

TOP COPY

GR 160

UNCLASSIFIED  
FM UKDEL IMF/IBRD WASHINGTON 070022Z JUN  
TO PRIORITY FCO  
TELEGRAM NUMBER 111 OF 6 JUNE  
INFO MEXICO CITY

PHILADELPHIA MONETARY CONFERENCE: ADVISORY COMMITTEE STATEMENT  
ON MEXICO

1. TEXT OF STATEMENT REFERRED TO IN MIPT FOLLOWS:  
QUOTE SENIOR REPRESENTATIVES OF THE COMMERCIAL BANKS FORMING THE  
ADVISORY COMMITTEE FOR MEXICO MET YESTERDAY IN PHILADELPHIA TO  
RECEIVE A REPORT FROM THE MANAGING DIRECTOR OF THE INTERNATIONAL  
MONETARY FUND, COVERING MEXICO'S PERFORMANCE IN THE SECOND  
YEAR OF ITS PROGRAM WITH THE FUND. ON THE BASIS OF THE SUBSTANTIAL  
PROGRESS MEXICO HAS MADE UNDER ITS ADJUSTMENT PROGRAM, THE  
ADVISORY COMMITTEE HAS AGREED TO NEGOTIATE WITH THE PERTINENT  
MEXICAN AUTHORITIES SPECIFIC ARRANGEMENTS FOR A RESCHEDULING OF  
ITS PUBLIC SECTOR DEBT ON A MULTI-YEAR BASIS COMPATIBLE WITH ITS  
MEDIUM-TERM FINANCIAL OUTLOOK. THIS MULTI-YEAR APPROACH SHOULD  
FACILITATE MEXICO'S PLANS FOR AN EARLY RETURN TO NORMAL MARKET  
ACCESS. UNQUOTE

2. FCO PLEASE ADVANCE TO PS/CHANCELLOR, LITTLER, LAVELLE (FOR  
WICKS) AND DIGGLE (HMT), PS/GOVERNOR, LOEHNIS AND GILCHRIST  
(BOE) AND TAIT (ERD).

CLARK  
MONETARY  
ERD  
MCAD

COPIES TO:-  
ADVANCE ADDRESSEES

(ADVANCED AS REQUESTED)

GR 600  
CONFIDENTIAL

CONFIDENTIAL

FM UKDEL IMF/IBRD WASHINGTON 070020Z JUN 84  
TO IMMEDIATE FCO  
TELNO 110 OF 6 JUN  
INFO MEXICO CITY

PHILADELPHIA MONETARY CONFERENCE: RESCHEDULING FOR MEXICO.

1. THE MANAGING DIRECTOR OF THE IMF CALLED A MEETING THIS MORNING OF THE SEVEN "SUMMIT" EXECUTIVE DIRECTORS TO REPORT ON DEVELOPMENTS IN PHILADELPHIA ON A MULTI-YEAR RESCHEDULING FOR MEXICO.
2. THE MD SAID THAT HE HAD MADE A SHORT PRESENTATION TO THE BANKS' ADVISORY COMMITTEE ON MEXICO'S ECONOMIC PROGRESS UNDER THE FUND PROGRAMME. HE HAD STRESSED THAT THE PERFORMANCE CRITERIA OF THE PROGRAMME HAD BEEN OBSERVED THROUGH 1983 AND SO FAR IN 1984: THAT THE TARGETS WERE, INDEED, BEING MET BY LARGE MARGINS: AND THAT THE BALANCE OF PAYMENTS POSITION IN PARTICULAR WAS TURNING OUT STRONGER THAN EXPECTED. THERE WAS, HOWEVER, ONE BLEMISH. INFLATION REMAINED WELL ABOVE THE 40 PERCENT PER ANNUM ORIGINALLY ENVISAGED -IT WAS IN FACT RUNNING NEARER 5 PERCENT PER MONTH. IN CONSEQUENCE, THE MONTHLY EXCHANGE RATE ADJUSTMENTS OF ABOUT 2 1/2 PERCENT WERE PROVING TOO SMALL TO MAINTAIN COMPETITIVENESS. THE EFFECT ON TRADE FLOWS HAD NOT SO FAR BEEN SIGNIFICANT (THE MD COMMENTED THAT NON-OIL EXPORTS WERE "ABSOLUTELY BOOMING") BUT SIGNS OF PRESSURE WERE EMERGING, FOR EXAMPLE IN THE GROWTH OF INFORMAL CROSS-BORDER TRANSACTIONS. THE MD SAID THAT THE MEXICAN AUTHORITIES WERE DETERMINED THE SITUATION SHOULD NOT BE ALLOWED TO DETERIORATE FURTHER.
3. ON THE FINANCING PROPOSALS, THE MD BEGAN BY NOTING THAT NO NEW MONEY WAS LIKELY TO BE NEEDED IN 1985. HE NOTED FOUR MAIN REASONS FOR PROMOTING A MULTI-YEAR RESCHEDULING:
  - (A) THE "HUMP" IN MATURITIES, WHICH FOR THE NEXT FEW YEARS WOULD BE AROUND DOLLARS 12 BN PER YEAR (ON TOP OF A ROUGHLY COMPARABLE SUM FOR INTEREST PAYMENTS).
  - (B) MARKET SENTIMENT HAD NOT YET FULLY REFLECTED THE STRENGTHENING OF FUNDAMENTALS IN THE MEXICAN ECONOMY AND SOME ADDITIONAL MEANS OF SECURING GREATER FINANCING STABILITY WOULD THEREFORE BE HELPFUL:
  - (C) A CLEAR RECOGNITION FROM CREDITORS OF GOOD PERFORMANCE WOULD HAVE A POWERFUL INCENTIVE EFFECT ON THE MEXICANS THEMSELVES: AND
  - (D) THIS RECOGNITION WOULD ALSO PROVIDE A HELPFUL SIGNAL TO OTHER DEBTOR COUNTRIES, ESPECIALLY VALUABLE IN ADVANCE OF THE PROJECTED BOGOTA MEETING.
4. THE MD SAID THAT THE ECONOMIC SUB-GROUP OF THE ADVISORY COMMITTEE WOULD BE VISITING MEXICO. AFTERWARDS, NEGOTIATIONS WOULD BEGIN ON THE PRECISE TERMS OF THE RESCHEDULING ARRANGEMENT.

CONFIDENTIAL

15

5. THE MD MADE CLEAR THAT HE HAD NOT OFFERED SPECIFIC VIEWS ON THE TERMS OF THE RESCHEDULING. THIS WAS SOMETHING FOR NEGOTIATION BETWEEN THE MEXICAN AUTHORITIES AND THE BANKS. FURTHER, A NUMBER OF TECHNICAL ISSUES REMAINED TO BE CLEARED UP, RELATING, FOR EXAMPLE, TO THE TREATMENT OF MATURITIES WHICH HAD ALREADY BEEN RESCHEDULED. THE MD HAD, HOWEVER, INDICATED THAT HE FELT THE TERMS SHOULD BE 'MODERATE' IN RELATION TO SPREADS AND COMMISSIONS, AND ALSO THAT THERE SHOULD BE A 'REALISTIC' STRETCHING OUT OF MATURITIES. HE FAVOURED A RESCHEDULING OF, AT LEAST, MATURITIES IN 1985 THROUGH 1988, AND PERHAPS ALSO IN 1989 AND 1990. THE ADVISORY COMMITTEE HAD, THE MD SAID, BEEN FULLY ON BOARD IN ENDORSING THE PROPOSALS. THE MEXICANS HAD BEEN KEPT CLOSELY IN TOUCH AND HAD BEEN EXTREMELY PLEASED WITH THE OUTCOME.

6. THE MD DISTRIBUTED COPIES OF A STATEMENT ISSUED YESTERDAY EVENING ON BEHALF OF THE ADVISORY COMMITTEE AND ASKED THAT THE TEXT SHOULD BE TRANSMITTED BACK TO CAPITALS, AGAINST THE BACKGROUND OF THE COMMENTS REPORTED ABOVE. THE TEXT FOLLOWS IN MIFT.

7. THE MD LATER GAVE AN ABBREVIATED ACCOUNT ALONG SIMILAR LINES AT TODAY'S BOARD MEETING.

8. FCO PLEASE ADVANCE PS/CHANCELLOR, LITTLER, LAVELLE (FOR WICKS) AND DIGGLE (HMT), PS/GOVERNOR, LOEHNIS AND GILCHRIST (BOE) AND TAIT (ERD).

CLARK  
MONETARY  
ERS  
MCAB

COPIES TO.  
AS ADDRESSEES

2  
CONFIDENTIAL