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FM UKDEL IMF/IBRD WASHINGTON 202106Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 221 OF 20 OCTOBER 1982

INFO MEXICO CITY

IMF: MEXICO

1. I ASKED THE MANAGING DIRECTOR TODAY WHETHER HE COULD ARRANGE A FURTHER INFORMAL MEETING TO BRING EXECUTIVE DIRECTORS UP TO DATE ON THE DISCUSSIONS WITH MEXICO. HE SAID THAT HE HAD INTENDED TO DO THIS, BUT THAT IT HAD BEEN DIFFICULT BECAUSE THE SITUATION HAD BEEN CHANGING ALL THE TIME.

2. THE MANAGING DIRECTOR TOLD ME THAT BEZA (HEAD OF STAFF MISSION) HAD RETURNED TO WASHINGTON YESTERDAY AND HAD REPORTED THAT THE TALKS HAD BEEN VERY DIFFICULT AND SLOW, BUT THERE HAD BEEN SOME CHANGE IN THE CLIMATE DURING THE LAST THREE WEEKS. THERE WERE THREE MAIN ACTORS ON THE MEXICAN SIDE: SILVA HERZOG, TELLO, AND SALINAS (THE REPRESENTATIVE OF THE PRESIDENT-ELECT). SILVA HERZOG WAS ORTHODOX, BUT HIS CREDIBILITY HAD BEEN UNDERMINED BY THE MEASURES TAKEN BY TELLO IN HIS ABSENCE DURING THE TORONTO MEETING. TELLO WAS UNORTHODOX AND WANTED TO PURSUE MEASURES SUCH AS REDUCTIONS IN INTEREST RATES, ETC. SALINAS APPEARED BASICALLY ORTHODOX, BUT DID NOT WANT TOO MUCH OF THE ADJUSTMENT TO TAKE PLACE IN THE FIRST YEAR OF THE PROGRAM, SINCE THIS MIGHT UNDERMINE THE CREDIBILITY OF DE LA MADRID. DURING THE COURSE OF DISCUSSIONS WITH THE STAFF MISSION, TELLO'S POSITION HAD WEAKENED BECAUSE HIS MEASURES WERE CLEARLY NOT HAVING THE DESIRED EFFECT. THE REDUCED INTEREST RATES WERE NOT BRINGING IN ANY SAVINGS, AND EXPORTERS WERE NOT SURRENDERING ANY FOREIGN EXCHANGE.

2. THE LETTER OF INTENT HAD STARTED WITH A DRAFT BY TELLO WHICH WAS REGARDED BY BEZA AS TOTALLY UNACCEPTABLE. IT HAD TAKEN SEVERAL ALL-NIGHT SESSIONS BETWEEN BEZA AND THE 3 MEXICANS TO GET IT INTO A GENERAL SHAPE WHICH THE FUND MIGHT ACCEPT. IT SEEMED LIKELY THAT THERE WOULD NEED TO BE TWO LETTERS: ONE PUBLIC LETTER AND A SEPARATE CONFIDENTIAL MEMORANDUM. BUT THERE WAS STILL NO AGREEMENT ON THE KEY FIGURES FOR THE AMOUNT OF THE ADJUSTMENT AND ON THE MAIN SUPPORTING MEASURES. THIS WAS PARTLY BECAUSE OF THE POWER GAME GOING ON BETWEEN DE LA MADRID AND LOPEZ PORTILLO. DE LA MADRID WANTED THE LETTER SIGNED BEFORE DECEMBER 1 SO AS TO GET LOPEZ PORTILLO TO SHARE RESPONSIBILITY FOR IT. ONCE THE DISCUSSION TURNED TO SPECIFIC MEASURES LOPEZ PORTILLO WAS, HOWEVER, UNWILLING TO PUT HIS NAME TO MEASURES WHICH WOULD NEED TO BE INCLUDED IN DE LA MADRID'S BUDGET ON DECEMBER 15. THE MEXICANS WOULD THEREFORE LIKE AN ARRANGEMENT UNDER WHICH THEY COULD DRAW THE FIRST INSTALMENT ON THE BASIS OF A BROAD STATEMENT OF OBJECTIVES, FOLLOWED BY A REVIEW IN JANUARY. THE MANAGING DIRECTOR

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DID NOT THINK THAT THIS WOULD HELP CONFIDENCE AND RESTORE CAPITAL INFLOWS. THE FIRST INSTALMENT WOULD ALSO BE A CONSIDERABLE SUM. HE WAS THEREFORE INSISTING ON PRIOR AGREEMENT ON THE MAIN MEASURES AND ON THE AMOUNT OF THE ADJUSTMENT IN THE FIRST YEAR. HE ASKED IF I AGREED. I SAID THAT I DID: THE MEXICAN PROPOSAL WOULD REPRESENT AN UNFORTUNATE PRECEDENT WHICH COULD BE PRAYED IN AID BY MANY OTHER COUNTRIES.

3. THE MANAGING DIRECTOR SAID THAT THE 3 MEXICANS WOULD BE COMING TO WASHINGTON FOR FURTHER TALKS ON FRIDAY OF THIS WEEK. HE WOULD TRY TO ARRANGE AN INFORMAL MEETING OF DIRECTORS AFTER THAT.

4. FCO PLEASE ADVANCE TO LAVELLE (TREASURY), GILCHRIST (BANK OF ENGLAND), APPEYARD (ERD).

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