

Mexico: Economy

Since his inauguration as President of Mexico in 1988, Carlos Salinas de Gortari has made dramatic progress in restructuring the economy.

The maximum tariff on the declared value of goods has been reduced from over 100% to 20%, and the average tariff has dropped from 40% to less than 10%. Subsidies have been reduced or eliminated, and many government corporations (airlines, mining companies, the national telephone system, banks) are being privatized.

New tariff levels and the virtual elimination of quotas and import licences have had an adverse impact on the balance of payments, but this is not expected to be a long-term problem.

Considerable improvement in Mexican public finances in recent months is a major step toward macroeconomic stabilization. The Mexican government's program has been successful but remains vulnerable to inflationary pressures and external events.

The recent fall in oil export prices has created the risk of a larger deficit in the balance of payments and the current account. A continuing high demand for imported goods and services exacerbates this problem.

Further complications include a drop in tourism during the winter of 1991 (blamed on the Persian Gulf War), increasing expenditure abroad by Mexican tourists, the effects of the U.S. recession on Mexican exports, and a decline in the growth rate of maquiladoras (manufacturing industries in tax-free zones).

It should be noted, however, that the Mexican government has implemented a non-oil exports development program to reduce domestic microeconomic and structural obstacles to offset any temporary weakening of growth in manufactured exports. It is designed to assist a projected export growth of 11% in 1991.

The government-labour Pact for Stabilization and Economic Growth (Pact) was renewed, for the fifth time, to December 31, 1991. However, there is evidence of growing pressure from organized labour over inflation rising above targeted levels, causing a further drop in real wages. In 1990 inflation reached close to 30%, with estimates that it will remain in this range for at least one to two more years.

Monetary reserves reached US\$9.5 billion at the end of 1990. Nevertheless, the negative balance on the trade account remains cause for concern and could add to pressure for a peso devaluation if not matched by capital inflows. (The managed 5% yearly peso-dollar devaluation, currently at 5%, is less than inflation and has discouraged growth in export-led sectors of the economy.)

Overall, the economic picture is positive. The recent lowering of international interest rates has reduced external debt payments; and capital from abroad continues to flow in.

There has been no capital flight so far, despite lowering of real domestic interest rates, which in January were negative. The debt is no longer a problem following agreement with commercial banks in the context of the Brady Plan.

Confidence is also buoyed by the private sector's planned participation in the newly privatized banking system and mining sector, as well as being buoyed by the privatization of other government-owned enterprises. In addition, the positive investment climate created by the proposed free trade agreement between Mexico, Canada, and the United States is renewing confidence in the economy.