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Cable Room ID: MC1A6771 Page: 01	Distribution
Processed: December 18, 1991 14:29 Sender: Banco de Mexico Mexico (Mexico)	ORIG: TRE CC: MD DMD MR. TORRES WHD ETR FAD LEG RES SEC MR. P. ANDREWS

INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT
1991 DEC 18 PM 4:50

INTERNATIONAL MONETARY FUND

INCOMING MESSAGE

1777573 BMCVME

MEXICO DF 18 DEC 91 APG CSF

TREASURER
INTERNATIONAL MONETARY FUND
WASHINGTON, D.C.

REF: G31/23442

URGENT

NO. 80

1. AS FISCAL AGENCY FOR THE GOVERNMENT OF MEXICO WE DESIRE TO PURCHASE FROM THE INTERNATIONAL MONETARY FUND SDR 50,000,000, SDR 65,000,000 IN US. DOLLARS, SDR 10,100,000 IN DEUTSCHE MARK, SDR 14,000,000 IN ITALIAN LIRE, SDR 65,000,000 IN JAPANESE YEN, SDR 19,000,000 IN THAI BAHT, AND SDR 10,000,000 IN POUNDS STERLING, IN ACCORDANCE WITH ARTICLE V, SECTIONS 3 AND 4 AND WITH EXTENDED ARRANGEMENT EFFECTIVE MAY 26, 1989, AS AMENDED.

2. WE DO HEREBY REPRESENT THAT THIS PURCHASE IS NEEDED IN ACCORDANCE WITH THE PROVISIONS OF FUND AGREEMENT.

3. PLEASE CREDIT SDR 50,000,000 TO MEXICO'S SDR ACCOUNT ON VALUE DATE OF PURCHASE.

4. PLEASE PLACE CURRENCIES AT OUR DISPOSAL AT RESPECTIVE DEPOSITARIES AND REQUEST THOSE INSTITUTIONS TO ARRANGE EXCHANGE OF CURRENCIES INTO U.S. DOLLARS AND PAYMENT OF PROCEEDS TO OUR ACCOUNT WITH FEDERAL RESERVE BANK OF NEW YORK, NEW YORK.

5. THE EQUIVALENT OF DESIRED PURCHASE, NAMELY MEXICAN PESOS 935,937,845,054 WILL BE CREDITED TO FUND'S NO. 1 ACCOUNT WITH OURSELVES ON THE VALUE DATE OF PURCHASE.

6. REGARDING SERVICE CHARGE, PLEASE DEBIT MEXICO'S SDR

ACCOUNT WITH SDR 1,165,500 ON VALUE DATE OF PURCHASE

BANCO DE MEXICO

64111 IMF UW

1777573 BMCVME

Note
*** Test Accepted ***

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Office Memorandum

Mr. Beza
Given the strong reserve position, wouldn't they be demonstrating strength if a 4th year EFF provided for large repurchases?
RDE
12/22/91

To: The Managing Director

December 18, 1991

From: S. T. Beza

Subject: Mexico - Report on Staff Visit

In the attached note, Mr. Reichmann reports on the staff's visit to Mexico to obtain information on the budget and other policy areas in preparation of the negotiation of a fourth year EFF to be conducted in February 1992.

The performance of the economy continues to be broadly satisfactory. A key issue that was discussed concerned the policies required to obtain the authorities' objective of lowering inflation to less than 10 percent in 1992, from 19 percent in 1991. The discussions also covered the large inflows of private capital that are taking place (projected to amount to some US$20 billion in 1991). These issues will be pursued further in the February discussions.

Attachment

cc: The Deputy Managing Director (o/r)
Mr. Andrews

Office Memorandum

To The Managing Director December 18, 1991

From T Reichmann

Subject <u>Mexico - Report on Staff Visit</u>

The staff team that visited Mexico City last week found that, as expected, the performance of the economy continues to be broadly satisfactory A slowdown in aggregate expenditure in the second semester, particularly private consumption, has served to moderate the pace of economic activity and real GDP is now projected to grow by 4 percent in 1991, down from 4 8 percent in the first half of the year Notwithstanding strong growth of non-petroleum exports, a trade deficit of close to US$6 billion and a current account deficit of some US$11 billion are projected for 1991, which is roughly in line with the projections made at the time of the consultation discussions last August However, private capital inflows show no sign of abating and net international reserves rose by almost US$10 billion during January-November 1991 By end-November, gross reserves exceeded US$20 billion

The effects of the sharp increase in the price of gasoline (by 55 percent) implemented in the context of the renewal of the wage-price pact were not fully offset by the lowering of the rate of the VAT announced at the same time This caused monthly inflation to jump from 1 2 percent in October to 2 5 percent in November The authorities expect a similar rate for December (because of seasonality), and project that inflation in 1991 will reach 19 percent, down from 29 percent in 1990, but higher than the program's target for 1991 of 14 percent

For 1992, the authorities' plan contemplates cutting inflation in half (to a rate of 9 7 percent for the year), while real GDP grows at 4 percent and the external current account deficit is limited to US$13 billion (4 2 percent of GDP) The 1992 budget proposal that is being discussed in Congress includes a primary surplus of 6 percent of GDP (the same as the one likely to result in 1991) and an overall surplus (PSBR basis) of 0 8 percent of GDP These targets do not include proceeds from privatization which would amount to some 2 3 percent of GDP

The authorities expect external private capital inflows to slow somewhat in 1992, but still to be sufficient to finance the projected current account deficit and to permit a moderate further accumulation of reserves They believe that attainment of the inflation target for 1992 will be made possible by the continuation of a tight fiscal policy, by the reduced devaluation of the peso (2 5 percent in the year) that is being programmed, and by the measures already taken in the price area which obviate the need to make further adjustments to controlled prices in 1992

Notwithstanding the above, the authorities agreed with the staff that there is room for concern as to whether single digit inflation will be attained in 1992 In this regard, they concurred with the staff's view that they need to be ready to intensify the fiscal effort in case that inflation remains above the path envisaged in their plan

The staff pointed to the threat to Mexico's external competitiveness that is posed by the continuation of present rates of inflation, given the exchange rate policy, and discussed with the authorities the stability of private capital flows and the associated vulnerability of the balance of payments to external events such as a drop in the price of petroleum, a weakening of the U S market, or a negative turn in the negotiations on the NAFTA

In a private meeting with Mr Ortiz, Undersecretary of Finance, I informed him that access in a fourth year EFF would need to be reduced and also about the views that have been put forward in regard to considering this access only as a safety net Mr Ortiz seemed to accept the idea of reduced access, but saw political difficulties in going along with the concept of a safety net

cc Mr Beza
Mr Mussa
Mr Boorman
Mr Gianviti
Mr Williams
Mr Steckhan (IBRD)

DEC-16-91 MON 17:53 AMERIMEX PROP CON 6074331324 P.01

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AmeriMex Unlimited, Inc.
HC64, Box 78A
Oneonta, New York 13820
607 433-0112 phone
607 433-1324 fax

FAX MEMO

Pages:

ORIG: EXR
CC: WHD

To: **International Monetary Fund**

Fax #: **202 623- 7000**

From: **Elena Moreno**

Date: **December 16, 1991**

Dear IMF,

Our firm is working to help business entities in Mexico obtain financing for development projects. At your earliest convenience please send me an information package of programs and financing possibilities offered by the International Monetary fund.

Thank you for your prompt consideration of my request.

Best regards,
AmeriMex Unlimited, Inc.

Elena Moreno

Elena Moreno
President

EM/ss

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INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.
1991 DEC 17 AM 10:10

1991 DEC 16 PM 8:38

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INTERNATIONAL MONETARY FUND

WASHINGTON. D. C. 20431

CABLE ADDRESS
INTERFUND

December 16, 1991

Dear Sir:

Reference is made to the extended arrangement that the International Monetary Fund (the "Fund") approved on May 26, 1989 for the United Mexican States.

(1) The extended arrangement continues in effect.

(2) The United Mexican States has the right, subject to the provisions of the extended arrangement and during the period until May 25, 1992, to make purchases from the Fund under the extended arrangement up to a total amount equivalent to SDR 1,958.04 million, excluding amounts for the augmentation of the extended arrangement and those set aside for use in connection with debt-reduction operations to be specified by the Fund.

(3) As of the date of this letter, the United Mexican States has purchased from the Fund all amounts (exclusive of purchases of amounts set aside for debt-reduction operations as aforesaid) that were available for purchase on or before August 1, 1991 in accordance with the phasing provisions of the extended arrangement as established by the Fund on April 22, 1991.

Very truly yours,

S. T. Beza
Counsellor and Director
Western Hemisphere Department

His Excellency
Dr. Pedro Aspe Armella
Secretary of Finance and Public Credit
Secretariat of Finance and Public Credit
of the United Mexican States
Mexico City, Mexico

Office Memorandum

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To: Mr. Thomas Reichmann | December 3, 1991

From: James Ogoola

Subject: <u>Mexico - Mission Briefing for a Staff Visit</u>

This will confirm the verbal comments I communicated to you yesterday concerning the second paragraph on page 4 of the above mission briefing. The paragraph proposes that the mission will inform the authorities the view expressed by several Executive Directors at the recent Board meeting on Mexico for lowering Mexico's access to Fund resources under the fourth year of the extended arrangement and that this access should be regarded as a safety net which would not be expected to be drawn under ordinary circumstances.

That paragraph should be reformulated somewhat to clarify whether the above were views of individual Executive Directors, or whether they constitute a decision of the Board, or a formal position of the staff or of the Management of the Fund. If not the latter, the staff mission would simply <u>convey</u> the views of <u>some</u> Executive Directors, [for the purposes of informing and alerting the authorities.]

cc: Messrs. Beza
Mussa
Tanzi
Williams
Ferran

Mr. Caiola 1)

STB
MC
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Office Memorandum

To: The Acting Managing Director — December 2, 1991

From: M. Caiola MC

Subject: Mexico--Staff Visit

12/7/91

A staff team 1/ will visit Mexico City for four days beginning December 9, 1991 to analyze with the authorities the 1992 budget and the renewal of the wage-price pact, which were announced recently. These discussions also would help prepare the negotiation (scheduled for February 1992) of the fourth year program under Mexico's extended arrangement.

Economic developments under the program remain broadly satisfactory. Real GDP grew by 4.8 percent in the first half of 1991 over the same period of last year, and the 12-month rate of inflation declined to 20 percent in October 1991 from 30 percent in December 1990. The public finances have continued to perform strongly on account of increased tax revenue, expenditure restraint and a substantial decline in nominal and real interest rates. The overall fiscal position (PSBR basis) is projected to register a small deficit (estimated at 0.5 percent of GDP) in 1991, with a primary surplus (exclusive of privatization receipts) in excess of 6 percent of GDP. Private financial savings (M-4) and commercial bank lending to the private sector have grown sharply in real terms while the annual rate of interest on the one-month treasury bill has remained at around 18 percent since May, down from 26 percent in December 1990.

There was a real effective appreciation of the peso of 11 1/2 percent during the twelve months through August 1991. Notwithstanding the continued growth of exports (particularly manufactured exports), the trade deficit in January-September 1991 has widened considerably reflecting in large part the rapid growth of imports of intermediate and capital goods. However, private capital inflows remain strong and the net international reserves rose by nearly US$8 billion in the first ten months of 1991.

On November 11, 1991, the Government announced the extension of the wage price pact (PECE) through January 1993. The principal elements of the agreement include (i) a slower rate of daily depreciation of the peso with respect to the U.S. dollar from an annual rate of 5 percent to an annual rate of 2 1/2 percent; (ii) the unification of the controlled and free exchange markets; (iii) an increase in the domestic prices of petroleum products by up to 55 percent and of electricity by some 15 percent; (iv) a reduction in the value added tax to a uniform rate of 10 percent from a range of 15-20 percent; and (v) an increase in minimum wages of 12 percent.

1/ Consisting of Mr. Reichmann (Head), Mr. Kalter, and Ms. Coorey (all WHD).

The budget for 1992 was presented to Congress on November 15, 1991 The primary surplus (excluding revenues from privatization) is projected at 6 0 percent of GDP about the same as in 1991, but the overall balance (PSBR) is projected to shift to a surplus of 0 8 percent of GDP reflecting a reduction in the domestic debt stock and a lower average interest rate in 1992 The budget is based on an inflation rate of 9 7 percent (year-on-year), a real GDP growth rate of 4 percent, and an oil price for Mexico of US$14 a barrel

The staff will review the macroeconomic assumptions underlying the budget projections, and will assess the effect on the public finances of the measures agreed under the revision of the PECE Furthermore, it will seek to ascertain the authorities views on the economic program for 1992 and will review the consistency of the PECE and the proposed budget with the announced goals of lowering inflation to a single digit annual rate in 1992, while preserving external competitiveness and maintaining the growth momentum The mission will note that at this stage it will be able to provide only a provisional evaluation of the budget and other policy measures The appropriateness of the objectives and policies proposed for 1992 would be assessed at the time of negotiations for the 1992 program in light of additional information on the 1991 outcome, the overall macroeconomic framework for 1992, and an updated medium-term outlook

The mission will discuss the implications for monetary policy of the reduction in liquidity ratios introduced last August, as well as that of the imposition of liquidity coefficients on short-term commercial bank borrowing abroad In this latter context, the mission will explore the stability of the private capital inflows and the related issue of the sustainability of the current account The mission will ascertain the status of the negotiations of the free trade area with the United States and Canada and will also review the authorities' privatization and public debt management experience in 1991 as well as their plans for 1992 in this regard

If asked, the mission will inform the authorities that Mexico's access under a fourth year EFF will need to be substantially lower than in the first three years and will convey to them the view held by several Executive Directors at the recent Board meeting on Mexico that this access should be regarded as a safety net, which would not be expected to be drawn under ordinary circumstances

This memorandum has been reviewed by ETR, FAD, LEG, RES, and TRE

Attachment

cc The Managing Director (o/r)
Mr Beza (o/r)
Mr Boorman
Mr Gianviti
Mr Mussa
Mr Tanzi
Mr Williams
Mr Andrews

BB

1, (F)

Office Memorandum

To The Acting Managing Director December 2 1991

From M Caiola

Subject Mexico--Staff Visit

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There was a real effective appreciation of the peso of 11 1/2 percent during the twelve months through August 1991 Notwithstanding the continued growth of exports (particularly manufactured exports), the trade deficit in January-September 1991 has widened considerably reflecting in large part the rapid growth of imports of intermediate and capital goods However, private capital inflows remain strong and the net international reserves rose by nearly US$8 billion in the first ten months of 1991

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This memorandum has been reviewed by ETR FAD, LEG, RES, and TRE

Attachment

cc The Managing Director (o/r)
Mr Beza (o/r)
Mr Boorman
Mr Gianviti
Mr Mussa
Mr Tanzi
Mr Williams
Mr Andrews

Mexico   Selected Economic and Financial Indicators

	1987	1988	1989	1990	Prog 1991 1/	Proj 1991 2/
	(Percent changes)					
Income and prices						
Real GDP	1 7	1 4	3 1	3 9	3 0-3 5	4 8
GDP Deflator	139 1	101 7	26 5	24 6	18 9	19 6
Consumer prices (end of year)	159 2	51 7	19 7	29 9	14 0	18 0
Consumer prices (average)	131 8	114 2	20 0	26 7	20 1	22 1
External sector						
Exports (f o b)	28 5	2 9	12 7	17 8	6 1	5 3
Export volume	22 8	-0 4	4 8	5 6	6 3	10 6
Imports (f o b)	6 9	54 6	23 9	27 3	10 7	24 1
Import volume	1 2	45 9	20 9	23 3	4 5	22 4
Terms of trade (deterioration -)	-1 0	-2 5	4 9	8 1	-5 8	-6 1
Nominal effective exchange rate						
Average (depreciation -)	-57 8	-40 6	0 6	-6 0		
End of period	-56 7	-5 5	-4 3	-8 1		
Real effective exchange rate						
Average (depreciation -)	-8 0	23 8	7 8	2 3		
End of period	3 8	28 7	1 3	6 0		
Nonfinancial public sector						
Receipts	137 1	98 7	25 6	29 5	18 7	19 2
Outlays	140 4	84 1	6 8	23 4	9 9	3 2
Money and credit 3/						
Domestic credit (net)	107 6	72 4	45 4	30 4	24 4	23 8
Public sector (net)	65 3	40 4	8 4	-7 0	2 4	2 3
Private sector	55 0	38 9	46 6	42 5	27 9	27 2
Money and quasi-money (M-2)	141 0	42 2	43 0	45 8	25 4	36 9
Real growth in M-4	-0 1	4 8	25 7	12 8	7 0	9 4
Velocity (GDP/M-4)	3 3	3 6	3 1	2 7	2 2	2 5
Interest rate on one-month treasury bills (percent per month)	10 3	4 4	3 7	2 9		1 4
	(Percent of GDP)					
Public sector savings	-9 8	-6 4	-0 9	1 2	3 8	5 7
Public sector savings (adjusted) 4/	7 2	0 5	2 8	6 7	6 6	8 5
Public sector economic balance	-15 0	-11 4	-5 2	-3 6	-1 0	0 5
Foreign financing	2 6	0 3	-0 4	0 9	0 8	0 9
Primary balance	5 0	5 9	7 9	8 0	6 9	6 2
Operational balance	2 0	-4 4	-1 6	1 2	1 8	2 9
Public sector borrowing requirement	15 8	12 9	5 6	3 4	2 0	0 5
Gross domestic investment	19 2	21 0	20 0	21 0	21 1	22 1
Gross national savings	22 2	19 6	18 1	18 3	18 4	18 3
External current account balance 5/	3 0	-1 4	-1 9	-2 7	-2 7	-3 8
Public external debt (including IMF) 6/	61 6	49 2	39 1	35 8	31 0	31 0
Interest payments on external public debt 5/7/	4 3	4 0	3 6	2 7	2 6	2 4
	(In percent of exports of goods, nonfactor services and transfers)					
Public debt service 7/						
Before rescheduling	87 8	85 4	62 7	50 0	32 1	33 8
After rescheduling	40 4	51 0	33 8	28 0	26 4	28 4
	(Billions of U S dollars)					
Overall BOP	6 6	-6 8	-1 1	3 4	1 0	5 0
Gross official reserves (months of imports) 8/	12 1	3 1	3 1	3 9	4 0	4 7

Sources Bank of Mexico Secretariat of Programming and Budget and Fund staff estimates

1/ Based on an average oil price of US$17 a barrel and the original projection of GNP

2/ At an average oil price of $14 8 per barrel excluding revenues from privatization

3/ Changes are effective flows adjusted for exchange rate changes in relation to total liabilities to the private sector at the beginning of the period

4/ Adjusted to include as savings the inflation component of interest payments

5/ Includes interest relief from debt and debt-service reduction operations except the payment of the interest rebate by commerical banks in 1990

6/ Includes short-term debt but net of gross international reserves

7/ Interest paid on external public debt net of interest earned on gross international reserves includes debt service on Fund credit

8/ End of period excluding gold balances under bilateral payments accounts and the Contingency Fund

Mr. Beza

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Office Memorandum

To: Mr. Thomas Reichmann — November 19, 1991

From: James Ogoola

Subject: Mexico - Unification of Exchange Rates

We have the following observations on the draft Board paper transmitted under cover of your note of November 18, 1991:

(1) While notification to Executive Directors of the unification of Mexico's dual exchange markets is proposed to be effected by way of a formal Board paper modeled on the precedents of the UK (EBD/90/331, 10/12/90) and Spain (EBD/89/207, 7/5/89), less formal procedures (e.g., simple transmittal by the Secretary's Department) have been used in some other cases in the past (e.g., Belgium: EBD/91/200, 6/20/91).

(2) To what extent should the staff express its own substantive views and judgements on the unification of Mexico's exchange markets -- see, for instance, the last paragraph on p. 2 of the draft paper, under which the staff expresses the judgment that "unification ... contributes further to the consolidation of private sector confidence and to sustainable economic growth."

cc: Mr. Beza ✓
Mr. Ferran
Mr. Kalter
SEC

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Office Memorandum

To: The Acting Managing Director — November 11, 1991

From: S. T. Beza

Subject: Mexico

Yesterday the Government announced an extension of the government-business-labor pact through end-December 1992. Policy actions announced included (i) a slower pace of depreciation of the peso with respect to the U.S. dollar, from an annual rate of 5 percent to an annual rate of 2 1/2 percent; (ii) the abolition of foreign exchange surrender requirements with the effect of unifying the controlled and free exchange markets; (iii) an increase in minimum wages of 12 percent; (iv) a lowering of the value added tax to 10 percent from 15 percent (from 20 percent for some luxury items); (v) increases in the price of petroleum products of up to 55 percent; and (vi) an increase in the price of electricity for home and industrial use of around 15 percent. On first analysis it would appear that the net effect of these measures is likely to be neutral for the fiscal position.

The staff mission that will be visiting Mexico City in early December to prepare the ground for the negotiation of the program for the fourth year will evaluate this package more closely and will examine the new budget that will be announced on November 15.

cc: The Managing Director (o/r)
Mr. Mussa
Mr. Tanzi
Mr. Ferran
Mr. Andrews

Contributors:
Thomas Reichmann
Eliot Kalter

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Office Memorandum

To: The Managing Director
The Deputy Managing Director

November 5, 1991

From: S. T. Beza

Subject: Mexico--1991 Article IV Consultation

Attached please find notes for the Managing Director's summing up of the Executive Board discussion of the 1991 Article IV consultation with Mexico.

Attachment

cc: Mr. Van Houtven
Mr. Ferran
Mr. Andrews

The Chairman's Summing Up at the Conclusion of the
1991 Article IV Consultation with Mexico
Executive Board Meeting 91/--- - November 6, 1991

Executive Directors were in general agreement with the thrust of the staff appraisal, and they commended the Mexican authorities on the continuing implementation of a strong macroeconomic and structural adjustment program which has been supported by an extended arrangement from the Fund Directors noted in particular the decline of inflation, the recovery of real GDP growth, the strengthening of the international reserve position, the fall in nominal and real interest rates, and the regaining of access to voluntary financing in international capital markets Directors observed that these gains reflected the pursuit of a comprehensive economic strategy that included suitable financial policies, major structural reforms, and positive relations with the international financial community

Directors noted that despite the progress made toward the restoration of financial stability and toward a more efficient economic structure, certain risks were still present They observed that while substantial private capital inflows had helped provide the resources for an increase in investment, the widening of the external current account deficit raised some concern about its sustainability, particularly in view of the importance of short-term, and potentially volatile, capital inflows in its financing In these circumstances, Directors cautioned the authorities against any relaxation of their policies and stressed the need to monitor developments in the balance of payments closely in order to adopt corrective measures quickly should these prove necessary Directors also stressed the importance of reducing inflation further

Directors were of the view that the strengthening of the public finances had been key in the improvement in economic performance achieved by Mexico, and emphasized the need to maintain a firm fiscal policy stance, particularly at the level of the primary balance They noted the desirability of preserving the margins obtained thus far in the 1991 fiscal program, given the importance of bringing inflation and interest rates down to international levels and assuring the viability of the balance of payments In this regard, Directors commended the decision of the Mexican authorities not to use the proceeds from privatization other than to reduce public debt

Directors noted that monetary policy appropriately had continued to be geared toward lowering inflation A number of Directors drew attention, however, to the rapid growth of the monetary aggregates and bank credit to the private sector in the first half of 1991 While they noted that this development reflected in part the return of intermediation to the financial system as a result of increased private sector confidence, they observed that part of the expansion of private sector credit had been financed by short-term borrowing abroad by commercial banks In this regard, Directors welcomed the actions taken by the authorities to slow the inflow of such capital

Most Directors noted that the current exchange rate policy, in combination with the pursuit of appropriate financial policies, had helped Mexico achieve its objective of dampening inflation and inflationary expectations However, Directors observed that the authorities need to continue to guard against a weakening of external competitiveness inasmuch as Mexico's inflation rate was still above that of its main trading partners In these circumstances, a number of Directors felt that the authorities should preserve some degree of exchange rate flexibility as exists under the current system, together with cautious wage and financial policies, in the effort to maintain competitiveness in an environment of declining inflation [Other Directors saw an opportunity, given the strengthening of the overall balance of payments, to contribute to the reduction of inflation through the fixing of the exchange rate]

Directors commended the wide-ranging structural reforms undertaken by the authorities which have been central to the success of Mexico's economic program through their favorable effects on economic efficiency, public sector savings and private sector confidence Directors expressed satisfaction at the progress achieved so far in the reprivatization of the commercial banks and the strengthening of the domestic financial system Directors noted in this context the continued importance of strengthening domestic savings, in particular private sector savings

Directors welcomed Mexico's renewed access to voluntary external financing and the restraint exhibited by public sector borrowers in the management of the external public debt They urged the authorities to continue exercising caution in this regard as well as in the use of collateralization techniques A number of Directors supported the efforts of the authorities to continue to open the domestic economy to external competition through a number of regional trade initiatives, particularly the North American Free Trade Agreement with the United States and Canada, but stressed the importance of ensuring the consistency of these agreements with GATT principles and with multilateral trade liberalization efforts

It is proposed that the next Article IV consultation be held on the standard 12-month cycle

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TELEFAX

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SECRETARIA DE HACIENDA Y CREDITO PUBLICO
SUBSECRETARIA DE ASUNTOS FINANCIEROS INTERNACIONALES
M E X I C O

mexico

ORIG: WHD
CC: MR.P.ANDREWS

903956

FECHA: OCTUBRE 21, 1991.

NUMERO DE HOJAS (incluyendo esta): 2.

A:

SR. MICHEL CAMDESSUS,
DIRECTOR GENERAL Y PRESIDENTE DEL CONSEJO EJECUTIVO
FONDO MONETARIO INTERNACIONAL,
WASHINGTON, D. C.

NUMERO DE TELEFAX: 95-202-623-4661.

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1991 OCT 21 P 10:30

DE:

DR. PEDRO ASPE.
SECRETARIO DE HACIENDA Y CREDITO PUBLICO.
MEXICO, D. F.

NUMERO DE TELEFAX: 542-4581

SI HAY ALGUN PROBLEMA CON LA TRANSMISION, FAVOR DE LLAMAR AL: 542-1300, 522-5622, 542-3904 O 542-9837

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20 de octubre de 1991
Mexico D.F.

SR. MICHEL CAMDESSUS
Director General y
Presidente del Consejo Ejecutivo
Fondo Monetario Internacional
Washington D.C 20431

Muy estimado Michel,

Fue para mi muy satisfactorio y causa de gran alegría el enterarme de tu reelección como Director General del Fondo. Asimismo, aprovecho la oportunidad para reiterar a ti y al Fondo mis más sinceras felicitaciones por los importantes logros obtenidos en el pasado período de tu brillante administración. En particular, por las excelentes relaciones que se han forjado entre el Fondo y México, que han alcanzado su mejor nivel en la historia. Personalmente quiero hacerte patente mi agradecimiento por el singular apoyo que recibimos de tu parte en tiempos difíciles para mi país. La cercana colaboración entre el Fondo y México, especialmente durante 1988 y 1989, contribuyó significativamente al logro de un acuerdo sin precedente entre México y la comunidad financiera internacional y que, indirectamente, impulsó el "círculo virtuoso" en el que se encuentra ahora México, situación que ambos creíamos posible.

Bajo tu liderazgo, el Fondo ha propiciado de manera importante que los países miembros tomen conciencia y participen activamente en las nuevas tendencias de la economía global. Al mismo tiempo, el Fondo ha redefinido y reafirmado su misión en los asuntos económicos globales. Tu reelección no es solamente bien merecida sino la mejor decisión.

Nuevamente, acepta mi ~~más sincera y~~ afectuosa felicitación.

Atentamente,

Pedro Aspe
Secretario de Hacienda y Crédito Público

TON -11045/89

END

Office Memorandum

STB
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To:	The Acting Managing Director	October 3, 1991
From:	S. T. Beza	
Subject:	Mexico - Extended Arrangement - 1991 Article IV Consultation and Review of Program	

Attached is the staff report for the 1991 Article IV consultation with Mexico and on the review under the third year of the extended arrangement with the Fund.

The paper has been reviewed by the following departments:

Exchange and Trade Relations:	Mr. Ferrán
Fiscal Affairs:	Mr. Stella
Legal:	Mr. Ogoola
Research:	Mr. Haache
Treasurer's:	Mr. Coats
Western Hemisphere:	Messrs. Bonangelino, Amselle and myself

The paper also has been reviewed by Mr. Squire of the IBRD.

A <u>summary</u> of the staff report is attached.

Attachment

cc: The Managing Director (o/r)
Mr. Andrews

Contributors:
Mr. Loser (WHD)
Mr. Kalter (WHD)

Mexico - Summary of the Staff Report for the 1991 Article IV
Consultation and Review Under the Third Year of the Extended Arrangement

1 Recent developments

Developments so far under the third program year of the extended arrangement have been favorable, and Mexico has made all available purchases under the arrangement Indications are that the performance criteria for the remainder of the year will be met

The consumer price index rose by a cumulative 11 percent during the first 8-months of the year and is projected to increase by 16 percent during 1991 as a whole Real GDP grew by almost 5 percent from the first half of 1990 to the first half of 1991 The external current account deficit has continued to widen but has been more than covered by higher private capital inflows Net international reserves rose by US$4 9 billion during the first 7-months of 1991 The fiscal outcome so far in 1991 has been better than programmed with a primary surplus in line with projections, a sharp decline in interest rates and falling domestic debt

2 Policy issues

Mexico has achieved substantial gains under the Fund supported program, but certain risks remain Inflation, although decelerating, is still relatively high and raises concerns about external competitiveness, especially in view of the slow pace of the announced depreciation of the peso against the U S dollar The real effective appreciation of the peso and strong growth in domestic demand are contributing to the widening of the current account deficit to a projected US$10 6 billion for 1991 Private capital flows have been substantial but they have included a large element of short-term financial investments which could be volatile

In these circumstances, the authorities understand that cautious financial policies need to be maintained In particular, a strong primary balance needs to be preserved while balance of payments and exchange rate developments need to be monitored closely

The authorities expressed their interest in extending the arrangement from the Fund to a fourth year The authorities considered such action advisable as a means of maintaining confidence and providing the framework for financial discipline as they strive to complete an important stage of their adjustment effort in the pursuit of strong and sustained growth

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Office Memorandum

To: The Managing Director

September 25, 1991

From: M. Caiola

Subject: Mexico--Meeting with Secretary Aspe

Your meeting with Mr. Pedro Aspe, Secretary of Finance, will take place against the background of Mexico's strong economic performance in the third program year supported by the EFF. All performance criteria for June 1991 have been met with substantial margins and all available purchases have been made. Inflation is projected to decline to about 16 percent during 1991, from 30 percent during 1990, while real GDP is projected to grow by some 5 percent. Notwithstanding some weakening of the fiscal primary surplus, a large reduction in interest payments is expected to result in virtual balance in the overall fiscal position (without proceeds from privatization) in 1991, compared with a deficit of close to 2 percent of GDP in the program.

The balance of payments overall surplus is projected at about US$5 billion in 1991; however, the current account deficit is estimated at some US$11 billion, or close to 4 percent of GDP. This deficit is expected to be more than covered by private capital inflows; however, its sharp widening is a source of concern as capital could easily move out if confidence weakens.

During the past year the peso has appreciated by some 11 percent in real effective terms; however, strong performance of manufactured exports suggests that the exchange rate is still adequate. The authorities are depreciating the peso daily in relation to the U.S. dollar at a monthly rate of about 0.4 percent. This rate of depreciation could maintain competitiveness now that the rate of inflation in Mexico has dropped to around 1 percent a month; nonetheless, the authorities have indicated that they may wish to fix the peso/U.S. dollar rate, if this can be coupled with concessions in the area of wages.

The current arrangement expires in May 1992. Secretary Aspe may ask for the arrangement to be extended for a fourth year and that access under the extension be maintained at the present rate (80 percent of quota on an annual basis). He may argue that in that year obligations of Mexico to the Fund will amount to more than 90 percent of quota. In view of the present strength of the Mexican economy there are questions whether such an extension is warranted, and the point could be made that Mexico's graduation from use of Fund resources would transmit a welcome signal to the markets regarding the normalization of financial relations.

yes?

If it were agreed to proceed with an extension of the arrangement, it would seem appropriate to limit additional access to some 40 percent of quota in view of Mexico's strong international reserve position, the size of the Fund's exposure (outstanding Fund credit is projected at SDR 4 7 billion, or 401 percent of quota, by the end of the third year of the arrangement), and the growing evidence of restoration of access to voluntary financing

This note has been reviewed by ETR

cc The Deputy Managing Director (o/r)
Mr Beza (o/r)
Mr Boorman
Mr Andrews

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TR
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INTERNATIONAL MONETARY FUND

Office Memorandum

INTERNATIONAL MONETARY FUND
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91 SEP 12 PM 4:07
OFFICE OF
THE MANAGING DIRECTOR

1991 SEP 16 PM 1:32

To: The Managing Director

September 12, 1991

From: S. T. Beza

MB

Subject: Mexico--Back-to-Office Report

The mission completed discussions on the 1991 Article IV consultation and on the mid-term review of the third year under the extended arrangement. Mexico appears to have observed all quantitative performance criteria for end-June 1991, and will make a drawing when the figures are final.

Economic performance remains strong. Inflation is projected to decline to about 16 percent during 1991, from 30 percent during 1990, while real GDP is projected to grow by some 5 percent. The public finances continue to perform well. Notwithstanding some weakening of the primary surplus, a large reduction in interest payments is expected to result in an operational surplus of 3.2 percent of GDP (without privatization) and a very small deficit overall.

The balance of payments is projected to register an overall surplus of about US$6 billion in 1991. There will be a sizeable current account deficit--some US$11 billion or 3.8 percent of GDP--which is expected to be more than covered by private capital inflows. The current account deficit reflects mainly a sharp increase in imports. Thus far in 1991 the peso has appreciated by some 8 percent in real effective terms. However, the continued strong performance of manufactured exports suggests that the exchange rate is still adequate. For the time being the authorities intend to maintain the current rule of depreciating the peso daily in relation to the U.S. dollar at an annual rate of some 5 percent, which would maintain competitiveness in relation to the U.S. dollar at the latest monthly rate of inflation in Mexico. The authorities indicated that they might move to a fixed exchange rate in relation to the U.S. dollar, if this can be coupled with concessions in the area of wages.

While economic performance is strong the mission cautioned the authorities about the risks still present, e.g., the sharp widening of the current account deficit financed to an important extent by capital that could easily move out if confidence weakens.

The authorities expressed interest in extending the arrangement to four years with access maintained at the present pace. They will come back to us on this matter in the near future.

Attachment

Contributors:
Mr. Loser (WHD)
Mr. Reichmann (WHD)

cc: The Deputy Managing Director (o/r)
Mr. Andrews

F

Office Memorandum

To The Managing Director September 12, 1991

From S T Beza

Subject Mexico--Back-to-Office Report

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Attachment

Contributors
Mr Loser (WHD)
Mr Reichmann (WHD)

cc The Deputy Managing Director (o/r)
Mr Andrews

Office Memorandum

To The Managing Director September 12, 1991

From C Loser

Subject Mexico--Back-to-Office Report (August 26-September 6, 1991)

The mission that just returned from Mexico completed the discussions for the 1991 Article IV consultation and for the mid-term review of the third year under the extended arrangement The mission met with the Director General of the Bank of Mexico, the Under-Secretaries of Finance and Public Credit and of Budget and Programming and other officials

The mission enjoyed good cooperation from the authorities and the discussions were open and well focused The authorities appeared confident about the success of their economic strategy, nonetheless, they expressed their awareness of the risk of being too complacent and their determination to make sure that all the program's targets are observed

The general assessment of the economic situation is positive The rate of inflation has declined to less than 1 percent a month, and for 1991 as a whole inflation is projected to be about 16 percent, down from 30 percent in 1990 (Table 1) Economic activity has picked up and real GDP is projected to grow by some 5 percent in 1991 The fiscal situation is under control and a strong overall balance of payments result is being projected, notwithstanding a marked widening in the current account deficit, resulting from increased private sector demand

The public finances are performing well, notwithstanding some weakening of the primary surplus from the level that had been assumed at the time the program was framed A larger than expected drop in interest payments has resulted in a much stronger than programmed performance at the operational and PSBR levels Including receipts from the privatization of the telephone company and some commercial banks (amounting to some 3 3 percent of the GDP estimated for January-June 1991), the primary surplus in the first half of 1991 was 10 5 percent of GDP, compared with an unadjusted projection in the program of 10 7 percent Adjusting for a lower price of petroleum and for the use of a portion (15 percent) of privatization receipts allowed under the program, the program's target was 9 8 percent of GDP This leaves a margin of Mex$2 9 trillion, or 0 7 percent of GDP for June 1991 (Table 2)

Budgetary receipts in the first half of the year were about as programmed, while on the expenditure side lower investment outlays were offset by unclassified expenditure (The latter may reflect advances to the states in connection with the recent elections, the authorities expect that part of these advances will be recovered, or as a minimum will not recur, in the second half of the year) The margin obtained in the primary result of the first six months of 1991 may be eroded during the remainder of the year, but the PSBR (projected at 0 4 percent of GDP without privatization) and the operational result (at a surplus of 3 2 percent of GDP) would imply margins of about 2 percentage points of GDP with respect to the adjusted targets of the program The authorities indicated their firm determination to take all necessary measures to ensure that the program's target for the primary surplus will be observed

Based on the support provided by the fiscal performance, the authorities have been able to maintain a firm monetary policy with the net domestic assets of the Bank of Mexico declining markedly during the first half of 1991 Private sector financial savings have continued to increase, although at a slower pace than in previous years, permitting a sizeable accumulation of reserves and a further expansion of commercial bank credit to the private sector Part of the credit expansion had also been financed by the commercial banks' short-term borrowing abroad, but in August the authorities acted to slow down the inflow of this volatile type of capital by making these bank liabilities subject to liquidity ratios similar to those applying to domestic deposits Reportedly, net inflows fell after the introduction of this measure In line with the decline in inflation, interest rates have dropped markedly although they have shown a larger than usual degree of volatility, the rate on 28-day treasury certificates declined to less than 16 percent at the end of August from 26 percent at the end of 1990, but it is expected to move up again to about 18 percent later this year

The overall external performance remained strong in the first half of 1991, with the balance of payments recording a surplus of US$4 5 billion and gross international reserves increasing to almost US$15 billion (not counting about US$2 7 billion of the contingency fund related to the sale of enterprises) Nevertheless, the trade performance has deteriorated markedly and for the year as a whole a current account deficit of close to US$11 billion (3 8 percent of GDP) is being projected, compared with a deficit of US$6 1/2 billion registered in 1990 and of US$7 billion projected in the program for 1991 The 1991 deficit is expected to be more than covered by net capital inflows (virtually all of them private) resulting in an overall surplus of close to US$5 billion (Table 3)

The widening current account deficit is explained by a drop in the price of petroleum, which lowers the value of exports by US$1 6 billion with respect to 1990 and, more importantly, by a sharp increase in imports (for the most part capital and intermediate goods), which are projected to be some US$7 billion higher than in the previous year In real effective terms, the peso appreciated by 10 5 percent over the 12 months ended June 1991 and by 7 5 percent since December 1990 The authorities, however, point to the performance of manufactured exports (which grew by 19 percent in value during the first half of 1991) to buttress their argument that the current level of the exchange rate is consistent with the structural changes that have occurred in recent years and the renewed availability of external financing

The authorities broadly agreed with the mission on the advantages of preserving some degree of exchange rate flexibility by continuing with the current rule of depreciating the peso daily vis-a-vis the U S dollar by a fixed (and preannounced) amount They intend to maintain for the time being the current exchange rate path, depreciating at an annual rate of close to 5 percent, this would maintain competitiveness in relation to the U S dollar at the latest monthly rate of inflation in Mexico However, they indicated that they are studying the possibility of moving to a fixed exchange rate regime in the context of an agreement on wage adjustments to be discussed with the unions later this year The exchange rates in the controlled and free markets remain virtually identical The Director General of the Bank of Mexico indicated that he favors the formal unification of these rates but was unable to commit himself to an early date to move in this direction

Notwithstanding the confidence inspired by the strength of Mexico's economic performance, the mission cautioned the authorities about the fragility still inherent in the economic situation The size of the external current account deficit raises concern about its sustainability, adjustments in real wages appear to exceed increases in labor productivity, the rate of inflation continues to be above that of Mexico's main trading partners, and there is a growing dependence on potentially volatile private capital inflows In this context, the mission stressed the importance of maintaining the margins obtained thus far in the fiscal performance, and suggested that contingency measures in the fiscal area should be prepared to respond to a possible turnaround in private sector confidence The authorities indicated that they shared the mission's concerns and were determined to continue with the strict stance of policies that had served them well thus far

The final numbers with respect to the performance under the program through June 1991 will be sent to us in the coming days, preliminary information, however, suggests that all performance criteria have been met The Under-Secretary of Finance mentioned that the authorities are interested in an extension of the arrangement to four years, with the expectation that access to Fund resources in the fourth year would be commensurate with that obtained during the first three years The mission noted that in light of the strength of both the balance of payments and the reserve position as well as the high level of Fund exposure there were merits in completing the arrangement after the third year However, the authorities seem inclined to have a transitory period in which they still are under the discipline of a Fund arrangement No decision has yet been made, but they expect to approach the Fund formally in this regard in the near future

Attachment

cc The Deputy Managing Director (o/r)
Mr Beza
Mr Boorman
Mr Gianviti
Mr Tanzi
Mr Williams
Mr Goldstein (o/r)
Mr Andrews
Mr Steckhan (IBRD)

Table 1 Mexico Selected Economic and Financial Indicators

	1987	1988	1989	1990 1/	Prog 1991 2/	Proj 1991 3/
	(Annual percentage change unless otherwise specified)					
Income and prices						
Real GDP	1 7	1 4	3 2	3 9	3 0 3 5	4 8
GDP deflator	139 4	100 0	27 5	24 6	18 9	19 6
Consumer prices (end of year)	159 2	51 7	19 7	29 9	14 0	16 0
Consumer prices (average)	131 8	114 2	20 0	26 7	20 1	22 1
External sector						
Exports (f o b)	28 5	2 9	12 7	17 8	6 1	5 3
Export volume	22 8	0 4	4 8	5 6	6 3	10 6
Imports (f o b)	6 9	54 6	23 9	27 3	10 7	24 1
Import volume	1 2	45 9	20 9	23 3	4 5	22 4
Terms of trade	-1 0	-2 5	4 9	8 1	5 8	6 1
Nominal effective exchange rate						
Average (depreciation)	57 8	40 6	0 6	6 0		6 9
End of period	56 7	5 5	4 3	8 1		4 7
Real effective exchange rate						
Average (depreciation)	8 0	23 8	7 8	2 3		6 6
End of period	3 3	29 2	0 4	6 6		5 9
Nonfinancial public sector						
Receipts	137 1	98 7	25 6	29 5	18 7	19 2
Outlays	140 4	84 1	6 8	23 4	9 9	3 0
Money and credit 4/						
Domestic credit (net)	107 6	72 4	45 4	30 4	24 4	
Public sector (net)	65 3	40 4	8 4	7 0	2 4	
Private sector	55 0	38 9	46 6	42 5	27 9	
Money and quasi money (M 2)	141 0	42 2	43 0	45 8	25 4	34 6
Real growth in M-4	0 1	4 8	25 7	12 8	7 0	9 4
Velocity (GDP/M-4)	3 3	3 6	3 1	2 7	2 4	2 5
Interest rate on one-month treasury bill (percent per month)	8 0	5 8	3 8	2 9	2 3	1 6
	(Percent of GDP)					
Public sector savings	9 8	-6 5	0 9	1 2	3 8	5 7
Public sector savings (adjusted) 5/	7 2	0 5	2 8	6 7	6 6	8 4
Public sector economic balance	15 0	-11 5	5 2	-3 6	-1 0	0 6
Foreign financing	2 6	0 3	0 4	0 9	0 8	1 0
Primary fiscal balance	5 0	5 9	7 9	8 0	6 9	6 2
Operational balance	2 0	4 5	-1 6	1 2	1 8	3 2
Public sector borrowing requirement	15 8	13 0	5 6	3 4	2 0	0 4
Gross domestic investment	19 2	21 2	20 0	21 0	21 1	22 1
Gross national savings	22 2	19 8	18 1	18 3	18 4	18 3
External current account deficit (-) 6/	3 0	-1 4	-1 9	-2 7	-2 7	3 8
Public external debt (including IMF) 8/	61 5	49 7	39 1	35 8	31 0	31 0
Interest payments on public debt 6/9/	4 3	4 1	3 6	2 7	2 6	2 4
	(In percent of exports of goods, nonfactor services, and transfers)					
Public debt service 10/						
Before rescheduling	87 8	85 4	62 7	50 0	32 1	33 8
After rescheduling	40 4	51 0	33 8	28 0	26 4	28 4
	(In billions of U S. dollars)					
Overall balance of payments	6 6	-6 8	1 1	3 4	1 0	5 0
Gross official reserves end of peri (months of imports)	13 5	4 2	3 8	4 9	4 0	5 5

Sources Bank of Mexico Secretariat of Programming and Budget and Fund staff estimates

1/ Based on an average oil price of US$18 8 a barrel
2/ Based on an average oil price of US$17 a barrel and original projection of GDP
3/ Based on an average oil price of US$14 8 a barrel and a revised projection of GDP excluding proceeds from the sale of public enterprises
4/ In relation to total liabilities to the private sector at the beginning of the period
5/ Adjusted to include as savings the inflation component of interest payments
6/ Includes interest relief from debt and debt-service reduction operations except the payment of the interest rebate by commercial banks in 1990
7/ Excludes interest relief from the commercial bank financing package
8/ Includes short-term debt
9/ Includes debt service on use of Fund credit
10/ Excluding gold balances under bilateral payments accounts and contingency fund

Table 2 Mexico Performance Criteria for the Extended Arrangement in 1991

	March	June	Sept	Dec
	(In billions of Mexican pesos)			
Overall public sector borrowing requirement 1/2/3/	-3 172			
Ceiling				
Unadjusted	2 960	5 700	11 000	16 000
Adjusted 4/	611	-4 028		
Excess (-)/margin (+)	3 783			
Nonfinancial public sector operational surplus 1/2/5/	14 572			
Target				
Unadjusted	6 700	11 300	12 000	14 000
Adjusted 4/	9 049	21 028		
Excess (-)/margin (+)	5 523			
Changes in net domestic assets of the monetary authorities (effective flows) 1/2/3/6/	-10 910	-22 713		
Ceiling				
Unadjusted	-2 766	-1 869	-2 686	4 290
Adjusted 4/	-4 069	-7 004		
Excess (-)/margin (+)	6 840	15 709		
Net credit to the nonfinancial public sector by the monetary authorities 2/7/	30 146			
Ceiling				
Unadjusted	37 034	37 917	37 034	44 233
Adjusted 4/	35 731	32 782		
Excess (-)/margin (+)	5 585			
Primary surplus	18 254	42 231		
Target 1/2/3/				
Unadjusted	14 240	29 600	42 370	54 810
Adjusted 4/	16 589	39 328		
Excess (-)/margin (+)	1 665	2 903		
	(In millions of U S dollars)			
Net foreign borrowing by the public sector 1/2/	-29			
Ceiling				
Unadjusted	237	891	1 303	2 000
Adjusted 4/	237	891		
Excess (-)/margin (+)	266			
Change in net international reserves of the monetary authorities 1/2/8/	3 148	7 247		
Target				
Unadjusted	400	600	800	1 000
Adjusted 4/	840	2 321		
Excess (-)/margin (+)	2 308	4 925		

Source Mexican authorities and Fund staff estimates

1/ Cumulative changes from end-1990
2/ Limit tested at the end of each period
3/ Effective flows of financing measured on a cash basis
4/ Adjusted for oil prices and revenues from privatization
5/ Defined as the difference between the overall economic deficit and the inflation component of interest payments on the public sector debt denominated in local currency
6/ Net domestic assets of the Bank of Mexico for purposes of the ceiling are defined as the difference between note issue and net international reserves of the Bank of Mexico
7/ Effective stocks calculated by adding effective flows to the nominal stock of Mex$40 070 billion outstanding as of the end of 1990
8/ Includes foreign currency proceeds from the sale of public enterprises

Table 3 Mexico Summary Balance of Payments 1989-91

(In billions of U S dollars)

	1989	1990	Prog 1991	Proj 1991
Current account 1/	-3 96	-6 38	-7 07	-10 64
(excluding petroleum)	-11 84	-16 49	-16 72	-19 12
Merchandise trade f o b	2 40	0 61	-0 72	-4 96
Exports	25 81	30 41	32 27	32 03
Petroleum and derivatives	7 88	10 10	9 65	8 48
Other	17 94	20 30	22 62	23 55
Imports	-23 41	-29 80	-32 99	-36 99
Factor income	-7 80	-7 57	-7 29	-6 87
Interest on public debt	-7 50	-7 52	-6 92	-6 63
Other interest payments	-1 78	-1 50	-1 66	-1 64
Other	1 48	1 44	1 29	1 41
Other services and transfers	1 44	0 58	0 94	1 18
Travel	1 41	1 46	1 65	2 12
Border transactions	-0 89	-1 52	-1 61	-1 64
Other	0 92	0 64	0 90	0 71
Capital account	2 88	9 80	8 07	15 67
Official capital	0 19	-0 89	-1 63	-1 41
Commercial banks	-0 25	1 91	-0 72	-0 54
Multilaterals	0 47	2 72	1 38	0 62
Bilaterals and suppliers 2/	1 15	2 08	0 99	1 53
Other (including short term) 3/	-1 17	-7 60	-3 29	-3 01
Private capital	2 69	10 69	9 70	17 08
Interest earnings abroad	-1 86	-1 64	-1 39	-1 26
Direct investment 4/	1 88	2 55	4 75	3 14
Net external credits	-0 17	5 40	2 55	6 35
Debt equity	0 39	0 08	0 60	0 45
Other payments errors and omissions	2 45	4 30	3 19	8 39
Net international reserves (increase -)	1 08	-3 41	-1 00	-5 02
Memorandum items				
Interest obligations before restructurings	-7 67	-8 52	-8 13	-7 54
Current account before restructurings	-4 14	-7 38	-8 28	-11 56
As percent of GDP				
Current account balance (after restructuring)	-1 9	-2 7	-2 7	-3 8
Gross international reserves 5/	6 09	9 78	11 05	14 61
In months of				
Merchandise imports	3 1	3 9	4 0	4 7
Imports plus interest payments	2 4	3 1	3 3	4 0
Gross international reserves (including Contingency Fund)	6 09	10 63	13 90	17 32
In months of merchandise imports	3 1	4 3	5 1	5 6
Crude oil export volume (mns of bbl/day)	1 28	1 27	1 36	1 36
Average crude oil price (US$/bbl)	15 62	19 22	17 00	14 81

1/ Reflects debt and debt-service reduction op and debt restructuring except the interest rebate
2/ Including CCC and Paris Club rescheduling
3/ Reflects the investment abroad of the external proceeds from privatizations (Contingency Fund)
4/ Includes the proceeds from privatization (US$2 7 billion in 1991)
5/ End of period excluding gold and balances under bilateral payments acc and Contingency Fund

Nicaragua EW

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INTERNATIONAL MONETARY FUND

WASHINGTON, D.C. 20431

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TO

NAME Lic. Miguel Mancera, Director General

AGENCY Banco de Mexico

CITY/COUNTRY Mexico, D.F., Mexico

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FROM

NAME S. T. Beza

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AUTHORIZED BY (TYPE) S. T. Beza	SIGNATURE

SEC-56, REV. 4
12-3-90

INTERNATIONAL MONETARY FUND
WASHINGTON D C 20431

MANAGING DIRECTOR

September 9, 1991

CABLE ADDRESS
INTERFUND

Dear Sirs

I wish to inform you that the staff has reached understandings with the Minister of Finance and the President of the Central Bank of Nicaragua on a Memorandum of Economic Policy for the period 1991 and 1992 The authorities have indicated that they are requesting that the Fund grant a stand-by arrangement in an amount equivalent to SDR 40 86 million, in support of the objectives and policies stated in the Economic Memorandum It is intended that this request would be considered by the Executive Board, on the basis of my recommendation, on or about September 18, 1991 Upon approval by the Executive Board of this arrangement, expected to take place on or about September 18, 1991, an initial purchase equivalent to SDR 17 03 million would immediately become available to Nicaragua

Given the objectives and policies for 1991-92 as set forth in the Economic Memorandum, I am prepared to recommend that the Executive Board approve the requested arrangement from the Fund

Sincerely,

Michel Camdessus
Chairman of the Executive Board
and Managing Director

Dr Francisco Ortega
Presidente
Banco de la Republica
Carrera 7a No 14-78
Bogota, Colombia

Dr Pedro Tinoco
Presidente
Banco Central de Venezuela
Esquina Carmelitas, Apdo 2017
Caracas, Venezuela

Lic Miguel Mancera
Director General
Banco de Mexico
5 de mayo No 2, 5to piso
Mexico D F , Mexico

Don Rafael Gomez Perezagua
Director General
Instituto de Credito Oficial
28004, Madrid, Spain

cc Federal Reserve Bank of New York
Federal Reserve P O Station
33 Liberty Street
New York, NY 10045

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ORIG: SEC
CC: MD
DMD
MR. TORRES
WHD
MR. P. ANDREWS

mexico

No. 811

The Embassy of Mexico presents its compliments to Their Excellencies Messieurs and Mesdames the Chiefs of the Diplomatic Missions and International Organizations and regrets to inform them of the passing away, this past September 3, of the Illustrious Mexican diplomat, Ambassador Alfonso GARCIA ROBLES, former Secretary of Foreign Affairs of Mexico who was awarded the Nobel Peace Prize in 1982.

Enclosed please find brief biographical information on this distinguised Mexican diplomat.

The Embassy of Mexico avails itself of this opportunity to renew to the Chiefs of the Diplomatic Missions and International Organizations the assurances of its distinguished consideration.

Washington, D.C., September 4, 1991.

ALL DIPLOMATIC MISSIONS AND
INTERNATIONAL ORGANIZATIONS
WASHINGTON, D.C.

Profile of Ambassador Alfonso García Robles

Born on March 20, 1911, in Zamora, Michoacan

Began studying law at the National University, in Mexico City, and completed his studies in Europe, where he traveled in 1934 His law degree is from the University of Paris, France, being one of the two honor students to graduate in 1936 from the Institute of Higher International Studies

In 1938 he is awarded the Diploma of the International School of Law in The Hague

Shortly afterwards, Garcia Robles publishes his first books in French

- *LE PANAMERICANISME ET LA POLITIQUE DE BON VOISINAGE*

and

- *LA QUESTION DU PETROLE AU MEXIQUE ET LE DROIT INTERNATIONAL*

In 1939 joins the Mexican Foreign Service, and is posted to the Mexican diplomatic mission in Stockholm with the rank of Third Secretary

In 1941, he is transferred to Mexico to occupy the position of Deputy Director for Political Affairs and the Foreign Service at the Secretariat of Foreign Affairs

In his capacity as Secretary of International Affairs of the National Peace Planning Commission, Mr Garcia Robles formed part of the Mexican delegation to the San Francisco Conference at which the United Nations was formed and the next year he joined the United Nations Secretariat, where he served until 1957

In 1957, he returns to the Secretariat of Foreign Affairs in Mexico City, as Director in Chief for European, Asian, African and International Organizations' Affairs

From 1961 to 1964, he is posted to Brazil as Ambassador of Mexico, and in 1964 becomes Deputy Secretary of Foreign Affairs, position which he holds until 1970

During the second half of the 1970s, Garcia Robles chairs all Mexico City meetings for the military denuclearization of Latin America, which culminate with the opening for signature, on February 14, 1967, of the Treaty for the Prohibition of Nuclear Weapons in Latin America, also known as the "Tlatelolco Treaty"

In December 1970, Garcia Robles returns to New York as the Permanent Representative of Mexico to the United Nations

In December 1975, is appointed Secretary of Foreign Affairs of Mexico, and occupies this position throughout 1976 In January 1977, becomes the Permanent Representative of Mexico to the U N Disarmament Committee, in Geneva

In 1981, he is given the title of Ambassador Emeritus of Mexico, and the following year is awarded the Nobel Peace Prize, thus becoming the first Mexican ever to receive that distinction

Alfonso Garcia Robles died on September 3, 1991, in Mexico City, from kidney failure, when he was 80 years old

F

Office Memorandum

To The Acting Managing Director — August 22, 1991

From S T Beza

Subject Mexico--Briefing Paper

Attached is the briefing for the 1991 Article IV consultation discussions and the mid-term review for the third year under the extended arrangement with Mexico

Mexican economic performance has been satisfactory, but the staff is concerned about the continuing real effective appreciation of the peso and about the deteriorating external current account balance Maintenance of the current exchange rate policy may need to be supported by a tighter fiscal policy than that contemplated under the original program, and exchange rate policy needs to be under close scrutiny These issues will be discussed with the Mexican representatives, but in view of the positive developments thus far and the widely accepted success of the program, it may not be realistic to expect that the authorities will be ready to adjust policies at this time as preventive action

The briefing has been reviewed by the following departments

Exchange and Trade Relations	Mr Stuart
Fiscal Affairs	Mrs Liuksila
Legal	Mr Ogoola
Treasurer's	Mr Lake
Western Hemisphere	Messrs van Beek, Kreis, and myself

Attachments

cc The Managing Director (o/r)
Mr Andrews

Contributors
Eliot Kalter (WHD)
Sharmini Coorey (WHD)

Mexico--Summary of Briefing for Mission

1 Head of mission — Claudio Loser (WHD)

2 Purpose of mission — 1991 Article IV Consultation and Review Under the Extended Arrangement

3 Dates — August 26-September 6, 1991

4 Background

To date, Mexico has made all purchases available under the arrangement Economic developments under the program generally have been satisfactory Fiscal performance has been strong, reflecting a large primary surplus and the continued decline in domestic interest rates Economic growth is picking up and the inflation rate is declining, although it may not be dropping as fast as planned Also, the peso has continued to appreciate in real effective terms and the external current account deficit has been higher than projected Up to now the external current account deficit has been more than financed by private capital inflows, and this has made possible a sizeable increase in foreign reserves

5 Main issues

Despite the substantial achievements by Mexico, there are risks in the current economic situation Inflation remains high compared with that of Mexico's trading partners in light of the announced pace of depreciation of the peso in relation to the U S dollar This together with recent increases in wages may be leading to a weakening of competitiveness The private capital flows that have been financing the current account deficit and the improvement of international reserves include a large element of short-term, potentially volatile, financial investment

The mission will assess the adequacy of the current policy stance with particular emphasis on developments in inflation and the balance of payments The pace of inflation (although declining) and real appreciation of the peso underscore the need for a close monitoring of the policy stance to ensure that it is adjusted in time if necessary Maintenance of the current exchange rate policy may require the support of tighter fiscal policy than that contemplated under the program Moreover, the mission will caution the authorities against fixing the exchange rate unless the rate of inflation in Mexico is reduced, and it is safe to assume that cost-price inflation in Mexico can be maintained at the pace prevailing in its major trading partners

The authorities may request an extension of the extended arrangement for a fourth year but a decision is not needed until later this year The case will be made that in current circumstances Mexico may not be in need of Fund resources after the third program year, however, the authorities may consider that a one-year extension could provide a useful transition in the use of Fund resources (but the staff would note that exposure to Mexico will need to be reduced) Alternatively, the Fund could provide a monitoring of developments and prospects in the context of the Article IV consultation, supplemented by periodic staff visits

Mexico has approved the quota increase and Third Amendment

CONTAINS CONFIDENTIAL INFORMATION

INTERNATIONAL MONETARY FUND

Briefing Paper - Mission to Mexico

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations, Fiscal Affairs, Legal, Research, and Treasurer's Departments)

Approved by S T Beza and Brian C Stuart

August 22, 1991

A mission consisting of Mr Loser (Head), Mr Reichmann, Mr Kalter, Ms Coorey (all WHD), Mr Szymczak (ETR), Mr Lizondo (RES) and Mrs Sheffer (Assistant-INS) is scheduled to visit Mexico City for about three weeks beginning August 26, 1991 to conduct the 1991 Article IV consultation discussions and the mid-term review of the third year under the extended arrangement Messrs Loser and Reichmann will join the mission on August 29

Mexico's three-year extended arrangement was approved on May 26, 1989 in an amount equivalent to SDR 2,797 2 million (240 percent of quota), including set asides of 30 percent of the amount of the arrangement for debt reduction operations The last Article IV consultation with Mexico was completed on August 27, 1990 (EBS/90/144 and SM/90/169) At that time Directors commended the policies pursued by the authorities and agreed that Mexico had made significant progress in addressing its macroeconomic and structural problems However, concern was noted about the persistence of inflation

On January 29, 1990 the Executive Board approved the release and acceleration of set asides through end-1990 and an augmentation of the arrangement by the equivalent of 40 percent of quota for interest support in connection with debt and debt-service reduction operations On April 27, 1991 the Executive Board approved the third year of the extended arrangement, at that time, upon the request of the Mexican authorities, the Board decided to discontinue the designation of set asides for debt reduction

To date, Mexico has made all available purchases under the arrangement for a total of SDR 2,564 1 million At end-June 1991, total Fund credit to Mexico, including drawings under the EFF, the CCFF, emergency assistance, and previous arrangements, stood at SDR 4,634 million or the equivalent of

397 6 percent of Mexico's quota 1/ Under the terms of the arrangement, the forthcoming review with the Fund on the implementation of the economic program for 1991 was to be completed by September 30, 1991, it is now most likely to be completed later, applying to the drawing based on end-September performance

Mexico has accepted the obligations under Article VIII and is on the standard 12-month cycle Mexico also has accepted the Third Amendment of the Articles of Agreement and consented to the quota increase under the Ninth General Review of Quotas

I Background and Developments Under the Program

Economic developments under the program continue to be satisfactory Real GDP grew by 5 3 percent from the second quarter of 1990 to the same period in 1991, while the 12-month rate of inflation declined from 30 percent in December 1990 to 22 percent in July 1991 Real wages in manufacturing, which increased by 3 percent in 1990, are estimated to have increased at about the same rate from the first quarter of 1990 to the first quarter of 1991

The peso appreciated by 10 5 percent in real effective terms over the 12 months ended June 1991 and by 7 5 percent since December 1990 (Chart 1) The current account deficit widened to US$2 9 billion or about 3 5 percent of GDP in the first four months of the year While the value of oil exports was lower than programmed, higher non-oil exports led to a 13 percent increase in the U S dollar value of total exports during the first four months of 1991 with respect to the same period of 1990, notwithstanding the recession in Mexico's main trading partners Substantial private capital inflows, including large short-term foreign borrowing by Mexican commercial banks more than financed the current account deficit and made possible an increase in the net international reserves of some US$7 6 billion in the first half of 1991, compared with an adjusted program target of US$2 3 billion 2/

Fiscal performance was strong in the first quarter of 1991 Non-tax revenue (excluding from petroleum) was higher than programmed while non-interest expenditure was broadly as programmed As a result, the primary surplus including proceeds from privatization amounted to about 10 percent

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1/ Details of Mexico's relations with the Fund are presented in the Attachment

2/ The program target is adjusted for developments in oil prices and revenues received from privatization Revenues received from privatization in foreign currency totalled US$2 7 billion in the first half of the year of GDP, compared with an adjusted program target of 8 5 percent 1/ The operational surplus was 7 5 percent of GDP, compared with an adjusted program surplus of 4 7 percent of GDP With the continued decline in nominal interest payments, the overall balance (including financial intermediation by development banks) registered a surplus of 2 0 percent of GDP, compared with an adjusted program deficit of 0 3 percent of GDP

The public sector undertook virtually no net foreign borrowing in the first quarter of 1991, compared with net borrowing of US$237 million permitted under the program Net credit from the Bank of Mexico to the public sector declined by Mex$7 4 trillion or by about 3 8 percent of GDP compared with a programmed decline of Mex$4 3 trillion (Table 1), mainly reflecting the strong fiscal performance during the period The net domestic assets of the Bank of Mexico declined by Mex$11 trillion compared with a programmed decline of Mex$4 trillion for the period

The 12-month rate of growth in real terms of private sector financial savings (M-4) increased from 13 percent in December 1990 to 16 percent in May 1991, but remained at around 46 percent in nominal terms The narrower monetary aggregates grew more rapidly, in real terms, M-2 increased by 26 percent in the year ended May 1991 (57 percent in nominal terms) compared with 12 percent in the year ended December 1990 (46 percent in nominal terms), while the rate of growth in real terms of currency in the same period rose from 5 percent to 18 percent (48 percent in nominal terms) The 12-month increase in commercial bank credit to the private sector is estimated to have reached 34 percent in real terms in March 1991 from 27 percent in December 1990, reflecting in part financing requirements associated with the privatization of commercial banks The nominal one-month treasury bill annual rate fell to around 17 percent in August 1991 from 26 percent in December 1990

II Policy Issues

The review of developments under the extended arrangement will take place against the background of substantial economic achievements in Mexico Real GDP growth has picked up in recent years, while structural reforms, particularly in the areas of privatization, finance, and trade continued to be deepened The marked improvement in the public finances has been supported by a comprehensive debt restructuring package with the commercial banks These factors have contributed to a strengthening of confidence as reflected by the fall in nominal and real domestic interest rates along with sizable private capital inflows, which in turn have allowed a large accumulation of net international reserves

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1/ Revenue received from privatization was equivalent to 2 percent of GDP in the first quarter of the year

Despite these positive developments, there remain several risks in the current economic situation Inflation, although decelerating, remains high compared with that of Mexico's trading partners, especially in view of the pace of the announced depreciation of the peso against the U S dollar Together with the recent increase in real wages, this may give rise to a possible weakening of competitiveness Strong growth in domestic demand and the real effective appreciation of the peso have contributed to a further significant widening of the current account deficit, from 2 7 percent of GDP in 1990 to 3 6 percent projected in 1991 (Table 2) Private capital flows have been substantial but they include a large element of short-term, potentially volatile, financial investments In particular, Mexico's commercial banks have increased their short-term external indebtedness and this has been the basis of an acceleration in credit to the private sector

The mission will assess the adequacy of the current policy stance with particular emphasis on the inflation and balance of payments consequences The continuation of inflation, notwithstanding its recent decline, along with the real appreciation of the peso underscore the need for a cautious policy stance In this connection, the staff will emphasize that in current circumstances maintenance of the existing exchange rate policy may suggest the need for a tighter fiscal policy than under the original 1991 program

a Fiscal policy

In the program the PSBR was projected to decline from 3 5 percent of GDP in 1990 to 1 9 percent of GDP in 1991, while the operational surplus was to remain approximately unchanged at 1 8 percent of GDP Taking into account the originally projected decline in domestic nominal interest rates, this performance was expected to be consistent with a reduction in the primary surplus from 8 1 percent of GDP in 1990 to 6 7 percent of GDP in 1991

Domestic interest rates declined in the first half of 1991 to levels well below those assumed in the program, leaving a margin for the achievement of the objective for the PSBR Nevertheless, the mission will stress that the greater than programmed fiscal effort at the level of the primary balance that has occurred so far this year should continue until there is clear evidence that inflation is declining as targeted on a sustainable basis This should be sought mainly through tighter control on expenditure

The mission also will discuss the fiscal stance in a longer term perspective, and in this regard it will review the authorities' intention with respect to policies for 1992 and beyond Furthermore, the staff will also assess developments in the area of poverty and income distribution 1/

1/ Developments in the area of poverty and income distribution were discussed in SM/90/169, August 20, 1990, Appendix I b Monetary and credit policy

The continued decline in nominal and real interest rates along with an increase of the average maturity of government debt instruments is a positive development However, the recent growth in the money aggregates should be viewed with caution, particularly as the strength of domestic demand has been in part a reflection of the rapid increase in credit to the private sector by the banking system In this connection it is likely that external borrowing by commercial banks (which increased by US$2 6 billion in the first four months of 1991) weakened the ability of the monetary authorities to control credit The staff will discuss this issue with the authorities including the extent of government guarantees implicitly anticipated by the private sector, and will review the recent introduction of specific liquidity requirements for commercial banks with regard to their external short-term borrowing

The authorities are in the process of privatizing Mexico's commercial banks. The five banks sold to date have been actively bid for by the private sector, resulting in higher prices than expected The mission will review developments in this area, including the nature of financing obtained by the private sector to purchase these banks The new supervisory and regulatory framework that is being developed also will be discussed The forthcoming Recent Economic Developments paper will include a discussion of issues arising in connection with financial liberalization and privatization in Mexico

c External policies

In November 1990, the nominal rate of depreciation of the peso with respect to the U S dollar was reduced from an annual rate of 10 percent to 5 percent Together with the recent appreciation of the U S dollar vis-a-vis other major currencies and the continued inflation differential between Mexico and its trading partners, this exchange rate policy has resulted in the appreciation of the peso in real effective terms noted above Although the recent structural reforms and the start of negotiations on a North American Free Trade Agreement (NAFTA) have enhanced the attractiveness of investing in Mexico, the rise in the real exchange rate may not be consistent with the broad objectives of the program In this connection, the mission will impress on the authorities the need to keep the exchange rate under close scrutiny to ensure that the balance of payments objectives of the program are not put at risk

The authorities view the policy of a small, pre-announced daily adjustment of the exchange rate as helping consolidate confidence and they consider that a progressive deceleration of the rate of nominal depreciation would help reduce inflation The mission will caution the authorities against taking the further step of rigidly fixing the exchange rate in relation to the U S dollar unless the rate of inflation in Mexico is brought down to that of its major trading partners on a sustained basis The mission will note that maintaining a low daily rate of depreciation, but subject to corrective actions, may serve Mexico better than an outright fixed exchange rate policy at this time

At present, there is virtually no differential between the free and controlled foreign exchange rates The staff will urge the authorities to take advantage of the small differential to unify the exchange markets

Since 1990, the Mexican government gradually has been regaining increased access to voluntary financing in international capital markets 1/ Moreover, unlike in 1990, the authorities appear to have gained access to diverse markets without the need to resort to collateralization of debt instruments The mission will review with the authorities the process of re-entry into international capital markets

In December 1990 the authorities established a Contingency Fund to deposit the proceeds from the sale of TELMEX and the commercial banks As of end-June 1991, the Contingency Fund amounted to the equivalent of US$4 5 billion of which US$2 7 billion was in U S dollars The authorities have expressed interest in using these funds for debt buy-back operations In addition, the government recently completed an auction that restructured US$1 2 billion of interbank debt accumulated before 1982 The mission will review with the authorities developments and policies with regard to Mexico's external debt The forthcoming RED paper will include a presentation of the restoration of access to voluntary international capital market financing

The Government is working to consolidate the gains from opening Mexico's economy further through a number of trade initiatives, including the negotiation of a NAFTA with the United States and Canada and free trade agreements with several Latin American countries The staff will discuss with the authorities progress in the negotiations so far, including the possible timing and coverage of NAFTA, its economic implications and its relationship to the Uruguay Round The Recent Economic Developments paper will include a study of Mexico's trade liberalization efforts, including regional initiatives, and structural reforms in the area of foreign direct investment undertaken since the mid-1980s

d Wage and price policies

Although the minimum wage declined by 9 percent in real terms in 1990, private sector wages are estimated to have increased by almost 3 percent in real terms The minimum wage was increased by 18 percent in November 1990 in the context of the extension of the wage-price pact (PECE) to end-1991 Wage settlements in the private sector have remained high, with some unofficial sources reporting settlements involving increases of around 22 percent a year

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1/ So far in 1991, Mexican private sector borrowers have issued about US$2 billion in bonds

Although the monthly rate of inflation declined to an annual rate of 13 percent in the second quarter of 1991, there is a risk that the inflation target of 14 percent for the year ending December 1991 may be exceeded, private sector projections place inflation for the year at up to 18 percent The staff will emphasize the need to resist further public sector wage increases and to monitor wage developments in the private sector to ensure a sufficiently prompt fiscal policy response

In general, the authorities have adjusted administrative prices on a regular basis Nevertheless, there appears to be some evidence that adjustments in controlled prices have not kept pace with increases in other prices in the first six months of 1991 The mission will urge the authorities to maintain realistic pricing policies and, more generally, to move away from existing controls In this context, the staff will discuss with the authorities their intentions with regard to the PECE when it expires in December 1991 The forthcoming Recent Economic Developments paper will include an analysis of price determination in Mexico, including the influence of wage behavior on the rate of inflation

III Access to Fund Resources

As provided for in the letter of intent signed at the beginning of the current extended arrangement in May 1989, the authorities may request an extension of the arrangement for a fourth year While the mission will discuss the issue with the authorities during the forthcoming review, a final decision does not need to be made until later this year In light of Mexico's much improved international reserve position (gross reserves have reached six months of imports), the substantial improvement in its overall economic performance and in its capacity to repay the Fund, the staff will suggest that in current circumstances Mexico does not appear to be in need of Fund resources after the end of the third program year (Table 3) However, the authorities may consider that a one-year extension of the arrangement could provide for a transition in Mexico's use of Fund credit The staff would not exclude such a possibility, but would note that this approach would have to involve reduced access to Fund resources An alternative, considering the need to provide a framework for consolidating the economic gains made during the three years of the program, may be for the Fund to provide monitoring of developments and prospects in the context of the Article IV consultation, supplemented by periodic staff visits

The 1991 Recent Economic Developments paper will contain a brief review of developments, staff studies whose content has been noted above, and the usual set of statistical appendices It will be proposed that Mexico remain on the standard 12-month consultation cycle

Attachments

cc	Mr Beza	Mr Williams
	Mr Boorman	Mr Goldstein
	Mr Gianviti	Mr Andrews
	Mr Tanzi	

Table 1 Mexico Performance Criteria for the Extended Arrangement in 1991

	March	June	Sept	Dec
(In billions of Mexican pesos)				
Overall public sector borrowing requirement 1/2/3/	-3 807			
Ceiling				
Unadjusted	2 960	5 700	11 000	16 000
Adjusted 4/	613			
Excess (-)/margin (+)	4 420			
Nonfinancial public sector operational surplus 1/2/5/	14 503			
Target				
Unadjusted	6 700	11 300	12 000	14 000
Adjusted 4/	9 047			
Excess (-)/margin (+)	5 455			
Changes in net domestic assets of the monetary authorities (effective flows) 1/2/3/6/	-11 037			
Ceiling				
Unadjusted	-2 766	-1 869	-2 686	4 290
Adjusted 4/	-4 067			
Excess (-)/margin (+)	6 970			
Net credit to the nonfinancial public sector by the monetary authorities 2/7/	32 689			
Ceiling				
Unadjusted	37 034	37 917	37 034	44 233
Adjusted 4/	35 733			
Excess (-)/margin (+)	3 044			
Primary surplus	19 153			
Target 1/2/3/				
Unadjusted	14 240	29 600	42 370	54 810
Adjusted 4/	16 587			
Excess (-)/margin (+)	2 565			
(In millions of U S dollars)				
Net foreign borrowing by the public sector 1/2/	-29			
Ceiling				
Unadjusted	237	891	1 303	2 000
Adjusted 4/	237			
Excess (-)/margin (+)	266			
Change in net international reserves of the monetary authorities 1/2/	3 148			
Target				
Unadjusted	400	600	800	1 000
Adjusted 4/	839			
Excess (-)/margin (+)	2 309			

Source Mexican authorities and Fund staff estimates

1/ Cumulative changes from end-1990
2/ Limit tested at the end of each period
3/ Effective flows of financing measured on a cash basis
4/ Adjusted for oil prices and revenues from privatization
5/ Defined as the difference between the overall economic deficit and the inflation component of interest payments on the public sector debt denominated in local currency
6/ Net domestic assets of the Bank of Mexico for purposes of the ceiling are defined as the difference between note issue and net international reserves of the Bank of Mexico
7/ Effective stocks calculated by adding effective flows to the nominal stock of Mex$40 070 billion outstanding as of the end of 1990

Table 2 Mexico Selected Economic and Financial Indicators

	1987	1988	1989	1990 Prog 1/	1990 Est 2/	1991 Prog 3/	1991 Proj 4/
(Annual percentage change unless otherwise specified)							
Income and prices							
Real GDP	1 6	1 4	3 1	3 5	3 9	3 0-3 5	4 0
GDP deflator	140 5	101 8	21 1	18 9	27 0	18 9	19 3
Consumer prices (end of year)	159 2	51 7	19 7	15 0	29 9	14 0	14 0
Consumer prices (average)	131 8	114 2	20 0	17 8	26 6	20 1	21 1
Consumer prices (monthly average)	8 3	3 6	1 5	1 2	2 2	1 1	1 1
External sector							
Exports (f o b)	28 5	2 9	12 7	7 5	17 8	6 1	3 8
Export volume	11 7	7 7	3 6	6 1	7 7	6 3	7 5
Imports (f o b)	6 9	54 7	23 8	8 8	27 3	10 7	17 4
Import volume	2 8	46 5	18 5	6 2	26 0	4 5	15 8
Terms of trade	10 5	-9 5	4 1	-1 2	8 4	-5 8	-4 8
Nominal effective exchange rate							
Average (depreciation -)	-57 8	-40 6	0 6		-14 6		
End of period	-56 7	-5 5	-4 6		-14 2		
Real effective exchange rate							
Average (depreciation -)	-8 1	23 7	7 5		2 8		
End of period	3 3	29 1	0 4		5 5		
Nonfinancial public sector							
Receipts	137 1	98 7	25 6	16 5	29 5	18 7	18 7
Outlays	140 4	84 1	6 8	11 9	22 1	9 9	9 9
Money and credit 5/							
Domestic credit (net)	107 6	72 4	45 4	25 6	30 4	24 4	
Public sector (net)	65 3	40 9	8 4	5 8	-7 0	2 4	
Private sector	55 0	38 9	46 6	18 6	42 5	27 9	
Money and quasi-money (M-2)	141 0	42 1	43 0	28 8	42 0	25 4	
Real growth in M-4	--	4 8	25 7	10 0	11 2	7 0	
Velocity (GDP/M-4)	2 3	2 9	2 5	2 6	2 2	2 2	
Interest rate on one-month treasury bill (percent per month)	6 0	5 8	3 8		2 9		
(Percent of GDP)							
Public sector savings	-9 5	-7 1	-1 9	1 1	0 4	3 8	3 6
Public sector savings (adjusted) 6/	7 4	-0 2	1 9	4 0	5 9	6 6	6 3
Public sector economic balance	-15 0	-11 4	-5 2	-3 9	-3 3	-1 0	-1 0
Foreign financing	2 6	0 3	-0 4	---	0 9	0 8	0 7
Primary fiscal balance	5 0	5 9	8 0	6 9	8 0	6 9	6 6
Operational balance	2 0	-4 5	-1 7	-1 0	1 6	1 8	1 7
Public sector borrowing requirement	15 8	12 9	5 6	5 1	3 5	2 0	1 9
Gross domestic investment	18 5	19 7	18 8	23 4	20 1	21 1	22 0
Gross national savings	21 3	19 1	16 9	22 1	17 3	18 4	18 4
External current account deficit (-) 7/	2 8	-0 6	-1 9	-1 4 8/	-2 7	-2 7	-3 6
Public external debt (including IMF) 9/	61 3	48 8	39 4	38 9	35 1	31 0	28 4
Interest payments on public debt 7/10/	4 3	4 0	3 6	3 7 8/	2 7	2 6	2 3
(In percent of exports of goods, nonfactor services, and transfers)							
Public debt service 9/							
Before rescheduling	89 2	77 1	59 1	54 5 8/	45 5	32 1	31 8
After rescheduling	36 4	45 8	31 8	34 6 8/	24 8	26 4	26 7
(In billions of U.S. dollars)							
Overall balance of payments	6 6	-6 8	-1 1	-0 3	3 4	1 0	4 3
Gross official reserves end of period 11/ (months of imports)	12 1	3 1	3 1	2 8	3 9	4 0	6 0

Sources Bank of Mexico Secretariat of Programming and Budget; and Fund staff estimates

1/ Based on an average oil price of US$15 a barrel (unadjusted for oil price developments) and the original projection of GDP
2/ Based on an average oil price of US$18 8 a barrel
3/ Based on an average oil price of US$17 a barrel
4/ Based on an average oil price of US$16 a barrel and a revised projection of GDP
5/ In relation to total liabilities to the private sector at the beginning of the period
6/ Adjusted to include as savings the inflation component of interest payments
7/ Includes interest relief from debt and debt-service reduction operations except the payment of the interest rebate by commercial banks in 1990
8/ Excludes interest relief from the commercial bank financing package
9/ Includes short-term debt
10/ Includes debt service on use of Fund credit
11/ Excluding gold balances under bilateral payments accounts and contingency fund

Table 3 Mexico Indicators of Fund Credit 1990-2000

	Prov 1990	Prog 1991	Rev 1991	Projections 1992	1993	1994	1995	1996	1997	1998	1999	2000
<u>Outstanding Fund credit</u>												
In billion of SDRs	4 60	4 73	4 73	4 33	3 49	2 64	1 89	1 12	0 52	0 13	0 02	--
In percent of quota	395 1	405 8	405 8	371 6	299 0	226 9	162 2	96 4	44 9	11 5	1 8	--
In percent of GDP	2 7	2 6	2 4	1 9	1 4	1 0	0 6	0 3	0 1	--	--	--
In percent of exports of goods and nonfactor services	15 3	15 6	14 9	12 2	8 7	6 1	4 0	2 2	0 9	0 2	--	--
<u>Baseline scenario</u>												
<u>Debt service due to the Fund</u>												
In billion of U S dollars	1 76	1 77	1 61	1 34	1 54	1 44	1 24	1 18	0 88	0 55	0 16	0 03
In percent of quota	111 6	105 9	102 3	87 5	103 2	96 8	83 5	79 1	59 2	36 8	10 6	1 8
In percent of exports of goods and nonfactor services	4 3	4 1	3 9	2 9	3 1	2 6	2 1	1 8	1 2	0 7	0 2	--
In percent of debt service due	15 4	14 6	13 8	11 1	12 0	11 7	9 2	8 2	6 1	3 8	1 1	0 2
In percent of gross official reserves	18 0	16 0	11 6	9 0	10 2	9 0	7 3	6 5	4 8	3 0	0 9	0 1
<u>Gross Fund financing</u>												
In billion of U S dollars	2 18	1 34	1 26	0 31								
In percent of Mexico s gross financing need 1/	11 7	9 9	7 8	2 0								
<u>Alternative scenarios</u>												
<u>Lower oil export prices</u> 2/												
Debt service due to the Fund												
In percent of exports of goods and nonfactor services	4 3	4 2	3 8	2 9	3 1	2 6	2 1	1 9	1 3	0 7	0 2	--
In percent of gross off reserves	18 0	17 6	12 1	10 4	12 7	12 0	10 3	9 6	7 8	5 3	1 7	0 3
<u>Higher LIBOR</u> 3/												
Debt service due to the Fund												
In billion of U S dollars	1 76	1 90	1 73	1 46	1 64	1 52	1 30	1 22	0 90	0 56	0 16	0 03
In percent of exports of goods and nonfactor services	4 3	4 4	4 1	3 1	3 2	2 7	2 2	1 9	1 3	0 7	0 2	--
In percent of debt service due	15 4	14 7	13 4	11 3	12 0	11 5	9 1	8 0	6 0	3 7	1 1	0 2
In percent of gross off reserves	18 0	18 6	12 8	11 0	12 9	11 9	10 0	9 1	7 1	4 7	1 4	0 3
<u>Slower growth of non-oil export</u> 4/												
Debt service due to the Fund												
In percent of exports of goods and nonfactor services	4 3	4 1	3 8	2 9	3 1	2 6	2 1	1 9	1 3	0 7	0 2	--
In percent of gross off reserves	18 0	16 3	11 4	9 6	11 5	11 0	9 9	9 6	8 0	5 9	2 1	-0 1

Sources International Monetary Fund Treasurer's Department and staff projections

1/ Gross financing need is defined as the sum of the current account deficit medium- and long-term debt amortization miscellaneous capital outflows and Fund repurchases

2/ Assumes that oil export prices are US$2 per barrel lower than in the baseline scenario

3/ Assumes that LIBOR is 2 percentage points higher than in the baseline scenario

4/ Assumes that non-oil export growth is 1 percentage point slower than in the baseline scenario during the first five years of the projection period

Table 3 Mexico Indicators of Fund Credit 1990-2000

	Prov 1990	Prog 1991	Rev 1991	Projections 1992	1993	1994	1995	1996	1997	1998	1999	2000
<u>Outstanding Fund credit</u>												
In billion of SDRs	4 60	4 73	4 73	4 33	3 49	2 64	1 89	1 12	0 52	0 13	0 02	--
In percent of quota	395 1	405 8	405 8	371 6	299 0	226 9	162 2	96 4	44 9	11 5	1 8	--
In percent of GDP	2 7	2 6	2 4	1 9	1 4	1 0	0 6	0 3	0 1	--	--	--
In percent of exports of goods and nonfactor services	15 3	15 6	14 9	12 2	8 7	6 1	4 0	2 2	0 9	0 2	--	--
<u>Baseline scenario</u>												
<u>Debt service due to the Fund</u>												
In billion of U S dollars	1 76	1 77	1 61	1 34	1 54	1 44	1 24	1 18	0 88	0 55	0 16	0 03
In percent of quota	111 6	105 9	102 3	87 5	103 2	96 8	83 5	79 1	59 2	36 8	10 6	1 8
In percent of exports of goods and nonfactor services	4 3	4 1	3 9	2 9	3 1	2 6	2 1	1 8	1 2	0 7	0 2	--
In percent of debt service due	15 4	14 6	13 8	11 1	12 0	11 7	9 2	8 2	6 1	3 8	1 1	0 2
In percent of gross official reserves	18 0	16 0	11 6	9 0	10 2	9 0	7 3	6 5	4 8	3 0	0 9	0 1
<u>Gross Fund financing</u>												
In billion of U S dollars	2 18	1 34	1 26	0 31								
In percent of Mexico s gross financing need 1/	11 7	9 9	7 8	2 0								
<u>Alternative scenarios</u>												
<u>Lower oil export prices</u> 2/												
Debt service due to the Fund												
In percent of exports of goods and nonfactor services	4 3	4 2	3 8	2 9	3 1	2 6	2 1	1 9	1 3	0 7	0 2	--
In percent of gross off reserves	18 0	17 6	12 1	10 4	12 7	12 0	10 3	9 6	7 8	5 3	1 7	0 3
<u>Higher LIBOR</u> 3/												
Debt service due to the Fund												
In billion of U S dollars	1 76	1 90	1 73	1 46	1 64	1 52	1 30	1 22	0 90	0 56	0 16	0 03
In percent of exports of goods and nonfactor services	4 3	4 4	4 1	3 1	3 2	2 7	2 2	1 9	1 3	0 7	0 2	--
In percent of debt service due	15 4	14 7	13 4	11 3	12 0	11 5	9 1	8 0	6 0	3 7	1 1	0 2
In percent of gross off reserves	18 0	18 6	12 8	11 0	12 9	11 9	10 0	9 1	7 1	4 7	1 4	0 3
<u>Slower growth of non-oil export</u> 4/												
Debt service due to the Fund												
In percent of exports of goods and nonfactor services	4 3	4 1	3 8	2 9	3 1	2 6	2 1	1 9	1 3	0 7	0 2	--
In percent of gross off reserves	18 0	16 3	11 4	9 6	11 5	11 0	9 9	9 6	8 0	5 9	2 1	-0 1

Sources International Monetary Fund Treasurer s Department and staff projections

1/ Gross financing need is defined as the sum of the current account deficit medium- and long-term debt amortization miscellaneous capital outflows and Fund repurchases
2/ Assumes that oil export prices are US$2 per barrel lower than in the baseline scenario
3/ Assumes that LIBOR is 2 percentage points higher than in the baseline scenario
4/ Assumes that non-oil export growth is 1 percentage point slower than in the baseline scenario during the first five years of the projection period

Fund Relations with Mexico
(As of June 30, 1991)

I **Membership Status**

(a) Member since December 31, 1945
(b) Status - Article VIII

A Financial Relations

II **General Department (General Resources Account)**

(a) Quota SDR 1,165 5 million

		Amount in millions of SDRs	Percent of Quota
(b)	Total Fund holdings of pesos	5,817 8	499 2
(c)	Reserve tranche position	--	--
(d)	Fund credit	4,652 3	399 2
	Of which		
	Ordinary reserves	1,256 1	107 8
	Borrowed reserves	2,942 7	252 5
	Compensatory financing (Exports)	453 5	38 9

(e) Mexico accepted on January 7, 1991 the increase of its quota under the Ninth General Review

III **Stand-by or Extended Arrangement and Special Facilities**

(a) Current extended arrangement
- (i) Duration May 26, 1989 until May 25, 1992
- (ii) Amount SDR 3,263 4 million
- (iii) Utilization SDR 2,564 1 million
- (iv) Undrawn balance SDR 699 3 million

(b) Compensatory and contingency financing facility
- (i) Purchased on June 1, 1989
- (ii) Amount SDR 453 5 milion
- (iii) Utilization SDR 453 5 million

(c) Previous stand-by arrangement
- (i) Duration November 19, 1986 until April 1, 1988
- (ii) Amount SDR 1,400 million
- (iii) Utilization SDR 1,400 million

(d) Emergency assistance
- (i) Purchase in January 1986
- (ii) Amount SDR 291 4 million
- (iii) Utilization SDR 291 4 million

(e) Previous extended arrangement
(i) Duration from January 1, 1983 to December 31, 1985
(ii) Amount SDR 3,410 6 million
(iii) Utilization SDR 2,502 7 million
(iv) Undrawn balance 907 9 million

IV <u>SDR Department</u>

(a) Net cumulative allocation SDR 290 million
(b) Holdings SDR 420 3 million or the equivalent of 144 9 percent of net cumulative allocation

V <u>See attached table</u>

B <u>Nonfinancial Relations</u>

VI <u>Exchange rate arrangement</u> Since August 5, 1985 two official markets have been operative in Mexico a controlled market covering specified transactions amounting to about 70 percent of all trade and payments transactions, and a free market The controlled market rate is set under a managed float system guided by a set of indicators, whereas the free market rate is determined by market forces As of June 30, 1991 the controlled market equilibrium exchange rate was Mex$3,018 2 per U S dollar, while the average free rate was Mex$3,014 7 per U S dollar, yielding a differential between the rates in the two markets of about -0 1 percent

VII <u>Last Article IV consultation and review under EFF</u> The last Article IV consultation and review under the Extended Fund Arrangement for 1989-92 were completed by the Executive Board on August 27, 1990 The relevant supporting documents were EBS/90/144, Supplement 1 and SM/90/169 For consultation purposes, Mexico is on the 12-month cycle

VIII <u>Technical assistance</u> No technical assistance has been provided since October 1988

IX <u>Executive Board Decision No. 144-(52/51)</u> The Mexican authorities have notified the Fund under Executive Board Decision No 144-(52-51) that on August 22, 1990, pursuant to U N Security Council Resolution 661, Mexico adopted regulations involving the imposition of restrictions on payments and transfers for current international transactions with the Government of Iraq and persons in Iraq and Kuwait

XI <u>Third Amendment of the Articles of Agreement</u> Mexico accepted the Third Amendment of the Articles of Agreement on January 7, 1991

V

MEXICO Projected Payments to the Fund as at July 31 1991
(in millions of SDR's)

	Overdue	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Beyond	Total
A Obligations from Existing Drawings													
1 Principal													
a Repurchases	-	370 3	631 9	845 9	841 0	637 6	592 2	425 5	185 1	84 1	20 4		4634 1
b ESAF/SAF Repayments	-		-	-		-	-	-	-	-			
c TF Obligations	-		-	-	-	-	-	-	-	-		-	
2 Charges and Interest 1/	-	73 4	358 6	298 4	228 1	160 8	106 1	55 9	21 4	5 7	4		1308 9
Total Obligations 2/	-	443 8	990 5	1144 3	1069 2	798 4	698 3	481 4	206 5	89 8	20 8		5942 9
(percent of quota)		38 1	85 0	98 2	91 7	68 5	59 9	41 3	17 7	7 7	1 8		509 9
B Obligations from Prospective Drawings													
1 Principal													
a Repurchases	-	-	-	-	-	116 6	174 8	174 8	204 0	29 1			699 3
b ESAF/SAF Repayments	-	-	-	-	-	-	-	-	-	-	-	-	
c TF Obligations	-	-	-	-	-	-	-	-	-	-			
2 Charges and Interest 1/	-		29 6	59 1	59 2	58 6	48 4	33 5	18 7	4 4	-		311 4
Total Obligations	-		29 6	59 1	59 2	175 1	223 2	208 3	222 7	33 5			1010 7
(percent of quota)	-	-	2 5	5 1	5 1	15 0	19 1	17 9	19 1	2 9	-		86 7
C Cumulative (Existing and Prospective)													
1 Principal													
a Repurchases	-	370 3	631 9	845 9	841 0	754 1	767 0	600 3	389 1	113 2	20 4		5333 4
b ESAF/SAF Repayments	-	-	-	-	-	-	-	-	-	-	-	-	
c TF Obligations	-	-	-	-	-	-	-	-	-	-	-		
2 Charges and Interest 1/		73 4	388 2	357 4	287 3	219 4	154 5	89 3	40 1	10 0	4		1620 2
Total Obligations 2/	-	443 8	1020 1	1203 3	1128 3	973 6	921 5	689 7	429 2	123 3	20 8		6953 6
(percent of quota)	-	38 1	87 5	103 2	96 8	83 5	79 1	59 2	36 8	10 6	1 8		596 6

1/ Projections are based on current rates of charge including burden-sharing charges where applicable for purchases in the GRA and on current interest rates for SAF ESAF and Trust Fund The current SDR interest rate is assumed for net use of SDRs
2/ Overdue obligations (if applicable) will be settled in full at close of business August 1 1991

Prepared by Accounts and Financial Reports Division

Relations with the IBRD

The Bank's lending strategy

The Bank's assistance program to Mexico is designed to pursue the following objectives (a) consolidation of the stabilization effort, (b) support of incentives for efficient private sector-led growth, including the necessary infrastructure investments, particularly in transport, power, agriculture, and urban services, (c) poverty alleviation/improved social services, (d) environmental protection

Bank lending in FY 1989 focused on support to adjustment and structural reforms, whereas in FY 1990 the thrust of lending was directed at supporting the Government's debt reduction program Disbursements in FY 1990 include US$1 26 billion under the Interest Support Loan and US$750 million from set-asides from the FY 1988 and FY 1989 adjustment loans As a result, the Bank's exposure in Mexico would increase from US$6 83 billion in FY 1989 to US$10 12 billion in FY 1990, and expressed as a percentage of the Bank's total disbursed and outstanding, it would rise from 8 1 percent to 11 6 percent in the same period This calls for the implementation of a strategy that can assure the transition from adjustment to sector investment lending

In view of the above, and to achieve the Bank's objectives, lending to Mexico is undergoing significant strategic shifts (a) adjustment lending is being reduced, (b) lending in support of growth is being increased via sector investment operations--the first such financing loans are expected to be committed in the rural development and irrigation and water supply subsectors, possibly in FY 1991 and FY 1992, sector investment operations are also planned in power and infrastructure, which would be complemented with operations focusing on technology improvements in agriculture and industry, (c) environmental lending has been initiated in FY 1990 by amending the First Urban Transport Loan, which would be followed by the Federal District Air Pollution Control operation and increased sector and project preparation work, and (d) lending for the social sectors is being expanded, including regional rural development, health, and education sector operations in FY 1991-92 These would be followed by other loans for nutrition, vocational training, and low-income housing

STATUS OF BANK GROUP OPERATIONS IN MEXICO

A STATEMENT OF BANK LOANS

(As of June 30 1991)

	Credit/ Loan No	Fiscal Year	Borrower	Purpose	Bank	IDA	Undisbursed
					Amount in US$ million (less cancellation)		
	88 loans fully disbursed				9 164 21		
	Of which SECALs, SALs, Program Loans, and Interest Support a>						
	Ln 1929 ME	1981	BANOBRAS	Railway IV	149 88		
	Ln 2882 ME	1988	BANCOMEXT	Trade Policy Ln II	500 00		
	Ln 2918 ME	1988	NAFIN	Agric Sector Loan	300 00		
	Ln 3159-ME	1990	BANCOMEXT	Interest Support Loan	1,260 00		
	Ln 3207-ME	1990	BANOBRAS	Road Transport & Telecom	380 00		
	Subtotal				2,589 88		
	Ln 1706-5-ME	1979	NAFIN	Irrigation	81 80		0 54
	Ln 1858-5-ME	1980	NAFIN	Irrigation	64 40		2 98
	Ln 2428-ME	1984	BANOBRAS	Highways	200 00		47 84
	Ln 2450-ME	1984	BANPESCA	Ports	38 25		14 29
	Ln 2526 ME	1985	NAFIN	Chiapas Agric Dev	58 00		31 03
	Ln 2546-ME	1985	NAFIN	Sm/Med Mining II	105 00		1 95
	Ln 2559-ME	1985	NAFIN	Vocational Educ	81 00		1 07
	Ln 2575-ME	1985	BANOBRAS	Railways V	300 00		56 67
	Ln 2658-ME	1986	NAFIN	Proderith II	88 30		64 63
	Ln 2666 ME	1986	BANOBRAS	Municipal Strength	40 00		35 49
	Ln 2669 ME	1986	BANOBRAS	Solid Waste Pilot	25 00		15 80
*	Ln 2745 ME	1987	BANCOMEXT	Trade Policy Loan I	500 00		5 05
	Ln 2746-ME	1987	NAFIN	Industrial Recovery	150 00		11 72
	Ln 2747-ME	1987	NAFIN	Technology Dev	48 00		22 48
	Ln 2777 ME	1987	BANCOMEXT	Export Dev II	250 00		7 81
	Ln 2824-ME	1987	BANOBRAS	Urban Transport	125 00		75 60
	Ln 2837-ME	1987	NAFIN	Agricultural Credit	400 00		4 57
	Ln 2858-ME	1987	NAFIN	Sm/Med Industry IV	100 00		47 86
	Ln 2859 ME	1987	NAFIN	Agric Extension	20 00		8 27
	Ln 2875 ME	1987	BANOBRAS	Highway Maint	135 00		89 87
	Ln 2876 ME	1988	NAFIN	Manpower Training	80 00		20 30
	Ln 2916 ME	1988	NAFIN	Steel Sctr Restruct	325 00		155 89
*	Ln 2919 ME	1988	NAFIN	Fertilizer Sctr Loan	265 00		91 81
	Ln 2946 ME	1988	BANOBRAS	Ports Rehab	50 00		30 89
	Ln 2947-ME	1988	BANOBRAS	Housing Finance	300 00		16 84
*	Ln 3047-ME	1989	NAFIN	Industrial Restruct	250 00		173 29
	Ln 3083-ME	1989	NAFIN	Hydroelectric Dev	460 00		367 75
*	Ln 3085-ME	1989	BANCOMEXT	Financial Sctr Loan	487 14		1 87
*	Ln 3086-ME	1989	NAFIN	Public Ent Restruct	500 00		0 71
*	Ln 3087-ME	1989	NAFIN	Ind Sctr Policy	500 00		2 49
	Ln 3115-ME	1990	NAFIN	Forestry Dev	45 50		40 71
	Ln 3140-ME	1990	BANOBRAS	Low-Income Housng II	350 00		223 72
	Ln 3141-ME	1990	NAFIN	Agric Marketing II	100 00		19 06
	Ln 3189-ME	1990	NAFIN	Transmission & Distrib	450 00		350 86
	Ln 3208 ME	1990	BANOBRAS	Telecom Technical Assist	22 00		19 00
	Ln 3271-ME	1991	BANOBRAS	Water Supply & Sanit	300 00		270 20
	Ln 3272 ME b>	1991	NAFIN	Basic Health Care	180 00		180 00
	Ln 3309-ME	1991	BANCOMEXT	Export Sector	300 00		250 15
	Ln 3310-ME b>	1991	NAFIN	Decent & Dev	350 00		350 00
	Ln 3357-ME b>	1991	NAFIN	Agri Sector Adj II	400 00		400 00
	Ln 3358-ME b>	1991	NAFIN	Third Technical Trg	152 00		152 00
	Ln 3359-ME b>	1991	NAFIN	Mining Sector Restruc	200 00		200 00
	Total				18 040 60		3,863 06
	Of Which has been repaid				4,387 70		
	Total now held by the Bank				13,652 90		
	Amount sold		92 34				
	Of which has been repaid		92 34				
	Total Undisbursed				3 863 06		3,863 06

a> Approved during or after FY80 and fully disbursed
b> Not yet effective
*SAL, SECAL, or Program Loan under implementation

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File WB-06 91 wk1
August 16, 1991

MEXICO

B STATEMENT OF IFC INVESTMENTS
As of June 30, 1991
(US$ Million)

Fiscal Year	Obligor	Type of Business	Original Approvals Loan	Equity	Total
1958/59	Industrias Perfect Circle, S A a/	Industrial Equipment	0 80	0 00	0 80
1958	Bristol de Mexico S A a/	Aircraft Engine Overhaul	0 50	0 00	0 50
1961	Aceros Solar S A a/	Twist Drills	0 30	0 00	0 30
1962/5/6/8	Fundidora Monterray, S A a/	Steel	2 30	21 40	23 70
1963	Tubos de Acero de Mexico	Stainless Steel Pipes	0 90	0 10	1 00
1963	Quimica del Rey, S A a/	Sodium Sulphate	0 70	0 00	0 70
1964/66	Industria del Hierro S A	Construction Equipment	0 00	2 00	2 00
1970	Minera del Norte a/	Iron Ore Mining	1 50	0 00	1 50
1971	Celanese Mexicana S A a/	Textiles	12 00	0 00	12 00
1972	Promotora Papel Periodico, SACV a/	Pulp and Paper b/	0 00	0 00	0 00
1973/79	Cementos Veracruz S A a/	Cement	15 90	0 00	15 90
1974/81	Cancun Aristos Hotel a/	Tourism	1 00	0 30	1 30
1975/78	Mexinox, S A a/	Stainless Steel	12 00	3 20	15 20
1978/81/83	Papeles Ponderosa, S A a/	Pulp and Paper	10 70	5 00	15 70
1978	Tereftalatos Mexicanos, S A a/	Petrochemicals	19 00	0 00	19 00
1979/81/86	Hotel Camino Real Ixtapa S A	Tourism	0 00	4 20	4 20
1979/83	Empresas Tolteca, S A	Cement	168 00	7 90	175 90
1979/91	Conductores Monterray S A	Electrical Wire & Cable	21 40	0 00	21 40
1980	Industrias Resistol S A a/	Particle Board	25 00	0 00	25 00
1980	Vidrio Plano de Mexico S A	Flat Glass	114 90	0 00	114 90
1980	Minera Real de Angeles, S A a/	Mining	110 00	0 00	110 00
1980	Corporacion Agroindustrial S A	Agribusiness	11 30	3 00	14 30
1981/86	Celulosicos Centauro, S A a/	Pulp and Paper	59 50	0 00	59 50
1983	Capital Goods Facility a/	Capital Goods Financing	100 00	0 00	100 00
1984/87	Metalsa, S A	Auto Chassis	8 00	1 40	9 40
1984	Proteison, S A de C V a/	Agribusiness	2 00	0 80	2 80
1984/90	Promociones Industriales Mexicanas S A	Petrochemicals	36 40	0 00	36 40
1986/88	Celulosa y Papel de Durango, SA de CV	Pulp and Paper	10 00	3 10	13 10
1986	Agromex Phase I (AESA) a/	Veg and Fruit Processing	1 50	0 50	2 00
1986	Cicasa Constr Guar Fac c/	Constr Guarantee Facility	20 00	0 00	20 00
1987	Industrias Sulfamex S A de C V	Chemicals & Petrochemicals	2 00	0 50	2 50
1987	Crescent Market Aggregates	Construction Materials	37 00	0 00	37 00
1987	Sealed Power de Mexico	Auto Assembly	9 00	0 00	9 00
1988/91	Apasco, S A de C V d/	Cement & Const Materials	96 00	0 00	96 00
1988	Salumi S A de C V	Food and Food Processing	20 50	2 00	22 50
1988	Polimar (ABS), A S de C V	Petrochemicals	14 50	0 00	14 50
1989	Grupo Femsa/Visa	Consumer Goods Conglomorat	80 00	27 60	107 60
1989	Banca Serfin	Development Finance	60 00	0 00	60 00
1989	Cementos Mexicanos a/	Cement & Const Materials	68 00	0 00	68 00
1990/91	Condumex, S A de C V	Electromanufacturing	53 00	0 00	53 00
1990	Indelpro, S A de C V	Petrochemicals	30 00	0 00	30 00
1990	Banco Nacional de Mexico	Development Finance	60 00	0 00	60 00
1990	Bancomer Credit Line	Development Finance	20 00	0 00	20 00
1991	Mexico Fund d/	Money & Capital Markets	0 00	6 60	6 60
1991	Petrocel, S A	Chemicals & Petrochemicals	32 00	0 00	32 00
1991	Vitro Flotado	Glass & Related Manufac	126 00	0 00	126 00
1991	Vitro, S A	Glass & Related Manuf	0 00	10 20	10 20
1991	Vitro, S A d/ e/	Glass & Related Manufac	20 00	0 00	20 00
1991	Condumex, S A de C V d/ e/	Electromanufacturing	0 00	29 30	29 30
1991	Celular de Telefonia (CEDETEL) e/	Telecommunications	63 00	2 00	65 00
1991	Grupo Industrial Bimbo, SA de CV e/	Bakery	100 00	0 00	100 00
1991	Crescent Market Aggregates II e/	Construction Materials	13 00	0 00	13 00
	Gross Total Commitments f/		1669 60	131 10	1800 70
	Less Cancellations, Terminations, Repayments and Sales		1021 80	6 60	1028 40
	Total Commitments Now Held by IFC		647 80	124 50	772 30
	Total Undisbursed (Including Participants)		55 10	0 00	55 10

a/ Investments which have been fully cancelled terminated written off, sold redeemed or repaid
b/ US$25,000
c/ Loan amount includes guarantees of $20 million (Cicasa)
d/ Includes underwriting of $6 6 million (Mexico Fund), $20 0 million (Vitro), $30 0 million (Apasco), and $19 75 million (Condumex)
e/ Approvals not yet signed
f/ Excludes swap transactions (Banca Serfin US$6 5 million, Indelpro $6 0 million)

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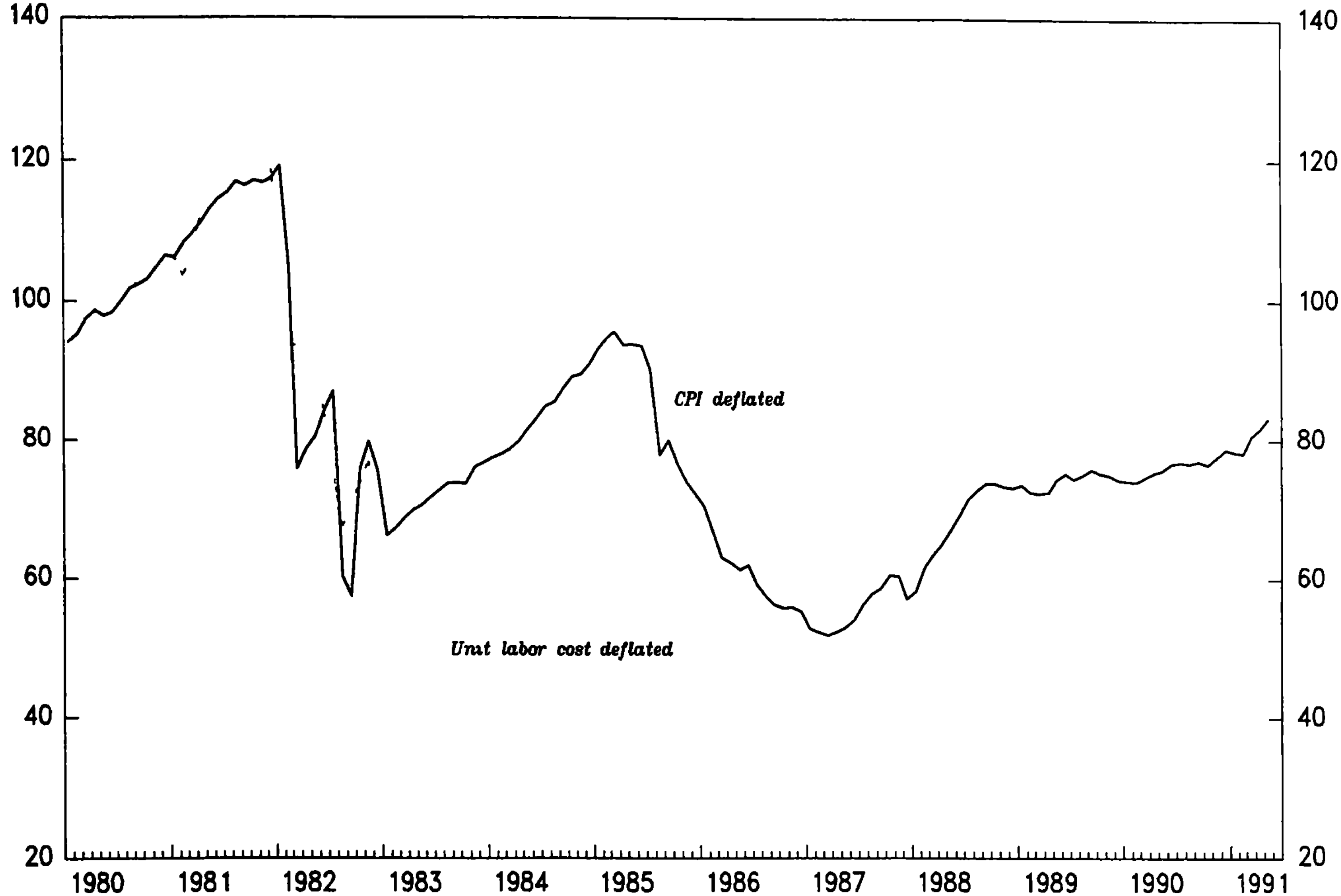
August 20, 1991

CHART 1

MEXICO

REAL EFFECTIVE EXCHANGE RATE

(Base 1980 = 100)



Source: Information Notice System, and Fund staff estimates

Mr. Beza

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Office Memorandum

To: The Acting Managing Director

August 22, 1991

From: S. T. Beza

Subject: Mexico--Briefing Paper

Attached is the briefing for the 1991 Article IV consultation discussions and the mid-term review for the third year under the extended arrangement with Mexico.

Mexican economic performance has been satisfactory, but the staff is concerned about the continuing real effective appreciation of the peso and about the deteriorating external current account balance. Maintenance of the current exchange rate policy may need to be supported by a tighter fiscal policy than that contemplated under the original program, and exchange rate policy needs to be under close scrutiny. These issues will be discussed with the Mexican representatives, but in view of the positive developments thus far and the widely accepted success of the program, it may not be realistic to expect that the authorities will be ready to adjust policies at this time as preventive action.

The briefing has been reviewed by the following departments:

Exchange and Trade Relations:	Mr. Stuart
Fiscal Affairs:	Mrs. Liuksila
Legal:	Mr. Ogoola
Treasurer's:	Mr. Lake
Western Hemisphere:	Messrs. van Beek, Kreis, and myself

Attachments

cc: The Managing Director (o/r)
Mr. Andrews

Contributors:
Eliot Kalter (WHD)
Sharmini Coorey (WHD)

Mexico--Summary of Briefing for Mission

1 Head of mission — Claudio Loser (WHD)

2 Purpose of mission — 1991 Article IV Consultation and Review Under the Extended Arrangement

3 Dates — August 26-September 6, 1991

4 Background

To date, Mexico has made all purchases available under the arrangement Economic developments under the program generally have been satisfactory Fiscal performance has been strong, reflecting a large primary surplus and the continued decline in domestic interest rates Economic growth is picking up and the inflation rate is declining, although it may not be dropping as fast as planned Also, the peso has continued to appreciate in real effective terms and the external current account deficit has been higher than projected Up to now the external current account deficit has been more than financed by private capital inflows, and this has made possible a sizeable increase in foreign reserves

5 Main issues

Despite the substantial achievements by Mexico, there are risks in the current economic situation Inflation remains high compared with that of Mexico's trading partners in light of the announced pace of depreciation of the peso in relation to the U S dollar This together with recent increases in wages may be leading to a weakening of competitiveness The private capital flows that have been financing the current account deficit and the improvement of international reserves include a large element of short-term, potentially volatile, financial investment

The mission will assess the adequacy of the current policy stance with particular emphasis on developments in inflation and the balance of payments The pace of inflation (although declining) and real appreciation of the peso underscore the need for a close monitoring of the policy stance to ensure that it is adjusted in time if necessary Maintenance of the current exchange rate policy may require the support of tighter fiscal policy than that contemplated under the program Moreover, the mission will caution the authorities against fixing the exchange rate unless the rate of inflation in Mexico is reduced, and it is safe to assume that cost-price inflation in Mexico can be maintained at the pace prevailing in its major trading partners

The authorities may request an extension of the extended arrangement for a fourth year but a decision is not needed until later this year The case will be made that in current circumstances Mexico may not be in need of Fund resources after the third program year, however, the authorities may consider that a one-year extension could provide a useful transition in the use of Fund resources (but the staff would note that exposure to Mexico will need to be reduced) Alternatively, the Fund could provide a monitoring of developments and prospects in the context of the Article IV consultation, supplemented by periodic staff visits

Mexico has approved the quota increase and Third Amendment

For your meeting with President Collor

ar 2:50

Office Memorandum

To: The Managing Director June 18, 1991

From: S. T. Beza

Subject: Mexico - Social Pact

Thank you. The Brazilian team should explore the possibility of ~~such~~ similar arrangements and tell me more about the social safety net. Pr Collor is quite concerned to give a social content to our agreement.

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You asked about the main characteristics of the Social Pact that contributed to the anti-inflation program in Mexico.

In late 1987 the Government of Mexico entered into a Pact of Economic Solidarity (PACTO) with labor unions and the main business organizations. The agreement was subsequently modified and renamed the Pact for Stability and Economic Growth (PECE), which is still in place today.

The Government's contribution to the 1987 agreement was an undertaking to tighten financial policies and a commitment to freeze public sector prices and the exchange rate during 1988 (after a significant initial adjustment of both public sector prices and the exchange rate).

The labor unions agreed that, following a salary increase at the time of the pact, there would be no further salary adjustments during the year, breaking the previous de facto indexation.

The business sector agreed to keep prices frozen for a basket of key commodities.

The pact was adjusted in subsequent years to allow for increased price and wage flexibility while the exchange rate for the peso has been depreciated relative to the U.S. dollar at a decelerating rate.

Since 1989 the Government has developed a social support program (PRONASOL) to help the poorer segments of the population in the areas of social services, education, and health.

cc: Mr. Andrews

Thank you. The Brazilian team should explore the possibility of similar arrangements and tell me more about the social safety net. President Collor is quite concerned to give a social content to our agreement.

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BANCO DE MEXICO

DIRECCION DE ORGANISMOS
Y ACUERDOS INTERNACIONALES
Av. 5 de Mayo No. 2
Col Centro
06059, México, D.F.

Fecha(Date): JUNIO 17, 1991.

No. de Paginas(No. of Pages): ________
(INCLUYENDO ESTA) (INCLUDING COVER PAGE)

FACSIMIL/BANXICO (525) 510-26-67

PARA(TO):

SR. CLAUDIO LOSER
FONDO MONETARIO INTERNACIONAL
WASHINGTON, D.C.

No. FACSIMIL 95.202.623.4661

DE(FROM):

LIC. ARIEL BUIRA
DIRECTOR DE ORGANISMOS Y ACUERDOS INTERNACIONALES

893866

MENSAJE(MESSAGE):

SE ENVIA EL MEMORANDUM DE DEFINICIONES PARA EL SEGUIMIENTO DEL PROGRAMA DE FACILIDAD AMPLIADA PARA 1991.

ATENTAMENTE,

INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.
1991 JUN 17 PM 5:44

RECEIVED
IMF FAX CENTER
1991 JUN 17 PM 4:5?

Buira
FIRMA AUTORIZADA

SI HAY ALGUN PROBLEMA CON LA TRANSMISION, FAVOR DE LLAMAR AL TELEFONO: 518-28-37 / 709-00-44 EXT. 2240 / 2242
(IF YOU HAVE ANY PROBLEM WITH THIS TRANSMISSION PLEASE CALL TELEPHONE: 518-28-37 / 709-00-44 EXT. 2240 OR 2242)

JUN 17 '91 13:56 TO 1 202 623 4661 FROM ORG. Y ACS. INTERNAC. T-489 P.01

MEMORANDUM DE DEFINICIONES DE LOS LIMITES DEL PROGRAMA PARA SU SEGUIMIENTO EN 1991.

I DEFINICION DE LAS RESERVAS INTERNACIONALES NETAS DEL BANCO DE MEXICO

Las reservas internacionales netas del Banco de Mexico serán definidas como la diferencia entre

a) el valor de sus tenencias de oro, pero no las de plata, mas su total de activos externos, y

b) todos sus pasivos con el exterior, tanto en moneda nacional como en moneda extranjera, excluyendo obligaciones con instituciones financieras internacionales y regionales con la excepcion del Fondo Monetario Internacional

Para propositos de medir las reservas internacionales netas, las tenencias fisicas de oro seran valorizadas en dólares de E E U U a la tasa contable utilizada por el Banco de Mexico al 31 de diciembre de 1990 (12,400 769 dolares de E E U U por kilogramo de oro) Las tenencias de Derechos Especiales de Giro y la posicion de reservas de Mexico en el Fondo Monetario Internacional seran valuadas en Derechos Especiales de Giro y convertidas a dolares de E E U U utilizando la canasta de valoracion del Derecho Especial de Giro Los demas activos externos (incluyendo inversiones) y pasivos con el exterior seran valorizados con base en los tipos de cambio de mercado respectivos

La transferencia de activos del Banco de Mexico al Banco Nacional de Comercio Exterior derivados de los creditos otorgados a bancos centrales de Centroamerica, sera excluida del total de Activos Internacionales para propositos de medicion de las reservas internacionales netas del Banco de Mexico, a fin de no afectar el flujo neto de reservas internacionales

De existir atrasos en el desembolso de recursos provenientes de instituciones oficiales bilaterales para financiar las amortizaciones de la carta de credito del paquete financiero de 1990 con la banca comercial, la meta de reservas internacionales netas asi como las metas asociadas se ajustaran a la baja por el monto del retraso en los desembolsos en el trimestre en cuestion

Para propositos del programa con el Fondo Monetario Internacional, los ingresos recibidos en moneda extranjera provenientes de la venta de empresas del sector publico en 1991 seran incluidos en el concepto de reservas internacionales netas del Banco de Mexico, y seran identificados explicitamente como tales Ademas, los ingresos en moneda extranjera provenientes de la venta de TELMEX recibidos en 1990 seran considerados como parte del nivel de reservas internacionales netas del Banco de Mexico a partir del primer trimestre de 1991

II DEFINICION DE LOS ACTIVOS INTERNOS NETOS DEL BANCO DE MEXICO

Los activos internos netos del Banco de Mexico seran definidos como

a) la cantidad de billetes en circulacion y

b) las tenencias de reservas internacionales netas

Para propositos de la medicion de los activos internos netos del Banco de Mexico en cualquier momento durante el programa, las variaciones mensuales de las reservas internacionales netas del Banco de Mexico, segun fueron definidas en la seccion anterior, seran convertidas a pesos usando el tipo de cambio promedio mensual que utiliza y publica el Banco de Mexico para la conversion de saldos en moneda extranjera Los cambios acumulados en las reservas internacionales netas expresados en pesos seran calculados partiendo del saldo en pesos de las reservas internacionales netas del Banco de Mexico al dia 31 de diciembre de 1990 La posicion neta de reservas internacionales del Banco de Mexico al 31 de diciembre de 1990, incluye las tenencias de oro valorizadas a la tasa contable usada por el Banco de Mexico al 31 de diciembre de 1990, y sera convertida a pesos al tipo de cambio utilizado por el Banco de México el ultimo dia habil de diciembre de 1990 ($2,945 40 pesos mexicanos por dólar de E E U U.)

III <u>DEFINICION DEL CREDITO NETO OTORGADO POR EL BANCO DE MEXICO AL SECTOR PUBLICO NO FINANCIERO</u>

El credito neto del Banco de Mexico al sector publico no financiero será definido como la diferencia entre

a) el saldo de la deuda del sector publico no financiero con el Banco de Mexico, y

b) el saldo de las disponibilidades del sector publico no financiero en el Banco de Mexico

En relacion con la definicion del citado credito neto, se destaca lo siguiente

1 La posicion del sector publico no financiero con el Banco de Mexico debera incluir los saldos de la Cuenta General de la Tesoreria de la Federacion, y el saldo de los ingresos provenientes de las ventas de empresas publicas, incluidos los ingresos por la venta de TELMEX recibidos en 1990

2 El saldo neto del credito del Banco de Mexico al sector publico no financiero, debera excluir el credito neto que el Banco de Mexico otorgue al Gobierno Federal para liquidar la carta de credito con la banca comercial, que fue otorgada para contribuir a la constitucion de garantias asociadas con el acuerdo de reestructuracion de la deuda externa mexicana

En relacion con lo señalado en (a) y (b), cualquier aumento en el saldo de la deuda del sector publico no financiero que resulte de ajustes por revalorizacion causados por cambios en la tasa contable utilizada para convertir saldos denominados en moneda extranjera a pesos mexicanos, no sera incluido como parte de la posicion acreedora o deudora del Banco de Mexico con el sector publico no financiero. Con el fin de que estos ajustes por revalorizacion sean excluidos, las variaciones mensuales en los activos netos del Banco de Mexico con el sector publico no financiero, denominados en dolares de E E U U , seran convertidos a pesos mexicanos utilizando el tipo de cambio mencionado en el apartado II Las variaciones mensuales asi obtenidas, <u>más la variacion en los activos netos del Banco de Mexico con el sector publico no financiero denominados en pesos mexicanos</u>, seran sumadas en forma acumulativa al saldo de los activos netos totales al 31 de diciembre de 1990, estimado en 40,070 miles de millones de pesos mexicanos, para determinar de esta manera el saldo del credito neto del Banco de Mexico al sector publico no financiero

El sector publico no financiero queda definido como Gobierno Federal, sector paraestatal controlado y sector paraestatal extrapresupuestal En esta definicion se excluye a los gobiernos estatales y municipales y a los intermediarios financieros del sector publico (bancos de desarrollo y fideicomisos oficiales de fomento excepto FICORCA)

IV DEFINICION DE LOS REQUERIMIENTOS FINANCIEROS DE CAJA DEL SECTOR PUBLICO (RFSP)

Los requerimientos financieros netos devengados del sector publico, se obtendran calculando la variacion efectiva del endeudamiento neto, interno y externo, del sector publico no financiero y de los intermediarios financieros del sector publico Para este proposito, el financiamiento neto otorgado por los bancos de desarrollo al sector privado no se considera como un activo para el sector publico

El total de los requerimientos financieros sera medido como la suma de

a) El endeudamiento externo neto efectivo del sector publico no financiero y de los intermediarios financieros del sector publico

b) El endeudamiento interno neto efectivo del sector publico con el Banco de Mexico (excluyendo el contratado para la constitucion de garantias asociadas al acuerdo de reestructuracion de la deuda mexicana) y la banca comercial (incluyendo las operaciones de estos bancos realizadas con fondeo del exterior)

c) La colocacion neta efectiva de Cetes, Petrobonos, Pagares, Bondes, Bibs, Tesobonos, Ajustabonos y otros valores del sector publico con el sector privado

d) Las obligaciones totales efectivas (captacion y otras) de los bancos de desarrollo con el sector privado

En relacion con lo anterior, se señala lo siguiente

1 Las operaciones de credito al sector publico por parte de FICORCA se incluiran como un renglon adicional del endeudamiento neto con el sector privado

2 El endeudamiento externo neto efectivo del sector publico, incluyendo prestamos con vencimientos a plazos menores de un año, sera medido como la diferencia entre desembolsos y amortizaciones valorizadas en dolares de E.E U U , ajustada esta por cambios en la cotizacion del dólar respecto a las otras monedas que afecten la medicion de los citados desembolsos y amortizaciones Para propositos del programa de Facilidad Ampliada con el Fondo Monetario Internacional para 1991, se excluye del endeudamiento externo el monto de los recursos que se contraten para financiar operaciones de reduccion de deuda externa apalancadas y la colocacion de bonos convertibles en el marco de la reestructuracion de las lineas interbancarias Asimismo, las transferencias de endeudamiento externo del sector publico al sector privado que se realicen en el marco de la privatización de las empresas publicas, no se consideraran como una amortizacion de la deuda de este sector Ademas, el flujo de endeudamiento externo neto reportado se incrementara por la diferencia entre el valor nominal y el valor de mercado de los instrumentos de deuda que sean convertidos mediante operaciones de canje de deuda en capital, y que sean comprados mediante operaciones apalancadas

Una vez obtenido el flujo de financiamiento externo, este sera aumentado o disminuido por la variacion efectiva en los saldos de las disponibilidades de Pemex en el exterior, y por el incremento en el valor de los Bonos Cupon Cero u otras disponibilidades del sector publico en el exterior derivados de la constitucion de garantías

3 El endeudamiento externo neto, definido en el punto 2 de este apartado, sera convertido a pesos usando el tipo de cambio promedio del mes, descrito en el apartado II del presente memorandum

4 El financiamiento interno neto al sector publico, denominado en moneda extranjera, sera calculado en flujos efectivos, esto es, los flujos nominales de financiamiento denominados en moneda extranjera, pero expresados en pesos, seran ajustados en forma tal que no incluyan el efecto de variaciones en los tipos de cambio, tal como fue descrito en el punto 2 de este apartado IV

Para convertir los requerimientos financieros del sector publico a un concepto de caja, que sera el utilizado para fines del seguimiento del programa, debe deducirsele el flujo total de intereses netos devengados no pagados por el sector publico sobre sus valores en poder de la banca multiple, del sector privado y del Banco de México

Para propositos del programa con el Fondo Monetario Internacional, los ingresos provenientes de la venta de TELMEX recibidos en pesos mexicanos durante 1990, seran descontados del saldo de la deuda interna del sector publico durante el primer trimestre de 1991 Ajustes equivalentes se aplicaran al valor de la deuda interna del sector publico para reflejar los ingresos que se reciban durante 1991, provenientes de la venta de TELMEX y de los bancos

V EL DEFICIT ECONOMICO DEVENGADO DEL SECTOR PUBLICO NO FINANCIERO

El deficit economico devengado del sector publico no financiero sera medido como la suma de

a) El endeudamiento externo neto efectivo del sector publico (definido en el punto 2 del apartado IV)

b) El endeudamiento interno neto efectivo del sector publico no financiero con el sistema financiero nacional (excluyendo el financiamiento neto que el Banco de Mexico otorgue para la constitucion de garantias asociadas con la reestructuracion de la deuda externa mexicana), incluyendo las operaciones de la banca comercial con fondeo del exterior, y deduciendo el financiamiento externo neto efectivo obtenido por la banca de desarrollo, para otorgar creditos en moneda extranjera al sector publico no financiero ya contabilizado en (a)

c) La colocacion neta en el sector privado de Cetes, Petrobonos, Pagafes, Bondes, Bibs, Tesobonos, Ajustabonos y otros valores del sector publico Las operaciones de credito al sector publico no financiero por parte de FICORCA se incluirán como un renglon adicional del endeudamiento neto con el sector privado

Para convertir el deficit economico devengado a un concepto de caja, debe deducirsele el flujo de intereses netos devengados no pagados por el sector publico no financiero sobre sus valores en poder de la banca multiple, del sector privado, del Banco de Mexico y de la banca de desarrollo Asimismo, debe restarse a este resultado el monto de los pasivos de intermediarios financieros oficiales asumidos por el Gobierno Federal Esto es asi porque se trata de un ajuste virtual contable que no corresponde a una transaccion efectiva de caja

Los ingresos provenientes de la venta de empresas publicas, incluidos los ingresos por la venta de Telmex recibidos en 1990, tanto en moneda nacional como en moneda extranjera, seran considerados como parte de los ingresos, para propositos del calculo del deficit economico, a partir del primer trimestre de 1991

VI <u>DEFINICION DEL BALANCE OPERACIONAL DEL SECTOR PUBLICO NO FINANCIERO</u>

El balance operacional del sector publico no financiero se medirá de la manera siguiente

Deficit economico devengado

menos: pasivos de los intermediarios financieros oficiales asumidos por el Gobierno Federal

menos: componente inflacionario de la deuda interna neta devengada en moneda nacional, del sector publico no financiero, despues de asunciones de pasivos de los intermediarios financieros oficiales por el Gobierno Federal

El componente inflacionario de la deuda interna neta devengada, en moneda nacional, despues de asunciones de pasivos, a su vez, se medira con base menual multiplicando la tasa de inflacion del mes correspondiente por el saldo de dicha deuda interna neta, al final del periodo anterior Esta deuda, que se estimo en 154 124 billones de pesos mexicanos al cierre de 1990, se define como la suma de los saldos de deuda neta en moneda nacional del sector publico no financiero con el sector privado, el Banco de Mexico, la banca comercial, los bancos de desarrollo y fideicomisos oficiales de fomento (sin FICORCA), despues de asunciones de pasivos

VII DEFINICION DEL SUPERAVIT PRIMARIO DE CAJA DEL SECTOR PUBLICO NO FINANCIERO

El superavit primario de caja del sector publico no financiero se define como la suma de

a) El superavit primario de caja del sector publico controlado presupuestalmente, y

b) El superavit primario de caja del sector paraestatal no financiero fuera de presupuesto

Para propositos de la medicion se señala lo siguiente

1 Los ingresos primarios del sector publico controlado presupuestalmente no incluyen los ingresos contables derivados de ganancias por operaciones de conversion de deuda a capital y de la reduccion acordada en el saldo de la deuda externa con la banca del exterior

2 El gasto primario del sector publico controlado presupuestalmente (el gasto no financiero), se integra por el gasto no programable primario pagado (participaciones, estímulos y adefas pagadas) y por el gasto programable pagado (neto de transferencias del gobierno al sector paraestatal en presupuesto)

3 Para propositos del programa con el Fondo Monetario Internacional, los ingresos provenientes de la venta de empresas publicas, incluidos los ingresos por la venta de TELMEX recibidos en 1990, tanto en moneda nacional como en moneda

extranjera, seran incluidos en el superavit primario y seran explicitamente identificados como tales

VIII DEFINICION DEL ENDEUDAMIENTO EXTERNO NETO TOTAL DEL SECTOR PUBLICO

El endeudamiento externo neto del sector publico se define como la suma de

a) El endeudamiento externo neto efectivo del sector publico definido en el punto 2 del apartado IV

b) El credito neto otorgado por el C C C

IX PRECIO DEL PETROLEO A EMPLEARSE EN EL AJUSTE RESPECTIVO

Se entiende como precio representativo del petroleo crudo mexicano, el precio promedio de exportacion que resulte de la suma de los precios oficiales del crudo Maya, del crudo Istmo y del crudo Olmeca en el mercado mundial, ponderados por sus respectivas participaciones relativas en las exportaciones totales mensuales de crudo Los precios oficiales del crudo mexicano que se utilicen en el calculo se obtendran de PEMEX

X INGRESOS PROVENIENTES DE LA VENTA DE EMPRESAS PUBLICAS

Para propositos de ajustar las metas trimestrales, el concepto de ingresos provenientes de la venta de empresas publicas incluira los montos recibidos por la venta de TELMEX (incluidos aquellos recibidos en 1990) y por la venta de bancos comerciales Estos ingresos seran clasificados por tipo de moneda ((a) moneda extranjera, y (b) pesos mexicanos), y los ingresos en moneda extranjera seran a su vez clasificados por instrumento ((a) deuda externa del gobierno mexicano, y (b) otros instrumentos) Para los propositos del ajuste, los ingresos recibidos en forma de deuda del gobierno mexicano seran considerados a su valor efectivo de mercado

En cada trimestre, el ajuste a las metas se calculará como el 85 por ciento de los ingresos acumulados recibidos hasta ese trimestre (incluyendo los ingresos recibidos en 1990) El equivalente en pesos mexicanos de los ingresos en moneda extranjera sera calculado usando el tipo de cambio promedio del trimestre correspondiente

En la medida en que los recursos sean usados para reducir la deuda externa, la meta para las reservas internacionales netas del Banco de Mexico en el trimestre correspondiente sera ajustada a la baja por el valor de la reduccion de la deuda a precios de mercado El maximo ajuste por este concepto sera igual al 85 por ciento de los ingresos recibidos en 1991 en moneda extranjera (excluyendo ingresos recibidos en forma de deuda externa del gobierno mexicano)

En caso de recibirse ingresos en forma de deuda externa del gobierno mexicano, la meta para las reservas internacionales netas del Banco de Mexico se ajustara a la baja por el 100 por ciento de esos ingresos (en adicion al ajuste mencionado en el parrafo inmediato anterior) En cada uno de estos dos casos (como en el caso de operaciones de conversion de deuda en capital), el flujo de endeudamiento neto reportado se incrementará por la diferencia entre el valor nominal y el valor de mercado de la deuda que se extingue Ademas, los limites correspondientes a los activos internos netos del Banco de Mexico y el crédito neto del Banco de Mexico al sector publico no financiero se ajustaran al alza por el equivalente en pesos mexicanos del ajuste a la meta de reservas internacionales

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FACSIMILE MESSAGE

CLEARY, GOTTLIEB, STEEN & HAMILTON
One Liberty Plaza, New York, New York 10006 (212) 225-2000
Telecopy Number: (212) 225-3999 (Gps I, II, III)

Fax Number(s). (202) 623-7499
Name· Elliott Calter
Company: IMF
City: Washington
State/Country
Tel. No.. (202) 623-8481

Mexico

From· Ana Demel
Employee ID: 01775
Direct Dial (212) 225-2412
Date· June 12, 1991
No /Pgs. (incl. cover) 3
Our File Number 24636-150

IF COPY IS ILLEGIBLE OR INCOMPLETE, PLEASE CALL (212) 225-3545 IMMEDIATELY FOR RETRANSMISSION.

Dear Elliott,

As we discussed, a copy of the letter you provided in connection with Mexico's January 1, 1991 drawing under its 1989-92 Credit Agreement and Onlending and Trade Credit Agreement follows. In addition, I am sending the form of the letter. The disbursement in question relates to the fourth Availablity Date. Your letter should therefore include the second alternative set forth in the form for paragraph three and include "March 1, 1991" in the first blank We will need ten (10) signed originals of this letter

Please call me with any questions and to coordinate the delivery of this letter Thank you very much for your assistance

Best regards,

Ana Demel

Ana Demel

INTERNATIONAL MONETARY FUND
WASHINGTON D C 20431

CABLE ADDRESS
INTERFUND

December 13, 1990

Dear Sir:

Reference is made to the extended arrangement that the International Monetary Fund (the "Fund") approved on May 26, 1989 for the United Mexican States.

(1) The extended arrangement continues in effect.

(2) The United Mexican States has the right, subject to the provisions of the extended arrangement and during the period until May 25, 1992, to make purchases from the Fund under the extended arrangement up to a total amount equivalent to SDR 1,958.04 million, excluding amounts for the augmentation of the extended arrangement and those set aside for use in connection with debt-reduction operations to be specified by the Fund.

(3) As of the date of this letter, the United Mexican States has purchased from the Fund the equivalent of SDR 1,142.19 million under the extended arrangement (exclusive of purchases of amounts for the augmentation of the extended arrangement and those set aside for debt-reduction operations as aforesaid).

Very truly yours,

S.T. Beza
Counsellor and Director
Western Hemisphere Department

His Excellency
Dr. Pedro Aspe Armella
Secretary of Finance and Public Credit
Secretariat of Finance and Public Credit
of the United Mexican States
Mexico City, Mexico

EXHIBIT A

FORM OF IMF LETTER

Minister of Finance and Public Credit
Ministry of Finance and Public Credit of
The United Mexican States
Mexico City, Mexico   Date*

Reference is made to the extended arrangement that the International Monetary Fund (the "Fund") approved on May 26, 1989 for the United Mexican States

(1) The extended arrangement continues in effect

(2) The United Mexican States has the right, subject to the provisions of the extended arrangement and during the period until May 25, 1992, to make purchases from the Fund under the extended arrangement up to a total amount of at least the equivalent of SDR 1,958 04 million, excluding amounts that may be set aside for use in connection with debt reduction operations to be specified by the Fund

(3)**[As of the date of this letter, the United Mexican States has purchased from the Fund the equivalent of SDR ____________ under the extended arrangement (exclusive of purchases of amounts set aside for debt reduction operations as aforesaid)]

*** [As of the date of this letter, the United Mexican States has purchased from the Fund all amounts (exclusive of purchases of amounts set aside for debt reduction operations as aforesaid) that were available for purchase on or before ________________ in accordance with the phasing provisions of the extended arrangement as established by the Fund on ________________, 19__]

Very truly yours,

By____________________
(Name and Title)

---

* To be a date not more than 30 days before the relevant Availability Date

** Include for second and third Availability Dates, inserting in the blank an amount not less than
(i) SDR 489 51 million for the second Availability Date and
(ii) SDR 652 68 million for the third Availability Date

*** Include for fourth, fifth and sixth Availability Dates, inserting in the first blank in such sentence
(i) March 1, 1991 for the fourth Availability Date,
(ii) August 1, 1991 for the fifth Availability Date and
(iii) March 1, 1992 for the sixth Availability Date

F

Office Memorandum

TO The Managing Director
The Deputy Managing Director

DATE April 18, 1991

FROM S T Beza

SUBJECT Mexico--Supplement to Staff Report

Attached please find a draft supplement to the Review of the Extended Arrangement for Mexico (EBS/91/53) The supplement presents data on quantitative performance criteria for end-1990 (which were observed with wide margins) The supplement notes that the actual date of the authorities' letter of intent was April 1, 1991 and not March 22, 1991 as indicated in the staff report, and a revised decision reflects the changed date of the letter of intent The decision also includes a standard waiver of applicability in order to allow the forthcoming purchase to be based on end-December performance even though it would take place after the March 31, 1991 performance test date

The paper has been reviewed by the following departments

Exchange and Trade Relations	Mr Brau
Fiscal Affairs	Mr Stella
Legal	Mr Liuksila
Research	Mr Hacche
Treasurer's	Mr Blalock
Western Hemisphere	Mr Fajgenbaum and myself

Because the Executive Board meeting is on Monday, April 22, we need to issue this paper tomorrow April 19

Attachment

cc Mr Andrews

Contributor
Mr Loser (WHD)

Con los atentos saludos de

Javier Guzman Calafell

G.H.1

ESTADOS UNIDOS MEXICANOS

SECRETARIA
DE
HACIENDA Y CREDITO PUBLICO

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INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.

1991 APR -4 PM 5:26

Mexico

April 1st., 1991

MR. MICHEL CAMDESSUS
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

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COMMUNICATIONS
DIVISION

Dear Mr. Camdessus,

In a separate letter to the Fund, dated April 1st, 1991, we have stated the policies and measures that the Government of Mexico intends to pursue during the third year of the program supported by the current extended arrangement from the Fund, in order to achieve the objectives of Mexico's program under the arrangement. In these circumstances, we hereby request that the Fund, in accordance with subparagraph 2(f) of the extended arrangement for Mexico, discontinue the designation of amounts for debt reduction, provided for in subparagraphs 2(d) and (e) of the arrangement during the remaining period of the extended arrangement.

PEDRO ASPE ARMELLA
Secretary of Finance and
Public Credit of Mexico

MIGUEL MANCERA AGUAYO
Director General
Banco de México

G.H.1

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Mexico City, MEXICO
April 1st., 1991.

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Camdessus:

1. During the first two years of the present administration, the Government of Mexico has pursued an economic strategy aimed at reaching the objectives established in the National Development Plan for the period 1989-94. This medium-term strategy, which is being supported by an extended arrangement from the Fund, has sought to achieve price stability and a sustained increase in economic growth in order to improve the standard of living for all Mexicans. As stated in our letter to you of April 11, 1989, and reiterated in our letter of January 15, 1990, the economic strategy for the medium-term encompasses efforts to increase domestic savings both in the public and private sectors, demand management measures, and structural policies necessary to foster economic efficiency. The economic program was developed on the basis of a significant reduction in the net external resource transfer abroad, through a decrease in the debt-service burden, and the availability of new external resources within a multiyear horizon. In the following paragraphs we describe the progress made to date in the implementation of our economic strategy as well as the economic policy stance for 1991 as approved by Congress last December.

2. In 1990, Mexico confronted an external environment that was characterized by considerable uncertainties, including a marked variability in the price of oil, increased worldwide political tensions, and a weakening of activity in the economies of its main trading partners. However, economic performance was satisfactory, in response to the domestic policy efforts of the authorities and the impact of

the successful renegotiation of external debt completed during the year. Economic activity was strong with industrial production up by 5.4 percent and real GDP up by 3.9 percent. For the second year in a row the growth of economic activity was greater than that of the population. Consumer prices increased by 29.9 percent during 1990, compared with 19.7 percent in the previous year, reflecting in large part higher imported inflation and corrective price increases which helped strengthen the public finances and the balance of payments. Real average earnings of workers in the manufacturing sector are estimated to have increased for the second year in a row.

3. The external performance has been strong and net international reserves increased by almost US$3 1/2 billion in 1990, compared with an adjusted targeted increase of US$0.8 billion; these already reflected the use by Mexico of US$1.4 billion of its reserves in payment of the collateral used for the financial package with commercial banks. By end 1990, gross international reserves had reached the equivalent of 4.1 months of merchandise imports, from the equivalent of 3.5 months a year earlier. The value of exports rose strongly reflecting both higher oil prices and the continued growth in the volume of non-oil items. The value of imports also rose sharply, primarily because of increases in capital goods imports, and the external current account deficit (including the effect of debt restructuring on interest payments) increased by 0.3 percentage point to 2.2 percent of GDP. This increase was more than covered by a sharp increase in direct foreign investment and in other private capital inflows.

4. A key factor underlying these results was the strong performance of the public sector finances. The primary surplus of the nonfinancial public sector is estimated at 8 percent of GDP on a cash basis in 1990 compared with 8.3 percent of GDP in 1989 and less than 7 percent of GDP under the original program for 1990 with the Fund. This outcome was explained only in part by high oil prices, as a considerable amount of the additional resources were accounted for by the high yields from the value-added tax and sales of nonpetroleum public sector goods and services. Furthermore, the public finances benefited from the sharp decline in domestic interest rates, from an average

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annual rate of 44 percent in the first quarter of the year to 26 percent by the end of the year. Among the factors that contributed to this decline were the completion of the financial package with commercial banks, the announced privatization and restructuring of the domestic banking system and, more generally, increased confidence in the Government's economic policies. Reflecting the strong fiscal effort at the level of the primary balance, a significant decline in public sector debt in real terms and the fall in interest rates, the public sector borrowing requirement (PSBR) on a cash basis declined from 5.5 percent of GDP in 1989 to around 3.5 percent in 1990, compared with a programmed deficit of some 5 percent for the year. In turn, the accrued operational balance moved from a deficit of 1.7 percent of GDP in 1989, to a surplus estimated at 2 percent in 1990 compared with a programmed deficit of 1 percent for the year.

5. In 1990 the public sector borrowing requirement was covered primarily through the placement of government securities with the public. This was facilitated by the continued strength in private sector financial savings, which grew at an annual rate of some 11.6 percent in real terms. At the same time, commercial bank credit to the private sector rose by an estimated 26.7 percent in real terms --a significantly slower pace than in the previous year-- while international reserves were up sharply. During the year, the financial markets continued to deepen with a greater diversification of financial instruments and an increase in the average maturity of domestic debt.

6. The Government of Mexico continued to implement significant structural reform policies in 1990 in the context of its medium term strategy. Recent measures that have been implemented include: adjustments of the tax system aimed at lowering maximum rates while expanding the tax base; significant deregulation measures in the areas of federal busing and tourism transportation, the textile industry, the cornflour industry, telecommunications, and production and exports of fruits and vegetables; a new regulatory framework encouraging technology transfer; an intensified process of public enterprise reform and divestiture, which includes the sale of TELMEX and the announcement of the sale of commercial banks; the continuation of the trade liberalization effort;

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the announcement of the intention to negotiate a free trade agreement with the United States; and reforms to raise the efficiency of the financial system and encourage financial intermediation. In particular, recent legislative changes applicable to the financial system have modernized the financial system to facilitate an efficient allocation of financial resources while placing greater emphasis on supervision.

7. Increased access to external resources and a reduction of the net transfer abroad have been important elements for the success of the economic program. In this regard, the Government's domestic adjustment effort has been supported by, in addition to the Fund, the World Bank, the Inter-American Development Bank, financing facilities from several official creditors, mainly Japan and the United States, and the rescheduling of official debt-service obligations to Paris Club creditors.

8. An additional element in Mexico's financing program has been the package with commercial banks, with the exchange of instruments taking place in March 1990. Creditor banks chose the new money options for an amount equivalent to 10.9 percent (US$5.3 billion) of debt obligations, while the discount and par bond options accounted for 42.6 percent (US$20.5 billion) and 46.5 percent (US$22.4 billion) of debt obligations, respectively. Gross interest relief arising from these operations amounted to US$2.1 billion in 1990, and would amount to some US$1 billion a year subsequently, while new money disbursements total some US$1.1 billion in the period 1990-92. Collaterals for these operations amounted to US$7.1 billion, financed with resources obtained from the Fund, the World Bank, the Export- Import Bank of Japan, and Mexico's own resources. In the context of the package with commercial banks, a new debt- equity program was introduced, allowing the conversion of US$3.5 billion (at original face value) of bank debt. The allowed amount under this program was auctioned fully in 1990, at an average discount of 52 percent.

9. The Government of Mexico believes that the restructuring of its external debt can bring about a lasting improvement in economic conditions in the context of the general economic strategy now being pursued. In order to

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create the conditions for a sustained economic growth, the Government of Mexico, in accordance with the National Development Plan, is basing its policies on the continued stabilization of the economy, increased availability of resources for investment and a process of economic modernization. These objectives are being achieved through a consistent and strict management of fiscal, monetary and exchange rate policies, together with the needed structural reforms in the financial and tax systems in the context of agreements reached within the Pact for Economic Growth and Stability (PECE).

10. The Government maintains its objective to achieve a rate of real GDP growth of 6 percent a year by 1994. This will be supported by increases in national savings and gross domestic investment by both the public and private sectors. During this period, the rate of inflation would decline gradually to that of Mexico's trading partners.

11. The objectives and policies for 1991 as approved by Congress have been formulated within the context of the general strategy described above, and, are based on four general principles: a significant reduction in the rate of inflation with the goal of accelerating the achievement of price stability; the preservation of the gradual recovery of economic activity; the continued modernization of the national economy; and the strengthening of social policies to contribute to the increased well-being of the Mexican people. Price stability is indispensable for the achievement of a sustainable increase in economic growth and an improvement in the standard of living for the Mexican people. Financial policies will be geared to reducing the rate of inflation in 1991 to less than half of the rate of 1990. The proposed policy approach, in combination with the decline in domestic real interest rates, the reduction in the resource transfer abroad, and the stronger international reserve position augurs well for the future growth of economic activity and employment.

12. In order to be effective in improving the living conditions of the population, the policies embodied in the economic program need to be supported by actions to enhance the access by the Mexican people to education, health, and basic social services, as provided for by the National

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Solidarity Program. Accordingly, within the framework of prudent economic policies, the Mexican Government will make increased efforts in those areas to protect the poorer segments of the population.

13. The macroeconomic targets for 1991 would be accompanied by an increase in national savings, reflecting both the performance of the public and private sectors. The growth of output would be sustained by an increase in domestic investment as a proportion of GDP.

14. In November 1990, the Mexican Government and the various sectors of the society agreed to extend the PECE through end-1991. Within this framework, the peso is being depreciated with respect to the U.S. dollar by Mex$0.40 a day, minimum wages were increased by 18 percent, and substantial adjustments were made to public sector prices, particularly those of petroleum products and electricity. Private entrepreneurs agreed to absorb the increased costs resulting from adjustments of public sector prices. The extension of the PECE and the budget for 1991 provide a strong policy framework for the achievement of the objectives of the program.

15. In 1991, the Mexican Government is seeking a further significant strengthening of the public finances as an important mechanism to consolidate the stabilization process. The budget for 1991 approved by Congress, on the basis of an average oil export price for the Mexican mix of US$17 a barrel, aims at a primary fiscal surplus of 6.9 percent of GDP, excluding the proceeds from the sale of public sector enterprises. This fiscal effort would be consistent with a reduction in the PSBR from 3.5 percent of GDP in 1990 to some 2 percent in 1991, the lowest level observed in two decades, reflecting primarily a decline in the average domestic nominal interest rate. The operational surplus would amount to 1.8 percent of GDP. In addition, extraordinary proceeds from the sale of public sector enterprises, including the commercial banks and the telephone company are to be deposited in a contingency fund or used to reduce public sector debt.

16. The budget for 1991 seeks to consolidate the fiscal reforms introduced earlier, to continue to improve the

efficiency of the tax system, and to strengthen the public finances including those of the public enterprises. The marginal tax rate on corporate income was reduced further from 36 percent in 1990 to 35 percent in 1991 bringing these rates in line with those prevailing abroad. Income taxes were reduced for wage earners making less than four times the minimum wages. In addition, the rate of discount applicable to depreciation flows for investment outside the three major metropolitan zones was reduced from 7 1/2 percent to 5 percent to foster investment in those areas. Notwithstanding these measures, total tax revenues are expected to amount to 10.6 percent of GDP, slightly above the ratio achieved in 1990.

17. Total expenditure, excluding interest payments, is expected to rise by 0.2 percentage point of GDP in 1991. With the privatization of non-strategic public sector enterprises and greater selectivity in spending, the Government will be able to increase expenditure significantly in some priority areas. In this regard, the Mexican authorities intend to increase outlays on social development, including education, health and urban and regional development in order to assist the poorer segments of the population. Furthermore, spending will increase for infrastructure investment in the petroleum, electricity, communication, and transportation sectors.

18. The Mexican authorities will continue to implement their policy of reform and divestiture of the public enterprises. In 1990, several large enterprises were privatized; in the telecommunications area the most important one was the telephone company TELMEX; sugar mills, ten industrial plants of CONASUPO, and mining and fishing enterprises also were sold. In 1991 the Mexican Government intends to privatize, among other, the commercial banks, an insurance company (the largest), the railroad car manufacturing company, three steel mills, and fertilizer plants.

19. Monetary policy will be geared to help reduce inflation while supporting the macroeconomic objectives of the program, including a continued strengthening of the overall balance of payments. In order to achieve the monetary targets, the Government will continue to rely mainly on open market operations, which will help consolidate the

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efficiency of the financial intermediation process and enhance the prospects for sustained growth in financial savings. Furthermore, the deepening of the financial markets can be expected to continue concurrently with the attainment of the objectives of the Mexican economic strategy.

20. Since 1985, the financial system has undergone a process of liberalization and greater administrative autonomy. These developments have rendered the system more competitive and therefore more efficient in attracting and allocating financial savings. The regulatory framework for the banking sector was modified allowing intermediaries to issue new instruments and to set their interest rates competitively. Credit ceilings and compulsory credit to specified sectors were also eliminated. Recent institutional reforms have allowed the creation of diversified financial groups, strengthened the capital structure of the system, and fostered competition among banks and non-bank institutions. In June 1990, the Mexican Congress approved new laws and amended existing laws which define the regulatory powers of the State in financial markets, placing the emphasis on supervision rather than on regulation. The new legal framework will strengthen financial institutions so as to safeguard the interests of participants in this market.

21. As announced in the revision of the PECE for the period through end-1991, the value of the peso is being adjusted daily by Mex$0.40 against the U.S. dollar, equivalent to an annual depreciation of 5 percent. The Government of Mexico views the present exchange rate policy as appropriate to reduce inflation while preserving competitiveness, particularly in light of the satisfactory performance of exports, including non-oil receipts, the improved productivity of the economy, the reduced external debt burden and the sustained increase in net international reserves. The exchange rate policy will continue to be one of small daily adjustments, consistent with the macroeconomic objectives of the program and taking into account developments in key components of the balance of payments and other indicators such as the real effective exchange rate. The authorities intend to maintain the policy of permitting free access to the foreign exchange markets, and should a differential arise between the exchange rates in the controlled and free exchange markets to keep it at minimum

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levels. In mid-February the limit on the value of exports excluded from the controlled market was raised from US$5,000 for each firm a week to US$50,000 a week, thereby freeing 65 percent of all export transactions (equivalent to some 9 percent of the total value of non-oil exports) from the requirements related thereto.

22. The policies described above, along with the projected external financing from abroad, are expected to lead to a further strengthening of Mexico's overall balance of payments position, with net international reserves increasing by US$1 billion in 1991. This balance of payments objective is consistent with an oil price of US$17 a barrel and excludes the proceeds from the sale of public sector enterprises. This projection assumes continued strong growth in nonpetroleum exports and a marked decline in the rate of growth of imports.

23. Mexico is regaining access to voluntary lending in international capital markets. In this context, the Mexican Government will continue to follow a prudent external debt policy seeking to reduce its debt burden (including through new debt reduction operations) while supporting projects consistent with the medium term economic growth objectives. The external public debt position will continue to strengthen, reflecting both the reduction of claims and contractual interest rates under the financial package with commercial banks, and the reduced pace of new borrowing. External public debt, which was 36.2 percent of GDP in 1989 and 32.7 percent of GDP in 1990, is projected to decline as a proportion of GDP to 30.5 percent in 1991; total external debt is projected to decline from 45.3 percent of GDP in 1989 to 39.4 percent in 1991. At the same time, direct private investment would continue to increase, in line with the trends observed in the recent past.

24. Domestic public sector debt developments have reflected the achievements of the current economic program. During 1990 the level of domestic public sector debt declined in relation to GDP. The improvement in the medium term perspectives of the economy also allowed for a lengthening of the average maturity of domestic debt from 187 days at end-1989 to 267 days at end-1990.

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25. The Mexican Government remains committed to the consolidation of the gains with regard to trade liberalization. It will continue to protect domestic producers from unfair external practices, but will avoid unwarranted trade barriers. The opening of the Mexican economy will be consolidated by the negotiation of a free trade agreement with the United States and Canada. Formal negotiations are expected to begin by mid year, but informal discussions are already proceeding well. In the negotiations Mexico will seek to reduce existing tariffs and eliminate nontariff barriers; moreover, emphasis will be placed on the establishment of clear rules for the settlement of disputes and the access of Mexico's goods to the U.S. and Canadian markets.

26. The Mexican authorities believe that the policies and measures for 1991 described in this letter are adequate to achieve the objectives of the economic strategy set by the National Development Plan and are in accordance with the budget approved by Congress. As a regular procedure in the implementation of the program and with the aim of preserving the considerable gains in economic stabilization and structural adjustment made thus far, the authorities will take additional measures should they become appropriate for this purpose. On this basis, the Government of Mexico seeks continued Fund support in the form of approval of the third year of the extended arrangement. The authorities of Mexico and the Fund will consult periodically, in accordance with the policies on such consultations, as specified in our letter of April 11, 1989. A review with the Fund of the implementation of the economic program for 1991 will be conducted before September 30, 1991.

Yours truly,

PEDRO ASPE ARMELLA
Secretary of Finance and
Public Credit of Mexico

MIGUEL MANCERA AGUAYO
Director General
Banco de México

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Office Memorandum

TO: The Managing Director
The Deputy Managing Director

OK

DATE: March 21, 1991

FROM: S.T. Beza

SUBJECT: Mexico--Extended Arrangement--Review and Program for the Third Year

Attached is the staff report for the third program year of the extended arrangement for Mexico, together with the letter of intent and annexed technical memorandum of understanding. A letter is also attached requesting the discontinuation of the set-aside designation mechanism because of the completion of the 1990 financing package with commercial banks.

The paper has been reviewed by the following departments:

Exchange and Trade Relations:	Mr. Brau
Fiscal Affairs:	Mr. Stella
Legal:	Mr. Aguirre-Carrillo
Research:	Mr. Aghevli
Treasurer's:	Mr. Coats
Western Hemisphere:	Messrs. Ferrán, Fajgenbaum, and myself

The paper also has been reviewed by Mr. van Wijnbergen of the World Bank.

A summary of the staff report is attached.

Attachment

DMD
The Managing Director saw the summary only
PA 3/27.

cc: Mr. Andrews

Contributors:
Mr. Loser (WHD)
Mr. Kalter (WHD)

DMD

The Managing Director saw the summary only.
PA

Mexico--Staff Report for the Review and Program for the Third Year of the Extended Arrangement

Summary

1 Recent developments

Developments under the second program year of the extended arrangement were satisfactory, and Mexico is estimated to have observed all quantitative performance criteria for end-December 1990

Real GDP grew by nearly 4 percent in 1990 but consumer prices increased by some 30 percent compared with the original aim of 15 percent, reflecting in part larger public sector price adjustments than had been envisaged and some price liberalization The external current account deficit widened, and was more than financed by higher private capital inflows Net international reserves rose by US$3 4 billion

The primary surplus of the nonfinancial public sector was about the same in 1990 as in the previous year (8 percent of GDP), but the public sector borrowing requirement (PSBR) declined from 5 1/2 percent of GDP in 1989 to 3 1/2 percent in 1990, reflecting the drop in interest rates

2 The economic program for 1991

The program for 1991 seeks to reinforce the policy stance of the first two years of the extended arrangement Real GDP is projected to increase by 3-3 1/2 percent The rate of inflation would decline to 14 percent, aided in part by the wage price pact that runs through end-1991, and the reduction of the pace of depreciation of the peso (in relation to the U S dollar) to 5 percent a year No further substantial adjustments are to be made to public sector prices after those announced in late 1990, and no increase is planned in minimum wages after the 18 percent adjustment granted in November

In 1991 the fiscal primary surplus is projected to decline to 6 9 percent of GDP (on the basis of a petroleum price of US$17 a barrel) However, the PSBR is expected to come down to 2 percent of GDP, on the basis of a reduction in domestic and external interest payments The external current account would remain stable at 2 7 percent of GDP, as both national savings and gross domestic investment increase by 1 percentage point of GDP Net international reserves would strengthen by US$1 billion

Reviews of the program are scheduled to be completed before September 30, 1991 and February 29, 1992 Adjustments to performance criteria will be made in the event of deviations from the projected price of oil and to take into account the proceeds from the sale of public sector enterprises (likely to be the equivalent of 2 percent of GDP)

The major risk under the program is the possibility that prices and wages do not decelerate to the extent that is projected, and that this leads in due course to pressures on the balance of payments given the announced rate of currency depreciation In this regard, the authorities should maintain existing margins in the fiscal plan, should be ready to strengthen fiscal and monetary policies as needed to protect the program, and should keep exchange rate policy under close review

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Office Memorandum

To: Mr. Philippe Szymczak

March 11, 1991

From: Ernesto Aguirre-Carrillo

Subject: Mexico - Request to the Fund to Discontinue the Designation of Amounts for Debt Reductions under the Current Extended Arrangement

We understand that the Mexican authorities may wish to request the Fund to discontinue the designation of amounts for debt reduction under the current extended arrangement. This possibility is provided for under subparagraph 2(f) of the arrangement.

Accordingly, the following wording could be used for that purpose, to be included either in the Letter of Intent or a supplementary letter:

> "[In this letter,] [In a separate letter to the Fund, dated March --, 1991,] we have stated the policies and measures that the Government of Mexico intends to pursue during the third year of the program supported by the current extended arrangement from the Fund, in order to achieve the objectives of Mexico's program under the arrangement. In these circumstances, we hereby request that the Fund, in accordance with subparagraph 2(f) of the extended arrangement for Mexico, discontinue the designation of amounts for debt reduction, provided for in subparagraphs 2(d) and (e) of the arrangement, during the remaining period of the extended arrangement."

cc: Mr. Liuksila
WHD

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Office Memorandum

TO: Mr. Marino

DATE: March 8, 1991

FROM: Claudio Loser

SUBJECT: Mexico--Letter of Intent

Attached please find the draft letter of intent and technical memorandum of understanding for the third year of the arrangement incorporating comments from the staff at headquarters. An earlier draft which included virtually all of the proposed suggestions had been sent informally to Mr. Guzman earlier this week. I would appreciate if you were to transmit the documents to your authorities for their clearance. Once that is obtained we would send it to management for their approval, preferably early next week.

cc: Mr. Beza

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(1) Mexico
(2) CA

Office Memorandum

TO The Acting Managing Director DATE February 28, 1991

FROM S T Beza

SUBJECT Mexico--Relations with Central American Countries

During the recent mission to Mexico, Secretary Aspe asked Mr Loser to convey his concern and that of President Salinas about the fragile economic situation in Central America Secretary Aspe indicated that the Mexican authorities viewed as essential that the Fund play a central role in helping the countries of the region cope with their economic problems

Mr Loser, who had discussed the issue with me ahead of this meeting, noted that the Fund was intensely involved in helping the countries in the region develop suitable economic programs However, he also noted that the governments generally were weak politically and that it was very difficult to obtain the right kind of support from bilateral sources, particularly after the cutbacks of U S assistance to the region

Mexico has been providing some financial support to Central American countries in recent years It has granted credits associated with oil purchases through the San José agreement (although the amounts are small at current prices), it has restructured existing obligations with Nicaragua, which is enabling Mexico to salvage a fraction of virtually uncollectible obligations, it is facilitating discharge of the debt to Mexico of countries in the region through debt-equity operations by Mexican investors, and it has provided bridge financing toward the clearance of Fund overdues in some cases Mexico usually has granted its support through the Bank of Mexico, which Mr Mancera has resisted because of negative effects on the foreign assets of the Bank

If Mexico is to provide support on a lasting basis, the resources would need to be obtained from budgetary sources It does not seem likely that Mexico will be willing to direct budgetary funds to Central America in light of the Government's domestic agenda, particularly in 1991, a year of local and congressional elections The latest weakening of oil prices in world markets diminishes further the likelihood of such assistance

cc The Managing Director (o/r)
Mr Andrews

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Office Memorandum

TO The Acting Managing Director DATE February 22, 1991

FROM S T Beza

SUBJECT Mexico - Back-to-Office Report

The mission completed negotiations ad referendum on the economic program for the third year under the EFF Mexico seems to have observed all quantitative performance criteria for end-1990 The letter of intent is being circulated to the interested departments

Under the program real GDP would increase by some 3 to 3 1/2 percent in 1991, inflation would decline by half to 14 percent and net international reserves would increase by US$1 billion The program envisages a further reduction in the PSBR, from 3 5 percent of GDP in 1990 to 2 percent in 1991 The primary surplus would decline by somewhat more than 1 percentage point of GDP, but this would be more than offset by sharply lower domestic interest payments (which would even allow for a small increase in rates from the level to which they dropped during 1990)

The program includes a contingency mechanism for fluctuations in oil prices (from a base price of US$17 a barrel) similar to that in the 1990 program, but with somewhat wider margins than in 1990, the maximum downward adjustment for net international reserves would amount to US$1,375 million The program also includes a mechanism whereby the public sector would save 85 percent of the extraordinary resources resulting from the privatization of the telephone company and commercial banks (which could amount to some US$6 billion in 1990/91)

There are a number of risks to the program, including pressures for government expenditure in light of local and congressional elections in August, the U S economic slowdown, and lower oil prices, at today's prices, at an annual rate, the gain in international reserves would be eliminated Furthermore, the current exchange rate policy of depreciating the peso daily at an annual rate of 5 percent in relation to the U S dollar would imply some small appreciation during 1991 even if the price objective is reached (this would mean inflation of no more than 1 percent a month for the rest of the year, down from over 2 percent on average over the past year and a half) The authorities have said they will maintain margins in the fiscal area, and that they stand ready to tighten policies, if needed

It might be noted that even at a price of US$17 a barrel the current account deficit is sizeable--almost 3 percent of GDP The deficit is being financed mainly by capital inflows to the private sector, but it is another element of vulnerability

The authorities will be examining in the next several months whether to request a fourth year under the extended arrangement, a possibility that had been raised in the original letter of intent The three-year EFF expires in May 1992

Attachment

cc The Managing Director (o/r)
Mr Andrews

Contributors
Claudio Loser (WHD)
Eliot Kalter (WHD)

Office Memorandum

TO: The Acting Managing Director

February 22, 1991

FROM: Claudio Loser

SUBJECT: Mexico - Back to Office Report (January 29-February 19, 1991)

The mission that just returned from Mexico completed negotiations ad referendum on the economic program for the third year under the extended arrangement approved in May 1989 The mission met with the Secretaries of Finance and Public Credit and of Budget and Programming, the Director General of the Bank of Mexico and other high public officials

Discussions were frank and open, and cooperation from officials was good The authorities were generally pleased about the success of their economic strategy, but made very clear that in view of existing risks they could not afford to weaken their efforts in the near future

The policies being pursued by the authorities appear to be adequate for the achievement of the program objectives, particularly given the increasing confidence of the private sector, but considerable risks remain Domestically, ahead of congressional and regional elections scheduled for August, the authorities feel constrained about the scope of policy actions they could take Furthermore, there are risks associated with the slowdown of economic activity in the United States, with lower world oil prices, and with the widening external current account deficit even though it is being financed by significant private capital inflows In these circumstances, the authorities and the staff will need to monitor inflation and external developments closely during the year to determine if additional policy actions are required However, the authorities were emphatic about their intention to maintaining margins under the program to the greatest extent possible, while strengthening policies if needed This commitment is reflected in the fiscal contingency clause of the 1991 program, where the authorities note their intention to strengthen policies, with particular attention to fiscal measures if significant deviations were to occur even though the fiscal targets of the program are met

As had been described in the briefing paper, economic developments in 1990 under the program were satisfactory, and Mexico is estimated to have observed all quantitative performance criteria for end-year Net international reserves rose by US$3 4 billion, exceeding the established target by US$2 6 billion (Table 1) Fiscal and monetary targets are estimated to have been achieved without difficulty

Real GDP is estimated to have grown by some 3 1/2 percent in 1990 As had been projected recently the rate of inflation, however, reached almost 30 percent, twice as high as the initially projected rate, partly on account of a general liberalization of price controls, and corrective price increases in the public sector (Table 2) Nominal wages, which accelerated in early 1990, started to decelerate subsequently although not to the full extent expected by the authorities

While the overall external performance was strong in 1990, the structure of the balance of payments differed from original projections, with the external current deficit reaching US$6 2 billion (2 7 percent of GDP), compared with US$2 2 billion (1 percent of GDP) under the program, notwithstanding higher oil prices 1/ The widening current account deficit, however, was explained by higher capital goods imports that were more than financed by increased private capital inflows

The public finances performed well in 1990, with the primary surplus reaching somewhat more than 8 percent of GDP (less than 7 percent under the program) This, together with lower nominal interest rates, resulted in a decline of the PSBR by some 2 percentage points of GDP to 3 5 percent of GDP (4 3 percent under the program) The operational surplus reached 1 7 percent of GDP compared with a deficit of 0 5 percent under the program and a deficit of 1 7 percent of GDP in 1989 Monetary developments reflected the improvement in the fiscal accounts that together with a sharp increase in private financial savings allowed for the above mentioned increase in reserves, at a time when nominal interest rates declined markedly

Developments in early 1991 indicate a deceleration in the rate of inflation on a 12 month basis to 26 1/2 percent in January and with a further projected decline in February Economic activity remains strong, and foreign reserves rose in the first weeks of January

The program for 1991 projects GDP to grow by 3-3 1/2 percent in real terms with inflation declining to 14 percent The decline in inflation would reflect tight financial policies, and a deceleration in wage increases and the pace of exchange rate depreciation The authorities do not intend to increase public sector prices beyond recent adjustments Total investment is projected to increase by 1 percentage point of GDP evenly distributed between the private and public sectors, and total savings would increase by about the same amount

On the basis of an oil price of US$17 a barrel and excluding the exceptional proceeds from the sale of public sector enterprises, the primary fiscal surplus is programmed to decline to 6 9 percent of GDP reflecting in part lower oil prices and some recovery of investment (by some 0 5 percentage point of GDP) Notwithstanding the decline in the primary surplus, the PSBR would fall to a level equivalent to 2 percent of GDP, and the operational surplus would remain about stable at 1 8 percent of GDP, on account of a sharp decline in interest payments, which would even allow for a small increase in rates from the level to which

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1/ The external current account balance reflects the impact of the 1990 financial package with commercial banks on interest payments but excludes the interest rebate paid in 1990 by commercial banks to Mexico they dropped during 1990 (Quantitative performance criteria for 1991 are presented in Table 3)

The mission sought to maintain the fiscal effort at the level of the primary surplus at the same level as a proportion of GDP as in 1990 After lengthy discussions, however, it became clear that the authorities are willing to adjust the primary surplus as needed (as reflected in the fiscal contingency clause) but they were not persuaded to modify ex-ante the budget objectives However, the authorities may keep margins within the fiscal program

The program for 1991 contains contingent adjustments for changes in oil prices and for the sale of public sector enterprises to the private sector The oil contingency mechanism follows the general principles of the 1990 program, but with wider margins and with a smoother transition to higher and lower prices No changes in the program targets are to take place if the effective oil price fluctuates between US$17 and US$19 a barrel (a band that would amount to a maximum of US$1 billion) If prices were to exceed US$19 a barrel, the public sector would save increasing proportions of these proceeds, with full savings resulting from a price in excess of US$21 a barrel The public sector would adjust its net international reserve targets fully for declines in oil prices between US$17 and US$15 a barrel (up to US$1 billion), subsequently, it would introduce increasingly higher policy adjustments as oil prices come down, and would adjust fully if oil prices decline below US$13 a barrel The maximum downward adjustment of the foreign reserves target would be US$1,375 million, the resources saved under the oil scheme in 1990 amounted to some US$1 billion

With regard to the sale of enterprises by the public sector (comprising the telephone company and commercial banks) it is estimated that the proceeds in 1990 and 1991 would amount to some US$6 billion (2 1/2 percent of GDP) The authorities will save 85 percent of proceeds (and fiscal performance criteria would be adjusted accordingly) to be used to reduce domestic and foreign debt or to increase the country's gross foreign assets, the authorities would be able to draw the remaining 15 percent on a contingent basis, mainly for investment expenditure Under the program, drawings cannot exceed US$650 million (entailing an upper limit of 13 percent of total proceeds if all sales materialize by end 1991)

While most of the proceeds from sales will be saved, there is no direct link under the program between these proceeds and net international reserves This is so because sales can be domestically financed without a significant impact on foreign reserves to the extent that there is a concurrent reduction in the stock of public sector domestic debt If proceeds are received in the form of foreign exchange, the net international reserve and related targets will be adjusted by 85 percent of these external resources The net international reserve target would not be adjusted to the extent that domestic currency resources are spent, monetary policy will be adjusted accordingly

Monetary policy will seek to reduce inflation and attain the balance of payments objective Aided by a tight fiscal stance, the authorities will continue to rely on open market operations as the mechanism for monetary control Credit to the public sector by the Bank of Mexico would increase moderately in nominal terms The stock of debt of the public sector would decline by some 10 percent in real terms, while credit to the private sector could increase by 20 percent in real terms on the basis of continued strong growth in private sector financial savings

The program seeks an accumulation of net international reserves of US$1 billion for 1991, excluding the proceeds from the sale of public sector enterprises The current account deficit would amount to US$7 1 billion (US$6 2 billion in 1990) and remain stable as a ratio to GDP at 2 7 percent 1/ The effect of the decline in oil export prices accounts for more than one half of the increase in the current account deficit The value of non-oil exports and imports is programmed to increase by 10 percent in U S dollars each, on the basis of a sharp deceleration in imports

The capital account would show official capital inflows of US$2 billion, excluding debt equity transactions and lending abroad Private capital inflows would decline from some US$10 billion in 1990 to some US$7 1/2 billion in 1991 This excludes any capital flows associated with the anticipated sale of public sector enterprises, amounting to US$0 8 billion in 1990 and a projected US$2 billion in 1991 Mexico will amortize about US$0 8 billion of the letter of credit granted by commercial banks for the establishment of collateral related to the restructuring package of 1990 The amortization will be covered by SDR 280 million from Fund set-asides and the remainder by resources from the Export Import Bank of Japan and Mexico's own reserves

The current rule of depreciating the peso daily vis-a-vis the U S dollar by a fixed amount has provided a stable framework for exchange rate policy, helping strengthen confidence in the program The authorities consider that the current exchange rate path, depreciating at an annual rate of 5 percent, is consistent with their economic program given the performance of the balance of payments The mission stressed the risks involved in the current strategy, particularly if wages and prices failed to decelerate, but acknowledged that moving away from the present path could be costly at present In any event, the exchange rate policy would need to be reviewed in the context of the program

The exchange rates in the controlled and free markets remain virtually identical However, in order to move toward an eventual unification and eliminate administrative constraints, early this week the

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1/ The external current account statistics have been corrected to account for newly identified private sector remittances of about US$1 billion a year, which previously were included as errors and omissions

Bank of Mexico, liberalized the surrender requirements for exporters in the controlled market by exempting exporters that export up to US$50,000 a week from this requirement Previously, the exemption applied to exporters with receipts of only up to US$5,000 a week

Public sector foreign indebtedness would be permitted to increase by US$2 billion in 1991 As noted, the ceiling accommodates partial amortization of the letter of credit issued by commercial banks Within the overall external debt ceiling, the authorities intend to increase short-term debt by no more than US$100 million

The authorities would prefer that the mid-year review mission arrive in Mexico after mid-August, once elections have taken place Accordingly, they have requested that the completion of the Article IV consultation and the mid-year review be postponed to end-September If this request were accepted the purchase related to end-June performance and to the review would be delayed by some four weeks

The Secretary of Finance mentioned a possible extension of the arrangement to four years, as requested in their original letter of intent The authorities will assess the merits of this approach and would raise the issue with the Fund formally later in the year

Attachment

cc The Managing Director (o/r)
Mr Beza
Mr Frenkel
Mr Boorman
Mr Gianviti
Mr Laske
Mr Tanzi
Mr Andrews
Mr Van Wijnbergen (IBRD)

Contributors
Eliot Kalter (WHD)
Sharmini Coorey (WHD)
Saul Lizondo (RES)
Philippe Szymczak (ETR)
Rogerio Zandamela (WHD)

Table 1 Mexico Performance Under ⌞xtended Ar angement)r 1990 _/

	March	June	Sept	Dec
(In billions of Mexican pesos)				
Overall public sector borrowing requirement 2/3/	6 754	11 821	1> 487	
Ceiling				
Unadjusted	6 500	14 200	2 50	3⌞ 050
Modified 4/	11 400	17 300	23 400	31 050
Adjusted 5/	11 400	18 077	23 400	8 ?96
Excess (-)/Margin (+)	4 646	6 ⌞56	/ 913	
Nonfinancial public sector operational deficit 2/6/	-1 055	-2 183	-6 310	
Ceiling				
Unadjusted	-1 000	1 490	2 830	6 150
Modified 4/	3 870	4 540	4 850	6 50
Adjusted 5/	3 870	5 317	4 850	3 196
Excess (-)/Margin (+)	4 925	7 500	11 160	
Changes in net domestic assets of the monetary authorities (effective flows) 2/3/7/	5 588	-118	-4 486	- 809
Ceiling				
Unadjusted	2 730	3 110	2 920	5 540
Modified 4/	9 495	5 883	3 767	4 051
Adjusted 5/8/	8 522	6 660	3 767	097
Excess (-)/Margin (+)	2 934	6 778	8 253	3 906
Net credit to the nonfinancial public sector by the monetary authorities 9/	40 180	33 244	28 787	3? 301
Ceiling				
Unadjusted	38 544	39 214	39 684	40 424
Modified 4/	45 360	42 370	41 640	39 050
Adjusted 5/8/	44 386	43 147	41 640	36 096
Excess (-)/Margin (+)	4 207	9 903	12 851	? 795
Primary surplus	15 888	30 958	43 526	
Target 2/10/				
Unadjusted	12 500	23 050	33 500	41 900
Modified 4/	12 550	23 050	33 500	41 900
Adjusted 5/	12 550	22 273	33 500	44 854
Excess (-)/Margin (+)	3 338	8 685	10 026	
(In millions of U S dollars)				
Net foreign borrowing by the public sector 2/	5 087	5 310	6 ?1	
Ceiling				
Unadjusted	6 580	7 040	7 190	370
Modified 4/	5 540	6 770	6 935	7 020
Adjusted 8/	5 902	6 770	6 935	7 020
Excess (-)/Margin (+)	453	1 460	714	
Change in net international reserves of the monetary authorities 1/2/	-2 942	-437	1 109	3 438
Target				
Unadjusted	-1 130	-1 090	-920	-650
Modified 4/	-3 650	-2 275	-1 667	-253
Adjusted 5/8/	-3 288	-2 559	-1 667	797
Excess (-)/Margin (+)	346	2 122	2 776	? 640

Source Bank of Mexico

1/ Limit tested at the end of each period
2/ Cumulative changes from end-1989
3/ Effective flows of financing measured on a cash basis
4/ As described in EBS/90/58 Supplement 1 the original program limit were modified to reflect the final features of the commercial bank financing package the deviation in net international reserves from its end-1989 target and the disbursement in 1990 of certain loans from multilateral organizations which were to have taken place in 1989
5/ Adjustment relating to provisions under oil price mechanisms
6/ Defined as the difference between the overall economic deficit (on an accrual basis) and the inflation component of interest payments on the public sector debt denominated in local currency
7/ Net domestic assets of the Bank of Mexico for purposes of the ceiling are defined as the difference between note issue and net international reserves of the Bank of Mexico
8/ Adjusted for disbursement of US$362 million of new money by the commercial banks which took place in March instead of in April as assumed in the modified ceilings
9/ Effective stocks calculated by adding effective lows t) the nominal stock of Mex$38 054 billion outstanding as o' the end o 1989
10/ Measured s the di fer n e between rec ipt and n n- nter re diture of the nonfinancial public ector or ⌞ c sh b⌞ is

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Table 2 Mexico Selected Economic and Financial Indicators

	1987	1988	1989	Est 1990	Prog 1991
		(Annual percentage changes)			
Real GDP	1 6	1 4	3 1	3 5	3 0
Consumer prices (average)	131 8	114 2	20 0	26 6	20 1
Consumer prices (end-of-year)	159 2	51 7	19 7	29 9	14 0
		(In billions of U S dollars)			
External sector					
Current account (deficit -)	4 0	-1 1	-3 9	-6 2	-7 1
Of which exports (f o b)	22 3	22 9	25 8	30 6	32 3
imports (f o b)	-12 2	-18 9	-23 4	-29 9	-33 0
interest payments 1/	-8 1	-8 6	-9 2	-8 9	-8 6
Official capital (net)	3 9	0 4	0 2	-1 4	-1 6
Private capital (net) 2/	1 2	-6 1	2 6	11 1	9 7
Net reserve movement (increase -)	-6 6	6 8	1 1	-3 5	-1 0
		(In percent of GDP)			
Nonfinancial public sector					
Primary balance	5 0	5 9	8 0	8 1	6 9
Operational balance	2 0	-4 5	-1 7	1 7	1 8
Public sector borrowing requirement	15 8	12 9	5 6	3 5	2 0
Savings and investment					
Gross domestic investment	18 5	19 7	18 8	20 1	21 1
Public sector	5 3	4 2	3 6	4 3	4 8
Private sector	13 3	15 5	15 3	15 7	16 3
Gross national savings	21 3	19 1	17 0	17 4	18 4
Public sector 1/3/	7 4	-0 2	2 2	6 7	6 8
Private sector	13 9	19 3	14 8	10 7	11 6
External savings	-2 8	0 6	1 8	2 7	2 7
Memorandum items					
Nominal GDP (trillions of Mex$)	193 5	395 9	511 5	654 3	791 7
Nominal GDP (billions of US$)	141 5	176 0	208 6	232 6	262 0
Velocity of M-4 (GDP/M-4) (average)	3 6	3 7	3 1	2 7	2 5

Sources Mexican authorities, and Fund staff estimates

1/ After restructuring of external debt
2/ Includes proceeds from the sale of public enterprises
3/ Adjusted for the inflation component of interest payments on domestic debt

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Table 3 Mexico Performance Under Extended Arrangement for 1991 1/

	March	June	Sept	Dec
(In billions of Mexican pesos)				
Overall public sector borrowing requirement 2/3/ Ceiling	2 960	5 700	11 000	16 000
Nonfinancial public sector operational surplus 2/4/ Ceiling	6 700	11 300	12 000	14 000
Changes in net domestic assets of the monetary authorities (effective flows) 2/3/5/ Ceiling	-2 766	-1 869	-2 686	4 290
Net credit to the nonfinancial public sector by the monetary authorities 6/ Ceiling	37 034	37 917	37 034	44 233
Primary surplus Target 2/10/	14 240	29 600	42 370	54 810
(In millions of U S dollars)				
Net foreign borrowing by the public sector 2/ Ceiling	237	891	1 303	2 000
Change in net international reserves of the monetary authorities 1/2/ Target	400	600	800	1 000

Source Bank of Mexico

1/ Limit tested at the end of each period
2/ Cumulative changes from end-1990
3/ Effective flows of financing measured on a cash basis
4/ Defined as the difference between the overall economic deficit (on an accrual basis) and the inflation component of interest payments on the public sector debt denominated in local currency
5/ Net domestic assets of the Bank of Mexico for purposes of the ceiling are defined as the difference between note issue and net international reserves of the Bank of Mexico
6/ Effective stocks calculated by adding effective flows to the nominal stock of Mex$40,070 billion outstanding as of the end of 1990

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Embajada de México

EMBASSY OF MEXICO
1911 PENNSYLVANIA AVE. N.W.
WASHINGTON, D.C. 20006
TEL: 728 1600

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JANUARY 25, 1990.

F A X

ORIG: WHD
CC: MD
DMD
EXR
MR. P. ANDREWS

TO: MR. CAMDESSUS

6 234661

FROM: GUSTAVO PETRICIOLI
AMBASSADOR OF MEXICO

OBSERVATIONS: ATTACHED YOU WILL FIND A PRESS RELEASE FROM OUR EMBASSY REGARDING MEXICO'S COMMITMENT TO CONTINUE SUPPLYING OIL TO OUR INTERNATIONAL CLIENTS ON A NORMAL BASIS. I THOUGHT YOU MIGHT BE INTERESTED IN HAVING A COPY OF THIS STATEMENT.

NUMBER OF PAGES INCLUDING THIS ONE: 2

EMBASSY OF MEXICO

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PRESS RELEASE PRESS RELEASE PRESS RELEASE PRESS RELEASE

1911 PENNSYLVANIA AVE NW
WASHINGTON, D C , 20006
TEL. (202) 728 1650

To

2/91 (i)

January 24, 1991

PEMEX reasserts its traditional policy of fulfilling its contractual commitments

Petroleos Mexicanos (PEMEX), Mexico's oil company, reasserted today its traditional policy of fulfilling its contractual commitments PEMEX exports crude oil to more than 40 clients in 20 countries, with whom it has had commercial relations for many years This policy has not changed since Mexico initiated its oil exports in the mid-seventies

In recent months, PEMEX has allocated the volume authorized by the authorities, an average of 1,360 mbd of crude oil in the international markets, through contracts with integrated refiners

PEMEX stated that the conflict in the Persian Gulf does not affect its normal relations with its clients PEMEX added that its commitments with its clients will not be subject to any change

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INTERNATIONAL MONETARY FUND

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Mr Beza

The Managing Director has seen only the cover and summary. Please await Mr Erb's clearance of the full paper.

c Mr Erb

Peter Andrews

mexico

Office Memorandum

TO: The Managing Director
The Deputy Managing Director

OK

DATE: January 25, 1991

FROM: S. T. Beza

SUBJECT: Mexico--Briefing Paper

Attached is a briefing paper for the mission to negotiate the economic program for the third year under Mexico's extended arrangement with the Fund.

A summary of the briefing is attached. The paper has been reviewed by the following departments:

Exchange and Trade Relations:	Mr. Brau
Fiscal Affairs:	Mr. Stella
Legal:	Mr. Aguirre-Carrillo
Research:	Mr. Aghevli
Treasurer's:	Mr. Coats
Western Hemisphere:	Messrs. Fajgenbaum, Stephens, and myself

The mission chief's last day in office will be January 30, 1991.

Attachments

cc: Mr. P. Andrews

Contributors:
Claudio Loser (WHD)
Eliot Kalter (WHD)

Mexico Summary of Briefing Paper

1 Head of Mission Mr Loser (WHD)

2 Departure Date Mr Loser's last day at the office will be the morning of January 31, 1991

3 Purpose of the mission To negotiate the economic program for the third year under Mexico's extended arrangement with the Fund

4. Background

Economic developments under the program have been satisfactory Mexico has observed with wide margins all quantitative performance criteria for end-September except for that on external debt where a smaller margin reflected short-term borrowing up to the indicative target It is expected that end-December performance criteria were observed, although with smaller margins than in September

5. Issues

The authorities' aims are to reduce inflation to 14 percent in 1991 from 30 percent in 1990 with real GDP continuing to grow at around 3 percent and with the non-oil external current account deficit declining These objectives are framed within the recent extension of the wage-price pact to end-1991 which includes a slower pace of depreciation of the peso and more moderate adjustments in public sector prices and wages

The budget for 1991 is based on an oil price of US$17 a barrel, and envisages a reduction in the PSBR of some 1 1/2 percentage points of GDP, reflecting the assumption that nominal interest rates remain at current levels (which are lower than the average of 1990) However, the primary surplus is projected to come down by about 1 percentage point of GDP in 1991 when measured on the basis of an unchanged oil price

The fiscal effort and the authorities commitment to it remain strong However, questions arise whether the projected cutback in the primary surplus is consistent with the authorities' inflation and balance of payments objectives This concern is shared by the Ministry of Finance, but there are pressures to increase expenditure in the Ministry of Budget and Planning

The staff will emphasize that in view of the reduced pace of currency depreciation it will be difficult to maintain Mexico's international competitiveness even if the authorities' inflation target is reached Thus there is no room for slippages, and the fiscal effort should not be eased until there is clear evidence that the rate of inflation has declined to a path consistent with that assumed by the authorities This may imply that the primary surplus should not be reduced from the level of 1990 and perhaps may need to be raised somewhat

As a minimum, a contingency clause will be sought that would trigger fiscal (and possibly exchange rate) action if the rate of inflation does not decline as projected Any extraordinary revenue from oil prices higher than assumed in the budget and from the privatization of public sector enterprises would be saved

The authorities intend to make all remaining purchases under the arrangement, in order to consolidate their gross official reserve position and to maintain the remaining disbursements of new money from commercial banks

Mr. Beza

STB
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F

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CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Briefing Paper - Mission to Mexico

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations, Fiscal Affairs, Legal, Research, and Treasurer's Departments)

Approved by S T Beza and Eduard Brau

January 25, 1991

A staff mission consisting of Mr Loser (Head), Mr Kalter, Ms Coorey, Mr Zandamela (all WHD), Mr Szymczak (ETR), Mr Lizondo (RES) and Mrs Martinez (Assistant-WHD) is scheduled to visit Mexico City for about two weeks beginning January 28, 1991 to negotiate the economic program for the third year under Mexico's extended arrangement with the Fund Mr Loser will join the mission on January 31

The extended arrangement was approved on May 26, 1989 in the amount of SDR 2,797 2 million (240 percent of quota), including set-asides of 30 percent for debt-reduction operations, on January 29, 1990 the Executive Board approved the release and acceleration of set-asides through end-1990 and an augmentation of the arrangement by the equivalent of 40 percent of quota for interest support in connection with debt and debt-service reduction operations The 1990 Article IV consultation with Mexico and the review under the second year of the extended arrangement were completed on August 27, 1990 (EBS/90/144 and EBS/90/169)

To date Mexico has made all available purchases under the arrangement for a total of SDR 2,097 9 million Total Fund credit to Mexico, including drawings under the EFF, the CCFF, emergency assistance, and previous arrangements, stood at SDR 4,604 9 million, or the equivalent of 395 1 percent of quota as of December 31, 1990 (Attachment I)

The Mexican authorities have notified the Fund under Executive Board Decision No 144-(52/51) that on August 22, 1990, pursuant to U N. Security Council Resolution 661, Mexico adopted regulations involving the imposition of restrictions on payments and transfers for current international transactions with the Government of Iraq and persons in Iraq and Kuwait

Mexico has accepted the Third Amendment of the Articles of Agreement (letter to the Fund, dated January 9, 1991), and consented to the increase of its quota under the Ninth General Review (telex to the Fund, dated January 10, 1991)

I Background and Developments Under the Program

Economic developments under the program remain satisfactory Mexico has observed with wide margins all quantitative performance criteria for end-September, except for that on external debt where a smaller margin reflected short-term borrowing up to the indicative target. It is estimated that end-December 1990 performance criteria were observed, although with smaller margins than at end-September

Economic activity was strong in 1990 after an initial slowdown Real GDP is estimated to have grown by around 3 percent for the year with industrial production expanding by about 5 percent in the first nine months of the year from the corresponding period in 1989 Consumer prices increased by 30 percent during 1990, compared with an original program target of 15 percent, reflecting in part corrective price adjustments and a general relaxation of price controls The increase in real average earnings of workers in the manufacturing sector is estimated to have decelerated from 8 percent in 1989 to 3 percent in 1990 The peso appreciated in real effective terms by 3 8 percent during the 12 months through November 1990

Net international reserves increased by US$3 1/2 billion in 1990, compared with a target (adjusted for changes in oil prices) 1/ of US$1 billion, with gross international reserves reaching 4 5 months of imports The value of oil exports was US$3 billion higher than projected as a result of higher oil prices (US$19 3 a barrel compared with US$15 a barrel in the program) and somewhat higher export volume, while non-oil exports were about as projected The value of imports also rose sharply, primarily because of increases in capital and intermediate goods which were financed by inflows of private capital The external current account deficit (excluding the effect of restructuring on interest payments) is estimated at 2 9 percent of GDP, compared with 3 2 percent of GDP in earlier projections (EBS/90/144)

Fiscal performance was strong in the first three quarters of 1990 Revenue from the value-added tax and from sales of public sector goods and services (excluding petroleum) was higher than programmed, while total expenditure was broadly as programmed As a consequence, the primary surplus was 9 2 percent of GDP (compared with 7 1 percent of GDP under the program) As a result of increased expenditure in the fourth quarter of 1990, the primary surplus for the year is estimated at 8 4 percent of GDP, compared with 7 0 percent of GDP under the program and 8 0 percent of GDP in 1989 With nominal interest payments about in line with projections, the public sector borrowing requirement (PSBR) is

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1/ The discussion in the text concerning program targets incorporates the effect of developments in oil prices Table 1 provides information on targets adjusted and unadjusted for oil price developments, while Table 2 provides information on targets unadjusted for oil price developments estimated at less than 3 1/2 percent of GDP (compared with 4 2 percent of GDP under the program and 5 6 percent of GDP in 1989), and the operational balance is estimated to have shown a surplus of 2 7 percent of GDP (compared with a deficit of 0 4 percent of GDP under the program and a deficit of 1 7 percent of GDP in 1989)

The domestic financing requirement of the public sector was met during 1990 through the placement of government securities with the public Bank of Mexico credit to the nonfinancial public sector is estimated to have declined by around Mex$8 trillion or the equivalent of 1 1/4 percent of GDP in 1990 (compared with a programmed decrease of Mex$2 1/2 trillion) The net domestic assets of the Bank of Mexico declined by almost Mex$4 1/2 trillion (compared with an allowable increase of Mex$0 3 trillion)

Private sector financial savings (M-4) are estimated to have increased in real terms by some 10 percent during 1990, as previously projected, while credit to the private sector is estimated to have grown by around 25 percent in real terms (compared with a real increase of 16 percent in earlier projections) Despite the reliance on bond financing by the public sector, nominal interest rates on domestic debt declined from an average annual rate of 44 percent in the first quarter of the year to 27 percent in the fourth quarter of the year, and concurrently there was an increase in the average maturity of debt instruments

II Policy Issues for the 1991 Program Under the Extended Arrangement

The negotiations of the economic program for the third year under Mexico's extended arrangement with the Fund will take place against the background of the announced extension of the wage-price pact through end-December 1991 and the recently approved budget for 1991 It also should be noted that mid-term elections are scheduled for July Policy actions announced in the context of the extension of the pact include (i) a slower pace of depreciation of the peso with respect to the U.S dollar from an annual rate of 10 percent under the preceding pact to an annual rate of 5 percent, (ii) an increase in minimum wages of 18 percent, (iii) adjustments in the domestic prices of petroleum products by up to 30 percent and of electricity by 10 percent, (iv) a 40 percent reduction in the income tax rate and an extension of the coverage of subsidies of basic foods for the poorer segments of the population, and (v) an agreement by enterprises to absorb the increased costs resulting from adjustments of public sector prices.

The authorities' aims for 1991, as stated in the budget for 1991, are to reduce the rate of inflation to 14 percent, achieve real growth of GDP at 3 percent and consolidate recent gains in the domestic and external accounts The non-oil external current account deficit would decline reflecting continued growth of non-oil exports and a marked reduction in the real growth of imports These goals would be achieved within the framework of the extension of the wage-price pact

The 1991 budget, as described below, is based on an oil price of US$17 a barrel and does not include the proceeds from the sale of public sector enterprises. 1/ The budget envisages a reduction in the PSBR of 1 1/2 percentage points of GDP because of a projected decline in average nominal interest rates based on the maintenance of current levels, but the primary surplus is projected to come down by about 1 1/2 percentage points of GDP

The fiscal effort and the commitment of the authorities to it remain strong However, questions arise whether the projected cutback in the primary surplus is consistent with the authorities' inflation and balance of payments objectives This concern seems to be shared by the Ministry of Finance but there are pressures to increase expenditure originating in the Ministry of Budget and Planning

The staff will emphasize that, in view of the reduced pace of currency depreciation it will be difficult to maintain Mexico's international competitiveness even if the authorities' inflation target is reached To this end, the staff will stress that the fiscal effort should not be eased until there is clear evidence that the rate of inflation has declined to a path consistent with that assumed by the authorities Such a policy stance also would help strengthen the underlying balance of payments, making it less dependent on private capital inflows which have risen sharply but include a large component of short-term financial investments

a. Fiscal policy

The budget for 1991 projects a reduction in the PSBR from an estimated 3 3 percent of GDP in 1990 to 1 9 percent of GDP in 1991, even though the primary surplus is projected to decline from 8.4 percent of GDP in 1990 to 6 9 percent of GDP in 1991 2/ Hence, the projected improvement in the PSBR reflects both a decline in the average domestic nominal interest rate from 35 percent in 1990 to 25 percent in 1991 (on the assumption that nominal interest rates remain at current levels),

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1/ The oil price for the Mexican mix of US$17 a barrel is equivalent to about US$19 a barrel for the petroleum mix in WEO exercises Every US$5 a barrel in the price of oil is the equivalent of 1 percent of GDP in the value of Mexican exports and fiscal receipts The proceeds from the sale of public sector enterprises are anticipated to be equivalent to around 2 percent of GDP during 1991

2/ The primary surplus would only be reduced by about 1 percentage point of GDP when measured on the basis of an unchanged oil price The reduction reflects a decline in receipts from the sale of public sector goods and services and increased outlays on wages and capital expenditure and a reduction in the level of domestic debt in real terms The surplus on the operational balance would decline by 0 9 percentage point of GDP to 1 8 percent of GDP 1/

The staff will take the position that the fiscal effort at the level of the primary surplus should be sufficiently strong to ensure that the rate of inflation declines to a path consistent with that assumed in the authorities' economic program This may imply that the primary surplus should not be reduced from the level of 1990 and might even require some further tightening The fiscal effort would need to be particularly strong in the first half of 1991 to help achieve the targeted rate of inflation because important private sector wage negotiations expected to be settled early in the year could be based on early indicators of inflation

The authorities view their fiscal effort as adequate and therefore may resist a change from what is called for in the budget As a mechanism to protect the objectives for prices and the balance of payments, the mission would seek to introduce in the arrangement a contingency clause that would trigger additional fiscal measures and tighter fiscal performance criteria if the rate of inflation does not decline in line with the authorities' program during the first quarter of 1991 2/ The staff will suggest that to the extent a tighter budgetary position is required in 1991, planned additional outlays on public sector investment could be cut back and public sector prices and tariffs could be adjusted further

The program also will include a mechanism (similar to that used in the 1990 economic program) to ensure that a large part of the proceeds from oil prices higher than assumed in the budget and from the privatization of public sector enterprises be saved in light of their likely nonrecurrent nature and the macroeconomic objectives of the program (see below) 3/ Oil prices lower than assumed in the budget would require additional fiscal action (similar to that used in the 1990 economic program)

1/ The authorities expect that real interest rates on domestic debt will average 12 percent in 1991 compared with 8 percent in 1990

2/ The path of measured inflation consistent with the authorities' program would show a higher rate in the beginning of 1991 (with a cumulative rate in the first quarter of around 5 1/2 percent) reflecting the impact of the recent adjustments to public sector prices and tariffs, in assessing the price performance, the mission would put particular emphasis on the index of noncontrolled consumer prices

3/ The authorities have announced the creation of a Contingency Fund with the Bank of Mexico where the proceeds from privatizations would be placed b Monetary and credit policies

Credit policies will be set consistent with the program's balance of payments and inflation objectives The staff will note that the recent decline in nominal interest rates has been a positive development but the new exchange rate rule makes it necessary for financial policies to be geared to reducing inflation sharply if lower nominal interest rates are to be assured

Bank of Mexico credit to the nonfinancial public sector would remain broadly unchanged during 1991 with the domestic financing requirement of the public sector met by the placement of government securities with the public, and entailing a decline in the stock of domestic debt in real terms for the second year in a row The financial program would envisage a moderate growth of private sector financial savings in real terms and a slowdown in the real growth of credit to the private sector.

The authorities are in the process of finalizing the modalities for the privatization of commercial banks In addition to the recent adaptation of the accounting system for bank examination purposes, inter-ministerial committees, which include representatives from the Bank of Mexico, have been established to prepare further changes in the supervisory and regulatory regimes. The mission will review progress in these areas and stress the need to strengthen the regulatory and supervisory regimes parallel with the process of bank privatization

c External policies

The authorities are projecting an increase in the current account deficit (after restructuring) by 0.2 percentage point of GDP to 2 2 percent of GDP in 1991 (at an oil price of US$17 a barrel) with the value of oil exports declining by about 1 percentage point of GDP The non-oil current account deficit would narrow by 0 8 percentage point of GDP to 5 7 percent of GDP The authorities project net official capital inflows of US$0 2 billion, 1/ and net private sector capital inflows of US$6 2 billion, reflecting in part growing foreign direct investment in anticipation of the envisaged Free Trade Agreement with the United States The authorities are targeting no change in net international reserves, gross reserves would increase by US$0 2 billion but would decline to some 4 2 months of imports At the price of oil assumed in the most recent WEO exercise for the Mexican mix (US$19 8 a barrel), gross reserves would increase to 4 9 months of imports

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1/ This is consistent with the terms of the 1990 financial package with commercial banks and the 1989 agreement with the Paris Club The staff envisages a lower net inflow of official capital reflecting lower projected disbursements from the IBRD than expected earlier because of reduced commitments for nonproject loans

Underlying the authorities' current account target is an increase in non-oil exports by over 9 percent in real terms, implying a marked improvement in Mexico's market share reflecting in part continued structural reform of the economy Imports are expected to increase by only 3 percent in real terms, compared with a 20 percent growth in 1990 due to the winding down of inventory accumulation However, there are questions whether these projections are consistent with the announced exchange rate rule even if inflation declines to the levels assumed in the program

The authorities view the present exchange rate policy as appropriate, particularly in light of the strong performance of exports, including non-oil receipts and the sustained increase in net international reserves Moreover, the exchange rate has appreciated only moderately in real terms since the program began in May 1989 However, the mission will seek at a minimum to obtain, within the above-mentioned contingency clause, a commitment on the part of the authorities to modify the exchange rate policy to the extent that there would be a clear deterioration in the external performance Finally, the mission will seek to obtain some improvement in net international reserves in 1991, at an oil price of US$17 a barrel.

The differential between the free and controlled foreign exchange rates remains small--less than 0 5 percent The staff will emphasize that the authorities should take advantage of the situation and unify the exchange markets, particularly because such action would be consistent with the basic exchange rate strategy of the authorities

The mission also will stress the need for prudent external debt management, avoiding excessive recourse to new external borrowing, especially of a short-term nature in an environment of somewhat greater availability of financing To this end, the mission will monitor short-term external borrowing with a view to allowing only a small increase.

d <u>Access to Fund resources</u>

The authorities have informed the staff of their intention to make all purchases under the extended arrangement with the Fund, implying a net increase of about US$0 2 billion in their obligations to the Fund The authorities consider it essential to consolidate the recent improvement in gross international reserves, which in their view are still at a relatively low level The authorities note that the prospects for world oil prices--as indicated by recent events--are uncertain and that the projected slower growth of aggregate demand in Mexico's major trading partners might have a harmful effect on non-oil exports. Moreover, under Mexico's agreement with commercial banks, foregoing the scheduled purchases would interrupt disbursement of new money (about US$250 million in 1991) on the part of commercial banks. In these circumstances, the staff will not press for reduced access under the extended arrangement

The mission will revise Mexico's medium-term scenario In this regard, Mexico's ability to repay the Fund recently was assessed favorably (EBS/90/144) in light of the authorities' commitment to the implementation of strong adjustment measures and their track record of timely payments to the Fund.

e Definition and coverage of performance criteria

The staff will propose that relevant targets for the 1991 program be adjusted for developments in oil prices and sales of public sector enterprises, while taking into consideration the possible use of these resources for the reduction of domestic or external debt If oil prices should be higher than those assumed in the budget and if there should be proceeds from the sale of public sector enterprises, these developments should translate into a larger fiscal primary surplus, a lower PSBR and operational deficit, and a larger accumulation of net international reserves, preferably by the full amount of these additional resources. If oil prices should be lower than those assumed in the budget, these developments should result in additional fiscal action

Attachments

cc Mr Beza
Mr Frenkel
Mr. Boorman
Mr Gianviti
Mr Laske
Mr Tanzi
Mr P Andrews

Fund Relations with Mexico
(As of December 31, 1990)

I. Membership Status

(a) Member since December 31, 1945
(b) Status - Article VIII

A Financial Relations

II General Department (General Resources Account)

(a) Quota SDR 1,165 5 million
(b) Total Fund holdings of Mexican pesos SDR 5,770 5 million
(c) Fund credit SDR 4,604 9 million or 395 1 percent of quota
Of which SDR 270 4 million or 23 2 percent of quota under credit tranche, SDR 1,211 5 million or 103 9 percent of quota under EFF, SDR 2,669 6 million or 229 1 percent of quota under EAR, SDR 453.5 million or 38 9 percent of quota under CCFF
(d) Reserve tranche position None

III. Stand-by or Extended Arrangement and Special Facilities

(a) Current extended arrangement
  (i) Duration May 26, 1989 until May 25, 1992
  (ii) Amount SDR 3,263 4 million
  (iii) Utilization SDR 2,097 9 million
  (iv) Undrawn balance SDR 1,165 5 million
(b) Compensatory and contingency financing facility
  (i) Purchased on June 1, 1989
  (ii) Amount SDR 453 5 milion
  (iii) Utilization SDR 453 5 million
(c) Previous stand-by arrangement
  (i) Duration November 19, 1986 until April 1, 1988
  (ii) Amount SDR 1,400 million
  (iii) Utilization SDR 1,400 million
(d) Emergency assistance
  (i) Purchase in January 1986
  (ii) Amount SDR 291 4 million
  (iii) Utilization SDR 291 4 million
(e) Previous extended arrangement
  (i) Duration from January 1, 1983 to December 31, 1985
  (ii) Amount SDR 3,410 6 million
  (iii) Utilization SDR 2,502 7 million
  (iv) Undrawn balance 907 9 million

IV. SDR Department

(a) Net cumulative allocation SDR 290 million
(b) Holdings SDR 293 04 million or the equivalent of 101 0 percent of net cumulative allocation

V

Mexico Projected Payments to the Fund as of (in SDR millions)
December 31, 1990

(In SDR millions)

	Overdue	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Beyond	Total
A Obligations from existing drawings													
Total obligations	—	1 219 3	982 8	1,130 8	1 019 7	658 2	563 3	352 2	113 8	90 3	20 9	—	6,151 3
(percent of quota)	—	104 6	84 3	97 0	87 5	56 5	48 3	30 2	9 8	7 7	1 8	—	527 8
Principal													
Repurchases	—	807 4	631 9	845 9	811 9	521 0	475 6	309 0	97 7	84 1	20 4	—	4,604 9
ESAF/SAF repayments	—	—	—	—	—	—	—	—	—	—	—	—	—
TF obligations	—	—	—	—	—	—	—	—	—	—	—	—	—
Charges and interest 1/													
Total	—	411 9	350 9	284 9	207 8	137 2	87 7	43 2	16 1	6 2	0 5	—	-1,546 4
B Obligations from prospective drawings													
Total obligations	—	15 3	85 9	108 9	184 9	363 5	369 0	341 6	238 5	32 5	—	—	1,740 1
(percent of quota)	—	1 3	7 4	9 3	15 9	31 2	31 7	29 3	20 5	2 8	—	—	149 3
Principal													
Repurchases	—	—	—	—	75 8	262 3	291 4	291 4	215 6	29 1	—	—	1 165 8
ESAF/SAF repayments	—	—	—	—	—	—	—	—	—	—	—	—	—
TF obligations	—	—	—	—	—	—	—	—	—	—	—	—	—
Charges and interest 1/													
Total	—	15 3	85 9	108 9	109 1	101 3	77 6	50 2	22 8	3 4	—	—	574 5
C Cumulative (existing and prospective)													
Total obligations 1/	—	1,234 6	1,068 7	1,239 8	1,204 5	1,021 7	932 3	693 7	352 3	122 8	20 9	—	7 891 4
(percent of quota)	—	105 9	91 7	106 4	103 3	87 7	80 0	59 5	30 2	10 5	1 8	—	677 1
Principal													
Repurchases	—	807 4	631 9	845 9	887 7	783 3	767 0	600 4	313 3	113 2	20 4	—	5,770 5
ESAF/SAF repayments	—	—	—	—	—	—	—	—	—	—	—	—	—
TF obligations	—	—	—	—	—	—	—	—	—	—	—	—	—
Charges and interest													
Total	—	427 2	436 8	393 9	316 9	238 4	165 3	93 4	39 0	9 6	0 5	—	-2,120 8

1/ Projections are based on current rates of charge including burden-sharing charges where applicable, for purchases in the GRA and on current interest rates for SAF, ESAF, and Trust Fund The current SDR interest rate is assumed for net use of SDRs

ATTACHMENT I

B. Nonfinancial Relations

VI Exchange rate arrangement Since August 5, 1985 two official markets have been operative in Mexico a controlled market covering specified transactions amounting to about 80 percent of all trade and payments transactions, and a free market The controlled market rate is determined under a managed float system guided by a set of indicators, whereas the free market rate is established by market forces As of December 31, 1990 the controlled market equilibrium exchange rate was Mex$2,945 4 per U S dollar, the average free rate was Mex$2,941 9 per U S dollar, yielding a differential between the rates in the controlled and the free market of about 0 1 percent

VII Last Article IV consultation and review under EFF The first review under the EFF was completed on September 14, 1989 The relevant supporting documents were EBS/89/178 and correction 1 The second review under the EFF was completed on January 29, 1990 At that time, the Executive Board approved the request for the release of accumulated set-asides, accelerated disbursements of the set-asides scheduled to become available during 1990, and augmentation (by 40 percent of quota) of resources under the arrangement in support of debt and debt-service reduction operations The relevant supporting documents were EBS/90/10 and supplement 1

On April 18, 1990, the Board approved Mexico's request for a waiver with respect to nonobservance of certain performance criteria for end-1989 and modifications to the second year program under the extended arrangement The relevant supporting documents were EBS/90/58 and supplement 1

The last Article IV consultation and review under the Extended Fund Arrangement for 1989-92 were completed by the Executive Board on August 27, 1990 The relevant supporting documents were EBS/90/144, Supplement 1 and SM/90/169 For consultation purposes, Mexico is on the 12-month cycle

VIII. Technical Assistance In October 1988, a technical team provided assistance in the area of external debt and international banking

Table 1 Mexico Performance Under Extended Arrangement for 1990 1/

	March	June	Sept	Dec
	(In billions of Mexican pesos)			
Overall public sector borrowing requirement 2/3/	6 982	12 049	15 338	
Ceiling				
Modified 4/	11 400	17 300	23 400	31 050
Adjusted 5/	11 400	18 077	23 400	27 297
Excess (-)/Margin (+)	4 418	6 028	8 062	
Nonfinancial public sector operational deficit 2/6/	-826	-2 123	-6 013	
Ceiling				
Modified 4/	3 870	4 540	4 850	6 150
Adjusted 5/	3 870	5 317	4 850	2 397
Excess (-)/Margin (+)	4 696	7 440	10 863	
Changes in net domestic assets of the monetary authorities (effective flows) 2/3/7/	5 588	-118	-4 491	
Ceiling				
Modified 4/	9 495	5 883	3 767	4 051
Adjusted 5/8/	8 522	6 660	3 767	298
Excess (-)/Margin (+)	2 934	6 778	8 257	
Net credit to the nonfinancial public sector by the monetary authorities 9/	40 180	33 244	28 789	
Ceiling				
Modified 4/	45 360	42 370	41 640	39 050
Adjusted 5/8/	44 386	43 147	41 640	35 297
Excess (-)/Margin (+)	4 207	9 903	12 851	
Primary surplus	16 120	31 396	43 527	
Target 2/10/				
Modified 4/	12 550	23 050	33 500	41 900
Adjusted 5/	12 550	22 273	33 500	45 653
Excess (-)/Margin (+)	3 570	9 123	10 027	
	(In millions of U S dollars)			
Net foreign borrowing by the public sector 2/	5 087	5 310	6 221	
Ceiling				
Modified 4/	5,540	6 770	6 935	7 020
Adjusted 8/	5 902	6 770	6 935	7 020
Excess (-)/Margin (+)	453	1 460	714	
Change in net international reserves of the monetary authorities 1/2/	-2 942	-437	1 109	
Target				
Modified 4/	-3 650	-2 275	-1 667	-253
Adjusted 5/8/	-3 288	-2 559	-1 667	1 082
Excess (-)/Margin (+)	346	2 122	2 776	

Source Bank of Mexico

1/ Limit tested at the end of each period
2/ Cumulative changes from end-1989
3/ Effective flows of financing measured on a cash basis
4/ As described in EBS/90/58 Supplement 1 the original program limits were modified to reflect the final features of the commercial bank financing package the deviation in net international reserves from its end-1989 target and the disbursement in 1990 of certain loans from multilateral organizations which were to have taken place in 1989
5/ Adjustment relating to provisions under oil price mechanisms Projected adjustments for December are based on oil prices averaging US$28 00 per barrel in the fourth quarter
6/ Defined as the difference between the overall economic deficit (on an accrual basis) and the inflation component of interest payments on the public sector debt denominated in local currency
7/ Net domestic assets of the Bank of Mexico for purposes of the ceiling are defined as the difference between note issue and net international reserves of the Bank of Mexico
8/ Adjusted for disbursement of US$362 million of new money by the commercial banks which took place in March instead of in April as assumed in the modified ceilings
9/ Effective stocks calculated by adding effective flows to the nominal stock of Mex$38 054 billion outstanding as of the end of 1989
10/ Measured as the difference between receipts and non-interest expenditure of the nonfinancial public sector on a cash basis

Table 2 Mexico Selected Economic and Financial Indicators

	1986	1987	1988	1989	1990 Prog 1/	1990 Est 2/	1991 Budget 3/
	(Annual percentage change unless otherwise specified)						
Income and prices							
Real GDP	-3 7	1 6	1 4	3 1	3 5	3 0	3 0
GDP deflator	73 4	140 5	101 8	25 3	18 9	24 2	17 5
Consumer prices (end of year)	105 7	159 2	51 7	19 7	15 0	29 7	14 0
Consumer prices (average)	86 2	131 9	114 2	20 0	17 8	26 6	19 8
External sector							
Exports (f o b)	-24 4	28 5	2 9	1[illegible] 7	7 5	18 9	6 [illegible]
Export volume	7 4	11 9	7 9	3 6	6 1	7 3	7 0
Imports (f o b)	-13 5	6 9	54 6	3 9	8 8	23 5	9 2
Import volume	-11 6	2 8	46 5	18 5	6 2	19 7	3 1
Terms of trade	-28 1	10 4	-9 6	4 1	-1 2	7 4	-6 3
Nominal effective exchange rate							
Average (depreciation -)	-59 3	-57 8	-40 6	0 6		-5 7 4/	
End of period	-61 8	-56 7	-5 5	-4 6		-8 4 4/	
Real effective exchange rate							
Average (depreciation -)	-30 0	-8 1	23 7	7 5		1 8 4/	
End of period	-23 5	3 3	29 2	0 4		3 7 4/	
Nonfinancial public sector							
Receipts	62 7	137 1	98 7	25 6	16 5	29 0	19 3
Outlays	89 3	140 4	84 1	6 8	11 9	17 5	13 8
Money and credit 5/							
Domestic credit (net)	89 3	114 3	64 0	47 3	25 6	29 6	
Public sector (net)	81 1	72 0	42 3	6 9	5 8	-5 0	
Private sector	29 3	59 7	39 4	62 0	18 6	34 5	
Money and quasi-money (M-2)	94 1	135 2	43 1	44 9	28 8	35 7	
Real growth in M-4	7 7	-5 4	4 8	25 7	10 0	10 0	8 2
Velocity (GDP/M-4)	3 2	3 3	3 6	3 0	2 6	2 7	2 2
Interest rate on one-month treasury bill (percent per month)	7 2	8 0	5 8	3 8	3 2	2 9	2 1
	(Percent of GDP)						
Public sector savings	-9 3	-9 5	-7 1	-1 6	1 1	2 1	5 2
Public sector savings (adjusted) 6/	3 7	7 4	-0 2	2 2	4 0	7 6	8 3
Public sector economic balance	-14 8	-15 0	-11 4	-5 2	-3 9	-2 3	-0 9
Primary fiscal balance	2 3	5 0	5 9	8 0	6 9	8 4	6 9
Operational balance	-1 8	2 0	-4 5	-1 7	-1 0	2 7	1 8
Public sector borrowing requirement	15 7	15 8	12 9	5 6	5 1	3 3	1 9
Gross domestic investment	18 2	18 5	19 2	19 3	23 4	19 8	21 2
Gross national savings	16 9	21 3	17 8	16 7	22 1	16 9	18 7
External current account deficit (-) 7/	-1 3	2 8	-1 4	-2 6	-1 4	-2 9	-2 4
Public external debt (including IMF) 8/	58 0	61 3	48 8	39 4	38 9	35 1	30 1
Interest payments on public debt 7/9/	4 8	4 4	4 0	3 7	3 6	3 6	2 7
	(In percent of exports of goods, nonfactor services, and transfers)						
Public debt service 9/							
Before rescheduling	69 6	80 7	84 0	63 9	54 5	49 7	36 5
After rescheduling	39 1	37 1	46 3	34 4	34 6	27 4	31 8
	(In billions of U S dollars)						
Overall balance of payments	-1 1	6 6	-6 8	-1 1	-0 3	3 4	0 1
Gross official reserves end of period (months of imports)	7 4	13 5	4 2	3 8	3 9	4 5	4 2

Sources Bank of Mexico Secretariat of Programming and Budget and Fund staff estimates

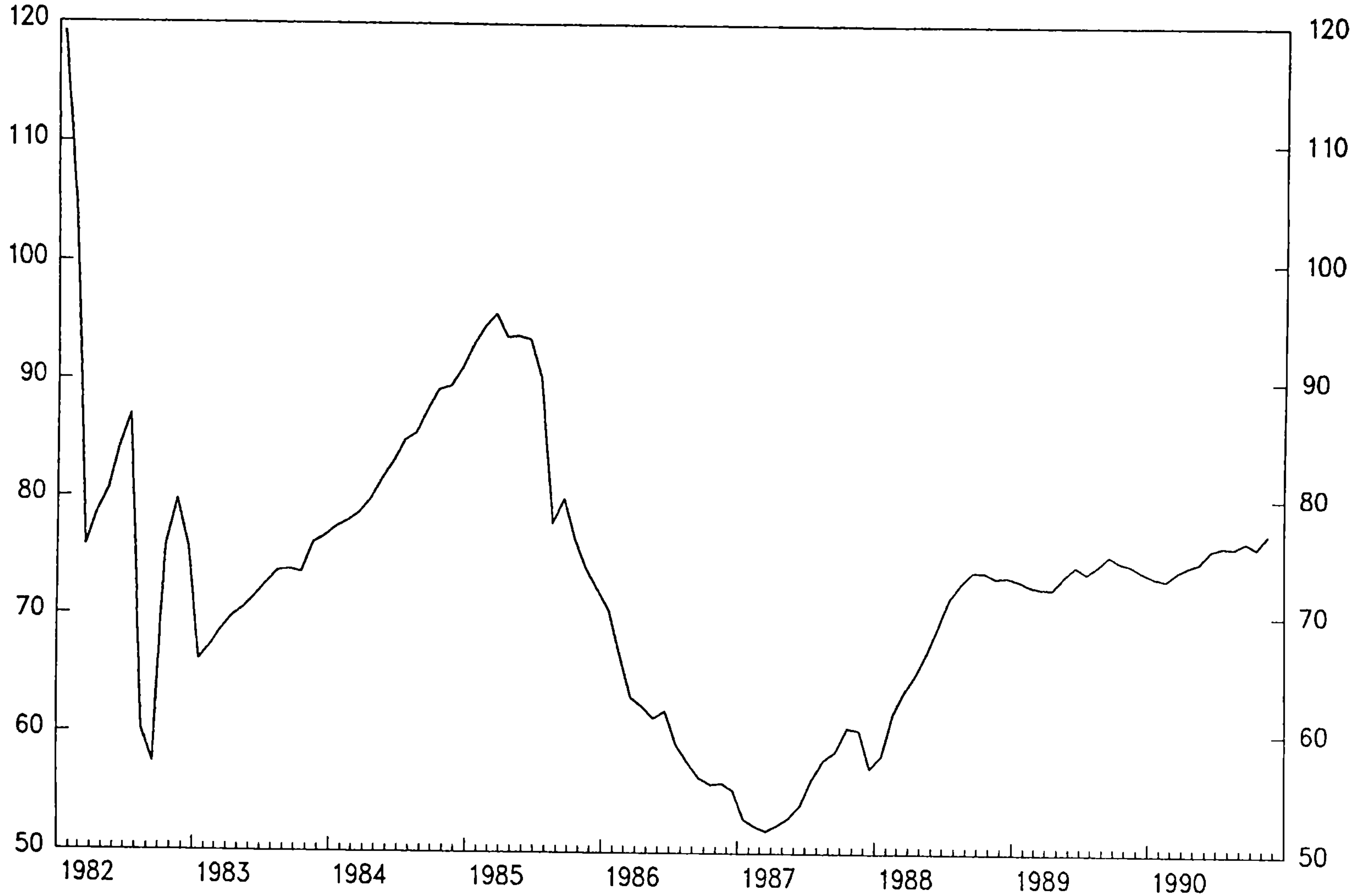
1/ Based on an average oil price of US$15 a barrel (unadjusted for oil price developments) and the original projection of GDP
2/ Based on an average oil price of US$19 3 a barrel
3/ Based on an average oil price of US$17 a barrel
4/ Actual data through November
5/ In relation to total liabilities to the private sector at the beginning of the period
6/ Adjusted to include as savings the inflation component of interest payments
7/ Excludes interest relief from debt and debt-service reduction operations
8/ Includes short-term debt
9/ Includes debt service on use of Fund credit

CHART 1

MEXICO

REAL EFFECTIVE EXCHANGE RATE

(Base 1980 = 100)



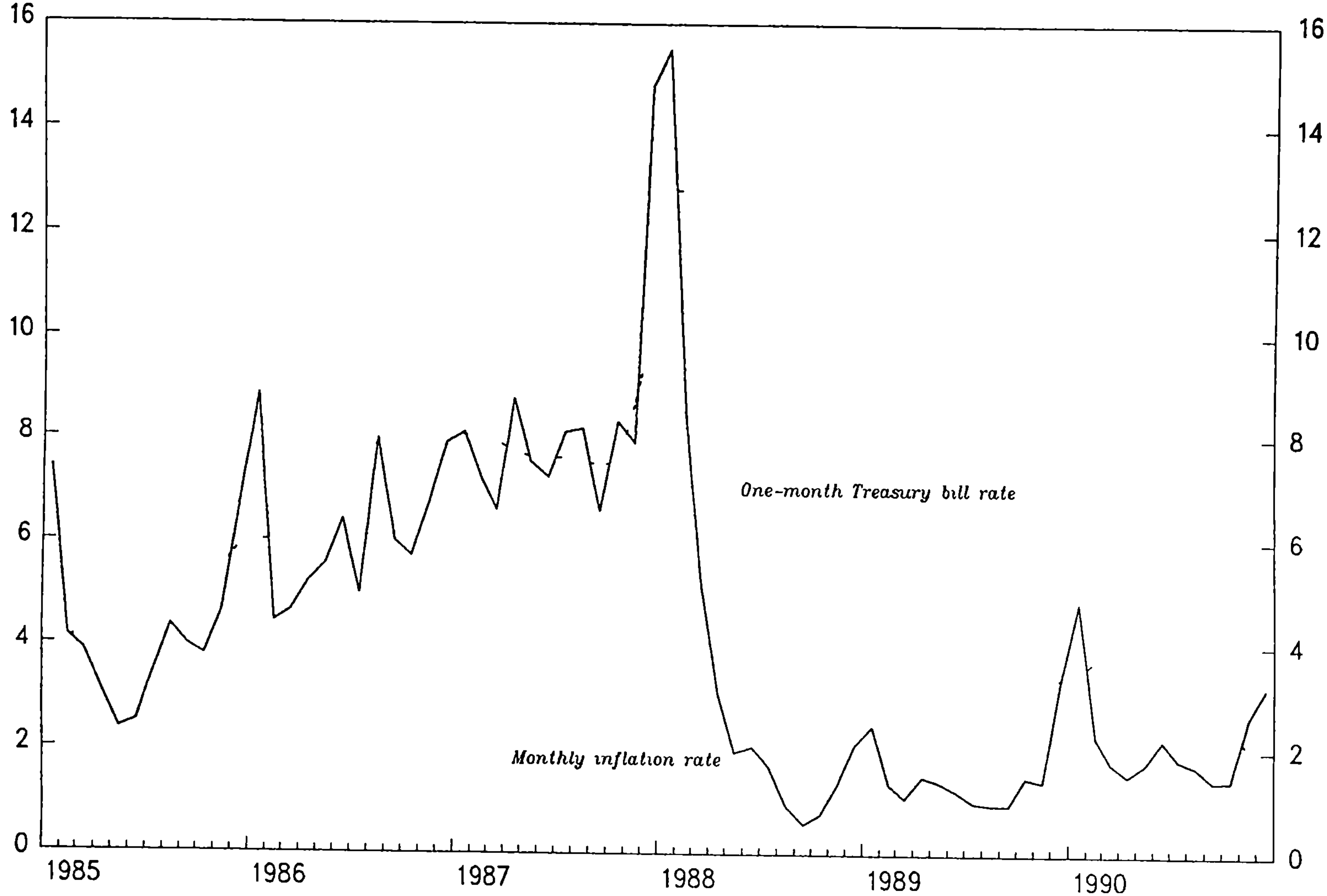
Source Information Notice System

CHART 2

MEXICO

INFLATION AND INTEREST RATE DEVELOPMENTS

(In percent per month)



Source Bank of Mexico

STB
CL
MLCD
IO
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Office Memorandum

January 15, 1991

MEMORANDUM FOR FILES

Subject: Mexico: Financial Transactions with the IBRD

I called today Messrs. Kanchuger and Gochez (IBRD) to get the latest projections of Mexico's financial transactions with the World Bank that are shown in Table 1. Despite the allegedly intense discussions that have been taking place between Mexico and the Bank, the disbursement figures are basically unchanged compared with those reported in November 1990.

Besides the erratic path displayed by the envisaged commitments, these projections show a significant drop in the Bank's net disbursements to Mexico and a negative net financial transfer from Mexico in favor of the Bank, beginning in 1991.

Table 1. Mexico: Financial Transactions with the IBRD
(In millions of U.S. dollars)

	1990	1991	1992	1993	1994	1995
Disbursements	3,482	1,171	1,254	1,428	1,617	1,671
Amortization	780	926	932	913	950	1,221
Net disbursements	2,702	245	322	515	667	450
Interest payments	713	851	882	927	978	1,026
Net financial transfer	1,989	-606	-560	-412	-311	-576
Memorandum item: Commitments	n.a.	2,050	1,250	1,850	1,100	1,300

Finally, asked about the possible introduction of early repayment clauses in Bank loans to Mexico, Mr. Kanchuger confirmed that such a clause was to be attached to the forthcoming Agricultural Adjustment Loan, under which US$400 million are to be committed during 1991.

Philippe Szymczak
Economist
Exchange and Trade Relations Department

cc. Mr. Loser (o/r)
Mr. Kalter
Ms. Coorey
Mr. Zandamela

Cable Room ID: MC1A0882 Page: 01	Distribution
Processed: January 10, 1991 20:39 Sender: Banco de Mexico Mexico (Mexico)	ORIG: SEC(MRS.LONG) CC: MR. TORRES WHD ~~LEG~~ TRE SEC

mexico

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INTERNATIONAL MONETARY FUND

INCOMING MESSAGE

1777573 BMCVME

MEXICO,D.F. 10 JAN 1991 J.M.A. CSF
MR. LEO VAN HOUTVEN
THE SECRETARY
INTERNATIONAL MONETARY FUND
WASHINGTON DC

REF. D-01 / 00639

NO. 4

I AM DULY AUTHORIZED AND DIRECTED BY THE GOVERNMENT OF MEXICO TO NOTIFY YOU THAT MEXICO HEREBY CONSENTS TO THE INCREASE IN ITS QUOTA TO SDR 1,753,300,000 (ONE THOUSAND SEVEN HUNDRED AND FIFTY THREE MILLION THREE HUNDRED THROUSAND) IN ACCORDANCE WITH PARAGRAPH 1 OF THE BOARD OF GOVERNORS' RESOLUTION NO. 45-2 ON ''INCREASES IN QUOTAS OF FUND MEMBERS NINTH GENERAL REVIEW.'' THE DECREE TO THIS EFFECT WAS PUBLISHED IN THE OFFICIAL GAZETTE ON JANUARY 7.

BEST REGARDS

ARIEL BUIRA
BANCO DE MEXICO

BANXICO

64111 IMF UW

1777573 BMCVME
10/01/91 15:58:46

Note:
*** Test Accepted ***

10-100

STB
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BANCO DE MEXICO

INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.
1991 JAN 18 AM 11:13

MIGUEL MANCERA
DIRECTOR GENERAL

Mexico

Mexico City, January 9, 1991.

ORIG: SEC(MRS.LONG)
CC: MR. TORRES
~~WHD~~
ETR
LEG
TRE
SEC

Mr. Leo Van Houtven
The Secretary
International Monetary Fund
Washington, D. C., 20431

Dear Sir,

I have the honor to inform you that Mexico accepts the proposed Third Amendment of the Articles of Agreement of the International Monetary Fund.

A copy of the decree published in the Official Gazette pursuant to which this acceptance is given is attached.

011797

Sincerely yours,

Alternate Governor

RECEIVED
INTERNATIONAL
MONETARY FUND
1991 JAN 16 AM 10:10
COMMUNICATIONS
DIVISION

SEC-9100269
MF/RR MS

ORIGINAL SPANISH

[Source Diario Oficial, Monday, January 7, 1991]

THE EXECUTIVE

Secretariat of Finance and Public Credit

Decree amending the previous decree which authorized the Federal Executive, representing the Government of Mexico, to sign the Articles of Agreement of the International Monetary Fund and the International Bank for Reconstruction and Development

The National Seal is stamped in the margin and reads United States of Mexico--Office of the President of the Republic

CARLOS SALINAS DE GORTARI, Constitutional President of the United States of Mexico, hereby declares to the inhabitants of the Nation that

the Congress of the Union has seen fit to send me the following

DECREE

"The Congress of the United States of Mexico hereby decrees

"That the previous decree authorizing the Federal Executive, representing the Government of Mexico, to sign the Articles of Agreement of the International Monetary Fund and the International Bank for Reconstruction and Development, is amended

Article 1 Article 3 of the Decree authorizing the Federal Executive, representing the Government of Mexico, to sign the text of the Articles of Agreement of the International Monetary Fund and the International Bank for Reconstruction and Development is amended to read as follows

"Article 3 The Bank of Mexico, in accordance with Article 6 below, will effect the contribution of the United States of Mexico to the International Monetary Fund The amount of the aforesaid contribution shall be equivalent to one thousand seven hundred fifty-three million three hundred thousand special drawing rights "

Article 2 The Federal Executive, representing the United States of Mexico, is authorized, through the Bank of Mexico, to bring up to date the contributions to the International Monetary Fund in compliance with the terms of Article 1 of this Decree, and to accept the third amendment to the Articles of Agreement of the aforementioned organization, in accordance with Resolutions 45-2 and 45-3, respectively, agreed on June 28, 1990 by the Board of Governors of the above-mentioned organization

TRANSITIONAL PROVISION

Sole Article This Decree shall take effect on the day following its publication in the Diario Oficial de la Federacion

Mexico, D F , December 20, 1990 /s/ Fernando Cordoba Lobo, Chairman Mr Ricardo Canavati Tafich, Chairman Juan Manuel Verdugo Rosas, Secretary Mr Jorge Adolfo Vega Camacho, Secretary

In compliance with the provisions of Section I of Article 89 of the Political Constitution of the United States of Mexico and so that it may be published and observed, this Decree is issued, at the headquarters of the Federal Executive, in Mexico City, D F , on December 21, 1990 /s/ Carlos Salinas de Gortari /s/ Fernando Gutierrez Barrios, Secretary of the Interior

PODER EJECUTIVO

SECRETARIA DE HACIENDA Y CREDITO PUBLICO

DECRETO por el que se reforma al que autorizó al Ejecutivo Federal a firmar, en representación del Gobierno de México, los Convenios Constitutivos sobre el Fondo Monetario Internacional y el Banco Internacional de Reconstrucción y Fomento

Al margen un sello con el Escudo Nacional, que dice Estados Unidos Mexicanos - Presidencia de la Republica

CARLOS SALINAS DE GORTARI, Presidente Constitucional de los Estados Unidos Mexicanos, a sus habitantes, sabed

Que el H Congreso de la Unión, se ha servido dirigirme el siguiente

DECRETO

EL CONGRESO DE LOS ESTADOS UNIDOS MEXICANOS, DECRETA

SE REFORMA AL QUE AUTORIZO AL EJECUTIVO FEDERAL A FIRMAR, EN REPRESENTACION DEL GOBIERNO DE MEXICO, LOS CONVENIOS CONSTITUTIVOS SOBRE EL FONDO MONETARIO INTERNACIONAL Y EL BANCO INTERNACIONAL DE RECONSTRUCCION Y FOMENTO

ARTICULO PRIMERO - Se reforma al Articulo 3o del Decreto que autoriza al Ejecutivo Federal a firmar en representacion del Gobierno de México, el texto de los convenios sobre el Fondo Monetario Internacional y el Banco Internacional de Reconstrucción y Fomento, para quedar en los términos siguientes

ARTICULO 3o El Banco de México efectuará, en términos del artículo 6o siguiente, la aportación de los Estados Unidos Mexicanos al Fondo Monetario Internacional La citada aportación será hasta por la cantidad equivalente a un mil setecientos cincuenta y tres millones trescientos mil derechos especiales de giro'

ARTICULO SEGUNDO - Se autoriza al Ejecutivo Federal, por conducto del Banco de México, a que, en representación de los Estados Unidos Mexicanos, actualice las aportaciones al Fondo Monetario Internacional para dar cumplimiento a lo indicado en el Articulo Primero de este Decreto, y acepte la tercera enmienda al Convenio Constitutivo del mencionado Organismo, conforme a las Resoluciones 45-2 y 45 3 respectivamente, acordadas el 28 de junio de 1990 por la Junta de Gobernadores del citado Organismo

TRANSITORIO

ARTICULO UNICO - El presente Decreto entrará en vigor el día siguiente al de su publicación en el **Diario Oficial de la Federación**

México, D F, a 20 de diciembre de 1990 - Dip **Fernando Córdoba Lobo**, Presidente - Sen **Ricardo Canavati Tafich**, Presidente - Dip **Juan Manuel Verdugo Rosas**, Secretario - Sen **Jorge Adolfo Vega Camacho**, Secretario Rubricas"

En cumplimiento de lo dispuesto por la fracción I del Artículo 89 de la Constitución Política de los Estados Unidos Mexicanos, y para su debida publicación y observancia, expido el presente Decreto, en la residencia del Poder Ejecutivo Federal, en la Ciudad de México, Distrito Federal, a los veintiun días del mes de diciembre de mil novecientos noventa - **Carlos Salinas de Gortari** Rubrica - El Secretario de Gobernación, **Fernando Gutiérrez Barrios** Rubrica

JAN 09 '91 20:32 TO 1 202 623 4661 FROM BANXICO DIR. GENERAL T-179 P.01

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BANCO DE MEXICO
DIRECCION GENERAL

Av. 5 de Mayo No. 2
Col. Centro
06059. México, D.F.

THE ORIGINAL IS BEING TRANSLATED IF

CONTROL DE SERVICIO TELEFACSIMIL

Fecha (Date): 9-enero-91

No. de Paginas (Total No. of Pages): 8
(Incluyendo esta página) (including cover page)

URGENTE [ ]
NORMAL [x]

FACSIMIL / BANXICO (5) 5-21-83-32

PARA (TO):

MICHEL CAMDESUS,
DIRECTOR GERENTE DEL
FONDO MONETARIO INTERNACIONAL,
700 19th STREET, N.W.,
WASHINGTON, D.C. 20431

ORIG: WHD
CC: MD
DMD
MR. P. ANDREWS

No. Fax: 92(202)623-46-61

DE (FROM):

LIC. MIGUEL MANCERA,
DIRECTOR GENERAL
BANCO DE MEXICO

MENSAJE (MESSAGE):

883950

INTERNATIONAL MONETARY FUND
WESTERN HEMISPHERE DEPT.
1991 JAN 10 AM 10:34

RECEIVED
IMF CABLE ROOM
1991 JAN 10 A 7:31

SI HAY ALGUN PROBLEMA CON LA TRANSMISION, FAVOR DE LLAMAR AL 5-21-17-26 / 7-09-00-44 Ext. 2160
(IF YOU HAVE ANY PROBLEM WITH THIS TRANSMISSION PLEASE CALL TELEPHONE No. 5-21-17-26 / 7-09-00-44 Ext. 2160)

FIRMA AUTORIZADA

R.V.I

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ORIGINAL: SPANISH

ORIG: WHD
CC: MD
DMD
MR. P. ANDREWS

DIRECTOR GENERAL
BANK OF MEXICO

Mexico City, January 8, 1991

Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Michel:

In December I had the great satisfaction of receiving the cross of an Officer of the Legion d'Honneur, which establishes another bond between us as fellow Legionnaires.

At the ceremony I said a few words on, among other things, the relations between the Bank of France and the Bank of Mexico, to which you made a very important contribution, and on the gratifying personal friendships that have developed between officials of the two institutions. A copy of my statement is attached.

I wish you every success in 1991.

Cordially,

/signed/

Miguel

Mr Ambassador and Friends

I take exceptional pleasure in addressing you on this occasion, at which I have been invested by Ambassador Rouquie with the insignia of the Legion of Honor, of which His Excellency the President of the French Republic has seen fit to appoint me an Officer My pleasure is especially enhanced by the great significance of the decoration and by the presence here of my closest relatives and many beloved friends to share this joy I wish to note especially the presence of my wife Sonia, whose support has been crucial to my meriting this distinction

The award being given to me is highly prestigious, and its past and present membership outstanding My pride in being admitted to its ranks is strengthened by the fact that it is an institution conceived--and maintained through changing times--not to create a hereditary aristocracy, but to recognize merit, whether civil or military

The relations between France and Mexico are both deep and long-standing We are united, of course, by our common Latin past from which we stem Innumerable aspects of Mexican life manifest links with French culture The same is true of the plastic arts and literature, politics, law, and economics

The fathers of our independence, of course, were avid readers of the encyclopedists of the eighteenth century In the nineteenth, liberal Mexican thought was highly influenced by French authors The same applies to other currents of thought, expressed in ways as different as positivism and Catholicism In another sphere, I would note that many of our city's famous buildings reflect French architectural styles Special mention should be made also of the economic and cultural contribution made to our country by French immigrants, including the many Barceloneta families whose names are among the most outstanding in the business world And what must be said with respect to law our laws are modeled to a large extent on the content and structure of the Napoleonic Code, while Mexican doctrine and jurisprudence recognize the flawless logic of French legal thought And, finally, something very strong in my memories of youth--the austere schoolmaster conveying the teachings of Juan Bautista de la Salle or Marcelino Champagnat

France played a major role in the formation and development of our financial system Its influence was exerted both through banking and monetary doctrine and through action Historians remind us that the standards on which the structure and operation of our first banking system were based were derived from the ideas of a number of French thinkers

As we know, French entrepreneurs were also major participants in the promotion and running of various Mexican banks This is the case of the second oldest and one of the largest credit institutions in Mexico today I am referring to the Banco Nacional de Mexico, born from the merger of two institutions which the French businessmen Eduardo Noetzlin and Eduardo

L'Enfer had helped to establish Some time later, when the revolution had virtually destroyed the banking system of Porfirio Diaz, a French citizen named Jose Simon, who was the director of the Banco Nacional de Mexico at the time, had the laudable integrity to express an opinion which, together with others, contributed to the establishment of the Bank of Mexico He said that, although it might not be good for the institution he directed, the then existing monetary system should be reformed and a single bank of issue should be created to bring into being a uniform money supply

The Bank of France, one of the world's oldest and most respected banks of issue, is older than the Legion of Honor, though by just a little Its links with the Bank of Mexico go back to a date before the latter's birth--to its conception, one might say The French central bank is among the models studied most carefully during the gestation of our central bank

Economic relations between France and Mexico have recently been moving along a very favorable path Various efforts have been made in the last few decades to promote trade in both directions In the field of direct investment as well, considerable effort has been made to intensify the collaboration between the two countries, a wonderful result, seen a few days ago, was France Telecom's purchase of an interest in Telefonos de Mexico The same may be said of financing Important protocols signed with France since 1978 have laid the groundwork for the financing of substantial investment in Mexico

Relations between the Bank of France and the Bank of Mexico have been flourishing I recall with special pleasure those which we have had since we were young with promising economists from the French central institute, including my friend Claude Hubert, with whom I did graduate studies at Yale University

A supreme expression of the common ground between the two banks of issue is the agreement signed in 1979 on the initiative of governors Bernard Clappier and Gustavo Romero Kolbeck It establishes, among other types of collaboration, a system of periodic consultations We have obtained significant benefits from these professional exchanges They have enabled us to profit from the vast store of technical knowledge at the Bank of France and from its broad experience and influence in the international arena The agreement also made possible one of the most valuable things in life--the establishment of deep personal and family friendships

I wish to make special mention of the present Governor of the Bank of France and of his two immediate predecessors, with whom I have had the opportunity to deal as a central banker It has been a great privilege to work with Renaud de la Geniere, Michel Camdessus, and Jacques de Larosiere, exemplary public servants and first-rate national and international financiers I extend my sincere gratitude for their competence and their friendliness toward Mexico, to which they have devoted long hours of work

Mr Ambassador and Ladies and Gentlemen

In expressing my excitement at having been named an Officer of the Legion of Honor, and in thanking Mrs Rouquie and you for your kindness in inviting my family and my friends to share in this great joy, I believe that this distinction will serve, as it already has, not only to give me great personal satisfaction, but as an incentive and friendly spur to me to strengthen my enthusiasm for a further tightening of the relations between our countries Believe me, Mr Ambassador, when I say that this will be a happy duty for me

Friday, December 14, 1990

BANCO DE MEXICO
DIRECCION GENERAL
Av. 5 de Mayo No. 2
Col. Centro
06059, México, D.F.

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MR. P. ANDREWS

No. Fax: 92(202)623-46-61

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LIC. MIGUEL MANCERA,
DIRECTOR GENERAL
BANCO DE MEXICO

MENSAJE (MESSAGE):

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1991 JAN 10 A 7:31

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FIRMA AUTORIZADA

R.V.I

DIRECTOR GENERAL
DEL
BANCO DE MEXICO

Mexico, D F , 8 de enero de 1991

MICHEL CAMDESUS,
Director Gerente del
Fondo Monetario Internacional,
700 19th Street, N W ,
Washington, D C 20431

Estimado Michel:

En diciembre ultimo tuve la inmensa satisfaccion de recibir la cruz de oficial de la Legion de Honor, circunstancia que establece otro agradable vinculo entre nosotros al hacernos "colegionarios"

En esa ocasion pronuncie algunas palabras, en las que me referi, entre otras materias, a las relaciones entre el Banco de Francia y el Banco de Mexico -a las que tu hiciste contribucion muy importante- asi como a la grata amistad personal que se ha desarrollado entre algunos de sus funcionarios Adjunto encontraras el texto de esa palabras

Aprovecho la ocasion para enviarte mis mejores deseos por un exitoso 1991

¡Con un fuerte abrazo!

Miguel

Sr Embajador,
Amigos

Me da un gusto excepcional dirigir a ustedes la palabra en esta ocasion, en la que he sido investido por el Sr Embajador Rouquie con las insignias de la Legion de Honor, de la cual el Excmo Sr Presidente de la Republica Francesa ha tenido a bien nombrarme oficial. Mi complacencia es particularmente grande por el enorme significado de la condecoracion recibida y por estar presentes para compartir esta alegría, mis familiares mas cercanos y muchos amigos entrañables Deseo destacar, de manera especial, la compañía de Sonia, mi esposa, cuyo apoyo ha sido decisivo para merecer esta distincion.

De gran prestigio es la presea que hoy se me entrega y muy sobresalientes los personajes que en el pasado han integrado, y en el presente forman, la membresía de la Legion Contribuye a mi orgullo de ingresar a sus filas, el que sea una institucion concebida -y mantenida a traves de muchos avatares de la historia- no para crear una aristocracia hereditaria, sino para el reconocimiento del merito, civil o militar

Muy profundas y antiguas son las relaciones que existen entre Francia y Mexico Nos une, por supuesto, el origen lejano de nuestro comun pasado latino Son innumerables las manifestaciones de la vida mexicana en que se revelan los nexos con la cultura francesa Lo mismo en las artes plasticas y las letras, que en la politica, el derecho o la economía

Los proceres de nuestra independencia, sabido es, fueron lectores asiduos de los enciclopedistas del siglo XVIII Entrado el XIX, el pensamiento liberal mexicano fue muy influido por autores galos Lo mismo puede decirse de otras corrientes de pensamiento, en expresiones tan distintas como el positivismo o el catolicismo. En diverso aspecto, cabe señalar que muchas construcciones célebres de nuestra ciudad lucen estilos de la arquitectura francesa Mencion especial debe hacerse tambien de la contribucion economica y cultural hecha a nuestro país por la inmigracion francesa, representada de manera prominente por numerosas familias de Barceloneta, cuyos apellidos se encuentran con frecuencia entre los mas destacados en el quehacer empresarial Ni que decir del campo del derecho nuestras leyes han sido modeladas, en muy considerable medida, conforme al contenido y estructura de la codificacion napoleonica, en tanto que la doctrina y la jurisprudencia mexicanas reconocen la impecable logica del pensamiento jurídico frances Y, por ultimo, algo muy vivo en mis recuerdos de juventud el adusto maestro transmisor de las enseñanzas de un Juan Bautista de la Salle o de un Marcelino Champagnat

Relevante papel jugo Francia en la formacion y desarrollo de nuestro sistema financiero Su influjo se ejercio, tanto por la vía de la doctrina bancaria y monetaria, como por el camino de los hechos Los historiadores nos recuerdan como el orden normativo determinante de la estructura y operacion de nuestro primer sistema bancario, se nutrio en las concepciones de no pocos pensadores franceses

Por otro lado, sabido es, tambien, que los empresarios franceses participaron de manera sobresaliente en la promocion y conduccion de varios bancos mexicanos Tal es el caso de la segunda mas antigua y una de las mayores instituciones de credito existentes hoy en día en el país. Me refiero al Banco Nacional de Mexico, constituído mediante la fusion de dos instituciones en cuya creacion participaron sendos empresarios franceses Eduardo Noetzlin y Eduardo L'Enfer Tiempo mas tarde, cuando la revolucion habia virtualmente destruído el sistema bancario porfirista, el entonces director de aquel banco, el ciudadano frances José Simon, manifesto con encomiable honradez una opinion que, junto con otras, habria de contribuir a la constitución del

Banco de Mexico Dijo que, aunque no resultara favorable para la institucion que dirigía, era conveniente reformar el sistema monetario entonces vigente y uniformar la circulacion fiduciaria por medio de un solo banco de émision

Mayor en edad que la Legion de Honor, si bien por muy poco, es el Banco de Francia, uno de los institutos de emision mas antiguos y respetados del mundo Sus vínculos con el Banco de Mexico surgen de hecho antes del nacimiento de este ultimo, podria decirse que desde su concepcion La banca central francesa, en efecto, es una de las figuras que con mas cuidado se estudiaron durante la gestacion de nuestro Instituto Central

Muy favorablemente se han desarrollado en tiempos recientes las relaciones economicas entre Francia y Mexico Varias acciones se han emprendido en las ultimas decadas para promover el intercambio comercial recíproco En el campo de la inversion directa, tambien se han desplegado considerables esfuerzos para intensificar la colaboracion entre los dos paises, esfuerzos que han dado un magnifico fruto hace pocos dias con la participacion de France Telecom en Telefonos de Mexico Otro tanto puede decirse respecto de la materia financiera A partir de 1978, se han firmado con Francia importantes protocolos, los cuales han sentado las bases para financiar en Mexico cuantiosas inversiones

Particular florecimiento han tenido en este contexto las relaciones entre el Banco de Francia y el Banco de Mexico Recuerdo con particular agrado, las que desde la juventud entablamos con prometedores economistas del instituto central frances, entre ellos, mi amigo Claude Hubert, con quien cursaba estudios de postgrado en la Universidad de Yale

Expresion trascendente de la confluencia de los dos bancos emisores es el convenio celebrado en 1979, a feliz iniciativa de los gobernadores Bernard Clappier y Gustavo Romero Kolbeck En el se establece, entre otros aspectos de colaboracion, un regimen de consultas periodicas Beneficios importantes hemos obtenido de esos intercambios profesionales Nos han permitido aprovechar el vasto caudal de conocimiento tecnico del Banco de Francia, así como su amplia experiencia e influencia en el ámbito internacional El convenio tambien ha hecho posible lo que es más valioso de la vida entablar profundas amistades a nivel personal y familiar

Especial mencion quiero hacer del actual gobernador del Banco de Francia y de sus dos inmediatos predecesores, con quienes he tenido la oportunidad de estrechar ligas en la carrera de la banca central Gran privilegio es haber tratado a Renaud de la Genière, Michel Camdessus y Jacques de

Larosiere, servidores publicos ejemplares y financieros de primer orden a nivel nacional e internacional Un reconocimiento sincero para ellos por su competencia y por su actitud amistosa hacia los asuntos de México, a los que han dedicado largas horas de trabajo

Señor Embajador,
Señoras y señores

Al expresarles mi emocion por haber sido nombrado Oficial de la Legion de Honor, y al agradecer a la señora de Rouquie y a usted, su gentileza de invitar a mi familia y a mis amigos a compartir esta gran alegria, pienso que esta distincion servira, como ya lo hace, no solo de enorme satisfaccion personal, sino de estímulo, de amable acicate para acrecentar mi entusiasmo en procurar el estrechamiento, cada vez mayor, de las relaciones entre nuestros respectivos paises Creame, señor Embajador, que esta sera para mí una grata tarea

VIERNES 14 DE DICIEMBRE DE 1990