United States: Swaps to Mexico, 1994

Lakshimi Swaminathan
YPFS, Yale School of Management

Rosalind Z. Wiggins
YPFS, Yale School of Management

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United States: Swaps to Mexico, 1994

Lakshimi Swaminathan and Rosalind Z. Wiggins

Yale Program on Financial Stability Case Study
July 21, 2023

In 1994 and 1995, Mexico faced a series of economic and financial disruptions that led it to repeatedly seek financial assistance from the United States and international financial organizations. This case study describes three episodes during which the US government used currency swap facilities to provide dollar funding to the Bank of Mexico (BoM), similar to Mexico’s 1982 crisis: (1) a temporary bilateral swap line established by the Federal Reserve and the Treasury on March 24, 1994, to provide emergency support following a political assassination, which the BoM did not draw upon; (2) a trilateral swap arrangement under the North American Framework Agreement (NAFA) among the US, Mexico, and Canada, which the BoM did draw upon and which remains in place; and (3) a USD 20 billion assistance package in February 1995, which included the exercise of existing short-term swap lines, medium-term swaps, and guarantees. The United States disbursed a total of USD 13 billion from this assistance package. The Bank of Mexico repaid all amounts by January 1997.

Keywords: foreign currency swap, liquidity, Mexico, NAFA, NAFTA

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-crisis/.

2 Research Associate, YPFS, Yale School of Management.

3 Director, the Global Financial Crisis Project, YPFS, and Lecturer, Yale School of Management.
Overview

At the beginning of 1994, Mexico experienced a surge in foreign investment following the approval of the North American Free Trade Agreement (NAFTA) with the United States (US) and Canada. Most of this inflow from foreign investors was in the form of equity and debt securities that could be withdrawn rapidly (US GAO 1996).

On March 23, 1994, the assassination of Mexican presidential candidate Luis Donaldo Colosio threatened to shatter investor confidence in Mexico. In response, the Bank of Mexico (BoM) sought immediate access to currency swap lines from the US to restore its foreign reserves and maintain the value of the peso within its exchange rate band (FOMC 1994b). The US Federal Reserve and Treasury agreed early on the morning of March 24 to expand their existing currency swap lines with Mexico from USD 700 million and USD 300 million, respectively, to USD 3 billion each. This was the Temporary Swap Line that was implemented first to aid Mexico. The US and Mexican authorities had discussed such an increase since late 1993, in the context of trilateral discussions that also included Canada but had planned to make the announcement only in late April (FOMC 1994a; US GAO 1996). Research was not able to access the swap agreements, so known details are limited and gleaned from Federal Open Market Committee (FOMC) minutes, transcripts, and Federal Reserve Bulletins.

Key Terms

<table>
<thead>
<tr>
<th>Purpose: To help Mexico stabilize its economy following the peso devaluation and subsequent financial crisis in 1994–1995</th>
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</thead>
<tbody>
<tr>
<td>Participating Parties</td>
</tr>
<tr>
<td>Type of Swap</td>
</tr>
<tr>
<td>Currencies Involved</td>
</tr>
</tbody>
</table>

(continued)

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4 The agreement was signed on December 17, 1992, but took effect on January 1, 1994. The North American Financial Group and the North American Framework Agreement (NAFA) were part of these negotiations and were not a response to the new financial stresses that occurred in 1994 (Fed 1994a, 76; Bondarenko 2023; Henning 2002, 59).
The announcement of the emergency US swap line calmed Mexican financial markets temporarily. The BoM did not need to draw upon the facility (Torres 1994). But Mexico’s foreign exchange reserves continued to fall, from USD 24.4 billion at the end of March to USD 17.3 billion by the end of April (US GAO 1996). On April 26, 1994, the monetary authorities of the US, Canada, and Mexico signed the North American Framework Agreement (NAFA) and announced that it included a permanent trilateral currency swap arrangement (US GAO 1996; US Treasury 1994b). Under this arrangement, the US Treasury and Fed established a USD 6 billion swap arrangement that replaced the Temporary Swap Line, with similar terms. The Bank of Canada also established a swap facility worth CAD 1 billion (USD 730 million) with the BoM. The BoM did not draw on the NAFA Swap Line with the US until January 1995 (US GAO 1996) (see Figure 5. The BoM drew USD 237 million in 1995 on the NAFA swap arrangement with Canada, which it had increased to CAD 1.5 billion earlier that year (Boughton 2012; US GAO 1996). Also see Figure 4 in Key Design Decision No. 2, Part of a Package, and the Appendix.

The Mexican government had hoped that these measures would restore investor confidence and prevent a peso devaluation before the presidential election in August (Lustig 1995; US GAO 1996). The US and the Bank for International Settlements (BIS) also discussed the possibility of creating a USD 6 billion swap facility from the BIS, funded by several industrial countries. This arrangement was never finalized (US GAO 1996). See Key Design Decision No. 15, Other Options, for more detail.

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5 Per FRED, USD 1 = CAD 1.37 on April 26, 1994.
Even after the Mexican presidential election of August 1994, foreign investment in Mexico did not recover. The BoM lowered peso interest rates in August to promote the domestic economy and kept them at low levels well into December. The current account deficit worsened as investors left Mexico for higher interest rates elsewhere (US GAO 1996).

Figure 1: Overview of the Swaps from the US Treasury and Federal Reserve to Mexico during the Crisis of 1994

<table>
<thead>
<tr>
<th>Date Signed</th>
<th>Date Expired</th>
<th>Swap Name</th>
<th>Fed (amount in USD millions)</th>
<th>US Treasury (amount in USD millions)</th>
<th>Total</th>
<th>Maximum Draw Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>12-21-1967</td>
<td>04-26-1994</td>
<td>Standing bilateral line from the Treasury's ESF</td>
<td>—</td>
<td>300</td>
<td>300</td>
<td>No information</td>
</tr>
<tr>
<td>03-24-1994</td>
<td>04-29-1994</td>
<td>Temporary Swap Line</td>
<td>3,000(a)</td>
<td>3,000</td>
<td>6,000</td>
<td>Three months; could draw until April 29, 1994, repayable by July 29, 1994</td>
</tr>
<tr>
<td>04-26-1994</td>
<td>Standing swap line(b)</td>
<td>NAFA Swap Line</td>
<td>3,000</td>
<td>3,000</td>
<td>6,000</td>
<td>Three months, subject to annual renewal</td>
</tr>
<tr>
<td>12-30-1994</td>
<td>01-31-1996</td>
<td>Special Swap Line</td>
<td>3,000(c)</td>
<td>3,000</td>
<td>3,000</td>
<td>No information</td>
</tr>
<tr>
<td>01-02-1995</td>
<td>02-21-1995</td>
<td>Treasury Special Tranche</td>
<td>—</td>
<td>1,500</td>
<td>1,500</td>
<td>No information</td>
</tr>
<tr>
<td>02-21-1995</td>
<td>01-16-1997</td>
<td>1995 multilateral assistance package</td>
<td>—</td>
<td>14,000(d)</td>
<td>20,000</td>
<td>Medium-term swaps up to 5 years; securities guarantees up to 10 years</td>
</tr>
</tbody>
</table>

(a) The FOMC expanded an existing USD 700 million swap line with the Bank of Mexico (which had been in place since 1967), which was absorbed into the Temporary Swap Line.

(b) The NAFA Swap Line is a standing line and is reviewed by the FOMC annually.

(c) The Fed approved the Special Swap Line in two tranches of USD 1.5 billion on December 30, 1994, and February 1, 1995. The FOMC’s minutes sometimes connect this to the NAFA Swap Line but also more often call it a separate Special Line.

(d) The USD 9 billion in short-term swaps that were available under the NAFA and Special Swap Lines (USD 6 billion from the Fed and USD 3 billion from the Treasury) were incorporated into the US assistance package of 1995. The amount of medium-term swaps and guarantees available was worth USD 11 billion. Mexico could draw up to USD 20 billion less the amounts outstanding from short-term swaps as securities guarantees and or medium-term swaps.

Source: Authors’ inferences from minutes of FOMC meetings (US Treasury n.d.a).

On December 20, 1994, Mexican authorities widened the peso/dollar exchange rate band to relieve the pressure on the peso without announcing corresponding fiscal or monetary policy measures. Soon after, foreign exchange reserves fell more than USD 4 billion. The following day, Mexico was forced to let the peso freely float. Because the government had
accumulated dollar-denominated debt—bonds known as *tesobonos*—during 1994, the devaluation stoked fears of a Mexican sovereign default (US GAO 1996).

**Figure 2: Aggregate Size of Swap Facility Made Available to Mexico during 1994–1995**

<table>
<thead>
<tr>
<th>Date</th>
<th>Fed</th>
<th>Treasury</th>
<th>Aggregate Size of Swap Facility</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 24, 1994</td>
<td>USD 3 billion</td>
<td>USD 3 billion</td>
<td>USD 6 billion</td>
</tr>
<tr>
<td>April 26, 1994</td>
<td>USD 3 billion</td>
<td>USD 3 billion</td>
<td>USD 6 billion</td>
</tr>
<tr>
<td>December 30, 1994</td>
<td>USD 6 billion</td>
<td>USD 3 billion</td>
<td>USD 9 billion</td>
</tr>
<tr>
<td>January 2, 1995</td>
<td>USD 6 billion</td>
<td>USD 4.5 billion</td>
<td>USD 10.5 billion</td>
</tr>
<tr>
<td>February 21, 1995</td>
<td>USD 6 billion</td>
<td>USD 14 billion (this amount included guarantees as well)</td>
<td>USD 20 billion</td>
</tr>
<tr>
<td>January 16, 1997</td>
<td>USD 3 billion</td>
<td>USD 3 billion</td>
<td>USD 6 billion</td>
</tr>
</tbody>
</table>

_Source: Authors' inferences from Figure 1._

In response to the peso devaluation, on December 30, 1994, the FOMC approved a temporary “special increase” of USD 1.5 billion to its existing swap line (the Special Swap Line), bringing its authorized commitment to USD 4.5 billion (Fed 1995a). The FOMC approved a further USD 1.5 billion increase on February 1, 1995, which brought the total Fed swap commitment to USD 6 billion (USD 3 billion permanent and USD 3 billion Special Swap Line) (Fed 1995c; FOMC 1994d). See Figure 3.

The Treasury also contributed USD 1.5 billion to the Special Swap Line on January 2, 1995. The Treasury's contribution expired on February 21, 1995 (US Treasury n.d.a).

On January 31, 1995, President Bill Clinton announced a USD 48.8 billion multilateral aid package for Mexico effective from February 21, 1995 (US GAO 1996). As evidenced by the agreements, the US portion of this package was worth USD 20 billion. It consisted of up to USD 9 billion in the short-term swaps through the NAFA and Special Swap Lines; new, medium-term swaps with a duration of up to five years; and securities guarantees with terms of up to 10 years. These swaps and securities guarantees were conditioned on strict economic, financial, and reporting requirements (US GAO 1996; US Treasury 1995). The medium-term swaps and guarantees were funded by the Exchange Stabilization Fund (ESF), which the president and Treasury secretary could invoke during exigent circumstances without congressional approval. This move was criticized by members of the Congress who had previously opposed the USD 40 billion package proposed by Clinton. Many members of the Congress came to know about the existence of the ESF owing to this package, and there was a lot of debate surrounding the unilateral discretion the president had over the use of the ESF (Henning 1999; Lustig 1995).
### Figure 3: Timeline of Events in the Mexican Crisis of 1994–1995

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1, 1994</td>
<td>NAFTA goes into effect</td>
</tr>
<tr>
<td>March 23, 1994</td>
<td>Mexican presidential candidate Luis Donaldo Colosio is assassinated, causing investors to panic and Mexican foreign reserves to plunge</td>
</tr>
<tr>
<td>March 24, 1994</td>
<td>Federal Reserve and Treasury establish a temporary bilateral swap facility worth USD 6 billion (Temporary Swap Line)</td>
</tr>
<tr>
<td>April 26, 1994</td>
<td>The trilateral NAFA swap arrangement among the US, Canada, and Mexico becomes effective. The arrangement had been proposed and negotiated prior to the current Mexico peso crisis</td>
</tr>
<tr>
<td>April 29, 1994</td>
<td>The Temporary Swap Line announced on March 24, 1994, expires without being used by the Bank of Mexico</td>
</tr>
<tr>
<td>December 30, 1994-</td>
<td>The Fed and the Treasury approve special swap line tranches worth USD 1.5 billion each (Special Swap Line).</td>
</tr>
<tr>
<td>January 2, 1995</td>
<td></td>
</tr>
<tr>
<td>January 31, 1995</td>
<td>President Clinton announces a USD 48.8 billion package for Mexico including USD 20 billion from the US, effective from February 21, 1995. The US portion includes short-term swaps (up to USD 7.5 billion), medium-term swaps, and securities guarantees</td>
</tr>
<tr>
<td>February 1, 1995</td>
<td>The Fed increases the Special Swap Line by USD 1.5 billion (to USD 3 billion total for this Special Swap Line and USD 6 billion total for the Fed’s arrangement with Mexico)</td>
</tr>
<tr>
<td>February 21, 1995</td>
<td>The Treasury’s USD 1.5 billion contribution to the Special Swap Line expires. The medium-term swaps and guarantees under the 1995 package become available (US Treasury n.d.a)</td>
</tr>
<tr>
<td>January 31, 1996</td>
<td>The Fed’s Special Swap Line expires</td>
</tr>
<tr>
<td>January 16, 1997</td>
<td>The medium-term swap facility with the ESF is terminated following a repayment worth USD 3.5 billion by Mexico</td>
</tr>
</tbody>
</table>

Source: Authors’ inferences from various sources cited in this case study.

The International Monetary Fund (IMF) agreed to contribute USD 17.8 billion by way of an 18-month standby arrangement, which was also conditioned upon Mexico’s adherence to strict economic performance targets. The BIS agreed to provide USD 10 billion by way of a

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6 This arrangement was also, at the time, the largest financing package ever approved by the IMF for a member country, both in terms of the amount and the overall percentage of a member’s credit quota—in Mexico’s case, 688.4% over 18 months (the usual cumulative limit is 300%) (US GAO 1996, 15–16).
short-term facility funded by several industrial countries\(^7\) (US GAO 1996). Canada contributed USD 1.2 billion (Boughton 2012; US GAO 1996).

From the US assistance package of 1995, Mexico drew USD 2.5 billion on the short-term swap facilities, which it repaid on January 29, 1996. Mexico drew USD 10.5 billion on the medium-term swap facility, which it repaid early in January 1997, at which time the agreement was terminated (Fed 1997b; Lustig 1997). Under the Guarantee Agreement, which fell under the US assistance package of 1995, the Mexican government agreed to immediately reimburse the US Treasury for any amount paid under any guarantee. The guarantees from this package were not used (US Treasury 1995; Wilson 1999).

**Summary Evaluation**

The announcement of the Temporary Swap Line on March 24, 1994, helped calm the Mexican markets and averted the scenario of a Mexican market crash (Dow Jones 1994a). The announcement of the NAFA swap facility was seen as a move by the US and Canada to bolster investor confidence in Mexico, even though the parties claimed that such a facility was “unrelated to the developments in Mexico” (Fed 1994a, 76; Reuters 1994).

Randall Henning, a scholar who has written extensively on financial institutions, asserts that the use of the ESF by the US Treasury to provide aid to Mexico in 1995 was successful, despite the criticisms this package received from members of the Congress that the package had bypassed congressional approval and that it raised concerns of moral hazard (Henning 1999).

The swap facilities activated in December 1994 failed to calm market sentiments and displayed to what extent the IMF and US had not expected a financial crisis in Mexico (Lustig 1995). However, the 1995 multilateral aid package, which an observer says was “meant to solve Mexico’s liquidity crisis in full,” seems to have worked quickly (Lustig 1995, 27). As early as April 1995, Mexico began to successfully raise funds in the international capital markets (Lustig 1997).

While successful in calming Mexico’s crisis, the 1995 multilateral aid package was controversial. Some observers were uncomfortable with the size of the IMF’s package. They felt it would set a precedent for bailing out holders of traded securities (Musacchio 2012). Musacchio noted that to some observers, “the bailout undermined incentive to maintain macro discipline and, particularly, discipline in the management of foreign debt” (Musacchio 2012, 23).

There was also opposition to the US participation. An original proposal had faced a lot of opposition from the Congress. It seemed clear that such a package would not be passed if put to vote anytime soon. As a result, the president used the ESF, which did not require congressional approval. According to Lustig:

> Due to the vehemence of critics of the U.S. rescue package in Congress, the administration became increasingly more cautious in extending the ESF loans to Mexico,

\(^7\) Although the BIS aid was made available in principle, it was very restrictive in its use (Lustig 1997, 59).
particularly when the objective of solving Mexico’s short-term liquidity problem was on the whole achieved. (Lustig 1995, 59)

The Mexican package of 1995 led to widespread debate on the US Treasury’s information disclosure policies and the discretion that the Treasury secretary had, under the direction of the president, to tap the ESF funds without congressional approval. The Mexican Debt Disclosure Act of 1995 required substantial new disclosures by the president and Treasury secretary about the Mexican economic program and the status of US loans to the Mexican government (Henning 1999).
<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>GDP (SAAR, nominal GDP in USD)</strong></td>
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<td></td>
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<tr>
<td><strong>GDP per capita (SAAR, nominal GDP in USD)</strong></td>
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<tr>
<td><strong>Sovereign credit rating (five-year senior debt)</strong></td>
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<tr>
<td><strong>Size of banking system</strong></td>
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<tr>
<td><strong>Size of banking system as a % of GDP</strong></td>
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<tr>
<td><strong>Size of banking system as a % of financial system</strong></td>
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<tr>
<td><strong>Five-bank concentration of banking system</strong></td>
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<td></td>
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<tr>
<td><strong>Foreign involvement in banking system</strong></td>
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<tr>
<td></td>
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<tr>
<td><strong>Existence of deposit insurance</strong></td>
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</tbody>
</table>

*Sources: Bloomberg; World Bank Global Financial Development Database; World Bank Deposit Insurance Dataset.*
Key Design Decisions

1. Purpose and Type (A): The Federal Reserve and US Treasury collectively established one temporary bilateral swap facility in March 1994; the Fed and US Treasury separately established an additional temporary facility in December 1994 and January 1995, respectively, with the Bank of Mexico to calm financial markets and help Mexico stabilize its foreign exchange reserves.

On March 24, 1994, the Fed and US Treasury established a temporary USD 6 billion bilateral swap facility with Mexico by expanding an existing swap facility that had been in place since 1967. The purpose of establishing this swap facility was to calm financial markets and help Mexico stabilize its foreign exchange reserves after the assassination of Mexican presidential candidate Luis Donaldo Colosio (US GAO 1996).

The US Treasury and Fed contributed USD 3 billion each to this arrangement (FOMC 1994b; US Treasury n.d.a). The original Fed-BoM swap arrangement was established as part of a series of swaps that the Fed had established in the prior decades with many central banks as part of its monetary policy operations “to help deal with balance of payments issues and specifically to help support the then-fixed exchange rate between the peso and the dollar” (FOMC 1994a, 4). By 1995, this rationale was no longer applicable, and the increase in the line was debated among the members of the FOMC, some of whom felt that it was a fiscal mandate of the US government, and hence would not be a responsibility of the Federal Reserve (FOMC 1994a). The Fed-BoM line had been used in 1976, 1982, and 1988, and in March 1994, the line had an authorized amount of USD 700 million, which the FOMC increased to USD 3 billion at the request of the Treasury (FOMC 1994b) (see Figure 1).

The US Treasury had also maintained a standing bilateral reciprocal swap line, funded by its Exchange Stabilization Fund, with the government of Mexico since 1967; it had reviewed this line every two years. The line was originally worth USD 100 million and had been at USD 300 million since 1975 (US Treasury n.d.a; US Treasury 1967). In March 1994 the Treasury also increased this line to USD 3 billion to support Mexico, bringing the total liquidity available from the US to USD 6 billion. The USD 6 billion temporary swap facility expired on April 29, 1994, after the parties signed the NAFA (US Treasury n.d.a).

Two other temporary swap facilities were established in December and January 1995 by the Fed and Treasury, respectively. In December 1994, as the peso again came under pressure, the Fed established an additional USD 3 billion Special Swap Line with the BoM, which expired on January 31, 1996 (Fed 1995c; FOMC 1994d). And in January 1995, the Treasury added USD 1.5 billion in an additional Treasury Special Tranche Swap, which expired in February 1995, as the IMF-US multilateral funding program became active (US Treasury n.d.a).
Purpose and Type (B): The US, Canada, and Mexico established a permanent trilateral swap arrangement under the North American Framework Agreement to maintain orderly exchange markets, as the peso again came under pressure.

On April 26, 1994, American, Mexican and Canadian monetary authorities entered into a trilateral swap agreement to expand the pool of resources available to Mexico to maintain orderly exchange markets (US GAO 1996; US Treasury 1994a). The authorities established this swap arrangement, which had been under discussion since late 1993, in connection with the North American Framework Agreement and related trade agreements. For the US-Mexico agreement, the US Treasury contributed USD 3 billion from the ESF while the Fed contributed USD 3 billion (US GAO 1996). The swap arrangement consisted of a series of bilateral reciprocal agreements (see the Appendix for more detail).

Purpose and Type (C): The US contributed USD 20 billion in swaps and guarantees to a USD 48.8 billion multilateral aid package to help Mexico get on a sounder long-term financial and economic footing because Mexico was an important trading partner and ally.

The NAFA Swap Line (USD 6 billion) and the Special Swap Line (USD 3 billion)—providing a total of up to USD 9 billion in short-term swaps—were incorporated into the US portion of the 1995 multilateral aid package for Mexico. The package provided that Mexico could also enter into medium-term swap arrangements with the Treasury for up to five years and provided that the US government would guarantee Mexican government securities for up to 10 years (Clinton 1995; Fed 1995b; US Treasury 1995).

The 1995 multilateral aid package represented a significant increase in US financial support for Mexico and was a departure from previous US assistance in 1982, 1986, and 1989, which had been only short term (US Treasury n.d.a). The US expected Mexico to use the facilities to “retire, refinance, or restructure short-term obligations” (Clinton 1995, 3) so that ultimately investors would lend money to Mexico for lower interest rates and longer durations to allow Mexico to achieve a sounder long-term financial and economic footing because Mexico was an important trading partner and ally (Clinton 1995, 3). US President Clinton described the intervention as “a necessary and appropriate response to the Mexican financial crisis and in the United States’ vital national interest” (Clinton 1995, 2; US Treasury n.d.a). The medium-term swap facility under this package expired on January 16, 1997. The loan guarantees were not used (US Treasury 1995; Wilson 1999).

2. Part of a Package: The USD 20 billion assistance provided by the United States on January 31, 1995, was part of a multilateral package for Mexico worth USD 48.8 billion. Our research has not been able to ascertain whether other initiatives accompanied all the other swap facilities discussed in this case study.

Our research has not been able to determine if other initiatives accompanied the temporary swap facilities implemented in March 1994, December 1994, and January 1995, or the NAFA Swap Line announced in April 1994.
On January 31, 1995, President Clinton announced a USD 48.8 billion multilateral assistance package for Mexico (see Figure 4). Under this package, the US contributed USD 20 billion through the ESF and Fed swap network, the IMF contributed USD 17.8 billion by way of an 18-month standby arrangement, the BIS provided USD 10 billion by way of a short-term facility funded by industrial countries, and Canada contributed USD 1 billion (US GAO 1996).

The US portion of this package consisted of short-term swaps under the existing NAFA Swap Line, the Special Swap Line (with the Treasury backing the Fed’s portions), the medium-term swaps, and securities guarantees. The US support was documented in a series of agreements including:

- The US–Mexico Framework Agreement for Mexican Economic Stabilization that described the overall intent and parameters of the support package;
- The Medium-Term Exchange Stabilization Agreement, which described the terms of the medium-term swaps;
- The Guarantee Agreement, which described the terms of the securities guarantees; and
- The Oil Proceeds Facility Agreement, requiring Mexico to deposit revenues from oil sales into an account at the FRBNY and granting the Fed set-off rights, as back-up security for any amount that Mexico might later owe to the US. (US Treasury 1995)

The period for requesting aid through the medium-term swap draws and securities guarantees was one year, but Mexico could request the Treasury to extend these periods by six months (US Treasury 1995).

The Guarantee Agreement, which became effective on February 21, 1995, stated that upon a request from the Mexican government, the US Treasury would guarantee debt issued by the Mexican government. The agreement stipulated that Mexico’s total outstanding obligations to the US, including the guarantees and any outstanding swaps, could not exceed USD 20 billion. The issuance of a guarantee would be subject to Mexico’s complying with certain legal and administrative preconditions. The fee payable for the guarantee would be a base fee and a risk premium based on the total amount outstanding under the USD 20 billion package. Under this agreement, the Mexican government agreed to immediately reimburse the US Treasury for any amounts paid under any guarantee (US Treasury 1995).
United States: Swaps to Mexico, 1994

Figure 4: Multilateral Assistance Package to Mexico, 1995

<table>
<thead>
<tr>
<th>Entity</th>
<th>Type of Aid</th>
<th>Maximum Amount Authorized (in USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Federal Reserve and Treasury</td>
<td>Short-term swaps with duration of up to 90 days (up to USD 9 billion)</td>
<td></td>
</tr>
<tr>
<td>US Treasury</td>
<td>Medium-term swaps with maturity of up to 5 years</td>
<td>20 billion(a)</td>
</tr>
<tr>
<td>US Treasury</td>
<td>Securities guarantees with terms up to 10 years</td>
<td></td>
</tr>
<tr>
<td>IMF</td>
<td>18-month standby arrangement</td>
<td>17.8 billion</td>
</tr>
<tr>
<td>BIS</td>
<td>Short-term swap facility</td>
<td>10 billion</td>
</tr>
<tr>
<td>Canada</td>
<td>Short-term swaps</td>
<td>1 billion</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>48.8 billion</strong></td>
</tr>
</tbody>
</table>

(a) The USD 9 billion in short-term swaps that was available under the NAFA and Special Swap Lines was incorporated into the package. Mexico could draw up to USD 20 billion, less the amounts outstanding from short-term swaps, medium-term swaps, and securities guarantees (US Treasury 1995).

Source: (Fed 1995c)

Under the US portion of the aid package, up to USD 9 billion in short-term swaps was available from the Fed (USD 6 billion) and the Treasury (USD 3 billion), with renewals allowed (US Treasury 1995). Medium-term swaps of up to five years and securities guarantees with terms of up to 10 years were allowed up to the balance of USD 20 billion. These swaps and securities guarantees were conditioned on Mexico’s adhering to strict economic, financial, and reporting requirements (US GAO 1996).

3. **Legal Authority**: The Fed is authorized to enter into swap facilities based on the authority of Section 14 of the Federal Reserve Act of 1913. 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. Decisions regarding whether to enter into a swap, and the terms thereof, are made by the Federal Open Market Committee (Fed n.d.).

The US Treasury operates all of its swap lines through the Exchange Stabilization Fund (US Treasury n.d.c; US Treasury n.d.a). The swap facilities are administered by the FRBNY, an operating arm of the Fed, and a fiscal agent of the US Treasury (US Treasury n.d.b). The provision regarding the Treasury secretary’s use of the ESF states that:

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)

The president and Treasury secretary were authorized to use the ESF to provide loans and credits to Mexico under Section 10(a) of the Gold Reserve Act of 1934 (GRA 1934). The president was also authorized under Title 31 of the United States Code, Section 5302, to provide financial assistance to Mexico through the ESF (Clinton et al. 1995).

To authorize the medium-term swaps in the 1995 assistance package, President Clinton issued the required written statement to Congress that unique or emergency circumstances required the loan or credit be for more than six months (Clinton 1995).

4. Governance (A): The Temporary Swap Line of March 1994 was overseen by the FOMC and the Treasury Department. The Special Swap Line of December 1994 and the Treasury Special Tranche of January 1995 were governed by the Fed and Treasury secretary.

The Temporary Swap Line was governed by the FOMC and the Treasury for their respective 50% contributions to fund the line. The FOMC and secretary of the Treasury had the authority to approve any increases in the line or any extensions. Specifically, all draws under the line required either a two-key approval or an additional approval by the FOMC (see Key Design Decision No. 9, Process for Utilizing the Swap Agreement).

The Fed Special Swap Line and the Treasury Special Tranche were governed by the Fed and secretary of the Treasury (US Treasury 1995).

Governance (B): The NAFA Swap Line was governed by the US, Canada and Mexico under the North American Financial Group.

The NAFA swap arrangement was governed by the parties, the US, Canada, and Mexico. The decision-making authorities from the US were the FOMC and the secretary of the Treasury (Henning 2002). Swap drawings made under the NAFA Swap Line had to be approved by the FOMC and Treasury. The Bank of Canada was the decision-making authority from Canada (Fed n.d.). The NAFA Swap Line was reported by the Fed in the Foreign Exchange Operations of the Treasury and the Federal Reserve reports (Fed 1994a; Fed 1996a).

Governance (C): The FRBNY and Treasury governed the US short-term swap arrangements; other portions of the US assistance were administered solely by the Treasury.

The short-term swaps available under the package and the NAFA were governed by the Fed and secretary of the Treasury. The medium-term swaps were funded through the ESF and governed by the Treasury. The securities guarantees were extended under the ESF and governed by the Treasury (US Treasury 1995).
The US Treasury had veto power to deny any disbursement to the BoM and the right to accelerate Mexico’s outstanding obligations if it felt that Mexico was not conforming to the requirements set by the United States (Clinton 1995). Under the agreements, the BoM and the Mexican Ministry of Finance also agreed to make publicly available “key fiscal and financial data on money and credit aggregates, international reserves, the evolution of public sector debt, and other measures of economic performance” (Clinton 1995, 3).

The Mexican Debt Disclosure Act of 1995, passed in April 1995, required the American president to “report to the appropriate congressional committees on all US government guarantees to, and currency swaps with, Mexico” not later than June 30, 1995, and on the last day of every month thereafter (Mexican Debt Disclosure Act 1995).

5. Administration: The FRBNY administered the US short-term swap arrangements while the Treasury administered other portions of US assistance.

The Temporary Swap Line, the NAFA Swap Line, the Fed Special Swap Line, and the Treasury Special Tranche were administered by the FRBNY as an operating arm of the Federal Reserve under delegation and direction from the FOMC and as an administrative agent of the Treasury. Payments from the NAFA Swap Line were deposited into the BoM account at the FRBNY while the BoM was required to deposit an equivalent amount of pesos into the FRBNY’s account at the BoM (FOMC 1993; FOMC 1994b). (See also Key Design Decision No.9, Process for Utilizing the Swap Agreement.)

The two parts of the Special Swap Line of USD 3 billion line were “activated” when approved, meaning that the BoM could draw on it immediately (FOMC 1994d; Hoffner 2023). The line carried terms that differed from those of the NAFA Swap Line. The Special Swap Line could be drawn on until January 31, 1996, when it expired (Fed 1997a). Once a drawing on the Special Swap Line were repaid, the size of the line would be reduced pari passu. All drawings on the special line would have to be repaid no later than January 31, 1997, and any drawings that were outstanding for more than 12 months would be guaranteed by the Treasury (FOMC 1995).

The US dollars drawn by the BoM under medium-term swaps were similarly credited to a BoM account at the FRBNY while the BoM deposited a commensurate amount of pesos into a FRBNY account at the BoM (US Treasury 1995).

Securities guarantees under the 1995 multilateral aid package were administered by the Treasury (US Treasury 1995).

6. Communication (A): The Temporary Swap established by the US in March 1994 was announced on March 24, 1994, to express American support for Mexico’s economic policies. The temporary swap facilities implemented by the Fed in December 1994 and Treasury in January 1995, respectively, were also implemented to encourage Mexico’s progress through American support.

US Treasury Secretary Lloyd Bentsen issued two statements on March 24, 1994, following Luis Donaldo Colosio’s assassination. The first of these sought to reassure the markets that
the United States had confidence in Mexico’s recent reforms. The secretary stated that “the president has instructed me, as secretary of the Treasury, to work with Mexican officials to try to further ensure stability in the financial markets” (US Treasury 1994a, 386).

Bentsen and Fed Chairman Alan Greenspan jointly announced on March 24, 1994, the establishment of a temporary USD 6 billion swap facility with the Bank of Mexico and “confirmed continued strong US support for Mexico’s economic policies” (Fed 1994b, 394; US Treasury 1994a, 395).

The Special Swap Line from the Fed and the Treasury Special Tranche collectively brought the US assistance available to Mexico to USD 9 billion by January 9, 1995. An official from the Treasury commented that this decision was taken in the backdrop of considering US-Mexico relations, Mexican President Ernesto Zedillo’s progress on implementing programs to alleviate the crisis, and the progress Mexico made on other reforms (US GAO 1996).

Communication (B): American, Mexican, and Canadian authorities announced the swap line in an unusual joint press conference and press release on April 26, 1994, which emphasized the trilateral nature of the swap line.

On April 26, 1994, the finance ministries and monetary authorities of the US, Canada, and Mexico held an unusual joint press conference announcing the establishment of a trilateral swap facility in connection with the creation of the NAFA (McParland 1994; US Treasury 1994b). The press release said that the authorities created the swap facility to “expand the pool of potential resources available to the monetary authorities of each country to maintain orderly exchange markets” (US Treasury 1994a, 236). A news report quoted US officials as stressing that the governments had no intention of using the swap lines to coordinate exchange rates; the purpose rather was to create emergency tools for calming disorderly markets (Bacon and Torres 1994).

Officials also emphasized that all three countries could use the facility, implying it wasn’t just about Mexico. Later, the NYFRB reported in its quarterly report on foreign exchange operations that the announcement was “unrelated to developments in Mexico, they had been planned several months earlier in recognition of the three nations’ increasingly interdependent economic relationships” (Fed 1994a, 76).

Still, market participants understood at the time of the announcement that the authorities intended to use the facility to defend the peso. The peso strengthened after the announcement. “In theory it is for use by any of the three nations, but it is clearly seen as a move to underpin the Mexican currency,” a Dow Jones reporter wrote on April 27 (Dow Jones 1994c).

The Pacto was a tripartite agreement among the business, government, and labor sectors of the Mexican economy put in place in 1987 that aimed to stabilize the economy by trying to break the inflation and devaluation problems that had plagued Mexico since 1987 (US GAO 1996). In April 1994, the finance minister, Pedro Aspe, told reporters that the Mexican government remained committed to the Pacto (Dow Jones 1994b).
Communication (C): In announcing that the United States would provide USD 20 billion to the multilateral assistance package for Mexico on January 31, 1995, President Clinton referred to “the Mexican peso crisis” and argued that Americans needed to see their own “vital national interest” in Mexico’s success.

The multilateral assistance package in early 1995 posed new communications challenges for the US authorities because of its size and because of the use of the ESF, which was controversial because it had bypassed congressional approval.

President Clinton in his statement with congressional leaders on January 31, 1995, emphasized the precarious position that Mexico was in. He used the expression, “the Mexican peso crisis,” and argued that long-term solutions would be needed to avoid further pressure on the peso (Clinton 1995, 2; Clinton et al. 1995).

Nonetheless, he appealed to Americans to see their own “vital national interest” in Mexico’s success. He argued that the US needed to assist Mexico to safeguard American jobs, prevent illegal immigration, maintain stability, and promote reform in emerging market economies (Clinton 1995; Clinton et al. 1995).

Some members of the Mexican public and Mexico’s largest union—the Telephone Workers Union—were not happy with the US package, as it used oil revenues from PEMEX (Mexico’s state-run oil company) as collateral in the event of a default (AP Archive 2015). They felt that their oil revenues “were not for sale” (AP Archive 2015). See Key Design Decision No. 13, Balance Sheet Protection, for more discussion of this issue.

7. Eligible Institutions: The Bank of Mexico and the Mexican government were eligible to participate in the swap arrangements and the guarantees, except for the trilateral NAFA swap arrangement.


The US, Mexico, and Canada entered into a trilateral swap arrangement in connection with the NAFA. Pursuant to the effectuating bilateral reciprocal agreements, each central bank could access the swap arrangement under NAFA to borrow the currency of the other in exchange for its domestic currency (Fed 1994a).

The BoM, acting as a fiscal agent on behalf of the Mexican government, was the only central bank eligible for the medium-term swaps under the Medium-Term Exchange Stabilization Agreement of the US assistance package of 1995, while the Mexican government was the only eligible institution under the Guarantee Agreement (US Treasury 1995).
8. **Size (A): The United States’ temporary swap lines for Mexico fluctuated in size during the Mexican crisis from USD 4.5 billion to USD 6 billion.**

The Fed and Treasury deployed several swap lines on a temporary basis to quickly provide support to Mexico (see Figure 1). They did this, in some cases, by increasing existing swap lines (the Fed) and by creating a new line (the Treasury). Both authorities later increased these swap lines as Mexico’s troubles persisted. It is notable that these swap lines were separate from the NAFA Swap Line and expired once the crisis passed while the NAFA Swap Line continued.

On March 24, 1994, the FOMC increased the authorized amounts under its existing swap line with the BoM (which had originally been established in 1967) from USD 700 million to USD 3 billion to provide some immediate support to Mexico in the wake of the assassination of a presidential candidate. At the same time, the Treasury also established a USD 3 billion swap arrangement among the ESF, the BoM, and the Mexican Ministry of Finance, bringing the US swap arrangements to USD 6 billion (FOMC 1994b; US Treasury n.d.a). These combined swap lines (the Temporary Swap Line) expired on April 29, 1994; the Fed line was absorbed into the NAFA Swap Line (FOMC 1994b).

On December 30, 1994, the FOMC increased its commitment to Mexico by approving an additional USD 1.5 billion in swap availability, and it approved another USD 1.5 billion on February 1, 1995, for a total of USD 6 billion (the Special Swap Line) (Fed 1995c).

On January 2, 1995, the Treasury also approved an additional USD 1.5 billion swap amount for Mexico (Treasury Special Tranche), which expired on February 21, 1995, the effective date of the multilateral assistance package (US Treasury n.d.a).

Between March 24, 1994, and April 29, 1994, USD 6 billion was authorized as temporary swaps (the Temporary Swap Line) and then between December 1994 and January 31, 1996, temporary swap lines (excluding the NAFA Swap Line) fluctuated between USD 3 billion and USD 4.5 billion, with USD 3 billion available after February 1995 when the multilateral assistance package went into effect (Fed 1995a; FOMC 1994b). This USD 3 billion combined with the NAFA (USD 6 billion) to make up to USD 9 billion in short-term swaps available to Mexico. The Treasury guaranteed, subject to its consent for new draws, amounts drawn under Fed swap lines (US Treasury 1995). See Key Design Decision No. 13, Balance Sheet Protection, for more details.

**Size (B): The US’s NAFA Swap Line with Mexico was worth USD 6 billion during this period.**

As part of the NAFA, the United States entered into a swap arrangement with the BoM as of April 26, 1994. The Fed and Treasury each authorized up to USD 3 billion to be borrowed under this line, for a total of USD 6 billion (Fed 1994a).

The NAFA Swap Line was activated during the initial phase of the peso crisis that began in December 1994. The Fed and US Treasury lent Mexico USD 500 million each in January 1995,
followed by USD 1 billion each in February 1995 (Henning 2002) (see Figure 2 in the Overview).

The Treasury and Federal Reserve Foreign Exchange Operations (January–March 1996) reported that the outstanding amount of USD 650 million was repaid by the Bank of Mexico in January 1996 (Fed 1996a). (See Figure 1 in the Overview for more information on the chronology of the draws made by Mexico.)

**Size (C): The 1995 multilateral assistance package to Mexico was worth up to USD 48.8 billion, of which the US contributed USD 20 billion.**

On January 31, 1995, President Clinton announced a USD 48.8 billion multilateral assistance package for Mexico (US GAO 1996). Under this aid package, the US contributed USD 20 billion through the ESF and Fed swap lines. The package comprised up to USD 9 billion in short-term swaps (USD 6 billion from the Fed and USD 3 billion from the Treasury); the balance could be taken in a mix of medium-term swaps and securities guarantees funded by the Treasury from the ESF, at Mexico’s discretion, provided it met all prerequisites for accessing the assistance (US Treasury 1995).

It is worth noting that the 1995 financial rescue package was much larger and, as one commentator puts it, “in some respects more ambitious” than the rescue package that the US and others provided to Mexico in 1982:

> If measured in constant dollars, the financial assistance arranged in February 1995 of up to $48.8 billion was roughly seven times larger than the $4.55 billion ($7.2 billion in constant 1995 dollars) rescue package arranged in August 1982. The contribution by the U.S. of up to $20 billion was more than three times its previous contribution of $3.625 billion in 1982 ($5.7 billion in constant 1995 dollars), although the actual disbursements equaled only $13.5 billion[8] (more than twice the 1982 contribution in real terms). (Lustig 1997, 26–27)

Musacchio (2012) comments that “the idea was to open a line of credit to Mexico large enough to stem any speculative attack that could further destabilize the peso and the Mexican economy” (Musacchio 2012, 23). Lustig also notes that the 1995 package included medium- and longer-term assistance, whereas the 1982 package included short-term swaps, which had been the previous practice of the US (Lustig 1997). (See also Key Design Decision No. 13, Balance Sheet Protection).

Mexico used USD 2.5 billion from the short-term swap facilities, which was repaid on January 29, 1996; Mexico also used USD 10.5 billion by way of medium-term swaps, which was repaid in advance by January 1997 (Lustig 1995). The Mexican government did not use guarantees from this package (Wilson 1999).

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8 While Lustig cites USD 13.5 billion, our calculations, drawn from the Federal Reserve Bulletins, yield USD 13 billion (Lustig 1997, 26–27). (See Figure 5 in Key Design Decision no.11, Duration of Swap Draws.)
9. **Process for Utilizing the Swap Agreement (A):** The BoM could draw up to USD 2 billion from the Temporary Swap Line of March 1994 if it met certain conditions; additional swap draws were subject to further FOMC approval. Research has not determined the process for utilizing the Treasury Special Tranche of January 1995. The Temporary Swap Line of March 1994 and Fed Special Swap Line of December 1994 had certain terms that were identical to the NAFA Swap Line.

The FOMC provided a preapproval when authorizing the Temporary Swap Line\(^9\) of March 1994, permitting the Bank of Mexico to draw up to USD 2 billion, after which further drawings would be subject to negotiation and FOMC approval (FOMC 1994b). For any draw, the BoM would also have to furnish a letter from the IMF supporting Mexico’s economic policies and at the time of draw, it would have to have on deposit at the FRBNY assets worth at least USD 2 billion (Henning 2002).

The Temporary Swap Line of March 1994 and Fed Special Swap Line of December 1994 had certain terms that were identical to the NAFA Swap Line (FOMC 1994b). Our research has not been able to determine the process for utilizing the Treasury Special Tranche of January 1995.

**Process for Utilizing the Swap Agreement (B):** The BoM could draw on the NAFA Swap Line if it could provide a letter from the IMF. The draws under the NAFA Swap Line were subject to two-key approval.

The draws under the NAFA Swap Line were subject to a two-key approval, meaning that they required the approval of the FOMC and the US Treasury and not just mutual agreement to administrative transaction terms such as size, duration, and exchange rate (Henning 2002). This is unusual and gave the US authorities the opportunity to stipulate conditions. In a usual swap draw situation, only administrative transactional terms need to be agreed to. (Also see Key Design Decision No. 15, Other Options).

The BoM also had to provide a letter from the IMF as a prior condition to draws under the NAFA agreement.

Other terms of the NAFA Swap Line between the Fed and BoM were the same as discussed in the fall of 1993 and applied to the Temporary Swap Line and to the Fed Special Swap Line (FOMC 1994b).

Payments from the NAFA Swap Line were deposited into the BoM account at the FRBNY while the BoM was required to deposit an equivalent amount of pesos into the FRBNY’s account at the BoM (FOMC 1993; FOMC 1994b).

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\(^9\) At the FOMC meeting on March 24, 1994, where the expansion of the Fed existing swap line with Mexico was approved, several references were made to the line having terms "identical" to a line discussed the previous fall "in the context of the NAFTA vote," which was not adopted. As a result, several of the terms described herein are taken from the FOMC meeting of November 11, 1993, where a US-BIS swap facility was discussed but not adopted (FOMC 1994b, 3, 5).
Process for Utilizing the Swap Agreement (C): Draws under the Medium-Term Exchange Stabilization Agreement followed a rigorous procedure.

The BoM had to notify the FRBNY at least seven business days in advance to request a medium-term swap transaction, with details pertaining to the proposed value and maturity dates, amount requested, amount sought to be invested into a Treasury certificate if needed (this was a nontransferable instrument issued by the US Treasury at par using the amount from the BoM’s Medium-Term Funds Account that was not immediately needed by Mexico, with a maturity date not exceeding 91 days following the date of purchase of US dollars), date of redemption of the Treasury certificate, and information that was required to be furnished to the Treasury under the terms and conditions of this agreement. The agreement (which allowed the maximum duration of the swap to be five years) also required each maturity date to be a calendar quarter date (US Treasury 1995).

Payments from the medium-term swap transactions from the Treasury were deposited into the “Banco de Mexico as Fiscal Agent for Mexico – Medium-Term Funds Account” held at the FRBNY in exchange for an equivalent amount of pesos deposited at the “Federal Reserve Bank of New York as Fiscal Agent of the United States, Special Account No. 3” held at the BoM (US Treasury 1995, 326–27). Each of these draws was conditional on the Treasury’s being satisfied with Mexico’s adherence to the 1995 Framework Agreement (US Treasury 1995).

The amounts drawn under the medium-term swap account that Mexico did not need to use immediately could be invested into nontransferable Treasury certificates with a maturity not exceeding 91 days after the value date of the medium-term swap transaction. These redeemable, interest-bearing certificates were held in the BoM’s account (known as the Medium-Term Custody Account) at the FRBNY. Similarly, the Treasury could invest in nontransferable, redeemable, interest-bearing Mexico certificates to be held in its account at the BoM. It is interesting to note that the interest on the Mexican certificates was determined by the Treasury (US Treasury 1995).

In the event that the value of the pesos dropped before maturity of the draw, Mexico was obligated to deposit additional pesos to maintain the value of its deposits equal to the value of the dollars received (Clinton 1995).

The Treasury made USD 3 billion from the medium-term swaps and guarantees available immediately upon the effective date of the agreement (February 21, 1995). Another USD 10 billion was made available in stages contingent on Mexico’s meeting its obligations beginning in July (Clinton 1995; US Treasury 1995). The Treasury could review Mexico’s request and determine to accept or deny any request. Mexico had to provide details about any request including how it was going to use the dollars received (Clinton 1995).

10. Downstream Use of Borrowed Funds: The US portion of the 1995 multilateral assistance package required that the dollars acquired by the Bank of Mexico be used to “retire, refinance, or restructure short-term obligations.”

No information is available on how the BoM used the borrowed funds under any of the swap facilities discussed in this case study. However, the US portion of the 1995 multilateral
assistance package required that the dollars acquired by the Bank of Mexico be used to “retire, refinance, or restructure short-term obligations” (Clinton 1995, 3). The US intended to encourage Mexico to shift its borrowing to stable, long-term sources of finance. The United States also closely monitored Mexico’s financial plan to govern how US funds would be used for refinancing purposes. The US could withhold assistance if it determined that Mexico had not satisfactorily implemented the agreed-upon finance policies or used any assistance in a manner inconsistent with the purposes stated in the Framework Agreement (Clinton 1995; US Treasury 1995).

The Framework Agreement required that the Bank of Mexico and the Mexican government provide a financial plan detailing how they would put to use the aid received under this package (US Treasury 1995).

11. Duration of Swap Draws (A): The Bank of Mexico did not draw upon the Temporary Swap Line established on March 24, 1994. The BoM did not draw upon the Special Swap Line from the Fed or the Treasury Special Tranche.

The Bank of Mexico did not draw upon the Temporary Swap Line before it expired on April 29, 1994 (US GAO 1996).

The BoM did not draw upon the Special Swap Line from the Fed or the Treasury Special Tranche (see Figure 5).

Duration of Swap Draws (B): The NAFA Swap Line had a duration of three months and could be extended.

The NAFA Swap Line worth USD 1 billion each from the Fed and the Treasury (that were drawn on February 2, 1995) were renewed twice: once on May 3, 1995, and again on August 1, 1995, for an additional three months (Fed 1995b; Fed 1995d).

Duration of Swap Draws (C): Medium-term swaps could have tenures as long as five years. The swap draws made under the medium-term swap facility had a duration between 444 and 684 days.

The draws made under the medium-term swap facility had a duration between one year two months (444 days) and one year 10 months and 12 days (684 days) (see Figure 5).
Figure 5: Overview of the Swap Draws Made by Mexico in 1995

<table>
<thead>
<tr>
<th>Date of Draw</th>
<th>Amount (USD millions)</th>
<th>Source</th>
<th>Date Repaid</th>
</tr>
</thead>
<tbody>
<tr>
<td>01-11-1995</td>
<td>250</td>
<td>Fed</td>
<td>03-14-1995</td>
</tr>
<tr>
<td>01-13-1995</td>
<td>250</td>
<td>ESF</td>
<td>03-14-1995</td>
</tr>
<tr>
<td>02-02-1995</td>
<td>1,000</td>
<td>Fed</td>
<td>10-11-1995: USD 350 million 01-29-1996: USD 650 million</td>
</tr>
<tr>
<td>02-02-1995</td>
<td>1,000</td>
<td>ESF</td>
<td>10-11-1995: USD 350 million 01-29-1996: USD 650 million</td>
</tr>
<tr>
<td><strong>Total Short Term</strong></td>
<td><strong>2,500</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date of Draw</th>
<th>Amount (USD millions)</th>
<th>Source</th>
<th>Date Repaid</th>
</tr>
</thead>
<tbody>
<tr>
<td>03-14-1995</td>
<td>3,000</td>
<td>ESF</td>
<td>01-16-1997</td>
</tr>
<tr>
<td>04-19-1995</td>
<td>2,000</td>
<td>ESF</td>
<td>08-05-1996</td>
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<td>3,000</td>
<td>ESF</td>
<td>08-05-1996</td>
</tr>
<tr>
<td>07-05-1995</td>
<td>2,500</td>
<td>ESF</td>
<td>08-05-1996: USD 2 billion 01-16-1996: USD 0.5 billion</td>
</tr>
<tr>
<td><strong>Total Medium Term</strong></td>
<td><strong>10,500</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


12. Rates and Fees: The short-term swap facilities charged a 91-day Treasury bill (T-bill) rate. The medium-term swap charged a 91-day T-bill rate plus a risk premium of 225–375 basis points (bps).

The Temporary Swap Line, the NAFA Swap Line, the Fed Special Swap Line and the Treasury Special Tranche Line charged the 91-day US Treasury bill interest rate (Henning 2002). The short-term swaps available under the 1995 assistance package were from the NAFA and the Special Swap Lines.

The exchange rate for the medium-term swap transaction was jointly determined by the FRBNY and BoM based on three quotations of the US dollar–peso exchange rate on the reference date (two days preceding the exchange rate determination date) from banks acting in the Mexico City foreign exchange markets (US Treasury 1995).

The medium-term swaps charged the 91-day US Treasury–bill rate plus a risk premium of 225 to 375 bps (Clinton 1995). This interest rate was chosen to help the Treasury cover the cost of funds (US GAO 1996).
The Medium-Term Exchange Stabilization Agreement required that the Treasury not bear any interest rate risk pertaining to this transaction. The Treasury computed an interest rate sufficient to cover its credit risk cost for Mexico. The credit risk premium was calculated in accordance with the Interagency Credit Risk Assessment System (US Treasury 1995).

The fee payable for the guarantee would be a base fee and a risk premium based on the total amount outstanding under the USD 20 billion package (US Treasury 1995). The Mexican government did not use any of these guarantees (Wilson 1999).

13. Balance Sheet Protection: Draws by Mexico on the US swap lines required sufficient Mexican reserve deposits at the FRBNY and a letter from the IMF. The Fed also required Treasury backing for all drawings on the NAFA Swap Line and the Special Swap Line, up to USD 6 billion.

The Fed and Treasury used several mechanisms to protect themselves from losses on the swap lines. Some of these mechanisms were not typical of such transactions.

Temporary Swap Line and Short-Term NAFA Swap Line

The FOMC preauthorized the BoM to immediately draw up to USD 2 billion (of the authorized USD 6 billion) from the Temporary Swap Line subject to meeting certain conditions. Other draws were subject to the two-key consent of the FOMC and the Treasury. Draws on the NAFA Swap Line were also subject to two-key FOMC approval, which permitted the US authorities to require additional terms. For any draw on either line, the BoM also had to furnish a letter from the IMF supporting Mexico’s economic policies at the time of the draw. Mexico also had to have on deposit at the FRBNY assets of at least USD 2 billion (Henning 2002).

Treasury Backing of Short-Term Swaps

In addition, beginning in December 1994, the Treasury guaranteed to the Federal Reserve, with the resources of the ESF, all drawings under the NAFA Swap Line and the Special Swap Line, not to exceed USD 6 billion, that were provided at the direction of the FOMC and outstanding for more than 12 months (US GAO 1996). Short-term swaps from the Fed were pursuant to the NAFA Swap Line and the Special Swap Line the US had under medium-term swaps. The multilateral aid package of 1995 and this term were incorporated into the Framework Agreement (US Treasury 1995).

It does appear that several terms were designed to provide extra protection to the US under the medium-term swaps, perhaps due to their extended duration.

Top-Up Clause for Extra Collateral Protection

The Treasury also required Mexico to increase its peso deposits with the United States in the event of an unexpected appreciation of dollars against pesos. In this manner, Mexico would protect the United States from any losses on movements in the prevailing exchange rate (Clinton 1995). Most swap agreements do not contain a similar top-up clause, although such
clauses are seen in the repurchase agreements that the European Central Bank has with Hungary and Poland (Gupta 2023a; Gupta 2023b).

Access to Invested Collateral

In the event of nonpayment of dues owed by the BoM under the Medium-Term Exchange Stabilization Agreement, the Agreement stated that “Mexico hereby irrevocably authorizes and instructs the FRBNY to redeem, on such Due Date, any Treasury Certificate that was purchased with the U.S. dollar proceeds of that outstanding purchase or Installment, and to transfer all of the proceeds of such redemption to the Treasury Account to, first, pay any Interest Amount then due, and, second, repay the US dollar purchase or Installment outstanding then due” (US Treasury 1995, 331). In addition, the BoM was also obligated to pay late charges on any remaining unpaid amounts calculated as 500 bps above the 91-day T-bill rate immediately preceding the original due date (US Treasury 1995).

Oil Revenue Deposits and Set-Off Rights

As part of the 1995 assistance package, the US and Mexico entered into an Oil Proceeds Facility Agreement, which required Mexico to deposit revenues from oil exports and certain other amounts into an account at the FRBNY. The agreement was to remain in place until Mexico had satisfied all its obligations under any component of the 1995 package (short-term swaps, medium-term swaps, guarantees). If, at any point, Mexico defaulted on its obligations, the FRBNY could access such funds to satisfy the obligations (US Treasury 1995).

14. Other Restrictions: The swaps extended under the US assistance package of 1995 restricted the timing and usage of funds disbursed to the Bank of Mexico.

The US assistance package of 1995 provided that the Treasury would make funds available “as needed” to the BoM, subject to Mexico’s fulfilling certain economic and monetary policy targets (see Key Design Decision No. 7, Eligible Institutions) (Clinton 1995, 3).

The US assistance to Mexico was designed to incentivize Mexico to shift away from short-term funding and its risks and to provide an opportunity for the country to restructure its obligations into stable, long-term sources of finance (Clinton 1995). The Framework Agreement and Guarantee Agreement required that the assistance under the package be used “to assist Mexico in stabilizing its exchange and financial markets by providing resources to be used in such a manner as to facilitate the redemption, refinancing or restructuring of Mexico’s short-term debt obligations and such other purposes consistent with the obligations of the United States and Mexico, as members of the IMF, on orderly exchange arrangements and a stable system of exchange rates” (US Treasury 1995, 309, 338–40). The use restriction extended to the proceeds from short-term and medium-term swaps as well as to the proceeds from securities guaranteed by the US. The United States also closely monitored Mexico’s financial plan to govern how US funds would be used for refinancing purposes, and it could withhold assistance if it determined that Mexico was not satisfying its obligations (Clinton 1995; US Treasury 1995).
15. **Other Options: The US and BIS considered an additional contingent swap in 1994, but it was not formally adopted.**

In July 1994, the FOMC considered a proposal to include the NAFA Swap Line as part of a “contingent” USD 12 billion aid package to Mexico coordinated by the US and the BIS to help Mexico tackle its exchange rate policy in the run-up to the August presidential elections. Announcement of the facility was at Mexico’s discretion and whether the country determined it might be helpful in the context of its upcoming election (FOMC 1994c, 6–10).

If the BoM decided to make such an announcement, the FOMC would vote on the “activation” of the line at that time; research has not uncovered such a vote as Mexico did not use the facility. (FOMC 1994c, 6; US GAO 1996, 80, 87–88). FOMC minutes discussed that in this context, if the US-BIS arrangement were announced by the BoM, such an announcement would operate as an “activation” of the NAFA Swap Line, with the tacit effect of waiving the committee’s right of prior approval for draws under the line: “So, we would be in effect giving our approval to the drawing, assuming they wanted to draw” (FOMC 1994c, 7).

If activated, the BoM could draw up to one-third of the total package, or USD 4 billion, against equivalent collateral of assets deposited at the FRBNY and at the BIS (research has not been able to discern if the US and BIS would share any draw equally). Mexico could draw upon the arrangement until September 30, 1994, for a period of 90 days. All drawings would have to be repaid by December 30, 1994 (US GAO 1996).

The USD 6 billion portion from the BIS would be funded by Group of 10 countries as a “contingency swap agreement”; it is not clear what the triggering contingency was other than Mexico’s decision to announce the facility (US GAO 1996, 80, 87–88). The strong support for Mexico was largely based on countries’ concerns about possible systemic risks of an exchange rate crisis in Mexico and contagion spreading to other countries in Latin America, specifically including Argentina (FOMC 1994c). Research was not able to determine if Mexico announced the swap arrangement.


The Fed and Treasury enacted the Temporary Swap Line on an emergency basis to bridge Mexico’s dollar liquidity crisis until it could seek IMF assistance. The line expired in April 1994, shortly after it was originated, when it was superseded by the NAFA Swap Line.

The other temporary swap lines (the Special Swap Line and Treasury Special Tranche) also were relatively short lived. These lines were permitted to lapse while the medium-term swap line and the NAFA Swap Lines—one with a longer restructuring purpose, one a standing line implemented for other than crisis liquidity purposes—remained in effect.

On January 31, 1996, the Fed’s USD 3 billion Special Swap Line expired, reducing the available short-term swaps to the USD 6 billion NAFA Swap Line, funded 50% by the Fed and

Exit Strategy (B): The standing NAFA Swap Lines between the Bank of Mexico and the Fed and US Treasury remain in place. The Treasury portion was increased to USD 9 billion in 2018.

The standing NAFA Swap Lines are still in place. The Fed’s USD 3 billion NAFA Swap Line is subject to annual reviews by the FOMC (Fed 1994c). The Treasury portion of the NAFA Swap Line, originally established at USD 3 billion in 1994, remains in effect and in 2018 was increased to USD 9 billion (Fed n.d.).


On January 29, 1996, Mexico made the final repayment on its draws under the short-term swap facilities of the 1995 package (Fed 1996a).

On August 5, 1996, Mexico repaid in advance USD 7 billion of the USD 10.5 billion balance outstanding from the medium-term swap facility with the Treasury (Fed 1996b). On January 16, 1997, Mexico repaid the outstanding balance of USD 3.5 billion and the medium-term swap facility with the ESF was terminated (Fed 1997b).
References and Key Program Documents

Summary of Program


Implementation Documents


*FOMC transcript dated March 22, 1994, shedding detail into the proposed Mexican swaps.*
https://ypfs.som.yale.edu/node/23003/

*Transcript from the conference call detailing the decision to extend swap lines to Mexico following Colosio’s assassination.*
https://ypfs.som.yale.edu/node/22696/

*Transcripts of the FOMC meeting held on July 20, 1994, detailing the US-BIS swap facility.*
https://ypfs.som.yale.edu/node/22720/

*Minutes of the FOMC discussing swap packages of December 1994.*
https://ypfs.som.yale.edu/node/22697/

*FOMC minutes describing the supplemental swap facility.*
https://ypfs.som.yale.edu/node/22699

https://ypfs.som.yale.edu/node/22852/

**Legal/Regulatory Guidance**

*The Gold Reserve Act provides details on the use of the ESF.*
https://ypfs.som.yale.edu/node/22700
The Mexican Debt Disclosure Act of 1995 details the reporting requirements of the US president with respect to the funding provided to Mexico under the multilateral assistance package of 1995.
https://ypfs.som.yale.edu/node/22726/

Web page detailing the role of the Treasury in extending swap lines.
https://ypfs.som.yale.edu/node/22701/

Web page stating the authority of the Treasury and Federal Reserve in foreign exchange operations.
https://ypfs.som.yale.edu/node/21556

Media Stories

Video recording that captures the critical reaction Mexican citizens had to the US assistance package of 1995.
https://ypfs.som.yale.edu/node/22910/

Newspaper article that covers the introduction of the NAFA swap.
https://ypfs.som.yale.edu/node/22995/

News article tracing market developments in Mexico in March 1994.
https://ypfs.som.yale.edu/node/22996

News article tracing the developments in Mexico in April 1994.
https://ypfs.som.yale.edu/node/22997
Newspaper article covering the exchange rate trends in Mexico.
https://ypfs.som.yale.edu/node/23009/

News article describing the NAFA swap facility.
https://ypfs.som.yale.edu/node/22998

News article detailing the announcement of the NAFA swap facility.
https://ypfs.som.yale.edu/node/22999

Newspaper article describing market sentiment in Mexico following Colosio’s assassination. 
https://ypfs.som.yale.edu/node/23000

**Press Releases/Announcements**

https://ypfs.som.yale.edu/node/22423

https://ypfs.som.yale.edu/node/23005/

Press release from the Treasury comprising of the joint statement announcing the NAFA swap line.
https://ypfs.som.yale.edu/node/23006
Reports/Assessments

https://ypfs.som.yale.edu/node/2450

Federal Reserve Board webpage describing central bank swap lines.
https://ypfs.som.yale.edu/node/21501

Fed bulletin article detailing the swap draws made by the Bank of Mexico between February and April 1994.
https://ypfs.som.yale.edu/node/22705/

Announcement made of the temporary swap facility with Mexico in March 1994.
https://ypfs.som.yale.edu/node/22702/

https://ypfs.som.yale.edu/node/22692/

https://ypfs.som.yale.edu/node/22694/

Fed bulletin reporting the swap draws made by Mexico during the crisis of 1994-95.
https://ypfs.som.yale.edu/node/22691/
*Fed bulletin detailing the swap draws made by the Bank of Mexico between January and March 1996.*  
https://ypfs.som.yale.edu/node/22704/  

*Report detailing the swap draws made by the Bank of Mexico between July and September 1996.*  
https://ypfs.som.yale.edu/node/23004/  

*Annual report of the Fed for the financial year 1996.*  
https://ypfs.som.yale.edu/node/22703/  

*Fed bulletin detailing the swap draws made by the Bank of Mexico between January and March 1997.*  
https://ypfs.som.yale.edu/node/22706/  

https://ypfs.som.yale.edu/node/22719/  

*Testimony that goes into details on Treasury swaps for the Mexican crisis of 1994.*  
https://ypfs.som.yale.edu/node/22320/  

*Report examining Mexico’s peso crisis.*  
https://ypfs.som.yale.edu/node/17364
Key Academic Papers

Case study discussing the European Central Bank’s central bank repo line to the Hungarian central bank, Magyar Nemzeti Bank.
https://elischolar.library.yale.edu/journal-of-financial-crises/vol5/iss1/8

Case study discussing the European Central Bank’s central bank repo line to Poland.
https://elischolar.library.yale.edu/journal-of-financial-crises/vol5/iss1/9

https://ypfs.som.yale.edu/node/21559

Case study tracing the development of the CMIM.
https://elischolar.library.yale.edu/journal-of-financial-crises/vol5/iss1/4

*Paper examining the Mexican peso crisis.*
https://ypfs.som.yale.edu/node/22725/

https://ypfs.som.yale.edu/node/22343

*Working paper exploring Mexico’s financial crisis.*
https://ypfs.som.yale.edu/node/17965/

*Paper that traces the use of the ESF in US rescue packages.*
https://ypfs.som.yale.edu/node/23007
Appendix

As part of the North American Framework Agreement, the Fed and the Bank of Canada “reaffirmed their existing swap facility” in an authorized amount of USD 2 billion, which was extended for a year to December 15, 1995. (Fed 1994a). The Canada-US agreement is subject to annual review as all Fed standing agreements are (Fed 1994c). The FOMC has renewed the facility annually and it remains in effect. Canada has never drawn on its line (Fed n.d.). See Figure 6.

Figure 6: Original Amounts Authorized under the NAFA Swaps

<table>
<thead>
<tr>
<th>NAFA Swaps (Original Amounts and Expiration Date)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Party A</td>
</tr>
<tr>
<td>---------</td>
</tr>
<tr>
<td>US-Fed (a)</td>
</tr>
<tr>
<td>US-Fed</td>
</tr>
<tr>
<td>Canada</td>
</tr>
</tbody>
</table>

(a) The US-Mexico swap line comprised USD 3 billion funded by the Federal Reserve and USD 3 billion funded by the US Treasury. It is administered by the FRBNY.

Source: Author’s inferences from Federal Reserve Bulletins.

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