

EBS/84/1
Supplement 1

CONFIDENTIAL

January 30, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Mexico - Extended Arrangement - Program for the Second Year

Attached for consideration by the Executive Directors is a paper on the program for the second year of the extended arrangement for Mexico. A copy of the letter of intent from the Mexican authorities, together with a technical memorandum of understanding, is contained in EBS/84/1 (1/3/84). Draft decisions appear on pages 35, 36, and 37.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Pujol, ext. (5)8480.

Att: (1)

INTERNATIONAL MONETARY FUND

MEXICO

Extended Arrangement--Program for the Second Year

Prepared by the Western Hemisphere, Exchange and Trade Relations,
Fiscal Affairs, and Research Departments

(In consultation with the Legal and Treasurer's Departments)

Approved by Eduardo Wiesner and Manuel Guitian

January 27, 1984

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I. Introduction

On December 23, 1982 (EBM/82/168) the Executive Board approved Mexico's request for access to Fund resources for the equivalent of SDR 3,611.25 million (450 percent of the SDR 802.5 million quota in effect at that time), of which SDR 200.625 million was under the first credit tranche and SDR 3,410.625 million was under an extended arrangement covering the period through the end of 1985. The extended arrangement (see EBS/82/208 and its supplements) established macroeconomic targets for the three-year period 1983-85 and performance clauses for the first program year. It also stipulated that consultations be held with the Fund before the beginning of the second and third program years in order to establish suitable performance clauses for each of these periods.

A staff mission consisting of Joaquin P. Pujol (WHD), Anthony Lanyi (RES), Claudio Loser (ETR), Paulo Neuhaus (ETR), Pedro Rado (FAD), Luis Valdivieso (WHD), and Argery Cooke (Secretary-WHD) visited Mexico City from October 17 to November 4, 1983 and from November 28 to December 9, 1983 to review the progress achieved in the implementation of the economic program being supported by the extended arrangement and to discuss with the authorities their plans for the second year of the arrangement. Mr. Miguel Angel Senior, Executive Director for Mexico, and Mr. Jose Luis Feito, Alternate Executive Director for Mexico, participated in the main policy discussions.

In the letter of intent dated January 3, 1984 and the attached Technical Memorandum of Understanding (EBS/84/1), the Secretary of Finance and Public Credit of Mexico and the Director General of the Bank of Mexico review the performance during the first year of the arrangement and describe the economic policies of the Government of Mexico for 1984.

Mexico made all scheduled purchases under the EFF during 1983 and as of December 31, 1983 the Fund's total credit outstanding to Mexico stood at 103 percent of Mexico's present quota of SDR 1,165.5 million, of which 60 percent was financed from ordinary resources and the remainder from borrowed resources under the policy of enlarged access. The extended arrangement for Mexico provides for possible purchases of SDR 1,203.76 million during calendar year 1984 and it is proposed that they be phased evenly in four allotments to take place by the end of February, May, August, and November 1984 (Table 1). Full utilization of the arrangement would raise the Fund's credit to Mexico to 206.25 percent of Mexico's quota at the end of 1984 and 309.8 percent at the end of 1985. Further information on Mexico's relations with the Fund is presented in Appendix I.

The last Article IV consultation discussions with Mexico together with a review under the EFF were held in the period March 7-26, 1983 in Mexico City. The resulting reports (SM/83/70 and SM/83/86) were considered by the Executive Board at EBM/83/75 on May 23, 1983.

Table 1. Mexico: The IMF Position
(December 31, 1982-December 31, 1985)1/

	Transactions in 1982	Transactions in 1983	Transactions in 1984				Total	Transactions in 1985
			Jan.-Apr.	May-July	Aug.-Oct.	Nov.-Dec.		
<u>(In millions of SDRs)</u>								
<u>Purchases</u>	200.6	1,003.2	300.9	300.9	300.9	300.9	1,203.8	1,203.8
Ordinary resources	200.6	501.6	150.5	150.5	150.5	150.5	601.9	20.0
First credit tranche	(200.6)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Extended arrangement	(--)	(501.6)	(150.5)	(150.5)	(150.5)	(150.5)	(601.9)	(20.0)
Borrowed resources	(--)	501.6	150.5	150.5	150.5	150.5	601.9	1,183.8
<u>Repurchases</u>	==	==	==	==	==	==	==	==
Total credit outstanding (end of period)	200.6	1,203.8	1,504.7	1,805.7	2,106.6	2,407.6	2,407.6	3,611.3
<u>(In percent of new quota)</u>								
Purchases	17.2	86.1	25.8	25.8	25.8	25.8	103.3	103.3
Total credit outstanding (end of period)	17.2	103.3	129.1	154.9	180.7	206.5	206.5	309.8

Source: International Monetary Fund.

1/ Partially may not add up to totals because of rounding.

II. Background Developments

Following a period of several years of rapid economic expansion, Mexico experienced serious economic difficulties in 1982. The dramatic rise in public spending that dominated aggregate demand developments in the period 1979-82 led to a surge of imports and a rise in domestic costs and prices, which eroded Mexico's international competitiveness and weakened the balance of payments. Notwithstanding the sharp rise in fiscal revenues from the petroleum sector starting in late 1979, the strong growth of expenditures, combined with lags in the adjustment of prices and tariffs charged by the public sector enterprises, led to a widening of the public sector deficit. The deterioration in the public finances became more pronounced after the softening of the international oil market starting in the second half of 1981, and the overall public sector deficit reached the equivalent of 15 percent of GDP in 1981 and more than 18 percent of GDP in 1982 (Table 2). This growing fiscal gap was covered by increasing the share of domestic financial savings channeled to the public sector and by engaging in a very large volume of foreign borrowing. The growing reliance on foreign credits coincided with a rise in interest rates in foreign money and capital markets, and the servicing of the external debt came to represent a heavy burden on the economy.

The deterioration in the public finances and the intensification of inflation raised doubts about the sustainability of the existing exchange rate policy and resulted in recurring episodes of capital flight. Capital flight eventually reached such a pace that in mid-February 1982 the central bank temporarily withdrew from the exchange market and the Mexican peso depreciated sharply. However, the improvement in competitiveness brought about by this depreciation of the peso was soon eroded by wage and domestic price increases, which also had adverse effects on confidence.

Although efforts were made in subsequent months to stabilize the economy, they proved insufficient and the situation continued to deteriorate. The recession abroad aggravated prevailing economic conditions by lowering the demand for Mexican exports and tourist services. In August 1982 capital flight intensified again; at the same time, it became almost impossible to obtain new foreign credits or renew those falling due, and the central bank again had to withdraw from the exchange market. A dual exchange market was introduced and foreign commercial banks were asked to roll over the principal payments of the public sector external debt as they became due, pending a broader agreement on the refinancing of the country's external debt once discussions were completed with the Fund on an economic program.

In September 1982, in a major policy shift, the authorities nationalized the private Mexican commercial banks, announced the introduction of a generalized exchange control system, extended import licensing requirements to virtually all imports, intensified domestic price controls, eliminated all domestic financial operations denominated in

Table 2. Mexico: Summary Accounts of the Public Sector
(Revenue and Expenditure)

(As percent of GDP)

	1979	1980	1981	1982	1983		1984
				Rev.	Prog.	Est.	Prog.
Public sector revenue	17.8	18.8	17.1	19.1	20.6	18.9	20.9
Taxes on petroleum sector	1.5	3.8	4.0	4.9	6.0	5.7	6.2
Other federal government taxes	11.4	11.4	11.3	10.2	10.6	9.3	10.2
Federal government nontax revenue	0.6	0.7	0.8	1.0	0.8	0.6	0.6
Social security contributions	2.6	2.5	2.9	2.4	1.8	2.0	1.9
Federal District (own revenue)	0.4	0.3	0.3	0.3	0.1	0.2	0.1
Operating surplus or public enterprises	2.9	4.0	1.7	5.1	5.8	6.8	8.0
PEMEX	(3.1)	(4.8)	(4.2)	(7.0)	(7.1)	(9.3)	(9.9)
Other	(-0.2)	(-0.8)	(-2.5)	(-1.9)	(-1.3)	(-2.5)	(-1.9)
Less: taxes paid by public enterprises	-1.6	-4.0	-4.0	-4.9	-6.0	-5.7	-6.2
Capital revenue	--	0.1	0.1	0.1	0.1	--	0.1
Additional revenue measure	--	--	--	--	1.4	--	--
Public sector expenditure 1/	24.6	26.5	32.0	37.4	29.1	27.1	26.4
Government consumption	8.8	8.1	10.2	10.6	7.9	8.3	8.7
Wages and salaries	(5.4)	(5.1)	(5.4)	(5.8)	(4.0)	(4.2)	(3.9)
Other purchases of goods and services	(2.3)	(2.2)	(2.8)	(3.0)	(1.7)	(2.1)	(2.5)
Transfers to municipalities	(1.1)	(0.8)	(2.0)	(1.8)	(2.2)	(2.0)	(2.3)
Interest payments	2.0	1.9	3.1	6.0	6.0	6.6	6.4
Transfers and subsidies	2.7	5.1	2.9	2.6	2.1	2.9	2.1
Unallocated current expenditures 2/	--	--	--	--	0.9	--	--
Other current expenditures	1.1	1.5	1.7	6.4	2.6	1.9	1.0
Exchange losses	(--)	(--)	(--)	(4.6)	(--)	(0.4)	(0.3)
Net financial requirements of the rest of the public sector 3/	(1.1)	(1.5)	(1.7)	(1.8)	(1.2)	(1.5)	(0.7)
Contingency reserve 4/	(--)	(--)	(--)	(--)	(1.4)	(--)	(--)
Capital expenditure	10.0	9.9	14.0	11.7	8.4	7.4	8.2
Public sector investment	(7.7)	(9.5)	(12.9)	(10.5)	(8.0)	(7.1)	(8.0)
Of which: PEMEX	[3.0]	[3.0]	[3.9]	[3.0]	[1.9]	[2.0]	[2.0]
Other capital expenditure 5/	(1.7)	(0.4)	(1.1)	(1.2)	(0.4)	(0.3)	(0.2)
Other unallocated capital expenditures 2/	--	--	--	--	1.2	--	--
Overall deficit (-)	-6.8	-7.7	-14.9	-18.3	-8.5	-8.2	-5.5
Foreign financing (net)	2.4	2.5	7.4	3.7	3.6	2.8	2.4
Domestic financing (net)	4.4	5.2	7.5	14.6	5.9	5.4	3.1
Memorandum items							
Revenue from petroleum exports	3.1	5.3	5.5	8.8	8.5	10.5	10.1
Current account surplus or deficit (-)	3.0	2.1	-1.0	-6.6	0.9	-0.9	2.6
Current account exclusive of PEMEX	-0.1	-2.7	-5.2	-13.6	-6.1	-10.2	-7.3
GDP (In billions of pesos)	3,067	4,267	5,874	9,417	17,600	18,290	27,700

Sources: Secretariat of Finance and Public Credit; Secretariat of Programing and Budget; and Fund staff estimates.

1/ Exclusive of operating expenditure of public enterprises. Net operating surplus of public enterprises is shown under public sector revenue.

2/ Includes expenditures authorized by the budget but not allocated by category of expenditure.

3/ Includes net lending operations.

4/ Includes expenditures not authorized in the original budget and contingent upon the adoption of additional revenue measures during the course of the year.

5/ Includes acquisition of property, and financial investment.

foreign currency (Mexdollars), and reduced interest rates. These policies, rather than making the foreign exchange situation more manageable, exacerbated it. A parallel exchange market developed, external payments arrears emerged, large new subsidies resulted from the administration of the exchange rate system and the liquidation of the Mexdollar operations, and the flow of imports was disrupted with adverse consequences for production and employment.

By late 1982 the Mexican economy was in a severe recession, with output and employment falling very sharply and the rise of prices reaching as much as 11 percent a month. Meanwhile, the current account of the balance of payments turned from a deficit (of almost US\$14 billion in 1981) to a surplus, mainly because of the drying-up of external credits (Chart 1). However, because of the large capital flight that had taken place throughout the year, the overall balance of payments showed a deficit of close to US\$7 billion in 1982 and the international reserves of the central bank were depleted.

In late 1982, the Mexican authorities adopted a comprehensive economic program designed to deal with the crisis, and Fund support was sought for this program in the form of an extended arrangement. The program called for a sharp reduction in the public sector deficit, to the equivalent of 8 1/2 percent of GDP in 1983, 5 1/2 percent of GDP in 1984, and 3 1/2 percent of GDP in 1985. Such an adjustment in the public finances was to lower the need for recourse to foreign financing, reduce pressures on domestic prices and the balance of payments, and allow more resources to be channeled to private sector investment. As part of the policy package adopted, steps were taken to adjust the exchange rate, liberalize exchange controls, eliminate exchange subsidies, and raise domestic interest rates. Negotiations were undertaken with foreign creditors to refinance the external public debt falling due in the period from August 23, 1982 to December 31, 1984 and to obtain new external financing. A new facility for the coverage of foreign exchange risks (FICORCA)^{1/} was set up to encourage the restructuring of private obligations abroad. Also, price controls were relaxed and wage policy was geared to the objective of reducing inflation and protecting the level of employment. In addition, the authorities made known their intention to review commercial policy with a view to achieving greater productive efficiency. Implementation of this economic program was expected to result in a recovery of international reserves and a reduction in the rate of inflation, thereby helping to restore confidence and to re-establish the conditions for sustained growth of output and employment.

The new Administration which took office on December 1, 1982 moved quickly and decisively to implement the adjustment program. On December 3, 1982 the domestic prices of gasoline and various other petroleum derivatives produced by the state-owned petroleum company were increased by 100 percent. On December 10 the authorities announced

^{1/} For a description of the main features of FICORCA see Appendix V.

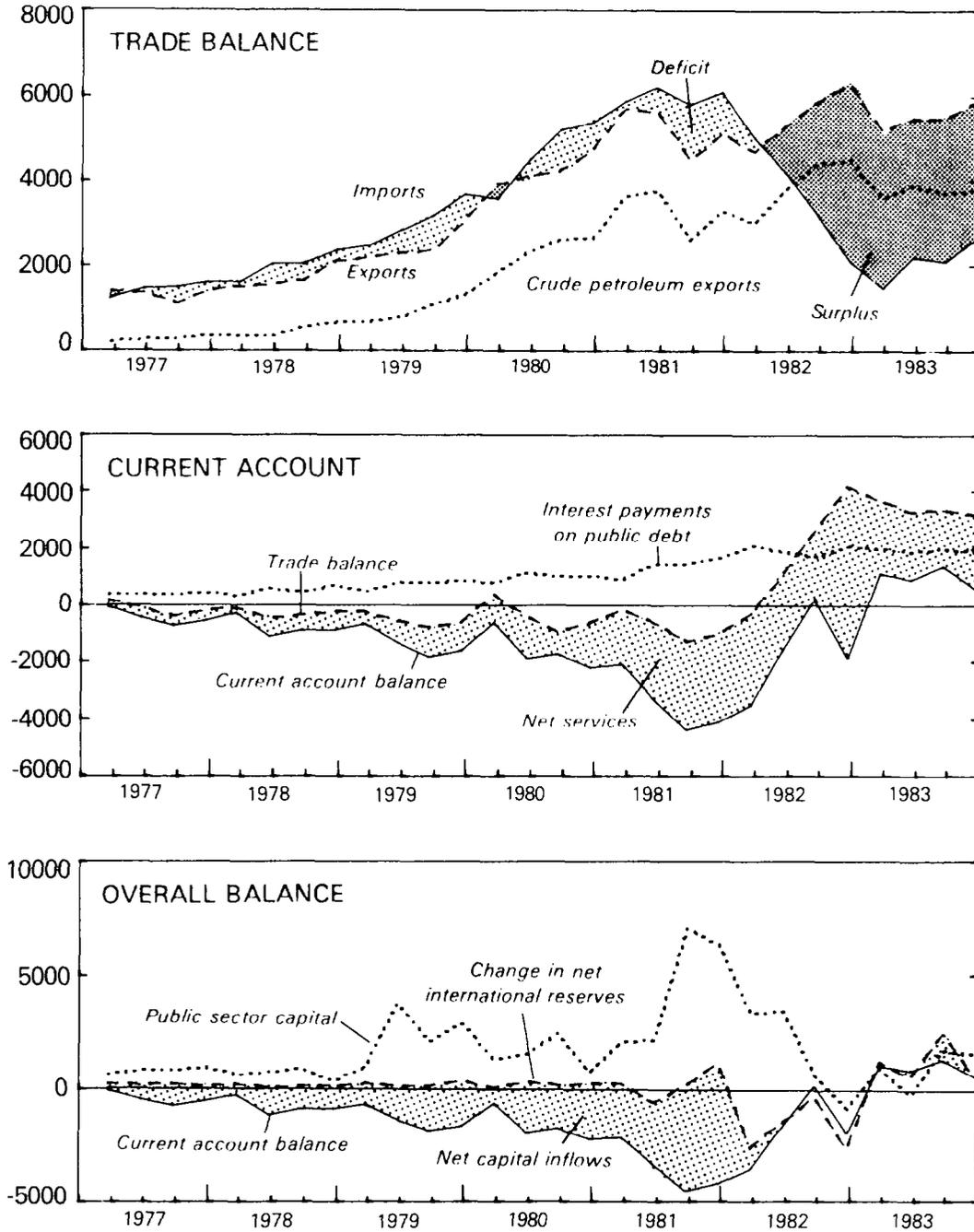
the termination of the generalized system of exchange controls and the introduction, on a temporary basis, of a new dual exchange system with a controlled market and a free market; the new system began operating on December 20, 1982. Transactions to be channeled through the controlled market included most receipts from exports of goods, payments for interest and principal on all external debt, expenditures abroad incurred in connection with the diplomatic service and participation in international organizations, and about three fourths of all import payments; these items accounted for about 75 percent of all external transactions. All other transactions, including those relating to tourism, are channeled through the free market. The rate in the controlled market was initially set on December 20, 1982 at Mex\$95=US\$1, to be adjusted daily by Mex\$0.13, in light of the expected differential of inflation between Mexico and its main trading partners. The establishment of this controlled market rate involved an immediate depreciation of some 35 percent (measured in terms of pesos per U.S. dollar) in relation to the previously prevailing ordinary rate of Mex\$70 per U.S. dollar (Chart 2 and Statistical Appendix Table 48). In 1983, the controlled market rate depreciated by an additional 49 percent. The free market rate, meanwhile, opened at about Mex\$150 per U.S. dollar and, after experiencing a small appreciation, remained virtually unchanged in the range of Mex\$147-149 until September 23, 1983 when it also began to slide at Mex\$0.13 per day; since then, and until the end of the year, it depreciated by about 8 percent. The differential between the two rates, which in December 1982 stood at 58 percent, was down to 11 1/2 percent by the end of 1983. Over the year 1983, the level of competitiveness declined; however, after the sharp depreciation experienced in December 1982, the real effective exchange rate index in the controlled market remained considerably more depreciated than during the period 1977-82.

The budget for 1983, which was submitted in mid-December 1982, established a ceiling on the public sector deficit of Mex\$1,500 billion. This budget reflected substantial cuts in expenditures and changes in taxes designed to bolster revenues, including a major increase in the value-added tax rate. Also in late 1982, there was an increase in interest rates paid on bank deposits, reversing the policies that had been introduced in September 1982 (Chart 3).

The increase in the minimum wage announced on January 1, 1983 was held to 25 percent, in contrast to the previous practice of matching or even exceeding past rates of inflation. This was followed in June 1983 by a 15 1/2 percent increase, so that for the year as a whole the minimum wage rose by just under 45 percent, well below the rate of price increases for the year. In January 1983 there was also a major liberalization of the price controls applicable to the private sector, together with some additional adjustments in public sector prices. Further adjustments in the prices of the goods and services sold by public sector enterprises or agencies took place in April and July, and at the end of October 1983.

CHART 1 MEXICO BALANCE OF PAYMENTS

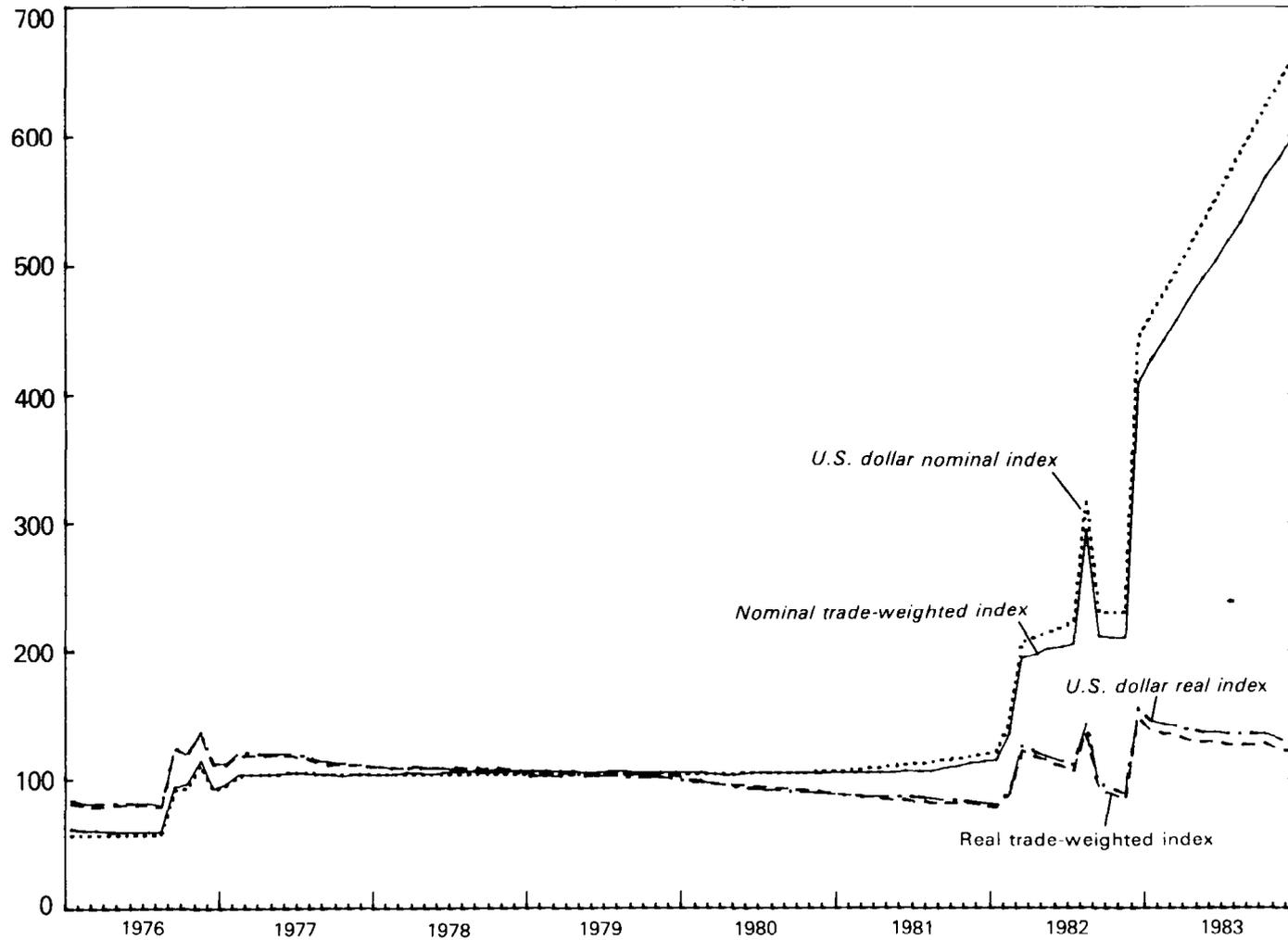
(Quarterly, in millions of U.S. dollars)



Source: Bank of Mexico, and Fund staff estimates.



CHART 2
 MEXICO
 NOMINAL AND REAL EXCHANGE RATE INDICES¹
 (1976-81=100)

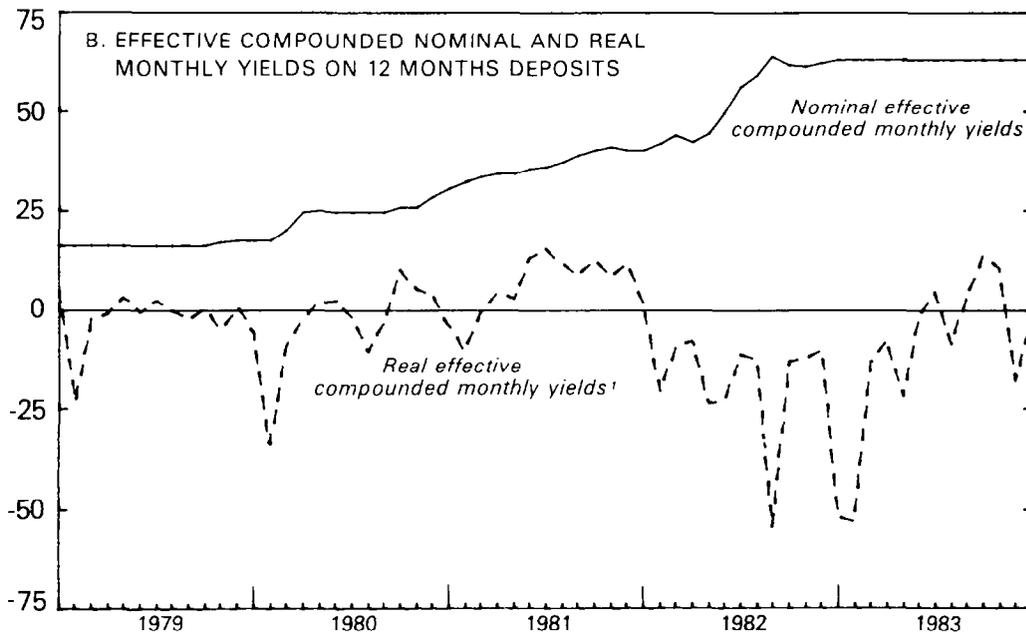
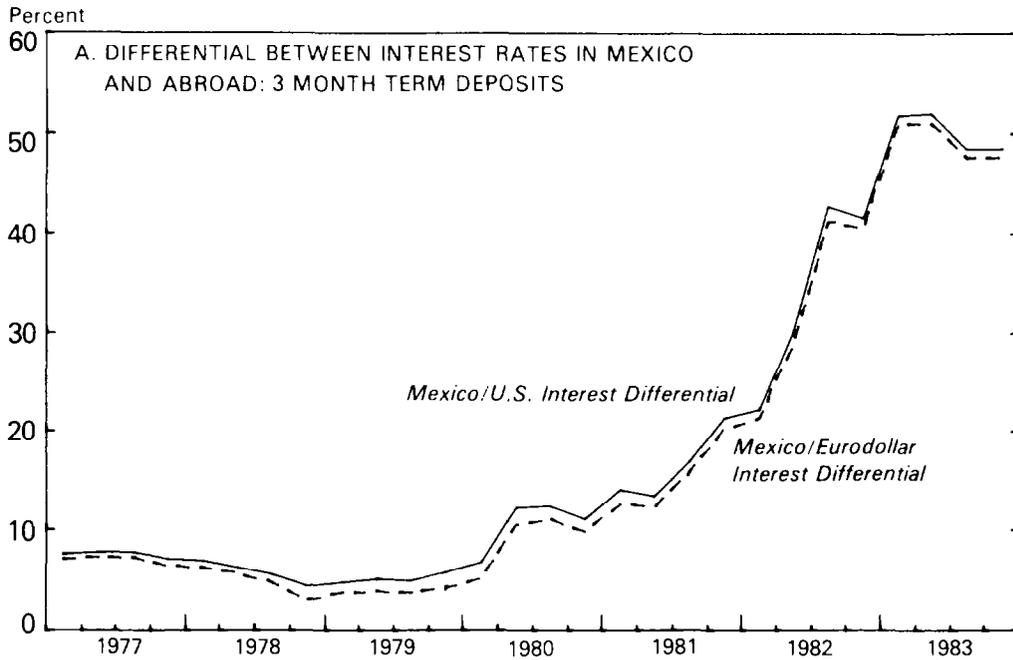


Source: Bank of Mexico and Fund staff estimates.

¹Defined in terms of pesos per unit of foreign exchange. Decline reflects appreciation. For the period August 6 to December 20, 1982 calculations are based on quotations in the preferential market; thereafter, based on quotations in the controlled market.



CHART 3
MEXICO
INTEREST RATE MOVEMENTS ON PESO
DENOMINATED INSTRUMENTS



Sources: Bank of Mexico and Fund staff estimates.
¹ Adjusted for the monthly annualized cost of living index.



As regards the negotiations with foreign creditors, a new US\$5 billion loan with a 6-year maturity and 3-year grace period was contracted by the Government in late March 1983 with 526 foreign commercial banks, to be disbursed *pari passu* with Fund drawings; in addition, a total of US\$18.8 billion of external public sector short- and medium-term obligations ^{1/} falling due between August 23, 1982 and December 31, 1984 were restructured over a period of 8 years, with a 4-year grace period. Also, negotiations are being completed with commercial banks and other private foreign creditors for the refinancing of a total of US\$11.6 billion of private sector obligations abroad at maturities that vary between 6 and 12 years, with 3- to 4-year grace periods. Moreover, negotiations were undertaken for the restructuring of Mexican private sector obligations guaranteed by official credit agencies abroad. Table 3 presents a summary of the terms of the various external debt rescheduling exercises and new loan disbursements, and Appendix V reviews the various schemes introduced in connection with the refinancing of the private debt.

III. Performance in the First Year of the Extended Arrangement

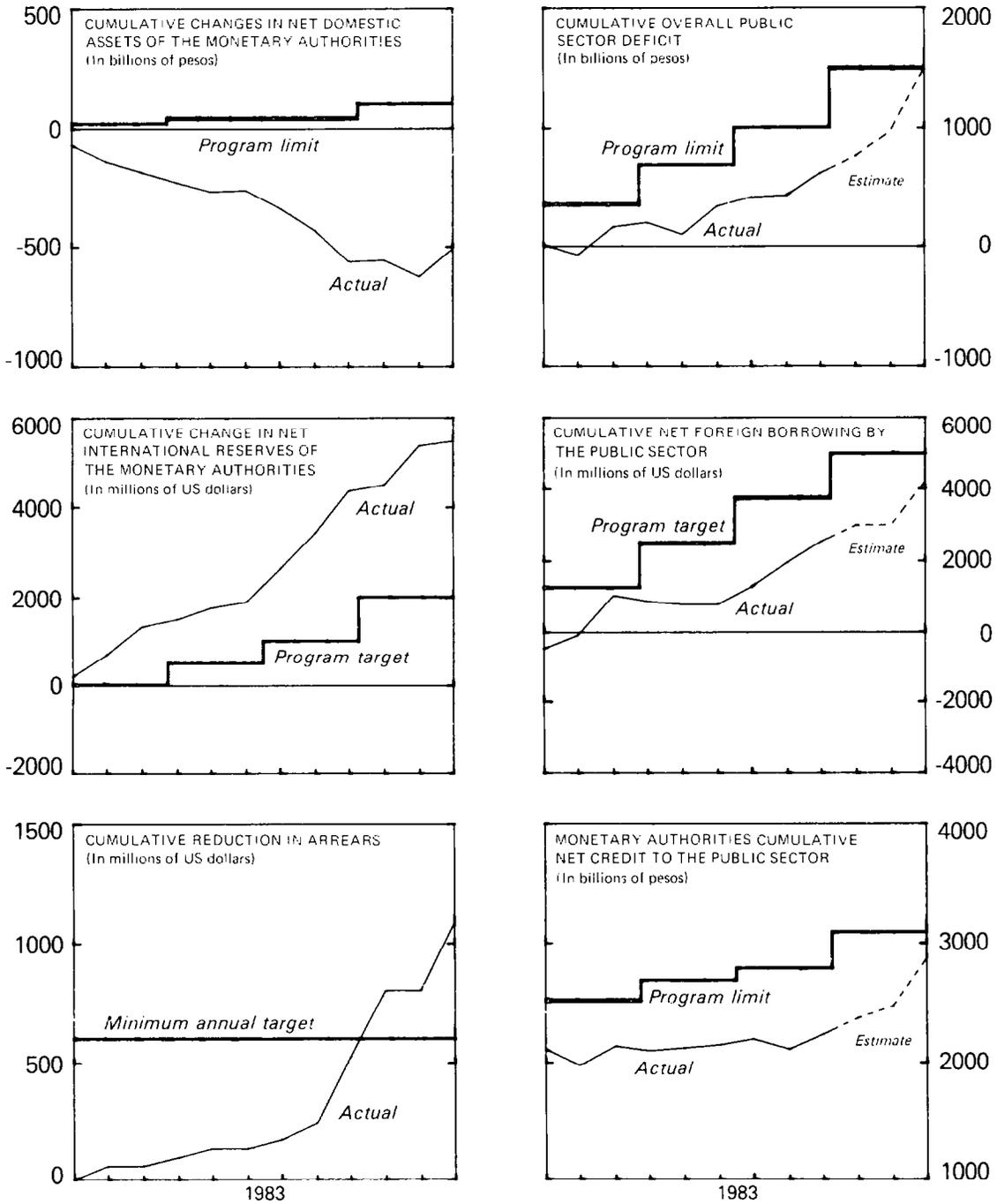
Substantial progress was achieved during 1983 in meeting the aims of the program. The public finances were strengthened considerably and the public sector deficit in 1983 remained at all times below the ceilings that had been established under the program (Chart 4). Public sector receipts for the year as a whole were larger in nominal terms than the levels originally programmed, on the strength of the comprehensive set of fiscal measures introduced in late 1982 and the adoption of a more realistic pricing policy for the goods and services provided by the public sector. Higher receipts from the petroleum sector, together with larger collections from income and excise taxes, more than compensated for a shortfall in projected collections from the value-added tax that came about largely as a result of the drop in the level of imports and the sluggishness of economic activity. The higher public sector revenues obtained during 1983 made it possible to accommodate outlays higher than had been planned--mainly because domestic interest payments were larger than had been budgeted, without surpassing the limits on the overall deficit. During 1983 public sector investment projects were subjected to a comprehensive re-evaluation to select those that would be continued, postponed, or canceled. This process resulted in a slower implementation of certain projects than implied by the authorizations contained in the budget.

^{1/} The total refinancing package reached US\$22.6 billion if account is taken of about US\$2 billion of dollar-denominated debt held by domestic commercial banks, US\$1 billion of debt owed abroad by the nationalized Mexican commercial banks, and US\$0.8 billion in suppliers' credits and other short-term foreign obligations of PEMEX.

Table 3. Mexico: Summary of Terms on External Debt Rescheduling and New Loan Disbursements

	<u>Rescheduling</u>	<u>Additional Funds</u>	
<u>I. Loans to public sector from foreign commercial banks</u>			
Period covered	Maturities falling due August 1982 to December 1984	1983	1984 (Proposed)
Amount covered	US\$18.8 billion (short- and medium-term debt)	US\$5.0 b.	US\$3.8 b.
Maturity	8 years	6 years	10 years
Grace period	4 years	3 years	5 3/4 years
Interest rates	1 7/8 percent over Libor, or 1 3/4 percent over prime	2 1/4 percent over Libor, or 2 1/8 percent over prime	1 1/2 percent over Libor, or 1 1/8 percent over prime
Commitment fee	1 percent	1 1/4 percent	5/8 percent
<u>II. Loans to private sector from foreign commercial banks</u>			
Period covered	Loans contracted prior to December 20, 1982		
Amount covered	US\$11.6 billion		
Maturity	7 to 12 years		
Grace period	3-4 years		
Interest rate	Varies from loan to loan		
Commitment fee	Varies from loan to loan		
<u>III. Official capital to public sector</u>			
Period covered		1983	1984 (Proj.)
Amounts covered (gross disbursements)		US\$3.1 b. (Est.)	US\$2.8 b. (Est.)
From bilateral sources		(2.5)	(2.0)
From multilateral sources		(0.6)	(0.8)
Terms		Vary from loan to loan	
<u>IV. Official capital to private sector</u> (negotiated with a group of major creditor countries but pending completion of bilateral agreements)			
Period covered	Maturities falling due August 1982-December 1983		
Amounts covered	US\$1.9 billion (Est.)		
Terms			
On medium term	10 percent on maturity and remainder in six equal semi-annual installments beginning in 1986		
On short term and interest in arrears	5 percent in 1983, 5 percent in 1984, 30 percent in 1985, and 60 percent in 1986.		

CHART 4 MEXICO EXTENDED ARRANGEMENT QUANTITATIVE PERFORMANCE CRITERIA FOR 1983



Source: Bank of Mexico and Ministry of Finance and Public Credit.



The balance of payments experienced a major turnaround in 1983. The financial discipline maintained during the year and the substantial depreciation of the currency resulted in a shift in the current account of the balance of payments, from a deficit of US\$3 billion in 1982 to a surplus of US\$4 billion in 1983, and the overall balance moved from a deficit of nearly US\$7 billion to a surplus of US\$5 1/2 billion (Table 4). This swing in the balance of payments was mainly the result of a very sharp contraction of imports and the virtual cessation of capital flight. Imports are estimated to have amounted to about US\$8 1/2 billion in 1983, some US\$6 billion below their level in 1982. Non-oil receipts increased moderately during the year. However, the low rate of growth--about 5 percent with regard to 1982--reflected mostly low levels of exports in the first part of the year. The value of non-oil exports actually declined in the first quarter of 1983 and increased thereafter, after conditions in the foreign exchange market normalized. Increases in export volumes were partly offset by lower prices in terms of foreign currency, in response to the devaluation of the peso. The impact on prices was particularly important for the in-bond industry and for tourism. Moreover, the value of export receipts may have underestimated actual exports, because of the impact of the dual exchange system on export surrender; to the extent that this occurred, there was a positive effect on the errors and omissions account. Even more significant than the current account surplus, however, was the virtual disappearance of capital flight. The errors and omissions of the balance of payments dropped from US\$11 billion in 1982 to an estimated US\$0.4 billion in 1983 largely reflecting the decline in unrecorded capital outflows. The strength of the current account and the availability of some US\$4 billion in net official capital (including US\$5 billion drawn from commercial banks) permitted Mexico to raise its international reserves while repaying a large part of the arrears that had accumulated in 1982. The vulnerability of the Mexican external accounts was further reduced by the refinancing operations of both public and private external debt, which helped to ease the immediate debt service burden.

The flow of savings into the banking system was in line with the projections of the program, reflecting both the exchange rate and interest rate policies. Total credit expansion, however, turned out to be lower than had been programmed because of the sluggishness in the demand for private credit.

Considerable progress was made during 1983 in reducing the rate of inflation, particularly after the early months of the year. The monthly rate of increase of the consumer price index, which in the period December 1982-January 1983 had reached 11 percent (Chart 5), dropped to an average of about 4 percent in the second half of 1983 (an annualized rate of about 60 percent). Contributing to this result was not only the tightening of demand management policies but also the pursuit of a moderate wage policy.

Developments with regard to economic activity were less encouraging than those in public finances and the balance of payments. Although economic activity stopped declining in the second half of 1983 and there

Table 4. Mexico: Summary Balance of Payments, 1979-84

(In billions of U.S. dollars)

	1979	1980	1981	Prel. 1982	1983		1984
					Prog.	Est.	Prog.
<u>Current account</u>	<u>-5.5</u>	<u>-7.7</u>	<u>-13.9</u>	<u>-3.0</u>	<u>-4.2</u>	<u>4.0</u>	<u>-1.0</u>
<u>Trade balance</u>	<u>-2.2</u>	<u>-1.7</u>	<u>-3.1</u>	<u>7.7</u>	<u>8.5</u>	<u>13.6</u>	<u>9.9</u>
Exports, f.o.b.	9.9	16.9	20.9	22.2	23.7	22.1	23.9
Petroleum and derivatives	(4.0)	(10.4)	(14.6)	(16.5)	(16.1)	(16.1)	(16.3)
Other	(5.9)	(6.5)	(6.4)	(5.7)	(7.6)	(6.0)	(7.6)
Imports, f.o.b.	-12.1	-18.6	-24.0	-14.5	-15.2	-8.5	-14.0
Public sector	(-4.0)	(-6.7)	(-8.8)	(-5.3)	(-4.8)	(-5.0)	(-6.2)
Private sector	(-8.1)	(-11.9)	(-15.2)	(-9.2)	(-10.7)	(-3.5)	(-7.8)
<u>Travel</u>	<u>0.7</u>	<u>0.6</u>	<u>0.2</u>	<u>0.6</u>	<u>1.0</u>	<u>1.1</u>	<u>1.3</u>
<u>Border transactions</u>	<u>0.4</u>	<u>0.4</u>	<u>--</u>	<u>0.4</u>	<u>0.6</u>	<u>0.1</u>	<u>0.2</u>
<u>Factor income</u>	<u>-4.0</u>	<u>-6.0</u>	<u>-9.5</u>	<u>-10.8</u>	<u>-12.6</u>	<u>-9.7</u>	<u>-10.9</u>
Interest on public debt ^{1/}	-2.9	-4.0	-5.5	-7.8	-9.2	-7.8	-8.2
Other interest payments	-0.8	-1.4	-2.9	-3.1	-2.8	-2.7	-3.2
Other	-0.3	-0.6	-1.1	0.1	-0.6	0.8	0.5
<u>Other services and transfers (net)</u>	<u>-0.4</u>	<u>-1.0</u>	<u>-1.5</u>	<u>-0.9</u>	<u>-1.7</u>	<u>-1.1</u>	<u>-1.5</u>
<u>Capital account</u>	<u>5.1</u>	<u>11.2</u>	<u>22.7</u>	<u>7.2</u>	<u>6.2</u>	<u>1.9</u>	<u>3.0</u>
Official capital (net)	3.3	4.7	17.8	6.8	5.0	4.2	4.0
Medium and long term	(3.1)	(4.0)	(9.0)	(5.6)	(14.0)	(16.4)	(3.9)
Short term (net)	(0.2)	(0.7)	(8.8)	(1.2)	(-9.0)	(-12.2)	(0.1)
Private capital ^{2/}	1.8	6.5	4.9	0.4	1.2	-2.3	-1.0
<u>SDR allocation and gold valuation</u>	<u>0.6</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>Errors and omissions</u>	<u>0.7</u>	<u>-2.6</u>	<u>-7.7</u>	<u>-11.0</u>	<u>--</u>	<u>-0.4</u>	<u>--</u>
<u>Monetary authorities (increase -)</u>	<u>-0.9</u>	<u>-0.9</u>	<u>-1.1</u>	<u>6.8</u>	<u>-2.0</u>	<u>-5.5</u>	<u>-2.0</u>

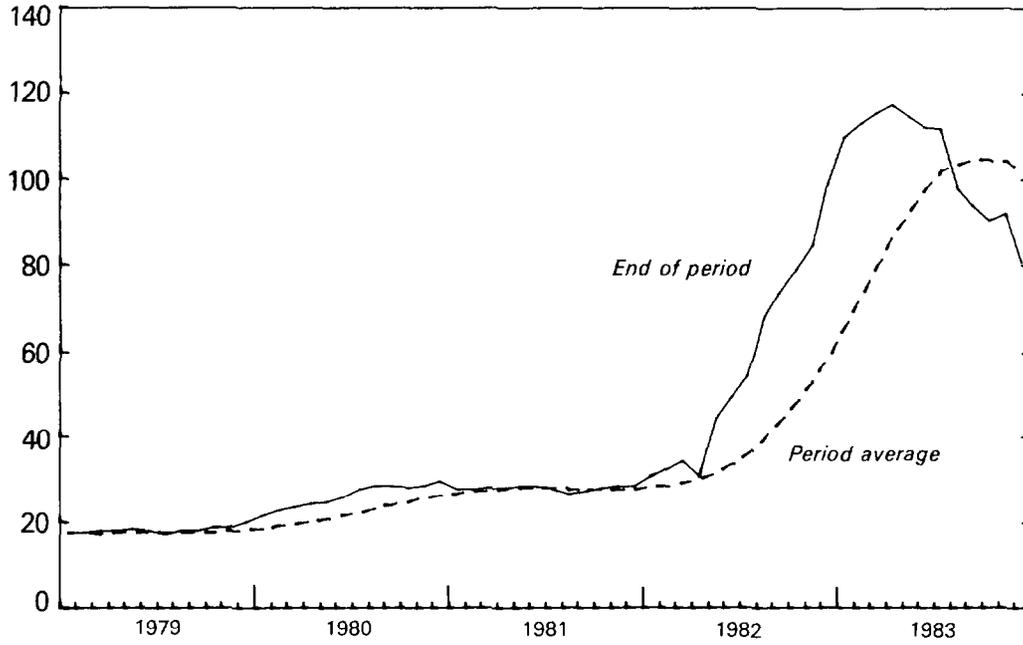
Sources: Data provided by the Mexican authorities; and Fund staff estimates.

^{1/} Excludes interest payments on debt of nationalized banks.^{2/} Includes, as a negative item, interest earned abroad by the Mexican private sector but which has been reinvested abroad.

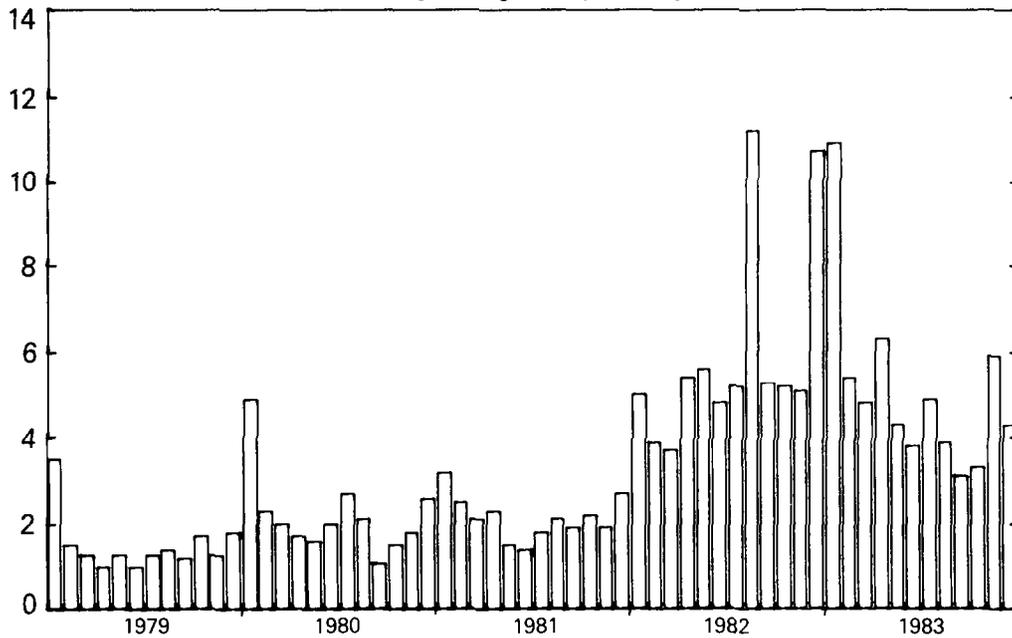
CHART 5
MEXICO

CHANGES IN NATIONAL CONSUMER PRICES

(Percentage change over same month of previous year)



(Percentage change over preceding month)



Source: Bank of Mexico.



were signs that a recovery was under way, including some rise in total employment (Chart 6), the contraction in output that occurred in the second half of 1982 and the first quarter of 1983 was larger than originally expected and real GDP is estimated to have contracted by about 3 1/2 percent from 1982 to 1983.

IV. The Program for 1984

1. Main aims of the program for 1984

The economic program for 1984 envisages the continuation of the policies that the Mexican authorities adopted at the beginning of the current administration, as embodied in the program for economic recovery (PIRE). Thus, the financial program for 1984 has been designed to continue the adjustment efforts already underway as described above. The authorities will seek to achieve a further reduction in the pace of inflation and a gradual resumption of economic growth, while maintaining a strong balance of payments.

Inflation is expected to decline, on a December-to-December basis, from about 80 percent in 1983 to about 40 percent in 1984. The authorities have made the reduction of inflation one of their central policy objectives. Price increases in excess of those experienced by the country's trading partners are viewed by the authorities as not acceptable, and thus they are seeking the virtual elimination of inflation.

The financial program that has been adopted is judged to be consistent with a growth of real GDP of about 1 percent from 1983 to 1984--somewhat below the level projected at the time of the program's inception, but a considerable improvement compared with 1983. The increase in economic activity is to be based mainly on a revival of the private sector. Public sector finances will continue to be strengthened, with the overall public sector deficit declining by over 2 1/2 percentage points of GDP. The economic program--particularly the reduction of the public sector deficit and the continued lifting of controls over domestic prices and external transactions--can be expected to contribute to an improvement of confidence which, in conjunction with other aspects of the financial program, should be conducive to an increase of private sector investment, the continued expansion of non-oil exports, and the development of efficient import-substituting activities. The revival of activity also is to be supported by efforts to change the composition of public sector expenditures away from current outlays and into capital formation.

The balance of payments is projected to remain strong throughout 1984, although the structure of the current and capital accounts is expected to change more into line with Mexico's past experience. The current account is expected to move from a surplus of US\$4 billion in 1983 to a deficit of about US\$1 billion in 1984. This shift in the current account would reflect for the most part an increase in imports--from about US\$8 1/2 billion in 1983 to US\$14 billion in 1984--a rate

comparable to that prevailing in the period 1979-80. The program envisages an increase in net international reserves of US\$2 billion (including the repayment of all remaining arrears), as capital inflows are expected to exceed the small current account deficit. Such an out-turn would permit gross international reserves to reach the equivalent of close to three-and-a-half months of merchandise imports and interest payments. External policies are to be pursued in the context of continued efforts to reduce restraints over trade and to rationalize the structure of domestic industry.

2. Fiscal policy

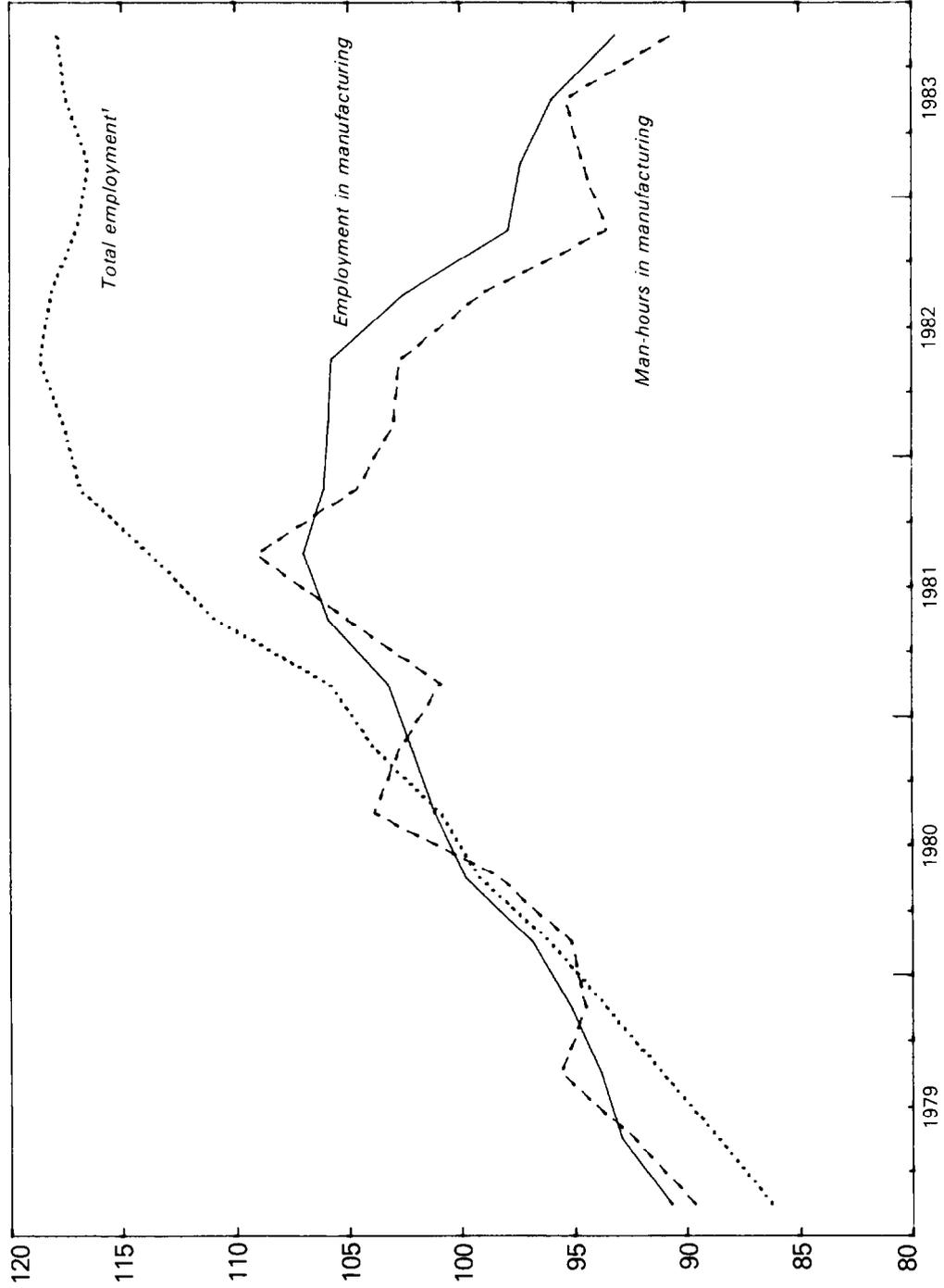
The reduction in the deficit of the nonfinancial public sector was the cornerstone of the adjustment process in 1983, and the further improvement of the public finances will continue to be a key policy element in 1984. The program envisages an overall public sector deficit of Mex\$1,524 billion in 1984, the equivalent of 5.5 percent of GDP (Table 5).

The improvement in the performance of the public sector will encompass a strengthening of public sector savings; the current account of public sector operations is expected to move from an estimated deficit equivalent to 0.9 percent of GDP in 1983 to a surplus of 2.6 percent in 1984. Of the total reduction programed for the public sector deficit (of 2.7 per cent of GDP), about 1 1/2 percentage points of GDP will come from additional receipts. The strengthening of public sector savings will permit an increase in capital expenditure of nearly 1 percent of GDP from the level of 1983, while allowing for a significant reduction in the overall deficit.

To achieve their fiscal aims for 1984, the Mexican authorities have established a comprehensive plan to strengthen tax collections, improve management and financial performance of public enterprises, reduce and rationalize subsidies, and maintain control over current expenditures. To simplify administration and reduce operating costs, the institutional structure of the public sector is being revised to consolidate the units or enterprises that are currently performing similar functions.

About half of the projected increase in receipts (0.8 percent of GDP) would come from additional federal government revenue--mostly tax collections--while the remainder would reflect the growth in receipts of public enterprises. The rise in federal government revenue is expected to derive from increases in most tax categories. Following the comprehensive reform implemented in 1983, the authorities do not plan to undertake major changes in the tax system during 1984; instead, efforts will concentrate on strengthening tax administration. Measures taken to improve tax collections in 1984 include: (i) the introduction of tax withholding for some categories of income, such as interest, rents, and incomes of liberal professionals; (ii) a broadening of the personal income tax base through the inclusion of some previously exempt income categories, especially various fringe benefits; (iii) the

CHART 6
MEXICO
INDICES OF EMPLOYMENT
(1980=100)



Source: Bank of Mexico, Secretary of Planning and Budget.
¹Number of permanently employed workers insured by the Mexican Social Security Institute.



Table 5. Mexico: Public Sector Operations, 1983-84

	<u>In Billions of Mex\$</u>		<u>In Percent of GDP</u>		<u>Changes</u>
	1983	1984	1983	1984	
<u>Overall deficit</u>	<u>-1,500</u>	<u>-1,524</u>	<u>-8.2</u>	<u>-5.5</u>	<u>-2.7</u>
<u>Public sector receipts 1/</u>	<u>5,656</u>	<u>8,994</u>	<u>30.9</u>	<u>32.5</u>	<u>1.6</u>
Petroleum exports	1,924	2,784	10.5	10.1	-0.4
Other petroleum company receipts	548	1,090	3.0	3.9	0.9
Other public enterprises revenues	1,318	2,085	7.2	7.5	0.3
Federal Government	1,828	2,992	10.0	10.8	0.8
Federal District	38	43	0.2	0.2	—
<u>Public sector outlays 1/</u>	<u>7,156</u>	<u>10,518</u>	<u>39.1</u>	<u>38.0</u>	<u>-1.1</u>
Operating expenditure (wages + goods + services and Adefas)	2,621	3,942	14.3	14.2	-0.1
Interest payments	1,931	2,819	10.6	10.2	-0.4
Current transfers	888	1,213	4.8	4.4	-0.4
Capital expenditure	1,355	2,278	7.4	8.3	0.9
Other 2/	361	266	2.0	0.9	-1.1
<u>Memorandum items</u>					
Current account	-159	726	-0.9	2.6	3.5
Capital receipts	14	28	—	—	—
GDP (in billions of pesos)	18,290	27,700			

Sources: Secretariat of Finance and Public Credit; Secretariat of Programing and Budget, and Fund staff estimates.

1/ Public sector receipts and outlays are here presented as inclusive of public enterprises operating revenues and expenditures, respectively, and therefore the presentation differs from the one used in Table 2.

2/ Includes exchange losses, net financing requirements of the rest of the public sector and other residual operations.

elimination of exemptions or special treatment granted to certain activities, such as the transport sector; (iv) increases in the rates of several excise taxes; (v) a rise in the levy on the ownership of vehicles; and (vi) increases in various administrative fees and charges.

Gross receipts of public enterprises are expected to grow in line with the recovery in the volume of production and sales and, more importantly, a realignment of their pricing policies that seeks to reduce subsidies and eliminate operating losses. In the case of goods traded internationally, the intention is to use the international price as a reference for domestic pricing decisions. It should be noted that substantial price adjustments were made in the latter part of 1983, particularly for petroleum derivatives and agricultural products sold by the state marketing agency (CONASUPO). This policy is to be continued in 1984.

Overall public sector outlays in relation to GDP are projected to decline by about 1 percentage point in 1984. However, outlays for transfers, interest payments, and other operating expenditures are expected to fall by more than 2 percentage points of GDP. The authorities have taken or announced measures to reduce or eliminate numerous subsidies, including those arising from exchange losses and those stemming from the operation of the decentralized public enterprises. Remaining subsidies are to be concentrated in goods and services consumed by lower-income groups. Public sector investment programs will continue to be revised and priority will be given to projects that are highly labor intensive, particularly in infrastructure, transport, communications, and rural development. Emphasis also will be given to projects related to the production and distribution of basic consumer goods or strategic industrial and agricultural inputs, as well as to those that have a lower import content or which are at an advanced stage of completion.

Mexico's public finances are expected to benefit in 1984 from a recovery in economic activity, an increased level of imports, and the slowing of inflation. The projected recovery of economic activity should have a positive effect on revenue in most tax categories, while helping at the same time to reduce the calls on the Government to sustain employment and protect the purchasing power of lower income groups. Increased imports should boost collections of both import duties and value-added tax. Receipts from the value-added tax are expected to show a general recovery, following a relatively weak performance in 1983 as a consequence of the decline in imports and the change in the pattern of private sector consumption toward basic goods that are generally exempt from value-added tax. The deceleration in the rate of inflation should result in a reduction in outlays for domestic interest payments from the high levels of 1983.

The 1984 budget approved by Congress contains an authorization for contingent expenditure of Mex\$277 billion. The authorities' presentation to Congress indicates that this additional expenditure

would be released only during the second semester of 1984 if there were evidence that economic activity was not recovering and if non-inflationary resources were available to finance it. The fiscal deficit, as defined for purposes of the program, allows for some Mex\$200 billion of such expenditures, which could be used to cover nearly three quarters of these contingency outlays; any expenditure in excess of this sum would have to be financed either from an increase in revenue or through expenditure cuts in other areas. In any event, the authorities have indicated that any additional outlays from this contingency reserve would not be allowed to affect the central objectives of reducing inflation and strengthening the balance of payments. Moreover, because of the need to support productive activities and employment, the contingency reserve--if activated--would be primarily used to finance investment and employment-generating programs, particularly by private enterprises and cooperatives. The authorities have indicated that they would review the developments that might give rise to the activation of the contingency reserve on the occasion of the next Article IV consultation discussions.

3. Financial intermediation by the public sector

The Mexican authorities distinguish between two kinds of overall public sector deficit, one excluding and one including the net lending activities of the development banks and official trust funds.

For purposes of the financial program, net lending to the private sector by the development banks and official trust funds financed from domestic deposit resources accruing to these institutions has not been included in the public sector deficit, since it is viewed as the provision of financial intermediation between private savers and investors. Credit from the development banks to public sector enterprises and other public institutions is included in the financing of the public sector deficit, and the transfers from the Central Government to the development banks and official trust funds to cover their operating deficits are included as part of central government expenditures.

In 1983 financial intermediation by the development banks and official trust funds grew substantially, reaching almost one third of the total increase in credit extended by the financial system to the private sector; the growth in these operations reflected in part the attractiveness of the preferential interest rates charged by these institutions. Although the authorities believe that such credit operations perform an important function, they are concerned about the generation of subsidies through the financial systems that might be costly to the Government and may give rise to distortions in the allocation of financial resources. Accordingly, a decision has been made to limit this kind of financial intermediation by placing a ceiling of Mex\$200 billion on the net credit granted to the private sector by the development banks and official trust funds during 1984. To provide some flexibility in the possible channeling of public sector resources to support private investment activities, this ceiling may be increased

provided that the overall public sector will be reduced by a similar amount. In particular, this would mean that some of the contingency fund outlays contemplated in the budget (discussed above) might be channeled through the development banks and official trust funds to support investment activities by the private sector.

Although a significant proportion of the loans provided through official intermediaries continues to have concessional terms, the authorities have reduced the subsidies involved in these activities. For example, the interest rates on industrial credits from FOGAIN (a trust fund administered by NAFINSA, the largest government development bank) were increased by 5 percentage points in June 1983, and those applicable to mining activities were raised by a similar amount in August 1983. Moreover, in December 1983 the rate structure of the credits from FIRA (the trust fund for agricultural reform), which is the largest official trust fund, was modified to increase interest rates by between 1 and 10 percentage points, depending on the size of the loan and the relative income of the loan recipient. In addition, on a large number of operations the interest rate charged has been linked to the average cost of funds of the banking system, rather than being left at a fixed rate throughout the life of the loan.

4. Monetary and credit policy

It is the intention of the authorities to continue to manage interest rates on domestic savings instruments so as to make the holding of domestic financial instruments attractive. The policies of the program are expected to result in a further deceleration of inflation during 1984 and thus in further declines in nominal interest rates. Nonetheless, the aim of interest rate policy generally is to maintain positive real rates while concurrently reducing the spread between loan and deposit rates.

The cash flow position of the nationalized commercial banks is expected to improve during 1984 because the charges for various banking services, which were eliminated or drastically reduced in 1982, are being revised so as to reflect more adequately their costs, and the banks' portfolio of shares of domestic enterprises will be reduced. As a result of the poor economic performance during 1982 and 1983, the dividends paid on corporate shares held by these banks had fallen sharply, and this had an adverse effect on the commercial banks' cash flow. The attempt of the banks to maintain their profitability led to a widening of the differential between lending and borrowing rates. The commercial banks are expected to be paid for these shares with the recently issued banking system nationalization bonds, which carry an interest rate equivalent to the average paid on three-month time deposits. The public sector budget for 1984 includes a provision to cover the interest costs associated with these bonds.

The system of reserve and portfolio requirements is being reexamined. Also, interest rates charged on preferential credits are being modified with a view to bringing them into closer relationship with the cost of funds. Such a step should not only improve efficiency in the allocation of financial resources, but will also make it possible to reduce the disparity among lending rates. The steps already taken in 1983 to combine existing banks into larger units that can take advantage of economies of scale also should help to raise efficiency. The growth of security markets will continue to be fostered during the coming year with a view to stimulating the development of financial intermediation outside the banking system.

As in 1983, quarterly limits have been placed on the expansion of the net domestic assets of the Bank of Mexico, consistent with the production, price, and balance of payments objectives of the program. The pursuit of appropriate interest and exchange rate policies will help the Bank of Mexico achieve its goals. The operation of the Bank's credit limits will be reinforced by the other ceilings contained in the program, particularly the limits on credit from the Bank of Mexico to the public sector, on financial intermediation by the development banks and official trust funds, and on the overall public sector deficit. The limit on credit from the Bank of Mexico to the public sector is consistent with a moderate reduction in the effective reserve requirements applicable to the commercial banks.

During 1984 the net domestic assets of the Bank of Mexico are expected to contract by Mex\$43 billion while note issue is projected to increase by Mex\$300 billion (Table 6); however, because of the seasonal pattern, the note issue will decline in the first three quarters of the year and will expand only in the last quarter. During 1984 as a whole, the accumulation of net international reserves by the Bank of Mexico is expected to exceed the growth of the note issue.

The program assumes that the financial system's liabilities to the private sector (including the placement of federal government securities with the private sector) will rise in real terms by 2 percent during 1984, aided by the reduction in inflation and by the continued pursuit of an interest rate policy that fosters savings. With this growth in resources and the limitations on the financing of the public sector, credit to the private sector is projected to increase by about 10 percent in real terms, after a period of two years in which the stock of credit outstanding declined sharply in real terms. The projected increase in resources channeled to the private sector is based on the external availability of foreign financing to the public sector and on the above-mentioned growth of private financial savings in real terms.

5. Price and wage policies

Incomes policies are an essential part of the adjustment process, both because of the impact on the allocation of resources and their effect on inflation. To enhance the efficiency of the Mexican economy, significant reductions were effected in 1983 in the number of goods

Table 6. Mexico: Summary Operations of the Financial System

	Actual Stocks Dec. 1982	Effective Flows 1/					
		1979	1980	1981	Rev. 1982	1983 Prog.	1984 Prog.
(In billions of Mexican pesos)							
I. Bank of Mexico							
Net international reserves	-181.2 2/	20.4	21.2	29.0	-381.8	207.0 2/	628.0 2/ 343.0
Net domestic assets	692.1	16.8	26.5	58.8	607.7	104.0	-448.0 -43.0
Net credit to the public sector	2,145.8 2/	104.3	147.3	262.7	738.9	787.0 2/	852.0 2/ 857.0
Credit to banks	306.6	2.9	23.3	-0.5	178.1	--	-- --
Credit to private sector	17.3	0.2	0.5	1.1	2.7	--	-- --
Liabilities to banks	-1,565.0	-97.7	-160.6	-211.9	-335.1	-683.0	-1,300.0 -900.0
Other (net)3/	-212.6	7.1	16.0	7.4	23.1	--	-- --
Note issue	510.9	37.2	47.7	87.8	225.9	311.0	180.0 300.0
II. Financial System							
Net foreign assets	-98.5	27.2	35.8	21.4	-392.1	207.0 2/	628.0 2/ 343.0
Net domestic credit	6,730.2	307.8	451.6	933.5	1,164.7	1,611.7	1,332.0 1,907.0
Net credit to the public sector 4/	5,052.3 2/	165.9	210.4	610.1	1,265.4	820.0 2/	1,029.0 2/ 874.0
Credit to the private sector 4/	1,568.5	158.8	250.7	310.2	-102.8	792.0	630.0 1,152.0
Other (net)3/	109.4	-16.9	-9.5	13.2	2.1	-0.3	-327.0 -118.0
Medium- and long-term foreign liabilities	3,044.8	63.0	98.1	263.7	6.7	--	-- --
Liabilities to nonbank public financial intermediaries	198.3	15.5	17.9	54.8	30.8	50.0	90.0 --
Liabilities to private sector	3,388.6	256.5	371.4	636.4	735.1	1,768.7	1,870.0 2,250.0
Of which: capital and reserves	68.2	8.5	11.5	14.4	14.0	--	-- --
(Percentage change in relation to note issue at the beginning of the period)							
Bank of Mexico's net domestic assets	...	15.0	17.7	29.8	213.2	17.5 5/	-87.7 -6.1
Bank of Mexico's net credit to public sector	...	92.9	98.5	133.2	259.3	132.5 5/	166.8 24.2
Note issue	...	33.1	31.9	44.5	79.3	52.4 5/	35.2 43.4
(Percentage change in relation to liabilities to private sector at the beginning of the period)6/							
Net domestic credit	...	42.8	46.3	69.3	8.2	54.6 5/	39.3 36.3
Net credit to the public sector 4/	...	23.0	21.6	45.3	62.7	27.3 5/	30.4 16.6
Credit to the private sector 4/	...	22.1	25.7	23.0	-5.1	26.8 5/	18.6 21.9
Liabilities to the private sector	...	35.6	38.0	47.2	67.8	60.0 5/	55.8 42.8
(In percent of GDP)							
Net domestic credit	70.9	10.0	10.6	15.9	12.4	9.2 5/	7.3 6.9
Net credit to the public sector 4/	55.0	5.4	4.9	10.4	13.4	4.7 5/	5.6 3.1
Credit to the private sector 4/	16.8	5.2	5.9	5.3	-1.1	4.5 5/	3.4 4.1
Liabilities to the private sector	36.5	8.4	8.7	10.8	7.8	10.0 5/	10.2 8.1
Memorandum item							
Credit to the private sector as proportion of liabilities to private sector	45.9	61.9	67.5	48.7	-14.0	44.8 5/	33.7 51.2

Sources: Bank of Mexico; and Fund staff estimates.

1/ Effective flows excluding valuation adjustments for exchange rate changes in foreign currency denominated accounts.

2/ Drawings under the balance of payments support loan from the BIS for US\$735 million (Mex\$54.6 million) are included as a foreign liability in the calculation of net international reserves.

3/ Includes official capital, gold price adjustments, valuation adjustments to Fund transactions, and net unclassified.

4/ Includes credit financed with medium- and long-term foreign liabilities.

5/ Calculated with respect to the original forecasts for end of 1982 made at the time of the program negotiation.

6/ Changes are effective flows in relation to the stock of liabilities to the private sector at the beginning of the period, adjusted for valuation changes resulting from modifications of the exchange rate.

subject to price controls. To maintain adequate incentives to producers, continued flexibility in the management of the remaining price controls will be maintained in 1984; however, in implementing this policy the authorities have indicated their intention to pay due regard to the impact of price increases on the purchasing power of lower-income groups and on the availability of basic goods.

While the relaxation of price controls and the reduction in subsidies resulted in corrective price increases that have been reflected in the price indices, these should not be expected to contribute to the perpetuation of inflation. Moreover, since most of the repressed inflation of earlier years already has been passed into prices, it is expected that corrective price adjustments will be considerably smaller in 1984. Still, about 300 items remain subject to direct price controls, involving mostly essential goods and services. Changes in the prices of these goods and services will continue to have to be justified on the basis of increases in costs. To preclude the generation of inefficiencies in production and distribution, the authorities have expressed their willingness to reduce import protection, thus inducing enterprises to lower costs and to keep prices at competitive levels.

The authorities are fully aware that a lasting improvement in real wages must be based on the re-establishment of a sound growth performance; therefore, they have indicated that wage policy should continue to be forward-looking, in order to be consistent with the inflation and employment objectives of the program. Concurrently, efforts to protect the purchasing power of the lower-income groups will be reinforced, including through measures designed to redirect subsidies. With the decline in the rate of inflation, recent wage settlements have involved annual increases of around 30 percent, and on January 1, 1984 it was announced that minimum wages would increase by 30.4 percent on average. The authorities have not made any announcement about a midyear adjustment in minimum wages for 1984.

6. External policies

In 1984 the authorities intend to continue the exchange rate policies developed during the past year and to relax further existing exchange restrictions, including the settlement of the remaining external payment arrears. They have also indicated their intention to proceed with a revision of the structure of protection and to continue their efforts to reduce dependence on external financing.

a. Exchange system

The adjustments made to the exchange rate since late 1982 have restored external competitiveness and contributed to the strengthening of the capital account. However, because Mexico's rate of inflation continues to be higher than that of Mexico's major trading partners, a flexible exchange rate policy will still be necessary to maintain competitiveness and protect employment. Exchange rate policy, together

with the other policies of the economic recovery program, will be directed to the achievement of a sustainable balance of payments and an adequate level of international reserves. To this end, the net international reserves of the Bank of Mexico are subject to a quarterly balance of payments test. Such reserves are expected to increase by US\$2 billion during 1984, including the full repayment of external arrears. Some US\$300 million of external arrears were estimated to remain at the end of 1983.

The authorities have the objective of unifying the exchange system. However, they have indicated that the current dual exchange rate system will be maintained temporarily and until orderly conditions are restored in the capital account. The free exchange market continues to be available for all transactions and by the end of January 1984, the spread between the controlled and the free market rates was down to 11.3 percent. Adjustments in rates in the free and controlled markets will continue to be made--currently at a pace of Mex\$0.13 per day in each market--in accordance with price developments and balance of payments aims. The current rate of depreciation is broadly consistent with the maintenance of the level of competitiveness prevailing at the end of 1983 (as measured by the rate in the controlled market) on the basis of the authorities' inflation objectives for 1984.

b. Private sector external obligations

During 1983 progress was made in restructuring the external debt of the private sector. Moreover, most of the arrears outstanding as of December 1982 were settled, as US\$1.1 billion was paid out of a total of US\$1.4 billion. The authorities have announced their intention to repay any remaining arrears for which deposits in pesos have been constituted at the Bank of Mexico by the end of the first quarter of 1984.

Substantial efforts already have been made to regularize and restructure the bulk of private sector external debt and these will continue in 1984. In dealing with the debt of the private sector, the authorities have maintained the principle that the public sector would not assume the commercial risk involved in these operations. However, they stand ready to assist in the rescheduling or refinancing arrangements, and to facilitate the transfer of foreign exchange. This principle of not assuming commercial risk has been maintained in order not to add to the burden of the public sector deficit and to allow the Mexican private sector to continue obtaining financial resources without government interference. In line with this policy, neither the Bank of Mexico nor the nonfinancial public sector will undertake to furnish guarantees on behalf of private sector firms with respect to their external indebtedness. Publicly owned financial institutions will continue to offer guarantees on their own behalf, in the normal fashion followed by comparable private financial institutions in the conduct of their business.

c. The protective system ^{1/}

At present, the structure of protection and export promotion is determined by the interaction of import tariffs, the system of import and foreign exchange permits, the dual exchange rate arrangement, financial export subsidies, and indirect sectoral subsidies provided by the system of price controls. The resulting structure of effective protection and subsidies has given rise to wide disparities in incentives among sectors.

As regards the system of import permits, currently some 80 percent of all tariff items, which account for more than 90 percent of total imports, are subject to prior authorization. However, the restrictiveness of the import system has been relaxed since late 1982 and early 1983, as the amount of import permits through the controlled market has been allowed to rise. There was some decline in the average number of monthly authorizations from June to October 1983, at a time when the stock of unutilized permits increased, but the authorities have since accelerated significantly the pace of authorizations in order to accommodate the increase in imports consistent with a recovery of economic activity. Moreover, a number of measures were introduced in late 1983 and early 1984 to liberalize selectively the system of import and foreign exchange permits, including the provision of unrestricted authorizations for certain essential items such as pharmaceuticals; the exemption from prior authorization for some 1,703 tariff items; the shift of certain raw materials and intermediate goods not produced locally to the free exchange market; the automatic approval of permits for 275 essential inputs for small and medium enterprises; the permission for unrestricted imports of machinery up to US\$100,000, subject to certain requirements; and selective import authorizations to avert sectoral scarcities or oligopolistic practices. Concurrently, however, imports of 1,850 items were prohibited for protective reasons and to discourage the consumption of luxuries, and import quotas were set for a number of items; import authorizations for most of the items subject to prohibition or quota had not been granted since late 1981.

The authorities are finalizing a review of the tariff structure on the basis of a comprehensive study of effective protection, with a view to implementing a tariff reform in the first semester of 1984. Tariffs would be set according to the degree of elaboration of products, to provide a moderately cascading degree of effective protection to the higher stages of elaboration. The tariff structure would provide a higher level of protection for items locally produced; maximum rates would be set at 50 percent for essential items and 100 percent for luxury items. In preparation for the reform, tariffs on 127 items were reduced in January 1984, covering mainly intermediate goods and spare parts.

^{1/} For a more comprehensive review of recent changes in commercial policy see Appendix VI.

d. External public debt policies

The objectives for external debt management in 1984 continue to be to reduce the reliance on foreign borrowing--the growth in public sector debt is to be limited to no more than US\$4 billion--and to improve the terms on new debt. In 1983, the net use of foreign financing by the public sector amounted to US\$4.2 billion, which was below the ceiling of US\$5 billion under the program and also below the net use of about US\$7 billion in 1982. The 1983 inflows included the disbursement of a US\$5 billion loan from commercial banks. In addition to this credit, commercial banks agreed to restructure some US\$18.8 billion of amortization payments due in 1983 and 1984. Disbursements of external credits from official sources--including multilateral financial institutions--amounted to about US\$3 billion in 1983, while the total of required amortizations--including certain short-term debts and bonds held by private individuals abroad--amounted to US\$4.4 billion.

An important source of external financing for 1984 will be a US\$3.8 billion loan from the commercial banks. Reflecting the improvement in Mexico's international creditworthiness, the new loan will carry a 10-year maturity with a 5 3/4 years of grace period, whereas the 1983 loan carried a maturity of six years with three years of grace. In addition, spreads have been reduced from 2 1/4 percent in 1983 to 1 1/2 percent in 1984 over LIBOR and from 2 1/8 percent in 1983 to 1 1/8 in 1984 over the U.S. prime rate. Moreover, in order to improve the overall structure of the external debt, efforts will continue to be made to increase the use of loans from multilateral financing institutions and official lines of credit from bilateral sources; a total of US\$2.8 billion is expected to be obtained from these sources in 1984. Required amortizations are estimated at US\$2.7 billion for the year.

The direct external debt of the public sector (excluding the Bank of Mexico) increased from about US\$60 billion at the end of 1982 (Table 7) to about US\$64 billion at the end of 1983, and is expected to reach close to US\$68 billion at the end of 1984. The ratio of external debt to GDP (excluding obligations to the Fund) increased from 31 percent in 1982 to 32 percent in 1983 and is projected to remain unchanged in 1984 (Statistical Appendix Table 47). However, because of the accumulation of reserves, the ratio of net effective debt (external debt net of official international reserves) to GDP did not change from 1982 to 1983, remaining at about 31 percent, and is expected to decline to 30 percent in 1984 (Table 8).

Assuming net new borrowing in the order of US\$3 billion to US\$4 billion a year during 1985-89 under terms similar to those recently available to Mexico,^{1/} the debt service ratio would increase sharply in 1985 to 54 percent. After a temporary decline in 1986, the debt service

^{1/} Projections for the period 1985-89 have been based on the illustrative assumption of commercial borrowing at 10-year maturity and 5 1/2-year grace.

Table 7. Mexico: External Debt Outstanding, 1979-83 1/

(In billions of U.S. dollars)

	1979	1980	1981	1982	Prel. Sept. 1983
<u>(By Borrower)</u>					
<u>Total</u>	<u>40.4</u>	<u>51.4</u>	<u>75.1</u>	<u>87.9</u>	<u>88.9</u>
<u>Public sector debt</u>	<u>29.9</u>	<u>34.5</u>	<u>53.2</u>	<u>62.1</u>	<u>62.9</u>
Direct debt of Central Government	16.9	20.0	31.0	35.0	37.5
Government development banks <u>2/</u>	12.9	13.8	22.0	23.3	24.4
PFMEX contracts	—	0.7	0.2	1.6	—
Bank of Mexico <u>3/</u>	0.1	—	—	2.2	1.0
<u>Nationalized banks <u>4/</u></u>	<u>2.6</u>	<u>5.1</u>	<u>7.0</u>	<u>7.8</u>	<u>7.9</u>
<u>Private sector <u>5/</u></u>	<u>7.9</u>	<u>11.8</u>	<u>14.9</u>	<u>18.0</u>	<u>18.0</u>
<u>(By Maturity)</u>					
<u>Total</u>	<u>40.4</u>	<u>51.4</u>	<u>75.1</u>	<u>87.9</u>	<u>88.9</u>
Medium and long term	34.0	39.6	52.4	59.2	63.4
Short term	6.4	11.8	22.7	28.7	25.4 <u>6/</u>
<u>(By Lender)</u>					
<u>Total</u>	<u>40.4</u>	<u>51.4</u>	<u>75.1</u>	<u>87.9</u>	<u>88.9</u>
Banks	31.3	40.1	60.8	71.2	74.4
To public sector	(22.8)	(26.2)	(42.6)	(45.4)	(48.5)
To private sector and nationalized banks	(8.5)	(13.9)	(18.2)	(25.8)	(25.9)
Bilateral and multilateral organizations <u>2/</u>	3.8	4.5	6.3	9.4	9.4
Other	5.3	6.8	8.0	7.3	5.1

Sources: Secretariat of Finance and Public Credit; and Fund staff estimates.

1/ Does not include outstanding letters of credit or payments arrears.

2/ Includes debt to the C.C.C.

3/ Includes foreign liabilities of the Bank of Mexico with IMF, BIS, U.S. Treasury, and U.S. Federal Reserve, but does not include liabilities under bilateral payment agreements.

4/ Includes deposits held by nonresidents with foreign agencies of Mexican commercial banks.

5/ Estimated.

6/ Includes some US\$11 billion public debt in the process of being restructured into longer term maturities.

Table 8. Mexico: Summary of External Public Sector Debt Operations and Projections, 1980-89

	1980	1981	1982	Prel. 1983	Projections 1/					
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
(In billions of U.S. dollars)										
Total flows (net)	4.8	17.8	9.0	3.3	5.3	4.2	3.2	3.3	3.4	3.5
Direct debt 2/	4.8	17.8	6.8	4.2	4.0	3.0	3.3	3.6	4.0	4.4
Disbursements 3/	(8.7)	(23.1)	(19.6)	(23.6)	(10.5)	(13.4)	(12.7)	(18.1)	(16.1)	(14.7)
Restructuring	/--/	/--/	/7.6/	/15.0/	/3.8/	/--/	/--/	/--/	/--/	/--/
Other	/8.7/	/23.1/	/12.0/	/8.6/	/6.7/	/13.4/	/12.7/	/18.1/	/16.1/	/14.7/
Amortizations (payments due) 3/	(3.9)	(5.3)	(12.8) 2/	(19.4)	(6.5)	(10.4)	(9.4)	(14.5)	(12.1)	(10.3)
Debt outstanding end-1982	/3.9/	/5.3/	/12.8/	/19.4/	/6.0/	/9.3/	/6.9/	/6.8/	/4.2/	/3.3/
Other	/--/	/--/	/--/	/--/	/0.5/	/1.1/	/2.5/	/7.7/	/7.9/	/7.0/
Bank of Mexico (net) 4/	--	--	2.2	-0.9	1.3	1.2	-0.1	-0.3	-0.6	-0.9
Interest payments (total)	4.0	5.5	7.8	7.8	8.2	8.9	9.4	9.4	9.5	9.7
Debt service payments due 5/	7.7	10.3	12.8	15.0	14.7	19.3	18.8	23.9	21.6	20.0
Debt service payments paid 5/	7.7	10.3	11.5	10.1	10.9	19.3	18.8	23.9	21.6	20.0
External debt outstanding	34.5	53.2	62.1	65.4	70.6	74.8	78.0	81.3	84.7	88.2
Direct debt	34.5	53.2	59.9	64.1	68.1	71.1	74.4	78.0	82.0	86.4
Bank of Mexico	--	--	2.2	1.3	2.5	3.7	3.6	3.3	2.7	1.8
Nationalized bank debt outstanding	7.0	8.0	7.8	7.9	7.9	7.9	7.9	7.9	7.9	7.9
(In percent)										
Selected indicators										
Effective interest rate	12.4	12.5	13.5	12.2	12.1	12.2	12.3	11.8	11.5	11.2
Debt service ratio (including IMF) 6/										
On payments due prior to restructuring	30.9	33.8	42.1	49.8	43.4	53.6	49.0	58.7	49.4	42.8
On actual payments	30.9	33.8	37.8	33.6	32.2	53.6	49.0	58.7	49.4	42.8
Interest payments ratio to exports 7/	16.1	18.1	25.7	25.9	24.1	24.7	24.5	23.1	21.7	20.8
Interest payments ratio to GDP 8/	2.4	2.8	3.9	3.8	3.6	3.5	3.3	2.9	2.7	2.4
External debt ratio to GDP 9/	19.8	26.4	31.1	30.8	30.0	27.8	25.9	24.3	22.7	21.3

Source: Statistical Appendix Table 47.

1/ These capital flows are consistent with the balance of payments projections presented in Scenario A, Statistical Appendix Table 43.

2/ Includes direct debt of the Central Government, the government developments banks, and forward petroleum sale contracts of PEMEX.

3/ Includes net changes in short-term debt.

4/ Includes purchases from IMF.

5/ Amortization on medium- and long-term debt and interest on total debt outstanding; includes IMF.

6/ Ratio of debt service to exports of goods and services.

7/ Ratio of interest payments to exports of goods and services.

8/ Net of interest on gross international reserves.

9/ Net of gross international reserves.

ratio would peak at 59 percent in 1987, in reflection of amortization of the debt restructured in 1982-84. Thereafter, the debt service ratio would decline to 49 percent in 1988 and 43 percent in 1989. In spite of the increase in the debt service ratio through 1987, the ratio of debt to GDP would decline steadily from 32 percent in 1984 to 25 percent in 1989; however, the gross financing requirements will become larger after 1985 as the grace period for the recently concluded re-financing operations comes to an end. The decline in the ratio of effective debt (net of gross official reserves) to GDP would be even more pronounced, from 30 percent in 1984 to 21 percent in 1989. The ratio of interest payments to GDP, net of interest on gross reserves, which is an alternative measurement of the debt burden, shows a steady decline during the program period and would continue to decline further through 1989.

e. Balance of payments projections

The current account deficit of US\$1 billion projected for 1984, which is considerably lower than that originally projected in late 1982, reflects the reduction of the trade surplus from an abnormally high level observed in 1983, as well as a continued increase of interest payments. Nonfactor services are projected to be broadly in balance in 1984.

Exports are expected to increase from US\$22 billion a year in 1982-83 to US\$24 billion in 1984. Most of the increase is expected to come from nonpetroleum exports, in response to the improved competitiveness of the Mexican economy and continued economic recovery abroad. A small increase is projected for petroleum exports, in response to the increase of heavy crude prices that was announced in late 1983. Total imports are projected to increase by 65 percent (to US\$14 billion) in 1984, reflecting the recovery of domestic activity in general and investment in particular, the replenishment of stocks, the acceleration in the pace of import permit authorizations, and the reduction of tariffs on a considerable number of items. Net factor income payments of some US\$11 billion in 1984 would continue to represent a large share of external outlays. The bulk of these payments will consist of interest payments on public debt, which are projected to rise from an estimated US\$7.8 billion in 1983 to US\$8.2 billion in 1984, owing to an increase in the stock of debt at largely unchanged average interest rates; interest payments by the private sector and by the commercial banks are projected to increase from US\$2.7 billion in 1983 to over US\$3 billion in 1984.

Net capital inflows are expected to increase from US\$1.9 billion in 1983 to US\$3 billion in 1984, mainly because the net outflow of private capital is projected to diminish while net public sector borrowing is expected to be around US\$4 billion. Accordingly, net international reserves of the Bank of Mexico are projected to increase by US\$2 billion in 1984, including reductions in nonrescheduled external payments arrears amounting to about US\$300 billion. Gross official reserves (excluding

gold) measured as months of imports and interest payments, which had fallen to the equivalent of less than one month of payments in 1982, recovered to two-and-a-half months of payments in 1983 and are projected to increase to nearly three-and-a-half months of payments in 1984.

7. Performance criteria for the second year of the arrangement

For 1984, specific quarterly limits have been set with respect to the public sector deficit and its financing (Table 9). Access of the public sector to credit from the Bank of Mexico has been subject to ceilings, and a limit of US\$4 billion has been placed on the public sector's net use of foreign credit. In addition, financial intermediation conducted by the national development bank and most official trust funds is subject to a quarterly limitation. However, official financial intermediation may be increased beyond the established limits, subject to a reduction by a corresponding amount in the ceilings on the overall public sector deficit. A quarterly ceiling has been placed on the expansion of the net domestic assets of the Bank of Mexico, consistent with the inflation objectives and the achievement of a US\$2 billion improvement in the net international reserves during 1984. Quarterly targets also have been established on the changes in net international reserves to help guide the management of the exchange rate policy, and the authorities have stated that they would eliminate any outstanding external payments arrears in the course of 1984.

The following are the quantitative performance criteria of the program: (1) a set of quarterly ceilings on the overall deficit of the public sector (paragraph 3 of the Technical Memorandum of Understanding attached to the letter of intent, EBS/84/1); (2) a set of quarterly ceilings on the public sector's net use of foreign credit (paragraph 1 of the Technical Memorandum); (3) a set of quarterly ceilings on the public sector's net use of credit from the Bank of Mexico (paragraph 2 of the Technical Memorandum); (4) a set of quarterly ceilings on the expansion of the Bank of Mexico's net domestic assets (paragraph 4 of the Technical Memorandum); (5) a set of quarterly ceilings on the amount of financial intermediation conducted by the national development banks and all official trust funds, including those of the Bank of Mexico but excluding FICORCA (paragraph 5 of the Technical Memorandum); (6) a set of quarterly targets for the net foreign assets of the Bank of Mexico (paragraph 6 of the Technical Memorandum); (7) the commitment to repay all outstanding arrears during 1984.

In addition, the general clause pertaining to the authorities' intentions in respect of multiple currency practices, restrictions on payments and transfers for current international transactions, bilateral payments agreements, and restrictions on imports for balance of payments reasons (paragraph 4(c) of the extended arrangement) remains in effect. Understandings with the Fund will have to be reached before January 1, 1985 on suitable performance clauses for the last year of the extended arrangement (paragraph 29 of the letter of intent of November 10, 1982).

Table 9. Mexico: Extended Arrangement—Quantitative Performance
Criteria for the Second Program Year

	Actual Sept. 1983	Proj. Dec. 1983	Targets and Limits for 1984			
			Jan.-March	April-June	July-Sept.	Oct.-Dec.
(In billions of Mexican pesos)						
Net credit to the public sector by the monetary authorities 1/	2,455 2/	2,877	3,023	3,205	3,397	3,734
Cumulative overall public sector deficit 3/	622	1,500	330	640	980	1,524
Cumulative changes in net domestic assets of the monetary authorities (effective flow) 4/	-557	-448	-40	-71	-113	-43
Cumulative changes in financial intermediation (effective flow) by development banks and official trust funds	175	190	70	130	170	200
(In millions of U.S. dollars)						
Cumulative net foreign borrowing by the public sector 3/	2,555	4,200	1,100	2,100	3,100	4,000
Cumulative change in net inter- national reserves of the mon- etary authorities 3/5/	4,365	5,100	300	800	1,300	2,000
Cumulative reduction in arrears 5/6/	521	1,088	...	...	...	280

Sources: Mexican authorities; and Fund staff estimates.

1/ Effective flows.

2/ Stock outstanding at end of November 1983 unadjusted for changes in exchange rate (used as new base).

3/ Limit tested at the end of each period.

4/ Net domestic assets of the Bank of Mexico for purposes of the ceiling is defined as the difference between note issue and net international reserves of the monetary authorities.

5/ Includes payments arrears on account of interest and amortization due on foreign suppliers' loans to the private sector not included in restructuring arrangements.

6/ Limit tested at the end of the calendar year.

Finally, the conditions for the release of the contingency expenditure reserve will be reviewed on the occasion of the Article IV consultation.

V. Medium-Term Prospects

The current adjustment program, if implemented successfully, should contribute to the creation of conditions for the resumption of sustained growth of economic activity and employment. Table 10 presents a summary of macroeconomic projections for the period through 1988, consistent with a growth of real GDP of about 5 percent a year in the period 1985-88, the deceleration of domestic inflation to a rate that approaches that of Mexico's major trading partners, and the maintenance of a strong balance of payments position (consistent with an accumulation of reserves sufficient to cover five to six months of interest payments and merchandise imports).

The GDP growth contemplated for the second half of the 1980s is in line with Mexico's historical record throughout the 1950s and the 1960s, and significantly higher than the rate of population increase of some 2 1/2 to 3 percent a year. Mexico's projected public and private sectors' investment performances appear to be consistent with the achievement of such growth rates in light of the available technologies and the absence of major changes in the development strategy (see Appendix VII for a brief description of the development strategies as presented in the National Development Plan for 1983-88).

The ratio of total investment to GDP is expected to rise steadily from about 21 percent to some 24 percent of GDP, a level similar to the one prevailing in the early 1970s but significantly lower than the exceptionally high levels achieved in 1978-81 when large investments in energy-related projects were undertaken. The overall savings ratio, which declined to 19 percent of GDP in 1982, is expected to recover in the period 1985-88, mostly reflecting an improvement in public sector savings.

The rate of inflation over the medium term is expected to continue to decline throughout the 1985-88 period, as prudent demand management continues and confidence improves. Most of the corrective price measures needed will have been implemented by the end of 1984 and distortions in the price system should have been eliminated. Moreover, price policy is expected to be supported by a forward-looking wage policy that takes into account the inflation and employment objectives of the authorities. The liberalization of commercial policies being implemented should contribute to increase the overall efficiency of the economy.

The projections for 1985-88 indicate that, under relatively conservative assumptions about the rate of growth of exports, the current account deficit of the balance of payments would remain close to 1 percent of GDP (see Scenario A, Statistical Appendix Table 43). The value

Table 10. Mexico: Macroeconomic Projections

	1981	1982	Est. 1983	Projections		
				1984	1985	1985-88 1/
<u>(Annual percentage changes)</u>						
<u>Production and prices</u>						
Real GDP	8.3	-0.5	-3.3	1.0	5.0	5.0 (ave.)
GDP deflator	27.3	61.1	100.9	50.0	25.0	13.0 (ave.)
Consumer price index (end of period)	28.7	98.8	80.9	40.0	18.0	10.0 (ave.)
<u>(As percent of GDP)</u>						
<u>Balance of payments 2/</u>						
Trade balance	-1.3	4.0	9.1	6.1	5.3	3.7 to 5.3
Net factor payments abroad	-4.0	-5.7	-6.5	-6.5	-6.2	-5.1 to -6.2
Of which: interest payments						
on public external debt 3/	(-2.3)	(-4.1)	(-5.2)	(-5.0)	(-4.9)	(-4.0 to -4.9)
Other services and transfers	-0.5	0.1	0.1	--	0.1	0.1 to 0.2
Current account	-5.8	-1.6	2.7	-0.6	-0.8	-- to -1.2
Current account, excluding factor services	-1.8	4.1	9.2	6.1	5.4	3.8 to 5.5
Net official capital	7.4	3.6	2.6	2.4	1.7	1.6 to 1.7
Private capital (including errors and omissions)	-1.2	-5.6	-1.9	-0.6	0.1	0.1 to 0.3
Net international reserves (surplus -)	-0.5	3.6	-3.4	-1.2	-1.0	-0.5 to -0.9
<u>Public sector</u>						
Savings	-1.0	-6.6	-0.9	2.6	5.0	5.0 to 6.0
Capital revenue	0.1	0.1	--	--	0.1	--
Investment	12.9	10.5	7.1	8.0	8.6	8.6 to 10.0
Other capital expenditure	1.1	1.3	0.2	0.1	--	--
Overall deficit	-14.9	-18.3	-8.2	-5.5	-3.5	-3.0 to -3.5
Domestic financing	7.4	14.6	5.4	3.1	1.8	1.3 to 1.8
External financing	7.5	3.7	2.8	2.4	1.7	1.3 to 2.0
<u>Savings and investment</u>						
Gross national investment	29.0	20.9	16.6	19.5	20.6	20.6 to 24.0
Public sector	(12.9)	(10.5)	(7.1)	(8.0)	(8.6)	(8.0 to 10.0)
Private sector 4/	(16.1)	(10.4)	(9.6)	(10.9)	(12.0)	(12.0 to 16.0)
Gross national savings	23.2	19.3	19.3	18.3	19.8	19.8 to 24.0
Public sector	(-1.0)	(-6.6)	(-0.9)	(2.6)	(5.0)	(5.0 to 6.0)
Private sector	(24.1)	(25.9)	(20.2)	(15.7)	(14.8)	(14.8 to 19.0)
<u>External debt</u>						
Public sector external debt less gross international reserves of the Bank of Mexico 5/	20.5	32.0	41.3	38.8	35.9	29.4 to 35.9
Interest payments on public external debt net of interest earnings of the Bank of Mexico	2.2	4.0	5.1	4.7	4.5	3.5 to 4.5
<u>(In billions of U.S. dollars)</u>						
<u>External financing and reserves</u>						
External financing 3/	17.8	6.8	4.2	4.0	3.0	3.0 to 4.0
Change in net international reserves of the Bank of Mexico (increase -)	-1.1	6.8	-5.1	-2.0	-1.7	-1.4 to -1.8

Sources: Mexican authorities; and Fund staff estimates.

1/ Where a range of values is given, it should not be inferred that the lower number necessarily pertains to 1985 and the higher to 1988; in some cases the opposite is true. By referring to the separate column for 1985 and to the text, the pattern of distribution of values over the period can be discerned in most cases.

2/ Based on Scenario A of Medium-Term Balance of Payments Projections. Ratios shown are calculated on the basis of GDP in U.S. dollars converted at the current exchange rate.

3/ Excludes interest payments on the external debt of the nationalized banking system.

4/ Includes inventory changes.

5/ Excludes the external debt of the nationalized banking system and of the Bank of Mexico.

of exports (in U.S. dollars) is projected to grow at an annual average rate of 5 1/2 percent, with petroleum products continuing to account for the largest, although declining, share. The value of nonpetroleum exports would grow at an annual average rate somewhat above 8 percent, reflecting the maintenance of external competitiveness and continued recovery abroad. Imports are projected to grow at an annual average rate of about 10 percent. Net factor payments abroad, although increasing in absolute terms from US\$10.9 billion in 1984 to an average of US\$11.7 billion in 1985-88, would gradually decline as a proportion of GDP from 5.1 percent in 1984 to 4.3 percent in 1985-88. Nonfactor services and transfers would remain in rough balance throughout the period. These projections are consistent with the National Development Plan's target of a moderate but sustained recovery of activity and, in particular, with an annual growth of real output of about 5 percent.

A set of somewhat more optimistic assumptions (see Scenario B, Statistical Appendix Table 43) would suggest equilibrium in the current account by 1988, on the basis of a 10 percent average annual rate of growth in nonpetroleum exports, and of 8 percent in imports. Such an outcome would be consistent with somewhat more restrained aggregate demand policies and a somewhat more aggressive exchange rate policy, and would involve a lower pace of external borrowing.

The net external financing needs of the public sector are projected to decline from 2.4 percent of GDP in 1984 to an average of 1.5 percent in 1985-88 in Scenario A, and they would be even smaller in Scenario B. In conjunction with the projected path of the current account and the gradual resumption of private capital inflows, this would permit an annual accumulation of net international reserves of the order of about US\$1 1/2 billion in 1985-88, well into the period of the repurchases from the Fund. Also, during this period the buildup of gross official reserves could be expected to reach about five months of imports and interest payments by 1988. The annual accumulation of reserves would be in excess of US\$2 1/2 billion if the assumptions described in Scenario B materialize, even with a smaller rate of foreign borrowing.

VI. Exchange Arrangements Subject to Fund Approval

The exchange system currently in effect in Mexico involves multiple currency practices and restrictions on payments and transfers for current international transactions subject to Fund approval under Article VIII, Sections 2 and 3 of the Articles of Agreement. These were initially described in EBS/82/208, Sup. 1 (12/13/82). The changes in the system that have taken place since that time have been discussed in previous sections of this paper.

Multiple currency practices arise from the operation of

- (i) an exchange market comprising a controlled market rate for specified transactions;
- (ii) three special rates applied to forward cover contracts for the payment of external obligations outstanding as of December 20, 1982.^{1/} These exchange rates may give rise to multiple currency practices at the time of foreign exchange delivery, insofar as a divergence could arise between the value of the deposit and other related costs, including the interest foregone, and the actual exchange rate prevailing at the time;
- (iii) a special rate set at Mex\$50=US\$1, subject to a forward cover premium, for the repayment of certain obligations by financial institutions and leasing companies; and
- (iv) a free market rate for all other transactions.

There is also an exchange restriction giving rise to payments arrears, including those relating to debt servicing and payments for imports.

VII. Staff Appraisal

The economic program adopted by the Mexican authorities in late 1982, and supported by an extended arrangement with the Fund, has brought about a sharp turnaround in economic conditions and has helped Mexico to begin to recover from the severe economic crisis experienced in 1982.

The adjustment program focused on the achievement of a sharp reduction in the public sector deficit, reflecting the high priority given to the objectives of slowing inflation and reducing the reliance on foreign financing as means for creating the conditions for the return of confidence and the resumption of economic growth on a sustained basis. In addition, the program emphasized the re-establishment of external competitiveness and the freeing of the exchange and trade system, to improve economic efficiency, and to help bolster growth in the economy. These policies were complemented by major efforts to restructure the terms of both the public and private sector external debt.

^{1/} See Appendix V, Table 11, for a description of the exchange rates used to calculate the required peso deposits to cover the principal restructured under FICORCA.

The authorities moved promptly and forcefully in implementing the program, and substantial gains have been made toward the attainment of its objectives. All performance criteria for the first year of the extended arrangement were observed with substantial margin. The fiscal deficit declined from the equivalent of more than 18 percent of GDP in 1982 to just above 8 percent in 1983, in line with the path of adjustment established in the program. The pursuit of a cautious wage policy contributed to the strong fiscal performance and helped more generally in the reduction of inflation. Credit growth was within the limits of the program, and exchange and interest rates policies helped in the restoration of the flow of savings to the banking system.

In response to the adjustment measures, domestic inflation declined sharply and the balance of payments strengthened. The monthly rate of price increase was reduced by more than one half since the beginning of the program and the net international reserves of the Bank of Mexico increased by US\$5 1/2 billion in 1983, as the current account turned from a deficit to a large surplus and capital flight virtually ceased. The aims in respect of output and unemployment proved to be more elusive. The uncertainties that had prevailed prior to the start of the program and the magnitude of the imbalances that had to be dealt with resulted in a contraction in GDP for the year.

The policies for 1984 are consistent with the economic strategy set forth at the beginning of the current administration and they conform to the aims of the extended arrangement. During the coming year the authorities will seek to obtain a further reduction of inflation and a resumption of economic growth, while maintaining a strong balance of payments. Achievement of the goal on inflation is important for the restoration of confidence needed to assure the maintenance of incentives for savings and the revival of private investment.

The further cutback in the public sector deficit that is planned is essential from the standpoint of both economic stabilization and growth. The public sector's policies emphasize the strengthening of revenues, continued improvement in the pricing of public goods and services, and restraint in the growth of current expenditures. These measures will make possible an increase in public sector saving more than sufficient to finance the expected increase in public sector investment. The lower deficit will facilitate the reduction of inflation and the dependence on foreign borrowing, even as room is made for an increase in private investment. The budget for 1984 includes an authorization for contingent expenditure, to be released only if the expected economic recovery does not become evident in the first half of the year and if sufficient noninflationary resources are available. The authorities will need to proceed cautiously in mobilizing this reserve if the effort to stabilize the economy is not to be jeopardized. A hasty expansion in expenditure could spark inflation and thus diminish the prospects for economic recovery.

Monetary and credit policies will need to continue to emphasize the continuation of the anti-inflation effort, the strengthening of financial savings, and the efficient allocation of credit in the economy. Mention should be made here of the actions taken to reduce financial subsidies and to regulate the volume of loans from the development banks and official trust funds. It appears that interest rates on savings instruments are currently adequate to foster financial savings, but the existing portfolio requirement and the structure of interest charged on loans have resulted in certain distortions which may affect adversely the recovery of private investment. Developments in the area of interest rates and credit allocation should be monitored carefully, to ensure that any distortions or inadequacies are corrected without delay.

During the first year of the program, pricing policies have helped to improve efficiency and reduce subsidies. The relaxation of price controls was a welcome step, and further action along these lines is highly desirable. Wage settlements in 1983 were moderate and contributed significantly to the reduction of inflation. The authorities have correctly noted that lasting improvements in real wages must be based on a sound growth performance and that adjustment of wages on the basis of past price increases is self-defeating. The recently awarded minimum wage increase of 30 percent raises questions about the margin remaining for wage policy during the rest of 1984; great care will have to be taken to avoid reigniting inflationary pressures and damaging the confidence that is being rebuilt.

The initial adjustment of the exchange rate and the policy of daily adjustments that has been pursued subsequently have restored the competitiveness of the economy and strengthened the balance of payments. In 1984 the authorities intend to continue a flexible exchange rate policy; they view the current rate of adjustment as adequate to offset the inflation differential between Mexico and its main trading partners. Mexico is still operating under a dual exchange rate system. The spread between the rates in the free and controlled markets narrowed markedly during 1983, and is currently being reduced further in percentage terms, although at a slower pace. The authorities have indicated their firm intention to unify the rate, although they believe that the current dual system should be retained for the time being, to assist in the management of the capital account. The staff would note that the justification for a dual rate is that it serves as a true safety valve for the system, but there is a question whether the free market is being handled in a way that would enable it to meet excess demands. It is important to note in this context that, even if it is operated as a safety valve, the existence of a dual rate--particularly in view of the slowdown in the elimination of the differential--is bound to result in distortions and may reduce the credibility of the policy strategy. With regard to the controlled market, the real effective exchange rate index shows a significant depreciation with regard to previous years, but it has appreciated somewhat in recent months. A further decline in competitiveness could result in a weakening of the balance of payments prospects, and thus it is very important to ensure that inflation is brought down as planned.

In the area of commercial policy, the restrictiveness of the import licensing system has been eased significantly over the past year, but in recent months the number of import permits issued has remained relatively low. The measures announced in recent weeks will contribute to a reduction in the adverse effects of the restrictive licensing system. However, the ban on a list of consumer goods and items competing with domestic production--although only a continuation of previously existing policies--has to be viewed with concern, given the implications for resource allocation. Moreover, the staff urges the authorities to complete promptly the present review of the tariff structure in order to replace the import licensing system by a comprehensive import tariff, and thus help foster greater efficiency in production.

Significant advances were achieved during 1983 in the restructuring of Mexico's external public debt, and the reliance on net foreign borrowing was reduced significantly. The efforts to improve the external debt situation are to continue in 1984, as the financing requirements of the public sector decline and as the terms on new borrowing improve in reflection of the enhanced creditworthiness of Mexico. Progress also has been made in restructuring the existing debt of the private sector and in settling outstanding arrears. The staff welcomes the intentions of the authorities to eliminate remaining arrears in 1984 and to facilitate the restructuring of private sector debt, but without assuming the commercial risk involved in these transactions.

Mexico will continue to face large debt servicing requirements in the years to come, because of the size and term structure of its outstanding external debt. With the continued pursuit of suitable adjustment policies, the reliance on new foreign borrowing should decline over time and the servicing of the debt should become less burdensome, including through a narrowing of the spreads paid by Mexico. Nevertheless, Mexico will need to count on the continued cooperation of the international financial community in coping with its financing need and handling its debt repayment schedule.

The authorities have indicated that the multiple currency practices and the restrictions on payments and transfers for current transactions that result from the existence of arrears, which are described in Section V above, are transitional measures. They have stated their intention to unify the exchange system and to repay any remaining arrears in 1984. The staff, therefore, recommends temporary approval of these measures.

In summary, as the Mexican authorities enter the second year of their medium-term economic recovery program, positive results are already evident with regard to inflation and the balance of payments, reflecting the policies followed in the first year of the program. These efforts will need to be continued over the period of the extended arrangement, if the objective of sustained economic growth is to be achieved. It is the staff's view that the program for 1984 is appropriate in providing the necessary continuity to the adjustment effort.

VIII. Proposed Decisions

Accordingly, the following draft decisions are proposed for adoption by the Executive Board:

I. Review Under the Extended Arrangement

1. The Fund and Mexico have conducted the review pursuant to paragraph 4(d) of the extended arrangement for Mexico (EBS/82/203, Sup. 4) and as contemplated in paragraph 29 of the letter dated November 10, 1982 from the Secretary of Finance and Public Credit and the Director General of the Bank of Mexico attached thereto, in order to review the implementation of the measures described in that letter, to reach understandings about policies and measures that Mexico will pursue over the program period, and to establish suitable performance clauses for the year 1984.

2. The letter dated January 3, 1984 from the Secretary of Finance and Public Credit and the Director General of the Bank of Mexico, together with the Technical Memorandum of Understanding attached thereto (EBS/84/1, 1/3/84), shall be attached to the extended arrangement for Mexico. The letter dated November 10, 1982, together with the Technical Memorandum attached thereto, shall be read as modified and supplemented by the letter dated January 3, 1984 and the attached Technical Memorandum.

3. Accordingly, Mexico will not make purchases under the extended arrangement through December 31, 1984, during any period in which:

(i) the data at the end of the preceding period indicate that the limit on the use of external credit, as specified in paragraph 1 of the attached Technical Memorandum, has not been observed; or

(ii) the data at the end of the preceding period indicate that the limit on the overall public sector deficit, as specified in paragraph 3 of the attached Technical Memorandum, has not been observed; or

(iii) the data at the end of the preceding period indicate that the target for the net international reserves of the Bank of Mexico, as specified in paragraph 6 of the attached Technical Memorandum, has not been observed; or

(iv) the limit on the net credit to the public sector by the Bank of Mexico, as specified in paragraph 2 of the attached Technical Memorandum, is not observed; or

(v) the limit on the net domestic assets of the Bank of Mexico, as specified in paragraph 4 of the attached Technical Memorandum, is not observed; or

(vi) the limit on financial intermediation conducted by the national development banks and official trust funds, as specified in paragraph 5 of the attached Technical Memorandum, is not observed.

4. Until January 1, 1985 purchases under the extended arrangement for Mexico shall not, without the consent of the Fund, exceed the equivalent of SDR 2,206.88 million, provided that purchases shall not exceed the equivalent of SDR 1,304.06 million until May 20, 1984, the equivalent of SDR 1,605.00 million until August 20, 1984, and the equivalent of SDR 1,905.94 million until November 20, 1984.

II. Approval of Multiple Currency Practices and Exchange Restrictions

Mexico maintains multiple currency practices and exchange restrictions as described in Section V of EBS/84/1, Supplement 1. In view of the circumstances of Mexico, the Fund grants approval of these multiple currency practices and restrictions until the completion of the next review under the extended arrangement, or the completion of the next Article IV consultation, or February --, 1985, whichever is earlier.

Fund Relations with Mexico
(As of December 31, 1983)

Status: Article VIII.

New quota: SDR 1,165.5 million.

Fund holdings of Mexican pesos:	<u>Millions of SDRs</u>	<u>Per Cent of Quota</u>
<u>Total</u>	<u>2,278.5</u>	<u>195.5</u>
Credit tranches	200.6	17.2
Extended Fund facility	501.6	43.0
Enlarged Access	501.6	43.0
Holdings net of exclu- sions	1,074.8	92.3

SDR Department:	<u>Millions of SDRs</u>	<u>Per Cent of Allocation</u>
Net cumulative allocation	290.0	100.0
Holdings	21.9	7.6

Gold distribution: 316.7 million fine ounces.

Direct distribution
of profits from
gold sales: US\$58.8 million.

Exchange rate: Since December 20, 1982 two foreign exchange markets have been operative in Mexico; a controlled market, covering specified transactions, and a free market. The exchange rates in both markets are established by the authorities who currently preannounce the rates for periods of two weeks in advance. As of December 31, 1983 the rate in the controlled market was Mex\$143.88 per US\$1 selling and Mex\$143.98 per US\$1 buying; this rate is being adjusted by Mex\$0.13 a day. The free market rate, which had remained relatively stable since the beginning of 1983, started depreciating by Mex\$0.13 a day since September 23, 1983. As of December 31, 1983 the free market rate was Mex\$160.60 per US\$1 selling and Mex\$162.10 per US\$1 buying. Three other special rates apply to forward cover contracts for the repayment of specified medium- and long-term obligations with foreign financial institutions.

Last consultation: The last Article IV consultation discussions were completed by the Executive Board on May 23, 1983 (EBM/83/75). The relevant staff reports were SM/83/70 and SM/83/86.

Mexico--Basic DataArea and population

Area	1,958,201 sq. kilometers
Population (mid-1983)	75.0 million
Annual rate of population increase (1976-83)	3.0 percent

GDP (1983)

SDR 143 billion
US\$149 billion
Mex\$18,290 billion

GDP per capita (1983)

SDR 1,907

<u>Origin of GDP</u>	<u>1980</u>	<u>1981</u>	<u>Prel.</u>
			<u>1982</u>
	<u>(percent)</u>		
Agriculture, livestock, and fishing	8.3	8.1	7.3
Mining (including petroleum)	8.1	6.3	8.1
Manufacturing	21.7	22.3	20.8
Construction	6.5	7.0	6.6
Electricity	1.0	0.9	0.8
Commerce	19.8	23.2	23.0
Transport and communications	6.6	6.6	6.3
Financial services	7.9	8.0	8.4
Other services	20.1	18.8	20.0

<u>Ratios to GDP</u>	<u>1980</u>	<u>1981</u>	<u>Prel.</u>	<u>Est.</u>
			<u>1982</u>	<u>1983</u>
Exports of goods and services	13.4	12.7	16.0	20.2
Imports of goods and services	17.5	18.5	17.6	17.5
Current account of the balance of payments	4.1	5.8	1.6	-2.7
Central government revenues	15.9	16.1	16.3	15.7
Central government expenditures	19.0	22.9	25.0	22.1
Public sector savings	2.1	-1.0	-6.6	-0.9
Public sector deficit overall surplus or deficit (-)1/	-7.7	-14.9	-18.3	8.2
External public debt (end of year)	21.7	28.6	31.4	32.1
Gross national savings	24.0	23.2	19.3	19.3
Gross aggregate investment	28.1	29.0	20.9	16.6
Money and quasi-money (end of year)	30.7	33.5	35.3	28.4

Annual changes in selected economic indicators

Real GDP per capita	5.3	5.2	-2.7	-6.0
Real GDP (at 1970 prices)	8.3	8.0	-0.5	-3.3
GDP at current prices	39.4	37.4	60.3	94.2
Domestic expenditures (at current prices)	39.2	38.6	51.0	84.1
Investment	(35.0)	(37.4)	(65.1)	(92.3)
Consumption	(51.1)	(41.5)	(15.6)	(54.7)
GDP deflator	28.7	27.3	61.1	100.9
Wholesale prices (annual averages)	24.5	24.5	56.1	97.0
Consumer prices (annual averages)	26.4	27.9	58.9	101.9
Central government revenues	65.2	39.0	61.9	86.8
Central government expenditures	58.6	65.2	74.5	72.1
Money and quasi-money	38.3	49.9	69.0	56.3
Money	(33.1)	(32.8)	(62.1)	(29.0)
Quasi-money	(41.3)	(59.1)	(72.1)	(68.0)
Net domestic credit 2/	46.3	69.3	51.1	39.3
Credit to public sector (net)	(21.6)	(45.3)	(63.9)	(30.4)
Credit to private sector	(25.7)	(23.0)	(-6.0)	(18.6)
Merchandise exports (f.o.b., in U.S. dollars)	70.7	23.7	6.2	-0.5
Merchandise imports (f.o.b., in U.S. dollars)	52.9	29.0	-39.6	-41.4

<u>Federal government finances</u>	<u>1981</u>	<u>Prel. 1982</u>	<u>Prel. 1983</u>	<u>Budget 1984</u>
	<u>(In billions of Mexican pesos)</u>			
Revenue	947.7	1,533.9	2,866.0	4,697.0
Expenditures	1,347.5	2,331.0	4,125.0	6,186.0
Current account surplus or deficit (-)	19.0	-365.0	-596.0	-297.8
Overall deficit (-)	-399.8	-797.1	-1,259.0	-1,489.0
 <u>Public sector finances</u>				
Current account surplus or deficit (-)	-56.0	-624.0	-159.0	726.0
Overall deficit (-)	-873.5	-1,720.8	-1,500.0	-1,524.0
 <u>Balance of payments</u>				
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
	<u>(In billions of U.S. dollars)</u>			
Merchandise exports (f.o.b.)	16.9	20.9	22.2	22.1
Merchandise imports (f.o.b.)	-18.6	-24.0	-14.5	-8.5
Travel and border transactions (net)	1.0	0.2	1.0	1.2
Interest on public debt	-4.0	-5.5	-7.8	-7.8
Other interest payments	-1.4	-2.9	-3.1	-2.7
Other factor income (net)	-0.6	-1.1	0.1	0.8
Other services and transfers (net)	-1.0	-1.5	-0.9	-1.1
Balance on current and transfer accounts	-7.7	-13.9	-3.0	4.0
Official capital (net)	4.7	17.8	6.8	4.2
Private capital and errors and omissions (net)	3.8	-2.9	-10.6	-2.7
SDR allocations and gold revaluation	0.1	0.1	--	--
Change in official net reserves (increase -)	-0.9	-1.1	6.8	-5.5
 <u>International reserve position</u>				
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
	<u>(In millions of SDRs)</u>			
Monetary authorities (net)	2,966.4	4,222.6	-1,705.3	3/3,437.2
Monetary authorities (gross)	3,084.7	4,339.0	1,584.2	4,986.9

1/ Includes net deficit of public sector outside budget control.

2/ Changes are effective flows in relation to the adjusted stock of liabilities to private sector at the beginning of the period.

3/ Includes as liabilities disbursements under a BIS loan and arrears on interest payments on private debt with foreign commercial banks.

Mexico: Selected Economic and Financial Indicators

	1980	1981	1982	Prog. 1983	Prel. 1983	Prog. 1984
(Annual percent changes, unless otherwise specified)						
National income and prices						
GDP at constant prices	8.3	8.0	-0.5	--	-3.3	1.0
GDP deflator	28.7	27.2	61.1	80.7	100.9	50.0
Consumer prices (end of period)	29.8	28.7	98.8	55.0	80.9	40.0
Overall public sector						
Receipts	47.1	37.1	74.2	97.9	99.6	59.0
Outlays	49.3	64.7	82.3	58.9	57.0	47.0
External sector (on the basis of U.S. dollars)						
Exports, f.o.b.	70.7	23.7	6.2	13.4	-0.5	8.1
Imports, f.o.b.	53.7	29.0	-39.6	2.0	-41.4	64.7
Export volume	(23.5)	(23.6)	(20.2)	(5.9)	(4.7)	(6.0)
Import volume	(34.8)	(19.0)	(-43.3)	(-3.1)	(-42.5)	(56.1)
Terms of trade (deterioration -)	(21.4)	(-8.0)	(-17.0)	(-3.3)	(-6.9)	(-3.4)
Nominal effective exchange rate (appreciation -) ^{1/}	-0.8	2.5	100.3	...	137.2	...
Real effective exchange rate (appreciation -) ^{1/}	-9.6	-12.1	29.9	--	19.2	--
Money and credit						
Domestic credit (net) ^{2/}	46.3	69.3	51.1	54.6	39.3	36.3
Public sector ^{2/}	(21.6)	(45.3)	(63.9)	(27.8)	(30.4)	(16.6)
Private sector ^{2/}	(25.7)	(23.0)	(-6.0)	(26.8)	(18.6)	(21.9)
Money and quasi-money (M4)	38.3	49.9	69.0	51.9	56.3	43.3
Velocity (GDP relative to M4)	3.3	3.0	2.8	3.4	3.5	3.8
Interest rate (annual rate, one-year term deposits) ^{3/}	28.0	35.0	50.0	55.0	47.4	44.0
(In percent of GDP)						
Overall public sector savings	2.1	-1.0	-6.6	0.7	-0.9	2.6
Overall public sector deficit (-)	-7.7	-14.9	-18.3	-8.5	-8.2	-5.5
Domestic financing	5.2	7.5	14.6	5.9	5.4	3.1
Foreign financing	2.5	7.4	3.7	2.6	2.8	2.4
Gross domestic investment	28.1	29.0	20.9	22.7	16.6	19.0
Gross national savings	24.0	23.2	19.3	20.5	19.3	18.3
BOP-current account (deficit -)	4.1	5.8	1.6	2.2	-2.7	0.6
At 1979 exchange rate	(4.8)	(7.5)	(1.5)	(...)	(-2.0)	(0.5)
External public debt ^{4/}						
Inclusive of Fund credit	16.9	20.5	32.0	45.6	41.3	38.9
At 1979 exchange rate	(19.8)	(26.4)	(31.1)	(...)	(30.8)	(30.0)
Interest payments on external public debt ^{5/}	2.0	2.2	4.0	4.7	5.1	4.7
At 1979 exchange rate	(2.4)	(2.8)	(3.9)	(...)	(3.8)	(3.6)
(In percent of exports of goods and nonfactor services)						
Debt service						
Before rescheduling	30.9	33.8	42.1	49.4	49.5	42.8
After rescheduling	30.9	33.8	37.8	...	33.6	32.2
(In billions of U.S. dollars)						
Overall balance of payments	0.9	1.1	-6.8	2.0	5.5	2.0
Gross official reserves (months of imports)	2.5	2.6	1.4	2.5	6.8	6.7

Sources: Bank of Mexico; Secretariat of Programing and Budget; and Fund staff estimates.

^{1/} Measured in terms of local currency per unit of foreign exchange.

^{2/} Changes in relation to total liabilities to private sector outstanding at the beginning of period unadjusted for exchange rate changes.

^{3/} Maximum authorized rate at the end of the period net of withholding tax.

^{4/} Includes short-term debt, but net of gross international reserves.

^{5/} On external public debt, net of interest earned on gross international reserves.

Mexico--Summary of the Financial Program for 1984

I. Targets

1. After experiencing a decline of 3 1/2 percent in 1983, real GDP is expected to grow by 1 percent in 1984. During the program period, growth is expected to come primarily from the private sector. The weight of the public sector will continue to decline in relative importance in 1984, although public sector investment will increase this year.
2. The inflation rate is expected to decline over the program period. The 12-month rate of increase in prices is projected to be 40 percent by the end of 1984, compared with about 80 percent by the end of 1983. The year-on-year price increase is expected to be about 50 percent in 1984.
3. A US\$2 billion overall balance of payments surplus is programed for 1984, including the elimination of the remaining external payments arrears. The current account of the balance of payments is projected to show a deficit equivalent to 0.5 percent of GDP in 1984, in line with the rise in the flow of imports consistent with the recovery of economic activity.

II. Assumptions

1. The rate of inflation in Mexico's trading partners is expected to be in the neighborhood of 5 1/2 percent in 1984. The average export price of petroleum is projected to increase slightly, from US\$26.3 per barrel in 1983 to US\$26.5 per barrel in 1984, on the basis of the rise in heavy crude oil prices that took place in late 1983; no changes are projected from the prices prevailing at end-1983. The volume of petroleum exports is expected to remain at 1.55 million barrels a day in 1984. The price index for other exports is projected to increase by 7 1/2 percent, and the price index for imports is to increase by 5 1/2 percent. The volume of nonpetroleum exports is projected to increase by about 5 percent and the volume of imports by 56 percent.
2. The effective interest rate on Mexico's external debt is projected to decline slightly from 12.2 percent in 1983 to 12.1 percent in 1984.
3. Public sector net foreign borrowing will not exceed US\$4 billion in 1984, while private capital is expected to register a net outflow of US\$1 billion, because of a net repayment of private sector external obligations and the nonrepatriation of interest earned by Mexican residents abroad.
4. Based on the behavior of financial savings, velocity, which is measured as the ratio of nominal GDP to average monetary liabilities, is projected to increase from 4.3 in 1983 to 4.4 in 1984.

III. Principal Elements of the 1984 Program

1. Public sector policies

a. The overall public sector deficit is to be limited to Mex\$1,524 billion (the equivalent of 5.5 percent of GDP) in 1984. Quarterly limits have been established as performance criteria on the cumulative deficit of the public sector in 1984, with subceilings established for credit to the public sector from the Bank of Mexico.

b. Quarterly limits have been established as performance criteria for net foreign borrowing by the public sector in 1984, covering all financial institutions other than the Bank of Mexico. The maximum amount of net foreign borrowing under the ceiling is US\$4 billion during 1984.

c. The saving of the public sector is projected to shift from a negative 0.9 percent of GDP in 1983 to a positive 2.6 percent in 1984. The improvement in revenues is expected to result from tax measures adopted in 1983 and a strengthening of tax administration; no major adjustments in tax rates are planned during 1984. In addition, public sector receipts will benefit from the recovery of economic activity, as well as from large adjustments in prices of public sector goods and services. These price adjustments will help improve the financial performance of public enterprises and the structure of domestic prices, bringing them more closely in line with those of Mexico's major trading partners.

d. Public sector expenditure will continue to be restrained in 1984, and its composition will be modified so as to help promote economic growth. Transfers, subsidies, and payments of interest on domestic debt are expected to decline as a proportion of GDP. Public sector capital expenditure is to rise in 1984 by almost 1 percentage point in relation to GDP.

2. Money and credit

a. The net domestic assets of the Bank of Mexico are to be subject to quarterly ceilings as a performance criterion. The ceilings provide for a decline in net domestic assets during 1984 by some 5 percent when measured in relation to the Bank of Mexico's note issue outstanding at the end of 1983.

b. As was noted above, a subceiling has been established on credit to the public sector from the Bank of Mexico.

c. The growth in domestic credit to the private sector, including the credit channeled through official trust funds, is projected to increase from the equivalent of 3.4 percent of GDP in 1983 to 4.1 percent in 1984.

d. Interest rates for domestic financial instruments will continue to be managed with a view to making them competitive with other investment alternatives and to be in accord with the external objectives of the program. Moreover, efforts to reduce the scope of subsidies granted through the financial system will be continued.

e. Quarterly limits have been established on the amount of financial intermediation (net lending to the private sector) conducted by the government development banks and all official trust funds (including those of the Bank of Mexico but excluding FICORCA).

3. Prices and wages

Wage policy will continue to be directed to the achievement of medium-term employment objectives in the framework of the adjustment effort and the anti-inflation aims of the program. Price controls are being revised in order to avoid the discouragement of production and employment, and to assure that profit margins are kept at satisfactory levels.

4. External sector

a. Exchange rate policy will continue to be managed flexibly, with a view to maintaining the competitiveness of the Mexican economy and helping to achieve the net international reserve target of the Bank of Mexico; the program calls for an improvement in the Bank's net international reserves of US\$2 billion during 1984.

b. Arrears on payments that have emerged since August 1982 will be eliminated by the end of 1984; a total of US\$1.1 billion of identified and registered payment obligations were repaid in 1983, and some US\$300 million are to be liquidated during 1984. The exchange system will be managed so as to preclude the development of new arrears. The standard clause on restrictions and multiple currency practices is included as a performance criterion.

c. The protective system will be revised with a view to rationalizing the structure of protection and reducing the levels of effective protection, thereby improving resource allocation. In particular, the authorities have embarked on a major revamping of the tariff system. The emphasis of commercial policy will shift from import controls to protection through tariffs.

Mexico--The Forward Cover Guarantee Schemes Under FICORCA

The foreign exchange risk coverage trust fund (FICORCA) was established by the authorities in 1983 to help the private sector deal with the settlement of payments arrears to foreign suppliers, as well as to provide a framework for the refinancing and forward exchange coverage of the private sector's external debt.

1. External payments to foreign suppliers

In February 1983 the Bank of Mexico established a facility to permit the settlement of payments of the Mexican private sector to foreign suppliers outstanding as of December 20, 1982 and due before June 30, 1983. A similar facility was established in August 1983 for the settlement of obligations due between July 1 and December 19, 1983. By depositing with FICORCA the peso equivalent of payments due, private debtors were guaranteed that their pesos would be converted into U.S. dollars at the controlled market exchange rate on the date that the deposit was constituted. If the foreign creditor agreed to be paid by the transfer of these deposits to his name, FICORCA agreed to make the foreign exchange available to the foreign creditor according to a schedule of payments to be announced later. Alternatively, domestic borrowers were allowed to settle their outstanding arrears through the free market, or to enter a queue to obtain foreign exchange from the Bank of Mexico at the controlled market rate. In the case of exporters, they were allowed to allocate up to 20 percent of their export receipts to service outstanding obligations abroad, or up to 100 percent of receipts from new exports approved under special export agreements with the Government.

Repayment schedules under these schemes were announced by the Bank of Mexico in August and November 1983 as follows:

(i) For the February scheme, covering obligations due through end-June 1983, 50 percent of the principal and accrued interest would be paid on September 8, 1983, provided that deposit rights were transferred to foreign creditors no later than August 15, 1983. The balance--including accrued interest--would be paid on the fifth working day of March 1984 for obligations registered prior to February 15, 1984, and on the fifth working day of March 1985 for any remaining obligations.

(ii) For the August scheme, covering obligations due between July 1 and December 19, 1983, payments would be made on the fifth working day of March 1984, provided that deposit rights were transferred to creditors by January 31, 1984.

A total of US\$0.5 billion in private sector arrears to foreign suppliers have been identified under these two schemes, of which US\$0.2 billion were settled in 1983, with the remaining balance being scheduled for payment in 1984.

FICORCA will also give forward exchange to cover the repayment of external obligations of the Mexican private sector guaranteed by official lending agencies abroad, which are currently being renegotiated with a group of Mexico's main creditor countries. The restructuring exercise for this debt has been under way since the second quarter of 1983, but it has not yet been successfully completed. On June 23, 1983 an agreed minute was approved laying out the principles governing bilateral renegotiations. According to that minute, the restructurings would affect maturities falling due between August 20, 1982 and December 31, 1983, on obligations contracted prior to December 20, 1982. Based on initial estimates, the amount negotiated was US\$1.9 billion, including US\$1.5 billion in principal and US\$400 million in interest. Arrears on principal and interest payments not paid as of June 30, 1983, as well as obligations arising from short-term debt, were to be repaid as follows: 5 percent in 1983, 5 percent in 1984, 30 percent in 1985, and the remainder in 1988. Out of the total of medium- and long-term obligations due through December 1983 (including arrears), 10 percent was to be repaid at maturity--or no later than 1983 for payments in arrears--and the remaining 90 percent in six equal semiannual payments starting in December 1986 and concluding in June 1989. The rescheduling agreement did not apply to countries with respect to which debts falling due during the reorganization period are less than US\$1 million.

The agreed minute explicitly incorporated the concept that the authorities would guarantee the transfer of foreign exchange for the repayment of obligations if the local debtor paid the local currency equivalent of the obligation. The Mexican Government would be released from its obligation to repay the creditor country if the Mexican private debtor was officially declared in suspension of payments. As stated in the minute, the Mexican authorities undertook to assist foreign creditors in establishing an appropriate basis for the repayment of loans and to provide foreign exchange for the amounts collected by foreign creditors in the event of default. In providing support for this scheme, the Government of Mexico agreed to make available credits in local currency to the Mexican private sector firms within the context of FICORCA, in the event that the companies did not have the local currency counterpart of the loan. As of the end of 1983, the creditors and Mexico had not agreed on a working definition for suspension of payments; therefore, no bilateral agreements had been signed at the time.

2. Restructuring of external debt of the private sector

The authorities have encouraged foreign creditors to restructure the external debt of the private sector, in order to ease the pressure that the service of this debt placed on Mexican firms, particularly in light of the depreciation of the peso. To facilitate such restructuring, a scheme was developed under FICORCA whereby firms with obligations outstanding as of December 20, 1982 and whose debt was refinanced at

specified minimum terms were permitted to obtain forward exchange cover and thus to spread the losses from the depreciation of the peso over the period of the new maturity of the restructured loan.^{1/}

A Mexican debtor had the option of continuing to pay interest and thus seek cover only for principal payments, or of covering fully the servicing of the obligation. In the first case, a debtor willing to deposit with FICORCA the total peso equivalent of the obligation due abroad would be able to convert these pesos at a more appreciated rate than the one prevailing in the controlled market, with the rate varying according to the maturity of the restructured loan--larger discounts were provided for longer maturities (Table 11). The interest foregone on these deposits is estimated to offset the initial exchange rate discount because the Mexican debtor would continue to pay interest abroad on the obligation to the foreign creditor. If the debtor opted for coverage of interest payments due abroad as well, the conversion would be made at the controlled rate prevailing on the date the deposit was constituted. To be eligible for this scheme, the rescheduling had to be for at least six years, with a three-year grace period, if the coverage sought was only against principal; the rescheduling had to be for eight years, with a four-year grace period, if both principal and interest payments due abroad were to be covered. Moreover, if the domestic debtor lacked the pesos to constitute the deposit, it could borrow them from FICORCA at competitive interest rates and could thus cover either principal, or both principal and interest, on the obligation. The forward cover scheme does not transfer the obligation nor the commercial risk to FICORCA, since the domestic borrower remains responsible for the servicing of the debt to the foreign creditor for the entire life of the rescheduled loan. Prior agreement between borrower and foreign lender is required for the coverage to become effective.

The deadline for registering private debt restructuring operations under FICORCA was initially programmed to lapse on October 25 but was extended to November 5, 1983. As of that time, some US\$11.6 billion had been registered under the various options available (Table 12). The bulk of these operations--94 percent of the total--included provision of forward exchange coverage by FICORCA of both principal and interest payments, as well as financing by FICORCA of the peso deposit constituted by the debtor. Only 2 percent of the total (under option 1 or 3) entailed the payment in cash of the obligations, at the current or discounted rate.

^{1/} For a more detailed description of the FICORCA scheme, see Mexico--Recent Economic Developments (SM/83/86), pp. 74-76, and Mexico--Staff Report for the 1983 Article IV Consultation and Review under the Extended Arrangement (SM/83/70), pp. 11-12.

Table 11. Mexico: Exchange Rates Used to Calculate the Required Peso Deposits to Cover the Restructuring of Principal 1/ Under FICORCA in 1983

(Mexican pesos per U.S. dollar)

Transaction Dates	Controlled Market Exchange Rate <u>3/</u>	Applicable Rates, per Restructuring Terms <u>2/</u>		
		8 Years' Maturity and 4 Years' Grace	7 Years' Maturity and 3 Years' Grace	6 Years' Maturity and 3 Years' Grace
May	114.16	75.0 (34.3)	81.0 (29.1)	84.0 (26.4)
June	118.13	77.0 (34.8)	84.0 (28.9)	87.0 (26.4)
July	122.09	79.0 (35.3)	87.0 (28.7)	90.0 (26.3)
August	126.12	82.0 (35.0)	91.0 (27.9)	94.0 (25.5)
September	130.09	85.0 (34.7)	95.0 (27.0)	98.0 (24.7)
October <u>4/</u>	134.05	89.0 (33.6)	99.0 (26.1)	102.0 (23.9)

Source: FICORCA.

1/ For deposits applicable to coverage of principal only (options 1 and 2 of FICORCA).

2/ Figures in parentheses refer to the percentage discount of the applicable exchange rates relative to the controlled exchange rate during the period.

3/ Period average.

4/ Valid through November 5, 1983.

Table 12. Mexico: Operations Registered Under the Forward Cover Guarantee Scheme of FICORCA

(In millions of U.S. dollars)

	May	June	July	Aug.	Sept.	Oct.	Prel. Nov. 1-5	Total 1/
Option 1 (principal only) <u>2/3/</u>	5.1	2.4	6.4	1.4	1.8	6.0	38.1	61.2
Option 2 (principal only, domestic financing provided) <u>3/</u>	6.3	74.0	49.7	22.8	46.9	117.9	141.3	458.9
Option 3 (principal and interest) <u>2/</u>	--	8.3	4.9	2.0	6.0	21.2	145.9	188.3
Option 4 (principal and interest, domestic financing provided)	13.8	151.5	531.3	290.3	557.6	1,562.9	7,792.0	10,899.4
<u>Total</u>	<u>25.2</u>	<u>236.2</u>	<u>592.3</u>	<u>316.5</u>	<u>612.3</u>	<u>1,708.0</u>	<u>8,117.3</u>	<u>11,607.8</u>
Cash operations (options 1 and 3)	5.1	10.7	11.3	3.4	7.8	27.2	184.0	249.5
Credit operations (options 2 and 4)	20.1	225.5	581.0	313.1	604.5	1,680.8	7,933.3	11,358.3

Source: Bank of Mexico.

1/ As of November 5, 1983.

2/ Full payment of obligations required at time of registration.

3/ Under this option, the amount of the obligation in local currency is calculated on the basis of the more appreciated exchange rates, on the basis of the maturities negotiated (see Table 11).

3. Forward coverage scheme for loans
contracted after December 20, 1982

A new forward cover scheme for loans contracted by the private sector after December 20, 1982 was announced by the Bank of Mexico on January 16, 1984. Access to the new facility--which will be handled by FICORCA--is on a voluntary basis and covers minimum maturities of eight years with four years of grace; authorization for loans with lower maturities will be granted only in exceptional cases. The Bank of Mexico has reiterated that it will not assume the financial and commercial risk of the loans covered. In order to have access to forward cover under this facility, the private debtor is required to sell the proceeds of the loan in the controlled exchange market at the prevailing exchange rate. A credit in local currency equivalent to the value of the foreign loans is then granted by FICORCA, converted at the controlled market exchange rate. No special exchange rates apply for these transactions. In general, the mechanism is similar to option 4 under the program described in the previous section covering the payment of interest and amortization.

Mexico--Recent Changes in Commercial Policy

The principal instruments of Mexican external commercial policy are the system of import permits and the import tariffs schedules; a relatively minor role is played by export taxes, export credit subsidies, and indirect sectoral subsidies through the system of price controls.

1. Import permits

The scope of the system of import permits was significantly reduced from 1977 to early 1981, but this trend was reversed in the second half of 1981 and particularly in September 1982, when virtually all imports were made subject to permits, in conjunction with the imposition of generalized exchange controls.

In December 1982 the generalized exchange controls were lifted and a dual exchange rate was introduced, but the system of prior import permits remained in effect. In early 1983 the Ministry of Trade issued a list of some 3,400 items--of a total of some 8,000 tariff items--which could be imported at the exchange rate prevailing in the controlled market. The list was subsequently expanded to a total of 3,700 items, which cover 90 percent of 1983 imports; the remaining permitted tariff items are payable through the free market. Imports for a total of 1,850 items are banned. When the new system was announced in early 1983, only 350 items covering spare parts for manufacturing, agriculture, and services were exempt from import permit requirements, to a maximum of US\$1,500 per shipment and subject to a monthly limit of US\$3,000. While the number of exempt items was subsequently raised to about 385, these imports accounted for only 4 percent of total imports in 1983.

On December 26, 1983 the authorities introduced a number of measures to liberalize the system of import permits on a selective basis. The main measure was the increase in the number of items exempt from prior authorization to 1,703, of which 1,430 are intermediate goods and 262 are capital goods. The exempt items cover some 5 percent of total imports during the period 1981-83. In addition, it was decided in late December 1983 and in early January 1984: (i) to provide unrestricted authorizations for certain essential items such as pharmaceuticals; (ii) to shift certain raw materials and intermediate goods not produced locally to unrestricted licensing at the free exchange market; (iii) to grant automatic import authorizations for 275 essential inputs largely used by small and medium enterprises, covering some 8 percent of total imports; (iv) in forthcoming months to provide selective import authorizations to prevent sectoral scarcities or oligopolistic practices; (v) to permit the unrestricted import of machinery up to US\$100,000, so long as it is financed by export earnings or long-term foreign financing; and (vi) to allow regional customs offices to grant automatic increases in the value of import permits in line with changes in the exchange rate.

At the same time, the authorities announced a number of measures, reiterating the prohibition to import 1,850 items (aimed largely at protecting local production and discouraging the consumption of luxuries) and establishing import quotas for certain items, totaling some US\$1.5 billion, which previously had been severely restricted. Imports of items subject to quotas will be authorized preferentially when paid with export earnings or with foreign financing.

Controls on imports were tight from September 1982 to March 1983. In particular, during the period September-December 1982, although permits were issued for nonpriority imports for a total of over US\$4 billion, actual imports were considerably lower because foreign exchange allocations were severely restricted. Moreover, the high level of unutilized licenses outstanding at the end of 1982 was reflected in part in a low level of new authorizations granted during early 1983, when many of the items previously covered by the free market were transferred to the controlled market. Thereafter, average monthly import authorizations through the controlled market increased considerably. Because of the apparently high level of authorizations in 1982 and the reduced coverage in 1983, licensing through the free exchange market fell and the monthly average of total import permits actually declined in the period through October 1983 (Tables 13 and 14), with a pronounced deceleration after June, at a time when the stock of unutilized permits increased. The authorities have since decided to significantly accelerate the pace of authorizations, as reflected in the levels observed for November. In conjunction with the selective liberalization of import permits described above, this will accommodate the large projected increase in imports which is required for the recovery of economic activity.

2. Import tariffs

A considerable number of tariff reductions was effected in 1983 (Table 15) resulting in a decline in the arithmetic mean of all import duty rates by some 3 percentage points. The average effective duty rate showed a more pronounced decline, from 12 1/2 percent in 1982 to 7 1/2 percent in the first nine months of 1983, which also reflected the shift in the composition of imports toward public sector and intermediate goods items typically benefiting from exemptions or lower duty rates (Table 16). Current ad valorem duty rates range from zero to 100 percent, becoming progressively higher according to the extent of local production and progressively lower according to the degree of essentiality. Most of the items are currently taxed at 25 percent or less (Table 17).

Table 13. Mexico: Value of Import Authorizations

(In millions of U.S. dollars)

	Ordinary or Controlled Market Foreign Exchange 1/	Nonpriority and Free Market Foreign Exchange 2/	Total Import Authorizations
<u>1982</u>			
September-December	2,014	4,091 <u>3/</u>	6,105
<u>1983</u>			
January-November	9,354	1,575	10,929
Definitive imports	(9,051)	(1,524)	(10,575)
Temporary imports	(303)	(51)	(354)

Source: Secretariat of Commerce and Industrial Development.

1/ From September 1 to December 20, 1982 covers transactions in the ordinary and preferential markets. From December 20, 1982 to date, covers transactions authorized in the controlled market.

2/ Prior to December 20, 1982 covers only imports financed without use of official foreign exchange. From December 20, 1982 to date covers transactions authorized for payment in the free market.

3/ Although permits were issued for these imports, during the period September-December 1982 foreign exchange allocations were severely restricted during the period, and actual imports were considerably below authorizations.

Table 14. Mexico: Value of Authorizations for Definitive Imports, 1983

(In millions of U.S. dollars)

	Total Authorizations	By Type of Foreign Exchange		By Sector	
		Controlled Market	Free Market	Public Sector	Private Sector
January-June	6,817	5,175	1,642	3,769	3,048
July	770	698	78	405	371
August	673	571	102	219	454
September	687	624	63	227	460
October	561	416	145	150	411
November	1,216	745	471	777	439
Modifications and cancellations	-394	-116	-278	-125	-269
Total January-November	10,575	9,051	1,524	5,444	5,131

Source: Secretariat of Commerce and Industrial Development.

APPENDIX VI

Table 15. Mexico: Changes in the Import Duty Schedule, 1982-83
(Number of tariff items)

	Increases	Reductions
<u>1982</u>		
January	523	9
February	1,128	10
March	26	1,457
April-July	216	145
August-December	41	338
<u>1983</u>		
January	29	1,860
February-March	—	—
April-May	4	737
June-July	—	—
August-November	19	26

Source: Secretariat of Commerce and Industrial Development.

Table 16 . Mexico: Import Duty Collections

(In billions of pesos)

	1979	1980	1981	1982	Jan.-Sept. 1983
Import duty collection	27.3	44.3	66.8	83.0	50.3
Import value <u>1/</u>	273.2	432.2	586.6	660.1	669.8
Average effective duty rate (percent)	10.0	10.2	14.4	12.6	7.5
<u>Memorandum items</u>					
Composition of total imports					
By destination	100.0	100.0	100.0	100.0	100.0
Public sector	(33.1)	(36.0)	(36.7)	(36.6)	(56.9)
Private sector	(66.9)	(64.0)	(63.3)	(63.4)	(43.1)
By type of goods	100.0	100.0	100.0	100.0	100.0
Consumer and capital goods <u>2/</u>	(38.9)	(40.8)	(44.4)	(42.1)	(28.5)
Intermediate goods	(61.1)	(59.2)	(65.6)	(57.9)	(70.6)

Source: Data provided by the Mexican authorities; and Fund staff estimates.

1/ Measured at the controlled market exchange rate.

2/ Includes nonmonetary gold.

APPENDIX VI

Table 17. Mexico: Summary of Import Duty Structure
(Percentage of tariff items)

	End of period					
	1978	1979	1980	1981	1982	1983 <u>1/</u>
<u>Duty range (in percent)</u>						
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Exempt	3.7	3.3	3.4	3.3	3.7	4.2
Up to 25	72.8	67.2	63.5	61.5	60.4	68.8
25-50	16.2	20.7	22.5	22.7	23.3	18.5
50-75	4.1	5.4	6.3	7.1	7.2	3.7
Over 75	3.1	3.3	4.2	5.4	5.3	4.7
Prohibited	0.1	0.1	0.1	0.1	0.1	0.1

Source: Secretariat of Commerce and Industrial Development.

1/ As of November 30, 1983.

The structure of tariffs is undergoing a review based on a comprehensive study on effective protection. This is expected to lead to the implementation of a tariff reform in the first semester of 1984, with the new tariff structure aiming at providing moderately increasing levels of effective protection based on the degree of elaboration. Each tariff item would have a dual rate, based on whether the good is produced locally or not, and maximum tariffs would be set at 50 percent for essential items and at 100 percent for luxury items. In preparation for the reform, tariffs on some 127 items were reduced in early January 1984, covering mainly intermediate goods for the chemical and pharmaceutical industries and spare parts for machinery and equipment.

3. Export taxes

The structure of general export taxes has been largely unchanged since it was modified in 1976, when taxes on manufactures and on products of in-bond industries were lowered. The principal export commodities currently subject to export taxes are petroleum, natural gas and petroleum products, coffee, cotton, and shrimp. As of November 1983, the average export tax, weighted by the number of items at each rate, was less than 1 percent; 171 items were subject to export taxes while 2,820 were exempt. There were 382 items subject to export control, while exports of 42 items were prohibited for health and ecological reasons.

Mexico--National Development Plan, Some Highlights

1. Introduction

The Government that assumed office on December 1, 1982 immediately started work on a development plan covering the six years of the Administration (1983-88) and in May 1983 the National Development Plan (NDP) was issued. The NDP is intended to assist in the formulation of a comprehensive strategy to overcome the serious economic and financial crisis of the country--which the authorities regard as a threat to Mexico's basic social and political structures--and to provide a framework for establishing solid foundations for economic growth and development.

The NDP was preceded by an Immediate Economic Reordering Program (PIRE) announced in December 1982 and covering mainly 1983-84. For this two-year period the NDP appropriately incorporated the framework provided by PIRE, whereas for 1985-88 it provided a set of guidelines for the design and implementation of detailed sectoral policies.

The NDP development plan has been enacted into law in accordance with constitutional amendments approved in December 1982, that define the framework for the formulation and execution of the plan.

2. The Program for Immediate Economic Reordering (PIRE), 1984-85 ^{1/}

The PIRE consisted of a set of policies to deal with the critical situation faced by Mexico in late 1982, while minimizing the economic and social costs of the adjustment process. The strategy described in the PIRE includes measures in several areas:

a. Reduction in public expenditures

The plan states the need for the utmost restraint on expenditure and for adjustments in its structure. The level of total public expenditure is to be made consistent with the availability of financial resources and the need to strengthen domestic savings. The structure of the expenditure, in turn, has to be modified in order to assign higher priority to the social sector and the service of the debt, while reducing the burden of operating expenditures and improving the composition of public investment.

^{1/} The main policy directives of the PIRE program have been the basis for the financial program submitted to the Fund in late 1982 and in the letter from the authorities dated January 31, 1984 in support of the second year of the extended arrangement.

b. Establishment of strict and efficient public expenditure norms

The plan calls for strict norms on budgetary procedures to prevent waste and corruption, and to improve the efficiency of public administration.

c. Reassessment of investment projects in progress

Investment projects currently in progress are to be reviewed, with the objective of accelerating high priority projects--particularly those that are highly advanced or near completion--while reducing the pace of construction, or eliminating altogether, lower priority projects.

d. Emergency programs to preserve employment

The PIRE proposes the establishment of various selective programs to preserve employment in specific areas or social sectors. A number of programs are called for to alleviate unemployment in the rural areas, and selected urban centers, as well as to provide employment to newly graduated school teachers.

e. Increase in public sector revenue

Specific measures are called for to raise revenues with a view to reducing the public sector deficit. These measures include (1) tax increases subject to equity considerations; (2) a realistic pricing policy for goods and services sold by public enterprises, with higher increases envisaged for those products consumed by higher income groups; and (3) efforts to improve efficiency of public enterprises and reduce their operating costs.

f. Channeling of credit to priority areas

Credit institutions are to be restructured to ensure their effective control by the Government, and to channel financial resources to priority areas in a framework of efficiency and honesty.

g. Restoration of the foreign exchange market

The functioning of the foreign exchange market is to be restored on the basis of a realistic exchange rate policy to ensure adequate foreign exchange availability for imports of necessary inputs and consumption goods. The NDP indicates that "irrational" exchange subsidies, that have adversely affected the public finances, are to be eliminated; imports are to be streamlined, while the degree of protection given to various sectors is to be gradually rationalized, eliminating excessive profits and benefiting consumer groups.

3. Strategy for structural adjustment (second stage), 1985-88

In its second stage, the NDP aims at undertaking the fundamental changes in the country's social and economic structures to create productive and distribution systems capable of maintaining economic growth with a more equitable distribution of the benefits of development. This stage requires the establishment or restoration of the basic balance that has been either distorted or prevented by the rapid industrialization and urban development processes.

The above structural changes will be undertaken under the framework of six major guidelines encompassing actions in the macroeconomic, sectoral, and regional areas.

a. Emphasis on social and redistribution aspects of economic growth

The plan states that economic growth will aim at fulfilling the basic necessities of the population, assigning priorities to the creation of new employment and the promotion of a more equitable distribution of income.

b. Industrial and agricultural promotion

The plan proposes measures to achieve a more balanced regional distribution of productive activities and social benefits. Efforts are to be undertaken to strengthen the local and regional governments, assigning to them new responsibilities in areas such as health and education.

c. Adjustment of financial structures to the development priorities

The plan refers to the need to obtain higher and stable flows of domestic savings to finance the development program. Emphasis is made on providing a favorable framework for the generation of private sector savings and their channeling to productive activities through the financial system. Attention is called to the need for developing an efficient banking system and maintaining a monetary policy aimed at achieving price stability. Government savings are to be boosted to supplement private savings. Net foreign borrowing will be managed carefully to prevent excessive reliance on foreign savings and to ensure that such resources will be channeled to high priority activities, particularly export- and import-substituting activities.

d. Preservation and strengthening of the national human potential

The plan calls for specific efforts to develop human resources, with policies for the control of population growth and the promotion of a more balanced regional distribution of the population. Efforts to support research and development of new technology are also mentioned.

e. Strengthening of the role of the public sector

The NDP calls for a strengthening of the role of the public sector in the context of a mixed economy in which the private sector plays an important role. The public sector continues to reserve for itself certain areas of production and distribution.

4. The role of public sector investment under the NDP

Public sector investment expenditure programs are to be subject to a careful review to make the total amount of resources and their allocation to specific projects consistent with the guidelines of the NDP. As a result, investment expenditure will change significantly, both in terms of its level and its composition. The plan envisages significant declines in public sector investment in 1983-84 followed by a recovery starting in 1985.

The composition of public investment will show significant changes in terms of its sectoral distribution, the choice of techniques, and the selection of projects. The plan assigns higher priority to projects in the areas of social services--such as health and education--and infrastructure, including transportation, communications, and port facilities, as well as housing and related urban projects. Lower priority will be assigned to investment in those sectors that have absorbed a high proportion of resources in the past, namely, petroleum, electricity, and industry. Emphasis also will be given to those projects that are labor intensive or that use domestic inputs. Also, in the selection of projects priority will be given to those that are in an advanced stage of completion and those that would alleviate critical bottlenecks or contribute to the supply of basic consumer goods.

Table 18. Mexico: National Income Statistics

	1979	1980	1981	1982	1983	1984	1985
(In billions of Mexican pesos, except as indicated)							
<u>GDP at current market prices</u>	<u>3,067</u>	<u>4,276</u>	<u>5,874</u>	<u>9,417</u>	<u>18,290</u>	<u>27,700</u>	<u>36,940</u>
Rate of change in real GDP	9.2	8.3	7.9	-0.5	-3.3	1.0	5.0
Rate of change in GDP deflator	20.2	28.7	27.3	61.1	100.9	50.0	27.0
Rate of change in nominal GDP	31.2	39.4	37.4	60.3	94.2	51.5	33.4
Rate of inflation (year-end in per cent)	20.0	29.8	28.7	98.8	80.9	40.0	18.0
<u>Memorandum items</u>							
GDP in billions of U.S. dollars							
At current exchange rate	135	186	240	191	149	164	182
At 1979 exchange rate	135	159	186	197	200	212	234
Less: net factor payments abroad	91	138	233	535	1,193	1,846	2,801
<u>GNP at market prices</u>	<u>2,976</u>	<u>4,138</u>	<u>5,641</u>	<u>8,882</u>	<u>17,097</u>	<u>25,854</u>	<u>34,139</u>
Plus: net transfer receipts from abroad	5	7	7	15	49	68	61
<u>Disposable income</u>	<u>2,980</u>	<u>4,145</u>	<u>5,649</u>	<u>8,897</u>	<u>17,146</u>	<u>25,921</u>	<u>34,200</u>
Less: net use of foreign savings (current account balance)							
Of which: net official capital	-125	-177	-341	-149	492	-169	-305
	(75)	(108)	(436)	(337)	(517)	(678)	(609)
<u>Gross aggregate expenditure 2/</u>	<u>3,106</u>	<u>4,322</u>	<u>5,989</u>	<u>9,046</u>	<u>16,654</u>	<u>26,091</u>	<u>34,504</u>
<u>Consumption</u>							
General government	271	390	602	999	1,514	2,400	3,140
Private sector (residual)	2,039	2,729	3,685	6,079	12,096	18,440	23,754
<u>Gross aggregate investment</u>							
Public sector	237	406	758	989	1,291	2,220	3,177
Private sector and inventory changes	559	797	944	979	1,753	3,031	4,433
<u>Gross national savings</u>							
Public sector	93	89	-56	-624	-159	726	1,847
Private sector	578	937	1,417	2,444	3,695	4,356	5,459
<u>Memorandum item</u>							
Total government expenditure 3/							
Of which: transfer and interest payments 4/	757	1,134	1,879	3,553	4,935	7,298	...
	(250)	(339)	(519)	(1,565)	(2,059)	(2,628)	(...)
<u>Consumption</u>							
General government	8.8	9.1	10.2	10.6	8.3	8.7	8.5
Private sector (residual)	66.5	63.8	62.7	64.6	66.1	66.6	64.3
<u>Gross aggregate investment</u>							
Public sector	7.7	9.5	12.9	10.5	7.1	8.0	8.6
Private sector and inventory changes	18.2	18.6	16.1	10.4	9.6	10.9	12.0
<u>Net use of foreign savings</u>							
Of which: net official capital	4.1	4.1	5.8	1.6	-2.7	0.6	0.8
	2.5	2.5	7.4	3.6	2.8	2.4	1.6
<u>Gross national savings</u>							
Public sector	3.0	2.1	-1.0	-6.6	-0.9	2.6	5.0
Private sector	18.8	21.9	24.1	25.9	20.2	15.7	14.8

Sources: Secretariat of Programing and Budget; and Fund Staff estimates.

- 1/ A negative number indicates a current account surplus.
- 2/ Excludes interest payments and other payments for factor services.
- 3/ Includes public sector investment but excludes operating expenditures of public enterprises and the Government's financial investment and property acquisitions.
- 4/ Excludes interest payments of public enterprises.

Table 19. Mexico: Index of Industrial Production ^{1/}
(1970 = 100, period average)

	General Index	Mining	Manufactures	Construc- tion	Elec- tricity	Petro- leum ^{2/}
<u>1979</u>	<u>187.4</u>	<u>200.1</u>	<u>184.4</u>	<u>184.7</u>	<u>235.2</u>	<u>250.4</u>
I	179.4	187.8	178.1	171.1	225.5	...
II	184.2	195.8	182.1	180.2	220.8	...
III	188.5	199.3	184.3	188.7	250.7	...
IV	197.6	217.7	192.9	198.6	244.0	...
<u>1980</u>	<u>205.7</u>	<u>244.8</u>	<u>198.8</u>	<u>208.2</u>	<u>251.7</u>	<u>310.5</u>
I	198.2	226.5	193.1	200.1	234.5	287.9
II	204.2	244.0	197.2	207.8	245.2	305.5
III	206.2	249.1	197.8	209.5	268.9	319.9
IV	214.3	259.5	207.1	215.8	258.4	328.9
<u>1981</u>	<u>223.9</u>	<u>282.3</u>	<u>213.5</u>	<u>232.1</u>	<u>272.4</u>	<u>362.4</u>
I	214.7	261.2	206.8	220.8	246.3	341.6
II	224.8	300.2	213.4	232.7	259.4	371.7
III	229.4	283.9	218.6	238.0	294.2	369.3
IV	226.6	284.1	215.0	237.0	289.9	367.0
<u>1982</u>	<u>220.0</u>	<u>312.4</u>	<u>205.0</u>	<u>227.4</u>	<u>293.5</u>	<u>400.9</u>
I	226.6	289.7	216.5	232.6	268.0	376.1
II	228.3	313.8	213.9	238.6	289.7	399.1
III	218.5	318.7	199.7	232.6	318.9	412.7
IV	206.7	327.4	189.7	205.7	297.4	415.7
<u>1983</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>
I	204.2	289.2	193.0	199.1	271.0	379.1
II	206.0	302.9	193.7	197.2	289.8	405.1
III	197.2	310.0	181.5	187.4	318.8	415.5

Source: Bank of Mexico.

^{1/} This index has a coverage based on 82 percent of the value added of industrial production in 1970.

^{2/} Includes extraction and refining of petroleum and natural gas, and production of basic petrochemicals. These items are also included in the mining and manufactures categories, respectively.

Table 20. Mexico: Petroleum and Natural Gas Statistics ^{1/}

	1979	1980	1981	1982	Jan.-Aug.	
					1982	1983
(In millions of barrels)						
<u>Proven hydrocarbon deposits ^{1/}</u>	45,803	60,126	72,008	72,008	72,008	72,008
<u>Petroleum statistics</u>						
Production	590.5	779.2	932.3	1,096.0	707.7	713.9
Crude and condensate	(536.9)	(708.6)	(844.2)	(1,003.0)	(646.4)	(650.7)
Liquids ^{2/}	(53.6)	(70.6)	(88.1)	(93.0)	(61.3)	(63.2)
Exports	198.2	319.9	425.0	560.0	347.5	388.9
Crude oil	(194.5)	(302.9)	(400.8)	(544.6)	(335.0)	(376.4)
Derivatives	(3.7)	(17.0)	(24.2)	(15.4)	(12.5)	(12.5)
Domestic consumption ^{3/}	392.3	459.3	507.3	536.0	263.6	254.1
(In millions of cubic feet)						
<u>Natural gas</u>						
Production	1,064.6	1,298.6	1,482.2	1,549.9	1,030.3	995.5
Exports	--	102.8	105.1	94.8	61.8	53.3
Domestic sales	491.3	502.7	516.6	522.2	354.1	317.3
(In millions of barrels)						
<u>Refined products</u>						
Capacity	489.4	538.7	556.0	591.5	393.8	393.8
Primary distillation	(414.2)	(463.5)	(463.5)	(463.5)	(308.6)	(308.6)
Liquid fractionation	(75.2)	(75.2)	(92.5)	(127.9)	(85.2)	(85.2)
Production (total)						
Refinery runs	(349.0)	(426.4)	(464.3)	(437.7)	(287.5)	(293.7)
Gasoline	(104.0)	(119.7)	(131.7)	(126.6)	(84.3)	(85.5)
Diesel	(78.6)	(89.1)	(98.5)	(85.6)	(57.7)	(55.4)
Fuel oils	(86.7)	(112.6)	(126.7)	(135.3)	(87.1)	(85.2)
Liquid gas	(33.0)	(43.7)	(49.6)	(43.9)	(30.8)	(33.4)
Other ^{3/}	(46.7)	(61.3)	(57.8)	(46.3)	(27.6)	(34.2)
Domestic sales	287.7	320.2	348.2	360.1	239.7	231.2
Gasoline	(100.6)	(115.0)	(130.7)	(131.4)	(88.6)	(77.2)
Diesel	(74.1)	(78.7)	(84.9)	(81.1)	(55.3)	(47.5)
Fuel oils	(81.1)	(89.0)	(91.1)	(98.1)	(64.6)	(73.3)
Liquid gas	(31.9)	(37.5)	(41.5)	(49.5)	(31.2)	(33.2)
Exports	3.7	17.0	24.2	15.4	12.5	12.5
Gasoline	(--)	(0.5)	(0.4)	(0.1)	(0.02)	(1.4)
Diesel	(0.1)	(0.4)	(3.1)	(0.9)	(0.7)	(3.8)
Fuel oils	(1.4)	(10.5)	(19.1)	(13.0)	(10.9)	(5.9)
Liquid gas	(2.2)	(5.3)	(0.9)	(0.4)	(0.1)	(0.2)
Other	(--)	(0.3)	(0.7)	(1.0)	(0.8)	(1.2)
Imports	10.6	5.4	3.7	3.0	2.6	3.2

Table 20. Mexico: Petroleum and Natural Gas Statistics
(Concluded)

	1979	1980	1981	1982	Jan.-Aug. 1983
<u>(In thousands of metric tons)</u>					
<u>Basic petrochemical</u>					
<u>statistics</u>					
Capacity <u>1/</u>	7,840	8,886	11,675	14,883	14,883
Production <u>4/</u>	6,344	7,224	9,160	10,590	7,393
Domestic sales	2,815	3,405	4,037	4,344	3,182
Exports <u>5/</u>	750	755	813	873	513
Imports	648	762	790	701	475
<u>Memorandum items</u>					
Total production of hydrocarbon (in millions of barrels) <u>6/</u>	785	1,015	1,198	1,372	947
Production years at current production level	58	59	60	52	...
Exploratory wells	83	85	70	70	42
Average depth (meters)	3,169	2,929	3,222	4,107	4,360
Success rate (percent)	32.8	41.4	38.1	28.0	26.0
Development wells	250	349	342	288	175
Average depth (meters)	2,848	2,874	3,028	3,180	2,800
Success rate (percent)	80.5	84.6	86.4	81.0	88.0
Number of employees	103,271	113,340	122,826	133,576	133,576

Sources: PEMEX; Secretariat of Programing and Budget; and Fund staff estimates.

- 1/ At end of period.
2/ Recovered from natural gas.
3/ Includes fuel used during refining process, as well as pipeline, transportation, and other losses.
4/ Includes carbonic anhydride.
5/ Mostly ammonia anhydride and methanol.
6/ Includes crude oil, condensates, liquids recovered from natural gas, and the crude equivalent of dry gas.

Table 21. Mexico: Selected Agricultural Statistics 1/

	1979	1980	1981	1982	1983
<u>I. Indices of Agricultural Production and Prices</u>					
(In billions of Mexican pesos)					
Value added in agriculture (current prices)	281.7	357.1	477.5	677.5	...
Value added in agriculture (constant 1970 prices)	70.7	75.7	80.3	80.0	...
Percentage change in implicit deflator	19.9	18.5	26.1	42.4	...
Rate of growth in real value added	-2.1	7.1	6.1	-0.4	...
<u>II. Crop Area Harvested</u>					
(In thousands of hectares)					
<u>Total</u>	<u>14,873</u>	<u>16,805</u>	<u>18,173</u>	<u>...</u>	<u>...</u>
Irrigated	4,902	5,076	5,452	...	...
Rain-fed	9,971	11,729	12,721	...	...
<u>III. Principal Agricultural Products</u>					
(Area in thousands of hectares; yield in tons per hectare; production and foreign trade in thousands of metric tons; and prices in Mexican pesos per ton)					
<u>Major crops subject to</u>					
<u>official price support 2/</u>					
<u>Corn</u>					
Area	5,916	6,955	8,150	6,272	8,908
Production	8,752	12,383	14,766	12,215	12,744
Yield	1.48	1.78	1.81	1.95	1.43
Imports	745	3,349	2,980	...	...
Stock (end of year)3/	602	1,504	2,078	648	...
Average farm price	3,480	4,791	6,550	8,614	...
Support price					
Spring-Summer cycle	2,900	3,480	4,450	6,550	16,000
Fall-Winter cycle	3,480	4,450	6,550	8,850	19,200
<u>Wheat</u>					
Area	600	739	861	1,013	907
Production	2,273	2,784	3,189	4,468	3,509
Yield	3.78	3.77	3.70	4.41	3.87
Imports	1,969	799	1,150	...	...
Stock (end of year)3/	412	20	--	1,608	...
Average farm price	3,500	3,550	6,300	6,491	...
Support price					
Spring-Summer cycle	2,600	3,000	4,800	4,600	14,000
Fall-Winter cycle	3,000	3,550	4,600	6,930	18,200

Table 21. Mexico: Selected Agricultural Statistics (Continued)

	1979	1980	1981	1982	1983
<u>Major crops subject to official price support</u>					
<u>Barley</u>					
Area	260	329	274	281	327
Production	376	610	559	495	588
Yield	1.45	1.85	2.04	1.76	1.80
Imports	45	1.64	--	...	...
Stock (end of year) ^{3/}	--	--	--	...	...
Average farm price	3,230	3,783	3,218	7,438	...
Support price					
Spring-Summer cycle	2,320	2,785	3,800	6,200	16,000
Fall-Winter cycle	2,785	3,800	6,200	8,850	19,200
<u>Safflower</u>					
Area	494	392	391	...	457
Production	619	446	372	274	273
Yield	1.25	1.14	0.95	...	0.60
Imports	--	--	--	...	...
Stock (end of year) ^{3/}	2	36	...	2	...
Average farm price	6,500	7,200	10,140	...	...
Support price					
Spring-Summer cycle	5,000	6,000	7,800	7,800	22,600
Fall-Winter cycle	6,000	6,000	7,800	11,150	26,400
<u>Sorghum</u>					
Area	1,216	1,578	1,767	1,340	1,971
Production	3,708	4,812	6,296	4,956	4,780
Yield	3.05	3.05	3.56	3.70	2.43
Imports	1,265	2,792	2,480	...	...
Stock (end of year) ^{3/}	200	260	2,792	110	...
Average farm price	2,600	3,485	3,930	5,224	...
Support price					
Spring-Summer cycle	2,030	2,335	2,900	3,930	10,500
Fall-Winter cycle	2,335	2,900	3,930	5,200	12,600
<u>Beans</u>					
Area	988	1,763	2,150	1,711	2,200
Production	555	971	1,645	1,093	1,327
Yield	0.61	0.55	0.68	0.64	0.60
Imports	87	293	375	...	...
Stock (end of year) ^{3/}	180	265	819	769	...
Average farm price	12,000	14,239	16,000	21,220	...
Support price					
Spring-Summer cycle	6,000	7,200	12,000	16,000	29,500
Fall-Winter cycle	7,200	12,000	16,000	21,100	33,000
<u>Soybeans</u>					
Area	428	155	378	391	410
Production	719	312	712	672	771
Yield	1.68	2.81	1.88	1.72	1.88
Imports	539	756	1,210	...	...
Stock (end of year) ^{3/}	40	9	...	20	...
Average farm price	6,500	7,404	10,800	14,794	...
Support price					
Spring-Summer cycle	5,500	6,400	8,000	10,800	27,700
Fall-Winter cycle	6,400	8,000	10,800	15,300	31,000

Table 21. Mexico: Selected Agricultural Statistics (Continued)

	1979	1980	1981	1982	1983
<u>Major crops subject to official price support</u>					
<u>Rice</u>					
Area	150	132	180	175	165
Production	317	301	643	601	467
Yield	2.11	2.28	3.57	3.43	2.83
Imports	36	103	55	...	...
Stock (end of year) ^{3/}	65	124	144	101	...
Average farm price	3,800	6,019	6,500	10,125	...
Support price					
Spring-Summer cycle	3,410	3,410	4,500	6,500	17,600
Fall-Winter cycle	3,410	4,500	6,500	9,400	21,000
<u>Sesame</u>					
Area	321	282	150	95	176
Production	173	176	68	46	126
Yield	0.54	0.62	0.57	0.48	0.72
Imports	--	--	--	...	...
Stock (end of year) ^{3/}	--	17	...	7	...
Average farm price	11,000	11,210	15,523	19,744	...
Support price					
Spring-Summer cycle	7,540	8,295	11,500	...	37,800
Fall-Winter cycle	8,295	11,500	15,525	20,900	50,000
<u>Major export crops</u>					
<u>Cotton</u>					
Area	376	372	355	200	...
Production	545	538	530	289	...
Yield	1.45	1.45	1.49	1.45	...
Exports	212	172	183	126	...
<u>Coffee</u>					
Area	404	418	396	...	...
Production	223	193	198	...	...
Yield	0.55	0.46	0.50	...	...
Exports	170	124	119	119	...
<u>Tomatoes</u>					
Area	76	76	67	39	...
Production	1,533	1,458	1,350	645	...
Yield	20.20	19.20	20.25	16.54	...
Exports	401	373	293	338	...
<u>Tobacco</u>					
Area	46	52	52	40	...
Production	72	79	80	67	...
Yield	1.55	1.53	1.55	1.68	...
Exports	21	24	23	...	...

Table 21. Mexico: Selected Agricultural Statistics (Concluded)

	1979	1980	1981	1982	1983
<u>Various fruits</u>					
Area	495	477	528	...	...
Production	6,427	6,357	6,740	...	...
Yield	12.98	13.33	12.76	...	...
Exports	392	347	298	...	...
<u>Sugarcane</u>					
Area	534	546	505	526	...
Production	35,730	36,480	33,857	34,066	...
Yield	66.9	66.9	67.0	64.8	...
Average farm price	290	365	...	780	...
<u>Sugar</u>					
Production	2,793	2,542	2,512	2,382 ^{4/}	...
Yield (per ton or sugarcane)	0.078	0.070	0.070	...	...
Exports	159	--	--	...	...

Sources: Secretariat of Agriculture and Hydraulic Resources; Secretariat of Programing and Budget; and CONASUPO.

^{1/} With the exception of exports, coverage corresponds to crop years, which may differ from calendar year data as reported in the national accounts.

^{2/} Coffee is also subject to official price support but while all other price support policies are administered by CONASUPO, those for coffee are administered by IMMECAFE. IMMECAFE's operations in the domestic market are rather limited.

^{3/} Refers to CONASUPO's stocks only.

^{4/} January-October 1982.

Table 22. Mexico: National Consumer Price Index

	1978	1979	1980	1981	1982	1983
<u>Changes in Consumer Price Index (in percent)</u>						
<u>Over same month of previous year</u>						
January	19.8	17.6	21.6	27.8	30.9	110.0
February	18.9	17.6	22.7	28.0	32.7	112.9
March	18.0	18.1	23.5	28.1	34.7	115.3
April	17.6	17.9	24.4	28.7	38.9	117.2
May	17.8	18.2	24.8	28.6	44.5	114.4
June	18.0	17.8	26.0	27.8	49.4	112.4
July	18.6	17.3	27.9	26.5	54.4	111.8
August	17.4	17.9	28.7	26.5	68.2	97.9
September	16.6	17.9	28.5	27.5	73.9	93.9
October	17.1	18.6	28.2	28.4	79.0	90.4
November	17.1	18.9	28.8	28.6	84.5	91.9
December	16.2	20.0	29.8	28.7	98.8	80.9
<u>Average over previous 12 months 1/</u>						
January	...	17.6	18.5	26.8	28.2	65.9
February	...	17.5	19.0	27.2	28.7	72.8
March	...	17.3	19.5	27.6	29.3	79.7
April	...	17.4	20.0	28.0	30.2	86.5
May	...	17.4	20.6	28.3	31.7	92.3
June	...	17.5	21.4	28.4	33.6	97.3
July	...	17.5	22.2	28.3	36.0	101.8
August	...	17.5	23.1	28.0	39.7	103.5
September	...	17.4	24.0	27.9	43.7	104.5
October	...	17.6	24.8	28.0	48.1	104.5
November	...	17.8	25.6	28.0	52.9	104.3
December	17.5	18.2	26.4	27.9	58.9	101.9
<u>Over the previous month</u>						
January	2.2	3.5	4.9	3.2	5.0	10.9
February	1.5	1.5	2.3	2.5	3.9	5.4
March	0.9	1.3	2.0	2.1	3.7	4.8
April	1.1	1.0	1.7	2.3	5.4	6.3
May	1.0	1.3	1.6	1.5	5.6	4.3
June	1.3	1.0	2.0	1.4	4.8	3.8
July	1.7	1.3	2.7	1.8	5.2	4.9
August	1.0	1.4	2.1	2.1	11.2	3.9
September	1.2	1.2	1.1	1.9	5.3	3.1
October	1.2	1.7	1.5	2.2	5.2	3.3
November	1.1	1.3	1.8	1.9	5.1	5.9
December	0.9	1.8	2.6	2.7	10.7	4.3
<u>Accumulated since the beginning of the year</u>						
January	2.2	3.5	4.9	3.2	5.0	10.9
February	3.7	5.1	7.3	5.8	9.1	16.9
March	4.7	6.4	9.5	8.0	13.1	22.5
April	5.8	7.5	11.3	10.5	19.2	30.2
May	6.9	8.9	13.1	12.1	25.9	35.8
June	8.3	10.0	15.4	13.7	32.0	41.0
July	10.1	11.4	18.5	15.8	38.8	48.0
August	11.2	13.0	21.0	18.2	54.4	53.8
September	12.5	14.3	22.3	20.4	62.6	58.5
October	13.9	16.3	24.1	23.1	71.0	63.7
November	15.1	17.8	26.4	25.4	79.7	73.4
December	12.2	20.0	29.8	28.7	98.8	80.9

Source: Bank of Mexico.

1/ Period end in month indicated.

Table 23. Mexico: Selected National Wage Indices

(1978 = 100, period average)

	Earnings in Manufacturing 1/		Wages in Construction		Urban Minimum Wage		Cost of Living 2/
	Nominal	Real	Nominal	Real	Nominal	Real	
<u>1979</u>	<u>116.5</u>	<u>98.3</u>	<u>119.1</u>	<u>100.9</u>	<u>116.8</u>	<u>99.0</u>	<u>118.2</u>
I	104.0	93.3	115.6	103.6	116.8	104.7	111.6
II	111.0	96.1	119.1	103.0	116.8	101.0	115.6
III	117.2	97.7	120.4	100.3	116.8	97.3	120.0
IV	133.6	106.3	121.3	96.7	116.8	93.1	125.5
<u>1980</u>	<u>142.9</u>	<u>95.3</u>	<u>143.7</u>	<u>96.6</u>	<u>137.5</u>	<u>92.4</u>	<u>149.3</u>
I	124.7	91.1	142.6	104.2	137.5	100.5	136.8
II	133.7	92.5	142.6	98.6	137.5	95.1	144.6
III	143.3	93.1	144.0	93.4	137.5	89.2	154.1
IV	169.8	104.6	145.7	90.0	137.5	84.9	161.9
<u>1981</u>	<u>191.2</u>	<u>101.1</u>	<u>190.0</u>	<u>99.9</u>	<u>180.0</u>	<u>94.6</u>	<u>191.1</u>
I	158.5	90.5	186.9	106.8	180.0	102.9	175.0
II	181.5	97.8	188.4	101.5	180.0	97.0	185.6
III	197.7	107.3	190.5	97.4	180.0	92.1	195.5
IV	227.2	108.9	194.4	93.7	180.0	86.5	208.1
<u>1982</u>	<u>298.1</u>	<u>98.7</u>	<u>295.6</u>	<u>99.6</u>	<u>253.2</u>	<u>85.6</u>	<u>303.6</u>
I	222.8	95.7	258.0	111.0	241.1	103.7	232.4
II	290.4	108.4	297.5	111.0	241.1	90.0	267.9
III	313.5	97.1	298.8	92.3	241.1	74.5	323.8
IV	365.8	93.4	327.9	84.0	289.3	74.2	390.4
<u>1983</u>							
I	<u>386.4</u>	<u>78.1</u>	<u>427.7</u>	<u>86.6</u>	<u>392.4</u>	<u>79.5</u>	<u>494.7</u>
January	367.0	78.1	472.7	91.0	392.4	83.5	469.9
February	378.4	76.4	427.7	86.4	392.4	79.3	495.1
March	413.8	79.7	427.7	82.4	392.4	75.6	519.1
II	<u>437.5</u>	<u>76.1</u>	<u>437.5</u>	<u>76.1</u>	<u>403.5</u>	<u>70.1</u>	<u>575.2</u>
April	421.5	76.4	427.7	77.5	392.4	71.1	552.0
May	437.2	75.9	431.2	74.9	392.4	68.1	575.9
June	453.8	75.9	453.5	75.9	425.7	71.2	597.7
III	<u>498.6</u>	<u>76.7</u>	<u>482.3</u>	<u>74.2</u>	<u>451.3</u>	<u>69.4</u>	<u>650.2</u>
July	471.1	75.1	462.3	73.7	451.3	71.9	627.3
August	501.2	76.9	491.1	75.4	451.3	69.2	651.6
September	523.6	78.0	493.4	73.5	451.3	67.2	671.7
IV	...	...	...	...	451.3	61.8	731.7
October	...	...	493.9	71.2	451.3	65.0	693.9
November	...	...	494.5	67.3	451.3	61.4	734.8
December	...	...	...	...	451.3	58.9	766.4

Sources: Bank of Mexico; Secretariat of Programing and Budget; and Fund staff estimates.

1/ Includes salaries, wages, and benefits.

2/ National index.

STATISTICAL APPENDIX

Table 24. Mexico: Public Sector Receipts and Outlays

(In billions of Mexican pesos)

	1979	1980	1981	1982 Rev.	1983 Prog.	1983 Est.	1984 Prog.
<u>Overall receipts</u>	<u>807</u>	<u>1,187</u>	<u>1,627</u>	<u>2,834</u>	<u>5,350</u>	<u>5,656</u>	<u>8,994</u>
Petroleum company	172	327	448	1,029	1,887	2,472	3,874
Federal government revenue	413	682	948	1,534	3,054	2,866	4,697
Tax receipts	(395)	(652)	(897)	(1,427)	(2,920)	(2,748)	(4,525)
Other	(18)	(30)	(51)	(107)	(134)	(118)	(172)
Federal District revenue <u>1/</u>	12	15	19	26	25	38	43
Revenue of enterprises and agencies <u>2/</u>	260	336	449	710	1,189	1,318	2,085
Less taxes paid by public enterprises	-50	-173	-237	-465	-1,055	-1,038	-1,705
Additional revenue measures	—	—	—	—	250	—	—
<u>Overall outlays</u>	<u>1,017</u>	<u>1,518</u>	<u>2,500</u>	<u>4,555</u>	<u>6,848</u>	<u>7,156</u>	<u>10,518</u>
<u>Current outlays</u>	<u>674</u>	<u>1,029</u>	<u>1,575</u>	<u>2,845</u>	<u>4,702</u>	<u>5,440</u>	<u>7,974</u>
Wages and salaries	237	309	446	779	998	1,116	1,526
Interest payments	103	156	305	859	1,639	1,931	2,819
Current transfers	117	251	290	415	766	888	1,213
States and municipalities <u>1/</u>	(35)	(77)	(119)	(168)	(388)	(358)	(626)
Other	(82)	(174)	(378)	(247)	(378)	(530)	(587)
Other current expenditure <u>3/</u>	217	313	534	792	1,139	1,505	2,416
Unallocated expenditure	—	—	—	—	160	—	—
<u>Exchange losses</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>435</u>	<u>—</u>	<u>79</u>	<u>72</u>
<u>Net financing requirement of the rest of the public sector <u>4/</u></u>	<u>35</u>	<u>64</u>	<u>101</u>	<u>170</u>	<u>215</u>	<u>282</u>	<u>194</u>
<u>Capital expenditure</u>	<u>308</u>	<u>425</u>	<u>824</u>	<u>1,105</u>	<u>1,477</u>	<u>1,355</u>	<u>2,278</u>
Real investment	225	344	544	745	1,016	1,031	1,753
Of which: PEMEX	(91)	(126)	(231)	(285)	(317)	(359)	(552)
Capital transfers and other <u>5/</u>	12	62	214	244	387	260	467
Financial investment	51	12	6	13	34	—	—
Acquisition of properties	3	5	14	15	18	12	12
Other unclassified <u>6/</u>	17	2	46	88	22	52	46
Unallocated expenditure of rest of public sector	—	—	—	—	204	—	—
Additional potential outlays <u>7/</u>	—	—	—	—	250	—	—
<u>Overall public sector deficit</u>	<u>-210</u>	<u>-331</u>	<u>-873</u>	<u>-1,721</u>	<u>-1,498</u>	<u>-1,500</u>	<u>-1,524</u>
Foreign financing (net)	76	110	436	352	458	507	667
Domestic financing (net)	141	211	437	1,369	1,040	993	857
<u>Memorandum items</u>							
Current account surplus or deficit (-)	93	89	-56	-624	166	-159	726
Capital revenue	5	5	7	8	17	14	28
Federal government tax revenue other than taxes paid by PEMEX	350	488	663	967	1,999	1,828	2,992
Total public sector outlays before interest payments	914	1,362	2,195	3,696	5,209	5,225	7,699

Sources: Secretariat of Finance and Public Credit; Secretariat of Planning and Budget; and Fund staff estimates.

1/ Excludes revenue sharing by Federal District.

2/ Includes 26 institutions subject to budgetary control (other than PEMEX) and 3 institutions outside budgetary control.

3/ Includes unclassified current expenditures (Adefas).

4/ Includes some net lending operations by state banks and the statistical discrepancy.

5/ Includes unclassified capital expenditures (Adefas).

6/ Includes other unclassified operations (Operaciones Ajenas).

7/ Includes expenditures not authorized by the budget but dependent on the availability of additional revenue.

Table 25. Mexico: Public Sector Receipts and Outlays

(In percent of GDP)

	1979	1980	1981	1982	1983		1984
				Rev.	Prog.	Est.	Prog.
<u>Overall receipts</u>	<u>26.3</u>	<u>27.8</u>	<u>27.7</u>	<u>30.1</u>	<u>30.4</u>	<u>30.9</u>	<u>32.5</u>
Petroleum company	5.6	7.6	7.6	10.9	10.7	13.5	14.0
Federal government revenue	13.5	16.0	16.1	16.3	17.4	15.7	16.9
Tax receipts	(12.9)	(15.2)	(15.3)	(15.2)	(16.6)	(15.1)	(16.3)
Other	(0.6)	(0.8)	(0.8)	(1.1)	(0.8)	(0.6)	(0.6)
Federal District revenue ^{1/}	0.4	0.4	0.2	0.3	0.1	0.2	0.2
Revenue of enterprises and agencies ^{2/}	8.4	7.9	7.6	7.5	6.8	7.2	7.5
Less taxes paid by public enterprises	-1.6	-4.0	-4.0	-4.9	-6.0	-5.7	-6.2
Additional revenue measures	--	--	--	--	1.4	--	--
<u>Overall outlays</u>	<u>33.1</u>	<u>35.5</u>	<u>42.6</u>	<u>48.4</u>	<u>38.9</u>	<u>39.1</u>	<u>38.0</u>
<u>Current outlays</u>	<u>22.0</u>	<u>24.1</u>	<u>26.8</u>	<u>30.2</u>	<u>26.7</u>	<u>29.7</u>	<u>28.8</u>
Wages and salaries	7.7	7.2	7.6	8.3	5.7	6.1	5.5
Interest payments	3.4	3.7	5.2	9.1	9.3	10.6	10.2
Current transfers	3.8	5.9	4.9	4.4	4.3	4.8	4.4
States and municipalities ^{1/}	(1.1)	(1.8)	(2.0)	(1.8)	(2.2)	(1.9)	(2.3)
Other	(2.7)	(7.1)	(2.9)	(2.6)	(2.1)	(2.9)	(2.1)
Other current expenditure ^{3/}	7.1	7.3	9.1	8.4	6.5	8.2	8.7
Unallocated expenditure	--	--	--	--	0.9	--	--
<u>Exchange losses</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>4.6</u>	<u>--</u>	<u>0.4</u>	<u>0.2</u>
<u>Net financing requirement of the rest of the public sector ^{4/}</u>	<u>1.1</u>	<u>1.5</u>	<u>1.7</u>	<u>1.8</u>	<u>1.2</u>	<u>1.6</u>	<u>0.7</u>
<u>Capital expenditure</u>	<u>10.0</u>	<u>9.9</u>	<u>14.0</u>	<u>11.7</u>	<u>8.4</u>	<u>7.4</u>	<u>8.2</u>
Real investment	7.3	8.0	9.3	7.9	5.8	5.6	6.3
Of which: PEMEX	(3.0)	(3.0)	(3.9)	(3.0)	(1.9)	(2.0)	(2.0)
Capital transfers and other ^{5/}	0.4	1.5	3.6	2.6	2.2	1.4	1.7
Financial investment	1.7	0.3	0.1	0.1	0.2	--	--
Acquisition of properties	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Other unclassified ^{6/}	0.5	--	0.8	0.9	0.1	0.3	0.1
Unallocated expenditure of rest of public sector	--	--	--	--	1.2	--	--
Additional potential outlays ^{7/}	--	--	--	--	1.4	--	--
<u>Overall public sector deficit</u>	<u>-6.8</u>	<u>-7.7</u>	<u>-14.9</u>	<u>-18.3</u>	<u>-8.5</u>	<u>-8.2</u>	<u>-5.5</u>
Foreign financing (net)	2.4	2.5	7.4	3.7	3.6	2.8	2.4
Domestic financing (net)	4.4	5.2	7.5	14.6	5.9	5.4	3.1
<u>Memorandum items</u>							
Current account surplus or deficit (-)	3.0	2.1	-1.0	-6.6	0.9	-0.9	2.6
Capital revenue	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Federal government tax							
Revenue other than taxes paid by PEMEX	11.4	11.4	11.3	10.3	11.4	10.0	10.8
Total public sector outlays before interest payments	29.8	31.8	37.4	39.3	29.6	28.6	27.8
GDP	3,067	4,276	5,874	9,417	17,600	18,290	27,700

Source: Statistical Appendix Table 24.

^{1/} Excludes revenue sharing by Federal District.^{2/} Includes 26 institutions subject to budgetary control and 3 institutions outside budgetary control.^{3/} Includes unclassified current expenditures (Adefas).^{4/} Includes some net lending operations by state banks and the statistical discrepancies.^{5/} Includes unclassified capital expenditures (Adefas).^{6/} Includes other unclassified operations (Operaciones Ajenas).^{7/} Includes expenditures not authorized by the budget but dependent on the availability of additional revenues.

Table 26. Mexico: Public Sector Receipts and Outlays; Institutional Classification

(In billions of Mexican pesos)

	1979	1980	1981	Rev. 1982	1983		Prog. 1984
					Prog.	Est.	
<u>Total receipts</u>	807	1,187	1,627	2,834	5,350	5,656	8,994
Federal Government	413	682	948	1,534	3,054	2,866	4,697
Less taxes paid by public enterprises	-50	-173	-237	-465	-1,055	-1,038	-1,705
PEMEX	172	327	448	1,029	1,887	2,472	3,874
Other public enterprises	260	336	449	710	1,189	1,318	2,085
Federal District (own revenue)	12	15	19	26	25	38	43
Additional revenue measures	--	--	--	--	250	--	--
<u>Overall public sector outlays</u>	1,017	1,518	2,500	4,555	6,848	7,156	10,518
Federal Government	514	815	1,348	2,331	3,616	4,046	6,114
PEMEX	207	386	674	1,164	2,028	2,214	3,421
Other public enterprises	361	526	758	1,143	1,730	2,100	3,110
Less: taxes paid by public enterprises	-50	-173	-237	-465	-1,055	-1,038	-1,705
transfers to enterprises and Federal District	-86	-154	-229	-389	-566	-757	-1,051
Federal District	36	54	85	166	266	230	363
Other	35	64	101	605	215	361	266
Unallocated expenditure	--	--	--	--	614	--	--
<u>Overall deficit</u>	-210	-331	-873	-1,721	-1,498	-1,500	-1,524

Sources: Secretariat of Finance and Public Credit; Secretariat of Planning and Budget; and Fund staff estimates.

Table 27. Mexico: Summary Accounts of the Public Sector (Revenue and Expenditure), 1979-84

(In billions of Mexican pesos)

	1979	1980	1981	1982 Rev.	1983		1984. Prog.
					Prog.	Est.	
<u>Public sector revenue</u>	547	803	1,006	1,802	3,630	3,466	5,782
Taxes on petroleum sector	45	163	234	460	1,055	1,038	1,705
Other Federal Government taxes	349	488	663	967	1,865	1,710	2,820
Federal Government nontax and capital revenue	18	30	51	99	134	110	157
Social Security contributions	79	107	168	228	325	358	522
Federal District	12	15	19	26	25	38	43
Operating surplus of public enterprises	91	170	102	479	1,023	1,236	2,212
PEMEX	(95)	(207)	(249)	(656)	(1,245)	(1,709)	(2,742)
Other	(-4)	(-37)	(-147)	(-177)	(-222)	(-473)	(530)
Less: taxes paid by public enterprises	-50	-173	-237	-465	-1,055	-1,038	-1,705
Capital revenue of public enterprises	3	3	6	8	8	14	28
Additional revenue measure <u>1/</u>	—	—	—	—	250	—	—
<u>Public sector expenditures <u>2/</u></u>	757	1,134	1,879	3,523	5,128	4,966	7,306
Government consumption	271	390	602	999	1,383	1,514	2,400
Wages and salaries	(166)	(219)	(317)	(550)	(696)	(771)	(1,088)
Other purchases of goods and services	(70)	(94)	(166)	(281)	(299)	(385)	(686)
Transfers to states and municipalities	(35)	(77)	(119)	(168)	(388)	(358)	(626)
Current transfers and subsidies	82	173	170	247	377	530	587
Interest payments	61	82	182	567	1,062	1,206	1,775
Unallocated current expenditures <u>3/</u>	—	—	—	—	160	—	—
Other current expenditures	35	64	101	605	215	361	266
Exchange losses	(—)	(—)	(—)	(435)	(—)	(79)	(72)
Net financial requirements of the rest of the public sector <u>4/</u>	(35)	(64)	(101)	(170)	(215)	(282)	(194)
Additional expenditure <u>5/</u>	—	—	—	—	250	—	—
Capital expenditure	308	425	824	1,105	1,477	1,355	2,278
Public sector investment	(237)	(406)	(758)	(989)	(1,403)	(1,291)	(2,220)
Of which: PEMEX	/91/	/126/	/230/	/331/	/317/	/413/	/585/
Financial investment and other <u>6/</u>	(71)	(19)	(66)	(116)	(278)	(64)	(58)
Other unallocated expenditures	—	—	—	—	204	—	—
<u>Overall deficit</u>	-210	-331	-873	-1,721	-1,498	-1,500	-1,524
Foreign financing (net)	76	109	436	352	458	507	667
Domestic financing (net)	134	222	437	1,369	1,040	993	857
<u>Memorandum items</u>							
Revenue from petroleum exports	95	226	321	1,029	1,499	1,924	2,784
Current account surplus or deficit (-)	93	89	-56	-624	166	-159	726
Current account exclusive of PEMEX	-2	-115	-304	-1,280	-1,079	-1,868	-2,016
Operating expenditure of public enterprises	260	384	621	1,032	1,720	2,190	3,212

Sources: Secretariat of Finance and Public Credit; Secretariat of Planning and Budget; and Fund staff estimates.

1/ Revenue measures not included in the budget approved by Congress but planned to be adopted during the course of the year.2/ Exclusive of operating expenditure of public enterprises. Net operating surplus of public enterprises is shown under public sector revenue.3/ Includes expenditures authorized by the budget but not allocated by category of expenditure.4/ Includes net lending operations and residual financing by the rest of the public sector.5/ Includes expenditures not included in the budget but dependent on the availability of additional revenue.6/ Includes acquisition of property, and financial investment.

Table 28. Mexico: Summary Accounts of the Federal Government 1/

	1979	1980	1981	1982	1983		1984
					Prog.	Est.	Prog.
(In billions of Mexican pesos)							
<u>Current account surplus</u>							
<u>or deficit (-)</u>	28.5	71.2	19.0	-365.0	-131.9	-596.0	-297.8
Current revenues	411.9	679.9	947.1	1,526.0	3,045.8	2,858.0	4,682.0
Current expenditures	383.4	608.7	966.1	1,891.0	2,913.9	3,454.0	4,979.8
Capital revenue	0.9	1.9	0.6	7.9	8.0	8.0	15.0
<u>Capital expenditures 2/</u>	130.7	206.8	381.4	440.0	861.8	671.0	1,206.2
Public works	35.0	62.8	75.2	145.0	256.5	189.0	466.9
Other	95.7	144.0	306.2	295.0	605.3	482.0	739.3
<u>Overall surplus or deficit (-)</u>	<u>-101.3</u>	<u>-133.7</u>	<u>-399.8</u>	<u>-797.1</u>	<u>-721.9</u>	<u>-1,259.0</u>	<u>-1,489.0</u>
<u>Memorandum items:</u>							
Total revenue	412.8	681.8	947.7	1,533.9	3,053.8	2,866.0	4,697.0
Total expenditure	514.1	815.5	1,347.5	2,331.0	3,775.7	4,125.0	6,186.0
(In percent of GDP)							
Current account surplus or deficit (-)	0.9	1.7	0.3	-3.9	0.8	-3.3	-1.1
Total revenue	13.5	15.9	16.1	16.3	17.4	15.7	17.0
Total expenditure	16.8	19.0	22.9	24.8	21.5	22.6	22.3
Current expenditure	(12.5)	(14.2)	(16.4)	(20.1)	(16.6)	(18.9)	(17.9)
Capital expenditure	(4.3)	(4.8)	(6.5)	(4.7)	(4.9)	(3.7)	(4.4)
Overall surplus or deficit (-)	-3.3	-3.1	-6.8	-8.5	-4.1	-6.9	-5.3
(As percent of total expenditures)							
Overall deficit (-)	19.7	16.4	29.7	34.2	19.1	30.5	24.1

Source: Secretariat of Finance and Public Credit.

1/ Exclusive of exchange losses.

2/ Includes other financial operations.

Table 29. Mexico: Federal Government Revenue

	1979	1980	1981	1982	1983		1984
					Prog.	Est.	Prog.
(In billions of Mexican pesos)							
<u>Total revenue</u>	<u>412.8</u>	<u>681.8</u>	<u>947.7</u>	<u>1,534.0</u>	<u>3,053.8</u>	<u>2,866.0</u>	<u>4,697.0</u>
<u>Tax revenue</u>	<u>394.8</u>	<u>651.6</u>	<u>897.1</u>	<u>1,426.9</u>	<u>2,919.8</u>	<u>2,748.0</u>	<u>4,525.0</u>
Taxes on petroleum sector	45.3	163.7	233.9	457.8	1,054.8	1,038.0	1,705.0
Income taxes	173.2	246.7	339.0	464.6	581.0	725.0	1,125.0
Corporate	(80.9)	(122.8)	(160.0)	(169.7)	(...)	(...)	(...)
Personal	(75.7)	(104.2)	(151.7)	(248.9)	(...)	(...)	(...)
Nonresidents and other	(16.6)	(19.7)	(27.3)	(46.0)	(...)	(...)	(...)
Payroll taxes	3.9	5.4	7.9	12.0	...	...	...
Sales tax (value added)	73.2	118.1	171.2	218.7	813.0	462.0	787.0
Excise taxes	46.5	47.8	62.5	177.1	345.0	399.0	635.0
Gasoline	(14.5)	(17.0)	(20.8)	(115.7)	(259.0)	(282.0)	(448.0)
Other excises	(32.0)	(30.8)	(41.7)	(61.4)	(86.0)	(117.0) ^{1/}	(187.0)
Import duties	27.3	44.3	66.8	82.6	83.0	76.0	187.0
Export taxes	2.1	1.8	0.2	1.7	...	...	...
Other taxes	23.3	23.8	15.6	12.4	43.0	48.0	86.0
<u>Nontax revenue</u>	<u>17.1</u>	<u>28.3</u>	<u>50.0</u>	<u>99.2</u>	<u>126.0</u>	<u>110.0</u>	<u>157.0</u>
<u>Capital revenue</u>	<u>0.9</u>	<u>1.9</u>	<u>0.6</u>	<u>7.9</u>	<u>8.0</u>	<u>8.0</u>	<u>15.0</u>
(As percent of GDP)							
<u>Total revenue</u>	<u>13.5</u>	<u>15.9</u>	<u>16.1</u>	<u>16.3</u>	<u>17.4</u>	<u>15.7</u>	<u>17.0</u>
<u>Tax revenue</u>	<u>12.9</u>	<u>15.2</u>	<u>15.3</u>	<u>15.2</u>	<u>16.6</u>	<u>15.0</u>	<u>16.3</u>
Taxes on petroleum sector	1.5	3.8	4.0	4.9	6.0	5.7	6.1
Income taxes	5.6	5.8	5.8	4.9	3.3	4.0	4.1
Corporate	(2.6)	(2.9)	(2.7)	(1.8)	(...)	(...)	(...)
Personal	(2.5)	(2.4)	(2.6)	(2.6)	(...)	(...)	(...)
Nonresidents and other	(0.5)	(0.5)	(0.5)	(0.5)	(...)	(...)	(...)
Payroll taxes	0.1	0.1	0.1	0.1	...	...	...
Sales taxes (value added)	2.4	2.7	2.9	2.3	4.6	2.5	2.8
Excise taxes	1.5	1.1	1.1	1.9	2.0	2.1	2.3
Gasoline	(0.5)	(0.4)	(0.4)	(1.2)	(1.5)	(1.5)	(1.6)
Other excises	(1.0)	(0.7)	(0.7)	(0.7)	(0.5)	(0.6)	(0.7)
Import duties	0.9	1.0	1.1	0.9	0.5	0.4	0.7
Export duties	0.1	0.1	--	--	...	...	...
Other taxes	0.8	0.6	0.3	0.1	0.2	0.3	0.3
<u>Nontax revenue</u>	<u>0.6</u>	<u>0.7</u>	<u>0.8</u>	<u>1.0</u>	<u>0.8</u>	<u>0.6</u>	<u>0.6</u>
<u>Capital revenue</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>0.1</u>	<u>--</u>	<u>0.1</u>	<u>0.1</u>
<u>Memorandum items</u>							
Nonpetroleum taxes	11.4	11.4	11.3	10.3	10.6	9.3	10.1
GDP	3,067	4,276	5,874	9,417	17,600	18,290	27,700

Source: Secretariat of Finance and Public Credit.

^{1/} Exclusive of Mex\$45 billion of electricity taxes levied in 1983 and earmarked for the electricity companies.

Table 30. Mexico: Summary Accounts of the State Petroleum Corporation (PEMEX)

	1979	1980	1981	1982	1983		1984
				Rev.	Prog.	Est.	Prog.
(In billions of Mexican pesos)							
<u>Current revenue</u>	171.9	327.1	445.3	1,029.0	1,887.3	2,472.3	3,873.7
Export sales	94.7	226.4	321.5	830.0	1,499.0	1,924.7	2,784.0
Domestic sales	73.2	95.4	110.2	162.0	385.1	548.0	651.3
Other	4.0	5.3	13.6	37.0	3.2	--	4.0
<u>Operating expenditures</u>	77.4	120.6	195.9	373.0	644.8	763.7	1,131.1
Wages and salaries	18.5	23.4	34.8	66.0	84.3	97.6	125.7
Interest payments	14.9	32.2	61.7	159.0	313.1	352.7	520.5
Purchases of goods and services	22.5	30.7	42.2	148.0	247.4	313.0	484.9
Others	21.5	34.3	57.2))))
<u>Current operating surplus or deficit (-)</u>	94.5	206.5	249.4	656.0	1,245.5	1,708.6	2,742.6
Current transfers	0.6	--	--	--	--	--	--
Tax payments ^{1/}	48.2	163.4	233.4	460.0	1,054.8	1,038.3	1,705.0
<u>Current account surplus or deficit (-)</u>	46.9	43.1	16.0	196.0	187.7	670.3	1,037.6
Capital revenue	0.1	--	3.2	--	0.2	--	0.3
<u>Capital expenditures</u>	91.3	126.4	230.8	285.0	316.7	359.1	552.0
Fixed investment	90.6	126.4	229.6	285.0	316.7	359.1	552.0
Financial investment	0.7	--	1.2	--	--	--	--
<u>Other financial operations (net) (Ajenas)</u>	6.7	24.0	-13.6	-46.0	-12.1	-53.5	-32.5
<u>Overall surplus or deficit (-)</u>	-37.6	-59.3	-225.2	-135.0	-140.9	257.7	453.4
<u>Total financing</u>	37.6	59.3	225.2	135.0	140.9	-257.7	-453.4
<u>External financing</u>	49.8	65.8	230.5	...	...	...	...
Drawings	(79.7)	(156.2)	(380.7)	(...)	(...)	(...)	(...)
Amortizations	(-29.9)	(-90.4)	(-150.2)	(...)	(...)	(...)	(...)
<u>Domestic financing</u>	-10.9	--	1.9	...	...	...	...
Drawings	(4.2)	(--)	(17.3)	(...)	(...)	(...)	(...)
Amortizations	(-15.1)	(--)	(-15.4)	(...)	(...)	(...)	(...)
<u>Other (net)</u>	-1.3	-6.5	-7.2	...	...	...	...
Drawings	(--)	(--)	(--)	(...)	(...)	(...)	(...)
Amortizations	(-1.3)	(-6.5)	(-7.2)	(...)	(...)	(...)	(...)
<u>Memorandum items</u>							
Cuentas ajenas	6.7	24.0	-13.6	...	...	...	...
Receipts	(14.1)	(35.9)	(42.1)	(...)	(...)	(...)	(...)
Payments	(-7.4)	(-11.9)	(-55.7)	(...)	(...)	(...)	(...)
(As percent of GDP)							
Real investment	3.0	3.0	3.9	3.0	1.9	2.0	2.0
Operating surplus before taxes	3.1	4.8	4.2	7.0	7.1	9.3	9.9
Current revenue	5.6	7.6	7.6	10.9	10.7	13.5	14.0

Sources: Secretariat of Finance and Public Credit; Secretariat of Programming and Budget; PEMEX; and Fund staff estimates.

1/ Tax payments as reported by PEMEX, may not always reconcile with those as reported by the Federal Government.

Table 3L. Mexico: Summary Accounts of the Social Security System 1/

(In billions of Mexican pesos)

	1979	1980	1981	1982	1983		1984
					Prog.	Est.	Prog.
<u>Current revenue</u>	<u>78.8</u>	<u>106.6</u>	<u>168.1</u>	<u>227.9</u>	<u>325.1</u>	<u>358.3</u>	<u>521.9</u>
Social security contributions	52.9	77.1	109.8	156.5	256.6	255.9	402.2
Sales of goods and services	23.7	23.8	44.6	49.6	55.8	73.2	94.4
Other	2.2	5.7	13.7	21.8	12.7	29.2	25.3
<u>Operating expenditure</u>	<u>75.5</u>	<u>100.4</u>	<u>144.5</u>	<u>231.9</u>	<u>309.2</u>	<u>322.9</u>	<u>480.9</u>
Wages and salaries	38.8	51.6	79.6	132.9	194.9	168.4	280.0
Purchases of goods and services and other	36.7	48.8	64.9	99.0	114.3	154.5	200.9
<u>Current operating surplus or deficit (-)</u>	<u>3.3</u>	<u>6.2</u>	<u>23.6</u>	<u>-4.0</u>	<u>15.9</u>	<u>35.4</u>	<u>41.0</u>
Current transfers	11.9	1.1	2.7	34.9	--	12.6	34.6
<u>Current account surplus or deficit (-)</u>	<u>15.2</u>	<u>7.3</u>	<u>26.3</u>	<u>30.9</u>	<u>15.9</u>	<u>48.0</u>	<u>75.6</u>
Capital revenue	--	--	1.5	--	--	--	--
Capital transfers	8.3	22.7	8.1	18.4	26.5	21.6	19.8
<u>Capital expenditure</u>	<u>19.9</u>	<u>26.7</u>	<u>36.8</u>	<u>45.6</u>	<u>43.6</u>	<u>66.4</u>	<u>60.6</u>
Fixed investment	9.6	19.0	28.5	40.4	29.9	23.4	46.6
Financial investment and and other (net) ^{2/}	10.3	7.7	8.3	5.2	13.7	43.0	14.0
<u>Overall surplus or deficit (-)</u>	<u>3.6</u>	<u>3.3</u>	<u>-0.9</u>	<u>3.7</u>	<u>-1.2</u>	<u>3.2</u>	<u>34.8</u>

Sources: Secretariat of Programing and Budget; and Fund staff estimates.

1/ Includes the Social Security Institute (IMSS) and the State Workers' Social Security Institute (ISSSTE).

2/ Includes unclassified (Ajenas).

Table 32. Mexico: Summary Accounts of the Federal District

(In billions of Mexican pesos)

	1979	1980	1981	1982 Rev.	1983		1984
					Prog.	Est.	Prog.
<u>Current revenue</u>	<u>26.4</u>	<u>40.0</u>	<u>52.6</u>	<u>76.0</u>	<u>140.8</u>	<u>168.0</u>	<u>222.0</u>
Revenue sharing	14.1	25.2	34.1	50.0	115.4	129.0	180.0
Own revenue	12.3	14.8	18.8	26.0	25.4	39.0	42.0
Direct taxes	(6.3)	(7.3)	(10.3)	(...)	(17.5)	(...)	(...)
Administrative fees	(2.5)	(3.3)	(4.7)	(...)	(6.3)	(...)	(...)
Goods and services	(0.3)	(0.5)	(0.9)	(...)	(0.3)	(...)	(...)
Fines and other	(3.2)	(3.7)	(2.9)	(...)	(1.3)	(...)	(...)
<u>Current expenditure</u>	<u>16.6</u>	<u>20.5</u>	<u>24.6</u>	<u>79.0</u>	<u>137.1</u>	<u>79.0</u>	<u>153.0</u>
Wages and salaries	7.1	9.0	12.4	18.0	28.2	35.0	50.0
Interest payments	4.2	6.3	8.2	48.0	93.5	22.0	78.0
Goods and services	1.1	1.1	1.3	13.0	15.4	22.0	25.0
Other	4.2	4.1	2.7	--	--	--	--
<u>Current account surplus or deficit (-)</u>	<u>9.8</u>	<u>19.5</u>	<u>28.3</u>	<u>-3.0</u>	<u>3.7</u>	<u>89.0</u>	<u>69.0</u>
Fixed investment	16.7	24.2	56.5	86.0	115.0	131.0	213.0
Unclassified capital expenditures (Adefas)	2.5	9.6	3.9	1.0	13.9	20.0	-3.0
<u>Overall surplus or deficit (-)</u>	<u>-9.4</u>	<u>-14.3</u>	<u>-32.1</u>	<u>-90.0</u>	<u>-125.2</u>	<u>-62.0</u>	<u>-141.0</u>
<u>Memorandum items:</u>							
<u>Total expenditure</u>	<u>35.8</u>	<u>54.3</u>	<u>85.0</u>	<u>166.0</u>	<u>266.0</u>	<u>230.0</u>	<u>363.0</u>

Sources: Secretariat of Finance and Public Credit; Secretariat of Programming and Budget; and Fund staff estimates.

Table 33. Mexico: Summary Accounts of the State Enterprises and Agencies
Other than PEMEX ^{1/}

(In billions of Mexican pesos)

	1979	1980	1981	1982	1983		1984
					Prog.	Est.	Prog.
<u>Current revenue</u>	<u>257.5</u>	<u>332.2</u>	<u>445.1</u>	<u>701.0</u>	<u>1,179.9</u>	<u>1,318.0</u>	<u>2,072.2</u>
Sales of goods and services	187.3	237.3	313.4	514.0	873.6	978.0	1,615.1
Social security contributions	52.9	77.1	109.8	156.5	256.6	255.9	402.2
Other	17.3	17.8	21.9	30.5	49.7	84.1	54.9
<u>Operating expenditures</u>	<u>258.5</u>	<u>363.3</u>	<u>569.7</u>	<u>891.0</u>	<u>1,383.9</u>	<u>1,749.8</u>	<u>2,561.7</u>
Wages and salaries	90.9	118.6	173.9	296.0	412.9	415.0	591.9
Interest payments	27.4	41.3	60.9	133.0	263.9	372.7	523.4
Purchases of goods and services	85.6	124.6	216.7)				
Other	54.6	78.8	118.2)	462.0	707.1	962.1	1,446.4
<u>Current operating surplus</u> <u>or deficit (-)</u>	<u>-1.0</u>	<u>-31.1</u>	<u>-124.6</u>	<u>-190.0</u>	<u>-204.0</u>	<u>-431.8</u>	<u>-489.5</u>
Current transfers	35.8	45.5	117.9	257.0	262.3	400.1	599.1
Tax payments	5.4	8.7	3.1	5.0	--	7.0	--
<u>Current account surplus</u> <u>or deficit (-)</u>	<u>29.4</u>	<u>5.7</u>	<u>-9.8</u>	<u>162.0</u>	<u>58.3</u>	<u>-38.7</u>	<u>109.6</u>
Capital revenue	3.4	3.3	3.3	4.0	8.7	6.3	13.2
Capital transfers	36.7	83.8	78.5	82.0	189.1	221.6	272.3
<u>Capital expenditures</u>	<u>84.6</u>	<u>139.7</u>	<u>182.5</u>	<u>252.0</u>	<u>335.5</u>	<u>364.3</u>	<u>532.9</u>
Fixed investment	81.8	130.8	181.0	244.0	327.3	335.8	524.9
Financial investment	2.8	8.9	1.5	8.0	8.2	28.5	8.0
<u>Other unclassified expenditure</u> <u>(net) (Ajenas)</u>	<u>12.2</u>	<u>14.8</u>	<u>2.6</u>	<u>-5.0</u>	<u>10.6</u>	<u>-20.5</u>	<u>15.5</u>
<u>Overall surplus or deficit (-)</u>	<u>-27.3</u>	<u>-61.7</u>	<u>-113.1</u>	<u>-89.0</u>	<u>-90.0</u>	<u>-154.6</u>	<u>-153.3</u>

Sources: Secretariat of Finance and Public Credit; Secretariat of Programing and Budget; and Fund staff estimates.

^{1/} Includes public enterprises subject to budgetary control, three enterprises traditionally outside budgetary control, and the social security institution.

Table 34. Mexico: Holdings of Financial Instruments Issued by the Federal Government

	December 31			1982				1983		
	1979	1980	1981	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30
<u>Holdings of public sector</u>										
<u>debt instruments</u> 1/	464.2	618.0	948.3	1,118.7	1,089.8	800.3	2,448.5	2,569.9	2,655.0	2,750.5
<u>Treasury bills (CETES)</u>	24.5	54.3	96.5	126.4	76.7	176.7	321.4	455.1	535.4	653.7
Held by banks	7.3	18.1	39.2	26.4	14.3	5.1	67.6	117.2	128.9	190.6
Bank of Mexico (net) 2/	(6.9)	(15.6)	(12.9)	(16.2)	(-10.0)	(-22.2)	(-11.8)	(65.0)	(4.2)	(116.1)
Government develop- ment banks	(0.3)	(1.1)	(2.3)	(5.2)	(2.0)	(3.1)	(3.0)	(8.6)	(7.7)	(10.9)
Nationalized banks	(0.1)	(1.4)	(24.0)	(5.0)	(22.3)	(24.2)	(76.4)	(43.6)	(117.0)	(63.6)
Held outside banks	17.2	36.2	57.3	100.0	62.4	171.6	253.8	337.9	406.5	463.1
Public sector	(9.7)	(10.2)	(14.8)	(30.2)	(24.4)	(40.7)	(31.1)	(66.2)	(86.0)	(106.0)
Private sector 1/	(7.5)	(26.0)	(42.5)	(69.8)	(38.0)	(130.9)	(222.7)	(271.7)	(320.5)	(357.1)
Exchange houses	/0.2/	/0.7/	/0.7/	/0.4/	/0.3/	/2.3/	/1.2/	/8.7/	/3.0/	/0.9/
Other 3/	/7.3/	/25.3/	/41.8/	/69.4/	/37.7/	/128.6/	/221.5/	/263.0/	/317.5/	/356.2/
<u>Petrobonds</u>	8.7	13.7	11.9	12.6	15.9	15.4	20.9	21.3	28.2	29.2
Held by banks	0.6	0.3	0.4	0.2	0.9	1.6	1.2	1.4	1.1	0.2
Public sector	(0.6)	(0.3)	(0.4)	(0.2)	(0.9)	(1.5)	(1.2)	(1.2)	(0.9)	(0.1)
Private sector	(--)	(--)	(--)	(--)	(--)	(0.1)	(...)	(0.2)	(0.2)	(0.1)
Held outside banks 3/	8.1	13.4	11.5	12.4	15.0	13.8	19.7	19.9	27.1	29.0
<u>Public debt bonds</u> 3/	431.0	550.0	839.9	979.7	997.2	608.2	2,106.2	2,093.5	2,091.4	2,067.6

Source: Bank of Mexico.

1/ Excludes bonds issued for compensating domestic commercial bank owners for the nationalization of the banks in September 1982.

2/ Excludes deposits constituted by the Bank of Mexico for the acquisition of CETES for monetary regulation purposes. Present value calculated at the discount rate of first placement.

3/ Includes private sector holdings abroad.

Table 35. Mexico: Public Sector Financing

(In billions of Mexican pesos)

	1979	1980	1981	1982	Jan.-Sept. 1983
<u>Overall public sector financing</u>	<u>209.9</u>	<u>331.1</u>	<u>873.5</u>	<u>1,720.8</u>	<u>622.2</u>
<u>Foreign financing (net)</u>	<u>76.0</u>	<u>109.5</u>	<u>436.6</u>	<u>351.9</u>	<u>307.3</u>
Long-term direct borrowing (net)	46.5	67.2	141.7	231.9	366.5
Drawings	(156.4)	(119.7)	(220.6)	(364.6)	(444.5)
Amortization	(-109.9)	(-52.5)	(-78.9)	(-132.7)	(-78.0)
Short-term direct borrowing (net)	-1.6	5.8	117.1	-43.2	-10.0
Long-term indirect borrowing (net) through official banks <u>1/</u>	24.8	25.7	79.3	121.7	-27.6
Drawings	(81.0)	(58.7)	(118.2)	(183.7)	(82.0)
Amortization	(-56.2)	(-33.0)	(-38.9)	(-62.0)	(109.6)
Long-term indirect borrowing (net) through commercial banks (C.C.C. credit)	--	--	--	--	108.2
Short-term indirect borrowing (net) <u>1/</u>	6.3	-4.7	110.1	-31.1	-3.9
PEMEX contracts (net)	--	15.5	-11.6	72.6	-125.9
<u>Domestic financing (net)</u>	<u>133.9</u>	<u>221.6</u>	<u>436.9</u>	<u>1,368.9</u>	<u>314.9</u>
Bank of Mexico (net)	104.3	147.3	262.7	738.9	208.0
Official banks	12.4	27.9	91.9	75.2	-34.8
Total net financing	(47.8)	(49.6)	(278.0)	(165.1)	(-12.8)
Less foreign financing	(-35.4)	(-21.7)	(-186.1)	(-89.9)	(-22.0)
Nationalized commercial banks (net)	13.8	13.5	69.3	361.5	8.1 <u>2/</u>
Bonds (net) <u>3/</u>	3.4	32.9	13.0	193.3	133.6
Treasury bills	(-2.1)	(27.6)	(14.9)	(185.1)	(133.6)
Petrobonds	(5.5)	(5.3)	(-1.9)	(8.2)	(...)
<u>Memorandum items</u>					
Net foreign financing <u>4/</u> (in millions of U.S. dollars)	3,335	4,772	17,812	6,807	2,555
Average exchange rate (Mex\$ per US\$)	22.80	22.95	24.51	51.70	77.91 <u>5/</u>
Net foreign financing as a percent of GDP	2.4	2.5	7.4	3.7	...
Domestic financing as a percent of GDP	4.4	5.2	7.5	14.6	...

Sources: Secretariat of Finance and Public Credit; Bank of Mexico; and Fund staff estimates.

1/ Includes debt contracted through the official banks and foreign agencies.2/ Excludes C.C.C. credit accounted for as foreign financing.3/ Excludes bonds issued for compensating private bank owners for the nationalization of the banks in September 1982.4/ Includes all net external debt contracted for the public sector and the net proceeds of the forward sale of petroleum contracts by PEMEX.5/ Exchange rate shown is the implicit rate that results from dividing the Mexican peso value of total net disbursement over the equivalent value in foreign currency.

Table 36. Mexico: Summary Accounts of the Financial System

(In billions of Mexican pesos)

	December 31				September	
	1979	1980	1981	1982	1982	1983
<u>Exchange rate (Mex\$ per US\$)</u>	<u>22.803</u>	<u>23.265</u>	<u>26.230</u>	<u>96.300</u>	<u>70.000</u>	<u>131.920</u>
<u>Net foreign assets</u>	<u>82.1</u>	<u>119.9</u>	<u>155.7</u>	<u>-98.5</u>	<u>118.9</u>	<u>460.0</u>
Foreign assets	87.2	123.4	159.3	251.0	197.6	702.7
Foreign liabilities	-5.1	-3.5	-3.6	-349.4	-78.6	-242.7
<u>Net domestic credit</u>	<u>1,338.9</u>	<u>1,802.0</u>	<u>2,829.3</u>	<u>6,761.2</u>	<u>5,150.8</u>	<u>8,688.4</u>
Net credit to Federal Government	501.3	633.3	1,124.9	3,540.4	2,508.6	4,417.5
In domestic currency	(368.1)	(461.0)	(692.7)	(1,773.0)	(1,394.5)	(2,162.5)
In foreign currency	(133.2)	(172.3)	(432.2)	(1,767.4)	(1,114.1)	(2,255.0)
Net credit to other public sector	247.1	325.4	498.0	1,425.0	1,121.7	1,766.4
In domestic currency	(86.3)	(146.0)	(184.3)	(417.5)	(280.0)	(516.7)
In foreign currency	(160.8)	(179.4)	(313.7)	(1,007.5)	(841.7)	(1,249.7)
Net credit to official trust funds of the Bank of Mexico ^{1/}	23.8	30.3	41.3	86.9	59.0	105.0
Official capital and surplus	-18.9	-19.6	-38.8	-40.6	-44.0	-45.7
Credit to private sector	613.2	866.2	1,198.0	1,568.5	1,478.0	2,062.3
In domestic currency	(520.3)	(712.6)	(923.7)	(1,225.3)	(1,075.5)	(1,618.0)
In foreign currency	(92.9)	(153.6)	(274.3)	(343.2)	(402.5)	(444.3)
Net interbank float	14.1	15.1	55.4	88.6	85.4	71.9
Net unclassified assets	-41.7	-48.7	-49.5	92.4	-57.9	311.0
<u>SDR allocation</u>	<u>5.4</u>	<u>7.0</u>	<u>8.9</u>	<u>30.8</u>	<u>21.8</u>	<u>40.4</u>
<u>Medium- and long-term foreign liabilities</u>	<u>380.4</u>	<u>486.9</u>	<u>823.3</u>	<u>3,044.8</u>	<u>2,137.9</u>	<u>4,289.0</u>
In domestic currency	0.6	1.5	1.3	7.7	2.9	8.1
In foreign currency	379.8	485.4	822.0	3,037.1	2,135.0	4,280.9
<u>Liabilities to nonbank financial public sector ^{2/}</u>	<u>58.7</u>	<u>76.8</u>	<u>133.1</u>	<u>198.3</u>	<u>168.2</u>	<u>313.3</u>
In domestic currency	51.3	67.5	117.2	169.3	133.6	253.3
In foreign currency	7.4	9.3	15.9	29.0	34.6	60.0
<u>Money and quasi-money</u>	<u>948.2</u>	<u>1,311.4</u>	<u>1,965.5</u>	<u>3,320.4</u>	<u>2,881.4</u>	<u>4,424.7</u>
In domestic currency	808.0	1,117.7	1,608.5	3,147.9	2,457.5	4,313.7
Currency in circulation	(149.6)	(194.7)	(281.8)	(503.8)	(366.4)	(487.4)
Demand deposits	(196.9)	(266.5)	(330.7)	(487.7)	(398.3)	(546.0)
Savings deposits	(58.7)	(66.6)	(75.4)	(111.3)	(86.0)	(157.6)
Time deposits and obligations	(389.3)	(578.9)	(901.6)	(2,027.6)	(1,590.0)	(3,100.4)
Bonds and securities	(13.5)	(11.0)	(19.0)	(17.2)	(16.8)	(22.3)
In foreign currency	140.2	193.7	357.0	172.5	423.9	111.0
Demand deposits	(22.4)	(30.2)	(42.9)	(18.7)	(21.7)	(17.3)
Savings deposits	(11.0)	(14.6)	(23.4)	(13.6)	(18.0)	(10.1)
Time deposits and obligations	(106.7)	(148.1)	(289.4)	(140.2)	(382.2)	(81.1)
Bonds and securities	(0.1)	(0.8)	(1.3)	(--)	(2.0)	(2.5)
<u>Capital and surplus</u>	<u>28.3</u>	<u>39.8</u>	<u>54.2</u>	<u>68.2</u>	<u>60.1</u>	<u>80.8</u>

Source: Bank of Mexico.

^{1/} Includes net claims on FICORCA.^{2/} Excludes liabilities to official trust funds of the Bank of Mexico.

Table 36a. Mexico: Summary Accounts of the Bank of Mexico

(In billions of Mexican pesos)

	December 31				September 30	
	1979	1980	1981	1982	1982	1983
<u>Exchange rate (Mex\$ per US\$)</u>	22.803	23.265	26.230	96.300	70.000	131.920
<u>Net foreign assets</u>	65.2	88.0	128.9	-181.2	51.4	327.4
Foreign assets	70.3	91.5	132.5	168.3	130.1	570.1
Foreign liabilities	-5.1	-3.5	-3.6	-349.4	-78.6	-242.1
<u>Net domestic credit</u>	454.0	640.9	925.1	2,280.8	1,728.1	2,317.9
Net credit to Federal Government	432.2	574.1	850.7	2,109.7	1,825.0	2,556.8
In domestic currency	(372.1)	(488.3)	(645.3)	(1,636.8)	(1,363.6)	(2,226.9)
In foreign currency	(60.1)	(85.8)	(205.4)	(472.9)	(461.4)	(329.9)
Net credit to other public sector	-16.3	-16.1	-24.3	-50.8	-100.0	-255.7
In domestic currency	(-14.8)	(-14.4)	(-16.7)	(-44.6)	(-24.5)	(-70.9)
In foreign currency	(-1.5)	(-1.7)	(-7.6)	(-6.2)	(-75.5)	(-184.8)
Net credit to Bank of Mexico official trust funds	23.8	30.3	41.3	86.9	59.0	57.5
Net claims on FICORCA	--	--	--	--	--	-47.5
Official capital and surplus	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Credit to nationalized banks	9.2	16.1	12.3	234.4	35.2	50.9
Credit to government development banks	11.8	28.8	35.4	72.2	75.4	73.9
Credit to private sector	2.8	3.4	4.8	17.3	11.9	23.9
In domestic currency	(0.8)	(1.0)	(1.5)	(2.3)	(2.1)	(3.2)
In foreign currency	(2.0)	(2.4)	(3.3)	(15.0)	(9.8)	(20.7)
Net unclassified 1/	-9.2	4.6	5.2	-188.6	-178.1	-236.6
<u>Allocation of SDRs</u>	5.4	7.0	8.9	30.8	21.8	40.4
<u>Liabilities to banks</u>	364.1	527.2	763.4	1,565.0	1,391.4	2,117.4
Liabilities to private and mixed banks	349.7	504.0	724.9	1,492.0	1,322.2	2,066.4
Currency	(9.1)	(16.3)	(23.1)	(32.1)	(26.2)	(24.7)
Deposits in domestic currency	(245.9)	(348.4)	(482.5)	(1,412.8)	(1,025.6)	(2,023.5)
Deposits in foreign currency	(94.7)	(139.3)	(219.3)	(47.1)	(270.4)	(18.2)
Liabilities to government development banks	14.2	23.0	38.3	73.0	69.0	51.0
Currency	(0.5)	(0.7)	(1.1)	(1.4)	(1.5)	(1.9)
Deposits in domestic currency	(10.7)	(14.7)	(20.5)	(63.4)	(53.3)	(40.7)
Deposits in foreign currency	(3.0)	(7.6)	(16.7)	(8.2)	(14.2)	(8.4)
Capital subscribed in banks	0.2	0.2	0.2	--	0.2	--
<u>Money and quasi-money</u>	149.6	194.7	281.8	503.8	366.4	487.4
Currency issue	159.2	211.7	306.0	537.3	394.1	514.0
Of which: note issue	(149.5)	(197.2)	(285.0)	(510.9)	(370.7)	(480.1)
Less: currency in banks	9.6	17.0	24.2	33.5	27.7	26.6

Source: Bank of Mexico.

1/ Includes valuation adjustment to Fund transactions, gold price adjustment and statistical discrepancies.

2/ Balance of payments support loan from BIS for Mex\$54.6 million is included as a foreign reserve liability.

3/ Includes special deposits for payments of arrears for Mex\$49.7 billion.

Table 36b. Mexico: Summary Accounts of the Nationalized Commercial Banks

(In billions of Mexican pesos)

	December 31				September	
	1979	1980	1981	1982	1982	1983
Exchange rate (Mex\$ per US\$)	22.803	23.265	26.230	96.300	70.000	131.920
<u>Net foreign assets</u>	16.2	30.7	25.8	75.1	58.9	105.8
Assets	16.2	30.7	25.8	75.1	58.9	105.8
Liabilities	--	--	--	--	--	--
<u>Claims on Bank of Mexico</u>	355.0	514.6	745.5	1,480.6	1,356.0	2,083.0
Currency	9.1	16.3	23.1	32.1	26.2	24.7
Deposits	345.9	498.3	722.4	1,448.5	1,329.8	2,058.3
In domestic currency	(251.7)	(358.7)	(493.9)	(1,349.1)	(1,046.8)	(2,030.2)
In foreign currency	(94.2)	(139.6)	(228.5)	(99.4)	(283.0)	(28.1)
<u>Net domestic credit</u>	514.0	734.1	1,151.5	2,234.5	1,623.9	2,938.6
<u>Net credit to Federal Government</u>	17.5	20.6	56.7	509.2	93.2	632.7
In domestic currency	(3.3)	(1.6)	(30.5)	(78.8)	(26.9)	(66.4)
In foreign currency	(14.2)	(19.0)	(26.2)	(430.4)	(66.3)	(566.3)
<u>Net credit to other public sector</u>	29.0	40.1	81.6	257.3	201.3	489.5
In domestic currency	(12.0)	(14.5)	(26.0)	(42.8)	(33.8)	(62.0)
In foreign currency	(17.0)	(25.6)	(55.6)	(214.5)	(168.0)	(427.5)
<u>Official capital and surplus</u>	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
<u>Credit to private sector</u>	487.4	695.6	1,015.3	1,348.7	1,255.7	1,761.1
In domestic currency	(406.8)	(559.4)	(758.3)	1,033.4	890.7	1,351.2
In foreign currency	(80.6)	(136.2)	(257.0)	(315.3)	(365.0)	(409.9)
<u>Net unclassified assets</u>	-19.3	-21.6	-1.5	119.9	73.8	55.9
Of which: net credit to government						
development banks	(1.4)	(7.6)	(19.5)	(164.8)	(110.5)	(59.2)
interbank float	(8.7)	(5.6)	(-3.4)	(11.8)	(1.3)	(-4.2)
<u>Medium- and long-term liabilities</u>	88.3	166.9	266.4	821.5	593.3	1,259.5
In domestic currency	0.5	1.0	1.1	6.8	2.5	7.5
In foreign currency	87.8	165.9	265.3	814.7	590.8	1,252.0
<u>Liabilities to Bank of Mexico</u>	7.1	14.8	8.0	222.0	26.0	40.2
In domestic currency	5.4	12.6	6.0	16.3	22.0	16.9
In foreign currency	1.7	2.2	2.0	205.7	4.0	23.3
<u>Liabilities to nonbank financial public sector 1/</u>	47.6	59.5	101.3	166.1	140.0	270.1
In domestic currency	40.6	50.5	85.9	139.4	107.3	213.5
In foreign currency	7.0	9.0	15.4	26.7	32.7	56.6
<u>Money and quasi-money</u>	715.5	1,000.2	1,495.3	2,514.7	2,221.6	3,479.2
In domestic currency	586.0	822.6	1,167.2	2,356.0	1,827.3	3,372.4
Demand deposits	(190.2)	(258.1)	(314.5)	(468.3)	(382.2)	(521.9)
Savings deposits	(56.9)	(65.5)	(74.0)	(109.3)	(84.3)	(155.2)
Term deposits and obligations	(338.9)	(499.0)	(778.7)	(1,778.4)	(1,360.8)	(2,695.3)
In foreign currency	129.6	177.4	328.1	158.7	394.3	106.8
Demand deposits	(21.9)	(29.1)	(41.9)	(18.0)	(21.0)	(17.3)
Savings deposits	(10.9)	(14.5)	(23.3)	(13.4)	(17.8)	(9.8)
Term deposits and obligations	(96.8)	(133.8)	(262.9)	(127.3)	(355.5)	(79.7)
<u>Capital and surplus</u>	26.7	38.0	51.8	65.8	57.7	78.4

Source: Bank of Mexico.

1/ Excludes liabilities to official trust funds of the Bank of Mexico.

Table 36c. Mexico: Summary Accounts of the Government Development Banks

(In billions of Mexican pesos)

	December 31				September	
	1979	1980	1981	1982	1982	1983
<u>Exchange rate (Mex\$ per US\$)</u>	22.803	23.265	26.230	96.300	70.000	131.920
<u>Net foreign assets</u>	0.7	1.1	1.0	7.6	8.6	26.8
<u>Claims on Bank of Mexico</u>	15.2	20.6	40.2	87.0	61.0	24.9
Currency	0.5	0.7	1.1	1.4	1.6	1.9
Deposits	14.7	19.9	39.1	85.6	59.4	23.0
In domestic currency	(11.1)	(13.6)	(18.3)	(72.5)	(47.0)	(30.9)
In foreign currency	(3.6)	(6.3)	(20.8)	(13.1)	(12.4)	(-7.9)
<u>Net domestic credit</u>	383.7	462.5	773.5	2,582.2	1,874.2	3,712.0
<u>Net credit to Federal Government</u>	51.6	38.6	217.5	921.5	590.4	1,228.0
In domestic currency	(-7.3)	(-28.9)	(16.9)	(-13.4)	(-17.0)	(-130.8)
In foreign currency	(58.9)	(67.5)	(200.6)	(934.9)	(607.4)	(1,358.8)
<u>Net credit to other public sector</u>	234.4	301.4	440.7	1,218.5	1,019.9	1,532.6
In domestic currency	(89.1)	(145.9)	(175.0)	(419.3)	(270.7)	(525.6)
In foreign currency	(145.3)	(155.5)	(265.7)	(799.2)	(749.2)	(1,007.0)
<u>Official capital and surplus</u>	-18.0	-18.7	-37.9	-39.7	-43.1	-44.8
<u>Credit to private sector</u>	123.0	167.2	177.9	202.5	210.4	277.3
In domestic currency	(112.7)	(152.2)	(163.9)	(189.6)	(182.7)	(263.6)
In foreign currency	(10.3)	(15.0)	(14.0)	(12.9)	(27.7)	(13.7)
<u>Net unclassified assets</u>	-7.3	-26.0	-24.7	279.4	96.6	718.9
Of which: net credit to nationalized banks	(-6.5)	(-9.5)	(2.7)	(-36.8)	(-71.0)	(113.3)
interbank float	(2.0)	(1.7)	(9.6)	(-21.5)	(9.4)	(58.4)
<u>Medium- and long-term liabilities</u>	292.1	320.0	556.9	2,223.3	1,544.6	3,029.5
In domestic currency	0.1	0.5	0.2	0.9	0.4	0.6
In foreign currency	292.0	319.5	556.7	2,222.4	1,544.2	3,028.9
<u>Liabilities to Bank of Mexico</u>	11.7	28.6	35.2	116.9	75.2	230.4
In domestic currency	6.1	5.3	8.5	108.5	41.3	221.9
In foreign currency	5.6	23.3	26.7	8.4	33.9	8.5
<u>Liabilities to nonbank financial public sector 1/</u>	11.1	17.3	31.8	32.2	28.2	43.2
In domestic currency	10.7	17.0	31.3	29.9	26.3	39.8
In foreign currency	0.4	0.3	0.5	2.3	1.9	3.4
<u>Money and quasi-money</u>	83.1	116.5	188.4	301.9	293.4	458.1
In domestic currency	72.4	100.4	159.7	288.1	263.8	453.9
Demand deposits	(6.7)	(8.4)	(16.2)	(19.4)	(16.1)	(24.1)
Savings deposits	(1.8)	(1.1)	(1.4)	(2.0)	(1.7)	(2.4)
Time deposits and obligations	(50.4)	(79.9)	(123.2)	(249.5)	(229.2)	(405.1)
Bonds and securities	(13.5)	(11.0)	(19.0)	(17.2)	(16.8)	(22.3)
In foreign currency	10.7	16.1	28.7	13.8	29.6	4.2
Demand deposits	(0.5)	(1.1)	(1.0)	(0.7)	(0.7)	(-)
Savings deposits	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.3)
Time deposits and obligations	(10.0)	(14.1)	(26.3)	(12.9)	(26.7)	(1.4)
Bonds and securities	(0.1)	(0.8)	(1.3)	(-)	(2.0)	(2.5)
<u>Capital and surplus</u>	1.6	1.8	2.4	2.4	2.4	2.4

Source: Bank of Mexico.

1/ Excludes liabilities to official trust funds of the Bank of Mexico.

Table 37. Mexico: Effective Flows of the Financial System 1/

(In billions of Mexican pesos)

	1979			1980		
	Total Change	Revaluation of Stock	Effective Change	Total Change	Revaluation of Stock	Effective Change
I. Financial System						
<u>Net foreign assets</u>	<u>27.3</u>	<u>0.1</u>	<u>27.2</u>	<u>37.7</u>	<u>1.9</u>	<u>35.8</u>
<u>Net domestic assets</u>	<u>309.1</u>	<u>1.3</u>	<u>307.8</u>	<u>461.6</u>	<u>10.0</u>	<u>451.6</u>
<u>Net credit to public sector</u>	<u>166.7</u>	<u>0.8</u>	<u>165.9</u>	<u>216.8</u>	<u>6.4</u>	<u>210.4</u>
<u>Credit to private sector</u>	<u>158.9</u>	<u>0.1</u>	<u>158.8</u>	<u>253.0</u>	<u>2.3</u>	<u>250.7</u>
<u>Other (net)</u>	<u>-16.5</u>	<u>0.4</u>	<u>-16.9</u>	<u>-8.2</u>	<u>1.3</u>	<u>-9.5</u>
<u>Medium- and long-term foreign liabilities</u>	<u>64.1</u>	<u>1.1</u>	<u>63.0</u>	<u>106.5</u>	<u>8.4</u>	<u>98.1</u>
<u>Liabilities to nonbank financial public sector</u>	<u>15.5</u>	<u>--</u>	<u>15.5</u>	<u>18.1</u>	<u>0.2</u>	<u>17.9</u>
<u>Liabilities to private sector</u>	<u>256.8</u>	<u>0.3</u>	<u>256.5</u>	<u>374.7</u>	<u>3.3</u>	<u>371.4</u>
II. Bank of Mexico						
<u>Net international reserves</u>	<u>20.5</u>	<u>0.1</u>	<u>20.4</u>	<u>22.8</u>	<u>1.6</u>	<u>21.2</u>
<u>Net domestic assets</u>	<u>16.7</u>	<u>-0.1</u>	<u>16.8</u>	<u>24.9</u>	<u>-1.6</u>	<u>26.5</u>
<u>Net credit to public sector</u>	<u>104.5</u>	<u>0.2</u>	<u>104.3</u>	<u>148.6</u>	<u>1.3</u>	<u>147.3</u>
<u>Credit to banks</u>	<u>2.9</u>	<u>--</u>	<u>2.9</u>	<u>23.9</u>	<u>0.6</u>	<u>23.3</u>
<u>Credit to private sector</u>	<u>0.2</u>	<u>--</u>	<u>0.2</u>	<u>0.6</u>	<u>0.1</u>	<u>0.5</u>
<u>Liabilities to banks</u>	<u>-97.9</u>	<u>-0.2</u>	<u>-97.7</u>	<u>-163.1</u>	<u>-2.5</u>	<u>-160.6</u>
<u>Other (net)</u>	<u>7.0</u>	<u>-0.1</u>	<u>7.1</u>	<u>14.9</u>	<u>-1.1</u>	<u>16.0</u>
<u>Note issue</u>	<u>37.2</u>	<u>--</u>	<u>37.2</u>	<u>47.7</u>	<u>--</u>	<u>47.7</u>
III. Nationalized Commercial Banks						
<u>Net foreign assets</u>	<u>6.8</u>	<u>--</u>	<u>6.8</u>	<u>14.5</u>	<u>0.3</u>	<u>14.2</u>
<u>Claims on Bank of Mexico</u>	<u>93.8</u>	<u>0.2</u>	<u>93.6</u>	<u>159.6</u>	<u>2.4</u>	<u>157.2</u>
<u>Net domestic assets</u>	<u>139.2</u>	<u>0.3</u>	<u>138.9</u>	<u>220.1</u>	<u>2.7</u>	<u>217.4</u>
<u>Net credit to public sector</u>	<u>13.8</u>	<u>--</u>	<u>13.8</u>	<u>14.2</u>	<u>0.7</u>	<u>13.5</u>
<u>Credit to private sector</u>	<u>134.1</u>	<u>0.1</u>	<u>134.0</u>	<u>208.2</u>	<u>1.9</u>	<u>206.3</u>
<u>Other (net)</u>	<u>-8.7</u>	<u>0.2</u>	<u>-8.9</u>	<u>-2.3</u>	<u>0.1</u>	<u>-2.4</u>
<u>Medium- and long-term foreign liabilities</u>	<u>27.8</u>	<u>0.2</u>	<u>27.6</u>	<u>78.6</u>	<u>2.2</u>	<u>76.4</u>
<u>Liabilities to Bank of Mexico</u>	<u>-0.7</u>	<u>--</u>	<u>-0.7</u>	<u>7.7</u>	<u>--</u>	<u>7.7</u>
<u>Liabilities to nonbank financial public sector</u>	<u>12.6</u>	<u>--</u>	<u>12.6</u>	<u>11.9</u>	<u>0.2</u>	<u>11.7</u>
<u>Liabilities to private sector</u>	<u>200.1</u>	<u>0.3</u>	<u>199.8</u>	<u>296.0</u>	<u>3.0</u>	<u>293.0</u>
IV. Government Development Banks						
<u>Net foreign assets</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>0.4</u>	<u>--</u>	<u>0.4</u>
<u>Claims on Bank of Mexico</u>	<u>6.6</u>	<u>--</u>	<u>6.6</u>	<u>5.4</u>	<u>0.1</u>	<u>5.3</u>
<u>Net domestic assets</u>	<u>57.1</u>	<u>0.9</u>	<u>56.2</u>	<u>78.8</u>	<u>7.0</u>	<u>71.8</u>
<u>Net credit to public sector</u>	<u>48.4</u>	<u>0.5</u>	<u>47.9</u>	<u>54.0</u>	<u>4.5</u>	<u>49.5</u>
<u>Credit to private sector</u>	<u>24.6</u>	<u>--</u>	<u>24.6</u>	<u>44.2</u>	<u>0.3</u>	<u>43.9</u>
<u>Other (net)</u>	<u>-15.9</u>	<u>0.4</u>	<u>-16.3</u>	<u>-19.4</u>	<u>2.2</u>	<u>-21.6</u>
<u>Medium- and long-term foreign liabilities</u>	<u>36.3</u>	<u>0.9</u>	<u>35.4</u>	<u>27.9</u>	<u>0.2</u>	<u>21.7</u>
<u>Liabilities to Bank of Mexico</u>	<u>2.6</u>	<u>--</u>	<u>2.6</u>	<u>16.9</u>	<u>0.6</u>	<u>16.3</u>
<u>Liabilities to nonbank financial public sector</u>	<u>2.9</u>	<u>--</u>	<u>2.9</u>	<u>6.2</u>	<u>--</u>	<u>6.2</u>
<u>Liabilities to private sector</u>	<u>21.9</u>	<u>--</u>	<u>21.9</u>	<u>33.6</u>	<u>0.3</u>	<u>33.3</u>

Table 17. Mexico: Effective Flows of the Financial System (Concluded)
(In billions of Mexican pesos)

	1981			1982			1983 (Jan.-Sept.)		
	Total Change	Revaluation of Stock	Effective Change	Total Change	Revaluation of Stock	Effective Change	Total Change	Revaluation of Stock	Effective Change
I. Financial System									
<u>Net foreign assets</u>	35.9	14.5	21.4	-254.2	137.9	-392.1	538.5	10.5	549.1
<u>Net domestic assets</u>	1,025.3	91.8	933.5	3,909.8	2,785.1	1,164.7	1,917.6	1,171.7	745.9
<u>Net credit to</u>									
public sector	675.2	65.1	610.1	3,388.1	2,132.7	1,265.4	1,333.5	1,022.0	311.5
Credit to private sector	331.8	21.6	310.2	370.5	473.3	-102.8	493.8	131.2	362.6
Other (net)	18.3	3.1	15.2	137.2	149.1	2.1	90.3	15.5	71.8
<u>Medium- and long-term foreign liabilities</u>	336.8	72.7	264.1	2,221.5	2,214.8	5.7	1,254.2	1,132.0	112.2
<u>Liabilities to nonbank financial public sector</u>	56.3	1.5	54.8	65.2	34.9	30.3	115.0	12.1	102.9
<u>Liabilities to private sector</u>	688.5	32.1	656.4	1,368.9	633.8	735.1	1,118.9	37.5	1,079.4
II. Bank of Mexico									
<u>Net international reserves</u>	40.9	11.9	29.0	-158.4	222.9	-381.8	508.0	-17.8	526.2
<u>Net domestic assets</u>	46.9	-11.9	58.8	384.4	-222.9	607.7	-539.5	17.2	-557.2
<u>Net credit to</u>									
public sector	279.4	16.7	262.7	1,273.1	539.2	733.9	357.3	149.5	208.0
Credit to banks	2.4	3.1	-0.7	234.9	80.5	154.4	-181.8	52.3	-234.1
Credit to private sector	1.4	-0.3	1.1	12.5	9.8	2.7	6.6	5.0	1.0
Liabilities to banks	-236.2	-25.3	-211.9	-801.6	-468.5	-333.1	-552.4	-17.1	-535.3
Other (net)	-0.5	-7.9	7.4	-363.1	-185.4	22.3	-169.3	-172.5	3.2
<u>Note issue</u>	97.9	--	97.9	225.9	--	225.9	-30.8	--	-30.8
III. Nationalized Commercial Banks									
<u>Net foreign assets</u>	-4.9	2.5	-7.4	49.3	55.7	-6.4	30.7	20.0	10.1
<u>Claims on Bank of Mexico</u>	230.9	21.4	209.5	735.1	445.9	289.2	602.4	24.4	578.0
<u>Net domestic assets</u>	417.4	29.5	387.9	1,096.9	803.6	293.3	716.8	377.9	338.9
<u>Net credit to</u>									
public sector	77.6	8.3	69.3	628.2	266.7	361.5	355.7	239.3	116.4
Credit to private sector	319.7	19.8	299.4	333.4	-37.5	-104.1	412.4	114.1	293.3
Other (net)	20.1	1.4	18.7	135.1	99.4	35.9	-51.3	19.5	-70.5
<u>Medium- and long-term foreign liabilities</u>	99.5	21.9	77.6	555.1	628.4	-83.3	438.0	314.8	123.2
<u>Liabilities to Bank of Mexico</u>	-6.8	0.3	-7.1	214.0	34.5	179.5	-181.8	49.0	-230.8
<u>Liabilities to nonbank financial public sector</u>	41.8	1.3	40.3	64.8	32.0	32.8	104.0	11.4	92.6
<u>Liabilities to private sector</u>	508.9	29.7	479.2	1,067.4	594.7	472.7	989.7	47.7	942.0
IV. Government Development Banks									
<u>Net foreign assets</u>	-0.1	--	-0.1	0.0	10.5	-3.9	19.2	7.0	11.0
<u>Claims on Bank of Mexico</u>	19.0	3.2	15.8	48.8	31.8	15.0	-62.1	-128.5	64.4
<u>Net domestic assets</u>	311.0	53.1	257.9	1,308.0	1,631.7	176.9	1,129.8	943.0	186.0
<u>Net credit to</u>									
public sector	318.2	50.1	278.1	1,481.8	1,316.8	165.0	620.6	633.3	-12.7
Credit to private sector	10.7	1.4	9.3	24.6	26.0	-1.3	74.8	6.6	68.2
Other (net)	-17.9	11.6	-29.5	34.2	288.9	13.3	434.4	303.1	131.3
<u>Medium- and long-term foreign liabilities</u>	236.9	50.7	186.2	1,686.4	1,576.0	110.4	806.2	617.5	-111.3
<u>Liabilities to Bank of Mexico</u>	6.6	3.0	3.6	81.7	47.6	34.1	113.5	3.5	110.0
<u>Liabilities to nonbank financial public sector</u>	14.5	0.1	14.4	0.0	1.7	-1.3	11.0	0.8	10.2
<u>Liabilities to private sector</u>	72.3	2.5	70.1	113.5	58.1	65.4	156.2	2.3	153.9

Sources: Statistical Appendix Table 36; and Fund staff estimates.

Table 38. Mexico: Financial System Liabilities to the Private Sector

	December 31				September	
	1979	1980	1981	1982	1982	1983
<u>Exchange rate (Mex\$ per US\$)</u>	<u>22.803</u>	<u>23.265</u>	<u>26.230</u>	<u>96.300</u>	<u>70.000</u>	<u>131.920</u>
(In billions of Mexican pesos)						
<u>Liabilities to the private sector</u>	<u>976.5</u>	<u>1,351.2</u>	<u>2,019.7</u>	<u>3,388.6</u>	<u>2,941.5</u>	<u>4,505.5</u>
<u>By currency denomination and instrument</u>						
<u>In domestic currency</u>	<u>836.2</u>	<u>1,157.8</u>	<u>1,663.1</u>	<u>3,216.1</u>	<u>2,517.6</u>	<u>4,394.5</u>
<u>Currency in circulation</u>	<u>149.6</u>	<u>194.7</u>	<u>281.8</u>	<u>503.8</u>	<u>366.4</u>	<u>487.4</u>
<u>Demand deposits</u>	<u>196.9</u>	<u>266.5</u>	<u>330.7</u>	<u>487.7</u>	<u>398.3</u>	<u>546.0</u>
<u>Savings deposits</u>	<u>58.7</u>	<u>66.6</u>	<u>75.4</u>	<u>111.3</u>	<u>86.0</u>	<u>157.6</u>
<u>Time deposits and obligations</u>	<u>389.2</u>	<u>579.2</u>	<u>902.0</u>	<u>2,027.9</u>	<u>1,590.0</u>	<u>3,100.4</u>
<u>Bonds, titles, and securities</u>	<u>13.5</u>	<u>11.0</u>	<u>19.0</u>	<u>17.2</u>	<u>16.8</u>	<u>22.3</u>
<u>Capital and surplus</u>	<u>28.3</u>	<u>39.8</u>	<u>54.2</u>	<u>68.2</u>	<u>60.1</u>	<u>80.8</u>
<u>In foreign currency</u>	<u>140.3</u>	<u>193.4</u>	<u>356.6</u>	<u>172.5</u>	<u>423.9</u>	<u>111.0</u>
<u>Demand deposits</u>	<u>22.4</u>	<u>30.2</u>	<u>42.9</u>	<u>18.7</u>	<u>21.7</u>	<u>17.3</u>
<u>Savings deposits</u>	<u>11.0</u>	<u>14.6</u>	<u>23.4</u>	<u>13.6</u>	<u>18.0</u>	<u>10.1</u>
<u>Time deposits and obligations</u>	<u>105.9</u>	<u>147.8</u>	<u>288.9</u>	<u>140.2</u>	<u>382.2</u>	<u>81.1</u>
<u>Bonds, titles, and securities</u>	<u>1.0</u>	<u>0.8</u>	<u>1.3</u>	<u>--</u>	<u>2.0</u>	<u>2.5</u>
<u>By type of liability</u>						
<u>Money 1/</u>	<u>346.5</u>	<u>461.2</u>	<u>612.5</u>	<u>991.5</u>	<u>764.7</u>	<u>1,033.4</u>
<u>Quasi-money</u>	<u>601.7</u>	<u>850.2</u>	<u>1,353.0</u>	<u>2,328.9</u>	<u>2,116.7</u>	<u>3,391.3</u>
<u>Capital and surplus</u>	<u>28.3</u>	<u>39.8</u>	<u>54.2</u>	<u>68.2</u>	<u>60.1</u>	<u>80.8</u>
(In percent of total)						
<u>By currency denomination</u>						
<u>In domestic currency</u>	<u>85.6</u>	<u>85.7</u>	<u>82.3</u>	<u>94.9</u>	<u>85.6</u>	<u>97.5</u>
<u>In foreign currency</u>	<u>14.4</u>	<u>14.3</u>	<u>17.7</u>	<u>5.1</u>	<u>14.4</u>	<u>2.5</u>
<u>By type of liability</u>						
<u>Money 1/</u>	<u>35.5</u>	<u>34.1</u>	<u>30.3</u>	<u>29.3</u>	<u>26.0</u>	<u>22.9</u>
<u>Quasi-money</u>	<u>61.6</u>	<u>63.0</u>	<u>67.0</u>	<u>68.7</u>	<u>72.0</u>	<u>75.3</u>
<u>Capital and surplus</u>	<u>2.9</u>	<u>2.9</u>	<u>2.7</u>	<u>2.0</u>	<u>2.0</u>	<u>1.8</u>
(Annual percentage change)						
<u>Liabilities to the private sector</u>	<u>35.7</u>	<u>38.4</u>	<u>49.5</u>	<u>67.8</u>	<u>67.5</u> 2/	<u>53.2</u> 2/
<u>By currency denomination</u>						
<u>In domestic currency</u>	<u>32.5</u>	<u>38.5</u>	<u>43.6</u>	<u>93.4</u>	<u>73.7</u> 2/	<u>74.6</u> 2/
<u>In foreign currency</u>	<u>58.0</u>	<u>37.8</u>	<u>84.4</u>	<u>-51.6</u>	<u>38.4</u> 2/	<u>-73.8</u> 2/
<u>By type of liability</u>						
<u>Money 1/</u>	<u>33.1</u>	<u>33.1</u>	<u>32.8</u>	<u>61.9</u>	<u>58.8</u> 2/	<u>35.1</u> 2/
<u>Quasi-money</u>	<u>36.9</u>	<u>41.3</u>	<u>59.1</u>	<u>72.1</u>	<u>73.6</u> 2/	<u>60.2</u> 2/
<u>Capital and surplus</u>	<u>42.9</u>	<u>40.6</u>	<u>36.2</u>	<u>25.8</u>	<u>9.7</u> 2/	<u>34.4</u> 2/
(In percent of GDP)						
<u>Liabilities to private sector</u>	<u>31.8</u>	<u>31.6</u>	<u>34.4</u>	<u>36.0</u>	<u>...</u>	<u>...</u>
<u>Currency</u>	<u>4.9</u>	<u>4.6</u>	<u>4.8</u>	<u>5.3</u>	<u>...</u>	<u>...</u>
<u>Money (M1)</u>	<u>11.3</u>	<u>10.8</u>	<u>10.4</u>	<u>10.5</u>	<u>...</u>	<u>...</u>
<u>Quasi-money</u>	<u>19.6</u>	<u>19.9</u>	<u>23.0</u>	<u>24.7</u>	<u>...</u>	<u>...</u>
<u>Money and quasi-money (M4)</u>	<u>30.9</u>	<u>30.7</u>	<u>33.4</u>	<u>35.2</u>	<u>...</u>	<u>...</u>

Source: Bank of Mexico.

1/ Excludes demand deposits in foreign currency.

2/ Changes are in relation to September of previous year.

Table 39. Mexico: Gross Credit from the Financial System by Economic Sector 1/

	December 31				June 30
	1979	1980	1981	1982	1983
(In billions of Mexican pesos)					
<u>Total</u>	<u>856.6</u>	<u>1,180.6</u>	<u>1,695.6</u>	<u>2,585.7</u>	<u>3,612.1</u>
Primary production	120.7	177.4	241.8	335.9	425.4
Agriculture, forestry, and fishing	(115.5)	(169.2)	(227.8)	(279.7)	(326.9)
Mining	(5.2)	(8.2)	(14.0)	(55.3)	(98.5)
Energy production	70.9	116.1	178.8	513.8	758.8
Petroleum	(18.7)	(36.1)	(66.2)	(213.8)	(296.7)
Electricity	(52.2)	(80.0)	(112.6)	(300.0)	(462.2)
Industrial production	207.9	269.5	386.2	639.7	876.7
Basic metals	(43.8)	(63.0)	(102.8)	(102.5)	(135.3)
Machinery and electrical equipment	(13.8)	(19.1)	(28.3)	(37.8)	(49.4)
Other manufacturing	(150.3)	(187.4)	(255.1)	(499.4)	(691.3)
Construction	56.9	69.4	104.1	101.2	109.2
Low income housing	29.9	33.8	48.7	43.4	66.9
Transportation and communication	37.9	49.4	71.2	138.0	230.8
Commerce	140.9	207.9	313.8	309.3	417.4
Services and other	178.3	237.9	320.9	444.7	658.1
State and local governments	13.2	19.2	30.1	60.6	68.8
(In percent of total)					
Primary production	14.1	15.0	14.3	13.0	11.8
Energy production	8.3	9.8	10.5	19.9	21.0
Industrial production	24.3	22.8	22.8	24.7	24.3
Construction (includes low-income housing)	10.1	8.7	9.0	3.9	3.0
Transportation and communication	4.4	4.2	4.2	5.3	6.4
Commerce, services and other	37.3	37.9	37.4	30.9	31.6
State and local governments	1.5	1.6	1.8	2.3	1.9

Source: Bank of Mexico.

1/ Excludes Federal Government.

Table 40. Mexico: Interest Rates Payable on
Peso Denominated Obligations

(End of period rates, in percent per annum)

	December 31				
	1979	1980	1981	1982	1983
<u>I. Maximum Nominal Rates Authorized</u>					
Deposits with limited withdrawal <u>1/</u>					
2 days per week	12.00	19.15	17.35	20.50	20.50
1 day per week	12.50	19.65	18.10	20.50	20.50
2 days per month	--	21.85	20.90	22.50	22.50
1 day per month	15.50	23.25	24.10	25.00	25.00
Time deposits <u>1/</u>					
1 month	16.40	26.50	26.05	57.50	54.70
3 months	17.20	27.25	32.75	59.50	54.70
6 months	17.40	27.50	34.35	56.50	53.40
9 months	--	--	--	--	52.15
12 months	16.00	28.00	35.00	50.00	47.40
18 months	16.50	28.25	35.00	50.00	47.40
24 months	17.00	<u>2/</u>	35.15	50.00	47.40
Treasury bills <u>3/</u>	18.50	29.25	33.90	57.86	53.85
<u>II. Effective Compounded Yields <u>4/</u></u>					
3 months deposits	18.62	30.92	38.14	78.73	68.60
12 months deposits	17.23	31.89	41.20	63.21	59.20
Treasury bills	19.82	32.62	38.46	71.67	56.50
<u>III. Real Effective Compounded Yields <u>5/</u></u>					
3 months deposits	-4.2	-3.8	0.3	-47.2	1.7
12 months deposits	-5.4	-3.1	0.3	-51.8	-3.9
Treasury bills	-3.3	-2.5	0.5	-49.3	-5.6

Source: Bank of Mexico; and Fund staff estimates.

1/ Data shown correspond to the maximum annual yield payable net of withholding tax. These rates are authorized by the Bank of Mexico and revised on a weekly basis.

2/ In 1980 rates applicable to this kind of deposit were freely determined in the market.

3/ Data shown correspond to the average yield of treasury bills with maturity of about three months, during the last week of each period.

4/ Since interest rates on deposits are paid monthly in Mexico, the effective compounded yield is higher than the maximum nominal rate.

5/ Deflated by the monthly annualized changes in consumer prices for the month of December.

Table 41. Mexico: International Reserves of the Monetary Authorities

	December 31				
	1979	1980	1981	1982	1983
(In millions of U.S. dollars)					
<u>Net international reserves</u>	2,862.8	3,783.5	4,914.9	-1,881.1	3,598.6
<u>Gross foreign assets</u>	3,082.5	3,934.3	5,050.4	1,747.5	5,221.1
Gold	923.9	824.7	852.1	825.9	913.5
IMF position <u>1/</u>	--	127.9	187.3	--	--
SDR holdings <u>1/</u>	200.7	144.0	178.0	5.9	117.4
Foreign exchange	1,725.1	2,510.2	3,134.6	103.6	3,401.8
Payments agreements	194.5	289.2	660.1	773.8	750.1
IBRD and IDB bonds <u>2/</u>	38.3	38.3	38.3	38.3	38.3
<u>Gross foreign liabilities</u>	219.7	150.9	135.5	3,628.6	1,622.5
IMF <u>1/</u>	132.3	--	--	221.3	1,254.7
Swaps <u>3/</u>	--	--	--	1,952.6	--
Payments agreements	87.4	150.9	135.5	87.3	87.9
Arrears <u>4/</u>	--	--	--	1,367.4	279.9
(In weeks of imports)					
Gross foreign assets	13.2	11.1	11.3	1.4	7.4

Source: Bank of Mexico.

1/ Figures shown in this table may differ from data reported by Mexican authorities due to valuation adjustments of transactions with the Fund.

2/ Estimated.

3/ Includes operations with BIS, U.S. Treasury, and the U.S. Federal Reserve Bank.

4/ Includes arrears on interest payments on debt contracted on or before December 20, 1982 and arrears on interest and principal on suppliers' credit included under the February 1983 arrangement.

Table 42. Mexico: Balance of Payments, 1979-84

	1979	1980	1981	1982	1983		1984 Proj.
					Orig. Proj.	Total Est.	
(In billions of U.S. dollars)							
<u>Current account</u>	<u>-5.5</u>	<u>-7.7</u>	<u>-13.9</u>	<u>-3.0</u>	<u>-4.2</u>	<u>4.0</u>	<u>-1.0</u>
<u>Trade balance</u>	<u>-2.2</u>	<u>-1.7</u>	<u>-3.1</u>	<u>7.7</u>	<u>8.5</u>	<u>13.6</u>	<u>9.9</u>
Exports, f.o.b.	9.9	16.9	20.9	22.2	23.7	22.1	23.9
Petroleum and derivatives	(4.0)	(10.4)	(14.6)	(16.5)	(16.1)	(16.1)	(16.3)
Oil	/3.8/	/9.4/	/13.3/	/15.6/	/15.3/	/14.9/	/15.0/
Gas and derivatives	/0.2/	/1.1/	/1.3/	/0.9/	/0.8/	/1.2/	/1.3/
Silver	(0.4)	(0.8)	(0.5)	(0.4)	(0.4)	(0.4)	(0.4)
In-bond	(0.6)	(0.8)	(1.0)	(0.8)	(1.1)	(0.8)	(1.2)
Other	(4.9)	(4.9)	(4.8)	(4.5)	(6.1)	(4.8)	(6.0)
Imports, f.o.b.	12.1	18.6	24.0	14.5	-15.2	-8.5	-14.0
Public sector	(4.0)	(6.7)	(8.8)	(5.3)	(-4.8)	(-5.0)	(-6.2)
Private sector	(8.1)	(11.9)	(15.2)	(9.2)	(-10.7)	(-3.5)	(-7.8)
<u>Travel</u>	<u>0.7</u>	<u>0.6</u>	<u>0.2</u>	<u>0.6</u>	<u>1.0</u>	<u>1.1</u>	<u>1.3</u>
Receipts	1.4	1.7	1.8	1.4	1.8	1.6	1.9
Payments	-0.7	-1.1	-1.6	-0.8	-0.8	-0.5	-0.6
<u>Border transactions</u>	<u>0.4</u>	<u>0.4</u>	<u>--</u>	<u>0.4</u>	<u>0.6</u>	<u>0.1</u>	<u>0.2</u>
Receipts	2.7	3.5	4.6	4.0	5.1	3.6	4.1
Payments	-2.3	-3.1	-4.6	-3.6	-4.5	-3.5	-3.9
<u>Factor income</u>	<u>-4.0</u>	<u>-6.0</u>	<u>-9.5</u>	<u>-10.8</u>	<u>-12.6</u>	<u>-9.7</u>	<u>-10.9</u>
Interest on public debt 1/	-2.9	-4.0	-5.5	-7.8	-9.2	-7.8	-8.2
Interest on commercial bank debt	...	...	...	...	...	-1.0	1.0
Other interest payments	-0.8	-1.4	-2.9	-3.1	-2.8	-1.7	-2.0
Remitted profits	-0.3	-0.5	-0.6	-0.5	-0.5	-0.3	-0.5
Investment income	0.7	1.0	1.4	1.3	1.2	0.9	1.5
Workers' remittances	0.2	0.2	0.2	0.2	0.2	0.3	0.3
Royalties	-0.3	-0.5	-0.8	-0.6	-0.7	-0.1	-0.6
Reinvested profits	-0.6	-0.8	-1.3	-0.3	-0.8	-0.1	-0.4
<u>Other services (net)</u>	<u>-0.6</u>	<u>-1.3</u>	<u>-1.8</u>	<u>-1.2</u>	<u>-2.0</u>	<u>-1.5</u>	<u>-1.9</u>
<u>Transfers</u>	<u>0.2</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.4</u>	<u>0.4</u>

Table 42. Mexico: Balance of Payments, 1979-84 (Concluded)

	1979	1980	1981	1982	1983		1984 Proj.
					Orig. Proj.	Total Est.	
(In billions of U.S. dollars)							
<u>Capital account</u>	<u>5.1</u>	<u>11.2</u>	<u>22.7</u>	<u>7.2</u>	<u>6.2</u>	<u>1.9</u>	<u>3.0</u>
Official capital (net)	3.3	4.7	17.8	6.8	5.0	4.2	4.0
Medium and long term	(3.1)	(4.0)	(9.0)	(5.6)	(14.0)	(16.4)	(3.9)
Drawings	/10.4/	/7.7/	/13.8/	/10.6/	/7.0/	/8.6/	/6.6/
Refinancing	/--/	/--/	/--/	/--/	/14.9/	/15.0/	/3.8/
Amortizations	/-7.3/	/-3.7/	/4.8/	/-5.0/	/-7.9/	/-7.2/	/-6.5/
Postponed or restructured	[--]	[--]	[--]	[-1.3]	[-6.4]	[-4.9]	[-3.8]
Paid	[--]	[--]	[--]	[-3.7]	[-1.5]	[-2.3]	[-2.7]
Short term (net)	(0.2)	(0.7)	(8.8)	(1.2)	(-9.0)	(-12.2)	(0.1)
Drawings	/.../	/.../	/.../	/1.4/	/1.0/	/.../	/.../
Postponements and refinancing	/--/	/--/	/--/	/7.6/	/--/	/--/	/--/
Amortizations	/.../	/.../	/.../	/-7.8/	/-10.0/	/-12.2/	/.../
Postponed or restructured	[--]	[--]	[--]	[-6.3]	[-8.5]	[-10.1]	[--]
Paid	[...]	[...]	[...]	[-1.5]	[-1.5]	[-2.1]	[...]
Private capital	1.8	6.5	4.9	0.4	1.2	-2.3	-1.0
Reinvested profits	(0.6)	(0.8)	(1.3)	(0.3)	(0.8)	(0.1)	(0.4)
Other	(1.2)	(5.7)	(3.6)	(0.1)	(0.4)	(-2.4)	(-1.4)
<u>SDR allocation</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>Gold valuation</u>	<u>0.5</u>	<u>-0.1</u>	<u>-0.1</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>Errors and omissions</u>	<u>0.7</u>	<u>-2.6</u>	<u>-7.7</u>	<u>-11.0</u>	<u>--</u>	<u>-0.4</u>	<u>--</u>
<u>Monetary authorities (increase -)</u>	<u>-0.9</u>	<u>-0.9</u>	<u>-1.1</u>	<u>6.8</u>	<u>-2.0</u>	<u>-5.5</u>	<u>-2.0</u>
Of which: arrears	--	--	--	1.4	-0.8	-1.1	-0.3
<u>Memorandum items</u>							
Exports of goods and services	16.2	24.9	30.5	30.4	34.0	30.1	33.9
Imports of goods and services	21.7	32.6	44.5	33.4	38.2	25.7	34.6
Volume of crude oil exports							
In thousands of barrels per day	533	830	1,098	1,492	1,500	1,550	1,550
In millions of barrels per year	194	303	401	545	548	566	566
Average price, in U.S. dollars per barrel	19.40	31.12	33.20	28.70	28.00	26.30	26.50
(As percent of GDP) ^{2/}							
Current account deficit	4.1	4.8	7.5	1.5	2.2	-2.0	0.5
Petroleum exports	3.0	6.6	7.8	8.3	8.5	8.1	7.6
Nonpetroleum exports	4.4	4.1	3.4	2.9	4.0	3.0	3.6
Total imports	9.0	11.7	12.9	7.3	8.0	4.3	6.5
Private sector imports	6.0	7.5	8.2	4.7	5.6	1.8	3.7
Interest payments (total)	2.8	3.4	4.5	5.5	6.3	5.3	5.2
Official capital	2.4	3.0	10.0	3.4	2.6	2.0	1.9

Sources: Data provided by the Mexican authorities; and Fund staff estimates.

^{1/} Excludes interest payments on debt of nationalized commercial banks.

^{2/} GDP in current U.S. dollars, valued at average exchange rate prevailing in 1979. Ratios shown here differ from those in Appendix II which are calculated using the average exchange rate prevailing in each period.

Table 43. Mexico: Medium-Term Balance of Payments Projections

(In billions of U.S. dollars)

	1982	1983	1984	1985	1986	1987	1988
I. <u>Scenario A</u>							
<u>Current account</u>	<u>-3.0</u>	<u>4.0</u>	<u>-1.0</u>	<u>-1.5</u>	<u>-2.2</u>	<u>-2.6</u>	<u>-3.0</u>
<u>Trade balance</u>	<u>7.7</u>	<u>13.6</u>	<u>9.9</u>	<u>9.7</u>	<u>9.2</u>	<u>8.9</u>	<u>8.8</u>
Exports, f.o.b.	22.2	22.1	23.9	25.1	26.2	27.7	29.5
Petroleum and derivatives	(16.5)	(16.1)	(16.3)	(16.9)	(17.3)	(18.1)	(19.1)
Other	(5.7)	(6.0)	(7.6)	(8.2)	(8.9)	(9.6)	(10.4)
Imports, f.o.b.	-14.5	-8.5	-14.0	-15.4	-17.0	-18.8	-20.7
<u>Travel</u>	<u>0.6</u>	<u>1.1</u>	<u>1.3</u>	<u>1.5</u>	<u>1.7</u>	<u>1.8</u>	<u>2.0</u>
<u>Border transactions</u>	<u>0.4</u>	<u>0.1</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>	<u>0.3</u>
<u>Factor income (net)</u>	<u>-10.8</u>	<u>-9.7</u>	<u>-10.9</u>	<u>-11.3</u>	<u>-11.7</u>	<u>-11.8</u>	<u>-12.1</u>
Interest on public debt	-7.8	-7.8	-8.2	-8.9	-9.4	-9.4	-9.5
Other	-3.0	-1.9	-2.7	-2.4	-2.3	-2.4	-2.6
<u>Other services and transfers (net)</u>	<u>-0.9</u>	<u>-1.1</u>	<u>-1.5</u>	<u>-1.6</u>	<u>-1.6</u>	<u>-1.8</u>	<u>-2.0</u>
<u>Capital account</u>	<u>7.2</u>	<u>1.9</u>	<u>3.0</u>	<u>3.2</u>	<u>3.6</u>	<u>4.2</u>	<u>4.8</u>
Official capital (net)	6.8	4.2	4.0	3.0	3.3	3.6	4.0
Private capital (net)	0.4	-2.3	-1.0	0.2	0.3	0.6	0.8
<u>Errors and omissions</u>	<u>-11.0</u>	<u>-0.4</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>Monetary authorities (increase -)</u>	<u>6.8</u>	<u>-5.5</u>	<u>-2.0</u>	<u>-1.7</u>	<u>-1.4</u>	<u>-1.6</u>	<u>-1.8</u>
Of which: arrears	1.4	-1.1	-0.3	—	—	—	—
<u>Memorandum items</u>							
Current account as a percent of GDP							
At 1979 real exchange rate	-1.5	2.0	-0.5	-0.6	-0.9	-0.9	-1.0
At current exchange rate	-1.6	2.7	-0.6	-0.8	-1.1	-1.2	-1.2
Gross reserves, end of period (excluding gold)							
In billions of dollars	0.9	3.9	6.9	9.8	11.1	12.4	13.6
In months of imports and of total interest payments	0.4	2.5	3.3	4.3	4.6	4.8	4.9

Table 43. Mexico: Medium-Term Balance of Payments Projections (Concluded)

(In billions of U.S. dollars)

	1982	1983	1984	1985	1986	1987	1988
II. Scenario B							
<u>Current account</u>	<u>-3.0</u>	<u>4.0</u>	<u>-1.0</u>	<u>-1.0</u>	<u>-1.2</u>	<u>-0.6</u>	<u>=</u>
<u>Trade balance</u>	<u>7.7</u>	<u>13.6</u>	<u>9.9</u>	<u>10.2</u>	<u>10.1</u>	<u>10.6</u>	<u>11.2</u>
Exports, f.o.b.	22.2	22.1	23.9	25.3	26.5	28.3	30.3
Petroleum and derivatives	(16.5)	(16.1)	(16.3)	(16.9)	(17.3)	(18.1)	(19.1)
Other	(5.7)	(6.0)	(7.6)	(8.4)	(9.2)	(10.2)	(11.2)
Imports, f.o.b.	-14.5	-8.5	-14.0	-15.1	-16.4	-17.7	-19.1
<u>Travel</u>	<u>0.6</u>	<u>1.1</u>	<u>1.3</u>	<u>1.5</u>	<u>1.7</u>	<u>1.8</u>	<u>2.0</u>
<u>Border transactions</u>	<u>0.4</u>	<u>0.1</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>	<u>0.3</u>
<u>Factor income (net)</u>	<u>-10.8</u>	<u>-9.7</u>	<u>-10.9</u>	<u>-11.3</u>	<u>-11.6</u>	<u>-11.6</u>	<u>-11.7</u>
Interest on public debt	-7.8	-7.8	-8.2	-8.9	-9.3	-9.3	-9.3
Other	-3.0	-1.9	-2.7	-2.4	-2.3	-2.3	-2.4
<u>Other services and transfers (net)</u>	<u>-0.9</u>	<u>-1.1</u>	<u>-1.5</u>	<u>-1.6</u>	<u>-1.6</u>	<u>-1.7</u>	<u>-2.0</u>
<u>Capital account</u>	<u>7.2</u>	<u>1.9</u>	<u>3.0</u>	<u>3.2</u>	<u>3.3</u>	<u>3.6</u>	<u>3.8</u>
Official capital (net)	6.8	4.2	4.0	3.0	3.0	3.0	3.0
Private capital (net)	0.4	-2.3	-1.0	0.2	0.3	0.6	0.8
<u>Errors and omissions</u>	<u>-11.0</u>	<u>-0.4</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>
<u>Monetary authorities</u>							
(increase -)	<u>6.8</u>	<u>-5.5</u>	<u>-2.0</u>	<u>-2.2</u>	<u>-2.1</u>	<u>-3.0</u>	<u>-3.8</u>
Of which: arrears	1.4	-1.1	-0.3	=	=	=	=
<u>Memorandum items</u>							
Current account as a percentage of GDP							
At 1979 real exchange rate	-1.5	2.0	-0.5	-0.4	-0.5	-0.3	=
At current exchange rate	-1.6	2.7	-0.6	-0.6	-0.6	-0.3	=
Gross reserves, end of period (excluding gold)							
In billions of dollars	0.9	3.9	6.9	10.3	12.3	15.0	18.2
In months of imports and of total interest payments	0.4	2.5	3.3	4.6	5.2	6.0	7.0

Sources: Bank of Mexico; and Fund staff estimates.

Table 44. Mexico: Exports and Imports of Major Products

(In millions of U.S. dollars)

	1979	1980	1981	1982	January-October	
					1982	1983
<u>Total exports</u>	<u>9,889.9</u>	<u>16,887.6</u>	<u>20,926.2</u>	<u>22,222.4</u>	<u>17,992.7</u>	<u>18,255.1</u>
<u>Agriculture, cattle, and fish</u>	<u>2,285.3</u>	<u>1,941.4</u>	<u>1,841.5</u>	<u>1,693.5</u>	<u>1,309.3</u>	<u>1,269.8</u>
Cotton	309.7	320.9	308.9	183.8	152.8	62.3
Coffee	574.9	415.2	333.6	345.1	263.1	417.2
Tomatoes	207.9	185.4	250.0	153.8	141.1	103.3
Shrimp	369.9	383.4	347.6	453.0	301.1	244.2
Other	833.8	636.5	601.4	557.8	451.2	442.8
<u>Petroleum and derivatives</u>	<u>3,988.7</u>	<u>10,422.4</u>	<u>14,564.7</u>	<u>16,477.1</u>	<u>13,384.1</u>	<u>13,302.2</u>
Crude petroleum	3,764.6	9,429.6	13,305.3	15,622.7	12,650.8	12,453.8
Petroleum derivatives	116.4	427.3	602.3	260.8	248.4	457.6
Natural gas	—	448.6	524.4	478.0	382.7	301.4
Petrochemicals	107.7	116.6	132.7	115.6	102.2	89.4
<u>Extractive products</u>	<u>749.6</u>	<u>1,311.2</u>	<u>1,208.0</u>	<u>887.5</u>	<u>695.1</u>	<u>690.2</u>
Silver	434.6	808.4	517.5	368.0	288.0	335.0 ^{3/}
Other	315.0	502.8	690.5	519.5	407.1	355.2
<u>Manufactures</u>	<u>2,209.2</u>	<u>3,437.6</u>	<u>2,331.7</u>	<u>2,330.8</u>	<u>1,887.2</u>	<u>2,318.6</u>
<u>In-bond industries</u>	<u>637.6</u>	<u>771.7</u>	<u>976.3</u>	<u>831.8</u>	<u>714.0</u>	<u>670.0 ^{3/}</u>
<u>Unclassified</u>	<u>19.5</u>	<u>3.3</u>	<u>4.4</u>	<u>3.7</u>	<u>3.0</u>	<u>4.3</u>
<u>Total imports, f.o.b.</u>	<u>12,131.6</u>	<u>18,551.4</u>	<u>24,034.0</u>	<u>14,516.5</u>	<u>13,244.7</u>	<u>6,495.8</u>
<u>Consumer goods</u>	<u>1,001.9</u>	<u>2,425.9</u>	<u>2,809.2</u>	<u>1,509.5</u>	<u>1,394.5</u>	<u>492.3</u>
<u>Intermediate goods</u>	<u>7,406.4</u>	<u>11,027.7</u>	<u>13,145.0</u>	<u>8,400.0</u>	<u>7,672.9</u>	<u>4,586.1</u>
Petroleum and derivatives	196.5	143.1	232.4	260.3	231.4	147.5
Chemicals ^{1/}	1,414.5	1,959.0	2,290.0	1,670.8	1,539.9	1,006.0
Parts for machinery and transport equipment	2,468.9	3,532.1	4,508.1	3,022.3	2,829.5	1,053.1
Iron and steel	1,113.0	1,783.1	2,177.4	1,039.0	950.5	302.2
Other	2,213.5	3,610.4	4,332.1	2,407.2	2,121.6	2,077.3
<u>Capital goods</u>	<u>3,577.3</u>	<u>5,118.6</u>	<u>7,575.4</u>	<u>4,502.2</u>	<u>4,104.9</u>	<u>1,406.4</u>
<u>Nonmonetary gold</u>	<u>151.8</u>	<u>65.2</u>	<u>107.4</u>	<u>84.8</u>	<u>72.4</u>	<u>11.0 ^{3/}</u>
<u>Unclassified and adjustments ^{2/}</u>	<u>14.2</u>	<u>-86.0</u>	<u>397.0</u>	<u>20.0</u>	<u>—</u>	<u>—</u>

Source: Bank of Mexico.

^{1/} Includes petrochemical products.^{2/} Includes balance of payments adjustments.^{3/} Estimated.

Table 45. Mexico: External Debt Outstanding, by Maturity and Type of Lender

(In millions of U.S. dollars)

	1979	1980	1981	1982	Sept. 1983
<u>Total debt</u>	<u>40,389</u>	<u>51,388</u>	<u>75,061</u>	<u>87,875</u>	<u>88,852</u>
Medium and long term	33,947	39,622	52,407	59,234	63,406
Short term <u>6/</u>	6,442	11,766	22,654	28,641	25,446
<u>Public sector 1/</u>	<u>29,889</u>	<u>34,448</u>	<u>53,161</u>	<u>62,064</u>	<u>62,947</u>
Medium and long term	28,447	32,322	42,207	49,181	53,259
Financial institutions	(21,385)	(24,744)	(31,798)	(36,073)	(38,845)
Bonds	(2,824)	(2,807)	(3,834)	(5,456)	(4,885)
International organizations	(2,826)	(3,286)	(4,016)	(4,306)	(4,366)
IMF	(132)	(—)	(—)	(220)	(954)
Bilateral <u>2/</u>	(834)	(1,189)	(2,270)	(2,865)	(4,056)
Other	(446)	(296)	(289)	(261)	(153)
Short-term debt <u>3/</u>	1,442	1,491	10,754	9,326	9,688 <u>4/</u>
PEMEX contracts	—	675	200	1,604	—
BIS and swaps	—	—	—	1,953	—
<u>Nationalized banks 3/</u>	<u>2,600</u>	<u>5,100</u>	<u>7,000</u>	<u>7,811</u>	<u>7,905</u>
Medium and long term	700	1,300	1,900	553	647
Short term	1,900	3,800	5,100	7,258	7,258
<u>Private sector 3/5/</u>	<u>7,900</u>	<u>11,800</u>	<u>14,900</u>	<u>18,000</u>	<u>18,000</u>
Medium and long term	4,800	6,000	8,300	9,500	9,500
Short term	3,100	5,800	6,600	8,500	8,500
<u>Memorandum items</u>					
<u>Debt to banks 7/</u>	<u>33,327</u>	<u>43,135</u>	<u>64,452</u>	<u>71,210</u>	<u>74,438</u>
Public sector	22,827	26,235	42,552	45,399	48,533
Private sector and nationalized banks <u>8/</u>	10,500	16,900	21,900	25,811	25,905

Sources: Data provided by Mexican authorities; and Fund staff estimates.

1/ Includes foreign liabilities of the Bank of Mexico with the IMF, BIS, U.S. Treasury, and Federal Reserve, but does not include liabilities on account of arrears, bilateral payments agreements or outstanding letters of credit.

2/ Includes debt to the C.C.C.

3/ Owed mostly to commercial banks. Excludes letters of credit.

4/ Includes debt in the process of being restructured into longer-term maturities.

5/ Does not include trade-related supplier's credits.

6/ Includes PEMEX contracts and debt to BIS and operations with U.S. Treasury and Federal Reserve.

7/ Includes debt of all maturities.

Table 46. Mexico: External Public Debt Restructuring, 1982-90

((In billions of U.S. dollars))

	1982	1983	1984	1985	1986	1987	1988	1989	1990
Restructured debt	7.6 <u>1/</u>	15.0 <u>2/</u>	3.8 <u>2/</u>	—	—	—	—	—	—
Medium and long-term	(1.3)	(4.9)	(3.8)	(—)	(—)	(—)	(—)	(—)	(—)
Short-term	(6.3)	(10.1) <u>3/</u>	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Amortization of restructured debt	—	7.6 <u>1/</u>	—	—	—	4.7	4.7	4.7	4.7
Net debt relief	7.6	7.4	3.8	—	—	-4.7	-4.7	-4.7	-4.7

Source: Mexican authorities.

1/ Short-term rollover of debt to commercial banks due in the period August-December 1982.2/ The 1983-84 maturities to commercial banks were restructured with 8 years maturity and 4 years grace, and with a spread of 1 7/8 percent over LIBOR or 1 3/4 percent over the U.S. prime rate. All rescheduled loans will start being repaid in January 1987.3/ Includes the short-term rollover of debt to commercial banks due in the period August-December 1982.

Table 47. Mexico: External Public Sector Debt Indicators, 1979-89

(In billions of U.S. dollars)

	1979	1980	1981	1982	Prel. 1983	Projected 1/					
						1984	1985	1986	1987	1988	1989
<u>External debt operations</u>	3.2	4.8	17.8	9.0	3.3	5.3	4.2	3.2	3.3	3.4	3.5
Direct debt (net)	3.3	4.8	17.8	6.8	4.2	4.0	3.0	3.3	3.6	4.0	4.4
Medium and long-term debt	3.1	4.1	9.0	5.6	16.4	3.9	3.0	3.3	3.6	4.0	4.4
Disbursements	(10.4)	(7.8)	(13.8)	(10.6)	(23.6)	(10.4)	(13.4)	(12.7)	(18.1)	(16.1)	(14.7)
Restructuring of 1982-84 operations	/-/	/-/	/-/	/-/	/15.0/2/	/3.8/3/	/-/	/-/	/-/	/-/	/-/
Other medium and long-term loans	/10.4/	/7.8/	/13.8/	/10.6/	/8.6/	/6.6/	/13.4/	/12.7/	/18.1/	/16.1/	/14.7/
Amortization (due)	(7.3)	(3.7)	(4.8)	(5.0)	(7.2)	(6.5)	(10.4)	(9.4)	(14.5)	(12.1)	(10.3)
Debt outstanding end-1982	/7.3/	/3.7/	/4.8/	/5.0/	/7.2/	/6.0/	/9.3/	/6.9/	/6.8/	/4.2/	/3.3/
Of which: restructured amounts	[-]	[-]	[-]	[1.3]	[4.9]	[3.8]	[-]	[-]	[-]	[-]	[-]
Restructuring of 1982-84 operations	/-/	/-/	/-/	/-/	/-/	/-/	/-/	/-/	/4.7/	/4.7/	/4.7/
New disbursements 1983-89	/-/	/-/	/-/	/-/	/-/	/0.5/	/1.1/	/2.5/	/3.0/	/3.2/	/2.3/
Short-term debt (net) 4/	0.2	0.7	8.8	1.2	-12.2	0.1	-	-	-	-	-
Of which: restructured amortizations	(-)	(-)	(-)	(6.3)	(10.1)	(-)	(-)	(-)	(-)	(-)	(-)
Bank of Mexico (net)	-0.1	-	-	2.2	-0.9	1.3	1.2	-0.1	-0.3	-0.6	-0.9
IMF	(-0.1)	(-)	(-)	(0.2)	(1.1)	(1.3)	(1.2)	(-0.1)	(-0.3)	(-0.6)	(-0.9)
Other	(-)	(-)	(-)	(2.0)	(-2.0)	(-)	(-)	(-)	(-)	(-)	(-)
<u>Interest payments</u>	2.9	4.0	5.5	7.8	7.8	8.2	8.9	9.4	9.4	9.5	9.7
IMF	...	-	-	-	0.1	0.2	0.3	0.3	0.3	0.3	0.2
Other	...	4.0	5.5	7.8	7.7	8.0	8.6	9.1	9.1	9.2	9.5
<u>Debt service payments 5/</u>											
Amounts due	10.3	7.7	10.3	12.8	15.0	14.7	19.3	18.8	23.9	21.6	20.0
Amounts paid	10.3	7.7	10.3	11.5	10.1	10.9	19.3	18.8	23.9	21.6	20.0
<u>Public sector debt outstanding (end of period)</u>	29.9	34.5	53.2	62.1	65.4	70.6	74.8	78.0	81.3	84.7	88.2
Direct debt	29.8	34.5	53.2	59.9	64.1	68.1	71.1	74.4	78.0	82.0	86.4
Medium and long-term debt	(28.3)	(32.3)	(42.2)	(49.0)	(64.1)	(68.0)	(71.0)	(74.3)	(77.9)	(81.9)	(86.3)
Short-term debt	(1.5)	(2.2)	(11.0)	(10.9)6/	(-)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Bank of Mexico	0.1	-	-	2.2	1.3	2.5	3.7	3.6	3.3	2.7	1.8
<u>Memorandum items</u>											
Nationalized bank debt outstanding	2.6	5.1	7.0	7.8	7.9	7.9	7.9	7.9	7.9	7.9	7.9
Interest payments on nationalized bank debt	...	...	...	...	1.0	1.0	0.9	0.9	0.8	0.8	0.8

Table 47. Mexico: External Public Sector Debt Indicators, 1979-89 (Concluded)

(In billions of U.S. dollars)

	1979	1980	1981	1982	Prel. 1983	Projected 1/					
						1984	1985	1986	1987	1988	1989
<u>Selected indicators</u>											
Effective interest rates (in percent) 2/	10.3	12.4	12.5	13.5	12.2	12.1	12.2	12.3	11.8	11.5	11.2
Debt service ratio (in percent)											
Excluding Fund transactions	63.6	30.9	33.8	42.1	49.5	42.8	52.8	47.9	57.3	47.4	40.5
Total including Fund transactions	64.7	30.9	33.8	42.1	49.8	43.4	53.6	49.0	58.7	49.4	42.8
Total on amounts paid	64.7	30.9	33.8	37.8	33.6	32.2	53.6	49.0	58.7	49.4	42.8
Interest payments ratio to GDP (in percent) 8/											
Excluding Fund transactions	2.1	2.5	3.0	4.0	3.9	3.8	3.7	3.5	3.2	2.9	2.7
Total, net of interest on gross reserves	1.9	2.4	2.8	3.9	3.8	3.6	3.5	3.3	2.9	2.7	2.4
External debt ratio to GDP (in percent) 8/											
Excluding Fund transactions	22.1	21.7	28.6	31.4	32.1	32.1	30.4	28.8	27.5	26.2	25.0
Total, net of gross interna- tional reserves	20.6	19.8	26.4	31.1	30.8	30.0	27.8	25.9	24.3	22.7	21.3

Sources: Mexican authorities; and Fund staff estimates.

1/ These capital flows are consistent with the balance of payments projections presented in Scenario A, Statistical Appendix Table 43.

2/ Covers the refinancing from banks obtained in 1983.

3/ Covers refinancing from banks in 1984.

4/ Includes net disbursements of PEMEX contracts of US\$0.7 billion in 1980, -US\$0.5 billion in 1981, US\$1.4 billion in 1982, and -US\$1.6 billion in 1983.

5/ Debt service payments including amortization on medium- and long-term debt and interest payments on total debt; includes Fund transactions.

6/ Includes amounts subject to postponement in 1982.

7/ Interest rate on average debt outstanding during the period.

8/ GDP in U.S. dollars valued at average exchange rate prevailing in 1979.

Table 48. Mexico: Exchange Rates

(In Mexican pesos per currency unit, unless otherwise specified)

	U.S. Dollar Exchange Rate				Effective Exchange Rate Index (1976-81=100)				
	Actual		Index		Nominal Rate <u>1/</u>		Real Rate <u>2/</u>		
	End of Period	Average	1976-81=100						
<u>1979</u>									
I	22.83	22.76	104.2		106.3		105.0		
II	22.84	22.83	104.5		105.8		104.7		
III	22.77	22.81	104.4		106.0		104.6		
IV	22.80	22.83	104.5		105.2		103.0		
Annual	22.80	22.80	104.4		105.7		104.4		
<u>1980</u>									
I	22.85	22.83	104.5		104.6		98.6		
II	22.93	22.85	104.6		104.4		95.5		
III	23.06	23.00	105.3		105.5		93.5		
IV	23.26	23.13	105.9		105.2		90.9		
Annual	23.26	22.95	105.1		104.9		94.4		
<u>1981</u>									
I	23.76	23.49	107.6		105.3		86.6		
II	24.44	24.09	110.3		105.8		84.1		
III	25.20	24.79	113.5		107.2		81.8		
IV	26.23	25.68	117.6		111.9		80.5		
Annual	26.23	24.51	112.3		107.5		83.0		
<u>1982</u>									
I	45.50	34.42	157.2		148.1		96.3		
II	48.00	46.78	214.1		200.0		113.4		
III	(a) <u>3/</u> 50.00 (b) <u>4/</u> ...	(a) 56.00 (b) <u>4/</u> ...	256.4		236.6		111.5		
IV	96.48 <u>5/</u> 148.50	55.90 80.13	299.9 366.77		275.5 394.9		107.8 154.5		
Annual	96.48 <u>5/</u> 148.50	57.44 ...	231.9 ...		215.4 ...		107.8 ...		
<u>1983</u>									
I	108.18 <u>5/</u> 148.65	102.28 148.72	477.5 694.3		440.8 640.9		136.0 197.8		
II	120.01 <u>5/</u> 148.45	114.10 148.63	531.5 692.3		487.4 634.9		129.8 169.1		
III	131.97 <u>5/</u> 149.26	125.99 148.39	586.2 690.4		532.9 627.6		127.0 149.6		
IV	143.93 <u>5/</u> 160.60	137.95 154.93	640.8 719.7		582.2 653.9		124.0 139.3		
Annual	143.93 <u>5/</u> 151.74	120.09 150.17	558.9 698.9		510.9 638.9		128.5 160.7		

Sources: Bank of Mexico; International Financial Statistics; and Fund staff estimates.1/ Weighted by trade with 11 major trading partners during the period 1978-80. Trade with these countries accounted for 91 percent of total imports and 83 percent of total exports.2/ Effective exchange rate index adjusted by movements in relative wholesale prices, except for Mexico and Argentina. For these countries, the indices were adjusted by consumer prices.3/ From August 6 to December 20, 1982, preferential rate and from December 20, 1982, onward the controlled market rate.4/ From August 6 to December 20, 1982, free rate; from September 1 to December 20, 1982, the ordinary rate; and from December 20, 1982, onward the free rate.5/ Average rate between buying and selling quotations in the controlled market.