

# CONFIDENTIAL

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DESKBY 240900Z  
FM-UKDEL IMF/IBRD WASHINGTON 240220Z  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 299 OF 23 DECEMBER 1982  
INFO MEXICO CITY

IMF: MEXICO--EXTENDED ARRANGEMENT AND FIRST CREDIT TRANCHE  
(EBS/82/208 SUPPLEMENTS 1, 2 AND 3)

1. THE EXECUTIVE BOARD TODAY DISCUSSED MEXICO'S REQUEST FOR A 3-YEAR EXTENDED ARRANGEMENT WITH THE FUND AND A FIRST CREDIT TRANCHE DRAWING. AFTER A LENGTHY DISCUSSION IN WHICH 19 DIRECTORS INTERVENED, THE REQUESTS WERE APPROVED. ALL DIRECTORS EXPRESSED EITHER WARM SUPPORT OR FAIRLY STRONG IF QUALIFIED SUPPORT. ALL FELT THAT THE PROGRAMME FOR THE FIRST YEAR OF THE ARRANGEMENT WAS A STRONG ONE, AND CONTAINED TOUGH MEASURES. THERE WAS GENERAL AGREEMENT THAT NO FEASIBLE ALTERNATIVE TO A VERY VIGOROUS PROGRAMME WAS POSSIBLE. IT WOULD BE VITALLY IMPORTANT BOTH FOR MEXICO AND FOR THE FUND THAT THE PROGRAMME SHOULD SUCCEED. ALL CONGRATULATED THE MANAGING DIRECTOR ON HIS HANDLING OF THE CASE, ALTHOUGH A NUMBER OF DIRECTORS SUGGESTED THAT THE PROCEDURES OUGHT TO BE REVIEWED IN A CALMER ATMOSPHERE WHEN THE DUST HAD SETTLED. THERE WAS GENERAL AGREEMENT THAT THE BANK'S RESPONSE TO THE MANAGING DIRECTOR'S INITIATIVE ON THE FINANCING PACKAGE FOR MEXICO (SEE PARAS 4 AND 5 BELOW) WAS ADEQUATE IN THE CIRCUMSTANCES.
2. THE MAIN POINTS FROM THE MD'S SUMMING UP WERE AS FOLLOWS. THE MAGNITUDE OF ECONOMIC IMBALANCES LEFT NO CHOICE OTHER THAN DRASTIC ADJUSTMENT. THE OBJECTIVE OF THE PROGRAMME WAS NOT AUSTERITY BUT RESTORATION OF BALANCE. FISCAL ADJUSTMENT WAS THE KEY ELEMENT AND IT WOULD BE IMPORTANT TO MONITOR PERFORMANCE HERE CLOSELY IN ORDER TO REASSURE THE FINANCIAL COMMUNITY THAT THE PROGRAMME WAS EFFECTIVE. SOME DIRECTORS HAD FELT THAT MONETARY POLICY HAD BEEN DEALT WITH IN RATHER ~~Too~~ GENERAL A WAY AND WERE CONCERNED AT THE LEVEL OF CENTRAL BANK CREDIT TO GOVERNMENT. IT WAS ALSO FELT THAT INTEREST RATES WERE STILL PERHAPS OVERCONTROLLED. SEVERAL DIRECTORS THOUGHT THAT THE PAPERS HAD BEEN VAGUE ON WAGE RESTRAINT, AND HE HAD BEEN GLAD TO HAVE ASSURANCES FROM SENIOR (VENEZUELA, REPRESENTING MEXICO) THAT WAGE SETTLEMENTS WERE ON A MODERATING TREND. ALL DIRECTORS HAD STRESSED THE NEED FOR FLEXIBILITY IN SETTING THE CONTROLLED EXCHANGE RATE. ELIMINATION OF EXTERNAL ARREARS WOULD BE ESSENTIAL FOR THE RESTORATION OF CONFIDENCE. FULL AND CAREFUL MONITORING OF PROGRESS WOULD BE ESSENTIAL. THE STAFF SHOULD NOT WAIT FOR THE MAY REVIEW TO ESTABLISH WHETHER SLIPPAGES WERE OCCURRING. A NUMBER OF DIRECTORS FELT THE NEED FOR MORE THOUGH DELINEATION OF THE MEDIUM STRATEGY AND SEVERAL WOULD HAVE PREFERRED A SERIES OF STAND-BY ARRANGEMENTS RATHER THAN THE EFF APPROACH.

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3. THE MD NOTED THAT THE MEXICAN CRISIS HIGHLIGHTED THE IMPORTANCE OF ACTIVE FUND SURVEILLANCE. RECALLING THE LONG DELAY BEFORE THE LAST ARTICLE IV CONSULTATION, HE WOULD SEE TO IT THAT THE PERIODICITY OF ARTICLE IV CONSULTATIONS WAS RESPECTED AT ALL COSTS, BUT THE FUND HAD NOT BEEN INACTIVE OVER MEXICO DURING THAT PERIOD. A STRONG AND CLEAR WARNING HAD BEEN GIVEN TO THE MEXICAN AUTHORITIES IN NOVEMBER 1981 IN WHICH IT HAD BEEN FIRMLY POINTED OUT THAT A MAJOR REORIENTATION OF PUBLIC SECTOR POLICIES WAS NEEDED. WHAT HAD BEEN INADEQUATE WAS THE AUTHORITIES' RESPONSE TO THESE COUNSELS. PERHAPS, WITH HINDSIGHT, THESE MEMORANDA SHOULD HAVE BEEN PUT TO THE BOARD. HE WOULD DO THIS MORE FORCEFULLY IN FUTURE.

FINANCIAL SUPPORT

4. AT THE BEGINNING OF THE MEETING THE MD RECALLED THAT THERE WAS A FINANCING GAP OF DOLLARS 7 BILLION FOR 1983, NOT COVERED BY FUND DRAWINGS OR BY REGULAR CAPITAL INFLOWS OR RESCHEDULING. HE REPORTED THAT HE HAD RECEIVED WRITTEN ASSURANCES FROM GOVERNMENTS FOR SUPPLEMENTARY CREDITS OF DOLLARS 2 BILLION ON TOP OF THOSE ALREADY IN THE PIPELINE. HE THANKED THE UNITED STATES TREASURY FOR THEIR EFFORTS IN GATHERING TOGETHER THIS PART OF THE PACKAGE. (WE HAVE LEARNED FROM CONTACTS IN THE US DIRECTOR'S OFFICE THAT THE MD CHOSE HIS WORDS ADVISEDLY. IN FACT, THE WRITTEN ASSURANCES WERE PROVIDED BY THE US GOVERNMENT WHICH UNDERTOOD THAT THE ADDITIONAL DOLLARS 2 BILLION WOULD BE PROVIDED, WITHOUT SPECIFYING A BREAKDOWN OF COUNTRY SHARES. THIS AGREES WITH SPRINKEL'S CABLE TO FINANCE MINISTRIES OF DECEMBER 22, WHICH WE HAVE JUST SEEN.)

5. THE MD ALSO REPORTED THAT HE HAD RECEIVED, THROUGH CITIBANK, REPLIES FROM COMMERCIAL BANKS UNDERTAKING TO INCREASE THEIR NET EXPOSURE TO MEXICO BY AN AMOUNT OF DOLLARS 4,320 MILLION, WHICH WAS DOLLARS 680 MILLION SHORT OF THE DOLLARS 5 BILLION HE HAD ASKED FOR. HE HAD PUT THE CRITICAL MASS FOR NEW BANKING EXPOSURE AT DOLLARS 4.5 BILLION AND WAS THUS DOLLARS 180 MILLION SHORT OF HIS IMMEDIATE TARGET. HE THEN LISTED THE FOLLOWING COUNTRIES WHERE THE BANKS' RESPONSES HAD FALLEN SHORT OF QUOTA:-

	QUOTA	SHORTFALL	(DOLLARS MILLION)
JAPAN	918	92	
SPAIN	121	121	
GERMANY	265	47	
ITALY	130	122	
BELGIUM	76	30	
SWITZERLAND	222	94	
ARAB BANKS	107	57	
USA	1911	235	

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OTHER COUNTRIES' BANKS HAD FULFILLED THEIR QUOTA. THERE HAD BEEN OVER-CONTRIBUTION FROM BANKS IN THE UNITED KINGDOM, CANADA, AND THE NETHERLANDS. HE INVITED EXECUTIVE DIRECTORS RESPONSIBLE FOR SHORTFALL COUNTRIES TO DO WHAT THEY COULD IN THE COURSE OF THE DAY TO HASTEN RESPONSES. DURING THE MEETING, SENIOR ANNOUNCED THAT A TELEX WAS ON ITS WAY FROM THE SPANISH AUTHORITIES PROMISING DOLLARS 93 MILLION AND DE GROOT SAID THAT THE BELGIAN BANKS HAD FULLY MET THEIR CONTRIBUTION BUT HAD BEEN ERRONEOUSLY REPORTED BY CITIBANK. THE MD APPEALED TO EXECUTIVE DIRECTORS FOR COUNTRIES WITH OUTSTANDING SHORTFALLS TO SEE WHAT THEY COULD DO TO PRODUCE A RESPONSE BY DECEMBER 27.

6. A FULL REPORT OF THE DISCUSSION FOLLOWS SAVING.

7. FCO PLEASE ADVANCE TO RICHARD BROWN (BANK OF ENGLAND)

ANSON

ADVANCED AS REQUESTED

MONETARY

ERD

MCAD

NAD

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MR RICHARD BROWN  
BANK OF ENGLAND

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