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Brief Chronology Of Mexico's Debt Reduction Negotiations

by John Neagle

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Dec. 1, 1988: Carlos Salinas de Gortari is inaugurated president of Mexico, and announces strategy for renegotiation of foreign debt: reduction of principal and interest rates, new financing to create jobs, and capitalization of interest to promote economic recovery. The objectives of Salinas' strategies are a multi-year restructuring agreement, and reduction of Mexico's net resource transfer to the exterior from 6% to 2% of GDP. Dec. 2: Finance Secretary Pedro Aspe commences a "diagnostic" tour of G-7 nations to discuss Third World foreign debt problem. Jan. 11, 1989: Commercial banks pledge to oppose any measures obligating them to pardon debt. Jan. 14: The New York Times reports that in the last 10 years, Mexico has paid a total $117.973 billion in interest and principal to commercial bank creditors. Mexico's total foreign debt according to government statistics is $101 billion. Jan. 22: Shearson Lehman Hutton reports that Mexico's debt is valued at 38 cents per dollar of face value on secondary debt markets. Secretary Aspe begins another tour of G-7 nations to present Mexico City's proposal for resolving the debt crisis. Feb. 13: President Bush declares that Washington desires a cooperative relationship with Mexico on the debt question. Feb. 27: Finance Undersecretary Guillermo Ortiz tells Wall Street Journal that Mexico seeks to reduce net capital transfer to the exterior by $7 billion per year. Street violence breaks out in Venezuela after President Carlos Andres Perez implements new austerity measures. March 6: US Treasury Department announces that it is preparing a debt relief plan for Mexico. March 7: The Washington Post reports on imminent announcement of Brady Plan to reduce Third World foreign debt burden. March 10: US Treasury Secretary Nicholas Brady announces debt reduction plan, consisting of "ideas and recommendations" only. The plan calls on banks to reduce debt principal and interest rates, and to provide new loans to debtor nations. March 12: In Washington, officials announce that Mexico would be the first beneficiary of the Brady Plan. March 15: The Brady Plan can reduce Third World's total foreign debt by only 20%, according to US Assistant Treasury Secretary, David Mulford. March 22: Mexico City informs US government that if it does not obtain substantial debt reduction, Mexico will be forced to declare a moratorium on debt repayment. April 1: G-7 nations announce qualified endorsement of Brady Plan. April 2: During spring meetings of the International Monetary Fund and the World Bank, both announce support for the US debt initiative. April 11: Mexico signs letter of intent with IMF consisting of macroeconomic policy objectives for the next six years, and a request for a $3.6 billion loan. April 19: Mexico initiates negotiations with commercial bank creditors in New York. April 21: Mexico and bank creditors reach agreement on postponing principal and interest payments scheduled for 1989. May 1: Media reports announce that Mexico requests a 55% discount on face value, applicable to $54 billion of private bank debt; a fixed 4% interest rate on commercial bank debt; and, new loans totaling $4.5 billion per year for the next five years. May 5: Banks present first counteroffer: 15% principal reduction; $1 billion in new loans per year; and, fixed interest rate of 8%. Mexican demands are described as "excessive." May 17: Mexico announces $1.96 billion loan agreement with World Bank. May 22: Mexican negotiators describe bank counteroffer as "unacceptable." May 26: The IMF announces approval of Mexico's letter of intent and authorizes $4 billion credit to be disbursed over three-year period. Commercial banks announce second counteroffer: 22% discount on principal. Mexican government rejects offer. May 27: IMF director Michel Camdessus and US Treasury Secretary Nicholas Brady deliver veiled threats.

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