

PRIME MINISTER

- c. 1. Mr. Butler
2. Mr. Coles

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Mexico

There have been some developments today. The second tranche of the BIS facility was due to be paid today. The BIS and the Fed have declined to make the payment because of the unsatisfactoriness of Mexico's present policies. In fact, the first tranche, although it has been paid over, ^{has not been used and} cannot be used without the agreement of the BIS and the Fed (it has been redeposited with the BIS).

This will produce a useful pressure point on the Mexicans. In order to maintain confidence the BIS banks and the Fed are not making it public that the facility is being withheld, and are saying that the facility is available on the terms agreed. Meanwhile, negotiations continue with the Mexican Central Bank Governor to try to get him in line.

The news of the second development comes from Toronto. The Mexican Finance Minister Hertzog is about to return to Mexico bearing a package of measures which would be acceptable to the international community, and which, I understand is acceptable to himself. He will then have to slug it out with his colleagues in Mexico City.

The Deputy Governor telephoned me about the third development this evening. The managers of local branches of Mexican banks came into the Bank of England this morning, to say that they had received instructions from their head offices not to pay maturing deposits (Euro deposits, sterling deposits, etc.) from today. They had been arguing with their head offices and had secured a day's grace before being obliged to implement these instructions. Mr. McMahon immediately arranged a meeting with Mr. Tello, the Mexican President's emissary, currently in London, who is also the brother of the new Mexican Central Bank Governor, and explained to him the portent of what was being proposed. Mr. Tello immediately telephoned Mexico City. The result was a message a short while later that it had all been a misunderstanding and that no instructions had been sent from Mexico City.

/ Somehow or other

S E C R E T

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Somehow or other the Guardian got hold of this story this evening. The Bank hope that they have succeeded in persuading them not to print this story. Let us hope that they have succeeded.

MCS

7 September 1982