

THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF TELEPHONE CONVERSATION

SUBJECT: Telcon with Mexican President Ernesto Zedillo

PARTICIPANTS: The President
The President of Mexico, Ernesto Zedillo

Notetaker: V. Manuel Rocha, NSC

DATE, TIME: January 6, 1995; 3:15 PM
AND PLACE: Oval Office

The President: Hello.

President Zedillo: Hello, Mr. President.

The President: How are you?

President Zedillo: So, so.

The President: I know it has been a tough time for you.

President Zedillo: I am sorry to bother you, but I feel I have to review with you the situation with our current account deficit. We are having a problem. One way to put it is as if you had to cover all Treasury bonds overnight. Certain sectors are trying to sell those assets and convert them into dollars. The magnitude of the conversion is impossible for us. There is no way the Mexican economy can support this, even for a few days. We cannot meet the payments. This can cause severe damage not only to the Mexican economy but to the U.S. economy. There is danger of systemic damage. It is important to make you aware of these circumstances.

The President: I have been watching the situation closely. Treasury and the Federal Reserve have been working this closely. I praise your economic program which I think is very balanced. We want to be supportive in any way that we can. The U.S. has a lot at stake in NAFTA, in your success and in our common future. That is why we have moved to increase the swap facility available to Mexico to \$9 billion -- the largest such facility in the history of our country. The swap line is a very good deterrent. Can I make a public statement, would that be helpful? Every day we talk about this. But I ...

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President Zedillo: I am aware, Mr. President, but we have to take additional steps or we will be facing a very serious, even extreme situation. Finance Minister Ortiz is in town. It would be important if he could talk to the authorities again. My sense is that they don't realize how difficult the situation is, not only for us and for the U.S., but for systemic risk which could also damage the U.S. Of course your statement would be useful. But I think it is wise if the authorities could explore other scenarios.

The President: Is Mr. Ortiz here?

President Zedillo: Yes.

The President: Why don't we have them talk, and we can follow up? ..Larry Summers will see Ortiz this afternoon. I'm glad you called. ...We got broken up. What I was saying is that some devaluation was warranted but the markets have overreacted. Let's let them talk, and we will follow up.

President Zedillo: Thanks very much. I'll be waiting for your call.

-- End of Conversation --