

Prime Minister

It looks as if the
IMF are not going
to make progress
quickly.

Ottawa

tel: 422
-5/9



FERB

6.8

10 DOWNING STREET

~~Re: Jim~~

The Telegram you
mentioned over the weekend
is attached.

It arrived 9.30 am
today.

Andy

6/9

cc MCS.

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FM OTTAWA 062010Z

TO PRIORITY FCO

TELEGRAM NUMBER 432 OF 06 SEPTEMBER 1982

INFO UK DEL IMF/IBRD WASHINGTON AND MEXICO CITY

PA

FOLLOWING FROM UKDEL TO IMF/IBRD ANNUAL MEETING TORONTO

IMF: MEXICO

1. THE MANAGING DIRECTOR CALLED A MEETING OF EXECUTIVE DIRECTORS ON SEPTEMBER 5 TO HEAR THE LATEST POSITION ON MEXICO.
2. THE MD EXPLAINED THAT THE STAFF MISSION HAD RECENTLY RETURNED FROM MEXICO CITY. WHILE THEY WERE THERE THE GOVERNMENT HAD ALREADY ANNOUNCED SOME IMPORTANT MEASURES AND FURTHER MEASURES HAD BEEN ANNOUNCED ON SEPTEMBER 4. THE FUND WOULD FIRST NEED TO UNDERSTAND THESE MEASURES AND THEN ASSESS THEIR IMPACT ON A POSSIBLE ADJUSTMENT PROGRAMME. THIS WOULD TAKE SOME TIME AND INVOLVE SOME DELAY IN THE NEGOTIATIONS. THEY HAD TALKED TO SILVA HERZOG AND WOULD SEEK TO PUT TOGETHER ON MONDAY A MEMORANDUM OUTLINING THE MAIN THRUST OF A PROGRAMME BUT NOT THE DETAILED MEASURES IT WOULD CONTAIN. THIS SHOULD HELP THE MINISTER TO TEST WITH HIS AUTHORITIES WHETHER THAT SORT OF DIRECTION WAS ACCEPTABLE TO THEM AND WHETHER IT WOULD BE POSSIBLE TO NEGOTIATE A PROGRAMME AT THE EARLIEST POSSIBLE TIME, BEFORE THE TRANSFER OF POWER. IF THE MEMORANDUM WAS APPROVED BY THE PRESENT ADMINISTRATION THE FUND TEAM COULD GO BACK VERY SOON. IF NOT, THE PROCESS WOULD BE DELAYED.
3. HE ADDED THAT THE FUND HAD MADE CLEAR TO SILVA HERZOG THAT THEY WANTED TO HELP MEXICO. HOWEVER WHILE THEY UNDERSTOOD THE URGENCY THEY COULD NOT AGREE A PROGRAMME WHICH DID NOT FULLY MEET THE NORMAL CRITERIA AND PRACTICES OF THE FUND IN THIS MATTER. TIME WOULD BE NEEDED TO ESTABLISH THE QUANTITATIVE CRITERIA AND PHASING BEFORE A LETTER OF INTENT WAS AGREED. THIS REQUIRED A CLEAR STRATEGY ON THE DIRECTION WHICH ADJUSTMENT SHOULD TAKE.
4. BEZA (HEAD OF IMF MISSION) SAID THAT BEFORE THE LATEST ANNOUNCEMENT THEY HAD 10 WORKING DAYS IN MEXICO AND WERE MAKING SOME PROGRESS IN NEGOTIATIONS. REPRESENTATIVES OF THE NEW ADMINISTRATION HAD PARTICIPATED IN THE DISCUSSIONS. IT HAD BEEN UNDERSTOOD BY ALL SIDES THAT THE SIZE OF THE ADJUSTMENT NEEDED WAS LARGE. A BIG REDUCTION WAS NEEDED IN THE PUBLIC SECTOR DEFICIT IF A REDUCTION WAS TO BE ACHIEVED IN THE PRESENT VERY HIGH LEVEL OF INFLATION. THE MISSION HAD ALSO DISCUSSED ACCOMPANYING MEASURES IN THE FIELD OF EXCHANGE RATE POLICY, INCOMES POLICY ETC. ON SEPTEMBER 1 THE GOVERNMENT HAD ANNOUNCED THE NATIONALISATION OF THE BANKS, COMPREHENSIVE EXCHANGE CONTROL AND CHANGES IN INTEREST RATE POLICY BUT DETAILS HAD NOT BEEN AVAILABLE WHEN THE MISSION LEFT. THE FURTHER ANNOUNCEMENT ON SEPTEMBER 4 HAD INVOLVED A FIXED 2-TIER EXCHANGE SYSTEM AND SOME REDUCTIONS IN INTEREST RATES.

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5. IN SUBSEQUENT QUESTIONING A NUMBER OF DIRECTORS EXPRESSED CONCERN ABOUT THE WAY IN WHICH THESE DECISIONS APPEARED TO HAVE BEEN TAKEN. BUIRA (MEXICO) CONFIRMED THAT THE LATEST MEASURES HAD NOT BEEN TAKEN IN CONSULTATION WITH THE INCOMING ADMINISTRATION. THE MD SAID THAT DIRECTORS WOULD BE KEPT IN TOUCH WITH DEVELOPMENTS. ERB (UNITED STATES) OBSERVED THAT A FUND PROGRAMME WAS A NECESSARY ELEMENT IN THE ARRANGEMENTS FOR SHORT TERM ASSISTANCE.

6. THE FOLLOWING ADDITIONAL INFORMATION WAS PROVIDED BY BUIRA AND THE STAFF IN REPLY TO QUESTIONS:

(A) THE NATIONALISATION COVERED ALL EXCEPT FOREIGN BANKS. BUIRA DID NOT HAVE A FULL EXPLANATION FOR IT BUT SPECULATED THAT IT REFLECTED A NUMBER OF FACTORS INCLUDING THE WEAKENING POSITION OF A NUMBER OF BANKS, THE ROLE WHICH THE GOVERNMENT FELT THE BANKS WERE PLAYING IN ASSISTING EXTERNAL FLOWS AND OTHER

POLITICAL (BUT NON IDEOLOGICAL) REASONS.

(B) ON INTEREST RATES BUIRA SAID THAT THERE HAD RECENTLY BEEN A VERY LARGE SPREAD BETWEEN BORROWING AND LENDING RATES. THE MEASURES PLUS A FURTHER REDUCTION OF 2 PERCENTAGE POINTS ON BOTH SIDES.

MEASURES APPEARED TO INVOLVE A REDUCTION IN THIS SPREAD BY 5 PERCENTAGE POINTS PLUS A FURTHER REDUCTION OF 2 PERCENTAGE POINTS ON BOTH SIDES. THIS WOULD BE APPLIED FOR UP TO 5 WEEKS WHEN THE SITUATION WOULD BE REASSESSED. THE LENDING RATE ON LOW COST HOUSING WHICH WAS ALREADY SUBSIDISED HAD ALSO BEEN REDUCED. BEZA SAID THAT THESE MEASURES HAD NOT BEEN DISCUSSED WITH THE MISSION AND HE DECLINED TO SPECULATE ON THE REASONS. IT WAS POINTED OUT THAT THEY WOULD INEVITABLY MAKE IT MORE DIFFICULT TO WORK OUT A SUITABLE ADJUSTMENT PROGRAMME.

(C)

BEZA SAID THAT MEXICO HAD TRADITIONALLY HAD NO EXCHANGE CONTROLS. THE RECENT SYSTEM HAD INVOLVED ONE FIXED RATE MOVED AT THE DISCRETION OF THE AUTHORITIES AND ONE FREE RATE WHICH COULD TAKE THE PRESSURES. THE LATEST FIGURES HAD BEEN 50 PESOS TO THE DOLLAR FOR THE PREFERENTIAL RATE AND 100-108 FOR THE FREE RATE. BUIRA SAID THAT UNDER THE NEW SYSTEM THE PREFERENTIAL RATE WOULD BE 50 (FOR DEBT SERVICE AND ESSENTIAL IMPORTS) AND THE OTHER RATE 70 (FOR EVERYTHING ELSE INCLUDING EXPORTS, TOURISM AND NON ESSENTIAL IMPORTS). CONTROLS WERE ALSO IMPOSED ON THE AMOUNTS WHICH TRAVELLERS COULD TAKE ETC.

(D) ON THE POSSIBLE CFF DRAWING, BEZA SAID THAT THE MISSION'S DISCUSSIONS HAD BEEN LIMITED TO GATHERING THE NECESSARY DATA FOR CONSIDERATION IN WASHINGTON.

MORAN

MONETARY
ERD
MCA D

THIS TELEGRAM
WAS NOT
ADVANCED

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