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CONFIDENTIAL

March 25, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Mexico - Third Year of the Extended Arrangement - Letter of Intent

Attached for consideration by the Executive Directors is a copy of the letter of intent from the Mexican authorities for the third year of the extended arrangement, together with a technical memorandum of understanding. The staff paper describing and analyzing the financial program of Mexico for 1985 will be circulated in due course.

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

Att: (1)

Mexico City, Mexico
March 24, 1985

Mr. Jacques de Larosière
International Monetary Fund
700 19th. Street, N.W.
Washington, D.C. 20431

Dear Mr. de Larosière:

1. Three years ago the Government of Mexico was confronted by a formidable challenge. The economy plunged into the deepest recession it has experienced in modern times, the country's foreign exchange reserves were almost totally depleted, and inflation soared to unprecedented levels. In late 1982, the incoming Administration adopted an economic program designed to solve the country's external and internal disequilibria and establish a sound basis on which to resume sustained economic growth. This program aimed at restoring the medium-term soundness of the Mexican economy primarily by reducing the public sector deficit and implementing policies to enhance economic efficiency. Particular emphasis was given to the objectives of curbing inflation while reducing the reliance on foreign financing, in order to bring about appropriate conditions for economic recovery. The program also sought to assure external competitiveness and to restore normal conditions to the exchange and trade systems. It was reinforced by major efforts to reduce external payments arrears in an orderly manner and to restructure the country's foreign debt, both public and private. This program was supported by the Fund with an extended arrangement for the period 1983-85. We would like to take this opportunity to comment on the progress achieved in the implementation of the adjustment program during the past year and to communicate to you our policy intentions for 1985.

2. The evolution of the Mexican economy since the beginning of the adjustment program has been encouraging. The balance of payments has improved substantially, the public finances have been strengthened, inflation has been reduced significantly, and economic activity has experienced a gradual recovery. Throughout this period a deliberate effort has been made to coordinate all policy measures so as to achieve the objectives of the program with an equitable distribution of the burden of adjustment while minimizing the impact on employment. Despite these achievements, there are still problems to be solved; inflation is too high and the need to improve economic efficiency and the standard of living remains. Moreover, the recent weakening of the international petroleum market highlights the importance for strict discipline and a firm continuation of the adjustment process. Consequently, the situation demands a further strengthening of the public finances and appropriate adjustments in monetary policy.

3. The program for 1984 envisaged a continuation of the policies adopted in late 1982. It sought to reduce inflation from 80 percent at the end of 1983 to a target of 40 percent at the end of 1984, while inducing a gradual recovery of economic activity and maintaining a strong balance of payments position. To achieve these results the program called for a further reduction of the public sector deficit. This deficit, which had reached 18 percent of GDP in 1982 and had been brought down to about 8 1/2 percent of GDP in 1983, was programmed not to exceed Mex$1,524 billion in 1984, or an estimated 5 1/2 percent of GDP. The budget also foresaw the possibility of activating a contingent expenditure reserve in light of developments in the economy. Supporting steps were to be taken in the areas of monetary, credit and interest rate policies to secure the targeted accumulation of reserves and foster domestic financial savings in order to allow for a larger level of investment, in line with the economic recovery envisaged. As a result of the improvement in the public finances and the increased availability of domestic savings, dependence on foreign financing was expected to decline again during 1984. Accordingly a limit of US$4 billion was placed on the net foreign borrowing by the public sector. Incomes policy, meanwhile, was to be forward looking, consistent with the attainment of the employment objectives of the program and the maintenance of external competitiveness. A rationalization of commercial policy was to be pursued during 1984 in order to achieve a more efficient allocation of resources.

4. The results of the adjustment program during 1984 were, on the whole, positive. Economic activity strengthened significantly spurred by a turnaround of private investment and the growth of non-oil exports. Preliminary estimates indicate that real GDP rose by 3 1/2 percent, in contrast to the 1 percent envisaged at the beginning of the year. In response to the stronger growth of the economy and the maintenance of a flexible interest rate policy, the flow of financial savings into the banking system exceeded the program projections during 1984. The performance of the balance of payments was satisfactory; the trade account is estimated to have registered a positive balance of US$13 billion and the current account, a surplus of US$4 billion. In contrast to 1983, the strength of the trade account in 1984 reflected more the rise in the nonpetroleum exports rather than a low level of imports. Net international reserves increased by close to US$3 billion (compared with the program's target of US$2 billion) even though the net use of foreign credit (US$2.2 billion) was well below the original estimates of US$4 billion. The strong balance of payments performance during 1984 permitted an early settlement of the remaining external payments arrears and a reduction in outstanding PEMEX acceptances.

5. Although the program's aim in respect to inflation was not met, the inflation rate came down some 21 percentage points. In the 12-month period ended December 1984 consumer prices increased by 59 percent, compared with the 40 percent target envisaged in the program. This deviation became more evident towards the end of the year, as some corrective price measures were introduced and it proved more difficult

to restrain the aggregate level of public and private spending, while monetary policy could not fully offset the expansionary impact. Domestic interest rates reflected the higher rate of inflation and resulted in much larger interest payments on the public sector's domestic debt. The growth in interest payments and the increase in other expenditures in the second half of the year--including the activation of the contingency reserve--brought pressures on the public sector's deficit. For the year as a whole, the public sector's economic deficit is now estimated to have reached Mex$1,826 billion (the equivalent of about 6.2 percent of GDP), in excess of the Mex$1,524 billion (5 1/2 percent of GDP) envisaged under the program. The financial intermediation operations of the development banks and official trust funds, which had been targeted at Mex$200 billion, reached Mex$414 billion in 1984. These operations reflect credit granted to the private sector, some of it at preferential interest rates.

6. In 1985, the program will seek a further important reduction in the pace of inflation, while maintaining economic growth and a strong balance of payments position. Despite its declining tendency, inflation continues to be too high, particularly when compared with inflation abroad. It is at this time the most serious and pressing problem facing us because it erodes the standard of living of large segments of our society. It is, therefore, our intention to continue seeking a rapid and sustained reduction of inflation.

7. The strengthening of the public finances continues to be a key element of Mexico's economic and financial strategy. Thus, in 1985, we will continue to reduce the size of the public sector deficit as a proportion to GDP. The budget approved by Congress set an upper limit of Mex$2,197 billion on the overall financing requirements of the public sector (the equivalent of some 5.1 percent of projected GDP), and of Mex$1,922 billion on the overall economic deficit of the public sector (4.5 percent of GDP); the difference between these two concepts is the financing required to cover the net lending of the development banks and official trust funds to the private sector. Congress also authorized a contingency reserve amounting to Mex$200 billion (0.5 percent of GDP) to be activated in the event of adverse external developments, such as a rise in international interest rates or a fall in oil prices. Since the approval of the budget, international petroleum prices have weakened, but in view of the need for curbing inflation the Government has decided to forego activation of the contingency reserve and to reinforce its efforts to keep the public sector deficit within adequate levels. Accordingly, a number of adjustment measures have been taken in recent weeks to reinforce the public finances and to ensure that the economic deficit of the public sector (i.e., excluding financial intermediation) is actually kept within Mex$1,785 billion (4.1 percent of GDP) on a cash basis. Such a decision should reassure our population of the Government's commitment to reducing inflation and of its ability to cope with adverse external developments without impairing the aims of the adjustment program. Should developments abroad result in a further deterioration of the external environment, the Government will take the necessary measures.

8. The policy with respect to public sector receipts in 1985 is to maintain their ratio with respect to GDP at the levels attained in 1984. In view of the possible decline in petroleum receipts, achieving this objective has required a significant strengthening of tax administration and an adequate pricing policy for public goods and services, since no adjustments in tax rates are being contemplated. Major tax increases were introduced in 1983, and since then efforts have concentrated on raising collections through improvements in administration. In order to strengthen the tax system further during 1985, comprehensive reviews of both direct and indirect taxes will be conducted with a view to widening the tax base, simplifying rate structures, and improving the efficiency of tax administration. Public sector receipts over the coming year are expected to benefit from the continuation of economic recovery and a larger volume of imports; there also should be some gains in revenue from the implementation of a new import tariff and the adjustments to be made in public sector prices. The latter will continue to be adjusted gradually to compensate for inflation and reduce or eliminate operating losses not justified by equity considerations. Clearly the changes in public sector prices during 1985 will be proportionally less important than those implemented in 1983 and 1984, since a good portion of the lag in public sector prices that had accumulated in previous years has now been overcome. There remain, however, distortions to be corrected and subsidies to be rationalized. It is expected that increases in the prices of goods and services of the public sector will yield the equivalent of 1 1/2 percent of GDP in additional receipts in 1985. It should be noted that most of the public sector price adjustments envisaged for 1985 have already been implemented.

9. The brunt of the fiscal adjustment during 1985 will have to fall on public sector expenditures. Emphasis will be placed in reducing current expenditures so as to allow for a small increase in the level of public sector investment in real terms. The budget approved by Congress already considered reductions in current transfers from the Federal Government to the rest of the public sector, in line with an improvement in the operating balances of state enterprises. Additional fiscal measures were taken in early February 1985, including a further 4 percent cut in government transfers, a 4 percent reduction in current expenditures other than wages and interest payments, and the elimination or freezing of all vacant positions in the Federal Government and state enterprises. Furthermore, the Government announced in February the cancellation or postponement of a number of non-priority programs and projects involving additional savings of Mex$100 billion in current and capital expenditures. Investment expenditures will be mainly directed toward the completion of ongoing projects.

10. During 1985 a process of rehabilitation of the finances of the major public sector enterprises has begun. This process involves the assumption of a portion of the debt of these enterprises by the Federal Government in exchange for specific commitments by the enterprises to improve efficiency. In order to ensure that this strategy is implemented appropriately, several new control procedures have been introduced.

These include the reinforcement of the inter-ministerial committees to approve and oversee the execution of the financial rehabilitation plans, and the setting of monthly and quarterly limits on the enterprises' expenditures and access to credit from the financial system. Furthermore, the general system for expenditure controls of the public sector has been strengthened through a number of additional measures:

(a) Commercial banks have been instructed that they cannot grant credit to public sector enterprises or entities without prior written authorization from the Ministry of Finance. The banks will have to provide periodic information on their loan operations with the public sector to the Ministry of Finance.

(b) A system has been established whereby the Federal Treasury will be instructed to pay directly out of allocated budgeted transfers the debt servicing obligations of public sector enterprises. This procedure should minimize the possible diversion of such resources to other uses.

(c) The existing government "clearing house" system, which settles reciprocal claims among public sector entities that receive fiscal transfers, has been instructed to make such transfers only on a net basis. This will avoid the possibility that any entity might obtain non-budgeted financing by deferring payments to other public sector entities which supply them with goods and services.

(d) Procedures have been established for monitoring liquidity levels of public sector entities which are recipients of fiscal resources in order to optimize the rhythm and amounts of the actual disbursement of such resources. This will have two positive impacts. First, the transfers will only be released when they are truly required, thereby easing the funding pressures of the Government, and second, idle balances will be minimized.

(e) While the specific programs and projects covered by the budget cuts recently announced are being identified with precision, the Treasury is withholding from the monthly allocations programmed the equivalent of 15 percent of all fiscal transfers.

11. As part of the process to rationalize the non-strategic economic activities of the public sector, the Government has initially identified some 236 publicly-owned enterprises or entities which will be sold, merged, transferred to states and municipalities, or closed down. This program is expected to result in a more efficient management and in an improvement in the public sector's financial performance.

12. During 1984 monetary and credit policies continued to be, on the whole, moderately restrained. The target for the increase in net domestic credit was achieved, and the accumulation of net international reserves substantially surpassed the original aim. In May 1984, interest rates were raised to avert speculative pressures induced by rising

foreign interest rates. In addition, an active program of auctions of central bank deposits was pursued to reduce excess liquidity. The adoption of these policy measures was conducive to a sustained recovery of the financial intermediation process which gained momentum in the third quarter of 1984. As the year closed, however, growing borrowing requirements by the public and private sectors put mounting pressures on available financial resources. In 1985, monetary and credit policy will be directed toward supporting the production, price and balance of payments objectives of the program, which will include a US$500 million increase in net international reserves. The Bank of Mexico's overall credit expansion will be consistent with the objective of significantly reducing inflation and achieving the balance of payments targets of the program. To provide adequate room for the expansion of credit to the private sector, consistent with the continuation of the economic recovery that is envisaged, a limit has been placed on the sum of the Bank of Mexico's net claims on the nonfinancial public sector plus the commercial banks' credit to the Government under the mandatory portfolio requirements. In mid-February 1985 the Bank of Mexico announced the placement of a special issue of monetary regulation bonds of Mex$250 billion with commercial banks in order to absorb the excess liquidity that had been detected at the beginning of the year. In line with this action interest rates payable on time and savings deposits increased substantially in mid-March, in some cases by as much as 8 percentage points.

13. The progress achieved in controlling inflation over the past two years has permitted a gradual lowering of nominal interest rates, while maintaining on average positive real rates on short-term financial savings instruments and competitive yields with foreign financial assets. Lending rates also have followed a general downward trend over the last two years, and the spread between deposit and lending rates narrowed significantly. As a result of the flexible interest rate policy followed and the gradual restoration of confidence, the flow of deposits into the banking system has shown a strong upward trend, moving from a decline in real terms in 1982 and 1983 to strong positive growth in 1984. Interest rate policy will continue to be managed flexibly during 1985, in order to encourage domestic financial savings while taking into account developments in domestic inflation and the foreign exchange market.

14. Preferential lending rates granted by national development banks and official trust funds have been adjusted to bear a closer relationship to the cost of funds, in order to improve efficiency in the allocation of financial resources. Changes have been made also in the structure of preferential lending rates to reduce their dispersion and ensure that the resulting rate structure is set according to objective criteria. In line with the policy of extending preferential credits only to activities of high priority and to limit the potential burden that the extension of such credits may generate on the public finances, a limit of Mex$350 billion will be established on the operations of financial intermediation carried out by development banks and official trust funds, implying a reduction in real terms in relation to 1984.

15. When the domestic banking system was nationalized in September 1982, it was envisaged that enterprises owned by the commercial banks and not considered essential to the provision of banking and credit services would be sold. The compensation of former bank shareholders is practically concluded and almost all the shares of the nonbank enterprises have been sold. Steps already have been taken to merge some of the existing banks in order to rationalize their operations. This process will be continued in 1985. To further streamline the operations of the financial system and encourage the development of the domestic capital market, new legislation was passed at the end of 1984 to guide the operations of the various financial intermediaries. The legislation includes a new central bank law and several other reforms covering the operations of all financial institutions, setting the legal framework to modernize the financial system.

16. Consistent with the purpose of establishing a realistic price structure for the Mexican economy, price controls on a growing number of products have been reduced or eliminated over the past two years. The pricing policy on goods and services provided by the public sector has aimed to establish a relative price structure consistent with the goals of increasing economic efficiency, reducing transfers and subsidies by the government, and inducing new patterns of consumption in accordance with the country's development level, taking into account production costs and international prices. The liberalization of price controls and the reduction in subsidies have resulted in corrective increases that have been reflected in the price indices but that should not contribute to the perpetuation of inflation. The policy to rationalize effective protection, discussed below, should also induce domestic firms to lower costs and keep their prices at competitive levels in the years to come.

17. The Government has, over the last two years, taken a number of measures to protect the purchasing power of the lower-income groups and to minimize the increase in open unemployment. These include a redirection of remaining subsidies and the reallocation of certain investment expenditures toward labor intensive public works. However, it is a firm conviction of the Government that among the most important measures to improve the purchasing power and welfare of the population are those designed to lower the rate of inflation and sustain the recovery of economic activity. The Government will recommend that employers and labor reach agreements whereby wage increases are granted in light of productivity developments and contribute to the employment objectives of the program and to the maintenance of the external competitiveness of the economy.

18. The dual exchange rate system, which was temporarily introduced in December 1982, continued to operate in 1984. Since September 1983 the nominal exchange rates with respect to the U.S. dollar in the controlled market and in the free market have been adjusted daily by the same absolute amount--initially by Mex$0.13 per day, followed by Mex$0.17 per day since December 6, 1984 and by Mex$0.21 per day since March 6, 1985.

The differential between the controlled and free market exchange rates narrowed from 13 percent at end-September 1983 to 9 percent at end-February 1985. A flexible exchange rate policy will continue to be necessary to foster the continued international competitiveness of the economy and to ensure the viability of the ongoing rationalization of commercial policy. The exchange rate policy will take into account internal and external price and wage developments, the evolution of the terms of trade and the balance of payments results and targets.

19. At the outset of the economic stabilization program, and given the seriousness of the crisis being faced, Mexican foreign trade policy concentrated primarily on controlling imports of many items through licensing. As the balance of payments strengthened, the focus of trade policy shifted toward enhancing efficiency and orienting domestic industry in the direction of greater competitiveness. Now the Government has launched a comprehensive revision of foreign trade policy designed to rationalize the structure of effective protection. The main objectives of the reform are to reduce the level of protection, its sectoral dispersion, and the anti-export bias. This reform will have an important beneficial impact in dampening inflationary presures. A cornerstone of the reform will be the shift to import tariffs, in contrast to import permits, as the major instrument of commercial policy. Already in 1984 a number of steps were taken to liberalize gradually the trade regime, both by granting import permits more liberally and by reducing the coverage of items subject to permits, as well as by expediting the issuance of import permits. By December 1984 a total of 15 percent of 1983 imports had been exempted from permits, whereas at the end of 1983 all imports were subject to licensing. In 1985 the process of substituting import licenses for tariffs will be accelerated, to cover 35 to 45 percent of annual merchandise imports before the end of the year. This process of trade liberalization will be continued over the next few years. A new tariff schedule will be introduced in April 1985 that will reduce the number of tariff rates from ten to seven in order to lower the dispersion of rates, which, with few exceptions, will be in the range of 10 to 50 percent. An important aspect of the ongoing revision of trade policy is that the liberalization of imports will also be extended to domestically produced goods; whereas it had been confined mainly to intermediate and capital goods not produced domestically. In any event, locally produced raw materials and spare parts whose domestic price exceeds prices abroad by more than 50 percent will be automatically granted the import permits. A new instrument designed to lower the anti-export bias will be introduced shortly; under this scheme, exporters will be allowed to import free from permit a value equivalent to 40 percent of their export proceeds. The portion that corresponds to the imported component of their exports will be free from import duties. More generally, infant industry protection will be granted for a limited duration and will aim at encouraging internationally competitive sectors. The Government's trade and industrial strategy, as outlined in the National Program for Industrial and Trade Development (PRONAFICE), recognizes that the encouragement of non-oil exports and of efficient import substitution is crucial to ensure balance of payments viability in the medium term.

Technical Memorandum of Understanding 1985

In accordance with the Economic Program that has been designed for 1985 and which is described in the letter dated March 24, 1985:

1. The public sector's net use of foreign credit, which amounted to US$2,189 million during 1984, will be subject to the following schedule in 1985: it will not exceed US$500 million in the first three months; US$500 million in the first six months; US$800 million in the first nine months; and US$1 billion in 1985.

2. The Bank of Mexico's net claims on the nonfinancial public sector, which amounted to Mex$3,740 billion as of the end of December 1984, will be subject to the following schedule in 1985: they will not exceed Mex$3,748 billion during the period January-March; Mex$3,895 billion during the period April-June; Mex$3,897 billion during the period July-September; and Mex$3,695 billion during the period October-December. These limits can be raised up to an amount equivalent to the commercial banks' lending to the nonfinancial public sector that would result from implementing mandatory portfolio requirements. If and when these limits are exceeded, mandatory portfolio requirements on commercial banks will have to be reduced by an equivalent amount. Thus, the adjusted limit on the Bank of Mexico's net claim on the nonfinancial public sector will be subject to the following schedule in 1985: they will not exceed Mex$3,958 billion during the period January-March; Mex$4,426 billion during the period April-June; Mex$4,676 billion during the period July-September; and Mex$4,902 billion during the period October-December.

3. The economic deficit of the nonfinancial public sector measured on a cash basis is to be reduced from an estimated 6.2 percent in 1984 to 4.1 percent in 1985. The economic deficit of the nonfinancial public sector, which amounted to Mex$1,826 billion in 1984, and has been programmed not to exceed Mex$1,785 billion in 1985, will be subject to the following schedule in 1985: it will not exceed Mex$430 billion in the first three months; Mex$840 billion in the first six months; Mex$1,240 billion in the first nine months; and Mex$1,785 billion in the year as a whole.

4. Nonfinancial public sector unpaid accrued interest to the Bank of Mexico, which on December 31, 1984 amounted to Mex$491 billion will be subject to the following schedule in 1985: it will not exceed Mex$805 billion on March 31, 1985; it will not exceed Mex$805 billion on June 30, 1985; it will not exceed Mex$705 billion on September 30, 1985; and it will not exceed Mex$568 billion on December 31, 1985.

5. The net domestic assets of the Bank of Mexico will be subject to the following schedule in 1985: they will not increase by more than Mex$127 billion during the period January-March; Mex$179 billion during the period January-June; Mex$45 billion during the period January-September; and Mex$184 billion during the period January-December.

6. Financial intermediation conducted by the National Development Banks and all Official Trust Funds (including those of the Bank of Mexico, but excluding FICORCA) will increase by no more than Mex$350 billion in 1985, subject to the following schedule: it will not increase by more than Mex$130 billion during the period January-March; Mex$230 billion during the period January-June; Mex$300 billion during the period January-September; and Mex$350 billion during the year as a whole.

7. The net foreign assets of the Bank of Mexico, which amounted to US$6.5 billion on December 31, 1984, will increase at least by US$500 billion in 1985, subject to the following targets: they will not decline by more than US$1 billion in the period January-March 1985; they will not decline by more than US$900 million in the period January-June 1985; they will not decline by more than US$100 million in the period January-September 1985; and they increase by at least US$500 million during 1985.

8. During the period of the arrangement the financial authorities of Mexico and the Fund will consult periodically, in accordance with the policies on such consultations, to examine the progress being made in implementing the program and the achievement of its objectives. In particular, the implementation of the economic program described herewith and the evolution of economic activity during the first half of 1985 will be reviewed with the Fund before September 30, 1985.

20. A number of export promotion measures are being introduced, including the extension of the system of temporary imports to benefit not only direct exporters but also local producers of inputs for export activities. Additional measures will be announced and implemented in the coming weeks as part of an integral program for the promotion of non-oil exports. It must be noted, however, that the consolidation of Mexico's outward looking trade strategy will hinge on the assurance of access to foreign markets and, in particular, on the removal of barriers to access in key markets abroad.

21. The restructuring of Mexico's foreign debt, both public and private, was an important element in the process of overcoming the 1982 crisis and reestablishing normality in the country's external economic relations. Steps were taken since late 1982 to restructure the external debt profile and to eliminate the external payments arrears that had accumulated. It should be noted that by early 1984 these arrears had been paid. In 1984 Mexico initiated negotiations with the international banking community on a multiyear restructuring of the public sector's foreign debt that would permit a significant streamlining of the debt service profile over a number of years, while allowing for a refinancing of obligations falling due through normal market mechanisms. Mexico also requested the adoption of cost-of-funds based rates and a downward adjustment of spreads over the contractual interest rates as part of the restructuring package. In September 1984, an agreement in principle was reached with the Bank Advisory Group for Mexico on a set of financial principles to implement such restructuring. It is expected that the agreements will be formalized with the representatives of the banks on March 29, 1985. External debt to be restructured comprises some US$48.5 billion of credits which were originally to mature between 1985 and 1990. As a result of these negotiations, the maturity structure of this debt will be extended to 14 years and the debt service cost and profile will be improved significantly. During 1984 negotiations also were carried out to restructure the private sector external debt through FICORCA. FICORCA continues to operate successfully, with approximately US$12 billion of private sector debt currently being serviced under the program, of which US$5 billion are the subject of definitive restructuring agreements. An increasing number of private sector borrowers are concluding definitive agreements with their creditors under the FICORCA umbrella.

22. Net foreign financing during 1984 remained below the sums originally programmed. Mexico has expressed its recognition to the international banking community for its cooperation in raising special financial packages in 1983 and 1984, but realizes that such borrowing procedures are of an exceptional character. Given the improvements achieved during the past two years, it now seems appropriate to return to normal market practices in which voluntary lending will be the norm. Net external financial requirements are likely to be quite small in 1985. In line with this strategy, it is expected that in 1985 most gross foreign borrowing will come from bilateral and multilateral sources and net external financing will not exceed US$1 billion.

23. The Mexican authorities believe that the policies and measures described in this letter are adequate to achieve the objectives of the program, but will take additional measures that may become appropriate for this purpose. During the remaining period of the arrangement the financial authorities of Mexico and the Fund will consult periodically, in accordance with the policies on such consultations, to examine the progress being made in implementing the program and the achievement of its objectives. In particular, the implementation of the economic program described herewith and the evolution of economic activity during the first half of 1985 will be reviewed with the Fund before September 30, 1985.

Sincerely yours,

Jesus Silva-Herzog F.
Secretary of Finance
and Public Credit

Miguel Mancera Aguayo
Director General
Bank of Mexico