

8. FINANCIAL MARKETS

Government borrowing decreased in real terms during 1992 because of a perceived surplus in public finances. The private sector borrowed 23 percent more in real terms in 1992 than in 1991. Real domestic commercial bank credit to the private sector is estimated to grow by no more than 12 percent in 1993 due to very high real interest rates and a deceleration of economic growth. During 1992, the stock market index grew 23 percent, compared to 128 percent in 1991, mainly because of negative speculation regarding the fate and timing of the NAFTA negotiations. In the first seven months of 1993, the stock market gained only 0.6 percent because of economic deceleration as a result of very poor results for company earnings and continuing apprehensions about the commitment of the Clinton Administration to NAFTA.

9. EXCHANGE RATE

On October 20, 1992, the slide of the peso-U.S.\$ rate was increased from 20 to 40 old centavos daily, a policy that will continue until the end of 1993. The elimination of the three zeros (a new peso is equivalent to 1,000 old pesos) on January 1, 1993, reduced the psychological impact of the increased slippage. Nevertheless, the annual rate of devaluation increases from 2.4 percent to 4.8 percent. Actual appreciation of the peso against the U.S.\$ will reach 25 percent. The peso, however, is stronger as much foreign capital continues to flow into the country, attracted by high real interest rates. Although relatively small daily devaluation has caused appreciation of the peso, the Central Bank officials do not view this with alarm. Rather, they consider that the appreciation will reduce the impact of imported inflation and thus contribute to the Central Bank's principal goal of reducing inflation to a single digit in 1993.

10. BALANCE OF PAYMENTS

The current account deficit for 1992 was U.S.\$22.8 billion and the official estimate for 1993 is U.S.\$22.5 billion, although private projections are more around U.S.\$25 billion. There are significant and worrying increases in the deficit, but total foreign reserves were estimated to be U.S.\$18.5 billion at the end of 1992, providing some comfort and

cover. Substantial inflows of capital into the money and stock markets have supported the current account deficit and created the large increases in foreign exchange reserves. Domestic interest rates were raised in 1992 to attract new capital and to prevent further capital flight.

11. PARASTATAL SECTOR

The Mexican government has continued to streamline the parastatal sector by liquidating, merging, transferring and selling companies, and reducing subsidies. Of the 1,155 parastatal companies in existence in 1983, three-quarters have been divested. All 18 banks and the State steel industry complex have been sold. Those remaining are mostly service industries, but a few are important government firms such as PEMEX, the Federal Power Authority and the National Railroad. Even in these sectors, however, private and even foreign investment is partially allowed.

Last December, the Mexican Congress passed legislation allowing private sector investment in the electricity and water industries under renewable long-term concessions. The Mexican government has already privatized airlines, the telephone company and portions of CONASUPO, the food distribution company. Some government-owned television channels and state-owned movie theatres were recently sold. About 60 petrochemical plants belonging to PEMEX and some airports and port services will also be sold.

12. FOREIGN INVESTMENT

A new Law to Promote Investment will be sent soon to the Mexican Congress for approval. Foreign direct investment flows amounted to U.S.\$5.4 billion in 1992. Last year portfolio investment increased by around U.S.\$13.6 billion. Of this, new investment to the stock market reached U.S.\$4.8 billion while U.S.\$ 8.8 billion was invested in Treasury Bills. Foreign investment in the stock market has reached U.S.\$28.6 billion, or one fifth of total stock market value. At the end of 1992, there was about U.S.\$37.5 billion in accumulated direct foreign investment in Mexico.

Up to December 1992, the amount of Canadian investment accumulated in Mexico reached