

M

RESTRICTED [cull]

FM MEXICO CITY 252345Z NOV 82

TO PRIORITY FCO

TELEGRAM NUMBER 992 OF 25 NOVEMBER

INFO PRIORITY TREASURY, DOT, ECGD, BANK OF ENGLAND, UKDEL IMF/IBRD
WASHINGTON

MY TELNO 988: MEXICAN ECONOMIC CRISIS.

1. WHEN MY MINISTER-COUNCELLOR CALLED TODAY ON THE DEPUTY FINANCE MINISTER TO DISCUSS OTHER MATTERS, HE ASKED HOW MEXICO'S NEGOTIATIONS WITH THE COMMERCIAL BANKS WERE GOING. ENRIQUEZ SAVIGNAC SAID THAT HIS TALKS WITH THE MEXICAN ADVISORY GROUP IN NEW YORK A FORT-NIGHT AGO HAD GONE WELL. THE SIGNATURE OF THE LETTER OF INTENT TO THE IMF HAD REASSURED THE BANKERS WHO HAD BEEN MOST UNDERSTANDING AND HELPFUL. THE EARLIER ATMOSPHERE OF RECRIMINATION - QUOTE HOW DID YOU GET US IN TO THIS FIX UNQUOTE - HAD DISAPPEARED ENTIRELY.

2. HE HAD GIVEN THE ADVISORY GROUP UP TO DATE FIGURES ON THE MEXICAN FINANCIAL POSITION AND HAD PROPOSED A 120 DAY MORATORIUM ON PUBLIC SECTOR DEBT PRINCIPAL PAYMENTS FROM 23 NOVEMBER TO ALLOW TIME FOR RESTRUCTURING PROPOSALS TO BE WORKED OUT. THE GROUP HAD AGREED. HE HAD THEN PRESENTED THEM WITH FOUR ALTERNATIVE SCENARIOS FOR RESTRUCTURING. THE GROUP WERE NOW STUDYING THESE AND WOULD LET ME HIM KNOW WHICH THEY PREFERRED. THE MEXICANS WOULD THEN PROPOSE ONE FORMALLY. THEY WISHED TO AVOID PRESENTING THE GROUP WITH A SCHEME WHICH THERE WAS ANY RISK OF THEIR HAVING TO REFUSE.

3. IT HAD BEEN AGREED THAT A JOINT MEXICAN FINANCE MINISTRY/ ADVISORY GROUP WORKING PARTY SHOULD BE ESTABLISHED TO RESOLVE THE PROBLEM OF THE ARREARS OF INTEREST ON THE PRIVATE SECTOR DEBT. THE WORKING PARTY WAS NOW WELL ADVANCED IN ITS TASK AND SHOULD HAVE A PROPOSAL READY FOR THE FINANCE MINISTER IN THE NEW ADMINISTRATION NEXT WEEK. THE AIM WAS TO HAVE THE ARREARS OF INTEREST SETTLED IN THE FIRST FIVE OR TEN DAYS OF DECEMBER WHICH WOULD MAKE IT POSSIBLE FOR THE US BANKS TO RECORD THE LOANS AS PERFORMING IN THEIR YEAR END ACCOUNTS. THIS WOULD REMOVE THE MAIN OBSTACLE TO THE ADVISORY GROUP MAKING A COMMITMENT ON NEW MONEY FOR MEXICO FOR 1983 BY 15 DECEMBER, THE DEADLINE SET BY THE MANAGING DIRECTOR OF THE IMF IN HIS MEETING WITH THE ADVISORY GROUP IN NEW YORK ON 16 NOVEMBER.

4. MORRIS ASKED WHETHER THE ADVISORY GROUP HAD BEEN AS ANNOYED ABOUT DE LAROSIERE'S PROPOSALS AT THE NEW YORK MEETING AS THE FINANCIAL TIMES HAD SUGGESTED. ENRIQUEZ SAVIGNAC SAID THAT THE BANKS HAD BEEN SOMEWHAT PUT OUT BECAUSE THEY HAD WISHED TO TAKE THE INITIATIVE THEMSELVES. BUT THEY RECOGNISED THAT DE LAROSIERE WAS ONLY ASKING WHAT WAS NECESSARY. THE MEXICAN GOVERNMENT HAD BEEN MOST GRATEFUL FOR DE LAROSIERE'S UNPRECEDENTED INITIATIVE.

RESTRICTED

5. ENRIQUEZ SAVIGNAC SAID THAT THE FINANCE MINISTRY HAD BEEN DISCUSSING WITH THE ADVISORY GROUP HOW THE US DOLLARS 6 BILLION OR SO NEW MONEY NEEDED FROM NOW UNTIL THE END OF 1983 COULD BE RAISED. THE BANKS THOUGHT THAT MOST OF IT WOULD HAVE TO COME FROM THE BIG MONEY CENTRE BANKS. BUT THE LATTER COULD NOT RAISE IT ALL WITHOUT EXCEEDING THEIR CREDIT LIMITS. THEY HAD THEREFORE DISCUSSED WAYS IN WHICH THE DIFFERENCE COULD BE MADE UP. ONE WAS BY A GREATER USE OF EXPORT CREDITS WHICH MEXICO HAD NEGLECTED IN THE PAST. STATE COMPANIES LIKE PEMEX HAD OFTEN BORROWED SHORT TERM FUNDS IN ORDER TO PAY CASH FOR LARGE CAPITAL PURCHASES. THIS MADE LITTLE SENSE. THE BANKERS IN THE ADVISORY GROUP WERE THEREFORE DISCUSSING WITH THE EXPORT CREDIT AGENCIES OF THEIR RESPECTIVE COUNTRIES HOW MORE EXPORT CREDIT FINANCE COULD BE MADE AVAILABLE IN THE FUTURE. THEY WOULD ALSO BE TRYING TO PERSUADE THEIR OWN CENTRAL BANKS TO LENGTHEN THE TERM OF THE BLS LOAN. SIMILAR EFFORTS WERE BEING MADE WITH THE US TREASURY AND THE FED ON THE BRIDGING LOANS THEY HAD PROVIDED. IN THIS WAY THE MEXICANS AND THE ADVISORY GROUP HOPED THAT THE SHORTFALL IN MEXICO'S EXTERNAL FINANCING FOR 1983 COULD BE MET.

6. FINALLY ENRIQUEZ SAVIGNAC SAID HOW PLEASED HE WAS WITH THE WAY THINGS WERE NOW GOING. IT SHOWED THAT THE INTERNATIONAL MONEY SYSTEM DID WORK PROVIDED ONE PLAYED BY THE RULES. IT WOULD HAVE BEEN A DISASTER IF MEXICO HAD FOLLOWED THE ADVICE OF QUOTE PEOPLE OUTSIDE UNQUOTE AND HAD TRIED TO FORM A DEBTORS CLUB WITH BRAZIL AND ARGENTINA.

TICKELL

FINANCIAL
ESID
MCAD
NAD

COPIES TO:

MR BALFOUR } BANK OF ENGLAND
MR JAGGERS }

MR ATKINSON } TREASURY
MR BOTTRELL }
MR PERETZ }