Ms. Dillon

Office Memorandum

1-Circ
2-File: Mexico-Debt

TO: Mr. Beza December 30, 1986

FROM: C. M. Watson CMW

SUBJECT: Mexico--Burden Sharing

As part of the work on "options," we have been studying the effect on burden sharing between banks in major creditor countries of applying a cut-off point to different levels of bank exposure. The results for Mexico appear to be at odds with the common perception that national shares would change as the cut-off level is raised:

Relative Shares of Banks by Nationality in Exposure to Mexico as of August 1982

(In percent)

	Top 100	Top 200	Top 300	Top 400	Top 500	All 524
United States	37.6	37.9	38.0	37.8	37.7	37.7
Japan	21.1	18.6	17.8	17.5	17.4	17.4
United Kingdom	9.5	9.9	10.1	10.2	10.2	10.2
Canada	9.2	8.1	7.8	7.7	7.7	7.7
France	7.6	7.4	7.5	7.5	7.5	7.5
Germany	4.1	4.2	4.0	4.0	4.0	4.0
Switzerland	3.0	2.6	2.6	2.7	2.7	2.7
Other countries	7.9	11.3	12.2	12.6	12.8	12.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Thus, significant changes in relative exposure do not occur on eliminating the 124 banks with the smallest exposures (i.e., the Top 400 banks). Even the elimination of 224 banks (i.e., the Top 300 banks) does not affect substantially the pattern of national burden sharing.

This analysis suggests that the approach of setting an absolute or tapered cut-off point for the top 300 banks would mainly pose burden sharing problems within national groups of banks rather than between them. This pattern of national burden sharing would remove one complication from the problems associated with the option of a cut-off point for banks with small exposures.

cc: Mr. Finch
Mr. Guitian

1- Corc
2- File - Mexico: Debt

Office Memorandum

cc Mr Dillon
M. Kincaid
orig MW

To: Mr. Watson November 7, 1986

From: L. M. Valdivieso L.V

Subject: Debt Burden Sharing in the Mexican Program for 1986-87

Mexico's financial program for 1986-1987 allows for an increase in total external debt (including the Fund, but excluding contingencies) of US$11.0 billion, or an annual rate of increase of 5.5 percent over the program period. This use of foreign resources represents a departure from the trend observed during 1982-1985 when the annual rate of increase in total debt was only about 2 1/2 percent (Table 1).

The programmed increase in total debt over the program period is accounted for by a rise in the Public sector debt of US$11.9 billion (an annual rate of increase of 7.9 percent), an expected decline in Private sector debt of US$0.9 billion (an annual rate of decline of almost 3 percent), and the maintenance of the Mexican Commercial Banks debt following the agreement with the international commercial banks to keep outstanding lines of credit at a certain nominal level until 1989. While the programmed path of debt contracting by the public sector represents an acceleration with respect to the trend observed in 1982-1985 when the average annual rate of increase was 4.6 percent, 1/ the private sector is expected to continue repaying in net terms at the same speed as before.

From the creditors' side, the package calls for a general increase in total exposure although, the burden sharing, as measured by the average annual increase in total exposure, will be uneven. In particular, the exposure of the IBRD is expected to increase by 20.7 percent per annum over the period 1986-87 compared to 5.7 percent observed over the period 1982-85. By contrast, the exposure of the international commercial banks is expected to increase by 3 1/3 percent over 1986-87, slightly below the actual increase observed in the period 1982-85. Official bilateral creditors' exposure is also expected to decelerate in relation to the previous past although most of the deceleration is explained by the reduced pace of increase in the exposure of the C.C.C. The use of Fund resources is expected to rise by over 20 percent per year bringing total credit outstanding in relation to Mexico's quota from 231.9 percent at the end of 1985 to 335.5 percent at the end of the stand by arrangement.

1/ The 1983-85 EFF arrangement originally allowed for a maximum external borrowing by the public sector of US$5.0 billion in 1983, US$4.0 billion in 1984 and US$3.0 billion in 1985. This was equivalent to an average increase in external debt in the order of 4.2 percent per annum.

The creditors' debt burden sharing can also be looked at in terms of the implicit net transfer of resources as measured by the ratio of net flows of financing to interest payments accrued and paid (Table 2). On this basis, the overall financial package envisages a trebling in the proportion of total interest payments that are to be financed with new money, from 22 percent over the period 1982-85 to 66 percent over the period 1986-87. The distribution of the implicit net transfer of resources is bound to be uneven among creditors. However, according to this criteria the international commercial banks would be the only creditors whose contributions to the package in terms of the new money will be lower than the interest payments received.

Thus presented, the financing package proposed for Mexico during 1986-87 give rise to a number of issues including that of the viability over the medium term (including the use of contingencies); the choice of public versus private sector borrowing; and the desirability of relying on concessional (including the use of guarantees) versus commercial financing. I expect to develop on these points upon my return from Mexico.

tblmvmex (11-7-86)

Table 1. Mexico: External Debt

	1982	1985	Prog. 1987
	I. Outstanding at end of period (in US$ bn)		
Total debt	90.3	97.3	108.3 1/
By debtor			
Public sector	63.6	72.7	84.6 1/
Private sector 2/	18.3	16.6	15.7
Nationalized banks 3/	8.4	8.0	8.0
By creditor			
Financial institutions	68.5	76.2	81.3
Public sector	46.4	54.7	60.7 1/
Private sector 2/	13.7	13.5	12.6
Nationalized banks 3/	8.4	8.0	8.0
Multilateral institutions	5.2	8.8	12.8
IMF	0.2	2.9	4.2
IBRD &IDB	5.0	5.9	8.6 4/
Official bilateral credits	2.8	5.3	7.8
Bilaterals	2.7	4.4	5.9
C.C.C.	0.1	0.9	1.9
Other	13.8	7.0	6.4
Public sector 5/	9.2	3.9	3.3
Private sector 2/	4.6	3.1	3.1
	II. Average annual rate of increase (in %) 6/		
Total debt		2.5	5.5
By debtor			
Public sector		4.6	7.9
Private sector		-3.2	-2.8
Nationalized banks		-1.6	0.0
By creditor			
Financial institutions		3.6	3.3
Public sector		5.6	5.3
Private sector		-0.5	-3.4
Nationalized banks		-1.6	0.0
Multilateral institutions		19.1	20.6
IMF		143.6	20.3
IBRD & IDB		5.7	20.7
Official bilateral credits		23.7	21.3
Bilaterals		17.7	15.8
C.C.C.		107.9	45.3
Other		-20.2	-4.4
Public sector		-24.9	-8.0
Private sector		-12.3	0.0

Source: Secretariat of Finance and Public Credit; and Fund staff estimates

1/ Does not include possible drawings under contingency mechanisms but includes cofinancing agreements.

2/ Excludes trade-related supplier's credits.

3/ As reported in the monetary accounts.

4/ Includes present value of guarantees on the repayment of other maturities amounting to US$750 million under the growth contingency mechanism and the cofinancing arrangement.

5/ Includes Bonds and placements, Pemex contracts, and foreign liabilities of the Bank of Mexico with BIS, U.S. Treasury, and U.S. Federal Reserve, but does not include liabilities on account of arrears, bilateral payments agreements, or outstanding letters of credit.

6/ Columns shown refer to changes over the periods 1982-85 and 1985-87, respectively.

tblmvmex2 (11-7-86)

Table 2. Mexico: Flows of Financing 1/

	1983-85	Prog. 1986-1987
	I. By source (in US$ bn)	
Total flows	7.0	11.0
Financial institutions	7.7	5.1
Public sector	8.3	6.0
Private sector	-0.2	-0.9
Nationalized banks	-0.4	0.0
Multilateral Institutions	3.6	4.0
IMF	2.7	1.3
IBRD & IDB	0.9	2.7
Official bilateral credits	2.5	2.5
Other	-6.8	-0.6
	II. In percent of interest payments	
Total flows	21.9	65.9
Financial institutions	29.2	38.9
Public sector	44.4	63.2
Private sector	-4.1	-39.1
Nationalized banks	-14.3	0.0
Multilateral Institutions	257.1	250.0
IMF	675.0	260.0
IBRD & IDB	90.0	245.5
Official bilateral credits	178.6	250.0
Other	-242.9	-60.0
Memorandum items: (in US$ bn)		
Total interest payments	31.9	16.7
To commercial banks	26.4	13.1
from public sector	18.7	9.5
from private sector 2/	4.9	2.3
from nationalized banks 2/	2.8	1.3
To multilaterals	1.4	1.6
IMF	0.4	0.5
IBRD & IDB	1.0	1.1
To bilaterals	1.4	1.0
To others 2/	2.8	1.0

Source: Secretariat of Finance and Public Credit; and Fund staff.

1/ Flows are calculated as changes in the stock over indicated period. Effective flows of financing may be somewhat smaller than the ones shown due to valuation adjustment.

2/ Partially estimated.

Office Memorandum

TO: Mr. Pujol

November 3, 1986

FROM: Manuel Guitián MG

SUBJECT: Mexico - Briefing Paper

I have a general comment on the draft briefing which preempts my usual approach of providing you with concrete drafting suggestions. It concerns the structure and contents of the terms of reference of a mission like this one which I think should focus on two main tasks.

The first major task to be addressed is an assessment of developments under the program, in particular, since July 1986. In this section, the areas of public sector pricing, wage policy, operational deficit outlook need to be discussed. Performance vis-à-vis the intent of the program through September 1986 will also have to be ascertained. In this connection, the briefing should flag the problems that would arise if the program is off-track by the time drawings can be made. It will also be necessary to mention that further delays in the arrangement going into effect raise questions with regard to the level and the phasing of access given the definite date of expiration of the arrangement. The guidelines in these matters indicate that a reduction in access and a rephasing of drawings may become necessary and management should be alerted to them.

The second major task, of course, is the policy preparation for 1987, which is not independent of the assessment of the outlook for 1986. On this point, the briefing outlines three possible approaches: a "Southern Cone" modality of predetermined overvaluation; an "austral-cruzado"-like shock; and a strategy of gradual reduction in inflation. Experience with the first approach is not encouraging, to say the least, and we should dissuade the authorities by simply noting that the required domestic adjustment would have to go well beyond anything envisaged so far. The second approach is more appealing, but it will also require "ex ante" a larger domestic adjustment effort than contemplated in the program.

With regard to the third approach, our degree of freedom is to some extent bound by the general framework of the agreed arrangement. Given this constraint, the more we can get the authorities to be specific on their actions and the corresponding timing, the better.

Let us discuss these matters.

bcc: Mr. Brachet
Ms. Dillon/Mr. Keller
Mr. Duran-Downing
Mr. Valdivieso

cc: file

INTERNATIONAL MONETARY FUND

November 3, 1986

Mr. Guitian:

Mexico--Brief for Review Mission

Attached is our requested quick response. This paper was reviewed by me.

cc: Mr. Brachet
Mr. Johnson
Mr. Duran-Downing

P. K.

Peter M. Keller

November 3, 1986

Mexico--Brief for Review Mission

On page 19, second paragraph, line 6: after "Mexico" delete the remainder of the paragraph. (In the absence of an arrangement with the Fund, the Agreed Minute is not yet in effect and bilaterals cannot be negotiated.)

Office Memorandum

JMB

TO: Mr. Beza
Mr. Guitián
Mr. Gupta
Mr. Silard
Mr. Tanzi

DATE: October 31, 1986

FROM: J. Pujol JP

SUBJECT: Draft Briefing for Mission to Mexico

Attached please find the draft of the briefing for the mission to Mexico. I would be grateful if I could have your comments by c.o.b. Monday, November 3, 1986.

To be redrafted
JMB
11/3/86

1 - Ccrc
2- File: Mexico Comments

cc: Mr. [illegible]
Mr. Dillon
Mr. Wilson
Mr. Guzman-Downing
Mr. Valdivieso

Office Memorandum

To: The Managing Director

DATE: October 27, 1986

FROM: S. T. Beza STB

SUBJECT: Mexico--Answer to your Queries on the Draft of Staff Report Containing Supplementary Information and a Proposed Decision on Mexico's Request for a Stand-By Arrangement

In reviewing the paper on Mexico you asked whether the banks would disburse if the Mexicans were to reduce deliberately the volume of their oil exports (page 9). The answer is yes. The only qualification would be that in order for a disbursement from the banks to occur there must be a shortfall under our Oil Contingency Mechanism, but there is no provision that it must be for a cause beyond the control of the authorities. I might note that the Mexican authorities were quite surprised that the banks wanted to include volume changes among the factors to modify the shortfall.

Concerning the charges on the SDR 600 million to cover possible purchases under the Oil Contingency Mechanism (page 14), the funding for such purchases comes from an augmentation of the arrangement and not from an activation of the CFF; thus the appropriate rules to apply are those relating to the purchases under the arrangement.

The stand-by charges are levied under rule I-8 because the augmentation would increase resources under the stand-by arrangement which would become available to Mexico--once the contingency occurrs--in the same way and subject to the same conditions as the other resources committed under the arrangement. It should be noted that all purchases under the arrangement are contingent, but in the case of purchases related to the Oil Contingency Mechanism they are contingent on the oil price dropping below US$9 a barrel as well as on compliance with the performance criteria under the program.

Mexico would have an assured right to purchase the resources in question for the period of the arrangement once the augmentation takes place (though, of course, the augmented amounts would reduce pro tanto Mexico's entitlement to make CF purchases during the period of the arrangement). The situation is different under the CFF, where no assured right of purchase exists.

The augmented amounts would be subject to the same financial terms as other amounts under the arrangements. In particular, the financing of purchases of augmented amounts would be in accordance with the rules of mixing in the arrangement, and stand-by charges would be payable on the increase in the commitment under the stand-by arising from any augmentation. The stand-by commitment charges would, of course, be refunded in full once purchases of the augmented amount are made. The total possible purchases under the arrangement, if fully augmented, would be SDR 2 billion (the sum of SDR 1.4 billion of the basic arrangement plus the SDR 600 million of the potential augmentation).

This memorandum incorporates the comments of Messrs. Guitián, Gupta, and Silard.

cc: The Deputy Managing Director (o/r)
Mr. Guitián
Mr. Gupta
Mr. Silard
Mr. Brown

1. Circ
2. File - Mexico - ~~Debt~~ Comments

Office Memorandum

TO: Mr. Guitian

October 20, 1986

FROM: Luis Duran-Downing

SUBJECT: Mexico--Draft Request for Stand-By Arrangement

I have only the following minor comments on this paper:

It is clear that under the agreement that has been reached with commercial banks there will be some shortfalls in the financing with respect to the original projections. Some of the shortfalls are identified in page 16 of the staff appraisal. However, additional shortfalls in the financing could arise to the extent that net payments have been effected during 1986. This is related to the fact that the US$6 billion was projected as a net financing requirements from banks for the two year period 1986-87, and not gross new money.

With respect to the conditions of disbursements, I have two additional comments. First, it would be necessary to elaborate on the nature of the linkages of bank disbursements with disbursements from official bilateral sources which is mentioned on page 6, first line. Second, it would be appropriate to describe more fully the meaning of "implementation of amendments to the existing restructuring and new money agreements" cited on page 5, first paragraph, lines 6 and 7.

With respect to the description of the changes of the MYRA, it should be noted that the 1983 US$5 billion package was a part of the original rescheduling and should not be considered as a separate facility as it is done on pages 3 and 4 of the paper. Also, the description of the changes concerning the maturities is unclear and some redrafting may be necessary (page 3, lines 5 through 9).

Finally, I assume that it is not the intention of the paper to inform the Board about general developments on the Mexican adjustment program during the nearly four months that have elapsed since its inception. However, even if the purpose of the paper is only to inform about negotiations with commercial banks, we cannot rule out Board questioning about the implementation of the adjustment measures that have been contemplated in the original program and about performance under the program, in general. We may like to consider to prepare some information for the Board at the time of the meeting--perhaps a buff from the staff.

cc: Mr. Brachet
Ms. Dillon

File Copy

INTERNATIONAL MONETARY FUND

October 20, 1986

Mr. Guitian:

Mexico: Comments on Draft Supplement 5 to Mexican Stand-by Request

Attached are comments on the Draft Supplement 5 to the Mexican Stand-by Request which was reviewed by me.

Attachment

cc: Mr. Brachet
Mr. Johnson
Mr. Duran-Downing
Mr. Valdivieso

K. Burke Dillon KBD

October 20, 1986

Mexico: Comments on Draft Supplement 5 to Mexican Stand-by Request

On page 1, line 9 and on page 15, line 19, the reference should be to "official creditors", not "official credit agencies". The latter is usually taken to mean only the export credit agencies and is, therefore, too narrow.

On page 1, line 14, we would suggest saying "grant additional facilities to Mexico," if that is what is meant. Maintaining cover and granting "credits" are the same thing.

On page 1, line 7, and page 15, line 18, the reference regarding the Paris Club should be to an "agreement in principle on" not to "approval in principle of". It should also be noted, at least on page 1, that this agreement is to take effect pari passu with the Fund stand-by arrangement.

On page 15, line 20, it would be clearer to refer to "cover for new export credit operations."

At the bottom of page 5 it is noted that bank drawdowns available from October 1, 1987 to January 1, 1988 are conditional on "a certain level of cumulative disbursements during 1986-87 from the World Bank and official bilateral sources, respectively." First, given the reference to "a certain level" but also the "respectively," it is not clear whether the condition is on the total or the components. Also, more information on this condition should be provided. Has the level been set? If so, what is it? If not, when and how will it be set?

INTERNATIONAL MONETARY FUND

September 29, 1986

Mr. Guitian:

Mexico

Attached please find the requested comments on Mexico which I reviewed myself.

Attachment

P.K.

Peter M. Keller

cc: Mr. Duran-Downing

INTERNATIONAL MONETARY FUND

September 29, 1986

Mr. Gianviti (LEG)
Mr. Wiesner (WHD)
Mr. Guitián (ETR)

Mexico

Could I please have your comments as soon as possible.

Attachment

JP

Joaquín P. Pujol

ed6mex01
9/29/86

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Report on Renegotiation of Mexico's External Debt

Prepared by the Western Hemisphere Department
and the Exchange and Trade Relations Department

(In consultation with the Legal Department)

Approved by E. Wiesner and Manuel Guitián

September --, 1986

Representatives of the Government of Mexico and 14 creditor countries 1/ met in Paris on September 17, 1986 in the framework of the Paris Club to consider Mexico's request for a rescheduling of its external debt service obligations. Members of the Fund staff 2/ and representatives of the governments of Australia, Denmark and Finland, the IBRD, IDB, UNCTAD, and the OECD attended the meeting as observers. The meeting was chaired by Mr. Trichet of the French Treasury.

The Mexican delegation outlined the serious economic and financial difficulties being faced by their country and emphasized the strong determination of the Government of Mexico to reduce the economic and financial imbalances of the economy. The Fund staff representatives described Mexico's economic situation and the major elements of the economic program adopted by the Government of Mexico which is being supported by an 18-month ~~upper credit tranche~~ stand-by arrangement Optional: (in the upper credit tranche) approved in principle by the Executive Board on September 8, 1986.

The representatives of the governments of the participating

1/ The participating creditor countries were Austria, Belgium, Canada, France, The Federal Republic of Germany, Italy, Japan, Norway, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom, and the United States of America.

2/ The Fund representatives were Mr. J. Pujol (WHD), Ms. K.B. Dillon (ETR), and Mr. L. Duran-Downing (ETR).

creditor countries took note of the measures envisaged under the Fund-supported program and stressed the importance they attached to the successful implementation of the program, in particular the revitalization of the productive sector of the economy, ~~the liberalization of the trade system~~ and the improvement of public finances.

| not in A.M.

In the Agreed Minute of September 17, 1986 the representatives of the participating creditor countries agreed to recommend to their governments or appropriate governmental institutions that they provide debt relief through the rescheduling or refinancing of payments of principal and interest on official and officially guaranteed debt extended to the Government of Mexico, or its public sector agencies, organizations, and institutions, or covered by a guarantee of the Mexican public sector, for commercial credits and loans with an original maturity of more than one year contracted not later than December 31, 1985. For purposes of the Agreed Minute, the Mexican public sector was defined ~~to~~ ~~shall include~~ inclusive of those enterprises in which, as of the date of the Agreed Minute, the Government of Mexico is directly or indirectly a majority shareholder (owns more than 50 percent of the shares), including representative offices and branches of Mexican banks abroad.

~~The debt relief will apply to~~ 100 percent of principal and 60 percent of interest due ~~between~~ from September 22, 1986 ~~and~~ up to December 31, 1987, inclusive and not paid, and 100 percent of principal due ~~between~~ from January 1, 1988 and March 31, 1988 inclusive and not paid, is to be rescheduled or refinanced. Repayment by the Government of Mexico of the corresponding sums will be made in 10 equal and successive semi-annual installments, with the first payments to be made on January 1, 1992 and the final payment to be made on July 1, 1996. The nonconsolidated interest ~~due~~ will be paid according to the original schedule.

The rate and the conditions of interest to be paid in respect of these financial arrangements will be determined bilaterally between the Government of Mexico and the government or appropriate institution of each participating country on the basis of the appropriate market rate. These bilateral agreements shall be concluded ~~as soon as~~ with the least delay possible, and in any case before April 30, 1987.

The Government of Mexico assumes responsibility for all payments of principal and interest arising from the reorganization without any deductions for taxes and other charges and undertakes to service all public debt service due and not paid, if any, and owed to or guaranteed by the governments of the participating or observer creditor countries or their appropriate institutions, and not covered by the Agreed Minute, as soon as possible, and in any case not later than October 31, 1986.

Debt service due as a result of the June 22, 1983 previous consolidation of certain private sector debt payments will not be affected by the present reorganization. The Government of Mexico under~~took~~ takes to finalize as soon as possible the bilateral implementation of the provisions contained in the Agreed Minute of June 22, 1983, by helping to overcome in particular, the fiscal and administrative obstacles which, until now, have hampered the signing and implementing of bilateral agreements pursuant to that minute. A~~ssurances also were given by~~ The Government of Mexico that it will continue to grant access to and transfer of foreign exchange to private sector debtors for the servicing of their debts.

The above rescheduling provisions do not apply to countries with respect to which debts of principal and interest falling due during the reorganization period are less than SDR 1 million. Such payments should be made on the original due dates, and payments already due and not paid, if any, should be made as soon as possible, and in any case not later than October 31, 1986.

B The Government of Mexico will accord to each of the participating creditors countries a treatment not less favorable than that which it may accord to any other creditor country for the consolidation of debts of a comparable term.

The Mexican representatives stated that the Government of Mexico would seek to secure from external creditors, including banks and suppliers, rescheduling of refinancing arrangements on terms comparable to those set forth in the agreed minute for credits of comparable maturity, making sure to avoid inequity between different categories of creditors. The Government of Mexico will inform in writing the Chairman of the group of participating creditor countries not later than September 29, 1986 of the progress made in negotiations with other creditors.

A, B, C

The provisions of the Agreed Minute will apply as soon as the stand-by arrangement approved in principle by the Executive Board of the International Monetary Fund on September 8, 1986 enters into force. They will continue to apply during the consolidation period provided that the Government of Mexico continues to have an arrangement with the International Monetary Fund in the upper credit tranches.

A: The Gov't of Mexico will seek to secure from creditor countries not participating in the Agreed Minute, rescheduling or refinancing on comparable terms.

C: The Gov't of Mexico undertakes to negotiate promptly rescheduling or refinancing arrgts with all other creditors on debts of a comparable term.

INTERNATIONAL MONETARY FUND

August 7, 1986

Mr. Pujol:

In view of the short deadline, I am asking Mr. Durán-Downing to convey directly to you the divisional comments.

On my part, I have marked my comments on the attached copy of the paper. The paper should provide rationale for innovations (see Mr. Finch's memo to the MD of August 6, copied to WHD, and the MD's reaction). On the oil contingency, I think we should try to link it to the CFF as much as possible.

Attachment

cc: Mr. Durán-Downing

MG

Manuel Guitián

Mr. Dillon

PK

Office Memorandum

To: The Managing Director
The Deputy Managing Director

September 23, 1986

From: C. David Finch and Francois Gianviti

Subject: Mexico--Linkage of Commercial Bank Disbursements to Official Involvement

The draft financing principles recently proposed by commercial banks for Mexico incorporated provisions for very tight and comprehensive linkage of the banks' disbursements to Fund and Bank actions and to contributions of export credit agencies and the Paris Club. These proposals represent an extreme example of the recent tendency for commercial banks to make new money disbursements so conditional on the performance of other parties in the debt strategy that the timing and extent of their own participation can no longer be securely counted upon. Under these circumstances, the assurance provided by the "critical mass" of bank commitments is seriously weakened, raising questions as to the viability of the members' balance of payments and hence the adequacy of safeguards for the use of the Fund's resources. It is notable that the network of links embodied in the proposed bank financing principles for Mexico would in effect arrogate to commercial banks the role of financial monitoring and coordination of financing flows that customarily has devolved on the Fund as organizer of the financing package.

?

The types of linkage adopted in recent bank financing agreements have varied widely. In several instances, they have posed risks of serious delays in the disbursement of bank finance through linkage to different sources of financing. Recent cases involving official bilateral financing include conditions relating to export credit disbursements in the Philippines and to Paris Club debt relief in Ecuador. Concerns also have arisen about indirect cross-conditionality between the Fund and the Bank. The issue of indirect cross-conditionality was illustrated in the case of Panama, when two commercial bank disbursements were delayed because of a World Bank related performance condition; this delay in turn contributed to noncompliance with the Fund program, which resulted in still further delay in the commercial bank disbursements. Recent examples of cross-linkage to the Fund and the Bank are summarized in Attachment I.

In addition to these concerns, provisions in commercial bank agreements have, in some cases, appeared to conflict with Fund policies as laid down in decisions or guidelines of the Executive Board. Examples of such conflict have included: the linkage of bank agreements to extended periods of enhanced surveillance or performance under future Fund arrangements; the inclusion of covenants to provide Fund staff papers outside the context of enhanced surveillance; the attempt to inhibit early repurchases in the Fund by making this a trigger for early repayment of banks; and the failure to acknowledge that a purchase may not take place because of the absence of balance of payments need.

We will need to work with the authorities and the banks to facilitate agreements that provide adequate assurance to banks, but in ways that are not rigid to the point of unworkability. The question arises how best to achieve this and to begin to establish, more generally, a degree of control over practices in this area of bank linkage to official involvement. First, it may be appropriate for the Fund to go as far as possible in ensuring that the financing contributions of other participants in the debt strategy are on track. This would not only safeguard the Fund's own resources, but assist in reassuring commercial banks.

A second, parallel step would be to develop some guidelines on commercial bank linkage, identifying key concerns and indicating approaches to be avoided. First, the problems associated with cross-linkage could be mitigated by less frequent intervals (annual or semiannual) for linkage to the Bank; this would also reflect more realistically the different nature of the Bank's relations with member countries. Indeed, it might be preferable for commercial banks to link separate disbursements to the Fund and the Bank, avoiding the policy concerns arising from cross-linkage. As regards the other concerns mentioned above, preconditions relating to the terms and scale of official financing should be resisted, and clauses relating to Fund involvement should respect existing guidelines and decisions of the Executive Board. The second attachment to this memorandum suggests tentative guidelines covering these various areas.

While these are important issues for the Fund, some flexibility will no doubt be required to arrive at practical solutions. Moreover, care will be necessary to ensure that the Fund is not drawn into arbitrating on issues that are primarily for commercial judgment. Nevertheless, there may also be a need to take action to alert member countries and banks in general to these various concerns. In due course, a review of experience in this area might appropriately be presented to the Executive Board in conjunction with the next review of enhanced surveillance.

This memorandum has been discussed with the Western Hemisphere Department.

Attachment

cc: Mr. Wiesner
Mr. Beza
Mr. Brown

Linkage of Commercial Bank Financing to World Bank Conditions

There has been considerable diversity in the types of linkage to World Bank activities that have been incorporated in commercial bank financing packages. In some cases the linkage has been broadly defined, with commercial banks requiring evidence of "progress" in negotiation or implementation of structural reforms. In other cases, the linkage to Bank loans has been based on certification by the Bank that debtor countries have borrowed a specified amount by a particular deadline. In some cases, all commercial bank disbursements under a new money package have been tied to performance under both Fund- and Bank-supported programs, while in other cases linkage to the Bank applied to only one disbursement from a new money package.

In the new money agreement for Chile signed in November 1985, in addition to certification from the Fund, banks required a notification from the World Bank before each disbursement confirming that Chile's Structural Adjustment Loan (or "comparable facility") was in effect, and that Chile had drawn by specified dates the full amount expected to be available to it under the SAL.

In the new money agreement with Colombia of December 1985, all commercial bank disbursements were linked to the Fund, but one was also contingent on confirmation from the World Bank that Colombia would have access to the second tranche of a trade policy loan.

In 1985, commercial banks conditioned their restructuring and new money agreements with Costa Rica on the implementation of a World Bank SAL, as well as on a Fund program. Successive delays with implementation of the SAL and the Fund stand-by arrangement meant that the second disbursement of new bank money--expected originally in mid-1985--was made in November 1985.

For Cote d'Ivoire, some disbursements under a 1985 new money agreement were conditional on a statement by the Bank on the eligibility of the borrower for drawdowns under a SAL and indicative statements about future loans. The restructuring agreements for 1984 and 1985 maturities also contained refinancing conditions involving both the Fund and the World Bank. The World Bank condition was not met, as the 1985 SAL was not signed as expected, and banks waived that condition during 1985 in order to continue the refinancing.

In addition to conditions involving the Fund, the new money agreement with Panama for 1985-86 required certification from the World Bank regarding progress in negotiating and implementing a structural adjustment loan. The double linkage to the Fund and the Bank created difficulties in this case. Although the Fund program was on track, commercial banks did not make the first disbursement when it was scheduled, because adequate progress had not been made with the World Bank. Some months later, progress had been made with the World Bank, but Panama was no longer in compliance with the Fund program, and so the initial disbursement by commercial banks was again delayed.

Tentative Guidelines on the Linkage of

Commercial Bank Financing to Official Actions

1. Problems of cross linkage to the Fund and the Bank

a. The nature of the involvement of the Fund and the Bank in member countries' economies differs in important ways, and these differences need to be reflected in the procedures for linkage adopted by commercial banks. 1/ It may be more in keeping with the nature of the Bank's operations to link annual or semiannual commercial bank disbursements to major Bank actions such as approval of a new sector loan or an assessment by the Bank covering progress in implementing development policies. This would tie commercial bank disbursements to events that evidence advancement of the Bank's developing relationship with a country.

b. To avoid any impression of cross-conditionality on individual disbursements, separate commercial bank disbursements should preferably be tied to each institution. Some disbursements would be linked to quarterly evidence of compliance with a Fund arrangement, and certain other disbursements would be linked to World Bank certifications. If any commercial bank disbursements are linked both to Fund arrangements and to

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1/ Specifically, a country's ability to make purchases from the Fund provides evidence, generally on a quarterly basis, that macroeconomic policies remain on track. The Bank's normal pattern of disbursements in a country relates to continuing activities under project, sector and structural adjustment loans in different time frames. Moreover, the Bank's monitoring procedures differ from those of the Fund.

the World Bank, less frequent intervals for linkage to the World Bank would reduce the scope for operational problems.

c. It would seem particularly inappropriate for cofinancing arrangements with the World Bank to contain performance clauses predicated on Fund arrangements, since in these cases the closeness of association with the World Bank raises the issue of implied cross-conditionality particularly sharply.

2. Problems of potential conflict with other Fund policies

a. Clauses that seek to precommit future resources or procedures of the Fund, including enhanced surveillance, should be worded in ways that do not appear to prejudice the autonomy of the Fund in deciding on its future relations with members, and also take account of existing Board guidelines (e.g., on the duration of enhanced surveillance). The understanding reached in the case of Uruguay would represent an acceptable compromise where future Fund procedures are at issue. In essence, the Fund management would indicate general willingness to propose to the Board future procedures (such as a financial arrangement or enhanced surveillance) that are requested by the member and are consistent with Board guidelines.

b. Commercial banks would preferably include Fund involvement among the conditions precedent for specific financial decisions, such as a disbursement of new money or activation of an annual tranche of restructuring under a MYRA, but not as a direct event of default on the country's debt, as was also agreed in the case of Uruguay. Such an approach would help to avoid unrealistic conditions relating to Fund involvement over a long period.

c. Agreements with commercial banks should acknowledge that the release of Fund staff reports outside the context of enhanced surveillance is not permitted at present, and should not put the member in the position of having to seek specific approval by the Executive Board.

d. Agreements should not inhibit a member's right or obligation to make early repurchases in the Fund; thus early repurchases in the Fund should not trigger early repayment of a member country's bank debt.

e. While commercial bank disbursements may continue to be conditioned on purchases from the Fund (as is the general practice), provision should be included for an alternative certification by the Fund if a purchase is not made for reasons unrelated to the observance of performance criteria, e.g., because of the absence of balance of payments need.

3. Precommitment of other official financing

a. Member countries should be advised of the difficulties that may arise if they agree to clauses that seek to establish in advance the scale or terms of bilateral official financing, such as debt relief in the Paris Club or export credit commitments and disbursements.

b. Similar considerations arise with regard to the World Bank's future financial involvement in debtor countries; the World Bank has recently objected to the content of such clauses.

4. Other issues concerning flexibility

a. Member countries should be advised of the need for adequate periods for corrective action to be set after dates for economic performance conditions to be met by the member under a Fund arrangement, so that such actions can be taken without a waiver by banks being necessary.

b. Member countries should be advised that, where waivers under agreement with commercial banks may be necessary, a qualified majority of the banks should be able to approve the waiver, which would avoid undue leverage by individual banks.

5. Assistance by Fund staff

In order to give effect to the guidelines, staff would stand ready to provide technical assistance to members in connection with the formulation of linkage in bank financing agreements.

cw

Office Memorandum

TO: The Managing Director
The Deputy Managing Director

September 22, 1986

FROM: K. Burke Dillon KBD

SUBJECT: Meeting of Export Credit Agencies on Mexico

On Thursday and Friday, September 11 and 12, representatives of the export credit agencies of the G-10 countries plus Denmark and Spain met in Brussels to discuss Mexico's adjustment program and economic prospects. A Mexican delegation, headed by Mr. Alfredo Phillips and including Mr. Ariel Buira, made an initial presentation on Thursday morning and returned for brief further discussion with the agencies on Friday. A representative of the bank steering committee, Mr. Braut of Société Générale, reported on the banks' discussions with Mexico and answered questions from the agency representatives. Staff from the Fund, the Bank, and the IDB also participated in the meetings. The Fund staff was represented by Mr. Joaquin Pujol, Mr. Luis Duran-Downing, and myself.

This was the first time that the export credit agencies had met to discuss a particular debtor country, and the meeting was seen by all concerned as a radical departure from the low profile the agencies have maintained in the past. As you will recall, the impetus for such a meeting originated in a discussion of the Baker initiative at last February's Berne Union meeting. At that time a task force was formed on the role of export credit agencies in the debt strategy. The task force concluded that the main deficiency in present procedures was that there existed no forum for the discussion of export credit policies in which all of the key creditor governments were represented by the appropriate decision makers, and it recommended that procedures be established whereby ad hoc meetings could be convened to discuss particular debtor countries. The task force report was presented to the June Berne Union meeting, where its recommendations were supported by most delegations but strongly opposed by the export credit agencies from France (COFACE) and Germany (Hermes).

The Brussels meeting on Mexico was, therefore, organized outside the formal framework of the Berne Union. It was convened by the Belgian agency (OND) and, with a view to French and German concerns, the invitations provided for the participation of governmental export credit authorities where that was considered appropriate. COFACE and Hermes initially declined to attend the Brussels meeting but, at the last minute, decided to be represented at a low level for "purposes of information." In the end, no delegation included governmental authorities outside the export credit agency, although this would appear to be an important consideration only for France and Germany.

Given this background and the general awareness of precedents that might be set, the delegates focused as much on their own procedures as they did on the situation of Mexico. Much of the time devoted to the Mexican case--perhaps too much--was taken up by presentations from the Mexican delegation and the international organizations, and there was only limited exchange of views among the delegates on Mexico's prospects and on their own credit and cover policies. It was, nevertheless, encouraging that discussion and questions tended to focus on how agencies could select projects or support programs that contributed most effectively to Mexico's adjustment effort. To that end, the agencies made clear that they expected the World Bank to play a major role. Delegates appeared generally to consider that the meeting had been worthwhile, improving their understanding of Mexico's program and economic outlook. Both the Canadian and Spanish delegates indicated that they came away with a more positive assessment of Mexico's adjustment efforts. Although there was no attempt to agree on a concerted approach among agencies, Mexico's four major creditors all announced that they planned to resume or maintain cover, which should have a positive competitive effect on the policies of other agencies. A chairman's summary of the discussion is attached.

A tour de table and direct discussions with delegates permitted the staff to obtain further information on recent cover policies and demand for cover that appeared, in some cases, to be more firmly grounded than indications received through other channels. In particular, information provided to the Fund staff by the U.S. Eximbank on the loan pipeline and typical disbursement patterns would indicate that the level of Eximbank disbursements for Mexico in 1987 that has been suggested by U.S. Treasury officials is unrealistic. Overall the discussions with agencies indicated a low level of approvals over the first nine months of 1986, reflecting the low demand experienced by most agencies and the tighter policies applied by some. This would underscore the appropriateness of projecting only a slow recovery in disbursements, even if most agencies adopt a fairly open stance over the period of the Fund arrangement.

Agencies expressed a desire to have follow-up with the Fund and Bank staffs on the Mexican case. It was noted that such follow-up could be provided in the context of the usual country discussions at the February and June Berne Union meetings, as well as during the annual visit of a small group of Berne Union representatives to Washington, which is scheduled this year for early November. Follow-up could be improved, the staffs indicated, by increasing the number of agencies represented in the Washington visits and, perhaps, by having such visits more than once a year.

It was unclear what the next move will be regarding the broader question of ad hoc meetings on particular countries. On the one hand, it was reported that France and Germany intended to raise the issue in the EEC in an attempt to get a concerted EEC position that such country discussions should take place only in the OECD export credit group. Other agencies were, however, already talking about possible candidates and hosts for future similar ad hoc meetings. Nigeria and Egypt were mentioned as possible candidates, and the Canadians might be prepared to host the next meeting.

Attachment

cc: AFR, ASD, ETR, EUR, MED, RES, WHD
Mr. Brown
Office in Europe

bcc: Mr. Finch
Mr. Beveridge
Mr. Guitian
Mr. Kanesa-Thasan
Mr. Brau
Mr. Boorman
Mr. Anjaria
Mr. Pujol
Mr. Duran-Downing
Mr. Watson
Mr. Allen

Summary of discussions

In the context of the role of the officially supported export credits in the world debt situation, an ad-hoc meeting of experts on the specific situation of Mexico was held in Brussels on September 11 and 12, 1986.

Representatives of the export credit insurance agencies of Belgium (OND), Canada (EDC), Denmark (EKR), France (Coface), Germany (Hermes), Italy (SACE), Japan (EID/MITI), the Netherlands (NCM), Spain (CESCE), Sweden (EKN), the United Kingdom (ECGD), the U.S.A. (Eximbank), and delegates of the international institutions (IMF, IBRD, IDB) attended the meeting.

Delegations of the Mexican Government and of the Steering Committee of the private banks made a presentation to the meeting.

The extensive exchange of background information and of views on the technical issues will allow each export credit insurance agency to make its proper assessment on the prospects of return to a financial equilibrium of the Mexican economy.

The ECAs emphasized the importance of obtaining in depth information on the priority choices made by the Mexican authorities with respect to their future import related policies. In this regard, approaches have been considered with the World Bank which could lead to the identification of the sectors of the economy which could most efficiently contribute to the growth of the debtor country.

The meeting offered participants an opportunity to trace the way in which officially supported export credits could facilitate, in exceptional cases, a concerted recovery effort with the other parties concerned, including consultation among ECAs themselves. Export credit insurance agencies especially stressed the need to be informed regularly on the debtor countries' progress in the framework of IMF and World Bank supported programs.

For their part, the international institutions expressed their interest in getting a better insight into the decision processes of the ECAs and thereby better meeting the information needs of these agencies.

Mex. debt

Brown
Baza
Wiesner
DMD

Office Memorandum

TO: The Managing Director

FROM: K. Burke Dillon DJB for KBDillon

September 10, 1986

SUBJECT: Meeting with Bank Subcommittee Concerning Export Credits for Mexico

You have asked me to make an assessment, based on my contacts with export credit agencies and their authorities, of the realism of the staff's projections regarding export credits for Mexico. While, as you are aware, it is difficult to make such a projection with any precision, particularly for a period that would go through the end of 1987, my overall assessment is that the staff projection is appropriately cautious.

I assume that you have been informed on the meeting with the Bank Subcommittee and are aware of the figures in the attached table. This memo is to provide further background on my discussions with agencies or their authorities. I also assume that you are aware about the uncertainties concerning the special Japanese facility.

Some of the main pieces of "evidence" that I think we need to take into account in our assessment are listed below. We cannot, however, in our discussions with banks cite information provided by individual agencies/governments or by the Berne Union about individual agencies. An exception to this might be EXIM, since the United States itself is talking very openly with the banks.

Overall the impression I have gained from my conversations is that approvals have slowed in 1986--sharply in some cases--and that this is expected to be reflected in a continued low level of disbursements over the coming months. For some agencies this may reflect their more restrictive policy stance during 1986, but even those agencies that were completely open for new medium- and long-term business (e.g., United States and United Kingdom) have seen a drop in demand.

While none of Mexico's four major creditors (France, Japan, the United States and the United Kingdom) formally tightened their policy stance, quarterly Berne Union reports indicate that from March 1985 to March 1986 seven other agencies either went off cover or formally introduced restrictions. Others may have implemented existing policies more restrictively.

The United Kingdom (Mr. Foot and Mr. Mountfield) told me that they have plenty of room under their ceiling for Mexico, but business has been very slow. In fact, they have only one application under consideration and that may not qualify on commercial grounds. If demand increased today, normal lags would mean no significant upturn in disbursements until the second half of 1987.

The Germans went off cover in February and told us (via Mr. Grosche) that they have approved almost no new medium- and long-term business in 1986. They thought the staff numbers for 1987 were optimistic and considered it unlikely that they could get disbursements back to 1985 levels during 1987.

Although they had no precise numbers at hand, EXIM (Mr. Arnold) said approvals had slowed in 1986. (Berne Union data also indicate that the U.S. pipeline is down.) The U.S. Treasury has been assuming that EXIM disbursements would double from 1986 to 1987. I asked EXIM how this was going to happen with no change in policy stance. They had no answer.

The Japanese did not get back to us on our questions on approvals and the pipeline, but at the Berne Union they have reported tightening since February 1986.

My talks with the French Treasury did not get beyond the problem of the base; the Mexican disbursement numbers for 1985 are double what France says.

While this information is impressionistic, it would imply--given normal lags--that disbursements would fall further in the second half of 1986 and could recover only slowly over 1987. A pattern such as the following might be reasonable for medium- and long-term public sector disbursements, abstracting from any impact of the Japanese special facility:

1986	First half	US$350 million
1986	Second half	US$300 million
1987	First half	US$400 million
1987	Second half	US$500 million

This pattern would give the numbers for Scenario A in the attached table. Scenario B, which I consider optimistic, assumes the pickup in disbursements is sufficiently rapid to bring the total for calendar 1987 back to the 1985 level. The banks' numbers imply a 60 percent increase between the two 18-month periods. They can cite no evidence of any pickup to date, so their case rests entirely on a hoped for future pickup in applications that will somehow produce a very rapid acceleration in disbursements. (The banks also question the base numbers provided by the Mexicans, but those are the only numbers we have and do not seem inconsistent with what the agencies are saying.)

Attachment

Mexico: Official Bilateral Credits, Excluding CCC

(In millions of U.S. dollars)

	Jan. 1985–June 1986	July 1986–December 1987		
		Scenario A	Scenario B	Banks
Export credits, excluding Japan special facility	1,450	1,200	1,450	2,300
Japan special facility	--	600	350	800
Total	1,450	1,800	1,800	3,100
Japan total	350	900 1/	700 1/	1,200
Other agencies	1,100	900	1,100	1,900
Total	1,450	1,800	1,800	3,100

1/ If Japanese operations, excluding facility, maintained the same ratio to lending of other creditors as in January 1985–June 1986 base period.

ATTACHMENT

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OND - BRUESSEL
KOPIEN AN:
COFACE - PARIS
GERG - ZUERICH
EDC - OTTAWA
EKR - KOPENHAGEN
SACE - ROM
EID/MITI - TOKIO
NCM - AMSTERDAM
EKN - STOCKHOLM
CESCE - MADRID
ECGD/IRD - LONDON
EXIMBANK - WASHINGTON
IMF - WASHINGTON / ATTN. MRS. DILLON
IBRD - WASHINGTON / ATTN. MR. KATZ

SUBJECT: MEXICO - ROLE OF OFFICIALLY

SUPPORTED EXPORT CREDITS
- AD HOC MEETING IN BRUSSELS, 11 AND 12 SEPTEMBER 1986

ALTHOUGH WE STILL CONSIDER THE MEETING TO HAVE NO BINDING CHARACTER AND THAT NO DECISIONS CAN BE TAKEN AMONG THE CREDIT INSURANCE AGENCIES, WE THINK IT MIGHT BE HELPFUL TO EXCHANGE DATA THAT CAN BE SUBMITTED TO THE GUARDIAN AUTHORITIES AFTER THE MEETING.

THAT IS WHY WE HAVE FINALLY DECIDED TO ATTEND THE MEETING. OUR DELEGATE WILL BE
DR. PETER DORSCHEID
WHO HAS A HOTEL RESERVATION AT JOLLY HOTEL ATLANTA.

AS WE HAVE HEARD LATELY, THE MEETING WILL ALREADY START
ON 11 SEPTEMBER, 9.15 H.
AT OND OFFICE, 40, SQUARE DE MEEUS.

OUR TOTAL EXPOSURE ON MEXICO IS
US DOLLARS 448.5 MILLION
OFFERS: US DOLLARS 154.1 MILLION
SUMS OVERDUE: ABOUT US DOLLARS 30.7 MILLION.

REGARDS
DR. PETER DORSCHEID

HERMESKREDIT

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Time: 09:32 09/10/86 EST
Connect Time : 244 seconds

mex debt

INTERNATIONAL MONETARY FUND

September 8, 1986

Mr. Pujol
Mr. Duran-Downing

Attached for your information is a series on ECA commitments to Mexico. Note that these are commitments for insurance covering both principal and interest.

K. Burke Dillon KBD

September 8, 1986

Table 1: Mexico: Export Credit Agencies' Outstanding Commitments 1980-March 1986

Medium-term

(in millions of US dollars)

	March 1985	June 1985	Sept 1985	Dec 1985	March 1986
EXIM/FCIA	3015	2585	2428	2368	2199
COFACE	909	1142	1288	1359	1669
ECGD	1181	1214	1174	1195	1265
EID/MITI	986	929	1066	877	862
HERMES	383	343	418	394	472
CESCE	303	314	325	357	408
EDC	290	275	271	295	314
GERG	110	104	117	162	187
OND	85	142	139	167	158
SACE	326	227	275	267	147
EKR	55	45	62	68	60
GIEK	38	37	40	39	42
NCM	30	26	30	28	28
OeKB	25	22	25	25	27
CASC	13	11	10	9	9
IFTRIC	6	6	6	6	6
VTL	2	2	1	1	1
EFIC	1			0	0
TIC	0	0	0	0	0
EKN	94	96	119	127	
ECICS	0	0	0		
TOTAL, ALL AGENCIES	7850	7519	7793	7746	7854

1/ Coding of terms of cover:

- A - Open for cover without restriction.
- B - Open for cover with annual maturities limit (AML), or total commitments limit (TCL) or annual limit on new business (ANBL).
- C - Open for cover subject to guarantee of payment/transfer.
- D - Open for cover with limit on size of individual transaction (amount shown in bracket
- E - Open for cover with reduced percentage of cover (percentage shown in brackets).
- F - Open for cover with extended waiting period (months shown in brackets).
- F - Applications considered on a case-by-case basis.
- H - Open for cover, but maximum credit terms specified (terms shown in brackets).

mex debt

INTERNATIONAL MONETARY FUND

September 8, 1986

Mr. Sugita:

Attached for your records is a corrected version of the questions I sent you last Friday regarding Mexico, i.e., the reference to the Philippines has been corrected.

We will be meeting with the bank economic subcommittee on Mexico tomorrow morning at 8 a.m., and any answers we could get today, however partial, would be very helpful.

Once again, we would like to thank you for your assistance on this matter.

cc: Mr. Beza
Mr. Pujol
Mr. Duran-Downing

K. Burke Dillon KBD

DRAFT
9/8/86

According to Berne Union reports, as of March 31, 1986, EID/MITI was open for new medium- and long-term cover in Mexico, subject to an annual limit on new commitments. With respect to short-term business, EID/MITI was open, subject to certain restrictions, including maximum credit terms, transaction limits, and a reduced percentage cover (70 percent). We would appreciate a description of EID/MITI's present cover policy stance with indications as to when any important changes introduced since March 1986 took effect. It would be useful if any differences in stance with respect to public and private buyers in Mexico could be noted. We would also appreciate an assessment as to how restrictive these terms were in practice; e.g., was there room available for substantial new business under the annual commitment limit for medium- and long-term business? How did the pace of approvals of new medium- and long-term cover during the first eight months of 1986 compare with the first eight months of 1985? What is EID/MITI's perception of trends in demand for new cover with respect to public and private buyers in Mexico? Would a less restrictive policy during 1986 have resulted in a substantially higher level of new commitments?

We would also appreciate indications as to how EID/MITI's cover policy stance might evolve on the assumption that the stand-by arrangement with the Fund takes effect and is implemented and that a Paris Club rescheduling is successfully concluded. Although we understand that it is difficult to be specific ex ante, we would appreciate any indications that could be given regarding possible changes in instruments such as annual commitment limits, country exposure limits, and percentage cover, as well as a view on the possible impact of those changes on the volume and timing of new commitments.

To provide a basis for our analysis, we would appreciate it if you could also provide us with information on outstanding amounts of medium- and long-term cover (principal only) as of end-1984, end-1985, and the most recent date available, and similarly for short-term cover. Also, the Berne Union data indicates that total outstanding EID/MITI commitments as of March 31, 1986 were US$1.0 billion and total outstanding offers were zero. We would appreciate more recent data on these two concepts. Finally, any information that EID/MITI could provide on the pipeline of undisbursed medium- and long-term commitments would be useful, with respect to total amounts and possible timetable for disbursement.

Mex debt

INTERNATIONAL MONETARY FUND

September 8, 1986

Mr. Pujol
Mr. Duran-Downing

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EKN	94	96	119	127	
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TOTAL, ALL AGENCIES	7850	7519	7793	7746	7854

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E - Open for cover with reduced percentage of cover (percentage shown in brackets).
F - Open for cover with extended waiting period (months shown in brackets).
F - Applications considered on a case-by-case basis.
H - Open for cover, but maximum credit terms specified (terms shown in brackets).

Revised
Mexico

INTERNATIONAL MONETARY FUND

September 5, 1986

Mr. Sugita:

As promised, attached are the questions with respect to EID/MITI cover under its normal facilities. The attached does not address the important questions we discussed with you regarding the special new facilities that are being considered for Mexico or with respect to the possible substitution between financing provided by the new facilities and that provided under normal facilities.

Attachment

K. Burke Dillon KBD

CLQ/PHL (mmphlclqJ)
DRAFT
9/5/86

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We would also appreciate indications as to how EID/MITI's cover policy stance might evolve on the assumption that the stand-by arrangement with the Fund takes effect and is implemented and that a Paris Club rescheduling is successfully concluded. Although we understand that it is difficult to be specific ex ante, we would appreciate any indications that could be given regarding possible changes in instruments such as annual commitment limits, country exposure limits, and percentage cover, as well as a view on the possible impact of those changes on the volume and timing of new commitments.

To provide a basis for our analysis, we would appreciate it if you could also provide us with information on outstanding amounts of medium- and long-term cover (principal only) as of end-1984, end-1985, and the most recent date available, and similarly for short-term cover. Also, the Berne Union data indicates that total outstanding EID/MITI commitments as of March 31, 1986 were US$1.0 billion and total outstanding offers were zero. We would appreciate more recent data on these two concepts. Finally, any information that EID/MITI could provide on the pipeline of undisbursed medium- and long-term commitments would be useful, with respect to total amounts and possible timetable for disbursement.

mex debt.

Office Memorandum

September 5, 1986

CONFIDENTIAL

MEMORANDUM FOR FILES

SUBJECT: Export Credits to Mexico--German Response

I Received yesterday a phone call from Mr. Grosche responding to the Deputy Managing Director's question regarding possible volume of export credits to Mexico.

Mr. Grosche said that the staff's projections seemed, from the German perspective, to be somewhat on the optimistic side. He noted that Germany had been off cover for medium-term business in Mexico since February 1986; in the meantime, only short-term cover was being provided. If the Fund arrangement and the Paris Club agreement are both concluded and implemented successfully, Germany is likely to reopen for medium-term cover with, at least initially, a transactions limit of DM 20 million. Nevertheless, the actual volume of business during 1986-87 will be strongly affected by the long period off cover. For 1986 Germany will have approved almost no new medium- and long-term business and, although they remained open short-term, short-term business was down about 10 percent from 1985 levels. Overall, then, they consider the Fund numbers optimistic and the bank numbers to be "quite astray."

K Burke Dillon

K. Burke Dillon
Chief, External Finance Division
Exchange and Trade Relations Department

cc: Mr. Beza
Mr. Pujol
Mr. Duran-Downing

EXIM Bank--United States

II. Policy stance
(descriptions as of September 1985)

(ix) Mexico

There has been no recent change in policy nor in the country ranking, but the commitment trend is seen to be downward. The Eximbank continues to provide the needed support inspite of the difficult claims experience (involving over 2,000 claims, of which only 65 percent in dollar value has been recovered) because of the close cooperation with the Mexican authorities. Mr. Arnold remarked that although the bank viewed the country with concern, it was hard to see circumstances that could cause the bank to tighten cover.

In this case there has been no evidence of an upward shift in the demand for official support for export credits. Bank competition has been so intense that there was no scope for guarantee or insurance, and banks, including the major regional ones, have viewed the country as an acceptable short-term risk. Guarantees have been necessary only for large transactions, e.g., involving PEMEX.

/continued

2. Mexico

The country was now ranked as having the second-highest credit rating, and the recent setback in the economic performance had not resulted in any reassessment of policy. Mr. Morris observed that for a country recovering from debt difficulties, the demand for cover for Mexico had been amazingly low. In fact, the percent of guarantee/insurance cover of imports had declined in 1984 and also in 1985 so far. While the Bank's policy remained liberal, there had been no demand for an increase in exposure. Reportedly, Mexico had not been using the CCC program nor much of international banks' new credits. Reasons cited for this sluggish demand for cover were, first, the existence of the long-standing trade links between Mexico and U.S. suppliers meant that a large number of suppliers were willing and anxious to resume business, resulting in such competition that there was no scope for the guarantee or insurance cost of doing business. Furthermore, close contacts may have also meant that U.S. suppliers may have been able to obtain security arrangement in the form of assets of the Mexican buyers held in the U.S. Second, there may also been some competition from other export credit agencies, e.g., Japan has succeeded in arranging a line of credit for the electricity company. Mr. Morris remarked that this situation was not entirely unforeseen, because even when the $500 million facility was introduced for Mexico in mid-1983, at the time there was no shortage of trade credits. The facility was nonetheless introduced because the EximBank had wanted to ensure that trade credit were completely available in order to avert a slowdown in the economy.

HERMES--Germany

II. Policy stance
(descriptions as of September 1985)

9. Mexico

1)

They are open for Mexican public sector buyers with no overall ceiling, although there is a transaction limit of DM 20 million. They were off cover for private sector buyers until February 1985. Since February of this year they have been open for cover to private sector buyers provided there is a bank guarantee. They use a very broad definition of the public sector for Mexico. Mr. Von Korff described Mexico as a "terrible case." They have not yet signed the bilateral with Mexico. Most of the debt that was to have been rescheduled has been paid, but not all. HERMES' staff reported that the experience with new business in Mexico has been good. Today, they have a substantial volume of applications for cover for public buyers in Mexico with financing on extended credit terms. The limit established for Mexico under the 1983 concerted financing package was fully utilized.

COFACE--France

II. Policy stance
(descriptions as of September 1985)

9. Mexico

COFACE is open for short-term business but is very cautious with respect to private buyers. COFACE is open for medium-term business but only for transactions less than FF 300 million and only for good buyers. They signed their bilateral with Mexico in June 1984 and the related "application letter" in early 1985. COFACE receives substantial payments outside the terms of the multilateral agreement. Over the past year Mexico's arrears to COFACE have declined from FF 500 million to FF 100 million.

ECGD--United Kingdom

II. Policy stance
(descriptions as of September 1985)

9. Mexico

They considered Mexico to be a very good initial case for the new DX facility. DX facility only applied to the Mexican private sector, since Mexico had not rescheduled public sector debts and the ECGD had stayed on cover in Mexico for the public sector. Initially, this DX facility for the private sector was on a case-by-case basis, but in June an overall £ 15 million limit was set. Take-up by the private sector has been very slow. Ms. Harding explained that there is public sector demand for medium-term credit in Mexico, but this was largely for lumpy transactions, such as PEMEX projects and defence spending. There was little demand for short-term trade financing. The Mexicans appeared to be paying cash for goods that would normally be financed on a short-term basis. Mexican importers seemed to find it both easier and cheaper to pay cash.

EID/MITI--Japan

II. Policy stance
(descriptions as of September 1985)

Mexico

Short-term cover is available "subject to rescheduling country conditions": reduced percentage cover (70 percent), and highest premium rate, but in a slight variation, applicable to credit of up to two years initial maturity. Medium- and long-term cover is available since the fourth quarter of 1984, subject to annual commitment limits. However, very little business is being done. Medium- and long-term cover was

reopened for Mexico, as also for Turkey and Romania, because of the belief that debt reschedulings have ended for these countries, "we think."

EDC--Canada

II. Policy stance
(descriptions as of September 1985)

10. Mexico

The EDC had been the first agency to reopen on medium-term credit after the debt difficulties in mid-1982, and the EDC had remained relatively open. Factors contributing to this positive assessment were the satisfactory export performance, the underlying good health of the private sector, and the drive to encourage private investment. Over the last six months the EDC had become a little bit more concerned about economic developments.

Regarding the demand for cover in Mexico, Mr. Jeanjean said that in fact when the credit line was first opened, substantial increase in demand was expected. As it turned out, there had been no demand and the line had been practically unused. The EDC would not lend to the private sector without government guarantee except for very large concerns in the private sector. Nonetheless, capital goods imports and private sector requirements had been declining in Mexico. He suspected that because of intense competition, commercial banks had been forced to do business in Mexico under even more generous exposure ceilings than believed to be the case, and had not needed the guarantee facility of the EDC.

OND--Belgium

II. Policy stance
(descriptions as of September 1985)

Mexico

NCM had reopened MT/LT cover to Mexico in early 1984 with an extended claims-waiting period of 12 months but with the maximum percentage cover (95 percent). A BF 2.5 billion limit on new MT/LT transactions was imposed, divided into BF 1.5 billion for OND's account, which represented a continuation of agreements with Nafin and Bancomex, and BF 1.0 billion for the state account. Short-term cover policies were eased as well, but the BF 500 million limit on total commitments continued to apply. The MT/LT total commitments limit was raised in December 1984 to BF 4.5 billion, of which OND's share in credit agreements remained at BF 1.5 billion, and again in April 1985 to BF 5.0 billion when coverage on the state account stopped being available except on a case-by-case basis for transactions exceeding the BF 250 million limit per transaction, which was introduced at the same time. Unrestricted ST cover, except for transit trade, had been resumed in

December 1984. MT/LT commitments, which had been on downward trend since 1982, rose to $142 million in 1985 Q2 from $85 million in the previous quarter and from $103 million a year ago.

NCM--Netherlands

II. Policy stance
(descriptions as of September 1985)

Mexico

NCM had been effectively off cover since the liquidity crisis of 1982 Q3. MT cover was available on a case-by-case basis for transactions exceeding $1.4 million, with a reduced percentage cover (75 percent), a prolonged claims-waiting period (12 months), and subject to a transfer guarantee. With the exception of the limit on individual transactions, the same restrictions applied to ST cover. Only recently, in 1985 Q2, had policies been relaxed somewhat. The extended claims-waiting period and the reduced percentage cover had been dropped for both ST and MT/LT business. ST cover was available subject to a transfer guarantee, and the ceiling on individual MT/LT transactions was raised to $17 million. Applications for MT/LT cover exceeding $8 million were considered on a case-by-case basis(?).

Total outstanding commitments had gradually declined from $79 million in 1982 to $30 million by mid-1985. The relaxation of cover policy was not expected to lead to a rise in commitments because of the declining purchasing power of that market. Offers had been nil in the first half of 1985.

II Policy stance
(descriptions as of September 1985)

9. Mexico

Following the liquidity crisis in August 1982, EKN went off medium- and long-term cover for private buyers and imposed a SKr 10 million limit on individual transactions with public buyers. Applications exceeding this amount were considered on a case-by-case basis, and an extended claims-waiting period of 8 months was introduced for both ST and MT/LT cover. A total commitments ceiling on short-term transactions was also introduced.

Cover policies were liberalized in the first half of 1985. EKN opened for cover to private buyers in March 1985, and the ceilings on short-term commitments were lifted in June, as was the ceiling on individual MT/LT transactions. After cover policies were eased, it was announced in the press that the IMF had stopped disbursements under the program because the fiscal targets were being exceeded by wide margins. EKN was nevertheless likely to stay open, because Mexico was an important market for Sweden and because the Government was perceived to be pursuing the adjustment effort in good faith. The more distant future was nevertheless clouded by uncertainties emanating from the country's social fabric and political system.

SACE--Italy

II. Policy stance
(descriptions as of September 1985)

Mexico

SACE was open for cover since the first ~~quarters~~ of 1984 with an annual limit on new business and subject to transfer guarantee by the Mexican Government. The $75 million ceiling for Mexico was far from being utilized.

cic/file
Mexdebt

Office Memorandum

TO: The Acting Managing Director

August 27, 1986

FROM: K. Burke Dillon KBD

SUBJECT: Meeting of Export Credit Agencies on Mexico

As discussed last Thursday when you met with Mr. Wiesner, Mr. Beza, Mr. Duran-Downing, and myself, the export credit agencies have decided to convene a meeting on Mexico on Thursday and Friday, September 11 and 12 in Brussels. The Paris Club meeting on Mexico will be at the beginning of the following week. The purpose of the Brussels meeting is to help the agencies acquire a better understanding of Mexico's adjustment strategy and, in particular, of its investment program and import financing requirements. There will be no attempt to coordinate cover policies. The meeting is being hosted by the Belgian export credit agency, the Office National du Ducroire. Staff from the Fund, the World Bank, and the IDB have been invited to participate in these discussions and, indeed, participation by these organizations is considered key to the objectives of the meeting. Our understanding is that Mexico is also being invited to make an initial presentation and participate in a question and answer session. However, as in Paris Club meetings, the debtor would not be present during the subsequent discussion among agencies.

This is the first time the export credit agencies have convened such a meeting to discuss a particular country situation and possible opportunities for new export credits. It might, therefore, be useful to recall some of the background to this development. A discussion of the Baker initiative had been one of the main items on the agenda for the February 1986 Berne Union meeting. At the conclusion of that meeting the Union established a task force on the role of officially supported export credits in the current debt situation. The task force was chaired by the head of the Italian export credit agency, Mr. Ruberti, and included senior officials from the agencies of Belgium, Mexico, and the United Kingdom. With management approval, I served as a technical adviser to the task force.

The task force met in Rome in April and prepared a report which concluded, inter alia, that:

> There is a general agreement on the desirability of a co-operative approach to the resumption of cover for a country which, having entered into a rescheduling agreement and agreed a recovery programme with the IMF and IBRD, has good prospects of restoring commercial creditworthiness and could make good use of new export credits to support the programme.

However, after reviewing the existing fora in which a discussion of particular debtor country situations might take place, i.e., the Berne Union, the OECD Export Credit Group, the Paris Club, and consultative groups, the report concluded that none of these fora had succeeded in meeting the need for discussions regarding export credit cover policy, because in none were all of the key creditor countries represented by the relevant decision-making authority. This reflects the substantial differences among creditor countries in the institutional arrangements regarding export credits and in the relationships between the export credit agencies, which are in some cases private companies, and their governmental authorities. The task force recommended, therefore, the establishment of a procedure whereby ad hoc groups could be convened on a case-by-case basis to address questions relevant to export credit cover policies toward important debtor countries. Each creditor country would be asked to send those representatives that it considered to have competence for cover policy in the case being discussed. The Berne Union secretariat would be prepared to use its good offices to initiate such meetings, although they would not necessarily be considered to be Berne Union meetings.

As elaborated in my back to office report of July 3, 1986, this task force report generated considerable controversy at the June meeting of the Berne Union. While it was supported by most of the agencies, and very strongly supported by the United States and the United Kingdom, the establishment of any such procedure was determinedly opposed by the French and German export credit agencies (COFACE and Hermes). It was generally believed that the opposition of COFACE and Hermes stemmed not from a disagreement with the idea of country cover policy discussions per se but rather from their reluctance to support a proposal that might involve their authorities in Berne Union activities.

A compromise was eventually reached in the form of a very ambiguously worded resolution which could be interpreted as providing a basis for the convening of such ad hoc meetings, but did not establish any new procedures within the Berne Union itself. The Mexican delegates to that June Berne Union meeting were approached about the possibility of Mexico being the first candidate for such a discussion. That was, however, the week before Minister Silva Herzog resigned and the question was not followed up at that time.

The arrangements for the Brussels meeting reflect this background. As noted above, the meeting is being hosted by the Belgian export credit agency. The Berne Union secretariat is not directly involved in any of the arrangements for the meeting. Invitations were sent to the export credit agencies of the G-10 countries plus Spain and Switzerland. Although the invitations (copy attached) were sent via the agencies, it was specifically noted in the invitation that "the value of the discussions could be improved if, in appropriate cases and if deemed necessary by each recipient individually, a representative of the guardian authority is included in the delegation." COFACE and Hermes have declined the invitation; all other agencies have accepted. While disappointed that France and Germany will not be represented, the other agencies are of the view that they should proceed with this initiative in any case. They hope that, once the usefulness of such meetings has been demonstrated, France and Germany might decide to be represented at subsequent discussions on other country cases.

One other factor of which you should be aware is that the Mexicans might object to being invited only for an opening presentation and not for the full two days of discussions. Mr. Phillips Olmedo was a member of the task force and had argued that the debtor should be a full participant in the discussions. Senior officials from U.S. Eximbank have, however, been in contact with the Mexicans and believe they have convinced them that the convening of such a meeting is in their interest and should receive their support.

Attachment

cc: Managing Director (o/r)
Mr. Wiesner
Mr. Beza
Mr. Pujol
Mr. Brown

SPECIAL DELIVERY
CABLE

RECEIVED
IMF CABLE ROOM

1986 AUG 20 AM 11:53

248331B IMF UR

21147 OND B

20/8/86 55290/PK/LB

TELEX TO :

- EDC - ATTN MR J. ARES
- EKR - ATTN MR B. RICHNAGEL
- COFACE - ATTN MR P. THOUROT / MISS G. BARRAL
- HERMES - ATTN DR G. BEUCK /DR KAUTZ
- SACE - ATTN DR R. RUBERTI
- EID/MITI - ATTN MR T. INOUE AND COPIED TO EID/MITI LONDON ATTN MR K. IIZUKA
- NCM - ATTN MR J. HOOBROECKX / MR A. KALFF
- CESCE - ATTN MR L. MARTI
- GERG - ATTN MR H. BOHREN
- ECGD(IRD) - ATTN MR J. GILL / MR R. KEMP
- EXIMBANK - ATTN MR J. WILLIAMS / MR RICHARD D. CRAFTON
- IMF - ATTN MS K. BURKE DILLON
- IBRD - ATTN MR P. MIOVIC
- IDB - ATTN MR A. BAJUK

FROM OND - W. BOES

SUBJECT : MEXICO - ROLE OF OFFICIALLY SUPPORTED EXPORT CREDITS

ON THE BASIS OF POSITIVE RESPONSES RECEIVED TO ITS PRELIMINARY ENQUIRY WITH SOME CREDIT INSURERS, THE OND WISHES CONFIRM ITS INVITATION TO YOUR INSTITUTION AT AN AD HOC MEETING ON MEXICO, WHICH WILL BE HELD IN BRUSSELS ON THURSDAY 11 (STARTING AT 10 A.M.) AND FRIDAY 12 SEPTEMBER 1986.
THIS MEETING WILL BE AN OCCASION TO RECEIVE EXTENSIVE BACKGROUND INFORMATION CONCERNING THE IMF AND IBRD/IDB PROGRAMMES, THE REACTIONS OF THE COMMERCIAL BANKS AND THE EFFORTS SOME CREDIT INSURERS OR CREDITOR COUNTRIES ARE PREPARED OR HAVE DECIDED TO MAKE. THE DISCUSSIONS WILL ALSO INCLUDE AN EXCHANGE OF VIEWS ON WHETHER NEW CREDITS ARE TO BE CONSIDERED AND IF ANY OF HOW TO ASCERTAIN THE MOST APPROPRIATE USE OF NEW CREDITS.

OND WISHES TO EMPHASIZE THAT THIS AD HOC MEETING IS NOT INTENTEND TO CONCLUDE ON ANY COMMON DECISION WITH REGARD TO NEW CREDITS. THIS REMAINS INDEED WITHIN THE APPROPRIATE COMPETENCE IN EACH COUNTRY.

ON THE OTHER HAND, REFERRING TO A REMARK MADE BY ECGD IN RELATION WITH THIS KIND OF AD HOC MEETING, THE VALUE OF THE DISCUSSIONS COULD BE IMPROVED IF, IN THE APPROPRIATE CASES AND IF DEEMED NECESSARY BY EACH RECIPIENT INDIVIDUALLY, A REPRESENTATIVE OF THE GUARDIAN AUTHORITY IS INCLUDED IN THE DELEGATION. OND DOES NOT OBJECT TO THIS POINT OF VIEW.

AS OND HAS TO ARRANGE FOR THE SECRETARIAT OF THE MEETING , AND IF NOT ALREADY DONE, PLEASE INFORM US BY RETURN OR AS SOON AS POSSIBLE OF
- YOUR PARTICIPATION
- THE NAMES AND FONCTIONS OF THE DELEGATES(S)
- A DETAIL OF YOUR CURENT EXPOSURE ON MEXICO WITH A DISTINCTION BETWEEN THE PRIVATE AND THE PUBLIC SECTORS
- FURTHER DETAILS ON THE AGENDA WILL BE SENT NEXT WEEK.

REGARDS

248331B IMF UR

21147 OND B
Time: 10:11 08/20/86 EST

Mex debt

Office Memorandum

TO: The Acting Managing Director

August 27, 1986

FROM: C. David Finch CDF

SUBJECT: Meeting of Export Credit Agencies on Mexico

As you are aware, the export credit agencies are convening a meeting on Mexico in Brussels on Thursday and Friday, September 11 and 12. In the attached memorandum, Ms. Dillon provides further background to and information on that meeting. The Fund, the World Bank, and the IDB have been invited to send staff representatives to participate in these discussions and, indeed, their participation is seen as essential to the objectives of the meeting.

Both WHD and ETR consider it important that the Fund be responsive to this initiative on the part of the export credit agencies, not only because of the major role they are being expected to play in financing Mexico's adjustment effort but also because the convening of such a meeting reflects to a certain extent the Fund's own efforts over the past few years to convince agencies and their authorities of the benefits of aligning export credit policies more closely with country adjustment efforts.

We are sending separately, via ADM, the request for staff travel in connection with this meeting and the Paris Club meeting on Mexico.

cc: Managing Director (o/r)
Mr. Wiesner
Mr. Beza
Mr. Pujol
Mr. Brown

File:
1. Mexico - Debt
2. New file

which file?

B.7f Berne Union - Country Meetings

INTERNATIONAL MONETARY FUND

September 2, 1986

TO : Mr. Pujol
Mr. Duran-Downing

FROM: K. Burke Dillon KBD

Attached is an annotated agenda for the Brussels meeting that has been prepared by OND staff. We should go through this carefully when we meet at 9:30 a.m. this Thursday in Room 5-425 with the IBRD staff attending the meeting. The Mexicans have accepted to attend and the bank steering committee is also sending someone to address the group.

You will find the attached a bit blunt and naive in its approach. I would not be concerned. These people have no experience with this type of meeting but my experience is that they will be respectful of the constraints and sensitivities concerning our interventions.

cc: Mr. Beza
Mr. Guitian

LETTER SENT TO FUND

OFFICE NATIONAL DU DUCROIRE
29-8-1986

EXPORT CREDIT AGENCIES' MEETING ON MEXICO

IN BRUSSELS ON SEPTEMBER 11-12, 1986

Dear Ms Dillon,

It would be of very great help if you could provide me following data, probably available to you and to authorise me to communicate them as a confidential memo to the participants.

Most important are :
- the basic data table (as usual in staff reports)
- the BOP table with historical data (up to '85)
- the current account projections or simulations, as available

  + with different oil price developments
  + with targeted evolution in non-oil exports
  + with targeted evolution in services, including the border trade and tourism

- the capital account for the period up to 1985, detailing medium and long term, drawings and amortisations, divided according to the different rescheduling groups (Paris and London) and the multilateral institutions.
- a detailed working table on debt and debt service components, illustrating :

  * the changes in the principal and interest payments resulting from requested reschedulings (interests and/or amortisations) to London and Paris Club.

  * the rescheduling and new money sollicitated or to be sollicitated from banks, possibly according to the different oil price assumptions.

  * the new money (estimate or target range) sollicitated from the official credit insurers.

These data are intended to support specific items on the agenda and can be commented either by the IMF - or the IBRD representative.

The provisional agenda on following pages may guide you but please feel free to suggest changes.

We count on your intermediation with the World Bank to obtain their participation. On the view of the agenda (see annexe) - that you are authorised to communicate - they can determine the most suitable persons to assist.
A formal invitation and agenda repeating the invation sent on 22/8/86 to Mr. MIOVIC is ready at the Belgian Representative Office to be delivered immediately to the persons you indicate.

We are looking forward to welcome you again in Brussels and thank you for your kind cooperation.

H. VAN EYKEN

Van Eyken

W. BOES

OFFICE NATIONAL DU DUCROIRE
9-8-1986

EXPORT CREDIT AGENCIES' MEETING ON MEXICO

IN BRUSSELS ON SEPTEMBER 11-12, 1986

Dear Sir,

At the meeting of the World Bank with the ECA's in Washington (May 6-7, 1986) we experienced a willingness of the World Bank to provide ad hoc information on the Bank's involvment in the structural and sectoral reforms to be realised by the member countries confronted with an acute debt problem.
The World Bank offered also help on the issue of avoiding non-productive use of new credits sollicitated from the ECA's.

OND is organizing on September 11-12, 1986 in Brussels a meeting of the ECA's substantially involved in Mexico.

We wish to stress that our initiative is a result from the internal discussions between ECA's about the Baker-plan idea, with the much appreciated assistance of Miss Burke Dillon from the IMF. OND has been willing to assume the organization and the secretariat of this first ad-hoc group meeting.

We therefore invite you to our meeting as one of the key participants with a contribution on the intervention of the IBRD, especially the projected Trade policy loan
Industrial recovery project
Industrial development project
and the agricultural and export promotion programs.
(See also the draft agenda on following pages).

Particularly the not so much publicised conditionality or "conditions precedent" in those projects could be elaborated upon.

In order to facilitate the highlighting of the systematic action at the key problem fields through your institution, we would like to distribute - with your permission - to participants, a brief description of the economic situation such as part I and II (pages 1-8) from the document R86-197 (July 15, 1986) on the Industrial Technology Development Project, or any other document that could serve the purpose of a brief introduction on the state of the economy and it's key problems.
As mentioned in the provisional agenda (annexed to this letter) you will have the possibility to elaborate on the overall purpose of your programme in Mexico
As this meeting is the first testcase, we are intending to generalise on such items as cooperation with IBRD in following the debtor countries' progress and possible intermediation of IBRD between the debtor country and the ECA's.
We would therefore be pleased to welcome a representative familiar with the problems we discussed in May in Washington as well as a specialist on your programme for Mexico.
We hope to welcome you in Brussels and thank you for your kind cooperation.

H. VAN EYKEN W. BOES

FFICE NATIONAL DU DUCROIRE
29-8-1986

FIRST DRAFT OF AGENDA WITH SOME DEVELOPMENTS ON THE POSSIBLE CONTENT OF THE STATEMENTS TO PREPARE.

A. General introduction of the problem fields

The idea is that O.N.D. would present the problem in a small paper with attachments provided by IMF and IBRD, as the confidentiality issue permits you and as can be realised in the short preparation time available.

The best analysis of the economic and financial background available to us is the part I from a recent IBRD President's Report and Recommendation, that could be used as an attachment, providing background information for the intervention from IBRD in item C.

The basic data and the historical BOP data could do the same for the IMF.

As the attendants are familiar with the case but not necessarely economists, this should not last very long, unless we can get first-hand information from a delegate of the Government of Mexico.

Much important to ECA's are the issues of :

- the political and social environment, with elections to come in 1988, with impact on the possibility of non-respect of conditionality.

- possible success of a hard core debt cartel in case of no financing agreements being reached.

- The abuse of private sector credit associated with capital flight.

- The lack of new business as long as debtor countries have no access to credits for highly productive projects or imports.

Those questions have to be in our minds during the discussions and afterwards in determining our general approach to country policy, our behaviour as a group towards colleagues, multilateral institutions and private banks, including stearing committees on rescheduling and new money.

B. <u>Defining the gap and definition of a recovery plan supported by all parties</u>

sub-title : The scope of the debt relief and the amount of new credits required for an export oriented growth and the measures to be taken for the enhancement of the creditworthiness of Mexico

- <u>The view of the Government of Mexico</u>

If the Government of Mexico does not accept to addres the first meeting of this kind, the IMF could give an overview of the nego-ciations with the Fund and of the new money request of the private banks formulated after the latest round of negociations that led to the stand-by programme to be approved.

If the Government of Mexico wishes to illustrate its letter of intent and its financing needs to the meeting, it could be done in this item
and even take the first place on the agenda.

- <u>The view of the International Monetary Fund</u>

A description of the drafted stand-by arrangment could be given here, including the conditions on new credits to be committed before the entering into force.
This is an introduction to the discussions on financing the gap in item C below.

Comments on the scenario's with different assumptions of oil prices, the assumptions on the evolution of non-oil exports and services, the evolution of imports assumed as necessary for the targeted growth, could be included here.

We think that this part could fill up the first day, including a question time. All the aspects of the IMF intervention are concentrated here, with the exception of the possibilities of further IMF credits in the future and thus the possibility for further IMF conditionality. This is part of item C3.
Also treated separately are the details on the debt figures in item C6.

C. Financing the gap and conditionality.

sub-title : amount of financing already committed, envisaged or sollicitated, with elaboration on the conditionality and the control on the efficient utilisation of the new credits.

1. Intervention from the World Bank

Several new credits are planned, next to already committed ones, and are more important for the return to creditworthiness than most people assume.
Therefore the World Bank could seize the opportunity to explain the master plan behind their different credits in Mexico.

The ECA's are very much interested in the not so much publicised conditions precedent to some loans, including such elements as trade reform, reorganization of public sector enterprises, change of pricing mechanism.

The projected Trade Policy Loan, Industrial Recovery Project, Industrial Development Project and the Agricultural Program and Export Promotion Program could be an excellent opportunity to illustrate the contribution from the World Bank to enforce structural changes.
It could be stressed that this type of influencing can last during successive governments, attracts less criticism from the local population, and is easier to understand than the IMF monetary controls.

The World Bank could help the ECA's in informing them in a more comprehensive way about this type of conditionality.

An indication of the further World Bank actions (Structural Adjustment Loans ?) could also complete the picture.

2. Inter American Development Bank

The IADB program usually does not include conditionality but has overall objectives or target sectors and could step up their intervention in Mexico (Baker plan impact).

They also could attract our attention to some forgotten positive elements in the Mexican situation.

The possibilities of cooperation with ECA's in the case of Mexico could be a topic for discussion, possibly the start for more systematic cooperation.

3. International Monetary Fund

- Indication of the limits on IMF credit to Mexico.

- Indication of possible non conditional funds e.g. compensatory financing (petroleum prices).

- Possibility of enhanced monitoring and reporting during periods with no operative stand-by (if requested by Banks or ECA's)

- Views of the different delegations on the adequacy of the existing flow of informations in cases like Mexico (black out during long periods of discussions going on and off)

4. Report on the Mexican negociations with the banking community

Indication of special clauses, envisaged for Mexico such as - IMF monitoring after IMF stand-by - review clauses related to oil prices or interest-rates, equality of treatment of all creditors.

5. Commitments already obtained from individual ECA's or governments

The IMF seems to have got already commitments of new credits.

6. Analysis of the rescheduling effort required from the ECA's

Presentation of the detailed debt figures, including detail on :
- multilateral organisations
- IMF credits
- commercial credits (banks)
- officially guaranteed commercial credits
- bilateral official credits

/ Public sector debt
/ Private sector debt

= short term
= medium and long term

. principal
. interest

The informations above should permit the evalution of :

- the efforts asked from the Paris Club members (depending on the cut-off date and the number of years to reschedule)
- the impact of the Paris Club rescheduling on the BOP-projections or the impact of no such rescheduling.

As a Paris Club on Mexico is scheduled in the near future it should be watched that no overlapping of competence occurs. No decision whatsoever shall even be suggested at the meeting.

D. New or continued cover from ECA's

The issue raised is not a decision on a more lenient cover policy, as it is convened that this meeting is only informative, decisions are to be taken individually in each nation's competent body.

sub-title : ways of getting support for organizing selectivity in the use (destination) and the offering of new officially supported commercial credits.

Every ECA is confronted with the problem of selection of the type of credit they are going to support or refuse.

Those ECA's convinced of the necessity of organized selectivity as a means of accellerating the process of resuming cover in difficult cases, could try to organize some procedures with all the parties concerned as a follow up of this meeting.

The parties concerned are obviously :

- the debtor country itself, with planning department and priority plans, national or sectoral development banks or even a control body tailored to the purpose

- IBRD, with cofinancing, complements to sectoral loans, priority sectors...

- ECA's themselves as far as a consensus on the principle of selectivity can be approved by a sufficient number of countries

- The private banking community

- IMF and IBRD; they could be convinced to help in organizing and controlling selectivity for the positive impact on their programs as well.

Each ECA can individually limit its intervention to certain priority sectors or to complements of internationaly financed projects or even to credit lines for export promoting contracts to one or several development banks.

Other choices of limitations on eligible contracts are perfectly possible and need only to be discussed with the debtor country, as it is done by some bigger countries.

Monitoring and report on the progress by the multinational institutions is essential, but we need a commitment from a competent body in Mexico to fix the right priorities.

Also needed is the discipline from the creditors in the credits they offer, at least in the period of doubt about the recovery take-off.

Tour de table for the delegations who wish to speak about the conditions they could consider for resuming or continuing cover on medium and long term credit to Mexico, and how they react to the question of selectivity.

E. <u>Conclusions about the usefullness of bringing the parties together</u>

What kind of follow-up can we give to this meeting ?

What lessons can we draw from the present experience ?

Do we need a coordinated approach ? Will lack of concertation not entail de facto : no cover untill the competition forces us to match ?

H. VAN EYKEN

Van Eyken

W. BOES

1. Circ
2. File — Mexico Debt

August 28, 1986

UNITED MEXICAN STATES

CONCEPTUAL FRAMEWORK FOR A FOREIGN FINANCING STRATEGY: SERVICING OF OUTSTANDING LOANS FROM COMMERCIAL BANKS AND NEW COMMERCIAL BANK FINANCING

I. Introduction

In June of 1986, President Miguel de la Madrid launched an economic strategy the basic objective of which is to achieve sustained growth in a context of financial stability. This objective is reflected in the pathbreaking program agreed to by Mexico and the IMF in July, which encompasses appropriate aggregate demand management and structural reforms. The new program requires a new strategy for the external sector of the economy. The fundamental aspects of external trade, foreign investment and exchange rate policy were announced to the international banking community in the communication of July 24, 1986 from the Ministry of Finance.

The new external financing strategy is now being defined. As regards official creditors, substantial progress has been achieved as evidenced by the direct participation of the World Bank and the IMF in Mexico's 1986-1987 financing program and the forthcoming negotiations with the Paris Club. Mexico is now addressing the most important aspect of its foreign financing: the participation of commercial banks. Set forth below is a conceptual framework offered as a working proposal, together with illustrations of how the ideas embodied in the outline might be applied.

II. Basic Objectives

The underlying premise of the working proposal is that a successful external strategy must satisfy both the external financing requirements of the Mexican economy and the concerns of Mexico's bank creditors in light of the constraints to which they are subject. The basic objectives of the strategy are:

1. To meet Mexico's anticipated financial requirements for 1986 and 1987 within the framework of its IMF-supported economic program.

2. To achieve a more realistic matching of debt service requirements and Mexico's capacity to pay and, at the same time, to minimize the amounts of additional new money to be procured through separate negotiation over the medium term.

3. To protect the Mexican economy from oil price and interest rate shocks.

4. To achieve a longer-term solution to Mexico's debt problem that will foster the reestablishment of normal access to the financial markets.

III. Working Proposal

The framework for the working proposal consists of three parts that address, respectively, the cost of Mexico's previously rescheduled commercial bank debt and its 1983 and 1984 new money loans, the repayment profile of this debt and the means of financing Mexico's 1986 and 1987 new money requirements.

1. The elimination of spreads on previously rescheduled commercial bank debt and on the 1983 and 1984 new money loans, together with the substitution of cost-of-funds rates for the prime rate, would provide savings of more than U.S. $600 million per annum. These savings would in turn reduce future external financing requirements.

2. To meet the basic objectives outlined above, repayment of the principal of and interest on this existing debt would be based on constant present value payments adjusted to reflect changes in the relationship between oil prices and international interest rates. Table 1 illustrates a constant present value payments amortization scheme with an assumed repayment period of 25 years and varying interest rates. Under such a scheme, actual payments are constant if measured at present value, but grow in nominal terms over time. Table 2 illustrates the same scheme with the same assumptions, but the payments are adjusted to reflect variations in the relationship between oil prices and interest rates. The prices of oil and

interest rates shown in Table 2 for the years 1987-1991 are consistent with the assumptions contained in Mexico's medium-term economic program. For illustrative purposes, the table reflects an unfavorable relationship between oil prices and interest rates through the year 1997 and a more favorable relationship thereafter. The effect of the adjustments in Table 2 is to reduce payments in early years and to increase payments in later years in comparison to the payments stream shown in Table 1. This example reflects the symmetrical nature of the adjustment mechanism contemplated.

3. As regards new money for 1986 and 1987, the quality of the banks' asset would be enhanced if a portion of this new money were used to purchase a zero coupon bond issued by the World Bank and pledged to secure repayment of the principal of the new money. The zero coupon bond would have a value at maturity equal to the total amount of new money borrowed. From the banks' point of view, the risk of principal repayment would not be a Mexican portfolio risk, but a World Bank risk. From the Mexican point of view, defeasance of the additional debt from the outset would improve expectations as to Mexico's economic future.

IV. Conclusion

This working proposal is meant to constitute an integral and flexible approach to the questions of debt management and new money. It is intended to provide a basis for constructive discussion, and its essential features have been presented to the Bank Advisory Group for Mexico. Mexico's agreed letter of intent addressed to the International Monetary Fund on July 22, 1986 (and distributed to Mexico's commercial bank creditors) references two contingent financing schemes related to the behavior of oil prices through the end of 1987 and the recovery of Mexico's economy in 1987. The precise mechanism by which these schemes are to be implemented and their relationship to the other elements of Mexico's 1986-1987 commercial bank financing program are in the process of definition.

25-YEAR AMORTIZATION SCHEME WITH CONSTANT PRESENT VALUE PAYMENTS

YEAR	INTEREST RATE	PRINCIPAL BALANCE[1]	REFERENCE PAYMENT[2]	ACTUAL PAYMENT[3]	PRINCIPAL ADJUSTMENT[4]
1987	7.00	52460.00	3672.20	2245.29	1426.91
1988	7.00	53886.91	3772.08	2402.46	1369.63
1989	7.00	55256.54	3867.96	2570.63	1297.33
1990	7.00	56553.87	3958.77	2750.57	1208.20
1991	7.00	57762.06	4043.34	2943.11	1100.23
1992	8.00	58862.29	4708.98	3178.56	1530.42
1993	8.00	60392.71	4831.42	3432.85	1398.57
1994	9.00	61791.28	5561.22	3741.81	1819.41
1995	9.00	63610.69	5724.96	4078.57	1646.39
1996	10.00	65257.08	6525.71	4486.42	2039.28
1997	10.00	67296.37	6729.64	4935.07	1794.57
1998	9.00	69090.94	6218.18	5379.22	838.96
1999	9.00	69929.90	6293.69	5863.35	430.34
2000	8.00	70360.24	5628.82	6332.42	-703.60
2001	8.00	69656.63	5572.53	6839.01	-1266.48
2002	7.00	68390.15	4787.31	7317.75	-2530.44
2003	7.00	65859.71	4610.18	7829.99	-3219.81
2004	7.00	62639.91	4384.79	8378.09	-3993.29
2005	7.00	58646.61	4105.26	8964.55	-4859.29
2006	7.00	53787.32	3765.11	9592.07	-5826.96
2007	7.00	47960.36	3357.23	10263.52	-6906.29
2008	7.00	41054.07	2873.78	10981.96	-8108.18
2009	7.00	32945.89	2306.21	11750.70	-9444.49
2010	7.00	23501.40	1645.10	12573.25	-10928.15
2011	7.00	12573.25	880.13	13453.38	-12573.25
	7.72		109824.61	162284.61	-52460.00

1. Principal Balance from preceding period plus Principal Adjustment from preceding period

2. Interest on Principal Balance

3. Constant present value payment: Principal Balance at beginning of each year divided by remaining number of years and multiplied by 1 plus interest rate for such year

4. Reference Payment minus Actual Payment

TABLE 2

25-YEAR AMORTIZATION SCHEME WITH ADJUSTED CONSTANT PRESENT VALUE PAYMENTS

YEAR	OIL PRICE US $	INTEREST RATE	PRINCIPAL BALANCE [1]	REFERENCE PAYMENT [2]	ACTUAL PAYMENT [3]	PRINCIPAL ADJUSTMENT [4]
1987	11.00	7.00	52460.00	3672.20	1411.32	2260.88
1988	11.40	7.00	54720.88	3830.46	1565.03	2265.43
1989	11.90	7.00	56986.31	3989.04	1748.03	2241.01
1990	12.40	7.00	59227.32	4145.91	1948.98	2196.93
1991	12.90	7.00	61424.25	4299.70	2169.50	2130.20
1992	14.00	8.00	63554.46	5084.36	2224.99	2859.36
1993	16.00	8.00	66413.82	5313.11	2746.28	2566.83
1994	18.00	9.00	68980.64	6208.26	2993.44	3214.81
1995	20.00	9.00	72195.46	6497.59	3625.39	2872.20
1996	22.00	10.00	75067.66	7506.77	3948.05	3558.71
1997	24.00	10.00	78626.37	7862.64	4737.66	3124.97
1998	26.00	9.00	81751.34	7357.62	6215.99	1141.63
1999	30.00	9.00	82892.97	7460.37	7817.80	-357.44
2000	30.00	8.00	82535.53	6602.84	9498.63	-2895.79
2001	30.00	8.00	79639.75	6371.18	10258.52	-3887.34
2002	30.00	7.00	75752.40	5302.67	12544.71	-7242.04
2003	30.00	7.00	68510.36	4795.73	13422.84	-8627.11
2004	30.00	7.00	59883.25	4191.83	14362.44	-10170.61
2005	30.00	7.00	49712.64	3479.89	15367.81	-11887.92
2006	30.00	7.00	37824.72	2647.73	16443.55	-13795.82
2007	30.00	7.00	24028.90	1682.02	17594.60	-15912.58
2008	30.00	7.00	8116.32	568.14	8684.47	-8116.32
2009	30.00	7.00	0.00	0.00	0.00	0.00
2010	30.00	7.00	0.00	0.00	0.00	0.00
2011	30.00	7.00	0.00	0.00	0.00	0.00
	23.58	7.72		108870.04	161330.04	-52460.00

1. Principal Balance from preceding period plus Principal Adjustment for preceding period

2. Interest on Principal Balance

3. Constant present value payment as shown in Table 1 adjusted to reflect relationship between oil prices and interest rates

4. Reference Payment minus Actual Payment

INTERNATIONAL MONETARY FUND

August 7, 1986

Mr. Guitian:

Mexico--Comments on the Staff Report

Attached are comments on the draft staff report for Mexico which was reviewed by me.

cc: Mr. Brachet
Mr. Johnson
Mr. Hino
Mr. Duran-Downing

David Lipton DL

August 7, 1986

Mexico--Comments on the Staff Report

External finance issues

1. Discussion relating to the rescheduling of debt service obligations is conspicuous in its absence. With regard to rescheduling of obligations to official creditors, in contrast to the last Paris Club meeting which was kept secret, there have been sufficient public statements about the possibility of more official rescheduling that it seems unnecessary to avoid the subject in the current report. In fact, we presume that the statement (on the bottom of page 35) that the authorities feel confident that official sources of financing will provide some US$6 billion refers in part to official rescheduling. While the phrase Paris Club could be avoided, we wonder whether there is a good reason not to mention official rescheduling and, for that matter, export credits. In this connection, even though quantification need not be included, we find this statement on the authorities' confidence somewhat awkward. Does the reference to a "marked increase in credit available from the World Bank and bilateral creditors" imply that indications have been made pertaining to Mexico, or is this a more general observation?

2. Projected percentage changes in bank exposure to Mexico are presented in some detail (on page 36). We would urge the inclusion of a similar analysis for official creditors. Its absence may create the impression that the relative contribution of the banks is great, when in fact comprehensive projections would indicate the contrary.

General presentational points

1. The argument (on page 14) that full and speedy adjustment for lost export earnings might so disrupt production and employment that orderly relations with creditors would be jeopardized should be qualified much more carefully so as to limit is implications to the circumstances of Mexico. It would not be desirable to unnecessarily encourage other members to shy away from needed adjustment by focusing attention on this issue.

2. The sentence (on page 15) suggesting that external financial support should be provided particularly from creditors involved in efforts to expand oil production capacity is unclear. Is it intended that calculations of creditor contributions will include this criterion? Or is this a veiled suggestion that these creditors invested in a risky enterprise and must share the losses arising from unfavorable outcomes? In either case, the line of reasoning is questionable.

3. The discussion of monetary correction of the budget deficit data refers (twice on page 17 and once on page 20) to the "inflationary" component of internal public debt service. This term would permit the inference that the component causes rather than reflects inflation.

Perhaps the term inflation component (which is used once on page 20) could be used.

4. The explanation (on page 18) that the authorities are not in a position to advance an estimate of the 1987 inflation rate may create an unwanted impression that no reasonable, even if tentative, estimates of future budgetary needs have been prepared and that only a very short-term analysis of Mexico's problems underlies the current program.

5. Should the phrase "prior import requirements" (on the eleventh line of page 33) be prior import deposit requirements?

6. The statement (on page 36) that creditors need to be assured that adjustment will permit Mexico to maintain orderly relations with creditors and the explanations that follow on how this is to done might seem to call into question standard Fund practices in other cases. Is this not one of the goals of Fund-supported economic programs? Secondly, the sentence describing "safeguards" (also on page 36) could be reworded to avoid raising doubts about whether the program itself is satisfactory.

7. Given that the volume of oil exports have been closer to 1.5 mbd in the recent past, it would be advisable to discuss the factors explaining the current assumption of volumes of 2.3 mbd in the remainder of 1986 and of 1.3 mbd in 1987.

mex
det

INTERNATIONAL MONETARY FUND

August 5, 1986

Mr. Finch
Mr. Guitian
Mr. Duran-Downing

Attached is the version of the Mexico table that was facsimilied to Paris. It is somewhat different than the draft you saw earlier, as it was revised on the basis of comments from Mr. Pujol.

Attachment

K. Burke Dillon KBD

August 5, 1986

Mexico: Public Sector Capital Account

(In billions of U.S. dollars)

	1986	1987
Total net drawings	5.5	5.1
Commercial banks (net)	3.5	2.5
Outflows	-8.3	-13.8
Amortization due before MYRA	(-7.1)	(-10.8)
Prepayment of 1983 Jumbo loan	(-0.9)	(--)
PEMEX acceptances	(-0.3)	(-3.0)
Inflows	11.8	16.3
Restructuring under MYRA	(6.8)	(10.3)
New rollover/restructuring	(1.5) 1/	(3.5) 1/
New money	(3.5)	(2.5)
Official bilateral creditors	0.7	1.5
Outflows	-1.6	-1.3
Amortization due on debt as of December 1985	(-1.6)	(-0.9)
Amortization due on new debt	(--)	(-0.4) 2/
Inflows	2.3	2.8
Paris Club rescheduling 3/	(0.7)	(1.0)
New credits	(1.6)	(1.8)
Multilateral development banks	1.1	1.6
Amortization due	-0.5	-0.5
Drawings	1.6	2.1
Other, net 4/	0.2	-0.5
Memorandum item: Interest due	-6.0	-6.0
Commercial banks	-4.8	-4.7
Debt end-1985	(-4.8	(-4.1)
Rescheduling/new money	(...)	(-0.6)
Official bilateral creditors	-0.5	-0.5
Debt end-1985	(-0.4)	(-0.3)
Rescheduling/new money	(-0.1)	(-0.2)
Multilateral development banks	-0.5	-0.6
Bonds and short-term debt	-0.2	-0.2

1/ Includes the rollover of US$0.3 billion of PEMEX British acceptance facility in 1986 and US$3.0 billion of PEMEX US acceptance facility in 1987, the restructuring of US$950 million of 1983 Jumbo loan in 1986, and the restructuring of US$0.3 billion in 1986 and US$0.5 billion in 1987 of amortizations due after the MYRA.

2/ Repayment of debt contracted in 1986.

3/ Assumes 90 percent of service falling due in August-December 1986 and January-December 1987.

4/ Includes bonds and private placements; interest rebate; and short-term capital.

Mex File

INTERNATIONAL MONETARY FUND

July 24, 1986

Mr. Brau
Ms. Dillon

Attached please find data on disbursements and outstanding stocks of debt due to official creditors that have been provided by the Mexican authorities.

The total outstanding stock differs only slightly from data that appears in other reports. Data on disbursements include short-term operations.

Attachment

Luis Duran-Downing

cc: Mr. Beza
Mr. Pujol
Ms. Xafa

CLQ/MEX: tbmexclq July 24, 1986

Table . Mexico: Public Sector Debt due to Official Creditors

(In millions of U.S. dollars)

	Outstanding Stock End-1985 (In millions of dollars)	Outstanding Stock End-1985 (In percent of total)	Disbursements 1985	Disbursements Jan. - June 1985	Disbursements Jan. - June 1986
United States	1,197.0	27.8	513.9	291.2	352.5
United Kingdom	535.0	12.4	70.4	29.8	20.1
France	557.3	12.9	225.8	53.4	67.0
Japan	1,148.5	26.6	307.0	164.8	143.8
Germany, Fed. Rep. of	161.4	3.7	59.4	19.0	29.3
Canada	162.6	3.8	12.7	11.4	13.9
Belgium	54.9	1.3	16.7	3.7	4.2
Netherlands	13.8	0.3	--	--	...
Sweden	125.9	2.9	16.2	10.1	7.6
Italy	42.6	1.0	8.7	8.7	...
Spain	205.6	4.8	23.0	11.2	41.1
Portugal	11.2	0.3	--	--	...
Brazil	17.6	0.4	3.8	3.8	...
Switzerland	63.4	1.5	29.8	5.8	4.8
Finland	0.1	--	--	--	...
Norway	1.1	--	0.8	0.6	...
Austria	5.7	0.1	--	--	...
Czechoslovakia	9.5	0.2	5.2	4.5	...
German Dem. Rep.	...	...	0.2	0.2	...
Other	--	--	--	--	13.9
Total	4,313.5	100.0	1,293.6	618.2	698.2

Source: Ministry of Finance and Public Credit.

file: Mexico/Debt

INTERNATIONAL MONETARY FUND

TO : Ed Brau July 22, 1986

FROM: Miranda Xafa MX

Re: Mexico

Table 1, which was attached to my memo of June 4 comparing Berne Union to BIS/OECO data, shows the stocks and flows of officially supported export credits to Mexico and to the 15 Baker countries over the eighteen months to mid-1985. Table 2 also shows the stocks and flows of nonguaranteed bank credits to Mexico. All flows are adjusted for exchange rate changes, using the currency composition of bank credits.

cc: Ms. Dillon
Mr. Duran-Downing

June 4, 1986

Table 1

EXCHANGE-RATE ADJUSTED FLOWS: 1/
OFFICIALLY SUPPORTED EXPORT CREDIT STOCKS ANDFLOWS FOR THE 15 BAKER COUNTRIES
(in millions of U.S. dollars and percent changes)

	FLOWS								STOCKS	
	1984				18 months to mid-1985				mid-1985	
	Berne Union		OECD/BIS		Berne Union		OECD/BIS		Berne Union	OECD/BIS
COUNTRY	(in US $)	(in %)	(in US $)	(in %)	(in US $)	(in %)	(in US $)	(in %)	(in US $)	
Argentina	($1,059)	-15.52%	($272)	-8.95%	($1,360)	-19.93%	($276)	-6.15%	$5,464	$2,766
Bolivia			($5)	-2.61%			($5)	-2.61%		$169
Brazil	($1,331)	-7.21%	$34	0.34%	($1,073)	-5.81%	$19	0.13%	$17,385	$9,924
Chile	($93)	-7.52%	($147)	-18.78%	($65)	-5.20%	($58)	-5.03%	$1,177	$727
Colombia			$375	32.47%			$635	33.91%		$1,791
Cote d'Ivoire	($499)	-26.28%	$29	2.95%	($614)	-32.34%	($89)	-6.04%	$1,284	$905
Ecuador			($134)	-17.67%			($45)	-4.02%		$715
Mexico	($517)	-5.97%	$716	11.56%	($705)	-8.14%	$644	6.82%	$7,955	$6,833
Morocco	($199)	-7.68%	$496	27.29%	$106	4.11%	$670	23.27%	$2,695	$2,486
Nigeria	($3,380)	-25.10%	($193)	-4.06%	($1,922)	-14.27%	$1,447	19.82%	$11,546	$6,219
Peru	($122)	-5.50%	$216	16.77%	($182)	-8.20%	$95	4.87%	$2,041	$1,386
Philippines	($561)	-11.06%	$672	24.13%	($475)	-9.37%	$1,100	24.83%	$4,597	$3,895
Uruguay			$14	12.31%			$21	11.84%		$139
Venezuela	($800)	-28.08%	$79	5.34%	($736)	-25.85%	($119)	-5.47%	$2,112	$1,354
Yugoslavia	($619)	-10.93%	($273)	-7.02%	($725)	-12.79%	($278)	-4.82%	$4,942	$3,607
15 Baker countries	($9,180)	-15.65%	$1,607	4.11%	($7,750)	-13.22%	$3,761	9.61%	$61,198	$42,916
Memorandum item:										
Unadjusted flows to 15 Baker countries			$928	2.30%			$3,094	7.80%		

1/ Berne Union data are reported on an exchange rate adjusted basis; exchange-rate adjusted BIS/OECD data were derived on the basis of the procedure outlined in Miranda Xafa's note of May 1, 1986, using the debtor-country specific currency composition of banks credits to nonbanks obtained from the Bureau of Statistics.

Table 2

Mexico: Officially Supported and Nonguaranteed Bank Credits, BIS/OECD

(in millions of U.S. Dollars)

UNADJUSTED AND ADJUSTED DATA WITH ABSOLUTE AND ANNUAL PERCENT CHANGES:

					ADJUSTED			
	STOCKS		FLOWS		STOCKS		FLOWS	
	UNADJUSTED 1983	UNADJUSTED mid-1985	ABSOLUTE CHANGE	ANNUALIZED 83-mid85 % CHANGE	ADJUSTED 1983	UNADJUSTED mid-1985	ADJUSTED 83-mid85 ABSOLUTE CHANGE	ADJUSTED 83-mid85 ANNUALIZED % CHANGE
Officially supported export credits	$6,218	$6,833	$615	9.89%	$6,189	$6,833	$644	6.82%
-- Non-bank	$3,448	$3,907	$459	13.31%	$3,432	$3,907	$475	9.03%
-- Bank guar.	$2,770	$2,926	$156	5.63%	$2,757	$2,926	$169	4.04%
Nonguaranteed bank	$69,353	$68,873	($480)	-0.69%	$69,031	$68,875	($156)	-0.15%

	UNADJUSTED 1983	UNADJUSTED 1984	ABSOLUTE CHANGE	ANNUAL 83-84 % CHANGE	ADJUSTED 1983	UNADJUSTED 1984	ADJUSTED 83-84 ABSOLUTE CHANGE	ADJUSTED 83-84 ANNUAL % CHANGE
Officially supported export credits	$6,218	$6,905	$687	11.05%	$6,189	$6,905	$716	11.56%
-- Non-bank	$3,448	$3,857	$409	11.86%	$3,432	$3,857	$425	12.38%
-- Bank guar.	$2,770	$3,048	$278	10.04%	$2,757	$3,048	$291	10.55%
Nonguaranteed bank	$69,353	$69,430	$77	0.11%	$69,031	$69,429	$398	0.58%

1124.

Office Memorandum

To: Mr. Finch — July 18, 1986

From: Peter M. Keller P.K.

Subject: Mexico: Request by Paris Club Officials for a Survey of Creditor Countries' Attitudes

Ms. Dillon called from Paris last night to say that, at the delegation heads' dinner, the chairman of the Paris Club had requested the Fund to survey the stance of creditor countries' export credit policies under the following alternative assumptions:

(1) No Paris Club rescheduling of Mexican public sector debt.

(2) Paris Club rescheduling with a cut-off date of December 20, 1982.

(3) Paris Club rescheduling with a cut-off date of December 31, 1985.

The results of this survey should be reported to the Paris Club in aggregate only, with the report focused on quantified estimates of new flows from official creditors under these three scenarios.

Ms. Dillon said that this proposal was initially advanced by the U.K. delegate, then supported by the United States and the Chairman. Japan and Germany did not commit themselves, but the German delegate appeared to support implicitly this request. Ms. Dillon indicated that the officials did not indicate how the survey results would be used.

cc: Mr. Guitian
Mr. Brau
Ms. Dillon (o/r)

File/Mexico-Debt

Office Memorandum

TO: Mr. Brau

July 21, 1986
Revised

FROM: M. Xafa MX

SUBJECT: Mexico - Debt Service due to Official Creditors

Attached are the estimates of debt service payments due to official creditors in 1986 and 1987 provided by the Mexican authorities. (Table 1). These exceed the Paris Club and Berne Union estimates roughly by the amount due to the CCC, which is not reported to the Berne Union (Table 2).

According to these figures, which cover the public sector only, most of the debt service due in 1986 has been paid. This leaves $825 million due in the second half of 1986 and $1,056 million due in 1987 eligible for rescheduling assuming an end-1985 cutoff date.

cc: Ms. Dillon
Mr. Duran-Downing

Table 1. Mexico: Debt Service due to Official Creditors

by the Public Sector

(In millions of U.S. dollars)

	1986			1987		
	Principal	Interest	Total	Principal	Interest	Total
A. Debt service due	1,656.0	468.6	2,124.6	666	400	1,066
Of which:						
Bilateral	908.0	352.4	1,270.4	582	...	...
Suppliers	82.0	12.0	94.0	33	...	...
CCC	666.0	94.2	760.2	51	...	...
B. Debt service paid, Jan-June 1986	1,012.8	286.6	1,299.4	--	--	--
Of which:						
Bilateral	500.0	218.5	718.5	--	--	--
Suppliers	24.8	7.5	32.3	--	--	--
CCC	488.0	60.6	548.6	--	--	--
C. (=A-B) Eligible debt service	643.2	182.0	825.2 1/	666	400	1,066 1/
Of which:						
Bilateral	408.0	143.9	551.9	582	...	...
Suppliers	57.2	4.5	61.7	33	...	...
CCC	178.0	33.6	211.6	51	...	...

Source: Based on data provided by the Mexican authorities.

1/ Assuming 90% of principal and interest are rescheduled, the debt relief obtained would amount to \$742.7 million in 1986 and \$959.4 million in 1987.

July 19, 1986

Table 2. Mexico: Debt Outstanding and Debt Service Due to Paris Club Creditors

(In millions of U.S. dollars)

	End-1985		1986	1987	1988	1989 and beyond	1986 and beyond: sum of debt service
	Debt outstanding	Of which: In arrears	Debt service				
A. Paris Club statistics 1/							
1. Public sector							
Principal			1,007	632	390	1,296	3,325
Interest			253	204	162	437	1,056
Total	5,256 2/	838 3/	1,260	837	551	1,733	4,381
2. Private sector							
Principal			260	201	184	604	1,249
Interest			101	79	67	150	397
Total	2,037	220	361	280	251	754	1,646
Of which:							
PRD:							
Principal			35	26	29	21	111
Interest			36	24	22	--	82
Total 4/	426	67	71	50	51	21	193
Not PRD:							
Principal			225	175	155	583	1,138
Interest			65	55	45	150	315
Total 5/	1,611	153	290	230	200	733	1,453
3. Total, private and public							
Principal			1,267	833	574	1,900	4,574
Interest			354	283	229	587	1,453
Total	7,270	1,058	1,621	1,097	802	2,487	6,007
B. Berne Union statistics 6/							
3. Total, private and public	8,309	23	1,448	1,138	880	4,326	7,791
Of which:							
Short-term	564	...	...	...	...	...	...
Medium/long-term	7,745	...	...	1,138	880	...	...
C. BIS/OECD statistics							
3. Total, private and public	6,833 7/	...	...	...	...	...	...
D. Mexican authorities' statistics							
1. Public sector (principal)	5,326	...	1,437	827	530	2,530	5,324
Of which: due to CCC	(911)	(...)	(666)	(245)	(--)	(--)	(911)
2. Private sector (PRD only)	756	...	366	156	156	78	756
3. Total, private and public	...	...	...	...	...	...	...

Sources: Paris Club, Berne Union, BIS/OECD, and Secretaria de Hacienda y Credito Publico, Mexico.

1/ Based on data provided by creditors.
2/ Excludes Japan, Italy, and the Netherlands. May exclude debt due to CCC.
3/ Of which: $764 million due to the United States is probably an error.
4/ Excludes Canada, Denmark, Japan, and Italy. Sum of debt service due 1986 and beyond plus arrears does not add up to end-1985 stock.
5/ Excludes Denmark, Japan, and Italy.
6/ Commitments basis; may include interest due.
7/ As of mid-1985.

INTERNATIONAL MONETARY FUND

July 21, 1986

Mr. Guitian:

Attached are our comments on the Mexico policy memorandum and technical memorandum, which I reviewed myself. These comments assume the program is a fait accompli and are, therefore, technical.

Personally, I think creditors are going to find the letter very unconvincing. There are simply too many vague, meaningless statements.

Also, would it not be better to incorporate something to anticipate now the questions that are bound to arise about the years after 1987?

cc: Mr. Brachet
Mr. Duran-Downing

K. Burke Dillon KBD

July 21, 1986

Mexico--Comments on Draft Policy Memorandum

Presumably the letter transmitting this memorandum will incorporate the standard undertakings on the exchange and trade system.

This memorandum might be somewhat more convincing to Mexico's creditors if it were shortened. Long strings of sentences that tell the reader little or nothing, as on page 6, undermine rather than build confidence. Other examples where the commitment is so weak that saying nothing might be more convincing are the reference on page 12 to the authorities' maintaining their objective of exchange market unification and the reference on page 10 to the intent to "rely more" on interest rates. Also, discussions of wage policy are very conspicuous in their absence.

What is meant by the second sentence of paragraph 5(c) on page 3? It makes no sense to this reader.

In the sentence that begins on the 10th line from the bottom of page 6, is that intention to say that a given percent of the 1985 level will (1) be reached and (2) then maintained in 1987? Or is the intention to say that the price is now at that level in real terms and the nominal price will be raised to maintain that real level?

In paragraph 12, is the Fund really supporting the introduction of a system of dollar-indexed deposits in Mexico? Why?

In paragraph 6, pages 13 and 14, is not the preferred language "spontaneous" rather than "voluntary" lending?

In paragraph (a) at the top of page 18, it is not at all clear, either here or in the Technical Memorandum, how the adjustments referred to at the end of this paragraph will be made when the price of oil fluctuates within the range of $9 to $14 per barrel.

A few editorial comments are marked directly on the draft.

July 21, 1986

Mexico—Comments on Draft Technical Memorandum

Paragraph I.1

The first sentence is confusing. Do you mean "and declined by," or might "and was minus" be what is meant.

Paragraph I.3

It is unclear how the conversion to pesos described at the top of page 3 will work in the case of the $500 million economic activity adjustment. Will the adjustment for each of the last three quarters of the program be $500 million converted at the average exchange rate for the first quarter of 1987?

Paragraphs II.4 and II.5

These paragraphs state that allowance for adjustment in the ceilings in line with the "supplementary productive expenditure cntingency mechanism" will be made at the time of the first review, which is to be completed by end-1986. However, the base for that adjustment is the level of an index for the 12-month period through March 1987. This needs to be clarified.

Paragraph III.9

Presumably the MEX$63 billion at the top of page 5 is not a typo but rather reflects the impact of the large foreign borrowing in the fourth quarter of 1986.

Other comments

Is it necessary to define precisely the net international reserve concept that will be applied for the balance of payments test?

A few editorial comments are marked directly on the draft.

Ms. Dillon

INTERNATIONAL MONETARY FUND

July 21, 1986

Mr. Guitián:

México--Letter of Intent and Technical Memorandum of Understanding

Attached are comments on the letter of intent and technical memorandum of understanding which I reviewed myself.

E. Z.

E. Zervoudakis

cc: Ms. Dillon
Mr. Johnson
Mr. Duran-Downing

July 21, 1986

Mexico--Comments on the Letter of Intent and Technical Memorandum of Understanding

1. It is noted in the technical memorandum of understanding that the quarterly ceiling of foreign financing will be adjusted upward during the first nine months of the program in full "by the revenue loss that results from multiplying the quarterly reference volume of crude oil exports times the difference between the prevailing quarterly average price and the trigger price of US$9 per barrel." Since this rule focuses on oil price (rather than revenue) shortfalls, it may enable the authorities to qualify for higher foreign financing by, for instance, sharply reducing their prices so as to expand the volume of their oil exports. (Incidentally, we understand that the "reference volume" mentioned above is the agreed projected volume of oil exports rather than the volume of exports realized during the quarter. If it were the latter, it would give an added incentive to the authorities to behave as indicated above.)

2. The technical memorandum (paragraph 3) provides for an upward adjustment of the ceilings on the public sector's net use of foreign credit in 1987 if, after the first quarter of 1987, it is considered that the economic activity has not behaved as targeted (based on the manufacturing output increase) and all the other targets and ceilings in the program for end-March 1987 have been complied with. This provision may need to be clarified in order to avoid misunderstandings with the Mexican authorities. For instance, would the granting of a waiver of the end-March 1987 performance criteria be considered as compliance with the performance criteria? Furthermore, since the end-March 1987 performance criteria will be set in late 1985, they are likely to accommodate (at least partially) any slippages in economic performance that may have occurred by that time and required waivers or modification of end-September or end-December 1986 performance criteria. In other words, it would seem essential to incorporate a provision ensuring that the upward adjustment in the foreign credit ceiling will take place only if the original program objectives and targets are adhered to.

3. The letter of intent notes (paragraph 20) that if the oil price fluctuates within a band of US$9 to US$14 per barrel in a given quarter, "the corresponding adjustment will be carried out by a combination of reserve utilization/accumulation and exchange rate and credit policies, while the operational balance and other relevant program targets will be modified accordingly." Since variation in oil prices within the band can result in changes in oil revenues by over US$2 billion a year, there is a need for the letter of intent to specify the price within the band that has formed the basis of the program. (We understand that it has been conservatively estimated at US$10 per barrel for the second half of 1986 and at US$11 per barrel for 1987). Also, some explanation should be provided on the envisaged modification of the operational balance and other relevant program targets.

4. The letter of intent is unclear as to the size of the programmed fiscal adjustment in terms of the "operational" deficit. There is a reference to a targeted reduction by 3 percent of GDP (paragraph 6), but it is not clear whether this refers to the change in 1987 from 1986 or in the 18-month program period from 1985. The sizes (in percent of GDP) of the operational deficits in 1985, 1986, and 1987 could usefully be provided.

5. In view of the envisaged recourse to foreign commercial credits during 1986-87 at clearly unsustainable levels, it would seem essential for the letter of intent to discuss more fully (cf., paragraph 16) Mexico's external prospects over the medium term.

6. In the context of the "lower-end scenario" (paragraph 20), the letter of intent notes that the Mexican authorities request that the International Monetary Fund contribute toward the financing of this shortfall." Do the authorities (and the staff?) have in mind a CFF drawing in case that oil prices fall below US$9 per barrel?

~~Ceee~~

Office Memorandum

~~KBD~~

File: Mexico DoGT

MEMORANDUM FOR FILES

April 4, 1984

Subject: Mexico--Bilateral Capital Inflows, 1984

The composition of gross bilateral inflows to Mexico in 1984 has been changed, according to a recent communication by the authorities. Accordingly, disbursements from the U.S. Commodity Credit Corporation (CCC) will be limited to US$400 million, i.e., US$600 million lower than originally projected. The shortfall will be offset by higher than projected disbursements from other sources--US$400 million from the U.S. Eximbank and US$200 million from other bilateral sources (see attached table). The Eximbank component will probably come under a US$500 million insurance facility approved for FY 1984 (September-August) which could be extended through the end of CY 1984. Under this facility, the Eximbank provides guarantees on commercial bank loans to finance any type of imports (i.e., including food), with a maturity between six months and five years. Similar loans under this facility were granted last year to Nafinsa and Banco Mexicano de Comercio Exterior, for US$100 million each.

One issue which will need to be clarified during the forthcoming mission is whether the Mexican debt statistics consistently include this type of official guarantees on commercial bank loans under bilateral, rather than bank creditors, and if so, whether these types of loans would have to be considered when computing the banks' exposure to Mexico.

Attachment

Paulo Neuhaus

Paulo Neuhaus
Senior Economist
Stand-By Operations Division
ETR

cc: Mr. Pujol (o/r)
Mr. Loser (o/r)
Mr. Valdivieso

ATTACHMENT

Mexico: Bilateral Capital Inflows, 1984

(In billions of U.S. dollars)

	Original Projections	Revised Projections
U.S. Commodity Credit Corporation (CCC)	1.0	0.4
Other sources	1.1	1.7 1/
Total	2.1	2.1

Source: Mexican authorities.

1/ Including new loans by the Eximbank of about US$0.4 billion, in addition to the US$0.5 billion already included in the projections provided by the authorities on April 3, 1984.

1. Circ

2. File: Mexico-Debt

INTERNATIONAL MONETARY FUND

March 20, 1986

Deputy Managing Director:

I attach a draft record of yesterday's meeting with U.S. banks on the Mexican Advisory Committee.

Attachment

C. Maxwell Watson

mm6cmwcacI
March 20, 1986

MEMORANDUM FOR FILES March 20, 1986

Subject: Meeting with U.S. members of Mexico Advisory Committee

The Deputy Managing Director met on March 19, 1986 with U.S. members of the bank advisory committee for Mexico. Mr. Rhodes opened the discussion by stating that the chairmen of the advisory committee banks had agreed that committee members should approach their respective national authorities to discuss a number of issues of mutual concern. The U.S. banks had held discussions earlier in the day with the Treasury, the Federal Reserve and also with the World Bank. The purpose of this meeting was to pursue these issues with the Fund. The banks raised three main issues: progress in securing policy reform in Mexico, the rollover on Friday, March 21 of the $950 million principal payment, and the structure and terms of the next financial package for Mexico.

With regard to policy reform, Mr. Rhodes emphasized that the banks wished to see a letter of intent to the Fund and a comprehensive and convincing program of structural reform with the Bank agreed before commitment of a new financial package. Both he and Mr. Coleman emphasized the need for linkage of bank financing to policy reforms endorsed by both the Fund and the Bank. Mr. Rhodes said that Mr. Gurria was optimistic on progress with the Bank. However, the discussions earlier in the day had indicated that Bank officials were somewhat disappointed with the speed of progress on trade reform and the degree of movement on other structural issues. The banks were concerned that Mexico had done nothing to implement the debt/equity clauses in its multiyear rescheduling agreement (MYRA), and feared this indicated a continuing unwillingness to open the economy to foreign investment.

On macroeconomic policies, the bankers were hopeful that rapid progress might be in prospect; the Deputy Managing Director warned that it might take time to secure a satisfactory agreement on fiscal policy in particular. Mr. Rhodes pressed the need for the exchange rate and interest rates to be kept realistic, to induce corporations to repatriate dollars held outside Mexico. The bankers expressed strong concern about Mexico's willingness to take measures that would prevent capital flight, and indicated that they would resist building a reserve increase into the macroeconomic program, in part because it would increase the scope to finance capital flight. Pressed by the Deputy Managing Director, they did, however, acknowledge the general case for including reserve increases in the Fund programs. They also believed that the Mexicans were still overestimating the financing needs, including an overly pessimistic interest rate projection.

Turning to the rollover of the $950 million payment, Mr.Rhodes stated that the Mexicans were pressing extremely strongly that the rollover on March 21 should be for six months instead for the customary three months. Such an extension would be difficult to secure from the generality of creditor banks, in part because of a concern that this request reflected a tactic of deferring bank pressure and leverage, because of a likely emergence of arrears during the next three months. The banks had suggested 90 days renewal with a goodwill clause. This had been refused and the situation was at a deadlock. Mr. Volcker had not given specific advice on this issue. With regard to the negotiations in general, he had counselled adopting a low profile, seeking to work out an agreement with the Mexicans over time, and avoiding confrontation. The Deputy Managing Director made clear that the decision on the rollover was one for the banks to take in light of their assessment how important and sensitive this question was for the Mexican authorities.

With regard to the prospective financing package the banks emphasized very strongly that the next package should not be a traditional "plain vanilla" medium term balance of payments loan. The maximum use should be made of equity conversion, trade facilities, parallel financing and cofinancing with development banks, and oil related transactions. There was concern among the banks whether the Fund and the World Bank appreciated the degree of resistance to a traditional new money package. The Deputy Managing Director warned them that the financing need of the Central Government, even though restrained under an agreement with the Fund, was likely to imply some medium term general purpose balance of payments financing. Mr. Rhodes said that Mr. Volcker had warned of strong pressure from the Mexicans for some concession on the interest rate. He had advised the banks to think about repackaging the financing in ways that could give a signal of movement and allow the Mexicans to claim progress in obtaining concessions from the banks. Mr. Mulford had ruled out interest capping, interest capitalization, or a submarket interest rate; he pointed to the case for a concession on the interest spread.

The banks pressed the need for a Paris Club, but were concerned about the possibility that German and Japanese export credit agencies would come off cover. They emphasized that this was a crucial problem that governments must be pressed by the Fund and the Bank to resolve.

The banks enquired about the modalities of Fund financing, following their earlier discussions with Messrs. Mulford and Dallara. Mr. Rhodes quoted Mulford as hinting that exceptional access might be available, but said Mr. Dallara had challenged that view. The Deputy Managing Director said that Mr. Dallara's caution no doubt reflected a concern--which was real--about the wider implications of increasing access for Mexico. He confirmed that the Special Disbursement Account could not be widened to cover Mexico, and that creditor governments had not indicated readiness to make a CFF available. The question was raised whether the EFF could be revived so that an event of default under the MYRA (involving the need for a waiver by creditor banks) could be avoided. The Deputy Managing Director said that this was not realistic. The banks admitted that there would be more worries about the MYRA than a waiver on this particular event of default.

On linkage to Fund and the Bank, the Deputy Managing Director assured the banks that neither the Fund nor the Bank could proceed without satisfactory progress on their respective sides, but he added that they could not proceed either without the commercial banks. The Deputy Managing Director indicated to banks that the Fund would wish to have discussions at a future date about technical problems that were arising from very rigid clauses in bank agreements relating to cross linkage, and from the requirement that 100 percent approval be secured from creditor banks for any waiver of economic performance covernants or events of default. Mr. Rhodes and Ms. Bauer appeared to indicate that a qualified majority could be introduced in future agreements to avoid making approval of such waivers dependent on 100 percent approval by banks.

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

Ms. Watton

1. Circ
2. File: Mexico Debt

INTERNATIONAL MONETARY FUND

March 13, 1986

Mr. Boorman
Mr. Belanger

You may be interested in the attached memorandum prepared by Klaus Regling.

Attachment

cc: Mr. Guitian
Ms. Dillon

C. Maxwell Watson

Office Memorandum

To: Mr. Watson March 13, 1986

From: Klaus Regling KR

Subject: Mexico--Enhanced Surveillance

Please find attached the relevant paragraphs which cover Mexico's reporting obligations to banks in the context of ES. Legally, Mexico is supposed to provide banks with the annual IMF consultation report for 1986 no later than May 31, 1986 and with the mid-year report for 1986 no later than November 30, 1986 (paragraphs VIII and IX of the attachment). There are no provisions in the agreement that would allow the replacement of the reporting requirements under ES by a stand-by. (Incidentally, banks probably received the 1985 Article IV consultation report, as required under paragraph X of the attachment.)

However, as Mr. Duran-Downing has told you, the next consultation with Mexico will probably not be concluded before end-June/mid-July, possibly together with a stand-by arrangement. Two questions could arise:

--Will banks insist on receiving staff reports, even with a stand-by in place? (They did so in the case of Colombia.)
--If they do, should they receive a staff report that covers the consultation and the program?

Attachments

cc: Mr. Duran-Downing

impact of all debt rescheduling), (C) new external financing (including details for both official and commercial sources) and (D) year-end levels for international reserves (gross and net) and external debt (long-term, short-term and debt owed to foreign banks);

(v) upon request of the Majority Banks and within 30 days after they become available, each general financial, statistical or economic report with respect to the Borrower which is furnished after the date hereof to the commercial holders of any External Indebtedness of the Borrower;

(vi) as soon as available for each fiscal year of the Borrower but not later than 90 days after the beginning of such fiscal year, a copy of the Annual Operative Financial Program (together with an English translation) for such fiscal year;

(vii) as soon as available for each fiscal year of the Borrower but not later than 30 days after the beginning of such fiscal year, a copy of the Federal Budget (together with an English translation) for such fiscal year;

(viii) within five days after the delivery thereof to the Borrower (which, on the basis of conversations between the Borrower and the IMF, is anticipated to occur at the end of April) but not later than May 31 of each calendar year beginning with the calendar year 1986, a copy of the annual IMF Consultation Report for such year, to be prepared by the IMF and delivered to the Borrower pursuant to the Monitoring Procedures;

(ix) within five days after the delivery thereof to the Borrower (which, on the basis of conversations between the Borrower and the IMF, is anticipated to occur at the end of October) but not later than November 30 of each calendar year beginning with the calendar year 1986, a copy of the mid-year IMF Consultation Report for such year, to be prepared by the IMF and delivered to the Borrower pursuant to the Monitoring Procedures; provided that the mid-year IMF Consultation Report for the calendar year 1987 shall be furnished to the Agent not later than September 30, 1987;

Source: Amendment to the $5 billion Credit Agreement (3/3/1983) between Mexico and commercial banks, final draft, dated 3/57

(x) as soon as finalized between the Borrower and the IMF, a copy of the Letter of Intent for the calendar year 1985 under the IMF Extended Fund Arrangement and, within five days after the delivery thereof to the Borrower but not later than December 31, 1985, a copy of the IMF report for the year 1985 on the consultations with Mexico under Article IV of the Articles of Agreement of the IMF (it being understood that such IMF report is for the last year under the IMF Extended Fund Arrangement and will not be prepared pursuant to the Monitoring Procedures);

(xi) such other financial, statistical and general information (including reasonably detailed reports on any rescheduling or restructuring of External Indebtedness) about the Borrower, Banco de Mexico and any other Governmental Agency as the Majority Banks may from time to time reasonably request through the Agent; and

(xii) as soon as possible and in any event within five days after the occurrence of any Event of Default or event which, with the giving of notice or lapse of time, or both, would constitute an Event of Default, a notice setting forth the details thereof and the action which the Borrower proposes to take with respect thereto.

End Quote

PART A-11. Amendment to Section 8.01(e) -- IMF. Section 8.01(e) of the Credit Agreement is amended to read as follows:

Quote

(e) IMF. Maintain its membership and eligibility to use the general resources of the IMF and make each purchase scheduled to become available in 1984 and 1985 to the Borrower under the IMF Extended Fund Arrangement not later than 105 days after the scheduled availability date for such purchase indicated in Schedule 2; provided that if the purchase scheduled to become available in the first calendar quarter of 1985 is conditioned upon compliance with performance criteria for such quarter, such purchase shall be made not later than 135 days after the scheduled availability date for such purchase indicated in Schedule 2.

End Quote

Mexico Debt file

INTERNATIONAL MONETARY FUND

January 31, 1986

Mr. Finch:

Mexico: Briefing Notes

Attached please find briefing notes on Mexico.

cc: Mr. Guitian
Mr. Pujol
Ms. Dillon
Ms. Atkinson

Luis Duran-Downing

Mexico--Briefing Note

1. Recent Economic Developments

Mexico's performance during 1985--the third year of the extended arrangement with the Fund--was much weaker than programmed. The public sector deficit reached 8 1/2 percent of GDP, double the proportion envisaged in the program. Significant deviations developed in the fiscal program--only partly due to softening world oil prices--which together with a larger than programmed expansion in net credit to the banking system led to a sharp increase in the net domestic assets of the Bank of Mexico. In these circumstances, exchange rate policy proved to be insufficiently flexible and during the first seven months of 1985 net international reserves declined by US$3.2 billion .

The deterioration in the external payments situation, led the authorities to introduce a managed float of the controlled official exchange rate at the end of July 1985--following a devaluation of 17 percent--and to authorize commercial banks to operate in the parallel market through exchange houses. At this time, a widespread liberalization of import permits was also enacted. With the introduction of the managed float, net international reserves stabilized and the total loss of reserves for the year as a whole was kept at US$3.4 billion.

For the year as a whole, the effective real depreciation of the Mexican peso reached almost 17 percent. The differential between the exchange rates in the controlled and the free markets began to widen in the second quarter of the year and reached almost 50 percent by October but declined to about 23 percent by the end of the year. Last year, the strong surplus in the current account of the balance of payments registered in 1983 and during most of 1984 virtually disappeared, reflecting both domestic demand pressures and an erosion in competitiveness through early 1985. As the official capital was in virtual balance, the strong reserve decline reflected a net private capital outflow close to US$4 billion.

Economic activity expanded at 4 percent (a faster pace than contemplated in the program) and inflation--as measured on an end period basis by the consumer price index--accelerated and reached 64 percent by December compared with about 59 percent in 1985 and with around 40 percent contemplated in the program.

2. The Mexican financial program for 1986

The Mexican authorities have prepared a budget for 1986 aiming at a halving of the fiscal deficit. The budget assumes a reduction in the rate of inflation to 50 percent and a decline of about 1 percent in real GDP. Key assumptions behind this scenario are the price of crude petroleum at US$22.5 per barrel and exports at 1.5 million barrels per day in average for 1986.

The fiscal plan calls for a reduction in the deficit from the equivalent of about 8 1/2 percent of GDP in 1985 to about 4 percent of GDP in 1986, and for a decline in the overall financial requirement of the public sector (including the operations of financial intermediation of the developments banks and official trust funds) from nearly 10 percent of GDP in 1985 to less than 5 percent in 1986. The bulk of the adjustment is to fall on expenditures, with emphasis on current outlays. On the monetary front, the authorities project a decline in monetary aggregates in real terms of about 11 percent for the year as a whole. The contraction in total credit in real terms allows for an accumulation in net international reserves of about US$1.1 billion. The current account of the balance of payments is projected to register a small surplus (US$0.3 billion) similar to that in 1985. Net official capital inflows are contemplated to reach US$4 billion--required to finance the public sector--but private sector operations (including errors and omissions) are expected to result in a net outflow of around US$3.2 billion.

3. Relations with the Fund

The extended arrangement with the Fund went off track by end June 1985 and expired by end December 1985. Following the earthquakes of September 1985, the Mexican authorities requested an emergency purchase equivalent to SDR 291 million--25 percent of quota--which was approved by the Board on January 10, 1986. Negotiations on an adjustment program for 1986 are in progress. The program would be supported by a new one year stand-by arrangement with Mexico. Fund financing for Mexico under the emergency drawing and for the new arrangement would total SDR 909 million equivalent to the amount not drawn under the third year of the extended arrangement which represents 78 percent of Mexico's quota. The emergency drawing absorbed SDR 291 million, leaving SDR 617 million (53 percent of quota) to be phased in four similar purchases over the course of the program. Mexico might also qualify for compensatory financing of an export shortfall during 1986 for as much as 86 percent of quota (SDR 967.4 million) but this will partly depend on the future outlook of the petroleum market and the timing of the approval of the new arrangement in order to fulfill the requirement of cooperation with the Fund. In that event the total entitlement under any CFF drawing might have to be adjusted to avoid double compensation with the emergency drawing.

During the discussions in Washington with Mexican officials the staff has raised a number of issues with reference to the budget and other projections submitted by them for 1986. Concerning the fiscal situation, stress was laid on the need for prompt positive results under the 1986 plan. The authorities agreed with this point, but they have yet to present the detailed projections that would confirm such objectives. The biggest challenge in achieving rapid adjustment in the fiscal accounts will be in assuring implementation of the expenditure cuts. There remain important questions concerning contingency plans that might be needed to cope with a possible fall in petroleum prices below the level assured in the budget and the balance of payments, as they currently are. The staff has noted that a shortfall in fiscal receipts from the petroleum sector would need to trigger further adjustment measures and that plans should be developed for this purpose. A fall of US$1 dollar per barrel in the price of oil represents about US$590 million at an annual rate in forgone revenues. Working with an assumption of an average price of oil of US$18 dollars per barrel for 1986 would represent a loss of US$2.7 billion or the equivalent of about 1 1/2 percent of GDP on a yearly basis.

The staff has proposed to raise the target of accumulation of net international reserves for 1986 to at least US$2 billion. This target, if sufficient room for the growth of private credit is also to be provided, will require the pursuit of sufficiently flexible interest rate and exchange rate policies. The staff has also insisted on the need to unify the two exchange markets in order to eliminate the distortions still present.

Concerning the balance of payments, the staff believes that if the proposed monetary and fiscal policies are in place, the current account surplus should be larger and private capital outflows would be smaller than calculated by the Mexican authorities. Consequently, even allowing for a larger accumulation of international reserves than envisaged in the Mexican program, financing requirements for the public sector would be around US$3.1 billion.

4. Relations with IBRD

The Bank is currently negotiating a Trade Development Program Loan of about US$500 million in support of Mexico's trade liberalization as well as a second export development loan of about US$250 million. A reconstruction loan is also being contemplated. Gross disbursements in 1986 could reach US$1.1 billion for a net contribution of US$0.8 billion. The Bank and the Fund staff have been in contact in discussions in a number of areas including the macroeconomic framework and the medium-term scenario; the work that the authorities are doing with the Bank in the area of trade policy will be incorporated into the adjustment program. Following Mexico's request to join the GATT, the authorities have been reluctant to commit themselves to further trade liberalization beyond the measures adopted last July on the grounds that they do not want to reveal their hand before the negotiations with the GATT. This attitude seems to be causing some delays in Mexico's negotiations with the Bank on the Trade Development Program loan.

5. Relations with commercial banks and other creditors

The signing of the MYRA was completed on August 29, 1985. An event of default could have been declared since Mexico was not in compliance or had not purchased the total amount of resources available under the extended arrangement. So far, banks have given no signs of invoking this clause and the resolution of this issue will hinge on a new agreement with the Fund. In October 1985, banks accepted to roll over for 6 months US$950 million corresponding to the prepayment of the jumbo loan of 1983. Mexico is requesting US$2.5 billion net (US$3.7 billion gross) from commercial banks as part of the financial package for 1986. Assuming no change in the net exposure to the private sector this lending would represent an increase of about 3.3 percent in bank's exposure to Mexico in 1986. Reflecting a large current account surplus and smaller private capital outflows, staff projections envisage net disbursements from commercial banks to the public sector in Mexico of US$1.6 billion in 1986 corresponding to gross drawings of US$2.8. This is to cover US$250 million of amortizations due in 1986 under the MYRA, and the restructuring of the US$950 million prepayment of the 1983 loan. The Secretary of Finance, Mr. Silva-Herzog, is scheduled to have a meeting with the Steering Committee of commercial banks in the first week of February to initiate discussions on the external financing requirements of Mexico for 1986.

In the discussions with the Mexican authorities the banks have raised the question of a MYRA with official creditors under the Paris Club. In the past, the Mexican authorities have resisted such a restructuring so as to not impair access to new credits, and have kept payments on such debts current.

6. Medium-term outlook

Mexico's outlook for the medium-term is extremely uncertain and will hinge on the behavior of petroleum prices. The scenario presented in Table 1 is based on the parameters of the most recent WEO and assumes that Mexico continues pursuing appropriate policies. It also assumes that the authorities take compensating action for any further drop in the price of oil. During 1987-88, the fiscal deficit averages 3 1/2 percent of GDP per year and inflation drops from 50 percent in 1986 to 12 1/2 percent in 1988. The external current account remains virtually on balance and public sector external financing requirements are estimated at about US$2.4 billion per year. By 1989-90 the economy recovers traditional growth rates of 6 percent per year, inflation approaches that of trading partners, and the public sector deficit is equivalent to about 3 percent of GDP. Under these circumstances the external current account evolves toward a deficit of around one half of 1 percent of GDP, private capital flows turn positive, and net external financing needs of the public sector are estimated at about US$2.7 billion.

30-Jan-86

Table 1.

MEXICO - MEDIUM TERM BALANCE OF PAYMENTS PROJECTIONS --
(In billions of US dollars)

	1985-Rev.	1986	1987	1988	1989	1990
CURRENT ACCOUNT	0.3	1.4	0.1	-0.6	-1.5	-2.0
Trade balance	9.8	10.0	8.6	8.3	7.9	7.5
Exports	22.9	23.2	24.1	25.9	27.7	29.8
Imports	-13.1	-13.2	-15.5	-17.5	-19.8	-22.3
Factor income	-9.0	-8.5	-7.9	-7.8	-7.9	-8.1
Of which:int.pmts.on pub.debt	-7.3	-7.0	-6.9	-6.9	-7.0	-7.2
Other serv. & transf.	-0.5	.0	-0.6	-1.2	-1.5	-1.4
CAPITAL ACCOUNT	-3.7	0.6	1.0	2.1	3.0	3.7
Official capital	0.3	3.1	2.3	2.5	2.7	2.7
Private capital	-4.0	-2.5	-1.3	-0.4	0.3	1.0
MONETARY AUTHORITIES (Increase-	3.4	-2.0	-1.1	-1.4	-1.5	-1.7
MEMORANDUM ITEMS:						
Current acct. as % of GDP						
At 1979 real exch.rate	0.1%	0.6%	.0%	-0.2%	-0.5%	-0.6%
At current exch.rate	0.2%	0.8%	0.1%	-0.3%	-0.6%	-0.8%
Gross reserves,end period 1/						
In billions of dollars	4.5	7.2	8.1	9.1	9.9	10.9
In months of imports & int.pym	2.3	3.8	3.9	4.1	4.1	4.1
In months of imports	4.1	6.5	6.3	6.2	6.0	5.9
Imports/GDP	-5.8	-5.7	-6.6	-6.8	-7.1	-7.3
Nonoil exports/GDP	3.7	4.1	4.4	4.5	4.6	4.6

Source: Fund staff projections

1/Excludes gold and payments agreements