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Mexico's Debt Reduction Agreement With Foreign Commercial Banks: Update On Developments

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Nov. 9: Press reports in Mexico City said Japan was about to lend Mexico $2.05 billion of the $7 billion needed for "guarantees" to foreign commercial banks under a debt reduction agreement concluded in July. The agreement covers $52.7 billion in medium- and long-term debt. Mexico and a committee representing the banks agreed on three options: reducing principal by 35%, cutting interest rates to a fixed 6.25% from around 10% at present, and new loans at favorable interest rates. Finance Ministry official Luis Tellez said 80% of the banks were leaning toward the first two options. According to unidentified international banking sources cited by Notimex, Mexico has pledges of $3.7 billion in new loans thus far from commercial creditor banks. Of the more than 500 foreign bank creditors, Mexico has received replies from slightly more than half. The British business newspaper Financial Times asserted that Mexico failed in its attempt to persuade commercial banks to offer new loans. The Times said that bankers are almost certain that new loans will not surpass over 10% of the $52.7 billion in debt covered by the July agreement. The Times stated that if Mexico cannot obtain more than 10% from the creditor banks, resources to support the bonds will be inadequate. Nov. 10: As of today, bank creditors accounting for $26 billion of the $52.7 billion have informed the Mexican government of their option preferences. Nov. 13: Notimex reported formalizing of four loan agreements for a total $1.9 billion between the government and Japan's Export-Import Bank. Three loans totaling $900 million will be disbursed in a co-financing package with the World Bank. A $1 billion loan is linked to financing with the International Monetary Fund. A communique by the bank in Tokyo said the $1 billion loan is the first approved by Japan under the US debt reduction strategy known as the "Brady Plan," and is to be applied in support of medium-term adjustment plans contained in Mexico's agreements with the IMF. The communique said the other three loans are dedicated to structural adjustments in the nation's industrial, finance and public sectors. Agreements for three smaller loans were formalized in Tokyo on Nov. 9, while the $1 billion loan agreement was completed Nov. 13 during Finance Minister Pedro Aspe's visit in Nagoya. In its Nov. 13 issue, the New York Times cited unidentified bankers who estimate that Mexico will receive no more than $4.5 billion in new money over a four-year period, or half what government officials had hopes for when the agreement was signed in July. Originally, the package had been intended to provide $2 billion to $3 billion a year in new loans. Citibank is reportedly the only creditor bank thus far which has chosen a 100% new credit option. Most Japanese banks have apparently opted for principal reduction. Both Bank of America and the Swiss Bank Corp. have chosen a combination of debt reduction and new loans. In the original proposal $7 billion for guarantees or enhancements are to come from the IMF, the World Bank, Japan and Mexico. The money would be applied to 18-month rolling guarantees on the interest reduction bonds needed to guarantee the remaining principal on the debt reduction bonds. The original assumption was that banks would choose interest rate reduction on 60% of the existing loans, principal reduction on 20% and new loans on 20%. It appears that new loans constitute less than 10% of the total already accounted for in replies by slightly over half of the banks. Banking sources consulted by Notimex in New York disagreed with the assessment appearing in the New York Times. An unidentified
bank executive who has participated in the renegotiation process said that the banks are aware of the unattractive alternatives to the Baker Plan strategy: debt service moratoriums or payment suspensions. Nov. 15: At a session of the Chamber of Deputies, Finance Minister Aspe said the government hopes to reduce its foreign debt by at least $8 billion in 1990, result of the agreement with commercial banks. As of Wednesday, said Aspe, 223 banks had decided on options under the plan, accounting for $31 billion of loans covered by the agreement. The minister said 50% of the 223 had selected the principal reduction option. Of the $7 billion in financing for "guarantees," Aspe said $1.296 billion would be provided by the Mexican government. (Basic data from Notimex, 11/09/89, 11/10/89, 11/13/89, 11/15/89; AFP, 11/09/89; New York Times, 11/13/89)