inflation rate, and the unfavorable impact of a more pronounced fall in economic activity led to a fiscal adjustment substantially larger than originally contemplated for 1983 This bears witness to the strength of the determination of my Mexican authorities to effect the required adjustment

III

The prudent course envisaged for financial policies in the period ahead will ensure that excesses in inflation will be waning, whereas the forces shifting resources and spending power to the sectors producing traded goods continue to work and shall favor their steady growth This process will be greatly assisted if the international economy recovers and protectionist pressures diminish The strategy of economic policy for the period ahead bears on these considerations

The main aim of the economic program for 1984 is to continue the adjustment of the economy to a noninflationary growth path while preserving the gains made in the external front As mentioned, prospects for the economy are now better than they were in the last year and the lagged beneficial effects of the increased competitiveness will still be working so that a reduction of inflation from 80 9 percent in 1983 to 40 percent in 1984 on a December to December basis should be compatible with a recovery of real GDP growth of about 1 percent

The projected recovery in economic activity is based on a significant increase in private investment and on a continued growth of export and import substitution The 1984 economic recovery program contemplates a series of important policies oriented toward further progress in the restoration of confidence in order to foster private investment flows To that aim, the program calls for increased credit flows from the financial system to the private sector It is expected that the liabilities of the banking system will continue to increase during 1984, as a result of the expected reduction in inflation and the flexible implementation of interest rate policy which will foster domestic savings The liabilities of the banking system to the private sector are expected to increase significantly as a proportion of GDP Interest rates are expected to continue to decline at a rapid rate during the year in step with the decline in the inflation rate Similarly, the public investment program contemplated for 1984 gives priority to investment in sectors such as housing, infrastructure, transportation, communication, and agricultural development which have a beneficial effect on the level of employment, with low import content and, at the same time, which are expected to contribute to the recovery of economic activity

After the severe fall in real wages that took place during 1983--of 25 percent by some estimates--it is the intention of the Mexican Government to avoid further declines in 1984 This policy should contribute to the recovery of economic activity by supporting domestic demand and by its contribution to social stability In this regard I would like to underscore the significant contribution of the Mexican labor movement during 1983 in the successful adjustment effort in general, and in the fight against inflation in particular The sense of responsibility shown by labor unions in accepting great restraint in their wage demands during 1983, imposed a substantial share of the adjustment burden on their members

Fiscal stringency will continue to be the major tool to bring about the intended disinflation of the economy To this end, the overall public sector deficit will be reduced from 8 4 percent of GDP to 5 5 percent of GDP by the end of this year The 1984 budget includes a contingent expenditure of about Mex$277 billion, if it is not used, the fiscal deficit will be lowered by this amount The Mexican authorities intend to release the additional expenditure only if after the first half of the current year there is evidence that, despite the measures taken by the Government, the economic recovery is not under way Furthermore, the contingent expenditure will be released only if noninflationary resources, i e , real savings are available to finance it

Exchange rate and interest rate policies will continue to be managed flexibly so as to preserve the competitiveness of domestic production and of home financial assets vis-à-vis the rest of the world In this regard my Mexican authorities continue to be committed to unifying the exchange system, although the dual market will still be maintained temporarily in order to sustain orderly conditions in the capital account A continued liberalization of trade, in conjunction with the programs to promote the growth of exports, will further assist the economic recovery The impressive turnaround of the external balance last year, was needed to regain the confidence of the international financial community in the Mexican economy, and has contributed to obtaining better terms and conditions in the financing from commercial banks required to support the adjustment effort this year Substantial progress has been made in securing the US$3 8 billion loan requested this year to the financial community According to the information we have received from the Mexican authorities, it is expected that the negotiations will be completely finalized soon, and that the loan agreement will be signed by the end of March The authorities have reaffirmed their intention to eliminate all remaining arrears in the coming months

In sum, the Mexican authorities have been courageously implementing the adjustment program, and outstanding results have already been obtained This together with the policies embodied in the 1984 program augur well for the continued success of the adjustment effort and the capacity of the economy to return to adequate growth rates within a framework of relative price stability and external equilibrium

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MR S COLLINS

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TO. INTERNATIONAL MONETARY FUND
ATTN J DE LAROSIERE, MANAGING DIRECTOR

TELEX NO·

FROM: THE CO-CHAIRMEN OF THE BANK ADVISORY GROUP FOR MEXICO

DATE FEBRUARY 29, 1984

RE MEXICO

WE REFER TO THE COMMUNICATION DATED DECEMBER 23, 1983 FROM THE MINISTER OF FINANCE AND PUBLIC CREDIT OF MEXICO TO THE INTERNATIONAL BANKING COMMUNITY THIS COMMUNICATION REQUESTED NEW MONEY LOANS IN 1984 IN THE AMOUNT OF U S DOLLARS 3 8 BILLION

AS OF 5 00 P M. (NEW YORK CITY TIME) ON FEBRUARY 29, 1984, COMMITMENTS EXCEEDING NINETY PERCENT OF THE REQUESTED AMOUNT HAD BEEN RECEIVED FROM THE INTERNATIONAL BANKING COMMUNITY. MANY OF THE COMMITMENTS WERE WITHOUT CONDITIONS BUT SOME OF THE COMMITMENTS CONTAINED CONDITIONS WHICH WE ANTICIPATE WILL BE RESOLVED AS THE LOAN DOCUMENTATION IS FINALIZED

REGARDS,

BANK OF AMERICA
CITIBANK, N.A
SWISS BANK CORPORATION

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REPLY VIA ITT

?
TIME: 23.05 02/29/84 ???
CONNECT TIME : 203 SECONDS

Office Memorandum

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FEB 28 1984

TO : The Managing Director
The Deputy Managing Director

DATE: February 28, ~~1984~~

FROM : E. Wiesner E.W.

Feb. 28. 84

SUBJECT : Mexico--IBRD Staff Review of Public Sector Investment

Attached is an assessment by the World Bank staff of Mexico's public sector investment. We are planning to issue it as a supplement to the Staff Report in support of the program for the second year of the extended arrangement with Mexico (EBS/84/1) that will be considered by the Board on Friday, March 2.

Attachment

cc: Mr. Guitián
Mr. Collins

RECEIVED
FEB 29 1984
Western Hemisphere Department

MEXICO Recent Developments and
Prospects for Public Sector Investment

1 In the first five years of the previous administration (1977-82), public sector[1]/investment rose dramatically, at 20 percent a year in real terms, and its share in GDP rose from 7 5 percent in 1977 to 13 percent in 1982 (table attached) With the severe contraction of available resources in the last two years, public investment bore the brunt of expenditure cuts In real terms investment declined by 20 percent in 1982, and another 40 percent in 1983 The Government achieved this by abandoning, postponing, and slowing the implementation of projects virtually across the board

2 The economic stabilization program, adopted by the Government in December 1982, provided the framework for expenditure cuts The Government adhered closely to the target for public investment and succeeded in reducing it to 6 5 percent of GDP in 1983 The guidelines for adjustments in investment levels were provided originally in the President's inaugural address to Congress, and subsequently amplified in the National Development Plan (1983-88) Although sectoral plans are still being worked out, the Government announced that it would give priority to completing projects which were far advanced, or were important for promoting employment, social equity, regional balance, and foreign exchange earnings These priorities are reflected in the orientation of public investment during 1983 The share of oil and transport sectors in investment was reduced sharply, from 42 percent during the period 1977-82 to 36 percent in 1983 The share of agriculture and rural development rose, although in real terms the investment level in this sector also experienced a reduction

3 The Federal Government accounts for only about 15 percent of total public sector investment The balance is made up largely of investment by numerous public enterprises and independent or semi-independent state agencies which are controlled through regulatory bodies with the relevant federal ministries represented In the past, the extent of control the federal authorities exercised over investments planned and executed by other public sector entities depended to some extent on the federal budgetary transfers to these entities During the last administration, current and capital transfers to state enterprises accounted for a high proportion of the federal budget In the implementation of the Government's stabilization program, the authorities have taken measures for a more effective review and control over investment plans and external borrowing by public enterprises and agencies

4 In 1983, the World Bank undertook a review of public sector investment in some of the major sectors (viz oil, power, steel, transport, telecommunications, and fertilizers), which together accounted for some two-thirds of total

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1/ For purposes of this analysis, Public Sector includes the Federal Government, PEMEX, the other enterprises under budgetary control, the three large enterprises outside the budget (TELEMEX, Metro, and AHMSA), and the Federal District Investments undertaken by numerous other enterprises where the Government has equity shares and by the States are not included here for lack of data public investment during the 1977-82 period When this review took place, federal ministries and government agencies were still in the process of adjusting their development programs to Mexico's reduced resource availability and to the new priorities as outlined in the National Development Plan This process of adjustment is inevitably very complex and time consuming and it is still in progress The World Bank's review made only preliminary and partial assessments of the revised investment plans in the major sectors. Follow-up reviews will be undertaken by the World Bank over the coming months as and when revised sectoral plans become available or when useful contributions can be made to the formulation of such plans The following paragraphs summarize some of the major sectoral issues that will have a bearing on the level and composition of future investment needs and on the prudent adjustment of previous plans

(i) Investments in oil and petrochemicals accounted for some 30 percent of total public investment during the 1977-82 period, almost half of which was for exploration and development of oil resources During 1983, public investment in this sector was reduced by some 45 percent, mostly through the deferment of investments in oil refineries and petrochemical industries There is an understandable and well founded concern in Mexico that the level of expenditures by PEMEX for oil exploration and for the development of new oil fields and secondary recovery should be maintained at a sufficiently high level so as not to jeopardize Mexico's future flow of financial resources from oil and gas Although Mexico's oil reserves are substantial and the investments that have been made already in recent years were quite large, the output from oil fields other than those in the Gulf of Campeche already has started to decline Further development of fields in the Gulf of Campeche will be critical to maintain or increase future production capacity It is estimated that during the late 1980s more than 700,000 barrels a day will have to come from fields that have yet to be developed in order to maintain current levels of exports and meet domestic consumption requirements

(ii) The power sector accounted for 12 percent of public investment during the last administration The reduction in investment during 1983 was roughly in line with the average for the public sector as a whole The power sector has a detailed investment program for the next decade which is presently under review because of the expectation that demand will grow more slowly than previously projected as a result of reduced economic growth and the recent sharp increase in electricity tariffs Apart from lower investment requirements on account of revised demand forecasts, there is scope for considerable improvement in capacity utilization through better maintenance and operation of the thermal plants

(iii) Steel accounted for 2 percent of public investment during the last administration The greater part of this was for the expansion of the Las Truchas plant (SICARTSA II) When all ongoing investments in steel are completed, some time in 1986, Mexico's capacity is estimated to reach 15 million tons The sector is already experiencing excess capacity and the problem is likely to grow, at least temporarily, as ongoing investment projects reach completion Under these conditions, the possibilities for rephasing the expansion project deserve careful examination

(iv) The transport sector accounted for 13 percent of public investment during the last administration Investments in this sector rose rapidly in the late 1970s following the emergence of serious bottlenecks that began to hinder both foreign and domestic trade The Government is now in the process of rationalizing transport investment by giving priority to the completion of ongoing projects and complementary components (e g , roads connected with ports) and by placing relatively greater emphasis on the maintenance of existing infrastructure With regard to new projects, the principal issues in this sector concern the extension of Mexico City metro and the required transport subsidies The Government is committed to completing the expansion phase currently under construction, for which foreign financing has been arranged However, subsequent phases of metro expansion that are planned to be started around 1986 require careful reassessment, as do metro fares

(v) Investments in telecommunication accounted for 3 percent of the total during the last administration TELEMEX, the telephone company, is one of the few state enterprises in Mexico which are highly profitable Over the coming years, substantial investment in this sector can be expected if the demand for telephone lines is to be met The great bulk of the investment, however, will be related to the purchase of two communication satellites, for which external financing has been arranged, and the construction of ground stations Because of the complementary nature of these investments, the Government's flexibility in reducing or rephasing this program of investments is limited.

(vi) Investment in fertilizers was about one percent of total investment during the period 1977-82 At present, only one project, with a capacity of 2 million tons (mostly sulphuric acid), is under construction, all other projects have been postponed or abandoned The sector suffers from excess capacity, and the principal issue relates to the competitiveness of production costs and FERTIMEX's ability to export the surplus

5 To conclude Following the crisis of 1982, the Government acted decisively in reducing public investment and is fully aware of the need for continuing restraint in undertaking new investments in the years ahead The Government has taken various steps to improve and streamline the administrative procedures for the conception, approval, and monitoring of public sector investments At the same time, a conscious effort is being made to decentralize the responsibility for regional investment, particularly with respect to agricultural and rural development, by channelling a large proportion of investable resources directly to the States A new office of the Comptroller General has been established to monitor investment and audit public expenditures Revised sectoral development plans are expected to be completed during the next few months It is expected that these will reflect the broad priorities for public investment that were announced by the Government in the National Development Plan 1983-88, issued last year The World Bank supports the general thrust of this Development Plan and agrees with the investment priorities announced As indicated earlier, the World Bank proposes to review revised sectoral plans as they become available as part of its program for economic and sector work in Mexico

The World Bank
Latin America and Caribbean Region
Washington, D C
February 23, 1984

MEXICO : PUBLIC SECTOR INVESTMENT

(Billions pesos current prices)

	1977	1978	1979	1980	1981	1982	1977-82 Total	1983 (Prel) a/	1984 Budget	Percentage Shares 1977-82	1983	1984
Oil and Petrochemicals	36	63	91	126	230	285	830	318	554	29 24	26 56	28 72
Power	16	27	39	63	86	118	349	144	248	12 28	12 05	12 86
Steel	3	1	3	8	13	29	57		.	2 01	..	
Transport	16	19	36	53	104	144	372	117	b/	13.11	9 78	b/
Telecommunications	7	9	10	14	20	31	91	57	257	3 19	4 76	13 32
Fertilizer	1	1	3	5	10	8	28	14		0 98	1.16	..
Agriculture & Rural Development	26	39	47	77	105	183	477	277	408	16 81	23 10	21 15
Total above	105	159	228	346	567	798	2203		..	77 62	..	.
Total public sector	139	203	294	416	779	1006	2838	1197	1929	100 00	100 00	100 00
Total Public Sector (1980 prices)	251	314	379	416	613	491		291				
GDP (1980 prices)	3341	3617	3948	4276	4616	4593		4441				
Share of Public Sector in GDP (%)	7 51	8 69	9 59	9 73	13 27	10 68		6 54				
GDP Deflator	55 35	64 63	77 70	100 00	127 25	205 02		411 84				

a/ Preliminary data based on the expenditures during the first eleven months of the year.
b/ Included in telecommunications

Source: Ministries of Finance and Public Credit, and Programming and Budgeting.

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THE ORIGINAL IS BEING TRANSLATED

Washington, D. C., 23 de febrero de 1984

00648

Señor Jacques de Larosiere
Director Gerente
Fondo Monetario Internacional
700 19th Street, N. W.
Washington, D. C. 20431

Señor Director Gerente:

Me es grato hacerle llegar la carta que le dirige a usted el señor Licenciado Bernardo Sepúlveda, Secretario de Relaciones Exteriores de México.

Al manifestar a usted que en los próximos días le enviaré la carta autógrafa del señor Secretario Sepúlveda, aprovecho la oportunidad para reiterarle las seguridades de mi atenta y distinguida consideración.

El Encargado de Negocios, a.i.

Walter Astié
Ministro

ORIG: WHD
CC: MD
DMD
MR. SENIOR
ETR
EXR
LEG
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MR. ZEGERS
MR. S. COLLINS

RECEIVED
FEB 24 1984
Western Hemisphere Department

Embajada de México

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Tlatelolco, D F , 15 de febrero de 1984

Señor Jacques de Larosiere
Director Gerente
Fondo Monetario Internacional
700 19th Street, N W
Washington, D C 20431

Señor Director Gerente

La Primera Reunión Ordinaria del Comité de Acción de Apoyo al Desarrollo Económico y Social de Centroamérica (CADESCA), establecido en el ámbito del SELA, se celebrará en la Ciudad de México del 1° al 6 de marzo próximo La fase preparatoria tendrá verificativo los días 1 y 2 y la fase de alto nivel político los días 5 y 6 El objetivo principal de la reunión será aprobar el programa de trabajo de CADESCA e identificar aportaciones concretas que permitan su realización

Las decisiones de esta reunión serán de especial importancia para el desarrollo económico y social de Centroamérica y por tanto significarán una contribución positiva a la solución de los problemas que afectan a esa zona Se considera que la aportación de ese organismo que usted tan dignamente preside será de importancia fundamental para las actividades futuras de CADESCA

En tal virtud, me es grato invitarlo a participar o hacerse representar al más alto nivel posible en la reunión mencionada

Aprovecho la oportunidad para expresar a usted, señor Director Gerente, las seguridades de mi más alta y distinguida consideración

Lic Bernardo Sepúlveda Amor
Secretario de Relaciones Exteriores

File. Mexico
Mexico

IO(12)--2/10/84

Meeting of Six EDs (G-5 and Saudi) on Mexico: 2/1/84

MD: Mexicans requested rise in their access limit to 125 percent.

Not an easy decision to take.

Thus I have not given at the management level an easy answer.

I wanted to touch base with you after that period of examination.

Not easy because an augmentation decision is always very delicate.

In principle logic of first decision (on old quotas) holds.

Also, there looms the problem of precedents.

Also, not easy because analysis of problem of need is always a very delicate one.

We have been guided by following considerations:

First, we have to be well aware that Mexican authorities have been exemplary in the way they have performed under program. Probably the most outstanding performance we can show. Of course, that fact does not mean one should put in more. Logically, perhaps one should give less. Fact that they've been performing so well must be set in a continuing relationship between the Fund and the country. This political attitude needs to be reinforced.

The fact that they formally asked us--with no warning--is something we should take into consideration. I cannot simply say "you don't need the money." This is something to which they attach particular importance. They want to be recognized as having performed. They want to be given a signal of encouragement.

They were pleased that banks lowered their conditions. We have to be cautious and sensitive in way we deal with the matter. But we also have to apply our rules you only get an increase if the need is there.

No question of strength of adjustment effort. And see paper for need.

<u>I propose</u>

We will not go for 125 percent augmentation now. I decided to release papers on basis of 102 percent Nor would we commit to increase now--no presently justified need

Instead, I would say to the Board that I would be ready to ask it to examine their request at the time of the Article IV discussion--July--when we can estimate whether

(1) Program is on track,

(2) There is a need

What does that mean in substantive terms?

(1) On track --they cannot relax program in order to justify a bigger need

(2) But they may well have a need if on track --because needs can rise from factors other than relaxation of demand management policies If adverse factors are of a <u>reversible</u> nature, they should not have to adjust more.

If <u>not</u> reversible, they would have to adjust

There can also be <u>endo</u>genous causes E.g., liberalization of their import regime It may be good to have such an incentive

There may be other factors involved--financial system, e.g.

In practical terms, it does not need to be incorporated in any written document

This is a prudent approach, by the way The Mexicans' reading of the Interim Committee communique justifies a straightforward decision on an augmentation in their view

I am very cautious and demanding. Therefore, I don't want notion of need to be too liberally interpreted

I would like you to examine this in the Board in an open-minded and sympathetic manner.

-o-o-o-o-o-o-o-o-o-o-o-

Erb As I've often said in Board discussions, my authorities feel strongly that as a general proposition we should not augment programs on account of the increase in quotas What you have outlined here appears to be a logically correct approach.

Need should be demonstrated--temporary external events, or laudable endogenous actions For import liberalization, there would have to be firm and clear-cut steps in that direction.

Nimatallah

1 Augmentation is all right in principle.

2 If so, I would like to make it relatively difficult I can go along with your proposals on Mexico

Hirao I have similar views

This will be the first 125 percent case

1. Must be very cautious

2 102/125 percent is not a target or entitlement.

3 When we discussed augmentation in 1980(?), we agreed on a case-by-case approach.

4 There must be need

Laske We agreed in Board that augmentation should not be an entitlement Mexicans' adjustment effort has been very strong, the adjustment process has been very rapid. Has there been a need?

I agree that there is no justification right now.

I agree also with your criteria

(1) Program on track

(2) Need must be existent.

Even if they did liberalize, question arises a fundamental objective of a Fund program is to act as a catalyst for the market. Trade liberalization could perhaps encourage the market (thus reducing need)

Hence, I've qualified (2), but basically agree with what you said.

Wicks No objection in principle to augmentation, provided evidence of greater need and stronger adjustment.

We therefore think that criteria need to be laid down

Our view is very much like Mr. Laske's.

They are not doing more, and their need is certainly no greater.

Whether justified in the summer remains to be seen.

Board should be asked to be open-minded, not sympathetic

Final point is Fund's resources.

This involves SDR 250 million in one year--all borrowed resources.

There is likely to be a commitment gap before year is out.

SDR 2.4-4 billion gap did not include the SDR 250 million, presumably.

We may be discussing commitment gap around July

You should bring it to Mexico's attention

Blandin I am sure my colleagues in Paris have no strong views

Personally I agree with your two conditions.

I am sure my authorities will have an open mind

Habermeier I would not add the SDR 250 million to the SDR 2.4-4 billion. The latter figures were only estimated before access policy was finally decided Nor were the principles of augmentation being clearly defined.

The figures contained possibility of augmentation (not specifically for Mexico)

The actual figures will be much lower.

This is the only case where I have any information on augmentation

I am not sure when the commitment gap will reappear

MD We made a general allowance for augmentations And now we have been taking a very conservative line on catalytic cases

Habermeier My considered view is that range will be much lower than SDR 2.4-4 billion. Several reasons, including the parsimominous approach to access.

MD My impression is that commitment gap will be lower and later than previously foreseen.

→ MD 1/24 JAN 25 1984

INTERNATIONAL MONETARY FUND

January 24, 1984

TO : THE MANAGING DIRECTOR

FROM: WILLIAM B. DALE WBD

SUBJECT: Mexico--EA--Program for Second Year

Quite a report. Quite a program. I recommend approval.

Office Memorandum

TO: The Managing Director
The Deputy Managing Director

DATE: January 24, 1984

FROM: E Wiesner E W

SUBJECT: Mexico - Extended Arrangement--Program for the Second Year

Attached for your approval is the draft of the staff paper on Mexico's program for the second year of the extended arrangement It has been cleared by the following departments

Exchange and Trade Relations	Mr Guitián
Fiscal Affairs	Mr Tanzi
Legal	Mr Ogoola
Research	Mr Hood
Treasurer's	Mr Wittich
Western Hemisphere	Messrs Beza, Ferrán and Caiola

This paper also includes 32 Statistical Appendix Tables that are not attached to this draft

Attachment

cc Mr Collins

Office Memorandum

TO	The Managing Director The Deputy Managing Director	DATE	January 24, 1984
FROM	E Wiesner EW		
SUBJECT	Mexico - Extended Arrangement--Program for the Second Year		

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Western Hemisphere	Messrs Beza, Ferrán and Caiola

This paper also includes 32 Statistical Appendix Tables that are not attached to this draft

Attachment

cc Mr Collins

Mr Wiesner

This is a remarkably well written report on a very impressive performance I should like this to be sent to Mr Guth (and to his colleagues at the advisory group) sin some appropriate format He wants a "MT concept" Here it is I should like to accompany this with a letter stressing the MT outlook of the BOP and debt profile We have to prepare the 1985 rescheduling operations which loom in the horizon

signed (MD)
Jan 26, 84

1/19/84

Office Memorandum

JAN 18 1984

To: The Managing Director
The Deputy Managing Director

Date: January 18, 1984

From: S. T. Beza STB

Subject: Mexico--Request for Increased Access under EFF

This note deals with Mexico's request that its annual access under the EFF be increased from SDR 1,204 million (150 percent of old quota) to SDR 1,456 million (125 percent of new quota). It has been discussed with Messrs. Finch, Habermeier, Nicoletopoulos, and Wiesner.

Your suggestion that we build a case for "need" is difficult to carry out. As the program is framed, drawings under increased access would have the effect of raising the gross reserves of the Bank of Mexico; such reserves are now scheduled to rise by US$3 billion in 1984, and it can hardly be argued that an additional US$250 million would make a critical difference. At the same time, we would not consider it appropriate to change the program to increase spending, particularly out of Fund resources. I might add that we have not had any suggestion that the authorities are thinking of a change in the program. What they apparently are seeking in requesting increased access is to be able to show domestic public opinion that their policy stance brings rewards.

I rather like that idea.

I rather like the idea.

Another approach might be to link increased access to further policy understandings, relating for example to more specifics on trade liberalization or exchange market unification (the current difference between the two markets is around 10 percent). While improvements in policies could provide some justification for larger Fund support in that the changes involved might increase pressure on reserves, it would seem questionable to link them to relatively small amounts of additional financing, which would only be available to deal with such pressure if the balance of payments test were to be relaxed somewhat. I would not hold out much hope that the authorities would be receptive to suggestions along these lines.

I would suggest a low key response to the authorities in which we would inform them that we had examined their request but could not develop the case for need, and that we ask that they drop their request. It should be borne in mind that if we take this course of action, we will have to be prepared to explain to the Mexican authorities any future cases in which access exceeds their ratio by a significant amount.

cc: Mr. Finch
Mr. Habermeier
Mr. Nicoletopoulos
Mr. Wiesner
Mr. Collins

No. I would suggest a different answer. We would say that at the present juncture we do not see a case for need. But if BoP pressure were to develop in particular because of opening of trade.... we would be ready to consider the matter. JdeL Jan. 18. 84

No. I would suggest a different answer. We would say that at the present juncture, we do not see a case for need. But if BoP pressure were to develop in particular because of opening of trade...we would be ready to consider the matter. JdeL Jan. 18, 1984

File Mexico

Mexico

Office Memorandum

To: Mr. Finch
Mr. Habermeier
Mr. Nicoletopoulos

Date: January 17, 1984

From: S. T. Beza STB

Attached is a note from the Managing Director on the telex from Mexico. Also attached is a proposed memorandum answering the Managing Director's note. I should note that the response I am suggesting to the Mexican request does not make reference to the implications of high access for the Fund's liquidity position. Should such a reference be included?

I would appreciate your comments as soon as possible.

Attachments

cc: Mr. Wiesner
Mr. Guitian

MD

INTERNATIONAL MONETARY FUND

January 9, 1984

We would have to build a solid case (need) and avoid any precedent. I am eager to hear from you on this Jan 13 84

TO The Acting Managing Director

FROM S T Beza

The attached telex follows up on a call I had from the Bank of Mexico on Friday afternoon, January 6

Attachment

We would have to build a solid case (need) and avoid any precedent I am eager to hear from you on this

cc The Managing Director (o/r)
Mr Finch
Mr Habermeier
Mr Nicoletopoulos
Mr Wiesner
Mr Collins (o/r)

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MR STERIE T BEZA
INTERFUND
WASHINGTON D C

THIS IS TO CONFIRM THE REQUEST THAT THE FORTHCOMING PRESENTATION TX OF MEXICO'S ECONOMIC AND FINANCIAL PROGRAM FOR 1984 TO THE FUND EXECUTIVE BOARD INCLUDE THE REQUEST THAT MEXICO S ACCESS TO FUND RESOURCES BE INCREASED TO 125 PCT OF MEXICO'S NEW QUOTA

SINCERELY YOURS

MIGUEL MANCERA
ALTERNATE GOVERNOR FOR THE FUND

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RECEIVED
JAN - 9 1984
Western Hemisphere Department

Mexico

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INTERNATIONAL MONETARY FUND

January 9, 1984

TO : The Acting Managing Director

FROM: S. T. Beza DJB

The attached telex follows up on a call I had from the Bank of Mexico on Friday afternoon, January 6.

Attachment

cc: The Managing Director (o/r)
Mr. Finch
Mr. Habermeier
Mr. Nicoletopoulos
Mr. Wiesner
Mr. Collins (o/r)

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T N0175 MEXICO DF 6 ENE 84 JMA HRS 20 03
MR STERIE T BEZA
INTERFUND
WASHINGTON D C

THIS IS TO CONFIRM THE REQUEST THAT THE FORTHCOMING PRESENTATION ~~X~~ OF MEXICO'S ECONOMIC AND FINANCIAL PROGRAM FOR 1984 TO THE FUND EXECUTIVE BOARD INCLUDE THE REQUEST THAT MEXICO S ACCESS TO FUND RESOURCES BE INCREASED TO 125 PCT OF MEXICO'S NEW QUOTA

SINCERELY YOURS

MIGUEL MANCERA
ALTERNATE GOVERNOR FOR THE FUND

B A N X I C O

440040 FUND UI

1775805 BMCOME
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RECEIVED
JAN - 9 1984
Western Hemisphere Department

Con los atentos saludos de

Jesus Silva-Herzog F

→ Communications Division

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STB
JP
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JAN 9 1984

G.H.1

ESTADOS UNIDOS MEXICANOS

SECRETARIA
DE
HACIENDA Y CREDITO PUBLICO

Mexico City, January 3rd., 1984

ORIG: WHD
CC: MD
DMD
MR. SENIOR
ETR
LEG
RES
SEC
TRE
MR. COLLINS

Mr. Jacques de Larosière
Managing Director
International Monetary Fund
700 19th Street, N. W.
Washington, D. C.

Dear Mr. de Larosière:

1. We are writing to you at this time to inform you on the progress achieved to date in the implementation of the program for economic recovery (PIRE) undertaken by the Mexican Government since late 1982 and supported by the International Monetary Fund with an extended arrangement. We also wish to take this opportunity to communicate to you our policy intentions for 1984.

2. In 1982 Mexico experienced an acute economic and balance of payments crisis. During that year there was a sharp contraction in economic activity, a drop in employment, unprecedented rates of domestic inflation, and a fall in the country's international reserves of such proportions that it led to a virtual suspension of most international payments.

3. The economic recovery program adopted in late 1982 was designed to restore confidence by dealing with the major imbalances that had developed. Emphasis was placed on the strengthening of the public finances and of domestic savings to correct the external disequilibrium and reduce inflation. Elimination of these external and internal imbalances was considered crucial for establishing a sound basis for the resumption of sustained growth of output and employment.

4. In order to achieve these goals, the program called for a very sharp reduction in the public sector deficit; such an adjustment in public finances was expected to ease pressures on both domestic prices and the balance of payments and lower the dependence on foreign financing. Interest rates were raised to promote the growth of financial savings. Domestic price controls were relaxed, with due regard to the purchasing power of lower-income groups, in order to encourage production, and wage policy was geared to the objective of protecting the

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level of employment. Steps were taken to adjust the exchange rate, with a view toward restoring the competitiveness of the economy and increasing the availability of foreign exchange, and to eliminate exchange rate subsidies. To enhance Mexico's capacity to implement the adjustment policies, negotiations were undertaken with foreign creditors to refinance the public sector's short-term debt and its medium- and long-term obligations falling due through the end of 1984. Moreover, a new facility for coverage of foreign exchange risks (FICORCA) was set up to encourage the restructuring of private obligations abroad with a view toward spreading the exchange losses already incurred over the life of the rescheduled debt, while providing cover for exchange losses during that period.

5. Substantial progress has been achieved to date in fulfilling the objectives of the economic recovery program. The public finances were strengthened considerably in 1983, and for the year as a whole, the public sector deficit is estimated to have remained within the Mex$1,500 billion contemplated in the fiscal program.

6. Public sector receipts for 1983 as a whole are estimated to have reached a somewhat higher level than that originally programed, reflecting the impact of the comprehensive set of fiscal revenue measures introduced since late 1982, which included tax measures and the adoption of a more realistic pricing policy for the goods and services provided by the public sector. Higher revenue from the petroleum sector, together with larger collections from income and excise taxes, more than compensated for the value-added tax collections, being somewhat lower than originally projected, because the levels of imports, of economic activity, and of consumption of taxable goods and services were below what had been expected.

7. Total public sector outlays are estimated to have been somewhat above the levels originally projected for 1983, mostly because of higher interest payments. Most other expenditure categories have remained within, or have even been below, the original authorizations. In the course of 1983 a careful evaluation was made of all public sector investment programs, to select which ones would be continued, postponed, or canceled. In this context emphasis was given to those public work projects with a high labor content, as well as those that were at an advanced stage of completion. This evaluation process slowed down the implementation of some public investment projects that had been authorized for 1983, but will permit a more efficient use of investment resources over the coming years.

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8. The flow of savings into the banking system exceeded the program projections in 1983, as the level and structure of interest rates were managed flexibly in the light of changes in inflationary expectations. Because of the sluggishness of the demand for credit by the private sector, total credit expansion remained below what had been programed.

9. Inflation has been reduced from a monthly rate of nearly 11 percent in December 1982 and January 1983 to a monthly average of about 4 percent in the period August-November 1983; the rise in prices in the 12 months ending December 1983 is estimated to have been of the order of 80 percent. The gains achieved in the fight against inflation were made possible not only by the reduction of demand pressures but also by the cooperation and sense of responsibility of the Mexican people. We should underscore the solidarity of the Mexican labor movement, which has shown great restraint in its wage demands. It is recognized that lasting increases in real wages and employment can only be achieved on the basis of increases in production and productivity.

10. Mexico's balance of payments has strengthened far more than expected. In the period January-October 1983 the gross foreign reserves of the bank of Mexico rose by US$2.5 billion, while the net international reserves (which include the liabilities on account of external payment arrears and the emergency credits received in late 1982) increased by about US$5 billion. The gain in reserves in 1983, which exceeded by a wide margin the US$2 billion increase that had been targeted, had as its counterpart a sizable current account surplus --which in the first three quarters of 1983 amounted to over US$3 billion-- in contrast to a US$3 billion deficit for 1982 as a whole. The trade balance for the first eleven months of 1983 showed a surplus of about US$12 billion, mostly reflecting a sharp contraction of imports but also a recovery of non-oil exports in recent months. This fall in imports, particularly those of the private sector, was in large part the result of the substantial improvement in Mexico's competitiveness and the low level of economic activity, but it also reflected the administrative controls over imports applied in the first few months of 1983, due to the very limited availability of foreign exchange until the negotiations on external financing for 1983 from foreign commercial banks were completed and uncertainties about international oil prices were dispelled.

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11. Significant steps have been taken to improve the functioning of the foreign exchange market. In December 1982, the generalized system of exchange controls was revoked and a new dual exchange rate system, with a controlled market and a free market, was introduced on a temporary basis. These new exchange arrangements were accompanied in both markets by an immediate sharp depreciation, which helped restore the competitiveness of the Mexican economy. Because of the uncertainties prevailing at the time of the reorganization of the exchange markets, a differential of 58 percent initially prevailed between the controlled and the free market rates. Subsequently, the rate in the controlled market was adjusted daily, while the free market rate remained stable, and by mid-September 1983 the differential had been reduced to 13 percent. Since September 23, 1983, the exchange rate in the free market has been adjusted by the same nominal amount as in the controlled market; consequently, the differential between the two rates has continued to narrow in percentage terms, though at a slower pace than during the first nine months of 1983. Because of developments in relative prices at home and abroad, the real effective exchange rate appreciated in the early part of 1983, but it has stabilized in recent months at levels that still involve a large depreciation by comparison with the levels that prevailed in 1977-82.

12. The achievement of more stable conditions in the foreign exchange markets and the restoration of capital flows from abroad were important tasks addressed during 1983. Access to the exchange market was liberalized for the payment of current and capital transactions and several facilities were introduced to help domestic debtors deal with their external obligations. A deposit scheme was established for the settlement of arrears on account of interest payments due by private firms to foreign financial institutions. Other special arrangements were developed for the orderly settlement of external arrears arising from foreign supplier's credits. Also, Mexico has been negotiating the restructuring of private external debt guaranteed by the official agencies of Mexico's main trading partners. A total of US$1.1 billion of arrears was paid in 1983. Moreover, foreign creditors have been encouraged to restructure the external debt of the private sector through the mechanism of FICORCA, which has permitted restructuring most of the external debt of the private sector without assumption of the commercial risk by the public sector. By late October 1983 domestic borrowers had registered US$11.6 billion under FICORCA.

13. An important element in the economic recovery program adopted in late 1982 has been the restructuring of Mexico's external debt and the reduction of the dependence on external financing. The net foreign borrowing requirements of

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the public sector were reduced sharply in 1983, and at the same time the obligations with foreign commercial banks falling due between August 1982 and the end of 1984 were restructured, thereby improving the maturity structure of Mexico's external public debt.

14. Although notable advances were made in 1983 in improving the external accounts and reducing inflation, the magnitude of the adjustment effort and some elements of uncertainty that initially prevailed have precluded the attainment of the aims for production and employment contemplated for the year. The reduction in output that occurred in the second half of 1982 and in early 1983 was larger than expected and real GDP contracted in 1983. This drop in economic activity reflected severe cutbacks in investment by both the public and private sectors. However, an effort was made to maintain the levels of employment prevailing in late 1982.

15. In 1984, the program will seek to continue the sharp reduction in the pace of inflation and to achieve a gradual resumption of economic growth, while maintaining a strong balance of payments performance. It needs to be emphasized that Mexico is not willing to live permanently with significant inflation, because, in our view, such a development would be damaging to the distribution of income and to the growth of output and employment. Thus, what is being sought is not just a temporary slowdown of inflation, or its repression, but rather its elimination. At the same time, attention needs to be given to the tasks of revitalizing production and creating employment. The financial program for 1984 is consistent with a recuperation of economic activity involving growth of real GDP of 1 percent over 1983. The recovery will depend in part on an expansion of investment. The implementation of the economic program over the past year contributed to the restoration of confidence and should encourage private investment. Moreover, additional steps are being taken to enhance the generation of domestic savings to finance a larger level of investment in both the public and private sectors.

16. The reduction of the public sector deficit made a key contribution to the process of adjustment in 1983, and the program for 1984 calls for a continued improvement in public finances. The overall public sector deficit for 1984 has been programed at Mex$1,524 billion, equivalent to 5.5 percent of projected GDP. The cutback in the deficit in relation to GDP will contribute to a further slowdown of inflation, while making possible a further reduction of the dependence on external financing.

17. Major steps have already been taken to increase tax receipts through the tax measures implemented in 1983; consequently, during 1984 efforts will be concentrated on strengthening tax administration rather than on raising nominal rates of taxation. Measures being adopted include: redefining tax brackets; abolishing some tax exemptions that had given rise to evasion· broadening the definition of taxable income; and improving the registry of taxpayers. Public sector revenue in 1984 is expected to benefit from the anticipated economic recovery and an increased flow of imports, but most of the gain in revenues is expected to come from further adjustments in the prices of public sector goods and services. The pricing policy for the goods and services sold by the public sector will involve gradual adjustments to compensate for inflation and to reduce or eliminate operating losses not justified by equity considerations. Furthermore, prices of internationally traded goods will continue to be adjusted with reference to those prevailing abroad, so as to improve efficiency and rationalize domestic consumption. It is expected that increases in the prices of these goods and services will yield the equivalent of about 1 1/2 percent of GDP in additonal public sector receipts in 1984.

18. Public sector expenditure policy will emphasize the promotion of economic and social development through the protection of employment, the provision of basic services, and the restructuring of subsidies so as to improve income distribution. The structure and programming of public expenditure will be consistent with the desired pattern and growth of domestic demand, thereby contributing to the recovery of economic activity and the fight against inflation. Efforts to enhance the efficiency of the public sector and to reduce operating costs, both in the Central Government and in state enterprises, will be continued. Measures will include: increasing the share of investment in total expenditures; rationalizing subsidies and transfers, particularly those to the industrial sector, as part of a policy of setting more realistic public sector prices; canceling low priority programs; pursuing a wage policy for public servants in accordance with the country's situation; limiting the creation of new positions in the public sector to those strictly necessary; strengthening mechanisms of evaluation and control of expenditures, especially those of decentralized state enterprises; and major efforts to re-establish sound financial basis in public sector firms. Subsidies will be concentrated on lower-income groups, and those that do not have a social justification will be gradually

eliminated. Employment programs in critical rural and urban areas will be continued. Investment programs will give priority to labor-intensive projects, particularly in infrastructure, transport, communications, and rural development. Similarly, greater emphasis will be given to projects related to the production and distribution of basic consumer goods or strategic industrial and agricultural inputs, as well as to those that have a low import content or which are at an advanced stage of completion. The Government intends to increase the savings of the public sector in 1984, thereby permitting both an increase in public investment and the reduction of the overall public sector deficit.

19. The budget recently approved by Congress includes an authorization for a contingent expenditure of Mex$277 billion. This additional expenditure will only be released during the second semester of 1984 if there is evidence that economic activity is not recovering and if noninflationary resources are available to finance it. Such resources could come from both a greater availability of public sector receipts than that projected in the budget and from the availability of excess financial savings in the banking system because of a weak demand for credit by the private sector. Moreover, because of the need to support productive activities and employment, the contingency funds, if activated, will be primarily used to finance investment and employment—generating programs, particularly by the private and social sectors. The release of any additional spending from this contingency reserve will not be allowed in any way to affect the central objectives of reducing inflation and strengthening the balance of payments.

20. Monetary and credit policy will be oriented toward supporting the production, price, and balance of payments objectives of the program. The Bank of Mexico's overall credit expansion and the net credit to the public sector will be consistent with the inflation and balance of payments targets of the program. Adequate room will be provided for the expansion of credit to the private sector, consistent with the economic recovery envisaged.

21. Interest rate policy will continue to be managed flexibly to stimulate domestic savings while taking into account developments in the foreign exchange market. Nominal interest rates have declined in recent months, accompanying the slowdown of inflation, and the demand policies that will be followed in 1984 are expected to result in a further deceleration of inflation and thus in further declines in nominal interest rates. The objective of interest rate policy is to maintain positive

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real rates on most financial savings instruments, while at the same time reducing the spread between the rates charged on loans and those paid to depositors. To this end, the charges for various banking services are being revised so as to better reflect their costs, and ways are being explored to increase the efficiency of the banking system. In addition, measures will continue to be taken to reduce inequitable financial subsidies. The system of reserve and portfolio requirements is being reviewed, with the aim of gradually and selectively reducing financial subsidies that are not socially justified in relation to their economic cost. Interest rates charged on preferential credits will bear a closer relationship to the cost of funds in order to improve efficiency in the allocation of financial resources. Steps were taken in 1983 to combine existing banks into larger units that can take advantage of economies of scale. The growth of security markets will continue to be fostered during this year with a view toward stimulating the development of financial intermediation outside the banking system. The national development banks and official trust funds will continue to be the main instruments for channeling preferential credit, but there will be a rationalization of the activities of the official trust funds.

22. A significant reduction in the number of goods subject to price controls was implemented in early 1983. In order to maintain adequate incentives to producers, the need for continued flexibility in the management of the remaining price controls is recognized; however, in implementing this policy the authorities will pay due regard to the impact of price increases on the purchasing power of lower-income groups and on the availability of basic goods. The liberalization of price controls and the reduction in subsidies have resulted in corrective increases in prices that have been reflected in the price indices but that need not contribute to the perpetuation of inflation. Since most of the impact of the repressed inflation of earlier years has already been passed into prices, it is expected that corrective price adjustments will be considerably smaller in 1984. Some 300 items remain subject to direct price controls, involving mostly essential goods and services. Changes in the prices of these goods and services will continue to have to be justified on the basis of increases in costs. In this connection, the authorities stand ready to reduce import protection in order to induce enterprises to lower costs and to keep prices at competitive levels.

23. With respect to wage policy, the intention is that it continue to be forward-looking, in order to pursue the employment objectives of the program. Efforts to protect the

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purchasing power of the lower-income groups will be reinforced in 1984. Measures will include a redirection of subsidies. Experience has shown that automatic adjustments in wages to past price increases are self-defeating, since they only serve to perpetuate inflation and, ultimately, to erode real wages and employment. A lasting improvement in real wages must be based on the re-establishment of a sound growth performance.

24. The adjustments made in the exchange system since December 1982 have restored external competitiveness and have contributed to a strengthening of the capital account. However, as long as the rate of inflation remains higher than that of Mexico's major trading partners, a flexible exchange rate policy will continue to be necessary to ensure the maintenance of competitiveness and the generation of employment. Exchange rate policy, together with the other policies of the economic recovery program, will continue to be directed to the achievement of a sustainable balance of payments and an adequate level of international reserves. It is the firm intention of the authorities to unify the exchange system, but the current dual exchange rate system will be maintained temporarily in order to sustain orderly conditions in the capital account. The free exchange market will continue to be available for all transactions, and gradual adjustments in rates in the free and controlled markets will continue to be made in accordance with both internal and external price developments, the balance of payments targets, and the aim of reaching the eventual unification of foreign exchange markets.

25. Demand and exchange rate policies are the most appropriate instruments for achieving the overall balance of payments objectives of the program. The role of commercial policy, and in particular of import duties, quotas, and import permits --which in the past had been heavily relied upon for the achievement of certain balance of payments aims-- will in the future be used mainly to determine the relative structure of protection among various economic sectors with a view to reorienting resource allocation, particularly within the industrial sector. The authorities are aware of the negative effects that heavy reliance on direct controls over imports can have on domestic prices and the growth of economic activity, and in the second half of 1983 the value of monthly import permits was increased markedly. This liberalization of import permits will continue at an even faster pace in 1984, as the system of import permits is restructured and to a large extent replaced by a revised schedule of import tariffs. The reforms of the import tariff regime will aim at rationalizing effective protection, which would promote the export of goods and services and achieve

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a more efficient pattern of import substitution, while avoiding the generation of oligopolistic gains. While the rationalization of commercial policy is central to the restructuring of the economy, further efforts in this direction should be considered in the context of an improved access to foreign markets. To this end, an approach will be made to major trading partners to find ways in which Mexico's access to those markets might be enhanced.

26. In 1984, the public sector's dependence on net foreign financing is expected to decline further. In line with the fall in the public sector deficit as a proportion of GDP, the public sector's net use of foreign credits will not exceed US$4 billion. In particular, efforts will be made to increase the use of loans from multilateral financing institutions and official lines of credit from bilateral sources, so as to continue to improve the terms of the public sector debt and to avoid recourse to short-term foreign financing.

27. With respect to the external obligations of the private sector, significant progress has been achieved in restructuring the existing debt and settling outstanding arrears. Most of these arrears were paid in 1983, and it is the intention of the authorities to eliminate remaining arrears in the course of 1984. In restructuring private debt, the Mexican authorities have maintained the principle that, although willing to assist in the rescheduling or refinancing arrangements and facilitate the transfer of foreign exchange, the public sector would not assume the commercial risk involved in these operations. In accordance with this principle, neither the Bank of Mexico nor the nonfinancial public sector will undertake to furnish guarantees on behalf of private sector firms with respect to their external indebtedness, and any guarantees offered by publicly-owned financial institutions on their own behalf will be those normally granted by such institutions in the conduct of their business.

28. The economic adjustment program being carried out by Mexico is not an end in itself. It is a means to overcome a critical situation involving major economic disequilibria, in order to regain a path of sustained economic and social development. At the same time, it seeks to bring about major structural changes in Mexico's economy and society, so that national income be distributed more equitably among the population; that social imbalances be diminished; that democratic institutions and national sovereignty be strengthened; and that freedom and justice prevail in our development processs.

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29. The Mexican authorities believe that the policies and measures described in this letter are adequate to achieve the objectives of the program, but will take any additional measures that may become appropriate for this purpose. During the remaining period of the arrangement the financial authorities of Mexico and the Fund will consult periodically, in accordance with the policies on such consultations, to examine the progress being made in implementing the program and the achievement of its objectives. In particular, the implementation of the economic program described herewith and the evolution of economic activity during the first half of 1984 will be reviewed before July 31, 1984 in the context of the normal annual Article IV consultations conducted with member countries.

Sincerely yours,

Jesus Silva-Herzog F.
Secretary of Finance
and Public Credit

Miguel Mancera Aguayo
Director General
Bank of Mexico

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Technical Memorandum of Understanding

In accordance with the Economic Program that has been designed for 1984 and which is described in the letter dated January 3rd., 1984:

1. The public sector's net use of foreign credit, which amounted to US$2,555 million in the first nine months of 1983 and is estimated to have amounted to US$4,200 million in the whole of 1983, will be subject to the following schedule in 1984: it will not exceed US$1.1 billion in the first three months; US$2.1 billion in the first six months; US$3.1 billion in the first nine months; and US$4.0 billion in 1984 as a whole.

2. The Bank of Mexico's net claims on the public sector, which amounted to Mex$2,455 billion as of the end of November 1983, and are estimated to have amounted to Mex$2,877 billion by the end of 1983, will be subject to the following schedule in 1984: it will not exceed Mex$3,023 billion during the period January-March; Mex$3,205 billion during the period April-June; Mex$3,397 billion during the period July-September; and Mex$3,734 billion during the period October-December.

3. The overall deficit of the public sector is to be reduced from an estimated 8.3 percent in 1983 to 5.5 percent in 1984. The overall deficit of the public sector, which amounted to Mex$622 billion in the first nine months of 1983, and had been programmed not to exceed Mex$1,500 billion in 1983, will be subject to the following schedule in 1984: it will not exceed Mex$330 billion in the first three months; Mex$640 billion in the first six months; Mex$980 billion in the first nine months; and Mex$1,524 billion in the year as a whole. These limits would be adjusted on the basis of the last sentence of paragraph 5 of this technical memorandum.

4. The net domestic assets of the Bank of Mexico will be subject to the following schedule in 1984: they will not decline by less than Mex$40 billion during the period January-March; Mex$71 billion during the period January-June; Mex$113 billion during the period January-September; and Mex$43 billion during the period January-December.

5. Financial intermediation conducted by the National Development Banks and all Official Trust Funds (including those of the Bank of Mexico, but excluding FICORCA) will increase by up

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to Mex$200 billion in 1984, subject to the following schedule: it will not increase by more than Mex$70 billion during the period January-March; Mex$130 billion during the period January-June; Mex$170 billion during the period January-September; and Mex$200 billion during the year as a whole. In the event that these limits are exceeded, the limits on the overall deficit of the public sector, mentioned in paragraph 3 of this technical memorandum, will be reduced by a corresponding amount.

6. The net foreign assets of the Bank of Mexico, which amounted to US$2,483 million on September 30, 1983, and are estimated to have amounted to US$3,219 million on December 31, 1983, will increase at least by US$2.000 million in 1984, subject to the following targets: they will increase by at least US$300 million in the period January-March 1984; US$800 million in the period January-June 1984; US$1,300 million in the period January-September 1984; and US$2,000 million in the year 1984.

7. The contingency expenditure reserve included in the 1984 Budget will be released only after sufficient evidence has been collected indicating that: (1) noninflationary resources are available, as reflected either by the behavior of public sector revenue, or the accumulation of net international reserves in excess of the targets established in paragraph 6 and developments in bank credit to the private sector; and (2) economic activity has failed to recover while the inflation rate is within the expected path. The developments described above will be reviewed with the Fund staff, on the occassion of the Article IV consultation, mentioned in paragraph 28 of the letter of intent.

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MR STERIE T BEZA
INTERFUND
WASHINGTON D C

THIS IS TO CONFIRM THE REQUEST THAT THE FORTHCOMING PRESENTATION OF MEXICO'S ECONOMIC AND FINANCIAL PROGRAM FOR 1984 TO THE FUND EXECUTIVE BOARD INCLUDE THE REQUEST THAT MEXICO'S ACCESS TO FUND RESOURCES BE INCREASED TO 125 PCT OF MEXICO'S NEW QUOTA.

SINCERELY YOURS

MIGUEL MANCERA
ALTERNATE GOVERNOR FOR THE FUND

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RECEIVED
JAN - 9 1984
Western Hemisphere Department

Mexico

Office Memorandum

TO : The Managing Director

DATE: January 3, 1984

FROM : S. T. Beza STB

SUBJECT : Debt Service Ratios--Argentina, Brazil, and Mexico

The tabulation below presents debt service ratios before and after rescheduling.

Debt Service Ratios for 1984

(In billions of U.S. dollars and as percent of exports of goods and services)

	Argentina		Brazil		Mexico	
	US$bn	%	US$bn	%	US$bn	%
Interest	5.2	49	11.5	39	11.2	33
Amortization 1/	3.0/11.3	29/108	2.7/8.3	9/28	2.7/6.5	8/19
Total 1/	8.2/16.5	78/157	14.2/19.8	48/67	13.9/17.7	41/52

1/ The first figure refers to amortization after rescheduling and the second figure assumes no rescheduling. In the case of Argentina, the figure of amortization before rescheduling includes approximately US$7 billion in maturities that were expected to have been rescheduled in 1983 but which now will have to be covered in the rescheduling negotiations of 1984; no Paris Club rescheduling is assumed in the Argentine figures for 1984 because the relevant figures are not known.

As was noted in my earlier memorandum on the debt service ratios for these countries in 1983, it is assumed above that interest payments are the same with and without rescheduling.

cc: Mr. Wiesner
Mr. Brachet
Mr. Pujol
Mr. Reichmann
Mr. Lipsky
Mr. Neuhaus
Mr. Stuart
Mr. Collins

INTERNATIONAL MONETARY FUND

TO The Managing Director January 3, 1984

FROM S T Beza STB

Attached is a set of tables providing details of the debt rescheduling and new money packages for Argentina (1983), Brazil (1983 and 1984), and Mexico (1983 and 1984)

cc Mr Wiesner
Mr Brachet
Mr Pujol
Mr Peichmann
Mr Lipsky
Mr Stuart
Mr Collins

Argentina Terms on New Money and Rescheduling, 1983

Title	Amount	Maturity	Spread	Fees
	I New Money from Foreign Bank Creditors			
Bridge loan	US$1 1 billion	14 months with 7 months grace	1 5/8 percent over LIBOR 1 1/2 percent over Prime	1/2 percent commitment fee 1 percent management fee and US$300 000 agent fee
Medium-term loan	US$1 5 billion 1/	4 1/2 years with 3 years grace	2 1/4 percent over LIBOR 2 1/8 percent over Prime	Commitment fee 7/16 percent until signature 1/2 percent until disbursement management fee 1 1/4 percent agent fee US$300 000 per year
	II Rescheduling			
Public sector 1983 maturities to banks 2/	US$7 billion	7 years with 3 years grace	2 1/8 percent over LIBOR 2 percent over Prime	Management fee 1 1/8 percent Agent s fee to be determined on a competitive basis
Private sector import financing covered by Swap arrangement with the Central Bank 3/	US$296 million	15 months with 9 months grace	Varies with each individual loan	
Other private sector loans covered by Swap arrangements with the Central Bank 3/	US$1 134 million	3 years with 18 months grace	Varies with each individual loan	
Private sector loans maturing between 11/25/82 and 3/31/83 covered by exchange guarantees of the Central Bank 3/	US$1 329 million	5 years with 3 years grace	2 percent over LIBOR 1 7/8 percent over Prime 4/	
Private sector loans maturing after 3/31/83 covered by exchange guarantees of the Central Bank 3/	US$1 457 million	5 years with 3 years grace	2 percent over LIBOR 1 7/8 percent over Prime 4/	

Sources Data provided by Argentine authorities and Argentina s foreign bank creditors
1/ Only US$500 million was disbursed
2/ None of the several agreements involved in this rescheduling operation were completed
3/ The basic terms of these reschedulings were presented unilaterally by Argentina but many of the details including the possibility of indicating the spreads in terms of the U S prime rate (in addition to LIBOR) and the possibility of foreign creditors charging additional fees to private Argentine debtors were the subject of year-long negotiations between the Government of Argentina and foreign bank creditors
4/ The terms indicated are for Government of Argentina U S dollar bonds or promissory notes issued in substitution for these private sector debts Provision was made for foreign bank creditors to negotiate directly with their private Argentine clients terms that would maintain the direct relationship between foreign creditor and domestic debtor In this case the spread could be increased from the levels shown by a maximum of 3/8 percentage point (to be paid in U S dollars) and additional fees in pesos could be charged

Table Brazil Summary of External Debt Rescheduling and Associated New Loan Disbursements, 1983-84

(In billions of U S dollars, years, and percent)

	1983	1984
I Commercial banks (non-Brazilian)		
New money facilities 1/		
Amount	US$4 4	US$6 5
Maturity	8 years	9 years
Grace period	2 years	5 years
Interest rate	LIBOR + 2 1/8% or U S prime + 1 7/8%	LIBOR + 2% or U S prime + 1 3/4%
Fees		
Commitment fee	1/2%	1/2%
Facility fee	1 1/2%	1%
Disbursement of lending committed during 1982 2/	US$1 4	--
Disbursements of new buyers' and suppliers' credits 2/	US$0 6	US$0 6
Rescheduling (of medium-term maturities due) 2/		
Amount (est and proj)	US$4 3	US$4 5
Maturity	8 years	9 years
Grace period	2 years	5 years
Interest rate	LIBOR + 2 1/8% or U S prime + 1 7/8%	LIBOR + 2% or U S prime + 1 3/4%
Facility fee	1 1/2%	1%
Rollover of short-term trade credits 2/3/		
Amount (est. and proj)	US$10 4 4/	US$9 8 4/
Maturity (total amount available)	360 days	360 days
Grace period		
Interest rate	by negotiation	LIBOR + 5/8% 5/ or as negotiated
Facility fee		1/8%
Rollover of interbank credit to Brazilian banks abroad 3/		
Amount (est and proj)	US$9 6 4/	US$6 1 4/
Maturity (total amount available)	360 days	360 days
Grace period		
Interest rate	by negotiation	LIBOR + 5/8% 5/ or as negotiated
Facility fee		1/8%

Table (concluded) Brazil Summary of External Debt Rescheduling and Associated New Loan Disbursements, 1983-84

(In billions of U S dollars, years, and percent)

	1983	1984
II Brazilian banks abroad		
Rescheduling of medium-term maturities due 2/		
Amount	US$0 5	US$0 9
Maturity	8 years	9 years
Grace period	2 years	5 years
Interest rate	LIBOR + 2 1/8% or U S prime + 1 7/8%	LIBOR + 2% or U S prime + 1 3/4%
Fees		
Commitment fee	1/2%	1/2%
Facility fee	1 1/2%	1%
Rollover of short-term trade credits		
Amount	US$1 6	US$0 6
Maturity (total amount available)	360 days	360 days
Grace period		
Interest rate	by negotiation	LIBOR + 5/8% 5/ or as negotiated
Facility fee		1/8%
III Official bilateral lenders		
Paris Club rescheduling		
Amount	US$1 3	US$1 8
Maturity	8 years	8 years
Grace period	4 years	4 years
Interest rate	by negotiation	by negotiation
New export credits		
Amount	--	US$2 5
Terms	by negotiation	by negotiation
IV Official multilateral lenders		
New disbursements		
Amounts (est and proj)	US$1 5	US$1 6
Terms	by negotiation	by negotiation
Total of gross new disbursements and rescheduled amounts	US$35 6	US$34 9

1/ Borrower Republic of Brazil
2/ Borrower any public and/or private sector entity
3/ For 1983, rollover was on a voluntary basis, for 1984, by formal contractual commitment
4/ Targeted amounts 1983 actuals were lower
5/ For lending to Central Bank of Brazil

Mexico Summary of External Debt Rescheduling and Associated New Loans Disbursements

I Loans to public sector from commercial banks

	Rescheduling	New Money	
		1983	1984
Period covered	Maturities falling due October-December 1982, 1983, and 1984	1983	1984
Amount covered	US$18 8 b of short- and medium-term debt	US$5 0 b	US$3 8 b
Maturity	8 years	6 years	10 years
Grace period	4 years	3 years	5 3/4 years
Interest rates	1 7/8 percent over Libor, or	2 1/4 percent over Libor, or	1 1/2 percent over Libor, or
	1 3/4 percent over prime	2 1/8 percent over prime	1 1/8 percent over prime
Commitment fee	1 percent	1 1/4 percent	5/8 percent

II Loans to private sector from commercial banks

Period covered	Loans contracted prior to December 20, 1982
Amount covered	US$11 6 billion
Maturity	7 to 12 years
Grace period	3-4 years
Interest rate	Varies from loan to loan
Commitment fee	Varies from loan to loan

III Official capital to public sector

	1983	1984
Period covered	1983	1984
Amounts covered (gross disbursements)	US$3 1 b (Est)	US$2 8 b (Est)
From bilateral sources	(2 5)	(2 0)
From multilateral souces	(0 6)	(0 8)
Terms	Vary from loan to loan	

IV Official capital to private sector
(under negotiation with Paris Club countries)

Period covered	Maturities falling due August 1982-December 1983
Amounts covered	US$1 9 billion (Est)
Terms	
On medium term	10 percent on maturity and remainder in six equal semi-annual installments beginning in 1986
On short term and interest in arrears	5 percent in 1983, 5 percent in 1984, 30 percent in 1985, and 60 percent in 1986