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Office Memorandum

TO The Managing Director
The Deputy Managing Director

DATE December 12, 1990

FROM S T Beza

SUBJECT Mexico--Back-to-Office Report

The staff team that just returned from Mexico reviewed the main features of the budget for 1991 that is presently before the Congress, as well as developments and prospects under the extended arrangement This visit will prepare the ground for the mission that will visit Mexico City in the second half of January to negotiate the third year under Mexico's extended arrangement with the Fund

Mexico has observed with wide margins all quantitative performance criteria for end-September, except for that on external debt where a smaller margin reflected short-term borrowing by commercial banks (still public) up to the indicative target The expectation is that end-December performance criteria will be observed, although the margins will be smaller than in September, and caution will be required in the incurrence of new external debt

The authorities' aims for 1991 are to reduce inflation to 14 percent from an estimated 30 percent in 1990 with real GDP continuing to grow at around 3 percent These objectives are framed within the recent extension of the wage-price pact to end-1991 which includes a slower pace of depreciation of the peso and adjustments in public sector prices and wages

The budget for 1991 is based on an oil price of US$17 a barrel, and envisages a marked reduction in the PSBR (to 1 9 percent of GDP) because of a projected decline in nominal interest rates with the slowing of inflation However, the primary surplus is projected to come down by about 1 percentage point of GDP in 1991, when measured on the basis of an unchanged oil price

The mission emphasized that the fiscal effort at the level of the primary surplus should not be eased from the 1990 level until there is clear evidence that the rate of inflation has declined to a path consistent with that assumed in the authorities' economic program, particularly in view of the reduced pace of currency depreciation

Officials in the Ministry of Finance and Public Credit shared this concern and indicated that fiscal policy would be run tighter than the budget if needed to meet inflation and balance of payments aims However, it appears that there are differences within the Government, with Ministry of Budget and Planning officials having favored a larger reduction in the primary surplus than that contemplated in the 1991 budget

Attachment

cc Mr P Andrews

Contributor
Mr Kalter (WHD)

Office Memorandum

TO	The Managing Director The Deputy Managing Director	DATE	December 12, 1990
FROM	Eliot Kalter		
SUBJECT	<u>Mexico--Back-to-Office Report (November 26-December 6, 1990)</u>		

The mission that just returned from Mexico reviewed the main features of the budget for 1991 that is presently being defended before Congress, as well as developments and prospects under the extended arrangement The mission met with the Undersecretary of Finance and Public Credit, and other officials from the Ministries of Finance and Public Credit and of Budget and Planning, and the Bank of Mexico A mission will visit Mexico City in the second half of January to negotiate the third year under Mexico's extended arrangement with the Fund

Mexico has observed with wide margins all quantitative performance criteria for end-September, except for that on external debt where a smaller margin reflected short-term borrowing up to the indicative target It is anticipated that end-December performance criteria will be observed (the margins are expected to be smaller than those observed for end-September) but caution will be required on the incurrence of new external debt

1 <u>Economic developments and prospects</u>

<u>Economic activity</u> during 1990 is being led by industrial production and construction, with real GDP expected to grow by 3 percent Consumer prices are expected to increase by 30 percent during 1990, compared with a program target of 15 percent, reflecting in part corrective price adjustments and a general relaxation of price controls The increase in real average earnings of workers in the manufacturing sector is expected to decelerate from 8 percent in 1989 to 3 percent in 1990 The real effective exchange rate for the peso appreciated by 1 8 percent during the twelve months through October

<u>Net international reserves</u> are expected to increase by US$3 billion in 1990, compared with a target (adjusted for changes in oil prices) of US$1 billion The non-oil external current account deficit widened relative to earlier projections by over US$3 billion reflecting largely a substantial increase in imports, primarily in the form of capital and intermediate goods, which were financed by sizeable inflows of private capital However, as a result of higher oil prices, the external current account deficit (excluding restructuring) is projected at 2 9 percent of GDP, compared with 3 2 percent in earlier projections

<u>Fiscal performance</u> was strong during the first three quarters of the year Revenue from the value-added tax and sales of non-petro-

leum public sector goods and services was higher than programmed, while total expenditure was broadly as programmed As a consequence, the primary surplus was 9 2 percent of GDP (compared with 7 1 percent under the program) With nominal interest payments close to those projected, performance at the level of the public sector borrowing requirement (PSBR) and the operational balance also was strong

The authorities estimate that for all of 1990 the primary surplus would decline to 7 5 percent of GDP, reflecting an increase in investment expenditure from 2 1/2 percent of GDP in the first three quarters of 1990 to 4 percent of GDP for the year as a whole The mission cautioned the authorities that such an increase in expenditure could have consequences for inflation and the balance of payments However, based on partial information, the mission has doubts that these additional expenditures will occur Accordingly, it is projected that the primary surplus will reach 8 4 percent of GDP (7 1 percent of GDP under the program), with the PSBR at 3 3 percent of GDP (4 1 percent under the program) and the operational surplus at 3 2 percent of GDP (a deficit of 0 3 under the program)

The reduced PSBR has been financed during 1990 through the placement of government securities with the public Bank of Mexico credit to the nonfinancial public sector is expected to decline by around Mex$8 trillion during 1990 (compared with a minimum decrease of Mex$2 1/2 trillion in the adjusted program), while the net domestic assets of the Bank of Mexico are projected to decline by Mex$2 1/2 trillion (compared with an allowable increase of Mex$0 3 trillion) Private sector financial savings is expected to grow in real terms by the projected rate of 10 percent while credit to the private sector is expected to grow in real terms faster than planned, owing in part to room provided by the better than expected fiscal performance

2 Policy issues

The authorities economic program for 1991 aims at consolidating recent gains, with inflation coming down to 14 percent and GDP growing by around 3 percent The non-oil external current account deficit would decline by 0 8 percentage point of GDP The program's objectives are framed within the recent extension of the wage-price pact to end-1991 which includes a slower pace of depreciation of the peso with respect to the U S dollar (from an annual rate of 10 percent to an annual rate of 5 percent) and adjustments in various public sector prices and wages

The budget for 1991, which is based on an oil price of US$17 a barrel 1/ and does not include the proceeds from the sale of public sector enterprises, projects a reduction in the PSBR to 1 9 percent of GDP in 1991 This reflects a decline in projected average domestic nominal interest rates (from an average of 35 percent in 1990 to 25 percent in 1991) as well as in the real level of domestic debt The primary surplus is projected to decline from a projected 8 4 percent of GDP in 1990 to 6 9 percent of GDP in 1991, 2/ reflecting in part, reduced receipts from the sale of public sector goods and services and increased outlays on wages and investment 3/

The mission emphasized that the fiscal effort at the level of the primary surplus should not be eased until there is clear evidence that the rate of inflation has declined to a path consistent with that assumed in the authorities' economic program Officials in the Ministry of Finance and Public Credit share this concern and noted in this regard that policy instruments would be adjusted as necessary to meet the program objectives However, it appears that there are differences within the Government The primary surplus agreed in the 1991 budget seems to be above that favored by officials at the Ministry of Budget and Planning and below that favored by the Ministry of Finance and Public Credit

The authorities are targeting a narrowing in the non-oil current account deficit of 0 8 percentage point of GDP to 5 7 percent of GDP in 1991 Non-oil exports are projected to increase by almost 10 percent in real terms while the real growth in imports is projected to decline by over 16 percentage points to only 3 percent The mission stressed the need to ensure that the policy package for 1991 is consistent with the attainment of these objectives Moreover, the mission indicated the importance of targeting an increase in gross international reserves in relation to imports while avoiding an excessive recourse to new external borrowing

The Ministry of Finance and Public Credit officials agreed that a large part of the proceeds from higher oil prices and the privatization of public sector enterprises should be saved in light of their likely transitory nature and the macroeconomic objectives of the program Moreover, saving these resources would buffer Mexico from any future shocks to the economy However, as noted above it appears that

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1/ The oil price for the Mexican mix of US$17 a barrel is equivalent to about US$19 a barrel for the petroleum mix in WEO exercises Every additional US$5 a barrel in the price of oil raises the value of Mexican exports and fiscal receipts by the equivalent of 1 percent of GDP

2/ At the same price of oil, this primary surplus is 1 1 percentage points of GDP less than that estimated in 1990

3/ The surplus on the operational balance would decline by 1 4 percentage points of GDP to 1 8 percent of GDP as real interest rates on domestic debt increase from their average level in 1990 there are some in the Government who seem to support more spending out of these resources

The mission welcomed Mexico's success in restoring limited access to voluntary credits but stressed the need for prudent external debt management policy In this regard, the authorities shared the mission's concerns regarding the substantial increase in the short-term external debt exposure of the Mexican banking sector The increase in short-term debt may affect adversely the restoration of spontaneous access to medium-term facilities, and could undermine the achievement of the end-December external debt ceiling

The authorities informed the mission that exchange restrictions were introduced vis-à-vis Iraq and Kuwait and that they would soon notify the Fund under Decision No 144 The authorities also informed the mission that the Mexican Congress was likely to accept the increase of Mexico's quota under the Ninth General Review and adopt the Third Amendment of the Article of Agreement by mid-December of this year

cc Mr Beza
Mr Frenkel
Mr Boorman
Mr Gianviti
Mr Laske
Mr Tanzi

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Mexico

FACSIMILE MESSAGE

CLEARY, GOTTLIEB, STEEN & HAMILTON
One Liberty Plaza, New York, New York 10006 (212) 225-2000
Telecopy Number: (212) 225-3999 (Gps I, II, III)

Fax Number(s): 202-623-7499
Name: Claudio Loser
Company: International Monetary Fund
City: Washington
State/Country: D.C.
Tel. No.: 202-623-8373

From: Penelope L. Christophorou   Employee ID: 02058
Direct Dial: (212) 225-2516
Date: November 30, 1990
No./Pgs. (incl. cover): 5
Our File Number: 24636-080

IF COPY IS ILLEGIBLE OR INCOMPLETE, PLEASE CALL (212) 225-3545 IMMEDIATELY FOR RETRANSMISSION.

Dear Mr. Loser:

Attached please find the Form of IMF Letter we discussed earlier today which is Exhibit A to each of the 1989-1992 Credit Agreement and the Onlending and Trade Credit Agreement. In order for Mexico to borrow funds under each agreement on January 1, 1990, the third Availability Date under each agreement, Mexico must submit to Citibank, N.A., as Agent, a letter from the IMF stating that Mexico has purchased SDR 652.68 million under the 1989 IMF Extended Arrangement, exclusive of the purchase of amounts set aside for debt reduction operations. I would appreciate your delivering eight signed originals of the letter to me by December 19. Thank you for your assistance.

Very truly yours,

Penelope L. Christophorou

EXHIBIT 1
to New Money
Implementation
Agreement

THE UNITED MEXICAN STATES

1989-92 CREDIT AGREEMENT
Dated as of February 4, 1990

CITIBANK, N.A.
as Agent

EXHIBIT A

FORM OF IMF LETTER

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

Date*

Reference is made to the extended arrangement that the International Monetary Fund (the "Fund") approved on May 26, 1989 for the United Mexican States.

(1) The extended arrangement continues in effect.

(2) The United Mexican States has the right, subject to the provisions of the extended arrangement and during the period until May 25, 1992, to make purchases from the Fund under the extended arrangement up to a total amount of at least the equivalent of SDR 1,958.04 million, excluding amounts that may be set aside for use in connection with debt reduction operations to be specified by the Fund.

(3)**[As of the date of this letter, the United Mexican States has purchased from the Fund the equivalent of SDR ____________ under the extended arrangement (exclusive of purchases of amounts set aside for debt reduction operations as aforesaid).]

*** [As of the date of this letter, the United Mexican States has purchased from the Fund all amounts (exclusive of purchases of amounts set aside for debt reduction operations as aforesaid) that were available for purchase on or before ________________ in accordance with the phasing provisions of the extended arrangement as established by the Fund on ________________, 19__.]

Very truly yours,

By____________________
(Name and Title)

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* To be a date not more than 30 days before the relevant Availability Date.

** Include for second and third Availability Dates, inserting in the blank an amount not less than:
(i) SDR 489.51 million for the second Availability Date and
(ii) SDR 652.68 million for the third Availability Date.

*** Include for fourth, fifth and sixth Availability Dates, inserting in the first blank in such sentence:
(i) March 1, 1991 for the fourth Availability Date,
(ii) August 1, 1991 for the fifth Availability Date and
(iii) March 1, 1992 for the sixth Availability Date.

EXHIBIT -
to New Mo ey
Implementation
Agreement

THE UNITED MEXICAN STATES

ONLENDING AND TRADE CREDIT AGREEMENT
Dated as of February 4, 1990

FIDEICOMISO PARA LA ADMINISTRACION
DE FINANCIAMIENTOS EXTERNOS
as Borrower

CITIBANK, N.A.
as Agent

EXHIBIT A

FORM OF IMF LETTER

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

Date*

Reference is made to the extended arrangement that the International Monetary Fund (the "Fund") approved on May 26, 1989 for the United Mexican States.

(1) The extended arrangement continues in effect.

(2) The United Mexican States has the right, subject to the provisions of the extended arrangement and during the period until May 25, 1992, to make purchases from the Fund under the extended arrangement up to a total amount of at least the equivalent of SDR 1,958 04 million, excluding amounts that may be set aside for use in connection with debt reduction operations to be specified by the Fund.

(3)**[As of the date of this letter, the United Mexican States has purchased from the Fund the equivalent of SDR __________ under the extended arrangement (exclusive of purchases of amounts set aside for debt reduction operations as aforesaid)]

*** [As of the date of this letter, the United Mexican States has purchased from the Fund all amounts (exclusive of purchases of amounts set aside for debt reduction operations as aforesaid) that were available for purchase on or before ______________ in accordance with the phasing provisions of the extended arrangement as established by the Fund on ______________, 19__.]

Very truly yours,

By____________________
(Name and Title)

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* To be a date not more than 30 days before the relevant Availability Date.

** Include for second and third Availability Dates, inserting in the blank an amount not less than.
(i) SDR 489.51 million for the second Availability Date and
(ii) SDR 652.68 million for the third Availability Date.

*** Include for fourth, fifth and sixth Availability Dates, inserting in the first blank in such sentence:
(i) March 1, 1991 for the fourth Availability Date,
(ii) August 1, 1991 for the fifth Availability Date and
(iii) March 1, 1992 for the sixth Availability Date.

Office Memorandum

TO Mr. Decarli

DATE November 27, 1990

FROM Claudio M Loser

SUBJECT Mexico--September Performance

Mexico has met all performance criteria for end-September 1990 and is, hence, eligible for its next drawing from the Fund

cc Mr Beza
Mr Boese

STB
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Office Memorandum

TO: The Deputy Managing Director

DATE: November 20, 1990

FROM: S. T. Beza

SUBJECT: Mexico - Staff Visit

You asked if a longer-term objective of the Mexican authorities is to fix the peso with respect to the U.S. dollar.

It seems clear that this is their aim. At the time of the extension of the wage-price pact, the slowing of the depreciation to an annual rate of 5 percent was announced. It also was announced that there would be further reductions in the pace of depreciation of the peso during 1991 if conditions permitted. However, it is our understanding that there are divisions within the Government concerning the wisdom of fixing the nominal exchange rate in the near future.

cc: The Managing Director
Mr. P. Andrews

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Office Memorandum

→ Mr. Beza

TO: The Managing Director
The Deputy Managing Director

DATE: November 15, 1990

I recently read that Mexico planned to fix the peso to the dollar. Is that a larger term objective?
MDE
11/20/90

FROM: S. T. Beza

SUBJECT: Mexico--Staff Visit

Staff will visit Mexico City for about ten days beginning November 26 to analyze the budget for 1991 which was presented to Congress on November 15. The mission also will prepare the ground for the negotiations of the economic program for the third year under Mexico's extended arrangement with the Fund expected to take place in January. Economic performance under the program for 1990 also will be reviewed. The team will consist of Mr. Kalter (Head-WHD), Ms. Coorey (WHD), Messrs. El-Erian (ETR), Szymczak (ETR), and Zandamela (WHD), and Mrs. Weikert (Assistant-WHD). Recent developments under the program and the work plan for the mission are described in the attached note.

→ MD

Economic developments under the program with the Fund remain broadly satisfactory. Mexico has made all available purchases under the arrangement and it is estimated that all performance criteria for end-September 1990 have been observed. No problem is anticipated in meeting end-December performance criteria.

This memorandum and the attached note have been reviewed by the following departments:

Exchange and Trade Relations:	Mr. Brau
Fiscal Affairs:	Mr. Stella
Legal:	Mr. Aguirre-Carrillo
Research:	Mr. Aghevli
Treasurer's:	Mr. Coats, Jr.
Western Hemisphere:	Messrs. Ferrán, Loser, Stephens, and myself

Mr. Kalter's last day in the office will be Wednesday, November 21, 1990.

Attachment

cc: Mr. Frenkel
Mr. Boorman
Mr. Gianviti
Mr. Laske
Mr. Tanzi
Mr. P. Andrews

Contributor:
Mr. Kalter (WHD)

Mexico--Recent Developments Under the Program and Work Plan for Staff Visit

Economic developments under the program with the Fund remain broadly satisfactory 1/ Mexico has made all available purchases under the arrangement and it is estimated that all performance criteria for end-September 1990 have been observed However, consumer prices increased by over 22 percent in the first ten months of 1990, exceeding the program target of 15 percent for the year as a whole, largely because of corrective price adjustments and a general relaxation of price controls The rate of inflation has declined since mid-year to a monthly average of around 1 1/2 percent or an annual rate of around 20 percent Economic activity slowed down in the first quarter of the year but has subsequently picked up, for the year as a whole, real GDP is projected to grow by around 3 percent

The non-oil external current account deficit in the first three-quarters of 1990 was larger than originally projected, reflecting in large part higher expenditure on intermediate and capital products However, the reserve position strengthened markedly through September on the basis of strong private capital inflows and higher oil prices 2/ Thus, despite the funding of debt and debt-service reduction operations, net international reserves increased by US$1 1 billion during the first nine months of 1990, compared with an (adjusted) target that allowed a decline of US$1 7 billion 3/ The real effective exchange rate for the peso appreciated by 2 percent in the twelve months through September

The public finances have strengthened markedly so far in 1990, reflecting better-than-programmed tax revenues and continued expenditure restraint The primary balance of the nonfinancial public sector registered a surplus of almost 11 percent of GDP in the first half of the year, compared with an adjusted target of 7 1/2 percent of GDP, however,

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1/ The extended arrangement with the Fund was approved on May 26, 1989 for the equivalent of SDR 2,797 2 million (240 percent of quota), including set-asides of 30 percent for debt reduction operations, on January 29, 1990 the Executive Board approved the release of set-asides and an augmentation of the arrangement by the equivalent of 40 percent of quota for interest support in connection with debt and debt service reduction operations The 1990 Article IV consultation with Mexico and the review under the second year of the extended arrangement were completed on August 27, 1990 As of September 30, 1990 Mexico made all available purchases under the arrangement equivalent to SDR 1,934 7 million Fund credit to Mexico, including drawings under the EFF, the CCFF, emergency assistance, and previous arrangements, stood at SDR 4,716 2 million, or the equivalent of 407 7 percent of quota

2/ Every additional US$5 a barrel in the price of oil raises the value of Mexican exports and public sector receipts by the equivalent of 1 percent of GDP

3/ The program targets are adjusted for changes in the price of oil this overperformance was offset in part by a weakening in nonbudgetary operations Both the public sector borrowing requirement (PSBR) and the surplus in the operational balance were only two points of GDP better than programmed (4 1 percent and 0 4 percent of GDP, respectively)

In the first three quarters of 1990 the PSBR was financed primarily through the placement of government securities with the public Accordingly, credit from the Bank of Mexico to the nonfinancial public sector and the net domestic assets of the Bank of Mexico are estimated to have remained well within program limits Nominal interest rates on domestic debt declined from a monthly rate of over 3 3/4 percent in March 1990 to 2 percent in mid-November, as confidence improved Private sector financial savings (M-4) has continued to grow in real terms, but at a lower pace than experienced in the previous year, notwithstanding a sharp increase in capital inflows

On November 11 the Government announced an extension of the wage-price pact through end-December 1991 Policy actions announced include (i) a slower pace of depreciation of the peso with respect to the U S dollar from an annual rate of 10 percent to an annual rate of 5 percent, (ii) an increase in minimum wages of 18 percent, (iii) adjustments in the price of petroleum products by up to 30 percent, and electricity by 10 percent, (iv) a 40 percent reduction in the income tax rate and an extension of the coverage of subsidies of basic foods for the poorer segments of the population, and (v) an agreement by enterprises to absorb the increased costs resulting from adjustments of public sector prices Taking into account the effects of the measures just announced, the rate of price increase is likely to be about 30 percent during 1990

The budget for 1991 is being presented to Congress today (November 15) Details of the budget exercise are not yet available but preliminary indications are that the primary fiscal balance is to show a surplus of 7 percent of GDP (compared with a projected surplus of about 7 1/2 percent in 1990) There would be a sizable reduction in the PSBR from an estimated 4 1/4 percent of GDP in 1990, mostly because of a decline in projected average domestic interest rates in 1991 (Interest rates have declined during this year, and if rates do not change further through the end of 1991, the average would drop from 35 percent in 1990 to about 25 percent in 1991, yielding a decline in interest payments of about 2 percentage points of GDP) The budget is based on an inflation rate of 15 percent, and assumes a real GDP growth rate of 2 1/2 percent and an oil price for the Mexican mix of US$17 a barrel 1/

1/ The oil price for the Mexican mix of US$17 a barrel is equivalent to about US$19 a barrel for the petroleum mix in WEO exercises and about US$21 a barrel for the benchmark West Texas Intermediate

The mission will review the appropriateness of the assumptions underlying the budget projections It also will analyze the effects on the budgetary outcome of the newly announced increase in wages and public sector prices and the changes in income tax regulations on the budgetary outcome

The mission will review the consistency of the proposed budget and other macroeconomic policies In particular, questions arise whether the slower pace of depreciation of the peso, the current rate of inflation, and the recently announced minimum wage increase are compatible with the maintenance of a satisfactory growth of exports and the balance of payments (abstracting from the latest oil price developments) In these circumstances, to protect the balance of payments may require a quite strict credit policy More generally, the appropriateness of the policy stance and the objectives for 1991 will be considered at the time of the January negotiations in light of additional information on the 1990 outcome, the overall macroeconomic framework for 1991, and the revised medium-term outlook

The budget presentation suggests that a large part of the proceeds from higher oil prices and the privatization of public sector enterprises would be saved in light of the likely transitory nature of oil price developments and the nonrecurrent nature of the revenue from privatization 1/ The economic program for the third year under Mexico's extended arrangement would include adjustable performance criteria for developments in the price of oil as was the case in previous years Similar adjustments to performance criteria could be introduced to take into account the proceeds from the privatization of public sector enterprises

The mission will review with the authorities the domestic debt management plan for 1991 The authorities have indicated that they are considering sizable operations to reduce Mexico's domestic debt with the proceeds from the privatization of public sector enterprises and higher oil prices The mission will study the likely effect of these operations on the budget and on the economy

The mission will discuss with officials the timetable for the free-trade discussions and the possible scope of any agreement The mission will also ascertain whether the authorities have introduced exchange restrictions vis-a-vis Iraq and Kuwait, which would require notification to the Fund under Decision No 144 Finally, the mission will encourage the authorities to act promptly in consenting to the increase of Mexico's quota under the Ninth General Review and adopting the Third Amendment of the Articles of Agreement.

1/ The proceeds stemming from the privatization of public sector enterprises could total over 5 percent of GDP, although the authorities expect receipts of only 2 percent of GDP in 1991

5.00 Wednesday

STB
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Office Memorandum

TO: The Managing Director

DATE: November 13, 1990

FROM: S. T. Beza

MD

SUBJECT: Mexico

This note is for your meeting with José Córdoba, economic advisor to Carlos Salinas.

Mexico has made all available purchases under the arrangement and it is estimated that all performance criteria for end-September 1990 have been observed. The fiscal accounts and the overall balance of payments have been particularly strong relative to program, even excluding the effect of the higher oil price on revenues. Consumer prices increased by 23 percent in the first ten months of 1990, exceeding the program target of 15 percent for the year, in part because of corrective price adjustments. GDP is projected to grow by around 3 percent this year.

On November 11 the Government announced an extension of the wage-price pact through end-December 1991. Policy actions announced included: (i) a slower pace of depreciation of the peso with respect to the U.S. dollar from an annual rate of 10 percent to an annual rate of 5 percent; (ii) an increase in minimum wages of 18 percent; (iii) adjustments in the price of petroleum products by up to 30 percent, and electricity by 10 percent; (iv) a 40 percent reduction in the income tax rate and an extension of the coverage of subsidies of basic foods for the poorer segments of the population; and (v) an agreement by enterprises to absorb the increased costs resulting from adjustments of public sector prices. Taking into account the effects of the measures just announced, the rate of price increases is likely to be about 30 percent during 1990.

On November 15 the budget for 1991 will be presented to Congress. The budget can be expected to show a reduction in the public sector borrowing requirement from an estimated 4 1/4 percent of GDP in 1990, reflecting mostly a decline in projected average interest rates in 1991. (Interest rates have declined during this year, and if the rates do not change further through the end of 1991, the average would show a drop from 35 percent in 1990 to about 25 percent in 1991.) The oil price assumed in the 1991 budget is expected to be quite low by present standards.

Questions arise whether the new (slow) pace of depreciation, the current rate of inflation, and the recently announced minimum wage increase are consistent with the maintenance of a satisfactory growth of exports and balance of payments, abstracting from the latest oil price developments.

A staff mission will be visiting Mexico City in late November to examine the new budget and prepare the ground for the negotiation of the program for the third year of the EFF in January.

cc: The Deputy Managing Director (o/r)
Mr. Frenkel
Mr. Tanzi
Mr. Brau
Mr. Andrews

Contributors
Mr. Claudio Loser (WHD)
Mr. Eliot Kalter (WHD)

Office Memorandum

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① mexico
② UFR

INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.
1990 OCT 11 PM 12:39

TO: Mrs. Filardo

October 10, 1990

FROM: Jack Boorman

SUBJECT: Letters Regarding a Possible Subsidy Account

Attached for your information are copies of letters that have just been sent by the Managing Director to Undersecretary Gurria and Secretary Aspe Armella. Similar communications have been addressed to the authorities of a number of other member countries as well.

As you will note, the letters set out some main features of a possible temporary mechanism to subsidize charges on use of the Fund's general resources by low and lower-middle income countries that are adversely affected by the current crisis in the Middle East. In light of the urgent financing needs of these countries, the Managing Director has asked that we proceed as quickly as possible toward developing the specific modalities for such a mechanism. I would therefore welcome an early opportunity to discuss with you how best to follow up on this initiative.

Attachments

cc: Mr. Beza
Mr. Van Houtven
Mr. Gianviti
Mr. Laske

INTERNATIONAL MONETARY FUND
WASHINGTON D C 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

October 8, 1990

Dear Sir Orlando Angel

During the recent Annual Meetings of the Fund and Bank I suggested in general terms a possible mechanism to subsidize on a temporary basis Fund charges for a group of low and lower middle-income countries that are not eligible for SAF or ESAF but which are adversely affected by the current crisis in the Middle East. I have discussed this bilaterally with you and a number of other potential contributors and have been most gratified by your willingness to consider positively this matter Accordingly, I am following up on these discussions to indicate more concretely the main features of my proposal and to ask for your firm support in this effort

The present situation is a matter of concern for us all. The crisis is adversely affecting a large number of Fund members, many in a very serious way. In addition, the present uncertainties have increased the risk of higher inflation and weakened the prospects for world economic growth. At the same time, some member countries are benefiting fortuitously from the present high level of oil prices I strongly believe that it is important, as part of the general strategy to deal with the crisis, that we make a maximum effort to ensure that part of these gains as well as additional resources that could be provided by other members in a position to do so are used effectively to help support the ongoing economic reforms of Fund members and thus help sustain global income and employment to the benefit of all

For the poorest countries affected by the crisis, the ESAF is available and there is sufficient flexibility on access to the ESAF's concessional resources for the Fund to provide the appropriate assistance to many of these members However, because of the current high level of charges on the Fund's general resources, we risk not being in a position to help SAF/ESAF-eligible members that may request assistance under the Compensatory and Contingency Financing Facility (CCFF), as well as those low and lower middle-income countries that are not eligible for concessional resources under SAF/ESAF, are seriously affected by the recent rise in oil prices and other developments related to the current Middle East crisis, and are confronted with a weak external position My suggestion is to provide a subsidy on Fund charges that would apply over the next few years, which would provide relief to the beneficiary countries on Fund resources used by those countries during the period of most pronounced needs and before adjustment efforts have their full effect Subsidies would apply to charges in the period ahead on use of Fund resources under stand-by and extended arrangements and the CCFF, including use under the latter facility by SAF/ESAF-eligible countries.

For operational reasons--and beyond the SAF/ESAF-eligible members that may use resources under the CCFF--it may be appropriate to divide potential beneficiaries into two tiers The first tier would be made up of countries with per capita incomes below $1,135 in 1989 that are adversely affected by the crisis, and are not SAF/ESAF-eligible 1/ (This would cover the second-lowest income category of countries as defined by the World Bank for setting per capita guidelines for operational purposes) The second tier of countries would also be defined by objective economic criteria We are continuing our work on defining these criteria and determining the countries to which they could apply, but we could be guided essentially by per capita income criteria in this case as well For example, countries in the second tier could comprise those that have an estimated per capita income in the range of $1,136-2,335 in 1989 (the third-lowest income category as defined by the World Bank) and are significantly and adversely affected by the crisis 2/

The aim would be to secure sufficient subsidies to reduce substantially the rate of charge for eligible countries Depending on the amount of contributions potentially available, the subsidy for countries in the second tier might be less than for countries in the first tier A system would be needed to phase in subsidies for countries in either of the two tiers as contributions are received and purchases are made

Preliminary staff estimates suggest that potential use of Fund resources by the two groups of countries described above (as well as for SAF/ESAF-eligible members that may use resources under the CCFF) could be on the order of SDR 3-4 billion in the period through end-1991 In this event, the amount of subsidy required to bring charges (excluding burden sharing adjustments) on the use of Fund resources down to 0 5 percent per annum for a period of, say, five years, would be projected at about SDR 1 1-1 5 billion (or US$1 5-2 billion at current exchange rates)

1/ The countries included would be Côte d'Ivoire, Dominican Republic, Egypt, El Salvador, Guatemala, Honduras, Morocco, Nicaragua, Papua New Guinea, Paraguay, Philippines, Swaziland and Zimbabwe and perhaps India if it maintains the earlier approach that it would not avail itself of access to SAF or ESAF resources

2/ For illustrative purposes, on the basis of present estimates and assumptions about oil prices, and excluding countries that are presently in relatively strong external positions, the second tier countries would include Bulgaria, Costa Rica, Jamaica, Jordan, Poland, Romania and Turkey

I believe that it would be equitable to seek a substantial part of the funding for such subsidies from countries that are net oil or gas exporters and are expected to have relatively comfortable external positions An appropriate sharing of contributions from these countries could be broadly in proportion to the foreign exchange gains these countries are experiencing as a result of the increase in oil prices Even on the conservative assumptions underlying the Fund's most recent World Economic Outlook exercise, the contributions needed from countries that should be in a position to help would amount to only about 2-3 percent of the gains expected to be realized, at today's prices, of course, the gains to these countries could be very much larger Such contributions could go a good distance in mitigating the costs of Fund resources for a number of Fund borrowers that are engaged in bold economic reforms in the face of the effects of the current crisis

I was most encouraged by your reaction to my suggestion for this kind of mechanism in our recent meeting, and I would very much appreciate your further views If you would think it useful, I would be pleased to arrange for senior staff of the Fund to visit Mexico City to discuss the proposal in more detail The effort to secure appropriate support for members seeking to cope with the adverse effects of the crisis is urgent In view of the need to be able to propose to the Executive Board precise guidelines for such an operation, it is essential for us to know early on the magnitude of the contributions that would be available Therefore, it would be most helpful for us to have your early reply

I am sending a similar letter to Minister Pedro Aspe Armella, Secretary of Finance and Public Credit, as Governor of the Fund for Mexico I would be grateful if you could convey to the Minister my strong hopes for the success of this effort

With best regards, y un abrazo

Michel Camdessus

Mr Jose Angel Gurria T
Undersecretary of International Financial Affairs
Secretaria de Hacienda Y Credito Publico
Placio National
1 Patio Mariano
06066 Mexico, DF
Mexico

Toda fórmula que os pudiese convenir estableciendo. Cierto vínculo con nuestro esfuerzo en el Caribe y en América Latina se podría desde luego añadir claramente

INTERNATIONAL MONETARY FUND

WASHINGTON, D C 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

October 8, 1990

Dear Mr Minister Querido Pedro,

During the recent Annual Meetings of the Fund and Bank I suggested in general terms a possible mechanism to subsidize on a temporary basis Fund charges for a group of low and lower middle-income countries that are not eligible for SAF or ESAF but which are adversely affected by the current crisis in the Middle East I have discussed this bilaterally with Mr Gurría and a number of other potential contributors and have been most gratified by the willingness expressed to consider positively this matter. Accordingly, I am following up on these discussions to indicate more concretely the main features of my proposal and to ask for your firm support in this effort

The present situation is a matter of concern for us all The crisis is adversely affecting a large number of Fund members, many in a very serious way In addition, the present uncertainties have increased the risk of higher inflation and weakened the prospects for world economic growth At the same time, some member countries are benefiting fortuitously from the present high level of oil prices. I strongly believe that it is important, as part of the general strategy to deal with the crisis, that we make a maximum effort to ensure that part of these gains as well as additional resources that could be provided by other members in a position to do so are used effectively to help support the ongoing economic reforms of Fund members and thus help sustain global income and employment to the benefit of all

For the poorest countries affected by the crisis, the ESAF is available and there is sufficient flexibility on access to the ESAF's concessional resources for the Fund to provide the appropriate assistance to many of these members However, because of the current high level of charges on the Fund's general resources, we risk not being in a position to help SAF/ESAF-eligible members that may request assistance under the Compensatory and Contingency Financing Facility (CCFF), as well as those low and lower middle-income countries that are not eligible for concessional resources under SAF/ESAF, are seriously affected by the recent rise in oil prices and other developments related to the current Middle East crisis, and are confronted with a weak external position My suggestion is to provide a subsidy on Fund charges that would apply over the next few years, which would provide relief to the beneficiary countries on Fund resources used by those countries during the period of most pronounced needs and before adjustment efforts have their full effect Subsidies would apply to charges in the period ahead on use of Fund resources under stand-by and extended arrangements and the CCFF, including use under the latter facility by SAF/ESAF-eligible countries

For operational reasons--and beyond the SAF/ESAF-eligible members that may use resources under the CCFF--it may be appropriate to divide potential beneficiaries into two tiers The first tier would be made up of countries with per capita incomes below $1,135 in 1989 that are adversely affected by the crisis, and are not SAF/ESAF-eligible 1/ (This would cover the second-lowest income category of countries as defined by the World Bank for setting per capita guidelines for operational purposes) The second tier of countries would also be defined by objective economic criteria We are continuing our work on defining these criteria and determining the countries to which they could apply, but we could be guided essentially by per capita income criteria in this case as well For example, countries in the second tier could comprise those that have an estimated per capita income in the range of $1,136-2,335 in 1989 (the third-lowest income category as defined by the World Bank) and are significantly and adversely affected by the crisis 2/

The aim would be to secure sufficient subsidies to reduce substantially the rate of charge for eligible countries Depending on the amount of contributions potentially available, the subsidy for countries in the second tier might be less than for countries in the first tier A system would be needed to phase in subsidies for countries in either of the two tiers as contributions are received and purchases are made

Preliminary staff estimates suggest that potential use of Fund resources by the two groups of countries described above (as well as for SAF/ESAF-eligible members that may use resources under the CCFF) could be on the order of SDR 3-4 billion in the period through end-1991 In this event, the amount of subsidy required to bring charges (excluding burden sharing adjustments) on the use of Fund resources down to 0 5 percent per annum for a period of, say, five years, would be projected at about SDR 1 1-1 5 billion (or US$1 5-2 billion at current exchange rates)

1/ The countries included would be Côte d'Ivoire, Dominican Republic, Egypt, El Salvador, Guatemala, Honduras, Morocco, Nicaragua, Papua New Guinea, Paraguay, Philippines, Swaziland and Zimbabwe and perhaps India if it maintains the earlier approach that it would not avail itself of access to SAF or ESAF resources

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I was most encouraged by the positive reaction to my suggestion for this kind of mechanism at the recent Annual Meetings, and I would very much appreciate your views If you would think it useful, I would be pleased to arrange for senior staff of the Fund to visit Mexico City to discuss the proposal in more detail The effort to secure appropriate support for members seeking to cope with the adverse effects of the crisis is urgent In view of the need to be able to propose to the Executive Board precise guidelines for such an operation, it is essential for us to know early on the magnitude of the contributions that would be available Therefore, it would be most helpful for us to have your early reply

I am sending a similar letter to Mr Gurría

With best regards, un chaz

Michel Camdessus

Honorable Pedro Aspe Armella
Secretary of Finance and Public Credit
Secretaría de Hacienda y Crédito Público
Palacio Nacional
1 Patio Mariano
06066 México, DF
México

Toda fórmula que os pudiese convenir, estableciendo cierto vínculo con nuestro esfuerzo en el Caribe y en América Latina se podría desde luego estudiar atentamente

Office Memorandum

LA

TO: Mr. Beza
Mr. Boorman

September 20, 1990

FROM: A. F. Mohammed

SUBJECT: Congressional Hearing on Free Trade Agreement with Mexico

Attached for information are statements delivered at a Joint Economic Committee hearing which focused on forthcoming U.S.-Mexico negotiations for a free trade agreement, together with a summary of the hearing.

For full statement see U.S. File

Attachments

Office Memorandum

TO	Mr Russell	September 18, 1990
FROM	John Starrels JmS	
SUBJECT	Joint Economic Committee Hearing on U S Economic Policies Toward Mexico and Latin America	

On September 17, the Joint Economic Committee held a hearing on the above-mentioned subject Present were the Vice Chairman, Senator Paul S Sarbanes (D-Maryland), and Senators Bob Graham (D-Florida) and Steve Symms (R-Idaho) Testimony was delivered by Under Secretary of the Treasury for International Affairs David C Mulford, Deputy U S Trade Representative Julius L Katz, and Deputy Under Secretary of Commerce for International Trade, Roger Wallace The meeting was well attended, with strong media representation

The hearing focused on future U S trade and investment policies toward Mexico and Latin America, with special attention devoted to bilateral U S Mexican economic cooperation within the framework of the proposed free trade agreement (FTA) Congress is expected to approve FTA negotiations, which are slated to begin in spring 1991 While each witness brought different perspectives to bear, they all agreed that the United States should continue to expand trade and investment ties with its southern neighbors

Mr Mulford praised the Mexican government for the commitment it has recently made to economic liberalization "Its great potential as an economic partner of the United States is in sight " He urged Congressional support for the upcoming bilateral FTA negotiations on three grounds mutual trade benefits for the U S and Mexico, the impetus the FTA could supply to strengthened multilateral rules following conclusion of the Uruguay Round, and the catalytic effect of FTA on other areas of Mexico's liberalization program Mulford also emphasized that the proposed FTA was fully in line with the Bush administration's Enterprise for the Americas Initiative, a larger U S program to stimulate economic reform in Latin America submitted to Congress on September 14

Commerce Under Secretary Wallace's testimony was confined to the commercial benefits of the FTA for both countries He devoted special attention to potential advantages US companies could derive from a free trade agreement

"We supply about 70 percent of Mexico's total imports and over 60 percent of Mexico's foreign investment A free trade agreement would build on these advantages."

Ambassador Katz' testimony underlined the Bush Administration's enthusiasm for Mexican President Salinas' liberalization program, whose main elements are the elimination of impediments to trade in goods and services and investment, strengthened guarantees for intellectual property, and the establishment of effective dispute settlement mechanisms Katz also mentioned areas of continued American concern, including the Administration's desire for deeper reductions in Mexico's tariff and nontariff barriers, and greater liberalization in that country's investment and services policies The Ambassador's concluding remarks focused on the Enterprise for the Americas Initiative

Two major concerns were highlighted by Senators during the question and answer period The potential labor market dislocations in the United States which could accompany an FTA with Mexico, and, on a broader canvas, whether the Bush Administration was devoting sufficient attention to the long term implications of accelerated integration of the U S market with its Latin American neighbors

Senator Sarbanes provided the most searching, critical perspective in his opening statement in which he urged the witnesses to give "careful thought to coping with the dislocations which such changes will inevitabily bring about " He noted that a free trade agreement with Mexico would be the first such agreement between an advanced industrialized country and a middle-income developing country While cautiously supporting of the Administration's newest initiative, Sarbanes continuously emphasized this concern, as did Senator Graham All three witnesses, but especially Mulford, assured them that the Administration was well aware of these considerations

Senator Symms, who came late, confined his remarks to Mexico's currency situation, comparing it to the situation in the Soviet Union where he recently visited Might not a weak currency in Mexico, as in the Soviet Union, derail the government's reform program, he asked the witnesses? Mulford responded by saying that Mexico's economy was strong enough to withstand the present monetary challenges facing it and unlike a number of other developing countries, Mexico had not become "dollarized"

Attachments

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BANCO DE MEXICO

México, D. F., a 27 de Agosto de 1990.

SR. CLAUDIO LOSER
International Monetary Fund
Western Hemisphere Department
700-10th Street N. W.
Washington, D. C. 20431
U.S.A.

Estimado señor Loser:

De conformidad con el procedimiento seguido en anteriores visitas de las misiones del FMI a este Instituto Central, comunicamos a usted que los gastos por el uso de la línea telefónica durante su estancia del 19 de junio al 5 de julio del año en curso, serán cargados en la cuenta número 2, Cuenta de Recursos Generales de México con el Fondo Monetario Internacional, por un importe de $1'310,186.00, que incluye el I.V.A.

Atento a lo anterior, con la presente enviamos copia de los recibos de dichos cargos.

Sin otro asunto sobre el particular, hacemos propicia la ocasión para enviarle un cordial saludo.

Atentamente,

BANCO DE MEXICO

ANEXOS

TELEFONOS DE MEXICO S A DE C V

REF	CREDITO	SALDO
FECHA		TELEFONO No

421-60 N 11-JUL-90 761-8588 211

DEL TELEFONO	AL TELEFONO	MES / DIA	POBLACION		TIEMPO	A B	IMPORTE	NUM CONTROL
N7618594	842933	6/25	TIJUANA	BCN	1	1/6	1,206	
N7618765	842933	6/25	TIJUANA	BCN	1	1/6	1,206	
N	842940	5/23	TIJUANA	BCN	10	3/2	50,940	
N	845363	6/04	TIJUANA	BCN	3	3/2	17,172	
N7618765	845363	6/14	TIJUANA	BCN	11	1/6	13,266	
N7618260	845363	7/05	TIJUANA	BCN	2	1/6	2,412	
N7618446	864208	7/05	TIJUANA	BCN	2	9/6	1,930	
N7618796	864208	7/06	TIJUANA	BCN	1	1/6	1,206	
N7618849	895087	7/03	TIJUANA	BCN	1	9/6	965	
N7618765	895094	7/03	TIJUANA	BCN	29	9/6	27,985	
N7618666	3774464	6/29	WASHINGTON	202	3	3/1	27,872	
N	4523614	6/13	WASHINGTON	202	6	1/1	34,567	
N7618680	4523614	6/13	WASHINGTON	202		8/1	7,800	
N7618796	4739349	6/22	WASHINGTON	202	4	3/1	33,747	
N7618543	4775268	6/08	WASHINGTON	202	1	1/6	4,373	
N7618765	4775268	6/12	WASHINGTON	202	2	1/6	7,742	
N7618446	4775268	6/14	WASHINGTON	202	2	1/6	7,746	
N7618409	6237351	6/20	WASHINGTON	[redacted]				
N7618680	6237351	6/25	WASHINGTON					
N7618849	6237351	6/25	WASHINGTON					
N7618885	6237351	6/27	WASHINGTON					
N7618939	6237351	7/05	WASHINGTON					
N7618543	6237750	6/08	WASHINGTON	202	3	1/6	11,101	
N7618984	6237750	6/12	WASHINGTON	202	41	1/6	139,016	
N7618666	6237750	6/15	WASHINGTON	202	1	1/6	4,382	

DETALLE DE CONFERENCIAS DE LARGA DISTANCIA

R F C TMF 840315 KT6

A Y B VER AL DORSO

SOLO SERA VALIDO COMO RECIBO SI MUESTRA LA CANTIDAD PAGADA IMPRESA POR MAQUINA REGISTRADORA O SELLO Y FIRMA DEL CAJERO

TELEFONOS DE MEXICO, S A DE C V

REF	CREDITO	SALDO
FECHA		TELEFONO No

421-61 N 11-JUL-90 761-8588 211

DEL TELEFONO	AL TELEFONO	MES / DIA	POBLACION		TIEMPO	A B	IMPORTE	NUM CONTROL
N7618453	6238002	6/14	WASHINGTON	202	4	1/6	14,482	
N7618203	6238002	6/14	WASHINGTON	202	4	1/6	14,482	
N7618543	6238002	7/05	WASHINGTON	202	4	1/6	14,569	
N7618203	6238002	7/05	WASHINGTON	202	9	1/6	31,509	
N7618796	6238373	6/19	WASHINGTON	[redacted]				
N7618130	6238373	6/20	WASHINGTON					
N7618453	6238373	6/20	WASHINGTON					
N7618594	6238373	6/22	WASHINGTON					
N7618606	6238373	6/26	WASHINGTON					
N7618648	6238373	6/26	WASHINGTON					
N7618761	6238373	7/03	WASHINGTON					
N7618796	6238373	7/05	WASHINGTON					
N7618841	6238389	6/20	WASHINGTON	202	11	1/6	38,123	
N7618666	6238389	6/20	WASHINGTON	202	3	1/6	11,133	
N7618765	6238481	6/12	WASHINGTON	202	1	1/6	4,376	
N7618306	6238481	6/12	WASHINGTON	202	1	1/6	4,376	
N7618130	6238481	6/12	WASHINGTON	202	1	1/6	4,376	
N7618276	6238481	6/14	WASHINGTON	202	2	1/6	7,746	
N7618894	6238481	6/14	WASHINGTON	202	1	1/6	4,378	
N7618648	6238481	6/14	WASHINGTON	202	1	1/6	4,378	
N7618260	6238481	6/14	WASHINGTON	202	2	1/6	7,746	
N7618543	6238481	[redacted]	WASHINGTON	[redacted]				
N7618130	6238481		WASHINGTON					
N7618203	6238481	7/02	WASHINGTON					
N	6238484	6/29	WASHINGTON					

DETALLE DE CONFERENCIAS DE LARGA DISTANCIA

R F C TMF 840315 KT6

A Y B VER AL DORSO

SOLO SERA VALIDO COMO RECIBO SI MUESTRA LA CANTIDAD PAGADA IMPRESA POR MAQUINA REGISTRADORA O SELLO Y FIRMA DEL CAJERO

TELEFONOS DE MEXICO S A DE C V

REF	CREDITO	SALDO
FECHA		TELEFONO No

421-62 N 11-JUL-90 761-8588 211

DEL TELEFONO	AL TELEFONO	MES / DIA	POBLACION		TIEMPO	A B	IMPORTE	NUM CONTROL
N7618796	6238484	6/29	WASHINGTON	202	7	1/6	24,708	
N7618849	6238484	7/02	WASHINGTON	202	37	1/6	126,268	
N7618130	6238534	7/05	WASHINGTON	202	13	1/6	45,061	
N7618648	6238630	6/27	WASHINGTON	202	[redacted]			
N7618648	6238631	6/26	WASHINGTON	202	24	1/6	82,120	
N7618939	6674236	7/04	WASHINGTON	202	7	3/1	49,424	
N7618680	2395195	6/28	MANTECA	209		8/1	7,833	
N7618453	7205000	6/13	NEW YORK CITY	212		8/1	7,800	
N7618130	7205000	6/13	NEW YORK CITY	212		8/1	7,800	
N7618594	2395195	6/28	SOUTH BEND	219	3	3/1	27,868	
N	2797920	6/20	ROCKVILLE	301	7	5/6	16,419	
N7618203	2797920	6/26	ROCKVILLE	301	10	5/6	83,205	
N7618765	2797920	6/27	ROCKVILLE	301	19	1/6	48,340	
N7618306	2992962	7/03	ROCKVILLE	301	1	1/6	4,402	
N7618849	2992962	7/04	ROCKVILLE	301	23	1/6	78,920	
N7618666	3402260	6/19	ROCKVILLE	301	10	3/1	69,113	
N7618203	4920111	6/11	BOULDER	303		8/1	5,608	
N7618976	4920111	6/11	BOULDER	303		8/1	5,608	
N7618606	4927125	6/11	BOULDER	303	2	1/6	7,571	
N	2305250	6/22	SAN DIEGO	619	10	1/1	53,252	
N7618894	4913308	6/18	EVANSTON ILL	708	23	1/6	78,562	
N	000000	5/07	FRANCIA	330	7	7/2	68,247	
N	000000	5/11	FRANCIA	330	8	7/2	76,979	
N7618796	7251617	6/15	ESPA A	348	16	1/6	116,854	
N7618796	3935826	6/21	ARGENTINA	541	11	1/6	80,429	

DETALLE DE CONFERENCIAS DE LARGA DISTANCIA

R F C TMF 840315 KT6

A Y B VER AL DORSO

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Office Memorandum

TO The Acting Managing Director DATE August 24 1990

FROM S.T Beza M.S

SUBJECT Mexico--Article IV Consultation

Attached please find notes for the summing up of the Executive Board discussion on the Article IV consultation with Mexico scheduled for August 27 At this meeting the Board also will take up the review under the extended arrangement

Attachment

cc The Managing Director (o/r)
Mr Van Houtven
Mr. Brau
Mr Leddy
Mr. P. Andrews

The Chairman's Summing Up at the Conclusion of the
1990 Article IV Consultation with Mexico
Executive Board Meeting 90/------ August 27 1990

Executive Directors were in broad agreement with the staff appraisal. They commended the policies pursued by the Mexican authorities and agreed that Mexico has made good progress in addressing its macroeconomic and structural problems under the economic program supported by the extended arrangement from the Fund They noted in particular that these gains have reflected the financial policies pursued by the authorities the acceleration of structural reforms, and the completion of the financial package with commercial banks together with their favorable effects on confidence

Directors observed however that the upturn in inflation in the first half of 1990 and the possible implication for economic activity were sources of concern They noted the actions taken by the authorities to relax price controls adjust public sector prices and tariffs, and decelerate the rate of depreciation of the peso within the framework of the wage-price pact which was recently extended to end-January 1991 Directors cautioned that these actions would be consistent with a moderation of inflation only if they were supported by tight financial policies.

Directors observed that the public finances had strengthened further in 1990 with all measures of the fiscal balance showing a better than programmed performance through mid-year Most Directors were of the view that there was no room for a relaxation of fiscal policy given the importance of curbing inflation and assuring a satisfactory external performance In this regard Directors strongly recommended that any additional export income resulting from the recent oil price increase be used to strengthen the fiscal position and the country's net international reserves.

Directors noted that public sector revenue is likely to be boosted in the near term by proceeds from the divestiture of several large public sector enterprises and the privatization of commercial banks. Directors supported the authorities' intention to devote the proceeds from sales of assets to raise investment and reduce domestic debt, in view of the nonrecurrent nature of these resources

Directors were in general agreement with the conduct of monetary policy which continued to be geared toward lowering the rate of inflation and supporting the balance of payments objectives of the program Some Directors expressed concern about the rapid growth of credit and the monetary aggregates in late 1989 but many were of the view that this development had reflected largely the reintermediation of transactions that were taking place off the banks' balance sheets. Directors took note of the intention of the authorities to strengthen supervision of commercial banks ahead of their privatization, which would help preserve the quality of banks' portfolios.

While acknowledging that the recent exchange rate policy could help curb inflationary expectations if combined with tight financial policies, Directors stressed that the authorities had to strike a careful balance with the need to guard against any weakening of competitiveness so as not to increase external vulnerability, especially in light of the volatility of private capital inflows. Some Directors remarked that any real appreciation measured by the effective exchange rate indices could overstate the loss of competitiveness in view of the structural changes taking place in Mexico In any case, Directors took note of the authorities' intention to take action as needed to protect the external accounts if pressures were to emerge.

Directors expressed satisfaction with the outcome regarding Mexico's recently completed financial package with commercial banks and the resulting reduction in its debt and debt-service payments Directors agreed that, in combination with the broad based structural reforms being implemented and the stance of existing financial policies, the financial package could help strengthen public sector savings and foster the conditions for increased private sector investment and sustained growth of output and employment over time Moreover they noted that the pursuit of a free trade agreement with the United States also could be expected to improve the climate for investment and stressed the importance of ensuring that, consistent with GATT principles, such an agreement not raise trade barriers vis-a-vis other countries.

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

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

STB
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DATE August 22, 1990

TO Files S. H. Choi

mexico

FROM S H Choi, Adviser, SEC

EXTENSION 76441

SUBJECT Proposed Attendance of Bank Staff at IMF Board

Place of Meeting	IMF-12-120 (Fund Board Room)
Date of Meeting	August 27, 1990
Agenda Item	Mexico Article IV - Revised Extended Arrangement
Staff Attending	Kathleen Di Tullio Acting Division Chief 473-0028 I 8155

cc

Vice President	-	Mr Husain
IMF Secretary's Dept	-	Mr Franklin
Director, EAS	-	Mr Grilli
Bank Representative	-	Ms Di Tullio

NOTE For details in timing of this item, please contact Ms Janet Billenstein (Tel 623-6679), IMF Secretary's Department

P 1866

Office Memorandum

To Mexico
(2) El Salv.

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August 13, 1990

MEMORANDUM FOR FILES

Subject: Schedule of Meetings - Waiver of Circulation Period

At EBM/90/128, the Executive Directors agreed to shorten the circulation period for the discussions of the staff report on the 1990 Article IV consultation with Mexico and review under extended arrangement, and of the 1990 Article IV consultation with El Salvador and request for a stand-by arrangement. The papers had both been circulated on August 8, and it was agreed to consider them on August 27, 1990.

Marina J. Primorac

Marina Primorac
Executive Board Proceedings Division

cc: The Secretary
Treasurer
General Counsel
Director, Western Hemisphere Department ✓
Director, Exchange and Trade Relations Department
Mr. P. Andrews
Miss Jacob
Mrs. Moses

CONTAINS CLASSIFIED MATERIAL

INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT

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MRS FILARDO
ETR
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MR P ANDREWS

FECHA DE ENVIO
DATE AUGUST 3/1990

PARA.
FOR MR MICHEL CAMDESSUS

DE.
FROM Dr. PEDRO ASPE / LIC MIGUEL MANCERA MEXICO

NUMERO DE PAGINAS (INCLUYENDO ESTA PORTADA) 2
NUMBER OF PAGES IN THIS TRANSMISSION INCLUDING COVER SHEET.

COMENTARIOS
OBSERVATIONS 1) CONFIDENTIAL AND URGENT FAX
PLEASE DELIVER IT AS SOON AS POSSIBLE
TO MR CAMDESSUS AND CONFIRM IF TRANSMISSION
WAS OK BY FAX

2) PLEASE GIVE ALSO A COPY OF
THIS FAX TO MR CLAUDIO LOSER
(~~PHONE~~ NUMBER 623 83-73) THANKS!

SI TIENE ALGUN PROBLEMA CON EL ENVIO, POR FAVOR LLAME
IF ANY PROBLEM WITH THIS TRANSMISSION PLEASE CALL.

FAX. 522-31-27 518-59-50 518-48-90

SECRETARIA PARTICULAR

GHI

SECRETARIA
DE
HACIENDA Y CREDITO PUBLICO

101.- 782

August 2, 1990

Dear Mr. Camdessus:

The second year program under Mexico's Extended Arrangement with the Fund incorporated an indicative ceiling on net foreign borrowing by the public sector for end-December 1990 After discussions with the staff on the occasion of the review under the second year of the Extended Arrangement, we request that the end-December ceiling be established at US$7,020 million, the level of the indicative ceiling.

Sincerely,

Pedro Aspe Armella
Secretary of Finance and
Public Credit of Mexico

Miguel Mancera Aguayo
Director General
Bank of Mexico

MR. MICHEL CAMDESSUS
Managing Director
International Monetary Fund
Washington, D.C. 20431

SECRETARIA PARTICULAR

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G.H.1

ESTADOS UNIDOS MEXICANOS

SECRETARIA
DE
HACIENDA Y CREDITO PUBLICO

101.- 782

Mexico

August 2, 1990

010838

ORIG: WHD

Dear Mr. Camdessus:

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Pedro Aspe Armella
Secretary of Finance and
Public Credit of Mexico

Miguel Mancera Aguayo
Director General
Bank of Mexico

MR. MICHEL CAMDESSUS
Managing Director
International Monetary Fund
Washington, D.C. 20431

F

Office Memorandum

TO	The Acting Managing Director	DATE	August 3, 1990
FROM	S. T. Beza		
SUBJECT	Mexico--Article IV Consultation and Review Under the Extended Arrangement		

Attached is the staff report for the Article IV consultation and review under the Extended Arrangement for Mexico. The second year program under the arrangement incorporated an indicative ceiling on net foreign borrowing by the public sector for end-December 1990. Attached to the paper is a draft letter which the authorities are expected to send shortly requesting that the end-December ceiling be established at the level of the indicative ceiling

The proposed decision provides for completion of the review and establishment of the external debt ceiling for end 1990.

The paper has been reviewed by the following departments

Exchange and Trade Relations	--	Mr Brau
Fiscal Affairs	--	Mrs. Liuksila
Legal	--	Mr Oh
Research	--	Mr. Calvo
Treasurer's	--	Mr. Coats
Western Hemisphere	--	Messrs. Ferrán, Lachman, Stephens and myself.

The paper also has been reviewed by Mr. van Wijnbergen of the World Bank.

A summary of the staff report is attached

Attachments

cc The Managing Director (o/r)
Mr. P. Andrews

Mexico--Summary of Staff Report for Article IV Consultation and Review Under the Extended Arrangement

I. Recent developments

Developments under the extended arrangement so far have been satisfactory, and Mexico is estimated to have observed all quantitative performance criteria for end-June. Current indications are that the performance criteria for the remainder of the year also would be met.

The existing wage-price pact was extended in May for the period through January 1991 a slower pace of depreciation of the peso with respect to the U.S dollar was announced at that time GDP is now expected to grow by some 3 percent in 1990, somewhat less than programmed. The rate of inflation for the first six months was more than 15 percent, which was higher than projected for the year as a whole, and reflected corrective price adjustments For the year, inflation could reach 25 percent.

The fiscal outcome so far in 1990 has been better than programmed because of a strong primary surplus. Financial savings have continued to increase in real terms, while real interest rates have declined with improved confidence. Net international reserves rose in the first half of the year by US$2 7 billion more than contemplated under the program, as a result of increased private capital inflows that were more than sufficient to cover the unplanned widening of the current account deficit.

II. Policy issues

Mexico has made good progress in addressing its macroeconomic and structural problems and private confidence has been strengthened The readiness shown by the authorities to take corrective action as needed suggests that satisfactory performance will continue under the extended arrangement. However, risks remain, particularly because the reduced pace of depreciation of the peso and the recent acceleration of inflation may affect external competitiveness and add to the vulnerability of the balance of payments.

The authorities should maintain firm financial policies by preserving existing margins with regard to fiscal targets Furthermore if the recovery in oil prices is sustained this should be used to consolidate the gains made so far.

The exchange rate for the peso has appreciated somewhat in real effective terms in the last year, and some further appreciation is likely. The authorities need to keep the exchange rate policy under close review to avoid any adverse effects on competitiveness This, in conjunction with firm fiscal and credit policies, should serve to deal with the problem of inflation while preserving the strength of the balance of payments.

It is proposed that the review be completed and that the end-year ceiling on external debt be set at the level of the indicative ceiling established earlier.

STB
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BANCO DE MEXICO

DIRECCION DE OPERACIONES INTERNACIONALES
AV. 5 DE MAYO NO. 1, COL. CENTRO
MEXICO, D.F., C.P. 06059

DATE: AUGUST 2, 1990

ORIG: TRE
CC: MRS. FILARDO
WHD

FROM: BANCO DE MEXICO
MEXICO CITY

INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.
1990 AUG -2 PM 2:46
872487

TO: THE TREASURER'S DEPARTMENT
INTERNATIONAL MONETARY FUND

RECEIVED
IMF-CABLE ROOM
1990 AUG -2 PM 12:28

REMARKS: U R G E N T

THREE PAGES INCLUDING COVER

FAX NO (LONG DISTANCE CODE)
(MEXICO, D.F. CODE) 512-80-27

BANCO DE MEXICO

Mexico City, August 1st., 1990.

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

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

We refer to:

- The Memorandum of Understanding dated March 22, 1990 (The "Memorandum of Understanding"), between the Banco de Mexico and the United States Monetary Authorities and the Separate Agreements (The "Separate Agreements") under which The United States Monetary Authorities agreed to provide near-term support for the international reserves of the United Mexican States ("UMS") in the aggregate amount of U.S.$ 1,300 million, and

- The Communication sent to your attention by the UMS and the Central Bank of Mexico dated March 23, 1990, Reference: Extended Fund Facility and Other Sources of IMF Financing for Mexico (the "Communication").

We are attaching to this letter a copy of the notification we received from the Federal Reserve Bank of New York (the "FRBNY") on behalf of The United States Monetary Authorities, certifying that the Facility has been repaid in full, including interest. Therefore, as provided in section 9 (i) of the Memorandum of Understanding and in the Communication, we would like you to leave without effect the irrevocability of the instruction given to you on said Communication.

Terms used in this letter have the same meaning as those used in the Memorandum of Understanding.

Sincerely,

José Julián Sidaoui

BANCO DE MEXICO

MAQ (5 [illegible] Received Message 17 [illegible] 31 07 90

177906 XCOBME
232159 FRNY UR
MSG FCA021
JULY 31, 1990
BANCO DE MEXICO, S.A.
MEXICO CITY
NO.1553

ATTN: SR. MIGUEL MANCERA-AGUAYO, DIRECTOR GENERAL
THIS IS TO INFORM YOU THAT, AS OF THIS DATE, THE DRAWINGS UNDER THE SEPARATE BILATERAL AGREEMENTS PURSUANT OF THE MEMORANDUM OF UNDERSTANDING DATED MARCH 22, 1990 HAVE BEEN REPAID IN FULL, INCLUDING ACCRUED AND UNPAID INTEREST, TO THE UNITED STATES MONETARY AUTHORITIES.

FEDRESERVE
FH / CM

232159 FRNY UR.

177906 XCOBME....
JUL 31 1936 RESPOND TO 232159 FRNY UR

MARQUE DE UU 2821704 Y ESCRIBA 1442 PARA INDICE DE CATEGORIAS NOTICIAS

MAQ (5) 004 Local Message / 01 40 02/02/31

CMF 17.06 HFS

DIR-JJSD GER-AGT SUBGER-DMS SUBGER-EMA

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

FACSIMILE NUMBERS
(202) 623-4661
(202) 623-4662
(202) 623-7491

FACSIMILE INQUIRIES
(202) 623-6775

Facsimile Service Cover Sheet
(TYPE)

MSG. NO. 790 (For Cable Room use only)	DATE 31 de julio de 1990	PAGE 1 OF 2

TO

NAME Lic. Ariel Buira

AGENCY Banco de Mexico

CITY/COUNTRY Mexico City, Mexico

FACSIMILE TELEPHONE NO. 525 (Country Code) 512-9990 (City Code) (Number)

DISPATCHED 1990 JUL 31 AM

TEXT

Estimado Ariel:

Repito el mensaje enviado la semana pasada y que tiene un error en la portada, por lo que pudo no haber sido transmitido.

Adjunto encontrarás borrador de nota para ser enviada al Director Gerente, a fin de solicitar que el límite de deuda externa para fin de diciembre sea establecido al nivel del límite indicativo para esa fecha.

Afectuosos saludos,

Claudio

cc: Dr. J. M. Yacaman
Lic. Jesús Cervantes

INTERNAL DISTRIBUTION

ETR
LEG

FROM

NAME Claudio M. Loser

DEPT./DIV. WHD/IMO

ROOM NO. 10-100	EXTENSION 8373	ACCOUNT CODE 0043

AUTHORIZED BY Claudio M. Loser *(TYPE)*

SIGNATURE Claudio M. Loser

SEC-56, REV. 2
2-18-88

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.

July --, 1990

Dear Mr. Camdessus

The second year program under Mexico's Extended Arrangement with the Fund incorporated an indicative ceiling on net foreign borrowing by the public sector for end-December 1990. After discussions with the staff on the occasion of the review under the second year of the Extended Arrangement, we request that the end-December ceiling be established at US$7,020 million, the level of the indicative ceiling.

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Secretary of Finance and
Public Credit of Mexico

Miguel Mancera Aguayo
Director General
Bank of Mexico

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

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

FACSIMILE NUMBERS
(202) 623-4661
(202) 623-4662
(202) 623-7491

FACSIMILE INQUIRIES
(202) 623-6775

Facsimile Service Cover Sheet
(TYPE)

1990 JUL 27 5:26
DISPATCHED INFO

MSG. NO. 730 (For Cable Room use only)	DATE July 27, 1990	PAGE 1 OF 2

TO

NAME Lic. Ariel Buira

AGENCY Banco Central de Mexico

CITY/COUNTRY Mexico City, Mexico

FACSIMILE TELEPHONE NO. 525 (Country Code) 5¿ (City Code) ~~512-8845~~ 512 9990 (Number)

Please not that this is not Banco of Mexico. private phone #

TEXT

Estimado Ariel:

Tal como había sido convenido, adjunto un borrador de nota para ser enviada al Director Gerente, para solicitar que el límite de deuda externa para fin de diciembre sea establecido al nivel del límite indicativo para esa fecha.

Afectuosos saludos,

cc: Dr. J. M. Yacaman
Lic. Jesús Cervantes

INTERNAL DISTRIBUTION

MD
DMD
ETR
LEG
Mr. Andrews

FROM

NAME Claudio M. Loser

DEPT./DIV. WHD/IO

ROOM NO. 10-100	EXTENSION 8373	ACCOUNT CODE 43

AUTHORIZED BY (TYPE) Claudio M. Loser	SIGNATURE

SEC-56, REV. 2
2-18-88

PREPARATION OF FACSIMILE MESSAGE

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Facsimile number - including country and city codes - **must be provided** by originating office.

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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.

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The duplicate set will be dispatch/time stamped, forwarded to the Correspondence Unit for distribution, and returned to the originating office.

July --, 1990

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Sincerely,

Pedro Aspe Armella Secretary of Finance and Public Credit of Mexico	Miguel Mancera Aguayo Director General Bank of Mexico

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

STB
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Cable Room ID: MC1A2510 Page: 01	Distribution
Processed: July 27, 1990 14:55 Sender: Banco de Mexico Mexico (Mexico)	ORIG: TRE CC: MRS.FILARDO WHD

INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.
1990 JUL 27 PM 5:30

INCOMING MESSAGE

1772049 BMCOME
2UXPUXOP QWCETCRO

T 15588 MEXICO DF 27 JUL 90 ERL YAM

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C.

TREASURE DEPARTMENT

NO. 58

[redacted]

ATTN: MRS. LYNN/MR. R. VELUTINI
SDR DEPARTMENT

IN REFERENCE TO OUR TELEPHONE CONVERSATION OF TODAY, WE HEREBY REQUEST TO BUY 50,000,000.00 (FIFTY MILLION SPECIAL DRAWING RIGHTS), VALUE AUGUST 1, 1990, AT THE RATE FIXED ON JULY 27. WE WILL WAIT FOR YOUR INSTRUCTIONS IN ORDER TO EXECUTE THE OPERATION.

BEST REGARDS

BANCO DE MEXICO

BANXICO

27/07/90 12:37:19

64111 IMF UW

1772049 BMCOME

TEST NUMBER:
☑ CHECKS
☐ DOES NOT CHECK IT HAS BEEN SERVICED
DR
CABLE ROOM

Mexico

STB
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LF

Alvin H. Perlmutter, Inc.

Fax Cover Memo

Total # of Pages (including this cover note)

16

TO Claudio Loser DATE 7/23
Fax 1 202 623 7499
FROM John Merritt TIME 9:20

NOTES

Mexico case study script copy
for your perusal

45 West 45th Street New York, New York 10036

PHONE (212) 221-6310 FAX (212) 302 1854 TELEX 4945297 AHPINC

Title card MEXICO - PROMOTING GROWTH

In August of 1982, Mexico faced a financial crisis - it was unable to make the interest payments on its debt to foreign creditors In effect, the country was on the verge of bankruptcy

Finance Minister Aspe "It is not very different in a country than in an enterprise or in a family You cannot spend more than you earn in a consistent way Finally, debt keeps going up and up, and when that stops, the new lending stops, then you will have to face reality That is when the crisis starts "

Mexico has come a long way since those days The immediate crisis - the threat of default on the debt - was averted with financial assistance from the International Monetary Fund and the help of the United States government But that was only the beginning As a long term solution to its financial crisis, Mexico embarked on a major program of economic reforms The program was developed by the Mexican government with the help of technical advice and continued financial support from the IMF Today, those reforms are showing significant results

Title card ADJUSTING THE CURRENCY

This is Meubles Alfa, a furniture factory in Monterrey, owned by Grupo IMSA In the early eighties, it only produced for the Mexican market The company wanted to export its chairs to the United States, but couldn't The reason wasn't the cost of production, which was low The problem was the exchange rate of the Mexican peso

Fernando Canales, Grupo IMSA "We found that our prices were not competitive because the peso at that time was overvalued "

When the peso is overvalued, it takes fewer pesos to equal a unit of foreign currency, like the dollar That meant that Sr Canales would get too few pesos for each dollar he earned In order to pay his costs in pesos, he would have to charge customers too many dollars for his chairs to be competitive
But in the mid-nineteen eighties, the peso's value was lowered to a more realistic rate That made it possible for Sr Canales to export at a competitive price Now, he receives more pesos for each dollar -- allowing him to cover his costs and make a profit

Canales: "Now we have been able to increase our volumes, and approximately 25% of our production is exported "

Sr Canales is not alone The more realistic exchange rate has sparked an export boom Now, manufactured goods have overtaken oil as Mexico's leading export category, helping to reduce the country's reliance on world oil prices

Undersecretary Gurria "The exchange rate is one of the most important prices in the economy It regulates the imports and the exports and the the competitive, the competitiveness of Mexico vis a vis other countries So one of our major policy objectives is to keep a reasonable, competitive exchange rate "

Title card OPENING THE TRADE SYSTEM

This refrigerator plant is a division of the Vitro Company, one of Mexico's leading exporters But Vitro wouldn't be able to export competitively if it weren't for another key Mexican reform - import liberalization That's because several key parts for the company's refrigerators must be imported from abroad - like these motors from

Brazil Before, there was so much protectionism in Mexico - red tape, import restrictions, and high import tarrifs - that companies like Vitro couldn't import the parts and supplies they needed at a reasonable cost Now, however, the Mexican government has cut the red tape and restrictions, and lowered tariffs dramatically

Tomas Gonzalez Sada, Vitro "Today, we have much less red tape than before, and it is much easier for us to be able to import component product for our finished product " "The reduction of tariffs has made it possible for the Mexican products to be cheaper," "which makes the Mexican product more competitive than before "

Mexican consumers have benefitted, too Now they can buy reasonably priced products from abroad And Mexican companies that have to compete with those imports have had to lower prices and improve quality

Finance Minister Aspe "You have to open up the economy How you do it depends on the situation - you can do it very fast or gradually - but you have to force your domestic apparatus to compete with the rest of the world "

Title card CUTTING THE BUDGET DEFICIT

Finance Minister Aspe "With huge fiscal deficits you cannot have development, you cannot have improvement in the standard of living of the population "

The budget deficit was also a problem because the Mexican government printed more money to help finance it That resulted in high inflation - and this inflation threatened the success of the entire reform program

Undersecretary of Finance Gurria "Inflation became Public Enemy Number One, and policy target number one, two, and three Everything came after that And we had to pay a price, but we had to stabilize the economy first And you do that by spending less and by earning more revenue "

To increase revenues, Mexico revamped its tax system Tax rates were lowered, to reduce the burden, but many loopholes were eliminated and collection efforts were stepped up Government spending was cut dramatically, too One way was to reduce subsidies, for everything from electricity to gasoline to water Before, prices of these services had been kept artificially low - the government payed the difference between the price and the cost Now, prices more closely reflect the real cost of government services

Undersecretary Gurria "After all this effort, seven years, and mostly in the last two years, we now have a surplus, an operational surplus in the public sector of Mexico "

Title card PRIVATIZATION

Another key step in reducing the budget deficit was privatization - selling state-owned enterprises to the private sector Aeromexico is Mexico's second-largest airline Formerly, it was owned by the government Service was poor, and the airline lost money - money that the government had to make up in the form of subsidies

Undersecretary Gurria "And in the last 25 years, the government put into Aeromexico about 2 and 1/2 billion dollars of subsidies because it was losing money "

Then, in 1988, the government declared Aeromexico bankrupt and sold the airline to private investors The turnaround has been dramatic Service has improved, on-time performance and reliability are high, and the airline is now turning a profit

Pedro Cerisola, Aeromexico "In terms of profitability, well, former Aeromexico went bankrupt We're making money That's the big difference - between red and black, whatever it is, it's enough for me "

The new owners were able to run the airline more efficiently - and there's a new spirit among the employees

Pedro Cerisola "Let me tell you how do we feel It's like if" "there's horses that are being held before the race, they know that there's a race, and they feel that they can do it, and suddenly the door is open and they go and race And same thing is happening with the company at the moment "

Undersecretary Gurria "The company today is making money, the company has more employees than it used to have when it was declared bankrupt It has more aircraft, it has ordered more aircraft to be leased or bought, and it is paying us taxes - not only are we not spending money in the subsidy, we are getting money of the taxes "

The Aeromexico sale was followed a year later by the privatization of Mexicana, the largest Mexican airline The government also privatized hundreds of other companies, from sugar mills to steel mills to the telephone company, and in 1990 it announced the privatization of the Mexican banks, which had been state-owned since 1982 All in all, by 1990, the government had cut the number of state-owned companies from 1200 to 400

Finance Minister Aspe "And the reason is very simple We don't want to overspend, first, second, you cannot have a government with so many assets in a poor country Why don't you get rid of those assets, sell them to the civil society, and use the proceeds to bring down inflation, and to spend on the basics And the basics is education, health, infrastructure, better justice That is exactly what the government is doing "

Title card THE SOCIAL SAFETY NET

Some of the proceeds from those privatizations are being spent here, in Chalco, a desperately poor town outside of Mexico City Through a program called Solidaridad, the Mexican government is providing targeted relief for the poorest segments of the population
Milk prices in Mexico are not subsidized for the general

population But poor people with children can get milk for a fraction of the market price at dairies like this one This dairy, and many others like it, were built by Solidaridad
Solidaridad also is helping to wire Chalco for electricity - Solidaridad trucks deliver water to homes at reduced cost - and Solidaridad is building new hospitals and schools for the community

Money for programs like Solidaridad is also made possible by cutting general subsidies on services like electricity, water, telephones and gasoline

Undersecretary Gurria "A subsidy, that is, selling to the public something below its cost, is something which is very expensive for the government And the problem when you generalize these subsidies, when you give to everybody in an indiscriminate fashion, is that it is socially very unfair. If you have electricity rates which are subsidized for everybody, that means the rich are getting a subsidy which is the same size than the poor, when the poor need it most " "So we have changed the tariffs so that they reflect the real cost of providing the service And then get the amount of money, the extra revenue to target to the really poorest in an organized fashion "

Title card DEBT REDUCTION

Throughout the 1980s, Mexico labored under a huge foreign debt approaching $100 billion This was a tremendous obstacle to growth, since money that could have gone into investments and public services went to service the debt But in March of 1990, Mexico signed an historic agreement with its commercial bank creditors to reduce the debt burden The agreement is estimated to save Mexico close to $2 billion per year in debt payments

More importantly, the agreement gave investors and international institutions the confidence to continue to lend and invest in Mexico

The debt reduction agreement was negotiated with the help of the International Monetary Fund

From the debt crisis of 1982, through the development of the Mexican reform program, to the debt reduction agreement of 1990, the IMF has worked to support Mexico's efforts The IMF provided financial assistance - with loans totalling over $6 billion between 1982 and 1990 The IMF also provided special funds to Mexico to be used to further reduce its debt The IMF helped generate additional financing from other donors, and gave economic advice and expertise to the Mexican government

Undersecretary Gurria "They have always been there, acting both as an orchestrator of external sources of support, and also as, de facto, an advisor to the Mexican government Sometimes the negotiations with the IMF get tough, we sometimes don't see things in the same light But I would say that" "what the IMF is supporting is our program They didn't come and tell us what our program should be, we had a good program -" "they supported the Mexican program, and it's worked out very well, to the advantage of both the international financial system and Mexico "

Finance Minister Aspe "We have a new economy, lots more modern, more competitive, more aggressive, entering markets which were unthinkable five years ago So we still have a long, long road ahead - we still have, will have to work to persevere, we still have many problems, oh, but let me tell you, we are working now in the right direction "

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Cable Room ID: MC1A1906 Page: 01	Distribution
Processed: July 16, 1990 19:55 Sender: Banco de Mexico Mexico (Mexico)	ORIG: TRE CC: MRS. FILARDO WHD

INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.
1990 JUL 17 AM 10:03

INTERNATIONAL MONETARY FUND

INCOMING MESSAGE

1775806 XCOBME

T 14814 MEXICO D F 16 JUL 90 CMF ROV

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

NO. 54

ATTN TREASURER'S

RE YOUR SDR NO. 79 REF. OCRA5484 DTD 12-07-90 PLEASE TAKE NOTE THAT WE INSTRUCTED TO THE FEDERAL RESERVE BANK OF NEW YORK, N.Y. THAT VALUE DATE JULY 17, 1990 WILL CREDIT PRIOR TO 11:00 HRS. NEW YORK TIME USDLLS. 66,804.015.72 IN FAVOR OF THE TREASURY, SPECIAL ACCOUNT, WASHINGTON, D.C. CODE 15 (STOP) REF. ACQUIRE SDR 50,000,000 AT THE RATE OF ONE USD EQUALS SDR 0.748458 (STOP) VALUE JULY 17, 1990 PLEASE WILL CREDIT OUR ACC WITH YOURSELVES (STOP) OUR CORRESPONDENT BANK IS THE FEDERAL RESERVE BANK OF NEW YORK, N.Y. (STOP)

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

REGARDS

BANCO DE MEXICO

BANXICO

16/07/90 17:18:05

64111 IMF UW

1775806 XCOBME

Note:
*** Test Accepted ***

CL
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Cable Room ID: MC1A1779 Page: 01	Distribution
Processed: July 12, 1990 14:15 Sender: Banco de Mexico Mexico (Mexico)	ORIG: TRE CC: MRS. FILARDO WHD

INCOMING MESSAGE

1773050 BMCKME
12/07/90 11:34:32

T 14566 MEXICO DF 12 JUL 90 ERL YAM

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C.
TREASURE DEPARTMENT

ATTN: MRS. LYNN/MR. R. VELUTINI
SDR DEPARTMENT

NO. 53

IN REFERENCE TO OUR TELEPHONE CONVERSATION OF TODAY, WE HEREBY REQUEST TO BUY 50,000,000.00 (FIFTY MILLION SPECIAL DRAWING RIGHTS), VALUE JULY 17, 1990, AT THE RATE FIXED ON JULY 12. WE WILL WAIT FOR YOUR INSTRUCTIONS IN ORDER TO EXECUTE THE OPERATION.

BEST REGARDS,

BANCO DE MEXICO

BANXICO

12/07/90 11:36:02

64111 IMF UW

1773050 BMCKME

Note:
*** Test Accepted ***

F

Office Memorandum

TO: The Acting Managing Director

DATE: July 10, 1990

FROM: S.T. Beza MB

SUBJECT: Mexico--Back-to-Office Report

The mission that just returned from Mexico completed discussions for the Article IV consultation and the mid-term review for the second year under the Extended Arrangement. So far in 1990 developments have been satisfactory and Mexico is estimated to have observed all quantitative performance criteria for end-June. Also, the current expectation is that Mexico will observe the performance criteria for the remainder of the year.

Real GDP is growing at an annual rate of 3 percent compared with the program assumption of 3 1/2 percent. The cumulative rate of inflation for the first six months of the year is somewhat over 15 percent, and thus is already higher than had been projected for the year; corrective price adjustments have been larger than envisaged when the program was framed. For the year, prices are likely to increase by some 25 percent. The fiscal outcome so far has been better than programmed, and claims on the financial system have increased faster than had been planned. Thus, net international reserves rose in the first half of 1990 to a level that is US$2.2 billion higher than contemplated under the program. The improvement in reserves reflects a sharp increase in private capital flows that have more than offset an unplanned widening of the external current account deficit.

The staff expressed its concern about inflation and about the possibility that the reduced pace of depreciation of the peso (0.8 percent a month in relation to the U.S. dollar) would impair external competitiveness and add to the vulnerability of the balance of payments. The balance of payments has depended on short-term capital inflows, attracted in part by interest rates that are still high in real terms.

In these circumstances, the mission urged the authorities to pursue tight fiscal policies by maintaining existing margins under the program, keep exchange rate policy under close review, and seek to lengthen the maturity of financial savings to reduce the risk of a reversal of capital flows. The authorities share some of the concerns of the staff but felt that the staff was exaggerating the risks faced.

Attachment

cc: The Managing Director (o/r)
Mr. P. Andrews

Office Memorandum

TO The Acting Managing Director DATE July 10, 1990

FROM C. M. Loser

SUBJECT Mexico--Back-to-Office Report (June 19-July 5, 1990)

The mission that just returned from Mexico completed discussions for the 1990 Article IV Consultation and mid-term review for the second year under the Extended Arrangement from the Fund The discussions with the authorities were open and comprehensive, and took place in a constructive environment. Ms Filardo participated in the final round of meetings with the authorities.

Developments in 1990 have been generally satisfactory, and Mexico is estimated to have observed all the quantitative performance criteria for end-June, given the current policy stance, it is expected that Mexico would observe the performance criteria for the remainder of the year without difficulty. In particular, net international reserves have risen markedly in recent months, and the net credit of the Bank of Mexico to the nonfinancial public sector through May has been considerably below the programmed levels, reflecting mainly a strong performance of the public finances

Economic activity so far this year has increased at a somewhat lower pace than previously expected, with GDP now projected to grow at a rate of some 3 percent in 1990 (compared with a program target of 3 5 percent) The cumulative rate of inflation for the first half of the year is estimated at somewhat over 15 percent and thus is already higher than had been projected for the year The recent increase in prices is accounted for by corrective adjustments in the public sector larger than previously envisaged and a relaxation in the price controls under the wage-price pacts. The rate of inflation is projected to decline to a monthly rate of 1 percent in the second half of 1990, for the year, prices are now projected to increase by 23 percent but could easily increase by 25 percent. Wages accelerated through early 1990 but the rate of increase of wage settlements appears to have moderated in recent months, in line with the expected deceleration of inflation for the remainder of the year. Minimum wages have not increased since late 1989.

The external current account deficit may widen by some US$2 billion in 1990 with respect to earlier projections This reflects the combined effect of increased private investment and reduced private domestic savings, offset in part by a stronger public sector outcome measured by the operational fiscal balance The widening current account deficit is being more than offset by higher private capital inflows, in part in the form of short-term flows.

In its assessment of economic developments and prospects, the mission noted that the intensification of structural reforms in the context of tight financial policies (particularly with regard to the public finances) and reduced uncertainties about external debt have contributed to a marked recovery of confidence, with significant capital flows and declining domestic interest rates.

Notwithstanding these favorable developments, the mission expressed concern about the higher than projected rate of inflation which, in conjunction with some wage pressures and a deceleration in the rate of depreciation of the peso to some 0 8 percent a month from the previous 1 percent in relation to the U S dollar, could affect adversely external competitiveness Also, the mission noted that the widening of the external current account deficit reflected only in part a lower international price for oil. The mission pointed out that although the current account was financed by larger private capital inflows, these were partly in the form of short-term financial assets, attracted by continued high although declining real interest rates, and which could be reversed easily In these circumstances, the mission urged the authorities to maintain a tight financial policy stance in order to strengthen the underlying conditions in the economy It suggested that existing margins under the program for the fiscal primary surplus be maintained through the remainder of the year, helping reduce demand pressures and strengthen the balance of payments

The Mexican authorities expressed their satisfaction with developments under the program They share the concerns of the mission and intend to take any additional actions, if needed, to attain the program objectives. However, in their view domestic markets have reacted well to the progress being made in implementing economic policies and consider that the risks faced by Mexico are lower than characterized by the mission They pointed to the progress made in the area of structural reforms and stressed the strengthening of confidence aided by tight financial policies, the completion of the external debt deal, and the recent announcement of the privatization of the domestic banking system. Therefore, they consider that the vulnerability of the Mexican economy has been reduced in the recent past

The public finances have performed well, reflecting better-than-programmed tax revenues and continued expenditure restraint These developments helped offset the high domestic interest rates at the beginning of the year In the first quarter of the year, receipts under budgetary control were 1 4 percentage points of GDP higher than programmed, about one half of which was attributable to high oil prices With the sharp decline in oil prices in the second quarter of the year, oil export revenues were about in line with projections through June, but total revenues are still expected to exceed projections by some 0 7 percentage point of GDP for the period Expenditures were below projection for the first quarter but may be about in line with projections through June. On the basis of current trends, the overall fiscal outcome for the year can be expected to be somewhat better than programmed 1/

As noted, the mission emphasized the need for maintaining existing margins on fiscal performance, equivalent to some 1/2 percentage point of GDP, in order to protect the objectives of the program against possible continued low oil prices and increases in domestic interest rates Even if interest rates were to remain at current levels--an annual rate of 32 percent as opposed to a projected 36 percent for the second half of the year--total interest payments for the year would exceed the program projections as modified The authorities expressed their intention to maintain some margins within the program, but noted that some expenditure items, including wages, would have to be adjusted upward to account for the higher rate of inflation for the year However, the increased expenditure would be partly offset by higher revenue and lower than budgeted expenditure in other areas

The mission noted that, given their nonrecurrent nature, the expected revenues from the sales of enterprises and banks should not be used to cover public sector current expenditure The authorities agreed that these resources, which are expected to become available mainly in 1991, should be treated as extraordinary income and devoted mainly to increase investment and reduce debt

Developments in financial markets have been generally positive. Financial savings have continued to grow in real terms, the maturity of financial instruments has lengthened somewhat, and interest rates have declined in nominal and real terms. There still remain some areas of concern, which in the view of the mission suggest the continued vulnerability of the Mexican economy In particular, the effective maturity of financial instruments remains short and private capital inflows could reverse easily, putting considerably strain on foreign reserves in a system with a predetermined path of peso depreciation In this context the mission again stressed the need for continued strong underlying policies, particularly in the fiscal area, coupled with efforts to increase maturities further by reducing existing tax disincentives for long-term deposits

The rapid growth in credit to the private sector was another area of concern, because of its implications for the quality of banks' portfolios during the current process of financial liberalization The authorities are of the view that the growth in credit (and of financial savings) largely reflects the reintermediation of transactions that were

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1/ Since oil prices would average about US$13 50 a barrel compared to the assumed program price of US$15 a barrel, the relevant performance criteria would have to be adjusted by the equivalent of some 0 3 percentage point of GDP already taking place outside of the banks' balance sheets Furthermore, they noted that the rate of growth has decelerated somewhat and consider that the present level of credit to the private sector is low in relative terms, after years during which it had been crowded out by the financing requirements of the public sector The Mexican authorities are strengthening the supervision of commercial banks ahead of their privatization, including procedures for portfolio risk assessment and implementation of risk-adjusted provisioning requirements

In the first half of the year, the overall balance of payments has performed better than expected, with net international reserves having increased by some US$1 4 billion in April-May and an additional US$1.2 billion in June. On this basis, the net international reserves of the Bank of Mexico for end-June are some US$2 2 billion higher than envisaged under the adjusted program However, it can be expected that the margin will be reduced as the year progresses, to the extent that the increase in reserves reflects only a temporary acceleration of capital flows.

The balance of payments for the year as a whole is now expected to show an overall surplus of US$0.3 billion, compared with a projected deficit of some US$0 9 billion when adjusted for lower oil revenues. However, there are considerable changes in the structure of the balance of payments, with the current account expected to show a deficit of US$7 billion--US$2 billion higher than projected previously The wider deficit reflects a decline of US$0 8 billion in oil revenues, and an increase of US$1 billion in imports The larger deficit would be more than offset by private capital flows that would exceed previous projections by some US$2 7 billion Public sector borrowing is projected to be broadly in line with the program

The authorities consider that exchange rate policy remains consistent with the objectives of the program They noted that the recently announced deceleration of the rate of depreciation of the peso (from 1 percent a month to 0 8 percent a month in relation to the U S dollar) had helped reduce inflationary expectations and that interest rates had declined immediately after the announcement of the measure, reflecting confidence shown by the private sector The mission stressed that unit labor costs had increased relative to those of Mexico's trading partners in the recent past, putting in question the maintenance of competitiveness. This was of particular concern in light of the widening deficit and the deceleration of manufacturing exports

The authorities believe that the structural changes in the economy and the decline in interest rates have resulted in an improvement in productivity and that wages remain low by international standards. They indicated that while labor costs may have increased, current wage settlements are in line with those of their major trading partners adjusted for exchange rate movements They have reaffirmed their intention, however, to take action as needed on the basis of developments in the external sector They attribute some of the slowdown in exports to delays in completing new projects and to strikes in some sectors, which would be corrected in the months to come They also noted that the exchange rate might appreciate in real terms to accommodate the large increases in private capital inflows and that large scale sterilization of these flows could be counterproductive In this regard, the staff again stressed the need for a tight fiscal policy as the most effective way to minimize the adverse impact of a possible appreciation of the peso

With the agreement on the external debt limit for end-1990 at the previously established indicative level there are no operational issues at this stage The authorities will send a communication to request that the ceiling be set as noted

It was agreed that Mexico would remain in the 12-month consultation cycle

Attachment

cc The Managing Director (o/r)
Mr Beza
Mr Frenkel
Mr Van Houtven
Mr Whittome
Mr Gianviti
Mr Laske
Mr Tanzi
Mr P Andrews

Table 1 Mexico Selected Economic Indicators

	1987	1988	1989	1990 Prog	1990 Proj
(Annual percentage change)					
Real GDP	1 6	1 4	2 9	3 5	3 0
Consumer prices (average)	131 8	114 2	20 0	17 8	25 1
Consumer prices (end-of-year)	159 2	51 7	19 7	15 0	22 8
(In billions of U S dollars)					
External sector					
Current account (deficit -)	4 0	-2 4	-5 4	-5 0	-7 1
Of which exports (f o b)	22 3	22 9	25 8	27 9	27 1
imports (f o b)	-12 2	-18 9	-23 4	-24 8	-25 8
interest payments	-8 1	-8 6	-9 3	-9.4	-9 6
Official capital (net)	3 9	0 4	0 4	1 0	0 9
Private capital (net)	-1 2	-4 8	3 9	3 8	6 5
Net reserve movement (increase -)	-6 6	6 8	1 1	0.2	0 3
(In percent of GDP)					
Nonfinancial public sector					
Primary balance	5 0	5 9	8 3	6 9	6 7
Operational balance	2 0	-4 5	-1 7	-1.0	0 1
Public sector borrowing requirement	15 8	12 9	5 8	5.1	5 1
Savings and investment					
Gross domestic investment	18 6	19 2	20 0	22 8	20 9
Public sector	5 3	4 2	3 7	4.9	4 6
Private sector	13 3	15 0	16 3	17 9	16 3
Gross national savings	21 3	17 8	17 3	21 4	18 2
Public sector 1/	7.4	-0 2	2 3	4 0	5.0
Private sector	13 9	18 0	15 0	17 4	13 2
External savings	-2 8	1 4	2 7	1 4	2 6
Memorandum items					
Nominal GDP (trillions of Mexican pesos)	193 5	395 9	494 1	605.3	627 4
Velocity of M-4 (GDP/M-4)	3 6	3 6	2 9	2.6	2 6
Foreign reserves/M-4 (percent)	35 8	11 1	9 6	9 6	9 1

Sources Mexican authorities, and Fund staff estimates

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

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Cable Room ID: MC1A1506 Page: 01	Distribution
Processed: July 05, 1990 16:48 Sender: Banco de Mexico Mexico (Mexico)	ORIG: TRE CC: MRS. FILARDO WHD

INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.
1990 JUL -6 AM 9:43

INCOMING MESSAGE

1772049 BMCOME
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T 13953 MEXICO D.F. 5 JUL 1990 OGM ROV
INTERNATIONAL MONETARY FUND
WASHINGTON, D.C.

ATT'N.: TREASURER'S

NO. 52

RE YOUR SDR NO.74 REF. OCRA4839 DTD 03-07-90 PLEASE TAKE NOTE THAT WE INSTRUCTED TO THE MORGAN GUARANTY TRUST CO N.Y. THAT VALUE DATE JULY 09, 1990 WILL CREDIT PRIOR TO 11.00 HRS. NEW YORK TIME USDLLS. 66,593,946.08 IN FAVOR OF REGULAR CALL ACCOUNT OF SAUDI ARABIAN MONETARY AGENCY, RIYADH. (STOP) REF. ACQUIRE SDR 50,000,000 AT THE RATE OF ONE USD EQUALS SDR 0.750819 (STOP) VALUE JULY 09,1990 PLEASE WILL CREDIT OUR ACC WITH YOURSELVES (STOP) OUR CORRESPONDENT BANK IS MORGAN GUARANTY TRUST CO. N.Y. (STOP)

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

BANCO DE MEXICO

BANXICO
05/07/90 14:43:51

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1772049 BMCOME

Note:
*** Test Accepted ***

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Cable Room ID: MC1A1391 Page: 01	Distribution
Processed: July 03, 1990 13:43 Sender: Banco de Mexico Mexico (Mexico)	ORIG: TRE CC: MRS. FILARDO WHD

INCOMING MESSAGE

1772669 BMCJME

T 13740 MEXICO DF 03 JUL 1990 RVL YAM
INTERNATIONAL MONETARY FUND
WASHINGTON, D.C.
TREASURE DEPARTMENT

ATTN: MRS. LYNN/MR. R. VELUTINI
SDR DEPARTMENT

NO. 51

IN REFERENCE TO OUR TELEPHONE CONVERSATION OF TODAY, WE HEREBY REQUEST TO BUY 50,000,000.00 (FIFTY MILLION SPECIAL DRAWING RIGHTS), VALUE JULY 9, 1990, AT THE RATE FIXED ON JULY 3. WE WILL WAIT FOR YOURS INSTRUCTIONS IN ORDER TO EXECUTE THE OPERATION.

BEST REGARDS,

BANCO DE MEXICO

BANXICO

03/07/90 11:25:13

64111 IMF UW

1772669 BMCJME

Note:
*** Test Accepted ***

10 - 10D

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Cable Room ID: MC1A1313 Page: 01	Distribution
Processed: June 29, 1990 21:11 Sender: Banco de Mexico Mexico (Mexico)	ORIG: TRE CC: MRS. FILARDO WHD

INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.
1990 JUL -2 PM 12:37
1990 JUL -2 PM 12:10

INCOMING MESSAGE

1772669 BMCJME
20XPYXOP QUCTTCQQ

T 13595 MEXICO DF 29 JUN 1990 RVL ROV
INTERNATIONAL MONETARY FUND
WASHINGTON D C

ATT'N. TREASURER'S

NO. 50

RE YOUR SDR NO.71 REF. OCRA4318 DTD 27-06-90 PLEASE TAKE NOTE THAT WE INSTRUCTED TO THE MORGAN GUARANTY TRUST CO N.Y. THAT VALUE DATE JULY 02, 1990 WILL CREDIT PRIOR TO 11:00 HRS. NEW YORK TIME USDLLS. 66,192,025.71 IN FAVOR OF REGULAR CALL ACCOUNT OF SAUDI ARABIAN MONETARY AGENCY, RIYADH. (STOP) REF. ACQUIRE SDR 50,000,000 AT THE RATE OF ONE USD EQUALS SDR 0.755378 (STOP) VALUE JULY 02, 1990 PLEASE WILL CREDIT OUR ACC WITH YOURSELVES (STOP) OUR CORRESPONDENT BANK IS MORGAN GUARANTY TRUST CO. N.Y. (STOP)

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

REGARDS

BANCO DE MEXICO

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29/06/90 17:57:21

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Note:
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Cable Room ID: MC1A0551	Page: 01	Distribution
Processed: June 14, 1990 20:25 Sender: Banco de Mexico Mexico (Mexico)		ORIG: TRE CC: MRS. FILARDO WHD

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INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.
1990 JUN 15 PM 12: 10

INCOMING MESSAGE

1772669 BMCJME
1RXPYXOP QICPECRI

T 12334 MEXICO DF 14 JUN 1990 RVL ROV
INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

ATTN: TREASURERS

NO. 46

RE YOUR SDR NO. 66 REF. NO OCRA 3232 DTD 13-06-90 PLEASE TAKE NOTE THAT WE INSTRUCTED TO THE MORGAN GUARANTY TRUST CO. N.Y. THAT VALUE JUNE 18, 1990 CREDIT PRIOR TO 11:00 HRS NEW YORK TIME, AS FOLLOWS:

U.S. DOLLAR	ACCOUNT
65,523,671.74	MORGAN GUARANTY TRUST CO. LONDON IN FAVOR OF REGULAR CALL ACCOUNT OF SAUDI ARABIAN MONETARY AGENCY, RIYADH.

REF. TO ACQUIRE SDR 50,000,000 AT THE RATE OF ONE USD EQUALS SDR 0.763083 (STOP) VALUE JUNE 18, 1990 PLEASE CREDIT OUR ACC WITH YOURSELVES (STOP) OUR CORRESPONDENT BANK IS MORGAN GUARANTY TRUST CO N.Y. (STOP)

OUR REF. H54-3-ORG. INTLS.

REGARDS
BANCO DE MEXICO
BANXICO

14/06/90 18:06:28
64111 IMF UW
1772669 BMCJME

Note:
*** Test Accepted ***

Cable Room ID: MC1B1815 Page: 01	Distribution
Processed: June 13, 1990 14:23 Sender: Banco de Mexico Mexico (Mexico)	ORIG: TRE CC: MRS. FILARDO WHD

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INCOMING MESSAGE

1775806 XCOBME

T 12116 MEXICO DF 13 JUN 1990 RVL LFCP
TO: INTERNATIONAL MONETARY FUND
WASHINGTON, D.C.
TREASURY DEPARTMENT

ATTN: MRS. LYNN/MR. R. VELUTINI
SDR DEPARTMENT

NO. 45

IN REFERENCE TO OUR TELEPHOE CONVERSATION OF TODAY, WE HEREBY REQUEST TO BUY 50,000.000.00 (FIFTY MILLION SPECIAL DRAWING RIGHTS), VALUE JUNE 18, 1990, AT THE RATE FIXED ON JUNE 13, 1990. WE WILL WAIT FOR YOUR INSTRUCTIONS IN ORDER TO EXECUTE THE OPERATION.

BEST REGARDS,

BANCO DE MEXICO

BANXICO

13/06/90 12:11:34

64203 IMF UW
1775806 XCOBME

Note:
*** Test Accepted ***

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Office Memorandum

1990 JUN 12 AM 7:08
OFFICE OF
THE MANAGING DIRECTOR

TO: The Managing Director

DATE: June 12, 1990

OK
MW
14/6

FROM: S.T. Beza

SUBJECT: Mexico--Briefing for Mission to Mexico

Attached is the briefing paper for the forthcoming Article IV consultation and review mission to Mexico. A summary of the briefing is attached.

The paper has been reviewed by the following departments:

Exchange and Trade Relations:	Mr. Brau
Fiscal Affairs:	Mr. Nashashibi and Ms. Liuksila
Legal:	Mr. Oh
Treasurer's:	Mr. Coats
Western Hemisphere:	Messrs. Ferrán, Lachman, van Beek, and myself

Mr. Loser's last day in the office will be Thursday, June 21.

Attachment

cc: The Deputy Managing Director (o/r)
Mr. P. Andrews

F

Office Memorandum

TO The Managing Director DATE June 12, 1990

FROM S T Beza

SUBJECT Mexico--Briefing for Mission to Mexico

Attached is the briefing paper for the forthcoming Article IV consultation and review mission to Mexico A summary of the briefing is attached

The paper has been reviewed by the following departments

Exchange and Trade Relations	Mr Brau
Fiscal Affairs	Mr. Nashashibi and Ms Liuksila
Legal	Mr Oh
Treasurer's	Mr Coats
Western Hemisphere	Messrs Ferrán, Lachman, van Beek, and myself

Mr. Loser's last day in the office will be Thursday, June 21

Attachment

cc The Deputy Managing Director (o/r)
Mr P. Andrews

MEXICO--Summary of Briefing for Mission

1. Head of Mission Claudio Loser (WHD)

2. Purpose of Mission 1990 Article IV consultation and review under the extended arrangement

3. Date June 22-July 6

4. Background

Mexico observed the end-March performance criteria with margins, and recent developments in Mexico generally have been consistent with the program targets supported by the extended arrangement.

The Mexican authorities announced on May 27 the extension of the wage-price pact through end-January 1991. The announced policy actions include a reduced rate of depreciation of the peso, unchanged minimum wages, and adjustments to public sector prices of energy-related products.

5. Main issues

Despite the large reduction of macroeconomic imbalances, major structural reforms, and the completion of the financing package with commercial banks, Mexico's economic situation remains fragile. Inflation is running higher than expected (a cumulative rate of inflation of 13 percent in the first five months of 1990 compared with an annual target of 15 percent in the program), and imports are also running at a somewhat higher rate than previously projected, financed by private capital flows. The lower rate of depreciation together with a higher than expected rate of inflation may erode international competitiveness, and could preclude the achievement of the projected external current account outcome, at a time when gross international reserves remain low following the disbursement of funds required for debt enhancements

The mission will assess the current policy stance with particular emphasis on the inflation and balance of payments objectives. In this context, it will be stressed that the recently announced exchange rate policy is likely to work satisfactorily only if it is accompanied by tight fiscal and credit policies.

The staff will explore whether a more ambitious overall fiscal target is needed to avoid a disproportionate burden on monetary policy, if more fiscal action is required, appropriate measures to that end will be discussed. The mission also will seek general understandings on the policies for 1991, these would be taken up again late in 1990.

With regard to the new exchange rate policy, the mission will seek assurances that the authorities will move promptly if developments suggest that the balance of payments objectives are at risk because of problems of competitiveness.

The most important areas of structural reform in the period ahead are privatization (including of the banking system) and the deregulation of foreign investment.

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Briefing for Mission to Mexico

Prepared by the Western Hemisphere Department

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

Approved by S.T Beza and Eduard Brau

June 12, 1990

A staff mission consisting of Messrs. Loser (Head-WHD), Calvo (RES), Kalter, Khor, Medeiros (all WHD), and El-Erian (ETR), and Ms. Lanio (Assistant-WHD) is scheduled to visit Mexico City for about 2 1/2 weeks beginning June 22, 1990 to conduct the 1990 Article IV consultation discussions and to review developments under the extended arrangement with Mexico. An advance team will start work on June 18.

On January 29, 1990 the Executive Board approved the program for the second year under Mexico's three-year extended arrangement. It also approved the use of Fund resources in support of debt operations in the form of an augmentation of the arrangement, release of accumulated set-asides, and acceleration of disbursements of set-asides scheduled to be available in 1990 On April 18, 1990 the Executive Board approved Mexico's request for a waiver for the nonobservance of certain performance criteria for end-1989 and modifications to the 1990 program under the extended arrangement. 1/ Mexico observed the end-March, 1990 performance criteria and made the corresponding purchase on June 1 (Table 1) Under the terms of the extended arrangement, the forthcoming review with the Fund on the implementation of the economic program for 1990 should be completed before August 31, 1990.

As of May 31, 1990 Mexico had purchased the equivalent of SDR 1,608 million under the arrangement; Fund credit to Mexico, including drawings

1/ The end-year target for the net international reserves of the Bank of Mexico and related targets were adjusted in order to offset the deviations that occurred in 1989, quarterly targets were also adjusted to reflect revised features of the financing package with commercial banks. Credit from the Bank of Mexico to the nonfinancial public sector (the only ceiling based on stocks and not on flows for the year) was adjusted to reflect the actual level of credit outstanding at the end of 1989.

under the EFF, the CCFF, and the enlarged access policy, stood at SDR 4,685 million, or the equivalent of 403 percent of quota. 1/

I. Background and Developments Under the Extended Arrangement

Economic activity recovered in 1989, with real GDP growing by some 3 percent (Table 2). The inflation rate (measured by the consumer price index) declined from 52 percent during 1988 to less than 20 percent during 1989 The peso depreciated in nominal terms by 15 percent relative to the U.S. dollar and remained broadly unchanged in real effective terms during the year (Chart 1).

Fiscal performance in 1989 was better than programmed in reflection of strong tax receipts, higher petroleum prices, and larger receipts from sales of goods and services The PSBR amounted to 5.9 percent of GDP (compared with 12.9 percent in 1988), while the operational deficit was 1 7 percent of GDP (4 4 percent in 1988) The primary surplus was raised from 5 9 percent of GDP in 1988 to 8.3 percent of GDP.

With rapid increases in private sector financial savings, the PSBR in 1989 was financed primarily through the placement of government securities with the public, except in late 1989 when the Bank of Mexico allowed net domestic assets to increase with a view to limiting any rise in interest rates Nominal interest rates declined from 4 1/4 percent a month to 3 percent a month after an agreement was reached on a financing package with commercial banks in mid-1989 but then rose somewhat (see Chart 1)

Mexico's overall balance of payments deficit in 1989 amounted to US$1 1 billion (some US$400 million larger than the adjusted program target), after a deficit of almost US$7 billion in 1988 The value of exports in U.S dollar terms rose by 12 percent in 1989, but imports rose even faster, and the external current account deficit widened by the equivalent of somewhat over 1 percentage point of GDP The larger than planned current account deficit in 1989 was financed mainly by inflows of private capital that helped offset the shortfall in financing to the public sector.

The program for 1990 sought to reinforce the policy stance of 1989. The program was expected to be consistent with a real GDP growth of 3 1/2 percent with inflation declining to 15 percent during the year. Gross domestic investment was projected to increase by 1 percentage point of GDP and gross domestic savings by over 2 percentage points of GDP, reflecting higher private and public savings; the use of foreign savings was projected to decline by nearly 1 1/2 percentage points to a little more than 1 percent of GDP, mainly because of the

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1/ Details of Mexico's financial relations with the Fund are presented in Attachment I.

interest relief obtained through the financing package with commercial banks. Structural reforms would continue to be implemented

Developments in early 1990 have been consistent with the program objectives except that the rate of inflation was higher than expected. Consumer prices rose by a cumulative 8 percent from December 1989 to February 1990, reflecting in part public sector price adjustments During the subsequent three months, the rate of price increase slowed to around 1 1/2 percent a month, but this was still somewhat higher than envisaged under the program. The real effective value of the peso remained broadly unchanged in the 12 months to March 1990 (see Chart 1)

The primary fiscal balance in the first quarter of 1990 continued to be strong because of tight controls over expenditure, with the surplus exceeding the program target by a substantial margin (see Table 1) The overall public sector borrowing requirement was well within the ceiling and the operational balance was in surplus whereas it had been programmed to be in deficit

The Bank of Mexico tightened credit in early 1990 and interest rates rose by 1/2 percentage point to almost 4 percent a month (see Chart 1) Following the completion of the financing package with commercial banks in March, the announcement that a constitutional amendment would be sought to allow the return of the commercial banking system to private investors (subsequently approved by Congress), and the extension of the wage-price pact (see below) in May, interest rates declined to about 3 percent a month (some 1 1/2 percent in real terms) by early June Credit from the Bank of Mexico to the nonfinancial public sector was substantially below the limit set for end-March 1990.

Net international reserves in the first quarter of 1990 turned out somewhat better than projected, as they declined by US$2 9 billion, or US$0.4 billion less than had been programmed The decline in reserves reflected the acceleration of interest payments under the agreement with commercial banks and the cost of enhancements required for debt operations During the first months of 1990, exports were about in line with projections, but imports rose at a faster than projected rate and were covered by larger than programmed private capital inflows Net international reserves increased by US$1 billion in April 1990

On May 27 the Government announced the extension of the wage-price pact through end-January 1991 The policy actions announced in this connection include: (i) a slower pace of depreciation of the peso with respect to the U.S. dollar (from an annual rate of 13 percent to an annual rate of 10 percent); (ii) unchanged minimum wages, (iii) adjustments in the price of gasoline by some 7 percent, with higher increases for gasoline sold in major metropolitan areas for environmental reasons, while the price of electricity for industrial purposes was increased by 14 percent with an additional 14 percent increase set for October, and (iv) an agreement by enterprises to absorb the increased costs and not pass them on to the prices of goods and services.

II. Policy Issues for 1990 Program Under the Extended Arrangement

The review of developments under the extended arrangement will take place against the background of the marked progress achieved in several areas: macroeconomic imbalances have been reduced to a large extent, major structural reforms have been carried out (e g , opening up the external trade system, rationalizing the public sector enterprises, making the tax system more efficient, liberalizing the financial system, easing restrictions on foreign investment, deregulating specific economic activities, and initiating the privatization of commercial banks), and the financing package with commercial banks has been completed.

Despite these gains, Mexico's economic situation remains fragile The 12-month rate of inflation and private sector wage settlements have been increasing since mid-1989, giving rise to a potential erosion of international competitiveness The external current account deficit widened markedly last year and, despite a recent recovery, gross international reserves remain low In addition, the price of oil has weakened in recent months to below the US$15 a barrel assumed in the program for the Mexican mix

In these circumstances, the mission will assess the adequacy of the current policy stance with particular emphasis on the inflation and balance of payments objectives The staff will stress the need for maintaining competitiveness while reinforcing the anti-inflation stance, in this respect, it may be noted that the recently announced exchange rate policy stands a chance of working satisfactorily only if it is accompanied by tight fiscal and credit policies. It may prove necessary to aim at an overall fiscal target somewhat more ambitious than that included in the program for 1990 to avoid that a disproportionate burden falls on monetary policy

a. Fiscal policy

The public sector finances in 1990 are programmed to improve by about 3/4 of 1 percentage point of GDP at the operational and PSBR levels to deficits of 1 0 percent and 5 1 percent of GDP, respectively Based on a decline in domestic interest rates and on external interest relief, this improvement had been judged to be attainable with a decline in the primary surplus by 1 4 percentage points to 6 9 percent of GDP

The recent decline in domestic interest rates is broadly consistent with their path in the program projections but risks exist that a reversal could occur later in the year, particularly if inflation does not come down. 1/ Furthermore, external interest payments projections have been revised upward since the budget was approved Nonetheless, the authorities recently have reaffirmed their commitment to the fiscal objectives for 1990 and have taken action in this regard Specifically, they reduced the pace of public sector expenditure in early 1990, strengthened the tax effort, and have announced plans to accelerate the sale of several public sector enterprises. Moreover, the recent adjustment in the prices of gasoline and of electricity for industrial purposes is estimated to increase revenues by the equivalent of 0.4 percent of GDP on an annual basis

During the last mission, the authorities had indicated that they might request a relaxation of the end-year fiscal targets to reflect possibly higher interest payments The staff will take the position that in order to meet the program objectives, the overall fiscal targets should be at least maintained, and that for this purpose it may be necessary to count on a larger primary surplus. This might be achieved by continuing to restrain public sector expenditures since revenues seem likely to exceed the programmed amounts

As noted, in light of the recent change in exchange rate policy, the mission will explore the need for a tighter-than-programmed overall fiscal target in order to meet the program objectives and, to the extent it is needed, will review additional measures to that end The fiscal contingency clause in the arrangement, which points to the possibility of a modification of performance criteria if the program objectives are not being reached, could be invoked in this connection

The mission will discuss the appropriate fiscal stance in a longer term perspective and in this regard will seek understandings on the policies to be pursued in 1991, it also will suggest that further discussions be held on policy before presentation of the budget to the Mexican Congress in November

b Monetary and credit policy

The recent decline in interest rates may be viewed as a positive development, but it should be emphasized that the new exchange rate policy makes it necessary for financial policies to be geared clearly to curbing inflation As noted, it will be important to assure a suitably tight fiscal policy to avoid a disproportionate burden on monetary policy, with unfavorable consequences for private investment and growth

---

1/ The program for 1990 is based on the assumption that nominal monthly domestic interest rates would average some 3 6 percent a month in the first quarter, 3.2 percent in the second quarter, and 2.9 percent in the second half of the year Interest rates are estimated to average 3 4 percent a month in the first half of 1990, and currently are at 2 75 percent a month.

Since the program was designed there has been a considerable liberalization of financial markets The mission will review the features of the market for government obligations, including the impact of the size and structure of the domestic debt In 1989 the Government began offering treasury bills with interest rates indexed to prices or to the free market exchange rate, although these instruments only account for a small proportion of total government securities outstanding. To the extent that the underlying policies are strong, wider use of these instruments could result in lower real interest payments, and thereby reduce pressure on the public finances 1/ However, the mission will advise the authorities to proceed cautiously in the use of these new financial instruments because a rigid relationship between past inflation and interest rates would be introduced, with costs to the public sector in the event of adverse real shocks to the economy.

The mission will discuss the potential financial effects of the privatization of the commercial banking system In this connection, the mission will review the strength of the banks' financial position, the role of bank supervision, and the impact of sales of banks on the fiscal accounts.

c. External prospects and policies

Mexico's net international reserves are programmed to decline by no more than US$250 million in 1990 (implying a surplus of over US$2 2 billion when the effect of the purchase of debt enhancements are excluded) This balance of payments outcome was based on an improvement in the trade balance from 1989, lower interest obligations to commercial bank creditors, continued private capital inflows, and increased direct foreign investment

Since May 28 the peso has been depreciated at a rate of Mex$0 80 a day with respect to the U S. dollar (an annual rate of some 10 percent), previously, it was being depreciated by Mex$1 a day (some 13 percent a year). Despite somewhat less favorable trade performance in the first two months of the year, overall balance of payments developments to date appear to be in line with program projections and recent structural reforms may have enhanced competitiveness and the attractiveness of investing in Mexico However, there is a question whether the exchange rate policy is consistent with the program objectives, particularly with regard to the projected improvement in the external current account. The mission will seek assurances from the authorities that they will move promptly in the exchange rate area if developments suggest that the

1/ At end-1990 domestic debt denominated in domestic currency is projected to amount to the equivalent of 25 percent of GDP. A decline in interest rates of 1 percent a month would result in a lower fiscal deficit equivalent to 3 percentage points of GDP balance of payments objectives of the program are at risk because of problems of competitiveness

The mission will review the progress being made in the program of structural reform, particularly with regard to the mechanisms governing foreign investment and debt-equity conversions The mission also will review trade policy developments and the effect of the bilateral agreement between Mexico and the United States that is now being considered

After the implementation of the agreement with commercial banks, some banks (principally Mexican) have reportedly reallocated their exposure away from new money and in favor of unenhanced debt reduction instruments. The mission will assess the impact of these shifts on Mexico's external outlook and particularly on external liquidity.

d Wage and price policies

Although minimum wages declined by almost 7 percent in real terms in 1989, private sector wages are estimated to have increased in real terms by almost 8 percent in real terms, and pressures for larger increases appear to be on the rise as indicated by the growing incidence of labor disputes Public sector wage demands also are strong, just last month, teachers received a 24 percent increase in remuneration

In light of the recent wage and price performance, there is a risk that the inflation projection for the year may be exceeded, with the inflation rate likely to reach more than 20 percent Because of the importance of reducing inflation in coming months to consolidate the economic gains obtained thus far under the program, the staff will emphasize that the policy of restraint on wages exhibited in the recent extension of the wage-price pact will need to be maintained if the nominal targets of the program are to be met Furthermore, in reviewing the current policy stance, the staff will look at what factors have been driving the recent higher wage settlements.

In general, the authorities have managed wage-price policy flexibly, and corrective pricing measures have been taken, thereby avoiding serious relative price distortions However, the mission will discuss with the authorities a strategy for moving away from existing controls, to allow the price mechanism to play its role in allocating resources efficiently

e Definition and coverage of performance criteria

The end-December 1990 ceiling for the public sector's net use of foreign financing, which at present has been established as an indicative ceiling, will be specified as a quantitative performance criterion at the time of this review It is expected that this ceiling would be set consistent with the indicative target

The authorities may request for the remaining program period of 1990 that the definition of the PSBR be modified to exclude financial intermediation by development banks on the ground that this extension of credit now takes place largely at market interest rates. The staff could support such a request to the extent that any transfer made by the public sector to cover losses incurred by the development banks would be included in the revised definition of the PSBR If such course of action were to be followed, the PSBR ceiling would be adjusted downward by 1.2 percentage points of GDP, the amount of financial intermediation by development banks included in the program

It will be proposed that Mexico remain on the standard 12-month consultation cycle.

Attachments

cc Mr Beza
Mr Frenkel
Mr Van Houtven
Mr Whittome
Mr Gianviti
Mr Laske
Mr Tanzi

Fund Relations with Mexico
(As of May 31, 1990)

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 5,850 7 million
(c) Fund credit SDR 4,685 2 million or 402 0 percent of quota
Of which SDR 449 9 million or 38 6 percent of quota under credit tranche
SDR 1,306 8 million or 112.1 percent of quota under EFF
SDR 2,475 0 million or 212 4 percent of quota under EAR
SDR 453 5 million or 38 9 percent of quota under CCFF
(d) Reserve tranche position None

III. Stand-by or Extended Arrangement and Special Facilities

(a) Current extended arrangement
(i) Duration May 26, 1989 until May 25, 1992
(ii) Amount SDR 3,263 4 million
(iii) Utilization SDR 1,608.4 million
(iv) Undrawn balance SDR 1,655 0 million
(b) Compensatory and contingency financing facility
(i) Purchased on June 1, 1989
(ii) Amount SDR 453.5 milion
(iii) Utilization SDR 453.5 million
(c) Previous stand-by arrangement
(i) Duration November 19, 1986 until April 1, 1988
(ii) Amount SDR 1,400 million
(iii) Utilization SDR 1,400 million
(d) Emergency assistance
(i) Purchase in January 1986
(ii) Amount SDR 291 4 million
(iii) Utilization SDR 291 4 million
(e) 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 297 8 million or the equivalent of 102 7 percent of net cumulative allocation

V Financial Obligations due to the Fund (In millions of SDRs) 1/

	Overdue Financial Obligations (5/31/90)	Principal and Interest Due 6/1-12/31 1990	1991	1992	1993
Principal Repurchases	--	569 8	807 4	631 9	845 9
Charges and Interest including SDR (provisional)	--	207 5	421 4	426 3	382 0
Total	--	777 3	1,228 8	1,058 2	1,227 9

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 free market The controlled market rate is determined under a managed float system guided by a set of indicators, whereas the free market rate is established by market forces. As of April 30, 1990 the controlled market equilibrium exchange rate was Mex$2,764 0 per U S dollar, the average free rate was Mex$2,802 5 per U S. dollar, and the differential between the rates in the controlled and the free market was about 1 1/2 percent

VII. Last Article IV consultation and review under EFF The last Article IV consultation, requests for Extended Fund Arrangement for 1989-92, and purchase under the CCFF were completed by the Executive Board on May 26, 1989 (EBM/89/65). The relevant supporting documents were EBS/89/91, Supplement 1, SM/89/94, EBS/89/66, and EBS/89/94 For consultation purposes Mexico is on the 12-month cycle The first review under the FFF was completed on September 14, 1989. The relevant supporting documents were

1/ Projected on the basis of transactions through May 31, 1990 and the purchases anticipated under Mexico's current arrangement

EBS/89/178 and correction 1 The second review under the EFF was completed on January 29, 1990 At that time, the Executive Board approved the request for the release of accumulated set-asides, accelerated disbursements of the set-asides scheduled to become available during 1990, and augmentation (by 40 percent of quota) of resources under the arrangement in support of debt and debt-service reduction operations The relevant supporting documents were EBS/90/10 and supplement 1

On April 18, 1990, the Board approved Mexico's request for a waiver with respect to nonobservance of certain performance criteria for end-1989 and modifications to the second year program under the extended arrangement The relevant supporting documents were EBS/90/58 and supplement 1

VIII <u>Technical Assistance</u> In October 1988, a technical team provided assistance in the area of external debt and international banking

Table 1 Mexico Performance Under Extended Arrangement for 1990 1/

	March	June	Sept	Dec
	(In billions of Mexican pesos)			
Overall public sector borrowing requirement 2/3/	6 603			
Ceiling				
Modified 4/	11 400	17 300	23 400	31 050
Adjusted 5/	11 400			
Excess (-)/Margin (+)	4 897			
Nonfinancial public sector operational deficit 2/6/	-1 596			
Ceiling				
Modified 4/	3 870	4 540	4 850	6 150
Adjusted 5/	3 870			
Excess (-)/Margin (+)	5 466			
Changes in net domestic assets of the monetary authorities (effective flows) 2/3/7/	5 588			
Ceiling				
Modified 4/	9 495	5 879	3 750	4 005
Adjusted 5/8/	8 496			
Excess (-)/Margin (+)	2 908			
Net credit to the nonfinancial public sector by the monetary authorities 9/	40 122			
Ceiling				
Modified 4/	45 360	42 370	41 640	39 050
Adjusted 5/8/	44 361			
Excess (-)/Margin (+)	4 239			
Primary surplus	15 473			
Target 2/10/				
Modified 4/	12 550	23 050	33 500	41 900
Adjusted 5/	12 550			
Excess (-)/Margin (+)	2 923			
	(In millions of U S dollars)			
Net foreign borrowing by the public sector 2/	5 137			
Ceiling				
Modified 4/	5 540	6 770	6 935	7 020 11/
Adjusted 8/	5 911			
Excess (-)/Margin (+)	774			
Change in net international reserves of the monetary authorities 1/2/	-2 942			
Target				
Modified 4/	-3 650	-2 275	-1 667	-253
Adjusted 5/8/	-3 279			
Excess (-)/Margin (+)	337			

Source Bank of Mexico

1/ Limit tested at the end of each period
2/ Cumulative changes from end-1989
3/ Effective flows of financing measured on a cash basis
4/ As described in EBS/90/58 Supplement 1 the original program limits were modified to reflect the final features of the commercial bank financing package the deviation in net international reserves from its end-1989 target and the disbursement in 1990 of certain loans from multilateral organizations which were to take place in 1989
5/ Adjustment relating to provisions under oil price mechanisms
6/ Defined as the difference between the overall economic deficit (on an accrual basis) and the inflation component of interest payments on the public sector debt denominated in local currency
7/ 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
8/ Adjusted for disbursement of US$371 million of new money by the commercial banks in March instead of in April as was assumed in the modified ceilings
9/ Effective stocks calculated by adding effective flows to the nominal stock of Mex$38 054 billion outstanding as of the end of 1989
10/ Measured directly as the difference between receipts and non-interest expenditure of the nonfinancial public sector on a cash basis
11/ Indicative ceiling

Table 2 Mexico Selected Economic and Financial Indicators

	1986	1987	Prel 1988	1989 Prog	1989 Prel	Prog 1/ 1990
	(Annual percentage change unless otherwise specified)					
Income and prices						
Real GDP	-3 8	1 7	1 3	1 5	2 9	3 5
GDP deflator	74 4	135 4	97 6	21 1	18 8	18 9
Consumer prices (end of year)	105 7	159 2	51 7	18 0	19 7	15 0
Consumer prices (average)	86 2	131 9	114 2	20 3	20 0	17 8
Consumer prices (monthly average)	6 2	8 3	3 6	1 4	1 5	1 2
External sector						
Exports (f o b)	-24 4	28 5	3 3	8 9	12 2	7 5
Export volume	7 4	11 7	8 2	4 7	3 8	6 1
Imports (f o b)	-13 5	6 9	54 7	9 8	22 6	8 8
Import volume	-11 7	2 8	46 5	5 6	17 6	6 2
Terms of trade	-28 2	10 4	-9 4	--	3 8	-1 2
Nominal effective exchange rate						
Average (depreciation -)	-59 3	-57 8	-40 4	-6 5	0 6	
End of period	-61 8	-55 5	-5 5	-8 5	-4 4	
Real effective exchange rate						
Average (depreciation -)	-30 0	-8 1	23 2		7 5	
End of period	-23 5	3 3	28 8		0 8	
Nonfinancial public sector						
Receipts	62 7	135 5	100 0	12 3	25 6	16 5
Outlays	89 3	139 3	84 9	-2 0	10 9	11 9
Money and credit 2/						
Domestic credit (net)	89 3	120 5	60 7	15 2	45 2	25 6
Public sector (net)	81 1	75 9	40 1	4 3	6 6	5 8
Private sector	29 3	62 9	37 4	11 3	59 2	18 6
Money and quasi-money (M-2)	94 4	141 0	42 2	10 3	43 0	28 8
Real growth in M-4	0 5	-0 1	4 8	4 5	25 7	10 0
Velocity (GDP/M-4)	3 4	3 4	3 6	3 3	2 9	2 6
Interest rate on one-month treasury bill (percent per month)	6 6	7 8	5 8	3 1	3 8	3 2
	(Percent of GDP)					
Public sector savings	-9 3	-9 6	-6 2	-0 7	-0 7	1 1
Public sector savings (adjusted) 3/	3 7	7 4	0 7	2 6	3 2	4 0
Public sector economic balance	-14 8	-15 0	-11 3	-5 8	-5 5	-3 9
Primary fiscal balance	2 3	5 0	5 9	7 3	8 3	6 9
Operational balance	-1 8	2 0	-4 4	-2 5	-1 7	-1 0
Public sector borrowing requirement	15 6	15 9	12 9	7 0	5 9	5 1
Gross domestic investment	18 1	18 6	19 8	21 3	20 9	22 8
Gross national savings	17 2	21 3	18 2	18 9	18 2	21 4
External current account deficit (-)	-0 9	2 7	-1 6	-2 4	-2 7	-1 3
Public external debt (including IMF) 4/	57 8	59 5	47 2	44 8	42 9	38 9
Interest payments on public debt 5/	4 7	4 3	3 9	4 4	3 8	3 6 6/
	(In percent of exports of goods and nonfactor services)					
Public debt service 5/						
Before rescheduling	78 2	89 9	88 1	69 8	67 0	54 5
After rescheduling	44 3	41 9	51 6	41 6	36 2	34 6
	(In billions of U S dollars)					
Overall balance of payments	-1 1	6 6	-6 9	1 5	-1 1	-0 3
Gross official reserves end of period (months of imports)	7 4	13 5	4 2	4 5	3 9	3 9

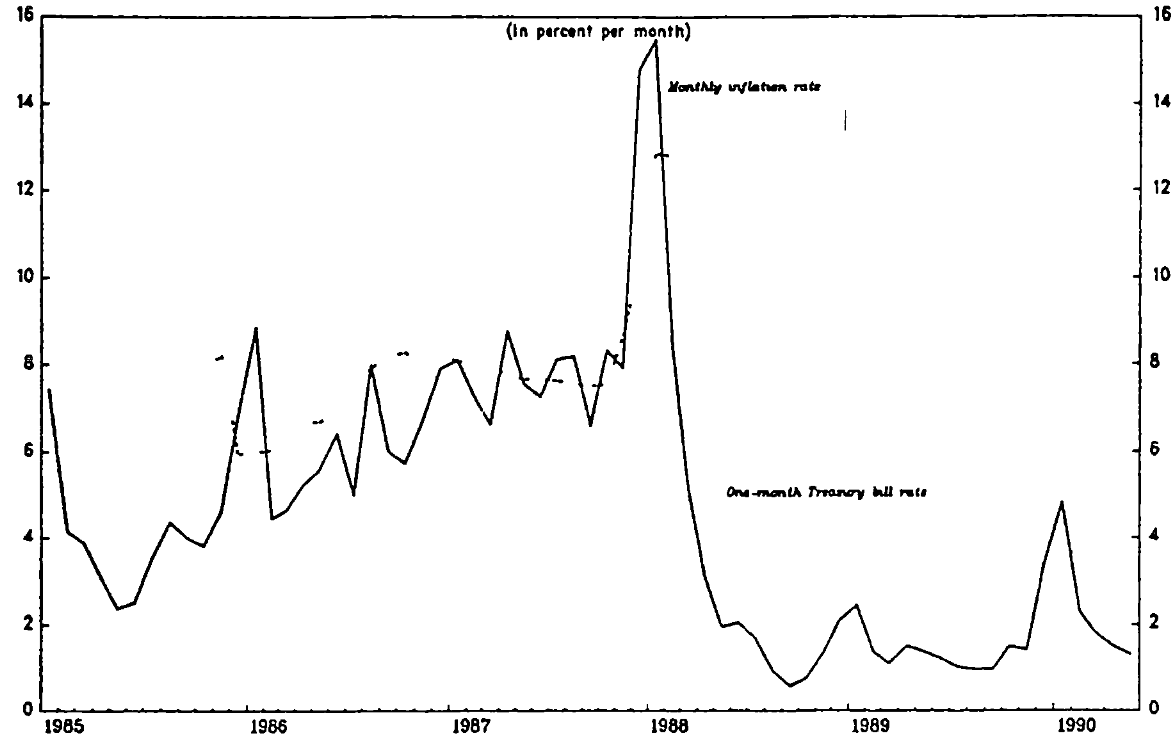
Sources Bank of Mexico Secretariat of Programming and Budget and Fund staff estimates

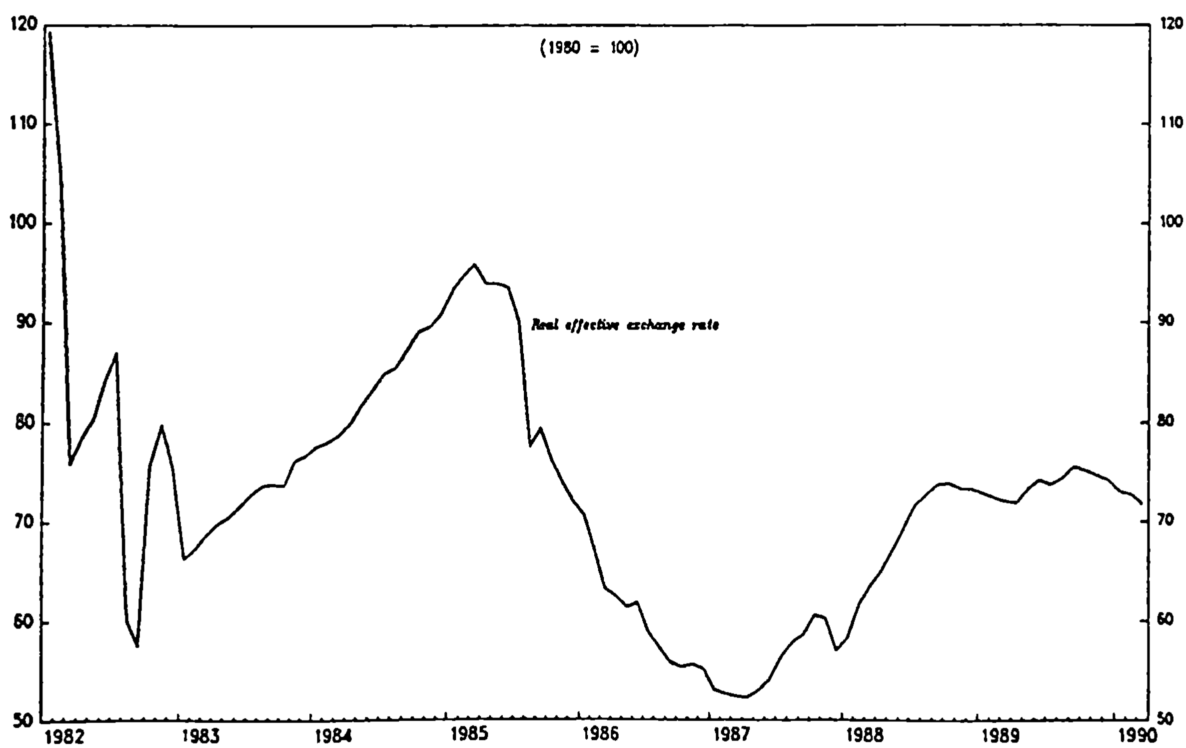
1/ Based on an oil price averaging US$15 per barrel
2/ Changes are adjusted for exchange rate changes are in relation to total liabilities to the private sector at the beginning of the period
3/ Adjusted for the inflation component of interest payments which is treated as debt amortization but includes inflation tax
4/ Includes short-term debt
5/ Includes debt service on use of Fund credit
6/ Excludes interest relief from debt-reduction operations

CHART 1

MEXICO

SELECTED FINANCIAL INDICATORS





Sources: Bank of Mexico and Fund staff estimates.

10-100

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Cable Room ID: MC1A0258 Page: 01	Distribution
Processed: June 07, 1990 13:03 Sender: Banco de Mexico Mexico (Mexico)	ORIG: TRE CC: MRS. FILARDO WHD

INCOMING MESSAGE

1772049 BMCOME

T 11649 MEXICO D.F. 7 JUN 1990 OGM YAM
INTERNATIONAL MONETARY FUND
WASHINGTON, D.C.

URGENT

NO. 43

ATT'N.: TREASURERS

RE YOUR SDR. NO. 62 REF. NO. OCRA 2558 DTD 05-06-90 PLEASE TAKE NOTE THAT WE INSTRUCTED TO THE FEDERAL RESERVE BANK OF NEW YORK, N.Y. THAT VALUE JUNE 07, 1990 CREDIT PRIOR TO 11.00 HRS NEW YORK TIME, AS FOLLOWS:

U.S. DOLLARS	BANK'S ACCOUNT
13,097,902.89	BANQUE NATIONALE DE BELGIQUE,BRUSSELS
26,195,805.79	BANQUE DE FRANCE, PARIS
26,195,805.79	CHASE MANHATTAN BANK NEW YORK FOR CREDIT ACC NBR 001-1-196508 OF DANMARKS NATIONAL BANK COPENHAGEN

REF. TO ACQUIRE SDR 50,000,000 AT THE RATE OF ONE USD EQUALS SDR 0.763481 (STOP) OUR CORRESPONDENT BANK IS THE FEDERAL RESERVE BANK OF NEW YORK, N.Y. STOP

VALUE 07 JUNE 1990, PLEASE CREDIT OUR SDR ACC WITH YOURSELVES STOP

REGARDS
BANCO DE MEXICO
BANXICO

07/06/90 10:57:58
64111 IMF UW
1772049 BMCOME

Note:
*** Test Accepted ***

Office Memorandum

TO: The Managing Director
The Deputy Managing Director

DATE: May 31, 1990

FROM: S. T. Beza

SUBJECT: Mexico--Bridge Financing Documentation

As you will recall, Mexico obtained bridge financing from the United States last March to bolster its gross international reserves. The bridge financing was to be released in two tranches; the second (which has been held in an escrow account) is conditional on Mexico's fifth purchase from the Fund under the Extended Arrangement.

Mexico has observed all performance criteria for end-March and will make the abovementioned purchase on June 1.

Attached for your review and signature is a letter informing the U.S. authorities about the purchase. The text of the letter had been negotiated when the bridge was approved.

Messrs. Brau (ETR) and Aguirre (LEG) agree with the content of this letter.

Attachment

cc: Mr. Gianviti
Mr. Brau
Mr. P. Andrews

F

INTERNATIONAL MONETARY FUND
WASHINGTON D C 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

June 1, 1990

Dear Sirs

I wish to inform you that, under the extended arrangement for Mexico which was approved on May 26, 1989, and continues in effect, as described in my letter to you of March 21, 1990, Mexico has made its fifth purchase In addition, I have no reason to believe, at this date, that Mexico will be unable to meet the conditions for its sixth purchase of up to SDR 163 17 million in accordance with the provisions of that arrangement

Sincerely yours,

Michel Camdessus

Board of Governors of the
Federal Reserve System

U S Department of the Treasury

Office Memorandum

STB
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TO: The Managing Director
The Deputy Managing Director

DATE: May 30, 1990

FROM: S. T. Beza

SUBJECT: Mexico--Extension of the Economic Pact

The Mexican authorities announced on May 27 the extension of the wage-price pact (PECE) through end-January 1991. The wage-price pact was put in place in December 1987 and had been extended in successive steps through July 31, 1990.

The following policy actions were announced in connection with the extension of the PECE: (i) the peso will be depreciated at a rate of Mex$0.80 a day with respect to the U.S. dollar or at an annual rate of some 10 percent (previously it was being depreciated at Mex$1 a day or some 13 percent a year); (ii) minimum wages remain unchanged; (iii) the price of gasoline and electricity for industrial purposes was adjusted by some 7 percent with higher increases for gasoline sold in major metropolitan areas for environmental reasons; and (iv) enterprises have agreed to absorb these increased costs and not pass them on to the prices of goods and services.

While an extension of the PECE had been predicted, the lower rate of adjustment of the exchange rate is somewhat of a surprise, as is the maintenance of the minimum wage. We had expected that the peso would be depreciated at least at the previous rate, in light of the high rate of inflation observed in early 1990. The announced policy stance gives a clear signal that the main concern of the authorities is the reduction of inflation from the current rate of 1.5 percent a month. There are risks in this strategy in respect of the exchange rate if private sector wage increases do not come down in line with the new pace of depreciation.

The mission that will visit Mexico in a few weeks to conduct the Article IV Consultation will review the implications of the current strategy. What seems clear at this juncture is that the new exchange rate policy stands a chance of working satisfactorily only if accompanied by tight fiscal and credit policies.

Mexico met all quantitative performance criteria in its extended arrangement with the Fund for end-March and a purchase is expected on June 1.

cc: Mr. Frenkel
Mr. Laske
Mr. Tanzi
Mr. Brau
Mr. P. Andrews

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Cable Room ID: MC1A9734 Page: 01	Distribution
Processed: May 25, 1990 14:26 Sender: Banco de Mexico Mexico (Mexico)	ORIG: TRE CC: MRS. FILARDO WHD

INCOMING MESSAGE

1990 MAY 25 PM 4:02
INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.

1775805 BMCIME

05/25/90 11:54:50

T 10837 MEXICO D.F. 25 MAY 1990 OGM LFCP
INTERNATIONAL MONETARY FUND
WASHINGTON, D.C.
TREASURY DEPARTMENT

NO. 36

ATTN.: MRS. LYNN/MR. R. VELUTINI
SDR DEPARTMENT

IN REFERENCE TO OUR TELEPHONE CONVERSATION OF TODAY, WE HEREBY REQUEST TO BUY 60,000,000.00 (SIXTY MILLION SPECIAL DRAWING RIGHTS), VALUE MAY 31, AT THE RATE FIXED ON MAY 25, 1990. WE WILL WAIT FOR YOUR INSTRUCTIONS IN ORDER TO EXECUTE THE OPERATION

BEST REGARDS

BANCO DE MEXICO

BANXICO

05/25/90 11:56:20

64111 IMF UW
1775805 BMCIME

Note:
*** Test Accepted ***

F

Office Memorandum

TO Mr Loser DATE May 9, 1990

FROM Eliot Kalter EK

SUBJECT Mexico--Meeting with Carlos Noriega

The following was discussed this morning at breakfast with Carlos Noriega, Director of Budgetary Planning, Ministry of Finance and Public Credit

The bill submitted to the Mexican Congress to allow the private sector to participate in commercial banking activities is expected to be approved by Congress by the end of this week The legislative details, including the potential amount of foreign participation, would be worked out in the following weeks

Interest rates on 28-day CETES declined from 42 1/2 percent last week to 36 1/2 percent this week, following the announcement of the pending change in laws affecting commercial banking activities

The consumer price index increased by around 1 7 percent in April (10 3/4 percent since the beginning of the year) Mr Noriega expects that the increase in the following months would continue at around 1 3/4 percent a month, implying a rate of inflation of 25 percent during 1990 in comparison to the program target of 15 percent Mr Noriega said that the higher rate of inflation would reflect anticipated adjustments during the year to goods within the basic basket, e g , tortillas, bread, gasoline, and petroleum products

Mr Noriega feels that the quantitative targets under the economic program may continue to be consistent with the higher rate of inflation Furthermore, the lower real interest rates would be consistent with strong financial savings, reflecting the effect of the structural changes taking place

An annoucement is expected soon concerning a further extention of the wage-price pact Major changes to the pact are not anticipated

Net international reserves increased by around US$800 million in April 1990 and continued to increase in the first week of this month This would imply an accumulation of net international reserves close to that required under Mexico's program with the Fund for the second quarter of 1990

Mr Noriega expects that Mexico will take a fast track in negotiations with the United States concerning a bilateral trade pact The visit by President Salinas to the United States in June would set this in motion

cc Mr Beza
Mr Bonvicini (o/r)

IO

(F)

Office Memorandum

Mexico

TO	Mr Nowzad	DATE	May 5, 1990
FROM	S T Beza		
RE	Material to respond to Question 4(f), page 11 of your Draft Speaking Notes		

The recently announced draft legislation proposing the re-establishment of private sector participation in the banking sector of Mexico is a welcome move

First and foremost the announcement is a further indication of the Mexican authorities' commitment to the enhancement of the role of the private sector in their economic strategy The proposed legislation should strengthen the confidence of the private sector in Mexico's program of structural reform, and in turn this should help increase domestic saving and foreign investment

The authorities have indicated that part of the proceeds of sales of banks will serve to lower the fiscal deficit, with favorable effects on interest rates and therefore on investment and growth

MAY 04 '90 16:08 TO 1 202 623 4661

Formulario No. BMTF01

STB CL JB IO F

BANCO de MEXICO

AV. 5 DE MAYO NO. 2
MEXICO, D.F.
CODIGO POSTAL 06059

FOLIO

NUMERO TELEFACSIMIL
GRUPO 2/3 5129990

CONTROL DE SERVICIO TELEFACSIMIL

NUMERO DE DOCUMENTOS (INCLUIR HOJA DE CONTROL)	NUMERO DE TELEFONO FACSIMIL	FECHA
4	95(202)6234661, 4662, 7491	Mayo, 4, 1990

PARA :

SR. CLAUDIO LOSER
INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPARTMENT
700-10 TH STREET
WASHINGTON, D.C. 20431
U. S. A.

867376

DE :

HILARIO TORRES HERNANDEZ
SUBGERENTE ADMINISTRATIVO
BANCO DE MEXICO.

RECEIVED
IMF CABLE ROOM
1990 MAY -4 PM 10: 27

INSTRUCCIONES ESPECIALES DEL SOLICITANTE

INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.
1990 MAY -7 AM 10: 25

PARA USO EXCLUSIVO DE LA OFICINA DE TELECOMUNICACIONES

OBSERVACIONES DE LA TRANSMISION	RESPONSABLE DE LA TRANSMISION

DEPENDENCIA SOLICITANTE

NOMBRE	TELEFONO/EXTENSION	FIRMA AUTORIZADA
SUBGERENCIA ADMINISTRATIVA	4030, 4031	

BANCO DE MEXICO S.A

GERENCIA

México, D F 3 de mayo de 1990

SR CLAUDIO LOSER
International Monetary Fund
Western Hemisphere Department
700-10th Street N W
Washington, D C 20431
U S.A

Estimado señor Loser

De conformidad con el procedimiento seguido en anteriores visitas de las misiones del FMI a este Institución Central, comunicamos a usted que los gastos por el uso de la línea telefónica durante su estancia del 5 al 23 de marzo del año en curso, serán cargados en la cuenta número 2 de la cuenta de Recursos Generales de México con el Fondo Monetario Internacional

Atento a lo anterior, con la presente enviamos copia del importe de dichos cargos, los que suman un total de $341,734 00

Sin otro asunto sobre el particular, hacemos propicia la ocasión para eviarle un cordial saludo

A T E N T A M E N T E ,

BANCO DE MEXICO

ANEXOS

HTH'merr

v 3

TELEFONOS DE MEXICO S A. DE C V

FECHA | SALDO | TELEFONO No

419-60 N 11-MAR-90 761-8588 211

DEL TELEFONO	AL TELEFONO	MES / DIA	POBLACION		TIEMPO	A B	IMPORTE	NUM CONTROL
N7618894	842244	3/01	TIJUANA	BCN	2	9/6	1,930	
N7618306	842244	3/05	TIJUANA	BCN	2	9/6	1,930	
N7618796	842244	3/06	TIJUANA	BCN	1	9/6	965	
N7618696	842244	3/06	TIJUANA	BCN	7	9/6	6,755	
N7618130	842244	3/07	TIJUANA	BCN	1	9/6	965	
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N	842940	1/15	TIJUANA	BCN	5	3/2	26,820	
N	842940	1/18	TIJUANA	BCN	47	3/2	229,428	
N	842940	1/31	TIJUANA	BCN	8	3/2	41,292	
N7618260	3321613	2/21	WASHINGTON	202	8	1/6	26,862	
N7618543	4775268	2/21	WASHINGTON	202	1	1/6	4,207	
N7618364	4775268	2/22	WASHINGTON	202	1	1/6	4,209	
N7618130	4775268	2/23	WASHINGTON	202	9	1/6	30,143	
N7618680	6231048	2/21	WASHINGTON	202	6	1/6	20,389	
N	6238002	2/21	WASHINGTON	202	1	1/6	4,207	
N	6238313	3/07	WASHINGTON	202	12	1/6	40,014	
N7618260	6238373	3/07	WASHINGTON	202	19	1/6	62,787	
N7618606	6238481	2/20	WASHINGTON	202	7	1/6	23,617	
N7618260	6238481	2/26	WASHINGTON	202	24	1/6	78,790	
N7618894	6238535	3/07	WASHINGTON	202	10	1/6	33,508	
N7618796	6483038	2/08	NEW YORK CITY	212	12	1/6	39,616	
N7618666	4738768	2/21	WEST LOS ANGE	213	8	1/6	26,862	
N7618408	4738768	2/27	WEST LOS ANGE	213	6	1/6	20,435	
N7618543	8251011	2/14	WEST LOS ANGE	213	4	1/6	13,880	
N	8251011	2/20	WEST LOS ANGE	213	3	1/6	10,676	

DETALLE DE CONFERENCIAS DE LARGA DISTANCIA

R F C TME 840315 KT6

A Y B VER AL DORSO

SOLO SERA VALIDO COMO RECIBO SI MUESTRA LA CANTIDAD PAGADA IMPRESA POR MAQUINA REGISTRADORA O SELLO Y FIRMA DEL CAJ

TELEFONOS DE MEXICO S A DE C V

REF | C EDTC | SALDO

FECHA | TELEFONO No

422-50 N 11-ABR-90 761-8588 211

DEL TELEFONO	AL TELEFONO	MES DIA	POBLACION		TIEMPO	A B	IMPORTE	NUM CONTROL
N7618765	4736821	3/12	WASHINGTON	202	11	1/6	36,829	
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N7618666	4775268	3/19	WASHINGTON	202	9	1/6	30,389	
N7618765	4775268	4/05	WASHINGTON	202	3	1/6	10,850	
N7618409	4775268	4/05	WASHINGTON	202	2	1/6	7,562	
N7618260	4775269	3/14	WASHINGTON	202	2	1/6	7,502	
N	6231048	3/12	WASHINGTON	202	6	1/6	20,533	
N7618939	6231048	3/22	WASHINGTON	202	28	1/6	92,575	
N7618203	6231048	3/27	WASHINGTON	202	2	1/6	7,538	
N7618976	6231048	3/27	WASHINGTON	202	9	1/6	30,478	
N7618260	6236628	3/23	WASHINGTON	202	4	1/6	14,082	
N7618498	6236628	3/29	WASHINGTON	202	6	1/6	20,661	
N7618939	6236660	3/23	WASHINGTON	202	5	1/6	17,356	
N7618796	6236660	3/30	WASHINGTON	202	5	1/6	17,401	
N7618260	6236660	4/03	WASHINGTON	202	10	1/6	33,842	
N7618543	6236660	4/04	WASHINGTON	202	4	1/6	14,133	
N7618727	6237351	3/09	WASHINGTON	202	1	1/6	4,235	
N7618364	6237351	3/13	WASHINGTON	202	8	1/6	27,061	
N7618796	6237351	3/13	WASHINGTON	202	1	1/6	4,239	
N7618543	6237351	3/16	WASHINGTON	202	1	1/6	4,246	
N7618680	6237750	3/19	WASHINGTON	202	2	1/6	7,515	
N7618849	6237750	3/20	WASHINGTON	202	1	1/6	4,251	
N7618680	6237750	3/27	WASHINGTON	202	2	1/6	7,538	
N7618553	6237750	3/27	WASHINGTON	202	2	1/6	7,538	
N7618130	6237750	3/30	WASHINGTON	202	1	1/6	4,268	

DETALLE DE CONFERENCIAS DE LARGA DISTANCIA

R F C TME 8403 5 KT6

A Y B VER AL DORS

SOLO SERA VALIDO COMO RECIBO SI MUESTRA LA CANTIDAD PAGADA IMPRESA POR MAQU NA REGISTRADORA O SELLO FIRMA DEL CAJERO

TELEFONOS DE MEXICO, S A DE C V

REF | CREDITO | SALDO

FECHA | TELEFONO No

422-51 N 11-ABR-90 761-8588 211

DEL TELEFON	A TELEFON	MES	POBLACIO		TIEMPO	A B	IMPORTE	NUM CONTROL
N7618849	6237750	4/04	WASHINGTON	202	2	1/6	7,560	
N7618549	6238373	3/09	WASHINGTON	202	2	1/6	7,493	
N7618260	6238373	3/14	WASHINGTON	202	10	1/6	33,594	
N7618453	6238481	3/13	WASHINGTON	202	10	1/6	33,582	
N7618130	6238481	3/30	WASHINGTON	202	2	1/6	7,551	
N7618849	6238481	4/03	WASHINGTON	202	16	1/6	53,555	
N7618606	6238481	4/03	WASHINGTON	202	1	1/6	4,271	
N7618543	6238482	4/04	WASHINGTON	202	1	1/6	4,273	
N7618727	6238630	3/08	WASHINGTON	202	3	1/6	10,740	
N7618409	6238631	3/08	WASHINGTON	202	9	1/6	30,266	
N7618306	6238631	3/09	WASHINGTON	202	23	1/6	75,911	
N7618765	6238631	3/09	WASHINGTON	202	3	1/6	10,751	
N7618680	4738768	3/15	WEST LOS ANGE	213	7	1/6	23,818	
N7618306	4738768	4/03	WEST LOS ANGE	213	27	1/6	89,697	
N7618306	7827332	3/19	OTTAWA	613	4	1/6	17,727	
N7618306	7827332	3/19	OTTAWA	613	1	1/6	4,738	
N	6614775	3/23	CAMBRIDGE	617	12	3/7	83,016	
N7618605	8683900	3/13	CAMBRIDGE	617	3	1/6	11,004	
N7618306	9692762	4/03	DOWNERS GRILL	708	3	1/1	18,043	
N7618306	9692762	4/03	DOWNERS GRILL	708	4	1/1	22,561	
N7618680	4421572	3/19	ALDINE	713	1	1/6	4,085	
N7618130	6611444	3/30	HOUSTON	713	11	1/6	35,294	
N7618849	000008	3/13	HOLANDA	310	9	3/1	76,293	
N7618306	7201777	3/13	ESPA A	348	22	1/6	155,412	
N7618976	234890	3/19	COSTA RICA	506	5	1/6	13,615	

DETALLE DE CONFERENCIA DE LARGA DISTANCIA

A Y B VER AL DORS

BANCO DE MEXICO

26 de mayo de 1990

SUBGERENCIA ASESORA DE LA DIRECCION DE ORGANISMOS Y ACUERDOS INTERNACIONALES
O f i c i n a ,

At'n.: Sr. LIC. HILARIO TORRES HERNANDEZ

Hacemos referencia a la estancia del Fondo Monetario Internacional durante el periodo del 5 al 23 de marzo del año en curso.

Sobre el particular, estimaremos a ustedes gestionar lo trámites correspondientes para la recuperación del importe de las llamadas efectuadas por dicho Fondo, que asciende a la cantidad de -- $341,734 00 (TRESCIENTOS CUARENTA Y UN MIL SETECIENTOS ------------- TREINTA Y CUATRO PESOS 00\100 M N)

Asimismo, le agradeceremos se sirva enviarnos copia de aviso de cargo por esta operación.

Los originales obran en nuestro poder, para cualquier aclaración.

Favor de abonar A: Recuperación por transferencia de gastos.-Gastos y Servicios de Oficina.-Telefonía (3780318 0)

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

GESTION ADMINISTRATIVA DE INFORMATICA

PJM*ltl

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

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Office Memorandum

TO: The Managing Director
The Deputy Managing Director

DATE: May 4, 1990

FROM: S T Beza

SUBJECT: Mexico - Meeting with the Authorities

The next drawing under the extended arrangement with Mexico depends on performance criteria for end-March, no difficulty is envisaged in this regard The subsequent purchase is scheduled for end-August and is dependent on performance criteria for June and a review of the program

Mexico's economic situation will continue to require close monitoring The rate of inflation has increased somewhat, the trade surplus has narrowed, and gross international reserves are rather low, particularly after the disbursement of funds for debt enhancement Domestic interest rates have fallen, but they remain high in real terms when compared to trend inflation, perhaps reflecting concerns about exchange rate policy To offset the deviations observed in late 1989 and to secure the program objectives, the authorities tightened monetary and fiscal policies in the first quarter of 1990

On May 2 a bill was submitted to the Mexican Congress to allow the private sector to participate in commercial banking activities Commercial banks had been expropriated in 1982

The date of the review mission has not been agreed but it should take place no later than mid-June, to facilitate early discussions on the transition from the existing wage-price pact, due to expire at end-July

The authorities may request a relaxation of the end-1990 operational and overall fiscal targets because of higher than planned domestic interest rates In contrast, because of inflationary pressure and the tight external position, we feel that the response should be a larger primary surplus, possibly based on expenditure restraint and public sector price adjustment

The appropriateness of exchange rate policy will need to be assessed together with fiscal policy, in the light of persistently high interest rates and the narrowing of the trade surplus

Mexico's use of Fund credit is around 400 percent of quota, the highest ratio in the Fund

cc Mr Brau
Mr P Andrews

PECE

Hasta Enero de 1991 y Disminuye el Deslizamiento Cambiario

1—Los sectores firmantes del Pacto para la Estabilidad y el Crecimiento Económico y el Gobierno Federal, tomando en cuenta el término de la concertación vigente el próximo 31 de julio, consideraron conveniente analizar los avances en el proceso de estabilización de la economía y establecer los acuerdos y compromisos indispensables para orientar la acción de los diversos sectores.

2—Los sectores reafirman su convicción de que el objetivo fundamental es consolidar el abatimiento de la inflación. Los resultados de la renegociación de la deuda externa, los avances logrados en la disminución en las tasas de interés, el favorable desempeño de las finanzas públicas y los logros alcanzados en el proceso de modernización de la economía, han creado condiciones propicias para la consecución de ese objetivo.

3—Asimismo, los sectores han constatado los avances significativos en la reducción de la inflación que se han logrado mediante los diversos acuerdos de concertación y que han permitido disminuir el crecimiento de los precios de tasas de cerca de 160%, hace apenas algo más de dos años, a niveles que fluctúan alrededor de 20% en la actualidad. De manera particular, los sectores han concluido que es necesario proseguir en el esfuerzo por mantener sanas las finanzas públicas. El déficit financiero del sector público ha pasado de alrededor del 16% del producto en 1987, al 12.3% en 1988 y al 5.8% en 1989, reducción que ha continuado a lo largo de 1990. Debe destacarse que en 1989 el superávit primario de las finanzas públicas alcanzó, en términos reales, su valor histórico más elevado. Por otra parte, las diversas acciones de cambio estructural y modernización se han reflejado en un mejor desenvolvimiento y en mejores perspectivas de la economía.

4—Los sectores han coincidido en que la evolución positiva de la economía, producto en buena medida del esfuerzo de concertación y seguimiento del Pacto, así como las perspectivas favorables en cuanto al comportamiento de la inflación —como resultado de estos acuerdos— aconsejan disminuir el ritmo del deslizamiento cambiario para contribuir a la consolidación del abatimiento de la inflación y coadyuvar así a la recuperación gradual de los salarios reales. Las partes estiman, igualmente, que los acuerdos que ahora se toman respaldan la oportunidad de esta medida, y que, en cuanto las condiciones lo permitan, deberán hacerse reducciones adicionales durante la vigencia de esta concertación.

5—La Comisión de Seguimiento y Evaluación del Pacto ha efectuado una labor permanente para analizar la evolución general de la economía y de los precios en particular. En esta instancia se han ponderado y resuelto satisfactoriamente los problemas que se han presentado. A nivel local, las comisiones estatales han reforzado igualmente las acciones de concertación y seguimiento, desarrollando gradualmente una mejor capacidad de solución de los problemas locales. Por ello, los sectores han llegado a la conclusión de que es necesario que dichas comisiones fortalezcan sus labores.

6—Como resultado del examen general de la evolución de la economía y tomando en cuenta los elementos antes señalados, los sectores han convenido en extender la concertación vigente hasta el 31 de enero de 1991, con la inclusión de los siguientes

ACUERDOS

1—El Gobierno Federal mantendrá su compromiso de observar una estricta disciplina en las finanzas públicas para lograr los fines de la Ley de Ingresos y del Presupuesto de Egresos para 1990.

2—Los sectores obrero y empresarial convienen en suscribir un Acuerdo Nacional para la Elevación de la Productividad que deberá contemplar las acciones conjuntas que ambos sectores desarrollarán para tal fin a nivel de rama y de empresa. De manera particular, se considerarán programas específicos para ampliar significativamente los procesos de capacitación y adiestramiento, en especial el adiestramiento en planta, conforme a los requerimientos del mercado de trabajo. El Acuerdo incluirá, igualmente, las previsiones necesarias para que los beneficios del incremento de la productividad se distribuyan en forma equitativa. La suscripción del mismo se hará en un plazo no mayor de sesenta días a partir de esta fecha.

3—El logro de las metas que el país se ha propuesto y el avance en las que el propio Pacto persigue, requieren del mantenimiento de un clima de paz social. Las partes firmantes ratifican el propósito inalterable de que las relaciones de trabajo se desenvuelvan dentro de la Ley y se excluyan la violencia y las soluciones extrajurídicas.

4—En atención a que la evolución previsible de la balanza de pagos es favorable debido entre otras razones a las menores transferencias al exterior resultantes de la negociación de la deuda externa y a que, en virtud de los presentes acuerdos, se esperan menores presiones de costos, los sectores firmantes y el Gobierno Federal consideran que es posible disminuir el ritmo del deslizamiento cambiario para contribuir a la consolidación del abatimiento de la inflación. En tal virtud, las autoridades han determinado que el tipo de cambio se ajuste a razón de ochenta centavos diarios en promedio a partir del próximo 28 de mayo. En concordancia con los propósitos formulados por las partes en concertaciones anteriores, y en la medida en que las condiciones lo permitan, se harán reducciones adicionales en el ritmo del deslizamiento cambiario durante la vigencia de esta concertación.

5—Los sectores firmantes están de acuerdo en que durante la vigencia de las concertaciones es necesario examinar las solicitudes de corrección de precios de bienes y servicios. En los casos que puedan afectar el salario real de los trabajadores se realizará el estudio socioeconómico correspondiente por la comisión especializada que se integre para tal fin.

6—Con el propósito de robustecer las finanzas públicas y corregir el crecimiento excesivo de la demanda de energéticos, que tiene consecuencias negativas tanto en la balanza comercial como en el medio ambiente, se realizarán aumentos moderados en los precios de algunos energéticos, en los términos de la concertación.

En atención a los graves problemas ecológicos y a la necesidad de contar con transporte público no contaminante, especialmente en las grandes zonas metropolitanas y fronterizas, se sugiere a Petróleos Mexicanos y a las autoridades locales la adopción de acuerdos específicos que contribuyan al mismo fin.

El sector empresarial, tomando en cuenta la disminución de otros elementos de costo tales como la reducción en las tasas de interés y el ritmo de deslizamiento cambiario, se compromete en el ámbito de sus atribuciones a absorber estos incrementos y no repercutirlos en los precios de los bienes y servicios.

7—Con el propósito de generar la certidumbre necesaria para el desenvolvimiento del sector agropecuario, de promover una adecuada rentabilidad del mismo y de coadyuvar a que los productores cumplan con los compromisos adquiridos en el Pacto, el Gobierno Federal aplicará distintas medidas de política de comercio exterior que se traduzcan en una reducción de costos para el sector.

8—El Gobierno Federal y los sectores productivos deberán reforzar, de acuerdo al programa respectivo, el combate a las prácticas desleales de comercio exterior.

9—Los sectores obrero, campesino y empresarial encomiendan a sus representantes ante las Comisiones Estatales de Seguimiento y Evaluación, persistir en la vigilancia del cumplimiento de los acuerdos pactados y contribuir, así, a una mayor capacidad resolutiva frente a los problemas locales.

10—Salvo los acuerdos antes enunciados, las partes convienen en que seguirán vigentes los términos de la concertación suscrita el tres de diciembre de 1989.

FIDEL VELAZQUEZ,
Secretario General de la CTM.

MAXIMILIANO SILERIO ESPARZA,
Secretario General de la CNC

ROLANDO VEGA IÑIGUEZ,
Presidente del Consejo Coordinador Empresarial.

LORENZO DUARTE GARCIA,
Presidente del Congreso del Trabajo.

ARSENIO FARELL CUBILLAS,
Secretario del Trabajo y Previsión Social.

F

Office Memorandum

TO The Managing Director
The Deputy Managing Director

DATE April 3, 1990

FROM J Ferrán

SUBJECT Mexico--Request for Waiver and Modification Under the Extended Arrangement

Attached is the staff report for Mexico's request for a waiver for nonobservance of certain performance criteria for end-1989 under the extended arrangement The letter of the authorities describing the understandings reached and accompanying addendum to the Technical Memorandum of Understanding were circulated on March 26 (EBS/90/58) The understandings include proposed modifications of relevant performance criteria for 1990 to offset the deviations observed in 1989, and to reflect the revised features of the financing package with commercial banks which became operational at the end of March 1990

The proposed decision (pages 14 to 16) provides for the waiver and modification

The paper has been reviewed by the following departments

Exchange and Trade Relations	Mr Brau
Fiscal Affairs	Ms Ter-Minassian
Legal	Mr Surr
Treasurer's	Mr Coats
Western Hemisphere	Messrs Beza, van Beek, and myself

A summary of the staff report is attached

I should note that because of the heavy Executive Board agenda, the Board meeting on Mexico has been scheduled for April 18, which results in a very short circulation period, however, the next available Board date would be April 27 and would not allow Mexico to draw by the end of April, with implications for the country's already tight external liquidity position

Attachments

cc Mr H Simpson

MEXICO

Extended Arrangement - Request for Waiver and Modifications to the Second Year Program

Summary

1 Recent developments

Real GDP grew by almost 3 percent in 1989 while inflation came down to below 20 percent during the year Consumer prices rose by a cumulative 7 percent from December 1989 to February 1990, reflecting in part public sector price adjustments The 1989 fiscal performance was somewhat stronger than reported in the last review and all fiscal targets were met Thus far in 1990 fiscal policy has remained tight and the primary surplus is running above plan

The Bank of Mexico allowed net domestic assets to increase above the program limit at the end of 1989 to avoid an unduly large rise in interest rates Among the factors behind this decision was the view that the demand for currency was stronger than projected and the expectation that some of the expansion of net domestic assets would be reversed in early 1990 with the availability of foreign financing The deviation in net international reserves for end-1989 was much smaller than the deviation for net domestic assets and was associated with delays in disbursements of multilateral loans Available data on foreign reserves through early March suggests that balance of payments developments are in line with the revised program projections

2 Modifications to the program

In line with the intentions they expressed at the time of the last review of the extended arrangement, the Mexican authorities have requested a waiver for the nonobservance of end-December performance criteria for the net domestic assets and the net international reserves of the Bank of Mexico described before They also have requested that the 1990 quantitative performance criteria be modified to provide a full adjustment during the year for the deviation in net international reserves of the Bank of Mexico that occurred in 1989, that quarterly quantitative performance criteria be adjusted to reflect the accelerated interest payments and other features of the financing package agreed with commercial banks, and that the limits on credit from the Bank of Mexico to the nonfinancial public sector be modified to reflect the actual level of credit outstanding at the end of 1989 The paper proposes that the Board waive the nonobservance of performance criteria for end-1989 and approve the modifications to the performance criteria for 1990 just mentioned

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

cc
JB
F

Mexico

DATE April 16, 1990

TO Files S. H. Choi

FROM S H Choi, Adviser, SEC

EXTENSION 76441

SUBJECT Proposed Attendance of Bank Staff at IMF Board

Place of Meeting	IMF-12-120 (Fund Board Room)
Date of Meeting	April 18, 1990
Agenda Item	Mexico Waiver & Modification - External Arrangement
Staff Attending	John Johnson Economist Latin America & Caribbean 2 - Country Operations 473-8732

cc			
Vice President	- Mr Husain	I-8015
IMF Secretary's Dept	- Mr Franklin	
Director, EAS	- Mr Dubey	
Bank Representative	- Mr Johnson	I-8155

NOTE For details in timing of this item, please contact Ms Janet Billenstein (Tel 623-6679), IMF Secretary's Department

STB
CL
JB
TO
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Cable Room ID: MC1A8118 Page: 01	Distribution
Processed: April 16, 1990 15:05 Sender: Banco de Mexico Mexico (Mexico)	ORIG: TRE CC: MRS. FILARDO WHD

INCOMING MESSAGE

1773050 BMCKME

T 8238 MEXICO DF 16 APR 90 ERL YAM

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C.

TREASURY DEPARTMENT

URGENT

ATTN: MRS. LYNN/ MR. R. VECUTINI,
SDR DEPARTMENT

NO. 20

IN REFERENCE TO OUR TELEPHONE CONVERSATION OF TODAY, WE HEREBY REQUEST TO BUY 36,000,000 (THIRTY SIX MILLON SPECIAL DRAWING RIGHTS), VALUE APRIL 19, 1990, AT THE RATE FIXED ON APRIL 16, 1990. WE WILL WAIT FOR YOUR INSTRUCTIONS IN ORDER TO EXECUTE THE OPERATION.

BEST REGARDS

BANCO DE MEXICO

BANXICO

16/04/90 12:56:16

64111 IMF UW
1773050 BMCKME

Note:
*** Test Accepted ***

F

Office Memorandum

TO Mrs Filardo

DATE March 26, 1990

FROM Claudio M Loser

SUBJECT <u>Closing Papers for the 1989-92 Financing Package</u>

We have just received the instructions from the Bank of Mexico concerning the use of proceeds from purchases of the Fund of set asides in 1991 and 1992 to reimburse the commercial banks that will issue a letter of credit to collateralize debt (copy attached) Accordingly, you will find the original letters from the Managing Director to the Mexican authorities requested in relation to the financing package with commercial banks for 1989-92

I understand that these letters have to be sent to New York as soon as possible because they constitute conditions precedent for the closing of the financing package

cc Mr Beza
Mr Van Houtven
Mr Whittome
Mr Gianviti
Mr Laske

Attachments

BANCO DE MEXICO

March 5, 1990

The International Monetary Fund
700 19th Street, N W
Washington, D C 20431

Attn MICHEL CAMDESSUS
MANAGING DIRECTOR

Gentlemen

We refer to the purchases of amounts equivalent to SDR 349 65 million to be set aside for use in connection with debt reduction operations under the 1989-92 Financing Package for Mexico (each such purchase being a "Purchase") remaining to be made by the United Mexican States ("Mexico") from The International Monetary Fund (the "IMF") under the Extended Arrangement for The United Mexican States approved by the Executive Board of the IMF on May 26, 1989 in the aggregate amount of SDR 2 7972 billion (the "1989 IMF Extended Arrangement")

As you are aware, under the Discount and Par Bond Exchange Agreement executed to implement Option A (Discount Bonds) and Option B (Par Bonds) of Part I of the 1989-92 Financing Package for Mexico (the "Discount and Par Bond Exchange Agreement", terms being used herein as therein defined unless otherwise defined herein), Purchasers have committed to exchange on the Exchange Date all or a portion of their Eligible Debt for Discount and Par Bonds As a condition to the occurrence of the Exchange Date, Mexico will be required to deliver approximately U S $7 billion to the Federal Reserve Bank of New York, as the collateral agent for the Discount and Par Bonds (the "Collateral Agent"), to secure the principal of and a portion of the interest payable on the Discount and Par Bonds Mexico will provide U S $1 3 billion of the U S $7 billion on the Exchange Date from its own resources During the period 1989-92, Mexico will obtain from the IMF, IBDR and the Export-Import Bank of Japan (the "Official Sources") approximately U S $5 7 billion of the funds necessary for the purchase of the collateral

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

BANCO DE MEXICO

Pending delivery by the Official Sources of the funds scheduled to be disbursed after the Exchange Date, the shortfall in funded collateral will be covered by committed amounts under two irrevocable standby letter of credit to be issued pursuant to the Letter of Credit and Reimbursement Agreement dated as of February 4, 1990 (the "Letter of Credit Agreement") among Mexico, Banco de Mexico, the Banks party thereto and Citibank, N A , as Agent, by a group of commercial banks for the account of Mexico in favor of the Collateral Agent, acting for the benefit of the holders of the U S Dollar denominated Bonds

In connection with the foregoing, Banco de Mexico, acting on behalf of Mexico, hereby instructs you to deposit the proceeds of each Purchase made after the Exchange Date in a special account of Banco de Mexico with the Federal Reserve Bank of New York (the "FRBNY") account no 0210-8767-5 (the "Special Letter of Credit Funds Account") in order to replenish funds used from Mexico's reserves in connection with debt reduction operations conducted under the 1989-92 Financing Package All deposits to the Special Letter of Credit Funds Account shall be made in U S Dollars For this purpose, we hereby instruct you to convert, if necessary, the proceeds of any Purchase made after the Exchange Date into U S Dollars

We acknowledge that your action on this instruction will be taken in conformity with the relevant provisions of the 1989 IMF Extended Arrangement and such action shall not be construed in any way as a waiver of any right which you may have thereunder

BANCO DE MEXICO
acting on behalf of the
United Mexican States

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

INTERNATIONAL MONETARY FUND
WASHINGTON, D C 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

March 10, 1990

Gentlemen

We refer to a letter dated March 5, 1990 from Banco de Mexico, acting on the behalf of the United Mexican States, to us attached hereto as Exhibit A (the "Letter", terms being used herein as therein defined unless otherwise defined herein) At the request of Mexico, we are pleased to advise you that Purchases in a total amount equivalent to SDR 349 65 million may be made by Mexico after the Exchange Date, subject to the provisions of the 1989 IMF Extended Arrangement

We hereby confirm, subject to the provisions of the 1989 IMF Extended Arrangement, that the instructions set forth in the attached letter are acceptable to us and that we will comply in all respects with these instructions, provided that, pursuant to Rule G-4(a) of the Rules and Regulations of the International Monetary Fund, Banco de Mexico, acting on behalf of Mexico, repeats such instructions in each request for a Purchase under the 1989 IMF Extended Arrangement

Very truly yours,

Michel Camdessus
Chairman of the Executive Board
and
Managing Director

Citibank, N A as Agent Under the Letter of Credit
and Reimbursement Agreement dated as of
February 4, 1990
120 Wall Street
13th Floor
New York, New York 10043

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

March 10, 1990

Sir:

Reference is made to the Extended Arrangement that the International Monetary Fund (the "Fund") approved on May 26, 1989 for the United Mexican States.

(1) The Extended Arrangement continues in effect.

(2) The United Mexican States has the right, subject to the provisions of the Extended Arrangement and during the period until May 25, 1992, to make purchases from the Fund under the Extended Arrangement up to a total amount of at least the equivalent of SDR 1,958.04 million, excluding amounts for use in connection with debt and debt-service reduction operations, as specified by the Fund.

(3) As of the date of this letter, the United Mexican States has purchased from the Fund the equivalent of SDR 489.51 million under the Extended Arrangement (exclusive of purchases of amounts for use in connection with debt and debt-service reduction operations as aforesaid).

Very truly yours,

Michel Camdessus
Chairman of the Executive Board
and
Managing Director

His Excellency
Pedro Aspe Armella
Secretaria de Hacienda y Credito Publico
Palacio Nacional
Mexico, D.F. 06066 Mexico
Mexico

INTERNATIONAL MONETARY FUND
WASHINGTON, D C 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

March 10, 1990

Re United Mexican States Value Recovery Rights

Sir

Pursuant to the letter your counsel sent dated January 11, 1990, this letter sets forth our agreement to calculate certain of the amounts described in the Value Recovery Rights, each substantially in the form attached hereto, to be issued by the United Mexican States ("Mexico"), as follows

1 No later than 30 calendar days before each Payment Date, Mexico will furnish to the undersigned (the "Calculation Agent") written information adequate to calculate the Current Oil Price, the Current Oil Revenues, the Excess Base Revenues and the Excess Price Revenues for such Payment Date

2 No later than 20 calendar days before each Payment Date, the Calculation Agent will calculate each of the amounts described in paragraph 1 and deliver to the Fiscal Agent a Calculation Report, substantially in the form attached hereto, with respect to such Payment Date

3 All communications in connection with this letter agreement, including the information to be furnished by Mexico pursuant to paragraph 1 and the Calculation Reports to be delivered by the Calculation Agent pursuant to paragraph 2, shall be delivered in person or sent by telex or facsimile transmission to the address indicated below, or to any other address of which Mexico, the Calculation Agent or the Fiscal Agent shall have previously notified the others in writing

(a) if to the Calculation Agent, to

The International Monetary Fund
700 19th Street, N W
Washington, D C 20431
Attention Director, The Western Hemisphere Department

Telex 248331 IMF UR Answerback IMF
440040 FUND UI Answerback FUND
64111 IMF UW Answerback IMF
197677 FUND UT Answerback FUND

Fax (202) 623-4661
(202) 623-4662

(b) if to the Fiscal Agent, to

Citibank, N A
120 Wall Street
13th Floor
New York, New York 10043
Attention Corporate Trust Department

Telex ITT 420392 Ref NYCTACB
Answerback FNC-UIA
Fax (212) 480-1615

(c) if to Mexico to

Secretaria de Hacienda y Credito Publico
Subsecretaria de Asuntos Financieros Internacionales
Palacio Nacional
Mexico, D F 06066
Mexico

Telex 01777313
Answerback SHDCME
Fax (52-5) 542-4581

4 Capitalized terms not defined herein have the meanings specified in the Value Recovery Rights

Very truly yours,

Michel Camdessus
Chairman of the Executive Board
and
Managing Director

His Excellency
Pedro Aspe Armella
Secretaria de Hacienda y Credito Publico
Palacio Nacional
Mexico, D F   06066
Mexico

Office Memorandum

Mr. Beza

STB
CL
JB
IO
F

TO: The Managing Director
The Deputy Managing Director

DATE: March 26, 1990

FROM: Aarno Liuksila

SUBJECT: Mexico - 1989-1992 Financing Package - Closing Documentation

Counsel for Mexico has informed us that, upon inspection of the closing documentation, counsel for the Advisory Committee for Mexico has proposed that the new language shown in Attachment II be inserted to the so-called "Calculation Letter", which was dated March 10 and signed by you last week. The staff concurs, and, therefore, recommends that you now sign the letter in an amended form as reproduced in Attachment I. For your information, Attachment II indicates the change proposed by counsel for Mexico and the Advisory Committee.

Attachments

cc: Mr. Beza/Mr. Loser
Mr. Brau/Mr. El-Erian
Mr. H. Simpson

ATTACHMENT I

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

[illegible]

March 10, 1990

Re: United Mexican States Value Recovery Rights

Sir:

Pursuant to the letter your counsel sent dated January 11, 1990, this letter sets forth our agreement to calculate certain of the amounts described in the Value Recovery Rights, each substantially in the form attached hereto, to be issued by the United Mexican States ("Mexico"), as follows:

1. No later than 30 calendar days before each Payment Date, Mexico will furnish to the undersigned (the "Calculation Agent") written information adequate to calculate the reference oil price, the Current Oil Price, the Current Oil Revenues, the Excess Base Revenues and the Excess Price Revenues for such Payment Date.

2. No later than 20 calendar days before each Payment Date, the Calculation Agent will calculate each of the amounts described in paragraph 1 and deliver to the Fiscal Agent a Calculation Report, substantially in the form attached hereto, with respect to such Payment Date.

3. All communications in connection with this letter agreement, including the information to be furnished by Mexico pursuant to paragraph 1 and the Calculation Reports to be delivered by the Calculation Agent pursuant to paragraph 2, shall be delivered in person or sent by telex or facsimile transmission to the address indicated below, or to any other address of which Mexico, the Calculation Agent or the Fiscal Agent shall have previously notified the others in writing.

(a) If to the Calculation Agent, to

The International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
Attention: Director, the Western Hemisphere Department

Telex: [illegible] Answerback: [illegible]
[illegible] Answerback: [illegible]
[illegible] Answerback: [illegible]
[illegible] Answerback: [illegible]

Fax: [illegible]
[illegible]

(b) if to the Fiscal Agent, to

Citibank, N.A.
120 Wall Street
13th Floor
New York, New York 1004[illegible]
Attention: Corporate Trust Department

Telex: [illegible] Ref: [illegible]
Answerback: [illegible]
Fax: (212) [illegible]

(c) if to Mexico, to

Secretaria de Hacienda y Credito Publico
Subsecretaria de Asuntos Financieros Internacionales
Palacio Nacional
Mexico, D.F. 06066
Mexico

Telex: [illegible]
Answerback: [illegible]
Fax: [illegible]

4 Capitalized terms not defined herein have the meanings specified in the Value Recovery Rights.

Very truly yours,

Michel Camdessus
Chairman of the Executive Board
and
Managing Director

Attachment II

INTERNATIONAL MONETARY FUND
WASHINGTON, D C 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

March 10, 1990

Re United Mexican States Value Recovery Rights

Sir

Pursuant to the letter your counsel sent dated January 11, 1990, this letter sets forth our agreement to calculate certain of the amounts described in the Value Recovery Rights, each substantially in the form attached hereto, to be issued by the United Mexican States ("Mexico"), as follows

1 No later than 30 calendar days before each Payment Date, Mexico will furnish to the undersigned (the "Calculation Agent") written information adequate to calculate the Current Oil Price, the Reference Oil Price, the Current Oil Revenues, the Excess Base Revenues and the Excess Price Revenues for such Payment Date

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3 All communications in connection with this letter agreement, including the information to be furnished by Mexico pursuant to paragraph 1 and the Calculation Reports to be delivered by the Calculation Agent pursuant to paragraph 2, shall be delivered in person or sent by telex or facsimile transmission to the address indicated below, or to any other address of which Mexico, the Calculation Agent or the Fiscal Agent shall have previously notified the others in writing

(a) if to the Calculation Agent, to

The International Monetary Fund
700 19th Street, N W
Washington, D C 20431
Attention Director, The Western Hemisphere Department

Telex 248331 IMF UR Answerback IMF
440040 FUND UI Answerback FUND
64111 IMF UW Answerback IMF
197677 FUND UT Answerback FUND

Fax (202) 623-4661
(202) 623-4662

(b) if to the Fiscal Agent, to

Citibank, N A
120 Wall Street
13th Floor
New York, New York 10043
Attention Corporate Trust Department

Telex ITT 420392 Ref NYCTACB
Answerback FNC-UIA
Fax (212) 480-1615

(c) if to Mexico, to

Secretaria de Hacienda y Credito Publico
Subsecretaria de Asuntos Financieros Internacionales
Palacio Nacional
Mexico, D F 06066
Mexico

Telex 01777313
Answerback SHDCME
Fax (52-5) 542-4581

4 Capitalized terms not defined herein have the meanings specified in the Value Recovery Rights

Very truly yours,

Michel Camdessus
Chairman of the Executive Board
and
Managing Director

His Excellency
Pedro Aspe Armella
Secretaria de Hacienda y Credito Publico
Palacio Nacional
Mexico, D F 06066
Mexico

F

Office Memorandum

TO: The Managing Director
The Deputy Managing Director

DATE: March 23, 1990

FROM: S.T. Beza MA

SUBJECT: Mexico--Waiver and Modification under Extended Arrangement

The Mexican authorities have agreed to changes proposed by the staff in the Letter requesting a waiver for nonobservance of performance criteria for end-1989 and modification of performance criteria in 1990, and they are forwarding to the Fund the signed Letter and the Addendum to the Technical Memorandum of Understanding.

We will issue these documents to Executive Directors for their information as soon as we receive them. A staff report on these issues is now under preparation and will be available in the near future.

cc: Mr. H. Simpson

ETR
LEG

G.H.I.

ESTADOS UNIDOS MEXICANOS

SECRETARIA
DE
HACIENDA Y CREDITO PUBLICO

RECEIVED
INTERNATIONAL
SECRETARY
APR -3 AM 11:35
COMMUNICATIONS
DIVISION

INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.
1990 APR -3 PM 3:39

mexico

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March 23, 1990

ORIG: TRE

CC: MRS. FILARDO

WHD

010051

The Treasurer's Department
International Monetary Fund
Washington, DC 20431

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

Dear Sirs:

The United Mexican States ("Mexico") hereby authorizes and instructs the International Monetary Fund (the "IMF") to arrange on Mexico's behalf that the proceeds of all purchases made by Mexico under an Extended Fund Facility (the "EFF") or any other purchases from the IMF by Mexico, be either provided in, or converted into, U.S. dollars, and deposited into the Special Funds Account (the "Special Funds Account") of the Banco de Mexico (the "Central Bank") with the Federal Reserve Bank of New York (the "FRBNY").

For your information, the Central Bank has separately given the FRBNY an irrevocable instruction that all or part of the funds deposited in the Special Funds Account will be used to repay drawings made by the Central Bank under a short-term credit facility (the "Facility") that the United States Monetary Authorities have agreed to establish for the purpose of providing near-term support for the international reserves of Mexico. The aggregate amount of drawings by the Central Bank under the Facility may amount to as much as U.S. dollars 1.3 billion. The Central Bank has committed to the United States Monetary Authorities that the instructions to the IMF shall not be revoked or modified by the Central Bank, Mexico, or any other Mexican institution until the Facility is repaid in full, including accrued and unpaid interest, and the IMF has received from the Central Bank a copy of a notification by the FRBNY to the Central Bank to that effect.

T.I.E.V.-MEX.

GHI

SECRETARIA
DE
HACIENDA Y CREDITO PUBLICO

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

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

Sincerely yours,

For the United Mexican States

By Jose Angel Gurria Treviño
Undersecretary of International
Financial Affairs

For the Central Bank of Mexico

By José Julián Sidaoui
Director

Germán Fernández A
Manager

TIEV MEX

1 10-4
STB
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FORMULARIO Nº BMTF 01.

BANCO DE MEXICO
AV. 5 DE MAYO Nº 2
MEXICO, D. F.
CODIGO POSTAL 06059

FOLIO:

NUMERO TELEFACSIMIL
GRUPO 2/3 5129990
5217267

CONTROL DE SERVICIO TELEFACSIMIL

NUMERO DE DOCUMENTOS (INCLUIR HOJA DE CONTROL).	NUMERO DE TELEFONO FACSIMIL	FECHA:
6	95.202.623.4661	Marzo 22, 1990

PARA:

SR. CLAUDIO LOSER
FONDO MONETARIO INTERNACIONAL
WESTERN HEMISPHERE DEPARTMENT
WASHINGTON, D. C.

865100

DE:

LIC. ARIEL BUIRA
BANCO DE MEXICO

1990 MAR 22 PM 10:32
RECEIVED
IMF CABLE ROOM

INSTRUCCIONES ESPECIALES DEL SOLICITANTE:

ENVIO ORIGINAL DE CARTA FIRMADA POR COURIER, DIRECTAMENTE AL DIRECTOR GERENTE.

CORDIALES SALUDOS,

PARA USO EXCLUSIVO DE LA OFICINA DE TELECOMUNICACIONES

OBSERVACIONES DE LA TRANSMISION.	RESPONSABLE DE LA TRANSMISION.

DEPENDENCIA SOLICITANTE

NOMBRE:	TELEFONO/EXTENSION	FIRMA AUTORIZADA.
	2240	Buira

MAR 22 '90 20:28 TO 1 202 623 4661 FROM ORG. Y ACS. INTERNAC. T-305 P.01

Gr 1

SECRETARIA
DE
HACIENDA Y CREDITO PUBLICO

Mexico City, Mexico
March 19, 1990

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

Dear Mr. Camdessus

1 The Government of Mexico has been implementing with determination its medium-term economic strategy, that is being supported by a three-year extended arrangement from the Fund. As already described in our letter of January 15, 1990, performance in 1989 under the program was satisfactory Economic activity recovered markedly, with real GDP up by some 3 percent, while the inflation rate, measured by the consumer price index, declined from 52 percent during 1988 to less than 20 percent during 1989. The public finances strengthened; the primary surplus rose and the PSBR declined markedly However, the external current account deficit widened reflecting buoyant private sector activity as well as adverse exogenous factors affecting production Increased private capital inflows were more than sufficient to cover the wider current account deficit Nonetheless, substantially lower than envisaged foreign financing for the public sector resulted in a net international reserve position somewhat weaker than programmed by year end.

2 Because of the limited external financing in 1989, the borrowing requirement was covered primarily through the issuance of government securities placed with the public, this was facilitated by a strong rise in private sector

ESTADOS UNIDOS MEXICANOS

SECRETARIA
DE
HACIENDA Y CREDITO PUBLICO

financial savings The Bank of Mexico maintained its net credit to the nonfinancial public sector within the established limits throughout the year However, the shortfall in foreign financing, together with a seasonally high increase in credit to the pubic sector in the final weeks of the year --while within the established ceiling-- contributed to an increase in the net domestic assets of the Bank of Mexico in excess of the limit for end-December 1989

3 Associated with a rapid increase in financial savings, the growth in currency issue in the fourth quarter of 1989 was much higher than had been expected on the basis of previous seasonal patterns. In the circumstances, the Bank of Mexico allowed an increase in net domestic assets to avoid an unduly large short-term increase in interest rates, particularly as a shortfall in foreign financing in late 1989 was expected to be reversed It should be noted that credit to the private sector and currency in circulation have declined sharply in early-1990 With regard to net international reserves, most of the deviation is in fact attributable to delays in disbursements of certain multilateral loans

4 The Government has taken strong actions in order to make up fully in 1990 the shortfall in net international reserves experienced at the end of 1989, and to help achieve the objectives of the program Monetary policy has been tightened through increased open market placement of government securities aimed at absorbing domestic liquidity Moreover, the reduced pace of public sector expenditure, the strengthened tax effort, and the intention to accelerate the sale of public sector enterprises --particularly of Altos Hornos, SICARTSA and TELMEX-- should help achieve a better financial outcome for the public sector. Already, preliminary information suggests that there was stronger than programmed fiscal performance in early 1990

5 The overall fiscal targets for end-1989 were achieved with margins, but as noted the composition of the public sector financing differed from that envisaged in early

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SECRETARIA
DE
HACIENDA Y CREDITO PUBLICO

December, with greater recourse to credit from the Bank of Mexico As a consequence, the end-1989 stock of Bank of Mexico net credit to the nonfinancial public sector exceeded the earlier projection for December even though still well below the program ceiling. The increase in credit was of a seasonal nature; in any event the authorities have taken measures to tighten monetary policy

6. Projected external flows in 1990 differ from those assumed in the program particularly as a result of last minute changes to certain features of the commercial bank financing package. These changes include a) the payment in the first quarter of the year of interest accruing through end-March 1990 and originally programmed to be paid in the period April-August, and b) the postponement to the fourth quarter of the year of disbursements of the bulk of the interest rebate, which had been expected to take place in March. These changes would give rise to a shortfall in the accumulation of reserves in the first quarter of 1990 which would be fully offset by the end of the fourth quarter. While affecting the quarterly path for the external accounts, these changes do not affect the end-year modified target for net international reserves

7. Developments during the early part of 1990 are being followed closely The consumer price index rose by 4 8 percent in January and 2.3 percent in February of 1990 These increases are higher than had been projected, but reflected mainly adjustments in public sector prices made between December and February and the 10 percent increase in minimum wages made in December. A marked reduction in the rate of inflation is expected during the rest of 1990, including in part in response to the tightening of demand policies. The Mexican authorities intend to monitor developments closely and will take any additional policy actions as necessary to achieve the objectives of the program In this regard, the Mexican autorities will continue to mantain strict monetary and fiscal policies, as well as external competitiveness.

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ESTADOS UNIDOS MEXICANOS

SECRETARIA
DE
HACIENDA Y CREDITO PUBLICO

8 The Mexican authorities believe that the policies and measures described in the letter of January 15, 1990, as supplemented by this letter, are adequate to achieve the objectives of the economic strategy In this light, it is requested that a waiver be granted for non-observance of end-December performance criteria for the net domestic assets of the Bank of Mexico and of net international reserves Furthermore, it is requested that the quarterly quantitative performance criteria for 1990 be modified to reflect the changes described above.

Yours truly,

PEDRO ASPE ARMELLA
SECRETARY OF FINANCE
AND PUBLIC CREDIT OF
MEXICO

MIGUEL MANCERA AGUAYO
DIRECTOR GENERAL
BANCO DE MEXICO

Office Memorandum

TO The Managing Director
The Deputy Managing Director

DATE March 21, 1990

FROM S T Beza

SUBJECT Mexico--Waiver and Modifications under Extended Arrangement

Departments have reviewed the Letter and Addendum to the Technical Memorandum of Understanding of the Mexican authorities, and there is agreement that Fund support for the request is warranted Some minor modifications of the documents are currently being discussed with Mexican representatives

We can now recommend that you inform the U S authorities that you expect to be in a position to propose that the Executive Board waive the nonobservance of certain performance criteria for 1989 and complete the review, and thus facilitate completion of the swap arrangement between the United States and Mexico

Attached for your signature are two originals of a letter to the U S Treasury and the Board of Governors of the Federal Reserve System communicating your intentions, based on a draft previously agreed with U S representatives

The Mexican documentation has been reviewed by the following departments

Exchange and Trade Relations	-	Mr Brau
Fiscal Affairs	-	Ms Ter-Minassian
Legal	-	Mr Surr
Research	-	Mr Khan
Treasurer's	-	Mr Coats
Western Hemisphere	-	Messrs Caiola, Ferrán and myself

Attachments

cc Mr H Simpson

INTERNATIONAL MONETARY FUND
WASHINGTON, D C 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

Dear Sirs

I wish to inform you that, under the extended arrangement for Mexico which was approved on May 26, 1989, and continues in effect, Mexico has, as of February 27, 1990, purchased all the amounts that were scheduled to become available on or prior to such date, and Mexico has the right to make purchases from the Fund up to the total amount approved under the arrangement in accordance with the phasing thereof, subject to the satisfaction of the terms and conditions relating thereto. Mexico could make the fourth purchase of SDR 163 17 million by end-April, 1990, the fifth purchase of SDR 163 17 million by end-May 1990, and the sixth purchase of SDR 163 17 million by end-August 1990, subject to the satisfaction of terms and conditions relating thereto

I also wish to inform you, on the basis of a report from staff on Mexico's position, policies and prospects, that the Mexican adjustment program is proceeding satisfactorily As regards the fourth purchase from the Fund of up to SDR 163 17 million that was scheduled to become available on or after February 27, 1990 under the extended arrangement for Mexico, I expect to be in a position to recommend that the Fxecutive Board waive the nonobservance of certain performance criteria and complete the review provided for in paragraph 4 of the extended arrangement in order to enable Mexico to resume making purchases, including that purchase, in accordance with the provisions of that arrangement

Sincerely yours,

Michel Camdessus
Chairman of the Fxecutive Board
and
Managing Director

Board of Governors of the Federal
Reserve System

U S Department of the Treasury
Washington, D C

INTERNATIONAL MONETARY FUND
WASHINGTON, D C 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

Dear Sirs

I wish to inform you that, under the extended arrangement for Mexico which was approved on May 26, 1989, and continues in effect, Mexico has, as of February 27, 1990, purchased all the amounts that were scheduled to become available on or prior to such date, and Mexico has the right to make purchases from the Fund up to the total amount approved under the arrangement in accordance with the phasing thereof, subject to the satisfaction of the terms and conditions relating thereto Mexico could make the fourth purchase of SDR 163 17 million by end-April, 1990, the fifth purchase of SDR 163 17 million by end-May 1990, and the sixth purchase of SDR 163 17 million by end-August 1990, subject to the satisfaction of terms and conditions relating thereto

I also wish to inform you, on the basis of a report from staff on Mexico's position, policies and prospects, that the Mexican adjustment program is proceeding satisfactorily As regards the fourth purchase from the Fund of up to SDR 163 17 million that was scheduled to become available on or after February 27, 1990 under the extended arrangement for Mexico, I expect to be in a position to recommend that the Executive Board waive the nonobservance of certain performance criteria and complete the review provided for in paragraph 4 of the extended arrangement in order to enable Mexico to resume making purchases, including that purchase, in accordance with the provisions of that arrangement

Sincerely yours,

Michel Camdessus
Chairman of the Executive Board
and
Managing Director

Board of Governors of the Federal
Reserve System

U S Department of the Treasury
Washington, D C

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.

1990 MAR 22 PM 4:45

mexico

FACSIMILE NUMBERS
(202) 623-4661
(202) 623-4662
(202) 623-7491

FACSIMILE INQUIRIES
(202) 623-6775

Facsimile Service Cover Sheet
(TYPE)

MSG. NO. 33 (For Cable Room use only)	DATE March 21, 1990	PAGE 1 OF 2

DISPATCHED IMF 1990 MAR 21 P 10:59

TO

NAME Lic. Ariel Buira

AGENCY Director of International Organizations
Bank of Mexico

CITY/COUNTRY Mexico City, Mexico

FACSIMILE TELEPHONE NO. 9-011-525-512-9990
(Country Code) (City Code) (Number)

TEXT

Attached please find copy of the letter sent by the Managing Director to the U.S. authorities in which he indicates his expectation that he would recommend approval by the Executive Board of the request of the Mexican authorities.

This message is being repeated to:

Dr. Guillermo Ortiz
Under-Secretary of Finance of Public Credit

Lic. Angel Gurría
Under-Secretary for International and Financial Affairs

INTERNAL DISTRIBUTION

Mrs. Filardo

FROM

NAME Claudio Loser

DEPT./DIV. WHD - Immediate Office

ROOM NO. 10-100	EXTENSION 8373	ACCOUNT CODE 0043

AUTHORIZED BY *(TYPE)* Claudio Loser	SIGNATURE Claudio M. Loser

SEC-56, REV. 2
2-18-88

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.

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INTERNATIONAL MONETARY FUND
WASHINGTON, D C 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

March 21, 1990

Dear Sirs

I wish to inform you that, under the extended arrangement for Mexico which was approved on May 26, 1989, and continues in effect, Mexico has, as of February 27, 1990, purchased all the amounts that were scheduled to become available on or prior to such date, and Mexico has the right to make purchases from the Fund up to the total amount approved under the arrangement in accordance with the phasing thereof, subject to the satisfaction of the terms and conditions relating thereto Mexico could make the fourth purchase of SDR 163 17 million by end-April, 1990, the fifth purchase of SDR 163 17 million by end-May 1990, and the sixth purchase of SDR 163 17 million by end-August 1990, subject to the satisfaction of terms and conditions relating thereto

I also wish to inform you, on the basis of a report from staff on Mexico's position, policies and prospects, that the Mexican adjustment program is proceeding satisfactorily As regards the fourth purchase from the Fund of up to SDR 163 17 million that was scheduled to become available on or after February 27, 1990 under the extended arrangement for Mexico, I expect to be in a position to recommend that the Executive Board waive the nonobservance of certain performance criteria and complete the review provided for in paragraph 4 of the extended arrangement in order to enable Mexico to resume making purchases, including that purchase, in accordance with the provisions of that arrangement

Sincerely yours,

Michel Camdessus
Chairman of the Executive Board
and
Managing Director

Board of Governors of the Federal
Reserve System

U S Department of the Treasury
Washington, D C

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.

1990 MAR 22 PM 4: 44

Mexico

FACSIMILE NUMBERS
(202) 623-4661
(202) 623-4662
(202) 623-7491

FACSIMILE INQUIRIES
(202) 623-6775

Facsimile Service Cover Sheet
(TYPE)

MSG. NO. 32 (For Cable Room use only)	DATE March 21, 1990	PAGE 1 OF 2

TO

NAME Lic. Angel Gurría

AGENCY Under-Secretary for International and Financial Affairs

CITY/COUNTRY Mexico City, Mexico

FACSIMILE TELEPHONE NO. 9-011-525-542-4581
(Country Code) (City Code) (Number)

DISPATCHED IMF 1990 MAR 21 P 10: 52

TEXT

Attached please find copy of the letter sent by the Managing Director to the U.S. authorities in which he indicates his expectation that he would recommend approval by the Executive Board of the request of the Mexican authorities.

This message is being repeated to:

Dr. Guillermo Ortiz
Under-Secretary of Finance of Public Credit

Lic. Ariel Buira
Director of International Organizations
Bank of Mexico

INTERNAL DISTRIBUTION

Mrs. Filardo

FROM

NAME Claudio Loser

DEPT./DIV. WHD - Immediate Office

ROOM NO. 10-100	EXTENSION 8373	ACCOUNT CODE 0043
AUTHORIZED BY (TYPE) Claudio Loser	SIGNATURE Claudio M. Loser	

SEC-56, REV. 2
2-18-88

PREPARATION OF FACSIMILE MESSAGE

Messages prepared for facsimile transmission should be of an **urgent** nature, and generally not exceed 20 pages.

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INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

March 21, 1990

Dear Sirs:

I wish to inform you that, under the extended arrangement for Mexico which was approved on May 26, 1989, and continues in effect, Mexico has, as of February 27, 1990, purchased all the amounts that were scheduled to become available on or prior to such date, and Mexico has the right to make purchases from the Fund up to the total amount approved under the arrangement in accordance with the phasing thereof, subject to the satisfaction of the terms and conditions relating thereto. Mexico could make the fourth purchase of SDR 163.17 million by end-April, 1990, the fifth purchase of SDR 163.17 million by end-May 1990, and the sixth purchase of SDR 163.17 million by end-August 1990, subject to the satisfaction of terms and conditions relating thereto.

I also wish to inform you, on the basis of a report from staff on Mexico's position, policies and prospects, that the Mexican adjustment program is proceeding satisfactorily. As regards the fourth purchase from the Fund of up to SDR 163.17 million that was scheduled to become available on or after February 27, 1990 under the extended arrangement for Mexico, I expect to be in a position to recommend that the Executive Board waive the nonobservance of certain performance criteria and complete the review provided for in paragraph 4 of the extended arrangement in order to enable Mexico to resume making purchases, including that purchase, in accordance with the provisions of that arrangement.

Sincerely yours,

Michel Camdessus
Chairman of the Executive Board
and
Managing Director

Board of Governors of the Federal
Reserve System

U.S. Department of the Treasury
Washington, D. C.

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.
1990 MAR 22 PM 4: 44

Mexico

FACSIMILE NUMBERS
(202) 623-4661
(202) 623-4662
(202) 623-7491

FACSIMILE INQUIRIES
(202) 623-6775

Facsimile Service Cover Sheet
(TYPE)

MSG. NO. 31 (For Cable Room use only)	DATE March 21, 1990	PAGE 1 OF 2

TO

NAME Dr. Guillermo Ortiz

AGENCY Under-Secretary of Finance of Public Credit

CITY/COUNTRY Mexico City, Mexico

FACSIMILE TELEPHONE NO. 9-011-525-542-0336
(Country Code) (City Code) (Number)

DISPATCHED 1990 MAR 21 P 10:55

TEXT

Attached please find copy of the letter sent by the Managing Director to the U.S. authorities in which he indicates his expectation that he would recommend approval by the Executive Board of the request of the Mexican authorities.

This message is being repeated to:

Lic. Angel Gurría
Under-Secretary for International and
Financial Affairs

Lic. Ariel Buira
Director of International Organizations
Bank of Mexico

INTERNAL DISTRIBUTION

Mrs. Filardo

FROM

NAME Claudio Loser

DEPT./DIV. WHD - Immediate Office

ROOM NO. 10-100	EXTENSION 8373	ACCOUNT CODE 0043
AUTHORIZED BY (TYPE) Claudio Loser		SIGNATURE Claudio M. Loser

SEC-56, REV. 2
2-18-88

PREPARATION OF FACSIMILE MESSAGE

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INTERNATIONAL MONETARY FUND
WASHINGTON, D C 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

March 21, 1990

Dear Sirs

I wish to inform you that, under the extended arrangement for Mexico which was approved on May 26, 1989, and continues in effect, Mexico has, as of February 27, 1990, purchased all the amounts that were scheduled to become available on or prior to such date, and Mexico has the right to make purchases from the Fund up to the total amount approved under the arrangement in accordance with the phasing thereof, subject to the satisfaction of the terms and conditions relating thereto Mexico could make the fourth purchase of SDR 163 17 million by end-April, 1990, the fifth purchase of SDR 163 17 million by end-May 1990, and the sixth purchase of SDR 163 17 million by end-August 1990, subject to the satisfaction of terms and conditions relating thereto

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Sincerely yours,

Michel Camdessus
Chairman of the Executive Board
and
Managing Director

Board of Governors of the Federal
Reserve System

U S Department of the Treasury
Washington, D C

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.
1990 MAR 22 PM 4:46

mexico

FACSIMILE NUMBERS
(202) 623-4661
(202) 623-4662
(202) 623-7491

FACSIMILE INQUIRIES
(202) 623-6775

Facsimile Service Cover Sheet
(TYPE)

MSG. NO. 2 (For Cable Room use only)	DATE March 20, 1990	PAGE 1 OF 6

DISPATCHED IMF 1990 MAR 21 A 9:47

TO

NAME: Ms. Ana wemel

AGENCY: Cleary, Gottlieb, Steen and Hamilton

CITY/COUNTRY: New York, New York

FACSIMILE TELEPHONE NO.: 212 269-4978
(Country Code) (City Code) (Number)

TEXT

Attached please find copies of the letters thatthe Managing Director will be sending to the Mexico authorities in relation to the financing package for 1989-92. The originals will be delivered to the Mexican authorities (through Mrs. Filardo) once we have received the instructions from the Banco de Mexico concerning the use of proceeds from purchases of the Fund of set asides in 1991 and 1992 to reimburse the commercial banks that will issue a letter of credit to collateralize debt, as contained in Attachment II.

INTERNAL DISTRIBUTION

Mrs. Filardo

FROM

NAME: Claudio M. Loser

DEPT./DIV.: Western Hemisphere, Immediate Office

Please note:

ROOM NO. 10-100	EXTENSION 8373	ACCOUNT CODE 0043

AUTHORIZED BY (TYPE) Claudio M. Loser	SIGNATURE Claudio M. Loser

SEC-56, REV. 2
2-18-88

PREPARATION OF FACSIMILE MESSAGE

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INTERNATIONAL MONETARY FUND
WASHINGTON D C 20431

FACSIMILE NUMBERS
(202) 623 4661
(202) 623 4662
(202) 623 7491

FACSIMILE INQUIRIES
(202) 623 6775

Facsimile Service Cover Sheet
(TYPE)

MSG NO (For Cable Room use only)	DATE March 20, 1990	PAGE 1 OF 6

TO

NAME Ms Ana Demel

AGENCY Cleary, Gottlieb, Steen and Hamilton

CITY/COUNTRY New ork, New York

FACSIMILE TELEPHONE NO 212 269-4978
(Country Code) (City Code) (Number)

TEXT

Attached please find copies of the letters thatthe Managing Director will be sending to the Mexcan authorities in relation to the financing package for 1989-92 The originals will be delivered to the Mexican authorities (through Mrs Filardo) once we have received the instructions from the Banco de Mexico concerning the use of proceeds from purchases of the Fund of set asides in 1991 and 1992 to reimburse the commercial banks that will issue a letter of credit to collateralize debt, as contained in Attachment II

INTERNAL DISTRIBUTION

Mrs Filardo

FROM

NAME Claudio M Loser

DEPT /DIV Western Hemisphere, Immediate Office

ROOM NO 10-100	EXTENSION 8373	ACCOUNT CODE

AUTHORIZED BY *(TYPE)* Claudio M Loser

SIGNATURE Claudio M Loser

SEC 56 REV 2
2 18 88

INTERNATIONAL MONETARY FUND
WASHINGTON, D C 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

March 10, 1990

Gentlemen

We refer to a letter dated March 5, 1990 from Banco de Mexico, acting on the behalf of the United Mexican States, to us attached hereto as Exhibit A (the "Letter", terms being used herein as therein defined unless otherwise defined herein) At the request of Mexico, we are pleased to advise you that Purchases in a total amount equivalent to SDR 349 65 million may be made by Mexico after the Exchange Date, subject to the provisions of the 1989 IMF Extended Arrangement

We hereby confirm, subject to the provisions of the 1989 IMF Extended Arrangement, that the instructions set forth in the attached letter are acceptable to us and that we will comply in all respects with these instructions, provided that, pursuant to Rule G-4(a) of the Rules and Regulations of the International Monetary Fund, Banco de Mexico, acting on behalf of Mexico, repeats such instructions in each request for a Purchase under the 1989 IMF Extended Arrangement

Very truly yours,

Michel Camdessus
Chairman of the Executive Board
and
Managing Director

Citibank, N A as Agent Under the Letter of Credit
and Reimbursement Agreement dated as of
February 4, 1990
120 Wall Street
13th Floor
New York, New York 10043

INTERNATIONAL MONETARY FUND
WASHINGTON, D C 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

March 10, 1990

Sir

Reference is made to the Extended Arrangement that the International Monetary Fund (the "Fund") approved on May 26, 1989 for the United Mexican States

(1) The Extended Arrangement continues in effect

(2) The United Mexican States has the right, subject to the provisions of the Extended Arrangement and during the period until May 25, 1992, to make purchases from the Fund under the Extended Arrangement up to a total amount of at least the equivalent of SDR 1,958 04 million, excluding amounts for use in connection with debt and debt-service reduction operations, as specified by the Fund

(3) As of the date of this letter, the United Mexican States has purchased from the Fund the equivalent of SDR 489 51 million under the Extended Arrangement (exclusive of purchases of amounts for use in connection with debt and debt-service reduction operations as aforesaid)

Very truly yours,

Michel Camdessus
Chairman of the Executive Board
and
Managing Director

His Excellency
Pedro Aspe Armella
Secretaria de Hacienda y Credito Publico
Palacio Nacional
Mexico, D F 06066 Mexico
Mexico

INTERNATIONAL MONETARY FUND
WASHINGTON, D C 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

March 10, 1990

Re United Mexican States Value Recovery Rights

Sir

Pursuant to the letter your counsel sent dated January 11, 1990, this letter sets forth our agreement to calculate certain of the amounts described in the Value Recovery Rights, each substantially in the form attached hereto, to be issued by the United Mexican States ("Mexico"), as follows

1 No later than 30 calendar days before each Payment Date, Mexico will furnish to the undersigned (the "Calculation Agent") written information adequate to calculate the Current Oil Price, the Current Oil Revenues, the Excess Base Revenues and the Excess Price Revenues for such Payment Date

2 No later than 20 calendar days before each Payment Date, the Calculation Agent will calculate each of the amounts described in paragraph 1 and deliver to the Fiscal Agent a Calculation Report, substantially in the form attached hereto, with respect to such Payment Date

3 All communications in connection with this letter agreement, including the information to be furnished by Mexico pursuant to paragraph 1 and the Calculation Reports to be delivered by the Calculation Agent pursuant to paragraph 2, shall be delivered in person or sent by telex or facsimile transmission to the address indicated below, or to any other address of which Mexico, the Calculation Agent or the Fiscal Agent shall have previously notified the others in writing

(a) if to the Calculation Agent, to

The International Monetary Fund
700 19th Street, N W
Washington, D C 20431
Attention Director, The Western Hemisphere Department

Telex 248331 IMF UR Answerback IMF
440040 FUND UI Answerback FUND
64111 IMF UW Answerback IMF
197677 FUND UT Answerback FUND

Fax (202) 623-4661
(202) 623-4662

(b) if to the Fiscal Agent, to

Citibank, N A
120 Wall Street
13th Floor
New York, New York 10043
Attention Corporate Trust Department

Telex ITT 420392 Ref NYCTACB
Answerback FNC-UIA
Fax (212) 480-1615

(c) if to Mexico, to

Secretaria de Hacienda y Credito Publico
Subsecretaria de Asuntos Financieros Internacionales
Palacio Nacional
Mexico, D F 06066
Mexico

Telex 01777313
Answerback SHDCME
Fax (52-5) 542-4581

4 Capitalized terms not defined herein have the meanings specified in the Value Recovery Rights

Very truly yours,

Michel Camdessus
Chairman of the Executive Board
and
Managing Director

His Excellency
Pedro Aspe Armella
Secretaria de Hacienda y Credito Publico
Palacio Nacional
Mexico, D F   06066
Mexico

INTERNATIONAL MONETARY FUND
WASHINGTON, D C 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

Mexico

March 21, 1990

Dear Sirs

I wish to inform you that, under the extended arrangement for Mexico which was approved on May 26, 1989, and continues in effect, Mexico has, as of February 27, 1990, purchased all the amounts that were scheduled to become available on or prior to such date, and Mexico has the right to make purchases from the Fund up to the total amount approved under the arrangement in accordance with the phasing thereof, subject to the satisfaction of the terms and conditions relating thereto Mexico could make the fourth purchase of SDR 163 17 million by end-April, 1990, the fifth purchase of SDR 163 17 million by end-May 1990, and the sixth purchase of SDR 163 17 million by end-August 1990, subject to the satisfaction of terms and conditions relating thereto

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Sincerely yours,

Michel Camdessus
Chairman of the Executive Board
and
Managing Director

Board of Governors of the Federal
Reserve System

U S Department of the Treasury
Washington, D C

F

Office Memorandum

TO The Managing Director
The Deputy Managing Director

DATE March 21, 1990

FROM S T Beza

SUBJECT Mexico--Waiver and Modifications under Extended Arrangement

Departments have reviewed the Letter and Addendum to the Technical Memorandum of Understanding of the Mexican authorities, and there is agreement that Fund support for the request is warranted Some minor modifications of the documents are currently being discussed with Mexican representatives

We can now recommend that you inform the U S authorities that you expect to be in a position to propose that the Executive Board waive the nonobservance of certain performance criteria for 1989 and complete the review, and thus facilitate completion of the swap arrangement between the United States and Mexico

Attached for your signature are two originals of a letter to the U S Treasury and the Board of Governors of the Federal Reserve System communicating your intentions, based on a draft previously agreed with U S representatives

The Mexican documentation has been reviewed by the following departments

Exchange and Trade Relations	- Mr Brau
Fiscal Affairs	- Ms Ter-Minassian
Legal	- Mr Surr
Research	- Mr Khan
Treasurer's	- Mr Coats
Western Hemisphere	- Messrs Caiola, Ferrán and myself

Attachments

cc Mr H Simpson

INTERNATIONAL MONETARY FUND
WASHINGTON, D C 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

Dear Sirs

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Sincerely yours,

Michel Camdessus
Chairman of the Executive Board
and
Managing Director

Board of Governors of the Federal
Reserve System

U S Department of the Treasury
Washington, D C

INTERNATIONAL MONETARY FUND
WASHINGTON, D C 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

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Sincerely yours,

Michel Camdessus
Chairman of the Executive Board
and
Managing Director

Board of Governors of the Federal
Reserve System

U S Department of the Treasury
Washington, D C

10-1

STB
CL
JB
IO
FV

G.H.1

ESTADOS UNIDOS MEXICANOS

SECRETARIA
DE
HACIENDA Y CREDITO PUBLICO

Mexico

Mexico City, Mexico
March 19, 1990

ORIG: WHD

CC: MD
DMD
MRS. FILARDO
ETR
FAD
LEG
RES
SEC
TRE
MR. H. SIMPSON

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

Dear Mr. Camdessus:

1. The Government of Mexico has been implementing with determination its medium-term economic strategy, that is being supported by a three-year extended arrangement from the Fund. As already described in our letter of January 15, 1990, performance in 1989 under the program was satisfactory. Economic activity recovered markedly, with real GDP up by some 3 percent, while the inflation rate, measured by the consumer price index, declined from 52 percent during 1988 to less than 20 percent during 1989. The public finances strengthened; the primary surplus rose and the PSBR declined markedly. However, the external current account deficit widened reflecting buoyant private sector activity as well as adverse exogenous factors affecting production. Increased private capital inflows were more than sufficient to cover the wider current account deficit. Nonetheless, substantially lower than envisaged foreign financing for the public sector resulted in a net international reserve position somewhat weaker than programmed by year end.

2. Because of the limited external financing in 1989, the borrowing requirement was covered primarily through the issuance of government securities placed with the public; this was facilitated by a strong rise in private sector

financial savings. The Bank of Mexico maintained its net credit to the nonfinancial public sector within the established limits throughout the year. However, the shortfall in foreign financing, together with a seasonally high increase in credit to the pubic sector in the final weeks of the year --while within the established ceiling-- contributed to an increase in the net domestic assets of the Bank of Mexico in excess of the limit for end-December 1989.

3. Associated with a rapid increase in financial savings, the growth in currency issue in the fourth quarter of 1989 was much higher than had been expected on the basis of previous seasonal patterns. In the circumstances, the Bank of Mexico allowed an increase in net domestic assets to avoid an unduly large short-term increase in interest rates, particularly as a shortfall in foreign financing in late 1989 was expected to be reversed. It should be noted that credit to the private sector and currency in circulation have declined sharply in early-1990. With regard to net international reserves, most of the deviation is in fact attributable to delays in disbursements of certain multilateral loans.

4. The Government has taken strong actions in order to make up fully in 1990 the shortfall in net international reserves experienced at the end of 1989, and to help achieve the objectives of the program. Monetary policy has been tightened through increased open market placement of government securities aimed at absorbing domestic liquidity. Moreover, the reduced pace of public sector expenditure, the strengthened tax effort, and the intention to accelerate the sale of public sector enterprises --particularly of Altos Hornos, SICARTSA and TELMEX-- should help achieve a better financial outcome for the public sector. Already, preliminary information suggests that there was stronger than programmed fiscal performance in early 1990.

5. The overall fiscal targets for end-1989 were achieved with margins, but as noted the composition of the public sector financing differed from that envisaged in early

December, with greater recourse to credit from the Bank of Mexico. As a consequence, the end-1989 stock of Bank of Mexico net credit to the nonfinancial public sector exceeded the earlier projection for December even though still well below the program ceiling. The increase in credit was of a seasonal nature; in any event the authorities have taken measures to tighten monetary policy.

6. Projected external flows in 1990 differ from those assumed in the program particularly as a result of last minute changes to certain features of the commercial bank financing package. These changes include: a) the payment in the first quarter of the year of interest accruing through end-March 1990 and originally programmed to be paid in the period April-August; and b) the postponement to the fourth quarter of the year of disbursements of the bulk of the interest rebate, which had been expected to take place in March. These changes would give rise to a shortfall in the accumulation of reserves in the first quarter of 1990 which would be fully offset by the end of the fourth quarter. While affecting the quarterly path for the external accounts, these changes do not affect the end-year modified target for net international reserves.

7. Developments during the early part of 1990 are being followed closely. The consumer price index rose by 4.8 percent in January and 2.3 percent in February of 1990. These increases are higher than had been projected, but reflected mainly adjustments in public sector prices made between December and February and the 10 percent increase in minimum wages made in December. A marked reduction in the rate of inflation is expected during the rest of 1990, including in part in response to the tightening of demand policies. The Mexican authorities intend to monitor developments closely and will take any additional policy actions as necessary to achieve the objectives of the program. In this regard, the Mexican autorities will continue to mantain strict monetary and fiscal policies, as well as external competitiveness.

G.H.1

ESTADOS UNIDOS MEXICANOS

SECRETARIA
DE
HACIENDA Y CREDITO PUBLICO

8. The Mexican authorities believe that the policies and measures described in the letter of January 15, 1990, as supplemented by this letter, are adequate to achieve the objectives of the economic strategy. In this light, it is requested that a waiver be granted for non-observance of end-December performance criteria for the net domestic assets of the Bank of Mexico and of net international reserves. Furthermore, it is requested that the quarterly quantitative performance criteria for 1990 be modified to reflect the changes described above.

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 1990--Addendum

1. In accordance with the economic strategy described in the letters dated April 11, 1989, January 15, 1990, and March 19, 1990, certain performance criteria for 1990 have been modified as follows. Other intentions and quantitative performance criteria remain as described in the technical memorandum of understanding attached to the letter dated January 15, 1990.

I. Foreign Financing

2. The public sector's net use of foreign credit will not exceed US$5,540 million for the period January-March 1990, US$6,770 million for the period January-June 1990, and US$6,935 million for the period January-September 1990. An indicative ceiling of US$7,020 million has been established for end-December 1990; the ceiling for end-1990, will be specified at the time of the forthcoming review of the arrangement.

II. Public Finance

3. The overall public sector borrowing requirement, "PSBR" was Mex$28,834 billion in 1989. The PSBR will not exceed

Mex$11,400 billion in the period January-March 1990, Mex$17,300 billion in the period January-June 1990, Mex$23,400 billion in the period January-September 1990, and Mex$31,050 billion in the period January-December 1990. These limits will be adjusted in accordance with the provisions described in paragraphs 11 through 13 of the attachment to the letter dated January 15, 1990.

4. The operational deficit of the nonfinancial public sector was Mex$8,477 billion in 1989. The operational deficit will not exceed Mex$3,870 billion in the period January-March 1990, Mex$4,540 billion in the period January-June 1890, Mex$4,850 billion in the period January-September 1990, and Mex$6,150 billion in the period January-December 1990. These limits will be adjusted in accordance with the provisions described in paragraphs 11 through 13 of the attachment to the letter dated January 15, 1990.

III. Banco de Mexico Operations

5. The net international reserves of the Banco de Mexico were a negative US$1,066 million on December 31, 1989. The net international reserves of the monetary authorities will not decline by more than US$3,650 million in the period January-March 1990, by more than US$2,275 million in the

period January-June 1990, by more than US$1,667 million in the period January-September 1990, and by more than US$253 million in the period January-December 1990. These targets will be adjusted in accordance with the provisions of paragraphs 11 through 13 of the attachment to the letter dated January 15, 1990. In reviewing developments related to these and associated targets, consideration will be given to the extent and nature of deviations relative to program in net disbursements from official multilateral sources. The end-March target for net international reserves and related performance criteria will be increased by the amount of new money financing under the commercial bank package received during the first quarter of 1990.

6. The net domestic assets of the Banco de Mexico were Mex$16,602 billion on December 31, 1989. The net domestic assets of the Banco de Mexico will increase by no more than Mex$9,495 billion in the period January-March 1990, by no more than Mex$5,879 billion in the period January-June 1990, by no more than Mex$3,750 billion in the period January-September 1990 and by no more than Mex$4,005 billion in the period January-December 1990. These limits will be adjusted in accordance with the provisions of paragraphs 11 through 13 of the attachment to the letter dated January 15, 1990.

7. The Banco de Mexico's net claims on the public sector were Mex$38,054 billion on December 31, 1989. The Banco de

Mexico's net claims on the public sector will not exceed Mex$45,360 billion during the period January-March 1990, Mex$42,370 billion during the period January-June 1990, Mex$41,640 billion during the period January-September 1990, and Mex$39,050 billion during the period January-December 1990. These limits will be adjusted in accordance with the provisions of paragraphs 11 through 13 of the attachment to the letter dated January 15, 1990.

STD F

Office Memorandum

TO: The Managing Director
The Deputy Managing Director

DATE: March 19, 1990

FROM: S T Beza

SUBJECT: Mission to Mexico (March 6-16)

The mission negotiated ad referendum understandings with regard to a waiver for noncompliance with certain performance criteria for end-1989 and modifications of relevant performance criteria The agreement still needs to be cleared at the ministerial level in Mexico

Mexican officials asked for an early reaction on the issue of a waiver because they are interested in arranging a swap with the United States to bolster gross international reserves before end-March when collateral payments for debt operations are to be made

The mission found that the deviation for net international reserves was smaller (US$397 million instead of some US$500 million) than initially reported by Mexico because of an overestimation of the adjustment to the balance of payments target for higher oil prices Furthermore, some 80 percent of the deviation resulted from delays in disbursements from the IBRD The revised targets for 1990 provide for full compensation for the deviation in net international reserves

Quarterly performance criteria for 1990 have been adjusted for the acceleration of interest obligations and the delays in interest relief that resulted from the final terms of the package with the banks Also, external interest payments are now estimated to be higher than envisaged in the 1990 program approved by the Board in January, but it appears that the extra costs can be absorbed within the limits

Fiscal policy has continued to develop satisfactorily thus far this year, with the primary surplus running above plan

The mission reviewed exchange rate policy with the Director General of the Bank of Mexico The authorities are of the view that the policy of depreciating by one peso a day (one percent a month) is still adequate This aspect of policy will need to be monitored closely, in light of recent price developments, but the mission did not feel it could press for a change in policy with the evidence available

The mission reports that the discussions were more difficult than usual because the authorities felt that we put unduly strong pressures on them to offset the deviations that emerged in 1989 In retrospect there were explanations for the deviations, but these were not known to them or us prior to the January Board discussions

The attached letter and addendum to the Technical Memorandum of Understanding are being circulated to departments for comments

Attachment

cc Mr H Simpson

Office Memorandum

TO	The Managing Director The Deputy Managing Director	DATE	March 19, 1990
FROM	Claudio M. Loser		
SUBJECT	Mission to Mexico (March 6-16, 1990)		

The mission that just returned from Mexico negotiated ad referendum understandings with regard to a waiver for noncompliance with certain performance criteria for end-1989. The understandings include modifications of relevant performance criteria for 1990 to offset the deviations observed in 1989, and to reflect the final features of the financing package with commercial banks which will become operational at the end of March.

The understandings were reached in discussions with a team that included the Undersecretaries of Finance and Public Credit and of Programming and Budget, as well as the Director General of the Bank of Mexico (copies of the letter and accompanying addendum to the Technical Memorandum of Understanding are attached). The agreement needs to be cleared at the ministerial level in Mexico but problems are not expected.

Mexican officials have requested an early reaction on the proposed waiver and modifications, in order to facilitate the approval of a swap arrangement between Mexico and the United States that would bolster international reserves before the end of March when collateral payments for debt operations will need to be made.

Discussions with the Mexican representatives were difficult. They complained that we had overreacted to the end-1989 deviations, given their performance in the face of considerable uncertainties with regard to external financing. They noted that there had been unwarranted pressures on the part of the Fund before the January Board meeting on Mexico in seeking commitments to offset in 1990 deviations observed in 1989. They consider that the deviations for end-1989 turned out to be small. As discussed below, however, the explanatory factors behind the deviations were not know to Mexican officials or to us prior to the January Executive Board meeting.

Performance under the program in 1989 was better than previously expected, with regard to fiscal policy (Table 1) As to developments in 1990 the rate of inflation was high in January and February, mainly because of public sector price adjustments in December and January however, inflation is expected to decline sharply in March. Economic activity has slowed down somewhat, and this should ease pressures on prices and the balance of payments Movements in net international reserves through early March suggest that the underlying flows are in line with projections--adjusted for the prepayment of interest required by the agreement with commercial banks, the accumulation of resources for enhancements, and higher oil prices. The public finances appear to have been strong in the first two months of the year because of expenditure restraint, higher oil revenues, and a continued strong effort to collect taxes. The primary surplus during this period was higher than planned, and monetary policy was tightened

While the fiscal targets for 1989 were met without difficulty, the composition of public sector financing differed considerably from that originally programmed because of the shortfall in foreign financing During the year, the borrowing requirement was covered mostly by the issuance of government securities placed with the public. However, by the end of the year, and in the context of an abnormally strong demand for currency, the Bank of Mexico permitted an increase in credit to the public sector--within the program ceilings--and in net domestic assets so as to avoid an unduly large increase in interest rates in the short term. As a consequence there was a deviation in the net domestic assets of the Bank of Mexico (NDA) of Mex$3 2 trillion (some 0 6 percentage points of GDP) and in the net international reserves (NIR) (US$397 million or 0.2 percentage points of GDP) In the view of the mission, the increase in NDA beyond the loss in reserves may have put some pressures on prices but on the whole was not inconsistent with the growth in demand for currency, moreover, with the tightening of policies in early 1990 this deviation is not expected to affect negatively the attainment of the program targets.

The deviation in net international reserves for 1989 initially reported to the staff amounted to US$547 million, including the effect of adjustments related to oil prices and interest rates. In the discussions it became clear that the adjustments for oil had been overestimated as they were based on actual oil prices for the North American market. This price has been higher than the realized overall oil export price for Mexico, but the difference between the two increased considerably in 1989. 1/ On this basis, the upward oil adjustment for net international reserves was overestimated by US$163 million. However, the overestimation was partly offset by an underestimate of interest payments--related to their timing over the year--estimated at US$13 million. Accordingly, the deviation from the NIR target for end-1989 is estimated at US$397 million About US$325 million of the total deviation is attributable to delays in disbursements of certain World Bank loans that were expected to take place in late 1989 but were delayed to 1990 The 1990 targets for NIR

1/ The North American price had been used for the 1986-87 arrangement at the request of commercial banks, who wanted to use this more readily available price for the oil contingency facility which they were supporting at the time The program for 1989 envisaged the calculation of the deviation on the basis of the average price for all oil exports but the previous practice was continued The 1990 program is being monitored on the basis of the average world oil price for Mexico

(Table 2) have been adjusted upward by the full US$397 million deviation. As described below, other adjustments have been included in the quarterly targets to reflect the accelerated interest payment schedule agreed with commercial banks

The NDA ceilings for 1990 have been adjusted by an amount equivalent to that for the NIR target Further adjustments appear to be unwarranted in light of developments in financial markets in recent months The strong increase in currency issue in 1989 appears to have reflected a higher demand for financial assets than had been estimated at the time of the program design

Credit of the Bank of Mexico to the nonfinancial public sector (the only ceiling based on stocks and not on flows for the year) would be adjusted to reflect the actual level of credit outstanding at the end of 1989. The ceilings for 1990 were established on the basis of projections made in early December. In the event, the actual level of credit was higher than projected but still well within the 1989 ceiling. The flows of credit to the public sector implicit in the new ceilings remain as programmed, but they have been reduced for the higher disbursements from the World Bank in 1990 that were referred to above

The program targets have been adjusted for changes resulting from the package agreed with commercial banks In particular, the acceleration of interest obligations involves an increase in payments of some US$1 1 billion in the first quarter of 1990 In addition, a significant part of the interest rebate for 1990, which was expected to be disbursed early in the year, will only take place in the period September-November These changes have been accommodated in the quarterly ceilings The authorities have revised upward by some US$550 million their projected interest payments for the year. As noted in the briefing paper, new money disbursements are smaller than initially programmed The authorities are concerned about these developments, but they nevertheless feel at present that the NIR and fiscal objectives for 1990 are attainable given their policy stance.

The staff indicated a preference to conduct the review of the 1990 program in May This timing would permit discussions of the adequacy of existing policies (including the early depreciation of the peso at a rate of somewhat over 1 percent a month) ahead of the authorities' action on the wage-price pact, which expires at end-July The staff discussed the current exchange rate policy with the Director General of the Bank of Mexico, and reiterated the need to act promptly in this area should it be necessary, particularly if the rate of inflation does not come down from the relatively high levels of January and February The authorities noted that developments in the balance of payments remain satisfactory They cautioned that the current exchange rule should be modified only as a last resort because of its adverse implications for the hard won perception by the private sector of a stable and credible policy stance--a factor that helped achieve the substantial repatriation of private capital and higher foreign investment in 1989. The mission feels that it could not press for a modification of the current exchange rate policy at this time based on available information

Attachments

cc Mr Beza
Mr Frenkel
Mr Van Houtven
Mr Whittome
Mr. Gianviti
Mr Laske
Mr Tanzi
Mr H Simpson

Table 1 Mexico Performance Under Extended Arrangement for 1989 1/

	1989			
	March	June	Sept	Dec
(In billions of Mexican pesos)				
Overall public sector borrowing requirement 2/3/	6 338	13 293	19 193	28 834
Ceiling				
Unadjusted	7 740	15 400	25 400	33 900
Adjusted 4/	7 615	14 391	23 753	30 862
Excess (-)/Margin (+)	1 277	1 098	4 549	2 027
Nonfinancial public sector operational balance 2/5/	2 478	2 533	5 435	8 477
Ceiling				
Unadjusted	3 110	5 600	8 920	12 130
Adjusted 4/	2 985	4 591	7 262	9 092
Excess (-)/Margin (+)	507	2,058	1 827	615
Changes in net domestic assets of the monetary authorities (effective flows) 2/3/6/	-1 407	1 298	1 030	7 533
Ceiling				
Unadjusted	--	3 330	1 120	-985
Adjusted 4/	-125	2 321	-538	-4 023
Adjusted 7/8/	-125	5 755	4 537	4,331
Excess (-)/Margin (+)	1 282	4 458	3 507	-3 203
Net credit to the nonfinancial public sector by the monetary authorities 9/	34 406	33 292	29 604	37 660
Ceiling				
Unadjusted	32 686	33 910	34 210	34 520
Adjusted 4/	32 561	32 901	32 552	31 482
Adjusted 7/8/	32 561	36 335	37 627	39 836
Excess (-)/Margin (+)	-1 845	3 043	8 023	2 176
Primary surplus				
Target 2/3/	11 465	25 300	36 028	40 784
Unadjusted	9 250	19 700	27 600	35,350
Adjusted 4/	9 375	20 459	28 762	37 312
Excess (-)/Margin (+)	2 090	4 841	7 266	3 472
(In millions of U S dollars)				
Net foreign borrowing by the public sector 2/	-579	-783	-700	-765
Ceiling				
Unadjusted	-440	900	3 710	6 650
Adjusted 7/8/	-440	900	1 950	3 210
Excess (-)/Margin (+)	139	1 683	2 650	3 975
Change in net international reserves of the monetary authorities 2/	-49	-910	-788	-1 066
Target				
Unadjusted	-200	-1 010	-40	1 490
Adjusted 4/	-146	-584	647	2 724
Adjusted 7/8/	-146	-2 033	-1 454	-669
Excess (-)/Margin (+)	98	1 123	666	-397

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 mechanisms
5/ Defined as the difference between the overall economic deficit and the inflation component of interest payments on the 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

Table 2 Mexico Modified Quantitative Performance Criteria for 1990

	March	June	Sept	Dec
(In billions of Mexican pesos)				
Overall public sector borrowing requirement 1/2/3/				
Ceiling				
Unadjusted	6 500	14 200	21 350	31 050
Adjusted 4/	11 400	17 300	23 400	31 050
Nonfinancial public sector operational deficit 1/2/5/				
Ceiling				
Unadjusted	-1 000	1 490	2 830	6 150
Adjusted 4/	3 870	4 540	4 850	6 150
Changes in net domestic assets of the monetary authorities (effective flows) 1/2/3/6/				
Ceiling				
Unadjusted	2 730	3 110	2 920	5 540
Adjusted 4/	9 495	5 879	3 750	4 005
Net credit to the nonfinancial public sector by the monetary authorities 2/7/				
Ceiling				
Unadjusted	38,544	39 214	39,684	40,424
Adjusted 4/	45 360	42 370	41 640	39 050
Primary surplus				
Target 1/2/3/				
Unadjusted	12 550	23 050	33 500	41 900
(In millions of U S dollars)				
Net foreign borrowing by the public sector 1/2/				
Ceiling				
Unadjusted	6,580	7 040	7,190	7 370
Adjusted 4/	5 540	6 770	6,935	7 020
Change in net international reserves of the monetary authorities 1/2/				
Target				
Unadjusted	-1 130	-1 090	-920	-650
Adjusted 4/	-3 650	-2 275	-1 667	-253

Source Memorandum of Understanding 1990

1/ Cumulative changes from end-1989
2/ Limit tested at the end of each period
3/ Effective flows of financing measured on a cash basis
4/ Adjusted for features of the commercial bank financing package
5/ Defined as the difference between the overall economic deficit and the inflation component of interest payments on the 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/ Effective stocks calculated by adding effective flows to the nominal stock of MexS38,054 billion outstanding as of the end of 1989

Mexico City, Mexico
March , 1990

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

Dear Mr Camdessus

1 The Government of Mexico has been implementing with determination its medium-term economic strategy, being supported by a three-year extended arrangement from the Fund As already described in our letter of January 15, 1990, performance in 1989 under the program was satisfactory Economic activity recovered markedly, with real GDP up by some 3 percent, while the inflation rate, measured by the consumer price index, declined from 52 percent during 1988 to less than 20 percent during 1989 The public finances strengthened, the primary surplus rose and the PSBR declined markedly However, the current account deficit widened reflecting buoyant private sector activity as well as adverse exogenous factors affecting production Increased private capital inflows were more than sufficient to cover the wider current account deficit Nonetheless, substantially lower than envisaged foreign financing resulted in a net international reserve position somewhat weaker than programmed by year end

2 Reflecting the limited external financing in 1989, the public sector borrowing requirement was covered primarily

through the issuance of government securities placed with the public, facilitated by a strong rise in private sector financial savings The Bank of Mexico maintained its net credit to the nonfinancial public sector within the established limits throughout the year However, the shortfall in foreign financing, together with a seasonaly high increase in credit to the public sector in the final weeks of the year --while within the established ceiling-- contributed to an increase in the net domestic assets of the Bank of Mexico in excess of the limit for end-December 1989

3 Associated with a rapid increase in financial savings, the growth in currency issue in the fourth quarter of 1989 was much higher than had been expected on the basis of previous seasonal patterns In the circumstances, the Bank of Mexico allowed for an increase in net domestic assets to avoid an unduly large short-term increase in interest rates, particularly as a shortfall in foreign financing in late 1989 was expected to be reversed It should be noted that credit to the private sector and currency in circulation have declined sharply in early-1990 With regard to net international reserves, most of the deviation is in fact attributable to delays in disbursements of certain multilateral loans

4 The Government has taken strong actions in order to make up fully in 1990 the shortfall in net international reserves

experienced at the end of 1989, and to help achieve the objectives of the program Monetary policy has been tightened through increased open market placement of government securities aimed at absorbing domestic liquidity Moreover, the reduced pace of public sector expenditure, the strengthened tax effort, and the intention to accelerate the sale of public sector enterprises --particularly of Altos Hornos, SICARTSA and TELMEX-- should help achieve a better financial outcome for the public sector Already, preliminary information suggests that there was stronger than programmed fiscal performance in early 1990

5 The overall fiscal targets for end-1989 were achieved with margins, but the composition of the public sector financing differed from that envisaged in early December, with greater recourse to credit from the Bank of Mexico As a consequence, the end-1989 stock of Bank of Mexico net credit to the nonfinancial public sector exceeded previous projections even though still well below the program ceiling The increase in credit was of a seasonal nature, in any event the authorities have taken measures to tighten monetary policy

6 Projected external flows in 1990 differ from those assumed in the program particularly as a result of last minute changes to certain features of the commercial bank financing package These changes include a) the payment

in the first quarter of the year of interest accruing through end-March 1990 and originally programmed to be paid in the period April-August, and b) the postponement to the fourth quarter of the year of disbursements of the bulk of the interest rebate, which had been expected to take place in March These changes would give rise to a shortfall in the accumulation of reserves in the first quarter of 1990 which would be fully offset by the end of the fourth quarter While affecting the quarterly outlook for the external accounts, these changes do not affect the end-year modified target for net international reserves

7 Developments during the early part of 1990 are being followed closely The consumer price index rose by 4 8 percent in January and 2 3 percent in February of 1990 These increases are higher than anticipated, but reflected mainly adjustments in public sector prices made between December and February and the 10 percent increase in minimum wages made in December A marked reduction in the rate of inflation is expected during the rest of 1990, in response to the tightening of demand policies The Mexican authorities intend to monitor the developments closely and will take any additional policy actions as necessary to achieve the objectives of the program In this regard, the Mexican authorities will continue to mantain strict monetary and fiscal policies, as well as external competitiveness

8 The Mexican authorities believe that the policies and measures described in our letter of January 15, 1990, as supplemented by this letter, are adequate to achieve the objectives of the economic strategy In this light, it is requested that a waiver be granted for non-compliance of end-December performance criteria for the net domestic assets of the Bank of Mexico and of net international reserves Furthermore, it is requested that the quarterly quantitative performance criteria for 1990 be modified to reflect the changes described above

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 1990--Addendum

1 In accordance with the economic strategy described in the letters dated April 11, 1989, January 15, 1990, and March , 1990, specific performance criteria for 1990 have been modified as follows Other commitments and quantitative performance criteria remain as described in the technical memorandum of understanding attached to the letter dated January 15, 1990

I Foreign Financing

2 The public sector's net use of foreign credit will not exceed US$5,540 million for the period January-March 1990, US$6,770 million for the period January-June 1990, and US$6,935 million for the period January-September 1990 An indicative ceiling of US$7,020 million has been established for end-December 1990, the ceiling for end-1990, will be specified at the time of the forthcoming review of the arrangement

II Public Finance

3 The overall public sector borrowing requirement, "PSBR" was Mex$28,834 billion in 1989 The PSBR will not exceed Mex$11,400 billion in the period January-March 1990,

1990 These targets will be adjusted in accordance with the provisions of paragraphs 11 through 13 of the attachment to the letter dated January 15, 1990 In reviewing developments related to these and associated targets, consideration will be given to the extent and nature of deviations relative to program in net disbursements from official multilateral sources The end-March target for net international reserves and related performance criteria will be adjusted for the amount of new money financing under the commercial bank package received during the first quarter of 1990

6 The net domestic assets of the Banco de Mexico were Mex$16,602 billion on December 31, 1989 The net domestic assets of the Banco de Mexico will increase by no more than Mex$9,495 billion in the period January-March 1990, by no more than Mex$5,879 billion in the period January-June 1990, by no more than Mex$3,750 billion in the period January-September 1990 and by no more than Mex$4,005 by January-December These limits will be adjusted in accordance with the provisions of paragraphs 11 through 13 of the attachment to the letter dated January 15, 1990

7 The Banco de Mexico's net claims on the public sector were Mex$38,054 billion on December 31, 1989 The Banco de Mexico's net claims on the public sector will not exceed Mex$45,360 billion during the period January-March

1990, Mex$42,370 billion during the period January-June 1990, Mex$41,640 billion during the period January-September 1990, and Mex$39,050 billion during the period January-December 1990 These limits will be adjusted in accordance with the provisions of paragraphs 11 through 13 of the attachment to the letter dated January 15, 1990

Table 1. Mexico Financial Flows

(In trillions of Mexican pesos, unless otherwise indicated)

	1987	1988	1989 Prog	1989 Est	1990 Prog	1990 Rev
Total sources of funds	53 0	52 7	46 6	67 2	67 7	68 6
Growth of M-4	51 9	52 3	31 0	64 6	48 3	50.1
(percentage real annual growth)	--	6 7	4 5	23 5	10 0	10 0
Foreign borrowing by public sector	6 7	1 4	15 6	2 6	19 4	18.5
(billions of U S. dollars)	4.9	0 6	6 3	1 0	7 1	6 8
Other deposits	-5 6	-1 0	--	--	--	--
Total use of funds	53 0	52 7	46 6	67 2	67 7	68 6
International reserves (increase +)	9 0	-15 6	3 7	-2 6	-1 6	--
(billions of U S dollars)	6 6	-6 9	1 5	-1 1	-0 7	-0 3
Public sector borrowing requirement	30 6	51 2	33 9	28 8	31 1	31 1
(percent of GDP)	15 9	12.9	7 0	5 9	5 1	5 1
Enhancements for debt-reduction operations	--	--	--	--	20 1	19 0
(billions of U S dollars)	--	--	--	--	7 5	7 1
Commercial bank credit to private sector	13 4	17 0	9.0	41 0	18 2	18.6
(percentage real annual growth)	-0 6	17.2	4 2	67 5	8 0	8 6
Memorandum item						
Nominal GDP	192.9	397 6	484 2	491 9	605 3	605 3

Sources Bank of Mexico and Fund staff estimates tbmex100a (3-19-90)

Table 2 Mexico Summary of Public Sector Operations

(In percent of GDP)

	1987	1988	1989 Prog	1989 Est	Proj 1990
Public sector borrowing requirement	15 9	12 9	7 0	5 9	5 1
Financial intermediation	0 9	1 6	1 2	0 4	1 2
Overall economic balance	-15 0	-11 3	-5 8	-5 4	-3 9
Statistical discrepancy 1/			--	--	--
Interest payments	20 0	17 2	13 1	13 7	10 9
External	4 6	3 9	4 1	3 9	2 7
Domestic	15 4	13 3	9 0	9 8	8 2
Primary balance (total)	5 0	5 9	7 3	8 3	7 0
Primary balance (extrabudgetary)	-0 6 2/	-1 3 2/	-0 3	0 2	0 2
Primary balance (budgetary)	5 6	7 2	7 6	8 1	6 8
Receipts under budgetary control	29 6	28 5	27 3	29 0	28 1
Petroleum	12 0	9 9	8 4	9 1	8 6
Nonpetroleum	17 6	18 6	18 8	19 9	18 9
Public enterprises 3/	8 0	7 9	6 7	7 0	6 9
Federal government	9 6	10 7	12 1	12 9	12 6
Taxes	8 5	9 5	10 4	10 6	10 6
Nontax revenue	1 1	1 2	1 6	2 3	2 0
Outlays within primary balance	24 0	21 4	19 7	20 8	21 3
Programmable outlays	20 6	17 8	16 2	17 2	17 7
Wages	6 0	5 3	4 8	5 5	5 9
Transfers	3 3	2 6	2 4	2 4	2 3
Investments	3 7	3 0	2 7	2 6	2 8
Other 4/	7 6	6 9	6 3	6 7	6 8
Nonprogrammable outlays	3 0	3 3	3 5	3 4	3 5
Unclassified	0 3	0 2	--	0 2	--
Inflation component of interest payments	17 0	6 9	3 3	3 9	3 2
Operational balance	2 0	-4 4	-2 5	-1 7	-0 7
Memorandum item					
Nonoil primary balance	-1 0	2 5	4 5	4 9	4 0

Sources Secretariat of Finance and Public Credit Secretariat of Programming and Budget and Fund staff estimates

1/ Arises from differences between the monetary accounts and the accounts of the Secretariat of Finance and Public Credit in the measurement of the overall fiscal balance

2/ Includes statistical discrepancies

3/ Includes gross receipts from sales

4/ Includes enterprises' operating expenditure other than wages and salaries tbmex007c (3/19/90)

Table 3 Mexico Summary Balance of Payments

(In billions of U S dollars)

	1987	1988	1989 Prog	1989 Est	1990 Prog	1990 Rev Prog
Current account	3 9	-2 9	-4 8	-5 6	-5 1	-5 0
Merchandise trade f o b	10 0	4 1	4 3	2 7	2 9	3 0
Exports	22 2	23 0	25 0	25 8	27 8	27 9
Petroleum and derivatives	8 6	6 7	6 5	7 8	7 3	7 4
Other	13 6	16 3	18 5	18 0	20 5	20 5
Imports	-12 2	-18 9	-20 8	-23 2	-24 9	-24 8
Public sector	-2 8	-3 6	-3 8	-3 9	-3 8	-3 8
Private sector	-9 4	-15 4	-16 9	-19 3	-21 1	-21 0
Factor income	-7 3	-7 6	-9 5	-8 5	-7 9	-8 1
Interest on public debt	-6 3	-7 0	-8 9	-7 7	-8 0 1/	-8 2 1/
Other interest payments	-2 1	-1 9	-1 7	-2 0	-1 4	-1 4
Other	1 0	1 3	1 1	1 2	1 5	1 4
Other services and transfers	1 1	0 6	0 4	0 2	—	0 1
Travel	1 5	1 4	1 6	1 4	1 3	1 4
Border transactions	-0 4	-0 6	-0 6	-0 7	-0 9	-0 9
Other	—	-0 2	-0 6	-0 4	-0 4	-0 4
Capital account	2 7	-4 0	6 3	4 5	4 4	4 8
Official capital	3 9	0 4	6 1	0 5	1 0	1 0
Commercial banks 2/	4 4	-1 5	4 3	-0 2	4 1	3 3
Multilaterals	0 4	0 9	1 4	0 5	2 9	3 4
Bilaterals and suppliers 3/	1 7	0 8	1 2	1 3	2 6	2 7
Other (including short term)	-2 6	0 2	-0 8	-1 1	-8 6 4/	-8 5 4/
Private capital	-1 1	-4 4	0 2	4 1	3 4	3 8
Interest earnings abroad	-1 2	-1 5	-1 5	-1 7	-1 5	-1 5
Direct investment 5/	3 3	2 6	2 1	2 9	3 5	3 7
Net external credits	-2 2	-1 9	-0 9	-1 3	—	—
Other payments, errors, and omissions	-0 9	-3 6	0 5	4 2	1 4	1 6
Net international reserves (increase -)	-6 6	6 9	-1 5	1 1	0 7	0 3
Memorandum items						
As percent of GDP						
Nonpetroleum exports	9 6	9 2	9 2	9 0	9 6	9 6
Merchandise imports	8 7	10 7	10 3	11 5	11 6	11 6
Current account balance	2 8	-1 6	-2 4	-2 8	-2 4	-2 3
Gross international reserves 6/						
In months of						
Merchandise imports	12 1	3 1	4 2	2 5	2 6	2 6
Imports plus interest payments	7 2	2 1	2 8	1 8	2 0	2 0
Crude oil export volume (millions/bpd)	1 3	1 3	1 3	1 3	1 2	1 2
Average crude oil price (US$/bbl)	16 0	12 3	12 0	15 6	15 0	15 3

Sources Bank of Mexico and Fund staff estimates

1/ On an accrual basis excludes interest relief from debt and debt-reduction operations

2/ Including impact of rescheduling and, in 1990 interest relief from debt and debt-service reduction operations

3/ Including CCC and Paris Club rescheduling

4/ Including outflows in support of enhancement operations for debt and debt-service reduction

5/ Including debt-equity operations

6/ Excluding gold, payments agreements, and proceeds from 1989 official bridge facility

Office Memorandum

TO: The Managing Director
The Deputy Managing Director

DATE: March 16, 1990

FROM: J. Ferran, E. Brau and A. Liuksila

SUBJECT: Mexico - Closing Papers for the 1989-1992 Financing Package

We attach for your signature three letters that are conditions precedent for the closing of Mexico's 1989-1992 Financing Package, which is expected to take place next week.

These three letters contained in Attachment I are:

(1) Letter from you to Mr. Aspe, Minister of Finance, describing Mexico's position as of March 10, 1990 under the Extended Arrangement;

(2) Letter from you setting forth the terms and conditions pursuant to which the Fund would perform certain technical services as Calculating Agent for Mexico. You have been authorized by the Board to agree to do so, and your reply sets forth the terms and conditions . See Attachment III which contains EBD/90/19; and

(3) Letter from you to Citibank confirming the receipt of Banco de Mexico's instructions to the Fund.

As we have yet to receive the instructions from the Banco de Mexico concerning the use of proceeds from purchases of the Fund of set asides in 1991 and 1992 to reimburse the commercial banks that will issue a letter of credit to collateralize debt, we will, of course, not release your reply to the Mexican authorities until the instructions have been received substantially in the draft form contained in Attachment II.

These letters have been extensively discussed with counsel for Mexico and the Advisory Committee. The respective requests are in good order, and we have no further comments on the wording of the reply letters.

Therefore, we recommend that you sign the letters now for transmittal by the staff to the various recipients, with copies to the Banco de Mexico, Mexico's fiscal agency for dealings with the Fund, once we have received the instructions referred to above

Attachments

cc Mr Laske/Mr Gupta
Mr Hugh Simpson

March 5, 1990

ANNEX III-A

[Letterhead of Banco de Mexico]

__________, 1990

The International Monetary Fund
700 19th Street, N W
Washington, D C 20431
Attn ______________________

Gentlemen

We refer to the purchases [of amounts equivalent to] SDRs 349 65 million [to be] set aside [for use] in connection with debt reduction operations under the 1989-92 Financing Package for Mexico (each such purchase being a "Purchase") remaining to be made by the United Mexican States ("Mexico") from The International Monetary Fund (the "IMF") under the Extended Arrangement for the United Mexican States approved by the Executive Board of the IMF on May 26, 1989 in the aggregate amount of SDRs 2 7972 billion (the "1989 IMF Extended Arrangement")

As you are aware, under the Discount and Par Bond Exchange Agreement executed to implement Option A (Discount Bonds) and Option B (Par Bonds) of Part I of the 1989-92 Financing Package for Mexico (the "Discount and Par Bond Exchange Agreement", terms being used herein as therein defined unless otherwise defined herein), Purchasers have committed to exchange on the Exchange Date all or a portion of their Eligible Debt for Discount and Par Bonds As a condition to the occurrence of the Exchange Date, Mexico will be required to deliver approximately U S $7 billion to the Federal Reserve Bank of New York, as the collateral agent for the Discount and Par Bonds (the "Collateral Agent"), to secure the principal of and a portion of the interest payable on the Discount and Par Bonds Mexico will provide U.S. $1.3 billion of the U S $7 billion on the Exchange Date from its own resources During the period 1989-1992, Mexico will obtain from the IMF IBRD and the Export-Import Bank of Japan (the "Official Sources") approximately U S $5.7 billion of the funds necessary for the purchase of the collateral

Pending delivery by the Official Sources of the funds scheduled to be disbursed after the Exchange Date, the shortfall in funded collateral will be covered by committed amounts under two irrevocable standby letters of credit to be issued pursuant to the Letter of Credit and Reimbursement Agreement dated as of February 4, 1990 (the "Letter of Credit Agreement") among Mexico, Banco de Mexico, the Banks party thereto and Citibank, N A , as Agent, by a group of commercial banks for the account of Mexico in favor of the Collateral Agent, acting for the benefit of the holders of the U S Dollar denominated Bonds

In connection with the foregoing, Banco de Mexico, acting on behalf of Mexico, hereby instructs you to deposit the proceeds of each Purchase made after the Exchange Date in a special account of Banco de Mexico with the Federal Reserve Bank of New York (the "FRBNY") account no ________ (the "Special Account") in order to replenish funds used from Mexico's reserves in connection with debt reduction operations conducted under the 1989-92 Financing Package All deposits to the Special Account shall be made in U S Dollars For this purpose, we hereby instruct you to convert, if necessary, the proceeds of any Purchase made after the Exchange Date into U S Dollars

We acknowledge that your action on this instruction will be taken in conformity with the relevant provisions of the 1989 IMF Extended Arrangement and such action shall not be construed in any way as a waiver of any right which you may have thereunder

BANCO DE MEXICO,
acting on behalf of the
United Mexican States

By ______________________
Title:

Sys p 3

4626g/105

Comb/mi/mu & LC

#80-2

ATTACHMENT III

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

IMMEDIATE ATTENTION

LEGAL RECORDS
ROOM 8-514

0401

EBD/90/19

January 12 1990

To Members of the Executive Board

From The Secretary

Subject Mexico - Request for Technical Services

The attached memorandum contains a request by Mexico that the Fund act as the Calculation Agent under the value recovery provisions of the agreement between Mexico and its commercial bank creditors in connection with the 1989-1992 Financing Package for Mexico It is proposed that the Fund accept Mexico's request

In the absence of a request for discussion by an Executive Director by noon on Friday January 19 1990 the decision proposed in the attached memorandum will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter

Mr Liuksila (ext 7797) or Mr Loser (ext 8373) is available to answer technical or factual questions relating to this paper

Att (1)

Other Distribution
Department Heads

INTERNATIONAL MONETARY FUND

Mexico - Request for Technical Services

Prepared by the Exchange and Trade Relations, Legal and Western Hemisphere Departments

(In consultation with other Departments)

Approved by L A Whittome, François Gianviti and Sterie T Beza

January 11, 1990

Under the contemplated agreement between Mexico and its commercial bank creditors on the 1989-1992 Financing Package for Mexico, Mexico will issue thirty-year collateralized discount and par bonds in exchange for certain outstanding debt

Attached is a request from the Government of Mexico that the Fund act as Mexico's agent ("Calculation Agent") for the calculation of additional payments to be made to bondholders in the event that Mexico's oil revenues rise above an established minimum because of an increase in the price of the Mexican oil mix above $14 a barrel when deflated by the U S product price index as of June 1989

Starting in 1996, each month the Fund, as Calculation Agent, will receive all necessary data from the Mexican authorities for the purpose of quarterly calculation of the prices and volumes of Mexico's exports of petroleum and its by-products The Calculation Agent, relying on the data provided by Mexico, will make the calculation on the basis of these data, and will then inform Mexico, and, as directed by Mexico, the Fiscal Agent appointed for the Financing Package, of the results of the calculations The requested technical service would last as long as the bonds are outstanding, or until Mexico designates another Calculation Agent, hence, the potential duration of the service would be 30 years The administrative cost to the Fund in performing the requested service would be minimal

The Fund has the authority to accept Mexico's request under Article V, Section 2(b), the technical service to be performed by the Fund would be consistent with the purposes of the Fund This agency function, being a technical service performed by the Fund pursuant to Article V, Section 2(b) at the request of the member, would not involve the Fund undertaking contractual obligations vis-a-vis third parties Nor would the acceptance of Mexico's request involve a waiver of the Fund's immunity from judicial process

Accordingly, the following decision is proposed for adoption by the Executive Board

The Managing Director is authorized to accept Mexico's request that the Fund act as Calculation Agent for Mexico for the purposes set forth in EBD/90/19, and to make the necessary arrangements therefor

Attachment

January 11, 1990

Mr Michel Camdessus
Managing Director
International Monetary Fund
700 19th Street, N W
Washington, D C 20431

Dear Michel

I am writing on behalf of the United Mexican States to request the assistance of the International Monetary Fund in the implementation of the 1989-92 Financing Package for Mexico

As you know, one of the elements of the debt reduction and debt-service reduction options set forth in the Financing Package is the right of the holders exchanging existing debt for Discount and Par Bonds to receive, in respect of the period from July 1, 1996 to December 31 2019, additional payments in the event that Mexico's oil revenues increase due to an increase in the real price of the Mexican oil mix above $14 per barrel The details regarding the computation of the amount of these additional payments are set forth in pages I-12 to I-14 of the Financing Package and in the draft form of Value Recovery Rights forwarded to you previously

Mexico hereby requests that, as a technical service to Mexico pursuant to Article V, Section 2(b) of the Fund's Articles of Agreement the Fund act as Mexico's agent in reference to the calculation of these additional payments

Very truly yours,

Jose Angel Gurria Trevino
Subsecretario de Asuntos
Financieros Internacionales

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1990 MAR 26 PM 4: 27
COMMUNICATIONS
DIVISION

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BANCO DE MEXICO

INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.
1990 MAR 27 AM 9: 49

March 5, 1990

ORIG: WHD

CC: MD
DMD
MRS. FILARDO
ETR
SEC
LEG
TRE
MR. H. SIMPSON

009979

The International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Attn: MICHEL CAMDESSUS
MANAGING DIRECTOR

Gentlemen:

We refer to the purchases of amounts equivalent to SDR 349.65 million to be set aside for use in connection with debt reduction operations under the 1989-92 Financing Package for Mexico (each such purchase being a "Purchase") remaining to be made by the United Mexican States ("Mexico") from The International Monetary Fund (the "IMF") under the Extended Arrangement for The United Mexican States approved by the Executive Board of the IMF on May 26, 1989 in the aggregate amount of SDR 2.7972 billion (the "1989 IMF Extended Arrangement").

As you are aware, under the Discount and Par Bond Exchange Agreement executed to implement Option A (Discount Bonds) and Option B (Par Bonds) of Part I of the 1989-92 Financing Package for Mexico (the "Discount and Par Bond Exchange Agreement"; terms being used herein as therein defined unless otherwise defined herein), Purchasers have committed to exchange on the Exchange Date all or a portion of their Eligible Debt for Discount and Par Bonds. As a condition to the occurrence of the Exchange Date, Mexico will be required to deliver approximately U.S. $7 billion to the Federal Reserve Bank of New York, as the collateral agent for the Discount and Par Bonds (the "Collateral Agent"), to secure the principal of and a portion of the interest payable on the Discount and Par Bonds. Mexico will provide U.S. $1.3 billion of the U.S. $7 billion on the Exchange Date from its own resources. During the period 1989-92, Mexico will obtain from the IMF, IBDR and the Export-Import Bank of Japan (the "Official Sources") approximately U.S. $5.7 billion of the funds necessary for the purchase of the collateral.

V-3

Pending delivery by the Official Sources of the funds scheduled to be disbursed after the Exchange Date, the shortfall in funded collateral will be covered by committed amounts under two irrevocable standby letter of credit to be issued pursuant to the Letter of Credit and Reimbursement Agreement dated as of February 4, 1990 (the "Letter of Credit Agreement") among Mexico, Banco de Mexico, the Banks party thereto and Citibank, N.A., as Agent, by a group of commercial banks for the account of Mexico in favor of the Collateral Agent, acting for the benefit of the holders of the U.S. Dollar denominated Bonds.

In connection with the foregoing, Banco de Mexico, acting on behalf of Mexico, hereby instructs you to deposit the proceeds of each Purchase made after the Exchange Date in a special account of Banco de Mexico with the Federal Reserve Bank of New York (the "FRBNY") account no. 0210-8767-5 (the "Special Letter of Credit Funds Account") in order to replenish funds used from Mexico's reserves in connection with debt reduction operations conducted under the 1989-92 Financing Package. All deposits to the Special Letter of Credit Funds Account shall be made in U.S. Dollars. For this purpose, we hereby instruct you to convert, if necessary, the proceeds of any Purchase made after the Exchange Date into U.S. Dollars.

We acknowledge that your action on this instruction will be taken in conformity with the relevant provisions of the 1989 IMF Extended Arrangement and such action shall not be construed in any way as a waiver of any right which you may have thereunder.

BANCO DE MEXICO
acting on behalf of the
United Mexican States

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

BANCO DE MEXICO

March 5, 1990

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700 19th Street, N.W.
Washington, D.C. 20431

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