

DBY 080800Z

(Monetary)

(X22)

IMMEDIATE

ADVANCE COPY

ERE DE LAST 2 DE OTTAWA

Mr Haunay (in lieu of de Exams)
 Mr Thomas
 Mr Goodison
 Mr Hayes
 PS / Mr Onslow
 PS / Lord Belstead
 PS / Mr Marten
 PS / PUS
 Sir J. Bullard

HO ERD Mexico
 HO MCAD
 HO ESID
 ODA
 HO PUSD (2)
 HO Planning Staff
 HO TRES / 8
 HO News D.

(2) Mr Scholar No 10 P.S.
 Mr Little HM Treasury

RC
 Mr Gifford
 Mr Ure

WONFO 023/08

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RS 400

Ridley
 The P.R. has seen a copy.

A.S.C. 8/9

SECRET

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FM OTTAWA 080135Z SEPT 82

TO IMMEDIATE FCOTZZBEGRAM NUMBER 434 OF 08 SEPTEMBER

INFO TO MEXICO CITY WASHINGTON

FOLLOWING FROM CHANCELLOR TO IMF/IBRD MEETINGS , TORONTO

THE MEXICAN SITUATION

1. THROUGHOUT THE FUND/BANK MEETING ATTENTION HAS BEEN FOCUSED ON THE MEXICAN SITUATION. IT HAS BECOME CLEAR THAT THE NEGOTIATIONS WITH THE FUND HAVE BEEN GOING VERY SLOWLY, AND THIS HAS BECOME GENERALLY KNOWN. IN PARTICULAR THE ECONOMIC MEASURES OF 4 SEPTEMBER ARE UNLIKELY TO BE COMPATIBLE WITH ANY LIKELY FUND PROGRAMME. SILVA HERZOG AND ALFREDO PHILLIPS (CENTRAL BANK DIRECTOR) HAVE HAD VARIOUS MEETINGS WITH THE GOVERNOR AND BIS PRESIDENT LEUTWILER, AND THEY BOTH CAME TO SEE ME THIS AFTERNOON. THEY ACKNOWLEDGED THAT THE IMF TIMETABLE HAS SLIPPED, AND THAT SEPTEMBER 4 MEASURES, WHICH TOOK PLACE WITHOUT HERZOG'S KNOWLEDGE, MAY HAVE TO BE REVERSED IN DUE COURSE. HERZOG IS RETURNING TO MEXICO WITH A MEMORANDUM PREPARED BY THE FUND SETTING OUT ECONOMIC OBJECTIVES, BUT NOT PARTICULAR DETAILS,

SETTING OUT ECONOMIC OBJECTIVES, BUT NOT PARTICULAR DETAILS, OF A FUND PROGRAMME. HE WILL SEEK "POLITICAL DEFINITIONS" FROM PRESIDENT LOPEZ PORTILLO. IF THE PRESIDENT BROADLY ACCEPTS THE ECONOMIC OBJECTIVES, WORK ON SPECIFIC PROGRAMME CAN CONTINUE IMMEDIATELY. IF, HOWEVER, HE FINDS POLITICAL DIFFICULTIES MORE TIME MAY BE REQUIRED FOR HERZOG TO GAIN THE NECESSARY SUPPORT WITHIN THE FACTIONS SURROUNDING THE PRESIDENT. HERZOG HIMSELF IS FULLY AWARE THAT MEXICO'S CREDIBILITY IS AT STAKE, AND WILL DO HIS UTMOST TO MAKE POSSIBLE THE RESUMPTION OF SERIOUS TALKS ON THE PROGRAMME.

2. MEANWHILE, THESE DIFFICULTIES HAVE CAUSED PROBLEMS FOR THE DRAWING DOWN OF THE BIS AND FED CREDITS, WHICH ARE CONDITIONAL ON SATISFACTORY PROGRESS BEING MADE WITH THE FUND NEGOTIATIONS. THE FIRST TRANCHE TOTALLING DOLLARS 600 MILLION HAS BEEN MADE AVAILABLE TO THE MEXICANS AND WILL BE RELEASED IN ACCORDANCE WITH NEED. THE BIS AND FED WILL DECIDE WHETHER AND WHEN THE SECOND TRANCHE MAY BE DRAWN IN ACCORDANCE WITH THE RESULT OF HERZOG'S TALKS WITH THE PRESIDENT.

3. NEWS OF THESE DEVELOPMENTS HAVE REACHED THE PRESS, AND THERE MUST BE SOME DANGER THAT IT WILL HELP TO DISLODGE WHAT HAS HITHERTO BEEN GENERALLY POSITIVE RESPONSE BY PRIVATE BANKS TO MEXICO'S APPEAL FOR 90 DAY MORATORIUM. THE LIQUIDITY SITUATION IS BEING REVIEWED BY THE FED AND OTHER CENTRAL BANKING AUTHORITIES ON A DAILY BASIS. THE GOVERNOR IS FULLY INVOLVED.

4. CLEARLY DEVELOPMENTS IN MEXICO OVER THE NEXT WEEK WILL BE CRITICAL.

5. PLEASE ADVANCE TO SCHOLAR (NO10) LITTLE (HMT) EVANS (FCO)

MORAN

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IMMEDIATE

Handwritten notes and stamps at the bottom of the page, including "H9 NOW" and "H9 E9".