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December 24, 1992

To: Members of the Executive Board

From: The Acting Secretary

Subject: Mexico - Staff Report for the 1992 Article IV Consultation and Review Under the Fourth Year of the Extended Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1992 Article IV consultation with Mexico and a review under the fourth year of its extended arrangement. A draft decision appears on page 13.

This subject has been tentatively scheduled for discussion on Monday, January 25, 1993.

Mr. Reichmann (ext. 38610) or Ms. Coorey (ext. 38484) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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Department Heads

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INTERNATIONAL MONETARY FUND

MEXICO

Staff Report for the 1992 Article IV Consultation and Review Under the Fourth Year of the Extended Arrangement

Prepared by the Western Hemisphere and Policy Development and Review Departments

Approved by S.T. Beza and J. Ferrán

December 22, 1992

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I. Introduction

Discussions on the 1992 Article IV consultation with Mexico and on the review under the fourth year of the extended arrangement from the Fund were conducted in Mexico City during October 12-23 and November 23-24, 1992. 1/ The extended arrangement was approved on May 26, 1989 in an amount equivalent to SDR 2,797.2 million (240 percent of quota), and was augmented subsequently by the equivalent of 40 percent of quota in support of debt-service reduction operations. On May 20, 1992, the Executive Board extended the arrangement for a fourth year and augmented access by another 40 percent of quota; the authorities have chosen not to make any purchases under the fourth year of the arrangement. At end-November 1992, total Fund credit to Mexico stood at the equivalent of SDR 4,380 million or 250 percent of new quota. Fund credit will decline at about 45 percent of quota a year over the next five years (Table 1).

The last Article IV consultation with Mexico was concluded by the Executive Board on November 6, 1991 (EBS/91/173 and SM/91/211). At that time Directors commended the policies pursued by the authorities and agreed that Mexico had made significant progress in addressing its macroeconomic and structural problems; however, concern was expressed about the persistence of inflation, the sustainability of the external current account deficit, and the decline in private savings. Mexico has accepted the obligations of Article VIII, Sections 2, 3, and 4 and is on the standard 12-month consultation cycle.

II. Recent Developments and Performance Under the Extended Arrangement

In late 1988 Mexico introduced a comprehensive economic program aimed at reducing inflation, strengthening the balance of payments, and fostering the conditions for sustained economic growth. The program was centered on a tightening of fiscal and credit policies and was reinforced by a wage-price pact that included a preannounced exchange rate crawl and specified adjustments to public sector prices and wages. The program also envisaged the deepening of structural reforms and agreement on a more permanent solution to the external debt problem.

From 1988 to 1991 fiscal and credit policies were strengthened. The primary fiscal surplus in 1989-91 amounted on average to 7.1 percent of GDP (compared with 4.4 percent in the preceding three years), while reductions in nominal and real interest rates contributed to a decline in the public sector borrowing requirement from 12.9 percent of GDP in 1988 to 0.2 percent of GDP in 1991 and to a corresponding shift in the operational balance from a deficit of 4.4 percent of GDP to a surplus of 2.2 percent of GDP

1/ The staff team consisted of T. Reichmann (Head), J. Baldrich, S. Coorey (all WHD), M. Savastano (PDR), and P. Perone (EP-WHD). Mr. Marino, Executive Director for Mexico, participated in the discussions.

(Chart 1). 1/ In addition, wide ranging structural reforms were undertaken, and Mexico's external debt and debt-service payments were reduced under a financial package with commercial banks. 2/

The growth of real GDP increased from 1.5 percent a year in 1987-88 to about 4 percent in 1990-91, while inflation declined from 52 percent in 1988 to 19 percent in 1991 (Table 2). From 1988 to 1991 gross domestic investment in relation to GDP rose by almost 2 percentage points. Public sector saving also rose, but this rise was more than offset by a decline in private saving and the external current account deficit widened from 2.2 percent of GDP in 1988 to 4.7 percent in 1991 (Table 3). With a return of flight capital and Mexico's renewed access to voluntary external financing, the capital account shifted from a net outflow of US$2.9 billion in 1988 to a net inflow of US$21 billion in 1991, making possible an accumulation of net international reserves of close to US$10 billion during 1989-91. By end-1991, gross liquid reserves had reached US$17.9 billion, equivalent to 5.6 months of merchandise imports, up from 2.9 months of imports at end-1988.

The program for 1992 maintained the policy stance of the first three years of the extended arrangement. The rate of inflation was projected to decline to 10 percent and real GDP to grow by 4 percent. Gross domestic investment was expected to increase by more than national saving and the external current account deficit was projected to widen to 5 percent of GDP. Continued strong private capital inflows were expected to raise net foreign reserves by at least US$1.5 billion.

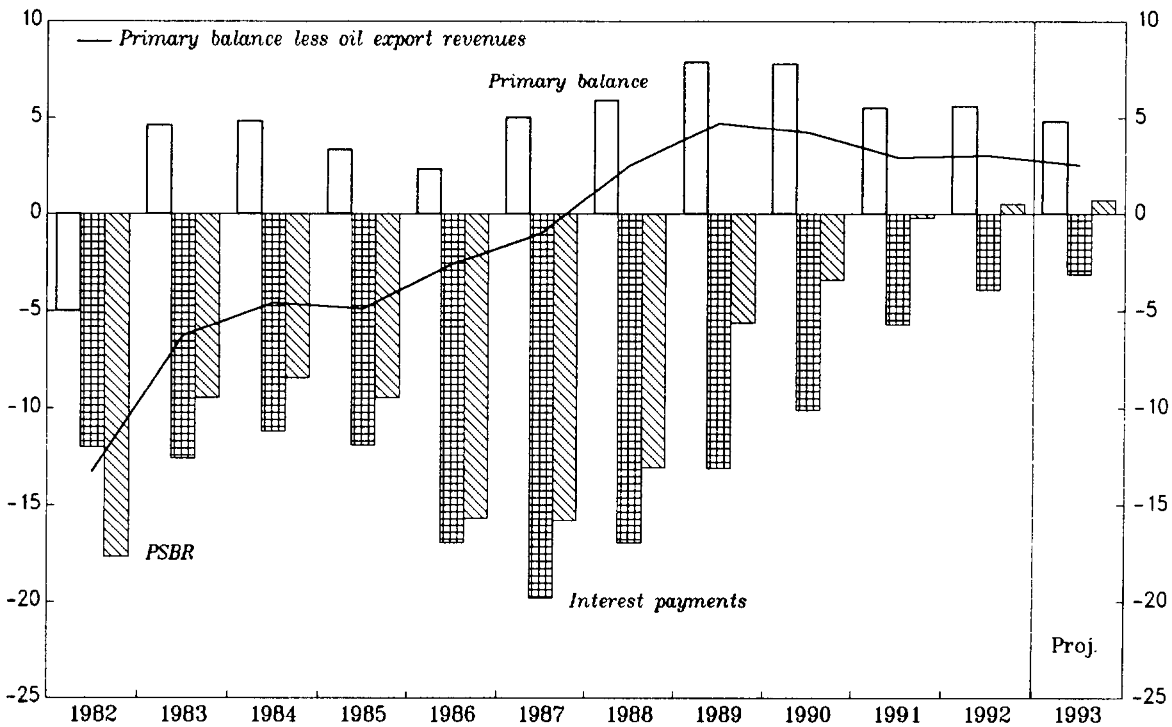
In November 1991 the wage-price pact (PECE) was extended through end-January 1993. Movements of the peso with respect to the U.S. dollar were limited to a band, the upper end of which would be adjusted daily by Mex$0.20 per U.S. dollar (equivalent to an annual nominal depreciation of 2.4 percent). In addition, the minimum wage was increased by 12 percent, the value-added tax was reduced from 15 percent to 10 percent, and substantial adjustments were made to public sector prices, particularly those of petroleum products and electricity.

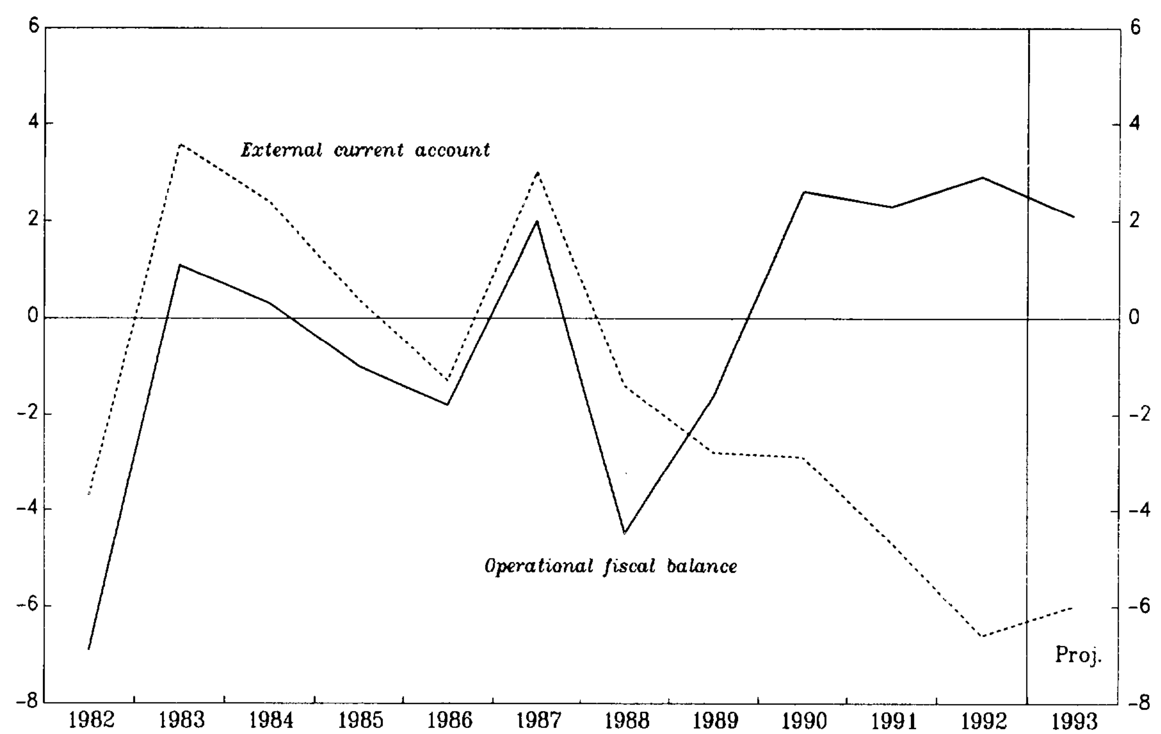
Economic developments continued to be broadly satisfactory in 1992. Consumer price inflation declined from 18.8 percent in 1991 to a cumulative 10.4 percent through November 1992 while real GDP grew by 2.8 percent in the first 9 months of the year over the same period in 1991. Notwithstanding a continued strong performance of the public finances, a further decline in private saving caused the external current account deficit to widen to some 6 1/2 percent of GDP in the first three quarters of 1992.

1/ All these indicators exclude proceeds from the privatization of TELMEX and the commercial banks, which amounted to some 3 percent of GDP in 1991.

2/ The main structural reforms and the financial agreement with commercial banks were described in EBS/91/53, (3/27/91). For a description of developments during 1991 see EBS/92/70, (4/22/92).

CHART 1
MEXICO
FISCAL AND EXTERNAL DEVELOPMENTS 1/
(In percent of GDP)





Sources: Mexican authorities; and Fund staff estimates.

1/ Excludes proceeds from privatization in 1991 and 1992.

Information through September 1992 indicates that developments in the fiscal area were in line with the program and that fiscal performance for 1992 as a whole could be expected to replicate that of 1991 (Table 4). The primary surplus is projected to amount to 5.6 percent of GDP (excluding proceeds from privatization of some 3 percent of GDP) and, reflecting a further drop in interest payments, the overall result of the public finances is projected to shift from a small deficit in 1991 to a surplus of about half a percentage point of GDP in 1992. The domestic public debt would drop to less than 12 percent of GDP by the end of 1992.

Public sector revenues are expected to turn out as programmed, maintaining the ratio to GDP attained in 1991. However, as envisaged in the program, this is partly the result of non-recurrent revenues 1/ of some 0.7 percent of GDP that, together with improved collections of other taxes, offset the reduction in revenues caused by the lowering of the rate of the value-added tax in late 1991. Non-interest expenditures of the public sector are also projected to maintain the level of 1991 in terms of GDP. Reduced outlays for investment and other current expenditures are expected to offset greater outlays on wages and salaries related to pay increases for teachers and to the voluntary separation programs of personnel in public enterprises, particularly PEMEX and the railway company.

The process of financial reintermediation that followed the liberalization and reform of Mexico's financial markets--and had resulted in sharp increases in both M-4 and credit to the private sector during 1989-91--came to an end in 1992 as the growth of M-4 is projected to slow down to about 6 percent in real terms (Table 5). However, the fiscal surplus and, in particular, the repurchase of commercial bank holdings of government debt with privatization proceeds, created room for a further increase in bank credit to the private sector, which is projected to expand by 23 percent in real terms in 1992.

Measures taken in the second quarter of 1992 to contain short-term foreign borrowing by commercial banks 2/ together with a number of factors that adversely affected the public's perception about the sustainability of the exchange rate (including concerns about the continuation of capital inflows into Latin America, delays in the conclusion of negotiations on NAFTA, and a drop in the Mexican stock market) resulted in a slowdown in the inflow of foreign resources and in upward pressure on interest rates. After some hesitation, prompted by their concern for the financial health of some of the newly privatized banks, the authorities allowed domestic interest

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1/ Including a number of one-time increases of miscellaneous taxes and the proceeds from the liquidation of FICORCA.

2/ In April 1992, liquidity requirements on short-term external borrowing by commercial banks were extended to cover all foreign currency liabilities at a uniform rate of 15 percent. Banks were also required to limit the proportion of these liabilities to 10 percent of total liabilities; this latter limit was increased to 14 percent in November 1992.

rates to rise and this eased pressures on the exchange rate and reserves. By early December, the interest rate on 28-day treasury bills (CETES) had dropped below 17 percent, compared with a peak of close to 20 percent in October and a low of less than 12 percent in March.

The external current account deficit is projected to widen to some US$21 1/2 billion (6.6 percent of GDP) in 1992, from US$13 1/2 billion (4.7 percent of GDP) in 1991. This change reflects mainly the growth of merchandise imports to more than US$47 billion in 1992, some 25 percent higher than in 1991 (Table 6). At the same time, manufactured exports (including the value added in in-bond industries), which comprise 67 percent of total exports, are estimated to grow by 9 percent in 1992, despite the recession in Mexico's main trading partners and the appreciation of the peso in real effective terms by some 6 percent (Chart 2).

The rate at which the peso appreciated during 1992 was considerably lower than in previous years, reflecting mainly the narrowing of the inflation differential between Mexico and its trading partners. Under these circumstances, the continued growth of manufactured exports would seem to indicate that the improvement in competitiveness provided by the large depreciation of the peso in 1986-87 and by the decline in real wages during the early 1980's has not been fully eroded. Competitiveness also benefitted from the elimination of exchange restrictions and the surrender requirement of export proceeds, the financial reform that lowered financial costs for the export sector, the simplification of procedures and regulations, and other structural measures.

The official capital account is likely to show a small outflow in 1992, partly as a result of the early repayment of credits in the context of debt-reduction operations. Net private capital inflows are projected to reach some US$23 billion, permitting net international reserves to increase by almost US$2 billion for the year as a whole. Gross reserves at end-December 1992 would exceed US$19 billion (equivalent to almost five months of merchandise imports).

Direct investment would account for over one fourth of the private capital inflows, and portfolio investment (almost evenly split between sales of stocks of Mexican companies and investments in Mexican public bonds) for approximately half of the total. Mexico's net external public debt (including to the Fund) 1/ is expected to decline by about US$1 billion in 1992 to an end-year level of US$74 billion (equivalent to 23 percent of GDP). Private sector external debt (including commercial bank debt) is projected to increase to US$25 billion (7 1/2 percent of GDP) at end-1992, from an estimated US$19 billion at end-1991.

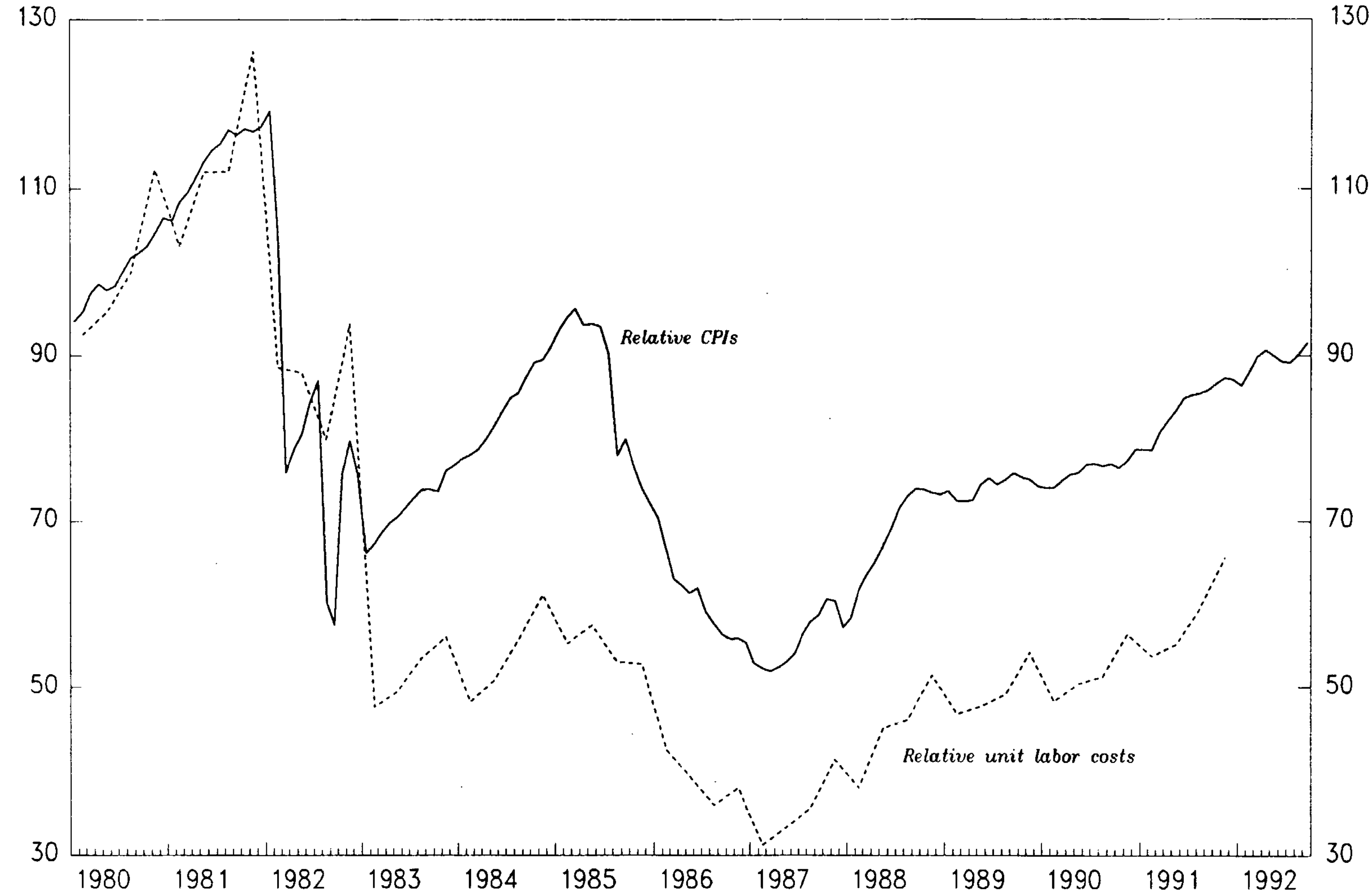
1/ Net of foreign assets held by the Government (excluding Bank of Mexico), which include the U.S. treasury zero-coupon bonds purchased in the context of the 1988 and 1990 debt-conversion operations.

CHART 2

MEXICO

REAL EFFECTIVE EXCHANGE RATES

(Base 1980 = 100)



Sources: Information Notice System; World Economic Outlook; Mexican authorities; and Fund staff estimates.

All quantitative performance criteria in the program were observed through September 1992 (Table 7).

III. Policy Discussions

1. Overview

The review of developments under the program supported by the extended arrangement noted the progress made thus far. The rate of inflation has declined significantly and important structural reforms have been carried out. The strengthening of the public finances has been maintained and has resulted in a substantial reduction of domestic and external public debt. At the same time, however, certain concerns and risks also were noted. In particular, the pace of real GDP growth has slackened and the continued expansion of imports has resulted in a marked widening of the current account deficit, a development largely related to the continued decline of private saving in relation to GDP.

In these circumstances, the authorities reaffirmed their intention to persevere with the process of adjustment and structural reform. They also emphasized the urgency of addressing the social needs that had been neglected during the preceding decade while the economy struggled with inflation and low growth. Thus, the authorities' economic program for 1993 aims at lowering inflation to about 7-8 percent, maintaining real GDP growth of about 3 percent, deepening structural reforms--particularly in the direction of improving efficiency and productivity--and intensifying the public sector's activity in the social areas.

The authorities agreed that these objectives needed to be underpinned by the continuation of prudent financial policies, especially in light of the risks mentioned above. They noted that the 1993 budget would virtually maintain the strong fiscal position of 1992 and indicated that they would allow credit conditions to tighten in response to any reduction in private capital inflows. The staff made the point that in such circumstances the authorities should be prepared to strengthen fiscal policy in order to avoid placing an undue burden on monetary policy and to limit adverse effects on private investment.

As regards the recent slowdown in real GDP growth and the continuing decline in private sector saving, no comprehensive explanations were readily available. The authorities saw the slowdown in the rate of growth of GDP partly as a transitory phenomenon related to the changing productive structure of the economy. As the economy has opened up and the exchange rate has appreciated in real effective terms, firms in previously protected sectors had lost competitiveness while new and more efficient firms were still in the process of increasing production. In addition, growth appears to have been affected by the recession in trading partners and the increase in domestic interest rates during part of 1992.

The decline in private sector saving--going beyond significant measurement problems--seemed to be associated with the improvement of the public finances, in particular with the reduction in the public debt and the resulting lower payments of interest by the public sector. 1/ In addition, the opening of the economy and the real appreciation of the peso since 1988 may have spurred consumption. It was also pointed out that private expenditure may be responding to an increase in private sector wealth caused by the sharp rise of values in the real estate and stock markets with the improved health of the economy. The authorities indicated that as the economy moved to consolidate the gains made in regard to inflation, and the appreciation of the real exchange rate came to an end, private saving should strengthen, encouraged also by the increase in real rates of interest that had occurred recently. The system of retirement savings introduced in mid-1992 was off to a promising start, but it was too early to judge whether the funds collected under this scheme represented additional saving.

On October 20, 1992 the authorities announced the renewal of the wage-price pact through the end of 1993. While the basic approach to exchange rate policy was maintained, the daily adjustment of the upper limit of the exchange rate band was increased, and this widening of the band would make room for a faster pace of nominal depreciation of the peso than in the past year. The agreement also provided for a forward looking adjustment of wages and public prices both of which will be limited to less than 10 percent in 1993. The minimum wage was set to increase by 7.3 percent on January 1, 1993, approximately in line with the projected rise of consumer prices during 1993.

2. Fiscal policy

The budget for 1993 envisages that the overall public sector surplus (PSBR cash basis) would increase slightly, from 0.5 percent of GDP (excluding proceeds from privatization) in 1992 to 0.7 percent in 1993. The authorities noted that the strong fiscal effort of past years and the economies created by the privatization program had reduced public debt and interest payments, making it possible to lower the primary surplus in the context of a continued satisfactory fiscal position. Accordingly, within the overall improvement of the public finances, both the primary and the operational surpluses would decline in 1993 by 0.8 percent of GDP, to 4.8 percent and 2.1 percent, respectively.

The decline in the primary surplus is explained entirely by a reduction in budgetary receipts in relation to GDP, which would reflect the absence of the one-time revenue measures that had been introduced in 1992 and a fall in oil export revenue. Non-interest expenditures are projected to remain unchanged from 1992, with some further decline in investment offsetting increases in wage and transfer expenditures. The authorities indicated that

1/ Appendix I of the accompanying Recent Economic Developments paper discusses some of the issues relating to private sector saving in Mexico.

this shift in expenditure reflected the expansion of social spending, particularly in the areas of education and health, which they regarded as investment in human capital. Thus, the budgeted increase in wages reflects mostly the partial recovery by workers in the education and health areas of the purchasing power lost over the past decade. 1/ Outlays on the anti-poverty program, PRONASOL, are expected to increase by close to 5 percent in real terms. Overall, expenditures in the social area, including health and education, are projected to comprise 40 percent of the budget (9.5 percent of GDP). Military expenditure amounts to 0.4 percent of GDP.

In response to the staff's concerns about reducing the primary surplus at a time when the external situation showed signs of weakness, the authorities indicated that the budget emphasized restraint in the early part of the year (beyond that given by seasonality considerations) and that, if needed, they were prepared to cut authorized expenditures and to take other measures to tighten fiscal policy.

3. Monetary policy

Monetary and credit policies in 1993 will be geared to support exchange rate policy in a situation in which the public finances are in surplus and inflation is on a downward trend. The authorities envisage an increase in currency consistent with the reduction of inflation that is being sought, and intend to limit the Bank of Mexico's net domestic assets so as to ensure a further moderate increase in international reserves. Private sector financial assets (M-4) are projected to increase in real terms by 5 percent in 1993, continuing the deceleration observed in 1992. With the tapering off of the process of privatization, the banking system's credit to the nonfinancial public sector in 1993 will show a smaller decline than that registered in 1992. Consistent with these projections, credit to the private sector would increase in real terms by some 12 percent during 1993, down from 23 percent in 1992.

The authorities reiterated their intention to make active use of open market operations to offset fluctuations in private capital inflows. They indicated that they were prepared to allow interest rates to increase to whatever level is necessary to attain a savings-investment balance consistent with available external financing. In the meantime, the authorities are strengthening the supervision of and prudential requirements for the

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1/ The increased expenditures on education reflect a movement to reform the educational system (particularly at the primary level) that involves the transfer to the states of increased responsibilities in this area, a general increase in teachers' salaries, and other measures. These developments, together with actions to combat poverty are described more fully in Appendix II of the Recent Economic Developments paper.

banking system. 1/ Capitalization requirements were increased to 7 percent of the bank's assets in 1992 and are slated to go up by an additional percentage point in 1993, contributing to the slowing of the growth of bank credit to the private sector.

4. External policies

As agreed in the extension of the PECE, the value of the peso is to fluctuate within a band whose upper end is adjusted daily by Mex$0.40 per U.S. dollar. This would widen the band to some 9 percentage points by end-December 1993, and would provide room for a nominal depreciation of some 6 1/2 percent with regard to the U.S. dollar when measured from the position on October 20, 1992 when this policy was announced. The increased flexibility of the exchange rate that is made possible can serve to discourage short-term speculation while continuing to provide a stable environment for other international transactions.

With the additional room for nominal depreciation and the reduction in inflation expected for 1993, the authorities thought it reasonable to expect that, in real effective terms, the exchange rate would remain constant during 1993, if not show some depreciation. Nevertheless, aware of the risks that remain in this area, they reaffirmed their intention to tighten financial policies as needed to protect the external position. Also, the authorities confirmed their commitment to maintain Mexico's exchange system free of restrictions on the making of payments and transfers for current international transactions.

In the light of the announced exchange rate policy, the authorities considered that the deterioration of the external current account was nearing an end. On the export side they expected a recovery of manufactured exports as a result of the coming on stream of a number of major investments in the automotive and textile sectors and given the recent signs of improved economic activity in the United States. As regards imports, they explained that the sharp growth of imports in recent years reflected in good part the effects of the opening of the economy, which had generated a temporary bulge in the purchase of durables, and of larger imports of capital goods associated with the expansion of foreign direct investment. For 1993 they envisaged that a recovery of private sector savings and a slowing in the growth of credit to the private sector would (in the context of an expected moderate growth of the economy) result in a marked slowdown in the rate of increase of imports.

Present indications about foreign direct investment plans and about the conditions in international capital markets led the authorities to believe that financing for the current account deficit projected for 1993 would be

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1/ The Fund has been providing technical assistance to the authorities in this area. A description of the pertinent regulations is provided in Appendix III of the Recent Economic Developments paper.

available, and that financing terms would continue to improve, notwithstanding that in recent months the yield spread required to place longer-term Mexican paper in the market had increased.

The authorities expect to consolidate the gains from the opening of the Mexican economy through several trade initiatives. Negotiations on the North American Free Trade Agreement (NAFTA) ended in August 1992 and its ratification by the legislative bodies of Mexico, Canada, and the United States is expected by mid-1993. 1/ The authorities consider that approval of this agreement will help to strengthen investment and employment, ensure access to partner countries' markets for Mexican exports, and facilitate the transfer of advanced technology. Bilateral trade flows with Chile expanded significantly during the past 12 months as the free trade agreement signed in 1991 came into effect. The authorities expect a similar outcome from the trade initiatives currently under negotiation with Bolivia, Colombia, Venezuela, and the Central American countries.

IV. Medium-Term Outlook and Capacity to Repay the Fund

Mexico's medium-term outlook should be seen in the light of the policy achievements of recent years, including in particular the attainment of a surplus in the public finances, the implementation of structural reforms that have increased efficiency, the opening of the economy and diversification of the export base, and the completion of the debt package with commercial banks. The favorable medium-term prospects that derive from these accomplishments are tempered, however, by the unexpectedly sharp expansion of private sector expenditure that has taken place, which has resulted in a substantial widening of the current account deficit and increased dependence on private capital flows.

As noted above, there are reasons to expect that the current account deficit will cease to widen. Nonetheless, the authorities recognize that developments under such a scenario are predicated on the maintenance of a strong fiscal position. The scenario set out in Table 8 envisages that the rate of growth of output will gradually approach 6 percent a year on the basis of an increase in the ratio of investment to GDP of some 2 1/2 percentage points. The public sector would maintain an overall surplus of about 1/2 percent of GDP, which would result in the full amortization of its domestic public debt by 1997. Public sector savings would decline slightly, but this would be more than offset by the expected pick-up of private saving. The latter are projected to increase by more than 5 percentage points of GDP over the period, yet by 1997 they still would not have regained the average level of the 1980s. In the meantime, recourse to foreign saving would decline only gradually from the level projected for 1992.

1/ Appendix IV of the accompanying Recent Economic Developments paper discusses some of the consequences of NAFTA for the Mexican economy.

Gross international reserves are projected to be maintained at a satisfactory level (after payments to the Fund) under the assumption that net capital inflows would average some US$24 billion a year in 1993-97, mainly in the form of private sector capital (Tables 9 and 10). However, Mexico's external debt position would remain manageable (even under the conservative assumption that 40 percent of the private sector's financing requirement takes the form of debt creating flows), as a decline in net public external debt would offset the increase in private sector debt. By 1997, total external debt is projected to amount to some 33 percent of GDP, almost evenly split between the private and the public sectors.

The profile of Mexico's balance of payments has changed markedly in recent years. The vulnerability to adverse changes in oil prices or interest rates has been reduced, but that to adverse shifts in private capital flows has increased. In particular, the scenarios presented in Table 11 highlight the sensitivity of the medium-term projections to changes in the assumption about the growth of imports and the corresponding need for financing. Notwithstanding that this dependence on capital inflows reflects primarily private sector behavior, the situation underscores the need for the authorities to exercise vigilance over developments affecting competitiveness and the external position and for maintaining prudent fiscal and monetary policies to help assure external stability.

Mexico always has met its financial obligations to the Fund. The progress made in the implementation of its economic program and Mexico's re-entry into international capital markets have further strengthened its payments capacity. Fund credit amounts to less than 2 percent of Mexico's GDP and to less than 6 percent of the country's total external debt. Mexico's ability to repay the Fund remains strong.

V. Staff Appraisal

Mexico has had considerable success in the pursuit of a comprehensive economic program aimed at reducing inflation, strengthening the overall balance of payments, and fostering the conditions for economic growth. A key element of the program has been the improvement of the public finances, accompanied by extensive and far-reaching structural reforms and by an income and price policy pact that involved broad segments of society with the program. Also important was the orderly restructuring of the country's external debt with the assistance of private and official creditors.

Economic performance continued to be satisfactory in 1992 as fiscal policy was tightened further and structural reforms were deepened. Inflation declined to its lowest level in 20 years and real GDP continued to grow, albeit at a lower rate than envisaged. The increased public saving was not sufficient, however, to cover an increase in investment and a further decline of private saving in relation to GDP. The resulting widening of the external current account deficit was more than covered by an increase in capital inflows, a sizable part of which was in the form of foreign investment, and there was a further increase in international reserves. Through September 1992, Mexico observed all performance criteria under the program supported by the extended arrangement.

While the macroeconomic policies and structural reforms pursued by the authorities have produced positive results, there are risks in the present situation. The rise of private consumption and investment in recent years has been unexpectedly strong. Even though the rate of growth of private expenditure can be expected to taper off, the size of the resulting external current account deficit raises a question about its sustainability. In these circumstances, it is important that the authorities avoid any relaxation of their policy stance and that developments in the balance of payments be monitored closely in order to enable the authorities to respond quickly with corrective measures if these should prove necessary. Tight fiscal and monetary policies also will be required to attain a further meaningful reduction in inflation.

The public finances are expected to show an overall surplus in 1992, even after excluding sizable proceeds from privatization. Given the substantial fiscal adjustment that Mexico has undertaken since the mid-1980s and the strong overall fiscal position that has been achieved, it has to be recognized that a significant further strengthening of the public finances may be difficult to justify and to obtain. Nevertheless, until the private saving/private investment balance shows improvement, maintenance of a strong fiscal position is indispensable. The authorities fiscal plan for 1993 envisages some slight strengthening of the overall balance but at the same time some weakening of the primary balance and of public savings. It would be prudent to limit the reduction in the primary balance until there is evidence that the projected increase in private savings is taking place. The authorities intention to backload any such easing of the fiscal position in 1993 could prove to be helpful in this regard.

Given the announced exchange rate policy, credit policy will need to remain tight to ensure the viability of the balance of payments. In particular, interest rates may need to be raised again to cope with pressures on the exchange rate and on the level of reserves if there should be a diminution of capital inflows. The vulnerability of the domestic financial system to such changes in interest rates points to the desirability of reinforcing its financial soundness by strengthening prudential regulations.

The current exchange rate system has served Mexico well in helping it achieve its program objectives. While the currency has appreciated in real effective terms in recent years, the performance of manufactured exports suggests that the current level of the exchange rate continues to be consistent with the maintenance of a reasonable degree of competitiveness, owing in part to the favorable effects on efficiency of the structural policies that have been implemented. However, in view of the uncertainties posed by the widening of the current account deficit and its financing, the authorities' action to preserve a degree of exchange rate flexibility by widening the band in which the exchange rate is allowed to fluctuate was a welcome step.

In sum, Mexico has made good progress toward the achievement of macroeconomic stability and in transforming the structure of its economy so as to make possible sustained growth. There are risks in the present circumstances, but the authorities have reaffirmed their commitment to the pursuit of sound policies and have indicated their readiness to modify policies as needed. The staff is of the view that continued Fund support of Mexico's program is warranted and recommends that the review under the extended arrangement be completed.

It is expected that the next Article IV consultation with Mexico will be held on the standard 12-month cycle.

VI. Proposed Decision

The following decision is proposed for adoption by the Executive Board:

1. Mexico has consulted with the Fund in accordance with paragraph 4(b) of the extended arrangement for Mexico (EBS/89/91, Sup. 2), as amended, and paragraph 21 of the letter dated April 20, 1992 from the Secretary of Finance and Public Credit and the Director General of the Bank of Mexico, to review implementation of the economic program for 1992.

2. The Fund determines that no further understandings are required and decides that the review contemplated in paragraph 4(b) of the extended arrangement for Mexico, as amended, is completed.

Table 1. Mexico: IMF Position and Schedule of Repurchases

	1991	Est. 1992	Projection 1993	1994	1995	1996	1997
(In millions of SDRs)							
Purchases	932.4	233.1	--	--	--	--	--
Ordinary resources	--	--	--	--	--	--	--
Credit tranches	--	--	--	--	--	--	--
Extended arrangement	--	--	--	--	--	--	--
CCFF	--	--	--	--	--	--	--
Borrowed resources	932.4	233.1	--	--	--	--	--
Repurchases	807.4	631.9	845.9	841.0	754.1	728.1	580.9
Total credit outstanding (end of period)	4,729.9	4,331.1	3,485.2	2,644.1	1,890.0	1,161.8	580.9
(In percent of quota) 1/							
Purchases	80.0	13.3	--	--	--	--	--
Repurchases	69.3	36.0	48.2	48.0	43.0	41.5	33.1
Memorandum items							
Total credit outstanding (end of period)							
In percent of quota	405.8	247.0	198.8	150.8	107.8	66.3	33.1
In percent of GDP	2.4	1.9	1.4	1.0	0.6	0.4	0.2
In percent of exports of goods and nonfactor services	16.2	14.5	11.0	7.3	4.7	2.6	1.2

Sources: International Monetary Fund.

1/ In 1991, as a percentage of old quota; from 1992 onwards, as a percentage of new quota.

Table 2. Mexico: Key Economic Indicators

(Annual percentage change, unless otherwise specified)

						Prog.	Projections	
	1987	1988	1989	1990	1991	1992	1992	1993
Real GDP growth	1.7	1.2	3.3	4.4	3.6	4.0	2.7	3.0
Real aggregate domestic expenditure	-0.7	3.4	6.1	6.5	4.7	4.2	5.4	2.5
Real private consumption	-2.6	2.1	7.3	6.0	4.3	3.5	4.5	0.6
Fixed investment growth	7.1	11.6	5.8	11.2	6.9	7.2	7.9	6.5
Export volume (goods)	23.2	-0.5	5.1	5.4	6.9	7.5	3.2	6.4
Import volume (goods)	1.1	43.6	22.5	19.1	21.6	12.5	24.1	3.9
Terms of trade	1.0	-2.5	4.8	8.2	-4.2	-2.6	1.7	-0.5
Consumer price index (end of period)	159.2	51.7	19.7	29.9	18.8	9.7	11.5	7.5
GDP deflator	139.3	99.5	25.3	29.1	21.2	11.7	14.3	8.5
Nominal exchange rate (end of year) 1/	139.3	3.2	15.8	11.5	4.3	2.4	2.8	4.7
Real effective exchange rate (end of year) 2/	3.8	28.7	1.1	5.9	10.4	...	4.9	...
Real minimum wage	-6.1	-12.4	-6.0	-9.4	-4.5	...	-4.5	...
Nominal interest rate 3/	124.2	52.3	45.0	34.8	19.3	...	15.5	...

Sources: Mexican authorities; and Fund staff estimates.

1/ In Mexican pesos per U.S. dollar. In 1992 and 1993 it refers to the adjustment of the upper end of the exchange rate band.
2/ Based on INS estimates; increase reflects apreciation.
3/ Annual average of one-month treasury bill rate.

Table 3. Mexico: Macroeconomic Flows

(In percent of GDP)

	1987	1988	1989	1990	1991 1/	1992 1/ Prog. 2/	1992 1/ Proj. 3/	1993
I. Balance of Payments								
Current account	2.2	-2.2	-2.9	-3.2	-4.7	-5.0	-6.6	-6.0
Trade balance	6.4	1.5	0.2	-0.4	-2.5	-3.2	-4.5	-4.2
Exports	15.9	13.4	12.6	12.6	11.1	10.3	10.2	10.1
Imports	-9.5	-11.8	-12.4	-13.0	-13.5	-13.6	-14.8	-14.3
Net factor payments	-4.9	-4.2	-3.8	-3.1	-2.4	-2.1	-2.1	-2.0
Other	0.7	0.4	0.7	0.3	0.2	0.3	0.1	0.2
Capital account	2.5	-1.7	2.4	4.6	7.4	5.5	7.1	6.5
NF public sector	2.6	0.3	0.1	-0.4	-0.5	...	--	0.1
Private sector	-0.1	-2.0	2.3	4.9	7.9	5.2	7.1	6.5
Net official reserves (increase -)	-4.7	3.9	0.5	-1.3	-2.7	-0.5	-0.5	-0.5
II. Aggregate Expenditure, Savings, and Investment 4/								
Gross domestic expenditure	93.4	98.4	100.1	101.1	103.1	103.7	105.2	104.8
Consumption	74.0	77.9	78.6	79.3	81.8	80.9	83.2	82.4
Gross domestic investment	19.3	20.5	21.5	21.8	21.3	22.8	22.0	22.4
Public sector	5.2	5.1	4.8	4.9	4.5	5.0	3.9	3.6
Private sector	14.1	15.4	16.7	16.9	16.8	17.8	18.1	18.8
External savings	-2.2	2.2	2.9	3.2	4.7	5.0	6.6	6.0
National savings	21.6	18.2	18.6	18.6	16.6	17.8	15.4	16.4
Public sector	7.3	0.4	3.2	7.5	6.8	7.8	6.8	5.7
Private sector	14.3	17.8	15.5	11.1	9.8	10.0	8.6	10.7
Domestic savings	26.0	22.1	21.4	20.7	18.2	19.1	16.8	18.0
III. Nonfinancial Public Sector								
Public sector savings	7.3	0.4	3.2	7.5	6.8	7.8	6.8	5.7
Fixed investment	5.2	5.1	4.8	4.9	4.5	5.0	3.9	3.6
Other capital expenditures (net)	0.1	-0.1	--	0.1	0.2	-0.1	0.1	0.1
Primary balance	5.0	6.0	8.1	7.8	5.5	5.8	5.6	4.8
Operational balance	2.0	-4.5	-1.6	2.6	2.3	2.8	2.9	2.1
Overall economic balance (accrual)	-15.0	-11.6	-5.5	-2.8	-0.9	1.3	1.4	1.7
Public sector borrowing requirement	15.9	13.2	5.7	3.4	0.3	-0.8	-0.5	-0.7
IV. Financial System Flows								
Liabilities to private sector (M-2)	5.3	5.3	5.3	5.3	5.3	5.0	5.1	3.4
Net domestic credit	14.2	11.4	7.9	5.6	5.1	5.0	6.1	4.8
NF public sector (net)	8.6	6.4	1.5	-1.3	0.5	0.1	-2.4	-0.7
Private sector	7.3	6.1	8.1	7.8	5.8	6.7	9.4	6.3
Other (net)	-1.7	-1.1	-1.7	-0.9	-1.2	-1.7	-0.9	-0.8
Net foreign assets 5/	3.0	-4.0	-0.3	5.6	0.4	0.1	-1.0	-1.4
Net official reserves	4.7	-3.9	-0.5	1.3	2.7	0.5	0.5	0.4
Banking system (n.i.e.)	-1.7	-0.1	0.3	4.3	-2.3	-0.3	-1.5	-1.8
Memorandum items								
Nominal GDP (Mex$ trillion)	192.8	389.3	503.7	678.9	852.8	990.7	1,001.3	1,119.0
Nominal GDP (US$ billion)	139.9	171.2	204.6	241.4	282.5	320.3	323.3	350.7

1/ Excludes proceeds from privatization, which amounted to 3 percent of GDP in both 1991 and 1992.
2/ Based on an average oil price of US$13 per barrel.
3/ Based on an average oil price of US$15 per barrel.
4/ These estimates are derived from balance of payments and fiscal accounts, and do not necessarily correspond to National Accounts estimates. Public sector savings are adjusted for the inflation component of interest payments on domestic debt. Public enterprises are classified as public sector.
5/ Includes medium- and long-term foreign liabilities of the financial system.

Table 4. Mexico: Summary of Public Sector Operations

(In percent of GDP)

	1989	1990	1991 1/	Prog. 1/ 1992	Proj. 1/2/ 1992	Budget 1993
a. Primary surplus (total)	7.9	7.8	5.5	5.8	5.6	4.8
Primary surplus (extrabudgetary)	0.2	0.3	0.1	--	0.1	0.1
Primary surplus (budgetary)	7.7	7.6	5.4	5.8	5.5	4.7
Receipts under budgetary control	27.6	27.2	26.2	26.0	26.2	25.4
Petroleum sector	8.7	8.9	7.9	7.9	7.7	7.5
Exports	3.2	3.6	2.6	2.3	2.6	2.3
Domestic	5.4	5.3	5.3	5.6	5.0	5.2
Nonpetroleum	18.9	18.3	18.3	18.0	18.5	18.0
Public enterprises 3/	6.6	6.3	5.8	6.1	5.8	5.7
Federal Government	12.3	12.0	12.5	12.0	12.7	12.2
Taxes	10.1	10.2	10.7	10.1	10.6	10.6
Income tax	5.3	5.0	5.1	5.0	5.3	5.4
Value-added tax	2.9	3.2	3.4	2.6	2.6	2.6
Nontax revenues	2.2	1.8	1.8	1.9	2.1	1.6
Outlays under budgetary control	19.8	19.6	20.8	20.2	20.7	20.7
Programmable outlays	16.4	16.5	16.9	16.6	17.0	17.3
Wages	5.2	4.9	5.3	6.0	6.3	6.6
Transfers 4/	2.3	2.2	2.6	2.6	2.6	3.2
Investments	2.5	3.1	3.2	2.9	2.9	2.4
Other 5/	6.4	6.3	5.7	5.2	5.2	5.1
Nonprogrammable outlays	3.3	3.4	3.5	3.5	3.7	3.5
Unclassified	0.2	-0.3	0.3	--	--	--
b. Interest payments	13.3	10.7	6.4	4.6	4.2	3.1
External	3.7	3.3	2.3	1.6	1.4	1.3
Domestic	9.6	7.4	4.1	2.9	2.8	1.8
c. Economic balance (a-b)	-5.4	-2.8	-0.9	1.2	1.4	1.7
d. Inflation component of interest payments	3.7	5.4	3.1	1.6	1.5	0.4
e. Operational balance (c+d)	-1.6	2.6	2.3	2.8	2.9	2.1
f. Financial intermediation	0.4	-0.2	0.6	1.0	1.1	1.0
g. Accrued interest	0.2	0.6	0.7	0.5	0.3	--
h. Statistical discrepancy 6/	--	-1.3	0.6	--	--	--
i. Overall financial balance (c-f+g+h)	-5.6	-3.4	-0.2	0.8	0.5	0.7
Memorandum items						
Petroleum price (US$ per barrel)	15.0	18.7	14.6	13.0	15.0	14.2
Revenues from privatization			3.0		3.0	

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

1/ Excludes proceeds from the privatization of TELMEX and the commercial banks.
2/ Based on the revised estimate of GDP.
3/ Includes gross receipts from sales of goods and services, and social security contributions.
4/ Includes capital transfers.
5/ Includes enterprises' operating expenditure other than wages and salaries.
6/ Arises from differences between monetary accounts and the accounts of the Secretariat of Finance and Public Credit in the measurement of the overall fiscal balance.

Table 5. Mexico: Operations of the Financial System 1/

(In trillions of Mexican pesos)

	1989	1990	1991	Projection 1992	Projection 1993
Sources of funds	49.3	58.7	104.5	65.8	57.9
Money and quasi-money	37.8	55.6	83.2	50.5	38.3
Real annual change (in percent)	21.3	12.3	23.8	6.8	5.0
Foreign borrowing	11.5	3.1	21.3	15.3	19.6
Use of funds	49.3	58.7	104.5	65.8	57.9
Net international reserves of Banco de Mexico	-2.1	10.1	23.8	5.5	5.0
Credit to the public sector	19.2	5.5	-2.3	-23.8	-7.8
Credit to the private sector	42.6	61.4	92.3	94.1	70.3
Real annual change (in percent)	48.7	25.6	33.2	23.0	12.5
Net unclassified 2/	-10.4	-18.3	-9.3	-10.0	-9.5
Memorandum items					
Nominal GDP	503.7	678.9	852.8	1001.9	1134.6
Change in M-4	68.2	93.9	91.6	74.5	62.0
Real annual change (in percent)	26.0	12.6	10.2	6.4	5.0

Sources: Banco de Mexico; and Fund staff estimates.

1/ Annual changes.
2/ Includes capital and surplus, net claims on FICORCA, net claims on other trust funds, SDRs holdings, and valuation adjustment.

Table 6. Mexico: Summary Balance of Payments

	1989	1990	1991	Prog.1/ 1992	Est. 1992	Proj. 1993
(In billions of U.S. dollars)						
Current account	-6.0	-7.8	-13.3	-16.2	-21.3	-21.2
Merchandise trade, f.o.b.	0.4	-0.9	-6.9	-10.3	-14.7	-14.7
Exports	25.8	30.4	31.3	33.1	33.0	35.4
Petroleum and derivatives	7.9	10.1	8.2	7.4	8.4	8.4
Other 2/	18.0	20.3	23.1	25.7	24.6	27.0
Imports	-25.4	-31.3	-38.2	-43.4	-47.7	-50.1
Factor income	-7.8	-7.6	-6.9	-6.8	-6.9	-7.0
Interest on public debt	-7.5	-7.5	-6.5	-6.4	-5.7	-5.1
Other interest payments	-1.8	-1.5	-1.9	-1.7	-2.1	-2.5
Other	1.5	1.4	1.5	1.3	0.9	0.7
Other services and transfers	1.4	0.7	0.5	1.0	0.2	0.6
Travel	1.4	1.5	1.9	2.3	1.9	2.2
Border transactions	-0.9	-1.5	-1.7	-1.7	-1.8	-1.8
Other	0.9	0.7	0.3	0.4	0.1	0.2
Capital account	4.9	11.0	20.8	17.7	23.1	22.9
Official capital	0.2	-0.9	-1.5	1.1	-0.5	0.2
Commercial banks	-0.3	1.9	-1.9	-0.4	-1.0	0.1
Multilaterals	0.5	2.7	0.7	0.4	0.4	0.4
Bilaterals and suppliers 3/	1.1	2.1	0.9	1.1	--	0.2
Other (including short term)	-1.2	-7.6	-1.2	-0.1	0.2	-0.5
Private capital	4.7	11.9	22.3	16.6	23.6	22.6
Direct investment	2.6	2.5	4.8	6.2	6.0	6.9
Debt equity conversions	0.4	0.1	1.7	0.2	0.2	--
Net external credits	-0.2	5.4	7.8	6.0	5.7	8.5
Portfolio investment	0.5	2.0	7.5	4.1	10.7	5.5
Others, including errors and omissions	1.4	1.9	0.5	0.1	1.0	1.7
Net international reserves (increase -)	1.1	-3.2	-7.6	-1.5	-1.8	-1.7
(As percent of GDP)						
Memorandum items						
Trade balance	0.2	-0.4	-2.5	-3.2	-4.5	-4.2
Current account balance	-3.0	-3.2	-4.7	-5.0	-6.6	-6.0
Gross international reserves 4/	6.5	10.1	17.9	19.3	19.6	20.0
In months of:						
Merchandise imports	3.1	3.9	5.6	5.2	4.9	4.8
Imports plus interest payments	2.4	3.1	4.8	4.6	4.4	4.3
Crude oil export volume (mns bbl/day)	1.3	1.3	1.4	1.4	1.4	1.4
Average crude oil price (US$/bbl)	15.6	19.2	14.5	13.0	15.0	14.9

1/ Unadjusted for developments in oil prices and revenues from privatization.
2/ Includes net proceeds from in-bond industries.
3/ Including CCC and Paris Club rescheduling.
4/ End of period, excluding balances under bilateral payments accounts.

Table 7. Mexico: Performance Under the Extended Arrangement for 1992

	March	June	September	December
(In billions of Mexican pesos)				
Overall public sector financial surplus 1/2/	16,322	29,357	38,086	
Target				
Unadjusted	1,670	6,120	7,230	7,560
Adjusted 3/4/	12,623	24,599	36,444	
Excess (-)/margin (+)	3,698	4,758	1,642	
Primary surplus 1/2/	29,797	60,859	83,397	
Target				
Unadjusted	14,880	32,070	45,810	57,250
Adjusted 3/4/	25,833	50,549	75,024	
Excess (-)/margin (+)	3,964	10,310	8,373	
Changes in net domestic assets of the monetary authorities 1/2/5/	-10,146	-7,645	-10,007	
Ceiling				
Unadjusted	-3,750	-3,540	-4,710	2,930
Adjusted 3/	-4,172	-4,064	-5,483	
Excess (-)/margin (+)	5,974	3,582	4,524	
(In millions of U.S. dollars)				
Net foreign borrowing by the public sector 1/	600	-1,036	-1,475	
Ceiling				
Unadjusted	1,000	1,350	1,700	2,000
Adjusted 6/	911	76	426	
Excess (-)/margin (+)	312	1,111	1,900	
Change in net international reserves of the monetary authorities 1/	1,377	1,262	1,542	
Target				
Unadjusted	600	900	1,200	1,500
Adjusted 3/	738	1,069	1,449	
Excess (-)/margin (+)	639	193	93	

Source: Bank of Mexico.

1/ Cumulative changes from end-1991.
2/ Effective flows measured on a cash basis.
3/ Adjusted for oil prices and proceeds from privatization; of this, the cumulative upward adjustment for oil prices through September amounted to Mex$158 trillion (US$50 billion).
4/ Adjusted for proceeds from the liquidation of FICORCA in the third quarter.
5/ Defined as the difference between note issue and net international reserves of the Bank of Mexico.
6/ Adjusted for proceeds from privatization received in the form of Mexican debt instruments or used for external debt reduction.

Table 8. Mexico: Medium-Term Scenario

	1990	1991	Proj. 1992	Projection 1993	1994	1995	1996	1997
			(Annual percentage change)					
Real GDP	4.4	3.6	2.7	3.0	3.7	4.3	5.5	5.6
Consumer prices (average)	26.7	22.7	15.6	10.0	7.0	5.0	5.0	5.0
Consumer prices (end-of-year)	29.9	18.8	11.7	8.0	6.0	5.0	5.0	5.0
			(In billions of US dollars)					
External sector								
Current account balance	-7.8	-13.3	-21.3	-21.2	-22.6	-23.3	-23.4	-22.8
Of which: exports (f.o.b)	30.4	31.3	33.0	35.4	38.9	43.5	48.9	55.3
imports (f.o.b)	-31.3	-38.2	-47.7	-50.1	-53.5	-57.9	-62.7	-67.8
interest payments	-9.0	-8.4	-7.8	-7.7	-9.7	-10.5	-11.3	-12.2
Official capital (net)	-0.9	-1.5	-0.5	0.2	0.7	0.8	0.2	0.5
Private capital (net)	11.9	22.3	23.6	22.6	23.5	24.1	24.8	23.7
Net reserve movement (increase -)	-3.2	-7.6	-1.8	-1.7	-1.7	-1.6	-1.6	-1.5
			(In percent of GDP)					
Nonfinancial public sector 1/								
Primary balance	7.8	5.5	5.6	4.8	4.5	3.8	3.0	2.8
Operational balance	2.6	2.2	2.9	2.1	2.5	2.1	1.5	1.5
Overall Balance	-3.4	-0.3	0.5	0.7	1.0	0.8	0.3	0.4
Total public debt 2/	54.9	44.3	35.4	31.0	26.7	23.2	20.4	17.8
Domestic	22.9	17.9	12.7	9.6	6.4	3.8	2.1	0.3
External	32.0	26.5	22.6	21.4	20.4	19.4	18.3	17.4
Savings and Investment 3/								
Gross domestic investment	21.8	21.3	22.0	22.4	23.3	23.5	24.0	24.3
Public sector	4.9	4.5	3.9	3.6	3.6	4.0	4.0	4.0
Private sector	16.9	16.8	18.1	18.8	19.7	19.5	20.0	20.3
Gross national savings	18.6	16.6	15.4	16.4	17.3	17.7	18.6	19.4
Public sector	7.5	6.8	6.8	5.7	6.1	6.1	5.5	5.5
Private sector	11.1	9.8	8.6	10.7	11.2	11.6	13.1	13.9
External savings	3.2	4.7	6.6	6.0	6.0	5.8	5.4	4.9
Memorandum items								
Nominal GDP (billions of U.S. dollars)	241.4	282.5	323.3	350.7	376.8	404.4	435.1	468.1

Sources: Mexican authorities; and Fund staff estimates.

1/ Excludes proceeds from privatization.
2/ Net end-of-year stocks, including IMF.
3/ These estimates are derived from balance of payments and fiscal accounts and do not necessarily correspond to National Account estimates. Public sector savings are adjusted for the inflation component of interest payments on domestic debt. Public enterprises are classified as public sector.

Table 9. Mexico: Medium-Term Balance of Payments Scenario

	1991	Est. 1992	Projections 1993	1994	1995	1996	1997
	(In billions of U.S. dollars)						
Current account	-13.3	-21.3	-21.2	-22.6	-23.2	-23.4	-22.7
Merchandise trade, f.o.b.	-6.9	-14.7	-14.7	-14.6	-14.3	-13.8	-12.5
Exports	31.3	33.0	35.4	38.9	43.5	48.9	55.3
Petroleum and derivatives	8.2	8.4	8.4	8.5	8.8	9.2	9.6
Other 1/	23.1	24.6	27.0	30.4	34.7	39.6	45.7
Imports	-38.2	-47.7	-50.1	-53.5	-57.9	-62.7	-67.8
Factor income	-6.9	-6.9	-7.0	-8.9	-10.1	-11.2	-12.1
Interest on public debt	-6.5	-5.7	-5.1	-5.7	-5.7	-5.8	-5.8
Other interest payments	-1.9	-2.1	-2.5	-4.0	-4.8	-5.6	-6.4
Other	1.5	0.9	0.7	0.8	0.4	0.2	0.1
Other services and transfers	0.5	0.2	0.6	0.9	1.2	1.5	1.9
Travel	1.9	1.9	2.2	2.5	2.8	3.2	3.5
Border transactions	-1.7	-1.8	-1.8	-1.8	-1.8	-1.8	-1.9
Other	0.3	0.1	0.2	0.2	0.2	0.2	0.2
Capital account	20.8	23.1	22.9	24.3	24.9	25.0	24.2
Official capital	-1.5	-0.5	0.2	0.7	0.7	0.2	0.5
Commercial banks	-1.9	-1.0	0.1	0.7	0.9	0.8	1.1
Multilaterals	0.7	0.4	0.4	0.5	0.6	0.7	0.6
Bilaterals and suppliers	0.9	--	0.2	0.4	0.3	--	0.1
Other (including short term)	-1.2	0.2	-0.5	-0.8	-1.0	-1.3	-1.3
Private capital	22.3	23.6	22.6	23.5	24.2	24.8	23.7
Direct investment	4.8	6.0	6.9	7.7	8.5	8.7	9.0
Debt equity conversions	1.7	0.2	--	--	--	--	--
Net external credits	7.8	5.7	8.5	9.5	9.5	10.0	10.5
Portfolio investment	7.5	10.7	5.5	6.2	6.8	6.9	7.1
Others, including errors and omissions	0.5	1.0	1.7	0.1	-0.6	-0.8	-2.9
Net international reserves (increase -)	-7.6	-1.8	-1.7	-1.7	-1.6	-1.6	-1.5
	(As percent of GDP)						
Memorandum items							
Trade balance	-2.5	-4.5	-4.2	-3.9	-3.5	-3.2	-2.7
Current account balance	-4.7	-6.6	-6.0	-6.0	-5.7	-5.4	-4.9
Gross international reserves 2/	17.9	19.6	20.0	20.5	21.1	21.7	22.4
In months of:							
merchandise imports	5.6	4.9	4.8	4.6	4.4	4.2	4.0
imports plus interest payments	4.8	4.4	4.3	4.2	4.0	3.8	3.7
Crude oil export volume (mns bbl/day)	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Average crude oil price (US$/bbl)	14.48	14.98	14.85	15.12	15.73	16.36	17.10

1/ Includes net proceeds from in-bond industries.
2/ End of period, excluding balances under bilateral payments accounts.

Table 10. Mexico: External Debt and Debt Service Indicators

	1989	1990	1991	Est. 1992	Projection 1993	1994	1995	1996	1997
(In billions of U.S. dollars)									
External debt outstanding	95.1	99.4	105.8	107.4	115.9	125.7	135.9	146.1	157.6
Public debt	82.1	84.3	86.7	82.7	82.7	83.0	83.7	83.9	84.9
Direct debt	77.0	77.8	80.0	76.5	77.7	79.3	81.1	82.3	84.1
Medium and long term	76.4	76.6	78.3	72.4	73.6	75.2	77.0	78.2	79.9
Short term	0.6	1.2	1.7	4.1	4.1	4.1	4.1	4.1	4.1
IMF	5.1	6.5	6.8	6.1	5.0	3.6	2.6	1.6	0.8
Commercial banks	8.0	8.6	9.9	12.8	17.0	21.8	26.5	31.5	36.8
Private sector	5.0	6.5	9.1	12.0	16.2	21.0	25.7	30.7	36.0
Financial assets of the Government 1/	0.6	6.9	12.0	8.8	9.3	9.8	10.4	11.1	11.8
Net external public sector debt 2/	81.6	77.4	74.8	73.9	73.4	73.1	73.2	72.9	73.1
External debt service (public debt)	11.8	12.6	11.9	17.6	12.4	12.7	13.2	14.5	14.0
Amortization	4.3	5.0	5.4	12.0	7.3	7.0	7.5	8.7	8.2
Interest	7.5	7.5	6.5	5.7	5.1	5.7	5.7	5.8	5.8
Net resource transfer 3/	1.8	-0.2	-6.4	-14.4	-14.2	-13.7	-13.1	-12.2	-10.6
(As percent of GDP)									
Total external debt	47.2	41.2	37.4	33.2	33.0	33.3	33.6	33.6	33.6
Of which: public sector	40.8	34.9	30.7	25.6	23.6	22.0	20.7	19.3	18.1
IMF	2.5	2.7	2.4	1.9	1.4	1.0	0.6	0.4	0.2
Net external public sector debt	40.5	32.0	26.5	22.9	20.9	19.4	18.1	16.7	15.6
Interest obligations on public debt	3.7	3.1	2.3	1.8	1.5	1.5	1.4	1.3	1.2
Net resource transfer 3/	0.9	-0.1	-2.3	-4.5	-4.0	-3.6	-3.2	-2.8	-2.3
(In percent of exports of goods, services, and transfers)									
Total external debt	272.0	243.8	250.4	240.3	242.9	241.8	237.1	230.2	222.6
Of which: public sector	234.9	206.6	205.3	185.0	173.3	159.6	146.0	132.2	119.9
IMF	14.7	16.0	16.0	13.7	10.5	7.0	4.5	2.5	1.1
External debt service (public debt only)	35.8	32.8	29.8	41.8	27.5	25.6	24.1	23.9	20.6
(In billions of U.S. dollars, unless otherwise specified)									
Interest payments on nonpublic debt	1.78	1.50	1.87	2.09	2.54	3.97	4.75	5.55	6.40
Effective interest rate on public debt (in percent)	8.9	9.0	7.6	6.7	6.2	6.9	6.9	6.9	6.9

1/ Includes the U.S. treasury zero coupon bonds purchased by the Mexican Government to enhance the bonds it issued in the context of debt conversion operations which were carried out in February 1988 and March 1990.

2/ Difference between the external public sector debt (including to the IMF) and the Government's financial assets.

3/ This estimate of the net resource transfer (surplus (+) or deficit (-) on merchandise trade and nonfactor services), measures the domestic absorption that must be foregone to meet the balance of factor payments and all capital flows.

Table 11. Mexico: Alternative Medium-Term Balance of Payments Scenarios

	Est.	Projection				
	1992	1993	1994	1995	1996	1997
	(In billions of U.S. dollars)					
Baseline scenario						
Oil exports	8.4	8.4	8.5	8.9	9.2	9.6
Non-oil exports	24.6	27.0	30.4	34.7	39.7	45.7
Total imports	-47.7	-50.1	-53.5	-57.9	-62.7	-67.8
Interest payments	-7.8	-7.7	-9.7	-10.5	-11.3	-12.2
Current account	-21.3	-21.2	-22.6	-23.2	-23.4	-22.7
Overall balance of payments surplus	1.8	1.7	1.7	1.6	1.6	1.5
Gross international reserves	19.6	20.0	20.5	21.1	21.7	22.4
Lower oil export prices 1/						
Oil exports	8.4	7.3	7.5	7.8	8.2	8.6
Current account	-21.3	-22.2	-23.6	-24.3	-24.4	-23.7
Gross international reserves	19.6	19.0	18.5	18.1	17.7	17.4
Higher LIBOR 2/						
Interest payments	7.8	8.5	10.7	11.6	12.7	13.7
Current account	-21.3	-22.0	-23.6	-24.4	-24.7	-24.2
Gross international reserves	19.6	19.1	18.6	18.1	17.3	16.5
Slower growth of non-oil exports 3/						
Non-oil exports	24.6	26.5	29.9	34.1	39.0	44.9
Current account	-21.3	-21.7	-23.1	-23.9	-24.1	-23.5
Gross international reserves	19.6	19.5	20.2	20.0	19.4	19.3
Faster growth of total imports 4/						
Total imports	47.7	52.5	57.6	64.3	72.2	81.0
Current account	-21.3	-23.5	-26.6	-29.6	-33.0	-36.0
Gross international reserves	19.6	17.7	14.1	8.3	...	...

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

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

3/ Assumes that non-oil exports growth (including in-bond) is 2 percentage points a year lower in the baseline scenario.

4/ Assumes that imports growth falls from 25 percent in 1992 to 10 percent (instead of 5 percent) in 1993 and that the income elasticity of imports after 1993 is 2.0 instead of 1.3 as in the baseline scenario.

Mexico - Fund Relations
(As of November 30, 1992)

I. Membership Status: Joined 12/31/45; Article VIII

		SDR Million	% Quota
II.	General Resources Account:		
	Quota	1,753.30	100.0
	Fund holdings of currency	5,986.57	341.4
	Reserve position in Fund	146.95	8.4

		SDR Million	% Allocation
III.	SDR Department:		
	Net cumulative allocation	290.02	100.0
	Holdings	199.06	68.6

		SDR Million	% Quota
IV.	Outstanding Purchases and Loans:		
	Stand-by arrangements	524.22	29.9
	Extended arrangements	3,515.85	200.5
	CCFF	340.13	19.4

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Extended	5/26/89	5/25/93	3,729.60	3,263.40
Stand-by	11/19/86	4/01/88	1,400.00	1,400.00
Extended	1/01/83	12/31/85	3,410.63	2,502.68

VI. Projected Obligations to the Fund (SDR Million; Based on Existing Use of Resources Only):

	Overdue	Forthcoming				
	11/30/92	1992	1993	1994	1995	1996
Principal		49.1	845.9	841.0	754.1	728.1
Charges/interest		32.0	286.1	231.2	175.7	123.7
Total		81.1	1,132.0	1,072.2	929.9	851.8

Nonfinancial Relations

VII. Exchange Rate Arrangement:

The exchange rate is set under a crawling peg system according to which the peso is allowed to move within a band, the top end of which depreciates relative to the U.S. dollar at a rate of Mex$0.40 a day.

VIII. Article IV Consultation:

The last Article IV consultation was concluded by the Executive Board on November 6, 1991. The relevant staff reports were EBS/91/173, Correction 1 and SM/91/211. Mexico is on the standard 12-month consultation cycle.

IX. Technical Assistance:

July 14-23, 1992 and September 28-October 1992: LEG and MAE on banking regulation and supervision.

X. Future Missions:

April 1993 - Staff visit
October 1993 - Article IV consultation

Mexico: Selected Economic and Financial Indicators

	1987	1988	1989	1990	1991 1/	1992 1/ Prog. 2/	1992 1/ Proj. 3/	1993
	(Annual percentage change unless otherwise specified)							
Income and Prices								
Real GDP	1.7	1.2	3.3	4.4	3.6	4.0	2.7	3.0
GDP Deflator	139.2	99.5	25.3	29.1	21.2	11.7	14.3	8.5
Consumer prices (end of year)	159.2	51.7	19.7	29.9	18.8	9.7	11.5	7.5
Consumer prices (average)	131.8	114.2	20.0	26.7	22.7	14.5	15.6	10.0
External sector								
Exports (f.o.b.)	28.5	2.9	12.8	17.6	2.8	5.8	5.6	7.2
Exports volume	23.2	-0.5	5.1	5.4	6.9	7.5	3.2	6.4
Imports (f.o.b.)	6.9	54.6	34.6	22.2	22.1	13.7	24.9	5.1
Imports volume	1.1	43.6	22.5	19.1	21.6	12.5	24.1	3.9
Terms of trade (deterioration -)	1.0	-2.5	4.8	8.2	-4.2	-2.6	1.7	-0.5
Nominal effective exchange rate Average (depreciation -)	-57.8	-40.6	0.6	-5.9	-2.3	...	-4.0	...
Real effective exchange rate Average (depreciation -)	-8.0	24.4	6.9	2.6	10.0	...	6.2	...
Nonfinancial public sector								
Receipts	145.7	98.7	25.6	29.5	20.8	15.4	17.8	8.3
Outlays	146.2	84.1	7.5	19.6	13.3	6.3	7.8	6.7
Money and credit								
Domestic credit (net) 4/	107.6	72.4	45.4	30.4	23.8	19.3	14.4	10.6
Public sector (net)	65.3	40.4	8.4	-7.0	2.3	0.5	-17.3	-12.3
Private sector (gross)	55.0	38.9	46.6	42.5	27.2	25.4	31.8	22.9
Money and quasi-money (M-2)	141.0	42.2	43.0	45.8	40.2	19.1	15.2	14.1
Real growth in M-4	-0.1	4.8	25.7	12.8	10.2	4.0	6.4	5.0
Velocity (GDP/M-4) (level)	3.3	3.6	3.0	2.7	2.5	2.6	2.0	2.5
Interest rate on 1-month treasury bills (percent per month)	10.3	4.4	3.7	2.9	1.6	--	1.3	--
	(Percent of GDP)							
Public sector savings	7.3	0.4	3.2	7.5	6.8	7.8	6.8	5.7
Public sector economic balance	-15.0	-11.6	-5.5	-2.8	-0.9	1.3	1.4	1.7
Primary fiscal balance	5.0	6.0	8.1	7.8	5.5	5.8	5.6	4.8
Operational balance	2.0	-4.5	-1.7	2.6	2.2	2.8	2.9	2.1
Public sector borrowing requirement	15.9	13.2	5.7	3.4	0.2	-0.8	-0.5	-0.7
Gross domestic investment	19.3	20.5	21.5	21.8	21.3	22.8	22.0	22.4
Gross national savings	21.6	18.2	18.6	18.6	16.6	17.8	15.4	16.4
Current account balance	2.2	-2.2	-2.9	-3.2	-4.7	-5.0	-6.6	-6.0
Net public external debt (including IMF) 5/	61.8	49.8	40.5	32.0	26.5	23.6	22.9	20.9
	(In percent of exports of goods, nonfactor services, and transfers)							
Public external debt service after rescheduling 5/	40.4	51.0	35.8	32.8	29.8	24.9	41.8	27.5
	(In billions of U.S. dollars)							
Overall balance of payments	6.6	-6.8	-1.1	3.2	7.6	1.5	1.6	1.7
Gross official reserves, end of period (months of imports) 6/	12.1	3.1	3.1	3.9	5.6	5.2	4.9	4.8

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

1/ Excludes proceeds from privatization, which amounted to 3 percent of GDP in both 1991 and 1992.
2/ Based on an average oil price of US$13 per barrel.
3/ Based on an average oil price of US$15 per barrel.
4/ In relation to total liabilities to the private sector at the beginning of the period.
5/ Includes short-term debt.
6/ Excluding balances under bilateral payments accounts.

Relations with the IBRD

The Bank supported Mexico's adjustment program in the 1986-1990 period with a lending program totaling about US$9.5 billion, about half of which was committed under sector adjustment loans in trade, finance, agriculture, transport, and industry and for an interest reduction loan that was linked to Mexico's debt reduction package with the commercial banks. With the successful conclusion of the debt restructuring exercise and the demonstrated commitment of the Government to policy reforms, lending shifted toward infrastructure, improved social services, poverty alleviation, and environmental protection. Bank lending of US$1.8 billion in 1991 supported a transitional lending program reflecting that strategy--the last sector adjustment loan was made in agriculture and there were major new operations in basic health, water supply and sanitation, export development, vocational training, regional decentralization, and development for the disadvantaged states.

Although Bank management approved a strategy of continued high levels of lending to Mexico in November 1991, new loan commitments declined in FY 1991/92 to just below US$1.5 billion and are likely to fall below the US$1 billion level in FY 1992/93 and FY 1993/94. Reasons for the reduction in new loan commitments are several. First, is the difficulty in preparing new investment projects, particularly in the environmental and social areas, where the Bank is working with relatively weak institutions; second, is the Government's tight fiscal policy, which has resulted in sharp cuts in public sector investment and the allocation of counterpart funds required to support Bank projects; and third, the Government policy of privatizing infrastructure has removed some of the infrastructure projects that the Bank had considered financing from the proposed lending program.