



FROM: J O KERR ✓  
 DATE: 9 September 1982

SIR KENNETH COUZENS

cc Mr Littler  
 Mr Carey  
 Mr Lavelle  
 Mr Peretz  
 Mr Scholar - No. 10  
 Mr Fall - FCO  
 Mr Hatfield - Cabinet Off.  
 Mr Allen - Bank  
 HM Ambassador - Mexico  
 City

MEETING WITH MEXICAN FINANCE MINISTER

It may be helpful to supplement the references in the telegram I sent from Toronto with a further short account of the conversation which the Chancellor and the Governor had with Mr Silva Herzog at 12.45 on 7 September.

2. Mr Silva Herzog told the Chancellor that he was very grateful for the helpful attitude which the UK authorities were showing in Mexico's current crisis. The Mexican delegation in Toronto had been in daily contact with the Governor.

3. Mr Silva Herzog said that his own position was very difficult. The actions which his Government had taken, and the messages it had sent, over the preceding week were, to put it mildly, quite inconsistent with agreement with the IMF on support, and an adjustment programme. On his return to Mexico City he would - preferably on 9 September - seek to establish a "clear political definition". If President Lopez Portillo agreed with him that an IMF programme was urgent and unavoidable, he would be in speedy contact with BIS, with the Fed, and with the Bank of England, and he would probably wish to ask for the second tranche of BIS support, in order to deal with the urgent liquidity problem. Negotiations with the Fund on necessary adjustment policies could be brought to an early conclusion. On the other hand, the President might feel that such policies were no longer politically feasible.





Nationalisation of the banks was perhaps a pointer in this direction. If so, Mexico would within a very few days have insufficient liquidity to service outstanding debt, and the situation would become critical. Mr Silva Herzog made it plain that he would argue very strongly in favour of the former course. He described nationalisation of the banks as inconsistent with the course of action which he was recommending, and accepted that it had created a major credibility problem for him.

4. The Chancellor said that there certainly was considerable inconsistency between the account of the Mexican Government's policies which the then Ambassador in London had given him on 27 August, and subsequent events. He understood that the Ambassador had since been recalled, in order to run a nationalised bank. The Chancellor also stressed the importance, in the current delicate situation, of the Mexican Government taking full account of the views of the Fund and the international financial community. Both had so far been cooperative. Mr Silva Herzog agreed: it was Mexico's own fault that the crisis was deepening.

5. The Governor wondered whether Mr Silva Herzog would welcome a message from the Prime Minister to President Lopez Portillo. Mr Silva Herzog thought that this would not be advisable at the present juncture.

J O KERR

