Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Lawrence H. Summers to POTUS re: Update on Argentina Economic Situation in Advance of President De La Rua's Visit to Washington (2 pages)	06/06/00	P5
002. memo	Lawrence H. Summers to POTUS re: Update on Argentina Economic Situation in Advance of President De La Rua's Visit to Washington (2 pages)	06/06/00	P5
003. memo	Secretary Bentsen to POTUS re: Your Meeting with President-elect Zedillo (2 pages)	11/23/94	P5

COLLECTION:

Clinton Administration History Project

OA/Box Number: 24124

FOLDER TITLE:

[History of the Department of the Treasury - Supplementary Documents] [3]

jp32

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advise between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

LATIN AMERICA

1997-SE-002005

97-2005

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

February 25, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT E. RUBIN RER

SUBJECT: CHILE

In anticipation of President Frei's visit to Washington this week, I wanted to share some thoughts on Chile's enviable economic record and pension system.

Economic Performance. Chile is often described as an East Asian country in Latin America. While the comparison can be overdrawn, Chile is by far the leading economic performer in the region. Its economic success -- and the policies driving it -- can provide important lessons for the rest of the region.

Chile's economic reform program began after the military seized power in 1973. The reforms focussed on unleashing market forces, including deregulation of financial markets, liberalization of trade and some financial transactions, elimination of subsidies and price controls, and a far-reaching privatization program. Perhaps most remarkably, the government has run a surplus every year since 1989.

The results have been impressive: since 1986, real GDP has grown an average of about 7% per annum, while inflation has fallen from over 27% in 1990 to less than 7% last year. Even in 1995, while the rest of the region was struggling in the aftermath of the Mexican crisis, Chile's economy grew by 8.5%. Chile's high savings rates -- along with strong capital inflows -- have helped permit a high level of domestic investment, as well as significant Chilean investment abroad.

Pension System. One of the most interesting reforms was the 1981 restructuring of Chile's pension system, which is often cited as a possible model for reforming Social Security. Under the reform, a government-run system was replaced by one in which contributions are defined, but all participants have individual retirement accounts managed by private companies. The government guarantees a minimum pension for poorer participants and a minimum return on accumulated funds, and also provides some guarantees against bankruptcy of a fund.

Assets of the pension funds now total over 40% of GDP and have been a major force in modernizing Chile's capital market and in providing long-term financing for investment. This growth owes much to the funds' high rates of return, which exceeded 15 percent per anum in the first 15 years of operation (although they suffered a 5 percent loss last year).

The reform has increased private savings and may have helped raise total national savings (which rose from less than 10 percent of GDP in 1986 to almost 29 percent in 1996), although other factors may also have played a role. The funds' administrative costs -- about 8 times those of our Social Security system -- have also been criticized, although they have declined and could decline further.

1997-SE-010894

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

UNDER SECRETARY

ACTION

MEMORANDUM FOR SECRETARY RUBIN

THROUGH: Deputy Secretary Larry Summers

FROM: Under Secretary David Lipton

SUBJECT: Memo to the President on Argentina, Brazil, and Venezuela

ISSUE:

President Clinton will depart Sunday October 12 for a week-long trip to Argentina, Brazil, and Venezuela. We believe it would be useful for you to send the President a memo giving an overview of the economic situation in the three countries.

RECOMMENDATION:

That you send the attached memorandum to the President.

✓ Agree ______ Disagree ______ Let's discuss

NSC original
to WH

cc: T.Geithner

EXECUTIVE SECRETARIAT

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

October 9, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: Robert E. Rubin R.E.R.

SUBJECT: Economic developments in Argentina, Brazil, and Venezuela

The economies of Argentina, Brazil, and Venezuela are all enjoying at least moderate growth, have scored significant gains against inflation, and have been so far untouched by the financial turbulence in Asia. Their challenge looking forward will be to maintain stable financial policies and embark on deeper reforms needed to raise the living standards of all their people. Five themes have shaped the recent history and future prospects of the three countries.

- First, decades of protectionism, statist controls, and financial instability culminated in the early 1980's debt crisis, followed by the "lost decade" of economic stagnation. The 1990's have seen a remarkable change in economic thinking as leaders in Argentina, Brazil, and to a lesser extent Venezuela, embraced market-oriented policies.

- Second, reforms of the 1990's and ample global liquidity have fueled large-scale flows of foreign capital to the countries over the past two years, with Argentina and Brazil together likely to receive as much as $50 billion this year. Those inflows can catalyze investment and growth, but they can also turn quickly into destabilizing outflows if policies slip and confidence wanes. Latin countries must stay vigilant about contagion from Asia -- especially Brazil, with its wide budget and current account deficits.

- Third, all three have undergone costly banking restructurings that have left their banking sectors in better health than Mexico in 1994 or Thailand today. Foreign banks have played important roles in recapitalizing and modernizing their banking systems.

- Fourth, the reforms achieved so far will not produce the sustained growth rates of five percent or higher needed to ensure that increased prosperity reaches all segments of society. The three countries, and others in Latin America, must tackle more difficult reforms to improve education, build modern institutions, and fight corruption.

- Fifth, Argentina and Brazil have deepened their economic integration through the Mercosur Customs Union. Those markets are a tremendous opportunity for American exporters, given that they have only recently opened their economies and their trade is expanding rapidly. But if Mercosur deepens without our involvement, trade will be diverted away from our exporters. Argentina appears more receptive to folding Mercosur relatively quickly into the FTAA, while Brazil is inclined to delay the FTAA while Mercosur deepens.

BRAZIL

In 1994, when President Cardoso was Finance Minister, Brazil introduced the Real Plan, its most serious effort yet at breaking the mold of hyperinflation and economic stagnation. The plan has succeeded brilliantly, cutting inflation from over 1000% in 1994 to 6% this year and boosting the popularity of President Cardoso. Brazil also liberalized trade and embarked on a vast privatization program expected to yield revenues of up to $80 billion over the next three years.

Fiscal deficits in excess of 4% of GDP, together with tight monetary policy needed to curb inflation, have kept economic growth rates down to only about 3%, and contributed to a strong currency and a current account deficit in excess of 4% of GDP. Those figures make Brazil the most vulnerable of the three countries to financial instability. The Real Plan is not now under threat and will likely be sustainable through the November 1998 Presidential elections, especially if today's global low interest rates persist. But to safeguard financial stability and raise growth, the government will need meaningful fiscal reform after the elections.

ARGENTINA

Argentina initiated serious economic reform in 1991 with its celebrated Convertibility Plan, which disciplined monetary policy by committing it to convert pesos into dollars at a one-to-one rate. Argentina also opened its borders to world trade and privatized much of its economy.

Today Argentina's economy looks healthy, with growth near 7%, inflation lower than in the U.S. (after more than 2000% in 1990), and manageable fiscal and current account deficits. Unemployment is an important problem, however, due in large part to rigid labor laws. The 16% jobless rate is cutting into support for President Menem and his reform policies. A poor showing in next month's Congressional elections could strengthen the hand of populist elements and lead to a softening of reforms. Another risk for Argentina is its exposure to potential currency instability in Brazil -- which accounts for close to one-third of Argentina's foreign trade.

VENEZUELA

Venezuela has not suffered the same degree of financial instability as Argentina or Brazil, and nor has it embraced reform as strongly, as it has used its oil revenues to subsidize inefficient policies. The end result has been average annual growth below one percent from 1980 to 1996, one of the lowest in the hemisphere.

Last year's "Agenda Venezuela" economic reform program was a step forward and scored modest gains. Those reforms and high recent oil prices helped cut inflation to about 35% this year, raise growth to about 4%, and bring the current account and budget into surplus. But implementation of Agenda Venezuela reforms has been incomplete, as key privatizations, pension and social security reform, and cuts in the public payroll are all behind schedule. One obstacle to reform has been Venezuela's poor record in attacking poverty directly and instead relying on inefficient subsidies and price controls to help the poor.

One notable recent reform is the opening of Venezuela's oil sector to foreign investors. The Venezuelan government expects oil production to double over the next ten years due to higher domestic and foreign investment.

TREASURY CLEARANCE SHEET

NO.________
Date________

MEMORANDUM FOR: ☐ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER

FROM: Under Secretary Lipton

SUBJECT: Memo to the President on Argentina, Brazil and Venezuela

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
☐ Domestic Finance
☐ Economic Policy
☐ Fiscal
☐ FMS
☐ Public Debt

☐ Under Secretary (International)
International Affairs

☐ Enforcement
☐ ATF
☐ Customs
☐ FLETC
☐ Secret Service
☐ General Counsel
☐ Inspector General
☐ IRS
☐ Legislative Affairs
☐ Management
☐ OCC

☐ Policy Management
☐ Scheduling
☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
☐ E & P
☐ Mint
☐ Savings Bonds

☐ Other

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
W. McGrew	WM	10/8	INL	622-2876
REVIEWERS				
D. Zelikow	WM for	10/8	IN	622-7222
R. Munk: E. Knight	RM	10/8	DO/SE	622-0027

SPECIAL INSTRUCTIONS

☐ Review Officer ________ Date ________ ☐ Executive Secretary Date

DO F 80-02.1 (04/89)

1998-SE-004634

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

UNDER SECRETARY

APR 14 1998

ACTION

MEMORANDUM FOR SECRETARY RUBIN

FROM: David Lipton DL

SUBJECT: Recommended Letter to the President on SOA Finance Agenda

ISSUE:

The President will be traveling to Santiago the evening of April 15 for a two-day State visit followed by the two day Summit of the Americas. We believe it would be useful to tell the President about the strong agenda that the SOA Finance Ministers have developed. The attached memo does that.

RECOMMENDATION:

That you sign the attached memo to the President.

_____ Agree _____ Disagree _____ Let's Discuss

1998-se-004634

4634

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

April 14, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: Robert E. Rubin RER

SUBJECT: Finance Ministers Agenda to Support the Summit of the Americas

As you travel to Santiago to meet with other leaders of the Hemisphere, I wanted to tell you briefly what Finance Ministers are doing to advance our Summit of the Americas (SOA) goals of economic and social integration -- in particular through strengthening financial systems and supporting education.

Strengthening Financial Systems

Finance Ministers have worked steadily since the Miami Summit to build the kind of financial infrastructure that we need to support increased trade and investment in the region. Throughout our discussions, I have been impressed by the growing spirit of collegiality and cooperation and the deepening ties between our Finance Ministries, which is itself an achievement. The Asian financial crisis gave new urgency to our joint efforts, as Ministers realized that relatively healthy financial systems in Latin countries were a key factor in distinguishing the region from Asia and shielding it from contagion. The Ministers also realized that they needed to do more to create truly sound and transparent financial systems.

Against the background of global financial turmoil, the Ministers agreed last December in Santiago to an ambitious program to strengthen and modernize financial systems in the hemisphere. At the core of that program was an agreement that the Western Hemisphere would be the first region in the world to implement the Basle Committee's *Core Principles for Effective Banking Supervision* -- which are a model of modern and high quality standards for banking supervision. We are now working hard to make implementation of the Basle *Core Principles* a reality, with Chile and Mexico joining us in leading that effort.

At one level, sound banking supervision is a technical matter, relating to capital adequacy, risk management, and auditing practices. At another, it can make the difference between economic growth and financial crisis. Ultimately, it is about rule of law, transparency, accountability, and good governance. In that sense, it is a prime example of the second generation of reforms that Latin American nations must tackle to achieve higher growth and better living standards for their people.

Education

Finance Ministers have also thrown their weight behind the SOA education goals. They have called on the Inter-American Development Bank to double its spending on primary and secondary education over the next three years to one billion dollars a year. In addition, they are working to create a regional education fund to finance cross-border projects. Finally, Finance Ministers will be working closely with their Education Ministry colleagues to ensure that there is adequate financing in national budgets for the education goals of the SOA.

[redacted]

EXECUTIVE SECRETARIAT CORRESPONDENCE MEMO COVER SHEET

Tuesday, April 14, 1998

PROFILE #: 1998-SE-004634

DATE CREATED: 04/14/1998 PRIORITY: Y

ADDRESSEE: Robert E. Rubin
Secretary

AUTHOR: Lipton, D[redacted]
International Affairs

SUBJECT: Recommended Letter To The President On SOA Finance Agenda

ABSTRACT: Recommended Letter to the President on SOA Finance Agenda.

RM 3419 TO REVIEWERS TO EXECUTIVE SECRETARY

IN: IN:

TO THE SECRETARY

To PA 4/13/98

DATE SIGNED:

PA to NC 4/13/98

DISTRIBUTION: AS, INTERNATIONAL AFFAIRS

PA cc DL/AK

PA/NCC revised

NCC to RER
(signature)

RER signed

AK original to WH

NCC cc to LS (reading)

NCC cc to MF
SS
NC/PA/AK/DJ

4/13/98

04/14/1998 10:03:18 AM

TREASURY CLEARANCE SHEET

NO. 98-SE-004(31)
Date 4/1/98

MEMORANDUM FOR: x SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
x ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER

FROM: Under Secretary David Lipton (International Affairs)
THROUGH:
SUBJECT: Recommended memo from Secretary Rubin to the President on Summit of the Americans

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
☐ Domestic Finance
☐ Economic Policy
☐ Fiscal
☐ FMS
☐ Public Debt

☐ Under Secretary (International)
International Affairs

☐ Enforcement
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☐ Scheduling
☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
☐ E & P
☐ Mint
☐ Savings Bonds

☐ Other

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
W. McGrew	WM	4/13/98	INL	622-2876
REVIEWERS				
D. Zelikow	DMZ	4/13/98	IN	622-7222
E. Knight	REM for Hurton	4/13/98	G	622-0287

SPECIAL INSTRUCTIONS

☐ Review Officer Date ☐ Executive Secretary Date

DO F 80-02.1 (04/89)

2000-SE-006233

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

June 2, 2000

MEMORANDUM FOR SECRETARY SUMMERS

FROM: Ted Truman EMT

SUBJECT: Memorandum to the President on Argentina

Issue: The President will meet with Argentina President De La Rua on June 13. In advance of that meeting, the White House has asked us for a memo to the President on Argentina's economic situation.

RECOMMENDATION:

That you sign the attached memo to the President

Agree ✓ Disagree _____ Let's discuss _____

DATE REC'D JUN 2 2008

TIME REC'D 12:10 pm

OFFICE OF THE GENERAL COUNSEL
ROUTING SLIP

DUE BY: ____________
(Date/Time)

PRIORITY: ____________ GC# ____________

HIGH PRIORITY: ____________ OTHER# ____________

	SEQUENCE	DISPOSITION	CONCUR	COMMENTS
Cohen	1	R		
DGC		JRO		
GC				
Funk				desired

I-Information A-Action R-Review D-Dispatch N-No further Action

cc: GC DGC IA B&F E GLE LLR ADMIN

ADDITIONAL COMMENTS:

TREASURY CLEARANCE SHEET

NO.________
Date________

MEMORANDUM FOR: ☐ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER

FROM: Assistant Secretary Ted Truman
THROUGH:
SUBJECT: Memorandum to the President on Argentina

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
☐ Domestic Finance
☐ Economic Policy
☐ Fiscal
☐ FMS
☐ Public Debt

☐ Under Secretary (International)
International Affairs

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☐ Management
☐ OCC

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☐ Tax Policy
☐ Treasurer
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☐ Mint
☐ Savings Bonds

☐ Other

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
Wes McGrew			INL	2-2876
REVIEWERS				
Andy Berg	NE for	6/2/00	IN	2-4027
Russ Munk	RXM	6/2/00	GI	2-1899

SPECIAL INSTRUCTIONS

☐ Review Officer — Date
☐ Executive Secretary — Date

DO F 80-02.1 (04/89)

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Lawrence H. Summers to POTUS re: Update on Argentina Economic Situation in Advance of President De La Rua's Visit to Washington (2 pages)	06/06/00	P5

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COLLECTION:

Clinton Administration History Project

OA/Box Number: 24124

FOLDER TITLE:

[History of the Department of the Treasury - Supplementary Documents] [3]

jp32

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
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ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

June 2, 2000

MEMORANDUM FOR SECRETARY SUMMERS

FROM: Ted Truman EMT

SUBJECT: Memorandum to the President on Argentina

Issue: The President will meet with Argentina President De La Rua on June 13. In advance of that meeting, the White House has asked us for a memo to the President on Argentina's economic situation.

RECOMMENDATION:

That you sign the attached memo to the President

Agree _____ Disagree _____ Let's discuss _____

revised per LS 6/6/00

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☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER

FROM: Assistant Secretary Ted Truman
THROUGH:
SUBJECT: Memorandum to the President on Argentina

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☐ Domestic Finance
☐ Economic Policy
☐ Fiscal
☐ FMS
☐ Public Debt

☐ Under Secretary (International)
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☐ General Counsel
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☐ IRS
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☐ Management
☐ OCC

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☐ Scheduling
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☐ E & P
☐ Mint
☐ Savings Bonds

☐ Other

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REVIEWERS				
Andy Berg	NE for	6/2/00	IN	2-4027
Russ Munk	RXM	6/2/00	GI	2-1899

SPECIAL INSTRUCTIONS

☐ Review Officer Date ☐ Executive Secretary Date

DO F 80-02.1 (04/89)

NCC to LS (signature)
6/2

NCC returned to OASIA
(Margaret Kuhlow) for
LS revisions 6/2

OASIA to NCC 6/5/00

NCC to LS signature

LS signed 6/6/00

TR original to WH

TR cc to SE (reading)

TR cc cc to SS
TS
CK
NC/P+/AK

Please Log
and file

MEXICO

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
003. memo	Secretary Bentsen to POTUS re: Your Meeting with President-elect Zedillo (2 pages)	11/23/94	P5

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Clinton Administration History Project

OA/Box Number: 24124

FOLDER TITLE:

[History of the Department of the Treasury - Supplementary Documents] [3]

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Proposed Statement of President Clinton
Following Lunch with
President-Elect Zedillo of Mexico

I am pleased to have had the opportunity to meet Mexico's President-elect Ernesto Zedillo. I look forward to working with him to secure for our peoples the benefits of our close economic relationship. The NAFTA is already contributing to the economic dynamism of both of our economies.

In our discussions, President-elect Zedillo made clear to me his commitment to maintain the economic stability that President Salinas has brought to Mexico and continue the process of creating a vibrant economy there. The starting point for the new administration is a good one, with jobs being created, inflation under control and the budget balanced. I am confident that Ernesto Zedillo's plan for growth based on price stability and sound government finance will bring greater prosperity to Mexico. It will be bolstered by the support of business and labor as affirmed in the PACTO.

With Mexico as our second largest market for exports, we have a strong stake in Mexican growth.

<u>If requested by President Zedillo</u>

The NAFTA partners indeed have intertwined economic prospects. I have asked Secretary Bentsen to convene the North American Financial Group, once the new President's team has taken office, to reinforce close cooperation among the three NAFTA countries.

QUESTION AND ANSWER ON MEXICAN PESO
MEETING WITH PRESIDENT-ELECT ZEDILLO

November 23, 1994

Question:

Do you think the exchange rate for the Mexican peso can be maintained?

Answer:

Mexico's economic fundamentals are strong -- growth is recovering, inflation is down and the budget is balanced.

I have confidence that President-elect Zedillo will manage Mexico's economy successfully.

DEPARTMENT OF THE TREASURY
WASHINGTON

UNDER SECRETARY

November 23, 1994

MEMORANDUM FOR SECRETARY BENTSEN

FROM: Under Secretary Summers QRS for

SUBJECT: President Clinton's Meeting with Mexico's President-elect Zedillo

ACTION FORCING EVENT:

The White House has requested guidance on the Mexican exchange rate and we have agreed with the White House to provide a statement in support of the Mexican economy. The Mexicans have asked for such a statement.

RECOMMENDATION:

That you send the attached memo from you to President Clinton with attachments.

Agree LMB Disagree ________ Other ________

ATTACHMENTS:

Tab A -- Memo to the President
Tab B -- Statement on Mexico's Economy
Tab C -- Q & A on Peso for the President

95-14184
14153
ICER/BW

DEPARTMENT OF THE TREASURY
WASHINGTON

UNDER SECRETARY

January 15, 1995

MEMORANDUM FOR SECRETARY RUBIN

INFORMATION

FROM: Lawrence Summers

SUBJECT: Mobilizing Multilateral Support for Mexico to Complement the U.S. Effort

I think we all recognize the desirability of moving quickly to try to mobilize additional multilateral assistance, on a parallel track to the effort on the hill. A credible burden sharing effort could help our efforts on the hill. The challenge is to avoid raising expectations about what we cannot deliver, to prevent efforts to condition our assistance on prior commitment by other Governments, and avoid any risk of other countries saying no while the legislation is under consideration.

One substantial contribution (at least $5 billion and as much as $10 billion) can come in the next several days from the IMF. Perhaps the World Bank and the Inter-American Development Bank will be able to announce intentions as well, but they will not be as large. We cannot realistically count on significant additional commitments from the G-10 in the time frame required for Congressional action, even if we were to devote substantial political capital to the effort.

I propose we undertake the following steps:

-- Encourage other central banks to

  - o Increase their existing $6.0 billion commitment ($5 billion organized by the BIS and $1 billion from the Bank of Canada);
  - o Extend the maturing of that commitment to 18 months (matching the length of the guarantee program and the IMF stand-by).
  - o Make their money available now, without additional drawings on the U.S. and Canadian swaps.
  - o To bridge up to a year to the full IMF disbursement.

The Fed will take the lead on this; we should not underestimate the difficulties.

-- Explore the possibility of G-7 countries providing either loan-guarantees or medium terms loans on their own terms and conditions. What scope do they have to extend such commitments without legislative action? What EXIM resources could be mobilized? Jeff Shafer will make initial contact in this effort; you and I will need to follow up at our G-7 meetings in a few weeks. Resistance will be strong, especially from the Northern Europeans who are fearful of setting a precedent that will force them to support profligate their Southern European partners.

-- Ensure that the IMF delivers a substantial package of $7.5 billion, with additional efforts by the World Bank and the IDB. The Managing Director is prepared to make this proposal. We need to ensure the G-7 vote to support invoking the IMF exceptions clause to approve a 300 percent of quota program for Mexico.

-- Encourage other countries (Korea, Taiwan, Singapore, Hong Kong, Argentina, Brazil, and Chile) to provide assistance, as part of the BIS facility or separately.

After an initial round of consultations this weekend, we will have a better sense of whether it would make sense to involve you, Secretary Christopher, Tony Lake, or the President with select countries where we think we have good shot at a meaningful additional commitment.

What we can tell the Hill is the following:

-- We are working with the IFIs to put in place a substantial lending program. More details early next week, but we will not be able to give you a tangible indication of the likely magnitude of that package before a vote on the guarantee legislation.

-- This would be a substantial amount of additional global support.

-- We are in the process of encouraging other countries to increase their present commitments.

-- We do not expect to have anything concluded with other countries within the next two weeks.

95-142550

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

February 7, 1995

MEMORANDUM FOR SECRETARY RUBIN

THROUGH: Larry Summers LS

FROM: JS Jeffrey Shafer

SUBJECT: Mexico Plan of Action

<u>Issue</u>: We want to begin negotiations this week with the Mexicans on agreements that will establish the terms and conditions of the United States support package. The initial negotiating session will involve presentations of our expectations in the form of a draft framework agreement, an agreement on medium-term swaps and a new agreement on the oil mechanism. We will review Mexican responses to our request for a financial plan and concrete steps to improve Bank of Mexico transparency. Before completing draft documents, we need your guidance on several issues:

- o the specific <u>conditions</u> that we want the Mexicans to agree upon before proceeding with the medium-term support;
- o the <u>terms</u> under which this support will be provided; and
- o possible <u>modifications of the existing oil mechanism</u>. These include determining which creditors will share access to the facility, and in what order of priority.

While we can begin negotiating with the Mexicans leaving some other questions unresolved, we need to move in parallel on the relationships between the medium-term support provided by the ESF and support from other official sources. These sources include:

- o the existing short-term ESF swap;
- o the Federal Reserve swap -- which is being expanded from \$4.5 billion to \$6 billion;
- o the IMF program -- both the \$7.8 billion which has been disbursed, and the \$10 billion which may be provided partly by some central banks, as well as by the IMF itself; and
- o the \$10 billion in short-term support to be provided through the Bank for International Settlements (BIS).

Background -- Conditionality:

The letter that you sent to Senator Dole (Tab A) presented our initial views on conditions for U.S. support. In the letter, you state that Treasury will use the economic conditions insisted upon by the IMF as the basis for our support, but that we will insist upon additional conditions, such as transparency, and will also determine how the proceeds of U.S. support may be used.

Recommendations:

First, *that we take the IMF economic conditions as our conditions at the present time*, but that we reserve the right to form our own view on modifications to the economic conditions when the IMF reviews Mexico's program in the future.

__________Agree __________Disagree __________Let's Discuss

Second, *that we require access to information* directly from the Mexican government in order to satisfy ourselves that conditions are being met.

__________Agree __________Disagree __________Let's Discuss

Third, *that we set requirements for central bank transparency* that will bring Mexico up to the standards followed by major industrial countries. This is an issue of particular interest on the Hill.

__________Agree __________Disagree __________Let's Discuss

Fourth, *that Mexico provides us with full disclosure on the use of funds obtained through ESF assistance*. Specifically, we will require that the financial plan provided by Mexico, and the means we insist upon to monitor its implementation, provide assurances that funds obtained through ESF assistance are used to extend the maturity of Mexico's indebtedness, and not to run budget deficits or current account deficits that are larger than those envisaged by the IMF program.

__________Agree __________Disagree __________Let's Discuss

Discussion:

The IMF conditions, summarized in the Dole letter and spelled out in the IMF letter of intent and attachments (Tab B), represent a carefully considered program for Mexico's stabilization, and we should take them as our own -- we are not in a position at the present time to recommend a better program and it would undercut the IMF if we were to do so. But if we are going to maintain the leverage to influence the future conditions set by the IMF, we have to reserve the right to take our own view.

We will also need to receive information from the Mexicans and perform our own analysis in order to satisfy the Congress that we are doing our job in seeing to it that Mexico stays on a recovery path.

Central bank transparency is also a particular concern in Congress. We should set realistic but tough conditions in this regard.

- o The Bank of Mexico is preparing a paper for us on this in the knowledge that we are looking for disclosure policies that match those of G-10 central banks.

- o The Federal Reserve is preparing a review for us of what G-10 practices are so that we can hold Mexico to the appropriate standard.

The key to our leverage over Mexican finances will be our insistence on a financial plan and on reporting that allows us to monitor its implementation. *All uses of resources that we provide should be justified to us in terms of that plan, or modifications of it that we accept.* For example, the plan should:

- o call for the elimination or near elimination of Tesebonos over the coming year;

- o indicate to what extent the Mexican authorities will rely on ESF resources, other official resources, and possibly medium-term market borrowing (without guarantees) for this purpose; and

- o be explicit about other pieces of the government's external position and that of the private sector, including the banks.

The Mexicans have begun to prepare such a plan at our request, and J.P. Morgan is working with them on this, having been retained over the weekend as their financial advisor. By insisting that the Mexicans take responsibility for preparing a plan, it becomes their own. This is the approach followed by the IMF and World Bank; it in no way compromises our rights to be satisfied with how resources that we provide will be used. We should await a first cut at this plan before crystallizing our views on what we insist that it contain.

<u>Background -- Terms</u>:

The broad outlines of the terms were given in the fact sheets distributed last Tuesday. We need to become more specific about the terms before sitting down with the Mexicans.

Recommendations:

First, *that medium-term support be for $20 billion less any amounts outstanding* under short-term Treasury and Federal Reserve swap agreements.

__________Agree __________Disagree __________Let's Discuss

Second, *that swaps be for three to five year maturities, and guarantees for up to ten years*, as envisaged in the fact sheets, and that we retain flexibility as to the mix between swaps and guarantees.

__________Agree __________Disagree __________Let's Discuss

Third, *that medium-term swaps be priced at a yield of at least 200 basis points above the one year Treasury bill rate*, and that fees on loan guarantees reflect an equivalent risk premium. However, our agreement with the Mexicans should allow us to charge an amount at least as high at the time a swap or guarantee is issued as that called for under the interagency ICRAS system used for budget scoring. Our initial position should be for a premium of 250 basis points and this should be relatively firm.

__________Agree __________Disagree __________Let's Discuss

Discussion:

The $20 billion package as announced includes short-term support from the U.S. Since we have agreed to offer a take-out to the Fed, the total U.S. commitment cannot exceed the amount that we feel comfortable providing from the ESF. Therefore, *any amounts outstanding under the short-term swaps will need to be deducted from the $20 billion in deciding what we can provide on a medium-term basis*. However, we should stand ready to provide the full $20 billion on a medium-term basis, if there are no short-term swaps outstanding from the U.S.

- o There seems to be no reason to reconsider our announced intention to do swaps with a maturity of three to five years, and guarantees for maturities of up to ten years.

- o The optimal mix between swaps and guarantees will depend on how events unfold. It is going to be possible to get swaps going sooner, and the possibility of calling them if Mexico is out of compliance with conditions provides us with useful leverage.

- o However, public perception strongly favors guarantees, and we will want to get the guarantee program up and running to provide a substantial part of the support.

The fee structure should compensate us for risks as the proposed legislation would have done. Two hundred basis points on the annual yield would be above the scored risk of Mexican exposure even if Mexico were downgraded one risk category.

Background -- the Oil Mechanism:

One of the legal documents that will have to be completed and signed before medium-term financing can commence is an oil mechanism agreement to replace the one in effect now to protect our outstanding short-term swaps. The lawyers are reviewing the oil mechanism and considering ways of tightening it up. The oil mechanism agreement will also have to reflect the outcome of negotiations with the BIS and other potential lenders that will determine who will be able to share in the proceeds, and on what basis.

Recommendation:

That we share the oil proceeds with other countries that are willing to make medium-term loans. For now, we reserve our position on access to the oil facility for short-term loans.

___________Agree ___________Disagree __________Let's Discuss

Discussion:

We are not going to find any other governments or central banks willing to make medium-term loans without the same protection we have. For short-term lenders, there are possibilities for bridges to secure lending. We could weaken our security if we place ourselves after short-term lenders. We should do so only if our position is strengthened overall because short-term credits tangibly improve Mexico's medium-term prospects.

DEPARTMENT OF THE TREASURY
WASHINGTON

95-142572

INFORMATION

UNDER SECRETARY

February 8, 1995

MEMORANDUM FOR SECRETARY RUBIN

THROUGH: Larry Summers

FROM: Jeff Shafer

SUBJECT: Interagency Meeting on Mexico

This morning I hosted a meeting on Mexico with key players from Treasury and other relevant agencies: Ed Knight, David Lipton and Dan Zelikow from Treasury, Ted Truman and Kathleen O'Day from the D.C. Fed, Ernie Patrikas and Terry Checki from the FRBNY, and Ken Brody and Ira Fishman from Eximbank. The purpose of the meeting was to talk through where we are, take stock of what needs to be done in the near term and establish reponsibility for various tasks. In general, the group felt that we need to sit down with the Mexicans as soon as possible to focus on the financial plan that they are expected to provide us. The plan has been promised for today.

We also agreed to work on several papers over the next few days:

Principals Guiding the Design of the Stabilization Program (Treasury)

Macroeconomic Analysis of Mexico (Treasury/Fed)

Mexican Banking System Analysis (Fed)

Analysis of Fund Conditionality (Treasury)

Short-run Exchange Rate Management Tools (FRBNY)

Evaluation of Exchange Rate Regimes (Fed)

Menu of Instruments (Eximbank)

EXECUTIVE SECRETARIAT

142620

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

February 9, 1995

ACTION

MEMORANDUM FOR SECRETARY RUBIN

FROM: JHS Jeffrey Shafer

SUBJECT: Guidelines for Mexico Package

I prepared the attached paper to try to establish common ground on what we will be trying to achieve in our agreements with Mexico. If you agree, I would like to discuss it during the Mexico update this evening.

cc:

FNewman
LSummers
DLipton
TGeithner
DZelikow

Principles Guiding Design of Program to Restore Financial Stability to Mexico

1. Funds are to be used to facilitate the restructuring of Mexico's short-term debt into longer maturities to help resolve liquidity problems and stabilize the exchange market.

   Implications:

   - Mexico must produce a financial plan that shows how the United States proceeds and other resources will be used to achieve their goals.

   - Timely and accurate information must be provided to the United States to monitor implementation of the plan -- that is, the financial plan must be testable.

   - Availability of resources must be conditional on effective implementation, with agreement on any modifications.

   - The U.S. should have the option of accelerating repayment of swaps, and accelerating and terminating securities guarantees, if the plan is not followed to the detriment of our interests.

2. The program should encourage sound economic policy in Mexico.

   Implications

   - The Agreement should use the IMF program and conditions as a base.

   - The framework agreement should specify additional economic conditions that the U.S. considers important for success. These include assurances of Bank of Mexico independence and transparency in reporting banking and monitoring data.

   - The U.S. must obtain cooperation in the provision of data and information and agreement to consult so that it can independently monitor implementation.

   - The U.S. must reserve the prerogative to exercise its judgement in the future as to what changes in conditions are appropriate. This would be done in consultations with the IMF and the Mexican authorities.

   - The U.S. should have the option of accelerating repayment of swaps, and accelerating and terminating securities guarantees, if conditionality is not satisfied.

3. Mexico should get back to using the market as quickly as possible.

<u>Implications</u>

- o This objective must be central in the financial plan.
- o The interest rates on swaps and fees on guarantees should be structured to provide financial incentive for Mexico to terminate U.S. support as soon as market access makes this possible.
- o U.S. monitoring should provide an incentive for Mexico to end the program.
- o Guaranteed securities should have a call feature.
- o U.S. should be able, under specified conditions, to require early repayment of swaps and calling of guaranteed securities.

4. U.S. resources must be protected.

<u>Implications</u>

- o The financial plan and economic conditions must be sound and must be enforced.
- o Mexico's program should be robust -- that is, it must allow for adverse developments.
- o Mexico should face a rising schedule of fees and interest charges as it uses more of the available resources.
- o The U.S. must have assured means of repayment for all amounts.

5. U.S. support should be accompanied by substantial international support.

<u>Implications</u>

- o U.S. must follow up in the IMF to ensure that additional $10 billion of IMF money becomes available
- o U.S. must continue to press the World Bank and the Inter-American Development Bank to make major contributions towards Mexico's structural adjustment
- o U.S. should continue to seek additional commitments of medium term resources from other sources

7. The program should not undermine financial discipline in the future, either for Mexico or for other countries.

Implications

- Conditionality should be tough.
- Interest rates and fees should be steep as seen by a country that still has access to private markets.

143167

DEPARTMENT OF THE TREASURY
WASHINGTON

UNDER SECRETARY

February 16, 1995

MEMORANDUM TO **SECRETARY RUBIN**

FROM: **Lawrence Summers** LS

SUBJECT: **Talking Points for Meeting with Minister Ortiz et al This Afternoon**

o **I think we should be aiming to conclude these negotiations this weekend, so that we can announce a deal on Sunday.**

-- To do this, we'll have to work around the clock.

-- But we still have some important issues remaining, and maybe it won't be possible. We'll have to wait and see.

o **Central to these discussions will be your economic program.**

-- Frankly, your program as it now stands is not fully credible to the markets.

-- I'd be interested to hear your interpretation of today's events. Why do you think the markets didn't seem to respond to your use of the swap facility?

-- I'm convinced that you need to take further policy measures to restore your credibility in the market's eyes.

-- Larry Summers will be discussing this afternoon the steps we think are essential to accomplish that.

o **I want to bring to your attention an issue of special concern to us -- the credibility of your central bank as an institution.**

-- I've been disturbed by rumors of the Bank's patchy reporting, inconsistency in the information it does report, rumors of manipulation of reserves, and the Bank's failure to acknowledge the mistakes of the past year.

-- I want to hear your ideas about how to address these concerns.

- **On other issues of substance:**

  -- The lawyers are still hammering out the details of the agreements. I understand that there are still a few substantial disagreements. We might need to jump in tomorrow or the next day.

  -- We are concerned about the condition of your banking system, and I'd like to know what you're planning to do about it.

- **Let me emphasize that these negotiations are critical for both of us. Let's both see them brought to a successful conclusion.**

95143232

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

February 28, 1995

MEMORANDUM FOR SECRETARY RUBIN

THROUGH: Larry Summers

FROM: JKS Jeff Shafer

SUBJECT: Republican Resolution on Mexico

ACTION

ACTION FORCING EVENT:

The House Republican Policy Committee has decided to recommend to the House Leadership and the House Republican Conference that floor action be scheduled to vote on a resolution disapproving the Clinton Administration's handling of the Mexican peso crisis.

RECOMMENDATION:

That you sign the attached letter to Newt Gingrich.

Agree ✓ Disagree ________ Other ________

ATTACHMENT:

Letter for Signature.

EXECUTIVE SECRETARIAT

95-143301

DEPARTMENT OF THE TREASURY
WASHINGTON

GENERAL COUNSEL

March 2, 1995

ACTION

MEMORANDUM FOR SECRETARY RUBIN

FROM: EDWARD S. KNIGHT ESK

SUBJECT: Mexico Notification to Congress Under ESF Statute

ACTION FORCING EVENT:

The President is required under 31 U.S.C. sec. 5302(b) to notify Congress of his decision to provide loans and guarantees having maturities of over six months to Mexico from the Exchange Stabilization Fund. Attached are letters for the President to sign and send to Congress.

RECOMMENDATION:

That you sign the attached memorandum to Anthony Lake and Laura D'Andrea Tyson recommending that the President sign and transmit the attached letters.

Agree ✓ Disagree ________ Let's Discuss ________

BACKGROUND:

Although the ESF statute does not specify any particular time frame for providing notification, we would like to get it to Congress as soon as possible. The only other time such a notification was provided to Congress was in 1982, with respect to loans to Mexico. In that case, President Reagan notified Congress on September 8 of his decision of August 24 to use the ESF.

The attached letters were cleared through the OMB clearance process and incorporate changes suggested by State and Justice. In addition, the letter received the appropriate clearances from OASIA (Shafer, Geithner and Zelikow) before it was sent to OMB. Legislative Affairs (Rojas) also cleared the version that went to OMB.

Attachments: Tab A: Memorandum for Your Signature
Tab B: Letters for the President's Signature

THE SECRETARY OF THE TREASURY
WASHINGTON

MEMORANDUM FOR **ANTHONY LAKE**
ASSISTANT TO THE PRESIDENT
FOR NATIONAL SECURITY AFFAIRS

LAURA D'ANDREA TYSON
ASSISTANT TO THE PRESIDENT
FOR ECONOMIC POLICY

FROM: ROBERT E. RUBIN

SUBJECT: Mexico Notification to Congress Under ESF Statute

Attached are letters for the President's signature formally notifying Congress of the President's decision to provide loans and guarantees having maturities of over six months to Mexico from the Exchange Stabilization Fund. The notification is required under 31 U.S.C. 5302(b). Although the statute does not specify any particular time frame for providing notification, it is advisable to provide it to Congress as soon as possible. The only other time such a notification was provided to Congress was in 1982, with respect to loans to Mexico. In that case, President Reagan notified Congress on September 8 of his decision on August 24 to use the ESF.

RECOMMENDATION: That the President sign the letters and transmit them to Congress.

Agree_________ Disagree___________ Let's Discuss _______________

Attachment: Tab B: Letters for President's Signature

Honorable Newt Gingrich
Speaker
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

On January 31, 1995, I determined pursuant to 31 U.S.C. sec. 5302(b) that the economic crisis in Mexico posed "unique and emergency circumstances" that justified the use of the Exchange Stabilization Fund ("ESF") to provide loans and credits with maturities of greater than six months to the Government of Mexico and the Bank of Mexico. Consistent with the requirements of 31 U.S.C. sec. 5302(b), I am hereby notifying Congress of that determination. You and the other members of the Congressional leadership issued a joint statement with me on January 31, 1995, in which we all agreed that such use of the ESF was a necessary and appropriate response to the Mexican financial crisis, and in the United States' vital national interest.

On February 21, 1995, the Secretary of the Treasury and the Mexican Secretary of Finance and Public Credit signed four agreements that provide the framework and specific legal arrangements under which up to $20 billion in support will be made available from the ESF to the Government of Mexico and the Bank of Mexico. Under these agreements, the United States will provide three forms of support to Mexico: short-term swaps through which Mexico borrows dollars for 90 days and which can be rolled over for up to one year; medium-term swaps through which Mexico can borrow dollars for up to five years; and securities guarantees having maturities of up to 10 years.

Repayment of these loans and guarantees is backed by revenues from the export of crude oil and petroleum products, in an agreement signed by the United States, the Government of Mexico, and the Mexican government's oil company. In addition, as added protection in the unlikely event of default, the United States is requiring Mexico to maintain the value of the pesos it deposits with the United States in connection with the medium-term swaps. Therefore, should the rate of exchange of the peso against the U.S. dollar drop during the time the United States holds pesos, Mexico would be required to provide the United States with enough additional pesos to reflect the rate of exchange prevailing at the conclusion of the swap.

I am enclosing a Fact Sheet prepared by the Treasury Department that provides greater details concerning the terms of the four agreements. I am also enclosing a summary of the economic policy actions that the Government of Mexico and the Central Bank have agreed to take as a condition of receiving assistance.

The agreements we have signed with Mexico are part of a multilateral effort involving contributions from other countries and multilateral institutions. The Board of the International Monetary Fund has approved up to $17.8 billion in medium-term assistance for Mexico, subject to Mexico's meeting appropriate economic conditions. Of this amount, $7.8 billion has already been disbursed, and additional conditional assistance will become available beginning in July of this year. In addition, the Bank for International Settlements is expected to provide $10 billion in short-term assistance.

The current Mexican financial crisis is a liquidity crisis that has had a significant destabilizing effect on the exchange rate of the peso, with consequences for the overall exchange rate system. The spill-over effects of inaction in response to this crisis would be significant for other emerging market economies, particularly those in Latin America, as well as for the United States. Using the ESF to respond to this crisis is therefore plainly consistent with the purpose of 31 U.S.C. 5302(b): to give the United States the ability to take action consistent with its obligations in the International Monetary Fund to assure orderly exchange arrangements and a stable system of exchange rates.

The Mexican peso crisis has erupted with such suddenness and in such magnitude as to render the usual short-term approaches to a liquidity crisis inadequate to address the problem. To resolve problems arising from Mexico's short-term debt burden, longer term solutions are necessary in order to avoid further pressure on the exchange rate of the peso. These facts present unique and emergency circumstances, and it is therefore both appropriate and necessary to make the ESF available to extend credits and loans to Mexico in excess of six months.

Sincerely,

William J. Clinton

Enclosures

February 21, 1995

Fact Sheet on United States Support for Mexico

I. Overview

o **Support:** The United States and Mexico have signed agreements implementing the $20 billion support package put forward by President Clinton to protect United States jobs, exports, immigration interests, and security concerns threatened by Mexico's liquidity crisis.

o **Conditions:** Mexico has announced an aggressive economic program which it intends to follow in order to restore financial stability. United States support is being extended to bolster that effort, by enabling Mexico to meet short-term obligations and restructure its debt.

o **Safeguards:** These agreements set up transparency requirements, notification methods, evaluation procedures, and other mechanisms to safeguard United States interests. Under these accords, proceeds from crude oil and oil product exports will serve as assured sources of repayment of Mexico's obligations to the United States.

II. Forms and Use of United States Support

o **Three Forms of Support**: These agreements cover three forms of support for Mexico:

-- short-term swaps through which Mexico borrows dollars for 90 days;

-- medium-term swaps that will extend dollars to Mexico for up to five years;

-- guarantees through which the United States will back Mexico's obligations on government securities for up to 10 years. The United States backing will convince investors to lend money to Mexico for longer terms at lower interest rates.

o **Use of Support:** Mexico will use the dollars the U.S. provides or the funds raised with U.S. guarantees to retire, refinance, or restructure short-term obligations. This will allow Mexico to shift its borrowing to more-stable, long-term sources of finance.

The Utilization of U.S. Funding under the U.S. Mexico Framework Agreement

Under the U.S.-Mexico Framework Agreement, the United States will make available up to $20 billion from the U.S. Treasury's Exchange Stabilization Fund. These funds will help the Mexican Government move aggressively to resolve its current financial crisis.

<u>Significant Levels of Support</u>

- The United States Government has committed $20 billion dollars to the Mexican support program.

- $10 billion will be made available in stages between now and the end of June 1995 as Mexico meets agreed upon targets. $3 billion will be made available immediately on the effective date of the agreement.

- Another $10 billion will be made available as needed and in stages beginning in July, based on the same terms and conditions.

<u>Program Addresses Mexico's Key Financial Problems</u>

- U.S. funding will enable Mexico to meet its tesobono obligations and successfully refinance and restructure its short-term debt.

- U.S. funding will support Mexican efforts to strengthen its banking system, including reducing pressure derived from maturing dollar-denominated CDs and other short-term obligations.

<u>U.S. Funding will Reposition the Mexican Economy</u>

- By eliminating Mexico's short-term debt problem and strengthening the Mexican banking system, the U.S. financial package enables Mexico to support stable exchange rates.

- This plan lets Mexico gain new access to private capital which will allow Mexico to continue to refinance less expensively.

<u>Funding Mechanisms Encourage Longer Term Investment</u>

- U.S. support will be available as both short- and medium-term swaps and through a program of loan guarantees.

- To date, only short-term swaps have been available to Mexico. As part of the Agreement, the U.S. will now begin to provide medium-term swaps as well.

- The Mexican Government will also be able to use U.S. funds to guarantee longer-term bonds. A first issue of U.S. guaranteed bonds is anticipated during the second quarter of 1995.

Honorable Robert Dole
Majority Leader
U.S. Senate
Washington, D.C. 20510

Dear Senator Dole:

On January 31, 1995, I determined pursuant to 31 U.S.C. sec. 5302(b) that the economic crisis in Mexico posed "unique and emergency circumstances" that justified the use of the Exchange Stabilization Fund ("ESF") to provide loans and credits with maturities of greater than six months to the Government of Mexico and the Bank of Mexico. Consistent with the requirements of 31 U.S.C. sec. 5302(b), I am hereby notifying Congress of that determination. You and the other members of the Congressional leadership issued a joint statement with me on January 31, 1995, in which we all agreed that such use of the ESF was a necessary and appropriate response to the Mexican financial crisis, and in the United States' vital national interest.

On February 21, 1995, the Secretary of the Treasury and the Mexican Secretary of Finance and Public Credit signed four agreements that provide the framework and specific legal arrangements under which up to $20 billion in support will be made available from the ESF to the Government of Mexico and the Bank of Mexico. Under these agreements, the United States will provide three forms of support to Mexico: short-term swaps through which Mexico borrows dollars for 90 days and which can be rolled over for up to one year; medium-term swaps through which Mexico can borrow dollars for up to five years; and securities guarantees having maturities of up to 10 years.

Repayment of these loans and guarantees is backed by revenues from the export of crude oil and petroleum products, in an agreement signed by the United States, the Government of Mexico, and the Mexican government's oil company. In addition, as added protection in the unlikely event of default, the United States is requiring Mexico to maintain the value of the pesos it deposits with the United States in connection with the medium-term swaps. Therefore, should the rate of exchange of the peso against the U.S. dollar drop during the time the United States holds pesos, Mexico would be required to provide the United States with enough additional pesos to reflect the rate of exchange prevailing at the conclusion of the swap.

I am enclosing a Fact Sheet prepared by the Treasury Department that provides greater details concerning the terms of the four agreements. I am also enclosing a summary of the economic policy actions that the Government of Mexico and the Central Bank have agreed to take as a condition of receiving assistance.

The agreements we have signed with Mexico are part of a multilateral effort involving contributions from other countries and multilateral institutions. The Board of the International Monetary Fund has approved up to $17.8 billion in medium-term assistance for Mexico, subject to Mexico's meeting appropriate economic conditions. Of this amount, $7.8 billion has already been disbursed, and additional conditional assistance will become available beginning in July of this year. In addition, the Bank for International Settlements is expected to provide $10 billion in short-term assistance.

The current Mexican financial crisis is a liquidity crisis that has had a significant destabilizing effect on the exchange rate of the peso, with consequences for the overall exchange rate system. The spill-over effects of inaction in response to this crisis would be significant for other emerging market economies, particularly those in Latin America, as well as for the United States. Using the ESF to respond to this crisis is therefore plainly consistent with the purpose of 31 U.S.C. 5302(b): to give the United States the ability to take action consistent with its obligations in the International Monetary Fund to assure orderly exchange arrangements and a stable system of exchange rates.

The Mexican peso crisis has erupted with such suddenness and in such magnitude as to render the usual short-term approaches to a liquidity crisis inadequate to address the problem. To resolve problems arising from Mexico's short-term debt burden, longer term solutions are necessary in order to avoid further pressure on the exchange rate of the peso. These facts present unique and emergency circumstances, and it is therefore both appropriate and necessary to make the ESF available to extend credits and loans to Mexico in excess of six months.

Sincerely,

William J. Clinton

Enclosures

February 21, 1995

Fact Sheet on United States Support for Mexico

I. Overview

o **Support:** The United States and Mexico have signed agreements implementing the $20 billion support package put forward by President Clinton to protect United States jobs, exports, immigration interests, and security concerns threatened by Mexico's liquidity crisis.

o **Conditions:** Mexico has announced an aggressive economic program which it intends to follow in order to restore financial stability. United States support is being extended to bolster that effort, by enabling Mexico to meet short-term obligations and restructure its debt.

o **Safeguards:** These agreements set up transparency requirements, notification methods, evaluation procedures, and other mechanisms to safeguard United States interests. Under these accords, proceeds from crude oil and oil product exports will serve as assured sources of repayment of Mexico's obligations to the United States.

II. Forms and Use of United States Support

o **Three Forms of Support:** These agreements cover three forms of support for Mexico:

-- short-term swaps through which Mexico borrows dollars for 90 days;

-- medium-term swaps that will extend dollars to Mexico for up to five years;

-- guarantees through which the United States will back Mexico's obligations on government securities for up to 10 years. The United States backing will convince investors to lend money to Mexico for longer terms at lower interest rates.

o **Use of Support:** Mexico will use the dollars the U.S. provides or the funds raised with U.S. guarantees to retire, refinance, or restructure short-term obligations. This will allow Mexico to shift its borrowing to more-stable, long-term sources of finance.

- **Staged Support:** The United States will make the support available in stages, as needed, subject to our determination that Mexico is adhering to its announced policies.

IV. Safeguards

- **Notification Requirements:** The Mexicans will be required to provide the U.S. Treasury with details about how they plan to use U.S. support any time they seek to draw on U.S. resources. For example, Mexico would have to specify what forms of securities would be offered with a new tranche of U.S. guarantees, as well as how the money raised with U.S. guarantees would be used to retire existing Mexican obligations.

- **Veto Power**: The U.S. Treasury may deny any request for a disbursement if Treasury determines that the use is inappropriate, or if it considers that Mexico has not met the conditions set forth in the agreements.

- **Acceleration:** The United States has the right to accelerate Mexico's outstanding obligations to the U.S. if Mexico has failed to comply with certain key provisions of these agreements.

V. Oil Backing

- **Proceeds from Oil Exports:** In the unlikely event of default, all of Mexico's obligations to the United States under the new arrangements will be backed by the proceeds from Mexico's crude oil and oil products exports.

- **Federal Reserve of New York:** Upon implementation of these agreements, payments for these exports will pass through an account of Bank of Mexico at the Federal Reserve Bank of New York.

- Set **Off to Meet Mexican Obligations:** If Mexico fails to repay Treasury under these agreements, Mexico's obligations will be set off against funds passing through the account.

Summary of Mexican Economic Policy Actions

The Government and the Bank of Mexico have reaffirmed and strengthened Mexico's economic program to contain the following actions:

- To fulfill all commitments undertaken with the IMF in connection with the stand-by arrangement.

- To respond to the financial crisis with additional policy steps.

  - To direct monetary policy to the objectives of reducing inflation, strengthening the peso, and encouraging the restoration of spontaneous capital inflows. To that end, the Bank of Mexico

    - Points out that under the law it is fully an independent institution;

    - Reiterates that it will maintain an upper limit for net domestic credit expansion of 10 billion Mexican pesos for all of 1995;

    - Aims to restrain base money growth backed by credit operations to below the rate of inflation;

    - Points out that short-term interest rates were raised by 10 percentage points on February 20;

    - Pledges to maintain tight monetary conditions to guarantee the substantially positive real interest rates that are essential to a successful stabilization effort; and

    - Seeks the stabilization of financial conditions and return of confidence that will permit interest rates to decline over the course of 1995.

  - To manage the floating exchange rate system, the Mexican financial authorities

    - Declare that the peso has been undervalued in recent trading sessions.

    - Pledge to maintain a credit and interest rate policy that will assure that the peso appreciates from those recent levels;

The Utilization of U.S. Funding under the U.S. Mexico Framework Agreement

Under the U.S.-Mexico Framework Agreement, the United States will make available up to $20 billion from the U.S. Treasury's Exchange Stabilization Fund. These funds will help the Mexican Government move aggressively to resolve its current financial crisis.

<u>Significant Levels of Support</u>

- The United States Government has committed $20 billion dollars to the Mexican support program.

- $10 billion will be made available in stages between now and the end of June 1995 as Mexico meets agreed upon targets. $3 billion will be made available immediately on the effective date of the agreement.

- Another $10 billion will be made available as needed and in stages beginning in July, based on the same terms and conditions.

<u>Program Addresses Mexico's Key Financial Problems</u>

- U.S. funding will enable Mexico to meet its tesobono obligations and successfully refinance and restructure its short-term debt.

- U.S. funding will support Mexican efforts to strengthen its banking system, including reducing pressure derived from maturing dollar-denominated CDs and other short-term obligations.

<u>U.S. Funding will Reposition the Mexican Economy</u>

- By eliminating Mexico's short-term debt problem and strengthening the Mexican banking system, the U.S. financial package enables Mexico to support stable exchange rates.

- This plan lets Mexico gain new access to private capital which will allow Mexico to continue to refinance less expensively.

<u>Funding Mechanisms Encourage Longer Term Investment</u>

- U.S. support will be available as both short- and medium-term swaps and through a program of loan guarantees.

- To date, only short-term swaps have been available to Mexico. As part of the Agreement, the U.S. will now begin to provide medium-term swaps as well.

- The Mexican Government will also be able to use U.S. funds to guarantee longer-term bonds. A first issue of U.S. guaranteed bonds is anticipated during the second quarter of 1995.

TREASURY CLEARANCE SHEET

NO. ______
Date March 1, 1995

MEMORANDUM FOR: ☒ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER ______

FROM: Edward Knight
THROUGH: ______
SUBJECT: ESF Congressional Notification Letter

REVIEW OFFICES (Check when office clears)

- ☐ Under Secretary for Finance
  - ☐ Domestic Finance
  - ☐ Economic Policy
  - ☐ Fiscal
    - ☐ FMS
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  - ☒ International Affairs
- ☐ Enforcement
  - ☐ ATF
  - ☐ Customs
  - ☐ FLETC
  - ☐ Secret Service
- ☐ General Counsel
- ☐ Inspector General
- ☐ IRS
- ☒ Legislative Affairs
- ☐ Management
- ☐ OCC
- ☐ Policy Management
  - ☐ Scheduling
- ☐ Public Affairs/Liaison
- ☐ Tax Policy
- ☐ Treasurer
  - ☐ E & P
  - ☐ Mint
  - ☐ Savings Bonds
- ☐ Other ______

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
Francine Barber	FnB	3-1-95	GI / 2013 MT	2-1947
REVIEWERS				
mLevy	m	3/1/95	L/3134 MT	2-1900
R Munk	RLM	3/1/95	GI/2314 MT	2-1899
J Shafer	JRS	3/1/95	I/3430 MT	2-0060

SPECIAL INSTRUCTIONS

☐ Review Officer ______ Date ______

☐ Executive Secretary ______ Date ______

DO F 80-02.1 (04/89)

95-143564

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 8, 1995

MEMORANDUM TO THE FILES

FROM: ROBERT E. RUBIN, SECRETARY

Over the past three weeks, I have spoken on several occasions to Guillermo Ortiz, the Finance Minister of Mexico, and separately on at least a couple of occasions to Luis Telles, Chief of Staff to President Zedillo, after preparatory conversations with Larry Summers, Jeff Shafer and others.

We discussed issues such as the monetary base, interest rates, monetary policy, fiscal policy and the central bank, and the Mexican banking system. Our conversations were direct and businesslike. I expressed our views, and in general, both Guillermo and Luis were responsive in substance and attitude.

The conversations I have had were similar to conversations that Larry Summers and others have had with their counterparts in Mexico.

143892
Internet

Tab A

March 13, 1995

DRAFT

Statements on Tranching of U.S. Funds

Ortiz:

In our financial plan of February 21, we have projected that $10 billion of the $20 billion that the U.S. has made available to us would be drawn in the first half of the year. The remaining $10 billion would be kept for contingencies.

We think that investors will recognize our determination to stabilize our economy, and that Mexico will again be seen as the attractive market for investment that it is. But if market confidence does not improve as quickly as we expect, it might be appropriate -- and I think possible -- to combine additional policy measures with an accelerated schedule of disbursement of funds that have been made available to us.

Rubin:

U.S. support of up to $20 billion is scheduled to be disbursed in stages. The schedule of disbursement was developed on February 21, in view of projections of what would be required to support Mexico's stabilization.

If the situation evolves differently from what was then projected, we can always just the schedule of disbursements to fulfill the objectives of U.S. assistance, provided Mexico is taking the right policy actions and meeting all the terms of our agreements.

Tab B

March 14, 1995

Summary of Mexico's Revised Economic Program

The GOM's revised economic package calls for further tightening of fiscal and monetary policies and steps to bolster the banking system to remain in compliance with the IMF agreement. The revised macroeconomic assumptions reflect a worse, but more realistic, economic outlook than the GOM's January forecast. Major elements of the program include:

A substantial tightening of fiscal policy

- The primary fiscal surplus in 1995 will increase by 2.1% of GDP to 4.4% as compared to the 1994 budget. The overall government surplus will be maintained at the January goal of 0.5% of GDP, versus -0.3% in 1994.
  - The VAT tax will be increased from 10 to 15%, yielding an additional 1% of GDP in revenue.
  - Expenditures will be cut by 0.7% of GDP as compared to the 1994 budget.
- Increases in fuel and electricity prices of 32-49% in 1995.
- Reduction of the immediate depreciation allowance to 3% to encourage investment.

Monetary policy as nominal anchor for the economy

- The goal of limiting the expansion of net domestic credit to NP 10 billion, now equivalent to a 20% real decline, will remain unchanged. Monetary policy will be further tightened, if necessary, to counter depreciation of the peso.
- The average exchange rate for 1995 is projected to be NP 6.0 as compared to NP 4.5 in the January plan.

Additional support for the banking system

- The existing FOBOPROA window to support banks will be strengthened through a $2.25 billion World Bank/IDB loan and $750 million in privatization proceeds.
- An inflation indexation system (UDI) that is intended to give greater certainty to savers and lenders and help reduce upward pressure on interest rates.

-- A credit restructuring program covering up to 12% of the portfolio of viable small and medium-sized companies will be extended up to 12 years and denominated in UDI's.

o A new program (PROCAPTE) will be established to provide temporary capitalization to commercial banks.

Wages and incomes Policy.

o The minimum wage will be increased an additional 10% (on top of the 7% awarded in January) and an income tax credit of 3% will be granted to low and middle income workers.

o Extension of medical benefits under the Social Security system from 2 to 6 months for unemployed workers.

Mexico's Economic Assumptions

Macroeconomic Targets	1994 (actual)	1995 (January)	1995 (March)	Net Change (March vs. January)
GDP (% change)	3.5	1.5	2.0	-3.5
- Domestic Demand	4.5	-3.6	-10.1	-6.5
- Gross Fixed Investment	9.9	-0.5	-9.4	-9.1
Inflation (% change y/y)	7.1	19.0	42.0	23.0
Merchandise Trade Balance				
- (US $ Billions)	-18.5	-5.0	6.1	11.1
- (% of GDP)	-4.8	-1.5	2.2	3.7
Current Account				
- (US Billions)	-29.4	-14.0	-2.4	11.6
- (% of GDP)	-7.8	-4.4	-0.4	3.0
Public Sector (% of GDP)				
- Primary Balance[1]	2.3	3.4	4.4	1.0
- Economic[2]	-0.3	0.5	0.5	------
- PSBR[3]	-4.4	-1.8	-1.6	0.2
Monetary				
- Average Exchange Rate ($ per peso)	3.38	4.5	6.0	1.5
- Average Interest Rate (28 day CETES)	14.2	24.0	47.7	23.7

[1]Excludes interest payments.

[2]Includes interest payments.

[3]Public sector borrowing requirement is the broadest measure of fiscal policy. This measure includes credit extended to government financial intermediaries.

Tab C

March 14, 1995

Status of Funding from Multinational Development Banks

On March 9, the World Bank announced a program of targeted support for Mexico in 1995-96. The IBRD indicated that it would propose loans to its Board totaling $1.5 billion for two operations designed to strengthen the banking sector and a loan for $500 million to strengthen social sector safety nets. The IDB has expressed interest in co-financing the operation in an amount of $750 million for the banking sector, and a matching $500 million for the social sector programs. Bank staff expect loans to go to the Board sometime in June, although they caution this target could slip. Likewise, IDB staff anticipate at least six to eight weeks minimum before its co-financing loans could be submitted for Board approval. Projected disbursements for calendar 1995 are roughly $300 million for the banking sector and $250-300 million for the social sector from the World Bank, and the Bank expects similar disbursement levels from the IDB in 1995. Both institutions have indicated that these loans will be on the fast-track for approval and disbursement.

Tab D

March 14, 1995

Recent Market Developments

Although the February 21 signing of the U.S.-Mexico financial agreement eased growing market concern regarding the timing and conditions of U.S. assistance, continued uncertainty regarding the Mexican economic plan and reservations about the political situation in Mexico led to sharp and accelerating declines in Mexican financial markets through March 9, the day the revised economic plan was announced. Over this period, the peso fell by 25% -- 54% below its pre-crisis level -- while stocks fell by 8% and Brady bonds by nearly 10%.

Markets responded positively to the announcements of March 9, with the peso appreciating nearly 20% on March 10 to bring it back to its level one week earlier. Stocks also rose by 3% and Brady bonds by 2% on March 10.

However, in this week's trading the peso has declined by 5% and remains 48% below its pre-crisis level. Stocks are unchanged since Friday with declines of 29% since the onset of the crisis, while Brady bonds strengthened further to a level 26% below pre-crisis levels.

Market participants suggest that demand for peso assets will remain limited until there is clear evidence of the economic program's success. At the same time, the pressure of a large overhang of dollar demand by foreign investors wishing to liquidate peso positions are expected to cap the currency's near-term gains. Likewise, market participants remain concerned that a flare-up in social or political tensions could undermine the successful implementation of the economic stabilization plan.

Tab E

March 14, 1995

Recent Banking Sector Developments

Background

The financial condition of the banking system was already weak at the time the crisis hit. The level of loan delinquencies was increasing, the level of loan loss reserves had been declining as a percentage of delinquencies and, some banks were operating below regulatory capital requirements. Other factors compounding the banking problem were: (i) a drastically improved but still weak bank regulator; (ii) inadequate transparency in balance sheets due to accounting standards which differ from international standards; (iii) capitalization of unpaid interest which overstates income; and, (iv) lack of verification by the bank regulator of the reported amount of banks loans in each risk classification.

Impact of crisis

The initial devaluation resulted in gains for most banks (except Banamex) since they were long on dollars ($900 million). However, the long positions were based on dollar transactions with Mexican customers. Now the problem facing the banks is the inability of those customers to repay their dollar loans, and the inability of customers in general to pay the higher interest rates. The lack of loan repayments and the declining loan quality has resulted in liquidity pressures for the banks and capital erosion.

Crisis response

In response to the crisis the authorities have taken a number of steps:

(1) The bank resolution fund (FOBAPROA) and the Bank of Mexico are providing liquidity.

(2) Three insolvent banks have been intervened and placed under the management of FOBAPROA.

(3) A temporary capitalization program was established (PROCAPTE). Banks can join this program by selling mandatory convertible subordinated to PROCAPTE (funding comes from the Bank of Mexico) to raise their capital base. Serfin, the third largest bank, is now in the program.

(3) Banks are required to raise loan loss reserves to 60 percent of past dues or 4 percent of total loans, whichever is greater;

(4) To facilitate foreign investment in Mexican banks, the Banking Law has been amended to reduce the percentage of shares required for a foreign institution to acquire control of a bank.

(5) Onsite inspections of all banks will be conducted.

Evaluation

The authorities have taken prompt corrective action to address the crisis. However, it is important that the authorities take the steps necessary to:

(1) Ensure that moral hazard is controlled;

(2) That government support is not wasted on non-viable banks; and

(3) That transparency and regulatory discipline are not sacrificed when banking losses greatly exceed original expectations.

At present, the framework established by the authorities is adequate to address the crisis. However, continual re-assessment of the situation is required, since the full extent of bank losses may not be known until onsite inspections of all banks are conducted.

Tab F

March 14, 1995

Recent Political Developments

Former President Salinas flew to the United States on March 10. The GOM has not yet formally requested the extradition of former prosecutor Mario Massieu, who remains in U.S. custody. Raul Salinas has been ordered to stand trial on charges of masterminding the assassination of PRI's Jose Massieu. As a result of these scandals, President Zedillo's popularity is rising.

DEPARTMENT OF THE TREASURY
WASHINGTON

95-143743

March 14, 1995

Information

MEMORANDUM FOR SECRETARY RUBIN

THROUGH: JEFFREY R. SHAFER

From: Daniel M. Zelikow DMZ

INFORMATION

Subject: Ortiz' Presentation to Wall St. Today.

This morning, Guillermo Ortiz presented Mexico's revised economic plan to a large group from the Wall St. investment community. I was able to monitor most of it by conference call. My overall impression was that Ortiz was forthright in his presentation of impending recession, cautious in his outlook on the restoration of private flows, and was received as credible by his interlocutors. After the presentation, the Mexicans told me they were pleased with their reception.

The key elements of the economic plan will be summarized for you in a brief for your Wednesday afternoon meeting with Ortiz (proposed). The main emphases were that:

- significant fiscal adjustment would occur despite the recession and higher debt service costs;
- exchange rate appreciation would be supported through policy adjustment, particularly the restriction on monetary growth (projected 20% real reduction of base money), not market intervention;
- appropriate measures were being taken to shore up the banking system;
- structural reforms will be accelerated and deepened;
- the plan works even under pessimistic assumptions about the recovery of market confidence and private capital flows;
- the worst of the adjustment would occur this spring, and that the outlook for recovery in 1996 was "highly positive".

Questions focused on the viability of government expenditure reductions, accounting issues related to expansion of net domestic assets, and the efficacy of measures to bolster the banking system. Only on the last was Ortiz' response not fully adequate, mainly because the new "UDI scheme" (inflation indexation of deposits and credits) would likely involve some cap on bank lending rates and was still to be worked out; Ortiz' response reflected these ambiguities.

EXECUTIVE SECRETARIAT

TREASURY CLEARANCE SHEET

NO. 95-143743
Date

MEMORANDUM FOR: ☐ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER

FROM: Daniel Zelikow, Head, Mexico Task Force
THROUGH: Jeffrey R. Shafer, Assistant Secretary, ~~Int'l Affairs~~
SUBJECT: Ortiz' Presentation to Wall St. Today

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
☐ Domestic Finance
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☐ Public Debt

☐ Under Secretary for International Affairs
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☐ Treasurer
☐ E & P
☐ Mint
☐ Savings Bonds

☐ Other

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
Daniel M. Zelikow	DMZ	3/14/95	OASIA/I	622-7588
REVIEWERS				

SPECIAL INSTRUCTIONS

☐ Review Officer Date ☐ Executive Secretary Date

DO F 80-02.1 (04.89)

95 144036

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

CLOSE HOLD

March 21, 1995

MEMORANDUM FOR SECRETARY RUBIN

FROM: Linda L. Robertson LR
Deputy Assistant Secretary
Legislative Affairs

Victor A. Rojas VAR
Deputy to the Assistant Secretary
Legislative Affairs

SUBJECT: **Telephone Call to House Speaker Newt Gingrich regarding Action Likely to be taken by House Republican Conference on either Thursday, March 23 or Friday, March 24 regarding Mexico**

ACTION FORCING EVENT:

The House Republican Conference is scheduled to meet again later this week. It is likely that the conference will once again debate a resolution that would seek to limit the ability of the Department of the Treasury to use the Exchange Stabilization Fund in Mexico or for any purposes similar to those for which it has been employed in Mexico.

RECOMMENDATION:

The resolution ultimately taken up by the Republican conference later this week could take any number of different forms, from a condemnation of our policy in Mexico and our handling of the peso crisis to a resolution stating that the Exchange Stabilization Fund may not be used for any purposes similar to those for which it has been employed in Mexico without prior Congressional authorization.

Any action by the conference on resolutions that would constrain our ability to use the ESF or that would in any way serve to cast doubts over the legitimacy of our current package of Mexican financial assistance would clearly have serious market consequences. Equally important, any resolution of this nature adopted by the conference would serve to lay a dangerous predicate for Banking Committee or full House action undercutting our policy in Mexico.

We recommend that call House Speaker Newt Gingrich today to: (1) express your sincere appreciation for the support that he had given us to date; and (2) express serious concerns regarding any action taken by the Republican Conference later this week on resolutions that would serve to put our support package and our national interests at risk.

Agree:______________ Disagree:______________ Let's Discuss______________

BACKGROUND AND ANALYSIS:

Our most current intelligence suggests that the resolution that will be the likely subject for debate and a possible vote would be fashioned on legislation introduced by Rep. Steve Stockman (R-Texas). The Stockman legislation states that "no funds...may be used in any way...for the purpose of any swap, loan, loan guarantee, or grant to Mexico unless and until Congress has affirmatively approved such swap, loan, loan guarantee or grant to Mexico."

Both Speaker Gingrich and Chairman Leach continue to be under significant pressure from the right within their own conference to push the Administration more aggressively on Mexico. Gingrich, in an attempt to mollify the more extreme opponents of our Mexico policy within his own conference, has gone so far as to support more aggressive oversight and hearings by Republican Committee and Subcommittee Chairmen. Leach must also allow latitude to Members like Spencer Bachus within his own Committee to go forward with their own aggressive oversight of the ESF broadly and our policy more specifically.

Tab A: Talking Points for Telephone Call to House Speaker Newt Gingrich

TAB A: **TALKING POINTS FOR TELEPHONE CALL TO HOUSE SPEAKER NEWT GINGRICH EXPRESSING SERIOUS CONCERN REGARDING POSSIBLE REPUBLICAN CONFERENCE CONSIDERATION OF AND ACTION UPON RESOLUTIONS REGARDING MEXICO**

- It is my understanding that the House Republican Conference is scheduled to meet later this week to discuss and vote on our Mexico package.

- It is my further understanding that the Conference will likely vote on a resolution that would bar the Treasury Department from using the Exchange Stabilization Fund in Mexico without prior Congressional approval.

- Before I address the specifics of this Conference action, let me again reiterate my appreciation for the important leadership role that you have taken on Mexico. I know that this has not been easy and is not very popular within your conference.

- I have very serious concerns regarding any efforts by the Conference to act upon resolutions that would have the practical effect of undermining market confidence in our Mexican support package.

- Any attempt to impair or constrain the ability of the Administration to use the Exchange Stabilization Fund poses a serious threat to the United States economy, putting our support package for Mexico and hence our national interests at risk.

    - This view transcends this Department of the Treasury, this President and this Administration. This view also transcends party lines.

    - Institutionally, the Department of the Treasury has an obligation to protect the ability of this and future Treasuries to use the ESF as an aggressive tool of currency intervention with both confidence and discretion.

- As I have noted to you previously, by publicly calling into question our use of the ESF in Mexico as provided under law, this resolution could threaten the credibility of the stabilization package and undermine the confidence Mexico is trying to restore among investors.

    - In addition, it could destroy the confidence that other nations have in the ability of the Executive Branch to negotiate agreements with them. These consequences could, in turn, have a negative impact on jobs, wages and prospects of American workers here at home.

- Failure to abide by our commitment with Mexico and not be allowed to move forward with patience and confidence would encourage further turmoil in the short-term debt markets and further undermine investor confidence in Mexico, signaling the markets that the United States is backing away from Mexico.

- I don't think that either of us would want the markets to respond adversely as a result of our failure to honor our commitment as a result of an ill-advised course of action charted by the Republican Conference.

- I appreciate having had this opportunity to speak and I look forward to keeping you and your colleagues further apprised of our actions as we move forward. Thank you.

95 144439

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

CLOSE HOLD

March 29, 1995

MEMORANDUM FOR SECRETARY RUBIN

THROUGH: Linda L. Robertson
Deputy Assistant Secretary
Legislative Affairs

FROM: Victor A. Rojas VAR.
Deputy to the Assistant Secretary
Legislative Affairs

SUBJECT: **Telephone Calls to House Speaker Newt Gingrich and House Banking Committee Chairman Jim Leach regarding Anticipated House Republican Conference Consideration of Stockman Mexico Resolution**

ACTION FORCING EVENT:

As you know, the House Republican Conference is scheduled to meet tomorrow morning, Thursday, March 30. On the agenda for the conference meeting will be a resolution in support of prompt floor action under an open rule of H.R. 807, the Taxpayer Protection Act of 1995 introduced by Rep. Steve Stockman. The Stockman resolution, summarily, states that "no funds...may be used in any way...for the purpose of any swap, loan, loan guarantee, or grant to Mexico unless and until Congress has affirmatively approved such swap, loan, loan guarantee, or grant to Mexico."

RECOMMENDATION:

It remains unclear the extent to which Gingrich or Leach will, yet again, seek to waylay Conference action on the resolution. Our intelligence suggests that neither Gingrich nor Leach intend to aggressively oppose Conference adoption of the resolution as described above. Their strategy in allowing supporters of such a resolution to go forward in the Republican Conference is to placate the more extreme and vocal opponents of our package of financial assistance to Mexico. If this assessment of their strategy is correct, it completely neglects the very real market ramifications of such a action.

CLOSE HOLD

As you know only too well, we have been down this road before with Gingrich, Leach and the Republican Conference. We have every reason to believe that action by the Conference tomorrow on the Stockman resolution is imminent and the threat of adoption is very real. To this end, we strongly recommend that you call Speaker Gingrich and Chairman Leach this evening to express our very serious concerns regarding any such action being taken by the Republican Conference and to reiterate the very serious market consequences which would result if the Conference to adopt such a resolution.

Agree:______________ Disagree:______________ Let's Discuss______________

BACKGROUND AND ANALYSIS:

See attached talking points for calls to Speaker Gingrich and Chairman Leach.

NCC faxed to RER 3/30/95
cc SMAT

pls log In

TALKING POINTS FOR TELEPHONE CALLS TO SPEAKER NEWT GINGRICH AND BANKING COMMITTEE CHAIRMAN JIM LEACH REGARDING ANTICIPATED HOUSE REPUBLICAN CONFERENCE <u>CONSIDERATION OF STOCKMAN MEXICO RESOLUTION</u>

- It is my understanding that the House Republican Conference is scheduled to meet tomorrow morning.

- It is my further understanding that the Conference is scheduled to consider a resolution that would recommend prompt House consideration of legislation requiring prior Congressional authorization before the Administration could use the Exchange Stabilization Fund within the framework of our Mexico support package.

- You and I have had similar conversations regarding such action by the Conference or the Congress on more than one occasion. As you well know, I fully appreciate your support for our package of financial assistance to Mexico and all of your efforts to see that this program be given a chance to go forward and succeed.

- Since we have talked several times on this issue, you are equally fully aware of the serious concerns that we have regarding such a course of action and how consideration of and passage of such a resolution in the Republican Conference might undermine market confidence in our Mexico support package.

- Any action by the Conference recommending prompt House action on legislation that would undermine our ability to use the ESF as we have agreed with the Mexicans might be interpreted as a serious threat to the credibility of our stabilization package and further undermine the confidence that Mexico is trying to restore with investors.

- The Mexican government has taken courageous action in directly confronting its situation and offering a disciplined economic recovery program. Since the first of the year:
  - the outstanding stock of tesobonos had been brought down from $30 billion to less than $17 billion; and
  - Mexico had corrected it's current account imbalance and reduced the monetary base from 57 million pesos to 49 million pesos;

- The success of these effort cannot be judged from day-to-day market movements. Nonetheless, it appears that negative sentiment may be bottoming out, meaning that if Mexico hold the course, there is every likelihood of confidence returning.

  - Signs of declining peso volatility have recently emerged coupled with steady increases in the Bolsa.

- Any indication that the commitment of the U.S. to the agreements we negotiated and signed with the Mexicans is weakening could threaten to jeopardize the best possible outcome in Mexico.

- This program needs time to work. What it does not need to persistent second-guessing that the market will clearly interpret as a lack of resolve and commitment on the part of U.S. government leaders.

- I fully appreciate the support that you have lent to these efforts to date. At this point in time, I fully hope that you will be able to work with your colleagues and to be able to successfully impress upon them that their actions may not be in our best national interests.

- Thank you again for all of your assistance and I look forward to continuing to work with you as we press forward.

95-145061

DEPARTMENT OF THE TREASURY
WASHINGTON

UNDER SECRETARY

April 14, 1995

ACTION

MEMORANDUM FOR SECRETARY RUBIN

FROM: LAWRENCE H. SUMMERS
UNDER SECRETARY (INTERNATIONAL AFFAIRS)

EDWARD S. KNIGHT
GENERAL COUNSEL

SUBJECT: Letter to the President Concerning Fulfillment of Certain Legislative Conditions Related to Mexican Drawing

ACTION FORCING EVENT:

Before additional funds can be made available to Mexico next week under the program announced by the President on January 31, the President must certify to Congress that five conditions set forth in the newly enacted Department of Defense Emergency Supplemental Appropriations act (signed into law by the President on April 10) have been met. The White House Counsel's office has requested a letter from you to the President stating whether you have found that the first four conditions have been met and whether you recommend that the President certify that they have been met.

RECOMMENDATION:

That you sign the attached letter to the President stating that you have found that the first four conditions have been met and recommending that the President certify that they have been met.

Agree ✓ Disagree ____ Let's Discuss ____

BACKGROUND:

The Mexican Government has submitted a request to the Treasury Department for a second drawing under the Medium-Term Exchange Stabilization Agreement which was signed on February 21, 1995. If you approve the request, it is anticipated that the drawing will take place during the week beginning Monday, April 17, 1995. Pursuant to Section 406 of Title IV of the Department of Defense Emergency Supplemental Appropriations Act, the President must submit to a number of Congressional committees a certification as to the following matters before such funding may be extended:

(1) there is no projected cost (as defined in the Credit Reform Act of 1990) to the United States from the proposed swap;

(2) all loans, credits, guarantees, and currency swaps to Mexico from the Exchange Stabilization Fund or the Federal

EXECUTIVE SECRETARIAT

Reserve System are adequately backed to ensure that all United States funds are repaid;

(3) the Government of Mexico is making progress in ensuring an independent central bank or an independent currency control mechanism;

(4) Mexico has in effect a significant economic reform effort; and

(5) the President has provided the documents described in paragraphs (1) through (28) of House Resolution 80, adopted March 1, 1995.

As mentioned above, the White House Counsel's office has requested a letter from you as to whether you have found that conditions (1)-(4) have been met with respect to the drawing proposed for next week and whether you recommend that the President certify that they have been met.

We have concluded that you can make such a finding with respect to those four conditions. The basis for this finding is set out in the attached letter.

Attachment: Tab A: Letter to the President

95-145061

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

President William J. Clinton
The White House
Washington, D.C. 20500

Dear Mr. President:

Under Section 406 of the Mexican Debt Disclosure Act of 1995, which is Title IV of the Emergency Supplemental Appropriations and Rescissions for the Department of Defense to Preserve and Enhance Military Readiness Act of 1995, you are required to submit to Congress a certification as to five conditions prior to the time that funds can be made available from the Exchange Stabilization Fund to Mexico. Mexico has requested that funds be made available to it by means of a swap transaction next week. The required certification will have to be submitted to Congress prior to the time we agree to make the requested funds available.

The White House Counsel's office has requested that I inform you as to whether I have found that the first four conditions have been met. After careful consideration, I have found that the first four conditions, which are as follows, have been met, and I recommend that you certify that:

(1) there is no projected cost (as defined in the Federal Credit Reform Act of 1990) to the United States from the proposed swap transaction;

(2) all loans, credits, guarantees, and currency swaps to Mexico from the Exchange Stabilization Fund or the Federal Reserve System are adequately backed to ensure that all United States funds are repaid;

(3) the Government of Mexico is making progress in ensuring an independent central bank; and

(4) Mexico has in effect a significant economic reform effort.

The bases for my findings are as follows:

<u>Condition (1)</u>. There is no projected cost (as defined in the Federal Credit Reform Act of 1990) to the United States from the proposed currency swap with Mexico. We have provided in the Medium-Term Exchange Stabilization Agreement, concluded with Mexico on February 21, 1995, for the United States to be paid interest on a quarterly basis equal to the rate assessed on a

91-day Treasury Bill plus a premium determined by the United States. The interest and premium on the proposed swap will be more than sufficient, according to the Office of Management and Budget, to offset the cost of the swap as calculated under the Federal Credit Reform Act of 1990 for countries having a current rating like that of Mexico.

In addition, the United States has secured three tiers of backing for the repayment of currency swaps extended to Mexico: the full faith and credit of the Government of Mexico, an assured source of repayment including an oil proceeds mechanism, and the currency (pesos) that will be swapped for dollars.

The proposed medium-term transaction is a swap of dollar assets for peso assets, accrues interest, and is subject to a maintenance of value provision for full repayment (in terms of dollars) at the maturity of the swap. Treasury has conducted numerous short-term swap transactions in the past; Mexico has always paid all obligations under them.

Condition (2). Mexico is meeting the requirement that "all loans, credits, guarantees, and currency swaps are adequately backed to ensure that all United States funds are repaid...." The "backing" for the U.S. package is primarily in three forms: first, the "full faith and credit" of the Mexican Government; second, an assured source of repayment including an oil proceeds mechanism that would allow the United States to "set off" against the proceeds of Mexican crude oil, refined product, and petrochemical exports flowing through a bank account in New York in the event that Mexico has any unpaid obligations to the United States; and, third, the currency (pesos) swapped for dollars.

Mexico remains current on its medium and short-term drawings from the United States, recently making its first payment of interest on the $3 billion medium-term swap that was extended on March 14, 1995. The United States has no grounds to question Mexico's "full faith and credit" commitment to repay all of its obligations in a timely manner. Mexico has always paid Treasury for its past swap drawings.

As for the second form of "backing", the oil proceeds mechanism is in place. Over $800 million in oil proceeds has flowed through the Mexican Government account at the Federal Reserve Bank of New York since early March. (Last year, Mexico earned about $6.5 billion from the export of crude oil, and over $700 million from the export of refined products and petrochemicals.) If, for any reason, the proceeds of crude oil, refined product, and petrochemical exports fall below a floor established in the February 21, 1995 agreements between Mexico and the United States in order to ensure adequate backing, a substitute source of repayment satisfactory to the Treasury Department must be found by Mexico to avoid prepayment and possible termination of the agreements.

Mexico's government-owned oil company, Petroleos Mexicanos (Pemex), has not informed Treasury of any problem so far in instructing its export customers to pay their proceeds into the mechanism. Also, Pemex has announced that it plans to increase its export sales this year by 100,000 barrels per day.

Furthermore, Treasury has drawn on analyses from various sources (including other U.S. government agencies) regarding future Mexican oil export revenues, to compare them against Mexico's principal and interest payment obligations arising from Treasury's financial assistance. For example, there is an analysis by the Department of Energy supporting the conclusion that there is adequate backing for a $20 billion facility.

<u>Condition (3)</u>. The Bank of Mexico (the Bank) is already legally independent. Mexico's constitution asserts that the Bank "shall be autonomous in the exercise of its function and its administration," and that "[i]ts primary objective shall be to ensure the stability of the purchasing power of the national currency."

- The Bank has emphasized its independence by establishing a limit on net domestic credit for which it, and it alone, will be held accountable. This nominal limit is far less than the projected rate of inflation, implying a decline in real money over this year.

- Furthermore, as part of their agreements with the United States on February 21, Mexican authorities have committed themselves "to assure that the peso appreciates from the levels of its recent trading range," and, in the event they intervene to stabilize the peso, to allow "a quick adjustment of credit and interest rate policies to reverse rapidly the intervention and any accompanying credit expansion." This should help them to meet their goals of low inflation and a strong peso, while maintaining reserves.

- In order to increase the market's ability to judge the Bank's effectiveness, the Bank has begun to issue each week key information from its balance sheet regarding international reserves, domestic credit and the money supply.

To date, the Bank has demonstrated its independence by keeping monetary policy tight. The Bank has allowed interest rates to rise significantly since early February. The nominal money supply has actually fallen by 14 percent and the real money supply by 25 percent since the beginning of the year (through March 31). In recent weeks, the peso has appreciated somewhat and its volatility has diminished.

The Bank has also made progress through institutional reforms that enhance its independence:

o The Bank has begun enacting a series of measures designed to improve its control over domestic credit and the money supply. One component of these reforms tightens Bank control over the amount of overdraft credits extended to commercial banks. As a result, the Bank now has a stronger ability to restrict credit and money supply growth to targeted rates, even in the face of strong credit demand from the banking system.

o Moreover, the Bank is implementing a new system of interbank transaction clearing. This new mechanism should limit the exposure of the Bank to risk from potential liquidity problems in the commercial banks.

o Finally, commercial bank supervision and regulatory responsibilities have been removed from the Bank and placed in an agency under the Ministry of Finance, to concentrate the Bank's focus on monetary policy.

Consistent with its independence, the Bank of Mexico is a separate signatory to the Framework Agreement governing U.S. support for Mexico, and accompanying conditions.

<u>Condition (4)</u>. Mexico has in effect a significant economic reform effort designed to reduce government spending and involvement in the economy, redeem and reschedule short-term government debt, and keep monetary and credit conditions tight so as to maintain a strong peso. These steps will help to restore economic confidence, increase private savings and investment, raise productivity, and spur private initiative and growth.

Specific measures which the Mexican Government has announced since the signing of the agreements include:

o *Fiscal measures that will improve the federal budget balance* from a deficit of 0.3 percent of GDP in 1994 to a projected surplus of 0.5 percent of GDP in 1995, even allowing for a rise in interest costs to 3.9 percent of GDP. These steps should help lower domestic consumption and increase national savings.

-- The primary surplus, which excludes interest payments on debt, will rise from 2.3 percent of GDP to 4.4 percent of GDP in 1995.

o *A strengthened monetary policy*. Limits on the expansion of net domestic credit will constitute tight control of the money supply. The Bank has instituted a new clearing system to limit Mexican banks' borrowing from the discount facility in order to tighten its control over credit expansion. Furthermore, the Bank expects that its strict credit policy will stabilize the foreign exchange market and increase the value of the peso.

o *Elimination on March 9 of the PACTO,* an agreement through which the government, industry leaders, and labor groups placed limits on wage and price increases. Removal of such artificial restrictions will allow markets to function more efficiently, free up private initiative, and eliminate barriers to employment and innovation.

o *Sharp reductions in the stock of short-term, dollar-linked debt.* The government has redeemed short-term, dollar-indexed tesobonos to bring down the outstanding stock of such obligations from $29.2 billion at the beginning of the year to $16.0 billion (as of April 7). Moreover, $3.7 billion in mostly dollar-denominated CDs and other bank obligations have been retired over the same period.

o *Steps to implement Mexico's commitment "to undertake privatization and concession operations,"* expressed in the economic policy memorandum underlying Mexico's February 21 agreement with the United States. Mexico's government is:

-- preparing to accept bids for the privatization of several ports and shipping facilities, and is developing terms for the privatization of petrochemical plants;

-- beginning work toward privatization of electricity generation facilities and toll roads, to be undertaken once suitable regulatory frameworks are in place; and

-- drafting legislation to allow for privatization of satellites, railroads, and airports.

o *Steps to establish a peso futures market* in Mexico City and Chicago, which the Bank of Mexico expects to begin operating within the coming month.

o *Implementation of a mechanism (PROCAPTE) to deal with banking problems* by helping banks meet minimum capital requirements in a manner that penalizes owners who fail to take corrective action.

o *Creation and implementation of a mechanism (UDIs) that allows viable small and medium-size Mexican businesses to restructure their debt owed to banks* through grace periods and inflation indexing of deposits and loans.

o *Removal of certain limitations under the NAFTA on foreign acquisitions of Mexican banks* to facilitate foreign investment in the banking system.

o *More frequent and timely publication of economic data by the Bank of Mexico and the Ministry of Finance and Public Credit* to increase transparency and allow better monitoring of the economy.

These measures, embodying a tight monetary policy, disciplined fiscal policy and important structural reforms, will restore financial stability, allowing Mexico's economy to resume its progress toward growth.

Please do not hesitate to let me know if you require further information concerning this matter.

Sincerely,

Robert E. Rubin

Robert E. Rubin

TREASURY CLEARANCE SHEET

No. 95-145061
Date 4/14/95

MEMORANDUM FOR: X SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
X ACTION x BRIEFING INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY OTHER

FROM: Under Secretary Lawrence Summers
THROUGH:
SUBJECT: Letter to the President Concerning Fulfillment of Certain Legislative Conditions Related to Mexican Drawing

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