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May 9, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Mexico - Staff Report for the 1983 Article IV Consultation and Review Under the Extended Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Mexico and the review of the extended arrangement for Mexico. Draft decisions appear on page 27. 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. 73741.

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INTERNATIONAL MONETARY FUND

MEXICO

Staff Report for the 1983 Article IV Consultation and Review Under the Extended Arrangement

Prepared by the Staff Representatives for the 1983 Consultation with Mexico

Approved by Eduardo Wiesner and Manuel Guitian

May 9, 1983

I. Introduction

The 1983 Article IV consultation discussions 1/ with Mexico were conducted in Mexico City during the period March 7-26, 1983. Representatives of Mexico in these discussions included the Secretary of Finance and Public Credit; the Secretary of Programing and Budget; the Secretary of Industry and Commerce; the Director General of the Bank of Mexico; the Undersecretary of Labor; the Undersecretary of Energy; and senior officials of various ministries, the Bank of Mexico, and several state enterprises and government commissions. The staff representatives were Joaquin P. Pujol (WHD), Claudio Loser (ETR), Enrique Matayoshi (STAT), Pedro Rado (FAD), Luis Valdivieso (WHD), and Argery Bitchakas (Secretary-WHD). Mr. Miguel Angel Senior, Executive Director for Mexico, participated in the final round of policy discussions.

The Fund mission also conducted discussions on the progress achieved in the implementation of the economic adjustment program being supported by an extended arrangement, which was approved by the Executive Board on December 23, 1982 (EBM/82/168). This review, which was required under paragraph 4(c) of the arrangement and was scheduled to take place by May 15, 1983 (see EBS/82/208 and its supplements), was to cover (1) the progress achieved and modifications needed in the exchange system to restore normalcy to foreign transactions, (2) the implementation of the mechanisms for the quantification and settlement of the external payment arrears, (3) the results achieved with respect to the efforts to restructure the external debt, and (4) the review of trade policies. At the time of approval of the extended arrangement, the Board also approved the identified multiple currency practices and restrictions until May 15, 1983, or the completion of the review, whichever came earlier.

The previous Article IV consultation with Mexico was completed by the Executive Board on July 16, 1982 (EBM/82/100). The documents for that consultation were SM/82/121 and SM/82/124.

1/ Mexico has accepted the obligations of Article VIII, Sections 2, 3, and 4.

II. Background Developments and Policies

Mexico experienced serious economic difficulties in 1982, following a period of several years of rapid economic expansion. Although the proximate causes of the 1982 crisis were the combination of a sharp deterioration in the balance of payments, a significant acceleration of domestic inflation and a drop in the rate of growth of economic activity, the roots of these difficulties are to be found in the economic strategy followed in earlier years.

Following the discovery of large petroleum reserves in 1977 and the rise in international petroleum prices in the second half of 1979, Mexico embarked on a substantial expansion of its public sector expenditures. Public sector outlays increased on average by about 15 per cent a year in real terms in 1979-80 and by more than 30 per cent in 1981. Investment in the energy sector and other infrastructure accounted for a major portion of the rise in public outlays, but other categories of public expenditures also registered sizable increases. Direct and indirect public sector subsidies became an important channel for the distribution of the new petroleum wealth.

This dramatic rise in public spending dominated aggregate demand developments and contributed to a rapid expansion of domestic output and employment, but it also led to a surge of imports and a rise in domestic prices. Thus, while real GDP grew on average by over 8 per cent a year and employment expanded at an annual rate of more than 5 per cent in 1979-81, merchandise imports rose by over 30 per cent a year in real terms and the rate of inflation accelerated from less than 20 per cent a year to close to 30 per cent. Private investment expanded at a fast pace during most of this period, on the basis of the rapid expansion of the economy and the ample availability of both domestic and foreign financing. At the same time the traditional (nonpetroleum) export sector experienced a relative decline over these years, as its international competitiveness was eroded and strong domestic demand resulted in a higher domestic absorption of resources.

Notwithstanding the sharp rise in petroleum revenues since 1979--export receipts of the state-owned petroleum company (PEMEX) went up from less than US$2 billion in 1978 to US$14-1/2 billion in 1981--the strong growth of expenditures combined with a lag in the adjustment of prices and tariffs charged by state enterprises led to a widening in the public sector deficit in the 1979-81 period. This weakening of the public finances intensified in the second half of 1981 with the fall in international petroleum prices. The overall deficit of the public sector rose from Mex$210 billion (close to 7 per cent of GDP) in 1979 to about Mex$870 billion (almost 15 per cent of GDP) in 1981 (Table 1).

This growing fiscal deficit was financed by increasing the share of domestic private financial savings channeled to the public sector and by engaging in substantial foreign borrowing. The extensive use of domestic credit by the public sector preempted private sector access to

Table 1. Mexico: Summary Accounts of the Public Sector

(As per cent of GDP)

	1979	1980	1981	Prel. 1982	Budget 1983
Public sector revenue	17.8	18.8	17.1	19.7	20.6
Taxes on petroleum sector	1.5	3.8	4.0	3.6	6.0
Other Federal Government taxes	11.4	11.4	11.3	10.7	10.6
Federal Government nontax revenue	0.6	0.7	0.8	1.0	0.8
Social Security contributions	2.6	2.5	2.9	2.5	1.8
Federal District (own revenue)	0.4	0.3	0.3	0.3	0.1
Operating surplus of public enterprises	2.9	4.0	1.7	5.2	5.8
PEMEX	(3.1)	(4.8)	(4.2)	(7.1)	(7.1)
Other	(-0.2)	(-0.8)	(-2.5)	(-1.9)	(-1.3)
Less: taxes paid by public enterprises	-1.6	-4.0	-4.0	-3.7	-6.0
Capital revenue	--	0.1	0.1	0.1	0.1
Additional revenue measure 1/	--	--	--	--	1.4
Public sector expenditures	24.6	26.5	31.9	38.3	29.1
Current operating expenditures	13.5	15.1	16.2	18.9	16.9
Wages and salaries	(5.4)	(5.1)	(5.4)	(5.9)	(4.0)
Interest payments	(2.0)	(1.9)	(3.1)	(5.7)	(6.0)
Other purchases of goods and services	(2.2)	(2.2)	(2.8)	(2.9)	(1.7)
Current transfers and subsidies	(3.9)	(5.9)	(4.9)	(4.4)	(4.3)
Unallocated expenditures 2/	(--)	(--)	(--)	(--)	(0.9)
Other current expenditures	1.1	1.5	1.7	7.1	2.7
Exchange losses	(--)	(--)	(--)	(5.6)	(--)
Net financial requirements of rest of public sector 3/	(1.1)	(1.5)	(1.7)	(1.5)	(1.3)
Contingency reserve 4/	(--)	(--)	(--)	(--)	(1.4)
Capital expenditures	10.0	9.9	14.0	12.3	9.5
Fixed investment	(7.3)	(8.0)	(9.2)	(7.8)	(5.8)
Of which: PEMEX	/3.0/	/2.9/	/3.9/	/3.1/	/1.8/
Financial investment and other 5/	(2.7)	(1.9)	(4.8)	(4.5)	(2.6)
Unallocated expenditures 2/	(--)	(--)	(--)	(--)	(1.1)
Overall deficit (-)	-6.8	-7.7	-14.8	-18.6	-8.5
Foreign financing (net)	2.4	2.5	7.5	3.8	3.4
Domestic financing (net)	4.4	5.2	7.3	14.8	5.1
Memorandum items					
Revenue from petroleum exports	3.1	5.3	5.5	9.0	8.5
Current account surplus or deficit (-)	3.0	2.1	-0.9	-6.4	0.9
Current account exclusive of PEMEX	-0.3	-2.5	-5.1	-13.3	-6.2
GDP (in millions of Mex$)	3,067	4,276	5,874	9,256	17,600

Sources: Ministry of Finance and Public Credit; Ministry of Programing 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/ Includes expenditures authorized by the budget but not allocated by category of expenditure.

3/ Includes net lending operations.

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

5/ Includes capital transfers and other unclassified expenditures.

bank financing; this trend became so pronounced during 1982 that credit to the private sector shrank in relation to GDP (Table 2). In addition, as a result of the increased reliance on foreign financing, the external public debt rose from US$26 billion at the end of 1978 to US$53 billion at the end of 1981, with more than two thirds of this increase taking place in 1981 (Table 3). The large increase in the public sector foreign debt during 1981 was characterized by a heavy reliance on short-term borrowing. While prior to 1981 most of Mexico's external borrowing had been on maturity terms of over one year, in 1981 almost half of the US$19 billion contracted took the form of short-term obligations. The sheer magnitude of this short-term debt was to make the management of the external debt an extremely difficult task during 1982. The growing reliance on foreign indebtedness was accompanied by a rise in interest rates in foreign money and capital markets, and the servicing of the external debt came to represent a heavy burden for the economy.

The major deterioration in the public finances and the acceleration of inflation raised doubts about the sustainability of the existing exchange rate policy and gave rise to recurring episodes of capital flight. These became more virulent and more frequent after the weakening of the international oil market in mid-1981. Capital flight eventually reached such proportions that in mid-February 1982 the central bank had to temporarily withdraw from the exchange market and the peso depreciated sharply. By the end of February 1982 the peso was being quoted at close to Mex$45 per U.S. dollar, compared with about Mex$27 per U.S. dollar just prior to the closing of the market (Chart 1). However, the initial improvement in competitiveness brought about by this depreciation of the peso was soon being eroded by wage increases which had an adverse effect on confidence and impeded adjustment.

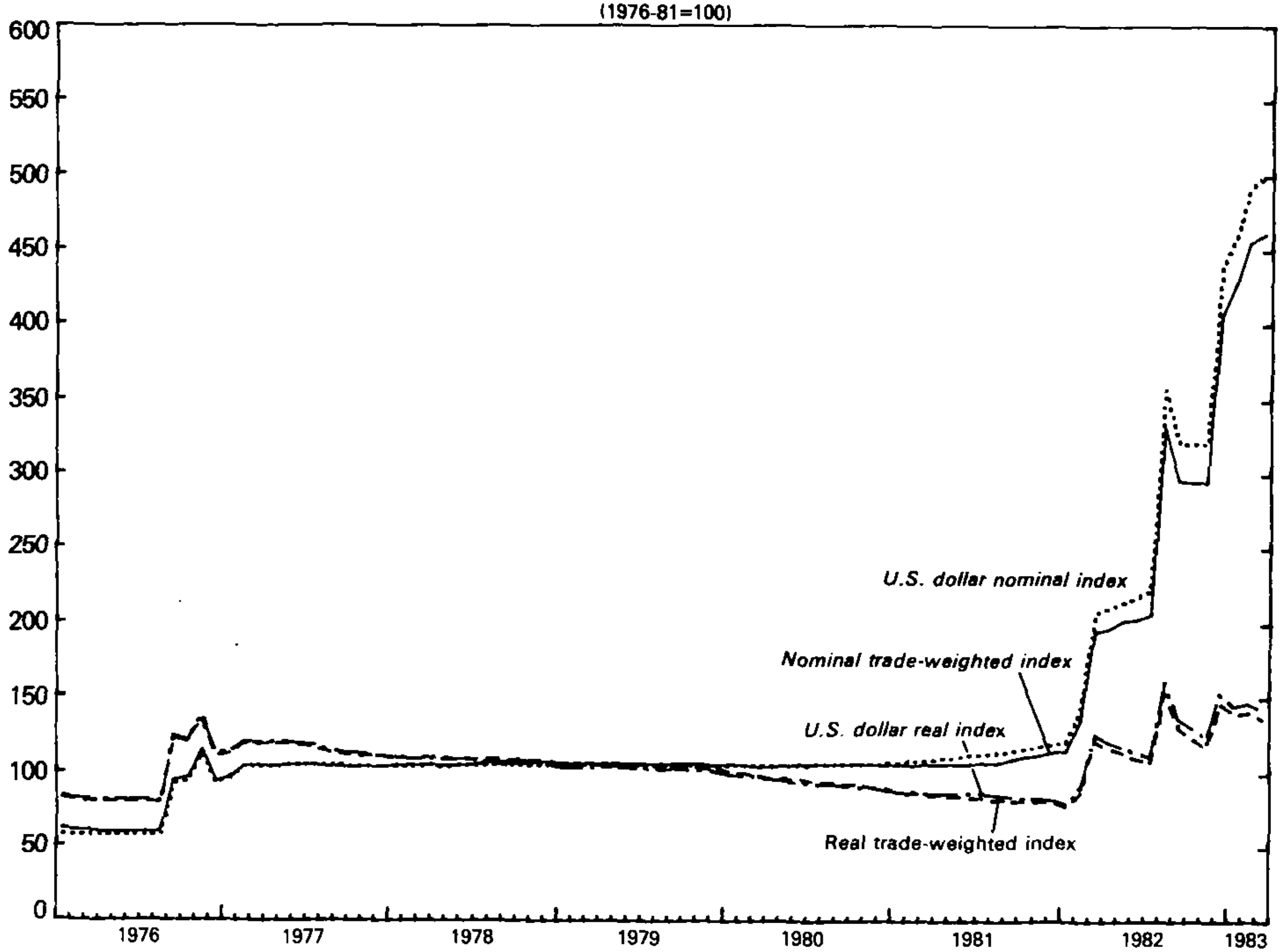
Although steps were taken in subsequent months to help stabilize the economy, these efforts proved to be insufficient and the situation continued to deteriorate, with the rate of growth of output coming to a halt and inflation accelerating. The recession abroad further aggravated matters by lowering the demand for Mexican exports and tourist services. In August 1982 the capital flight intensified again and it became difficult to obtain new foreign credits or renew those falling due; the central bank once more had to temporarily withdraw from the exchange market. A dual exchange market was introduced with a preferential rate and a general rate, emergency foreign assistance was sought, and foreign creditors were asked to roll over the principal payments on the public sector external debt as they became due. Initially the requested rollover was for a 90-day period, but it has since been extended to allow for the negotiation of a restructuring of this debt. New regulations also were enacted which provided that all foreign currency denominated deposits (Mexdollar deposits) maintained in Mexican banks would have to be settled in Mexican pesos at the time of payment on the basis of the rate of exchange in effect on the date of payment. The exchange rate in the preferential market was set by the Bank of Mexico in late

CHART 1

MEXICO

NOMINAL AND REAL EXCHANGE RATE INDICES[1]

(1976-81=100)



[1] Defined in terms of pesos per unit of foreign exchange. Decline reflects appreciation.

Table 2. Mexico: Summary Operations of the Financial System

	Actual Stocks Dec. 1982	Effective Flows 1/ 1979	1980	1981	1982	Prog. 1983
	(In billions of Mexican pesos)					
	I. Bank of Mexico					
Net international reserves	-49.5 2/	20.4	21.2	29.0	-268.1	207.0 2/
Net domestic assets	560.4	16.8	26.5	58.8	494.0	104.0
Net credit to the public sector	2,129.6 2/	104.3	147.3	262.7	738.6	787.0 2/
Credit to banks	306.6	2.9	23.3	-0.5	178.4	--
Credit to private sector	17.3	0.2	0.5	1.1	2.7	--
Liabilities to banks	-1,563.4	-97.7	-160.6	-211.9	-333.5	-683.0
Other (net) 3/	-329.7	7.1	16.0	7.4	-92.2	--
Note issue	510.9	37.2	47.7	87.8	225.9	311.0
	II. Financial System					
Net foreign assets	26.3	27.2	35.8	21.4	-284.0	207.0
Net domestic credit	6,558.9	307.8	451.6	933.5	1,013.7	1,611.7
Net credit to the public sector 4/	5,093.7 2/	165.9	210.4	610.1	1,267.5	820.0 2/
Credit to the private sector 4/	1,551.7	158.8	250.7	310.2	-119.8	792.0
Other (net) 3/	-86.5	-16.9	-9.5	13.2	-134.0	-0.3
Medium- and long- term foreign liabilities	3,000.3	63.0	98.1	263.7	-31.9	--
Liabilities to nonbank public financial intermediaries	202.8	15.5	17.9	54.8	34.2	50.0
Liabilities to private sector	3,382.1	256.5	371.4	636.4	727.4	1,768.7
Of which: capital and reserves	71.6	8.5	11.5	14.4	17.4	--
	(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	173.3	20.4
Bank of Mexico's net credit to public sector	...	92.9	98.5	133.2	259.2	154.0
Note issue	...	33.1	31.9	44.5	79.3	60.9
	(Percentage change in relation to liabilities to private sector at the beginning of the period) 5/					
Net domestic credit	...	42.8	46.3	69.3	51.1	59.4
Net credit to the public sector 4/	...	23.0	21.6	45.3	63.9	30.2
Credit to the private sector 4/	...	22.1	25.7	23.0	-6.0	29.2
Liabilities to the private sector	...	35.6	38.0	47.2	36.7	65.2
	(In per cent of GDP)					
Net domestic credit	70.9	10.0	10.6	15.9	11.0	9.2
Net credit to the public sector 4/	55.0	5.4	4.9	10.4	13.7	4.7
Credit to the private sector 4/	16.8	5.2	5.9	5.3	-1.3	4.5
Liabilities to the private sector	36.5	8.4	8.7	10.8	7.9	10.0
Memorandum item						
Credit to the private sector as proportion of liabilities to private sector	45.9	61.9	67.5	48.7	-16.5	44.8

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/ 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.

Table 3. Mexico: Summary of External Debt Outstanding, 1979-82 1/

(In billions of U.S. dollars)

	1979	1980	1981	Prel. 1982
By Borrower				
Total	40.4	51.4	75.1	83.2
Public sector debt	29.9	34.5	53.2	61.2
Direct debt of Central Government	16.9	20.0	31.0	34.8
Government development banks	12.9	13.8	22.0	23.1
PEMEX contracts	--	0.7	0.2	1.6
Bank of Mexico 2/	0.1	--	--	2.2
Nationalized banks 3/	2.6	5.1	7.0	8.0
Private sector 4/	7.9	11.8	14.9	14.0
By Maturity				
Total	40.4	51.4	75.1	83.2
Medium and long term	34.0	39.6	52.4	56.7
Short term	6.4	11.8	22.7	26.5
By Lender				
Total	40.4	51.4	75.1	83.2
Banks	31.3	40.1	60.8	67.9
To public sector	(22.8)	(26.2)	(42.6)	(45.9)
To private sector and nationalized banks	(8.5)	(13.9)	(18.2)	(22.0)
Bilateral and multilateral organizations	3.8	4.5	6.3	9.3
Other 2/	5.3	6.8	8.0	6.0

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

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

2/ 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.

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

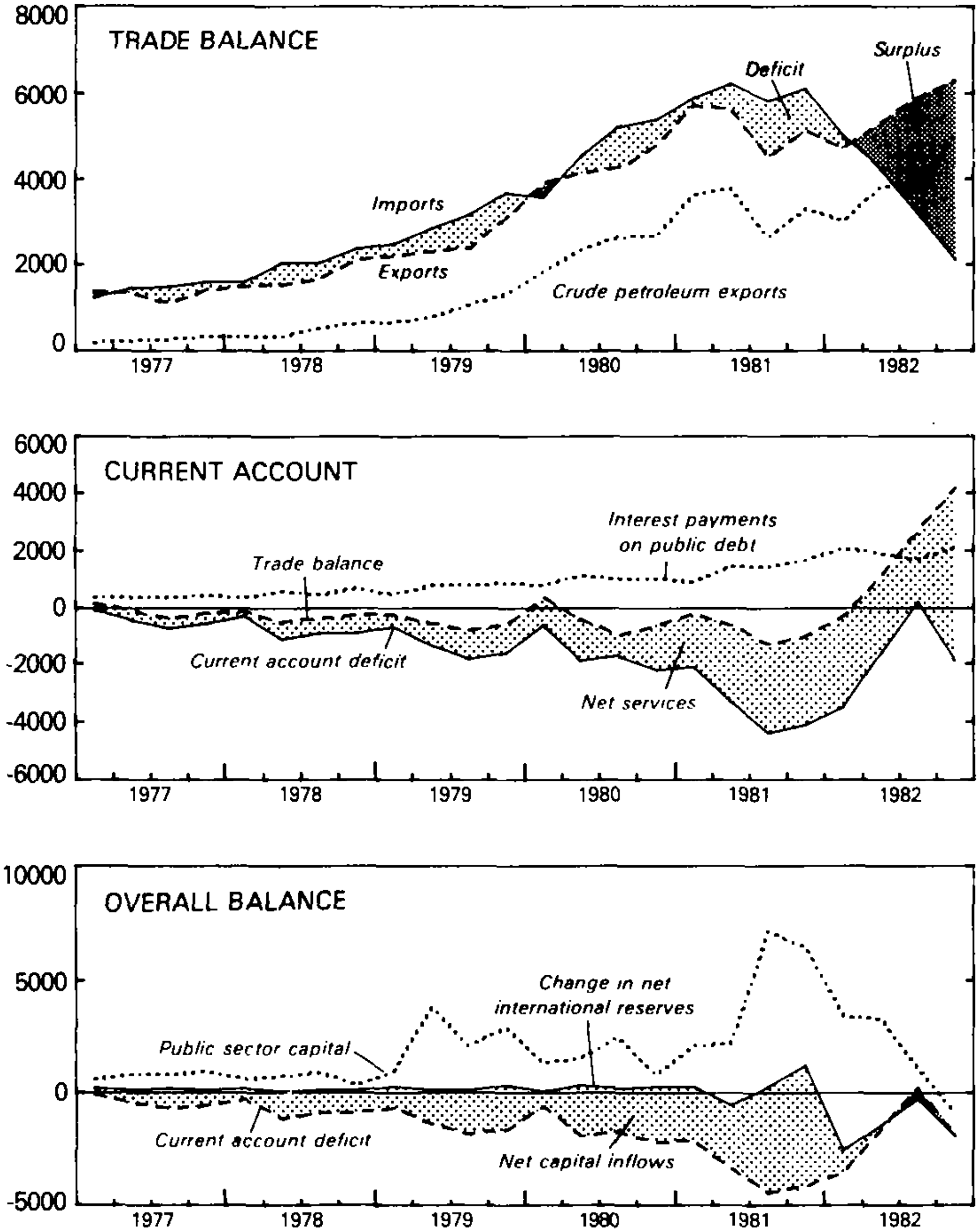
4/ Estimated.

CHART 2

MEXICO

BALANCE OF PAYMENTS

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



Source: Bank of Mexico and Fund staff estimates

August at Mex$69 per U.S. dollar, while the rate in the general market was allowed to fluctuate according to demand and supply. During the month of August the peso in the general market depreciated at one point to Mex$120 per U.S. dollar.

In September 1982, in a major policy shift, the authorities nationalized the private commercial banks, announced the introduction of a generalized exchange control system, extended import licensing requirements to virtually all imports, intensified domestic price controls, and reduced interest rates. In addition, it was stipulated that all domestic financial transactions which had been denominated in foreign currency would be converted automatically upon maturity into Mexican pesos at an exchange rate fixed by the Bank of Mexico; also, new transactions in foreign currency within Mexico not channeled through the banking system became illegal.

Under the system of generalized exchange controls, the previously free general market rate was supressed and two fixed exchange rates were introduced, a preferential rate at Mex$50=US$1 and an ordinary rate of Mex$70=US$1. The rate of Mex$50 per U.S. dollar was to be applied to most imports and to amortization and interest payments effected by the private and public sectors, while the Mex$70 per U.S. dollar was to be applied to most external receipts. Mexdollar deposits with the banking system were to be converted upon maturity at the prevailing ordinary rate, (Mex$70 per U.S. dollar), while bank credits denominated in Mexdollars were to be paid off at the preferential rate (Mex$50 per U.S. dollar).

The adoption of these policies far from rendering the foreign exchange situation more manageable, in fact, exacerbated the problems. A parallel market developed, payments arrears accumulated, large subsidies resulted from the administration of the exchange rate system and the liquidation of the Mexdollar operations, and the flow of imports was disrupted and gave rise to production bottlenecks.

The economic results for 1982 were decidedly unfavorable. The public sector deficit rose to some Mex$1,700 billion (the equivalent of about 18-1/2 per cent of GDP); this figure included about Mex$500 billion (5-1/2 per cent of GDP) of exchange losses that stemmed from the multiple currency practices introduced in September 1982 and the liquidation of the Mexdollar accounts. The level of employment dropped and, for the first time in 50 years, real GDP declined. Inflation reached an unprecedented annual rate of close to 100 per cent in the 12-month period ended December 1982. The current account deficit of the balance of payments narrowed significantly--from close to US$14 billion in 1981 to about US$3 billion in 1982--because of the reduced availability of external credits but, with the continuation of large capital flight, the overall balance of payments experienced a deficit in excess of US$6 billion (Chart 2 and Table 4).

Table 4. Mexico: Summary Balance of Payments

(In billions of U.S. dollars)

	1979	1980	1981	Prel. 1982	Proj. 1983 EFF Prog.	Rev.
Current account	-5.5	-7.7	-13.9	-3.0	-4.2	-2.0
Trade balance	-2.2	-1.7	-3.1	7.7	8.5	8.1
Exports, f.o.b.	9.9	16.9	20.9	22.2	23.7	22.6
Petroleum and derivatives	(4.0)	(10.4)	(14.6)	(16.5)	(16.1)	(15.0)
In-bond industries	(0.6)	(0.8)	(1.0)	(0.8)	(1.1)	(1.1)
Other	(5.3)	(5.7)	(5.4)	(4.9)	(6.5)	(6.5)
Imports, f.o.b.	-12.1	18.5	-24.0	-14.5	-15.2	-14.5
Public sector	(-4.0)	(-6.7)	(-8.8)	(-5.3)	(-4.8)	(-5.3)
Private sector	(-8.1)	(-11.8)	(-15.2)	(-9.2)	(-10.4)	(-9.2)
Travel	0.8	0.6	0.2	0.6	1.0	1.2
Receipts	1.5	1.6	1.8	1.4	1.8	1.8
Payments	-0.7	-1.0	-1.6	-0.8	-0.8	-0.6
Border transactions	0.4	0.4	-0.1	0.4	0.6	0.6
Receipts	2.7	3.5	4.5	4.0	5.1	4.9
Payments	-2.2	-3.1	-4.6	-3.6	-4.5	-4.3
Factor income (net)	-4.1	-6.0	-9.5	-10.9	-12.6	-10.7
Interest on public debt	-2.9	-4.0	-5.5	-7.8	-9.2	-7.7
Interest on private debt	-0.8	-1.5	-2.9	-3.1	-2.8	-2.9
Reinvested profits	-0.6	-0.7	-1.3	-0.3	-0.8	-0.3
Other	-0.2	-0.2	-0.2	-0.5	-0.2	-0.2
Other services	-0.6	-1.3	-1.7	-1.1	-2.0	-1.5
Transfers (net)	0.2	0.3	0.3	0.3	0.3	0.3
Capital account	5.1	11.2	22.7	7.2	6.2	4.0
Official capital (net)	3.3	4.7	17.8	6.8	5.0	5.0
Medium and long term	(3.1)	(4.0)	(9.0)	(5.6)	(14.0)	(16.7)
Drawings	/10.4/	/7.7/	/13.8/	/10.6/	/7.0/	/8.1/
Refinancing	/--/	/--/	/--/	/--/	/14.9/	/15.0/
Amortizations	/-7.3/	/-3.7/	/4.8/	/-5.0/	/-7.9/	/-6.4/
Of which: postponed or restructured				[-1.2]	[-6.4]	[-4.9]
paid				[-3.8]	[-1.5]	[-1.5]
Short term (net)	(0.2)	(0.7)	(8.8)	(1.2)	(-9.0)	(-11.7)
Net drawings				/1.4/	/1.0/	/--/
Postponement of 1982 obligations				/7.6/	/--/	/--/
Amortizations				/-7.8/	/-10.0/	/-11.7/
Of which: postponed or restructured				[-6.3]	[-8.5]	[-10.1]
paid				[-1.5]	[-1.5]	[-1.6]
Private capital	1.8	6.5	4.9	0.4	1.2	-1.0
Reinvested profits	(0.6)	(0.7)	(1.3)	(0.3)	(0.8)	(0.3)
Other (net)	(1.2)	(5.8)	(3.6)	(0.1)	(0.4)	(-1.3)
Errors and omissions	0.7	-2.6	-7.7	-10.5	--	--
SDR allocation	0.1	0.1	0.1	--	--	--
Gold valuation	0.5	-0.1	-0.1	--	--	--
Monetary authorities (increase -)	-0.9	-0.9	-1.1	6.3	-2.0	-2.0
Of which: arrears 1/	--	--	--	0.8	-0.6	-0.6
Memorandum items						
Exports of goods and services	16.0	24.6	30.5	30.4	34.0	32.5
Imports of goods and services	21.7	32.5	44.7	33.6	38.2	34.5
Volume of crude oil exports (in thousand of barrels per day)	533	830	1,098	1,492	1,500	1,466
Average price per barrel (in U.S. dollars per barrel)	19.40	31.11	33.20	28.69	28.00	26.28
Average interest rate paid on external public debt	10.3	12.5	12.7	13.6	14.5	12.2
Gross official reserves (end of period)	3.1	3.9	5.0	1.7	3.5	2.4
Net international reserves (end of period)	2.9	3.8	4.9	-1.3	1.4	0.7

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

1/ Does not include arrears on supplier's credits.

III. Performance in the First Months of the Program

With the completion of the negotiations leading to an extended arrangement with the Fund in November 1982, a comprehensive policy package was announced that called for a sharp reduction in the public sector deficit, to the equivalent of 8-1/2 per cent in 1983, 5-1/2 per cent of GDP in 1984, and 3-1/2 per cent of GDP in 1985. Such an adjustment in the public finances would reduce the need for recourse to foreign financing and the pressures on domestic prices and the balance of payments. Implementation of this economic program was expected to result in a substantial decline in the rate of inflation, to about half the rate prevailing at the end of 1982, and a significant recuperation of the international reserves. As part of this policy package, steps were taken to adjust the exchange rate, liberalize exchange controls, eliminate exchange subsidies, and increase interest rates. Negotiations were undertaken with foreign creditors to refinance the short-term debt and the medium- and long-term debt falling due in the period from August 23, 1982 through December 31, 1984 and to obtain new external financing. The authorities also made known their intentions of relaxing price controls, gearing wage policy toward the objectives of reducing inflation and protecting the level of employment, and reviewing commercial policies with a view to achieving greater productive efficiency.

The new Administration, which took office on December 1, 1982, has moved quickly and forcefully in implementing the adjustment program agreed upon under the extended arrangement. On December 3, 1982 the domestic price of gasoline and various other petroleum derivatives produced by the state-owned petroleum company were increased by 100 per cent. On December 10, 1982 the authorities announced 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 was to begin operating on December 20, 1982. Transactions to be channeled through the controlled market--which now account for about 75 per cent of all external transactions--include all 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. All other transactions, including those relating to tourism, would be channeled through the free market. The rate in the controlled market was initially set on December 20 at Mex$95=US$1, with the understanding that it would be adjusted daily in light of the expected differential of inflation between Mexico and its main trading partners. Since then, the rate in the controlled market has been preannounced on a biweekly basis.

The establishment of this controlled market rate involved an immediate depreciation of some 35 per cent (measured in terms of pesos per U.S. dollar) in relation to the previously prevailing ordinary rate of Mex$70 per U.S. dollar, and the daily rate of adjustment so far (of Mex$0.13 per day) has involved an annual rate of depreciation of around 50 per cent in terms of U.S. dollars. The free market rate, meanwhile, opened at about Mex$150 per U.S. dollar and, after experiencing a small appreciation, has remained virtually unchanged at Mex$147.90 buying and Mex$149.40 selling. All commercial banks, as well as existing exchange houses, are authorized to operate in the free market; the Bank of Mexico has intervened occasionally in the free market.

In mid-December the Administration submitted to Congress a budget proposal for 1983 which incorporated substantial cuts in expenditure programs and changes in taxes designed to bolster revenues, including a major increase in the value added tax. This budget package,1/ which was approved by Congress with only minor modifications, is consistent with an overall public sector deficit of Mex$1,500 billion for 1983.

The minimum wage increase granted at the end of 1982 was held to 25 per cent, in contrast to the past practice of matching or even exceeding the past rate of inflation. Since then, settlements of annual wage agreements based on collective bargaining negotiations have been in the range of 23-30 per cent. Also, in a reversal of policies pursued in previous months, interest rates on deposits were raised significantly during December 1982 (by some 18 percentage points compared with the rates prevailing in mid-October 1982), and some of the preferential lending rates were revised upward. There were further adjustments in certain public sector prices in January 1983, as well as a major liberalization of the price controls applicable to the private sector.

With respect to the negotiations with foreign creditors, an agreement in principle was reached in December 1982 with commercial banks to restructure some US$19 billion of public sector debt; of these US$7.6 billion corresponded to short- and medium-term debt payments falling due in the period from August 23 to December 31, 1982, US$7.5 billion to debt payments falling due during 1983, and about US$4 billion to debt payments falling due during 1984. All these obligations are being restructured over an eight year period, starting from January 1983, with a maximum grace period of four years and at an interest rate of 1-7/8 per cent over LIBOR or 1-3/4 per cent over the U.S. prime rate. Because of the large number of transactions involved, however, the completion of the formal requirements involved in the restructuring exercise is expected to be finished by August 15, 1983. In addition, the foreign commercial banks agreed to a medium-term loan to Mexico for US$5 billion with a maturity of six years and three years of grace, and at interest rates equivalent to 2-1/4 per cent over LIBOR or 2-1/8 per cent over the U.S. prime rate. The new loan amounts to the equivalent of about 7 per cent of the total Mexican exposure of the lending banks outstanding as of August 1982. The first drawing on this loan, for US$1.75 billion took place on March 24, 1983;2/ the remaining drawings on this new loan are conditional upon purchases from the Fund under the extended arrangement during 1983.

1/ For a details discussion of the 1983 budget see EBS/82/208, Supp. 3.
2/ An advance for US$436 million had been received on February 24, 1983 in a bridge operation from some of the major banks.

Besides the external obligations arising from the public sector's external debt, Mexican commercial banks (now nationalized) had outstanding at the end of 1982 a total of US$8 billion in external obligations (see Table 3). Of these, about US$5-1/2 billion took the form of interbank deposits of foreign banks with agencies of Mexican banks abroad; an agreement has been reached with foreign banks to maintain these deposits at their present levels during the course of 1983.

The private sector short- and medium-term external debt with foreign financial institutions has been estimated at some US$14 billion as of the end of 1982. In addition, the private sector also has outstanding a still undetermined amount of obligations arising from suppliers' credits. The servicing of private sector debt was interrupted during the period when the generalized exchange control was in effect--from September 1 to December 20, 1982--and, although credits obtained after December 20, 1983 have been serviced regularly, arrears have developed on obligations contracted prior to that date.

Three different facilities have been introduced to help deal with the problems confronted by the private sector with regard to its external obligations. The first provides a system for settling the arrears on interest payments on financial loans from foreign commercial banks; the second, covers the arrears arising from foreign suppliers' credits; and the third establishes a framework for the refinancing and forward exchange coverage of the remaining obligations. To administer the last two facilities a new trust fund, FICORCA (Foreign Exchange Risk Coverage Trust Fund), has been established.

In the case of arrears on interest payments on loans from foreign commercial banks to the Mexican private sector which accumulated over the period September 1, 1982 through January 31, 1983, a deposit scheme was set up in December 1982 whereby the local debtor could deposit with the Bank of Mexico the peso counterpart of the outstanding external interest payment obligation. The amount to be deposited was calculated on the basis of the controlled exchange rate prevailing on the date on which the deposit was constituted. The Bank of Mexico agreed to remit abroad foreign exchange equivalent to 10 per cent of the total of these deposits upon their constitution, and it established a special foreign currency denominated deposit for the remaining obligations in the name of the foreign lender; these accounts bear competitive interest rates. A total of US$60 million was paid to the foreign creditors at the beginning of February and another US$37 million was paid at the beginning of April. The agreement with the banks calls for additional monthly payments, subject to the availability of foreign exchange; any outstanding balance as of September 30, 1983 is to be refinanced as a medium term loan on terms to be agreed with individual banks. Foreign exchange for interest payments falling due after January 31, 1983 can be obtained through the controlled exchange market.

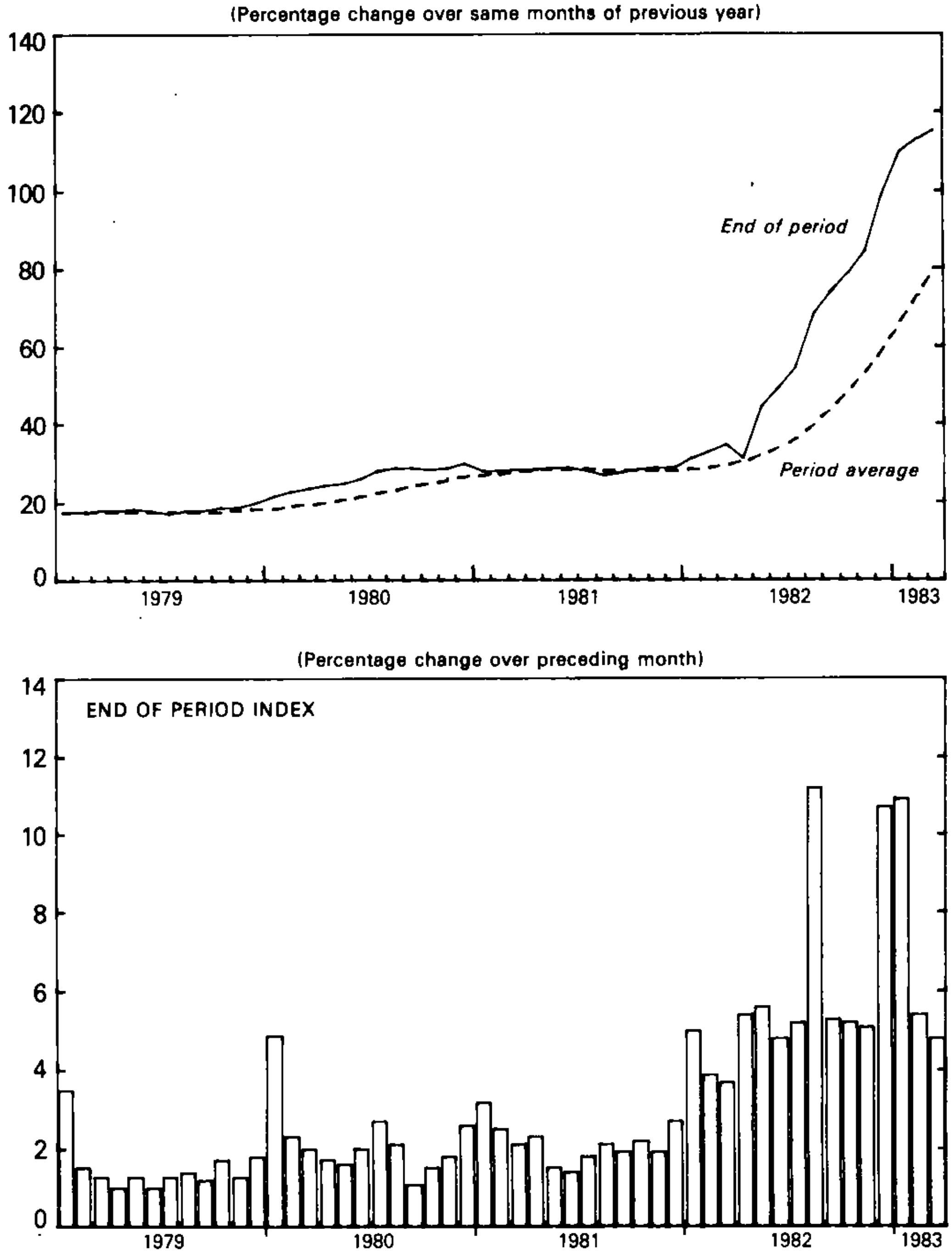
With respect to the external payment arrears arising from foreign suppliers' credits to the Mexican private sector, on February 28, 1983 the Bank of Mexico announced the establishment of a facility whereby the domestic user of credits of this nature outstanding as of December 20, 1982 may deposit the peso equivalent of the payments falling due through June 30, 1983 with FICORCA. These deposits are constituted in local currency and are converted into U.S. dollars at the exchange rate in the controlled market on the date that the deposit is constituted. Should the foreign supplier agree to the transfer of these deposits to his name as a means of payment, the domestic borrower would be relieved of his obligation, which would be assumed by FICORCA. The repayment terms for the obligations assumed by FICORCA are to be announced by the Bank of Mexico after July 15, 1983, the final date for the establishment of the deposit by the domestic borrower. As an alternative to utilizing the new deposit scheme, domestic borrowers who have obligations in arrears can settle them through the free market, or they can enter a queue to obtain foreign exchange at the controlled market exchange rate from the Bank of Mexico. Exporters, may allocate up to 20 per cent of their export receipts to the servicing of outstanding obligations abroad, or up to 100 per cent of the receipts of new exports approved under special export agreements with the Government.

The authorities also are seeking to encourage foreign creditors to restructure the external debt of the private sector so as to ease the pressure that the service of this debt generates on Mexican private firms, particularly in the light of the depreciation of the peso. To encourage such restructuring, a third scheme was announced on April 6 that would permit those firms who had obligations outstanding as of December 20, 1982, and whose debt is refinanced at specified minimum terms, to spread the losses arising from the depreciation of the peso over the period of the new maturity of the loan. This scheme enables the local firm to obtain forward coverage for the foreign exchange needed to service its foreign credits at a cost that is spread over the life of the rescheduled loan. A Mexican debtor who is willing to constitute a deposit in pesos with FICORCA for an amount equivalent to the value of the obligation abroad can 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. The interest foregone on these deposits is estimated to offset the initial exchange rate discount because the Mexican debtor will continue to pay interest on the obligation to the foreign creditor. Should the Mexican debtor opt to get coverage for the interest payments due abroad as well, the conversion will be made at the controlled rate prevailing on the date the deposit is constituted. To be eligible for the scheme the rescheduling has to be for at least 6 years, with 3 years grace if the coverage sought is only against the principal due abroad, and 8 years, with 4 years grace, if both principal and interest payments due abroad are to be covered. In those instances where the domestic borrower does not have the domestic currency counterpart for the required deposit, it may borrow such funds from FICORCA. Such borrowing, which may cover either the principal or both principal and interest on the obligation, will be at competitive interest rates. The forward cover scheme does not transfer the obligation to FICORCA; the domestic borrower remains responsible vis-a-vis the foreign creditor for the life of the rescheduled loan.

CHART 3

MEXICO

CHANGES IN THE NATIONAL CONSUMER PRICE INDEX



Source. Bank of Mexico.

Given the short time elapsed since the adoption of the economic recovery program, it would be premature to make definitive judgments about the results of the policies being implemented, but indications are that the program is moving on track. In the first three months of 1983, the Bank of Mexico gained about US$1.3 billion in net international reserves, in contrast with a US$1.9 billion loss in the last quarter of 1982. This development, which compares favorably with the program target of no reserve loss in the first quarter of 1983, has reflected in part the fact that the Central Government has made little use of central bank credit in the first quarter of 1983. The net domestic assets of the Bank of Mexico experienced a contraction (adjusted for changes in exchange rate) of about Mex$186 billion in the first quarter of 1983, compared with an expansion of Mex$21 billion authorized under the program. In another positive development, the monthly rate of price increase as reflected by the consumer price index, which in last December and January had been above 10-1/2 per cent--as major corrective price adjustments were being effected--dropped to 5.4 per cent in February and 4.8 per cent in March (Chart 3).

IV. Summary of Policy Discussions

At the time the mission began its work in Mexico City, there was great uncertainty as to the prospects for the international petroleum market and the impact of developments in this market on the Mexican adjustment program. Following the announcement of a new price and marketing agreement by the members of OPEC, the Mexican authorities set new prices for their crudes retroactive to February 1. In the case of the light crudes, Isthmus, the authorities announced a drop in the price from US$32.50 to US$29.00 a barrel, while in the case of the heavier Maya crudes, the price was lowered from US$25 to US$23 a barrel. Given that Mexico's petroleum exports are divided almost equally between light and heavy crudes, the price adjustment represented a drop of some US$2.75 a barrel in the average export price. The authorities reconfirmed their intention to maintain overall production at about 2.75 million barrels a day, and their exports at 1.5 million barrels a day. In recent months exports had exceeded this figure--the average export level was almost 1.8 million barrels a day in the four months period ended December 1982--but in the first quarter of 1983 the volume fell to about 1.4 million barrels a day as price uncertainties reduced external demand.

The authorities indicated that if oil prices remain around the levels prevailing now and if they can achieve the export volume planned, the fall in petroleum export prices can be absorbed without need for adjustment measures in addition to those already contemplated in the program, given the favorable impact on Mexico's balance of payments and fiscal accounts of the decline that has occurred in international interest rates. While it is estimated that each dollar drop in the average petroleum export price costs Mexico some US$550 million in annual export receipts, each percentage point drop in the interest rate yields a saving of about US$700 million a year in interest payments abroad. The average effective interest rates are currently about 2 percentage points below those that had been assumed when the program was being framed and about 1-1/2 percentage points below the average levels prevailing in 1982. The authorities indicated, however, that should petroleum prices drop significantly below their current levels, they would need to review their economic strategy and adjustment program to determine what additional action would be required.

The current account of the balance of payments is now expected to show a somewhat smaller deficit than originally projected under the adjustment program--that is US$2 billion rather than US$4.2 billion (see Table 3), because of the need to accommodate certain net capital outflows by the private sector related to the liquidation of some short-term debt and other trade credit obligations abroad including some payments of arrears. The level of imports consistent with the revised projection is somewhat lower than that originally projected for 1983, but is equivalent in nominal terms to that of 1982. The overall balance of payment targets, however, remains as originally programed.

1. Fiscal policy

As regards the public finances, the authorities reiterated their intention to maintain the overall public sector deficit for 1983 at no more than Mex$1,500 billion, the limit specified in the program. Whether the ratio of the deficit of GDP might change from that presented when the program was framed was not yet clear; the information on production and prices in 1983 was still too limited to determine whether a change in the projection of nominal GDP was in order. They indicated that the revenue and expenditure measures that had been contemplated at the time the program was announced had been implemented as planned. They also told the mission that it was their aim to maintain the nominal expenditure ceilings that had been approved in the budget, despite the fact that certain key variables--such as the levels of the exchange rate and of domestic interest rates--had turned out to be somewhat different from those originally assumed when the budget had been prepared. Also, unforeseen domestic developments could give rise to higher expenditures for certain entities; for example, the less than favorable prospects for agricultural production will make it necessary to increase CONASUPO's imports. They explained that to cope with this kind of a situation the budget had set aside certain global authorizations for expenditure which were not allocated to particular expenditure categories. A portion of these global authorizations would be allocated soon, and the authorities would take that opportunity to identify more clearly those areas which were to be given priority, while enforcing a tighter fiscal discipline in other areas. The remaining margin would only be allocated gradually during the course of the year, as needs arose. In addition, the program foresaw the possiblity of additional expenditures beyond those approved in the budget, to the extent that revenues not contemplated in budgetary projections materialized. Thus far, no increases in the budget authorizations had been granted and no allocation of the global authorizations had been made.

With respect to revenues, the authorities pointed out that Congress had introduced only minor modifications to the tax package that had been proposed in the budget, the most important of these being the exemption from the value added tax granted to some processed foods which may result in a revenue shortfall of some Mex$50 billion (about 0.3 per cent of GDP). Nevertheless, the authorities had acted to strengthen revenues further by introducing measures not originally included in the budget, for example, a new tax of Mex$1 per kilowatt hour on electricity consumption. So far, total receipts had been adequate, despite some shortfall in revenues from imports and the value added tax. The authorities confirmed their intention to undertake periodic revisions of the prices charged for public sector goods and services. They indicated that another upward revision in the price of gasoline and petroleum derivatives was being planned for the beginning of April. (Since the return of the mission a 20 per cent price increase in the price of gasoline was implemented on April 6, together with adjustments in the prices of various petroleum products.)

The mission acknowledged the efforts involved in the measures already implemented by the authorities to strengthen the public finances, but it noted the importance of reaffirming the ceilings on expenditures applicable to the decentralized state enterprises and of identifying those programs of lower priority which could be either postponed or dropped altogether. It stressed the need to monitor closely the performance of public sector revenues and expenditures. With respect to the performance of the value added tax, the mission noted that the fall in imports and economic activity was undoubtedly affecting collections, but it added that perhaps there was a greater incentive to evade this tax in view of the higher rates now imposed. There was a discussion of the ways in which the administration of this tax might be strengthened. The mission also discussed with the authorities the substantial exchange losses incurred in late 1982 and early 1983 as a result of the special conversion rate for the Mexdollar operations. To cover any such losses during 1983, further budgetary measures may be required as there had been no provision for them in the original budget appropriations.

The Mexican representatives said that they were very much aware of the problems faced in attaining the fiscal target. They noted that the special conversion rate for the Mexdollar had been eliminated (in March 1983) and that resources obtained in the controlled market would not be used to supply the free market. Thus, they expected no further exchange losses. They indicated that they would seek to offset any exchange losses that may have arisen in ways that would avoid disruptive effects on the 1983 program. They added that the budgetary situation--both from the side of revenue and expenditure--would be kept under close review.

2. Monetary and credit policies

The authorities observed that interest rates had been adjusted substantially since November 1982 and would continue to be adjusted as needed to meet the goals of the program. The rate of absorption of financial resources by the barking system in the first two months of 1983 had been quite strong and, although the rate of growth had been slower in March, the results for the first quarter of 1983 were in line with the amounts programed for the year as a whole. With regard to the interest rates on preferential loans, discussions had been initiated with the World Bank and the Inter-American Development Bank on arrangements for a gradual adjustment of these rates so as to reduce the overall level of subsidies in these operations by tying lending rates to the average cost of funds. While interest rate subsidies needed to be reduced, there was also a need to continue making available a certain amount of credit at preferential rates in order to prevent a further fall in economic activity. Of course, to the extent that inflation was reduced, existing interest rates subsidies would automatically be reduced. In the area of housing, there were plans to introduce a system of variable amortization payments to facilitate the reduction of interest rate subsidies while keeping monthly payments of moderate levels in the early period of such loans.

The authorities recognized that during 1981 and 1982 there had been a significant crowding out of the private sector in the domestic credit market. For 1983 they reaffirmed their commitment to maintain the limits on the use of domestic financing by the public sector so as to assure an adequate availability of funds for the private sector. The demand for private credit had been weak in the first months of this year and this was obviously related to the fall in economic activity. In addition, there had been a major increase in liquidity late last year as a result of the subsidies generated by the liquidation of the Mexdollar operations and by the accumulation of external payment arrears. The deposit scheme being set up in connection with the external payments arrears would help tighten financial markets. Only after this had occurred would it be possible to evaluate the volume of domestic financial savings which the economy was willing to generate and the genuine demand for credit.

3. Incomes and price policies

The Mexican representatives explained that the strategy with respect to wage policy had been to limit as much as possible the wage adjustment granted at the beginning of the year while holding out the promise for a smaller adjustment sometime by midyear. This strategy allowed them to break the link between past inflation and wage adjustments. They thought that it was particularly important to keep wage adjustments moderate in order to try to maintain the level of employment. To implement such a strategy, without having to go back to Congress for a midyear adjustment in minimum wages, it had been necessary to modify the wage law, which previously only provided for annual revisions of minimum wages. The mission indicated that there was some danger that pressures would develop for more frequent wage adjustments, which may jeopardize the domestic stabilization efforts, but the Mexican representatives pointed out that under the modified law, the prerogative of calling for a meeting of the tripartite Wage Council to consider any modification to the minimum wages still remained with the Minister of Labor.

During the negotiations with the unions that led to the December adjustment in minimum wages, the Mexican representatives continued, the Government had agreed to try to maintain the purchasing power of wages vis-a-vis a basket of 17 food products. (Expenditures on these 17 products are estimated to represent about one third of the expenditure of workers earning one minimum salary.) However, the link between the prices of these products and the minimum wage was not an automatic one, as was demonstrated by the fact that price revisions had been carried out for some of these products since December. Only four of these 17 products were currently receiving direct subsidies from the public sector.

With respect to price controls, the authorities pointed out that a major liberalization of price controls had been implemented in January 1983 when, out of a total of some 5,000 items that had been subject to price controls, about 2,500 items were totally freed from controls and another 2,200 were put into a category of supervised prices whereby the Ministry of Industry and Commerce had only to be notified of the changes made in their prices. Some 300 items remained subject to direct control, including clothing, household articles, basic industrial inputs, agricultural machinery and foodstuffs--among which are the 17 food products mentioned above. Changes in the prices of the controlled products had to be justified on the basis of increases in costs.

4. External policies

The Mexican representatives stressed that substantial efforts had been made since the start of the economic recovery program to restore normalcy to the external sector. Of course, the situation was still far from what might be termed normal, but many of the practices now in effect had to be viewed as temporary and characteristic of a period of transition.

a. Exchange rate policy

In establishing the exchange system that became operative on December 20, 1982, the authorities had sought to have an exchange rate in the controlled market that reflected the new circumstances of Mexico's balance of payments. Thus, the initial rate that was established involved a sharp real depreciation as compared with the past. This strategy attempted to take into account not only the behavior of prices in Mexico and its main trading partners, but the effects of the contraction of world trade, the changes in the terms of trade, the need to avoid reliance on subsidies to exports, and the changes that had occurred in Mexico's access to the international capital markets. It is the intention of the authorities to maintain this rate in real terms, and the pace of (daily) adjustment of the rate has been based on the expected inflation differential between Mexico and its main trading partners.

With respect to the free market--where about one fourth of the transactions take place--the rate at which the commercial banks started to operated took into account the quotations then prevailing in the parallel market. Thus, it was considered possible that the peso might appreciate some in this market as confidence returned. In any case, with the controlled market rate depreciating in nominal terms and the free market rate appreciating some, or perhaps remaining relatively unchanged, there would tend to be progress toward an eventual unification of the rates in the two markets.

The authorities reported that in the month of January the strategy outlined above had worked quite well. The commercial banks operating in the free market accumulated a surplus in their operations in this market and there was a slight appreciation of the peso in the free market. The limits which had been initially set by the banks for individual transactions 1/ (of US$1,000 per person per transaction and US$5,000 per firm per transaction) were soon relaxed. However, in early February, with the weakening of the international oil market, and because the timing of the new loan agreement with foreign commercial banks differed somewhat from that originally expected, pressures developed in the free market. To cope with these developments, the banks operating in the free market reinstated the practice of establishing limits to individual transactions. As a consequence, a parallel market reappeared in the border areas, and at one point quotations in this parallel market differed by as much as 10 per cent from those in the free market. However, after the announcement of the new oil prices, the rate in the border areas has tended once more to approach the free rate.

The mission dicussed with the authorities the need to maintain flexibility in the management of the exchange rate and to allow the free market to serve as an escape valve for the system. Such flexibility, particularly as it applied to the free rate, was the best defense against the buildup of speculative positions and the subsidization of capital flight.

b. External payments arrears and external debt policies

The mission discussed at some length with the authorities the new arrangements being developed for the settlement of outstanding external payments arrears, particularly as they concerned suppliers' credits that had been contracted abroad by the private sector. The authorities indicated that they wished to proceed to an early regularization of these arrears but the magnitude of the task had to be recognized given the large number of claims involved and the difficulty of establishing the appropriateness of some of these claims. Over 34,000 claims had been filed in the registry 2/ set up by the Ministry of Commerce and

1/ Although these limits were set for individual transactions no limits were established on the number of transactions that could be effected by any single individual or firm.

2/ Since late 1982 all supplier credits have to be registered with the Ministry of Commerce and Industrial Development and private sector obligations with foreign financial institutions have to be registered with the Ministry of Finance and Public Credit.

Industrial Development, for an amount in excess of US$5 billion. In processing these claims the authorities were finding duplicates with other claims already processed under the scheme established to take care of the arrears in interest payments to foreign commercial banks. In addition, some claims had already been paid abroad through the free market.

With the establishment of the new deposit scheme for the suppliers' credits arrears to be administered by FICORCA, the authorities hope to be able to sort out the unwarranted claims and sterilize the excess liquidity that had been generated by these arrears. Once the arrears have been appropriately identified and quantified, a system for their eventual settlement could be developed. Participation in the deposit scheme was limited to obligations which had been contracted before December 20, 1982, and the authorities were hoping to be able to eliminate the arrears arising from these obligations over a 24-month period. Obligations contracted in connection with imports made after that date are being guaranteed access to either the controlled or free market, according to the nature of the license issued to authorize such imports; thus, no new arrears should arise out of these operations.

In the case of arrears on credits that had received guarantees from official agencies of other governments, the Mexican authorities hope to reach understandings with these agencies on their refinancing and eventual settlement, and steps are being taken to arrange discussions with these agencies in this regard. There was some advantage in handling the negotiation for the settlement of these credits as a group and in a multilateral setting, rather than trying to negotiate with each individual creditor, in that this would appear to permit a quicker solution to the problem. However, there was a danger that negotiations of this kind would give rise to pressures on the Mexican Government to assume all of the private obligations in question. Such a development would not only be detrimental in that it would overburden the debt servicing capacity of the public sector, but it could also affect adversely the future flow of credit to the private sector. Although the authorities were trying to find solutions to the problem of transferability of these obligations abroad, they did not want to absorb the commercial risk involved in these operations. A practical problem that had been encountered in connection with these obligations was to ascertain which obligations had received guarantees abroad, since in most cases the local debtor had no *a priori* knowledge of the existence of such guarantees; thus, a system would have to be devised to match the claim submitted from abroad with the deposits being made locally.

As a result of the massive debt restructuring that has been negotiated, the burden of servicing the external debt is expected to ease over the next few years. Although the debt service ratio is expected to increase sharply by 1987, the debt burden as measured by the ratios of interest payments to GDP and debt to GDP is expected to show a sustained decline. Based on the terms negotiated on the commercial bank debt and the impact of projected new inflows, the ratio of actual debt service to exports of goods and nonfactor services is expected to decrease sharply in 1983 and 1984 (Table 5); thereafter this ratio will increase on account of both the debt contracted in 1981-82 and the impact of the new bank rescheduling. By contrast, debt as a proportion of GDP is expected to fall, from 34 per cent in 1982 to about 30 per cent in 1985 and to 25 per cent in 1987, and the ratio of interest payments to GDP is also expected to decline, both on account of a reduced debt burden and lower nominal interest rates projected for the period.

c. Commercial policy

With respect to trade policies, the mission inquired about the timetable for the trade liberalization program and the reform of the system of effective protection. The authorities explained that the structure of the import tariff was being reviewed in light of the aim of moving to a pattern of effective protection that enhanced allocative efficiency. Steps had been taken to lower the existing import tariffs on some 1,800 items in January and they expected that the work of revising the current tariff structure would be completed in the next six months. At that time a new tariff structure would be put into place, and once this was done they would proceed with the gradual phasing out of the present system of prior import permits.

Currently most imports are subject to prior licensing. Although some 350 tariff items (covering spare parts for industry, agro-industry, and service activites) have been liberalized since the beginning of December, the amounts involved in this liberalization constitute only a small proportion of total imports. Some 3,400 tariff items are eligible to receive licenses allowing them access to the controlled market, while the remaining items were supposed to go through the free market. For the first quarter of 1983 a limit of US$3 billion had been set on total import license authorizations, but of this amount only US$1.7 billion had been authorized through the end of February. The authorities indicated that the reason for this had been the desire to avoid placing unduly large pressures on the exchange market at a time when the financing arrangement with the foreign commercial banks had not yet been concluded.

The mission noted that while the need for regulating the issuance of import licenses that had access to the controlled exchange market could be understood, access to the free market should not be restricted. Direct control through prior import licensing, it was noted, was not an efficient mechanism for the management of external transactions and would bring with it the same kinds of problems and inefficiencies as the use of exchange controls had produced earlier, namely the generation of inflationary pressures and the risks of production bottlenecks.

Table 5. Mexico: Summary of External Public Sector Debt Operations and Projections, 1979-87

				Prel.	Projections 1/				
	1979	1980	1981	1982	1983	1984	1985	1986	1987
	(In billions of U.S. dollars)								
Total flows (net)	3.1	4.8	17.8	9.0	4.1	5.3	4.2	4.9	4.9
Direct debt 2/	3.3	4.1	17.8	6.8	5.0	4.0	3.0	3.2	3.5
Disbursements 3/	(10.6)	(7.8)	(23.1)	(19.6)	(23.1)	(9.5)	(12.9)	(10.5)	(21.2)
Refinancing	/--/	/--/	/--/	/7.6/	/15.0/	/4.1/	/--/	/--/	/--/
Other	/10.6/	/7.8/	/23.1/	/12.0/	/18.1/	/5.4/	/12.9/	/10.5/	/21.2/
Amortizations 3/ (payments due)	(7.3)	(3.7)	(5.3)	(12.8)3/	(18.1)	(5.5)	(9.9)	(7.3)	(17.7)
1982-84 refinancing	/--/	/--/	/--/	/--/	/7.6/4/	/--/	/--/	/--/	/6.7/
Other new disbursements (net)	/--/	/--/	/--/	/--/	/--/	/0.1/	/0.3/	/2.2/	/3.5/
Other	/7.3/	/3.7/	/5.3/	/12.8/	/10.5/	/5.4/	/9.6/	/5.1/	/7.5/
Bank of Mexico (net) 5/	-0.2	--	--	2.2	-0.9	1.3	1.2	-0.3	-0.6
Interest payments (total)	2.9	4.0	5.5	7.8	7.7	8.0	8.2	8.3	8.6
Debt service payments due 6/	10.3	7.7	10.3	12.8	14.1	13.5	18.1	15.9	26.9
Debt service payments paid 6/	10.3	7.7	10.3	11.6	9.2	9.4	18.1	15.9	26.9
External debt outstanding	29.9	34.5	53.2	61.2	65.3	70.6	74.8	77.7	80.7
Direct debt	29.8	34.5	53.2	59.0	64.0	68.0	71.0	74.2	77.7
Of which: PEMEX contracts	(--)	(0.7)	(0.2)	(1.6)	(--)	(--)	(--)	(--)	(--)
Bank of Mexico	0.1	--	--	2.2	1.3	2.6	3.8	3.5	3.0
Nationalized bank debt outstanding	5.1	7.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
	(In per cent)								
Selected indicators									
Effective interest rate	10.3	12.5	12.7	13.6	12.2	11.8	11.3	10.9	10.9
Debt service ratio (including IMF) 7/									
On payments due prior to refinancing	67.6	33.2	35.6	42.1	43.4	40.2	48.8	40.6	65.5
On actual payments	67.6	33.2	35.6	38.0	28.2	27.0	48.8	40.6	65.5
Interest payments ratio to GDP 8/	1.9	1.9	2.0	4.3	4.0	3.8	3.4	3.0	2.8
External debt ratio to GDP 9/	19.9	16.4	20.0	33.4	34.0	32.5	30.0	27.4	25.2

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

1/ All debt maturities falling due between August 1982 and December 1984 are being restructured over a maximum of eight years ending in 1990, with a maximum of four years of grace; new debt contracted in 1982 has a maturity of six years, with three years of grace.
2/ Includes direct debt of the Central Government, the government development banks, and forward petroleum sale contracts of PEMEX.
3/ Includes net changes in short-term debt.
4/ Repayment of bank debt postponement agreed in 1982, amounting to US$7.6 billion.
5/ Includes purchases from IMF.
6/ Amortization on medium- and long-term debt and interest on total debt outstanding; includes IMF.
7/ Ratio of debt service to exports of goods and nonfactor services.
8/ Net of interest on gross international reserves.
9/ Net of gross international reserves.

V. 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 (December 13, 1982). Changes which have occurred in the system since that time have been discussed in previous sections of this paper.

Multiple currency practices arise from the operations 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 cost, 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.

VI. Staff Appraisal

Mexico confronted a severe economic crisis in 1982. A marked deterioration of the public finances, together with the adverse outlook in international markets for petroleum and other Mexican export products, led to growing doubts about economic management in general and the sustainability of the exchange rate policy in particular. Such doubts gave rise to recurring and increasingly serious episodes of capital flight. In early 1982 the Bank of Mexico had to withdraw from the exchange market and the peso depreciated substantially, but the positive

1/ For transactions effected prior to May 5, 1983, the applicable rates were Mex$75=US$1 for loans with maturities of eight or more years, Mex$81=US$1 for loans with maturities of seven years, and Mex$84=US$1 for loans with maturities of six years.

impact of that depreciation was eroded by a lax wage policy which added to the difficulties faced and had an adverse effect on confidence. Although steps were taken subsequently to try to cope with the internal and external imbalances--including the adoption of generalized exchange controls and trade restrictions--these attempts could not and did not arrest the economic deterioration. As the crisis of confidence intensified, capital inflows virtually ceased and the deficit in the current account of the balance of payments declined abruptly and sharply in an inevitable adjustment to the tigthening of the capital account. Meanwhile, the fiscal deficit widened significantly, owing in part to the emergence of large exchange losses connected with the administration of the exchange control system. The rate of inflation, in turn, accelerated to an unprecedented pace, economic growth came to an abrupt halt, and employment dropped.

To deal with the economic crisis and to lay the basis for a return to a sustained growth of output and employment, the authorities formulated in late 1982 a medium-term economic recovery program. This program has received the support of the Fund through an extended arrangement approved in December 1982. The program emphasizes the need to reduce sharply the public sector deficit, reflecting the high priority given to the objectives of slowing inflation and reducing the reliance on foreign borrowing in financing capital formation. The program is based on the premises that strengthening of the balance of payments, re-establishing confidence, and maintaining the competitiveness of the economy are essential for the recovery of economic activity and the return to strong and lasting growth.

The new Administration which took office on December 1, 1982 has moved quickly and forcefully to implement the adjustment effort underlying the extended arrangement. There was a sharp devaluation of the peso and a significant adjustment in the domestic price of petroleum products in December; also the public sector budget for 1983 incorporated substantial cuts in expenditure programs and changes in taxes designed to bolster revenues. The changes introduced in the exchange system since last December have resulted in the elimination of an important source of subsidies, and the adjustment of the prices charged for many public sector goods and services has reduced subsidies further. In addition, wage adjustments have been moderate, price controls have been liberalized, and interest rates have been raised to encourage financial savings.

As already indicated, a key component of the authorities' economic program is the strengthening of the public finances. The actions just referred to are already bringing about a significant improvement in the fiscal situation. Nonetheless, in the forthcoming months, control over public expenditures will remain essential to the efforts to reduce the fiscal deficit. The budget approved at the beginning of the year is consistent with the achievement of the deficit targeted under the program. It is important to emphasize that reducing the growth of public expenditure to a rate consistent with a substantial slowdown of inflation is a tall order, indeed, and will call for strict fiscal discipline. Particular attention should be given to ensuring that the government agencies and public enterprises implement their expenditure plans in a manner consistent with the overall program.

Monetary policy in general and interest rate policy in particular will need to be directed to the establishment and maintenance of conditions that are more attractive to savers than those available in foreign money and capital markets and alternative uses for these funds domestically. In the recent past, interest rates in Mexico have been adjusted substantially. However, the question of the adequacy of the country's interest rate policy needs to be kept under close review, to ensure that it promotes the growth of savings and is consistent with the exchange rate policy being followed. With respect to the availability of preferential credits and the interest charged on those credits, the policy also should be kept under review to avoid the generation of subsidies through the financial system and to reduce, in due course, existing subsidies.

The authorities have reaffirmed their intention to maintain the limits on the use of domestic financing by the public sector, and thus assure an adequate availability of funds for the private sector. The staff believes this to be particularly important for the return of confidence and for permitting a prompt recovery of private economic activity.

The minimum wage adjustment granted last December can be viewed as moderate, especially when compared with the ongoing rate of inflation or even with the one projected under the program for the year ahead. Thus, the action taken can be regarded as making an important contribution to the severing of the wage-price spiral. But the modification in the minimum wage law introduced late last year has opened the possibility of revision of minimum wages more than once a year, a change that could increase the complexity of wage policy. In general, the authorities will need to continue to show great caution and restraint in the area of wage policy since slippages could severely undermine the adjustment effort; it may be recalled that the incipient stabilization effort in 1982 was dealt a serious blow by inadequacies in wage policy.

The authorities have been making corrective changes in public sector prices and controls on private sector prices have been relaxed. These actions should help to reduce distortions in the use of resources and reduce the dangers of a rise in unemployment because of a cost-price squeeze. It should be stressed that price adjustments of the kind just mentioned, whether in the public or private sector, should not be used to justify compensatory wage adjustments, because these would nullify such corrective price and exchange rate adjustments and perpetuate inflation. In the same vein, attempts to control the prices of some products, whether by direct controls or by the use of subsidies, do not help solve the problem of inflation or provide genuine protection to the purchasing power of the population.

The sharp depreciation of the peso in the controlled market which took place last December increased considerably the competitiveness of the Mexican economy. The authorities have since resumed a policy of daily adjustments of the controlled rate and are currently depreciating the peso at an annual rate of 50 per cent (in terms of the local currency), a rate which the authorities estimate is in line with the expected differential of inflation between Mexico and its main trading partners for the year ahead. With respect to the free market rate, the authorities established an initial rate considerably more depreciated than the one in the controlled market and one that they felt was competitive with the rates being quoted at the time in the parallel market. The underlying rationale for such a choice was the assumption that at that level a margin of undervaluation existed and that as market forces were allowed to operate and confidence returned the free rate was likely to appreciate, thus tending to converge toward the controlled rate.

The recent softening of the international oil markets and the changes in the timing of the disbursements of foreign loans have had adverse effects on the exchange market situation. Rather than allowing the free rate to adjust to the new situation, the trade system has continued to be managed in a restrictive manner and commercial banks reinstated guidelines as to maximum amounts available for individual transactions. As a consequence, there has been a revival of a parallel market although the spread currently is very limited. In the staff's view, the authorities would be well advised to allow the free market to serve as a true safety valve for the system, and to be prepared to accelerate the move toward a unified exchange rate, to facilitate achievement of the country's balance of payments aims and to avoid undue pressures on international reserves. Until stabilization is effectively achieved, exchange rate flexibility obviously has to be attuned to the task of maintaining external competitiveness, but it is also important to recognize that it may be the best means of dealing with the problem posed by shifts in confidence.

With respect to commercial policy, the steps taken so far in the direction of liberalization have been modest, but the staff recognizes that under the circumstances the authorities have to proceed cautiously until the aggregate demand and balance of payments policies that are being implemented have had a chance to take hold. Nonetheless, the staff feels that it is important that importers who are restricted in their access to licenses under the controlled market be given authorization to import through the free market. It is only in this manner that one will avoid the development of production bottlenecks and distortions that would affect output and employment.

The authorities have embarked on a major restructuring exercise for Mexico's external debt, and the relief obtained in the repayment of obligations to foreign financial institutions is significant. However, the debt management problems will be solved on a lasting basis only through the reduction in the public sector reliance on foreign borrowing.

The authorities have indicated that the multiple currency practices and restrictions on payments and transfers for current transactions described in Section V above continue to be transitional measures and that it is their intention to reunify the exchange system. With respect to the outstanding external payments arrears, the authorities have indicated their intention to negotiate with foreign creditors for a prompt and orderly settlement of these arrears and new facilities have been developed for that purpose. Moreover, it is not their intention to use these new arrangements to introduce new or intensity existing restrictions. The staff, therefore, recommends temporary approval of these measures.

To conclude, the Mexican authorities are engaged in a medium-term economic program designed to lower inflation and strengthen the balance of payments, thereby creating the bases for the sustained growth of output and employment. While it will be some time before the full effects of the adjustment program become evident, the policy actions taken so far have been forceful and in line with the intentions stated at the time of the inception of the extended arrangement and, thus, augur well for the success of the program.

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

Review Under the Extended Arrangement

The Fund and Mexico have conducted the review pursuant to paragraph 4(c) of the extended arrangement for Mexico (EBS/82/208, 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. The Fund finds that no new understandings are necessary regarding circumstances in which purchases may be made for the period after May 15, 1983 and until the next review under the arrangement.

1983 Article IV Consultation

1. The Fund takes this decision relating to Mexico's exchange measures subject to Article VIII, Sections 2 and 3, in light of the 1983 Article IV consultation with Mexico conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Mexico maintains multiple currency practices and exchange restrictions as described in Section V of SM/83/70. In view of the circumstances of Mexico, the Fund grants approval of these multiple currency practices and restrictions until May , 1984, the completion of the next review under the extended arrangement, or the completion of the next Article IV consultation, whichever is earlier.

Fund Relations with Mexico

Status: Article VIII.

Quota: SDR 802.5 million.

Fund holdings of Mexican pesos:

As of March 31, 1983	Millions of SDRs	Per Cent of Quota
Total	1,103.5	137.51
Credit tranches	200.6	25.0
Extended Fund Facility	100.3	12.5

SDR Department:

As of March 31, 1983	Millions of SDRs	Per Cent of Allocation
Net cumulative allocation	290.0	100.0
Holdings	1.1	0.4

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 are operative in Mexico; a controlled market, covering specified transactions, and a free market. The exchange rate in the controlled market is established by the authorities who currently preannounce the rates for periods of two weeks in advance. This rate is being adjusted by Mex$0.13 per day (or the equivalent of about 50 per cent per annum). As of April 22, 1983 the rate in the controlled market was Mex$111.09 per US$1 selling and Mex$110.99 per US$1 buying. The free rate as of April 22, 1983 was Mex$149.40 per US$1 selling and Mex$147.90 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, and a special rate of Mex$50=US$1 to the repayment of certain obligations by financial institutions and leasing companies.

Last consultation: The last Article IV consultation discussions were completed by the Executive Board on July 16, 1982 (SM/82/121, SM/82/124, and EBM/82/100).

MEXICO

Area and population	
Area	1,958,201 sq. kilometers
Population (mid-1982)	73.0 million
Annual rate of population increase (1976-82)	3.0 per cent
GDP (1982)	SDR 163 billion
	US$180 billion
	MexS9,256 billion
GDP per capita (1982)	SDR 2,204

Origin of GDP (1982)	1979	1980	1981	Prel. 1982
		(In per cent)		
Agriculture, livestock, and fishing	9.2	8.3	8.1	7.3
Mining (including petroleum)	5.5	8.1	6.3	8.1
Manufacturing	22.1	21.7	22.3	20.8
Construction	6.3	6.5	7.0	6.6
Electricity	1.0	1.0	0.9	0.8
Commerce	20.7	19.8	23.2	23.0
Transport and communications	6.6	6.6	6.6	6.3
Financial services	8.6	7.9	8.0	8.4
Other services	20.0	20.1	18.8	20.0
Ratios to GDP				
Exports of goods and services	12.0	13.4	12.7	16.9
Imports of goods and services	16.1	17.4	18.5	18.6
Current account of the balance of payments	-4.1	-4.0	-5.8	-1.7
Central government revenue	13.5	15.9	16.1	15.4
Central government expenditure	16.8	19.0	22.9	25.4
Public sector savings	3.0	2.1	-0.9	-6.4
Public sector deficit overall surplus or deficit (-)1/	-6.8	-7.7	-14.8	-18.6
External public debt (end of year)	19.9	16.4	20.0	33.4
Savings	21.8	24.1	23.2	19.2
Investment	25.9	28.1	29.0	20.9
Money and quasi-money (end of year)	30.9	30.7	33.5	35.8
Annual changes in selected economic indicators				
Real GDP per capita	6.3	5.3	5.2	-2.7
Real GDP (at 1970 prices)	9.2	8.3	8.0	-0.2
GDP at current prices	31.2	39.4	37.4	57.6
Domestic expenditure				
(at current prices)	32.0	39.1	38.7	48.0
Investment	(43.8)	(51.4)	(41.7)	(13.6)
Consumption	(28.4)	(34.9)	(37.5)	(61.7)
GDP deflator	20.2	28.7	27.2	57.8
Wholesale prices (annual averages)	18.3	24.5	24.5	56.1
Consumer prices (annual averages)	18.2	26.3	27.9	58.9
Central government revenue	35.9	65.2	39.0	49.9
Central government expenditure	38.6	58.6	65.2	74.5
Money and quasi-money	35.5	38.3	49.9	68.4
Money	(33.1)	(33.1)	(32.8)	(62.9)
Quasi-money	(36.9)	(41.3)	(59.1)	(70.9)
Net domestic credit 2/	42.8	46.3	69.3	51.1
Credit to public sector (net)	(23.0)	(21.6)	(45.3)	(63.9)
Credit to private sector	(22.1)	(25.7)	(23.0)	(-6.0)
Merchandise exports (f.o.b., in U.S. dollars)	47.8	70.7	23.7	6.2
Merchandise imports (f.o.b., in U.S. dollars)	51.3	52.9	29.5	-39.6

Federal government finances	1979	1980	1981	Prel. 1982
	(In billions of Mexican pesos)			
Revenue	412.8	681.8	947.7	1,420.9
Expenditure	514.1	815.5	1,347.5	2,351.5
Current account surplus	28.5	71.2	19.0	-437.7
Overall deficit (-)	-101.3	-133.7	-399.8	-930.6
Public sector finances				
Current account surplus	93.0	89.0	-56.0	-587.0
Overall deficit (-)	-209.9	-331.1	-873.5	-1,722.9
Balance of payments	(In billions of U.S. dollars)			
Merchandise exports (f.o.b.)	9.9	16.9	20.9	22.2
Merchandise imports (f.o.b.)	-12.1	-18.5	-24.0	-14.5
Travel and border transactions (net)	1.1	1.0	0.1	1.0
Interest on public debt	-2.9	-3.9	-5.5	-7.8
Other factor income (net)	-1.2	-2.1	-4.0	-3.1
Other services and transfers (net)	-0.4	-1.2	-1.4	-0.8
Balance on current and transfer accounts	-5.5	-7.7	-13.9	-3.0
Official capital (net)	3.3	4.8	17.8	6.8
Private capital and errors and omissions (net)	2.5	3.8	-2.8	-10.1
SDR allocations and gold revaluation	0.6	--	--	--
Change in official net reserves (increase -)	-0.9	-0.9	-1.1	6.3

International reserve position	Dec. 31 1980	Dec. 31 1981	Dec. 31 1982	Mar. 31 1982
	(In millions of SDRs)			
Monetary authorities (net)	2,966.4	4,222.6	-1,228.2	-17.0 3/
Monetary authorities (gross)	3,084.7	4,339.0	1,584.2	2,208.9

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 a liability the disbursements under the BIS loan and the arrears on interest payments on private debt with foreign commercial banks.

Mexico: Selected Economic and Financial Indicators

	1980	1981	Prel. 1982	Program Proj. 1983
(Annual per cent changes, unless otherwise specified)				
National income and prices				
GDP at constant prices	8.3	8.0	-0.2	--
GDP deflator	28.7	27.2	57.8	80.7
Consumer prices (end of period)	29.8	28.7	98.8	55.0
Overall public sector				
Receipts	47.1	37.1	74.2	88.8
Outlays	49.3	64.7	82.3	50.3
External sector (on the basis of U.S. dollars)				
Exports, f.o.b.	70.7	23.7	6.2	1.8
Imports, f.o.b.	52.9	29.0	-39.6	--
Export volume	(23.5)	(23.6)	(20.2)	(2.8)
Import volume	(34.7)	(18.9)	(-43.3)	(-5.4)
Terms of trade (deterioration -)	(21.4)	(-8.0)	(-17.0)	(-8.0)
Nominal effective exchange rate (appreciation -) 1/	-0.8	2.6	90.2	...
Real effective exchange rate (appreciation -) 1/	-9.3	-12.1	24.2	...
Money and credit				
Domestic credit (net) 2/	47.4	76.0	186.2	45.0
Public sector 2/	(22.2)	(50.0)	(167.1)	(23.6)
Private sector 2/	(25.9)	(24.6)	(17.5)	(22.8)
Money and quasi-money (M4)	38.3	49.9	68.4	51.9
Velocity (GDP relative to M4)	3.3	3.0	2.8	3.4
Interest rate (annual rate, one-year term deposits) 3/	28.0	35.0	50.0	...
(In per cent of GDP)				
Overall public sector savings	2.1	-0.9	-6.4	0.9
Overall public sector deficit	-7.7	-14.8	-18.6	-8.5
Domestic financing	5.2	7.3	14.8	5.1
Foreign financing	2.5	7.5	3.8	3.4
Gross domestic investment	28.1	29.0	20.9	21.8
Gross national savings	24.1	23.2	19.2	20.7
BOP-current account deficit	-4.0	-5.8	-1.7	-1.1
External public debt 4/				
Inclusive of use of Fund credit	16.4	20.0	33.4	34.0
Interest payments on external public debt 5/	1.9	2.0	4.3	4.0
(In per cent of exports of goods and nonfactor services)				
Debt service 5/	33.2	35.6	38.0	28.2
(In billions of U.S. dollars)				
Overall balance of payments	0.9	1.1	-6.3	2.0
Gross official reserves (months of imports)	2.5	2.6	0.9	2.5

Sources: Bank of Mexico; Ministry 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.