MEXICAN ECONOMY

SYNOPSIS

(June 1992)

A. ECONOMIC POLICY.

Over the past four years Mexican economic policy has featured a tough anti-inflation programme involving government,labour and business in an Economic Pact that has combined traditional austerity measures (tight fiscal policy) and unorthodox measures (wage, price and exchange rate controls).

The pact has been successful in reducing hyperinflation and it was renewed on November 10th, 1991, and extended to January 1993. One important economic goal for 1992 is to bring down inflation to less than 10 %. In 1991, consumer inflation reached 18.8%.

However, the Mexican government is taking supplementary measures since it desires to bring down the inflation rate substantially while maintaining at the same time 3.8% real economic growth achieved in first three years of current Administration. Hence, the government reduced five percentage points the Value Added Tax and has been enforcing price controls and price reduction agreements with the private sector in many goods and services; it has encouraged a decline in interest rates and the peso-US dollar slippage was cutback to 20 centavos per day as of November of 1991 (which means devaluation of just 2.4% annually).

This strategy implies costly deficit in the current account of the Mexican balance of payments of US$ 13.3 billion in 1991 and probably more in 1992. In 1991 capital inflows more than covered deficit and increased monetary reserves to a record high of US$ 17,547 million. Challenge for 1992 is to keep sufficient flows of foreign capitals to end year without significant loss of reserves, only way to avoid need to adjust exchange rate parity in the future.

Economic goals in 1992 are to sustain economic recuperation and strengthen improvement of standards of living for the poorest segments of society (Government's Solidarity Programme).

B. EXTERNAL DEBT.

In 1990 the Mexican Government signed an agreement for debt reduction and for new money