

10-9-1996

Mexico Reaches Accord with IMF to Negotiate New Credit for Future Emergencies

LADB Staff

Follow this and additional works at: <https://digitalrepository.unm.edu/sourcemex>

Recommended Citation

LADB Staff. "Mexico Reaches Accord with IMF to Negotiate New Credit for Future Emergencies." (1996).
<https://digitalrepository.unm.edu/sourcemex/3642>

This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in SourceMex by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.

Mexico Reaches Accord with IMF to Negotiate New Credit for Future Emergencies

by LADB Staff

Category/Department: Mexico

Published: 1996-10-09

In early October, President Ernesto Zedillo's administration reached an agreement with the International Monetary Fund (IMF) to begin negotiations on a three-year credit line for use in an economic emergency. In a statement at the closing of the annual IMF and World Bank meeting in Washington, DC, IMF director Michel Camdessus confirmed that Mexico and the IMF had agreed to negotiate a three-year credit package, but the amount of the loan had not been determined.

According to IMF sources, the credit line under negotiation would ensure that Mexico has access to adequate funds to pay off short- and medium-term obligations in case of a financial crisis. Camdessus said the amount of money the IMF will make available to Mexico will be determined after a review of the Mexican government's economic blueprint for the next year, including fiscal policies, investment plans, domestic savings programs, and other relevant matters. "We're going to begin preparing a three-year program that will continue what we've done successfully during the last 15 months," said Camdessus. According to Mexican journalists covering the IMF-World Bank meeting, Finance Secretary Guillermo Ortiz was bothered by a suggestion that the IMF might have determined Mexico's economic policy.

However, Ortiz did not make any public statements on this matter. "The secretary had every reason (to be upset)," Camdessus told reporters, when informed of Ortiz's reaction. Camdessus said the IMF has no intention of interfering with or dictating the economic policies of any country. In press statements at the IMF meetings, Ortiz focused on details of the loan currently under negotiation. The secretary emphasized that the main purpose of the IMF loan would be to support the Mexican government's plans to increase payments on debt maturing in 1998 and 1999, even though Mexico would have access to the IMF funds at the beginning of 1997. The Mexican government has a total of US\$10 billion in outstanding obligations for 1998 and 1999.

Ortiz reiterated that the Mexican government will only draw on the IMF credit line if conditions on international capital markets deteriorate and it becomes more difficult for the government to seek loans with longer terms and at lower interest rates. In 1995, the IMF provided an unprecedented US \$17.8 billion loan to Mexico, as part of an international package to rescue the country from the threat of financial insolvency (see SourceMex, 02/22/95). In 1996, Mexico has repaid US\$1 billion from that loan to the IMF, and is scheduled to make payments totaling US\$800 million in 1997. Ortiz said the Mexican government will continue to seek opportunities to refinance current debt through the issue of new obligations on international markets. The new debt, which totals US\$14 billion in 1996 alone, carries longer maturity periods than obligations that matured in recent months.

In late July, the Mexican government announced an early repayment of US\$7 billion to the US Treasury, along with the US\$1 billion from the IMF, for the loans obtained to help bail out the Mexican economy after the devaluation of the peso in late 1994. The Zedillo administration raised

the funds to make this payment through the issue of 30-year dollar-denominated bonds (see SourceMex, 04/24/96 and 07/31/96). Similarly, Mexico's US\$1 billion payment to the IMF will be derived from 10-year Samurai bonds issued on the Japanese market in mid-May (see SourceMex, 03/20/96). "If market conditions allow, next year we will continue to refinance our foreign debt in this manner," Ortiz told reporters.

The US\$14 billion does not include the Mexican government's new issue of Eurobonds announced in early October. According to sources in the Frankfurt financial market, where the bonds were offered, the Mexican issue totals about 500 million German marks (about US\$328 million). These Eurobonds mature in September of 2004, although investors would be allowed to redeem the obligations three years earlier in the year 2001. (Sources: Agence France-Presse, 10/02/96; La Jornada, El Financiero, 10/03/96; El Universal, The News, 10/04/96; Associated Press-Dow Jones, 10/07/96; Excelsior, 10/03/96, 10/05/96, 10/08/96; El Economista, 10/08/96)

-- End --