

SECRET



10 DOWNING STREET

From the Principal Private Secretary

9 September 1982

Dear John,

MEXICO

The Chancellor of the Exchequer and the Governor of the Bank of England called on the Prime Minister today so that the Governor could report on the latest developments over Mexico.

The Governor said that Finance Minister Herzog had returned to Mexico taking back an outline of the actions which would need to accompany an IMF loan, but not a draft letter of intent. Finance Minister Herzog's intention was to undertake "a definition of political interests" in the next day or two and then to return for further talks. The attitude that President Portillo would take towards the measures which the IMF would require Mexico to take was very uncertain: there were pressures working on him from opposite directions, and it was unclear which way he would move in the remaining period of his Presidency.

In the meantime, the Governor said that arrangements had been made by which the first tranches of the \$300 million loans from the BIS and the Fed would be released *pari passu* on the basis of the Fed's judgement of need. The Advisory Group was holding together 1,100 banks with medium and long-term loans to Mexico on the three-month delay in the repayment of capital. There were still uncertainties in the money market, where the risk was that lenders would be unwilling to renew money market loans to Mexican banks and agencies. The situation was being held for the time being but needed to be carefully watched: many of the banks involved would be the same as those with longer-term loans.

Minister

The Governor said that following Finance/Herzog's consultations in Mexico decisions would have to be taken on the release of the second and third tranches of the BIS and Fed loans. If there were any signs that President Portillo was moving towards renunciation, it might be necessary to consider intervention at Head of Government level. But the best course might be to play the negotiations long, with the aim of holding the situation until the new Administration had more influence on events.

/ The Prime Minister

SECRET

SECRET

- 2 -

The Prime Minister was grateful for this Report and asked the Governor to keep her closely in touch with developments.

I am copying this letter to Tim Allen (Governor's Office).

F. E. R. BUTLER

John Kerr, Esq.,
H.M. Treasury.

SECRET