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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

MEXICO'S ABILITY TO INCUR ADDITIONAL DEBT

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Economic Department
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Copy No.

MEXICO

Basic Statistics[1]

Area:	758,258 square miles
Population (1948):	24 million
National Income (1947):	Around US$ 4,000 million
Income per Capita:	Around US$ 150
Currency:	
Unit:	Peso (official sign $)
Exchange Rate (May 29, 1949):	8.50 pesos per dollar

External Trade:	1947	1948
Exports, US$ mill.:	447	455
Imports, US$ mill.:	704	597

Balance of Payments, US$ mill.:	1947	1948
Trade Balance:	-257	-142
Travel:	+ 83	+ 90 (est.)
Other non-trade items:	+ 20	- 10 (est.)[2]
	-154	- 62 (est.)

Foreign Reserves, end of period:	1947	1948	Feb. '49	May 13, '49
Banco de Mexico, US$ mill.:	124.2	64.2	46.6	41.0

External Debt, US$ mill.:	February 28, 1949
Settlement of old debts:	100
Expropriations:	127
New capital:	223
Total outstanding:	450
Prospective debt to IBRD and Eximbank:	28
Peak Service (on US$ 478 mill.):	52 (1950)

Government Finance, Mill. Pesos:	1948	1949 (est.)
Receipts:	2,331	2,372
Expenditures:	2,681	2,550
Increase in Federal Internal Debt:	316	

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1/ Pesos converted at 4.85 per dollar for 1947 and 5.70 for 1948

2/ It has been assumed that exports of non-monetary gold stayed at their 1947 level as the exact figure is not yet available.

Basic Statistics - Continued

Public Debt, Million Pesos:	1941	1945	1947	1948
Federal and States:	569	893	1,188	1,490

Money Supply, Million Pesos:	1939	1944	1948	Apr. '49
Currency and Deposit Money	887	3,351	3,978	3,874

Prices (1937 = 100):	1941	1945	1947	1948	Feb. '49
Wholesale:	114	208	254	267	271
Retail:	121	247	348	369	377

C O N T E N T S

DEVELOPMENTS AFFECTING MEXICO'S ABILITY TO INCUR ADDITIONAL DEBT

I. SUMMARY OF FACTS AND CONCLUSION

The fundamental elements of Mexico's credit worthiness have been assessed by a Bank Mission in the summer of 1948 after the first devaluation of the Mexican peso. The Mission had arrived at the main following conclusions:

1) Mexico has already reached a relatively advanced stage in its social and economic structure. Education is widespread; industry is diversified; and agriculture, though less developed, is improving. The country has great potential riches, principally oil.
2) However, in the absence of a drastic increase in the rate of new oil well drilling, Mexico's foreign exchange receipts are fairly rigid, in some cases vulnerable, and expenditures will have to be adjusted to these receipts.
3) The essential factor for determining the rate of foreign exchange expenditures is the internal money supply. If expenditures abroad are to be reduced, and the balance of payments deficit eliminated, it is necessary to balance the budget and enforce credit restrictions.
4) The foreign debt of Mexico is heavy; the yearly service amounting to 7% of all time high 1947 exchange receipts.

The Mission's appraisal of Mexico's credit worthiness was thus definitely guarded, though not discouraging.

Since these conclusions were formulated, 8 months have elapsed and two major developments have occurred: a fall in the value of the peso, which dropped from the level of 6.80 to 6.90 that had been maintained since the devaluation of July, 1948, to above 7 in February 1949 and over 8 in May, and a drop in New York metal prices, attaining 30% in some cases.

In a summary reappraisal of the Mexican situation, made in Washington by the Economic Department, in the light of new developments, the following conclusions have tentatively been reached: They do not indicate a fundamental deterioration in Mexican finances or economy:

1) Mexican production has been increasing. Prices and wages have been fairly stable. It is difficult to assess at this time the effects of a new devaluation, but past experience does not suggest that Mexican prices are rigidly tied to the exchange rate. While a rise in many imported goods is inevitable, it is not certain that the whole price and wage structure will be thrown out of balance. The fact is that no significant price changes have occurred at present, after the exchange rate has dropped by 60%.

2) The trade deficit has been cut by over 40%, according to preliminary figures. A drop in exchange receipts is to be expected in 1949 and later, but a number of offsetting factors exist so that the Mexican present balance of payments situation is no worse and indeed better than in 1947. Internal monetary expansion would, of course, upset this picture.

3) So far, the money supply has not increased but has even diminished. The results of public finance have been rather better than expected. Some credit expansion has taken place, but has been kept under control. Nobody, however, knows if the increased costs resulting from devaluation (probably around 200 million pesos) will be met with increased receipts.

4) As a result of speculation, encouraged by the long delay in formulating a monetary policy, the rate of exchange has dropped to 8.50 to the dollar and Mexican reserves are near exhaustion. Negotiations

are in progress for stabilization. It is believed that, with adequate reserves, the peso could be stabilized at a somewhat lower rate than its present level.

5) The debt burden of Mexico is heavy but an addition of $16 million in principal is not, in itself, significant.

It appears that, after this tentative reappraisal, the general conclusions of the 1948 Mission are still valid, and that recent events have not decisively indicated such a discouraging turn to the worse in the Mexican economy, that it would be necessary to depart from the Bank's original intentions. Prospects remain, of course, very uncertain, particularly insofar as the effects of the recent depreciation of the peso cannot yet be fully assessed.

II. REAPPRAISAL OF THE MEXICAN CREDIT SITUATION

a) Production, Prices and Wages

Mexico has enjoyed a particularly good agricultural year in 1948. These satisfying results were partly due to a favorable rainy season, but also to the fact that 93,000 hectares of new land and 63,000 of improved land were opened to cultivation, and that improved seeds for corn and wheat were available in larger quantities than before. While it is impossible not to consider 1948 as an exceptionally favorable year, prospects for agricultural production are generally encouraging for the future as permanent technical improvements are being secured, and yields are likely to increase. Estimates for 1949 for winter vegetables, fruit, sugar and coffee are favorable. Prospects for cattle raising also improved as the meat packing industry developed considerably. Ten canning plants were established in 1948, exporting more than double of the dollar value of live cattle exports in 1948 before the outbreak of the "aftosa." These exports cannot be

expected to continue at this high level, but one part definitely can be considered as a permanent income to Mexico. A contract for $7 million has been concluded with the UK for 1949.

Production of manufactured goods increased as the domestic market expanded, following a reduction in imports of foreign products. Textile industry production rose by 6%; beer and liquors 5%; clothing 12% and other industries, among which, canned foods, wearing apparel, vegetable oils and matches rose 15%. The overall rise in production was probably higher than that registered by the general production index, or 2.6%, as some of the industries, showing the largest increases, are not included in this index.

The increased costs of imported raw material and equipment were largely absorbed in the profit margins of manufacturers. From the point of view of internal prices, these developments have been of great importance. The price index remained remarkably stable due to the good supply in food and domestic manufactures. The general cost of living index in March, 1949 had increased by only 6% over the level of January, 1948. This tends to prove that there is less connection between prices in Mexico and prices in the United States that would be imagined, a priori, and that the recent devaluation will not necessarily throw the structure of Mexican cost and prices out of balance. Of course, the fact that the margin of profits are now lower will make it more difficult to absorb further increases in costs should the peso drop further.

The labor situation has been generally satisfactory, with few major strikes. The revision of labor contracts which occurred in 1948 resulted in an increase of from 10 to 25% in wages. It has been seen that neither these wage increases, nor the strikes, have resulted in reduction of production or considerable increases in prices. Two important unions have presented their request for higher wages: oil and railways. The government intends to resist the pressure for wage

increases as it is aware of the consequence of a rise both internally and externally. How far this pressure can be resisted remains to be seen. So far, the picture of Mexican production, prices and wages has been rather encouraging.

b) Foreign Trade and Balance of Payments

In 1948, according to preliminary figures, the trade deficit was reduced as follows:

Millions of dollars

	Exports	Imports	Deficit
1947	447	704	257
1948	455	597	142

Net current receipts on non-trade items were around $100 million in 1947 and probably around $80 million in 1948 1/. The overall balance of payments deficit on current account, estimated at $154 million in 1947, probably fell to around $70 million in 1948 1/, though exact figures are not yet available.

According to preliminary figures, the main causes of change in non-trade items since 1947 was a fall by $28 million in U.S. remittances for fighting the aftosa. There was also a small loss in the earnings of Mexican workers abroad ($8 million). These losses were partly compensated by a rise in receipts from tourism (by $7 million) and a fall in incomes remitted abroad (by $9 million). The net decrease in receipts on non-trade items was thus probably around $20 million.

Main prospects of change in exports, imports and essential non-trade items are discussed below:

1) Exports

Total exports in 1948 (including silver) amounted to 2.594 million pesos (roughly 455 million at the 1948 average rate of the peso of 5.70) or

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1/ It has been assumed that exports of non-monetary gold stayed at their 1947 level, as the exact figure is not yet available.

about the same dollar value as in 1947. Between 1946 and 1947 the value of exports had increased 22.6%.

Exports of primary products represented 80% of the total value; those of manufactured goods 20% only. The comparable proportion was 77% and 23% respectively in 1947 2/, reflecting a drop in foreign demand for Mexico's industrial products. This is a normal evolution that had been expected.

A detailed examination of Mexican exports, by commodities, does not lend itself to overly pessimistic conclusions, though some drop in receipts might be expected that may not be offset by a corresponding drop in import prices.

The group of base metals (25% of the total value of exports) is the one most affected by the drop in prices in the U.S. market. The most important is lead (16.7%) whose price has fallen from 18.05 cents per pound (1948 average) to 13 cents (May, 1949) or 28%. Assuming that the price will stay at 13 cents, which gives an average of 15.15 cents for the whole year of 1949, the price drop would imply a loss in gross foreign exchange receipts of 16%, or roughly $12 million. If the price remains at 13 cents, the loss would be $20 million per year.

Zinc, the next most important metal (4.6% of total export value), dropped 19% from 13.57 cents per pound (1948 average) to 11.0 cents (May, 1949) after having risen to 17.35 cents in the first quarter of 1949. If present price is maintained, the average price for the whole year of 1949 will be roughly 5% less than in 1948, causing a loss of $2 million in foreign exchange receipts. At the current price of 11 cents, the annual rate of loss would be $8 million.

Copper, which accounts for 2.6% at total export value, went down 18% from 22.0 cents (1948 average) to 18.0 cents (May, 1949). In the first quarter of 1949 the price had risen to 23.5 cents, so that the average for 1949 would

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2/ Source: Banco de Mexico - 1949 report.

be 19.6 cents if the present price is to continue. A drop of 11% in dollar receipts is thus to be expected, amounting to roughly $1.5 million. Assuming that the 18.0 cents price will continue, the loss would be $2.5 million per year.

The gross decrease in foreign exchange receipts in the base metal group would thus total roughly $15 million or about 3% of total 1948 exports for the calendar year 1949. The annual rate of loss at present prices would be $30 million.

In all cases, it has been assumed that the 1948 volume of exports is to be maintained. This appears to be a reasonable assumption since, according to entative estimates of the mineral section, the May 1949 prices for lead, zinc, and copper are still (taking into account the devaluation of the peso) somewhat above the minimum levels for profitable production 1/.

While it seems unlikely that lead prices will decline appreciably from current levels (13 cents per lb.), the outlook for zinc and copper is somewhat less satisfactory. Production curtailment throughout the world seems inevitable as a result of the current decline in demand, especially in the U.S.A. At current prices (11 cents for zinc and 18 cents for copper), slight curtailments at a few U.S.A. mines and at the nickel-copper operations in Canada have already occurred. Mexican copper operations may be curtailed if the price were to drop to 16 cents or lower. It is likely, however, that such curtailments would be only short-lived unless world demand continued to decline sharply, which contingency appears highly unlikely at this time.

Both lead and zinc mining are appreciably aided by the favorable prices for their co-product, silver. Unfavorable prices for silver could adversely affect these operations.

1/ According to tentative estimates, the prices below which production is likely to be curtailed substantially are 10 cents for lead, 9 cents for zinc, and 16 cents for copper at the rate of 8 pesos to the dollar.

Silver (6% of total exports)

The price of silver has been sustained thus far. The Bank of Mexico has become the largest buyer of Mexican silver production. Sales of silver to Saudi-Arabia amounted to 13.2 million ounces, or a receipt of over $11 million if costs of minting are included.

Prospects for silver are uncertain. Industrial demand may fall off somewhat, and a reduction in exports may be necessary to maintain the price. A 15% decline in volume from 1948 levels would mean a loss of $4 million. If the price were also to decline, which is not impossible, this loss would be more than doubled. On the other hand, new sales for monetary use may offset the drop, partially or totally.

The next group in Mexican exports of raw materials, that of products of vegetable origin (both edible and industrial) represents 25.3% of the total. It includes several sub groups:

i) Winter vegetable, fruit and coffee exports (8%)

It is estimated that, in 1949, 9000 carloads of vegetables as against 8685 last year will be available for shipment to the U.S. This slight increase in volume may however be more than offset by a decline in prices. Long run prospects do not appear unfavorable. The coffee crop is from 10% to 15% larger than last year. This may mean an increase of roughly $1 million in exports at the present rate. A drop of 1 cent per pound in the price would mean a loss of only about $600,000 in receipts. Prospects continue good for coffee.

ii) Textile fibers (10%)

This sub group comprises raw cotton and henequen in about equal proportions. Prospects are for price stability in cotton exports as U.S. prices are close to the support level. The volume may, however, decline. The outlook for henequen continues to be favorable so long as production in Java and the Philippines has not recovered. Prices, however, have fallen slightly in 1949.

iii) Other vegetable products

Other products, individually minor, include flax seed, molasses and sugar cane, lumber and chicle. It is difficult to ascertain any definite trends in the market conditions for these products. In 1949, the sugar crop will be 15% higher than last year but it remains to be seen whether it can all be marketed.

On the whole it seems that some fall in export receipts from the group of products of vegetable origin may be expected, but not a very important one. An overall 15% drop in receipts from this group would mean a fall in receipts of about $17 million.

Another important group in Mexican exports is fuel and lubricants. According to Mexican figures, it represented in 1948, 10% of total exports, with a value of 250 million pesos or $43.5 million. No reliable import figures are yet available, but it is generally estimated that the balance of payments on oil account was only slightly favorable to Mexico in 1948, and will be unfavorable in 1949. The first factor affecting the receipts from this source has been the drop in prices. As Mexico is, at the same time, an exporter and an importer of petroleum products, this drop affects the Mexican position only insofar as a drop in export prices is not compensated by a corresponding fall in import prices. According to tentative estimates of the mineral section, the effects of the drop in export and import oil prices will largely cancel out, except for fuel oil of which Mexico is an important exporter. Fuel oil prices dropped from $2.50 per barrel in 1948 to $1.37 in May, which represents, for Mexico, a loss in foreign exchange of about $8 million per year, assuming a continuation of the $1.37 price.

The mineral section estimates that, on the most optimistic assumption, assuming new investments of $100 million, the present production of about 60 million barrels could be increased by perhaps 15 million barrels to 75 million

barrels, representing a gross annual gain infforeign exchange receipts of say, $30 million, after about three years (based on an approximate price of $2.00 per barrel for crude oil). Assuming that consumption continues to increase about 3 million barrels per year, as in the past few years, the gross increase in receipts at the end of the three-year period, estimated at $30 million would have to be reduced by $18 million (9 million barrels at $2.00 per barrel) representing an increase in consumption. A possible net gain of $12 million would thus be left. Without large and successful investments in oil exploitation and drilling, Mexico is more likely to become a net importer than a net exporter of petroleum.

Manufactured goods exports (20% of total value)

According to Mexican sources, the share of these exports has been reduced by 3% since 1947. It can be estimated that the temporary demand for products in short supply on the world markets is now over, and this should encourage the hope that Mexican exports can be stabilized at the 1948 level, especially with the help of the new drop in the value of the peso (40% from the 1948 average).

However, prospects for cotton textiles are not promising. Price for henequen ropes have also fallen considerably in 1948 but the impact of this fall has already been felt. The development of new export industries, like canned meat mentioned above, is an offsetting factor. If, however, exports of this group were to fall by an overall 15%, the resulting loss would be about $13 million.

Conclusions on Visible and Invisible Exports

a) As a result of price drops already realized, Mexico, in calendar year 1949, faces a fall in gross export receipts, very tentatively estimated at, say, $23 million ($15 million on metals and $8 million on oil). However, as mining enterprises are almost entirely foreign-owned, the net decline in foreign exchange receipts will be lower. A reasonable guess would put it at $17 million only, assuming that 60% of the

loss on metal prices is borne by Mexico.

Based on current low prices, the decline in gross export receipts on an annual basis would amount to $38 million ($30 million on metals and $8 million on oil). The net loss to Mexico, on the same assumption as above, would be $26 million.

b) Other possible losses in foreign exchange receipts might total, according to very rough estimates, $34 million ($4 million on silver, $17 million on vegetable products; $13 million on manufactured goods).

The total loss in foreign exchange would thus be around $50 million for the calendar year 1949, or $60 million at an annual rate.

c) Offsetting factors are:

i) A sale of 11 million dollars worth of coined silver to Saudi Arabia - already realized.

ii) The probability of an increase in tourist receipts after devaluation. These receipts have increased from $83 million in 1947 to $90 million in 1948. A 10% further increase in receipts from this source would represent $9 million.

iii) In the longer run, the possibility of increased receipts from oil, of an order of magnitude of $12 million. This, however, is not a safe assumption to make at present.

The net overall loss in exchange receipts of Mexico would thus be around $30 million in the calendar year 1949 or $40 million at an annual rate. It could amount to more later if no further sales of monetary silver are made, and possibly to less if successful investments are made in oil exploration and drilling.

No estimates have been made for changes in remittances of Mexican workers abroad. These have already fallen since 1947 and we assumed that they would remain at 1948 levels. Further losses from this source would, it seems, imply

a decline of economic activity in the U.S., and consequently in Mexico. They would probably be more than offset by reduced transfers of profits of foreign-owned firms, operating in fields other than mining.

2) Imports

The effects of the recent devaluation and price drop on Mexican imports are difficult to visualize. So far, the previous devaluation of the peso from 4.85 to 6.90 did not have any effect on the level of imports which were the same before and after July 22, 1948. This was largely the result of the absorption of increased costs in high profit margins as explained in the preceding paragraph on prices. Prices of imports failed to rise enough in pesos.

The new devaluation from 6.90 to above 8 pesos per dollar should not be absorbed, it seems, in the same way since profit margins are now narrower. Prices of imports of goods should rise and further limit the level of imports which already, according to preliminary figures, decreased from $704 million in 1947 to $596.8 million in 1948, not, as mentioned above, because of the devaluation, but because of good crops and to some extent, of import controls. If this improvement has been secured without any apparent effects of devaluation, more should be expected when such effects will be felt.

A further decrease is necessary, despite the fact that a large part of Mexican imports are, of a more or less "essential" character. According to the Banco de Mexico, imports of luxury goods fell from $62 million in 1947 to $21 million in 1948, and the goods identifiable as essential, amounted to $366 million or over 60% of total imports. They included imports of equipment goods of $144 million (as against $167 million in 1947). A new reduction in imports would necessarily slow the pace of Mexican development but financial stability cannot probably be regained otherwise.

There is little doubt, in the short run at least, that the price of a unit of Mexican exports is likely to fall more than the unit price of imports.

However, the total value of Mexican imports is larger than that of exports. A relatively small drop in import prices may result in savings greater than the reduction in earnings brought about by a more important drop in export prices. Taking out the approximate value of petroleum imports (as drops in import prices on petroleum have already been taken into account) we find that an overall 5% drop in import prices for Mexico would result in savings of $27.3 million or almost the amount necessary to compensate the net loss in exchange receipts calculated above for the calendar year 1949. To compensate the net loss on an annual basis, or $40 million, import prices would have to drop by slightly more than 7%.

Conclusions on Balance of Payments

On the whole, taking into account the recent drop in prices and the devaluation, it does not appear that the combined effect on the Mexican balance of payments need be too alarming. Mexico certainly faces losses in foreign exchange (of which the summary estimates made above do not pretend to give more than a rough idea). But savings and supplementary gains may be envisaged, and it has been seen that the totals of changes in receipts and expenditures may be not so far apart. The future is still very uncertain, but so was it at the time when the original loan was granted and the new events do not in themselves change the conclusion that was then arrived at: namely, the necessity to adjust exchange expenditures to the level of receipts, and the utmost importance of the internal fiscal and monetary policy in that respect.

c) Internal Monetary Supply

1) Public Finance

One of the major elements affecting the money supply is the deficit of public accounts. Development in the fiscal field during the first quarter of 1949 appears rather encouraging. Future prospects remain uncertain.

i) Receipts

According to preliminary figures during 1948 the Federal receipts increased by more than 11% from 2054 to 2331 million pesos, and in the first quarter of 1949 they were 35% higher than in the same period for 1948 which is an achievement brought about by simplification of tax collection methods, increase in tariff rates and customs valuations and measures against tax evasion, all taken in 1948. In addition, a tax on the sale of automobiles assembled in the country was decreed early in 1949. An excess profit tax was also put in force, and a tax of 20% on luxury goods is under study. On the other hand, exemptions of the 15% export tax had to be granted on 145 items, in order to maintain exports. This reduction meant a treasury loss, estimated by the Minister of Finance at 67 million pesos. But the devaluation may allow for the repeal of these exemptions. The loss anyway would constitute only 3% of total receipts.

Some concern has been expressed as to the effect of the drop in metal prices on the internal revenue of the Mexican government. Since the production tax on metals is calculated on the peso equivalent of the dollar quotation in New York, the Mexican administration expects no decrease in receipts from this source, as the fall in prices will be at least offset by devaluation. On the whole it can be reasonably stated that no major setbacks in receipts will occur in 1949.

ii) Expenditures

Considerable efforts have been made by the Minister of Finance, with the full backing of the President, to keep expenditures under control. Since the beginning of 1949, appropriations have been allocated monthly so that the Treasury will not be faced with the necessity to open supplementary credits at the end of the year. Federal vacancies were not filled. Public works expenditures were cut. Steps were taken, with some success, to improve the

operating conditions and financial situation of the railways. On the 28th of April, 1949, the Minister of Finance could announce that "the government had been successful in balancing its income against its expenses." On April 8, President Aleman had confirmed the Government's intention of keeping the budget in balance. The future appears, however, somewhat more difficult. Subvention on imported lard and wheat that had been cut may have to be resumed, and the cost may reach 80 million pesos. The cost of servicing the external debt will be increased by over 100 million pesos. The most important question is to know whether the internal price level, which determines government expenditure, may be maintained despite devaluation. This question cannot be fully answered now. However, it seems reasonable to assume that, since last year's devaluation has been absorbed without significant increases in prices, the new devaluation from 6.90 to 8 or 8.50 may result in an overall rise in prices of say 15%. This would increase expenditures but should also, after a certain time lag, increase receipts. On the whole it does not appear impossible that, if the present policy is firmly pursued, the budgetary situation can be kept under control.

2) Credit

The policy of credit restrictions has been maintained rather consistently in the first part of 1949. The money supply which had risen by roughly 400 million pesos since the end of June, 1948 to 3.978 billion pesos, in December, fell to 3.874 billion at the end of April, 1949, or by 104 million pesos. This happened in spite of an increase in credits of 58 million pesos by private banks (rendered possible by an increase in deposits) and of 90 million by the Bank of Mexico. The reason for this net contraction of money in circulation was the fall in monetary reserves of the Central Bank and also an increase in government and savings deposits. Although it has not been possible to obtain and analyze detailed figures on the exact shares of these factors, the important conclusion is that no overall monetary expansion occurred in Mexico, though some elements

of contraction have been offset.

d) Exchange situation and prospects for stabilization of the peso

1) The exchange market

Since the fall of the peso from the level of 4.86 to the dollar, in July, 1948, the free selling exchange rate had remained fairly stable at around 6.90 to the dollar. In February and March, 1949, the peso dropped to 6.97, and on April 26 it fell for the first time to 7. On May 5 it had fallen to 8.15. Since then it fluctuated around 8. On May 20, there was a temporary drop to 8.40 but the Bank of Mexico brought back the rate to around 8.10 - 8.15. The rate had again dropped to 8.50 on May 28.

The causes of this movement are said to be largely speculative and this is confirmed by some observations of the Bank of Mexico, in particular, by the large demand of dollar notes in individually small amounts. In view of the strength of this movement, the Bank of Mexico withdrew from the market on May 4. Around May 9 it intervened again to prevent an improvement in the rate but had, in the last 10 days, to feed the market with dollars to prevent a further fall.

The speculation movement has been explained by a deception following excessive optimism as to prospects of an inflow of dollars created by oil loan negotiations. Many importers, in particular, were said to have postponed their payments in the hope of an amelioration of the rate.

2) Reserves

The movements of Mexican gold and foreign exchange reserves are summarized in the following table:

Net 1/ Gold and Foreign Exchange Holdings (millions of dollars)

December 31, 1948	64.2
January 31, 1949	59.6
February 28, 1949	48.6
March 31, 1949	53.5
May 13, 1949	41.0

1/ Deducting liabilities and holdings of Spanish pesetas and Czech crowns.

Reserves are thus at an all time low. Total reserves amount to $96 million, including silver and are close to the legal minimum of 25% but the proportion of silver is of course far above the legal minimum of 20%. There is scarcely any leeway to meet purchases and sales of exchange, and this is one of the main factors inviting speculation.

3) Prospects for stabilization

A prerequisite to stabilization is the establishment of reserves adequate for discouraging speculation. Negotiations are in progress with the International Monetary Fund and the U.S. Treasury to obtain 60 million of additional reserves as follows:

Drawings on IMF	22.5
U.S. Treasury Stabilization Fund	13.
Addition to U.S. Treasury Fund	25.
	60.5

Together with present Mexican reserves, this would total $100 million. This, it is estimated, would be enough to discourage speculation.

If the present negotiations were successful, stabilization could be announced very soon, and the dangerous speculative opportunities offered by a fluctuating rate would be eliminated. It is our understanding that the International Monetary Fund has already agreed in principle to restore the Mexican drawing rights, within the limit of $22.5 million, provided 1) that a new par value of the peso be fixed in agreement with the IMF, and 2) that the present budget and credit policies be continued and enforced.

A difficult question to be solved is that of the rate: it must at the same time allow the reconstitution of reserves, and not exert an undue pressure on Mexican prices. This does not appear impossible to realize, as at the rate of 6.90 the peso was already probably somewhat undervalued. A rate of, around 8.50 might be tenable, with a strict internal monetary policy and reserves

adequate to discourage speculation.

e) The Present External Debt of Mexico

The present estimates take into account probable additional debt to be incurred in 1949. They reveal that the present debt burden of Mexico is high. The service of the additional $16 million loan from the IBRD represents, however, an insignificant part of this service.

The principal of the Mexican foreign debt amounts roughly to $450 million as follows (rounded figures):

	(Units of $1,000,000)	
Settlements of old debts		
Government Debt	49	
Railway Debt	51	100
Obligations arising from expropriations of foreign-owned properties		
Oil Settlements	108	
Mexican American Claims	19	127
Amounts representing new capital		
Eximbank - Amount outstanding and disbursed as of February 28, 1949	69	
Undisbursed commitments (including allocations still to be made under the $50 million)	46	
IBRD (amount granted as of Jan. 6, 1949)	34	
Guaranteed Private Loans	15	
U.S. Stabilization Fund	37	
International Monetary Fund	22	223
		450

Probable additions to this amount in 1949 will bring the total to $478 million if the following loans are concluded:

Supplement to IBRD Loans After Mexlight Reorganization	16	
Eximbank Loan to American and Foreign Power	12	28

The first two items listed (amounting to $100 million) of the present debt represent the settlement value of past funded debt of the Mexican Government and the Mexican railroads which amounted to $463 million of principal and

$603 million of back interest. The next two items represent obligations assumed vis-a-vis the former owners of oil properties and agricultural lands expropriated by the Mexican Government. Most of the remaining $223 million represents indebtedness resulting from credits or advances obtained by Mexico since the end of the war (of which $46 million is yet to be disbursed). About $60 million was obtained from the IMF and the U.S. Treasury for the purpose of meeting balance of payments difficulties. The remainder was extended largely for the development of highways, railroads, and electricity with smaller amounts for industrial installations.

It is to be noted that the first two categories, which make up about one-half of the total foreign debt, represent scaled down obligations resulting from amounts invested over an extended period of time prior to 1930. In contrast to projects being undertaken with the recently acquired debt, these investments have for some time been making their contribution to the Mexican economy and cannot be counted upon to bring about any appreciable increase in Mexico's productivity.

A rough estimate of the annual dollar requirements for servicing the prospective Mexican debt of $478 million for the next fifteen years is indicated below. This estimate is based upon the assumption that the amounts owed to the IMF and the U.S. Treasury will be repaid during the next 6 years, that the new loans under the Eximbank $50 million commitment will be amortized during the last seven years of the next decade, and that loans to American and Foreign

Power and Mexican Light will be twenty-year loans.[1/]

	(1) Present Debt	(2) Repayment of Amounts Owed to U.S. Treasury and IMF	(3) Service & Amortization of Prospective Loans to Am.For. Power ($12 million) & Mexlight ($16 mill.)	(4) Total
1949	37	10	-	47
1950	40	10	2	52
1951	38	10	2	50
1952	34	10	2	46
1953	34	10	2	46
1954	33	10	2	45
1955	31		2	33
1956	28		2	30
1957	24		2	26
1958	22		2	24
1959	19		2	21
1960	18		2	20
1961	17		2	19
1962	16		2	18
1963	7		2	9
1964	9		2	11

The service requirements given in column 3 of the foregoing table amount to approximately $50 million per year during the next six years. As a percentage of total 1947 foreign exchange receipts ($691 million) and total exports ($447 million), this amounts to 7% and 11% respectively. A decline of 25% in exchange receipts and exports would raise these percentages to 10% and 15% respectively. It should also be noted that an annual service requirement of this magnitude is approximately equal to the total present gold and foreign exchange reserves of Mexico.

1/ Includes assumed interest and amortization of undisbursed Eximbank loans ($46 million as of Jan. 1, 1949). It is also assumed that bondholders assent to the railroad debt readjustment plan 1949 through 1951 and that back interest and back payments for 1946, 1947, and 1948 are made over 1949-50-51.