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Last week the New York-based committee of 15 US and foreign banks showed little enthusiasm for a new plan by the Mexican government to reduce and restructure its $54.5 billion in debt owed to foreign commercial banks. One unidentified banker told the New York Times that Mexico City had moved only "infinitesimally" from its original position. The banker said the committee was not willing to move ahead with another counteroffer unless Mexico offered more compromises. He blamed the Bush administration for raising expectations too high when Treasury Secretary Nicholas F. Brady made debt reduction a principal element in his proposal for reducing the Third World's $1.3 trillion foreign debt. Mexico's original plan presented in April was aimed at reducing its net capital outflow from about 6% of annual gross domestic product to 2%, via several schemes that would reduce its total foreign debt by between $24 billion and $27 billion. The plan requested a 55% discount on principal of existing loans, and a fixed interest rate on the reduced-principal loans of about 4%. The original proposal also included $4 billion to $4.5 billion in new loans over the next six years, and debt restructuring packages covering several years. The bank committee insisted that Mexico's economic assumptions, including projected oil prices, were too pessimistic. Consequently, it was argued, the country did not need as much cash nor the amount of debt reduction requested. The banks' counteroffer did not come close to Mexico's requests. The committee offered about $1 billion in debt reduction a year. The fixed interest on existing loans suggested by the banks was 8% from about 11% Mexico is currently paying. Next, the bankers proposed a 22% discount on principal of existing loans, a number that was confirmed by Citicorp chairperson John Reed, according to a June 1 report by a French newspaper. The advisory committee offer also included options for new loans to Mexico and proposals to attract new loans, including special lending facilities that would allow commercial banks to use some of the money to finance trade loans and to make investments in Mexican companies. The bankers proposed that some of the new loans be co-financed by the World Bank, which would provide added protection for the banks in the event of default. This arrangement would mean that a default on a bank loan would also result in default on a World Bank loan, making it improbable that Mexico would choose this option. Mexico delivered a second proposal on June 1. This offer included a reduced discount on principal of old loans to around 50%. The fixed interest rate on such loans was raised to about 5%. June 5: In statements to reporters in Madrid, Citibank president Reed said that banks on Mexico's advisory committee wish to rapidly conclude negotiations on foreign debt reduction so that the country can soon return to voluntary capital markets. According to Reed, instead of large sums of money, Mexico needs a psychological push to dilute the feeling some Mexicans have of living in crisis conditions. Only such a psychological change, he added, will provide the necessary inducement for the return of flight capital. Reed said that Mexico's major economic problems are how to reduce its enormous domestic debt, and the means to attract the return of flight capital. On June 7, the 15 bank chairpersons on the advisory committee, IMF director Michel Camdessus, World bank president Barber Conable, Mexican Finance Secretary Pedro Aspe, and Inter-American Development Bank director Enrique Iglesias, will meet in Madrid. Reed said there would be no accord on Mexico's debt at the meeting on

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Wednesday. The banks' major objective in the encounter is to obtain answers from the multilateral organizations regarding their need for sufficient financial guarantees. In contrast to statements four days ago, Reed hinted that the banks may be willing to accept a 35% discount on principal of existing debt. Commercial bankers have openly expressed skepticism regarding the Baker Plan. For instance, they have asserted that the $20 billion set aside by the IMF and the World Bank for debt reduction schemes US strategy to reduce Third World nations' foreign debt are inadequate to the task. An unidentified banker in Madrid told Notimex that the bank advisory committee intends to reject Mexico's proposals for debt reduction toward creating a crisis that would obligate the US to guarantee all of that country's debt. He said, "Several of them (banks on the committee) have this intention, and frankly, I believe that if the US government guarantees all of Mexico's debt we will be in a more comfortable situation." The banker, who requested anonymity, said that Mexicans "are dreaming" if they believe commercial banks are going to accept a 50% discount on principal on existing debt. According to some analysts, the banks' tendency to "say no" to Mexico's debt reduction proposals, derives from threats by Treasury Secretary Nicholas Brady directed at commercial banks. The banks have been advised by IMF director Michel Camdessus and others that if they do not cooperate with the Brady Plan originally conceived as "voluntary" elements of the plan pertaining to the banks could be converted in law. (Basic data from Notimex, 06/02/89, 06/03/89, 06/05/89; New York Times, 06/03/89)

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