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United States: Central Bank Swaps to Mexico, 1982[1]

Lakshimi Swaminathan[2]

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Abstract

In 1982, Mexico faced a balance of payments crisis, as rising interest rates and falling oil revenues made it increasingly difficult for the government to meet interest payments on its accumulated foreign debt. This case describes three currency swap facilities that the US government used to provide dollar funding to the Bank of Mexico (BoM) during this crisis: (1) a standing, USD 700 million swap facility with the Federal Reserve, which the BoM drew upon four times between April and August 1982; (2) a one-week, USD 1 billion swap facility with the US Treasury, which the BoM drew upon once in mid-August 1982; and (3) a USD 925 million Special Combined Credit Facility with the Fed and US Treasury, which the BoM drew upon several times, starting in August 1982, and repaid in August 1983. The purpose of the swaps was to serve as a bridge to International Monetary Fund (IMF) funding that US and Mexican officials hoped would address Mexico's macroeconomic problems. On December 23, 1982, the IMF approved a rescue package worth USD 3.75 billion for Mexico. This case is unusual because of the significant collaboration it entailed among the US Treasury, the Fed, and other government agencies; most lenders in the Yale Program on Financial Stability series examining central bank swap lines are central banks acting alone. This case also represents the first time that the US Treasury extended loans with a maturity of more than six months from its Exchange Stabilization Fund.

Keywords: balance of payments crisis, central bank swaps, foreign currency swaps, Mexico

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[1] This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering central bank swap line programs. Cases are available from the *Journal of Financial Crises* at https://elischolar.library.yale.edu/journal-of-financial-crises/.

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Overview

Between 1973 and 1981, the Mexican government's external debt grew at an average rate of 30% per annum, from USD 4 billion to USD 43 billion; a substantial amount of this debt was in foreign currencies, primarily US dollars. For some time, even as international officials began to worry about developments, Mexican authorities disregarded the possibility of a balance of payments crisis owing to the rising price and positive demand forecasts for oil, Mexico's primary export. In the first half of 1981, a sharp increase in short-term interest rates by the US and other major countries and a cooling of the demand for oil created the preconditions for an economic and financial crisis. Meanwhile, the Mexican government's debt profile began to shorten, as lenders were reluctant to make long-term loans; Mexican residents began to shift bank deposits out of the country (Boughton 2001).

In 1982, Mexico owed a significant amount of debt that would mature in August (Boughton 2001; US GAO 1997). Its overall debt was approximately USD 80 billion, with USD 20 billion of that due to US banks (Rowe Jr and Atkinson 1982b). As a precautionary measure, US officials from the Federal Reserve and US Treasury agreed as part of crisis management strategies that while they would not grant a significant amount of credit to Mexico unless it sought an adjustment program from the International Monetary Fund (IMF), they would advise Mexico and provide overnight currency swaps until December 1, 1982, when Mexico's new president would assume office. They also decided as part of the crisis management strategies that any longer-term loans would have to be repaid from IMF medium-term loans. The officials placed these conditions

Key Terms

Purpose: To help Mexico manage its debt crisis until a package with the IMF was finalized

Participating Parties	Standing Fed facility: Fed, BoM; One-week facility: US Treasury, BoM; SCCF: Fed, US Treasury, BoM
Type of Swap	Standing Fed facility: bilateral, reciprocal; One-week facility: bilateral, unidirectional; SCCF: bilateral, unidirectional
Currencies Involved	US dollars and Mexican pesos
Launch Date	Standing Fed facility: May 2, 1967; One-week facility: Aug. 15, 1982; SCCF: Aug. 26, 1982
End Date	Standing Fed facility: Currently absorbed into the North American Framework Agreement; One-week facility: Aug. 24, 1982; SCCF: Aug. 23, 1983
Date of First Usage	Standing Fed facility: April 30, 1982; One-week facility: Aug. 16 1982; SCCF: Aug. 28, 1982
Interest Rate and Fees	Standing Fed facility: Treasury bill rate; One-week facility: USD 50 million fee paid by BoM SCCF: No information
Amount Authorized	Standing Fed facility: USD 700 million; One-week facility: USD 1 billion; SCCF: USD 925 million *(continued)*

Peak Usage Amount and Date	Standing Fed facility: USD 700 million on July 31 and Aug. 4, 1982; One-week facility: USD 825 million on Aug. 16, 1982; SCCF: USD 603.5 million during the fourth quarter of 1982
Downstream Use/Application of Swap Funds	Standing Fed facility: Provide reserve cushion; One-week facility: No information SCCF: Lent to commercial banks
Outcomes	Standing Fed facility: Still in effect; One-week facility: Repaid on Aug. 24, 1982; SCCF: Repaid on Aug. 23, 1983
Notable Features	For the one-week UST-BoM facility signed on Aug. 15, 1982, US Treasury lent the BoM USD 825 million, which the BoM repaid on Aug. 24 on receiving a prepayment for Mexican oil from the US Dept. of Defense (which made a payment on behalf of the Dept. of Energy); this was the first time that loans with a maturity of more than six months were lent from the US Treasury's Exchange Stabilization Fund

on Mexico because they wanted Mexico to accept assistance from the IMF, and IMF assistance usually came with economic reform programs (US GAO 1997).

For that reason, the US government preferred to offer Mexico temporary support, mostly through currency swaps, as a bridge while Mexico's government negotiated terms with the IMF. The Bank of Mexico (BoM) had a preexisting, standing reciprocal swap facility with the Fed for up to USD 700 million. The BoM drew on this swap facility on an overnight basis three times—on April 30, 1982, June 30, 1982, and July 31, 1982—to enable Mexico to meet its foreign currency reserve target in month-end reports (Kraft 1984; US GAO 1997). On August 4, 1982, the BoM drew fully on the standing Fed facility for USD 700 million, but for a duration of three months rather than overnight (Kraft 1984).

On August 11, 1982, Mexico's secretary of finance, Jesús Silva Herzog, concluded that Mexico could no longer manage its debt problem by negotiating with commercial creditors (Boughton 2001). Lending banks were refusing to roll over debt service obligations due the following Monday, August 16, on Mexico's sovereign debt, and the Bank of Mexico had run out of reserves to meet these requirements (Boughton 2001; FDIC 1997). By early August, the Bank of Mexico possessed liquid reserves worth less than USD 200 million and was losing dollars at the rate of USD 100 million a day. Mexico could not generate export surpluses and maintain confidence in its economy (US GAO 1997). The Mexican government then faced two possibilities—to default on its loans or to seek assistance to stave off the crisis; it chose the latter (Boughton 2001; Kraft 1984).

Silva Herzog (1) ordered the closure of the foreign exchange markets; (2) sent a letter to the creditor banks saying that Mexico would default on its principal payments due the following Monday; and (3) informed IMF Director Jacques de Larosière, Federal Reserve Chairman Paul Volcker, and US Treasury Secretary Donald Regan of all these developments and went to Washington to meet them in person on August 13, 1982 (Boughton 2001).

When Silva Herzog approached the IMF for assistance first, Director de Larosière informed him that the IMF would assist Mexico only if it (1) stayed current on its interest payments, (2) reached a deal with the creditors regarding the scheduled principal payment that Mexico was in the process of defaulting on, and (3) was prepared to accept a fiscal austerity program (Boughton 2001). Mexican officials agreed to the IMF's terms, but negotiations would take time; Mexico needed additional help until IMF financing became available (US GAO 1997). Silva Herzog sought that help from the US, meeting with several government officials to request emergency funding (Boughton 2001).

US officials were concerned that an outright default by Mexico would ruin its credit rating and close it off from the funding that it needed on an ongoing basis. They were also worried about possible contagion and systemic impacts of a default because "the world's largest commercial banks had heavy exposure to Mexico as well as other developing countries" (US GAO 1997, 27). While the Treasury considered loaning money to Mexico in the form of a swap from funds available in its Exchange Stabilization Fund (ESF), it required collateral to secure a loan, and Mexico's cash flows were not sufficient. To solve this problem, the Treasury arranged for the US Department of Energy to pay USD 1 billion to Mexico as a prepayment for oil imports under a contract with the Department of the Defense for the US Strategic Petroleum Reserve (US GAO 1997) (see Figure 1).

With the backing of this oil transaction, the US Treasury established a temporary, one-week bilateral swap line[3] worth up to USD 1 billion with the BoM. The BoM immediately drew USD 825 million on this line on August 16 and repaid the full amount on August 24, 1982, on receiving the prepayment from the US Department of Defense (Boughton 2001). (For a detailed discussion of the swaps, see Figure 2.)

The US Department of Agriculture (USDA) Commodity Credit Corporation and the Export-Import Bank also provided USD 1 billion of food credit guarantees to cover food exports to Mexico. This was because Mexico was a large importer of food and the US was a surplus producer, and similar food credit purchases had been part of aid packages to rescue Mexico in the past, including during the 1976 crisis (Boughton 2001; Kraft 1984).

[3] There is some confusion about whether this was a conventional swap line or not. Government reports discuss the Treasury requiring collateral from Mexico, which it did not possess in sufficient amounts. The upshot was that the US government paid Mexico USD 1 billion as prepayment for oil and another USD 1 billion as guarantees to US food exports to Mexico (Boughton 2001; Kraft 1984).

Figure 1: Timeline of Events during the Mexican Crisis of 1982

Date	Event
Aug. 1982	Mexico faces significant maturing of loans
Aug. 4, 1982	The BoM draws fully on the standing reciprocal swap facility with the Fed—for USD 700 million—to serve as a bridge to IMF support
Aug. 14, 1982	Mexico imposes capital controls
Aug. 15, 1982	The Treasury arranges for a temporary, bilateral swap line of USD 1 billion. The BoM draws USD 825 million from this swap line
Aug. 24, 1982	BoM repays USD 825 million to the Treasury on receiving the prepayment from the US Department of Defense for oil
Aug. 29–30, 1982	The Bank for International Settlements (BIS) and US announce a multilateral bridge financing package worth USD 1.85 billion
Aug. 31, 1982	Incumbent President López Portillo nationalizes Mexican banks and imposes exchange controls
Sept. 7, 1982	American branches of Mexican banks witness a bank run. Event dubbed "Black Tuesday"
Dec. 23, 1982	IMF announces package worth USD 3.75 billion from IMF's Extended Fund Facility to aid Mexico
Aug. 23, 1983	BIS-US package expires; BoM makes all payments under SCCF by this date
Dec. 1985	IMF package expires

Sources: Author's inferences from sources referred to throughout this case study.

To avoid a default on its loans, Mexico needed additional financial assistance while it negotiated its IMF package. On August 28, 1982, the Bank for International Settlements (BIS) and the United States announced a multilateral bridge financing package worth USD 1.85 billion (Boughton 2001). The United States contributed USD 925 million to this package by way of a Special Combined Credit Facility (SCCF) consisting of bilateral, unidirectional swaps worth USD 600 million from the US Treasury and USD 325 million from the Fed (Fed 1982b). The other Group of 10 (G-10) central banks, along with the Bank of Spain and the Swiss National Bank (SNB), contributed USD 925 million in short-term credit (Boughton 2001). (For more details, see Figure 2.) The BIS-US package was valid for one year (Fed 1982a; Cross 1983a). The package was collateralized by Mexican oil receipts (revenues from future sales of oil) beginning in August 1983 (Boughton 2001; Kraft 1984). The package was extended in three tranches (see Key Design Decision No. 5, Administration). The BoM drew on the SCCF multiple times, starting August 28, 1982. All outstanding amounts under this package were repaid by August 23, 1983 (Cross 1983a).

While Silva Herzog was negotiating with foreign institutions for assistance for Mexico, incumbent President José López Portillo took two extraordinary actions on August 31, 1982, that roiled investors' confidence in Mexico and threatened to derail the negotiations: he nationalized Mexican banks and imposed exchange controls (Kraft 1984).

The president's actions resulted in a sharp increase in repayment requests of dollar loans and a run on dollar deposits in the foreign offices of Mexican banks. The result was a huge shock in the international foreign exchange clearing system. Mexico's banks could not keep up with the demand for dollars. Authorities feared that all of the liquidity assistance from the BIS-US package that had been disbursed until then would be used up in the effort to meet the demand for dollars. On September 2, 1982, the Federal Reserve Bank of New York (FRBNY) deposited USD 70 million advanced from the BIS into the Bank of Mexico's account.[4] The BIS and other central banks pressured banks to roll over their loans to Mexican banks and limit their deposit withdrawal requests, rather than demanding immediate payment (US GAO 1997).

An aid package concluding in December 1985 between the BoM and the IMF worth USD 3.75 billion was finalized on December 23, 1982 (Barkbu, Eichengreen, and Mody 2011; IMF 2020). Mexico drew approximately USD 2.5 billion from the IMF's Extended Fund Facility under this package (IMF 2020). The USD 1.85 billion aid from BIS and the United States was not in addition to the IMF aid; rather the BIS-US aid was brought forward when the IMF deal was struck (Boughton 2001). The Special Combined Credit Facility in the BIS-US package expired on August 23, 1983 (Cross 1983a; FOMC 1982a). The standing swap facility with the Fed was reviewed and extended annually. In 1994, the amount was raised to USD 3 billion and this swap was absorbed into the North American Framework Agreement (NAFA), a trilateral swap facility among the US, Canada, and Mexico (US GAO 1996).

[4] Kraft states that the FRBNY deposited USD 70 million advanced from the BIS into the accounts of Manufacturers Hanover and Chemical Bank, two major US banks, while a US General Accounting Office report mentions that the amount was deposited into BoM's account (Kraft 1984, 41; US GAO 1997, 30). Research has not been able to reconcile this disparity.

Figure 2: Overview of the Swaps from the US Treasury and Federal Reserve to Mexico during the Crisis of 1982

US Treasury						
Source	**Type of Swap**	**Date Signed**	**Date Expired**	**Amount Authorized (in USD millions)**	**Repayment Source**	**Collateral**
ESF bilateral standing swap line[A]	Bilateral, reciprocal	12-21-1967	12-31-1983 (closed)	300	Not used	
One-week swap line	Bilateral, unidirectional	08-15-1982	08-24-1982 (date of repayment of swap, expiration date not explicitly stated)	1,000	Oil payments from US Dept. of Defense (which paid on behalf of the Dept. of Energy)	Oil payments from US Dept. of Defense
Special Combined Credit Facility (SCCF)	Bilateral, unidirectional	08-26-1982	08-23-1983	600	IMF loan	Oil revenue from Mexico, starting August 1983
Federal Reserve						
Source	**Type of Swap**	**Date Signed**	**Date Expired**	**Amount Authorized (in USD millions)**	**Repayment Source**	**Collateral**
Standing Fed swap line	Bilateral, reciprocal	05-02-1967	Still in existence	700[B]		Pesos
Special Combined Credit Facility (SCCF)	Bilateral, unidirectional	08-28-1982	08-23-1983	325	IMF loan	Oil revenue from Mexico, starting in August 1983

A: Since 1967, the Treasury has maintained a standing bilateral, reciprocal swap line with the BoM and the government of Mexico funded from the ESF. Originally established for two years and USD 100 million, the line was increased to USD 300 million in 1975 (US Treasury n.d.a; US Treasury 1967). Although research has not been able to ascertain why this line was not used in 1982, going by the protocol adopted between the US monetary authorities and the BoM in the 1989 swap agreement, we learn that it is a standard protocol to not activate this ESF swap line while the other swap agreement is active (US DoS 1989).

B: USD 700 million was the amount authorized by the Fed from 1979 to 1982. In 1994, the amount was raised to USD 3 billion and this swap was incorporated into the North American Framework Agreement, which is a trilateral swap facility among the US, Canada, and Mexico (US GAO 1996).

Sources: Cross 1983b; Fed 1982b; US Treasury n.d.a.

Summary Evaluation

The August 1982 BIS-US package marked the beginning of the initiatives that helped Mexico curb its indebtedness. Even though the BIS-US package was large enough to prevent a default on Mexican debt, uncertainty about how Mexico would meet all its obligations was always "lurking in the horizon" despite the aid package (Lustig 1997).

A US Government Accountability Office (US GAO) report states, "According to U.S. officials, Mexico had repaid the interest arrears on its loans as well as emergency loans and currency swaps, established economic reforms, and restructured its debt through 1984" (US GAO 1997).

With the IMF aid that Mexico received, it was able to pay back debts and was hailed "as the paragon of fiscal rectitude" (Kraft 1984, 1). Fed Chairman Volcker remarked that Mexico was leading the way from "fire-fighting to a multi-year solution" (Kraft 1984, 2).

During the second half of 1982, many Latin American countries approached the IMF to bail out their economies. The measures taken by lending institutions varied amongst countries but contained a number of elements that were similar to the aid to Mexico (IMF 1983). It should also be noted that the Mexican economy faced another major crisis in 1994 due to a similar overreliance on debt denominated in US dollars (Swaminathan and Wiggins 2023).

Context: Mexico 1982–1983		
GDP (SAAR, nominal GDP in USD)		$184.6 billion in 1982
		$156.2 billion in 1983
GDP per capita (SAAR, nominal GDP in USD)		$2,613 in 1982
		$2,166 in 1983
Sovereign credit rating (five-year senior debt)	1982	Moody's: Data not available
		S&P: Data not available
		Fitch: Data not available
	1983	Moody's: Data not available
		S&P: Data not available
		Fitch: Data not available
Size of banking system		$78.6 billion in 1982
		$55.6 billion in 1983
Size of banking system as a % of GDP		42.6% in 1982
		35.6% in 1983
Size of banking system as a % of financial system		Data not available in 1982
		Data not available in 1983
Five-bank concentration of banking system		Data not available in 1982
		Data not available in 1983
Foreign involvement in banking system		Data not available in 1982
		Data not available in 1983
Existence of deposit insurance		No in 1982
		No in 1983
Sources: Bloomberg; World Bank Global Financial Development Database; World Bank Deposit Insurance Dataset.		

Key Design Decisions

1. **Purpose and Type (A): Between April and August 1982, the Bank of Mexico drew on a standing reciprocal swap line with the Federal Reserve, which had a USD 700 million limit, to meet its short-run liquidity needs.**

In 1967, the Fed established a standing reciprocal swap line for up to USD 130 million with the Bank of Mexico, renewable on a yearly basis, in recognition of the close economic and financial ties between the two countries. The Fed increased this swap line to USD 700 million in 1979 (Bordo, Humpage, and Schwartz 2014). In 1982, the Fed allowed the Bank of Mexico to draw on this swap facility several times to meet its short-run liquidity needs in the run-up to the crisis. On April 30, 1982, and June 30, 1982, the Fed arranged overnight swaps of USD 600 million and USD 200 million that enabled Mexico to meet its foreign currency reserve target in month-end reports (Kraft 1984; US GAO 1997). (See Figure 3.) On July 30, the Fed lent the Bank of Mexico USD 700 million overnight, the full amount of the standing swap line. On August 4, the Fed again allowed Mexico to draw upon this swap facility for the full amount, but for a duration of three months, to serve as a bridge to IMF funding that would address its larger problems (Kraft 1984).

Figure 3: Overview of the Swap Draws Made by the Bank of Mexico on the Reciprocal Line with the Federal Reserve

Date of Draw	Amount	Date Repaid
04-30-1982	USD 600 million	05-01-1982; "Repaid after the close of period under review (Fed 1982c, 344)"
06-30-1982	USD 200 million	07-01-1982
07-30-1982	USD 700 million	08-01-1982
08-04-1982	USD 700 million	After 3 months

Source: Author's calculations from Federal Reserve bulletins released between June 1982 and June 1983 (Fed 1982c; Fed 1983b; Cross 1983b; 1983a)

As this swap facility with the Fed proved insufficient, the US Treasury and the BIS stepped in to aid Mexico in August 1982 (Kraft 1984).

Purpose and Type (B): On August 15, 1982, the US Treasury established a temporary, one-week bilateral swap line of up to USD 1 billion with the Bank of Mexico to help Mexico stay current on its interest payments.

On August 15, 1982, the US Treasury established a temporary, one-week bilateral swap line of up to USD 1 billion with the Bank of Mexico as an emergency step to enable Mexico to make interest payments to banks and other commercial creditors due on August 16, 1982 (Boughton 2001; US Treasury n.d.a). The Bank of Mexico immediately drew USD 825 million on this swap line (Boughton 2001). It repaid this obligation to the US Treasury on August 24,

using the proceeds from an advance oil payment from the US Department of Defense (which paid on behalf of the Department. of Energy).

Purpose and Type (C): The Fed and US Treasury established a Special Combined Credit Facility that consisted of bilateral swap lines of up to USD 925 million. The facility was part of a multilateral financing package worth up to USD 1.85 billion that the BIS announced as further bridge financing while Mexico negotiated a deal with the IMF in the second half of 1982.

On August 28, 1982, the BIS announced a multilateral financing package worth up to USD 1.85 billion. The US Treasury and Fed disbursed up to USD 925 million through the SCCF, which consisted of bilateral, unidirectional swap lines. The other G-10 central banks, plus the Bank of Spain and the SNB, disbursed the same amount via loans. The purpose of this package was to serve as bridge financing while Mexico negotiated a deal with the IMF (Boughton 2001). (See Figure 4.)

Figure 4: Overview of the BIS-US Aid Package to Mexico in 1982

Entity	Type of Aid	Maximum Amount Authorized (in USD)
Non-US G-10 central banks, the Bank of Spain, and the Swiss National Bank	Short-term loans	925 million
Federal Reserve	Bilateral swap	325 million
US Treasury	Bilateral swap	600 million
Total		1.85 billion

Source: Boughton 2001, 293.

In the SCCF, the Fed provided a USD 325 million swap line and the US Treasury provided a USD 600 million swap line. These swap facilities were linked to the BIS through cross-payment clauses, "which provided that all payments from Bank of Mexico would be shared equally between the US and BIS" (Boughton 2001). The drawings from the BIS and the US monetary authorities happened on a pari passu basis (Fed 1983a). This package expired on August 23, 1983. Usage of the SCCF was USD 1.17 billion (see Figures 5 and 6 in Key Design Decision No. 8, Size) (Cross 1983a).

2. **Part of a Package: The US joined the BIS and other countries in a package of up to USD 1.85 billion. Mexico also took certain emergency measures to resolve the crisis.**

The USD 925 million from the BIS came from 11 industrialized countries (Lewis 1982). On September 2, 1982, the Federal Reserve Bank of New York deposited USD 70 million advanced from the BIS into the Bank of Mexico's account (US GAO 1997). As a precondition, the central banks and the BIS had demanded that a consortium of 500+ commercial banks agree (as banks were responsible for the exacerbation of Mexico's indebtedness) to roll over

their loans to Mexican banks and limit their deposit withdrawal requests, rather than demanding immediate payment (Lewis 1982; US GAO 1997).

Mexico was able to get more time to negotiate the IMF program as major banks decided to forgo repayment of loans worth USD 10 billion that were due in the next 90 days and agreed to lend between USD 500 million and USD 1 billion to Mexico in the following days (Rowe Jr and Atkinson 1982b; US GAO 1997).

In addition to this package, USD 5 billion came from commercial banks and USD 2 billion came as trade credits from 10 industrialized countries to ensure that the adjustment program was adequately financed (Farnsworth 1982). The US provided additional assistance to Mexico, and the Fed and Treasury assisted in negotiating aid from third parties. The US Treasury was influential in arranging credit worth USD 1 billion to Mexico through the Export-Import Bank and Commodity Credit Corporation of the USDA (Kraft 1984).

On August 14, 1982, Mexico imposed capital controls such as freezing currency bank accounts and banning the transfer of foreign currency outside Mexico and controlled the foreign exchange rate to prevent outflow of dollars from the Mexican economy (Dow Jones 1982).

In December 1985, the IMF committed USD 3.75 billion (spread over 3 years) in assistance under its Extended Fund Facility (Boughton 2001).

3. Legal Authority: Section 14 of the Federal Reserve Act authorizes the Fed to enter into swap facilities. The Treasury operates swaps through the Exchange Stabilization Fund.

The Fed is authorized to enter into foreign currency swap agreements based on the authority of Section 14 of the Federal Reserve Act (FRA 1913). Decisions regarding whether to enter into a swap and the terms thereof are made by the Federal Open Market Committee (FOMC) of the Federal Reserve System (Fed n.d.).

The US Treasury operates swap lines through the ESF (US Treasury n.d.b). The swap facilities are administered by the FRBNY, the open market operations arm of the Fed and the fiscal agent for the Treasury (US Treasury n.d.b). The US Code, Section 5302, provides for the Treasury secretary's use of the ESF:

> Consistent with the obligations of the Government in the International Monetary Fund on orderly exchange arrangements and a stable system of exchange rates, the Secretary or an agency designated by the Secretary, with the approval of the President, may deal in gold, foreign exchange, and other instruments of credit and securities the Secretary considers necessary. However, a loan or credit to a foreign entity or government of a foreign country may be made for more than 6 months in any 12-month period only if the President gives Congress a written statement that unique or emergency circumstances require the loan or credit be for more than 6 months. (Mulford 1995)

President Ronald Reagan, in a letter to Thomas P. O'Neill, Speaker of the House of Representatives, on September 8, 1982, wrote that he determined on August 24, 1982, that owing to "unique and exigent circumstances," the US, through the ESF and Department of Defense, would provide to the Bank of Mexico credit with a maturity of longer than six months but not exceeding a year (Reagan 1982). This was the first time that an American president had used the powers under Section 5302 to extend the maturity of loans granted by the ESF beyond six months. The president decided to do this (Mulford 1995; Reagan 1982).

4. Governance: The decision-making bodies in charge of overseeing the swap facilities were the FOMC, US Treasury, and the Euro-currency Standing Committee of the BIS.

The FOMC is the decision-making body for the Fed's open market operations (Fed n.d.). The secretary and the deputy secretary of the Treasury were the principal decision makers at Treasury (US GAO 1997). The Fed reported all the swap draws made by the Bank of Mexico from the Fed and Treasury swaps in the 1983 spring issue of the FRBNY *Quarterly Review* and the 1983–1984 winter issue of the FRBNY *Quarterly Review* (Cross 1983a; 1983b).

The BIS portion of the BIS-US package was funded by the G-10 countries along with the Bank of Spain and the SNB (Boughton 2001). The Euro-currency Standing Committee of the BIS authorized the BIS package (Kraft 1984).

Miguel Mancera, then governor of the Bank of Mexico, was among the principal negotiating parties who helped finalize the BIS-US package (Boughton 2001).

5. Administration: The US and BIS coordinated to lend the package in three tranches.

Little information is publicly available about the direct management of the swap facilities. The BIS and the Fed worked closely together to ensure that the Bank of Mexico received the aid it needed, subject to its fulfilling certain conditions they imposed (FOMC 1982b). Officials from the Federal Reserve and the US Treasury were heavily involved in monitoring Mexico's economic and financial conditions during the crisis of 1982 (Kraft 1984).

The swaps under the BIS-US package were extended by the US separately as an entity in conjunction with the short-term credit provided by the BIS. This decision was made as the Fed had a greater degree of flexibility in timing pertaining to making the swap amounts available relative to the BIS loans, which needed some time to be raised in the market (FOMC 1982b).

The US and BIS coordinated with the Bank of Mexico to extend the package in three tranches, on August 28, 1982, in mid-November, and in mid-December (BIS 1983; Boughton 2001). It was reported in a *Washington Post* article that each tranche would have a duration of three months (Rowe Jr and Atkinson 1982b).

6. Communication: The BIS announced the package through a press release on August 29, 1982, and the US followed with an announcement on August 30. Various news stories covered the emergency rescue package.

An article from the *Washington Post*, dated August 21, 1982, mentioned that Mexico had exhausted the USD 700 million payment it received through its reciprocal swap facility with the Fed. It also mentioned that the US made available USD 1 billion in advance payment for Mexican oil on August 16, 1982, and noted that the US had agreed to extend guarantees from the Commodity Credit Corporation for USD 1 billion (Rowe Jr and Atkinson 1982a). Another article from the *New York Times* from the same date delved into details about the oil deal (Cowan 1982).

A press release from the BIS dated August 29, 1982, was the first official announcement regarding the BIS aid package. It stated that "the agreement provides for drawings on the facility in three tranches in line with progress towards agreement between the Mexican Government and the International Monetary Fund on an economic stabilization program" (Kraft 1984).

The Fed announced its participation in the BIS package on August 30, 1982 (Rowe Jr and Atkinson 1982b). The Record of Policy Actions from the FOMC stated that "the multilateral financing program provided that drawings by Mexico would be made in line with progress toward agreement between the Mexican Government and the International Monetary Fund (IMF) on an economic adjustment program that will permit Mexico to qualify for drawings under the IMF's Extended Fund Facility" (FOMC 1992).

Although research has not been able to access press releases or announcements from the BoM when the package was announced, it is to be noted that the BoM described in its 1982 annual report that it had secured aid worth USD 1.85 billion from industrialized countries coordinated by the BIS. It stated that Mexico qualified for this aid, despite not being a member of the BIS, and this indicated the faith that the international community had in Mexico's resilience (BoM 1983).

7. Eligible Institutions: The Bank of Mexico was the only eligible recipient of US dollar lending through the swap facilities.

The Bank of Mexico was the only institution eligible to draw under the standing swap line with the Fed, the temporary bilateral swap line with the Treasury, and the SCCF as the intention of these swaps was to help Mexico with its balance of payments crisis until a package with the IMF was finalized in December 1982 (Fed 1982b; Kraft 1984).

8. **Size: The reciprocal standing swap line with the Fed was worth USD 700 million. The temporary bilateral swap line with the Treasury was worth USD 1 billion, while the SCCF was collectively worth USD 925 million.**

The Bank of Mexico drew upon the standing reciprocal swap facility with the Fed multiple times in 1982[5] (refer to Figure 3). It had an outstanding amount of USD 373 million on January 31, 1983 (Cross 1983b). On February 28, 1983, the Bank of Mexico repaid USD 373 million (Fed 1983b).

The Bank of Mexico drew USD 825 million on the USD 1 billion temporary, one-week bilateral swap facility that the US Treasury established on August 15, 1982, and repaid this amount on August 24, 1982 (Cross 1983b; US Treasury n.d.a).

The Bank of Mexico also drew on the SCCF extended by the Fed and Treasury as part of the BIS-US package multiple times (see Figure 5 and Figure 6).

Figure 5: Drawings and Repayments under the Temporary Bilateral Swap Line and the SCCF

Table 3

Drawings and Repayments by the Bank of Mexico under Special Swap Arrangements

In millions of dollars; drawings (+) or repayments (−)

Drawings on	Outstanding January 1, 1982	1982 I	1982 II	1982 III	1982 IV	1983 January	Outstanding January 31, 1983
United States Treasury special temporary facility for $1,000 million	*	*	*	+ 825 0 − 825 0	*	*	*
Drawings on special combined credit facility:							
Federal Reserve special facility for $325 million	*	*	*	+ 89 8 − 43.8	+211 2	+ 42 0	299 3
United States Treasury special facility for $600 million	*	*	*	+ 166.8 − 81.3	+392.2	+ 78 0	555.8
Total	*	*	*	+1,081.6 − 950.0	+603 5	+120.0	855 0

Data are value-date basis. Because of rounding, figures may not add to totals.
* Not applicable.

Source: Cross 1983b.

[5] Although the Bank of Mexico did draw upon the standing Fed facility prior to 1982, this case study focuses on 1982.

Figure 6: Drawings and Repayments under the SCCF

Table 2

Drawings and Repayments by the Bank of Mexico under Special Combined Credit Facility

In millions of dollars, drawings (+) or repayments (−)

Drawings on	Outstanding October 1, 1982	1982 IV	1983 I	1983 II	1983 III	Outstanding October 31, 1983
Federal Reserve special facility for $325 million	46 0	+211 2	+ 67.8	− 56.0	−269 0	*
United States Treasury special facility for $600 million	85 5	+392 2	+122 3	−104 0	−496 0	*
Total	131 5	+603 5	+190 0	−160 0	−765 0	*

Data are on a value-date basis. Because of rounding, figures may not add to totals.

*Facility expired and outstanding drawings were repaid on August 23, 1983

Source: Cross 1983a; Cross 1983b.

9. Process for Utilizing the Swap Agreement: The money from all US swap agreements was deposited at the Bank of Mexico's account at the FRBNY.

Funds from drawings under the standing swap facility with the Fed, the temporary bilateral swap facility from the Treasury, and the SCCF were credited to the Bank of Mexico's account at the FRBNY (FOMC 1992; US GAO 1997). The proceeds from BIS loans were also deposited with the Bank of Mexico account at the FRBNY (Kraft 1984).

The peso holdings of the US monetary authorities (the Fed and Treasury) for the standing swap facility with the Fed and the SCCF were invested in an interest-bearing account at the BoM (Fed 1983a).

10. Downstream Use of Borrowed Funds: The funds borrowed from the standing swap line with the Fed were used to provide a reserve cushion, while part of the funds from the BIS-US package were lent to commercial banks.

The funds that were lent from the reciprocal standing swap line with the Fed were used to provide a reserve cushion, as evidenced by the temporary liquidity needs that the BoM had during the time it borrowed these funds (Fed 1982a).

Our research has not been able to determine the downstream usage of funds borrowed from the temporary bilateral swap line worth USD 1 billion the Treasury had with the BoM.

Although our research has not ascertained how all the borrowed funds from the BIS-US package were utilized, there is evidence that part of the funds from this package were lent to commercial banks. In fact, on September 7, 1982, which was dubbed by Mexicans as "Black Tuesday," the BIS and other central banks pressured Mexico's authorities to not use the

proceeds of the BIS-US package to repay loans and honor deposit withdrawals at US branches of Mexican banks (Kraft 1984; US GAO 1997).

11. Duration (A): The draws under the standing swap facility with the Fed were overnight, except the August 4 loan, which was for three months.

The standing reciprocal swap facility worth USD 700 million between the Fed and Bank of Mexico was drawn on an overnight basis three times—on April 30, 1982, June 30, 1982, and July 30 1982 (US GAO 1997). The duration of the drawing made from this facility on August 4, 1982 was three months (Kraft 1984, 8).

Duration (B): The draws made under the US Treasury's temporary bilateral swap had a duration of approximately one week.

The swap extended by the US Treasury on August 15, 1982, had a duration of about a week (US GAO 1997).

Duration (C): The draws made on the SCCF in the BIS-US package had a duration of three months.

The swaps extended by the Fed and Treasury in the BIS-US package had a duration of three months (Fed 1982b; FOMC 1982b).

The FOMC minutes from August 1982 state that the swap from the Fed under the BIS package could be rolled over three times, for a total duration of one year (FOMC 1982b).

12. Rates and Fees: The Fed swaps were implemented at Treasury bill rates; the Bank of Mexico also paid a USD 50 million negotiating fee for the temporary, one-week swap with the US Treasury.

All the swaps on the Fed swap facility were extended at the Treasury bill rate (FOMC 1982b). No information is available on the interest rate charged on the US Treasury swaps.

The Bank of Mexico paid USD 50 million to the ESF as a negotiating fee for the USD 1 billion temporary swap from the US Treasury through the ESF (US GAO 1997).

13. Balance Sheet Protection (A): The Fed's standing swap facility required the Bank of Mexico to post pesos as collateral.

The Fed's standing swap facility required the Bank of Mexico to deposit pesos in the Fed's account with the Bank of Mexico, to be swapped for the US dollars that the Bank of Mexico borrowed (US GAO 1997).

Balance Sheet Protection (B): The temporary, one-week bilateral swap with the US Treasury was secured by the promise of a prepayment by the US Department of Defense for a US purchase of oil from Mexico.

The United States agreed to provide Mexico up to USD 1 billion under the US Treasury swap via the ESF in exchange for oil for the US Strategic Petroleum Reserve worth up to USD 1.2 billion (US GAO 1997). The Treasury made this decision as Treasury swaps had to be secured (Perry 2020; US GAO 1997). Subsequently, the Treasury arranged for the US Department of Energy to pay USD 1 billion to Mexico as a prepayment for oil imports under a contract with the Department of the Defense for the Strategic Petroleum Reserve. This deal materialized owing to many reasons. Firstly, the Treasury had been contemplating such a deal since July 1982 under its preparedness planning efforts; it had enquired various departments if they would be willing to buy oil from Mexico in the event of an emergency (Kraft 1984; US GAO 1997). The Treasury ascertained on August 13, 1982, that the Department of Energy had genuine demand for Mexican crude. Consequently, the Strategic Petroleum Reserve (whose purchases are made by the Department of Defense) assured the Treasury that it had USD 1 billion in cash that was necessary for the Treasury to move ahead with the swap transaction (Kraft 1984).

This transaction was approved in principle by the Office of Management and Budget (OMB) which required the deal to be justified through the prudent use of taxpayer dollars; as a result, the US initially proposed the purchase of oil from Mexico at USD 28 a barrel, compared to the market price of USD 32 per barrel. Following the rejection of this proposal from the Mexican authorities, representatives from the Mexican government proposed that they would like to receive the USD 1 billion advance payment from the Treasury against a repayment made through the sale of Mexican oil. The Treasury then insisted that the repayment for this loan (swap) be made over the following 15 months, costing the Mexican government USD 1.3 billion. Rejection of this deal led the Treasury to propose a flat negotiation fee of USD 100 million. It was finally agreed by both the parties that the Mexican government would pay a negotiation fee of USD 50 million for this deal (Kraft 1984).

Balance Sheet Protection (C): The SCCF in the BIS-US package relied on Mexican oil receipts as collateral.

It was decided on August 28, 1982, that the BIS-US package would be collateralized by revenue from the sales of oil from Mexico (as evidenced by oil receipts), starting in August 1983 (Kraft 1984). This protection was imposed to ensure that the lenders would be protected in the event of an IMF deal falling through (FOMC 1982b; Kraft 1984).

14. Other Restrictions: The BIS and other central banks discouraged the Bank of Mexico from using the money from the BIS-US package to make repayments of loans and deposits on September 7, 1982. The BIS-US aid to the Bank of Mexico was extended in three tranches, subject to conditions.

The BIS and other central banks pressured Mexico's authorities to not use the proceeds of the BIS-US package to repay loans and honor deposit withdrawals on September 7, 1982,

known as Black Tuesday in Mexico, which witnessed a run on US branches of Mexican banks (Kraft 1984; US GAO 1997).

Following the announcement of nationalization of banks and implementation of exchange controls by President López Portillo on August 31, 1982, Mexican branch banks in New York were hit with extraordinary demands for repayment of loans and withdrawal of deposits on September 7, 1982 (Kraft 1984; US GAO 1997). Given the risks that this unexpected demand posed to the clearinghouse system, Volcker told Mexican authorities to inform the US branches of their banks to not make any further payments (Kraft 1984).

The BIS-US package, including the SCCF and the BIS loans, were extended in three tranches. The first tranche of the BIS-US package was conditional upon Mexico coming up with collateral (which was future oil deliveries) if the IMF negotiations failed (FOMC 1982b; Kraft 1984). The second tranche was made available when it was clear to authorities from the US and BIS that Mexico had made progress toward reaching agreement with the IMF (BIS 1983). The drawing from the third tranche was permitted when the Bank of Mexico and the IMF "reached agreement" on an economic austerity program and the IMF approved a loan to Mexico (BIS 1983; FOMC 1982b).

On November 10, the Mexican finance minister and the BoM governor submitted a Letter of Intent outlining measures of the negotiated austerity program to the IMF. On December 23, 1982, the IMF deal was finalized (Kraft 1984). The IMF package was worth USD 3.75 billion (Farnsworth 1982; IMF 2020).

15. Other Options: An advisory committee comprising representatives from 14 commercial banks assessed Mexico's economic conditions; the US Treasury indemnified the Fed against any losses from swaps that were of durations longer than overnight.

An advisory committee comprising representatives from 14 banks and headed by William Rhodes, co-chairman of Citibank, convened in August 1982 to assess how creditor banks would coordinate rolling over Mexico's debt and interest payments, monitoring the interbank system pertaining to Mexico's involvement and assessing Mexico's economic conditions. The advisory committee set up several subcommittees that were instrumental in monitoring Mexico's situation (Kraft 1984).

As the Fed wanted to be assured of a repayment for the extended three-month swap, the secretary of the Treasury by letter to the Fed chairman agreed to back the repayments of any swap drawings the Bank of Mexico made from the Fed swap, in the event that a deal with the IMF could not be reached (US GAO 1997).

16. Exit Strategy (A): The Fed renewed its standing reciprocal swap facility with Mexico every year; in 1994, it was absorbed into the NAFA framework, which remains in effect.

The reciprocal swap facility that the Fed had with the Bank of Mexico, worth up to USD 700 million, was renewed annually for the same amount (Cross 1983a; FOMC 1982a; FOMC

1992). The Fed increased this swap facility to USD 3 billion in 1994 and later incorporated it into the permanent trilateral swap facility among Mexico, the US, and Canada under the North American Framework Agreement (US GAO 1997).

Exit Strategy (B): The temporary, one-week bilateral swap arranged by the US Treasury expired according to its terms.

The Bank of Mexico repaid the USD 825 million it had drawn on August 16, 1982, on August 24, 1982, using the proceeds from the oil payments advanced by the US Department of Defense (which made the payment on behalf of the Department of Energy) (Boughton 2001; US Treasury n.d.a). This decision was made since Mexico did not have sufficient cash flow to serve as collateral for the swaps from the Treasury, which had to be secured (US GAO 1997).

Exit Strategy (C): The swaps under the SCCF in the BIS-US package expired on August 23,1983, after a year's duration.

The US swaps under the BIS package (USD 600 million from the Treasury and USD 325 million from the Fed) expired according to the predetermined end date of August 23, 1983, and the Bank of Mexico repaid all outstanding drawings on this date (Cross 1983a).

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