

APPENDIX

E. M. Truman
October 17, 1988

FOMC Briefing on Mexico

- I. Ten days ago Secretary Brady and Chairman Greenspan were called by senior Mexican officials who asked for an urgent meeting.
 - A. The meeting was provoked by the decline in the oil prices and a concern that exchange market pressures would accelerate in the period prior to the inauguration of President-elect Salinas on December 1.
 - B. The Chairman and the Secretary met with the Mexicans for most of the day last Sunday.
 1. The Mexicans said
 2. Their request was turned aside. It was agreed that the Mexicans would return to Mexico and sharpen their economic policy plans while the U.S. authorities thought about the proposed bridge loan.
- II. On Friday, discussions resumed in Washington and continued until 9:00 p.m. last night when agreement was reached on the following approach:
 - A. The Mexican authorities agreed to take immediate policy steps in four areas. (These steps were announced by President de la Madrid late Saturday night.)
 1. The 1988 budget will be cut by \$260 million (about .7 of GDP annualized) to offset about half of revenue

loss from the lower oil prices and to enable the government to meet its fiscal target for the year.

2. The privatization program will be accelerated and about 50 enterprises are to be sold in October and November for about \$350 million excluding the proceeds from the sale of the copper company.
3. Monetary policy is to be tightened.

(a) After further discussion yesterday, the tightening was defined in terms of progressively raising interest rates,

(b) Mexico lost about in reserves in the first week in October and about last week.

4. Mexico will immediately seek about \$600 million in compensatory financing from the IMF.

THE MATERIAL IN SECTION B BELOW IS HIGHLY CONFIDENTIAL

- B. The Mexican authorities also agreed that if the loss of reserves continues at the recent rate and liquid reserves decline

- C. In response, the Treasury and Federal Reserve (assuming the FOMC has no objection) have agreed to "develop a short-term bridge loan of up to \$3.5 billion."

D. Finally, last night the Mexican Economic Solidarity Pact was extended through December (the first month of the new administration) and President-elect Salinas made a speech outlining the economic policies of his new government. They involve continuation of the process of fiscal restructuring and the process of opening up the Mexican economy externally and internally.

III. The outline of the bridge arrangement would be as follows:

- A. \$1 billion could involve a potential "window-dressing" operation divided 70/30 between the Federal Reserve and ESF — in proportion to the existing swap arrangements.
- B. \$200 million could involve an advance payment on SPR oil purchases.
- C. Up to the remaining \$2.3 billion could involve the Federal Reserve and ESF on a 50/50 basis bridging through a special swap arrangement to (1) \$1.5 billion in World Bank loans,
(2) \$0.6 in IMF compensatory financing, and
(3) drawings on any IMF standby arrangement.
- D. None of the drawings on the special swap would be made until the arrangements of the loans to be bridged have been computed.

IV. The proposed press release reads as follows; see attachment.

V. In effect, the proposed arrangements involve promising the Mexican government some bridge financing

- VI. What we are seeking is an expression of the FOMC's non-objection to the press release and in effect authorization to enter into the negotiation of the terms of the special bridge loan.
- VII. I'd be glad to try to answer any questions.

FEDERAL RESERVE press release



For immediate release

October 17, 1988

The U.S. Treasury Department and Federal Reserve welcome the economic measures recently announced by the Government of Mexico. The U.S. financial authorities believe that these measures build upon the progress already achieved in the sustained adjustment effort undergone by the Mexican economy. Mexico's adjustment record, particularly the process of fiscal consolidation and the structural transformation of its external sector, has established the basic conditions for the renewal of sustained economic growth.

In the context of normal consultations between countries with close economic relations, U.S. and Mexican authorities have agreed that Mexico's strengthened economic policies merit support. Accordingly, the U. S. Treasury and Federal Reserve are prepared to develop a short-term bridge loan of up to \$3.5 billion, depending on the development of loan programs by Mexico with the World Bank and the International Monetary Fund.