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THE SECRETARY OF THE TREASURY
WASHINGTON 20220

SEP 20 1976



MEMORANDUM FOR THE PRESIDENT

Subject: Financial Arrangements with Mexico

SUMMARY

The Treasury and the Federal Reserve are today announcing new arrangements which will make up to \$600 million in additional funds available to the Government of Mexico to counter disorderly market conditions. These funds are being made available on an interim basis to cover possible Mexican needs until credit can be disbursed by the International Monetary Fund (IMF). The necessary groundwork has been laid with the IMF management to enable Mexico to obtain future support from the IMF. I believe the arrangements we have concluded will have important psychological benefits in helping to calm the market situation in Mexico. They will also serve as a demonstration of continued U.S. political interest in Mexico. At the same time, the security of our funds is assured by the agreement of the Government of Mexico to repay any drawings under these arrangements within 10 days of the receipt of funds from the IMF.

BACKGROUND

The actions we have taken implement the steps outlined for you in my memorandum of August 24. The Mexican Government has abandoned its unrealistic exchange rate and is introducing a number of major changes in its economic policies. It has had a series of intensive discussions with the staff of the International Monetary Fund and the Managing Director has today written the Mexican Finance Minister stating that in his view the Mexican program is sound and adequate to overcome Mexico's balance of payments problem within a reasonable period and that the program will enable

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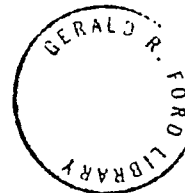
Mexico to re-establish a stable economy over the long run. The IMF will now proceed to formal consideration of Mexico's request for credit arrangements which could eventually make up to about \$1.2 billion available over a period of approximately three years.

It may be several weeks, however, before the first portion of the IMF money available to Mexican authorities under its existing rights to borrow funds from the IMF will be disbursed. In the meantime, the Mexicans needed assurance that funds would be available to deal with possible disorderly market conditions. A new \$365 million U.S. facility will meet that need. Under the \$365 million agreement, drawing facilities will be available for a period of up to three months or until Mexico is authorized to draw from the IMF an amount of currencies approximately equal to the \$365 million level, whichever occurs first.

In addition to the \$365 million facility, we have established a separate \$235 million facility which will be tied to additional credits to be provided by the IMF during 1977. Mexico's eligibility to obtain additional resources from the IMF will depend on IMF management judgments about the actual performance of Mexico's stabilization program over the medium term. Once official IMF approval is given, the \$235 million will enable Mexico to draw money from the United States in advance of its actual receipts from the IMF.

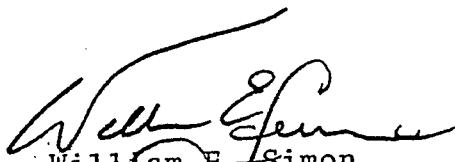
Under both agreements we have included provisions which protect the security of U.S. funds. Under each agreement, when the IMF funds are disbursed under the corresponding IMF credit program, any drawings from the United States facility will be repaid within ten days. In addition, as Mexico draws from the IMF facilities, the amount available under our respective facility agreements will be reduced accordingly.

Our long-standing, but unutilized, stabilization agreement with the Mexicans remains in effect, although we have shortened up the terms on which they can borrow. That agreement allows the Mexicans to draw a total of \$300 million, \$150 million of which can be used directly by the Mexican government and another \$150 million which must be deposited in the United States. In addition, the



Mexicans have a swap arrangement of \$360 million with the Federal Reserve System, the full amount of which was drawn in July of this year. At the option of Mexico, they may repay up to \$180 million of this swap in advance, in which case the Federal Reserve will participate up to that amount in the \$365 million facility announced today. If the Federal Reserve does not participate in this new arrangement, the full amount of any Mexican drawing will be provided by the Exchange Stabilization Fund.

The Mexican government has embarked on a difficult undertaking. Over the next two years they need to implement significant internal economic adjustments. The necessary adjustments will not be easy, and there will be individuals and sectors of the Mexican economy who will be hurt in the process. Thus, the government will be under severe internal political pressures. By providing the Mexican government with these borrowing facilities to enable them to deal with disorderly exchange market conditions, we hopefully have reduced a potential source of external instability.


William H. Simon

