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EBS/89/178
Correction 1

CONFIDENTIAL

September 8, 1989

To: Members of the Executive Board
From: The Acting Secretary
Subject: Mexico - Review Under Extended Arrangement

The following correction has been made in EBS/89/178 (9/1/89):

Page 2, footnote 1: for "includes" read "excludes"

A corrected page is attached.

Att: (1)

I. Introduction

Discussions with the Mexican authorities for the first review under the Extended Fund Facility were conducted in Mexico City during the period July 26-August 15, 1989. The Mexican representatives included the Secretary of Finance and Public Credit, the Secretary of Budgeting and Planning, the Director General of the Bank of Mexico, the Under-Secretaries of Finance and Public Credit and of Budgeting and Planning, and other senior officials of various ministries, the Bank of Mexico and other government agencies. 1/

The last Article IV consultation with Mexico was concluded by the Executive Board on May 26, 1989 (EBS/89/91 and Supplement 1, and SM/89/94). At that time the Executive Board also approved the three-year extended arrangement for the equivalent of SDR 2,797.2 million (240 percent of quota) including a set aside of 30 percent of access for debt-reduction operations. Also, the Executive Board expressed its willingness to consider favorably a possible request for augmentation of the arrangement for up to 40 percent of quota in the event that the arrangements for the financing of Mexico's program provide for appropriate debt-service reduction and upon determination by the Fund that such arrangements are consistent with the objectives of the program, and with the guidelines on Fund involvement in the debt strategy dated May 23, 1989. The Executive Board also approved a purchase equivalent to SDR 453.5 million under the decision on the compensatory and contingency facility (EBS/89/94).

To date, Mexico has made the initial purchase under the extended arrangement and the purchase under the decision on the compensatory and contingency financing facility for a total of SDR 616.67 million (Table 1). The next purchase under the arrangement is subject to the conclusion of the first review and observance of performance criteria for June. As of end-June, Mexico has observed all quantitative performance criteria under the arrangement, after the adjustments described below (Section II.4). These adjustments require a technical waiver. Furthermore, modifications to performance criteria for September and December also are envisaged. The proposed draft decision provides for these adjustments. As of July 31, 1989 Fund credit to Mexico stood at SDR 3,839.3 million, or 329.4 percent of quota, of which 38.9 percent of quota corresponded to the CCFF. 2/

1/ The staff team consisted of Messrs. Loser (Head), Kalter, Khor (all WHD), Sheehy, and El-Erian (ETR), Ms. Rojas-Suarez (RES), and Ms. Karkas (Secretary--BUR). Mr. Marino, technical assistant to the Executive Director for Mexico, attended some of the meetings.

2/ See Appendix II for a detailed description of Mexico's recent relations with the Fund.

Table 1. Mexico: IMF Position

	1986	1987	1988	Jan. 1- July 31 1989	August 1- Dec. 31 1989	1990	1991	Jan. 1- June 30 1992
(In millions of SDRs)								
<u>Purchases</u>	<u>741.4</u>	<u>600.0</u>	<u>350.0</u>	<u>616.7</u>	<u>326.4</u>	<u>1,142.3</u> 1/	<u>932.4</u>	<u>233.1</u>
Ordinary resources	516.4	157.9	—	616.7	326.4	—	—	—
Credit tranches	516.4	157.9	—	—	—	—	—	—
Extended arrangement	—	—	—	163.2	178.4	208.3	—	—
CCFF	—	—	—	453.5	—	—	—	—
Borrowed resources	225.0	442.0	419.1	—	148.0	934.0	932.4	233.1
<u>Repurchases</u>	<u>125.4</u>	<u>280.0</u>	<u>419.1</u>	<u>347.7</u>	<u>292.0</u>	<u>877.1</u>	<u>807.4</u>	<u>296.0</u>
Total credit outstanding (end of period)	3,319.4	3,639.4	3,570.3	3,839.3	3,873.7	4,138.9	4,263.9	4,201.0
(In percent of quota)								
Purchases	63.6	51.5	30.0	52.9	28.0	98.0	80.0	20.0
Total credit outstanding (end of period)	284.8	312.1	306.3	329.4	332.4	355.1	365.8	360.4

Source: International Monetary Fund.

1/ Excludes SDR 466.2 million of augmentation.