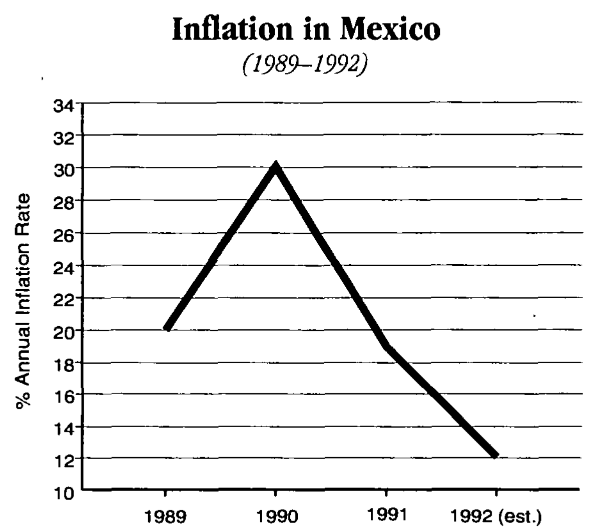

Inflation in Mexico is expected to drop to below 10% in 1993.

15 percent to 10 percent, and it has been enforcing price controls and price reduction agreements with the private sector in many goods and services.

Balance of Payments

Mexico has experienced a serious deficit in the current account of its balance of payments of U.S.$13,283 million in 1991 and close to U.S.$20 billion in 1992. In 1991, capital inflows more than covered this deficit and increased monetary reserves to a record high of U.S.$17,547 million. The pace of foreign capital inflows slightly decreased in the second half of 1992 as the stock market plummeted. The government had to increase interest rates to attract capital. The challenge for 1993 will be to maintain sufficient flows of capital without significant loss of reserves.

Public Accounts

The 1993 Government Budget, presented in November 1992 to the Mexican Congress, defined the next year's economic policy goals, the most important of which is to achieve single-digit inflation. This strong austerity budget showed no new taxes; however, a continuing strong collection and a fiscal surplus were its principal features.

Exchange Rate

The peso-U.S. dollar slippage was 40 centavos daily up to November 10, 1991, and the government committed to continuing this policy until December 31, 1991. When the anti-inflation pact was renewed, it was agreed to cut back the slippage rate to 20 centavos daily until January 31,1993. Although this daily slippage has allowed for some appreciation of the peso in 1991 and again in 1992, monetary authorities consider this will help reduce the impact of imported inflation in domestic prices. The reduced slippage rate is possible because significant amounts of foreign investment have been flowing into the country, especially in financial investment and through the stock market. The June 1992 stock market tumble provoked some capital flight after foreign investors took their profits. It also caused a step-up of interest rates to prevent further loss of the country's monetary reserves.

Exchange controls were eliminiated at the end of 1991.

As of October 20, 1992, the slide was again increased from 20 to 40 centavos daily, a situation that will continue until the end of 1993, according to the new pact extension announced by the Mexican government on that date. This will mean that the annual rate of devaluation will increase from 2.4 percent to 4.8 percent.

Monetary Reform

The Mexican Congress approved a monetary reform that will begin January 1, 1993. One new peso is equivalent to 1,000 old pesos, thereby eliminating three zeros from the system to simplify operations. Throughout 1993, amounts will be expressed in both new and old pesos. Starting in 1994, only new pesos will be in use.

Financial Markets

Government borrowing has decreased in real terms during 1991 and 1992 due to the reduction in the public deficit that followed debt renegotiation. The private sector, on the other hand, received 23 percent more credit in real terms in 1992 than in 1991. Real commercial bank credit to the private sector is estimated to grow 12 percent in 1993.