FOR AGENDA

EBS/86/161
Supplement 5

CONFIDENTIAL

October 29, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Mexico - Request for Stand-By Arrangement

The attached supplement incorporates information on the financing arrangements agreed between the Mexican authorities and the commercial banks' advisory committee in connection with the Mexican program for 1986-87. A proposed decision appears on pages 13 and 14; and a revised text of a stand-by arrangement for Mexico with a revised technical memorandum of understanding appear as Attachments I and II. The original letter of intent and accompanying technical memorandum of understanding are contained in EBS/86/161, Supplement 4 (9/11/86).

Mr. Pujol (ext. 8480) is available to answer technical or factual questions relating to this paper prior to the Board discussion, which has been tentatively scheduled for Friday, October 31, 1986.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

MEXICO

Request for Stand-by Arrangement--Supplementary Information and Proposed Decision

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

(In consultation with the Treasurer's Department)

Approved by S.T. Beza and Manuel Guitián

October 29, 1986

On September 8, 1986 the Fund's Executive Board conducted the 1986 Article IV consultation with Mexico and considered a request from Mexico for a stand-by arrangement for the equivalent of SDR 1,400 million (EBS/86/161). At that time the Executive Board (EBM/86/149, 9/8/86) approved in principle Mexico's request (EBS/86/161, Supplement 4), allowing until September 29, 1986 for the completion of the financing package so that the arrangement might become effective. Some of the elements of the financing package came into place on September 17, 1986 with the agreement in principle by representatives of 14 creditor countries of a rescheduling of Mexico's obligations to official creditors in the framework of the Paris Club (a report summarizing the terms of such rescheduling was circulated to the Executive Board on October 2, 1986, EBS/86/225); also indications have been received from various official credit agencies of their willingness to maintain cover and, in some cases, to grant additional credits to Mexico. However, agreement on the financing to be provided by commercial banks was not reached before the end of the specified period, and therefore the September 8, 1986 decision lapsed.

Soon thereafter, however, the Mexican authorities and the commercial banks' advisory committee for Mexico reached agreement in principle on the terms under which banks might participate in a new financing package for Mexico. A term sheet with the elements of this agreement was circulated on October 15, 1986 to all of Mexico's commercial bank creditors for commitment. This paper summarizes the main characteristics of the financing to be provided by the commercial banks under that agreement, proposes a decision for adoption by the Executive Board in connection with Mexico's request for a stand-by arrangement, and presents revised texts for such arrangement and for the Technical Memorandum of Understanding. As explained in this report, the revisions in those texts correspond to modifications made necessary by the various financial agreements that have been reached since the Board discussion of September 8, 1986 on the terms of the arrangement and on the monitoring procedures under the program.

I. Main Characteristics of the 1986-87 Commercial Bank Financing Package for Mexico

The 1986-87 commercial bank financing package for Mexico that has been presented to the banks for ratification incorporates four separate but interrelated financing arrangements that together involve approximately US$60 billion.

1. Amendments to the 1985 Debt Restructuring Agreement

The package contains modifications in the terms of a number of agreements that had been reached in 1985 with respect to the restructuring of Mexico's public sector debt to commercial banks (52 agreements involving the United Mexican States for a total of US$23.6 billion and 35 agreements involving various entities in the Mexican public sector for a total of US$20.1 billion) (Table 1). These agreements had been the subject of a multiyear restructuring (MYRA) in 1985 and the maturity schedule of the credits involved is now to be amended so that they will be payable over 20 years with seven years of grace; as a result, installments of principal falling due in the period from 1987 through 1997 will be extended seven years and will fall due in the period from 1994 through 2004, respectively, and the installments falling due in the year 1998 will be extended to fall due in equal amounts in years 2005 and 2006. The interest charged on these credits, which under the MYRA had been set at 7/8 (0.875) percent over LIBOR or certificate of deposit (CD) rate for the period 1985-86, 1 1/8 (1.125) percent over LIBOR or CD rate for the period 1987-91 and 1 1/4 (1.25) percent over LIBOR or CD rate thereafter, are now being reduced to 13/16 (0.812) percent over LIBOR and/or domestic reference interest rates. In addition, the new agreement allows for the possibility of conversion to the home country currency of the creditor for up to 100 percent of the outstanding credits, with the conversion to be effected over a 24-month period. Conversion of debt to equity is also permitted in accordance with prevailing Mexican rules and regulations concerning such conversions.

The agreement extends to June 30, 1989 the provision for the maintenance of a minimum level (US$5.2 billion) of external liabilities by the foreign agencies and branches of the Mexican banks to non-Mexican commercial banks; however, it includes a mechanism for the reduction of the minimum level to accommodate future cancellation of such liabilities in exchange for the transfer to a non-Mexican commercial bank of debt of the Mexican public sector under any of the restructuring agreements.

2. Amendments to the 1983 and 1984 Credit Agreements

Amendments have been made to the 1983 US$5 billion Credit Agreement and the 1984 US$3.8 billion Credit Agreement to provide for the same interest rate and conversion provisions that apply to the restructured agreements referred to above. The maturity of the 1983 and 1984 loans, will remain as previously established--with the principal falling due

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
Agreement of August 27, 1983 1/					
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	(In years, unless otherwise noted) 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
Agreement of April 1984					
New loan	New financing	3,800	5 1/2	10	1 1/2-1 1/8
Agreement of March 29, 1985					
Rescheduling of public medium- and long-tem 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
Agreement of August 29, 1985 7/					
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		
Agreement with Bank Advisory Group (September 30, 1986):					
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	5	12	13/16
Growth contingency cofinancing with World Bank 9/	New money	500	3	7	13/16
Contingent investment support facility	New money	1,200	3 1/2	6 1/2	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.

of agreements to restructure FICORCA's 1/ foreign exchange obligations; the drawdowns available from October 1, 1987 are to be conditional upon Mexico reaching a level of gross disbursements from the World Bank during 1986-87 of no less than US$1.7 billion; and the drawdowns available from January 1, 1988 are to be contingent upon Mexico reaching a level of gross disbursements from official bilateral sources during 1986-87 of no less than US$2 billion, and upon the conclusion of all bilateral agreements relating to the agreed minutes of the Paris Club meeting of September 17, 1986. Prior to the signing of the loan agreement, the principles for the restructuring of FICORCA's obligations must have been laid out, and the Fund staff must have provided an explanation on the nature of the mechanism triggering the Growth Contingency Cofinancing Facility (discussed below) and the conditions under which the facility would be activated.

Amounts borrowed under the remaining US$5 billion 1986-87 new money facility (Parallel New Money Facility) are to have a maturity of 12 years from the date of the agreement with a five-year grace period; the portion of commercial bank financing benefiting from an IBRD guarantee is to have a maturity of 15 years, with nine years' grace. The whole package is to be subject to an interest rate of 13/16 percent over LIBOR or equivalent domestic reference interest rate.

4. Contingency facilities

The agreement reached between Mexico and its commercial bank creditors includes provisions of financing for the two contingency mechanisms envisaged under the program supported by Mexico's stand-by arrangement from the Fund. These provisions have been structured under two facilities, namely, the Contingent Investment Support Facility and the Growth Contingency Cofinancing Facility.

1/ The Foreign Exchange Risk Coverage Trust Fund (FICORCA) was established in 1983 to help the private sector deal with the settlement of payments arrears to foreign suppliers, as well as to provide a framework for the refinancing and forward exchange coverage of the Mexican private sector's external debt (for a detailed description of the FICORCA scheme see EBS/84/1, 1/3/84, Appendix V and SM/84/165, 7/16/84, pp 67-70). A scheme was developed under FICORCA whereby firms with foreign exchange obligations outstanding as of December 20, 1982 and whose debt was refinanced at specified minimum terms were permitted to obtain foreign exchange cover and thus to spread the losses stemming from exchange rate depreciation over the period of the restructured loan. Close to US$10 billion of the Mexican private sector's external debt are outstanding under the FICORCA scheme consisting of debts which have been restructured and whose maturities range between 6 and 12 years and with grace periods of 3-4 years. Mexico and its commercial bank creditors are currently discussing terms and conditions under which payments on this private debt covered by the FICORCA scheme--which are proyected to exceed US$2 billion a year after 1987--could be restructured.

a. Commercial Bank Contingent Investment Support Facility

The Contingent Investment Support Facility is aimed at helping protect Mexico's economic program, including the public investment plan, from unforeseen large changes in external conditions. Together with the Fund's Oil Contingency Mechanism, the bank Contingent Investment Support Facility would help to maintain the level of investment envisaged under the program (public investment directly and private investment indirectly) in the face of a deterioration in public sector export receipts. Bank financing under this facility would be activated in response to a decline in export receipts of the public sector below a certain level. Conversely, the total amount of commercial bank financing to Mexico's public sector envisaged under the program for 1986-87 would be reduced in the event of a rise in export receipts of the public sector above a certain level.

The activation of financing under the banks' facility with respect to a shortfall in public sector export receipts in any calendar quarter through the end of 1987 would require:

(i) prior triggering of the Fund's Oil Contingency Mechanism in response to a fall in the price of crude oil exports below US$9 a barrel during the same quarter, 1/

(ii) compliance by Mexico with conditions for drawdown of quarterly amounts under the banks' 1986-87 Parallel New Money Facility; and

(iii) a certification by the Fund management (after appropriate consultation with the Mexican authorities and the World Bank) that a shortfall in Mexico's public sector export receipts has occurred which will reduce the country's capacity to maintain its 1986-87 budgeted public sector investment program, and that therefore a disbursement under the Investment Support Facility is necessary to help protect the continuing implementation of that program.

With these conditions met, bank financing under this facility would become available no later than 15 days after the purchase from the Fund in relation to the same shortfall.

Cumulative purchases under the stand-by arrangement with the Fund with respect to shortfalls in accordance with the Oil Contingency Mechanism are to be limited to the lesser of SDR 600 million or US$600 million over the period of the arrangement (as explained below), and financing under the banks' Contingent Investment Support Facility is

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1/ The operation of the Fund's Oil Contingency Mechanism in the context of Mexico's program is described in Appendix V of EBS/86/161, Supplement I (8/15/86).

to be limited to US$1.2 billion over the same period of time. Cumulative financing called for under the Oil Contingency Mechanism would be covered (a) entirely by the Fund for the initial US$200 million, and (b) by banks and Fund in a three-to-one ratio for any amount in excess of US$200 million, assuming that both the mechanism and the facility are fully used and with purchase from the Fund preceding financing by the banks as explained above.

Within the cumulative limit of US$1.2 billion, the contribution of banks in any calendar quarter to the financing called for under the Oil Contingency Mechanism could be adjusted, with a band, for

(i) the net excess or shortfall during the corresponding calendar quarter in actual with respect to projected external receipts attributable to non-crude oil exports of the public sector, 1/ *and*

(ii) the increase or decrease during the same calendar quarter in public sector external receipts attributable to an increase or decrease in crude oil export volumes from the reference level used in calculating the shortfall for purposes of the Oil Contingency Mechanism.

Drawings under the Contingent Investment Support Facility in respect to the shortfall occurring in any one quarter are subject to a maximum, with unused amounts being canceled at the end of the following calendar quarter. The applicable quarterly limits are as shown in Table 2, subject to a cumulative maximum of US$1,200 million.

Table 2. Mexico: Quarterly Limits Applicable to Drawings Under Contingent Investment Support Facility

Drawdown applicable to short occurring in:	Maximum amount available 1/ (In million of U.S. dollars)
1986 IV Quarter	249
1987 I Quarter	405
1987 II Quarter	344
1987 III Quarter	233
1987 IV Quarter	172

Source: 1986-87 Commercial Bank Financing Package for Mexico, October 16, 1986, "Term Sheet for Commercial Bank Contingent Investment Support Facility."

1/ Including any adjustment from shortfall calculated in accordance with the Oil Contingency Mechanism.

1/ As measured on the basis of trade data.

Amounts outstanding under the Contingent Investment Support Facility as of April 17, 1988 are to be repaid in eight years from the date of the agreement, with a four-year grace period. Up to US$100 million of the amount drawn under the facility is to be available for onlending to private sector borrowers. An interest rate of 13/16 percent over LIBOR or equivalent reference interest rate would be charged on the amounts outstanding.

Table 3 presents an illustrative calculation of the financing that might become available to Mexico assuming the occurrence throughout the period of a very low oil price and full use of the Oil contingency Mechanism and of the Contingent Investment Support Facility.

As envisaged under the Oil Contingency Mechanism, if during the period of the program the price of Mexico's crude oil exports in a calendar quarter rises above US$14 a barrel, the excess receipts (calculated in accordance with the Oil Contingency Mechanism) would be used during the period ending on April 16, 1988 to reduce foreign financing and/or accumulate net foreign reserves above the targeted levels. 1/ The agreement between Mexico and its commercial bank creditors includes a clause stipulating that three fourths of such receipts over and above the first US$200 million would be applied in the following order:

(a) to prepay outstanding amounts under the Contingent Investment Support Facility;

(b) to reduce outstanding commitments under the Parallel New Money Facility and the Cofinancing New Money Facility;

(c) to prepay amounts drawn under the Parallel New Money Facility and the Cofinancing New Money Facility; and

(d) to prepay amounts drawn under the Growth Contingency Cofinancing Facility.

b. Growth Contingency Cofinancing Facility

Commercial banks have agreed to participate in a contingency financing mechanism that would provide Mexico's public sector additional external financing for investment projects developed by Mexico and the World Bank in the event that economic recovery fails to materialize despite the effective implementation of the policies contemplated under the program. If triggered, this mechanism would channel up to US$500

1/ If the net foreign reserves target were to be increased in accordance with this principle, the increase would take the form of either an increase in gross international reserves or a reduction in reserve liabilities, including early repurchases to the Fund in accordance with Article V, Section 7(b) and the guidelines thereunder.

Table 3. Mexico: Illustrative Calculations of Financing that Could Become Available Under the Commercial Bank Contingent Investment Support Facility and the Fund's Oil Contingency Mechanism

(In millions of U.S. dollars)

Shortfall Occurring in	Maximum Financeable Shortfall 1/	Maximum Financing			
				Banks 3/	
		Total 2/	Fund	Basic Amount	Adjustment 4/
1986 IV Quarter	448	448	262	186	±49
1987 I Quarter	479	479	120	359	±55
1987 II Quarter	481	384	96	288	±44
1987 III Quarter	489	294	73	221	±33
1987 IV Quarter	489	195	49	146	±22
Total		1,800	600	1,200	

Source: Attachment II; and Fund staff estimates.

1/ Shortfall calculated on the basis of the difference between a price of US$9.00 a barrel and an illustrative price of US$4.93 a barrel for the Mexican crude oil times the reference volume specified for purposes of the Oil Contingency Mechanism, times the number of days in the quarter.

2/ Foreign financing of the shortfall calculated for purposes of the Oil Contingency Mechanism is to cover 100 percent of the shortfall in the first two calendar quarters starting October 1, 1986, 80 percent in the third quarter, 60 percent in the fourth quarter, and 40 percent in the fifth quarter.

3/ The maximum amount available from the commercial banks with respect to the shortfall occurring in any one quarter is shown in Table 2 above.

4/ The adjustment of the basic amount has been calculated by taking a proportion of the projected level of nonerude oil exports of the public sector; (the proportions taken are 10 percent in the first two calendar quarters starting October 1, 1986, 8 percent in the third quarter, 6 percent in the fourth quarter, and 4 percent in the fifth quarter.

million for specific investment projects in areas in which the World Bank has continuing programs and which it has identified as having a significant impact on the generation of employment and substantial spillover effects on private sector activity. Up to 50 percent of amounts drawn under this facility would be guaranteed by the World Bank.

Amounts under this facility would be available from June 1, 1987 to March 31, 1988, and disbursement of funds would be subject to (i) compliance with conditions for drawdown of quarterly amounts under the Parallel New Money Facility, and (ii) confirmation by the World Bank that suitable projects have been jointly identified with the Mexican authorities, together with a description of such projects. Moreover, as indicated above, the first disbursement would be subject to an explanation by Fund staff of the index used for triggering the facility and confirmation that the facility has been activated.

Amounts outstanding under this facility as of March 31, 1988 would be repayable in 12 years from the date of each disbursement, with a seven-year grace period. Outstanding amounts would be subject to an interest rate of 13/16 percent over LIBOR or equivalent reference rate.

II. Implications for the Stand-By Arrangement of the Financing Arrangements Agreed Between the Mexican Authorities and the Commercial Banks for the Stand-By Arrangement

Various aspects of the financing arrangements agreed between the Mexican authorities and the commercial banks have implications for the stand-by arrangement from the Fund and the operation of the monitoring procedures for the Oil Contingency Mechanism and the Growth Contingency Cofinancing Facility.

In the discussions that led to the framing of the commercial bank package, emphasis was placed on the purpose for which funds were to be provided on a contingent basis, rather than on the mechanism that might trigger the disbursements. With respect to the triggering mechanism, the banks were reluctant to link their drawings to the behavior of the price of any one particular commodity and preferred instead to link them to some degree to the performance of the overall export receipts of the public sector.

In order to meet the concerns raised by the creditor banks, it was agreed to have two separate but related mechanisms, namely, the Fund's Oil Contingency Mechanism and the commercial bank Contingent Investment Support Facility. The two mechanisms would work in tandem by having the activation of the Oil Contingency Mechanism a condition for the activation of the banks' facility. As noted above, the agreement calls for drawings from the Fund to have reached one third of the total amount that it could make available under its Oil Contingency Mechanism, i.e., the equivalent of US$200 million, before the commercial banks were to be called upon to disburse under the Contingent Investment Support

Facility; from then on, disbursements would take place in a ratio of three-to-one vis-à-vis drawings from the Fund, except as adjusted by changes in the external receipts attributable to non-crude oil exports of the public sector and by changes in the volume of crude oil exports (these adjustments would be constrained by the limits shown in Table 2 above).

Since the first quarter of the period originally envisaged for the implementation of Mexico's program (July to September 1986) had passed without the need arising for activating the Oil Contingency Mechanism, it was proposed that this quarter be dropped from consideration and that the total financing to be made available be reduced correspondingly. Accordingly, the total participation of the banks was established at US$1.2 billion and the Fund's Oil Contingency Mechanism was limited to a maximum of the lesser of SDR 600 million or US$600 million. 1/ The proposed decision (attached) thus provides that the potential augmentation under the stand-by arrangement be limited to SDR 600 million, for a maximum access of SDR 2 billion, and the text of paragraph 3 of the stand-by arrangement is amended to that effect. The Technical Memorandum of Understanding also has been modified to take into account the changes introduced regarding the operation of the Oil Contingency Mechanism.

With regard to the Growth Contingency Cofinancing Facility, the general framework that had been envisaged at the time when the program was formulated has been preserved. As indicated above, the IBRD's financial participation in this facility will take the form of guarantees of up to 50 percent of the amounts disbursed under the facility. The IBRD has indicated its willingness to help Mexico identify projects for financing under this facility, with emphasis on high yielding projects that have significant employment generation effects and substantial positive effects on private sector activity.

1/ Calculations for translating the SDR equivalent of the purchase into U.S. dollar will be made on the basis of the US$/SDR exchange rate three business days before the date of the purchase. The stand-by charges pursuant to paragraph 10 of the arrangement will be calculated in SDRs on the date of accrual of the right to purchase augmented amounts under the arrangement. The staff had considered the possibility of stand-by charges payable upon approval of the arrangement being levied on a total amount of SDR 2 billion, i.e., including the maximum amount by which the arrangement could be augmented, as this represents an obligation of the Fund to provide financing, though subject to certain contingencies. However, in this case, as it cannot be known in advance whether or in what amounts there will be any actual augmentations, the present system is being proposed under which the stand-by charge payable upon approval would be based on SDR 1.4 million and payment of stand-by charges on the augmented amounts would be due on the dates that entitlements to purchase under the phasing in paragraph 2(a) of the arrangement would be augmented.

The section of the Technical Memorandum of Understanding relating to this facility has been amended to incorporate the concept of assessment by the World Bank.

As regards other characteristics of the commercial banks' financing package, it already has been noted that the drawdowns of new money have been linked quite explicitly to purchases under the stand-by arrangement and the implementation of the structural reforms being supported by the World Bank. With respect to the linkages with the World Bank, the following features should be noted concerning the arrangements incorporated in the term sheet:

a. The World Bank cofinancing for the Transport Sector and the Growth Contingency are not intended to be disbursed in tranches. To that extent, the drawdown of these cofinancings is not subject to continuing requirements regarding purchases under the Fund arrangement.

b. The principal $5 billion constituent of the New Money Facility is linked to World Bank activities mainly by specifying, as a precondition for drawdowns of the commercial bank financing, the initiation of major new World Bank sector loans. Moreover, in two instances the term sheet provides for the initiation of alternative World Bank loans to provide flexibility.

c. In addition to specification of alternative World Bank loans for certain bank disbursements, the staff understands that flexibility is to be achieved through inclusion in the formal legal documents of "slippage" periods of at least 105 days for quarterly preconditions to be met on all commercial bank disbursements, and through the inclusion of qualified majority voting arrangements should waivers of drawdown conditions by commercial banks prove necessary.

To the extent that the guarantees provided by the World Bank are given, their current discounted value would be counted against the total financing made available to Mexico by the World Bank; therefore, the possibility exists that the effective flow of World Bank disbursements during the program period might be lower than originally envisaged. Given that the guarantees apply to the outlying years, however, their present value is just a fraction of the total amount guaranteed, and it is estimated that the US$750 million that might be covered under guarantees would have a present value of around US$200 million.

Finally, the pace of disbursements with respect to the new money being provided by commercial banks has been altered somewhat from that assumed originally in that the last installment--of US$500 million-- has been moved to the first quarter of 1988. Given that some of the interest savings arising from this agreement would be attributed to that quarter, the shortfall of financing in 1987 as a consequence of this shift in disbursements would be US$350 million.

III. Staff Appraisal

At the time of the September 8, 1986 Board discussion of the economic program presented by Mexico, the staff had stated that implementation of this program should contribute to a substantial improvement in the country's economic performance, and should facilitate the changes in economic structure that are needed for Mexico to achieve sustained economic growth. It was also noted that external cooperation was needed to complement the efforts of the authorities for the program to be implemented effectively in a setting of orderly external payments arrangements. Thus, an approval in principle was recommended at that time, with the arrangement becoming effective when the Fund found that satisfactory arrangements had been made with respect to Mexico's external financing needs for the period of the stand-by arrangement. The limit of September 29, 1986 had been placed for such a finding. In the event the stand-by arrangement did not enter into effect as delays occurred in the negotiations between the Mexican authorities and their commercial bank creditors.

The agreement attained in principle concerning the rescheduling of obligations due to official creditors and the indications already received of the availability of cover for new export credit operations constitute important components of the required financing. Also, the new financing package that is now being circulated for commitment by commercial bank creditors is generally in line with the amounts identified as needed to cover Mexico's external financing needs in 1986 and 1987. Some shortfalls in financing may arise because some drawings have been shifted into early 1988 and because of the cost in guarantees given by the World Bank which effectively lowered its financing. However, the amounts involved are relatively small and will be taken into account in the discussions of the financial program for 1987. The program for 1987 will be examined by the Executive Board during the first review contemplated under the arrangement which is scheduled to take place before year-end.

In light of these developments, the staff is of the view that the basic assumptions underlying the economic program recently discussed by the Executive Board (EBM/86/149, 9/8/86) have not been altered by the understandings reached between Mexico and its external creditors.

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

1. The Government of Mexico has requested a stand-by arrangement for the period _____, 1986 until April 1, 1988 in an amount equivalent to SDR 1.4 billion, with the possibility of augmentation to SDR 2 billion.

2. The Fund approves the stand-by arrangement attached to EBS/86/161, Supplement 5.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

4. Purchases of amounts by which the amount of the arrangement is augmented will reduce in equivalent amounts any purchases that Mexico may make in respect of the period of the arrangement under the Fund's policy on the Compensatory Financing of Export Fluctuations.

Stand-By Arrangement

Attached hereto is a letter, dated July 22, 1986, with annexed revised Technical Memorandum of Understanding 1986-87, dated October --, 1986, from the Secretary of Finance and Public Credit of Mexico, requesting a stand-by arrangement and setting forth:

(a) the objectives and policies that the authorities of Mexico intend to pursue for the period of this stand-by arrangement;

(b) the policies and measures that the authorities of Mexico intend to pursue in 1986; and

(c) understandings of Mexico with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Mexico will pursue for the remaining period of this stand-by arrangement.

To support these objectives and policies the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For a period from _____, 1986 until April 1, 1988, Mexico will have the right to make purchases from the Fund in an amount equivalent to SDR 1.4 billion, subject to augmentation as appropriate pursuant to paragraph 3 below, and subject to paragraphs 2, 4, 5, 6, and 7 below, without further review by the Fund.

2. (a) Purchases under paragraph 1 of this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 225 million until November 20, 1986; the equivalent of SDR 450 million until February 20, 1987; the equivalent of SDR 650 million until May 20, 1987; the equivalent of SDR 850 million until August, 20, 1987; the equivalent of SDR 1,050 million until November 20, 1987; and the equivalent of SDR 1,225 million until February 20, 1988.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Mexico's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota.

3. The amounts available in accordance with paragraph 1 of this arrangement will be augmented on the dates specified in paragraph 2(a) above, and subject to the same conditions, in the circumstances set out in paragraph 8(a) of the revised Technical Memorandum, by the amount by which the equivalent of SDR 600 million exceeds any purchase made by Mexico under the Fund's policy on the Compensatory Financing of Export Fluctuations during the period of this arrangement, provided that the Fund's contribution to the cumulative external financing of the

shortfall will not exceed (a) the equivalent of U.S. dollars 200 million, plus one fourth of the amount by which the external financing first exceeds the equivalent of U.S. dollars 200 million, and thereafter (b) one fourth of the external financing of the shortfall in excess of the equivalent of U.S. dollars 200 million, if three fourths of such financing, as adjusted pursuant to the terms of such financing, was used by Mexico in respect of the calendar quarters for which purchases were made in accordance with this paragraph 3 of the stand-by arrangement, up to the equivalent of U.S. dollar 600 million. Computations for any augmentation shall be made quarterly from January 1, 1987.

4. Purchases under this stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of one-to-one until purchases under this stand-by arrangement reach a total of SDR 765,618,750 and thereafter each purchase shall be made from borrowed resources, provided that any modification by the Fund of the proportions or ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

5. Mexico will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Mexico's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota other than the initial purchase that Mexico may request within 15 days after the effective date of this stand-by arrangement:

(a) during any period until February 20, 1987, in which

(i) the limit on net domestic assets of the Banco de Mexico, described in paragraph 5 of the revised Technical Memorandum; or

(ii) the limit on the public sector borrowing requirement, described in paragraph 2 of the revised Technical Memorandum, as adjusted pursuant to paragraph 8 of that Memorandum; or

(iii) the limit on the operational balance of the nonfinancial public sector, described in paragraph 3 of the revised Technical Memorandum, as adjusted pursuant to paragraph 8 of that Memorandum; or

(iv) the target for net foreign assets of the monetary authorities, described in paragraph 4 of the revised Technical Memorandum, as adjusted pursuant to paragraph 8 of that Memorandum; or

(v) the ceiling on the Banco de Mexico's net claims on the public sector, and any related target for reduction in mandatory portfolio requirements for commercial bank lending

to the overall public sector, described in paragraph 6 of the revised Technical Memorandum, as adjusted pursuant to paragraph 8 of that Memorandum; or

(vi) the limit on financial intermediation conducted by the national development bank and all official trust funds, described in paragraph 7 of the revised Technical Memorandum; or

(vii) the limit on the public sector's net use of foreign credit, described in paragraph 1 of the revised Technical Memorandum, as adjusted pursuant to paragraph 8 of that Memorandum is not observed; or

(b) during any period after December 31, 1986, or June 30, 1987, until appropriate understandings have been reached between the Fund and Mexico and any suitable performance criteria have been established, or after such performance criteria have been established, while they are not being observed; or

(c) during the entire period of this stand-by arrangement, if Mexico

(i) imposes or intensifies restrictions of payments and transfers for current international transactions, or

(ii) introduces new multiple currency practices or modifies the existing multiple currency practice by increasing the multiplicity of exchange rates, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Mexico is prevented from purchasing under this stand-by arrangement because of this paragraph 5, purchases will be resumed only after consultation has taken place between the Fund and Mexico and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Mexico will not make purchases under this stand-by arrangement during any period of the arrangement in which the member has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase.

7. Mexico's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision

of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Mexico. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 7, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Mexico and understandings have been reached regarding the circumstances in which such purchases can be resumed.

8. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Mexico, the Fund agrees to provide them at the time of the purchase.

9. The value date for purchases under this stand-by arrangement involving borrowed resources will be determined in accordance with Rule G-4(b) of the Fund's rules and regulations. Mexico will consult the Fund on the timing of purchases involving borrowed resources in accordance with Rule G-4(d).

10. Mexico shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund, in respect of the amount of the arrangement in paragraph 1 above, as increased when the amount of the arrangement is augmented in accordance with paragraph 3 above.

11. (a) Mexico shall repurchase the oustanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Mexico's balance of payments and reserve position improves.

(b) Any reductions in Mexico's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

12. During the period of the stand-by arrangement Mexico shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Mexico or of representatives of Mexico to the Fund. Mexico shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of

Mexico in achieving the objectives and policies set forth in the attached letter and annexed memorandum.

13. In accordance with paragraph 22 of the attached letter, Mexico will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 5 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Mexico has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the government or at the request of the Managing Director, concerning Mexico's balance of payments policies.

Mexico: Revised Technical Memorandum of Understanding 1986-87

The following text revises the Technical Memorandum of Understanding attached to the letter dated July 22, 1986 describing the Economic Program that has been designed for 1986 and 1987.

I. Foreign financing

1. The public sector's net use of foreign credit, which (excluding interest rebates related to the 1984 external debt restructuring) amounted to US$0.4 billion during 1985 and was a negative US$0.5 billion during the first semester of 1986, will not exceed a negative US$0.1 billion for the period January-September 1986 and will not exceed US$5.0 billion in the period January-December 1986. For the period January-December 1987 the net use of foreign credit will not exceed US$5.1 billion, but understandings on its phasing during the year will be reached at the time of the first review under the stand-by arrangement. These ceilings will be modified only in line with the provisions made under the oil price and/or the supplementary capital expenditure contingency mechanisms as described in paragraphs 8 and 9 below.

II. Public finance

2. The overall public sector borrowing requirement "PSBR" (i.e., the economic deficit of the nonfinancial public sector on a cash basis plus the financial intermediation conducted by the national development banks and official trust funds, excluding FICORCA) is expected to increase from an estimated 10.0 percent of GDP in 1985 to 16.9 percent of GDP in 1986. The overall PSBR, which amounted to Mex$4,580 billion in 1985 and which is estimated to have reached Mex$4,000 billion during the first six months of this year, will not exceed Mex$8,350 billion in the nine-month period ending September 1986, and Mex$13,640 billion in the period January-December 1986. Understandings on the ceilings for 1986 will be modified to reflect increases or decreases in external public borrowing contemplated under paragraph 8 below. Understandings on the yearly and quarterly ceilings for 1987 will be reached at the time of the first review under the stand-by arrangement. These ceilings will be subject to adjustment in accordance with the provisions described in paragraphs 8 and 9 below.

3. The overall operational balance of the nonfinancial public sector, which amounted to a negative Mex$888 billion (1.9 percent of GDP) in 1985, and which has been estimated at Mex$186 billion in the period January-June 1986, has been programmed to register a deficit of no more than Mex$340 billion in the period January-September, and a deficit of no more than Mex$1,670 billion (2.1 percent of GDP) in the period January-December 1986. These ceilings shall be modified to reflect any adjustment under paragraph 8 below. Understandings on the yearly and quarterly ceilings for 1987 will be reached at the time of the first review under the stand-by arrangement. The 1987 ceilings shall be adjusted to reflect any changes under paragraphs 8 and 9 below.

III. Banco de Mexico operations

4. The net foreign assets of the monetary authorities, which amounted to US$3.1 billion on December 31, 1985, will increase by at least US$0.5 billion during 1986, and by US$0.9 billion during 1987. The net foreign assets of the monetary authorities will not decline by more than US$3.8 billion in the period January-September 1986. Understandings on the quarterly schedule for the net foreign asset accumulation for 1987 will be reached at the time of the first review under the stand-by arrangement. These targets will be adjusted according to the provisions of paragraphs 8 and 9 below.

The goals of the program regarding the accumulation of reserves have been formulated on the basis of assumptions regarding financing from various sources being available according to a specific calendar. If shortfalls or delays from the amounts or dates of financing envisaged were expected to be reversed, the management of the Fund would request early approval of a waiver by the Executive Board.

5. The net domestic assets of the Banco de Mexico, which in the period January-June 1986 increased by Mex$1,108 billion, will not increase by more than Mex$2,779 billion during the period January-September 1986, and not by more than Mex$711 billion during the period January-December 1986. These limits will be adjusted in accordance with the provisions of paragraph 8. Understandings on the limits for 1987 will be reached at the time of the first review under the stand-by arrangement.

6. The Banco de Mexico's net claims on the public sector, which amounted to Mex$5,735 billion as of the end of December 1985, will not exceed Mex$9,624 billion at the end of September 1986, and Mex$8,206 billion at the end of December 1986. These ceilings shall be adjusted by an amount equivalent to the sum of commercial banks' lending to the nonfinancial public sector that would result exclusively from the implementation of mandatory portfolio requirements. Thus, the adjusted limit on the Banco de Mexico's net claims on the nonfinancial public sector will be subject to the following schedule in 1986: Mex$13,133 billion at the end of September 1986, and Mex$13,700 billion at the end of December 1986. However, if the unadjusted ceilings are exceeded, the commercial banks' lending to the public sector based on mandatory portfolio requirements will be reduced by an equivalent peso amount. Understandings on the ceilings for 1987 will be reached at the time of the first review under the stand-by arrangement. These ceilings will be adjusted according to the provisions of paragraphs 8 and 9 below.

7. Financial intermediation conducted by the national development banks and all official trust funds (including those of the Banco de Mexico, but excluding FICORCA) will increase by no more than Mex$898 billion in 1986, subject to the condition that it will not increase by more than Mex$600 billion during the period January-September 1986.

IV. Contingency mechanisms

Oil price contingency mechanism

8. Depending on the evolution in the price of oil, the ceilings and targets set forth above will be modified 1/ according to the following mechanism:

(a) Lower-end scenario

(i) If in any given calendar quarter within the six months ending March 31, 1987 the mean price of oil of the representative Mexican crude oil mix falls below US$9 per barrel, the corresponding quarterly target on Banco de Mexico's net international reserves will be lowered in full by the revenue loss that results from multiplying the quarterly reference volume of crude oil exports by the difference between the prevailing quarterly mean price and the price of US$9 per barrel. In addition, the corresponding quarterly ceilings on the net domestic asets of the Banco de Mexico, on the net credit from Banco de Mexico to the public sector, on the PSBR, and on the operational balance of the public sector will be raised by the peso equivalent of the adjustment to the net international reserves target. In the following quarter, the ceiling on the public sector's net use of foreign credit and the target on the Banco de Mexico's net international reserves for that quarter will be raised by the amount of commercial bank disbursements related to the financing of the above-mentioned revenue loss; in addition the ceilings on the net domestic assets of the Banco de Mexico and on the net credit of the Banco de Mexico to the public sector will be lowered by the peso equivalent of such adjustment.

(ii) During the nine-month period ending December 31, 1987, the revenue shortfall in relation to the price of US$9 per barrel will be computed as indicated in (a) above, but the adjustments to the relevant targets and ceilings will correspond to only 80 percent of the revenue loss in the first three months, 60 percent in the second three months, and 40 percent in the third three months.

(b) Upper-end scenario

If in any given calendar quarter starting October 1, 1986 the mean price of oil (as defined above) rises above US$14 per barrel the corresponding quarterly target on the Banco de Mexico's net international reserves will be raised by the full amount of the excess revenue that results from multiplying the respective quarterly reference value of crude oil exports by the difference between the prevailing mean

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1/ The modifications to be made in any one quarter will be added in a cumulative fashion to adjustments already made in previous quarters. Within a given quarter, adjustments made under the lower or upper end scenarios will be in addition to any adjustments made under the baseline scenario.

average price and the price of US$14 per barrel. In addition, the corresponding quarterly ceilings on the net domestic assets of the Banco de Mexico, on the net credit from the Banco de Mexico to the public sector, on the PSBR, and on the operational balance of the nonfinancial public sector will be lowered. In the following quarter the ceiling on the public sector's net use of foreign credit and the target for the Banco de Mexico's net international reserves will be lowered by the amount of repayments and reduced commitments pursuant to Mexico's agreements with commercial banks under the 1986-87 commercial bank financing package for Mexico; in addition, the ceilings on the net domestic assets of the Banco de Mexico and on the net credit from Banco de Mexico to the public sector will be raised by the peso equivalent of such adjustment.

(c) Baseline scenario

If during the period starting October 1, 1986 the program the mean price of oil (as defined above) in a given calendar quarter remains within a range of US$9 to US$14 per barrel, adjustments to ceilings and targets will be made with respect to the average price of oil exports assumed in the program (US$11 per barrel in the fourth quarter of 1986 and throughout 1987). The corresponding quarterly ceilings on Banco de Mexico's credit to the public sector, on the PSBR, and on the operational balance of the nonfinancial public sector will be adjusted fully for the revenue deviation resulting from the product between the respective quarterly reference volume of crude oil exports and the difference between the prevailing quarterly mean price and the price assumed in the projection. The target on the net international reserves and the ceiling on net domestic assets of Banco de Mexico for the corresponding quarter will be adjusted by 100 percent of the revenue deviation in the first quarter, by 75 percent of the revenue deviation in the second quarter, by 50 percent of the revenue deviation in the third quarter, and by 25 percent of the revenue deviation in the remaining quarters.

(d) For purposes of calculating the revenue deviations, the reference volume of crude oil will be 1.2 million barrels per day during the fourth quarter of 1986 and 1.3 million barrels per day during 1987. For purposes of adjusting the public finance and monetary authorities' ceilings and targets the adjustment contemplated in (a), (b), and (c) will be converted into pesos at the average exchange rate in the controlled market that prevailed in the respective quarter.

Supplementary capital expenditure contingency mechanism

9. In addition to the adjustments in 8a, b and c, in 1987 the ceilings on public sector's net use of foreign credit, on the PSBR, and on the operational balance of the nonfinancial public sector will be adjusted upwards by an amount not to exceed US$500 million. The adjustment to the ceiling will become effective if, after March 31, 1987: (a) the 12-month rate of change in the index of manufacturing

production ending in March 1987 has not reached a level on which understandings have been reached during the first review under the stand-by arrangement; (b) the investment projects to which the credit will be applied have already been identified and assessed by the World Bank; and (c) all the targets and ceilings in the program for the quarter ending December 1986 and March 1987 have been observed. The amount of the adjustment shall be equal to the amount of financing disbursed from sources other than the Fund, pursuant to paragraph 21 of the accompanying letter.

For purposes of adjusting the public finance ceilings, the adjustment contemplated in this paragraph will be converted into pesos at the average exchange rate in the controlled market that prevailed in the respective quarter.

V. Other

10. During the period of the stand-by arrangement the financial authorities of Mexico and the Fund will consult periodically, in accordance with the Fund's policies on such consultations, to examine the progress being made in implementing the program and the achievement of its objectives. In particular, before the end of December 31, 1986 there will be a review of the implementation of the economic program described herewith, exchange rate developments and management, an assessment of the evolution of economic activity during the second half of 1986, and the establishment of the quarterly schedule of the targets and ceilings for 1987. A second review with the Fund will be scheduled for the second quarter of 1987. The above allowance for reviews and consultations does not preclude any further contacts that may arise in relation to the oil price and/or supplementary capital expenditure contingency mechanisms described in paragraphs 8 and 9 above.