The original documents are located in Box B80, folder "Mexico 4/76 - 10/77 (1)" of the Arthur F. Burns Papers at the Gerald R. Ford Presidential Library.

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Recent Economic and Financial Developments
in Mexico
and Prospects for 1976-77

Mexico's balance of payments deficit on current account increased substantially in 1975, mainly as a result of the world recession and a rise in interest payments on external obligations. As shown in table 1, according to preliminary data, the current account deficit exceeded $4 billion, up from about $2.9 billion in 1974. The world recession was the principal reason why most traditional exports declined, and it was only because of the steady rise in exports of petroleum from wells opened in 1974 that the year ended with the value of total exports virtually unchanged from 1974. In contrast, the value of imports rose more than 8 per cent. The rise in imports in 1975 was modest when compared with increases of more than 50 per cent in each of the previous two years, and it was associated with a marked slowdown in the country's rate of economic activity. The world recession also brought about a 5 per cent drop in tourist earnings. The rise in interest payments reflects the rapid increase in the country's external debt and a rise in the average interest rate on outstanding obligations.

The current account deficit was financed by a net inflow of medium- and long-term capital, as has been the case for many years. Last year, this net inflow totalled about $4.3 billion, over $1.3 billion more than in 1974. This was enough to allow an increase in net official foreign assets of $151 million.

Table 1

Mexico - Balance of Payments

1973-75

(in million dollars)

	1973	1974	1975P/
Merchandise Exports	+2,419	+3,443	+3,445
Merchandise Imports	-3,656	-5,754	-6,283
Trade Balance	-1,237	-2,311	-2,838
Services (net)	- 252	- 678	-1,344
Travel (net)	(+ 808)	(+ 902)	(+ 810)
Investment Income (net)	(-1,135)	(-1,599)	(-1,974)
Other (net)	(+ 150)	(+ 19)	(- 180)
Private Unrequited Transfers (net)	+ 66	+ 100	+ 114
Balance on Current Account	-1,423	-2,889	-4,068
Govt. Unrequited Transfers (net)	+ 8	+ 13	+ 12
Long-Term Capital (net)	+1,820	+3,048	+4,303
Direct Investment in Mexico (net)	(+ 457)	(+ 678)	(+ 749)
Other Long Term Private Capital (net)	(+ 119)	(+ 590)	(+ 854)
Public Sector Borrowings (net)	(+1,293)	(+1,780)	(+2,700)
Subscriptions to IBRD and IDB	(- 48)	(--)	(--)
Short-Term Capital (net)	- 308	+ 242	+ 486
Private Non-Bank Capital (net)	(- 178)	(- 441)	(+ 250)
Bank Capital (net)	(- 130)	(+ 683)	(+ 236)
Official Foreign Assets (net)-- (increase:-)	- 144	- 32	- 151
Errors and Omissions (net)	+ 46	- 381	- 582

P/ Preliminary

Source: International Monetary Fund, International Financial Statistics, and IMF staff.

The country's real gross domestic product last year is estimated at about 4 per cent more than in 1974. With population rising at about 3.5 per cent per year, this represents little real growth per capita. The 1975 growth rate was also well below the average rate achieved in the past 20 years and below the 1974 rate--both about 6 per cent. With slower growth came a slower rate of increase in prices, but the consumer price index late last year and early this year was still showing a rise of more than 13 per cent over the year-earlier levels, and the monthly percentage increase appeared to have begun to turn up in January and February, after diminishing rather steadily during 1975. Recent price movements are summarized in table 2.

Until early 1973, the rate of inflation in Mexico was comparable to that in the United States. Its subsequent acceleration is only partly attributable to the impact of rising prices of many imported products. More important, perhaps, were an accelerated growth of domestic expenditures, chiefly by the public sector, an expansionary incomes policy, and shortfalls in agricultural production owing to inclement weather.

Public spending began to increase faster late in 1972 as the Government stepped up its rate of investment and the growth of its welfare programs. As public sector revenues rose more slowly, reliance on financing from the banking system grew. However, the ability of the banks to channel non-inflationary resources into the purchase of public sector securities was rising more slowly, and the Bank of Mexico itself ended up holding an increasing amount of these securities.

At the same time, the authorities undertook to compensate workers for the rise in the cost of living and began to grant more generous and more frequent increases in the minimum wage, setting the pattern for significantly larger raises in other wage categories. The latest increase in minimum wages, effective early this year, averages about 21 per cent (with a range of 17 to 34 per cent). This was the first increase in 15 months and, like earlier ones, it is fairly close to the rate of inflation in this 15-month period. It is bound to make it more difficult to reduce the inflation rate further in 1976.

Steps began to be taken to correct the internal financial disequilibrium in the latter part of 1974. In September of that year, the reserve requirements of the banks were raised substantially. Subsequently, some administrative improvements were introduced to achieve greater discipline on current government expenditures. In addition, a number of taxes were substantially increased and a new 50 per cent tax on gasoline sales was instituted. Rates for public services also were raised. At the same time, the decline in world interest rates beginning in the latter part of 1974 made Mexican interest rates relatively more attractive, and this helped the financial institutions in the country to attract a larger flow of funds than in the previous two years, enabling them to absorb a greater volume of public sector securities in 1975. Absorption of public securities by the financial

Table 2

Mexico - Index of Consumer Prices

in Mexico City

in Selected Months Since December 1972

	General Index (1968 = 100)	Average Monthly Change Since Last Month Shown (Per cent)	Change from Same Month Previous Year (Per cent)
1972 - December	124.1		
1973 - March	128.2	+1.1	+ 7.4
June	132.6	+1.1	+ 9.8
September	139.6	+1.8	+13.8
December	149.5	+2.4	+20.5
1974 - March	156.7	+1.6	+22.0
June	161.2	+1.0	+21.6
September	169.3	+1.7	+21.3
December	180.6	+2.2	+20.8
1975 - March	184.6	+ .7	+17.8
June	192.5	+1.4	+19.5
September	198.7	+1.1	+17.4
October	200.3	+ .8	+15.2
November	202.8	+1.2	+13.3
December	204.6	+ .9	+13.3
1976 - January	207.9	+1.6	+13.3
February	211.9	+1.9	+15.1

Source: Banco de México, Indicadores Económicos institutions was helped by the severe limitations on credit to the private sector brought about by the tightening in reserve requirements.

However, the slowdown in economic activity as the year progressed began to cause concern and, after mid-year, the Government again stepped up the rate of public spending. For the year as a whole, about 5 per cent of total public expenditures were financed directly by the Central Bank, and this financing accounted for about 75 per cent of the increase in the money supply (narrowly defined). The increase in M_1 in 1975 was 23 per cent, somewhat more than in the two previous years, and about twice the pre-1973 rates.

For 1976, public spending is projected by the authorities to increase by only 10 per cent over the 1975 level. This compares with a 30 per cent increase in public spending from 1974 to 1975. If the recent rates of inflation continue unchanged during the year, this would represent a cut in public sector spending in real terms. Even so, the fiscal deficit would amount to about 27 per cent of total public expenditures. The authorities hope that three-fourths of this can be financed internally and without direct recourse to the Central Bank, and the rest externally. To avoid recourse to the Central Bank, credit to the private sector will have to remain tightly restricted. Under such a projection, the rate of growth of real GDP for the year would probably not exceed the 1975 rate, and there should be some improvement in the balance of payments on current account.

There are reasons to question whether this projection will be realized. The recent wage increases appear to exceed what would have been consistent with a 10 per cent increase in public spending. Moreover, it is likely that public spending will exceed the projection if only because this is the last year of the term of office of the President of Mexico, and the outgoing Administration, like its predecessors, will want to complete as many of the projects which it started as it possibly can. The American Embassy reports that private sector economists generally tend to doubt that public spending will be held down as much as is officially projected. Private forecasters believe that there will be some recovery in real GDP growth, an intensification of inflation, and a further deterioration of the balance of payments on current account.

As regards the balance of payments, the worldwide economic recovery should be reflected in an upturn in Mexican exports and tourist earnings. However, Mexican industry may find itself increasingly at a competitive disadvantage, after three years of inflation at rates in excess of those in the United States, especially if this differential widens in 1976. Also, some tourists may stay away because of Mexico's stand on Israel in the United Nations. The principal hope for increased current account earnings lies in the petroleum sector and this could make a substantial contribution. Production from the rich wells of southern Mexico began in 1974 and has not yet reached its full potential. It has already turned the country's position from that of a net importer of petroleum to one of a net exporter, as shown in table 3. Official policy is "to increase the rate of production [there] to the highest sustainable rate consistent with current conventional practices, in order to make the maximum contribution to the current account of Mexico's balance of payments."1/

At the same time, it will be difficult to hold down imports, especially if it proves impossible to hold down public spending. Equally important, interest payments on the external debt are bound to rise as the debt increases. All told, any improvement this year in the balance of payments on current account is likely, at best, to be rather moderate, and there is a possibility that some further deterioration may occur.

For the longer run, there are reasons for somewhat more optimism. A new Administration will take office in December, following the expected election of former Finance Minister José López Portillo as President in July. The change in Administration may be the occasion for the adoption of stronger anti-inflationary measures if, as seems likely, the new President's Finance Ministry experience leads him to attach more importance than his predecessor to the financial consequences of his political decisions. In addition, in 1977, it is expected that a large new copper mine now under development will begin to contribute substantially to the export picture.

1/ Prospectus for $50 million Issue of Mexican Government Bonds, dated February 19, 1976, p.14.

Table 3

Mexico - Petroleum

Exports and Imports

(in million dollars)

	1 9 7 4			1 9 7 5 P/		
	Exports	Imports	Balance	Exports	Imports	Balance
Crude Oil	61.9	76.4	- 14.5	393.3	--	+393.3
Natural Gas	.1	--	+ .1	--	--	--
Refined Products	62.0	240.5	-178.5	23.7	225.7	-202.0
Petrochemicals	9.5	74.4	- 64.9	4.3	57.5	- 53.2
Total	133.5	391.3	-257.8	421.3	283.2	+138.1

P/ preliminary

Source: Prospectus for $50 million Issue of Mexican Government Bonds, dated February 19, 1976, p. 15.

But until these developments occur, uncertainty will continue to produce periods of nervousness in the Mexican foreign exchange market, heightened by questions as to whether Mexico can raise enough financial resources in external markets to cover its needs. The question whether the peso should be devalued is receiving increasing attention in private circles. The principal argument in favor of devaluation is that, over the last three years, the rate of inflation in Mexico has exceeded the rate prevailing in the United States by an average of about 9 percentage points per year (as measured by the respective consumer price indices) and a large differential is likely to continue for at least another year, and that this is interfering with the competitiveness of Mexican exports. On the other side, it is argued that the dollar-peso rate has remained unchanged for 22 years, that its alteration would be a shock to foreigners who have invested large amounts in peso-denominated accounts in Mexican financial institutions and would close this source of external financing for many years (for fear of new devaluations), that the internal burden of servicing the country's huge foreign debt would be greatly increased, that exports of raw materials (still the bulk of the country's exports) are traded at world prices which would not be affected by a devaluation, that there is little or no excess industrial capacity with which to increase manufactured exports, and that a devaluation would set off an upsurge of inflation as prices of imported goods (in pesos) would increase and prices of domestically produced articles would go up in sympathy (presumably more for psychological reasons than in response to cost increases)--in effect leading to what is called the "argentinization" of the Mexican economy.

The authorities are determined to defend the current dollar-peso exchange rate. Their principal line of defense is the country's reserves which amounted to more than $1.6 billion on March 29. The country's credit tranches in the International Monetary Fund total about $626 million (including the 45 per cent addition approved at the recent Jamaica meeting of the IMF's Interim Committee), but not all of it would be available without the adoption of corrective policy measures acceptable to the Fund. The Bank of Mexico's swap arrangement with the Federal Reserve System is for $360 million, having been doubled in August 1975. Mexican drawings under the swap have occurred twice before, in August 1974 and in September 1975. Both drawings, for $180 million in 1974 and for $360 million in 1975, were repaid before they came due at the end of three months. The Bank of Mexico also has a swap arrangement with the US Treasury, the amount of which was increased from $200 to $300 million at the end of 1975. But this cannot be drawn upon until after the swap line with the System has been fully drawn. The country appears to be able to continue to borrow in international markets, and this may be important in helping to repay short term obligations.

Whether the defense of the peso will ultimately succeed is likely to depend importantly on the ability of the authorities to prevent the fiscal position from getting out of hand, and eventually to restore a sound fiscal and monetary policy.

Prepared by Yves Maroni
Division of the International Finance
April 14, 1976

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 16, 1976

To Board of Governors

Subject:

From John E. Reynolds

Attached for your information is a memorandum from Mr. Maroni reporting on "Press Stories on the Possibility of Mexican Peso Devaluation.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 15, 1976

To Mr. Reynolds

From Yves Maroni YM

Subject: Press Stories on the Possibility of Mexican Peso Devaluation

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On April 8, United Press International reported from Washington that a confidential IBRD report was urging a Mexican devaluation. According to UPI, the IBRD report said that Mexico must improve its private investment climate and undertake "radical changes in economic policy," including a devaluation, no later than 1977 to cope with its current severe fiscal and balance of payments deficits. UPI quoted the IBRD report as saying: "While it may be unrealistic to expect radical changes of policy--including a possible devaluation--in the last year (1976) of the current administration, present indications are that such policy changes cannot be delayed beyond 1977."

Upon seeing this story, I called the U.S. Alternate Executive Director in the IBRD, Mr. Hal Reynolds, who had not seen it and said that he would investigate the matter. He later reported that the UPI story was essentially correct, that the IBRD report in question was a highly classified staff report intended for the exclusive use of the IBRD management, that it was not being distributed to the Executive Directors, and that the IBRD management was furious at this leak, was looking for its source, and would fire whoever leaked the report to UPI as soon as he or she could be identified.

Apart from this, there is another recent IBRD staff report on the economy of Mexico which is generally critical of Mexican

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policies but which does not mention the possibility of devaluation. This report seems to be available to private banks in Mexico, although it is clearly labelled "for official use only." In an apparent attempt to counter possible stories or rumors based on this report, the Bank of Mexico is said by the U.S. Embassy to have planted an article in most Mexican newspapers, summarizing the IBRD report and interpreting it as highly laudatory of Mexico's ability to cope successfully with its economic problems and to maintain its high reputation in international financial markets.

Several articles critical of Mexico and suggesting devaluation have also appeared in the U.S. financial press. The most recent is a three column piece on the editorial page of the Wall Street Journal of April 13, 1976. This article is headlined: "Will Mexico Devalue the Peso?". A boxed summary near the top of the second column says: "The move, which many fear might happen this Easter, could hurt thousands of Americans who have investments in Mexico." The Wall Street Journal article is a well documented analysis of the factors which militate in favor of a devaluation, without any discussion of the elements which might enable the country to avoid it.

Apparently reacting to the Wall Street Journal article and to similar pieces elsewhere, sources close to the Mexican Government are said by Agence France Press, in an April 14 report, to have declared that the United States--presumably meaning influential private groups in the United States--is embarked on a campaign against Mexico, attempting to create "artificial problems" in the economic field and particularly to induce a devaluation of the peso.

No report of press stories based on the IBRD leak to UPI has come to my attention.

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HANDLE THE ATTACHED DOCUMENT IN ACCORDANCE WITH INTERNAL INFORMATION SECURITY PROCEDURES FOR RESTRICTED INFORMATION

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Mexico Adopts Floating Exchange Rate and Announces Economic and Financial Program

Mexico's Secretary of Finance and Public Credit, Mr. Mario Ramon Beteta, announced late on August 31 that the fixed peso-dollar exchange rate was being abandonned, that the peso would now float in order to let market forces determine its level, subject to intervention to prevent speculative and erratic fluctuations, and that the country's traditional freedom of exchange would be maintained. He also announced that complementary measures in the economic and financial field would be taken to help secure as many as possible of the potential advantages from the new exchange policy, and to hold the unfavorable impacts to a minimum. A telegram received by Chairman Burns from Mr. Ernesto Fernandez Hurtado, Director General of the Bank of Mexico, summarizes the action taken and the planned measures. (See Attachment.)

Background on Mexican Economic Situation

The Mexican action is the culmination of a steady deterioration in the country's external financial position, in part as a result of internally generated inflationary pressures and in part as a consequence of economic and financial developments in the rest of the world. As shown in table 1, the balance of payments deficit on current account rose very sharply from 1972 to 1975. The value of imports surged partly because of the world-wide inflation and partly because of overheating of the economy. The value of exports also rose, but less rapidly. Export growth was slowed in the last part of 1974 and in 1975 by the world recession which also brought about a drop in the country's important tourist earnings. The service account deteriorated as interest payments on the growing external debt rose. External borrowings were stepped up, and, until this year, Mexico continued to add to its international reserves, as may be seen in table 2. At the end of 1975, the external debt was estimated at $20-$22 billion, consisting of public sector debts of about $14.3 billion (of which $11.3 billion had a maturity of one year or more) and private sector debts of $6-$8 billion. The total external debt may well have climbed by another $2 billion since the end of 1975.

Doubts began to emerge this Spring as to whether the disequilibrium could be corrected without a devaluation of the peso, and capital flight began to occur. It seemed lilely that Mexico's exports would turn up, reflecting the economic recovery in the industrial countries, and that petroleum exports would continue to grow rapidly. But concern appeared about the feasibility of holding down imports, especially if public spending rose more than planned. Interest payments also were expected to go up as the external debt rose further. In addition, questions were asked as to whether, after three years of inflation at rates in excess of those in the United States (see table 3), Mexican industry might find itself at a substantial competitive disadvantage, a condition which might hamper some exports while encouraging imports In this connection, it was noted that the dollar's appreciation against other major currencies over the last year implied an effective appreciation of the Mexican peso.

At first, the Mexican authorities attempted to finance the capital flight through new external borrowings, hoping for a return of confidence and a reflow of capital as the performance of the economy improved. But the performance did not improve sufficiently, and in particular the fiscal situation remained precarious and the rate of price increase failed to decline below the 13 per cent level of 1975. Manufacturing production which rose more slowly in 1975, remained somewhat sluggish in the first part of 1976 as well, except for a good month in March, as may be seen in table 4.

The fiscal performance, which is shown in table 5, was characterized by growing deficits of the Federal Government, and its decentralized agencies. These deficits reflected a conscious policy, through public spending, to maintain a rapid rate of economic growth (see table 6). Since the last half of 1973, incomes policy based on government wage actions fully compensated workers for the rise of the cost of living. The rapid rise in wages sharply eroded the competitive advantage that in-bond assembly plants located on the Mexican side of the border with the United States had enjoyed. As a result, a substantial number of such plants were shut down or their activities were transferred to other countries where relatively low wages continued to prevail.

While the Bank of Mexico undertook to tighten credit policy in the latter part of 1974, the impact of the world recession on Mexico led to a further stepping up of public spending around the middle of 1975.

This year, while the authorities announced that they intended to limit public spending, the consequences of a substantial increase in wages granted in January and the impact of the politically motivated expenditures traditionally associated with the end of a Presidential term appear to have prevented the desired improvement from materializing.

Money supply, which rose at rates averaging about 11 per cent per year in the period 1966-71, increased at more than 20 per cent a year in the period 1972-75, as may be seen in table 7. In the first five months of 1976, it rose by about 8.2 per cent, compared to an increase of 9.4 per cent in the same months of 1975. In May, it was still about 20 per cent higher than a year earlier.

Assessment of the Exchange Rate Action and the Supporting 13-Point Program

President Echeverria, delivering his annual State of the Nation address to the Mexican Congress on September 1, listed the following objectives that the Government of Mexico hopes to achieve through the floating of the peso and the accompanying measures:

(1) to recover and preserve the competitiveness of Mexico's exports of goods and services,

(2) to protect the purchasing power of the popular classes,

(3) to prevent excess profits,

(4) to protect the financial health of enterprises so that they may continue helping to create jobs,

(5) to control the public deficit, and

(6) to regulate the growth of credit.

President Echeverria stressed that, to achieve the first objective, Mexico must ensure that the increase in domestic prices and costs would be substantially lower than the percentage change in the exchange rate. He listed the adoption of export surtaxes, the reduction of export tax rebates, the reduction of import tariffs and the elimination of unnecessary import controls as contributing to this objective. But the measures intended to protect the purchasing power of the popular classes, particularly the adoption of a wage policy aimed mainly at maintaining the real purchasing power of salaries, may make it impossible to ensure that the increase in domestic prices and costs will in fact be substantially less than the percentage change in the exchange rate.

Elaborating on the wage policy in his State of the Nation address, President Echeverria said that Government civilian and military pay and pensions would be raised on September 30 in an amount sufficient to restore their purchasing power to compensate for the deterioration since their last adjustment (on January 1, 1976) and in the proportion in which their purchasing power is affected by the increase in the price level since that time. He added that his administration would promote the extension of this salary increase as soon as possible to workers in the rest of the economy.

If prices of imported goods rise substantially in spite of the reduction of import tariffs, (and even more so if prices of domestic goods and services rise in sympathy), the application of this wage policy over a period of time could well severely erode the benefits from the initial currency depreciation and put new pressures on the exchange rate, leading to a further depreciation. The new program calls for the imposition and strict application of price controls for raw materials and basic consumption articles, but if these controls involve fixing prices at unrealistically low levels, a black market might develop and social unrest might cause the price control arrangements to break down and induce the authorities to grant even more generous wage and salary increases. (The official increase in the minimum wage which sets the standard for many wage settlements early this year exceeded the rate of increase in the price level since the previous adjustment.) Recent reports from the U.S. Embassy in Mexico City also indicated that privately negotiated wage settlements so far this year were not as moderate as would have been needed to reduce the rate of inflation to any significant extent. In the final analysis, the success of the new program will depend on the attitude of the organized labor movement toward it and on the determination of the Government to make the program effective.

The other key to whether the new program will achieve its objectives lies in the ability of the authorities to reduce substantially the fiscal deficit. While the cause of monetary policy will be important also, the central bank is constrained in its policies by the actions of the government, and, in practical terms, it cannot refuse the government credit.

The adoption of export surcharges and of an excess profits tax and the elimination of the export tax rebates should work toward the fiscal objective. However, the reduction of import tariffs may offset this gain, at least in part. (In 1975 import taxes accounted for about 7 per cent of central government revenue and export taxes less than 2 per cent.) More importantly, the efforts to hold down public spending will be crucial. In his State of the Nation address, President Echeverria promised much more strict budgeting and discipline in adhering to the budget than has existed in the past. But he said that the reduction of the deficit must not decrease the rate of public investment in productive activities and social services. If, as seems likely, he was speaking of the real rate of public investment, avoiding a reduction is certain to mean an absolute increase in spending, in as much as the wage costs of investments are sure to rise and so are the peso costs of their imported components.

In his speech President Echeverria also added that the deficit must be held to non-inflationary limits so that financial institutions may be encouraged to lend adequately to the private sector. The continuance of a heavy role for the public sector in productive activities and in the provision of social services, may therefore, make it difficult to limit the size of the deficit. In fact, if adequate supplies of basic necessities--primarily food -- through the state-controlled facilities are provided at controlled prices, the decentralized agency involved (known as CONASUPO) will in all probability run larger deficits than in the past and will require larger Federal subsidies to cover them. The extent to which this will impinge upon the effort to reduce the public sector deficit will largely depend on the price response of the economy in general. It is noteworthy that, apart from the new export surcharges and the excess profits tax, President Echeverria did not mention the possibility of raising any other taxes. It is possible that he wanted to leave this unpleasant task to his successor--former Finance Minister Lopez Portillo--who is due to take office on December 1. But given the unpleasant news with which he was dealing, he might have at least alluded to the need to raise taxes in case the efforts to hold down public spending proved to be insufficient.

As regards the balance of payments, a depreciated peso should encourage exports and the inflow of foreign tourists, while discouraging imports. The response of tourists is likely to be noticed more rapidly than that of merchandise exports and imports. Indeed, tourists may be more sensitive to exchange rate changes than traders in merchandise. A number of Mexico's exports, especially of raw materials, may be facing a relatively inelastic demand while Mexico's demand for many imports may also be relatively inelastic. Excess capacity in export industries, other than the border assembly plants, is also reportedly low. Therefore, any merchandise trade improvement may be limited or, at least, delayed.

If Mexico succeeds in holding wage and price increases to substantially smaller proportions than the rate of currency depreciation, one of the benefits of the peso's depreciation and the accompanying program may be a revival of the attractiveness of Mexico's border area as the possible site for assembly plants to serve the U.S. market. If so, the earnings from these assembly plants, which suffered in recent years, could once again experience rapid growth.

Finally, as already mentioned, President Echeverria will be succeeded by President-elect Lopez Portillo on December 1. While Lopez Portillo appears likely to continue many of the policies of his predecessor, he will surely want to develop his own policies and orientation. This may mean that the early months of 1977 will be a period of reorganization and design of new programs. Consequently, the pace of public spending could slow down of its own accord, for several months at least. As a former Minister of Finance, President-elect Lopez Portillo is perhaps more aware than his predecessor of the magnitude of the task ahead and of the kinds of efforts that are needed. This may augur well for the recovery of the Mexican position. But the past is seldom a sure guide to the future, and Mr. Lopez Portillo's actions as President may diverge markedly from what he would have advocated as Minister of Finance in the same circumstances. In particular, the new 13-point program of the present Mexican government may prove to be an imperfect guide to Mexican policy after December 1.

Prepared by: Yves Maroni
Division of International Finance
September 3, 1976

Table 1

MEXICO - Balance of Payments
1972-76

	1972 Year	1973 Year	1974 Year	1975 1/ Year	1976 2/ Year	1975 2/ 1st half	1976 2/ 1st half
		(in billion dollars)				(in million dollars)	
Merchandise Exports	+1.9	-2.4	+3.4	+3.4	+4.0	1,705.0	2,012.8
(of which, petroleum)	(+ -)3/	(+ -)3/	(+0.1)	(+0.4)	(+0.7)	(n.a.)	(n.a.)
Merchandise Imports	-2.6	-3.6	-5.7	-6.3	-6.2	2,947.8	2,950.0
(of which, petroleum)	(-0.1)	(-0.3)	(-0.3)	(-0.2)	(-0.2)	(n.a.)	(n.a.)
Trade Balance	-0.7	-1.2	-2.3	-2.8	-2.2	-1,242.8	-937.2
Services (net)	-0.2	-0.3	-0.7	-1.3	-1.6	-271.5	-573.8
Travel (net)	(+0.6)	(+0.8)	(+0.9)	(+0.8)	(+0.9)	(n.a.)	(n.a.)
Investment Income (net)	(-0.8)	(-1.1)	(-1.6)	(-2.0)	(-2.3)	(n.a.)	(n.a.)
Other (net)	(+ -)3/	(+0.1)	(+ -)3/	(-0.2)	(-0.2)	(n.a.)	(n.a.)
Private Unrequited Transfers (net)	+0.1	+0.1	+0.1	+0.1	+0.1	+ -3/	+ -3/
Balance on Current Account	-0.8	-1.4	-2.9	-4.1	-3.7	-1,614.3	-1,511.0
Government Unrequited Transfers (net)	+ -3/	+ -3/	+ -3/	+ -3/			
Long-Term Capital (net)	+0.8	+1.8	+3.0	+4.3			
Direct Investment in Mexico (net)	(+0.3)	(+0.5)	(+0.7)	(+0.7)			
Other Long Term Private Capital (net)	(+ -)3/	(+0.1)	(+0.6)	(+0.9)			
Public Sector Borrowings (net)	(+0.5)	(+1.3)	(+1.8)	(+2.7)			
Subscriptions to IBRD and IDB	(--)	(- .1)	(--)	(--)			
Short-Term Capital (net)	+0.1	-0.3	+0.2	+0.5			
Private Non-Bank Capital (net)	(+0.1)	(-0.2)	(-0.4	(+0.3)			
Bank Capital (net)	(- -)3/	(-0.1)	(+0.7)	(+0.2)			
Official Foreign Assets(net);(Increase:-)	-0.3	-0.1	- -3/	-0.2			
Errors and Omissions (net)	+0.2	+ -3/	-0.4	-0.6			

1/ Preliminary
2/ Projected
3/ Less than $50 million
Source: International Monetary Fund and Federal Reserve Board Staff estimates.

Table 2

MEXICO - International Reserves,
Foreign Trade and Tourist Earnings
(in million dollars)

	International Reserves (at end of period)	Merchandise Trade			Net Tourist Earnings (for period)
		Exports (for period)	Imports (for period)	Balance (for period)	
1970	744	1,281.3	2,326.8	-1,045.5	+539.2
1971	952	1,363.4	2,254.0	- 890.6	+643.2
1972	1,164	1,665.3	2,717.9	-1,052.6	+749.9
1973	1,356	2,070.5	3,813.4	-1,742.9	+978.9
1974p/	1,395	2,850.0p/	6,056.7p/	-3,206.7p/	+1,060.9
1975p/	1,533	2,858.6p/	6,580.2p/	-3,721.6p/	+988.0
1974 - Q1	1,540	675.5p/	1,238.2p/	-562.7p/	+296.6
Q2	1,547	696.2p/	1,523.5p/	-831.3p/	+261.0
Q3	1,354	669.4p/	1,508.0p/	-838.6p/	+234.2
Q4	1,395	808.9p/	1,787.0p/	-978.1p/	+269.1
1975 - Q1	1,479	656.3p/	1,424.5p/	-768.2p/	+281.3
Q2	1,399	768.1p/	1,663.8p/	-895.7p/	+236.3
Q3	1,320	672.3p/	1,602.6p/	-930.3p/	+217.3
Q4	1,533	761.9p/	1,889.3p/	-1,127.4p/	+252.9
1976 - Jan.	1,424	264.2p/	480.4p/	-216.2p/	+ 94.5
Feb.	1,592	235.1p/	436.4p/	-201.3p/	+100.4
Mar.	1,501	281.7p/	485.2p/	-203.5p/	+107.6
April		295.8p/	566.2p/	-270.4p/	+ 77.1
May					+ 75.1
- - -					
Aug.	1,361 1/				

1/ Figure announced by President Echeverria in his State of the Nation address to the Mexican Congress on September 1, 1976. Includes an unspecified, but probably small, amount of silver.

p/ Preliminary.

Sources: International Monetary Fund, International Financial Statistics, and Bank of Mexico, Indicadores Economicos.

Table 3

MEXICO - Index of Consumer Prices

in Mexico City

in Selected Months Since December 1972

	General Index (1968 = 100)	Average Monthly Change Since Last Month Shown (Per cent)	Change from Same Month Previous Year (Per cent)
1972 - December	124.1		
1973 - March	128.2	+1.1	+ 7.4
June	132.6	+1.1	+ 9.8
September	139.6	+1.8	+13.8
December	149.5	+2.4	+20.5
1974 - March	156.7	+1.6	+22.0
June	161.2	+1.0	+21.6
September	169.3	+1.7	+21.3
December	180.6	+2.2	+20.8
1975 - March	184.6	+ .7	+17.8
June	192.5	+1.4	+19.5
September	198.7	+1.1	+17.4
October	200.3	+ .8	+15.2
November	202.8	+1.2	+13.3
December	204.6	+ .9	+13.3
1976 - January	207.9	+1.6	+13.3
February	212.0	+2.0	+15.2
March	214.7	+1.3	+16.3
April	215.9	+ .6	+15.6
May	217.5	+ .7	+15.3
June	218.1	+ .3	+13.3
July	219.8	+ .8	+13.2

Source: Banco de Mexico, Indicadores Económicos

Table 4

MEXICO - Index of
Manufacturing Production in
Selected Months Since December 1972

	Index 1968 = 100	Average Monthly Change Since Last Month Shown (per cent)	Change from Same Month Previous Year (per cent)
1972 - December	108.8	-4.1	+4.7
1973 - March	129.4	+13.1	+14.8
June	123.9	-3.6	+7.8
September	115.0	-8.95	+5.4
December	126.0	-1.0	+15.8
1974 - March	137.8	+9.2	+6.5
June	127.8	-9.9	+3.15
September	121.9	-6.6	+6.0
December	125.0	-2.65	- .8
1975 - March	124.8	-3.2	-9.4
June	136.4	-3.8	+6.7
September	131.5	-3.5	+7.9
December	130.6	-2.5	+4.5
1976 - January	137.4	+5.2	+10.1
February	139.0	+1.2	+1.9
March	150.9	+8.6	+14.75
April	139.2	-7.75	+6.6

Source: Banco de Mexico, Indicadores Economicos.

Table 5

MEXICO - Public Sector

Revenues and Expenditures

since 1971

(in billions of pesos)

	Federal Government			Decentralized Agencies		
	Revenues	Expenditures	Deficit	Revenues	Expenditures	Deficit
1971	36.5	41.3	- 4.8	48.4	65.5	-17.1
1972	42.3	59.1	-16.7	56.6	71.5	-14.9
1973	53.8	81.2	-27.4	74.2	101.8	-27.6
1974	72.9	104.1	-31.2	107.4	140.7	-33.3
1975	103.1	145.1	-42.0	128.2 1/	160.6 1/	-32.4 1/
1974 - Q1	15.3	18.9	- 3.6			
Q2	17.8	21.3	- 3.5			
Q3	17.8	24.2	- 6.4			
Q4	21.9	39.7	-17.8			
1975 - Q1	22.8	31.4	- 8.6			
Q2	26.3	33.3	- 7.0			
Q3	25.0	34.6	- 9.6			
Q4	29.0	45.8	-16.8			
1976 - Jan.	10.1	9.3	+ 0.8			
Feb.	7.4	11.7	- 4.3			
Mar.	11.5	18.4	- 6.9			
Apr.	10.4	13.7	- 3.3			
May	13.7	14.5	- 0.8			

1/ Budget.

Sources: Banco de Mexico, Indicadores Economicos, and Government of Mexico, Prospectus on $50 million bond issue, dated February 19, 1976.

Table 6

MEXICO - Rate of Growth of
Real Gross Domestic Product
(Percentages)

1961-70 ave.	7.0
1967	6.3
1968	8.1
1969	6.3
1970	6.9
1971	3.4
1972	7.3
1973	7.6
1974	5.9
1975	4.0

Source: Bank of Mexico

Table 7

MEXICO - Money Supply

at End of Selected Months

Since December 1972

	Amount Outstanding 1/ (in billions of pesos)	Percentage Change Since Last Month Shown	Percentage Change Since Same Month Previous Year
1972 - December	57,859	+2.0	+21.2
1973 - March	61,956	+3.5	+24.1
June	64,701	+1.6	+24.6
September	68,391	+ .4	+25.0
December	71,658	- .3	+23.85
1974 - March	75,150	+1.85	+21.3
June	79,540	+2.3	+22.9
September	82,691	+2.8	+20.9
December	87,412	+3.8	+22.0
1975 - March	92,300	+3.2	+22.8
June	98,151	+2.4	+23.4
September	99,232	- .4	+20.0
December	105,972	+3.2	+21.2
1976 - January	107,050	+1.0	+22.1
February	108,621	+1.5	+21.5
March	109,269	+ .6	+18.4
April	111,264	+1.8	+19.85
May	114,708	+3.1	+19.7

1/ Seasonally adjusted

Source: Banco de Mexico, Indicadores Economicos.

TELEGRAM
LEASED WIRE SERVICE
RECEIVED AT WASHINGTON

1976 AUG 1 AM 8 17

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

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446043 FEDR U1+
446043 FEDR UI
1775 806XICOBME
145 MEXICO DF AUGUST 31 1976 HS 20.47 IFEN
ATTN MR ARTHUR BURNS
CHAIRMAN OF THE FEDERAL RESERVE BOARD
WASHINGTON DC

PLEASE BE ADVISED THAT THE GOVERNMENT OF MEXICO HAS DECIDED TO ABANDON PRESENT RATE OF EXCHANGE OF THE MEXICAN PESO WITH RESPECT TO THE U.S. DOLLAR (STOP)

THEREFORE, AS FROM 24 HOURS MEXICO CITY TIME AUGUST 31TH., 1976 THE BANK OF MEXICO WILL NO LONGER OBSERVE MARGINS AND WILL INTERVENE MAINLY TO PREVENT ERRATIC AND SPECULATIVE FLUCTUATIONS. STOP THE GOVERNMENT OF MEXICO HAS ALSO DECIDED TO MAINTAIN THE TRADITIONAL FREE CONVERTIBILITY OF THE MEXICAN PESO (STOP)

THE REGULATED FLOATING OF THE MEXICAN PESO WILL BE ACCOMPANIED BY SHORT AND LONG TERM ECONOMIC PROGRAM THAT WILL PRESERVE THE COMPETITIVENESS OF MEXICAN ECONOMY (STOP) THE PROGRAM INCLUDES FOLLOWING MEASURES: 1) EXPORT SURTAX TO ABSORB MOST OF EXCHANGE PROFITS AND PREVENT INTERNAL INCREASE OF PRICES (STOP) 2)SUBSTANTIAL REDUCTION OF TAX REBATE SYSTEM FOR EXPORTS (STOP) 3) ELIMINATION OF UNNECESSARY IMPORT CONTROLS AND REDUCTION OF IMPORT TAXES FOR RAW MATERIALS AND BASIC IMPORTS TO REDUCE PRESSURES ON INTERNAL COSTS AND PRICES (STOP) 4) A WAGE POLICY AIMED MAINLY AT MAINTAINING THE REAL PURCHASING VALUE OF SALARIES (STOP) 5) PRICE CONTROLS FOR RAW MATERIALS AND BASIC CONSUMPTION ARTICLES WILL BE STRICTLY APPLIED (STOP) PRICES OF GOODS SOLD BY CONASUPO WILL NOT BE CHANGED BUT GUARANTEE PRICES TO AGRICULTURAL PRODUCERS WILL BE ADJUSTED BY INCREASE IN COSTS (STOP) 6) INTEREST RATES FOR SMALL SAVERS WILL BE INCREASED (STOP) 7) MEASURES WILL BE ADOPTED AND STRICTLY APPLIED TO PREVENT SPECULATION WITH BASIC ARTICLES AND RAW MATERIALS (STOP) 8) SPECIAL EXCESS PROFITS TAX WILL BE PROPOSED TO CONGRESS TO ABSORBE EXTRAORDINARY OR EXCESS PROFITS DERIVED FROM EXCHANGE MEASURES OR INCREASE IN PRICES (STOP) 9) SPECIAL FISCAL TREATMENT WILL BE GIVEN TO PRIVATE ENTERPRISES THAT MAY BE SERIOUSLY AFFECTED BY EXCHANGE MEASURES AND THE CAPITAL STRUCTURE OF THE PUBLIC ENTERPRISES WILL BE SUPPORTED (STOP) 10) THE DEFICIT OF THE PUBLIC SECTOR WILL BE REDUCED THROUGH STRICT PROGRAMMING AND SURVEILLANCE OF PUBLIC EXPENDITURE TO ATTAIN QUANTITATIVE GOALS RELATED TO THE ADJUSTMENT PROCESS OF THE ECONOMY, AS WELL AS BY AN INCREASE IN REVENUES OF PUBLIC SECTOR (STOP) 11) A SYSTEM OF REGULATED CREDIT GROWTH WILL BE ESTABLISHED BY THE BANK OF MEXICO FOR USE BY PRIVATE AND PUBLIC SECTORS (STOP) 12) BANK OF MEXICO WILL GIVE MEXICAN CREDIT INSTITUTIONS THE NECESSARY LIQUIDITY TO ASSURE THAT ALL COMMITMENTS WILL AS USUAL BE TIMELY MET (STOP) 13) THE FINANCIAL RESOURCES OF THE IMF AND U.S. TREASURY WILL SUPPORT THE NEW ECONOMIC PROGRAM. (STOP)

WITH THE ABOVE MEASURES AND NEW EXCHANGE POLICY MEXICAN GOVERNMENT HOPES TO ATTAIN ITS BASIC AND FUNDAMENTAL ECONOMIC OBJECTIVES (STOP)
BEST
REGARDS (STOP) ERNESTO FERNANDEZ HURTADO

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TELEGRAM
LEASED WIRE SERVICE
RECEIVED AT WASHINGTON

1976 AUG 1 AM 8 17

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

2244 EDT*
440043 FEDR UI*
440043 FEDR UI
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T 145 MEXICO DF AUGUST 31 1976 HS 20.47 IFEM
ATTN MR ARTHUR BURNS
CHAIRMAN OF THE FEDERAL RESERVE BOARD
WASHINGTON DC

PLEASE BE ADVISED THAT THE GOVERNMENT OF MEXICO HAS DECIDED TO ABANDON PRESENT RATE OF EXCHANGE OF THE MEXICAN PESO WITH RESPECT TO THE U.S. DOLLAR (STOP)

THEREFORE, AS FROM 24 HOURS MEXICO CITY TIME AUGUST 31TH., 1976 THE BANK OF MEXICO WILL NO LONGER OBSERVE MARGINS AND WILL INTERVENE MAINLY TO PREVENT ERRATIC AND SPECULATIVE FLUCTUATIONS. STOP THE GOVERNMENT OF MEXICO HAS ALSO DECIDED TO MAINTAIN THE TRADITIONAL FREE CONVERTIBILITY OF THE MEXICAN PESO (STOP)

THE REGULATED FLOATING OF THE MEXICAN PESO WILL BE ACCOMPANIED BY SHORT AND LONG TERM ECONOMIC PROGRAM THAT WILL PRESERVE THE COMPETITIVENESS OF MEXICAN ECONOMY (STOP) THE PROGRAM INCLUDES FOLLOWING MEASURES: 1) EXPORT SURTAX TO ABSORB MOST OF EXCHANGE PROFITS AND PREVENT INTERNAL INCREASE OF PRICES (STOP) 2)SUBSTANTIAL REDUCTION OF TAX REBATE SYSTEM FOR EXPORTS (STOP) 3) ELIMINATION OF UNNECESSARY IMPORT CONTROLS AND REDUCTION OF IMPORT TAXES FOR RAW MATERIALS AND BASIC IMPORTS TO REDUCE PRESSURES ON INTERNAL COSTS AND PRICES (STOP) 4) A WAGE POLICY AIMED MAINLY AT MAINTAINING THE REAL PURCHASING VALUE OF SALARIES (STOP) 5) PRICE CONTROLS FOR RAW MATERIALS AND BASIC CONSUMPTION ARTICLES WILL BE STRICTLY APPLIED (STOP) PRICES OF GOODS SOLD BY CONASUPO WILL NOT BE CHANGED BUT GUARANTEE PRICES TO AGRICULTURAL PRODUCERS WILL BE ADJUSTED BY INCREASE IN COSTS (STOP) 6) INTEREST RATES FOR SMALL SAVERS WILL BE INCREASED (STOP) 7) MEASURES WILL BE ADOPTED AND STRICTLY APPLIED TO PREVENT SPECULATION WITH BASIC ARTICLES AND RAW MATERIALS (STOP) 8) SPECIAL EXCESS PROFITS TAX WILL BE PROPOSED TO CONGRESS TO ABSORBE EXTRAORDINARY OR EXCESS PROFITS DERIVED FROM EXCHANGE MEASURES OR INCREASE IN PRICES (STOP) 9) SPECIAL FISCAL TREATMENT WILL BE GIVEN TO PRIVATE ENTERPRISES THAT MAY BE SERIOUSLY AFFECTED BY EXCHANGE MEASURES AND THE CAPITAL STRUCTURE OF THE PUBLIC ENTERPRISES WILL BE SUPPORTED (STOP) 10) THE DEFICIT OF THE PUBLIC SECTOR WILL BE REDUCED THROUGH STRICT PROGRAMMING AND SURVEILLANCE OF PUBLIC EXPENDITURE TO ATTAIN QUANTITATIVE GOALS RELATED TO THE ADJUSTMENT PROCESS OF THE ECONOMY, AS WELL AS BY AN INCREASE IN REVENUES OF PUBLIC SECTOR (STOP) 11) A SYSTEM OF REGULATED CREDIT GROWTH WILL BE ESTABLISHED BY THE BANK OF MEXICO FOR USE BY PRIVATE AND PUBLIC SECTORS (STOP) 12) BANK OF MEXICO WILL GIVE MEXICAN CREDIT INSTITUTIONS THE NECESSARY LIQUIDITY TO ASSURE THAT ALL COMMITMENTS WILL AS USUAL BE TIMELY MET (STOP) 13) THE FINANCIAL RESOURCES OF THE IMF AND U.S. TREASURY WILL SUPPORT THE NEW ECONOMIC PROGRAM. (STOP)

WITH THE ABOVE MEASURES AND NEW EXCHANGE POLICY MEXICAN GOVERNMENT HOPES TO ATTAIN ITS BASIC AND FUNDAMENTAL ECONOMIC OBJECTIVES (STOP)
BEST
REGARDS (STOP) ERNESTO FERNANDEZ HURTADO

BANXICO

WELL RECD??

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T 158 MEXICO DF AUGUST 31 1976 RHB HRS 23.50

MR EDWIN YEO

UNDERSECRETARY OF THE TREASURY

DEPARTMENT OF TREASURY

WASHINGTON DC

IN ACCORDANCE WITH THE LETTER AND THE SPIRIT OF THE MONETARY STABILIZATION AGREEMENT BETWEEN BANK OF MEXICO AND U.S. TREASURY TO KEEP EACH OTHER INFORMED OF ECONOMIC MEASURES ADOPTED, I HEREBY INFORM YOU THAT GOVERNMENT OF MEXICO HAS DECIDED TO ABANDON PRESENT RATE OF EXCHANGE OF THE MEXICAN PESO WITH RESPECT TO THE U.S. DOLLAR.(STOP)

THEREFORE, AS FROM 24 HOURS MEXICO CITY TIME AUGUST 31TH., 1976 THE BANK OF MEXICO WILL NO LONGER OBSERVE MARGINS AND WILL INTERVINE MAINLY TO PREVENT ERRATIC AND SPECULATIVE FLUCTUATIONS. THE GOVERNMENT OF MEXICO HAS ALSO DECIDED TO MAINTAIN THE TRADITIONAL FREE CONVERTIBILITY AND TRANSFERABILITY OF THE MEXICAN PESO(STOP)

THE REGULATED FLOATING OF THE MEXICAN PESO WILL BE ACCOMPANIED BY SHORT AND LONG TERM ECONOMIC PROGRAM THAT WILL PRESERVE THE COMPETITIVENESS OF MEXICAN ECONOMY (STOP) THE PROGRAM UNCLUDES FOLLOWING MEASURES: 1) EXPORT SURTAX TO ABSORB MOST OF EXCHANGE PROFITS AND PREVENT INTERNAL INCREASE OF PRICES (STOP) 2)SUBSTANTIAL REDUCTION OF TAX REBATE SYSTEM FOR EXPORTS (STOP) 3) ELIMINATION OF UNNECESSARY IMPORT CONTROLS AND REDUCTION OF IMPORT TAXES FOR RAW MATERIALS AND BASIC IMPORTS TO REDUCE PRESSURES ON INTERNAL COSTS AND PRICES (STOP) 4) A WAGE POLICY AIMED MAINLY AT MAINTAINING THE REAL PURCHASING VALUE OF SALARIES (STOP) 5) PRICE CONTROLS FOR RAW

MATERIALS AND BASIC CONSUMPTION ARTICLES WILL BE STRICTLY APPLIED (STOP) PRICES OF GOODS SOLD BY CONASUPO WILL NOT BE CHANGED BUT GUARANTEE PRICES TO AGRICULTURAL PRODUCERS WILL BE ADJUSTED BY INCREASE IN COSTS (STOP) 6) INTEREST RATES FOR SMALL SAVERS WILL BE INCREASED (STOP) 7) MEASURES WILL BE ADOPTED AND STRICTLY APPLIED TO PREVENT SPECULATION WITH BASIC ARTICLES AND RAW MATERIALS (STOP) 8) SPECIAL EXCESS PROFITS TAX WILL BE PROPOSED TO CONGRESS TO ABSORBE EXTRAORDINARY OR EXCESS PROFITS DERIVED FROM EXCHANGE MEASURES OR INCREASE IN PRICES (STOP) 9) SPECIAL FISCAL TREATMENT WILL BE GIVEN TO PRIVATE ENTERPRICES THAT MAY BE SERIOUSLY AFFECTED BY EXCHANGE MEASURES AND THE CAPITAL STRUCTURE OF THE PUBLIC ENTERPRICES WILL BE SUPPORTED (STOP) 10) THE DEFICIT OF THE PUBLIC SECTOR WILL BE REDUCED THROUGH STRICT PROGRAMMING AND SURVELLANCE OF PUBLIC EXPENDITURE TO ATTAIN QUANTITATIVE GOALS RELATED TO THE ADJUSTMENT PROCESS OF THE ECONOMY, AS WELL AS BY AN INCREASE IN REVENUES OF PUBLIC SECTOR (STOP) 11) A SYSTEM OF REGULATED CREDIT GROWTH WILL BE ESTABLISHED BY THE BANK OF MEXICO FOR USE BY PRIVATE AND PUBLIC SECTORS (STOP) 12) BANK OF MEXICO WILL GIVE MEXICAN CREDIT INSTITUTIONS THE NECESSARY LIQUIDITY TO ASSURE THAT ALL COMMITTMENTS WILL AS USUAL BE TIMELY MET (STOP) 13) THE FINANCIAL RESOURCES OF THE IMF AND U.S. TREASURY WILL SUPPORT THE NEW ECONOMIC PROGRAM. (STOP)

WITH THE ABOVE MEASURES AND NEW EXCHANGE POLICY MEXICAN GOVERNMENT HOPES TO ATTAIN ITS BASIC AND FUNDAMENTAL ECONOMIC OBJECTIVES (STOP)

WITH WARM PERSONAL REGARDS (STOP) ERNESTO FERNANDEZ HURTADO

BANXICO

+

USTREAS 64131

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HRS 24.00

Reuter Wire News Service

MEXICO ALLOWS PESO TO FLOAT

Mexico City, Sept. 1 -- Mexico decided to let its peso float freely against the U. S. dollar for the first time in history. Finance Minister Mario Ramon Betata said the peso had been fixed at 12.58 to the dollar for 22 years.

Betata said the Government hopes to re-establish a fixed rate when the peso has floated to a stable level. He set no target date for the abandonment of the new float. The Bank of Mexico will intervene in the market when necessary to counter short-term speculation but will not attempt to maintain a long term parity at a predetermined level. The Government has decided not to attempt to restrict the traditional free exchange ability of the peso against the dollar nor to try to control the existing free movement of funds across the frontier with the U. S.

Betata also announced a four-part programme of export taxes, credit controls, wage and price restrictions and lower import barriers designed to increase Government revenues, avoid strong inflation and curb profiteering after the decision to float. Increased commercial revenues from exports would be cut by an ad valorem tax, the abolition of tax concessions and a special profits tax -- all still to be worked out in detail. At the same time imports of investment goods and basic necessities would be given easier entry terms in order to maintain growth and stabilize prices.

Betata also promised without giving details to cut the inflationary section of the Government deficits and to tighten existing price controls to the point where the percentage fall in the exchange rate exceeds the inflation figure.

Public sector wages increases will be kept strictly in line with the cost of living and private enterprise will be pressed to follow suit.

The central bank will strictly limit credits but banks heavily committed in the foreign exchange markets will get as much liquid support as they need to weather the float.

Betata said the float and the other measures are intended to meet "the deterioration in our external competitivity, our need to create more jobs and to take better advantage of the bases we have already established for our development."

Mexico's balance-of-trade deficit reached a record 3.8 billion dollars last year, most of it with the U.S. This year exports have declined in real terms and the deficit has been kept in trim only due to sluggish imports of capital goods.

The Government and state-owned companies have been borrowing heavily overseas; inflation has been at an annual rate of 15 per cent and unemployment is at 45 per cent.

The announcement of the decision to allow the peso to float was made on the eve of a public holiday. All banks in Mexico are closed today. Reopening on Thursday.