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Mexico: Formal Completion Of Debt Reduction Agreement With Foreign Commercial Creditor Banks

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On Feb. 4, Mexican government officials and representatives of major commercial creditors signed an agreement to reschedule repayments on $48.5 billion. Finance Minister Pedro Aspe said the pact would mean an immediate reduction of nearly $20 billion in the total foreign debt, estimated at $93 billion at year-end 1989 compared to almost $100 billion at the end of 1988. US Treasury Secretary Nicholas Brady and International Monetary Fund managing director Michel Camdessus participated in the ceremony. The agreement was signed by representatives of 15 banks which comprise the advisory committee of creditor banks. Aspe recalled that the agreement with commercial banks followed agreements last year with the IMF for a $4.135 billion loan and with the World Bank for a $1.96 billion loan. At the same time, creditor governments in the Club of Paris agreed to a $2.6 billion debt restructuring, and pledged $2 billion in new loans to finance imports. Brady said some $42 billion which would have become due in the next 30 years were being taken "from the shoulders" of the Mexican people. * The three options available to creditors were 1) 35% reduction of principal on outstanding loans; 2) lower the interest rate on loans to a fixed 6.25% per year; and, 3) new monies equal to 25% of outstanding loans. According to the Finance Ministry, 41% of the banks chose first option; 47% the second, and 12%, the latter. Principal reduction accounts for $20 billion of the renegotiated debt, interest reductions for $22.5 billion and new loans on $6 billion. * According to government sources, Mexico will save about $1.7 billion per year in interest payments. * On Feb. 5, the Finance Ministry released a report on net capital transfer to the exterior as a proportion of GDP: 1983/88, 6.25%; 1989, 4.4%; 1990, 2.0%; 1991, 2.1%; 1992, 2.3%; 1993, 2.1%; and, 1994, 2.0%. The Ministry reported that the average annual interest savings between 1990 and 1994, will be $1.629 billion. Next, under the restructuring agreement, Mexico will receive $1.44 billion in new loans between 1990 and 1992. Principal savings were put at $6.82 billion. The net transfer of resources to the exterior in the 1990-1994 period averages $4.07 billion per year. Indirect benefits, said the Ministry statement, include: increased domestic savings; reduction in real domestic interest rates; investment growth; repatriation of flight capital; and, strengthening of business confidence. * On Feb. 2, Jose Angel Gurria, deputy finance minister for international affairs, told reporters that the long-term impact of the agreement "would mean that Mexico has only an $80 billion foreign debt," rather than the current $93 billion. Gurria estimated the agreement will allow Mexico to reduce its annual repayments by $3 billion in 1990. * Banks selecting the principal and interest reductions receive Mexican government bonds for the remaining debt. The bonds are backed by US Treasury zero-coupon bonds and the first 18 months of interest on them is guaranteed by a $7 billion package of multilateral credits and Mexican funds. (Basic data from Notimex, 02/04/90, 02/05/90; UPI, AP, 02/02/90; AFP, DPA, 02/04/90)

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