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FOR  
AGENDA

EBS/86/161  
Supplement 5  
Correction 1

CONFIDENTIAL

November 7, 1986

to: Members of the Executive Board  
From: The Secretary  
Subject: Mexico - Request for Stand-By Arrangement

The following corrections have been made in EBS/86/161,  
Supplement 5 (10/29/86):

Page 3, Table 1, last 3 lines,  
columns 3 and 4: for "5 12" read "9 15"  
for "2 7" read "7 12"  
for "3 1/2 6 1/2" read "4 8"

A corrected page is attached.

Att: (1)

Table 1. Mexico: Terms and Conditions of Bank Debt Restructurings and Bank Financial Packages, 1983-September 1986

Date of Agreement and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
<u>Agreement of August 27, 1983 1/</u>					
Rescheduling of public sector short-, medium-, and long-term debt 2/ due August 23, 1982-December 31, 1984	100 percent of principal	(In millions of U.S. dollars) 18,800	4	9	(In percent spread over LIBOR or domestic reference interest rate) 1 7/8-1 3/4
Syndicated loan 3/	New financing	5,000	3	6	2 1/2-2 1/8
Settlement of interest in arrears on private sector's debt 4/	--	1,367	--	--	1-7/8
<u>Agreement of April 1984</u>					
New loan	New financing	3,800	5 1/2	10	1 1/2-1 1/8
<u>Agreement of March 29, 1985</u>					
Rescheduling of public medium- and long-term term debt previously rescheduled					
Due in 1987	100 percent of principal	5,800	--	14 5/	7/8 in 1985-86
Due from 1988 to 1990	100 percent of principal	17,800	--	14 5/	1 1/8 in 1987-98
Rescheduling of 1983 syndicated loan 6/	100 percent of principal	5,000	5	10	1 1/2-1 1/8
<u>Agreement of August 29, 1985 7/</u>					
Rescheduling of public medium- and long-term debt not previously rescheduled falling due from 1985 to 1990	100 percent of principal	20,100	1	14	7/8 in 1985-86 1 1/8 in 1987-91 1 1/4 in 1992-98
Deferment agreement of October 1, 1985:					
Prepayment of principal under the \$5 billion agreement as amended March 29, 1985	100 percent of principal	950	1/2		
<u>Agreement with Bank Advisory Group (September 30, 1985):</u>					
Restructuring of previous rescheduled debt	100 percent of principal	43,700	7	20	13/16
Change in spread for 1983 and 1984 new money facilities	8/	8,550	5	10	13/16
1986-87 new money facility	New money	5,000	5	12	13/16
Cofinancing arrangement with World Bank 9/	New money	1,000	9	15	13/16
Growth contingency cofinancing with World Bank 9/	New money	500	7	12	13/16
Contingent investment support facility	New money	1,200	4	8	13/16

1/ Agreement took effect with disbursement of a new loan in March 1983.

2/ For the purpose of the rescheduling, Mexico's public sector debt (short-, medium-, and long-term) excludes loans made, guaranteed, insured, or subsidized by official agencies in the creditor countries; publicly issued bonds, private placements (including Japanese yen-denominated registered private placements) and floating rate certificates of deposit and notes (including floating rate notes); debt to official multilateral entities; forward exchange and precious metal contracts; spot and lease obligations in respect of movable property, short-term import- and export-related trade credits; interbank obligations (including placements) of the foreign agencies and branches of Mexican banks, excluding guarantees on interbank placements; financing secured by legally recognized security interest in ships, aircraft, and drilling rigs; and the Central Bank's obligations arising from the arrangements to liquidate interest payments in arrears.

3/ The 1983 \$5 billion loan was raised in the form of a medium-term international syndicated credit in which banks participated on the basis of their pro rata exposure to Mexico as of August 23, 1982. The loan document included a specific reference to a written explanation and confirmation from the Fund Managing Director with respect to \$2-2.5 billion in financial assistance to be obtained from official creditors (other than the Fund), a requirement to provide information about the implementation of the financial program, a request on the part of the lending syndicate not to object to the final restructuring principles of the contemplated rescheduling operation, the customary cross-default clause, a specification of events of defaults (including the failure of Mexico to comply with the performance criteria agreed with the Fund in connection with the three-year extended arrangement, and nonmembership), and the implementation of the proposed mechanism to eliminate the interest arrears on the private sector debt. In addition, interbank exposure was restored and would be maintained through the end of 1986 at \$5.2 billion.

4/ Specifically, Mexican private borrowers owing interest on foreign bank debts payable in foreign currency and outstanding prior to September 1, 1982 could use the procedures proposed by the Mexican authorities to settle interest payments due in the period from August 1, 1982 to January 31, 1983. Settlement had to be made by depositing the local currency equivalent of the amount of interest due in foreign currency, at the controlled exchange rate of the date at which the deposit was constituted. Special foreign currency deposits were being opened by the foreign lenders with the Bank of Mexico, and the amounts of interest owed were being credited to these accounts. Ten percent of the outstanding balance in these accounts was paid to creditors on January 31, 1983, while the remainder had to be settled subject to the availability of foreign exchange. As of March 7, 1984, all outstanding arrears were eliminated.

5/ Maturities shown relate to the date of agreement in principle of the rescheduling.

6/ As part of the March 29, 1985 agreement, US\$1.2 billion of the 1983 US\$5 billion syndicated loan was to be prepaid in 1985 and the balance restructured to match the repayment schedule on the 1984 US\$3.8 billion new loan. However, only US\$250 million was prepaid in 1985 and the remaining US\$950 million became subject of repeated short-term rollovers.

7/ There were no rescheduling fees and, under certain conditions, banks were allowed to switch their loans from dollars to home country currencies. Rescheduling of previously rescheduled debt falling due from 1987 to 1990 was made conditional upon the achievement of Mexico's own economic targets to be monitored on the basis of enhanced Article IV consultations with the Fund.

8/ Including the restructuring of the US\$950 million prepayment which had been deferred since October 1, 1985.

9/ These loans have an associated guarantee given by the World Bank in the outer maturities equivalent to 50 percent of the nominal amount disbursed.

between 1989 and 1994--except that a previously agreed prepayment of US\$950 million under the 1983 credit that had been subject to several short-term rollovers through 1985 and 1986 will now be restructured to conform to the maturity schedule of the remainder of that loan. 1/

### 3. New Money Facilities

The commercial bank financing package makes available to Mexico up to US\$6 billion in new money, to be drawn over the period starting December 1, 1986 and ending March 31, 1988. 2/ Of this total, US\$1 billion (Cofinancing New Money Facility) is to take the form of a separate commercial bank loan involving cofinancing with the World Bank, with the World Bank guaranteeing 50 percent of the financing; this loan is to support two existing World Bank projects in the transportation area (one for highways and the other for the railways).

Subject to compliance with a number of specific undertakings, the drawdown of the US\$6 billion has been arranged so that (i) US\$3.5 billion would become available as of December 1, 1986, 3/ and (ii) additional installments of US\$0.5 billion each would become available at the beginning of each of the five calendar quarters in the period from January 1, 1987 to March 31, 1988. Amounts becoming available in the last quarter of 1987 and the first quarter of 1988 would be reduced equally by the interest savings for calendar year 1987 resulting from the downward adjustment in the margins charged over interest rates with respect to those implicit in the original balance of payments projection; the total amount of interest savings has been estimated at about US\$300 million.

All disbursements under the 1986-87 new money package have been made contingent upon the making of the scheduled purchases under the stand-by arrangement from the Fund and upon the reaching of specific stages of implementation with respect to concrete program loans of the World Bank. In addition, the drawdowns available from January 1, 1987 are to be conditional upon the adoption of the amendments to the existing restructuring and new money agreements referred to above; the drawdowns available from April 1, 1987 and July 1, 1987 are to be contingent upon the signing and effective implementation, respectively,

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1/ A prepayment of US\$250 million of the 1983 US\$5 billion credit agreement was made in early 1985.

2/ This amount is to be reduced by interest savings for calendar year 1987 resulting from the downward adjustment in the margins charged over interest rates as compared with those implicit in the original balance of payments projection.

3/ The US\$1 billion loan involving World Bank cofinancing is to be disbursed before the end of 1986, with the proceeds of the loan to be deposited with the Bank of Mexico. The drawdown of this deposit would be subject to progress reports on the respective projects by the agencies responsible for their execution.