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Summary of Recent Information on the Mexican Economic Situation

We have no statistical information on the Mexican economy for the period after the abandonment of the 12.50 peso-per-dollar exchange rate on September 1, except for the price indices for September. In September, the national consumer price index was 3.4 percent higher than in August, and 14.7 percent higher than a year earlier. The wholesale price index for Mexico City was 5.9 percent higher than in August, and 12.2 percent higher than a year earlier.

The measures taken immediately after the introduction of floating on September 1 appear to have had mixed consequences. The 23 percent wage increase came on top of increases already granted during the year through collective bargaining, resulting in an increase in wages for the year averaging around 30-35 percent. The introduction of export taxes and the abolition of the tax rebates for exporters have further raised costs for exporting firms. For those relying on imported components, the increased peso cost of imports represents an additional burden, only partly alleviated by the reduction of import duties. Under these circumstances, several American companies operating in Mexico have told the U.S. Embassy that their export competitiveness has been impaired by the devaluation and accompanying measures.

It would appear that this condition became sufficiently widespread to prompt the authorities to reduce the new export taxes effective on October 26 and to reintroduce selectively the system of tax rebates for some exporters. But the second devaluation, on October 28, dealt a new blow to firms with obligations denominated in foreign currencies. A few American firms have told the American Embassy that they were contemplating liquidating their inventories and reducing their operations to a minimum.

The Mexican stabilization program agreed to in conjunction with the IMF Extended Fund Facility arrangement is not due to become operative until January 1. No commitments were made by the Mexican authorities regarding the remaining months of 1976. However, there are some indications that revisions in certain program targets may have to be negotiated even before the program starts, as a result of the deterioration which has occurred since the program was formulated in August-September. This appears to be especially true of the public sector target. The Government employees' wage increase (totaling at least 23 percent) and other cost increases, together with lower income tax collections from firms hard hit by the devaluation and the accompanying measures, appear to have widened the public sector deficit for 1976, making it that much harder to reach the 1977 target for the public sector deficit to 6 percent of GDP.

The authorities did announce steps to hold down public spending at the end of September, but their impact for the remainder of 1976 is expected to be limited. Their principal significance arises from the fact that they represent a signal for the future.

It is encouraging that the second devaluation, on October 28, was not followed by demands for new wage increases. The fact that business has been adversely affected by the various steps taken since September 1 and that, as a result, something of an economic slowdown has apparently been triggered, may have influenced the labor leaders to take a more restrained attitude than after the first devaluation on September 1. However, another wage increase may occur on January 1 when the minimum wage is due to be reviewed.

The dominant characteristic of the current Mexican situation is that the general public has lost confidence in the Government's pronouncements and in its ability to handle the economy's problems. The Echeverria administration has less than a month to go and is becoming increasingly powerless to act. Meanwhile, the Lopez Portillo administration is not yet in office and the President-elect is not in a position to make public statements about his intentions. As a result, there is not only a power vacuum but also a lack of information concerning what the new administration will do. The Mexican program agreed to in conjunction with the Extended Fund Facility arrangement is not widely known, and ignorance fuels lack of confidence.

On the external side, there is a wide divergence of opinion as to the size of the current account deficit in the current year. The Mexican authorities continue to speak of a deficit not exceeding

$3 billion, while the IMF staff is projecting it at $4.3 billion. Actually, the two estimates are not comparable because of differences in accounting for certain transactions. But the gap between the two is considerably larger than in 1975, when the official Mexican compilation put the deficit at $3.6 billion while the IMF staff's was $4.1 billion. I have discussed the IMF estimate for 1976 with the IMF staff and found that they assumed that the devaluation would have a negligible effect on the balance of payments in the last four months of 1976. Their estimate of Mexican imports is about 10 percent higher than the 1975 level, but this seems high considering that, in the first seven months of the year, imports were about at the same level as in the same period of 1975. My own guess is that the 1976 deficit on current account (on the IMF basis) will be around $3.7 billion.

MEXICO: ECONOMIC INDICATORS
(NOT SEASONALLY ADJUSTED) C.9a

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	1973	1974	1975	1975 Q2	1975 Q3	1975 Q4	1976 Q1	1976 Q2	1976 Q3	1976 MAR	1976 APR	1976 MAY	1976 JUNE	1976 JULY	1976 AUG	1[illegible] SEPT
1960 PRICES REAL GDP(BIL.P)	354.1	375.0	390.9	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
IP (1973=100)	100.0	107.3	112.3	115.7	112.8	113.8	116.3	116.6	N.A.	123.3	113.6	118.8	117.4	N.A.	N.A.	N.A.
UNEMPLOYMENT	NOT AVAILABLE															
WPI (73=100)	100.0	122.5	135.4	133.6	138.0	141.2	149.1	153.9	162.4	151.2	151.9	154.2	155.6	159.5	159.0	168.8
CPI (73=100)	100.0	123.7	142.3	140.3	144.8	147.8	154.2	158.2	163.2	156.2	157.2	158.3	159.0	160.3	161.9	167.4
M1* (Seas. adj.)	24.1	8.3	22.3	6.7	2.9	5.8	3.8	4.8	N.A.	1.0	1.7	3.1	-0.4	3.1	N.A.	N.A.
EXPORTS ($BIL)	2.1	2.8	2.9	0.8	0.7	0.8	0.8	0.9	N.A.	0.3	0.3	0.3	0.3	0.2	N.A.	N[illegible]
IMPORTS ($BIL)	3.8	6.1	6.6	1.7	1.6	1.9	1.4	1.7	N.A.	0.5	0.5	0.5	0.6	0.6	N.A.	N.A.
TRADE BAL ($BIL)	-1.8	-3.2	-3.7	-0.9	-0.9	-1.1	-0.7	-0.8	N.A.	-0.2	-0.2	-0.2	-0.3	-0.3	N.A.	N.A.
BALANCE OF GOODS & SERVICES($BIL)	-1.3	-2.6	-3.6	-0.9	-0.9	-1.1	-0.6	-0.9	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

* Percentage change from previous period.

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C.9b

FINANCIAL INDICATORS -- MEXICO

(dollar amounts in millions)	1975	1976							Week ended					
	YEAR	QI	QII	QIII	AUG	SEPT	OCT	NOV 1-3	SEPT 29	OCT 6	OCT 13	OCT 20	OCT 27	NOV 3
EXCHANGE RATE (CENTS PER PESO, END OF PERIOD)	8.00	8.00	8.00	8.00	8.00	5.03	3.90	3.92	5.03	5.03	5.04	5.03	3.77	3.92
SDR VALUE OF PESO	.06842	.06924	.06985	.04364	.06957	.04364	.03398	.03398	.04364	.04351	.04367	.04363	.03398	.03398
SHORT TERM INTEREST RATE (E.O.P.)	12.94	13.11	13.11	13.11	14.00	14.36	14.36	14.36	14.36	14.36	14.36	14.36	14.36	14
LONG TERM INTEREST RATE (E.O.P.)					No appropriate long-term rate available									
RESERVES (IFS, E.O.P.)	1,533	1,501		897P	1,159									
AVAILABLE IMF CREDIT TRANCHES (E.O.P.)	433	620	615	621P	618	621P	621P*	621P						
INTERVENTION, PURCHASES (+) OR SALES (-)														
OF DOLLARS									-131	-189	-156	-241	-288	-122
(OF OTHER CURRENCIES; EQUIVALENT)														
SWAP ACTIVITY														
DRAWINGS (+), REPAYMENTS (-)	360 -360	--	360	--	--	--	-- -360	--	--	--	--	--	--	--
SWAP LINE -- 360														

* With additional credits negotiated from the Compensatory and Extended Fund facilities, Mexico overall access to IMF credit could rise over time to $960 million.

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