

forestry products in order to cover domestic demand within the framework of ecological balance. This implies the reforestation of damaged areas and the thorough application of existing regulations. It also calls for the modernization of the forestry related industry, the creation of new road infrastructure to reach the forests, the preparation of a new inventory of existing resources and the decentralization of technical services.

The forestry sector has the potential of becoming an important contributor to the nations's economy. - It will require considerable financial and technical assistance to improve efficiency in silviculture, public and private resource administration and in the manufacture and marketing of its wood products. This will translate into increased opportunities for Canadian firms in the industry.

## 2. ECONOMIC ENVIRONMENT

With the objective of reducing the inflation rate, the Mexican authorities implemented a stabilization program in 1988, called the Economic Solidarity Pact, which features traditional austerity measures, entailing tight fiscal and monetary policies and unorthodox measures, such as price, wage and exchange rate controls. This program has been the cornerstone of Mexico's economic policy over the past four years and has resulted in a drastic reduction of the inflation rate, from an annual rate of 159.2% in 1987 to 51.7% in 1988 and 19.7% in 1989. Inflation rebounded to 29.9% in 1990 but the Mexican government aims to achieve a 14% inflation rate in 1991, which seems a reasonable estimate based on an annual inflation rate of 13.3% as of October 1991. Along with the objective of consolidating the progress made in price stabilization, Mexico's macroeconomic policy in the short run aims to reaffirm gradual and sustained economic recuperation, basically by establishing the necessary conditions to encourage national and foreign investment and by stimulating local demand.

After the 1986 recession, Mexico's gross domestic product (GDP) increased a moderate 1.7% in 1987 and an additional 1.3% in 1988. Domestic economic activity recovered for the third consecutive year in 1989 with a growth rate of 3.1% and further 3.9% in 1990 to reach \$234 billion (1). With an 81.1 million population, per capita GDP was estimated at \$2,874 in 1990. Additionally, manufacturing output grew by 5.2% in 1990 in real terms, private investment and consumption expanded 13.6% and 5.2% respectively and public investment was up 12.8%. During the 1991-1994 period GDP is expected to maintain an average annual growth rate of

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1. Note: All values in this report, unless otherwise stated (Mexican pesos, Mex\$, Canadian dollars, Cdn\$, etc) are quoted in United States dollar equivalents.