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EBD/95/26  
Supplement 1

March 20, 1995

To: Members of the Executive Board  
From: The Secretary  
Subject: Mexico - U.S.-Mexico Framework Agreement

The Secretary has received the following memorandum dated March 20, 1995, from Ms. Lissakers/Mr. Guzmán-Calafell:

We would appreciate that the attached U.S.-Mexico Framework Agreement for Mexican Economic Stabilization be circulated to the Executive Board as background material for the March 29 Board discussion. Additional documents on the specific financing agreements will be made available as soon as possible. Annex A and B of the framework agreement have already been distributed under EBD/95/26, dated February 23, 1995.

Attachment

Other Distribution:  
Department Heads



**U.S. - MEXICO FRAMEWORK AGREEMENT  
FOR MEXICAN ECONOMIC STABILIZATION**

**WHEREAS**, Mexico has achieved a remarkable economic transformation over the last several years on the basis of an effective stabilization program and far-reaching structural reforms; and

**WHEREAS**, these policies and reforms resulted in a correction in fiscal imbalances, a rationalization in the role of the state in the economy, a significant decrease in inflation, and a greater integration of Mexico into the global economy; and

**WHEREAS**, there was a sharp increase in Mexico's external current account deficit and, until recently, a significant real appreciation of the peso; and

**WHEREAS**, in 1994, investors' concerns about the sustainability of the current account deficit began to increase, against the background of adverse political events in Mexico, competition for foreign investment in other emerging markets, and higher interest rates abroad; and

**WHEREAS**, in 1994, as part of its efforts to maintain and attract foreign investment, Mexico substituted short-term indebtedness denominated in foreign currency for short-term local currency denominated debt; and

**WHEREAS**, investors' increasing concerns put further pressures on Mexico's foreign exchange and financial markets and precipitated the present financial crisis, which has had repercussions in other emerging markets in Latin America and elsewhere; and

**WHEREAS**, it is in the interest of the people of the United States and Mexico to restore financial stability to Mexico; and

**WHEREAS**, the international community and international institutions, particularly the International Monetary Fund ("IMF"), have recognized the gravity and potential global impact of Mexico's financial crisis and have committed to take extraordinary measures to restore financial stability to Mexico; and

**WHEREAS**, monetary and financial cooperation between the United States and Mexico is an important factor in carrying out the objectives of the IMF, of which both countries are members, consistent with their obligations, as members, on orderly exchange arrangements and a stable system of exchange rates, and

**WHEREAS**, stabilization arrangements have been in effect between the two countries since 1941, and have proved beneficial to the financial relationship between the two countries;

**NOW, THEREFORE,** the Parties, as described in Article II, agree as follows:

### **I Purpose**

The purpose of this agreement ("Agreement") is to assist Mexico in stabilizing its exchange and financial markets by providing resources to be used in such manner as to facilitate the redemption, refinancing or restructuring of Mexico's short-term debt obligations, and such other purposes consistent with the obligations of the United States and Mexico, as members of the IMF, on orderly exchange arrangements and a stable system of exchange rates.

### **II Parties**

This Agreement sets forth the mutual understandings of the Government of the United States of America ("United States"), acting through the United States Department of the Treasury ("Treasury Department"), and the Government of the United Mexican States ("Mexico"), acting through the Ministry of Finance and Public Credit, and the Banco de Mexico.

### **III Availability and Use of Resources**

1. Subject to the terms and conditions contained in this Agreement and the Financing Agreements referred to in Article VI, the United States shall make available to Mexico and the Banco de Mexico, or furnish for their benefit, resources (valued in accordance with such Financing Agreements) in the amount of not more than \$20,000,000,000.

2. These resources shall be in the form of:

(i) medium-term swap transactions ("Medium-Term Swaps") provided through the Exchange Stabilization Fund ("ESF") at the Treasury Department;

(ii) securities guarantees ("Securities Guarantees") provided through the ESF;

(iii) backing by the Treasury Department for short-term swap transactions in an amount not to exceed \$6,000,000,000 that have been or will be provided under the North American Framework Agreement of April 26, 1994, as amended from time to time ("NAFA"), by the Federal Reserve Bank of New York, acting at the direction of the Federal Open Market Committee ("FRBNY"), under which the rights and obligations of the FRBNY related to such short-term swap transactions may be assigned to the Treasury Department under certain circumstances ("Treasury Backing"); and

(iv) short-term swap transactions that have been or will be provided by the Treasury Department under the NAFA ("Treasury Short-Term Swaps").

3. The following shall be referred to herein collectively as the "Primary Resources:"

- (i) the Medium-Term Swaps;
- (ii) the Securities Guarantees;
- (iii) the Treasury Backing with respect to short-term swaps not already outstanding on the date of entry into force of this Agreement; and
- (iv) the Treasury Short-Term Swaps not already outstanding on the date of entry into force of this Agreement.

4. The Medium-Term Swaps shall be made available pursuant to a medium-term exchange stabilization agreement ("Medium-Term Agreement"), which shall not be inconsistent with this Agreement. The Medium-Term Agreement shall provide that:

- (i) maturities for the Medium-Term Swaps shall be up to 5 years; and
- (ii) the Medium-Term Swaps shall be payable prior to maturity as provided herein and in the Medium-Term Agreement.

5. The Securities Guarantees shall be made available pursuant to a guarantee agreement ("Guarantee Agreement"), which shall not be inconsistent with this Agreement. The Guarantee Agreement shall provide that:

- (i) no Securities Guarantees may be issued in respect of payments of principal or interest due more than 10 years after issuance of the guaranteed debt securities; and

(ii) the debt securities for which Securities Guarantees are issued may be structured to allow for redemption prior to maturity under specified circumstances as provided herein and in the Guarantee Agreement.

6. The Treasury Backing shall be made available pursuant to the terms of a separate agreement between the Treasury Department and FRBNY ("Backing Agreement"). It is understood that, pursuant to the Backing Agreement and the NAFA, the FRBNY may enter into further short-term swap transactions with the Banco de Mexico that are subject to the Backing Agreement only with the written consent of the Treasury Department.

7. The Medium-Term Swaps may be entered into during the period that begins on the first date on which both this Agreement and the Medium-Term Agreement have entered into force and ends on the first anniversary of the date of entry into force of this Agreement ("Swaps Implementation Period"). If Mexico so requests, and with the written agreement of the Treasury Department, the Swaps Implementation Period may be extended for one additional six-month period.

8. The Securities Guarantees may be entered into during the period that begins on the first date on which both this Agreement and the Guarantee Agreement have entered into force and ends on the first anniversary of the date of entry into force of this Agreement ("Guarantee Implementation Period"). If Mexico so requests, and with the written agreement of the Treasury Department, the Guarantee Implementation Period may be extended for one additional six-month period.

9. The interest rates on the Medium-Term Swaps and the fees charged for the Securities Guarantees shall be designed to compensate the ESF for the risk of providing such Medium-Term Swaps and issuing such Securities Guarantees, and to provide an incentive to Mexico to rely on private capital markets for its financing needs.

10. The use of Primary Resources made available to or furnished for the benefit of Mexico or the Banco de Mexico shall be consistent with the purpose of this Agreement as set forth in Article I.

#### IV

#### Assured Sources of Repayment

1. No Primary Resources shall be provided to Mexico or the Banco de Mexico, directly or indirectly, unless the Treasury Department determines that:

(i) the resources of Mexico, including proceeds from the sale of Mexican oil and oil products to customers outside of Mexico as described in Annex A hereto, afford adequate, assured sources of repayment with respect to such Primary Resources; and

(ii) all instructions and other documents to be given or delivered pursuant to Annex A have been given or delivered within the time periods provided therein.

2. Mexico shall furnish, or cause to be furnished, all information reasonably requested by the Treasury Department in order that the Treasury Department might make the determinations required under this article. At the request of the Treasury Department, Mexico shall, at its expense, provide the Treasury Department with confirmation by independent public accountants that the information furnished to the Treasury Department is not inconsistent with the books and records of PEMEX and its subsidiaries.

## V

### Financial Plan

1. Mexico has made available to the Treasury Department a copy of its comprehensive and detailed financial plan ("Financial Plan") that includes, inter alia, a description of the intended uses of Primary Resources to be made available pursuant to this Agreement, and how such uses relate to the use of other funds to be made available to Mexico or the Banco de Mexico by other entities, and the Treasury Department has advised Mexico of its concurrence with the Financial Plan.

2. Prior to each request for Primary Resources by Mexico or the Banco de Mexico, Mexico shall submit to the Treasury Department a written description of Mexico's financial developments as they relate to the Financial Plan, the intended use or uses to which the Primary Resources will be put, and how such use or uses are consistent with the Financial Plan.

3. Mexico shall update its Financial Plan at least annually, as long as any Primary Resources are outstanding.

4. Mexico shall notify the Treasury Department in writing of any intended material changes in the Financial Plan.

VI  
Conditionality

1. No Primary Resources shall be provided to Mexico or the Banco de Mexico directly or indirectly if the Treasury Department determines that Mexico's and the Banco de Mexico's economic policies are not in accordance with the Letter of Intent and Memorandum of Economic Policies (attached hereto as Annex B) relating to the stand-by credit for Mexico approved by the IMF on February 1, 1995 ("IMF Program"), or any other economic policies subsequently required under the IMF Program. In making such determinations, the Treasury Department shall take into consideration the IMF's reviews of the implementation of Mexico's economic objectives and policies.

2. No Primary Resources shall be provided to Mexico or the Banco de Mexico directly or indirectly if the Treasury Department determines that Mexico has failed in any material respect to implement the economic policies announced by Mexico on February 21, 1995, a summary of which is attached hereto as Annex C.

3. No Primary Resources shall be provided to Mexico or the Banco de Mexico directly or indirectly if the Treasury Department determines, following each request for Primary Resources and prior to the provision of such Primary Resources, that:

(i) Mexico or the Banco de Mexico has taken actions that are materially inconsistent with the Financial Plan;

(ii) Mexico's Financial Plan is materially inconsistent with prevailing conditions;

(iii) the intended use or uses of the Primary Resources are inconsistent with Mexico's Financial Plan;

(iv) the Treasury Department does not concur with any material changes made by Mexico to its Financial Plan; or

(v) Mexico or the Banco de Mexico has failed in material respects to comply with its obligations under Article IX.

4. No Primary Resources shall be provided to Mexico or the Banco de Mexico directly or indirectly if Mexico or the Banco de Mexico fails to make any payment when due, and has not remedied such failure within 7 days after notice thereof from the Treasury Department to Mexico or the Banco de Mexico, under the Medium-Term Agreement, the Guarantee Agreement, the NAFA, the Exchange Stabilization Agreement of April 26, 1994, as amended from time to time, or the Temporary Exchange Stabilization Agreement of January 4, 1995, as amended from time to time (collectively, "Financing Agreements").



**VII**  
**Acceleration, Early Redemption, Defeasance**

1. If at any time the Treasury Department determines that:

(i) Mexico or the Banco de Mexico has failed to comply in any material respect with the agreement set forth in Annex A and has not remedied such failure within 30 days after notice thereof from the Treasury Department to Mexico; or

(ii) Mexico or the Banco de Mexico has failed to comply in any material respect with Article IX and has not remedied such failure within 60 days after notice thereof from the Treasury Department to Mexico or the Banco de Mexico; or

(iii) Mexico or the Banco de Mexico has used any Primary Resources provided under the Financing Agreements in a manner materially inconsistent with the purpose of this Agreement as set forth in Article I; or

(iv) Mexico or the Banco de Mexico has failed to make any payment when due under any of the Financing Agreements, and has not remedied such failure within 7 days after notice thereof from the Treasury Department to Mexico; or

(v) Mexico or the Banco de Mexico has failed in any material respect to follow the economic policies incorporated in the IMF Program, or any economic policies subsequently incorporated in the IMF Program and:

(A) such event shall have continued without cure for a period of 90 days after notice thereof from the Treasury Department to Mexico, and the Treasury Department shall have determined and so advised Mexico in writing that the continuance of such event may constitute grounds for acceleration; and

(B) such event shall have continued without cure for an additional period of 180 days, and the Treasury Department shall have determined and so advised Mexico in writing that in its reasonable judgment, the occurrence and continuance of such event materially impairs the ability of Mexico to service on a timely basis the Medium-Term Swaps and the debt securities for which Securities Guarantees have been issued; or

(vi) Mexico or the Banco de Mexico has taken actions materially inconsistent with its Financial Plan and:

(A) such event shall have continued without cure for a period of 90 days after notice thereof from the Treasury Department to Mexico, and the Treasury Department shall have determined and so advised Mexico in writing that the continuance of such event may constitute grounds for acceleration; and

(B) such event shall have continued without cure for an additional period of 180 days, and the Treasury Department shall have determined and so advised Mexico in writing that in its reasonable judgment, the occurrence and continuance of such event materially impairs the ability of Mexico to service on a timely basis the Medium-Term Swaps and the debt securities for which Securities Guarantees have been issued; or

(vii) Mexico or the Banco de Mexico has failed to implement the policies described in Annex C hereto and:

(A) such event shall have continued without cure for a period of 90 days after notice thereof from the Treasury Department to Mexico, and the Treasury Department shall have determined and so advised Mexico in writing that the continuance of such event may constitute grounds for acceleration; and

(B) such event shall have continued without cure for an additional period of 180 days, and the Treasury Department shall have determined and so advised Mexico in writing that in its reasonable judgment, the occurrence and continuance of such event materially impairs the ability of Mexico to service on a timely basis the Medium-Term Swaps and the debt securities for which Securities Guarantees have been issued;

the Treasury Department may, upon notice to Mexico or the Banco de Mexico (in addition to the exercise of any other remedies set forth in the Financing Agreements):

(a) declare any or all obligations of Mexico or the Banco de Mexico to repurchase pesos for dollars under any or all of the Medium-Term Swaps, Treasury Short-Term Swaps or other short-term swaps with Treasury Backing immediately due and payable, whereupon the entire unpaid amount of such repurchase obligations, and all other amounts payable with respect to such obligations, shall become and forthwith be payable, without demand or further notice of any kind, all of which are expressly waived by Mexico and the Banco de Mexico; and

(b) require Mexico either to (I) defease the guaranteed portion of any or all debt securities for which Securities Guarantees have been issued or (II) redeem any such debt securities that are subject to early redemption (or, if permitted by the terms of such debt securities, the guaranteed portion thereof), whereupon Mexico shall, without demand or further notice of any kind, all of which are expressly waived by Mexico, either (at Mexico's option) defease the guaranteed portion of such debt securities or redeem such debt securities;

provided, however, that in the case of an event described in clause (iii) above, the remedies set forth in this paragraph 1 shall apply only to the Primary Resources applied inconsistently with Article I.

2. After any such declaration or requirement, if all amounts then due with respect to any or all obligations of Mexico or the Banco de Mexico under any or all of the Financing Agreements are paid (other than amounts due solely because of such declaration) and all other defaults with respect to such obligations are cured, the Treasury Department may annul and rescind such declaration or requirement.

3. In the event of an acceleration, early redemption, or defeasance pursuant to paragraph 1 above, the Treasury Department shall have the right to distribute, in such manner and in such order of priority as it deems appropriate, funds received by the Treasury Department pursuant to any Financing Agreement or the agreement set forth in Annex A for payment of the obligations of Mexico or the Banco de Mexico under any or all of the Financing Agreements.

#### VIII Prepayment

1. Mexico or the Banco de Mexico may at any time prepay any or all of its obligations under any or all of the Financing Agreements.

2. Upon its determination, after consultation with Mexico, that Mexico has well-established access to funds on reasonable market terms, the Treasury Department may require Mexico or the Banco de Mexico to secure resources in the international markets and apply such resources:

(i) to repurchase pesos for dollars under any or all of the Medium-Term Swaps, Treasury Short-Term Swaps or other short-term swaps with Treasury Backing; and/or

(ii) either to (I) defease the guaranteed portion of any or all debt securities for which Securities Guarantees have been issued or (II) redeem any such debt securities that are subject to early redemption (or, if permitted by the terms of such debt securities, the guaranteed portion thereof);

unless Mexico or the Banco de Mexico is unable, using its best efforts, to identify replacement resources (in addition to funds needed to be raised in the market pursuant to the Financial Plan) on reasonable market terms with maturities at least as long as the remaining maturities of the Primary Resources being replaced within 90 days following notification by the Treasury Department to Mexico of its intention to require such prepayment.

3. If an event described in paragraph (12)(b) of Annex A shall have occurred, and if the consultation contemplated by such paragraph does not result in agreement between Mexico and the Treasury Department as to a substitute assured source of repayment or other solution satisfactory to the Treasury Department, then the Treasury Department, if such event is continuing may require Mexico or the Banco de Mexico, as applicable, upon not less than 7 days' notice thereof:

(i) to repurchase pesos for dollars under any or all of the Medium-Term Swaps, Treasury Short-Term Swaps or other short-term swaps with Treasury Backing; and

(ii) either to (I) defease the guaranteed portion of any or all debt securities for which Securities Guarantees have been issued or (II) redeem any such debt securities that are subject to early redemption (or, if permitted by the terms of such debt securities, the guaranteed portion thereof).

## IX

### Access to Monetary Data and Other Information

Mexico and the Banco de Mexico shall provide to the Treasury Department all information reasonably requested by the Treasury Department that the Treasury Department deems necessary to review the Financial Plan referred to in Article V and to make the determinations referred to in Articles VI and VII. This information shall include, but shall not be limited to, information that Mexico has announced it will make available publicly as described Annex D hereto.

**X**  
**Consultations**

1. The Parties shall consult with one another concerning the interpretation or implementation of this Agreement or any of the Financing Agreements at any time upon the request of any Party.

2. The Parties shall engage in periodic consultations with respect to Mexico's intended changes in the Financial Plan, and, as contemplated by the North American Free Trade Agreement, with respect to monetary, fiscal, and structural policies.

**XI**  
**Power and Authority**

Each Party warrants that it has full power and authority to enter into and perform its obligations under this Agreement and has taken all necessary actions to authorize its performance.

**XII**  
**Channel of Communication**

1. The channel of communication for the Treasury Department for all communications under this Agreement shall be:

Office of the Assistant Secretary  
for International Affairs  
U.S. Department of the Treasury  
Room 3430  
Washington, D.C. 20220  
Telephone: (202) 622-0060  
Facsimile: (202) 622-0417

2. The channel of communication for Mexico for all communications under this Agreement shall be:

Director General of Public Credit  
Ministry of Finance and Public Credit  
Insurgentes Sur 826, Piso 9  
Colonia del Valle  
Mexico, D.F. 03100, Mexico  
Telephone: 525-682-2799  
Facsimile: 525-543-3446

3. The channel of communication for the Banco de Mexico for all communications under this Agreement shall be:

Director General of Central Banking Operations  
Banco de Mexico  
Avenida 5 de Mayo, No. 6, Piso 1  
Mexico, D.F. 06059, Mexico  
Telephone: 525-227-8821  
Facsimile: 525-227-8803

**XIII  
Amendment**

This Agreement may be amended by the consent of all Parties in writing, including consent by authenticated telecommunication.

**XIV  
No Waiver; Cumulative Remedies**

No failure, delay, or refrainment by the Treasury Department in the exercise of any right or remedy accruing to the Treasury Department under this Agreement shall operate as a waiver by the Treasury Department of such right, power or remedy, nor shall any single or partial exercise of any other right, power or remedy. The rights, powers and remedies provided herein are cumulative and not exclusive of any rights, powers or remedies provided by law.

**XV  
Governing Law; Submission to Jurisdiction**

This Agreement shall be governed by and construed in accordance with the laws of the State of New York, to the extent not inconsistent with the federal law of the United States. Mexico and the Banco de Mexico hereby irrevocably submit for all purposes of or in connection with this Agreement to the exclusive jurisdiction of the United States District Court located in the Borough of Manhattan in New York City. The United States hereby irrevocably submits for all purposes of or in connection with this Agreement to the exclusive jurisdiction of the Federal courts of the United States. Mexico, the Banco de Mexico and the United States hereby irrevocably waive, to the fullest extent, the defense of an inconvenient forum to the maintenance of an action or proceeding brought pursuant to this paragraph.

**XVI  
Commercial Activities**

The obligations to be performed by the parties under this Agreement, the Medium-Term Agreement, and the Guarantee Agreement, and the Treasury Short-Term Swaps and other short-term swaps with Treasury Backing, shall constitute commercial activities within the meaning of 28 U.S.C. 1602 et seq.

**XVII**  
**Service of Process**

Mexico and the Banco de Mexico hereby irrevocably appoint the person for the time being and from time to time acting as or discharging the function of the Consul General of Mexico in New York, New York ("Process Agent"), with an office, on the date hereof, at 8 East 41st Street, New York, New York, 10017, United States, as their agent to receive on behalf of Mexico and the Banco de Mexico and their property, service of copies of the summons and complaint and any other process which may be served in any such action or proceeding brought in a Federal court sitting in New York City. Such service may be made by mailing or delivering a copy of such process, in the case of Mexico, to Mexico, and, in the case of the Banco de Mexico, to the Banco de Mexico, in care of the Process Agent at the address specified above for such Process Agent, and Mexico and the Banco de Mexico hereby irrevocably authorize and direct such Process Agent to accept such service on their behalf.

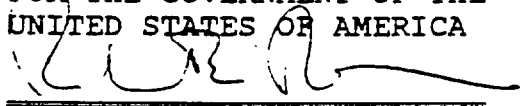
**XVIII**  
**Entry into Force**

This Agreement may be executed in counterparts and shall enter into force on the date of the last signature hereto.

IN WITNESS WHEREOF, the undersigned, being duly authorized, have signed this Agreement.

DONE at Washington, this 21st day of February, 1995, in triplicate.

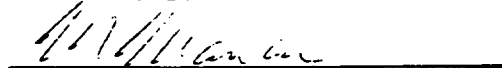
FOR THE GOVERNMENT OF THE  
UNITED STATES OF AMERICA

  
Department of the Treasury

FOR THE GOVERNMENT OF THE  
UNITED MEXICAN STATES

  
Ministry of Finance and  
Public Credit

FOR THE BANCO DE MEXICO

  
Banco de Mexico

