

Mexico

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México, D.F., mayo 31 de 1989.

Mr. Ted Sterie Beza  
Director  
Western Hemisphere Department  
I M F

Estimado Ted:

La resolución del problema de la deuda externa y la recuperación del crecimiento económico sostenido son los conceptos que han llevado a las autoridades mexicanas a mantener un diálogo con los integrantes más destacados de la comunidad financiera internacional.

Los primeros resultados observados fortalecen nuestra convicción para continuar el proceso de negociaciones, ya que se ha otorgado pleno reconocimiento al intenso esfuerzo de ajuste económico realizado por México, aspecto que se destacó en la presentación del programa económico de México ante el Directorio Ejecutivo del Fondo Monetario Internacional.

En la obtención de esos logros han sido especialmente valiosas la conjugación de voluntades personales como la tuya y la confianza que nos has brindado; para México, lo obtenido representa un primer paso en la solución definitiva al problema de su deuda externa.

Deseo expresarte mi más sincero agradecimiento por tu contribución personal a la culminación exitosa de nuestras gestiones, que se manifestó en la buena acogida del programa mexicano por el Directorio del Fondo.

Recibe un afectuoso saludo y mis más cumplidas consideraciones.

A t e n t a m e n t e ,





# Office Memorandum

INTERNATIONAL MONETARY FUND  
WESTERN HEMISPHERE DEPT.

1989 MAY 31 PM 3:24

Mr. Beza

Senior Staff  
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Mexico

May 30, 1989

## MEMORANDUM FOR FILES

SUBJECT: Executive Board Meeting 89/64 on 5/26/89 on Mexico's Requests 1/ for Extended Arrangement, with Set-Aside for Debt Reduction, and CCFE Purchase

The Executive Directors took up Mexico's request for an extended Fund arrangement of SDR 2,797.2 million and a CCFE purchase of SDR 453.5 million. The new proposals for a set-aside arrangement are presented in the supplement to the staff report (EBS/89/91, Sup. 1, 5/25/89, pp. 3-4) and read as follows:

"It is envisaged that 30 percent of each purchase made by Mexico under the extended arrangement would be set aside for debt reduction operations. The rights to draw on this set-aside would accrue subject to observance of performance criteria under the arrangement. The use of the set-aside would be conditional upon the completion by the Fund of a review of the authorities' debt reduction plan. This review would need to find that the proposed operations would be consistent with the objectives of Mexico's adjustment program and would represent an efficient use of set-aside resources.

The Mexican authorities are expected to indicate that they intend to request augmentation 2/ of the amount of the requested extended arrangement by up to 40 percent of Mexico's quota in the event that the financing arrangements concluded with commercial bank creditors provide for appropriate debt service reduction. In connection with a request for such support, it may be necessary to allow for exceptional access to use of Fund resources. Such augmentation may take place upon an appropriate review by the Executive Board."

Mrs. Filardo provided a buff statement (attached) and added that Mexico's ongoing discussions with commercial banks were difficult. She hoped that the Executive Directors would not only implement the new guidelines for the use of Fund resources in the debt reduction context but take into account Mexico's exceptional circumstances, its continuous adherence to a cooperative approach and its strong adjustment efforts. In the period ahead, Mexico would do its utmost to overcome its difficulties but it needed the Fund's continued

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1/ Documents (partial list): EBS/89/66, EBS/89/91 and Supplement 1, EBS/89/94 and Supplement 1; SM/89/94.

2/ Mrs. Filardo indicated at the beginning of the meeting that her Mexican authorities wished to present this request immediately, requesting outright approval at this meeting.

help in the direct financial sense as well as in securing debt reduction and new money arrangements which would allow Mexico to resume growth. This was possible only if net resource transfers abroad were reduced to 2 percent of GDP or less, the alternative Mexican proposals aligned with this limit had been given to the banks and were outlined in the buff statement (pp 6-7)

Mrs Filardo hoped that the Executive Directors would be prepared already in the present discussion to indicate that with respect to the level of access to the Fund's resources, they would recognize Mexico as an exceptional circumstances case in the augmentation context. The additional requests she had presented on behalf of her Mexican authorities were linked to the crucial negotiations under way with international commercial banks, a strong signal of support now from the Fund would help speed up the discussions and influence their outcome favorably. Mexico had earned such recognition from the Fund with its steadfast adherence over seven years to a cooperative, negotiated approach to its debt problem, and with its strong adjustment effort.

The Managing Director noted that Mrs Filardo's proposals would entail changes to the proposed decisions and to the text of the proposed extended arrangement. He informed the Executive Directors that the previous night (May 25) the Deputy Managing Director had received a telephone call from the chairman of Mexico's creditor banks' steering committee. The Deputy Managing Director had been informed that the banks were finalizing a new offer which was expected to be presented to the Mexican negotiators shortly.

The discussion proper was opened by Mr Kafka who praised the persistent and largely successful adjustment efforts of the Mexican authorities (similar praise was included in most subsequent interventions and was a prominent element in the statements of Messrs Feldmann, Marcel, Jalan, Finaish and Ghasimi). Mr Kafka noted some key achievements: the rate of inflation had been brought under control, the external balance had been strengthened under difficult circumstances, and there had been notable efficiency and structural gains. However, the growth rate had remained anemic under the pressures of the debt crisis. Output per capita and the standard of living had declined persistently.

In the period ahead much weight would rest on the planned fiscal measures which should help broaden the tax base. Subsidies would be pruned and nationalized enterprises reformed. The instrumental and institutional reforms to be introduced in the money and banking field should facilitate the macroeconomic adjustment performance. It would remain difficult to attain growth rates that would more than at best contain the severe un- and underemployment problems. The dilemma of the simultaneous needs to boost private savings and to moderate further real interest rates caused Mr Kafka to observe that heavier taxation of interest incomes would not be appropriate for the time being.

As all later speakers, Mr Kafka commended Mrs Filardo for her informative buff statement which, inter alia, stressed the need to limit net outbound resource transfers to 2 percent of GNP (per annum) or less. This reasonable aim would imply that at least half of scheduled interest payments on debt would have to be financed (one way or another) abroad.

Mr Filosa recalled the severe difficulties which the Mexican adjustment effort had endured in 1986-87, the performance in key areas was markedly better in 1988-89. The slower rate of inflation should now be consolidated. In view of the need to reduce further the PSBR, lower interest rates would be helpful.

Mr Filosa headed a series of speakers who underlined the central importance of tight fiscal policies in the period ahead. Mexico's recent experience in this area had included the vicious circle familiar to many countries with a large public sector debt, additional fiscal deficits boosted inflation, this tended to result in higher interest rates and these exacerbated the deficits. With slower inflation a monetary reintermediation process was taking place and it might help private financial savings to recover even if real and nominal interest rates were to decline a bit further. Mr Grosche placed even greater emphasis on tight fiscal policy, the program for the period ahead deserved support because the fiscal policy aims were satisfactory. But in view of the high level of proposed annual access to the Fund's resources, the remaining fiscal uncertainties (the difficulty of further reducing the PSBR, the tax reforms not yet fully in place, the uncertain development of interest payments on public sector debt) were causes of serious concern. Mr Warner thought that the envisaged further decline in the PSBR was ambitious if interest rates did not fall. In the longer run, the likely decline of the public sector's primary surplus (net current operations excluding interest) might cause difficulties. The tax reforms under way would bring important technical improvements but they might not add very much to revenues.

The appropriate exchange rate policy for the immediate future was by no means obvious, many Directors found Messrs Kafka and Feldmann noted that the modest real appreciation of the peso in 1988 had contributed to the slowing down of inflation without inducing any immediate competitiveness problems. Mr Feldmann thought that the exchange rate policy for the next year or so could be fully addressed only after the final outcome of the negotiations with the creditor banks was known. Messrs Filosa and Grosche regarded the prevailing exchange rate as realistic, Mr Grosche was concerned about the inflationary impact of faster nominal depreciation but he underlined also the aim of external viability. The best solution would be to adopt a strongly stability-oriented monetary policy and in that setting stabilize the exchange rate. Mr Masse agreed that if the authorities did not wish to depreciate the currency in real terms, they had to take adequate alternative steps to protect external competitiveness. Mr Warner

thought that the peso had perhaps become undervalued in 1985-87 so that the moderate real appreciation in 1988 did not create competitiveness problems. The "solidarity deal" under which trade unions had accepted less than full index compensation, would expire in July; a situation might follow in which faster nominal depreciation would be necessary.

Many directors agreed with the assessment of Mrs. Filardo and the staff that adequate minimum growth could not be resumed without significant debt reduction. Mr. Evans pointed out that the scope and terms of the debt reduction were far from clear; this inserted large uncertainties to the outlook and to the program being agreed with the Fund. Review provisions were useful but the staff should have proposed greater reliance on explicit contingency mechanisms in the extended arrangement. Messrs. Evans, Grosche and Cassell were annoyed by Mrs. Filardo's condemnation (in the buff statement) of debt/equity swaps; the Managing Director promised that the staff would produce a paper trying to establish a comprehensively informed view. It seemed that the effects of such swaps varied more than had usually been recognized.

All Executive Directors could approve the decisions proposed by the staff and recognize Mexico's "exceptional circumstances" for the purposes of augmentation of the extended arrangement (by up to 40 percent of quota, after determining that arrangements concluded with commercial banks are consistent with the Fund's guidelines for support of debt reduction). On Mrs. Filardo's request for immediate approval of augmentation, two groups were formed. The majority was prepared to indicate that augmentation was being approved, in principle, although it would not be available until the review of the arrangement with the banks had been concluded. Others (notably Messrs. Filosa, Cassell, Grosche, Hogeweg and Fogelholm), although supportive of augmentation, were not prepared to commit themselves formally in advance of access to the information on which the decision should properly be based.

Mrs. Filardo said that she preferred to have a full consensus decision rather than use the majority for an immediate decision on augmentation. According to the formulation approved the Fund "is prepared to consider" an augmentation by up to 40 percent of Mexico's quota in the event that financing arrangements consistent with the Fund's guidelines are concluded with commercial bank creditors.

J. Hauvonen 

Attachment

cc: Mr. Russo (o/r), EUR Divisions, Mr. Prust, Ms. Ripley, Mr. Ungerer  
Mr. Beza, Mr. Narvekar, Mr. Shaalan, Mr. Touré, Paris Office

**INTERNATIONAL MONETARY FUND**

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Mr Beza

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**Hugh G.O. Simpson**

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PRESIDENT

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Mexico

Mexico Statement by the Managing Director to  
the Commercial Banks' Steering Committee

I would like to discuss today the economic program of Mexico being supported by an extended arrangement from the Fund. In particular, I would like to focus my presentation on the main elements of the economic program being pursued by the authorities, and on the financing required to achieve the objectives embodied in it

Within the major reorientation of policies in place since 1982, in December 1987 the Mexican authorities introduced a comprehensive economic program based on a pact with labor and business, which was aimed at bringing down the rate of inflation, while restoring economic growth. In the event, the inflation rate fell sharply, however, real GDP growth was sluggish and the overall balance of payments registered a deficit of almost US\$7 billion

In response to these developments, the authorities have adopted an economic program for the period 1989-92 which seeks to consolidate the progress made in reducing inflation and to provide the basis for sustained growth and a strengthening of the balance of payments. The rate of inflation, which is targeted at 18 percent in 1989, from 52 percent in 1988 and 160 percent in 1987, is expected to decline to international level by 1991 while real GDP would increase steadily to 5 1/2 percent a year by 1991 and 6 percent subsequently. The program has been formulated in a medium-term framework and includes demand management and structural policies needed to foster economic efficiency and promote increased investment.

The economic program relies on financial policies to achieve

external and internal balance, and on structural policies to enhance the prospects for growth. A central element is a further tightening of the fiscal stance as reflected in a planned marked increase in the primary fiscal surplus. This, together with a reduction in nominal interest rate, should lead to a decline in the public sector borrowing requirements equivalent to 6 percentage points of GDP. The strengthening of the public sector operations would be achieved through continued efforts to rationalize the tax system, following the recent reforms that have eliminated distortions in the income tax structure, and improvement in tax administration. The authorities will continue to monitor the performance of public enterprises and pursue its policy of divestiture of nonstrategic enterprises. Monetary policy will be supportive of the macroeconomic objectives of the program and will ensure that adequate incentives are in place to promote financial savings. In this regard, the authorities have implemented a far-reaching reform of the financial system in recent months, including the liberalization of interest rates, the availability of new financial instruments, and the simplification of reserve requirements.

In addition to the fiscal and financial reforms mentioned above, the authorities are aiming to complete the process of liberalizing the trade system which was begun in mid-1985. These reforms have led to an outward orientation of the economy and have attracted substantial amounts of foreign investments into the country. In particular, non-petroleum exports have increased rapidly making the economy more resilient and less dependent on the petroleum sector. The authorities have recently announced important changes in foreign investment

regulations that, combined with the recent reforms of the tax system, are expected to lead to a greater inflow of foreign capital contributing to strengthen the balance of payments and the investment process.

The program seeks to strike a reasonable balance between financing and adjustment, taking into account the need to replenish the current low level of international reserves. Mexico's external current account is projected to register a deficit of about US\$4.8 billion a year during 1989-91, mainly reflecting the high level of interest payments on its debt. The program targets an increase in net international reserves of about US\$3.6 billion over the three-year period, reversing about half of the decline in net reserves that was experienced in 1988. The program also includes a provision that favorable deviations from the base price of crude oil (US\$12 per barrel) and the assumed level of international interest rates would result, beyond a certain threshold, in a higher target for reserve accumulation. There is a symmetric provision in the event of unfavorable developments, but without recourse to foreign financing

Given the projected external current account deficit and the targeted increase in reserves, and taking into account scheduled amortization payments and expected developments in private capital flows, the gross external financing requirements is estimated at US\$12 billion per year during 1989-91. Of this amount, the program assumes that US\$3.6 billion per year would be made available from multilateral institutions (including the Fund). In this connection, on May 26, the Executive Board of the Fund approved a compensatory financing purchase by Mexico of SDR 453.5 million and a three-year extended arrangement for

SDR 2,797 2 million World Bank consideration of program loans totalling US\$1.5 billion is expected in mid-June. Official bilateral sources are expected to provide US\$2.2 billion a year, of which US\$0.7 billion a year could be made available during 1989-90 through a rescheduling of obligations due to Paris Club creditors. This leaves a financing gap of US\$6.2 billion a year that would have to be covered by commercial banks, including debt and debt service reduction operations.

The Mexican authorities have informed the Fund that they have proposed a menu of options for a multi-year financing package which includes new money, interest rate capitalization, debt reduction, or debt-service reduction and they have indicated a strong preference for the latter two modalities. They have also indicated that they would be seeking to obtain interim financing to help bridge what could become a tight cash flow position while the package is being negotiated. Without attempting to prejudge the outcome of the ongoing negotiation, the Fund has expressed strong support for Mexico's economic program and has approved the extended arrangement in line with the guidelines on Fund involvement in debt strategy recently approved by the Executive Board. In addition, the Fund has agreed to the authorities request that 30 percent of each purchase be set aside for debt reduction. The rights to draw on the set-aside would accrue subject to observance of performance criteria under the arrangement, and their use would be conditional upon the completion by the Fund of a review pertaining to such debt reduction operations as may be agreed between Mexico and its commercial bank creditors. In the event that the financing package agreed with commercial bank creditors provides for debt service

reduction, the Mexican authorities have indicated that they intend to request augmentation of the amount of the first year of the extended arrangement by up to 40 percent of its quota. The Fund has noted the intention to request this augmentation.

We believe that the Mexican authorities have embarked upon, and are strongly committed to, a strong economic program which, combined with an imaginative debt strategy that involves significant voluntary debt reduction operations, should allow the country to grow out of its debt problem in the medium term. This program deserves the strong backing of the international community and we are hopeful that you will be able to provide your fullest support to Mexico's efforts in an effective and expeditious manner.

INTERNATIONAL MONETARY FUND

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*Mexico*

May 26, 1989

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Mr Van Houtven

Attached please find a short note summarizing the main factors affecting the oil price assumption under the Mexican program, as requested by the Managing Director

Attachment



Claudio M Loser

Factors affecting the oil price assumption under the  
Mexican Extended Arrangement

- 1 The oil price assumption of US\$12 a barrel for the Mexican mix is equivalent to a price of US\$16 a barrel for the benchmark West Texas Intermediate. Adjusted for quality differences, the price is US\$1.5 lower a barrel than projected by the staff in the WEO. It should be noted that the average price for the last 12 months has been about US\$12 a barrel.
- 2 The price assumption took account of the assessment of prices by the PEMEX staff as well as the WEO estimates. Allowance also was made for the possible variability of prices in the coming months.
- 3 The price assumed in the program is broadly consistent with the expected market price as reflected in the futures price, which declines to less than US\$12 a barrel (for the Mexican mix) over the coming 12 months.
- 4 The oil price of US\$12 a barrel in the program was considerably higher than the US\$10 incorporated in Mexico's budget for 1989.
- 5 Beyond the upper band limit (equivalent to some US\$14 a barrel) all relevant performance criteria are adjusted to offset fully the effect of higher prices. Moreover, the fiscal contingency incorporated in the program would in fact preclude that the revenue resulting from the US\$2 margin over the base price within the band, is used to increase expenditure or to lower revenues. Under the fiscal contingency the authorities would take measures if prices or the external current account do not perform as programmed.



INTERNATIONAL MONETARY FUND  
WASHINGTON, D. C. 20431

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DEPUTY MANAGING DIRECTOR

May 26, 1989

CABLE ADDRESS  
INTERFUND

To: The Managing Director  
From: Richard D. Erb *RDE*  
Subject: Mexico: Status of Commercial Bank Negotiations

Bill Rhodes called me last evening in his capacity as Chairman of the commercial bank advisory committee for Mexico. Also, on the line were the two Vice-Chairmen of the Committee. Because they were aware of today's Board discussion on Mexico, they wanted to inform the Fund of the status of the negotiations. (They told me that they were aware of the five abstentions in the case of the Philippines because of concerns about a lack of progress with the banks.)

Rhodes said the Committee was working on an offer that would be presented to the Mexican representatives today. They hoped that this would provide the basis on which negotiations would continue with Mexico. (He said the Mexicans had laughed at the first offer.)

Rhodes also asked me about the Madrid meeting. I said you would be attending from the Fund. He also asked whether it would be an information meeting or an "enforcement" meeting (i.e., a meeting at which officials would enter the negotiations and impose a solution. If it were the latter, he said that negotiations would be delayed at the committee level because the banks would not want to move from their current position.) I said that I had not discussed this in detail with you yet, but that I thought you intended it to be an information meeting.

INTERNATIONAL MONETARY FUND  
WESTERN HEMISPHERE DEPT.

1989 MAY 26 AM 9:38

cc: Mr. Beza ✓  
Mr. Whittome/Mr. Watson

May 25, 1989 - 89/91

Statement by Mrs Filardo on Mexico  
Executive Board Meeting 89/64  
May 26, 1989

The Mexican authorities greatly appreciate the dedication, commitment and insight that the Fund staff and Management have shown throughout the difficult process of negotiations. We wish to commend the staff for presenting to us an excellent set of papers for today's discussion, particularly considering the tight time constraint under which they have been working.

I Background

1 During more than six years, the Mexican Government has implemented a comprehensive adjustment program designed to stabilize the economy and has promoted wideranging structural reforms to restore conditions conducive to sustainable growth. These adjustment efforts have been supported by the Fund through an EFF and a SBA.

2 The stabilization and structural reform policies have been carried out under adverse external conditions: a close to 40 percent fall in the terms of trade, and a shift in net external transfers from a positive historical average to a negative average of 6 percent of GDP, during the 1983-1988 period.

3 The overall results obtained so far are encouraging.

- inflation has fallen drastically from a yearly rate of 159 percent in December 1987 to one of 19 percent in the twelve months ended last April,

- Mexico's trade structure has been greatly diversified, reducing the share of oil exports in total merchandise exports to less than 33 percent from more than 78 percent in 1982,

- Some sectors and industries have been thoroughly modernized, and the Mexican economy has become more competitive and export oriented.

However, economic activity has stagnated. Over the past seven years output growth has been close to zero and per capita real income and wages have suffered a major setback. With the labor force growing at close to 3.2 percent per year, economic stagnation has meant that the pool of unemployed or underemployed has increased dramatically. During the coming years, only by growing at annual rates of 5.5 percent could the Mexican economy absorb the new entrants to the labor force. These numbers illustrate the urgency of restoring economic growth.

4 The structural and macroeconomic policies implemented during the last six years have created an adequate economic environment conducive to the resumption of growth. Nevertheless, the level of external resource transfers faced by the economy is incompatible with this objective since this implies that an important portion of domestic savings is used to

service debt instead of financing investment. The Mexican authorities, in close consultation with the Fund staff, have designed a medium term growth program, which contemplates the required reduction in net external transfers consistent with a gradual recovery in the rate of growth of the economy reaching 6 percent by 1992. For this purpose, Mexico requested the support of the Fund in the form of an Extended Fund Facility program for three years. In what follows I will comment on the stabilization program being successfully implemented since December 1987 and on the structural policies pursued during the last years. I will also discuss the recent evolution of the economy, the medium term program supported by the IMF, and finally I will present some concluding remarks.

## II Recent Economic Developments

5 In December 1987, the Mexican authorities launched an economic program (the Pacto de Solidaridad Económica) designed to accomplish a rapid financial stabilization and to simultaneously advance in the structural adjustment of the economy. Given the fall in real wages and per capita income that had been experienced in previous years, the program also intended to avoid the perverse impact on economic activity which disinflationary processes employing only traditionally fiscal and monetary policies normally entail. Hence, together with an additional fiscal adjustment and a very tight monetary policy, the program was based on a social pact designed to break inflationary inertia through incomes policies intended to coordinate price and wage setters and to turn inflationary expectations around. As in the previous years, the program was implemented under adverse external conditions: lack of external financing, an additional fall in the terms of trade and (oil prices fell from an average of \$16 per barrel for the Mexican mix in 1987 to an average of \$12 in 1988) an increase in external interest rates.

6 The success of the program, attained thus far, which brought inflation down from a monthly rate of 15.5 percent in January 1988 to a monthly rate of 1.5 percent in April 1989, was due both to the adjustment already undertaken during the previous years and to a further strengthening of these measures. The following are the most important policy actions and results of the adjustment obtained so far:

a) Public finances are now in a healthy and solid position. The primary balance of the public sector which for several decades had been in deficit, and which recorded sizeable surpluses every year since 1983, was further strengthened in 1988. Between 1982 and 1988 the adjustment amounted to more than 14 percentage points of GDP. Over this period, public expenditures, relative to GDP, net of interest payments, were reduced by more than 10 percentage points. Net subsidies and transfers of the public sector have fallen from almost 4.5 percent of GDP in 1982 to less than 2.5 percent in 1988. To compensate the dramatic fall in oil prices, which was further aggravated in 1988, non-oil public revenues have risen substantially as a result of the far reaching fiscal reform of 1987 and as a result of the correction of public sector prices.

b) The Mexican economy is today more competitive and export-oriented, and its vulnerability to external shocks has been greatly reduced. The Pacto was levered with an undervalued exchange rate and a positive showing of non-oil exports. The liberalization process of the external sector pursued by the authorities was accelerated to promote competition, and guide domestic prices. As a result of this effort, today less than 20 percent of import value is subject to any kind of quantitative restrictions. At the same time, tariffs have been drastically reduced from a maximum level of 100 percent in 1982 to a maximum 20 percent to date and an average rate of only 10 percent.

c) Other structural policy measures were accelerated both to enhance expectations on the program and to promote economic efficiency and to reduce distortions. Substantial progress has been achieved in the divestiture program which has strengthened the financial position of the public sector on a permanent basis. From the total of 1,155 State owned entities through which the Mexican public sector participated directly in economic activity in 1982, almost 750 have been privatized, merged, liquidated or transferred to local governments.

d) The social pact played a crucial role in avoiding output costs in the transition to the new low inflation equilibrium. By coordinating wage and price setting, a substantial degree of uncertainty was eliminated which facilitated macroeconomic policy management. The program contemplated an initial adjustment in relative prices, which included a sharp increase in real public sector prices and tariffs, a real exchange rate depreciation, and an increase in minimum wages followed by an agreement on the part of labor, business and government to maintain nominal variables at the adjusted levels. Due to the positive results--in terms of falling inflation--obtained throughout the year, only additional minor adjustments to certain prices were required.

e) The incomes policies pursued in the context of the PACTO did not create any major distortion as observed from the shortage index of the Bank of Mexico which stayed around its historical average signaling that the relative price adjustments made in the early stage were in the right direction and of an adequate magnitude. Price dispersion, including the subset of uncontrolled prices, also declined through the year. It may be concluded then that incomes policies have not artificially repressed inflation and that once uncertainty is eliminated and expectations stabilized, it will be easier to relax price controls.

### III Evolution of the economy in 1988

7 In the second semester of 1988, inflation decreased to an average monthly rate of less than 1.5 percent. During the year, GDP grew by 1.1 percent in real terms. Both private investment, which recorded an increase of 10.3 percent in real terms, and non-oil exports, whose expansion continued at a rapid pace, were the factors which accounted for growth last year. Economic policy and economic performance were constrained by several adverse conditions. During the year, the terms of

trade deteriorated by a further 10 percent, international interest rates rose by 3 percentage points, and poor weather conditions raised considerably the prices of Mexican grain imports. Contrary to other successful inflation stabilization experiences, the Mexican program was implemented not only without any external financial support, but under substantial negative net external transfers.

8 The overall uncertainty prevailing in the economy due to the stabilization process itself, produced a sharp rise in real interest rates which had a deleterious effect on public finances, in fact, real interest payments on domestic public debt rose from -0.7 percent in 1987 to 7.7 percent of GDP in 1988. The increase in interest payments more than compensated for the extra adjustment in the primary balance so that the operational balance turned into a deficit of 3.5 percent of GDP. As a consequence of the combined effect of the stabilization process, the fall in the terms of trade and negative net external transfers, real wages fell on average 12.7 percent in 1988 after more than five years of consecutive declines. Only the active involvement of the labor sector in the design of the program prevented social strife.

9 The high real rates, on the other hand, entailed a transfer of income to the private sector. Although the increased disposable income was reflected in a larger volume of private savings, it did not compensate for the rise in borrowing requirements of the public sector. The rise in private expenditures, together with the fall in oil prices, the increase in international interest rates, the once and for all effect of the liberalization process, and the recovery of investment, explain to a large extent the increase in and the deterioration of the current account. The fall in oil export receipts was essentially compensated by the dynamic behavior of non-oil exports, especially in manufacturing, which rose by 17 percent in 1988, increasing its share in total exports to 56.2 percent.

10 It must be emphasized that the experience of other anti-inflationary programs shows that during the initial stages, the restrictive policies lead to an increase in real interest rates, and on that account, outstanding domestic debt inevitably leads to a worsening of public finances. Once inflationary inertia is broken and expectations are stabilized, real interest rates will tend to fall. In the case of Mexico, however, the uncertainty regarding the resolution of the debt problem has prevented this fall from occurring.

11 As a natural outcome of the stabilization program, the real exchange rate appreciated from the highly undervalued level attained in late 1987. Notwithstanding, its level at the end of 1988 was similar to the one of 1983, when the current account showed a surplus of 3.6 percent of GDP. During the first months of 1989, the peso has actually been depreciated in real terms vis-a-vis the US dollar as Mexican inflation has kept its downward trend, as inflation in the United States has shown rising rates, and as the agreed daily one peso depreciation rule is followed.

12 Toward the end of 1988, a large market of bankers' acceptances and other instruments not subject to standard regulations and with flexible interest rates and maturities developed. In November 1988 Banco de Mexico deregulated the amount of acceptances issued by commercial banks, replacing the former reserve requirement regime with a liquidity coefficient of only 30 percent to be invested in government paper or in deposits at Banco de Mexico. In addition, last March the Mexican authorities adopted several measures encouraging banks to compete more effectively among themselves and with other intermediaries. The most important of these measures were a) the elimination of controls on interest rates and maturities for all other traditional bank instruments and b) the replacement of the reserve requirement regime applied to traditional bank instruments by liquidity coefficients similar to those applicable to bankers' acceptances. As a result of these measures the government will only finance its internal borrowing requirements through more transparent open market operations.

#### IV Recent developments and policy actions

13 The most recent available figures on the Mexican economy for 1989 continue to show the consolidation of the stabilization effort, the trend in production observed during the last months of 1988, and an overshooting of the public finance and trade balance targets imposed as a result of the external constraint facing the economy. During the first four months of the year, the inflation rate measured by the CPI has been only 6.5 percent. Industrial output, as well as manufacturing output, showed modest increases. In particular, offshore assembly plants ("maquiladoras") recorded an annual rate of growth of 21.0 percent. Gross fixed investments, moreover, grew from the very low levels attained during the first two months of 1988 at an annual rate of 10.7 percent. The trade account of the balance of payments, which had recorded a deficit in each of the last four months of 1988, reverted to a surplus (totalling US\$96 million) in January and February of 1989. The increase in the international price of oil and a continued satisfactory performance of non-oil exports contributed to this result. Another important element was the contraction of imports, most notably of private consumption goods. This not only reflects that most of last year's increase in imports was due to the once-and-for-all effect of the trade liberalization, but it also reflects the tight fiscal policy during the first quarter of 1989. On this point, the primary balance of the public sector was close to 20 percent above its budgeted value. Financial savings, measured by the broadest monetary aggregate M4, are also growing in real terms.

14 Last week the Mexican authorities put into effect a major liberalization of foreign investment regulations, which contain considerable amendments to the prevailing foreign investment regulations. Under the new rules red tape has been eliminated and majority foreign holdings in investments up to 100 million dollars are to be automatically approved without prior authorization of the Foreign

Investment Commission

V The period ahead

15 The new Administration, which took office in December 1988, maintained the essential elements of the Pacto de Solidaridad Economica but recasted it into a medium-term growth program. The continuation of the tight fiscal and monetary policies have enhanced credibility and stability which by themselves are important elements contributing to the effectiveness of the program.

16 The commitment of the Mexican authorities to these policies thus weighs heavily on the prospects for their success. However, major sacrifices have been required of all social sectors during several years of adjustment. Living standards can hardly be expected to endure a further drop. The rise in employment and real wages contemplated in the IMF supported program will have to be visible in the near term if a social consensus on economic policies is to be maintained. Therefore, the additional fiscal adjustment contemplated for 1989 should be understood as an extraordinary effort to provide space in order to induce a reduction in real interest rates and to advance in the structural transformation of the economy.

17 To reinstate sustained economic growth in Mexico, it is necessary to increase the level and the share of public and private investment in GDP. During the last years, capital expenditure in some sectors has lagged behind, to the point that the recovery of a dynamic development could face considerable bottlenecks in certain areas of infrastructure and in some sectors. An example can be found in the oil industry. Due to the fall in real investment expenditure during the last years, Mexico will not be able to sustain its oil exporting capacity at current levels. To reach the necessary amount of investment a higher amount of savings is required. This implies a reduction of net external transfers and an increase in the current account deficit. It has been estimated that in order to achieve the desired rate of growth in the coming years, the net resource transfers abroad should be reduced to 2 percent of GDP.

18 A reduction of this magnitude can be achieved only through an agreement with Mexico's creditors. Important progress has been made in this direction. Mexico is requesting financing from the Fund under an Extended Fund Facility and under a Compensatory Financing Facility arrangement. Structural and project financing packages have been agreed to with the World Bank and the IADB. Recently, Mexico started negotiations with its creditor commercial banks. The financial requirements that Mexico presented to the banks are in full agreement with the financing needs contemplated in the program agreed upon between the Fund staff and the Mexican authorities and included in the Letter of Intent submitted by the Mexican authorities to the Fund management. To this end, Mexico presented the banks a set of alternatives which are equivalent in risk adjusted net present value terms for the banks and, at the same time, satisfy the country's macroeconomic restrictions. The

debt universe included in the proposal is limited to public restructured debt and the 1983, 1984 and 1987 new money packages, totalling approximately US\$54 billion. The package contemplates that each bank will be free to choose how to allocate its existing portfolio among one or more of the restructuring options. To guarantee the success of the Mexican economic program and to assure a fair sharing of the burden among the banks, each bank will be required to commit 100 percent of its holdings of the covered debt. The specific options presented to the banks are the following:

- a) A reduction of the interest rate to a fixed rate of 4 percent,
- b) A 55 percent principal reduction bearing market interest rates,
- c) 80 percent interest payment capitalization during each of the next six years, and
- d) A six-year new money facility in an amount each year equal to the amount of interest that would otherwise be capitalized under the previous alternative.

19 Mexico favors the debt and interest rate reduction options, because these would help to permanently eliminate the debt overhang with positive effects over internal domestic markets, investors' confidence and the current account. Should the current account deficit in the period through 1992 be financed solely with fresh resources, increased interest payments could imply a doubling of this deficit and the inviability of the economic strategy. It is thus imperative to permanently reduce the level of debt and of the debt service.

20 Mexico will streamline the limited resources available for credit enhancements to the debt reduction alternatives. The recently approved guidelines on Fund support for debt reduction operations, together with those of the World Bank, could greatly contribute to a prompt agreement between Mexico and its creditor banks. The Mexican authorities wish to reiterate that negotiations are being carried out in a spirit of cooperation and good faith, and the preferential creditor status that they give to the Fund and other multilateral financial organizations.

21 The Mexican authorities are of the view that macroeconomic uncertainty and capital flight are inextricably linked to the debt overhang. Accordingly, a precondition for capital repatriation and renewed access to voluntary markets is the elimination of the debt overhang. It is appropriate to quote Mr. Camdessus' remarks at the IADB meeting last March where the Managing Director eloquently summarized the forces at work behind portfolio or direct investment flows: "It is quite clear now that a satisfactory recovery of investment and output growth in the indebted countries will remain elusive as long as two major impediments continue to hold. First, a burden of servicing debt which entails so sizeable a net transfer of resources abroad. And, second, a

level of debt of such magnitude as to turn away investors, concerned among other things, by the ongoing risks that the returns on their investments will be heavily taxed "

22 Mexico's position on the debt-equity swap issue is pragmatic, not dogmatic Careful analysis of the effects of the most conventional modality of debt equity swaps on the economy indicates that these instruments

- a) Either generate inflationary pressures in the domestic markets if they are financed through outright monetization, or they increase real domestic rates if they are financed through the issuance of domestic debt
- b) In any case, debt equity swaps generate a fiscal problem since they imply a substitution of more expensive domestic debt for external debt
- c) Generate distortions in resource allocation, since they imply substantial subsidies to investment and since they could potentially exacerbate market concentration in certain areas of the economy
- d) Given the effects outlined in a) and b) above, debt-equity swaps need to be rationed This leads firms which could not benefit from the mechanism, but had profitable investment plans, to defer their investment until they can participate in the scheme, thus effectively acting as a deterrent to investment

23 It is paradoxical that many of the most ardent advocates of the elimination of subsidies, on the grounds of the fiscal effect and economic distortions they entail, are oblivious to the same type of argument when dealing with the subject of debt-equity swaps Mexico has already proceeded along a much more efficient route to attract foreign direct investment as mentioned above, it has undertaken a major liberalization of its foreign investment laws The Fund's policy has always been to use resources in the most efficient manner Let us give the Fund time to review carefully the effects of debt-equity swaps It is clearly the case that a mechanism that might have potentially harmful effects on a debtor country cannot be built in as a standard feature of an adjustment program

## VI Concluding Remarks

24 The Mexican authorities are fully aware that the success of the program depends heavily on a continued effort to deepen the structural reforms, maintain sound macroeconomic policies, and consolidate the gains from price stabilization However, the support from the international

financial community is essential in helping Mexico traverse from stagnation to self-sustained growth

25 There are two potential risks to the success of the program a) Protracted negotiations with commercial banks that could exacerbate uncertainty about the sustainability of current policies b) An insufficient amount of debt reduction since it will continue casting a shadow on the external viability of the economy The Mexican authorities are confident that the strength of the adjustments undertaken, the commitment to sound economic policies, the timely support received from the international financial institutions, and our good faith and cooperative negotiations with commercial banks will lead to a prompt settlement of the financing package



# Office Memorandum

TO The Managing Director  
The Deputy Managing Director

DATE May 25, 1989

FROM S.T. Beza

SUBJECT Mexico--1989 Article IV Consultation

Attached are notes for the Managing Director's summing up of the Executive Board discussion of the 1989 Article IV consultation with Mexico.

Attachment

cc Mr. Van Houtven  
Mr. Brau  
Mr. H. Simpson

The Chairman's Summing Up at the Conclusion of the 1989  
Article IV Consultation with Mexico  
Executive Board Meeting 89/ , May 26, 1989

Executive Directors expressed their support for the strategy of growth-oriented medium-term adjustment being followed by the Mexican authorities. They welcomed the tightening of macroeconomic policies, particularly as reflected in the marked improvement in the primary fiscal balance, as well as the breaking of wage indexation, and structural reforms, including the measures taken by the authorities to integrate Mexico more closely into the world economy. The progress made in reducing inflation since the previous consultation was commented on favorably by Directors. They noted, however, that real GDP growth had been slow, and expressed concern about the persistence of high interest rates, the decline in the ratio of national saving to GDP, and the weakening of the external position in 1988.

A number of Directors noted that Mexico's heavy debt service burden had been a severe constraint on the country's economic performance. In particular, Directors thought that existing conditions may have affected adversely investment and the prospects for private sector capital reflows.

Directors were of the view that the policy stance that had been put in place was broadly appropriate, and that the emphasis on growth-oriented policies was called for. Directors stressed that the program required adequate external financing and stable conditions in Mexico's export markets. They noted that existing uncertainties about the course of the world economy and the timing of external financing made it

important to ensure a strong performance in domestic saving and a prudent monetary policy in conjunction with structural reforms

Directors said that the fiscal adjustment being sought, including the proposed primary fiscal surplus, was essential to the achievement of the objectives of the economic program for 1989-92. Directors noted, however, that there was a question whether real interest rates would fall as projected, and this would have implications for the operational fiscal deficit. Nevertheless, Directors were reassured by the authorities' commitment to take whatever additional measures were needed to ensure the achievement of the program objectives. They stressed the importance of continued vigilance on the part of the authorities to adapt the program to changing circumstances, and in this regard some Directors said that the pricing of goods and services provided by the public service had to be monitored carefully. Directors supported the tax reform being carried out and the efforts of the authorities to divest a number of public sector enterprises.

Directors were in general agreement with the stance of monetary policy envisaged in Mexico's program. The liberalization of the financial system, including a freeing of interest rates, and the development of new instruments, were expected to provide an environment conducive to an effective implementation of policy in this area. In this regard, Directors noted the recent strong growth of private sector financial savings, however, they emphasized the importance of reduced pressure on the financial system from the public sector, as well as an adequate and timely availability of foreign resources.

The progress in reducing the pace of wage increases and the reduced incidence of indexation was welcomed. Directors emphasized the importance of wages being consistent with the anti-inflation objectives of the authorities, particularly if the growth of output and employment was to be supported.

Directors expressed concern about the real effective appreciation of the Mexican peso in 1988 even though the adverse effects of the appreciation on external competitiveness might have been reduced by the beneficial impact on costs of the trade liberalization and the behavior of wages in relation to prices. Directors said that the exchange rate policy pursued since the beginning of 1989 appeared to have helped reduce uncertainties, but emphasized the importance of a satisfactory competitive position being maintained by Mexico. Thus, the authorities needed to monitor developments in the balance of payments very closely, and they had to stand ready to adopt promptly any corrective measure that might be required. It also was noted that pursuit of an adequate exchange rate policy was essential for the consolidation of the major trade liberalization that had been undertaken. Directors were unanimous in their support for the liberalization of foreign investment regulations that was being introduced, and they saw this as an important element in the achievement of balance of payments objectives and in promoting efficient growth.

Directors stressed the need for adequate external financing, including a realistic program of voluntary market-oriented debt reduction. Directors drew attention to the support that was expected to be provided by the IBRD and official creditors under the Paris Club, and

they emphasized the importance of Mexico and its commercial bank creditors reaching agreement promptly on a suitable financing package. Directors generally called for close monitoring of developments while financing assurances were not present. Directors expressed their support for the set-aside and eventual augmentation of the extended arrangement by up to 40 percent of Mexico's quota. While some Directors noted that the contribution that commercial banks were being asked to make to the financing needs of Mexico could be reduced if oil prices remained above or interest rates below those assumed in the program, other Directors stressed that the program provided for the sterilization of the positive effects of such developments and observed that an additional buildup of international reserves from their currently low level would be highly desirable. Directors urged the authorities to make every effort to avoid the emergence of arrears, which would be clearly detrimental to the interest of all parties involved, but they noted in this connection that the outcome would depend in part on the availability of adequate interim financing from the commercial banks.

It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

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ATTN: MICHEL CAMDESSUS  
MANAGING DIRECTOR

*Mexico*

THE MEETING ORIGINALLY SCHEDULED FOR MAY 30 BETWEEN THE IMF, IBRD, IADB, THE GOVERNMENT OF MEXICO AND THE CHAIRMEN OF MEXICO'S COMMERCIAL BANK ADVISORY COMMITTEE BANKS, WILL BE POSTPONED IN ORDER TO PERMIT THE IBRD TO COMPLETE ITS INTERNAL DELIBERATIONS AND TO BETTER ACCOMODATE THE SCHEDULES OF OTHER PARTICIPANTS.

ING HAS BEEN RESCHEDULED FOR WEDNESDAY JUNE 7 AT 1:30 P.M. IT WILL BE HELD IN MADRID, WHERE BANK CHAIRMEN WILL BE PRESENT FOR THE ANNUAL MEETING OF THE INTERNATIONAL MONETARY CONFERENCE. DETAILS AS TO THE LOCATION WILL FOLLOW. REGARDS,

E. GERALD CORRIGAN

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One State Street Plaza, New York, New York 10004 (212) 344-0600  
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Fax Number(s): 202-623-7499  
Name: Ted Beza  
Company: International Monetary Fund  
City: Washington, D.C.  
State/Country: United States  
Tel. No.: 202-623-8631

*mexico*

From: Mark A. Walker  
Date: May 24, 1989  
No./Pgs. (incl. cover):  
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(This space to be used for short or supplemental messages)

At the request of Mr. Gurria.

MAY 24 10:02

05/17/89

Contact: Richard Howe  
(212) 559-2722

New York, May 17 -- Negotiations between Mexico and its Bank Advisory Committee resumed today following a ten-day recess to allow consultations by both sides. The 15 bank Committee confirmed to Mexico its willingness to continue to pursue without delay the negotiation of a voluntary multi-year financing package that addresses four basic options: reduction of principal, reduction of interest rates, interest recycling and "new money" loans.

During the recess in discussions, representatives of the Advisory Committee banks met with the IMF and the World Bank to exchange views on the magnitude of the Financing Package, on enhancements and on the anticipated role of the multilateral institutions and creditor governments. The Advisory Committee confirmed that a proposal is being prepared for presentation to the Mexican negotiators shortly.

William R. Rhodes, Co-Chairman of the Bank Advisory Committee, said "In the context of Mexico's continued pursuit of economic adjustment and structural reform, as evidenced most recently by the welcomed liberalization of foreign investment regulations, we are all moving forward as rapidly as is reasonably possible."



# Office Memorandum

TO The Managing Director  
The Deputy Managing Director

DATE May 24, 1989

FROM S T Beza *MS*

SUBJECT Mexico--Staff Report - Supplementary Information

Attached is a draft Supplement to the Staff Report for the Article IV Consultation and Request for Extended Fund Arrangement for Mexico

The draft describes recent developments in the Mexican economy, changes in the regime for foreign investment, and the status of negotiations with commercial banks. In addition, the paper discusses possible Fund participation in Mexico's debt and debt-service reduction operations on the basis of the guidelines on Fund involvement with the debt strategy.

The discussions and proposed decision have been drafted on the basis of a prospective request by the Mexicans for an augmentation of up to 40 percent of quota, on the assumption that adequate arrangements will be in place. Mexican officials have been emphasizing to us their desire for outright augmentation of the arrangement at the time of approval, but we have been describing to them the position taken by the Board, particularly as expressed in the recently approved guidelines.

Attachment

cc Mr Gianviti  
Mr Brau



# Office Memorandum

① Mexico ✓  
② Buy Club ✓  
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TO: The Managing Director  
The Deputy Managing Director ✓

DATE: May 24, 1989

FROM: S.T. Beza

SUBJECT: Mexico--Meeting of Paris Club Creditors,  
Statement by IMF Representative

Attached please find the statement by the IMF representative for the meeting (May 29-30) of the Paris Club creditors on Mexico.

Mr. Loser's last day in the office will be Friday, May 26.

cc: Mr. H. Simpson

1989 MAY 25 AM 10:28

OFFICE OF THE  
DEPUTY MANAGING DIRECTOR

Mexico--Meeting of Paris Club Creditors, May 29-30, 1989  
Statement by IMF Representative

In late 1982 Mexico embarked on a major reorientation of policies to deal with the imbalances that had developed and with the effects of large external shocks. More recently, and within this policy framework, in December 1987 the Mexican authorities introduced a comprehensive economic program based on a pact with labor and business, which was aimed at restoring economic growth, consolidating earlier gains in the balance of payments and in bringing down the rate of inflation. In the event, the rate of inflation fell sharply in 1988, but economic activity remained depressed and the balance of payments weakened. Gross reserves at the end of the year were the equivalent of only about two months of the value of merchandise imports plus interest payments.

The program that has been adopted by the authorities for 1989-91 seeks to consolidate the progress in reducing inflation and to provide the basis for sustained economic growth and a strengthening of the balance of payments. The program has been formulated in a medium-term context and includes structural policies that are expected to foster economic efficiency and promote increased investment.

A central element of the program is a further tightening of the fiscal policy stance, as reflected in the planned increase in the primary fiscal surplus and in public sector savings in 1989. The strengthening of the public finances would be achieved through efforts to improve the tax system that would build on the recent reforms that have eliminated distortions in the income tax structure, and through further improvements in the efficiency of public enterprises, including

further improvements in the efficiency of public enterprises, including divestiture of public sector entities and the streamlining of their operations. Monetary policy is to contribute to the macroeconomic objectives of the program, and in particular will ensure that adequate incentives are in place to promote private sector financial savings and its effective allocation. The conduct of monetary policy will be aided by the recent reforms of the financial system, particularly the liberalization of interest rates, the availability of new financial instruments, and the simplification of reserve requirements.

Structural policies are aimed at ensuring an outward-looking orientation of the economy and at promoting an increase in foreign investment and private capital reflows. The improvement in external competitiveness and the major liberalization of the trade system and tariff regime since mid-1985 have contributed to a rapid expansion in the volume of external trade, with significant benefits in terms of improved efficiency of domestic producers and a dampening of inflationary pressures. The authorities recently announced important changes in foreign investment regulations which, combined with the reforms of the tax system, are expected to result in a major expansion of the role of foreign direct investment in the medium-term strengthening of the balance of payments, while promoting the growth of employment and the modernization of plant and equipment.

The balance of payments projections underlying the program assume that the external current account deficit will increase to about US\$4.8 billion (2.4 percent of GDP) in 1989, mainly reflecting the estimated rise in interest payments on the public debt. The deficit

would remain at about the same level in U S dollars during 1990-91. The program targets an increase in net international reserves of about US\$3.6 billion over the three-year period, reversing about one half of the decline in net reserves that was experienced in 1988. Because of the current low level of international reserves, the program also includes a provision that favorable deviations from the base price of crude oil and the assumed level of international interest rates would result, beyond a certain threshold, in a higher target for reserve accumulation. There is a symmetric provision in the event of unfavorable developments, subject to a limit on the permitted loss of international reserves.

Given the projected external current account deficit and the targeted increase in reserves, and taking into account scheduled amortization payments and expected developments in private capital flows, the program envisages gross external financing needs of approximately US\$12 billion a year during 1989-91. The program assumes that approximately US\$3.6 billion a year would be made available from multilateral institutions (including the Fund). In this connection, on May 26, the Executive Board of the Fund approved a compensatory financing purchase by Mexico of SDR 453.5 million and a three-year extended arrangement for SDR 2,797.2 million. World Bank consideration of program loans totalling US\$1.5 billion is expected on June 13, 1989.

The authorities are currently engaged in discussions with the commercial banks for financing amounting to an average of about US\$6.2 billion a year. This would be sufficient to cover amortizations falling due plus approximately 60 percent of the interest on debt owed

to the banks by the Mexican public sector during 1989-91. In their discussions with the banks, the authorities have presented a menu of options that involves new money, debt reduction, and debt-service reduction. They are also seeking interim financing to help bridge the tight cash flow position that may develop while the comprehensive financing package is being negotiated. The Fund has supported these requests and, with a view to catalyzing other financing flows, has approved the extended arrangement prior to completion of negotiations on other elements of the financing package, in line with the conclusions of the recent Board discussion on financing assurances for Fund-supported adjustment programs. The Fund staff believes that the eventual success of the authorities in creating the conditions for growth will depend in part on the presence in the financing package of a significant voluntary reduction of debt and debt service, the medium-term prospects for the balance of payments suggest that maintenance of the authorities' growth objectives in the absence of debt reduction would result in a rise of external debt that would pose serious problems.

The remainder of the financing needed to support the program (i.e., about US\$2.2 billion a year) would be expected to come from bilateral sources, mainly the Paris Club creditors, either in the form of new loans or a rescheduling of debt service payments falling due. Without attempting to prejudge the results of today's meeting, we have assumed for purposes of the program that in 1989-90 at least US\$0.7 billion a year would be made available through a rescheduling of obligations due to Paris Club creditors.

We believe that the Mexican authorities have embarked upon, and are strongly committed to, a major medium-term, growth-oriented program that deserves the strong backing of the international community. We hope that you will be able to provide your full support to Mexico's efforts.

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ATTN: MICHEL CAMDESSUS  
 MANAGING DIRECTOR

ON BEHALF OF MICHEL CAMDESSUS, MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND, BARBER B. CONABLE, PRESIDENT OF THE WORLD BANK, AND ENRIQUE V. IGLESIAS, PRESIDENT OF THE INTERAMERICAN DEVELOPMENT BANK, I WOULD LIKE TO EXTEND TO YOU AN INVITATION TO A MEETING TO BE HELD AT THE FEDERAL RESERVE BANK OF NEW YORK ON TUESDAY, MAY 30 AT 11:00 AM. THE PURPOSE OF THE MEETING WILL BE TWOFOLD:

TO DESCRIBE THE NATURE AND EXTENT OF THE OFFICIAL SECTOR RESOURCES THAT WILL BE MADE AVAILABLE THROUGH THE INTERNATIONAL INSTITUTIONS TO SUPPORT DEBT REDUCTION AND DEBT SERVICE REDUCTON INITIATIVES TO BE UNDERTAKEN AS A PART OF MEXICO'S 1989-91 FINANCING PROGRAM= AND, TO CLARIFY THE GUIDELINES THAT WILL GOVERN ACCESS TO AND USAGE OF THESE RESOURCES.

WE FULLY EXPECT THAT, BY THE TIME OF THE MAY 30 MEETING, THE MEXICAN GOVERNMENT AND THE COMMERCIAL BANK ADVISORY COMMITTEE WILL HAVE MADE SIGNIFICANT PROGRESS IN THEIR NEGOTIATIONS.

IN THIS CONTEXT, THE PRESENTATION BY OFFICIAL SECTOR OF ITS SUPPORT FOR THIS TRANSACTION SHOULD SET THE STAGE FOR RAPID COMPLETION OF THE NEGOTIATIONS, LEADING TO AN EARLY AND MUTUALLY ACCEPTABLE OVERALL FINANCING PLAN FOR MEXICO.

I WOULD APPRECIATE IT IF YOU WOULD CONFIRM WITH MY OFFICE, AS SOON AS POSSIBLE, YOUR PLANS FOR PARTICIPATION IN THIS MEETING.

REGARDS,  
 E. GERALD CORRIGAN, PRESIDENT

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**INTERNATIONAL MONETARY FUND**

May 18, 1989

✓  
Mr Caiola  
Mr Hino

For your information

  
**Robert Franklin**

# OFFICE MEMORANDUM

DATE May 17, 1989

TO Files

*S. H. Choi*

FROM S. H. Choi, Adviser, SEC

EXTENSION 76441

SUBJECT Proposed Attendance of Bank Staff at IMF Board Meeting

*Mexico*  
*cc: JB*  
*R*

Place of Meeting : IMF-12-120 (Fund Board Room)  
Date of Meeting : Friday, May 26, 1989  
Agenda Item : Mexico - Article IV Consultation, Extended Fund Arrangement, Use of Fund Resources and Compensatory and Contingency Financing Facility  
Bank Staff Attending : Mr. Miguel Martinez  
Division Chief  
Latin America and Caribbean CO-II  
Tel. No.: 473-8729

cc.: Regional Vice President - Mr. Husain  
IMF Secretary's Dept. - Mr. Franklin  
Director, EAS - Mr. Dubey  
Bank Representative - Mr. Martinez (Rm. I-8-155)

NOTE: For details in timing of this item, please contact Mrs. Janet Billenstein (Ext. 56679), IMF Secretary's Dept.

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INSTRUCCIONES ESPECIALES DEL SOLICITANTE

PARA USO EXCLUSIVO DE LA OFICINA DE TELECOMUNICACIONES  
OBSERVACIONES DE LA TRANSMISION  
RESPONSABLE DE LA TRANSMISION

DEPENDENCIA SOLICITANTE  
NOMBRE GERENCIA DE INVESTIGACION ECONOMICA INTERNACIONAL  
TELEFONO/EXTENSION 7-61-85-88 EXT. 4025  
FIRMA AUTORIZADA

**BANCO DE MEXICO**

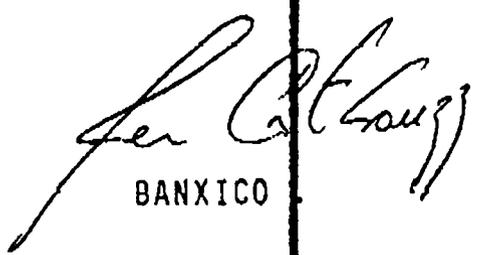
TELEX

MEXICO CITY, MAY 17, 1989

TREASURER  
INTERFUND  
WASHINGTON DC

REF JACG/89/T-37

ASSUMING THAT THE MEXICAN PROGRAM FOR THE PERIOD 1989-1991 -  
WILL BE APPROVED BY THE EXECUTIVE BOARD, ON MAY 26, 1989, MEXICO WANTS  
TO USE THE COMPENSATORY AND CONTINGENCY FINANCING FACILITY IN ADDITION  
TO THE FIRST DRAW OF THE EXTENDED FINANCING FACILITY ON MAY 31, 1989

  
BANXICO

\*macm

CABLE BANXICO, APARTADO NUM. 98 BIS  
COL CENTRO, DELEG. CUAUHTEMOC, 06059 MEXICO, D.F.



# Office Memorandum

INTERNATIONAL MONETARY FUND  
WESTERN HEMISPHERE DEPT.

1989 MAY 18 AM 8:30

STB  
CL  
JB  
DO  
P ✓

To: Mr. Whittome

Date: May 17, 1989

From: Charles Enoch *CAE*

Subject: Mexico--Export Credit Policies

In response to your memorandum of May 1 to Frank Cassell, ECGD have provided the following information:

"Our current position is that cover is available for short term credits (i.e payment terms of up to 180 days) where payment is secured by an Irrevocable Letter of Credit. Cover is also available for medium term credits within a \$150m limit and is aimed at supporting capital and semi-capital goods which contribute directly to Mexico's economic recovery. ECGD cover for short and medium term credits is available for both the public and private sector in Mexico.

"In the event of a Paris Club rescheduling on the lines suggested in the first paragraph of the IMF memo, that is with no change in the cut-off date, we envisage that ECGD support can be maintained as above without any interruption. If the cut-off date were to be moved then ECGD cover for medium term credits would have to be withdrawn.

"Since 1985 demand for cover has not been high in the medium term field, and our support has been mainly confined to business done under lines of credit (NAFINSA, BNCE, PEMEX).

"The attached table provides estimated figures as requested by the IMF with the exception of the likely rate of future disbursements of the current stock of undisbursed debt. I regret that data on this are not currently available."

I hope this is useful. If you need further details please do not hesitate to contact this office.

cc: Mr. Beza

Attachment

ECGD MAXIMUM COUNTRY EXPOSUREMEXICO (£m)

US\$ values converted to £ @ 1 6855

DM values converted to £ @ 3 2008

	<u>end 86</u>	<u>end 87</u>	<u>end 88</u>	<u>Mar 89</u>
(1) Disbursed Debt (Principal only)				
- public sector	302 9	315 9	296 7	293 8
- private sector	89 5	74 4	59 3	57 1
(11) Undisbursed Debt (Principal only)				
- public sector	98 0	54 6	47 7	54 1
- private sector	0 1	0 1	0 1	0 1



# Office Memorandum

*M. Beza*

CONFIDENTIAL

TO: The Managing Director  
The Deputy Managing Director

DATE: May 10, 1989

FROM: Jacob A. Frenkel *J.A.F.*

SUBJECT: Mexico--Request for a Compensatory Purchase Under  
the Compensatory and Contingency Financing Facility

Attached for your consideration is a draft paper in support of a request by Mexico for a compensatory purchase of SDR 453.5 million (SDR 38.9 percent of quota) under the CCFF. The request is in respect of an export shortfall of SDR 282.3 million (24.2 percent of quota) 1/ and an excess in the cost of cereal imports of SDR 171.2 million (14.7 percent of quota) for the 12 months ended December 1988. The overall export shortfall results entirely from a shortfall in petroleum exports, mainly crude petroleum (SDR 814.3 million). Non-oil exports are calculated to show a small excess over their medium-term trend. Underlying the oil shortfall is a substantial decline in the unit value of crude petroleum exports in the shortfall year. The excess in cereal import costs is largely the result of a drought and an increase in the international price of cereals.

Mexico is a major oil-producing country, accounting for about 5 percent of world oil production in the shortfall year. However, Mexico is not a member of OPEC and throughout the 1980s Mexico has been a competitive exporter of crude petroleum and has generally increased its output of crude oil in periods of rising international petroleum prices. This has meant that Mexican output and the output of members of OPEC have tended to move in opposite directions. Thus, in the shortfall year Mexican output declined slightly while that of the members of OPEC rose by about 11 percent, precipitating the decline in world petroleum prices. The staff is therefore satisfied that Mexico's actions in the shortfall year did not contribute to the fall in crude oil prices and hence that the shortfall in petroleum exports is largely beyond the control of the Mexican authorities.

An issue that might arise during the Board's discussion is that in the shortfall year the real effective value of the peso appreciated on average by 24 percent (as measured by the Fund's information notice system). However, overall manufactured export volume is estimated to have increased in 1988. Moreover, it is unlikely that any increase in volume that would have resulted from a more competitive exchange rate would have had a marked impact on the size of the excess calculated for non-oil exports, in view of the capacity constraints that developed in

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1/ The calculated shortfall is constrained by the requirement that exports in the post-shortfall period be no greater than 20 percent of their level in the preshortfall period; the unconstrained export shortfall is calculated at SDR 845.9 million (72.6 percent of quota).

certain sectors following the large rise in export volume in 1986 and 1987

As regards the amount of access, the staff considers that the program to be supported by the extended arrangement meets the test of cooperation for the proposed amount of the purchase (24.2 percent of quota on account of the export shortfall and 14.7 percent of quota for the excess in cereal import costs)

Attachment

cc Mr Beza ✓  
Mr Whittome  
Mr Gianviti  
Mr Laske  
Mr H Simpson



# Office Memorandum

*Handwritten notes and signature*

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TO Mrs Filardo

May 9, 1989

FROM L A Whittome

SUBJECT Notification to the Executive Board of the Debt Rescheduling Requests of Costa Rica and Mexico Received by the Chairman of the Paris Club

In accordance with the procedure outlined in SM/84/236 (10/24/84) ( Notification to the Fund of Requests for Renegotiation of External Debt Received by the Paris Club ), I attach for your consideration the draft notifications to the Executive Board informing Executive Directors of the debt rescheduling requests submitted to the Chairman of the Paris Club by the authorities of Costa Rica and Mexico

I would appreciate receiving at your earliest convenience approval for the issue of these notices to the Executive Board If you have any questions concerning the paper, please contact Mr Johnson (Ext 8779)

Attachment

cc Mr Beza ✓  
Mr Van Houtven

DRAFT

EBD/ /89

May , 1989

To Members of the Executive Board  
From The Secretary  
Subject Mexico--Request for Renegotiation of  
External Debt Owed to the Paris Club

Consistent with the procedure outlined in Notification to the Fund of Requests for Renegotiation of External Debt Received by the Paris Club (SM/84/236, 10/24/84), the Executive Director for Mexico has requested that the Executive Board be informed that the Mexican authorities have submitted to the Chairman of the Paris Club a request for a rescheduling of certain of their external debt obligations owed to official creditors

Other Distribution  
Department Heads



# Office Memorandum

TO: The Managing Director  
The Deputy Managing Director

DATE: May 4, 1989

FROM: S.T. Beza *STB*

SUBJECT: Mexico--Various External Financing

Attached please find three tables on the external financing for Mexico.

Table 1 presents the expected borrowing by the Mexican public sector (including the Bank of Mexico) by source. The line "commercial banks (net)" indicates the amount of commercial bank financing needed if Mexico is not to fall in arrears on interest to banks, given the objectives of the program and a price of oil of US\$12 a barrel. For the period May-September 1989 this would involve bank financing of close to US\$600 million a month. If the price of oil were to remain at the latest level of US\$15 a barrel for the Mexican mix, the resources available over and above the program projections would be of the order of US\$120 million a month, of which US\$40 million a month would be diverted to net foreign reserves according to the program.

Table 2 presents projected flows with commercial banks. These involve net payments by Mexico because interest payments exceed net disbursements from the banks. In effect, the financing requested by Mexico is equivalent to some 55 percent of total interest payments to banks by Mexico's public sector, and some 42 percent of total (public and private) interest payments by Mexico. The table also shows that the exposure of banks grows less than that of official sources of finance other than the Fund.

Table 3 provides information on the net resource transfer from Mexico to the rest of the world. The net resource transfer is defined as the difference between exports of goods and services and imports of goods and services, and thus excludes interest and other factor payments of the current account. As shown, the net resource transfer from Mexico is to decline from 5.7 percent of GDP in 1982-88 to 2 percent in 1989-92.

Attachments

cc: Mr. H. Simpson

Table 1. Mexico Borrowing by the Public Sector in 1989 <sup>1/</sup>  
(In billions of U.S. dollars)

	1989					May- Sept.
	Q1	Q2	Q3	Q4	year	
<u>Net borrowing (public sector)</u>	<u>-0.4</u>	<u>1.3</u>	<u>2.8</u>	<u>2.9</u>	<u>6.6</u>	<u>4.2</u>
<u>Commercial banks <sup>2/</sup></u>	<u>--</u>	<u>1.4</u>	<u>1.5</u>	<u>1.4</u>	<u>4.3</u>	<u>2.9</u>
Disbursements	--	1.4	2.0	2.0	5.4	3.5
Amortization	--	--	-0.5	-0.5	-1.1	-0.6
<u>Multilaterals</u>	<u>-0.2</u>	<u>--</u>	<u>0.7</u>	<u>0.5</u>	<u>1.0</u>	<u>0.7</u>
Disbursements	0.3	0.4	0.9	0.6	2.2	1.2
Amortization	-0.5	-0.4	-0.2	-0.1	-1.2	-0.5
<u>Bilaterals and suppliers</u>	<u>-0.1</u>	<u>--</u>	<u>0.7</u>	<u>1.0</u>	<u>1.6</u>	<u>0.8</u>
Disbursements	0.2	0.4	1.0	1.2	2.9	1.4
Amortization	-0.3	-0.4	-0.3	-0.2	-1.2	-0.6
<u>Other</u>	<u>--</u>	<u>-0.1</u>	<u>-0.1</u>	<u>--</u>	<u>-0.2</u>	<u>-0.2</u>
Disbursements	--	--	--	--	--	--
Amortization	--	-0.1	-0.1	--	-0.3	0.2
<u>Memorandum items</u>						
<u>Fund</u>	<u>-0.1</u>	<u>0.6</u>	<u>-0.1</u>	<u>--</u>	<u>0.6</u>	<u>0.8</u>
Purchases	--	0.9	0.3	0.3	1.5	1.2
Repurchases	-0.1	-0.3	-0.2	-0.3	-0.9	-0.4
Interest payments by public sector to commercial banks	-1.6	-1.8	-1.9	-2.0	-7.3	-3.2
Net borrowing from multilaterals (incl Fund), bilaterals, and other	-0.4	0.5	1.2	1.5	1.8	2.1

<sup>1/</sup> Subtotals may not add to totals due to rounding

<sup>2/</sup> Net amounts of commercial bank financing needed for Mexico not to fall in arrears on interest given the targets of the program, based on the assumption that oil prices average US\$12 a barrel

Table 2 Mexico Projected Flows with Commercial Banks

	1989	1990	1991	1992
(In billions of U.S dollars)				
<u>Total (net)</u>	-3 0	-3 7	-3 4	-4 2
Public sector	-3.0	-3 7	-3 5	-4 3
Net disbursements	4 3	4 0	4 7	4 4
Interest payments	-7 3	-7 7	-8 7	-8 7
Private sector	-1 5	-1 3	-1 3	-0 7
Net disbursements	-0 9	-0.8	-0 9	-0 4
Interest payments	-0 6	-0.5	-0 4	-0 4
(In percent)				
<u>Memorandum items</u>				
Net disbursements, in percent of				
<u>public sector</u> interest payments				
to banks	58 8	51.5	57 2	50 4
Net disbursements, in percent of				
<u>total</u> interest payments to banks	42 9	38 5	43 9	44 2
<u>Percentage change in exposure</u>				
(cumulative from 1989)				
Commercial banks	7 9	15 1	23 7	31 7
Multilaterals (excl Fund)	9 5	18 3	27 2	37 0
Bilaterals	17 1	27 7	33 9	39 5
Fund	14 7	16 1	19 1	17 6 <u>1/</u>

1/ Assumes that extended arrangement is not extended beyond June 1992

Table 3 Mexico Resource Transfers from 1982 to 1992

	Annual Average 1982-88	1989	1990	1991	1992	Annual Average 1989-92
<u>(In billions of U S dollars)</u>						
1 Exports of goods and nonfactor services	27 1	31 9	34 7	37 6	40 4	36 2
2 Imports of goods and nonfactor services	18 0	28 0	30 2	32 8	35 7	31 7
3 <u>Resource transfer (1-2)</u>	<u>9 1</u>	<u>3 9</u>	<u>4 5</u>	<u>4 8</u>	<u>4 7</u>	<u>4 5</u>
4 Interest payments	-9 8	-10 6	-11 1	-11 7	-12 2	-11 4
5 Other current account (small), capital account, and net international reserves	0 7	6 7	6 6	6 9	7 5	6 9
<u>(In percent of GDP)</u>						
1. Exports of goods and nonfactor services	16 9	15 9	16 0	15 8	15 6	15 8
2 Imports of goods and nonfactor services	-11 2	13 9	13 9	13 8	13 8	13 8
3 <u>Resource transfer (1-2)</u>	<u>5 7</u>	<u>2 0</u>	<u>2 1</u>	<u>2 0</u>	<u>1 8</u>	<u>2 0</u>
4 Interest payments	-6 1	-5 3	-5 1	-4 9	-4 7	-5 0
5 Other current account (small), capital account, and net international reserves	1 3	3 3	3 0	2 9	2 9	3 0



# Office Memorandum

INTERNATIONAL MONETARY FUND  
WESTERN HEMISPHERE DEPT.  
1989 MAY -4 AM 11:34

Mr. Deza  
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TO: The Managing Director  
The Deputy Managing Director

DATE: May 3, 1989

FROM: François Gianviti F. G.

SUBJECT: Meetings with Attorneys on Brady Plan Waivers

1. During the last ten days, members of the Legal Department (Mr. Asser and Mr. Francotte) have met with U.S. attorneys representing Costa Rica, Mexico, the Philippines and Venezuela, and with U.S. attorneys representing the steering committees of the commercial bank creditors of three of these countries. The meetings were held at our request in order to obtain the views of the attorneys with regard to the need for general waivers of the sharing and negative pledge covenants to which each country is a party, and, assuming that waivers would be needed, the steps that would be required to obtain them. The attorneys stressed that the views which they expressed during the meetings are preliminary and are not necessarily shared by their respective clients. Nevertheless, there was a high degree of consistency between these opinions and we therefore believe that they may be treated as representative.

2. From these discussions, the following conclusions may be drawn:

(a) Significant differences in loan and bond covenants signed by various countries will require debt reduction, debt service reduction and collateral transactions to be tailored to these differences;

(b) The various syndicated loan agreements differ in the voting majorities required for waivers, not only by specifying different majorities for the waiver of different covenants (e.g., unanimity for sharing clauses and a simple or 2/3 majority for negative pledge clauses) but also by providing for different majorities for the waiver of similar covenants in different agreements (e.g., a simple or 2/3 majority for negative pledge clauses);

(c) Normally, a cash buyback would require a waiver while, in many cases, a debt exchange or a debt equity swap would not;

(d) Considerable skepticism exists concerning the ability of countries to obtain advance or general waivers of covenants before the details of the transactions requiring the waivers are agreed upon and thus the need for waivers is established;

(e) The time required to obtain waivers will differ from case to case, in the past, it has ranged from one week to several months,

(f) Conditional disbursements from a line of credit made available by the Fund or from a Fund administered account are regarded as unappealing to the banks in view of the uncertain availability of the line of credit or account proceeds,

(g) The pooling of resources in a single account to secure payments by individual member countries is considered unattractive to the countries and the banks because of the risk that an equitable allocation among the countries in the disbursement of the account proceeds to their creditors would prove to be impossible,

(h) Any use of foreign exchange assets of a country (including currency purchased from the Fund, whether or not deposited in an account administered by the Fund) to collateralize its external debt would trigger the negative pledge covenants between that country and those of its creditors whose claims would not be equally and ratably secured, even if the country's assets would be pooled with other resources,

(i) Negative pledge covenants would not be triggered by guarantees issued by third parties such as the World Bank, even if the guarantee fee were paid by the debtor country unless the fee would make a disproportionately large contribution towards funding the guarantee or the guarantee would be issued by the administrator of an account funded in whole or in part with foreign exchange assets provided by the debtor country,

(j) For countries that have outstanding external bonds, the rights of the bondholders must be considered in negotiating debt reduction, debt service reduction or collateral transactions,

(k) Waivers of negative pledge covenants protecting bondholders may be difficult to obtain for material and administrative reasons, if such waivers are not obtained, a choice must be made between including the bondholders under the collateral (which may be expensive) and risking bondholder suits against the country and the collateral, especially if the bonds are not serviced

3 We are preparing a more detailed analysis of the scope and operation of the loan and bond covenants and the need for waivers in the light of alternative instruments and techniques. Meanwhile, we are continuing our conversations with attorneys

cc Mr Frenkel                      Mr Toure  
Mr Whittome                      Mr Simpson  
Mr Beza



# Office Memorandum

TO The Deputy Managing Director

FROM S T. Beza *MB*

SUBJECT Mexico - Chronology of Contacts

DATE May 3, 1989

The attached list summarizes the chronology of meetings with the Mexican authorities since the current round of negotiations on the possible use of Fund resources began. The list includes relevant oil prices at the time of each contact. Also, attached are two charts on oil prices in recent years, one on the basis of actual prices and another on 12-month moving averages.

It should be noted that the budget for 1989, which includes an assumption for oil prices of US\$10 a barrel, was prepared in October-November at a time when oil prices for Mexico were below those levels. The price of oil rose subsequently, leading to an upward adjustment to US\$12 a barrel in the program. In this regard, Chart 2 shows that the 12-month oil price moving average for early 1989 is only slightly above the level of US\$12 a barrel.

Attachments

cc Mr H Simpson

Contacts with Mexican Officials in Connection with EFF

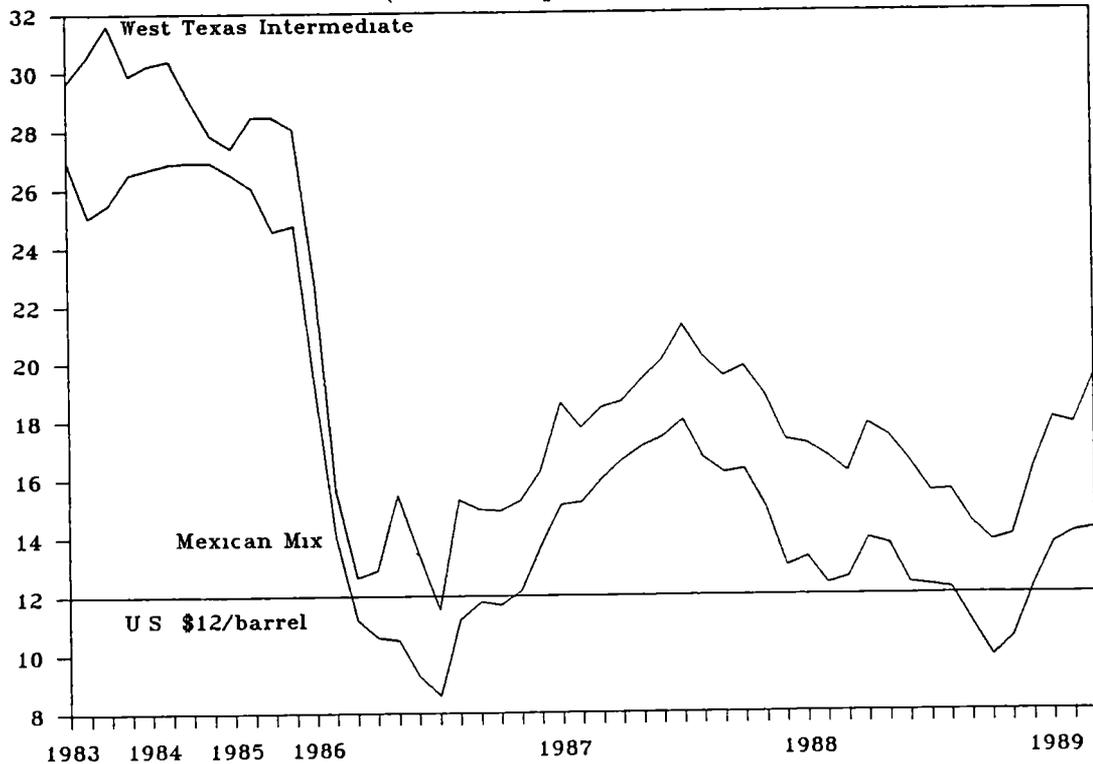
<u>Date</u>	<u>Place</u>	<u>Nature of Contact</u>	<u>Monthly Average Price of Oil</u>	
			<u>Mexican Mix</u>	<u>West Texas Int.</u>
<u>1988</u>				
July	Washington	General discussions between Mexican officials and management	12 3	15.5
August	Mexico	MD trip to Mexico	12.2	15.6
September	Berlin	General discussions between Mexican officials and management	11 0	14 5
October	Washington	Initial discussion on possible CF drawing in connection with U S bridge loan <u>1/</u>	9 9	13 8
November	Mexico	Discussion in connection with request for access to Fund resources under CCFE	10.5	14.0
<u>1989</u>				
February	Washington	Discussions between Mexican officials and management on possible use of Fund resources under EFF	14 1	17 8
February	Mexico	1989 Article IV consultation discussion on possible use of Fund resources under EFF	14 1	17 8
March-April	Washington	Discussions between Mexican officials and management, completion of negotiations on use of Fund resources under EFF	.	21 0
May	Washington	Discussions between Mexican officials and management on negotiations with commercial banks		19 0 <u>2/</u>

1/ Budget for 1989--which includes a price of oil of US\$10 a barrel--was prepared at this time

2/ Most recent daily quote

# Crude Oil Prices

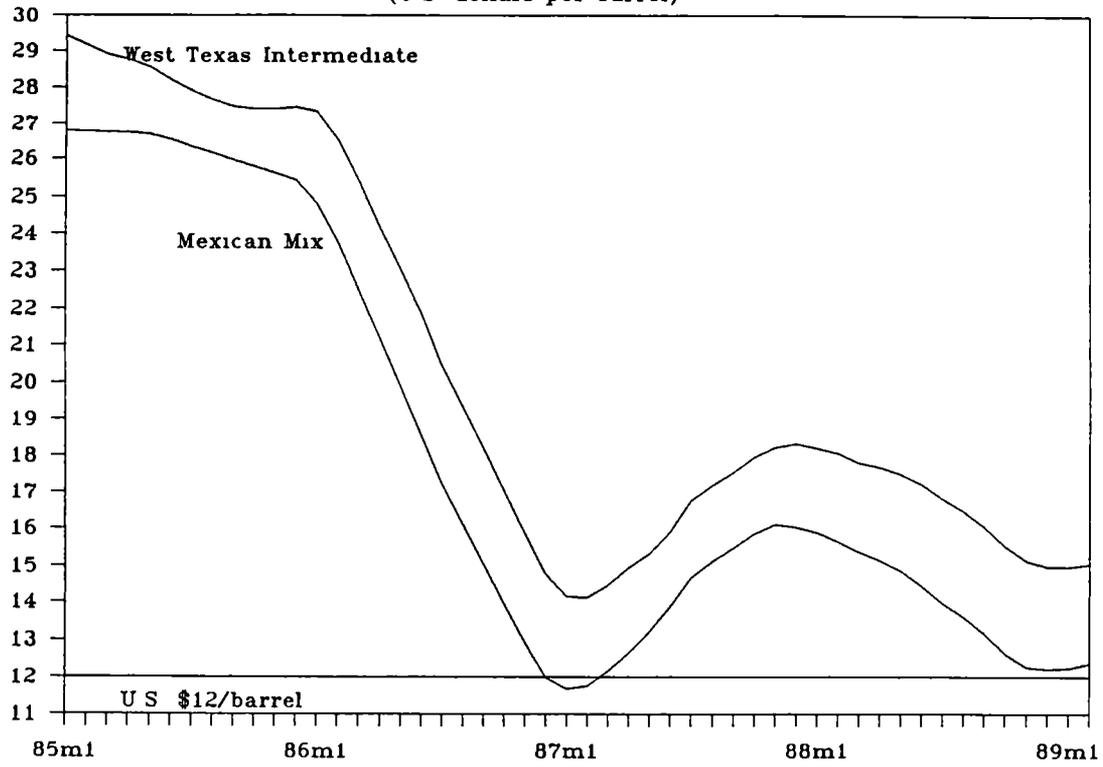
(U S dollars per barrel)



Sources PEMEX, and Fund staff estimates

# Crude Oil Prices

(U S dollars per barrel)



(12-month moving average)



# Office Memorandum

INTERNATIONAL MONETARY FUND  
WESTERN HEMISPHERE DEPT.

1989 MAY -2 AM 8:50

Mr. Deza  
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TO: Mr. Grosche

May 1, 1989

FROM: L.A. Whittome *LAW*

SUBJECT: Mexico--Export Credit Policies

As you know, the Mexican authorities, in a letter to the Managing Director, have requested an extended arrangement in an amount of SDR 2,797.2 million for a period of three years. <sup>1/</sup> The request may be presented for Board approval in late May or early June. Negotiations with commercial banks are under way for a MYRA to restructure principal on public sector debts (including previously restructured claims) and a rollover of various short-term claims. An important element of the package is a combination of a new money facility and debt or debt service reductions which would provide the equivalent of 60 percent of scheduled interest payments of the public sector to banks. The authorities are also seeking to negotiate a more lasting reduction of their debt service to commercial banks. The program has assumed that the Paris Club official creditors would agree to reschedule debt service payments equivalent to 100 percent of amortization payments and 60 percent of original interest payments, with no change in the cutoff date. A meeting of the Paris Club to consider Mexico's request for relief has tentatively been scheduled for June 1989.

In the light of these developments, it would now appear to be appropriate to conduct a survey of creditor governments as to their possible export cover policy if Mexico were to enter into a Fund arrangement. It is being carried out in the context of the initiative concerning export credits outlined in Mr. Finch's memorandum to you of May 12, 1986 and your authorities' reply to that memorandum. As usual, any information concerning your authorities' policies that you might be able to provide will be treated on a strictly confidential basis and closely held within the staff. We would also like to reiterate that, as in previous cases, this request is only for information which will be used exclusively in an aggregated form in order to improve our projections of the balance of payments. We are not seeking through this exercise to engage your authorities in pledging or commitments on future export credit flows.

We understand from the Berne Union quarterly report that at the end of December 1988, Hermes was open for cover on short-term business with extended waiting periods for both private and public sector business, and that private sector business required a guarantee of payment transfer. Also, Hermes was open for medium- and long-term business with similar restrictions as applied to short-term business,

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<sup>1/</sup> The letter was circulated to members of the Executive Board on April 12, 1989 as EBS/89/66.

but subject to a limit on the size of individual transaction. We would appreciate a description of your cover policy stance with respect to short-term and medium/long-term credits for the private and public sectors in Mexico. In addition, we would appreciate indications as to how Hermes's cover policy stance might evolve on the assumption that a Fund-supported program is approved and implemented and that an agreement is concluded with the Paris Club along the expected lines. We would appreciate as specific a response as possible concerning (a) the present and prospective use of instruments limiting the demand or availability of credits and (b) the likely timing of any change in policy (e.g., following signature of the Agreed Minute, the conclusion of the bilateral agreement, etc.). If possible, we would appreciate having from you an assessment of the prospective demand for cover for German exports to Mexico.

To provide background on our analysis, we would appreciate your providing us data on the stock of disbursed officially supported export credits to Mexico--principal only--as of end-1986, end-1987, and end-1988 (or the most recent date available). This request refers to both direct and guaranteed credits with, if possible, a breakdown for public and private debtors. We would also appreciate information on the current pipeline of undisbursed commitments--principal only--and any possible indications as to the likely rate of disbursement.

We would greatly appreciate receiving your reply by May 17, 1989. Please contact Mr. Brau or Mr. Johnson of this department if you or your authorities need further information or clarification.

I have also addressed this memorandum to the Executive Directors of some of the other G-10 countries.

cc Mr. Beza ✓



# Office Memorandum

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TO The Managing Director

DATE May 1, 1989

FROM S T Beza

MB

SUBJECT Mexico

This note is for your meeting with Secretary of Finance Pedro Aspe.

The first round of discussions between Mexico and its commercial bank creditors started April 19. The Mexican proposal to the banks centers on a request for multiyear financial support for net financing to the public sector equivalent to about US\$4 1/2 billion a year, under a package which is to include debt/debt service reduction, interest capitalization, and new money. There also was a request for interim financing to cover cash flow needs envisaged under the program. As presented to banks, the proposal consists of a menu with the following options (a) reduction of outstanding debt by 55 percent, (b) reduction in interest on outstanding debt to a fixed rate of 4 percent a year, (c) capitalization of 80 percent of interest payments falling due through 1994, and (d) new money for an amount similar to the interest capitalization option. A first reaction by banks to the proposal is expected this Wednesday.

The draft staff report and request for an extended arrangement is being circulated to departments for comment today, and it is expected that it will be forwarded to you early next week and issued to Directors by the middle of the month. If by the time the report is circulated decisions on issues regarding the set-aside will have been made, these would be incorporated into the paper. Otherwise, the proposed decision and text of the extended arrangement would be incorporated in a supplement to the report.

Regarding latest developments in Mexico, the monthly rise in consumer prices is estimated to have remained at around 1 percent in April, and domestic real interest rates have continued in the neighborhood of 3 percent a month. The failure of interest rates to fall with the announcement of the program was disappointing to Mexican officials. A wage increase of 25 percent was granted last week to teachers, as compared with 10 percent incorporated in the budget. Although the cost of the latest wage increase is estimated to be only about 0.1 percent of GDP and can be absorbed through cuts elsewhere in the budget, it may be damaging to the extent that it leads to demands for additional wage increases in other branches in the public sector and in the economy more generally.

Some differences remain between the U.S officials and the Fund staff regarding the balance of payments projection. We have met with U S. officials and stand ready to meet with them again to explain our projections

cc The Deputy Managing Director  
Mr. H. Simpson

10-cw STB JF

@h JB IO F



Cable Room ID: MC1A3626	Distribution
Processed: April 25, 1989 15:08 Sender: Banco de Mexico, S.A. Mexico (Mexico)	ORIG: TRE CC: MRS. FILARDO WHD

INTERNATIONAL MONETARY FUND  
WESTERN HEMISPHERE DEPT.  
1989 APR 25 PM 3:44

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INTERNATIONAL MONETARY FUND  
WASHINGTON D.C.

ATTN: TREASURERS

-URGENT-

NO. 26

RE YOURS SDR NBR. 24 AND SDR NBR. 25 DTD 20-04-89 (STOP)  
PLEASE TAKE NOTE THAT WE INSTRUCT TO OUR CORRESPONDENT BANK CREDIT  
VALUE APRIL 25, 1989 NOT LATER THAN 11:00 A.M. N.Y. TIME AS FOLLOWS:

- ONE) TO MORGAN GUARANTY TRUST CO. NEW YORK N.Y. CREDIT MORGAN  
GUARANTY TRUST CO. LONDON ENGLAND IN FAVOUR OF REGULAR CALL  
MONEY ACC OF SAUDI ARABIAN MONETARY AGENCY RIYADH US DLLS.  
65,119,513.84 REF. TO ACQUIRE SDR 50,000,000.00 (STOP)  
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- TWO) TO FEDERAL RESERVE BANK OF NEW YORK, N.Y.  
CREDIT ACC OF GOVERNMENT OF JAPAN, MINISTRY OF FINANCE USDLLS  
65,119,513.84 REF. TO ACQUIRE SDR 50,000,000.00 (STOP)  
OUR CORRESPONDANT BANK IS FEDERAL RESERVE BANK OF NEW YORK,  
N.Y.
- THREE) TOTAL ACQUIRE SDR 100,000,000.00 AT THE RATE OF ONE USDOLLAR  
EQUALS SDR 0.767819 (STOP)  
VALUE APRIL 25, 1989 PLEASE CREDIT OUR SDF ACCOUNT WITH  
YOURSELVES (STOP)

OUR REF. H54-3-ORG. INTLS. R. ROMERO R.

REGARDS



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# Office Memorandum

*Mexico*

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TO: The Managing Director  
The Deputy Managing Director

April 25, 1989

FROM: L.A. Whittome *LAW*

SUBJECT: Mexico and the Philippines--Export Credit Policies

You will recall that in 1986 we obtained the support of G-10 Executive Directors for a procedure for seeking information on recent export credit developments and on the current and prospective stance of cover policies. The procedure would be used only for selected countries that were undertaking Fund-supported adjustment programs. The procedure was used in 1986 for the Philippines and Nigeria, in 1987 for Chile, Ecuador, and Egypt, and, most recently in 1988, for Brazil.

We would now like to apply the procedure to Mexico and the Philippines. To ensure that such requests are confined to appropriate cases, management authorization is sought in each instance. We are now, therefore, seeking your authorization to send requests, along the line of the attached models. We propose to send the request covering Mexico to the Executive Directors of France, Germany, Japan, the United Kingdom, and the United States. We propose to send a separate request for information concerning the Philippines to the Executive Directors for Japan and the United States. (These memoranda will not be sent until after you have approved the proposed arrangement.) For both cases, the selected group of creditors account for about 75 percent of outstanding export credit commitments. We would like to send these memoranda to the Executive Directors concerned by Thursday, April 27, as we are requesting responses by May 10 in the case of the Philippines, and May 15 in the case of Mexico.

Messrs. Ferrán and Narvekar are in agreement.

## Attachments

cc: Mr. Narvekar  
Mr. Ferrán ✓  
Mr. H. Simpson

//S//  
ETR4/MAF - mmMAF2c

TO Mr Yamazaki April 26, 1989

FROM L.A. Whittome

SUBJECT Philippines--Export Credit Policies

As you know, the Philippine authorities, in a letter to the Managing Director, have requested an extended arrangement in an amount of SDR 660 million for a period of three years. The proposed arrangement has been approved by Management, and is expected to be presented for Board approval in late May. As you may recall in 1987, the Government of the Philippines reached agreement with the commercial bank creditors for a MYRA covering maturities in principal in the period January 1987 to December 1992. Negotiations with commercial banks are currently under way for a financing package, including new money and debt reduction operations, to close the 1989-90 financing gap of US\$1.7 billion. The program has assumed that the Paris Club official creditors would agree to reschedule debt service payments equivalent to 100 percent of original amortization payments and 70 percent of original interest payments, with no change in the cutoff date. A meeting of the Paris Club to consider the Philippines' request for relief has tentatively been scheduled for May 1989.

In the light of these developments, it would now appear to be appropriate to conduct a survey of creditor governments as to their possible export cover policy if the Philippines were to enter into a Fund arrangement. It is being carried out in the context of the initiative concerning export credits outlined in Mr Finch's memorandum to you of May 12, 1986 and your authorities' reply to that memorandum. As usual, any information concerning your authorities' policies that you might be able to provide will be treated on a strictly confidential basis and closely held within the staff. We would also like to reiterate that, as in previous cases, this request is only for information which will be used exclusively in an aggregated form in order to improve our projections of the balance of payments. We are not seeking through this exercise to engage your authorities in pledging or commitments on future export credit flows.

We understand from the Berne Union quarterly report that at the end of December 1988, EXIM of Japan was open short-term cover subject to a commercial bank guarantee, a limit on the size of individual transactions, and a reduced percentage cover, but that EXIM was off cover for medium- and long-term business. We would appreciate a description of your cover policy stance with respect to short-term and medium/long-term credits for the private and public sectors in the Philippines. In addition, we would appreciate indications as to how EXIM's cover policy stance might evolve on the assumption that a Fund-supported program is approved and implemented and that an agreement

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is concluded with the Paris Club along the expected lines. We would appreciate as specific a response as possible concerning (a) the present and prospective use of instruments limiting the demand or availability of credits and (b) the likely timing of any change in policy (e.g., following signature of the Agreed Minute, the conclusion of the bilateral agreement, etc.). If possible, we would appreciate having from you an assessment of the prospective demand for cover for Japanese exports to the Philippines.

To provide background on our analysis, we would appreciate your providing us data on the stock of disbursed officially supported export credits to the Philippines--principal only--as of end-1986, end-1987, and end-1988 (or the most recent date available). This request refers to both direct and guaranteed credits with, if possible, a breakdown for public and private debtors. We would also appreciate information on the current pipeline of undisbursed commitments--principal only--and any possible indications as to the likely rate of disbursement.

We would greatly appreciate receiving your reply by May 10, 1989. Please contact Mr. Brau or Mr. Johnson of this department if you or your authorities need further information or clarification.

I have also addressed this memorandum to the Executive Directors of some of the other G-10 countries.

//s//

ETR4/MAF - mmMAF1h

TO Mr Cassell

FROM L A Whittome

SUBJECT Mexico--Export Credit Policies

April 26, 1989

As you know, the Mexican authorities, in a letter to the Managing Director, have requested an extended arrangement in an amount of SDR 2,797 2 million for a period of three years <sup>1/</sup> The request may be presented for Board approval in late May or early June. Negotiations with commercial banks are under way for a MYRA to restructure principal on public sector debts (including previously restructured claims) and a rollover of various short-term claims. An important element of the package is a combination of a new money facility and debt or debt service reductions which would provide the equivalent of 60 percent of scheduled interest payments of the public sector to banks. The authorities are also seeking to negotiate a more lasting reduction of their debt service to commercial banks. The program has assumed that the Paris Club official creditors would agree to reschedule debt service payments equivalent to 100 percent of amortization payments and 60 percent of original interest payments, with no change in the cutoff date. A meeting of the Paris Club to consider Mexico's request for relief has tentatively been scheduled for June 1989.

In the light of these developments, it would now appear to be appropriate to conduct a survey of creditor governments as to their possible export cover policy if Mexico were to enter into a Fund arrangement. It is being carried out in the context of the initiative concerning export credits outlined in Mr Finch's memorandum to you of May 12, 1986 and your authorities' reply to that memorandum. As usual, any information concerning your authorities' policies that you might be able to provide will be treated on a strictly confidential basis and closely held within the staff. We would also like to reiterate that, as in previous cases, this request is only for information which will be used exclusively in an aggregated form in order to improve our projections of the balance of payments. We are not seeking through this exercise to engage your authorities in pledging or commitments on future export credit flows.

We understand from the Berne Union quarterly report that at the end of December 1988, ECGD was closed for cover on short-term business, but was open for cover on medium- and long-term business subject to a limitation on the total size of commitments. We would appreciate a description of your cover policy stance with respect to short-term and medium/long-term credits for the private and public

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<sup>1/</sup> The letter was circulated to members of the Executive Board on April 12, 1989 as EBS/89/66

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sectors in Mexico. In addition, we would appreciate indications as to how ECGD's cover policy stance might evolve on the assumption that a Fund-supported program is approved and implemented and that an agreement is concluded with the Paris Club along the expected lines. We would appreciate as specific a response as possible concerning (a) the present and prospective use of instruments limiting the demand or availability of credits and (b) the likely timing of any change in policy (e.g., following signature of the Agreed Minute, the conclusion of the bilateral agreement, etc.). If possible, we would appreciate having from you an assessment of the prospective demand for cover for British exports to Mexico.

To provide background on our analysis, we would appreciate your providing us data on the stock of disbursed officially supported export credits to Mexico--principal only--as of end-1986, end-1987, and end-1988 (or the most recent date available). This request refers to both direct and guaranteed credits with, if possible, a breakdown for public and private debtors. We would also appreciate information on the current pipeline of undisbursed commitments--principal only--and any possible indications as to the likely rate of disbursement.

We would greatly appreciate receiving your reply by May 15, 1989. Please contact Mr. Brau or Mr. Johnson of this department if you or your authorities need further information or clarification.

I have also addressed this memorandum to the Executive Directors of some of the other G-10 countries.

PRESENTATION TO THE BANKS

Mexico

STB  
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Draft #3  
April 24, 1989

- I The Letter of Intent submitted by the Mexican government to the IMF sets forth the following objectives for the Mexican economy
- A. GDP growth of 6% by 1993;
  - B Consolidation of price stability, and
  - C. Gradual increase in real wages and per capita consumption.

In order to obtain these objectives, net external transfers must be reduced to less than 2% of GDP.

- II A reduction of this magnitude can be achieved only through an agreement with Mexico's creditor banks. To this end, Mexico is presenting to the banks a set of alternatives designed to respond to their individual requirements.
- III The debt universe included in the proposal is limited to public restructured debt and the 1983, 1984 and 1987 new money packages, totalling approximately \$54.5 billion. Each bank will be free to elect how to allocate its existing portfolio among one or more of the restructuring alternatives. To guarantee the success of the Mexican economic program and to assure a fair sharing of the burden among the banks, each bank will be required to commit 100 percent of its holdings of the covered debt to one or more of the alternatives.
- IV The menu of alternatives is the following
- A. A reduction of the interest rate to a fixed rate of 4%;
  - B. A 55% principal reduction bearing market interest rates,
  - C. 80% interest payment capitalization during each of the next six years (with interest on the amounts capitalized to accrue at LIBOR flat), and
  - D A six-year new money facility in an amount each year equal to the amount of interest that would otherwise be capitalized under alternative C (the new money to bear interest at LIBOR flat)

- V. Table 1 on the data sheet previously distributed presents projections of Mexico's current account and real GDP growth for the years 1989-1994. These projections were included in the Letter of Intent submitted by the Mexican government to the IMF, and have been accepted by the management of the IMF. They assume no debt reduction agreement with the creditor banks. What stands out most distinctly is the magnitude of the current account deficits and the sources of those deficits. While the non-interest component shows a considerable surplus, the increase in interest payments casts doubts on the long-term viability of the Mexican economy. It is therefore indispensable that Mexico reach a debt relief agreement with its creditor banks as soon as possible.
- VI. The impact of the different net transfer reduction alternatives is shown in table 2 of the data sheet. Several comments are in order:
- A Net external transfers of less than 2 percent of GDP are achieved under the interest capitalization and new money alternatives. However, because there is no debt reduction, there would be a significant increase in the level of future debt service payments. Moreover, excessive reliance on new money packages and/or interest capitalization would result in a significant rise in amortization payments following the expiration of the grace periods in the mid-1990's.
  - B Even though the debt stock and interest rate reduction alternatives do not lead to external net transfers of less than 2 percent of GDP, we are confident that related externalities (for example, increased private capital flows) will make up the shortfall.
  - C Adoption of the interest rate reduction alternative would reduce the interest payment component of the current account deficit and (because the new rate would be fixed) eliminate our interest rate risk exposure. This would significantly increase macroeconomic stability. Similarly, the impact of principal reduction on interest payments under the principal reduction alternative and the implied elimination of the debt overhang would have positive effects on the current account and investors' confidence.

VII The four alternatives are roughly equivalent on a risk adjusted present value basis. The comparative value of the several alternatives to each bank will depend on each bank's discount rate, the amount of guaranties and collateral allocated to each alternative and each bank's legal, accounting, financial and tax situation.

VIII The amount and timing of the guaranties and collateral that will be available to enhance the value of the restructured debt is uncertain. This uncertainty is unlikely to disappear in the short term. We should nonetheless try to work out a deal that can be presented, as the banks' position, to the relevant governments and multi-lateral institutions. It should be kept in mind, however, that the resources available to Mexico will be limited and that these resources can be used only to facilitate debt service and debt stock reduction. More generally, it should not be forgotten that the best credit enhancement is a reduction of Mexico's debt overhang to a level consistent with the servicing capability of the economy.

IX Mexico is willing to be flexible in the implementation of the deal, and we expect suggestions from this committee to make the package as attractive as possible. Our only limitation is that we have to be certain that a multi-year reduction of net external transfers to the required levels is achieved. As we have told you repeatedly, urgency cannot be underestimated. We understand the complexity of the package and are willing to devote all the resources required to accomplish our mutual objectives.

Table 1  
M E X I C O  
CURRENT ACCOUNT AND REAL GDP GROWTH PROJECTIONS  
(billions of dollars)

	1989	1990	1991	1992	1993	1994
---	-	--	-	-		-
GDP Growth	1 5%	3 5%	4 5%	5 5%	6 0%	6 0%
-----	---	---	-	--	---	---
Current Account	-6 3	6 0	-6 4	-6 9	-7 5	-8 1
-----	-	---	-	--	---	--
Non-Interest	4 3	5 1	5 3	5 3	5 4	5 4
Interest Payments	10 6	-11 1	11 7	12 2	-12 9	13 5
Non Bank Net Public Sector Financing						
-----						
Multilaterals	1 0	0 9	0 9	1 0	1 0	1 1
Bilaterals & Suppliers	1 7	1 0	0 6	0 5	0 8	0 8
IMF	0 6	0 0	0 0	-0 6	0 0	0 0
-----						

Table 2  
NET EXTERNAL TRANSFERS UNDER DIFFERENT ALTERNATIVES  
(millions of dollars)

	1989	1990	1991	1992	1993	1994
Interest Capitalization						
- Net Transfers	(3 872)	(4 375)	(4,569)	(4,222)	(3 438)	(3,416)
- % GDP	1 93%	-2 02%	-1 93%	-1 62%	-1 20%	1 08%
- Comm Bank Net Financing	4,528	5,125	5,531	5,978	6,462	6,984
New Money						
- Net Transfers	(3,900)	(4,500)	(4,600)	(4,200)	(3,400)	(3,400)
- % GDP	-1 94%	-2 08%	-1 94%	-1 61%	-1 18%	1 07%
- Comm Bank Net Financing	4 500	5,000	5,500	6,000	6,500	7,000
Rate Reduction						
- Net Transfers	(4 918)	(5,299)	(5,442)	(5,065)	(4,282)	(4,262)
- % GDP	2 45%	2 45%	2 29%	1 94%	-1 49%	1 35%
- Comm Bank Contribution	3,267	3 539	3,539	3,539	3,539	3,539
Principal Reduction						
- Net Transfers	(5,190)	(5,694)	(5,837)	(5,459)	(4,676)	(4,657)
- % GDP	-2 58%	-2 63%	-2 46%	-2 09%	1 63%	-1 47%
- Comm Bank Contribution	2,995	3,145	3,145	3,145	3,145	3,145

Assumptions

Principal	54 500
Reduced Interest Rate	4 00%
New Debt (as % of old)	45 00%
Interest Capitalization /	
New Money	80 00% annually for 6 yrs

	<u>89</u>	<u>90</u>	<u>91</u>	<u>89-91</u>
<u>Current Acc</u>	<u>1.1</u>	<u>0.6</u>	<u>1.3</u>	<u>3.0</u>
Exports	-1.0	1.4	1.6	
Crude oil	(1.0)	(0.8)	(0.6)	
In-bound	--	(0.4)	(0.8)	
Other mineral	--	0.2	(0.2)	
Imports	--	-0.5	-0.5	
Services	0.1	-0.3	0.2	
Int	(0.1)	(-0.1)	(0.4)	
Other	-)	(-0.3)	(-0.2)	
<u>Capital</u>	<u>0.8</u>	<u>1.0</u>	<u>0.9</u>	<u>2.7</u>
Off multilat disb	--	0.1	0.1	
Off bilateral disb	0.3	0.5	0.3	
Private capital infl	0.5	0.4	0.5	
Gross res accum	--	-0.2	-0.2	-0.4
<u>Total net diff</u>	<u>1.9</u>	<u>1.4</u>	<u>2.0</u>	<u>5.3</u>



# Office Memorandum

TO The Acting Managing Director

DATE April 20, 1989

FROM S T Beza *MB*

SUBJECT Mexico

The attached memorandum prepared by Mr Bonvicini summarizes the main points discussed yesterday in New York between the staff and representatives of commercial banks on the Mexican program

cc The Managing Director (o/r)  
Mr H Simpson



# Office Memorandum

April 20, 1989

## MEMORANDUM FOR FILES

SUBJECT Mexico--Meeting with Commercial Banks

On April 19, 1989, Messrs. Loser and Bonvicini travelled to New York to make a presentation of the Mexican program to the commercial banks' Advisory Group and representatives of other banks and other organizations. Mr. Steckhan (IBRD) also attended the meeting.

Following a presentation by Messrs. Loser and Steckhan of the Mexican program and forms of Fund and Bank support, commercial bank representatives raised a number of questions on technical aspects of the program as well as on the amounts and timing of bank financing.

With regard to the technical features of the program, questions dealt mostly with exchange rate and interest rate policies, and import growth assumptions incorporated in the program, as well as the nature of the adjustment mechanism for variations in oil prices and external interest rates. On the latter issue, Mr. Loser emphasized that the adjustment mechanism incorporated in the current program does not involve contingencies with regard to Fund or commercial bank financing, as had been the case in the past. He also noted that Mexico has not requested activation of the External Contingency Mechanism.

Questions were also raised with respect to the level of foreign direct investment and debt-equity swaps assumed in the program, and the view of Bank and Fund staff on the effects of debt-equity swap operations on the Mexican economy. Mr. Loser provided information on amounts of foreign investment assumed in the program and added that, regardless of the view that the Fund staff may have on debt-equity swaps, this matter would have to be negotiated between Mexico and the banks as part of the overall financing package to be agreed. The program, he said, does not include explicitly any type of debt/debt service reduction mechanism as these are still to be negotiated. Mr. Steckhan added that the matter of debt-equity swaps could only be dealt with effectively with IBRD and Fund staff in Washington.

With regard to financing by the Fund and Bank, most questions centered on the possible amount and operational modality of set-asides. Both Mr. Loser and Mr. Steckhan pointed out that the mechanism of set-asides will have to be discussed by the Fund and Bank Executive Boards before decisions are firmed up in this area, a view on the set-asides might be expected within a month or so. There was concern on the part of the representative of the Bank of Montreal as to what he perceived as uncertainties regarding Fund and Bank participation in the financing package. Mr. Loser responded that there was indeed a

major commitment by Fund management, which had indicated to the Executive Board its support for Mexico's request for an EFF, and the Bank was finalizing negotiations on the three structural loans referred to by Mr. Steckhan. In answering related questions, Mr. Loser said that the program may be discussed by the Fund's Board in early or mid-June, and the expected increase in Fund exposure to Mexico at the end of the three-year period would be 28 percent (including a possible drawing under the CCFF)

Several bank representatives expressed concerns on the need for banks to provide interim financing to Mexico during the period of the negotiations because of the cash flow situation. Most questioned the rationale of bridge financing in the context of negotiations which would include debt or debt-service reduction. The general mood seemed to suggest great reluctance with regard to any type of formal temporary financing mechanisms.



Jorge Bonvicini  
Division Chief  
WHD/Mexico/Latin Caribbean Div

cc Mr Beza  
Mr Loser  
Mr Brau  
Mr Watson  
Mr Dooley  
Mr Surr

IMF OFFICIAL MESSAGE  
WASHINGTON, D. C. 20431

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18 --TYPE OF ARRANGEMENT FOR MEXICO: EXTENDED ARRANGEMENT  
17 FOR THREE YEARS FOR A TOTAL OF SDR 2.8 BILLION (ABOUT 3.6  
16 BILLION U.S. DOLLARS), THE EQUIVALENT OF 240 PERCENT OF  
15 QUOTA. MEXICANS MAY EVENTUALLY REQUEST A FOURTH YEAR.  
14 --PUBLICITY: THE MEXICAN AUTHORITIES MADE THE LETTER OF  
13 INTENT AVAILABLE TO THE PUBLIC ON TUESDAY, APRIL 11, WITH  
12 GENERALLY FAVORABLE REACTIONS ON THE PART OF THE LOCAL  
11 PRESS. THE TECHNICAL MEMORANDUM HAS NOT BEEN PUBLISHED.  
10 --MAIN FEATURES: THE AUTHORITIES ARE SEEKING TO IMPLEMENT  
9 A MEDIUM TERM GROWTH-ORIENTED STRATEGY. THE PROGRAM IS  
8 BASED ON THE FOLLOWING PRINCIPLES: 1. PROGRAM WILL  
7 RESTORE ECONOMIC GROWTH, CONSOLIDATE THE GAINS ON  
6 INFLATION AND ALLOW FOR A GRADUAL RECOVERY OF REAL WAGES  
5 IN LINE WITH PRODUCTIVITY. 2. THE PROGRAM ENCOMPASSES  
4 CONTROL OVER DEMAND, ENVISAGES INCREASES IN DOMESTIC  
3 SAVINGS, AND CONTAINS STRUCTURAL POLICIES AIMED AT  
2 IMPROVING ECONOMIC EFFICIENCY. 3. THE PROGRAM SEEKS A  
1 REDUCTION OF THE STOCK OF DEBT AND DEBT-SERVICE PAYMENTS,

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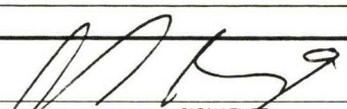
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# IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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18	AND THE AVAILABILITY OF ADEQUATE FINANCING ON A MULTIYEAR	
17	BASIS.	
16	--STRUCTURAL REFORMS: COVERS IMPROVEMENTS OF TAX SYSTEM,	
15	DIVESTITURE, RESTRUCTURING AND MODERNIZATION OF STATE	
14	ENTERPRISES, FINANCIAL SECTOR REFORMS TO IMPROVE THE	
13	EFFICIENCY OF THE BANKING SYSTEM AND TO FREE INTEREST	
12	RATES, CREATION OF CONDITIONS FOR INCREASED DIRECT FOREIGN	
11	INVESTMENT, AND COMPLETION OF MAJOR TRADE LIBERALIZATION.	
10	--MACROECONOMIC OBJECTIVES: INFLATION WOULD DECLINE FROM	
9	52 PERCENT DURING 1988 TO 18 PERCENT DURING 1989 AND FALL	
8	TO INTERNATIONAL LEVELS SUBSEQUENTLY. REAL GDP WILL	
7	INCREASE BY 1.5 PERCENT IN 1989 AND GROW TO 5 1/2 PERCENT	
6	BY 1992. GROSS DOMESTIC INVESTMENT WOULD INCREASE BY 6	
5	PERCENTAGE POINTS OF GDP FROM 1988 TO 1992 AND DOMESTIC	
4	SAVINGS WOULD INCREASE BY 5 1/2 POINTS. EXTERNAL CURRENT	
3	ACCOUNT DEFICIT WOULD BE AROUND 2 PERCENT OF GDP. NET	
2	RESOURCE TRANSFER [EXPORTS OF GOODS AND NONFACTOR	
1	SERVICES] WOULD BE SOME 2 PERCENT OF GDP COMPARED WITH 6	
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18	PERCENT OF GDP IN 1983-88	DISTRIBUTION
17	--BALANCE OF PAYMENTS AND FINANCING THE EXTERNAL CURRENT	N
16	ACCOUNT DEFICIT WILL BE ABOUT US DOLLARS 4 1/2 BILLION ON	O
15	AVERAGE, WITH FINANCING BY FUND, IBRD, OFFICIAL AGENCIES	T
14	[INCLUDING A REQUEST FOR RESTRUCTURING WITH THE PARIS	T
13	CLUB], AND FINANCING FROM COMMERCIAL BANKS. IN ORDER TO	Y
12	ACHIEVE THE GROWTH OBJECTIVES, DEBT REDUCTION OPERATIONS	P
11	WOULD BE A SIGNIFICANT COMPONENT OF THE FINANCING PACKAGE	E
10	WITH COMMERCIAL BANKS	H
9	--POLICIES FOR 1989. 1. FISCAL POLICIES PSBR WILL	E
8	IMPROVE BY 6 PERCENTAGE POINTS OF GDP, THE OPERATIONAL	R
7	DEFICIT WILL IMPROVE BY 1 1/2 PERCENTAGE POINTS AND THE	E
6	PRIMARY SURPLUS WILL IMPROVE BY ABOUT 1 1/2 PERCENTAGE	R
5	POINTS. 2 MONETARY POLICY CONSISTENT WITH INFLATION,	E
4	GROWTH AND BALANCE OF PAYMENTS OBJECTIVES 3 EXCHANGE	R
3	RATE POLICY TO PRESERVE BALANCE OF PAYMENTS AND STABILI-	E
2	ZATION OBJECTIVES AND EXTERNAL COMPETITIVENESS.	
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18	MEMORANDUM OF UNDERSTANDING] PROJECTION BASED ON OIL PRICE	
17	OF 12 US DOLLARS A BARREL AND LIBOR OF 10 5 PERCENT	
16	BEYOND AN UPPER BAND [EQUIVALENT TO 2 US DOLLARS A BARREL]	
15	ALL RESOURCES WILL BE STERILIZED, AND WILL BE REFLECTED IN	
14	HIGHER RESERVES. SAME IS TRUE FOR LOWER PRICES UP TO A	
13	LIMIT DETERMINED BY A MINIMUM VIABLE LEVEL OF RESERVES.	
12	--POSSIBLE QUESTIONS NATURE OF FINANCING ASSURANCES AT	
11	TIME OF APPROVAL, INTERIM FINANCING WHILE PACKAGE IS BEING	
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# Office Memorandum

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To: Mr. Beza  
From: Gerhard Laske  
Subject: Mexico - Use of Fund Credit

April 13, 1989

I refer to our telephone conversation this morning.

I have now checked with Mr. Williams what he said at the informal meeting with Executive Directors on Tuesday, April 11. He stated that Fund holdings of Mexican pesos would be 383 percent of quota at the beginning of the arrangement. The proposed EFF arrangement would provide access to Mexico of 240 percent of quota over three years. Scheduled repurchases over the same three year period amount to 197 percent of quota. Accordingly, projected Fund holdings of Mexican pesos at the end of the EFF arrangement would be at 426 percent of quota. This, of course, implies that use of Fund credit would be 326 percent of quota at the end of the EFF arrangement.

As use of Fund credit would be below the cumulative access limit of 440 percent of quota at the beginning of the arrangement and was projected to remain below that limit at the end, Mr. Williams informed the Executive Directors that access with "exceptional circumstances" would not be involved at any point of the arrangement.

cc: Mr. Erb

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Mexico

# Posibilidades de 75% de una renegociación favorable

Hay un 75 por ciento de posibilidades de que México renegocie favorablemente su deuda externa, afirmó ayer el presidente de la Canaco, José María Alverde, al señalar que a partir de agosto deberán liberarse precios y salarios, a fin de evitar desabasto de alimentos y un mayor deterioro del poder de compra de los trabajadores.

Contundente, agregó que aunque repunte la inflación, es necesario terminar con el Pacto de Estabilidad y Crecimiento Económico (PECE), porque es un programa «comprimido» que reprime el desarrollo de las empresas.

Informó que la Canaco estudiará a mediados de junio los ajustes que hará a los precios de sus productos.

Paralelamente, consideró que en la lucha contra el narcotráfico deben investigarse casas de bolsa, bancos, líderes empresariales y hasta ex presidentes. «El seguimiento debe llevarse hasta donde se lava y se tiende ese dinero», subrayó.

En conferencia de prensa, el líder de los comerciantes capitalinos rechazó, por otra parte, la implantación de la semana laboral de 40 horas, y dijo a quienes definen modificaciones a la Ley Federal del Trabajo que «lo que se necesita es trabajar una hora más».

Sobre la renegociación de la deuda, Alverde dijo que la Canaco confía en que se obtendrán buenos resultados, dado el menú de opciones que se tienen. Empero, añadió que no debemos estar esperanzados a que haya una quita al principal.

«Lo que hay que esperar es que el Gobierno acabe

con los coqueteos en cuestiones de inversión extranjera, ya que mientras otros países compiten por atraer esos capitales, nosotros perdemos el tiempo», lamentó.

Más adelante, el presidente de la Canaco dijo que precios y salarios deben soltarse, una vez terminado el

PECE, ya que se corre el riesgo del desabasto y de que el poder adquisitivo de los trabajadores se deteriore más.

Recordó que actualmente en el mercado hay escasez de galletas, sardinas y puré de jitomate, debido al alza de las materias primas.



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WESTERN HEMISPHERE  
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# CONVENIO DEL GOBIERNO MEXICANO CON EL FONDO MONETARIO INTERNACIONAL (1989)

- REESTABLECER EL CRECIMIENTO ECONOMICO
- CONSOLIDAR LA ESTABILIDAD DE PRECIOS
- PROMOVER LA RECUPERACION DEL SALARIO REAL

México D.F. a 11 de abril de 1989

Sr Michel Camdessus  
Director Gerente  
Fondo Monetario Internacional  
Washington D C 20431

Estimado Sr Camdessus

1 Durante los últimos años el Gobierno de México ha venido aplicando un programa global de ajuste macroeconómico y cambio estructural dirigido a corregir los desequilibrios macroeconómicos y a eliminar distorsiones que obstaculizaban el crecimiento del país. Las siguientes son algunas de las medidas de política económica más importantes:

a) El balance primario del sector público (correspondiente a los ingresos totales del sector público menos el gasto público excluyendo intereses) y que por varias décadas fue deficitario ha registrado un superávit considerable año con año desde 1983. Entre 1982 y 1988 el ajuste del balance primario ascendió a 14 puntos del PIB. En este periodo ante la restricción de recursos externos e internos el gasto público excluyendo el pago de intereses disminuyó en 10 puntos porcentuales del PIB y pese a la dramática caída en los precios del petróleo, los ingresos públicos crecieron sustancialmente como resultado de una reforma fiscal integral y de la corrección de los precios y tarifas del sector público.

b) Con el objeto de aumentar la competitividad de la planta productiva se ha llevado a cabo una liberalización del comercio exterior del país que ha resultado en la transformación de una economía altamente protegida en una economía abierta. En 1982 prácticamente todas las importaciones estaban sujetas a barreras no arancelarias. En la actualidad menos del 20 por ciento del valor de las importaciones está sujeto a algún tipo de restricción cuantitativa. Al mismo tiempo los aranceles se han reducido drásticamente desde un máximo de 100 por ciento en 1982 a 20 por ciento actualmente.

c) Con el fin de cumplir el mandato constitucional de fortalecer el papel del Estado en las áreas estratégicas y prioritarias y en la provisión de servicios sociales desde 1983 entró en acción un programa de desincorporación de entidades y organismos como parte de la reforma estructural del sector público. Ello ha fortalecido considerablemente la posición financiera de este sector. En 1982 el sector público mexicano participaba en distintas áreas de la actividad económica a través de 1 155 entidades del Estado. En los últimos años el Gobierno ha vendido, fusionado, liquidado o transferido a los gobiernos locales casi 750 entidades. En esta área las autoridades mexicanas han actuado con estricto apego a los principios establecidos en la Constitución y en las leyes correspondientes.

10 De acuerdo al mandato constitucional el Gobierno de México mantendrá el control sobre entidades públicas estratégicas y prioritarias. La adecuada administración de estas entidades, así como la responsabilidad del Estado de hacer más eficaz la prestación de servicios sociales básicos requiere del fortalecimiento de la posición financiera del sector público. Por ello el Gobierno se ha retirado de sectores que no son ni prioritarios ni estratégicos haciendo más efectiva su participación en las áreas que sí lo son. De acuerdo a lo ya anunciado el proceso de desincorporación, reestructuración y modernización de entidades públicas habrá de continuar en el mediano plazo.

11 En lo que toca al sector financiero conviene mencionar que se han creado instrumentos como el Pagaré (bono indexado al tipo de cambio controlado) y los Bonos de Desarrollo (Certificados de Tesorería con vencimientos más largos y tasas de interés flexibles). Hacia fines de 1988, el mercado de aceptaciones bancarias y el de otros instrumentos financieros no sujetos a la reglamentación tradicional y con tasas y plazos flexibles se amplió considerablemente. En noviembre de ese año el Banco de México eliminó los límites existentes a la emisión de aceptaciones e impuso sobre éstas un coeficiente de liquidez de sólo 20 por ciento a ser invertido en papel gubernamental o depósitos en el Banco de México. Esta acción permitió un aumento significativo en el flujo de recursos al sistema bancario durante los dos últimos meses del año pasado. Adicionalmente las autoridades mexicanas adoptaron en marzo de 1989 distintas medidas para promover una mayor competencia interbancaria y entre los distintos intermediarios financieros. Las medidas más importantes fueron a) la eliminación de controles a los plazos y a las tasas de los instrumentos tradicionales y b) la sustitución del régimen de encaje legal para instrumentos bancarios tradicionales por coeficientes de liquidez similares a los de las aceptaciones bancarias.

12 Las recientes medidas adoptadas por las autoridades mexicanas son parte de una reforma integral del sistema financiero. En esta materia las disposiciones de financiamiento obligatorio de los bancos al sector público a través del encaje legal, han sido reemplazadas por la colocación directa de valores entre el público por medio de operaciones de mercado abierto. Estas acciones se complementarán con reformas importantes dirigidas a brindar a los inversionistas una protección más adecuada al tiempo que mejoran la eficiencia del mercado, promueven la competitividad internacional de las instituciones financieras y fomentan el ahorro y la inversión. Seguirá la supervisión cuidadosa de las operaciones de crédito de los bancos de desarrollo y de los fideicomisos oficiales de fomento. En áreas de alta prioridad social continuará el sistema de tasas preferenciales a usuarios de crédito. Habrá cambios estructurales para aumentar la eficiencia de la banca de desarrollo y para buscar una mayor complementariedad de sus funciones con las de la banca comercial, convirtiéndose

que establecen el control gubernamental en empresas que participan en sectores prioritarios y estratégicos. El proceso de desincorporación ha incrementado la productividad de la economía y ha sido un factor fundamental para fortalecer en forma permanente a las finanzas públicas.

2 En el marco del ajuste macroeconómico y estructural emprendido se han obtenido avances importantes. Hacia fines de 1987 la combinación del esfuerzo de concertación social y el ajuste sostenido en las políticas fiscales y monetarias en el contexto del Pacto de Solidaridad Económica, llevaron a una rápida caída en la tasa de inflación. Medida con el índice de precios al consumidor la tasa anual de inflación ha caído de 159 por ciento en diciembre de 1987 a alrededor del 20 por ciento en marzo de 1989. La tasa anual de incremento del índice de precios al productor cayó de 167 a 11 por ciento durante el mismo periodo. Como resultado de las medidas de cambio estructural en el sector externo la estructura comercial de México se ha diversificado notablemente. Las exportaciones de manufacturas representan actualmente más de la mitad del total de las exportaciones, mientras que las de petróleo han disminuido de más del 75 por ciento en 1982 a menos de la tercera parte hoy en día. Distintos sectores e industrias se han modernizado sustancialmente y la economía mexicana es hoy más competitiva y posee una mayor capacidad exportadora. Por otro lado entre 1982 y 1988 la deuda externa de México neta de reservas internacionales ha permanecido constante medida en dólares corrientes lo que implica una caída significativa en términos reales.

3 Sin embargo la actividad económica está estancada. Durante los pasados siete años el crecimiento promedio de la economía mexicana ha sido cercano a cero. El ingreso per cápita y los salarios reales han caído significativamente. El estancamiento de la actividad económica y de la inversión refleja en gran medida el deterioro de los términos de intercambio al mismo tiempo que el acceso al financiamiento externo se redujo drásticamente. Durante los pasados seis años los términos de intercambio de México han caído más de 35 por ciento. Esta baja implica una reducción acumulada en los ingresos de aproximadamente 40 mil millones de dólares. La persistencia de altas tasas de interés reales en los mercados internacionales representa una carga importante sobre la economía. Durante 1983-1988 las transferencias netas de recursos a México que habían sido históricamente positivas pasaron a ser negativas en 6 por ciento del PIB en promedio. El exceso de deuda ha propiciado un clima de incertidumbre macroeconómica que ha inhibido la inversión y ha ejercido una gran presión sobre los mercados financieros internos.

4 Las autoridades mexicanas consideran que las políticas macroeconómicas y de cambio estructural adoptadas en los años anteriores han contribuido a reestablecer las condiciones internas requeridas para recobrar un crecimiento económico sostenido. Sin embargo para lograr este objetivo además de mantener una política económica interna firme es esencial reducir drásticamente las transferencias netas de recursos al exterior y eliminar el endeudamiento en exceso de la capacidad de pago.

5 El diseño de una estrategia de mediano plazo, orientada al crecimiento económico requiere la persistencia de políticas macroeconómicas adecuadas para consolidar el esfuerzo de estabilización, la profundización de las medidas de cambio estructural para fomentar la eficiencia y la competitividad, la reducción del monto de la deuda y de los pagos del servicio de la misma y la disponibilidad de recursos financieros del exterior en forma multianual.

### 1 Programa Macroeconómico de Mediano Plazo

6 Desde que tomó posesión el nuevo Gobierno de México anunció la adopción de una estrategia de mediano plazo de crecimiento económico con estabilidad de precios para el periodo 1989-1994. En apoyo de dicha estrategia México solicita utilizar recursos financieros del Fondo Monetario Internacional por el equivalente de 2 787.2 millones de Derechos Especiales de Giro (aproximadamente 3 635 millones de dólares) mediante un acuerdo bajo el Servicio de Financiamiento Ampliado por un periodo de tres años. En su oportunidad el Gobierno de México si lo considera necesario solicitará la posible extensión del acuerdo a un curso año.

7 La estrategia económica de mediano plazo ya anunciada está basada en los siguientes principios:

a) El programa busca reestablecer el crecimiento económico consolidar la estabilidad de precios y promover la recuperación gradual del salario real.

b) Para lograr estos objetivos el programa se ha diseñado en un horizonte de mediano plazo que incluye medidas de manejo de demanda agregada esfuerzos para incrementar el ahorro público y privado así como políticas de cambio estructural necesarias para promover la eficiencia económica. Estas acciones permitirán fomentar la inversión productiva en la economía y recobrar el crecimiento del consumo interno.

c) El programa económico de México se diseñó en el contexto de una reducción significativa de la transferencia de recursos al exterior de una disminución en la carga del servicio de la deuda considerando la posibilidad de recursos externos adicionales en el marco de un horizonte multianual. México intenta concluir acuerdos financieros con los acreedores externos conducentes a una reducción inmediata y sustancial de la deuda externa. Esto sentará las bases para una solución definitiva al problema de la deuda externa del país a la vez que propiciará durante los próximos años flujos financieros congruentes con las metas de crecimiento económico de México.

8 México ha aplicado políticas de cambio estructural en empresas del sector público en estricto apego a los lineamientos establecidos en la Constitución. En los sectores financiero y comercial también se han realizado reformas importantes las que se consolidarán en los años venideros como se describe más adelante.

Algunas de estas instituciones en bancos de segundo piso. Las tasas de las preferenciales estarán sujetas a ajustes periódicos para evitar que surjan diferencias importantes en relación al costo de los fondos. La estructura de estas tasas se revisará periódicamente con la idea de reducir los subsidios implícitos no justificados.

13 En el mediano plazo se espera que la inversión extranjera directa juegue un importante papel complementario en la promoción del empleo, en la modernización de la planta industrial y en la apertura de nuevos mercados para la exportación. En este contexto el logro de las metas del programa —concretamente crecimiento económico y estabilidad financiera— creará un clima propicio para atraer inversión extranjera. Entre las medidas fiscales adoptadas a consideración del Congreso el año pasado, la referente a la reducción gradual de la tasa del Impuesto Sobre la Renta de las empresas hasta alcanzar niveles internacionales, generará incentivos tanto para la inversión de nacionales como de extranjeros.

14 La política comercial tiene como objetivo consolidar una nueva estructura de producción en la economía mexicana a través de propiciar un proceso de sustitución de importaciones eficiente y de promover los sectores en los que México tiene ventajas comparativas. La mayor integración de México a la economía mundial estimulará la eficiencia y fortalecerá las perspectivas de crecimiento. Más allá de la reducción significativa en la protección selectiva realizada hasta el momento las autoridades mexicanas continuarán eliminando las distorsiones aún existentes y reducirán la dispersión en los aranceles.

15 Se espera que en el contexto de estabilidad macroeconómica el mayor ahorro interno —junto con un nivel adecuado de ahorro externo— provea los recursos necesarios para financiar la inversión requerida en el mediano plazo y así alcanzar las metas de crecimiento económico y empleo del programa. Después de una fase inicial de transición el crecimiento económico proyectado en términos reales será de alrededor de 6 por ciento por año. Para lograr estas tasas de crecimiento es necesario que la relación de inversión a PIB aumente a cerca de 27 por ciento en 1994. Al mismo tiempo se espera consolidar las ganancias derivadas del abatimiento de la inflación. Para ello se ha proyectado que la tasa de incremento de los precios baje del 18 por ciento en 1989 a niveles similares a los de los principales socios comerciales de México en los siguientes años.

16 Las autoridades consideran que los objetivos de crecimiento del producto difícilmente serán alcanzados si la transferencia externa neta no disminuye a menos del 2 por ciento del PIB por año. Sin una reducción significativa en el servicio de la deuda externa, el logro de las metas de crecimiento y empleo contenidas en el programa implicaría un aumento sostenido del déficit en cuenta corriente en el mediano plazo. Bajo el supuesto de estabilidad en los términos de intercambio y a pesar del crecimiento sostenido de las exportaciones no petroleras, la balanza comercial registrará sólo pequeños cambios en el mediano plazo debido a que seguirán constantes los volúmenes de exportación de petróleo. En estas condiciones, el pago de intereses sobre la deuda pública externa se duplicaría aproximadamente entre 1988 y 1994 (aun bajo el supuesto de que las tasas de interés internacionales no aumenten aún más). Este hecho compensaría de sobre la mejora proyectada en otros renglones de la cuenta corriente. Por consiguiente, sin una reducción del servicio de la deuda el déficit en cuenta corriente podría crecer en más del doble entre 1988 y 1994.

17 Considerando los déficits proyectados en cuenta corriente los pagos del servicio de la deuda externa pública y privada y tomando en cuenta la necesidad de fortalecer las reservas internacionales e partir de los niveles alcanzados hacia finales de 1988 México requeriría montos elevados de financiamiento externo en el mediano plazo. De acuerdo con las proyecciones a pesar de un comportamiento dinámico de la inversión extranjera directa y tomando en cuenta entradas de capital en montos importantes provenientes de agencias bilaterales y multilaterales persistiría una brecha de financiamiento de 7 mil millones de dólares o más por año. Estas brechas podrían ser cubiertas con nuevos préstamos de agencias multilaterales y bilaterales y/o con créditos netos de los bancos comerciales en montos importantes. Sin embargo, sin una reducción considerable de la deuda el resultado sería un aumento significativo en su servicio durante los próximos años. Más aún, si la opción de nuevos financiamientos predominara al terminar los periodos de gracia de los nuevos créditos hacia mediados de la década de los noventa habría un aumento significativo en los pagos de amortizaciones. Por lo tanto es importante buscar una reducción significativa de la deuda que asegure el logro de los objetivos de crecimiento del programa y la viabilidad de la balanza de pagos.

18 Durante los próximos años los presupuestos de egresos que el Gobierno mexicano someterá a consideración del Congreso de la Unión buscarán continuar el proceso de consolidación fiscal. En este contexto y partiendo de las metas de inflación proyectadas, entre 1988 y 1992 los requerimientos financieros del sector público bajarán en aproximadamente 9 puntos porcentuales del PIB pese a que el superávit primario podría bajar en 2 puntos porcentuales del PIB. También habría una caída en el déficit operacional del orden de 2.0 puntos porcentuales del PIB a medida que la tasa de interés real disminuya. Se espera que el ahorro del sector público aumente en virtud de los esfuerzos realizados tendientes a mejorar el sistema impositivo y la eficiencia de las empresas públicas así como de la caída anticipada de la tasa de interés real que debe producirse a medida que se consolide la estabilidad financiera. La reducción de los pagos de intereses reales y el aumento del ahorro público permitirá incrementar el gasto en distintas áreas, particularmente en educación, agricultura, salud e infraestructura.

9 En el mediano plazo la reforma fiscal iniciada en 1987 y que ha sido ya prácticamente aplicada alcanzará una mayor solidez. Los objetivos principales de la reforma son la promoción de mayor eficiencia económica mediante el otorgamiento de incentivos adecuados para la inversión al fomento de la competitividad externa a través de la armonización del sistema impositivo interno la promoción del ahorro interno y el mejoramiento de la distribución del ingreso. Estas medidas están dirigidas a incrementar los ingresos fiscales a través de menores tasas impositivas de la ampliación de la base gravable del impuesto Sobre la Renta (para empresas y para personas físicas) así como de la simplificación administrativa que debe redundar en una considerable mejora de la eficiencia en la recaudación.

21 Por ciento en ese mes el índice de precios al consumidor sólo aumentó 1.1 por ciento. Las medidas fiscales aprobadas por el Congreso en el Presupuesto para 1989 contribuirán a una reducción del déficit operacional. El esfuerzo fiscal junto con las medidas monetarias y cambiarias contempladas será congruente con la recuperación gradual de la inversión y de la producción así como con una menor inflación y el fortalecimiento de las reservas internacionales.

20 La política de ingresos y gastos del sector público está orientada a cumplir con los objetivos presupuestales aprobados por el Congreso de la Unión. El superávit fiscal primario para 1989 de 6.7 por ciento del PIB aprobado por el Congreso de la Unión que suponía un precio promedio por barril de petróleo de 10 dólares en 1989 será de 7.3 por ciento del PIB la expectativa actual de que el precio promedio del petróleo sea de 8 dólares por barril. Como resultado del esfuerzo fiscal y previendo una disponibilidad adecuada de financiamiento externo se espera que tanto la tasa nominal como la tasa real de interés disminuyan durante el año. Por consiguiente el déficit operacional bajará a 2.5 por ciento del PIB mientras que los requerimientos financieros del sector público disminuirán en casi 6 puntos del PIB al pasar de cerca de 13 por ciento en 1988 a 7.0 por ciento en 1989.

21 En 1987 las autoridades mexicanas iniciaron una reforma integral del sistema impositivo para aumentar la efectividad de la política fiscal y mejorar la signación de recursos. En 1988 el nuevo sistema aumentó la recaudación en casi un punto del PIB a pesar de la baja en los ingresos por impuestos a la importación que resultó de la reducción en los aranceles que se dio en el programa de liberalización comercial. El Gobierno mexicano ha efectuado revisiones de fondo a la estructura tributaria para 1989 con el propósito de ampliar la base, reducir las tasas marginales, simplificar los procedimientos para el cálculo de las obligaciones fiscales y lograr una estructura similar a la de los principales socios comerciales de México. En este año la tasa del Impuesto Sobre la Renta de las empresas disminuyó de 39.2 a 37 por ciento. Con la más rápida puesta en marcha de la reforma fiscal de 1987 la nueva base para calcular las obligaciones fiscales ya está vigente. El Congreso aprobó una serie de medidas tributarias importantes para el año fiscal de 1989: a) modificó el tratamiento fiscal a los dividendos pagados por las empresas con el objeto de promover la reinversión de utilidades; b) modificó el sistema de deducciones inversión para estimular la descentralización de la actividad económica; c) introdujo un impuesto mínimo del 2 por ciento sobre los activos de las empresas (esta medida intenta reducir la evasión fiscal y no elevará la carga fiscal de las empresas al corriente en sus obligaciones fiscales debido a que el pago de este impuesto es acreditable contra el pago del impuesto Sobre la Renta); d) redujo de 12 a 6 el número de estratos de ingreso para efectos del pago del impuesto Sobre la Renta de las personas físicas además de que disminuyó las tasas marginales, y e) redujo la dispersión de los aranceles incrementando la tarifa mínima para la mayoría de los artículos a 10 por ciento excepto para algunos alimentos y medicamentos. El arancel máximo se mantuvo en 20 por ciento. Además el Gobierno vigila estrictamente el cumplimiento de las distintas disposiciones fiscales con el fin de reducir la evasión.

22 La política de precios y tarifas del sector público aplicada por las autoridades mexicanas ha sido congruente con la meta de inflación, la protección del poder de compra de la población de bajos ingresos, el fortalecimiento de las finanzas públicas y el mejoramiento en la asignación de recursos. Desde enero de 1988 los precios del sector público ajustados por el índice de precios al productor han permanecido estables en términos reales. El Gobierno de México vigilará atentamente la evolución de dichos precios y tarifas los cuales ajustará en función de los objetivos arriba mencionados.

23 El gasto total del sector público en bienes y servicios no financieros en relación al PIB disminuyó en más de 10 puntos porcentuales entre 1982 y 1988. Con el objeto de consolidar los logros alcanzados las autoridades continuarán la política de desincorporación de empresas públicas no prioritarias ni estratégicas y buscarán reducir y hacer más eficiente el funcionamiento del sector público como se ha venido anunciando. Se proyecta que el gasto presupuestal excluyendo intereses —de acuerdo a lo aprobado por el Congreso— disminuirá en 1.5 por ciento del PIB en 1989. La disminución del gasto del sector público se combinará con una reasignación de prioridades con el fin de dar mayor atención al gasto que beneficia a los grupos de menores ingresos.

## II. Políticas Macroeconómicas en 1989

19 En diciembre de 1988, el Gobierno y los distintos sectores de la sociedad mexicana acordaron el Pacto para la Estabilidad y el Crecimiento Económico (PECE) como la base inicial de la política económica para 1989. Este nuevo pacto que sigue al Pacto de Solidaridad Económica cuyo propósito es consolidar la estabilidad de precios, contiene lineamientos específicos hasta el mes de julio. En el marco del PECE los precios y tarifas del sector público han sido ajustados, los salarios mínimos aumentaron en 3 por ciento y el peso se deprecia diariamente de acuerdo con una regla anunciada al inicio del programa. Se espera que como resultado del PECE la inflación baje de 52 por ciento en 1988 a 18 por ciento para finales de 1989 (en marzo la tasa anual de inflación disminuyó

24 Las altas tasas de inflación y la incertidumbre que prevaleció en 1988 provocaron que el servicio de la deuda interna fuera de cerca de 15 por ciento del PIB. A su vez la caída en la inflación durante 1988 no fue acompañada de una reducción proporcional en la tasa de interés nominal por lo que a pesar de que el monto total erogado por concepto de intereses descendió el pago de intereses en términos reales aumentó considerablemente. La consolidación de la estabilización de la inflación durante 1989 deberá reducir el pago de intereses sobre la deuda interna a 1 por ciento del PIB. Sin embargo los intereses reales probablemente permanecerán altos. A medida que avance la negociación de la deuda externa y se cumplan los objetivos del programa las tasas de interés reales bajarán considerablemente.

25 La política monetaria buscará consolidar los logros alcanzados en materia de estabilidad financiera y continuará apoyando los objetivos macroeconómicos del programa. Los cambios institucionales recientes y mencionados han significado que las operaciones de mercado abierto sean el instrumento más importante de política monetaria. Estos cambios deberán propiciar una mayor eficiencia en la intermediación y una reducción en los márgenes de intermediación entre tasas activas y pasivas.

26 Las autoridades mexicanas consideran que una política cambiaria apropiada es un elemento clave en la estrategia de estabilización y es esencial en el logro de una balanza de pagos viable. Con la finalidad de mantener el nivel de competitividad en el marco del Pacto para la Estabilidad y el Crecimiento Económico (PECE) adoptado por la nueva administración con vigencia hasta julio de 1989, el peso está siendo depreciado en algo más de 1 por ciento mensual frente al dólar de los Estados Unidos. Como principio general la política de tipo de cambio será congruente con las metas de inflación y balanza de pagos del programa, tomando en cuenta asimismo el comportamiento de las reservas internacionales, la balanza comercial y el tipo de cambio real efectivo. Las autoridades tienen la intención de continuar con la actual política de libre acceso al mercado de divisas y esperan que el diferencial entre el tipo de cambio libre y controlado continúe a los muy bajos niveles que prevalecen.

27 Las autoridades mexicanas consideran que un financiamiento externo adecuado y oportuno es indispensable para el éxito del programa. Esto requerirá la cooperación de todos los acreedores. Actualmente hay un proceso de negociación con el Banco Mundial para obtener un crédito al apoyo del ajuste estructural por un monto de 1.5 mil millones de dólares además de los préstamos para proyectos específicos vigentes. México también solicitará recursos del Banco Mundial para apoyar las operaciones de reducción de deuda. El apoyo del Fondo Monetario Internacional a través del Servicio de Financiamiento Ampliado proporcionará el marco para la consolidación de los esfuerzos de estabilización y el restablecimiento del crecimiento económico. Se buscará un acuerdo de reestructuración de deuda con los acreedores del Club de París, preservando una cobertura completa de las exportaciones. Con respecto a los bancos comerciales será necesario tomar varias decisiones en el muy corto plazo. Estas incluyen la reestructuración de los pagos por amortizaciones de principal de la deuda reestructurada y de los vencimientos esperados para el periodo 1989-1994 un acuerdo para el mantenimiento de los depósitos interbancarios y de aceptaciones bancarias así como la obtención de un financiamiento satisfactorio de la balanza de pagos mientras se alcanza una solución de largo plazo. Las operaciones de crédito comercial continuarán llevándose a cabo normalmente. Las autoridades mexicanas consideran que la incertidumbre y la fuga de capitales están íntimamente ligados al problema de deuda excesiva. La eliminación del endeudamiento excesivo es una condición necesaria para lograr una sustancial repatriación de capitales y para volver a tener acceso normal a los mercados internacionales de capital.

28 Las autoridades mexicanas consideran que las políticas y medidas descritas en esta carta son adecuadas para lograr los objetivos del programa. No obstante están dispuestas a adoptar medidas adicionales, si fuera necesario para alcanzar dichos objetivos. Durante la vigencia del Acuerdo las autoridades de México y del Fondo Monetario Internacional sostendrán consultas periódicas para evaluar el avance conseguido en las metas del programa. La primera evaluación del programa será antes del 31 de agosto de 1989. En la segunda revisión, que deberá completarse antes del 28 de febrero de 1990 se evaluarán las políticas para 1990. Posteriormente habrá nuevas consultas antes del 28 de febrero de 1991 y del 29 de febrero de 1992 con el fin de llegar a un acuerdo sobre el curso de las políticas para los años 1991 y 1992 respectivamente.

Afirmación

Pedro Aspe Armella

Miguel Mancera Aguayo

## Avalará reducciones en el saldo y el servicio de nuestra deuda

● Se llegó a un acuerdo que durará tres años y que puede prorrogarse uno más ● Garantiza recursos financieros por un total de 4,135 millones de dólares ● Ofrecen las autoridades mexicanas, a cambio, el actual programa orientado a la recuperación del crecimiento económico sostenido, basado en el saneamiento de las finanzas públicas y la apertura comercial ● Tanto el Presupuesto de Egresos de la Federación como la Ley de Ingresos para el año en curso son el contenido de la carta de intención Pedro Aspe ●

Por ENRIQUE ARANDA PEDROZA

Reportero de EL UNIVERSAL

México concretó ayer un acuerdo de apoyo a su estrategia económica de mediano plazo con el FMI —válido por un periodo de tres años prorrogable por uno más a solicitud del país— que constituye un 'endoso' del organismo hacia el programa de crecimiento con estabilidad de precios de la presente administración y que, por otra parte garantiza recursos financieros por un total de 4 135 millones de dólares y su aval para que el país negocie con acreedores oficiales —gobiernos— y la banca privada mundial reducciones en el saldo y servicio de su deuda externa

A cambio en una nueva carta de intención remitida el lunes último al director gerente del Fondo Monetario Internacional Michel Camdessus, las autoridades mexicanas ofrecieron su actual programa orientado a recuperar un crecimiento económico sostenido —con tasas del 6% anual para fines de sexenio—, con base en un proceso creciente de saneamiento de las finanzas públicas y la apertura comercial

Merced a una ardua negociación con las autoridades del organismo, estableció ayer el secretario de Hacienda y Crédito Público doctor Pedro Aspe Armella se consiguió su apoyo a un genuino programa de crecimiento, que redundará en una recuperación gradual y sostenida de los niveles de vida de la población

No se trata de un programa recesivo de hecho, agregó tanto el Presupuesto de Egresos de la Federación como la Ley de Ingresos aprobada por el Congreso para el año en curso se han transformado en el contenido mismo de la carta de intención

Si bien se ratifican las metas fiscales adoptadas al inicio del presente año y que 'no se considera la adopción de medidas adicionales' es claro que debe continuar el esfuerzo de disciplina orden y concertación, informó el funcionario

El acuerdo suscrito con el FMI indicó, reconoce plenamente los efectos adversos del endeudamiento externo excesivo y apoya las iniciativas que hará el Gobierno mexicano en materia de reducción de deuda y de su servicio a la banca comercial así como la necesidad de abatir el monto de las transferencias de recursos que ascendieron a 6% del PIB en los últimos años a menos del 2% del PIB anual

Durante una reunión en la que dio a conocer los por menores del convenio y el contenido de la carta de intención enviada al organismo Aspe Armella informó que en los próximos días se buscará concluir las negociaciones con el Banco Mundial para obtener créditos por un total de 1 500 millones de dólares en apoyo de los programas de reforma estructural del Gobierno que serían adicionales a los recursos destinados a financiar proyectos específicos

Asimismo estableció, en los próximos días se iniciarán pláticas con el Club de París con el fin de reestructurar adeudos con acreedores oficiales y a principios de la próxima semana se presentará formalmente a los bancos comerciales la propuesta de México en relación con la deuda bancaria consistente en las siguientes opciones: reducción del monto de la deuda, reducción del servicio y/o recursos adicionales asegurados por un periodo multianual en términos y condiciones favorables al país

(CONTINUA EN LA PAGINA 15)

# Apoya el FMI la estrategia económica de México

En concreto expuso, México convocó ya al Comité Asesor de Bancos para una reunión formal, el 19 de los corrientes durante la cual se les presentarán las propuestas del país en materia de deuda externa si bien es claro que tales negociaciones "serán arduas y difíciles" dijo es claro que el apoyo del Fondo será un factor importante en el curso de las mismas.

Respecto de los recursos frescos que se negociaron con el FMI y que se espera recibir del Banco Mundial, el funcionario expresó que buena parte serán utilizados para financiar operaciones de reducción de la deuda externa del país.

## EL ACUERDO CON EL FMI

Al hacer la presentación del acuerdo con el organismo financiero multilateral el titular de la SHCP destacó que constituye un nuevo tipo de programa toda vez que apoya una estrategia de crecimiento sostenido con estabilidad de precios, en el que el FMI reconoce y suscribe la necesidad de incrementar el empleo, recuperar los niveles de consumo y elevar gradualmente el salario real.

El mismo programa indicó prevé que conforme se avance en la negociación de la deuda externa y se consolide la estabilidad de precios, las tasas de interés reales sobre la deuda interna bajarán abriendo márgenes para el aumento del gasto público en servicios sociales primordiales y en inversión pública necesaria.

Ello dijo parte del reconocimiento de que el objetivo de crecimiento de la actividad económica, proyectada hasta 6% del PIB hacia fines de la actual administración requerirá de un aumento substancial de la inversión tanto pública como privada y del fortalecimiento del mercado interno.

Por lo que hace a los recursos que aportará el organismo al país, se especifica que se trata de financiamientos directos por parte de la institución por un total de 2 797 2 millones de derechos especiales de giro — equivalentes a aproximadamente 3 635 millones de dólares —, para un periodo de tres años.

Se espera adicionalmente, obtener un financiamiento compensatorio,

para este mismo año del orden de 500 millones de dólares.

A su vez y merced al mismo acuerdo aseguró el doctor Aspe Armella, el Fondo facilitará la obtención de recursos substanciales adicionales de fuentes oficiales — tanto bilaterales como multilaterales — y reestructurar nuestro endeudamiento con acreedores oficiales agrupados en el llamado Club de París, "manteniendo abierto el financiamiento de esta fuente para nuevas operaciones comerciales".

De manera concreta la carta de intención firmada por el propio doctor Aspe Armella, y por el director general del Banco de México, Miguel Mancera Aguayo define las metas de carácter macroeconómico para el año en curso.

Así establece, si bien se había hablado de que el superávit fiscal primario para 1989 sería del 6.7% del PIB, considerando un precio base de 10 dólares por barril de petróleo la previsión ajustada — 12 dólares precio promedio del barril de crudo para el año — permite prever que el monto de tal superávit se eleve hasta 7.3% del PIB.

En contraste y como resultado de una reducción de la tasa nominal y real de interés, el déficit operacional bajará a 2.5% del Producto mientras que los requerimientos financieros del sector público descenderán en casi seis puntos del PIB al pasar de cerca de 13% en 1988 a sólo 7.0% este año.

En el documento las autoridades nacionales se

comprometen a vigilar el estricto cumplimiento de las distintas disposiciones fiscales adoptadas con el fin de reducir la evasión, la evolución de los precios y tarifas de sus bienes y servicios así como la disminución del gasto público que se combinará con una reasignación de prioridades, con objeto de dar mayor atención al gasto que beneficie a los grupos de menores ingresos.

Para evaluar el avance y cumplimiento del programa, las autoridades fijaron el siguiente calendario con el Fondo Monetario Internacional antes del 31 de agosto de 1989, antes del 28 de febrero de 1990 y luego anualmente antes de la misma fecha en 1991 y 1992.

# Camino a la solución

**Convenio con el FMI sobre la deuda externa, México, país elegible para ayuda inmediata, créditos frescos**

Por ISSE NUÑEZ

México dio ayer un paso decisivo hacia la reestructuración de su deuda externa, al firmar con el Fondo Monetario Internacional un convenio de tres años que nos permitirá, con créditos frescos, reducir la transferencia neta de recursos al exterior.

El convenio establece, fundamentalmente:

1 — Convierte a México en país elegible para recibir el aval del FMI para la renegociación con la banca acreedora

2 — Nos otorga créditos frescos por 5,635 millones de dólares y le abre las puertas para otros préstamos adicionales

3 — Reconoce que la deuda externa en sus condiciones actuales, es lesiva para el crecimiento del país, y

4 — Acepta que México, de conformidad con la política económica de la actual administración, está cumpliendo con lineamientos de política económica sana que le permitirán retomar el camino del crecimiento

## Conferencia de Pedro Aspe

El secretario de Hacienda, doctor Pedro Aspe, al dar a conocer ayer el arreglo con el FMI durante una conferencia, afirmó que «se trata de un convenio que constituye un endoso pleno a la estrategia económica de México».

Empero, aseguró «que falta mucho camino por recorrer».

Por otro lado, anunció que el próximo miércoles 16, México iniciará en firme la renegociación de la deuda con la

banca acreedora.

El Comité Asesor de Bancos que preside William Rhodes ha sido convocado para reunirse en Nueva York con los negociadores mexicanos.

«Es indudable que el apoyo del FMI será un factor que jugará en nuestro favor, pero es igualmente cierto que estas negociaciones serán arduas y difíciles. Hemos dado un primer paso importante pero falta mucho camino por recorrer. Ciertamente la conclusión de las negociaciones llevará cierto tiempo y una vez que concluyan el país seguirá enfrentando retos formidables», agregó y reiteró que habrá que mantener la disciplina y el espíritu de concertación.

Durante el curso de su conferencia de prensa, el doctor Aspe reveló que el acuerdo con el FMI «contiene importantes elementos que lo diferencian de otros programas tradicionales».

■ Más información en [A 4]

# Firma México un convenio de tres años con el FMI

Por ISSE NUÑEZ

México firmó ayer un convenio de tres años con el Fondo Monetario Internacional que convierte a nuestro país en el primero en convertirse en «elegible» para recibir el apoyo de la institución en la reestructuración de la deuda externa, lo acerca a una negociación final con la banca acreedora le permite recibir de inmediato créditos frescos por 5 mil 635 millones de dólares y le abre puertas para otros créditos adicionales.

«Se trata, dijo el doctor Pedro Aspe, secretario de Hacienda, de un convenio que constituye un endoso pleno a la estrategia económica de México». El alto funcionario advirtió, empero, «que falta mucho camino por recorrer».

En la parte fundamental del convenio, el FMI reconoce los efectos adversos de la deuda externa sobre la economía de México, y apoya la reducción substancial tanto de la deuda neta como de su servicio.

El programa lejos de ser recesivo como otros firmados con el FMI, apoya la estrategia mexicana de crecimiento sostenido con estabilidad de precios. De hecho, el documento incluye los lineamientos de política económica contenidos en las leyes de Ingresos y Egresos de la Federación para 1989 así como los puntos que constituyen el Pacto para la Estabilidad y el Crecimiento Económico. El convenio, el tercero con el FMI en

los últimos quince años y el primero en no estar constituido en candados sino en un programa orientado hacia el crecimiento se firma para realizarse a tres años plazo con opción a un año más y otorga a México de inmediato un crédito fresco por 3 mil 635 millones de dólares, otro en el inmediato futuro por 500 millones, ambos de parte del FMI así como un financiamiento adicional por 1 mil 500 millones de dólares de parte del Banco Mundial en los próximos días. Estos recursos serán utilizados en su mayor parte a operaciones de reducción de la deuda y de su servicio.

En el curso de una conferencia de prensa el secretario de Hacienda dio cuenta de la firma del convenio con el FMI y anunció que el próximo miércoles 19 México iniciará en firme la renegociación de la deuda con la banca acreedora. El Comité Asesor de Bancos que preside William Rhodes, ha sido convocado para reunirse en Nueva York con los negociadores mexicanos.

«Es indudable, dijo el doctor Aspe, que el apoyo del FMI será un factor que jugará en nuestro favor pero es igualmente cierto que estas negociaciones serán arduas y difíciles. Hemos dado un primer paso importante pero falta mucho camino por recorrer. Ciertamente la conclusión de las negociaciones llevará cierto tiempo y una vez que concluyan el país seguirá enfrentando retos formidables. Reitero que habrá que mantener la disciplina y el espíritu

de concertación».

El doctor Aspe, que se limitó a dar cuenta de los términos del convenio y del texto de la carta de intención que, con la firma del propio funcionario y del licenciado Miguel Mancera, director general del Banco de México se envió ayer mismo al señor Michel Camdessus, director gerente del FMI, dijo que el acuerdo con el Fondo «contiene importantes elementos que lo diferencian de otros programas tradicionales».

El principal de tales elementos es que se trata de un nuevo tipo de acuerdo que apoya una estrategia de crecimiento sostenido con estabilidad de precios. EL FMI reconoce y suscribe la necesidad de incrementar el empleo, de recuperar los niveles de consumo y de elevar gradualmente el salario real. Se fijan metas deseables y factibles de crecimiento.

«No hay medidas adicionales» puntualizó el secretario de Hacienda. Por el contrario, el programa prevé que conforme se avance en la negociación de la deuda externa y se consolide la estabilidad de precios, las tasas de interés reales sobre la deuda interna bajarán abriendo márgenes para el aumento del gasto público en servicios sociales prioritarios y en inversión pública necesaria. Se previene alcanzar un crecimiento económico del 6 por ciento a finales del sexenio y reducir la inflación del 18 por ciento estimado para 1989, a niveles similares con la que existe en los países con los que comerciamos.

- \* El Capital que se Ahorra Podrá Invertirse Kahwagi
- \* Primer Paso Para Hallar una Solución Permanente

RA\$ SALCEDO

Jorge Kahwagi Gastine, presidente de la Canacinttra expresó ayer que la disminución real de transferencia de recursos al exterior que se va a hacer realidad con la firma de la Carta de Intencion con el FMI, "nos brinda una panorámica más viable de crecimiento", pues el capital que se ahorra podrá destinarse a inversión productiva

El acuerdo signado con esa institución multilateral representa, dijo, el primer paso para encontrar soluciones permanentes y no sólo paliativos al problema de la deuda externa e implica que el esfuerzo realizado por los

SIGUE EN LA PAGINA DIEZ

# El Capital que se Ahorra

sigue de la primera plana  
mexicanos en la reestructuración económica no será en vano

La Cámara Nacional de Industria de Transformación, sostuvo da su apoyo irrestricto a las negociaciones en cuestión, conscientes no nada más de la importancia que reviste la reducción del monto de recursos que anualmente se transfieren al exterior sino además por la urgencia de recuperar el curso ascendente de la producción el empleo y los niveles de bienestar de la mayor parte de la población

El dirigente empresarial mencionó que alcanzar una tasa de crecimiento económico del orden del seis por ciento anual, exige en el corto plazo "una actitud

flexible y responsable de la banca comercial, el mantenimiento de una política fiscal congruente con el objetivo de preservar el saneamiento de las finanzas públicas e diseño a la aplicación de una política económica basada en la concertación y con criterios de largo plazo" opinó

La nación requiere de terminó Kahwagi, centrar fila en torno a las instituciones y al Jef. del Ejecutivo de forme que el fortalecimiento de México sea integral porque va no cabe la tibia y la timidez cuando se trata de bienestar de la población

Exhortó finalmente a todos los sectores a "hacer un frente común" cuyo fin sea la consolidación de los esfuerzos conjuntos para que el sacrificio, hasta ahora realizado no sea estéril.

## Frentes Políticos

- ★ El FMI, Aval Obligado Para que México Renegocie
- ★ Se Modifica el Esquema con la Carta de Intención
- ★ Firme, la Política de Cambios; sin Alzas a Precios

AURORA BERDEJO ARVIZU

Al dar a conocer el contenido de la carta de intención firmada con el Fondo Monetario Internacional, el secretario de Hacienda y Crédito Público, Pedro Aspe Armella anticipó ayer en su discurso un punto que bien valdría la pena destacar. Dijo:

"Es indudable que el apoyo del FMI será un factor que jugará a nuestro favor. Pero es igualmente cierto que estas negociaciones serán arduas y difíciles. Hemos dado un primer paso importante pero falta mucho camino por recorrer."

SEGUIN EN LA PAGINA VEINTIUNA

Segundo de la primera plana

De hecho el anuncio de la firma de la carta de intención con el FMI se tomó en principio de diversas maneras pero pueden destacarse las siguientes

1. Es el aval obligado para que México pueda proceder a las siguientes etapas de la actual negociación de la deuda tiene ahora el apoyo del FMI

2. Da la certidumbre de que en las próximas campañas electorales los candidatos del PRI podrán incluir en su oferta política la realización de obras concretas, como en el caso de Margarita Ortega Villa, quien anunció el domingo pasado en Mexicali en su postulación oficial, la reapertura de dos hospitales, mantener el actual nivel de las tarifas que se cobran por el servicio eléctrico a los bajacalifornianos entre otras cosas

3. El anuncio de Aspe Armella en el sentido de que el día 19 se iniciarán las negociaciones con los bancos privados internacionales para la negociación de una reducción del capital y de los intereses, pero que deberán aportar nuevos recursos implicaría que dicha negociación está ya muy avanzada

4. Se anticipó el anuncio para eclipsar el efecto en el pequeño ahorrador en lo referente a las tasas de interés bancarias

5. La gran diferencia asertaron los expertos, con las últimas cartas de intención emitidas con el FMI y la divulgada ayer por el titular de Hacienda el que las autoridades implicaron para el país someterse al peso de la economía recesiva, no se entaron el empleo, no impulsaron la inversión pública ni privada tampoco la estabilidad económica y proclamaron la fuga de capitales

Con esta última carta el esquema se modifica sustancialmente aseguran y pronostican el retorno de capitales y la atracción de inversiones extranjeras además de que se pone el acento en que este convenio es por tres años

Ahora habrá que conocer la respuesta de Michel Camdessus director gerén del FMI, y a quien le dirigen la Secretaría de Hacienda y Crédito Público y Miguel Varcera Aguayo director general del Banco de México

También habrá que esperar el efecto que provoque a los diversos sectores de la población, a los que se anticipa desde ahora a diferencia del caso Venezuela que no habrá alza general

zada de precios y servicios del sector público, que se mantendrá la política de cambios a los niveles actuales y que en fin la cuestión de la negociación marcha aunque ello se antoja difícil

Por simple referencia y para el análisis comparativo, la siguiente es la carta de intención firmada con el FMI en julio de 1983 que firmó el actual embajador de México en Washington, Gustavo Petricioni —en ese momento titular de la SHCP— y que fue dirigida a Jacques de Larosière, a la sazón director gerente del FMI.

La carta dice así

**"CARTA DE INTENCION AL FONDO MONETARIO INTERNACIONAL"**

Sr director

1. México experimentó severos problemas económicos durante 1981 y 1982. A finales de 1982 el Gobierno mexicano instrumentó un amplio programa de ajuste cuyos objetivos eran la restauración de la estabilidad financiera así como un crecimiento económico sostenido. Dicho programa fue respaldado por la Comunidad Financiera Internacional y el Fondo Monetario Internacional mediante un Convenio de Facilidad Ampliada que cubrió el período de 1983 a 1985. Con ese programa la economía mexicana logró avances importantes en 1983 y 1984. A pesar de la contracción económica registrada durante el segundo semestre de 1982 y el primero de 1983, se logró mantener el nivel de empleo. La actividad económica empezó a repuntar en el segundo semestre de 1983 como respuesta a las medidas adoptadas fortaleciéndose la recuperación en 1984 y el primer semestre de 1985. La inflación se redujo después de 1982 no obstante su nivel permaneció elevado. El déficit del sector público se redujo sustancialmente a pesar de los crecientes pagos de intereses. Por su parte la balanza de pagos se fortaleció de manera significativa.

2. En el último trimestre de 1984 aparecieron dificultades para continuar con la instrumentación del programa y éstas se tornaron más pronunciadas durante el primer semestre de 1985. El rebote en la actividad económica privada aunado a algunas desviaciones en las finanzas públicas debidas en parte a pagos de intereses superiores a los programados así co-

mo a la falta de financiamiento externo, provocaron presiones en los precios y en la balanza de pagos. Además, durante 1985 el país tuvo que enfrentar el impacto de la baja en los mercados petroleros internacionales así como los terremotos de septiembre por lo que los requerimientos de financiamiento del sector público aumentaron, trayendo como consecuencia una reducción en el crédito disponible para el sector privado hacia finales del año, que ocasionó efectos adversos en la inversión privada que había ayudado a la recuperación de 1984 y que se había mantenido fuerte durante la primera parte de 1985. Asimismo la política cambiaria no fue lo suficientemente activa para prevenir un deterioro de la balanza de pagos, sin embargo, un ajuste severo en julio de 1985, acompañado de una mayor flexibilidad en el manejo del tipo de cambio controlado, permitió detener el debilitamiento en las cuentas externas hacia finales de año.

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3. El presupuesto para 1986 se elaboró con la idea de introducir medidas correctivas adicionales al déficit del sector público y para compensar las desviaciones de 1985, así como para consolidar los logros realizados hacia el fortalecimiento de la balanza de pagos, la reducción de la inflación y la racionalización del sector público, sin embargo, a principios de 1986 y debido a la brusca caída de los precios internacionales del petróleo, la economía se vio fuertemente afectada y en consecuencia se redujo el ingreso nacional los ingresos por exportaciones y en general los ingresos del sector público por aproximadamente 65% del PIB sobre una base anual. Como resultado se propició una presión adicional sobre la balanza de pagos y precios domésticos aun cuando se ejercieron políticas restrictivas de crédito y la depreciación real del tipo de cambio, lo que permitió el incremento de las exportaciones no petroleras. Por su parte la producción dio muestras de fuerte contracción.

4. El Gobierno mexicano ha adoptado un nuevo programa económico orientado al crecimiento y a reformas estructurales, con el fin de atacar el deterioro de la situación económica. Con base en este programa, el

se describe más adelante. El Gobierno mexicano quiere utilizar los recursos financieros del Fondo Monetario Internacional el equivalente de 1,400 millones de Derechos Especiales de Giro a través de un Convenio de Crédito Lingüístico con duración de dieciocho meses.

El Gobierno, en el día de su cofretería económica para el futuro inmediato, se ha guiado por los principios que sirven para diseñar el programa económico y financiero, y que son: El objetivo principal del programa es el desarrollo por las autoridades mexicanas de la restauración del crecimiento sostenido de la economía en un marco de estabilidad financiera.

El programa económico ha sido enmarcado dentro de un horizonte de mediano plazo que contempla las medidas necesarias para resolver los desajustes internos y externos, así como las políticas estructurales orientadas a mejorar la eficiencia de la economía, y por tanto, fortalecer las perspectivas de crecimiento económico de nuestro país a mediano plazo. Estas políticas incluyen una parte esencial del programa.

El programa deberá contar con el respaldo necesario, en términos de condiciones adecuadas por parte de todas las autoridades que han de contribuir al desarrollo del país. México en el pasado considerando que una parte importante de la deuda externa de México fue utilizada para desarrollar las actividades petroleras del país, será apropiado que los recursos continuaran respaldando los esfuerzos de desarrollo.

Considerando la dependencia y vulnerabilidad de México a las fluctuaciones de los precios del petróleo, así como a las incertidumbres en este campo, es conveniente asegurar los eventos imprevistos del precio del petróleo no afecten el éxito del programa. Por ello, una característica importante del programa es que sus metas, como su estructura financiera dependen de la estabilidad del mercado petrolero.

El gravamen del impuesto global de las empresas que será calculado sobre un concepto más amplio de base de ingresos que resultará de limitaciones a las deducciones por pagos de intereses. Además se están tomando medidas para disminuir las pérdidas de ingresos resultantes de los rezagos cuando el impuesto se cobra y se cobra. El programa fiscal también contempla mejoras en la administración tributaria. La recaudación que podrá obtenerse del paquete fiscal para 1987 que se someterá a la consideración y aprobación del Congreso, ha sido estimada en 43 por ciento del PIB. El objetivo del Gobierno para el mediano plazo es recuperar el terreno perdido en la recaudación tributaria en los últimos años.

8. Se hicieron ajustes en los precios y tarifas de las empresas del sector público durante 1983 y 1984, para fortalecer las finanzas públicas, mejorar la asignación de recursos y reducir subsidios injustificados. Una preocupación primordial de las autoridades al desarrollar estas políticas fue proteger el poder adquisitivo de los grupos de bajos ingresos. Durante 1985 algunos de estos precios y tarifas se rezagaron en relación con los aumentos generales de precios mientras que generalmente los costos de producción de las empresas aumentaron con la inflación. En respuesta a esta situación, se realizaron ajustes a fines de 1985 y principios de 1986, para nivelar ciertos precios del sector público con el objetivo de poder cubrir los costos de operación. Los precios de la mayoría de los productos petroleros se elevaron a niveles internacionales las tarifas eléctricas sufrieron un incremento del 51 al 65 por ciento y se introdujo un mecanismo de ajustes mensuales automáticos de 35 por ciento. En general se revisaron los precios y tarifas de acuerdo con aquellos que habían sido originalmente autorizados para 1986. Sin embargo revisiones adicionales de precios son necesarias debido a que la inflación en 1986 ha sido más alta de lo que se había proyectado inicialmente.

El objetivo es alcanzar una estructura de precios públicos que presente mejoras en la eficiencia en el uso de los recursos de la economía y la eliminación de subsidios injustificados.

Los egresos públicos han subido considerablemente. Como consecuencia, el total de pagos de intereses se incrementó del 5% del PIB en 1981 a 12.3% en 1985 y para 1986 se calcula en 18.5%, por lo que existe muy poco margen de maniobra para reducir el gasto del sector público sin que se afecte su capacidad operativa en el corto y largo plazos. El programa contempla una reducción del gasto público en bienes y servicios no financieros por el equivalente de 0.5% del PIB para 1987 al mismo tiempo da énfasis a la política de cambio estructural para permitir el aumento de gasto selectivo en sectores productivos estratégicos y sociales al tiempo que se reduce la proporción del gasto corriente. Los signos actuales para 1987 contienen un incremento de 0.5% del PIB en el gasto de capital como 15% en términos reales así que para acomodar esta expansión en la inversión pública el crecimiento real del gasto público se mantendrá al mínimo y será un poco menor que el crecimiento esperado en el PIB real.

Las autoridades mexicanas consideran intensificar sus esfuerzos para instrumentar su política de cambio estructural en el área del gasto público en los renglones principales la 'desincorporación' y la re conversión industrial. Estas reafirman el principio constitucional y de las demás leyes mexicanas de mantener bajo control estatal a entidades estratégicas y prioritarias. Con este principio general la política de 'desincorporación', que incluye la venta, fusión y liquidación de empresas no prioritarias o estratégicas, continuará. Al inicio de la presente administración, en diciembre de 1982 había 115 empresas y organismos públicos, número que se ha reducido a 101 y se seguirá reduciendo en los próximos meses.

Conforme a los principios establecidos en los Criterios Generales de Política Económica para 1986 que se prepararon en 1985, las autoridades pretenden elevar los niveles de eficiencia y productividad de las entidades estratégicas y prioritarias del sector público las medidas tomadas en los últimos meses se seguirán tomando y se fortalecerán. Así, Conasupo reorganizó sus operaciones y racionalizó los subsidios al igual que se disminuyeron drásticamente los sub-

sidios ejecutados por el Banco de México, desde principios de 1985 para contener los efectos monetarios de las crecientes necesidades del sector público en ausencia de financiamiento externo se reportó una disolución en las reservas internacionales netas durante los primeros meses de 1985 y mejoraron en la parte final de ese año, se flexibilizó el manejo del tipo de cambio y controlarse más el crédito aun aquel al sector privado que repercutió negativamente en la actividad económica. El debilitamiento de la situación en el primer semestre de 1986 como resultado de la declinación de los ingresos petroleros produjo aumentos del crédito doméstico y en fechas recientes, una baja en las reservas internacionales, por lo que durante el plazo del programa la política monetaria y crediticia se llevará conforme a los objetivos de disminución de tasa de inflación para cubrir las metas de balanza de pagos del propio programa y el apoyo a la capacidad productiva. Al respecto el Banco de México mantendrá el acceso al crédito al sector privado de conformidad con la disponibilidad de recursos.

Después de las diversas medidas de regulación monetaria adoptadas por el Banco de México para absorber el exceso de liquidez, en 1983, las tasas de interés de los depósitos se elevaron y han permanecido positivas en términos reales esto no ha sido suficiente para detener el debilitamiento del ahorro financiero por el deterioro de las expectativas del público respecto de la inflación y el tipo de cambio. La adopción de una política más flexible de tasas de interés a fines de 1985 y durante 1986 impidió un deterioro adicional y el público incrementó sus activos financieros en términos reales, por eso, es la intención de las autoridades el continuar manteniendo una política flexible de tasas de interés para asegurar un rendimiento competitivo en los ahorros internos así como para estimular una mejor utilización de los recursos financieros. Al respecto, se volvió a introducir el sistema de subasta para la colocación de valores gubernamentales y se ofrecerá en breve, un nuevo instrumento financiero denominado en moneda nacional.

liberalización de la política respecto de política cambiaria se unirán por elementos tales como precios internacionales, salarios al igual que la situación del comercio y el resultado de las metas de la balanza de pagos. Las autoridades continuarán con la política actual de permitir el acceso general al mercado de divisas y mantendrán el objetivo de alcanzar una unificación de dicho mercado en el futuro. Así, el diferencial cambiario que llegó a ser amplio en varias ocasiones durante los últimos dos años, se ha reducido sustancialmente y se encuentra por debajo del 10 por ciento. Las autoridades reconocen que amplios diferenciales sostenidos generan distorsiones y por lo tanto ejercerán la flexibilidad requerida para reducirlos a fin de eliminarlos, conforme el programa rinda frutos y desaparezca la incertidumbre.

En el período 1979-1982 México cubrió en gran medida sus grandes necesidades financieras del sector público con crédito externo. La repentina pérdida de acceso a estos créditos en 1982 activó la crisis financiera de ese año. La reestructuración de la deuda externa de México constituyó un importante elemento de alivio para su problema de deuda y para la normalización de sus relaciones económicas externas. Durante 1984 y 1985 México logró acuerdos con los bancos comerciales para reestructurar deudas por un monto de 48,700 millones de dólares que venían en el período 1983-1990. Estos acuerdos de reestructuración incorporan estipulaciones que permiten el intercambio por parte de los acreedores de deuda del sector público por acciones de compañías del sector privado, así como de compañías no prioritarias y no estratégicas del sector público. El primer tramo de cerca de 250 millones de dólares correspondiente a un prepafo de 1,200 millones del crédito acordado en 1983 por 5,000 millones de dólares, fue realizado el 2 de enero de 1985.

Sin embargo, como resultado de las presiones financieras originadas por los terremotos de septiembre de 1985 y por la drástica caída de los ingresos petroleros, México y la comunidad bancaria internacional acordaron diferir por un período de 6 meses

Para asegurar el crecimiento moderado, el programa incluye la conciencia de incrementar el ahorro de capital del sector privado en forma selectiva. La economía no supera la inflación en el primer trimestre de 1987.

El fortalecimiento de finanzas públicas es un elemento importante del programa ya que contribuye a moderar la inflación, a reducir los gastos sobre las tasas de interés, y a una mayor canalización de recursos al sector privado. Para ello, se fijará una política fiscal, precios y tarifas y de servicio público que permita mover una mayor eficiencia en la asignación de recursos. En la presencia de alta inflación, se evaluará el proceso en la instrumentación de medidas fiscales macroeconómicas a través de las líneas convencionales de control del déficit fiscal. Para ello, para separar el componente inflacionario del servicio de la deuda pública interna, se deberá el concepto de déficit operativo conjuntamente con las medidas usuales de requerimientos financieros adicionales del sector público. El esfuerzo fiscal contemplado en el programa medido por el saldo primario de la orden del 3 por ciento del PIB. Las reducciones de las necesidades adicionales del sector público serán logradas mediante la modificación de modificaciones a la estructura del tema tributario ajustes de precios y tarifas de las empresas del sector público, y la reducción del gasto público con relación al PIB.

El Sistema Tributario mexicano no fue diseñado para operar en un ambiente inflacionario por lo que está perdiendo su capacidad de respuesta a los cambios en el ingreso nominal. Además se ha deteriorado su base gravable como consecuencia de acciones que se han tomado para mitigar el impacto de la inflación y de la pérdida cambiaria en la posición financiera de las empresas, así como por el otorgamiento de incentivos fiscales. Para corregir las distorsiones y las pérdidas de ingresos que resultan de la aplicación de la ley fiscal vigente el Gobierno ha decidido iniciar una reforma estructural del Sistema Tributario. El aspecto más importante de esta reforma será la corrección de la base

de términos de equidad. En vista de la alta tasa de inflación habrá necesidad en algunos casos de un ajuste adicional de los precios de los bienes y servicios del sector público, así como de correcciones sobre la marcha para evitar que de nuevo se resaguen algunos de los niveles de los niveles de precios en general. Se revisarán cuidadosamente aquellos casos específicos de precios y tarifas que hoy en día contienen elementos de arbitrio. Se revisarán las tarifas de tarifas y tarifas para obtener mejores relaciones de precio-costo y relaciones con sus respectivos indicadores internacionales. Las cuotas telefónicas fueron incrementadas recientemente para compensar la inflación pasada y se efectuarán ajustes subsiguientes para fortalecer la posición financiera de la compañía telefónica. Así pues, se continuarán actualizando los precios de los bienes y servicios proporcionados por otras entidades gubernamentales, y salvo ciertas excepciones, los precios se mantendrán en los niveles requeridos respecto de la inflación y costos de producción. Con esto se podrá evitar que se presenten transferencias o endeudamiento adicionales del Gobierno para cubrir costos de operación. Como indicativo de la intención del Gobierno de cumplir con estos objetivos, se tomaron acciones en áreas políticamente sensibles tales como incrementos en los precios de los granos básicos y en la transportación urbana. Así, debe notarse que el precio del metro será de 20 pesos a partir de agosto cuando el boleto por viaje es de sólo 1 peso a la fecha. En resumen se espera que en los próximos 18 meses se incrementen los ingresos del Estado en 1.2% del PIB respecto de su nivel de 1985 a través de la programación del incremento de precios y tarifas.

El gasto público se ha ajustado drásticamente durante los últimos cuatro años. El gasto público total en bienes y servicios no financieros bajo el control del presupuesto declinó a 26.5% del PIB en 1985 y se proyecta en 24.9% para 1986, cuando era 35% en 1981. La inversión pública disminuyó de 8.3% del PIB en 1981 y se estima en 3.0% para 1986. Esto equivale a una reducción de 65% en términos reales sin modificaciones. El impacto de la alta inflación sobre las tasas de interés pagadas sobre la deuda pública interna el componente de los intereses en el total de

ayudas en tasas de interés que venía concediendo la banca de desarrollo y se están llevando a cabo planes de reconversión industrial en el sector azucarero de fertilizantes y siderúrgico para lograr reducciones de costos operativos que permitan inversiones productivas. Los astilleros se modernizarán con nueva tecnología y se incrementará su capacidad al instalarse un taller de reparación de maquinaria. Se impartirá mayor flexibilidad en el funcionamiento de los ferrocarriles.

El sistema cambiario sufrió importantes modificaciones a mediados de 1985 y en julio del mismo año se autorizó a los bancos comerciales operar en el mercado de divisas con lo que desapareció el llamado "tipo super libre". Se establecieron nuevas reglas de operación para las casas de cambio y se adoptaron nuevos procedimientos para la administración del tipo controlado el cual representa alrededor del 80 por ciento de las transacciones externas. Todas estas medidas se adoptaron con el fin de flexibilizar las operaciones en el mercado cambiario. Con anterioridad, el peso en el mercado controlado se había estado depreciando diariamente con relación al dólar a un ritmo predeterminado. Sin embargo la tasa de depreciación no contempló totalmente la diferencial de inflación entre México y sus socios comerciales, por lo que se erosionó el margen competitivo que existía por las devaluaciones de 1984. En julio de 1985 el peso se devaluó 17 por ciento en el mercado controlado y en agosto se introdujo un sistema nuevo más flexible para administración la fijación en el mercado controlado. Con este sistema, la depreciación del tipo controlado se aceptó más rápidamente que la inflación doméstica, sobre todo en los meses posteriores a la baja de los precios internacionales.

Durante el período del programa continuará la flexibilidad de la política cambiaria para proteger la posición competitiva externa en México, fortalecer la posición de las reservas internacionales y facilitar la

operación de la banca de desarrollo y de los fondos oficiales de fomento continuarán bajo estricta vigilancia y las tasas de interés preferenciales que otorgan estas entidades se ofrecerán más selectivamente a los usuarios que desarrollan actividades de alta prioridad, y se ajustarán periódicamente para evitar que surjan diferencias con el costo de los fondos. La probia estructura de las tasas será objeto de revisión periódica para reducir su dispersión.

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el pago del segundo tramo de 950 millones de dólares correspondientes al prepafo mencionado que vence en octubre de 1985. En marzo de 1986 se acordó posponer dicho pago por un periodo adicional de 6 meses. Las autoridades esperaban que este monto de 950 millones de dólares sea refinanciado o reestructurado como parte del paquete financiero. En cuanto a la deuda del sector privado, los registros y cobertura de los créditos externos han sido mejorados en particular Ficorca continúa operando exitosamente con alrededor de 116 millones de dólares. El servicio se está cumpliendo. De estos, más del 50 por ciento formalizó acuerdos definitivos de reestructuración.

Con el acuerdo de reestructuración multilateral con los bancos comerciales extranjeros, el plan de las autoridades para 1985 fue de reducir la dependencia del financiamiento externo y restringir el endeudamiento exterior del país. Los fondos bilaterales y multilaterales Las expectativas de las autoridades eran de que en los años siguientes podría invertirse un regreso a las prácticas del mercado normal, con las cuales el crédito voluntario volverá nuevamente a estar disponible. Sin embargo el agudamiento del precio del petróleo y las perspectivas de incertidumbre en este mercado han incrementado sustancialmente los requerimientos de endeudamiento de México y han disminuido las perspectivas del crédito voluntario.

México está tomando medidas necesarias para absorber parte del shock producido en la economía por las autoridades consideramos que una cantidad significativa de fuentes externas es necesaria en alrededor de 110 millones de dólares es necesaria para cubrir la brecha de financiamiento de aquil fines de 1987. Aunque los acreedores multilaterales bilaterales también esperan incrementar sustancialmente sus créditos a México, una gran proporción de estos créditos se espera sea proporcionada por los bancos comerciales. Esos recursos se están tomando a fin de mantener el crecimiento económico y la viabilidad de nuevos externos a través de la instrumentación de políticas estructurales. Estas autoridades mexicanas están tomando a fin de mantener el crecimiento económico y la viabilidad de nuevos externos a través de la instrumentación de políticas estructurales. Estas autoridades mexicanas están aumentando el ahorro interno y mejorar la asignación de recursos.

Signo de la página frente

ción de recursos a fin de fortalecer la balanza de pagos en el mediano plazo

17 Con relación a la política comercial exterior, las autoridades mantendrán el proceso de liberalización, reduciendo los sesgos en contra del crecimiento de las exportaciones y promoviendo exenciones arancelarias que recursos. El 25 de junio de 1985 el Gobierno mexicano anunció una reforma importante en el régimen de importaciones. Se eliminó el requisito de permiso previo de importación a 3,604 fracciones arancelarias, que representaron alrededor del 38 por ciento del valor de las importaciones de 1984. Como resultado, la proporción de importaciones controladas con respecto al total del valor de las importaciones disminuyó del 75 al 39 por ciento de ese modo se fue más allá de los objetivos establecidos en esta área para 1985. Último año del Acuerdo de Facilidad Ampliada con el FMI. Las autoridades también tomaron una serie de ajustes iniciales para modificar la estructura de los aranceles lo cual resultó en un incremento marginal en el promedio total de 23.4 a 25.4 por ciento mientras la dispersión fue reducida de 22.5 a 18.5 por ciento. En el marco de esta política comercial el Gobierno ha decidido lograr en octubre de 1988 una estructura arancelaria con tasas en el rango de 0.30 por ciento con no más de 5 niveles arancelarios. 3 ajustes temporales están planeados para alcanzar esos objetivos. El 30 de abril de 1986 el Gobierno redujo los aranceles a un máximo de 45 por ciento. Las tasas por debajo del 45 por ciento también fueron reducidas en 2.5 puntos porcentuales y los aranceles existentes de 45 por ciento fueron eliminados. Los productos que están sujetos a la tasa del 5 por ciento fueron cambiados a la tasa del 10 por ciento o desgravados. En el futuro, la protección temporal puede ser garantizada a través de mayores sobretasas arancelarias las cuales no excederán el 50 por ciento con respecto a los aranceles que dicho producto tuviera establecido en junio.

Existe el propósito de publicar el reglamento de la Ley de Comercio Exterior de 1985 antes de septiembre de 1986. Los precios oficiales de referencia de las importaciones para determinar los derechos aduaneros serán eliminados antes de diciembre de 1987. Además, el Gobierno persigue, en los próximos 30 meses, continuar el proceso de sustituir

año reflejando mejoras en su competitividad externa y los efectos de otras políticas en esta área. En particular el Gobierno ha establecido un esquema de exención de impuestos a la importación, ha eliminado los requerimientos de licencia en la mayoría de las exportaciones, ha continuado simplificando los procedimientos administrativos y requerimientos aduaneros, ha logrado un entendimiento con Estados Unidos en cuanto a subsidios y derechos compensatorios. Más recientemente, un nuevo instrumento de crédito ha sido introducido a fin de facilitar importaciones por proveedores nacionales y por exportadores locales, a compañías comercializadoras les ha sido garantizada una tasa impositiva de cero, cambios en las regulaciones de control cambiario han sido promulgados. Las nuevas regulaciones permiten a los exportadores retener hasta 100 por ciento de sus ingresos de divisas para cubrir pagos de insumos importados y ampliar todos los beneficios disponibles actualmente para los exportadores, a sus proveedores nacionales. Los requerimientos financieros de empresas dedicadas a las actividades de exportación han recibido una atención creciente. El Gobierno continuará fortaleciendo sus políticas de promoción de exportaciones.

19 En los últimos cuatro años, las autoridades mexicanas han establecido una política selectiva para promover la inversión extranjera, con especial énfasis en las áreas relacionadas con exportaciones no petroleras y transferencia de tecnología, dentro del marco legal actual. Durante el periodo 1983-1985, más de 150 proyectos con 100% de capital extranjero han sido aprobados. Recientemente han sido tomadas medidas y serán fortalecidas en el futuro para facilitar los procedimientos administrativos de inicio y aprobación de los proyectos de inversión extranjera así como para incrementar el flujo de capital externo hacia sectores previamente seleccionados. En particular, la aprobación de proyectos de inversión fundamentalmente orientados hacia los mercados de exportación, serán autorizados de manera automática si después de un periodo de 30 días no se ha emitido una decisión en contrario. Especiales esfuerzos también se harán para facilitar mayor acceso al mercado mexicano de pequeñas y medianas empresas extranjeras.

tróleo de exportación permanecerá dentro de la banda de 9 a 14 dólares por barril en un trimestre dado, se propone que el financiamiento externo neto al sector público contemplado en el programa no se modifique. Si las fluctuaciones del precio superan dicha banda, los ajustes correspondientes se harán mediante una combinación de utilización o acumulación de reservas y tipo de cambio así como políticas crediticias mientras que el balance fiscal operativo y otras metas relevantes del programa serán modificados consecuentemente.

b) Escenario con variaciones decrecientes

Si los precios caen por debajo de los 9 dólares por barril se espera que el programa esté completamente protegido por un periodo de 9 meses sobre las bases de 1 a 1 de financiamiento adicional por cada dólar en que caiga el precio del petróleo, y el balance operativo y otras metas relevantes serán modificadas para ajustarse a las pérdidas de ingresos. En este contexto, las autoridades mexicanas solicitan que el Fondo Monetario Internacional contribuya financiando esta caída del déficit. Otros acreedores también serán invitados a participar en el esquema. El financiamiento adicional potencial de todas las fuentes no debiera exceder 2,500 millones en un periodo de 18 meses. Después de los primeros 9 meses podría compartirse la caída entre el ajuste doméstico y el financiamiento externo donde el ajuste doméstico podría progresivamente absorber la caída en los subsecuentes 5 trimestres.

c) Escenario con variaciones ascendentes

Si los precios como se definieron previamente, se mueven por encima de los 14 dólares por barril, el financiamiento externo podrá ser reducido en correspondencia con los ingresos adicionales resultantes.

El balance operativo y otras metas relevantes se ajustarán consecuentemente.

\*

21 La recuperación de la actividad económica es considerada por el Gobierno mexicano como un factor esencial para asegurar el éxito del esfuerzo estabilizador de manera duradera y representa el principal objetivo de las políticas previstas. El programa incorpora la provisión de un segundo mecanismo especial que operaría si la recuperación no se materializa a

xicanas consideran que las políticas y medidas descritas en esta carta son las adecuadas para lograr los objetivos del programa, pero tomarán las medidas adicionales que sean apropiadas para este propósito. Durante el periodo del Convenio las autoridades de México y el Fondo se consultarán periódicamente, de acuerdo con las políticas sobre dichas consultas, a fin de examinar el progreso alcanzado en el programa y en los logros de sus objetivos. En particular la instrumentación del programa económico descrito aquí, el manejo y la evolución de la política cambiaria, así como el desarrollo de la actividad económica durante la segunda mitad de 1986 serán analizadas con el Fondo antes de diciembre 31 de 1986. Este ejercicio también brindará oportunidad para lograr entendimientos de política para 1987. Una segunda revisión de la evolución del programa se efectuará antes del 30 de junio de 1987, para evaluar el grado de recuperación en la actividad económica y así revisar las políticas para el logro de los objetivos del programa.

Atentamente, Secretario de Hacienda y Crédito Público Director del Banco de México

No se han Resuelto Todos los Problemas CCE

# "Bajen más el Gasto Corriente"

- \* Demanda Eliminar Trabas a la Actividad Económica
- \* Precios Libres y no más Monopolios en Transporte

JAIME CONTRERAS

Obtener éxito en la negociación externa — como lo representa el hecho de firmar la Carta de Intención con el FMI —, no resolverá todos los problemas de nuestro país. En lo interno, hay que continuar el esfuerzo ajustando más el gasto corriente oficial, reducir el reglamentismo y las trabas a la actividad económica, liberar el control de precios, eliminar monopolios en el transporte, hacer más eficientes las paraestatales, además de seguir desincorporándolas.

Así habló ayer el presidente del Consejo Coordinador Empresarial,

SIGUE EN LA PAGINA DIEZ

# "Bajen más el Gasto Corriente"

Según de la primera parte  
Agustín F. Legorreta y señaló que la reestructuración de los pasivos en términos favorables a la nación no debe ser un sustituto sino más bien un complemento de los cambios que aún se necesitan realizar, y expresó: "Resolver el problema de la deuda externa es una condición necesaria y suficiente para asegurar el crecimiento futuro de México".

Ante los miembros de la Asociación de Ejecutivos de Veracruz y Morelos en la Ciudad Juárez, Chihuahua, el máximo líder corporativo del sector privado calificó de positivas las propuestas contenidas en el Plan Brady pues si bien no representan un plan concreto para resolver el problema de la deuda, sí significan un ámbito conceptual más realista al cambiar el acento en su resolución reduciendo el valor y el servicio de los empréstitos acumulados manifestando.

Recordó Legorreta Chauvet que México es el país que más ha avanzado tanto en el proceso de estabilización como en el cambio estructural, condiciones que el Plan Brady propone como requisitos a las naciones altamente endeudadas.

En los últimos seis años, dijo Legorreta a los ejecutivos de ventas hemos tenido como mexicanos una transferencia neta de recursos al exterior iguales a 53 por ciento del Producto Interno Bruto que se restan del ahorro interno y por lo tanto han obligado a disminuir la inversión a 16 por ciento del PIB lo que se ha traducido en un crecimiento anual de apenas 0.9 por ciento inferior al crecimiento demográfico.

Legorreta indicó que uno de los costos del programa de estabilización ha sido la desaceleración de la actividad económica. La recesión advertida se presentará en este año pero será un poco menor y controlable para poder consolidar el proceso de estabilización.

Demandó una liberalización de los precios quizá gradualmente porque la concertación no puede poner al mercado un curso hermanamente que impida los necesarios ajustes de precios relativos. Esta falta de controles se empezaría a dar al culminar la actual fase del pacto aclaró.

Legorreta se mostró relativamente tranquilo frente al futuro puesto que se

ha ido corrigiendo el alza del precio internacional del petróleo, las importaciones parecen haber llegado a su máximo en noviembre y a partir de diciembre han caído "como consecuencia tanto de la desaceleración de la actividad económica como por la modificación de la política arancelaria a partir del primero de enero de este año".

Hizo notar el presidente del CCE que nuestras ventas al extranjero de bienes manufacturados "continúan creciendo", aunque no tan aceleradamente como hace un año.

Si a esto se suma el hecho de que se han obtenido ganancias marginales en el margen de subvaluación del peso así como la agresiva política de tasas de interés que se han elaborado se ha observado un regreso de capitales que han permitido financiar el déficit en cuenta corriente y aumentar de manera ligera las reservas internacionales.

Finalmente, Legorreta indicó que a pesar de los problemas "el PECE camina bien empero, para consolidar este proceso y retomar la senda del crecimiento, necesitamos resolver a

SIGUE EN PAG TREINTA Y OCHO

# "Bajen más el Gasto Corriente"

Según de la segunda parte  
ando el problema de la deuda externa.

## LA CARTA QUE JUEGA EL PAIS

Por su parte, el reporte de José Valderrama reportó que la Carta de Intención que firmó México con el FMI es la carta propia que juega el país el que diseñó una propia medicina, según declaraciones de Angel Aceves Saucedo, presidente del Colegio Nacional de Economistas, y externó su creencia personal de que la negociación con los bancos comerciales "ya está muy avanzada".

idad, etc. para que el país se enfle al crecimiento, dijo.

El anuncio hecho ayer por el secretario de Hacienda favorece y fortalece al sistema político mexicano y debe esperarse que sea drástica reducción que es para lograr México reducir de seis a menos de dos por ciento la salida de capitales por pagos de la deuda externa favorecerá en su momento a los países deudores del Tercer Mundo también expuso. Más aún, Aceves indicó que de ser posible México debe ir más a fondo para tratar de que se baje mucho más de ese dos por ciento la transfe-

res de México bajadores y clases populares de México.

Cuando se habla allí que hay compromiso de reducir la deuda y su servicio no son más que eufemismos derivados del empecinaamiento a no aceptar que la deuda externa de México es impagable señaló.

Y es impagable abundó porque el sector externo de nuestra economía es incapaz de generar ahora los excedentes necesarios para ello sin sangrar más el ahorro interno que por cierto es más alto proporcionalmente que en Estados Unidos.

El convenio necesario del

antes de que se anunciara la firma de la Carta de Intención con el FMI, los investigadores Clemente Ruiz Durán y Eduardo González se pronunciaron porque tal documento primero fuera aprobado por la Cámara de Diputados.

Ruiz Durán, sin embargo aceptó la carta con el Fondo siempre y cuando garantice los objetivos mexicanos de desarrollo y los intereses populares.

Con la firma de la carta, expuso, se abrirían las puertas a la negociación de los recursos de la banca internacional.

Eduardo González consi-

de la infraestructura social y educacional con el propósito de satisfacer las necesidades básicas de la población.

Continuó el Investigador de la UNAM al indicar que en ese sentido, "si México presenta un programa que considere el crecimiento y protección de los intereses populares es de esperar que el Fondo Monetario Internacional no tenga impedimento para respaldar la propuesta y de esta forma abrir las puertas a la negociación de los recursos con la banca internacional. También dijo que "

De esta forma, es de esperarse una fuerte resistencia de los banqueros antes de llegar a un esquema de descuento de la deuda incluso con la finalidad de garantizar los pagos futuros la banca buscará alinear a dudas garantías de los organismos financieros internacionales de suerte tal que se pueda asegurar el pago de los intereses del saldo descontado.

Consideró Ruiz Durán que en realidad México no debería tener problemas para firmar un convenio con el Fondo Monetario Internacional, en tanto se respeten los objetivos que el país se ha fijado.

"En este sentido quisiera señalar que en la renegociación de la deuda externa de Venezuela el señor Camdessus, director gerente del FMI señala que el Fondo reconoce puntualmente la realidad de su país y de proteger a los sectores más pobres en la etapa del ajuste económico. Las medidas descritas en el Memorando de Política Económica que Venezuela nos ha enviado, entrañarían la inclusión en el presupuesto de subsidios directos a los bienes de primera necesidad y a la vivienda y crearían nuevos programas de gasto social orientados específicamente al alivio de los grupos empobrecidos de la sociedad. También tenemos entendido que el gobierno se pronuncie a hacer mayor hincapié en el futuro de la mejora y el mantenimiento

reducción de 30 por ciento como sugiriera el subsecretario Mulford, el saldo de la deuda bancaria se reduciría para quedar en un nivel de 50.260 millones de dólares colocándose el monto total de la deuda externa en alrededor de 83 mil millones de dólares. Esto permitiría un ahorro equivalente a casi 14 mil millones de dólares en el monto de la deuda externa en el periodo 1988-1994. "Sin embargo esto no alcanzaría a cubrir las necesidades de financiamiento externas sugeridas por una estrategia de crecimiento como el anterior".

Concluyó "En este sentido se requeriría de una reducción de la tasa de interés o algún mecanismo de reducción adicional con el fin de poder atender las necesidades de financiamiento. Un mecanismo que se podría utilizar para reducir los pagos que México tuviera que realizar al extranjero podría ser el de conversión de la actual deuda externa por bonos de largo plazo de suerte tal que desapareciera el spread sobre la tasa de interés mecánicamente con el que se no podría lograr financiar el resto de las necesidades anteriormente indicadas".

Eduardo González en su intervención calificó al Plan Brady "tardío e insuficiente", y desde luego también habló antes de que se supiera la firma de la Carta de Entención.

...firmó la firma del do-  
...ento como un acuerdo  
...del Presidente Carlos  
...tas de Gortari al anun-  
...se una renegociación  
...deberá bajar las trans-  
...ncias de capital al ex-  
...or de seis por ciento del  
...a menos de dos por  
...to, "lo que es congruen-  
...on el discurso del Pri-  
...Mandatarío el primero  
...diciembre de 1988 ante el  
...greso"

...gobierno de Estados  
...dos ya juzgó su carta en  
...yo de México dijo Ace-  
...quien estimó que el ca-  
...o para que el país pue-  
...volver a crecer está  
...nado ahora, con este pa-  
...muy importante de la  
...na de la Carta de Inten-  
...sin que ello quiera  
...ir que echemos campa-  
...a vuelo, pues debemos  
...ar mucho ojo a todo lo  
...vi-

...el presidente del  
...E que ya el gobierno de  
...xico trazó en diciembre,  
...ndo sirvió los proyectos  
...ingresos y egresos al  
...tereso lo que es real-  
...nte esta Carta de Inten-  
...n con el FMI al trazar  
...xiro su propio camino y  
...salida a sus problemas  
...uedo afirmar que se ha  
...rtido el sentido de an-  
...jores formas de nego-  
...ción y hablando de una  
...ología política' México  
...locado su propia carta,  
...mo

...se salienta en ese docu-  
...nto que México equilibra  
......nima vez su volun-  
...de pagar con su volun-  
...dad de crecer cuando  
...tas todo era pagatoria  
......dió a considero que el  
......vamos "es con  
......reales de fupoo  
......el programa económico  
......cimiento que busca  
......nate"

Aunque falta mucho por  
...gerir y ello se alcanzará  
......o de los días es de  
...tender que este aconteci-  
...ento la firma de la Car-  
...favorecerá a los indica-  
......s financieros del país  
...favorecerá en aspectos  
......mo renatación de capi-  
...les bolsa de valores pa-

...ranca de divisas al exte-  
...rior

...Finalmente comentó que  
...habrá que esperar la solu-  
...ción tocante a los recursos  
......precios que requiere el país  
...en la medida remunerada y  
......dita que está confiada en lo  
......que ocurrirá el 19 de abril  
......cuando Mártín se reúna  
......con los bancos comerciales  
......acreditados con los que "la  
......esta muy avanzada la nego-  
......ciación"

**LA DEUDA SIN VALOR REAL**

Lo único aceptable en este momento para la economía mexicana y los expresados trabajadores es que la deuda externa se convierta a su valor real que está por debajo de 50 por ciento, comentó la senadora Ifigenia Martínez. Integramente de la dirección colectiva del Partido de la Revolución Democrática, recopiló Rogelio Hernández, reportero de EXCELSIOR

Poco después del anuncio oficial de la carta de intención del gobierno de México con el Fondo Monetario Internacional la ex asesora gubernamental en asuntos económicos señaló también que esa firma demuestra nuevamente que 4 personas, a lo máximo y a espaldas del Congreso de la Unión siguen decidiendo en detrimento de la economía y del pueblo

Nosotros, dijo, sabemos que si el gobierno decidiera aceptar la ineludible confrontación con los acreedores y suspender el pago de la deuda hasta encontrar una solución permanente, en lugar de convenios vergonzosos, tendría el apoyo general

Con ligeras variantes el compromiso con el FMI significa más de lo mismo aseveró al inicio de sus comentarios la legisladora Quienes deciden están empeñados en creer que todavía se puede exprimir más a la economía y a los tra-

gobierno es con el pueblo y tiene que aceptar la incapacidad real de pago pero ni siquiera da muestras de saber cuál es el valor real de la deuda mexicana. Eso significa que no tiene voluntad de pactar realmente con los mexicanos, agregó Ifigenia Martínez

Este comportamiento está fuera de la constitución. Esto es que 4 personas a lo máximo estén tomando las decisiones que afectan a un pueblo y ni siquiera se tome en cuenta al Congreso de la Unión. Son los surcos, actos autoritarios

En el PRD hemos considerado públicamente que la prioridad número uno en materia de deuda externa es reconocer los graves daños que le han provocado a la economía y a los trabajadores la política económica derivada de la decisión de pagar bajo las condiciones de los acreedores

Por eso después del anuncio del secretario de Hacienda, lo que deriva es alarma, preocupación y en tristecimiento y todavía falta la reunión con la banca privada que seguramente será más de lo mismo. concesiones a los acreedores cuando la mayoría de ellos ya reconocen que económica como la mexicana no pueden pagar la deuda en su valor en libros ni con reducciones eufemísticas

Por eso es inaceptable que México acepte desde ahora como lo hizo con el FMI y como lo hará con la banca privada internacional que las rebajas a la deuda sean desde la óptica de ellos y no desde las condiciones reales de nuestra economía y del valor real de nuestra deuda que es menor al 50 por ciento, añadió

**QUE APRUEBE LA CAMARA DE DIPUTADOS**

En conferencia de prensa en la Facultad de Economía de la UNAM horas

después positivo que el asunto de la carta de intención se ventilara en forma pública, pero indicó que ello "no va a ocurrir" y se pronunció por un auténtico cambio en la actitud del gobierno, abandonando la visión de los acreedores y adoptando la de los deudores con crecimiento, modernización y apertura y decidiendo "si vamos a seguir la línea que marcan los circuitos comerciales internacionales"

Rechazar un perfil económico que eterniza las desigualdades, pidió

Clemente Ruiz Durán expuso en dicha conferencia. En esta ocasión existen elementos nuevos en la renegociación de la deuda externa, puesto que por primera vez se plantea no como una negociación de coyuntura, sino que se plantean los objetivos de mediano plazo que el país desea obtener. Con esta posición el país intenta pasar de la discusión de cierto plazo (visión estabilizadora) a una que contemple la postura de largo plazo (compromiso con el bienestar y el desarrollo).

En ese sentido se ha presentado a los acreedores un esquema de necesidades multianuales que permita garantizar un proceso de recuperación sostenido para alcanzar un crecimiento superior al doble del crecimiento de la población que es de 21 por ciento anual. Adicionalmente se ha reducido la tesis de que es necesario reducir la transferencia por medio de quitas al monto de la deuda externa. Estos elementos permiten aducir que existe un cambio en los términos de la renegociación de la deuda externa del país.

Asimismo manifestó que para los bancos siempre existe la tentación de aceptar cualquier esquema que reduzca su rentabilidad aun cuando de hecho ya la deuda externa de los países en desarrollo hace mucho tiempo que se ha descontado parcialmente en la contabilidad bancaria

cuando el panorama es más claro hoy y las propuestas parecen irse definiendo, el camino por recorrer es largo todavía y requerirá de mayores precisiones con el fin de garantizar el reencuentro con el crecimiento y la elevación generalizada del bienestar social"

Estimó por otra parte, que suponiendo que México ha decidido mantener una apertura a la economía mexicana mayor a la observada históricamente y que para poder obtener esa tasa de crecimiento se requiere de un coeficiente de inversión similar al de los años setenta, se estima que el monto promedio anual de recursos adicionales sería de 7100 millones de dólares adicionales siempre y cuando no se derrumben los precios de las exportaciones mexicanas y estas crezcan en términos de dólares de 1988 a un ritmo anual de 6 por ciento en promedio

Manifestó que sin que hayan precisado hasta el momento las condiciones que se otorgaran a los países que están renegociando la deuda, "es de esperarse que se pueda dar un tratamiento de reducción de deuda externa de acuerdo con los precios del mercado. adicionalmente se pueda intercambiar la deuda remanente por bonos de más largo plazo que reduzcan el momento de los intereses pasados"

Siempre antes de saber que se había firmado ya la Carta de Intención, Ruiz Durán de la división de Estudios de Posgrado de esa Facultad de la UNAM estimó que hasta el momento se ha hablado únicamente de reducir el monto de la deuda externa contratada con los bancos, es decir, se ha hablado de reestructurar la deuda externa contratada con los organismos financieros internacionales

Bajo esta consideración dijo, si analizamos el monto de la deuda externa bancaria que es de aproximadamente 71 mil millones de dólares y le aplicamos un

# Convenio con el FMI, Fuera de Ajustes Recesivos: Aspe Financiará la Reducción de Deuda

- ★ Crecimiento Sostenido, Precios Estables y más Empleos Serán sus Objetivos
- ★ Buscará Mejorar Niveles de Consumo y Elevar Gradualmente el Salario Real
- ★ El País Recibirá 3,635 Millones de Dls. en 3 Años más 500 Millones en '89
- ★ Deberán Bajar a Menos de 2% del PIB las Transferencias Netas de Recursos
- ★ Margenes Para Aumentar el Gasto en Servicios Sociales e Inversión Pública
- ★ Los Lineamientos del PECE se Transformaron de Hecho en el Acuerdo Mismo

J JESUS RANGEL M

México suscribió ayer con el Fondo Monetario Internacional (FMI) un convenio financiero por tres años, con opción de uno más, para promover el crecimiento sostenido del país con estabilidad de precios, que impulse el empleo, recupere los niveles de consumo y eleve gradualmente los salarios reales, fuera de ajustes recesivos como se observó en el pasado.

Pedro Aspe Armella, secretario de Hacienda y Crédito Público, anunció lo anterior y precisó que con este acuerdo, México tendrá acceso a financiamientos directos del FMI por 3,635 millones de dólares en los próximos tres años y, adicionalmente, un financiamiento compensatorio para 1989 por 500 millones de dólares. "Una porción considerable de estos recursos será destinada a operaciones de reducción de la deuda y su servicio".

En conferencia de prensa en el Salón Panamericano, con asistencia de los medios de comunicación nacionales y extranjeros, Aspe Armella puntualizó que el Presupuesto de Egresos y la Ley de Ingresos aprobados por el Congreso de la Unión, así como los lineamientos de política económica concertados en el ámbito del Pacto para la Estabilidad y el Crecimiento Económico (PECE), se "ha transformado, de hecho, en el convenio mismo".

Dijo también que el acuerdo es dentro de los lineamientos fijados por el Presidente Salinas de Gortari en su discurso de toma de posesión, y agregó que se ratifican las metas fiscales. "Debe continuar el esfuerzo de disciplina, orden y concertación. No hay medidas adicionales", afirmó.

En un mensaje televisado en directo a todo el país, con duración de 55 minutos, el titular de Hacienda dijo que el programa suscrito con el FMI establece que deberán reducirse las transferencias netas de recursos al exterior a "menos de 2 por ciento del Producto Interno Bruto, de un nivel de 6 por ciento anual efectuado en los últimos 6 años, con el fin de alcanzar las metas de crecimiento congruentes con un aumento sostenido del empleo de los niveles de vida y del salario real de la población establecidos en el programa".

Destacó que el acuerdo logrado es un reconocimiento de la comunidad internacional a los esfuerzos realizados por el país en materia de estabilización económica y cambio estructural seguidos por México y que la posibilidad de extender a cuatro años el convenio es para "contar con un horizonte amplio que asegure fuentes de financiamiento por un periodo lo suficientemente largo como para despegar".

# Convenio con el FMI, Fuera de Ajustes Recesivos

uno de los primeros planes

ado de incertidumbre económica existente" en esta manera, añadió, en las condiciones favorables para la recuperación de la inversión el crecimiento económico y el empleo, además de que se ven plenamente los efectos adversos del endeudamiento excesivo y "apoyando iniciativas que hará el gobierno mexicano en materia de reducción de la deuda y de su servicio a la actividad comercial".

Aspe Armella reiteró que se trata de mantener la disciplina y el espíritu de conciliación, y que "los

mexicanos debemos ser especialmente solidarios en las etapas que restan en el proceso de negociación. La unidad nacional y la tenacidad del pueblo de México son la mejor garantía para lograr el éxito.

La reunión a que fue convocada la prensa nacional comenzó a las 17:35 horas. Dio inicio con la lectura de un texto previo del titular de la SHCP para concluir con una carta enviada al director gerente del FMI, Michel Camdessus —la Carta de Intención— que fue suscrita por el propio funcionario y el director general del Banco de Mé-

xico Miguel Mancera Aguayo ausente de la reunión.

En su presentación, Aspe Armella detalló que se concluyó un acuerdo de apoyo a la estrategia de mediano plazo del gobierno de la República con el FMI que surge de la necesidad imperiosa por parte de ese organismo, de que la economía mexicana "retorne a una senda de crecimiento en un contexto de estabilidad financiera".

Dijo que los elementos que diferencian este convenio con el de otros programas tradicionales son los siguientes:

—Es un nuevo tipo de acuerdo que apoya una estrategia de crecimiento sostenido con estabilidad de precios. El FMI reconoce y suscribe la necesidad de incrementar el empleo, de recuperar los niveles de consumo y de elevar gradualmente el salario real. El convenio ha sido construido explícitamente con estos objetivos.

En contraste con la formulación tradicional de otros programas en los que se dispone de recursos externos determina el posible ritmo de expansión

económica en este nuevo acuerdo se han fijado metas deseables y factibles de crecimiento del producto que a su vez han determinado las necesidades de recursos.

—No se trata de un programa recesivo. En contraste con otras experiencias se ha obtenido apoyo para un genuino programa de crecimiento que redundará en una recuperación gradual y sostenida de los niveles de vida de la población.

—Conforme avance la negociación de la deuda externa y se consolide la estabilidad de precios, las tasas de interés reales sobre la deuda interna bajarán abriendo márgenes para el aumento del gasto público en servicios sociales prioritarios y en inversión pública necesaria. El objetivo de crecimiento de la actividad económica, proyectada hasta 6 por ciento hacia fines de la actual administración requerirá de un aumento sustancial de la inversión tanto pública como privada y del fortalecimiento del mercado interno. Todo esto se suscribe en el acuerdo.

—El programa establece la necesidad de una reducción considerable y permanente

de la transferencia de recursos al exterior, como condición esencial para la reanudación del crecimiento económico.

—Reconoce también no sólo que es indispensable reducir la transferencia neta al exterior, sino que es esencial reducir el monto del saldo de la deuda externa y su servicio.

Pedro Aspe Armella en otra parte de su presentación expuso que se obtuvo con este acuerdo un compromiso de financiamiento directo a México por parte del FMI por 2,797.2 millones de dólares especiales de giro (degs), equivalentes a aproximadamente 3,635 millones de dólares en un lapso de tres años.

Manifiesto que se espera adicionalmente, obtener un financiamiento compensatorio para 1989 de 500 millones de dólares. Hemos logrado que una porción considerable de estos recursos se destine a operaciones de reducción de la deuda y al servicio.

Destacó que el monto obtenido es, en términos de nuestra cuota en el FMI, excepcionalmente elevado en relación a otros programas de mediano plazo que ha financiado esta institución, lo que refleja la calidad del esfuerzo realizado y la congruencia de la estrategia anunciada.

El acuerdo también facilitará la obtención de recursos sustanciales adicionales de fuentes oficiales bilaterales y multilaterales y permitirá reestructurar la deuda con acreedores oficiales agrupados en el Club de París, manteniendo abierto el financiamiento de esta fuente para nuestras operaciones comerciales.

También explicó el título de la SHyCP que el convenio firmado con el FMI constituye la conclusión final de una primera etapa indispensable en el proceso de negociación de la deuda externa del país en todos sus ámbitos.

# Continuará Abierto el Mercado de Divisas

## Mantendrá el Gobierno su Política Tendiente a Sanear las Finanzas

El gobierno mexicano anunció al Fondo Monetario Internacional que continuará con su actual política de libre acceso al mercado de divisas, promoverá la eficiencia económica estimulando la inversión nacional y extranjera y el ahorro interno, continuará con el saneamiento de las finanzas públicas y, de ser necesario, adoptará medidas adicionales para retomar la senda del crecimiento, sanar de mayor empleo y recuperación del salario real.

SIGUE EN LA PAG. SIENTOCCHO

Sigue de la primera plana

A cambio demandó de la comunidad financiera internacional reducir significativamente la carga de la deuda externa y de su servicio junto con la disponibilidad de recursos externos adicionales dentro de un horizonte multianual para alcanzar el éxito de sus metas lo que requerirá la cooperación de todos los acreedores.

Lo anterior está contenido en la carta enviada por Pedro Aspe Armella secretario de Hacienda y Crédito Público, y Miguel Mancera Aguayo, al director gerente del FMI, Michel Camdessus donde se precisa que "la incertidumbre y la fuga de capitales están íntimamente ligadas al problema de deuda excesiva por lo que es condición necesaria eliminarlo para convocar la repatriación de capitales y tener acceso normal a los mercados internacionales de capital.

Los compromisos planteados por el gobierno mexicano que están incluidos dentro del Plan Brady para enfrentar el problema de la deuda externa fueron planteados con total anticipación a la comunidad financiera internacional y representaron un avance sustancial a los posibles acuerdos que se ritan en el futuro sobre la citada iniciativa.

La firma de este acuerdo de apoyo financiero de México con el FMI ya era esperada en todos los círculos financieros y bancarios del exterior y es la condición previa para que México avance claramente en su objetivo de reducir drásticamente la transferencia de recursos al exterior por el peso enorme de su deuda externa, a pesar de que todavía no se fijan detalles para alcanzar el mismo objetivo vía el Plan Brady.

Aspe Armella entregó ayer a los medios de comunicación del país y del exterior, el contenido de la carta enviada al titular del FMI, donde en principio explica los resultados alcanzados por México en sus programas de ajuste macroeconómico y cambio estructural para corregir los desequilibrios macroeconómicos y eliminar distorsiones que obstaculizaban el crecimiento del país.

El gobierno destacó que la actividad económica del país está estancada y que durante los pasados siete años el crecimiento promedio de la economía mexicana ha sido cercano a cero. "El ingreso per cápita y los salarios reales han caído significativamente los términos de intercambio en los pasados seis años han caído más de 35 por ciento que implica una reducción acumulada en los ingresos de aproximadamente 40 mil millones de dólares". Agregó que durante 1983-1988 las transferencias netas de recursos a México que habían sido históricamente positivas pasaron a ser negativas en seis por

ciento del producto interno en promedio y que el exceso de deuda ha propiciado un clima de incertidumbre macroeconómica que ha inhibido la inversión y ha ejercido una gran presión sobre los mercados financieros internos.

En el mediano plazo apunta México la reforma fiscal iniciada en 1987 que prácticamente ha sido aplicada alcanzará una mayor solidez para promover mayor eficiencia económica que incentiva la inversión fomento a la competitividad externa promoción del ahorro interno y mejoramiento de la distribución del ingreso.

Dijo que el gobierno mantendrá el control sobre entidades públicas estratégicas y prioritarias y que se continuará con el proceso de desincorporación, reestructuración y modernización de entidades públicas, además de continuar con la emisión de nuevos instrumentos de inversión y de ahorro dentro de una mayor competencia interbancaria y la eliminación de subsidios implícitos no justificados en materia financiera.

Las autoridades del país esperan que la inversión extranjera directa juegue un importante papel complementario en la promoción del empleo, la modernización de la planta industrial y en la apertura de nuevos mercados para la exportación, y puntualizó que el logro de las metas del programa creará un clima propicio para atraer inversión extranjera.

Un total de 18 cuartillas que integran 28 puntos integran la carta enviada por las autoridades mexicanas al FMI, donde establece claramente que después de una fase inicial de transición, el crecimiento económico proyectado en

términos reales será de alrededor de 6 por ciento por año.

Para lograr esas tasas de crecimiento, será necesario que la relación de inversión a producto interno bruto aumente a cerca de 27 por ciento en 1994, y que en materia de inflación se proyectó que para este año baja a 18 por ciento.

Establece también su postura de aumento a la deuda externa pública en caso de que no se disminuya sensiblemente la transferencia de recursos al exterior, y advierte que el déficit en cuenta corriente

podría crecer en más del doble entre 1988 y 1994 si no se disminuye esta transferencia en menos de 2 por ciento del PIB por año.

Asimismo advierte que si la opción de nuevos financiamiento predominara sobre la reducción de la deuda al terminar los períodos de gracia de los nuevos créditos hacia mediados de la década de los noventa habrá un aumento significativo en los pagos de amortizaciones. Por lo tanto es importante buscar una reducción significativa de la deuda que asegure el logro de los objetivos de crecimiento del programa y la viabilidad de la balanza de pagos.

ma y la viabilidad de la balanza de pagos.

Por otra parte la carta señala que partiendo de las metas de inflación proyectadas, similares a la de los principales países del mundo, entre 1988 y 1992 los requerimientos financieros del sector público bajarán en aproximadamente 9 puntos porcentuales del PIB pese a que el superávit primario podría bajar en 2 puntos porcentuales del PIB.

También habría una caída en el déficit operacional del orden de 2 puntos porcentuales del PIB a medida que la tasa de interés

real disminuya. Además se espera que el ahorro del sector público aumente y que ante una reducción de los pagos de intereses reales y el aumento del ahorro permitirá incrementar el gasto público particularmente en educación, agricultura, salud e infraestructura.

Luego detalló las políticas macroeconómicas para 1989, planteadas dentro de los objetivos presupuestales aprobados por el Congreso de la Unión y apuntó que el superávit fiscal primario estimado inicialmente en 67 por ciento del PIB para este año será

de 73 por ciento como resultado del aumento de precios del barril del petróleo.

Dijo el Gobierno Mexicano que la consolidación de la estabilización de la inflación en 1989 deberá reducir el pago de intereses sobre la deuda interna a 9 por ciento del PIB, aun que los intereses reales "probablemente permanecerán altos".

Importancia especial dio a la política cambiaria, y dijo que fijarla en forma apropiada será "elemento clave" en la estrategia de estabilización, y esencial

en el logro de una balanza de pagos viables.

Finalmente, en la misma carta destacó que las autoridades de México y el FMI sostendrán consultas periódicas para evaluar el avance en las metas del programa.

La primera evaluación será antes del 31 de agosto de 1989, la segunda antes del 28 de febrero de 1990. Habrá nuevas consultas antes del 28 de febrero de 1991 y del 29 de febrero de 1992, con el fin de llegar a un acuerdo sobre el curso de las políticas para los años 1991 y 1992 respectivamente.

# No resolverá la renegociación todos los problemas: CCE

● Es necesario mantener el esfuerzo interno, por medio de un mayor ajuste del gasto corriente gubernamental y de elevar los actuales niveles de inversión, asegura Legorreta ● Da certidumbre a futuro la firma con el FMI Kahwagi ●

Por JAVIER VELAZQUEZ  
y VÍCTOR GONZÁLEZ  
Reporteros de EL UNIVERSAL

Renegociar la deuda externa, aun cuando es una condición necesaria no resolverá todos los problemas para asegurar el crecimiento del país. Se requiere también continuar el esfuerzo interno por medio de un ajuste mayor del gasto corriente gubernamental, resolver el desequilibrio fiscal y monetario, incrementar la inversión, liberar los controles de precios y sanear las finanzas públicas, apuntó Agustín Legorreta, presidente del Consejo Coordinador Empresarial.

A su vez, Jorge Kahwagi Gastine, dirigente de la Cámara Nacional de la Industria de Transformación, indicó que la carta de intención establecida con el Fondo Monetario Internacional es un elemento de certidumbre y constituye un primer paso para encontrar soluciones permanentes, y no sólo paliativos al conflicto con los acreedores.

Al igual que Legorreta, Manuel Ramírez Castañón, director general del Centro de Estudios Económicos del Sector Privado, expuso que no puede continuar la caída en el nivel de vida de los mexicanos, con su consecuente presión social y política, provocada por un crecimiento anual de apenas 0.9% como es el que se dio en el último sexenio durante el cual la transferencia neta de recursos al exterior fue equivalente al 5.3% del Producto Interno Bruto.

Sostuvieron que el sector empresarial apoya los cuatro puntos de negociación propuestos por el Gobierno mexicano a los acreedores, y que son disminuir la transferencia neta de recursos al exterior, reducir el valor del endeudamiento externo acumulado, lograr una negociación multi-lateral que reduzca la incertidumbre económica, y disminuir la relación de los pasivos respecto del Producto Interno Bruto.

Legorreta puntualizó que la utilización de divisas para el cumplimiento de los compromisos financieros con el exterior tuvo un impacto negativo en el ahorro interno y obligaron a reducir la inversión al 16% del PIB en los últimos seis años.

Externó su optimismo respecto de que la renegociación de los débitos se logrará positivamente, pues nuestro país es el que más ha avanzado en el proceso de estabilización económica y en el cambio estructural, condiciones que el Plan Brady establece como requisitos para las naciones altamente endeudadas.

Sin embargo, subrayó que es necesaria una disminución mayor del gasto del Gobierno, la reducción del excesivo reglamentarismo, la eliminación de monopolios, y hacer eficientes así como proseguir con la desincorporación de un mayor número de paraestatales como premisas para continuar con los ajustes internos.

"La negociación de la deuda externa no debe ser un sustituto sino más bien un complemento de los cambios estructurales que aun se necesitan realizar" sentenció.

Manifestó que México es una nación pobre a pesar de que se le considera entre las de ingresos medios, lo que significa que genera un ahorro interno insuficiente para crecer y por tanto requiere de recursos del exterior. Informó que la década de los años 60 la nación recibió del exterior un promedio anual equivalente al 4% de su PIB que, sumado al ahorro interno, permitía una inversión de casi el 20% del PIB, lo que dio como resultado un crecimiento del 7% anual.

Sostuvo que el Pacto para la Estabilidad y el Crecimiento Económico 'camina bien' pero para que la nación retome la senda del crecimiento es indispensable que se resuelva a fondo el problema de la deuda.

Por su parte, en una comunicación por vía telefónica desde Belgrado, Yugoslavia, donde realiza una gira de trabajo, Kahwagi Gastine expuso que reducir la transferencia de recursos al exterior del 6% al 2% con respecto del PIB, brinda a la nación un panorama de mayor crecimiento.

En referencia al financiamiento a que tendrá acceso nuestro país durante los próximos tres años con posibilidades de ampliarse por un año más, dijo que con recursos frescos México tendrá oportunidades de conformar la base que facilitará su desarrollo sostenido.

A su vez, Ramírez Castañón expuso que la renegociación de la deuda externa juega un papel muy importante, ya que su ser vicio es una pesada carga al erario. Sin embargo, lo que se obtenga en materia de la negociación del débito no debe ser un sustituto, sino un complemento de la todavía necesaria austeridad del gasto corriente.

Resolver el problema de la deuda externa es una condición necesaria más no suficiente para asegurar el crecimiento futuro del país, apuntó.

En materia interna, señaló que el inter

## ***No resolverá la renegociación todos los problemas: CCE***

(CONTINUA DE LA PAGINA 1)

El intervencionismo económico estatal debe reducirse en sus dos vertientes: la reguladora, que comprende el conjunto de normas gubernamentales que rigen parcial o totalmente la operación micro de las empresas y sus relaciones obrero-patronales y la proveedora que consiste en el ofrecimiento de bienes y servicios producidos por las empresas propiedad del Gobierno.

Resaltó que la magnitud del desequilibrio fiscal cualquiera que sea su medida —financiero primario u operacional—, es inconsistente con la estabilidad. Prueba de ello es que cuando los agregados monetarios han venido disminuyendo su ritmo de crecimiento éste sigue siendo elevado, lo que valida sólo en una proporción el proceso de desinflación que se tiene.

Consideró que sin negar que todavía pueden aumentarse los ingresos públicos, la corrección de las finanzas públicas debe hacerse básicamente por el lado del gasto en particular del corriente de tal manera que el gasto global disminuya y al mismo tiempo se revierta la tendencia ascendente que la inversión pública ha tenido.

### **LIBERAR PRECIOS**

En otro orden de ideas Legorreta Chauvet manifestó que cuando concluya el PECE deberá iniciarse gradualmente una liberalización de los precios, puesto que la

concertación no puede poner al mercado un corsé permanente que impida los necesarios ajustes de precios relativos.

Al participar como invitado de honor en una reunión organizada por los Ejecutivos de Ventas y Mercadotecnia, expuso que la recesión económica no ha llegado pero en 1989 es muy factible que se presente y aun cuando esto es negativo será un costo imprescindible para poder consolidar el proceso de desinflación.

No podemos hablar de un crecimiento económico sano y sostenido, si la inflación no queda controlada de forma permanente', advirtió el máximo dirigente institucional de la iniciativa privada.

En su exposición, señaló que pueden considerarse como satisfactorios los resultados obtenidos en el primer trimestre del año en materia de inflación y los resultados pueden calificarse como "espectaculares" si se miden en términos anuales.

Añadió que el circulante monetario (M1) registró un crecimiento anual, de febrero de 1988 a febrero de 1989, de sólo 41%. Apuntó que lo ocurrido en las variables monetarias es indicio de que vamos en el rumbo correcto.

Explicó que al primer mes de este año el déficit del Gobierno federal fue de 614 000 millones de pesos que es muy favorable en comparación con los 3 4 billones de pesos registrados en igual mes de 1988 lo cual representa una reducción de más de 85% en términos reales.

# Mexico, IMF Reach New Accord On Debt

24  
THE NEWS  
April 12, 198

By DANIEL ALDER  
The News Finance Editor

Mexico signed a letter of intent with the International Monetary Fund on Tuesday under which the IMF will loan the country 3.635 billion dollars over three years.

Finance Secretary Pedro Aspe said Mexico hopes to receive an additional compensatory IMF loan of 500 million dollars this year.

The agreement marks a step forward in Mexico's struggle to renegotiate its 100-billion-dollar foreign debt. But Aspe noted during a press conference that the country still faces "difficult" negotiations with its commercial bank creditors. Formal talks with the banks are scheduled to begin Wednesday, April 19, he said.

While the IMF has become unpopular in much of Latin America for austerity

measures stipulated in its letters of intent, the new agreement signed by Mexico adheres to the economic program officials here have already put into place.

Aspe characterized the agreement as "a full endorsement of Mexico's economic strategy," by the multilateral organization.

He said it was "a new type of agreement that supports a strategy of sustained growth with price stability" by setting goals for economic growth and then determining how much financing is needed to meet them.

The letter states that the Mexican government will continue its current policy of devaluing the peso by a little more than 1 percent each month and maintain free access to the foreign exchange market. It adds that real domestic interest rates will probably remain at current high levels for the remainder of 1989 in spite of the projected decrease in inflation.

Aspe said the agreement recognizes Mexico's need to reduce the net transfer of resources out of the country each year from 6 percent to 2 percent. Mexico's goal is to attain an economic growth rate of 5 percent by the end of the current administration, in 1994, he added. The economy grew by only 1.7 percent in 1988.

Mexico also expects to end negotiations for loans totaling 1.5 billion dollars from the World Bank soon and will begin talks with the Paris Club of official creditors within

(See IMF page 30)

## Analysts: Renegotiation No Magic Growth Formula

By DANIEL ALDER  
The News Finance Editor

A favorable renegotiation of Mexico's foreign debt will not translate into immediate economic growth, analysts from the Bureau of Market Research (Bimsa) said Tuesday.

At a press conference, Bimsa Director Cesar Ortega de la Roquette laid out his company's predictions for Mexico's near-term economic future.

"What we need is stabilization, and the cost of stabilization is recession," Ortega said.

Using a mathematical model of the Mexican economy, the company predicted that gross domestic product (GDP) would fall by 2.2 percent in 1989 as the government maintains tight reins on public spending in its effort to stamp out inflation.

Ortega said consumer inflation should reach 21 percent this year.

The model predicts that second-quarter 1989 will be the worst in terms of growth, with total investment contracting by 1.8 percent and international reserves falling by 711 million dollars. GDP is projected to fall 2.5 percent during the three months from the beginning of April to the end of June.

Ortega noted that the predictions were based on a scenario in which Mexico received positive news about its foreign debt by July when the current phase of the Pact for Economic Growth and Stabilization (PECE) ends. That news would have to entail a net reduction of the transfer of resources out of the country to the tune of between 5 billion and 5.5 billion dollars, he added.

Without that kind of reduction in the debt burden, the scenario becomes markedly different. Ortega predicted that a series of "economic adjustments" would then have to be made, including a reduction of salaries

and a 10 percent devaluation of the peso. But Ortega added that "a favorable renegotiation of the debt does not imply that the economy will be ready to grow."

If Mexico wants to win its war on inflation, the money made available by such a negotiation would have to be put into savings rather than increased domestic spending, he said.

A successful renegotiation would help create the necessary conditions for economic recovery by promoting confidence and allowing the government to reduce its spending on both foreign and domestic debt service, Ortega said.

Currently the lack of confidence in Mexico's economic future and especially in the future of the peso, is forcing the government to pay high interest rates on its internal debt. The government is offering rates of close to 50 percent on Treasury bills to coax Mexican investors into leaving their capital in the country.

un total de 1,500 millones de dólares en apoyo de los programas de reforma estructural del Gobierno, recursos que serán adicionales a los destinados a financiar proyectos específicos

Además solicitará al Banco Mundial recursos para apoyar las operaciones de reducción de deuda complementarios a los que se destinarán con los fondos que se obtendrán por el acuerdo suscrito con el FMI

Aspe Armella también informó que se buscará un acuerdo de reestructuración de deuda con los acreedores

guirá enfrentando retos formidables"

Recordó que el monto global de la deuda pública reestructurada a mediano plazo con la banca comercial sobre la que se llevarán a cabo operaciones de reducción de deuda asciende a aproximadamente a 60 000 millones de dólares. El resto (otros 40 mil millones de dólares) está con tratada con organismos multilaterales como el FMI, el Banco Interamericano de Desarrollo y el Banco Mundial acreedores oficiales o a líneas de créditos internacionales o comerciales

*M. Beza*

STB  
JB  
IO  
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INTERNATIONAL MONETARY FUND  
WESTERN HEMISPHERE DEPT.

1989 APR 11 PM 3:36

**INTERNATIONAL MONETARY FUND**

April 11, 1989

To: The Acting Managing Director

Mexico

Possible talking points for the 6 p.m. informal meeting with Executive Directors are attached. They have been seen by Messrs. Beza and Loser.

Attachment

- cc: Mr. Whittome
- ✓ Mr. Beza
- Mr. Loser
- Mr. H. Simpson

Eduard H. Brau *E*

April 11, 1989

Mexico Talking Points for Informal Meeting with  
Executive Directors

- 1 -- Management recommends Executive Board approval of a three-year EFF arrangement for Mexico at an access rate of 80 percent per annum
  - Announcement by Mexican authorities this evening, share information with you in advance, we will circulate the letter of intent tomorrow as a document We are looking to Board consideration in late May/early June
- 2 -- The economic program is comprehensive, realistic, and features growth-oriented adjustment and suitable financing, with the expectation that some of it will be in terms of debt reduction or debt service reduction Mr. Loser to explain key elements of the program
- 3 -- Program includes a financing need which all major creditor groups will need to help fill in appropriate ways
  - Commercial banks a financing need of some \$4-1/4 billion in each of 1989, 1990, and 1991, on which Mexico has begun negotiations with its creditors, seeking a combination of new money and debt reduction financing in a multiyear framework
  - The World Bank is expected to support the program with program lending of perhaps as much as US\$1.5 billion for the first year
  - The program assumes a Paris Club rescheduling and maintenance of export credit cover
  - Concerning IMF support for debt financing, the program envisages a set-aside of Fund resources for eventual release for

financing of debt reduction of around 30 percent of the total access amount Pending Executive Board discussion of IMF participation in possible interest support financing, no assumptions or mechanisms are incorporated in the arrangement

-- Mexican and Japanese officials have started discussions concerning Japanese parallel support for the program No assumptions or amounts have been built into the program and its financing assumptions, as such support is to be additional

4 -- On the financing strategy in the weeks ahead, the conclusion of negotiations on a financing package with commercial banks may take considerable time, with implications for Mexico's ability to maintain all of its payments Fund management emphasizes the need to support the program expeditiously Mexican foreign exchange cash flow position needs early support, in light of sizable contractual payments due

-- While negotiations take place with commercial banks and while financing assurances are being sought, management is prepared to recommend disbursements under the EFF, initially on the basis of quarterly performance criteria and appropriate safeguards, including two reviews through March 1990

-- By early Fund support for Mexico's program, we seek to balance appropriately the objectives of our financing assurances policy supporting the adjustment program, catalyzing appropriate financing for the program, and protecting Fund resources A general discussion of financing assurances policy is scheduled to take place in the Board in the near future



# Office Memorandum

TO The Acting Managing Director

DATE April 10, 1989

FROM Claudio Loser

SUBJECT Mexico - Letter of Intent

Attached is the letter of intent of the Mexican Government requesting an extended arrangement for 240 percent of quota for a period of three years. The current draft incorporates comments from interested departments and from the Mexican authorities. The technical memorandum of understanding, which specified the quantitative performance criteria for 1989, also is attached. The Government is tentatively planning to publish the letter of intent on Tuesday. Accordingly, we would like to to aim at reaching final agreement on the documents by late today.

The key features of the economic program are as follows:

Main objectives of the program Consolidation of anti-inflation effort, growth of real GDP to remain low initially but to increase to 6 percent by 1993, external current account deficit declines to about 2 percent of GDP after 1989. Net resource transfer by Mexico to be reduced sharply, with debt reduction envisaged. Fiscal policy In 1989 the PSBR would decline by 6 percentage points of GDP, the operational deficit would decline by 1.4 percentage points of GDP, and the fiscal primary surplus would improve by 1.5 percentage points of GDP. If balance of payments and inflation results are less favorable than expected, fiscal policy would be tightened even if the performance criteria were met. Exchange rate policy Currently depreciation is running slightly ahead of domestic inflation, will be monitored through reviews based on indicators (paragraph 26). Financing The amount requested by the public sector from banks will be a little under 60 percent of interest payments of the public sector, if one takes all operations with banks into account, the request will be equivalent to around 45 percent of total interest payments, given heavy amortization by the private sector. Special technical features The program is based on a Mexican oil price of US\$12 a barrel and Libor of 10.5 percent. The program envisages adjustment of quantitative performance criteria, including fiscal and balance of payment targets, if the combined effect of oil prices and interest rates fall outside a band equivalent to nearly US\$1 billion (which is equivalent to an oil price deviation of some US\$2 a barrel, or an interest rate deviation of around 1 1/2 percentage points), on the downside, there is a limit to the adjustment of net international reserves of US\$1 1/2 billion.

The balance of payments projections (and the relevant targets and limits) at present include Japanese parallel lending of US\$0.9 billion for 1989, without identifying it explicitly. Even without such financing, the program would show a relatively large reserve gain for 1989 (US\$1 1/2 billion), and we could therefore exclude the Japanese

financing for the time being. However, the Mexican authorities have a strong preference to include the effects of such financing in the presentation, adding to reserve gain, and thereby facilitating debt reduction.

#### Attachments

cc The Managing Director (o/r)  
Mr Beza  
Mr Frenkel  
Mr Gianviti  
Mr Laske  
Mr Tanzi  
Mr Brau  
Mr Martinez (IBRD)  
Mr H Simpson

April 11, 1989

Mr. Michael Camdessus  
Managing Director  
International Monetary Fund  
Washington, D C 20431

Dear Mr Camdessus

1 In recent years, the Mexican Government has pursued a strong and comprehensive program of macroeconomic adjustment and structural change aimed at correcting macroeconomic imbalances and removing economic distortions that have inhibited growth. The following are among the most important policy developments that have taken place

a. The primary balance of the public sector, which for several decades had been in deficit, has recorded a sizable surplus every year since 1983. The adjustment in the primary balance amounted to 14 percentage points of GDP from 1982 to 1988. Over the period, public expenditures net of interest payments in relation to GDP were reduced by 10 percentage points and, despite a dramatic fall in oil prices, public revenues rose substantially as a result of a far reaching fiscal reform and a correction of public sector relative prices

b In order to enhance the external competitiveness of Mexico, a comprehensive liberalization of Mexico's external trade system has taken place, transforming a highly protected economy into an open one. In 1982 virtually all imports were subject to nontariff barriers. Today less than 20 percent of the value of imports is subject to any form of quantitative restrictions. At the same time, tariffs

have been reduced drastically from a maximum level of 100 percent in 1982 to 20 percent at present

c As a means for enhancing the effectiveness of the role of the State in the provision of strategic and social services as mandated by our Constitution, a divestiture program has been implemented since 1983 as part of the structural reform of public enterprises. This has strengthened considerably the financial position of the public sector. In 1982 the Mexican public sector participated in many sectors of economic activity through a total of 1,155 state-owned entities. To date, the Government has privatized, merged, liquidated, or transferred to local government almost 750 entities. In this area the action of the Mexican authorities has been based strictly on the principles stated in the Constitution and implementing legislation which maintain under government control the strategic and high priority enterprises. The divestiture process has enhanced the productivity of the economy and has been an important factor in improving the public finances on a permanent basis.

2 In the context of the macroeconomic and structural adjustment undertaken, considerable success already has been attained in several areas. Sustained fiscal and monetary adjustment within the framework of socially concerted efforts adopted in the Pacto de Solidaridad Económica late in 1987, have brought about a sharp fall in the rate of inflation. Measured by the consumer price index, the 12-month rate of inflation has fallen from 159 percent in December 1987 to less than

25 percent in March 1989. The 12-month rate of increase of the producer price index fell from 16.7 to 11 percent during the same period. As a result of the structural measures implemented in the external sector, Mexico's trade structure has been greatly diversified, manufactures now account for more than one half of total exports while oil represents less than one third compared to 75 percent in 1982. Some sectors and industries have been modernized thoroughly, and the Mexican economy has become considerably more competitive and export-oriented. From 1982 to 1988, Mexico's external debt, net of foreign reserves, has remained constant in U.S. dollar terms and has shown a significant decline in real terms.

3. Economic activity, however, has stagnated. On average, output has experienced close to zero growth over the past seven years, while real per capita income and wages have fallen significantly. The stagnation of economic activity and of investment has largely reflected a sharp deterioration of the terms of trade at the same time that external financing was curtailed. During the past six years, Mexico's terms of trade have fallen by more than 35 percent, implying a cumulative income loss of around US\$40 billion. Real interest rates in international markets have remained high and continue to entail a significant burden on the economy. Net resource transfers to Mexico shifted from a historical positive average to a negative 6 percent on average during 1983-88. The debt overhang created a climate of macroeconomic uncertainty which has inhibited investment and placed enormous pressure on domestic financial markets.

4 The Mexican authorities are of the view that the structural and macroeconomic policies implemented over the past six years have helped create domestic conditions conducive to the resumption of sustained economic growth. It is essential, however, that in addition to the maintenance of strong domestic policies, the level of resource transfer be sharply reduced and the debt overhang eliminated.

5. The design of a medium-term growth oriented program requires the continuation of appropriate macroeconomic policies aimed at consolidating the stabilization effort, the deepening of structural measures to enhance economic efficiency and competitiveness, the reduction of the stock of debt and debt service payments, and the availability of adequate financial resources on a multiyear basis.

#### I Medium-term macroeconomic framework

6 Since its inauguration, the new Government of Mexico has announced a medium-term growth oriented economic strategy with price stability for the period 1984-94. To support it, the Mexican government requests the use of the financial resources of the International Monetary Fund for the equivalent of SDR 2,797.2 million in the form of an extended arrangement for a period of three years. At an appropriate time, the Government of Mexico intends to request an extension for a fourth year.

7 The economic strategy for the medium term is based on the following principles

a The program seeks to restore economic growth while consolidating the abatement of inflation and propitiating a gradual recovery of real wages

b In order to achieve its objectives, the program is formulated within a medium-term horizon, encompassing demand management measures, efforts to increase domestic savings both in the public and private sectors, and structural policies necessary to foster economic efficiency. These actions will enable increased and more productive investment in the economy while allowing the resumption of growth in domestic consumption

c The economic program of Mexico has been designed within the context of a significant reduction in the net external resource transfer abroad, a decrease in the debt service burden, and the availability of new external resources within a multiyear horizon. Mexico seeks to conclude external financial arrangements incorporating new front loaded debt reduction initiatives, which will establish the basis for a lasting solution to the country's external debt problem, and which will provide financial flows at a level consistent with Mexico's growth objectives over the coming years

8. Mexico has already initiated a number of major structural reforms in the public sector enterprises in accordance with the guidelines set in the Constitution. Major reforms have also been implemented in the financial and trade sectors which are to be consolidated in the years ahead, as described below

9 The tax reform initiated in 1987, which has already been implemented to a large extent, will be pursued over the medium term. Its main objectives are the promotion of economic efficiency by setting adequate incentives for investment, enhancement of the external competitiveness through a harmonization of the domestic tax system, the promotion of internal savings, and the improvement of income distribution. These measures are intended to raise fiscal revenues through lower tax rates and a broadened tax base, both for corporate and personal income taxes, and to simplify tax administration in order to improve the efficiency of tax administration

10 The Mexican Government, in accordance with its constitutional mandate, will retain control over strategic and high priority public enterprises. The effective management of these enterprises, as well as the need for the State to improve the provision of basic services, requires a strengthening of the financial position of the public sector. Thus, the government has withdrawn from nonpriority and nonstrategic sectors, making state involvement in strategic areas more effective. The ongoing process of divestiture, restructuring and modernization of state enterprises will be pursued in the medium term

11 In the financial sector, new instruments have been created, such as the Pagafe (bond indexed to the controlled exchange rates) and Bonos de Desarrollo (treasury bills with longer maturities and flexible interest rates) A large market of bankers' acceptances and other instruments not subject to standard regulations and with flexible interest rates and maturities developed towards the end of 1988 In November 1988 Banco de Mexico deregulated the amount of acceptances issued by commercial banks, replacing the former reserve requirement regime with a liquidity coefficient of only 30 percent to be invested in government paper or in deposits at Banco de Mexico This action resulted in a significant inflow of resources into the banking system during the last two months of the year In addition, in March 1989 the Mexican authorities adopted several measures encouraging banks to compete more effectively among themselves and with other intermediaries The most important of these measures were a) the elimination of controls on interest rates and maturities for all other traditional bank instruments, and b) the replacement of the reserve requirement regime applied to traditional bank instruments by liquidity coefficients similar to those applicable to bankers' acceptances

12 The recent measures undertaken by the Mexican authorities are part of a far reaching reform of financial markets Required lending from banks to the public sector through reserve requirements has been eliminated in favor of open market operations These measures will be complemented with important reforms in order to provide investors with

proper legal protection while increasing market efficiency, making financial institutions competitive at an international level and promoting domestic savings and investment. The credit operations of the national development banks and the official trust funds will continue to be monitored closely. The current system of granting preferential lending rates only to users in high social priority activities will continue. Structural programs will also be implemented to enhance the efficiency of development banks and to promote their complementarity with commercial banks by restructuring some of them as second tier rediscounting institutions. Preferential lending rates will be subject to periodic adjustment to avoid marked differences with regard to costs of funds. The structure of these rates will be reviewed periodically, with a view to reducing implicit subsidies.

13 In the medium term, foreign direct investment is expected to play an important complementary role in the promotion of employment, in the modernization of plant and equipment, and in the opening of new export markets. In this context the achievement of the program's objectives--namely, economic growth and financial stability--should create a climate that would attract foreign investment. Among the fiscal measures submitted to Congress last year, the gradual reduction of corporate tax rates to international levels that has been proposed would create incentives for both foreign and domestic investment.

14 Trade policies are aimed at consolidating a new structure of production in the Mexican economy, seeking an efficient import

substitution process and the promotion of those sectors in which Mexico has a comparative advantage. The further integration of Mexico into the world economy will stimulate efficiency and strengthen growth prospects. Beyond the major reduction in effective protection achieved so far, the Mexican authorities will continue to reduce remaining distortions and tariff dispersion.

15 It is expected that in the context of sustained macroeconomic stability, increased domestic savings--along with adequate foreign savings--will provide the resources to finance the investment needed in the medium term to attain the growth and employment targets of the program. After an initial transition phase, real economic growth is projected to rise to about 6 percent a year. Achievement of these rates of growth would require an increase in the investment/GDP ratio to about 27 percent in 1994. At the same time, recent gains in abating inflation are expected to be consolidated, the rate of price increase is projected to decline from 18 percent in 1989 to levels more in line with those of Mexico's major trading partners.

16 The authorities are of the view that it will be difficult to reach the targeted rate of economic growth unless the net external resource transfer can be held to below 2 percent of GDP a year. In the absence of a significant reduction in external debt service, achievement of the envisaged path of economic growth and employment and the associated use of foreign credit would imply a steady increase in the external current account deficit over the medium term. On the

assumption of stable terms of trade and notwithstanding the strong growth in nonpetroleum exports, little change in the nominal trade balance is expected over the medium term, because of the relative stagnation of oil export volumes. Interest payments on the public debt would nearly double from 1988 to 1994 (even on the assumption of no further rise in international interest rates), more than offsetting an expected improvement in other elements of the external current account. Thus, without a reduction in external debt service, the current account deficit could more than double from 1988 to 1994.

17 With sizeable current account deficits, significant repayment obligations on existing public and private external debt, and the need to rebuild gross international reserves from the levels at the end of 1988, Mexico would continue to face large external financing requirements over the medium term. Even assuming a relatively strong performance of private foreign investment, and taking into account significant inflows from multilateral and bilateral agencies, annual financing gaps of US\$7 billion or more are projected. Such gaps could be filled by new borrowing from multilateral and bilateral agencies, as well as significant net credits from commercial banks. However, in the absence of sizeable debt reduction, there would be a significant rise in the level of debt service payments over the coming years. Moreover, excessive reliance on new money packages would result in a significant rise in amortization payments following the expiration of grace periods in the mid-1990's. It will thus be important to seek a substantial amount of debt reduction to assure the growth objectives of the program.

together with a viable balance of payments

18. Over the coming years, the budget proposals that the Mexican Government will submit to Congress will seek to continue the process of fiscal consolidation. In this context, with the targeted reduction in inflation, the PSBR would decline by some 9 percentage points of GDP from 1988 to 1992, even though the primary surplus of the public sector could decline by 2 percentage points of GDP. There also would be a decline of the operational deficit of the order of 3 percentage points of GDP as real interest rates drop. Public sector savings are expected to increase from improvements in the effectiveness of the tax system, in the overall efficiency of public enterprises, and from the anticipated fall in domestic real interest rates as financial stability is consolidated. The reduction in real interest payments and the rise in public sector savings will allow for an increase in public sector expenditures in areas such as education, agriculture, health and infrastructure.

## II Macroeconomic Policies in 1989

19. In December 1988 the Mexican Government and the various sectors of society agreed on the Pact for Economic Solidarity (PECE) as the initial phase of economic policies for 1989. This new pact, which succeeded the Pacto de Solidaridad Economica and whose aim is to consolidate price stability, contains specific guidelines through the

end of July Within this framework, public sector prices and tariffs were adjusted, minimum wages were increased by 8 percent, and the peso is being depreciated daily according to a preannounced schedule Under the PECE it is expected that inflation will decline from 52 percent during 1988 to 18 percent during 1989 (in March, the 12-month rate had declined already to 25 percent, and in that month consumer prices rose by only 1.1 percent) The fiscal measures approved by Congress in the 1989 budget will contribute to a reduction of the operational deficit The fiscal stance, in conjunction with appropriate monetary and exchange rate policies, should help bring about the gradual recovery of investment and output, as well as lower inflation and the strengthening of international reserves

20 Public expenditures and revenue policies are geared towards achieving the objectives of the budget The primary fiscal surplus for 1989 approved by Congress of 6.7 percent of GDP (under the assumption of a US\$10.00 per barrel of oil) would be 7.3 percent under the currently expected US\$12 per barrel In response to the fiscal effort, and in light of the projected availability of foreign resources, nominal and real interest rates are expected to decline during the year The operational deficit would be reduced to 2.5 percent of GDP, while the public sector borrowing requirements would decline by almost 6 percentage points of GDP, from some 12.5 percent in 1988 to 7 percent in 1989

21 In 1987 the Mexican authorities embarked on a major reform of

the tax system in order to enhance the effectiveness of fiscal policy as well as to improve resource allocation. The implementation of the new system raises tax revenues by almost 1 percentage point of GDP, in 1988, notwithstanding a significant decline in import tax revenues resulting from the reduction in import tariffs under the trade liberalization program. The government has already implemented major revisions to the tax structure for 1989 in order to broaden the tax base, reduce the marginal tax rates, simplify the procedures for calculating tax liabilities and bring Mexico's tax structure closer to that of its major trading partners. This year the corporate income tax rate was reduced from 39.2 percent to 37 percent, and with the acceleration of the implementation of the 1987 tax reform, the new base for calculating tax liabilities is now in full operation. Congress approved a series of important tax measures for fiscal year 1989: (a) the fiscal treatment of corporate dividends has been changed to promote reinvestment of profits, tax exemption for dividends distribution has been eliminated, (b) the system of investment deductions have been modified to stimulate decentralization of economic activity, (c) a minimum tax of 2 percent on firms' net assets has been introduced, with the objective of reducing tax evasion without raising the tax burden of complying firms, since payments can be credited against the corporate income tax, (d) the number of personal income tax brackets has been reduced from 12 to 6, with a reduction in marginal tax rates, and (e) the dispersion in import tariffs has been narrowed by increasing minimum tariffs for most items to 10 percent, except for some basic foodstuffs and medicines, while maintaining the maximum rate at 20 percent. In addition, the Government

is enforcing tax regulation and collection more strictly in order to reduce tax evasion

22 The Mexican authorities have followed a policy regarding public sector prices and tariffs consistent with inflation objectives, the protection of the purchasing power of low-income groups, the strengthening of the public finances, and the improvement of resource allocation. Since January 1988 public sector prices have been kept broadly stable in real terms (adjusted for movements in the producer price index). The Government of Mexico will monitor closely developments in this area, and prices and tariffs will be adjusted in light of the objectives outlined above

23 Total public outlays on goods and nonfinancial services declined in relation to GDP by some 10 percentage points from 1982 to 1988. As it has been announced, to consolidate these gains, the authorities intend to continue their divestiture policy of nonstrategic and nonpriority entities and streamline the operations of the public sector. Budgetary outlays excluding interest payments--as approved by Congress--are projected to decline by 1.5 percentage points of GDP in 1989. The reduction in public sector expenditure will be combined with a restructuring of spending priorities to emphasize those services most oriented to low income groups

24 In 1987 high rates of inflation and the uncertainty that prevailed in the economy resulted in interest payments on domestic

public debt of some 15 percent of GDP. The fall of inflation in 1988 was not accompanied by a proportional reduction in nominal interest rates, and thus the real component of interest payments increased sharply. In 1989 the continued decline in inflation should reduce domestic interest payments to the equivalent of 9 percent of GDP. However, real interest payments on domestic public debt are likely to remain high for some time. As progress in the negotiation of adequate external financing and in attaining the objectives of the economic strategy is made, real interest rates should drop considerably.

25. Monetary policy will be aimed at consolidating the recent gains in financial stability and, more generally, will support the macroeconomic objectives of the program. With the recent institutional changes, open market operations have become the main instrument of monetary policy. These changes should result in increased efficiency in financial intermediation, the growth of financial savings, and a reduction in interest rate spreads.

26. The Mexican authorities consider that an appropriate exchange rate policy is a key element in the stabilization strategy and is essential to the achievement of a viable balance of payments. With a view to maintaining the level of external competitiveness, and in the context of the financial stabilization pact (PECE) adopted by the new administration for the period through July 1989, the peso is being depreciated against the U.S. dollar by an amount equivalent to more than 1 percent per month. As a general principle, exchange rate policy will

be managed so as to be consistent with the attainment of the balance of payments and inflation objectives of the program, also taking into account, the behavior of international reserves, the trade balance, and the real effective exchange rate. The authorities intend to continue the present policy of permitting free access to the foreign exchange market, and expect that the differential between the exchange rates in the official and free exchange markets will remain low.

27 The Mexican authorities consider that timely and adequate external financing is indispensable for the success of the program. This will require the cooperation of all creditors. Negotiations are currently under way with the World Bank for a US\$1.5 billion structural adjustment loan package in addition to continuing project lending. Mexico will also seek World Bank resources in support of debt reduction operations to leverage its own structural adjustment and growth objectives. Fund support through an EFF will provide a policy framework for the consolidation of stabilization efforts and the resumption of growth. Fund resources also could contribute to debt and debt service reduction operations. A restructuring agreement with Paris Club creditors that maintains full export cover will be sought. With regard to commercial banks, various actions need to be taken in the very short term, including a restructuring of principal payments of restructured debt and new money due in 1989-94, agreement to rollover interbank deposits and bankers' acceptances, and satisfactory financing of the balance of payments, while a more lasting solution to the debt problem is arranged. Trade finance operations will continue to be conducted as

in the past. The Mexican authorities are of the view that macroeconomic uncertainty and capital flight are inextricably linked to the debt overhang. Elimination of the debt overhang is a precondition for substantial capital repatriation and for renewed access to voluntary markets

28 The Mexican authorities believe that the policies and measures described in this letter are adequate to achieve the objectives of the strategy, but will take additional measures that may become appropriate for this purpose. During the period of the arrangement the authorities of Mexico and the Fund will consult periodically, in accordance with the policies on such consultations, to examine the progress being made in the program and the achievement of its objectives. In particular, the implementation of the economic program described herewith will be reviewed before August 31, 1989. A second review with the Fund to reach policy understandings for 1990 will be completed before February 28, 1990. Thereafter, consultations will take place before February 28, 1991 and before February 29, 1992, to reach understandings on economic policies for 1991 and 1992, respectively.

Yours truly,

Pedro Aspe Armella  
Secretary of Finance and  
Public Credit of Mexico

Miguel Mancera Aguayo  
Director General  
Banco de Mexico

## Technical Memorandum of Understanding 1989

1. In accordance with the economic strategy described in the letter dated April 11, 1989, the following performance criteria have been established for 1989. Establishment of performance criteria for later years and their phasing will be determined on the occasion of the review described in paragraph 28 of the letter of intent

2. Adjustments to performance criteria will be made as described below in the event of deviations from the projected evolution of the price of oil and of external interest rates. Performance criteria also will be adjusted for changes in the timing of gross external financing and for financial flows associated with operations aimed at a reduction of external debt, to ensure that such operations are neutral in their effect on the balance of payments and other objectives of the program. The precise modalities of these adjustments will be examined at the time of the first review of the program

### I Foreign financing

3. The public sector's net use of foreign credit (excluding foreign trade lending operations by the Banco de Comercio Exterior), amounted to US\$1.62 billion in 1988 and is estimated at minus US\$0.44 billion for the period January-March 1989. The public sector's net use of foreign credit will not exceed US\$1.20 billion for the period January-June 1989, US\$4.32 billion for the period January-September 1989, and US\$7.55 billion for the period January-December 1989. This figure is consistent with the limits approved by the Mexican Congress

These limits will be adjusted for changes in the timing of gross external financing flows and flows associated with debt reduction operations as described in paragraph 2

## II Public finance

4. The overall public sector borrowing requirement, "PSBR" (i e., the economic deficit of the nonfinancial public sector on a cash basis plus the financial intermediation conducted by the national development banks and official trust funds, excluding FICORCA), amounted to Mex\$48,734 billion in 1988 and is estimated at Mex\$7,740 billion during the first three months of 1989. The PSBR will not exceed Mex\$15,400 billion in the six-month period ending June 1989, Mex\$25,400 billion in the nine-month period ending September 1989, and Mex\$33,900 billion in the period January-December 1989. These limits will be adjusted in accordance with the provisions described in paragraphs 11 to 14.

5. The operational deficit of the nonfinancial public sector amounted to Mex\$16,053 billion in 1988, and is estimated at Mex\$3,110 billion in the first three months of 1989. The operational deficit will not be larger than Mex\$5,600 billion in the six-month period ending June 1989, Mex\$8,920 billion in the nine-month period ending September 1989, and Mex\$12,130 billion in the period January-December 1989. These limits will be adjusted in accordance with the provisions described in paragraphs 11 to 14.

6. The primary surplus of the nonfinancial public sector amounted to Mex\$24,850 billion in 1988 and is estimated at Mex\$9,250 billion during the first three months of 1989. The primary balance will

register a surplus of at least Mex\$19,700 billion in the period January-June 1989, a surplus of at least Mex\$27,600 billion in the period January-September 1989, and a surplus of at least Mex\$35,350 billion in the period January-December 1989. These targets will be adjusted in accordance with the provisions described in paragraphs 11 to 14.

7. Should macroeconomic objectives of the program (defined for this purpose as: (a) the inflation rate as measured by the CPI, and (b) the external current account net of interest payments and oil exports) not be achieved in spite of the observance of the fiscal targets stated above, the Mexican authorities, in consultation with the Fund staff, will strengthen their fiscal stance with additional policy measures. These policy measures, which will be of a permanent nature, will aim at increasing the fiscal primary surplus to a level that would assure achievement of the macroeconomic objectives of the program.

### III Banco de Mexico operations

8. The net foreign assets of the monetary authorities amounted to US\$1.69 billion on December 31, 1988 and are estimated to have declined by US\$0.50 billion on March 31, 1989. The net foreign assets of the monetary authorities will not decline by more than US\$0.71 billion in the period January-June 1989, will increase by at least US\$0.56 in the period January-September 1989, and will increase by at least US\$2.40 billion in the period January-December 1989. These targets will be adjusted in accordance with the provisions of paragraphs 11 to 14. These targets also will be adjusted for the impact of debt.

reduction operations referred to in paragraph 2, in the framework of the financing package agreed by the authorities, however, the maximum downward adjustment for this purpose is US\$1 5 billion

9 The net domestic assets of the Banco de Mexico amounted to Mex\$17,383 billion on December 31, 1988 and are estimated to have increased by Mex\$1,300 billion on March 31, 1989 The net domestic assets of the Banco of Mexico will increase by no more than Mex\$2,600 billion in the period January-June 1989, will decline by at least Mex\$350 billion in the period January-September 1989, and will decline by at least Mex\$3,200 billion in the period January-December 1989 These limits will be adjusted in accordance with the provisions of paragraphs 11 to 14 These limits also will be adjusted for the impact of debt reduction operations on the net foreign assets of the monetary authorities referred to in paragraph 8

10 The Banco de Mexico's net claims on the public sector amounted to Mex\$31,464 billion on December 31, 1988 and are estimated at Mex\$32,686 billion on March 31, 1989 The Banco de Mexico's net claims on the public sector will not exceed Mex\$33,910 billion during the period January-June 1989, Mex\$34,210 billion during the period January-September 1989, and Mex\$34,520 billion during the period January-December 1989 These limits will be adjusted in accordance with the provisions of paragraphs 11 to 14

#### IV Oil price and interest rate adjustments

11 Performance criteria will be adjusted for deviations in the price of oil and in external interest rates, as specified below The

adjustment will be based on the cumulative effect of the movements in both of these variables on all performance criteria with the exception of the fiscal primary surplus which will be adjusted only for the price of oil, and the public sector's net use of foreign credit which will not be subject to these adjustments. The upper-end adjustment (i.e., high oil prices and low external interest rates) will be equivalent to any excess above a threshold of US\$950 million (or its Mexican peso equivalent) 1/ of the value of the combined cumulative effect of the movements in the price of oil and external interest rates relative to their projected levels (as described below). The lower-end adjustment (i.e., low oil prices and high external interest rates) will be equivalent to any shortfall in excess of a threshold of US\$950 million (or its Mexican peso equivalent) 2/ of the value of the combined cumulative effect of the movement in the price of oil and external interest rates relative to their projected levels (as described below), and will be limited to US\$1.5 billion (or its Mexican peso equivalent) 3/

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1/ For the June 30, 1989 and September 30, 1989 testing dates, the relevant threshold value will be limited to 50 percent and 75 percent, respectively, of US\$950 million (or its Mexican peso equivalent). For purposes of the oil price and interest rate adjustment, the Mexican peso equivalent will be calculated on the basis of the average exchange rate for the corresponding period.

2/ For the June 30, 1989 and September 30, 1989 testing dates, the relevant threshold value will be limited to 50 percent and 75 percent, respectively, of US\$950 million (or its Mexican peso equivalent).

3/ For the June 30, 1989 and September 30, 1989 testing dates, the relevant limit will be 50 percent and 75 percent, respectively, of US\$1.5 billion (or its Mexican peso equivalent).

12 Subject to the provisions contained in paragraph 11 with respect to the threshold value, the oil price adjustment to quantitative performance criteria in any calendar quarter beginning January 1, 1989 will be calculated as the value that results from multiplying the reference volume of crude oil exports 1/ by the difference between the mean price of Mexican oil exports in the respective quarter 2/ and US\$12 a barrel Subject to the provisions contained in paragraph 11 with respect to the threshold value, the external interest rate adjustment to quantitative performance criteria in any calendar quarter beginning January 1, 1989 will be calculated as the value that results from multiplying the stock of external debt subject to floating interest rates that is outstanding at the beginning of the respective quarter by the difference between the average external interest rate 3/ prevailing in the previous quarter and the base interest rate of 10 5 percent

13 Upper-end adjustment If in any calendar quarter beginning January 1, 1989, the combined cumulative effect of higher than projected oil prices and lower than projected external interest rates (as defined in paragraph 12) exceeds the threshold value referred to in paragraph 11, the target for the Banco de Mexico's net international reserves for the same quarter will be raised by the value of the

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1/ The reference volume of crude oil exports is defined to be 1 3 million barrels a day

2/ For purposes of this adjustment, the mean price of oil in any calendar quarter is defined as the average price of Mexican exports of Maya, Isthmus, and Olmeca crudes in that quarter, weighted by their respective shares in monthly exports, as reported by PEMEX

3/ For purposes of this adjustment, the external interest rate in any calendar quarter is defined as the average LIBOR on three-month deposits denominated in U S dollars in that quarter

excess. In addition, the corresponding limits on the net domestic assets of the Banco de Mexico, on the net credit from the Banco de Mexico to the public sector, on the PSBR, and on the operational deficit of the nonfinancial public sector will be lowered by the Mexican peso equivalent of the adjustment to the net international reserve target. The target for the primary balance of the nonfinancial public sector will be raised only by the excess above the threshold value corresponding to variations in the price of oil, this adjustment will not exceed the value of the adjustment for the other quantitative performance criteria (i.e., including external interest rates).

14 Lower-end adjustment If in any calendar quarter beginning January 1, 1989, the combined cumulative effect of lower than projected oil prices and higher than projected external interest rates (as defined in paragraph 12) exceeds the threshold value referred to in paragraph 11, the target for the Banco de Mexico's net international reserves for the same quarter will be lowered by the value of the excess. In addition, the corresponding limits on the net domestic assets of the Banco de Mexico, on the net credit from the Banco de Mexico to the public sector, on the PSBR, and on the operational deficit of the nonfinancial public sector will be raised by the Mexican peso equivalent of the adjustment to the net international reserve target. The target for the primary balance of the nonfinancial public sector will be lowered only by the excess above the threshold value corresponding to variations in the price of oil, this adjustment will not exceed the value of the adjustment for the other quantitative performance criteria (i.e., including external interest rates).

## Mexico A Medium-term Growth Scenario

	04/09/89	1986	1987	1988	Proj 1989	Proj 1990	Proj 1991	Proj 1992	Proj 1993	Proj 1994
(Annual percentage change)										
Real GDP	-7.8	1.5	1.1	1.5	3.5	4.5	5.5	6.0	6.0	6.0
Consumer prices (average)	86.2	131.8	114.2	21.9	15.0	7.0	6.0	6.0	6.0	6.0
Consumer prices (end-of-year)	105.7	159.2	51.7	18.0	12.0	6.0	6.0	6.0	6.0	6.0
(In billions of US dollars)										
External sector										
Current account (deficit -)	-1.2	4.0	-2.8	-4.8	-4.4	-4.8	-5.2	-5.7	-6.2	-6.2
Of which exports (fob)	17.3	22.2	23.0	25.0	27.0	29.2	31.7	34.6	37.8	37.8
Imports (fob)	-11.4	-12.2	-18.9	-20.8	-22.4	-24.6	-27.3	-30.3	-33.6	-33.6
Interest payments	-8.0	-8.1	-8.9	-10.6	-11.1	-11.7	-12.2	-12.8	-13.5	-13.5
Official capital (net)	-0.5	2.6	-1.2	7.1	5.8	6.4	5.5	6.5	6.7	6.7
Private capital (net)	0.5	-0.0	-2.8	0.2	0.7	0.8	0.9	0.9	1.0	1.0
Net reserve movement (incr -)	1.1	-6.6	6.9	-2.4	-2.1	-2.4	-1.1	-1.8	-1.4	-1.4
(In percent of GDP)										
Nonfinancial public sector										
Primary balance	2.3	5.0	5.8	7.3	6.1	5.5	5.2	4.9	4.4	4.4
Operational balance	-1.8	2.0	-7.9	-2.5	-0.9	-0.9	-0.9	-0.8	-0.9	-0.9
Public sector borrowing requirement	15.6	15.9	12.7	7.0	5.0	3.3	3.0	2.7	2.7	2.7
Savings and Investment										
Gross domestic investment	18.1	18.6	20.5	21.3	23.6	24.6	26.3	27.5	27.5	27.5
Public sector	5.2	5.3	5.1	4.8	5.1	5.5	5.9	6.4	6.6	6.6
Private sector	12.9	13.3	15.3	16.4	18.4	19.1	20.3	21.1	20.9	20.9
Gross national savings	17.2	21.4	18.9	18.9	21.6	22.6	24.3	25.5	25.5	25.5
Public sector 1/	3.7	7.4	1.6	2.5	4.4	4.8	7.2	5.9	6.0	6.0
Private sector	13.5	14.0	17.3	16.3	17.2	17.9	19.0	19.6	19.5	19.5
External savings	0.9	-2.9	1.6	2.4	2.0	2.0	2.0	2.0	2.0	2.0
Memorandum items										
Nominal GDP (millions of US\$)	129.9	141.2	176.6	201.1	216.7	237.6	260.7	287.4	316.8	316.8
Velocity of M4 (GDP/M4)	3.4	3.4	3.7	3.3	3.3	3.2	3.2	3.2	3.2	3.2
12-month change in real effective exchange rate (appreciation +)	-27.5	7.3	28.7	3.8	0.0	0.0	0.0	0.0	0.0	0.0

Source: Mexican authorities, and staff estimates

1/ Adjusted for the inflationary component of interest payments on domestic debt

04/09/89

Mexico Selected key indicators	1986	1987	1988	1989	1990	1991	1992	1993	1994
Real GDP growth	-3.8	1.5	1.1	1.5	3.5	4.5	5.5	6.0	6.0
Per capita private consumption	-3.4	-4.4	-1.0	-0.5	0.2	1.6	2.3	3.4	5.2
Real gross domestic expenditure	-5.6	-0.1	3.2	1.4	3.7	4.6	5.8	6.4	6.4
Domestic consumption	-1.0	-1.9	0.9	1.3	2.1	3.4	4.0	5.0	6.5
Public consumption	0.1	-0.5	-0.9	-0.5	2.0	2.0	2.0	2.0	2.0
Private consumption	-1.2	-2.2	1.2	1.6	2.2	3.6	4.3	5.6	7.3
Fixed investment growth	-12.0	-0.7	3.1	4.6	14.9	9.4	12.5	10.9	6.0
Public sector	-21.2	3.3	-7.0	-5.2	10.0	12.0	14.0	14.0	10.0
Private	-8.1	-2.2	7.0	7.9	16.3	8.7	12.0	10.0	4.8
Export volume (goods)	7.4	13.4	1.4	4.7	3.8	3.8	4.5	4.9	5.0
Import volume (goods)	-11.7	4.3	43.2	5.6	3.7	5.6	6.6	6.9	6.6
Terms of trade	-28.2	10.4	-5.6	0.0	-0.0	0.0	0.0	0.0	0.0
Consumer price index (eop)	105.7	159.2	51.7	18.0	12.0	6.0	6.0	6.0	5.0
Nominal exchange rate (eoy)	148.5	138.2	2.8	9.3	7.7	1.9	1.9	1.9	1.9
Real effective exchange rate (eoy)	-23.5	3.3	28.7	3.8	0.0	0.0	0.0	0.0	0.0
Real minimum wage	-9.0	-4.8	-13.1	-11.4					
Resource gap	-4.3	-7.4	-2.3	-2.0	-2.1	-2.0	-1.8	-1.6	-1.5
Domestic savings/GDP	22.4	26.0	22.8	23.3	25.7	26.6	28.1	29.1	29.0
National savings/GDP	17.2	21.4	18.9	18.9	21.6	22.6	24.3	25.5	25.5
External savings/GDP	0.9	-2.9	1.6	2.4	2.0	2.0	2.0	2.0	2.0
Investment/GDP	18.1	18.6	20.5	21.3	23.6	24.6	26.3	27.5	27.5
Gross ICOR	-4.1	11.0	15.1	10.7	5.5	4.6	4.0	3.9	3.9
Net ICOR	-1.3	3.0	5.9	5.0	2.8	2.4	2.3	2.3	2.3
Real growth in M4	-0.6	-0.5	6.5	4.5	3.5	4.5	5.5	6.0	6.0
Real growth in priv. sector credit	-28.2	-22.3	17.5	-3.5	10.7	16.7	17.9	17.8	15.1
Total debt/GDP	75.8	74.0	55.9	52.3	51.3	49.6	47.4	45.4	43.5
Total debt/Exports	450.1	379.8	340.7	329.2	320.1	313.7	305.8	301.5	298.3
Debt service/Exports	52.7	51.6	49.0	41.7	42.9	40.9	41.4	39.4	37.9
Current account (US\$ billion)	-1.2	4.0	-2.8	-4.3	-4.4	-4.8	-5.2	-5.7	-6.2
Change in net int'l reserves	-1.1	6.6	-6.9	2.4	2.1	2.4	1.1	1.8	1.4

Table 1 Mexico Performance Criteria Under Extended Arrangement

	1989			
	Fst March	June	September	December
(In billions of Mexican pesos)				
Cumulative overall public sector borrowing requirements <u>1/2/3/</u>				
Ceiling				
Unadjusted	7 740	15 400	25 400	33 900
Adjusted <u>4/</u>				
Excess (-)/Margin (+)				
Cumulative nonfinancial public sector operational balance <u>1/2/5/</u>				
Ceiling				
Unadjusted	3 110	5 600	8 920	12 130
Adjusted <u>4/</u>				
Excess (-)/Margin (+)				
Cumulative changes in net domestic assets of the monetary authorities (effective flows) <u>1/3/6/</u>				
Ceiling				
Unadjusted	1 300	2 600	-350	-3 200
Adjusted <u>4/7/8/</u>				
Excess (-)/Margin (+)				
Net credit to the nonfinancial public sector by the monetary authorities <u>2/9/</u>				
Ceiling				
Unadjusted	32 686	33 910	34 210	34 520
Adjusted <u>4/</u>				
Excess (-)/Margin (+)				
Cumulative primary surplus				
Target <u>1/2/3/</u>				
Unadjusted	9 250	19 700	27 600	35 350
Adjusted <u>4/</u>				
Excess (-)/Margin (+)				
(In millions of U S dollars)				
Cumulative net foreign borrowing by the public sector <u>1/</u>				
Ceiling				
Unadjusted	-440	1 200	4 320	7 550
Adjusted <u>7/8/</u>				
Excess (-)/Margin (+)				
Cumulative change in net international reserves of the monetary authorities <u>1/2/</u>				
Target				
Unadjusted	-500	-710	560	2 400
Adjusted <u>4/7/8/</u>				
Excess (-)/Margin (+)				

Sources Mexican authorities and Fund staff estimates

- 1/ Cumulative changes from end-1988  
2/ Limit tested at the end of each period  
3/ Effective flows of financing measured on a cash basis  
4/ Adjustments relating to provisions under oil price and/or interest rate adjustments  
5/ Defined as the difference between the overall public sector borrowing requirements excluding cumulative changes in financial intermediation and the inflation component of interest payments on the domestic public sector debt denominated in local currency  
6/ 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 Bank of Mexico  
7/ Ceiling can be adjusted for changes in timing of gross external financing  
8/ Ceiling can be adjusted for operations aimed at reducing external debt  
9/ Effective stocks calculated by adding effective flows to the nominal stock of Mex\$31 464 billion outstanding as of the end of 1988

CC Mr Beza  
STB  
CL  
JB  
JD  
F

MEXICO  
UNITED  
STATES  
INSTITUTE

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Suite 300  
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April 10, 1989

To Foreign Editors, Editorial Writers  
& Columnists  
  
From Mexico-United States Institute  
  
Subject Mexico and the Brady debt relief plan

EXTERNAL RELATIONS DEPT  
89 APR 11 PM 10 38

Attached is an article appearing in the April issue of the Mexico-United States Report, "The Brady Plan -- Treating the Symptom or the Illness?" The author, Dr Curtin Winsor, Jr , formerly served as an officer of the Chase Manhattan Bank, N A (1973-79) and as U S Ambassador to Costa Rica (1983-85) He is currently a member of the Mexico-United States Institute's Board of Advisors

Ambassador Winsor raises important questions as to whether the debt reduction plan proposed by Treasury Secretary Nicholas Brady will help Mexico and other Third World countries, or merely prolong and exacerbate the present crisis Below is a summary of the major points made by Ambassador Winsor

- \* Debt relief Debt reduction "could prove a useless sacrifice by Western lenders" unless it is accompanied by strict conditions "A beneficiary country must be required to restructure its economy into a system that works by creating a free market compatible with economic growth "
- \* Past promises Mexico's last president, Miguel de la Madrid, promised Western creditors that he would institute economic reforms, including the sale of public sector industries, but instead

continued the expansion of the state sector Winsor notes "De la Madrid failed to significantly cut public sector spending To finance the PRI's profligate socialist policies, De la Madrid turned to domestic sources of credit It sustained itself by selling extremely high interest bonds (40-50 percent) to domestic buyers "

- \* Domestic debt Servicing Mexico's enormous and largely unknown domestic debt consumed 80 percent of Mexico's savings last year That nation's entire anticipated savings for 1989 would be insufficient to service it Winsor writes "Mexico's problem is not foreign debt, but its horrendous internal debt payments The 1989 Mexican budget allocates 60 cents out of each public sector peso for debt service, of which only 13 cents will go to service the foreign debt, while 47 cents will cover domestic servicing "
  
- \* U S. policy "The United States can choose between abetting an obsolete system in Mexico which may explode in our faces, or pursuing the longer, more difficult road of insisting upon reform which will generate real growth for our next-door neighbor We cannot treat the symptom -- debt -- without also insisting upon the cure -- market economics Further U S loans or debt relief must be linked to appropriate performance by the Salinas Administration "

For copies of the Mexico-United States Report or further information, please contact Daniel James, President, The Mexico - United States Institute, 50 E Street, S E , Washington, D C 20003, (202) 863-0057

The Brady Plan —

# Treating the Symptom or the Illness?

By Curtin Winsor, Jr., Ph D

The Brady Plan named for US Treasury Secretary Nicholas Brady, is receiving much attention as a cure for the debt problems of the Third World. It is premised on the assumption that the lack of economic growth in many Latin American, Asian and African countries is the result of foreign debt repayment which has undermined their economies and denied them growth. It therefore proposes to trim their foreign debt by at least 20 per cent. Is the Brady Plan viable?

There is little doubt that servicing their foreign indebtedness has strained the economies of Brazil, Mexico, Argentina, the Philippines, Peru, Panama and Costa Rica among the nations with both high levels of debt and slow or negative growth rates. They see their foreign debt as the main threat to growth and even political survival. They view the Brady Plan, as do the US Government and those of other developed countries, as a great step forward in solving their economic problems and helping their nascent democracies survive. Taken alone, however, the Brady Plan is only a partial solution.

High levels of debt do contribute greatly to Third World economic problems and relief is necessary. But as a former banker who recently served as US ambassador to a debtor nation with serious problems — Costa Rica — I question whether the 20 per cent reduction alone can resolve problems of this magnitude.

The proposed reduction could prove to be a useless sacrifice by Western lenders, if it is done without conditionality. A beneficiary country must be required to restructure its economy into a system that works by creating a free market compatible with economic growth.

The debt problem masks a far deeper illness which runs rampant in the debtor countries. The name of this malaise is runaway socialism or government intrusion in the national economy to the extent that it injures or destroys the free market.

The 'easy money' period of petrodollars (1975-80) encouraged socialist governments in developing countries to spend funds on grandiose projects not linked to productivity, job creation, or economies of scale. Businesses were nationalized, using petrodollars, and soon rendered inefficient. Public works and corruption were funded. The enormous sums borrowed abroad by these countries were wasted; they now haunt the wasters as debt.

## **Mexico, Brady Plan Test Case'**

Mexico is touted as the 'test case' for the Brady Plan. It is one of the largest debtor countries. It has complained loudest about the adverse effects of US bank interest rates and the foreign debt on its failing economy.

The Mexican economy once hailed as an economic miracle has become an economic ruin. The process by which this transformation occurred is important in weighing the viability of the Brady Plan and in understanding why money alone without profound economic change will do Mexico no good.

From 1954 to 1970 Mexico thrived under an impressive sustained growth rate of around 7 per cent. The public sector consumed only about 26 percent of the Gross Domestic Product (GDP). This changed radically however beginning with the Presidency of Luis Echeverría (1970-1976). Under Echeverría the state abandoned its previously realistic and balanced approach to public-private ownership of production which had brought about a mixed economy. The role of the government in Mexico's economy was aggressively expanded. Public spending was used to force growth. Companies were bought, created or taken over necessitating vast increases in the numbers of public employees.

Echeverría's successor José López Portillo followed the same destructive socialist policies during his term (1976-1982). Corruption and spending reached unheard-of levels over-stimulated by a flood of petrodollars. Yet López Portillo found it necessary to borrow money and Mexico's public debt rose by 99 per cent annually from an already high rate of 66 per cent under Echeverría.

Mexico's GDP fell at the rate of 3 per cent annually and the gross per capita product by 2.7 per cent a year. The purchasing power of the Mexican worker dropped by approximately 45 per cent and the middle class its savings wiped out was all but decimated.

In 1982 Miguel de la Madrid became President and inherited the gravest crisis since the 1910 Mexican Revolution. Though he promised economic reform the public debt rose 11.6 per cent a year during his term while public spending rose to 50 per cent of GDP. Servicing the public debt consumed 80 per cent of Mexico's savings by 1988. The entire nation's anticipated savings for 1989 would be insufficient to service it.

De la Madrid's reforms were to include the sale of state-owned companies which totalled 1,155. Instead by January 1988 he had created 58 additional state-owned enterprises. He began to divest a few of them in 1988 but by the year's end only 136 were sold, nearly 300 more were liquidated. But the state retained ownership of 400 others including all basic industries as well as an absolute monopoly over oil, petrochemicals, electric power, banking and telephone communications.

De la Madrid failed to significantly cut public sector spending. He did initially raise taxes but to no positive effect since the funds went into non-productive government spending. He recognized that his Institutional Revolutionary Party was dependent upon control — "corporatism," as he called it — of the economy and patronage and corruption. Yet by 1984 his funding from foreign banks was gone. The bank loans had been wasted on deficit spending, bloated bureaucracy, and pervasive economic statism. To finance the PRI's profligate socialist policies De la Madrid turned to domestic sources of credit.

From 1984 to 1988 the De la Madrid Government continued its high levels of public spending despite decreased petroleum revenue. It sustained itself by selling extremely high interest bonds (40-50 per cent) to domestic buyers. The result was a continuing drain of credit available for Mexico's private sector as 80 percent of the country's savings went to fund the government. By 1988 the sum of this borrowing had grown apace. Interest rates ran almost four times those paid to foreign creditors.

It would seem unlikely that Mexican Government borrowing in its domestic markets could continue at such phenomenally high yields. But there are clear indications that cessation of its offerings would lead to massive capital flight. Thus the present administration headed by Carlos Salinas de Gortari is caught in a dangerous trap.

### **Real Problem: Mexico's Domestic Debt**

In 1988 only 21 per cent of each peso spent for debt service went to foreign lenders, but 79 per cent went to service Mexico's domestic debt! The 1989 Mexican budget allocates 60 cents out of each public sector peso for debt service, of which only 13 cents will go to service the foreign debt while 47 cents will cover domestic servicing. This means that 22.7 per cent of the funds earmarked for debt payment will go for the foreign debt compared with 77.3 per cent to service the internal debt.

What this tells us is startling and simple. Mexico's problem is not the foreign debt, but its horrendous internal debt payments. The underlying cause of both problems is the Government's inability to effectively cut excessive costs.

The respected Mexican economist Luis Pazos believes that Mexico's economic problems would remain unsolved even if its foreign debt were totally forgiven and oil rose to \$40 a barrel. (See "Is Foreign Debt the Real Problem?" *MUSR* Vol II No. 6 February/March 1989.) He continues:

'The only viable option before Mexico is to reprivatize banking, end the state's monopoly of the strategic and primary economic sectors, restore private ownership in rural areas and the phoney [i.e. political] redistribution of land, repeal laws which hinder the inflow of foreign capital and modify the Constitution and the legislation that create uncertainty and limit private ownership.

Failing these steps, Pazos concludes that Mexico 'could explode with devastating force.

### **Debt Relief, Yes, But Conditionality, Too**

Mexico will need \$7 billion annually for six years, including both debt relief and new money, if it is to honor its foreign credit obligations, according to official Mexican sources. That would also enable Mexico, they say, to reach a 5.1 per cent growth rate. But how are we to believe such a proposition when present and past borrowings have not only failed to generate economic growth but instead, owing to excessive government expenditures, have impeded it?

How can the United States help Mexico without robbing our own people if it involves sustaining a system which has been characterized by some as a kleptocracy? The answer is complicated and the Brady Plan is part of it. But we cannot treat the symptom — debt — without also insisting upon the cure — market economics.

If we would support the Mexican Government with debt forgiveness and additional funds as I believe we should, there must be conditionality. Our monies must be released only after the PRI Government commits itself irrevocably to the course suggested by Luis Pazos. Mexico needs a free market if its economy is to have a chance to recover. Further U.S. loans or debt forgiveness must be linked to appropriate performance by the Salinas Administration.

But economic reform cannot exist in a vacuum. The PRI Government arguably lost its hold on the Mexican people in the Presidential election of July 1989. It must now permit alternative parties to grow, beginning by ensuring honest state and municipal elections scheduled for later this year. Real economic reform in Mexico must be accompanied by the evolution of democracy, which must be made an integral part of conditionality on debt forgiveness and/or new loans.

Today the United States can choose between abetting an obsolete system in Mexico which may explode in our faces or pursuing the longer, more difficult road of insisting upon reform which will generate real growth for our next-door neighbor to the south.

The stakes are immense. A chaotic Mexico could flood us with tragic refugees and result in a dangerous border for the first time in decades. A prosperous, growing Mexico offers us trade, peace, security and cooperation.

If it lacks strong conditionality, the Brady Plan may, at best, buy a perilous and temporary 'peace' for Mexico as it would be underwriting a regime which is devastating its own people. It must be subject to the terms demanded by the International Monetary Fund. As part of a cooperative endeavor together with international financial institutions and mandating a return to market economies, it could make a substantial contribution to the resolution of Mexico's problems.

**MUST**

*(Dr. Curtin Winsor Jr. was an officer with the Chase Manhattan Bank from 1973-1979, and served as U.S. Ambassador to Costa Rica from 1983-1985. He is a member of the Mexico United States Institute's Board of Advisors.)*



# Office Memorandum

✓ ① Mexico  
② Travel = approval memo

STB  
MC, JTB  
ADM  
ETR  
AB  
F

TO: The Deputy Managing Director  
(Cleared with Administration) *Adde*

DATE: April 7, 1989

FROM: S. T. Beza *MS*

SUBJECT: Mission to Mexico - Request to Change Purpose of Mission from Staff Visit to Continuation of Negotiation of Use of Fund Resources

The current travel schedule included a staff visit to Mexico (No. 89142500) comprising of a mission head, three economists, and a secretary. In lieu of this mission we would like to send a smaller team to complete work on technical matters related to negotiations for an extended arrangement. Subject to your approval a mission consisting of Messrs. Kalter and Khor (both WHD) and Mr. Sheehy (ETR) will visit Mexico City for about a week beginning April 12, 1989.

Mission ID: 89142500 (Already assigned)

Pgm No: 420

cc: ADM  
Mr. Caiola  
Mrs. Braña

1989 APR - 7 PM 5:18  
OFFICE OF THE  
DEPUTY MANAGING DIRECTOR



# Office Memorandum

INTERNATIONAL MONETARY FUND  
WESTERN HEMISPHERE DEPT.

1989 APR -6 PM 2:56

April 6, 1989

STB  
CL  
JB  
JD  
F

TO: The Managing Director  
The Deputy Managing Director

FROM: L.A. Whittome *W*

SUBJECT: Mexico - Buybacks

The general approach, which you support, has been explained to me. I want to put forward four points which worry me:

1. I see no reason to believe that the banks are likely to agree on waivers before they agree on the financing side; if they were to do so, I see no reason to disburse any of the "25 percent" before the financing assurances were in place.

2. I believe that it is important that the "25 percent" figure be justifiable. The amount must, with amounts from others, make some perceptible impact on Mexico's debt and it must add only a prudent amount to Fund exposure to the member concerned. I do not know whether these potentially diverse aims converge at 25 percent. I suspect rather that we have just taken the figure earlier suggested by the United States--in which case it is only by coincidence that it will meet these requirements.

3. If I understand it correctly, the "25 percent" amount will result, per tanto, in a smaller build-up of international reserves than had been earlier expected. This is tantamount to saying a less strong program. I would have thought it wise to ensure that the increase in reserves be safeguarded by reducing as necessary the permitted percentage of interest payments to banks.

4. It seems to me essential that we look squarely at the risk that the banks may react by cutting back on trade or interbank lines. How is this risk to be guarded against?

In the back of my mind is the belief that proposals and actions in this area will be primarily at risk from the conservatives.

cc: Mr. Frenkel  
Mr. Beza  
Mr. Brau  
Mr. H. Simpson



# Office Memorandum

TO The Managing Director  
The Deputy Managing Director

DATE April 2, 1989

FROM S. T. Beza, *STB*

SUBJECT Mexico--Status of Discussions

The staff has been meeting with a team of Mexican officials. These officials have been developing an aide-memoire designed to facilitate a recording of the main points of agreement on a program. Subsequently, the aide-memoire would be the basis of a policy memorandum.

Described below are key aspects of the negotiations

1. Nature of Fund agreement EFF for 3 years (that could be extended to four) with annual access of 70-80 percent of quota, together with possible resources for debt reduction, compensatory financing (35-40 percent of quota), no contingency envisaged yet.

2. Performance criteria Semi-annual performance criteria with quarterly benchmarks. Mexican officials would like performance criteria to be adjustable for oil prices and interest rates (baseline oil price would be US\$12 a barrel, which is well below the present price of US\$17 a barrel).

3. Fiscal targets Area of disagreement Staff seeking operational deficit of 1.8 percent of GDP with primary surplus of some 7.7 percent of GDP (on the basis of US\$12 a barrel oil price). Mexican officials feel the best they can do is an operational deficit of 2.4 percent of GDP and a primary surplus of 7.1 percent. They propose a review clause and additional fiscal actions if price developments and external current account (other than for oil and interest) are weaker than projected even if fiscal targets are achieved, nature of such measures still to be discussed

4. Exchange rate No immediate action but consultation on policy would be triggered if reserves and trade account do not move as projected. The real effective exchange rate also would trigger consultation. Mexican officials want this to take place if cumulative movement in REER exceeds 10 percent, staff believes that a smaller margin is justified and has proposed 3-4 percent

5. External account Staff projects external current account deficit of US\$4.1 billion and Mexican officials project US\$4.9 billion. Mexican officials push for their figure as basis for US\$7 billion of annual financing

6. Debt strategy Mexican officials seek support for a major debt reduction that is multiannual and front loaded (reduction of debt to commercial banks of US\$30 billion), Mexican officials want arrears to be permitted during the program in event financing delayed, with the understanding that any arrears to banks would be consisted with program We would want to work with financing gap to be filled by banks, their proposal can pose problems

7. Medium term Growth rising over time (with increase in investment and domestic saving) and inflation coming down Mexican officials seeking much lower external net transfer (external balance of goods and nonfactor services) than in 1983-87 Numbers still need to be refined, and if there are differences they will likely be on the pace of deceleration of public sector borrowing requirement Current account deficit would remain constant in relation to GDP, in the absence of debt reductions.

8. Structural measures There is a lot here and no difficulties envisaged, they want to be silent on foreign investment but said that new (more liberal) regulations would be issued in a few weeks.

Mexican officials indicated that Minister Aspe would like to have agreement in principle on main points by tomorrow to be able to go to commercial banks on Tuesday

Finally, Mexican officials consider U.S calculations of debt relief to be based on overly optimistic assumptions about the reaction of banks.

cc Mr Frenkel  
Mr. Tanzi  
Mr Whittome/Mr. Brau  
Mr R. Simpson

16-cw

Cable Room ID: ITIB5111	Page: 1	Distribution
Processed: March 30, 1989 16:44 Sender: Banco de Mexico, S.A. Mexico (Mexico)	STB CL JB IO F	ORIG: TRE CC: MRS. FILARDO <u>WHD</u>



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T 08026 MEXICO DF 30 MAR 1989 RVL RHB  
 INTERNATIONAL MONETARY FUND  
 WASHINGTON, D.C.  
 TREASURY DEPARTMENT  
 ATTN: MRS. LYNN/MR. R. VECUTINI  
 SDR DEPARTMENT

NO. 13

IN REFERENCE TO OUR TELEPHONE CONVERSATION OF YESTERDAY, WE HEREBY REQUEST TO BUY 25,000,000 SDR (TWENTY FIVE MILLION SPECIAL DRAWING RIGHTS) VALUE APRIL 4, 1989. WE WILL WAIT FOR YOUR INSTRUCTIONS IN ORDER TO EXECUTE THE OPERATION.

BEST REGARDS

BANCO DE MEXICO

30/03/89 15:19:46

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Note:  
 \*\*\* Test Accepted \*\*\*

INTERNATIONAL MONETARY FUND  
 WESTERN HEMISPHERE DEPT.  
 1989 MAR 31 AM 9:41



# Office Memorandum

INTERNATIONAL MONETARY FUND  
WESTERN HEMISPHERE DEPT.

1989 MAR 29 PM 6:46

STB  
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To: The Managing Director  
The Deputy Managing Director (o/r)

March 29, 1989

From: Gerhard Laske and David Williams

Subject: Mexico - Use of Fund Resources, Access Limits,  
and Size of Quota Increase

Attached, as agreed at yesterday's meeting of the debt group, is a table showing the evolution of the use of Fund credit for Mexico, including illustrative amounts for debt and debt service reduction and their impact on access limits in terms of Mexico's present quota and under a set of illustrative new quotas for Mexico under the Ninth Review.

The first column of the table (RES) shows the impact on Mexico's position in the Fund of the amount of net credit extended by the Fund for debt and debt service reduction by Mexico assumed by Mr. Frenkel in his note of yesterday. It can be seen that the amount for debt and debt service reduction on a commitment basis would result in Mexico's position in the Fund rising slightly above the present access limits of 440 percent of present quota.

The second column (TRE) shows an EFF of 80 percent of quota for each of three years (1989-91) on the basis of Mexico's present quota. An amount for debt and debt service reduction--of SDR 1.4 billion, equivalent to 120 percent of present quota--is also assumed for Mexico (see assumptions in footnote 1 (ii) of the table). The total committed use of the Fund's resources will also exceed present access limits of 440 percent of quota.

The lower half of the attached table translates the illustrative amounts of committed resources into access limits in terms of illustrative new quotas. If it is assumed that the Fund would fix access limits at 250 percent of new quota, on the assumption that any higher access limits would normally result in the need for the Fund to borrow, then an increase in quota of 75 percent or more would be needed to accommodate the potential new commitments to Mexico.

## Attachment

cc: Mr. Whittome  
Mr. Frenkel  
Mr. Touré  
Mr. Beza  
Mr. Gianviti  
Mr. Narvekar  
Mr. H. Simpson

Mexico Illustrative Calculations of Access Limits and Size of Increase in Quota  
(In SDR millions except as indicated)

1	Present quota		1166
2	Outstanding Fund credit end Feb 1989 (In percent of quota)		3516 (302)
<u>Alternative scenarios for use of Fund credit 1/</u>			
		<u>RES</u>	<u>TRE</u>
	Plus EFF/SBA 1989 91 (Access per year in percent of quota)	+2269 (65)	+2797 (80)
	Less Repurchases 1989 91	2269	2269
	Plus Purchases for debt reduction	+1673	+1400
3	Outstanding Fund credit total access needed (In percent of present quota)	5189 (445)	5444 (467)
4	Access (line 3) relative to new quota 2/		
a	50% quota increase to Fund of SDR 135 billion	296	310
b	66% quota increase to Fund of SDR 150 billion	266	279
c	75% quota increase to Fund of SDR 157 billion	253	265
d	100% quota increase to Fund of SDR 180 billion	221	232

1/ These alternative approaches as regards the use of Fund credit may be generally characterized as follows

(1) RES This reflects the calculations provided to Management on March 28 where it was assumed that Mexico would effectively purchase under an EFF or SBA amounts equal to scheduled repurchases in 1989 91 this comes to annual access of 65 percent of present quota In addition RES estimated debt reduction financing from the Fund of \$2 25 billion (or SDR 1 67 billion at \$1 34 per SDR) \$2 25 billion represents an assumed one quarter share of Fund financing of \$9 billion needed to achieve a net debt reduction of 20 percent RES assumes a market price of 34 36 cents per dollar on Mexico's debt

(11) TRE It is assumed that Mexico would have an EFF over 3 years at 80 percent of quota per year In addition Mexico would purchase SDR 1 4 billion from the Fund for debt reduction where this amount is derived by reducing Mexico's commercial bank debt by 20 percent using a market price of 36 cents per dollar and assuming that the Fund would provide one third of the financing for this operation

2/ Determined using Method A with 50/50 apportionment of equiproportional/selective quota increases



# Office Memorandum

LTB  
CC  
JB  
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TO: The Managing Director  
The Deputy Managing Director

*Thank you*

DATE: March 24, 1989

FROM: S.T. Beza

*S.T. Beza*

SUBJECT: Mexico--Approaches to Debt Reduction and  
Balance of Payments Financing

I attach a note on the approach to debt reduction and other balance of payments financing outlined by Mr. Aspe, the Secretary of Finance of Mexico.

Attachment

- cc: Mr. Frenkel
- Mr. Touré
- Mr. Whittome
- Mr. Gianviti
- Mr. Laske
- Mr. Narvekar
- Mr. H. Simpson

INTERNATIONAL MONETARY FUND  
WESTERN HEMISPHERE DEPT.  
1989 MAR 27 PM 3:26

March 24, 1989

Mexico--Approaches to Debt Reduction and  
Balance of Payments Financing

As described by Mr Aspe, Mexico's aim would be to frame a comprehensive menu approach in the request for financing from commercial banks, supplemented by relief from the Paris Club, continued financing from multilateral organizations, and parallel lending from Japan. The total request for new resources would amount to US\$7 billion a year for up to six years. Commercial banks would be given the choice of participating through a debt service reduction scheme or through a major refinancing of interest.

There would be three options for banks. A first option would involve a debt for debt exchange at a discount, with a conversion ratio of, say, 2 to 1, and with the new debt carrying a market interest rate. The principal on the new debt would be guaranteed by a zero-coupon bond, and the interest would be covered by a two year (rolling) guarantee. As envisaged by Mexico, the interest guarantee would be provided by the World Bank (this feature could change in light of recent developments). A second option would consist of a debt exchange at par, but the new debt would carry a lower interest rate, this option would be financially equivalent to the first case and would involve equivalent guarantees or enhancements. The third option would involve a commitment by banks to refinance the equivalent of, say, 90 percent of interest falling due over four years, either in the form of (a) new money or (b) interest capitalization. The aim of Mexico would be to make the first two options more attractive to banks than the last-mentioned cases.

To help analyze the proposals, the staff has prepared a medium-term scenario, which assumes initially low to moderate growth rates that increase to 6 percent a year by 1994, and a reconstitution of net international reserves (Table 1). In the baseline scenario (without debt reduction, scenario A), the external current account deficit would rise from about US\$4 billion in 1989 to US\$5 1/2 billion in 1994, with the resources going to investment. The ratio of debt to GDP would decline only slightly over the period.

If all commercial banks were to choose a debt exchange under the first option (at a ratio of 2 to 1) this would result in a net reduction of debt of US\$30 billion (scenario B). Assuming that the exchange takes place mainly in 1990-91, and under the above-mentioned assumptions on economic growth, the current account deficit would narrow rapidly and could eventually turn into a small surplus. With a lesser debt service burden, this scenario could in fact allow for a somewhat higher level of investment (and economic growth) and a somewhat smaller accumulation of reserves than under the new money scenario of the baseline referred to above. If only part of the financing were provided

in the form of debt reduction, there would be smaller declines of debt and the debt ratio (Scenario C illustrates a debt reduction of US\$8 billion over a four-year period )

One difficulty with the proposal reflected in scenario B is that the amount of the interest guarantee appears to be too small to accomplish the expected debt reduction. Two years of rolling guarantees would seem to be consistent with a conversion rate of about 1.5 to 1 instead of the 2 to 1 ratio in the Mexican scheme. Thus, banks might be reluctant to enter into debt reduction operations at the proposed exchange ratio. An interest guarantee of up to five years would seem to be necessary to obtain the proposed exchange ratio, but the costs of such guarantee are significant. For example, if all bank debt were to be converted to new 30-year bonds, the cash cost of guaranteeing the principal for US\$30 billion would be US\$1.5 billion, and the cash cost of five years of interest guarantee could be around US\$1.3 billion. Indeed, the 2:1 exchange might require an even longer period of interest guarantee, and thus would raise the costs well above the amounts just mentioned. The need (and thus the cost) for such guarantees might be reduced if regulatory changes were introduced that increase the incentives to banks for debt reduction.

Another issue is the timeliness of the availability of financing. Any financing package will take time to be negotiated, and the debt reduction portion is likely to be spread over some time and therefore the effects on interest payments would appear only gradually. The gap will need to be bridged by exceptional financing (perhaps an organized approach to arrears).

Attachment

Table 1 . Mexico: Debt Scenarios  
(In billions of U.S. dollars)

	1989	1990	1991	1992	1993	1994
<b>A. <u>New money</u></b>						
Current account	-4.1	-3.9	-3.9	-4.2	-4.7	-5.4
Public interest payments	(-8.7)	(-9.3)	(-9.8)	(-10.4)	(-11.0)	(-11.6)
Other	(4.6)	(5.4)	(5.9)	(6.2)	(6.3)	(6.2)
Public debt/GDP (excluding IMF)	413	414	407	399	383	368
Gross reserves <u>1/</u>	3.7	4.3	4.8	5.2	5.1	4.9
<b>B. <u>Large debt reduction (US\$30 billion)</u></b>						
Current account	-3.6	-2.1	-0.4	0.4	0.3	--
Public interest payments	(-8.2)	(-7.5)	(-6.3)	(-5.8)	(-6.0)	(-6.2)
Other	(4.6)	(5.4)	(5.9)	(6.2)	(6.3)	(6.2)
Public debt/GDP (excluding IMF)	370	311	247	236	224	212
Gross reserves <u>1/</u>	2.0	2.2	3.1	3.9	4.6	5.1
<b>C. <u>Moderate debt reduction (US\$8 billion)</u></b>						
Current account	-3.9	-3.2	-2.7	-2.3	-2.3	-2.7
Public interest payments	(-8.5)	(-8.6)	(-8.6)	(-8.5)	(-8.6)	(-8.9)
Other	(4.6)	(5.4)	(5.9)	(6.2)	(6.3)	(6.2)
Public debt/GDP (excluding IMF)	394	375	349	322	305	288
Gross reserves <u>1/</u>	3.0	3.9	2.9	2.7	2.9	2.9
<b>Memorandum item*</b>						
Real GDP growth rate	1.5	2.7	3.5	4.5	5.5	6.0

Source: Staff estimates

1/ In months of imports plus interest payments



# Office Memorandum

Mr. Beza

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INTERNATIONAL MONETARY FUND  
WESTERN HEMISPHERE DEPT.

MAR 10 AM 9:51

TO: Mr. C. M. Loser

DATE: March 9, 1989

FROM: J. V. Surr

SUBJECT: Mexico: Debriefing of Mission

Several elements of your debriefing are of concern to the Legal Department.

1. Decision No. 8885 (88/89), adopted June 6, 1988, says in part: "where appropriate, and at the request of the member, the period of an existing extended arrangement may be lengthened up to four years." This precludes an extended arrangement for an initial period of four years, at least unless or until the EFF policy is changed in general.

2. Another general policy issue is whether the Fund should, or is able to, "take a lead role in finding a comprehensive solution to Mexico's external debt problems, including debt reduction operations." We will be reflecting further on the legal aspects of this issue in the light of developments in the Fund's debt strategy.

3. To which part of the CCFF could Mexico have access? If the authorities are interested in an ECM, the differences between the 1986 contingency features and the CCFF should be explained to them.

cc: ✓ Mr. Beza  
Mr. Brau  
Mr. Liuksila



# Office Memorandum

CONFIDENTIAL

TO The Managing Director  
The Deputy Managing Director

FROM S T Beza *STB*

SUBJECT Mexico--Debriefing of Mission

DATE March 7, 1989

Attached is the back-to-office report of the mission that visited Mexico to conduct discussions on the Article IV consultation and on a program that could be supported by an extended arrangement (The authorities asked that the EFF be for four years )

The authorities indicated that they would be prepared to complete negotiations only if significant foreign financing is involved. It appears that little progress was made in this regard in the authorities' recent contacts with representatives of creditor countries. The authorities asked, in effect, that the Fund take a lead role in finding a comprehensive solution to Mexico's external debt problems, including debt reduction operations.

The mission found areas of agreement in terms of the domestic policy stance. However, the mission also felt that there were significant risks, particularly with regard to the public finances and the exchange rate. The fiscal aims of the authorities would be consistent with an improvement in domestic and external performance, but the mission estimated a need for additional measures amounting to close one percent of GDP to assure achievement of those aims. The view of the mission was that domestic interest rates would decline more gradually than projected by the authorities, and thus additional actions were needed. The mission also raised questions about exchange rate, given the significant real appreciation in 1988. Thus, the mission expressed its concern whether fiscal policy (and national savings) and exchange rate policy were consistent with the growth-oriented program sought by the authorities.

The authorities maintain that their policies are strong, that they have margins to deal with problems, and that all elements of policy under the current price-wage agreements (set through July 1989) are needed for the success of their stabilization efforts (the authorities have as their objective to limit inflation to less than 1 1/2 percent a month during 1989). The mission devoted considerable time to the presentation of its view of the risks and of the need for further measures, but it did not succeed in changing the minds of the authorities. In particular, they seem set in their view that adjusting the exchange rate at this time would be counterproductive because of the effect on wages (although they may be willing to change after July when the period for which the exchange rate has been announced would expire).

The mission indicated that the authorities' aim of foreign financing of about US\$7 billion a year (at least initially) might be justified, but with a different composition for the use of such funds. Specifically, the mission said it could envisage some US\$4 billion to cover a current account deficit, US\$1 billion for the strengthening of net international reserves, and around US\$2 billions for debt reduction through market operations (or for net reserves until such operations are arranged)

There were some differences on medium-term scenarios. The mission worked with a scenario in which real GDP would grow at an annual rate of 4 1/2 percent a year and investment at a rate of 10 percent a year over the period 1989-94. This scenario involved a current account deficit averaging about US\$3 billion a year with the ratio of debt to GDP declining, particularly when debt reduction operations were included. The authorities have been working with a scenario that assumed a somewhat higher rate of growth and involved an annual current account deficit of over US\$6 billion. However, more than half of the difference in the current account is explained by lower oil prices and the absence of debt reduction operations in the Mexican scenario.

The authorities expect (within the next weeks) to hear whether we would be prepared to support their program with an extended arrangement and to back them in obtaining financing, including for debt reduction. We will be seeking the views of the interested departments on these issues in the light of the attached debriefing

Attachments

cc Mr H Simpson



# Office Memorandum

TO The Managing Director  
The Deputy Managing Director

DATE March 7, 1989

FROM Claudio M Loser

SUBJECT Mission to Mexico--February 13-March 3, 1989

#

The mission that just returned from Mexico conducted discussions for the Article IV consultation and for a program that eventually could be supported by an extended arrangement. The mission met with the Secretaries of Finance, of Programming and Budget, and of Labor, and with the Director General of the Bank of Mexico.

## 1 General overview

The authorities were very cooperative and clearly interested in obtaining Fund support. After extensive discussions with the technical team, the mission presented its preliminary assessment and policy recommendations in two notes, one on the program for 1989 and one on the medium-term prospects (copies attached). The notes were prepared with the understanding that timely and adequate financing would be available (including significant levels of debt reduction) in a multiyear framework. After the discussions with the authorities, some differences of view remain with respect to certain key policy parameters. Moreover, financing for the program has not been obtained.

The mission explored different alternatives for some aspects of the program, but the authorities were persuaded that there was no need to change the current policy stance, in particular, it appears difficult to attain any significant modification to current policies at least through mid-year, in light of the commitments on policies made in the context of the price-wage-exchange rate pact agreed in late 1988 and running through July 1989. It is the view of the mission that the objectives of the program are possible to achieve, but there are risks in the policy stance, particularly with reference to public sector finances and the exchange rate. This raises questions about the growth-oriented nature of the program sought by the authorities and leads to the conclusion that the program will require careful monitoring. The authorities emphasized the need for a multiyear program, preferably in the form of a four-year extended arrangement, with six-monthly performance criteria.

The authorities would be ready to complete negotiations on a program only if they take place in the context of a significant initiative with respect to foreign financing. In their recent contacts, the authorities were disappointed about the slow pace of discussions with representatives of industrial countries. In that light, the authorities made a strong plea for support from the Fund in their search for foreign

financing The authorities noted the need for a strategy emphasizing debt-reduction, preferably with an early announcement of the magnitudes involved, it was stressed that such announcement eventually would be instrumental in mobilizing private sector resources Because of the importance they attach to the Fund's endorsement of their external strategy, the authorities would like to have a reaction soon on whether management would be prepared to support their program and their approach to foreign financing

While technically Mexico could have access to Fund resources under the CCFE, the authorities seem to be of the view that their previous request is not central to the forthcoming discussions

## 2 Recent developments

Recent economic developments were somewhat different from those expected at the time of the preparation of the briefing paper Economic activity remained weak and real GDP grew by 1.1 percent in 1988 The 12-month rate of inflation declined from 159 percent in 1987 to 52 percent in 1988, in response to a larger fiscal primary surplus and a generalized price-wage exchange rate freeze and a major trade liberalization effort In the context of a sharp real appreciation of the peso and a strong increase in credit to the private sector, domestic spending rose and the external current account registered a deterioration of 4 1/2 percentage points of GDP in 1988 National savings weakened somewhat, as the adverse impact of high real interest rates on the operational fiscal balance was offset only partially by increased private sector savings (Table 1)

The fiscal effort in 1988 was significant The primary balance improved by 0.7 percentage points of GDP, even as oil export revenues declined However, real interest remained high, and the operational balance deteriorated by 6 percentage points, the PSBR improved by 3 percentage points of GDP because of a lower rate of inflation (Table 2)

Domestic financial savings rose by 11 percent in real terms Credit to the private sector rose by an estimated 35 percent in real terms in the 12 months ended December 1988 Moreover, with sharply reduced foreign financing, the public sector made increasing recourse to Bank of Mexico credit As a consequence, and in the context of a fixed exchange rate, net international reserves declined by US\$7 billion, reversing the gain recorded in 1987 (Table 3)

Exchange rate policy was important in the authorities' anti-inflation strategy in 1988 The peso remained virtually unchanged vis-a-vis the U S dollar, and it appreciated by some 28 percent in real effective terms, affecting the external current account, national savings, and possibly interest rates, and offset only in part by the

favorable effects on efficiency of a major trade liberalization effort. Concurrently, the previous de facto indexation of wages was broken, and by early 1989 wages were rising at an annual rate of some 11 percent. For the year, non-oil exports rose by 20 percent with respect to 1987, while imports rose by 55 percent (Table 4).

In late 1988, the authorities announced a new pact for economic growth and stability (PECE) for 1989. The new pact has specified guidelines through end-July. The peso is being depreciated at a rate of one peso a dollar a day (initially equivalent to 1.3 percent a month), minimum wages were increased by 8 percent and public sector prices and tariffs were raised, except for gasoline, diesel, and electricity and gas for residential use.

The monthly rate of inflation in January 1989 was 2.4 percent and it is estimated to have slowed to some 1.5 percent in February. At the current rate of inflation, the rate of depreciation would be broadly consistent with a stable real effective exchange rate. Interest rates have remained at about 4 percent a month, resulting in real rates of about 2 percent a month. Net international reserves rose by some US\$300 million in January and by a further US\$200 million through mid-February.

No statistical information on trade is available for early 1989, but preliminary indications suggest a slowdown in imports. This may reflect the announced adjustments in tariffs, the new exchange rate rule, and the high cost of holding inventories. Oil export receipts increased as prices averaged US\$13.8 a barrel in January-February, compared with a price of US\$10.9 a barrel in the fourth quarter of 1988 and US\$10 estimated in the budget for 1989. However, considerable uncertainties remain in the petroleum market.

### 3 Economic program

The Mexican authorities stated that their program objectives are to foster economic growth in a multiyear framework and in the context of a consolidation of efforts to reduce inflation. Moreover, they emphasized that in order to achieve their objectives, Mexico needs to reduce its net resource transfer abroad. The mission highlighted the possible risks that are apparent in the program and suggested adjustments that would help to strengthen it. The suggestions focused on the need to strengthen domestic savings and to correct relative prices, and on the amount and composition of foreign financing needs.

As noted, the authorities are committed to their price-wage policy in order to consolidate the anti-inflation effort (the rate of inflation is projected to be 18 percent in 1989). Therefore, the authorities are strongly opposed to a change in current price and

exchange rate policies through July, but would continue to rely on a tight fiscal stance

The perceived differences on the public sector finances are of some importance, but the authorities are firm in their view that their policies are adequate and that there are margins in the program. The Mexican program envisages a reduction in the operational deficit by some 2 1/2 percentage points of GDP to 1.6 percent in 1989. In turn, the PSBR would decline by 6 percentage points to 6 1/2 percent of GDP, reflecting in part a lower rate of inflation. The authorities seek to attain these results through an improvement in the primary balance by 1 percentage point, to a surplus of 6.7 percent of GDP, and through lower interest payments, responding to adequate foreign financing.

The mission was of the view that the primary surplus target would not be sufficient to ensure the projected operational deficit, because domestic interest rates are likely to be higher than those projected by the authorities. On the basis of somewhat more cautious interest rate projections and a petroleum price of US\$12 a barrel, additional fiscal actions (equivalent to 0.8 percent of GDP) would be needed in order to achieve the operational deficit and PSBR objectives. The mission suggested price adjustments to achieve these objectives. The authorities acknowledged the existence of relative price distortions, but they claimed that they were of little consequence in terms of revenue and were essential for the success of the anti-inflation effort. More generally, they were of the view that the current fiscal stance provided considerable margins, and that there was no need to adopt any additional measures.

In general, there was a coincidence of views about monetary policy. However, an area of disagreement was that of exchange rate policy. The mission noted the adverse effects of the recent real effective appreciation of the peso on growth prospects and the balance of payments. The authorities indicated that in the context of the PECE, any change in the exchange rate would result in an inflationary spiral, as wages were anchored to the exchange rate and consider this point as non-negotiable. However, the authorities consider that the Mexican economy remains competitive, particularly with regard to exports, which have benefited from the recent trade liberalization efforts, they also noted that recent trends in imports reflect short-term factors that would be reversed. In any event, they may be willing to review their policies (both with regard to the exchange rate and controlled prices) in the second half of the year.

The balance of payments outcome for 1989 will depend significantly on oil prices and interest rate developments. In the view of the mission the external current account could improve from the

performance in late 1988. On the assumption of a price of oil of US\$12 a barrel and a LIBOR interest rate of 10.5 percent, the current account deficit could amount to some US\$4 billion in 1989. The staff projection would be consistent with a strong increase in investment (net of inventory accumulation) and a small increase in savings in 1989, but with significant improvements in capital formation in subsequent years. The targeted accumulation of reserves would be US\$1 billion in 1989. The authorities envisage a current account deficit of US\$5 1/2 billion, although about one half of the difference is attributable to lower oil price assumptions. The Mexican authorities are seeking to obtain foreign financing of US\$7 billion a year. In the view of the mission, a significant portion of this amount should be devoted to debt reduction (or to secure an accumulation of reserves until these operations can be implemented). This would enable the authorities to obtain a significant improvement in the debt position over the medium term. Any debt reduction operation probably would require a recognition by creditors that the program would have to be overfinanced.

The mission prepared a medium-term exercise which envisages debt reduction operations amounting to US\$2 billion a year for four years (Table 5). On the basis of this scenario, the mission concluded that GDP could grow at 4 1/2 percent a year and fixed investment by over 10 percent a year in the period 1990-94. Private per capita consumption would increase and reach a growth rate of 4 percent by 1994. Domestic savings could increase by 6 percentage points, and together with a lower debt service burden, would allow for reduced reliance on foreign savings. External debt could decline from some 50 percent of GDP at present to 34 percent in 1994. Mexican projections envisage considerably higher use of foreign resources, mainly because of the absence of programmed debt reduction operations and a somewhat higher noninterest current account deficit, particularly in the early part of the period.

#### Attachments

cc Mr Frenkel  
Mr Gianviti  
Mr Laske  
Mr Tanzi  
Mr Van Houtven  
Mr Whittome  
Mr H Simpson

Table 1 Mexico Selected Economic and Financial Indicators

	1986	1987	Prel 1988	Proj. 1989
<u>(Annual percentage change)</u>				
Real GDP <sub>2</sub>	-4.0	1.4	1.1	1.5
Consumer price index (average)	86.2	131.8	114.2	21.9
Consumer price index (end-of-period)	105.7	159.2	51.7	18.0
<u>(In billions of U.S. dollars)</u>				
<u>External sector</u>				
Current account (- deficit)	-1.2	4.0	-3.0	-3.8
Of which Exports	17.3	22.2	23.1	25.0
Imports	-11.4	-12.2	-18.9	-20.6
Interest payments	-8.3	-8.1	-8.9	-10.2
Official capital (net)	-0.5	2.6	-1.2	6.6
Private capital (net)	0.5	--	-2.6	0.4
Change in net foreign reserves	1.1	-6.6	6.9	-3.1
<u>(In percent of GDP)</u>				
<u>Nonfinancial public sector</u>				
Primary balance	2.3	5.0	5.7	7.4
Operational balance	-1.8	1.9	-4.0	-1.6
Public sector borrowing requirements	15.6	15.7	12.5	6.4
<u>Savings and investments</u>				
Gross investment	18.5	18.6	20.2	20.5
Public sector	5.2	5.2	5.1	4.7
Private sector	13.3	13.4	15.1	15.9
Gross national savings	17.6	21.4	18.5	18.7
Public sector <u>1/</u>	3.7	7.4	1.2	3.2
Private sector	13.9	14.0	17.3	15.5
External savings	0.9	-2.8	1.7	1.8
<u>Memorandum items</u>				
Nominal GDP				
(billions of U.S. dollars)	129.8	143.1	181.6	207.5
Velocity of money (GDP/M-4)	3.3	3.4	3.7	3.2
Change in real effective exchange rate (appreciation +) <u>2/</u>	-23.5	3.3	29.8	3.8

Sources Mexican authorities, and Fund staff estimates

1/ Adjusted for inflationary component of interest payments on domestic debt2/ End of period

Table 2 Mexico Summary of Public Sector Operations  
(In percent of GDP)

	1986	1987	Prel. 1988	Proj Auth.	1989 Staff
<u>Public sector borrowing requirement</u>	15.6	15.7	12.5	6.4	6.4
Financial intermediation	0.8	0.9	1.5	1.2	1.2
<u>Economic balance</u>	-14.8	-14.8	-10.9	-5.2	-5.2
Outside budget control	-1.4	-0.8	-1.4	-0.6	-0.6
Of which interest payments	-0.2	-0.2	-0.2	-0.8	-0.3
<u>Economic balance under budget control</u>	-13.4	-14.0	-9.5	-4.6	-4.6
Receipts	29.3	29.0	27.6	25.5 <sup>1/</sup>	25.9 <sup>2/</sup>
Expenditure	-42.7	-43.0	-37.1	-30.1	-31.3
Of which interest payments	-16.8	-19.6	-16.5	-11.1	-12.3
Additional measures	--	--	--	--	0.8
<u>Memorandum items</u>					
Primary balance	2.3	5.0	5.8	6.7	7.4
Primary balance excluding petroleum exports	-2.7	-1.0	2.5	4.4	4.7
Operational balance	-1.8	1.9	-4.2	-1.6	-1.6

Sources Mexican authorities, and Fund staff estimates

<sup>1/</sup> On the basis of US\$10 per barrel for petroleum exports.

<sup>2/</sup> On the basis of US\$12 per barrel for petroleum exports.

Table 3. Mexico Financial Flows

(In billions of Mexican pesos, unless otherwise indicated)

	1986	1987	Prel. 1988	Proj. 1989	Auth 1989
<u>Sources of funds</u>	<u>15.1</u>	<u>53.0</u>	<u>58.8</u>	<u>49.0</u>	<u>45.8</u>
Change in M-4	16.2	50.3	56.6	31.5	28.3
(Annual percentage change in real terms)	(-0.9)	(-0.4)	(11.4)	(4.0)	(2.0)
Public sector external borrowing	0.1	7.2	3.2	17.5	17.5
(In billions of U.S. dollars)	0.2	5.3	1.4	7.1	7.1
Others	-1.1	-4.5	-1.0	--	--
<u>Uses of funds</u>	<u>15.1</u>	<u>53.0</u>	<u>58.8</u>	<u>49.0</u>	<u>45.8</u>
Change in international reserves	-0.7	9.0	-15.6	7.7	2.7
(In billions of U.S. dollars)	(-1.1)	(6.6)	(-6.9)	(3.1)	(1.1)
Public sector borrowing requirements	12.4	30.6	50.6	31.9	31.9
(In percent of GDP)	(15.6)	(15.7)	(12.5)	(6.4)	(6.4)
Financial intermediation	0.7	1.7	6.3	6.0	6.0
Economic deficit	11.7	28.9	44.3	25.9	25.9
External financing	0.1	4.0	1.4	12.6	17.5
Domestic financing	11.6	24.9	42.9	13.3	8.4
Credit to private sector	3.4	13.4	23.8	9.4	11.2
(Percentage change in real terms)	(-18.9)	(-0.6)	(37.7)	(2.9)	(6.2)
<u>Memorandum items</u>					
Exchange rate (annual average)	611	1,367	2,250	2,408	2,408
Consumer price index (12-month percentage change) <sup>1/</sup>	105.6	159.2	51.7	18.0	18.0
GDP (billions of pesos)	79.4	195.6	408.9	409.7	499.7

<sup>1/</sup> End of period

Table 4 Mexico Balance of Payments

(In billions of U.S. dollars)

	1986	1987	Pre1 1988	Prog. 1989	Auth. 1989
<u>Current account</u>	-1.2	4.0	-3.0	-3.9	-5.6
Trade balance	5.9	10.0	4.1	4.4	3.5
Exports	17.3	22.2	23.1	25.0	24.3
Petroleum	6.3	8.6	6.7	6.5	5.8
Nonpetroleum	11.0	13.6	16.3	18.5	18.5
Imports	-11.4	-12.2	-18.9	-20.6	-20.8
Factor services	-7.7	-7.2	-7.8	-9.0	-9.5
Interest payments	-8.3	-8.1	-8.9	-10.2	-10.4
Other	0.6	0.9	1.1	1.2	0.9
Nonfactor services and transfers	0.7	1.2	0.6	0.7	0.3
Travel	1.2	1.5	1.4	1.6	1.5
Border transactions	-0.4	-0.4	-0.6	-0.6	-0.8
Other	-0.2	0.1	-0.2	-0.2	-0.4
<u>Capital account</u>	0.1	2.5	-3.9	7.0	6.7
Public sector	-0.5	2.6	-1.2	6.6	5.6 <sup>1/</sup>
Commercial banks	-0.4	4.4	-1.5	2.9	4.5
Multilateral institutions	0.9	0.4	0.8	2.4	2.4
Bilaterals and suppliers	0.2	1.4	0.9	2.1	0.5
Other	-1.2	-3.6	-1.4	0.8	-1.8 <sup>1/</sup>
Private sector	0.5	--	-2.7	0.4	1.1
Interest earnings abroad	-1.1	-1.2	-1.3	-1.5	-1.7
Direct foreign investment	1.5	3.2	3.2	2.8	2.8
Net external credits	-0.8	-2.6	-3.0	-0.9	--
Other (including errors and omissions)	0.9	0.5	-1.6	--	--
Net international reserves (increase -)	1.1	-6.6	6.9	-3.1 <sup>2/</sup>	-1.1

Sources Mexican authorities, and Fund staff estimates

<sup>1/</sup> Includes US\$1.5 billion of export credit compared with US\$0.7 billion of such credit under the program<sup>2/</sup> Includes US\$2 billion for debt reduction operations

Table 5 Mexico A Medium-Term Growth Scenario

	Prel.	Proj.					
	1988	1989	1990	1991	1992	1993	1994
<u>(Annual percentage change)</u>							
Real GDP	1.1	1.5	2.7	3.5	4.5	5.5	6.0
Consumer prices <sup>1/</sup> (average)	114.2	21.9	15.0	7.0	6.0	6.0	6.0
Consumer prices (end of year)	51.7	18.0	12.0	6.0	6.0	6.0	6.0
<u>(In billions of U.S. dollars)</u>							
<u>External sector</u>							
Current account (deficit -)	-3.0	-3.9	-3.2	-2.6	-2.2	-2.3	-2.7
Of which exports (fob)	23.1	25.0	27.1	29.0	31.1	33.3	35.7
imports (fob)	-18.9	-20.6	-22.0	-23.7	-25.7	-28.2	-30.9
interest payments	-8.9	-10.2	-10.3	-10.3	-10.2	-10.3	-10.6
Official capital (net)	-1.2	6.6	4.6	4.1	3.5	2.4	2.6
Private capital (net)	-2.6	0.4	0.8	0.8	0.8	0.9	0.9
Net reserve movement (incr -)	6.9	-3.1	-2.1	-2.3	-2.1	-1.0	-0.9
<u>(In percent of GDP)</u>							
<u>Nonfinancial public sector</u>							
Primary balance	5.7	7.4	6.4	5.6	5.1	4.7	4.3
Operational balance	-4.0	-1.6	0.1	0.1	--	0.1	0.1
Public sector borrowing requirement	12.5	6.4	3.9	2.2	2.0	1.8	1.7
<u>Savings and investment</u>							
Gross domestic investment	20.2	20.5	22.1	23.0	24.5	26.3	27.2
Public sector	5.1	4.7	4.6	4.7	4.7	4.7	4.7
Private sector	15.1	15.9	17.4	18.3	19.8	21.6	22.5
Gross national savings	18.5	18.7	20.6	21.9	23.6	25.5	26.4
Public sector <u>1/</u>	1.2	3.2	4.9	4.9	4.9	5.0	4.9
Private sector	17.3	15.5	15.8	17.0	18.8	20.6	21.5
External savings	1.7	1.8	1.4	1.1	0.8	0.8	0.8
<u>Memorandum items</u>							
Nominal GDP (billions of U.S. dollars)	181.6	207.5	277.3	246.7	268.0	294.1	324.2
Velocity of money (GDP/M-4)	3.7	3.2	3.2	3.2	3.2	3.2	3.2
12-month change in real effective exchange rate (appreciation +)	29.8	3.8	2.6	--	--	--	--

Source Mexican authorities, and Fund staff estimates.

1/ Adjusted for the inflationary component of interest payments on domestic debt

Características de un Posible Programa  
de Ajuste y Crecimiento en una  
Perspectiva de Mediano Plazo

1. El Gobierno de México ha estado embarcado en un significativo programa de estabilización y reforma estructural encaminado a crear condiciones para lograr un mayor crecimiento económico. En las circunstancias actuales es importante diseñar una estrategia que permita fortalecer este proceso. La misión ha analizado los recientes enunciados y acciones de política buscando tener en cuenta la perspectiva de las autoridades mexicanas. En este sentido, la misión desea agradecer el constructivo diálogo sostenido con el equipo técnico mexicano, que ha permitido elaborar los puntos aquí incluidos, los que se espera ayuden a continuar el diálogo. Debe aclararse que las cifras están sujetas a posibles cambios, ya que en muchos casos han sido estimadas en base a información parcial.

2. La misión está de acuerdo con el énfasis acordado dentro del programa mexicano al objetivo de crecimiento económico, a la consolidación de los avances en reducir la tasa de inflación, y al logro de una posición externa viable en el mediano plazo. Sin embargo, existen ciertos aspectos acerca de la factibilidad de alcanzar los objetivos planteados que merecen ser tratados. Esta nota describe algunos de estos puntos, y plantea ciertas propuestas encaminadas a fortalecer el programa a fin de asegurar el logro de tales objetivos. Las áreas de preocupación se centran principalmente en las condiciones necesarias para asegurar un crecimiento económico sostenido, en el contexto de una evolución de la balanza de pagos que reduzca la vulnerabilidad externa de la economía mexicana. Más específicamente,

existen dudas acerca del esfuerzo de ahorro interno que se propone, incluido el del área fiscal, la política cambiaria, y la dependencia del financiamiento externo en un contexto de cooperación internacional

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3 El objetivo de crecimiento económico de mediano plazo se podrá lograr a través de un proceso de reforma estructural y la movilización de recursos internos y externos para alcanzar mayores niveles de inversión. Se han logrado avances importantes en la reforma estructural y existen planes significativos para el futuro. Puede mencionarse las áreas de finanzas públicas, racionalización y privatización de empresas públicas, liberalización financiera y de comercio exterior, y mayor flexibilidad en el tratamiento de la inversión extranjera. Es esencial continuar este proceso dentro del marco de una estructura de precios relativos adecuados, particularmente en el sector público y en el sector externo, y de una flexibilización creciente del mecanismo de concertación y control de precios y salarios. Estos factores, una mejora de las finanzas públicas, y políticas financieras adecuadas, son necesarios para lograr un fortalecimiento del ahorro. Este fortalecimiento del ahorro reduciría los riesgos y la vulnerabilidad externa inherentes a una situación donde la inversión depende en gran medida del uso de recursos externos. El mejor resultado fiscal es de particular importancia en circunstancias en las que el balance fiscal operacional y el externo se debilitaron en el pasado, y cuando aún existen incertidumbres acerca de la viabilidad del PECE.

4 Es posible alcanzar los objetivos del programa económico formulado por las autoridades para 1989 en cuanto a inflación y a crecimiento, pero sería necesario realizar ciertas correcciones a los planteos de política. Con estas correcciones, el mayor nivel de inversión podría ser compatible con un nivel de ahorro mayor y un déficit de cuenta corriente menor que los proyectados. Por cierto que es importante para el programa la existencia de un paquete adecuado de financiamiento externo, utilizado en parte para reducir deuda.

5 Las finanzas públicas son centrales para el éxito del programa. El presupuesto busca alcanzar un déficit operacional de 1.6 por ciento del PIB, y un déficit financiero de 6.4 por ciento, lo que indicaría una fuerte mejora en las finanzas públicas. Sin embargo, a juicio de la misión, el objetivo fiscal tiene riesgos en cuanto a asegurar el logro de resultados internos y externos sostenibles. Abstrayendo de estos riesgos, la factibilidad de alcanzar los objetivos fiscales debe fundamentarse en un resultado primario más fuerte que el actualmente programado, ya que en vista del nivel de tasas de interés a principios de 1989 y de una probable mejora sólo gradual de las expectativas, no sería prudente proyectar una reducción marcada en los pagos de intereses. De acuerdo a las estimaciones de la misión los pagos de intereses alcanzarían 12.7 por ciento del producto. Ello requeriría un resultado primario equivalente a 7.4 por ciento del producto, comparado con 6.7 por ciento en la proyección oficial.

6 La obtención del objetivo primario puede alcanzarse en parte por el ingreso adicional proveniente de un precio de petróleo

algo más alto que el contenido en el presupuesto (Las proyecciones adjuntas se basan en un precio de US\$12 por barril ) Además, sera necesario mantener una política estricta de gastos, tal como se ha realizado hasta el momento y como esta previsto en el presupuesto En cuanto a la política de ingresos, las medidas recientes de tributación interna puede permitir alcanzar niveles de recaudación mayores a los programados, y los ingresos por ventas internas de empresas públicas parecerían estar proyectados en forma conservadora El margen que existiría en dichos rubros puede compensar los efectos de ingresos menores a los presupuestados en los rubros de impuestos a las importaciones y, posiblemente, en venta de empresas publicas Sin embargo, dadas las incertidumbres que rodean los ingresos esperados por concepto de intereses en instituciones autónomas, la misión cree que el logro del objetivo de déficit operacional de 1 6 por ciento del producto requeriría acciones adicionales que provean recursos de cerca de 1 por ciento del producto

7 Un aspecto de las finanzas publicas que tendra que ser revisado es el de los precios y tarifas en el sector publico, y más específicamente, ciertos precios de los combustibles y algunas de las tarifas eléctricas Estos son elementos relevantes dentro del PECE y el gobierno se ha comprometido a mantener los niveles actuales en el corto plazo Seria importante comenzar con una correccion gradual de estos precios, y sería necesaria una revisión de las políticas en esta area a mediados de año

8 Los cambios institucionales recientes en el area financiera han permitido un manejo más flexible de la tasa de interés. Los nuevos mecanismos deberán usarse activamente para lograr los objetivos del programa, especialmente un fortalecimiento del ahorro financiero. Por cierto que estas medidas deben ser apoyadas por la política fiscal y por un financiamiento externo razonable. La política monetaria deberá buscar aumentar las reservas y canalizar un monto adecuado de recursos al sector privado.

9 La apreciación real del peso es preocupante, ya que ha jugado un papel importante en el debilitamiento de la balanza de pagos y en la persistencia de tasas reales de interés mayores a las esperadas. En estas condiciones, y aún con políticas financieras adecuadas, el actual nivel del tipo de cambio crea riesgos. A la vez, los avances logrados en el area de la inflación han sido significativos y han ayudado a eliminar elementos inerciales, incluido el quiebre de hecho en la indización de los salarios. La política cambiaria es importante para la estabilidad salarial y, por lo tanto, de precios. Sin embargo, deben seguirse de cerca los desarrollos en esta área y de todos modos debe realizarse a mediados de año un examen exhaustivo de la política cambiaria. De todos modos, la estrategia actual puede tener posibles efectos adversos sobre el potencial de crecimiento.

10 El deficit en cuenta corriente externa, con un precio del petróleo de US\$12 el barril, podría alcanzar US\$3,500 millones, lo que indicaría una fuerte mejora respecto de las tendencias actuales. Ello sería consistente con un aumento de exportaciones sostenido y un

nivel de importaciones acorde con la tasa de crecimiento previsto, teniendo en cuenta la adecuación de inventarios a las tasas de interés existentes. La transferencia de recursos al exterior sería de 2 1/2 por ciento del producto, comparado con 6 por ciento en 1983-88, y ciertamente ayudaría a mantener el monto de la deuda a niveles adecuados. Por otra parte, tomando en cuenta la mejora prevista en el ahorro público y consecuentemente en el ahorro total, la cuenta corriente sería consistente con un marcado aumento de la inversión privada. En el mediano plazo podría pensarse en un crecimiento adicional del ahorro, lo que haría posible una mayor inversión sin un deterioro en la cuenta corriente. Esta estrategia tendría consecuencias favorables, tanto para el crecimiento económico como para la deuda externa.

11. Un resultado de cuenta corriente como el mencionado llevaría a una menor vulnerabilidad externa de la economía mexicana y permitiría una estrategia de uso de recursos externos para operaciones de reducción de deuda (a descuento). Al lograrse una mayor reducción de deuda, la situación patrimonial neta de México mejoraría sustancialmente. Esto facilitaría a una reducción de tasas de interés tanto en el corto plazo como en el futuro, sin los posibles efectos negativos de una estrategia en que se usan todos los recursos externos para financiar la cuenta corriente. De todos modos, la posible solución dependerá de las condiciones que surjan de la negociación entre México y sus acreedores.

3/1/89

Escenario de Mediano Plazo bajo un Programa  
de Ajuste con Crecimiento

1/11

1. Esta nota presenta un escenario de mediano plazo para la economía mexicana dentro del marco de un programa que cree condiciones favorables para un desarrollo económico sostenido con estabilidad financiera interna y una posición externa que se fortalece

2. Sobre la base de una estrategia de estímulo al ahorro interno a través de la profundización del proceso de reformas estructurales ya comenzado y políticas fiscales, monetarias y cambiarias adecuadas, sería posible alcanzar tasas de crecimiento económico de alrededor de 4.5 por ciento en promedio durante 1990-94. Tal como para el año 1989, este escenario supone que México tiene acceso a financiamiento externo adecuado, y que existen operaciones de reducción de deuda externa (a descuento)

3. El logro de tasas de crecimiento económico como las arriba señaladas sería consistente con un crecimiento en la inversión de más de 10 por ciento anual en términos reales entre 1990 y 1994, y tasas de crecimiento real del consumo privado per capita que alcanzan 4 por ciento anual hacia el fin del periodo. El aumento de inversión en este escenario sería posible a través de un aumento en el esfuerzo de

ahorro interno de aproximadamente 6 puntos de porcentaje del PIB durante 1989-94, lo que, junto con una baja en los pagos de intereses al exterior, permitiría una reducción en la necesidad de ahorro externo. Sobre la base de operaciones de reducción de deuda externa de US\$2 mil millones por año durante 1989-91, sería posible financiar las necesidades de cuenta corriente y permitir un crecimiento gradual en las reservas internacionales dentro de un marco en el cual la deuda externa de México bajaría de 49 por ciento del producto en 1989 a 34 por ciento en 1994. Esta reducción de la deuda externa puede ser lograda aun sin la existencia de garantía de terceros.

4. Hacia fines del periodo bajo consideración la diferencia entre el déficit en cuenta corriente presentado en esta nota y el que surge del ejercicio de mediano plazo preparado por el equipo mexicano se explica en gran parte por mayores pagos de intereses en este último. Estos pagos más altos son causados por la deuda externa adicional necesaria para financiar un mayor déficit en cuenta corriente en los primeros años del periodo y la ausencia de operaciones de reducción de deuda.

Adjunto



# Office Memorandum

TO The Managing Director  
The Deputy Managing Director

DATE February 3, 1989

FROM S T Beza *MS*

SUBJECT Mexico--Briefing for Mission

Attached for your consideration is the briefing for the Article IV consultation. The briefing also may serve as background for the visit by the Mexican authorities on the occasion of their trip to Washington next week. This cover note provides a summary of recent developments and outlines the key policy issues.

Economic performance in 1988 was mixed. The Mexican authorities took significant policy actions that resulted in an increase in the primary fiscal surplus. Also, the rate of price increase fell sharply in the context of a generalized price-wage-exchange rate freeze and a major trade liberalization effort. However, domestic real interest rates rose as doubts persisted about the government's economic program, and thus the operational fiscal outcome weakened by 5 percentage points of GDP. There was a broadly similar deterioration in the domestic savings performance and in the external current account, reflecting in part the large real effective appreciation of the peso. The weakening of competitiveness (including the effects of trade liberalization) seems to have been a factor in the very low growth of GDP and, together with the sharp deterioration in the operational fiscal balance, induced an increase in real domestic demand of 5 percent, virtually all in the form of higher domestic consumption.

Non-oil exports grew steadily through August 1988, but subsequently stagnated. Imports were 55 percent higher (in U S dollar terms) in January-November 1988 than in the same period of 1987. In addition to the real appreciation of the peso, distortions in relative prices have emerged because of the application of price controls.

The authorities announced in December 1988 a new pact which included increases in minimum wage and certain prices followed by a new freeze, they also announced small daily adjustments in the exchange rate through July 1989, broadly in line with their projection of inflation (18 percent during 1989). The budget for 1989 envisages some reduction in both the primary surplus and the operational deficit in relation to 1988. The authorities are counting on large net capital inflows to the public sector--about US\$6 billion--to produce a decline in domestic interest rates (and thus to lower the operational deficit) and to help stimulate investment. On this basis, the authorities are projecting some resumption in growth in 1989, with real GDP expected to rise by 1 1/2 percent.

We have a number of doubts about the strategy indicated so far by the authorities, we have heard that Mexican officials share some of these concerns

In the fiscal area, the measures announced thus far for 1989 may not be sufficient to attain the targeted primary surplus unless petroleum prices remain at current levels (about US\$4 a barrel higher than envisaged in the budget) Moreover, the objectives for the operational balance and the PSBR depend crucially on the assumed decline in real interest rates, which is not assured

In regard to external financing, the amount being sought by the Mexican authorities for 1989 (about 80 percent of total public sector interest payments due) may be higher than is feasible and may involve a larger increase in debt than is prudent (The authorities refer to debt reduction but the possible approaches are still to be determined) Loans from multilateral organizations and direct investment will provide part of the inflow of capital that is assumed, but most of the needed financing is yet to be identified An additional concern is that the increased use of external savings implied in the current account balance does not appear to be accompanied by an increase in the domestic saving ratio, and thus the vulnerability of the economy would tend to become greater

Our conclusion is that there is a need for additional corrective measures In particular, we believe that a firmer fiscal policy stance is necessary, and this might focus in the first instance on adjustments in public sector prices To be sure, the primary fiscal surplus is high in relation to other countries, but so are real interest payments on the domestic and external debt A further improvement in the primary balance would help to raise domestic savings and lessen the pressure on interest rates, while possibly reducing the reliance on external savings (in relation to the authorities' projections)

Exchange rate adjustment should accompany actions in the fiscal area, to provide the basis for stronger growth over the medium term and to assure that reduction of the current account deficit is not at the expense of activity Prudent monetary and wage policies would help minimize the prospects for a resurgence of inflation Finally, the Mexican authorities will need to continue their efforts to effect structural changes

The World Bank is seeking to complete negotiations on several operations for a total of US\$1.5 billion Macroeconomic understandings would be required in connection with these loans in the absence of an arrangement from the Fund The Fund staff has been discussing with the Bank staff what might be a suitable macroeconomic framework

It is not clear at this stage whether the Mexican authorities will repeat their request solely for a CCFF drawing, or whether they will, as some Mexican representatives have suggested, wish to seek support from the Fund under a stand-by or extended arrangement

A complex situation could arise if the Mexican authorities do not wish to negotiate an upper credit tranche arrangement, and thus would limit our involvement in the framing of policies. A decision would then be required as to the conditions for access to a CCFF drawing under the least stringent test of cooperation, for access to up to 20 percent of quota for export shortfalls and up to 17 percent for cereal import costs (Preliminary estimates suggest an export shortfall and a cereal cost excess of approximately these amounts )

The preferred solution would be to make access to Fund resources conditional on appropriate actions and on assurances that adequate foreign financing is in place, even if details of a financing package are not completed. The authorities may challenge such a line on the grounds that they should be entitled to access under the CCFF on the basis of their past record and on the grounds that their policies can be construed as broadly satisfactory (particularly on their assumption that there should be substantial external financing for Mexico)

There would be a danger in agreeing to these arguments since the present policy stance may become unsustainable and before long would require major corrective actions

The attached briefing was reviewed by the following departments

Exchange and Trade Relations  
Fiscal Affairs  
Legal  
Research  
Treasurer's  
Western Hemisphere

Mr Brau  
Mrs Ter-Minassian  
Mr Surr  
Mrs Rojas-Suarez  
Mr Zavoiro  
Messrs Caiola, Ferrán,  
van Beek and myself

Attachment

cc Mr H Simpson

INTERNATIONAL MONETARY FUND

Briefing for Mission to Mexico

Prepared by the Western Hemisphere and  
Exchange and Trade Relations Departments

(In consultation with the Fiscal Affairs, Legal, Research, and  
Treasurer's Departments)

Approved by S T Beza and Fduard Brau *P*

*MS*

February 3, 1989

A staff mission consisting of Messrs Loser (Head), Bonvicini, Kalter, Khor (all WHD), and Sheehy (ETR), Ms Rojas-Suarez (RES), and Ms Puri (Secretary-WHD) will visit Mexico City for about three weeks, probably starting February 21, 1989 to conduct the 1989 Article IV consultation discussions and continue discussions on the possible use of Fund resources under the CCFF. Mr Loser would join the mission on February 25, 1989.

A mission that visited Mexico City in late 1988 held discussions with the authorities on the existing economic situation and policies and on technical issues related to the CCFF request. However, the authorities were not in a position to discuss prospective policies. Following the assumption of office by President Salinas on December 1 and the subsequent announcement on economic policies for 1989, the stage has been set for discussions as to the possible use of Fund resources, whether under an upper credit tranche arrangement or under the CCFF. These discussions could start next week as the Mexican authorities visit Washington.

On March 10, 1988 the Executive Board completed the 1987 Article IV consultation and the second review under the stand-by arrangement that expired on March 31, 1988 (EBM/88/23 and Supplement 1). As of December 31, 1988, Fund holdings of Mexican pesos in the credit tranches, including drawings under the EFF and the enlarged access policy, stood at SDR 3,661 million, or 314 percent of quota.

I Background

In mid-1986 the Mexican authorities adopted an economic program which was successful in strengthening Mexico's external position. In 1987 Mexico achieved a current account surplus of nearly 3 percent of GDP and net external reserves rose by more than US\$6 1/2 billion. However, the 12-month rate of increase in consumer prices rose from 106 percent in December 1986 to nearly 160 percent in December 1987 rather than declining as had been projected in the program (Table 1).

The acceleration of inflation in 1987 reflected an increased degree of indexation and more frequent adjustments of wages, exacerbated by the weakening of the fiscal stance in the second half of the year. This, together with some real appreciation of the peso, led to a weakening of the balance of payments late in the year. The authorities, in response, introduced in December 1987 a comprehensive economic program based on a pact with labor and business (the PACTO), which was aimed at correcting prevailing imbalances and, in particular, at bringing down the rate of inflation. Major adjustments to the exchange rate, minimum wages, and public sector prices and tariffs were implemented in December 1987, accompanied by further trade liberalization measures and a tightening of credit control. A wide-ranging wage-price-exchange rate freeze through March 1988 also was announced at that time.

Economic performance in 1988 was mixed. The Mexican authorities took significant policy actions that resulted in an increase in the primary fiscal surplus. Also, in the context of an extension of the PACTO and a major trade liberalization effort, the rate of price increase fell sharply. The 12-month rate of price increase decelerated to 52 percent by year-end, the monthly rate of price increase declined from 15 percent in January to less than 1 percent on average during August-October, but accelerated to some 2 percent in December (Chart 1). Domestic real interest rates rose as doubts persisted about the Government's economic program, and thus the operational fiscal outcome weakened markedly. There was a broadly similar deterioration in the domestic savings performance and in the external current account, reflecting in part the large real effective appreciation of the peso. The overall balance of payments is estimated to have registered a deficit of around US\$7 billion, more than erasing the net reserve gain of 1987. The weakening of competitiveness seems to have been a factor in the low growth of GDP, and together with the sharp deterioration in the operational fiscal balance, induced an increase in real domestic demand of 5 percent, virtually all in the form of higher domestic consumption.

As a consequence of tight expenditure control and a strong performance of revenues other than those related to petroleum exports, the primary fiscal surplus rose from 5 percent of GDP in 1987 to an estimated 7 1/4 percent in 1988. The public sector borrowing requirement (PSBR) is estimated to have declined by 5 percentage points in 1988 to some 10 1/2 percent of GDP, reflecting the strengthened primary surplus, as well as lower nominal interest rates. However, with sharply higher real interest rates (at an average monthly rate of around 3 percent), the operational balance shifted from a surplus of 2 percent of GDP in 1987 to a deficit estimated at 2 1/2 percent in 1988.

With foreign financing of the public sector declining significantly in 1988, most of the public sector deficit was financed domestically. Moreover, following an initial tightening, credit to the private sector expanded sharply after the second quarter of the year. The Bank of Mexico increasingly absorbed the financing requirements of the public

sector, and there was a significant overall credit expansion for the year. Notwithstanding high real interest rates, the growth in domestic financial savings was sluggish in 1988. These developments reflected a continuation of concerns about the sustainability of policies, particularly about the exchange rate, during a period of repeated extensions of the freeze, political uncertainties emerging from the narrow electoral victory of the PRI (the ruling political party), and concerns about developments in the balance of payments. In the context of a fixed exchange rate, these factors, together with a rapid credit expansion, led to the loss of net international reserves noted above.

The exchange rate for the peso remained unchanged vis-a-vis the U S dollar during 1988, except for a small adjustment in February, and the peso appreciated in real effective terms by about 30 percent during the year (Chart 2). While the real appreciation of the peso was a factor behind the slowdown of domestic inflation last year, it also contributed to lower domestic savings and to the weakening of the balance of payments. The significant trade liberalization effort further affected the relative price of imports and contributed to a sharp increase in private sector imports. Concurrently, non-oil exports grew steadily through August but subsequently have been stagnant while petroleum prices declined and foreign interest rates increased <sup>1/</sup>. In these circumstances, the external current account shifted from a surplus of some US\$4 billion in 1987 to an estimated deficit of over US\$3 billion in 1988, a deterioration equivalent to about 5 percentage points of GDP.

As the balance of payments came under significant pressure in the second half of the year, the authorities negotiated in mid-October a bridge loan for up to US\$3.5 billion from the United States, which in principle could be drawn mainly on the basis of progress in negotiations with the World Bank and the Fund. These funds have not yet been disbursed. The authorities also announced some tightening of fiscal policy and allowed interest rates to rise somewhat. However, net international reserves continued to fall. It is estimated that gross reserves declined from the equivalent of 13 1/2 months of imports at end-1987 to some four months at end-1988.

## II Economic Outlook and Policies for 1989

The new administration has announced its intention to consolidate recent gains on the inflation front and to intensify the structural

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<sup>1/</sup> The average price of Mexican crude oil exports declined from US\$16 a barrel in 1987 to about US\$12 a barrel in 1988. Average effective interest rates for Mexico are estimated to have increased by 0.6 percentage point over the same period. These developments account for about US\$2 1/2 billion of the US\$7 billion reversal in the external current account.

reforms initiated in the last few years, with a view to setting the conditions for a gradual restoration of economic growth in the context of improved efficiency in resource allocation. The authorities are of the view that the resumption of growth requires an external debt policy within a multiyear context that is aimed at a reduction in debt service payments with a sharp decline in the resource transfer abroad.

The authorities announced on December 12, 1988 the Pact for Economic Growth and Stability (new pact), with specific guidelines that run through July 31, 1989. The new pact includes a devaluation of the Mexican currency against the U S dollar of one peso a day (initially 1.3 percent a month), increases in some public sector prices and tariffs (excluding petroleum, electricity, and gas for household use), and an immediate 8 percent increase in minimum wages (10 percent increase for public sector wages). Following these adjustments, a new freeze on minimum wages and controlled prices was introduced. The 12-month rate of inflation is projected to decline from 52 percent in December 1988 to 18 percent by the end of 1989.

The 1989 budget provides for tax increases and a cutback in capital expenditure partly offset by higher outlays on social programs and lower revenue from petroleum exports and from domestic sales of public sector goods and services. The budget has been prepared on the basis of a conservative assumption of petroleum export prices at US\$10 a barrel (corresponding to a price of about US\$13 1/2 a barrel for West Texas Intermediate, which is now quoted at about US\$17 1/2 a barrel). The fiscal primary surplus is projected to narrow to 6 3/4 percent of GDP in 1989 from 7 1/4 percent of GDP in 1988. If real interest rates were to decline as projected, however, the operational deficit would fall from some 2 1/2 percent in 1988 to 1 1/2 percent of GDP in 1989, while the PSBR would decline from 10 1/2 percent of GDP to 6 1/2 percent. The authorities aim at securing net external financing of US\$6 billion for the public sector in 1989. On that basis, they expect that the fiscal outcome, in conjunction with appropriate monetary, exchange rate, and wage policies, will be consistent with some recovery of investment and output, lower inflation, and some strengthening of the net international reserves.

On the basis of available information, the strategy envisaged by the Mexican authorities entails significant risks, particularly with regard to the achievement of the inflation target and a viable balance of payments outcome. Attainment of these objectives is dependent on a sharp decline in real interest rates, in large part made possible through capital inflows, investment would rise but domestic savings would remain largely unchanged. As described below, these risks would be reduced with a fiscal effort considerably greater than that proposed in the 1989 budget.

The staff is of the view that greater reliance should be placed on domestic savings (including public sector savings) and less on external savings than presently envisaged by the Mexican authorities. A scenario

prepared by the staff suggests that with financial, exchange rate, and structural policies that lead to increased private savings and greater fiscal adjustment than that so far indicated by the authorities, national savings could increase by 6 percentage points of GDP by 1993. Mexico could attain a rate of growth of 1 1/2 percent in 1989 and increasing to 5 1/2 percent by the end of the period. This scenario would require net external financing requirements of around US\$4 1/2 billion a year (adjusted for net international reserves), considerably less than that estimated by the Mexican authorities 1/

In the area of fiscal policy three major problems emerge from the recently approved budget. The measures announced in December may not yield the expected results, domestic real interest rates may not decline as projected, and the availability of foreign financing may be smaller than envisaged. Preliminary estimates by the staff indicate that on the basis of the announced measures, only if petroleum export prices remain at US\$14 a barrel (instead of US\$10 a barrel incorporated in the budget) would the primary surplus be 6 3/4 percent, as projected by the authorities. Moreover, the 1989 fiscal improvement depends on a sharp decline in domestic real interest rates. Based on a more moderate decline in domestic real interest rates, the operational deficit could remain at 2 1/2 percent in 1988 while the PSBR would only decline by 3 percentage points of GDP. Moreover, as noted below, foreign financing may be less than the authorities have programmed.

In light of the factors mentioned above, a firmer fiscal stance seems necessary. It is true that the primary fiscal surplus is high in relation to other countries, but so are real interest payments on domestic and foreign debt. A further improvement in the primary balance would help raise domestic savings and lessen the pressure on interest rates, while possibly reducing the reliance on external savings (in relation to the authorities' projections). Additional fiscal measures should be wide-ranging and may need to include reductions in transfers to official agencies outside budget control as well as increases in key public sector prices, e.g., those for gasoline and electricity.

The authorities are seeking net external financing for the public sector of US\$6 billion, equivalent to 80 percent of interest payments on external public sector debt. The proposed amount of foreign financing may be too high. Some financing could be forthcoming in the form of direct investment and through loans from multilateral institutions, but the remaining external financing is yet unidentified. Moreover, on the basis of staff estimates, continued use of foreign resources of this magnitude may not be consistent with the needed improvement in the balance between domestic savings and domestic investment and could entail an unsustainable deterioration in key debt indicators.

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1/ The implications of the various scenarios for external debt are, of course, dependent on the specific strategy to be followed on foreign financing, either through new money or debt-reducing mechanisms.

Credit policies should support fiscal policy in attaining a continued moderation of the rate of inflation and the strengthening of the balance of payments. Actions may be needed to broaden central bank monitoring of the operations of nonbank financial intermediaries, accompanied by a gradual easing of quantitative credit and interest rate controls on commercial banks. Credit policy needs to be tightened to offset inflationary pressures stemming from the initial wage and price adjustments and any excess liquidity that may exist in the economy.

Recent trends in the balance of payments appear unsustainable and actions will be necessary to correct the situation. The authorities are likely to argue that balance of payments difficulties have been associated with trade liberalization, which by raising economic efficiency, has contributed to higher private investment and additional capital goods imports. However, as noted above and in addition to the uncertainties related to the political situation and a weakening of the financial policy stance, a major factor underlying the weakening balance of payments appears to have been the real effective appreciation of the peso in 1988, even more so in the presence of a major trade liberalization effort.

A realistic exchange rate policy, coordinated with wage policy is central to a viable program. The current exchange rate policy appears insufficient to restore a viable external position, both as a means of facilitating export growth and to ease uncertainties surrounding the present policy stance. The authorities should stand ready to take further exchange rate action, preferably through a step change in the exchange rate. Alternatively, stronger fiscal and credit efforts will be required, with possible adverse effects on growth. The differential between the free and controlled foreign exchange rates is small--less than 1 percent--because of Bank of Mexico intervention, and the staff will emphasize that the authorities should take advantage of the situation to unify the exchange markets.

A key factor in the authorities' anti-inflation effort will be a continuation of the wage policy implemented last year, with increases determined in a forward-looking approach. After an initial sharp adjustment in early 1988, there was a de facto deindexation of wages. Minimum wages changed little during the year and they declined in real terms, however, in terms of U S dollars they are higher than in 1987. Wages in manufacturing appear to have increased in relation to the minimum wage.

The World Bank is seeking to complete negotiations on several operations for a total of US\$1.5 billion, including an industrial sector loan, a financial sector reform loan, and a public sector restructuring loan. The Bank has indicated that macroeconomic understandings would be needed in the absence of an arrangement from the Fund. The Fund staff has been discussing what might be a suitable macroeconomic framework with the Bank staff.

It is not clear at this stage whether the Mexican authorities will repeat their request solely for a CCFF drawing, or whether they will, as some Mexican representatives have suggested, wish to seek support from the Fund under a stand-by or extended arrangement. The mission will enquire about this possibility and, if a positive response is obtained, will initiate exploratory discussions on an economic program that could be supported by the use of Fund resources. Of course, indications could be obtained earlier, in the wake of the forthcoming discussions in early February in Washington.

The mission will resume discussions on access to Fund resources under the CCFF, if requested. Data and projections required for the technical evaluation of the existence of an export shortfall and excess on cereal imports will be updated. Earlier calculations had indicated an export shortfall of about 20 percent of quota and a cereal excess of about 17 percent of quota, approximately equivalent to the amounts that could be made available under the least restrictive test of cooperation. However, in light of recent trends in petroleum prices, the shortfall for 1988 may be higher than is suggested by these calculations.

With regard to the possible CCFF negotiations, the mission will make an assessment in order that, on its return, a determination can be made as to whether the policies and objectives proposed by the authorities for 1989 are consistent with the guidelines on cooperation for use of Fund resources under the CCFF. In particular, it will gain a better understanding for the basis of the authorities' fiscal projections and examine whether there are adequate assurances regarding the availability of the external resources required to finance the authorities' economic program. As described above, there are considerable uncertainties about the current policy stance and the availability of financing to Mexico. Therefore, the authorities may have to take significant measures to achieve a viable balance of payments position, even in the absence of a program supported by the Fund. Moreover, clear indications of progress in negotiations with foreign creditors would be necessary for a favorable response by the Fund to the Mexican request.

#### Attachments

cc Mr Frenkel  
Mr Gianviti  
Mr Laske  
Mr Tanzi  
Mr Van Houtven  
Mr Whittome  
Mr H Simpson

Table 1 Mexico Selected Economic and Financial Indicators

	1984	1985	1986	1987	Est 1988	Budget 1989
(Annual percentage change unless otherwise specified)						
<u>Income and prices</u>						
Real GDP	3 6	2 6	-4 0	1 4	0 4	1 5
GDP deflator	59 1	56 8	74 3	143 0	108 2	19 9
Consumer prices (end of year)	59 2	63 7	105 7	159 2	51 7	18 0
Consumer prices (average)	65 5	57 7	86 2	131 8	114 2	
Consumer prices (monthly average)	4 0	4 2	6 2	8 3	3 7	1 4
<u>External sector</u>						
Exports (f o b)	9 7	-9 5	-24 4	28 3	1 8	3 6
Export volume	8 0	-4 6	7 4	13 4	1 8	
Imports (f o b)	31 6	17 4	-13 5	6 9	52 9	11 6
Import volume	27 1	17 2	-11 7	4 3	44 3	
Terms of trade (debt -)	-1 9	-5 3	-28 2	10 4	-5 7	
<u>Nominal effective exchange rate</u>						
Average (depreciation -)	-24 4	-28 7	-59 3	-57 8	-37 6	
End of period	-19 9	-48 0	-61 8	-55 5	-9 2	
<u>Real effective exchange rate</u>						
Average (depreciation -)	16 9	2 9	-30 0	-8 1	23 2	
End of period	18 5	-20 6	-23 5	3 3	29 8	3 8
<u>Overall public sector</u>						
Receipts	63 1	56 1	62 7	135 5	103 7	13 3
Outlays	56 9	66 4	89 3	139 3	80 7	4 4
<u>Money and credit 1/</u>						
Domestic credit (net)	63 5	58 9	89 4	96 0	83 4	
Public sector (net)	24 9	43 0	85 9	62 4	53 6	
Private sector	37 5	21 7	29 3	55 1	29 7	
Money and quasi-money (M-3)	67 8	43 7	75 6	116 6	48 7	
Velocity (GDP/M-3)	4 1	4 3	4 1	4 5	5 3	
Real growth in M-4	6 0	-7 6	-0 6	-0 5	2 0	--
Velocity (GDP/M-4)	3 6	3 7	3 3	3 4	3 9	
Interest rate (monthly average rate 1-month treasury bill) 2/	4 0	5 0	6 6	7 8	5 8	
(Percent of GDP)						
Public sector savings	0 3	-2 7	-9 3	-9 8	-4 1	-2 2
Public sector savings (adjusted) 3/	7 6	5 4	3 7	7 0	2 8	1 4
Public sector economic deficit	-6 4	-8 7	-14 8	-14 8	-9 3	-5 2
Foreign financing	1 3	--	0 8	2 7	0 2	2 9
Primary balance	4 8	3 3	2 3	5 0	7 4	6 7
Operational balance	1 0	-0 6	-1 8	1 9	-2 8	-1 6
Public sector borrowing requirement	8 4	9 5	15 6	15 7	10 6	6 4
Gross domestic investment	19 9	21 9	18 5	17 7	17 8	18 6
Gross national savings	22 3	22 3	17 6	20 5	16 1	16 2
Current account deficit (-)	2 4	0 4	-0 9	2 8	-1 8	-2 4
Public external debt (including IMF) 4/	38 8	38 5	57 9	58 7	46 4	
Interest payments on public debt 5/	4 7	4 1	4 7	4 2	3 8	
(In percent of gross current receipts)						
<u>Public debt service 6/</u>						
Before rescheduling	47 7	66 6	78 2	89 9	87 7	
After rescheduling	37 8	39 8	44 3	41 9	49 5	
(In billions of U S dollars)						
Overall balance of payments	3 0	-3 4	-1 1	6 6	-7 0	1 1
Gross official reserves (months of imports) 7/	9 6	5 6	7 4	13 5	4 2	

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

1/ Changes are effective flows adjusted for exchange rate changes in relation to total liabilities to the private sector at the beginning of the period

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

3/ Adjusted for the inflationary component of interest payments which is treated as debt amortization but includes inflation tax

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

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

6/ Includes debt service on Fund credit

7/ Excluding gold and payments agreements

Fund Relations with Mexico  
(As of December 31, 1988)

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 4,735 8 million  
or 406 3 percent of quota
- (c) Fund credit SDR 3,661 2 million or 314 1 percent of quota  
Of which SDR 674 2 million or 57 9 percent of quota  
under credit tranche  
SDR 998 1 million or 85 6 percent of quota  
under EFF  
SDR 1,898 0 million or 162 8 percent of quota  
under EAR
- (d) Reserve tranche position None

III Financial Arrangement and Special Facilities

- (a) Last stand-by arrangement
  - (i) Duration November 19, 1986 until April 1, 1988
  - (ii) Amount SDR 1,400 million
  - (iii) Utilization SDR 1,050 million
- (b) Emergency assistance
  - (i) Purchase in January 1986
  - (ii) Amount SDR 291 375 million
  - (iii) Utilization SDR 291 375 million
- (c) Previous extended arrangement
  - (i) Duration from January 1, 1983 to December 31, 1985
  - (ii) Amount SDR 3,410 6 million
  - (iii) Utilization SDR 2,502 7 million
  - (iv) Undrawn balance 907 9 million

IV SDR Department

- (a) Net cumulative allocation SDR 290 million
- (b) Holdings SDR 292 5 million or the equivalent of  
100 9 percent of net cumulative allocations

V. Financial Obligations due to the Fund (In millions of SDRs)

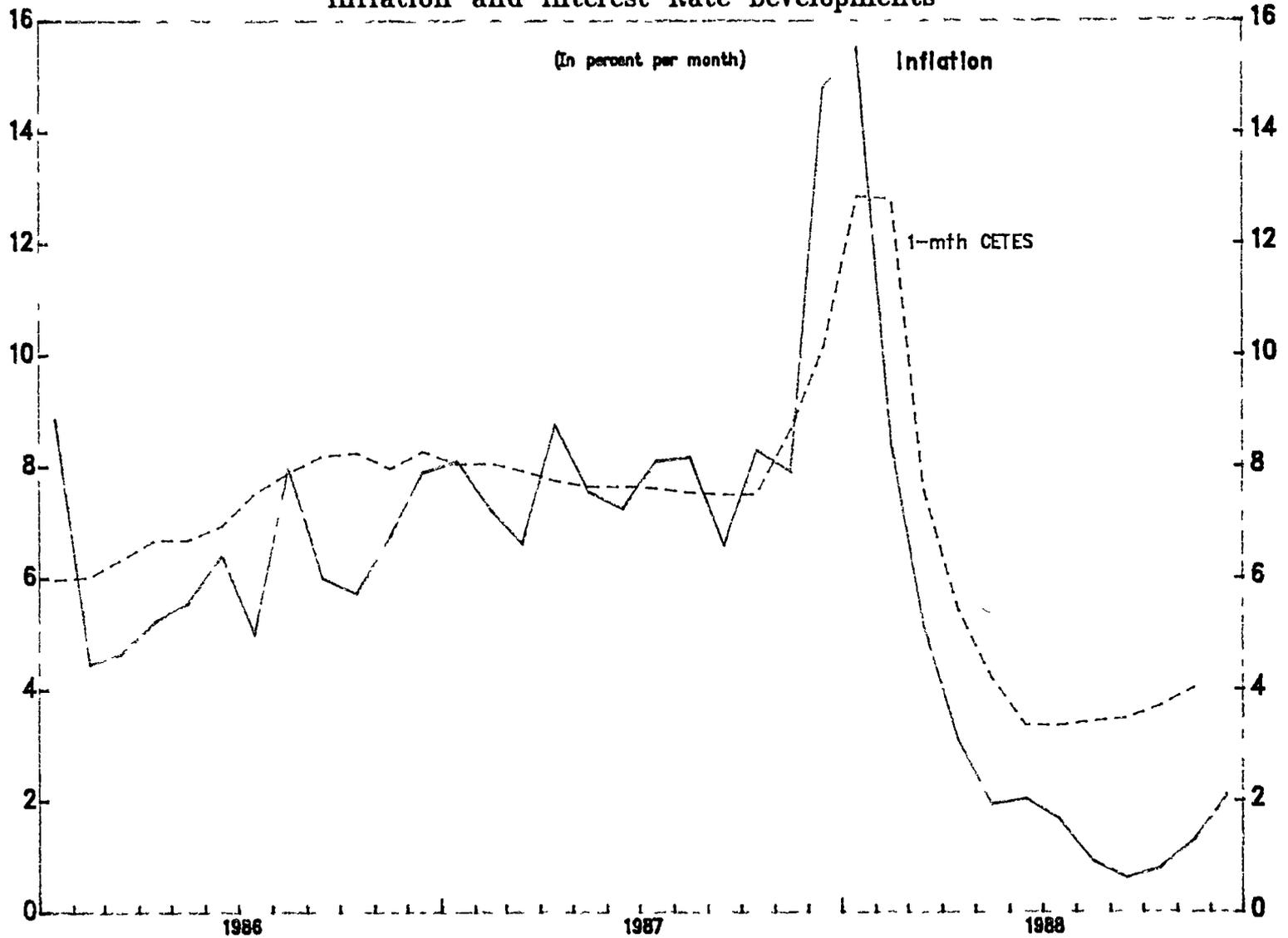
	Overdue Financial Obligations (12/31/88)	Principal and Interest Due			
		1989	1990	1991	1992
<b>Principal</b>					
Repurchases	--	639.6	877.1	807.4	518.4
Charges and Interest including SDR and TF (provisional)	--	276.7	221.6	154.4	95.6
<b>Total</b>	<b>--</b>	<b>916.3</b>	<b>1,098.7</b>	<b>961.8</b>	<b>614.1</b>

B. Nonfinancial Relations

- VI. Exchange rate arrangement: Since August 5, 1985 two official markets have been operative in Mexico: a controlled market covering specified transactions amounting to about 80 percent of all trade and payments transactions, and a parallel market. The controlled market rate is determined under a managed float system guided by a set of indicators whereas the parallel market rate is established by market forces. From March 1 to December 31, 1988 the controlled market rate was fixed at Mex\$2,281 per U.S. dollar; the average "free" rate was Mex\$2,295.0 per U.S. dollar and the spread between the exchange rates in the controlled market and the free market was less than 1 percent. Since the beginning of 1989, the controlled rate has been depreciated at the rate of 1 peso per day.
- VII. Last Article IV consultation and review under stand-by arrangement: The last Article IV consultation and review of the 1987 program were completed by the Executive Board on March 10, 1988 (EBM/86/36, 3/10/88). The relevant supporting documents were FBS/88/23 and Correction 1; and SM/88/47. For consultation purposes, Mexico is on the 12-month cycle.
- VIII. Technical Assistance: At the request of the Mexican authorities, during 1985 two technical teams from the Fiscal Affairs Department provided technical assistance in the fields of direct and indirect taxation. No technical assistance has been provided by the Fund to Mexico since then.

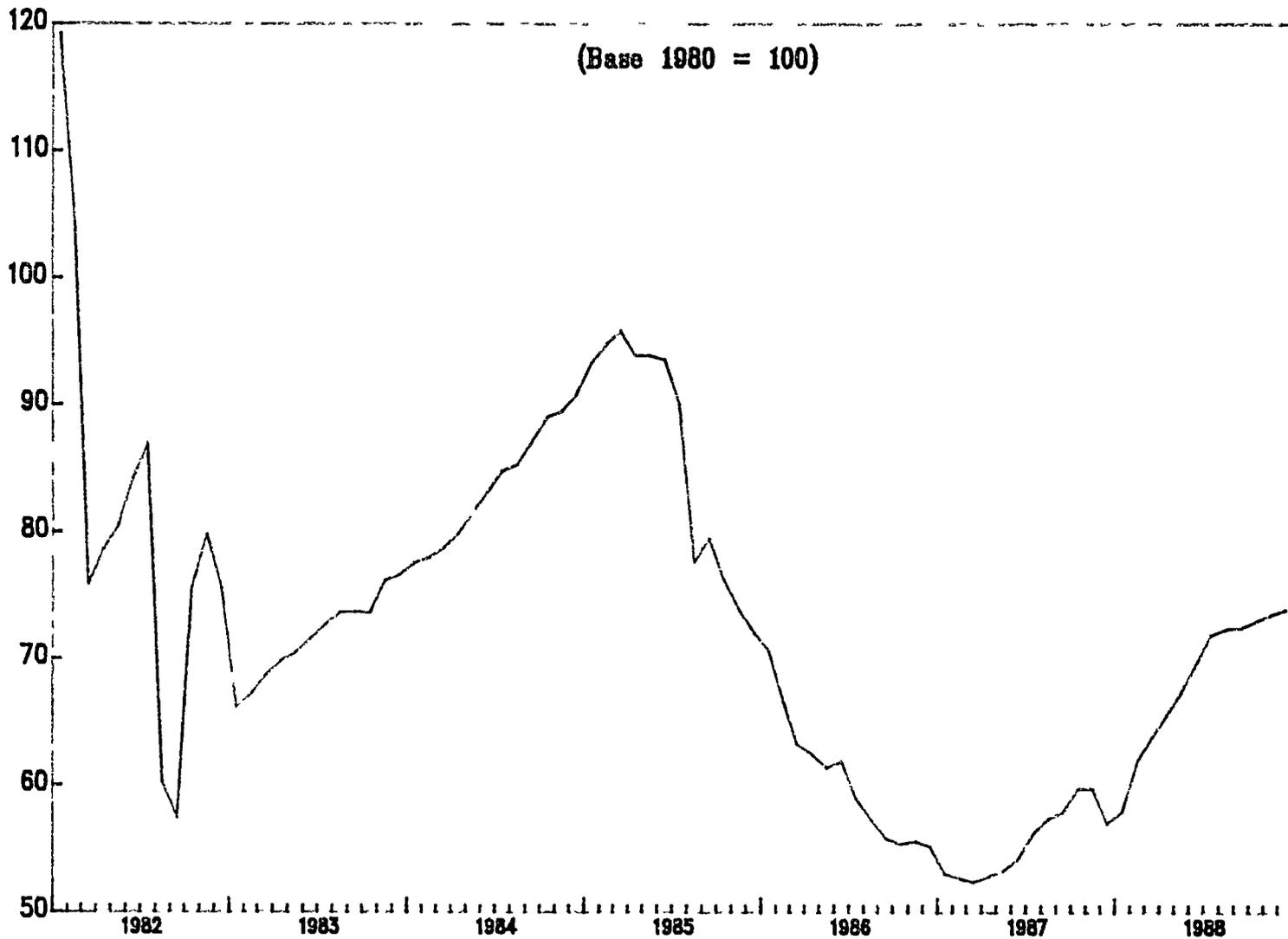
CHART 1  
MEXICO

### Inflation and Interest Rate Developments



Source: Mexican authorities.

CHART 2  
MEXICO  
Real Effective Exchange Rate



Sources: Mexican authorities and Fund staff estimates.



# Office Memorandum

DIB  
IO  
F ✓

TO Mr Loser DATE February 1, 1989  
FROM E Kalter *EK*  
SUBJECT Mexico U S Plan for Mexican Debt Restructuring

The Financial Times reported yesterday from Mexico City that an alleged U S Treasury working paper on Mexican debt restructuring and relief sees Mexico as a test case for a new debt strategy. Subsequently, the U S Treasury has denied that the paper had originated there. Rather, as reported in the Financial Times today, U S Treasury officials maintained that the proposals outlined in the report may have been based on an internal study prepared by a private financial institution.

The report outlines three options contained in the paper for providing Mexico with net external financing over the medium term. The following reviews and quantifies the first two options but not the third due to a lack of information 1/

## Option I

The first option outlined in the report envisages net external financing of US\$4 billion a year of which US\$3 billion is from new bank lending, US\$1/2 billion is from interest savings due to debt-for-equity swaps and exist bonds and US\$1/2 billion is from interest savings due to a debt buy-back scheme.

a) The first option envisages a menu where US\$9 billion in new money is raised over a three-year period from banking institutions that are unlikely to sell their assets at a discount, e g , U S money center banks, U K banks, and Japanese banks. This is equivalent to an annual increase of 4 percent in bank exposure to Mexico.

b) Under the menu, debt-for-equity swaps and exit bonds would reduce Mexico's debt to banks sufficiently to cause interest payments by Mexico to decline by a cumulative US\$1 1/2 billion over the three-year period. This would result, assuming an interest rate of 8.8 percent, from a reduction in banks' assets of about US\$5.7 billion in the first year or a decline of US\$8.6 billion during the period, e g , a reduction of US\$2.85 billion a year. With Mexico's debt to banks trading on the secondary market at around US\$0.50, a reduction in bank assets of US\$5.7 billion through debt-equity swaps could be associated with up to twice that amount in direct investment. The amount of direct investment associated with debt-equity swaps would be reduced if the Mexican Government taxed part of the gain by offering reduced discounts from those indicated on the secondary market. However, the resulting direct investment, equivalent to up to 5 percent of GDP, may pose problems for

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1/ The total amount of required net external financing is not identified in the report. In analyzing the two options, it is assumed that this figure is US\$6 billion a year, of which US\$2 billion a year is from sources other than commercial banks.

monetary management Use of exit bonds, in combination with the debt-equity swaps, might alleviate this pressure

c) The first option also envisages a debt buy-back scheme, where new bonds would be issued for old loans at a fixed tender with a 40 percent discount The new bonds would be collateralized by 20-year zero-coupon U S treasury bonds purchased by Mexico with interest guaranteed by the IBRD for a rolling three-year period

In order for interest payments by Mexico to decline by US\$1 1/2 billion over the three-year period on account of this operation alone, the debt buy back would have to reduce Mexico's net external debt by an equivalent amount as described above, i e , by US\$5 7 billion in the first year or with an average reduction of US\$2 8 billion in each year With a discount of 40 percent (an exchange ratio of 1 66), this could be achieved with an issue of US\$8 6 billion of new bonds 1/ These new instruments would be exchanged for US\$14 3 billion of old loans, leaving a net reduction of external debt of US\$5 7 billion Similarly, a bond issue of US\$4 3 billion in each year would retire US\$7 1 billion of old loans each year, leaving a net reduction of external debt of US\$2 8 billion each year

The cost of collateralizing the principal of the new debt instrument would be 18 7 percent of the total value of the new bond or US\$1 6 billion if the entire operation were completed in the first year 2/ A new debt issue of US\$8 6 billion with the principal collateralized, but without a guarantee of interest by the IBRD, would likely reduce Mexico's net external debt by only US\$1 6 billion Equivalently, the US\$1 6 billion used for the collateral could have been used for a direct cash buy back of Mexico's external debt in the secondary market Thus the interest guarantee by the IBRD accounts for over 70 percent of the net reduction of Mexico's external debt resulting from the debt buy-back scheme The present value of the interest guarantee by the IBRD would be US\$4 1 billion 3/

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1/ The following calculation assumes that the market discount in the secondary market on existing debt is 50 percent The exchange ratio is equivalent to the ratio of old debt for new debt instruments, which is equivalent to the ratio of the expected present value of the new debt instrument to the market value of the existing debt The interest rate assumption is 8 8 percent

2/ The present value of the new instrument can be determined by breaking it into two components--the present value of the principal and the present value of the interest payments on the new bond The present value of the principal is equal to the cost of the collateral of the zero-coupon U S treasury bond The present value of the principal of a 20-year bond is equivalent to 18 7 percent of the present value of the new instrument

3/ As indicated above, the interest guarantee by the IBRD raises the exchange ratio from 1 187 to 1 66 A guarantee of all interest payments would raise the exchange ratio from 1 187 to 2

d) As stated above, the total of these operations would yield net external financing of US\$4 billion a year. The remaining US\$2 billion a year would come from multilateral agencies and official lenders.

### Option II

The second option outlined in the report also envisages net external financing of US\$4 billion a year. This is obtained from US\$2 1/3 billion from a reduction of interest rates and US\$1 2/3 billion from interest savings due to a debt buy-back scheme.

a) The second option envisages a temporary reduction of interest rates on Mexico's commercial term loans in order to lower the interest-to-export ratio from 28.8 percent in 1988 to 20 percent by 1991, reducing interest payments by an average of US\$2 1/3 billion a year.

b) As described above, new bonds would also be issued for old loans at a fixed tender with a 40 percent discount. The debt buy-back scheme would need to reduce interest payments by US\$1 2/3 billion a year, implying that the buy-back scheme would have to reduce Mexico's net external debt by US\$19 billion in the first year or with an average reduction of US\$9.5 billion in each year. With an exchange ratio of 1.66, this could be achieved with an issue of US\$29 billion of new bonds. These new instruments would be exchanged for US\$48 billion of old loans, leaving a net reduction of external debt of US\$19 billion. This proposal does not appear to be realistic as it requires a large proportion of bank participation.

As described more fully above, the cost of collateralizing the principal would be 18.7 percent of the total value of the new bonds or US\$5.4 billion if the entire operation were completed in the first year. The present value of the interest guarantee by the IBRD would be US\$13.7 billion.

c) As in option I, the total of these operations would yield net external financing of US\$4 billion a year. The remaining US\$2 billion a year would come from multilateral agencies and official lenders.

cc Mr Beza ✓  
Mr Brau  
Mr Watson  
Mr Bonvicini



# Office Memorandum

*Copy given to  
me  
D. P. Bureau*

TO Mr Beza *[Signature]* DATE January 30, 1989  
FROM Jorge Bonvicini and Eliot Kalter *EK*  
SUBJECT Mexico Draft Staff Paper on Conditionality Review

We have the following general comments on the above-mentioned paper

1 In reviewing the record of countries with Fund-supported adjustment programs, insufficient attention is given to the difficulties of heavily indebted countries in attaining sufficient adjustment along with some economic growth. Countries' adjustment efforts would be better described by more fully emphasizing and delineating this source of economic imbalance.

2 In reviewing the experience with program monitoring, the draft paper raises the issue of the appropriateness of relying exclusively on credit ceilings in restraining inflation when the monitoring of monetary aggregates may also be appropriate. This is an important topic that may deserve more attention in the paper, as financial programming in economics with high and variable rates of inflation is difficult. In the case of Mexico, the higher-than-programmed monetary aggregates may have reflected not only the overperformance of the balance of payments, as described in the draft paper, but also financial policies that became out of line with the inflation target as events developed during the year. Hence, the reference to the Mexican case should either be deleted or be more fully explained.

Concerning more specific points

Page 7--The paper states that many countries benefited from positive movements in the terms of trade. This may have been the case but presumably from a low base.

Page 8--The countries that have yet to achieve fully the objectives of their program are not listed.

Page 18--This section concerns the relationship between the design of a fiscal program and the achievement of a successful economic adjustment, however, it does not mention the possible use of different fiscal concepts, e.g., the primary, operational, and overall economic balances.

Page 23--The reference to trade liberalization and "relative financial stability" is not clear.

Page 24--It should be made clear that Mexico only had a de facto wage indexation and that other inertial elements contributed to the difficulty of controlling nominal variables

Page 25--The statement that the partial recovery of oil prices meant that the external environment was more favorable than anticipated in the Mexico program is misleading. The program targets were symmetrically adjusted for deviations in actual oil prices with respect to projections

Page 34--The reference to the IBRD and trade liberalization in Mexico should also apply to 1986-87

Page 35--The reference to a weakening of the Fund's usual focus on viability in the case of Mexico in 1987 is not clear

cc Mr. Loser



INTERNATIONAL MONETARY FUND  
WASHINGTON, D. C. 20431

*Mexico*

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MSG. NO. <u>19</u> (For Cable Room use only)	DATE <b>Jan. 13, 1989</b>	PAGE 1 OF 4
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<b>TO</b> <i>a</i>	NAME <b>Lic. Ariel Buira</b>
	AGENCY <b>Banco de Mexico</b>
	CITY/COUNTRY <b>Mexico City, Mexico</b>
	FACSIMILE TELEPHONE NO. <u>525-512-9990</u> (Country Code) (City Code) (Number)

<b>TEXT</b>	<b>INTERNAL DISTRIBUTION</b>
	<p><b>Ariel:</b></p> <p><b>De acuerdo a lo conversado, adjunto una serie de preguntas sobre el material rebibido.</b></p> <p><b>Muchas gracias.</b></p>
<b>FROM</b>	NAME <b>Claudio Loser</b> DEPT./DIV. <b>WHD</b>

ROOM NO. <u>10-100</u>	EXTENSION <b>8373</b>	ACCOUNT CODE <b>0043</b>
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AUTHORIZED BY <b>Claudio Loser</b> (TYPE)	SIGNATURE <i>Claudio Loser</i>
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## PREPARATION OF FACSIMILE MESSAGE

Messages prepared for facsimile transmission should be of an **urgent** nature, and generally not exceed 20 pages.

**Facsimile number** - including country and city codes - **must be provided** by originating office.

The cover sheet should be completed in full and signed by **authorized persons only**.

Messages should be prepared individually **in full** for each separate addressee.

Papers must be printed only on **one side** using standard 8½" x 11" or 8½" x 14" paper.

Paper should be **originals** or **very clear** copies. Do not use fluid or tape in making corrections. Small or lightly printed text may not be legible to recipient.

Pages should be numbered to indicate page number and total pages (for a ten page message, the cover page should be marked 1 of 10, the next pages, 2/10, 3/10 etc.).

Messages delivered to the Cable Room should be accompanied by a complete duplicate set of the message using the yellow copy as cover. This does not apply to offices of Executive Directors.

Clip, **do not staple**, the original set.

The duplicate set will be dispatch/time stamped, forwarded to the Correspondence Unit for distribution, and returned to the originating office.

Lista de Preguntas sobre los Criterios Generales

Del material enviado por Uds, incluyendo los Criterios Generales, han surgido varios puntos sobre política económica para 1989 que sentarían las bases para las conversaciones a realizar en el marco de la próxima consulta del Artículo IV. Las preguntas que siguen se refieren a algunos de estos puntos. A fin de mejorar nuestro entendimiento de dicho material, y con el propósito de evitar detalles innecesarios en el presente cuestionario, les agradeceríamos si nos pudieran enviar la información siguiente:

- a. Cierre preliminar de las operaciones del sector público para 1988 (base caja).
- b. Volume I del Presupuesto 1989.
- c. La versión más actualizada de cuentas monetarias mensuales y la estimación más reciente de flujos de fondos para 1988, así como también una proyección de usos y fuentes de recursos financieros para 1989.
- d. La estimación más reciente de la balanza de pagos para 1988 y proyección para 1989, con los detalles acostumbrados.

En términos generales, y a fin de comprender mejor el presupuesto para 1989 y su relación con los objetivos macroeconómicos contenidos en los Criterios Generales, sería útil obtener información adicional sobre los elementos que han sido tenido en cuenta en dicha formulación. En particular, sería provechoso tener información acerca de los principales factores que están detrás de la relación entre los balances primario y operacional y el PSBR (i.e. tasas reales de interés, monto de deuda interna, y perfil de inflación). Asimismo deseáramos información sobre los elementos que han sido considerados con respecto a las

relaciones entre el PSBR, el crédito al sector privado, las tasas de interés internas, y el endeudamiento externo del sector público que se ha presentado. Con respecto al monto propuesto de endeudamiento externo, estaríamos interesados en obtener mayores detalles acerca de su composición y calendarización. Otro punto importante es el del análisis de competitividad externa y las perspectivas de la balanza de pagos

### Preguntas específicas

#### a. Cuentas fiscales

--Medidas de ingreso. Por favor proveer detalles de medidas de ingreso que fueron incorporadas en el presupuesto, incluyendo la recaudación adicional que se espera de cada una de ellas. Cúal es la razón del importante aumento proyectado para el ingreso por impuestos a la importación (de 0.4 por ciento del PIB en 1988 a 1.1 por ciento en 1989) y "otros impuestos" (de 0.3 a 0.6 por ciento)? También por favor explicar el alto nivel de ingresos no impositivos del Gobierno Federal proyectado para 1989 (1.7 por ciento del PIB en 1989 contra un promedio de 1 por ciento en 198-87). Si el Gobierno espera ingresos por ventas adicionales de empresas públicas, por favor proveer detalle de los mismos.

--Se supone en el presupuesto una extensión del nuevo pacto hasta fin de año? Esto parecería ser consistente con la baja proyectada de ingresos de empresas públicas.

--Cúales son los supuestos con respecto a tasas reales y nominales de interés sobre la deuda pública interna en el presupuesto y cómo se llegaron a ellos?

--En caso de necesitarse acciones fiscales adicionales, existen planes contingentes de acción tales como medidas impositivas etc ?

--Está incluida dentro de la estimación de cierre 1988 la ganancia de Mex\$2 5 billones de la operación de conversión de deuda? Si está incluida, aparece como un gasto negativo o como ingreso no tributario?

b. Cuentas monetarias

--Se han adoptado nuevas medidas de política monetaria para regular el crédito al sector privado? Es todavía aplicable la medida del año pasado que limitaba el crédito al sector privado a 85 por ciento de su nivel promedio en Diciembre 1987?

--El ahorro financiero del sector privado se proyecta sin crecimiento en términos reales para 1989, después de un aumento de 11.7 por ciento en 1988. Cuáles son las razones del rápido crecimiento del ahorro en 1988, y porqué no hay crecimiento en 1989?

c. El sector externo

--Cuáles son los supuestos detrás de la proyección de balanza de pagos incluida en los Criterios Generales?

--Cuáles son las fuentes esperadas para los recursos externos que se proyectan? Cuanto está ya comprometido? Cuanto del resto está actualmente siendo negociado son acreedores?

--Cuáles son los supuestos con respecto al nivel y composición de flujos privados de capital?



MANAGING DIRECTOR

INTERNATIONAL MONETARY FUND  
INTERNATIONAL MONETARY FUND  
WESTERN HEMISPHERE DEPT  
WASHINGTON, D. C. 20431  
1989 JAN -6 AM 9:59

*Mexico*

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CABLE ADDRESS  
INTERFUND

CC: MD  
DMD  
MRS. FILARDO  
SEC  
WHD ✓  
MR.H.SIMPSON

4 de enero de 1989

Estimado Lic. de la Madrid:

He leído con sumo interés su atenta carta del 17 de noviembre de 1988. En los últimos años hemos vivido una situación internacional económica compleja, que ha requerido de firmes y significativas acciones. En ese contexto, México ha mantenido una prolongada y muy constructiva relación con el Fondo Monetario Internacional, primeramente a través del servicio ampliado (EFF) en el período 1983-85 y posteriormente a través del Acuerdo de Crédito Contingente (SBA) aprobado en 1986.

El gobierno mexicano, al enfrentar circunstancias difíciles durante los últimos años, respondió con determinación, con resultados claramente positivos para el país. Así se tomaron medidas para fortalecer el ahorro interno y la competitividad y para mejorar la eficiencia, lo que permitió una más efectiva integración de México en el marco económico internacional.

En este proceso, el Fondo adaptó sus mecanismos de acceso, a través del mecanismo de contingencia petrolera, a fin de poder apoyar en forma más efectiva el proceso de ajuste mexicano, lo que sirvió de ejemplo para similares esfuerzos de apoyo a otros países. La búsqueda de nuevas soluciones refleja nuestra posición que solamente a través de un proceso de intensa cooperación es que puede lograrse una solución permanente a los problemas que enfrenta la economía internacional.

Deseo aprovechar esta oportunidad para agradecerle los esfuerzos realizados en áreas de mutuo interés, y le reitero mis mejores deseos de éxito en sus futuras labores.

Con mi mayor consideración,

  
Michel Camdessus

Lic. Miguel de la Madrid  
Palacio Nacional  
México 1, D.F. 06068  
México



INTERNATIONAL MONETARY FUND  
WASHINGTON D C 20431

*M. Camdessus*

CABLE ADDRESS  
INTERFUND

MANAGING DIRECTOR

4 de enero de 1989

Estimado Lic de la Madrid

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Con mi mayor consideración,

Michel Camdessus

Lic Miguel de la Madrid  
Palacio Nacional  
México 1, D F 06068  
México

Embajada de México

INTERNATIONAL MONETARY FUND  
WESTERN HEMISPHERE DEPT

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November 30, 1988

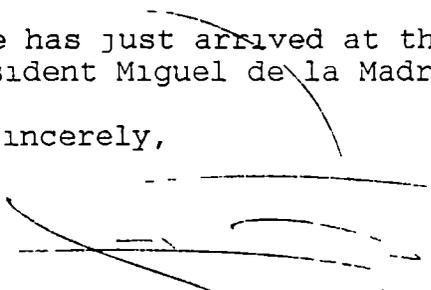
ORIG MD  
CC DMD  
MRS FILARDO  
SEC  
WHD ✓  
MR H SIMPSON

Mr Michel Camdessus,  
Managing Director  
International Monetary Fund  
700 19th Street, N W  
Washington, D C 20431

Dear Mr Camdessus

The enclosed correspondence has just arrived at this Embassy addressed to you by President Miguel de la Madrid

Sincerely,

  
Jorge Pinto Mazal  
Charge d'Affaires, a l.

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DIVISION

THE ORIGINAL IS BEING TRANSLATED

MIGUEL DE LA MADRID H  
PRESIDENTE CONSTITUCIONAL  
DE LOS ESTADOS UNIDOS MEXICANOS

Los Pinos, D. F.,  
17 DE NOVIEMBRE DE 1988

SEÑOR SECRETARIO EJECUTIVO

EL DÍA 30 DE NOVIEMBRE DEL AÑO EN CURSO CONCLUYE MI MANDATO COMO PRESIDENTE CONSTITUCIONAL DE LOS ESTADOS UNIDOS MEXICANOS.

EN ESTOS SEIS AÑOS, LA ADMINISTRACIÓN A MI CARGO HA DEBIDO AFRONTAR UNA DIFÍCIL SITUACIÓN FINANCIERA EXTERNA QUE ADQUIRIÓ Matices extremos, debido al desequilibrio que priva en el mercado mundial de capitales y a las políticas monetarias internacionales.

EL GOBIERNO MEXICANO HA INSISTIDO EN LA NECESIDAD DE UN ACUERDO, BAJO EL CONCEPTO DE CORRESPONSABILIDAD, ENTRE ACREEDORES Y DEUDORES PARA ALCANZAR UNA SOLUCIÓN DURADERA AL PROBLEMA DE LA DEUDA EXTERNA A FIN DE REVITALIZAR EL DESARROLLO DE LOS PAÍSES EN DESARROLLO.

SI BIEN EL CONCEPTO DE CORRESPONSABILIDAD HA IDO AMPLIANDO SU ACEPTACIÓN, TODAVÍA NO HA SIDO POSIBLE ENCONTRAR MECANISMOS JUSTOS Y DE LARGO PLAZO PARA TRATAR DE RESOLVER EL PROBLEMA DE LA DEUDA Y, DESDE LUEGO, ORDENAR MÁS RACIONALMENTE LA ECONOMÍA INTERNACIONAL.

AL FORMULAR VOTOS PORQUE LA INSTITUCIÓN QUE USTED DIRIGE SIGA AVANZANDO EN LA BÚSQUEDA DE SOLUCIONES A FAVOR DEL DESARROLLO MUNDIAL, REITERO A USTED LAS SEGURIDADES DE MI MÁS ATENTA Y DISTINGUIDA CONSIDERACIÓN.

EXCELENTÍSIMO SEÑOR  
MICHEL CAMDESSUS,  
SECRETARIO EJECUTIVO DEL  
FONDO MONETARIO INTERNACIONAL,  
P R E S E N T E .

SEC-8806620  
MF/RR BJS  
005850

ORIGINAL SPANISH

MIGUEL DE LA MADRID H

Constitutional President of  
the United Mexican States

Los Pinos, D F  
November 17, 1988

Sir

On November 30, 1988 my term as Constitutional President of the United Mexican States comes to an end

During the past six years my administration has had to face a difficult external financial situation which had extremely severe facets as a result of the disequilibrium that prevails in the world capital market and of international monetary policies

The Government of Mexico has insisted on the need for an agreement based on coresponsibility between debtors and creditors so that a lasting solution to the problem of the external debt might be found and the development of the developing countries thereby revived

Although the idea of coresponsibility has continued to gain acceptance, it has still not been possible to find just, long-term mechanisms to try to resolve the debt problem and, of course, regulate the international economy in a more rational way

I hope that the institution which you head will continue making progress in the search for solutions to benefit worldwide development

Very truly yours,

/s/

/illegible/

Mr Michel Camdessus  
Managing Director  
International Monetary Fund



# Office Memorandum

TO Mr Steckhan  
FROM S T Beza *MS*  
SUBJECT Bank Documents on Mexico

DATE January 3, 1989

As we agreed, Fund staff has been examining Bank documents on Mexico, with particular emphasis on Report No P-4952-ME (12/15/88) and Report No 7525-ME (12/6/88)

I should first note that the papers under review range virtually without limitation into the areas in which the Fund is customarily expected to take the lead

Second, I question what is gained by specifying so many of the possible quantitative features and other aspects of the macroeconomic program for 1989 and beyond before you (or we) have had systematic discussions with the new administration on its plans. The specifications laid down in these papers may in the end turn out to be inadvisable, but it would be difficult to walk away from these specifications in the course of the negotiation. I will indicate below the specific places in which positions are stated unduly precisely at this stage

## In Report No P 4952-ME

1 The discussion of the exchange rate on page 9 comes to the judgment that there is not a very strong case for a major exchange rate readjustment now although some correction could be defended

2 On page 10, after a lengthy discussion of a particular set of relationships between domestic prices, operational public sector deficits and external borrowing, it is concluded that the first tranche of the loan in question would be released if the Mexican Congress would approve a 1989 budget with an operational deficit of no more than 2 percent of GDP

3 Page 24 indicates that a current account deficit of 3 percent of GDP can be maintained without increasing the stock of external debt in real terms, and this is treated as the base scenario for the years 1991-94, for 1989-90 the base case puts the current account deficit at 2 percent of GDP. (Incidentally, I had some difficulty in reconciling debt stocks and current account flows in the period 1989-94 but this is probably only a matter of detail.)

In all three instances there are reasons for questioning whether firm conclusions can be drawn at this stage. Indeed, I understand that at your Operation Committee Meeting on Mexico questions were raised about the adequacy of the current exchange rate policy for

assuring external consolidation, about the suitability of the fiscal target in relation to inflation and external goals, and about the scope for external financing

Other issues in Report No P-4952-ME that I would draw to your attention are as follows

On page 25 reference is made to prospects being good for a US\$600 million compensatory IMF facility in 1989. In fact, as of now all that can be said is that the matter has been under discussion

On page 25, paragraph 104 suggests that Bank staff has gone far in encouraging other creditors to finance Mexico. What was the financial program framework used for this purpose? Also, I was surprised that you are able to report such a positive response from commercial banks, my understanding has been that the banks have been saying little

Page 33, paragraph 129 may be read as indicating that enhanced surveillance is agreed. It may be recalled that enhanced surveillance is envisaged for cases where adjustment had been largely completed and where the country was ready to re-enter international capital markets on a largely voluntary basis. The situation now is very different from that. Also, the message of paragraph 130 is unclear, particularly in the last sentence

Annex IV, The Analytical Framework, contains many of the specific features referred to above, based upon a particular way of looking at the quantitative relationships

In Report No 7525-ME

Fund staff had commented earlier on the relationships underlying this report

As a general comment, the relationships portrayed in this report are not unique, and different conclusions might be drawn from a different way of looking at them. A recognition of this point would seem advisable

The discussion on pp 60-63 makes assumptions about access to Fund resources that do not have a firm basis. Reference could be made to discussions on a possible compensatory purchase but no amount has been specified yet. The reference to a Fund stand-by three years from now for a huge amount as part of a gap-filling exercise can hardly be taken seriously and should be dropped