

The original documents are located in Box B80, folder “Mexico 4/76 - 10/77 (9)” of the Arthur F. Burns Papers at the Gerald R. Ford Presidential Library.

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NATIONAL ARCHIVES AND RECORDS SERVICE

WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
	1. <u>memo case, Truman to Burns, c. 3/10/77</u>		
la. memo	Ted Truman to Burns re cables from Mexico (1 p.) <i>opened 4/22/96 KBT</i>	c. 3/10/77	C(A)
lb. telegram	American Embassy Mexico to Sec. of State, Mexico 2875, re debt renegotiation rumors (2 pp.) DECLASSIFIED 3/10/08	3/8/77	A
lc. telegram	American Consul, Hermosillo, to Sec. of State, Hermosillo 066, re land reform in Sonora (4 pp.) DECLASSIFIED 2/12/15	3/8/77	A
	2. <u>memo case, Truman to Burns, 3/22/77</u>		
2a. telegram	American Embassy Mexico to Sec. of State, Mexico 3051, re Mexican economic and financial package (3 pp.) DECLASSIFIED	3/11/77	A
	3. <u>memo case, Truman to Burns, 3/23/77</u>		
3a. memo	Yves Maroni to Mr. Truman re IMF mission to Mexico and Mexican negotiations with Export-Import Bank (3 pp.) <i>opened 4/22/96 KBT</i>	3/23/77	C(A)
	4. <u>memo case, Truman to Burns, 3/28/77</u>		
4a. telegram	American Embassy Mexico to Sec. of State, Mexico 03576, re Mexico's external borrowing (3 pp.) DECLASSIFIED 3/10/08	3/24/77	A
4b. telegram	American Embassy Mexico to Sec. of States, Mexico 03581, re Mexican Bankers Convention (6 pp.) DECLASSIFIED 3/10/08	3/24/77	A
5. memo	Ted Truman to Burns re visit of Kolbeck and Phillips (2 pp.) <i>opened 4/22/96 KBT</i>	4/1/77	C(A)
6. memo	Ted Truman to Burns re possible multilateral standby credit for Mexico (4 pp.) <i>opened 4/22/96 KBT</i>	4/4/77	C(A)
7. memo	Ted Truman to Burns re Burns' meeting with Lopez-Portillo in February (1 p.) <i>opened 4/22/96 KBT</i>	4/4/77	C(A)

FILE LOCATION

Arthur Burns Papers
Federal Reserve Board Subject File, Box B80
Mexico, Mar. -Apr 1977

SR
8/14/84

RESTRICTION CODES

- (A) Closed by Executive Order 12065 governing access to national security information.
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NATIONAL ARCHIVES AND RECORDS SERVICE
WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
8. memo	Ted Truman to Burns re possible multilateral swap arrangements for Mexico (2 pp.) <i>opened 4/22/96 KBT</i>	4/7/77	C(A)
9. memo	Treasury memo re possible multilateral swap arrangements for Mexico (7 pp.) DECLASSIFIED <i>wt 5/96.</i>	n. d. (c. 4/77)	A
10a. memo	Ted Truman to Burns re cable from Mexico (1 p.) <i>opened 4/22/96 KBT</i>	4/14/77	C(A)
10b. telegram	American Embassy Mexico to Sec. of State, Mexico 04844, re current economic situation (5 pp.) DECLASSIFIED	4/8/77	A
11. memo case,	Truman to Burns, 4/22/77		
11a. memo	Ted Truman to Burns re visit by Mexican officials (2 pp.) <i>opened 4/22/96 KBT</i>	4/22/77	C(A)
11b. paper	Mexico's Current Economic Situation and Prospects Under Secretary Solomon's Trip to Mexico, April 12-15, 1977 (7 pp.) DECLASSIFIED	4/77 <i>wt 5/96.</i>	A
11c. memo of conversation	Treasury officials and Mexican financial officials, Mexico City, April 13, 1977 (2 pp.) DECLASSIFIED	4/14/77	A
11d. memo of conversation	Lopez-Portillo, Romero Kolbeck and U. S. Treasury officials, Mexico City, April 13, 1977 (2 pp.) DECLASSIFIED	4/14/77	A
11e. memo	Yves Maroni Board Briefing re Mexican economic situation (5 pp.) <i>sanitized 4/22/96 KBT</i>	4/8/77	C(A) B
11f. memo	Recent Fiscal Policy and Wage Policy Trends in Mexico (3 pp.) <i>opened 4/22/96</i>	4/22/77	C(A)
12. memo case,	Truman to Burns, 4/26/77		
12a. memo	Notes on Meeting with Mexican Officials by Ted Truman (6 pp.) <i>sanitized 4/22/96 KBT</i>	4/26/77	C(A) B

FILE LOCATION

Arthur Burns Papers
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March 1, 1977

TO: Chairman Burns

FROM: E.M. Truman *EMT*

Attached are the latest cables from Mexico including two on Mexico's external debt (State 042442 and Mexico 2385), one on the Bank of Mexico's Annual Report (Mexico 2328), and two on 1976 economic statistics.

Attachments

cc: Governor Wallich

Defense classification of this document is due to the inclusion of U.S. Government information officially classified under Executive Order 10501 which provides that "A document... shall bear a classification at least as high as that of its highest classified component."



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1977 MAR -1 PM 11:46
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OUTGOING
TELEGRAM

PAGE 01
ORIGIN EB-08

STATE 042442

0085

INFO OCT-01 ARA-06 ISO-00 TRSE-00 AID-05 CIAE-00 COME-00
FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 L-03 PA-01 PRS-01 IO-13 /067 R

DRAFTED BY EB/IFD/OMA: BGCROWE
APPROVED BY EB/IFD: EHPREEG
EB/PAS: JGERVERS
ARA/MEX: GFALK
ARA/ECP: RTAYLOR
TREASURY: SCANNER
TREASURY: SWOFFORD

R 251708Z FEB 77 25 -----252030 046612 /50
FM SECSTATE WASHDC
TO AMEMBASSY MEXICO

LIMITED OFFICIAL USE STATE 042442

E. O. 11652: N/A

TAGS: EFIN

SUBJECT: RENEGOTIATION OF MEXICAN DEBT

REF: MEXICO 1587

Please return to
International Information Center

1. WE WOULD BE INTERESTED IN ANY OTHER REPORTS YOU RECEIVE REGARDING GOM INTENTION TO RENEGOTIATE ITS EXTERNAL DEBT. AS YOU WELL KNOW, MEXICO IS SECOND LARGEST (AFTER BRAZIL) LDC DEBTOR AND ANY MOVE TO "RENEGOTIATE" DEBT WOULD HAVE BROAD IMPLICATIONS.

2. WE SHARE YOUR BELIEF THAT IT IS HIGHLY UNLIKELY THAT GOM INTENDS TO RENEGOTIATE DEBT. MEXICO CONTINUES TO SEEK SUBSTANTIAL PRIVATE BANK BORROWINGS, AND BY EMPHASIZING FAVORABLE ECONOMIC PROSPECTS HOPES TO ENHANCE ITS IMAGE OF "CREDITWORTHINESS". MOVES TO RENEGOTIATE DEBT WOULD CAST DOUBTS ON MEXICO'S CREDIT STANDING, AND JEOPARDIZE GOM ACCESS TO PRIVATE MARKETS. MOVEOVER, THE "PARIS CLUB" TRADITIONALLY RESCHEDULES ONLY GOVERNMENT OR GOVERNMENT GUARANTEED DEBT. USUALLY SHORT-TERM CREDITS, ALL BANK CREDITS AND ALL LOANS FROM THE INTERNATIONAL LENDING INSTITUTIONS (WORLD BANK, ETC.) HAVE BEEN EXCLUDED. THEREFORE, ONLY A SMALL PORTION OF MEXICO'S CURRENT DEBT SERVICE COULD BE COVERED BY A PARIS CLUB RESCHEDULING.
VANCE



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PAGE 01 MEXICO 02385 252321Z
ACTION PARA-10

INFO OCT-01 ISC-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02
CIEP-00 OMB-01 /060 W

-----250858 052130 /13

R 252237Z (FEB 77 25)
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 0564
INFO TRSY WASHDC

UNCLAS MEXICO 2385

E.O. 11652: N/A
TAGS: EFIN MX
SUBJ: PUBLIC SECTOR EXTERNAL DEBT.

Please return to
International Information Center

REF: 76 MEXICO 15938

1. BANK OF MEXICO'S ANNUAL REPORT INCLUDES DATA ON THE
PUBLIC SECTOR'S EXTERNAL DEBT AS OF DECEMBER 31, 1975
AND 1976. THIS DATA IS ATTRIBUTED TO MEXICAN TREASURY
BUT DIFFERS SLIGHTLY FROM THAT REPORTED IN REFTEL. ALL
FIGURES ARE IN US\$ MILLIONS; FIGURES IN PARENTHESES ARE FOR
END-UT. (1975?)

2. TOTAL DEBT	19,600.2	(14,419.0)
A. DEBT WITH MATURITY OVER ONE YEAR	15,923.4	(11,612.0)
1. FEDERAL GOVERNMENT	2,863.8	(1,550.6)
2. PUBLIC SECTOR ORGANISMS COMPANIES	6,893.7	(5,515.4)
3. FEDERAL DISTRICT AND		



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PAGE 02

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METRO	763.4	(712.8)
4. OTHER, NON-FINANCIAL	1795.7	(1601.5)
5. FINANCIAL INTERMEDIARIES	3606.8	(2231.7)
B. SHORT-TERM	3676.8	(2837.0)
PUBLIC SECTOR ORGANISMS AND COMPANIES	656.8	(670.8)
FEDERAL DISTRICT AND METRO	59.1	(61.5)
FINANCIAL INTERMEDIARIES THOMPSON	2960.9	(2104.7).

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LIMITED OFFICIAL USE 0465

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02 LAB-04
SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 H-01 PRS-01
PA-01 AGRE-00 FEAE-00 L-03 INT-05 /089 W

-----251915 046632 /46

R 251710Z FEB 77
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 0538
INFO TRSY WASHDC

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International Information Center

LIMITED OFFICIAL USE SECTION 1 OF 2 MEXICO 2328

LA 2 att

E.O. 11652: N/A
TAGS: EFIN, MX
SUBJ: BANK OF MEXICO ANNUAL REPORT

1. SUMMARY: BANK OF MEXICO ISSUED ITS PRELIMINARY ANNUAL REPORT ON FEBRUARY 23. AS USUAL REPORT CONCENTRATES ON PAST, BUT CONTRARY TO TRADITION, REPORT DETAILS WHAT HAS PROBABLY BEEN THE BLEAKEST ECONOMIC YEAR SINCE 1945, IN CONSIDERABLE FRANKNESS. REMARKS ON 1977 ARE VERY GENERAL. THIS CABLE SUMMARIZES REPORT. SUBSEQUENT CABLES WILL GO INTO GREATER DETAIL. END SUMMARY.

2. NATIONAL ACCOUNTS. MEXICO'S GDP INCREASED BY ABOUT TWO PERCENT IN REAL TERMS, THE LOWEST GROWTH RATE SINCE 1953. OUTPUT IN AGRARIAN SECTORS WAS DOWN 2.10 PERCENT. PETROLEUM AND ELECTRICAL ENERGY WERE ONLY INDUSTRIAL SECTORS TO GROW MORE THAN 3.5 PERCENT. MANUFACTURERS' OUTPUT UP 1.8 PERCENT. GOVERNMENT SERVICES WERE UP 8.5 PERCENT. NO PRICE DEFLATOR PUBLISHED. PRIVATE CONSUMPTION EXPENDITURES DID NOT INCREASE DUE TO LOSS OF PURCHASING POWER FROM INFLATION BY MAJOR SECTORS OF THE POPULATION; I.E., THE UNDER-EMPLOYED. INVESTMENT REMAINED THE SAME IN REAL



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TERMS.

3. BALANCE OF PAYMENTS. CURRENT ACCOUNT DEFICIT WAS \$3,024 MILLION; ERRORS AND OMISSIONS WERE MINUS \$2,199 MILLION; LONG-TERM CAPITAL NET INFLOWS WERE \$4,890 MILLION OF WHICH \$331 MILLION RESULTED FROM DIRECT INVESTMENT INFLOWS. RESERVES DECLINED \$333 MILLION, TO A YEAR-END TOTAL OF \$1,412 MILLION. THIS FIGURE INCLUDES GOLD REVALUED AT MARKET PRICES. THIS REVALUATION AMOUNTED TO \$136 MILLION. THE ERRORS AND OMISSIONS IS IN EFFECT UNDERSTATED BY THIS AMOUNT.

4. MONETARY DEVELOPMENTS. CURRENCY IN CIRCULATION INCREASED BY 52.8 PERCENT; DEMAND DEPOSITS WERE UP 13.7 PERCENT. MONEY SUPPLY GREW BY 30.9 PERCENT. TOTAL RESOURCES OF THE BANKING SYSTEM INCREASED BY 44.3 PERCENT. ADJUSTING THIS FIGURE FOR REVALUATION OF DOLLAR-DENOMINATED LIABILITIES OF THE BANKING SYSTEM, THE INCREASE WAS 44.3 PERCENT, OR 128.3 BILLION PESOS. ROUGHLY HALF OF THIS CAME FROM FOREIGN BANK LOANS, INTEREST BEARING DEPOSITS DENOMINATED IN PESOS DECLINED.

5. BANK OF MEXICO. CENTRAL BANK CREDIT TO THE GOVERNMENT INCREASED 43.9 BILLION PESOS AND CENTRAL BANK CREDIT TO THE BANKING SYSTEM INCREASED 20.1 BILLION PESOS, MOSTLY IN THE LAST FOUR MONTHS OF THE YEAR AND IN ORDER TO OFFSET WITHDRAWALS. THIS FIGURE COMPARES TO 40 MILLION PESOS IN 1975. DEPOSITS (FROM RESERVE REQUIREMENTS) IN THE BANK OF MEXICO INCREASED ONLY 14.9 BILLION PESOS IN 1976 COMPARED TO 46.2 BILLION PESOS IN 1975. REPORT NOTES THAT A LARGE PART OF INCREASES IN ITS FINANCING WAS USED BY INDIVIDUALS TO ACQUIRE FOREIGN ASSETS. THIS PUT PRESSURE ON RESERVES WHICH REQUIRED BANK OF MEXICO TO OBTAIN CREDITS FROM IMF, U.S. TREASURY, THE FEDERAL RESERVE, AND "OTHER SOURCES" TO SUPPORT ITS RESERVES.

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6. PUBLIC SECTOR FINANCES. PUBLIC SECTOR REVENUE WAS UP 29.1 PERCENT IN 1976, EXPENDITURES GREW 28.9 PERCENT, AND THE DEFICIT INCREASED 28.5 PERCENT TO 124 BILLION PESOS. 67 PERCENT OF DEFICIT FINANCED EXTERNALLY. FEDERAL GOVERNMENT REVENUES WERE 134.7 BILLION PESOS AND EXPENDITURES WERE 192.0 BILLION PESOS. CURRENT EXPENDITURES INCREASED MORE THAN CAPITAL EXPENDITURES.

7. COMMENT. THE TWO PERCENT REAL GROWTH RATE IS LOWER THAN GENERALLY EXPECTED. IT IS POSSIBLE THAT, ONCE THE BAD ECONOMIC NEWS SINKS IN, THERE WILL BE INCREASING PRESSURE ON THE GOM TO PURSUE EXPANSIONARY MEASURES. REPORT WAS UNUSUALLY FRANK FOR A MEXICAN GOVERNMENT ENTITY. REPORT BLAMES MEXICO'S PROBLEMS IN PART ON THE INCREASE IN THE PUBLIC DEFICIT FROM 3.4 PERCENT OF GDP IN 1970 TO 9.8 PERCENT IN 1975, AND ON THE INCREASE IN THE CURRENT ACCOUNT DEFICIT FROM 2.8 PERCENT OF GDP IN 1970 TO 4.8 PERCENT IN 1975. REPORT ALSO MAKES A POINT OF MENTIONING THAT MEXICO'S MANUFACTURED EXPORTS DID NOT INCREASE IN 1976 AS MUCH AS MIGHT BE EXPECTED BY THE INCREASE IN WORLD DEMAND.



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ACTION ARA-10

INFO OCT-01 ISD-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02 LAB-04
SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 H-01 PRS-01
PA-01 AGRE-00 FEAE-00 L-03 INT-05 /089 W
-----251915 047179 /46

R 251710Z FEB 77
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 0539
INFO TREASURY WASHDC

LIMITED OFFICIAL USE SECTION 2 OF 2 MEXICO 2328

8. WHILE REPORT DOES A REASONABLY GOOD JOB OF EXPLAINING HOW AND WHY MEXICO'S ECONOMIC CRISIS DEVELOPED. IT DOES NOT OUTLINE IN ANY DETAIL POLICIES AIMED AT RESTORING FINANCIAL STABILITY OR ELIMINATING THE DISEQUILIBRIA THAT CAUSED THE PRESENT PROBLEMS IT DOES STATE THAT THE NEW ADMINISTRATION IS TAKING MEASURES TO "RECONCILE THE NATIONAL OBJECTIVES OF ECONOMIC DEVELOPMENT WITH THOSE OF SOCIAL JUSTICE AND SPECIFIC DEMANDS FROM VARIOUS FACTORS OF PRODUCTION. SUCH MEASURES ARE GEARED TO INCREASE THE RATE OF GROWTH IN A WAY TO SATISFY BASIC CONSUMPTION NEEDS AND GENERATE MORE EMPLOYMENT OPPORTUNITIES." WHILE THE REPORT MENTIONS THAT THE NEW ADMINISTRATION HAS RATIFIED THE OCTOBER 27, 1976 AGREEMENT WITH IMF, IT DOES NOT ELABORATE FURTHER ON THE MEASURES REFERRED TO ABOVE, EXCEPT TO NOTE THE ADMINISTRATIVE REFORM, TAX REFORM AND PUBLIC DEBT LAW.

9. SEPARATELY, THE REPORT MAKES THE POINT THAT EQUILIBRIUM CAN BE RESTORED ONLY THROUGH A COORDINATED POLICY COVERING THE BUDGET, SALARIES, PRICES AND PROFITS, PLUS APPROPRIATE MONETARY AND CREDIT POLICIES, ADDING THAT THE EFFECTS OF THESE CAN BE SEEN ONLY IN THE MEDIUM-

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TERM. IT WOULD APPEAR THAT THE BANK OF MEXICO IS CALLING FOR A BROADER RANGE OF POLICIES THAN ARE NOW IN PLACE AND THAT THE NEXT YEAR OR SO IS LIKELY TO BE DIFFICULT.

10. THE BANK'S REPORT TRADITIONALLY DOES NOT FORECAST ECONOMIC DEVELOPMENTS. THIS YEAR IS NO EXCEPTION. IT DOES, HOWEVER, NOTE THAT THE CURRENT ACCOUNT DEFICIT SHOULD CONTINUE TO DECLINE AND THAT CURRENT CONDITIONS IN THE FINANCIAL MARKET SUGGEST THE DESIRABILITY OF MORE FLEXIBLE MEANS OF INCREASING SAVINGS. THIS WOULD SEEM TO INCLUDE HIGHER INTEREST RATES.
THOMPSON

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TO DIRECTOR
FROM MEXICO
MEXICO 02328

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01-02 02-02 03-02 04-02 05-02 06-02 07-02 08-02 09-02 10-02 11-02 12-02
01-03 02-03 03-03 04-03 05-03 06-03 07-03 08-03 09-03 10-03 11-03 12-03
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01-05 02-05 03-05 04-05 05-05 06-05 07-05 08-05 09-05 10-05 11-05 12-05
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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02
CIEP-00 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 AGRE-00 /090 W

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R 252235Z FEB 77 25
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 563
INFO TREASURY WASHDC

Please refer to
International Information Center

UNCLAS MEXICO 2383

EO 11652 : N/A
TAGS : EFIN MX
SUBJ : NATIONAL ACCOUNT DATA FOR 1976.

1. BANK OF MEXICO'S ANNUAL REPORT CONTAINS PARTIAL AND PRELIMINARY NATIONAL ACCOUNT DATA FOR 1976, AS WELL AS COMMENTARY ON THE ECONOMY DURING THE PAST YEAR.

2. BELOW IS A TABLE SHOWING OUTPUT CHANGES FROM 1975 TO 1976 IN PERCENT FOR PRIMARY AND SECONDARY SECTORS, BASED ON 1960 PRICES. FIGURES IN PARENTHESIS ARE 1975/74 CHANGES.

- A) AGRICULTURE, LIVESTOCK, FORESTRY AND FISHING -2.1 (1.4)
- B) PETROLEUM AND DERIVATIVES 9.0 (11.0)
- C) PETROCHEMICALS 3.5 (11.9)
- D) MINING 3.5 (-6.3)
- E) ELECTRICAL ENERGY 8.0 (5.7)
- F) CONSTRUCTION 0.0 (5/7)
- G) MANUFACTURES 1.8 (3.9)

3. THE TEXT OF THE REPORT STATES THAT THE VOLUME OF SERVICES IN THE TRANSPORTATION AND COMMUNICATION SECTOR



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INCREASED 6.5 PERCENT (8.5 PERCENT) WHILE GOVERNMENT SERVICES GREW 8.5 (10.9 PERCENT).

4. DATA IS NOT YET AVAILABLE ON COMMERCE AND OTHER SERVICES, HOWEVER, TOTAL GROSS DOMESTIC PRODUCT IS ESTIMATED TO HAVE INCREASED ABOUT 2 PERCENT, IN REAL TERMS.

5. THERE IS NO DATA FOR AGGREGATE DEMAND, BUT THE REPORT STATES THAT PRIVATE CONSUMPTION DID NOT CHANGE SUBSTANTIALLY IN REAL TERMS. THIS IS ATTRIBUTED TO THE DETERIORATION IN THE PURCHASING POWER OF SIGNIFICANT PARTS OF THE POPULATION DUE TO INFLATION. REPORT STATES THAT PUBLIC SECTOR CURRENT SPENDING WAS EXPANSIONARY FACTOR. TOTAL INVESTMENT SPENDING DID NOT INCREASE IN REAL TERMS, IN PART BECAUSE PUBLIC SECTOR INVESTMENT SLOWED DOWN TOWARD THE END OF THE YEAR AND IN PART DUE TO HESITANCY ON THE PART OF PRIVATE INVESTORS COMBINED WITH TIGHT CREDIT CONDITIONS.

6. THE POOR SHOWING IN AGRICULTURE IS ATTRIBUTED TO LOWER LEVELS OF WATERS IN DAMS, LONG DRY PERIODS, IRREGULAR RAINS, FREEZES IN THE NORTH, AND LOW LEVEL OF PRIVATE INVESTMENT. OUTPUT OF SAFFLOWER, SOYBEANS, RICE, SORGHUM, BEANS AND SUGAR CANE DECLINED. OUTPUT OF WHEAT, COTTON AND BARLEY INCREASED. REPORT SAYS THAT FURTHER IMPORTS OF CORN AND VEGETABLE OILS CAN BE EXPECTED.

7. INDUSTRIAL PRODUCTION GREW AT PROGRESSIVELY LOWER RATES THROUGHOUT THE YEAR. THE LOW RATE OF GROWTH OF MANUFACTURES IS ATTRIBUTED TO THE LOSS OF PURCHASING POWER. REPORT HAS FOOTNOTE SAYING THAT ONLY 20-25 PERCENT OF ECONOMICALLY ACTIVE POPULATION BELONGS TO WORKERS GROUPS. THE IMPLICATION IS THAT THE MINIMUM WAGE AND NEGOTIATED SALARIES FOR SKILLED, ORGANIZED WORKERS COVER A SMALL PERCENTAGE OF THE WORKING

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POPULATION AND THAT THE UNORGANIZED AND UNDER-EMPLOYED
HAVE BEEN BADLY BURNT BY MEXICO'S INFLATION. THE
IMPACT OF THIS LOSS OF PURCHASING POWER WAS FELT IN
THE NON-DURABLE CONSUMER GOODS INDUSTRIES. DURABLE
CONSUMER GOODS FARED POORLY AS WELL, DUE IN LARGE PART
TO LOWER PRODUCTION OF AUTOS. OUTPUT OF CAPITAL GOODS
DECLINED 5.0 PERCENT, FROM 1975 TO 1976, DUE TO REDUCED
PRODUCTION OF TRUCKS AND BUSES, AGRICULTURAL MACHINERY
AS WELL AS OFFICE AND ELECTRICAL EQUIPMENT.
THOMPSON



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PAGE 01 MEXICO 02384 252318Z
ACTION ARA-10

INFO OCT-01 ISO-00 MMO-04 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02
CIEP-00 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 AGRE-00 /094 W

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R 252236Z FEB 77 25
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 566
INFO TREASURY WASHDC

UNCLAS MEXICO 2384

Please return to
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EO 11652 : N/A
TAGS : EFIN MX
SUBJ : MEXICO'S BALANCE OF PAYMENTS IN 1976. CERP 0102

1. BANK OF MEXICO HAS RELEASED PRELIMINARY BALANCE OF PAYMENTS DATA FOR 1976 (ALL FIGURES IN US\$ MILLIONS).
2. TOTAL CURRENT ACCOUNT RECEIPTS WERE 6,971.4, BROKEN DOWN AS FOLLOWS: EXPORTS OF GOODS, 3,297.8; SILVER EXPORTS, 157.8; TOURISM, 821.3; INTERNATIONAL TRAVEL 100.6; FRONTIER TRANSACTIONS, 1,609.4; IN-BOND ASSEMBLY PLANTS 520.1; OTHER 464.4.
3. TOTAL CURRENT ACCOUNT EXPENDITURES WERE 9,995.1, BROKEN DOWN AS FOLLOWS: IMPORTS OF GOODS, 6,029.6; TOURISM, 382.9; INTERNATIONAL TRAVEL, 154.5; FRONTIER TRANSACTIONS, 1,052.8; DIVIDENDS AND INTEREST OF PRIVATE SECTOR DEBT, 781.6; INTEREST ON PUBLIC SECTOR DEBT, 1057.6; OTHER 536.1.
4. CURRENT ACCOUNT DEFICIT WAS 3,033.7. ERRORS AND OMISSIONS WERE MINUS 2,199.4.
5. NET LONG-TERM CAPITAL INFLOWS WERE 4,889.9, BROKEN



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PAGE 02 MEXICO 02384 252318Z

DOWN AS FOLLOWS: DIRECT FOREIGN INVESTMENT, 330.6; OPERATIONS WITH SECURITIES, 344.2, PURCHASE OF FOREIGN COMPANIES, MINUS 12.0, NET FOREIGN CREDITS, 3,077.2, OF WHICH PUBLIC SECTOR ACCOUNTED FOR 2701.9 (DISBURSEMENTS OF 3,806.8 AND AMORTIZATION PAYMENTS OF 1,104.9); GOVERNMENT DEBT (NET) 1,188.7, FOREIGN CREDITS, MINUS 38.9.

6. RESERVES DECLINED 333.1 TO 1,411.7. LATTER FIGURE INCLUDES GOLD REVALUED AT MARKET PRICE. THIS AMOUNTS TO 135.9. HENCE, REAL RESERVE DECLINE WAS 469.7.

7. BANK OF MEXICO'S ANNUAL REPORT NOTES THAT REDUCTION IN CURRENT ACCOUNT DEFICIT FROM 3768.9 IN 1975 WAS DUE TO 1902 DECLINE IN TRADE (PLUS SILVER) DEFICIT. EXPORTS OF GOODS WERE UP 15.4 PERCENT DUE TO INCREASES IN THE VALUE OF COFFEE, CRUDE OIL, LIVESTOCK, COTTON AND TOMATO EXPORTS. EXPORTS OF OIL AND DERIVATIVES WERE UP 97 TO 557. EXPORTS OF MANUFACTURES, EX-SUGAR, WERE UP 11.5, BUT THIS INCREASE DOES NOT, THE REPORT STATES, CORRESPOND TO THE INCREASE IN DEMAND IN WORLD MARKETS. IMPORTS DECLINED 8.4 PERCENT DUE TO LEVELING OFF OF INDUSTRIAL ACTIVITY AND A REDUCTION IN THE IMPORTS OF CERTAIN FOODSTUFFS DUE TO HIGH INVENTORIES PREVAILING AT THE BEGINNING OF 1976.

7. TOURISM RECEIPTS DID NOT INCREASE SIGNIFICANTLY IN SPITE OF NEW HOTEL SPACE, PUBLICITY, ETC., ACCORDING TO THE REPORT, WHICH ATTRIBUTES THIS TO THE U.S. BICENTENNIAL, THE OLYMPIC GAMES IN CANADA, NEGATIVE PUBLICITY, INCREASE IN AIRFARES, DELAYS IN NEGOTIATING A NEW AIR AGREEMENT, AND THE INCREASE IN INTERNAL PRICES.

9. DIVIDEND AND INTEREST PAYMENTS BY COMPANIES WITH FOREIGN PARTICIPATING TOTALED 782, OF WHICH 358 WERE SHORT AND LONG-TERM INTEREST PAYMENTS, UP 23.4 PERCENT FROM 1975, AND 423 FOR DIVIDENDS, TECHNICAL ASSISTANCE,

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ROYALTIES, ETC., UP 3.6 PERCENT FROM 1975. THIS SMALL INCREASE PROBABLY REFLECTS THE IMPACT OF DEVALUATION ON COMPANY PROFITS.

10 REPORT NOTES UNPRECEDENTED VOLUME OF PUBLIC SECTOR LONG-TERM BORROWING, ATTRIBUTING THIS TO LARGE BUDGET DEFICIT, LIMITED DOMESTIC SAVINGS AND THE LARGE INCREASE IN FOREIGN ASSETS HELD BY MEXICANS. REPORT ALSO STATES THAT IN SPITE OF CORRECTION OF CURRENT ACCOUNT IN THE FOURTH QUARTER, THE CONFIDENCE OF INTERNATIONAL CAPITAL MARKETS IN MEXICO WAS "ALTERED" AND CREDIT TERMS WERE LESS FAVORABLE.

11. COMPARATIVE DATA FOR 1975 CAN BE FOUND IN BANK OF MEXICO'S MONTHLY ECONOMIC INDICATORS.
THOMPSON



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PAGE 01
ACTION ARA-10

HERMOS 00066 090034Z

INFO OCT-01 ISO-00 CIAE-00 CODE-00 PM-04 H-01 INR-07 L-03
NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 EB-08
AID-05 COME-00 AGRE-00 OHA-02 FRB-03 TRSE-00 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 MCT-01 /086 W

-----090502Z 078667 /22

R 081730Z MAR 77
FM AMCONSUL HERMOSILLO
TO SECSTATE WASHDC 1192
INFO AMEMBASSY MEXICO

~~CONFIDENTIAL~~ HERMOSILLO 066

Please return to
International Information Center

E.O. 11652: GDS
TAGS : ECON, MX
SUBJECT : LAND REFORM IN SONORA; DEVELOPMENTS AT
SAN IGNACIO, RIO MUERTO, SONORA

SUMMARY: FOR THE FIRST TIME SINCE OCTOBER 1975, WHEN SONORA GOVERNOR CARLOS ARMANDO BIEBRICH WAS SUMMARILY REMOVED FROM OFFICE FOLLOWING THE KILLING OF CAMPESINO INVADERS AT SAN IGNACIO, RIO MUERTO, SONORA, THE STATE GOVERNMENT IS TALKING BACK TO CONTINUED DEMANDS OF CAMPESINOS, EJIDATARIOS, AND THEIR LEADERSHIP. GOVERNOR CARRILLO MARCOR ADDRESSED THREE HUNDRED EJIDATARIOS FROM SAN IGNACIO IN THE SHARPEST TONE HEARD FROM THIS OLD CHAMPION OF "AGRARIAN REFORM" WHEN THEY DEMANDED, MARCH 7, THE RETURN OF TWO OF THEIR LEADERS WHO RECENTLY DISAPPEARED AND ARE BELIEVED UNDER ARREST AND INVESTIGATION ON VARIOUS CHARGES INCLUDING RAPE OF A MINOR FEMALE. CARRILLO MARCOR, FOR THE FIRST TIME SHOWING IMPATIENCE WITH THE COMPLAINTS AND DEMANDS OF THE EJIDATARIOS, TOLD THEM IT WAS NOW TIME TO WORK AND NOT TO CONTINUE TO CREATE PROBLEMS; HE REMINDED THEM THAT MANY OF THEM WERE NOT EVEN FROM SONORA, BUT FROM SINALOA, AND THAT NUMEROUS SONORANS HAD BEEN DISPOSSESSED TO GIVE THEM THE LANDS OF THEIR NEW EJIDO; AND HE DENIED CHARGES THAT STATE

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AUTHORITY State Dept. Reg. 5/23/09

BY del NARA DATE 2/13/15



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OFFICIALS WERE NOT INFORMING HIM OF THE TRUE SITUATION IN THE SAN IGNACIO AREA. AS A CONCILIATORY GESTURE AT THE CONCLUSION OF A STORMY SESSION, HOWEVER, CARRILLO MARCOR ALLOWED THE EJIDATARIOS TO REMAIN IN "OCCUPATION" OF THE PLAZA ZARAGOZA IN FRONT OF THE GOVERNOR'S PALACE AND ONE BLOCK FROM CONGEN. THE PRESS REPORTS THAT THE MAJORITY OF THE EJIDATARIOS ARE CARRYING PISTOLS. END SUMMARY

1. THE "MASSACRE AT RIO MUERTO" OF OCTOBER 25, 1975, WHICH LED TO THE NOVEMBER 1975 CONFISCATION OF OVER FOUR THOUSAND HECTARES HITHERTO OWNED BY SOME EIGHTY SMALL PROPERTY OWNERS, MARKED THE BEGINNING OF ONE OF THE LONGEST YEARS IN THE VIOLENCE PRONE PROCESS OF "AGRARIAN REFORM" IN SONORA. OVERRULING "AMPAROS" OR COURT WRITS, DISREGARDING EVIDENCE ADVANCED BY THE PREVIOUS OWNERS THAT THEIR TITLES WERE LEGAL AND CONSTITUTIONALLY CORRECT, PRESIDENT ECHEVERRIA AND HIS AGRARIAN REFORM SECRETARY BARRA GARCIA TREATED THE PRIVATE FARMERS OF SONORA AS THE LAST BASTION OF REACTION TO PROGRESS AND JUSTICE. ON NOVEMBER 19, 1976, ELEVEN DAYS BEFORE THE END OF ECHEVERRIA'S PRESIDENTIAL TERM, BRIGADES OF SUVERYORS FROM THE AGRARIAN REFORM SECRETARIAT FLEW INTO SOUTHERN SONORA IN THE NIGHT TO "EXECUTE" CONFISCATION DECREES SIGNED BY THE PRESIDENT, BUT NOT YET PUBLISHED IN THE OFFICIAL GAZETTE, WHICH GAVE NEARLY 100,000 OF THE BEST IRRIGATED LANDS IN NORTHWEST MEXICO TO SOME EIGHT THOUSAND CAMPESINO CLAIMANTS.

2. THE MASSIVE IMPACT OF THE NOVEMBER 1976 LAND CONFISCATIONS HAS NOT COMPLETELY OVERSHADOWED WHAT HAPPENED IN SAN IGNACIO, RIO MUERTO ONE YEAR EARLIER, WHERE ECHEVERRIA'S HAND PICKED INTERIM GOVERNOR, CARRILLO MARCOR, TOLD THE CAMPESINOS THAT THEY WERE BEING GIVEN THE LANDS OF SAN IGNACIO, RIO MUERTO AS PAYMENT FOR THE BLOOD OF THEIR MARTYRS. WHAT THE NEWLY ARRIVED GOVERNOR DID NOT MENTION, AND MAY NOT HAVE KNOWN, WAS THAT THE BULK OF THE NEW EJIDATARIOS AT SAN IGNACIO WERE NOT SONORAN "WORKERS OF THE

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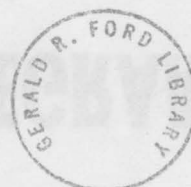
PAGE 03

HERMOS 00066 090034Z

SOIL," BUT PEOPLE FROM SINALOA AND OTHER PARTS OF MEXICO WHO HAD BEEN HAULED TO SONORA BY THE CAMPESINO ORGANIZATIONS OF THE PACTO DE UCAMPO, NOTABLY BY CELESTINO SALCEDO MONTEON. THEY CAME TO SONORA HEAVILY ARMED, AND NOT CONTENT TO OCCUPY THE LANDS AWARDED THEM BY PRESIDENTIAL DECREE, THEY ALSO SEIZED ADJOINING LANDS THAT HAD NOT BEEN CONFISCATED. CONTRARY TO EARLIER PRACTICE, THE NEWLY ENDOWED EJIDATARIOS KEPT THE CROPS STILL ON THE GROUND, AND OF THE FARMS BUILDINGS AND MACHINERY OF THE PREVIOUS OWNERS. NOW, MORE THAN FIFTEEN MONTHS AFTER THEY "INVADED" LANDS THAT HAD NOT BEEN AFFECTED BY THE PRESIDENTIAL DECREES, THEY ARE STILL OCCUPIING THESE LANDS WHICH INCLUDE 300 HECTARES BELONGING TO DESCENDENTS OF PRESIDENT PLUTARCO ELIAS CALLES.

3. UNVERIFIED REPORTS HAVE REACHED US OF PROBLEMS AT SAN IGNACIO, RIO MUERTO. THESE INCLUDED CONFLICTS BETWEEN RIVAL EJIDATARIO LEADERS AND THEIR FOLLOWERS, AND BETWEEN EJIDATARIOS AND THE FARM WORKERS OF THE FORMER OWNERS. TWO HUNDRED OF THE LATTER HAVE LOST THEIR JOBS AND HOMES. THERE HAVE BEEN REPORTS OF IMPROPER HANDLING OF FUNDS. THERE ARE RUMORS THAT THE EJIDO LEADERS HAVE BEEN STOCK-PILING ARMS AND THAT INCIDENTS INVOLVING BLOODSHED HAVE TAKEN PLACE IN THE RECENT PAST. THE EJIDATARIOS NOW IN FRONT OF THE GOVERNOR'S PALACE DEMAND THE RETURN OF TWO OF THEIR LEADERS, URBANO TERAN ENRIQUEZ AND ALEJO CARDENAS, WHO ARE REPORTEDLY UNDER ARREST BY THE FEDERAL JUDICIAL POLICE FOR CONTRABAND OF ARMS. (THIS IS BORNE OUT BY THE FACT THAT EARLY LAST WEEK THE FEDERAL DISTRICT ATTORNEY, CHIEF OF THE FEDERAL JUDICIAL POLICE, AND CHIEF OF THE CUTO RPT CUSTOMS POLICE, ALL OF HERMOSILLOA, WERE IN THE CIUDAD OBREGON AREA ON OFFICIAL BUSINESS.)

4. A FEW DAYS AGO, A MEMBER OF THE ELIAS CALLES FAMILY TOLD THE UNDERSIGNED THAT THE SITUATION IN SAN IGNACIO WAS EXTREMELY TENSE. THE FEW PRIVATE FARMERS WHO STILL HAVE LAND IN THE REGION ARE AFRAID TO ENTER THERE, DESPITE THE ALMOST



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PAGE 04

HERMOS 00066 090034Z

CONSTANT PRESENCE OF JUDICIAL POLICE. OUR VISITOR STATED THAT THE PRIVATE FARMERS ARE NOW ONLY SEEKING SOME FORM OF COMPENSATION FOR THEIR LOST PROPERTIES; THEY DO NOT BELIEVE THAT PRIVATE ENTERPRISE CAN COEXIST SIDE BY SIDE WITH EJIDATARIOS WHO FOLLOW SUCH RADICAL LEADERS AS THOSE OF SAN IGNACIO.

5. GOVERNOR CARRILLO MARCOR, WHO HAS PROVED FAIRLY ADEPT AT CARRYING WATER ON BOTH SHOULDERS, DID SO AGAIN WHEN HE "SCOLDED" THE VISITING EJIDATARIOS. INSTEAD OF SENDING THEM HOME AND BACK TO WORK, HE GRANTED THEIR DEMAND THAT THEY BE ALLOWED TO "CAMP" ON THE PLAZA "UNTIL THE RETURN OF THEIR MISSING LEADERS." AS THE GOVERNOR DID SO, HE REPEATEDLY PROFESSED HIS "AGRARIAN REFORMER" CONVICTIONS.
SACKSTEDER

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1977 MAR 10 PM 2:41

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
RECEIVED
OFFICE OF THE CHAIRMAN

CONFIDENTIAL

TO: Chairman Burns

FROM: Ted Truman

Attached are the latest cables from Mexico. You may be particularly interested in Mexico #2875. The cable states that rumors of debt renegotiation by Swiss banks are incorrect; however, the Swiss banks have been rolling over their claims on Mexico which probably total less than \$200. The cable was prepared by the Financial Attache at Mr. Maroni's request.

Attachments: Mexico 2875
Mexico 2877
Mexico 2882
Mexico 066

cc: Governor Wallich

Defense classification of this document is due to the inclusion of U.S. Government information officially classified under Executive Order 10454 which provides that "A document... shall bear a classification at least as high as that of its highest classified component."

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E.O. 12958 Sec. 3.6

MR 95-1, #36 Fed. Res. Ltr. 2/13/96

By KSH NARA, Date 4/12/96





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TELEGRAM

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1066

PAGE 01 MEXICO 02875 090020Z
ACTION ARA-10

INFO OCT-01 ISG-00 XMB-02 FRB-03 OMB-01 EUR-12 EB-08
COME-00 CIAE-00 INR-07 NSAE-00 SP-02 PA-01 PRS-01
USIA-06 /054 W

-----090520Z 078534 /23-11

R 082332Z MAR 77
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 768
INFO TREASURY WASHDC

~~CONFIDENTIAL~~ MEXICO 2875

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International Information Center

EO 11652 : GDS
TAGS : AFIN MX
SUBJ : DEBT RENEGOTIATION RUMORS

1. SUMMARY : IN RESPONSE TO TREASURY AND FEDERAL RESERVE PHONE CALLS, FINATT CHECKED ON RUMORS THAT SWISS BANKS WERE RENEGOTIATING LOANS TO MEXICAN PUBLIC AND PRIVATE SECTORS. WHILE SWISS BANKS ARE ROLLING OVER MATURING CREDITS AND TAKING OTHER MEASURES TO EASE SITUATION OF PRIVATE BORROWERS THEY ARE NOT RENEGOTIATING PUBLIC SECTOR DEBT. END SUMMARY.

2. RUMORS TO EFFECT THAT SWISS BANKS ARE RENEGOTIATING THEIR LOANS TO MEXICO MAY BE BASED IN PART ON FEBRUARY 9 FRONT PAGE STORY IN EXCELSIOR. HEADLINE WAS "MEXICO RENEGOTIATED ITS PUBLIC AND PRIVATE DEBT WITH THE SWISS BANK." STORY IS BASED ON INTERVIEW WITH REPRESENTATIVE OF SWISS CREDIT BANK. IN RESPONSE TO QUESTION, REP SAID THT ALL THE REQUESTS FOR RENEGOTIATION HAD BEEN MET. HE WAS ALSO QUOTED AS SAYING THAT HIS BANK WOULD CONTINUE EXTENDING CREDIT TO MEXICO.

3. ACCORDING TO SWISS EMBASSY COUNSELOR, SWISS CREDIT

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E.O. 12958 SEC. 3.6

MR07-117, #24, dt ltr 2/22/08

BY del NARA DATE 3/10/08

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PAGE 02 MEXICO 02875 090020Z

BANK REP WAS CALLED BY REPORTER AND HIS REMARKS WERE DISTORTED, PARTICULARLY IN THE HEADLINE. APPARENTLY THE REPORTER COULD NOT DIFFERENTIATE BETWEEN RENEGOTIATION AND RENEWAL OR ROLL-OVER. FINATT CHECKED WITH REP OF SWISS BANK CORPORATION WHO SAID THAT WHILE HIS BANK WAS RENEWING MATURING CREDITS AS A MORE OR LESS NORMAL OPERATION, THEY WERE NOT RENEGOTIATING ANY PUBLIC SECTOR LOANS.

4. WE REMAIN UNAWARE OF ANY REQUEST BY GOM OR OFFER BY BANKS TO RENEGOTIATE PUBLIC SECTOR DEBT. PUBLIC SECTOR ENTITIES ARE TRYING TO RENEW MATURING SHORT-TERM CREDITS, BUT THEY ARE NOT FORCING ANY LENDERS TO RENEW TO THE BEST OF OUR KNOWLEDGE.

5. THERE ARE, WE UNDERSTAND, A NUMBER OF CASES WHERE LOANS TO PRIVATE SECTOR COMPANIES HAVE BEEN "RESTRUCTURED" OR WHERE INFORMAL MORATORIUMS ON INTEREST PAYMENTS HAVE BEEN GRANTED. THE MAJOR CASE IS FUNDIDORA OF MONTERREY WHICH GOM CONSIDERS A PRIVATE SECTOR COMPANY, THOUGH THE FOREIGN BANKS PREFER TO VIEW IT AS SOMETHING VERY CLOSE TO A GOVERNMENT ENTITY BECAUSE OF THE GOM'S MINORITY HOLDING OF SHARES.

6. ACCORDING TO LOCAL U.S. BANK REPS, TOTAL EXPOSURE OF BIG THREE SWISS BANKS IN MEXICO WOULD NOT EXCEED \$200 MILLION AND MOST OF THIS WOULD BE IN SHORT TERM CREDITS. IF THEY IS ACCURATE, SWISS BANKS HOLD A VERY SMALL SHARE OF MEXICO'S *Total* FOREIGN DEBT AND ANY RENEGOTIATIONS BY THEM WOULD HAVE A LIMITED IMPACT ON MEXICO'S DEBT SERVICING BURDEN.

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PAGE 01 MEXICO 02877 090145Z
ACTION ARA-10

INFO OCT-01 ISU-00 SP-02 USIA-15 AID-05 EB-08 NSC-05 SS-15
STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-01 INR-07
NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 IGA-02 PA-02
PRS-01 AGRE-00 /095 W

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R 082336Z (MAR 77 8
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 771
INFO DEPT OF TREASURY WASHDC

UNCLAS MEXICO 2877

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International Information Center

E.O. 11652: N/A
TAGS: ELAB, CI, MX
SUBJ: WAGES AND PRICES SINCE THE DEVALUATION

1. CONSUMER PRICE INDICES RECENTLY RELEASED BY THE BANCO DE MEXICO INDICATE THAT MEXICAN WAGE EARNERS HAVE NOT LOST AS MUCH PURCHASING POWER SINCE THE DEVALUATION AS THEIR LEADER ORIGINALLY FEARED (OR AS MANY ARE STILL CLAIMING). THE GENERAL INDEX OF PRICES ROSE BY 27.2 PERCENT FROM DECEMBER 1975 THROUGH DECEMBER 1976 (INDEX OF 200.7 TO 255.3 WITH 1968 BASE OF 100). PRICES ROSE ONLY 8.7 PERCENT FROM DECEMBER 1975 THROUGH THE DATE OF DEVALUATION, SEPT. 1, AND BY 18.5 PERCENT FROM THAT POINT THROUGH THE END OF 1976. ON THE AVERAGE, WAGES INCREASED BY 23 PERCENT DURING THE SAME PERIOD (COVERING CALENDAR 1976).

2. THOSE SUB-CATEGORIES WHICH MOST AFFECT WAGE EARNERS RAN SLIGHTLY HIGHER THAN THE GENERAL INDEX. FOOD, DRINK AND TOBACCO MEASURED A 24.1 PERCENT INCREASE FOR THE YEAR, 18.3 PERCENT OF THIS BETWEEN SEPT. 1 TO JAN. 1. WEARING APPAREL-SHOES ROSE 37.1 PERCENT FOR THE YEAR WITH 25.3 PERCENT AFTER SEPT. 1.



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TRANSPORTATION AND COMMUNICATIONS WENT UP BY 47 PERCENT FOR THE YEAR, 33.4 PERCENT OF THIS REGISTERED SINCE THE DEVALUATION.

3. THE GENERAL CPI FOR MEXICO CITY ROSE ONLY 24 PERCENT DURING THE CALENDAR YEAR WITH 8.3 PERCENT OF THIS FIGURE RECORDED PRIOR TO SEPT. 1 AND 15.7 PERCENT FROM THAT DATE THROUGH DECEMBER 31, 1976.

4. COMMENT: ORGANIZED LABOR, SINCE THE SEPT. 1 DEVALUATION HAS VOICED MUCH CONCERN THAT THEIR GAINS IN PURCHASING POWER, WON DURING THE PAST FIVE YEARS, HAVE RAPIDLY EVAPORATED DURING THE PAST FEW MONTHS. BANCO DE MEXICO FIGURES, IF THEY ACCURATELY REFLECT CONSUMER PRICE MOVEMENT, LEAVE LITTLE BASIS FOR THESE CLAIMS. SOME LOSS IN REAL WAGES IS INDICATED FOR THE PERIOD OF THE LAST ONE-THIRD OF 1976, BUT NOT AS EXTENSIVE AS THAT GENERALLY CLAIMED BY ORGANIZED LABOR.
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PAGE 01 MEXICO 02882 090053Z
ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02 LAB-04
SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 L-03 H-01
PA-01 PRS-01 /084 W

-----090501Z 078820 /15

R 082345Z MAR 77
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 773
INFO TREASURY WASHDC

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International Information Center

LIMITED OFFICIAL USE MEXICO 2882

EO 11652 : N/A
TAGS : EFIN MX
SUBJ : GOM TO ISSUE PETRO BONDS

1. SUMMARY : GOM PLANS TO ISSUE TWO BILLION PESOS OF PETROBONDS IN APRIL. DETAILS OF PROPOSED BONDS ARE BECOMING WIDELY KNOWN, THOUGH MORE SHOULD BE KNOWN NEXT WEEK AT BANKERS' CONVENTION WHEN GOM PLANS PUBLIC ANNOUNCEMENT. BONDS APPEAR AS EXPENSIVE WAY TO BORROW, BUT FULFILL A STATEMENT MADE BY LOPEZ PORTILLO IN HIS DECEMBER 1 SPEECH. END SUMMARY.

2. ACCORDING TO VARIOUS REPORTS, GOM PLANS TO ISSUE TWO BILLION PESOS OF PETROBONDS SOME TIME IN APRIL. BONDS WILL HAVE A FOUR YEAR MATURITY AND PAY SEVEN PERCENT INTEREST. BONDS WILL BE IN THOUSAND PESO DENOMINATIONS, INDIVIDUAL PURCHASES WILL BE LIMITED TO ONE MILLION PESOS WHILE INSTITUTIONS WILL BE PERMITTED TO PURCHASE UP TO FIVE MILLION PESOS OF BONDS. BONDS WILL BE SOLD THROUGH BOTH PUBLIC AND PRIVATE CREDIT INSTITUTIONS PRESUMABLY AT PAR.



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PAGE 02 MEXICO 02882 090253Z

3. INTEREST WILL BE PAID ON THE FACE VALUE OF THE BOND, WE UNDERSTAND. BONDS WILL BE TRADED ON MEXICAN STOCK EXCHANGE. GOVERNMENT MAY INTERVENE TO AVOID EXCESSIVE FLUCTUATIONS. THE PRICE WILL VARY ACCORDING TO THE DOLLAR PRICE OF CRUDE OIL AND THE PESO-DOLLAR EXCHANGE RATE. THAT IS, SHOULD THE DOLLAR APPRECIATE VIS A VIS THE PESO AND/OR THE PRICE OF OIL IN TERMS OF THE DOLLARS INCREASE THE PESO PRICE OF THE BONDS SHOULD INCREASE.

4. THE BONDS WILL MATURE APRIL 1, 1981. WHEN THE BONDS ARE SOLD THE TREASURY WILL CONTRACT WITH PEMEX FOR THE PURCHASE OF A VOLUME OF CRUDE OIL EQUIVALENT. IT APPEARS, TO THE VALUE OF THE PROCEEDS OF THE BOND ISSUE. THIS VOLUME OF CRUDE OIL WILL BE SOLD BY PEMEX FOR THE ACCOUNT OF THE FEDERAL GOVERNMENT AT THE INTERNATIONAL PRICE PREVAILING AT THE MATURITY DATE FOR THE BONDS. BONDS WILL BE REDEEMED APPARENTLY AT A PRO RATED SHARE OF THIS. IT WOULD APPEAR THAT THE MARKET WOULD KNOW THE VALUE OF EACH BOND IN TERMS OF OIL DURING THE COURSE OF THEIR LIFE.

5. WE FIND THIS SCHEME COMPLICATED AND EXPECT MORE DETAILS TO BE AVAILABLE NEXT WEEK. PRIVATE BANKERS ARE REPORTEDLY NOT ENTHUSIASTIC ABOUT HAVING TO SELL THE BONDS BECAUSE THEY WILL COMPETE AGAINST THEIR OWN DEPOSITS.

6. BOND ISSUE SHOULD BE WELL RECEIVED. GOM AUTHORITIES HOPE THAT IT MIGHT GENERATE SOME CAPITAL REFLows AND NEWSPAPER STORIES TO THE EFFECT THAT SUCH REFLows SHOULD STRENGTHEN THE PESO IN THE NEXT SEVERAL WEEKS HAVE APPEARED.

7. THESE BONDS SEEM TO BE A VERY COSTLY WAY OF RAISING FUNDS AND WILL BE A HARD ACT TO FOLLOW. IN HIS DECEMBER 1, SPEECH, PRESIDENT ALSO MENTIONED BONDS

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PAGE 03

MEXICO 02882 090053Z

TIED TO SILVER, BUT WE HAVE HEARD NOTHING MORE ON THIS.
IN THIS REGARD, THE 100 PESO SILVER COINS HAVE NOT YET
BEEN ISSUED (SEE 76 MEXICO 15939) BUT WE HAVE HEARD
THEY SHOULD BE OUT WITHIN A MONTH OR SO.
THOMPSON



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March 16, 1977

TO: Chairman Burns

FROM: Ted Truman *EMT*

Attached is the latest cable from Mexico.

Attachment: Mexico 3227

cc: Governor Wallich

Defense classification of this document is due to the inclusion of U.S. Government information officially classified under Executive Order 10301 which provides that "A document... shall bear a classification at least as high as that of its highest classified component."





Mexico

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PAGE 01
ACTION ARA-10

MEXICO 03227 160106Z

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02 OMB-01
AGRE-00 PA-01 PRS-01 SS-15 NSC-05 /070 W
-----160115Z 048972 /73

P 160023Z MAR 77
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC PRIORITY 909
INFO TREASURY WASHDC PRIORITY

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INTERNATIONAL INFORMATION CENTER

FO 11652 : N/A
TAGS : EFIN MX
SURJ : REPORT ON MEXICAN BANKER'S CONVENTION
REF : MEXICO 3051

1. EMBASSY FINANCIAL ATTACHE ATTENDING ANNUAL MEXICAN BANKER'S CONVENTION IN ACAPULCO THIS WEEK REPORTS THAT ATMOSPHERE OF CONVENTION GENERALLY GOOD AT LEAST IN COMPARISON WITH PREVIOUS CONVENTIONS UNDER ECHEVERRIA ADMINISTRATION. THERE WERE NO SURPRISES WITH FINANCE SECRETARY MOCTEZUMA CID'S ADDRESS FOLLOWING LINES REPORTED REFTEL. BANKERS WERE ENCOURAGED BY HIS SPEECH AND THAT OF ROMERO KOLBECK, DIRECTOR GENERAL OF BANK OF MEXICO. BANCO DE MEXICO TOOK UNUSUAL STEP OF PUBLISHING ENTIRE TEXT OF KOLBECK'S SPEECH IN MAJOR METROPOLITAN NEWSPAPERS.

2. MOCTEZUMA CID ANNOUNCED PACKAGE OF ECONOMIC MEASURES INCLUDING LOWER RESERVE REQUIREMENTS, THE PETRO-BOND ISSUE, MORE "FLEXIBLE" INTEREST RATES, "SIMPLIFIED" SAVINGS INSTRUMENTS, AND MEASURES TO ENCOURAGE TRADE ON MEXICAN STOCK EXCHANGE. NO DETAILS OR EXPLANATION OF HOW MEASURES WOULD BE IMPLEMENTED WERE GIVEN. HOWEVER,



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MEXICO 03227 160106Z

HE STATED THAT REGULATIONS GOVERNING NEW SAVINGS INSTRUMENTS AND STOCK EXCHANGE WILL BE PUBLISHED WITHIN NEXT FEW DAYS.

3. HE REVIEWED MEASURES ALREADY TAKEN BY JLP GOVERNMENT TO SET FINANCES ON SOUNDER FOOTING. HE ENDED BY SAYING THAT COUNTRY'S GENERAL ECONOMIC SITUATION SEEMS TO HAVE IMPROVED AND THAT THE NATION BASED ITS SOLVENCY ON ITS NATURAL RESOURCES, PETROLEUM, COFFEE AND TOURISM.

4. KOLBECK'S SPEECH WAS SHORT AND FACTUAL COMPARED TO MOCTEZUMA'S MORE ORATORY TONE. HE CALLED ATTENTION TO FACT THAT DOMESTIC BANKS HAD SHOWN AN AVERAGE WEEKLY INCREASE IN ASSETS DURING THE LAST TWO MONTHS OF ABOUT 1,500 MILLION PESOS, COMPARED TO 164 AND 244 MILLION IN 1976 AND 1975 RESPECTIVELY; THE INCREASES IN EXPORTS WHICH SOME AGRICULTURAL AND PETROLEUM PRODUCTS HAD GENERATED, AND INCREASES IN PRODUCTIVE CAPACITY OF CERTAIN INDUSTRIAL SECTORS. HE ALSO STATED THAT THE FEBRUARY CPI INCREASED ONLY 2.2 PERCENT COMPARED TO AN AVERAGE OF 4.0 PERCENT MONTHLY DURING THE LAST FOUR MONTHS OF 1976. HE ALSO ANNOUNCED THAT THE BANK'S RESERVES AT THE END OF LAST WEEK HAD ATTAINED 1,617 MILLION DOLLARS AFTER HAVING LIQUIDATED THE LOANS OF THE FEDERAL RESERVE AND U.S. TREASURY. HE WENT ON TO STATE THAT ARRANGEMENTS WOULD BE MADE THROUGH ADJUSTMENTS IN RESERVE REQUIREMENTS TO FREE AN INITIAL 2,000 MILLION OF PESOS FOR ADDITIONAL CREDIT TO THE GOVERNMENT'S PROGRAMS OF BASIC ARTICLES AND ALLIANCE FOR PROGRESS.

5. COMMENT: SPEECHES WERE GENERALLY WELL RECEIVED WITH PARTICULAR INTEREST SHOWN IN CHANGES IN RESERVE REQUIREMENTS AND INTEREST RATES, BUT THIS SOMEWHAT MODERATED BY LACK OF DETAIL. SPEECHES NOTABLE FOR FACTUAL CONTENT AND HONEST APPROACH TO MEXICAN DIFFICULTIES COMPARED TO THOSE OF PREVIOUS YEARS. PRIVATE SECTOR OBVIOUSLY FLATTERED BY GENERAL TONE OF "LET'S ALL WORK TOGETHER". THOMPSON

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MEXICO

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TELEGRAM

CONFIDENTIAL 7466

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PAGE 01 MEXICO 03051 111850Z
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INFO OCT-01 SS-14 ISO-00 ARAE-00 SSO-00 NSCE-00 EB-04
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FM AMEMBASSY MEXICO
TO SECSTATE WASHDC IMMEDIATE 0838
INFO TREASURY WASHDC IMMEDIATE

~~CONFIDENTIAL~~ MEXICO 3051

LIMDIS

PLEASE RETURN TO
INTERNATIONAL INFORMATION CENTER

E. O. 11652: XGDS
TAGS: EFIN MX
SUBJECT: GOM READIES ECONOMIC FINANCIAL PACKAGE

1. FINANCE MINISTER MOCTEZUMA CID TOLD PRESS THAT HE WILL PRESENT A PACKAGE OF ECONOMIC AND FINANCIAL MEASURES AT THE ANNUAL BANKERS' CONVENTION BEGINNING MARCH 14. HE DID NOT REVEAL CONTENTS OF PACKAGE, BUT SAID THAT MEASURES WOULD BE AIMED AT RESTORING CONFIDENCE AND SECURITY TO THE COUNTRY AND REVITALIZING THE ECONOMY. FINATT OBTAINED OUTLINE OF FINANCIAL MEASURES FROM BANK OF MEXICO.

2. FINANCIAL MEASURES WILL TOUCH ON LEGAL RESERVE REQUIREMENTS AND INTEREST RATES. REGARDING THE LEGAL RESERVE REQUIREMENTS THE TWO PRESENT REQUIREMENTS WILL BE UNITED INTO ONE EQUAL TO THE EFFECTIVE RATE AT PRESENT. THUS, NO RESERVES WILL BE FREED BY THIS MEASURE WHICH IS TO BE EFFECTIVE MARCH 14. ONE OF THE TWO PRESENT RESERVE REQUIREMENTS APPLIES TO DEPOSITS UP TO A CERTAIN DATE WHEREAS THE SECOND IS A MARGINAL RATE APPLICABLE TO THE INCREASE IN DEPOSITS AFTER THIS DATE. THE NEW RATE WILL BE LOWER THAN THE MARGINAL RATE, THUS, WHILE THE MEASURE WILL HAVE NO

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E.O. 12958, Sec. 3.5
State Dept. Guidelines
By dse, NARA, Date 7/26/07



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Department of State **TELEGRAM**

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PAGE 02

MEXICO 03051 111850Z

IMMEDIATE IMPACT ON CREDIT AVAILABILITY, AS DEPOSITS INCREASE IN THE FUTURE, A LARGER PERCENTAGE OF THE INCREASE WILL BE AVAILABLE FOR CREDIT TO THE PRIVATE SECTOR. HOWEVER, OVER THE SHORT TERM, BANKS WILL BE FORCED TO USE PART OF THIS INCREASE IN LENDABLE FUNDS TO REPAY THE BANK OF MEXICO FOR THE LOANS EXTENDED TO THE PRIVATE BANKS FROM THE CENTRAL BANK DURING THE LAST FOUR MONTHS OF 1976. THE BANKS' LIABILITIES TO THE CENTRAL BANK REACHED 20 BILLION PESOS AT END-75. THERE ARE NOW SOMEWHAT OVER TEN BILLION PESOS. IN EFFECT, RATHER THAN LOWER RESERVE REQUIREMENTS DURING THE RUN ON THE BANKS LAST YEAR THE BANK OF MEXICO OPENED UP ITS DISCOUNT WINDOW WHICH HAD BEEN USED ONLY RARELY BEFORE.

3. MULTI-BANKS, I.E., BANKS THAT CARRY ON A VARIETY OF BANKING FUNCTIONS SUCH AS COMMERCIAL INVESTMENT, MORTGAGE, WILL BE SUBJECT TO A SINGLE RESERVE REQUIREMENT ON ALL DEPOSITS. THIS WILL BE 40 PERCENT WHICH IS THE AVERAGE RATE FOR THE BANKING SYSTEM PRESENT. THUS, FOR THOSE INSTITUTIONS MADE POSSIBLE BY A CHANGE IN THE BANKING LAW IN 1975 OF WHICH THERE ARE NOW TEN, THE SAME RESERVE REQUIREMENT WILL APPLY TO ALL TYPES OF DEPOSITS.

4. THE FINANCE MINISTER WILL ANNOUNCE THE INTENTION TO FREE INTEREST RATES OVER A PERIOD OF TIME. THE OBJECTIVE WILL BE TO LET THE MARKET DETERMINE INTEREST RATES, BUT ONLY GRADUALLY. DETAILS OF THE INTEREST RATE REFORM HAVE STILL TO BE WORKED OUT, BUT BANK OF MEXICO WANTS TO SEE FINANCIAL BONDS--WHICH ARE, IN EFFECT, INTEREST BEARING DEMAND DEPOSITS--ELIMINATED. THEY ARE THINKING OF PERMITTING NO NEW FINANCIAL BONDS TO BE ISSUED, AND TO GRADUALLY REPLACE THEM WITH SHORT TERM DEPOSIT INSTRUMENTS FOR THREE OR SEVEN DAYS THAT PAY INTEREST BELOW THE 9.39 PERCENT GROSS RATE PAID ON



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Department of State **TELEGRAM**

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FINANCIAL BONDS.

5. IN THE PAST, THE BANK OF MEXICO TENDED TO INTRODUCE NEW TYPES OF SAVINGS INSTRUMENTS RATHER THAN CHANGE DEPOSIT RATES. NOW IT HOPES TO REDUCE THE NUMBER OF INSTRUMENTS AND CONCENTRATE ON CERTIFICATES OF DEPOSITS WITH MATURITIES RANGING FROM ONE MONTH TO ONE YEAR. THE INTEREST RATE REFORMS WILL BEGIN TO TAKE EFFECT APRIL 1.

6. BANK OF MEXICO ALSO WANTS TO REDUCE RATES PAID ON DOLLAR DEPOSITS TO A LEVEL JUST SLIGHTLY ABOVE LONDON AND NEW YORK RATES. PRESENT RATES ON THREE MONTH DOLLAR DEPOSITS ARE 8.5 PERCENT FOR NON RESIDENTS AND 7.5 PERCENT FOR RESIDENTS. BANK IS THINKING OF TYING RATE ON MEX DOLLARS TO LIBO PLUS ONE PERCENT.

7. IT IS NOT CLEAR WHAT IF ANYTHING THE FINANCE MINISTER WILL SAY ABOUT THE BUDGET. THE BANK OF MEXICO HAS MADE A CASE TO THE PRESIDENT TO REDUCE SPENDING. THERE ARE VARIOUS REPORTS THAT BUDGETS ARE BEING CUT, BUT WE HAVE NO CONFIRMATION FROM OFFICIALS OF THIS.

8. FIRST TOLD BY BANK OF MEXICO OFFICIALS THAT NO CHANGES IN THE EXCHANGE SYSTEM WOULD BE ANNOUNCED.
THOMPSON



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March 22, 1977

TO: Chairman Burns

FROM: Ted Truman

EMT

Attached is a cable from Mexico giving some background information on Mexico's economic and financial policies prior to the Finance Minister's address to the bankers' convention on March 14. (We were not on the original distribution list for this cable; this is the reason why it was delayed in reaching us.)

Attachment: Mexico 3051

cc: Governor Wallich

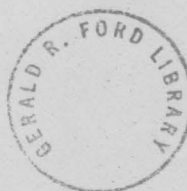
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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 23, 1977

To Chairman Burns

Subject: _____

From Ted Truman *EMT*

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Attached is an initial report by Mr. Maroni on the IMF mission that recently returned from Mexico and on the status of Mexican negotiations with the Export-Import Bank. We will be following up with the IMF staff on their discussions in Mexico. For your information, we understand that Secretary Blumenthal will be having lunch with Mr. Witteveen on Thursday, March 24. At that time they are expected to discuss the Mexican economic situation.

Attachment

cc: Governor Wallich



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 23, 1977

To Mr. Truman

Subject: Update on Mexico

From Yves Maroni *YN*

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The IMF staff mission which visited Mexico earlier this month has now returned and has given Mr. Witteveen a discouraging report. The mission found a lack of current data and government inaction on the fiscal issue. The Mexican authorities made much of measures being taken on interest rates and reserve requirements, but the mission considers these to be in the nature of band-aids, when surgery is indicated.

The above information was given to me by the new Mexico desk officer at Treasury, Mr. Don Niewiaroski. I asked Mr. Niewiaroski whether he had any information regarding the progress being made toward establishing an Eximbank line of credit for PEMEX. He replied that he did not know of any progress being made. He advised me to verify this with Eximbank. At Eximbank, the Mexico desk officer, Mr. Peter Gosnell, told me that the Mexicans had not even initiated discussions about such a line of credit. He said that he was present when Messrs. Moctezuma and Romero Kolbeck visited Eximbank officials in February and that the conversation was confined to pending minor issues and generalities. He assured me that he would know if the matter had been activated as it would have to go before the Eximbank Board of Directors and he would have to prepare the background paper on Mexico. An Eximbank staff mission is scheduled to go to Mexico in April to discuss other matters, and Mr. Gosnell, who will participate in this mission, speculated that the Mexicans might raise the issue at that time.

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CBH 4/2/96

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Ted Truman

- 2 -

In this connection, Mr. Niewiaroski told me that the Mexicans were still formulating their oil strategy and reviewing their needs. He said that the major oil companies had approached the Mexicans with proposals covering exploration and production of oil and providing for the retention of some of the oil by the companies in payment for their services, but that the Mexicans had other ideas. The Mexicans would like to get foreign companies to survey and assess their oil reserves and tell them where the oil is, after which the Mexicans would undertake, by themselves, to get the oil out of the ground. Eximbank has told the Mexicans that they would be prepared to finance exploration and exploitation, but that the financing of any infrastructure projects associated with oil development would have to be obtained from the international development lending institutions.

It is possible that the Mexicans have not yet initiated discussions with Exim in part because their international reserve position is strong enough at the moment to remove any feeling of urgency they might have had earlier. Mexico's international reserves totalled \$1,452 million on March 18 compared with \$1,261 million at the end of 1976. In this connection, at the annual meeting of the Mexican Bankers Association, held last week, Mr. Romero Kolbeck announced that Mexico's international reserves rose to \$1,615 million on March 11 from \$1,412 million last December 31. However, these figures include holdings of silver and a paper gain resulting from the revaluation of gold holdings to market prices.

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Ted Truman

- 3 -

Mr. Romero Kolbeck was quoted in the press as saying that the increase was recorded after liquidating loans obtained from the Federal Reserve System and the U.S. Treasury during the emergency period last year. However, there have been no repayments to the Treasury in 1977 and the \$150 million Mexico borrowed from the Treasury in November is still outstanding.

The Mexican measures affecting interest rates and reserve requirements involve a minor relaxation in credit restraints and an increased degree of flexibility in interest rates. The two-tier system of reserve requirements, whereby one ratio applied to deposits on a base date and another ratio to the increase in deposits since that date, is being replaced by a single ratio set at an intermediate level such that the amount of reserves required to be held by the banks when the switch takes place will not change. However, as deposits continue to rise, the additional reserves required under the new arrangement will be smaller than would have been the case under the previous system. The effect of this relaxation will be delayed because, before the banks are able to increase credit, they must repay their indebtedness to the Bank of Mexico, contracted during the hectic weeks which followed the devaluation last September. The specific details of the interest rate measure have not yet become available.

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March 28, 1977

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TO: Chairman Burns

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FROM: Ted Truman

Attached are two recent telegrams from Mexico.

The first telegram (Mexico 3576) summarizes available information on Mexican external borrowing. Apparently, Mexico has already borrowed or arranged to borrow \$350 million for Pemex, about \$40 million in a DM bond placement, and at least \$75 million in private placements. Another \$150 million Euro-credit is apparently in the works and Merrill Lynch may be underwriting a bond issue in the U.S. market that should amount to less than \$100 million.

The second telegram (Mexico 3581) reports on the Mexican Bankers' Convention.

Attachments

cc: Governor Wallich

Defense classification of this document is due to the inclusion of U.S. Government information officially classified under Executive Order 10501 which provides that "A document... shall bear a classification at least as high as that of its highest classified component."





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Department of State TELEGRAM

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PAGE 01 MEXICO 03576 241415Z
ACTION ARA-10

INFO OCT-01 ISO-00 EB-08 AID-05 CIAE-00 COME-00 FRB-03
INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01
IO-13 EUR-12 DODE-00 PA-01 PRS-01 L-03 /108 W
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R 241408Z MAR 77
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 1032
INFO TREASURY WASHDC

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E.O. 11652:GDS
TAGS: EFIN MX
SUBJECT: EXTERNAL BORROWING

1. SUMMARY: WHILE FOREIGN BANKERS WERE LESS THAN ENTHUSED WITH WHAT THEY HEARD AT THE MEXICAN BANKERS' CONVENTION, THEY DID INDICATE THAT A NUMBER OF FOREIGN BORROWINGS ARE TAKING PLACE. END SUMMARY.
2. FOREIGN BANKERS ATTENDING THE CONFERENCE GRUMBLED A BIT ABOUT CONTINUING UNCERTAINTIES OVER THE DIRECTION THE MEXICAN ECONOMY IS TAKING, BUT THEY ARE CONTINUING TO LEND MEXICO MONEY, THOUGH THE GLOBAL AMOUNTS CANNOT BE QUANTIFIED.
3. MEXICO HAS CONTRACTED ONLY TWO PUBLICIZED MEDIUM TERM EXTERNAL LOANS THUS FAR IN 1977. ONE IS THE \$350 MILLION EURODOLLAR CREDIT FOR PEMEX SIGNED MARCH 21. ANOTHER IS 100 MILLION D.M. MEDIUM TERM BONDS FOR NAFINSA, BEING UNDERWRITTEN BY THE DRESDENER BANK. WHILE THE PROCEEDS OF THESE LOANS ARE NOT YET AVAILABLE THERE HAVE BEEN AN UNQUANTIFIABLE NUMBER OF PRIVATELY PLACED MEDIUM TERM LOANS OF ONE KIND OR ANOTHER. REPRESENTATIVE OF A MEDIUM

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E.O. 12958 SEC. 3.6

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BY dal NARA DATE 3/10/08



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SIZED U.K. MERCHANT BANK SAID HE HAD PUT TOGETHER \$75 MILLION IN NEW CREDITS SINCE JANUARY 1, NONE OF WHICH WERE PUBLICIZED. SEVERAL BANKERS HAVE TOLD FINATT ABOUT MEDIUM TERM SUPPLIER CREDITS TO PUBLIC SECTOR ENTERPRISES WITH GOM GUARANTEES. APPARENTLY A GOM-OWNED ENTERPRISE WILL GO TO A U.S. SUPPLIER AND ASK THE SUPPLIER TO OBTAIN A MEDIUM TERM CREDIT FROM HIS U.S. BANKERS. CREDIT IS THEN GUARANTEED BY GOM ENTITY SUCH AS NACIONAL FINANCIERA. IN SOME CASES THESE SOUND LIKE RESTRUCTURING OF DEBT. ONE U.S. BANKER TOLD FINATT THAT WHILE HE WAS UNHAPPY RE THESE LOANS, THE BANK LENDING OFFICER FOR THE U.S. CORPORATION WANTED TO HELP HIS CLIENT AND THE GOM GUARANTEE MADE THE PAPER LOOK GOOD. THERE HAS ALSO BEEN A LOT OF SHORT TERM LOAN SYNDICATION.

4. GOM IS ANXIOUS TO GET AN UNDERWRITING GROUP FOR ITS NEXT PUBLIC EURODOLLAR ISSUE AND THIS IS LIKELY TO BE ROUGHLY \$150 MILLION FOR THE PUBLIC WORKS BANK. THERE IS ALSO A BOND ISSUE FOR THE UNITED MEXICAN STATES THAT IS ABOUT READY TO BE FLOATED IN THE U.S. THE UNDERWRITER IS MERRILL LYNCH AND THIS MAY BE AN ISSUE THAT WAS ALMOST READY TO GO TO MARKET WHEN THE INITIAL DEVALUATION WAS ANNOUNCED. WE ARE NOT SURE OF THE AMOUNT, BUT DOUBT IF IT EXCEEDS \$100 MILLION.

5. DURING THE BANKERS' CONVENTION, NAFINSA'S DIRECTOR TOLD PRESS THAT MEXICO'S PUBLIC SECTOR WOULD BORROW ABOUT \$3 BILLION IN 1977 AS THIS WAS THE LIMIT IMPOSED BY THE IMF. HE WAS ALSO REPORTED AS SAYING THAT IT WOULD BORROW ANOTHER \$3 BILLION, TO COVER INTEREST AND AMORTIZATION PAYMENTS PLUS SOME FUNDING OF SHORT TERM DEBT.

6. REGARDING THE AGREEMENT WITH THE FUND, MOCTEZUMA MENTIONED THIS IN HIS SPEECH AS ONE OF THE ACCOMPLISHMENTS OF THE NEW ADMINISTRATION. ROMERO KOLBECK TOLD THE PRESS THIS WAS STRICTLY A FINANCIAL AGREEMENT THAT IT

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IN NO WAY INFLUENCES THE COUNTRY'S POLICY. IF THIS WERE PERMITTED, HE IS REPORTED AS SAYING, IT WOULD BE TANTA-MOUNT TO LOSING MEXICO'S SOVEREIGNTY. THOMPSON



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SS-15 STR-04 OMB-01 CEA-01 L-03 H-01 PA-01 PRS-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02
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TO SECSTATE WASHDC 1033
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del 7/26/07

E.O. 11652:GDS
TAGS:EFIN MX
SUBJECT: MEXICAN BANKERS CONVENTION

Please return to
International Information Center

REF" (A) MEXICO 3051; (B) MEXICO 3227

1. SUMMARY: PRIOR TO BANKERS CONVENTION MEXICAN PRESS WAS FORECASTING THAT A MAJOR ECONOMIC PROGRAM WOULD BE ANNOUNCED. WHILE MEASURES MENTIONED IN FINANCE MINISTER'S SPEECH REPRESENT SOME DEGREE OF PROGRESS IN COPING WITH MEXICO'S ECONOMIC PROBLEMS, NO NEW BUDGETARY POLICIES WERE ANNOUNCED, NOR DID GOM SPOKESMEN PROVIDE ANY FURTHER GUIDANCE ON WHY THE PESO MUST FLOAT AND WHERE IT MIGHT GO. END SUMMARY.

2. MEXICAN BANKERS CONVENTION IS PROBABLY THE MOST SIGNIFICANT FINANCIAL GATHERING IN MEXICO. THIS YEAR'S CONVENTION WAS SAID TO HAVE ATTRACTED A RECORD NUMBER OF FOREIGN AND DOMESTIC BANKERS. THE PRESS WAS FORECASTING A MAJOR PACKAGE OF ECONOMIC AND FINANCIAL MEASURES. WHILE FINANCE MINISTER MOCTEZUMA ANNOUNCED A SIX MEASURE PACKAGE, HE DID NOT SAY ANYTHING THAT COULD BE INTERPRETED AS CHANGING BUDGETARY POLICY, NOR DID HE



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OR THE BANK OF MEXICO DIRECTOR GENERAL PROVIDE ANY FURTHER GUIDANCE ON EXCHANGE RATE POLICY. WAGE POLICY WAS NOT DISCUSSED.

3. THE SIX MEASURES ANNOUNCED BY MOCTEZUMA WERE: (A) PERMIT PESO INTEREST RATES TO BE FIXED BY MARKET CONDITIONS AND TIE INTEREST RATES ON MEX DOLLARS MORE CLOSELY TO INTERNATIONAL RATES; (B) REFORM LEGAL RESERVE REQUIREMENTS IN ORDER TO PERMIT BANKS TO USE A LARGER PORTION OF NEW DEPOSITS FOR CREDIT TO THE PRIVATE SECTOR, "PREFERABLY FOR ACTIVITIES WITHIN THE ALLIANCE FOR PROGRESS; (C) TIGHTEN RESTRICTIONS ON LOANS TO ONE BORROWER AND DEPOSITS FROM ONE LENDER IN ORDER TO AVOID EXCESSIVE DEPENDENCE BY A BANK ON ONE LENDER OR BORROWER; (D) DEFINE MORE CLEARLY WHICH SECURITIES SOLD TO THE PUBLIC THROUGH THE STOCK EXCHANGE BENEFIT FROM CERTAIN TAX ADVANTAGES AND MAKE GREATER RESOURCES AVAILABLE TO SECURITY HOUSES FROM BANKS; (E) SILVER COINS WILL SOON BE PUT INTO CIRCULATION. (SEE 76 MEXICO 15939); (F) PETROBONDS WILL BE ISSUED AT END-APRIL AND WILL, CONTRARY TO PREVIOUS INFORMATION, HAVE A THREE YEAR MATURITY. (SEE MEXICO 2882). ROMERO KOLBECK ADDED A SEVENTH MEASURE, A TWO BILLION PESO CREDIT FACILITY TO FACILITATE THE PRODUCTION OF THE 90 BASIC PRODUCTS (SEE MEXICO 1018). HE DID NOT ELABORATE ON WHAT FORM THIS WOULD TAKE.

4. WHILE MOCTEZUMA SAID THAT ONE OF THE BASIC ASPECTS OF THE GOM'S ECONOMIC POLICY WAS THE "CONTROL OF INFLATION, AS MUCH TO AVOID ITS ACCELERATION AS TO ACHIEVE, IN GRADUAL FORM, A REDUCTION." FOLLOWING THE ABOVE STATEMENT, HE SAID, "THE PUBLIC SECTOR IS READY TO MEET ITS RESPONSIBILITY IN THIS FIGHT, FUNDAMENTALLY THROUGH THE RECONSTITUTION OF PUBLIC SAVING IN ORDER TO FINANCE IN A HEALTHY FORM INVESTMENT AND THE GENERATION OF JOBS. FOR THIS, ONE OF THE FUNDAMENTAL MEANS CONSISTS IN REDUCING

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THE PROPORTION OF ITS GLOBAL DEFICIT, TO PUT EMPHASIS ON THE CONTROL OF CURRENT SPENDING AND TO PROVIDE TO THE STATE REAL RESOURCES THROUGH A SUITABLE PUBLIC INCOME POLICY." THERE WAS NO MENTION OF REDUCING SPENDING IN HIS SPEECH, BUT THE FINANCE MINISTER WAS ASKED AT A SUBSEQUENT PRESS CONFERENCE IF THIS MIGHT NOT BE NECESSARY. HE REPORTEDLY RESPONDED THAT WHILE THE BUDGET MAY APPEAR HIGH, IT WAS NOT REALLY, ADDING THAT IT IS AIMED AT SUPPORTING BASIC ACTIVITIES AND AVOIDS ANY SUPERFLUOUS SPENDING.

5. ANOTHER SUBJECT THAT WAS NOTABLE FOR THE LACK OF SPECIFICS WAS THE EXCHANGE SYSTEM. BOTH MOCTEZUMA AND ROMERO KOLBECK SAID THAT THE PESO WOULD CONTINUE TO FLOAT AND THAT FREE CONVERTIBILITY WOULD BE MAINTAINED. THEY NEVER ADDRESSED THE REASONS FOR THE FLOAT, NOR DID THEY INDICATE WHAT FACTORS MIGHT INFLUENCE THE RATE OVER THE FUTURE. ROMERO KOLBECK SAID ONLY THAT THE FLOATING RATE "TENDS TO REFLECT WITH GREATER REALITY OUR POSITION RELATIVE TO THE EXTERIOR." HE ALSO NOTED THAT AN "INCIPIENT AND VERY LIMITED" FUTURES MARKET HAD BEGUN, BUT ANNOUNCED NO GOVERNMENT MEASURES TO FOSTER SUCH A MARKET. MOCTEZUMA SAID THE PESO WOULD CONTINUE TO FLOAT. HE TOLD A REPORTER THAT "CURRENTLY, ALL THE WORLD'S CURRENCIES ARE SUBJECT TO VARIATION THEREFORE MEXICO CANNOT WITHDRAW FROM THESE PARAMETERS, AS MUCH FOR INTERNAL AS EXTERNAL REASONS." HE ADDED THAT "WE COULD NOT MAKE A DETAILED EXAMINATION OF THE ADVANTAGES OR DISADVANTAGES OF A FLOATING PESO OR A FIXED PARITY. IT IS ENOUGH TO SAY THAT WE WOULD GO COUNTER TO THE WORLD



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ACTION ARA-10

INFO OCT-01 ISU-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
SS-15 STR-04 OMB-01 CEA-01 L-03 H-01 PA-01 PRS-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02
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FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 1034
INFO TREASURY WASHDC

C O N F I D E N T I A L SECTION 02 OF 02 MEXICO 03581

SITUATION IF WE TRIED TO FIX THE PARITY."

6. PERHAPS THE MOST INTERESTING SPEECH WAS THAT OF EUGENIO ERANA, THE INCOMING PRESIDENT OF THE BANKERS ASSOCIATION. HE MADE A VERY STRONG ANTI INFLATION STATEMENT WITH PARTICULAR EMPHASIS ON THE IMPACT OF INFLATION ON ECONOMIC GROWTH AND POLITICAL STABILITY. HE ALSO SPOKE OUT AGAINST PRICE CONTROLS NOTING THAT THEY DO NOT REDUCE INFLATIONARY PRESSURES. HIS SPEECH, MADE AT THE CLOSING SESSION, WAS WARMLY APPLAUDED.

7. THE GOM RELEASES A CURRENT RESERVE FIGURE ONLY TWICE A YEAR, AT THE BANKERS CONVENTION AND IN THE PRESIDENT'S SEPTEMBER 1 STATE OF THE UNION ADDRESS. ROMERO SAID RESERVES AS OF MARCH 11, WERE \$1,617 MILLION, "AFTER HAVING LIQUIDATED LOANS FROM THE FEDERAL RESERVE AND U.S. TREASURY."

8. TWO THEMES PREVAILING IN THE SPEECHES OF FINANCE MINISTERS AND BANK OF MEXICO DIRECTOR WERE THE NEED TO GENERATE INTERNAL SAVINGS AND NEW JOBS. ROMERO CRITICIZED THE OLD "GROWTH WITH STABILITY" POLICIES AS HAVING GENERATED EXCESSIVE FOREIGN INDEBTEDNESS AND TOO FEW JOBS.



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PAGE 02 MEXICO 03581 02 OF 02 241721Z

THE IMPACT OF THE MEASURES ANNOUNCED LAST WEEK WOULD APPEAR TO BE LIMITED, AT LEAST DURING THE CURRENT YEAR. THE LOWERING OF INTEREST RATES ON MEX DOLLAR DEPOSITS MIGHT DISCOURAGE SAVINGS IN THIS FORM. LIKEWISE THE REDUCTION IN INTEREST RATES ON "FINANCIAL BONDS" COULD POSSIBLY DISCOURAGE SAVINGS IN THIS INSTRUMENT. WHETHER THE MONEY WOULD SWITCH TO A LONGER TERM PESO INSTRUMENT OR TO DOLLARS IS UNKNOWN, BUT THE MEXICANS DO SEEM TO BE RUNNING SOME RISKS IN THEIR INTEREST RATE REFORM, PARTICULARLY IF THEY MOVE SLOWLY IN INCREASING INTEREST RATES ON PESO TERM INSTRUMENTS.

9. THE LEGAL RESERVE REQUIREMENT CHANGES MIGHT COMPLICATE FINANCING OF THE PUBLIC SECTOR DEFICIT AS THESE REQUIREMENTS PROVIDE MUCH OF THE DOMESTIC FINANCING. ON THE OTHER HAND, THE GOM IS GOING DIRECTLY TO THE PUBLIC FOR FUNDS IN THE FORM OF PETRO BONDS AND TREASURY UNDER SECRETARY DE LA MADRID INDICATED THAT PUBLIC SECTOR MAY GO DIRECTLY TO THE CAPITAL MARKET FOR FUNDS.

10. THE LACK OF ANYTHING NEW ON BUDGET POLICY IS DISAPPOINTING. WHILE ONE HEARS STORIES OF CURRENT SPENDING CUTBACKS THERE IS NO PUBLIC STATEMENT TO THIS EFFECT AND MOCTEZUMA'S STATEMENTS ON THIS SUBJECT WERE VERY BLAND. THE SIZE OF THE BUDGET DEFICIT HAS BEEN ONE OF THE MAJOR CONCERNS OF FOREIGN BANKERS.

11. ALSO DISAPPOINTING WAS THE LACK OF A MORE DETAILED EXPLANATION FOR THE REASONS THAT THE PESO IS FLOATING AND THE DIRECTION IT MIGHT TAKE. THIS IS NOT WELL UNDERSTOOD BY MANY LOCAL AND FOREIGN BUSINESSMEN AND IS OFTEN CITED AS A HINDRANCE TO INCREASED FOREIGN PRIVATE INVESTMENT. AS IS OFTEN THE CASE IN MEXICO, THE NEED TO CONTINUE TO FLOAT IS ATTRIBUTED TO FOREIGN MORE THAN DOMESTIC FACTORS.

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PAGE 03

MEXICO 03581 02 OF 02 241721Z

12. A NUMBER OF ATTENDEES COMMENTED THAT THE ATMOSPHERE AT THIS YEAR'S CONVENTION WAS MUCH BETTER THAN IN THE PAST SEVERAL YEARS UNDER ECHEVERRIA. LOPEZ PORTILLO WAS WARMLY RECEIVED BY THE CONVENTION AND THERE WAS A SENSE THAT THE COUNTRY WAS MOVING IN THE RIGHT DIRECTION EVEN IF ECONOMIC POLICIES WERE NOT COMPLETELY TO THE SATISFACTION OF ALL THE ATTENDEES. THOMPSON



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April 1, 1977

TO: Chairman Burns
FROM: Ted Truman *EMT*
SUBJECT: Visit by Messrs. Romero Kolbeck and Alfredo Phillips

We have learned from the U.S. financial attache in Mexico via the Treasury Department that the main purpose of the visit by Mr. Romero Kolbeck (accompanied by Mr. Alfredo Phillips) to Washington on Tuesday is to see you. (They will also see Mr. Solomon but only because they will be here seeing you.)

We understand that the reason for the visit is the Mexicans' concern about your public statements on bank lending to developing countries. The Mexicans apparently think that these statements have been, or will be, damaging to their ability to raise funds from abroad that they want or need to raise.

According to the U.S. financial attache's conversation with Mexican officials and with U.S. bankers in Mexico City, Mexican foreign borrowings have been at a slower rate than had been expected during the first quarter of 1977. The slower rate of new borrowing has been attributed to Mexican reluctance to pay higher spreads over LIBOR (the London inter-bank offer rate) that banks are now demanding. There is apparently little other evidence of reluctance on the part of banks to extend new loans to Mexico at this time. There have been no reported problems with the rolling over of short-term bank claims.

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NR 95-1, #38
KBT 4/12/96



Chairman Burns

-2-

RESTRICTED

We will be sending you up-dated background material on Mexico external borrowing and on the Mexican economic and financial situation on Monday afternoon.

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FEDERAL RESERVE SYSTEM

1977 APR -1 PM 4:05

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OFFICE OF THE CHAIRMAN

-2-

Chairman Burns

We will be sending you up-dated back
Mexico external borrowing and on the Mexican economic and
situation on Monday afternoon.



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BOARD OF GOVERNORS
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FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 4, 1977

To Chairman Burns

Subject: Possible Multilateral Official

From Ted Truman *ETM*

Stand-by Credit for Mexico

RESTRICTED MR 95-1, # 39 KB44/1296

Introduction

1. As you know, preliminary discussions were initiated about ten days ago about a possible large, multilateral official stand-by credit facility for Mexico. A figure of \$1.5 billion for up to one year has been mentioned. The participants might be the United States (through the ESF and the Federal Reserve), Germany, Switzerland, Venezuela, Japan and, possibly, the BIS and some of the smaller European countries.

2. The Treasury plans to explore this matter further with Mr. Romero Kolbeck when he visits Under Secretary Solomon on Tuesday morning. They plan to discuss the matter first with you at your breakfast with Solomon and Secretary Blumenthal on Tuesday.

3. Two questions arise: (1) how far to go in discussions with the Mexicans at this time, (2) what to say to them.

Summary Analysis

1. The arguments in favor of this type of arrangement appear to be the following.

A. If Mexico were to face a severe external financing crisis -- a possibility that cannot be ruled out -- it is likely that Mexico would turn to the United States and the U.S. government would feel compelled to do something to save the situation. In this context,



a contingency plan would be desirable, and a plan that involved countries in addition to the United States would have certain attractions.

B. In principle, the credit arrangement could be designed to reinforce the conditions on Mexico's economic policies that have been and will be established by the IMF. For example, this objective might be accomplished by requiring that (1) the IMF certify Mexico's compliance with the IMF conditions before agreement is finalized with the potential creditors and (2) that the IMF certify Mexico's compliance with IMF conditions before any actual drawings are made.

2. The arguments against this type of arrangement appear to be the following.

A. The evidence we and the IMF have indicates that Mexico is probably not now in full compliance with the terms of its program under the IMF Extended Fund Facility. However, the data to substantiate this suspicion, or to determine how serious the lack of compliance is, are not now available. We understand that it is unlikely that they will be available before mid-May. In this context, the danger exists that the multilateral stand-by credit package will be established and used by Mexico at a time when it later turns out that Mexico is in violation of the IMF agreement.

B. At present, the participants in the multilateral stand-by credit package would have no assurance of a take out either from the IMF (since the super-tranche proposal has not yet been approved or even widely discussed) or from any other source. This suggests that Mexico should be asked to wait until the new IMF financial arrangements are in place.



C. Even if a firm role for IMF conditionality were agreed, the Federal Reserve might be reluctant formally to subjugate the use of its swap lines to the IMF's authority.*/

D. Such an arrangement might be viewed as providing a bail-out for the banks "with taxpayers' money."

E. Such an arrangement might also be viewed as a precedent encouraging large borrowers in private capital markets to turn to official sources other than the IMF for financial support.

Summary of the Treasury View of a Possible Approach

1. The Treasury wants to proceed slowly in this matter. On the other hand, consideration has been given to the possibility of presenting Mr. Romero Kolbeck on Tuesday with a document that would summarize the conditions that the United States would insist upon with regard to such an arrangement. The idea is to prevent the Mexicans from believing that agreement has been reached in principle on terms that we could not accept.

2. Treasury would like to postpone formal agreement on such an arrangement until after the Interim Committee has met and, presumably, reached agreement on the general terms of new IMF borrowing and how it might be used. Such a delay would provide a greater assurance of a take-out.

3. Treasury has discussed this matter with Mr. Witteveen. He is reported to be enthusiastic about the idea because it would strengthen

*/ The suggested size of the Federal Reserve's participation implies that under normal procedures the FOMC should be consulted.



the IMF's hand. As noted above, before any general agreement was reached it is envisaged that the IMF would have to declare that Mexico was in full compliance with IMF's conditions on Mexican economic policies. In addition, the IMF would have to give a similar certification before any request to use the multilateral, stand-by credit facility was approved. (Comment. As noted above, this approach might look good on paper and work somewhat less well in practice.)

4. Treasury recognizes that problems could arise in defining of the kind of emergency in which Mexico would have access to the multilateral, stand-by credit facility and in implementing agreed procedures in such an emergency.

5. Treasury's preliminary thinking is that the multilateral, stand-by credit facility might amount to \$1.5 billion. Of this amount, \$660 million would come from the United States (\$360 million under the existing Federal Reserve swap arrangement, \$150 million that has already been drawn from the ESF, and another \$150 million from the ESF). The Bundesbank might contribute \$400 million. The Swiss National Bank might contribute \$200 million. The remaining \$240 million might come from Japan, Venezuela, the BIS and some of the smaller European countries.

6. Drawings would be for three months with a maximum of three rollovers.

7. Treasury has given little thought to the question of whether drawings would be pari passu or to the question of how decisions on activation would actually be made. (Comment. This raises again the possibility that the Mexicans might seek to manipulate the arrangements to their own short-run advantage.)



April 4, 1977

TO: Chairman Burns

FROM: Ted Truman

You asked me to write down for you the three main points you stressed in your meeting with President López Portillo of Mexico in February.

1. Mexico must abide by the IMF conditions on its economic policies.

2. Mexico must bring its inflation rate under control and establish a productivity plan while at the same time following prudent demand management policies.

3. Mexico should develop contingency plans in case, as may well be likely, Mexico is unable to borrow as much as it now plans to borrow abroad in 1977.



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April 5, 1977 1977 APR -5 AM 9:05

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OFFICE OF THE CHAIRMAN

TO: Chairman Burns

FROM: Ted Truman

Attached are three recent cables from Mexico.

Attachments: Mexico 4214
Mexico 4313
Mexico 4375

cc: Governor Wallich

Defense classification of this document is due to the inclusion of U.S. Government information officially classified under Executive Order 10501 which provides that "A document... shall bear a classification at least as high as that of its highest classified component."





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MEXICO

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PAGE 01
ACTION ARA-10

MEXICO 04214 312339Z

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01
L-03 H-01 PA-01 PRS-01 /084 W

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R 312336Z MAR-77
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 1239
INFO TREASURY WASHDC

LIMITED OFFICIAL USE MEXICO 04214

EO11652:N/A
TAGS: EFIN MX
SUBJECT: PETRO-BONDS

REF: MEXICO 2882

1. GOM IS NOW ORGANIZING A SYNDICATE OF PRIVATE AND GOVERNMENT-OWNED CREDIT INSTITUTIONS TO UNDERWRITE AND MARKET TWO BILLION PESO ISSUE OF PETROBONDS. PROSPECTUS FOR ISSUE IS IN FINAL STAGES OF PREPARATION.

2. CONTRARY TO REF, BONDS WILL HAVE THREE YEAR MATURITY. ALSO, PRINCIPAL REPAYMENT WILL BE MADE NET OF INTEREST PAYMENTS OVER THE THREE YEAR PERIOD. THAT IS, IF PRINCIPAL OF BOND RISES FROM 100 TO 150 BECAUSE OF INCREASES IN DOLLAR PRICE FOR CRUDE AND/OR BECAUSE OF DEPRECIATION OF PESO IN TERMS OF DOLLARS, BOND HOLDER WILL RECEIVE 129 PESOS, 150 PESOS MINUS THREE YEARS OF INTEREST AT 7 PERCENT. THIS PROVISION WILL MAKE BONDS LESS ATTRACTIVE THAN WE HAD EARLIER BELIEVED; IT WILL ALSO REDUCE COST TO GOVERNMENT.



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PAGE 02 MEXICO 04214 312339Z

3. THE PROCEEDS FROM THIS ISSUE WILL BE FOR GENERAL REVENUE PURPOSES. PEMEX IS NEITHER THE BORROWER NOR THE GUARANTOR. THOMPSON

MEXICO 04214

SECRET MEXICO-BONDS
1987 04214 MX
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INFO THEODORE MURPHY
10 SECRETARY MURPHY 1988
AM WASHINGTON MEXICO
N 2152201 04214

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C-02 H-01 04-01 04214 1987 M
170-04 017-01 04214 04214 04214 04214 04214
170-01 04214-00 04214-00 04214-00 04214-00 04214-00
INFO 04214-01 100-00 110-00 110-00 110-00 110-00 110-00

SECTION 170-10
TYPE 01 MEXICO 04214 312339Z

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EMT

PAGE 01 MEXICO 04313 012350Z
ACTION ARA-10

INFO OCT-01 ISO-00 ITC-01 SP-02 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 PA-02 PRS-01 SSO-00 NSCE-00 INRE-00
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TO SECSTATE WASHDC IMMEDIATE 1269

UNCLAS MEXICO 04313

PASS USDOC

PASS USTREASURY

E.O. 11652: N/A
TAGS: EINV, ETRD, MX
SUBJECT: MINISTER OF COMMERCE SOLANA'S VIEWS ON
U.S.-MEXICAN TRADE AND INVESTMENT

1. EMBASSY UNDERSTANDS THAT MEXICAN MINISTER OF COMMERCE, FERNANDO SOLANA, HAS APPOINTMENTS TO SEE UNDERSECRETARIES COOPER AND SOLOMON OF STATE AND TREASURY RESPECTIVELY APRIL 4 AND SECRETARY KREPS APRIL 5.

2. SOLANA GAVE SPEECH BEFORE AMERICAN CHAMBER OF COMMERCE MARCH 31 MAKING FOLLOWING POINTS. MEXICO MUST EXPORT MORE MANUFACTURED GOODS AND INDUSTRIALIZED COUNTRIES SHOULD NOT GIVE IN TO TEMPTATION OF PROTECTIONISM. BY END OF 1977 MEXICAN MERCHANDIZE DEFICIT CAN POSSIBLY BE HALVED. THERE WILL BE A GRADUAL REPLACEMENT OF IMPORT LICENSES BY TARIFFS BUT IT WILL NOT BE POSSIBLE TO ELIMINATE ALL IMPORT LICENSES. FOREIGN INVESTMENT WAS COMPLEMENTARY AND NECESSARY CONTRIBUTION TO RATIONALIZATION OF MEXICAN



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INDUSTRIAL AND COMMERCIAL STRUCTURE AND THERE WOULD BE
EQUAL AND JUST APPLICATION OF THE INVESTMENT LAWS. U.S.
INVESTORS AND ENTREPRENEURS SHOULD ADAPT THEIR
TECHNOLOGY IN MEXICO TO USE MORE LABOR. IN DEVELOPING THE
ECONOMY OF MEXICO, THEY WERE HELPING A NEIGHBOR WHO HAS
BEEN ONE OF THE U.S. BEST CUSTOMERS FOR DECADES.
THOMPSON



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EMT

PAGE 01 MEXICO 04375 021948Z
ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
SS-15 STR-04 OMB-01 CEA-01 PA-01 PRS-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
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R 021920Z APR 77
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 1278
INFO TREASURY WASHDC
AMCONSUL MONTERREY BY POUCH

LIMITED OFFICIAL USE MEXICO 04375

EO 11652: N/A
TAGS: EFIN MX
SUBJECT: INVESTMENT CLIMATE

1. SUMMARY: WHILE LOPEZ-PORTILLO HAS CLEARED AWAY MANY OF THE BAD FEELINGS TOWARD GOVERNMENT ON THE PART OF MEXICO/S PRIVATE SECTOR, BUSINESSMEN ARE RELUCTANT TO UNDERTAKE NEW INVESTMENTS, WAITING FOR MORE SPECIFIC GOVERNMENT MEASURES. END SUMMARY.

2. IN HIS FIRST FOUR MONTHS IN OFFICE, LOPEZ PORTILLO HAS MANAGED TO ELIMINATE MUCH OF THE TENSION THAT DEVELOPED BETWEEN THE GOVERNMENT AND THE PRIVATE SECTOR UNDER ECHEVERRIA. BUSINESSMEN LIKE JLP'S STYLE AND FIND THE GOVERNMENT MORE ACCESSIBLE. ON MARCH 28, JLP VISITED MONTERREY FOR A VIRTUAL LOVE FEAST WITH THE MONTERREY BUSINESS GROUP. AMCONSULATE GENERAL MONTERREY REPORTS THAT PRESIDENT SPENT MINIMUM AMOUNT OF TIME WITH LOCAL GOVERNMENT OFFICIALS AND MAXIMUM AMOUNT OF TIME WITH PRIVATE BUSINESSMEN. BERNARDO GARZA SADA, LEADER OF THE MONTERREY BUSINESS COMMUNITY, WAS LAUDATORY



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TO LOPEZ-PORTILLO WHO RECIPROCATED, SAYING "HOW BEAUTIFUL THAT YOUR FIRST PARTICIPATION IN PUBLIC HAS BEEN THIS EXEMPLARY SPEECH, FULL OF SOCIAL EMOTION, FULL OF PATRIOTIC SOLIDARITY, FULL OF THAT WHICH THE ANCIENT ROMANS CALLED THE SENTIMENT OF A GOOD FATHER OF FAMILY."

3. PURPOSE OF MONTERREY MEETING WAS TO SIGN AN AGREEMENT WITH MONTERREY BUSINESS GROUPS CALLING FOR INVESTMENTS OF 100 BILLION PESOS OVER THE NEXT SIX YEARS, WITH THE INVESTMENTS TO BE MADE THROUGHOUT THE COUNTRY. THIS IS ANOTHER IN THE SERIES OF PUBLIC SECTOR-PRIVATE SECTOR AGREEMENTS THAT HAVE BEEN NEGOTIATED. MONTERREY GROUP VIEWS THE AGREEMENT AS LARGELY SYMBOLIC WHICH IS THE SAME ATTITUDE EXPRESSED BY MEXICO CITY BUSINESSMEN TOWARD THE TEN PUBLIC-PRIVATE SECTOR AGREEMENTS SIGNED LAST DECEMBER.

4. WHILE RELATIONS HAVE IMPROVED, THE PRIVATE SECTOR REMAINS RELUCTANT TO UNDERTAKE NEW INVESTMENTS, WAITING TO SEE MORE CONCRETE MEASURES BY THE GOVERNMENT. MONTERREY BUSINESSMEN SAID THAT ONLY POSITIVE MEASURE TO DATE HAD BEEN LIMITATION OF MINIMUM WAGE INCREASE TO 10 PERCENT. BUSINESSMEN DISLIKE SEVERAL JLP MEASURES, IN PARTICULAR THE EXCESS PROFITS TAX AND THE SO-CALLED BASIC PRODUCTS PROGRAM. THEY ALSO CONTINUE TO COMPLAIN ABOUT PRICE CONTROLS AND THE GOVERNMENT'S RELUCTANCE TO LOOSEN THESE. THE GOM SEEMS TO BE RESPONDING TO BUSINESS CONCERNS ON THE EXCESS PROFITS TAX, BUT REMAINS VERY RELUCTANT TO LOOSEN PRICE CONTROLS BECAUSE OF THE IMPACT HIGHER PRICES COULD HAVE ON WAGE SETTLEMENTS.

5. BUSINESSMEN ALSO ARE CONFUSED REGARDING EXCHANGE RATE POLICY. WITH A WIDESPREAD BELIEF THAT THE PESO WILL DEPRECIATE TO ABOUT 30% BY YEAR END, THEY ARE RELUCTANT TO TAKE ON ADDITIONAL DOLLAR DEBT. THEY ALSO HESITATE TO REPATRIATE CAPITAL. PESO CREDIT REMAINS LARGELY UNAVAILABLE.

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6. AS BEST WE CAN DETERMINE THERE HAS BEEN NO INCREASE IN PRIVATE SECTOR INVESTMENT NOR IS AN INCREASE LIKELY IN THE NEAR FUTURE.

7. FOREIGN DIRECT INVESTMENT SEEMS TO BE AFFECTED BY THE SAME FACTORS, PLUS THE GENERAL RESTRICTIONS EMBODIED IN MEXICAN LAWS. THERE HAS BEEN NO INDICATION OF A SHIFT IN GOM POLICIES RE FOREIGN DIRECT INVESTMENT, THOUGH SENIOR GOM OFFICIALS HAVE SPOKEN PUBLICLY ABOUT NEGOTIATING SPECIAL CONDITIONS FOR INVESTMENT PACKAGES CONSIDERED PARTICULARLY DESIREABLE.

8. GOM FEELS FRUSTRATED BY PRIVATE SECTOR'S CAUTIOUS ATTITUDE AND PROBABLY VIEWS QUADRIPARTITE COMMITTEE AS ANOTHER MEANS TO STRENGTHEN THE AURA OF GOOD RELATIONS BETWEEN PUBLIC AND PRIVATE SECTORS AND, HOPEFULLY, TO ACHIEVE CONCRETE RESULTS WHICH HAVE NOT YET EMERGED FROM THEIR OTHER EFFORTS. THOMPSON



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April 7, 1977

TO: Chairman Burns
FROM: Ted Truman *EM*
SUBJECT: Treasury Paper on Possible Multilateral Swap Arrangements for Mexico

Governor Wallich and I have discussed the Treasury paper on possible multilateral swap arrangements for Mexico. We have the following comments and questions.

1. At the present time, there appears to be no need for such arrangements. Why, therefore, are we pursuing the matter?

2. If Mexico has a need, how large is it? Where did the figure of \$1.5-\$1.9 billion come from?

3. Is this a temporary arrangement? How long would it be in place?

4. The paper does not mention how long the drawings might be expected to be outstanding. What is expected?

5. Such an arrangement not only creates a precedent for other countries to come to the United States and the other participants for similar arrangements, it also might encourage private lenders to insist on similar "collateral arrangements" before they lend further to other developing countries, e.g., Brazil.

6. The paper envisages Mexican drawings only in an emergency and after IMF certification of Mexican adherence to the IMF conditions under the Extended Fund Facility. What happens in the case when the last IMF mission to Mexico was two months before the request for a drawing and it brought back data that are now five months old? If Mexico truly has

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KSH 4/12/96



a financial emergency, won't a decision on action have to be made in a matter of hours?

7. In this connection, the essential missing ingredient in our knowledge about Mexico -- aside from fiscal data -- is that they have not provided precise information on their external financing needs and how they plan to meet them. Shouldn't such information be a prerequisite for such an arrangement?

8. Consideration should be given to the proper relationship between five sources of external financing for Mexico: private lending, IMF lending under the Extended Fund Facility, Treasury lending to pre-finance drawings on the Extended Fund Facility, the proposed multilateral swap arrangement, and the IMF super tranche.

9. The numbers suggested in the Treasury paper look high. It is unlikely that Belgium and the Netherlands would each contribute \$100 million when they contributed only \$150 million to the sterling balances arrangement. It is unlikely that Japan would give as much as \$250 million, or that Canada can contribute at all. Are we in danger of falsely raising the Mexican's hopes? What about participation by Venezuela?

10. Why should the Federal Reserve put in more than the Treasury? What kind of a firm take-out provision is available to the Federal Reserve if Mexico cannot repay within a year?

11. Shouldn't Mexico be explicitly encouraged to repay any drawings through borrowing either from the IMF or from the market?

cc: Governor Wallich



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Multilateral Standby Swap Arrangements for Mexico

I. Overall structure of a Multilateral Standby Swap Arrangement

Mexico is seeking establishment of a multilateral swap arrangement. The Germans and Swiss have indicated substantial interest. This section examines several questions related to the overall structure of a multilateral swap arrangement for Mexico:

- 1. Institutional framework;
- 2. Conditionality prior to setting up such an arrangement;
- 3. Size and composition;
- 4. Conditions for activation of the arrangement including veto power by the contributors; and
- 5. Provisions for repayment including possible "take out".

Our thinking on the above considerations is as follows:

1. Institutional framework. The Federal Reserve Bank of New York could serve as the fiscal agent for all the participants in the facility. Mexico would make requests to the New York Fed for drawings on the facility, with the Fed notifying participants.

It is preferable to have the Fed act in the capacity rather than the BIS largely because it is essential for determinations by the IMF to be binding on all participants. The BIS management, in the Sterling Balance Facility, for example, was reluctant to be bound by determinations of the IMF Managing Director even when the BIS acted as agent for member central banks.

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E.O. 12958 Sec. 3.6

MR 95-2, #42; Treasury ltr. 3/7/96 ~~CONFIDENTIAL~~

By ut, NARA, Date 5/3/96



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- 2 -

Moreover, unlike the Sterling Balance Facility, 1) there is no precedent for locating a Mexican swap facility in the BIS; 2) unlike the Bank of England the Bank of Mexico is not a member of the BIS.

2. Prerequisite. A letter or statement from the IMF that Mexico was fulfilling the conditions of the Extended Fund establishing a multilateral swap facility. This would require the Mexicans to implement economic policies which are needed to meet the EFF targets and which have not been forthcoming to date. The requirement of a prior letter from the Fund would also demonstrate our support of the IMF and make it clear to the Mexicans that we feel adherence to the stabilization program is essential for multilateral financial support. (In a telephone conversation Witteveen and Solomon discussed this issue. Witteveen expressed support for the idea, and felt that the arrangement itself would be ^{very} useful. In addition, he felt that conditionality based on the IMF program would provide additional leverage in urging the Mexicans to meet the EFF program targets.)

3. Size and Composition. Our initial thinking indicates that a facility of \$1.5 to \$1.9 billion could be arranged, composed of contributions of the following amounts, with drawings and repayments being pari passu and proportionate among the participating countries.



Hypothetical contributions to multilateral facility.

	<u>Millions of \$</u>	<u>Share with 6 participants</u>	<u>Share with 8 participants</u>
U.S.	\$660*	(44%)	35%
Germany	\$340	(23.5%)	18%
Japan	\$250		13%
Switzerland	\$200	(13%)	11%
Canada	\$150		8%
BIS	\$100	(6.5%)	5%
Netherlands	\$100	(6.5%)	5%
Belgium	\$100	(6.5%)	5%

*The suggested U.S. contribution of \$660 million combines the present \$300 million ESF swap arrangement and the \$360 million Federal Reserve swap line. The ESF would turn \$150 million of "window dressing" into drawable credit and would extend the entire line on the terms of the multilateral facility. This does not require a much greater U.S. commitment than already exists and avoids a completely bilateral U.S. commitment to the Mexicans.

4. Conditions for Activation. Upon a Mexican request to draw from the facility, there would be a consultation among the participating countries to determine whether the request met two criteria, both of which would be required for the drawing to be approved.

a. There is a genuing "emergency" need to draw.

What "emergency" would lead to activation of the swap? This is more difficult to define in advance in that in many cases it may become a qualitiative rather than quantitative assessment of a situation. Accordingly, it may be preferable to develop a more general language



so that drawings could be made only, for example, to meet "an emergency in Mexico's reserve position or exchange market situation which cannot be dealt with by other means and which would have serious consequences for the stability of the international monetary system."

b. That Mexico is meeting the EFF targets.

The IMF would be requested to certify whether or not the EFF targets were being attained. Attainment of the EFF targets would thus become a prerequisite for each drawing as well as for the initial establishment of the standby. This would necessitate the IMF being fully informed on a continuing basis on the current economic situation in Mexico.

- c. Provisions for Repayment. Unlike similar arrangements provided for the UK in mid-1976, in the Mexican case there would be no provisions directly linking repayment to IMF drawings. If Witteveen's "super tranche" facility is in place, activation of the swaps would be linked to Fund resources, e.g., one additional factor in allowing drawings will be whether Mexico is eligible to draw like amounts within 3-6 months from the IMF. (The current availability of IMF credit to Mexico is limited -- only 100 million SDRs are available through the remainder of 1977.) At this point there are no concrete assurances that the new Fund facility will be in place, therefore the multilateral swap cannot be explicitly tied to future Fund drawing.

/Note: Where the provisions of (a) above have been met and IMF management certifies that Mexico would be eligible to draw the requested amount from the Fund within 3 months, there would be a strong presumption in favor of activation of the swap to that extent./



II. Advantages and Disadvantages of Establishing Such a Facility.

1. Advantages. The obvious advantage which the Mexicans are fully aware of is that such a multilateral standby could be used as "collateral" for private financing. This may add a confidence factor to the Mexican situation and enhance Mexico's ability to borrow from the private market. However, current indications are that Mexico is not experiencing difficulty in rolling over short term debt nor are we aware of any difficulties they may be having in floating new issues -- although the magnitude of these new issues has not been significant.
2. The conditionality, linked to the EFF program, offers several positive elements:
 1. Offers greater incentives for meeting the performance targets set forth in the IMF agreement.
 2. Provides greater leverage for those Mexican officials, particularly in the Bank of Mexico and Finance Ministry, who have been urging additional cuts in public expenditure. These officials have been meeting strong resistance from Carlos Tello (Minister of Planning and Budget) who has inside access to President Lopez Portillo and has been pushing for even greater expenditure than has been budgeted in FY 77.
3. By establishing a multilateral arrangement, should a crisis occur, the U.S. would not stand alone in providing financial assistance to Mexico. A positive U.S. effort in supporting and leading such an arrangement would exhibit our desire and willingness to assist Mexico through their current economic difficulties.



Disadvantages

1. There is no clear indication that such a facility is really needed and could conceivably generate a negative market reaction if the private community interprets the action as "the Governments know something that we do not know."
2. It may raise a slight problem in explaining to the Portuguese why such a facility could be arranged for Mexico given the obvious difficulties that we have encountered on the Portuguese consortium loan. (The main difference is that the Mexican situation is a short-term rather than a medium-term problem, plus the peso is a convertible currency while the escudo is not and so is not considered an appropriate asset for central banks.)
3. Establishment of such an arrangement for Mexico may lead others to seek similar arrangements.

III. Recommendations:

1. That we clearly indicate to the Mexicans that formal discussions on establishing the facility will not proceed until after the IMF mission returns from Mexico (scheduled for sometime in May) and reports on the economic situation, with the explicit presumption that the EFF targets are being attained.
2. That we indicate to the Mexicans our willingness to proceed with informal discussions on the establishment of a multilateral swap arrangement and emphasize that this facility could not be used to undermine or lessen IMF conditionality in any way.



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3. That we discuss with other potential participating countries the magnitude of the facility and their potential contribution.

4. That we make a careful examination of the likelihood that if established, drawings would be made against the swap arrangement.

5. That we ascertain what provisions (if any) can be made to assure payback in the event of emergency situation.

6. Above all, that we proceed slowly in order to better evaluate the likelihood that the Witteveen facility will be established which would enable linking any swap drawings to possible takeout from this facility.



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April 14, 1977

TO: Chairman Burns

FROM: Ted Truman

EMT

Attached is the latest cable from Mexico. It is consistent with most of the information in Mr. Maroni's briefing last Friday. You might be interested to note paragraph 8 in which it is reported that the IMF is becoming the "whipping boy" for the president, privately, and for some private economists writing in the press.

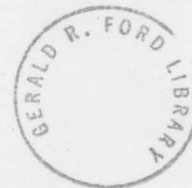
cc: Governor Wallich

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E.O. 12958 Sec. 3.6

MR 95-1, # 43 Fed. Res. Act. 4/13/96

By KBH NARA, Date 4/12/96





MESSAGE

Mexico 106

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See attached

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LIMDIS

INTERNATIONAL INFORMATION SERVICES
date 7/20/07

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LIMDIS

E.O. 11652: GDS
TAGS: EFIN, MX
SUBJECT: CURRENT ECONOMIC SITUATION

APR 7 9 28 PM '77
TELECOMMUNICATIONS
SECTION

C.F.

1. SUMMARY: MEXICO'S ECONOMY, ACCORDING TO MOST ACCOUNTS, IS STAGNANT, WITH NO SIGNS OF AN OVERALL RECOVERY. ECONOMIC POLICIES CONTINUE TO BE HOTLY DEBATED WITHIN GCM. IMF IS BECOMING A TARGET OF CRITICISM AND LABOR IS SHOWING SIGNS OF RESTLESSNESS. END SUMMARY.

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S. Cro*

2. SLOWDOWN IN INDUSTRIAL ACTIVITY THAT BEGAN IN MID-76 AND WAS AGGRAVATED BY SEPTEMBER 1 DEVALUATION DOES NOT APPEAR TO HAVE BEEN REVERSED THOUGH IT MAY HAVE REACHED BOTTOM. AS THERE ARE NO DATA ON INDUSTRIAL ACTIVITY IN THE FIRST QUARTER, OUR REMARKS ARE QUALITATIVE. PRIVATE SECTOR INVESTMENT, WHICH DROPPED IN LAST QUARTER OF 1976 DOES NOT APPEAR TO HAVE REVIVED. PUBLIC SECTOR SPENDING, ON BOTH CURRENT AND CAPITAL ACCOUNTS, IS SAID TO BE RUNNING BELOW BUDGETED LEVELS DUE IN PART TO DELAYS DUE TO THE ADMINISTRATIVE REFORM AND IN PART TO THE NORMAL DELAYS IN SPENDING ASSOCIATED WITH A NEW ADMINISTRATION. INCREASED ACTIVITY IN THE PETROLEUM AND RELATED INDUSTRIES IS THE ONLY BRIGHT SPOT.

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3. GOM OFFICIALS MAINTAIN THEY HAVE ATTAINED IMF FIRST QUARTER TARGETS FOR MONEY SUPPLY AND BUDGET DEFICIT.

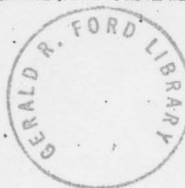
4. MEXICO'S CURRENT ACCOUNT DEFICIT IS SAID TO BE RUNNING BELOW PREVIOUS YEAR LEVELS, AND THE FIRST QUARTER DEFICIT IS LIKELY TO BE ABOUT \$400 MILLION. THIS IMPROVEMENT IS DUE TO SLOW DOWN IN DOMESTIC ECONOMIC ACTIVITY AND AN INCREASE IN PETROLEUM AND COFFEE EXPORTS, THE LATTER BENEFITING FROM HIGHER WORLD PRICES.

5. EXCHANGE RATE HAS REMAINED BETWEEN 22.50 AND 23.00 PESOS SINCE LATTER PART OF JANUARY. THE MARGIN BETWEEN BUYING AND SELLING RATES HAS NARROWED WHICH WOULD SEEM TO INDICATE A MORE EFFICIENT MARKET. WHILE BANK OF MEXICO CONTINUES TO MAINTAIN IT IS LARGELY OUT OF THE MARKET, IT IS IN A POSITION TO INFLUENCE THE RATE BY CONTROLLING TO SOME DEGREE THE FOREIGN EXCHANGE ACTIVITIES OF PUBLIC SECTOR ENTITIES. CAPITAL FLIGHT APPEARS TO BE NEGLIGIBLE, OWING AS MUCH TO A LACK OF DOMESTIC LIQUIDITY AS TO OTHER FACTORS; CAPITAL REFLWS, WHILE PROBABLY GREATER, ARE NOT SIGNIFICANT AS BEST WE CAN FIGURE. THEY SEEM TO BE TAKING THE FORM OF REPATRIATION OF DOLLAR CURRENCY MORE THAN INTER-BANK FLOWS. THESE NET REFLWS PLUS RELATIVELY SMALL NET INFLOWS FROM PUBLIC SECTOR EXTERNAL BORROWING APPEAR TO BE THE BASIS FOR THE STABLE EXCHANGE RATE AS BANK OF MEXICO RESERVES ARE REPORTEDLY STABLE.

6. PRESIDENT SEEMS PERPLEXED BY COUNTRY'S PRESENT ECONOMIC SITUATION. GOM REALIZES THE INADEQUACIES OF ITS FORMER DEVELOPMENT MODEL, BUT IT HAS YET TO DEVISE A NEW STRATEGY. LIKEWISE, IT REALIZES THE NEED FOR FINANCIAL STABILITY, BUT IT IS RELUCTANT TO RUN THE POLITICAL RISKS INVOLVED IN TAKING THE STEPS USUALLY ASSOCIATED WITH ACHIEVING THIS STABILITY. IN PARTICULAR, GOM IS PREOCCUPIED BY RISK OF LABOR DISSATISFACTION WITH 10 PERCENT LID ON NEGOTIATED WAGE SETTLEMENTS. THIS IS RESULTING

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IN REPPRESSED INFLATION AS THE GOVERNMENT IS RELUCTANT TO APPROVE PRICE INCREASES FOR MANUFACTURED PRODUCTS SUBJECT TO PRICE CONTROLS AND FOR PUBLIC SECTOR ENTITIES' PRICES.

7. NUMEROUS IDEAS ON A LONGER TERM DEVELOPMENT STRATEGY EXIST. THESE EMPHASIZE THE NEED TO ABANDON MEXICO'S PROTECTIONIST POLICIES AND CREATE THE BASIS FOR EXPORT-ORIENTED GROWTH. HERE AGAIN GOM IS RELUCTANT TO ACT BECAUSE OF OPPOSITION FROM DOMESTIC INDUSTRY IN MONOPOLISTIC POSITIONS AND THE SHORT-TERM IMPACT SUCH POLICIES MIGHT HAVE ON THE BALANCE OF PAYMENTS AND EMPLOYMENT.

8. AS USUAL IN MEXICO, THE COUNTRY'S ECONOMIC PROBLEMS ARE BEING BLAMED ON EXTERNAL FACTORS. IMF IS BECOMING A WHIPPING BOY, BY THE PRESIDENT PRIVATELY AND, IN THE LAST FEW DAYS, BY PRIVATE ECONOMISTS VIA THE MEXICAN PRESS. PRESIDENT, IN SPITE OF HIS EXPERIENCE AS FINANCE MINISTER, IS RELUCTANT TO TAKE STRONG STABILIZATION MEASURES AND APPEARS CONFUSED BY, OR UNDECIDED BECAUSE OF CONFLICTING ADVICE FROM HIS CABINET. AS BEST WE CAN DETERMINE, THE CENTRAL BANK AND TREASURY ARE URGING STRONGER MEASURES, PARTICULARLY AS REGARDS PUBLIC SECTOR SPENDING, WHEREAS THE BUDGET AND PLANNING MINISTRY IS RECOMMENDING THAT ONLY THROUGH INCREASED PUBLIC SECTOR INVESTMENT SPENDING CAN BOTTLENECKS TO INCREASED OUTPUT BE REMOVED AND INFLATIONARY PRESSURES DAMPENED OVER THE MEDIUM TERM.

9. INFLATION IS A MAJOR POLITICAL AND ECONOMIC CONCERN OF THE GOVERNMENT AT THE MOMENT. BANK OF MEXICO ISSUED ITS



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ACTION ARA-06

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PRICE INDICES FOR MARCH WHICH SHOWED A SLOWDOWN IN INCREASES IN MEXICO CITY'S CPI. THE MONTH TO MONTH INCREASE FOR MARCH WAS 1.5 PERCENT COMPARED TO 2.5 PERCENT IN FEBRUARY. THE NATIONAL CPI HAS BEEN INCREASING AT A SLIGHTLY FASTER RATE THAN THAT FOR MEXICO CITY, PROBABLY BECAUSE PRICE CONTROL ENFORCEMENT EFFORTS ARE MORE EFFECTIVE IN THE CAPITAL THAN IN THE MAJOR PROVINCIAL CITIES.

10. GOM HAS MOVED SLOWLY TO IMPLEMENT ECONOMIC POLICIES. SOME PUBLIC SECTOR PRICES ARE BEING RAISED, BUT ONLY PIECEMEAL. INTEREST RATES ARE TO BE DETERMINED BY MARKET CONDITIONS, BUT BANK OF MEXICO WILL PROBABLY MOVE ONLY GRADUALLY TOWARD MARKET-DETERMINED INTEREST RATES. LEGAL RESERVE REQUIREMENTS FOR BANKS HAVE BEEN MODIFIED, BUT GOM OFFICIALS MAINTAIN THAT THIS WILL NOT, IN NEAR FUTURE, RESULT IN INCREASED CREDIT AVAILABILITIES FOR PRIVATE SECTOR. SOME IMPORT-LICENSING REQUIREMENTS HAVE BEEN DROPPED, BUT THIS APPEARS TO BE A MEASURE TO REDUCE PAPER WORK MORE THAN A TRADE-LIBERALIZATION MEASURE. EXPORT REBATES HAVE BEEN RE-INTRODUCED, BUT THIS SEEMS TO INDICATE FAILURE OF THEIR EXCHANGE RATE CHANGE TO MAKE MEXICO'S MANUFACTURED EXPORTS COMPETITIVE AS THE REBATES WERE DROPPED AT THE TIME OF THE DEVALUATION. THERE HAVE BEEN

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NO PUBLIC STATEMENTS ON THE BUDGET SINCE IT WAS INTRODUCED LAST DECEMBER, THOUGH VARIOUS GOM OFFICIALS HAVE SAID PRIVATELY THAT THEIR CURRENT EXPENDITURE BUDGETS ARE BEING CUT.

11. AFTER 22 YEARS OF RELATIVE ECONOMIC STABILITY, MEXICO AND MORE SPECIFICALLY ITS PRESIDENT ARE ON THE HORNS OF A DILEMMA. THE OBVIOUS ECONOMIC SOLUTIONS RUN POLITICAL RISKS. THE CURRENT ECONOMIC PROBLEMS - INFLATION, STAGNATION, AND INCREASING UNEMPLOYMENT - HAVE POLITICAL RISKS.
THOMPSON

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April 22, 1977

TO: Chairman Burns
FROM: Ted Truman *EMT*
SUBJECT: Visit by Mexican Officials

In connection with your meeting on Monday with Mr. Moctezuma, Mr. Romero Kolbeck, and Mr. Alfredo Phillips, Mr. Maroni has prepared the attached background material.

- a. Mr. Maroni's Board Briefing, April 8, 1977.
- b. Update on Mexico, April 13, 1977.
- c. Recent Fiscal Policy and Wage Policy Trends in Mexico, April 22, 1977.
- d. Recent Economic and Financial Indicators.

We understand from the notes (extra copy attached) on Mr. Solomon's trip to Mexico that at least one of the purposes of the Mexican officials' visit with you is to discuss your views on bank lending to developing countries in general and Mexico in particular. They apparently believe that they have been experiencing some resistance to their borrowings in the market because of your remarks.

We also understand that when these officials visit the IMF they may for the first time suggest an adjustment in the Extended Fund Facility program with the IMF. In particular, they may ask to raise the ceiling on the budget deficit from 90 billion (and 6 per cent of GNP) to 105 billion pesos, about 6.5 per cent of estimated 1977 GNP. It is clear from the Solomon notes that there is still a policy struggle in Mexico on this and related issues. The notes also mention that after May 1

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President Lopez-Portillo is planning to give a major economic policy address; this speech has been planned for three months.

With respect to the possible multilateral stand-by swap arrangement, Mr. Solomon apparently emphasized that the following conditions would have to be met. (a) Mexico must be abiding by the IMF conditions at the time the arrangement is formalized. (b) Mexico must be abiding by the IMF conditions at the time of any drawing. (c) The drawing must be associated with an emergency, or a genuine financing, need. (d) Participants can opt out if necessary. (e) The private market must know of the conditions. (f) Drawings are to be for three months with a maximum of three rollovers. (g) Mexico must commit itself to using the IMF super tranche as a take out if such an arrangement exists.

It is a little unclear to me exactly how matters are proceeding with respect to Mexican thinking on this subject. I was disturbed by the report that Lopez-Portillo does not yet know about this proposal. My concern is that the plans could become so far advanced that, by the time Lopez-Portillo hears about them, political forces might lead to their implementation without the needed conditionality.

According to Solomon's report, the Mexicans are prepared to move slowly on this matter, probably talking to the Canadians and Japanese during the meetings in Washington next week. On the other hand, I have since heard that the Mexicans may be pushing to move ahead more rapidly.

cc: Governor Wallich



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[4-22-77]

Chairman Burns

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Mexico's Current Economic Situation
and Prospects - Under-Secretary Solomon's
Trip to Mexico April 12-15, 1977

1. Summary: There is qualified optimism regarding economic prospects and the GOM's ability to meet the percentage targets in the Fund-GOM agreement. Inflation is a major political as well as economic concern. The President is going to address the nation on economic subjects shortly.

2. The Fund and the Budget

Much of Mr. Solomon's discussions focused on the Fund targets and the Budget deficit. The President made a strong pitch that the Fund should adopt a more flexible attitude toward Mexico. He argued that Mexico could not afford to tighten its belt to the same degree that the U.K. or Italy might do because of a lack of social welfare programs. He also stressed that too stringent stabilization measures could mean political risks that could result in a "fascist" political solution as in southern South America.

Later, Lic. Izquierdo said by "flexibility" the President probably meant not only a small increase in the public sector deficit to 100-105 billion pesos, but also a loosening of the money supply targets if it was necessary to resort to money creation to finance a part of this deficit. Lic. Solis, and others, maintained that it should be possible to meet all the Fund targets except the 90 billion peso target; that is, the money supply target, the percentage targets such as the 6% public sector deficit target, and the \$3 billion limit on the increase in the public sector external debt.

The 6% of GDP target for the public sector deficit was said to be attainable by the President but Izquierdo and Escobedo said it may be 7%. The attached table outlines what might happen to the deficit. Lic. Izquierdo said that Bill Dale had given the President a letter on December 1, of last year stating that the percent targets were more important than the specific monetary targets. Several officials made the point that the economic situation had changed so significantly in the three months following the negotiations of the Fund Agreement (Oct.-Dec.), that the specific targets, in particular the 90 billion peso deficit, were recognized as unattainable, by the Fund as well as GOM officials.

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E.O. 12958 Sec. 3.6

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MR 95-2, #45, Treasury ltr. 3/7/96

By let NARA, Date 5/3/96



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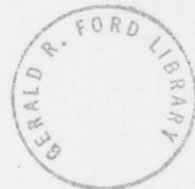
The absolute size of the prospective deficit is also disputed. The figures mentioned ran from 100 to 110 billion pesos. The size depends in part on the impact of revenue measures to be announced after May 1. This is the local Labor Day and the GOM does not believe it can boost public sector prices before as labor would blame the government for aggravating inflation. Among the measures under consideration are higher prices for gasoline and some other oil products but not diesel fuel as this would impact on public transportation costs. The GOM hopes to raise about 20 billion pesos additional revenue through its revenue measures. Escobedo said that the measures already taken on prices for sugar, telephones and fertilizer will add 10 billion pesos to the original revenue estimate. Raising the price of gasoline one peso per liter brings in 10 billion pesos additional income annually.

Regarding financing of the deficit, there was general agreement that about 50 billion pesos would be financed from domestic sources, and about 60 billion pesos would come from foreign borrowing. Most of the 50 billion would come from the domestic banking system via the reserve requirements. As noted above, there was some doubt as to whether the increase in bank deposits would be adequate to finance this volume of credit without resorting to money creation. While the GOM will receive some funds from direct domestic borrowing, these will not be significant. Escobedo said he thought \$2.6 billion in foreign borrowing would raise 59 billion pesos. He also mentioned that the GOM-owned financial institutions might borrow 20 billion pesos externally, in addition to the public sector deficit. He said that the GOM might let private bankers handle some of this borrowing. (Note: 20 billion pesos net foreign borrowing by the GOM-owned financing intermediaries, in addition to their lending to the public sector, would put the increase in the net new GOM external debt over the \$3 billion ceiling. This may be why they would try to switch some of this borrowing to the private sector.)

Escobedo also thought the drawdowns of Fund credit were outside the \$3 billion ceiling.

The Bank of Mexico noted the Government still had a slight surplus in its account; that is, the Bank could still advance funds to the government based on the increase in domestic liabilities of the Bank. This, it was noted, was unusual this far into the year.

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Regarding expenditures, officials noted there were no plans to reduce spending below budgeted levels. They maintained that current spending would not increase in real terms whereas investment spending would increase about 4%. They maintain there will be no increase in federal employment.

Apparently the President held a series of meetings last week on economic policy and the budget, in particular. Nobody gave much information on what transpired, but Izquierdo noted that the President recognized the need to reduce consumption and increase savings. Apparently, the revenue measures were decided at these meetings as well as a decision not to reduce spending.

2. The Exchange System

Romero Kolbeck said that the Bank of Mexico was controlling foreign exchange transactions by public sector entities in order that these would not upset the market. This meant that certain purchases or sales were postponed until they could be matched.

Regarding the exchange rate, Romero said it would probably depreciate further and mentioned the figure 25:1 by year-end as a very hypothetical possibility. Solis noted that the Fund might be concerned at the lack of any significant movement in the rate since January 30.

Romero said that the BIS experts had advised against a major attempt to create a forward market until some degree of stabilization is attained. Romero did state some very limited forward transactions were taking place.

3. The Balance of Payments

Every official noted with pleasure the improvement in the current account deficit. Izquierdo said that he would be concerned over a deficit for the year below two billion dollars as this would imply a very low level of economic activity. Solis maintained manufactured exports were increasing. Izquierdo said the reintroduction of CEDIS (rebates to exporters of manufactures for indirect taxes) should be viewed as a signal that the GOM wanted to direct manufacturers' attention to export markets.

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- 4 -

Escobedo said that net oil exports in 1977 should be \$750 million, increasing to \$1.1 billion in 1978 and \$1.5 billion in 1979. (The 1976 net petroleum exports were about \$265 million).

4. Inflation and Wages

Inflation was recognized as Mexico's most urgent economic problem, with political overtones. Izquierdo noted that no important group in Mexico could live with inflation. He also said that wage pressures constituted the major inflationary pressure at the moment since aggregate demand is flat at best. All officials noted that the monthly rate of inflation had been declining, but that the year to year rate of inflation (GDP price deflator) was unlikely to be less than 30%.

May 1 Labor Day was cited as very important. Izquierdo said the slogan of the day was likely to be "Lower Prices" rather than "Higher Wages." He said the 10% ceiling on wage increases was being maintained and that he was hopeful it could be held another three to four months. Izquierdo said that the 90 basic consumption goods should be ready for distribution by May 1, and emphasized that production and distribution of these products would be important in continuing labor-acquiescence toward the 10% ceiling. Also, price increases for manufacturers' other goods would be contingent on their producing these goods. (Note: It would appear that the rate of inflation may spurt in June and/or July following the prices increase).

Solis noted that labor also opposed any depreciation in the exchange rate.

5. Presidential Speech

The President is planning to give a major economic address shortly, though no firm date is fixed. He will be emphasizing the need for austerity and sacrifice, and laying out the government's economic program in some detail, but probably not mentioning specific numbers. Izquierdo noted that this was the speech that has been in the making for three months.

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6. General Economic Situation

Izquierdo noted that demand was flat and that retailers were complaining. He presumed the economy was not growing at the moment, and said he did not anticipate a growth rate over 2% for the year. Regarding private investment, he said the larger businesses were going ahead with investment plans, but that small and medium sized firms were holding back. He noted the lack of credit and expressed some concern that this was hindering any recovery in output. Mancera said no decision had yet been made on interest rates on peso deposits. He also said liabilities of the banking system in dollars had increased as fast, or faster, than peso liabilities.

7. External Borrowing

Escobedo maintained that he did not anticipate any problems in external borrowing this year. He said they hoped to borrow \$1.8-2.0 billion from private financial markets and about \$600 million from official sources. He said the Pemex issue was well received and that Bankers Trust and Orion were underwriting a \$150-\$200 million credit for BANOBRAS. He also said the United Mexican States were going to float a 50 million 5-year bond issue in the U.S. shortly. Net borrowing to date was about \$300 million, gross about \$700 million.

Izquierdo maintained the foreign bankers were happy with what Moctezuma said at the Bankers Convention; that is, no debt renegotiation, will repay on schedule and can do so because of the oil reserves. Izquierdo maintained that bankers worried only about repayment and not the general economic situation.

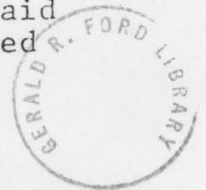
8. PEMEX/EXIM

Pemex's reluctance to move ahead with a line-of-credit from Exim was due to bureaucratic delays according to some officials. Izquierdo said he didn't know why there was a delay, but hinted at other than mere bureaucratic delays.

9. Chairman Burns Statement

Lic. Romero said that besides being critical of U.S. bank lending to LDCs, Chairman Burns had apparently made some reference to Mexico as being in serious problems. This was hurting Mexico's ability to borrow and was the subject that Romero had wanted to discuss with Burns last week.

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Mr. Solomon indicated that Dr. Burns had made a more comprehensive statement on the question of bank lending on April 12.

10. The Witteveen Letter

Izquierdo said that the President was infuriated at the reference in Witteveen's letter to a restoration of financial stability as in the 50's and 60's. Izquierdo reported the President as saying that this was impossible even for the U.S.

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Anthony M. Simon

Exempt from General Declassification

Schedule of Executive Order 11652

Exempt from

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to determine

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Attachment:

Mexico's GDP in 1976	
(billions of pesos)	1215
+ 2% real growth	24.3
+ 30% price deflator	371.8
	<hr/>
= 1977 GDP	1611.1
6% of 1977 GDP	96.7
7% of 1977 GDP	112.8

110 billion pesos equals 6% of 1833.3.

This is 50.8% greater than the 1976 GDP.

105 billion pesos is 6% of 1750, which is

44% above the 1976 GDP.

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April 14, 1977

MEMORANDUM OF CONVERSATION

Participants: Bank of Mexico

Lic. Gustavo Romero Kolbeck - Director General
Lic. Jorge Espinosa de los Reyes - Sub-Director
General

Lic. Leopoldo Solis - Sub-Director General
Lic. Francisco Suarez - Gerente

United States

Under Secretary Solomon
Llewellyn P. Pascoe, Financial Attache; Mexico City

Time and Place: 10 a.m., April 13, Bank of Mexico

Subject: Multilateral Swap Facility

Under-Secretary Solomon said he had discussed the possibility of a multilateral swap facility with Messrs. Emminger and Leutwiler and Chairman Burns, following Alfredo Phillips' call to him from Germany. He noted these officials had made several points regarding the facility. One was the size of the Mexican request. Another was the timing; that is, it could be negotiated only after the Fund Mission in May. There also should be a provision whereby a central bank could decline to participate in any drawing. Another was the possibility of some kind of a "take-out" via the "super-tranche" should it be available. Mr. Solomon also noted that Chairman Burns thought it necessary to let private banks know the conditionality aspect of the swap and what these conditions were.

Lic. Romero did not object to these points, nor did he react strongly to a figure of \$1 to 1.25 billion. Under-Secretary Solomon said this could include the elimination of the \$150 million "window-dressing" element of the ESF swap. Romero noted that the Europeans mentioned that such a facility is usually 50% U.S. money and 50% from others.

Under-Secretary Solomon asked why Mexico wanted such a facility in that they shouldn't need it if they met the Fund targets. Lic. Romero replied that it would serve a political purpose. Presently, the IMF is associated with "U.S. imperialism." A multilateral swap would spread the blame for having to meet IMF-imposed targets.

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MR 95-2, #46; Treasury ltr. 3/7/96

By UT NARA, Date 5/3/96



~~CONFIDENTIAL~~

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Under-Secretary Solomon asked whether the President might not object to the conditionality for political reasons. Lic. Romero said that when talks reached a stage where serious negotiations were possible, he would present the idea, with its political aspects, to the President for approval. At the moment, only Hacienda and the Bank of Mexico were involved. He did not anticipate a problem.

Lic. Romero called the facility "window-dressing" on several occasions which Mr. Solomon advised against. Romero said Hauge of Manufacturers Hanover had also suggested they not call it "window-dressing."

Lic. Romero then outlined his strategy. He said he wanted to discuss the idea with Canadian and Japanese officials. He said he intended to discuss the idea with the Japanese Finance Ministry in late May when he would be in Tokyo. It was agreed that Mr. Solomon would not raise the matter with the Japanese prior to Romero's talks.

Under-Secretary Solomon warned Lic. Romero that a multilateral swap might be counter-productive in that it could be viewed as a sign that Mexico's position was more serious than it otherwise appeared. He said the Mexicans should seriously consider whether or not he should carry this idea any further. Romero said the Mexicans would take this under consideration; also, that he would continue to take direct soundings with private bankers without mentioning that he had had conversations with government officials. He said he would get back to Under-Secretary Solomon subsequently.

CLASSIFIED BY *Anthony M. Solomon*
Exempt from General Declassification
Schedule 1, E.O. 11652
Exempt from automatic declassification on *5/13/77*
Automatic declassification on *indefinite*
to determine

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April 14, 1977

MEMORANDUM OF CONVERSATION

Participants: Mexico -

Jose Lopez-Portillo, President of Mexico
Lic. Gustavo Romero Kolbeck-Director General
of Bank of Mexico

United States -

Anthony M. Solomon - Under-Secretary for
Monetary Affairs, Treasury
Herbert B. Thompson, Chargé d'Affaires
Llewellyn P. Pascoe - Financial Attache



Time and Place: 12 Noon, April 13, Palacio Nacional

Subject: Courtesy Call; The Fund Program

The President said he would like U.S. financial officials to appreciate his views regarding the Fund targets. He said that he thought Mexico could attain the Fund percentage targets, but that it might be difficult to meet the 90 billion peso budget deficit. He emphasized the need for greater flexibility on the part of the Fund and perhaps some relaxation of the timing requirements.

The President noted that he would be making a speech on the economy within a few days that would call for sacrifice from everybody. He maintained that Mexico was different from the U.K. or Italy in that these countries had greater reserves than Mexico and various social welfare programs to ease the impact of stabilization measures. In the case of Mexico, belt-tightening can go only so far because there is nothing to tighten a belt against, or even a belt for Mexico's poor. He said that too strong measures could risk social unrest and turn Mexico into a fascist state like Brazil or Chile. In this connection he discussed the price of corn and how difficult it is to raise the price of tortillas.

Under-Secretary Solomon said the President sounded very similar to the Prime Minister of England and expressed the same concerns, yet England had taken effective measures and quickly improved their position. He noted that while these measures were difficult to take, they could improve the situation. A discussion ensued in which Mr. Solomon pointed out the substantive economic advantages of following the Fund recommendations particularly in the long run even though there were short-term political risks.

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MR 95-2, #46; Treasury Hr. 3/8/96

By let NARA, Date 5/3/96

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- 2 -

Mr. Solomon and the President agreed there was very little room for maneuver in any direction without serious consequences and the President remarked that he was walking a thin wire. Mr. Solomon spoke warmly of the U.S. Ambassador-Designate to Mexico based on a long personal friendship.

CLASSIFIED BY *Anthony M. Solomon*
Exempt from General Declassification
Schedule of Executive Order 11652
Exempt Code *(b) (3)*
Automatically reclassified on *impossible*
to determine

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Up-date on Mexico

External Debt

We now estimate Mexico's total external debt at the end of 1976 at about \$26 billion, about \$1 billion more than in our report of February 8, 1977, (see attached table). On the other hand, we have lowered our estimate of interest payments on the external debt during 1976, from about \$2 billion to about \$1-3/4 billion. At this level, interest payments represented 25 per cent of the gross earnings from goods and services. This is a revision from the 28 per cent figure cited in the earlier report.

The claims on Mexico reported by U.S. banks and their foreign branches at the end of 1976 totalled \$13 billion.^{1/} This is an increase of \$900 million since the end of September. In view of this increase, we now estimate that the total claims on Mexico of all G-10 banks reporting to the BIS were \$17.9 billion at the end of December, \$200 million more than previously estimated.

Current Economic and Financial Situation

The prospects for the current account of Mexico's balance of payments in 1977 look somewhat brighter now than they did two months ago. The previously known favorable factors (the economic recovery in the United States and the sluggishness of the Mexican economy) are being complemented by three new developments: (a) the rise in world coffee prices, (b) a favorable cotton harvest, and (c) the severe winter

^{1/} Including \$1,261 million in claims of branches and agencies of foreign banks operating in the U.S.



weather in the United States which made possible increased shipments of Mexican fruits and vegetables as well as of crude oil and natural gas. A new copper mine is scheduled to go into production later this year, and should make a further significant contribution. Increased production of crude oil may also raise oil export earnings to about \$800 million, up from about \$600 million in 1976.

For these reasons, the current account deficit in 1977 may be somewhat lower than the \$2-3/4 billion figure estimated in our report of February 8, 1977. This may make it possible for Mexico to get through the year with less financing than the \$3 billion which it is permitted to borrow from external sources under its agreement with the IMF. However, the authorities may choose to borrow more than is actually needed and add the rest to the Bank of Mexico's international reserves. During the first quarter, these reserves rose by about \$190 million. At the same time, external borrowings so far this year are reported to be smaller than had been anticipated.

The approach of Easter is traditionally the occasion for the Mexicans, who remember the 1954 devaluation of the peso over the Easter week-end, to transfer funds abroad in fear of another devaluation. However, this year, there has been no evidence of any significant outflow of funds. Available banking data suggest that some reflow of Mexican capital may have taken place since the Lopez Portillo administration took office last December.



On the fiscal side, it does not appear that Mexico has yet taken sufficient steps to cut down the prospective deficit of the public sector to the level specified in the agreement with the IMF. There are good reasons to believe that expenditures are lagging and that this may help ensure compliance with the IMF agreement in the short run. But, once rates of expenditures are normalized, as they eventually will be, the deficit is likely to rise above permissible levels.

Meanwhile, the upward movement of prices has slowed down somewhat. Wholesale prices rose 2.3 per cent in January and 1.7 per cent in February, after rising at an average rate of about 7 per cent per month in the previous four months. Consumer prices rose 3.2 per cent in January, 2.2 per cent in February, and 2.1 per cent in March, after rising at an average rate of 4 per cent per month in the previous four months.

One factor contributing to the slowdown in the upward movement of prices is what appears to be a restrained attitude by organized labor in collective bargaining negotiations so far this year. Recently completed negotiations have involved wage increases reported to average 8 to 10 per cent. However, organized labor may seek a reward for this restraint later on in the year: the Government has followed the practice, in the last four years, of decreeing an across-the-board wage increase in September to compensate for the effects of inflation, and it may



well be under pressure to continue the practice this year. Its decision in this respect will have an important impact on the prospects for reducing the rate of inflation in the last half of the year and in 1978.

Prepared by Yves Maroni
April 13, 1977



Mexico's External Debt
(in millions of dollars)

	<u>End of 1975</u>	<u>End of 1976</u>
Public Sector	14,449	19,600
Medium and Long Term	(11,612)	(15,923)
Short Term	(2,837)	(3,677)
Private Sector	5,551 ^{e/}	6,400 ^{e/}
Total	20,000 ^{e/}	26,000 ^{e/}
Of which, due to:		
G-10 banks	13,465	17,900 ^{e/}
U.S. banks ^{1/}	(9,895)	(13,031)
Other banks	(3,570)	(4,869) ^{e/}
U.S. and International Institutions	2,141	3,168
IBRD and IDB	(1,689)	(1,895)
IMF	-	(478)
U.S. Treasury	-	(150)
Federal Reserve	-	(150)
Eximbank	(452)	(495)
Other Governments	290	n.a.
Suppliers	459	n.a.
Other Private Creditors	1,770	n.a.
Unallocated	1,875 ^{e/}	n.a.

^{1/} Including agencies and branches of foreign banks in the United States (\$866 million in 1975 and \$1,261 million in 1976).

^{e/} Estimated.



Recent Fiscal Policy and Wage Policy Trends in Mexico

There is a sharp divergence of opinion between the IMF staff and the responsible Mexican officials about the probable magnitude of the deficit of Mexico's public sector in 1977. The Mexican officials speak of a deficit ranging from 100 to 110 billion pesos, while the lowest estimate mentioned by the IMF staff is 130 billion pesos.

A part of the discrepancy appears to reflect a conceptual difference, but there is also disagreement about the revenue and expenditure estimates. The IMF staff believes that some of the Mexican revenue estimates are overstated and that some of the economies for which the Mexicans take credit will not be fully realized. In particular, the IMF staff is unwilling to take into account measures which the Mexican have mentioned, but which they have not yet implemented. Increases in gasoline prices and, perhaps, in electricity rates are said to be in the offing, but the Mexican authorities are reported to be waiting until after the traditional Labor Day, on May 1, before announcing them, so as not to generate social unrest.

Organized labor has agreed to accept wage increases of not more than 10 percent this year on the understanding that prices would be held down. Since December, however, the consumer price index has risen nearly 8 percent. To get labor's agreement on the 10 percent wage ceiling, the Government has undertaken to secure the production and distribution of 90 basic consumption articles at controlled prices. Producers will be allowed to increase prices on the remainder of their production line only if they produce the basic products and sell them at the controlled prices.



The higher gasoline prices and electricity rates, if and when they are implemented, will of course, be reflected in the consumer price index. The Mexican authorities may be tempted to hold these increases down so as to enhance the likelihood that labor will continue to adhere to the 10 percent wage ceiling. It will be a delicate matter to reconcile this objective with the need to reduce the public sector fiscal deficit.

In recent years, real wages appear to have increased significantly in Mexico. Minimum wages, which greatly influence other wage settlements, doubled over the period January 1973-January 1976, compared to a 64 percent increase in the consumer price index in this period. This represents a 22 percent increase in minimum wages in real terms. No systematic information exists regarding contractual wages, but, apart from being influenced by the minimum wage rates, they have included, beginning in 1973, general increases recommended by a Wage Commission headed by the Secretary of Labor. These amounted to 18 percent in September 1973, 22 percent in September 1974, and 16 percent in September 1975, or an increase of 67 percent in the three-year period. The IMF staff reports that Government employee pay followed the Commission recommendations and that, according to available evidence, contractual wages in the private sector increased in all three years by at least the rates applied to Government employee pay.

Since January 1976, there has been an across the board increase of 23 percent in September 1976 and an increase in minimum wages of 10 percent on January 1, 1977. From the fourth quarter of 1975 to the fourth quarter



of 1976, contractual wages in the private sector are estimated to have increased by about 36 percent, compared to an increase of 24 percent in the consumer price index.

This record suggests that, while organized labor undoubtedly will want to preserve these gains, there is some room to reduce real wages without returning to the position of 1973. How long labor's patience will last cannot be predicted, but it is significant that another Government employee pay review will take place in September, and pressures may mount before then to apply a pay increase across the board, as last year, especially if the monthly increases in the consumer price index do not diminish markedly soon.

Prepared by Yves Maroni
April 22, 1977



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FINANCIAL INDICATORS -- MEXICO

(dollar amounts in millions)

	1975	1976				1977				Week ended				
	YEAR	QI	QII	QIII	QIV	JAN	FEB	MAR	APR 1-20	MAR 23	MAR 30	APR 6	APR 13	Apr. 20
EXCHANGE RATE (CENTS PER PESO, END OF PERIOD)	8.00	8.00	8.00	5.03	4.98	4.55	4.41	4.40	4.42	4.40	4.40	4.39	4.40	4.42
SDR VALUE OF PESO	.06842	.06924	.06985	.04364	.04297	.03960	.03833	.03802	.03809	.03807	.03802	.03797	.03794	.03809
SHORT TERM INTEREST RATE (E.O.P.)	12.94	13.11	13.11	14.36	14.36	14.36	14.36	14.36	14.36	14.36	14.36	14.36	14.36	14.36
LONG TERM INTEREST RATE (E.O.P.)	13.02	12.86	14.17	15.09	14.29	14.29	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
RESERVES (IFS, E.O.P.)	1,533	1,501	1,585	870	1,251	1,513	1,449	1,442						
AVAILABLE IMF CREDIT TRANCHES (E.O.P.)	433	620	615	621	596	596	481*	481*						
INTERVENTION, PURCHASES (+) OR SALES (-) OF DOLLARS (OF OTHER CURRENCIES, EQUIVALENT)						24.3	95.2	-102.4	10.1	2.5	-49.5	-42.4	-0.5	13.0
SWAP ACTIVITY (SWAP LINE -- 360)														
DRAWINGS	360	--	360	--	150	--	--	--	--	--	--	--	--	--
REPAYMENTS	-360				-360		-150							

*Available under three-year Extended Fund Facility program starting January 1, 1977.

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April 21, 1977
Prepared by Financial Markets
Section

April 21, 1977

	1974	1975	1976	1975 IV	1976 I	1976 II	1976 III	1976 IV	1977 I	1976 SEPT	1976 OCT	1976 NOV	1976 DEC	1977 JAN	1977 FEB	1977 MAR
REAL GDP, 1970=100	126.4	131.8	134.4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
REAL GDP, PER CENT CHANGE (1)	5.9	4.2	2.0	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
INDUSTRIAL PRODUCTION 1970=100	132.8	139.0	142.3	140.8	144.0	144.6	142.6	138.0	N.A.	138.9	141.1	138.1	134.8	N.A.	N.A.	N.A.
INDUSTRIAL PRODUCTION PER CENT CHANGE (1)	7.3	4.7	N.A.	0.8	2.2	0.4	-1.4	N.A.	N.A.	-3.3	1.6	-2.1	N.A.	N.A.	N.A.	N.A.
WHOLESALE PRICES PER CENT CHANGE (1)	22.4	10.5	22.3	2.3	5.6	3.2	5.6	21.0	N.A.	6.2	8.4	8.2	5.3	2.5	1.7	N.A.
CONSUMER PRICES PER CENT CHANGE (1)	23.8	15.0	15.8	2.0	4.4	2.6	3.2	12.5	8.7	3.4	5.6	4.5	2.5	3.2	2.2	2.1
MONEY STOCK (M1) (SA) PER CENT CHANGE (1)	20.9	22.3	22.9	5.8	3.9	4.7	5.8	13.1	N.A.	8.2	1.9	7.1	3.2	-0.4	N.A.	N.A.
PUBLIC SECTOR DEF. (-) AS PER CENT OF GDP	-7.8	-9.3	-10.2	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
CENTRAL GOVT. DEF. (-) AS PER CENT OF GDP	-3.8	-4.3	-4.7	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
EXPORTS (2) (\$ BILLION)	3.5	3.5	4.0	0.9	0.9	1.0	0.8	1.1	0.3	0.2	0.2	0.3	0.4	0.5	N.A.	N.A.
IMPORTS (\$ BILLION)	6.1	6.6	6.0	1.9	1.4	1.7	1.5	1.4	N.A.	0.4	0.4	0.4	0.6	0.3	N.A.	N.A.
TRADE BALANCE (2) (\$ BILLION)	-2.6	-3.1	-2.1	-1.0	-0.5	-0.6	-0.7	-0.3	N.A.	-0.1	-0.2	-0.1	-0.2	-0.1	N.A.	N.A.
BALANCE ON GOODS AND SERVICES (\$ BILLION)	-2.6	-3.8	-3.0	-1.1	-0.7	-0.9	-1.0	-0.5	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

(1) PER CENT CHANGE FROM PREVIOUS PERIOD. QUARTERLY CHANGES
AT QUARTERLY RATES; MONTHLY CHANGES AT MONTHLY RATES.

(2) MONTHLY DATA EXCLUDE EXPORTS OF BORDER ASSEMBLY PLANTS AND OF SILVER
AND ARE NOT CONSISTENT WITH QUARTERLY OR ANNUAL DATA.



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Board Briefing
Yves Maroni
April 8, 1977



This morning, I will report on Mexico's economic situation and in particular what we know about Mexico's compliance with the provisions of its agreement with the International Monetary Fund. Under the agreement, Mexico is required to observe, at the end of each calendar quarter, specific levels of performance regarding four monetary and financial variables, and failure to meet the specific targets on these dates would lead to an interruption in Mexico's eligibility to draw on successive tranches under the Extended Fund Facility agreement. Our best judgment is that for the year as a whole, the outlook remains discouraging, but there is a good chance that the first quarter targets may have been met largely because of short-term and technical factors.

The first performance target is that the overall deficit of the public sector in the first quarter must not exceed 25 billion pesos. On this score, it is reported that revenues are coming in at about the anticipated rates while expenditures are lagging, and that the Government has not had net recourse to the Central Bank for financing so far this year. These reports appear to be corroborated by partial data shown to us by a Mexican Ministry of Finance official who visited here last Monday. We have no independent way to verify the information on revenues, but we do have grounds to believe that expenditures are in fact lagging. We know that a sweeping government reorganization took place at the beginning of the year and that the new administration of President Lopez Portillo has been going through a shake-down period. A lag in spending,

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Federal Reserve Restrictions

MR 95-1, # 48 Fed. Res. Or. 2/13/96

By KBH NARA, Date 4/19/96

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particularly for capital investment projects, would therefore not be surprising. Moreover, for projects which are being implemented, the alternative exists of delaying the payment of bills. In fact, the Mexican official who visited us on Monday made it clear that the balance of unpaid bills was increasing. Since unpaid bills will be excluded from the calculation when judging performance, it is likely that, technically speaking at least, the fiscal deficit target for March 31 will be found to have been observed.

The second performance target is that the external borrowings of the public sector in the January-March period must not exceed \$1.2 billion. We lack data to verify compliance in this area, but two observations may be made. First, the current account of the Mexican balance of payments is likely to have continued to improve in the first quarter. This is suggested by the January trade and tourism data, and by developments affecting subsequent months, including the continuing sluggishness of the Mexican economy, the economic recovery in the United States, and such special factors as the rise in world coffee prices, a favorable cotton harvest, and the severe winter weather in the United States which made possible increased shipments of Mexican fruits and vegetables, as well as crude oil and natural gas. Secondly, the evidence from banking data suggests that some reflow of capital to Mexico has been taking place.

These two factors point toward a reduced need for external credits. In fact, reports from the Financial Attache of the U.S.

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Embassy in Mexico City indicate that Mexican external borrowings so far this year are smaller than had been anticipated. The press and other sources have reported announcements of new borrowings of about \$500 million in the first quarter. Our best judgment is that the external borrowings target for March has most probably been observed.



The third performance target is that the increase in the Bank of Mexico's net international reserves must exceed the increase in its currency issue. During the January-March 1977 period, gross international reserves rose by..... and net reserves by about We do not yet have data on the currency issue at the end of March. However, in the first two months of the year, the currency issue declined by nearly 11 per cent, owing to seasonal factors, which are to be disregarded for the purposes of this target. This decline left a large unused margin for a possible expansion in March. The currency issue would have had to have increased by more than 18 per cent from its February level to place Mexico in violation of this target at the end of March. An increase at such a rate is quite unlikely to have occurred.

The fourth performance target is that the increase in the Bank of Mexico's net domestic assets must not exceed the increase in its liabilities to banks and public sector entities. In fact, this target is the complement of the third target dealing with the relationship between the increase in net international reserves and the increase in the currency issue. It would appear that, barring some accounting

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peculiarities of which we are not aware, compliance with the third target would entail compliance with the fourth one as well.

The data needed to verify Mexican performance in the first quarter against these targets will not be available until mid-May, at the earliest, but the signs point toward Mexico being in compliance, at least technically. For the rest of the year, the prospects are more guarded, particularly because the Mexican authorities have apparently not yet taken steps to reduce the fiscal deficit for the year as a whole to the level of 90 billion pesos specified in the IMF agreement. Once expenditure rates are normalized, as they eventually will be, the deficit is likely to rise above the permissible levels.

The IMF staff believes that the Mexican revenue estimates are overstated and that the expenditure estimates are understated. As a result, they forecast a deficit of about 130 billion pesos for the entire public sector for the year as a whole, about 25 billion pesos more than the Mexican authorities presently estimate. Our Mexican visitor of last Monday said that the authorities were about to increase gasoline prices and electricity rates and he estimated that this would further reduce the deficit by 7 to 8 billion pesos, the exact amount depending on the date when these measures take effect. He added that other expenditure cuts are under active consideration.

In the final analysis, much will depend on the outcome of the economic policy debate now going on in Mexico. One group within the

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administration is advocating measures to stimulate production, relying on the eventual appearance of enlarged supplies to help fight inflation. Another group is pushing for an attack on inflation through further cuts in public spending to hold down aggregate demand. It is not yet clear which side will win this debate.



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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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April 26, 1977

TO: Chairman Burns

FROM: Ted Truman

Attached for your information are my notes on your meeting yesterday with the Mexican officials.

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E.M. Truman
April 26, 1977

Notes on Meeting with Mexican Officials

Participants: Mr. Moctezuma (Secretary of Finance), Mr. Romero Kolbeck (Director General of the Bank of Mexico), Mr. Solis (Bank of Mexico), Mr. Tello (Secretary of Programming and Budget), Mr. Diaz (Director General of Pemex), Chairman Burns, Governor Wallich, Ted Truman.

.....began the discussions by noting that on the previous
.....
visit he and.....had mentioned the need for an additional \$1 billion
in net external borrowing in 1977 over the \$3 billion ceiling in the
IMF agreement. This was needed for the development of Pemex.

.....interrupted to say that the group had met with
Mr. Witteveen on the problems that they were having following up and
executing the Extended Fund Facility agreement. He pointed to three
problems. (1) The 90 billion peso figure for the 1977 public sector
deficit agreed upon in September was no longer realistic. It was neces-
sary to start over and compute what deficit would be consistent with
a target of 6 per cent of GDP. (2) The limit on currency issue was too
tight; they needed more leeway especially to permit some seasonal
variation. (3) There was the special case of the need to borrow for
Pemex.

.....explained the program of Pemex. He said it was fixed
by two parameters: the needs of the country and the size of Mexico's
oil reserves. The reserves, based on recent geological information,
appear now to be very large. This was not realized when the discoveries
were first made in 1973. In 1975, Mr. Moctezuma had helped to begin a

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Fed. Res. Restrictions
MR 95-1, #50 Fed. Res. Ur. 2/13/96
By KBH, NARA, Date 4/19/96

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study of the matter. That study was completed in December and it indicated that Mexican proven oil reserves were 11 billion barrels. (Note: has said elsewhere that potential reserves may be on the order of 60 billion barrels. A new study, by a U.S. firm, is now under way.)

Pemex has adopted a program to raise production to 2-1/4 million barrels per day (mbd) in 1982 with exports of 1.1 mbd. For 1977 they had expected production of 955 thousand barrels per day and exports of 153 thousand barrels per day, but production was now running at 1,050 thousand barrels a day and exports at 174 thousand barrels a day. In December they had expected to be able to produce in 1977 an average of 1000 cu. ft. of gas per barrel of oil; now the figure is closer to 7000 cu. ft. per barrel. Moreover, they had made a dry gas discovery near the Texas border.

Pemex was switching to a strategy of exploiting its gas reserves along with its oil reserves. To do this an extensive 48 inch pipeline has to be built which had not been planned in December. The cost would be \$1.5 billion. U.S. firms wanted to build it just to have right of first refusal to the gas; banks were willing to finance the project.

Burns asked why the project could not be implemented.

.....and replied that the \$3 billion in net new foreign borrowing had already been earmarked for other projects.

Burns asked why adjustments could not be made to previous plans.



.....said that the public investment program was very tight for 1977 involving a reduction in real terms. Other projects would have to be cut back; this was work in progress.

Burns asked why these projects could not be stretched out.

..... said this would not solve Mexico's balance of payments problems. To solve these problems they needed exports and to provide exports production must increase.

Burns noted that this would also probably accelerate inflation.

..... responded that the addition from the Pemex project would be in the form of real imports.

..... argued that Mexico was forced to take this approach because of the nature of the geological formations. Pemex was now flaring the gas which was a crime! He noted that Mexican oil and gas production was only 40 hours from the United States compared with 40 days from Middle East sources.

Wallich asked if the entire \$1 billion was to cover added foreign exchange costs.

..... answered that the direct import content was 30 per cent.

..... said that the average for the six-year project was 30-32 per cent.

..... noted that it takes too long to get pipe from Mexico; therefore, they would import it, which would raise the import content.

Burns noted again that this would appear to accelerate economic activity.



..... argued that economic activity had been low for two years.

Burns noted that the inflation rate in Mexico was also too high.

..... noted that it was necessary to balance the short run and the long run.

Burns asked about the implications for the IMF program.

..... commented that there were ways to get around the problem. The equipment could be acquired through lend lease or the contractors might receive private financing. He noted that the price of gasoline would be raised to reduce the fiscal deficit. But that the rate of economic expansion would also increase.

..... argued that the cost of not embarking on this program was reduced exports and production.

Burns noted again that the cost could be an acceleration of inflation.

..... said that the short-run benefits could add a net of \$5-6 billion to the balance of payments over six years.

Burns asked what the impact would be in 1977. He went on to say that he was not an expert on Mexico, but he felt Mexico had gotten into trouble by trying to move too fast. Maybe this would happen again.

..... noted that this time the investment was directly related to exports, but it was true that there was a timing problem.

Wallich asked about the status of the stand-by conditions.





.....
..... said they were under the limits for the first three months.

.....said that when the IMF mission comes to Mexico next week it will be necessary to look at the entire program. The program had been based on preliminary data in September; now complete data were available.

Wallich noted that indeed the inflation rate was higher.

..... said yes the implicit IMF forecast was 18 per cent--year over year.

..... noted that the inflation rate was declining, reaching 1.5 per cent in March. (Note: This refers to Mexico City only. The national CPI rose 2.0 per cent in March.) The 1977 current account deficit would be \$2 billion or less. The Treasury had not borrowed directly from the central bank. The banking system was recuperating. Reserves had increased \$800 million since the end of December and the Federal Reserve and the Treasury had been repaid. (Note: The reported figures show a \$230 million increase through March 20 on the IMF basis and \$257 million on the Mexican basis; they have also repaid \$300 million in borrowing from the Federal Reserve and Treasury.)

Wallich asked about their borrowing plans.

..... said that in 1977 they planned to borrow \$3 billion net and \$8 billion gross, of which \$4-1/2 billion would be short term and \$1-1/2 billion would be for five years or more. (This would leave \$2 billion of medium-term borrowing. Note, however, that the earlier figure on gross borrowing was \$9 billion.) Net borrowing so far had been \$400 million and about \$900 million gross. The early period had been slow

but March was more active. (There was a passing reference to the swap proposal.) The target was to come as close as possible to \$3 billion, but it may not be needed.

Wallich noted that in that case there would be room for the new Pemex program.

Burns asked if they could raise \$3 billion.

.....said that no U.S. or European bank had reacted
.....
adversely so far. He said that they had been travelling in Europe talking with various bankers and central bankers. They had heard no doubts so far. Up to the present they have borrowed more than they need and had received advance offers of loans. Their policy was to have only one quasi-government agency in the market at one time.

At this point the visit was terminated because the group had an appointment with the Exim Bank.

